Way2Wealth

Diwali Picks

November 2010

making investing simpler,
more understandable and profitable.

WAY2WEALTH
a COFFEE DAY venture

The Theme

- We have chosen Growth / Value companies

- We have refrained from recommending any bold/daring stocks given the current market conditions and considering the risk: return profile

- The picks are from sectors which are actively covered by our analyst like Automobiles, FMCG, Banking, Media and Capital goods & Engineering

- Our picks are uniquely placed in their respective sectors in terms of growth opportunity

- The investments horizon is for 1 year. However, it can be a part of one's portfolio for a longer term duration

Dish TV

Dish TV is India's largest DTH service provider and a strong brand name, with a 33% share of the 23 mn DTH subscriber base at end June 2010. The Company has a vast distribution network of about 1400 distributors & 55,000 dealers that spans around 6600 towns across the country.

Rs million	FY10	FY11E	FY12E	FY13E
Net sales	10850	14858	20104	26463
Total Expenditure	9733	12635	14606	17142
Operating Profit	1117	2223	5498	9321
PAT	-2622	-2079	1046	4464
EPS (Rs)	-2.47	-1.96	0.98	4.20
OPM (%)	10.3	15.0	27.3	35.2
PAT (%)	-24.2	-14.0	5.2	16.9
Mktcap/Sales	6.2	4.5	3.3	2.5
EV/EBIDTA	63.3	31.8	12.9	7.6
P/E	-25.5	-32.2	64.0	15.0

Investment Argument:

- Dish TV is a play on India's growing DTH subscriber base. According to FICCI-KPMG report, 2010, DTH sub numbers will rise at a CAGR of 22% for 2009-14 as consumers are likely to prefer better quality digital platform.

- Operating leverage is expected to set in as the Company has achieved critical mass in sub base which is expected to improve the operating margins substantially from 10.3% currently to 27.3% in FY12E.

- We forecast programming and other costs to decline to 30% of total revenue in FY12 as significant proportion of these costs now not linked to subscriber base and have become fixed in nature.

At the CMP of Rs 63, the stock is trading at EV/EBIDTA of 12.9x its FY12E earnings which is reasonable given the huge growth potential in the industry. BUY

Jubilant FoodWorks

Jubilant FoodWorks Ltd. (JFL) is the market leader in the organized pizza market with a 50% overall market share and 65% share in the home delivery segment in India. JFL with presence across 320 stores pan India operates its stores pursuant to a Master Franchise Agreement with Domino's Pizza International.

Rs million	FY10	FY11E	FY12E	FY13E
Net sales	4239	5204	6697	8895
Total Expenditure	3573	4344	5568	7320
Operating Profit	666	860	1129	1575
PAT	334	458	523	761
EPS (Rs)	5.3	7.1	8.1	11.7
OPM (%)	15.7	16.5	16.9	17.7
PAT (%)	7.9	8.8	7.8	8.6
Mktcap/Sales	8.4	6.9	5.3	4.0
EV/EBIDTA	53.7	41.6	31.7	22.7
P/E	105.1	78.1	68.4	47.0
RONW (%)	36.7	39.6	42.1	48.6
ROCE (%)	47.3	32.7	28.2	31.6

Investment Argument:

- The Indian pizza market, estimated at Rs7bn (in FY09), is expected to grow at 35-40% over the next two years to ~Rs17.2bn in FY12E (Source: Food Franchising Report 2009). We consider JFL a play on India's growing QSR industry.

- We expect significant benefits of operating leverage setting in with rise in total number of stores. its EBIDTA margins are expected to expand from the current 15.7% in FY10 to 17.7% in FY13E.

- We forecast 28% CAGR growth in revenues for FY10-FY13E period with total number of stores growing from 306 to 511with increased penetration in Tier II and Tier III cities.

At 47x FY13E EPS, the stock looks richly valued. On EV/EBIDTA basis, JFL is trading at 22.7x FY13E while its global counterparts are valued between ~10x. Given the tremendous growth opportunity, the premium seems justified. ACCUMULATE.

Jyothy Laboratories

Launched in 1983, Jyothy Labs's Ujala is a 26-year old brand and is the largest in the fabric whiteners segment. *Ujala Supreme* commands 72% an all-India market share by value for Sept 2010.

