B&K SECURITIES
WE UNDERSTAND MONEY

06 November 2012

Changes in Conviction Ideas

Our Conviction List as on 02nd November 2012

Large Cap	Mid Cap	Small Cap
ACC	**Shriram Transport Finance**	**Arvind**
DLF	Amara Raja Batteries	**Greaves Cotton**
Larsen & Toubro	Bayer CropScience	**JK Tyre and Industries**
Mahindra and Mahindra	Divi's Laboratories	**Heidelberg Cement**
Titan Industries	United Spirits	**Himatsingka Seide**
Sun Pharmaceuticals		Balkrishna Industries

Our Top Sells

ABB • Siemens • Suzlon Energy • Indian Hotels

Interest rates are all set to come off over CY13 and 14. We expect that this is the right time to start jumping from the defensive bandwagon into cyclicals, even though we expect consumption to remain strong through CY13 (due to elections). We are bringing about the most radical changes to our conviction list in the last 3 years.

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	Additions	Deletions
Buy Ideas		
Largecap	ACC	Grasim Industries
	DLF	Coal India
	Larsen & Toubro	Cadila Healthcare
	Mahindra and Mahindra	Dabur India
	Titan Industries	ITC
Midcap	Shriram Transport Finance	Coromandel International
	–	WABCO India
	–	Jubilant FoodWorks
Smallcap	Arvind	Bajaj Electricals
	Greaves Cotton	Century Textiles
	JK Tyre and Industries	Unichem Laboratories
	Heidelberg Cement	–
	Himatsingka Seide	–
Sell Ideas		
	–	–

Price performance of Conviction Ideas

Company name		Reco.	Price (Rs)		Return (%)	
		Date	Reco.	02 Nov 12	Absolute	Relative
Top BUY Ideas						
Largecap						
Benchmark Index: Nifty 50						
ACC	New Addition	2-Nov-12	1,408	1,408	–	–
DLF	New Addition	2-Nov-12	205	205	–	–
Larsen & Toubro	New Addition	2-Nov-12	1,675	1,675	–	–
M&M	New Addition	2-Nov-12	917	917	–	–
Titan Industries	New Addition	2-Nov-12	289	289	–	–
Sun Pharmaceuticals		19-Jun-12	598	697	16.5	4.4
Midcap						
Benchmark Index: CNX Midcap						
Shriram Transport Fin.	New Addition	2-Nov-12	629	629	–	–
Amara Raja Batteries		30-Aug-12	185	226	22.1	9.6
Bayer CropScience		4-Jan-12	746	1,144	53.3	21.8
Divi's Laboratories		4-Jan-12	784	1,193	52.2	21.0
United Spirits		4-Jan-12	561	1,184	111.0	67.7
Smallcap						
Benchmark Index: BSE SmallCap						
Arvind	New Addition	2-Nov-12	84	84	–	–
Greaves Cotton	New Addition	2-Nov-12	77	77	–	–
JK Tyre and Industries	New Addition	2-Nov-12	120	120	–	–
Heidelberg Cement	New Addition	2-Nov-12	50	50	–	–
Himatsingka Seide	New Addition	2-Nov-12	37	37	–	–
Balkrishna Industries		30-Aug-12	268	265	(0.8)	(10.4)
Top Sell Ideas						
Benchmark Index: Nifty 50						
ABB		15-Jun-12	772	710	8.0	11.9
Siemens		15-Jun-12	697	684	1.9	5.5
Suzlon		15-Jun-12	18	15	16.4	20.6
Indian Hotels		27-Jul-11	78	60	23.2	18.2

ACC

Maintain BUY

Strong sectoral outlook; captive coal to provide an edge…

ACC, owned by Switzerland based Holcim, is the second largest cement manufacturer in India with an installed capacity of 30 million tonnes (MT). It is a pan-India player with reasonable contribution from all regions (20% North, 21% Central, 16% East, 21% South and 22% West). The company has captive power capacity of about 260 MW, which meets ~75% of the total power requirement.

Why do we like the stock?

Regional diversification mitigates region specific risks: As the company is regionally well diversified, it is shielded from region-specific risks like volatility in prices, power & fuel shortages or transportation issues.

Substantial earnings growth prospects for CY13: We expect at least high single digit volume growth for CY13, more so, as States going to elections by end CY13 contribute to ~35% of cement demand in the country. Supernormal demand growth implies that pricing power and therefore profitability go up as well. This means substantial earnings growth prospect for next year.

Strong balance sheet: Driven by an estimated 19% CAGR in profits during CY11-13E, ACC's RoE is expected to improve to 23% by CY13 from 16% in CY11. The net cash balance is expected to reach ~Rs 33 bn (over Rs 180/share) by CY13E from ~ Rs 24 bn in CY11. The funding for the 2.9 MT clinker & 4.5 MT grinding capacities, expected to come on stream in CY15, would be met entirely through internal accruals.

Captive coal would give ACC an edge over other cement players: The four coal blocks in Central India that were awarded to ACC in by competitive bidding, stand zero chance of being de-allocated (as against Ambuja cement, whose coal block has been recently de-allocated). ACC would be able to meet ~25% of its coal requirement through captive mines in the next 3-4 years, and consequently improve profitability.

Current valuations much lower than peak valuations of last up-cycle: We believe that the Indian cement industry is in an up-cycle. Expect utilization rates to improve gradually in the next 3 years and spurt to 85-86% in the two following years. Current valuations are much lower than the highs of FY07 in the last up-cycle (US$ 148/tonne EV for ACC currently, versus USD 264 at peak of last up-cycle). Hence there is significant appreciation potential for the stock in the medium term.

Key delta triggers

- Better than expected demand growth
- Further fall in coal prices

Share Data

Price (Rs)	1,408
BSE Sensex	18,755
Reuters code	ACC.BO
Bloomberg code	ACC IN
Market cap. (US$ mn)	4,918
6M avg. daily turnover (US$ mn)	9.3
Issued shares (mn)	188

Performance (%)	1M	3M	12M
Absolute	0	(3)	16
Relative	0	(0)	(2)

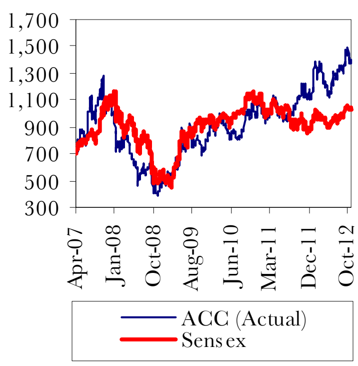
Valuation ratios

Yr to 31 Dec	CY12E	CY13E
EPS (Rs)	77.7	100.4
+/- (%)	10.2	29.2
PER (x)	18.1	14.0
PBV (x)	3.4	3.0
Dividend/Yield (%)	2.2	2.3
EV/Sales (x)	2.1	1.8
EV/EBITDA (x)	9.3	7.8

Major shareholders (%)

Promoters	50
FIIs	18
MFs	2
BFSI's	10
Public & Others	20

Relative performance



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ACC

Income Statement

Yr end 31 Dec (Rs mn)	CY10	CY11	CY12E	CY13E
Net sales	**77,173**	**94,387**	**114,465**	**133,467**
Growth (%)	*(3.9)*	*22.3*	*21.3*	*16.6*
Operating expenses	(61,634)	(77,396)	(90,951)	(106,062)
Operating profit	15,540	16,991	23,513	27,405
Other operating income	2,585	2,216	2,300	2,800
EBITDA	**18,124**	**19,207**	**25,813**	**30,205**
Growth (%)	*(31.4)*	*6.0*	*34.4*	*17.0*
Depreciation	(3,927)	(4,753)	(5,400)	(5,616)
Other income	985	1,919	2,500	3,250
EBIT	**15,182**	**16,373**	**22,913**	**27,839**
Interest paid	(568)	(969)	(1,140)	(1,080)
Pre-tax profit (before non-recurring)	14,615	15,404	21,773	26,759
Non-recurring items	0	0	(3,354)	0
Pre-tax profit (after non-recurring)	14,615	15,404	18,420	26,759
Tax (current + deferred)	(4,234)	(4,431)	(5,434)	(7,894)
Net profit (before Minority Interest, Pref. Dividend etc.)	10,380	10,973	12,986	18,865
Prior period adjustments	820	2,280	(617)	0
Reported PAT	**11,200**	**13,253**	**12,369**	**18,865**
Adjusted net profit	**11,200**	**13,253**	**14,599**	**18,865**
Growth (%)	*(30.3)*	*18.3*	*10.2*	*29.2*

Balance Sheet

Yr end 31 Dec (Rs mn)	CY10	CY11	CY12E	CY13E
Cash and Marketable sec.	23,707	29,155	30,114	37,399
Other current assets	17,733	19,654	24,603	28,337
Investments	3,121	3,620	3,620	3,620
Net fixed assets	66,452	66,429	70,182	75,592
Total assets	**111,013**	**118,857**	**128,519**	**144,949**
Current liabilities	37,464	36,644	41,248	46,064
Total debt	5,238	5,107	4,607	4,607
Other non-current liabilities	3,615	5,184	5,184	5,184
Total liabilities	**46,318**	**46,935**	**51,039**	**55,855**
Share capital	1,879	1,879	1,879	1,879
Reserves & surplus	62,816	70,043	75,601	87,215
Shareholders' funds	**64,695**	**71,923**	**77,480**	**89,094**
Total equity & liabilities	**111,013**	**118,858**	**128,519**	**144,949**
Capital employed	**73,548**	**82,214**	**87,271**	**98,885**

Cash Flow Statement

Yr end 31 Dec (Rs mn)	CY10	CY11	CY12E	CY13E
Pre-tax profit	14,615	15,404	18,420	26,759
Depreciation	3,927	4,753	5,400	5,616
Change in working capital	(94)	1,858	(1,136)	533
Total tax paid	(1,961)	(6,684)	(5,328)	(7,786)
Other operating activities	820	2,280	0	0
Cash flow from oper. (a)	**17,307**	**17,611**	**17,356**	**25,123**
Capital expenditure	(6,573)	(4,409)	(8,507)	(10,810)
Change in investments	(2,270)	777	859	(2,000)
Others	(662)	(320)	(647)	(216)
Cash flow from inv. (b)	**(9,505)**	**(3,952)**	**(8,295)**	**(13,026)**
Free cash flow (a+b)	**7,802**	**13,660**	**9,061**	**12,097**
Equity raised/(repaid)	1	0	0	0
Debt raised/(repaid)	(431)	(131)	(500)	0
Dividend (incl. tax)	(5,035)	(6,873)	(6,127)	(6,812)
Others	0	70	0	0
Cash flow from fin. (c)	**(5,466)**	**(6,934)**	**(6,627)**	**(6,812)**
Net change in cash (a+b+c)	**2,337**	**6,725**	**2,434**	**5,285**

Key Ratios

Yr end 31 Dec (%)	CY10	CY11	CY12E	CY13E
Adjusted EPS (Rs)	59.6	70.5	77.7	100.4
Growth	(30.3)	18.3	10.2	29.2
Book NAV/share (Rs)	344.2	382.7	412.3	474.1
Dividend/share (Rs)	30.5	28.0	31.0	33.0
Dividend payout ratio	59.5	46.0	46.7	38.4
Tax	29.0	28.8	29.5	29.5
EBITDA margin	22.7	19.9	22.1	22.2
EBIT margin	19.0	16.9	19.6	20.4
RoCE	21.3	21.0	27.0	29.9
Net debt/Equity	(28.5)	(33.4)	(32.9)	(36.8)

Valuations

Yr end 31 Dec (x)	CY10	CY11	CY12E	CY13E
PER	23.6	20.0	18.1	14.0
PCE	17.5	14.7	13.2	10.8
Price/Book	4.1	3.7	3.4	3.0
Yield (%)	2.2	2.0	2.2	2.3
EV/Net sales	3.2	2.6	2.1	1.8
EV/EBITDA	13.7	12.7	9.3	7.8

Du Pont Analysis - ROE

Yr end 31 Dec (%)	CY10	CY11	CY12E	CY13E
Net margin	14.5	14.0	12.8	14.1
Asset turnover (x)	0.7	0.8	0.9	1.0
Leverage factor (x)	1.7	1.7	1.7	1.6
Return on equity	17.9	19.4	19.5	22.7

Arvind

Maintain Outperformer

Strategies working in favour...riding on domestic consumption...

