Motilal Oswal

7th Annual Global Investor Conference

August 22 - 26, 2011

Post Conference Report

featuring

CEO Track

☑ 13 CEO presentations

☑ 4 Thematic presentations

and

Company Connect

☑ Takeaways from company interactions

Index

CEO Track

Thematic Presentations

Company Connect: Conference Takeaways

Other Participating Companies: ARCIL, Au Financiers, Carborundum Universal, Container Corporation of India, Cox & Kings, GMR Infra, ICRA, Mrs Bector Foods, Oberoi Realty, Parag Milk, Pipavav Defence & Offshore, Sintex Industries.

Conference Highlights

THE INDIAN ECONOMY has been facing several headwinds in the form of high oil prices, unrelenting inflation, rising interest rates, earnings downgrade cycles and governance issues. These factors have led to a significant fall in Indian equities, putting the Indian stock market among the worst performing markets in CY11. This has had an impact on FII inflows, which have been marginally negative in YTD CY11 after inflows of over USD20b in each of the preceding two years. All this has led to valuations turning attractive, pushing them below their long-term averages. The prospects of a higher share of domestic savings in equities will be a key positive as India achieves the Second Trillion Dollar GDP in FY12. It was against this backdrop that we hosted the 7th Motilal Oswal Annual Global Investor Conference, 22-24 August 2011, at the Grand Hyatt in Mumbai.

The **Motilal Oswal Annual Global Investor Conferences** in 2009 and 2010 were arguably the biggest in India. In 2011 we maintained this trend of hosting the largest India conference of the year. During 22-24 August, over 100 leading Indian companies interacted with more than 500 investors from all over the world, translating into 2,500+ company-investor meetings. Over the remaining two days (25-26 August) we had very successful visits to Gujarat, Delhi and Bihar, where a large group of investors interacted with the Chief Minister of Gujarat, the Deputy Chief Minister of Bihar and several state and central government officials.

- **CEO Track:** During the first two days of the conference 13 CEOs of India's leading companies shared their vision, strategies and success stories.
- **Four thematic presentations:** There were four thematic presentations by eminent personalities on a diverse range of themes:
  1. **Dr K C Chakrabarty**, Deputy Governor, RBI had an interactive session with investors on "Several Macroeconomic Issues".
  2. **General VP Malik (Retd)**, Chief of the Indian Army during the Kargil War discussed his views on "National Security Challenges".
  3. **Mr Prakash Jha**, reputed film-maker and six times National Award winner, provided "India Insights" (key social issues) through his lens.
  4. **Prof Arun Kumar**, of JNU, and author of the book, "Black Economy", shared his knowledge on "India's Hidden GDP".
- **Two luncheon panel discussions:** On each of the first two days there was a panel discussion over lunch. On Day 1, the topic was "**Indian Entrepreneurship: Exponential Growth Engine**", and on Day 2 it was "**Indian Financial Services: Diversity & Opportunities**". The panelists were leading CEOs across sectors.

Re-shaping India! As India slowly, silently and dramatically awakes to the challenges of governance and inclusive growth, the three Cs (central government, corporates and civil society) will manage 3G (global headwinds, governance and growth). We hope the conference lived up to its theme, leaving investors with interesting insights, winning themes, greater conviction and the best investment ideas.

We will host the 8th Motilal Oswal Annual Global Investor Conference in August 2012. We look forward to your participation in that event.

Navin Agarwal	**Rajat Rajgarhia**
CEO - Institutional Equities	Director - Research

CEO Track

Company/Thematic presentations

Company/CEO	
Infosys	**Mr S Gopalakrishnan**, Executive Co-Chairman
Titan Industries	**Mr Bhaskar Bhat**, Managing Director
NTPC	**Mr Arup Roy Choudhary**, Chairman & Managing Director
Bajaj Auto	**Mr Rajiv Bajaj**, Managing Director
Tata Motors	**Mr P M Telang**, Managing Director
ONGC	**Mr A K Hazarika**, Chairman & Managing Director
ICICI Bank	**Ms Chanda Kochhar**, MD & CEO
Bharti Airtel	**Mr Akhil Gupta**, Director; Deputy Group CEO & MD, Bharti Enterprises
HDFC	**Mr Keki Mistry**, Vice Chairman & CEO
ACC	**Mr Kuldip Kaura**, CEO & Managing Director
Idea Cellular	**Mr Himanshu Kapania**, Managing Director
Zee Entertainment	**Mr Punit Goenka**, MD & CEO
Hindustan Unilever	**Mr Nitin Paranjpe**, MD & CEO

Thematic presentations

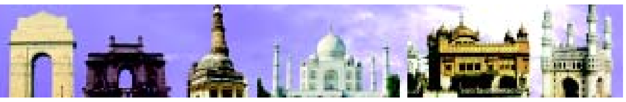
Black Money: The Trail of India's Hidden GDP
Prof Arun Kumar, Author "India's Black Economy"
and Professor at Jawaharlal Nehru University

India Insights: Through the lens of a film-maker
Mr Prakash Jha, Multiple National Award Winning Film-maker

India's Troubled Neighborhood: How Much to Worry
General Ved Prakash Malik (Retd), Chief of Indian army during Kargil war

Macro-economic Challenges: The RBI Perspective
Dr K C Chakrabarty, RBI Deputy Governor

Infosys



Infosys

Mr S Gopalakrishnan
Executive Co-Chairman
Infosys

Mr S Gopalakrishnan is the Executive Co-Chairman of Infosys. Before assuming his current office in July 2007, he served as Infosys' Chief Operating Officer, President and Joint Managing Director, responsible for customer services, technology, investments and acquisitions.

One of the founders of the company, Mr Gopalakrishnan served as Director (Technical) and his initial responsibilities included the management of design, development, implementation, and support of information systems for clients in the consumer products industry in the US.

Mr Gopalakrishnan has represented Infosys and India in international forums such as: The Indo-US CEO Council, President's Council of New York Academy of Sciences, and Member of UNESCO High Level Panel on Women's Empowerment and Gender Equity. He is Chairman of The Business Action for Sustainable Development 2012 (BASD), a coalition of international business groups committed to sustainable development. In January 2011, the Government of India awarded Mr Gopalakrishnan the Padma Bhushan, India's third highest civilian honor.

Key Takeaways

Core essence: Any impact of global headwinds on the industry will only persist in the short run; growth rates are likely to sustain over the medium to long term.

Industry insights

- Compared to 2008, businesses are better prepared now to respond to any global meltdown. Companies had already braced themselves for a slow, gradual recovery rather than a quick turnaround. Macro-led impact on business will be short-lived. The long-term picture is positive, given new areas of opportunity.
- The industry will continue to witness double-digit growth over the medium to long term, given multiple levers around new markets and new solutions.

Company vision and strategy

- **Focus to return to clients after restructuring:** Infosys is prepared to cater to the next wave of growth in the industry. With the restructuring process behind, focus will be fully channelized to the clients.
- **To be more relevant to clients:** The company will look to be more relevant to clients in trying to help them build tomorrow's enterprises by focusing on themes around which the clients will seek growth: [1] emerging markets, [2] sustainability, [3] mobility, [4] healthcare, and [5] social networking.
- **Focus on Consulting and Non-linear growth:** Infosys intends to continue focusing on the Consulting/SI segment (~30% of revenue) and growth in the Non-linear segment will be a thrust area. Revenue from platform-based/Cloud streams may be small to start with, but afford greater visibility over the long run. The company currently derives ~8.5% of its revenue from the Non-linear segment.
- **Productivity improvement to be the focus in Operations segment:** The global delivery model offers little scope for differentiation. Business IT Services (ADM, BPO, IMS; ~61% of revenue), will struggle to see higher growth in rates. Here, Infosys will try to leverage technology to increase revenue productivity.

Key triggers/milestones/challenges

- ~25% of Infosys' clients and ~50% of its top-50 accounts engage with the company in Consulting/SI services. Infosys' SI component involves very little pass-throughs, differentiating it from competition and helping it to achieve superior revenue quality.
- As employee costs continue to grow by 8-12% every year, Infosys will need to de-link its revenue growth from employee growth, by focusing on non-linear revenues.
- The company continues to expand its global delivery network by penetrating into countries like China, Germany, France, Mexico, Brazil and Costa Rica.
- While Infosys will be hiring more employees onsite, lower utilization at onsite could impact its margins. It will seek to achieve this by increasing the Consulting/SI engagements onsite, where utilization is typically lower.

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Titan Industries

TITAN

Mr Bhaskar Bhat
Managing Director
Titan Industries

Mr Bhaskar Bhat is the Managing Director of Titan Industries. He has been associated with the Tata Watch Project, which later became Titan Watches Limited, and is now Titan Industries Limited, since 1983.

He is a BTech (Mechanical Engineering) from IIT Madras (1976) and completed his Post Graduate Diploma in Management from IIM Ahmedabad (1978). Most of his working experience has been in sales & marketing. He started work as a Management Trainee at Godrej & Boyce in 1978. After spending five years there, he joined the Tata Watch Project, which was initiated at Tata Press Limited. He has handled sales & marketing, HR, international business and general managerial assignments at Titan, and became Managing Director in April 2002.

Mr Bhat is a member of the Governing Council at the TA Pai Management Institute, Manipal and the SDM Institute of Management and Development, Mysore. He was appointed Chairperson of the Board of Governors at the National Institute of Technology established in Uttarakhand. He is also Director at Virgin Mobile India Limited, a joint venture of Tata Teleservices and the Virgin Group, UK.

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Key Takeaways

Core essence: Titan Industries is best placed to capture the growing demand in the Indian lifestyle consumption space, led by rising income levels and demographic dividend.

Industry insights

- There are nearly 25 luxury watch brands in India, but only a few brands in the mid segment are highly profitable.
- India does not have any large established jewelry brands as against quite a few in China. This increases the attractiveness of the Indian market.
- The Eyewear business offers huge opportunity to change in a large and under-serviced market.
- In Jewelry, Titan has ~5% market share, led by migration from small and local players; 60% of its customers are repeat customers.

Company vision and strategy

- Sales likely to touch INR140b by FY15; Jewelry sales likely to be INR100b.
- Helios is likely to be a key growth driver in Watches; being the only format by any brand owner globally, selling watches of other brands. Titan plans to have 100 stores in two years and lead the development of the premium and luxury watch market in India.
- Titan plans to play across the value chain, from manufacturing to branding to retailing, so as to capture the value at every end.
- Titan has 177 Eyewear stores and plans to increase these to 300 in another two years. Its long-term plan is to take the number of its stores to levels similar to US eyewear retailers that have even 1,500 stores.
- The company does not have any plans to sell watches in developed markets due to low growth and profitability.

Key triggers/milestones/challenges

- Titan is cautious on near-term demand due to rising interest rates - while demand growth in Jewelry is intact, demand for watches might suffer. Overall growth rates in 2Q are lower, post unprecedented high growth in 1QFY12.
- The company is positive on demand in the premium end, as LTL sales growth of watches in departmental stores has increased by 26%.
- The company plans to end the current year with sales exceeding INR1b for Precision Engineering, with positive bottomline contribution.

NTPC

Mr Arup Roy Choudhury
Chairman & Managing Director
NTPC

CEO Track

Mr Arup Roy Choudhury is Chairman and Managing Director of NTPC. Since he assumed this office on 1 September 2010, he has taken several steps to make NTPC a world-class organization. Mr Roy Choudhury has worked in prominent public and private sector companies since 1979. He became the youngest CEO of a Central Public Sector Enterprise (CPSE) at the age of 44 years when he joined National Buildings Construction Corporation Limited on 3 April 2001 as Chairman and Managing Director. He is a graduate in Civil Engineering from Birla Institute of Technology, Mesra and a Post Graduate in Management and Systems from IIT Delhi.

Mr Roy Choudhury is Chairman, for the second consecutive term, commencing April 2011, of the Standing Conference of Public Enterprises, the apex forum of the Central Public Sector Enterprises in India and a permanent invitee on the Board of Reconstruction of Public Sector Enterprises, a forum engaged in turning around underperforming CPSEs.

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Key Takeaways

Core essence: Converting challenges into opportunities; capacity addition of 93GW over the next 20 years v/s 35GW in the past 35 years.

Industry insights

- Energy demand in India has grown at a CAGR of 5.5%, vs average GDP growth of 7% over FY03-11. Over FY11-17E, demand grow expected at 7.5%.
- The Transmission and Distribution (T&D) sector needs high focus, given ~28.5% of AT&C losses, limited open access, and high SEB losses.
- India produced 490mtpa of coal, with proved reserves of 106b tons v/s 2761mtpa production by China, with proved reserves of 110b tons.
- Financing of new projects, equipment supplies (lead time) and statutory clearances are key execution bottlenecks

Company vision and strategy

- **93GW addition over next 20 years, 30GW in next 5 years:** NTPC plans to attain capacity of 128GW by 2032, an addition of 93GW over the next 20 years v/s 35GW in the past 35 years. Target to reach 67GW of installed capacity by FY17 (30GW in 5 years). 40GW of projects are under various stages of execution.
- **Multi-pronged approach to overcome challenges:** Key initiatives taken include: (a) bulk tendering, (b) delegation of power to enable quick decision, (c) project monitoring cell at corporate office, (d) limited notice to proceed to project construction adopted, and (e) land acquisition cell established at the corporate center.
- **Insulating fuel risk:** FY12 coal requirement of 164m tons will be met from domestic linkages (135m tons), bilateral contracts (5m tons) and imports (23m tons), indicating blending of 14%. Long-term coal supply is being augmented by (a) pursuing linkages for new projects, (b) developing captive coal mines - target to produce 47mtpa by FY17, and (c) acquisition of coal blocks overseas /LT imports.

Key triggers/milestones/challenges

- **Bulk tendering:** Plans to conclude ordering by end FY12 would help improve visibility on 12th Plan period capacity addition.
- **Captive coal block:** NTPC is pursuing restoration of de-allocated coal blocks with the help of Ministry of Power and continuing development on blocks. Plans to produce 2.3m tons of coal from Pakri Barwadih mines in FY13.
- **Payment security high:** NTPC has been receiving 100% of dues from the customer for eight successive years, as it is covered under tri-partite agreement till 2016.
- **Capacity to drive efficiency/profitability:** Man/MW ratio has gone down from 0.89x in FY07 to 0.77x in FY11, while PAT/employee has improved from INR29m in FY07 to INR38m in FY11. Man/MW ratio would further decline to 0.5x.

Bajaj Auto

BAJAJ

Mr Rajiv Bajaj
Managing Director
Bajaj Auto

Mr Rajiv Bajaj, Managing Director of Bajaj Auto, graduated first in class, with distinction, in Mechanical Engineering from the University of Pune in 1988, and then completed his masters in Manufacturing Systems Engineering, with distinction, from the University of Warwick in 1990.

He has since worked at Bajaj Auto in the areas of manufacturing and supply chain (1990-95), R&D and engineering (1995-2000), marketing and sales (2000-05) and has been its Managing Director since April 2005.

His current priority is the application of the scientific principles of homoeopathy to the task of building a brand centered strategy at Bajaj Auto with the objective of achieving its vision of being one of the world's leading motorcycle manufacturers.

Mr Bajaj has been on the Board of Bajaj Auto since March 2002. He is also on the Boards of Bajaj Auto Finance and Bajaj Auto Holdings.

Key Takeaways

Core essence: Create a market position, rather than chase a slice of the existing market. Lead with the right brand and the brand will lead you.

Industry insights

Focus on 4P's: The motorcycle industry can be understood on 4Ps - Position, Product, Performance and Price. Product differentiation can be limited, performance is a given, and market drives pricing. Thus, only controlable factor is positioning of the product.

On new competition: Difficult to comment till Honda's product launch plans are known. However, as media reports suggest, its probability of success would be limited if their low cost 100cc bike targets existing products. Honda's past launches of 4-5 motorcycles were not successful (except Honda Shine), as targeted towards existing segment.

Company vision and strategy

Continued focus on segment creation in domestic market: It continues to focus on creating new segments in the domestic market, based on the principle that curiosity excites and not familiarity. Its to-be-launched Boxer 150cc is aimed at creating a new segment in rural markets, with high performance but plain looks and a very competitive price of ~INR42,000 as very few parts are different from its existing product.

Adaptation and specialization: It believes in adaptation. It has adapted to an evolving market, where it lost its dominance in scooters, by specializing in motorcycles and sacrificing its plant and retrenching people. It spent ~INR10b to close the plant and offer VRS. Its specialization in motorcycles has enabled it to align its back-end and front-end to leverage its product platform, driving smart recovery in performance.

Region-specific export strategy: It started with exports to neighboring markets that were similar to India, like the ASEAN market and then explored similar markets like Indonesia, which were more competitive. In Indonesia, it tied up with Kawasaki to leverage its distribution network to sell Pulsar and Discover. For the African market, where it faces Chinese competition, it is engaging an offense strategy of creating brands and selling at premium, which has enabled it to become the market leader. To penetrate more evolved market like Brazil, it plans to use KTM's brand and network.

Key triggers/milestones/challenges

Four-wheeler launch in FY13; not focused on cars: Its four-wheeler project, which started as an ultra-low cost car in partnership with Renault-Nissan, has evolved from the skill sets and cost structure of a two/three-wheeler maker. While it did not disclose its strategy for four-wheelers, it plans to to evolve its three-wheelers to four-wheelers.

Leveraging KTM investment: It plans to align KTM's frontend and Bajaj's backend to penetrate Brazil & other developed markets. It has initiated production of KTM 125cc in India and plans to export ~12,000 units in FY12.

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Tata Motors

Mr Prakash Telang
Managing Director
Tata Motors

Mr Prakash Telang is Managing Director of Tata Motors' India operations. He was Executive Director (Commercial Vehicles) since May 2007, and he assumed his current role on 2 June 2009.

He joined the Tatas through the prestigious TAS (Tata Administrative Service) cadre, after spending the first three years of his career with Larsen & Toubro. Ever since, he has been with the group. He is responsible for product development, manufacturing, sales and marketing of the strategic business unit of light and small commercial vehicles.

Mr Telang holds a Bachelor's in Mechanical Engineering and is an MBA from IIM, Ahmedabad. He has over three decades of functional expertise in the automobile industry and machinery manufacturing.

Key Takeaways

Core essence: For the CV industry, CY10 marks an inflection point, with markets poised for recovery after recession. The Indian passenger car industry is likely to witness strong growth over the next 10 years.

Industry insights

- The growth drivers supporting automobile demand, namely (a) increasing urbanization, (b) growing working population, (c) growth in GDP and rise in disposable incomes, (d) improvement in road infrastructure, remain in place and should sustain.
- For the CV industry, even if economic conditions worsen, an FY09-10-like volume decline is unlikely. This is because unlike FY09-10, availability of finance is good despite increase in interest rates, which is critical for CV demand.
- Improvement in road infrastructure and establishment of hub-and-spoke model would ensure strong demand for M&HCVs and LCVs.

Commercial vehicles

- The CV industry in India is likely to continue its strong growth in the high volume segments, with a CAGR of 11% over FY10-15.
- There would be a shift towards higher tonnage tractors and multi-axle trucks; tippers would continue to contribute significantly towards total sales.
- The small CV industry should see volume CAGR of 8% over FY11-15 to 0.29m units, with the contribution of micro-trucks increasing from 17% in FY11 to 40% in FY15.

Passenger cars

- The Indian passenger car market is likely to grow faster than the top-5 global markets, at a CAGR of 12-15% to 7m-9m units.
- Hatchbacks will continue to dominate the market in 2020. Volumes in this segment are likely to grow, driven by increased offerings by international OEMs complemented by a growing middle-class population.
- SUV sales are likely to increase from 0.2m units in FY10 to 0.57m-0.62m units by FY21 and MPV sales from 0.17m to 0.8m-0.9m units, driven by the mid-end segments for UVs and MPVs.Entry UVs currently cater to rural customers; however, there is growing demand for smaller trendy SUVs for the urban youth.
- While the entry-level MPVs are the biggest segment (expected to reach ~0.4m units by FY21), the mid-price MPVs are likely to grow faster due to higher urban demand.
- The rural market is likely to grow at a CAGR of 16% primarily due to increase in the number of households and 2.5x growth in consumption levels. While tier 2-3 cities are would grow at 12% CAGR, the metros and tier-I cities would grow at 11% CAGR over FY10-21.

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ONGC

Mr Ajit Kumar Hazarika
Chairman & Managing Director
ONGC

CEO Track

Mr Ajit Kumar Hazarika, Chairman and Managing Director of Oil and Natural Gas Corporation (ONGC), has over three-and-a-half decades' experience in the upstream oil and gas business. A Mechanical Engineer, he joined ONGC in 1976 and joined the ONGC Board as Director (Onshore) in September 2004. He assumed his current office on 1 February 2011 in addition to the responsibilities of Director (Onshore).

He is also Chairman of ONGC Videsh Limited (OVL), Mangalore Refinery & Petrochemicals Limited (MRPL) and six other ONGC Group companies (OPaL, OMPL, MSEZ, OTPC, OMEL and OTBL).

Mr Hazarika, Chairman of Petrotech Society, is also a member of the Governing Council of Petrofed. He is Chairman of the Working Group for UCG (Underground Coal Gasification) constituted by the office of Principal Scientific Advisor, Government of India and Indian representative of the Oil & Gas Sub-committee of International M2M (Methane to Market) partnership under the United States Environment Protection Agency, nominated by the Ministry of Petroleum & Natural Gas.

Key Takeaways

Core essence

- Positive on government policy changes, which will be favorable to the sector and the company, primarily due to increased awareness of negative impact of ad-hoc subsidy burden.
- Expects the government to limit upstream subsidy sharing at 33%.
- Current global economic uncertainty could weaken oil price, which would be good from the under-recovery perspective.

Industry insights

- Global oil demand growth of 2.4% in 2010 was the second highest in the last 30 years, primarily led by emerging markets.
- Domestic oil production increase in FY11 limited the increase in oil imports. Nevertheless, import dependency remains high at ~77%.

Company vision and strategy

- Increasing E&P expenditure in its large domestic acreage.
- Continued IOR/EOR activities to sustain current production. ONGC has a commendable record of maintaining production as against 9% decline witnessed in mature non-OPEC fields.
- Looking at increase in oil and gas production through marginal field development, which will become economically feasible at higher oil and gas prices.

Key triggers/milestones/challenges

- Likely subsidy rationalization by government.
- Expect one-time gain post resolution of royalty issue with Cairn India.
- APM gas price hike in the medium to long term.

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ICICI Bank

ICICI Bank

Ms Chanda Kochhar
Managing Director & CEO
ICICI Bank

CEO Track

Ms Chanda Kochhar is the Managing Director and CEO of ICICI Bank. She began her career with ICICI as a Management Trainee in 1984 and has risen through the ranks, handling multidimensional assignments and heading all the major functions in the bank.

She is widely recognized for her role in shaping India's retail banking sector and for her leadership of the ICICI Group. She took on the challenge of building the nascent retail business, with strong focus on technology, innovation, process reengineering and expansion of distribution and scale.

Ms Kochhar led ICICI Bank's corporate and international banking businesses during a period of heightened activity and global expansion by Indian companies. She was the Joint Managing Director & Chief Financial Officer during a critical period of rapid change in the global financial landscape.

Ms Kochhar is a member of the Prime Minister's Council on Trade & Industry, US-India CEO Forum and UK-India CEO Forum. She was conferred with the Padma Bhushan in 2011.

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Key Takeaways

Core essence

- To accelerate growth, with focus on 5Cs (Credit growth, CASA ratio, Cost efficiency, Credit quality and Customer centricity).
- To enhance RoA from current level of 1.4% on the back of improved liability structure and leverage capital better by resuming growth; standalone RoE to increase to 14-15% in FY13.
- Targets 14-15% consolidated RoE in FY12.

Industry insights

- Inflationary pressures still persist in the economy, with manufacturing inflation also moving up. ICICI Bank expects inflation to decline from October on the back of a favorable base. Interest rates are near the peak and the bank expects some stability now.
- New sanctions have come down due to various macroeconomic factors. However, the current level of sanctions will drive growth at least for the next 12-18 months.
- Asset quality remains largely stable and no significant stress is seen so far. Retail asset quality remains strong and large corporate loans are doing well, though there might have been some segment-specific issues in SME loans. Corporates have a much larger scale of operations as compared to the 1990s and are better positioned to take higher interest rates. Project-specific modalities will have to be looked at to judge infrastructure asset quality and it may not be correct to take a generalized view.
- Focus on efficiency, superior customer service and quality growth will remain the keys to success. Large private sector banks will continue to have an advantage.
- If the savings rate is deregulated, the management expects other charges also to be deregulated, which will keep profitability intact.

Company vision and strategy

- **Focused 5Cs strategy and quality growth:** ICICI Bank will continue to focus on its 5Cs strategy and quality growth. The management mentioned that at current RoA of 1.4%, there is some room for improvement from margins, opex and lower provisions.
- **Credit growth:** Balance sheet growth is likely to be ~18%, with equal contribution from domestic and overseas business. Within the domestic business, corporate loans (project finance, working capital financing) and secured retail loans (auto and home loans) remain areas of focus. High domestic interest rates are leading to higher arbitrage on the international front, which is fuelling international loan growth.

ICICI Bank (continued)

- **Cost efficiency:** Operating expenses are likely to grow 20% due to (a) increase in headcount from 43,000 to 60,000 employees, (b) wage increase of 11% in FY11, (c) increase in branch network to 2,500+ (up 25%+). Overall, ICICI Bank expects to maintain cost to average assets at 1.7% and cost to income ratio at 40-42% on long-term basis.
- **CASA:** Focus remains on retail liability driven growth strategy. CASA deposits are likely to grow in line with overall growth. The bank expects to maintain CASA ratio at 40% for the long term.
- **Credit quality:** Credit quality is gradually improving, with net accretion to NPAs coming down and the management does not expect any issues in the near future. About 60% of its power exposure is to entities with own coal mines and the rest 40% is to entities that have coal linkages in place. Restructured loans declined to INR19.7b from INR37.4b YoY. The management continues to guide credit cost of 80bp for FY12 and expects to maintain this over the long term.
- **Customer centricity:** Focusing on enhancing customer service capability and leveraging on branch network to acquire new customers.

Focused on de-risking the portfolio

- ICICI Bank, UK has scaled down investments in bonds/notes of financial institutions from USD2.1b as of 1QFY10 to USD640m as of 1QFY12. It does not have any exposure to peripheral European countries.
- Credit derivative exposure (including off balance sheet) has been scaled down to INR21.3b from INR54.1b. In case of derivative exposure, the underlying comprises of Indian corporates.

Domestic subsidiaries impacted by regulatory changes: Regulatory headwinds coupled with tough market conditions impacted Insurance, Asset Management and Securities businesses. ICICI Bank remains committed to building the franchise in various businesses to capitalize its long-term growth potential. Consolidation of operations remains a mantra for overseas subsidiaries in view of changing regulations.

Other highlights

- Overseas margins are likely to improve from 90bp as of 1QFY12 to 125bp by the end of the year, led by re-pricing on the liability side. The management expects domestic margins to remain at current levels. However, there remains an upward bias in FY13, led by fall in securitization losses. For FY12, it expects NIM of 2.6%.
- Fee income growth is likely to remain in line with asset growth, with focus on transaction banking, forex/derivatives and remittance fees. However, growth in corporate fees would depend on movement in new project announcements and financial closures.

Key triggers/ milestones/challenges

- Managing quality growth is a key challenge in the current uncertain macroeconomic scenario.
- There would be no immediate unlocking of value from Insurance business, considering change in regulatory environment. Further, as the Insurance business is profitable, it does not need fresh capital.

Bharti Enterprises

bharti airtel

Mr Akhil Gupta,
Dy Group CEO & Managing Director
Bharti Enterprises

CEO Track

Mr Akhil Gupta is Deputy Group CEO and Managing Director of Bharti Enterprises and a Director at Bharti Airtel. He spearheaded the group's transformational initiatives including outsourcing deals in the areas of information technology (IT) with IBM, network management with Ericsson and Nokia and outsourcing of call center management to leading international BPOs. He conceptualized and implemented the separation of passive mobile infrastructure and formed Indus Towers, a JV with Vodafone and Idea, the largest tower company in the world.

In June 2010, Mr Gupta was instrumental in executing the acquisition of the Zain Group's mobile operations in 15 countries in Africa for an enterprise valuation of USD10.7b, the second largest outbound deal by an Indian company. For this, he was awarded the Asia Corporate Dealmaker Award at the Asia-Pacific M&A Atlas Awards in September 2010.

He led the formation of partnerships for Bharti with leading international operators like British Telecom, Singapore Telecom and most recently Vodafone, besides the induction of financial investors like Warburg Pincus, Asia Infrastructure Fund and New York Life.

Key Takeaways

Core essence: The Indian telecom sector is at a turning point, with increasing rationality in competition, sustainable voice growth (led by the rural market), large data opportunity, and peak investments already behind. The best in the Africa business is yet to come.

Industry insights

- Increasing rationality in competitive activity as underscored by recent pricing actions, focus on paying customers as well as sales and distribution cost management.
- Real wireless subscribers in India are estimated at ~600m, with actual rural penetration at just 20-22%.
- Non-voice revenue at 13.5% for the industry has significant room for improvement. However, the industry will need to work hard to achieve the full potential of data opportunity.
- Africa market penetration in Bharti's footprint is relatively low at ~30%.
- Telecom operators are keenly looking at the New Telecom Policy 2011 (NTP 2011). Bharti expects the policy to (1) be comprehensive, (2) provide exit opportunities to unviable operators, and (3) provide a level-playing field.

Company vision and strategy

- Bharti is best positioned to capture rural and data opportunities.
- The company has demonstrated its leadership in the market, with initiatives like passive infrastructure sharing and recent tariff corrections.
- Relentless focus on efficiency improvement, as underscored by the recent organization restructuring.
- Focus on continued execution in the Africa business. The business delivery model has been aligned similar to India. Bharti would be looking to expand the Africa footprint in the long-term.

Key triggers/milestones/challenges

- NTP 2011 would be a key event to watch for.
- Bharti aims to bring down its net debt/EBITDA ratio to 2x over the next one year v/s 2.6x currently.

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HDFC

Mr Keki Mistry
Vice Chairman & CEO
HDFC

Mr Keki M Mistry is Vice Chairman and CEO of Housing Development and Finance Corporation (HDFC).

Mr Mistry began his career with Indian Hotels Company Limited, and joined HDFC in 1981. He was inducted on to the board of directors of HDFC as Executive Director in 1993 and elevated to Managing Director from November 2000. In October 2007, Mr Mistry was appointed Vice Chairman & Managing Director of HDFC and became Vice Chairman & CEO in January 2010.

Mr Mistry obtained a bachelors degree in Commerce from Bombay University. A qualified Chartered Accountant and Fellow Member of the Institute of Chartered Accountants of India, Mr Mistry is also a member of the Michigan Association of Certified Public Accountants, USA.

Mr Mistry is a director on the boards of several Indian companies.

Key Takeaways

Core essence: The housing finance business is likely to grow at a CAGR of 20-25% over the next 10 years; RoE would improve by at least 100bp every year. Subsidiaries will contribute significantly to growth now.

Industry insights

- Inflation remains high. RBI is likely to increase rates by at least 25bp. Growth continues to be strong in rural areas and metros (except Mumbai).
- HDFC remains optimistic about demand for housing finance. India's mortgage to GDP ratio is 9% as against 80%+ in other developed countries like UK and USA.
- The key growth drivers are: (1) higher affordability due to increase in disposable income - the average house value has declined from 22x annual income in 1995 to 4.8x in 2011, (2) rising urbanization - to increase from ~31% in 2011 to 40% by 2030, and (3) favorable demographics - average age of home buyers is 35 years, and currently, ~60% of India's population is below the age of 30 years.
- Government statistics place current housing shortage in India at 25m units (14m units in rural and 10.6m in urban areas).

Company vision and strategy

- HDFC maintains standard of income based lending, thereby cancelling out exposure to volatility in real estate prices.
- On AUM basis, company will keep individual loans to corporate loans ratio at 70:30. Owned branches and affiliates will continue to be a dominant source for loan growth (currently contributing 92%).
- HDFC will continue to maintain flexibility on the borrowing side. In a rising interest rate and tight liquidity scenario, retail deposits remain a key funding source. Flexibility in funding sources helps HDFC to maintain spreads in a band of 2.15-2.35%.
- HDFC plans to improve RoE by ~100bp every year.

Key triggers/milestones/challenges

- Improving profitability from asset management and insurance businesses will be key to long-term profitability.
- Listing of insurance arm is an important trigger to unlock value, though this is unlikely in the near term.
- Margins will sustain in the traditional range of 2.15-2.25%.
- While standalone earnings will continue to grow at around 20%, consolidated earnings growth will be even higher.

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ACC

Mr Kuldip K Kaura,
CEO & Managing Director
ACC

CEO Track

Mr Kuldip K Kaura is CEO and Managing Director of ACC.

He has rich experience and a deep appreciation of the national and international business environment. He has had the benefit of management education from reputed institutions like London Business School and Swedish Institute of Management. He did his BE (Honors) in Mechanical Engineering from Birla Institute of Technology & Science, Pilani in 1968.

Mr Kaura worked with Vedanta Resources Plc for seven years, initially as the Managing Director of Hindustan Zinc and thereafter as Chief Executive Officer of Vedanta Resources until 2008 and played a significant role in the transformation and rapid growth of its group companies. Prior to this, he had an 18-year stint with ABB India, an engineering company. During this period, he grew through various key positions and was Managing Director from 1998 to 2001.

He has served as Member of National Council of the Confederation of Indian Industries and is an office bearer of other such professional bodies.

Key Takeaways

Core essence: Long-term growth drivers intact to drive 9-10% volume CAGR, as ~70% of cement demand is driven by individual demand for real estate development.

Industry insights

- Long-term cement demand is likely to grow at a CAGR of 9-10% despite short-term aberrations, as key demand drivers are intact. Infrastructure activity should pick up, resulting in 15% CAGR in cement consumption by the infrastructure segment.
- While current demand is ~230mt, current capacity is ~300mt. ACC is not overtly concerned about excess capacities, as the industry would require ~25mt incremental production to meet demand growth. Against demand CAGR of ~9%, it expects capacity CAGR of ~7% over CY09-15.
- No significant increase in RMC share (~7% penetration currently) is likely over the next 5-10 years, but the share of bulk cement sales is likely to increase vis-à-vis bagged cement sales.
- ACC expects cost pressure to persist, impacted by decline in linkage coal and volatile domestic coal prices. However, cement price increases should cover cost inflation, as the industry would need to earn reasonable EBITDA/ton to support new capacities.

Company vision and strategy

- **Gathering limestone mines for future capacity addition:** ACC has been acquiring limestone mines on continuous basis for greenfield capacity addition. It has ~5mt of capacity addition at drawing board stage, which it is likely to finalize over the next six months.
- **Securing energy security:** ACC has four coal blocks in JVs, with two blocks where it has complete operational control. These two coal blocks have reserves of ~200mt. It expects supply from one of these coal blocks to start from 2HCY12. While it may not result in savings, as it would be paying 'facilitation fee' of INR2,600/ton (for B & C grade coal), it would ensure stable quality and quantity of coal supply. Overall, it plans to have 20-25% of coal requirement from captive coal blocks.
- **Increased usage of alternate fuels:** ACC continues to focus on usage of alternate fuels to dilute of impact of energy cost inflation. In CY10, it saved INR470m from usage of alternate fuels. It expects savings to increase from USD1/ton of coal usage to USD3/ton over the medium term.

Key triggers/milestones/challenges

- **Logistics:** Logistics issues could constrain demand growth, as moving material to the market and meeting demand would be a challenge. ACC is relatively better placed due to better rail-road mix of 55:45.

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Idea Cellular

Mr Himanshu Kapania
Managing Director
Idea Cellular

Mr Himanshu Kapania is Managing Director of Idea Cellular. Before he took up this office on 1 April 2011, he was Deputy Managing Director.

He joined Idea in September 2006, with over 21 years' industry experience. He has served the company as Chief Operating Officer, Corporate and Director of Operations.

Mr Kapania has worked with Reliance Infocomm as Chief Executive Officer for Northern Operations, with Network Limited as Deputy General Manager - Marketing, with Shriram Honda as Manager - Marketing, and with DCM Toyota.

He is a BE (Electrical & Electronics) from Birla Institute of Technology, Ranchi and a postgraduate from the Indian Institute of Management, Bangalore.

Key Takeaways

Core essence: Significant opportunity available in the Indian voice as well as data markets over the medium term. Current focus only on tariff hikes, tower deals, etc could be misplaced.

Industry insights

- Penetration of voice services in India is still relatively low at ~50% v/s the 80-90% benchmark.
- Virtual consolidation in the industry is evident from increase in revenue market share of top-three operators from ~55% to ~65% in the last 3-4 years despite hyper-competition.
- Wireless is a heterogeneous sector, with different operators having leadership in different circles.
- The share of non-voice services in revenue is set to increase, as most subscribers will upgrade their handsets over the next few years and eco-system for 3G is being developed.
- While incremental operating cost for 3G is only a fraction of the current operating costs, amortization and finance costs related to 3G spectrum will negatively impact the bottomline of all operators.

Company vision and strategy

- Idea has a strategy of over-investing in its established circles, which drives its leadership in these operations.
- Idea is focused on deepening its coverage and driving rural growth. 67% of net subscriber additions for Idea come from rural markets.
- Focus is on building scale, with 1.2b minutes/day. Idea is the eighth-largest operator globally in terms of traffic.
- Enhancing revenue market share, driven by (1) focus on quality of subscribers, (2) cash profits to sustain investments, and (3) higher-than-industry traffic growth.
- Idea is expanding its 3G reach and is rolling-out 3G services in 10 towns/day, as significant growth is expected from wireless broadband on the handsets.

Key triggers/milestones/challenges

- NTP 2011 would be a key event to watch for.
- Continued overcapacity in the industry remains a challenge.
- Potential exit of unviable operators could be an important milestone for the industry.
- Increase in smart-phone penetration to drive data revenue.

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Zee Entertainment Enterprises

Mr Punit Goenka
Managing Director & CEO
Zee Entertainment

Mr Punit Goenka is Managing Director and CEO of Zee Entertainment Enterprises. His strong work ethics and hands-on approach have been instrumental in steering the Zee Empire to new frontiers of success. Under his leadership, Zee TV has emerged a leader among General Entertainment Channels in India.