Rs million	FY10	FY11E	FY12E	FY13E
Net sales	5981	7665	9341	11083
Total Expenditure	5063	6392	7799	9254
Operating Profit	918	1272	1541	1829
PAT	742	968	1145	1346
EPS (Rs)	10.2	12.0	14.2	16.7
OPM (%)	15.3	16.6	16.5	16.5
PAT (%)	12.4	12.7	12.3	12.2
Mktcap/Sales	3.4	2.7	2.2	1.8
EV/EBIDTA	20.9	15.1	12.5	10.5
P/E	27.4	23.3	19.7	16.8
RONW (%)	23.9	21.6	19.3	22.4
ROCE (%)	18.9	17.2	15.9	18.3

Investment Argument:

- Earlier a single product company, the brand portfolio now comprise of *Ujala, Maxo* and *Exo*. Maxo is expected to grow by 20% in FY11 according to the management while Exo is expected to grow by 25% in FY11.
- Maxo Safe & Soft which is based on DEPA technology is expected to contribute significantly by FY12.
- Jyothy Fabricare Services, its laundry business venture is set to benefit immensely once it is able to achieve scale and size. It is expected to breakeven by March 2011 and will be followed by its national launch.
- The Company has zero debt on its balance sheet since FY05 and enjoys a negative debt-equity ratio over FY07-FY10.

At the current prices of Rs 280, the stock is trading at a PE of 19.7x and 16.8x its FY12E and FY13E earnings respectively which is still cheap compared to its peers. BUY.

Venky's (India)

Venky's (India, a part of the VH Group is an integrated poultry group in Asia. The company's principal activities are to own and operate chicken and broiler breeding farms. The company operates through three business segments, namely poultry and poultry products, animal health products and oilseed.

Rs million	FY08	FY09	FY10
Net sales	5232	5693	7055
Total Expenditure	4696	5277	6144
Operating Profit	536	415	911
PAT	266	206	543
EPS (Rs)	27.7	21.3	57.2
OPM (%)	10.2	7.3	12.9
PAT (%)	5.1	3.6	7.7
Mktcap/Sales	1.4	1.3	1.1
EV/EBIDTA	16.0	20.2	9.2
P/E	29.0	37.7	14.1
RONW (%)	21.1	15.5	31.9
ROCE (%)	20.3	13.8	29.9

Investment Argument:

▪ Diversifying from mainstream poultry products, Venkys has added to its credit, manufacturing facilities for nutritional health products for humans, and pet food and health care products.

▪It recently undertook expansion programme in poultry products segment at an estimated cost of Rs 50 crore.

▪ It is expected to benefit from the recent news that the Government of India's Defense authorities are planning to increase the ration of eggs available to their soldiers.

▪Venky's (India) Ltd. expects to complete the purchase of English Premier League soccer club Blackburn Rovers next month at an estimated price of 46 million pounds (US$73mn).

▪ It indirectly holds 12.79% stake in Lavasa Corporation through Venkateshwara Hatcheries Private Limited. Value unlocking for Venky's India will take place post Lavasa listing.

At the CMP of Rs 850, the stock trades at P/E of 11x its trailing 12 months earnings. BUY

BHEL

BHEL manufactures over 180 products under 30 major product groups and caters to Power Generation & Transmission, Industry, Transportation, Renewable Energy, etc.

Particulars (mlns)	2008-09	2009-10	2010-11E	2011-12E	2012-13E
Net Sales	262123	328803	393929	453849	497844
PAT	48489	65907	79051	94455	103337
EBIDTA %	20%	22%	22%	22%	22%
PAT %	12%	13%	13%	14%	14%
EPS	64	88	108	129	141
PE	34	27	23	19	17
ROCE %	30%	35%	31%	31%	28%
ROE %	24%	27%	27%	25%	23%

Investment Argument:

- Order backlog stands at 1537 bns higher by 22% with an order inflow of 135 bns which has increased by 69% yoy.
- The power sector order inflow stands at 110.24 bns, industry sector reported a order inflow number at 25.27 bn and remaining order inflows from the international front.
- Net revenues have grown by 26% yoy exemplifying improved focus on its execution due to intense competition marked in the equipment generating space.
- Operating margins have expanded yoy from 19% to 20% due to efficient control over other expenditure.
- Intensifying competition, strong execution, rising metal prices, falling margins remain key concerns to BHEL's current market share. We believe BHEL to grab higher number of orders from the private sector to maintain its incremental growth.

