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IndiaNivesh Securities Private Limited

e-mail: research@indianivesh.in | Website: www.indianivesh.in

Diwali Picks

Allahabad Bank | Coal India | Divi's Laboratories | Ajanta Pharma

Daljeet S. Kohli
Head of Research

Mobile: +91 77383 93371, 99205 94087
Tel: +91 22 66188826
daljeet.kohli@indianivesh.in

Allahabad Bank

CMP Rs.147 | Target Rs.190 (~1x FY12E ABV)
P/ABV (FY12E) 0.8x | P/ABV (FY13E) 0.7x

Investment Rationale

- Allahabad bank, headquartered in Kolkata, is the oldest nationalized bank with the total network of 2416 branches. Total business of the bank stands at Rs 2326 bn as on June 2011.
- The bank's loan book and deposits has witnessed a strong growth of 32% and 24% CAGR over FY06-11. In Q1FY12, Bank continues to outperform the industry with loan growth of 30.4% at Rs 987 bn and deposits growth of 23.5% at Rs 1338 bn. Credit to deposit ratio of the bank stands at 74%.
- Bank's loan book is well diverse with more focus on Retail and SME. Further the exposure of the bank to risky sectors is 13.9% with no impact on asset quality.
- Despite the continuous spike in interest rates, Bank is successful in improving its NIMs to 3.4% as compared to 3.1% in Q1FY11 backed by strong CASA ratio of 32.2%.
- The bank's NIM remained healthy; above 2.5% and it improved in every quarter.
- The bank has track record of strong profitability matrix with RoA at 1.12% and RoE at 23.4% in Q1FY12 backed by Net profit growth of 20.5% yoy at Rs 3470 mn.
- Bank has shown a consistent improvement in Asset quality with Gross and Net NPA of 1.5% and 0.41%, down from 1.62% and 0.6% in Q1FY11. Provision Coverage ratio remain high at 80%
- Capital adequacy (as per Basel II) remains comfortable at 12.8% with Tier I capital of 8.6%.

Allahabad Bank *(contd…)*

Financials

Particulars (Rs mn)	FY10	FY11	FY12E	FY13E
Net Interest Income	26505	40233	49472	59626
Pre Provision Profit	23618	30554	37412	45256
Profit after tax	12063	14237	16935	20660
EPS (Rs)	27	30	36	43
BV (Rs)	151	179	207	243
ABV (Rs)	141	163	187	221
Key Ratios (%)				
Net Interest Margin	2.7	3.3	3.2	3.3
ROE	22.2	21.0	20.3	20.9
ROA	1.10	1.04	1.02	1.04
CASA	34.5	33.7	34.0	34.2
CAR	13.6	13.0	12.3	11.8
Credit/Deposit	67.5	71.0	72.6	73.3
Cost / Income	40.7	43.4	42.3	41.5

Source: Company Filings; IndiaNivesh Research

Income Statement	Q1FY12	Q1FY11	*YoY(%)*
Net Interest Income	11758	8503	*38.3*
Net Income	14618	11489	*27.2*
Total Expenses	5719	4443	*28.7*
Pre Provision Profit	8899	7046	*26.3*
Provisions	3197	1511	*111.6*
Profit Before Tax	5702	5535	*3.0*
Profit After Tax	4184	3471	*20.5*
EPS	8.8	7.8	*13.1*

Valuation and Outlook

- We expect bank to continue growing at above industry growth rate with its advances and deposits growing at 23% and 20% for FY12E.
- Furthermore, the bank's strong CASA base of ~34% and increasing presence in high income segments like Retail and SME will help maintain its NIMs at 3.2% for FY12E.
- ROE and ROA can be sustained at 21% and 1.04% backed by Net profit growth of 20.5% over FY11-13E.
- At CMP of Rs 147, the stock is trading at P/BV of 0.7x / 0.6x and P/ABV of 0.8x / 0.7x for FY12E / FY13E which is undemanding. We recommend BUY on the stock with target price of Rs 190 (~1x FY12E ABV).

Coal India Ltd.

