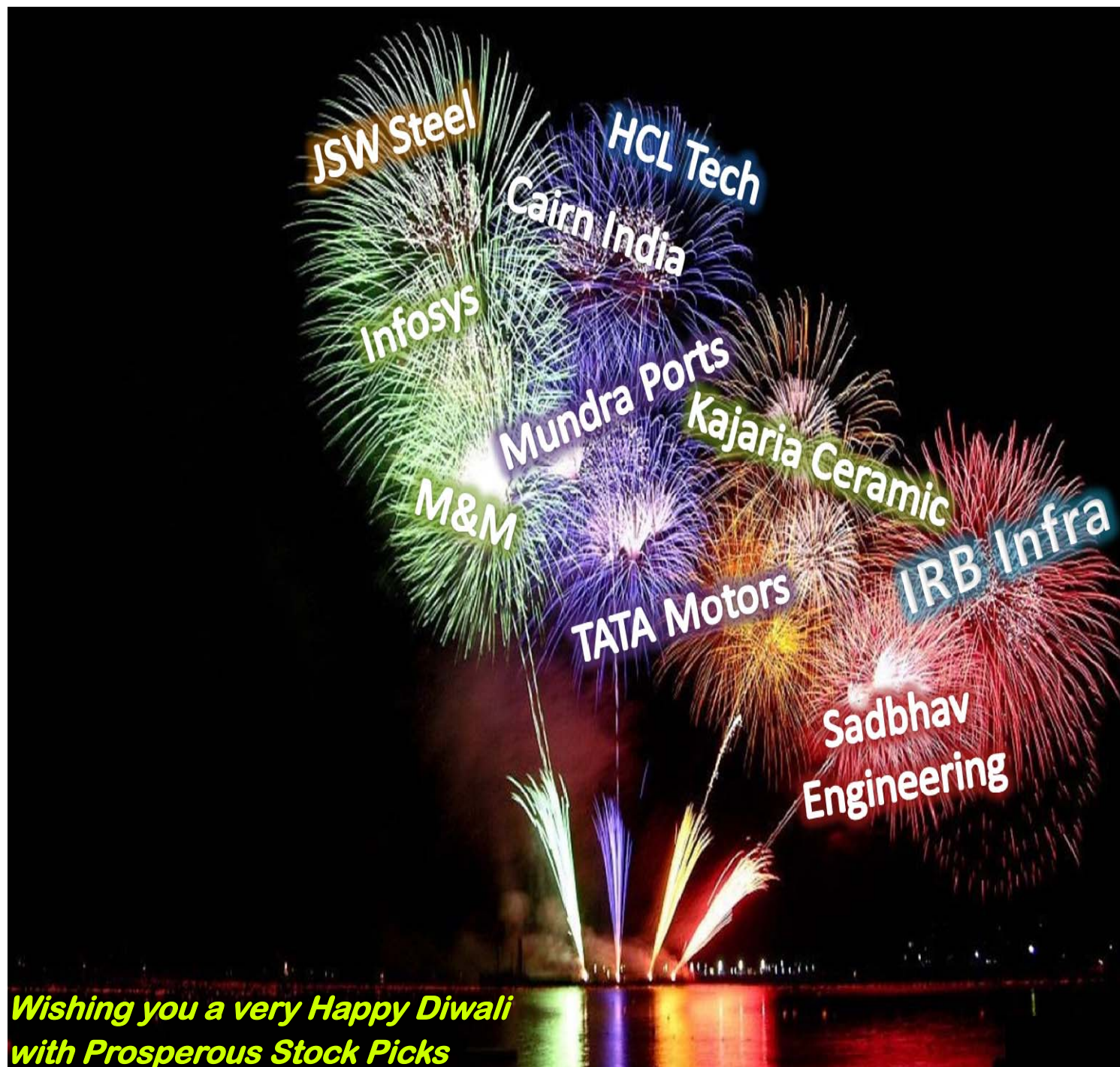


Diwali Picks - Samvat 2068



***Wishing you a very Happy Diwali
with Prosperous Stock Picks***

25th October, 2011

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Name of the Companies	Sector	CMP (Rs.)	Target (Rs.)
JSW Steel Ltd.	Metals	585.35	685.00
Cairn India Ltd.	Oil I & Gas	291.80	356.00
Tata Motors - DVR	Automobiles	100.65	120.00
Mahindra & Mahindra Ltd.	Automobiles	809.85	1015.00
IRB Infrastructure Developers Ltd	Roads & Highways	156.80	190.00
Sadbhav Engineering Ltd	Construction & Engineering	134.70	155.00
Infosys Ltd	IT Services	2,767.30	3,247.00
HCL Technologies Ltd	IT Services	424.90	618.00
Mundra Ports & SEZ Ltd	Ports	156.00	187.00
Kajaria Ceramics Ltd	Ceramics-Tiles	117.00	145.00

Surviving Through Rough Times

JSW Steel Ltd stock price has corrected 30% in the past 3 months after the Supreme Court had imposed an interim ban on mining in July 2011 on concerns of environment degradation in Bellary district of Karnataka and later extended the prohibition to Tumkur and Chitradurga districts.

Investment Rationale

E-auction of iron ore to provide partial relief

The steel industry had heaved a sigh of relief in September 2011 after Supreme Court ordered e-auction of 1.5 million tonne of iron ore per month out of the stocks lying in the mines and allowed NMDC to produce 1 million tonnes of iron ore per month from its mines in Karnataka. The ruling set aside the long-term supplies agreement of NMDC with various steel units in the state, asking the firm to make all supplies in Karnataka only through the e-auction which is unfavorable for the company as it has long term supply agreement with NMDC. Also due to bureaucratic delays, procedural delays and logistical issues actual delivery of iron ore to the steel producer remains challenge. The company has now ensured 1.8 million tonne through three rounds of e-auctions of inventory lying in Karnataka.

Situation unlikely to resolve in near term

The Supreme Court has directed that the Environment Impact Assessment (EIA) report be undertaken by the Indian Council of Forestry Research and Education (ICFRE) in collaboration with Wildlife Institute of India, Forest Survey of India, and other such expert organizations in forestry (as decided by ICFRE, in consultation with the Ministry of Environment and Forests) and will be submitted by November 2011. The routine supply of iron ore is not likely to flow in the short term. Although, these issues are likely to be sorted out eventually, we expect it would disrupt FY12 annual production. The next thing in near term could happen is that those iron ore mines, which had been operating legally, could be allowed to operate with the provision that the produce would be e-auctioned. State government is planning to approach the apex court with an affidavit seeking remedy to problems arising out of the ban as government exchequer is losing Rs 40,000 mn and nearly 1.5 lakh people have lost their jobs due to mining ban in Karnataka.

