Corporate Securities Strategy

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See Appendix A-1 for Analyst Certification, Important Disclosures and non-US research analyst disclosures.

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Dear Guest:

Welcome to the Citi India Investor Conference 2010, Mumbai.

Over the past year the India story has played out well: demand has remained resilient, the market has generated returns, and investment in and into India has continued unabated. Investors' perceptions of India such as 'abundant domestic demand', 'favored capital destination', 'much to be done on policy and infrastructure', and 'expensive but attractive market' have reinforced themselves. But none of the country's achievements have come without surprises and disappointments, highs and lows, and gains and losses. On balance, the big picture has only become bigger in a changed environment.

So what does this year hold for investing in India? Will opportunities overshadow challenges? Will strengthening micro dynamics offset what some believe is a faltering macro? Will government policy initiatives begin to deliver or deter? Have Corporate India become risk-takers or risk-averse? Is there more value in the market, and growth in the economy?

With the Citi India Investor Conference, we hope to provide investors an on-the-ground platform to try and absorb the changing landscape, and assess and capture opportunities through meetings with Corporate India. Around 75 leading Indian companies covering a wide range of sectors will meet investors over three days. For a top-down perspective, we have invited policy makers, regulators and economic commentators to address some of the issues and opportunities that lie ahead.

We hope the large number of international and domestic investors attending this conference come away with a clearer understanding of India's opportunities, challenges and investment outlook and, more importantly, with actionable stock ideas.

We, and the entire Citi team, are available to assist you. We hope you have an enlightening experience.

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Source: Citi Investment Research and Analysis

Statistical Snapshot

India – Macroeconomic Summary, FY99-12E (%)

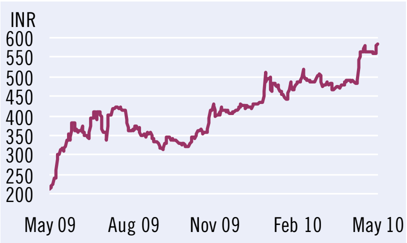
Year to 31 March	FY99	FY00	FY01	FY02	FY03	FY04	FY05	FY06	FY07	FY08	FY09	FY10E	FY11E	FY12E
National income indicators														
Nominal GDP (Rs bn)	18,193	20,279	21,840	23,676	25,500	28,617	32,392	37,065	42,840	49,479	55,744	61,642	70,272	79,758
Nominal GDP (US$ bn)	431	467	478	493	528	623	720	837	948	1,231	1,212	1,300	1,606	1,957
Per Capita GDP (US$)	439	467	469	474	500	582	661	756	845	1,082	1,050	1,110	1,351	1,622
Real GDP growth (%)	6.7	6.0	4.4	5.8	3.8	8.5	7.5	9.4	9.7	9.2	6.7	7.2	8.4	8.6
Agriculture growth (%)	6.3	0.5	-0.2	6.3	-7.2	10.0	0.7	5.2	3.7	4.7	1.6	-0.2	4.0	3.0
Industry growth (%)	4.1	4.6	6.4	2.7	7.1	7.4	9.5	9.3	12.7	9.5	3.9	8.2	9.1	9.4
Services growth (%)	8.3	9.5	5.7	7.2	7.5	8.5	9.6	11.0	10.2	10.5	9.8	8.7	9.1	9.5
By Demand (%YoY)														
Consumption	7.4	7.2	3.0	5.3	2.3	5.4	1.8	8.5	7.6	9.7	8.3	4.8	6.5	7.3
Pvt Consm	6.5	6.1	3.4	6.0	2.9	5.9	1.6	8.6	8.3	9.7	6.8	4.1	6.5	7.5
Public Consm	12.2	13.2	0.9	2.3	-0.4	2.6	2.7	8.3	3.8	9.7	16.7	8.2	6.5	6.5
Gross Capital Formn	0.1	20.6	-3.5	-2.9	16.8	17.6	23.7	15.3	16.1	14.8	-1.7	4.4	10.4	11.4
Cons; Invst, Savings * (%GDP)														
Consumption	78.7	79.5	78.6	79.1	77.3	75.2	70.5	69.1	68.2	67.3	69.4	69.9	68.0	67.0
Capital Formation	22.7	25.3	23.8	22.3	24.6	26.9	32.7	34.3	35.5	37.7	34.9	36.0	38.0	38.5
Gross Domestic Savings	21.7	24.2	23.2	22.9	25.7	29.1	32.2	33.1	34.4	36.4	32.5	34.0	36.0	36.5
Real indicators (% Y/Y)														
Cement despatches	6.4	14.1	0.1	8.6	11.1	6.5	9.5	11.4	9.6	8.0	8.1	11.0	11.0	12.0
Commercial vehicle sales	-11.2	22.0	-11.9	-4.5	40.4	37.5	25.5	12.3	32.2	5.8	-22.3	35.6	15.0	12.0
Car sales	-4.0	45.3	-5.3	3.2	5.3	32.1	19.2	7.4	19.7	11.2	7.0	26.9	17.0	13.0
Two-wheelers	11.7	9.4	0.7	15.3	15.8	12.6	16.8	15.0	12.1	-4.8	4.7	24.4	12.0	10.0
Diesel consumption	3.7	5.5	2.0	-3.5	3.0	4.5	5.5	-2.2	5.0	0.7	3.2	5.7	6.0	7.0
Mobile Tele density	0.1	0.2	0.3	0.6	1.3	3.1	4.7	8.1	14.0	21.9	32.4	42.1	50.2	NA
Monetary indicators														
Money supply	19.4	15.0	16.4	14.1	14.7	16.7	12.0	21.1	21.7	21.4	18.6	17.4	17.0	17.0
Int rate PLR - year end	12.0	12.0	11.5	11.5	10.8	10.3	10.3	10.3	12.3	12.3	11.0	11.5	11.5	11.5
Inflation – WPI (Avg)	5.9	3.3	7.1	3.6	3.4	5.5	6.5	4.4	5.4	4.7	8.5	3.8	7.4	6.5
CPI (Avg)	13.1	3.4	3.7	4.3	4.1	3.8	3.9	4.2	6.8	6.2	9.1	13.0	7.0	6.0
Bank credit growth	13.8	18.2	17.3	15.3	23.7	15.3	30.9	37.0	28.1	22.3	17.5	16.7	17.0	17.0
Deposit growth	19.3	13.9	18.4	14.6	16.1	17.5	13.0	24.0	23.8	22.4	18.0	17.0	16.0	16.0
Fiscal Indicators														
Centre's fiscal deficit	-4.9	-5.2	-5.4	-6.0	-5.7	-4.3	-3.9	-3.9	-3.3	-2.6	-6.0	-6.7	-5.5	-5.0
State fiscal deficit	-4.1	-4.5	-4.0	-4.1	-3.9	-4.2	-3.3	-2.4	-1.8	-2.2	-2.6	-3.2	-3.0	-3.1
Combined deficit (Centre+State)	-8.6	-9.1	-9.2	-9.6	-9.2	-8.2	-7.2	-6.5	-5.4	-4.0	-8.5	-9.7	-8.5	-8.1
Off Balance Sheet Items	-	-	-	-	-	-	-	-0.5	-0.9	-0.6	-1.7	-0.2	NA	NA
Combined domestic liabilities	71.0	74.1	77.1	82.0	85.5	85.7	85.7	83.2	79.7	76.4	75.9	76.0	75.2	71.9
Combined o/s guarantees	8.5	10.7	11.7	11.0	10.8	10.7	9.6	8.3	6.2	5.6	NA	NA	NA	NA
External Sector														
Exports (US$bn)	34.3	37.5	45.5	44.7	53.8	66.3	85.2	105.2	128.9	166.2	189.0	170.1	195.6	234.7
% YoY	-3.9	9.5	21.1	-1.6	20.3	23.3	28.5	23.4	22.6	28.9	13.7	-10.0	15.0	20.0
Imports (US$bn)	47.5	55.4	57.9	56.3	64.5	80.0	118.9	157.1	190.7	257.6	307.7	280.0	315.5	359.7
%YoY	-7.1	16.5	4.6	-2.8	14.5	24.1	48.6	32.1	21.4	35.1	19.4	-9.0	12.7	14.0
Trade deficit (US$bn)	-13.2	-17.8	-12.5	-11.6	-10.7	-13.7	-33.7	-51.9	-61.8	-91.5	-118.7	-109.9	-119.9	-125.0
Invisibles (US$bn)	9.2	13.7	9.8	15.0	17.0	27.8	31.2	42.0	52.2	75.7	89.9	80.9	94.4	102.6
Current Account Deficit (US$bn)	-4.0	-4.1	-2.7	3.4	6.3	14.1	-2.5	-9.9	-9.6	-15.7	-28.7	-29.0	-25.5	-22.4
% to GDP	-0.9	-0.9	-0.6	0.7	1.2	2.3	-0.3	-1.2	-1.0	-1.3	-2.4	-2.2	-1.6	-1.1
Capital Account (US$bn)	8.0	9.5	8.8	8.6	10.8	16.7	28.0	25.5	45.2	106.6	7.2	55.1	59.6	64.6
% GDP	1.9	2.0	1.9	1.7	2.1	2.7	3.9	3.0	4.8	8.7	0.6	4.2	3.6	3.3
Forex Assets (excl gold) (US$bn)	29.5	35.1	39.6	51.0	71.9	106.1	135.1	145.1	191.9	299.1	241.6	252.7	286.9	329.1
Months of imports	7.5	7.6	8.2	10.9	13.4	15.9	13.6	11.1	12.1	13.9	9.4	10.8	10.9	11.0
Exchange rate														
Rs/US$ - annual avg	42.2	43.4	45.7	48.0	48.3	45.9	45.0	44.3	45.2	40.2	46.0	47.4	43.8	40.8
% depreciation	13.4	2.8	5.3	5.0	0.6	-5.0	-2.0	-1.6	2.0	-11.1	14.4	3.0	-7.7	-6.9
Rs/US$ - year end	42.4	43.6	46.5	48.9	47.5	43.6	43.8	44.6	43.6	40.1	50.7	44.9	42.5	40.0
% depreciation	7.3	2.8	6.7	5.2	-2.9	-8.2	0.3	2.0	-2.3	-8.0	26.4	-11.4	-5.4	-5.9

* At current prices. Source: CSO, RBI, Ministry of Finance and CIRA estimates

Adani Enterprises (ADEL.BO)

Buy/Medium Risk	**1M**
Price (11 May 10)	Rs582.00
Target Price	Rs448.00
Expected share price return	-23.0%
Expected dividend yield	0.1%
Expected total return	**-22.9%**
Market Cap	Rs306,733M
	US$6,802M

Price Performance



Source: dataCentral

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Company description

Adani Enterprises Limited, founded in 1988 as a partnership firm, has interests in trading, coal mining, real estate development, shipping, bunkering, city gas distribution, power generation, edible oil refining, grain storage and food processing. With onset of infrastructure development cycle in earlier part of this decade, company started to move away from being a pure trader to infrastructure asset developer. Today, the company has interests in coal mine development, power generation, city gas distribution, real estate development, and food storage and processing. Apart from moving into infrastructure asset development, company has also diversified into trading of coal (coal imports into India) and power trading.

- **Platform for new entrepreneurial efforts —** AEL is: 1) the platform to back the Adani Group's entrepreneurial and execution abilities; 2) a play on India's persistent deficits and merchant power markets; 3) the only listed play on the Indian coal mining theme; and 4) new entrepreneurial efforts of the group are likely to be housed in AEL.

- **Trading to diversified conglomerate —** AEL is leveraging on its experience as a star trading house and execution record of building mega projects (MPSEZ) to embark on an asset-backed diversification plan to exploit opportunities in infrastructure – power, coal mining , trading, real estate and others.

- **End game – Explosive growth and substantial increase in return ratios —** 1) Net fixed assets 4x; 2) sales CAGR of 18%; 3) EBITDA CAGR of 102%; 4) PAT CAGR of 81%; and 5) RoCE expanding from 7% to 16% over FY09 to FY12E. AEL is already a highly geared entity and shall remain the same given high gearing of individual businesses. Fundraising (both equity and debt) and execution are the key success factors for the company.

- **Key positive catalysts for the stock** — 1) Equity rising; 2) debt closure for individual projects; 3) commissioning of projects; and 4) new project wins.

- **Downside risks** — Execution; financial closure; clearances; coal license; real estate volumes/prices and resource estimation.

Statistical Abstract

Year to 31 Mar	Net Profit (RsM)	Diluted EPS (Rs)	EPS growth (%)	EV/EBITDA (x)	P/E (x)	P/B (x)	P/CEPS (x)	ROE (%)	Yield (%)
2008A	3,675	7.5	na	46.7	78.1	13.6	69.2	na	0.1
2009A	5,067	10.3	37.9	35.1	56.7	9.6	48.9	19.7	0.1
2010E	9,830	19.9	94.0	19.5	29.2	7.3	24.8	28.3	0.1
2011E	13,881	28.1	41.2	14.9	20.7	5.4	16.9	30.0	0.1
2012E	30,176	61.2	117.4	7.0	9.5	3.5	7.6	44.4	0.1

Source: Company, Citi Investment Research and Analysis estimates

Investment Strategy

We rate Adani Enterprises Buy/ Medium (1M) risk given:

Adani Enterprises (AEL) is leveraging on its experience of a 5-star trading house and execution track record of building a mega project like Mundra Ports and SEZ (MPSEZ) to embark on an ambitious asset-backed diversification plan that will exploit opportunities in the infrastructure space. The end game is not only to de-risk the business model from fluctuating trading volumes and prices but also to improve operating margins, RoCE and RoE over a 5 year time frame. To a large extent investing in AEL would entail backing the Adani Group's ability to (1) get different types of clearances on time (2) raise sufficient debt and equity to fund the projects and (3) execute the same on time.

Valuation

We value Adani Enterprises using a sum of the parts (SOTP) methodology given the conglomerate nature of the business (1) Power – using DCF valuation with FCFE discounted using a CoE = 13%; (2) Coal Mining – using DCF valuation with FCFE discounted using a CoE = 15%; (3) Real Estate – using DCF valuation with FCFE discounted using a CoE = 14%; (4) Trading – FY11E EV/EBITDA multiple of 3x; (5) Adani Wilmar – FY11E EV/EBITDA multiple of 5x; (6) Agri Fresh – FY11E P/BV multiple of 1x (7) Agri Logistics – FY11E P/BV multiple of 2x (8) City Gas - using DCF valuation with FCFE discounted using a CoE = 13%; (9) Shipping - using DCF valuation with FCFE discounted using a CoE = 13% (10) Bunkering - using DCF valuation with FCFE discounted using a CoE = 13% and (11) Less net debt at the end of FY09. We also apply a conglomerate discount of 5% to arrive at a target price of Rs448.

Adani Enterprises (ADEL.BO): Financial Summary

Fiscal year end 31-Mar	2008	2009	2010E	2011E	2012E
Valuation Ratios					
P/E adjusted (x)	78.1	56.7	29.2	20.7	9.5
EV/EBITDA adjusted (x)	48.1	37.8	22.1	16.1	7.4
P/BV (x)	13.6	9.6	7.3	5.4	3.5
Dividend yield (%)	0.1	0.1	0.1	0.1	0.1
Per Share Data (Rs)					
EPS adjusted	7.45	10.27	19.93	28.14	61.18
EPS reported	7.50	10.23	19.93	28.14	61.18
BVPS	42.94	60.72	80.07	107.63	168.23
DPS	0.30	0.50	0.50	0.50	0.50
Profit & Loss (RsM)					
Net sales	196,097	262,583	261,693	323,692	429,489
Operating expenses	-189,388	-253,385	-242,803	-292,927	-354,700
EBIT	**6,709**	**9,198**	**18,891**	**30,766**	**74,789**
Net interest expense	-2,770	-3,488	-6,310	-11,359	-24,991
Non-operating/exceptionals	390	146	135	135	135
Pre-tax profit	**4,329**	**5,856**	**12,716**	**19,542**	**49,933**
Tax	-591	-782	-1,506	-2,568	-7,935
Extraord./Min.Int./Pref.div.	-40	-28	-1,380	-3,092	-11,821
Reported net income	**3,698**	**5,047**	**9,830**	**13,881**	**30,176**
Adjusted earnings	3,675	5,067	9,830	13,881	30,176
Adjusted EBITDA	7,157	10,020	20,638	33,851	82,536
Growth Rates (%)					
Sales	15.7	33.9	-0.3	23.7	32.7
EBIT adjusted	47.8	37.1	105.4	62.9	143.1
EBITDA adjusted	52.2	40.0	106.0	64.0	143.8
EPS adjusted	111.5	37.9	94.0	41.2	117.4
Cash Flow (RsM)					
Operating cash flow	**5,917**	**-2,474**	**14,678**	**21,452**	**58,272**
Depreciation/amortization	448	822	1,748	3,086	7,746
Net working capital	-1,218	-12,023	-3,582	-8,357	-12,379
Investing cash flow	**-30,416**	**-49,804**	**-112,034**	**-82,033**	**-84,694**
Capital expenditure	-27,577	-48,587	-112,152	-82,150	-84,807
Acquisitions/disposals	0	0	0	0	0
Financing cash flow	**24,529**	**61,763**	**72,129**	**67,566**	**55,466**
Borrowings	17,512	59,801	77,979	77,721	76,775
Dividends paid	-173	-289	-289	-289	-289
Change in cash	**30**	**9,486**	**-25,227**	**6,985**	**29,045**
Balance Sheet (RsM)					
Total assets	**123,924**	**201,212**	**277,056**	**376,898**	**500,615**
Cash & cash equivalent	16,346	25,832	605	7,590	36,635
Accounts receivable	14,058	34,006	32,636	39,331	47,704
Net fixed assets	40,940	88,704	199,109	278,173	355,234
Total liabilities	**99,244**	**166,492**	**231,416**	**314,574**	**396,582**
Accounts payable	20,772	26,811	18,701	22,114	25,399
Total Debt	61,041	120,842	198,822	276,543	353,317
Shareholders' funds	**24,680**	**34,719**	**45,640**	**62,325**	**104,034**
Profitability/Solvency Ratios (%)					
EBITDA margin adjusted	3.6	3.8	7.9	10.5	19.2
ROE adjusted	22.5	19.8	28.3	30.0	44.4
ROIC adjusted	11.3	8.6	9.4	9.9	17.9
Net debt to equity	181.1	273.7	434.3	431.5	304.4
Total debt to capital	71.2	77.7	81.3	81.6	77.3

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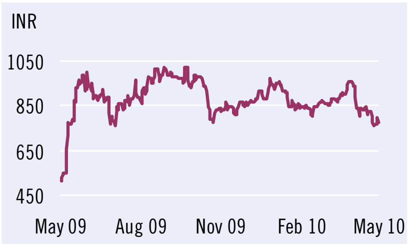
Powered by: dataCentral

Aditya Birla Nuvo (ABRL.BO)

Non-Rated

Price (11 May'10)	Rs775.75
Market Cap	Rs79,910M
	US$1,772M

Price Performance



Source: dataCentral

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Company Description

A part of Aditya Birla Group, Aditya Birla Nuvo (ABNL) has a significant presence across various financial services segments – life insurance, asset management, wealth management, retail broking and non banking financial services. Aditya Birla is amongst the few leading, integrated and scale financial services providers in India. It also owns a stake (27%) in Idea Telecom and has presence in businesses including – textiles, fertilizers, insulators, carbon black, rayon and BPO services.

Financial Services Conglomerate

- **Conglomerate business, with significant financial services presence** — A part of Aditya Birla Group, Aditya Birla Nuvo (ABNL) has a significant presence across various financial services segments – life insurance, asset management, wealth management, retail broking and non banking financial services. Aditya Birla is amongst the few leading, integrated and scale financial services providers in India. It also owns a stake (27%) in Idea Telecom and has presence in businesses including – textiles, fertilizers, insulators, carbon black, rayon and BPO services.

- **On way to generating significant synergies** — ABNL has been working towards a common brand and platform for its financial services business, and reaping the large efficiencies available. It collectively manages over Rs800b in assets across its platforms, revenue momentum has been significant, its branch network exceeds 1500 with over 200,000 channel partners, and it has a wide product spread. Significant gains have already been realized, with scope remaining for much more

- **Life Insurance** — ABNL owns a 74% stake in its life insurance JV with Sun Life. It is the sixth largest private sector insurance company in India, with over 1.8m individual policies. Birla Sunlife has a strong record of product innovation (the first to introduce ULIPs) and distribution expansion (amongst the few large insurance companies that do not have a Bank in the group). It has been in a relative consolidation phase in the past year, after a period of relatively high growth and market share gains. It is also amongst the few insurance companies in India disclosing their Embedded Values (Rs30.6bn in FY09) with implied VNB margins of over 20%.

- **Asset Management** — Birla Sun Life Asset Management is a 50:50 JV between ABNL and Sun Life. It is the fifth largest asset management company in India. Its AUMs have shown significant growth in the previous year (+34% YoY) and currently stand at Rs695bn.

- **Other Businesses** — ABNL's other business interests span a wide spectrum of assets. The manufacturing businesses are housed as separate divisions within the company, are partly commodity linked and cyclical. The garments business is classified as a "growth" business, while the others as "value".

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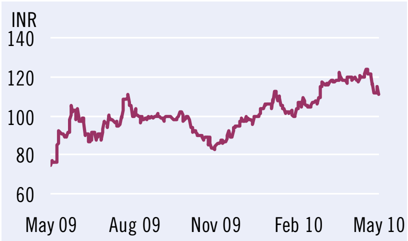
Ambuja Cements (ABUJ.BO)

Sell/Medium Risk	**3M**
Price (11 May 10)	Rs111.00
Target Price	Rs71.00
Expected share price return	-36.0%
Expected dividend yield	2.0%
Expected total return	**-34.1%**
Market Cap	Rs169,212M
	US$3,752M

Price Performance



Source: dataCentral

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Company description

Ambuja Cements (ACL) is one of India's lowest-cost cement producers and enjoys relatively high EBITDA margins due to its focus on the retail cement market (giving higher realizations), modern plants with low power and fuel consumption, and use of sea transport. Its largest markets are North India (35% of sales volumes) and West/South India (37%). Exports account for ~2% of its revenue. Holcim holds around 46% in ACL. Both ACC and ACL give the Holcim Group a total capacity of 51m tpa in India, which should rise to ~57.5m tpa by CY11E.

Low-Cost Producer; Strong Market Share

- **Relatively high EBITDA margins** — Ambuja Cements (ACL) is amongst India's lowest-cost cement producers. Its EBITDA margins are relatively high due to a combination of: retail cement market focus (higher realizations), state-of-the-art plants with low consumption of power and fuel, and use of sea transport. ACL has 6,000 dealers, more than 400MW of captive power, and has recently added a bulk terminal in Kochi (Kerala) in addition to terminals in Mumbai and Surat. Holcim holds ~46% in ACL.

- **Market breakdown and growth plans** — ACL's key markets are North India (35% of sales volumes), West/South India (37%) and East India (17%). Its capacity of 25m tpa will rise to 27m tpa by end CY10. Recent expansions include 2.2m tpa of clinker each at Bhatapara (Chhattisgarh) and Rauri (HP) and cement grinding facilities at Dadri (UP), Nalagarh (HP), Maharashtra and Chhattisgarh. ACL's sales grew 6.5% to 18.8mt in CY09 and management is targeting a growth of 12% in CY10 to take sales to 21mt.

- **Cost pressures to resurface** — EBITDA margins fell on a yoy basis in CY09 due to: (1) Large inventory of high cost imported coal which was gradually wound down through the year and helped reduce average costs. However coal costs are on an uptrend especially in the international market; imported coal accounts for 30% of ACL's usage. ACL is optimizing use of alternative fuels to cut costs. (2) Clinker purchases of 1.7m tonnes (+70%) in CY09 in order to meet robust demand. This included 1.1m tonnes imported from Indonesia. Clinker purchases should fall in CY10. ACL should also benefit from additional captive power in CY10.

- **Good performance in 1Q CY10** — Adj PAT for 1Q was Rs4.5bn, +34% yoy and higher than our estimates. EBITDA/t was Rs1,180 (vs. Rs1,115 for ACC), its highest in the past two years due to lower imported coal costs and lower clinker purchases. However margins are at risk going forward as imported coal costs are rising and we expect prices to be under pressure in the coming quarters. Average realizations rose 3% yoy and 4% qoq due to better prices in West India. Volumes were up 4% yoy to 5.3m tonnes. Its domestic sales rose 7.7% to 5.14m tonnes due to better demand in eastern and western India. 1QCY10 margins were 31.3% vs 28.3% last year.

Ambuja Cements – Statistical Abstract

YE 31 Dec	Revenue (Rs m)	Net Profit (Rs m)	EBITDA (Rs m)	EPS (Rs)	EPS growth (%)	P/E (x)	EV/EBITDA (x)	EV/tonne (US$)
CY07	56,314	14,000	22,387	9.2	43%	12.1	6.8	183
CY08	62,347	11,828	19,533	7.8	-16%	14.3	8.2	162
CY09E	72,023	13,819	23,490	9.1	17%	12.2	6.7	149
CY10E	71,260	9,772	18,308	6.4	-29%	17.3	8.5	139
CY11E	75,828	9,188	17,316	6.0	-6%	18.4	8.8	128

Source: Company Reports and Citi Investment Research and Analysis estimates.
Price as on 11 May 2010. Rs/U$ rate at 45. Note - CY09E is still estimate as we have not updated for the actual data.

Investment Strategy

We rate ACL Sell/Medium Risk (3M) with a target price of Rs71. This is based on pricing pressures leading to an earnings decline during CY10-11. ACL is vulnerable in its northern market which has hitherto been quite profitable. A large proportion of the new capacity being set up in the current phase of supply creation is expected in the Northern region. We expect EBITDA margins to decline during CY10-11 largely due to price weakness. ACL benefits from some cost savings due to use of alternative fuels and from its captive power capacity getting enhanced more than 400MW. These savings are unlikely to offset the EBITDA fall expected in CY10 and CY11.

Valuation

We use EV/tonne to value ACL, a common metric for cement companies. We set our target price at Rs71, based on 15% discount to replacement cost of ~US$100/t due to our expectation that profitability of cement companies will be impacted going forward on increased new cement capacities and competitive pressures. At our target price of Rs71, Sep 10 EV/EBITDA is 4.9x and P/E is 10x.

Ambuja Cements (ABUJ.BO): Financial Summary

Fiscal year end 31-Dec	2007	2008	2009E	2010E	2011E
Valuation Ratios					
P/E adjusted (x)	12.1	14.3	12.2	17.3	18.4
EV/EBITDA adjusted (x)	na	8.2	7.0	8.8	9.1
P/BV (x)	3.6	3.0	2.5	2.3	2.1
Dividend yield (%)	3.2	2.0	2.0	1.4	1.4
Per Share Data (Rs)					
EPS adjusted	9.20	7.77	9.08	6.42	6.04
EPS reported	9.20	7.77	9.08	6.42	6.04
BVPS	30.58	37.24	43.74	48.40	52.68
DPS	3.50	2.20	2.20	1.50	1.50
Profit & Loss (RsM)					
Net sales	56,314	62,347	72,023	71,260	75,828
Operating expenses	-36,291	-45,411	-51,355	-56,856	-62,647
EBIT	**20,023**	**16,936**	**20,668**	**14,404**	**13,181**
Net interest expense	-759	-321	-289	-260	-245
Non-operating/exceptionals	0	0	0	0	0
Pre-tax profit	**19,265**	**16,615**	**20,380**	**14,144**	**12,935**
Tax	-5,265	-4,787	-6,560	-4,371	-3,748
Extraord./Min.Int./Pref.div.	0	0	0	0	0
Reported net income	**14,000**	**11,828**	**13,819**	**9,772**	**9,188**
Adjusted earnings	14,000	11,828	13,819	9,772	9,188
Adjusted EBITDA	22,387	19,533	23,490	18,308	17,316
Growth Rates (%)					
Sales	na	10.7	15.5	-1.1	6.4
EBIT adjusted	na	-15.4	22.0	-30.3	-8.5
EBITDA adjusted	na	-12.7	20.3	-22.1	-5.4
EPS adjusted	na	-15.5	16.8	-29.3	-6.0
Cash Flow (RsM)					
Operating cash flow	**15,518**	**9,662**	**16,079**	**12,320**	**11,392**
Depreciation/amortization	2,363	2,598	2,822	3,904	4,135
Net working capital	-1,179	-2,612	1,370	234	-105
Investing cash flow	**-1,629**	**-2,749**	**-11,259**	**-6,682**	**-5,104**
Capital expenditure	-5,284	-16,415	-13,279	-8,061	-6,700
Acquisitions/disposals	2,647	12,417	0	0	0
Financing cash flow	**-11,243**	**-4,820**	**-2,070**	**-4,179**	**-2,918**
Borrowings	-5,350	-418	0	0	0
Dividends paid	-5,834	-3,919	-1,781	-3,919	-2,672
Change in cash	**2,645**	**2,093**	**2,750**	**1,459**	**3,371**
Balance Sheet (RsM)					
Total assets	**65,329**	**78,118**	**90,765**	**96,785**	**104,193**
Cash & cash equivalent	6,426	8,518	11,268	12,727	16,098
Accounts receivable	1,457	2,246	2,155	2,148	2,285
Net fixed assets	36,567	51,400	61,857	66,014	68,579
Total liabilities	**18,779**	**21,432**	**24,179**	**23,099**	**23,991**
Accounts payable	5,740	8,802	9,525	9,964	11,130
Total Debt	3,304	2,887	2,887	2,887	2,887
Shareholders' funds	**46,550**	**56,686**	**66,586**	**73,686**	**80,202**
Profitability/Solvency Ratios (%)					
EBITDA margin adjusted	39.8	31.3	32.6	25.7	22.8
ROE adjusted	na	22.9	22.4	13.9	11.9
ROIC adjusted	na	25.7	23.5	15.1	13.5
Net debt to equity	-6.7	-9.9	-12.6	-13.4	-16.5
Total debt to capital	6.6	4.8	4.2	3.8	3.5

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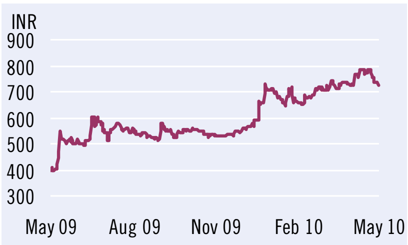
Apollo Hospitals (APLH.BO)

Buy/Medium Risk	**1M**
Price (11 May 10)	Rs723.80
Target Price	Rs840.00
Expected share price return	16.1%
Expected dividend yield	1.4%
Expected total return	**17.5%**
Market Cap	Rs44,720M
	US$992M

Price Performance



Source: dataCentral

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Company description

Apollo Hospitals is an integrated healthcare company in India's private sector, with the largest hospital network in Asia. The group and its subsidiaries own 26 hospitals, and it operates 20 hospitals. These hospitals are owned either by joint ventures and associated companies or operated under contracts as franchise hospitals or under consultancy contracts across the Afro-Asian region, with more than 8,000 operational beds. It also operates a network of primary-care clinics, a medical back-office operation, a health-insurance company and a healthcare staffing company that provides nurses to the UK, the US and other countries. Its retail pharmacy business is one of the largest in India, with a network of over 1,000 outlets.

Best Play on Indian Healthcare

- **Best Play on Indian Healthcare** — We are positive on the long-term prospects of Indian healthcare. Apollo is our preferred play, given its scale, national footprint and presence in multiple disease/delivery segments. Its exposure to retail pharmacies & healthcare BPO would also act as a support to valuations.

- **Well Positioned in a Growing Sector** — Apollo Hospital is a leading player in a growth sector with high entry barriers. Robust profitability despite the aggressive rollout of pharmacies indicates the buoyancy in the core hospitals business. Besides, we see material hidden value in the form of its retail pharmacy operations, 46% stake in Apollo Health Street & Land on its books – most of which could be unlocked over the next few years.

- **Expansion Plans** — Apollo plans to add ~1,700 beds to its network over the next two years, including ~800 beds under its reach initiative. Other major projects in the pipeline include its JV with Western Hospitals to set up a 225 bed hospital in Mumbai and new facilities in Hyderabad (200 beds), Vizag (222 beds) and Chennai (130 beds). It also intends to expand its pharmacy network.

- **Pharmacies Nearing Break-Even** — Apollo's retail pharmacy network comprises of 1,035 stores. With the biz now attaining critical scale & improving profitability in the established pharmacies (EBITDA margin of 3.4% for pharmacies set up pre-FY08), we expect it to break even in FY11.

Statistical Abstract

Year to 31 Mar	Net Profit (RsM)	Diluted EPS (Rs)	EPS growth (%)	EV/EBITDA (x)	P/E (x)	P/B (x)	P/CEPS (x)	ROE (%)	Yield (%)
2008A	772	13.1	na	25.0	54.5	3.2	32.6	na	0.7
2009A	1,065	17.7	34.5	19.7	40.5	2.9	26.0	7.4	1.0
2010E	1,558	25.9	46.3	14.9	27.7	2.8	18.3	10.3	1.4
2011E	1,940	32.2	24.5	12.1	22.2	2.6	14.5	12.1	1.8
2012E	2,383	39.6	22.8	10.4	18.1	2.4	12.1	13.8	2.2

Source: dataCentral, Citi Investment Research and Analysis estimates

Investment Strategy

We rate Apollo Hospitals shares Buy/Medium Risk (1M). We are positive on the Indian healthcare delivery market and believe that Apollo is one of the best plays on the burgeoning healthcare opportunity in India. It appears poised to benefit from healthcare opportunities in India, driven by both domestic and international patients, and is ahead of most of its competitors on scale, brand recognition and service offerings. We expect Apollo's new hospitals and improvements in asset utilization to drive 19% revenue CAGR and 29% in EBIDTA over FY09-12E.

Valuation

Our target price for Apollo is Rs840. We use EV/EBIDTA vs. EBIDTA CAGR as our primary methodology to value Apollo Hospitals. We believe Indian hospitals should trade at a premium to their global counterparts given the much higher growth opportunity in the Indian market. We benchmark our target sector multiple with comparable peers in the Asia Pac region. Our current EV/EBIDTA multiple of 14x is also in the range that Apollo has traded over the last several years. At 14x Mar 11E EBITDA we arrive at our target price of Rs840.

Apollo Hospitals (APLH.BO): Financial Summary

Fiscal year end 31-Mar	2008	2009	2010E	2011E	2012E
Valuation Ratios					
P/E adjusted (x)	55.1	40.9	28.0	22.5	18.3
EV/EBITDA adjusted (x)	24.8	20.1	15.0	12.1	10.4
P/BV (x)	3.3	3.0	2.8	2.6	2.4
Dividend yield (%)	0.7	1.0	1.4	1.8	2.2
Per Share Data (Rs)					
EPS adjusted	13.15	17.68	25.86	32.20	39.55
EPS reported	13.15	17.02	25.86	32.20	39.55
BVPS	221.35	243.85	258.04	275.71	297.42
DPS	5.26	7.07	10.35	12.88	15.82
Profit & Loss (RsM)					
Net sales	12,164	16,142	20,540	24,081	27,458
Operating expenses	-10,844	-14,507	-18,147	-21,014	-23,720
EBIT	**1,319**	**1,635**	**2,393**	**3,066**	**3,738**
Net interest expense	-382	-459	-581	-650	-735
Non-operating/exceptionals	170	283	400	422	491
Pre-tax profit	**1,107**	**1,459**	**2,212**	**2,838**	**3,495**
Tax	-374	-490	-696	-907	-1,112
Extraord./Min.Int./Pref.div.	39	56	42	8	0
Reported net income	**772**	**1,025**	**1,558**	**1,940**	**2,383**
Adjusted earnings	772	1,065	1,558	1,940	2,383
Adjusted EBITDA	1,836	2,267	3,196	4,094	4,915
Growth Rates (%)					
Sales	28.1	32.7	27.2	17.2	14.0
EBIT adjusted	15.7	23.9	46.4	28.1	21.9
EBITDA adjusted	18.6	23.5	41.0	28.1	20.1
EPS adjusted	1.2	34.5	46.3	24.5	22.8
Cash Flow (RsM)					
Operating cash flow	**-462**	**1,130**	**2,020**	**2,093**	**3,038**
Depreciation/amortization	517	632	803	1,028	1,177
Net working capital	-1,420	-207	-19	-608	-255
Investing cash flow	**-6,247**	**-3,338**	**-3,190**	**-3,176**	**-3,530**
Capital expenditure	-2,236	-3,666	-3,190	-3,176	-3,530
Acquisitions/disposals	0	0	0	0	0
Financing cash flow	**6,891**	**2,814**	**1,782**	**1,650**	**450**
Borrowings	1,743	1,384	1,594	1,700	1,300
Dividends paid	-348	-481	-703	-875	-1,075
Change in cash	**181**	**606**	**612**	**566**	**-42**
Balance Sheet (RsM)					
Total assets	**22,351**	**26,243**	**29,315**	**32,556**	**35,627**
Cash & cash equivalent	4,869	3,286	2,830	3,122	3,248
Accounts receivable	1,423	1,744	2,138	2,375	2,558
Net fixed assets	9,541	12,590	14,977	17,126	19,478
Total liabilities	**9,022**	**11,289**	**13,549**	**15,734**	**17,496**
Accounts payable	1,810	2,148	2,814	3,299	3,761
Total Debt	5,322	6,706	8,300	10,000	11,300
Shareholders' funds	**13,329**	**14,954**	**15,766**	**16,823**	**18,130**
Profitability/Solvency Ratios (%)					
EBITDA margin adjusted	15.1	14.0	15.6	17.0	17.9
ROE adjusted	7.5	7.7	10.3	12.1	13.8
ROIC adjusted	8.2	7.6	9.1	10.1	11.0
Net debt to equity	3.4	22.9	34.7	40.9	44.4
Total debt to capital	28.5	31.0	34.5	37.3	38.4

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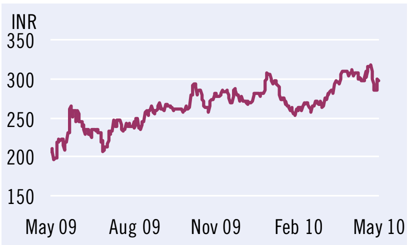
Cairn India (CAIL.BO)

Buy/Low Risk	**1L**
Price (11 May 10)	Rs297.85
Target Price	Rs351.00
Expected share price return	17.8%
Expected dividend yield	0.0%
Expected total return	**17.8%**
Market Cap	Rs564,923M
	US$12,527M

Price Performance



Source: dataCentral

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Company description

Cairn India was incorporated as a subsidiary of Cairn Energy PLC (UK) to own and operate all of Cairn Plc's Indian E&P assets. Cairn India has operating interests in producing fields in KG Basin and the Cambay Basin offshore. However, most reserves accrue from the Rajasthan Block where production commenced in 2009. Cairn Plc now holds 62.4% in Cairn India.

New Reserves Data Validate Confidence in Rajasthan Upside

- **Rajasthan upside becomes more tangible** — Cairn recently raised its estimated Rajasthan resource base to 6.5bn boe, mainly a result of: (1) in-place resource estimate for smaller discoveries increasing to 1.9bn boe (1.7bn boe), with recoverable reserves of 140 mmboe (80), and (2) exploration upside at 2.5 bn boe with recoverable risked resources at 250mmboe (35mmboe). The new disclosures therefore indicate total recoverable reserves/resources of 1.4bn boe (1.1 earlier). The prospective resource of 2.5bn boe pertains to ~100 drilling prospects based on seismic/well data analysis, 80% of which is validated independently.

- **Appraisal/exploration upside of Rs47/sh** — The recently disclosed increase in exploration upside to 250 mmboe of risked recoverable resources (35 mmboe earlier) leads to a contribution of Rs47/sh from exploration/appraisal (~15% of NAV). In addition, we assume 3-9% higher EOR from MBA resulting in a Rs17/sh contribution to NAV. We maintain a peak production assumption of 200 kbpd for our core Rajasthan NAV, though revised reserves could lead to peak of 240 kbpd as per management.

- **143 kbpd of crude sales contracted** — Cairn has already contracted 143 kbpd of crude sales with MRPL, IOC, Reliance (excl. the SEZ refinery), and Essar. Additional quantities should get contracted easily given the margin-enhancing pricing of Cairn's crude, especially for complex refineries like RIL's SEZ refinery.

- **Operational issues getting sorted** — With crude offtake tied up, management reiterated Mangala production ramping up to 125 kbpd in 2HCY10 (20 kbpd currently) vs. potential of 150 kbpd. The accompanying pipeline section from Barmer to Salaya, which will connect IOC, RIL, and Essar, will be ready by June.

Statistical Abstract

Year to 31 Mar	Net Profit (RsM)	Diluted EPS (Rs)	EPS growth (%)	EV/EBITDA (x)	P/E (x)	P/B (x)	P/CEPS (x)	ROE (%)	Yield (%)
2010E	10,056	5.2	nm	nm	57.3	1.7	42.1	3.0	0.0
2011E	47,119	24.3	368.5	8.9	12.2	1.5	10.2	13.0	0.0
2012E	85,135	44.0	80.7	4.5	6.8	1.2	5.7	19.9	0.0

Source: dataCentral, CIRA estimates

Investment Strategy

We rate Cairn India as Buy/Low Risk (1L) with a target price of Rs351. Cairn India's ownership of valuable oil reserves in Rajasthan has started generating steady cash flows from FY10E, besides having potential to generate further upside from EOR and exploration. Cairn India's valuations are among the most highly leveraged to crude among global E&P peers, which together with operational momentum and E&A upside offsets the inherent operational risks. Given its excellent track record in exploration and execution, we believe that there exists a reasonable upside from current levels.

Valuation

We base our target price of Rs351 on estimated NAVs of under-development and producing assets and incorporating recovery upside. Given Cairn's leverage to crude, our target of Rs351 is based on an average NAV value of Rs334 derived using two different crude scenarios: 1) CIRA global crude price forecasts yielding a base NAV of Rs319, and 2) Crude futures curve yielding an NAV of Rs350. In addition, we ascribe a 5% premium to the blended NAV to build in exploration potential in other blocks and to factor in the potential for a positive surprise in project development targets in the Rajasthan Block. We believe that the stock would partially factor in a combination of longer-term fundamentals and near-term momentum in underlying crude prices, till it can establish a track record of success outside Rajasthan. Key assumptions for our NAV analysis are: crude realization at a 12% discount to Brent; cess at Rs2,550/MT; plateau production at 200kbpd in 2H12; and total life-of-field development capex (including pipeline) of US$4.35bn.

Cairn India (CAIL.BO): Financial Summary

Fiscal year end 31-Mar	2009	2010E	2011E	2012E
Valuation Ratios				
P/E adjusted (x)	na	57.3	12.2	6.8
EV/EBITDA adjusted (x)	na	42.5	8.6	4.2
P/BV (x)	na	1.7	1.5	1.2
Dividend yield (%)	na	0.0	0.0	0.0
Per Share Data (Rs)				
EPS adjusted	na	5.20	24.34	43.98
EPS reported	na	5.20	24.34	43.98
BVPS	na	174.67	199.01	243.00
DPS	na	0.00	0.00	0.00
Profit & Loss (RsM)				
Net sales	na	16,154	70,738	130,775
Operating expenses	na	-6,262	-15,656	-28,097
EBIT	**na**	**9,892**	**55,082**	**102,678**
Net interest expense	na	-3,371	-3,150	-3,080
Non-operating/exceptionals	na	149	140	137
Pre-tax profit	**na**	**6,670**	**52,072**	**99,735**
Tax	na	3,386	-4,953	-14,600
Extraord./Min.Int./Pref.div.	na	0	0	0
Reported net income	**na**	**10,056**	**47,119**	**85,135**
Adjusted earnings	na	10,056	47,119	85,135
Adjusted EBITDA	na	13,527	64,411	118,894
Growth Rates (%)				
Sales	na	na	337.9	84.9
EBIT adjusted	na	na	456.9	86.4
EBITDA adjusted	na	na	376.2	84.6
EPS adjusted	na	na	368.5	80.7
Cash Flow (RsM)				
Operating cash flow	**na**	**14,430**	**56,215**	**101,248**
Depreciation/amortization	na	3,635	9,329	16,216
Net working capital	na	738	-233	-103
Investing cash flow	**na**	**-46,080**	**-36,900**	**-29,920**
Capital expenditure	na	-46,080	-36,900	-29,920
Acquisitions/disposals	na	0	0	0
Financing cash flow	**na**	**-5,164**	**4,350**	**10,050**
Borrowings	na	-5,164	4,350	10,050
Dividends paid	na	0	0	0
Change in cash	**na**	**-36,814**	**23,665**	**81,378**
Balance Sheet (RsM)				
Total assets	**na**	**398,301**	**453,908**	**558,966**
Cash & cash equivalent	na	28,966	70,800	166,069
Accounts receivable	na	8,994	10,063	10,306
Net fixed assets	na	107,148	119,852	129,399
Total liabilities	**na**	**60,222**	**68,710**	**88,633**
Accounts payable	na	18,456	19,292	19,432
Total Debt	na	38,400	42,750	52,800
Shareholders' funds	**na**	**338,080**	**385,199**	**470,333**
Profitability/Solvency Ratios (%)				
EBITDA margin adjusted	na	83.7	91.1	90.9
ROE adjusted	na	3.0	13.0	19.9
ROIC adjusted	na	3.8	14.0	23.9
Net debt to equity	na	2.8	-7.3	-24.1
Total debt to capital	na	10.2	10.0	10.1

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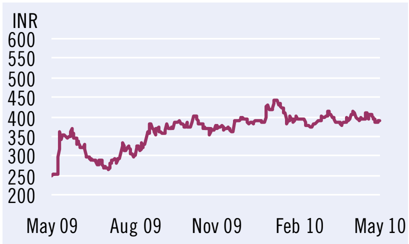
Powered by: dataCentral

CESC (CESC.BO)

Buy/Medium Risk	1M
Price (11 May 10)	Rs388.90
Target Price	Rs514.00
Expected share price return	32.2%
Expected dividend yield	1.0%
Expected total return	**33.2%**
Market Cap	Rs48,588M
	US$1,077M

Price Performance



Source: dataCentral

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Company description

CESC is a vertically integrated electric utility engaged in the business of generation, transmission and distribution of electricity to consumers in its licensed area, which covers Kolkata and Howrah. It currently has four power plants with a generation capacity of 1225MW servicing 2.2m consumers in its 567sqkm license area. CESC has a 26% stake in Integrated Coal Mining Ltd (ICML) (74% held by RPG group companies). ICML supplies c.2.5m MTPA of coal to CESC (52% of CESC's coal requirement) with the remaining being sourced from Coal India and imported coal from Indonesia.

- **Store level break even in FY11E; Overall break even in 2-3 years** — In FY09 retailing had cash losses of ~ Rs270mn/month. Signs of improvement are visible with cash losses down to Rs130mn/month now and should come down to Rs100mn/month by Jun10. At these levels company will achieve break even at the store level. However, cash expenses are required at distribution level (Rs60mn/month) and corporate level (Rs25-30mn/month) and this will continue for some time. Overall company level break even will occur after 2-3 years.

- **Update on real estate business** — Rs2bn order for Spencer Galleria mall given to L&T. Will fund capex with 60:40 D:E ratio and CESC will invest equity of Rs800mn. Mall will have retail area of 0.4mnsqft and car park of 0.3mnsqft. Company expects average rentals of Rs100/sqft/month. Expect rentals of Rs450mn/year out of which Rs40mn will be used to reduce expenses under parent business.

- **Update on Chandrapur and Haldia** — On Chandrapur (600MW) 100% stake has been acquired. BoP given to Punj Lloyd and BTG given to Shanghai Electric. Zero date is Mar10 and the CoD will be Mar13. The plant will be run on 50% merchant and 50% regulated tariffs. For Haldia (600MW) have acquired 287 acres and 40 acres yet to be acquired. Zero date will be Sept 10 and CoD by Sep 13.

- **Update on Orissa and Jharkand** — For Jharkhand (1000MW) has Mahuagarhi coal block (110 MT) which is enough for 750MW. Progress is slow due to political uncertainties but will pick up once new government comes in. For Orissa (1320MW) have acquired 450 acres and 53 acres remains to be acquired. Expects to get coal linkage whenever next coal linkage committee meeting takes place.

- **Fundraising plans** — CESC's cash flows are enough to fund Chandrapur, Haldia and retailing losses. CESC will have to raise equity capital either at subsidiary or parent level to fund capex if Orissa and Jharkhand projects are revived.

Statistical Abstract

Year to 31 Mar	Net Profit (RsM)	Diluted EPS (Rs)	EPS growth (%)	EV/EBITDA (x)	P/E (x)	P/B (x)	P/CEPS (x)	ROE (%)	Yield (%)
2008A	3,554	28.4	na	10.7	13.7	1.6	9.3	na	1.0
2009A	4,097	32.8	15.3	9.0	11.9	1.4	8.3	12.9	1.0
2010E	4,611	36.9	12.5	7.6	10.5	1.3	7.2	12.9	1.0
2011E	5,183	41.5	12.4	6.9	9.4	1.1	6.5	12.9	1.0
2012E	5,385	43.1	3.9	6.5	9.0	1.0	6.2	12.0	1.0

Source: Company, Citi Investment Research and Analysis estimates

Investment Strategy

We rate CESC as Buy/Medium Risk (1M). Having turned from a loss of Rs1.3bn in FY99 to profit of Rs4.1bn in FY09, the power business, aided by the West Bengal Electricity Regulatory Commission's (WBERC's) benign tariff orders, continues to create value. However, we have been worried about the company's retailing business which on merger with CESC led to a 37% equity dilution and has been a drain on CESC power cash flows. We view that the retail business could see some improvement in FY10E, although losses are expected to continue. This aside, we had also been worried about the slow progress in the power expansion projects. However, developments on the power business in the last six months have impressed us, including: (1) acquisition of 600MW Chandrapur project, and (2) significant progress on the Haldia Phase - I project. We view that both these projects will be lucrative and are likely to deliver project IRRs of 13%-14% and equity IRRs of 19%-20%.

Valuation

Our Rs514 target price is based on a sum-of-the-parts (SOTP) methodology. We value the power business using a DCF at Rs410 (WACC = 12.1% and g = 2%). We also value the Chandrapur and Haldia projects using DCF (Cost of Equity = 13%) and apply a 15% discount in the interest of conservatism. The negative NPV of the power business support to the retail business is Rs75. We value CESC's 94.72% stake in Spencer's Retail at an EV/Sales of 1.0x FY09, implying a value of Rs63

CESC (CESC.BO): Financial Summary

Fiscal year end 31-Mar	2008	2009	2010E	2011E	2012E
Valuation Ratios					
P/E adjusted (x)	13.7	11.9	10.5	9.4	9.0
EV/EBITDA adjusted (x)	9.8	8.9	7.4	6.6	6.2
P/BV (x)	1.6	1.4	1.3	1.1	1.0
Dividend yield (%)	1.0	1.0	1.0	1.0	1.0
Per Share Data (Rs)					
EPS adjusted	28.44	32.79	36.90	41.48	43.10
EPS reported	28.44	32.79	36.90	41.48	43.10
BVPS	237.19	270.87	303.10	339.89	378.31
DPS	4.00	4.00	4.00	4.00	4.00
Profit & Loss (RsM)					
Net sales	27,750	30,313	33,410	34,303	35,477
Operating expenses	-23,911	-25,938	-27,582	-27,729	-28,697
EBIT	**3,839**	**4,376**	**5,829**	**6,574**	**6,780**
Net interest expense	-1,363	-1,410	-1,874	-1,930	-1,892
Non-operating/exceptionals	1,554	1,683	1,600	1,600	1,600
Pre-tax profit	**4,029**	**4,649**	**5,555**	**6,244**	**6,488**
Tax	-476	-552	-944	-1,062	-1,103
Extraord./Min.Int./Pref.div.	0	0	0	0	0
Reported net income	**3,554**	**4,097**	**4,611**	**5,183**	**5,385**
Adjusted earnings	3,554	4,097	4,611	5,183	5,385
Adjusted EBITDA	5,523	6,125	7,928	8,915	9,203
Growth Rates (%)					
Sales	11.7	9.2	10.2	2.7	3.4
EBIT adjusted	-7.7	14.0	33.2	12.8	3.1
EBITDA adjusted	-3.8	10.9	29.4	12.4	3.2
EPS adjusted	-20.3	15.3	12.5	12.4	3.9
Cash Flow (RsM)					
Operating cash flow	**5,904**	**3,580**	**4,085**	**5,261**	**6,095**
Depreciation/amortization	1,685	1,749	2,100	2,341	2,424
Net working capital	666	-2,266	-2,625	-2,262	-1,713
Investing cash flow	**-9,776**	**-10,927**	**-5,400**	**-3,900**	**-3,000**
Capital expenditure	-6,493	-13,519	-5,400	-3,900	-3,000
Acquisitions/disposals	0	0	0	0	0
Financing cash flow	**5,447**	**8,595**	**2,115**	**-485**	**-585**
Borrowings	-1,695	7,693	2,000	-500	-500
Dividends paid	-585	-585	-585	-585	-585
Change in cash	**1,575**	**1,249**	**800**	**876**	**2,510**
Balance Sheet (RsM)					
Total assets	**67,462**	**86,290**	**94,784**	**99,739**	**105,070**
Cash & cash equivalent	9,864	12,510	13,311	14,187	16,697
Accounts receivable	3,152	3,889	4,286	4,400	4,551
Net fixed assets	42,148	53,919	57,219	58,778	59,355
Total liabilities	**37,826**	**52,446**	**56,913**	**57,271**	**57,801**
Accounts payable	10,931	15,645	16,950	17,149	17,659
Total Debt	16,288	23,981	25,981	25,481	24,981
Shareholders' funds	**29,636**	**33,845**	**37,871**	**42,469**	**47,268**
Profitability/Solvency Ratios (%)					
EBITDA margin adjusted	19.9	20.2	23.7	26.0	25.9
ROE adjusted	14.4	12.9	12.9	12.9	12.0
ROIC adjusted	8.7	8.0	8.4	8.7	8.5
Net debt to equity	21.7	33.9	33.5	26.6	17.5
Total debt to capital	35.5	41.5	40.7	37.5	34.6

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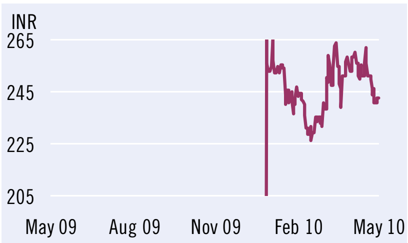
Powered by: dataCentral

DB Corp (DBCL.BO)

Buy/Low Risk	**1L**
Price (11 May 10)	Rs242.50
Target Price	Rs280.00
Expected share price return	15.5%
Expected dividend yield	0.4%
Expected total return	**15.9%**
Market Cap	Rs44,018M
	US$976M

Price Performance



Source: dataCentral

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Company description

DB Corp is one of India's leading publishing houses, with newspapers cumulatively commanding the highest readership in the country (average daily readership of 15.5m). The company benefits from a strong position in key non-metro markets like Madhya Pradesh, Chattisgarh, Rajasthan, Gujarat, Punjab and Haryana. In total, it publishes seven newspapers, 48 newspaper editions and around 130 sub-editions in three languages (Hindi, Gujarati and English) in 11 Indian states. The company has interests in radio under the MY FM brand, operating in 17 FM radio stations across mini metros and small towns. Another subsidiary, I Media Corp provides exposure to internet and SMS portals.

Broad Exposure Supports Structural Growth

- **Healthy advertising growth** — Ad market turnaround has been visible over the last two quarters, and management has spoken about ad rates hikes of ~10%-12%. One needs to understand the drivers of growth going forward, discuss details on advertiser's profile, increasing proportion of color ads, and potential of yield improvement. Impact of the addition of the Gwalior edition to the FY11 ad/subscription revenues is another consideration.

- **Newsprint tailwinds?** — Newsprint is the largest cost item for DBCL. With newsprint prices ~25% off the peak, margins rebounded sharply in FY10. The current outlook on newsprint prices and factors driving demand supply dynamics need to be understood. Higher proportion of indigenous newsprint (~82% now, ~57% in FY06) and an appreciating rupee should aid margins to some extent.

- **Bihar and Jharkhand launch** — Existing cover prices for the incumbents in these markets is very high at ~Rs4. Premium pricing creates an opportunity to break in. This, coupled with low penetration levels, makes the expansion attractive. Capex would be to the tune of Rs700-750m. Strategically, entry into high growth regional markets (current ad market size of ~Rs2bn) is a long-term positive, however, the extent of losses and launch strategy could be discussed.

- **Radio business merger** — The recent radio business demerger from SMEL and merger with itself does not materially impact consolidated financials, given that its contribution is <5% of consolidated revenues. Management believes this transaction will offer better synergies for advertisers. We think there could be tax benefits accruing to DBCL, given that SMEL has accumulated losses. Management views on regulatory changes permitting news on FM radio and Phase 3 bidding process could be looked into.

- **Stable operating margins** — Management expects stable EBITDA margins of ~30%-33% in the near- to medium-term, despite a rise in newsprint costs. Discussions on cost rationalization initiatives, improving contribution from some editions, buoyancy in advertising/circulation revenues, etc. should help with understanding the drivers of future profit growth.

Statistical Abstract

Year to 31 Mar	Net Profit (RsM)	Diluted EPS (Rs)	EPS growth (%)	EV/EBITDA (x)	P/E (x)	P/B (x)	P/CEPS (x)	ROE (%)	Yield (%)
2008A	759	4.5	na	27.9	53.9	18.6	41.8	na	0.2
2009A	477	2.8	-37.1	34.5	85.8	15.9	53.4	20.0	0.0
2010E	1,906	10.5	271.5	14.0	23.1	6.3	18.9	39.9	0.4
2011E	2,411	13.3	26.5	11.5	18.3	4.9	15.5	30.0	0.6
2012E	2,727	15.0	13.1	10.1	16.1	3.8	13.8	26.5	0.6

Source: Company Reports and CIRA Estimates

Investment Strategy

We rate DBCL as Buy/Low Risk (1L) with a target price of Rs280. The company is well placed in key regional markets, growing at a faster pace than the industry average. Superior execution skills, localization of content/advertising and scale result in strong competitive positioning. We expect 79% PAT CAGR over FY09-12E, backed by multiple growth drivers. Strong growth in the Indian advertising market on strong economic growth, sustainable ad rate hikes, and breakeven of maturing editions are significant drivers. With newsprint prices still ~30% off peak levels, margins have rebounded sharply - we expect ~33% EBITDA margin in FY10. In FY11, we expect stable operating margins as we think healthy advertising growth (~15% YoY), better cost controls and positive contribution from newer editions should be able to offset newsprint increase.

Valuation

Our Rs280 target price is based on 21x FY11E EPS, at a premium to the Asian peer average. Strong franchise, presence in growth markets and advertising upturn should help DBCL sustain premium valuations. Asian publishing companies trade at a FY11E P/E of ~15x with 3-year earnings CAGR (FY09-12E) of 2%. Our P/E target multiple of 21x FY11E earnings for DBCL seems reasonable given its ~75% EPS CAGR (FY09-12E). The Indian print media companies trade at 11-22x FY11E P/E based on consensus earnings estimates. Given its good visibility on revenues and a good track record of earnings, we believe earnings-based valuations are the best way to value DBCL.

DB Corp (DBCL.BO): Financial Summary

Fiscal year end 31-Mar	2008	2009	2010E	2011E	2012E
Valuation Ratios					
P/E adjusted (x)	53.9	85.8	23.1	18.3	16.1
EV/EBITDA adjusted (x)	27.6	35.4	13.4	11.4	9.9
P/BV (x)	18.6	15.9	6.3	4.9	3.8
Dividend yield (%)	0.2	0.0	0.4	0.6	0.6
Per Share Data (Rs)					
EPS adjusted	4.50	2.83	10.50	13.28	15.02
EPS reported	4.50	2.83	10.50	13.28	15.02
BVPS	13.02	15.27	38.42	49.99	63.30
DPS	0.50	0.00	1.00	1.50	1.50
Profit & Loss (RsM)					
Net sales	8,506	9,490	10,514	11,956	13,502
Operating expenses	-7,018	-8,426	-7,419	-8,468	-9,623
EBIT	**1,488**	**1,063**	**3,095**	**3,489**	**3,879**
Net interest expense	-281	-402	-295	-48	62
Non-operating/exceptionals	121	120	129	166	196
Pre-tax profit	**1,328**	**782**	**2,930**	**3,607**	**4,137**
Tax	-630	-423	-1,099	-1,226	-1,407
Extraord./Min.Int./Pref.div.	61	118	74	31	-4
Reported net income	**759**	**477**	**1,906**	**2,411**	**2,727**
Adjusted earnings	759	477	1,906	2,411	2,727
Adjusted EBITDA	1,709	1,353	3,516	3,921	4,336
Growth Rates (%)					
Sales	27.9	11.6	10.8	13.7	12.9
EBIT adjusted	105.2	-28.5	191.1	12.7	11.2
EBITDA adjusted	102.3	-20.8	159.8	11.5	10.6
EPS adjusted	37.2	-37.1	271.5	26.5	13.1
Cash Flow (RsM)					
Operating cash flow	**2,267**	**1,437**	**2,194**	**2,328**	**2,623**
Depreciation/amortization	220	290	421	433	457
Net working capital	1,057	342	-297	-398	-303
Investing cash flow	**-1,330**	**-3,773**	**-769**	**-693**	**-881**
Capital expenditure	-1,079	-3,138	-604	-811	-1,140
Acquisitions/disposals	0	0	0	0	0
Financing cash flow	**-328**	**1,980**	**-8**	**-1,560**	**-1,310**
Borrowings	-341	2,195	-2,500	-1,250	-1,000
Dividends paid	-99	0	-207	-310	-310
Change in cash	**609**	**-356**	**1,416**	**75**	**431**
Balance Sheet (RsM)					
Total assets	**7,936**	**10,914**	**12,794**	**13,836**	**15,519**
Cash & cash equivalent	808	452	1,868	1,943	2,374
Accounts receivable	1,755	1,774	1,959	2,293	2,589
Net fixed assets	3,623	6,471	6,655	7,033	7,715
Total liabilities	**5,497**	**8,213**	**5,696**	**4,637**	**3,904**
Accounts payable	0	0	0	0	0
Total Debt	3,436	5,631	3,131	1,881	881
Shareholders' funds	**2,439**	**2,701**	**7,098**	**9,199**	**11,615**
Profitability/Solvency Ratios (%)					
EBITDA margin adjusted	20.1	14.3	33.4	32.8	32.1
ROE adjusted	39.3	20.0	39.9	30.0	26.5
ROIC adjusted	15.8	9.6	24.1	25.4	25.3
Net debt to equity	107.8	191.8	17.8	-0.7	-12.9
Total debt to capital	58.5	67.6	30.6	17.0	7.1

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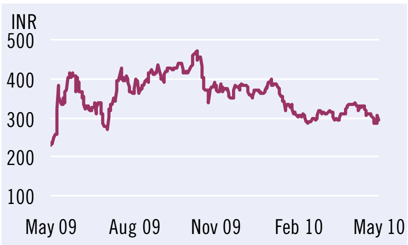
Powered by: dataCentral

DLF (DLF.BO)

Buy/Low Risk	**1L**
Price (11 May 10)	Rs295.00
Target Price	Rs464.00
Expected share price return	57.3%
Expected dividend yield	0.0%
Expected total return	**57.3%**
Market Cap	Rs500,730M
	US$11,104M

Price Performance



Source: dataCentral

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Company description

One of India's oldest real estate developers established in Delhi in 1946, DLF has continued to expand and diversify its real estate businesses, and is among the largest developers in India. It has historically built its businesses in Delhi and adjoining areas, known as the National Capital Region (NCR) and has diversified into other geographic locations over the past few years, with a focus on the Northern India belt, Kolkata, Mumbai, Chennai, and a number of other large and rapidly growing cities. DLF enjoys a strong brand franchise with a good track record in execution and delivery. This is the flagship company of the KP Singh family, with the founders holding a 78.6% stake.

Best Poised for Commercial Recovery

- **Traction seen in pre-sales and execution as construction ramps up** — DLF is looking at ~3.5msf pre-sales in 4Q (vs. 3.1 msf in 3Q and 2.7msf in 2Q), targeting ~12msf for FY10. Further, ramp-up in construction is generating faster cash-flows across its projects and is likely to see big step-up in 4Q (~4msf vs. 2msf in 3Q).

- **Commercial showing more promising signs of recovery** — Management expects to lease ~1msf in 4Q, with enquiries continuing to pick up. It presently has ~0.5msf of ready inventory and ~2msf of space ready for delivery in six months. While leasing rates have stabilized, the company is still not looking at ramping up construction in commercial properties (~presently 17msf).