CMP Rs.325 | Target Rs.400

Investment Rationale

- Coal is the primary source of energy, accounting for nearly 53% of the total energy consumption in India. Under the 11th and 12th Plan, India is likely to add around 100 GW power generation capacities. Nearly 67% of this capacity is coal-based. The demand for coal in India is likely to grow at 9-11% CAGR from FY12 to FY15E.
- The company sells its raw coal at a significant discount (55%-60%) to global prices which provide enough space to hike prices of coal. It plans to improve realizations by increasing sales of beneficiated coal, and coal sold through e-auctions where the realization is higher.
- CIL is one of the lowest cost coal producers globally ($16/t compared with the global thermal coal average of $33/t). 90% of CIL's mines are open cast, which have stable ground conditions, relatively simple geological structures and a low stripping ratio .
- The company has a strong balance sheet, with cash of Rs 458 bn (Rs 73/share) at end of FY11, which we believe positions the company well to pursue large global M&A opportunities without significantly risking its capital structure.

Financials

YE March (Rs bn)	Net Sales	PBDIT	Adj PAT	NPM(%)	EV/EBITDA(x)	EPS (Rs)	PE (x)	ROE(%)
FY 10	525.9	182.6	98.3	18.70	_	15.57	_	**32.62**
FY 11	586.7	217.2	108.7	18.52	9.59	17.21	20.17	**29.81**
FY 12E	688.9	251.4	127.0	18.43	8.09	20.10	16.42	**27.81**
FY 13E	813.4	309.0	148.6	18.27	6.69	23.52	14.03	**27.69**

Source: Company Filings; IndiaNivesh Research

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Valuation

Under our base case assumption of 14.5% WACC and a 3% terminal growth rate, we get a 1 year target price of Rs 400 which provides 24% upside from current level. In worst scenario after considering all risks our DCF valuation suggests the target price of Rs. 355. We advice investors to accumulate Coal India at current levels as well as on dips.

Outlook

We are looking at some near term concerns in CIL 1) the proposed mining tax(26% profit sharing) concerns about wage negotiations and 3) Production target miss in H1FY12. We believe that these concerns do not impact the structural story as 1) strong domestic coal demand; 2) monopoly in coal production in India; 3) ASP (Average selling price) significantly lower than global prices—potential for price hikes; 4); and 5) one of the lowest cost producers globally. We think CIL's stock price correction on negative news flow in the past few months provides a good entry level for long term perspective.

Key Risks

- Proposed 26% profit-sharing requirement contained in the New Mining Bill
- Land acquisition due to environmental clearance
- Diversion of e-auction coal towards power sector
- Higher wages demand from union

Divi's Laboratories Ltd.

CMP Rs.719 | Target Rs.885
P/E (FY12E) 19.6x | P/E (FY13E) 15.5x

Investment Rationale

- Vizag SEZ facility commenced in June-2011 at the capex of ~Rs 2bn, ramp up & operating efficiencies are expected from FY13 onwards.
- Leadership position in industry & strong client base, out of top 25 pharma MNCs, Divis supply its products to ~20 MNCs. Top 5 companies accounts to ~49% of revenue.
- Highest operating margins (~38%) & ROE (~25%) among the industry peers are likely to persist.
- Change in products mix is likely going forward, but high revenue growth & increase capacity utilization of Vizag SEZ facility would maintain the margin at current level (~38%) in FY12 & possibly 100 bps expansion in FY13.
- India's low cost advantage & positive out look for CRAMS industry.
- Consistent performance & growth momentum.
- Strong balance sheet with net cash & investment to the tune of approximately Rs 5.40 billion *(Rs 40 per share)* as on March, 2011.
- Valuations looks attractive.
- Revenue likely to grow at 23% CAGR during FY11-13 & earnings at 25% CAGR.