Share Data

Price (Rs)	84
BSE Sensex	18,755
Reuters code	ARMI.BO
Bloomberg code	ARVND IN
Market cap. (US$ mn)	405
6M avg. daily turnover (US$ mn)	2.9
Issued shares (mn)	258

Performance (%)	1M	3M	12M
Absolute	7	3	(2)
Relative	3	6	9

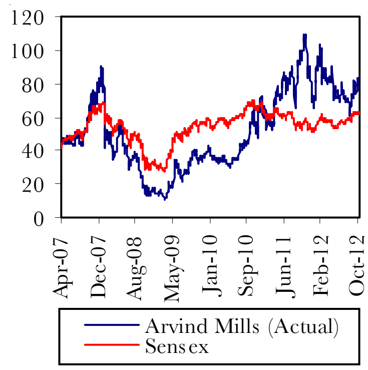
Valuation ratios

Yr to 31 Mar	FY13E	FY14E
EPS (Rs)	10.4	13.1
+/- (%)	10.0	25.8
PER (x)	8.1	6.4
PBV (x)	1.0	0.9
Dividend/Yield (%)	1.2	1.2
EV/EBITDA (x)	6.7	5.5

Major shareholders (%)

Promoters	43
FIIs	16
MFs	11
BFSI's	7
Public & Others	24

Relative performance



Arvind limited is one of the largest integrated textile companies in India manufacturing 200 mn of fabrics (Denim, Cotton woven, Voiles, Knits). The company is also engaged in manufacturing of garments as a part of its forward integration strategy. Arvind through its subsidiaries and JVs markets some of the most popular and fastest growing apparel brands like Arrow, US Polo, Flying Machine, Tommy Hilfiger, Nautica, Elle, etc. The company also operates its Apparel Retail format called 'MEGAMART' in value segment.

Why do we like the stock?

- **Present across the value chain:** The company is involved in the overall value chain from spinning stage till the final product reaches consumers. This helps the company sustain margins in the business and cater customers at various stages.
- **Diversified product mix:** Over a period, the company is strategically growing its other piece of business like wovens, brands and retail without adding any new capacity in denim and hence reducing dependence on denim which is cyclical in nature.
- **Focusing B2C from B2B:** Currently, 36% of the company's sales comes through B2C market. The company have four way strategy to serve B2C market. 1. Directly selling fabric to traditional fabric retail stores. 2. Marketing Lifestyle Brands like Arrow, US Polo, Flying Machine, Tommy, Nautica, Elle, etc. 3. Value retail Format 'MegaMart' using private labels. 4. Recently initiated 'The Arvind Store' to bring it Fabric and some of the popular brands under one roof.
- **Domestic focus:** From being a heavily export oriented company, today the company is focusing more on domestic market which contributes 67% of the overall revenue.
- **Monetising through real estate:** The company has ~500 acres of land parcel valuing close to Rs 10 bn. Some of the land parcels have already been sold/developed and others are ready to be sold.
- **Improving leverage ratios:** The company is able to continuously reduce its net D/E from 2.17x in FY09 to 0.9x in FY12. The company's Debt/EBITDA has also improved from 5.5x in FY10 to 3.7x in FY12.

Future triggers

- Improvement in operating margins of Brand and Retail Business.
- Right Brand Positioning of 'The Arvind Store' to help in entering branded fabric retailing and ready to stitch market.
- Technical textile JV with German Partner PD Glass, an entry into industrial textile is going to become future growth engine.
- Land monetisation to help in growing future business, keeping debt under control.

Key risks

Steep cotton price volatility, sudden changes in currency and unable to continuously reinvent and position brand are key risks for the stock.

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Arvind

Income Statement

Period end (Rs mn)	Mar 11	Mar 12	Mar 13E	Mar 14E
Net sales	**40,846**	**49,251**	**53,166**	**60,211**
Growth (%)	*25.2*	*20.6*	*7.9*	*13.3*
Operating expenses	(35,550)	(43,229)	(46,786)	(52,685)
Operating profit	**5,297**	**6,022**	**6,380**	**7,526**
EBITDA	**5,297**	**6,022**	**6,380**	**7,526**
Growth (%)	*29.2*	*13.7*	*5.9*	*18.0*
Depreciation	(1,725)	(1,614)	(1,826)	(1,912)
Other income	547	1,185	1,128	1,048
EBIT	**4,119**	**5,594**	**5,682**	**6,663**
Finance cost	(2,360)	(3,091)	(2,877)	(3,020)
Profit before tax	1,759	2,503	2,805	3,643
Tax (current + deferred)	(105)	(56)	(112)	(255)
P/L form discontinuing oper.	0	1,912	0	0
Profit/(Loss) for the period	**1,654**	**4,359**	**2,693**	**3,388**
P/L of Associates, Min Int, Pref Div	(5)	(0)	0	0
Reported Profit/(Loss)	1,649	4,359	2,693	3,388
Adjusted net profit	1,649	2,447	2,693	3,388
Growth (%)	*230.1*	*48.4*	*10.0*	*25.8*

Balance Sheet

Period end (Rs mn)	Mar 11	Mar 12	Mar 13E	Mar 14E
Share capital	2,544	2,580	2,580	2,580
Reserves & surplus	14,404	17,737	21,110	24,196
Shareholders' funds	16,948	20,317	23,691	26,777
Minority Int, Share Appl, Pref Capital	161	91	91	91
Non-Current Liablities	9,320	8,552	8,796	8,831
Long-term borrowings	8,945	7,770	8,420	8,445
Other Long term liab, Prov, DTL	375	782	377	387
Current liabilities	23,610	25,132	24,512	25,051
Short-term borrowings, Curr Maturity	14,157	14,512	14,131	13,508
Other Current Liab + Prov.	9,453	10,620	10,381	11,543
Total (Equity and Liab.)	**50,039**	**54,093**	**57,090**	**60,750**
Non-current assets	**28,947**	**31,126**	**32,759**	**33,542**
Fixed assets (Net block)	26,004	27,850	29,305	29,894
Non-current Investments	610	417	417	417
Long-term loans and advances	2,234	2,799	2,976	3,171
Other non-current assets, DTA, Goodwill	100	60	60	60
Current assets	**21,092**	**22,968**	**24,331**	**27,208**
Cash & Current Investment	585	709	1,263	2,236
Other current assets	20,507	22,259	23,068	24,972
Total (Assets)	**50,039**	**54,094**	**57,090**	**60,750**
Total debt	23,102	22,283	22,550	21,952
Capital employed	40,586	43,473	46,709	49,207

Cash Flow Statement

Period end (Rs mn)	Mar 11	Mar 12	Mar 13E	Mar 14E
Profit before Tax	1,759	2,503	2,805	3,643
Depreciation	1,725	1,614	1,826	1,912
Change in working capital	(3,893)	(1,045)	(1,630)	(927)
Total tax paid	(23)	(84)	(112)	(255)
Others	1,990	2,206	1,875	2,148
Cash flow from oper. (a)	**1,558**	**5,193**	**4,763**	**6,521**
Capital expenditure	(282)	(2,861)	(2,352)	(1,700)
Change in investments	(172)	193	0	0
Others	(34)	116	73	73
Cash flow from inv. (b)	**(488)**	**(2,552)**	**(2,280)**	**(1,628)**
Free cash flow (a+b)	**1,070**	**2,641**	**2,484**	**4,893**
Equity raised/(repaid)	(2,370)	(542)	0	0
Debt raised/(repaid)	991	(820)	268	(598)
Dividend (incl. tax)	0	0	(300)	(300)
Others	297	(1,156)	(1,897)	(3,022)
Cash flow from fin. (c)	**(1,081)**	**(2,518)**	**(1,929)**	**(3,920)**
Net change in cash (a+b+c)	**(12)**	**123**	**555**	**973**

Key Ratios

Period end (%)	Mar 11	Mar 12	Mar 13E	Mar 14E
Adjusted EPS (Rs)	6.9	9.5	10.4	13.1
Growth	210.7	37.6	10.0	25.8
CEPS (Rs)	14.1	15.7	17.5	20.5
Book NAV/share (Rs)	58.1	67.7	80.8	92.8
Dividend/share (Rs)	0.0	1.0	1.0	1.0
Dividend payout ratio	0.0	6.9	11.1	8.9
EBITDA margin	13.0	12.2	12.0	12.5
EBIT margin	10.1	11.4	10.7	11.1
Tax Rate	6.0	NA	4.0	7.0
RoCE	10.9	13.3	12.6	13.9
Total debt/Equity (x)	1.4	1.1	0.9	0.8
Net debt/Equity (x)	1.3	1.1	0.9	0.7
Du Pont Analysis - ROE				
Net margin	4.0	5.0	5.1	5.6
Asset turnover (x)	0.9	0.9	1.0	1.0
Leverage factor (x)	3.6	3.3	2.9	2.6
Return on equity	12.7	15.6	14.1	15.1

Valuations

Period end (x)	Mar 11	Mar 12	Mar 13E	Mar 14E
PER	10.0	8.7	8.1	6.4
PCE	4.9	5.2	4.8	4.1
Price/Book	1.2	1.2	1.0	0.9
Yield (%)	0.0	1.2	1.2	1.2
EV/EBITDA	7.6	7.1	6.7	5.5

DLF

Upgarde to BUY

NTC Transaction sets the ball rolling… Await cut in policy rates

Founded in 1946, DLF has developed some of the first residential colonies in Delhi such as Krishna Nagar in East Delhi that was completed as early as in 1949.Although DLF has diversified its project portfolio to include land bank in various regions across India, it has had a particular focus on real estate development in NCR, which includes Delhi and adjacent area such as Gurgaon. Since inception, DLF has developed ~264 mn sq ft (primarily comprise plotted development), including 22 urban colonies as well as an integrated 3,000-acre township in Gurgaon. Going forward, DLF, India's largest realty player, has outlined an ambitious development pipeline of ~338 mn sq ft across three core business areas (Office, Shopping and Homes).

Why do we like the stock?

- **Big ticket asset sales to enthuse confidence:** Constant disappointments or failures to achieve stated asset sales targets were fast making investors (most) lose faith in the management's ability to close big ticket transactions. The recent consummation of NTC Mill transaction, more than easing cash flow concern, would bring about confidence in the company's stated de-leveraging plan among the investor community. Consummation of two more big ticket asset sales (Aman Resorts and Wind Power), likely by this year end, would help ease leverage concerns further and make the stock an ideal candidate for re-rating.
- **Impending rate cut – to bring back cap rate compression stories:** Anticipated trend reversal in interest rate cycle would not only bring about a change in consumer sentiment (leading to improved demand for dwelling units) and reduced interest outgo, but would also bring the cap rate compression stories back into reckoning. Over 22 mn sq ft of operational investment properties (largest among its peers) with a stable revenue stream of ~Rs 16 bn provides an opportunity for meaningful value accretion through cap rate compression. Large asset base of rental yielding properties also ensures reduced lumpiness in earnings and stable cash flows even in toughest of the time.
- **Reducing capital intensity:** Focus on reducing capital intensity, evident from increased launches in accelerated cashflow generating plotted developments segments and transition from in-house to third party contracting, also augurs well for the company's cash flow situation. Although third party contracting is expected to impact margins, improved cash conversion cycle due to improved execution and reduced working capital intensity, we believe, would more than compensate for margins forgone.

Key Delta Triggers

- Any positive announcement on monetisation of Aman Resorts and Wind Power business.
- Pending launch of premium residential development, Magnolias- II, in phase V of Gurgaon. End-user response for the said project holds the key to achieving FY13 sales guidance of ~Rs 60-65 bn.
- Meaningful cut in policy rates.

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Share Data

Price (Rs)	205
BSE Sensex	18,755
Reuters code	DLF.BO
Bloomberg code	DLFU IN
Market cap. (US$ mn)	6,487
6M avg. daily turnover (US$ mn)	38
Issued shares (mn)	1,699

Performance (%)	1M	3M	12M
Absolute	(10)	(1)	(13)
Relative	(10)	(9)	(19)

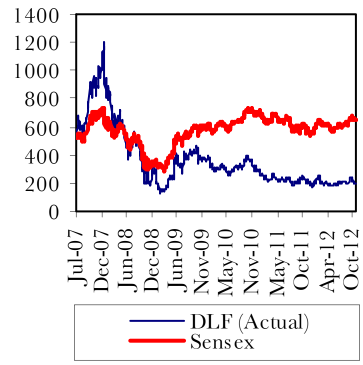
Valuation ratios

Yr to 31 Mar	FY13E	FY14E
Adjusted EPS (Rs)	9.4	8.2
+/- (%)	30.4	(13.3)
PER (x)	21.8	25.2
PBV (x)	1.3	1.3
Dividend/Yield (%)	1.1	1.1
EV/Sales (x)	6.2	5.6
EV/EBITDA	14.8	13.2

Major shareholders (%)

Promoters	79
FIIs	16
Bodies Corporates	1
Public & Others	4

Relative performance



DLF

Income Statement

Period end (Rs mn)	Mar 11	Mar 12	Mar 13E	Mar 14E
Net sales	**95,606**	**96,294**	**91,571**	**99,841**
Growth (%)	*28.8*	*0.7*	*(4.9)*	*9.0*
Operating expenses	(58,079)	(57,251)	(53,330)	(57,476)
Operating profit	37,527	39,043	38,241	42,365
EBITDA	**37,527**	**39,043**	**38,241**	**42,365**
Growth (%)	*6.9*	*4.0*	*(2.1)*	*10.8*
Depreciation	(6,307)	(6,888)	(7,104)	(7,182)
Other income	5,839	5,945	12,098	3,561
EBIT	**37,058**	**38,100**	**43,234**	**38,744**
Finance cost	(17,056)	(22,465)	(23,263)	(20,750)
Exceptional & extradordinary	972	(255)		
Profit before tax	20,974	15,380	19,972	17,994
Tax (current + deferred)	(4,594)	(3,693)	(4,410)	(4,505)
Profit/(Loss) for the period	**16,380**	**11,687**	**15,562**	**13,489**
P/L of Associates, Min Int, Pref Div	16	321	424	368
Reported Profit/(Loss)	16,396	12,008	15,986	13,857
Adjusted net profit	15,424	12,263	15,986	13,857
Growth (%)	*(15.0)*	*(20.5)*	*30.4*	*(13.3)*