- **DAL–DLF integration** — The integration is to be completed by the end of FY10. With a consolidated strong rental annuity of Rs15bn by FY11E (of which ~Rs7bn is currently securitized), the company continues to explore possibilities of a potential DAL listing in 1H FY11.

- **De-leveraging remains a priority, but slow progress** — O/S net-debt as of Dec-2009 stood at Rs128bn (~Rs27bn is due till Mar-2011 and ~Rs10bn due in Dec-2010). Integration with Caraf-DAL added another ~Rs30bn and recent buy-out in SC Asia would take total debt to ~Rs190 bn. D/E of 0.8 vs. 0.6 earlier would keep deleveraging in the priority list. That said, the company is focusing on de-leveraging through its non-core asset sales and by increasing operating cash flows, although the progress has been slow.

- **Our Top Pick; key reasons** — 1) Pre-sales momentum, construction activities ramping up; 2) Increased visibility on new launches; 3) Commercial leasing recovery, looking more promising now, will act as a boon; 4) DAL-DLF integration seeing some direction remains a potential catalyst; and 5) Valuations look attractive at a 46% discount to estimated NAV.

Statistical Abstract

Year to 31 Mar	Net Profit (RsM)	Diluted EPS (Rs)	EPS growth (%)	P/E (x)	P/B (x)	ROE (%)	Yield (%)
2008A	78,120	45.8	na	6.4	2.7	na	1.4
2009A	46,292	27.3	-40.5	10.8	2.2	22.3	0.0
2010E	19,905	11.7	-57.0	25.2	2.0	8.4	0.0
2011E	24,208	14.3	21.6	20.7	1.8	9.3	0.0
2012E	32,588	19.2	34.6	15.4	1.6	11.3	0.0

Source: Company Reports and CIRA Estimates

Investment Strategy

We rate DLF as Buy/Low Risk (1L), with a target price of Rs464. DLF's proactive measures to address receivable worries, boost pre-sales by cutting prices/launching city centre projects, along with steps to ensure liquidity, has differentiated it. Further, promoters bringing in additional capital to address liquidity concerns without dilution augur well, removing concerns about high receivables from DLF Assets (DAL). Given DLF's execution track record, growing rental income and geographic-asset mix, we believe it is strongly positioned vs. peers. We recommend a Buy rating for the stock and believe it should be a core holding for exposure to the Indian real estate sector.

Valuation

Our target price of Rs464 is based on a 15% discount to our March 2010E NAV of Rs546. Our NAV includes Rs455 for the development portfolio and Rs91 for other asset holdings and new JV businesses (Rs73/sh for the existing 11m sq ft of leased assets and 7.2m sq ft of plots and Rs18/sh for DLF's share in the hotel JV). The lower discount vs. peers (30%-35%) is attributed to: 1) Relatively healthy balance sheet vs. peers; 2) Superior business model, strong execution track record; and 3) Relatively better disclosure standards.

Our March 2010E NAV is based on: 1) 20% decline in prices from peak levels; 2) Development volume of 397msf; 3) Cap rate of 10% for commercial/IT Park, IT SEZs in Super Metros and Metros, and 11% for other locations; 4) Average cost of capital of 13% given tight liquidity; and 5) A tax rate of 25%

DLF (DLF.BO): Financial Summary

Fiscal year end 31-Mar	2008	2009	2010E	2011E	2012E
Valuation Ratios					
P/E adjusted (x)	6.4	10.8	25.2	20.7	15.4
P/E reported (x)	6.4	10.8	25.2	20.7	15.4
P/BV (x)	2.7	2.2	2.0	1.8	1.6
Dividend yield (%)	1.4	0.0	0.0	0.0	0.0
Per Share Data (Rs)					
EPS adjusted	45.82	27.28	11.73	14.26	19.20
EPS reported	45.82	27.28	11.73	14.26	19.20
BVPS	109.92	134.09	145.82	160.08	179.28
NAVps ordinary	na	na	na	na	na
DPS	4.00	0.00	0.00	0.00	0.00
Profit & Loss (RsM)					
Net operating income (NOI)	**100,148**	**59,472**	**33,603**	**40,684**	**54,028**
G&A expenses	-2,998	-4,592	-4,821	-5,786	-6,943
Other Operating items	-636	-2,566	-2,988	-3,262	-3,699
EBIT including associates	**96,514**	**52,315**	**25,793**	**31,637**	**43,386**
Non-oper./net int./except.	-636	1,394	747	641	65
Pre-tax profit	**95,878**	**53,708**	**26,540**	**32,278**	**43,451**
Tax	-17,391	-7,115	-6,635	-8,069	-10,863
Extraord./Min. Int./Pref. Div.	-367	-302	0	0	0
Reported net income	**78,120**	**46,292**	**19,905**	**24,208**	**32,588**
Adjusted earnings	78,120	46,292	19,905	24,208	32,588
Adjusted EBIT	96,250	52,525	25,793	31,637	43,386
Adjusted EBITDA	97,151	54,881	28,781	34,898	47,085
Growth Rates (%)					
NOI	527.9	-40.6	-43.5	21.1	32.8
EBIT adjusted	572.2	-45.4	-50.9	22.7	37.1
EPS adjusted	259.6	-40.5	-57.0	21.6	34.6
Cash Flow (RsM)					
Operating cash flow	**-26,960**	**-4,560**	**85,691**	**11,454**	**20,688**
Depreciation/amortization	901	2,355	2,988	3,262	3,699
Net working capital	-105,815	-51,290	62,797	-16,016	-15,599
Investing cash flow	**-60,142**	**-42,020**	**-16,540**	**-2,816**	**-10,591**
Capital expenditure	-47,678	-39,450	-17,065	-2,816	-10,591
Acquisitions/disposals	0	0	0	0	0
Financing cash flow	**104,368**	**37,880**	**-78,201**	**-7,000**	**-7,000**
Borrowings	23,177	41,890	-78,201	-7,000	-7,000
Dividends paid	-7,979	-4,010	0	0	0
Change in cash	**17,266**	**-8,700**	**-9,050**	**1,638**	**3,097**
Balance Sheet (RsM)					
Total assets	**396,065**	**489,320**	**433,827**	**467,966**	**510,354**
Cash & cash equivalent	21,421	11,956	5,000	6,639	9,735
Net fixed assets	100,031	136,006	150,082	149,636	156,529
Total liabilities	**195,287**	**241,445**	**166,048**	**175,979**	**185,778**
Total Debt	122,771	163,201	85,000	78,000	71,000
Shareholders' funds	**200,778**	**247,874**	**267,779**	**291,987**	**324,576**
Profitability/Solvency Ratios					
EBIT margin adjusted (%)	66.7	52.3	39.5	37.0	39.0
ROE adjusted (%)	73.2	22.3	8.4	9.3	11.3
ROA adjusted (%)	27.1	10.5	4.3	5.4	6.7
Net debt to equity (%)	50.5	61.0	29.9	24.4	18.9
Interest coverage (x)	31.3	15.4	10.5	19.5	28.7

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Powered by: dataCentral

Edelweiss Capital (EDEL.BO)

Buy/Medium Risk	**1M**
Price (11 May 10)	Rs411.75
Target Price	Rs612.00
Expected share price return	48.6%
Expected dividend yield	1.0%
Expected total return	**49.6%**
Market Cap	Rs30,919M
	US$686M

Price Performance

Source: dataCentral

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Company description

Edelweiss, founded in 1995, started as a niche investment bank that focused on private-equity syndications. It was co-founded by Rashesh Shah, MD and CEO, and Venkat Ramaswamy, ED and Co-Head – Investment Banking. Edelweiss has over the years built a diversified product offering in the institutional segment through broking and investment-banking services, backed by a strong treasury and arbitrage trading portfolio. Edelweiss also offers financing against shares, asset and wealth management, and insurance broking. It operates its various businesses directly and through various subsidiaries, which are consolidated under the parent.

Adding Retail to its Tale

- **Brokerage franchise** — Edelweiss is among the larger institutional brokerage firms in India, with a strong domestic investment-banking business. It has a large market share in the institutional broking segment, with an especially strong presence in the derivatives segment. The recently purchased "Anagram" platform (50% of own volumes) provides it meaningful scale in the retail segment and access to a large and underleveraged distribution network (137 branches, 1,300 franchisees and 180,000 customers), which should substantially improve its revenue mix and return profile.

- **Institutional player –backed by arbitrage trading** — Edelweiss' institutional broking business is backed by investment banking, which combines capital issuances, distribution, private-equity syndication, and structured finance. Edelweiss also runs a market leading treasury portfolio focused on low risk, arbitrage, and short-term trading opportunities.

- **Broadening product offering through new initiatives** — Edelweiss' new initiatives, meant to build on its existing franchise and broaden its revenue mix, are in the areas of wealth management, asset management and life insurance businesses. It recently launched its domestic asset-management business, which leverages off its expertise in the alternative asset-management segment.

- **Insurance – long-term play** — Edelweiss also recently announced a life insurance JV with Tokio Marine (74% stake with Edelweiss, will be diluted to 49% on regulatory approvals). We believe this adds to Edelweiss' expanding retail product suite and could be a longer-term value driver.

- **Large capital base, stable financing business** — The company is well positioned to capture any upside in overall industry volumes due to its relatively large capital base that can be leveraged quickly. Edelweiss also has a securities financing business which provides relative stability to its revenue profile.

- **Risks** — Equity market volatility, competitive pressures, possible losses on treasury portfolio, margin finance risks, interest rates, execution, and regulatory risks.

Statistical Abstract

Year to 31 Mar	Net profit (RsM)	EPS (Rs)	EPS Growth (%)	PE (x)	PB (x)	ROAE (%)	ROAA (%)	Div Yield (%)
FY08	2,732	46	73.2	9.0	1.7	23	8.5	0.5
FY09	1,864	25	-45.4	16.5	1.5	10	3.8	0.7
FY10E	2,798	37	50.0	11.0	1.4	13	4.9	1.0
FY11E	3,441	46	23.0	9.0	1.2	14	4.5	1.1
FY12E	4,118	55	19.7	7.5	1.1	15	4.5	1.2

Source: Company Data, Citi Investment Research and Analysis Estimates

Investment Strategy

We rate Edelweiss as Buy/Medium Risk (1M). It is among the largest institutional brokerages in India and enjoys a favorable market positioning and a strong management team. In a rising equity market this should create strong leverage in its operating revenues. Moreover, it has a large capital base, which can be leveraged quickly to be deployed in its market leading arbitrage business. It currently trades at about a 20%-30% discount to peers. Capital market volumes have increased substantially over the recent months and have more than doubled from the troughs. While we are cautious of extrapolating current volumes into the future, even at 10%-15% lower volumes than currently, we expect industry volumes to grow at 20%-25% YoY in FY10E. We believe the initial volumes pickup will largely come from the institutional segment, which is likely to benefit Edelweiss disproportionately. Also we anticipate higher primary market activities, which will yield revenues and earnings pick up. Moreover, we expect cost pressures to lag revenue growth, leading to an expansion in profit margins in FY10E.

Valuation

Our Rs612 target price is based on a SOTP valuation. We use a 15x 1yr Fwd PE multiple to value its brokerage business, a 15% discount to the broader Sensex multiple (we argue brokerages should trade at discounts in a strong market and vice versa), which values the brokerage and related businesses at Rs336/sh. We value the financing business and arbitrage businesses at 1.25x 1yr Fwd BV, valuing them at Rs89/sh and Rs187/sh respectively. We value the brokerage/related businesses at a discount to broader market earnings multiples in the current environment. We believe that such cyclical businesses should trade at a discount to the market during a strong market environment and vice versa.

Edelweiss Capital (EDEL.BO): Financial Summary

	2008	2009	2010E	2011E	2012E
Valuation Ratios					
P/E adjusted (x)	9.0	16.5	11.0	9.0	7.5
P/E reported (x)	9.0	16.5	11.0	9.0	7.5
P/BV (x)	1.7	1.5	1.4	1.2	1.1
P/Adjusted BV diluted (x)	1.7	1.5	1.4	1.2	1.1
Dividend yield (%)	0.5	0.7	1.0	1.1	1.2
Per Share Data (Rs)					
EPS adjusted	45.60	24.88	37.33	45.92	54.95
EPS reported	45.60	24.88	37.33	45.92	54.95
BVPS	246.64	267.95	300.69	341.44	390.64
Tangible BVPS	246.64	267.95	300.69	341.44	390.64
Adjusted BVPS diluted	246.64	267.95	300.69	341.44	390.64
DPS	2.00	3.00	4.00	4.50	5.00
Profit & Loss (RsM)					
Net interest income	159	1,978	1,701	2,370	2,755
Fees and commissions	1,400	359	805	1,058	1,292
Other operating Income	7,318	5,332	6,789	8,028	9,579
Total operating income	**8,877**	**7,668**	**9,295**	**11,456**	**13,626**
Total operating expenses	-4,311	-4,323	-4,732	-5,799	-6,886
Oper. profit bef. provisions	**4,566**	**3,345**	**4,562**	**5,657**	**6,740**
Bad debt provisions	-100	-55	-40	-50	-50
Non-operating/exceptionals	0	0	0	0	0
Pre-tax profit	**4,467**	**3,290**	**4,522**	**5,607**	**6,690**
Tax	-1,540	-1,199	-1,583	-1,962	-2,342
Extraord./Min. Int./Pref. Div.	-195	-227	-142	-203	-231
Attributable profit	**2,732**	**1,864**	**2,798**	**3,441**	**4,118**
Adjusted earnings	2,732	1,864	2,798	3,441	4,118
Growth Rates (%)					
EPS adjusted	73.2	-45.4	50.0	23.0	19.7
Oper. profit bef. prov.	162.8	-26.7	36.4	24.0	19.2
Balance Sheet (RsM)					
Total assets	**51,619**	**45,536**	**69,636**	**84,580**	**97,466**
Avg interest earning assets	30,347	45,991	54,828	73,728	87,117
Customer loans	12,125	7,625	10,125	12,125	12,125
Gross NPLs	0	0	0	0	0
Liab. & shar. funds	**51,619**	**45,536**	**69,636**	**84,580**	**97,466**
Total customer deposits	0	0	0	0	0
Reserve for loan losses	0	0	0	0	0
Shareholders' equity	**18,476**	**20,081**	**22,534**	**25,588**	**29,275**
Profitability/Solvency Ratios (%)					
ROE adjusted	22.5	9.7	13.1	14.3	15.0
Net interest margin	0.5	4.3	3.1	3.2	3.2
Cost/income ratio	48.6	56.4	50.9	50.6	50.5
Cash cost/average assets	13.4	8.9	8.2	7.5	7.6
NPLs/customer loans	0.0	0.0	0.0	0.0	0.0
Reserve for loan losses/NPLs	na	na	na	na	na
Bad debt prov./avg. cust. loans	1.4	0.6	0.5	0.4	0.4
Loans/deposit ratio	na	na	na	na	na
Tier 1 capital ratio	na	na	na	na	na
Total capital ratio	na	na	na	na	na

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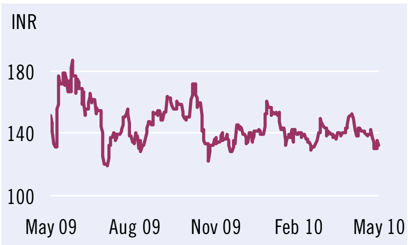
Powered by: dataCentral

Essar Oil (ESRO.BO)

Hold/Medium Risk	**2M**
Price (11 May 10)	Rs132.40
Target Price	Rs155.00
Expected share price return	17.1%
Expected dividend yield	0.0%
Expected total return	**17.1%**
Market Cap	Rs171,375M
	US$3,800M

Price Performance



Source: dataCentral

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Company description

Essar Oil (EOL) is a majority-owned subsidiary of Essar Energy Holdings Limited (through direct holding of equity shares and GDS), which in turn is owned by Essar Global Limited. Besides the 10.5 MMTPA refinery complex at Vadinar, EOL's assets include developmental rights in proven exploration blocks in India and abroad. Essar Oil also has a marketing network of 1,293 oil retail stations across India with plans to increase this network. EOL is expanding its current refinery at Vadinar to 36 MMTPA from the existing 10.5 MMTPA (operating post-debottlenecking at a run-rate of ~14 MMTPA) in a phase-wise manner.

Leveraged to Recovery, But Valuations Factor in Upside

- **Refining outlook better; complexity provides cushion** — Expansions and associated increase in complexity will improve product slate (Euro IV/V fuels to comprise 39%/54% of product slate post-phase I/II) and enhance crude diet (by processing more heavy, sour, and acidic crudes) for Essar Oil (EOL). Full-fledged recovery is contingent on return of demand growth and capacity rationalization (complete by 2011), but in our view the cycle has bottomed and is likely to show moderate improvement. Timing of Phase I (ahead of new capacities in the Middle East) and increase in complexity provides a further cushion.

- **Capex reasonable; phase I on track for March-11 completion** — EOL is expanding its 10.5 MMTPA refinery (currently operating at 14 MMTPA) to 36 MMTPA in two phases – (i) Phase I to 18 MMTPA (complexity to increase from 6.1 to 11.8) at a capex of US$1.56bn, and (ii) Phase II to 36 MMTPA (complexity to increase to 12.8) at a capex of US$4.44bn. The company has completed 41% of phase I, which is on track for completion by March-11 (vs. December-10 earlier), while phase II expansion has been delayed from December-11 to March-13 (financial closure expected by 3QCY10). The capex per complexity bbl works out to a reasonable US$880-890 for both phases.

- **Target price of Rs155** — We have a Hold (2M) rating on Essar Oil and Rs155 target price based on SOTP comprising: (i) existing refinery (post-phase I) at Rs60/sh based on 6.5x FY12E EV/EBITDA discounted back, (ii) option value for phase II (50% risk-weighted) at Rs33/sh based on 6.5x FY14E EV/EBITDA discounted back, (iii) value of E&P (Raniganj & Ratna, the latter 25% risk-weighted) at Rs30/sh, (iv) value of tax benefits (IT & sales) at Rs32/sh. We factor GRMs of US$9.7/10.0 (incl. sales tax benefits) after completion of phase I/II.

- **Key risks** — Upside: (i) sustainable uptick in GRMs, (ii) financial closure of phase II, and (iii) monetization of E&P resources. Downside: (i) deterioration in economic outlook, (ii) discontinuation of sales tax benefit, and (iii) delay/cancellation of phase II.

Statistical Abstract

Year to 31 Mar	Net Profit (RsM)	Diluted EPS (Rs)	EPS growth (%)	EV/EBITDA (x)	P/E (x)	P/B (x)	P/CEPS (x)	ROE (%)	Yield (%)
2008A	-413	-0.3	na	nm	nm	4.3	-406.5	na	0.0
2009A	-4,828	-4.0	1,042.5	22.4	nm	3.9	85.3	-12.4	0.0
2010E	-781	-0.6	-83.9	15.0	nm	4.0	24.7	-1.9	0.0
2011E	6,275	5.2	-905.1	10.5	25.7	3.4	12.2	14.4	0.0
2012E	17,287	11.2	117.1	7.1	11.8	1.8	7.3	21.6	0.0

Source: dataCentral, CIRA Estimates

Investment Strategy

We rate EOL as Hold/Medium Risk (2M) with a Rs155 target price. The expansions and associated increase in complexity will improve product slate (Euro IV/V fuels to comprise 39%/54% of product slate post-phase I/II) and enhance crude diet (by processing more heavy, sour, and acidic crudes). While full-fledged recovery of the refining business is contingent on return of demand growth and capacity rationalization (complete by 2011), the cycle has bottomed and is likely to improve moderately. Timing of Phase I (ahead of new capacities in the Middle East) and increase in complexity provides some cushion. However, the limited upside coupled with project risks is the key reason for our Hold rating.

Valuation

Our SOTP-based target price of Rs155 for EOL comprises: i) existing refinery (post-phase I expansion) valued at Rs60/share based on 6.5x FY12E EV/EBITDA and discounted back, ii) option value for phase II (50% risk-weighted) at Rs33/share based on 6.5x FY14E EV/EBITDA and discounted back, (iii) value of E&P (Raniganj & Ratna, the latter 25% risk-weighted) at Rs30/share, and (iv) value of tax benefits (IT & sales tax) at Rs32/share. Our target price is based on GRMs of US$9.7/10.0 (incl. sales tax benefits) after completion of phase I/II.

Essar Oil (ESRO.BO): Financial Summary

Fiscal year end 31-Mar	2008	2009	2010E	2011E	2012E
Valuation Ratios					
P/E adjusted (x)	nm	nm	nm	25.7	11.8
EV/EBITDA adjusted (x)	na	22.5	15.4	11.8	7.9
P/BV (x)	4.3	3.9	4.0	3.4	1.8
Dividend yield (%)	0.0	0.0	0.0	0.0	0.0
Per Share Data (Rs)					
EPS adjusted	-0.35	-3.96	-0.64	5.15	11.19
EPS reported	-0.35	-3.96	-0.64	5.15	11.19
BVPS	30.91	33.95	33.31	38.46	73.29
DPS	0.00	0.00	0.00	0.00	0.00
Profit & Loss (RsM)					
Net sales	5,623	375,561	343,210	373,595	503,728
Operating expenses	-6,148	-370,596	-333,050	-354,464	-467,045
EBIT	**-525**	**4,965**	**10,159**	**19,131**	**36,683**
Net interest expense	-61	-11,203	-11,440	-12,203	-16,693
Non-operating/exceptionals	144	1,488	650	511	655
Pre-tax profit	**-442**	**-4,750**	**-631**	**7,439**	**20,645**
Tax	29	199	-150	-1,164	-3,358
Extraord./Min.Int./Pref.div.	0	-278	0	0	0
Reported net income	**-413**	**-4,828**	**-781**	**6,275**	**17,287**
Adjusted earnings	-413	-4,828	-781	6,275	17,287
Adjusted EBITDA	-500	11,684	17,469	26,047	47,518
Growth Rates (%)					
Sales	na	6,579.1	-8.6	8.9	34.8
EBIT adjusted	na	1,045.4	104.6	88.3	91.7
EBITDA adjusted	na	2,437.3	49.5	49.1	82.4
EPS adjusted	na	-1,042.5	83.9	905.1	117.1
Cash Flow (RsM)					
Operating cash flow	**14,919**	**14,032**	**37,646**	**-3,339**	**-10,723**
Depreciation/amortization	25	6,719	7,310	6,916	10,835
Net working capital	15,307	11,864	31,116	-16,530	-38,845
Investing cash flow	**-30,545**	**-24,422**	**-47,924**	**-61,661**	**-107,420**
Capital expenditure	-30,609	-24,231	-47,924	-61,661	-107,420
Acquisitions/disposals	0	0	0	0	0
Financing cash flow	**13,136**	**1,770**	**7,793**	**63,320**	**128,990**
Borrowings	12,677	1,514	9,000	63,320	79,850
Dividends paid	0	0	0	0	0
Change in cash	**-2,491**	**-8,619**	**-2,485**	**-1,680**	**10,847**
Balance Sheet (RsM)					
Total assets	**218,646**	**222,369**	**261,542**	**318,473**	**443,968**
Cash & cash equivalent	10,890	11,841	9,356	7,676	18,523
Accounts receivable	8,034	11,654	14,105	15,353	20,701
Net fixed assets	142,814	160,502	201,115	255,860	352,445
Total liabilities	**181,847**	**181,010**	**220,964**	**271,621**	**330,689**
Accounts payable	79,776	76,408	108,826	96,162	75,381
Total Debt	101,624	103,139	112,139	175,459	255,309
Shareholders' funds	**36,799**	**41,358**	**40,578**	**46,852**	**113,279**
Profitability/Solvency Ratios (%)					
EBITDA margin adjusted	-8.9	3.1	5.1	7.0	9.4
ROE adjusted	na	-12.4	-1.9	14.4	21.6
ROIC adjusted	na	3.9	7.2	10.0	11.8
Net debt to equity	246.6	220.7	253.3	358.1	209.0
Total debt to capital	73.4	71.4	73.4	78.9	69.3

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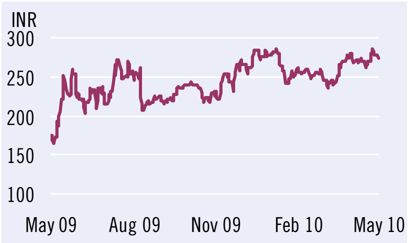
Glenmark Pharmaceuticals (GLEN.BO)

Buy/Medium Risk	**1M**
Price (11 May 10)	Rs272.90
Target Price	Rs335.00
Expected share price return	22.8%
Expected dividend yield	0.4%
Expected total return	**23.1%**
Market Cap	Rs73,650M
	US$1,633M

Price Performance



Source: dataCentral

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Company description

Glenmark Pharmaceuticals is a fully integrated research-based pharmaceutical company, with a business model spanning drug discovery research, APIs and formulations in the domestic and international markets. It operates in more than 65 countries, including the regulated markets of the US and Europe, with around 60% of its revenues coming from overseas markets. The company came into the limelight in September 2004 after it licensed out the US market rights of its first new chemical entity (NCE), GRC-3886, to Forest Laboratories.

On the Road to Recovery

- **Long-term growth drivers** — Glenmark has built up a robust, well diversified NCE/NBE pipeline, which would be a key value driver long-term. While setbacks in FY09 led to erosion in the R&D option value, the recent deal with Sanofi has restored some confidence on this front. We also believe that Glenmark's base business remains secure despite being hit by transient issues such as currency volatility & trade level destocking and that it would continue to benefit from the recovery in emerging markets.

- **Slow but Visible Progress in Base Biz** — Growth has picked up in most markets, as credit availability improved & currencies stabilized. We believe the worst is behind and have more comfort on cash flows, as efforts to rein in capex and working capital appear to be making slow, but sure, progress. Recent approvals in the US, settlements (Zetia, Malarone) and tie-up for a niche launch (with Taro) should also provide impetus to the base business.

- **Sanofi Deal Revives Interest in NCE R&D** — Besides restoring confidence in its R&D effort (and some option value being built into the stock), Glenmark's deal with Sanofi will also ease some of the pressure on the company's R&D program. The cash flows from the deal would allow Glenmark to fund its proprietary R&D spend without depending too much on its generics cash flows.

- **Key catalysts** — (1) *NCE R&D:* Crofelemer launch in RoW markets, expected in end FY11; Potential deal for *Melogliptin* and / or other molecules in pipeline; (2) *Generics*: Faster pace of approvals, niche launches in the US; US launch of generic Tarka would be a key near-term catalyst

Statistical Abstract

Year to 31 Mar	Net Profit (RsM)	Diluted EPS (Rs)	EPS growth (%)	EV/EBITDA (x)	P/E (x)	P/B (x)	P/CEPS (x)	ROE (%)	Yield (%)
2008A	6,321	23.6	na	10.4	11.7	4.5	10.5	na	0.2
2009A	2,739	10.2	-56.7	14.2	27.1	4.3	25.0	12.4	0.1
2010E	3,592	13.2	28.9	13.4	21.0	3.2	16.4	16.4	0.4
2011E	5,712	21.0	59.0	9.5	13.2	2.6	10.4	22.2	0.4
2012E	5,939	21.8	4.0	9.0	12.7	2.2	9.9	19.0	0.4

Source: datacentral, Citi Investment Research and Analysis estimates

Investment Strategy

We have a Buy/Medium Risk (1M) rating on Glenmark. At current levels, the stock trades at reasonable valuations for the base business and does not appear to build in any value for its R&D pipeline. Meanwhile, there are signs of a turnaround in the company's core (non R&D) business and we believe that the worst may be behind us. We now have more comfort on the sustainability of positive trends in the core biz, with Glenmark being able to bring down debtor days, generate cash & pay down debt. We believe the recent underperformance in the stock and the signs of a recovery in Glenmark's core business have improved the risk reward in the stock for investors.

Valuation

Our target price for Glenmark Pharmaceuticals of Rs335 is based on 16x June-11E EPS for the base business. We are now more comfortable with the sustainability of the positive trends seen in Glenmark’s key markets. This along with the improvement in balance sheet (lower leverage, tighter working capital) lead us to use a slightly higher multiple of 16x (15x earlier), which is still at a c10-20% discount to what we use for sector leaders such as Sun Pharma, Cipla, Dr Reddy’s & Lupin. At 16x June '11E EPS we arrive at a value of Rs310/sh for the base business. Our target price also includes an option value of Rs25/sh for Glenmark's R&D deal with Sanofi for GRC-15300. Cumulatively we arrive at a target price of Rs335/sh.

Glenmark Pharmaceuticals (GLEN.BO): Financial Summary

Fiscal year end 31-Mar	2008	2009	2010E	2011E	2012E
Valuation Ratios					
P/E adjusted (x)	11.6	26.7	20.7	13.0	12.5
EV/EBITDA adjusted (x)	10.2	15.0	12.9	9.2	8.7
P/BV (x)	4.5	4.3	3.2	2.6	2.2
Dividend yield (%)	0.3	0.1	0.4	0.4	0.4
Per Share Data (Rs)					
EPS adjusted	23.59	10.22	13.18	20.95	21.78
EPS reported	23.59	7.22	11.73	20.95	21.78
BVPS	61.03	63.79	85.43	105.47	126.36
DPS	0.69	0.40	1.00	1.00	1.00
Profit & Loss (RsM)					
Net sales	19,757	20,865	24,695	29,556	32,111
Operating expenses	-12,469	-16,042	-19,043	-21,681	-24,207
EBIT	**7,288**	**4,823**	**5,651**	**7,876**	**7,904**
Net interest expense	-632	-1,405	-1,576	-1,177	-977
Non-operating/exceptionals	458	-729	-269	101	142
Pre-tax profit	**7,115**	**2,689**	**3,806**	**6,800**	**7,070**
Tax	-794	-754	-609	-1,088	-1,131
Extraord./Min.Int./Pref.div.	0	0	0	0	0
Reported net income	**6,321**	**1,935**	**3,197**	**5,712**	**5,939**
Adjusted earnings	6,321	2,739	3,592	5,712	5,939
Adjusted EBITDA	8,005	5,850	7,065	9,439	9,606
Growth Rates (%)					
Sales	61.7	5.6	18.4	19.7	8.6
EBIT adjusted	89.8	-33.8	17.2	39.4	0.4
EBITDA adjusted	87.8	-26.9	20.8	33.6	1.8
EPS adjusted	104.4	-56.7	28.9	59.0	4.0
Cash Flow (RsM)					
Operating cash flow	**3,718**	**159**	**5,017**	**6,801**	**6,859**
Depreciation/amortization	717	1,027	1,413	1,563	1,702
Net working capital	-3,846	-3,877	-621	-1,768	-1,843
Investing cash flow	**-5,099**	**-9,502**	**-2,199**	**-2,099**	**-1,908**
Capital expenditure	-5,174	-9,561	-2,400	-2,200	-2,050
Acquisitions/disposals	0	0	0	0	0
Financing cash flow	**1,785**	**8,747**	**-2,991**	**-3,492**	**-4,292**
Borrowings	692	9,838	-5,235	-2,000	-3,000
Dividends paid	-201	0	-315	-315	-315
Change in cash	**404**	**-596**	**-173**	**1,210**	**659**
Balance Sheet (RsM)					
Total assets	**29,256**	**42,089**	**44,534**	**48,944**	**52,481**
Cash & cash equivalent	1,565	715	1,012	2,222	2,881
Accounts receivable	8,069	9,553	9,878	11,470	12,844
Net fixed assets	12,557	21,117	22,103	22,740	23,088
Total liabilities	**14,062**	**26,076**	**21,503**	**20,517**	**18,430**
Accounts payable	3,030	4,399	4,939	5,735	6,422
Total Debt	9,909	20,943	15,708	13,708	10,708
Shareholders' funds	**15,194**	**16,013**	**23,031**	**28,428**	**34,051**
Profitability/Solvency Ratios (%)					
EBITDA margin adjusted	40.5	28.0	28.6	31.9	29.9
ROE adjusted	57.4	17.6	18.4	22.2	19.0
ROIC adjusted	32.3	13.3	13.4	17.1	16.2
Net debt to equity	54.9	126.3	63.8	40.4	23.0
Total debt to capital	39.5	56.7	40.5	32.5	23.9

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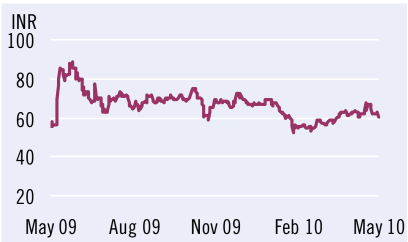
GMR Infrastructure (GMRI.BO)

Sell/Medium Risk	**3M**
Price (11 May 10)	Rs60.40
Target Price	Rs53.00
Expected share price return	-12.3%
Expected dividend yield	0.0%
Expected total return	**-12.3%**
Market Cap	Rs235,103M
	US$5,214M

Price Performance



Source: dataCentral

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Company description

The GMR Group is a leading infrastructure developer in India with interests in airports, roads and power plants. The Government of India has been steadily opening up the infrastructure sector to private participation over the past decade or so. An early mover in the infrastructure space, it has captured attractive project opportunities. A prime example is the Hyderabad International Airport, which was among the first to be handed out to the private sector for development. GMR won this project on attractive terms, i.e. only a 4% revenue share to the government vs. the Delhi airport project's ~46%. According to Plan Documents, the government is aiming for infrastructure investment of US$494bn in the 11th Plan (FY07-12), representing 130% growth over the 10th Plan (FY02-07).

- **DIAL construction on track –** GMR expects to complete construction of Delhi airport by July 2010. Company has done a capex of Rs90bn (vs. original plan of Rs98bn) so far. DIAL is finalizing the final cost audit, after which it will file with Airport Economic Regulatory Authority (AERA) for tariff determination.
- **GHIAL airport regulatory structure remains unclear –** While DIAL's tariff is to be decided as per original OMDA, GHIAL's tariff is to be decided by newly constituted AERA. AERA is yet to decide whether Single-till or dual-till regulation will be applicable to determine tariffs of airports in country.
- **GMR Energy update –** Temasek holdings has invested US$200mn in GMR Energy through compulsorily convertible securities. Mangalore power plant is being shifted to Kakinada and will sell power in merchant market from 1QFY11. EMCO (600MW) has achieved financial closure and BTG order has been placed with Shanghai Electric. CoD is expected by Aug, 2012.
- **Real Estate update –** DIAL has monetized 45.08acres (out of total 250 acres) @Rs~869mn/acres so far. DIAL further plans to monetize ~60 acres in FY11, 55 acres in FY12, 50 acres in FY13. This development will be a mix of CBD and retail.

Statistical Abstract

Year to 31 Mar	Net Profit (RsM)	Diluted EPS (Rs)	EPS growth (%)	EV/EBITDA (x)	P/E (x)	P/B (x)	P/CEPS (x)	ROE (%)	Yield (%)
2008A	2,101	0.6	na	38.8	105.4	3.6	57.0	na	0.0
2009A	2,795	0.8	33.0	28.1	79.3	3.4	33.1	4.4	0.0
2010E	2,805	0.8	0.4	21.7	79.0	2.8	23.6	3.9	0.0
2011E	1,972	0.5	-29.7	19.1	112.3	2.7	22.2	2.4	0.0
2012E	8,031	2.2	307.0	11.0	27.6	2.3	12.7	8.9	0.0

Source: Company data, Citi Investment Research and Analysis estimates

Investment Strategy

We rate GMR shares Sell/Medium Risk, with an NPV-based target price of Rs53. GMR is a leading infrastructure developer in India, having in its portfolio 3 airports (Hyderabad, Delhi and the Sabiha Gokcen International Airport in Turkey), 11 power plants, six roads and 50% stake in Intergen. We estimate airports and related real estate comprise 47% of GMR's value, other real estate 6%, power plants 24%, roads 10% and coal mines 3%. GMR also has ~Rs12.6bn cash on its books. We expect GMR's earnings to decline at a 16% CAGR over FY09E-11E on 12% CAGR in revenues due to higher depreciation and interest costs as new projects are commissioned. In India, GMR has plans to bid for road, hydropower and power transmission projects. It is looking to emerge as an infrastructure developer across geographies. We believe stock performance would largely depend on 2 factors, i.e. the realised value on the property development and liquidity conditions

Valuation

We have valued each of GMR's projects based on its equity cash flows, discounted using cost of equity of 14% for projects under development and arrive at a sum-of-the-parts target price of Rs53. Given the nature of the concession agreement and cash flows of the airports and associated real estate, comparison with global airports on valuation multiples may be misleading, and hence we prefer a DCF approach. We estimate airports and related real estate comprise 47% of GMR's value, other real estate 6%, power plants 24%, and roads 10% and coal mines 3%.

GMR (GMRI.BO): Financial Summary

Fiscal year end 31-Mar	2008	2009	2010E	2011E	2012E
Valuation Ratios					
P/E adjusted (x)	105.4	79.3	79.0	112.3	27.6
EV/EBITDA adjusted (x)	39.6	27.7	20.9	16.9	9.2
P/BV (x)	3.6	3.4	2.8	2.7	2.3
Dividend yield (%)	0.0	0.0	0.0	0.0	0.0
Per Share Data (Rs)					
EPS adjusted	0.57	0.76	0.76	0.54	2.19
EPS reported	0.57	0.76	0.76	0.54	2.19
BVPS	16.68	17.65	21.27	22.71	26.73
DPS	0.00	0.00	0.00	0.00	0.00
Profit & Loss (RsM)					
Net sales	23,645	40,404	42,524	45,712	67,665
Operating expenses	-18,748	-33,420	-33,859	-35,863	-46,068
EBIT	**4,897**	**6,983**	**8,665**	**9,848**	**21,597**
Net interest expense	-1,687	-3,682	-4,967	-11,555	-14,154
Non-operating/exceptionals	0	0	0	1	1
Pre-tax profit	**3,210**	**3,301**	**3,698**	**-1,706**	**7,444**
Tax	-584	-530	-692	-363	-1,945
Extraord./Min.Int./Pref.div.	-526	23	-201	4,041	2,533
Reported net income	**2,101**	**2,795**	**2,805**	**1,972**	**8,031**
Adjusted earnings	2,101	2,795	2,805	1,972	8,031
Adjusted EBITDA	6,683	10,882	15,250	17,858	31,075
Growth Rates (%)					
Sales	37.9	70.9	5.2	7.5	48.0
EBIT adjusted	14.6	42.6	24.1	13.7	119.3
EBITDA adjusted	18.9	62.8	40.1	17.1	74.0
EPS adjusted	20.4	33.0	0.4	-29.7	307.0
Cash Flow (RsM)					
Operating cash flow	**6,242**	**2,082**	**7,704**	**9,796**	**17,969**
Depreciation/amortization	1,785	3,898	6,585	8,010	9,478
Net working capital	2,076	-4,377	-1,929	-186	461
Investing cash flow	**-98,023**	**-34,510**	**-69,162**	**-40,249**	**-28,640**
Capital expenditure	-51,652	-70,397	-31,420	-40,305	-28,696
Acquisitions/disposals	-46,371	0	0	0	0
Financing cash flow	**87,726**	**48,149**	**74,587**	**75,314**	**52,079**
Borrowings	42,713	40,469	22,893	45,228	14,999
Dividends paid	0	0	0	0	0
Change in cash	**-4,056**	**15,720**	**13,130**	**44,860**	**41,408**
Balance Sheet (RsM)					
Total assets	**155,867**	**203,271**	**281,735**	**358,713**	**419,125**
Cash & cash equivalent	8,945	24,665	37,795	82,654	124,062
Accounts receivable	0	0	0	0	0
Net fixed assets	97,927	164,426	189,261	221,556	240,774
Total liabilities	**83,569**	**120,498**	**190,250**	**265,643**	**313,474**
Accounts payable	0	0	0	0	0
Total Debt	79,769	120,238	143,131	188,359	203,359
Shareholders' funds	**72,298**	**82,772**	**91,486**	**93,070**	**105,650**
Profitability/Solvency Ratios (%)					
EBITDA margin adjusted	28.3	26.9	35.9	39.1	45.9
ROE adjusted	5.2	4.4	3.9	2.4	8.9
ROIC adjusted	6.1	5.0	4.5	4.6	8.4
Net debt to equity	98.0	115.5	115.1	113.6	75.1
Total debt to capital	52.5	59.2	61.0	66.9	65.8

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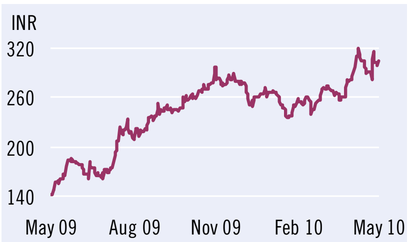
Godrej Consumer Products (GOCP.BO)

Non-Rated	
Price (11 May 10)	Rs305.25
Market Cap	Rs94,112M
	US$2,087M

Price Performance



Source: dataCentral

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Company Description

GCPL is one of the fastest growing companies in India's FMCG sector, with leadership in the hair-color market and the No.2 position in soaps. Its product portfolio also includes toiletries, and household, baby and personal-care products. GCPL acquired Keyline Products, a manufacturer of cosmetic products and toiletries in the UK, in October 2005. In September 2006, it acquired Rapidol International, a market leader in the South African ethnic hair-color market. GCPL came into being in April 2001 when the consumer division of Godrej Soaps was de-merged. Godrej Soaps then became Godrej Industries and retained the industrial chemicals, medical diagnostics and estate operations. The group has close to eight decades of manufacturing experience in soaps and personal-care products.

Expanding Presence in Emerging Markets

- **Core soaps business on healthy growth path** — GCPL's core domestic soaps business has consistently gained market share, up from 6% in FY04 to ~10.5% in FY10 through its strong value-for-money proposition and distribution strengths. The company's performance in FY10 was strong, with the soaps business registering ~17% Y/Y growth, above industry growth of ~8% Y/Y. With competitive intensity increasing in the soaps industry, pricing led growth appears limited. Additionally, industry operating margins are likely to be impacted as input cost pressures resurface, coupled with high A&P. To boost growth, GCPL has launched small SKUs (targeting rural markets) and launched variants in its strategy to gain state-wise market share (rather than a pan-Indian approach).

- **Well positioned in hair color** — GCPL dominates the Indian hair color market, which is growing at 13-15%, with a ~34% market share, leveraged to a young and fashion-conscious urban population. Low penetration levels (less than 30%), growth in natural and premium segments and increasing salon distribution provide strong growth opportunity.

- **3x3 strategy for international operations** — GCPL's aim is to become a global player in its areas of expertise – 6 acquisitions in the past 3 years reflect this aspiration. Mgmt has outlined its global 3 by 3 strategy; i.e. its presence in three continents – Asia, Africa and Latin America in three business segments — personal wash, hair care and home care. Recently, the company announced the acquisitions of Megasari Group in Indonesia and Tura in Nigeria. These acquisitions expand GCPL's product offering besides extending its emerging market footprint. While there is limited disclosures on financials for the recent inorganic expansion, management in a recent analyst meet did mention that these have been earnings accretive. Management disclosed that Megasari acquisition would result in~Rs500m accretion to profits in year 1.

- **Godrej Sara Lee** — GCPL recently announced it has acquired Sara Lee's 51% stake in Godrej Sara Lee (GSL) for around Euro 185m, a transaction multiple of 15x on FY10 earnings. GSL reported revenues of Rs9.65bn and PAT of Rs1.37bn in FY10. The acquisition would enable GCPL to exploit market leading products (Good Knight and Hit) and synergies in distribution, raw material procurement and media purchases. GPCL has also indicated that one of the immediate priorities will be to launch the household insecticides in Africa.

Recent Developments

GCPL (parent) recorded 17% Y/Y growth in sales and 54% Y/Y PAT growth in FY10. However, on a sequential basis, standalone sales growth moderated - GCPL sales rose 2% Y/Y. The slowdown in sales was primarily driven by a decline in soap sales, which were impacted by unfavorable base, channel inventory correction and lower pricing gains. Hair color division registering 19% sales growth in FY10, ahead of industry growth of 14%. During Q4FY10 international business registered 20% Y/Y sales growth but profitability declined. Recently, the company announced the acquisitions of Megasari Group in Indonesia, and increased stake in its Sara Lee JV.

Godrej Consumer Products (GOCP.BO): Financial Summary

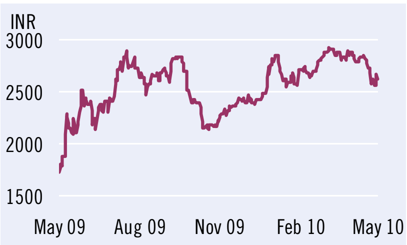
Fiscal year end	FY06	FY07	FY08	FY09	FY10
Valuation Ratios					
P/E adjusted (x)	57.5	48.4	43.2	44.7	27.7
P/E reported (x)	57.5	48.4	43.2	44.7	27.7
P/BV (x)	88.6	57.1	40.1	13.8	nm
Dividend yield (%)	1.1	1.2	1.3	1.3	nm
Per Share Data (Local Currency)					
EPS adjusted	5.30	6.30	7.05	6.83	11.02
EPS reported	5.30	6.30	7.05	6.83	11.02
BVPS	3.44	5.34	7.60	22.06	nm
NAVps ordinary	3.44	5.34	7.60	22.06	nm
DPS	3.46	3.70	4.00	4.00	nm
Profit & Loss (Local Currency, Millions)					
Net operating income (NOI)	**6,997**	**9,532**	**11,026**	**13,930**	**20,412**
G&A expenses	-5,690	-7,833	-8,967	-12,047	-16,575
Other Operating items	0	0	0	0	0
EBIT including associates	**1,307**	**1,707**	**2,073**	**1,922**	**3,862**
Non-oper./net int./except.	22	-102	-106	205	337
Pre-tax profit	**1,321**	**1,585**	**1,875**	**2,092**	**4,199**
Tax	-108	-195	-283	-360	-803
Extraord./Min. Int./Pref. Div.	0	0	0	0	0
Reported net income	**1,213**	**1,440**	**1,592**	**1,733**	**3,396**
Adjusted earnings	1,213	1,440	1,592	1,733	3,396
Adjusted EBIT	1,307	1,707	2,073	1,922	3,862
Adjusted EBITDA					
Growth Rates (%)					
NOI	nm	36.2	15.7	26.3	46.5
EBIT adjusted	nm	30.6	21.5	-7.3	100.9
EPS adjusted	nm	18.8	11.9	-3.2	61.4
Cash Flow (Local Currency, Millions)					
Operating cash flow	**1,375**	**1,095**	**1,490**	**1,517**	
Depreciation/amortization	115	142	182	192	
Net working capital	88	-368	-278	-353	
Investing cash flow	**-1,368**	**-971**	**-660**	**-1,686**	
Capital expenditure	-166	-1,128	-648	-483	
Acquisitions/disposals	-1,202	157	-13	-1,203	
Financing cash flow	**-286**	**87**	**-878**	**3,526**	
Borrowings	625	1,001	135	819	
Dividends paid	-891	-961	-985	-1,174	
Change in cash	**-279**	**212**	**-49**	**3,357**	
Balance Sheet (Local Currency, Millions)					
Total assets	**3,425**	**5,653**	**6,903**	**11,785**	
Cash & cash equivalent	273	475	426	3,858	
Net fixed assets	661	1,456	1,895	1,847	
Total liabilities	**2,638**	**4,433**	**5,187**	**6,117**	
Total Debt	687	1,736	1,871	2,776	
Shareholders' funds	**787**	**1,220**	**1,716**	**5,668**	
Profitability/Solvency Ratios					
EBIT margin adjusted (%)	18.7	17.9	18.8	13.8	18.9
ROE adjusted (%)	nm	143.5	108.5	46.9	nm
ROA adjusted (%)	nm	31.7	25.4	18.5	nm
Net debt to equity (%)	52.6	103.4	84.2	-19.1	nm
Interest coverage (x)	12.1	8.7	7.3	5.3	4.8

Source: Bloomberg

Grasim Industries (GRAS.BO)

Sell/Medium Risk	**3M**
Price (11 May 10)	Rs2,615.10
Target Price	Rs2,470.00
Expected share price return	-5.5%
Expected dividend yield	1.3%
Expected total return	**-4.2%**
Market Cap	Rs239,758M
	US$5,317M

Price Performance



Source: dataCentral

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Company description

Grasim is a diversified company with two main divisions - cement and VSF. Its other minor divisions include chemicals and textiles. Cement is its largest division, and accounted for 74% of cons. sales and 68% of EBITDA in 3QFY10. VSF is the other core business (capacity 334kt). Cement capacity is currently 25.7m tpa. Its subsidiary - UltraTech has a current capacity of 23.1m tpa. In Oct09, Grasim announced the demerger of its cement business to its subsidiary, Samruddhi – to be merged with UltraTech to get a combined capacity of 49mtpa. Grasim's domestic markets are well spread across regions, and it does not export cement. In early 1Q FY10 Grasim completed the sale of its sponge iron division.

Conglomerate with Cement and VSF Exposure

- **A diversified conglomerate** — Grasim and its 55% subsidiary UltraTech together control 49m tpa of cement capacity (~20% of India's total capacity). In addition, Grasim has 3 other divisions - viscose staple fibre (VSF), chemicals and textiles. It has exited the sponge iron business. The on-going restructuring gives an opportunity to invest directly in the group's cement business. Grasim still keeps its presence in cement, though the market appears to be giving it a holding company discount.

- **Cement restructuring on schedule** — Samruddhi is the proposed de-merged cement division of Grasim (25.7mtpa); 65% held by Grasim and 35% by Grasim shareholders. Grasim currently owns 54.8% of ULTC (23.1mtpa). After the merger (completion 3QCY10), Grasim would own 60.3% of ULTC (capacity: 49m tpa), Grasim shareholders 19.1% and the rest by minorities. From a market perspective, the consolidation level remains the same; both companies were already marketing cement jointly. Also, no cost savings likely; as all possible synergies were in any case being exploited.

- **Cement (74% of consolidated sales, 68% of EBITDA) —** The company is working on new growth plans as it will need to set up 25m tpa over next 5 years to maintain market share. Grasim feels that cement demand growth in India should be in excess of 10%, but anticipates an emerging surplus scenario for the next 12-18 months. They also expect rising input prices to impact cement margins despite cost efficiencies (including captive power, 268MW, 80% of requirement). Cement prices have been firm in the early part of the calendar year due to supply shortages/high demand, but have begun to moderate/decline; we expect pressure from surplus in 2H FY11.

- **VSF & Chemicals (24% of sales, 29% of EBITDA)** — Grasim is one of the lowest cost producers of VSF in the world and has a domestic market share of more than 90%. Its current capacity is 334ktpa. Grasim plans to set up an 80ktpa Greenfield project at Vilayat, Gujarat (capex Rs10bn) by FY13. EBITDA margins were robust (41%) in 3QFY10 but expected to be under pressure as pulp and sulphur prices are rising. Chemical prices are expected to be under pressure due to new capacity and cheap imports.

- **Good performance in 3Q FY10** — Both of Grasim's its largest businesses - cement and VSF did well in the quarter. Grasim reported a standalone PAT of Rs 6bn (+81%) in 3Q. Overall EBITDA margin was 33% (vs 20% in 3Q FY09 and 35% in 2Q FY10). On a consolidated basis, PAT rose 56% to Rs7.15bn, EBITDA rose 19%, and EBITDA margin was 28.1%, vs 25.2% last year.

Grasim Industries (consolidated) – Statistical Abstract

YE 31 Mar	Net Profit (Rs m)	EPS (Rs)	EPS cons (Rs)	EPS cons growth (%)	P/E cons (x)	EV/EBITDA cons (x)	EV/tonne cons (US$)
FY07	14,987	163	215	89%	12.2	6.8	178
FY08	20,019	218	315	47%	8.3	5.5	130
FY09	16,480	180	239	-24%	11.0	6.3	137
FY10E	18,515	202	284	19%	9.2	4.9	98
FY11E	13,201	144	196	-31%	13.3	5.9	93
FY12E	12,872	140	183	-7%	14.3	5.8	82

Source: Company Reports and Citi Investment Research and Analysis estimates
Price as on 11 May 2010. Rs/U$ rate at 45.

Investment Strategy

We rate Grasim as Sell/Medium Risk (3M) with a target price of Rs2,470. Despite its diversified product base, cement has the biggest impact on Grasim's revenues and profits. We expect the substantial increase in domestic cement capacity to create oversupply and that pricing declines in the coming quarters will hurt the cement division's profits. The cement division's EBITDA margins are expected to fall yoy in FY11 and FY12, based on our estimates. Margins for the VSF division were strong in 3Q FY10, but expected to be under pressure going forward due to higher raw material prices. Grasim is setting up a new 80ktpa greenfield VSF plant in Gujarat at a capex of RS10bn by FY13.

Valuation

We value Grasim using SOTP. We value the cement division using EV/tonne, a common metric used for cement companies, and use EV/EBITDA for the other businesses. Our target price of Rs2,470 is based on Sep 10 EV/t of US$85 and assuming 5-7x for its other businesses (VSF/chemicals). Our TP implies a Sep10 EV/EBITDA of 5.1x and P/E of 10.3x. We take a 15% discount to the cement replacement cost of ~US$100/t bearing in mind: 1) the large cement capacity increases, which are likely to surpass demand and cause pricing pressure over the next several quarters, and 2) uncertain VSF outlook.

Grasim Industries (GRAS.BO): Financial Summary

Fiscal year end 31-Mar	2008	2009	2010E	2011E	2012E
Valuation Ratios					
P/E adjusted (x)	12.0	14.5	12.9	18.2	18.6
EV/EBITDA adjusted (x)	6.7	8.2	6.9	8.2	7.8
P/BV (x)	2.9	2.5	2.2	2.0	1.8
Dividend yield (%)	1.1	1.1	1.3	0.9	0.8
Per Share Data (Rs)					
EPS adjusted	218.37	179.76	201.97	144.00	140.41
EPS reported	243.54	179.76	201.97	144.00	140.41
BVPS	888.00	1,033.83	1,195.53	1,313.64	1,428.75
DPS	30.00	30.00	35.00	22.50	22.00
Profit & Loss (RsM)					
Net sales	102,151	108,040	115,757	114,078	122,664
Operating expenses	-71,438	-84,140	-88,174	-94,295	-103,838
EBIT	**30,712**	**23,900**	**27,583**	**19,782**	**18,825**
Net interest expense	-1,070	-1,421	-1,867	-1,447	-947
Non-operating/exceptionals	0	0	0	0	0
Pre-tax profit	**29,642**	**22,478**	**25,716**	**18,335**	**17,878**
Tax	-9,623	-5,999	-7,200	-5,134	-5,006
Extraord./Min.Int./Pref.div.	2,307	0	0	0	0
Reported net income	**22,326**	**16,480**	**18,515**	**13,201**	**12,872**
Adjusted earnings	20,019	16,480	18,515	13,201	12,872
Adjusted EBITDA	34,245	28,470	33,084	26,552	25,957
Growth Rates (%)					
Sales	19.2	5.8	7.1	-1.5	7.5
EBIT adjusted	33.5	-22.2	15.4	-28.3	-4.8
EBITDA adjusted	30.8	-16.9	16.2	-19.7	-2.2
EPS adjusted	33.6	-17.7	12.4	-28.7	-2.5
Cash Flow (RsM)					
Operating cash flow	**20,910**	**19,532**	**20,461**	**19,638**	**18,004**
Depreciation/amortization	3,533	4,570	5,501	6,770	7,131
Net working capital	-1,598	-3,797	-4,532	-86	-1,217
Investing cash flow	**-21,286**	**-17,818**	**-8,214**	**-2,112**	**-1,495**
Capital expenditure	-28,026	-16,416	-11,010	-5,450	-5,000
Acquisitions/disposals	1,271	-2,994	0	0	0
Financing cash flow	**486**	**-1,855**	**-5,031**	**-15,139**	**-13,320**
Borrowings	2,360	3,257	0	-10,000	-10,000
Dividends paid	0	-3,164	-3,164	-3,691	-2,373
Change in cash	**111**	**-141**	**7,216**	**2,387**	**3,189**
Balance Sheet (RsM)					
Total assets	**141,204**	**160,147**	**175,992**	**177,925**	**181,594**
Cash & cash equivalent	1,275	1,134	8,350	10,737	13,926
Accounts receivable	7,120	5,599	9,197	9,376	10,082
Net fixed assets	70,540	83,078	88,586	87,267	85,135
Total liabilities	**59,796**	**65,371**	**66,392**	**57,497**	**50,614**
Accounts payable	11,866	12,492	11,217	11,616	12,400
Total Debt	32,019	33,950	33,950	23,950	13,950
Shareholders' funds	**81,407**	**94,776**	**109,600**	**120,428**	**130,980**
Profitability/Solvency Ratios (%)					
EBITDA margin adjusted	33.5	26.4	28.6	23.3	21.2
ROE adjusted	27.9	18.7	18.1	11.5	10.2
ROIC adjusted	30.9	20.3	20.5	14.1	13.4
Net debt to equity	37.8	34.6	23.4	11.0	0.0
Total debt to capital	28.2	26.4	23.7	16.6	9.6

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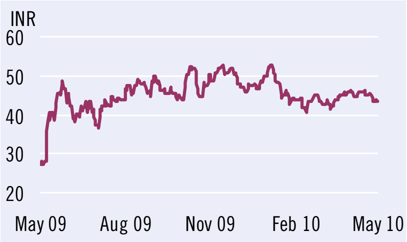
Powered by: dataCentral

GVK Power and Infrastructure (GVKP.BO)

Hold/Medium Risk	**2M**
Price (11 May 10)	Rs43.45
Target Price	Rs50.00
Expected share price return	15.1%
Expected dividend yield	0.0%
Expected total return	**15.1%**
Market Cap	Rs68,617M
	US$1,522M

Price Performance



Source: dataCentral

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Company description

GVKPIL is a leading infrastructure developer in India. Its portfolio of assets includes the Mumbai International Airport, a toll road, six power plants, one coal mine and one Special Economic Zone. With an increasing share of India's infrastructure capex now taking the public/private sector participation route, we expect opportunities for infrastructure developers to expand

- **Bangalore Airport Stake –** GVK has acquired 29% stake in Bangalore Airport from L&T (17%) and Flughafen Zuerich AG (12%), valuing Bangalore airport at ~Rs40bn. GVK has got a board seat in Bangalore airport and has Right of First Refusal in case any other shareholder wants an exit. Management has indicated intent to increase its stake further according to press reports. According to the shareholders agreement; Siemens can sell 14% by May 2011 and completely exit by 2015. Other share holders in airport are: Siemens Project Ventures GmBH (40%), AAI (13%) and KSIIDC (13%) and Zurich airport (5%).

- **1600MW planned gas capacity expansion –** GVK has issued LoIs for 800MW gas capacity expansion each at J2 and Gautami. GVK is starting off with limited construction at these sites. The company will go into full fledged construction after gas allocation.

- **MIAL Real Estate update –** HDIL has completed construction of 20,000 tenements. The company is awaiting power and water approval. it expects to start rehabilitation after monsoons. Master plan for development of real estate is ready and once approval is obtained, MIAL will move quickly to monetize the project.

- **Other projects –** Goindwal Sahib construction has started. Tokisud mine has achieved financial closure. Alaknanda is set to achieve major milestones before onset of monsoons and CoD is expected by October 2011**.** GVK has recently won 690MW Rattle hydro power project in J&K and Kota-Deoli toll road in Rajasthan.

Statistical Abstract

Year to 31 Mar	Net Profit (RsM)	Diluted EPS (Rs)	EPS growth (%)	EV/EBITDA (x)	P/E (x)	P/B (x)	P/CEPS (x)	ROE (%)	Yield (%)
2007A	580	0.6	na	na	70.4	6.9	29.5	na	0.1
2008A	1,355	1.0	56.0	44.5	45.1	2.8	28.7	9.7	0.0
2009E	1,340	1.0	-1.1	43.6	45.6	2.6	32.9	4.8	0.0
2010E	1,622	1.0	7.8	14.9	42.3	2.0	16.0	5.6	0.0
2011E	2,733	1.7	68.5	9.6	25.1	1.7	12.2	7.2	0.0

Source: Company data, Citi Investment Research and Analysis estimates

Investment Strategy

We rate GVKPIL as Hold/Medium Risk, with an NPV-based target price of Rs50. GVK provides an EPS CAGR of 35% over FY09E-11E. The Mumbai Airport forms 48% of its value, power plants 30% and roads 13%. We expect GVKPIL's consolidated revenues to grow at a 106% CAGR and PAT at a 43% CAGR over FY09E-11E. GVK stock is up 85% YTD; factoring in the macro, market and company specific positives to a large extent and provides limited upside from current levels

Valuation

We value GVKPIL using a sum-of-the-parts approach, with each 'part' valued on DCF as most projects generate predictable cash flow streams. As each individual project is highly geared and gearing changes rapidly as debt is paid, we have used an FCFE approach. Given the nature of the concession agreement and cash flows of the airport and associated real estate, comparison with global airports on valuation multiples may be misleading and hence we prefer a DCF approach. We do not value assets under development and not financially closed. We assume cost of equity of 14% for assets under development and 12% for operational projects. We value the operational assets at around Rs39 and the assets under development at Rs6.

GVK (GVKP.BO): Financial Summary

Fiscal year end 31-Mar	2007	2008	2009E	2010E	2011E
Valuation Ratios					
P/E adjusted (x)	70.4	45.1	45.6	42.3	25.1
EV/EBITDA adjusted (x)	na	41.6	46.1	14.4	11.1
P/BV (x)	6.9	2.8	2.6	2.0	1.7
Dividend yield (%)	0.1	0.0	0.0	0.0	0.0
Per Share Data (Rs)					
EPS adjusted	0.62	0.96	0.95	1.03	1.73
EPS reported	0.62	0.96	0.77	1.03	1.73
BVPS	6.34	15.55	16.52	22.24	25.78
DPS	0.06	0.00	0.00	0.00	0.00
Profit & Loss (RsM)					
Net sales	3,986	4,700	5,138	16,182	21,847
Operating expenses	-2,785	-3,600	-4,084	-12,342	-15,422
EBIT	**1,201**	**1,099**	**1,053**	**3,840**	**6,426**
Net interest expense	-627	-431	-334	-2,156	-3,262
Non-operating/exceptionals	583	1,026	724	542	957
Pre-tax profit	**1,157**	**1,694**	**1,443**	**2,226**	**4,121**
Tax	-250	-239	-100	-257	-547
Extraord./Min.Int./Pref.div.	-328	-101	-267	-347	-841
Reported net income	**580**	**1,355**	**1,076**	**1,622**	**2,733**
Adjusted earnings	580	1,355	1,340	1,622	2,733
Adjusted EBITDA	2,007	1,875	1,833	6,508	9,335
Growth Rates (%)					
Sales	na	17.9	9.3	215.0	35.0
EBIT adjusted	na	-8.5	-4.2	264.5	67.3
EBITDA adjusted	na	-6.6	-2.2	255.0	43.4
EPS adjusted	na	56.0	-1.1	7.8	68.5
Cash Flow (RsM)					
Operating cash flow	**1,963**	**1,353**	**3,466**	**4,977**	**5,812**
Depreciation/amortization	806	776	780	2,668	2,909
Net working capital	552	-874	1,614	335	-672
Investing cash flow	**-11,083**	**-9,419**	**-23,241**	**-6,311**	**-35,114**
Capital expenditure	-9,432	-5,324	-27,095	-7,525	-33,596
Acquisitions/disposals	0	0	0	0	0
Financing cash flow	**9,172**	**9,078**	**19,693**	**12,698**	**31,603**
Borrowings	7,479	-2,536	16,888	3,736	28,742
Dividends paid	0	0	0	0	0
Change in cash	**52**	**1,012**	**-81**	**11,364**	**2,301**
Balance Sheet (RsM)					
Total assets	**27,595**	**37,728**	**59,536**	**73,282**	**108,615**
Cash & cash equivalent	631	1,643	1,562	12,926	15,227
Accounts receivable	0	0	0	0	0
Net fixed assets	21,227	25,776	52,091	56,949	87,636
Total liabilities	**18,910**	**15,857**	**33,663**	**34,837**	**63,734**
Accounts payable	0	0	0	0	0
Total Debt	15,446	12,910	29,798	33,534	62,276
Shareholders' funds	**8,685**	**21,872**	**25,873**	**38,446**	**44,881**
Profitability/Solvency Ratios (%)					
EBITDA margin adjusted	50.3	39.9	35.7	40.2	42.7
ROE adjusted	na	9.7	5.9	5.6	7.2
ROIC adjusted	na	3.3	2.3	6.4	8.0
Net debt to equity	170.6	51.5	109.1	53.6	104.8
Total debt to capital	64.0	37.1	53.5	46.6	58.1

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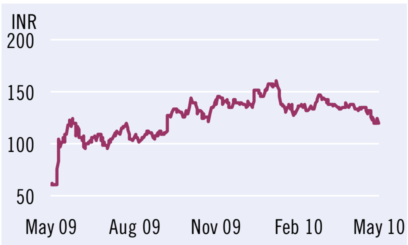
HCC (HCNS.BO)

Sell/High Risk	**3H**
Price (11 May 10)	Rs120.00
Target Price	Rs138.00
Expected share price return	15.0%
Expected dividend yield	0.7%
Expected total return	**15.7%**
Market Cap	Rs36,391M
	US$807M

Price Performance



Source: dataCentral

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Company description

HCC is an 80-year-old construction company where the major shareholders own a 48% stake. It has cash contracting skills across power (thermal, hydel, nuclear), roads, bridges, dams, barrages, industrial, buildings, water supply, sanitation, ports, harbors and other marine works

- **Construction business update —** Current orderbook is Rs188bn, and HCC is the lowest bidder in Rs43.9bn worth of orders. HCC has made a foray into the metals segment and is now a part of the global supply chain for Aluminium Pichney for pot shell/ superstructure. It has received vendor approval from Rio Tinto Alcan. HCC intends to focus on more private sector projects as well as bid for international projects, especially in South Asia. The company expects to grow its OB to Rs240-250bn in FY11E (+28% YoY). AP irrigation orders: now form ~18% of OB vs 26% in FY09. HCC has received payments for receivables up to Jan 2010.