Mr Goenka has grown up the ranks, handling various responsibilities across the Essel conglomerate for over 14 years. He started his career with Zee TV in 1995 as head of the Music division and went on to shoulder additional responsibilities across Essel Group Companies. He serves as a Director of other public limited companies such as: Essel Infraprojects, Essel Telecom Holdings, Rochan (India), Zee Sports, Agrani Wireless Services, Agrani Satellite Services, ASC Mobile Communication, and Diligent Media Corporation.

Mr Goenka is a great mentor. He has shared his experiences and knowledge at management education programs such as Young Managers Program at INSEAD, France, and 'Birthing of Giants' by Young Entrepreneurs' Organization and MIT Enterprise Forum, Inc, Boston, USA.

Key Takeaways

Core essence: Despite near-term sluggishness in the ad environment, medium to long-term opportunity remains attractive, led by consumption growth and efforts to improve subscription revenue.

Industry insights

- Increasing regionalization and fragmentation of content remain dominant themes in the Indian broadcasting space.
- General entertainment and movies remain the dominant genres in India, accounting for ~67% of total viewership.
- Sports is a loss-making proposition due to lack of subscription revenue and majority (~75%) of viewership and revenue coming from cricket.
- Digitization would lead to (1) greater fragmentation, (2) better monetization of niche genres and sports content, and (3) higher subscription revenue, reducing the cyclicality associated with ad revenue.
- Indian broadcasting industry revenue is likely to grow at ~16% CAGR over the next four years.

Company vision and strategy

- With its diversified network, Zee remains the leading broadcaster of Indian content globally.
- Media Pro, the recent distribution JV between Zee Turner and Star Den, is aimed at getting the rightful share of pay revenue from LCOs.
- The company will maintain its cost discipline and refrain from going after high-cost GRPs, which do not generate adequate returns.

Key triggers/milestones/challenges

- Lack of profitability in the sports genre and sluggish ad revenue environment remain the key challenges.
- Mandatory sunset for analog signals would be a significant milestone for the sector.

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Hindustan Unilever

Mr Nitin Paranjpe
CEO & Managing Director
Hindustan Unilever

Mr Nitin Paranjpe was appointed EVP South Asia and CEO Hindustan Unilever, India in April 2008. He is CEO & MD of Unilever's Indian business.

He joined Hindustan Lever as a management trainee in 1987 and worked in several sales and marketing roles. In 1996 he was appointed Branch Manager for the south region and in 1999 he became a member of the Project Millennium Team.

In 2000, Mr. Paranjpe moved to London and was involved in a review of the organisational structure. In 2001 he was Assistant to the Unilever Chairman & Executive Committee in London. On return to India in 2002, he became Category Head-Fabric Wash & Regional Brand Director (Asia) for some laundry and household cleaning brands. In 2004 he became Vice President - Home Care (Laundry & Household Care) India.

Mr. Paranjpe holds a BE Mechanical degree from the College of Engineering Pune, India and an MBA in Marketing from Jamnalal Bajaj Institute of Management Studies, Mumbai.

Key Takeaways

Core essence: HUL is investing in categories and channels of tomorrow, to gain from changing consumption patterns and demographic dividend.

Industry insights

- The Indian consumer has come of age. Media explosion, rising income levels and increasing role of women in the decision making will increase demand for personal care and processed foods.
- Rural India offers huge opportunity and HUL has increased its distribution by 0.6m outlets to cater to rising demand in rural India.
- As far as urban demand is concerned, there is an upgradation wave in urban India and new products are gaining acceptance at a fast rate.
- Modern trade offers huge opportunity for players like HUL to launch new products and garner higher share.

Company vision and strategy

- Focus on new products for tomorrow, like fabric softeners, hair conditioners, deodorants in personal care, and creamy spread, soy juice, Knorr Soupy and Kissan Nutrismart.
- **Channels of tomorrow:** strength in modern trade, higher share and profitability.
- **Capabilities of tomorrow:** capture premiumization, portfolio approach with products across the pyramid.
- **Sustainability:** looking to add 1b consumers globally, with environment friendly approach.
- Gain market share in existing categories and create new categories for the long term.
- Offer high quality products at right prices and strong execution in the field with better service.

Key triggers/milestones/challenges

- **Product pricing:** competitive pricing with high quality
- **New launches:** to focus on personal care and food products
- **Competitive intensity:** to grow ahead of competition with competitive pricing
- Increase in share of higher margin personal care in total sales.

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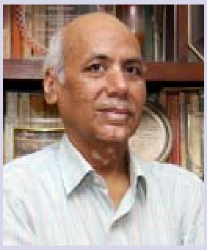
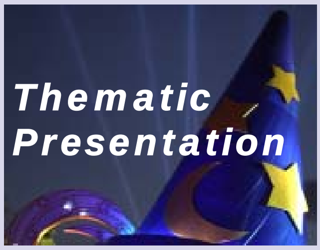
The Black Economy

Jawaharlal Nehru University



Prof Arun Kumar
Chairperson
Center for Economic Studies, JNU
"Black Money: The Trail of India's Hidden GDP"



Professor Arun Kumar is the Chairperson of the Center for Economic Studies and Planning, Jawaharlal Nehru University (JNU). He has been teaching Economics at the Center since 1984.

He went to Princeton University in the US for a PhD in Physics but in 1977 switched to a PhD in Economics at the Jawaharlal Nehru University. He completed BSc (Physics) from St Stephens College, India in 1970. He is a gold medalist of the Delhi Higher Secondary Board and Delhi University. He has had visiting assignments in Pavia University, Italy and Humboldt and Leipzig Universities, Germany.

His PhD thesis was on Inflation and Terms of Trade, which gave a new understanding of the role of trade and government in inflation in India. He specialized in Development Economics, Public Finance and Public Policy and Macroeconomics, and published articles in these areas. His book, The Black Economy in India, published by Penguin, broke new ground in thinking about the Indian economy and its development. He published a book, Challenges Facing Indian Universities, and wrote extensively on issues pertaining to higher education in India.

Key Takeaways

Core essence: The cost of India's black economy is 5% GDP growth sacrifice every year since mid-70s. But for this, India's size of the economy would have been ~USD9 trillion.

Black economy: the conceptual issues

- **Black economy v/s black money:** Black economy is much wider than black income and black money and corruption. Black money is only a tiny part of the black income that is saved in cash. Black savings can also take the form of non-cash assets, inventories, flight of capital, investments in legal and illegal activities, etc.
- **Corruption and black economy:** Black economy is much larger than corruption (which is mainly bribes), and includes illegal activities like hawala (money laundering), drug trafficking, smuggling, etc.
- **Two to tango:** The black economy involves both public and private sector.
- **Size does matter:** If the black economy is say 50% of the economy, can we just add 50% to the white economy to get the size of the potential economy? The answer is 'NO'. In many ways, the black economy has disproportionate impact on various aspects of the economy.

The impact is severe

- **Loss in growth and potential:** The rates of growth are less than the potential rate by 5% since mid-seventies. But for the black economy, Indian economy could have been nine times its present size i.e. ~USD9 trillion. In other words, India could have migrated from the poorest 30 countries of the world to middle income country by now.
- **Policy failures:** Black economy leads to policy failures and reduces its effectiveness leading to a sense of a failing state amongst citizens.
- **Macroeconomic implications:** Black economy raises black savings, but at the same time it lowers investment rates, increases input output ratio and ICOR. It lowers the employment potential, raises inflation, adversely affects the fiscal situation, leads to flight of capital and balance of payments difficulties - thus, economic development gets adversely affected.
- **Monetary sector:** Informal money market remains strong, thus a whole lot of black liquidity remains outside the central banks calculus. This leads to volatility in money multiplier and velocity of circulation defeating RBI's attempt to fight inflation by raising rates.
- **Broader implications:** Black economy leads to governance deficit, criminalization of society, wastage (activity without production), deterioration of norms (the usual becomes unusual and unusual becomes usual), criminalization and weakening rule of law.

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The Black Economy (continued)

- **Inequality:** Black income is concentrated in 3% of households, but 97% of the people are affected. The segment gaining from the black economy (i.e., the upper 3%) also loses due to lost growth opportunities, uncivilized conditions, pollution, etc. However, this 3% of the population is larger than many large size European countries, and their spending of their black income feeds into the notion of India shining in terms of consumer boom, etc.

Size is 50% of economy now

- According to Prof Kumar's estimates, the size of the black money has grown from 5% in 1955 to 50% now.
- The black economy encompasses all sectors of the economy but is concentrated most in the tertiary sector. Therefore, the structure of the economy is different from what is revealed by the white economy.
- Number of scams and their size has increased exponentially since the 1950s, with nearly one scam breaking out every week now.

The reason for black money - The Triad

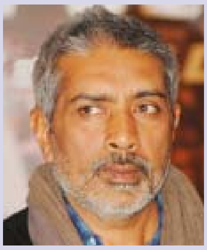
- Three pillars of the triad - Black economy is both systematic and systemic. The black economy triad consists of the business, politician and the executive.
- Ineffectiveness of redressal mechanism - Now the public delivery mechanism is largely ineffective. In 1984 all commissioners of income tax said 95% of their department is corrupt. Similarly in 2002, Municipal Commission of Delhi (MCD) said in Delhi High Court that no honest engineer in Public Works Department (PWD).
- Spirit unwilling - The triad leads to weakening of law, loopholes and resultant complexity. As the spirit was unwilling, this has led to corruption cases knowingly being scuttled (Hasan Ali, Liechtenstein disc, 2G, etc.). A large amount of cases are waiting to come out of closet based on the private information with the Government but used selectively for political end.

The solution

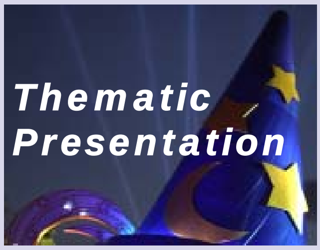
- **Committees and suggestions:** There have been many committees since independence to look into the aspects of the black economy and made thousands of suggestions. But the implementation has not been successful.
- **Narrow technical solutions don't work:** Also technical solutions like reducing tax rates, reduced control, voluntary disclosure scheme, property acquisition, etc, have not worked. This is because the nature of the problem is actually political and cannot be tackled without strong will.
- **Strong RTI and accountability:** A strong RTI and accountability at all levels is a minimum imperative.
- **Competition:** New parties and politics need to come up. Lack of democracy within party also does not augur well.
- **An ideal Lokpal structure:** An ideal Lokpal structure would perhaps be to include the top echelons of the executive and the judiciary. If accountability is ensured at the top, then they would in turn demand accountability down-the-line. However, a very elaborate Lokpal with large bureaucracy would be bound by the same weakness of corruption and inefficiencies that the current system is susceptible to.
- **Public pressure critical:** The movement by Anna Hazare has rekindled hope that the turning point may be coming. However, sustenance of the movement depends upon the continuance of public pressure.

India Insights

PRAKASH JHA PRODUCTIONS



Mr Prakash Jha
Multiple Award-winning Film-maker
"India Insights: Through the lens of a film-maker"



Mr Prakash Jha, an award winning filmmaker, runs a production company, Prakash Jha Productions. He has produced and directed 15 feature films, over 25 documentaries, two television features and four television serials. He has won eight national awards.

Mr Jha is most known for his political and socio-political films such as Damul (1984), Mrityudand (1997), Gangaajal (2003), Apaharan (2005), Rajneeti (2010) and the recently-released Aarakshan. He has also made Dil Kya Kare, Rahul and Hip Hip Hurray.

Mr Jha joined Ramjas College, Delhi University to do a BSc (Hons) in Physics. He quit a year later and decided to go to Mumbai and become a painter, but while preparing to join JJ School of Arts, he saw the shooting of a film, Dharma, and got hooked to filmmaking.

In 1973, he joined the Film and Television Institute of India (FTII), Pune to do a course in film editing and he made his debut as feature film director of Hip Hip Hurray in 1983, scripted by Gulzar, and starring Raj Kiran and Deepti Naval.

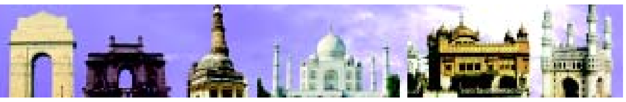
Key Takeaways

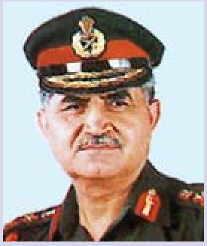
Core essence: There are two Indias within India (i.e. the one that is more commonly visible, and the other, which is behind the scenes, but has equal if not more powerful influence on the Indian psyche).

Insights

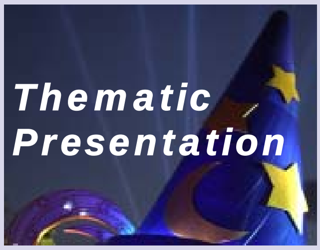
- Mr Prakash Jha mainly drew a parallel between his movies and the socio-politico-cultural trends and aspirations in India.
  - **Damul** (meaning 'bonded to death') - Released in 1984, this was Mr Jha's first socio-political film (and his second after Hip Hip Hurray, 1983). The story is about a bonded laborer who is forced to steal for his landlord, to whom he is bonded until death. Set in rural Bihar of 1984, the film focuses on caste-based politics and the oppression of the lower castes in the region through bonded labor.
  - **Mrityudand** (meaning 'death penalty') - Released in 1997, the movie captures (1) the decline of the zamindar (landlord) the emergence of the thekedar (contractor), and (2) religious fanaticism.
  - **Gangaajal** (meaning water of river Ganga, a euphemism in the movie for acid used to gouge criminals' eyes) - Released in 2003, the movie (1) highlights rising criminalization in society, and (2) explores the relationship of society and police.
  - **Apaharan** (meaning 'kidnapping') - Released in 2005, the film reflects how kidnapping almost gained the status of an industry in certain parts of India, mainly the Hindi heartland. It also captured manipulation of democracy, and how the rich and the powerful exploited the aspirations of the young to become successful.
  - **Rajneeti** (meaning 'politics') - Released in June 2010, Rajneeti is a larger-than-life portrayal of political aspirations of India's youth.
  - **Aarakshan** (meaning 'reservation') - This recently released film talks openly about India's caste system where almost half the seats for higher education and jobs are reserved for certain backward castes and classes. It also dwells on the commercialization of education, which is of high concern today.
- Mr Jha himself was born in a Brahmin family in Champaran, Bihar. His movies capture themes which he has personally witness to since childhood.
- He concluded by stating how growth in Bihar had been neglected due to historic reasons, and how under the reign of Chief Minister Mr Nitish Kumar, the scene has dramatically improved after a long time.

India's Troubled Neighborhood





Gen VP Malik (PVSM, AVSM)
Chief of Army Staff (Retd)
Indian Army
"India's Troubled Neighborhood: National Security Challenges"



General Ved Prakash Malik, a recipient of the Ati Vishisht Seva Medal (AVSM) and the Param Vishisht Seva Medal (PVSM) is an alumnus of the National Defense Academy, Khadakvasla and the Indian Military Academy, Dehradun.

He assumed charge of the Indian Army, becoming the nineteenth Chief of Army Staff on 1 October 1997. He became Chairman, Chiefs of Staff Committee of India from 1 January 1999. He coordinated and oversaw the planning and execution of Operation Vijay to successfully defeat Pakistan's attempted intrusion in Kargil over May-July 1999.

He was commissioned to the Third Sikh Light Infantry on 7 June 1959. He commanded the Infantry Brigade in Jammu & Kashmir, where he was awarded the Ati Vishisht Seva Medal (AVSM). In December 1989, he was appointed General Officer Commanding, Mountain Division and in August 1992, he assumed command of the Corps in Punjab, where he oversaw anti-militancy operations in the state. In July 1995, he was appointed General Officer Commanding-in-Chief Southern Command before moving to Army Headquarters as Vice Chief of Army Staff in August 1996. He was decorated with the Param Vishisht Seva Medal (PVSM) in 1996.

Key Takeaways

Core essence: There are is a complementary and reflexive relationship between national security and economic development.

What is national security?

Unlike the past, modern-day countries are unlikely to wage war with other countries for territorial expansion, as they will not be accepted by the "conquered" people. In this context, national security has three implications -

1. It does not only mean defending territorial integrity and preserving the nation's sovereignty;
2. It also means development of trade and commerce with the rest of the world; and
3. It is necessary to be an important actor in international affairs.

National security can be mainly analyzed as (1) External and (2) Internal.

India's external security position

- Geopolitically, India is bordered mainly by small nations ex China - Pakistan, Afghanistan, Nepal, Bhutan, Bangladesh and Sri Lanka.
- **Security equation with Pakistan:** Pakistan has several major internal problems on hand - economic, political, sectarian - and hence, in no position to wage any major attack on India. So, the threat is mainly that of cross-border terrorism, which may continue for some time. Still, the security equation is in India's favor and the gap is only increasing.
- **Security equation with China:** Unlike Pakistan, the security equation with China is increasing in the latter's favor. China has created more pressure points, both on the ground and in international diplomacy. Also, it sells weapons to all neighboring countries like Myanmar, Nepal, Sri Lanka, etc. However, one need not expect any major war with China.
- **Other nations:** The other nations are too small to be of any security worry to India. On the other hand, any security trouble in India will have repercussions for these nations and the entire ASEAN region.

Internal security issues

In modern-day geopolitics, internal security assumes more importance than external. The major issues here are -

1. **Perception more adverse than reality:** The popular perception is that internal security in India is worsening e.g. rising spread Maoism in east and north-east India. However, the reality is that casualties on account of internal hostilities are actually coming down every successive year for the past several years.

India's Troubled Neighborhood (contd)

2. **Police and Policy:** A strong police is a key factor in maintaining internal law and order. However, increasingly, the local policemen are being used for VVIP security. Also, police human resources are underdeveloped ("the man behind the gun is more important than the gun"). There is also need for significant improvement in the intelligence system. On policy, there is a high correlation between governance and security. Poor governance is likely to trigger civil disobedience movements (e.g. the ongoing protest by Anna Hazare and his supporters), which anti-social elements can take advantage of and create threats to security and law & order.

Other issues

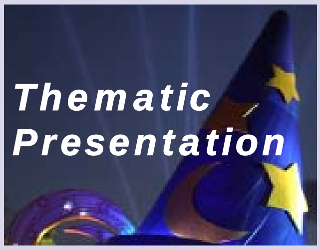
- **India's import dependence for weapons:** 70% of India's weapons are imported. This is not a healthy situation to be in, as in times of need, the required weapons may not be available or may need to be procured at exorbitant cost. Hence, there is need to create a level-playing field for the private sector in defense equipment business.
- **Silo-ism at the Center:** Various security-related arms of the government need to work in closer co-ordination with each other.

The bottomline

Based on Genl Malik's experience at Kargil, he is convinced that the typical Indian soldier is an extraordinary human being. And so long as he is there, Indians can rest assured that there will be no major threat to national security.

Macro-economic Challenges

Dr K C Chakrabarty
Deputy Governor
Reserve Bank of India
"Macro-economic Challenges:
The RBI Perspective"



Dr K C Chakrabarty is the Deputy Governor of Reserve Bank of India (RBI). He is a seasoned banker, with an accomplished banking career spanning over three decades. Dr Chakrabarty has earlier graced the seat of Chairman & Managing Director (CMD) for Punjab National Bank and before that, for Indian Bank. He has had a long and distinguished career of 26 years at the Bank of Baroda in various capacities. He has also been the Chairman of the Indian Banks' Association (IBA) for a brief period.

Dr Chakrabarty's current assignments include guiding and overseeing the areas pertaining to Rural and Urban Cooperative Banks, Information Technology, Payment and Settlement Systems, Customer Services, Human Resource and Personnel Management at the Reserve Bank of India. He represents India in the Committee of Payment and Settlement Systems (CPSS) constituted by Bank for International Settlements (BIS) as a Member. Dr Chakrabarty is also the RBI Nominee on the Board of Directors of NABARD and the Chairman of the Institute for Development and Research in Banking Technology (IDRBT).

Key Takeaways

Core essence: Interest rates will remain a function of inflation. Even if FY12 growth slows down a bit, there would be no major adverse impact on corporate profitability and investment climate.

On global risk

- India cannot be decoupled from the world economy and global downturn would affect us. However, nobody knows its full impact or shape of things to come as these crisis happens once in many decades.

On inflation and growth

- **Inflation to come down:** Inflation would need to come down on its own as per the trajectory given by RBI in this regard. Improved productivity and removal of supply-side constraints are the only enduring solutions to control inflation.
- **Rising rates to protect savings:** RBI's anti-inflationary measures do not imply that it takes growth for granted. However, as long as inflation remains high, RBI would need to take appropriate measures. The real interest rates should be high enough to attract the savers to park their funds into deposits rather than other forms of saving. In an inflationary environment banks would start raising rates even if RBI does not.
- **Growth outlook:** Growth should be 8% in FY12 and is achievable; but even if it is a bit lower, there would be no adverse impact on corporate profitability and investment climate.

On monetary transmission

- **International experience:** Worldwide, monetary transmission has been found to have worked imperfectly, depending upon the environment.
- **Indian lag:** In India the response at the shorter end of the market has been found to be immediate. It is also believed that the longer end responds with a lag of 3-6 months.
- **Asymmetric response from banks:** However, the response of the banks have been found to be asymmetric in the two situations of rising and falling interest rates. While banks have been prompt in their response in a rising interest rate scenario, the lag is more in case of falling interest rate.

On exchange rate

- **No target:** RBI does not have any target for Rupee and intervenes only to curb volatility in the exchange rate market.

Macro-economic Challenges (contd)

- **No micro management:** Isolated events, e.g., oil price movement, payments to Iran, etc. do not shape exchange rate policy.

On data issues

- There are several data issues that affect policy making, mainly inflation data and trade data.
- **CPI v/s WPI:** As far as issues between WPI and CPI is concerned, there are multiple CPI indices that are available and over a longer period there is a convergence.
- **Trade data:** Similarly, data related to exports and imports need to be taken as an input for policy even if it deviates from trend after six months.

On savings rate de-regulation

- **Desirable:** Deregulation is being discussed to protect the interest of depositors.
- **Not much impact:** Interest rates, and even more so average cost of deposits may not go up very significantly as a result of deregulation.

On securitization and priority sector lending

- **KYC:** If the bank is buying a portfolio from an NBFC, they must demonstrate that KYC is in place and that the portfolio is for priority sector lending.
- **Pricing:** Pricing of the securitized portfolio should largely be similar to the existing portfolio of priority sector. Various other conditions should also be considered like true sale, maturity of the asset, etc.
- **New guidelines:** RBI expects to release new guidelines on securitization and priority sector shortly.

On asset quality

- **Not a concern:** Asset quality is not a great concern till GDP growth is 7.5%+.
- **Various measures to ensure financial stability:** RBI will ensure financial stability and consider various regulations from time to time. 70% PCR requirement, increased provisioning requirement in various buckets of NPAs are some of such examples.
- **Farm waiver and moral hazard:** Dr Chakrabarty specifically denied that farm waiver scheme has led to moral hazard as (1) the design of the scheme was targeted, and (2) the failure to repay had arisen out of extraordinary conditions.

Competition and bank licensing

- **Necessary ...:** Competition in the banking sector would enhance customer service.
- **... but based on proper criteria:** However, fit and proper criteria are critical for issuing new bank licenses.

Company Connect

International Tractors

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Key Takeaways

Fourth-largest tractor manufacturer in India

International Tractors is the fourth largest tractor manufacturer in India. It provides a complete product line, including tractors, multi-utility vehicles, engines, farm machinery attachments, diesel gensets, auto components, and pick & carry cranes. It has tractor manufacturing facilities in Punjab, with total capacity of 70,000 units. Majority of its tractor exports are to North African and SAARC countries.

Expects 18-20% CAGR (FY11-15) for the industry

- The management expects the size of the Indian tractor industry to reach 0.54m units by FY12 (~13% growth) and ~1m units by FY15 (CAGR of 18-20%), driven by:
  - Global food shortage driving up crop yields and prices
  - Low tractor penetration levels (especially in the southern region)
  - Government support by higher allocation of expenditure to agriculture
  - Higher non-farm income (NREGA, etc)
  - Rising labor cost and lower availability of labor
  - Increasing access to finance through banks and NBFCs
  - Emergence of corporate farming
- Regionally broad-based growth, with West and East growing rapidly (over 50%), as against higher dependence on the northern states, earlier.
- 40-50HP segment is gaining traction, driven by additional non-farm applications.

Capacity expansion endorses robust growth estimates

- The company will be investing INR2.5b over 2-3 years for capacity expansion from 45,000 units in FY11 to 120,000 units in FY14.
- It is looking at ~28% volume CAGR (FY11-15) to ~120,000 units and aspires to gain 15% market share in the domestic markets (from 8% currently).
- While it is very strong in higher HP tractors, International Tractors plans to launch an 18HP tractor focused on export markets as well as the domestic market.
- The management anticipates strong growth in the exports market and expects exports to grow at 38% CAGR over FY11-15 to 25,000 units.
- The company has strong presence in the North and West (Punjab, Haryana, Western UP, Gujarat, Chhattisgarh). It is now expanding in the East and the South. It is doubling its presence in the southern region by adding dealers. It plans to add ~105 dealers across the country, taking total dealers to 817.

EBITDA margin to improve from FY11 levels

- It enjoys above industry average EBITDA margin at ~20%, despite offering better dealer margins. Higher margins are a result of (a) better product mix, with larger contribution from higher HP tractors, (b) higher operating leverage, (c) focus on cost reduction and value engineering initiatives, (d) higher volumes from tax-free zone, and (e) retention of partial benefit due to lowering of excise duty on components.

Mahindra & Mahindra

Bloomberg	MM IN
Equity Shares (m)	614
CMP (INR)	714
Mcap (USD b)	9.6
52-Wk Range (INR)	825/584
1, 6, 12 Rel Perf (%)	12/22/27

YEAR END	N. SALES (INR M)	S/A PAT (INR M)	S/A EPS (INR)	CONS. EPS (INR)	CON EPS GR (%)	P/E (X)	CONS, P/E (X)	ROE (%)	ROCE (%)	EV/ SALES	EV/ EBITDA
3/10A	185,888	20,451	34.3	40.8	61.9	20.8	17.5	26.1	25.4	2.2	13.7
3/11A	234,944	25,732	43.1	48.2	18.1	16.6	14.8	25.0	25.6	1.8	12.1
3/12E	282,395	26,942	45.1	48.4	0.6	15.8	14.7	22.0	23.2	1.5	11.1
3/13E	320,078	31,023	52.0	63.9	31.9	13.7	11.2	21.3	23.3	1.3	9.6

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Key Takeaways

Sufficient capacity for next three years

- The management maintained its volume growth guidance at 10% for the automotive industry and at 11-13% for the tractor industry. It believes it has sufficient capacity for the next three years to support 10-11% volume CAGR.
- For tractors, it is operating at 80-85% utilization on two shifts, which can be increased to three shifts. It has increased capacity of *Yuvraj* to 20,000 units from 10,000 earlier. It is setting up a plant at *Zaheerabad*, with a total capacity of 120,000 units.
- In the auto segment, its recently commissioned Chakan plant, with a capacity of 300,000 units and expandable to 500,000 units, would be the key growth driver.
- *Yuvraj*, launched only in Gujarat, Maharashtra, Madhya Pradesh and Karnataka, would be a volume driver for the tractor business. Being an outsourced product, it would have lower margins, but would enjoy higher RoE and RoCE.

Ssangyong: Volumes of 0.12m, EBITDA positive in CY11

- It maintained its guidance of ~50% volume growth to 120,000 units in CY11, driven by recovery in its markets, and the recent launch of *Korando-C* and *Rexton*. It indicated that lack of investment in new products had impacted Ssangyong's (SYMC) performance earlier. It expects revenue growth of 50% to USD3b for SYMC in CY11.
- SYMC has a capacity of 120,000 units (on single shift basis), which it expects to fully utilize in CY11. Ramp-up of operations in CY12 would drive operating leverage.
- Its 2QCY11 performance was impacted by employee bonus and branding spends on *Korando-C* launch. It expects SYMC to be EBITDA positive in CY11, despite reporting a loss in 1HCY11. However, it would not break even at PAT level in CY11.
- It intends to invest USD240m in CY11 - USD200m on product development and USD40m on branding. It will be funded through fresh borrowings by SYMC.
- M&M has not made any significant changes in SYMC's management, with only CFO and some representatives in key functions from M&M.

Other takeaways

- M&M expects the issue of VAT-related change in Maharashtra to be resolved by September 2011.
- It maintained its capex guidance of INR50b and investment guidance of INR20b-25b over the next three years.

Valuation and view

Short-term headwinds notwithstanding, we remain positive on M&M's prospects, driven by its dominance in its core business of UVs and tractors, favorable competitive dynamics, and strong volume growth momentum. The stock trades at 15.9x FY12E and 13.8x FY13E consolidated EPS. **Buy**.

Popular Group

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Key Takeaways

One of the largest automobile dealership chains in India

The Popular Group has been in the automobile industry for the last seven decades. It is one of the largest automobile dealership chains in India, with dealerships of Maruti Suzuki (second-largest dealer in India), Honda (cars), Tata Motors (CVs) and Jaguar. It has a combined turnover of over INR20b, a workforce of over 6,500, and a network of over 200 units in Kerala, Chennai and Bangalore.

Demand muted, but 6% growth likely in FY12; 15-20% CAGR over 4-5 years

- It expects its Maruti dealership to grow by 6% in FY12, despite a flat FY12 YTD, driven by new *Swift* and pick-up in festive season. While current walk-ins and conversions have declined, it expects demand pick-up during the festive season (17 Aug to 17 Sep). Its inventory has increased to ~35 days (from 20-22 days).
- It believes that a pause in further rate hikes by RBI would trigger demand recovery.
- While discount levels are lower in South India, Popular is of the view that current higher discounts are for pushing non-fast selling models through discounts.
- It is currently witnessing replacement demand of 35-40% (with ~25% replacement through exchange program), as against 90-95% replacement demand in developed countries. Its experience suggests a replacement cycle of 4-5 years.

Spares & Service - key profit driver for the dealer & big opportunity for OEs

- Spares & Service is a key driver for any dealer, as margins on new car sales are very low (<5%), whereas profitability on spare sales and service is high (15-20%).
- For every new car sold, a dealer services 8-10 cars a year (12-13 for Popular), with normal servicing cycle of once in six months. Non-dealer authorized service centers service a similar number, taking total cars serviced through OEM-authorized centers to 16-20 cars for every new car sold.
- Increasing sophistication and implementation of BS-IV and BS-V would drive out local garages for servicing. Further, higher car penetration would drive demand for genuine spares. Maruti's genuine spares are competitively-priced and the OEM is focused on reducing usage of spurious spares. Even for OEMs, spare sales (18-20% margins) offer a big opportunity, as all spare supplies to authorized service centers (including dealer) are by the OEM.

Other takeaways

- The Popular Group, which is also a dealer for Honda cars, has not yet witnessed any impact of the aggressively-priced *Honda Jazz* on *Swift* sales.
- Being a dealer for both Maruti and Honda, it can differentiate between business practices of OEMs - dealer friendliness, feedback systems, accessibility to senior executives, etc. It believes Maruti is way ahead of its competitors.
- Popular believes that Maruti is improving its quality and value for money (e.g. new *Swift*), whereas its competitors are going the other way (except Hyundai).

Maruti Suzuki India

Bloomberg	MSIL IN
Equity Shares (m)	289
CMP (INR)	1,169
Mcap (USD b)	7.4
52-Wk Range (INR)	1,600/1,087
1, 6, 12 Rel Perf (%)	13/9/5

YEAR END	NET SALES (INR M)	PAT (INR M)	CONS.EPS (INR)	EPS GR. (%)	CONS.P/E (X)	P/CE (X)	P/BV (X)	EV/ EBITDA	ROE (%)	ROCE (%)
3/10A	296,231	25,068	90.8	113.8	12.8	10.1	2.8	6.9	21.1	28.4
3/11A	369,199	23,101	82.4	-9.2	14.1	10.1	2.4	7.3	16.5	22.1
3/12E	404,682	23,827	85.5	3.7	13.6	9.4	2.1	7.1	14.9	19.8
3/13E	474,952	28,089	101.5	18.7	11.5	7.8	1.8	5.5	15.3	20.4

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Key Takeaways

Festive season critical for 2HFY12 recovery and 5-10% growth guidance

- Maruti Suzuki (MSIL) has guided 5-10% volume growth for FY12, as against ~7% de-growth in FY12 YTD (~32,000 units lost due to strike and discontinuation of old *Swift*). It expects growth to be critically dependent on festive season demand. While inquiries have grown by 30%, conversion rate remains poor due to higher cost of ownership and increase in time taken for loan approval.
- While demand growth in the top 10 cities and rural markets remains intact, demand in middle India (between top-10 cities and rural markets) is severely impacted. Premium compact cars growth remains intact due to availability of diesel versions.
- The new *Swift*, launched on 17 August, has received 70,000 bookings and is likely to register monthly volumes of 16,000-17,000 against ~12,000 for its older version. Currently, the new *Swift* has a waiting period of three months.
- MSIL expects realizations to increase on account of improvement in product mix, but this could be diluted by higher discounts in 2QFY12.

Margins under pressure in 2QFY12, but to improve in 2HFY12 and FY13

- MSIL expects 2QFY12 EBITDA margin to come under pressure, impacted by adverse exchange rate for JPY on vendor imports and direct imports (hedged at a slightly unfavorable rate than 1QFY12) and higher discounts.
- However, it expects margins to improve in 2HFY12 due to (a) pick-up in demand, (b) savings in RM cost, and (c) lower discounts.
- For FY13, MSIL is targeting 100-150bp savings in cost, driven by its localization program, which was implemented last year. It is targeting to reduce its vendor imports from 14% of sales to 6-7% in three years beginning FY12.

Other takeaways

- It expects diesel engine capacity addition (by 50,000 units to 290,000 units) and phase-I of Manesar (of 250,000 units) to be operational by September 2011 and phase-II at Manesar (of another 250,000 units) by September 2012.
- The management is not overtly worried about the aggressively priced *Honda Jazz*, as it believes that such aggressive price reduction does not go well with existing car owners and financiers (as residual value declines). Also, aggressive price cuts on existing models do not help due to lack of 'novelty' factor (e.g. *Skoda Fabia*).
- It plans to expand its dealer network to 1,500 from 933 outlets (as of March 2011).

Valuation and view

We see limited downside to MSIL's margins from the current levels, unless there is significant adverse forex movement. The stock trades at 13.6x FY12E and 11.5x FY13E consolidated EPS, and 9.4x FY12E and 7.8x FY13E CEPS. **Buy**.

Tata Motors

Bloomberg	TTMT IN
Equity Shares (m)	538
CMP (INR)	737
Mcap (USD b)	8.7
52-Wk Range (INR)	1,381/700
1, 6, 12 Rel Perf (%)	-13/-25/-16

YEAR END *	SALES (INR M)	ADJ PAT (INR M)	ADJ EPS (INR)	NORMAL. EPS (INR) ^	CONS. P/E (X)	NORMAL. P/E (X)	ROE (%)	ROCE (%)	EV/ SALES	EV/ EBITDA
3/10A	925,193	15,051	22.6	-21.4	32.5	-34.5	18.3	10.7	0.7	7.6
3/11E	1,231,333	90,695	136.5	72.9	5.4	10.1	47.3	24.6	0.5	3.7
3/12E	1,433,353	84,056	126.5	74.0	5.8	10.0	32.2	22.1	0.4	3.0
3/13E	1,611,138	94,845	142.7	86.5	5.2	8.5	28.0	21.7	0.3	2.4

* Consolidated; ^ Normalized for capitalized expenses

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Key Takeaways

New Land Rover Evoque to drive JLR volumes in FY12

- It expects volumes to grow significantly from FY11 levels of 243,000, driven by the launch *Evoque* and *MY12XF*, and doubling of volumes in China.
- It has received favorable response for *Evoque* (to be launched in September 2011) with over 1,50,000 enquiries and 20,000 pre-orders. It expects *Evoque* volumes of 70,000-80,000 in the first full year of launch.
- Jaguar volumes are likely to pick up, led by the launch of refreshed *XJ* for China, the impending launch of *MY12XF* (US in September 2011).
- This coupled with easing of capacity constraint should help product mix to normalize in favor of Jaguar (to 30:70 - J:LR v/s 10:90 in 2HFY11).

EBIT margin at JLR to remain under pressure at 1QFY12 levels

- The management expects EBIT margin at JLR to remain under pressure at 1QFY12 levels, impacted by (a) commodity cost stabilizing at higher levels, (b) adverse forex movement, (c) higher promotional cost on account of *Evoque* and *MY12* launches, and (d) higher depreciation and amortization due to *Evoque* launch.
- Internal cost efficiency and better market mix would partly dilute cost push.

Maintains CV volume growth of 14-15% in FY12; margins to improve

- The management expects the domestic CV business to grow 14-15% in FY12, with 7-10% growth in M&HCVs and 18-20% growth in LCVs. While FY12 YTD growth is ~14%, it expects 2HFY12 growth to be higher due to seasonality and heavy 1HFY11 due to BS-III implementation in 2HFY11. It is not witnessing any meaningful impact of increase in interest rates, as availability of finance continues to be good.
- For PVs, it expects FY12 volumes to be flat, despite ~25% decline in FY12YTD, driven by pick-up in *Nano* and UV volumes (*Aria* variants, new *Safari* and *Venture*).
- It expects standalone margins to improve from 8.4% in 1QFY12, driven by (a) reduction in steel cost by INR1/kg from September 2011 and in other commodity cost, and (b) expected pick-up in loss-making PV business.

Other takeaways

- JLR inventory is under control (including dealer-level inventory) at ~70 days (v/s 135 days during the credit crisis and 80-90 days in FY11).
- For JLR, it has a strategy to launch at least two products per platform. *Evoque* is based on the *Freelander* platform.
- The management maintains capex plan of ~GBP1.5b per year for JLR for the next few years. However, if volumes come under pressure, it would reduce capex to ~GBP800m for investment in critical projects.
- The company's 1QFY12 EBITDA margin was impacted by ~100bp due to VAT-related changes in Maharashtra. It expects some resolution of the issue based on the dialogues of the industry with the state government.