Outlook & Valuation

JSW's ability to pass on the higher costs would be a function of imported steel prices and hence we expect margins for FY12E to be impacted. We believe JSW Steel offers value to investors with a longer investment horizon as we believe iron ore supply would be normalized eventually and it cannot be prolonged for ever but next 6 months would be tough. State government is planning to approach the apex court with an affidavit seeking remedy to problems arising out of the ban as government exchequer is losing Rs 40,000 mn and nearly 1.5 lakh people have lost their jobs due to mining ban in Karnataka. At current price of Rs. 579 the stock is trading at EV/EBIDTA of 6.7x and 4.8x for FY12E and FY13E respectively. We recommend Buy with target price of Rs. 685 per share.

YE (Rs mn)	FY09	FY10	FY11	FY12E	FY13E
Net Sales	1,59,348	1,89,572	2,39,002	3,05,450	3,45,850
Sales Growth (%)	27.9%	19.0%	26.1%	27.8%	13.2%
EBIDTA	31,517	41,873	48,786	46,425	62,253
EBITDA Growth (%)	-13.1%	32.9%	16.5%	-4.8%	34.1%
PAT	2,338	15,975	17,540	1,11,89.5	19,322.8
PAT Growth (%)	-85.4%	583.1%	9.8%	-36.2%	72.7%
EPS	14.7	85.4	78.6	50.2	86.6
EPS Growth (%)		481.0%	-8.0%	-36.2%	72.7%
Margin					
EBIDTA Margin (%)	19.8%	22.1%	20.4%	15.2%	18.0%
PAT Margin (%)	1.5%	8.4%	7.3%	3.7%	5.6%
Valuation Ratios					
P/E				11.5	6.7
EV/EBIDTA				6.7	4.8
Mcap/Sales				0.42	0.37

Source: Company, BP Equities Research

Stock Rating

BUY	HOLD	SELL
> 15%	-5% to 15%	< -5%

Sector Outlook

Neutral

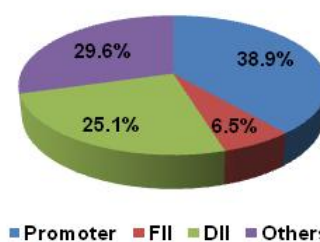
Stock

CMP (Rs)	585.35
Target Price (Rs)	685.00
BSE code	500228
NSE Symbol	JSWSTEEL
Bloomberg	JSTL IN
Reuters	JSTL.BO

Key Data

Nifty	5098.35
52WeekH/L(Rs)	1395/ 532.
O/s Shares (mn)	223.1
Market Cap (Rs mn)	129.26
Face Value (Rs)	10
Average volume	
3 months	2,775,779
6 months	1,910,164
1 year	1,772,359

Share Holding Pattern (%)



Relative Price Chart



Pure Oil Play

Company Background

Cairn India is one of the most significant oil and gas exploration and production companies in India. The company was incorporated in 2006 by Cairn Energy PLC. The Company operates the largest producing oil field in the Indian private sector, has pioneered the use of cutting-edge technology to extend production life and have a world-class resource base, with an interest in 15 blocks in India.

Investment Rationale

Production to ramp at Rajasthan block

Cairn India is planning to ramp-up its Rajasthan production from the current 125kbpd to 175kbpd by year-end for which regulatory approvals have been slower due to the issue of royalties related to the Cairn-Vedanta deal. With the royalty issue now been accepted, we expect regulatory approvals to be faster in coming period and subsequently production would increase.

Strong Balance Sheet and superior cash flows

Cairn has a strong balance sheet with no immediate funding requirement. The company has netcash of US\$1bn and we expect FCF generation to continue in FY2012, which will more than cover its capex requirements.

Producing fields priced in; exploratory upsides awaited:

CIL's management remained optimistic to reach an exit crude oil producing capacity of 175,000bopd by FY2012. However, management opined that due to constraints in pipeline capacity, ramp-up beyond 175,000 could be pushed to FY2014. MBA fields seem to be priced in the valuation as their reserve potential is known since CIL's public issue. Nevertheless, there are various exploratory upsides untapped in Barmer Hills and other fields waiting to be developed and commercialized. Currently, various schemes related to exploratory drillings and optimization of producing fields are awaiting approvals from the government. Further, operational visibilities in such fields could trigger the valuations upwards.

Outlook

Since last one year Cairn India has underperformed on the back of stake sale to Vedanta being involved in regulatory hurdles. The deal is now moving towards completion and two of the GoI conditions- Cess and Royalty payable - are currently with Cairn India shareholders for approval, Cairn has voted to accept these conditions, with voting results due on 14 September 2011. We have positive outlook for Cairn India going forward and recommend buy with target price of Rs. 356 per share.

Stock Rating

BUY	HOLD	SELL
> 15%	-5% to 15%	< -5%

Sector Outlook

Bullish

Stock

CMP (Rs)	291.80
Target Price (Rs)	356.00
BSE code	532792
NSE Symbol	CAIRN
Bloomberg	CAIR IN
Reuters	CAIL.BO

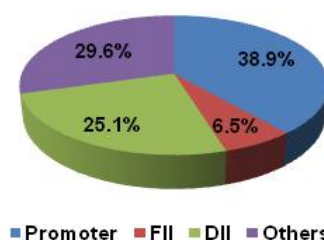
Key Data

Nifty	5098.35
52WeekH/L(Rs)	372/250
O/s Shares (mn)	1902.2
Market Cap (Rs mn)	539.71
Face Value (Rs)	10

Average volume

3 months	2,122,991
6 months	2,435,443
1 year	3,761,677

Share Holding Pattern (%)



YE (Rs mn)	FY10	FY11	FY12E	FY13E
Net Sales	16,230	102,779	145,884	168,377
Sales Growth (%)	13.28%	533.27%	41.94%	15.42%
EBIDTA	11,797	83,739	104,721	114,758
EBITDA Growth (%)	-6.68%	609.83%	25.06%	9.58%
PAT	10,511	63,344	77,033	85,535
PAT Growth (%)	32.95%	502.64%	21.61%	11.04%
EPS	5.54	33.36	41	45.7
EPS Growth (%)	28.54%	502.17%	22.90%	11.46%

Margin

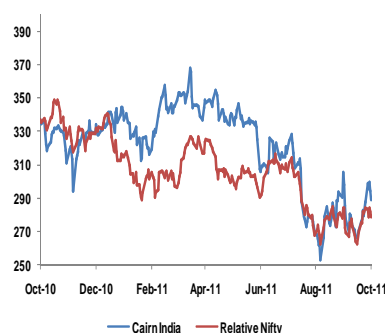
EBIDTA Margin (%)	72.69%	81.47%	71.78%	68.16%
PAT Margin (%)	64.76%	61.63%	52.80%	50.80%

Valuation Ratios

P/E	7.3	6.5
EV/EBIDTA	5.1	4.6
P/B	1.2	1.01

Source: Company, Bloomberg Estimates

Relative Price Chart



Strong Growth in JLR to continue

Company Background

Tata Motors Ltd. is one of the largest players in India with a dominant position in Commercial vehicle (CV) segment (60.1% market share) and among the top three in Passenger Vehicle (PV) with 11.9% market share. Low product development together with good understanding about Indian market provide an edge over other competitors. The company has acquired the British OEM (Original Equipment Manufacturer) - Jaguar Land Rover (JLR), which manufactures luxury cars & SUV's for the global markets.