- **Infrastructure Development Business —** The current portfolio has six road projects valued at Rs55bn. The company intends to create BOT asset portfolio of Rs150bn over 2010-2014 with a focus on road, hydropower, airport and port projects. The company intends to finalize a strategic partner for BOT projects as well as look to secure long-term funding for the road business.

- **Real estate —** 1) 247 Park — ~88% of the project has been leased. The company intends to build a second phase of the tower with a total area of 1.55mn sqft and saleable area of .75mn sqft. 2) Lavasa- The development at Lavasa has picked up momentum with the company having advanced business plans by two years.

- **Karl Steiner AG (KSAG) acquisition —** HCC acquired 66% stake in the second largest total services contractor in the Swiss Real Estate market. KSAG is a 95 year old business, specializing in turnkey development of new buildings and refurbishments, and offers services in all facets of real estate construction. This strategic acquisition facilitates HCC's entry into the integrated building construction market in India, as well providing a presence for European expansion

Statistical Abstract

Year to 31 Mar	Net Profit (RsM)	Diluted EPS (Rs)	EPS growth (%)	EV/EBITDA (x)	P/E (x)	P/B (x)	P/CEPS (x)	ROE (%)	Yield (%)
2008A	762	2.8	na	13.6	43.2	3.1	16.1	na	0.7
2009A	696	2.5	-8.6	12.1	47.3	3.1	13.7	12.5	0.7
2010E	965	3.0	18.2	11.8	40.0	2.0	18.7	5.7	0.7
2011E	1,224	3.8	26.9	10.0	31.5	1.9	14.2	7.7	0.7
2012E	1,460	4.5	19.2	9.0	26.4	1.8	12.6	8.6	0.7

Source: Company data, Citi Investment Research and Analysis estimates

Investment Strategy

We rate HCC shares as Sell/High Risk (3H), with a target price of Rs138. We expect HCC's earnings to grow at 23% CAGR over FY10E-12E. Our Sell rating reflects: 1) Earnings risks given that 36% of orders in the OB are suspended/delayed, 2) Near-term risks to the construction business could weigh on near-term stock performance, and 3) Current valuations are already fair, in our view.

Valuation

Our Rs138 target price is based on a sum-of-the-parts (SOTP) valuation. While we expect HCC's earnings to grow at 23% CAGR over the FY10E-12E, its earnings could be at risk due to orders in the OB being suspended/delayed. Our 12x Mar-2011E target PE multiple for HCC's core business, resulting in a value of Rs46/share, is set at a discount to other mid-cap construction peers and large players like L&T, justified in our view given the risks to HCC's earnings if the near-term situation in AP doesn't improve. We value Lavasa at Rs66/share based on a 35% discount to NAV, and Vikhroli development and land bank at Rs19/share based on a 20% discount to NAV. The portfolio of BOT assets is valued in our SOTP at Rs8/share, based on a P/BV multiple of 1.2x.

HCC (HCNS.BO): Financial Summary

Fiscal year end 31-Mar	2008	2009	2010E	2011E	2012E
Valuation Ratios					
P/E adjusted (x)	43.2	47.3	40.0	31.5	26.4
EV/EBITDA adjusted (x)	13.3	12.3	11.1	9.7	8.4
P/BV (x)	3.1	3.1	2.0	1.9	1.8
Dividend yield (%)	0.7	0.7	0.7	0.7	0.7
Per Share Data (Rs)					
EPS adjusted	2.78	2.54	3.00	3.81	4.54
EPS reported	3.97	4.57	2.26	3.81	4.54
BVPS	39.18	39.22	59.85	63.65	68.31
DPS	0.80	0.80	0.80	0.84	0.88
Profit & Loss (RsM)					
Net sales	30,828	33,137	36,592	43,307	52,126
Operating expenses	-28,123	-29,975	-33,018	-39,169	-46,957
EBIT	**2,704**	**3,162**	**3,574**	**4,138**	**5,169**
Net interest expense	-1,524	-2,105	-2,162	-2,311	-2,990
Non-operating/exceptionals	-89	-30	39	0	0
Pre-tax profit	**1,091**	**1,027**	**1,450**	**1,827**	**2,179**
Tax	-330	-330	-486	-603	-719
Extraord./Min.Int./Pref.div.	326	557	-237	0	0
Reported net income	**1,088**	**1,253**	**727**	**1,224**	**1,460**
Adjusted earnings	762	696	965	1,224	1,460
Adjusted EBITDA	3,666	4,314	4,903	5,630	6,776
Growth Rates (%)					
Sales	30.8	7.5	10.4	18.4	20.4
EBIT adjusted	99.4	16.9	13.0	15.8	24.9
EBITDA adjusted	70.3	17.7	13.7	14.8	20.4
EPS adjusted	1.5	-8.6	18.2	26.9	19.2
Cash Flow (RsM)					
Operating cash flow	**462**	**-1,237**	**865**	**-1,997**	**59**
Depreciation/amortization	962	1,152	1,330	1,492	1,608
Net working capital	-1,865	-3,641	-1,192	-4,714	-3,008
Investing cash flow	**-2,863**	**-3,393**	**-3,400**	**-2,455**	**-1,771**
Capital expenditure	-2,194	-2,692	-1,800	-1,500	-1,501
Acquisitions/disposals	-669	-700	-1,600	-955	-270
Financing cash flow	**2,850**	**3,524**	**2,048**	**5,574**	**1,739**
Borrowings	2,938	4,769	-2,514	5,826	2,003
Dividends paid	-240	-240	-240	-252	-264
Change in cash	**449**	**-1,105**	**-487**	**1,122**	**27**
Balance Sheet (RsM)					
Total assets	**40,262**	**50,075**	**52,695**	**62,283**	**68,867**
Cash & cash equivalent	2,644	1,539	1,051	2,173	2,200
Accounts receivable	45	47	52	62	74
Net fixed assets	10,206	11,746	12,217	12,224	12,118
Total liabilities	**30,217**	**39,974**	**37,357**	**45,973**	**51,362**
Accounts payable	7,655	10,321	9,838	11,888	14,309
Total Debt	18,449	23,218	20,704	26,531	28,534
Shareholders' funds	**10,041**	**10,049**	**15,337**	**16,310**	**17,505**
Profitability/Solvency Ratios (%)					
EBITDA margin adjusted	11.9	13.0	13.4	13.0	13.0
ROE adjusted	8.0	6.9	7.6	7.7	8.6
ROIC adjusted	10.3	10.2	9.7	10.1	11.5
Net debt to equity	157.4	215.7	128.1	149.3	150.4
Total debt to capital	64.8	69.8	57.4	61.9	62.0

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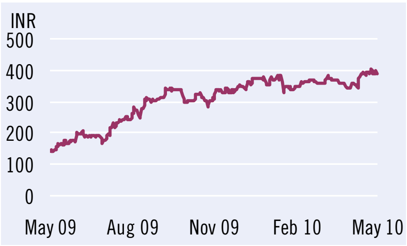
Powered by: dataCentral

HCL Technologies (HCLT.BO)

Buy/Medium Risk	**1M**
Price (11 May 10)	Rs387.55
Target Price	Rs435.00
Expected share price return	12.2%
Expected dividend yield	1.5%
Expected total return	**13.8%**
Market Cap	Rs262,565M
	US$5,854M

Price Performance



Source: dataCentral

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Company description

HCLT is the fifth-largest Indian IT services company. Founded in 1991, HCLT focused on technology and R&D outsourcing before diversifying into enterprise applications. In the infrastructure business, it has been gradually shifting focus from domestic sales to global services. In BPO, it is one of the largest offshore service providers and boasts strong ties with British Telecom. The company leverages off its extensive offshore infrastructure and its global network to deliver solutions across verticals including Banking, Insurance, Retail, Consumer, Aerospace, Automotive, Semiconductors, Telecom and Life Sciences. HCLT has more than 350 clients across verticals and a workforce of more than 50,000.

Focus on Large Deals Paying Off

- **FY11 revenue growth** — With the improvement in macro, good revenue growth for FY11 is assumed for Offshore IT. HCLT has a significant exposure to Manufacturing, Hi-Tech and BFSI, demand outlook in these verticals is a key focus area. A scenario analysis of revenue growth based on pent up demand could be explored with the management.

- **Axon performance** — A key focus area for investors could be the status of the Enterprise Application Services (primarily Axon) business. Axon is a cyclical business, so management comments around the revenue growth and margins should be worth exploring – given that SAP has seen weak license sales over last few quarters.

- **Margin levers** — With the headwinds from rupee appreciation and wage inflation, margins would be under pressure for the sector. Margins have come down for HCLT in the last two quarters in large measure due to the restructuring exercise undertaken in the BPO business. Margin outlook for FY11 is an important issue to focus on.

- **Large deal strategy** — HCLT got a first mover advantage by moving into uncontested market spaces (like infrastructure management, life sciences vertical etc.). Company has had good success in such deals – the US$2.5b of large deals signed in FY08-09 is proof of success of the strategy. Management commentary on its large deal strategy should be explored.

- **Supply side dynamics** — Company's view on supply side dynamics should be another area to discuss with focus on the following – (1) availability of talent (engineers) for next few years; (2) company's initiatives on training; (3) right-skilling initiative – hiring of science graduates; (4) expectation for wage hikes in FY11E.

- **SEZ strategy** — HCLT's SEZ readiness, given the expectation of STPI sunset clause coming into effect by Apr'11 should be discussed. Expectations of the tax rate in FY11/12E etc. could be gauged.

Statistical Abstract

Year to 30 Jun	Net Profit (RsM)	Diluted EPS (Rs)	EPS growth (%)	EV/EBITDA (x)	P/E (x)	P/B (x)	P/CEPS (x)	ROE (%)	Yield (%)
2008A	10,323	15.2	na	15.0	25.6	4.9	19.8	na	2.3
2009A	11,788	17.5	15.3	10.6	22.2	4.6	16.1	21.6	1.8
2010E	11,832	17.2	-1.8	11.0	22.6	3.8	15.7	18.9	1.0
2011E	16,710	24.2	40.8	9.6	16.0	3.2	12.1	22.1	1.5
2012E	19,587	28.3	17.2	7.9	13.7	2.6	10.5	21.4	1.5

Source: Powered by dataCentral

Investment Strategy

We rate HCLT shares Buy/Medium Risk (1M). HCLT has been at the forefront of pursuing large deals, announcing ~US$2.5bn of large deals in FY08-09. A significant presence across IT services, BPO services and IMS has helped HCLT qualify for multi-year outsourcing deals. IMS, R&D and BPO service offerings should enable it to post strong revenue growth, although BPO could be impacted in the near term as the company tries to restructure it. The Axon acquisition helps HCLT in filling up the gap in Enterprise Services, where HCLT was lagging its peers. With ERP showing signs of recovery, we expect Axon to start contributing to growth in the coming quarters.

Valuation

Our target price is Rs435 based on 18x FY11E EPS. This is higher than the mid-point of the 6-23x band that the stock has traded in over the past three-years. We believe a higher multiple is justified given improving macro and potential benefits arising out of the Axon acquisition. We believe PE remains the most appropriate valuation measure given HCLT's profitable track record.

HCL Technologies (HCLT.BO): Financial Summary

Fiscal year end 30-Jun	2008	2009	2010E	2011E	2012E
Valuation Ratios					
P/E adjusted (x)	25.6	22.2	22.6	16.0	13.7
EV/EBITDA adjusted (x)	14.7	11.1	10.5	9.1	7.4
P/BV (x)	4.9	4.6	3.8	3.2	2.6
Dividend yield (%)	2.3	1.8	1.0	1.5	1.5
Per Share Data (Rs)					
EPS adjusted	15.16	17.48	17.17	24.17	28.33
EPS reported	15.16	17.48	17.17	24.17	28.33
BVPS	78.55	85.11	101.29	122.57	148.36
DPS	9.00	7.00	4.00	6.00	6.00
Profit & Loss (RsM)					
Net sales	76,394	106,084	122,894	140,248	161,095
Operating expenses	-63,410	-88,106	-103,270	-118,041	-135,152
EBIT	**12,984**	**17,978**	**19,624**	**22,207**	**25,942**
Net interest expense	-1,370	-3,674	-4,908	-1,302	523
Non-operating/exceptionals	-19	27	13	4	4
Pre-tax profit	**11,595**	**14,331**	**14,729**	**20,909**	**26,469**
Tax	-1,272	-2,543	-2,898	-4,199	-6,883
Extraord./Min.Int./Pref.div.	0	0	0	0	0
Reported net income	**10,323**	**11,788**	**11,832**	**16,710**	**19,587**
Adjusted earnings	10,323	11,788	11,832	16,710	19,587
Adjusted EBITDA	16,017	22,471	24,861	27,591	31,930
Growth Rates (%)					
Sales	26.6	38.9	15.8	14.1	14.9
EBIT adjusted	31.6	38.5	9.2	13.2	16.8
EBITDA adjusted	29.2	40.3	10.6	11.0	15.7
EPS adjusted	-17.7	15.3	-1.8	40.8	17.2
Cash Flow (RsM)					
Operating cash flow	**16,953**	**20,356**	**18,385**	**21,248**	**23,156**
Depreciation/amortization	3,033	4,493	5,237	5,383	5,987
Net working capital	2,227	401	-3,034	84	336
Investing cash flow	**-5,435**	**-44,917**	**-6,082**	**-7,216**	**-8,016**
Capital expenditure	-5,855	-7,038	-7,251	-7,216	-8,016
Acquisitions/disposals	-1,524	-35,740	2,931	0	0
Financing cash flow	**-10,676**	**18,166**	**-7,596**	**-2,132**	**-307**
Borrowings	0	29,771	-1,884	0	0
Dividends paid	-6,797	-5,470	-3,151	-4,738	-4,738
Change in cash	**842**	**-6,395**	**4,707**	**11,901**	**14,833**
Balance Sheet (RsM)					
Total assets	**80,338**	**126,942**	**132,346**	**151,957**	**174,713**
Cash & cash equivalent	24,619	18,995	24,557	37,338	53,051
Accounts receivable	18,940	27,083	29,409	34,406	39,421
Net fixed assets	13,317	15,862	17,876	19,709	21,737
Total liabilities	**28,104**	**70,080**	**64,159**	**69,241**	**74,591**
Accounts payable	22,145	32,675	29,574	34,656	40,006
Total Debt	0	29,771	27,887	27,887	27,887
Shareholders' funds	**52,234**	**56,859**	**68,187**	**82,716**	**100,122**
Profitability/Solvency Ratios (%)					
EBITDA margin adjusted	21.0	21.2	20.2	19.7	19.8
ROE adjusted	20.2	21.6	18.9	22.1	21.4
ROIC adjusted	42.8	32.6	24.8	26.0	26.8
Net debt to equity	-47.1	19.0	4.9	-11.4	-25.1
Total debt to capital	0.0	34.4	29.0	25.2	21.8

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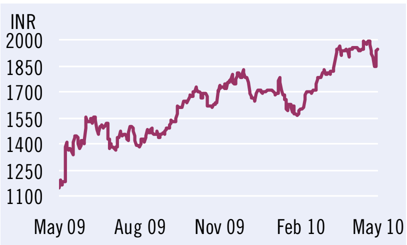
Powered by: dataCentral

HDFC Bank (HDBK.BO)

Hold/Low Risk	**2L**
Price (11 May 10)	Rs1,947.15
Target Price	Rs2,050.00
Expected share price return	5.3%
Expected dividend yield	0.6%
Expected total return	**5.9%**
Market Cap	Rs892,766M
	US$19,797M

Price Performance



Source: dataCentral

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Company description

HDFC Bank, which began operations in 1994, is 24%-owned by HDFC - India's premier mortgage-finance institution. In 2000 HDFC Bank took over private-sector Times Bank. HDFC Bank has a network of more than 1,725 branches and more than 4,230 ATMs in 779 cities. HDFC Bank entered into an arrangement with its parent FY04 through which HDFC Bank sources mortgages for the parent. HDFC Bank pays HDFC for credit appraisal and operations and receives a fee for sourcing. In addition, HDFC Bank buys back 70% of mortgages at a price 125bp lower than the yield of the mortgages. HDFC Bank acquired Centurion Bank of Punjab in 2008. HDBK is the second-largest private sector bank in India, by a relatively large margin.

Growth, Returns and Quality

- **HDFC Bank is one of India's premier new generation private sector banks —** The bank has consistently sustained a strong operating mix over its 15 years of existence, high growth, high profitability and low risk, while continuing to expand its distribution and franchise. We expect this positioning to continue.

- **High margins, driven by a strong liability franchise —** HDBK generates high 4%-plus margin – a function of a strong liability franchise, which keeps its deposit costs well below peers. We see HDBK sustaining this relative advantage, though the sheer level of margins could induce pressures, and maintaining its deposit mix would be a challenge. A low interest rate environment could also challenge its deposit cost advantage.

- **Balance Sheet: Well positioned to leverage —** HDBK's balance-sheet is potentially at the start of a leverage cycle: it recently raised capital and its Tier 1 is at 13.3%, it is now seeking to widen its lending profile – growth is steady and broad based (infrastructure included), with a slight corporate bias as the retail book grows at a relatively slower pace than historically (faster than industry nevertheless).

- **Asset Quality: Well ahead of peers —** HDBK's asset quality is significantly better than industry levels - NPLs are declining, restructured assets are small and reducing and overall coverage levels are above 100%. In sum, asset quality appears to be improving decisively and with minimal impact to its balance sheet relative to peers.

- **Key role in the HDFC group —** HDBK is the largest entity in the HDFC group in terms of assets, customers and visibility. It is the largest distribution arm of the group, and has played a key role in building the group's market presence. This has enabled HDFC to generate group synergies and economies, though this could have been a constraint in some business segments. Over the longer term, potential reconfigurations in the group structure could present opportunities, or carry risks.

Statistical Abstract

Year March	Net profit (Rs. M)	EPS Rs.	EPS Growth (%)	PE (x)	PB (x)	ROAE (%)	ROAA (%)	Div yield (%)
FY08	15,900	46	29.4	42.7	6.0	18	1.4	0.4
FY09	22,449	55	21.3	35.2	5.5	17	1.4	0.5
FY10E	29,122	64	15.9	30.4	4.1	16	1.4	0.5
FY11E	37,957	81	26.7	24.0	3.6	17	1.6	0.5
FY12E	50,847	109	34.0	17.9	3.0	19	1.8	0.6

Source: Company and Citi Investment Research and Analysis estimates

Investment strategy

We rate HDFC Bank as Hold/Low Risk with a target of Rs2,050. HDBK has now been through a couple of business cycles, and has distinguished itself consistently. While we believe its relative value is most obvious in challenging times, its current valuations are close to the peak they will likely generate in this cycle, and we expect stock returns will be modest. We expect HDFC Bank to trade in the 3-4x P/BV band longer-term, the middle of its long-term trading band. Any valuation upside would depend on a sustained ROE improvement outlook (20%+), or a particularly favorable macro-environment, which we do not foresee near-term. We are positive on the bank's prospects and management's ability to deliver, and believe it stands out relative to peers in a challenging environment. In addition, its acquisition of Centurion Bank likely provides a platform for strong growth over a sustained period.

Valuation

Our target of Rs2,050 is based on an EVA model, assuming a loan-loss ratio of 100bp, a long-term cost/income ratio of 42% and spread of 325bp. We use the EVA model for the India banking universe as it dynamically adjusts the economic value of the business. As a secondary benchmark, we apply 3.5x 1 year forward P/BV for a fair value of Rs2,001. A 3.5x P/BV is a premium to almost all other Indian commercial banks, but is justified, we believe, by HDBK's structurally higher margin, de-risked earnings and balance sheet mix, as well as by gains in the consumer-lending franchise. This multiple is slightly above its median historical trading band, and about in the middle of its PBV multiples relative to peers, in previous cycles.

HDFC Bank (HDBK.BO): Financial Summary

Fiscal year end 31-Mar	2008	2009	2010E	2011E	2012E
Valuation Ratios					
P/E adjusted (x)	42.7	35.2	30.4	24.0	17.9
P/E reported (x)	42.7	35.2	30.4	24.0	17.9
P/BV (x)	6.0	5.5	4.1	3.6	3.0
P/Adjusted BV diluted (x)	6.3	5.7	4.2	3.7	3.1
Dividend yield (%)	0.4	0.5	0.5	0.5	0.6
Per Share Data (Rs)					
EPS adjusted	45.59	55.31	64.08	81.18	108.74
EPS reported	45.59	55.31	64.08	81.18	108.74
BVPS	324.39	353.73	474.82	546.64	646.42
Tangible BVPS	324.39	353.73	474.82	546.64	646.42
Adjusted BVPS diluted	310.38	340.91	458.57	527.93	624.30
DPS	8.50	10.00	10.00	10.50	11.00
Profit & Loss (RsM)					
Net interest income	51,494	72,397	83,604	102,289	126,412
Fees and commissions	17,145	24,573	30,716	37,781	46,471
Other operating Income	4,901	8,613	12,808	11,869	13,241
Total operating income	**73,541**	**105,583**	**127,129**	**151,938**	**186,124**
Total operating expenses	-37,456	-55,328	-62,442	-71,956	-84,528
Oper. profit bef. provisions	**36,085**	**50,255**	**64,686**	**79,982**	**101,596**
Bad debt provisions	-11,376	-17,263	-22,480	-24,972	-27,905
Non-operating/exceptionals	-1,904	0	0	0	0
Pre-tax profit	**22,805**	**32,992**	**42,206**	**55,010**	**73,691**
Tax	-6,905	-10,543	-13,084	-17,053	-22,844
Extraord./Min. Int./Pref. Div.	0	0	0	0	0
Attributable profit	**15,900**	**22,449**	**29,122**	**37,957**	**50,847**
Adjusted earnings	15,900	22,449	29,122	37,957	50,847
Growth Rates (%)					
EPS adjusted	29.4	21.3	15.9	26.7	34.0
Oper. profit bef. prov.	31.9	39.3	28.7	23.6	27.0
Balance Sheet (RsM)					
Total assets	**1,331,765**	**1,832,708**	**2,190,748**	**2,625,393**	**3,182,973**
Avg interest earning assets	1,079,843	1,526,852	1,948,229	2,348,992	2,851,941
Customer loans	707,199	1,026,279	1,276,946	1,598,393	1,999,924
Gross NPLs	9,068	19,287	30,779	44,323	56,925
Liab. & shar. funds	**1,331,765**	**1,832,708**	**2,190,748**	**2,625,393**	**3,182,973**
Total customer deposits	1,007,686	1,428,116	1,705,693	2,088,865	2,581,857
Reserve for loan losses	10,413	18,021	28,929	42,328	54,843
Shareholders' equity	**114,972**	**150,472**	**214,420**	**246,853**	**291,912**
Profitability/Solvency Ratios (%)					
ROE adjusted	17.7	16.9	16.0	16.5	18.9
Net interest margin	4.8	4.7	4.3	4.4	4.4
Cost/income ratio	50.9	52.4	49.1	47.4	45.4
Cash cost/average assets	3.3	3.5	3.1	3.0	2.9
NPLs/customer loans	1.3	1.9	2.4	2.8	2.8
Reserve for loan losses/NPLs	114.8	93.4	94.0	95.5	96.3
Bad debt prov./avg. cust. loans	1.8	2.0	2.0	1.7	1.6
Loans/deposit ratio	70.2	71.9	74.9	76.5	77.5
Tier 1 capital ratio	10.3	10.3	10.5	9.6	9.2
Total capital ratio	13.6	14.7	14.6	13.3	12.5

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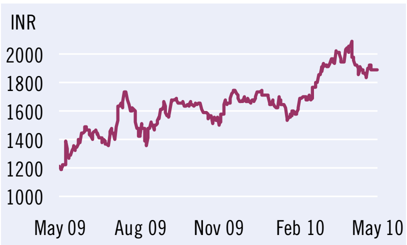
Powered by: dataCentral

Hero Honda (HROH.BO)

Hold/Low Risk	**2L**
Price (11 May 10)	Rs1,891.65
Target Price	Rs2,002.00
Expected share price return	5.8%
Expected dividend yield	1.9%
Expected total return	**7.7%**
Market Cap	Rs377,739M
	US$8,377M

Price Performance



Source: dataCentral

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Company description

Hero Honda is India's largest manufacturer of two-wheelers with ~44% market share. The company has benefited from the demand shift to motorcycles, as it focuses solely on this product segment. It has a strong product portfolio, and received technology and brand support from Honda Motors, Japan. With fuel efficiency and riding comfort as the main selling points, management has been able to address a wide market and post robust sales growth

India's Leading Bike Manufacturer

- **Well Positioned to leverage off rural growth —** Rural / semi urban sales account for ~55% of industry volumes and a similar proportion (we estimate) of HH's volumes. That said, given that urban sales are expected to grow at a faster pace this fiscal, we expect HH to concede market share to rival Bajaj Auto, which could ensure that HH's valuations are capped at current levels. HH's overall domestic market share (in bikes) has dipped to ~55% in 4QFY10, from 62% in 1QFY10.

- **Mgmt guides to ~12-15% industry volume growth —** in FY11, and HH is expected to grow at the same pace (implying market share sustains at current levels). We factor vol. growth of ~12% – the lower end of guidance, as we think HH will continue to cede market share on account of industry mix shifts, and Bajaj's renewed aggression in the executive segment.

- **Industry shift toward premium segment is an opportunity and challenge for HH**— The premium segment now accounts for ~18% of domestic bike volumes (4QFY10), vs ~15% in 1QFY10, and Bajaj Auto mgmt expects this segment to grow to 21% in FY11. Given HH's limited market share in this segment (~20% in 4QFY10 vs ~26% in 1QFY10), we think this segment provides a growth opportunity for HH, but also requires greater focus from HH, whose relative positioning is weak vs. Bajaj Auto

- **Material cost is a concern** — Material costs / bike have risen in 2HFY10, and we expect this trend to continue. Contribution / bike has also declined nominally, resulting in EBITDA / bike declining ~5% Q/Q in last quarter of FY10. We believe that as the competition n the market intensifies, the company will find it increasingly difficult to pass on the price hike to consumers.

- **Uttarakhand plant to buffer margins to certain extent** — The company enjoys excise / income tax benefits on its Uttarakhand production facility at Hardwar. With management guiding at increased localization, we expect it to positively impact margins, and have factored these into our estimates.

- **We remain cautious on the 2-wheeler sector as a whole** — There is a macro-micro disconnect between players' forecasts and overall industry growth. Our analysis indicates that for all main players' aspirations to be accommodated, the industry has to grow at 22-26%, which is far higher than the 10-15% industry growth expectation to which most players allude. We expect price driven competition to escalate from 2HFY11.

Statistical Abstract

Year to 31 Mar	Net Profit (RsM)	Diluted EPS (Rs)	EPS growth (%)	EV/EBITDA (x)	P/E (x)	P/B (x)	P/CEPS (x)	ROE (%)	Yield (%)
2008A	9,679	48.5	na	28.1	39.0	12.7	33.5	na	1.0
2009A	12,818	64.2	32.4	22.1	29.5	9.9	25.8	37.8	1.1
2010E	22,318	111.8	74.1	13.6	16.9	10.9	15.6	61.4	5.8
2011E	25,866	129.5	15.9	12.0	14.6	7.2	13.6	59.4	1.9
2012E	27,448	137.4	6.1	11.3	13.8	5.4	12.7	44.6	2.1

Source: Company Reports and CIRA Estimates

Investment Strategy

We rate Hero Honda shares Hold/Low Risk, given limited upside to our target price of Rs2,002. Moreover, cyclical headwinds - cost pressures from higher input costs and initial signs of resumption of competitive pressures - are beginning to emerge, as a result of which we think it will be difficult for the stock to re-rate meaningfully from current levels. Longer term, we believe Hero Honda will retain its competitive advantage in a challenging operating environment given its superior strategy, significant fiscal incentives and lower dependence on financing. We forecast strong 11% earnings CAGR for Hero Honda over FY10-FY12E driven by a richer product mix and fiscal incentives at its Uttarakhand plant. We forecast 10% EBITDA growth (core operating profits) over FY10-12E. The growth outlook for 2-wheelers remains stable over the next two years, in our view. The vehicle financing cycle is incrementally improving, which augurs well for the volume outlook for both Hero Honda and competition.

Valuation

Our target price of Rs2,002 is based on 15x Sep11E earnings, which we believe is well supported by a robust earnings CAGR of 11% over FY10-12E. While this is to a certain extent driven by tax breaks at the Uttarakhand facility, we derive comfort from our expectations that core EBITDA (operating profits) will grow at 10% CAGR over the same period. Our target multiple of 15x is at a c10% premium to HH's 5-year P/E multiple of 13.8x, which we think is justified given HH's earnings CAGR of 10% over FY10-12E. We have chosen the P/E valuation metric to value HH, given the company's high cash generation, reflecting its strong balance sheet (around Rs49bn in cash and liquid investments).

Hero Honda (HROH.BO): Financial Summary

Fiscal year end 31-Mar	2008	2009	2010E	2011E	2012E
Valuation Ratios					
P/E adjusted (x)	39.0	29.5	16.9	14.6	13.8
EV/EBITDA adjusted (x)	26.4	20.3	12.1	10.5	9.5
P/BV (x)	12.7	9.9	10.9	7.2	5.4
Dividend yield (%)	1.0	1.1	5.8	1.9	2.1
Per Share Data (Rs)					
EPS adjusted	48.47	64.18	111.76	129.52	137.45
EPS reported	48.47	64.18	111.76	129.52	137.45
BVPS	149.54	190.32	173.93	262.54	353.23
DPS	19.00	20.00	110.00	35.00	40.00
Profit & Loss (RsM)					
Net sales	103,318	123,191	158,605	181,774	205,759
Operating expenses	-91,428	-107,901	-132,852	-152,341	-174,700
EBIT	**11,891**	**15,291**	**25,753**	**29,433**	**31,059**
Net interest expense	-20	-25	-23	-30	-31
Non-operating/exceptionals	2,232	2,549	2,587	2,929	3,282
Pre-tax profit	**14,103**	**17,815**	**28,317**	**32,332**	**34,310**
Tax	-4,424	-4,997	-5,999	-6,466	-6,862
Extraord./Min.Int./Pref.div.	0	0	0	0	0
Reported net income	**9,679**	**12,818**	**22,318**	**25,866**	**27,448**
Adjusted earnings	9,679	12,818	22,318	25,866	27,448
Adjusted EBITDA	13,494	17,097	27,669	31,426	33,444
Growth Rates (%)					
Sales	4.4	19.2	28.7	14.6	13.2
EBIT adjusted	15.1	28.6	68.4	14.3	5.5
EBITDA adjusted	15.0	26.7	61.8	13.6	6.4
EPS adjusted	12.8	32.4	74.1	15.9	6.1
Cash Flow (RsM)					
Operating cash flow	**14,831**	**16,751**	**20,287**	**29,724**	**29,899**
Depreciation/amortization	1,603	1,807	1,916	1,993	2,385
Net working capital	3,549	2,126	-3,947	1,865	66
Investing cash flow	**-10,218**	**-8,824**	**-16,672**	**-5,037**	**-22,635**
Capital expenditure	-3,407	0	-2,000	-3,000	-3,000
Acquisitions/disposals	-5,929	-8,019	-13,767	-1,131	-18,729
Financing cash flow	**-4,771**	**-9,202**	**-25,576**	**-8,171**	**-9,338**
Borrowings	-332	-535	15	0	0
Dividends paid	-4,439	-8,667	-25,592	-8,171	-9,338
Change in cash	**-158**	**-1,275**	**-21,962**	**16,516**	**-2,074**
Balance Sheet (RsM)					
Total assets	**50,523**	**60,765**	**76,402**	**77,846**	**98,450**
Cash & cash equivalent	1,311	2,196	2,000	2,000	2,000
Accounts receivable	2,974	1,499	2,313	2,111	2,402
Net fixed assets	15,487	16,943	17,028	18,035	18,653
Total liabilities	**20,821**	**22,757**	**41,668**	**25,417**	**27,909**
Accounts payable	7,561	7,030	7,892	9,062	10,386
Total Debt	1,320	785	800	800	800
Shareholders' funds	**29,862**	**38,008**	**34,734**	**52,429**	**70,541**
Profitability/Solvency Ratios (%)					
EBITDA margin adjusted	13.1	13.9	17.4	17.3	16.3
ROE adjusted	35.5	37.8	61.4	59.4	44.6
ROIC adjusted	116.4	nm	na	na	nm
Net debt to equity	0.0	-3.7	-3.5	-2.3	-1.7
Total debt to capital	4.2	2.0	2.3	1.5	1.1

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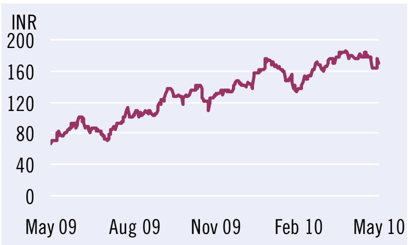
Hindalco Industries (HALC.BO)

Buy/Medium Risk	**1M**
Price (11 May 10)	Rs169.70
Target Price	Rs217.00
Expected share price return	27.9%
Expected dividend yield	0.4%
Expected total return	**28.3%**
Market Cap	Rs324,712M
	US$7,201M

Price Performance



Source: dataCentral

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Company description

Hindalco is a low-cost integrated aluminum producer (capacity ~500ktpa) with access to captive power and bauxite. It has a copper smelting capacity of 500k tpa and in aluminum has a strong domestic market share with a dominant 60%-65% share in sheet products. It plans to triple its alumina and aluminum capacity by FY14 in stages. It owns copper mines in Australia through its 51% subsidiary, Aditya Birla Minerals, which should meet 10%-15% of its ore requirement. Novelis is the world's leading aluminium rolled products producer (FY09 sales of 2.94m tonnes), and a leader in the can sheet market. Its key markets are North America and Europe (~70% of 9MFY10 shipments) with the rest sold in Asia and South America.

Preferred Non-Ferrous Play

- **Low cost integrated aluminium producer** — Hindalco is a low-cost integrated aluminum producer (capacity ~500ktpa) with access to captive power and bauxite. It has a copper smelting capacity of 500ktpa and in aluminum has a strong domestic market share with a dominant 60%-65% share in sheet products. It plans to triple its alumina and aluminum capacity by FY14 in stages, with priority given to projects such as Utkal Alumina (Orissa), Aditya Aluminium (Orissa) and Mahan (Madhya Pradesh).

- **Aluminium: near term support** — Our global aluminium price forecasts are US$2,350/t for FY11 and US$2,416/t for FY12. Aluminium has short-term support from illiquid inventories and merchant premia. Price upside could also come from a power crunch or bauxite shortages, with power cost trends in China an important emerging trend. Longer-term challenges are large stockpiles and capacity build-up.

- **Copper: TC/RCs weak** — TC/RC margins are likely to be under pressure as smelters have accepted a ~38% cut in contract TC/RC for 2010. Also spot TC/RCs are likely to remain under pressure due to the mis-match between smelting and mining capacity. Weakness in TC/RC margins should be compensated somewhat by rising sulphuric acid realizations.

- **Novelis** — Novelis performed well in 3Q FY10 with EBITDA/t coming close to US$300. We believe that its profits are likely to be relatively resilient vs other aluminium producers as its conversion margins should remain relatively steady despite recent LME price weakness. While Novelis' volumes could be impacted by the uncertain outlook in Europe, the can sheet business (> 50% of Novelis' sales) should do relatively better than other sectors. Novelis is on track to realize annual cost savings of US$140m before its target of 2QFY11.

- **Strong standalone 4QFY10** — 4QFY10 adj PAT rose 367% to Rs5.5bn on a sharp jump in aluminium LME prices, richer product mix and better operational efficiencies. PAT would have been higher but for rupee appreciation (46 vs 50), higher coal costs and lower copper TC/RCs. EBITDA rose 166% to Rs8.4bn. Margins were 16% vs. 8% (14% in 3Q). FY10 adj PAT declined 13% to Rs18bn. Margins fell 160bps to 15%.

- **Coal issues sorted** — The increase in coal costs during the last few months has been due to poor quality linkage coal and a price hike (~11%) by Coal India in mid-Oct 2009. The issue of the poor quality coal has been sorted out and Hindalco will now get coal for its Renukoot (UP) facility from one designated mine. Hindalco already has its own coal mine to meet the requirements of its Orissa smelter (~30% of its aluminium smelter capacity).

Hindalco Industries – Statistical Abstract

Year to 31 Mar	Net Profit (RsM)	Diluted EPS (Rs)	EPS growth (%)	EV/EBITDA (x)	P/E (x)	P/B (x)	P/CEPS (x)	ROE (%)	Yield (%)
2008A	21,678	17.7	na	4.2	9.6	1.2	4.5		1.1
2009A	26,692	15.7	-11.2	8.8	10.8	1.8	5.1	16.1	0.1
2010E	9,775	5.1	-67.5	8.0	33.2	1.9	8.6	5.9	0.4
2011E	38,029	19.9	289.1	5.8	8.5	1.6	5.0	20.1	1.0
2012E	38,593	20.2	1.5	5.6	8.4	1.3	4.6	17.2	1.0

Source: Company Reports and CIRA Estimates

Investment Strategy

We rate Hindalco Buy/Medium Risk (1M). Our global aluminium price forecasts are $2,350/t for FY11 and $2,416/t for FY12 are based on our global price forecasts. Aluminium has short-term support from illiquid inventories and merchant premia. Longer-term challenges are large stockpiles and capacity build-up. Although our copper prices have been hiked in FY11, PAT does not benefit as we continue to expect TC/RC margins to remain sluggish at 13.8c/lb in FY11. FY12 should be better for Hindalco as we expect TC/RC margins to improve to 20c/lb. Novelis performed well in 3Q FY10 with EBITDA/t coming close to $300. We believe that its profits are likely to be relatively resilient vs other aluminium producers as its conversion margins should remain relatively steady despite recent LME price weakness. Hindalco's net debt to equity is expected to remain around 1.2x in FY10-11 but is likely to rise further based on plans to triple India-based capacity.

Valuation

Our target price of Rs217 is based on SOTP. To value Hindalco standalone we use a P/E of 8.5x on Jun11 EPS, at the higher end of its trading range (6-10x) over the past five years. We use P/E because stocks such as Hindalco are largely driven by commodity price trends, which translate into earnings momentum. The multiple appears justified given our outlook of improving aluminium prices and its position as a low-cost producer. We value Novelis and Hindalco's other businesses at 7.5x EV/EBITDA and estimate an EBITDA/t of $340 in FY11-12. The valuation is at the mid-point of average global multiples (6-9x). At our target price, Hindalco would trade at a consolidated EV/EBITDA of 7.3x and P/E of 10.9x.

Hindalco Industries (HALC.BO): Financial Summary

Fiscal year end 31-Mar	2008	2009	2010E	2011E	2012E
Valuation Ratios					
P/E adjusted (x)	9.6	10.8	33.2	8.5	8.4
EV/EBITDA adjusted (x)	5.5	8.5	7.5	5.8	5.8
P/BV (x)	1.2	1.8	1.9	1.6	1.3
Dividend yield (%)	1.1	0.1	0.4	1.0	1.0
Per Share Data (Rs)					
EPS adjusted	17.67	15.70	5.11	19.87	20.17
EPS reported	17.67	15.70	5.11	19.87	20.17
BVPS	140.94	93.23	89.42	108.06	127.03
DPS	1.85	0.25	0.75	1.75	1.75
Profit & Loss (RsM)					
Net sales	600,128	656,252	594,058	683,838	697,674
Operating expenses	-546,874	-626,647	-554,503	-619,121	-625,300
EBIT	**53,254**	**29,604**	**39,555**	**64,717**	**72,374**
Net interest expense	-18,491	-12,323	-11,708	-11,293	-18,120
Non-operating/exceptionals	0	0	0	0	0
Pre-tax profit	**34,763**	**17,281**	**27,847**	**53,425**	**54,254**
Tax	-11,889	8,046	-16,770	-14,794	-14,788
Extraord./Min.Int./Pref.div.	-1,196	1,365	-1,302	-601	-873
Reported net income	**21,678**	**26,692**	**9,775**	**38,029**	**38,593**
Adjusted earnings	21,678	26,692	9,775	38,029	38,593
Adjusted EBITDA	78,137	59,982	67,362	91,968	103,869
Growth Rates (%)					
Sales	210.7	9.4	-9.5	15.1	2.0
EBIT adjusted	34.0	-44.4	33.6	63.6	11.8
EBITDA adjusted	61.5	-23.2	12.3	36.5	12.9
EPS adjusted	-23.8	-11.2	-67.5	289.1	1.5
Cash Flow (RsM)					
Operating cash flow	**53,999**	**45,812**	**32,542**	**75,131**	**77,999**
Depreciation/amortization	24,883	30,378	27,807	27,251	31,495
Net working capital	6,863	18,053	4,633	-3,888	-11,535
Investing cash flow	**-152,437**	**-23,672**	**-46,833**	**-105,062**	**-144,368**
Capital expenditure	-27,507	-25,988	-48,486	-109,640	-148,880
Acquisitions/disposals	-133,910	-6,788	-500	-500	-500
Financing cash flow	**129,222**	**-67,303**	**3,310**	**33,662**	**76,002**
Borrowings	127,123	-91,954	-10,070	46,075	98,152
Dividends paid	-101	-3,532	-2,686	-1,119	-4,030
Change in cash	**35,354**	**-48,201**	**-10,981**	**3,731**	**9,633**
Balance Sheet (RsM)					
Total assets	**726,467**	**644,672**	**654,432**	**748,916**	**877,226**
Cash & cash equivalent	119,349	71,148	60,167	63,897	73,530
Accounts receivable	67,174	66,733	61,713	65,462	63,674
Net fixed assets	292,391	304,744	325,423	407,812	525,197
Total liabilities	**537,448**	**473,270**	**467,342**	**524,555**	**614,940**
Accounts payable	108,661	96,078	103,634	108,349	104,357
Total Debt	323,524	283,098	273,028	319,103	417,254
Shareholders' funds	**189,019**	**171,402**	**187,090**	**224,362**	**262,285**
Profitability/Solvency Ratios (%)					
EBITDA margin adjusted	13.0	9.1	11.3	13.4	14.9
ROE adjusted	14.4	16.1	5.9	20.1	17.2
ROIC adjusted	14.7	9.7	6.1	11.7	10.8
Net debt to equity	108.0	123.7	113.8	113.7	131.0
Total debt to capital	63.1	62.3	59.3	58.7	61.4

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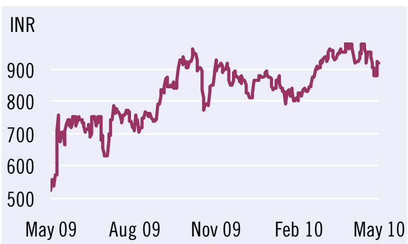
ICICI Bank (ICBK.BO)

Hold/Medium Risk	**2M**
Price (11 May 10)	Rs915.95
Target Price	Rs1,065.00
Expected share price return	16.3%
Expected dividend yield	1.3%
Expected total return	**17.6%**
Market Cap	Rs1,021,293M
	US$22,648M

Price Performance



Source: dataCentral

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Company description

ICICI Bank was founded in 1994 by ICICI Ltd., which was then the country's leading development finance institution. It is a leader in retail lending, with more than 30% market share in all consumer-finance segments. ICICI Bank has international banking operations as its key focus area.

Fundamental Improvements Showing Through

- **2nd largest, and most diversified, Indian bank** — ICICI Bank (ICBK) is India's largest private sector bank, with an aggressively expanded asset base and spread, positioning itself as a dominant financial services player. While this has worked well in a growing environment, it has also caused a lot of hurt in a slower global economic/asset environment.

- **Fundamental improvements ahead** — With the new management's focus on a risk averse and "back to basics" strategic direction and execution, ICBK is well positioned for structural upside ahead – on margins, funding stability, balance-sheet balance, and approach to risk. Effectively, ICBK offers the largest and most sustainable opportunity to improving its operating, risk and return measures, in our view.

- **Quite a few things coming together…**— There is continued progress on key counts: a) Asset quality deterioration continues to ease, loan loss coverage continues to rise; b) Deposit mix is now good in absolute terms –CASA at 40%+; c) Foreign subsidiaries appear stable –on returns, quality and funding; d) Fees are reviving in a stable manner; and e) While costs have increased in the quarter - operating cost levels are now low. Bottom line, ICBK is delivering fairly steadily –in-line with its commitments a year ago on key business and value measures.

- **…although there remains a fair distance to go** — We believe there still remains more to do given: a) NIMs remain flat, lagging peers and market forecasts; b) Growth is not yet visible (while peers are on a dash); and c) Profitability remains modest with ROEs low compared to peers and improving only gradually.

- **Offshore risks easing – but value creation potential?** — ICBK's offshore asset book (25% of total) has been a source of write-downs, concerns and opacity. While we believe the worst is likely over, the scale of its exposure, returns on this portfolio, and the potential value/franchise such a large book creates remain questionable, and we believe it will drag on the overall business.

Statistical Abstract

Year to 31 Mar	Net profit (RsM)	EPS (Rs)	EPS Growth (%)	PE (x)	PB (x)	ROAE (%)	ROAA (%)	Div Yield (%)
FY08	41,574	37	7.2	24.8	2.2	12	1.1	1.2
FY09	37,578	33	-9.7	27.5	2.1	8	1.0	1.2
FY10E	40,246	36	6.9	25.7	2.0	8	1.1	1.3
FY11E	48,833	43	21.3	21.2	1.9	9	1.3	1.4
FY12E	65,090	58	33.3	15.9	1.7	11	1.6	1.4

Source: Company Data, Citi Investment Research and Analysis Estimates

Investment Strategy

We rate ICICI Bank as Hold/Medium Risk (2M). While we believe the business offers meaningful upside on fundamental operating improvements (margins, asset quality, business balance, and leverage on its franchise), there remains near-term pressures. These include low profitability, an asset book which remains under pressure (and is unlikely to start improving quickly), and a large international lending book that we believe is too large and diversified to offer a reasonable risk/return trade off. While management is making aggressive strategic moves in the right direction, it will take time to play out, and the stock appears to have quickly factored in rapid execution and returns. Its financial services subsidiaries, particularly insurance, also add meaningful value and complement its core banking business, but we believe value gains are probably more measured than stock market moves suggest at this point in time.

Valuation

Our target price of Rs1,065 is based on EVA which we believe adjusts better for the relatively dynamic cost of capital and better captures the long-term value of a business. We use: a) a long-term Cost-Income ratio of 35%; b) a long-term loan loss estimate of 110 bps; c) Rs201 as value of subsidiaries; and d) a Risk Free Rate of 8%. We also benchmark our valuation to a SOTP analysis. ICICI Bank's domestic banking is valued on 2.25x 1yr Fwd PBV and international business at 1.0x, translating into an overall PBV target multiple of 1.9x 1yr Fwd. Our target multiple is based on peaking of asset quality issues, stabilization of deposit franchise and expectations of a loan growth revival. The rest of the value is driven by its subsidiaries: life insurance at Rs127, general insurance at Rs15, AMC at Rs22, ICICI Securities at Rs21, primary dealer at Rs6 and venture fund at Rs11. The subsidiaries are valued based on industry benchmarks.

ICICI Bank (ICBK.BO): Financial Summary

	2008	2009	2010E	2011E	2012E
Valuation Ratios					
P/E adjusted (x)	24.8	27.5	25.7	21.2	15.9
P/E reported (x)	24.8	27.5	25.7	21.2	15.9
P/BV (x)	2.2	2.1	2.0	1.9	1.7
P/Adjusted BV diluted (x)	2.2	2.1	2.0	1.9	1.7
Dividend yield (%)	1.2	1.2	1.3	1.4	1.4
Per Share Data (Rs)					
EPS adjusted	36.93	33.36	35.68	43.30	57.71
EPS reported	36.93	33.36	35.68	43.30	57.71
BVPS	417.64	444.92	462.99	491.33	533.68
Tangible BVPS	417.64	444.92	462.99	491.33	533.68
Adjusted BVPS diluted	412.82	439.79	457.65	485.66	527.53
DPS	11.04	11.00	12.00	12.50	13.00
Profit & Loss (RsM)					
Net interest income	73,041	83,666	81,144	93,373	110,692
Fees and commissions	56,053	56,259	46,964	55,418	67,610
Other operating Income	32,735	24,919	27,812	26,644	28,910
Total operating income	**161,829**	**164,844**	**155,920**	**175,434**	**207,212**
Total operating expenses	-81,542	-70,451	-58,598	-64,117	-71,200
Oper. profit bef. provisions	**80,288**	**94,393**	**97,322**	**111,317**	**136,012**
Bad debt provisions	-28,423	-37,105	-43,869	-44,419	-46,843
Non-operating/exceptionals	-1,303	-6,118	0	0	0
Pre-tax profit	**50,561**	**51,170**	**53,453**	**66,899**	**89,170**
Tax	-8,984	-13,588	-13,203	-18,063	-24,076
Extraord./Min. Int./Pref. Div.	-3	-4	-3	-3	-3
Attributable profit	**41,574**	**37,578**	**40,246**	**48,833**	**65,090**
Adjusted earnings	41,574	37,578	40,246	48,833	65,090
Growth Rates (%)					
EPS adjusted	7.2	-9.7	6.9	21.3	33.3
Oper. profit bef. prov.	35.9	17.6	3.1	14.4	22.2
Balance Sheet (RsM)					
Total assets	**3,997,951**	**3,793,010**	**3,633,997**	**3,873,224**	**4,356,629**
Avg interest earning assets	3,505,124	3,637,413	3,475,885	3,561,376	3,931,042
Customer loans	2,329,796	2,272,275	1,926,431	2,265,810	2,682,921
Gross NPLs	75,795	96,492	93,429	117,194	142,275
Liab. & shar. funds	**3,997,951**	**3,793,010**	**3,633,997**	**3,873,224**	**4,356,629**
Total customer deposits	2,444,311	2,183,478	2,020,166	2,222,183	2,582,940
Reserve for loan losses	54,764	63,166	90,974	127,258	161,358
Shareholders' equity	**468,202**	**498,830**	**519,684**	**551,274**	**598,495**
Profitability/Solvency Ratios (%)					
ROE adjusted	11.7	7.8	8.0	9.2	11.4
Net interest margin	2.1	2.3	2.3	2.6	2.8
Cost/income ratio	50.4	42.7	37.6	36.5	34.4
Cash cost/average assets	2.2	1.8	1.6	1.7	1.7
NPLs/customer loans	3.3	4.2	4.8	5.2	5.3
Reserve for loan losses/NPLs	72.3	65.5	97.4	108.6	113.4
Bad debt prov./avg. cust. loans	1.3	1.6	2.1	2.1	1.9
Loans/deposit ratio	95.3	104.1	95.4	102.0	103.9
Tier 1 capital ratio	11.8	12.2	13.8	12.8	11.9
Total capital ratio	14.0	15.9	18.0	16.6	15.4

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Powered by: dataCentral

ICICI Prudential Life Insurance

Non-Rated

Price	NA (Unlisted)

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Company Description

ICICI Prudential Life Insurance company Ltd. is a 74:26 joint venture between ICICI Bank and Prudential of UK. Prudential has the right of first refusal to increase its stake to 49%, if regulations allow for it, at market determined valuations. It has a market share of about 17% amongst private sector players and continues to remain amongst the leaders in the private segment despite the slowdown in its growth.

Leveraging on Scale

- **Amongst market leaders** — ICICI Prudential has been a leader amongst India's private sector insurance companies from the day the sector opened. It has almost a 17% private sector share (6% overall), and has consistently been at the top of market share charts. While growth slowed significantly for the industry (and relatively more for ICICI) it is still the second largest private sector insurance player.
- **Economics: scale and asset management fees** — ICICI's profitability is leveraged to the economics of scale. Volumes bring efficiencies, which are reflected in expense ratios. Its products are also geared towards higher asset management fees – which gear it to higher asset returns, and persistency. It is also aggressive in the low-return group business – provides volume, leverages the group's broader franchise, and could bring in individual business at a later point.
- **Growth is equity-linked, but recovery likely to lag the market** — Growth in insurance has largely come from sale of unit-linked products that offer capital market linked upside. A slower-growth environment is consolidating the business – capital requirements are easing, profitability is rising, and is supporting a more balanced business approach than in its high growth years
- **Distribution – Time for consolidation?** — ICICI-Pru is in the latter stages of its distribution growth; after expanding rapidly for a number of years, it now is in the process of consolidating the branch network, agency force while trying to achieve efficiencies in each of its channels. The challenge lies in execution, which could well increase as distribution goes into the hinterland.
- **Operating performance currently** — 90% of business is unit linked, 60% of AUM are equity, persistency rates have dipped and are relatively modest at 65-70% (possibly distorted by short-term policy lapses), and the business is now profitable. Pru-ICICI's renewal premium at over 50% of total premium is amongst the highest, suggests a more stable and predictable premium profile than most, and the opportunity to now leverage on its scale

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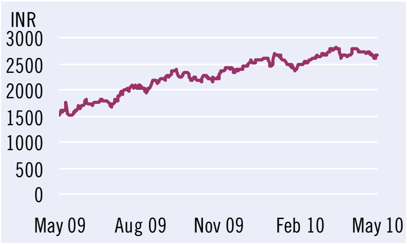
Infosys Technologies (INFY.BO)

Hold/Low Risk	**2L**
Price (11 May 10)	Rs2,663.15
Target Price	Rs2,935.00
Expected share price return	10.2%
Expected dividend yield	1.2%
Expected total return	**11.4%**
Market Cap	Rs1,528,183M
	US$34,073M

Price Performance



Source: dataCentral

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Company description

Infosys is the second-largest Indian IT services company with more than 110,000 professionals, and is a leader in the offshore services space. Infosys provides business consulting, application development & maintenance and engineering services to ~570 active clients across verticals such as Banking, Financial Services, Insurance, Retail, Manufacturing and Utilities in the Americas, Europe and Asia Pacific. Infosys also sells a core banking application, Finacle, which is used by leading banks in India, the Middle East, Africa and Europe. Its subsidiary, Infosys BPO, which employs ~18,000 people, is a provider of BPO services.

Baseline Known – How High Can the Bar Be Set?

- **FY11 revenue growth** — Company guidance of 16-18% revenue growth (US$-terms) has already set the baseline. With analysts/investors expectations already at ~25% YoY – key question for management would be how high can revenues grow in FY11 given the pent up demand?
- **Outlook on margins** — Infosys' cost management abilities have been widely documented. Management has guided for a margin decline of ~150bps for FY11. With INR appreciation and attrition worries (company gave salary hikes in Oct'09 and again in Apr'10), the outlook on margins should be discussed with management.
- **Return of pricing power** — With the return in demand, pricing discounts seem to be a thing of the past. However, with increased attrition, vendors are grappling with salary hikes across the board. Pricing is one of the key levers available to companies in order to manage their margins. A key question would be the timing of the return of pricing power for vendors.
- **Supply side dynamics** — Company's view on supply side dynamics should be another area to discuss with focus on the following – (1) availability of talent (engineers) for next few years; (2) company's initiatives on training (3) right-skilling initiative – hiring of science graduates.
- **Use of cash** — Infosys is sitting on a cash pile of ~US$3.5b. Possible usage of this cash in terms of M&A, special dividend, etc would be worth exploring.
- **SEZ strategy** — Infosys' SEZ readiness, given the expectation of STPI sunset clause coming into effect by Apr'11 should be discussed. Expectations of the tax rate in FY11/12E etc. could be gauged.

Statistical Abstract

Year to 31 Mar	Net Profit (RsM)	Diluted EPS (Rs)	EPS growth (%)	EV/EBITDA (x)	P/E (x)	P/B (x)	P/CEPS (x)	ROE (%)	Yield (%)
2009A	59,880	104.4	na	20.3	25.5	8.4	22.6	na	0.9
2010A	62,660	109.3	4.7	18.2	24.4	6.6	21.3	30.3	0.9
2011E	70,290	123.0	12.6	15.8	21.6	5.4	19.1	27.4	1.2
2012E	82,027	143.6	16.7	13.0	18.5	4.4	16.4	26.1	1.4
2013E	95,556	167.3	16.5	10.8	15.9	3.7	14.1	25.1	1.6

Source: Powered by dataCentral

Investment Strategy

We rate Infosys shares as Hold/Low Risk (2L) for valuation reasons. We are positive on the company's fundamentals. Offshore IT outsourcing has become a mainstream option, and we think that scale and scalability, along with an ability to move up the value chain, are key criteria for successful offshore vendors. In this respect, Infosys appears well positioned and continues to gain ground given its strong branding and industry-leading sales force. Unlike other high-growth firms in other industries, Infosys continues to generate solid FCF and its RoE of ~30% remains well above its cost of capital.

Valuation

Our Rs2,935 target price for Infosys is based on 22x the average of FY11-12E EPS. This is around the mid-point of the last three-year trading band of 11x-30x 12-month forward earnings and factors in some deceleration in growth. Our estimates continue to assume a certain PE premium to the market; this is justified, in our view, given the strong FCF and ROIC for Infosys vs. the overall market. We believe PE remains the most appropriate valuation measure given Infosys' profitability record and higher earnings visibility.

Infosys Technologies (INFY.BO): Financial Summary

Fiscal year end 31-Mar	2009	2010	2011E	2012E	2013E
Valuation Ratios					
P/E adjusted (x)	25.5	24.4	21.6	18.5	15.9
EV/EBITDA adjusted (x)	20.1	17.9	15.1	12.4	10.3
P/BV (x)	8.4	6.6	5.4	4.4	3.7
Dividend yield (%)	0.9	0.9	1.2	1.4	1.6
Per Share Data (Rs)					
EPS adjusted	104.42	109.31	123.04	143.58	167.26
EPS reported	104.42	109.31	123.04	143.58	167.26
BVPS	318.71	403.77	495.91	603.60	729.00
DPS	23.50	25.00	31.00	36.00	42.00
Profit & Loss (RsM)					
Net sales	216,930	227,420	264,970	311,517	363,923
Operating expenses	-152,590	-157,860	-183,933	-216,140	-252,987
EBIT	**64,340**	**69,560**	**81,038**	**95,376**	**110,936**
Net interest expense	4,730	9,910	11,273	14,368	16,935
Non-operating/exceptionals	0	0	0	0	0
Pre-tax profit	**69,070**	**79,470**	**92,311**	**109,745**	**127,871**
Tax	-9,190	-16,810	-22,021	-27,718	-32,315
Extraord./Min.Int./Pref.div.	0	0	0	0	0
Reported net income	**59,880**	**62,660**	**70,290**	**82,027**	**95,556**
Adjusted earnings	59,880	62,660	70,290	82,027	95,556
Adjusted EBITDA	71,950	78,610	90,249	105,930	123,000
Growth Rates (%)					
Sales	30.0	4.8	16.5	17.6	16.8
EBIT adjusted	38.7	8.1	16.5	17.7	16.3
EBITDA adjusted	37.4	9.3	14.8	17.4	16.1
EPS adjusted	28.5	4.7	12.6	16.7	16.5
Cash Flow (RsM)					
Operating cash flow	**50,670**	**57,270**	**67,006**	**72,708**	**84,472**
Depreciation/amortization	7,610	9,050	9,211	10,554	12,065
Net working capital	-12,020	-1,470	-1,222	-5,504	-6,213
Investing cash flow	**-13,380**	**-9,060**	**-16,505**	**-19,909**	**-22,633**
Capital expenditure	-13,380	-9,060	-16,505	-19,909	-22,633
Acquisitions/disposals	0	0	0	0	0
Financing cash flow	**-15,290**	**-12,390**	**-20,016**	**-20,550**	**-23,975**
Borrowings	0	2,320	-2,320	0	0
Dividends paid	-13,456	-14,294	-17,696	-20,550	-23,975
Change in cash	**22,000**	**35,820**	**30,485**	**32,248**	**37,865**
Balance Sheet (RsM)					
Total assets	**221,260**	**277,360**	**331,319**	**403,402**	**484,542**
Cash & cash equivalent	96,950	105,560	147,318	193,934	248,734
Accounts receivable	36,720	34,940	41,070	49,843	58,228
Net fixed assets	53,540	53,550	60,844	70,200	80,768
Total liabilities	**38,720**	**46,870**	**48,236**	**58,842**	**68,401**
Accounts payable	20,040	23,430	28,377	34,708	40,256
Total Debt	0	0	0	0	0
Shareholders' funds	**182,540**	**230,490**	**283,084**	**344,560**	**416,141**
Profitability/Solvency Ratios (%)					
EBITDA margin adjusted	33.2	34.6	34.1	34.0	33.8
ROE adjusted	37.4	30.3	27.4	26.1	25.1
ROIC adjusted	73.1	62.0	65.5	66.5	66.9
Net debt to equity	-53.1	-45.8	-52.0	-56.3	-59.8
Total debt to capital	0.0	0.0	0.0	0.0	0.0

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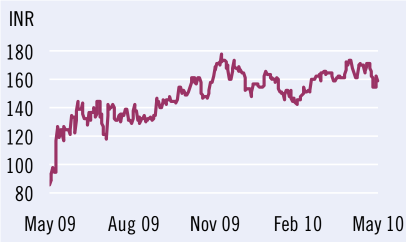
Powered by: dataCentral

Infrastructure Development Finance (IDFC.BO)

Financing the Infrastructure Charge

Sell/Medium Risk	3M
Price (11 May 10)	Rs159.05
Target Price	Rs141.00
Expected share price return	-11.3%
Expected dividend yield	0.8%
Expected total return	**-10.5%**
Market Cap	Rs207,924M
	US$4,611M

Price Performance



Source: dataCentral

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Company description

IDFC was established in 1997 as a specialized Infrastructure financier / advisor and to encourage private sector investments in the infrastructure sector. It has been actively associated with the government in policy formulation, and has probably the foremost set of skills in this space. It enjoys a central positioning as amongst the forerunners on the policy advisory space in infrastructure and is seen as the referred investor, lender and advisor. Though IDFC has diversified its product offerings to include non-fund based products, asset management and private equity along with debt finance and syndication opportunities; the lending business remains its key operational focus.

- **Focused infrastructure development and financing entity** — IDFC is at the forefront of financing, advising and policy formulation for one of India's fastest growing segments. It has aggressively built up asset management and investment banking businesses, which broaden and stabilize its revenue stream, and generate synergies with its core infrastructure proposition.
- **Key lending thrust on Infrastructure assets** — IDFC's focus is on infrastructure assets – direct and structured financing, technical and risk advisory, and directed and private type investments. These assets dominate its book, which is diversified across industries in this space, and will continue to be its focus. It is the most prominent financier in this space.
- **IDFC will be an 'Infrastructure NBFC'** — IDFC has so far operated off a finco platform; primarily wholesale funded, with low reserve requirements, lending flexibility and low costs. It is now seeking to take on a new 'infrastructure financier' platform; this has been newly created by the regulator, should bolster funding options and costs, lend greater asset flexibility, and management suggests significantly higher growth levels.
- **Asset growth accelerating quickly, quality amongst the best** — After a period of caution amidst the slowdown last year, IDFC's pace of loan growth accelerated to 22% YoY for FY10; a strong approval pipeline, likely capital boost and management guidance suggests a significant acceleration over the next 2-3 years. Strong asset quality, with high coverage levels, provides the backdrop and confidence for effective execution
- **Diversified earnings stream, with aggressive asset management initiatives** — IDFC earnings stream has historically been margin and investment-gains driven. This has diversified in recent years through aggressive management initiatives in asset management, private equity, brokerage and investment banking and principal trading. This should potentially bolster growth and moderate its dependence on lending margins.