Balance Sheet

Period end (Rs mn)	Mar 11	Mar 12	Mar 13E	Mar 14E
Share capital	3,395	3,397	3,397	3,397
Reserves & surplus	241,823	250,970	261,132	269,164
Shareholders' funds	**245,218**	**254,367**	**264,529**	**272,561**
Minority Intersts and others	23,855	22,199	22,643	23,028
Non-current liablities	**207,808**	**191,945**	**185,914**	**166,751**
Long-term borrowings	183,076	168,242	160,480	144,108
Other non-current liabilities	24,732	23,703	25,434	22,643
Current liabilities	**131,296**	**165,384**	**152,170**	**153,066**
ST borrowings, Curr maturity	56,830	82,416	73,303	78,687
Other current liabilities	74,466	82,968	78,867	74,380
Total (Equity and Liablities)	**608,177**	**633,894**	**625,256**	**615,406**
Non-current assets	**325,741**	**339,302**	**348,904**	**347,617**
Fixed assets (Net block)	281,065	277,069	274,819	271,582
Non-current Investments	7,152	9,733	9,713	9,696
Long-term loans and advances	20,173	31,463	42,307	43,319
Other non-current assets	17,350	21,038	22,065	23,021
Current assets	**282,437**	**294,592**	**276,352**	**267,789**
Cash & current investment	16,023	16,597	17,963	14,326
Other current assets	266,414	277,995	258,389	253,463
Total (Assets)	**608,177**	**633,894**	**625,256**	**615,406**
Total debt	239,906	250,658	233,783	222,795
Capital employed	533,711	550,927	546,388	541,027

Cash Flow Statement

Period end (Rs mn)	Mar 11	Mar 12	Mar 13E	Mar 14E
Profit before tax	20,002	15,380	19,972	17,994
Depreciation	6,307	6,888	7,104	7,182
Change in working capital	(4,585)	(14,678)	4,365	4,585
Total tax paid	(7,470)	(4,159)	(4,991)	(5,570)
Others	13,502	17,424	11,655	11,904
Cash flow from oper. (a)	**27,757**	**20,855**	**38,105**	**36,095**
Capital expenditure	(6,864)	(2,998)	(4,541)	(3,303)
Change in investments	44,677	1,354	9,729	1,017
Others	527	2,755	1,404	2,180
Cash flow from inv. (b)	**38,340**	**1,111**	**6,592**	**(106)**
Free cash flow (a+b)	66,097	21,966	44,697	35,989
Equity raised/(repaid)	1,322	1,445		
Debt raised/(repaid)	23,157	10,752	(16,875)	(10,989)
Dividend (incl. tax)	(3,972)	(4,494)	(4,367)	(4,367)
Others	(84,541)	(27,825)	(22,090)	(24,271)
Cash flow from fin. (c)	**(64,034)**	**(20,122)**	**(43,332)**	**(39,626)**
Net chg in cash (a+b+c)	**2,063**	**1,845**	**1,365**	**(3,636)**

Key Ratios

Period end (%)	Mar 11	Mar 12	Mar 13E	Mar 14E
Adjusted EPS (Rs)	9.1	7.2	9.4	8.2
Growth	(15.0)	(20.5)	30.4	(13.3)
CEPS (Rs)	12.8	11.3	13.6	12.4
Book NAV/share (Rs)	144.3	149.3	155.3	160.0
Dividend/share (Rs)	2.3	2.2	2.2	2.2
Dividend payout ratio	27.4	36.4	27.3	31.5
EBITDA margin	39.3	40.5	41.8	42.4
EBIT margin	38.8	39.6	47.2	38.8
Tax rate	23.0	23.6	22.1	25.0
RoCE	7.1	7.0	7.9	7.1
Total debt/Equity (x)	1.0	1.0	0.9	0.8
Net debt/Equity (x)	0.9	0.9	0.8	0.8
Du Pont Analysis - RoE				
Net margin	16.1	12.7	17.5	13.9
Asset turnover (x)	0.2	0.2	0.1	0.2
Leverage factor (x)	2.2	2.5	2.4	2.3
Return on equity	5.3	4.9	6.2	5.2

Valuations

Period end (x)	Mar 11	Mar 12	Mar 13E	Mar 14E
PER	29.6	27.9	21.8	25.2
PCE	21.0	17.9	15.1	16.6
Price/Book	1.9	1.4	1.3	1.3
Yield (%)	0.8	1.1	1.1	1.1
EV/EBITDA	18.1	14.8	14.8	13.2

Share Data

Price (Rs)	77
BSE Sensex	18,755
Reuters code	GRVL.BO
Bloomberg code	GRV IN
Market cap. (US$ mn)	351
6M avg. daily turnover (US$ mn)	0.3
Issued shares (mn)	244

Performance (%)	1M	3M	12M
Absolute	(3)	(4)	(5)
Relative	(2)	(3)	9

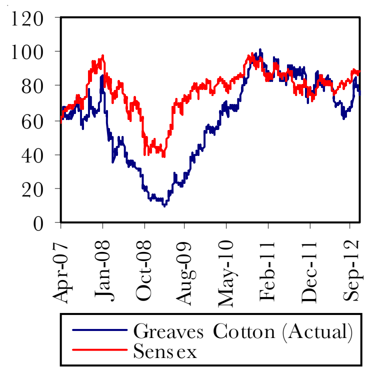
Valuation ratios (Consolidated)

Yr to 31 Mar	FY13E	FY14E
EPS (Rs)	6.2	7.6
+/- (%)	10.3	23.4
PER (x)	12.5	10.1
PBV (x)	2.6	2.2
Dividend/Yield (%)	1.9	1.9
EV/Sales (x)	0.9	0.8
EV/EBITDA (x)	7.1	5.8

Major shareholders (%)

Promoters	52
FIIs	8
MFs	15
BFSI's	12
Public & Others	13

Relative performance



Greaves Cotton

Maintain BUY

Derisking business to fuel long-term growth

Greaves Cotton is the largest domestic manufacturer of lightweight diesel single/dual cylinder engines for automotive and industrial applications. GRV generates ~86% revenue in engine segment. These engines (*4.4 to 25 HP*) cater major to three-wheelers and small commercial vehicles industry (*65% of sales*).

Why we like the stock:

- **Growth in SCV's to drive volumes:** Increasing presence in growing SCV's market will not only mitigate transition risk and offset the overall slowdown seen in 3W's for Greaves, but also help to drive incremental growth. Hence, even after 2% decline likely in 3W's in FY13E, Greaves's is expected to post 10% growth in sales (SCV's volumes have improved from 2,400 in October 2011 to 7,000 engines/month in October 2012 (+2,000 QoQ)).
- **Loan to value ratio and interest rate:** We believe that in 3W's industry, 60% of Greaves volumes, will show pick up in demand especially from rural and semi urban areas ahead of festive season and improvement in loan to value ratio in 2HFY13E.
- **3W's not yet at saturation point:** Based on channel checks while some states like Andhra Pradesh and Kerala (30% of 3W's market) are facing saturation, increased government's focus on rural infrastructure is opening up growth opportunities in upcoming states like Uttar Pradesh and Bihar (10% of 3W's market) where road connectivity level is still low.
- **Cost and volume leadership:** Greaves is the single largest manufacturer of single cylinder engines (*~500,000 engines*). With economies of scale and cost leadership, Greaves has able to create entry barrier for competitors and reduced risk of inbound engines production by OEM's in 3W's. Further, pick up in demand and resulting operating leverage, will aid 200 bps higher OPM.
- **Technology edge:** Greaves water cooled engine have seen higher acceptability from end customers reflected in higher sales of Tata Motors Ace Zip. We see incremental growth in this segment as larger players like Piaggio launch new products with Greaves water cooled engines.
- **Strong returns and healthy balance sheet:** Greaves has consistently achieved 30% average RoE and 37% RoCE in the last 10 years. Currently, due to capacity addition and weaker demand RoE is at 23% and RoCE is at 30%. We believe improved demand will allow the company to achieve average RoE due to operating leverage.

Key delta triggers:

- Better than expected 3W's volume and ramp up in SCV's volumes will help to improve utilisation level, thus providing upsides to earnings.
- Execution improvement in road construction projects will aide volume growth in infrastructure equipment segment.

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Greaves Cotton

Income Statement (Consolidated)

Period end (Rs mn)	Mar 11*	Mar 12	Mar 13E	Mar 14E
Net sales	**12,782**	**17,859**	**19,293**	**21,868**
Growth (%)	*(8.2)*	*39.7*	*8.0*	*13.3*
Operating expenses	(10,859)	(15,526)	(16,824)	(18,890)
Operating profit	**1,923**	**2,333**	**2,469**	**2,978**
Other operating income	24	35	0	0
EBITDA	**1,947**	**2,367**	**2,469**	**2,978**
Growth (%)	*(7.3)*	*(8.8)*	*4.3*	*20.6*
Depreciation	(236)	(416)	(452)	(497)
Other income	133	61	137	171
EBIT	**1,844**	**2,012**	**2,154**	**2,652**
Finance cost	(13)	(37)	(23)	(23)
Exceptional & extradordinary	0	517	0	0
Profit before tax	1,831	2,492	2,131	2,629
Tax (current + deferred)	(568)	(603)	(618)	(762)
Profit/(Loss) for the period	**1,263**	**1,889**	**1,513**	**1,867**
Reported profit/(Loss)	1,263	1,889	1,513	1,867
Adjusted net profit	**1,263**	**1,372**	**1,513**	**1,867**
Growth (%)	*7.5*	*8.6*	*10.3*	*23.4*

Balance Sheet (Consolidated)

Period end (Rs mn)	Mar 11*	Mar 12	Mar 13E	Mar 14E
Share Capital	488	488	488	488
Reserves & surplus	4,559	5,822	6,870	8,309
Shareholders' funds	**5,047**	**6,310**	**7,359**	**8,798**
Non-Current Liabilities	596	593	248	260
Long-term borrowings	4	2	2	2
Other Long term liab, Prov, DTL	592	592	247	258
Current liabilities	4,183	4,067	4,290	4,494
Short-term borrowings, Curr Maturity	158	330	330	330
Other current Liab. + Prov.	4,025	3,737	3,960	4,164
Total (equity and liab.)	**9,826**	**10,970**	**11,898**	**13,552**
Non-current assets	**3,492**	**3,998**	**4,318**	**4,662**
Fixed assets (Net block)	2,867	3,510	3,867	4,180
Non-current investments	341	208	208	208
Long-term loans and advances	222	215	243	275
Other non-current assets, DTA, Goodwill	61	65	0	0
Current assets	**6,335**	**6,972**	**7,580**	**8,889**
Cash & current investment	803	1,443	1,563	2,048
Other current assets	5,531	5,529	6,016	6,842
Total (assets)	**9,826**	**10,970**	**11,898**	**13,552**
Total debt	162	332	332	332
Capital employed	5,801	7,234	7,937	9,388

*Mar-11 was 9 month accounting period

Cash Flow Statement (Consolidated)

Period end (Rs mn)	Mar 11*	Mar 12	Mar 13E	Mar 14E
Profit before Tax	1,831	2,492	2,131	2,629
Depreciation	236	416	452	497
Change in working capital	(333)	(500)	(295)	(671)
Total tax paid	(568)	(492)	(903)	(732)
Others	(766)	(582)	(859)	(1,054)
Cash flow from oper. (a)	**1,065**	**1,910**	**1,271**	**1,575**
Capital expenditure	(363)	(1,032)	(688)	(656)
Change in investments	469	(397)	0	0
Others	6	30	14	0
Cash flow from inv. (b)	**113**	**(1,399)**	**(674)**	**(656)**
Free cash flow (a+b)	**1,178**	**511**	**597**	**920**
Debt raised/(repaid)	16	170	0	0
Dividend (incl. tax)	(826)	(539)	(417)	(411)
Others	19	(39)	(60)	(24)
Cash flow from fin. (c)	**(791)**	**(408)**	**(478)**	**(435)**
Net chg in cash (a+b+c)	**387**	**103**	**120**	**484**

Key Ratios (Consolidated)