Investment Rationale

China continue to drive volume growth for JLR

Tata Motors is targeting sales of 40,000 JLR units in China in FY12 compared to 26,914 units in FY11, which implies 48.6% YoY growth. We believe this would compensate JLR for the decline in volumes due to macro concerns in Europe/US. In addition, the company has planned to launch Evoque in the month of September, for which it has received good response from the market and booking stood at ~20,000 units as on Q2FY12. We believe this would support the volume growth going forward.

New Product launches to strengthen the existing portfolio

Management expects recent launch of new Aria to drive further volume growth of Utility Vehicle. The company is also planning to launch new Safari by FY12 end. We believe new launches would support sales volume in PV segment with focused efforts on marketing and dealer management.

LCV segment to show strong growth in volume

Commercial vehicle (CV) segment has shown volume traction in the recent past (~13% YoY in Q1FY12) on the back of strong growth in volume in LCV segment (17.3% in Q1FY12). Management expects strong volume growth from this segment. The company plans to launch several products by FY12 end. Tata Motors is also expanding its capacity for Tata ACE at Dharuward.

Outlook and Valuation

Tata Motors is trading at 6.4x to its FY13 earning estimates and at 4.1x FY13 EV/EBITDA multiple. The stock is available at attractive valuation currently. We have valued the Tata Motors's standalone operation with target EV/EBITDA multiple of 6.5x to FY13 EBITDA and arrived at a standalone target price of Rs 60. We have valued JLR operation with target EV/EBITDA multiple of 4x and arrived at a price of Rs 124. We have valued other subsidiaries (Tata Motors Finance, Tata Technologies, Tata Daewoo, HVAL and HVTL) with PE multiple and arrived at a price of Rs 20. We have SOTP target price of Rs 204 on Tata Motors. DVR is trading at huge discount of ~54%. We have a target price of Rs 120 on Tata Motor's DVR.

Stock Rating

BUY	HOLD	SELL
> 15%	-5% to 15%	< -5%

Sector Outlook

Bullish

Stock

CMP (Rs)	100.65
Target Price (Rs)	120.00
BSE code	570001
NSE Symbol	TATAMTRDVR
Bloomberg	TTMT/A IN
Reuters	TAMdv.BO

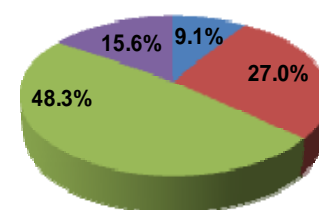
Key Data

Nifty	5,098.35
52WeekH/L(Rs)	188/80
O/s Shares (mn)	482
Market Cap (Rs mn)	N.A
Face Value (Rs)	2

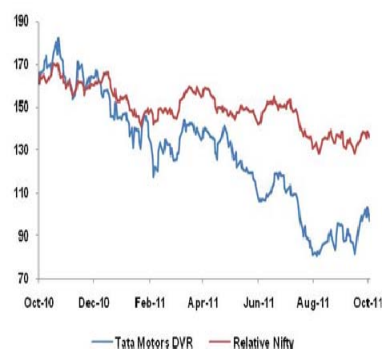
Average volume

3 months	1,273,933
6 months	954,846
1 year	763,535

Share Holding Pattern (%)



Relative Price Chart



Key Financials				
YE March (Rs mn)	FY10	FY11	FY12E	FY13E
Net Sales	925,193	1,224,072	1,403,118	1,565,720
Sales growth (%)	30.4%	32.3%	14.6%	11.6%
EBIDTA	86,142	170,606	177,462	198,208
Net Profit	29,151	92,736	87,182	95,889
Adjusted EPS	10.2	28.5	26.6	29.2
No of Diluted shares (mn)	598	664	664	664
Key Ratios				
EBIDTA (%)	9.3%	13.9%	12.6%	12.7%
NPM (%)	3.2%	7.6%	6.2%	6.1%
RoE (%)	35.5%	48.4%	36.4%	30.2%
Valuation Ratios				
P/E (x)			7.0x	6.4x
P/BV (x)			2.3x	1.8x
EV/EBIDTA (x)			4.6x	4.1x

Strong Growth Going Forward

Company Background

Mahindra & Mahindra (M&M) is the leading tractors and Utility Vehicles (UV) maker in India. The company also manufactures light commercial vehicles (including three-wheelers). Its JV with Navistar makes trucks and buses. M&M recently acquired 70% stake in Korean SUV manufacturer Ssangyong Motors. M&M exports its products to several countries in Europe, Africa, South America, South Asia and Middle East.

Investment Rationale

Core business continue to show strong growth

UV segment have been the center of attention for M&M in the passenger car segment, M&M's new ventures in the CV space are firming up well. New product launches such as GIO and Maxximo have received good response. Further, launch of new products in the M&HCV space would position the company well, in-line with other major domestic CV players over the next 2-3 years, aided by its well-known brand equity and extensive sales network. This is expected to substantially contribute to the company's overall volume growth.

Acquisition of new business to boost future growth

M&M acquired 55% stake in Reva from private equity investors and further plan to invest Rs 450mn to increase production capacity from 15000 to 30000 units per year. The company plans to infuse its technology in the diesel-electric hybrid variants of its UV and CV product portfolio. M&M acquired the 4th largest South Korean automobile manufacturer-Ssangyong Motor, a debt free company for product expansion and brand building. This acquisition would not only give access to Ssangyong technology but also have a major positive impact in terms of distribution network in South Korea and other markets in long term.

Outlook and Valuation

We expect M&M to leverage upon its dominant position in the UV and tractor segments and believe that strong rural demand would help to sustain its volume momentum. Continued dominance in the tractor segment is also expected with capacity expansion of Yuvraj tractor. We value the M&M stock on SOTP basis (target price: Rs 1,015), with the standalone business at Rs.765 per share for its standalone operations and subsidiary investments at Rs. 250 per share.

Key Financials				
YE March (Rs mn)	FY10	FY11	FY12E	FY13E
Net Sales	185,296	234,211	278,653	319,176
Sales growth (%)	42.0%	26.4%	19.0%	14.5%
EBIDTA	29,117	34,355	38,239	44,171
Net Profit	19,893	25,336	27,824	31,922
Adjusted EPS	32.4	41.4	45.6	52.5
Key Ratios				
EBIDTA (%)	15.7%	14.7%	13.7%	13.8%
NPM (%)	10.7%	10.8%	10.0%	10.0%
RoE (%)	25.4%	24.6%	24.3%	23.6%
Valuation Ratios				
P/E (x)			17.8x	15.4x
P/BV (x)			4.0x	3.4x
EV/EBIDTA (x)			13.5x	11.7x

Source: Company, Bloomberg Estimates

Stock Rating

BUY	HOLD	SELL
> 15%	-5% to 15%	< -5%

Sector Outlook

Bullish

Stock

CMP (Rs)	809.85
Target Price (Rs)	1015.00
BSE code	500520
NSE Symbol	M&M
Bloomberg	MM IN
Reuters	MAHM.BO

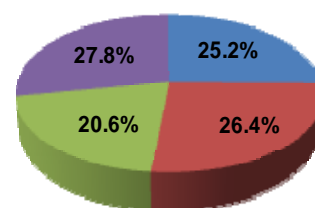
Key Data

Nifty	5098.35
52WeekH/L(Rs)	826/585
O/s Shares (mn)	613.97
Market Cap (Rs mn)	433
Face Value (Rs)	5

Average volume

3 months	2,209,081
6 months	1,914,232
1 year	2,056,326

Share Holding Pattern (%)



■ Promoter ■ FII ■ DII ■ Others

Relative Price Chart



IRB Infrastructure Developers Ltd.