Statistical Abstract

Year March	Net profit (Rs. M)	EPS Rs.	EPS Growth (%)	PE (x)	PB (x)	ROAE (%)	ROAA (%)	Div yield (%)
FY08	7,422	6	36.8	25.9	3.7	17	3.1	0.7
FY09	7,498	6	-5.6	27.5	3.3	13	2.5	0.7
FY10E	11,253	9	50.0	18.3	2.9	17	3.4	0.8
FY11E	13,348	10	18.6	15.4	2.5	17	3.4	0.9
FY12E	15,910	12	19.2	12.9	2.1	18	3.3	0.9

Source: Company data, Citi Investment Research and Analysis estimates

Investment Strategy

We rate IDFC shares Sell/Medium Risk (3M) with Rs141 target price. IDFC appears well positioned to benefit from India's large infrastructure opportunity. We believe IDFC has a quality management team, is one of the few pure plays on infrastructure financial services, and offers long-term growth potential.
However, it faces significant challenges - regulatory, competitive, and capital markets related. IDFC's key challenges come from: a) Wholesale funding - borrowing costs are exposed to sharp hikes in interest rates and tightness in market liquidity; b) Competition - from larger scale and lower funding cost banks; c) Finance company platform - limits leverage relative to banks (higher capital adequacy requirement of 15% relative to banks); d) Business model - relatively higher portfolio concentrations as against banks; and e) Capital market-related revenues - over 50% of IDFC's revenues are linked to capital markets.

Valuation

We value IDFC at Rs141 based on our sum-of-the-parts methodology. We value IDFC's core lending business at Rs110 per share; we prefer a P/BV multiple of 2.5x 1yr-Fwd, given its sub-15% core ROE. This reflects IDFC's premium positioning in the infrastructure segment, strong management, long track record of low asset risks and relatively high growth profile. However, its target multiple is constrained by its lack of retail asset, liability and distribution franchises relative to premier private bank franchises. We value the asset management at Rs15 per share sub-divided into Rs6 for the private equity segment (8% of AUMs) and Rs9 for the Stanchart AMC business (5% of AUMs). We value IDFC's stake in SSKI at Rs7 per share based on 15x 1yr Fwd profits. Finally, we also add Rs8 for IDFC's unrealized investment gains including the NSE.

Infrastructure Development Finance (IDFC.BO): Financial Summary

	2008	2009	2010E	2011E	2012E
Valuation Ratios					
P/E adjusted (x)	25.9	27.5	18.3	15.4	12.9
P/E reported (x)	25.9	27.5	18.3	15.4	12.9
P/BV (x)	3.7	3.3	2.9	2.5	2.1
P/Adjusted BV diluted (x)	3.7	3.3	2.9	2.5	2.1
Dividend yield (%)	0.8	0.8	0.8	0.9	0.9
Per Share Data (Rs)					
EPS adjusted	6.13	5.79	8.69	10.31	12.28
EPS reported	6.13	5.79	8.69	10.31	12.28
BVPS	43.21	47.68	54.85	63.51	74.16
Tangible BVPS	43.21	47.68	54.85	63.51	74.16
Adjusted BVPS diluted	43.21	47.68	54.85	63.51	74.16
DPS	1.20	1.20	1.30	1.40	1.40
Profit & Loss (RsM)					
Net interest income	5,811	7,645	10,221	12,283	14,871
Fees and commissions	4,013	4,287	5,931	7,315	8,680
Other operating Income	3,413	3,624	4,120	4,863	5,607
Total operating income	**13,236**	**15,556**	**20,272**	**24,462**	**29,158**
Total operating expenses	-2,532	-3,665	-4,430	-5,272	-6,389
Oper. profit bef. provisions	**10,704**	**11,891**	**15,843**	**19,189**	**22,769**
Bad debt provisions	-700	-1,532	-551	-922	-992
Non-operating/exceptionals	46	13	13	13	13
Pre-tax profit	**10,050**	**10,372**	**15,305**	**18,281**	**21,790**
Tax	-2,480	-2,782	-4,052	-4,932	-5,880
Extraord./Min. Int./Pref. Div.	-148	-92	0	0	0
Attributable profit	**7,422**	**7,498**	**11,253**	**13,348**	**15,910**
Adjusted earnings	7,422	7,498	11,253	13,348	15,910
Growth Rates (%)					
EPS adjusted	36.8	-5.6	50.0	18.6	19.2
Oper. profit bef. prov.	68.9	11.1	33.2	21.1	18.7
Balance Sheet (RsM)					
Total assets	**289,411**	**307,865**	**359,266**	**436,317**	**519,615**
Avg interest earning assets	221,917	274,560	302,509	361,083	434,649
Customer loans	199,334	206,194	247,791	309,163	370,692
Gross NPLs	275	351	581	888	1,191
Liab. & shar. funds	**289,411**	**307,865**	**359,266**	**436,317**	**519,615**
Total customer deposits	0	0	0	0	0
Reserve for loan losses	283	231	381	652	985
Shareholders' equity	**55,933**	**61,759**	**71,041**	**82,268**	**96,057**
Profitability/Solvency Ratios (%)					
ROE adjusted	17.4	12.7	16.9	17.4	17.8
Net interest margin	2.6	2.8	3.4	3.4	3.4
Cost/income ratio	19.1	23.6	21.9	21.6	21.9
Cash cost/average assets	1.1	1.2	1.3	1.3	1.3
NPLs/customer loans	0.1	0.2	0.2	0.3	0.3
Reserve for loan losses/NPLs	102.8	66.0	65.5	73.4	82.7
Bad debt prov./avg. cust. loans	0.4	0.8	0.2	0.3	0.3
Loans/deposit ratio	na	na	na	na	na
Tier 1 capital ratio	19.5	19.5	19.1	18.1	17.7
Total capital ratio	22.2	21.9	21.2	19.7	19.2

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Powered by: dataCentral

IRB Infrastructure Developers (IRBI.BO)

Non-Rated

Price (11 May 10)	Rs272.6
Market Cap	US$1992.7m

Price Performance

Source: dataCentral

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Company Description

IRB Infrastructure Developers Ltd. was incorporated to fund the capital requirements of the IRB Group initiatives in the infrastructure sector. The company undertakes development of various infrastructure projects in the road sector through several Special Purpose Vehicles.

The company, along with its subsidiaries, has constructed or operated and maintained around 1200 kms of road length so far and is one of the major road developers in India.

- **Leading road developer –** IRB Infrastructure Developers ("IRB"), incorporated in 1998, is one of the leading infrastructure companies in India, focusing on the development of roads and highways. IRB designs, builds and operates roads and highways. IRB manages one of the largest road portfolios in India – with a total length of ~1150kms. It has a market share of ~7.22% in the Golden Quadrilateral.

- **Integrated business model –** IRB's development business involves developing roads and highways on a BOT (Built-Operate-Transfer) basis. It has an in-house construction business which undertakes the construction of the road projects. Similarly, the operation and maintenance activities, including toll collection, pertaining to BOT projects are also executed within the IRB group.

- **IRB has a portfolio of 16 road assets –** 10 roads are operational and 6 are under development. The company has its presence in the states of Maharashtra, Gujarat, Punjab, Rajasthan and Goa. About 33% of IRB's revenues in Q4FY10 were from Mumbai-Pune Expressway; 39% from Surat-Dahisar expressway; and 14% from Bharuch-Surat expressway. More project wins will reduce the dependence on the Mumbai-Pune Expressway.

Recent Developments

The company has emerged as the preferred bidder for the construction of a six-lane road in Karnataka on BOT basis. The estimated cost of the project is Rs12bn and the length is 114 km.

IRB (IRBI.BO): Financial Summary

Figure 1. IRB – Consolidated P&L (Rsmn)

	FY07	FY08	FY09
Total Income	**3,057**	**7,327**	**9,919**
Total direct expenses	(1,078)	(2,589)	(4,682)
Total Personnel Expenses	(148)	(341)	(425)
Total Admin expenses	(177)	(278)	(438)
Total Expenses	(1,403)	(3,208)	(5,545)
EBITDA	**1,654**	**4,119**	**4,374**
EBITDA Margin %	**54%**	**56%**	**44%**
Depreciation	(526)	(1,016)	(1,144)
EBIT	**1,128**	**3,103**	**3,230**
EBIT Margin %	**37%**	**42%**	**33%**
Total finance charges	(877)	(1,958)	(1,377)
Total other income	194	520	296
Profit Before Tax	**445**	**1,666**	**2,149**
Total tax	**(148)**	**(400)**	**(378)**
Effective tax rate	**33%**	**24%**	**18%**
Profit after Tax	**298**	**1,266**	**1,772**
Less: Minority interest	(72)	(126)	(13)
PAT after Minority interest	**225**	**1,139**	**1,758**
% Growth		**405%**	**54%**

Source: IRB Annual Report

Figure 2. IRB – Consolidated BS (Rsmn)

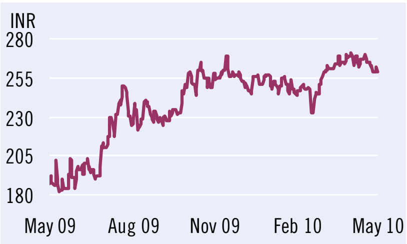
	FY07	FY08	FY09
Share capital	2,473	3,324	3,324
Reserves and Surplus	1,303	12,883	13,977
Minority interest	1,118	281	599
Total Loan funds	25,180	20,212	24,859
Deferred Tax liability		26	182
Total Liability	**30,073**	**36,727**	**42,940**
Gross Block	21,193	22,188	24,601
Less Depreciation	2,326	3,340	4,440
Net Block	**18,868**	**18,848**	**20,161**
CWIP	5,552	8,889	14,545
Investments	413	1,985	1,108
Net Current assets (ex. Cash)	**1,349**	**1,768**	**2,968**
Cash and bank balances	3,703	5,221	4,147
Misc Expenses W/off	181	16	10
DTA	6		
Total Assets	**30,073**	**36,727**	**42,940**

Source: IRB Annual Report

ITC (ITC.BO)

Buy/Low Risk	**1L**
Price (11 May 10)	Rs259.00
Target Price	Rs302.00
Expected share price return	16.6%
Expected dividend yield	1.8%
Expected total return	**18.4%**
Market Cap	Rs988,908M
	US$21,929M

Price Performance



Source: dataCentral

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Company description

ITC is the leading cigarette manufacturer and marketer in India with about 74% market share by volumes. The group is ~32% owned by BAT (British American Tobacco). The company's cigarette portfolio carries strong brands such as Wills, Gold Flake, India Kings and Scissors, and two of BAT's global brands, Benson & Hedges and State Express 555. Besides tobacco, ITC operates in four other business divisions, namely a) agri / marine products, b) hotels, c) paper & packaging and d) IT. However, ~65% of its revenues and 88% of its profits are from the cigarette business (in FY09). The group has made significant investments in the hotels, paperboard and processed foods (biscuits, ready-to-eat foods, confectioneries) businesses.

Cigarette Business Continues to Deliver

- **Cigarette pricing remains strong —** Since Feb 2010, ITC has increased cigarette prices by a weighted average of ~15% – sufficient to a) absorb ~17% excise duty hike, b) ~15% increase in tobacco leaf costs and c) VAT increases in states like Karnataka, Gujarat, AP (increased to 15-20% from 12.5%). Effective price hike for consumers will be slightly <15%, as they will be absorbed by dealers through lower coinage benefits.

- **Volumes to grow in FY11? —** Mgmt expects cigarette volumes to be flat/slightly positive Y/Y, reflecting the impact of price hikes. Checks with the trade reveal that price hikes have been absorbed relatively easily. Growth rates might be higher if ITC introduces a brand in the new <60mm filter cigarette segment (lower tax slab). This would aid the underlying volume growth; however, could impact the mix.

- **Other FMCG losses better than expected in FY10 —** Non cigarette FMCG EBIT losses in this category at ~Rs3.5bn for FY10 were better than the target outlined by the management at the commencement of the fiscal. We believe that this is driven by biscuits portfolio breakeven (despite higher input costs) and better contribution from retailing. FY11 could be a challenge on account of escalating competitive pressures in personal care products.

- **Cyclical business' contribution should improve —** Some green shoots are visible in the hotels business- we expect improvement from 2HFY11 onwards, driven by economic recovery, which should result in better occupancies and REVPARS. Paper business profitability is expected to grow ~12-15%, driven by price growth. On the agri business, mgmt decision to focus on higher profitability products resulted in EBIT margins increasing to 11% in FY09 (vs. 5.2% in FY08). Mgmt noted that the margin trend remains favorable – margins are now ~12-13%, bolstered by higher leaf tobacco prices (~40% of revenues, vs. ~20% in FY08).

Statistical Abstract

Year to 31 Mar	Net Profit (RsM)	Diluted EPS (Rs)	EPS growth (%)	EV/EBITDA (x)	P/E (x)	P/B (x)	P/CEPS (x)	ROE (%)	Yield (%)
2008A	31,201	8.3	na	22.3	31.3	8.1	27.4	na	1.4
2009A	32,636	8.6	4.4	20.2	30.0	7.1	25.6	25.3	1.4
2010E	40,043	10.6	22.7	16.3	24.4	6.2	21.2	27.2	1.8
2011E	48,129	12.8	20.2	13.6	20.3	5.4	17.9	28.4	2.1
2012E	55,354	14.7	15.0	11.8	17.7	4.7	15.7	28.4	2.4

Source: Company Reports and CIRA Estimates

Investment Strategy

We have a Buy rating. Cigarette business remains strong on the back of a robust pricing environment, good volumes and better mix. ITC has been successful in passing the higher excise duty increases, resulting in strong margins. Positive cigarette volume growth despite aggressive pricing action should enable the stock's recent re-rating to sustain. Over the next few years, ITC's overall revenue streams should become far more balanced as the non-tobacco FMCG business attains critical mass (currently 13% of revenues). We forecast a strong 18% EPS growth CAGR over FY10-12E.

Valuation

Our target price of Rs302 is based on 22x SeptFY11E earnings. ITC's stock has experienced a gradual re-rating, as concerns pertaining to cigarette volume decline (post the excise/VAT imposition) were unfounded, with cigarette volumes declining only ~1-3% in FY08/09, thus underscoring its resilience and defensive attributes. Moreover, while earnings have been volatile over the past few years on account of the different growth trajectories and life cycles of other businesses. In FY11E also, the company has taken price increases that should not only make up for the excise increases, but also add to the margins. Our target P/E multiple is above the last three-year historical trading average (~21x). We expect uncertainty on cigarette volumes to recede as the multiple taxes (VAT, sales tax, etc) coalesce to a uniform GST. This, coupled with lower losses in the non cigarette FMCG business, should enable the stock to re-rate. We also note that from an absolute P/E perspective, ITC is close to peak valuations (~25-26x). From a relative P/E perspective, however, ITC appears relatively cheap - trading at ~1.3x, vs. a peak of ~1.7x.

ITC (ITC.BO): Financial Summary

Fiscal year end 31-Mar	2008	2009	2010E	2011E	2012E
Valuation Ratios					
P/E adjusted (x)	31.3	30.0	24.4	20.3	17.7
EV/EBITDA adjusted (x)	22.0	19.9	16.1	13.4	11.7
P/BV (x)	8.1	7.1	6.2	5.4	4.7
Dividend yield (%)	1.4	1.4	1.8	2.1	2.4
Per Share Data (Rs)					
EPS adjusted	8.28	8.65	10.61	12.75	14.67
EPS reported	8.28	8.65	10.61	12.75	14.67
BVPS	32.00	36.39	41.68	48.03	55.33
DPS	3.50	3.70	4.56	5.48	6.31
Profit & Loss (RsM)					
Net sales	139,475	153,881	174,268	205,803	235,716
Operating expenses	-99,747	-110,557	-120,170	-140,388	-160,441
EBIT	**39,728**	**43,324**	**54,098**	**65,415**	**75,275**
Net interest expense	-120	-183	-414	-413	-313
Non-operating/exceptionals	6,109	5,117	5,904	6,618	7,410
Pre-tax profit	**45,718**	**48,257**	**59,587**	**71,620**	**82,372**
Tax	-14,517	-15,622	-19,545	-23,491	-27,018
Extraord./Min.Int./Pref.div.	0	0	0	0	0
Reported net income	**31,201**	**32,636**	**40,043**	**48,129**	**55,354**
Adjusted earnings	31,201	32,636	40,043	48,129	55,354
Adjusted EBITDA	44,113	48,818	60,148	72,011	82,354
Growth Rates (%)					
Sales	12.8	10.3	13.2	18.1	14.5
EBIT adjusted	10.3	9.1	24.9	20.9	15.1
EBITDA adjusted	11.3	10.7	23.2	19.7	14.4
EPS adjusted	15.4	4.4	22.7	20.2	15.0
Cash Flow (RsM)					
Operating cash flow	**31,460**	**37,281**	**38,781**	**46,200**	**54,571**
Depreciation/amortization	4,385	5,494	6,050	6,596	7,079
Net working capital	-4,848	-4,070	-7,312	-8,525	-7,862
Investing cash flow	**-19,900**	**-16,429**	**-15,000**	**-15,000**	**-12,000**
Capital expenditure	-21,232	-17,397	-15,000	-15,000	-12,000
Acquisitions/disposals	1,332	968	0	0	0
Financing cash flow	**-14,860**	**-16,231**	**-16,744**	**-26,152**	**-27,777**
Borrowings	136	-369	3,350	-2,000	0
Dividends paid	-15,432	-16,299	-20,094	-24,152	-27,777
Change in cash	**-3,299**	**4,621**	**7,036**	**5,049**	**14,794**
Balance Sheet (RsM)					
Total assets	**172,495**	**194,848**	**224,588**	**256,318**	**293,203**
Cash & cash equivalent	5,703	10,324	17,360	22,409	37,203
Accounts receivable	7,369	6,687	8,641	11,165	12,672
Net fixed assets	72,957	84,860	93,810	102,213	107,134
Total liabilities	**51,918**	**57,498**	**67,289**	**75,041**	**84,349**
Accounts payable	27,870	29,645	32,204	37,755	43,277
Total Debt	2,144	1,776	5,125	3,125	3,125
Shareholders' funds	**120,577**	**137,351**	**157,300**	**181,277**	**208,854**
Profitability/Solvency Ratios (%)					
EBITDA margin adjusted	31.6	31.7	34.5	35.0	34.9
ROE adjusted	27.7	25.3	27.2	28.4	28.4
ROIC adjusted	25.8	23.5	25.3	26.7	27.4
Net debt to equity	-3.0	-6.2	-7.8	-10.6	-16.3
Total debt to capital	1.7	1.3	3.2	1.7	1.5

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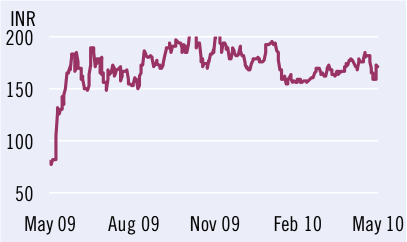
Powered by: dataCentral

IVRCL (IVRC.BO)

Buy/Medium Risk	**1M**
Price (11 May 10)	Rs171.15
Target Price	Rs187.00
Expected share price return	9.3%
Expected dividend yield	0.4%
Expected total return	**9.7%**
Market Cap	Rs45,699M
	US$1,013M

Price Performance



Source: dataCentral

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Company description

IVRCL is an established construction company with strong pre-qualifications and skill sets in the water supply sector. The company has diversified its revenue base by increasing its presence in roads, buildings, power T&D, real estate and solid liquid separation.

- **Roads segment to be the growth driver —** The company's subsidiary – IVRCL Assets and Holdings (prev. IVR Prime Urban developers Ltd) – will focus on developing infrastructure and real estate assets. IVR Assets and Holdings has a portfolio of 8 road assets. It is looking to bid for more road assets and would also bid for power transmission projects on BOT basis. IVR A&H Ltd is qualified for Rs160-180bn worth of projects in the road segment – targeting at least Rs50-60bn worth of projects in the next 1-1.5 years

- **AP forms ~17% of OB – a risk, but factored in —** Concerns of a slowdown in AP irrigation projects have played out; the company's Q3 revenue and PAT were below our and street expectations – and the stock had reacted on the back of this. Currently AP irrigation projects form ~17% of the Order Book. IVRCL stopped execution on most of these projects and has net receivables of ~Rs700m. We believe that the risk of AP projects is factored in the current stock price and any positive development in AP could be a catalyst for the stock

- **Fund-raising at subsidiary level —** IVR Assets and Holdings has taken an enabling resolution to raise upto Rs10bn. The company plans to do a QIP in about 6mths-1 year. The funds raised will be used to invest in new road/power assets and to pay down IVRCL's debt.

Statistical Abstract

Year to 31 Mar	Net Profit (RsM)	Diluted EPS (Rs)	EPS growth (%)	EV/EBITDA (x)	P/E (x)	P/B (x)	P/CEPS (x)	ROE (%)	Yield (%)
2008A	2,104	7.8	na	13.6	22.0	2.8	19.0	na	0.4
2009A	2,260	8.4	7.4	12.9	20.4	2.5	16.9	13.2	0.4
2010E	2,102	7.8	-7.0	11.8	22.0	2.4	17.1	11.5	0.4
2011E	2,642	9.8	25.7	10.6	17.5	2.1	13.9	13.4	0.4
2012E	3,655	13.5	38.4	8.3	12.6	1.8	10.5	16.2	0.5

Source: Company, Citi Investment Research and Analysis estimates

Investment Strategy

We rate IVRCL shares as Buy/Medium Risk with a target price of Rs187.IVRCL appears well positioned to benefit from the planned ~US$494bn infrastructure outlay by the government of India over the next five years. AP irrigation project risk appears factored in to the estimates and in the stock price performance. We expect earnings growth of 32% over the next two years.

Valuation

We value IVRCL shares at Rs187 based on a sum-of-the-parts (SOTP) methodology given its broad business profile. We value the core construction business at Rs132 based on 13.5x Mar-11E, a discount to our target multiple for Larsen and Toubro, justified in our view given increased risks of execution on its AP irrigation projects. We value the HDO stake at Rs11 (applying a holding company discount of 20%) and the IVR Prime Urban stake at Rs45 based on current market cap and applying a 30% holding company discount.

IVRCL (IVRC.BO): Financial Summary

Fiscal year end 31-Mar	2008	2009	2010E	2011E	2012E
Valuation Ratios					
P/E adjusted (x)	22.0	20.4	22.0	17.5	12.6
EV/EBITDA adjusted (x)	13.5	12.6	11.6	10.1	8.1
P/BV (x)	2.8	2.5	2.4	2.1	1.8
Dividend yield (%)	0.4	0.4	0.4	0.4	0.5
Per Share Data (Rs)					
EPS adjusted	7.79	8.37	7.79	9.79	13.54
EPS reported	7.79	8.37	7.79	9.79	13.54
BVPS	61.82	69.82	71.11	80.42	93.58
DPS	0.70	0.70	0.75	0.75	0.80
Profit & Loss (RsM)					
Net sales	36,606	48,819	52,200	63,308	80,069
Operating expenses	-33,320	-45,074	-47,841	-57,987	-72,983
EBIT	**3,286**	**3,745**	**4,359**	**5,321**	**7,086**
Net interest expense	-478	-1,306	-1,474	-1,648	-1,910
Non-operating/exceptionals	44	299	299	329	362
Pre-tax profit	**2,852**	**2,738**	**3,184**	**4,003**	**5,538**
Tax	-749	-478	-1,083	-1,361	-1,883
Extraord./Min.Int./Pref.div.	0	0	0	0	0
Reported net income	**2,104**	**2,260**	**2,102**	**2,642**	**3,655**
Adjusted earnings	2,104	2,260	2,102	2,642	3,655
Adjusted EBITDA	3,614	4,218	4,959	6,014	7,847
Growth Rates (%)					
Sales	56.0	33.4	6.9	21.3	26.5
EBIT adjusted	57.6	14.0	16.4	22.1	33.2
EBITDA adjusted	57.0	16.7	17.6	21.3	30.5
EPS adjusted	48.7	7.4	-7.0	25.7	38.4
Cash Flow (RsM)					
Operating cash flow	**-4,117**	**-1,225**	**-2,378**	**-397**	**-2,525**
Depreciation/amortization	328	473	600	693	760
Net working capital	-6,596	-3,973	-4,962	-3,732	-6,940
Investing cash flow	**-2,206**	**-2,654**	**-700**	**-750**	**-750**
Capital expenditure	-1,626	-2,171	-700	-750	-750
Acquisitions/disposals	0	0	0	0	0
Financing cash flow	**5,856**	**3,117**	**3,638**	**772**	**3,757**
Borrowings	5,117	3,302	5,405	1,000	4,000
Dividends paid	-211	-219	-228	-228	-243
Change in cash	**-467**	**-763**	**560**	**-375**	**482**
Balance Sheet (RsM)					
Total assets	**35,944**	**47,430**	**52,636**	**59,193**	**70,098**
Cash & cash equivalent	1,772	1,009	1,569	1,194	1,677
Accounts receivable	6,585	11,430	14,301	17,345	21,937
Net fixed assets	3,704	5,402	5,503	5,560	5,550
Total liabilities	**19,913**	**29,324**	**34,196**	**38,338**	**45,831**
Accounts payable	8,893	10,406	11,053	13,357	16,834
Total Debt	10,678	13,980	19,385	20,385	24,385
Shareholders' funds	**16,031**	**18,106**	**18,440**	**20,855**	**24,267**
Profitability/Solvency Ratios (%)					
EBITDA margin adjusted	9.9	8.6	9.5	9.5	9.8
ROE adjusted	14.4	13.2	11.5	13.4	16.2
ROIC adjusted	14.2	13.2	10.8	11.4	13.0
Net debt to equity	55.6	71.6	96.6	92.0	93.6
Total debt to capital	40.0	43.6	51.2	49.4	50.1

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Powered by: dataCentral

JSW Steel (JSTL.BO)

Buy/Medium Risk	1M
Price (11 May 10)	Rs1,199.35
Target Price	Rs1,450.00
Expected share price return	20.9%
Expected dividend yield	1.2%
Expected total return	**22.1%**
Market Cap	Rs224,337M
	US$4,975M

Price Performance

Source: dataCentral

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Company description

JSTL is one of India's largest integrated steel producers with crude steel capacity of 7.8m tpa. Of this, 1.6m tpa use the Corex process and the rest use blast furnace technology. The company has plans to enhance capacity to 11mtpa by end FY11. JSTL manufactures flat steel products ranging from slabs to high-end colour-coated steel products and long steel products. JSTL completed expansion of a hot strip mill in March10 and will commission another 1.5mtpa by FY12 to enhance its product mix reduce sale of semis. In FY08, it acquired plate (1m tpa) and pipe (0.5m tpa) capacity in the US, near main consumption centres of oil and gas production. To expand its market presence in the UK and Europe, JSTL acquired a Service Centre in the UK.

Strong Volumes; Richer Product Mix; Coking Coal Integration

- **Well positioned** — Positives in favour of JSW Steel (JSTL) – 1) It has been able to raise prices to more than off-set cost hikes; 2) we expect iron ore prices to fall from current levels – making integration less important; 3) strong volumes; 4) better product mix; 5) 15% captive coking coal by FY11, >40% by FY13; 6) lower costs with iron ore beneficiation.

- **Steel outlook** — We expect HRC prices to average $825/t in FY11 vs current $790/t, to partly compensate for the expected rise in coal prices through FY11. Global iron ore prices are at $160/t but expected to average $130/t in FY11. Our FY12 estimate: HRC $800/t, iron ore $125/t, coking coal $225/t. We thus believe that there is downside risk to iron ore vs. steel, while coking coal should rise before coming off.

- **Capacity addition, richer product mix** — JSTL is expected to enhance its crude steel capacity from 7.8mtpa to 11mtpa by FY11. FY10 sales volumes rose 67% to 5.7mt. JSTL is targeting production of 7mt in FY11 (+17%) and 6.8mt of sales (+18%). Value addition will get a boost in FY11, as the hot strip mill (completed in Mar10) will help convert semis to HRC. Semis should account for 2-3% of sales volumes in FY11 vs. 22% in FY10. JSTL feels that 4Q margins ($190/t) should be maintained in FY11.

- **Coal integrating faster than ore** — JSTL expects to soon acquire coking coal assets in the US (123mt) for ~$100m. It hopes to reach 1mtpa in Sep10-Sep11 and ramp up to 3mtpa by year 3 (FOB $95-120/t). Coal is expected from Rohne (Jharkhand) by FY13 at a delivered cost of ~$80/t. Captive iron ore from India should be 16-17% in FY12-13 (15% now). JSTL expects to sell 250kt of ore from Chile in FY11 and 1mt in FY12 (FOB cost $57/t).

- **4Q EBITDA grows 4x** — JSTL's adj 4Q FY10 PAT was Rs6.2bn vs. a loss of Rs659m. Highlights: 1) Avg. realization Rs34,000/t, +6% QoQ, +12% YoY; 2) Sales volume: 1.52m tonnes, +43% YoY; 3) EBITDA margin was 25% vs. 9% in 4QFY09; 4) EBITDA/t: $189 vs. $64 in 4QFY09 and $170 in 3QFY10.

- **US EBITDA positive in 4QFY10** — The US operations reported an EBITDA of $2.3mn in 4Q after several loss-making quarters. JSTL is targeting utilization of 40% for plates in FY11 (19% in FY10) and 35% for pipes (13% in FY11) and expects to cover a large portion of its interest/depreciation expenses.

- **Balance sheet** — Consolidated gross debt was Rs162bn as on Mar10. Net LT debt equity was 1.49x (cons and 1.07x (standalone).The Board has decided to issue convertible warrants to promoters to raise ~$500m at Rs1,210/sh.

JSW Steel (Consolidated) – Statistical Abstract

YE 31 Mar	Net Profit (Rsm)	EPS (Rs)	EPS growth (%)	P/E (x)	EV/EBITDA (x)	ROE (%)
FY06	5,615	33.7	-42%	35.5	14.2	13%
FY07	12,463	74.1	119%	16.2	8.7	23%
FY08	15,184	79.4	7%	15.1	9.6	20%
FY09	11,254	58.4	-26%	20.6	11.3	15%
FY10E	12,619	65.7	13%	18.2	9.0	13%
FY11E	23,996	126.5	93%	9.5	7.0	21%
FY12E	34,652	183.5	45%	6.5	4.6	24%

Source: Company data, Citi Investment Research and Analysis estimates.
Data in the financial summary is standalone.

Investment Strategy

We rate JSTL Buy/Medium Risk (1M). We expect HRC prices to average $825/t in FY11 vs $790/t now, to partly compensate for expected rises in coal prices through FY11. Global iron ore prices are at $155-160/t but should average $130/t in FY11. Our FY12 estimate: HRC $800/t, iron ore $120/t, coking coal $225/t. We see downside risk to iron ore vs steel, while coking coal should rise before coming off. JSTL is our preferred play and we believe it offers upside: 1) It has been able to raise prices to more than off-set cost hikes; 2) we expect iron ore prices to fall from current levels — making integration less important; 3) strong volumes +18-38% in FY11-12; 4) better product mix; 5) 15% captive coking coal by FY11, >40% by FY13; 6) lower costs with iron ore beneficiation; 7) undemanding valuations: 6.1x Jun11 EV/EBITDA. We expect JSTL to report $186/t of EBITDA in FY11- FY12. Net D/E at ~1.7x should decline to 1x by FY12, or earlier if it raises fresh equity. The Board has decided to issue convertible warrants to promoters to raise ~$500m.

Valuation

EV/EBITDA is our preferred valuation metric for JSTL due to its high debt equity levels. Our TP of Rs1,450 is based on SOTP. We continue to value the standalone business at 6.5x EV/EBITDA (roll forward to Jun11 from Mar11) — in-line with its 3yr avg and captures more recent valuation trends — giving a value of Rs1,437/share. We value the other businesses (mainly US pipe and plate operations) at 3x EV/sales. We use 3x EV/sales as utilization levels at its US business are quite low at 30-35% in FY11-12. This gives a value of Rs13/share — resulting in a net TP of Rs1,450/share. At our TP, JSTL would trade at a June11 EV/EBITDA of 7x and P/E of 10.3x.

JSW Steel (JSTL.BO): Financial Summary

Fiscal year end 31-Mar	2008	2009	2010E	2011E	2012E
Valuation Ratios					
P/E adjusted (x)	14.3	20.2	14.5	9.4	6.7
EV/EBITDA adjusted (x)	8.1	10.3	7.4	5.9	4.4
P/BV (x)	3.0	2.9	2.4	1.9	1.6
Dividend yield (%)	1.2	0.1	0.8	1.2	1.7
Per Share Data (Rs)					
EPS adjusted	84.07	59.47	82.94	127.51	177.76
EPS reported	84.07	59.47	82.94	127.51	177.76
BVPS	394.99	410.07	505.35	616.48	770.84
DPS	14.00	1.00	9.50	14.00	20.00
Profit & Loss (RsM)					
Net sales	113,089	139,527	181,423	247,689	321,309
Operating expenses	-85,592	-117,900	-148,986	-202,722	-258,933
EBIT	**27,497**	**21,627**	**32,437**	**44,967**	**62,376**
Net interest expense	-4,404	-7,973	-8,627	-9,926	-13,713
Non-operating/exceptionals	0	0	0	0	0
Pre-tax profit	**23,093**	**13,654**	**23,810**	**35,041**	**48,663**
Tax	-7,027	-2,191	-7,970	-10,863	-15,085
Extraord./Min.Int./Pref.div.	-340	-339	-326	-326	-326
Reported net income	**15,726**	**11,124**	**15,514**	**23,852**	**33,251**
Adjusted earnings	15,726	11,124	15,514	23,852	33,251
Adjusted EBITDA	34,369	29,903	43,671	58,054	79,502
Growth Rates (%)					
Sales	32.2	23.4	30.0	36.5	29.7
EBIT adjusted	23.3	-21.4	50.0	38.6	38.7
EBITDA adjusted	26.0	-13.0	46.0	32.9	36.9
EPS adjusted	14.6	-29.3	39.5	53.7	39.4
Cash Flow (RsM)					
Operating cash flow	**35,519**	**40,561**	**42,422**	**33,957**	**70,266**
Depreciation/amortization	6,872	8,277	11,234	13,087	17,126
Net working capital	5,644	20,706	-1,692	-18,379	1,640
Investing cash flow	**-56,364**	**-58,349**	**-27,689**	**-68,389**	**-16,150**
Capital expenditure	-52,657	-55,835	-28,630	-69,450	-16,050
Acquisitions/disposals	-7,358	-3,266	0	0	-1,000
Financing cash flow	**20,859**	**18,595**	**-10,485**	**34,969**	**-62,103**
Borrowings	23,811	28,882	-1,300	47,300	-45,000
Dividends paid	-326	-3,404	-558	-2,406	-3,390
Change in cash	**14**	**807**	**4,249**	**537**	**-7,988**
Balance Sheet (RsM)					
Total assets	**205,775**	**282,103**	**300,205**	**374,054**	**380,650**
Cash & cash equivalent	3,392	4,200	8,448	8,985	997
Accounts receivable	3,374	3,981	5,468	8,822	11,444
Net fixed assets	165,679	223,285	240,681	297,044	295,969
Total liabilities	**129,002**	**202,510**	**202,791**	**255,853**	**233,574**
Accounts payable	33,343	69,453	64,667	62,636	78,385
Total Debt	75,465	112,726	111,426	158,726	113,726
Shareholders' funds	**76,773**	**79,593**	**97,414**	**118,202**	**147,076**
Profitability/Solvency Ratios (%)					
EBITDA margin adjusted	30.4	21.4	24.1	23.4	24.7
ROE adjusted	24.8	14.8	18.1	22.7	25.6
ROIC adjusted	15.8	11.2	12.2	13.8	16.7
Net debt to equity	93.9	136.4	105.7	126.7	76.6
Total debt to capital	49.6	58.6	53.4	57.3	43.6

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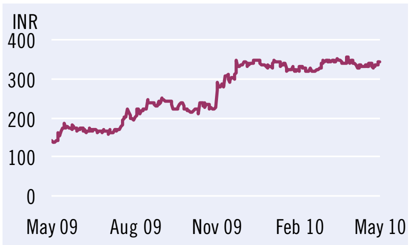
Jubilant Organosys (JUBO.BO)

Buy/Medium Risk	1M
Price (11 May 10)	Rs343.30
Target Price	Rs465.00
Expected share price return	35.5%
Expected dividend yield	0.6%
Expected total return	**36.0%**
Market Cap	Rs54,540M
	US$1,209M

Price Performance



Source: dataCentral

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Steady on the Growth Path

- **Healthy Outlook** — We rate Jubilant one of the superior Indian outsourcing plays, given its integrated business model with presence across the pharma and chemicals value chain. It is one of the few CRAMS companies to emerge relatively unscathed from the recent downturn while prospects remain healthy. The easing RM situation in radiopharma biz along with a new CRAMS contract & product launches should drive earnings momentum going forward.

- **Growing Share of Pharma Biz Augurs Well** — Focus on high growth CRAMS and research services segment has led to the share of higher margin P&LS segment going up to 89% of sales in FY10 from 79% in FY10. We expect this trend to continue with P&LS likely to contribute 91% of revenues in FY11E. This not only improves profitability but also lowers the commodity element in Jubilant's business model.

- **Cash Generation to Fund Future Capex** — Jubilant plans to incur to ~Rs7.5bn of capex over the next two years towards raising capacity in its Fine Chemicals & Exclusive Synthesis (debottlenecking & new capacity) and API businesses. The company has indicated that it would generate positive cash flows at the operating level post the said capital expenditure. We estimate that Jubilant would generate OCF of cRs13bn over FY11-12E.

- **Key Catalysts/ Things to Watch Out For** — 1) APP demerger, expected to be completed by 3QFY11; 2) Resolution of raw material shortage in radiopharma biz, expected in 2QFY11; and 3) New long contracts on the CRAMS segment.

Company description

Jubilant Organosys is the largest specialty chemicals company in India, with a high degree of vertical integration, and global scale and reach in almost all its key products. The company has established itself as a serious player from fine chemicals to advanced intermediates and APIs. More recently, it has forayed into formulations and regulatory services through acquisitions in Belgium (PSI n.v. and PSI supply) and the US (Trigyn Laboratories). It has set up wholly owned subsidiaries to tap into the high-potential areas of bioinformatics, medicinal chemistry services and clinical services.

Statistical Abstract

Year to 31 Mar	Net Profit (RsM)	Diluted EPS (Rs)	EPS growth (%)	EV/EBITDA (x)	P/E (x)	P/B (x)	P/CEPS (x)	ROE (%)	Yield (%)
2008A	2,965	16.3	na	14.6	22.3	4.3	13.1	na	0.4
2009A	2,241	13.1	-19.7	15.1	27.8	4.2	13.9	22.5	0.4
2010E	4,543	24.9	90.2	11.5	14.6	2.8	12.2	25.5	0.5
2011E	5,374	30.8	23.6	9.4	11.8	2.3	8.5	23.6	0.5
2012E	6,079	38.3	24.1	8.0	9.5	1.9	7.0	22.0	0.5

Source: Company Reports and Citi Investment Research and Analysis estimates

Investment Strategy

We rate Jubilant Buy/Medium Risk (1M) with a target price of Rs465. Jubilant is among the top Indian pharma outsourcing plays under our coverage. It is a story of continuous forward integration with a business model that spans pharma & life sciences, industrial chemicals and performance chemicals. Its strong presence in acetyls & pyridines builds a high degree of integration into its business and allows it to offer services across the value chain. Besides a natural cost advantage, this allows the company to leverage its customer relationships in strong areas to scale up new businesses, thus providing an edge in an increasingly competitive industry. Jubilant's P&LS biz is in the midst of a high growth phase not only raising profitability levels but also improve earnings quality by reducing Jubilant's exposure to the more volatile non-P&LS businesses.

Valuation

We use sum-of-the-parts to value Jubilant in view of the diversified nature of its business and earnings streams. We value both its businesses using P/E, but different target multiples are applied given the differences in growth profiles and operating parameters. We arrive at a one-year target price of Rs465 based on the following factors: We ascribe a value of Rs455/sh to Jubilant's pharma biz at 15x June 11E EPS. Our target multiple is at a discount to the target multiple used for Piramal, given Jubilant's higher leverage and lower return ratios and liquidity. We value Jubilant's APP biz at Rs10/share based on 6x Jun 11E EPS. We believe the lower multiple is justified given that this is a commodity business with lower operating margins (c10 -14%) and growth rates vis-à-vis Jubilant's pharma biz.

Jubilant Organosys (JUBO.BO): Financial Summary

Fiscal year end 31-Mar	2008	2009	2010E	2011E	2012E
Valuation Ratios					
P/E adjusted (x)	21.0	26.2	13.8	11.1	9.0
EV/EBITDA adjusted (x)	15.3	16.8	11.0	9.3	7.8
P/BV (x)	4.0	4.0	2.7	2.2	1.8
Dividend yield (%)	0.4	0.4	0.6	0.6	0.6
Per Share Data (Rs)					
EPS adjusted	16.33	13.11	24.94	30.84	38.28
EPS reported	22.06	16.57	23.14	30.84	38.28
BVPS	85.37	85.88	128.42	158.98	188.99
DPS	1.49	1.51	2.00	2.00	2.00
Profit & Loss (RsM)					
Net sales	24,889	35,423	37,987	43,034	49,967
Operating expenses	-21,421	-32,159	-31,173	-35,911	-41,514
EBIT	**3,468**	**3,264**	**6,814**	**7,123**	**8,453**
Net interest expense	-337	-1,070	-1,505	-1,026	-1,163
Non-operating/exceptionals	1,430	772	-130	121	130
Pre-tax profit	**4,561**	**2,966**	**5,179**	**6,218**	**7,419**
Tax	-573	-267	-959	-839	-1,336
Extraord./Min.Int./Pref.div.	16	133	-5	-5	-5
Reported net income	**4,005**	**2,832**	**4,215**	**5,374**	**6,079**
Adjusted earnings	2,965	2,241	4,543	5,374	6,079
Adjusted EBITDA	4,507	4,896	8,061	9,190	10,675
Growth Rates (%)					
Sales	37.5	42.3	7.2	13.3	16.1
EBIT adjusted	81.3	-5.9	108.8	4.5	18.7
EBITDA adjusted	77.7	8.6	64.6	14.0	16.2
EPS adjusted	82.8	-19.7	90.2	23.6	24.1
Cash Flow (RsM)					
Operating cash flow	**2,444**	**3,867**	**5,284**	**6,093**	**6,925**
Depreciation/amortization	1,039	1,632	1,247	2,067	2,223
Net working capital	-1,851	-556	-182	-1,447	-1,827
Investing cash flow	**-11,394**	**-20,307**	**-2,500**	**-4,000**	**-3,500**
Capital expenditure	-5,135	-6,678	-2,500	-4,000	-3,500
Acquisitions/disposals	0	0	0	0	0
Financing cash flow	**5,928**	**12,517**	**-6,389**	**-2,141**	**-3,065**
Borrowings	6,123	15,198	-9,896	-1,776	-2,700
Dividends paid	-209	-258	-365	-365	-365
Change in cash	**-3,021**	**-3,923**	**-3,605**	**-48**	**359**
Balance Sheet (RsM)					
Total assets	**41,825**	**64,867**	**63,255**	**67,354**	**72,033**
Cash & cash equivalent	5,238	3,817	211	163	522
Accounts receivable	4,258	5,044	5,252	5,953	6,916
Net fixed assets	23,971	42,481	43,734	45,667	46,944
Total liabilities	**29,066**	**51,875**	**42,537**	**41,780**	**41,688**
Accounts payable	3,718	7,365	7,352	8,334	9,405
Total Debt	21,085	38,781	28,886	27,266	25,514
Shareholders' funds	**12,759**	**12,992**	**20,717**	**25,575**	**30,345**
Profitability/Solvency Ratios (%)					
EBITDA margin adjusted	18.1	13.8	21.2	21.4	21.4
ROE adjusted	27.5	17.8	27.5	23.6	22.0
ROIC adjusted	10.9	7.2	11.3	11.5	12.3
Net debt to equity	124.2	269.1	138.4	106.0	82.4
Total debt to capital	62.3	74.9	58.2	51.6	45.7

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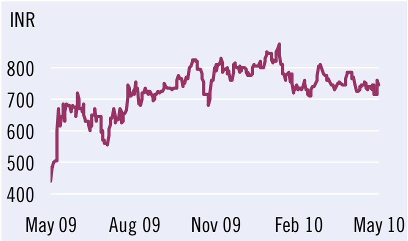
Kotak Mahindra Bank (KTKM.BO)

Sell/High Risk	3H
Price (11 May 10)	Rs745.30
Target Price	Rs700.00
Expected share price return	-6.1%
Expected dividend yield	0.1%
Expected total return	**-6.0%**
Market Cap	Rs259,556M
	US$5,756M

Price Performance



Source: dataCentral

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Company description

KTKM is a private-sector bank in which Mr. Uday Kotak, the major shareholder, and his associates have a 52% stake. Main businesses of the bank are consumer lending, retail broking, investment banking, asset management, and rapidly growing life insurance. Its focus is to develop a niche wealth management platform.

Bank to the Fore

- **Wealth management platform** —Kotak Mahindra Bank (KTKM) is strategically positioned as India's leading capital markets and wealth management player, with a banking platform. This platform seeks to capture its strong capital markets business, aggressive financial services offerings, consumer focused asset lending, with defined upper end segmentation. A strong capital markets environment, broad economic growth and effective execution, has driven KTKM's significant expansion over the last five years.

- **Lending business: critical mass achieved, growth push has begun** — Kotak's banking platform has reached critical scale, and is highly profitable with enough capital to leverage. The recent growth push has continued, and appears to be sustainable as management targets strong 25%-30% p.a. distribution expansion for the next three years. While the focus has shifted to corporate, it has not yet affected profitability (NIMs remain well above industry at 630bps, although helped by easy liquidity conditions) and reflects management's sharp focus on returns. Some caveats: a) Structurally, NIMs should be under pressure with increased growth levels; b) Deposit mix is still wholesale biased; and c) Asset quality improvements are somewhat delayed (relative to expectations).

- **Retail liabilities should gain** — While Kotak's liability franchise build-out has been focused, deliberate, and fairly cost focused, its gains have been more in mix than scale. We believe this current market environment (liquidity and capital markets biased flows) provides it the opportunity to accelerate without undue risk. It is the right environment to build, although the gains will be more back-ended.

- **Capital Market segments, lower profitability but can bounce back fast** — While growth and profitability in brokerage and investment banking is currently low, the bounce-back can be sharp (although market linked). Financial services segments are doing relatively better: life insurance profitability is looking up and so is growth, asset management has had a strong run (can moderate medium-term) and wealth management platform has been laid – although given regulatory and distribution flux in these segments, profitability is likely to improve only gradually.

Statistical Abstract

Year to Mar 31	Net Profit (RsM)	EPS (Rs)	EPS Growth (%)	PE (x)	PB (x)	ROAE (%)	ROAA (%)	Div Yield (%)
FY08	9,912	29	74.5	25.3	4.4	22	2.9	0.1
FY09	6,524	19	-35.9	39.5	4.0	11	1.6	0.1
FY10E	10,544	31	61.6	24.4	3.4	15	2.4	0.1
FY11E	12,324	36	16.9	20.9	3.0	15	2.4	0.1
FY12E	14,238	41	15.5	18.1	2.6	15	2.4	0.1

Source: Company Data, Citi Investment Research and Analysis Estimates

Investment Strategy

We rate KTKM as Sell/High Risk (3H). In our view, KTKM is a play on the financial-services market in India. It is backed by a management team that has a track record of managing market and credit risk well and of being conservative in its approach. We believe the current economic and market environment plays to KTKM's business mix and model through: 1) Capitals markets and broking related revenue, 2) Its financial services diversifications - Insurance, Asset Management and Wealth management, all have the same capital markets tailwinds; and 3) Banking platform gains on easier funding, and lesser asset quality pressures. While all these augur well for the business, we believe over the last 18 months Kotak has moderated its leverage and risks to the market and economic environment – and to that extent, will be less of a beneficiary of the rising capital markets tide.

Valuation

Our target price of Rs700 is based on our valuation of KTKM's different businesses via SOTP methodology. This values the banking business at Rs323 per share at 2.5x PBV 1-year fwd, the vehicle loan financing business at Rs53 per share at 1.5x 1Yr Fwd P/BV, the investment banking and broking business at 15x 1-year Fwd PE or Rs160, the insurance subsidiary at Rs92 at 14x 1Yr Fwd NBAP, and we attribute Rs76 to the AMC business (5% of AUM for MF, and 8% for Portfolio and alternative assets). Our target multiples are in-line with the best of breed private sector banks and other financial services business, however they are not near peak multiples in the historical India scenario, this as we believe the business' leverage to capital markets has reduced and the near-term challenges will cap growth at well below historical peak growth levels.

Kotak Mahindra Bank (KTKM.BO): Financial Summary

	2008	2009	2010E	2011E	2012E
Valuation Ratios					
P/E adjusted (x)	25.3	39.5	24.4	20.9	18.1
P/E reported (x)	25.3	39.5	24.4	20.9	18.1
P/BV (x)	4.4	4.0	3.4	3.0	2.6
P/Adjusted BV diluted (x)	4.4	4.0	3.4	3.0	2.6
Dividend yield (%)	0.1	0.1	0.1	0.1	0.1
Per Share Data (Rs)					
EPS adjusted	29.47	18.87	30.51	35.66	41.20
EPS reported	29.47	18.87	30.51	35.66	41.20
BVPS	168.97	187.15	216.94	251.79	292.10
Tangible BVPS	168.97	187.15	216.94	251.79	292.10
Adjusted BVPS diluted	168.50	186.63	216.34	251.10	291.30
DPS	0.75	0.75	0.80	0.90	1.00
Profit & Loss (RsM)					
Net interest income	18,319	23,741	26,493	28,464	32,760
Fees and commissions	14,385	6,747	15,272	17,664	20,926
Other operating Income	14,297	10,684	9,245	13,717	17,164
Total operating income	**47,002**	**41,173**	**51,009**	**59,844**	**70,850**
Total operating expenses	-29,292	-27,713	-31,131	-36,565	-43,176
Oper. profit bef. provisions	**17,709**	**13,460**	**19,878**	**23,279**	**27,674**
Bad debt provisions	-3,630	-3,298	-3,998	-4,714	-6,120
Non-operating/exceptionals	0	0	0	0	0
Pre-tax profit	**14,079**	**10,162**	**15,880**	**18,565**	**21,554**
Tax	-4,492	-3,635	-5,284	-6,189	-7,264
Extraord./Min. Int./Pref. Div.	325	-3	-52	-52	-52
Attributable profit	**9,912**	**6,524**	**10,544**	**12,324**	**14,238**
Adjusted earnings	9,912	6,524	10,544	12,324	14,238
Growth Rates (%)					
EPS adjusted	74.5	-35.9	61.6	16.9	15.5
Oper. profit bef. prov.	90.2	-24.0	47.7	17.1	18.9
Balance Sheet (RsM)					
Total assets	**405,972**	**405,540**	**458,724**	**548,230**	**639,612**
Avg interest earning assets	321,898	363,418	373,359	437,717	517,579
Customer loans	222,785	226,483	263,439	329,302	391,435
Gross NPLs	4,347	6,886	9,774	13,036	16,514
Liab. & shar. funds	**405,972**	**405,540**	**458,724**	**548,230**	**639,612**
Total customer deposits	136,919	156,449	171,950	210,547	247,035
Reserve for loan losses	2,938	5,223	7,818	10,557	14,053
Shareholders' equity	**58,239**	**64,504**	**74,772**	**86,786**	**100,680**
Profitability/Solvency Ratios (%)					
ROE adjusted	21.9	10.6	15.1	15.3	15.2
Net interest margin	5.7	6.5	7.1	6.5	6.3
Cost/income ratio	62.3	67.3	61.0	61.1	60.9
Cash cost/average assets	8.5	6.8	7.2	7.3	7.3
NPLs/customer loans	2.0	3.0	3.7	4.0	4.2
Reserve for loan losses/NPLs	67.6	75.9	80.0	81.0	85.1
Bad debt prov./avg. cust. loans	1.9	1.5	1.6	1.6	1.7
Loans/deposit ratio	162.7	144.8	153.2	156.4	158.5
Tier 1 capital ratio	14.5	14.9	13.2	11.3	10.0
Total capital ratio	18.7	19.5	17.5	15.5	13.9

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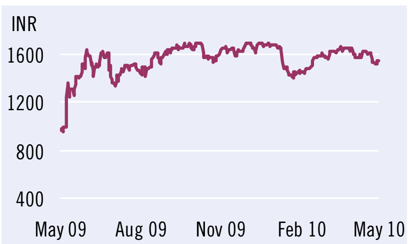
Larsen & Toubro (LART.BO)

Buy/Low Risk	**1L**
Price (11 May 10)	Rs1,543.20
Target Price	Rs1,875.00
Expected share price return	21.5%
Expected dividend yield	0.8%
Expected total return	**22.3%**
Market Cap	Rs927,938M
	US$20,577M

Price Performance



Source: dataCentral

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Company description

L&T is a diversified conglomerate with market leadership in engineering and construction (E&C) and electrical-equipment businesses in India. L&T Information Technology is its 100% subsidiary in software services. L&T demerged its cement business into a separate company, selling it to Grasim.

- **Our expectations for FY11E guidance** — We expect L&T to guide for sales growth of 15-20%, order inflow growth of 15-20% and flat EBITDA margins. We believe more than the order inflow growth guidance investors would be focussing on the sales guidance for FY11E given the low base effect of FY10E. Sales growth guidance of lower than 15% could be disappointing

- **What went wrong in 9mFY10?** — L&T's sales growth in 9mFY10 was disappointing on account of: (1) Rs30bn of fertilizer orders due in 1QFY10 coming only in 2QFY10 and 3QFY10; (2) Rs86bn of ONGC orders due in 1QFY10 coming only in 2QFY10 and 4QFY10; (3) Delays in financial closure of 5 road projects totalling to Rs55bn leading to revenue loss in 9mFY10

- **Big strides in BTG** — Boiler capacity came online by Oct09 and turbine capacity will come online by Sep10. The company has won Rs66bn of BTG orders from APPDC/JPA and is in the fray for Rs60bn Koradi order, Rs90bn Bara-Karchana order and Rs210bn NTPC-DVC order. We believe that in the next 2-3 years the BTG venture will be a game changer and a significant value creator.

- **Management comments in the press about FY11E** — According to the Financial Express, management is optimistic that execution will be better from here and the delays in the past will not be there either this year or next year. Further, in terms of prices of key inputs, the management is in a position to pass on most of the escalation to its customers. According to CNBC, management believes hydrocarbon margins were doing okay, since the company planned for these projects by doing most of the engineering beforehand. Further, many of these orders have price escalations for raw materials.

Statistical Abstract

Year to 31 Mar	Net Profit (RsM)	Diluted EPS (Rs)	EPS growth (%)	EV/EBITDA (x)	P/E (x)	P/B (x)	P/CEPS (x)	ROE (%)	Yield (%)
2008A	20,123	34.4	na	33.0	44.8	9.5	37.8	na	0.5
2009A	27,092	46.3	34.4	24.7	33.4	7.3	23.9	31.7	0.7
2010E	29,822	49.4	6.8	22.0	31.2	5.3	20.4	27.7	0.8
2011E	38,023	63.0	27.5	17.7	24.5	4.5	21.7	20.0	0.9
2012E	46,484	77.0	22.3	14.5	20.0	3.9	17.9	21.0	1.1

Source: Company data, Citi Investment Research and Analysis estimates

Investment Strategy

We rate L&T Buy/ Low (1L) risk. With earnings CAGR of 19% over FY09-12E for the core business, and spawning new businesses such as railways and power equipment, we believe L&T is fundamentally one of the best proxies for India's infrastructure build-out. L&T's Rs911bn order backlog and forecast stable margins provide good earnings visibility. Its thrust of process and hydrocarbons and India's infrastructure spending should augur well for the order pipeline. We are positive on management efforts to improve product mix by raising the share of high-technology products for process industries, defense, nuclear, and aerospace applications; and engineering and embedded services. These segments have better growth potential and margins than the projects business

Valuation

Our Rs1,875 target price is based on sum-of-the-parts (SOTP). We use 23x Sep11E earnings for the parent, at par with BHEL. We also believe that the parent's numbers do not capture the value inherent in subsidiaries, which we value at Rs266, with L&T Infotech at Rs73 (12x Sep11E EPS, in-line with second-tier peers), L&T Finance at Rs18 (1.0x Sep11E P/BV), 51% stake in L&T-MHI JV at Rs36, and L&T IDPL at Rs64.

L&T (LART.BO): Financial Summary

Fiscal year end 31-Mar	2008	2009	2010E	2011E	2012E
Valuation Ratios					
P/E adjusted (x)	44.8	33.4	31.2	24.5	20.0
EV/EBITDA adjusted (x)	31.6	23.2	19.7	15.6	12.4
P/BV (x)	9.5	7.3	5.3	4.5	3.9
Dividend yield (%)	0.5	0.7	0.8	0.9	1.1
Per Share Data (Rs)					
EPS adjusted	34.42	46.25	49.39	62.97	76.99
EPS reported	37.17	59.44	68.80	62.97	76.99
BVPS	162.92	212.30	293.65	340.17	398.48
DPS	8.47	10.50	12.50	14.50	16.50
Profit & Loss (RsM)					
Net sales	248,547	336,466	361,703	434,572	517,141
Operating expenses	-222,288	-300,957	-321,107	-385,933	-459,038
EBIT	**26,259**	**35,509**	**40,596**	**48,639**	**58,103**
Net interest expense	-991	-3,502	-5,184	-4,397	-2,380
Non-operating/exceptionals	4,080	7,398	7,879	10,953	11,755
Pre-tax profit	**29,348**	**39,404**	**43,291**	**55,195**	**67,479**
Tax	-9,225	-12,312	-13,469	-17,173	-20,994
Extraord./Min.Int./Pref.div.	1,611	7,725	11,718	0	0
Reported net income	**21,734**	**34,817**	**41,541**	**38,023**	**46,484**
Adjusted earnings	20,123	27,092	29,822	38,023	46,484
Adjusted EBITDA	28,375	38,568	44,735	53,640	63,735
Growth Rates (%)					
Sales	41.4	35.4	7.5	20.1	19.0
EBIT adjusted	66.0	35.2	14.3	19.8	19.5
EBITDA adjusted	61.9	35.9	16.0	19.9	18.8
EPS adjusted	45.3	34.4	6.8	27.5	22.3
Cash Flow (RsM)					
Operating cash flow	**21,940**	**6,097**	**55,192**	**55,798**	**68,963**
Depreciation/amortization	2,116	3,060	4,139	5,000	5,632
Net working capital	-2,123	-31,651	9,507	12,770	16,842
Investing cash flow	**-54,522**	**-31,979**	**-29,714**	**-18,214**	**-15,714**
Capital expenditure	-16,344	-18,565	-17,214	-8,214	-8,214
Acquisitions/disposals	-38,178	-13,415	-12,500	-10,000	-7,500
Financing cash flow	**31,283**	**23,991**	**19,337**	**-41,160**	**-35,098**
Borrowings	15,062	29,720	9,364	-31,000	-23,537
Dividends paid	-5,716	-7,168	-8,759	-10,160	-11,562
Change in cash	**-1,300**	**-1,892**	**44,815**	**-3,576**	**18,151**
Balance Sheet (RsM)					
Total assets	**268,553**	**368,818**	**460,136**	**512,109**	**588,054**
Cash & cash equivalent	9,645	7,753	52,567	48,991	67,142
Accounts receivable	73,650	100,555	110,259	132,473	157,642
Net fixed assets	35,275	50,292	63,266	66,379	68,860
Total liabilities	**173,292**	**244,469**	**284,274**	**308,385**	**349,407**
Accounts payable	80,785	98,000	105,351	126,575	150,625
Total Debt	35,840	65,560	74,924	43,924	20,388
Shareholders' funds	**95,261**	**124,348**	**175,862**	**203,725**	**238,647**
Profitability/Solvency Ratios (%)					
EBITDA margin adjusted	11.4	11.5	12.4	12.3	12.3
ROE adjusted	26.4	24.7	19.9	20.0	21.0
ROIC adjusted	38.1	30.4	26.7	31.9	42.7
Net debt to equity	27.5	46.5	12.7	-2.5	-19.6
Total debt to capital	27.3	34.5	29.9	17.7	7.9

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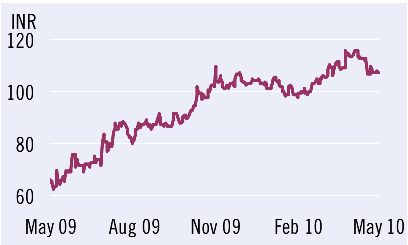
Marico (MRCO.BO)

Sell/Low Risk	**3L**
Price (11 May 10)	Rs107.50
Target Price	Rs104.00
Expected share price return	-3.3%
Expected dividend yield	0.6%
Expected total return	**-2.7%**
Market Cap	Rs65,504M
	US$1,453M

Price Performance



Source: dataCentral

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Company description

Marico is a leading consumer-goods company in India with offerings in the hair- care, skin-care, and health and wellness segments. It is a market leader in the coconut-oil category, and dominates most of the other categories in which it operates. Marico acquired two soap brands in the Bangladesh market, Camelia and Aromatic, in 2006 - marking its entry into the global FMCG market. Marico has strengthened its product portfolio through acquisitions in the domestic market. Marico exports to Bangladesh, Bhutan, and the Middle East. In 2006, Marico entered the Rs50bn Indian soap market with the acquisition of Manjal herbal bath soap. Marico acquired Enaleni in end 2008.

Steady Volumes

- **Sedate revenue growth, despite healthy volumes** — Price cuts on Parachute and Saffola have kept revenue growth depressed, despite organic volume growth of 14% Y/Y. Management noted that if volume growth decelerates, it would attempt to spur volumes by cutting prices and sacrificing margins. They believe re-gaining margins is far easier than re-gaining lost volumes.
- **20% Y/Y international business growth likely** — International business (~23% of revenues) growth moderated sequentially, owing to the adverse impact of rupee appreciation. Supply chain initiatives should aid operating margin improvement by 2-3% (from ~11% currently) over the medium term.
- **EBITDA margins of ~13.5-14% in FY11** — Despite a sharp expansion in gross margins, the EBITDA margin expansion was more muted given the aggressive ad spends and increase in other SG&A. Going forward, while mgmt expects ~8-10% increase in copra prices in FY11E, guided that A&P to sales should be ~12% in FY11 (13.2% in FY10).
- **Kaya strategy needs reworking** — Mgmt expects to consolidate Indian operations, given the fact that same clinic growth is -13% for Indian operations & -5% overall. Increasing focus on footfalls and consumer retention/acquisition should result in double digit growth in FY11. Mgmt noted that Kaya (~7% of revenues) break even will now be delayed to FY12, rather FY10/11 as envisaged before. Kaya Life, the holistic weight management offering has been withdrawn- a non recurring provision of Rs57m was made in 4Q results.
- **Other updates** — a) Management plans to focus on rural India- increase contribution from 25% of sales to 30% in 2-3 yrs. Distribution initiatives & smaller SKUs are likely to spur growth. b) Tax rates are likely to be <20% going forward, as both the production from Paonta Sahib and international contribution increase.

Statistical Abstract

Year to 31 Mar	Net Profit (RsM)	Diluted EPS (Rs)	EPS growth (%)	EV/EBITDA (x)	P/E (x)	P/B (x)	P/CEPS (x)	ROE (%)	Yield (%)
2008A	1,585	2.6	na	27.4	41.3	20.8	32.7	na	0.6
2009A	1,969	3.2	24.2	23.0	33.3	14.4	29.2	49.1	0.6
2010E	2,415	4.0	22.7	18.2	27.1	10.3	22.4	42.4	0.6
2011E	2,800	4.6	16.0	16.6	23.4	7.5	18.9	37.1	0.6
2012E	3,537	5.8	26.3	13.5	18.5	5.6	15.4	34.6	0.7

Source: Company Reports and CIRA Estimates

Investment Strategy

We rate Marico to Sell / Low Risk (3L). Shares have run up sharply, which we reckon discounts a fair degree of positives. Marico dominates the hair-oil segment and has a strong presence in the branded edible-oil (safflower oil) segment. However, growth in the core business is entering a slower trajectory in the absence of strong pricing. Marico also has skin-care clinics (under the Kaya brand), a business that is fast expanding but with slowing same store sales in the current environment, given its discretionary nature. Over the years, Marico has re-rated as its dependency on a single product (Parachute coconut oil) has declined, and the company has positioned itself on the health and wellness planks.