Axis Bank

Bloomberg	AXSB IN
Equity Shares (m)	412
CMP (INR)	1,051
Mcap (USD b)	9.5
52-Wk Range (INR)	1,608/1,023
1, 6, 12 Rel Perf (%)	-6/-6/-12

YEAR END	NET INCOME (INR M)	PAT (INR M)	EPS (INR)	EPS GR. (%)	P/E (X)	BV (INR)	P/BV (X)	P/ABV (X)	ROAA (%)	ROAE (%)
3/10A	89,503	25,145	62.1	22.7	-	396	-	-	1.5	19.2
3/11A	111,951	33,885	82.5	33.0	12.7	463	2.3	2.3	1.6	19.3
3/12E	130,342	40,679	99.1	20.0	10.6	544	1.9	2.0	1.5	19.7
3/13E	160,460	47,234	115.1	16.1	9.1	638	1.6	1.7	1.5	19.5

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Key Takeaways

Loan growth guidance of 1.3-1.4x industry average

- The management expressed concerns over a slowdown in investments and hence sanctioning of new projects. However, expects strong demand for working capital requirement and past sanctions will lead to systemic credit growth of 18% in FY12.
- Based on the current pipeline the management is confident of growing its loan book at 1.3-1.4x industry average.

Margins at normalized level, management expects no more moderation

- In past 2 quarters margins declined 60bp to 3.3% (due to higher share of PSL in incremental loans and rising cost of funds), and has come to a normalized level (in line with management guidance of 3.25%-3.5%).
- While seasonally, margins for AXSB come under pressure in the first and fourth quarters due to a strategy of building the priority sector book, the second and third quarters are generally strong as low-yielding loans run off.
- With CASA ratio of ~40% and improving loan yields, management guided for stable/improved margins henceforth and targets margins of 3.25-3.5% in FY12.

Power sector exposure optically higher

- AXSB's overall exposure to the power sector was 9.8% (of corporate exposure) of which fund-based was ~5.5%. The balance sheet exposure was ~3.5% of overall loans and a large part of the non-fund based exposure was keeping in mind syndication opportunities, LC and BG-related fee income.
- In most of the projects AXSB is a consortium banker with NBFCs like PFC, REC and IDFC who cannot issue LC and BG. Thus a large part of the exposure comes in its non-fund based exposure. Once it becomes fund-based it syndicates the loan. Typically, of this converted non-funded to funded exposure, 15% remains on the book and it syndicates the rest.

Other highlights

- Fee income growth to largely track balance sheet growth.
- Bank targets to maintain CASA ratio of 38-40%.
- Slippages trend has been encouraging with slippage ratio declining from 1.4% in FY11 (2.2% in FY10) to 0.8% in 1QFY12, and management expects trend to continue.

Valuation and view

- Loan growth of 1.3-1.4x of industry, NIM of 3.25-3.5%, fee income growth in line with asset growth, stable cost to income ratio and falling credit costs will ensure RoA of 1.5%+ and RoE of 19%+ over FY12-13. The stock trades at 1.9x FY12E BV, 1.6x FY13E BV and 10.6x FY12E EPS, 9.1x FY13E EPS. **Buy**.

Bank of India

Bloomberg	BOI IN
Equity Shares (m)	546
CMP (INR)	306
Mcap (USD b)	3.7
52-Wk Range (INR)	588/301
1, 6, 12 Rel Perf (%)	-14/-19/-22

YEAR END	NET INCOME (INR M)	PAT (INR M)	EPS (INR)	EPS GR. (%)	P/E (X)	BV (INR)	P/BV (X)	P/ABV (X)	ROAA (%)	ROAE (%)
3/10A	83,725	17,410	33.1	-42.1	-	243	-	-	0.7	14.2
3/11A	104,525	24,887	45.5	37.4	6.7	292	1.0	1.1	0.8	17.3
3/12E	110,900	28,413	51.9	14.2	5.9	333	0.9	1.0	0.7	16.6
3/13E	130,746	35,617	65.1	25.4	4.7	384	0.8	0.9	0.8	18.2

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Key Takeaways

Asset quality issues to persist

- Bank of India's (BOI) asset quality deteriorated sharply in 1QFY12 with annualized slippages of 3.2% compared with 1.7% in FY11. Of the gross slippages worth INR16.8b in 1QFY12, slippages worth INR8b were due to system-based recognition of NPAs (now loans above INR0.5m are covered under system based recognition of NPA).
- The management expects slippages of ~INR15b-16b in 2QFY12 as the bank takes smaller accounts under the fold of the system-based NPA recognition method, post which, slippages are likely to normalize.
- Recoveries and upgrades are likely to gain pace in 2HFY12, resulting in lower net additions to NPAs.
- O/s restructured accounts at the end of 1QFY12 were INR111b (5.2% of the loan book). Of the restructured loans, accounts totaling INR23.4b slipped into NPAs (21% of the restructured book, the highest in the industry).

Margins likely to improve sequentially in 2QFY12

- In 1QFY12 global margins contracted sharply by 75bp QoQ to 2.14% due to a steep decline in domestic margins.
- In 2QFY12, the management expects margins to improve to ~2.5% due to shedding of high-cost bulk deposits. Resultantly, CD ratio is likely to improve, translating into sequential margin improvement.
- The management expects margins to improve to 2.75% by end of 4QFY12. However, on a full year basis, margins are likely to be lower.

Other highlights

- FY12 loan growth is expected to be ~18%, in line with the industry credit growth.
- While CASA ratio declined from 35% in FY08 to ~29% in 1QFY12, the management expects to sustain/improve CASA ratio from here as it is moderating its balance sheet growth with increased focus on CASA deposits.

Valuations and view

- We expect RoA of ~0.8% over FY12-13, RoE of 16-18% over FY12-13 and earnings CAGR of ~20%. We expect BOI to report EPS of INR52 in FY12 and INR65 in FY13. BV is expected to be INR333 in FY12 and INR384 in FY13. The stock trades at 0.9x FY12E BV and 0.8x FY13E BV. Maintain **Neutral**.

Canara Bank

Bloomberg	CBK IN
Equity Shares (m)	443
CMP (INR)	420
Mcap (USD b)	4.1
52-Wk Range (INR)	844/405
1, 6, 12 Rel Perf (%)	-7/-18/-9

YEAR END	NET INCOME (INR M)	PAT (INR M)	EPS (INR)	EPS GR. (%)	P/E (X)	BV (INR)	P/BV (X)	P/ABV (X)	ROAA (%)	ROAE (%)
3/10A	85,384	30,214	73.7	45.8	-	306	-	-	1.2	26.8
3/11A	105,263	40,259	90.9	23.3	4.6	405	1.0	1.1	1.3	26.4
3/12E	109,991	37,529	84.7	-6.8	5.0	477	0.9	1.0	1.0	19.2
3/13E	128,070	44,395	100.2	18.3	4.2	563	0.7	0.8	1.0	19.3

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Key Takeaways

CBK asset quality to improve in 2HFY12

- Canara Bank's (CBK) 1QFY12 slippages were high at INR13.7b as banks shifted their portfolio between INR0.5m and INR0.2m to CBS for NPA recognition.
- The remaining portfolio constitutes ~7% of the book and management expects slippages of ~INR6b due to transition of its remaining portfolio through system-based recognition of NPA in 2QFY12.
- In 2HFY12, the management expects asset quality to improve significantly, but has conservatively guided for gross slippages of ~INR40b in FY12 (v/s INR35b in FY11). The management expects strong recoveries and upgrade, which will provide cushion to asset quality and can lead to a positive surprise.

Margins bottom out

- CBK margins declined ~45bp QoQ to 2.4% in 1QFY12 led by higher slippages and lag impact of deposit re-pricing.
- While slippages are expected to be high in 2QFY12 as well, lower interest income reversal (management guidance of ~INR1b v/s INR2.1b a quarter ago) and increase in yield on loans will provide cushion to margins. The management guided for margins of 2.5-2.6% in 2QFY12 and 2.7-2.8% in FY12.

No sign of stress in power sector exposure

- CBK exposure to power and infrastructure is ~INR450b (INR290b towards power segment), of which INR100b is towards short term loans.
- Exposure towards generation companies stands at INR75-80b of which INR35b is towards private sector and rest towards SEB.
- Loans to SEB are largely backed by govt. guarantee while loans to private segment are disbursed only where the project is on stream. It has been receiving payments on time and does not foresee any issue in asset quality.

Other details

- The CBK management guidance is for loan and deposit growth of ~20%.
- The management is focusing on shedding bulk deposits and planning to increase retail deposits. Bulk deposits form ~35% of overall deposits
- Fee income growth is expected to be ~15%.

Valuation and view

- Volatile asset quality performance, weak liability side with CASA ratio of ~25%, and higher proportion of bulk deposits are a concern. Due to high growth and leverage, RoE will be strong at ~19% in FY12 and FY13. It trades at 4.2x FY13E EPS and 0.7x FY13E BV. We believe current valuations largely factor in the negatives. **Buy**.

Central Bank of India

Bloomberg	CBOI IN
Equity Shares (m)	647
CMP (INR)	101
Mcap (USD b)	1.4
52-Wk Range (INR)	212/96
1, 6, 12 Rel Perf (%)	-8/-13/-25

YEAR END	NET INCOME (INR M)	PAT (INR M)	EPS (INR)	EPS GR. (%)	P/E (X)	BV (INR)	P/BV (X)	P/ABV (X)	ROE (%)	ROA (%)
3/08A	30,161	5,522	11.6	-24.3	-	76.8	-	1.7	16.8	0.5
3/09A	32,984	5,712	12.2	4.5	-	86.3	-	1.5	14.9	0.4
3/10A	42,805	10,582	24.6	102.6	-	108.0	-	1.0	25.4	0.6
3/11A	65,904	12,524	27.7	12.4	3.6	131.2	0.8	0.9	23.2	0.6

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Key Takeaways

Asset quality to remain under pressure

- In 1QFY12 Central Bank of India's (CBOI) slippage was ~INR6b (annualized slippage ratio of 1.8% compared with 1.3% in FY11), of which the management stated about INR3b was technical in nature.
- CBOI has not yet moved to system-based recognition of NPA and expects to transit its portfolio through system-based recognition of NPA over the next two quarters (has received government approval), which will keep slippages at an elevated level.
- Credit monitoring is a key focus area for CBOI and management guidance is to contain FY12 GNPA and NNPA below 2.25% and 1% respectively.

CBOI FY12 margin to be 3%+

- In 1QFY12 reported margins declined ~50bp to 3%, but adjusted for interest on IT refund in 4QFY11 the decline would have been ~15bp.
- While the cost of deposits is increasing, ~73% of assets are on a floating rate basis, which enables the bank to swiftly pass on the impact of rising cost of funds and maintain margins at ~3%.
- CASA growth was healthy(15% YoY in 1QFY12) led by strong traction in saving deposits (17% YoY in 1QFY12), which will help CBOI to contain the cost of funds. The management expects traction in savings deposits to continue and guidance is for SA deposits growth of 20%+ in FY12.

Focus on profitability, efficiency rather than growth

- CBOI has a strong franchise network of 3,800+ branches, which is underleveraged with asset/branch of INR574m (v/s an average of ~INR910m) and business/branch of INR850m (v/s an average of INR1.3b) leaving ample scope for improvement.
- The management has now assigned the responsibility of business to zonal offices rather than mere administrative functions. This will strengthen the sanctioning process and reduce turnaround time, leading to better productivity.

Valuation and view

- With the new management's focus on profitable growth CBOI's core performance is expected to improve in the coming quarters, but asset quality pressure will act as on overhang on the stock. It trades at 3.6x FY11 EPS of INR28 and 0.8x FY11 BV. **Not Rated**.

Dewan Housing Finance Corp

Bloomberg	DEWH IN
Equity Shares (m)	105
CMP (INR)	215
Mcap (USD b)	0.5
52-Wk Range (INR)	347/190
1, 6, 12 Rel Perf (%)	11/-3/-11

YEAR END	NET INCOME (INR M)	Adj PAT (INR M)	EPS (INR)	EPS GR. (%)	P/E (X)	BV (INR)	P/BV (X)	ROAA (%)	ROAE (%)
3/10A	3,227	1,507	18.4	28.8	-	103	-	1.9	22.7
3/11A	4,867	2,297	22.0	19.7	9.8	148	1.4	1.8	19.2
3/12E	6,120	2,814	26.9	22.5	8.0	171	1.3	1.5	16.9
3/13E	7,635	3,490	33.4	24.0	6.4	200	1.1	1.4	18.0

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Key Takeaways

Loan growth to remain healthy

- Dewan Housing Finance's (DEWH) management aims to grow its consolidated loan book by 30-35% in FY12 subject to continued rate hikes by the central bank in its attempt to rein in inflation, which could adversely affect its growth trajectory.
- Real estate prices in the metros continue to hold but in tier-II and tier-III cities, which are DHFLs core markets, prices have seen some softening.
- The incremental average ticket size increased to INR1m against the overall average ticket size for the portfolio of INR0.5m-0.6m.

Margins unlikely to contract significantly

- On a standalone basis DEWH's margins have remained in a band of 2.9-3.1%. The management expects margins to be ~2.8-2.9%.
- DEWH recently raised its lending rates by 125bp, effecting a 75bp and a 50bp hike in the month of July and August respectively.
- The NIMs for Deutsche Postbank Home Finance Limited (DPHFL) were ~2.7% for 1QFY12, which the management expects to bring to DEWH's level by increasing the proportion of high yielding project finance and developer finance portfolio in the DPHFL book. Currently, 99% of the DPHFL portfolio comprises residential mortgages.
- DEWH's incremental cost of borrowing is 10.25-10.5% and the blended portfolio yield is 13-14%.

Asset quality likely to remain healthy

- The management does not foresee significant strain on asset quality. As on 1QFY12 gross NPAs were less than 1% and provision cover was healthy at 70%.

Capital raising in the offing

- After the recent acquisition of Deutsche Postbank Home Finance Ltd. (DPHFL), the leverage for DEWH on a standalone basis is ~9x and on a consolidated basis, it is ~13x.
- DEWH may consider raising capital in the near to medium term as it consolidates DPHFL with itself.
- Current CAR for the standalone entity is 19% with tier-I ratio of 13.8%. DEWH has headroom to raise tier-II capital.

Valuation and view

- We expect DEWH to report consolidated earnings CAGR of 22% over FY11-13 with RoA and RoE of ~1.5% and ~23% respectively. The stock trades at 1.3x and 1.1x its FY12E and FY13E BV respectively. Maintain **Buy**.

Federal Bank

Bloomberg	FB IN
Equity Shares (m)	171
CMP (INR)	355
Mcap (USD b)	1.3
52-Wk Range (INR)	501/326
1, 6, 12 Rel Perf (%)	-10/10/11

YEAR END	NET INCOME (INR M)	PAT (INR M)	EPS (INR)	EPS GR. (%)	P/E (X)	BV (INR)	P/BV (X)	P/ABV (X)	ROAA (%)	ROAE (%)
3/10A	19,417	4,645	27.2	-7.2	-	272	-	-	1.1	10.3
3/11A	22,634	5,871	34.3	26.4	10.3	297	1.2	1.2	1.2	12.0
3/12E	25,514	7,099	41.5	20.9	8.5	327	1.1	1.1	1.3	13.2
3/13E	29,113	7,898	46.2	11.3	7.7	359	1.0	1.0	1.2	13.4

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Key Takeaways

Federal Bank plans SME-driven loan growth strategies

- Leveraging its strong expertise of SME lending in Kerala, the Federal Bank (FB) management plans to grow SME loans aggressively in Punjab, Maharashtra, Gujarat, Karnataka and Tamil Nadu. FB has set up SME credit hubs and retail credit hubs in major centers for faster loan processing.
- For FY12 the management expects to grow loans by 18-20% YoY and deposits by 21-22%.

NRI deposits a focus area

- On the deposit front, FB might focus more on NRI deposits and improve its liability profile. It is also targeting rich belts of NRI deposits in North and West India, such as Punjab and Gujarat, to provide impetus to its NRI business.
- About 80% of FB's NRI deposits come from the Middle East and it has ~7% market share of NRI remittances
- NRI deposits provide float money and wealth management opportunities.
- Currently, FB's CASA ratio is 27% and including the low-cost NRI deposits the ratio is 33-34%. The management aims to increase this to 40% led by new products and by improving efficiency.

Asset quality to remain stable

- Improvement in credit monitoring and control, automation and new and improved processes will control delinquencies going forward.
- As on 1QFY12, gross NPAs were ~3.9% driven by sequentially higher slippages. However, at net level, NPAs were at 0.7% as PCR was healthy at ~82%.
- The management expects asset quality to be healthy and does not expect a negative surprise on that front.

Margins to moderate but remain higher than peers

- Margins declined sharply by ~60bp over the past three quarters to 3.87%.
- The management expects some more moderation in margins from current levels and expects margins to be 3.7-3.8% in FY12.

Other details

- FB plans to scale up its branch network to 1,000 by the end of 2012 from 746 branches as on 1QFY12. Branch expansion is likely to focus more in North and West.

Valuation and view

- We estimate EPS of INR41.5 in FY12 and INR46.2 in FY13. We estimate BV of INR327 in FY12 and INR359 in FY13. The stock trades at FY12E P/BV of 1.1x and PBV of 1x FY13E. Maintain **Buy**.

HDFC

Bloomberg	HDFC IN
Equity Shares (m)	1,470
CMP (INR)	643
Mcap (USD b)	20.7
52-Wk Range (INR)	780/582
1, 6, 12 Rel Perf (%)	4/11/12

YEAR END	NET INCOME (INR M)	PAT (INR M)	ADJ. EPS (INR)	EPS GR. (%)	AP/E* (X)	ABV* (INR)	P/BV (X)	AP/ABV* (X)	ROAA (%)	CORE ROE (%)
3/10A	42,978	28,265	19.7	22.7	-	80.4	-	-	2.7	24.8
3/11A	53,181	35,350	24.1	22.4	19.8	91.3	5.4	5.2	2.9	26.4
3/12E	62,264	41,332	28.2	16.9	16.1	106.7	4.8	4.2	2.8	26.2
3/13E	74,468	49,550	32.6	15.6	12.7	116.0	3.8	3.6	2.8	27.4

* Price is adjusted for value of key ventures. BV is adj by deducting invt in key ventures from NW

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Key Takeaways

Outlook for mortgage financing remains positive

- HDFC remains optimistic about longterm demand for housing finance as India's mortgage to GDP ratio is 9% v/s 80%+ in developed countries like UK and USA.
- Key growth drivers are: (1) increasing affordability due to rising disposable income - average house value has fallen from 22x annual income in 1995 to 4.8x in 2011, (2) rising urbanization - to increase from ~31% in 2011 to 40% by 2030, and (3) favorable demographics - average age of home buyers is 35 years, and currently, ~60% of India's population is below the age of 30.

Growth momentum remains healthy

- Higher disbursements seen in tier-II and tier-III cities, as affordability in metros such as Mumbai and Delhi has reduced. Prices in these cities are stabilizing, but are unlikely to reduce considerably.
- In 1QFY12, sanctions and disbursements grew at a healthy pace of 22% YoY and 20% YoY, respectively. Overall AUM grew by 21% YoY.
- Business growth in the current quarter so far has been in line with 1QFY12, which should translate into ~20% YoY asset growth in 2QFY12.
- For FY12, the management expects to grow its loan book by 18-20%.

Spreads likely to remain stable

- The company was able to sustain its spread at ~2.3% in 1QFY12. The management expects spreads to remain within the historical band of 2.15-2.35%.
- HDFC has hiked its lending rates by ~100bp in the current quarter and still has headroom for another 50bp increase.

Other highlights

- HDFC has tied up with IndusInd Bank for sourcing loans.
- During the year to date period, HDFC has sold loans worth INR12.5b to HDFC Bank. For the full year, this could be INR50b-60b.
- Keen on listing the life insurance arm, but not anytime before March 2012.
- Asset quality is likely to remain stable. Portfolio mix would remain steady, with developer exposure at 10-14%.

Valuation and view

- We expect HDFC to record an EPS of INR28 in FY12 and INR33 in FY13, translating into EPS CAGR of 16% over FY11-13. Core RoE would be over 26% and RoA would remain steady at ~2.8%. The stock trades at 4.2x FY12E and 3.6x FY13E adjusted BV (price adjusted for value of key ventures and book value adjusted for investment in those ventures). Valuations remain rich. Maintain **Neutral**.

HDFC Bank

Bloomberg	HDFCB IN
Equity Shares (m)	467
CMP (INR)	453
Mcap (USD b)	4.6
52-Wk Range (INR)	520/396
1, 6, 12 Rel Perf (%)	3/16/13

YEAR END	NET INCOME (INR M)	PAT (INR M)	EPS (INR)	EPS GR. (%)	P/E (X)	BV (INR)	P/BV (X)	P/ABV (X)	ROAA (%)	ROAE (%)
3/10A	123,695	29,487	12.9	22.1	-	94.1	-	-	1.5	16.1
3/11A	148,783	39,264	16.9	31.0	30.3	109.1	4.7	4.9	1.6	16.7
3/12E	176,646	51,618	22.2	31.5	23.0	126.1	4.1	4.2	1.7	18.9
3/13E	216,497	64,256	27.6	24.5	18.5	147.3	3.5	3.6	1.7	20.2

* Includes pro forma merged figures for HDFC Bank and CBoP

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Key Takeaways

To grow 5-7% faster than industry average

- The management maintains its guidance of higher than industry average growth; hence HDFC Bank's market share should increase further. It estimates industry growth at 18% and its own growth at ~25% for FY12.
- Growth is more likely to be driven from business banking and secured retail loans, while CV and auto loans are likely to slowdown. The management sounded more confident about growth in its retail loan portfolio, as the risk perception in this segment has improved considerably.
- The corporate book should continue to be working capital-driven, with low project finance exposure.

Margins to remain superior

- HDFC Bank has been able to maintain its margins (on total assets) in the range of 3.9-4.3% across cycles and the management expects this trend to continue.
- Despite increase in the savings deposit rate impacting cost of funds by 10-15bp the bank has been able to protect its NIM at ~4.2% largely due to its well-matched asset-liability duration and effective passing of rising cost of funds to customers.

Slippages and credit cost for FY11 lowest since FY05

- The management does not see any pressure on its retail loan book and expects asset quality to remain robust in FY12. In FY11, slippage ratio had declined to 1.1% as against the last five-year average of 2%+.
- Further, on a conservative basis, the bank also made floating provisions of INR6.7b in FY11 to create adequate cushion and absorb any negative shocks. The management mentioned that it will continue to provide for counter-cyclical buffer. Overall credit cost is likely to remain at 1-1.2%.

Other highlights

- Fee income growth is likely to moderate to 10-15% in FY12 as against 15-20% earlier due to lower contribution from income from third-party product distribution. Income from forex and derivatives is likely to grow 18-20%.
- Opex is likely to grow in line with revenue and the management has guided cost-to-income ratio of 47-48%. The bank expects to add 200-250 branches in FY12.

Valuation and view

While we remain positive on the bank's business, we believe valuations are rich. Over FY06-11, the peak one-year forward P/BV was 5x and the average one-year forward P/BV was 3.4x. The stock trades at 3.5x FY13E BV and 18.5x FY13E EPS. **Neutral**.

ICICI Bank

Bloomberg	ICICIBC IN
Equity Shares (m)	1152
CMP (INR)	851
Mcap (USD b)	21.4
52-Wk Range (INR)	1277/825
1, 6, 12 Rel Perf (%)	-8/-7/-3

YEAR END	NET INC. (INR M)	PAT (INR M)	EPS (INR)	EPS GR. (%)	P/E (X)	AP/E* (X)	ABV* (INR)	AP/ABV* (X)	CORE ROAE (%)	ROAA (%)
3/10A	155,920	40,250	36.1	6.9	-	-	348	-	10.1	1.1
3/11A	156,648	51,514	44.7	23.9	19.0	14.4	365	1.8	12.2	1.3
3/12E	188,029	64,169	55.7	24.6	15.3	11.4	399	1.6	14.1	1.5
3/13E	229,498	76,062	66.0	18.5	12.9	9.3	442	1.4	15.1	1.5

* Price adjusted for value of key ventures and BV adjusted for investments in those key ventures

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Key Takeaways

Focus to continue on 5Cs strategy

- ICBK will continue to focus on growth strategy and at the same time will focus on its 5C's (credit growth, cost efficiency, CASA, credit quality and Customer centricity) Management mentioned that current level of RoA of 1.4% has some room for improvement from margins, opex and lower provisions.
- **Credit growth:** Balance sheet growth is likely to be ~18%; with equal contribution from domestic and overseas business. Within domestic: corporate and secured retail loans (Auto and Home loans) remains a key focus area.
- **Cost efficiency:** Operating expenses are likely to grow 20%, and ICBK expects to maintain cost to average assets at 1.7% and Cost to Income ratio at 40-42% on long term basis.
- **CASA:** Focus remains on retail liability driven growth strategy. Management expects to maintain CASA at 40% on a long term basis.
- **Credit quality:** Credit quality is gradually improving with net accretion to NPAs coming down and management does not expect any issues in the near future. Continues with guidance of 80bp credit cost in FY12.

Focused on de-risking the portfolio

- ICBK UK has scaled down investments in bonds/notes of financial institution from USD2.1b as of 1QFY10 to USD640m as of 1QFY12. They do not have any exposure to peripheral European countries.
- Credit derivative exposure (including off balance sheet) has been scaled down to INR21.3b from INR54.1b. In case of derivative exposure, underlying comprises of Indian corporates.

Other highlights

- Overseas margins are expected to improve from 90bp as of 1QFY12 to 125bp by end of the year led by re-pricing on the liability side. Management expects domestic margins to remain at current levels however there remains an upward bias in FY13 led by fall in securitization losses. For FY12, it expects NIM of 2.6%.
- Fee income growth is likely to remain in-line with asset growth with the focus on transaction banking, Forex / derivatives and remittance fees. However, growth in corporate fees would depend on movement in new project announcements and financial closures.

Valuation and View

Adjusted for FY13 based subs value at INR236/share (post 20% holding company discount), stock trades at 1.4x FY13E ABV (adjusted for investment in subs) and 9.3x FY13 EPS. **Buy**.

IDBI Bank

Bloomberg	IDBI IN
Equity Shares (m)	985
CMP (INR)	108
Mcap (USD b)	2.3
52-Wk Range (INR)	202/103
1, 6, 12 Rel Perf (%)	-7/-8/-7

YEAR END	NET INCOME (INR M)	PAT (INR M)	EPS (INR)	EPS GR. (%)	P/E (X)	P/BV (X)	ROE (%)	ROA (%)	ABV (RS)	P/ABV (X)
3/10A	45,578	10,311	14.2	20.0	-	-	13.2	0.5	101	-
3/11A	64,125	16,503	16.8	17.8	6.5	0.8	15.8	0.7	118	0.9
3/12E	69,532	18,300	18.6	10.9	5.8	0.8	13.7	0.7	126	0.9
3/13E	79,356	20,499	20.8	12.0	5.2	0.7	14.0	0.7	142	0.8

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Key Takeaways

Asset quality pressure to abate in 2HFY12

- During 1QFY12, gross slippages were INR6.2b (annualized slippage ratio of 1.6%). Higher slippages were led by the SME segment (~50% of total slippages) due to sub-optimal backend processes.
- While slippages could remain high in 2QFY12 as bank further improves its back-end process it is expected to decline significantly in 2HFY12. Management has guide for slippage ratio of 1.3-1.5% as against 1.4% in FY11.

Consolidating growth to improve balance sheet profile

- IDBI Bank is focusing on reducing the proportion of bulk business and is accordingly guiding loan book growth of 15% and deposit growth of 12-15%.
- On the asset side, the focus would be on SME and retail housing loans, which are relatively higher yielding, while on the liabilities side, the bank intends to focus more on CASA deposits and retail term deposits.
- IDBI Bank had introduced schemes such as waiver of minimum balance and service charges, which bore fruitful results, with the bank adding 1.4m savings accounts in the last one year. IDBI Bank expects CASA ratio to improve to 20% in FY12 and to 25% by FY13 from ~17% in 1QFY12.

Margins to trend upwards

- In a favorable interest rate scenario, IDBI Bank has been able to gradually improve its margins over the past three years from 0.4% in 1QFY09 to 2% in 1QFY12, despite a large proportion of bulk business.
- Going forward improving liability profile and increasing proportion of high yielding loan would provide cushion to NIMs. Management has guided for NIM of 2.2% and 2.6% for FY12 and FY13 respectively as against 2.1% in FY11.

Other highlights

- Fee income growth is likely to moderate to 12-15% on the back of moderation in loan growth and higher base catching up.
- The management targets RoA of 0.9% for FY12 and 1%+ for FY13.

Valuation and view

- While IDBI Bank's NIM has improved from 1.3% in FY10 to 2%, it still remains one of the lowest in the industry. The bank is in the process of restructuring its balance sheet and is willing to sacrifice growth to improve profitability parameters. However, in our view, the high share of bulk deposits and low CASA ratio remains a risk.
- IDBI Bank has some strategic investments which we have not considered in our valuations. The stock trades at 0.7x FY13E ABV. **Neutral**.

IDFC

Bloomberg	IDFC IN
Equity Shares (m)	1463
CMP (INR)	113
Mcap (USD b)	3.6
52-Wk Range (INR)	218/104
1, 6, 12 Rel Perf (%)	-7/-8/-28

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YEAR END	NET INCOME (INR M)	PAT (INR M)	EPS (INR)	EPS GROWTH (%)	P/E (X)	ABV (INR)	AP/ABV (X)	ROAA (%)	CORE ROE (%)
3/10A	21,091	10,623	8.2	41.1	-	42.1	-	3.4	17.6
3/11A	25,455	12,817	8.8	7.4	12.9	60.7	1.5	3.2	17.8
3/12E	29,371	14,697	9.7	10.9	11.7	71.6	1.3	2.8	15.3
3/13E	34,917	17,678	11.7	20.3	9.7	80.4	1.1	2.8	16.1

* Adjusted for Goodwill and Investment in subsidiaries , Prices adjusted for other ventures

Key Takeaways

Outlook on macro economic environment

- The current macro environment remains challenging, with concerns over project execution and procedural delays on account of uncertainty over regulatory clearances.
- Concerns over fuel supply and procedural delays need timely policy action.
- Despite the situation worsening, no further action on the government's part could create significant pressure, derail the growth cycle, and worsen asset quality.

Medium-term growth outlook maintained

- Sanctions and disbursals declined by over 50% YoY during 1QFY12, partly due to slowdown in overall activity and partly due to the high base of the previous year.
- For FY12, the management has guided 15% growth. It maintains its medium-term target of achieving a balance sheet size of INR1t by 2014 (CAGR of ~28%).
- In the roads sector, some traction is being seen due to new projects awarded. However, it could translate into funding opportunity after a lag of 2-3 quarters.

Spreads likely to be maintained

- In 1QFY12, IDFC maintained its spread at 2.2%. Going forward, the management does not expect significant pressure on spreads, as (1) IDFC refrains from growing aggressively, and (2) banks are raising their lending rates, reducing the overall competitive pressure.

Asset quality will remain a monitorable

- IDFC's exposure to state utilities remains negligible, and while its exposure to the power sector is ~43% of its total exposure, there are no major signs of stress, yet.
- The management is cognizant of the current uncertainties in the sector and remains cautious, as macro risks persist.

Other highlights

- Outlook on capital market related businesses continues to be weak and increased competitive intensity is impacting profitability.
- On the principal investments front, IDFC has investments of INR10b-12b in unlisted companies.

Valuation and view

Moderation in asset growth and lower income from the capital market related businesses is likely to impact return ratios in the near term. We expect IDFC to report an EPS of INR9.7 in FY12 and INR11.7 in FY13, translating into an EPS CAGR of 15.5% over FY11-13. The stock trades at 1.3x FY12E and 1.1x FY13E ABV. **Neutral**.

IndusInd Bank

Bloomberg	IIB IN
Equity Shares (m)	466
CMP (INR)	237
Mcap (USD b)	2.4
52-Wk Range (INR)	309/181
1, 6, 12 Rel Perf (%)	-2/12/17

YEAR END	NET INCOME (INR M)	PAT (INR M)	EPS (INR)	EPS GR. (%)	P/E (X)	BV (INR)	P/BV (X)	P/ABV (X)	ROAA (%)	ROAE (%)
3/10A	14,399	3,503	8.5	104.2	-	53	4.5	-	1.1	19.5
3/11A	20,902	5,773	12.4	45.3	19.1	82	2.9	2.9	1.4	19.3
3/12E	27,340	7,524	16.1	30.3	14.6	95	2.5	2.5	1.5	18.2
3/13E	35,097	9,421	20.2	25.2	11.7	111	2.1	2.2	1.5	19.6

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Key Takeaways

IndusInd Bank to sustain margins above the industry

- High interest rates and moderation in economic growth are likely to see systemic credit growth decelerating to 17-18%. While some new projects have been deferred, the pull in working capital is strong.
- IndusInd Bank's (IIB) management expects to leverage its niche expertise and on a lower base expects loan growth to be ~25%.
- While there has been some moderation in demand in the new CV segment, IIB has tried to de-risk its growth by incrementally lending in the used CV segment (4-5 years old), where demand is strong.
- Higher working capital requirement and the consumer finance segment are expected to drive FY12 loan growth. The management intends to increase its consumer finance book to ~50% from ~45% in 1QFY12.

Margins to moderate in 2QFY12

- A sharp rise in the cost of deposits (+68bp QoQ) led to a 10bp decline in reported margins to 3.4%.
- The management expects margins to remain under pressure in 2QFY12 as the lag impact of deposit re-pricing continues. However stabilization in the cost of deposits and continuous re-pricing of loans will keep margins stable/ improving in 2HFY12.

Asset quality to remain healthy

- 1QFY12 annualized slippage ratio was ~1.1% against ~0.9% in FY11. Higher slippages came from the consumer finance division segment, where slippage ratio was 1.96%.
- The management stated that its strategy of keeping away from stress sectors like unsecured retail, real estate, textiles and white goods has put it in a comfortable position as far as delinquencies were concerned.
- While stress at the lower end of the SME segment is visible, its exposure is largely backed by collateral, which reduces the risk of default.
- IIB's exposure to the infrastructure segment is largely towards working capital requirement (~90%) and to companies where the project is up and running, hence there are no reasons for concern.

Valuation and view

- Superior margins, focused fee income strategy and control over C/I ratio will keep core operating profitability strong. Improving liability franchise, structural improvement in RoA and 25%+ asset growth should help IIB to post one of the highest PAT growths (~28%) among banks under our coverage. The stock trades at 2.5x FY12E and 2.1x FY13E BV, and at 14.6x FY12E and 11.7x FY13E EPS. **Buy**.

ING Vysya Bank

Bloomberg	VYSB IN
Equity Shares (m)	150
CMP (INR)	306
Mcap (USD b)	1.0
52-Wk Range (INR)	444/283
1, 6, 12 Rel Perf (%)	-4/10/-4

YEAR END	NET INCOME (INR M)	PAT (INR M)	EPS (INR)	EPS GR. (%)	P/E (X)	BV (INR)	P/BV (X)	P/ABV (X)	ROAA (%)	ROAE (%)
3/10A	14,501	2,423	18.5	0.6	-	185	-	-	0.7	11.6
3/11A	16,615	3,187	26.3	42.3	11.6	208	1.5	1.5	0.9	13.4
3/12E	19,172	4,211	28.2	7.1	10.9	257	1.2	1.2	1.0	13.3
3/13E	22,643	5,116	34.3	21.5	8.9	287	1.1	1.1	1.0	12.6

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Key Takeaways

SME loans, mortgages to be key loan-growth drivers

- With systems and processes in place and legacy issues behind, ING Vysya Bank (VYSB) intends to grow its loan book by 1.2-1.3x the industry average.
- The bank intends to focus on high yielding SME loans and secured retail segment for its growth. It expects to leverage its relationship with ING Global to deepen its relationship with large corporate houses.
- On a pilot basis VYSB has begun to disburse loans in the CV segment (fleet operators) and the unsecured personal loan segment. However it does not expect it to be a major growth driver in the near term.

Higher fee income contribution and lower cost to income to drive profitability

- Management expects to increase its fee income contribution from 30-32% currently to 35%, by launching new product launches and higher cross-selling.
- Bank over the past few years have invested heavily in technology and expects to reap its benefit in coming years. Management expects cost to income ratio to decline to low 50's over next three to four years (from 62% in FY11 and 73% in FY08) led by increased traction in core income.

Margin guidance of 3-3.2; Asset Quality to remain healthy

- While margins declined 30bp in 1QFY12 to 3%, management expects stabilization in cost of deposits and improvement in yield on loans will provide cushion to margins. It has guided for margins of 3-3.2% for FY12.
- Bank has not witnessed any significant pressure on asset quality and expects it to remain healthy. However with uncertain environment it prefers to be cautious rather than chase growth. With lower slippages and PCR at 84% management expects credit cost to decline from 0.8% in FY11.

Expanding horizon to cover all India

- VYSB is predominantly a south-based bank, however the management expects to increase its branch network in the northern and western regions and consolidate its position in the south.
- A large part of the branch increase will be in metros, urban and tier-I cities as it has a strong presence rural and semi-urban areas. The management expects new branches to break even in 12-18 months and the cost-to-income ratio for new branches will converge with the bank's overall cost-to-income ratio in 3-4 years.

Valuation

- We expect EPS CAGR of ~14% over FY11-12. EPS will be INR28in FY12 and INR34 in FY13. We expect BV of INR257in FY12 and INR287 in FY13. The stock trades at 1.1x FY13E BV and 8.9x FY13E EPS. **Buy**.

Kotak Mahindra Bank

Bloomberg	KMB IN
Equity Shares (m)	738
CMP (INR)	430
Mcap (USD b)	6.9
52-Wk Range (INR)	530/333
1, 6, 12 Rel Perf (%)	1/16/11

YEAR END	NET INCOME (INR M)	PAT (INR M)	EPS (INR)	EPS GR. (%)	P/E (X)	BV (RS)	P/BV (X)	P/ABV (X)	ROAA (%)	ROAE (%)
3/10A	49,017	12,382	17.8	87.8	-	114	-	-	2.7	18.1
3/11A	54,168	14,948	20.3	14.1	21.2	149	2.9	3.0	2.4	16.6
3/12E	64,633	17,099	23.2	14.4	18.5	173	2.5	2.5	2.2	15.5
3/13E	77,461	20,086	27.3	17.5	15.8	202	2.1	2.2	2.1	15.7

Net Income and PAT Consolidated Ex life Insurance

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Key Takeaways

KMB FY12 loan growth to be higher than the industry's

- Kotak Mahindra Bank (KMB) expects FY12 loan growth to be faster than that of the industry at ~30% (1QFY12 consolidated loan book grew 36% YoY and 8% QoQ).
- The focus will be on corporate and secured retail loans. Among retail loans, home, car and CV loans are likely to be growth drivers.