Roads & Highways

Strong Road Player

Company Background

IRB is an integrated road developer with extensive experience in construction, development and operation of road projects. IRB is one of the largest road BOT operators in country and has a portfolio of 17 road BOT projects aggregating to 6,722 lane kms through various SPV's . The company has a construction order book of Rs 91 bn and O&M order book of Rs 21 bn. The company has presence in real estate and has ~1200 acres of land under possession near Pune and to airport development business at Sidhurg in Maharashtra.

Investment Rationale

Strong revenue visibility of EPC segment

The company has gross order book of Rs 111.7 bn, of which ongoing projects account for Rs 46.8 bn, O&M project Rs 20.6 bn and upcoming projects (LOA received) worth Rs 44bn. Even if we just consider ongoing projects which amount to ~3x FY11 EPC revenue, they provide good earnings visibility for the EPC segment. Apart from this, the company is confident that it will maintain its construction segment margin in the same range, which is almost double than its peers.

The company to focus on high value projects; competition likely to ease

Given strong competition IRB intends to bid for projects worth Rs15bn and above to achieve its targeted IRR of 16%. Currently, for projects of up to Rs10bn, there are ~40 bidders participating in the bidding. Hence IRB has decided to focus more on projects above Rs15bn, since competition for high-value projects reduce 50% due to stipulations on financial capabilities and technical qualifications of the developer. This also helps IRB maintain margins. In FY12, until date (Apr'11- Jul'11), NHAH has awarded 2500km of projects against a targeted of 7000km; management indicated that the target is achievable owing to the pace of development at NHAH versus previous years. NHAH has evaluated the annual qualification of bidders who can participate in the bidding process. IRB is pre-qualified to bid for project size of Rs 41bn

Financial closure for Ahmedabad-Vadodara project by FY12

IRB signed a concession agreement (CA) for the Ahmedabad-Vadodara project under an SPV (IRB Ahmedabad-Vadodara Super Express Toll Pvt. Ltd) in Jul'11 and expects financial closure to be completed by FY12. Construction would commence by Apr'12. Management is looking at funding part of debt for Ahmedabad-Vadodara through the ECB route. Interest cost for ECB is likely to be 8-9%, which could bring down average interest cost to ~10%. The expected IRR from this project as identified by the management is ~16% .

Raise Rs12 bn through QIP

IRB's Board of directors has passed a resolution to raise Rs12 bn through the QIP route. The management indicate that this move was prompted considering the strong pipeline of upcoming projects. This indicate managements preparation for meeting the funding requirement for upcoming projects.

Outlook and Valuation

Award activity is set to pick up in NHAH again in which IRB is qualified and is likely to witness awarding over the next couple of months. In sync with the competitive scene we expect the IRR to remain in the range of 18% to 16% for fresh awards. We believe company's strong performance coupled with signs of activity at NHAH level will have a positive impact. The stock is trading at P/E of 10.7x and 9.5x to its FY12E & FY13E EPS of Rs 14.7 & Rs 16.5 per share. We arrive at a price of Rs 190 per share which discounts FY13E EPS of Rs 16.5 by 11.5x.

Key Financials				
YE March (Rs. mn)	FY10	FY11	FY12E	FY13E
Revenues	17,049	24,381	31,998	42,202
Growth (%)	-	43.0%	31.2%	31.9%
EBIDTA	7,990	10,939	13,346	16,143
Growth (%)	-	36.9%	22.0%	21.0%
Adjusted PAT	3,854	4,524	4,890	5,488
Growth (%)	-	17.40%	8.09%	12.23%
Diluted EPS	11.6	13.6	14.7	16.5
Growth (%)	-	17.4%	8.2%	12.4%
Key Ratios				
EBIDTA margins	46.9%	44.9%	41.7%	38.3%
PAT margins	22.6%	18.6%	15.3%	13.0%
ROE (%)	19.7%	19.5%	17.7%	16.6%
BV (Rs)	61	73	91	107
Valuation Ratios				
P/E(x)	-	-	10.7x	9.5x
P/Bv(x)	-	-	1.7x	1.5x
EV/EBIDTA(x)	-	-	6.5x	5.4x

Source: Company, Bloomberg Estimates

Stock Rating

BUY	HOLD	SELL
> 15%	-5% to 15%	< -5%

Sector Outlook

Neutral

Stock

CMP (Rs)	156.80
Target Price (Rs)	190.00
BSE code	532947
NSE Symbol	IRB
Bloomberg	IRB IN
Reuters	IRB.BO

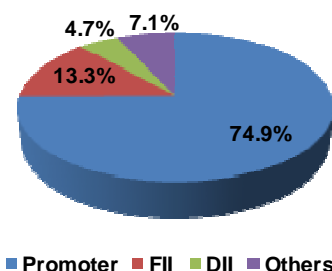
Key Data

Nifty	5098.35
52WeekH/L(Rs)	299.20/131.75
O/s Shares (mn)	332.4
Market Cap (Rs mn)	46,602
Face Value (Rs)	10

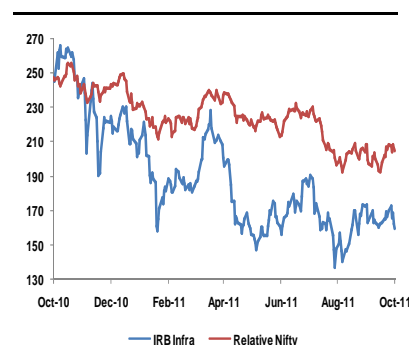
Average volume

3 months	2,149,193
6 months	2,040,145
1 year	1,801,705

Share Holding Pattern (%)



Relative Price Chart



Sadbhav Engineering Ltd.



Construction & Engineering

A good value play in rough time

Company Description

Sadbhav Engineering Limited (SEL), a leading Gujarat based ISO-9001-2000 certified company was incorporated on 3rd October 1988 as a private limited company after taking over the running business of M/s Bhavna Construction Co. The main thrust areas of operations of the company comprise Construction of Roads & Highways, Irrigation and Mining Operations. The Company entered into the capital market with a public issue in the year 2006.

Investment Rationale

Robust earnings growth

Most construction companies' earnings have slowed down, while Sadbhav Engineering has delivered 54% earnings growth over the last six years. SEL's standalone post-tax FY11 earnings improved 122% YoY in FY11, and we a steady growth in earnings in FY12 and FY13, respectively.