Valuation

Marico's earnings growth has been steady; therefore, we believe P/E is best suited to value the company. Our target price of Rs104 is based on 20x Sept11E EPS, in line with its trailing 5-year average P/E. Marico offers healthy earnings growth (a two-year CAGR of 20%, a 3 year CAGR of 21%). If Marico can demonstrate strong profit growth in the Kaya subsidiary over the next 2 years, the stock could re-rate. Conversely, a de-rating is also possible if Kaya's business / profitability trajectory isn't as expected. We ascribe a lower multiple than the 23-24x it traded at from mid CY06-Jan08, as growth rates in that period were heightened by inorganic initiatives and also very strong growth in the core hair oils business, which we don't anticipate will recur in the next 12-18 months.

Marico (MRCO.BO): Financial Summary

Fiscal year end 31-Mar	2008	2009	2010E	2011E	2012E
Valuation Ratios					
P/E adjusted (x)	41.3	33.3	27.1	23.4	18.5
EV/EBITDA adjusted (x)	27.3	22.8	18.2	16.2	13.1
P/BV (x)	20.8	14.4	10.3	7.5	5.6
Dividend yield (%)	0.6	0.6	0.6	0.6	0.7
Per Share Data (Rs)					
EPS adjusted	2.60	3.23	3.96	4.60	5.81
EPS reported	2.78	3.10	3.80	4.60	5.81
BVPS	5.17	7.45	10.48	14.32	19.26
DPS	0.66	0.66	0.66	0.66	0.74
Profit & Loss (RsM)					
Net sales	19,050	23,884	26,608	30,538	35,134
Operating expenses	-16,896	-21,271	-23,457	-27,048	-30,891
EBIT	**2,155**	**2,613**	**3,151**	**3,489**	**4,242**
Net interest expense	-305	-357	-257	-270	-213
Non-operating/exceptionals	96	122	183	281	392
Pre-tax profit	**1,945**	**2,378**	**3,077**	**3,500**	**4,421**
Tax	-360	-409	-643	-700	-884
Extraord./Min.Int./Pref.div.	105	-81	-117	0	0
Reported net income	**1,691**	**1,887**	**2,317**	**2,800**	**3,537**
Adjusted earnings	1,585	1,969	2,415	2,800	3,537
Adjusted EBITDA	2,463	2,971	3,751	4,148	4,949
Growth Rates (%)					
Sales	22.4	25.4	11.4	14.8	15.0
EBIT adjusted	47.1	21.3	20.6	10.8	21.6
EBITDA adjusted	24.0	20.6	26.2	10.6	19.3
EPS adjusted	60.3	24.2	22.7	16.0	26.3
Cash Flow (RsM)					
Operating cash flow	**843**	**1,596**	**2,086**	**3,368**	**3,492**
Depreciation/amortization	309	358	601	658	707
Net working capital	-828	-1,064	-1,080	-91	-751
Investing cash flow	**-1,227**	**-1,017**	**-2,192**	**-800**	**-800**
Capital expenditure	-1,227	-896	-1,486	-800	-800
Acquisitions/disposals	0	-121	-706	0	0
Financing cash flow	**601**	**-328**	**243**	**-1,067**	**-1,677**
Borrowings	1,070	170	709	-600	-1,150
Dividends paid	-467	-467	-467	-467	-527
Change in cash	**323**	**169**	**38**	**1,501**	**1,016**
Balance Sheet (RsM)					
Total assets	**9,678**	**11,442**	**15,106**	**16,760**	**19,126**
Cash & cash equivalent	753	922	960	2,461	3,477
Accounts receivable	862	1,108	1,507	1,506	1,733
Net fixed assets	2,573	3,111	3,997	4,138	4,232
Total liabilities	**6,531**	**6,908**	**8,595**	**7,916**	**7,272**
Accounts payable	2,203	2,465	2,999	3,254	3,721
Total Debt	3,579	3,750	4,459	3,859	2,709
Shareholders' funds	**3,147**	**4,535**	**6,511**	**8,844**	**11,854**
Profitability/Solvency Ratios (%)					
EBITDA margin adjusted	12.9	12.4	14.1	13.6	14.1
ROE adjusted	62.5	51.3	44.2	37.1	34.6
ROIC adjusted	42.8	35.7	30.8	30.1	34.9
Net debt to equity	89.8	62.4	53.7	15.8	-6.5
Total debt to capital	53.2	45.3	40.6	30.4	18.6

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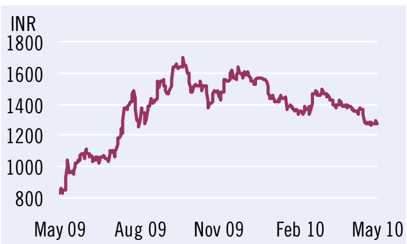
Maruti Suzuki India (MRTI.BO)

Buy/Low Risk	**1L**
Price (11 May 10)	Rs1,270.50
Target Price	Rs1,707.00
Expected share price return	34.4%
Expected dividend yield	0.4%
Expected total return	**34.8%**
Market Cap	Rs367,060M
	US$8,140M

Price Performance



Source: dataCentral

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Company description

Maruti is a subsidiary of Suzuki Motor Corp (holds a 54% equity stake). With its early-mover advantage in the Indian market, Maruti is a dominant player in the domestic passenger car market with a c.50% market share. It is re-positioning itself to become a global production hub of Suzuki over the medium term

Well Positioned to Benefit From India's Long-Term Growth

- **Domestic Volume growth story remains intact** — We expect passenger cars to grow at least 15% in FY11, given macro tailwinds. Despite accelerating competition, we expect MSIL should benefit from overall industry volume growth. MSIL has ceded 360 bps in market share between 1Q-4QFY10, but management believes that with the lower cost of ownership that its vehicles provide combined with wide sales and service network, it can negate the pricing tactics of the competition and regain lost market share.

- **Export trends are also encouraging** — Exports for FY10 more than doubled compared with FY09 numbers. While a low base pushed the YoY figures, A-Star exports and shipment of Ritz to South Asia have aided strong export numbers. We believe that broad basing the exports from the EU zone is a positive trend.

- **A wide dealership network to aid country-wide growth**— A wide dealership and after-sales service network has been a key strength of MSIL. MSIL has raised its dealership network by c18% (from 680 in FY09 to 802 in FY10) and as per our discussions with management, this number could grow to c1,000 dealers in the next two years. Management is optimistic that with this wide network, it could grow rural demand (~18% of sales) significantly in FY11.

- **Capacity constraints necessitate additional facility** — The current capacity is ~1mn vehicles/year. Management said that with operational rationalization and de-bottlenecking this can be raised to c1.2mn units/year. With the favorable response to the Eeco (MPV launched in January) and pressure to retain customers, additional capacity is required. The new facility of ~250,000 vehicles/year at Manesar was scheduled for April FY13 but management hinted that it may be expedited to 4QFY12.

- **We remain wary on margins** — Spiraling commodity costs + the cost of conversion to Euro 4 has adversely impacted margins in 4Q. All models (except the Maruti 800 and Gypsy) are on Euro 4 norms. We are concerned on margins, given that escalating competition has rendered it difficult to fully pass through cost pressures in the near term.

Statistical Abstract

Year to 31 Mar	Net Profit (RsM)	Diluted EPS (Rs)	EPS growth (%)	EV/EBITDA (x)	P/E (x)	P/B (x)	P/CEPS (x)	ROE (%)	Yield (%)
2008A	17,308	59.9	na	16.0	21.2	4.4	16.0	na	0.4
2009A	12,188	42.2	-29.6	26.0	30.1	3.9	19.1	13.7	0.3
2010E	24,536	84.9	101.3	10.6	15.0	3.2	11.3	23.4	0.4
2011E	28,948	100.2	18.0	9.7	12.7	2.6	9.7	22.3	0.5
2012E	35,359	122.4	22.1	7.9	10.4	2.1	8.1	22.1	0.5

Source: Company Reports and CIRA Estimates

Investment Strategy

We rate Maruti shares Buy. Over FY10-12E, we expect the Indian car market to resume growth at the trend rate of 12-15%, driven by a) low penetration levels, b) resumption of financing, and c) a decline of c10% in the overall cost of ownership. Maruti is best positioned to benefit from this growth, in our view, given its dominance in the domestic car market. The company's rising penetration in the diesel car market gives it a more balanced product mix than two years ago, while export initiatives will reduce its dependence on the domestic car market. We estimate earnings and cash earnings CAGRs of 43% and 33%, respectively, over FY09-12E, driven by unit sales CAGR of 17% and margin expansion.

Valuation

Our target price for Maruti of Rs1,707 is based on 13x Mar FY11e cash earnings (CEPS = PAT + depreciation). At 13x (earlier 13.5x) we value MSIL at 30% over its historical average of 10x. We have cut it from 13.5x to 13x as market multiples have also declined commensurately over the last 4 months and we think that MSIL's relative premium to the broader Sensex should continue with recent past levels. We estimate cash earnings CAGR of 33% over FY09-FY12E, which should support valuations, in our view. On our target multiple, Maruti would trade at FY11E P/E of around 17x (broad market is ~15.5-16x). We prefer price/cash earnings as a valuation metric for the automobile sector, given the industry's high capital intensity (both in terms of capacity and product development). Moreover, MSIL's depreciation policy is per IFRS standards, and is thus more aggressive than those of peers.

Maruti Suzuki India (MRTI.BO): Financial Summary

Fiscal year end 31-Mar	2008	2009	2010E	2011E	2012E
Valuation Ratios					
P/E adjusted (x)	21.2	30.1	15.0	12.7	10.4
EV/EBITDA adjusted (x)	14.6	22.7	9.6	8.2	6.3
P/BV (x)	4.4	3.9	3.2	2.6	2.1
Dividend yield (%)	0.4	0.3	0.4	0.5	0.5
Per Share Data (Rs)					
EPS adjusted	59.91	42.19	84.93	100.20	122.39
EPS reported	59.91	42.19	84.93	100.20	122.39
BVPS	291.28	323.45	401.95	495.12	610.49
DPS	5.00	3.50	5.50	6.00	6.00
Profit & Loss (RsM)					
Net sales	179,362	204,554	271,014	322,641	387,350
Operating expenses	-162,612	-197,270	-245,633	-293,550	-350,612
EBIT	**16,751**	**7,284**	**25,381**	**29,091**	**36,738**
Net interest expense	-596	-510	-270	-150	-150
Non-operating/exceptionals	8,876	9,985	10,449	13,013	14,657
Pre-tax profit	**25,030**	**16,759**	**35,560**	**41,954**	**51,245**
Tax	-7,722	-4,571	-11,024	-13,006	-15,886
Extraord./Min.Int./Pref.div.	0	0	0	0	0
Reported net income	**17,308**	**12,188**	**24,536**	**28,948**	**35,359**
Adjusted earnings	17,308	12,188	24,536	28,948	35,359
Adjusted EBITDA	22,432	14,349	33,462	38,077	46,691
Growth Rates (%)					
Sales	22.4	14.0	32.5	19.0	20.1
EBIT adjusted	-2.6	-56.5	248.5	14.6	26.3
EBITDA adjusted	12.7	-36.0	133.2	13.8	22.6
EPS adjusted	10.8	-29.6	101.3	18.0	22.1
Cash Flow (RsM)					
Operating cash flow	**22,750**	**17,040**	**32,741**	**32,779**	**42,933**
Depreciation/amortization	5,682	7,065	8,081	8,986	9,953
Net working capital	-266	-2,063	123	-5,155	-2,379
Investing cash flow	**-34,739**	**4,016**	**-45,725**	**-29,359**	**-42,476**
Capital expenditure	-17,024	-16,058	-18,000	-20,000	-15,000
Acquisitions/disposals	-17,715	20,074	-27,725	-9,359	-27,476
Financing cash flow	**1,001**	**-4,906**	**-520**	**-1,528**	**-1,528**
Borrowings	2,694	-2,013	1,339	500	500
Dividends paid	-1,691	-1,183	-1,859	-2,028	-2,028
Change in cash	**-10,988**	**16,150**	**-13,505**	**1,892**	**-1,071**
Balance Sheet (RsM)					
Total assets	**123,044**	**135,965**	**163,558**	**189,344**	**225,668**
Cash & cash equivalent	3,240	19,390	5,885	7,777	6,706
Accounts receivable	6,555	9,189	11,880	13,259	15,918
Net fixed assets	40,328	49,321	59,240	70,254	75,301
Total liabilities	**38,890**	**42,516**	**47,432**	**46,298**	**49,291**
Accounts payable	8,549	4,553	11,138	8,839	10,612
Total Debt	9,002	6,989	8,328	8,828	9,328
Shareholders' funds	**84,154**	**93,449**	**116,126**	**143,046**	**176,377**
Profitability/Solvency Ratios (%)					
EBITDA margin adjusted	12.5	7.0	12.3	11.8	12.1
ROE adjusted	22.7	13.7	23.4	22.3	22.1
ROIC adjusted	23.6	5.5	23.6	21.3	23.7
Net debt to equity	6.8	-13.3	2.1	0.7	1.5
Total debt to capital	9.7	7.0	6.7	5.8	5.0

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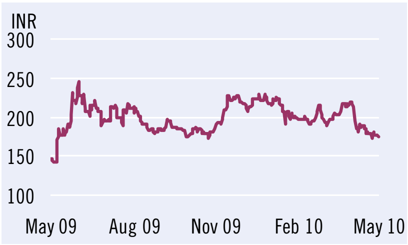
Powered by: dataCentral

Max India (MAXI.BO)

Non-Rated	
Price (11 May 10)	Rs174.10
Market Cap	Rs40,456M
	US$897M

Price Performance



Source: dataCentral

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Company Description

Max India Ltd. is a diversified conglomerate with several service oriented businesses including Life Insurance (Max New York Life Insurance), Healthcare (Max Healthcare) and Clinical Research (Neeman Medical International). Max India's other businesses include speciality plastic products for the packaging industry and healthcare staffing.

Clean Insurance Play

- **Best Proxy for investment in Insurance business** — Max India is a proxy for the insurance and healthcare sectors in India. It is a holding company for stakes in Max New York Life (74% stake) and Max Healthcare (70% Stake).
- **Max Insurance – Strong mix, and back in the hunt** — A JV with New York Life for Insurance business has had a rollercoaster ride. A strong start followed with some disappointments, but bounced back to a 5% + market share, and has maintained it through the slowdown last year. Its operating parameters – on product mix, agency efficiency, and profit focus, are amongst the best in the industry, and Max should sustain some of these advantages.
- **Distribution Mix** — MNYL primarily runs an agency-driven business; though is widening to a multi-channel distribution approach. It however has the distinction of having the most productive agent force in the industry, given training inputs and agency management, though a competitive market environment will continue to pressure its strengths.
- **Growing Healthcare Presence** — Max India has a presence in the growing healthcare sector through a 70% stake in Max Healthcare. It has network of three tertiary care hospitals, 5 secondary care centers and nine clinics, in the NCR region with ~750 operational beds. Other major holders in the company are Warburg Pincus (20%) and IFC, Washington (4%).
- **Expansion Plans** — Max Healthcare plans to add six new tertiary care facilities, with a capacity of 1,700 beds over the next two years. Four of the new projects are planned in the NCR region including a 260 bed hospital at Patparganj, a 300-bed hospital in Shalimar Bagh and a 90 bed oncology facility at Saket. Max also has a long-term project of setting up a 300 bed multispecialty hospital at Noida. Outside the NCR, Max is setting up three hospitals at Dehradun (150 beds), Mohali (300 beds) & Bathinda (300 beds).

Recent Developments

The company announced its 3QFY10 results in January 2010. Consolidated revenues stood at Rs17.3bn and Rs59bn for 3QFY10 and 9mFY10 respectively. The company reported a loss of Rs940m in 3QFY10 and Rs3.5bn for 9mFY10. Max had Rs89.5bn worth of assets under management as of 31 Dec '09.

In December 2009, Max India announced that it had garnered a high value investment of the$115 million (about Rs 540 crore) from the private equity arm of global investment bank Goldman Sachs. The investment will be through Fully & Compulsory Convertible Debentures (FCD) carrying a coupon rate of 12% per annum. These FCDs will be converted into equity shares of Max India in 15 months at Rs. 216.75 per share.

Source: Max India Press Release

Max India (MAXI.BO): Financial Summary

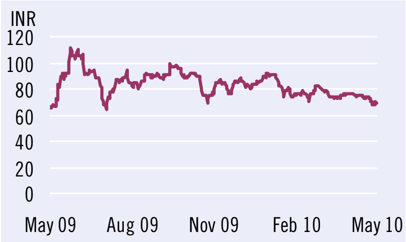
Fiscal year end	FY05	FY06	FY07	FY08	FY09
Valuation Ratios					
P/E adjusted (x)	-18.7	9.7	-65.3	-79.0	-17.6
P/E reported (x)	-18.7	9.7	-65.3	-79.0	-17.6
P/BV (x)	13.6	4.9	5.4	2.6	3.1
Dividend yield (%)	0.0	0.0	0.0	0.0	0.0
Per Share Data (Local Currency)					
EPS adjusted	-9.69	18.71	-2.77	-2.29	-10.28
EPS reported	-9.69	18.71	-2.77	-2.29	-10.28
BVPS	13.31	36.96	33.50	69.62	59.28
NAVps ordinary	13.31	36.96	33.50	69.62	59.28
DPS	0.00	0.00	0.00	0.00	0.00
Profit & Loss (Local Currency, Millions)					
Net operating income (NOI)	**1,272**	**15,278**	**18,194**	**32,440**	**45,077**
G&A expenses	-8,161	-11,675	-20,179	-36,007	-48,953
Other Operating items	0	0	0	0	0
EBIT including associates	**-1,309**	**3,603**	**-552**	**-317**	**-574**
Non-oper./net int./except.	192	-48	-60	-502	-2,726
Pre-tax profit	**-1,134**	**3,528**	**-568**	**-802**	**-3,306**
Tax	-33	-397	-157	-167	238
Extraord./Min. Int./Pref. Div.	0	0	228	480	884
Reported net income	**-1,167**	**3,131**	**-497**	**-489**	**-2,184**
Adjusted earnings	-1,167	3,131	-497	-489	-2,184
Adjusted EBIT	-1,309	3,603	-552	-317	-574
Adjusted EBITDA					
Growth Rates (%)					
EBITDA	N/A	1,101.2	19.1	78.3	39.0
EBIT adjusted	92.2	-375.1	-115.3	-42.5	80.9
EPS adjusted	-37.3	-293.1	-114.8	-17.3	348.0
Cash Flow (Local Currency, Millions)					
Operating cash flow	**466**	**2,736**	**7,291**	**15,919**	**17,623**
Depreciation/amortization	343	360	471	660	970
Net working capital	-274	-178	171	32	-1,262
Investing cash flow	**-3,192**	**-4,947**	**-9,704**	**-29,263**	**-15,569**
Capital expenditure	-688	-1,106	-2,412	-1,881	-3,011
Acquisitions/disposals	-2,504	-3,841	-7,292	-27,382	-12,558
Financing cash flow	**2,750**	**2,408**	**2,662**	**13,081**	**-90**
Borrowings	1,268	36	1,192	-11	-338
Dividends paid	0	0	0	0	0
Change in cash	**24**	**197**	**249**	**-263**	**1,964**
Balance Sheet (Local Currency, Millions)					
Total assets	**11,862**	**21,444**	**32,537**	**64,489**	**78,949**
Cash & cash equivalent	265	5,624	5,363	3,825	4,211
Net fixed assets	2,282	3,543	5,348	6,222	8,266
Total liabilities	**9,709**	**14,042**	**25,322**	**44,825**	**60,522**
Total Debt	3,039	3,822	5,590	5,522	3,474
Shareholders' funds	**2,153**	**7,401**	**7,215**	**19,664**	**18,427**
Profitability/Solvency Ratios					
EBIT margin adjusted (%)	-103.0	23.6	-3.0	-1.0	-1.3
ROE adjusted (%)	-62.5	75.8	-8.0	-4.6	-16.0
ROA adjusted (%)	-11.6	18.8	-1.8	-1.0	-3.2
Net debt to equity (%)	128.8	-24.3	3.2	8.6	-4.0
Interest coverage (x)	-39.7	9.1	-3.5	-1.9	2.4

Source: Bloomberg

Moser Baer India (MOSR.BO)

Sell/High Risk	**3H**
Price (11 May 10)	Rs68.70
Target Price	Rs99.00
Expected share price return	44.1%
Expected dividend yield	1.5%
Expected total return	**45.6%**
Market Cap	Rs11,563M
	US$258M

Price Performance



Source: dataCentral

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Company description

Moser Baer has interests in optical media, home entertainment, and solar energy. It is the world's second-largest manufacturer of optical storage media with a significant market share – with most of the largest OEMs among its customers. Photovoltaic cells and module (PV) is a new business for which Moser has aggressive ramp up plans. It has also forayed into home entertainment with an eye on increased penetration in the VCD/DVD market in India, which should help ASPs for its optical discs.

Is the PV Strategy Working?

- **Outlook for optical media business** — Optical media business has seen some improvement in the recent past. However, the migration to higher value formats remains to be seen. Improvement in this segment could provide Moser Baer with some cash to fund other growth businesses. Outlook in this business is one of the key issues to focus on.

- **PV business outlook challenging** — Globally, pricing of solar cells/modules continues to be under pressure given the demand supply imbalances. Moser Baer, which had aggressive investment plans for PV in the past, has scaled back its plans significantly. The ramp up plans for the PV business is a key issue to focus on.

- **Scalability/profitability in home entertainment business** — Management is once again focusing on the home entertainment division now that the content costs have cooled off. Scalability/profitability in this business is another important area of focus on.

- **Profitability and source of funds** — While Moser has aggressive ramp up plans over the next few years, profitability and funding of the same remains a key focus area. Any further capital raising could be another question for the management given the high debt-equity that the company has.

Statistical Abstract

Year to 31 Mar	Net Profit (RsM)	Diluted EPS (Rs)	EPS growth (%)	EV/EBITDA (x)	P/E (x)	P/B (x)	P/CEPS (x)	ROE (%)	Yield (%)
2007A	788	4.7	na	5.1	14.7	0.6	2.6	na	1.5
2008A	-2,023	-12.1	-357.5	7.8	-5.7	0.5	4.7	-9.5	1.5
2009E	-4,305	-25.6	112.8	10.2	-2.7	0.5	5.6	-19.7	0.0
2010E	352	2.1	-108.2	4.6	32.8	0.5	1.5	1.6	1.5
2011E	2,950	17.6	738.0	3.8	3.9	0.5	1.1	12.6	1.5

Source: Powered by dataCentral

Investment Strategy

We rate Moser Baer Sell/High Risk (3H). Despite a significant market share in the optical media business, Moser Baer has suffered a reduction in profitability due to a sharp price reduction of optical media and price escalation in its key raw material - polycarbonate (PC). We expect this business to grow ~7% YoY over FY08-11E in volume terms, with profitability improving over a longer term as PC prices ease. PV is a relatively new business. Government incentives should continue to drive demand globally, but pricing and profitability are difficult to forecast, with margins likely to face pressure from higher solar-grade silicon prices, competition from Chinese/European players and low entry barriers.

Valuation

Our target price is derived from a SOTP methodology. We value the optical media business at 0.7x FY10E EV/Capital employed. Over FY05-07 (prior to its venture in the PV business), Moser Baer traded at an average EV/Capital employed of 1.0x (in a 0.8-1.3x range). We believe that it will continue to trade towards the lower end as the optical media business has not improved over the past few quarters. We value the PV business at 1.8x FY10E EV/Sales, a premium to established global cell and module PV players, despite Moser's limited operating history in this segment. We apply a premium because Moser has some capacity on thin film technology, where multiples are much higher than for cell and module PV makers. We value the home entertainment business at 1.0x FY10E EV/Sales, given its decent growth phase.

Moser Baer India (MOSR.BO): Financial Summary

Fiscal year end 31-Mar	2007	2008	2009E	2010E	2011E
Valuation Ratios					
P/E adjusted (x)	14.7	-5.7	-2.7	32.8	3.9
EV/EBITDA adjusted (x)	5.2	8.3	10.5	4.4	3.7
P/BV (x)	0.6	0.5	0.5	0.5	0.5
Dividend yield (%)	1.5	1.5	0.0	1.5	1.5
Per Share Data (Rs)					
EPS adjusted	4.68	-12.05	-25.65	2.10	17.57
EPS reported	4.68	-12.05	-25.65	2.10	17.57
BVPS	122.29	131.10	129.93	130.88	147.30
DPS	1.00	1.00	0.00	1.00	1.00
Profit & Loss (RsM)					
Net sales	19,840	20,700	27,111	45,159	58,416
Operating expenses	-18,460	-21,649	-30,003	-42,410	-52,628
EBIT	**1,380**	**-949**	**-2,891**	**2,749**	**5,787**
Net interest expense	-497	-1,006	-1,547	-2,386	-2,746
Non-operating/exceptionals	7	-45	0	0	0
Pre-tax profit	**890**	**-2,000**	**-4,439**	**363**	**3,041**
Tax	-102	-23	133	-11	-91
Extraord./Min.Int./Pref.div.	0	0	0	0	0
Reported net income	**788**	**-2,023**	**-4,305**	**352**	**2,950**
Adjusted earnings	788	-2,023	-4,305	352	2,950
Adjusted EBITDA	4,963	3,509	3,465	9,840	12,889
Growth Rates (%)					
Sales	19.2	4.3	31.0	66.6	29.4
EBIT adjusted	425.1	-168.8	-204.6	195.1	110.5
EBITDA adjusted	44.7	-29.3	-1.3	184.0	31.0
EPS adjusted	1,311.4	-357.5	-112.8	108.2	738.0
Cash Flow (RsM)					
Operating cash flow	**5,641**	**1,911**	**4,439**	**8,020**	**12,582**
Depreciation/amortization	3,582	4,458	6,356	7,092	7,101
Net working capital	685	-1,533	841	-1,809	-215
Investing cash flow	**-6,335**	**-11,210**	**-16,082**	**-8,544**	**-11,866**
Capital expenditure	-6,598	-9,410	-17,082	-9,744	-13,066
Acquisitions/disposals	0	0	0	0	0
Financing cash flow	**491**	**14,812**	**9,563**	**221**	**-139**
Borrowings	1,948	13,340	8,000	4,000	4,000
Dividends paid	-196	-197	0	-193	-193
Change in cash	**-203**	**5,513**	**-2,080**	**-303**	**578**
Balance Sheet (RsM)					
Total assets	**43,559**	**59,788**	**69,545**	**77,945**	**88,017**
Cash & cash equivalent	2,697	8,210	6,130	5,828	6,405
Accounts receivable	3,342	3,768	4,457	7,423	9,603
Net fixed assets	28,811	33,490	44,216	46,869	52,833
Total liabilities	**23,076**	**37,780**	**47,733**	**55,974**	**63,288**
Accounts payable	4,485	5,846	7,800	12,040	15,355
Total Debt	18,502	31,842	39,842	43,842	47,842
Shareholders' funds	**20,483**	**22,008**	**21,812**	**21,971**	**24,728**
Profitability/Solvency Ratios (%)					
EBITDA margin adjusted	25.0	17.0	12.8	21.8	22.1
ROE adjusted	3.9	-9.5	-19.7	1.6	12.6
ROIC adjusted	3.7	-2.5	-5.9	5.1	9.6
Net debt to equity	77.2	107.4	154.6	173.0	167.6
Total debt to capital	47.5	59.1	64.6	66.6	65.9

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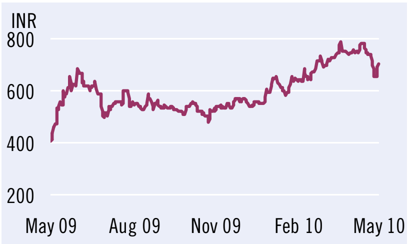
Powered by: dataCentral

Mundra Port & Special Economic Zone (MPSE.BO)

Hold/Medium Risk	2M
Price (11 May 10)	Rs703.70
Target Price	Rs659.00
Expected share price return	-6.4%
Expected dividend yield	0.4%
Expected total return	**-5.9%**
Market Cap	Rs281,958M
	US$6,253M

Price Performance



Source: dataCentral

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Company description

Mundra Port (MPSEZ) is a private port located in Gujarat, one of India's most industrialized, investor-friendly and commercially successful states. MPSEZ provides a convenient international trade gateway to Europe, Africa, America and the Middle East. Gujarat ports have good road connectivity to Delhi and Mumbai. MPSEZ has 2 bulk cargo terminals and 2 container cargo terminals with an effective handling capacity of 50-55mtpa per year. It also has a SPM terminal for crude imports. Cargo growth at Mundra Port has outpaced growth at major ports in India. MPSEZ is developing a ~32000-acre SEZ near Mundra Port that should support volume growth

- **Steady Momentum at the Port** — While FY10E volumes were slightly lower than our expectations; the port business is clearly seeing a recovery and cargo mix is getting more balanced lending the business more resilience. MPSEZ is doing ~3-3.5mmt per month and FY10 throughput was ~40mn tons.
- **Capacity expansion plan on track** — The progress on coal terminal is better than expected and expected completion date is Oct 2010. MPSEZ is adding another 15mtpa at Mundra; and new terminals at Dahej, Hazira & Mormugao will add ~40-45mmt of additional capacity.
- **SEZ update** — MPSEZ is in advanced stages to acquire/notify 6000 acres. MPSEZ has sold ~20 acres of land in Q3FY10 for Rs90-95mn. With this; the cumulative land sales for 9MFY10 is ~160 acres vs. our FY10E estimate of 375 acres. SEZ transactions tend to be lumpy and our recent discussions with management suggest that the company is in advanced discussions with large potential clients
- **India's port capacity addition program remains behind schedule** — This benefits MPSEZ. Government-controlled major ports would have a capacity to handle 743 mmt of cargo by March 31, 2012, compared with a target of 1.02 bn tones (73% of target). As a result, privately owned and more efficient ports like MPSEZ would find it easier to attract traffic.

Statistical Abstract

Year to 31 Mar	Net Profit (RsM)	Diluted EPS (Rs)	EPS growth (%)	EV/EBITDA (x)	P/E (x)	P/B (x)	P/CEPS (x)	ROE (%)	Yield (%)
2008A	1,776	4.4	na	55.0	158.8	10.8	89.8	na	0.2
2009A	4,434	11.1	149.7	38.4	63.6	9.6	47.1	16.6	0.4
2010E	6,909	17.2	55.8	32.9	40.8	8.1	33.6	21.5	0.4
2011E	12,097	30.2	75.1	19.5	23.3	6.4	20.3	30.7	0.9
2012E	20,219	50.5	67.1	12.1	13.9	4.7	12.8	39.0	1.4

Source: Company data, Citi Investment Research and Analysis estimates

Investment Strategy

We rate Mundra Port Hold/Medium Risk with a Rs659 target price. The company has strong growth and returns, low gearing and a strong balance sheet. Over FY10-12E, we expect compound growth of 37% in cargo volumes, 54% in revenues and 71% in profits. We expect margins to expand by 921bps over FY10-12E and ROE to improve to 39% from 16% in FY09. Capex is well funded, and net D/E of 0.3x gives headroom to leverage further.

Port business is clearly seeing a recovery and cargo mix is getting more balanced lending the business more resilience. MPSEZ is currently doing ~3-3.5mmt per month and expects FY10E volumes of ~42-44mmt. The progress at the coal terminal has been better than expected with expected project completion in Oct '10. MPSEZ is adding another 15mtpa at Mundra, and new terminals at Dahej, Hazira & Mormugao will add ~40-45mmt of additional capacity

We believe positive news flow on SEZ land transactions will be the driver for stock price.

Valuation

Our target price for MPSEZ is Rs659. Mundra Port is valued at Rs549/share on a discounted cash flow to equity basis, using a cost of equity of 12%. The SEZ is valued at Rs101/share, using a cost of equity of 14% and then assigning a 20% discount to the calculated NAV (consistent with how we value the smaller Indian real estate companies). We value the investments in subsidiaries at book value (a combined Rs9/share).

MPSEZ (MPSE.BO): Financial Summary

Fiscal year end 31-Mar	2008	2009	2010E	2011E	2012E
Valuation Ratios					
P/E adjusted (x)	158.8	63.6	40.8	23.3	13.9
EV/EBITDA adjusted (x)	53.8	37.6	32.2	19.0	11.5
P/BV (x)	10.8	9.6	8.1	6.4	4.7
Dividend yield (%)	0.2	0.4	0.4	0.9	1.4
Per Share Data (Rs)					
EPS adjusted	4.43	11.07	17.24	30.19	50.46
EPS reported	5.33	11.51	17.24	30.19	50.46
BVPS	65.20	73.51	86.77	109.98	148.79
DPS	1.50	3.00	3.00	6.04	10.09
Profit & Loss (RsM)					
Net sales	8,182	11,351	13,376	20,839	31,864
Operating expenses	-3,834	-5,107	-5,932	-7,604	-9,480
EBIT	**4,348**	**6,244**	**7,444**	**13,236**	**22,384**
Net interest expense	-1,062	-1,330	-735	-1,239	-2,165
Non-operating/exceptionals	24	49	200	100	0
Pre-tax profit	**3,310**	**4,963**	**6,909**	**12,097**	**20,219**
Tax	-1,534	-529	0	0	0
Extraord./Min.Int./Pref.div.	358	177	0	0	0
Reported net income	**2,134**	**4,611**	**6,909**	**12,097**	**20,219**
Adjusted earnings	1,776	4,434	6,909	12,097	20,219
Adjusted EBITDA	5,354	7,616	8,936	15,013	24,224
Growth Rates (%)					
Sales	40.7	38.7	17.8	55.8	52.9
EBIT adjusted	85.9	43.6	19.2	77.8	69.1
EBITDA adjusted	70.2	42.3	17.3	68.0	61.4
EPS adjusted	-6.0	149.7	55.8	75.1	67.1
Cash Flow (RsM)					
Operating cash flow	**5,386**	**7,612**	**7,494**	**14,421**	**23,172**
Depreciation/amortization	1,006	1,372	1,493	1,777	1,840
Net working capital	388	1,127	151	-102	-185
Investing cash flow	**-19,506**	**-7,226**	**-3,994**	**-10,900**	**-3,040**
Capital expenditure	-9,469	-13,735	-470	-10,078	-3,040
Acquisitions/disposals	-10,037	6,509	-3,524	-823	0
Financing cash flow	**22,087**	**1,849**	**-110**	**8,338**	**-8,043**
Borrowings	6,245	4,063	2,000	12,000	-1,856
Dividends paid	-601	-1,202	-1,382	-2,419	-4,044
Change in cash	**8,327**	**2,411**	**3,389**	**11,859**	**12,089**
Balance Sheet (RsM)					
Total assets	**57,283**	**64,946**	**70,037**	**91,582**	**105,643**
Cash & cash equivalent	8,896	11,307	14,696	26,555	38,644
Accounts receivable	2,963	2,116	2,492	2,688	2,903
Net fixed assets	32,477	44,840	43,817	52,117	53,317
Total liabilities	**31,158**	**35,494**	**35,272**	**47,515**	**46,027**
Accounts payable	2,554	3,079	2,431	2,892	3,479
Total Debt	19,067	23,130	25,130	37,130	35,273
Shareholders' funds	**26,125**	**29,453**	**34,766**	**44,068**	**59,617**
Profitability/Solvency Ratios (%)					
EBITDA margin adjusted	65.4	67.1	66.8	72.0	76.0
ROE adjusted	10.6	16.0	21.5	30.7	39.0
ROIC adjusted	9.1	14.1	16.3	26.9	41.3
Net debt to equity	38.9	40.1	30.0	24.0	-5.7
Total debt to capital	42.2	44.0	42.0	45.7	37.2

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Powered by: dataCentral

National Aluminium (NALU.BO)

Sell/Medium Risk	3M
Price (11 May 10)	Rs411.30
Target Price	Rs296.00
Expected share price return	-28.0%
Expected dividend yield	1.1%
Expected total return	**-26.9%**
Market Cap	Rs265,005M
	US$5,877M

Price Performance

Source: dataCentral

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Company description

Nalco has smelter capacity of 460ktpa. It has bauxite deposits to meet more than 50 years of expanded alumina capacity (2.1m tpa from 1.58m tpa by Dec10). Good quality bauxite, open cast mines and low bauxite transport costs make it one of the world's lowest cost alumina producers. It sells surplus alumina in international markets, and is India's largest alumina exporter. Its thermal power capacity (1,200MW by July10; 1,080MW now) meets in-house requirements at about a third of grid cost, and any surplus power is sold to the grid. Low costs for power, alumina and labor make it one of the lowest-cost aluminum producers globally.

Low-Cost Integrated Aluminium Producer

- **Competitive edge** — Nalco is one of the lowest-cost alumina and aluminum producers globally. Its competitive advantage stems from good quality bauxite, low-cost captive power, own railway wagons and captive port facilities. Its smelter capacity has been expanded to 460k tpa in Dec09 (from 345ktpa) and power capacity is expected to reach 1,200MW by July10 (enhanced to 1,080MW in Dec10 from 960MW). Alumina capacity should rise to 2.1m tpa from 1.58m tpa by Dec10. Nalco sells surplus alumina in international market and is India's largest alumina exporter.

- **Aluminium: near term support** — Our global aluminium price forecasts have been revised to US$2,350/t for FY11 and US$2,416/t for FY12. Aluminium has short-term support from illiquid inventories and merchant premia. Price upside could also come from a power crunch or bauxite shortages, with power cost trends in China an important emerging trend. Longer-term challenges are large stockpiles and capacity build-up.

- **Coal issues better** — In FY10, the proportion of linkage coal fell to ~84% and Nalco was adversely impacted by poor quality linkage coal, high cost of imported and e-auction coal. Nalco is hopeful that the percentage of linkage coal will increase to atleast 90% and its power and fuel costs come down yoy (benefited also by the completion of the captive power plant expansion).

- **Long term expansion plans** — Nalco plans to enhance its alumina capacity to 2.28mt by 2012 and subsequently by another 700kt (4 years completion). The company has greenfield expansion plans in Indonesia – 500ktpa smelter; Orissa – 500ktpa smelter; Andhra Pradesh – bauxite + alumina refinery (1.4mtpa). The Indonesian smelter will source alumina from the Andhra Pradesh refinery and the Orissa smelter will use Nalco's surplus alumina.

- **Strong balance sheet** — Cash balance is in excess of Rs40bn (Rs62/share). The expansion capex has been funded through internal accruals and Nalco has zero debt. Planned capex in FY11 and FY12 is ~Rs11bn pa. It does not expect to raise debt for its medium term domestic expansion plans.

Investment Strategy

We rate Nalco shares Sell/Medium Risk (3M).

Valuation

We use P/E to value Nalco as it is driven largely by commodity price trends, which translate into earnings momentum. Our target price of Rs296 is based on 11.3x core PE (Rs239), to which we add cash per share of Rs56. Our target multiple of 11.3x (March-2011E) earnings is the average of Nalco's five-year trading range. In the past six years, the stock has largely traded in a P/E range of 7x-11x. There have been periods when the 12-month rolling forward P/E multiples have crossed this band, as seen during Jun-2007-Oct-2008, and also since the beginning of FY10. A mean PE multiple appears justified based on our use of higher LME price estimates. Based on our target price of Rs296, Nalco's FY11E EV/EBITDA equates to 5.6x and a PE of 12.1x.

National Aluminium (NALU.BO): Financial Summary

Fiscal year end 31-Mar	2008	2009	2010E	2011E	2012E
Valuation Ratios					
P/E adjusted (x)	16.0	21.0	24.3	16.8	14.0
EV/EBITDA adjusted (x)	8.3	10.4	11.8	8.6	7.0
P/BV (x)	3.0	2.7	2.5	2.3	2.0
Dividend yield (%)	1.5	1.2	1.1	1.3	1.3
Per Share Data (Rs)					
EPS adjusted	25.72	19.53	16.89	24.48	29.22
EPS reported	25.72	19.53	16.89	24.48	29.22
BVPS	137.74	151.63	163.25	181.30	204.08
DPS	6.00	5.00	4.50	5.50	5.50
Profit & Loss (RsM)					
Net sales	49,888	50,945	49,079	59,465	64,481
Operating expenses	-24,953	-31,772	-32,724	-35,764	-36,196
EBIT	**24,935**	**19,173**	**16,355**	**23,701**	**28,284**
Net interest expense	-15	-40	-20	-20	-20
Non-operating/exceptionals	0	0	0	0	0
Pre-tax profit	**24,920**	**19,134**	**16,335**	**23,681**	**28,264**
Tax	-8,351	-6,549	-5,456	-7,910	-9,440
Extraord./Min.Int./Pref.div.	0	0	0	0	0
Reported net income	**16,569**	**12,585**	**10,879**	**15,772**	**18,824**
Adjusted earnings	16,569	12,585	10,879	15,772	18,824
Adjusted EBITDA	27,746	21,898	19,937	27,635	32,437
Growth Rates (%)					
Sales	-16.0	2.1	-3.7	21.2	8.4
EBIT adjusted	-31.3	-23.1	-14.7	44.9	19.3
EBITDA adjusted	-29.7	-21.1	-9.0	38.6	17.4
EPS adjusted	-30.6	-24.0	-13.6	45.0	19.4
Cash Flow (RsM)					
Operating cash flow	**19,019**	**19,382**	**12,724**	**19,187**	**22,311**
Depreciation/amortization	2,811	2,724	3,581	3,933	4,153
Net working capital	300	3,608	-865	-299	286
Investing cash flow	**-14,291**	**-14,171**	**-21,744**	**-7,119**	**-3,136**
Capital expenditure	-15,441	-12,953	-25,000	-10,300	-7,500
Acquisitions/disposals	0	0	0	0	0
Financing cash flow	**-5,279**	**-3,877**	**-1,151**	**-3,412**	**-4,166**
Borrowings	0	0	0	0	0
Dividends paid	-5,277	-3,769	-1,131	-3,392	-4,146
Change in cash	**-550**	**1,335**	**-10,170**	**8,655**	**15,008**
Balance Sheet (RsM)					
Total assets	**110,228**	**123,244**	**136,462**	**153,323**	**172,614**
Cash & cash equivalent	35,165	28,690	18,521	27,176	42,184
Accounts receivable	607	265	440	532	576
Net fixed assets	58,664	68,997	90,415	96,782	100,130
Total liabilities	**21,483**	**25,546**	**31,276**	**36,512**	**41,125**
Accounts payable	4,357	4,554	4,657	5,198	5,419
Total Debt	0	0	0	0	0
Shareholders' funds	**88,745**	**97,698**	**105,185**	**116,811**	**131,489**
Profitability/Solvency Ratios (%)					
EBITDA margin adjusted	55.6	43.0	40.6	46.5	50.3
ROE adjusted	20.0	13.5	10.7	14.2	15.2
ROIC adjusted	30.5	19.8	13.8	16.9	19.2
Net debt to equity	-39.6	-29.4	-17.6	-23.3	-32.1
Total debt to capital	0.0	0.0	0.0	0.0	0.0

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Powered by: dataCentral

NMDC (NMDC.BO)

Non-Rated	
Price (11 May 10)	Rs291.20
Market Cap	Rs1,154,525M
	US$25,602M

Price Performance

Source: dataCentral

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Company Description

NMDC is India's largest iron ore producer with reserves and resources of ~1.2bn tonnes (incl 163mt from 51% in Deposit 13 – a JV with the Chhattisgarh Mineral Development Corporation). Its three open pit iron ore mines are in the states of Chhattisgarh (87% of reserves) and Karnataka (13%). Its ore is very rich with Fe content >64%, and is suitable for the BF furnace steel making process and gas-based sponge iron production process. NMDC sold 85% of its ore in the domestic market in FY09. Its key customers include RINL, JSW Steel, Essar Steel, Ispat Industries, KIOCL and smaller Chhattisgarh based companies. Exports (15%) are largely to South Korea, Japan and China. ~90% of NMDC's sales are on contract basis. NMDC also operates one of the largest diamond mines in Asia at Panna in Madhya Pradesh. It owns wind power capacity (10.5MW) in Karnataka.

India's Largest Iron Ore Producer

- **Fundamentally strong** — NMDC is India's largest iron ore producer (28.5mt in FY09) with 1,204mt of reserves and resources (incl 163mt from 51% in Deposit 13). It has 70%+ margins. Positives:1) Strong ore prices, 2) rich ore - Fe >64%, 3) established rail links and infrastructure, 4) exposure to rising domestic steel production, 5) at least 25 years of mine life, 6) volume growth (8% CAGR in past four years), 6) cash-rich balance sheet ($2.7bn).

- **Iron ore outlook** — The global iron ore industry has moved from annual benchmark pricing to quarterly pricing. We expect contract prices to double in 1QFY11 ($125/t) vs FY10 and rise further in 2Q ($139/t) but see downside thereafter ($120/t) on 1) rising Chinese domestic production – price elastic; 2) steel use intensity peaking in China; 3) margin compression for steel industry pressurizing prices.

- **Growth plans** — NMDC has an iron ore production target of 50m tonnes by 2015. Other businesses (diamond, wind power) are less than 1% of sales. Future plans include a 3m tpa steel plant in Chhattisgarh, pellet plants, and diversification into coal, gold, magnesite and limestone. As a Navratna company, the Board has enhanced power to incur capital expenditure without reference to the government.

- **NMDC vs Sesa Goa** — 85% of NMDC's ore is sold domestically, 90% of sales are on contract – insulating it to some extent from the global ore price volatility and export duties. On the other hand, ~95% of Sesa Goa's ore is exported, and >80% is sold on a spot basis. NMDC's ore grade is superior (vs. ~59.5% for Sesa Goa). NMDC benefits as its domestic customers bear the freight costs and mining royalties.

- **Management concerns** — 1) Lower iron ore prices; 2) Delays in obtaining mining leases or lower offtake; 3) Inability to pass on higher royalties; 4) Increase in export duties; 5) Increase in rail freight for exported ore; and 6) Disruption due to the Maoist insurgency.

Recent Developments

The government raised the export duty on iron ore lumps from 10% to 15% in end April 2010. NMDC exports ~ 15% of its volumes and lumps account for two-thirds of its exports.

NMDC (NMDC.BO): Financial Summary

Figure 1. Profit and Loss Statement (Rs m)

	FY05	FY06	FY07	FY08	FY09
Net sales	22,300	37,109	41,858	57,113	75,640
Operating expenses	10,473	10,271	9,623	13,746	17,268
Operating profit	**11,827**	**26,838**	**32,236**	**43,367**	**58,372**
Operating profit margin (%)	**53%**	**72%**	**77%**	**76%**	**77%**
Other income	1,053	1,999	3,547	6,705	8,840
EBITDA	12,879	28,838	35,783	50,073	67,213
Depreciation	638	1,137	800	600	736
EBIT	12,241	27,701	34,982	49,473	66,477
Interest expenses	0	0	0	0	0
PBT	12,241	27,701	34,982	49,473	66,477
Total Tax	4,865	9,546	11,869	16,864	22,963
PAT	7,376	18,154.8	23,113	32,608	43,514
Extraordinary items	179	123	89	-99	210
Reported PAT	**7,554**	**18,278**	**23,202**	**32,510**	**43,724**

Source: Company Reports

Figure 2. Balance Sheet (Rs m)

	FY05	FY06	FY07	FY08	FY09
Fixed assets	**5,689**	**5,863**	**6,179**	**6,799**	**9,949**
Gross Block	11,768	12,597	13,042	14,214	16,692
Less: Depreciation	6,393	7,295	7,993	8,533	9,225
Net Block	5,374	5,302	5,049	5,681	7,466
CWIP	315	562	1,130	1,118	2,483
Investments	**740**	**740**	**744**	**833**	**715**
Current assets	28,048	37,533	55,254	82,827	117,710
Inventories	1,171	1,266	1,267	1,661	3,025
Debtors	1,847	3,161	2,833	4,877	10,272
Cash and Bank balance	19,048	31,095	48,492	71,988	97,397
Other current assets	5	797	842	1,863	2,984
Loans and advances	5,976	1,215	1,820	2,438	4,033
Current liabilities	**8,666**	**4,105**	**4,170**	**7,748**	**11,648**
Creditors	1,573	1,763	1,482	2,324	3,894
Other current liabilities	856	923	1,198	1,861	952
Provision for taxation	4,860	5	0	0	0
Provision for dividend	1,145	1,270	1,314	2,505	5,474
Other provisions	233	143	175	1,058	1,328
Miscellaneous Expenditure	**348**	**300**	**268**	**246**	**222**
Overall capital employed	**26,158**	**40,331**	**58,275**	**82,957**	**116,950**
Shareholders' funds	**26,035**	**40,145**	**58,009**	**82,897**	**116,369**
Share capital	1,322	1,322	1,322	1,322	3,965
Reserves and surplus	24,714	38,823	56,688	81,575	112,404
Loan funds	**2**	**2**	**0**	**0**	**0**
Deferred tax liability	**121**	**185**	**266**	**60**	**580**
Total sources of Funds	**26,158**	**40,331**	**58,275**	**82,957**	**116,950**

Source: Company Reports

Figure 3. Cashflow Statement (Rs m)

	FY05	FY06	FY07	FY08	FY09
Cash flow from operations	8,144	15,694	20,522	24,759	27,783
Cash flow from investments	1,103	396	2,171	5,169	4,908
Cash flow from financing	-1,115	-4,044	-5,295	-6,432	-7,283
Net cash flow	**8,132**	**12,046**	**17,397**	**23,496**	**25,409**

Source: Company Reports

Oil India (OILI.BO)

Hold/Low Risk	**2L**
Price (11 May 10)	Rs1,132.85
Target Price	Rs1,165.00
Expected share price return	2.8%
Expected dividend yield	3.4%
Expected total return	**6.2%**
Market Cap	Rs272,399M
	US$6,041M

Price Performance

Source: dataCentral

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Company description

OIL is a public-sector E&P company engaged in exploration and production of crude oil and natural gas. Even though the company has most of its assets concentrated in Northeastern India, it is looking to diversify its business by concentrating on its NELP blocks, as well as acreages abroad. Post-IPO, the government (including HPCL, BPCL and IOC) holds 87.3% of the company.

Coming Out of Its Shell

- **Stable operations, looking for growth** — Oil India (OIL), which has predominantly focused on North-East Indian onshore blocks, has gradually gained exposure to domestic offshore through NELP blocks, as well as blocks abroad. Although the strategic shift to reinvest cash flows from the pre-NELP blocks is in the right direction, it may take time to show results.

- **Small in size, but good operating track record** — OIL's 2P reserves at 974mmboe pegs it at ~1/10th the size of ONGC, although its proportion of crude oil at 60% of reserves is higher than ONGC's 53%. Although volume growth (boe) of 5% over FY10E-12E should remain moderate, it is slightly better than ONGC.

- **Cash is now 37% of market cap** — Slower-than-expected capex and steady operating results led to cash on the books of Rs101.5bn (Rs423/share) as of December 2009. OIL has been on the lookout for a producing asset, and the nature and prudence of any imminent acquisition will therefore be a key determinant of shareholder value. Until then, cash will provide downside support to valuations, in our view.

- **Government policy remains key** — OIL seems slightly better placed operationally vs. ONGC in terms of delivering production growth (albeit modest) and valuation support from cash. However, the key driver of the stock remains the same, i.e. the direction of any subsidy reforms. Implementation of a transparent subsidy mechanism and likely action on any concrete recommendations in the soon-to-be-submitted Kirit Parikh Committee report remain key for a constructive stance on OIL.

- **Key risks** — Upside risks include a favourable subsidy regime and higher crude prices. Downside risks include sharp increase in crude price leading to higher subsidy burden on upstream companies and rupee appreciation.

Statistical Abstract

Year to 31 Mar	Net Profit (RsM)	Diluted EPS (Rs)	EPS growth (%)	EV/EBITDA (x)	P/E (x)	P/B (x)	P/CEPS (x)	ROE (%)	Yield (%)
2008A	17,889	83.6	na	8.6	13.6	3.1	9.8	24.2	2.4
2009A	21,617	101.0	20.8	6.3	11.2	2.6	7.6	25.0	2.7
2010E	26,937	112.0	10.9	4.9	10.1	2.0	7.0	23.3	3.4
2011E	29,967	124.6	11.2	3.6	9.1	1.7	6.3	20.4	3.7
2012E	30,926	128.6	3.2	3.5	8.8	1.6	6.3	18.7	3.9

Source: dataCentral, CIRA Estimates

Investment Strategy

We rate OIL shares as Hold/Low Risk (2L), with an Rs1,165 target price. OIL has established reserves on Onshore Assam Basin with adequate reserve life and reasonable production growth, which generates strong and stable cash flows, adding on to the already strong balance sheet. Despite the new subsidy mechanism of the upstream companies sharing losses on only petrol/diesel, we believe that OIL's leverage to crude beyond US$65/bbl is going to be limited. OIL, which has predominantly focused on North-east Indian onshore blocks, has gradually gained exposure to domestic offshore through NELP blocks as well as abroad. Though the strategic shift to reinvest cash flows from the pre-NELP blocks is in the right direction, it will take time to show results, especially given lack of prior experience.

Valuation

Our target price of Rs1,165 comprises (i) Business valued at PER of 7.5x FY11E core EPS (@$65 net crude), and (ii) cash at Rs385/share (Mar-10E). The core PER is at a 15% discount to ONGC's current multiple of 9.0x. We believe a lower multiple vs. ONGC is warranted on account of (i) OIL's smaller size, (ii) still-to-be-tested track record outside the North East, and (iii) risk pertaining to use of OIL's significant cash balance, in addition to ONGC's relatively higher leverage to crude prices (thru OVL) and natural gas deregulation. Further re-rating from here would be dependent on higher net crude realizations i.e. significant price reforms in auto fuels, revision in gas prices, and any positive news flow from new exploration programs.

Oil India (OILI.BO): Financial Summary

Fiscal year end 31-Mar	2008	2009	2010E	2011E	2012E
Valuation Ratios					
P/E adjusted (x)	13.6	11.2	10.1	9.1	8.8
EV/EBITDA adjusted (x)	8.3	6.2	4.8	3.8	3.7
P/BV (x)	3.1	2.6	2.0	1.7	1.6
Dividend yield (%)	2.4	2.7	3.4	3.7	3.9
Per Share Data (Rs)					
EPS adjusted	83.59	101.01	112.02	124.63	128.61
EPS reported	83.59	101.01	112.02	124.63	128.61
BVPS	370.69	436.02	571.82	647.77	726.15
DPS	27.50	30.50	38.09	42.37	43.73
Profit & Loss (RsM)					
Net sales	62,372	73,842	84,625	94,663	97,805
Operating expenses	-40,466	-47,375	-52,992	-58,269	-60,485
EBIT	**21,907**	**26,467**	**31,633**	**36,394**	**37,320**
Net interest expense	-344	-87	-100	-100	-100
Non-operating/exceptionals	5,582	7,537	9,280	9,110	9,637
Pre-tax profit	**27,145**	**33,916**	**40,813**	**45,404**	**46,857**
Tax	-9,245	-12,253	-13,876	-15,437	-15,931
Extraord./Min.Int./Pref.div.	-11	-46	0	0	0
Reported net income	**17,889**	**21,617**	**26,937**	**29,967**	**30,926**
Adjusted earnings	17,889	21,617	26,937	29,967	30,926
Adjusted EBITDA	28,849	36,944	43,359	49,510	49,769
Growth Rates (%)					
Sales	12.6	18.4	14.6	11.9	3.3
EBIT adjusted	7.9	20.8	19.5	15.1	2.5
EBITDA adjusted	7.3	28.1	17.4	14.2	0.5
EPS adjusted	9.1	20.8	10.9	11.2	3.2
Cash Flow (RsM)					
Operating cash flow	**35,445**	**41,571**	**38,735**	**42,313**	**43,134**
Depreciation/amortization	6,942	10,477	11,726	13,116	12,449
Net working capital	10,613	9,477	73	-770	-241
Investing cash flow	**-8,485**	**-8,999**	**-16,900**	**-17,387**	**-16,000**
Capital expenditure	-7,673	-8,999	-16,900	-17,387	-16,000
Acquisitions/disposals	0	0	0	0	0
Financing cash flow	**-12,530**	**-8,337**	**17,236**	**-11,705**	**-12,079**
Borrowings	-6,391	-1,184	0	0	0
Dividends paid	-6,761	-7,498	-10,521	-11,705	-12,079
Change in cash	**14,431**	**24,236**	**39,071**	**13,221**	**15,054**
Balance Sheet (RsM)					
Total assets	**107,286**	**133,801**	**178,471**	**197,195**	**216,186**
Cash & cash equivalent	42,808	60,700	92,571	97,681	105,735
Accounts receivable	6,110	4,047	4,638	5,189	5,361
Net fixed assets	40,633	45,361	57,736	70,118	80,669
Total liabilities	**27,956**	**40,491**	**40,973**	**41,436**	**41,581**
Accounts payable	2,518	3,403	3,900	4,363	4,508
Total Debt	1,749	565	565	565	565
Shareholders' funds	**79,330**	**93,310**	**137,498**	**155,759**	**174,606**
Profitability/Solvency Ratios (%)					
EBITDA margin adjusted	46.3	50.0	51.2	52.3	50.9
ROE adjusted	24.2	25.0	23.3	20.4	18.7
ROIC adjusted	25.6	27.8	29.7	28.9	25.3
Net debt to equity	-51.8	-64.4	-66.9	-62.4	-60.2
Total debt to capital	2.2	0.6	0.4	0.4	0.3

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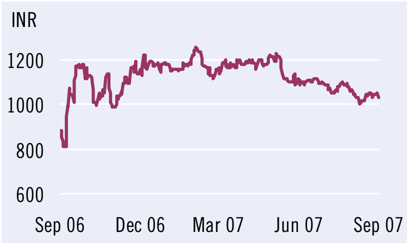
ONGC (ONGC.BO)

Sell/Medium Risk	3M
Price (11 May 10)	Rs1,032.95
Target Price	Rs1,130.00
Expected share price return	9.4%
Expected dividend yield	3.1%
Expected total return	**12.5%**
Market Cap	Rs2,209,349M
	US$48,993M

Price Performance



Source: dataCentral

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Company description

ONGC is India's largest E&P company. Through its subsidiary ONGC Videsh, the company has invested in overseas crude equity. It has ventured downstream, picking up a majority stake in Mangalore Refineries, and it intends to set up a petro-products retailing network.

Government Policy Is Key

- **Potential gas price hike could be positive** — The government is considering raising ONGC's APM gas price from ~US$1.9/mmbtu to US$4.2/mmbtu, aligning it with RIL's KG gas price. The Supreme Court upholding the governments right to decide gas prices in the RIL-RNRL gas dispute judgment improves the probability of the price hike going through, which would be positive for ONGC.

- **Government policy remains uncertain** — The Finance Ministry has agreed to compensate OMCs for Rs260bn vs. Rs315bn of losses on LPG/Kero in FY10, indicating there would not be any additional burden on upstream companies apart from auto fuel losses. However, there is no clarity yet on the subsidy-sharing formula for next year, especially since the government has not made any allocations towards subsidy in the budget.

- **Higher DD&A and falling production pose structural risks** — ONGC's DD&A costs (4-qtr moving avg.) have doubled to US$8.4/boe in 3QFY10 from FY06 levels, indicating that new production is coming at higher costs. Besides, ONGC's crude production has declined from an average quarterly rate of 6.8MMT in FY09 to 6.6MMT in 9MFY10, raising concerns over ability to replace aging fields.

- **Upside risks —** Partial deregulation and/or implementation of a transparent slab-based subsidy sharing structure (as recommended by the Kirit Parekh committee report) remains an upside risk.

Statistical Abstract

Year to 31 Mar	Net Profit (RsM)	Diluted EPS (Rs)	EPS growth (%)	EV/EBITDA (x)	P/E (x)	P/B (x)	P/CEPS (x)	ROE (%)	Yield (%)
2008A	198,723	92.9	na	4.9	11.1	2.9	6.5	27.7	3.1
2009A	197,954	92.6	-0.4	4.7	11.2	2.4	6.3	23.4	3.1
2010E	233,660	109.2	18.0	4.3	9.5	2.1	5.5	23.6	3.5
2011E	268,529	125.5	14.9	3.2	8.2	1.8	4.9	23.5	4.0
2012E	257,550	120.4	-4.1	3.0	8.6	1.6	4.8	19.7	3.8

Source: dataCentral, CIRA Estimates

Investment Strategy

We rate ONGC as Sell/Medium Risk, with a Rs1,130 target price. Despite the new subsidy mechanism of the upstream companies sharing losses on only petrol/diesel, we believe ONGC's leverage to crude beyond US$65/bbl is going to be limited. Besides, growth from new fields is going to come at incrementally higher costs, implying that upside from new fields could be limited.

Valuation

Our target price of Rs1,130 is based on 9x Mar-11E P/E, at the mid-point of ONGC's historical median band of 6-11x. We continue to value ONGC on traditional valuation parameters as against NAV/SOTP approach due to it being a going concern. Given that its existing fields face declining or mature production profiles, it would be incorrect to value the new discoveries (say KG gas) separately in an SOTP since the new fields would anyway be required to compensate for the decline in mature fields. In terms of asset valuation, ONGC's current EV/boe of ~US$5 (on 2P reserves) is unlikely to get further re-rated given: (i) limited benefit from higher crude, (ii) subsidized gas prices, and (iii) higher F&D costs of incremental production going forward.

ONGC (ONGC.BO): Financial Summary

Fiscal year end 31-Mar	2008	2009	2010E	2011E	2012E
Valuation Ratios					
P/E adjusted (x)	11.1	11.2	9.5	8.2	8.6
EV/EBITDA adjusted (x)	5.0	4.9	4.2	3.4	3.2
P/BV (x)	2.9	2.4	2.1	1.8	1.6
Dividend yield (%)	3.1	3.1	3.5	4.0	3.8
Per Share Data (Rs)					
EPS adjusted	92.91	92.55	109.25	125.55	120.42
EPS reported	92.91	92.55	109.25	125.55	120.42
BVPS	361.94	428.14	496.10	573.05	646.85
DPS	32.00	32.00	36.05	41.43	39.74
Profit & Loss (RsM)					
Net sales	1,018,349	1,094,129	1,053,537	1,169,133	1,220,700
Operating expenses	-752,396	-831,428	-740,653	-803,367	-871,384
EBIT	**265,953**	**262,701**	**312,883**	**365,766**	**349,316**
Net interest expense	-2,153	-2,385	-2,328	-2,276	-2,230
Non-operating/exceptionals	45,431	51,478	49,561	49,640	49,019
Pre-tax profit	**309,232**	**311,794**	**360,117**	**413,129**	**396,104**
Tax	-106,999	-110,093	-124,240	-142,530	-136,656
Extraord./Min.Int./Pref.div.	-3,509	-3,747	-2,217	-2,070	-1,898
Reported net income	**198,723**	**197,954**	**233,660**	**268,529**	**257,550**
Adjusted earnings	198,723	197,954	233,660	268,529	257,550
Adjusted EBITDA	404,831	417,005	479,132	546,637	549,711
Growth Rates (%)					
Sales	18.0	7.4	-3.7	11.0	4.4
EBIT adjusted	18.6	-1.2	19.1	16.9	-4.5
EBITDA adjusted	17.7	3.0	14.9	14.1	0.6
EPS adjusted	11.8	-0.4	18.0	14.9	-4.1
Cash Flow (RsM)					
Operating cash flow	**350,302**	**347,454**	**451,972**	**463,488**	**460,478**
Depreciation/amortization	138,878	154,304	166,248	180,871	200,396
Net working capital	15,289	-4,285	50,446	16,094	4,711
Investing cash flow	**-194,948**	**-183,064**	**-215,231**	**-233,231**	**-243,231**
Capital expenditure	-174,701	-169,833	-202,000	-220,000	-230,000
Acquisitions/disposals	-7,015	0	0	0	0
Financing cash flow	**-79,428**	**-79,072**	**-92,537**	**-102,719**	**-98,438**
Borrowings	-666	-307	-3,554	-203	-183
Dividends paid	-80,457	-80,461	-90,679	-104,211	-99,950
Change in cash	**75,926**	**85,318**	**144,203**	**127,538**	**118,809**
Balance Sheet (RsM)					
Total assets	**1,246,846**	**1,484,867**	**1,675,510**	**1,878,825**	**2,058,944**
Cash & cash equivalent	270,880	179,621	453,055	571,448	676,698
Accounts receivable	70,469	71,814	72,160	80,078	83,610
Net fixed assets	280,312	350,178	212,779	212,023	206,391
Total liabilities	**461,271**	**555,025**	**596,573**	**633,078**	**653,278**
Accounts payable	98,444	117,772	100,738	111,064	123,614
Total Debt	9,445	8,953	3,255	2,930	2,637
Shareholders' funds	**785,575**	**929,842**	**1,078,937**	**1,245,747**	**1,405,666**
Profitability/Solvency Ratios (%)					
EBITDA margin adjusted	39.8	38.1	45.5	46.8	45.0
ROE adjusted	27.7	23.4	23.6	23.5	19.7
ROIC adjusted	21.1	16.4	18.0	21.2	19.0
Net debt to equity	-33.3	-18.4	-41.7	-45.6	-48.0
Total debt to capital	1.2	1.0	0.3	0.2	0.2

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Powered by: dataCentral

Opto Circuits (OPTO.BO)

Non-Rated	
Price (11 May 10)	Rs217.20
Market Cap	Rs39,726M
	US$881M

Price Performance

Source: dataCentral

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Company Description

Established in 1992, Opto Circuits is one of India's largest medical device manufacturers. The company manufactures a wide array of non-invasive devices including pulse oximeters, sensors, fluid warmers and cholesterol monitors. In 2006, the company entered the invasive segment through the acquisition of Germany based, stents manufacturer, Eurocor. The company has historically pursued an inorganic growth path, making as many as seven acquisitions between 2001-09. Recently it acquired US based, Criticare Systems to expand its portfolio of patient monitoring products.