Valuation

At CMP of Rs 719, the stock is trading at 19.6x & 15.5x of FY12E & FY13E earnings estimates respectively. Patent expiry of blockbuster drugs is drying up top line of major MNCs, which will put pressure on their margins going forward. Hence speedy momentum in outsourcing of R&D, clinical trials and contract manufacturing of APIs is expected. Divis is very well positioned in industry to cater to that demand. Its new facility in Vizag SEZ commenced in June 2011, ramp up and operating efficiency is expected going forward. The stock is trading below 5 year forward PE of 20x. We recommend BUY on the stock with target price of Rs 885. (valuing at PE 19x of FY13E EPS estimate)

PE Band:

Rs Mn	Sales	EBITDA	EBITDA %	PAT	EPS	ROE %	P/E	EV/EBITDA	P/BV	Div Yield %
FY10	9,293	4,119	44.3	3,135	23.7	22.3	28.4	21.8	5.5	1.0
FY11	13,054	4,960	38.0	3,970	29.9	23.5	23.6	19.0	4.9	1.6
FY12E	16,268	6,204	38.1	4,887	36.9	24.9	19.6	15.5	4.4	2.3
FY13E	19,800	7,744	39.1	6,174	46.6	27.2	15.5	12.2	3.8	2.9

Source: Company Filings; IndiaNivesh Research

Ajanta Pharma Ltd.

CMP Rs.324 | Target Rs.454
P/E (FY12E) 5.7x | P/E (FY13E) 4.5x

Investment Rationale

- Steady & calibrated growth is likely to persist in the domestic market.
- Launch of 20-25 new products in a year in domestic market, out of which 8-10 products are likely to be of first kind in India.
- Strategic backward integration of production of API for new molecules, provides an edge in terms of low competition & brand building.
- Growth momentum to remain in export business. Recent 2 ANDA approvals & fillings of 3 more ANDAs with USFDA will provide the entry in to regulated market. Product launch in US is likely in FY13.
- Continuous expansion in margin in last five years.
- Increase in R&D expenses would provide benefit in long run.
- Infusion of ~Rs 1.25 billion capex in FY12 & FY13 for the construction of new manufacturing facility would provide impetus to top line.
- Strong & stable balance sheet provides comfort to our rating.
- Valuations looks attractive.
- Revenue likely to grow at 21% CAGR during FY11-13 & earnings at 28% CAGR.

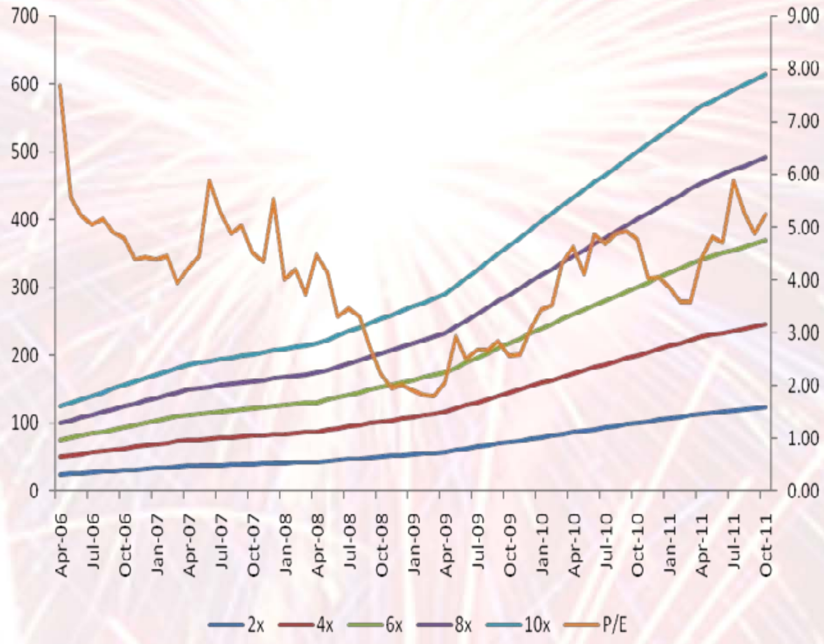
Valuation

Ajanta has received 2 ANDA approval for Risperidone, & Levetiracetam from US FDA. Additionally, in the recent quarter, company filled 3 more ANDAs with US FDA, in line with the guidance of filing 4 ANDAs by the end of FY12. Ajanta has increased its process of ANDA fillings. We expect, product launch in FY13.