Period end (%)	Mar 11*	Mar 12	Mar 13E	Mar 14E
Adjusted EPS (Rs)	5.2	5.6	6.2	7.6
Growth	7.5	8.0	10.3	23.4
CEPS (Rs)	8.2	7.3	8.0	9.7
Book NAV/share (Rs)	20.5	25.7	30.0	35.9
Dividend/share (Rs)	2.0	2.2	1.5	1.5
Dividend payout ratio	33.8	33.1	28.1	22.8
EBITDA margin	15.2	13.3	12.8	13.6
EBIT margin	14.4	11.3	11.2	12.1
Tax Rate	31.0	30.5	29.0	29.0
RoCE	47.0	30.9	28.4	30.6
Total debt/Equity (x)	0.0	0.1	0.0	0.0
Net debt/Equity (x)	(0.1)	(0.2)	(0.2)	(0.2)
Du Pont Analysis - ROE				
Net margin	9.9	7.7	7.8	8.5
Asset turnover (x)	1.8	1.7	1.7	1.7
Leverage factor (x)	2.7	1.8	1.7	1.6
Return on equity	49.0	24.3	22.3	23.2

Valuations (Consolidated)

Period end (x)	Mar 11*	Mar 12	Mar 13E	Mar 14E
PER (x)	18.3	15.4	12.5	10.1
PCE (x)	11.6	11.9	9.6	8.0
Price/Book (x)	4.6	3.4	2.6	2.2
Yield (%)	2.1	2.5	1.9	1.9
EV/EBITDA (x)	11.6	8.5	7.1	5.8

Share Data

Price (Rs)	50
BSE Sensex	18,755
Reuters code	HEID.BO
Bloomberg code	HEIM IN
Market cap. (US$ mn)	209
6M avg. daily turnover (US$ mn)	0.3
Issued shares (mn)	227

Performance (%)	1M	3M	12M
Absolute	(5)	(3)	58
Relative	(0)	(6)	17

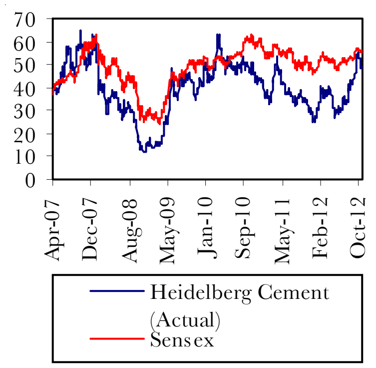
Valuation ratios

Yr to 31 Dec	CY10	CY11
EPS (Rs)	2.8	1.3
+/- (%)	(59.9)	(53.9)
PER (x)	17.7	38.5
PBV (x)	1.5	1.4
EV/Sales (x)	0.2	0.9
EV/EBITDA (x)	2.0	14.6

Major shareholders (%)

Promoters	69
FIIs	6
MFs	2
BFSI's	2
Public & Others	21

Relative performance



Heidelberg Cement

Not rated

Volume growth and cost reduction to drive profits

Heidelberg Cement, formerly known as Mysore Cements, is owned by the German major Heidelberg AG. It has current clinker capacity of 1.6 million tonnes and cement grinding capacity of 3.1 mn tonnes. Heidelberg is primarily present in Central India (~60% of the sales) with the rest of its sales coming from the West and South (20% each). The capacities are located in Damoh in MP, Ammasandra in Karnataka and Jhansi in UP.

Why do we like the stock?

Capacity has just been doubled

Heidelberg Cement has recently completed its capacity expansion of 2.9 MT in Damoh (1 mn tonne) and Jhansi (1.9 mn tonnes). These are currently under trial runs and are expected to start production by Q1CY13. Its cement capacity has thus doubled to 6 mn tonnes. The company has enough limestone reserves in Damoh to take care of its entire requirement for the very long term.

Favorable regional presence

Heidelberg is expected to sell 65-70% of its output in Central India post capacity expansion. This market is growing in double digits with over 90% utilization of capacities meant for this market. The company plans to sell some cement now to the "high- growth" Eastern India as well.

Unit costs to come down going ahead

The company will have cost benefits due to better operational efficiencies of coal in kiln, logistics (conveyor belt), lower clinker purchase as a percentage of cement sales and lower fixed costs on operating leverage (manpower addition will not be meaningful either). This would help in improvement in margins going forward. In addition, Heidelberg will get credit of 75% of VAT (12.5%) on cement sales in MP from its new capacity.

Capex completed; FCF to be positive next year

The company has almost completed its capex (~ Rs 14 bn) and the free cash flow (FCF) should be positive by next year due to negligible capex and increase in profitability.

Key delta triggers

- Increase in volume growth post commissioning of new capacity.
- Improvement in profitability as the new capacity ramps up.

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Heidelberg Cement

Income Statement

Yr end 31 Dec (Rs mn)	CY08	CY09	CY10	CY11
Net sales	**7,613**	**9,364**	**8,655**	**9,826**
Growth (%)	*28.1*	*23.0*	*(7.6)*	*13.5*
Operating expenses	(6,734)	(7,766)	(7,666)	(9,222)
Operating profit	879	1,597	989	605
EBITDA	**879**	**1,597**	**989**	**605**
Growth (%)	*(14.8)*	*81.6*	*(38.1)*	*(38.9)*
Depreciation	(214)	(258)	(288)	(314)
Other income	443	452	301	171
EBIT	**1,108**	**1,791**	**1,002**	**462**
Interest paid	(41)	(44)	(42)	(38)
Pre-tax profit	1,067	1,747	960	424
(before non-recurring items)				
Pre-tax profit	1,067	1,747	960	424
(after non-recurring items)				
Tax (current + deferred)	179	(407)	(326)	(132)
Net profit	**1,246**	**1,340**	**633**	**292**
Adjusted net profit	**1,246**	**1,340**	**633**	**292**
Growth (%)	*27.6*	*7.6*	*(52.8)*	*(53.9)*
Net income	**1,246**	**1,340**	**633**	**292**

Balance Sheet

Yr end 31 Dec (Rs mn)	CY08	CY09	CY10	CY11
Current assets	5,287	7,007	4,631	6,997
Investments	1	1	0	0
Net fixed assets	3,298	3,751	7,586	14,559
Total assets	**8,586**	**10,759**	**12,217**	**21,556**
Current liabilities	2,387	3,212	4,083	5,300
Total Debt	235	155	0	7,769
Other non-current liabilities	0	165	301	331
Total liabilities	**2,622**	**3,531**	**4,385**	**13,400**
Share capital	2,266	2,266	2,266	2,266
Reserves & surplus	3,698	4,961	5,566	5,890
Shareholders' funds	**5,964**	**7,227**	**7,833**	**8,156**
Total equity & liabilities	**8,586**	**10,759**	**12,217**	**21,556**

Cash Flow Statement

Yr end 31 Dec (Rs mn)	CY08	CY09	CY10	CY11
Pre-tax profit	1,067	1,747	960	424
Depreciation	750	206	225	227
Chg in working capital	452	681	488	(237)
Total tax paid	179	(242)	(190)	(102)
Other operating activities	(38)	(34)	(23)	(16)
Cash flow from oper. (a)	**2,410**	**2,357**	**1,461**	**296**
Capital expenditure	(2,185)	(658)	(4,061)	(7,200)
Chg in investments	0	0	1	0
Cash flow from inv. (b)	**(2,185)**	**(658)**	**(4,060)**	**(7,200)**
Free cash flow (a+b)	**226**	**1,699**	**(2,599)**	**(6,904)**
Equity raised/(repaid)	62	0	0	0
Debt raised/(repaid)	100	(80)	(155)	7,769
Other financing activities	1,182	(43)	(5)	47
Cash flow from fin. (c)	**1,345**	**(123)**	**(160)**	**7,817**
Net chg in cash (a+b+c)	**1,571**	**1,576**	**(2,759)**	**912**

Key Ratios

Yr end 31 Dec (%)	CY08	CY09	CY10	CY11
EPS (Rs)	7.9	7.0	2.8	1.3
EPS growth	27.6	(11.6)	(59.9)	(53.9)
EBITDA margin	11.6	17.1	11.4	6.2
EBIT margin	14.6	19.1	11.6	4.7
RoCE	22.5	26.1	12.8	3.8
Net debt/Equity	(52.7)	(66.4)	(28.0)	57.2

Valuations

Yr end 31 Dec (x)	CY08	CY09	CY10	CY11
PER	6.3	7.1	17.7	38.5
PCE	5.4	6.0	12.2	18.5
Price/Book	1.4	1.4	1.5	1.4
EV/Net sales	0.1	(0.1)	0.2	0.9
EV/EBITDA	1.2	(0.4)	2.0	14.6

Du Pont Analysis – ROE

Yr end 31 Dec (x)	CY08	CY09	CY10	CY11
Net margin (%)	16.4	14.3	7.3	3.0
Asset turnover	1.1	1.0	0.8	0.6
Leverage factor	1.4	1.5	1.5	2.1
Return on equity (%)	26.3	20.3	8.4	3.6

Himatsingka Seide

Maintain Outperformer

Integration and operating leverage to benefit...

Himatsingka Seide (HSS) founded in 1985, is a vertically integrated Home Textile company having a global presence with a clear focus on manufacturing, retailing and distribution of Home Textile products. From just a manufacturer of Silk fabrics five years back, the company now manufactures bed linen products at Hassan SEZ located in Karnataka. The company caters Private Label programmes of some of the most popular retailers in North America and also has licenses to market some of the prestigious brands like Calvin Klein Home, Barbara Bary, Peacock Alley, Bellora, Waverly and Espirit.

Why do we like the stock?

- **Well integrated business model:** Two strong distribution companies in USA and one retail company in Europe provides strong front-end visibility for the company with manufacturing facilities in India providing necessary back-end support through in-time servicing and quality product offerings.
- **Realisation improvement: Product mix, added features and depreciated rupee:** The company calibrated its product mix with added features on the back of demand and pricing pressure arising out of global crisis and competition. Depreciated rupee will also help the company in better realisations compared to previous financial years.
- **Stabilised distribution & retail business in North America:** Both the US subsidiaries, post acquisition have gradually improved its top line as well as bottom line. The low capex requirement, improving inventory turnover ratio, improving American economic scenario, stable cotton prices and lesser financial cost will help these companies to improve its profit margins as well as return on investments.
- **Operating leverage to help improve margins:** Stabilised distribution and retail network in America and improving scenario in its European and Asian subsidiaries, changing product mix (poly/cotton/viscose) and stable raw material prices, the company should be able to gradually improve capacity utilisation resulting in better operating margins.
- **Expansion in high margin brand business through 'Atmosphere':** A unique model with zero inventories at the point of sale. Each store has sample of fabric available based on which customer places order and later it will be delivered from the central warehouse. This helps the company in improving its inventory turn with each additional store. Being an inventory light model, expansion does not require much opex.

Key risks

Prolonged weakness in macroeconomic factors globally , steep raw material price volatility, significant exposure in foreign exchange sudden changes in currency and failure to revive European retail business are key risks for the stock.

Share Data

Price (Rs)	37
BSE Sensex	18,755
Reuters code	HMSD.BO
Bloomberg code	HSS IN
Market cap. (US$ mn)	67
6M avg. daily turnover (US$ mn)	0.05
Issued shares (mn)	98

Performance (%)	1M	3M	12M
Absolute	6	4	15
Relative	1	6	21

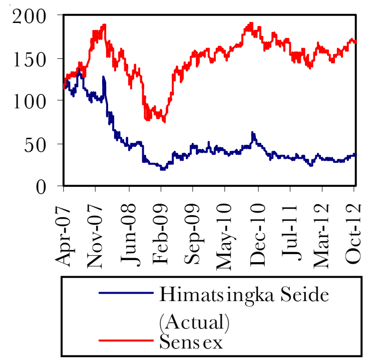
Valuation ratios

Yr to 31 Mar	FY13E	FY14E
EPS (Rs)	5.7	9.4
+/- (%)	102.8	66.3
PER (x)	6.5	3.9
PBV (x)	0.6	0.5
Dividend/Yield (%)	1.4	1.4
EV/EBITDA (x)	5.9	4.5

Major shareholders (%)

Promoters	55
FIIs	2
MFs	10
BFSI's	1
Public & Others	33

Relative performance



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Income Statement

Period end (Rs mn)	Mar 11	Mar 12	Mar 13E	Mar 14E
Net sales	**12,327**	**14,287**	**16,244**	**17,460**
Growth (%)	*14.6*	*15.9*	*13.7*	*7.5*
Operating expenses	(11,456)	(12,840)	(14,492)	(15,341)
Operating profit	**871**	**1,447**	**1,752**	**2,119**
EBITDA	**871**	**1,447**	**1,752**	**2,119**
Growth (%)	*(2.2)*	*66.1*	*21.1*	*21.0*
Depreciation	(565)	(556)	(563)	(516)
Other income	80	29	50	50
EBIT	**387**	**920**	**1,238**	**1,653**
Finance cost	(526)	(528)	(471)	(378)
Exceptional & extradordinary	0	55	0	0
Profit before tax	**(140)**	**448**	**767**	**1,275**
Tax (current + deferred)	(18)	(108)	(192)	(319)
Profit / (Loss) for the period	**(158)**	**339**	**575**	**956**
P/L of Associates, Min Int, Pref Div	(8)	(9)	(17)	(29)
Reported Profit / (Loss)	(166)	331	558	928
Adjusted net profit	**(166)**	**275**	**558**	**928**
Growth (%)	*(621.9)*	*(266.2)*	*102.8*	*66.3*