Medtech Play

- **Global Medical Devices business** — Opto Circuits is the only Indian firm on the global medical devices space. Over the years it has strengthened its position in the patient monitoring (non-invasive) segment through a series of acquisitions. Its stents business, diversified geographical presence (56 countries worldwide) and established front ends in regulated markets (US/EU) are central to the business.

- **Non Invasive Segment: Steady Growth** — Non-invasive devices account for ~75% of Opto's overall revenues, growing at a steady pace. Opto's non-invasive portfolio includes pulse oximeters, patient monitoring systems, digital thermometer and sensors. The company added gas benches to its portfolio through its recent acquisition of Criticare Systems in the US. Its entry into the replacement market and the recent patent expiry of a key sensor, should boost growth rates in this segment over the medium term.

- **Ramping Up Presence in Invasive Segment** — Invasive devices account for ~25% of Opto's revenues, albeit growing at a faster rate than the non-invasive segment. Opto's invasive devices portfolio includes stents, catheters and orthopedic prosthetics. Stents accounts for ~90% of its revenues in this segment. Opto markets stents in India, Europe & emerging markets and is in the process of obtaining US FDA approval for its marquee product DIOR (~20% of stent sales).

- **Things to Watch Out For** — 1) US FDA approval for its drug eluting balloon DIOR; 2) New product launches in regulated markets, especially in the invasive segment; 4) Long term contracts, tie-ups in the non-invasive segment; 4) Acquisition related news flow given the company's inorganic growth strategy

Recent Developments

The company reported its 3QFY10 results in January 2010. Consolidate revenues were at Rs2.6bn in 3QFY10 (vs. Rs2.1bn in 3QFY09) and Rs7.4bn for 9mFY10 (vs. Rs6.1bn in 9mFY09). Reported PAT was at Rs657m and 1.92bn for 3QFY10 and 9mFY10 respectively (vs. Rs526m & Rs1.54bn in corresponding periods of FY09)

In April 2010, Opto acquired Kolkata based N.S.Remedies for a consideration of US$1.5m in an all cash deal. N.S.Remedies owned an advanced facility for stent manufacturing and R&D. The acquisition provides Opto with an ability to manufacture stainless steel and cobalt chromium stents in India. The company also has necessary CE approvals on its stents.

Opto Circuits (OPTO.BO): Financial Summary

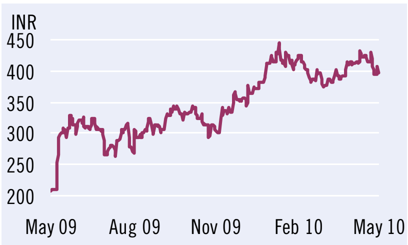
Fiscal year end	FY05	FY06	FY07	FY08	FY09
Valuation Ratios					
P/E adjusted (x)	155.3	79.4	48.2	50.0	18.3
P/E reported (x)	155.3	79.4	48.2	50.0	18.3
P/BV (x)	54.8	36.5	16.6	10.7	7.0
Dividend yield (%)	0.2	0.3	0.9	1.3	1.8
Per Share Data (Local Currency)					
EPS adjusted	1.45	2.83	4.66	4.49	12.25
EPS reported	1.45	2.83	4.66	4.49	12.25
BVPS	4.10	6.15	13.52	20.90	31.99
NAVps ordinary	4.10	6.15	13.52	20.90	31.99
DPS	0.46	0.78	1.96	2.94	4.00
Profit & Loss (Local Currency, Millions)					
Net operating income (NOI)	**1,336**	**1,398**	**2,516**	**4,681**	**8,185**
G&A expenses	-1,099	-977	-1,698	-3,362	-5,714
Other Operating items	0	0	0	0	0
EBIT including associates	**237**	**421**	**818**	**1,319**	**2,471**
Non-oper./net int./except.	-32	-28	-38	-46	-557
Pre-tax profit	**204**	**396**	**764**	**1,352**	**2,168**
Tax	-7	-10	-32	-38	-75
Extraord./Min. Int./Pref. Div.	0	0	0	-7	-6
Reported net income	**198**	**386**	**733**	**1,307**	**2,087**
Adjusted earnings	198	386	733	1,307	2,087
Adjusted EBIT	237	421	818	1,319	2,471
Adjusted EBITDA					
Growth Rates (%)					
NOI	N/A	4.6	80.0	86.1	74.9
EBIT adjusted	41.4	77.9	94.3	61.3	87.4
EPS adjusted	44.8	95.6	64.9	-3.6	172.5
Cash Flow (Local Currency, Millions)					
Operating cash flow	**N/A**	**-35**	**101**	**320**	**636**
Depreciation/amortization	N/A	23	24	81	449
Net working capital	N/A	-397	-681	-1,074	-1,918
Investing cash flow	**N/A**	**-244**	**-330**	**-525**	**-4,196**
Capital expenditure	N/A	-35	-100	-107	-729
Acquisitions/disposals	N/A	-210	-230	-418	-3,467
Financing cash flow	**N/A**	**279**	**512**	**505**	**3,787**
Borrowings	N/A	#VALUE!	-130	367	4,367
Dividends paid	N/A	-144	-366	-320	-755
Change in cash	**N/A**	**-1**	**283**	**301**	**228**
Balance Sheet (Local Currency, Millions)					
Total assets	**11,862**	**21,444**	**32,537**	**64,489**	**78,949**
Cash & cash equivalent	265	5,624	5,363	3,825	4,211
Net fixed assets	2,282	3,543	5,348	6,222	8,266
Total liabilities	**771**	**1,498**	**1,660**	**2,918**	**9,091**
Total Debt	350	775	666	1,012	5,379
Shareholders' funds	**626**	**841**	**2,198**	**3,425**	**5,300**
Profitability/Solvency Ratios					
EBIT margin adjusted (%)	17.7	30.1	32.5	28.2	30.2
ROE adjusted (%)	39.4	55.2	49.4	44.7	46.5
ROA adjusted (%)	15.8	20.7	23.6	24.0	19.1
Net debt to equity (%)	128.8	-24.3	3.2	8.6	-4.0
Interest coverage (x)	35.0	44.2	25.8	34.3	33.0

Source: Bloomberg

Pantaloon Retail (PART.BO)

Buy/Medium Risk	**1M**
Price (11 May 10)	Rs398.05
Target Price	Rs456.00
Expected share price return	14.6%
Expected dividend yield	0.2%
Expected total return	**14.8%**
Market Cap	Rs80,175M
	US$1,778M

Price Performance



Source: dataCentral

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Company description

Pantaloon is the largest organized modern-format retailer in India, with a presence in apparel, general merchandise, home products and food retailing. It has retail space of about 12m sq. ft. with plans to double space by FY14/15. Pantaloon retails fashion apparel and accessories through its Pantaloon stores, and general merchandise and food through discount department stores Big Bazaar and Food Bazaar. It has a presence in retail property management services through Central Malls, managing retail space for concessionary fees and a share of sales. It has recently launched Home Town for home interiors, which it plans to expand aggressively. Pantaloon also has interests in media, logistics, brand management and e-tailing, through subsidiaries.

Well Positioned to Benefit from Cyclical Upturn

- **Demand on a cyclical upturn —** PRIL is well positioned to benefit from the ongoing recovery in urban consumption – which had declined significantly in FY09, and has shown some signs of recovery over the past year. Same store sales (SSS) growth in both value and lifestyle retailing has been steadily rising- now at ~13-14% (7-8% in 1Q). We forecast a healthy 26% revenue CAGR over FY09-11E. Overall retail footprint at ~11m sq ft is expected to increase by 2-2.5m sq ft per annum over the next 2-3 years, as per management.
- **Margin expansion is a key focus going ahead** — Pantaloon's EBITDA margin should continue to expand as management's strategy of outsourcing non-core operations to subsidiaries continues, resulting in lower employee costs, and improving operating leverage. However, gross margin decline sequentially needs to be explored, esp. as GMs will drive profitability going forward.
- **Restructuring update** — Value formats (Big Bazaar & Food Bazaar) have been moved to a 100% subsidiary, Future Value Retail. Management indicated that the financial services business (Future Capital & Future Generali) divestment may take another few months. We think that the broad restructuring intention is a positive as businesses that are non core or in investment mode wouldn't strain PRIL's balance sheet and opens a possibility for value unlocking in future.
- **Home Solutions merger** — PRIL board recently approved the merger of Home Solutions (HS) with itself. Transaction implies a valuation of Rs14.9bn, which prima facie is expensive. HS's FY09 sales, EBITDA, PAT were Rs10.7bn (incl. Rs4bn inter company sales), -Rs364m & -Rs57m respectively. Mgmt indicated that HS is now EBITDA positive and will break even at PAT level in FY11E.
- **Balance sheet concerns have peaked —** Mgmt expects a reduction in the inventory levels from current ~Rs1900/sq ft to Rs1600/sq ft over the medium term, resulting from the recent supply chain initiatives. Recent funding and restructuring lowers the debt-equity ratio (currently ~1.2x). Mgmt may need to infuse another ~Rs10bn to fund expansion over next 3 years.

Statistical Abstract

Year to 30 Jun	Net Profit (RsM)	Diluted EPS (Rs)	EPS growth (%)	EV/EBITDA (x)	P/E (x)	P/B (x)	P/CEPS (x)	ROE (%)	Yield (%)
2008A	1,260	7.9	na	18.9	50.3	3.4	30.3	na	0.2
2009A	1,406	7.4	-6.6	14.4	53.9	3.3	27.0	6.8	0.2
2010E	2,308	11.2	51.6	11.6	35.5	2.8	20.1	8.9	0.2
2011E	3,348	16.2	45.1	9.2	24.5	2.5	14.4	10.9	0.3
2012E	3,902	18.9	16.5	8.2	21.0	2.3	11.8	11.5	0.4

Source: Company Reports and CIRA Estimates

Investment Strategy

We rate Pantaloon Retail (India) Buy/Medium Risk (1M). The sequential improvements in same-store sales trends in both value and lifestyle retailing have been encouraging and are signs of improving discretionary consumption. Concerns relating to paucity of capital have abated as fresh infusion of capital will lower high gearing ratios and aid PRIL's expansion plans. Operationally, PRIL will benefit from management's strategy of outsourcing non-core operations, lower employee costs and lower rentals rates. Improving operating leverage and cost efficiencies should lead to healthy margin expansion of ~120bps and strong net profit growth of ~48% over FY09-11E, on our estimates.

Valuation

Our Rs456 target price is based on a sum of the parts approach. We value Pantaloon at 25x June11E PE, which gives us Rs395/share. Our target multiple is set at around a c30% premium to the average for the regional peer group, to reflect the higher earnings growth profile for Pantaloon and its dominant positioning in India. Home Solutions is valued at Rs16/share (based on 1x June EV/sales), and Future Capital is valued at Rs25/share (current market price, with 20% holding company discount). We add Rs19/share for Future Logistics, at the valuation of the recent transaction by Li & Fung.

Pantaloon Retail (PART.BO): Financial Summary

Fiscal year end 30-Jun	2008	2009	2010E	2011E	2012E
Valuation Ratios					
P/E adjusted (x)	50.3	53.9	35.5	24.5	21.0
EV/EBITDA adjusted (x)	20.0	14.5	11.4	9.3	8.2
P/BV (x)	3.4	3.3	2.8	2.5	2.3
Dividend yield (%)	0.2	0.2	0.2	0.3	0.4
Per Share Data (Rs)					
EPS adjusted	7.91	7.39	11.20	16.24	18.93
EPS reported	7.91	7.39	11.20	16.24	18.93
BVPS	115.92	119.41	141.52	156.14	173.19
DPS	0.67	0.61	0.95	1.38	1.61
Profit & Loss (RsM)					
Net sales	50,489	63,417	80,429	100,519	120,405
Operating expenses	-46,718	-58,133	-73,315	-91,038	-108,848
EBIT	**3,771**	**5,284**	**7,115**	**9,481**	**11,557**
Net interest expense	-1,853	-3,182	-3,765	-4,647	-5,930
Non-operating/exceptionals	38	61	121	201	241
Pre-tax profit	**1,956**	**2,162**	**3,471**	**5,034**	**5,867**
Tax	-697	-757	-1,163	-1,687	-1,965
Extraord./Min.Int./Pref.div.	0	0	0	0	0
Reported net income	**1,260**	**1,406**	**2,308**	**3,348**	**3,902**
Adjusted earnings	1,260	1,406	2,308	3,348	3,902
Adjusted EBITDA	4,605	6,684	8,887	11,813	14,621
Growth Rates (%)					
Sales	56.0	25.6	26.8	25.0	19.8
EBIT adjusted	111.0	40.1	34.6	33.3	21.9
EBITDA adjusted	113.6	45.1	33.0	32.9	23.8
EPS adjusted	-3.3	-6.6	51.6	45.1	16.5
Cash Flow (RsM)					
Operating cash flow	**-4,216**	**-628**	**-1,042**	**2,864**	**4,800**
Depreciation/amortization	834	1,401	1,773	2,332	3,065
Net working capital	-6,429	-3,917	-5,122	-2,816	-2,167
Investing cash flow	**-11,410**	**-8,927**	**-9,124**	**-12,825**	**-15,864**
Capital expenditure	-8,065	-5,252	-9,124	-12,825	-15,864
Acquisitions/disposals	-3,345	-3,675	0	0	0
Financing cash flow	**15,207**	**9,438**	**9,872**	**9,961**	**11,064**
Borrowings	8,922	6,586	5,734	10,294	11,452
Dividends paid	-125	-135	-230	-333	-388
Change in cash	**-419**	**-118**	**-293**	**0**	**0**
Balance Sheet (RsM)					
Total assets	**47,439**	**61,508**	**75,074**	**90,077**	**106,642**
Cash & cash equivalent	1,211	1,093	800	800	800
Accounts receivable	1,132	1,773	1,983	2,479	2,969
Net fixed assets	15,288	19,140	26,491	36,984	49,783
Total liabilities	**28,973**	**38,783**	**45,904**	**57,892**	**70,944**
Accounts payable	3,104	3,854	4,900	6,076	7,245
Total Debt	21,918	28,504	34,238	44,532	55,984
Shareholders' funds	**18,466**	**22,724**	**29,170**	**32,185**	**35,698**
Profitability/Solvency Ratios (%)					
EBITDA margin adjusted	9.1	10.5	11.0	11.8	12.1
ROE adjusted	8.6	6.8	8.9	10.9	11.5
ROIC adjusted	11.3	11.9	12.3	12.7	12.7
Net debt to equity	112.1	120.6	114.6	135.9	154.6
Total debt to capital	54.3	55.6	54.0	58.0	61.1

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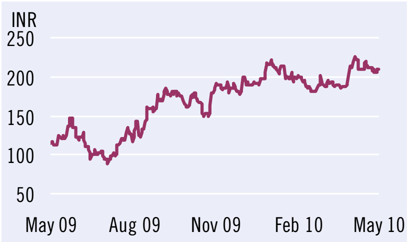
Phoenix Mills Limited (PHOE.BO)

Buy/Medium Risk	1M
Price (11 May 10)	Rs210.20
Target Price	Rs265.00
Expected share price return	26.1%
Expected dividend yield	0.0%
Expected total return	**26.1%**
Market Cap	Rs30,447M
	US$675M

Price Performance



Source: dataCentral

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Company description

Phoenix Mills is a leading Indian developer of large-format retail-led mixed use developments. The company is controlled/managed by Ruia Group (owns a 66% stake).

High Street Phoenix (HSP), the first consumption centre developed by the Group, has become a destination in Mumbai (still under expansion), covering >3.0 msf of space housing retail, entertainment, commercial and resi complexes with car parking.

Over the years, PML has spread its wings across Tier I, II, III cities in India, by entering into JVs with established regional players and bringing in strategic investors to support the growth of its asset-heavy model. Currently, it plans to develop ~29msf, having an economic interest of ~10.9msf, with a focus on retail malls and hotels.

A Quality Retail and Hotel-Asset Play

- **Good momentum at High Street Phoenix (HSP)** — The opening of luxury mall, Palladium, has been received well, and 95% of it is leased. 4QFY10 captures the mall operational at 70% (vs. 45-50% when it went live in October 2009), but the full impact in rentals should reflect in 1QFY11. Many new stores at Palladium are kicking the revenue sharing bit (vs. the standard minimum guarantee rentals), e.g. FCUK, DIESEL, and more are likely to be added to this list.
- **HSP Ph IV and renewals coming up** — While applications have been made seeking additional FSI, currently Ph-IV plans include 0.25msf of commercial and retail area. If approval comes through, incremental construction would come above the planned structure to use additional FSI. Renewals for 0.2msf are due in the next 1.5 yrs, with 75% anchor tenants where rentals expected to rise to ~Rs130/sf vs. the current Rs70/sf.
- **Progress on Market Cities** — Largely on track (but for Kurla where 35% leased at Rs95/sf avg), with anchors in place for all. Handover of space to retailers for fit-outs to happen by June 2010 in Kurla and Pune. Leasing is encouraging in Pune (64% at Rs60/sf avg), Bangalore (32% at Rs60/sf avg) & Chennai. Also, Kurla's office block (0.9msf) was launched to the investor community and discussions are underway.
- **Update on other SPVs** — 1) Shangri-La soft launch expected in January 2011, will commence operations with 200 of 414 rooms. Balance of rooms to be thrown open in a phased manner in 5-6 months of launch; 2) EWDPL's Treasure Bazaar at Nanded (0.25msf) opened in January 2010; and 3) BARE's first mall Phoenix United, Lucknow (0.36msf) to get operational in May 2010.
- **Maintain Buy** — We believe High Street Phoenix earnings momentum will continue to drive near-term investor interest in Phoenix Mills. With retail footfalls picking up, we expect a good response to upcoming malls starting 2HFY11. Stock triggers include: 1) Faster revival in retail sales growth; and 2) Potential FSI increase in Phase-IV. Moreover, valuations look attractive at ~35% discount to NAV of Rs324.

Statistical Abstract

Year to 31 Mar	Net Profit (RsM)	Diluted EPS (Rs)	EPS growth (%)	P/E (x)	P/B (x)	ROE (%)	Yield (%)
2008A	428	3.2	na	66.7	2.2	na	0.5
2009A	766	5.3	67.8	39.7	2.0	5.5	0.5
2010E	838	5.8	9.4	36.3	1.9	5.4	0.0
2011E	1,286	8.9	53.4	23.7	1.8	7.7	0.5
2012E	1,896	13.1	47.5	16.1	1.6	10.4	0.6

Source: Company Reports and CIRA Estimates

Investment Strategy

We rate Phoenix Mills as Buy/Medium Risk (1M), with a target price of Rs265. It differentiates itself by: 1) Its prime-location assets across key cities; 2) Unique asset-holding associate/subsidiary ownership model; 3) Steady cash flows; 4) Near-term execution visibility; and 5) A de-leveraged balance sheet. It has plans to develop ~29msf, having an economic interest of ~10.9msf. Taking HSP as a benchmark, Phoenix is looking to create similar value through its 'Market City' projects, positioned as consumption centres. Most will be in operation over the next 1-2 years and risks are shared with other partners, and we see this as a big opportunity. Additionally, likely NAV upside from increased FSI in HSP Phase IV and the revenue-sharing model are potential stock re-rating catalysts.

Valuation

Our target price of Rs265 is at an 18% discount to our March 2010E NAV of Rs324. This is based on a combination of rental yield for HSP and NAV-method for under-development assets. Assumptions: 1) Rs164/sh for HSP using a rental yield model with 10% cap-rate, 4% terminal growth; and Phase IV land (0.25msf) valued at Rs8000/sf; 2) 3.8 msf economic interest in Market City projects (ex-hotels); 3) 5.1 msf economic interest in EWPDL & BARE project; and 4) Rs15-20mn capital cost per room for ~1,000 rooms following its 75% stake in the hospitality venture. This apart, we have factored: a) Total consolidated debt of Rs8.55bn adjusted for Rs2.2bn of cash; b) Cost of capital of 13%; and c) A tax rate of 25%.

Phoenix Mills (PHOE.BO): Financial Summary

Fiscal year end 31-Mar	2008	2009	2010E	2011E	2012E
Valuation Ratios					
P/E adjusted (x)	66.7	39.7	36.3	23.7	16.1
P/E reported (x)	66.7	39.7	36.3	23.7	16.1
P/BV (x)	2.2	2.0	1.9	1.8	1.6
Dividend yield (%)	0.5	0.5	0.0	0.5	0.6
Per Share Data (Rs)					
EPS adjusted	3.15	5.29	5.79	8.88	13.09
EPS reported	3.15	5.29	5.79	8.88	13.09
BVPS	94.68	104.58	110.36	119.24	132.33
NAVps ordinary	na	na	na	na	na
DPS	1.00	1.00	0.00	1.00	1.25
Profit & Loss (RsM)					
Net operating income (NOI)	**501**	**602**	**993**	**1,701**	**1,850**
G&A expenses	0	0	0	0	0
Other Operating items	-76	-93	-117	-201	259
EBIT including associates	**425**	**508**	**877**	**1,500**	**2,109**
Non-oper./net int./except.	196	448	212	213	253
Pre-tax profit	**620**	**957**	**1,089**	**1,713**	**2,362**
Tax	-192	-190	-250	-427	-464
Extraord./Min. Int./Pref. Div.	0	-1	-1	-1	-1
Reported net income	**428**	**766**	**838**	**1,286**	**1,896**
Adjusted earnings	428	766	838	1,286	1,896
Adjusted EBIT	425	508	877	1,500	1,632
Adjusted EBITDA	501	602	993	1,701	1,850
Growth Rates (%)					
NOI	-30.1	20.2	65.0	71.2	8.8
EBIT adjusted	-34.0	19.7	72.4	71.1	8.8
EPS adjusted	-90.4	67.8	9.4	53.4	47.5
Cash Flow (RsM)					
Operating cash flow	**233**	**514**	**1,929**	**1,213**	**2,452**
Depreciation/amortization	76	93	117	200	218
Net working capital	-109	71	443	-919	-667
Investing cash flow	**-13,846**	**-2,027**	**-2,649**	**-3,302**	**-2,193**
Capital expenditure	-12,890	-2,561	-2,251	-2,476	-1,650
Acquisitions/disposals	0	0	0	0	0
Financing cash flow	**13,561**	**3,402**	**613**	**2,146**	**-865**
Borrowings	-1,460	3,386	613	2,290	-684
Dividends paid	-94	-167	0	-145	-181
Change in cash	**-52**	**1,888**	**-108**	**57**	**-606**
Balance Sheet (RsM)					
Total assets	**18,968**	**24,300**	**26,525**	**31,046**	**32,615**
Cash & cash equivalent	22	1,910	1,802	1,857	1,250
Net fixed assets	8,326	13,423	15,558	17,833	19,265
Total liabilities	**5,311**	**7,034**	**7,890**	**10,625**	**9,475**
Total Debt	3,048	5,452	6,064	8,354	7,671
Shareholders' funds	**13,658**	**17,266**	**18,635**	**20,421**	**23,139**
Profitability/Solvency Ratios					
EBIT margin adjusted (%)	51.7	51.0	67.7	71.1	71.1
ROE adjusted (%)	6.2	5.5	5.4	7.7	10.4
ROA adjusted (%)	3.6	3.5	3.3	4.5	6.0
Net debt to equity (%)	22.2	20.5	22.9	31.8	27.7
Interest coverage (x)	11.3	11.0	13.6	17.0	20.1

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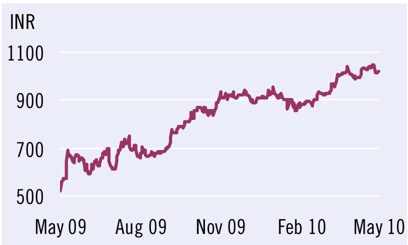
Punjab National Bank (PNBK.BO)

Sell/Medium Risk	**3M**
Price (11 May 10)	Rs1,017.05
Target Price	Rs950.00
Expected share price return	-6.6%
Expected dividend yield	2.0%
Expected total return	**-4.6%**
Market Cap	Rs320,678M
	US$7,111M

Price Performance



Source: dataCentral

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Company description

Punjab National Bank (PNB) was established in 1943 and nationalized in the first round of nationalization in 1969. The bank is headquartered in Delhi, and the government has a 57.8% stake. PNB is among the top five banks in the country, with a 5% share of deposits and advances of the banking system. PNB has the second-largest branch network in the country with 4,894 branches.

Franchise, Positioning and Momentum

- **Second largest government bank; premium positioning** — Punjab National Bank (PNB) is India's second largest government bank, with a premium position and predominance in India's northern geographic belt. This is also amongst the most lucrative and faster growing banking pockets.
- **Strong deposit franchise, superior return profile** — PNB has a large and well diversified deposit franchise, with a strong low cost deposit base in the northern part of the country. This drives its funding cost advantage and supports higher margins. This, along with its strong technology platform and fee growth, powers its superior returns (18%-22% ROEs).
- **Strong growth momentum with relatively cleaner balance sheet** — PNB has retained its strong growth and earnings momentum, and has also been able to maintain healthy asset quality. In particular, PNB has maintained: a) Well above industry NIMs (could come down, but should remain high); b) Robust fee income growth; and c) Aggressive provisioning, improving coverage levels to about 80%, amongst the highest relative to peers.
- **Asset quality holding up well, despite challenges** — PNB's loan book has relatively higher concentration in real estate, SME and agriculture, which would suggest a higher risk profile, but it has managed these risks well so far. Its NPLs remain below 2%, with high coverage levels. However, its relatively high restructured assets (6.5% of loans and rising recently) suggest some caution in the near term.
- **Key risks** — Higher-than-expected deterioration in asset quality, sharp drop in NIMs, and deterioration in deposit mix, could lead to near-term dislocation in momentum.

Statistical Abstract

Year to Mar 31	Net Profit (RsM)	EPS (Rs)	EPS Growth (%)	PE (x)	PB (x)	ROAE (%)	ROAA (%)	Div yield (%)
FY08	20,488	65	33.0	15.7	2.6	18	1.1	1.3
FY09	30,909	98	50.9	10.4	2.2	23	1.4	2.0
FY10E	38,720	123	25.3	8.3	1.8	24	1.5	2.0
FY11E	43,084	137	11.3	7.4	1.5	22	1.4	2.1
FY12E	51,235	162	18.9	6.3	1.3	22	1.4	2.2

Source: Company Data, Citi Investment Research and Analysis Estimates

Investment Strategy

We rate PNB shares as Sell/Medium Risk (3M). It is one of India's largest government-owned banks, with good profitability (ROEs of 18%-20%) and relatively high net interest margins. We believe: a) PNB has been able to maintain its growth along with its higher-than-industry NIMs, and while we expect NIMs to drift downwards, they are likely to remain significantly above industry; b) PNB has shown significant growth in fee income, led by its strong technology platform and greater management focus; and c) PNB's asset quality has held up reasonably well despite its greater mid-market and agricultural focus. However, we expect the positives are likely to be offset by: a) Its aggressive loan growth stance especially in the mid-market segments which increases its leverage to the broader economy; b) Higher sensitivity to a rising interest rate environment as yields on investment book have reduced sharply — which could hurt NIMs if funding costs rise; and c) Historically peak valuation multiples.

Valuation

Our target price for PNB of Rs950 is based on CIRA's EVA model, which captures the long-term value of the business, and is a standard valuation measure for the CIRA India Banking coverage. Our target price assumes: a) Risk-free rate of 8.0% in line with our assumptions for other banks; b) Longer term loan loss provisions of 100bps in-line with sector averages, c) Loan spreads of 200bps, in-line with industry levels, and d) Long-term fee income growth of 9%. We also benchmark our valuation multiples at 1.5x 1Yr Fwd P/BV (Rs994) –at par with SBI due to its strong deposit franchise which acts as a cushion against a rising interest rate environment. We use EVA as our preferred valuation methodology as we believe it better captures the long-term value of the business.

Punjab National Bank (PNBK.BO): Financial Summary

	2008	2009	2010E	2011E	2012E
Valuation Ratios					
P/E adjusted (x)	15.7	10.4	8.3	7.4	6.3
P/E reported (x)	15.7	10.4	8.3	7.4	6.3
P/BV (x)	2.6	2.2	1.8	1.5	1.3
P/Adjusted BV diluted (x)	3.0	2.4	2.0	1.6	1.3
Dividend yield (%)	1.3	2.0	2.0	2.1	2.2
Per Share Data (Rs)					
EPS adjusted	64.98	98.03	122.80	136.64	162.49
EPS reported	64.98	98.03	122.80	136.64	162.49
BVPS	390.68	464.75	564.25	676.43	813.29
Tangible BVPS	390.68	464.75	564.25	676.43	813.29
Adjusted BVPS diluted	341.98	416.74	516.24	628.42	765.28
DPS	13.00	20.00	20.00	21.00	22.00
Profit & Loss (RsM)					
Net interest income	55,342	70,309	86,598	100,690	117,783
Fees and commissions	11,062	13,766	15,418	17,269	19,341
Other operating Income	8,913	15,430	16,277	14,137	15,521
Total operating income	**75,317**	**99,505**	**118,294**	**132,095**	**152,645**
Total operating expenses	-35,255	-42,062	-49,794	-55,249	-61,303
Oper. profit bef. provisions	**40,062**	**57,443**	**68,500**	**76,845**	**91,342**
Bad debt provisions	-4,156	-8,853	-9,208	-11,041	-13,372
Non-operating/exceptionals	-2,947	-922	-1,500	-1,500	-1,500
Pre-tax profit	**32,959**	**47,669**	**57,791**	**64,305**	**76,470**
Tax	-12,472	-16,760	-19,071	-21,221	-25,235
Extraord./Min. Int./Pref. Div.	0	0	0	0	0
Attributable profit	**20,488**	**30,909**	**38,720**	**43,084**	**51,235**
Adjusted earnings	20,488	30,909	38,720	43,084	51,235
Growth Rates (%)					
EPS adjusted	33.0	50.9	25.3	11.3	18.9
Oper. profit bef. prov.	13.4	43.4	19.2	12.2	18.9
Balance Sheet (RsM)					
Total assets	**1,990,204**	**2,469,186**	**2,844,005**	**3,308,129**	**3,893,789**
Avg interest earning assets	1,774,641	2,185,174	2,606,284	3,020,958	3,541,189
Customer loans	1,226,422	1,578,464	1,828,718	2,162,869	2,571,690
Gross NPLs	33,193	27,675	35,659	37,129	41,497
Liab. & shar. funds	**1,990,204**	**2,469,186**	**2,844,005**	**3,308,129**	**3,893,789**
Total customer deposits	1,664,572	2,097,605	2,429,760	2,846,054	3,374,844
Reserve for loan losses	31,407	31,434	33,724	35,850	39,940
Shareholders' equity	**123,183**	**146,536**	**177,910**	**213,280**	**256,434**
Profitability/Solvency Ratios (%)					
ROE adjusted	18.0	22.9	23.9	22.0	21.8
Net interest margin	3.1	3.2	3.3	3.3	3.3
Cost/income ratio	46.8	42.3	42.1	41.8	40.2
Cash cost/average assets	2.0	1.9	1.9	1.8	1.7
NPLs/customer loans	2.7	1.8	1.9	1.7	1.6
Reserve for loan losses/NPLs	94.6	113.6	94.6	96.6	96.2
Bad debt prov./avg. cust. loans	0.4	0.6	0.5	0.6	0.6
Loans/deposit ratio	73.7	75.3	75.3	76.0	76.2
Tier 1 capital ratio	8.5	9.0	9.6	9.9	10.2
Total capital ratio	13.0	14.0	15.0	14.9	14.7

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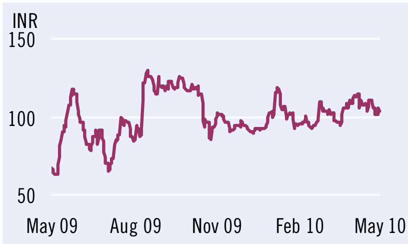
Puravankara Projects (PPRO.BO)

Sell/High Risk	3H
Price (11 May 10)	Rs103.40
Target Price	Rs38.00
Expected share price return	-63.2%
Expected dividend yield	1.0%
Expected total return	**-62.2%**
Market Cap	Rs22,068M
	US$489M

Price Performance



Source: dataCentral

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Company description

Puravankara Projects is a leading developer in Bangalore. Its founder, Mr. Ravi Puravankara, has over three decades of experience in the construction and development business. Puravankara was incorporated in 1986. It has selfconstructed most of its properties developed in Bangalore. Though Puravankara remains focused on Bangalore, it is also expanding to other regions in South India. These expansions are spread over locations such as Chennai, Coimbatore, Mysore, Cochin and Hyderabad, and to Colombo in Sri Lanka.

Foray Into Affordable Housing – An Inherent Trigger?

- **Snippets from FY10 results** — Consolidated net profit came in at Rs1.45bn (flat vs. FY09), while revenues closed at Rs4.8bn (up 8% YoY). While EBITDA margins improved ~500 bps to 35%, net margin dropped by 200bps on the back of increased finance charge. The Board has recommended a dividend of 20% (Rs1.00/share).

- **Operational pick up seems to be coming through** — On sales volume in FY10, the company did not give any specific number, but said that its projects launched are 63% sold. Construction-wise, these projects are 75% complete (vs. 68% in Q3FY10). For Provident Housing it is 70% sold and 18% completed.

- **Foraying into entry level housing** — The company has tied up with Homex to build entry level low cost housing (Rs0.5-0.8m to Rs1.2-1.5m). Homex is said to be the technology leader in this segment, with cost effective and technology driven methodology in place enabling fast execution, along with ~35-40% margins. The JV is looking to build 10,000 homes in the first project in Chennai, of which 3,000 will be launched in Ph-1. While finer details of the JV terms are unavailable, it is known that this MoU with Homex is not exclusive.

- **Leverage level at 0.54** — Total debt stood at Rs8.0bn as at the close of FY10, of which Rs3.1bn needs to be repaid/refinanced in FY11. Management mentioned that while it is looking at funding a portion of the same from its internal accrual, most of it would be refinanced. Net-net at the end of FY11, debt should remain around the same levels (Rs7.5-8.0bn).

- **Plans for FY11**— In the premium Purva brand, the company is looking to launch 12msf of resi, of which 6msf is still in the planning stage. In the affordable segment (i.e. Provident Housing), it is bringing to market another 6msf. Lastly, the two projects in the pipeline in its Homex JV- Chennai launch will be ~2msf, which will be followed by Bangalore. In FY11, ~1.75msf is being targeted to be delivered by Puravankara.

- **A pure play on IT recovery** — The Bangalore residential market constitutes 66% of its landbank. While we can see the IT sector getting back in growth mode, recovery in the base market is trickling in, albeit slowly. We see likely risks in the form of: 1) Diversification into infra/construction could dilute focus/resources from core business; 2) Pressure on earnings due to affordable sub; and 3) Slower than expected ramp-up on execution.

Statistical Abstract

Year to 31 Mar	Net Profit (RsM)	Diluted EPS (Rs)	EPS growth (%)	P/E (x)	P/B (x)	ROE (%)	Yield (%)
2007A	1,291	6.7	na	15.4	9.0	na	0.7
2008A	2,400	11.2	67.2	9.2	1.8	33.5	1.9
2009E	1,670	7.8	-30.4	13.2	1.6	13.0	1.0
2010E	1,147	5.4	-31.3	19.2	1.5	8.2	1.0
2011E	1,353	6.3	18.0	16.3	1.4	9.0	1.0

Source: Company Reports and CIRA Estimates

Investment Strategy

We rate Puravankara as Sell/High Risk (3H), with a target price of Rs38. Puravankara's residential-heavy model has a quality land-bank of ~114m sq ft. Its clear development titles, with landbank almost entirely paid for, and in-house construction capabilities differentiate it from other developers. Puravankara's focus on South India, in the larger markets of Bangalore and Chennai, is in our view an advantage over developers with a National Capital Region (NCR) bias. However, macro conditions are deteriorating and we expect a slowdown in Puravankara's presales volumes given its residential-heavy model, with a bias toward Bangalore (66% of landbank). We see downside risks for the stock, hence our Sell rating.

Valuation

Our target price of Rs38 is based on a 50% discount to our NAV of Rs76. We ascribe the discount to capture: 1) Puravankara's concentration risk in Bangalore; 2) The company's residential-heavy business model, exposing its business to demand/pricing risks; 3) Possible execution delays; and 4) Lower investor preference for tier-two players with low stock liquidity.

Our NAV estimate of Rs76 is based on the following assumptions: 1) 18-24 months delay in project execution; 2) Development volume of ~108m sq ft (as ~6m sq ft is already/to be recognized as revenue till FY09); 3) An average cost of capital of 18% given tight credit/volatile capital markets; and 4) A tax rate of 26%.

Puravankara Projects (PPRO.BO): Financial Summary

Fiscal year end 31-Mar	2007	2008	2009E	2010E	2011E
Valuation Ratios					
P/E adjusted (x)	15.4	9.2	13.2	19.2	16.3
P/E reported (x)	15.4	9.2	13.2	19.2	16.3
P/BV (x)	9.0	1.8	1.6	1.5	1.4
Dividend yield (%)	0.7	1.9	1.0	1.0	1.0
Per Share Data (Rs)					
EPS adjusted	6.72	11.24	7.82	5.37	6.34
EPS reported	6.72	11.24	7.82	5.37	6.34
BVPS	11.55	56.80	63.63	68.00	73.34
NAVps ordinary	na	na	na	na	na
DPS	0.71	2.00	1.00	1.00	1.00
Profit & Loss (RsM)					
Net operating income (NOI)	**1,558**	**2,349**	**1,874**	**1,543**	**1,880**
G&A expenses	-198	-216	-191	-171	-216
Other Operating items	115	236	21	-65	-68
EBIT including associates	**1,476**	**2,369**	**1,704**	**1,308**	**1,596**
Non-oper./net int./except.	-12	98	-5	-4	-4
Pre-tax profit	**1,463**	**2,467**	**1,700**	**1,304**	**1,592**
Tax	-172	-67	-29	-156	-239
Extraord./Min. Int./Pref. Div.	0	0	0	0	0
Reported net income	**1,291**	**2,400**	**1,670**	**1,147**	**1,353**
Adjusted earnings	1,291	2,400	1,670	1,147	1,353
Adjusted EBIT	1,336	2,075	1,625	1,308	1,596
Adjusted EBITDA	1,361	2,133	1,683	1,373	1,664
Growth Rates (%)					
NOI	57.1	50.7	-20.2	-17.6	21.8
EBIT adjusted	49.9	55.3	-21.7	-19.5	22.0
EPS adjusted	75.6	67.2	-30.4	-31.3	18.0
Cash Flow (RsM)					
Operating cash flow	**-5,584**	**-6,691**	**-1,352**	**-345**	**69**
Depreciation/amortization	25	59	59	65	68
Net working capital	-5,968	-9,072	-3,090	-1,557	-1,353
Investing cash flow	**-379**	**-677**	**-298**	**-125**	**-230**
Capital expenditure	-239	-161	-85	-70	-115
Acquisitions/disposals	0	0	0	0	0
Financing cash flow	**5,892**	**7,344**	**1,613**	**437**	**237**
Borrowings	5,139	-237	1,826	650	450
Dividends paid	-137	-427	-213	-213	-213
Change in cash	**-71**	**-24**	**-38**	**-33**	**75**
Balance Sheet (RsM)					
Total assets	**14,073**	**23,394**	**27,996**	**30,409**	**33,732**
Cash & cash equivalent	374	350	312	279	354
Net fixed assets	389	497	523	528	575
Total liabilities	**11,856**	**11,267**	**14,412**	**15,892**	**18,074**
Total Debt	6,761	6,524	8,350	9,000	9,450
Shareholders' funds	**2,218**	**12,127**	**13,584**	**14,517**	**15,657**
Profitability/Solvency Ratios					
EBIT margin adjusted (%)	32.0	36.7	33.8	31.4	30.7
ROE adjusted (%)	77.5	33.5	13.0	8.2	9.0
ROA adjusted (%)	12.0	12.8	6.5	3.9	4.2
Net debt to equity (%)	288.0	50.9	59.2	60.1	58.1
Interest coverage (x)	110.9	na	357.0	323.5	435.7

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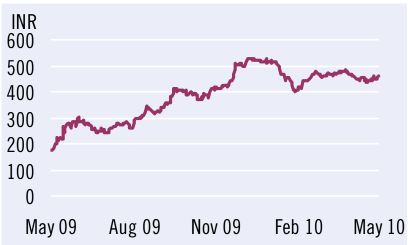
Ranbaxy (RANB.BO)

Buy/Medium Risk	**1M**
Price (11 May 10)	Rs458.25
Target Price	Rs620.00
Expected share price return	35.3%
Expected dividend yield	0.0%
Expected total return	**35.3%**
Market Cap	Rs192,771M
	US$4,275M

Price Performance



Source: dataCentral

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Company description

Ranbaxy is a leading Indian pharmaceutical company with a strong export business complementing its domestic business. It has a vision of becoming a leading generics pharmaceutical company in the global market and, in the long term, a research-led pharmaceutical company. The company already has a presence in several countries, and has developed a complex business model, perhaps the first of its kind in a developing country. It was recently acquired by Daiichi Sankyo, which now holds a c64% stake in the company.

Turning a Corner

- **Turning a Corner** — We expect Ranbaxy's global presence, wide product basket and an impressive pipeline of patent challenges / settlements with innovator companies to hold it in good stead in the long term. Key valuation overhangs have been addressed, in our view, with the improvement in core biz and Ranbaxy's ability to monetize its FTF opportunities despite the FDA issues. The impact of FDA action on its facilities is also well understood and built into estimates. While it is difficult to estimate a timeline for resolution, we do not expect things to worsen from here.

- **Steady Progress on FDA issues** — Ranbaxy has met the FDA to resolve the warning letter at Gloversville and is in process of submitting a corrective action plan for the same. The corrective action plan has been implemented at Dewas and the plant is awaiting a re-inspection. At Paonta, implementation of the corrective plan is underway. At this point, we believe that the risk is more on delay of resolution rather than escalation of issues.

- **FTF Pipeline: Half Full or Half Empty?** — We believe Ranbaxy's inability to get approval for *Flomax*, but still secure a share of upside from the alternate generic launch, highlights two things: a) It is not a given that Ranbaxy will be able to get FDA approval for every FTF filing on time, despite the success on *Valtrex* & *Imitrex*; b) There are options beyond a launch that Ranbaxy can explore to monetize the FTFs. While the former is disappointing, we believe the latter is as a positive.

- **Key Issues / Things to Watch Out For** — 1) Resolution of the import alert at Dewas & the warning letter at Gloversville. The clearance of AIP at Paonta could take longer; 2) Ranbaxy's ability to monetize its FTF pipeline; and 3) Moves to exploit synergies with Daiichi.

Statistical Abstract

Year to 31 Mar	Net Profit (RsM)	Diluted EPS (Rs)	EPS growth (%)	EV/EBITDA (x)	P/E (x)	P/B (x)	P/CEPS (x)	ROE (%)	Yield (%)
2007A	4,745	11.9	na	25.1	38.7	6.6	18.5	na	1.9
2008A	5,878	14.0	17.9	46.0	32.8	4.5	-27.6	-26.6	0.0
2009E	910	2.2	-84.5	18.7	nm	3.9	17.8	17.7	0.0
2010E	4,025	9.6	342.3	8.5	48.0	2.9	8.3	35.3	1.9
2011E	9,772	23.2	142.8	3.8	19.8	1.8	4.0	51.7	1.9

Source: datacentral, Citi Investment Research and Analysis estimates

Investment Strategy

We rate Ranbaxy Buy/Medium Risk with a target price of Rs620. The timely approval & launch of Valtrex (generic valacyclovir) in the US market with exclusivity and trends in the last two quarters indicate that the worst is behind for Ranbaxy. There has been tangible improvement in emerging markets, which were severe pressure at the beginning of the year and signs that Daiichi sees a key role for Ranbaxy in its future strategy. The impact of the US FDA action on its facilities (Dewas & Paonta Sahib) is also well understood and built into estimates and valuations. With the approval for Valtrex coming through on time, we also have more comfort on Ranbaxy's ability to successfully change sites and get approvals in time for its other FTF opportunities, reinforcing our positive stance on the stock.

Valuation

We have a target price of Rs620 for Ranbaxy, comprising Rs435 for the base generics business and Rs185 for the company's patent challenge pipeline. We use EV/Sales to value the core business as we believe Ranbaxy's current profitability is skewed downwards by the unabsorbed overheads at Paonta Sahib & Dewas as well as the high legal & consultancy charges being incurred towards resolving the FDA issues at these plants. We value the core generics business (excluding exclusivity upsides) at 2.4x Mar 11E recurring sales, which is at a 10% discount to the median of the band in which it has traded over the past 8-9 years. We believe this discount is warranted given the uncertainty in its business following issues with the US FDA. We value the company's patent challenge pipeline using a probability-adjusted NPV approach and applying a discount rate of 15%.

Ranbaxy (RANB.BO): Financial Summary

Fiscal year end 31-Dec	2007	2008	2009E	2010E	2011E
Valuation Ratios					
P/E adjusted (x)	38.7	32.8	nm	47.9	19.7
EV/EBITDA adjusted (x)	22.7	26.0	43.0	24.0	13.3
P/BV (x)	6.5	4.5	3.8	2.9	1.8
Dividend yield (%)	1.9	0.0	0.0	1.9	1.9
Per Share Data (Rs)					
EPS adjusted	11.86	13.98	2.17	9.58	23.25
EPS reported	19.35	-22.44	19.57	48.94	107.42
BVPS	70.05	102.20	119.18	157.96	257.35
DPS	8.50	0.00	0.00	8.50	8.50
Profit & Loss (RsM)					
Net sales	69,822	70,852	80,017	103,968	144,112
Operating expenses	-62,859	-68,303	-71,309	-80,714	-90,028
EBIT	**6,964**	**2,549**	**8,708**	**23,254**	**54,084**
Net interest expense	-1,412	-2,055	-693	-786	-418
Non-operating/exceptionals	4,434	-15,494	3,165	3,080	2,490
Pre-tax profit	**9,985**	**-15,000**	**11,179**	**25,547**	**56,156**
Tax	-2,118	5,651	-2,870	-4,970	-10,996
Extraord./Min.Int./Pref.div.	-124	-84	-84	-4	-4
Reported net income	**7,744**	**-9,434**	**8,225**	**20,573**	**45,156**
Adjusted earnings	4,745	5,878	910	4,025	9,772
Adjusted EBITDA	10,086	8,363	4,800	8,263	12,740
Growth Rates (%)					
Sales	13.9	1.5	12.9	29.9	38.6
EBIT adjusted	1.5	-15.1	-63.2	151.3	81.2
EBITDA adjusted	15.8	-17.1	-42.6	72.2	54.2
EPS adjusted	11.7	17.9	-84.5	342.3	142.8
Cash Flow (RsM)					
Operating cash flow	**11,992**	**-8,318**	**13,077**	**29,082**	**53,600**
Depreciation/amortization	2,183	2,452	2,627	2,804	2,849
Net working capital	573	-2,387	1,447	4,914	5,174
Investing cash flow	**-4,364**	**-5,555**	**-14,241**	**-17,375**	**-31,475**
Capital expenditure	-5,227	-5,749	-4,850	-3,600	-3,563
Acquisitions/disposals	639	-745	-9,569	-13,000	-27,000
Financing cash flow	**-392**	**26,885**	**-6,698**	**-4,360**	**-18,741**
Borrowings	4,333	-4,698	-6,005	0	-14,750
Dividends paid	-3,642	-2,620	0	-3,573	-3,573
Change in cash	**7,236**	**13,012**	**-7,862**	**7,347**	**3,384**
Balance Sheet (RsM)					
Total assets	**92,782**	**121,961**	**120,097**	**140,733**	**172,721**
Cash & cash equivalent	4,379	23,956	9,656	12,021	12,180
Accounts receivable	14,931	13,310	16,048	17,694	19,633
Net fixed assets	45,619	49,607	51,830	52,626	53,339
Total liabilities	**64,178**	**78,323**	**69,237**	**73,569**	**63,770**
Accounts payable	8,615	8,303	8,383	9,243	10,255
Total Debt	41,416	43,114	37,109	37,109	22,359
Shareholders' funds	**28,604**	**43,637**	**50,860**	**67,164**	**108,951**
Profitability/Solvency Ratios (%)					
EBITDA margin adjusted	14.4	11.8	6.0	7.9	8.8
ROE adjusted	17.6	16.6	2.0	6.9	11.2
ROIC adjusted	7.6	16.9	-1.0	0.7	-1.6
Net debt to equity	129.5	43.9	54.0	37.4	9.3
Total debt to capital	59.1	49.7	42.2	35.6	17.0

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Reliance Capital (RLCP.BO)

Sell/Medium Risk	**3M**
Price (11 May 10)	Rs702.65
Target Price	Rs821.00
Expected share price return	16.8%
Expected dividend yield	1.0%
Expected total return	**17.8%**
Market Cap	Rs172,594M
	US$3,827M

Price Performance

Source: dataCentral

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Company description

Reliance Capital (RCap) is India's largest, diversified retail financial services company with a presence in asset management, life insurance, non-life insurance, brokerage, consumer finance and distressed assets. It is part of the Anil Dhirubhai Ambani (ADA) group, which holds a 53% stake in the company. RCap has leveraged its strong brand and large capital base, and has aggressively built a large distribution network in the country. It is among the market leaders in all its business segments.

Large, Leveraged, Leader

- **India's leading retail financial services company –** Reliance Capital (RCap) is characterized by: a) Presence in high growth and fundamentally under-penetrated markets; b) Market leadership; and c) Strong and aggressive management. This has, and will likely continue to, drive a heady business and valuation mix. Conversely, in a slower economy/market, with competitive and cost pressures, and a finance company platform, valuations could hurt a little more.

- **Retail financial services – characterized by structural under penetration** — India's retail financial services space has seen strong growth rates, driven by: a) High domestic savings propensity; b) Under-penetration; and c) Favorable demographics. We believe the underlying shift towards more transparent, liquid and sophisticated savings and risk instruments should continue to support relatively strong growth in financial services.

- **Most businesses are young and each has significant LT growth potential —** RCap's businesses are still in the early stages of growth, especially the broking, consumer finance, and asset reconstruction segments. While the asset management and life insurance businesses are relatively more mature, these segments are still growing and could have significant potential for future long-term growth.

- **Largest non-bank distribution network and growing rapidly** — RCap has built the largest non-banking distribution network in the country. While the pace of growth has slowed, it provides an opportunity to leverage on the existing network to drive further penetration and market share gains. Moreover, RCap can leverage the distribution network of its group companies and its customer franchise for additional cross-sell opportunities.

- **Strong capital base –** An advantage in a tight liquidity/funding environment, RCap is also well capitalized, which has been key to its aggressive growth, especially in the insurance segments which require large and timely capital infusions. It has relatively low leverage, leaving significant room for continued aggressive expansion. Also, during times of low systemic liquidity and higher interest rates (as currently) a large capital base can be a relative competitive advantage.

- **Capital market sensitivity is high —** RCap's businesses offer secular growth; but almost all (representing about 90% of earnings and valuations) are inherently leveraged to equity markets (for growth, returns and valuations). We see the cyclicality as likely to be more dominating than the secular growth.

Statistical Abstract

Year to Mar 31	Net Profit (RsM)	EPS (Rs)	EPS Growth (%)	PE (x)	PB (x)	ROAE (%)	ROAA (%)	Div Yield (%)
FY08	10,057	41	36.4	17.2	2.6	17	7.8	0.8
FY09	10,145	41	0.9	17.0	2.3	14	5.1	0.9
FY10E	10,551	43	4.0	16.4	2.1	13	4.5	1.0
FY11E	11,176	45	5.9	15.5	1.9	13	4.1	1.0
FY12E	11,725	48	4.9	14.8	1.7	12	3.7	1.1

Source: Company Data, Citi Investment Research and Analysis Estimates

Investment Strategy

We rate RCap as Sell/Medium Risk (3M). Its key strengths are: a) A presence in under-penetrated, secular growth businesses; b) Strong business growth led by supportive capital markets; and c) Market leadership in most segments, driven by its large distribution network, product focus and strong and aggressive management. However, almost all its businesses and earnings are inherently linked to capital markets. RCap is also significantly exposed to slower economic growth, higher interest rates and weaker asset quality, which could pressure growth and expected returns. Moreover, we believe its profitability will be under pressure medium-term due a likely higher cost distribution build-out and increasing competitive intensity. While parts of RCap's businesses are likely to grow significantly (especially asset management and broking) in the current environment, and profitability is showing signs of stabilization, we expect its insurance and consumer finance segments to continue on a moderate growth path.

Valuation

Our Rs821 target price is based on a SOTP methodology due to its diverse businesses. We value the AMC business at Rs237/sh (5.0% of AUMs), the life insurance business at Rs417/sh (14x 1-year forward NBAP, at par with peers), the non-life insurance business at Rs4/sh (10x 1-year forward economic profits), the retail broking business at Rs53/sh (15x 1-year forward earnings), and the consumer finance business at Rs92/sh (1.25x 1-year forward book value). We also estimate unrealized gains at 25% of the costs of its listed equity investments to factor in the sharp rise in equity markets.

Reliance Capital (RLCP.BO): Financial Summary

	2008	2009	2010E	2011E	2012E
Valuation Ratios					
P/E adjusted (x)	17.2	17.0	16.4	15.5	14.8
P/E reported (x)	17.2	17.0	16.4	15.5	14.8
P/BV (x)	2.6	2.3	2.1	1.9	1.7
P/Adjusted BV diluted (x)	2.6	2.3	2.1	1.9	1.7
Dividend yield (%)	0.8	0.9	1.0	1.0	1.1
Per Share Data (Rs)					
EPS adjusted	40.85	41.21	42.86	45.40	47.63
EPS reported	40.85	41.21	42.86	45.40	47.63
BVPS	268.35	302.12	336.96	374.33	413.35
Tangible BVPS	268.35	302.12	336.96	374.33	413.35
Adjusted BVPS diluted	268.35	302.12	336.96	374.33	413.35
DPS	5.49	6.50	7.00	7.00	7.50
Profit & Loss (RsM)					
Net interest income	5,050	1,781	6,368	7,327	8,530
Fees and commissions	5,672	8,272	11,710	13,846	17,504
Other operating Income	34,331	36,932	33,506	39,123	45,817
Total operating income	**45,053**	**46,985**	**51,585**	**60,295**	**71,852**
Total operating expenses	-32,732	-33,634	-37,095	-45,229	-55,944
Oper. profit bef. provisions	**12,321**	**13,351**	**14,490**	**15,066**	**15,907**
Bad debt provisions	-163	-1,314	-1,287	-1,082	-1,237
Non-operating/exceptionals	0	0	0	0	0
Pre-tax profit	**12,158**	**12,038**	**13,203**	**13,985**	**14,670**
Tax	-2,089	-1,881	-2,641	-2,797	-2,934
Extraord./Min. Int./Pref. Div.	-12	-12	-12	-12	-12
Attributable profit	**10,057**	**10,145**	**10,551**	**11,176**	**11,725**
Adjusted earnings	10,057	10,145	10,551	11,176	11,725
Growth Rates (%)					
EPS adjusted	36.4	0.9	4.0	5.9	4.9
Oper. profit bef. prov.	51.8	8.4	8.5	4.0	5.6
Balance Sheet (RsM)					
Total assets	**184,202**	**213,001**	**256,375**	**293,855**	**346,155**
Avg interest earning assets	121,083	186,485	218,741	255,409	296,400
Customer loans	102,803	105,800	123,160	134,966	156,555
Gross NPLs	0	0	0	0	0
Liab. & shar. funds	**184,202**	**213,001**	**256,375**	**293,855**	**346,155**
Total customer deposits	0	0	0	0	0
Reserve for loan losses	0	0	0	0	0
Shareholders' equity	**66,057**	**74,370**	**82,945**	**92,145**	**101,751**
Profitability/Solvency Ratios (%)					
ROE adjusted	16.9	14.4	13.4	12.8	12.1
Net interest margin	4.2	1.0	2.9	2.9	2.9
Cost/income ratio	72.7	71.6	71.9	75.0	77.9
Cash cost/average assets	25.3	16.9	15.8	16.4	17.5
NPLs/customer loans	0.0	0.0	0.0	0.0	0.0
Reserve for loan losses/NPLs	na	na	na	na	na
Bad debt prov./avg. cust. loans	0.2	1.3	1.1	0.8	0.8
Loans/deposit ratio	na	na	na	na	na
Tier 1 capital ratio	na	na	na	na	na
Total capital ratio	na	na	na	na	na

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Reliance Communications (RLCM.BO)

Sell/Medium Risk	**3M**
Price (11 May 10)	Rs147.05
Target Price	Rs160.00
Expected share price return	8.8%
Expected dividend yield	1.0%
Expected total return	**9.8%**
Market Cap	Rs303,515M
	US$6,731M

Price Performance (RIC: RLCM.BO)

Source: dataCentral

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Company description

RCOM is an integrated player in the Indian telecoms sector. It was listed on the Indian stock exchanges following the de-merger of Reliance Industries. RCOM is the second-largest player in the mobile segment, has an 80,000km-long India-wide optic-fiber network, and owns the FLAG submarine cable network. RCOM has three business units: 1) Wireless, which includes a nationwide wireless network on CDMA and GSM; 2) Global Business comprising wholesale voice and data; and 3) Broadband for both retail and enterprise.

Wireless Turnaround Is Key

- **GSM traffic needs to be sustained** — GSM traffic of new entrants (focusing on the urban scheme-hunting subs) could be more prone to swings given the likely high contribution from multi-SIM users. This was witnessed in 4Q when the tariff cuts initiated by the incumbents in October 2009 led to a revenue market share recovery for incumbents in their strong circles. Vodafone gained 70-190bps revenue share in Delhi/Mumbai, despite heavy presence of multi-SIM (150%-165% SIM penetration), and even Idea gained 50-130bps across MP/Kerala.

- **Global business should be supported by economic recovery** — Resumption of corporate spending and new contract sign-ups post the economic recovery support global business. Besides the sharp tariff cuts in long-distance are also likely to generate usage elasticity (witnessed in the case of other incumbents in 4Q).

- **B/S under focus, FY10/11E capex lowered sharply —** Net Debt (ex-equip. payables) declined by Rs22bn in 3QFY10 to Rs189bn, as the company reduced current assets (ex-cash) by Rs17bn during the quarter. Debtors declined Rs7bn and loans & advances by Rs10bn. Capex in 3QFY10 was Rs13bn (9M-Rs32bn) and the company's lowered FY10E guidance of Rs45bn is well shy of our Rs71bn estimate and provides some cushion for 3G. FY11E capex guidance at Rs30bn further signifies the focus on sweating the existing assets.

- **High 3G bidding is a risk though** — 3G bidding has touched Rs144bn for a pan-India license. While we except RCOM to be selective, any aggressive bidding carries risk of deteriorating the B/S further.

- **TRAI recos on spectrum is positive but license fees on towercos a negative** – TRAI recommendations on spectrum allotment based on coverage versus auction (as was expected) benefits RCOM (and other new entrants on 4.4MHz) which, based on the sub linked spectrum criteria are eligible for 6.2MHz.

Statistical Abstract

Year to 31 Mar	Net Profit (RsM)	Diluted EPS (Rs)	EPS growth (%)	EV/EBITDA (x)	P/E (x)	P/B (x)	P/CEPS (x)	ROE (%)	Yield (%)
2008A	55,097	26.7	na	4.2	5.5	1.0	3.7	na	0.5
2009A	61,477	29.8	11.6	4.8	4.9	0.7	3.0	17.2	0.7
2010E	38,699	18.7	-37.1	6.9	7.8	0.7	4.0	8.8	1.0
2011E	37,226	18.0	-3.8	6.6	8.2	0.6	3.8	7.8	1.4
2012E	43,224	20.9	16.1	5.9	7.0	0.6	3.4	8.5	1.4

Source: Company data, Citi Investment Research and Analysis Estimates

Investment Strategy

We rate RCOM as Sell/Medium Risk (3M). While RCOM was able to show early signs of success in its GSM foray in 1Q, traffic growth has slowed down post other new launches, especially DoCoMo. Recent tariff cuts make it susceptible to EBITDA and earnings decline as incumbents have matched the tariffs and leave RCOM's B/S exposed, especially given high leverage (Net Debt/EBITDA of 3.7x FY10E). Besides RCOM's sub base is more susceptible to churn/traffic migration given high proportion of "scheme-hunting subs" and new entrants focus on the same set of subs. While Reliance Infratel has been signing up new tenants, its dependence on start-ups for tenancy raises question marks on their viability given the worsening competitive scenario.

Valuation

Our target price of Rs160 comprises (i) core business value of Rs120 based on 6.0x FY11E EV/EBITDA, at 10% discount to Bharti's implied target multiple (ex- towerco), plus (ii) Infratel value accretion of Rs40 based on long-term tenancy of 2.3. We believe some discount to Bharti is justified on account of the inherent risks of dual network, higher leverage, stretched FCF breakeven, and lack of clarity and consistency on accounting policies (especially related to finance income). Our towerco net value accretion of Rs40 is based on the following assumptions: 1) Long-term tenancy of 2.3 with captive tenancy of 1.6; 2) Capex recovery of 13%, 3) WACC of 11.3% and terminal growth rate of 3%; 4) Please note that the incremental value accretion to RCOM is calculated after netting off the contribution from the captive tenancy. Thus, it only reflects the value of the external revenues.

Reliance Communications (RLCM): Financial Summary

Fiscal year end 31-Mar	2008	2009	2010E	2011E	2012E
Valuation Ratios					
P/E adjusted (x)	5.5	4.9	7.8	8.2	7.0
EV/EBITDA adjusted (x)	5.4	6.1	7.6	7.0	6.3
P/BV (x)	1.0	0.7	0.7	0.6	0.6
Dividend yield (%)	0.5	0.7	1.0	1.4	1.4
Per Share Data (Rs)					
EPS adjusted	26.69	29.79	18.75	18.04	20.94
EPS reported	26.69	29.79	18.75	18.04	20.94
BVPS	140.63	204.85	221.91	237.69	256.39
DPS	0.75	1.00	1.50	2.00	2.00
Profit & Loss (RsM)					
Net sales	190,678	229,411	231,475	262,418	289,254
Operating expenses	-136,743	-175,924	-184,652	-211,858	-231,788
EBIT	**53,935**	**53,487**	**46,824**	**50,560**	**57,466**
Net interest expense	3,998	7,867	-5,655	-9,197	-8,900
Non-operating/exceptionals	0	0	0	0	0
Pre-tax profit	**57,933**	**61,354**	**41,169**	**41,363**	**48,566**
Tax	-2,836	123	-2,470	-4,136	-5,342
Extraord./Min.Int./Pref.div.	0	0	0	0	0
Reported net income	**55,097**	**61,477**	**38,699**	**37,226**	**43,224**
Adjusted earnings	55,097	61,477	38,699	37,226	43,224
Adjusted EBITDA	81,989	92,875	84,302	93,078	102,807
Growth Rates (%)					
Sales	31.8	20.3	0.9	13.4	10.2
EBIT adjusted	65.7	-0.8	-12.5	8.0	13.7
EBITDA adjusted	43.3	13.3	-9.2	10.4	10.5
EPS adjusted	70.8	11.6	-37.1	-3.8	16.1
Cash Flow (RsM)					
Operating cash flow	**106,390**	**59,756**	**58,574**	**91,340**	**81,358**
Depreciation/amortization	28,054	39,388	37,478	42,518	45,342
Net working capital	2,563	-33,243	-29,463	2,398	-16,108
Investing cash flow	**-212,034**	**-255,510**	**-72,410**	**-68,475**	**-57,017**
Capital expenditure	-212,034	-255,510	-72,410	-68,475	-57,017
Acquisitions/disposals	0	0	0	0	0
Financing cash flow	**86,190**	**138,951**	**-6,965**	**-13,841**	**-13,544**
Borrowings	83,834	133,406	8,378	0	0
Dividends paid	-1,742	-2,322	-3,483	-4,644	-4,644
Change in cash	**-19,454**	**-56,804**	**-20,801**	**9,023**	**10,797**
Balance Sheet (RsM)					
Total assets	**774,593**	**1,022,070**	**1,028,590**	**1,070,236**	**1,096,226**
Cash & cash equivalent	117,431	109,724	88,923	97,946	108,743
Accounts receivable	27,224	39,618	38,579	43,736	48,209
Net fixed assets	523,126	727,053	761,984	787,941	799,617
Total liabilities	**460,021**	**592,718**	**564,021**	**573,085**	**560,495**
Accounts payable	156,213	159,718	122,645	131,709	119,119
Total Debt	258,217	391,623	400,000	400,000	400,000
Shareholders' funds	**314,573**	**429,352**	**464,568**	**497,151**	**535,731**
Profitability/Solvency Ratios (%)					
EBITDA margin adjusted	43.0	40.5	36.4	35.5	35.5
ROE adjusted	22.3	17.2	8.8	7.8	8.5
ROIC adjusted	13.2	8.6	5.7	5.6	6.1
Net debt to equity	44.8	65.7	67.0	60.8	54.4
Total debt to capital	45.1	47.7	46.3	44.6	42.7

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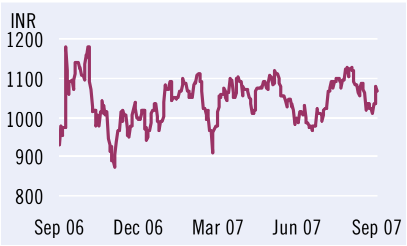
Reliance Industries (RELI.BO)

Hold/Low Risk	**2L**
Price (11 May 10)	Rs1,067.20
Target Price	Rs1,150.00
Expected share price return	7.8%
Expected dividend yield	0.7%
Expected total return	**8.4%**
Market Cap	Rs3,490,144M
	US$77,395M

Price Performance



Source: dataCentral

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Company description

Reliance Industries is a conglomerate with interests in upstream oil & gas (E&P), refining, and petrochemicals. It has commissioned a super-size refinery project through RPL (now merged with itself) and has also commenced gas production at its large gas find in the D6 block in KG basin. RIL is foraying into organized retailing and has plans to undertake SEZ projects over the medium to long term.