Margins under pressure, but unlikely to fall below 5%

- In 1QFY12 NIMs declined ~30bp QoQ to 5% due to rising cost of funds. However, the management expects to sustain NIM at ~5% and margins are unlikely to fall significantly below this level.

Asset quality expected to be stable

- In 1QFY12 consolidated gross NPAs were largely flat QoQ.
- The management expects asset quality to be healthy due to a higher share of collateralized loans and improved risk management practises.
- However, a steep increase in policy rates resulting in an economic slowdown could pose a threat to asset quality.

Weak outlook on capital market-related businesses

- The broking industry continues on the path of fragmentation and margin pressures still remains. The management sees consolidation in this space but it is still early days.
- No major IB deals are taking place, but KMB has a quality IB franchise that can help it to develop corporate banking business.
- The outlook for capital market-related businesses remains weak and the management does not expect the situation to improve in the near term.

Other highlights

- The life insurance business turned profitable and does not require major capital infusion. So far, INR 5.6b has been infused as capital in this business.
- Excess capital is adversely affecting RoEs (bank standalone tier-I ratio 16%)
- KMB is considering acquisition as an option, but will not acquire anything or lend aggressively to consume capital and improve return ratios.

Valuation and view

- The lending business is expected to be the largest (75%+; ~80% in 1QFY12) contributor to profitability. We expect the bank to report ~27% loan CAGR over FY11-13. We expect earnings CAGR (ex-insurance) of 16% over FY11-13. The stock trades at 2.1x FY13E BV and 15.8x FY13E EPS (adjusted for value of the insurance business). Valuations are rich, maintain **Neutral**.

Manappuram Finance

Bloomberg	MGFL IN
Equity Shares (m)	834
CMP (INR)	50
Mcap (USD b)	0.9
52-Wk Range (INR)	95/42
1, 6, 12 Rel Perf (%)	2/-10/-3

YEAR END	NET INCOME (INR M)	PAT (INR M)	EPS (INR)	EPS GR. (%)	P/E (X)	P/BV (X)	ROE (%)	ROA (%)
3/08A	880	279	0.7	-	-	-	68.4	5.4
3/09A	1,734	478	1.1	71.2	-	-	31.2	3.8
3/10A	3,413	1,197	2.9	150.5	-	-	27.9	5.0
3/11A	8,489	2,820	6.8	136.1	7.5	1.1	22.0	5.0

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Key Takeaways

Growth likely to remain strong

- In 1QFY12 Manappuram Finance's (MGFL) disbursements grew 42% QoQ and gold loan AUMs grew 20% QoQ.
- The 20% QoQ increase in gold loan AUMs could be broken down into a 13% volume increase and ~7% value increase.
- Notwithstanding the current macro-environment, the management maintained its guidance of reaching INR120b AUM (INR90b as on June 2011) by FY12 translating into YoY growth of ~60%.

Plans to add 500 branches in FY12

- The management expects to add 500 branches in FY12, of which 216 new branches were added in 1QFY12.
- Branch addition for the year is likely to be front loaded.
- Of the total, 300 new branches are likely to be added to support business requirements of existing branches.

Margins likely to remain stable

- The management is confident of maintaining margins at 1QFY12 levels if policy rates remain at current levels.
- Incremental cost of borrowings is 12.5-13% and yields are at ~26%.

Asset quality likely to remain healthy

- Gross NPAs in 1QFY12 were 0.5% v/s 0.3% in 4QFY11.
- The management expects asset quality to remain healthy. A steep increase in gold prices will provide cushion in terms of asset quality.

Other highlights

- Margin compression in 1QFY12 is likely to be made up by a decline in the opex-to-asset ratio.
- The management expects to bring down the opex-to-asset ratio to ~6% from 7% in FY11 and targets to maintain RoA at ~4.5%.
- With CAR of 22%, MGFL remains adequately capitalized to achieve the desired growth rate.

Valuation and view

- We believe MGFL is well positioned in a niche business segment and has the domain expertise and the required platform to scale up its business to the next level. However, regulatory uncertainty securitization of assets could be an overhang on the stock. **Not Rated**.

Muthoot Finance

Bloomberg	MUTH IN
Equity Shares (m)	372
CMP (INR)	181
Mcap (USD b)	1.5
52-Wk Range (INR)	198/150
1, 6, 12 Rel Perf (%)	14/-/-

YEAR END	NET INCOME (INR M)	PAT (INR M)	EPS (INR)	EPS GR. (%)	P/E (X)	P/BV (X)	P/ABV (X)	ROE (%)	ROA (%)
3/08A	1,888	636	2.0	44.6	-	-	-	34.2	3.2
3/09A	3,106	977	3.1	53.7	-	-	-	34.0	2.9
3/10A	6,157	2,276	7.1	132.9	-	-	-	48.1	3.7
3/11A	12,832	4,942	15.4	117.1	11.5	4.2	4.3	51.5	3.9

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Key Takeaways

Growth outlook remains strong

- Muthoot Finance (MUTH) witnessed robust growth in 1QFY12, with gross retail AUM growing by 97% YoY and 13% QoQ to INR179b.
- For FY12, the management has guided gross retail AUM growth of 40-50%. The QoQ growth trend of 10-12% is likely to continue.

Margins likely to remain stable

- In 1QFY12, MUTH reported a margin of 11.2% as compared with 10% in 1QFY11 and 10.86% in FY11. The management does not expect significant margin pressure, as it has been able to pass on the increase in its cost of borrowings.
- The average lending rate currently stands at 21% v/s 19% a year ago.
- The withdrawal of PSL status on bank loans to NBFCs and withdrawal of agri loan status for bank loans to NBFCs for on-lending against gold jewelry has resulted in a 50bp increase in MUTH's cost of borrowings.

Branch expansion plans

- The company has added more than 1,200 branches in the last one year and over 260 branches in 1QFY12, taking the total branch network to 3,100+.
- MUTH plans to add 700 branches in FY12.

Asset quality likely to remain healthy

- Gross NPAs in 1QFY12 remained stable QoQ at 0.3%.
- The management expects asset quality to remain healthy, given that the loan to value (LTV) ratio is comfortable at ~72%.
- Given the steep increase in gold prices, MUTH remains cautious and is maintaining lower LTV, which provides cushion on the asset quality front in case of fall in gold prices.

Other highlights

- The company expects to maintain RoA at 4-4.5%.
- Current leverage stands at 6.8-6.9x. The management is comfortable with leverage of 7.5-8x.

Valuation and view

- We believe MUTH is strongly positioned in a niche business segment and has domain expertise and the required platform to scale up the business to the next level. However, regulatory uncertainty hovering around for all NBFCs could act as an overhang in the near term. **Not Rated**.

Rural Electrification Corporation

Bloomberg	RECL IN
Equity Shares (m)	987
CMP (INR)	175
Mcap (USD b)	3.8
52-Wk Range (INR)	410/163
1, 6, 12 Rel Perf (%)	-7/-14/-35

YEAR END	NET INCOME (INR M)	ADJ PAT (INR M)	EPS (INR)	EPS GR. (%)	P/E (X)	BV (INR)	P/BV (X)	ROAA (%)	ROAE (%)
3/10A	28,115	20,014	20.3	23.3	-	112	-	3.4	22.0
3/11A	36,951	25,645	26.0	28.1	6.7	129	1.4	3.4	21.5
3/12E	42,216	29,020	29.4	13.2	6.0	149	1.2	3.2	21.1
3/13E	50,141	34,425	34.9	18.6	5.0	172	1.0	3.1	21.7

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Key Takeaways

Asset quality takes center stage

- Health of state utilities (~82% of the outstanding loan book) is an area of concern. RECL now refrains from funding loss making SEBs such as TNEB and MPEB by declining short-term loan proposals to state utilities.
- The management is optimistic regarding policy action on this front, given the proposed reforms announced by the Ministry of Power recently.
- The management does not expect a spike in NPAs, though there is a possibility in some accounts of delay in payments.
- No restructuring proposal has been received yet, but RECL does not expect loss of interest in case accounts get restructured.

Disbursement growth likely to remain healthy

- The outstanding sanctions pipeline was INR1.75t. Consequently the management expects disbursements growth to be 20% YoY.
- However, RECL has turned cautious over funding gaps for state utilities through short-term loan, which would have otherwise boosted company's growth.

Borrowing plan for FY12

- Of the total INR280b-300b planned to be raised in FY12, RECL raised INR80b in 1QFY12. Of the balance, the company plans to raise
  - USD750m in 2QFY12, for which regulatory approvals are in place;
  - USD750m (second tranche) by March 2012, for which RECL will take RBI's approval;
  - USD1b through FCCBs subject to RBI and Ministry of Finance approval.
  - Cost of foreign currency borrowing (on a fully hedged basis) is likely to be lower by at least 200bp compared with the domestic cost of borrowing.

RECL to sustain margins at ~4.4%

- Higher foreign currency borrowing at a lower rate augur well from margin perspective.
- In 1QFY12 margins were steady at ~4.3%. The management guidance is to maintain margins at ~4.4%.

Valuation and view

- With a strong sanctions pipeline (INR1.75t), we expect loan growth to be healthy at 22% CAGR over FY11-13. However, in the current macro-economic environment asset quality is a bigger concern against fears of slow growth.
- The stock trades at P/E of 5x FY13E EPS and 1x FY13E BV. Maintain **Buy**.

Shriram Transport Finance

Bloomberg	SHTF IN
Equity Shares (m)	226
CMP (INR)	599
Mcap (USD b)	3.0
52-Wk Range (INR)	900/551
1, 6, 12 Rel Perf (%)	-2/-10/-11

YEAR END	NET INC. (INR M)	PAT (INR M)	EPS (INR)	EPS GR. (%)	P/E (X)	BV (INR)	P/BV (X)	P/ABV (X)	ROA ON AUM (%)	ROAE (%)
3/10A	22,491	8,731	38.7	28.7	-	170	-	-	2.8	28.6
3/11A	30,551	12,299	54.4	40.5	11.0	217	2.8	2.8	3.3	28.2
3/12E	35,114	13,676	60.5	11.2	9.9	269	2.2	2.2	3.1	24.9
3/13E	39,537	15,647	69.2	14.4	8.7	328	1.8	1.8	3.0	23.2

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Key Takeaways

Regulatory uncertainty clouds outlook

- Although the RBI has maintained status quo on the priority sector status over securitized assets for companies like Shriram Transport Finance (SHTF), regulatory uncertainty clouds the near-term outlook.

Growth guidance maintained

- In 1QFY12, SHTF posted 22% YoY growth in its AUM to INR 370b. The management has guided for AUM target of INR420b (translating into 15-16% YoY growth in FY12).
- The management has indicated that FY12 asset growth could slowdown to 12-15%. However, they would re-visit their guidance only after 1HFY12, once more clarity emerges over macro issues. However, the management remains confident of growing at faster pace than the industry.
- Disbursement trends have been better than expected in June and July, though not quantified by the management.

Asset quality likely to remain healthy

- In 1QFY12 gross NPAs increased 14% QoQ, which was largely seasonal in nature.
- The management is not unduly worried about the asset quality as it believes that the freight rates are holding up and no major stress has been witnessed so far.
- Regarding ongoing issues pertaining to transport irregularities in mining areas, SHTF's exposure is negligible and is running off.

Margins likely to remain under pressure

- Withdrawal of priority sector status on loans given by banks to NBFCs by the RBI has resulted in an increase in SHTF's borrowing costs.
- Reported NIM during 1QFY12 improved by 26bp to 7.91%. The management expects margins to remain steady at current levels. However, change in securitization norms for NBFCs could act as a drag on margins.

Other highlights

- The management expects to maintain its RoE at 27-28%. However, the management remained confident that even in case of complete disallowing of securitization by NBFCs the RoE's are unlikely to fall below 23-24%.

Valuation and view

- We expect SHTF to report EPS of INR61 and INR69 in FY12 and FY13 respectively with superior RoAs of ~3% (including off books loans). The stock trades at 2.2x and 1.8x its FY12E and FY13E ABV respectively. While return ratios remain strong, concerns over slowdown in growth and uncertainty from the regulatory perspective could weigh on the stock performance in the near term. Maintain **Buy**.

State Bank of India

Bloomberg	SBIN IN
Equity Shares (m)	635
CMP (INR)	2,062
Mcap (USD b)	28.6
52-Wk Range (INR)	3515/2008
1, 6, 12 Rel Perf (%)	-5/-14/-15

YYEAR END	NET INCOME (INR M)	PAT (INR M)	EPS (INR)	EPS GR. (%)	P/E (X)	BV (INR)	P/BV (X)	P/ABV (X)	ROAA (%)	ROAE (%)
3/10A	386,396	91,661	144.4	184.8	-	1,268	-	-	0.9	14.8
3/11A	483,510	82,645	130.2	168.3	11.8	1,268	1.6	1.8	0.7	12.6
3/12E	574,286	112,096	176.5	225.9	8.7	1,452	1.4	1.5	0.9	16.2
3/13E	666,773	148,657	234.1	304.2	6.5	1,702	1.2	1.3	1.0	18.8

* Valuation multiples are adjusted for SBI Life's value

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Key Takeaways

Focus to be on quality growth rather than market share

- The management is willing to sacrifice market share to protect its margins. It has increased its base rate by ~200bp over the last 8 months to 10%.
- While it estimates systemic credit growth to be 18%, it remains confident of achieving 16-18% loan growth for itself in FY12.

Maintains NIM guidance of 3.5% for FY12

- In 1QFY12 SBI reported 55bp improvement in margin driven by (1) higher CASA share coupled with re-pricing of high cost deposits and (2) increase in lending rate.
- Further INR350b of high cost deposits (9.5-10.5% raised in FY08) is likely to come for re-pricing which will help the bank to contain cost of funds.
- However in 2HFY12 with bulk of re-pricing behind management expects margins to moderate, but remains confident of maintaining NIM at 3.5%+ for FY12.

Asset quality a key focus area for the bank

- Asset quality remains a concern, with slippages at elevated levels. SBI has reiterated its focus on improving risk management practices.
- Stress in the corporate segment has reduced considerably. However, the trend in SME and retail loans needs to be watched.
- Higher upgradations and recoveries in 2HFY12 will lead to improvement in asset quality and will help to contain NNPA below 1.5% in FY12.

One-off provisions behind; expect provisions to decline

- With one-off provisions for change in NPA guidelines and restructured loans behind (one-off provisions that remain to be made are INR5.5b), provisions are likely to decline substantially.
- Further, increase in pension liability was a one-off and is not likely to recur. The impact of pension liability was larger, as the wage hike was implemented with retrospective effect from November 2007. The bank is now likely to provide for such hikes on an ongoing basis - at least partially. Hence, a negative surprise on this count is unlikely.

Other highlights

- Government to infuse capital and expects to receive the same in FY12.
- For FY12, SBI expects fees to grow slower than asset growth.

Valuation and view

As SBI regains investor confidence through stable margins at 3.5%+ and improvement in asset quality (key catalyst in the rest of FY12), valuations could improve from current levels of 1.2x FY13E consolidated BV. **Buy**.

UCO Bank

Bloomberg	UCO IN
Equity Shares (m)	628
CMP (INR)	69
Mcap (USD b)	0.9
52-Wk Range (INR)	152/62
1, 6, 12 Rel Perf (%)	-10/-23/-29

YEAR END	NET INCOME (INR M)	PAT (INR M)	EPS (INR)	EPS GR. (%)	P/E (X)	P/BV (X)	P/ABV (X)	ROE (%)	ROA (%)
3/08A	22,599	4,122	5.2	30.4	-	-	-	17.9	0.5
3/09A	26,646	5,577	10.2	96.9	-	-	-	21.3	0.6
3/10A	32,901	10,122	18.4	81.5	-	-	-	31.6	0.8
3/11A	47,703	9,065	12.2	-34.0	5.7	0.8	1.1	17.4	0.6

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Key Takeaways

UCO consolidates balance sheet for profitable growth

- UCO Bank's (UCO) new management (Mr Arun Kaul joined in September 2010) identified four challenges (liability franchise, assets, HR and business process) that were hurdles in improving the bank's operating metrics and is taking remedial steps so that the bank can post sustained, profitable growth.
- The management intends to de-bulk (70% of the book towards corporate loans and 30%+ bulk deposits) its balance sheet and focus more on SME and retail segments on the assets side and retail deposits and CASA deposits on the liabilities side.

Focus on CASA deposits

- Reliance on bulk deposits for rapid growth in the past (31% CAGR over FY07-10), slow branch and ATM roll out and backwardation in technology led CASA ratio to decline from 29% in FY07 to 22% in FY11.
- With systems and processes in place and the bank on a 100% CBS platform, UCO is leveraging its position by offering new products and increasing customer acquisitions.
- Further it aims to increase its branch and ATM network from 2,200 and 800 to 3,000 each by end of FY13 respectively. The new branches and ATM's are being opened to target new growth areas and increase brand visibility.
- De-bulking of the balance sheet and improved product have led CASA ratio to improve to ~26% in 1QFY12 and the management expects it to improve further.

Strengthening of the system and process

- Slippages over the past few quarters have been at en elevated level (2% in 1QFY12 and 3.3% in FY11 against 1.6% in FY10) as UCO continued to clean up its balance sheet and migrated its portfolio (INR0.5m and above) through system-based recognition of NPAs.
- UCO is expected to transit its remaining portfolio in 2QFY12, which may lead to further pressure on asset quality, post which slippages is expected to decline.
- UCO has tightened its credit appraisal and divided its offices into four major verticals (headquarters, regional and zonal offices and branches) against three earlier, to increase the monitoring and selection process.
- As far as stress assets are concerned, UCO has established a separate recovery cell and 5-6 separate branches will focus only on recovery of bad assets.

Valuation and view

- The management is taking steps to improve UCO's asset and liability profile, which in turn helps in improving margins. Near term asset quality pressure is likely to continue due to system-based NPA recognition. The stock trades at 0.8x PBV and 5.7x PE FY11. **Not Rated**.

Yes Bank

Bloomberg	YES IN
Equity Shares (m)	348
CMP (INR)	266
Mcap (USD b)	2.0
52-Wk Range (INR)	388/234
1, 6, 12 Rel Perf (%)	-6/8/-9

YEAR END	NET INCOME (INR M)	PAT (INR M)	EPS (INR)	EPS GR. (%)	P/E (X)	BV (INR)	P/BV (X)	P/ABV (X)	ROAA (%)	ROAE (%)
3/10A	13,635	4,777	14.1	37.5	-	91	-	-	1.6	20.3
3/11A	18,702	7,271	20.9	48.9	12.7	109	2.4	2.4	1.5	21.1
3/12E	24,200	9,285	26.7	27.7	10.0	132	2.0	2.0	1.4	22.2
3/13E	31,467	11,473	33.0	23.6	8.1	160	1.7	1.7	1.3	22.6

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Key Takeaways

Management's cautious approach to moderate loan growth

- Yes Bank's change in strategy of being cautiously optimistic instead of aggressively growth-centric in an uncertain environment augurs well for the bank.
- The management expects loan growth to be 1.5x of the industry average in the current fiscal, but its medium-term target of 30-35% YoY growth remains unchanged.
- In the near term the key focus area is likely to be corporate and institutional banking (C&IB, for clients with a turnover >INR20b) and commercial banking (for clients with turnover of INRs2b-20b) to grow its loan book.
- The expanding branch network will help to grow its high yielding branch banking loans. The bank expects to increase the share of SME and retail loans to 30% by FY15 from 12% currently.

Improving liability franchise a key focus area

- YES is predominantly wholesale funded bank and is focusing on improving its retail liabilities by branch expansion, new customer acquisition and superior technology.
- The bank increased its branch network to 255 from 155 a year earlier. The management believes that reaching a branch network of 300-400 branches would be an inflexion point for the strong retail liabilities growth ahead and has guided for CASA and retail deposits as a percentage of total deposits to increase to 60% from 27% currently. It plans to add 35-40 branches every quarter.
- To achieve its objectives YES Bank has hired top three leaders from Axis Bank who were instrumental in driving their liability strategy, particularly CASA strategy.

Buffer to margins in place, to be 2.8-3% in the near term

- YES has no major exposure to consumer lending (carrying a fixed rate of interest) and ~95% of the loan book is either floating or of short tenor.
- As loans are largely on a floating-rate basis, the management is confident of passing bulk deposit costs to borrowers and maintaining margins of 2.8-3%.

Asset quality robust

- Yes Bank's asset quality is robust with GNPA of 0.2% and NNPA at near zero. The bank has started de-bulking its balance sheet to diversify its risk profile.
- With low restructured loans and strong credit appraisal asset quality is expected to be healthy.

Valuation and view

- Key positives for YES are: (1) strong growth, (2) proven execution capabilities, (3) diversified fee income and (4) superior return ratios. We expect RoA of 1.3-1.4% and RoE of 22%+. Maintain **Buy**.

Grasim / UltraTech

Bloomberg	GRASIM IN
Equity Shares (m)	92
CMP (INR)	2,108
Mcap (USD b)	4.2
52-Wk Range (INR)	2,625/1,981
1, 6, 12 Rel Perf (%)	8/1/12

YEAR END	NET SALES (INR M)	PAT (INR M)	EPS (INR)	EPS GR. (%)	P/E (X)	P/BV (X)	ROE (%)	ROCE (%)	EV/ EBITDA	EV/TON (US$)
03/10A	199,334	27,342	298.2	25.0	7.1	1.5	22.7	23.9	3.4	-
03/11E*	212,690	18,828	205.3	-31.2	10.3	1.3	13.9	16.5	4.4	81
03/12E*	229,953	27,712	302.1	47.2	7.0	1.1	17.5	17.6	4.2	81
03/13E*	266,578	33,487	365.1	20.8	5.8	1.0	18.0	19.0	3.3	56

Consolidated; * Demerger of cement business assumed w.e.f. 1 October 2009

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Key Takeaways

Cement volume growth to recover in 2HFY12, but excess supply to persist for at least two years

- For the cement industry, Grasim expects demand to grow 7.5-8% in 2HFY12, despite muted growth in 1HFY12, driven by pick-up in infrastructure activity.
- It believes that the long-run demand drivers are intact and would drive strong growth of 8-10% over the next five years.
- In the worst case, it expects capacity addition of ~100mt in five years and 30-40mt over the next two years. However, beyond 100mt, it expects capacity addition to be very difficult, impacted by tightening of regulatory environment.
- The company expects pricing and margins to remain challenging over the next few quarters. It estimates worst case EBITDA at INR600-650/ton, best case EBITDA at INR900-1,000/ton and base case EBITDA of INR800-850/ton for FY12.

VSF prices under significant pressure; initial signs of stabilization, as Chinese players incur cash losses

- Sharp correction in competing fiber (cotton and PSF) prices from peak levels of March 2011 has resulted in VSF prices correcting by INR30-35/kg from the peak of April 2011 to INR120-125/kg.
- There are initial signs of stabilization, as Chinese players are operating at 60% utilization and incurring cash losses.
- This coupled with cotton production in the forthcoming season would be the key influencing factor for VSF demand and pricing. 2QFY12 demand would be impacted due to inventory correction in the value chain.

Going ahead with mega capex plans, with investment of INR143.7b

- UltraTech is investing INR110b over the next 3-4 years for adding new capacities, logistics infrastructure and modernization of its plant.
- It is setting-up a 9.2mt capacity at Chhattisgarh and Karnataka, along with split grinding units and packaging terminals. This capacity would be operational in FY14.
- Grasim is expanding capacity in VSF by 156,500 tons (greenfield + brownfield). This is supplemented by caustic capacity addition of 182,500 units. It would be investing INR33.6b to augment its capacity by 47% to 490,475 tons by FY13.

Other takeaways

- The proposed Land Acquisition Bill could result in 6x increase in land cost, thereby resulting in increase in replacement cost by USD70-75/ton, necessitating remunerative cement prices.
- Post Domsjo acquisition, captive pulp contributes 90-100% of its requirement currently and 65-70% on expanded VSF capacity (FY14 onwards).

AIA Engineering

Bloomberg	AIAE IN
Equity Shares (m)	94
CMP (INR)	343
Mcap (USD b)	0.7
52-Wk Range (INR)	480/305
1, 6, 12 Rel Perf (%)	4/15/7

YEAR END	NET SALES (INR M)	EBIDTA MAR. (%)	PAT (INR M)	EPS (INR)	EPS GR. (%)	P/E (X)	P/BV (X)	ROE (%)	ROCE (%)	EV / EBIDTA
Mar-08	5,926	22.3	1,083	11.4	62.7	-	-	22.8	31.8	-
Mar-09	9,216	21.8	1,335	13.8	20.9	-	-	22.7	34.3	-
Mar-10	8,040	22.3	1,226	12.6	-8.6	-	-	17.6	26.3	-
Mar-11	9,608	17.8	1,298	13.3	5.5	28.4	4.2	16.4	24.0	20.3

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Key Takeaways

A strong footprint in mining segment; Volume ramp up to drive margins

- The AIA Engineering (AIAE) management stated that the global mining segment has a huge untapped addressable market. The cement and mining segments use traditionally forged grinding media which is now moving towards new technology of high cast chrome driven by cost efficiency and better product reliability. Currently the internal mill consumables market in the mining segment is estimated at 2mmt and the management expects that out of this 1mmt will move from forged grinding to high cast chrome media in 4-5 years, providing huge growth potential. AIAE and Magotteaux are two major players in the high cast chrome media. AIAE expects volumes of 40,000mt by FY12, 60,000mt by FY13 and 80,000mt by FY14.
- However due to a location disadvantage, smaller volumes and entry pricing strategy, margins are under pressure. Mill internals are consumables and uninterrupted supply is of utmost importance for customers. Setting up warehouses across geographies remains AIAE's biggest challenge. In the management's view margins in the next few quarters will face headwinds due to pricing but the management expects margins to improve as volumes catch up over the next few quarters.

Cement industry maturing, but margins healthy due to customer preference

- The cement industry is showing signs of maturity as markets are flattening. Except for a few pockets, the management sees limited growth opportunity in the sector. New capacity in North America and Western Europe has saturated demand, which is being driven mainly by replacement sales. In the domestic market demand from new projects is good from new projects and strong from the replacement market.

Foray into new product areas, geographies; Promising growth opportunities

- AIAE entered the crushing market, which is a promising area of growth. The management expects the sector to contribute to revenue by 3QFY12.
- AIAE entered vertical mill products in China, which is growing significantly. In FY11 the company sold about 2,500mt and in FY12 AIAE expects to meet the target of 5,000mt. The company expects volumes to grow to about 10-20mt over 3-4 years.

Valuation and view

- AIAE has nearly tripled its manufacturing capacity over the past three years, from 65,000 tons a year in FY07. Production was stagnant in FY09 and FY10, before rising 20% YoY. In the current environment of a global slowdown, the growth outlook is uncertain. Success in the mining sector is critical for AIAE's long-term growth sustainability. The stock trades at 16x FY12E consensus EPS of INR23. We do not have a rating on the stock.

BGR Energy Systems

Bloomberg	BGRL IN
Equity Shares (m)	72
CMP (INR)	316
Mcap (USD b)	0.5
52-Wk Range (INR)	871/299
1, 6, 12 Rel Perf (%)	-19/-24/-51

YEAR END	NET SALES (INR M)	PAT (INR M)	EPS (INR)	EPS GR (%)	P/E (X)	P/BV (X)	ROE (%)	ROCE (%)	EV/ SALES	EV/ EBITDA
03/10A	30,779	2,016	28.0	74.2	-	-	31.7	22.8	-	-
03/11A	47,632	3,230	44.8	59.9	7.1	2.4	39.0	24.3	0.5	4.7
03/12E	53,403	3,565	49.4	10.4	6.4	1.9	32.8	21.6	0.6	4.7
03/13E	59,217	3,801	52.7	6.6	6.0	1.5	27.4	19.4	0.6	4.7

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Key Takeaways

Outlook for order intake improving though external environment remains challenging

- BGR Energy Systems (BGRL) expects order inflow to improve in the medium term. There is significant progress in awards of BoP orders from IPPs (INR2-3b). Visibility of finalization of the orders from Rajasthan SEB (two projects of 2x660MW each, which got delayed due to in-sufficiency of coal linkages) has improved. These should be finalized by the end of 2QFY12.

Price bids for NTPC 2 in September; success in NTPC tenders to improve outlook for BTG JVs

- The management believes that price bids for the NTPC bulk tender 2 (9x800MW), for which BGRL is pre-qualified will be invited in September 2011.
- BGRL is also in the fray for boiler packages of NTPC's 11x660MW bulk tender along with BHEL and L&T. It expects the price bids to be opened after the Supreme Court hears Gammon's plea over its disqualification in the next few days.
- Construction work in both the JVs (BGRL is spending INR44b over 3.5 years to set up a boiler and turbine manufacturing facility, with supercritical capability in 660, 700, 800 and 1,000MW ranges through a JV with Hitachi, Japan) is well on schedule and the boiler JV is likely to commence production by 3QFY13 and the turbine JV in 1QFY14.
- Success in NTPC's boiler package for an 11x660MW bulk tender (under arbitration; price bids due) and NTPC 2 (price bids expected in September 2011) will improve outlook for the growth of BGRL's manufacturing JVs.

Margins to improve in FY12, driven by better sales mix

- In 1QFY12, EBITDA margin expanded due to favorable mix, driven by higher (YoY) contribution from BoP contracts (40% of power segment sales) relative to EPC contracts (60% of power segment sales). The trend is likely to continue in FY12 due to higher weight of BoP contracts in the order book. We expect EBITDA margin to be 12% (up 50bp) in FY12.

Valuation and view

- Success in forthcoming tenders is critical for BGRL's growth in FY13. BGRL needs to book orders worth INR80b-100b in FY12 to grow by 15% in FY13. Our EPS estimates are INR49.4 (up 10%) for FY12 and INR52.7 (up 7%) for FY13. We expect BGRL to post revenue CAGR of 12% and earnings CAGR of 9% over FY11-13.
- The stock trades at 6x FY12E earnings; valuations are favorable. We recommend **Buy**, with a target price of INR527 (10x FY13E EPS).

Havells India

Bloomberg	HAVL IN
Equity Shares (m)	125
CMP (INR)	328
Mcap (USD b)	0.9
52-Wk Range (INR)	451/290
1, 6, 12 Rel Perf (%)	1/12/-6

YEAR END	NET SALES (INR M)	PAT* (INR M)	EPS* (INR)	EPS* GR. (%)	P/E (X)	P/BV (X)	ROE (%)	ROCE (%)	EV/ SALES	EV/ EBITDA
3/10A	51,626	696	5.6	80.8	58.9	10.2	17.4	7.2	1.0	16.1
3/11A	56,126	2,747	22.0	294.2	14.9	6.3	42.0	18.3	0.9	9.8
3/12E	63,483	3,644	29.2	32.7	11.3	4.3	38.2	21.0	0.7	7.1
3/13E	71,380	4,395	35.2	20.6	9.3	3.3	33.3	20.8	0.6	5.8

* Consolidated nos, pre exceptional

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Key Takeaways

Revenue to grow at 10-11%; new products to contribute significantly

- The management maintained its consolidated revenue growth guidance of 10-11% for FY12. We expect consolidated revenue to grow 13% in FY12 and 12% in FY13. For 1QFY12, Havells India (HAVL) reported standalone revenue of INR8b (up 16% YoY), driven by strong growth in all segments except switchgear. Switchgear revenue was impacted by an overhang of a drop in exports of MCP to the UK.
- Sylvania reported flattish revenue in 1QFY12 impacted by unfavorable currency movement in the American region. Europe continues to de-grow (-3% YoY in 1QFY12). The management expects significant growth from LATAM region. We expect Sylvania to post 6% revenue growth in Euro terms in FY12.
- HAVL is in the process of broadening its product portfolio of consumer durables. It introduced water heaters in 1QFY12, which boosted consumer durables sales (INR400m of sales of water heaters in 1QFY12 v/s nil in 1QFY11). Launch of further new products such as geysers, motors, juicers, etc is in the pipeline. Management expects significant growth from new products in FY12 onwards. In the domestic market (Standalone business) we expect revenues to grow by 17% YoY in FY12.

Targets exponential growth in switchgear business

- The company is targeting to double its revenue from the switchgear business with its foray into the global market. It is in the process of launching its switchgear in the UK market and is planning to set its footprint in Chinese markets, as well.
- HAVL has a strong foothold in the domestic market, where it competes with multinationals like Schneider and Legrand. It currently commands 20% market share. We believe that HAVL is well positioned to extend its strong branding and long experience in the low voltage switchgear segment to newer geographies.

Current level of margins sustainable in domestic business; turnaround of Sylvania to provide significant boost to profitability at consolidated level

- The management reiterated its earlier expectation of sustaining margins at FY11 levels of 11-12% in the domestic business.
- The management expects ~8% EBITDA margin for Sylvania in FY12. Sylvania turned around from a loss-making unit to a profit-making business in FY11. In 1QFY12 EBITDA margin jumped 190bp YoY to 7.3% and was broadly at 4QFY11 levels.

Valuation and view

- Our EPS estimates are INR29.2 (up 33%) for FY12 and INR35.2 (up 21%) for FY13. We estimate consolidated revenue CAGR at 13% and PAT CAGR at 26% over FY11-13. The stock trades at 11x FY12E and 9x FY13E consolidated EPS. **Buy** with a target price of INR491 (14x FY13E EPS).

Larsen and Toubro

Bloomberg	LT IN
Equity Shares (m)	610
CMP (INR)	1,564
Mcap (USD b)	20.9
52-Wk Range (INR)	2,212/1,463
1, 6, 12 Rel Perf (%)	-2/8/-5

YEAR END	NET SALES (INR M)	PAT* (INR M)	EPS* (INR)	EPS GR. (%)*	P/E* (X)	P/BV (X)	ROE (%)	ROCE (%)	EV/ SALES	EV/ EBITDA
3/10A	370,348	37,110	61.6	20.1	-	-	20.7	23.1	-	-
3/11A	439,049	42,416	69.7	13.0	22.5	4.4	18.3	21.9	2.2	17.8
3/12E	540,808	52,077	85.5	22.8	18.3	3.8	18.7	22.3	1.8	14.7
3/13E	677,059	66,706	109.6	28.1	14.3	3.3	19.7	23.0	1.5	12.2

Consolidated; EPS is fully diluted

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Key Takeaways

Environment challenging but no meaningful adverse impact

- The external environment is plagued by a policy logjam and high capital costs. L&T is experiencing extended award timelines but there is no meaningful adverse impact on ordering activity. The management said its diversified portfolio was helping L&T counter external headwinds and was confident of 15% growth in FY12.
- L&T expects 15,000MW of orders, besides NTPC bulk orders, over the next few quarters. It announced large orders such as the Hyderabad Metro (INR12b), four-laning of NH14 between Beawar and Pindwara (INR17b), a 360MW plant order from PPN (INR14b), EPC order from Zawtika Wellhead Platforms for PTTEP of Thailand (INR10b), PPN's order to construct a power plant (INR35b), orders from ADNOC (Abu Dhabi) and a UAE-based company (USD639m), driving order intake growth.
- We expect the order book to grow to INR899b. Prospects are improving in sectors like infrastructure, hydrocarbons and process segments. In the power sector, demand outlook is strong in T&D and BoP spaces. However, uncertainty plagues sectors like downstream hydrocarbon, defense and power equipment. The hydrocarbon division is facing competitive pressure from new entrants. There is a project pipeline worth USD15b from the Middle East, where L&T aims to bag orders worth USD3b-4b. It is well placed (lowest bidder) in three orders (two in Abu Dhabi, one in Thailand), aggregating INR35b, which will be booked this year.

Execution momentum to drive FY12 revenue growth of 25%

- The management maintained its FY12 revenue growth guidance of 25% but is cautiously optimistic and might review it after 2QFY12 results, given the uncertain business environment. Our estimates factor in FY12 revenue growth of 23% and 25% for FY13. Margins are under pressure due to rising commodity prices. The management stated that margins could be hit by 70-80bp due to headwinds from commodity prices. Softer commodity prices can limit margin contraction.

Other takeaways

- L&T is executing infrastructure projects aggregating INR627b with equity requirement of INR125b. L&T aims to infuse USD300m-400m of equity in subsidiaries in FY12.
- The management has guided USD300m of corporate capex while its working capital requirement is likely to increase by USD100m-200m by the end of FY12.

Valuation and view

- We expect L&T to post earnings CAGR of 25% over FY11-13. **Buy** with an SOTP-based target price of INR2,127. We have valued L&T standalone at 20x FY13E earnings and subsidiaries at INR484/share. We believe improved order intake visibility justifies the target P/E of the standalone business.

Suzlon Energy

Bloomberg	SUEL IN
Equity Shares (m)	1777
CMP (INR)	39
Mcap (USD b)	1.5
52-Wk Range (INR)	66/34
1, 6, 12 Rel Perf (%)	-13/-4/-10

YEAR END	NET SALES (INR M)	PAT (INR M)	EPS (INR)	EPS GR. (%)	P/E (X)	P/BV (X)	ROE (%)	ROCE (%)	EV/ SALES	EV/ EBITDA
3/08A	136,794	12,607	7.5	24.6	5.2	0.7	21.7	15.3	0.6	4.3
3/09A	260,817	9,725	5.8	-22.9	6.8	0.7	11.7	12.8	0.7	6.3
3/10A	182,680	(12,738)	(8.2)	na	na	0.9	-16.8	1.3	0.9	26.6
3/11A	159,941	(4,321)	(2.3)	na	na	1.2	-4.8	0.0	0.9	14.7

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Key Takeaways

Operating performance turns around; Suzlon on track to achieve guidance

- Suzlon Energy's (SUEL) consolidated order book was USD6.6b, up 42% YoY (Suzlon Wind USD2.5b, up 13% YoY; REpower USD4.1b, up 69% YoY). In terms of volumes the order book was 4.7GW (Suzlon Wind, 2GW, REpower, 2.71GW). SUEL received fresh orders of 160MW in August 2011.
- The management expects consolidated sales of INR240b-260b (Suzlon Wind, INR14b-16b; REpower INR9b-10b) and FY12 EBIT margins are expected to be 7% (v/s 8% in 1QFY12). It also expects gross margins to improve to 30% from 22-23%, driven by full realization of synergies from Repower operations by the end of FY13-14.
- In Suzlon Wind over 60% (1.2GW, up 116% YoY) of the orders were from India, which posted strong growth in 1QFY12. Out of total orders of 2GW in Suzlon Wind 1.4-1.5GW are to be delivered in FY12. In 1QFY12 SUEL delivered 437MW of turbines, and therefore there is clear visibility of 1,800-1,900MW (437MW plus 1,400MW) in FY12. SUEL expects to have FY12 sales of 23GW (out of this 1.8GW will be in India).