Domestic market is expected to continue to perform a robust growth of 20-22% from FY11 to FY13.

At CMP of Rs 324, the stock is trading at PE 5.7x & 4.5x of FY12E & FY13E earnings estimates, which is almost ~40% discount to its peers. We recommend BUY rating on the stock with target price of Rs 454.

PE Band:



	Sales	EBITDA	EBITDA %	PAT	EPS	ROE %	P/E	EV/EBITDA	P/BV	Div Yield %
FY10	4,077	771	18.9	340.1	29.0	21.0	11.2	7.7	2.1	1.3
FY11	5,049	963	19.1	507.1	43.3	24.7	7.5	5.8	1.7	1.8
FY12e	6,075	1,203	19.8	664.5	56.8	26.4	5.7	4.6	1.3	2.1
FY13e	7,364	1,510	20.5	838.9	71.7	26.5	4.5	4.1	1.1	2.9

Source: Company Filings; IndiaNivesh Research

Review of 2010 Diwali Picks

Company	Last Diwali (3/11/2010)				Fresh View			
	CMP	Target	Reco	Achived	CMP	Target	Reco	Commentary
Wipro	Rs. 434	Rs. 708	BUY	NO	Rs. 361	Rs. 502	BUY	Increasing concern in Europe and US, hence reduce target price but maintain BUY.
Canara Bank	Rs. 750	Rs. 929	BUY	NO	Rs. 451	UR	HOLD	Higher than anticipated contraction in NIMs, Deteriorating asset quality with increasing slippages. Most of the negative priced in. Our target price is under review (waiting for Q2FY12 results).
Greaves Cotton*	Rs. 470	Rs. 695	BUY	YES	-	-	-	---
J.B.Chemicals**	Rs. 131	Rs. 240	BUY	YES	-	-	-	---

Note: *Greaves Cotton; Split from face value of Rs.10 to Rs.2 (November 24, 2010). **J.B. Chemicals sold its Russian OTC Business (~Rs.115/share).
UR - Under review

RESEARCH TEAM

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Daljeet S. Kohli
Head of Research
Mobile: +91 77383 93371, 99205 94087
Tel: +91 22 66188826
daljeet.kohli@indianivesh.in

Dharmeshh Kant
AVP - Strategies & Fund Manager (PMS)
Mobile: +91 77383 93372
Tel: +91 22 66188890
dharmeshh.kant@indianivesh.in

Amar Mourya
Research Analyst
Tel: +91 22 66188836
amar.mourya@indianivesh.in

Y. Santosh
Research Analyst
Mobile: +91 77383 93416
Tel: +91 22 66188840
s.yellapu@indianivesh.in

Abhishek Jain
Research Analyst
Mobile: +91 77383 93433
Tel: +91 22 66188832
abhishek.jain@indianivesh.in

Shivani Kadam
Research Analyst
Mobile: +91 77383 93346
Tel: +91 22 66188841
shivani.kadam@indianivesh.in

Yogesh Hotwani
Research Analyst
Mobile: +91 77383 93411
Tel: +91 22 66188831
yogesh.hotwani@indianivesh.in

Bhagwan Singh Chaudhary
Research Associate
Mobile: +91 77383 93427
Tel: +91 22 66188835
bhagwan.chaudhary@indianivesh.in

Sumanth Muvvala
Associate Analyst
Mobile: +91 77383 93414
Tel: +91 22 66188839
sumanth.muvvala@indianivesh.in

Wish You All Happy Diwali & Prosperous New Year

Thank You

IndiaNivesh Securities Private Limited
601 & 602, Sukh Sagar, N. S. Patkar Marg,
Girgaum Chowpatty, Mumbai 400 007.
Tel: (022) 66188800 / Fax: (022) 66188899

e-mail: research@indianivesh.in | Website: www.indianivesh.in