E&P Promise + Bottoming Refining + Positive Court Verdict

- **Positive court verdict; PSC to determine new agreement** — The Supreme Court in the RIL-RNRL gas dispute ruled that: (i) the Production Sharing Contract (PSC) between RIL and the government should play a vital role in arriving at the renegotiated agreement, thus implying that (ii) the government has a right to approve gas price. This effectively over-rules the earlier High Court ruling and is positive for RIL, removing the overhang on its gas volumes and pricing.

- **E&P promise** — E&P is valued at Rs460/share in our RIL SOTP, implying a 40% premium to NAV (D6+NEC+CBM) hence building in healthy optionality. Some of this “exploration option” has been vindicated by the newer discoveries (D3, CYD5, KG-D4) and the intensive exploration calendar, i.e. 30 wells over the next 3-4 years on its portfolio (D6, D3, D9, MN-D4, NEC-25, CYD5). However, the gestation from discovery to production is relatively long.

- **Refining back from brink** — Our GRM of $8.6/$9.5 in FY11E/12E, factors in steady recovery from $7.5 in 4QFY10, with some help from Cairn crude and captive gas. In contrast, petchem (14% EBITDA decline in FY11E) could have upside if the imminent downturn is less severe than expected due to capacity delays and/or Chinese/Indian demand. While the stock is factoring in stable macro and demand recovery in the developed world, petchem provides a cushion.

- **Acquisitions** — The shale gas JV with Atlas is a better strategic fit, though it is not big enough to swing the needle and requires peak cash sink of only US$1.8bn as against RIL’s FCF of US$10bn over FY11E-12E. In addition, expectations of sustained global recovery have pushed asset prices higher. With the stock pricing in moderate refining recovery in FY11/12E and meaningful exploration upside, risk/reward appears to remain balanced. Maintain Hold.

Statistical Abstract

Year to 31 Mar	Net Profit (RsM)	Diluted EPS (Rs)	EPS growth (%)	EV/EBITDA (x)	P/E (x)	P/B (x)	P/CEPS (x)	ROE (%)	Yield (%)
2008A	152,606	52.5	na	16.7	20.3	3.9	12.8	27.1	0.6
2009A	156,367	47.6	-9.3	16.0	22.4	2.8	16.8	15.2	0.6
2010E	162,360	49.7	4.3	13.1	21.5	2.5	13.1	12.3	0.7
2011E	220,113	67.3	35.6	9.4	15.9	2.2	9.6	15.0	0.7
2012E	255,293	78.1	16.0	8.3	13.7	2.0	8.4	15.2	0.9

Source: dataCentral, CIRA Estimates

Investment Strategy

We rate RIL as Hold/Low Risk (2L) with a target price of Rs1,150. We believe that the stock is pricing in a moderate but sustained refining recovery and meaningful exploration upside. While a 40% premium to NAV looks justified for the E&P business, present stock valuations leave little room for disappointment, esp. given the long-gestation from discovery to production. While petchem could surprise on the upside, on the refining side, the stock is factoring in stable macro and demand recovery in the developed world. While acquisitions such as the Atlas JV could be value accretive, these are unlikely to be large enough to swing the needle for RIL.

Valuation

Our target price of Rs1,150 is based on an average of a sum-of-the-parts value (Rs1,043/share) and a P/E value (Rs1,203/share) and explicitly includes the NPV of the shale gas JV with Atlas Energy of Rs30/share. Our SOTP is derived by: 1) Valuing RIL's core petchem and downstream oil business on an EV/EBITDA of 7.0x mid-FY12E; this also captures the expected recovery in global refining; 2) Valuing total E&P assets including oil & gas prospects and other blocks at Rs460/share based on 8x mid-FY12E EV/EBITDA; 3) Valuing investments in the organized retail business, SEZ, etc. at Rs44/share, based on book value of investments so far; and 4) Valuing treasury stock (post stock sale) at target price. For the P/E valuation, we ascribe a 15x mid-FY12E multiple, in line with the market multiple. We believe RPL and KG gas commencement will lead to the market now focusing on FY11/12 earnings (which capture the impact of both), prompting us to give equal weightage to a multiple-based methodology as well as an SOTP while deducing our target price.

Reliance Industries (RELI.BO): Financial Summary

Fiscal year end 31-Mar	2008	2009	2010E	2011E	2012E
Valuation Ratios					
P/E adjusted (x)	20.3	22.4	21.5	15.9	13.7
EV/EBITDA adjusted (x)	16.0	15.5	12.4	8.8	7.6
P/BV (x)	3.9	2.8	2.5	2.2	2.0
Dividend yield (%)	0.6	0.6	0.7	0.7	0.9
Per Share Data (Rs)					
EPS adjusted	52.50	47.59	49.65	67.31	78.07
EPS reported	66.94	47.59	49.65	67.31	78.07
BVPS	274.41	384.63	419.48	478.76	546.78
DPS	6.50	6.50	7.00	8.00	10.00
Profit & Loss (RsM)					
Net sales	1,334,430	1,418,470	1,924,610	2,252,746	2,281,395
Operating expenses	-1,159,711	-1,233,593	-1,723,770	-1,970,627	-1,976,677
EBIT	**174,719**	**184,877**	**200,840**	**282,118**	**304,717**
Net interest expense	-10,774	-17,450	-19,970	-24,475	-20,952
Non-operating/exceptionals	66,156	20,180	24,600	17,530	30,046
Pre-tax profit	**230,101**	**187,607**	**205,470**	**275,173**	**313,812**
Tax	-35,519	-31,240	-43,110	-55,061	-58,519
Extraord./Min.Int./Pref.div.	0	0	0	0	0
Reported net income	**194,583**	**156,367**	**162,360**	**220,113**	**255,293**
Adjusted earnings	152,606	156,367	162,360	220,113	255,293
Adjusted EBITDA	223,190	236,830	305,810	423,887	465,772
Growth Rates (%)					
Sales	19.5	6.3	35.7	17.0	1.3
EBIT adjusted	13.1	5.8	8.6	40.5	8.0
EBITDA adjusted	10.1	6.1	29.1	38.6	9.9
EPS adjusted	27.8	-9.3	4.3	35.6	16.0
Cash Flow (RsM)					
Operating cash flow	**199,875**	**389,107**	**296,383**	**346,682**	**431,990**
Depreciation/amortization	48,471	51,953	104,970	141,768	161,054
Net working capital	-43,180	180,787	29,053	-15,199	15,644
Investing cash flow	**-229,608**	**-866,494**	**-65,091**	**-148,500**	**-147,000**
Capital expenditure	-185,480	-896,927	-65,091	-148,500	-147,000
Acquisitions/disposals	-45,604	15,485	0	0	0
Financing cash flow	**65,267**	**655,505**	**-79,359**	**-55,055**	**-178,220**
Borrowings	98,795	329,060	-113,871	-26,156	-150,000
Dividends paid	-21,666	-22,118	-26,219	-29,964	-37,455
Change in cash	**35,534**	**178,118**	**151,933**	**143,127**	**106,771**
Balance Sheet (RsM)					
Total assets	**1,498,390**	**2,457,057**	**2,510,060**	**2,746,090**	**2,832,819**
Cash & cash equivalent	71,765	231,659	134,620	212,877	305,650
Accounts receivable	62,276	45,714	116,600	150,128	152,037
Net fixed assets	848,895	1,693,869	1,653,990	1,660,722	1,646,668
Total liabilities	**683,903**	**1,193,327**	**1,138,350**	**1,180,552**	**1,044,844**
Accounts payable	183,360	147,824	368,490	416,306	413,293
Total Debt	364,521	738,821	624,950	598,794	448,794
Shareholders' funds	**814,486**	**1,263,730**	**1,371,710**	**1,565,538**	**1,787,975**
Profitability/Solvency Ratios (%)					
EBITDA margin adjusted	16.7	16.7	15.9	18.8	20.4
ROE adjusted	21.2	15.2	12.3	15.0	15.2
ROIC adjusted	16.1	11.8	9.2	12.4	13.1
Net debt to equity	35.9	40.1	35.7	24.7	8.0
Total debt to capital	30.9	36.9	31.3	27.7	20.1

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Powered by: dataCentral

Reliance Infrastructure (RLIN.BO)

Buy/Medium Risk	1M
Price (12 May 10)	Rs1,000.55
Target Price	Rs1,535.00
Expected share price return	53.4%
Expected dividend yield	0.7%
Expected total return	**54.1%**
Market Cap	Rs245,005M
	US$5,448M

Price Performance

Source: dataCentral

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Company description

Reliance Energy (RELE) became Reliance Infrastructure (R-Infra) as it has forayed aggressively into the infrastructure business over the past 2.5 years: Projects include: 1) EPC player with Rs90.5bn order book; 2) Power transmission infrastructure developer including the Western Region Strengthening System (WRSS), the only 100%-owned power transmission project developed by a private player; 3) Metro rail project developer with 12km VAG corridor in Mumbai and 22.7 km airport link in Delhi; 4) 562km of highway projects; 5) L1 bidder to construct the 25-km-long bridge over sea link (MTHL) in Mumbai. RI is also constructing a 100-storey corporate park in Hyderabad with plans to set up SEZs in Noida and Mumbai and is in advanced stages of bidding for several metro, airports, highway and energy distribution projects

- **Recent Supreme Court judgment** — The Supreme Court of India has directed both parties in the RIL-RNRL dispute to re-negotiate gas supply agreement, keeping in mind production sharing contract and has upheld the right of government of India to allocate gas and decide price.
- **Judgment increases uncertainty** — While R-Infra /R-power expect the final allocation by the government to be in its favor, we believe the judgment increases uncertainty surrounding R-Power's gas-based expansion plan.
- **Promoter warrant conversion** — The promoters have raised their stake to 42.73% by converting a part of warrants. R-Infra would use Rs18bn infusion from this conversion in partially funding the capex requirement of various infrastructure projects it is executing.
- **Other projects remain on track** — Reliance cementation (subsidiary of R-Infra) has raised Rs18bn debt for cement plant. R-cementation is targeting cement capacity of 10mn tons. Mumbai Metro One is scheduled for test run in July-August 2010. Delhi Airport Express is scheduled to achieve CoD before common-wealth games in October 2010.

Statistical Abstract

Year to 31 Mar	Net Profit (RsM)	Diluted EPS (Rs)	EPS growth (%)	EV/EBITDA (x)	P/E (x)	P/B (x)	P/CEPS (x)	ROE (%)	Yield (%)
2007A	7,503	31.8	na	46.9	31.7	2.7	22.9	na	0.5
2008A	9,913	42.1	32.1	52.0	24.0	2.2	18.2	11.0	0.6
2009E	10,665	47.1	11.9	37.9	21.4	2.0	16.5	10.2	0.7
2010E	12,558	55.5	17.7	29.8	18.2	1.9	15.1	10.6	0.8
2011E	14,739	65.1	17.4	26.5	15.5	1.7	13.1	11.4	0.9

Source: Citi Investment Research and Analysis estimates

Investment Strategy

We rate R-Infra Buy/Medium Risk (1M) given that upside to our Rs1,535 target price. Our assumptions about the sales growth in the EPC business, equity IRRs in the road projects, equity IRRs in transmission projects, and equity IRRs in the metro projects are conservative vis-à-vis management expectations. We believe our assumptions adequately factor in: 1) executions risks, 2) capital risks, 3) interest-rate risks, and 4) de-rating of sectors in which RI operates given market conditions. Recently, the company: 1) successfully IPOed Reliance Power; 2) initiated a share buy back programme; and 3) re-named and restructured RELE as R-Infra. In addition, recent disclosures and seriousness evident in the recent analyst meet for R-Infra/ R-Power has forced a re-examination. Interaction with senior/ middle / junior management has given us confidence to undertake a detailed valuation exercise of each of its entities. We see Reliance Infrastructure as "An Infrastructure Goliath in the Making".

Valuation

Our 12-month SOTP target price for R-Infra of Rs1,535 is composed of: 1) EPC + Power business using an EV/EBITDA multiple of 10x Sep10; 2) We value the projects in Reliance Infra Ventures using a discounted cash flow (DCF) methodology;) We value the Delhi distribution business at a P/Equity Base of 2.0x; and 3) We value the projects in Reliance Power at a 20% discount to discounted cash flow (DCF) value.

Reliance Infrastructure (RLIN.BO): Financial Summary

Fiscal year end 31-Mar	2007	2008	2009E	2010E	2011E
Valuation Ratios					
P/E adjusted (x)	31.7	24.0	21.4	18.2	15.5
EV/EBITDA adjusted (x)	49.7	45.2	27.8	19.7	17.2
P/BV (x)	2.7	2.2	2.0	1.9	1.7
Dividend yield (%)	0.5	0.6	0.7	0.8	0.9
Per Share Data (Rs)					
EPS adjusted	31.84	42.07	47.10	55.46	65.09
EPS reported	34.01	46.03	50.29	55.46	65.09
BVPS	378.06	468.69	499.81	545.90	600.46
DPS	5.30	6.30	7.00	8.00	9.00
Profit & Loss (RsM)					
Net sales	57,100	63,643	96,749	128,322	151,160
Operating expenses	-54,526	-60,407	-91,376	-120,494	-142,396
EBIT	**2,574**	**3,235**	**5,373**	**7,828**	**8,764**
Net interest expense	-2,503	-3,088	-3,305	-4,766	-4,766
Non-operating/exceptionals	8,653	11,370	9,866	11,540	13,140
Pre-tax profit	**8,724**	**11,517**	**11,934**	**14,602**	**17,138**
Tax	-1,221	-1,604	-1,269	-2,044	-2,399
Extraord./Min.Int./Pref.div.	511	933	723	0	0
Reported net income	**8,015**	**10,846**	**11,389**	**12,558**	**14,739**
Adjusted earnings	7,503	9,913	10,665	12,558	14,739
Adjusted EBITDA	4,975	5,465	7,822	10,411	11,471
Growth Rates (%)					
Sales	41.6	11.5	52.0	32.6	17.8
EBIT adjusted	-35.5	25.7	66.1	45.7	12.0
EBITDA adjusted	-33.5	9.8	43.1	33.1	10.2
EPS adjusted	2.7	32.1	11.9	17.7	17.4
Cash Flow (RsM)					
Operating cash flow	**-39,441**	**34,301**	**30,308**	**11,513**	**17,078**
Depreciation/amortization	2,401	2,229	2,449	2,583	2,707
Net working capital	-50,129	21,053	16,471	-3,628	-368
Investing cash flow	**-18,441**	**-59,618**	**-35,677**	**-3,000**	**-3,000**
Capital expenditure	-5,250	-8,093	-3,500	-3,000	-3,000
Acquisitions/disposals	-13,191	-51,525	-32,177	0	0
Financing cash flow	**23,112**	**4,434**	**14,811**	**-2,097**	**-2,360**
Borrowings	15,914	-8,694	23,431	0	0
Dividends paid	-1,417	-1,728	-1,855	-2,120	-2,385
Change in cash	**-34,770**	**-20,883**	**9,442**	**6,416**	**11,718**
Balance Sheet (RsM)					
Total assets	**177,327**	**196,786**	**227,889**	**238,675**	**252,177**
Cash & cash equivalent	21,759	876	10,318	16,734	28,451
Accounts receivable	10,564	13,514	30,884	32,418	32,097
Net fixed assets	24,064	29,928	30,979	31,396	31,689
Total liabilities	**90,914**	**86,353**	**114,708**	**115,055**	**116,204**
Accounts payable	11,607	11,069	17,127	15,553	15,158
Total Debt	58,583	49,889	73,320	73,320	73,320
Shareholders' funds	**86,413**	**110,433**	**113,181**	**123,619**	**135,974**
Profitability/Solvency Ratios (%)					
EBITDA margin adjusted	8.7	8.6	8.1	8.1	7.6
ROE adjusted	9.5	10.1	9.5	10.6	11.4
ROIC adjusted	1.7	1.6	4.8	7.4	7.8
Net debt to equity	42.6	44.4	55.7	45.8	33.0
Total debt to capital	40.4	31.1	39.3	37.2	35.0

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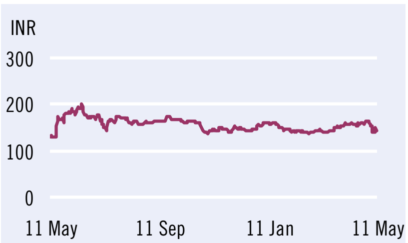
Powered by: dataCentral

Reliance Power (RPOL.BO)

Non-Rated	
Price (11 May 10)	144.15
Market Cap	US$7664.5

Price Performance



Source: dataCentral

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Company Description

Reliance Power on its own and through subsidiaries is currently developing 16 medium and large sized power projects with a combined planned installed capacity of 32,080 MW, one of the largest portfolios of power generation assets under development in India.

- **Diverse geography and fuel mix** — Reliance Power's projects have diverse geographic location, fuel type, fuel source and off-take, and each project is planned to be strategically located near an available fuel supply or load centre.. Projects include eight coal-fired projects (19,940MW) to be fueled by reserves from captive mines and supplies from India and abroad, two gas-fired project (7,500MW) to be fueled primarily by reserves from the Krishna Godavari Basin (the "KG Basin") off the east coast of India, and five hydroelectric projects (4,620MW).

- **Has won 3 out of 4 UMPP bids so far** — Reliance Power has won three out of four ultra mega power projects announced so far. The projects are: (1) 4000MW coal fired project at Sasan in Madhya Pradesh; (2) 4000MW imported coal based project at Krishnapattnam in Andhra Pradesh; and (3) 4000MW coal fired project at Tilaiya, Jharkhand.

- **Implementation Status** — 1) Sasan UMPP (4000MW) – financially closed , first two units to be commissioned before 2012 2) Krishnapatnam UMPP (4000MW) – land has been fully acquired, the first unit is expected to be commissioned by March 2013; 3) Tilaiya UMPP (4000MW) - the company has won this UMPP at a levelized tariff of Rs1.77/Kwh; 4) Rosa Phase 1 (600MW) – 300MW has been commissioned in December 2010; 5) Rosa Phase 2 (600MW) – PPA signed, financial closure has taken place and coal linkage has been awarded; 6) Butibori (300MW) – Coal linkage and all clearances are in place, the project size is likely to be increased to 600MW; and 7) Chitrangi (6X660MW) – pre-sold 1241MW @ Rs2.45/Kwh

Recent Developments

The Supreme Court of India has ordered re-negotiation of gas supply agreement for Dadri power plant and has upheld the right of government to allocate gas from KG D6 and determine price

Rosa 1 (300MW) has achieved CoD in December 2010

Reliance Power (Power): Financial Summary

Figure 1. Reliance Power – Consolidated Balance Sheet

Rs. Million	FY08	FY09
Gross fixed assets	10,326	49,732
Less: Cumulative depreciation	17	73
Net fixed assets	**10,310**	**49,659**
Investments	131,234	103,172
Cash & bank balance	4,270	216
Inventories	-	-
Receivables	602	1,809
Expenses paid in advance	79	187
Total assets	**146,494**	**155,044**
Net worth	**135,334**	**137,792**
Issued equity capital	22600	23968
Minority interest reserves	-	-
Reserves & surplus	112,735	113,824
Total borrowings	**4,483**	**13,325**
Current liabilities & provisions	6,677	3,927
Total liabilities	**146,494**	**155,044**

Source: CMIE Prowess

Figure 2. Reliance Power – Consolidated Income Statement

Rs. Million	FY08	FY09
Total income	**1,329**	**3,604**
-Dividends	*1,128*	*2,849*
-Treasury operations	*200*	*609*
-Other income	*1*	*146*
Total expenses	**293**	**925**
EBITDA	**1,036**	**2,679**
Fee based financial service expenses	60	46
Depreciation	-	2
Amortization	0	-
PBT	**975**	**2,631**
Provision for direct taxes	62	125
PAT	**913**	**2,506**
Prior period & extraordinary expenses	59	61
Reported PAT	**854**	**2,445**

Source: CMIE Prowess

Shriram Transport Finance (SRTR.BO)

Buy/Medium Risk	**1M**
Price (11 May 10)	Rs542.45
Target Price	Rs615.00
Expected share price return	13.4%
Expected dividend yield	1.1%
Expected total return	**14.5%**
Market Cap	Rs122,332M
	US$2,713M

Price Performance

Source: dataCentral

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Company description

Shriram Transport is the largest organized player in the pre-owned commercial vehicle (CV) financing segment in India. Shriram was started in 1979 by 3 entrepreneurs and focuses primarily on financing of CVs. Subsequently it diversified into financing of 3-wheelers and tractors, and into providing working capital, engine replacement and tire loans to truck operators. Shriram has built a strong distribution network with 482 branches, more than 12,000 employees and tie-ups with over 500 local financiers across the country. It has a wide presence in South India.

Road to Returns

- **On the fast lane** — Shriram is India's largest organized pre-owned commercial-vehicle (CV) financier with 1) Strong loan growth (24% pa in FY09-12E); 2) A robust return profile (24-28% ROE); 3) A biz model that is unique and has scale; and 4) Cyclical upside from an improving CV cycle (32% CV sales growth YTD).

- **Business model is unique, and has scale** — The following factors differentiate Shriram: a) Regulatory arbitrage – preferred access to funding, demand for its loans (priority sector); b) Low-cost distribution network and operations; and c) Operating and regulatory flexibility. Few regulatory barriers to entry exist, but scale, asset quality management, asset concentration and now widening of asset mix/distribution channels will likely keep it a one-of-a-kind lender in India.

- **Better than a bank?** — Management is not interested in converting Shriram to a bank even if given the option. This, along with Shriram's higher growth and return profile, operating/regulatory flexibility and uniqueness appear a good trade-off against the liability franchise value and regulatory protection that a banking license brings. We believe it is the scale, sweet spot in the market, regulatory arbitrage and management record that make Shriram attractive.

- **Value more cyclical than volume?** — Shriram has been a low-beta stock, but its a) Asset/growth concentration; b) Asset-side-only value (no retail liability franchise); c) Wholesale funding (rate/liquidity sensitive) – a current risk; and d) Finco platform could result in greater stock cyclicality. We believe the business itself, asset and funding expansion and returns will remain strong and more predictable.

- **Key risks** — Asset quality, wholesale funding, execution and regulatory changes.

Statistical Abstract

Year March	Net profit (Rs. M)	EPS Rs.	EPS Growth (%)	PE (x)	PB (x)	ROAE (%)	ROAA (%)	Div yield (%)
FY08	3,898	20	76.9	26.9	6.1	27	2.7	0.9
FY09	6,124	30	49.6	18.0	4.8	30	2.8	0.9
FY10E	8,557	40	33.2	13.5	3.2	28	3.3	1.1
FY11E	10,988	49	22.8	11.0	2.5	26	3.7	1.3
FY12E	12,776	57	16.3	9.5	2.1	24	3.6	1.5

Source: Company data, Citi Investment Research and Analysis estimates

Investment Strategy

We rate Shriram Transport Buy/Medium Risk (1M). The following factors support our view: a) The turnaround in the Indian CV sales cycle (32% yoy new CV sales growth in Apr 09–Feb 10) and its linkage to the industrial production cycle (IP growth rose sharply to 16.7% yoy in Jan 10); b) Healthy demand for financing of used vehicles as CVs financed during the last growth cycle (FY03-07) come up for refinancing; c) Improving asset quality outlook for the industry as economic activity has picked up smartly and the prospects remain healthy (we estimate 8.4% GDP growth in FY11E); and d) A robust return profile for Shriram, with ROEs of 24-28% over FY10-12E.

Valuation

We value Shriram at Rs615 per share based on our EVA model, which captures the long-term value of the business and is a standard valuation measure for the CIRA India Banking coverage. Our EVA model assumes: a) a risk-free rate of 8% (in-line with current secondary market yields); b) longer term loan loss provisions of 200bps given the company's relatively higher asset risk profile; c) loan spreads of 800bps due to its relatively higher yielding asset profile; and d) long-term fee income growth of 10%. Our target price is also benchmarked off a 2.5x 1Yr Fwd P/BV, which is at the mid-point of our target multiples for private-sector banks (1.4-3.5x). We believe Shriram can trade towards the higher end of private banks during a strong economic growth and asset quality cycle due to its higher loan growth, superior ROE profile and relatively niche lending segment with high entry barriers for larger players.

Shriram Transport Finance (SRTR.BO): Financial Summary

	2008	2009	2010E	2011E	2012E
Valuation Ratios					
P/E adjusted (x)	26.9	18.0	13.5	11.0	9.5
P/E reported (x)	26.9	18.0	13.5	11.0	9.5
P/BV (x)	6.1	4.8	3.2	2.5	2.1
P/Adjusted BV diluted (x)	6.6	5.1	3.3	2.6	2.1
Dividend yield (%)	0.9	0.9	1.1	1.3	1.5
Per Share Data (Rs)					
EPS adjusted	20.13	30.12	40.10	49.23	57.24
EPS reported	20.13	30.12	40.10	49.23	57.24
BVPS	89.41	113.82	172.02	213.07	260.95
Tangible BVPS	89.41	113.82	172.02	213.07	260.95
Adjusted BVPS diluted	82.73	106.57	166.77	206.27	255.02
DPS	5.07	5.00	6.00	7.00	8.00
Profit & Loss (RsM)					
Net interest income	11,863	17,098	22,340	27,445	32,362
Fees and commissions	8	10	303	757	1,135
Other operating Income	253	427	273	121	133
Total operating income	**12,124**	**17,535**	**22,917**	**28,323**	**33,630**
Total operating expenses	-3,599	-5,271	-5,703	-6,958	-8,309
Oper. profit bef. provisions	**8,525**	**12,264**	**17,214**	**21,365**	**25,322**
Bad debt provisions	-2,461	-3,049	-4,443	-4,964	-6,253
Non-operating/exceptionals	-6	-8	0	0	0
Pre-tax profit	**6,058**	**9,206**	**12,771**	**16,401**	**19,068**
Tax	-2,160	-3,082	-4,214	-5,412	-6,293
Extraord./Min. Int./Pref. Div.	0	0	0	0	0
Attributable profit	**3,898**	**6,124**	**8,557**	**10,988**	**12,776**
Adjusted earnings	3,898	6,124	8,557	10,988	12,776
Growth Rates (%)					
EPS adjusted	76.9	49.6	33.2	22.8	16.3
Oper. profit bef. prov.	87.1	43.9	40.4	24.1	18.5
Balance Sheet (RsM)					
Total assets	**182,686**	**249,897**	**265,807**	**321,318**	**379,000**
Avg interest earning assets	141,170	212,549	254,919	292,893	351,912
Customer loans	150,727	179,031	230,642	287,262	343,517
Gross NPLs	2,384	3,843	5,035	7,997	11,022
Liab. & shar. funds	**182,686**	**249,897**	**265,807**	**321,318**	**379,000**
Total customer deposits	34	49	56	65	71
Reserve for loan losses	1,029	2,368	3,862	6,480	9,700
Shareholders' equity	**18,164**	**23,166**	**38,394**	**47,555**	**58,242**
Profitability/Solvency Ratios (%)					
ROE adjusted	26.9	29.6	27.8	25.6	24.2
Net interest margin	8.4	8.0	8.8	9.4	9.2
Cost/income ratio	29.7	30.1	24.9	24.6	24.7
Cash cost/average assets	2.5	2.4	2.2	2.4	2.4
NPLs/customer loans	1.6	2.1	2.2	2.8	3.2
Reserve for loan losses/NPLs	43.2	61.6	76.7	81.0	88.0
Bad debt prov./avg. cust. loans	2.1	1.8	2.2	1.9	2.0
Loans/deposit ratio	nm	nm	nm	nm	nm
Tier 1 capital ratio	9.4	11.9	15.4	15.3	15.8
Total capital ratio	12.7	16.4	19.5	19.0	19.1

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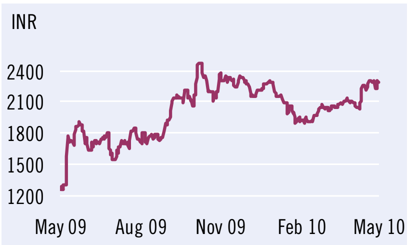
Powered by: dataCentral

State Bank of India (SBI.BO)

Buy/Low Risk	**1L**
Price (11 May 10)	Rs2,286.90
Target Price	Rs2,515.00
Expected share price return	10.0%
Expected dividend yield	1.3%
Expected total return	**11.3%**
Market Cap	Rs1,451,913M
	US$32,197M

Price Performance



Source: dataCentral

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Company description

SBI is India's largest bank with around 16% market share in deposits and loans, over 10,000 branches and more than 90m customers. Together with its seven associate banks (ownership ranging from 75% to 100%), the SBI group has more than 20% market share in deposits and loans, and has over 14,000 branches. SBI has the largest overseas presence among Indian banks, with 54 offices in 28 countries. The Government of India owns 59.73% of the bank. SBI is a banker to most state governments, and has a dominant share of government fee business.

Largest and Most Leveraged to the Economy

- **Scale, capital and breadth of business raise economy leverage** — SBI's breadth and scale of business – across assets, liabilities, financial services, market segments – makes it the most levered play to the Indian economy. While its higher risk appetite, closer government association and more aggressive pricing and growth could lead to some pressures, its leverage to a strong and up-swinging economy should be significant.

- **Deposit franchise has the mix, and the momentum** — SBI's strategy and its execution has been most impressive on the liability side; there is strong growth momentum and market share gains, its deposit mix has been improving with CASA at an impressive 43%, and with an impressive technology and branch distribution roll out, deposit gains could well be a long term driving force.

- **Margin and asset quality strains; Reversal to averages needed** — SBIs aggressive market share and presence gains have had its costs; margins are now lower than industry averages, asset quality also lags the industry. Both also remain below its normal levels. Management is focused on reverting to means; though given the breadth of SBI's exposure, this will require a mix of improved loan-deposit pricing, and a more robust economic environment.

- **Broader exposure to the financial services** — SBI is also the only Government bank which offers broader exposure to the financial services space; its strong presence in the Life Insurance business, AMC and capital markets. This broad-based presence – backed by a significant brand franchise, widening distribution and strong technology positions SBI strongly to capture the significant growth opportunity in the Indian markets, at the broadest level.

Statistical Abstract

Year March	Net profit (Rs. M)	EPS Rs.	EPS Growth (%)	PE (x)	PB (x)	ROAE (%)	ROAA (%)	Div yield (%)
FY08	67,291	116	34.7	19.7	2.9	17	1.0	0.9
FY09	91,212	144	23.9	15.9	2.5	17	1.1	1.2
FY10E	102,387	161	12.0	14.2	2.2	17	1.0	1.2
FY11E	110,765	174	8.2	13.1	1.9	16	1.0	1.3
FY12E	159,033	250	43.6	9.1	1.6	20	1.2	1.3

Source: Company data, Citi Investment Research and Analysis estimates

Investment Strategy

We rate SBI Buy/Low Risk (1L). SBI has aggressively restructured in terms of manpower, technology and business focus. It should be a significant beneficiary of the expected increase in loan demand in India, spread across the consumer sector and in the industrial segment. SBI has also invested aggressively in its technology platform, Financial Services ventures, its five subsidiary banks, and has aggressively restructured itself to lead and participate in the strong economic and business environment. We expect SBI to generate ROEs in the 15-17% level, and be more aggressive in leveraging capital that it is in the process of raising.

Valuation

Our target price of Rs2,515 is based on our EVA model, in which we assume a risk-free rate of 8.0%, in line with the market level. Our longer term loan loss assumption is 100bps pa. Our target price for SBI includes a subsidiary valuation of Rs672: Life Insurance at Rs207 per share, associate banks at 1.2x 1Yr Fwd PBV (Rs405), value for SBI's Asset management business (Rs23, 5% of assets) and incorporates capital markets subsidiary at Rs36 based on 10x 1Yr Fwd PE. We also use a sum of parts valuation which values SBI at Rs2,485 per share. In this valuation, we benchmark the parent off a 1.5x 1Yr Fwd P/BV, and factor in Rs672 for its subsidiary businesses. We base our target price on EVA, as we believe it better adjusts for the relatively dynamic cost of capital and better captures the long-term value of the business.

State Bank of India (SBI.BO): Financial Summary

	2008	2009	2010E	2011E	2012E
Valuation Ratios					
P/E adjusted (x)	19.7	15.9	14.2	13.1	9.1
P/E reported (x)	19.7	15.9	14.2	13.1	9.1
P/BV (x)	2.9	2.5	2.2	1.9	1.6
P/Adjusted BV diluted (x)	3.5	3.0	2.6	2.2	2.0
Dividend yield (%)	0.9	1.3	1.3	1.3	1.4
Per Share Data (Rs)					
EPS adjusted	116.24	144.05	161.27	174.47	250.49
EPS reported	116.24	144.05	161.27	174.47	250.49
BVPS	776.48	912.73	1,039.20	1,177.67	1,390.96
Tangible BVPS	776.48	912.73	1,039.20	1,177.67	1,390.96
Adjusted BVPS diluted	658.91	762.28	866.22	1,028.27	1,149.30
DPS	21.50	29.00	29.00	30.00	31.00
Profit & Loss (RsM)					
Net interest income	170,212	208,730	235,988	283,404	334,092
Fees and commissions	66,070	87,965	103,273	120,546	138,140
Other operating Income	27,915	38,943	39,888	31,173	34,186
Total operating income	**264,197**	**335,638**	**379,149**	**435,124**	**506,418**
Total operating expenses	-126,086	-156,486	-189,944	-212,150	-236,991
Oper. profit bef. provisions	**138,111**	**179,152**	**189,204**	**222,974**	**269,427**
Bad debt provisions	-20,009	-24,750	-37,050	-57,023	-45,839
Non-operating/exceptionals	-13,712	-12,596	2,000	0	0
Pre-tax profit	**104,389**	**141,806**	**154,154**	**165,951**	**223,588**
Tax	-37,098	-50,594	-51,767	-55,186	-64,555
Extraord./Min. Int./Pref. Div.	0	0	0	0	0
Attributable profit	**67,291**	**91,212**	**102,387**	**110,765**	**159,033**
Adjusted earnings	67,291	91,212	102,387	110,765	159,033
Growth Rates (%)					
EPS adjusted	34.7	23.9	12.0	8.2	43.6
Oper. profit bef. prov.	29.8	29.7	5.6	17.8	20.8
Balance Sheet (RsM)					
Total assets	**7,215,263**	**9,644,320**	**10,798,309**	**12,454,366**	**14,506,887**
Avg interest earning assets	6,101,618	8,026,789	9,854,418	11,259,163	13,098,790
Customer loans	4,244,341	5,509,818	6,522,377	7,727,886	9,170,106
Gross NPLs	128,373	155,893	187,340	185,617	229,985
Liab. & shar. funds	**7,215,263**	**9,644,320**	**10,798,309**	**12,454,366**	**14,506,887**
Total customer deposits	5,374,039	7,420,731	8,370,686	9,817,401	11,602,871
Reserve for loan losses	76,659	84,786	103,190	121,192	112,788
Shareholders' equity	**490,327**	**579,477**	**659,770**	**747,679**	**883,094**
Profitability/Solvency Ratios (%)					
ROE adjusted	16.8	17.1	16.5	15.7	19.5
Net interest margin	2.8	2.6	2.4	2.5	2.6
Cost/income ratio	47.7	46.6	50.1	48.8	46.8
Cash cost/average assets	2.0	1.9	1.9	1.8	1.8
NPLs/customer loans	3.0	2.8	2.9	2.4	2.5
Reserve for loan losses/NPLs	59.7	54.4	55.1	65.3	49.0
Bad debt prov./avg. cust. loans	0.5	0.5	0.6	0.8	0.5
Loans/deposit ratio	79.0	74.2	77.9	78.7	79.0
Tier 1 capital ratio	9.1	9.4	8.6	8.3	8.4
Total capital ratio	13.5	14.3	12.7	12.2	11.9

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Powered by: dataCentral

Sterlite Technologies (STTE.BO)

Non-Rated	
Price (11 May 10)	Rs.96.25
Market Cap	Rs34,219M
	US$759M

Price Performance (STTE.BO)

Source: dataCentral

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Company Description

Sterlite Technologies is a leading global provider of transmission solutions for the power and telecom industries. It is among the top three global manufacturers of power conductors and among the top five global manufacturers of optical fibers and cables. It was formed by the demerger of the erstwhile telecom division of Sterlite Industries (India) with effect from 1 July 2000 to enable a sharper focus on each of the businesses. Sterlite Optical Technologies subsequently acquired Sterlite Industries' power transmission business in 2006. Anil Agarwal is the promoter with a 50% stake.

Levered to Power and Telecom Capex

- **Global player in both the verticals** — Sterlite Technologies is a global provider of transmission solutions for the telecom and power verticals with revenue of US$540m and EBITDA of US$90m in FY10. Revenue mix is 63% power and 37% telecom, although EBITDA is split equally. It currently has an order book of US$550m, although it consists primarily of longer tender based power orders.

- **Telecom business** — Includes optical fiber and telecom cables with capacity of 12m km of fiber (currently 5th globally) and the company targets to ramp up capacity to 20m km fiber by FY12. The telecom segment generated US$201m revenues with US$44m EBITDA in FY10. Sterlite has a 45% share in this segment in India, 8% share in Africa, and 7% in China. The geographical mix is dominated towards India which accounts for 63% of revenues followed by China (19%) and ME (7%).

- **Robust fundamentals for telecom —** The primary demand for fiber in India is expected to come from the wireless backhaul connectivity i.e. connecting each cell site to the backend through fiber v/s microwave in order to increase capacity. We estimate that only ~10% of industry's ~300k towers are currently connected to the BSC via fiber. While intra-city fiber for B'band/enterprise connectivity would help, WiMax launch could dampen demand for the last mile connectivity.

- **Power business** — Includes bare overhead transmission conductors with 160k MT capacity and the company targets to ramp up capacity to 200k MT by FY11. India constitutes 85% of the overall revenues followed by Africa (8%) and Middle East (5%). Sterlite has a 25% share in India and 14% in Africa.

- **Power capex expected to continue** — Major investments are underway into grid infrastructure as the T&D capacity added in the past has been much lower than the generation capacity (50%). The Government has target of US$85bn in the 11th plan for the T&D spend (conductor spend accounts for 10% of generation capex).

Recent Developments

Sterlite plans to build an east-west interconnection transmission project costing US$173m. It plans to invest Rs3.1bn by FY12 to expand capacity in both the fiber optic and power segments.

Sterlite Technologies (STTE.BO): Financial Summary

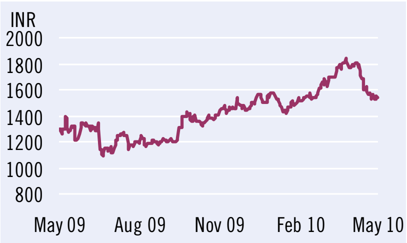
Fiscal year end	FY06	FY07	FY08	FY09
Valuation Ratios				
P/E adjusted (x)	NM	85.0	30.7	35.2
P/E reported (x)	NM	85.0	30.7	35.2
P/BV (x)	10.3	8.7	5.9	5.2
Dividend yield (%)	0.0	0.1	0.2	0.3
Per Share Data (Local Currency)				
EPS adjusted	0.07	1.16	3.21	2.80
EPS reported	0.07	1.16	3.21	2.80
BVPS	9.60	11.28	16.74	19.09
NAVps ordinary	9.60	11.28	16.74	19.09
DPS	0.00	0.10	0.20	0.25
Profit & Loss (Local Currency, Millions)				
Net operating income (NOI)	**3,542**	**5,713**	**16,858**	**22,892**
G&A expenses	-3,448	-5,431	-15,160	-20,967
Other Operating items	0	0	0	0
EBIT including associates	**94**	**472**	**1,698**	**1,925**
Non-oper./net int./except.	-74	-180	-394	-478
Pre-tax profit	**20**	**291**	**1,303**	**1,099**
Tax	1	33	-297	-193
Extraord./Min. Int./Pref. Div.	0	0	0	-2
Reported net income	**21**	**325**	**1,007**	**905**
Adjusted earnings	21	325	1,007	905
Adjusted EBIT	94	472	1,698	1,925
Adjusted EBITDA				
Growth Rates (%)				
NOI	269.6	61.3	195.1	35.8
EBIT adjusted	-111.8	400.0	259.9	13.4
EPS adjusted	-105.6	1,476.0	177.1	-12.7
Cash Flow (Local Currency, Millions)				
Operating cash flow	**347**	**-490**	**212**	**4,015**
Depreciation/amortization	347	335	372	404
Net working capital	-27	-970	-1,415	2,383
Investing cash flow	**-85**	**-561**	**-1,342**	**-2,237**
Capital expenditure	-92	-55	-1,206	-1,451
Acquisitions/disposals	-510	-746	-1,002	-787
Financing cash flow	**-100**	**1,454**	**1,021**	**-1,782**
Borrowings	NA	1,118	NA	-1,702
Dividends paid	0	0	-53	-80
Change in cash	**162**	**404**	**-109**	**-5**
Balance Sheet (Local Currency, Millions)				
Total assets	**6,491**	**8,008**	**15,650**	**16,769**
Cash & cash equivalent	171	1,067	925	1,740
Net fixed assets	3,498	3,208	5,594	6,561
Total liabilities	**3,802**	**4,691**	**10,231**	**10,583**
Total Debt	1,689	3,019	6,437	5,034
Shareholders' funds	**2,689**	**3,316**	**5,419**	**6,186**
Profitability/Solvency Ratios				
EBIT margin adjusted (%)	2.7	8.3	10.1	8.4
ROE adjusted (%)	0.8	10.8	NA	15.7
ROA adjusted (%)	0.3	4.5	NA	5.6
Net debt to equity (%)	56.4	58.9	101.7	53.3
Interest coverage (x)	-136.7	-14.1	5.7	10.0

Source: Bloomberg

Sun Pharmaceuticals (SUN.BO)

Buy/Low Risk	**1L**
Price (11 May 10)	Rs1,534.05
Target Price	Rs1,600.00
Expected share price return	4.3%
Expected dividend yield	0.8%
Expected total return	**5.1%**
Market Cap	Rs317,727M
	US$7,046M

Price Performance



Source: dataCentral

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Company description

Sun Pharma is one of the fastest-growing companies in India's domestic pharmaceutical market, growing at about 2x the industry rate. It has followed a strategy of being the first to enter niche, high-growth segments (both organic and through acquisitions). It has a presence in the CNS, pain management, ophthalmology, cardiovascular and respiratory segments. Sun is facing stiff competition in its traditional strongholds, but has managed to sustain growth and is focusing on new therapeutic areas. Sun is looking to export its top formulation products to drive growth, and has set up marketing and distribution infrastructure in various markets. It is also filing for ANDA approvals through its US subsidiary Caraco and is looking to conclude its second key acquisition in the US (Taro Pharma).

Strong Franchise

- **Robust Business** — We expect Sun's strong Indian franchise, niche US biz and improving visibility on its patent challenge pipeline to drive long-term growth. Its strong balance sheet, good return ratios & high cash generation should hold it in good stead & support premium valuations. We believe that the FDA issues are well understood and estimates/valuations now reflect most negatives.

- **Strong Domestic Franchise** — Sales from India account for c57% of Sun's recurring sales. Sun's dominance in chronic segments is a key strength, leading to superior growth & profitability vis-à-vis its peers. We expect Sun to be a key beneficiary of rising growth rates & changing disease mix in India. Besides, the high proportion of sales from India limits Sun's exposure to rupee appreciation as compared to most of its peers.

- **Progress at Caraco** — Caraco has submitted a work plan to the FDA in Oct 09 and provided some additional details & clarifications on Jan 10. Post implementation of the plan, the FDA would likely reinspect the plant and, if satisfied, allow Caraco to resume manufacturing & sales from the facility. In the meanwhile, it has transferred some products to alternate manufacturing sites in a bid to resume marketing these even as it addresses the issues at the plant. Sun however indicated that it is difficult to provide a timeline for resolution.

- **Key catalysts/Things to Watch Out For** — (1) Progress /resolution on Taro acquisition in Israel; (2) Court verdict on the Protonix patent litigation against Pfizer; (3) Potential launch of Effexor-XR in the US with some period of exclusivity; (4) Resolution of FDA issues at Caraco should also boost the stock, though this could take some time.

Statistical Abstract

Year to 31 Mar	Net Profit (RsM)	Diluted EPS (Rs)	EPS growth (%)	EV/EBITDA (x)	P/E (x)	P/B (x)	P/CEPS (x)	ROE (%)	Yield (%)
2008A	9,895	47.8	na	20.6	32.6	6.5	20.4	na	0.7
2009A	12,431	60.0	25.6	16.5	26.0	4.6	16.6	30.2	0.9
2010E	13,052	63.0	5.0	18.6	24.7	3.8	18.1	21.1	0.8
2011E	15,782	76.2	20.9	20.9	20.5	3.3	18.6	17.4	0.8
2012E	18,557	89.6	17.6	17.5	17.4	2.9	15.9	17.7	0.9

Source: dataCentral

Investment Strategy

We rate Sun Pharma shares Buy / Low Risk (1L), with a target price of Rs1,600. We expect Sun's strong Indian franchise, niche US biz and improving visibility on its patent challenge pipeline to drive steady long-term growth. Our earlier downgrade was on the back of several concerns related to FDA issues at the company's US plant and lack of visibility on core v/s non-core earnings. The stock has underperformed the Sensex/ CIR India Pharma by 7%/13% since the escalation of FDA issues at Caraco. The impact of the same is now built into estimates, and we have more clarity on sustainable earnings (two of the key concerns behind our downgrade). We believe valuations now reflect most negatives and risk/reward is favorable - leading us to our positive view.

Valuation

Our target price of Rs1,600 is based on a sum-of-the-parts approach, valuing its base business using a P/E and ascribing an option value for its patent challenge pipeline. We value frontline pharma stocks such as Cipla and Piramal Healthcare at 18x 12m forward earnings. However, we believe Sun deserves a premium to these stocks, given its consistent track record, high profitability and return rations, as well as the potential upside from the deployment of idle cash in the business, and consequently value it at 20x 12-month forward earnings. At 20x March-2011E EPS we arrive at a value of Rs1,540/share for Sun's core business. We also ascribe an option value of Rs60/sh to Sun's patent challenge pipeline.

Sun Pharmaceuticals (SUN.BO): Financial Summary

Fiscal year end 31-Mar	2008	2009	2010E	2011E	2012E
Valuation Ratios					
P/E adjusted (x)	32.1	25.6	24.3	20.1	17.1
EV/EBITDA adjusted (x)	19.8	15.8	17.4	18.2	14.7
P/BV (x)	6.4	4.5	3.8	3.3	2.8
Dividend yield (%)	0.7	0.9	0.8	0.8	0.9
Per Share Data (Rs)					
EPS adjusted	47.78	60.02	63.02	76.20	89.60
EPS reported	71.80	87.77	78.81	76.20	89.60
BVPS	241.02	340.17	405.31	468.21	542.17
DPS	10.50	13.75	12.15	11.82	13.91
Profit & Loss (RsM)					
Net sales	33,565	42,723	42,398	45,084	52,976
Operating expenses	-19,022	-25,316	-27,675	-31,708	-36,696
EBIT	**14,543**	**17,407**	**14,723**	**13,376**	**16,280**
Net interest expense	1,146	1,217	1,792	2,461	2,750
Non-operating/exceptionals	305	868	1,184	1,167	978
Pre-tax profit	**15,994**	**19,492**	**17,699**	**17,005**	**20,008**
Tax	-485	-712	-926	-680	-800
Extraord./Min.Int./Pref.div.	-640	-603	-452	-543	-651
Reported net income	**14,869**	**18,177**	**16,321**	**15,782**	**18,557**
Adjusted earnings	9,895	12,431	13,052	15,782	18,557
Adjusted EBITDA	15,512	18,640	16,213	14,987	18,002
Growth Rates (%)					
Sales	57.3	27.3	-0.8	6.3	17.5
EBIT adjusted	145.4	19.7	-15.4	-9.1	21.7
EBITDA adjusted	130.2	20.2	-13.0	-7.6	20.1
EPS adjusted	26.2	25.6	5.0	20.9	17.6
Cash Flow (RsM)					
Operating cash flow	**5,048**	**18,828**	**15,145**	**11,488**	**13,849**
Depreciation/amortization	969	1,233	1,490	1,611	1,722
Net working capital	-9,340	31	-1,326	-3,986	-4,331
Investing cash flow	**-6,060**	**-15,919**	**-23,613**	**-10,539**	**-250**
Capital expenditure	-1,995	-6,101	-4,000	-3,000	-3,000
Acquisitions/disposals	-5,242	-11,035	-21,405	-10,000	0
Financing cash flow	**661**	**-2,862**	**-4,619**	**-2,755**	**-3,241**
Borrowings	768	353	-1,789	0	0
Dividends paid	-18	-3,215	-2,831	-2,755	-3,241
Change in cash	**-352**	**1,570**	**-13,087**	**-1,806**	**10,357**
Balance Sheet (RsM)					
Total assets	**59,701**	**81,407**	**93,503**	**107,629**	**124,808**
Cash & cash equivalent	17,290	23,235	10,148	8,342	18,699
Accounts receivable	14,177	8,811	9,622	11,449	13,445
Net fixed assets	11,040	16,196	18,706	20,096	21,374
Total liabilities	**7,901**	**8,987**	**7,140**	**7,696**	**8,909**
Accounts payable	3,722	3,767	4,211	4,843	5,570
Total Debt	1,436	1,789	0	0	0
Shareholders' funds	**51,800**	**72,420**	**86,363**	**99,932**	**115,899**
Profitability/Solvency Ratios (%)					
EBITDA margin adjusted	46.2	43.6	38.2	33.2	34.0
ROE adjusted	25.5	20.7	16.9	17.4	17.7
ROIC adjusted	49.1	46.2	33.8	27.9	30.4
Net debt to equity	-30.6	-29.6	-11.8	-8.3	-16.1
Total debt to capital	2.7	2.4	0.0	0.0	0.0

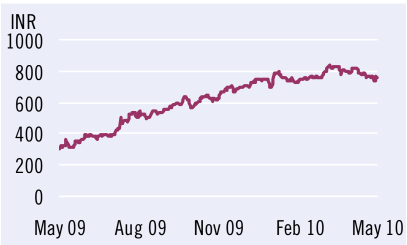
For further data queries on Citi's full coverage universe please contact CIRA Data Services Asia Pacific (CIRADataServicesAsiaPacific@citi.com) or +852-2501-2791

Powered by: dataCentral

Tata Consultancy Services (TCS.BO)

Hold/Low Risk	2L
Price (11 May 10)	Rs755.20
Target Price	Rs855.00
Expected share price return	13.2%
Expected dividend yield	1.5%
Expected total return	**14.7%**
Market Cap	Rs1,478,093M
	US$32,956M

Price Performance



Source: dataCentral

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Company description

TCS is the largest and among the oldest IT companies in India. It is a part of the diversified Tata Group, one of the largest corporate groups in Asia, with more than 160,000 employees, including subsidiaries. It provides a comprehensive range of IT services to industries such as Banking & Financial Services, Insurance, Manufacturing, Telecom, Retail and Transportation. It has more than 900 active clients. The company started with data processing work in 1968, and was the first to provide offshore services in 1974. Over the past three decades, it has come a long way with deep technical and project management expertise in handling complex client projects and strong offshore processes.

Sustained Growth Momentum the Key Challenge

- **FY11 revenue growth** — Infosys' guidance of 16-18% revenue growth (US$-terms) has already set the baseline for the sector. With analysts/investors expectations at 20%-plus YoY growth – key question for management would be how high can revenues grow in FY11?
- **BFSI outlook** — TCS has been a big beneficiary of the return of spends in the BFSI space. Given the maturity of clients in this space and the large exposure of TCS, management expectations from this vertical could be explored.
- **Outlook on margins** — Management aspires to maintain EBIT margins at ~27% levels. With INR appreciation and attrition worries (company gave salary hikes in Apr'10), the levers available could be discussed.
- **Return of pricing power** — With the return in demand, pricing discounts seem to be a thing of the past. However, with increased attrition, vendors are grappling with salary hikes across the board. Pricing is one of the key levers available to companies in order to manage their margins. A key question would be the timing of the return of pricing power for vendors.
- **Supply side dynamics** — Company's view on supply side dynamics should be another area to discuss with focus on following – (1) availability of talent (engineers) for next few years; (2) company's initiatives on training (3) right-skilling initiative – hiring of science graduates.
- **Mergers & Acquisitions** — TCS has been active in the M&A space in the past. Whether the management perceives any gaps in the services/industry/geographical portfolio and corresponding inorganic activity could be discussed.
- **SEZ strategy** — TCS' SEZ readiness, given the expectation of STPI sunset clause coming into effect by Apr'11 should be discussed. Expectations of the tax rate in FY11/12E etc. could be gauged.

Statistical Abstract

Year to 31 Mar	Net Profit (RsM)	Diluted EPS (Rs)	EPS growth (%)	EV/EBITDA (x)	P/E (x)	P/B (x)	P/CEPS (x)	ROE (%)	Yield (%)
2009A	51,721	26.4	na	20.5	28.6	9.4	25.7	na	0.9
2010A	68,729	35.1	32.9	17.0	21.5	7.1	19.5	37.6	2.6
2011E	75,873	38.8	10.4	15.2	19.5	5.6	17.4	32.2	1.5
2012E	83,494	42.7	10.0	12.7	17.7	4.6	15.8	28.5	1.5
2013E	93,790	47.9	12.3	11.1	15.8	3.7	14.1	26.1	1.5

Source: Powered by dataCentral

Investment Strategy

We rate TCS Hold/Low Risk (2L). The stock has outperformed the Indian markets by more than 100% since the beginning of 2009. The company has benefitted significantly from the return of spends in the BFSI segment and we are worried that this might taper off. We may see good growth in FY11 due to pent up demand, however, we are concerned that expectations are running ahead of reality. Its earlier valuation discount vs. Infosys has virtually ceased to exist.

Valuation

Our target price of Rs855 is based on 21x the average of FY11E-12E EPS. Given that businesses are bottoming and we estimate TCS' earnings will grow at an ~11% CAGR over FY10E-13E, we believe the stock should trade closer to the higher end of its historical three-year trading range of 7-27x 12-month forward earnings. We believe P/E remains the most appropriate valuation measure given TCS' past profitability and future earnings visibility.

Tata Consultancy Services (TCS.BO): Financial Summary

Fiscal year end 31-Mar	2009	2010	2011E	2012E	2013E
Valuation Ratios					
P/E adjusted (x)	28.6	21.5	19.5	17.7	15.8
EV/EBITDA adjusted (x)	20.2	16.7	14.5	12.2	10.5
P/BV (x)	9.4	7.1	5.6	4.6	3.7
Dividend yield (%)	0.9	2.6	1.5	1.5	1.5
Per Share Data (Rs)					
EPS adjusted	26.42	35.11	38.76	42.65	47.91
EPS reported	26.42	35.11	38.76	42.65	47.91
BVPS	79.97	107.03	133.78	165.43	202.34
DPS	7.00	20.00	11.00	11.00	11.00
Profit & Loss (RsM)					
Net sales	278,129	300,289	339,987	396,181	451,037
Operating expenses	-212,114	-220,698	-252,083	-295,450	-338,734
EBIT	**66,015**	**79,591**	**87,904**	**100,731**	**112,303**
Net interest expense	-4,673	2,255	3,845	8,673	12,298
Non-operating/exceptionals	-6	-10	0	0	0
Pre-tax profit	**61,336**	**81,836**	**91,749**	**109,404**	**124,601**
Tax	-9,011	-12,089	-15,076	-25,110	-30,011
Extraord./Min.Int./Pref.div.	-604	-1,018	-800	-800	-800
Reported net income	**51,721**	**68,729**	**75,873**	**83,494**	**93,790**
Adjusted earnings	51,721	68,729	75,873	83,494	93,790
Adjusted EBITDA	71,781	86,800	96,904	110,918	123,579
Growth Rates (%)					
Sales	21.7	8.0	13.2	16.5	13.8
EBIT adjusted	23.0	20.6	10.4	14.6	11.5
EBITDA adjusted	20.9	20.9	11.6	14.5	11.4
EPS adjusted	3.0	32.9	10.4	10.0	12.3
Cash Flow (RsM)					
Operating cash flow	**71,458**	**30,303**	**101,333**	**75,975**	**83,968**
Depreciation/amortization	5,766	7,209	9,000	10,188	11,276
Net working capital	8,694	-44,398	19,505	-9,834	-9,600
Investing cash flow	**-12,673**	**-53,876**	**-33,347**	**-16,654**	**-10,037**
Capital expenditure	-7,495	-11,421	-20,519	-17,000	-17,317
Acquisitions/disposals	11,907	-16,382	3,845	8,673	12,298
Financing cash flow	**-18,995**	**-14,183**	**-23,512**	**-21,533**	**-21,533**
Borrowings	-1,788	621	0	0	0
Dividends paid	-13,703	-39,151	-21,533	-21,533	-21,533
Change in cash	**39,791**	**-37,756**	**44,474**	**37,787**	**52,399**
Balance Sheet (RsM)					
Total assets	**226,858**	**274,546**	**340,637**	**413,275**	**495,955**
Cash & cash equivalent	13,440	10,249	70,596	115,911	172,528
Accounts receivable	60,463	58,098	78,197	91,122	103,739
Net fixed assets	37,494	41,706	53,225	60,038	66,078
Total liabilities	**67,215**	**60,978**	**74,707**	**85,384**	**95,807**
Accounts payable	0	0	0	0	0
Total Debt	7,913	3,417	3,383	3,383	3,383
Shareholders' funds	**159,643**	**213,568**	**265,929**	**327,891**	**400,148**
Profitability/Solvency Ratios (%)					
EBITDA margin adjusted	25.8	28.9	28.5	28.0	27.4
ROE adjusted	37.0	37.6	32.2	28.5	26.1
ROIC adjusted	49.1	42.8	42.4	43.0	42.8
Net debt to equity	-3.5	-3.2	-25.3	-34.3	-42.3
Total debt to capital	4.7	1.6	1.3	1.0	0.8

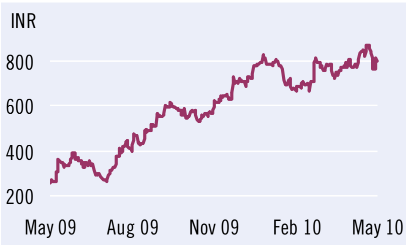
For further data queries on Citi's full coverage universe please contact CIRA Data Services Asia Pacific (eq.asiapac.data.management@citi.com) or +852-2501-2791

Powered by: dataCentral

Tata Motors (TAMO.BO)

Buy/Medium Risk	1M
Price (11 May 10)	Rs799.50
Target Price	Rs947.00
Expected share price return	18.4%
Expected dividend yield	1.1%
Expected total return	**19.6%**
Market Cap	Rs418,638M
	US$9,283M

Price Performance



Source: dataCentral

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Company description

Tata Motors is India's largest truck company with 63%/59% market share in heavy / light trucks respectively. It has a presence in the passenger car space straddling the A1-A3 segments. The company has acquired a 100% stake in Jaguar and Land Rover, which we estimate will account for ~54% of FY10E consolidated revenues.

Domestic Business and JLR Well Positioned

- **MHCVs and LCVs drive domestic business** — The macro outlook in India for MHCVs appears relatively healthy, for now. Freight rates (spot market) have risen by ~8-10%, whilst contractual rates are expected to be revised upward to offset fuel cost hikes The LCV segment also benefits from overall economic growth and last – mile – demand. TTMT has a market share of ~ 60% in this segment – driven primarily by the ACE and its 207/407 range of products.
- **A3 segment encouraging in Passenger Vehicles** — TTMT's market share in the A2 segment remains fairly lackluster, averaging around 10% (vs ~12.5% in FY09). We don't expect this to meaningfully change, given impending competition within the segment. Within A3 however, the Indigo Manza's acceptance is encouraging, improving TTMT's market share in this segment has to ~24-26%, far better than the 16% it averaged in 1HFY10, and superior to the 1HFY09 avg of 22%. We think TTMT's gains within A3 segment are sustainable, with no new launch expected from key competitor Hyundai in FY11.
- **Cost pressure outlook is mixed, reflecting global uncertainties** — We estimate 230bps margin compression in the parent business (EBITDA forecast at 10.5% in FY11), primarily on account of a) excise rate hike, and b) cost pressures, primarily rubber. The outlook on steel costs has markedly improved after China has begun to clamp down on the property sector. We note there could be upside risk to our estimates, especially in 2H as contractual steel prices are revised downward with a lag. Operating leverage benefits in areas like a) SGA, b) power and fuel, & c) freight expenses could also provide upside surprises.
- **JLR: product mix could positively surprise, macro overhangs continue** — The launch of the new XJ in May – and the consequent uptick in mix and profitability has yet to be fully priced in. We forecast ~20,000 units of XJ sales in FY11. Directionally, we are sanguine on metal costs / vehicle as we note that with a blended realization exceeding £30,000 per vehicle, the metal cost / or unit is probably ~2-3% of selling price. Deteriorating consumer confidence in the Eurozone on account of sovereign risks emanating from Portugal, Italy, Greece and Spain are a macro risk that cannot be wished away – that said, per JD Power estimates, these 4 countries accounted for ~20% of LR and ~7% of J sales in pan - Europe (including Russia and UK) in CY09.
- **Capital structure: Deleveraging underway, more required** — We forecast gross debt-equity to decline to ~2.8x (end FY10) from 5.9x (end FY09). This reflects a) recent bond conversion (around $345m); b) ~Rs10-11bn on value unlocking in Telcon; and c) ~$520m raised through GDS. Embedded risks in TTMT's balance sheet stem are net worth fluctuations on account of FX translations and economic gains / losses on account of the pension liabilities / assets.

Statistical Abstract

Year to 31 Mar	Net Profit (RsM)	Diluted EPS (Rs)	EPS growth (%)	EV/EBITDA (x)	P/E (x)	P/B (x)	P/CEPS (x)	ROE (%)	Yield (%)
2008A	15,561	36.5	na	14.2	21.9	3.9	12.4	na	1.9
2009A	9,042	17.6	-51.8	23.4	45.5	3.4	21.9	10.0	0.8
2010E	31,102	54.5	210.0	6.3	14.7	4.5	6.6	27.7	1.1
2011E	48,865	85.7	57.1	5.8	9.3	3.1	5.3	39.5	1.1
2012E	59,856	104.9	22.5	5.2	7.6	2.3	4.5	34.9	1.5

Source: Company Reports and CIRA Estimates

Note – Above data is for TTMT parent operations till FY09 and for consolidated operations for FY10-12

Investment Strategy

We rate Tata Motors shares Buy / Medium Risk (1M). From a thematic stance, TAMO is a key beneficiary of a revival in the domestic investment cycle (the value ascribed to the domestic business exceeds the value ascribed to JLR). Our view is predicated on: 1) a bottoming out of the global macro-economic environment which should result in premium car / SUV sales registering modest growth in FY11/12E; 2) stable liquidity and credit conditions should ensure that TTMT is able to secure funding for its businesses and refinancing of its debt (essential given its high level of indebtedness); 3) increasing clarity on JLR financials would remove the overhang on the share price and could even result in a further re-rating.