Healthy order book provide revenue visibility

SEL's order book currently stands at ~Rs. 66bn (as on June 2011) diversified across segments like Road Infra (71%), Irrigation segment (17.2%) and Mining Segment (13%) with an average execution period of 2-3 yrs for Road, 4-5 years for Irrigation and 4-7 years for the Mining business. ~ 50% of its road order book accrues from its 9 road BOT projects, which are being developed by SIPL (Sadbhav Infrastructure Project Ltd a 78% wholly subsidiary of SEL). SEL current order book to sales is 3.2x FY11 revenue which is one of the highest in the road industry.

Strong financials post rights issue & stake dilution at SIPL

During FY11, SEL has raised Rs. 1.25 bn via a rights issue and also raised Rs. 4 bn through a preferential issue in SIPL (Sadbhav Infrastructure Projects Limited). As a result of this infusion the debt equity ratio of the company is as low as 0.8x FY11 and we expect it to remain below 1x going forward. We believe that lower gearing put the company at an advantage to pursue its aggressive growth plans going forward and augurs well in the high interest rate environment.

Ability to scale up the BOT business through JVs and reduce financial risk

The strategy of entering into JVs to bid for various BOT projects has resulted in SEL bagging 9 BOT projects in a relatively short period of 5 years. Bidding through JVs help in terms of pre-qualifying for bigger projects due to increased net-worth and technical qualification of the combined entity (JV). Recently, SEL has entered into a JV (50:50) with SBI Macquarie fund to bid for further BOT projects above Rs. 25 bn through this JV. The strategy allows SEL to share financial risk with its financial partners leaving it to focus on execution and operational efficiency.

Outlook & Valuation

Sadbhav intends to further expand its presence in the BOT road space in projects, by bidding for large road projects including mega-highway projects through SIPL. New project wins could significantly add to Sadbhav's valuation as well as improving earnings for the EPC segment. SEL's EPC construction business growth has been robust reflected in the excellent top line and bottom line numbers. Order inflows are expected to be strong especially in the road and mining segment. The stock is trading at P/E of 11.6x and 9.6x to its FY12E & FY13E EPS of Rs 11.3 & Rs 13.8 per share. We arrive at a price of Rs 155 per share which discounts FY13E EPS of Rs 13.8 by 11.2x.

Stock Rating

BUY	HOLD	SELL
> 15%	-5% to 15%	< -5%

Sector Outlook

Neutral

Stock

CMP (Rs)	134.70
Target Price (Rs)	155.00
BSE code	532710
NSE Symbol	SADBHAV
Bloomberg	SADE.IN
Reuters	SADE.BO

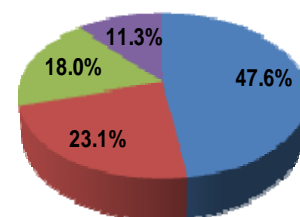
Key Data

Nifty	5098.35
52WeekH/L(Rs)	154.40/93.70
O/s Shares (mn)	150
Market Cap (Rs mn)	20025
Face Value (Rs)	1

Average volume

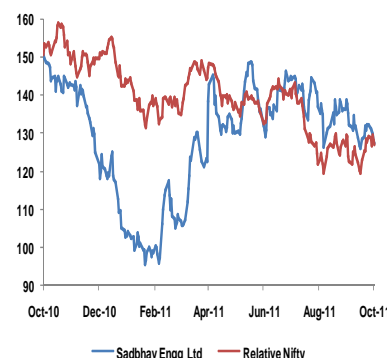
3 months	90,443
6 months	92,502
1 year	1,25,803

Share Holding Pattern (%)



■ Promoter ■ FII ■ DII ■ Others

Relative Price Chart



Key Financials (Consolidated)				
YE March (Rs. mn)	FY10	FY11	FY12E	FY13E
Revenues	13,344	23,362	27,596	32,138
Growth (%)	-	75.1%	18.1%	16.5%
EBIDTA	2,307	3,324	4,269	6,000
Growth (%)	-	44.1%	28.4%	40.5%
Adjusted PAT	363	933	1,280	1,294
Growth (%)	-	157%	37.2%	1.1%
Diluted EPS	2.8	6.6	11.3	13.8
Growth (%)	-	135.7%	71.2%	22.1%
Key Ratios				
EBIDTA margins	12.3%	11.1%	15.4%	18.7%
PAT margins	4.3%	5.4%	4.6%	4.0%
ROE (%)	14%	19%	12.4%	9.5%
BV (Rs)	31.32	41.76	65.50	-
Valuation Ratios				
P/E(x)	-	-	11.6x	9.6x
P/Bv(x)	-	-	2.0x	-
EV/EBIDTA(x)	-	-	9.5x	6.8x

Source: Company, Bloomberg Estimates

Company back on track with robust performance and stronger guidance

Investment Rationale

Infosys delivers robust set of numbers for Q2 FY12

The revenue in US\$ terms grew 4.5% Q-o-Q and 16.7% Y-o-Y to US\$ 1.75 bn, aided by 4.5% Q-o-Q improvement in volumes, stable pricing and 239 bps improvement in utilization excluding trainees. Total Revenues stood at Rs 80,990 mn up 8.2% Q-o-Q and 16.6% Y-o-Y. Net profits grew 10.7% sequentially and 9.7% Y-o-Y inline with our estimate of 10.3% Q-o-Q increase. Operating margins contracted 204 bps Y-o-Y but expanded 209 bps sequentially to 28.2% primarily due currency gains (contributed 150bps) and increase in utilization (contributed 40 bps). EPS grew 9.7% Y-o-Y and 10.7% Q-o-Q to Rs 33.4.

BFSI, retail and healthcare shows traction, US recovers while management remains cautious over prevailing macroeconomic uncertainty

BFSI grew 8.6% Q-o-Q, Retail and Manufacturing contribution grew 120 bps and 130 bps Y-o-Y to 15.6% and 20.2%. Healthcare grew 26.2% Q-o-Q and contributed 5.6% to revenues. US contribution expanded 110 bps in the quarter, however management remains cautious about long term spending commitments from clients and remains cautious. India and Europe remained under pressure with 40 and 80 bps contraction in contribution respectively. The company added 15,352 employees on Gross basis while net additions stood at 8,262. Lateral hiring were around 2,318 and LTM attrition rate stood at 15.6% in the quarter vs. 15.8% in Q1 FY12.

Strong FY12E revenue guidance despite economic uncertainty

Management has slightly cut its FY12E USD revenue guidance to 17.1-19.1% growth Y-o-Y from 18-20% growth earlier (primarily to adjust due to cross currency fluctuations) which, we believe is encouraging considering the prevailing uncertainty in the west. EPS guidance for FY12E (in Rs terms) has been risen to Rs 143.0-145.3 up 19.7-21.6% Y-o-Y from Rs 128.2-130.0 earlier, primarily due to cross currency gains, constant pricing scenario and better utilization rates. OPM now is expected to contract by only 50-100 bps for FY12E, against management's previous assumption of 250 bps margins contraction. For Q3 FY12E company expects top-line of Rs 88.26-90.12 bn (up 9.0-11.3% Q-o-Q) and EPS of Rs 38.51-39.20 (up 15.4-17.5% Q-o-Q). The company expects to add around 8K employees (gross basis) in Q3 FY12E and around ~45K employees for FY12E, while expects utilization to be in the range of 78%-81%.