Balance Sheet

Period end (Rs mn)	Mar 11	Mar 12	Mar 13E	Mar 14E
Share capital	492	492	492	492
Reserves & surplus	4,738	5,193	5,711	6,573
Shareholders' funds	**5,230**	**5,685**	**6,203**	**7,066**
Minority Intersts and others	6	3	20	49
Non-current liablities	**4,429**	**4,293**	**3,796**	**3,252**
Long-term borrowings	4,393	4,119	3,781	3,235
Other non-current liabilities	35	174	15	17
Current liabilities	**5,212**	**5,448**	**5,460**	**5,946**
ST borrowings, Curr maturity	3,052	2,864	2,937	3,319
Other current liabilities	2,160	2,583	2,523	2,627
Total (Equity and Liab.)	**14,877**	**15,429**	**15,480**	**16,312**
Non-current assets	**9,692**	**9,648**	**9,094**	**8,807**
Fixed assets (Net block)	5,546	4,961	4,615	4,320
Non-current Investments	33	35	35	35
Long-term loans and advances	268	339	131	139
Other non-current assets	3,845	4,313	4,313	4,313
Current assets	**5,185**	**5,781**	**6,385**	**7,505**
Cash & current investment	167	179	56	572
Other current assets	5,017	5,602	6,329	6,933
Total (Assets)	**14,877**	**15,429**	**15,480**	**16,312**
Total debt	7,446	6,984	6,718	6,554
Capital employed	12,717	12,846	12,957	13,686

Cash Flow Statement

Period end (Rs mn)	Mar 11	Mar 12	Mar 13E	Mar 14E
Profit before tax	(140)	448	767	1,275
Depreciation	565	556	563	516
Change in working capital	278	(246)	(627)	(517)
Total tax paid	(8)	(20)	(303)	(319)
Others	526	528	471	378
Cash flow from oper. (a)	**1,221**	**1,266**	**871**	**1,333**
Capital expenditure	(128)	30	(218)	(220)
Change in investments	(23)	(30)	(9)	(10)
Cash flow from inv. (b)	**(150)**	**0**	**(227)**	**(230)**
Free cash flow (a+b)	**1,071**	**1,266**	**644**	**1,103**
Equity raised/(repaid)	2,768	0	0	0
Debt raised/(repaid)	(498)	(462)	(266)	(164)
Dividend (incl. tax)	(29)	0	(57)	(57)
Others	(3,384)	(820)	(453)	(377)
Cash flow from fin. (c)	**(1,143)**	**(1,282)**	**(776)**	**(597)**
Net chg in cash (a+b+c)	**(72)**	**(16)**	**(132)**	**505**

Key Ratios

Period end (%)	Mar 11	Mar 12	Mar 13E	Mar 14E
Adjusted EPS (Rs)	(1.7)	2.8	5.7	9.4
Growth	(621.9)	(266.2)	102.8	66.3
CEPS (Rs)	4.1	8.4	11.4	14.7
Book NAV/share (Rs)	53.1	57.7	63.0	71.8
Dividend/share (Rs)	0.0	0.5	0.5	0.5
Dividend payout ratio	0.0	17.3	10.3	7.0
EBITDA margin	7.1	10.1	10.8	12.1
EBIT margin	3.1	6.4	7.6	9.5
Tax rate	(12.9)	27.6	25.0	25.0
RoCE	3.0	7.2	9.6	12.4
Total debt/Equity (x)	1.4	1.2	1.1	0.9
Net debt/Equity (x)	1.4	1.2	1.1	0.8
Du Pont Analysis - ROE				
Net margin	(1.3)	1.9	3.4	5.3
Asset turnover (x)	0.8	0.9	1.1	1.1
Leverage factor (x)	2.9	2.8	2.6	2.4
Return on equity	(3.1)	5.0	9.4	14.0

Valuations

Period end (x)	Mar 11	Mar 12	Mar 13E	Mar 14E
PER	(20.2)	10.9	6.5	3.9
PCE	8.4	3.6	3.2	2.5
Price/Book	0.6	0.5	0.6	0.5
Yield (%)	–	1.6	1.4	1.4
EV/EBITDA	12.2	6.8	5.9	4.5

JK Tyre and Industries

Maintain Outperformer

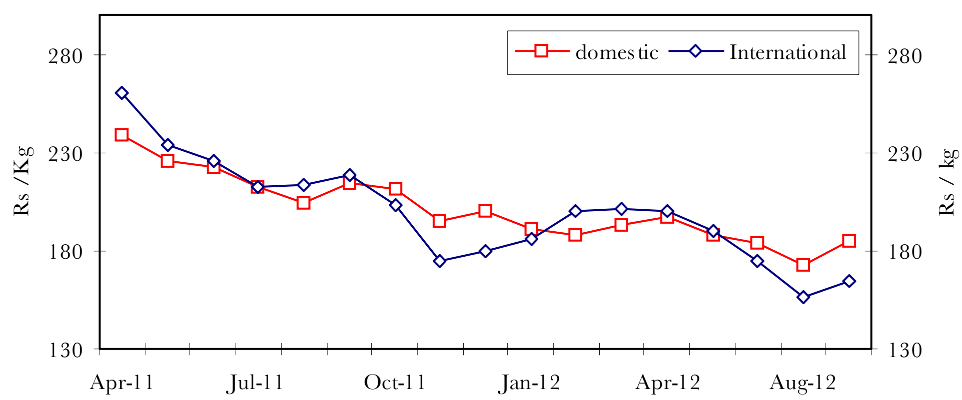
Drop in natural rubber – to impact margins

JK Tyre and Industries Ltd., a Singhania group company, is the pioneer of truck and bus radials (TBR) in India. The company also caters to other tyre categories like passenger radials, truck and bus bias, farm tyres, off-the-road tyres. It is the second largest player in the Truck and Bus segment and the third largest in the Passenger Car segment in India with 22% and 14% market share respectively. The company acquired Tornel, Mexico in April 2008. Currently Tornel contributes ~20% to the consolidated revenue.

Why do we like the stock?

- **Improvement in truck and bus radialisation:** JK Tyre currently has one of the largest TBR capacities in India through its Vikrant plant at Mysore. Radialisation in the truck and bus segment is expected to improve to 40% over the next few years from ~20% currently. In addition to the expansion of Mysore plant, the company has established a greenfield plant in Chennai with a initial capacity of 0.4 mn TBR and 2.5 mn PCR and ramping up is in progress.
- **Softening natural rubber price:** Natural rubber the key raw material for tyres constitutes ~35% of material cost. The price of natural rubber has softened substantially in the recent times and should benefit the company as the company generally does not pass it on to the auto replacement market (~65% revenue).

Natural rubber price



Source: Rubber Board, B&K Research

Valuation: Currently, the stock is trading at an attractive valuation of 4.3x FY13E EPS of Rs 28.0 and 3.2x FY14E EPS of Rs 37.8.

Concerns

- Volatility in natural rubber and crude derivatives.
- Huge debt in the books.

Key delta triggers

- Price of natural rubber and crude.
- Demand for auto replacement tyres.

Share Data

Price (Rs)	120
BSE Sensex	18,755
Reuters code	JKIN.BO
Bloomberg code	JKI IN
Market cap. (US$ mn)	64
6M avg. daily turnover (US$ mn)	0.2
Issued shares (mn)	41.1

Performance (%)	1M	3M	12M
Absolute	11	30	66
Relative	11	20	55

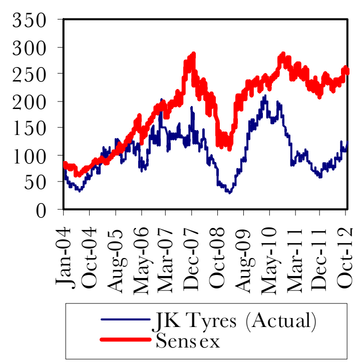
Valuation ratios

Yr to 31 Mar	FY13E	FY14E
EPS (Rs)	28.0	37.8
+/- (%)	(459.9)	34.8
PER (x)	4.3	3.2
PBV (x)	0.8	0.8
Div./Yield (%)	2.5	2.5
EV/Sales (x)	0.4	0.3
EV/EBITDA (x)	4.7	4.2

Major shareholders (%)

Promoters	47
FIIs	3
MFs	4
BFSI's	6
Public & Others	40

Relative performance



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JK Tyre and Industries

Income Statement

Period end (Rs mn)	Mar 11	Mar 12	Mar 13E	Mar 14E
Net sales	**59,454**	**69,471**	**70,865**	**80,865**
Growth (%)	*30.1*	*16.8*	*2.0*	*14.1*
Operating expenses	(56,611)	(66,182)	(65,595)	(74,712)
Operating profit	2,843	3,289	5,270	6,153
EBITDA	**2,843**	**3,289**	**5,270**	**6,153**
Growth (%)	*(43.4)*	*15.7*	*60.2*	*16.8*
Depreciation	(1,093)	(1,210)	(1,460)	(1,653)
Other income	463	38	115	116
EBIT	**2,213**	**2,116**	**3,924**	**4,616**
Finance cost	(1,094)	(1,875)	(2,198)	(2,289)
Exceptional & extradordinary	0	(471)	0	0
Profit before tax	**1,120**	**(230)**	**1,726**	**2,327**
Tax (current + deferred)	(494)	(152)	(575)	(775)
Profit / (Loss) for the period	626	(382)	1,151	1,552
P/L of Associates, Min Int, Pref Div	34	62	0	0
Reported Profit / (Loss)	659	(320)	1,151	1,552
Adjusted net profit	659	(320)	1,151	1,552
Growth (%)	*(70.6)*	*(148.5)*	*(459.9)*	*34.8*

Balance Sheet

Period end (Rs mn)	Mar 11	Mar 12	Mar 13E	Mar 14E
Share capital	411	411	411	411
Reserves & surplus	8,173	7,143	7,243	7,243
Shareholders' funds	**8,583**	**7,553**	**7,653**	**7,653**
Non-current liablities	**3,689**	**15,142**	**16,813**	**18,393**
Long-term borrowings	3,689	11,204	12,204	13,204
Other non-current liabilities	0	3,938	4,609	5,189
Current liabilities	**29,326**	**27,234**	**26,775**	**29,942**
ST borrowings, Curr maturity	12,449	9,018	9,168	9,169
Other current liabilities	16,877	18,217	17,607	20,773
Total (Equity and Liablities)	**41,598**	**49,929**	**51,241**	**55,988**
Non-current assets	**20,935**	**26,623**	**26,504**	**29,302**
Fixed assets (Net block)	21,512	26,347	27,285	30,083
Non-current Investments	871	1,007	1,007	1,007
Long-term loans and advances	0	744	0	0
Other non-current assets	(1,449)	(1,476)	(1,788)	(1,788)
Current assets	**20,663**	**23,307**	**24,737**	**26,686**
Cash & current investment	1,146	1,049	1,275	1,249
Other current assets	19,517	22,257	23,463	25,437
Total (Assets)	**41,598**	**49,929**	**51,241**	**55,988**
Total debt	16,138	20,222	21,372	22,373
Capital employed	24,721	31,713	33,634	35,215

Cash Flow Statement

Period end (Rs mn)	Mar 11	Mar 12	Mar 13E	Mar 14E
Profit before tax	1,120	(230)	1,726	2,327
Depreciation	1,093	1,210	1,460	1,653
Change in working capital	(2,372)	(1,504)	(1,068)	1,191
Total tax paid	(437)	(125)	(262)	(775)
Others	1,094	1,875	2,198	2,289
Cash flow from oper. (a)	**498**	**1,226**	**4,055**	**6,686**
Capital expenditure	(3,463)	(7,122)	(2,399)	(4,451)
Change in investments	(67)	(136)	0	0
Cash flow from inv. (b)	**(3,529)**	**(7,258)**	**(2,399)**	**(4,451)**
Free cash flow (a+b)	**(3,032)**	**(6,032)**	**1,656**	**2,235**
Equity raised/(repaid)	(21)	(4)	0	0
Debt raised/(repaid)	4,549	4,084	1,150	1,001
Dividend (incl. tax)	(168)	(263)	(145)	(145)
Others	(1,092)	2,117	(2,436)	(3,116)
Cash flow from fin. (c)	**3,268**	**5,934**	**(1,431)**	**(2,260)**
Net change in cash (a+b+c)	**237**	**(97)**	**226**	**(26)**