Valuation

Our Rs947 target price for Tata Motors is based on a sum-of-the-parts valuation. We value Tata Motors' core business at Rs759/share (on a diluted share count of 570m shares), based on 9x Sep 11E EV/EBITDA. We value subsidiaries and investments at Rs83/share (incorporating a 20% holding company discount). We attribute around Rs104/share to JLR - we value this at 4.5x Sep 11E EV/EBITDA, which equates to around Rs492/share and then deduct the total net debt which amounts to around Rs388/share. At our target price, TTMT would trade at a consolidated price-to-book value of 3.7x / 2.7x (FY11/12E), which appears reasonable when juxtaposed against ROEs of 39.5%, 34.9% in FY11E/12E respectively. On a P/E basis, the stock would trade at ~11x and 9x FY11E/12E P/E.

Tata Motors (TAMO.BO): Financial Summary

Fiscal year end 31-Mar	2008	2009	2010E	2011E	2012E
Valuation Ratios					
P/E adjusted (x)	21.9	45.5	14.7	9.3	7.6
EV/EBITDA adjusted (x)	15.2	23.9	7.6	6.9	6.2
P/BV (x)	3.9	3.4	4.5	3.1	2.3
Dividend yield (%)	1.9	0.8	1.1	1.1	1.5
Per Share Data (Rs)					
EPS adjusted	36.53	17.59	54.53	85.68	104.95
EPS reported	47.63	19.48	54.53	85.68	104.95
BVPS	203.34	237.92	179.13	255.00	346.72
DPS	15.00	6.06	8.96	8.83	11.91
Profit & Loss (RsM)					
Net sales	283,776	256,297	883,678	1,001,584	1,126,593
Operating expenses	-264,468	-248,030	-844,415	-926,266	-1,039,021
EBIT	**19,308**	**8,267**	**39,263**	**75,318**	**87,572**
Net interest expense	-2,824	-6,737	-19,297	-19,779	-20,608
Non-operating/exceptionals	9,281	8,607	18,731	870	2,596
Pre-tax profit	**25,765**	**10,138**	**38,698**	**56,409**	**69,560**
Tax	-5,476	-125	-7,838	-8,369	-10,910
Extraord./Min.Int./Pref.div.	0	0	242	825	1,207
Reported net income	**20,289**	**10,013**	**31,102**	**48,865**	**59,856**
Adjusted earnings	15,561	9,042	31,102	48,865	59,856
Adjusted EBITDA	26,475	17,013	77,020	113,160	128,627
Growth Rates (%)					
Sales	4.0	-9.7	244.8	13.3	12.5
EBIT adjusted	-21.6	-57.2	374.9	91.8	16.3
EBITDA adjusted	-15.6	-35.7	352.7	46.9	13.7
EPS adjusted	-16.1	-51.8	210.0	57.1	22.5
Cash Flow (RsM)					
Operating cash flow	**69,655**	**12,468**	**99,972**	**51,189**	**58,757**
Depreciation/amortization	7,167	8,745	37,757	37,842	41,055
Net working capital	46,275	-3,844	31,112	-35,518	-42,154
Investing cash flow	**-72,076**	**-130,794**	**-72,476**	**-66,399**	**-66,398**
Capital expenditure	-47,744	-50,216	-72,476	-66,400	-66,400
Acquisitions/disposals	0	0	0	1	2
Financing cash flow	**12,122**	**104,386**	**-69,016**	**14,386**	**6,436**
Borrowings	22,714	68,850	-60,607	19,979	13,979
Dividends paid	-6,597	-3,457	0	0	0
Change in cash	**15,706**	**-12,555**	**-21,456**	**-823**	**-1,203**
Balance Sheet (RsM)					
Total assets	**257,524**	**372,612**	**735,898**	**792,148**	**845,465**
Cash & cash equivalent	23,973	11,418	20,000	20,000	20,000
Accounts receivable	11,307	15,552	53,097	61,155	68,636
Net fixed assets	104,523	145,993	392,052	420,610	445,955
Total liabilities	**179,129**	**250,310**	**629,488**	**641,639**	**641,435**
Accounts payable	83,917	87,313	245,095	236,862	220,729
Total Debt	38,805	111,656	289,131	309,110	323,089
Shareholders' funds	**78,395**	**122,302**	**106,437**	**150,535**	**204,055**
Profitability/Solvency Ratios (%)					
EBITDA margin adjusted	9.3	6.6	8.7	11.3	11.4
ROE adjusted	21.2	9.0	27.7	39.5	34.9
ROIC adjusted	14.2	6.8	10.5	13.6	13.8
Net debt to equity	18.9	82.0	252.9	192.1	148.5
Total debt to capital	33.1	47.7	73.1	67.2	61.3

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Powered by: dataCentral

Tata Steel (TISC.BO)

Hold/Medium Risk	**2M**
Price (11 May 10)	Rs581.85
Target Price	Rs590.00
Expected share price return	1.4%
Expected dividend yield	1.7%
Expected total return	**3.1%**
Market Cap	Rs516,226M
	US$11,448M

Price Performance

Source: dataCentral

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Company description

Tata Steel Ltd (TSL) has a crude-steel capacity of 6.8mtpa, of which ~50% is rolled into flat products and the rest sold as long products. It sells ferro alloys, tubes, bearings and some mineral products. Corus, TSL's 100% subsidiary, is a Northern European Steel long and flat steel producer with around 17.3m tpa of crude steel capacity and production bases in the UK and the Netherlands. TSL has a presence in Asia through NatSteel (100%-owned) and Tata Steel Thailand (67.9%-owned). Adding the Asia-based capacities takes its total steel capacity to ~26mtpa. Of its steel capacity, 26% is in India, 66% in the UK/Europe and the rest in SE Asia. The crude steel capacity in India will likely be hiked by a further 44% to 9.8mtpa by 2011, taking India's share of total capacity to 34%.

A Tale of Two Markets

- **Indian business is resilient** — In India, TSL is among the lowest cost producers as it has 100% captive iron ore and 50% captive coking coal. The price hikes (HRC ~17% since Dec 09) should help raise EBITDA/t rise from $325 in FY10 to $420 in FY11. Volume growth should be 9% in FY11 and 7% in FY12. Indian capacity will be enhanced 44% to 9.8mtpa by 3Q FY12.

- **Steel view** — We expect HRC prices to average $825/t in FY11 vs current $790/t, to partly compensate for the expected rise in coal prices through FY11. Global iron ore prices are at $160/t but expected to average $130/t in FY11. Our FY12 estimate: HRC $800/t, iron ore $120/t, coking coal $225/t. We thus believe that there is downside risk to iron ore vs. steel, while coking coal should rise before coming off.

- **Tata Steel expects further improvement at Tata Steel Europe (TSE) —** 3Q EBITDA/t was $38/t. Management is positive on TSE as it expects further savings from Supply Chain Transformation (annual benefits of $100m), mothballing of Teesside and lower staff costs (loss of 1,600 jobs) and benefits from ongoing rationalization and restructuring. They remain cautious on the construction sector. Recent economic uncertainty in Europe and FX trends has led us to be more cautious due to the possibility of price rollbacks, FX translation losses and pressure on utilization levels.

- **Greenfield expansion** — TSL is in the process of rehabilitating and resettling the inhabitants at Orissa and is hopeful of starting construction work by year-end. Capex on the first phase (3mtpa) is expected to be $4.2bn and is expected to be commissioned by 2014 (~40 months from commencement).

- **Raw material integration for TSE** — TSL has formed a coking coal JV (35%) with Riversdale Mining, Australia– with offtake rights to 40%. Coking coal from these mines should be available in ~2 years at an estimated cost of $85/t. ~1mt should be available in the first year and eventually be ramped up to ~1.7mt (of which TSL should get 40%). Iron ore from the New Millennium project in Canada is expected in ~2 years at a cost of ~$45/t. 1.5-2mt to be available in the first year and ramped up to 4mt.

- **Focus on reducing leverage** — Cons. gross debt as of Dec09 was $12.9bn and net debt $10.4bn; net D/E was 1.9x and net debt/EBITDA was ~5.5x (annualized). TSL aims to reduce the net debt to $9bn over the next 12-18 months through internal accruals/equity issue/sale of non-core assets. With an improvement in EBITDA, TSL hopes to reduce net debt/EBITDA to 3-3.5x.

Tata Steel (Consolidated) – Statistical Abstract

YE 31 Mar	PAT (Rs bn)	PAT growth (%)	EPS (Rs)	EPS growth (%)	P/E (x)	EV/EBITDA (x)	ROE (%)
FY07	41.8	12%	71.9	7%	8.1	5.7	29%
FY08	75.8	82%	103.4	44%	5.6	5.0	36%
FY09	79.0	4%	106.3	3%	5.5	5.0	18%
FY10E	-23.3	-	(26.9)	-	-	12.9	-
FY11E	54.7	-	61.7	-	9.4	6.2	17%
FY12E	54.9	0%	61.9	0%	9.4	6.3	15%

Source: Company Reports and CIRA Estimates.

Note - FY10E PAT differs from the Financial Summary as the Financial Summary adjusts for preference dividend in PAT calculations.

Investment Strategy

We rate TSL Hold/Medium Risk (2M). TSL India's combination of raw material security, operating efficiencies, focus on high value products and branding helps it earn EBITDA margins >40%. Most of its capacity increases are in India where it should maintain raw material security (100% ore, 50- 55% coking coal). Volumes should grow in India by 9% in FY11. Domestic steel prices have been hiked since Dec09: flat products ~17-20% and longs ~ 14%. We base our estimates on an avg international steel price of $825/t in FY11 and $800/t in FY12 and assume that avg domestic prices for TSL will rise 12% in FY11 and fall 5% in FY12. Corus' EBITDA/t improved in 3Q to $38 due lower raw material costs, higher utilization (81%) and better prices. FY11 could be better, as prices have been raised in the past few months, but recent economic uncertainty in Europe and FX trends has led us to be more cautious than previously — possibility of price rollbacks, FX translation losses, pressure on utilization levels.

Valuation

We value TSL using SOTP. We use EV/EBITDA as our preferred valuation metric for TSL largely due to its high leverage. For TSL India, we use a target EV/EBITDA of 7x on June11 earnings. This is at a premium to the target multiple of 6.5x that we assign to JSW Steel's domestic business. We use a premium as TSL India earns a higher EBITDA margin, has better raw material integration and a better product mix. Corus and its other non-Indian businesses are valued at a 50% discount (3.5x EV/EBITDA) to TSL India to account for the higher levels of uncertainty in demand outlook outside of India. We arrive at our TP of Rs590. At our TP, TSL would trade at a June11 EV/EBITDA of 6.2x and P/E of 9.6x.

Tata Steel (TISC.BO): Financial Summary

Fiscal year end 31-Mar	2008	2009	2010E	2011E	2012E
Valuation Ratios					
P/E adjusted (x)	5.6	5.5	nm	9.4	9.4
EV/EBITDA adjusted (x)	4.3	5.9	13.5	6.0	6.2
P/BV (x)	1.5	1.9	1.9	1.6	1.4
Dividend yield (%)	2.7	2.7	0.3	1.7	1.9
Per Share Data (Rs)					
EPS adjusted	103.40	106.29	-26.87	61.69	61.87
EPS reported	103.40	106.29	-26.87	61.69	61.87
BVPS	392.75	304.35	310.99	360.98	409.98
DPS	16.00	16.00	2.00	10.00	11.00
Profit & Loss (RsM)					
Net sales	1,315,336	1,473,293	1,023,655	1,199,471	1,189,270
Operating expenses	-1,174,123	-1,332,013	-993,461	-1,079,093	-1,071,684
EBIT	**141,213**	**141,280**	**30,194**	**120,378**	**117,586**
Net interest expense	-40,854	-32,902	-31,501	-30,570	-34,878
Non-operating/exceptionals	0	0	0	0	0
Pre-tax profit	**100,359**	**108,378**	**-1,308**	**89,808**	**82,709**
Tax	-24,823	-30,440	-23,000	-35,923	-28,948
Extraord./Min.Int./Pref.div.	25	-261	460	857	1,147
Reported net income	**75,561**	**77,676**	**-23,847**	**54,742**	**54,908**
Adjusted earnings	75,561	77,676	-23,847	54,742	54,908
Adjusted EBITDA	182,583	183,933	75,811	166,927	169,372
Growth Rates (%)					
Sales	421.7	12.0	-30.5	17.2	-0.9
EBIT adjusted	110.0	0.0	-78.6	298.7	-2.3
EBITDA adjusted	136.0	0.7	-58.8	120.2	1.5
EPS adjusted	43.7	2.8	-125.3	329.6	0.3
Cash Flow (RsM)					
Operating cash flow	**133,937**	**156,299**	**115,862**	**32,236**	**49,397**
Depreciation/amortization	41,370	42,654	45,617	46,550	51,786
Net working capital	-22,227	2,254	102,020	-73,385	-43,665
Investing cash flow	**-461,985**	**-107,567**	**-56,609**	**-48,002**	**-35,851**
Capital expenditure	-79,967	-83,608	-60,034	-54,253	-46,832
Acquisitions/disposals	-387,765	-30,074	0	0	0
Financing cash flow	**205,426**	**-27,540**	**-36,995**	**-64,095**	**-10,085**
Borrowings	170,072	20,521	-16,935	-31,449	35,175
Dividends paid	-9,478	-12,266	-13,306	-2,077	-10,383
Change in cash	**-66,561**	**19,165**	**22,259**	**-79,861**	**3,461**
Balance Sheet (RsM)					
Total assets	**1,250,124**	**1,216,061**	**1,145,130**	**1,184,104**	**1,244,840**
Cash & cash equivalent	53,656	95,461	117,436	37,575	41,036
Accounts receivable	186,978	130,316	78,527	115,018	130,331
Net fixed assets	419,663	453,056	497,599	539,494	568,135
Total liabilities	**900,057**	**929,969**	**860,149**	**854,421**	**871,418**
Accounts payable	256,579	218,149	182,435	184,991	169,460
Total Debt	536,247	599,005	582,070	550,621	585,796
Shareholders' funds	**350,067**	**286,092**	**284,981**	**329,683**	**373,422**
Profitability/Solvency Ratios (%)					
EBITDA margin adjusted	13.9	12.5	7.4	13.9	14.2
ROE adjusted	34.9	30.5	-9.6	18.4	16.1
ROIC adjusted	22.3	13.1	0.9	10.4	9.8
Net debt to equity	137.9	176.0	163.0	155.6	145.9
Total debt to capital	60.5	67.7	67.1	62.5	61.1

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Powered by: dataCentral

Tech Mahindra (TEML.BO)

Sell/Medium Risk	3M
Price (11 May 10)	Rs708.20
Target Price	Rs900.00
Expected share price return	27.1%
Expected dividend yield	0.6%
Expected total return	**27.6%**
Market Cap	Rs87,090M
	US$1,942M

Price Performance

Source: dataCentral

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Company description

One of India's top 10 IT Services providers focusing on the telecom space, Tech Mahindra (TechM) services Telecom Service Providers (TSPs), Telecom Equipment Manufacturers (TEMs), Independent Software Vendors (ISVs) and Systems Integrators (SIs). It was formed in 1986 as a JV between M&M and British Telecom (BT). Key clients include BT, AT&T, Alcatel, Alltel, Convergys, Motorola, O2 and Vodafone. TechM is headquartered at Pune with development centers across India and a few centers in the UK. TechM is the only Indian player among the top 10 BSS vendors worldwide, as ranked by Gartner Dataquest.

Core Challenging; Satyam the Big Unknown

- **Status on core business** — The best case scenario in the BT business is stable revenues going forward while the recent stake sale by AT&T raises questions about the future. The outlook on business thus remains challenging and could be a key discussion area for investors.

- **Understanding cross currency impact** — Cross currency movements (especially EUR/GBP against USD) in the recent past have been unfavorable. TechM has 57% of revenues from Europe and consequently gets impacted negatively. Impact of cross currency movements on financials is another key issue to understand.

- **Focus on Satyam financials** — There have been a lot of press on Satyam's unknown financials. Though the revenues seem to be in the US$1-1.3b range, the margin expectation is all over the place. The timeline for audited numbers (by Jun'10 as of now) should be discussed.

- **Attrition of staff at Satyam** — With the improvement in the macro and consequently the job market opening up, there could be significant attrition at Satyam. Management commentary on the same and the steps being taken to stem this should be understood.

- **SEZ strategy** — TechM's SEZ readiness, given the expectation of STPI sunset clause coming into effect by Apr'11 should be discussed. Expectations of the tax rate in FY11/12E etc. could be gauged.

Statistical Abstract

Year to 31 Mar	Net Profit (RsM)	Diluted EPS (Rs)	EPS growth (%)	EV/EBITDA (x)	P/E (x)	P/B (x)	P/CEPS (x)	ROE (%)	Yield (%)
2008A	3,300	25.2	na	11.5	28.1	6.8	28.1	na	0.8
2009A	10,146	78.1	210.2	7.8	9.1	4.4	9.1	63.4	0.6
2010E	6,596	50.5	-35.3	7.8	14.0	3.3	14.0	29.0	0.0
2011E	7,640	58.3	15.4	10.2	12.1	2.6	12.1	25.9	0.6
2012E	8,110	61.9	6.2	8.8	11.4	2.2	11.4	22.1	0.8

Source: Powered by dataCentral

Investment Strategy

We rate TechM Sell/Medium Risk (3M) based on a fundamental 12-month view. With high exposure to the telecom domain, TechM is likely to be affected by deteriorating fundamental trends in the telecom vertical. Satyam acquisition will help in diversifying vertical exposure and add size; however, we still await Satyam's financials (expected in Jun'10). TechM is not really cheap on valuations, based on our analysis, considering its muted growth prospects.

Valuation

TechM's organic business still carries higher domain (telecom) and client concentration (BT) risk. Given the risks and challenges at BT, TechM will continue to struggle in the near term, in our view. The standalone business is valued at 8x Sep'11E EV/EBITDA, which is at a ~15% discount to more diversified players like HCLT. For Satyam, we use TechM's share of Satyam's Enterprise value based on the current market price of Satyam, given Satyam's financials are still awaited. We believe that this valuation measure is most appropriate as there are only limited disclosures for Satyam.

Tech Mahindra (TEML.BO): Financial Summary

Fiscal year end 31-Mar	2008	2009	2010E	2011E	2012E
Valuation Ratios					
P/E adjusted (x)	28.1	9.1	14.0	12.1	11.4
EV/EBITDA adjusted (x)	11.5	7.4	7.5	7.0	5.9
P/BV (x)	6.8	4.4	3.3	2.6	2.2
Dividend yield (%)	0.8	0.6	0.0	0.6	0.8
Per Share Data (Rs)					
EPS adjusted	25.19	78.14	50.52	58.29	61.88
EPS reported	25.19	78.14	50.52	58.29	61.88
BVPS	103.78	159.84	212.74	269.83	328.70
DPS	5.50	4.00	0.00	4.00	6.00
Profit & Loss (RsM)					
Net sales	37,661	44,647	46,333	50,400	55,676
Operating expenses	-30,199	-33,592	-36,392	-40,456	-44,784
EBIT	**7,462**	**11,055**	**9,941**	**9,944**	**10,892**
Net interest expense	982	-403	-2,175	-1,012	-589
Non-operating/exceptionals	0	0	0	0	0
Pre-tax profit	**8,444**	**10,652**	**7,767**	**8,932**	**10,303**
Tax	-748	-1,179	-1,085	-1,292	-2,193
Extraord./Min.Int./Pref.div.	-4,396	673	-85	0	0
Reported net income	**3,300**	**10,146**	**6,596**	**7,640**	**8,110**
Adjusted earnings	3,300	10,146	6,596	7,640	8,110
Adjusted EBITDA	7,462	11,055	9,941	9,944	10,892
Growth Rates (%)					
Sales	28.6	18.5	3.8	8.8	10.5
EBIT adjusted	8.9	48.2	-10.1	0.0	9.5
EBITDA adjusted	8.9	48.2	-10.1	0.0	9.5
EPS adjusted	156.6	210.2	-35.3	15.4	6.2
Cash Flow (RsM)					
Operating cash flow	**281**	**12,606**	**-22,392**	**6,070**	**7,625**
Depreciation/amortization	0	0	0	0	0
Net working capital	-1,990	2,218	-28,851	-1,543	-470
Investing cash flow	**-1,327**	**-1,999**	**-2,604**	**-2,035**	**-2,369**
Capital expenditure	-2,371	-1,621	-2,741	-2,062	-2,384
Acquisitions/disposals	0	0	0	0	0
Financing cash flow	**212**	**-3,585**	**14,442**	**-5,596**	**-5,894**
Borrowings	130	-300	14,442	-5,000	-5,000
Dividends paid	-818	-592	0	-596	-894
Change in cash	**-834**	**7,022**	**-10,554**	**-1,561**	**-639**
Balance Sheet (RsM)					
Total assets	**22,251**	**28,432**	**50,776**	**52,706**	**55,977**
Cash & cash equivalent	1,609	9,728	447	246	1,082
Accounts receivable	10,965	9,022	9,901	11,047	12,203
Net fixed assets	5,996	6,520	7,988	8,690	9,599
Total liabilities	**9,568**	**8,888**	**24,635**	**19,522**	**15,577**
Accounts payable	0	0	0	0	0
Total Debt	300	0	14,442	9,442	4,442
Shareholders' funds	**12,683**	**19,544**	**26,140**	**33,184**	**40,400**
Profitability/Solvency Ratios (%)					
EBITDA margin adjusted	19.8	24.8	21.5	19.7	19.6
ROE adjusted	30.3	63.4	29.0	25.9	22.1
ROIC adjusted	69.9	93.2	84.5	70.6	61.8
Net debt to equity	-10.3	-49.8	53.5	27.7	8.3
Total debt to capital	2.3	0.0	35.6	22.2	9.9

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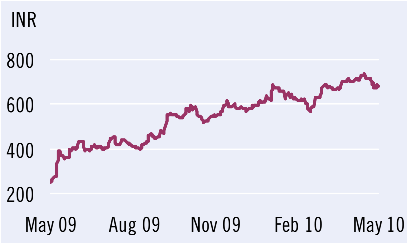
Thermax (THMX.BO)

Buy/Medium Risk	**1M**
Price (11 May 10)	Rs680.25
Target Price	Rs787.00
Expected share price return	15.7%
Expected dividend yield	0.7%
Expected total return	**16.4%**
Market Cap	Rs81,056M
	US$1,797M

Price Performance



Source: dataCentral

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Company description

Thermax specializes in energy and environment engineering solutions. It offers products and services in heating, cooling, waste heat recovery, captive power, water treatment and recycling, waste management and performance chemicals

- **Metamorphosis complete** — Thermax's recent foray into the supercritical space completes the metamorphosis from executing small-sized captive power plants to supercritical utility range of boilers. We believe that the business will significantly change and with its relatively small base compared to BHEL, incremental order inflows could significantly improve revenues and the earnings outlook.

- **Update on super-critical technology JV with Babcock and Wilcox** — Thermax will own 51% in the JV. A new facility is being planned with a capacity of 3000MW. Thermax expects revenues of Rs30bn in sales in five years; the JV will have initial capitalization of Rs7.6bn and Thermax will invest Rs1.75bn as equity in the venture (from internal accruals) (Source: Bloomberg). The JV will bid for the upcoming 800MW NTPC orders

- **Current business outlook: Positive but peppered with caution** — Outlook has definitely improved given improved liquidity. Customer enquiries and offtake has picked up. Most segments have returned to normal levels of investments - power generation, ferrous metals, cement, sugar, and refineries have shown pick up in investments. Textile & Hospitality segments are still lagging. Management however mentioned that one needs to watch out for impact of the European problems on the global economy. As of now, company expects a good order inflow growth in FY11E

- **Margin Outlook** — Price competition has abated as most of the players have orders now compared to a year ago. However, pricing is still not at the peak of 2008 levels – is still off by about 200bps. Most of the orders are on a fixed price basis, but the company has provided for contingencies. Management believes that it can improve margins going forward unless steel prices increase.

Statistical Abstract

Year to	Net Profit	Diluted EPS	EPS growth	EV/EBITDA	P/E	P/B	P/CEPS	ROE	Yield
31 Mar	(RsM)	(Rs)	(%)	(x)	(x)	(x)	(x)	(%)	(%)
2008A	2,787	23.4	na	19.4	29.1	10.7	25.8	na	0.9
2009A	3,554	29.8	27.5	15.6	22.8	8.2	25.0	33.1	0.7
2010E	2,510	21.1	-29.4	20.2	32.3	8.1	69.4	7.6	0.7
2011E	3,835	32.2	52.8	13.5	21.1	6.3	18.8	33.5	0.9
2012E	4,693	39.4	22.4	10.6	17.3	4.9	15.6	31.8	1.2

Source: Company data, Citi Investment Research and Analysis estimates

Investment Strategy

We have a Buy/Medium Risk rating on Thermax. Order inflow is strong; order book is up 36% YoY with 65-75% executable in FY11E. There is a strong pipeline of orders, with a reasonable chance of strong order wins in the near future. We expect OB to grow at 31%, revenues to grow at 45% and earnings to grow at 37% over FY10E-12E. We expect (unlevered) ROEs of 32-34%. Our est. do not capture any upside from the foray in to super-critical space.

Valuation

Our Rs787 target price is based on PE of 22x Sept11E. We believe that 1) the structural change in the business, 2) the broader economic revival; 3) the strong outlook (compared to a year ago) should drive a re-rating. Our target multiple is 1) at a premium to Thermax's historical avg. PE (16x), given the strong outlook 2) at a discount to BHEL (23x) despite Thermax's superior earnings outlook and RoE (EPS CAGR of 37% vs 22% for BHEL, RoEs of 32-34% vs BHEL RoE's of 29-31%); given BHEL's larger size and market share. 3) the target multiple is also at a discount to ABB (24x) given ABB's superior earnings outlook (39% CAGR).

Thermax (THMX.BO): Financial Summary

Fiscal year end 31-Mar	2008	2009	2010E	2011E	2012E
Valuation Ratios					
P/E adjusted (x)	29.1	22.8	32.3	21.1	17.3
EV/EBITDA adjusted (x)	18.3	14.8	20.4	13.3	10.4
P/BV (x)	10.7	8.2	8.1	6.3	4.9
Dividend yield (%)	0.9	0.7	0.7	0.9	1.2
Per Share Data (Rs)					
EPS adjusted	23.39	29.82	21.06	32.18	39.39
EPS reported	24.40	24.25	6.33	32.18	39.39
BVPS	63.41	83.28	83.53	108.69	138.72
DPS	6.00	5.00	5.00	6.00	8.00
Profit & Loss (RsM)					
Net sales	34,815	34,603	29,651	47,198	61,914
Operating expenses	-30,923	-29,791	-26,239	-41,770	-54,985
EBIT	**3,893**	**4,812**	**3,412**	**5,428**	**6,929**
Net interest expense	-17	-38	-18	-18	-18
Non-operating/exceptionals	439	404	408	400	200
Pre-tax profit	**4,315**	**5,178**	**3,802**	**5,810**	**7,111**
Tax	-1,528	-1,624	-1,293	-1,975	-2,418
Extraord./Min.Int./Pref.div.	121	-664	-1,755	0	0
Reported net income	**2,907**	**2,889**	**755**	**3,835**	**4,693**
Adjusted earnings	2,787	3,554	2,510	3,835	4,693
Adjusted EBITDA	4,125	5,163	3,825	5,900	7,431
Growth Rates (%)					
Sales	49.6	-0.6	-14.3	59.2	31.2
EBIT adjusted	44.5	23.6	-29.1	59.1	27.6
EBITDA adjusted	42.8	25.2	-25.9	54.2	25.9
EPS adjusted	39.9	27.5	-29.4	52.8	22.4
Cash Flow (RsM)					
Operating cash flow	**2,667**	**1,393**	**-544**	**2,814**	**3,116**
Depreciation/amortization	232	351	413	472	502
Net working capital	-538	-1,874	-1,712	-1,492	-2,078
Investing cash flow	**-1,788**	**2,204**	**-1,000**	**-1,375**	**-1,375**
Capital expenditure	-1,928	-1,954	-1,000	-500	-500
Acquisitions/disposals	140	4,158	0	-875	-875
Financing cash flow	**-1,271**	**-481**	**-766**	**-836**	**-1,115**
Borrowings	-22	41	-41	0	0
Dividends paid	-1,115	-697	-697	-836	-1,115
Change in cash	**-392**	**3,116**	**-2,310**	**603**	**626**
Balance Sheet (RsM)					
Total assets	**20,278**	**23,847**	**19,996**	**26,876**	**32,871**
Cash & cash equivalent	580	3,696	1,386	1,989	2,615
Accounts receivable	5,305	5,719	5,362	8,534	11,195
Net fixed assets	3,485	5,088	5,675	5,703	5,701
Total liabilities	**12,722**	**13,924**	**10,043**	**13,925**	**16,342**
Accounts payable	4,552	4,199	3,327	5,421	7,167
Total Debt	0	41	0	0	0
Shareholders' funds	**7,556**	**9,923**	**9,953**	**12,951**	**16,529**
Profitability/Solvency Ratios (%)					
EBITDA margin adjusted	11.8	14.9	12.9	12.5	12.0
ROE adjusted	41.4	40.7	25.3	33.5	31.8
ROIC adjusted	122.4	59.5	26.6	35.1	37.0
Net debt to equity	-7.7	-36.8	-13.9	-15.4	-15.8
Total debt to capital	0.0	0.4	0.0	0.0	0.0

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Union Bank of India (UNBK.BO)

Sell/Low Risk	3L
Price (11 May 10)	Rs292.20
Target Price	Rs275.00
Expected share price return	-5.9%
Expected dividend yield	1.7%
Expected total return	**-4.2%**
Market Cap	Rs147,595M
	US$3,273M

Price Performance

Source: dataCentral

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Company description

Union Bank is the seventh largest bank in India and sixth largest government bank, with a large balance sheet size and diversified distribution network. It currently has 2,821 branches and 2,127 ATMs spread across the country. Its business is distributed across the country with a slight concentration in Western India. Union Bank listed in 2002. A follow-on offer was transacted in February 2006, with the government holding a 55% stake in the bank.

High Return Profile

- **Amongst the larger banks, consistent improvement in delivery** — Union has distinguished itself over the past 3-4 years with its strong management focus, superior return profile and consistent delivery in earnings growth and profitability. Union's NIMs have bounced back to over 330bps, loan growth has been steady (though lower than industry levels) and asset quality is well under control. Union is amongst only a select few large government banks with such a track record.

- **Early leader in technology, leveraging it well** — Union was amongst the earliest movers in implementation of technology and has remained the leader in terms of leveraging its platform. This has been showing up in high and consistent fee income growth of over 30% p.a. and has also contained costs meaningfully.

- **Superior return profile** — Union's strong return profile is a mix of: a) Above industry NIMs at over 330bps (albeit with relatively higher interest rate sensitivity); b) Strong fee income profile and growth; c) Low cost income ratio of around 40% recently; and d) Contained loan loss charges (though there has been some increases recently as the impact of slowdown is showing through with a lag). It has consistently maintained a 20% ROE over the last few years; rare amongst Indian Banks.

- **Deposit franchise modest, asset risks higher, needs capital for growth** — Union's deposit mix is modest relative to the larger government bank peers (32% CASA) and is wholesale dependent, which increases interest rate sensitivity. Asset quality has been relatively strong, but is showing signs of higher slippages recently - NPLs are up and coverage levels declined to 74% (from 90%+ earlier). While absolute levels are still comfortable (2.2% of loans), further slippages from agriculture and restructured loans (4% of loans) could cause concerns. Union's capital adequacy is also relatively lower (Tier 1 of 7.91%) and will require additional capital infusion from the government for it to sustain a high growth path.

Statistical Abstract

Year March	Net profit (Rs. M)	EPS Rs.	EPS Growth (%)	PE (x)	PB (x)	ROAE (%)	ROAA (%)	Div yield (%)
FY08	13,870	27	64.1	10.6	2.0	22	1.2	1.3
FY09	17,266	34	24.5	8.5	1.7	22	1.2	1.6
FY10E	19,435	38	12.6	7.6	1.4	20	1.1	1.6
FY11E	23,563	47	21.2	6.3	1.2	21	1.2	1.8
FY12E	27,123	54	15.1	5.4	1.0	20	1.2	1.8

Source: Company data, Citi Investment Research and Analysis estimates

Investment Strategy

We rate Union Bank Sell/Low Risk. Union has key strengths with its large balance sheet and distribution, low operating costs (as a proportion of assets) below industry average, good technology ahead of its peer group in implementation, and a clean balance sheet with low gross and net NPLs (improving above industry levels). However, the risks to Union lie in: 1) Its low balance sheet liquidity, and the need to grow term deposits rapidly to fund loan growth; 2) Its relatively lower capital cushion, which is likely to moderate asset growth in a higher growth environment; 3) Its NIMs have been impacted recently due to dependence on bulk deposits induced by the highly volatile interest rate environment. We believe Union's current valuations are pricing in most of the upside and leave little room for outperformance.

Valuation

Our target price of Rs275 is based on our EVA model, which we believe captures the long-term value of the business and is a standard valuation measure for our India banking coverage. We also benchmark our target price on a 1.3x 1Yr Fwd PBV, which translates to a fair value of Rs293. We believe Union should trade at a 10% discount to the larger banks like SBI and PNB, due to: 1) its lower capital cushion which is likely to cap upside in a higher growth environment; 2) its modest deposit mix, which increases dependence on wholesale funding; and 3) sharp increase in restructured assets. Additionally, Union's NIMs have come under pressure and could remain subdued as its high cost bulk deposits are likely to re-price with a lag.

Union Bank of India (UNBK.BO): Financial Summary

	2008	2009	2010E	2011E	2012E
Valuation Ratios					
P/E adjusted (x)	10.6	8.5	7.6	6.3	5.4
P/E reported (x)	10.6	8.5	7.6	6.3	5.4
P/BV (x)	2.0	1.7	1.4	1.2	1.0
P/Adjusted BV diluted (x)	2.6	2.1	1.7	1.4	1.1
Dividend yield (%)	1.4	1.7	1.7	1.9	1.9
Per Share Data (Rs)					
EPS adjusted	27.46	34.18	38.48	46.65	53.70
EPS reported	27.46	34.18	38.48	46.65	53.70
BVPS	145.47	173.04	205.94	246.51	294.14
Tangible BVPS	145.47	173.04	205.94	246.51	294.14
Adjusted BVPS diluted	111.33	139.66	172.56	213.14	260.76
DPS	4.00	5.00	5.00	5.50	5.50
Profit & Loss (RsM)					
Net interest income	28,537	38,136	38,250	48,834	56,491
Fees and commissions	3,010	3,133	3,697	4,140	4,637
Other operating Income	10,187	11,693	16,273	15,279	17,031
Total operating income	**41,733**	**52,961**	**58,220**	**68,254**	**78,159**
Total operating expenses	-15,930	-22,141	-24,012	-26,863	-29,833
Oper. profit bef. provisions	**25,803**	**30,820**	**34,207**	**41,390**	**48,326**
Bad debt provisions	-6,652	-6,266	-5,442	-6,728	-8,578
Non-operating/exceptionals	-547	-989	-1,000	-1,000	-1,000
Pre-tax profit	**18,604**	**23,566**	**27,765**	**33,662**	**38,748**
Tax	-4,734	-6,300	-8,329	-10,099	-11,624
Extraord./Min. Int./Pref. Div.	0	0	0	0	0
Attributable profit	**13,870**	**17,266**	**19,435**	**23,563**	**27,123**
Adjusted earnings	13,870	17,266	19,435	23,563	27,123
Growth Rates (%)					
EPS adjusted	64.1	24.5	12.6	21.2	15.1
Oper. profit bef. prov.	19.7	19.4	11.0	21.0	16.8
Balance Sheet (RsM)					
Total assets	**1,239,919**	**1,609,755**	**1,826,216**	**2,117,546**	**2,456,541**
Avg interest earning assets	1,102,470	1,388,503	1,680,514	1,929,314	2,241,614
Customer loans	762,110	986,256	1,128,149	1,325,136	1,570,225
Gross NPLs	16,578	19,235	20,642	21,735	24,630
Liab. & shar. funds	**1,239,919**	**1,609,755**	**1,826,216**	**2,117,546**	**2,456,541**
Total customer deposits	1,038,586	1,387,028	1,578,539	1,840,551	2,146,121
Reserve for loan losses	19,441	20,914	18,005	19,679	22,010
Shareholders' equity	**73,477**	**87,404**	**104,023**	**124,519**	**148,574**
Profitability/Solvency Ratios (%)					
ROE adjusted	22.1	21.5	20.3	20.6	19.9
Net interest margin	2.6	2.7	2.3	2.5	2.5
Cost/income ratio	38.2	41.8	41.2	39.4	38.2
Cash cost/average assets	1.4	1.6	1.4	1.4	1.3
NPLs/customer loans	2.2	2.0	1.8	1.6	1.6
Reserve for loan losses/NPLs	117.3	108.7	87.2	90.5	89.4
Bad debt prov./avg. cust. loans	0.9	0.7	0.5	0.5	0.6
Loans/deposit ratio	73.4	71.1	71.5	72.0	73.2
Tier 1 capital ratio	7.5	8.2	7.6	8.0	8.4
Total capital ratio	12.5	13.3	11.8	11.9	11.5

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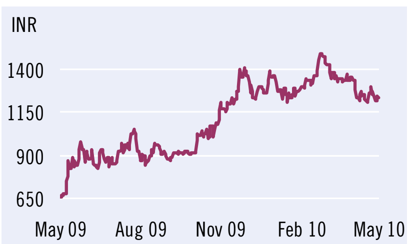
United Spirits (UNSP.BO)

Buy/Medium Risk	**1M**
Price (11 May 10)	Rs1,228.50
Target Price	Rs1,452.00
Expected share price return	18.2%
Expected dividend yield	0.2%
Expected total return	**18.4%**
Market Cap	Rs154,293M
	US$3,422M

Price Performance



Source: dataCentral

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Company description

United Spirits is the largest player in India's branded spirits market with more than 55% market share. It pursues an inorganic growth strategy, acquiring second-largest Indian liquor manufacturer Shaw Wallace and scotch manufacturer Whyte & Mackay. While the Shaw Wallace acquisition enhanced its competitive position, raising its market share in branded spirits market, Whyte & Mackay gave it access to scotch inventory to drive the next leg of its India growth strategy. UNSP also acquired French winemaker Bouvet Ladubay - the wine arm of champagne major Taittinger and plans to introduce its products to the Indian market. UNSP also owns the Bangalore IPL cricket team 'Royal Challengers' in a 100%-owned subsidiary.

Strong Domestic Volume Growth; Cost Pressures Peak Out

- **Volume growth remains strong** — Domestic volume growth is likely to remain strong at around 10-15% Y/Y, driven by rising disposable incomes, favorable demographics and shift in consumption patterns. Further, benefits of some pricing action and mix shift would aid revenue growth going forward.

- **Input cost pressures abate** — Concerns on input costs are baked into expectations and estimates and the probability of negative surprises is now limited. Encouragingly, input costs have dipped ~10% over the last 3-4 months – mgmt notes that input costs continue to decline. UNSP is also expanding on grain based capacity to control the volatility of wet goods per case. Additionally, UNSP has demonstrated the ability to pare discretionary cost items (especially advertising costs), which buffers EBITDA.

- **Capital structure remains healthy** — Consolidated gearing has declined to ~1.26x vs. ~2.9x at the end of last fiscal, as a large part of dollar debt has been paid down (post QIP + treasury stock sale). From a debt servicing perspective, debt to EBITDA is now at 4.1x v/s 6.4x as of end FY09.

- **W&M's Branded shift?** — Our discussions with management reveal that W&M's business strategy could change, with the company moving away from being a bulk scotch manufacturer to a branded spirits marketer. Details are yet unavailable as mgmt has yet to crystallise plans, but in essence, the guidance of around £55-60m EBITDA in FY11/12e could decline to around £30-35m. That said, we believe a branded shift would prove to be a positive over the long term.

Statistical Abstract

Year to 31 Mar	Net Profit (RsM)	Diluted EPS (Rs)	EPS growth (%)	EV/EBITDA (x)	P/E (x)	P/B (x)	P/CEPS (x)	ROE (%)	Yield (%)
2008A	1,174	13.3	na	16.9	92.7	5.2	31.4	na	0.1
2009A	3,830	37.2	180.7	21.8	33.0	5.3	-40.1	-18.3	0.2
2010E	4,218	35.0	-6.0	16.2	35.1	3.2	28.0	12.1	0.2
2011E	6,571	54.5	55.8	12.2	22.6	2.9	19.3	13.5	0.3
2012E	8,552	70.9	30.1	10.5	17.3	2.5	15.3	15.3	0.4

Source: Company Reports and CIRA Estimates

Investment Strategy

We rate United Spirits shares Buy. The company is well positioned to benefit from India's organized liquor market that is growing at a rate of 10-15% (driven by rising disposable incomes, favorable demographics and shift in consumption patterns). Concerns on high input costs are now baked into expectations as well as estimates. UNSP will focus on de-leveraging balance sheet, which allays concerns on gearing and interest costs. Whyte & Mackay acquisition remains a long-term strategic fit and should significantly enhance UNSP's plans to expand its presence in the Indian premium whisky segments and provide UNSP access to the European market. UNSP is well positioned to enhance the value of Whyte & Mackay's inventory of scotch whiskey, by providing access to a ready and fast growing market for premium whisky.

Valuation

Our target price of Rs1452 is based on a two-part methodology. We value the domestic operations at 15x FY11E EV/EBITDA. The multiple is at 25% premium to international peers. We think this is merited, given that: a) volume growth in India continues at mid teen levels vs. nominal growth in developed markets, b) With UNSP's strong market positioning in a high growth market is attractive, & c) India's demographic story is attractive from a long term consumption story. We value the W&M EBITDA at 9x (~25% discount to the global majors). We think this discount is merited, because of W&M's status as a bulk scotch manufacturer. Over the longer term, W&M could re-rate, especially as management focuses on building the branded business. The bulk scotch inventory also provides the company with a real option of selling down part of the stock and reducing debt levels.

United Spirits (UNSP.BO): Financial Summary

Fiscal year end 31-Mar	2008	2009	2010E	2011E	2012E
Valuation Ratios					
P/E adjusted (x)	92.7	33.0	35.1	22.6	17.3
EV/EBITDA adjusted (x)	19.7	21.5	14.7	11.7	10.0
P/BV (x)	5.2	5.3	3.2	2.9	2.5
Dividend yield (%)	0.1	0.2	0.2	0.3	0.4
Per Share Data (Rs)					
EPS adjusted	13.25	37.19	34.96	54.46	70.87
EPS reported	30.72	-39.66	34.96	54.46	70.87
BVPS	234.52	231.64	379.67	429.98	495.46
DPS	1.50	2.09	2.27	3.54	4.61
Profit & Loss (RsM)					
Net sales	46,275	54,681	63,423	72,017	80,877
Operating expenses	-37,374	-45,753	-50,683	-56,431	-62,848
EBIT	**8,901**	**8,927**	**12,740**	**15,586**	**18,029**
Net interest expense	-5,448	-7,176	-6,419	-5,434	-4,776
Non-operating/exceptionals	1,063	1,038	710	800	1,000
Pre-tax profit	**4,516**	**2,790**	**7,030**	**10,952**	**14,254**
Tax	-2,661	-916	-2,812	-4,381	-5,701
Extraord./Min.Int./Pref.div.	865	-5,959	0	0	0
Reported net income	**2,721**	**-4,084**	**4,218**	**6,571**	**8,552**
Adjusted earnings	1,174	3,830	4,218	6,571	8,552
Adjusted EBITDA	9,642	9,853	13,813	16,696	19,187
Growth Rates (%)					
Sales	58.2	18.2	16.0	13.6	12.3
EBIT adjusted	121.4	0.3	42.7	22.3	15.7
EBITDA adjusted	121.3	2.2	40.2	20.9	14.9
EPS adjusted	-49.0	180.7	-6.0	55.8	30.1
Cash Flow (RsM)					
Operating cash flow	**-8,361**	**-7,040**	**-4,158**	**5,350**	**8,926**
Depreciation/amortization	741	926	1,073	1,109	1,158
Net working capital	-9,990	-3,540	-9,449	-2,330	-784
Investing cash flow	**-48,724**	**-5,182**	**6,241**	**-800**	**-1,300**
Capital expenditure	-6,713	-6,321	-800	-800	-1,300
Acquisitions/disposals	-42,011	1,139	7,041	0	0
Financing cash flow	**55,588**	**17,233**	**-1,573**	**-7,050**	**-7,626**
Borrowings	51,240	7,564	-18,820	-6,058	-6,483
Dividends paid	-159	-252	-321	-500	-651
Change in cash	**-340**	**-948**	**510**	**-2,500**	**0**
Balance Sheet (RsM)					
Total assets	**101,986**	**118,418**	**118,404**	**120,297**	**123,520**
Cash & cash equivalent	5,438	4,490	5,000	2,500	2,500
Accounts receivable	8,370	8,880	10,850	12,466	12,358
Net fixed assets	11,163	16,558	16,285	15,976	16,118
Total liabilities	**79,221**	**94,500**	**72,528**	**68,350**	**63,671**
Accounts payable	9,256	9,256	9,514	10,610	11,831
Total Debt	66,041	73,605	54,784	48,726	42,243
Shareholders' funds	**22,765**	**23,919**	**45,876**	**51,948**	**59,849**
Profitability/Solvency Ratios (%)					
EBITDA margin adjusted	20.8	18.0	21.8	23.2	23.7
ROE adjusted	6.8	17.2	12.1	13.5	15.3
ROIC adjusted	11.9	9.7	11.3	11.9	12.8
Net debt to equity	266.2	289.0	108.5	89.0	66.4
Total debt to capital	74.4	75.5	54.4	48.4	41.4

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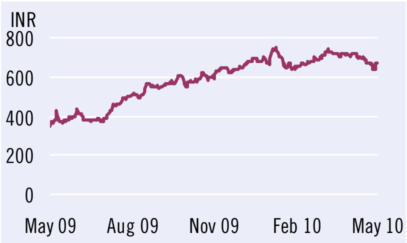
Wipro (WIPR.BO)

Buy/Low Risk	**1L**
Price (11 May 10)	Rs667.15
Target Price	Rs810.00
Expected share price return	21.4%
Expected dividend yield	1.2%
Expected total return	**22.6%**
Market Cap	Rs979,606M
	US$21,842M

Price Performance



Source: dataCentral

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Company description

Wipro is a leading Indian company with business interests in IT and BPO services exports, domestic hardware, consumer lighting and consumer care. It has one of the widest ranges of services, including systems integration, IT-enabled services, package implementation, software application development & maintenance and R&D services. Wipro is the first P-CMM Level 5 and SEI-CMM Level 5 certified IT services company in the world. It has more than 800 clients spanning the BFSI, Manufacturing, Retail, Utilities and Telecom verticals. Its IT services exports team has ~65,000 employees and BPO operation has more than 23,000 employees.

Margin Concerns Overdone?

- **FY11 revenue growth** — Infosys' guidance of 16-18% revenue growth (US$-terms) has already set the baseline for the sector. With analysts/investors expectations at 20%-plus YoY growth – key question for management would be how high can revenues grow in FY11?
- **Outlook on margins** — Management has improved EBIT margins by more than 300bps in the last six quarters (in IT Services business). With INR appreciation and attrition worries (company gave salary hikes in Feb'10), the outlook on margins and levers available could be discussed.
- **Return of pricing power** — With the return in demand, pricing discounts seem to be a thing of the past. However, with increased attrition, vendors are grappling with salary hikes across the board. Pricing is one of the key levers available to companies in order to manage their margins. A key question would be the timing of the return of pricing power for vendors.
- **Supply side dynamics** — Company's view on supply side dynamics should be another area to discuss with focus on the following – (1) availability of talent (engineers) for next few years; (2) company's initiatives on training; (3) right-skilling initiative – hiring of science graduates.
- **Mergers & Acquisitions** — Wipro has been fairly active in the M&A space with its "string of pearls" strategy in the past. Whether the management perceives any gaps in the services/industry/geographical portfolio and corresponding inorganic activity could be discussed.
- **SEZ strategy** — Wipro' SEZ readiness, given the expectation of STPI sunset clause coming into effect by Apr'11 should be discussed. Expectations of the tax rate in FY11/12E etc. could be gauged.

Statistical Abstract

Year to 31 Mar	Net Profit (RsM)	Diluted EPS (Rs)	EPS growth (%)	EV/EBITDA (x)	P/E (x)	P/B (x)	P/CEPS (x)	ROE (%)	Yield (%)
2008A	32,239	22.1	na	23.5	30.1	7.5	25.4	na	0.9
2009A	38,763	26.5	19.9	18.6	25.1	6.6	20.6	28.0	0.6
2010E	45,389	30.9	16.5	16.1	21.6	5.2	18.0	27.3	0.7
2011E	52,585	35.8	15.8	13.6	18.6	4.3	15.6	25.5	1.2
2012E	58,702	40.0	11.6	11.3	16.7	3.6	14.0	23.5	1.3

Source: Powered by dataCentral

Investment Strategy

We rate Wipro shares Buy/Low Risk (1L). As one of the top three Indian IT services firms, Wipro looks well positioned to benefit from growing demand for offshore IT services. Apart from economies of scale in offshore delivery, one of Wipro's key strengths is its full-service model. This includes a strong position in the infrastructure/R&D services business, which offers significant long-term growth potential. It has strong exposure to the BPO segment, which should offer above-average growth in the long term. Wipro's management has actively pursued acquisitions to strengthen its service portfolio.

Valuation

Our Rs810 target price is based on 23x FY11E EPS. Our target multiple is derived from a P/E-band analysis of Wipro's historical trading pattern and peer group valuations. Wipro has traded at 8-31x over the past 3 years. Given that revenue visibility is improving with business environment stabilizing, we believe Wipro should trade higher than the mid-point of the band. We think Wipro will continue to trade at a marginal discount to Infosys. P/E is the most appropriate valuation measure, in our view, given Wipro's profitability and earnings visibility.

Wipro (WIPR.BO): Financial Summary

Fiscal year end 31-Mar	2008	2009	2010E	2011E	2012E
Valuation Ratios					
P/E adjusted (x)	30.1	25.1	21.6	18.6	16.7
EV/EBITDA adjusted (x)	23.9	18.6	15.8	13.3	11.0
P/BV (x)	7.5	6.6	5.2	4.3	3.6
Dividend yield (%)	0.9	0.6	0.7	1.2	1.3
Per Share Data (Rs)					
EPS adjusted	22.14	26.54	30.91	35.79	39.95
EPS reported	22.14	26.54	30.91	35.79	39.95
BVPS	89.20	101.18	127.43	155.44	186.71
DPS	6.00	4.00	5.00	8.00	9.00
Profit & Loss (RsM)					
Net sales	197,427	256,892	271,281	311,609	361,052
Operating expenses	-163,715	-213,443	-220,044	-252,884	-292,072
EBIT	**33,712**	**43,449**	**51,237**	**58,725**	**68,980**
Net interest expense	2,167	1,086	2,252	3,597	5,527
Non-operating/exceptionals	257	362	454	362	362
Pre-tax profit	**36,136**	**44,897**	**53,943**	**62,684**	**74,869**
Tax	-3,873	-6,035	-8,399	-10,029	-16,097
Extraord./Min.Int./Pref.div.	-24	-99	-156	-70	-70
Reported net income	**32,239**	**38,763**	**45,389**	**52,585**	**58,702**
Adjusted earnings	32,239	38,763	45,389	52,585	58,702
Adjusted EBITDA	39,672	52,046	60,326	68,949	80,087
Growth Rates (%)					
Sales	32.1	30.1	5.6	14.9	15.9
EBIT adjusted	12.9	28.9	17.9	14.6	17.5
EBITDA adjusted	16.5	31.2	15.9	14.3	16.2
EPS adjusted	9.7	19.9	16.5	15.8	11.6
Cash Flow (RsM)					
Operating cash flow	**44,767**	**61,356**	**50,307**	**56,279**	**61,986**
Depreciation/amortization	5,960	8,597	9,089	10,224	11,108
Net working capital	8,789	13,430	-2,747	-3,403	-2,367
Investing cash flow	**-53,670**	**-35,991**	**-7,211**	**-13,652**	**-14,910**
Capital expenditure	-19,241	-18,569	-11,464	-16,848	-20,437
Acquisitions/disposals	-36,067	-8,200	1,230	0	0
Financing cash flow	**10,944**	**-13,684**	**-8,418**	**-11,662**	**-13,120**
Borrowings	13,663	5,159	-602	0	0
Dividends paid	-9,872	-6,836	-8,589	-13,753	-15,472
Change in cash	**2,042**	**11,681**	**34,678**	**30,965**	**33,956**
Balance Sheet (RsM)					
Total assets	**223,299**	**284,136**	**317,907**	**369,719**	**428,650**
Cash & cash equivalent	54,078	65,660	100,182	131,077	164,963
Accounts receivable	38,908	48,612	44,594	51,223	59,351
Net fixed assets	39,822	49,794	52,169	58,794	68,123
Total liabilities	**93,818**	**136,755**	**131,838**	**142,727**	**156,076**
Accounts payable	13,082	35,768	35,267	40,509	46,937
Total Debt	44,055	56,892	54,928	54,928	54,928
Shareholders' funds	**129,481**	**147,381**	**186,069**	**226,992**	**272,574**
Profitability/Solvency Ratios (%)					
EBITDA margin adjusted	20.1	20.3	22.2	22.1	22.2
ROE adjusted	27.9	28.0	27.3	25.5	23.5
ROIC adjusted	34.4	28.5	30.1	33.0	33.4
Net debt to equity	-7.7	-5.9	-24.3	-33.5	-40.4
Total debt to capital	25.4	27.9	22.8	19.5	16.8

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WTTIL (Tata Quippo)

Non-Rated

Price (11 May 09)	Unlisted
Market Cap	Unlisted

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Company Description

Quippo Infra, IDFC private equity, Oman Investment fund and GIC together hold a 46% stake while Tata's hold the remaining 54% stake in the company. TTSL's towers have helped it gain higher-than-industry average tenancy (currently over 2x). It has taken the inorganic route to increase its tower portfolio– acquiring Tata's towers in Mumbai/Maharashtra. Uninor has signed up with Quippo for its primary roll-out needs which helps increase tenancy visibility especially if TRAI's recos are accepted by the DoT.

Recent Developments

Quippo announced its amalgamation with SREI Infrastructure Finance, a non-banking finance company (NBFC) which is into financing of infrastructure-related segments, in February 2010.

High Tenancy = Profitability

- **Background** — It is among the largest independent towerco in India. The tower portfolio also enjoys a high tenancy at >2x. The company plans to increase its tower portfolio over the next 3 years. Quippo Infrastructure, GIC, IDFC private equity and Oman Investment fund together hold a 46% stake in the company, while Tata holds the remaining 54% stake.

- **3G/WiMax launch will help increase tenancy** — The expected 3G/WiMax launch in the next 9-12 months will help towercos with increased tenancy visibility. However, the physical tenancy increase will be higher than that reflected in the revenues given lower rentals for adding only additional BTS to an existing 2G cell site.

- **TRAI recommendations further help tenancy visibility** — The TRAI recommendations which came out last week, if accepted by the DoT, will also help increase tenancy as it links the spectrum allotment to coverage. Besides the recommendations also put a high cost to the spectrum which could deter any significant M&A. However, the recommendations also include a 6% license fee on the tower revenues which if implemented will be a negative.

- **Inorganic growth has helped achieve scale** — Quippo-WWTL has undertaken the inorganic route to grow its tower portfolio by combining its tower portfolio with Tata's Mumbai/Maharashtra's towers. It acquired 2535 towers with 2.15x tenancy for Rs13.2bn imputing an EV/Tower of US$116k, higher than some of the previous transactions given high tenancy. The transaction has helped it complete its footprint in Mumbai/Maharashtra where it did not previously have a significant presence.

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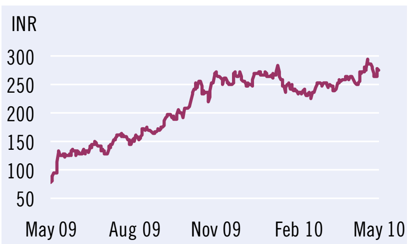
Yes Bank (YESB.BO)

Buy/Medium Risk	**1M**
Price (11 May 10)	Rs275.55
Target Price	Rs330.00
Expected share price return	19.8%
Expected dividend yield	0.0%
Expected total return	**19.8%**
Market Cap	Rs93,821M
	US$2,081M

Price Performance



Source: dataCentral

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Company description

Yes Bank was started in FY05 by Mr. Rana Kapoor and is the newest private-sector bank in India. It has grown rapidly since inception and what it lacks in size it makes up with strong growth, quality management, and a rapidly building franchise. The bank has 132 branches and management suggests a target of over 250 branches by Dec 2010. In FY09, the bank grew its loans by 32% to Rs124bn and net profits by 52% to Rs3bn.

Structural Value

- **Structural and cyclical play** — Yes is India's youngest private sector bank, and we see it positioned as a 1) Structural play given growing Indian banking opportunity, strong management and execution capability, scarcity value of new private banks; and 2) Cyclical play on liquidity, asset quality and economic growth. If the environment improves on a strong growth trajectory, Yes Bank should be a large beneficiary; else, it could be vulnerable.

- **Wholesale bank with capital market support** — Yes as a wholesale bank has excelled in corporate and advisory businesses, expanded focused asset book, and kept risks low. Yes is now seeking to focus significantly on expanding its retail footprint as also to build on, and expand investment banking, and other capital markets businesses.

- **Economic outlook should reduce incremental asset deterioration** — Yes Bank's loan book is relatively more mid-market and hence perceived to be more vulnerable to an economic downturn. Conversely, a stable environment and its own strong risk management systems (relatively low loan restructuring of 0.4% of assets) should ease the pace of asset deterioration.

- **Strong NIMs, fees could surprise** — Yes Bank's NIMs are above industry levels (320bps now) and have shown significant improvement. Management has shown significant flexibility in maintaining NIMs through interest rate cycles, a tighter liquidity environment and its own predominantly wholesale funded balance sheet could lead to pressure on NIMs in the medium term. Capital market related fees could however surprise on the upside as it has a good track record of debt syndication and placement activities during the previous market cycle.

- **Value drivers** — Derisking, retail and transaction banking – We believe franchise and value enhancement will be driven by more balance in a) Deposits – low cost retail from wholesale, b) Fees – transaction banking and retail from advisory, and c) Assets – more diversified mix from current mid market corporate bias.

- **Risks** — Key risks include a) Tighter liquidity or interest rates; b) Reversal in asset quality; c) Likely volatility in fees; and d) Portfolio concentration.

Statistical Abstract

Year March	Net profit (Rs. M)	EPS Rs.	EPS Growth (%)	PE (x)	PB (x)	ROAE (%)	ROAA (%)	Div yield (%)
FY08	2,000	7	102.5	39.7	6.2	19	1.4	0.0
FY09	3,038	10	47.6	26.9	5.0	21	1.5	0.0
FY10E	4,758	16	56.3	17.2	3.9	26	1.7	0.0
FY11E	6,193	19	19.7	14.4	2.5	21	1.6	0.0
FY12E	8,139	23	21.7	11.8	2.0	19	1.6	0.0

Source: Company data, Citi Investment Research and Analysis estimates

Investment Strategy

We rate Yes Bank Buy/Medium Risk (1M). Yes Bank has shown aggressive growth, strong execution skills, a focused asset portfolio, strong treasury and advisory income businesses with relatively low NPLs so far. Yes Bank is highly leveraged to a strong economy with its consistently high growth and strong quality. Yes has shown little evidence of longer-term asset quality concerns despite a challenging asset quality environment and its own relatively concentrated mid-market exposure. We believe a stable/rising economic growth environment, low interest/easing liquidity regime, and strong capital markets are key ingredients to support Yes Bank. Our Buy rating on Yes Bank is based on: a) its relatively higher loan growth outlook; b) easing pressures on its mid-market loan segment; c) NIM expansion due to excess liquidity conditions and its own wholesale funded balance sheet; and d) a bounce back in capital-market related fee incomes.

Valuation

We value Yes Bank at Rs330 per share based on our EVA model. We also benchmark our valuations at 3x 1yr Fwd PBV, translating into a fair value of Rs334 per share. Our benchmark PBV multiple for Yes Bank is at a 10% discount to best-of-breed private banks like HDFC Bank, reflecting its much weaker liability franchise and a more concentrated mid-market asset exposure. However, we believe that in the early stages of an economic rebound, Yes Bank can also trade at premiums to peers given its smaller size and greater ability to access and leverage incremental capital quickly. We prefer to value banks on the EVA model as we believe it better captures the longer-term value of the business.

Yes Bank (YESB.BO): Financial Summary

	2008	2009	2010E	2011E	2012E
Valuation Ratios					
P/E adjusted (x)	39.7	26.9	17.2	14.4	11.8
P/E reported (x)	39.7	26.9	17.2	14.4	11.8
P/BV (x)	6.2	5.0	3.9	2.5	2.0
P/Adjusted BV diluted (x)	6.2	5.0	3.9	2.5	2.0
Dividend yield (%)	0.0	0.0	0.0	0.0	0.0
Per Share Data (Rs)					
EPS adjusted	6.95	10.25	16.02	19.18	23.34
EPS reported	6.95	10.25	16.02	19.18	23.34
BVPS	44.59	54.69	70.71	111.34	134.69
Tangible BVPS	44.59	54.69	70.71	111.34	134.69
Adjusted BVPS diluted	44.59	54.69	70.71	111.34	134.69
DPS	0.00	0.00	0.00	0.00	0.00
Profit & Loss (RsM)					
Net interest income	3,367	5,112	7,646	10,829	14,141
Fees and commissions	2,051	2,258	3,274	4,256	5,533
Other operating Income	1,556	2,092	2,348	1,811	2,076
Total operating income	**6,974**	**9,462**	**13,268**	**16,896**	**21,749**
Total operating expenses	-3,412	-4,185	-4,889	-6,230	-7,942
Oper. profit bef. provisions	**3,562**	**5,277**	**8,379**	**10,666**	**13,807**
Bad debt provisions	-204	-836	-1,227	-1,323	-1,559
Non-operating/exceptionals	-293	219	-50	-100	-100
Pre-tax profit	**3,065**	**4,660**	**7,102**	**9,243**	**12,148**
Tax	-1,065	-1,621	-2,344	-3,050	-4,009
Extraord./Min. Int./Pref. Div.	0	0	0	0	0
Attributable profit	**2,000**	**3,038**	**4,758**	**6,193**	**8,139**
Adjusted earnings	2,000	3,038	4,758	6,193	8,139
Growth Rates (%)					
EPS adjusted	102.5	47.6	56.3	19.7	21.7
Oper. profit bef. prov.	99.5	48.1	58.8	27.3	29.4
Balance Sheet (RsM)					
Total assets	**169,824**	**229,008**	**332,309**	**442,241**	**571,333**
Avg interest earning assets	129,515	182,858	260,899	364,859	480,713
Customer loans	94,324	124,469	208,450	286,335	375,679
Gross NPLs	106	849	786	2,152	3,450
Liab. & shar. funds	**169,824**	**229,008**	**332,309**	**442,241**	**571,333**
Total customer deposits	132,732	161,694	252,488	330,756	434,991
Reserve for loan losses	21	438	655	1,514	2,396
Shareholders' equity	**13,189**	**16,242**	**21,001**	**38,819**	**46,959**
Profitability/Solvency Ratios (%)					
ROE adjusted	19.0	20.6	25.6	20.7	19.0
Net interest margin	2.6	2.8	2.9	3.0	2.9
Cost/income ratio	48.9	44.2	36.8	36.9	36.5
Cash cost/average assets	2.4	2.1	1.7	1.6	1.6
NPLs/customer loans	0.1	0.7	0.4	0.8	0.9
Reserve for loan losses/NPLs	20.0	51.5	83.3	70.4	69.4
Bad debt prov./avg. cust. loans	0.3	0.8	0.7	0.5	0.5
Loans/deposit ratio	71.1	77.0	82.6	86.6	86.4
Tier 1 capital ratio	8.5	9.5	6.2	8.6	8.0
Total capital ratio	13.6	16.6	11.1	12.9	11.8

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