Valuation & Outlook

We expect the company top line to grow 24.5% and 20.5% Y-o-Y (vs 17.8% and 19.4% earlier) to Rs 342.3 bn and Rs 412.5 bn in FY12E and FY13E respectively. We assume margins to remain more or less flat at 29.7% for FY12E (against management expectation of 50-100 bps decline). In view of strong demand for IT services, no significant budget cuts from clients, company's investment in business, robust hiring, uptick in pricing, we maintain our "BUY" rating on the stock despite prevailing uncertainty in the west and volatile currency movements. We give a "BUY" rating on the stock and maintain our target price at Rs 3,247 (18x FY13 earnings). The company now trades at a P/E of 18.6x and 15.3x FY12 and FY13 earnings.

Stock Rating

BUY	HOLD	SELL
> 15%	-5% to 15%	< -5%

Sector Outlook

Bullish

Stock

CMP (Rs)	2,767.3
Target Price (Rs)	3,247.0
BSE code	500209
NSE Symbol	INFOSYSTCH
Bloomberg	INFY IN
Reuters	INFI.BO

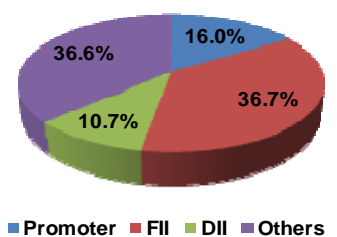
Key Data

Nifty	5098.35
52WeekH/L(Rs)	3,499.0/2,161.5
O/s Shares (mn)	571
Market Cap (Rs mn)	1,581
Face Value (Rs)	Rs 5

Average volume

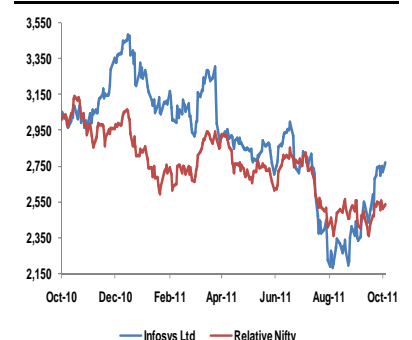
3 months	1,754,447
6 months	1,497,166
1 year	1,366,707

Share Holding Pattern (%)



Key Financials					
YE March (Rs. mn)	FY09	FY10	FY11	FY12E	FY13E
Net Sales	216,930	227,420	275,010	342,335	412,528
Growth%	30.0%	4.8%	20.9%	24.5%	20.5%
Operating Profit	64,340	69,560	81,140	101,800	123,039
Growth%	38.7%	8.1%	16.6%	25.5%	20.9%
Net Profit	59,880	62,660	68,350	84,995	103,062
Growth%	28.5%	4.6%	9.1%	24.4%	21.3%
Diluted EPS	104.4	109.7	119.6	148.8	180.4
Growth%	28.5%	5.1%	9.0%	24.4%	21.3%
Key Ratios					
OPM(%)	29.7%	30.6%	29.5%	29.7%	29.8%
NPM (%)	27.6%	27.3%	24.9%	24.8%	25.0%
RoE (%)	35.6%	29.1%	25.8%	28.1%	29.7%
RoCE (%)	35.6%	29.0%	25.6%	28.0%	29.6%
BV/Per Share Rs.	318.3	403.6	454.6	517.1	603.3
Valuation Ratios					
P/E (x)			23.1	18.6	15.3
EV/EBITDA (x)			15.9	12.6	11.1
P/BV (x)			6.1	5.4	4.6
Market Cap./ Sales (x)			5.7	4.6	3.8

Relative Price Chart



Broad based growth prospects and cheaper valuations

Investment Rationale

HCL Tech to deliver Industry leading growth rate

The company top line grew 8.2% Q-o-Q and 25.4% Y-o-Y to Rs 46.5 bn, on account of volumes growth of 4.0%, rupee depreciation of 3.9% offset by lower utilization rates, coming in line with our estimate of Rs 43.8 bn. However going forward we believe that stronger deal pipe line and significant deal wins will help the company to deliver industry leading growth rate.

The revenue in US\$ terms grew 4.1% Q-o-Q and 24.7% Y-o-Y to US\$ 1002.2 mn in Q1 FY12, aided by 4.0% sequential growth in volumes offset by lower utilization. Net profits grew 50% Y-o-Y while declined 1.9% sequentially on account of salary hikes & forex losses. EBITDA margins expanded 82 bps Y-o-Y but contracted 138 bps Q-o-Q to 17.1% in the quarter primarily due to salary hikes, lower utilization and higher SG&A expense offset by rupee depreciation and stable pricing. EPS grew 50.0% Y-o-Y while declined 1.9% Q-o-Q to Rs 7.2 coming below with our estimate of Rs 7.9 for the quarter.

Volumes growth have slowed down since the last quarter, however we expect it to be pick up in the next few quarters. Pricing remained more or less stable in the quarter, going forward we don't see any significant pricing pressure from clients EBITDA Margins contracted 138 bps q-o-q (expectation was 250 bps decline) on account of salary hikes effective in the quarter and lower utilization rates offset by stable pricing and rupee depreciation. Forex loss stood at Rs179 mn, which impacted profits, in fact we expected forex gains to continue. NPM expanded 175bps Y-o-Y while contracted 121 bps Q-o-Q to 10.7%

Broad based growth, Manufacturing and Retail Outperforms while Telecom lags

Manufacturing revenue contribution expanded 100 bps sequentially and 180 Y-o-Y to 29.0% while BFSI declined 90 bps to 25.1% in the quarter, going forward we expect these key verticals to deliver strong growth. Retail grew 7.6% Q-o-Q and contributed 8.5% in the quarter while Telecom once again remained sluggish with a drop of 6.6% Q-o-Q in revenues and contribution of 8.5%.

Strong hiring continues and dip in attrition rates — positives

The company added 9,311 on gross and 3,474 employees on net basis, taking the total employee count to 80,520. The strong addition is due to company's shift from its just in time hiring strategy to hiring fresher's which we believe will lower employees cost, boost volumes and Utilization rate in the coming quarters. Attrition rate stood at 15.8% as compared to 16.3% in Q4 FY11.

Infrastructure Services (IMS) continues to drives growth — US growth returns

IMS grew 8.4% Q-o-Q to Rs 11.4 bn, Engg & R&D services and Custom Application grew 13.0% and 10.0% Q-o-Q indicating revival in discretionary spending. US revenue contribution expanded 140 bps to 55.8%, while Asia pacific & Europe contribution contracted 100 bps and 50 bps Q-o-Q to 17.5% & 26.6% respectively in the quarter.