Key Ratios

Period end (%)	Mar 11	Mar 12	Mar 13E	Mar 14E
Adjusted EPS (Rs)	16.1	(7.8)	28.0	37.8
Growth	(70.6)	(148.5)	(459.9)	34.8
CEPS (Rs)	42.7	21.7	63.6	78.1
Book NAV/share (Rs)	143.1	144.2	146.6	146.6
Dividend/share (Rs)	3.0	2.5	3.0	3.0
Dividend payout ratio	21.7	(37.3)	12.6	9.3
EBITDA margin	4.8	4.7	7.4	7.6
EBIT margin	3.7	3.0	5.5	5.7
Tax rate	44.1	(66.2)	33.3	33.3
RoCE	9.9	7.5	12.0	13.4
Total debt/Equity (x)	1.9	2.7	2.8	2.9
Net debt/Equity (x)	1.7	2.5	2.6	2.8
Du Pont Analysis - RoE				
Net margin	1.1	(0.5)	1.6	1.9
Asset turnover (x)	1.6	1.5	1.4	1.5
Leverage factor (x)	6.7	7.8	8.5	8.9
Return on equity	11.7	(5.4)	19.3	25.8

Valuations

Period end (x)	Mar 11	Mar 12	Mar 13E	Mar 14E
PER	7.5	32.6	4.3	3.2
PCE	2.8	3.6	1.9	1.5
Price/Book	0.8	0.8	0.8	0.8
Yield (%)	2.5	2.1	2.5	2.5
EV/EBITDA	7.0	7.3	4.7	4.2

Larsen & Toubro

Maintain Outperformer

Standing tall...Best placed to play the investment cycle

Share Data

Price (Rs)	1,675
BSE Sensex	18,755
Reuters code	LART.BO
Bloomberg code	LT IN
Market cap. (US$ mn)	19,127
6M avg. daily turnover (US$ mn)	53.3
Issued shares (mn)	614

Performance (%)	1M	3M	12M
Absolute	3	4	38
Relative	(3)	2	11

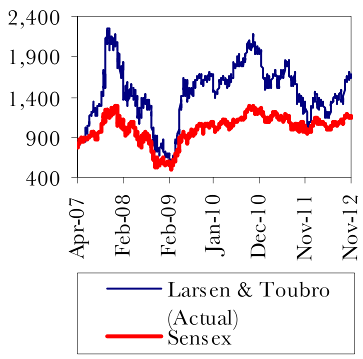
Valuation ratios (Standalone)

Yr to 31 Mar	FY13E	FY14E
EPS (Rs)	74.6	81.0
+/- (%)	3.5	8.5
PER (x)	22.5	20.7
PBV (x)	3.6	3.2
Dividend/Yield (%)	1.0	1.1
EV/Sales (x)	1.7	1.5
EV/EBITDA (x)	14.8	13.4

Major shareholders (%)

FIIs	14
MFs	15
BFSI's	23
Public & Others	48

Relative performance



Background

Larsen & Toubro (L&T) is the most efficient engineering company in India, with strong EPC capabilities in several key sectors of the economy. Order book at Rs 1,585 bn (+12% YoY) at 2.8x TTM sales provides good visibility. It comprises 49% from infrastructure, 25% from power, 9% from hydrocarbon, 13% process and 4% being others. Diversified presence in core infrastructure, power and hydrocarbon sector places L&T as the biggest beneficiaries of thrust on infrastructure spending and likely pick up in investment cycle in FY14-15.

Why do we like the stock?

- **Execution pace intact:** L&T has managed +20% growth in sales in 1HFY13 by efficient churn of its execution portfolio despite elongated working capital cycles, thus reinforcing customer confidence and strengthening its market presence. This places L&T ahead of its ailing peers to manage costs efficiently and hence margins with healthy execution pace.
- **Healthy order flows:** Despite not so favourable investment sentiment, L&T order intake grew by +26% YoY, Rs 406 bn in 1HFY13 led by infrastructure orders and its diversified business presence creating room for upside to beat FY13 guidance (+15-20%). Pick up in hydrocarbon orders and power EPC orders in 2HFY13 from India and Middle East will support infrastructure orders to meet the said targets. It is well placed to benefit from opportunities in new sectors like transportation and water even as power and process sectors see some hiccups.
- While most other infra companies continue to reel under pressure of high leverage and lower profitability on old projects, L&T with its diverse execution capabilities and a **sound balance sheet with DER of 0.4x and RoCE of 20%** will continue to command scarcity premium in its valuations.
- Its initiatives in the defence, nuclear power and aerospace sectors have the potential to drive long-term growth for the company.

Key delta/triggers

- Receipt of key large orders from transportation, hydrocarbon and power sectors.
- Initiation of cut in interest rates will improve the investment sentiment and hence accelerate order finalisation pace.
- L&T is likely to monetise its asset portfolio by roping in strategic partner for IDPL (by FY13 end) and stake sale in some more entities, thereby easing the funding pressures on the parent company and realising better value for shareholders.

Key risks

- Loss of orders to competition on aggressive pricing. Poor order flows and margin pressures.
- Underutilisation of capacities in power equipment and shipbuilding to exert pressures on near term RoCE.

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Larsen and Toubro

Income Statement (Standalone)

Period end (Rs mn)	Mar 11	Mar 12	Mar 13E	Mar 14E
Net sales	**439,049**	**531,705**	**616,676**	**685,346**
Growth (%)	*18.6*	*21.1*	*16.0*	*11.1*
Operating expenses	(382,685)	(468,879)	(546,526)	(607,676)
Operating profit	56,364	62,826	70,149	77,670
EBITDA	**56,364**	**62,826**	**70,149**	**77,670**
Growth (%)	*18.0*	*11.5*	*11.7*	*10.7*
Depreciation	(5,991)	(6,995)	(8,679)	(10,167)
Other income	11,811	13,383	15,256	16,672
EBIT	**62,183**	**69,214**	**76,725**	**84,175**
Finance cost	(6,474)	(6,661)	(9,561)	(10,780)
Exceptional & extradordinary	3,329	550	2,288	0
Profit before tax	**59,039**	**63,103**	**69,453**	**73,395**
Tax (current + deferred)	(19,459)	(18,538)	(21,693)	(23,686)
Profit/(Loss) for the period	39,580	44,565	47,760	49,708
Reported Profit/(Loss)	39,580	44,565	47,760	49,708
Adjusted net profit	36,760	44,130	45,797	49,708
Growth (%)	*15.4*	*20.0*	*3.8*	*8.5*

Balance Sheet (Standalone)

Period end (Rs mn)	Mar 11	Mar 12	Mar 13E	Mar 14E
Share capital	1,218	1,225	1,225	1,225
Reserves & surplus	217,245	251,005	286,671	323,792
Shareholders' funds	**218,463**	**252,230**	**287,896**	**325,016**
Non-current liablities	**62,496**	**66,246**	**69,199**	**76,549**
Long-term borrowings	54,254	53,301	58,735	64,985
Other non-current liabilities	8,242	12,945	10,463	11,564
Current liabilities	**293,004**	**363,558**	**414,813**	**449,253**
ST borrowings, Curr maturity	17,357	45,657	51,543	57,516
Other current liabilities	275,647	317,901	363,270	391,737
Total (Equity and Liab.)	**573,963**	**682,034**	**771,908**	**850,819**
Non-current assets	**184,205**	**221,288**	**239,500**	**268,930**
Fixed assets (Net block)	74,155	83,637	85,567	89,989
Non-current Investments	74,016	92,119	103,847	123,847
Long-term loans and adv.	33,171	40,428	44,471	48,918
Other non-current assets	2,863	5,105	5,615	6,176
Current assets	**389,758**	**460,747**	**532,407**	**581,889**
Cash & current inv.	90,135	85,653	97,250	113,212
Other current assets	299,622	375,093	435,158	468,677
Total (Assets)	**573,963**	**682,034**	**771,908**	**850,819**
Total debt	71,611	98,958	110,278	122,501
Capital employed	298,316	364,133	408,637	459,081

Cash Flow Statement (Standalone)

Period end (Rs mn)	Mar 11	Mar 12	Mar 13E	Mar 14E
Profit before tax	59,039	63,103	69,453	73,395
Depreciation	5,991	6,995	8,679	10,167
Chg in working capital	(15,418)	(39,867)	(22,680)	(9,889)
Total tax paid	(20,843)	(20,699)	(19,410)	(23,341)
Others	9,564	1,283	(3,283)	(3,206)
Cash flow from oper. (a)	**38,333**	**10,815**	**32,758**	**47,126**
Capital expenditure	(15,776)	(16,937)	(8,885)	(13,946)
Change in investments	(8,847)	(11,908)	(17,152)	(29,130)
Others	524	9,623	9,752	10,726
Cash flow from inv. (b)	**(24,100)**	**(19,223)**	**(16,285)**	**(32,351)**
Free cash flow (a+b)	**14,233**	**(8,407)**	**16,474**	**14,775**
Equity raised/(repaid)	4,530	3,277	0	0
Debt raised/(repaid)	3,603	27,347	11,320	12,224
Dividend (incl. tax)	(8,630)	(9,957)	(11,119)	(12,083)
Others	(10,751)	(10,511)	(12,962)	(10,690)
Cash flow from fin. (c)	**(11,249)**	**10,156**	**(12,760)**	**(10,550)**
Net chg in cash (a+b+c)	**2,985**	**1,749**	**3,713**	**4,225**

Key Ratios (Standalone)

Period end (%)	Mar 11	Mar 12	Mar 13E	Mar 14E
Adjusted EPS (Rs)	60.4	72.1	74.6	81.0
Growth	14.2	19.4	3.5	8.5
CEPS (Rs)	70.2	83.5	88.8	97.5
Book NAV/share (Rs)	358.4	411.5	468.7	529.2
Dividend/share (Rs)	14.5	16.5	17.1	17.8
Dividend payout ratio	25.2	24.9	25.3	25.3
EBITDA margin	12.8	11.8	11.4	11.3
EBIT margin	14.2	13.0	12.4	12.3
Tax rate	34.0	29.5	31.8	32.3
RoCE	22.4	20.9	19.9	19.4
Total debt/Equity (x)	0.3	0.4	0.4	0.4
Net debt/Equity (x)	(0.1)	0.1	0.0	0.0
Du Pont Analysis - ROE				
Net margin	8.4	8.3	7.4	7.3
Asset turnover (x)	0.8	0.8	0.8	0.8
Leverage factor (x)	2.6	2.7	2.7	2.6
Return on equity	18.3	18.8	17.0	16.2

Valuations (Standalone)

Period end (x)	Mar 11	Mar 12	Mar 13E	Mar 14E
PER	27.4	18.2	22.5	20.7
PCE	23.5	15.7	18.9	17.2
Price/Book	4.6	3.2	3.6	3.2
Yield (%)	0.9	1.3	1.0	1.1
EV/EBITDA	17.5	13.0	14.8	13.4

Mahindra and Mahindra

Maintain Outperformer

Strong product portfolio and recovery in tractors to drive growth

Mahindra & Mahindra (MM) is the market leader in the utility vehicles (UV) and tractor industry. MM is a full-range player with the presence across automobile segments (two-wheelers to MHCVs). In line with its ambition to become a global SUV player, MM acquired 70% stake in the Ssangyong Motor Company (SMC), South Korea in 2011 for US$ 463 mn. Ssangyong has become EBITDA positive recently.

Why we like the stock

Auto division continues to outperform with the strong response of new launches

During 1HFY13, the company has registered robust growth in the UVs and Pick up segment and has improved overall market share. We expect robust growth momentum to continue led by strong demand for the recently launched UVs.

- XUV 5OO continues to have strong demand with the total volume sales of more than 40K till September 2012. Further, MM has ~15,000 booking for the XUV 5OO (~3 month volumes). Currently, the company is producing 4,500-5,000 XUV 5OO per month.
- Recently company has launched Quanto-Mini SUV and has priced it attractively (As we highlighted in our new launches report dated 17 October 2012). The company indicated that Quanto has booking of ~9,000 (more than 3 month production).
- The company has also launched Ssangyong Rexton recently and has booking of ~300 in Delhi and Mumbai.

Key beneficiary of recovery in the tractor demand and rising rural prosperity

Being the market leader supported with wide distribution network, captive financing arm and huge brand equity, we expect MM to be a key beneficiary of recovery in the tractor demand in the medium to long-term.

Further, MM drives ~45% of its UV sales from the semi-urban and rural markets. This coupled with recovery in tractor segment (~40% of MM revenues) provides a good proxy to play the rural prosperity theme.

Healthy financial position despite high capex: We expect MM to remain cash flow positive despite high capex and investments of Rs 50 bn over the next three years. With a benign debt/equity (D/E at 0.2x), the balance sheet remains strong.

Key delta triggers

- Reversal in the interest rate cycle is expected to have positive impact on the volume sales of the company.
- Strong recovery in tractor demand.
- Softening in the commodity prices.

Key risk to our call

- Any adverse regulation for the diesel vehicles.
- Impact on the UV growth rate due to increasing competition.