Emerging markets drive market outlook

- The cost of wind power has fallen considerably in the recent past and now is almost equal to other economical sources of energy. Regulatory changes, generation-based incentives (GBI) and a rise in the cost of traditional sources of electricity have brought the cost of wind energy to an economic and viable level.
- In FY11 there was a record number of installations in China, dominated by domestic players. However, recently China has removed compulsory local content requirement and import duties which will benefit international players. The 12th Five Year Plan targets 90GW of wind installations by 2015. Experts estimate that Indian market will grow to 2-2.2GW in 2011 and 2.6-3GW 2012. Brazil, where half the installations are supplied by SUEL, is expected to grow from 700MW to 6GW by 2019.
- US markets are low due to low gas prices and the Canadian market is affected by low PPA prices. However markets show improved prospects for 2011-12, compared with the lows of 2010.
- European markets are stable but more saturated and hence growing slowly. SUEL sees growth potential in countries like Sweden, Poland and Romania. Other growing markets include Germany, Belgium and Denmark.

Other takeaways

- The management will increase stake in REpower to 100% by acquiring the remaining 5% stake for Euro63m. SUEL will also sell its 26% stake in Hansen, which will fetch GBP150m (a 96% premium to the market price).
- The company is expected recover INR10b from Edison (24% of debtors) in 2HFY12.

VA Tech Wabag

Bloomberg	VATW IN
Equity Shares (m)	11
CMP (INR)	404
Mcap (USD b)	0.1
52-Wk Range (INR)	723/367
1, 6, 12 Rel Perf (%)	-9/-11/-

YEAR END	NET SALES (INR M)	EBIDTA MAR. (%)	PAT (INR M)	EPS (INR)	EPS GR. (%)	P/E (X)	P/BV (X)	ROE (%)	ROCE (%)	EV / EBIDTA
Mar-08	3,328	0.8	18	4.4	-74.1	-	-	1.0	5.0	-
Mar-09	5,689	5.7	191	46.0	942.6	-	-	10.6	16.3	-
Mar-10	7,010	11.1	410	43.8	-4.8	-	-	18.7	34.1	-
Mar-11	7,322	12.0	553	20.9	-52.2	22.8	3.1	16.9	27.2	15.6

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Key Takeaways

Healthy order book provides revenue visibility; large pipeline in industrial space

- VA Tech Wabag (VATW) has an order book of INR33.3b (73% domestic and 27% international), with a BTB of 2.7x TTM revenue as at the end of 1QFY12. Key orders include Chennai Desalination Project (INR7.4b), Water Treatment Plant and Distribution System in Sri Lanka (INR3.6b), APGENCO of Kakatiya and Rayalaseema BoP (INR2.9b) and IOPL Paradip Project for Total Water Management (INR2.5b).
- The management sees healthy pipeline and very good level of inquires in the domestic market, mainly in the industrial space, with the possibility of some very large orders from private players in the medium term. The management mentioned that the municipal sector is yet to see a pick up in orders. The international market is experiencing a slowdown due to ongoing unrest in the MENA region. VATW has framework orders (orders in the pipeline) of INR11.3b as of 30 June 2011, which will be taken to firm order book once the LCs/advances are received.

Execution on track; revenue guidance for FY12 maintained

- The management stated that execution is well on track. The largest project in hand, the Chennai Desalination Project, is progressing satisfactorily and 56% of the EPC project has been completed till now. The project is likely to be completed by the end of 1QFY12.
- Other key projects such as Sri Lanka project, APGENCO, Rayalaseema BoP, Water Treatment Plant and Distribution System in Sri Lankla, and IOPL Paradip are also making good progress.

Risk management remains priority; outsourcing model mitigating risk

- High concentration to municipal clients (75% of order book) has escalated working capital days. Keeping working capital low is critical in the business model. Also, top-5 clients account for 60% of the order book, putting near-term growth at risk.
- Almost 80% of the work in the value chain is outsourced to civil contractors and electro-mechanical contractors. 30% of the work involves civil construction while 50% of the work is electro-mechanical in nature. Both of these jobs are outsourced. The outsourcing business model mitigates the risk of non payment from customers.

Valuation and view

- The stock has declined by nearly 30% since its listing in October 2010. VATW disappointed in FY11, with revenue growing just 1%, though profit grew 36%. Though near-term outlook appears uncertain, the company should be able to post strong growth over 3-5 years.
- The stock trades at 17x FY12E consensus EPS of INR72. We do not have a rating on the stock. Growth in order inflows will be the key re-rating catalyst for the stock.

Voltas

Bloomberg	VOLT IN
Equity Shares (m)	331
CMP (INR)	116
Mcap (USD b)	0.8
52-Wk Range (INR)	263/109
1, 6, 12 Rel Perf (%)	-8/-21/-32

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Key Takeaways

Environment challenging; increased project size in construction a positive

- Despite concerns in the near term, the domestic MEP business is showing good traction. The increasing size of construction projects in the domestic market (especially in IT parks) is also boosting order inflows.
- Voltas (VOLT) has a domestic order book of ~INR19.5b as at 1QFY12 end, however, margins remain compressed because MEP projects now being finalized through main contractors. Incremental orders are also witnessing margin pressure due to increasing competitive intensity.
- In the international space, competitive intensity is increasing resulting in pressure on margins. The two large projects in Qatar (~INR15b in order book), are facing margin pressure due to accelerated execution. The orders should be completed by mid-FY13. VOLT expects long term EBIT margin of 7% for the international business.
- VOLT plans to bid for large projects in partnership with other strong players and the company also entered into two new joint ventures (administrative partner to facilitate local ordering process in the Middle East) in the Kingdom of Saudi Arabia and Oman, and in the Far East which should help boost order intake in the region.
- The management reiterated that RIE would break even in FY12. Most of the low/nil margin legacy orders are complete and new orders have adequate margins.

EMP segment: Healthy growth in Textile Machinery; Mining & Equipment constrained by regulatory environment

- Management highlighted that many mills that had procured raw material at high prices face a cash loss situation. VOLT has a healthy order book, but this needs to be watched for changing business sentiment.
- The mining and construction equipment business is challenged, as several client companies are facing delays in obtaining environment and forest clearances.

Gains share in unitary cooling, though market getting increasingly fragmented

- The market is increasingly getting fragmented, with the top 3 players accounting for 60% of the market v/s 65% a few months ago. However, VOLT gained market share in recent quarters and has now number 2 position (after LG) in the domestic market.
- According to management margin pressures are unavoidable in the segment. The industry as a whole faces the problem of high inventory levels which could result in higher discounting to liquidate unsold stock. VOLT expects its inventory to liquidate by the end of December 2011.

Valuation and view

- The stock trades at 12x FY12E consensus earnings. With 10-12% growth in core earnings likely, VOLT is attractively priced. Success in a few large contracts in India or the Middle East will be the key catalyst. We do not have a rating on the stock.

Bajaj Corp

Bloomberg	BJCOR IN
Equity Shares (m)	148
CMP (INR)	112
Mcap (USD b)	0.4
52-Wk Range (INR)	152/73
1, 6, 12 Rel Perf (%)	1/20/-12

YEAR END	NET SALES (INR M)	EBIDTA MAR. (%)	PAT (INR M)	EPS (INR)	EPS GR. (%)	P/E (X)	P/BV (X)	ROE (%)	ROCE (%)	EV / EBIDTA
Mar-09	2,444	21.1	470	18.8		-	-	166.1	187.5	-
Mar-10	2,946	33.1	839	5.5	-70.9	-	-	211.0	263.4	-
Mar-11	3,587	24.9	841	5.4	-1.4	21.6	4.6	47.0	59.1	16.5

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Key Takeaways

Volume momentum strong after price increases, conversion from other hair oils drives growth

- Bajaj Corp (BJCOR) posted 20% volume growth in 1QFY12 in its brand Bajaj Almond Drops hair oil. Towards the end of the quarter, the company raised prices by ~8%. Demand has thus far not been impacted and volume growth momentum has been maintained in 2QFY12, as well.
- Growth in Almond Drops is being driven by consumers converting from other hair oils. The management indicated that with coconut oil players increasing prices by ~30% the gap between coconut oils and value added oils has fallen, facilitating conversion.
- BJCOR launched a cooling oil variant in the summer called Kailash Parbat Cooling Oil. The management believes growth in hair oils will be a function of taking share from players rather than expanding the market after 5-7 years.

Margins to recover from 2QFY12; Price increases, softer crude-related inputs to help

- In 1QFY12 BJCOR's margins declined by 1,000bp to 25.1% due to the full impact of input costs increases and a lag in price increases.
- The management expects that with the price increases and likely softening in LLP prices (linked to crude, 35% of RM) margins are likely to gradually recover from 2QFY12.

Cautious international acquisition strategy

- BJCOR has INR4b cash on its books, which it plans to use to expand its portfolio through acquisition. Its balance sheet allows it to look at acquisitions worth INR8b-9b.
- The management indicated it would adopt a cautious approach while acquiring companies and its first acquisition was likely to be small.
- The promoter stake in the company is 85%, which will eventually have to be reduced to 75% (per RBI regulations), which will be another fund-raising avenue, if need be.

Valuation and view

- BJCOR is well placed in the value-added hair oil space with its brand being the market leader in almond oils and posting strong growth. However, being a single brand company poses risks to growth and profitability and BJCOR will need to accelerate new product launches and build a diversified portfolio over the next few years.
- The stock trades at 21.6x FY11 EPS of INR5.4. **Not Rated**.

Dabur India

Bloomberg	DABUR IN
Equity Shares (m)	1,741
CMP (INR)	107
Mcap (USD b)	4.1
52-Wk Range (INR)	122/87
1, 6, 12 Rel Perf (%)	8/22/15

YEAR END	NET SALES (INR M)	PAT (INR M)	EPS (INR)	EPS GR. (%)	P/E (X)	P/BV (X)	ROE (%)	ROCE (%)	EV/ SALES	EV/ EBITDA
03/10A	33,905	5,032	2.9	27.6	-	-	53.5	55.5	-	-
03/11A	40,774	5,686	3.3	13.3	32.7	13.4	40.9	30.2	4.6	25.1
03/12E	51,043	6,532	3.8	15.0	28.4	11.7	41.5	44.0	3.6	20.3
03/13E	57,961	7,806	4.5	19.5	23.8	9.3	39.3	43.8	3.1	17.3

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Key Takeaways

Volume growth under pressure; luxury and premium products doing well

- Dabur India's volume growth has declined in the past few quarters, as consumers are yet to adjust fully to higher prices and high food inflation.
- Premium and luxury products are witnessing continued buoyancy in demand, as necessities do not add up to a very significant part of the target audience's income. Consequently, categories like processed foods, juices, air care and deodorants are maintaining high growth rates.
- Demand in the MENA region is slowly recovering; however, Levant countries will take some time to recover.

Select inputs turning soft; margin recovery likely in 2HFY12

- Input cost pressure is intense in materials like LLP, packaging, honey, spices, etc.
- Oral care margins have been impacted, as Colgate has been very selective in price increases, making price increases a difficult proposition for Dabur.
- Categories like glucose and hajmola have also seen margin pressure.
- Dabur has strong pricing power in amla and juices, which have seen price hikes in the recent past. Softening input cost could enable margin improvement from 2HFY12.

Namaste integration on track; high visibility of growth

- Dabur is very positive on the growth opportunity for Namaste in its niche segment of ethnic products for people of African origin.
- It is starting a new facility in Nigeria by 4Q and another facility in South Africa in FY13 to have pan Africa presence.
- The proportion of non-USA sales has increased from 21% to 30% in the last five years; Dabur plans to significantly increase the proportion of non-USA sales to 60-70% in the coming 5-7 years.

MENA region pressures exist; recovery likely from 3Q

- MENA region has seen poor sales growth and margin pressure due to unrest.
- Restrictions on pricing in Bahrain, Oman, etc continue to impact performance, although these regions contribute just 5% of sales.
- Libya, Syria and Yemen sales are under pressure and should recover from 3Q.

Valuation and view

- We remain concerned on long-term sustainability in the shampoo business. Sales growth and margins in amla oil could take a hit due to Marico's increasing aggression in the value-added hair oil space.
- We believe that increasing pressure in key domestic businesses like hair oils, shampoos and oral care will result in Dabur becoming more dependent on international acquisitions.
- The stock trades at 28.4x FY12E of INR3.8 and 23.8x FY13E EPS of INR4.5. **Neutral**.

Emami

Bloomberg	HMN IN
Equity Shares (m)	151
CMP (INR)	459
Mcap (USD b)	1.5
52-Wk Range (INR)	545/313
1, 6, 12 Rel Perf (%)	4/36/10

YEAR END	NET SALES (INR M)	PAT (INR M)	EPS (INR)	EPS GR. (%)	P/E (X)	P/BV (X)	ROE (%)	ROCE (%)	EV/ SALES	EV/ EBITDA
03/08A	5,728	927	7.5	40.7	-	-	35.8	31.2	-	-
03/09A	7,474	919	7.0	-6.3	-	-	31.1	23.7	-	-
03/10A	10,217	1,798	11.9	69.8	-	-	38.8	28.9	-	-
03/11A	12,535	2,287	15.1	27.2	30.4	10.1	34.8	28.3	5.6	27.5

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Key Takeaways

Revenue growth target 20% + over the next few years; Fair and Handsome, Zandu to drive growth

- Over the past five years, Emami (HMN) posted 25% revenue CAGR through strong volume growth, judicious pricing and acquisitions (Zandu). The management is confident of achieving 20%+ organic revenue growth over the next few years.
- Fair and Handsome and Zandu posted 67% and 27% growth respectively in 1QFY12. The management expects the brands to be main growth drivers in FY12 led by strong activation and category growth.

Input cost pressures persist; Price hikes, cost savings to keep margins at FY11 levels

- Menthol prices (25% of RM) doubled over the past one year and rule firm and LLP prices are up 40% YoY. HMN raised prices by 4% and plans another price increase towards the end of 2QFY12.
- Although gross margins are likely to be lower in FY12 with savings on A&P spends (17-18% expected in FY12 v/s 19.5% in FY11) and operating leverage, the management expects to maintain EBITDA margins at FY11 levels.

Bangladesh facility to become operational by 3QFY12, Egypt on hold, exports do well

- Exports increased 31% in 1QFY12 and the management is focused on increasing distribution in focus markets of SAARC, Africa and the Middle East.
- HMN's Bangladesh facility will become operational by 3QFY12. Egypt plans are on hold and will be reviewed in a couple of quarters.

Emami open to domestic acquisitions, to consider opportunities when they arise

- Although international acquisition opportunities are many, HMN is keener on domestic opportunities. There has been no activity regarding Paras Pharma's personal-care brands and the management maintains it will evaluate the opportunity if it arises.

Valuation and view

- HMN continues to grow ahead of its peers through niche positioning and leadership in key categories. Margin pressure and acquisition intent in the domestic market will be key factors to watch for in the near term.
- The stock trades at 30.4x FY11 EPS of INR15.1. **Not Rated**.

Hindustan Unilever

Bloomberg	HUVR IN
Equity Shares (m)	2,161
CMP (INR)	313
Mcap (USD b)	14.8
52-Wk Range (INR)	347/262
1, 6, 12 Rel Perf (%)	7/23/28

YEAR END	NET SALES (INR M)	PAT (INR M)	EPS (INR)	EPS GR. (%)	P/E (X)	P/BV (X)	ROE (%)	ROCE (%)	EV/ SALES	EV/ EBITDA
03/10A	177,253	21,027	9.6	-16.0	-	-	81.4	105.1	-	-
03/11A	197,352	21,485	9.9	3.2	31.5	25.7	81.6	103.5	3.3	24.0
03/12E	223,260	24,139	11.2	12.4	28.0	21.5	76.6	99.4	2.9	20.7
03/13E	249,445	27,317	12.6	13.2	24.8	18.1	73.1	95.6	2.6	18.0

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Key Takeaways

Proportion of realization in sales growth increasing

- The FMCG sector is maintaining double-digit sales growth, though the proportion of realization in overall sales is increasing.
- According to AC Nielsen, Urban India is growing at a faster rate than Rural India. However, Hindustan Unilever (HUVR) has indicated that Rural India is growing faster.

Competitive intensity remains high; sharp margin expansion unlikely

- Competitive intensity in categories like laundry and shampoos remains high; lower ad spend does not indicate decline in competitive intensity in the market. Rin continues to gain share in a category where HUVR competes with players like P&G and Ghari.
- Cost of inputs like PFAD, LAB, packaging, etc has risen sharply. HUL is following a strategy of balancing volume growth and profitability by undertaking calibrated price increases. However, price increases are insufficient to cover the input cost inflation.
- India offers huge growth opportunity but the competition is likely to remain intense. HUVR is looking at competitive growth. Margins are low and are unlikely to increase.

Uniquely placed to capture growth across segments

- HUVR is uniquely placed to capture the growth opportunity across income classes, as it has brands across price points and segments.
- The company is launching new products for emerging consumers. It is focusing on categories like hair conditioners, fabric conditioners, deodorants, and food products like Knorr Soupy Noodles, Kissan Creamy Spread and Kissan Soy Juice.
- HUVR is creating channels of tomorrow, with strong alignment of products and services catering to the requirements of modern trade and is also expanding distribution in Rural India. It has added 0.5m direct retail points in FY11 and aims to increase the distribution gap with competitors.

Valuation and view

- We expect gross margin to expand in the coming quarters, led by (1) 22% decline in PFAD prices from the peak, (2) calibrated increase in detergent prices (10-17%) and toilet soap prices (5-11%) over the past six months, and (3) above teens volume growth in the personal care category.
- We expect volume growth to soften, led by (1) the impact of high price increases in soaps and detergents in the current inflationary environment, and (2) a high base effect, as FY11 volume grew 16% for detergents and 8% for toilet soaps (much above long-term industry growth). We estimate 13% PAT CAGR over FY11-13.
- The stock trades at 28x FY12E EPS of INR11.2 and 24.8x FY13E EPS of INR12.6. **Neutral**.

ITC

Bloomberg	ITC IN
Equity Shares (m)	7,738
CMP (INR)	202
Mcap (USD b)	34.3
52-Wk Range (INR)	211/149
1, 6, 12 Rel Perf (%)	10/41/37

YEAR END	NET SALES (INR M)	PAT (INR M)	EPS (INR)	EPS GR. (%)	P/E (X)	P/BV (X)	ROE (%)	ROCE (%)	EV/ SALES	EV/ EBITDA
03/10A	183,924	40,610	5.1	24.4	-	-	27.8	38.5	-	-
03/11A	214,683	49,876	6.5	22.8	31.2	9.8	33.2	42.9	7.0	19.9
03/12E	253,817	61,461	7.8	23.2	25.9	8.3	34.8	46.2	5.9	16.2
03/13E	292,361	72,392	9.2	17.8	22.0	7.1	34.8	46.6	5.1	13.6

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Key Takeaways

Cigarettes: Volume growth strong; margin expansion to be gradual

- Cigarette volume growth remains strong, although the low base effect will not be a big factor in the coming quarters as it was in 1QFY12.
- Post the recent increase in VAT in Tamil Nadu (from 12.5% to 20%), ITC's average VAT rate is ~16.5%. Recent price increases will enable the company to absorb the impact of the excise hike.
- ITC operates at 55%+ EBIT margin in cigarettes, the highest in the industry. Incremental margin expansion over the next 2-3 years will be a function of improved product mix and will be moderate.

FMCG: Improving profitability in biscuits; new launches driving growth

- FMCG losses declined 15% in 1QFY12 and continue to trend lower; the key driver for this decline has been the foods division, which has now broken even for the last six quarters.
- The two major new launches of FY11, *Sunfeast Yippee* noodles and *Vivel Activ Fair* skin cream, have performed well. *Yippee* in particular has performed well above expectations, with demand outstripping current capacity.
- In personal care, the volume share of soaps has exceeded 6%; ITC is targeting double-digit market share in soaps in 2-3 years. In shampoos, *Fiama Di Wills Anti Hair Fall* has been well accepted.

Hotels: Gradual recovery; to invest INR15b over three years

- In hotels, the company expects low to mid single-digit occupancy growth; ARR growth will play out after the next few quarters, as room additions in the industry are likely to slow down. Over the next three years, ITC plans to invest INR15b in the hotels business. It will commission its 600-room Chennai property by 4QFY12.

Agri and Paper

- Agri division sales are likely to grow in high single digits, as leaf tobacco prices are stable. Demand for Indian leaf tobacco is unlikely to increase due to higher production in Brazil and Africa.
- ITC's new 0.1m ton paperboard unit will aid growth in FY13; FY12 growth will be driven by mix improvement and higher realizations.

Valuation and view

- The company plans to invest INR15b across businesses in FY12.
- ITC continues to be our top pick in our FMCG coverage universe due to strong pricing power and higher growth potential in the cigarettes business, declining losses in FMCG, and likely uptick in the hotels business.
- The stock trades at 25.9x FY12E EPS of INR7.8 and 22x FY13E EPS of INR9.2. **Buy**.

Marico

Bloomberg	MRCO IN
Equity Shares (m)	615
CMP (INR)	157
Mcap (USD b)	2.1
52-Wk Range (INR)	173/112
1, 6, 12 Rel Perf (%)	10/37/34

YEAR END	NET SALES (INR M)	PAT (INR M)	EPS (INR)	EPS GR. (%)	P/E (X)	P/BV (X)	ROE (%)	ROCE (%)	EV/ SALES	EV/ EBITDA
03/10A	26,608	2,454	4.0	19.3	-	-	36.9	40.8	-	-
03/11A	31,283	2,918	4.7	18.9	33.0	10.5	31.9	29.7	3.2	24.7
03/12E	39,510	3,272	5.3	12.2	29.4	8.6	29.3	33.8	2.5	19.9
03/13E	45,917	3,936	6.4	20.3	24.5	6.6	27.0	35.6	2.1	16.4

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Key Takeaways

Parachute volume growth intact; hair oils displaying strong momentum

- Volumes grew 15% YoY in 1QFY12, backed by 10% growth in *Parachute*, 32% in hair oils, and 15% in *Saffola*.
- Parachute Coconut Oil volume growth came as a positive surprise, given 32% price increase. Value-added hair oil volumes have increased 32%, led by *Parachute Advanced*, *Shanti Amla* and the introduction of new launches like cooling oil and ayurvedic oil in new markets.

Intent to reduce dependence on copra; aggressive pricing of amla oil to sustain

- MRCO wants to reduce dependence on copra in the long term by increasing the share of value-added hair oils. Its market share in the amla oil segment has increased from 7% to 15% while it has garnered 9-10% share in cooling oil in South India.
- MRCO plans to maintain aggressive pricing in *Shanti Amla* and expand its franchise, as it is aiming at gross margin of 45% and EBITDA margin of 12-15% in this segment.

Kaya being transformed

- Kaya Skin Care operates 105 clinics; like-to-like sales are increasing in mid teens.
- Kaya's business model has seen a transformation, with focus on increasing the frequency of consumer visits and projecting it as a destination for beauty solutions rather than dermatology solutions.

Saffola being extended to other wellness categories

- MRCO is extending *Saffola* from oils to other food product categories to capture various food consumption options during the day. It has launched *Arise* again and has launched a basmati variant of *Arise*. Oats have received encouraging response and MRCO has launched a new flavor in oats.

International business: Looking at leveraging cross-selling opportunities

- MRCO is looking at leveraging cross-selling opportunities across segments. It has launched *Haircode* hair dye in Bangladesh, which has garnered 30% market share.
- Middle East and Egypt business remains under pressure due to pricing restrictions and unrest in countries like Libya, Syria and Egypt. Recovery will be gradual and near-term pressures are likely.

Valuation and view

- Near-term margin pressures are likely to sustain due to high input costs and aggressive pricing-led growth strategy in hair oils.
- International business excluding Bangladesh will remain under pressure due to unrest and pricing restrictions in the Middle East and Egypt.
- The stock trades at 29.4x FY12E EPS of INR5.3 and 24.5x FY13E EPS of INR6.4. **Neutral**.

Pidilite Industries

Bloomberg	PIDI IN
Equity Shares (m)	506
CMP (INR)	161
Mcap (USD b)	1.8
52-Wk Range (INR)	183/123
1, 6, 12 Rel Perf (%)	4/24/26

YEAR END	NET SALES (INR M)	ADJ. PAT (INR M)	EPS (INR)	EPS GROWTH (%)	P/E (X)	P/BV (X)	ROE (%)	ROCE (%)	EV/ SALES	EV/ EBITDA
3/10A	19,533	3,028	6.0	86.4	-	-	32.3	26.2	-	-
3/11A	23,806	3,297	6.5	8.9	24.7	7.1	28.9	30.7	3.3	16.5
3/12E	28,903	3,762	7.4	14.1	21.7	5.8	27.1	29.5	2.7	14.3
3/13E	34,644	4,749	9.1	22.3	17.7	4.4	25.3	31.9	2.2	11.1

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Key Takeaways

Consumer, bazaar demand strong, industrial segment demand slows

- In spite of a 5-7% price increase in the consumer and bazaar segments, demand in this segment has been strong with no major change. The segment posted 16-17% volume growth in 1QFY12
- In the industrial segment, demand was slower due to a steeper price hike of 8-9% and a slowdown in user industries.
- The management expects consumer and bazaar products growth to be healthy though industrial growth may slow in the near term.

Input cost pressure

- VAM (vinyl acetate monomer) prices increased 40% over the past few months and packing costs were steady. However recent trends indicate that VAM prices softened to USD1,300/ton from USD1,400/ton (USD1,000/ton in December 2010).
- The management indicated that if input costs corrected significantly, PIDI would correct prices as its brands are at a 15-20% premium to competition.

Elastomer project

- The elastomer project is on schedule with expected commissioning in 2HFY13. Total capex has been INR3.3b with another INR2.2b-2.5b to be incurred in the next one year.
- Current product prices are trading at USD5/kg. At USD4.5/kg and full capacity utilization, PIDI expects INR5b of sales a year with EBITDA margins of over 20%.

All international businesses improve except South America

- PIDI's International business was under pressure in FY11. In FY12 PIDI's operations are expected to be profitable in the US, Bangladesh and Thailand. The company's losses are reducing in Egypt and Dubai but in Brazil operations are face strong competition.
- PIDI is not considering international acquisitions and will look at developing Africa and the Middle East as markets, organically.

Valuation and view

- We believe PIDI has strong pricing power in consumer products and margins will rebound in coming quarters as the impact of price increases sinks in. We believe PIDI is a compelling play on the expected growth opportunity in home interiors and construction.
- The stock trades at 21.7xFY12E EPS of INR7.4 and 17.7xFY13E EPS of INR9.1. Maintain **Buy**.

Radico Khaitan

Bloomberg	RDCK IN
Equity Shares (m)	133
CMP (INR)	129
Mcap (USD b)	0.4
52-Wk Range (INR)	186/121
1, 6, 12 Rel Perf (%)	11/5/6

YEAR END	NET SALES (INR M)	PAT (INR M)	EPS (INR)	EPS GR. (%)	P/E (X)	P/BV (X)	ROE (%)	ROCE (%)	EV/ SALES	EV/ EBITDA
03/08A	8,099	439	4.3	26.7	-	-	17.8	8.6	-	-
03/09A	7,083	172	1.7	-60.8	-	-	7.1	6.9	-	-
03/10A	8,383	418	3.2	88.6	-	-	10.1	10.2	-	-
03/11A	9,965	728	5.5	73.6	23.5	2.6	12.5	11.1	2.1	13.4

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Key Takeaways

Mid-teens volume growth target, focus on profitability over next few years

- Radico Khaitan's (RDCK) IMFL aims at volume growth of 13-15% over the next few years, led by higher growth rates in its high contribution brands. Its mainline brands constitute 73% of IMFL volumes compared with less than 60% in FY09.
- RDCK is focused on improving profitability. Brands like Magic Moments, Morpheus Brandy and After Dark whisky have 4-8x contribution margins compared with 8PM and RDCK believes margins can be significantly enhanced with thrust on these brands.

Molasses prices rule firm; Price increases to aid margin expansion

- Contrary to expectations, molasses prices have not come off due to increased spirit demand for ethanol blending. However, glass bottle prices increased 18%.
- Price increases of 3-3.5% were taken so far in FY12. RDCK believes they are sufficient to pass on input cost pressure. Further price increases are awaited in Andhra Pradesh and Karnataka. The management expects 100bp expansion in FY12.

Magic Moments, new launches to drive growth in the premium segment

- In 1QFY12, RDCK's IMFL division's volume grew 12.3%. Magic Moments continues to drive growth, increasing volumes 21% with 8PM whisky growing 17% by volume.
- RDCK is banking on new launches Morpheus Brandy and After Dark to drive incremental growth. Morpheus is expected to sell 300,000 cases in FY12 (up 35-40%).
- After Dark is at an initial stage. The company plans to launch a national campaign around Diwali to promote the product. It is more than satisfied with its performance thus far and will only share growth outlook for this brand in the forthcoming year.

Debt in check, FCCB replaced by low cost ECB

- RDCK maintained its debt since its QIP last year. Net debt was INR4.3b as of June 2011. RDCK plans to fund its capex of INR400m-500m through internal accruals.
- It also redeemed its FCCB by paying USD44.22m and replacing it with a seven-year tenure ECB with interest rate of ~5%.

Valuation and view

- RDCK is a pure play on India's IMFL consumption story. RDCK's strategy to move up the value chain in terms of premium brands and greater profitability will be a function of the success of new launches such as Morpheus Brandy and After Dark Whisky.
- Being in a position in fund its own growth and not increase debt significantly over next few years will be a big positive if it can execute this strategy as IMFL players in India have been constantly looking for external sources of funding to do so.
- The stock trades at 23.5x FY11 EPS of INR5.5. **Not Rated**.

Financial Technologies India

Bloomberg	FTECH IN
Equity Shares (m)	46
CMP (INR)	716
Mcap (USD b)	0.7
52-Wk Range (INR)	1453/657
1, 6, 12 Rel Perf (%)	-1/-2/-38

YEAR END	NET SALES (INR M)	PAT (INR M)	EPS (INR)	EPS GR. (%)	P/E (X)	P/BV (X)	ROE (%)	ROCE (%)	EV/ SALES	EV/ EBITDA
3/08A	1,376	9,612	208.1	913.1	-	-	115.2	3.4	-	-
3/09A	3,564	3,686	80.3	-61.4	-	-	23.2	8.8	-	-
3/10A	3,330	3,444	75.0	-6.7	-	-	18.3	7.0	-	-
3/11A	3,577	925	20.1	-73.1	35.6	1.6	4.5	6.1	10.0	21.9

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Key Takeaways

Case of MCX-SX transaction fees cleared

- MCX-SX (owned by Financial Technologies (FTECH)) started levying transaction charges in its currency derivatives segment from August 2011. Before this, the company was compelled to offer free transaction services in NSE's zero-pricing regime.
- MCX-SX posted losses of ~INR1.5m a day due to the non-levy of transaction charges. This is now set to change after CCI found the NSE guilty of abusing its market dominance and asked it to stop unfair trade practices like subsidizing services. MCX-SX will charge up to INR1.10 per INR100,000 of average daily traded value.

MCX going strong, IPO could unlock value

- Stake sale in MCX's last two transactions valued the exchange at ~USD1b, the last of which took place in February 2008. The exchange has had sustained high volume and profit growth, and should be able to list at a significantly higher valuation.
- August trading volumes averaged over INR693b a day against INR479b a day in July and INR403b in June. At this rate, the company expects higher PAT than it estimated.

New exchanges see up-tick in valuations

- The Singapore Mercantile Exchange's trading volume and turnover surged over the past few weeks, hitting a historic high with INR16b worth of contracts traded in a day only a few days ago. SMX, which went live on 31 August 2010, saw its membership double over the past 11 months, crossing 50.
- Unlike in India, where brawls with regulatory authorities and competitors hamper progress on exchange ambitions, the company operates in a friendlier environment outside India as far as regulations are concerned. The company's increasing volumes bode well for FTECH's profitability, which is 100% owner of the exchanges.

Negatives fully priced in, incrementally positive news can boost stock price

- FTECH's liquid cash and its proportionate share in MCX (assuming USD1.2b valuation for MCX) adds up to INR29.4b and the company's market cap is INR34b. This excludes FTECH's ventures in the financial ecosystem, including its technology business, foreign exchanges and contingent valuation on MCX-SX.
- Negative news flow on MCX-SX, delay in MCX's IPO and depressed volumes in new exchanges hurt valuations. Increasing volumes on the MCX and transaction charges in currency derivatives trading appear to be initial signs of a turnaround, and more incrementally positive news could trigger a surge in the stock price.

Info Edge India

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Key Takeaways

Scalability in unique user additions not an issue, Info Edge sees no competition affecting it yet

- Info Edge (INFOE) does not see a problem in scaling up its number of unique customers, which totaled over 42,000 in FY11. A healthy growth environment will see organizations scale up, which should facilitate the additions of new customers.
- LinkedIn has established an active sales team in India, and INFOE will watch the space for effects on its Naukri business. The company does not anticipate a significant impact from this as they operate in different segments. LinkedIn offers a passive environment vis-à-vis the active job-seeking environment at Naukri.com. However, the fact remains that it would be able to tap resources, especially at the senior level, which would be out of Naukri's reach.

Positive on getting price increases despite being the price-master

- INFOE does not see a problem in attaining a 5-7% pricing increase in its Naukri solutions. While the company has a wide array of pricing, based on a mix of services on a like-to-like basis, Naukri would command a higher price than peers.
- Naukri's virtuous cycle of self-sustenance also plays a part in facilitating this, compounded by the fact that talent will be in hot demand if the growth story holds out, directly benefiting its business.

Seeing a dip in IT hiring, vo lume dip in real estate could hurt 99acres

- INFOE cited a decline in IT hiring trend in the past month, going by hiring data at Naukri. However, this is not alarming because Naukri caters largely to lateral additions in the IT space. Compared with freshers, lateral additions are seasonally high in the AMJ quarter, before freshers start joining in large numbers.
- 99acres.com, INFOE's other portal, has been on a high growth trajectory, albeit on a lower base. However, rising interest rates and relatively firm realty prices, especially in regions like Noida, may impact volumes, which are expected to have a direct bearing on the portal's performance.

Spending on ad vertising to pick up to increase visibility across new ventures

- INFOE has had a reactionary stance in advertising spends in its fiercely contested spaces, Naukri, Jeevansaathi and 99acres. However, the advertisement spends are likely to be higher given that INFOE announced a promotion roll out for Shiksha.com and will also need to increase visibility in some of its acquired ventures.
- We would prefer INFOE to take a more proactive stance towards these spends and try to aggressively win traffic share, especially given several new online ventures, such as Zomato.com, Shiksha.com, Brijj.com and Meritnation.com, are still in the early phase of development,.

Fundamentals strong, valuations look rich

- While fundamentals are strong, current valuations do not provide a margin of safety. INFOE has high sensitivity to macroeconomic outlook, which is mired in uncertainty.
- We expect INFOE to post revenue CAGR of 25.3% and EPS CAGR of 23.7% over FY11-13. **Not Rated**.

Infosys

Bloomberg	INFO IN
Equity Shares (m)	574
CMP (INR)	2,194
Mcap (USD b)	27.5
52-Wk Range (INR)	3,494/2,172
1, 6, 12 Rel Perf (%)	-10/-20/-9

YEAR END	NET SALES (INR M)	PAT (INR M)	EPS (INR)	EPS GR. (%)	P/E (X)	P/BV (X)	ROE (%)	ROCE (%)	EV/ SALES	EV/ EBITDA
3/10A	227,420	61,340	107.4	4.7	-	-	29.7	33.7	-	-
3/11A	275,010	68,230	119.4	11.2	18.4	4.8	27.8	33.1	4.0	12.5
3/12E	327,353	77,330	136.7	14.4	16.1	4.0	27.1	31.8	3.2	10.5
3/13E	385,097	90,719	158.8	16.2	14.0	3.4	26.4	31.3	2.7	8.7

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Key Takeaways

Europe key to macro-economy, businesses, Infosys better prepared this time

- While there have been no revisions to budgets so far, the possibility of revisions cannot be ruled out in the near term. The situation in Europe will be the key determinant of which way the macro-economy is headed, since a default in sovereign debt would impact the financial sector and spread to other sectors. Compared with 2008, businesses are better prepared this time to respond to the situation of a global meltdown; having braced themselves for a slow and gradual recovery.
- Infosys (INFO) is confident of managing the tough times given: (1) a more diversified portfolio of revenues, (2) better competitive positioning and (3) complete focus on clients hereon, with the restructuring exercise behind it.

Governments' stomach for concerted action, US unemployment key worries

- The key worry this time is the stomach of central banks for concerted action like multiple rounds of Quantitative Easing, seen the last time.
- The visa rhetoric has been an irritant in the recent past it may not be fully behind the industry. As long as unemployment in the US is high, it is anybody's guess what measures might be adopted to tackle it.

To manage efficiency, margins in absence of outperformance to guidance

- INFO's had to give up some growth given high utilization rates (about 82%) in FY11, after initially guiding at 25,000 gross hires. Consequently, INFO planned and guided for 45,000 gross hires in FY12, keeping slack for growth above the guided 20%. But, it may go slow on lateral hires as growth is unlikely to exceed guidance.
- INFO will attempt to up the utilization rate (excluding trainees) to 78-82% targeted band (up from 75% currently). As far as onsite is concerned, INFO will try and ensure greater business from the consulting/SI engagement and hire more locals in that segment, since utilization in consulting/SI is about 70%.

Margins to be in a band, Infosys to continue to command premium pricing

- INFO is confident it will maintain margins within a narrow band at which it operated over the past few years, as and when it exercises levers like increased offshoring, improvement in revenue productivity and higher proportion of non-linear revenue.
- INFO will continue to exercise pricing discipline and command a pricing premium over its peers. The company has seen its revenue productivity improve over the past four quarters, driven by like-to-like pricing increases and improved productivity.

Valuation and view

A slowdown in 4QCY11 deal signings will put FY13 estimates at risk. Notwithstanding near-term stress we believe a slowdown will hit the industry only briefly, and it will rebound as headwinds clear. Maintain **Buy**, with a target price of INR3,176 based on 20x FY13E EPS.