Valuation & Outlook

We expect the company to grow 27.6% and 20.5% Y-o-Y to Rs 204.6 bn and Rs 246.9 bn in FY12E and FY13E respectively. In view of strong demand for IT services, significant deals wins, growth from emerging geographies, no significant slowdown from US & Europe, increase in fresher's hiring, expansion in NPM, absence of forex losses and stable pricing environment, we maintain our "BUY" rating on the stock despite uncertainty in the west and inability of the company to surprise street. We maintain our price target to Rs 618 (15x times FY13 earnings). The company now trades at a P/E of 13.0x and 10.3x FY12E and FY13E earnings comparatively cheaper than its peers.

Stock Rating

BUY	HOLD	SELL
> 15%	-5% to 15%	< -5%

Sector Outlook

Bullish

Stock

CMP (Rs)	424.9
Target Price (Rs)	618.0
BSE code	532281
NSE Symbol	HCLTECH
Bloomberg	HCLT.BO
Reuters	HCLT.IN

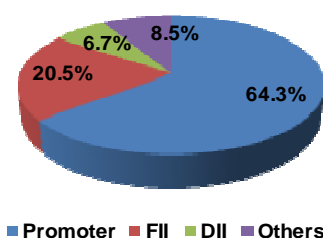
Key Data

Nifty	5098.35
52WeekH/L(Rs)	528/360
O/s Shares (mn)	695
Market Cap (Rs mn)	292.0
Face Value (Rs)	2

Average volume

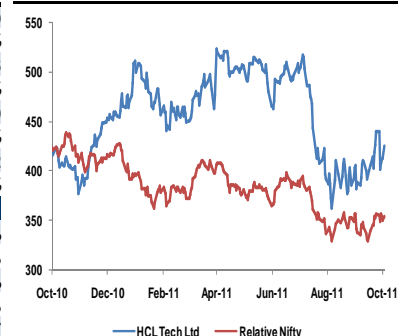
3 months	1,435,804
6 months	1,047,119
1 year	1,060,941

Share Holding Pattern (%)



Key Financials					
YE March (Rs. mn)	FY09	FY10	FY11	FY12E	FY13E
Total Revenues	105,908	125,882	160,342	204,633	246,589
Revenue Growth (Y-o-Y) %	39.4%	18.9%	27.4%	27.6%	20.5%
EBIDTA	23,064	25,784	27,488	36,305	44,216
EBIDTA Growth (Y-o-Y) %	39.4%	11.8%	6.6%	32.1%	21.8%
Net Profit	12,774	13,055	17,102	22,721	28,599
Net Profit Growth (Y-o-Y)	13.6%	2.2%	31.0%	32.9%	25.9%
Diluted EPS (Rs.)	19.0	18.9	24.4	32.7	41.2
Diluted EPS Growth (Y-o-Y)	15.1%	-0.1%	28.9%	34.1%	25.9%
Key Ratios					
EBIDTA (%)	21.8%	20.5%	17.1%	17.7%	17.9%
NPM (%)	12.1%	10.4%	10.7%	11.1%	11.6%
RoE (%)	22.0%	20.0%	21.4%	23.7%	24.7%
RoCE (%)	16.0%	12.9%	15.4%	18.3%	19.8%
Book Value Per share (Rs.)	84.3	102.0	120.3	146.3	178.7
Valuation Ratios					
P/E (x)			17.4	13.0	10.3
EV/EBIDTA (x)			10.6	7.5	5.8
P/BV (x)			3.5	2.9	2.4
Market Cap./ Sales (x)			1.8	1.4	1.2

Relative Price Chart



Capacity expansion and superior infrastructure to drive growth

Company Background

Mundra Port is strategically located for global trade (Latitude: 22° 43' 88' N; Longitude: 69° 42' 34' E). Located on the northern coast of the Gulf of Kutch on the west coast of India, Mundra Port provides a convenient international trade gateway to Europe, Africa, America and the Middle East.. Mundra has a deep draft (12.5 Meters – 17 Meters) which enables large vessels like panamax and super post panamax carriers to dock alongside its berth. It also has a large land area available for development, part of which is now the Mundra SEZ which proposes to attract port-led industrial development.

Investment Rationale

Strong volume growth due to superior infrastructure

Mundra port is strategically situated on the west coast spread across 36,000 acres serving to an industrious Gujarat. The fourth generation port has superior infrastructure and support services to meet ~150mtpa traffic presently and would ramp it up to 225 mtpa in near term (FY15E). The port has one of the deepest drafts capable of accommodating even ultra large vessels. As a result, it is able to attract huge volumes and benefits from economies of scale and higher operational efficiency. It also offers integrated system of rail & road to meet customer requirement.

Revenue visibility due to long term contracts

Mundra has signed long term contracts with IOC and HPCL for handling crude and petroleum products as well as with Adani power and Tata power for handling thermal coal and with Maruti for exporting cars from Mundra. Out of the 93 million tonne, Mundra Port is expected to handle by FY13E, 45 million tonnes are assured from the aforesaid contracts. This would provide Mundra with assured revenues and higher amount of Profit After tax during FY13E.

Better ROEs

Global average ROE for companies operating in Ports & Logistics business range between 8-14%, MPSEZ with rich ROE ~21% qualifies as an attractive investment vis-a-vis its peers in the infrastructure space operating in Roads & Airports where ROE range is 8-12% & Power segment where ROE range is 10-15%.

Mundra Port to be one of the largest port in the country

The company plans to expand its capacity from the existing 130 mtpa to 180 mtpa (including Dahej) in the next two years. Such a humongous capacity addition would place Mundra port ahead of some of the major ports.

Outlook and Valuation

The company is expected to post robust growth in its topline on back of capacity expansion. The port is strategically located on India's west coast and has good rail and road connectivity due to which we believe the company to attract increased traffic in the coming years. We recommend a BUY on the stock with a target price of Rs 187 valuing the stock at 5.3x FY13E book value implying an upside of 20% from the current level.