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Share Data

Price (Rs)	918
BSE Sensex	18,755
Reuters code	MAHM.BO
Bloomberg code	MM IN
Market cap. (US$ mn)	8,434
6M avg. daily turnover (US$ mn)	35.5
Issued shares (mn)	614

Performance (%)	1M	3M	12M
Absolute	6	32	10
Relative	7	21	3

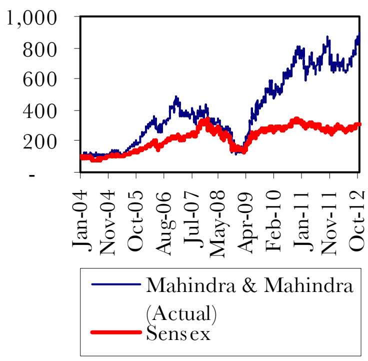
Valuation ratios

Yr to 31 Mar	FY13E	FY14E
EPS (Rs)	51.3	57.8
+/- (%)	13.5	12.7
PER (x)	17.9	15.9
PBV (x)	3.9	3.3
Div./Yield (%)	1.4	1.5
EV/EBITDA	12.4	10.6

Major shareholders (%)

Promoters	25
FIIs	30
DIIs	19
Public & Others	26

Relative performance



Mahindra and Mahindra

Income Statement (Standalone)

Period end (Rs mn)	Mar 11	Mar 12	Mar 13E	Mar 14E
Net sales	**234,434**	**318,535**	**389,533**	**438,225**
Growth (%)	*26.0*	*35.9*	*22.3*	*12.5*
Operating expenses	(200,060)	(280,829)	(344,364)	(386,592)
Operating profit	**34,374**	**37,706**	**45,169**	**51,633**
EBITDA	**34,374**	**37,706**	**45,169**	**51,633**
Growth (%)	*15.5*	*9.7*	*19.8*	*14.3*
Depreciation	(4,138)	(5,760)	(6,958)	(8,115)
Other income	4,510	4,667	5,579	5,880
EBIT	**34,746**	**36,613**	**43,790**	**49,398**
Finance cost	(725)	(1,628)	(1,836)	(2,111)
Exceptional & extradordinary	1,175	1,083		
Profit before tax	**35,196**	**36,069**	**41,954**	**47,286**
Tax (current + deferred)	(8,575)	(7,270)	(10,486)	(11,818)
Profit/(Loss) for the period	26,621	28,799	31,468	35,468
Reported Profit/(Loss)	26,621	28,799	31,468	35,468
Adjusted net profit	25,446	27,716	31,468	35,468
Growth (%)	*27.4*	*8.9*	*13.5*	*12.7*

Balance Sheet (Standalone)

Period end (Rs mn)	Mar 11	Mar 12	Mar 13E	Mar 14E
Share capital	2,936	2,945	2,945	2,945
Reserves & surplus	100,198	118,766	140,885	166,643
Shareholders' funds	**103,134**	**121,711**	**143,830**	**169,588**
Non-current liablities	**32,750**	**43,807**	**44,533**	**45,092**
Long-term borrowings	23,120	31,738	31,590	31,590
Other non-current liabilities	9,630	12,069	12,943	13,501
Current liabilities	**59,514**	**73,601**	**86,087**	**95,054**
ST borrowings, Curr maturity	925	4,069	4,067	4,067
Other current liabilities	58,589	69,532	82,020	90,987
Total (Equity and Liablities)	**195,398**	**239,119**	**274,450**	**309,734**
Non-current assets	**140,971**	**159,212**	**169,849**	**183,192**
Fixed assets (Net block)	39,066	50,808	56,022	63,827
Non-current Investments	82,053	92,735	98,122	103,620
Long-term loans and advances	18,681	14,767	14,803	14,842
Other non-current assets	1,170	903	903	903
Current assets	**54,427**	**79,907**	**104,600**	**126,542**
Cash & current investment	13,349	22,253	37,179	51,250
Other current assets	41,078	57,654	67,421	75,292
Total (Assets)	**195,398**	**239,119**	**274,450**	**309,734**
Total debt	24,045	35,808	35,657	35,657
Capital employed	136,809	169,587	192,430	218,747

Cash Flow Statement (Standalone)

Period end (Rs mn)	Mar 11	Mar 12	Mar 13E	Mar 14E
Profit before tax	**35,196**	**36,069**	**41,954**	**47,286**
Depreciation	4,138	5,760	6,958	8,115
Change in working capital	(11,073)	(1,689)	2,033	698
Total tax paid	(4,074)	(5,619)	(9,612)	(11,259)
Others	(1,532)	(465)	(446)	(267)
Cash flow from oper. (a)	**22,656**	**34,056**	**40,887**	**44,572**
Capital expenditure	(5,976)	(17,255)	(11,923)	(15,671)
Change in investments	(23,788)	(12,409)	(3,838)	(3,949)
Others	(607)	671	484	580
Cash flow from inv. (b)	**(30,371)**	**(28,993)**	**(15,277)**	**(19,039)**
Free cash flow (a+b)	**(7,715)**	**5,063**	**25,609**	**25,533**
Equity raised/(repaid)	9,979	242	(0)	0
Debt raised/(repaid)	(4,757)	11,763	(150)	
Dividend (incl. tax)	(6,471)	(8,319)	(8,686)	(9,338)
Others	(2,321)	(3,011)	(1,848)	(2,124)
Cash flow from fin. (c)	**(3,570)**	**674**	**(10,684)**	**(11,462)**
Net chg. in cash (a+b+c)	**(11,286)**	**5,738**	**14,926**	**14,071**

Key Ratios (Standalone)

Period end (%)	Mar 11	Mar 12	Mar 13E	Mar 14E
Adjusted EPS (Rs)	41.4	45.1	51.3	57.8
Growth	17.5	8.9	13.5	12.7
CEPS (Rs)	48.2	54.5	62.6	71.0
Book NAV/share (Rs)	167.8	198.1	234.1	276.1
Dividend/share (Rs)	11.5	12.5	13.0	13.5
Dividend payout ratio	31.0	31.2	29.7	27.3
EBITDA margin	14.7	11.8	11.6	11.8
EBIT margin	14.8	11.5	11.2	11.3
Tax rate	25.2	20.8	25.0	25.0
RoCE	28.2	23.9	24.2	24.0
Total debt/Equity (x)	0.2	0.3	0.2	0.2
Net debt/Equity (x)	0.1	0.1	(0.0)	(0.1)
Du Pont Analysis - RoE				
Net margin	10.9	8.7	8.1	8.1
Asset turnover (x)	1.3	1.5	1.5	1.5
Leverage factor (x)	2.0	1.9	1.9	1.9
Return on equity	28.1	24.7	23.7	22.6

Valuations (Standalone)

Period end (x)	Mar 11	Mar 12	Mar 13E	Mar 14E
PER	16.9	15.5	17.9	15.9
PCE	14.5	12.8	14.7	12.9
Price/Book	4.2	3.5	3.9	3.3
Yield (%)	1.6	1.8	1.4	1.5
EV/EBITDA	12.8	11.8	12.4	10.6

Shriram Transport Finance

Maintain Outperformer

Share Data

Price (Rs)	629
BSE Sensex	18,755
Reuters code	SRTR.BO
Bloomberg code	SHTF IN
Market cap. (US$ mn)	2,650
6M avg. daily turnover (US$ mn)	3.0
Issued shares (mn)	226

Performance (%)	1M	3M	12M
Absolute	(1)	1	10
Relative	4	(1)	1

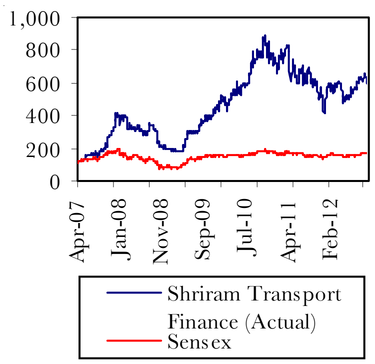
Valuation ratios

Yr to 31 Mar	FY13E	FY14E
EPS (Rs)	62.1	74.5
+/- (%)	11.8	19.8
ABV (Rs)	310.7	375.1
+/- (%)	19.8	20.7
PER (x)	10.1	8.4
PABV (x)	2.0	1.7
Dividend Yield	1.2	1.3

Major shareholders (%)

Promoters	46
FIIs	40
MFs	2
Public & Others	12

Relative performance



Improving business momentum

Shriram Transport Finance (SHTF) is the largest asset financing NBFC (AUM of Rs 440.9 bn) and a dominant player in the pre-owned CV financing space (~25% market share, 79% of AUM). It mainly offers finance to Small Road Transport Operators (SRTOs) and First Time Users (FTUs) who are considered non-bankable and are deprived of credit by the organised segment. It has pan-India network of 513 branches with low cost home grown talent (14,159 employees including 8,212 field officers) and a unique information and relationship based business model which is difficult to replicate.

Why do we like the stock?

Pick-up in business: We expect SHTF to deliver AUM CAGR of 15%+ over FY13-14E; improved business traction led by strong demand for pre owned ICVs (<12 ton), LCVs and pick-ups. Strategy of focusing on pre-owned vehicles and semi urban/rural markets for growth has delivered results; 250 rural centres offering pre-owned LCV finance operational (target 400 centres by FY13E).

Securitisation to continue: Resource generation through securitisation to continue; regulatory issues have largely been addressed (PSL status on securitised portfolio, 8% yield cap, no cap on off book AUM, etc.). We expect securitisation of at least Rs 50 bn in 2HFY13E.

NIM improvement: We expect NIMs (on AUM) at 8% (B&K cal) led by better yields (increased mix of pre-owned vehicles) and easing wholesale borrowing rates; yields to correct with a lag. Higher securitisation in 2HFY13E should also help to reduce cost of funds.

Healthy asset quality: Given the lower LTV policy (60-62%), asset coverage remains comfortable. Recoveries have been steady; 80% of the customer segment operates under cash and carry basis. We expect GNPA to remain under 3%. Although, change in NPA recognition norm to 90 dpd basis (if introduced immediately) should increase GNPA by ~200-250 bps and increase provisioning by ~15-20 bps.

Profit growth to improve in FY14E: Traction in business, stable NIMs, lower opex and provisions to help improve profit growth. We expect net profit growth of 20% in FY14E (16% CAGR over FY13-14E) with RoA of 3.8% and sustainable RoE of 21%+.

Subsidiaries scaling up well: Shriram Equipment Finance has scaled up AUM of Rs 23.8 bn (PAT of Rs 397 mn in 1HFY13). 10 Shriram Automalls are operational; ~60,000+ loan transactions have been originated from Automalls; participation from banks, other NBFCs and fleet operators is also increasing. Fee income of Rs 361 mn earned in 1HFY13 from Automalls.

Key delta triggers

- Revival in CV replacement cycle to generate robust growth.
- SHTF is the strong contender for the new banking license given its customer profile and pan-India network; over the years it has ensured financial inclusion for the under-banked trucking community.

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Shriram Transport Finance

Income Statement

Yr ende 31 Mar (Rs mn)	FY11	FY12	FY13E	FY14E
Interest Income	52,015	56,516	63,446	72,751
Interest Expended	23,966	25,569	29,277	33,034
Net Interest Income	**28,049**	**30,947**	**34,169**	**39,717**
Growth (%)	*33.5*	*10.3*	*10.4*	*16.2*
Other Income	1,932	2,362	2,472	2,775
Total net income	**29,981**	**33,309**	**36,641**	**42,492**
Growth (%)	*36.4*	*11.1*	*10.0*	*16.0*
Operating expenses	6,200	6,717	7,536	8,669
- Staff Expenses	3,582	3,701	4,007	4,544
- Other Expenses	2,618	3,016	3,529	4,124
Pre-Provision Profit	**23,781**	**26,592**	**29,105**	**33,823**
Provisions & Contingencies	5,291	7,783	8,082	8,631
Profit before tax	**18,489**	**18,809**	**21,023**	**25,193**
Provision for tax	6,190	6,235	6,959	8,339
Tax Rate (%)	*33*	*33*	*33*	*33*
Net profit	**12,299**	**12,574**	**14,064**	**16,854**
Growth (%)	*40.9*	*2.2*	*11.8*	*19.8*
Adjusted Net Profit	12,299	12,574	14,064	16,854
Growth (%)	*40.9*	*2.2*	*11.8*	*19.8*

Balance Sheet

Yr end 31 Mar (Rs mn)	FY11E	FY12	FY13E	FY14E
Capital	2,262	2,263	2,263	2,263
Reserves & Surplus	46,747	57,637	69,716	84,452
Networth	**49,044**	**59,923**	**72,002**	**86,738**
Borrowings	165,835	198,272	231,550	271,650
Sub-ordinated debt	32,982	33,002	36,302	40,658
Other Liabilities & Provisions	68,425	66,578	72,711	80,290
Total Liabilities	**316,286**	**357,775**	**412,565**	**479,336**
Cash	36,251	53,812	47,964	51,744
Investments	36,457	39,544	38,478	38,978
Advances	194,641	214,297	277,476	340,370
Fixed assets	364	377	500	508
Other Current Assets	48,573	49,744	48,147	47,735
Total Assets	**316,286**	**357,775**	**412,565**	**479,336**