TCS

Bloomberg	TCS IN
Equity Shares (m)	1,957
CMP (INR)	918
Mcap (USD b)	39.3
52-Wk Range (INR)	1,247/832
1, 6, 12 Rel Perf (%)	-6/-9/17

YEAR END	NET SALES (INR M)	PAT (INR M)	EPS (INR)	EPS GROWTH (%)	P/E (X)	P/BV (X)	ROE (%)	ROCE (%)	EV/ SALES	EV/ EBITDA
3/10A	300,289	68,647	35.1	33.6	-	-	37.3	40.9	-	-
3/11A	373,245	86,826	44.4	26.5	20.7	7.1	37.4	42.2	4.7	15.6
3/12E	467,277	103,723	53.0	19.5	17.3	5.2	34.6	39.8	3.6	12.4
3/13E	549,336	125,346	64.0	20.8	14.3	3.9	31.3	35.8	2.9	10.0

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Key Takeaways

Demand environment intact, no change in hiring plans

- The demand environment has not changed materially after the heated noise about the economic turmoil in recent weeks. However, mega deals have not been on the table, which has been the case for some time.
- TCS has not changed hiring plans yet, especially since there have not been project cancellations/deal deferrals/budget cuts till date.
- For TCS the pipeline has not contracted yet, and continues to be broad-based. It remains to be seen whether the pipeline is more of vendor consolidation work or new projects. TCS maintained its guidance for consistent growth through FY12.

No incremental pressure from pricing or supply side

- There has been no pricing pressure, and the management views the conditions as being pretty much the same as they were five months ago. However, it expressed caution on price contamination, if peers adopt an aggressive approach. However, there has been no change given that the fears have lasted for a couple of years.
- Attrition has been normal and has not moved significantly in either direction. Contrary to some articles on a slowdown in IT hiring, TCS sees no declining trend in hiring.

Need for caution over US unemployment

- High unemployment in the US is a cause for concern. Given that clients are aware about the situation, cut-downs in numbers may not drive additional offshore spends amid the ongoing protectionist rhetoric.
- However, the visa issue is more political than economical. This should change going forward with the company's and the industry's sharper focus on hiring locals.

Target to sustain margins, local hiring at onsite not expected to hurt margins

- TCS maintains its target of 27% EBIT margin and expects to steadily work towards that level, despite headwinds from (1) promotion impact effective from 2QFY12, and (2) continued investment in people and infrastructure.
- TCS does not believe increased local hiring will impact margins, mainly due to a low base of onsite employees. The salary differential at a junior level between recruits from India and local hires would be insignificant.

Valuation and view

- Our estimates for FY12 and FY13 EPS stand at INR53 and INR64 respectively. TCS has been on a purple patch but its valuations had built in continued exemplary outperformance. However, the recent correction provides the necessary margin of safety, which we believe, makes the risk-reward favorable.

Wipro

Bloomberg	WPRO IN
Equity Shares (m)	2,456
CMP (INR)	333
Mcap (USD b)	17.9
52-Wk Range (INR)	500/310
1, 6, 12 Rel Perf (%)	-5/-14/-8

YEAR END	NET SALES (INR M)	PAT (INR M)	EPS (INR)	EPS GR. (%)	P/E (X)	P/BV (X)	ROE (%)	ROCE (%)	EV/ SALES	EV/ EBITDA
3/10A	271,957	45,935	18.8	18.2	-	-	26.8	21.9	-	-
3/11A	310,542	52,794	21.6	15.1	14.8	3.4	24.2	20.0	2.4	11.5
3/12E	354,840	56,933	23.2	7.5	13.8	2.7	21.5	18.5	1.9	9.7
3/13E	410,119	67,248	27.4	18.1	11.7	2.2	21.0	18.7	1.6	7.7

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Key Takeaways

Restructuring on track, efforts to translate into growth in a couple of quarters

- The restructuring exercise is largely behind Wipro (WPRO) and the management stated that indicators of the new strategy bearing fruit were present.
- WPRO is confident some of the recent wins will start showing in revenue growth in a couple of quarters' time, facilitating stated objective to match/beat peer growth.

Budgets intact thus far, industry maybe hit with a lag, mayhem of 2008 unlikely

- It has been only weeks since the turmoil has picked up in magnitude, after the S&P downgrade of the US; and hence, too early for clients to react with budget cuts.
- However, WPRO does not expect large customers to be fighting for survival this time, unlike in 2008. But any slowdown will be after a lag as, even after the Lehman collapse, it took clients nearly two months to announce significant volume cuts.

Margins to be hit in the near term, target of maintaining current levels

- While WPRO aims to manage its margins within a narrow band (22.1% EBIT margin in IT Services in 1QFY12), headwinds are expected to pull down margins in the near term because: (1) Two months of wage inflation impact in 2Q; (2) Continued investment in growth as it aligns its sales force to focus verticals; (3) 2QFY12 will witness the full quarter impact from SAIC, which are at much lower profitability.
- WPRO expects to limit the impact of lower margins through the following levers: (1) revenue productivity, (2) employee pyramid management, (3) cost cuts on sub-contracted employees and (4) increase in proportion of non-linear revenue.

Attrition scenario not alarming, re-org driven exits largely behind WPRO

- WPRO has witnessed higher attrition than peers and the exits in the top cadre after the organizational re-jig were in line with its expectations. WPRO believes key personnel are in place and the exits are largely behind it and expects attrition to decline going forward despite the wage hikes.
- WPRO brings freshers onboard through three threads of hiring: (1) Visiting key campuses; (2) Non-engineers, who go through a four-year work-cum-study program and end up with a Masters degree, hence have high retention rate; (3) Off-campus hires, which happen during the mid to second half of a calendar year.

Valuation and view

- Performance on customer additions and client mining lends increasing confidence that WPRO's FY13 revenue growth should match that peers like TCS (FY13 USD revenue growth of 19.1%) and Infosys (FY13 USD revenue growth of 19.2%).
- Our EPS estimates are INR23.2 for FY12 and INR27.4 for FY13. Maintain **Buy** with a target price of INR466 based on 17x FY13E earnings.

Ashoka Buildcon

Bloomberg	ASBL IN
Equity Shares (m)	53
CMP (INR)	265
Mcap (USD b)	0.3
52-Wk Range (INR)	362 / 226
1, 6, Rel Perf (%)	9/4/-

YEAR END	NET SALES (INR M)	EBITDA MAR. (%)	PAT (INR M)	EPS (INR)	EPS GR.(%)	P/E (X)	ROE (%)	ROCE (%)	EV/ EBITDA
03/08A	3,264	13.5	221	4.8	-81.6	-	8.3	8.8	-
03/09A	7,423	16.3	478	10.5	116.6	-	16.2	16.3	-
03/10A	11,163	13.3	757	16.6	58.4	-	21.3	19.2	-
03/11A	11,948	13.6	847	16.1	-2.8	16.1	15.7	17.2	9.3

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Key Takeaways

ASBL EPC business revenue to grow 30-35%

- The Ashoka Buildcon (ASBL) management expects EPC revenue to grow 30-35% in FY12, driven by a robust order book of INR43b. On the toll revenue front it expects revenue of INR3.5b against INR1.9b in FY11.
- ASBL's YTDFY12 order book is INR43b, including 94% from the roads and 6% from the power segments. In FY12 it aims at order intake of INR25b-30b.

Strong traction expected in FY12 toll business, opportunity looks promising

- On the bidding front, on a standalone basis ASBL qualified for projects worth about INR20b as on 31 March 2011.
- Out of 24 projects, it is collecting toll on 18 and expects to start toll on two more projects (Durg and Dhankuni) in FY12.
- NHAI plans to award 7,300km of roads over FY11-12, which will offer significant growth opportunities to established players like ASBL.
- A portfolio of 18 operational projects covering ~3,000 lane kms with average traffic growth of 5-7% will ensure steady revenue growth.
- The management said that in most cases, traffic growth was in line with its expectations, except for the Bhandara project, where traffic was 10-12% less than estimated.

Progress on projects under construction

- Construction work on the Durg and Jaora-Nayagaon projects has been substantially completed. Toll collection is expected to start for the Durg project in 3QFY12. For the Jaora-Nayagaon project, toll collection has begun on two of three sections. Toll collection on the third section will start in 3QFY12.
- Other projects under construction are Sambalpur-Baragarh and Belgaum-Dharwad. ASBL has started mobilization on the Sambalpur-Baragarh project, and construction activity has begun on the Belgaum-Dharwad road.

Equity requirement of INR9b over the next 2-3 years

- The management said it would meet the fund requirement of INR9b through internal accruals and from the toll projects.

Valuation and view

- The stock trades at a PER of 11x and 9x on FY12E and FY13E basis (Bloomberg consensus). **Not Rated**.

Dedicated Freight Corridor

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Key Takeaways

Move to tackle growing cargo traffic through a dedicated route

- Dedicated Freight Corridor Corp (DFCC), a special purpose vehicle, was set up to plan and develop, construct, maintain and operate a dedicated freight corridor for transport of cargo, to save time and cost.
- The golden quadrilateral, connecting India's four major metro cities is saturated, operating at 110-150% of capacity. Growth in demand for coal in the power sector and rapid industrialization calls for dedicated freight transport facilities. A feasibility study was carried out by RITES, which found a dedicated freight corridor remunerative.

Eastern/western corridor work initiated, to be operational in December 2016

- DFCC initiated work on two corridors, approved by railway ministry. Work on the eastern corridor (from Dankuni in West Bengal to Ludhiana in Punjab) and the western corridor (from JNPT to Dadri) has commenced or is in the process of being awarded.
- DFCC plans to commission a 66km double-line track in the Mughalsarai-Sonnagar section, (cost INR8.5b) by December 2014 on the eastern corridor.
- It plans to finalize project awards for the stretch on both corridors by mid-FY13, to achieve the stated timeline of project completion by December 2016.
- The government of Japan will provide a special economic partnership loan of 679b yen to finance construction of the western corridor and procurement of locomotives. The loan will be extended on soft terms for 40 years with a moratorium of 10 years.
- The remaining cost will be borne by the Ministry of Railways in the form of equity to DFCC. The first tranche of the loan for 90b yen for construction between Rewari and Vadodara has been signed. Another 274b yen funding for Phase II (Vadodara-JNPT) is under negotiation and expected to be finalized by March 2012.
- For the eastern corridor, the section from Ludhiana to Mughalsarai will be funded by a USD2.7b World Bank loan and the section from Mughalsarai to Sonnagar will be funded by the government of India. Sonnagar to Dankuni will be on a public-private-partnership basis.

Project cost INR780b, packages to include civil/electrical contracts

- DFCC's project cost had been originally envisaged at INR280b, as estimated by RITES in 2006. This has gone up due to: (1) a change in alignment at few junctions, (2) increase in commodity prices, execution timelines and (3) increase in interest during construction (IDC, INR100b+) and thus, project cost has been revised to INR780b.
- Of this however, IDC is a soft cost (payable with debt, only once the project is operational). Therefore, the funding is required for ~INR650b+.
- DFCC indicated that the packages could be broadly divided into the length for both the corridors and the scope of civil work would be ~60% (including laying tracks), and signaling/electrical works will be ~30%. The rest is IDC ~10%.

NCC

Bloomberg	NJCC IN
Equity Shares (m)	257
CMP (INR)	57
Mcap (USD b)	0.3
52-Wk Range (INR)	172/52
1, 6, 12 Rel Perf (%)	-16/-33/-54

YEAR END	NET SALES* (INR M)	PAT* (INR M)	EPS* (INR)	EPS* GR. (%)	ADJ P/E* (X)	P/BV (X)	ROE (%)	ROCE (%)	EV/ SALES	EV/ EBITDA
3/10A	57,120	2,861	11.1	60.0	-	-	9.8	12.6	-	-
3/11A	62,299	2,218	8.6	-22.5	3.4	0.6	7.4	8.9	0.9	8.9
3/12E	67,821	1,907	7.4	-14.0	3.9	0.6	5.7	8.2	0.9	9.3
3/13E	74,382	2,106	8.2	10.5	3.6	0.6	6.9	8.7	0.8	8.7

* For construction segment (consolidated, including international business)

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Key Takeaways

Consolidated revenue growth guidance of 16% for FY12

- For FY12, the management guided consolidated revenue at INR72b (up 16%), standalone revenue at INR58b (up 14%), international construction revenue at INR11b (flat) and real estate/BOT project revenue at INR4.5b.
- Order intake guidance excluding in-house power project BTG (1,320MW) order of INR50b stays at INR90b. This includes roads (INR20b), buildings (INR35b), water (INR15b), and others.

EBITDA margin to be maintained at 9.5% in FY12

- NCC is likely to maintain its EBITDA margin at 9.5-10% in FY12. This will be driven by: (1) escalation-based contracts contributing 70% of the order book; NCC will benefit from the pass through, given rising commodity prices, (2) favorable change in order book resulting in an increase in relatively high-margin buildings (now contributing 38% of the order book, up from 24% in FY10) and decline in transport contribution (at 4% now from 15.3% in FY08).
- The share of international orders in revenue has declined to 16% in 1QFY12 from 21% in 1QFY11; we expect this percentage to decline further in FY12.

Cumulative investments in RE/BOT projects at INR12b, including advances

- NCC has so far invested INR12b in real estate and road BOT projects (including advances of INR2.9b). The outstanding equity commitment stands at INR1.8b-2b.
- Four out of five road BOT projects are operational and the remaining one is likely to achieve COD by September 2011. The operational road projects should improve NCC's operational cash flows. The Brindavan Infra road project is complete. Toll collection, which was INR1.4m per day initially, has now reached INR2m per day. NCC expects this to reach INR2.5m per day by FY12-end. UP Tollway has also achieved COD and toll collection started from April 2011; current collection is INR1.8m per day. The Pondicherry Tindivam project is in advanced stage of completion and it is likely to declare COD by September 2011.
- NCC expects financial closure of its 1,320MW thermal power project in Krishnapatnam in the next two-three months. The project lenders have asked for 35% upfront equity contribution for the release of 35% of the debt. NCC's total equity requirement in the project stands at INR9.7b, out of which it has already invested INR1.5b. To achieve the threshold of 35% equity contribution, NCC has to invest INR2b more. The total project cost is at INR70b, to be financed with D:E of 3:1.

Valuation and view

- **Buy** with an SOTP-based price target of INR104 - core business: INR71/share (6x FY13E EV/EBITDA) and BOT/RE investments: INR33/share.

Simplex Infrastructures

Bloomberg	SINF IN
Equity Shares (m)	49
CMP (INR)	265
Mcap (USD b)	0.3
52-Wk Range (INR)	515/261
1, 6, 12 Rel Perf (%)	0/-10/-34

YEAR END	NET SALES (INR M)	PAT (INR M)	EPS (INR)	EPS GR. (%)	P/E (X)	P/BV (X)	ROE (%)	ROCE (%)	EV/ SALES	EV/ EBITDA
3/10A	44,427	1,227	24.8	-6.9	-	-	13.1	13.3	-	-
3/11A	47,624	1,232	24.9	0.5	11.2	1.3	12.0	12.6	0.6	6.1
3/12E	52,210	980	19.8	-20.4	14.1	1.2	8.7	12.2	0.6	5.9
3/13E	59,872	1,111	22.5	13.3	12.5	1.1	9.1	12.6	0.6	5.8

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Key Takeaways

Management guides 10% revenue growth for FY12

- The management guided revenue growth of 10% in FY12, after robust order intake of INR79b (up 36%) in FY11. Though the management believes it can achieve 20-25% growth, given that there is a trade-off between 'growth and payment risk (working capital)', it has guided just 10% growth in FY12. Its focus is more on safety of receivables than execution.
- The company expects future growth to come from segments like Buildings, Urban Infrastructure, Power T&D (mainly transmission line towers); its inherent strengths in piling work enable it to qualify for jobs at the state level.
- EBITDA margin expanded 20bp to 9.9% in FY11. Management expects margins to be maintained in FY12.

Initial traction in order intake, YTDFY12 order intake at INR21b

- Simplex's order book at the end of June 2011 was INR143b (up 17% from the end of June 2010 and down 2.4% from the end of March 2011).
- Order intake in 1QFY12 was INR9b (down 55% YoY, down 60% QoQ), driven by muted intake in the domestic and overseas market. In FY11, thermal power contributed 22% of the intake and buildings (largely residential) contributed 22%. This is also positive for margins and the working capital cycle, given that a large part of private sector projects are on a negotiated basis (and not on L1).
- The bid pipeline stands at INR320b, mainly divided into (1) thermal: 35%, (2) industry and construction: 20%, (3) buildings: 14%, (4) marine: 6%, and (5) 5% each for bridges and piling, and (6) urban infrastructure: 15%, expected to be converted into inflows over 12-18 months.

Other takeaways

- Working capital position deteriorated further in 1QFY12 and currently stands at 131 days (v/s 126 days in March 2011). This represents a meaningful deterioration from FY09 levels of 81 days.
- The following have contributed to the sharp working capital increase: (1) share of overseas business, which has shorter payment cycle, has declined to 14% of order book from 28% earlier, (2) increased proportion of government projects has stretched working capital cycle, but payment is secured, and (3) few private sector players in industrial (15% of order book) and real estate (22%) segments have delayed payments. Current debt stands at INR17.2b, up from INR16.6b as at March 2011.

Valuation and view

- **Buy** with a target price of INR302 (EV of 5x FY13E EBITDA).

Dish TV India

Bloomberg	DITV IN
Equity Shares (m)	1,064
CMP (INR)	82
Mcap (USD b)	1.9
52-Wk Range (INR)	94/49
1, 6, 12 Rel Perf (%)	8/51/75

YEAR END	NET SALES (RS M)	PAT (RS M)	EPS (RS)	EPS GROWTH (%)	P/E (X)	P/BV (X)	ROE (%)	ROCE (%)	EV/ SALES	EV/ EBITDA
03/10A	10,848	-2,621	-3.2	NA	NA	-	234	-25	-	-
03/11A	14,313	-1,943	-1.8	NA	NA	138.9	-84	-8	6.6	40.4
03/12C	19,963	-298	-0.3	NA	NA	264.7	-62	4	4.7	16.1
03/13C	25,307	1,813	1.7	-708.1	48.1	40.7	147	22	3.4	10.3

C: Consensus estimates

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Key Takeaways

Subscriber additions slowing; may pick up in festive season

- There is pressure on subscriber net additions, driven by macro slowdown leading to postponement of purchases as well as likely fatigue post cricket World Cup/IPL.
- DITV witnessed a decline in gross additions from 1.1m in 3QFY11 to 1m in 4QFY11 and further to 0.73m in 1QFY12. There could be further decline in 2QFY12.
- However, additions are likely to pick up in the festive season; yearly addition could be ~3m in FY12 (guidance of 3m-3.5m) v/s 3.5m in FY11.

Ramp-down in HD subscriber additions

- While initial uptake of HD boxes was high, likely due to the pent-up demand and cricket World Cup, the contribution to net additions from HD has declined to ~3%.
- HD subscriptions could increase after Zee and Sony launch their HD channels.
- Current population of HD boxes on an industry-wide basis is estimated at ~100,000.

ARPU trajectory unlikely to improve in near term

- DITV reported an ARPU of INR150 in 1QFY12, flat QoQ. ARPU is unlikely to improve in the near-term given weak usage trends.
- Management maintains its guidance of ARPU increase to INR160-165 by 4QFY12 and would review the same during 3Q.
- The company is taking steps to improve usage (on average, subscribers do not recharge for ~5 days per month), which should improve ARPU.
- However, price increases are unlikely in the near term.

Industry opportunity remains attractive; churn is a key concern area

- DTH subscriber base should increase to ~60m v/s current base of 35m-40m.
- Currently DITV, Airtel, and Videocon account for 25% each of the incremental subscriber share.
- Churn is a key concern area; average monthly churn for DITV increased from 0.7% per month in 1HFY11 to 1.1% in 1QFY12.
- High churn and delinquencies are key challenges to achieving growth targets.

Content costs: FY13 will set the bar

- One fixed-fee contract will be coming up for renewal in FY12 while two significant contracts will come up in FY13. Hence, there would be limited impact of contract renegotiation this year. There were also certain one-off and event-related costs in previous quarters, which are unlikely to repeat in coming quarters.

Valuation and view

The stock trades at EV/EBITDA of 16.1x FY12E and 10.3x FY13E consensus estimates. **Not Rated**.

HT Media

Bloomberg	HTML IN
Equity Shares (m)	235
CMP (INR)	150
Mcap (USD b)	0.8
52-Wk Range (INR)	186/125
1, 6, 12 Rel Perf (%)	4/13/-1

YEAR END	NET SALES (INR M)	PAT (INR M)	EPS (INR)	EPS GR. (%)	P/E (X)	P/BV (X)	ROE (%)	ROCE (%)	EV/ SALES	EV/ EBITDA
03/10A	14,378	1,435	6.1	615	-	-	15.6	11.8	-	-
03/11A	17,861	1,809	7.7	26	19.4	2.5	14.9	13.0	1.8	9.5
03/12E	20,937	2,104	9.0	16	16.7	2.1	13.7	13.3	1.5	8.2
03/13E	24,308	2,686	11.4	28	13.1	1.8	15.1	15.1	1.2	6.2

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Key Takeaways

Ad revenue growth relatively strong, despite weakness in education sector

- HT Media is witnessing relatively strong ad revenue growth. The company has not seen deceleration in growth v/s 1QFY12 levels (~17% YoY).
- Print ad revenue has faced some pressure this year largely due to weak education sector; growth in education has declined from 25-30% last year to ~12%.
- All major print genres like Hindi, English (NCR), and English (Mumbai) are doing well and could grow 16-25% in terms of ad revenue.
- There is room for yield improvement in markets like Mumbai, UP, and Bihar.

Newsprint prices have likely peaked-out

- Newsprint price inflation has been a cause of concern for the print companies.
- However, there are early indications of softening newsprint prices, given some reduction in scrap paper prices.

Other highlights

- The radio segment remains strong and could witness revenue growth of 25-30% in FY12.
- EBITDA losses for digital business (mainly shine.com) are expected to continue; EBITDA breakeven likely only in FY13.

Valuation and view

The stock trades at P/E of 16.7x FY12E and 13.1x FY13E EPS. **Neutral**.

Zee Entertainment Enterprises

Bloomberg	Z IN
Equity Shares (m)	978
CMP (INR)	121
Mcap (USD b)	2.6
52-Wk Range (INR)	153/106
1, 6, 12 Rel Perf (%)	3/14/-7

YEAR END	NET SALES (INR M)	PAT (INR M)	EPS (INR)	EPS GR (%)	P/E (X)	P/BV (X)	ROE (%)	ROCE (%)	EV/ SALES	EV/ EBITDA
3/10A	21,966	4,686	5.2	4.1	-	-	13.0	17.8	-	-
3/11A	29,414	5,860	6.0	14.5	20.2	2.7	14.2	20.1	3.9	15.2
3/12E	30,337	6,289	6.4	7.3	18.8	2.6	13.8	19.7	3.7	13.7
3/13E	33,591	7,302	7.5	16.1	16.2	2.4	14.8	21.9	3.3	11.7

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Key Takeaways

Ad growth remains sluggish; festive season could drive a turnaround

- Ad growth environment remains sluggish but could improve in 3QFY12, as advertisers are likely to come back in the festive season.
- Margin pressure for FMCG companies, led by higher raw material costs, and fatigue post significant spends in cricket earlier this year led to cut in advertising, resulting in flat ad revenue for Zee in 1QFY12.
- Current visibility into the festive season remains low, but should improve by September-end.

Investing in content and HD channels; course correction in 2HFY12 if ad growth does not pick up

- Zee has been investing in higher original programming hours per week for the flagship channel, which will continue as planned unless there is no pick-up in ad environment.
- Sony has been giving tough competition to the flagship Zee TV for the number-3 slot. Zee is likely to continue investing in Hindi GEC as well as the regional space, given strong competition.
- Despite a 600bp cumulative decline in non-sports EBITDA margin over the past three quarters, core business margin remains strong at ~35%.
- Zee would also be launching HD channels by September-end and could be incurring capex of ~INR550m and incremental opex of ~INR350m/year towards the same.

Sports business guidance maintained

- After incurring a loss of INR0.57b in 1QFY12, the sports segment is likely to end FY12 with a loss of ~INR1b.
- Sports business had incurred a loss of INR2.1b in FY11.

Valuation and view

The stock trades at P/E of 18.8x FY12E and 16.2x FY13E earnings. **Neutral**.

Hindalco Industries

Bloomberg	HNDL IN
Equity Shares (m)	1914
CMP (INR)	144
Mcap (USD b)	6.0
52-Wk Range (INR)	252/129
1, 6, 12 Rel Perf (%)	-6/-21/-8

YEAR END	NET SALES (INR M)	PAT (INR M)	EPS (INR)	EPS GR. (%)	P/E (X)	P/BV (X)	ROE (%)	ROCE (%)	EV/ SALES	EV/ EBITDA
3/10A	607,221	19,132	9.6	-19.0	-	-	14.0	8.3	-	-
3/11A	720,779	34,218	17.2	78.3	8.4	1.6	19.5	9.2	0.7	5.6
3/12E	798,024	37,121	18.7	8.5	7.7	1.4	17.8	9.4	0.6	5.6
3/13E	812,334	36,604	18.4	-1.4	7.8	1.2	15.1	8.9	0.6	5.5

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Key Takeaways

Utkal Alumina: slow but progressing

Despite having all the statutory clearances in place for a long time, 1.5mtpa Utkal Alumina refinery has faced delays. A weaker administration and local disturbances have been challenging and dragging the project. The company has recently completed negotiations with the locals and now expects no further disturbances. The project is expected to be commissioned in 2HCY12.

Though the bauxite will be initially transported by trucks, the cost is likely to increase by only USD5/ton because the distance between the bauxite mine and refinery is only ~24km. nearly 10kms of bitumen road has already been constructed. The land for laying conveyor belt from mine to refinery for transporting bauxite has now been acquired and the possession taken. The conveyor belt will be commissioned in next 24 months.

Hindalco has faced cost overrun in the project and revised expected cost of production (CoP) is USD140-150/ton (Vs USD110/ton estimated earlier).

Mahan smelter: may look to buy merchant power

Hindalco expects 359ktpa Mahan smelter to get commissioned in 2HCY12. Since there is still no visibility of coal for its captive power plants, Hindalco may explore the option of buying power directly in merchant market as lot of new power generation capacities (11 power plants) are expected to get commissioned in the region. If the merchant power is not attractive, 900MW (150MW *6 units) CPP will be commissioned in phases. It expects the cost of production of aluminum in the range of USD1700-1900/ton depending upon the availability of raw materials.

Novelis: on track to achieve its targeted EBITDA

Novelis is on track to achieve its targeted US$1.15-1.2b EBITDA through de-bottlenecking, expansions in emerging markets and focusing on product mix improvement. Novelis expects demand for Cans to remain stable (form ~50-55% of revenue) and is experiencing positive traction in demand from automobiles segment (form 15% of revenue).

Current valuations ignore growth; Maintain Buy

Strong and stable cash flows from business of Novelis and copper smelter have reduced volatilities in the consolidated earnings of Hindalco. Utkal and Mahan projects are moving slowly and steadily. The stock trades at attractive PE of 8.2xFY13 and EV/EBITDA 5.7xFY13. In our estimate, we are not factoring upside from Utkal and Mahan projects. Maintain **Buy**.

Hindustan Zinc

Bloomberg	HZ IN
Equity Shares (m)	4,225
CMP (INR)	127
Mcap (USD b)	11.8
52-Wk Range (INR)	155/102
1, 6, 12 Rel Perf (%)	2/11/25

YEAR END	NET SALES (RS M)	PAT (RS M)	EPS (RS)	EPS GR. (%)	P/E (X)	P/BV (X)	ROE (%)	ROCE (%)	EV/ SALES	EV/ EBITDA
3/10A	80,170	40,414	9.6	48.2	-	-	22.3	22.9	-	-
3/11A	99,121	49,179	11.6	21.7	10.9	2.4	21.8	21.4	3.9	7.0
3/12E	121,271	65,676	15.5	33.5	8.2	1.9	23.0	21.7	2.7	4.6
3/13E	127,979	69,707	16.5	6.1	7.7	1.5	20.0	18.9	2.0	3.5

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Key Takeaways

Timely commissioning of 100ktpa lead smelter to drive metal volumes

Hindustan Zinc's (HZ) 100ktpa Dariba lead smelter project is in an advanced stage of completion and is expected to start commercial production by end of September 2011. Silver being a co-production in lead smelting, the capacity of silver will also expand from 150tpa to 500tpa.

Silver and Lead volumes to grow sharper

Sindesur Kurd (SK) mine is expected to ramp up to 1.5mt in FY12 and to 2mt in FY13. Silver volumes are expected to grow at 77% CAGR to 460 tons over FY11-13. Lead production will grow at 56% CAGR to 140k tons over FY11-13. Zinc sales volumes are expected to be CAGR of 6% over FY11-13. In FY12, HZ expects to invest INR14b on a lead smelter project, INR3b for sustainability Capex and INR5b for de-bottlenecking projects.

Cost of production including royalties to range ~USD1,000/ton over the next two years

The cost of production (CoP) is one of the lowest in world due to HZ's fully integrated operations and large resource base. Including royalties, the cost of production of zinc has been US$800-1,000/ton over the past five years. The cost structure is mainly driven by coal, diesel and reagents. Going forward, costs are not expected to decline significantly as the cost of underground mining at its Rampura Agucha mine will be higher. Mining costs will be USD300-325 per ton of concentrate. The stripping ratio will taper down over the next three years.

Higher dividend pay-out essential for re-rating; Maintain Buy

Cash and equivalents now stand at INR157b. High dividend payout is essential for re-rating of stock, in our view. Maintain **Buy**.

Jindal Steel & Power

Bloomberg	JSP IN
Equity Shares (m)	935
CMP (INR)	500
Mcap (USD b)	10.2
52-Wk Range (INR)	755/451
1, 6, 12 Rel Perf (%)	-8/-15/-16

YEAR END	NET SALES (INR M)	PAT (INR M)	EPS (INR)	EPS GR. (%)	P/E (X)	P/BV (X)	ROE (%)	ROCE (%)	EV/ SALES	EV/ EBITDA
3/10A	110,915	35,837	37.9	10.5	-	-	33.9	24.3	-	-
3/11A	131,116	37,539	40.1	6.0	12.5	3.3	26.6	17.9	4.6	9.4
3/12E	169,865	40,036	42.8	6.7	11.7	2.6	22.3	14.8	3.8	9.2
3/13E	200,109	49,479	52.9	23.6	9.4	2.1	21.9	14.5	3.4	7.9

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Key Takeaways

Angul steel project, captive power plant (10x 135MW) delayed

- Jindal Steel and Power (JSP) expect five units of its 135MW unit to be commissioned in FY12 and the remaining two units are expected to be commissioned in FY13.
- The two units of 135MW already commissioned at Tamnar are still facing teething problems due to the high ash content in the coal middlings. JSP is mixing coal with these middlings and the plants are expected to stabilize in two months. One unit of 135MW, commissioned at Angul stabilized recently.
- A 2mtpa gas-based DRI plant is expected to be commissioned by September 2012. Earlier JSP planned to commission a 1.5mtpa plate mill and DRI unit by March 2012. As most of the clearances for its captive mine at Angul (Utkal B1) are in place, JSP expects to start production in six months.

First unit of 600MW Tamnar II project to be commissioned by October 2013

- Jindal power's expansion at Tamnar, where JSP is setting up a 2,400MW power project, is still on hold. JSP has received environment clearance for the project subject to the coal tie up/linkage, but it has yet to receive consent to establish.
- For first phase of the 1,200MW, JSP has received coal linkages. For the next phase of 1200MW, the coal will be sourced from Jindal Steel, Mozambique.
- The company expects to receive final environment clearance and consent to establish for the first phase by October 2011. It has spent ~INR16b on the project and the first unit of 600MW is expected to be commissioned in 24 months from the date of receipt of the consent to establish.

Play on rich resources

- JSP recently received a mining lease for four coking coal mines in Queensland, Australia for which it had applied about two year ago. Initial drilling has begun.
- JSP has also acquired 27.3% stake in Rockland Richfield, which has ~700mt of coking coal reserves. JSP made an open offer for further purchase of stake and increased control in the company (valuing it at USD88m).
- The first shipment of iron ore from Bolivia is expected in a few weeks. The company expects 0.5m ton of volumes in FY12 with net margins of USD50/ton at current iron ore prices.

Commissioning of DRI project, Angul coal mine near-term triggers; Buy

- The earnings growth in FY12 will be subdued due to delay in ramping up of captive power plants. The merchant power rates in forward market have started improving, which will boost the earnings in FY13.
- We remain positive on the stock due to its rich portfolio of coal and iron ore resources. JSP has been able to deliver superior earnings growth through judicious capital allocation in high margin businesses. Maintain **Buy**.

JSW Steel

Bloomberg	JSTL IN
Equity Shares (m)	223
CMP (INR)	663
Mcap (USD b)	3.2
52-Wk Range (INR)	1,400/595
1, 6, 12 Rel Perf (%)	-11/-16/-31

YEAR END	NET SALES (INR M)	PAT (INR M)	EPS (INR)	EPS GR. (%)	P/E (X)	P/BV (X)	ROE (%)	ROCE (%)	EV/ SALES	EV/ EBITDA
3/10A	189,572	11,338	60.6	8.9	-	-	12.6	10.1	-	-
3/11A	239,002	17,261	77.4	27.6	8.6	0.9	10.6	8.8	1.4	7.0
3/12E	280,529	10,824	48.5	-37.3	13.7	0.9	6.4	7.3	1.2	7.9
3/13E	289,667	11,420	51.2	5.5	13.0	0.8	6.4	7.8	1.1	6.6

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Key Takeaways

FY12 saleable steel production target unchanged at 8.5mt

JSW Steel (JSTL) has maintained its FY12 production target of 8.5mt despite a recent ban on iron-ore mining in Bellary district. The CEC recently recommended to the Supreme Court that iron ore production in Chitradurga and Tumkur districts also be stopped to prevent illegal mining and further damage to the environment. The Supreme Court verdict is awaited but JSTL is optimistic about its steel production target. JSTL believes that there is iron ore inventory of ~25mt in the system, which will be available for sale and thus production in the state will not be affected.

Average cost of iron ore to increase by INR500/ton

Per ton average cost of iron ore is expected to increase by INR500 and margins are expected to hover around USD170 per ton in FY12.

Volumes, margins to be affected; Timely ramp up by NMDC may help

We believe that volumes and margins will be affected due to the closing of mines in Karnataka. Although NMDC has been allowed to mine up to 12mt a year in the state, we do not expect NMDC to ramp up production adequately in FY12. Maintain **Sell**.

Tata Steel

Bloomberg	TATA IN
Equity Shares (m)	959
CMP (INR)	470
Mcap (USD b)	9.9
52-Wk Range (INR)	714/450
1, 6, 12 Rel Perf (%)	-7/-14/1

YEAR END	NET SALES (INR M)	PAT (INR M)	EPS (INR)	EPS GR. (%)	P/E (X)	P/BV (X)	ROE (%)	ROCE (%)	EV/ SALES	EV/ EBITDA
3/10A	1,023,931	-8,255	-9.3	-n/a-	-	-	-9.7	4.5	-	-
3/11A	1,187,531	59,724	62.3	-n/a-	15.2	4.5	29.4	11.4	1.2	8.7
3/12E	1,383,421	59,602	61.4	-1.4	15.4	2.8	18.0	9.5	1.0	8.5
3/13E	1,469,613	76,906	79.2	29.0	11.9	2.3	19.4	11.0	0.9	7.0

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Key Takeaways

Indian operations: Projects and volume growth are on track

Tata Steel's (TATA) ongoing capacity expansion at Jamshedpur from 6.8mtpa to 10mtpa is on track and expected to be commissioned by 4QFY12. The company expects ~1.5mt of incremental production in FY13. Crude steel production is expected to range 7.5-8m tons in FY12.

Indian operations: Margins outlook remains robust

Margins in the Indian business are expected to remain steady despite sluggish steel market in recent months. The regional premium over international flat steel product prices is likely to bounce back in India because the actual supply growth will be less than capacity addition due to shortage of iron ore in South India post mining ban in Bellary.

Europe: uncertain outlook for few quarters only

Tata Steel Europe (TSE) is on track to improve its operating parameters through restructuring of long product business, modernizing facilities and improving product efficiencies over the next two years. Ongoing restructuring at its long product division is expected to help the company to cut its fixed costs and overheads. It will reduce its staff strength by ~1,500 employees and ramp down its 1mtpa blast furnace.

TSE plans to improve its performance at Port Talbot by a rebuilding blast furnace and reducing electricity costs due to availability of waste gases. TSE is trying to keep building up carbon credits for FY13 by keeping FY12 production at 14m-14.5mt as demand is expected to be subdued over the next two quarters for seasonal reasons.

Steel prices are expected to bottom now because finished steel stocks in Europe are low, while import pressure is easing. Average steel realization for 2QFY12 is expected to remain flattish with a negative bias as steel prices were weaker, which may put pressure on margins. Though the margin outlook for next 2 quarters is uncertain due to timing difference between costs and sales prices from accounting point of view, the cash margins are likely to be less volatile because TSE is essentially in conversion business.

Valuation and view

Capex guidance remains unchanged at USD2.3b-2.5b for the group. We expect strong earnings growth due to volume growth in high margin Indian business though there are uncertainties in the near term. Maintain **Buy**.

BPCL

Bloomberg	BPCL IN
Equity Shares (m)	362
CMP (INR)	690
Mcap (USD b)	5.5
52-Wk Range (INR)	815/530
1, 6, 12 Rel Perf (%)	16/31/10

YEAR END	NET SALES (INR B)	ADJ. PAT (INR B)	ADJ. EPS (INR)	EPS GR. (%)	P/E (X)	P/BV (X)	ROE (%)	ROCE (%)	EV/ SALES	EV/ EBITDA
03/10A	1,238	16.3	45.2	157.6	-	-	11.9	3.9	-	-
03/11A	1,536	16.3	45.2	0.2	15.3	1.5	11.1	5.9	0.3	10.3
03/12E	1,832	19.0	52.6	16.2	13.1	1.4	12.0	7.5	0.2	7.8
03/13E	1,750	20.6	56.9	8.3	12.1	1.3	11.9	6.6	0.2	7.0

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Key Takeaways

New government initiatives to reduce subsidy in medium term

- The management expects the recently announced government initiatives on PDS kerosene and domestic LPG to help reduced subsidy over the medium term.
- The LPG initiative will be implemented in two phases; phase-1 (internal systems are ready) will limit the number of cylinders per household while phase-2 (post UID scheme implementation) will involve selling LPG cylinders at market price and transferring subsidy in cash directly to the eligible LPG customers' bank accounts.