Key Financials

YE March (Rs mn)	FY10	FY11	FY12E	FY13E
Net Sales	14,955	20,001	30,400	40,614
Growth (YoY %)	25.2%	33.7%	52.0%	33.6%
EBITDA	9,905	13,303	20,277	27,224
Growth (YoY %)	27.2%	34.3%	52.4%	34.3%
Net Profit	6,760	9,182	12,186	17,015
Growth (YoY %)	56.3%	35.8%	32.7%	39.6%
Diluted EPS	3.40	4.60	6.05	8.48
Growth (YoY %)	54.5%	35.3%	31.5%	40.2%

Key Ratios

EBITDA (%)	66.2%	66.5%	66.7%	67.0%
NPM (%)	45.2%	45.9%	40.1%	41.9%
RoE (%)	19.6%	21.0%	24.0%	27.3%
RoCE (%)	11.4%	11.9%	14.4%	18.0%
Debt / Equity (x)	1.1x	1.0x	0.7x	0.6x

Valuation Ratios

P/E (x)		25.8x	18.4x
P/B (x)		6.0x	4.7x
EV/EBITDA (x)		17.2x	12.8x

Source: Company, Bloomberg Estimates

Stock Rating

BUY	HOLD	SELL
> 15%	-5% to 15%	< -5%

Sector Outlook

Bullish

Stock

CMP (Rs)	156
Target Price (Rs)	187
BSE code	532921
NSE Symbol	MUNDRAPORT
Bloomberg	MSEZ IN
Reuters	MPSE.BO

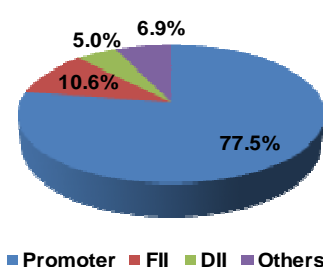
Key Data

Nifty	5098.35
52WeekH/L(Rs)	175.3/112.0
O/s Shares (mn)	2003.39
Market Cap (Rs mn)	312.52
Face Value (Rs)	2.00

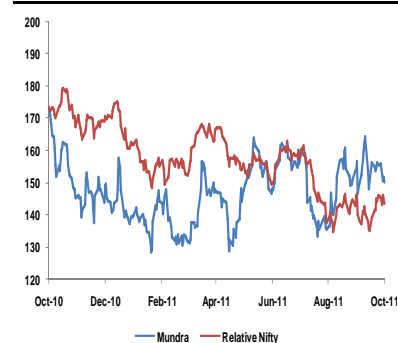
Average volume

3 months	1,914,544
6 months	1,929,638
1 year	1,598,859

Share Holding Pattern (%)



Relative Price Chart



Kajaria Ceramics Limited



Ceramics-Tiles

Robust demand in domestic tile market to drive growth

Company Background

Kajaria Ceramics Limited is the largest manufacturer of ceramic/vitrified tiles in India with a capacity of 30.6 million square meters (msm) across 3 plants - Sikandrabad in Uttar Pradesh, Gailpur in Rajasthan and Morbi in Gujarat. The company offers more than 400 options in ceramic wall & floor tiles, vitrified tiles, designer tiles & much more.

Investment Rationale

Robust growth in tile market

The Indian tile industry, third largest in the world in terms of production and consumption, has been witnessing robust growth of ~15-16% over the last few years versus global average growth rate of ~6%. India's tile market. Approximately 50% of the industry comprises the organized sector and it is witnessing good growth momentum on the back of increased house ownership and better brand inclination. The per-capita consumption of ceramic tiles in India is approx. 0.42 m² per annum. As a comparison, China's per-capita consumption is 2.26 m² per annum, Brazil's consumption is 3.24 m² and Russia's per-capita consumption is 1.00 m² per annum. This shows a huge potential for growth of ceramic tiles in India. Urbanization, consumption and commercial infrastructure are the key drivers of growth in India. As a result, India's ceramic tile industry is expected to continue its growth rate of a proximately 15% per annum over the next few years. Kajaria with its strong distribution network is well placed to leverage on this trend.

Strong Distribution Network

Kajaria Ceramics has a strong and distinguished pan India distribution network of 800 dealers apart from their sub-dealers and strong retail chain network. Being a strong brand name in the market, the company generates ~70% of its sales from the retail segment due to which it has been able to perform well in spite of a downturn in the industry in 2009. The company is looking to extend its retail chain network 'Kajaria World' which currently has 12 outlets to all tier 2 cities. The company markets its European imported tiles through this retail chain network. The company also markets its products through the project sale to brand enhancing name like Vodafone, DLF, EMAAR-MGF etc. The company's strong distribution network has helped it to increase its market penetration over the years by reaching to a larger section of people.

Robust revenue growth through capacity expansion and JVs; Margins to improve

The company has increased its capacity from 21 million msm in FY09 to 30.6 msm in FY11 and is now the largest manufacturer of ceramic tiles in the country. The company recently acquired 51% stake in Gujarat based Soriso Ceramics having 2.30 msm in capacity for Rs 56.2 mn. The capacity addition has been in the high margin yielding large format, Glazed and Polished vitrified tiles which will reduce the share of trading income from current 45% to below 40% over next 2 years. The trading activity generates an EBITDA margin of 8%-10% while manufacturing gives an EBITDA margin of 18% -20%. The company has also formed a new business vertical to market wooden flooring solutions which would provide a boost to its margins in the future.;

Valuation & Outlook

The company's management has indicated that it is expected to achieve topline of Rs 20,000 mn by FY14 and maintain stable EBITDA margins of 15%. The company generated positive operating cash flow of Rs 1,590 mn during FY11 and we believe it to improve further going forward. We expect the company to achieve robust growth in its business on the back of further expansion plans and improved operational efficiency. We recommend a BUY on the stock with a target price of Rs 145 valuing the stock at 10x FY13E EPS implying an upside of 23.7% from current levels.

Key Financials

YE March (Rs mn)	FY10	FY11	FY12E	FY13E
Net Sales	7,355	9,523	11,887	14,217
Growth (YoY %)	10.6%	29.5%	24.8%	19.6%
EBITDA	1,149	1,475	1,877	2,305
Growth (YoY %)	38.4%	28.4%	27.3%	22.8%
Net Profit	358	607	752	1,065
Growth (YoY %)	297.8%	69.6%	23.9%	41.6%
Diluted EPS	4.87	8.24	10.22	14.47
Growth (YoY %)	302.5%	69.2%	24.0%	41.6%

Key Ratios

EBITDA (%)	15.6%	15.5%	15.8%	16.2%
NPM (%)	4.9%	6.4%	6.3%	7.5%
RoE (%)	20.4%	29.5%	30.0%	33.4%
RoCE (%)	12.4%	16.6%	18.5%	22.8%
Debt / Equity (x)	2.0x	1.4x	1.2x	0.9x

Valuation Ratios

P/E (x)		11.4x	8.1x
P/Sales (x)		0.7x	0.6x
EV/EBITDA (x)		6.1x	5.0x

Source: Company, Bloomberg Estimates

Stock Rating

BUY	HOLD	SELL
> 15%	-5% to 15%	< -5%

Sector Outlook

Neutral

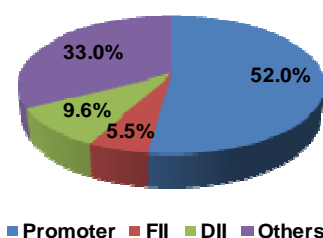
Stock

CMP (Rs)	117
Target Price (Rs)	145
BSE code	500203
NSE Symbol	KAJARIACER
Bloomberg	KJC IN
Reuters	KAJR.BO

Key Data

Nifty	5,098.35
52WeekH/L(Rs)	121.4/106.2
O/s Shares (mn)	73.58
Market Cap (Rs mn)	8607.5
Face Value (Rs)	Rs 2
Average volume	
3 months	187,796
6 months	284,062
1 year	224,079

Share Holding Pattern (%)



Relative Price Chart





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