Key Ratios

Yr end 31 Mar	FY11	FY12	FY13E	FY14E
Operational & financial ratios (Rs)				
EPS	54.4	55.6	62.1	74.5
Book Value	216.8	264.8	318.1	383.2
Adjusted Book Value	211.3	259.3	310.7	375.1
DPS	6.5	6.5	7.5	8.0
Spread Analysis (%)	–	–	19.8	20.7
Yield on AUM	16.0	14.8	14.7	14.6
Yield on Advances	18.5	16.4	16.2	15.9
Cost of funds	11.0	10.7	10.6	10.3
Spread	7.5	5.8	5.6	5.6
Net Interest Margin (on AUM)	8.6	8.1	7.9	8.0
Profitability Ratios (%)				
RoAA	4.2	3.7	3.7	3.8
RoAE	28.1	23.1	21.3	21.2
Asset quality ratios (%)				
Gross NPAs	2.7	3.2	3.0	2.9
Net NPAs	0.4	0.5	0.5	0.4
Net NPAs/Total Assets	0.2	0.3	0.4	0.3
Net NPAs/Net worth	1.5	1.6	2.0	1.7
Provision coverage	85.9	85.9	82.5	85.0
Capitalisation ratios (%)				
Tier I cap.adequacy	14.9	14.4	13.3	12.9
Total cap.adequacy	24.9	22.3	20.0	19.0
Total assets/Equity	6.4	6.0	5.7	5.5
Loans/Assets	61.5	59.9	67.3	71.0
Investments/Assets	11.5	11.1	9.3	8.1
Efficiency ratios (%)				
Cost/Income	20.7	20.2	20.6	20.4
Cost/Assets	2.1	2.0	2.0	1.9
Productivity ratios (Rs mn)				
Operating cost per employee	0.4	0.4	0.5	0.6
Assets per employee	18.7	23.8	27.1	30.9
Adjusted net profit per employee	0.7	0.8	0.9	1.1
Business per employee	12.7	13.4	18.3	22.1
Valuation ratios (x)				
PER	11.6	11.3	10.1	8.4
Price/Book value	2.9	2.4	2.0	1.6
Price/Adjusted book	3.0	2.4	2.0	1.7
Yield (%)	1.0	1.0	1.2	1.3

Titan Industries

Maintain BUY

Best play in consumer discretionary

Titan Industries is a TATA group company and is India's largest branded watch and jewellery retailer. It has 65% market share in organised watch market, owns India's leading jewellery store 'Tanishq' and largest eyewear retail chain 'Titan Eye+'. As at September 2012, the company had 879 stores with 348 world of Titan showrooms, 134 Tanishq stores and 209 Titan Eye+ stores.

Why do we like the stock?

- We believe the company will continue to benefit from the huge opportunity in branded jewellery, led by shift from unorganised market, its aggressive retail space expansion and consumers preference towards branded players thereby delivering a robust +20% growth rate in future (5 year jewellery revenue and EBIT CAGR of 40% and 52%).
- While in 1HFY13 the company's revenue growth was impacted due to high gold price and weak consumer sentiments, higher wedding dates and upcoming festive season along with retail space expansion will see an improvement in sales momentum. Besides, jewellery division margins will improve on withdrawal of excise duty (1%), favourable studded mix and direct import of gold providing earnings growth visibility.
- Titan's low capital requirement driven by franchisee model, ability to lease gold at low cost, and its successful gold installment schemes (Golden Harvest) gives it a significant advantage over peers in a highly working capital intensive jewellery business, thereby enabling it to expand faster and increase its market share. The company plans to add strong 200k sq ft of jewellery retail space in FY13 on a base of 460k sq ft.
- Titan, with a watch portfolio straddling across the pyramid has successfully managed to grow its watches business (5-year revenue CAGR of 14%) through launch of new collections, expansion of retail space and brand investments. While margins in near term are impacted by rupee depreciation and faster expansion of Helios store, we believe margins should improve in future with input cost inflation being passed on and better retail sales growth.
- With a strong franchise being created we like Titan's strategy of leveraging its strong brands particularly, Titan and Fastrack, across eyewear and accessories which provide new growth drivers for the company. Turnaround of eyewear business will be another trigger for further re-rating we believe.

Key risks

- Continued slowdown in consumer discretionary spends.
- High volatility in gold prices resulting in a delay consumer buying and impacting jewellery volumes.

Share Data

Price (Rs)	289
BSE Sensex	18,755
Reuters code	TITN.BO
Bloomberg code	TTAN IN
Market cap. (US$ mn)	4,778
6M avg. daily turnover (US$ mn)	9.8
Issued shares (mn)	888

Performance (%)	1M	3M	12M
Absolute	4	10	19
Relative	9	3	17

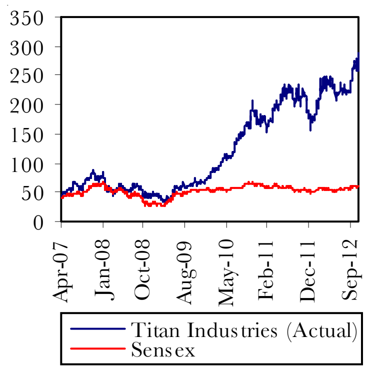
Valuation ratios

Yr to 31 Mar	FY14E	FY15E
EPS (Rs)	10.0	12.2
+/- (%)	22.5	22.4
PER (x)	29.0	23.7
PBV (x)	10.2	7.9
Dividend/Yield (%)	1.0	1.2
EV/Sales (x)	1.8	1.5
EV/EBITDA (x)	18.8	14.9

Major shareholders (%)

Promoters	53
FIIs	16
MFs	3
BFSI's	1
Public & Others	27

Relative performance



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Titan Industries

Income Statement

Period end (Rs mn)	Mar 12	Mar 13E	Mar 14E	Mar 15E
Net sales	**88,384**	**107,465**	**129,930**	**156,513**
Growth (%)	*35.5*	*21.6*	*20.9*	*20.5*
Operating expenses	(80,054)	(97,084)	(117,210)	(140,841)
Operating profit	8,329	10,381	12,720	15,672
EBITDA	**8,329**	**10,381**	**12,720**	**15,672**
Growth (%)	*36.1*	*24.6*	*22.5*	*23.2*
Depreciation	(449)	(517)	(607)	(709)
Other income	941	1,001	1,183	1,303
EBIT	**8,822**	**10,865**	**13,296**	**16,266**
Finance cost	(437)	(525)	(630)	(755)
Profit before tax	8,384	10,341	12,667	15,510
Tax (current + deferred)	(2,383)	(3,102)	(3,800)	(4,653)
Profit/(Loss) for the period	**6,002**	**7,239**	**8,867**	**10,857**
Reported Profit/(Loss)	6,002	7,239	8,867	10,857
Adjusted net profit	6,002	7,239	8,867	10,857
Growth (%)	*39.4*	*20.6*	*22.5*	*22.4*

Balance Sheet

Period end (Rs mn)	Mar 12	Mar 13E	Mar 14E	Mar 15E
Share capital	888	888	888	888
Reserves & surplus	13,611	18,513	24,263	31,485
Shareholders' funds	**14,499**	**19,400**	**25,151**	**32,373**
Non-current liablities	**749**	**899**	**1,066**	**1,237**
Long-term borrowings	59	59	59	59
Other non-current liabilities	690	841	1,007	1,178
Current liabilities	**31,748**	**38,337**	**46,581**	**55,870**
ST borrowings, Curr maturity	54	54	54	54
Other current liabilities	31,693	38,283	46,526	55,815
Total (Equity and Liab.)	**46,995**	**58,637**	**72,797**	**89,479**
Non-current assets	**5,413**	**6,667**	**8,059**	**9,582**
Fixed assets (Net block)	3,936	4,965	6,041	7,192
Non-current Investments	160	160	160	160
Long-term loans and advances	1,279	1,505	1,819	2,191
Other non-current assets	38	38	38	38
Current assets	**41,582**	**51,969**	**64,738**	**79,898**
Cash & current investment	9,605	13,156	17,850	23,458
Other current assets	31,977	38,814	46,889	56,440
Total (Assets)	**46,995**	**58,637**	**72,797**	**89,479**
Total debt	113	113	113	113
Capital employed	15,302	20,354	26,271	33,664

Cash Flow Statement

Period end (Rs mn)	Mar 12	Mar 13E	Mar 14E	Mar 15E
Profit before tax	8,384	10,341	12,667	15,510
Depreciation	449	517	607	709
Change in working capital	(4,555)	(865)	(772)	(991)
Total tax paid	(2,436)	(3,102)	(3,800)	(4,653)
Others	(493)	(465)	(540)	(532)
Cash flow from oper. (a)	**1,350**	**6,425**	**8,161**	**10,044**
Capital expenditure	(1,418)	(1,552)	(1,690)	(1,867)
Change in investments	(69)	0	0	0
Others	931	990	1,170	1,287
Cash flow from inv. (b)	**(557)**	**(562)**	**(520)**	**(580)**
Free cash flow (a+b)	**793**	**5,863**	**7,641**	**9,464**
Equity raised/(repaid)	444	0	0	0
Debt raised/(repaid)	(564)	0	0	0
Dividend (incl. tax)	(1,290)	(1,806)	(2,337)	(3,116)
Others	(743)	(507)	(610)	(740)
Cash flow from fin. (c)	**(2,152)**	**(2,313)**	**(2,947)**	**(3,856)**
Net chg in cash (a+b+c)	**(1,360)**	**3,550**	**4,694**	**5,608**

Key Ratios

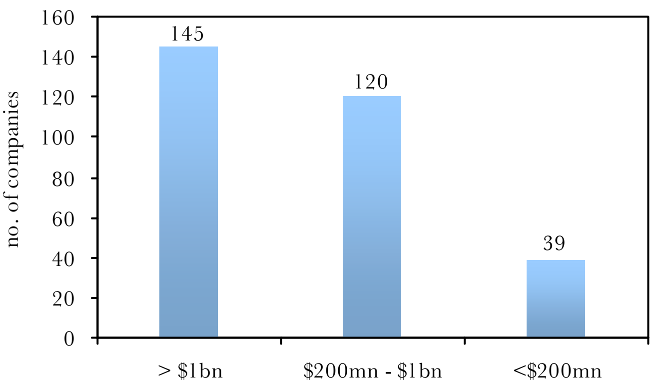
Period end (%)	Mar 12	Mar 13E	Mar 14E	Mar 15E
Adjusted EPS (Rs)	6.8	8.2	10.0	12.2
Growth	39.4	20.6	22.5	22.4
CEPS (Rs)	7.3	8.7	10.7	13.0
Book NAV/share (Rs)	16.3	21.9	28.3	36.5
Dividend/share (Rs)	1.8	2.3	3.0	3.5
Dividend payout ratio	30.1	32.3	35.1	33.5
EBITDA margin	9.4	9.7	9.8	10.0
EBIT margin	10.0	10.1	10.2	10.4
Tax rate	28.4	30.0	30.0	30.0
RoCE	66.1	60.9	57.0	54.3
Net debt/Equity (x)	(0.7)	(0.7)	(0.7)	(0.7)
Du Pont Analysis - ROE				
Net margin	6.8	6.7	6.8	6.9
Asset turnover (x)	2.1	2.0	2.0	1.9
Leverage factor (x)	3.4	3.1	3.0	2.8
Return on equity	48.5	42.7	39.8	37.7

Valuations

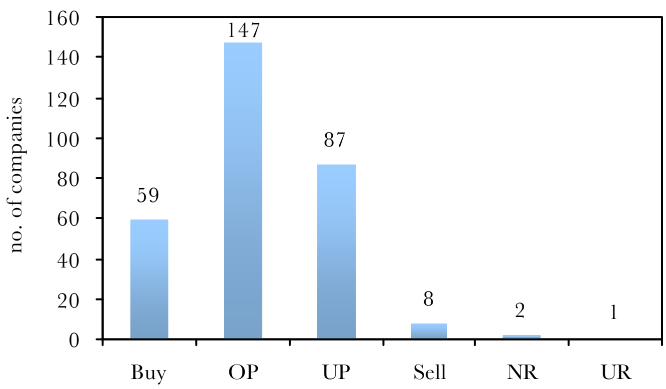
Period end (x)	Mar 12	Mar 13E	Mar 14E	Mar 15E
PER	33.8	35.5	29.0	23.7
PCE	31.5	33.1	27.1	22.2
Price/Book	14.0	13.2	10.2	7.9
Yield (%)	0.8	0.8	1.0	1.2
EV/EBITDA	23.2	23.5	18.8	14.9

B&K Universe Profile

By Market Cap (US$ mn)



By Recommendation



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B&K Investment Ratings:

1. **BUY:** Potential upside of > +25% (absolute returns)
2. **OUTPERFORMER:** 0 to +25%
3. **UNDERPERFORMER:** 0 to -25%
4. **SELL:** Potential downside of < -25% (absolute returns)

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