E&P reserves to be published by end-2013

- The reserve estimates for BPCL's successful E&P discoveries in Brazil (2) and Mozambique (4) are likely to be announced by end-2013, post appraisal by third-party consultants.
- BPCL plans to spend INR100b (USD250m each in FY12/13, INR24b spent till date) on E&P (BPCL share) over the next five years and expects production to commence in 2017/18, first in Mozambique.
- Gas production at Mozambique is likely to be evacuated through LNG route.

To spend INR400b in next five years v/s INR250b in last five

- As against INR250b spent in the last five-year plan, BPCL expects to spend ~INR400b in the next five-year plan, driven by refinery expansion and E&P spends.
- Capex includes planned capacity expansion of Kochi refinery from 9.5mmtpa to 15mmtpa and petrochem complex with an investment of INR60b. Kochi refinery complexity will increase from the current 5 to 9.

Bina refinery utilization rate to reach 80% by 4QFY12

- Most of the processing and support facilities like SPM, crude oil terminal, and 935km crude pipeline have already been commissioned.
- Despite some power plant related delays, the management expects utilization to reach 80% in 4QFY12 at its new 6mmpta, INR122b Bina refinery (JV with Bharat Oman, BPCL stake 49%).
- Once the Bina refinery stabilizes and operates for a full year, the management plans to further increase capacity from 6mmtpa to 8.5mmtpa by FY15/16.

Valuation and view

- In the event of subsidy rationalization and decontrol of retail fuel prices, marketing profits would improve and the stock could see a re-rating.
- The stock trades at 13.1x FY12E EPS of INR52.6 and 1.4x FY12E BV. E&P business could provide upside potential. **Buy**.

HPCL

Bloomberg	HPCL IN
Equity Shares (m)	339
CMP (INR)	382
Mcap (USD b)	2.8
52-Wk Range (INR)	555/307
1, 6, 12 Rel Perf (%)	8/29/-14

YEAR END	SALES (INR B)	ADJ.PAT (INR B)	ADJ.EPS (INR)	EPS GR. (%)	P/E (X)	P/BV (X)	ROE (%)	ROCE (%)	EV/ SALES	EV/ EBITDA
03/10A	1,092.1	13.0	38.4	198.8	-	-	11.7	8.7	-	-
03/11A	1,309.3	15.4	45.4	18.3	8.4	1.0	12.8	8.6	0.2	8.2
03/12E	1,575.2	13.5	39.9	-12.2	9.6	1.0	10.4	7.4	0.2	7.9
03/13E	1,583.5	14.1	41.6	4.5	9.2	0.9	10.2	8.5	0.2	5.8

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Key Takeaways

Hopeful on policy reforms to reduce under-recoveries

- The management indicated that it has the back-end ready for the government's recently announced policy to limit the number of domestic LPG cylinders per household.
- However, it ruled out dual pricing in diesel due to practical difficulties in implementation.

Bhatinda refinery commercial production likely by end-2011

- The management indicated that its new 9mmtpa Bhatinda refinery (JV with Mittal Energy Investments, HPCL stake at 50%) with Nelson Complexity of 12+ is mechanically complete and expects commercial production to commence by December 2011.
- The final capex of the refinery stands at ~INR190b. HPCL expects refining margins to higher by ~USD6/bbl over the regional benchmark Singapore margins.

New greenfield refinery planned in Maharashtra

- HPCL is planning to set up a 9-18mmtpa greenfield refinery in Ratnagiri district in Maharashtra.
- While it has already received some land allocation, the management indicated that it will require additional land for the project.

To expand Visakh refinery to 15mmta (currently 8.5mmtpa)

- As against the earlier trend of annual capex of ~INR350b per year, HPCL is planning to spend ~INR400b-450b per year in the next two years.
- It also plans to expand the Visakh refinery capacity from the current ~8.5mmtpa to 15mmtpa, with a capex of INR80b by FY15/16 (currently, detailed feasibility report is being prepared).
- Some of the key ongoing/completed projects include:
  - LOBS quality upgradation at Mumbai: Mechanically complete; estimated cost: INR10.3b
  - Single-point mooring at Visakh: Commissioned; total cost: INR6.4b
  - New 1.45mmtpa FCCU at Mumbai: Mechanically complete; estimated cost: INR9b
  - New diesel hydrotreater at Mumbai and Visakh: Targeting completion by September 2011; estimated cost: INR70b

Valuation and view

- In the event of subsidy rationalization and decontrol of retail fuel prices, marketing profits would improve and the stock could see a re-rating.
- The stock trades at attractive valuations of 9.6x FY12E EPS of INR39.3 and 1x FY12E BV. **Buy**.

Oil India

Bloomberg	OINL IN
Equity Shares (m)	240
CMP (INR)	1,323
Mcap (USD b)	7.0
52-Wk Range (INR)	1,635/1,207
1, 6, 12 Rel Perf (%)	17/18/3

YEAR END	NET SALES (INR B)	PAT (INR B)	EPS (INR)	EPS GR. (%)	P/E (X)	P/BV (X)	ROE (%)	ROCE (%)	EV/ SALES	EV/ EBITDA
03/08A	61,185	17,889	74.4	9.1	-	-	24.3	33.9	-	-
03/09A	72,007	21,617	89.9	20.8	-	-	25.0	39.3	-	-
03/10A	79,226	26,105	108.6	20.8	-	-	22.6	34.1	-	-
03/11A	86,115	28,877	120.1	10.6	11.0	2.0	19.6	29.0	2.6	4.7

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Key Takeaways

Strong RRR, OINL expects strong oil, gas production growth

- Oil India (OINL) posted impressive RRR of >1.6 over the past five years and low finding and development costs of ~USD5.5/bbl in FY11.
- The management's FY12 guidance is for 4% crude production growth to 3.76mmt and 12% gas production growth to 7.2bcm. However the management expects oil production growth to be better than the guidance suggests.

OINL looks for value buys

- OINL's cash reserves of >USD2b gives it options for overseas acquisitions.
- Since OINL's overseas E&P portfolio is more of exploration blocks, the company is looking to acquire discovered/producing assets.
- OINL has formed a JV with IOC for overseas acquisitions and it has tied up with GAIL India to invest in overseas shale gas prospects.

OINL optimistic about exploration acreage

- OINL's historical success rate has been 70% against the global average of 30%.
- OINL expects the success rate to drop going forward. However, even on a conservative basis if the rate were to fall to 30% OINL hopes to build strong reserves in its NELP acreage.

Prioritizing drilling program, work hit in MENA region blocks

- OINL's planned FY12 capex is ~INR32b, including 52% on exploration and appraisal, 27% on development and 11% on overseas projects.
- On the international front, due to political instability, E&P work in Egypt and Yemen has been stalled and OINL is prioritizing its drilling schedule based on prospects of striking oil.
- In terms of key exploration blocks, OINL will focus on blocks in the KG Basin, Mizoram and Gabon.
- OINL plans to drill 34 exploratory and 34 development wells in FY12 v/s 16 exploratory and 25 development wells in FY11.

Valuation and view

- The stock trades at 11x FY11 EPS of INR120.
- We are positive on OINL in view of likely subsidy rationalization. **Not Rated**.

ONGC

Bloomberg	ONGC IN
Equity Shares (m)	8,555
CMP (INR)	287
Mcap (USD b)	53.6
52-Wk Range (INR)	368/248
1, 6, 12 Rel Perf (%)	15/16/2

YEAR END	NET SALES (INR B)	PAT (INR B)	EPS (INR)	EPS GR. (%)	P/E (X)	P/BV (X)	ROE (%)	ROCE (%)	EV/ BOE	EV/ EBITDA
03/10A	1,018	194	22.7	-2.0	-	-	20.2	19.4	-	-
03/11A	1,176	210	24.5	8.1	11.3	2.1	19.5	19.2	6.7	4.4
03/12E	1,417	249	29.1	18.6	9.5	1.8	20.3	19.9	6.7	3.6
03/13E	1,557	314	36.8	26.4	7.5	1.6	22.3	21.7	6.4	2.9

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Key Takeaways

Upstream subsidy share to be limited at 1/3rd

- Though FY11 upstream sharing at 38.7% was a negative surprise, the ONGC management expects FY12 sharing to be capped at 33% (1QFY12 at 33%).
- The management has a positive view on government policy changes, which it believes are primarily driven by increased awareness of the negative impact of ad-hoc subsidy burden. It believes these changes will be favorable for the sector and the company,
- The company indicated that the decision on the timing of the proposed FPO (follow-on public offer), where the government plans to sell 5% stake in ONGC (current stake at ~74%), will be taken by the Department of Divestment (DoD).

Post royalty issue resolution, Cairn's Rajasthan production to ramp up

- Once the royalty and cess issue resolution, ONGC expects that the focus will once again be on operational issues and expects production to ramp up soon after.
- The management expects a one-time gain post resolution of royalty issue with Cairn India, on account of royalty that ONGC has already paid.

E&P capex intensity to continue

- ONGC is the largest hoder of domestic E&P acreage, garnered through nomination as well as NELP rounds. It controls 51% of the PEL area and 67% of the mining lease area in India.
- ONGC's capex has increased at 21% CAGR in the last four years to INR283b in FY11 and is likely to grow 6% in FY12 to INR300b.
- Led by its continuous IOR/EOR investments, ONGC has been able to maintain production at its mature fields v/s 9% decline in the non-OPEC mature fields.

Production ramp-up from marginal fields likely

- Led by development of marginal fields, the management expects a meaningful increase in 2013 oil production rate to ~28mmt (currently at ~25mmt) and gas production to 72mmscmd (currently at ~65mmscmd).
- ONGC expects increase in oil production from the development of its East coast offshore blocks that are likely to commence production in FY12. Increase in gas production will be driven by: (1) Daman offshore development, and (2) Tripura (estimated requirement of ~3.5mmscmd for new gas power plant).

Valuation and view

- The stock trades at 9.9x FY12E EPS of INR29.1. Our SOTP-based target price is INR346. **Buy**.

Reliance Industries

Bloomberg	RIL IN
Equity Shares (m)	3,274
CMP (INR)	756
Mcap (USD b)	54.1
52-Wk Range (INR)	1,187/722
1, 6, 12 Rel Perf (%)	-1/-13/-12

YEAR END	NET SALES (INR B)	PAT (INR B)	EPS (INR)	P/E (X)	ADJ. EPS* (INR)	ADJ. P/E (X)	ADJ. P/B (X)	ROE (%)	ROCE (%)	EV/ EBITDA
03/10A	1,925	162	49.6	15.2	54.8	-	-	13.4	-	-
03/11A	2,482	203	62.0	12.2	68.4	11.1	1.6	14.8	12.9	7.5
03/12E	2,993	224	68.3	11.1	75.3	10.0	1.4	14.3	13.1	6.9
03/13E	2,670	240	73.2	10.3	80.8	9.4	1.1	12.7	12.2	6.1

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Key Takeaways

FY12 GRM till-date significantly above last two years

- RIL's refining utilization rates (12-month average: 107%) have been significantly above global averages, led by its advantage due to economies of scale and lower operating costs.
- As against the dismal refining margins in the last two years (USD6.7/bbl in FY10 and USD8.4/bbl in FY11), margins have been strong in FY12, with 1QFY12 average of USD10.3/bbl. We model full-year margins of USD9.9/bbl and believe that the global economic health will have a bearing on the refining industry.
- RIL had reported 1QFY12 GRM at USD10.3/bbl, implying a premium of USD1.8/bbl over benchmark Singapore GRM. We model full-year margins of USD9.9/bbl and believe that the global economic health will have a bearing on the refining industry. 2QFY12 average Reuters Singapore GRM till-date have averaged USD8.6/bbl v/s USD8.5/bbl in 1QFY12.

Doubling petchem capacity

- RIL has announced downstream projects, with an estimated capex of USD11-12b, which include (1) doubling of polyester capacity, (2) setting up of new 1.5mmtpa off-gases based cracker, and (3) integrated gasification combined cycle (IGCC) project.
- Polyester capacity will double post expansion and the units should start commissioning from 2013.
- 1QFY12 witnessed de-stocking due to volatile prices and fiscal tightening in China. However, 2H is likely to be better, led by seasonal factors like Diwali and Christmas driving demand.

Shale gas production to ramp-up, BP's entry would accelerate E&P plans

- We believe that the recent tie-up with BP is a game changer event for RIL's E&P plans, providing the best in-class technical support. This could lead to accelerated business ramp up over the next 2-3 years.
- BP has already given USD2b (of the total USD7.2b) and is likely to give the remaining amount in two tranches. The first tranche is expected to come in the coming month and the last by 3QFY12.
- Of the three shale gas JVs, two have commenced production and the third is likely to start production in the current quarter. Shale gas production should ramp up meaningfully in the next few years.

Valuation and view

- Adjusted for treasury shares, RIL trades at 10.3x FY12E EPS of INR75.3.
- Our SOTP-based target price is INR1,025. **Neutral**.

Biocon

Bloomberg	BIOS IN
Equity Shares (m)	200
CMP (INR)	329
Mcap (USD b)	1.4
52-Wk Range (INR)	465/302
1, 6, 12 Rel Perf (%)	4/10/5

YEAR END	NET SALES (INR M)	PAT (INR M)	EPS (INR)	EPS GR. (%)	P/E (X)	P/BV (X)	ROE (%)	ROCE (%)	EV/ SALES	EV/ EBITDA
03/10A	23,678	2,932	14.7	215.2	-	-	16.7	15.6	-	-
03/11A	27,707	3,675	18.4	25.3	17.9	3.2	18.1	19.3	2.2	10.2
03/12E	20,602	3,698	18.5	0.6	17.8	2.9	16.2	17.9	2.8	9.7
03/13E	24,039	4,468	22.3	20.8	14.7	2.5	17.2	19.0	2.4	8.2

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Key Takeaways

Guidance: Topline growth of 15-17% (ex-Axicorp) and EBITDA margin of 30% in FY12

The management has guided topline growth of 15-17% (Ex-Axicorp) and has re-iterated its guidance of ~30% EBITDA margin for FY12. It estimates R&D expenditure at 8% of revenue in FY12. The management has guided capex of INR1b-1.5b for FY12, which is in addition to the USD160m capex planned over three years to service the Pfizer contract. The company expects tax rate of 20-22% for FY12 against 16% in FY11, as some of its tax covers have expired.

Expect strong growth in Insulin, partially led by Pfizer launching it in emerging markets

The management has guided doubling of revenue from Insulin and Immunosuppressant segments over the next three years, implying a CAGR of 26% over FY11-14. This will be partially led by Pfizer launching human insulin in various emerging markets including India in partnership with Biocon. The company expects the launch of Rh Human Insulin in Europe in 2013. Currently, the drug is undergoing phase-III clinical trials. Biocon has also indicated that it will shortly begin the development of Glargine.

Contract Research (CR) - improving profitability

Biocon's management expects profitability to improve in its CR business, led by the change in its focus to deliver value-added integrated drug development (IDD) services as against FTE-based services. The transition from FTE to IDD model had adversely impacted its profitability in FY11. The management has guided 20% revenue growth for the business in FY12 while it expects EBITDA margin at 30%+, as capacity utilization at Syngene has improved.

Valuation and view

Key growth drivers for FY12/13 will be: (1) traction in the company's Insulin initiative and Pfizer contract in emerging markets, (2) ramp-up in contract research business, and (3) incremental contribution from immunosuppressant API supplies. Option values for the future include separate listing of Syngene and potential out-licensing of the Oral Insulin NCE. We estimate EPS at INR18.5 (up 6%) for FY12 and INR22.3 (up 20.8%) for FY13. The stock currently trades at 17.8x FY12E and 14.7x FY13E EPS. **Buy**, with a target price of INR402 (18x FY13E EPS).

GlaxoSmithKline Pharmaceutical

Bloomberg	GLXO IN
Equity Shares (m)	85
CMP (INR)	2,150
Mcap (USD b)	4.0
52-Wk Range (INR)	2475/1850
1, 6, 12 Rel Perf (%)	6/7/18

YEAR END	NET SALES (INR M)	PAT (INR M)	EPS (INR)	EPS GR. (%)	P/E (X)	P/BV (X)	ROE (%)	ROCE (%)	EV/ SALES	EV/ EBITDA
12/09A	18,708	5,049	59.6	12.6	-	-	28.7	43.0	-	-
12/10A	21,116	5,814	68.6	15.2	31.3	9.4	30.1	44.8	7.6	21.8
12/11E	23,740	6,567	77.5	12.9	27.7	8.7	31.3	46.3	6.8	20.2
12/12E	26,921	7,586	89.6	15.5	24.0	8.0	33.4	49.5	5.9	17.2

* Consolidated; EPS is fully diluted

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Key Takeaways

To sustain double-digit top-line growth

GlaxoSmithKline Pharmaceuticals (GLXO) management expects to sustain 12-14% top-line growth until CY15. However, it expects CY11 top-line growth to be at the lower end of its guidance due to increased competition. GLXO's pharmaceutical sales grew ~13% in 1HCY11. GLXO's growth will be led by a focus on priority products, expanding therapeutic and geographic coverage and incremental contribution from new launches.

EBITDA margins guidance at 33-35%

The management indicated it would sustain EBITDA margins at 33-35% until CY15 despite an increase in its field force. GLXO's strong brand equity with doctors enables it to sustain premium pricing for many of its brands resulting in high profitability. However, the management indicated that there was no room for margin improvement.

Aggressive new launches

GLXO indicated that its parent was strongly committed to the Indian operations. This is evident from the fact that many new products were launched over CY08-10, including four vaccines including Cervarix (cervical cancer vaccine for women). GLXO intends to launch 6-7 new products in 2HCY11 and in 1HCY11 it launched six new products. Among the launches over the past two years, we believe Cervarix, Rotarix (Rotavirus vaccine) and Revolade (platelet aggregator) hold good long-term potential.

Expanding a rural presence

GLXO is expanding in rural areas. The management believes that to be successful in rural areas, a company needs products, medical infrastructure and will have to follow different marketing practises than in urban areas.

DPCO may pose a threat

The management believes that if all the products mentioned in the New List of Essential Medicines come under DPCO, it would have a significantly adverse impact on the company and the industry. However the management is not sure about how and in what form the policy will be implemented.

Valuation and view

GLXO deserves premium valuations due to strong parentage (giving it access to a large product pipeline), brand-building ability and likely positioning in the post-patent era. It is one of the few companies with the ability to drive reasonable growth without major capital requirement, leading to high RoCE of over 45%. The stock is valued at 27.7x CY11E and 24x CY12E earnings. Maintain **Buy** with a target price of INR2,328 (26x CY11E).

Glenmark Pharmaceuticals

Bloomberg	GNP IN
Equity Shares (m)	270
CMP (INR)	323
Mcap (USD b)	1.9
52-Wk Range (INR)	390/242
1, 6, 12 Rel Perf (%)	16/24/26

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YEAR END	NET SALES (INR M)	PAT (INR M)	EPS (INR)	EPS GR. (%)	P/E (X)	P/BV (X)	ROE (%)	ROCE (%)	EV/ SALES	EV/ EBITDA
03/10A	24,616	3,310	11.6	174.9	27.7	3.7	14.1	12.7	4.3	17.6
03/11A	29,491	3,548	12.5	7.2	25.9	4.3	17.4	13.4	3.6	18.0
03/12E	37,007	4,584	16.1	29.2	20.0	3.2	17.0	15.3	2.8	10.6
03/13E	40,693	5,612	19.7	22.4	16.4	2.7	17.1	16.3	2.5	11.3

Note - Company has commenced IFRS accounting wef FY11. Estimates exclude one-off upsides

Key Takeaways

FY12 guidance: 23-25% top-line growth, 22-23% EBITDA margin

Glenmark Pharmaceuticals (GNP) management reiterated its 23-25% top-line growth guidance for FY12 and EBITDA margin guidance of 22-23% (both excluding NCE-related income). GNP estimates R&D expenses at INR2.25b and tax rate guidance is 14%. The management aims to cut net debt to INR16b by the end of FY12. Debtor days are expected to be at 125-130 days.

US revenue to grow ~25%; RoW, LatAm to grow 30%+

The management guidance is for ~25% revenue growth in the US to ~USD225m in FY12. It has ~40 ANDAs awaiting US FDA approval (with four FTFs) and the management believes ~75% of the pending ANDAs are in the niche/low-competition category. It launched four oral contraceptives (OCs) out of six approvals over the past few quarters. The management guidance is for 30% revenue growth for the RoW and 40% revenue growth for LatAm in FY12.

Domestic formulations business to sustain 16-18% growth

The management indicated that GNP's domestic formulations business slowed in line with the industry trend. However, GNP expects to sustain growth in the domestic formulations business, which posted 16% CAGR over FY08-11.

Novel drug discovery: No further milestone income in FY12; FY13 to see some developments

Management does not expect further milestone income in FY12 but it indicated that in FY13 GRC15300 and GBR500 would move to the next stage of clinical trials, which would trigger milestone payments. In FY13 GNP expects (1) to get phase II clinical trial data of Rivamilast (GRC4039) for asthma and rheumatoid arthritis and (2) to complete phase I clinical trial for GRC17536, after which it will evaluate out-licensing opportunities for both the molecules.

Valuation and view

GNP has differentiated itself among Indian pharmaceutical companies through significant success in NCE research (resulting in licensing income of USD202m so far). Given this success, GNP has been adding new NCEs to its pipeline, which will put pressure on its operations in the short to medium term as it will have to fund R&D expenses for these NCEs on its own. High interest costs and the likely absence of strong forex gains will pare FY12 operational performance. We expect EPS of INR16.1 in FY12 and INR19.7 in FY13. The stock trades at 20x FY12E and 16.4x FY13E earnings with about 15-16% RoCE. Maintain **Neutral** with a target price of INR310 (15x FY13E EPS + INR14 DCF value of Crofelemer and Para-IV pipeline).

Lupin

Bloomberg	LPC IN
Equity Shares (m)	446
CMP (INR)	440
Mcap (USD b)	4.3
52-Wk Range (INR)	520/348
1, 6, 12 Rel Perf (%)	10/17/30

YEAR END	NET SALES (INR M)	PAT (INR M)	EPS (INR)	EPS GR. (%)	P/E (X)	P/BV (X)	ROE (%)	ROCE (%)	EV/ SALES	EV/ EBITDA
03/10A	47,405	6,816	15.3	34.8	28.7	7.6	34.1	27.5	4.3	24.1
03/11A	57,068	8,582	19.3	25.9	22.8	6.0	29.3	25.1	3.6	19.1
03/12E	64,784	9,913	22.3	15.5	19.7	4.9	27.1	28.2	3.1	16.4
03/13E	74,127	11,418	25.7	15.2	17.1	4.1	25.7	27.1	2.7	13.5

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Key Takeaways

Guidance

Lupin (LPC) management did not give any official guidance but indicated that LPC may grow slower in FY12 than it did in FY11 (when it posted 20% top-line and 27% EPS growth) but FY13 would be a good year. The guidance is for better growth and improved EBITDA margins in 2HFY12, led by recovery of growth in the US generics business (driven by new launches) and sustained double-digit growth for the Japan and India formulations businesses.

LPC to continue to outperform average industry growth in the domestic formulations business

Management has guided that LPC will outperform the average industry growth in the coming years led mainly by its entry into new therapies, expansion of the field force, aggressive new launches and gradually increasing penetration in tier-II towns. LPC indicated that the current slowdown in the average industry growth was temporary in nature.

Niche/patent challenge product launches in the US to continue

We believe the trend of launching niche/patent challenge products in the US will continue and helped by commercialization of oral contraceptive and ophthalmology products from FY13. Overall, LPC has a strong pipeline of 101 ANDAs pending approval, of which 15 are FTFs and four likely to be granted sole 180-day exclusivity. The remaining are eligible for shared 180-day exclusivity.

LPC better positioned to exploit Japanese market

LPC expects to launch 6-7 new products in Japan in FY12. We forecast 17% CAGR for LPC's Japanese business over FY11-13. The management indicated that it may look at inorganic opportunities in Japan, to expand its therapeutic presence and establish its presence in the hospitals segment.

Valuation and view

Key growth drivers for the future include an expanding US generics pipeline, niche/ Para-IV opportunities in the US, strong performance in India and emerging markets and sustained traction in Japan. The stock trades at 19.7x FY12E and 17.1x FY13E EPS, with sustained RoE of 25-27%. Our estimates do not include potential Para-IV and OC upsides but take into account the likely generic competition for Suprax (thus impacting FY13E EPS). Maintain **Buy** with a target price of INR514 (20x FY13E EPS).

Opto Circuits India

Bloomberg	OPTC IN
Equity Shares (m)	186
CMP (INR)	271
Mcap (USD b)	1.1
52-Wk Range (INR)	328/225
1, 6, 12 Rel Perf (%)	12/20/11

YEAR END	NET SALES (INR M)	PAT (INR M)	EPS (INR)	EPS GROWTH (%)	P/E (X)	P/BV (X)	ROE (%)	ROCE (%)	EV/ SALES	EV/ EBITDA
03/10A	10,776	2,452	13.2	55.0	20.6	4.8	33.9	28.5	4.8	14.1
03/11A	15,856	3,661	19.6	49.3	13.8	3.7	30.4	24.1	3.6	12.8
03/12E	22,442	3,958	21.2	8.1	12.8	3.1	25.9	19.6	2.7	10.6
03/13E	25,843	4,937	26.5	24.7	10.2	2.6	26.9	21.0	2.3	8.6

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Key Takeaways

Guidance: Reiterates FY12 top-line growth of 40%

Opto Circuits' (OPTC) management reiterated its top-line growth guidance of 40% for FY12. The growth will be partly driven by full-year consolidation of Cardiac Science Corp (CSC). We estimate that net of CSC, the implied growth guidance for core revenue is 20%. FY12 EBITDA margin guidance is 28% led by a turnaround in CSC operations and we estimate capex of INR1.8b.

Management expects USD140m revenue, 10-12% EBITDA margin for CSC in FY12

The management guidance is for flat ~USD140m revenue for CSC in FY12 since the focus will be to improve CSC's profitability through internal restructuring. The management guidance is for CSC's EBITDA margin of 10-12% in FY12, led by operational consolidation of all the three US subsidiaries (CSC, Criticare and Mediaid), rationalization of marketing spend and a reduction in the number of employees.

Invasive business to lead organic growth

The management expects 30% growth of the invasive business to be sustained in future. This will be led by strong sales growth across product lines, the launch of new products, expansion in emerging markets, greater acceptance for Dior and expansion in distribution.

Concerns include high debt, goodwill, deteriorating working capital

OPTC's total debt on the books is ~INR8.84b. The management guidance is not for debt reduction in FY12. Goodwill stands at INR5.95b, ~45% of OPTC's net worth. The management expects to take a one-time hit for goodwill after the implementation of IFRS. Working capital cycle deteriorated in FY11 due to a shift of production from the US to OPTC's Indian and Malaysian facilities. The management guidance is for a cut in working capital requirement from FY13.

Valuation and view

OPTC delivered strong revenue, earnings growth and return ratios over the past few years. Despite rapid growth OPTC is a marginal player in the global medical devices industry, which gives it the opportunity to sustain its high revenue growth over the next couple of years. However, an early financial turnaround of CSC, large goodwill and debt on books along with high working capital requirements and very low free cash flow generation are concerns. The stock trades at 12.8x FY12E and 10.2x FY13E EPS. Maintain **Neutral** with a target price of INR318 (12x FY13E EPS).

Sun Pharmaceutical Industries

Bloomberg	SUNP IN
Equity Shares (m)	1,036
CMP (INR)	467
Mcap (USD b)	10.6
52-Wk Range (INR)	538/343
1, 6, 12 Rel Perf (%)	4/23/42

YEAR END	NET SALES (INR M)	PAT (INR M)	EPS (INR)	EPS GR. (%)	P/E (X)	P/BV (X)	ROE (%)	ROCE (%)	EV/ SALES	EV/ EBITDA
03/10A*	41,028	13,511	13.0	-25.7	35.8	6.2	12.8	18.7	10.9	32.9
03/10A	34,344	9,501	9.2							
03/11A	52,066	14,041	13.6	47.8	34.5	5.1	16.2	22.9	7.8	22.6
03/11A*	57,214	18,161	17.5	34.4	26.6					
03/12E	65,601	17,952	17.3	27.9	27.0	4.5	17.7	20.5	6.6	20.9
03/13E	75,976	21,626	20.9	20.5	22.4	3.9	18.5	22.2	5.5	16.8

* Including Para-IV/one-off upsides

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Key Takeaways

Guidance: 28-30% top-line growth in FY12

Sun Pharmaceutical Industries (SUNP) management reiterated its 28-30% top-line growth guidance for FY12. The growth will be partly driven by the full-year consolidation of Taro. We estimate that net of one-offs and Taro, implied growth guidance for core revenue is 18-19%. Capex is estimated at INR4.5b, R&D expenses at 6% of sales and management aims to file ~25 products with the US FDA.

Domestic formulations industry growth slowing

Growth in the domestic formulations industry has slowed over the past few months but the management believes that long-term prospects are good. While the management has not given any separate growth guidance for this business, we expect SUNP to sustain its growth momentum. The business posted 17-18% CAGR over FY08-11 and we expect SUNP to sustain this growth rate until FY13. Absence of contract manufacturing revenue will temper FY12 growth.

Taro margins may not be sustained

While Taro reported strong EBITDA margins (~30%) over the past two quarters, the management indicated that these margins were not sustainable due to a likely increase in Taro's R&D expenses going forward and the possibility of increased competition for some of Taro's products in the US.

Caraco: US FDA resolution likely to be gradual

While there is no fresh update on the US FDA resolution at Caraco, we believe that the process will be gradual. We estimate part-recovery in Caraco's core US revenue from FY13 based on the assumption that the US FDA issues will be resolved over the next few quarters. SUNP recently raised its stake in Taro to 100%, which can incrementally help in facilitating the resolution of US FDA issues.

Growth in emerging markets portfolio to be sustained

The management is confident of sustaining good growth in its emerging markets portfolio. We estimate that SUNP's emerging markets will post 20% revenue CAGR over the next two years, given its plans to increase penetration in key markets.

Valuation and view

Key drivers for future include: (1) a ramp-up in the US business and resolution of Caraco's cGMP issues; (2) monetization of the Para-IV pipeline in the US and (3) launch of controlled substances in the US. The stock is valued at 27x FY12E and 22.4x FY13E core earnings. While we are positive about SUNP's business outlook, rich valuations have tempered our bullishness. Maintain **Neutral** with a target price of INR524 (25x FY13E EPS).

DLF

Bloomberg	DLFU IN
Equity Shares (m)	1698
CMP (INR)	183
Mcap (USD b)	6.8
52-Wk Range (INR)	397/173
1, 6, 12 Rel Perf (%)	-11/-9/-34

YEAR END	NET SALES (INR M)	PAT (INR M)	EPS (INR)	EPS GR. (%)	P/E (X)	P/BV (X)	ROE (%)	ROCE (%)	EV/ SALES	EV/ EBITDA
3/10A	74,209	17,300	10.2	-61.3	-	-	5.7	7.7	-	-
3/11A	95,606	16,396	9.7	-5.2	18.9	1.2	6.2	7.1	5.5	14.1
3/12E	100,896	16,269	9.6	-0.8	19.1	1.2	5.9	8.4	5.1	11.4
3/13E	107,824	19,288	11.4	18.6	16.1	1.1	6.6	8.8	4.6	10.4

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Key Takeaways

Stronger guidance on divestment/deleveraging

- The management hinted that a few major divestment negotiations would be concluded over the next couple of months. Of its total de-leveraging target of INR100b over the next three years, the company plans to reduce over INR30b in FY12.
- DLF is in advanced stages of documentation for divestment of four assets of ~INR40b (including Aman Resort), while the monetization of IT Parks in Noida and Pune (expected valuation of INR12b-13b) has reached the final stages of conclusion.
- DLF's underperformance with regard to its stated asset divestment plan over the past one year has been a key overhang. However, the management portrayed greater certainty following shift in control on divestment from asset level management to core central management level.

Launch to gain traction in 2HFY12; "go slow" strategy in leasing

- DLF has indicated ~2msf of new launches in 2QFY12 in Chandigarh (Panchkula and Mulanpur). A larger portion of its new launches are planned for 2HFY12, including premium-end project Magnolia-II in 4QFY12 (expected rate of INR17,000/sf).
- The management maintained lower leasing guidance of 2.5-3msf and lower capex plan, largely to leverage on the expected rental appreciation of 10-15%, going forward. DLF expects rental income to grow to ~INR15b/INR18b in FY12/FY13.

Confident of victory in CCI issue; appealing against penalty

- DLF has expressed extreme confidence in overcoming the recent INR6.3b penalty imposed by Competition Commission of India (CCI) on account of the allegation of misusing its dominant position in agreements with buyers in the Belaire project.
- The management mentioned that DLF will appeal against the order with the Appellate Forum of CCI. The company differs with the stated 'dominance position' status, citing that DLF is one among 18 developers in Gurgaon.

Strong outlook barring a few markets; execution remains a key challenge.

- DLF sees strong broadbased demand across locations, barring Noida (oversupply), Mumbai (approval issue) and Hyderabad (political uncertainty). Monetization plan of Mumbai property at status-quo due to problems in obtaining approvals.
- Cost inflation, tightening liquidity, labor shortage and approval delays are major headwinds against on-time execution.

Valuation and view

- Meaningful progress in asset sales along with successful debt leveraging and softening of borrowing cost would be the key catalyst for the stock. The stock trades at 16.1x FY13E EPS, 1.1x FY13E BV, and at 40% discount to our NAV estimate. **Buy**.

Jones Lang LaSalle

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Key Takeaways

Long term macro story intact amid headwinds; JLL expects demand for industry regulator to gain ground

- Strong outlook of Indian economy with real GDP growth rate of 8-8.5% over the next five years is the biggest demand driver of the real estate sector in India.
- The staggering growth potential is also evident from the fact that the value of investments made in real estate under construction crossed USD100b, ~66% devoted to the residential vertical, ~25% to the commercial and rest to the retail vertical.
- However there are operational and regulatory hurdles such as (a) infrastructure delays, (b) cost inflation, (c) lack of mechanization and skilled labor to support timely execution of plans, (c) absence of proper regulatory framework, and (d) spiraling liquidity pressure. Apathy among government and institutional lenders and delayed approvals have been other recent headwinds.

Residential sales, new launches slow; no major price correction expected

- Rising residential property prices led to the stabilization of overall absorption rates from 17.5% in 1QFY11 to 14.6% in 2QFY11. With several delays in approval and plummeting sales, the momentum in new launches has also declined, with Chennai being the only city to register a rise in new launches in 2QFY11.
- Pune and NCR-Delhi led cities in terms of absorption rate recorded in 2QFY11, followed by Chennai and Kolkata. Mumbai recorded the lowest absorption rate.
- Key metros are unlikely to witness a major price correction. Buyer interest will resume in Mumbai with moderate price correction for a brief period.

Commercial revival evident in metros; Occupier's market on supply overhang

- Demand of office space is gradually improving with opportunistic tenants taking up space at lower rentals. Net absorption to grow from 31msf in 2010, to 36msf and 41msf in 2011 and 2012. CBDs of key metros witnessed moderate rental up-tick.
- Despite improving demand, vacancies are rising in the short term due to infusion of office space, indicating ~50msf of unsold stock by the end of 2011. The vacancy is expected to rise to 22.9% by the end of 2012 and then fall in 2013. NCR and Mumbai will witness maximum supply, while Bangalore will witness lowest vacancy of 13%.
- The IT/ITES sector is the biggest demand driver followed by the manufacturing and BFSI sectors, which together account for 60-70% of office demand.
- The recorded spread of 70-80bp between rental yields in CBDs and those of SBDs and suburbs exists due to risks of a huge supply overhang expected in secondary and suburban locations.

Oversupply, poor planning, inferior location lead to higher vacancies

- Inferior floor planning, poor execution and location choice resulted in a dearth of quality supply in the retail space. Therefore, while absorption has picked up in city-centric, well executed projects, a supply overhang will keep its natural vacancy level under pressure at over 25%.
- Annual absorption is expected to increase to 12msf (4.7msf absorbed in 1H11 and another 4.2msf pre-committed) against 4msf in 2010.
- Supply is expected to witness strong rationalization after 2013 with several developers planning to exit the retail vertical due to the complexity of execution and management.

Pantaloon Retail India

Bloomberg	PF IN
Equity Shares (m)	201
CMP (INR)	283
Mcap (USD b)	1.2
52-Wk Range (INR)	528/218
1, 6, 12 Rel Perf (%)	-2/16/-27

YEAR END	NET SALES (INR B)	PAT (INR B)	EPS (INR)	EPS GROWTH (%)	P/E (X)	P/BV (X)	ROE (%)	ROCE (%)	EV/ SALES	EV/ EBITDA
06/10A	89,261	1,680	8.2	25.8	34.7	2.1	6.0	14.2	0.9	9.6
06/11E	112,459	1,909	8.8	7.8	32.2	1.9	5.8	13.4	0.8	8.9
06/12E	140,139	2,773	12.4	41.1	22.8	1.8	7.9	15.3	0.6	7.4
06/13E	167,511	3,589	16.1	29.4	17.6	1.6	9.3	16.4	0.6	6.4

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Key Takeaways

PF expects ~30% sales CAGR over FY11-13 led by 14-15% SSS growth, space addition

- Pantaloon Retail (PF) expects to deliver ~30% growth over the next two years led by 14-15% same-store-sales growth and by space addition. However FY12 growth may be lower than 30%.
- Lack of quality real estate will be a key issue in future, which PF plans to address by aggressively expanding. It plans to add 2-2.5msf of space a year over the next 3-4 years.

Demand environment improves marginally MoM; 2HFY12 to be better than 1HFY12

- After a 16-17% price increase in apparel taken in April, consumer demand has been weak in April and May. However there was marginal improvement in June and July and the management expects demand to be back on track in 2HFY12.
- GST is likely to be a major boost for organized retail with likely saving of 20% on supply chain cost, if implemented in the true spirit.

PF to cut inventory by 6-7 days; Monetizing non-core retail assets, FDI in retail to help cut debt

- Inventory reduction targets were not met in FY11 because of high cost apparel inventory. The management aims to cut inventory to 100 days in FY12 and by 6-7 days a year thereafter. The target is 65 days.
- PF had debt of ~INR40b at the end of FY11 in the core retail business, ~55% of which was towards the value retail business. Current debt equity is 1.1x. PF plans to cut this to 0.75x by monetizing its financial services business (possibly Future Capital) and benefiting from an impending FDI in retail legislation.
- The management however stated that the book value of non-core investments was USD800m-1b some of which will be monetized within the next 12 months.

Capex of INR8b for space addition, store refurbishment

- Space addition of 2-2.5msf and refurbishments of 8-9 year old stores will require capex of INR8b in FY12, 60% of which will be funded through internal accrual.
- Investment in the financial services business continues to be a drag. INR2b outflow will be required to fund the businesses from PF's balance sheet.

Valuation and view

- We believe PF is the best play on retail in India with a strong reach across formats and will be the biggest beneficiary of FDI in retail in India. However, surging debt, high inventory and continued investment in financial services are key concerns.
- We estimate 35% EPS CAGR over FY11-FY13. The stock trades at 22.8xFY12E EPS of INR12.4 and 17.6xFY12E EPS of INR16.1x. Maintain **Buy**.

Shoppers Stop

Bloomberg	SHOP IN
Equity Shares (m)	82
CMP (INR)	395
Mcap (USD b)	0.7
52-Wk Range (INR)	504/261
1, 6, 12 Rel Perf (%)	-3/31/25

YEAR END	NET SALES (INR M)	PAT (INR M)	EPS (INR)	EPS GROWTH (%)	P/E (X)	P/BV (X)	ROE (%)	ROCE (%)	EV/ SALES	EV/ EBITDA
03/10A	13,989	418	4.2	174.6	94.9	10.5	13.5	14.8	2.4	31.7
03/11A/E	17,120	751	9.2	120.3	48.4	5.5	11.3	13.8	1.9	21.9
03/12E	20,625	972	11.8	29.3	33.3	4.8	14.5	17.6	1.5	16.0
03/13E	25,276	1,259	15.3	29.6	25.7	4.2	16.4	21.5	1.2	12.5

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Key Takeaways

Consumption sentiment remains positive; expects LTL sales growth of 8-10%

- Consumer sentiment remains positive though there has been some deterioration in the past few months, mainly led by various scams and high inflation.
- Shoppers Stop (SHOP) has seen lower LTL sales growth of 7% in 1QFY12, with volume decline of 5% and customer entry growth of only 3%. The management expects to sustain 8-10% LTL sales CAGR.
- SHOP believes that its model is scalable in 35 cities, as against its current presence in 19 cities. Though store additions in same cities will result in some cannibalization in the near term, this will enable economies of scale and help increase margins.

Incremental investments largely in well-established core portfolio

- SHOP has launched four stores in FY12, and plans to end the year with the addition of 10 stores. It would also look at adding 15-20 specialty stores like EL and MAC.
- The company has largely used the funds raised from QIP. It is confident that standalone operations would be able to fund growth in the near term.
- Margins are likely to remain around current levels in the near term; however, GST, lower store openings and lower import duty on beauty products will boost margins in the medium term.
- FDI in retail will not impact the departmental store format, as departmental store chains have less global character.

Hypercity to turn EBITDA positive by FY13

- Hypercity is likely to close the year with 12 stores (10 currently), with likely addition of ~4 stores every year. The management is confident of making it EBITDA positive by FY13.
- Stores in tier-2 cities like Amritsar and Ludhiana are performing below expectations, while the one in Jaipur has started improving. The management plans to add another couple of stores in the Mumbai region by end of FY12.
- The proportion of food and grocery has increased to 61% of sales from 55% a year ago, which has impacted profitability. The management intends to increase sales of apparel and general merchandise to enhance profit margins.

Valuation and view

- SHOP plans to increase retail space at a fast clip across formats. Decline in LTL sales growth in Shoppers Stop and increasing loss in Hypercity Retail are key headwinds.
- SHOP is one of the best plays on rising consumerism in Urban India. However, the stock trades at 33.3x FY12E EPS of INR11.8 and 25.7x FY13E EPS of INR15.3. **Neutral**.

Titan Industries

Bloomberg	TTAN IN
Equity Shares (m)	888
CMP (INR)	203
Mcap (USD b)	3.9
52-Wk Range (INR)	238/144
1, 6, 12 Rel Perf (%)	4/28/53

YEAR END	NET SALES (INR M)	PAT (INR M)	EPS (INR)	EPS GR. (%)	P/E (X)	P/BV (X)	ROE (%)	ROCE (%)	EV/ SALES	EV/ EBITDA
03/10A	46,744	2,615	2.9	24.7	-	-	41.0	53.6	-	-
03/11A	65,209	4,336	4.9	65.8	46.7	17.6	49.6	61.8	2.6	29.0
03/12E	90,202	6,401	7.2	47.6	28.2	12.3	51.4	65.1	1.8	20.1
03/13E	108,515	8,267	9.3	29.2	21.8	8.9	47.2	59.0	1.5	15.2

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Key Takeaways

Consumer demand environment outlook cautious in the near term

- The demand environment is likely to be robust in the medium to long term, given rising income levels and rise of the urban middle class.
- However, the management believes that growth outlook in the near term may get impacted by rising interest rates and likely dampening of consumer sentiment.

Jewelry: Volume growth lower than 1Q; margins to sustain at FY11 levels

- The management believes that volume growth of 35% in 1QFY12 unsustainable, though there is no indication of a major slowdown in July and August.
- PAN card requirement for jewelry purchase above INR0.5m (15-20% of sales) has no impact on demand and sales.
- Tanishq currently has 121 stores and plans to add 10 new stores in FY12.
- Although the jewelry segment has reported 120bp YoY increase in margins in 1QFY12, it would be difficult to increase margins beyond FY11 levels.

Watches: Stable growth; margins to be impacted by losses on Helios stores

- Though watch volumes have been stable through July and August, the watch business is more prone to lower growth if consumer sentiment is impacted.
- Large format watch stores have witnessed a 26% LTL growth in 1QFY12. Premium brands like Titan and Fastrack are growing faster, resulting in richer sales mix.
- Helios is a focus area, as TTAN plans to take store count to 40 by end-FY12 (9 in June 2011) and to 100 in two years. This will enable TTAN to capture the growing demand for high-end luxury watches.
- TTAN is positive on Fastrack as a brand and believes it has strong potential in watches, eyewear and other accessories. It plans to triple revenue in three years.

Eyewear and Precision Engineering: Eye Plus the new growth driver

- Eyewear has posted an impressive 70% SSS growth in 1QFY12 and the management is very positive on growth. It has so far added 27 stores during the year (total 177 stores) and plans to increase the number of stores to 250 by FY12.
- Store breakeven for eyewear is expected at 300 stores in FY13.
- TTAN plans to end the current year with sales exceeding INR1b for precision engineering, with positive bottomline contribution.

Valuation and view

- TTAN remains one of the best plays on increasing consumer discretionary spends. However, near-term outlook remains cautious due to high inflation, sharp increase in gold and diamond prices, and Helios store expansion.
- The stock trades at rich valuations of 28.2x FY12E EPS of INR7.2 and 21.8x FY13E EPS of INR9.3. **Neutral.**

Bharti Airtel

Bloomberg	BHARTI IN
Equity Shares (m)	3798
CMP (INR)	394
Mcap (USD b)	32.7
52-Wk Range (INR)	445/304
1, 6, 12 Rel Perf (%)	9/30/38

YEAR END	NET SALES (INR M)	PAT (INR M)	EPS (INR)	EPS GR. (%)	P/E (X)	P/BV (X)	ROE (%)	ROCE (%)	EV/ SALES	EV/ EBITDA
3/10A	418,472	89,767	23.7	5.9	16.6	3.3	23.6	18.9	3.6	9.1
3/11A	594,672	60,468	15.9	-32.6	24.7	2.9	12.6	8.7	3.5	10.5
3/12E	725,120	78,339	20.6	29.6	19.1	2.5	14.1	8.8	2.8	7.7
3/13E	818,592	116,236	30.6	48.4	12.9	2.1	18.0	11.7	2.3	5.9

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Key Takeaways

Recent tariff hikes to get reflected in four quarters

- Recent tariff hikes have largely been driven by increasing costs and required investments in 3G and rural networks.
- The hikes will flow through over four quarters.
- Tariffs would be reviewed to assess the impact on market share and volumes.
- The recent hikes in some 2G data plans are mainly to benchmark them with the recently introduced 3G data plans.

Upcoming policy to provide level playing field

- License renewal and excess spectrum are the two major regulatory issues.
- While NTP 2011 is keenly awaited for long-term regulatory visibility, it is also expected to provide a level playing field for all operators.

Revenue market share: Has managed well despite hyper competition

- Bharti has lost ~2% revenue market share over the last two years.
- This is mainly a function of large players like Vodafone and Idea entering new markets.

Huge opportunity in 3G

- Overall voice penetration currently stands at ~50% and could increase, largely driven by increasing rural penetration (currently at ~30%).
- Potential 3G user penetration is a large sub-set of voice penetration. The potential for data usage is very large, given that there are no fixed lines and broadband penetration is less than 2%. However, this would require an application ecosystem, rollouts and 3G-enabled handsets at affordable prices.
- Non-3G handsets are likely to be driven out of the market over the next two years.

Africa: Cost reduction a key focus area

- Primary focus for Bharti in Africa is to reduce cost per minute.
- Regulatory and competitive environment is favorable in Africa.
- Bharti is keen to invest and expand its business in Africa at a fast pace but has faced some logistics challenges, which will keep FY12 capex at USD1.2b.

Valuation and view

The stock trades at proportionate EV/EBITDA of 7.7x FY12E and 5.9x FY13E. **Buy** with a target price of INR530.

IDEA

Bloomberg	IDEA IN
Equity Shares (m)	3,303.3
CMP (INR)	93
Mcap (USD b)	6.7
52 W Range (INR)	100/56
1, 6, 12 Rel Per	21/56/4

YEAR END	NET SALES (INR M)	PAT (INR M)	EPS (INR)	EPS GR. (%)	P/E (X)	P/BV (X)	ROE (%)	ROCE (%)	EV/ SALES	EV/ EBITDA
3/10A	124,476	9,540	3.1	2.0	-	-	7.6	5.5	-	-
3/11A	155,032	8,986	2.7	-11.6	34.0	2.5	7.6	5.2	2.7	10.8
3/12E	198,782	8,560	2.6	-4.7	35.7	2.3	6.7	6.1	2.2	7.9
3/13E	243,714	22,432	6.8	162.0	13.6	2.0	15.7	10.9	1.7	5.5

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Key Takeaways

Significant growth opportunity in voice as well as data

- Penetration of voice services in India is still relatively low at ~50% v/s the global benchmark of 80-90%.
- Data opportunity could be as large as voice over the next few years.
- Share of non-voice services in revenue is set to increase, as subscribers upgrade handsets over the next few years and the ecosystem for 3G develops.
- Most global companies derive 30-50% of revenue from data v/s ~3% for India.

Key industry trends

- Virtual consolidation in the industry is evident from increase in revenue market share of top-three operators from ~55% to ~65% in the last 3-4 years despite hyper-competition.
- While incremental operating cost for 3G is only a fraction of current operating costs, amortization and finance costs related to 3G spectrum will negatively impact the bottomline of all operators.

Overinvestment strategy in established circles

- Idea has a strategy of overinvesting in its established circles, which drives its leadership. It is focused on deepening its coverage and driving rural growth. 67% of net subscriber additions for Idea come from rural markets.
- Focus on building scale; with 1.2b minutes/day, Idea is the eighth-largest operator globally in terms of traffic.
- Enhancing revenue market share driven by (1) focus on quality of subscribers, (2) cash profits to sustain investments, and (3) higher-than-industry traffic growth.
- Idea is expanding its 3G reach and is rolling out 3G services in 10 towns/day, as significant growth is expected from wireless broadband on the handsets.

New circle losses likely to continue at current levels

- During FY11, Idea had incurred an EBITDA loss of INR5.4b in its nine new circles.
- The loss is likely to remain at similar levels in the near-term, as the company would keep investing more as economics in these circles improve.

Regulatory issues

- NTP 2011 would be a key event to watch for.
- Continued overcapacity in the industry remains a challenge.
- Potential exit of unviable operators could be an important milestone for the industry.

Valuation and view

The stock trades at EV/EBITDA of 7.9x FY12E and 5.5x FY13E. **Buy** with a target price of INR140.

Reliance Communications

Bloomberg	RCOM IN
Equity Shares (m)	2064
CMP (INR)	79
Mcap (USD b)	3.6
52-Wk Range (INR)	189/73
1, 6, 12 Rel Perf (%)	-3/-7/-40

YEAR END	NET SALES (INR M)	PAT (INR M)	EPS (INR)	EPS GR. (%)	P/E (X)	P/BV (X)	ROE (%)	ROCE (%)	EV/ SALES	EV/ EBITDA
3/10A	222,457	48,812	23.7	-20.7	-	-	12.6	5.8	-	-
3/11A	205,627	14,936	7.2	-69.4	10.9	0.4	3.9	2.9	2.3	7.4
3/12E	206,274	10,609	5.1	-29.0	15.3	0.4	2.9	2.7	2.2	6.7
3/13E	231,742	18,238	8.8	71.9	8.9	0.4	4.8	4.0	1.8	5.1

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Key Takeaways

Competitive environment improving

- The worst of the competitive intensity is behind the sector.
- With tariff hikes taken by operators controlling 80-90% of the revenue market, the pricing environment has improved.
- Voice RPM improvement will be driven by recent tariff hikes flowing through to more subscriptions as they come up for renewal.

Advanced due diligence for tower company sale underway

- The tower company transaction is in an advanced due diligence stage and could be completed over the next 2-3 months. Media reports indicated a potential valuation of USD5b for the tower assets.
- The sale will involve the transfer of Reliance Communications' (RCom) tower assets. Optic fiber assets will not be a part of the proposed transaction.

Leverage high

- RCom has net debt of ~INR320b and the blended cost of debt is less than 5%.
- The only major debt re-payment required over the next one year is related to the outstanding FCCB (~USD1.1b due in May 2011).
- RCom has drawn down ~USD1.3b from China Development Bank to re-finance short-term rupee loans related to 3G license fees. A further limit of ~USD0.6b is available.
- Beside external capital raising, operating FCF should be healthy given expected FY12 EBITDA of ~INR68b and limited capex requirement of ~INR15b.

Huge untapped data opportunity

- With a large disparity between voice penetration (60-65%) and broadband penetration (1-2%), there is significant opportunity in the data business yet to be tapped.
- The 3G customer base is ~2m. RCom has launched a tablet (priced INR12,999, manufactured by ZTE). As the prices fall, data penetration should reach a threshold level.

Valuation and view

- RCom trades at EV/EBITDA of 6.7x FY12E and 5.1x FY13E. We have a **Neutral** rating with a target price of INR83.

Aryan Coal

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Key Takeaways

ACB to boost coal washing capacity to 102mt by FY15

- A new policy putting restrictions on the ash content in coal to less than 34% is expected to boost coal washing in India.
- Washed coal saves costs of transport and increases thermal coal efficiency.
- Over the years coal washing capacity has been in deficit and the Planning Commission estimates coal washing demand of 502mt from the power sector.
- ACB, formerly known as Aryan Coal Benefications, has coal washing capacity of 65mt and is working to expand its capacity by 37.3mt. It plans to have a CAGR of ~16% to 102mt over the next three years with the commissioning of its project.

Backward integration strategy by way of equipment manufacturing

- In sync with its backward integration strategy, ACB fabricates clean coal equipment including barrel washers and has installed capacity of 1,500tpa.
- Increased demand to set up more coal washeries would provide a strong domestic growth opportunity.

Sponge iron capacity ~0.2mt a year

- ACB has sponge iron capacity of 165k tons a year and captive power capacity of 18MW.

Power generation capacity synergized by washery rejects

- ACB entered the power generation industry and has operational capacity of 63MW (15MW wind, 30MW thermal plant based on coal rejects and 18MW on the waste heat recovery mechanism).
- ACB highlighted its coal washery generates 20-30% of reject, which in a coal deficit scenario, can help to generate power. This would provide continued supply of fuel to the projects.
- The company has 400MW of power projects (based on a mix of coal and washery rejects) under construction with EPC and financial closure in place. It plans to commission the projects over FY12 and FY13.
- ACB is also working on ~3.7GW of thermal power projects.

Development status of ~3.7GW of projects

Project	Capacity (MW)	CoD	Remarks
Chhattisgarh	600	3QFY14	- Financial Closure achieved - NIT invited for BTG
Sidhi	1200	3QFY15	- Financial Closure achieved - NIT invited for BTG
Champa	1200	1QFY17	- Water allocation approved - RFP/RFQ for EPC under preparation
Ratija	50	4QFY14	- Land acquired, EIA report submitted
Bandakhar	300	1QFY14	- Land, water, EC allocation in place - NIT invited for BTG
Kakinada	350	2QFY14	- Land, water, EC allocation in place - Financial Closure achieved - NIT invited for BTG

CESC

Bloomberg	CESC IN
Equity Shares (m)	125
CMP (INR)	297
Mcap (USD b)	0.8
52-Wk Range (INR)	433/257
1, 6, 12 Rel Perf (%)	2/9/-15

YEAR END	NET SALES (INR M)	PAT (INR M)	EPS (INR)	EPS GR. (%)	P/E* (X)	P/BV (X)	ROE (%)	ROCE (%)	EV/ SALES	EV/ EBITDA
03/10A	32,928	4,333	34.5	17.7	-	-	11.4	10.3	-	-
03/11A	39,399	4,670	38.9	12.7	7.6	0.9	11.4	11.2	1.5	5.9
03/12E	42,103	5,040	40.1	3.2	7.4	0.8	10.6	11.0	1.2	4.9
03/13E	45,041	5,262	41.9	4.4	7.1	0.7	10.1	10.7	1.2	5.0

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Key Takeaways

Fuel cost already approved, revised tariff petition pending approval

- CESC has already got the approval to pass on the fuel price increase effected by Coal India and has raised its tariffs by INR0.46/unit.
- It has filed the year-end tariff petition for FY12, where it seeks an increase of ~INR0.6/unit. The final outcome of this petition is awaited.

1.2GW under construction projects on track, development pipeline of 5.3GW

- The 600MW Haldia project has received debt sanctions. The project cost, including ~80km of transmission corridor, stands at INR33b. 70% of its fuel requirement will be met through linkages (granted from MCL) and 30% through coal imports from Resource Generation.
- 450MW of the Haldia project capacity will be sold to its own distribution business, for which CESC has received approval from the state regulator.
- 600MW Chandrapur project, the total cost is estimated at INR30b (including premium paid for acquisition). Construction work is in full swing, with major orders in place.
- CESC plans to sell ~300MW of power from the Chandrapur project through Case-1 bids on LT basis, while the balance capacity can be sold to SEZ industrial consumers, or group company (engaged in distribution of power in Noida / Greater Noida).

Resource Generation stake

- CESC has recently acquired 11.8% equity interest in Resource Generation (an Australian company with mining interests in South Africa). This will entitle CESC to procure 139m tons of coal over 38 years.
- Depending on the future development, CESC could increase stake in the venture, but not beyond 20%.

Cash infusion of INR1.5b in Spencers in each of FY12 and FY13

- Improvement in gross margins and reduction in operational losses led to lowering of Spencer losses to INR1.7b in FY11. CESC expects the losses to further go down to INR1b in FY12.
- Apart from funding losses, Spencer will require capex of INR0.4b and INR0.5b for planned addition of 0.3msf and 0.5msf of area in FY12 and FY13 respectively.
- Sales for its retail operations improved to INR1,042/sf in 1QFY12, and further to INR1,100/sf in July 2011.

Valuation and view

We expect CESC to report a net profit of INR5b (up 3%) in FY12 and INR5.3b (up 4%) in FY13. The stock trades at 7.4x FY12E and 7.1x FY13E EPS. **Buy**.

NTPC

Bloomberg	NTPC IN
Equity Shares (m)	8245
CMP (INR)	175
Mcap (USD b)	31.5
52-Wk Range (INR)	222/165
1, 6, 12 Rel Perf (%)	8/10/2

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YEAR END *	NET SALES (INR M)	PAT * (INR M)	EPS* (INR)	EPS GR. (%)	P/E (X)	P/BV (X)	ROE (%)	ROCE (%)	EV/ SALES	EV/ EBITDA
03/10A	463,226	84,540	10.3	4.7	-	-	14.1	14.1	-	-
03/11A	567,145	79,580	9.7	-5.9	18.0	2.1	12.2	12.2	0.3	12.1
03/12E	590,921	87,952	10.7	10.5	16.3	2.0	12.5	12.5	0.4	11.7
03/13E	653,059	104,311	12.7	18.6	13.7	1.8	13.7	13.7	0.6	11.2

* Pre Exceptional Earnings; We have factored in ROE gross-up based on MAT wef FY11 onwards

Key Takeaways

Capacity addition to accelerate, 14GW expected over FY12-14

- NTPC expects to accelerate capacity addition, adding 14GW over FY12-14 against capacity addition of 10.4GW over FY06-11.
- Targeted capacity addition of 5GW a year from FY12 until 2032 against ~1GW over the past 35 years.
- The FY12 capacity addition target is maintained at ~4.3GW (including the 500MW Mauda project on a best effort basis. NTPC incurred ~65% capex for projects targeted for commissioning in FY12, providing higher visibility.

Fuel sourcing: Comfortably placed in FY12, working on LT strategy

- In FY12, NTPC plans to meet its need for 135mt of fuel supply from domestic long term linkages, 23mt through imports (actual at 14mt) and 5mt through the bi-lateral route, implying ~14% blending.
- The management is hopeful of a revocation of mine de-allocation, given the substantial progress made. A mine developer and operator (MDO) for Pakri Barawidh and Talaipalli mines has been appointed and NTPC is in advanced stages of development of the Kerandari mines. NTPC expects to produce 2.3mt of coal from its captive mines in FY13 and 47mt by FY17.
- NTPC indicated the possibility of more mines being allocated to it given its progress in developing its mines has been better than the average time taken for mine development.
- NTPC signed an agreement with Jindal ITF to set up an inland waterways transport system (IWTS). The MoU was signed in August and the system will become operational in 15 months' time. This will solve coal supply logistics issues at its Farakka and Kahalgaon projects.

Twelfth Plan capacity addition 25GW+, bouquet of projects offers flexibility

- NTPC plans to have installed capacity of 128GW by FY32 and commission 26GW in Twelfth Plan. The management indicated that 6GW of bulk tendering, which is sub-judice would not impact its Twelfth Plan capacity addition plans, as NTPC is working on several projects and a slippage in one could be offset by other projects particularly brownfield expansion.
- NTPC's 60GW project portfolio provides visibility on targets for capacity addition until FY17.

Valuation and view

- We expect NTPC to report net profit of INR88b (up 11% YoY) in FY12 and INR104b in FY13 (up 19% YoY). The stock quotes at a PER of 16x FY12E and 14x FY13E. P/BV is 2.0x FY12E and 1.8x FY13E. Maintain **Buy**.

Reliance Infrastructure

Bloomberg	RELI IN
Equity Shares (m)	265
CMP (INR)	453
Mcap (USD b)	2.6
52-Wk Range (INR)	1134/403
1, 6, 12 Rel Perf (%)	-9/-16/-46

YEAR END	NET SALES (INR M)	PAT (INR M)	EPS* (INR)	EPS GR. (%)	P/E* RATIO	P/BV (X)	ROE (%)	ROCE (%)	EV/ SALES	EV/ EBITDA
3/10A	100,273	10,617	39.6	16.9	11.5	0.8	8.2	8.2	0.5	4.6
3/11A	96,146	10,809	40.3	1.8	11.2	0.7	6.8	7.0	0.8	6.4
3/12E	141,945	12,031	44.9	11.3	10.1	0.7	6.8	8.1	0.5	4.8
3/13E	164,832	14,416	53.7	19.8	8.4	0.6	7.7	8.8	0.4	3.6

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Key Takeaways

Mumbai distribution business overhang addressed

- MERC has renewed a Reliance Infrastructure (RELI) license to supply power in Mumbai for 25 years. Consequently, visibility over regulated PAT of INR3.5b a year has increased.
- MERC has allowed cumulative recovery of INR23b. Under recovery on the books was due to a tariff stay earlier, cross-subsidy surcharge borne due to migrating customers (INR3.5b) and cost escalation/fuel cost pass throughs.
- RELI has invited long term bids of 1,000MW of power from April 2016 and has initiated RFP. For medium term bids, the average cost is expected to be below INR4.5/unit.

Infrastructure investment INR49b, six projects already operational, six expected in FY12

- RELI invested INR49b in its infrastructure portfolio and commissioned six infrastructure projects, comprising four roads, one metro and one transmission project.
- The management said its profits from infrastructure were likely to get a boost in FY12 with the commissioning of six more projects.
- RELI adopted a strategy of incurring more upfront equity payment in infrastructure projects to overcome the negative impact of an elevated interest rates scenario. We understand ECB raised against metro, transmission projects (at 6-6.5%) will help to lower interest costs.
- RELI sold 20% of its 12,000sq meter property in Delhi for an attractive price of INR600/sqft/month.

Strong EPC order book of INR280b

- EPC division order book was INR280b (book-to-bill ratio of 8x), providing strong visibility on EPC revenue over 3-4 years.
- The management guidance is for EBITDA margin of 8-10% for the division and revenue growth is expected to be 60%+.
- Manpower in the EPC division is 1,600 and RELI has developed in-house competence to execute power, roads and metros and is adding infrastructure projects such as airports and ports.

Valuations and view

- We expect RELI to post net profit of INR12b in FY12 (up 11% YoY), and INR14.4b in FY13 (up 20% YoY).
- At a CMP, the stock quotes at PER of 10x FY12E and 8x FY13E. **Buy**.

Jain Irrigation Systems

Bloomberg	JI IN
Equity Shares (m)	386
CMP (INR)	166
Mcap (USD b)	1.4
52-Wk Range (INR)	258/129
1, 6, 12 Rel Perf (%)	10/-9/-20

YEAR END	NET SALES (RS M)	PAT (RS M)	EPS (RS)	EPS GROWTH (%)	P/E (X)	P/BV (X)	ROE (%)	ROCE (%)	EV/ SALES	EV/ EBITDA
03/08A	22,159	1,224	3.4	52.2	-	-	14.0	13.5	-	-
03/09A	28,584	1,742	4.5	32.9	36.8	6.6	19.3	15.7	3.3	16.3
03/10A	34,200	1,901	5.0	10.7	33.2	5.1	15.2	13.1	2.7	14.8
03/11A	41,634	2,688	7.0	39.3	23.8	4.1	15.6	15.2	2.2	11.8

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Key Takeaways

MIS the key growth driver; backend advantage gives competitive edge

- The micro irrigation systems (MIS; 50% of revenue) division continues to post robust growth, achieving 31.5% revenue growth in 1QFY12. The management expects similar growth through the year, led by strong demand in its seven key states.
- Though new players are looking to enter the MIS space (M&M, Godrej Agrovet), Jain Irrigation (JI) has a major competitive advantage in terms of complete backward integration and strong distribution. JI has 55% market share and currently makes double the margins of the nearest competitor in MIS.

Domestic margins to improve, owing to higher share of MIS and food processing

- Domestic margins expanded 140bp to 23.5% in 1QFY12 due to higher share of MIS and food processing in the total mix which enjoy higher margins.
- Margins are likely to be under pressure in piping and PVC (30% of sales) due to higher input costs. However, the management expects these businesses to grow at half the rate as compared to MIS and food processing. Hence, overall domestic margins in FY12 are likely to be higher than in FY11.

MIS receivables improving; NBFC to reduce balance sheet burden in FY13

- In 1QFY12, gross MIS receivables improved 20 days QoQ to 349 days. The management expects another 40-50 days of improvement by the end of 3QFY12, led by subsidy payment dispatch from the Maharashtra government.
- JI expects to get the NBFC license in 3-4 months, which will reduce JI's debt and receivables burden. The total equity funding required will be INR2b, of which INR1b will come from JI, which will initially own 49% stake. JI believes that all MIS players will take the NBFC route; EPC Industrie (M&M's subsidiary) has an NBFC and Netafim (second largest player in India) has also applied for an NBFC license.

International: Strong growth in new geographies; double-digit margin target

- JI introduced its MIS products in Turkey last year and generated revenue of USD10m; the company plans to increase revenue to USD25m in this market in FY12.
- JI's international subsidiaries posted an EBITDA margin of 5-6% in FY11. With increasing sales of MIS in new geographies and access to the UK market through its Sleaford acquisition, JI is targeting double-digit margins over the next few years.

Valuation and view

- JI continues to benefit from increasing demand for its MIS products and its strong competitive advantage. The key factors to watch are balance sheet management and successful business de-risking through the NBFC.
- The stock trades at 24x FY11 consolidated EPS of INR7.4. **Not Rated**.

Raymond

Bloomberg	RW IN
Equity Shares (m)	61
CMP (INR)	348
Mcap (USD b)	0.5
52-Wk Range (INR)	458/245
1, 6, 12 Rel Perf (%)	0/32/6

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YEAR END	NET SALES (INR M)	PAT (INR M)	EPS (INR)	EPS YOY (%)	P/E (X)	P/BV (X)	ROE (%)	ROCE (%)	EV/ SALES	EV/ EBITDA
3/10A	25,410	366	6.0	L to P	-	-	3.1	3.9	-	-
3/11A	30,671	2,589	42.2	608.3	8.2	1.7	21.2	9.8	1.2	8.4

Key Takeaways

Strong demand growth to continue in key segments

- Both Raymond's (RW) fabric business (48% of FY11 revenue) and the branded apparel business (25% of FY11 revenue) are set to gain from the exponential increase in its retail presence in the recent past (added 500 stores over the past 2.5 years) and the planned opening of 100 more stores in FY12. The management sounded upbeat about demand in new locations (tier-3, 4, and 5 towns).
- The worsted fabric business has been able to deal very well with raw material price hikes (~50% YoY and ~28% QoQ) by blending of RM. In the branded apparel business RW raised prices. RW's ability to withstand such pressure without hurting margins and clocking 24% YoY volume growth in its key segment (worsted fabric) reasserts its brand value.

Operating efficiencies to continue in FY12

- The closure of the Thane plant resulted in significant savings in 1QFY12. These savings will continue to accrue in the remaining quarters, increasing margins.
- The raw material prices, especially wool continue to remain at elevated levels which continue to remain a matter of concern. However, the new wool clippings expected in October are expected to lead to price correction.
- The company is in the process of transferring the 7 mn meters of capacity from Thane to Jalgaon that will help the company to further accelerate its production.

Focused player with a clear business strategy

- Raymond is now concentrating only on four brands in its branded apparel segement i.e Raymond Premium apparel, Park Avenue, Parx and Colorplus and has removed its presence in the children wear segment.
- The company has guided for a capex of INR2b, largely towards moving of Thane plant and machinery to Jalgaon, retail expansion and capacity expansion in the engineering and auto component businesses and other routine capex.
- Meaningful clarity is yet to emerge on monetization of RW's land bank (120 acres) in Thane (post shifting of its factory to Jalgaon). The management is considering all routes of monetization including sale, partial sale and joint development.

Valuation and view

RW looks set for 20-25% growth in revenue and sustained/improving margins over the next two years. The stock trades at 7.3x and 13.3x FY12E EV/EBITDA and PER respectively and 6.5x and 11x FY13E EV/EBITDA and PER consensus earnings estimates respectively.

Notes

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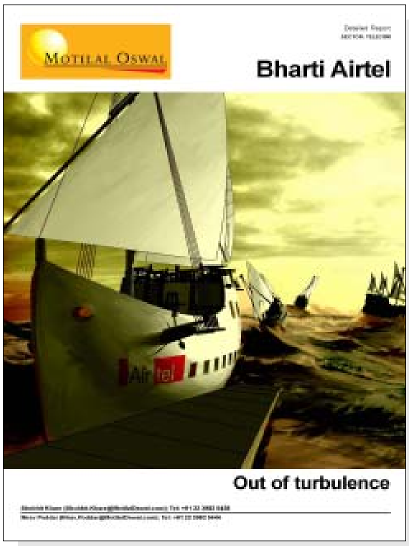

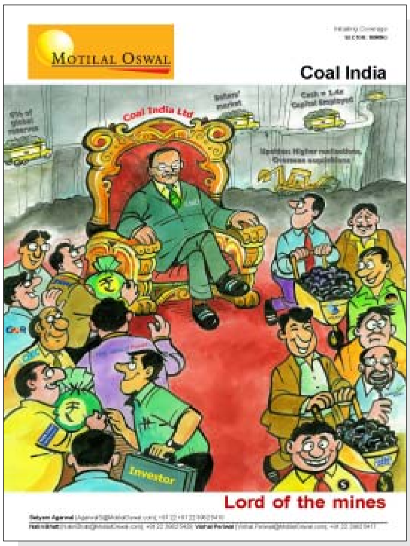

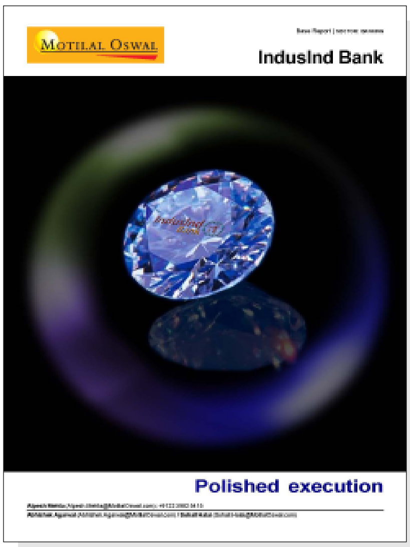

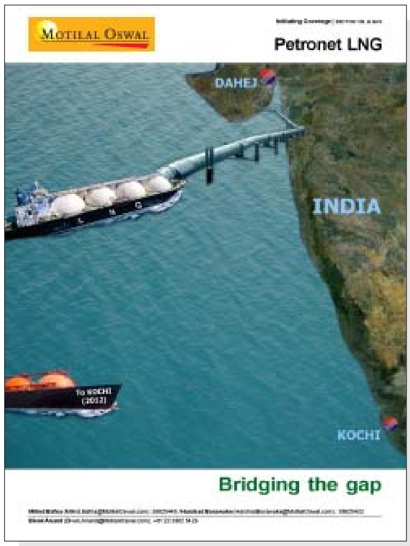

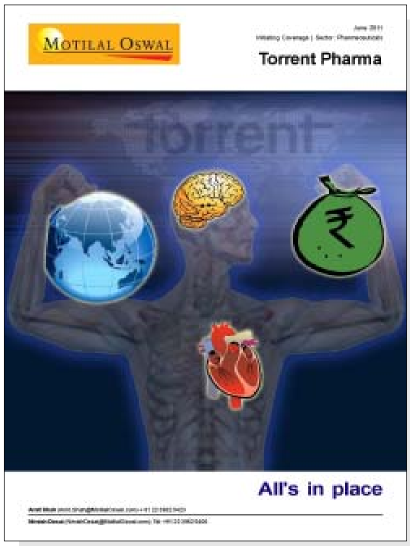

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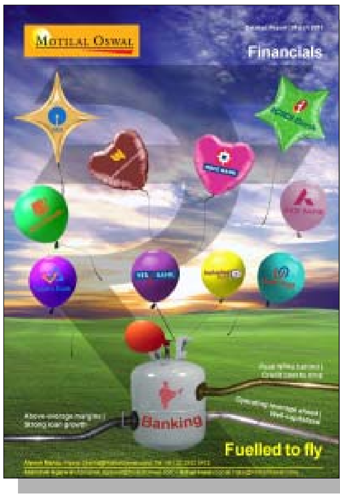

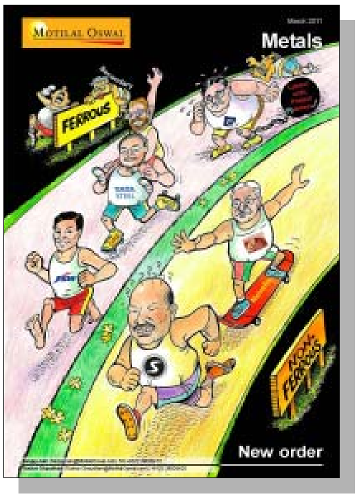

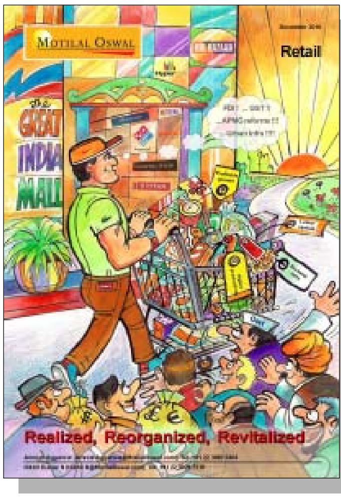

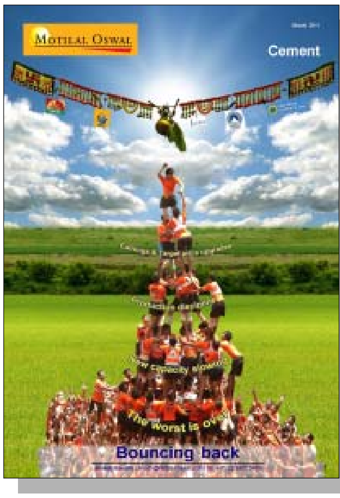

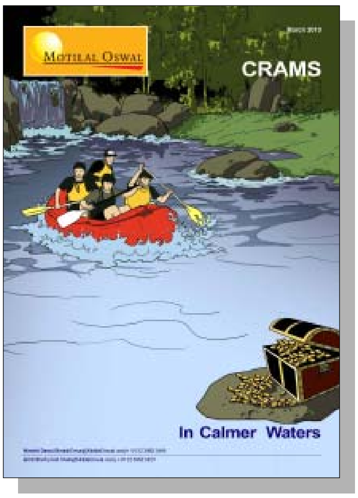

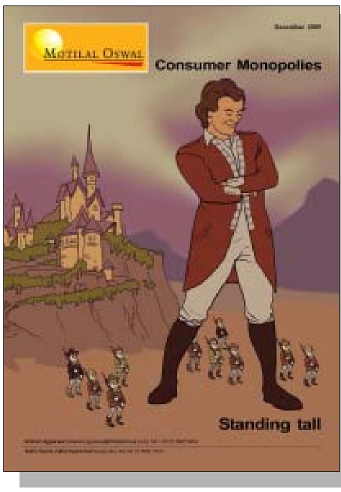

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