At its CMP of Rs.2484, it stays attractively valued & we remain positive on BHEL & give an '*Accumulate*' rating with a target price of Rs. 2838 based on a reasonable PE of 22x FY12E EPS of Rs. 129 per share.

BGR ENERGY

BGR executes Turnkey Balance of Plant Equipment, Services and Civil works for Power Generation projects as well as Engineering, Procurement and Construction contracts, for Power Plants including the Boiler, Turbine and Generator and Civil works.

Particulars (mlns)	2008-09	2009-10	2010-11E	2011-12E	2012-13E
Net Sales	19303	30734	46035	62313	71028
% Growth	27%	59%	50%	35%	14%
PAT	1156	2015	2891	3893	4423
EBIDTA %	12.5%	12.0%	11.6%	11.1%	10.9%
PAT %	6.0%	6.6%	6.3%	6.2%	6.2%
EPS	16.1	28.0	40.2	54.1	61.4
PE	8.8	19.2	18.7	13.9	12.2
ROCE %	16%	18%	22%	25%	24%
ROE %	20%	29%	31%	31%	27%

Investment Argument:

- BGR has reported a strong order backlog of Rs. 105 bn including an order worth Rs21.7 bn for BoP contract for 2X660 MW power plant in Krishnapatnam.
- BGR Energy saw a strong top□line growth at Rs11.3bn, a growth of 143% yoy. EBITDA margin for the quarter was down at 11.7%, mainly on account of higher contribution from the EPC business which is a lower margin business. PAT for the quarter increased by 154% YoY to Rs778m.
- Strong revenue growth was led by execution of large EPC (Kalisindh and Mettur) and BoP (Marwa and Chandrapur) orders. It contributed 95% of the revenue. These projects are ~55% complete.
- With a strong order backlog, along with inhouse manufacturing of various BoP components and in-house design engineering, BGR seems to have a competitive edge over its peers.

At the CMP of Rs 752, the stock quotes a PE of 14x and 12x its FY11E and FY12E cons. earnings of Rs 54 and 61 respectively. We give a BUY Rating on the stock, with a target price of Rs. 1026 based on a PE of 19x consolidated FY12E EPS of Rs. 54 per share.

Siemens

Siemens in India has emerged as a leading inventor, innovator and implementer of leading-edge technology enabled solutions operating in the core business segments of Industry, Energy and Healthcare.

Financial highlights				
(Rs mn)	FY10E	FY11E	FY12E	FY13E
Revenue	92,154	117,858	145,510	165,640
Growth (%)	-1.4	27.9	23.5	13.8
Adj Net Inc	7,806	9,388	11,287	12,733
Growth (%)	40.8	20.3	20.2	12.8
FDEPS (Rs)	23.2	27.8	33.5	37.8
Growth (%)	40.8	20.3	20.2	12.8

Investment Argument:

- Siemens has plans to set up capacities for energy automation and medium voltage product lines at an outlay of Rs 2 bn in Goa. In December 2009, the company had highlighted that it intends to undertake capacity expansion across six product lines at an outlay of Rs 16 bn in India over the next three years.
- Apart from the leadership in certain high technology product lines, it is also focussing on developing the Indian operations as a global sourcing hub for value products.
- This diversification can lend an additional growth lever to the Indian operations.
- Order inflows growth and earnings upgrades are likely to drive valuations upside for the stock.

At the CMP of Rs 839, the stock trades at a P/E multiple of 29.4x and 24.4x for FY11E and FY12E respectively. We give a Buy recommendation on the stock with a target price of Rs 1,000.

TVS Motor

Rs mn	FY09	FY10	FY11E
Volumes	1325754	1521912	2000000
Net sales	37367.7	44301.3	60800.0
Total Expenditure	34909.9	40802.7	56078.4
Operating Profit	2457.9	3498.6	4721.6
PAT	310.9	880.2	2033.3
EPS	1.3	1.9	4.3
OPM (%)	6.6	7.9	7.8
PAT (%)	0.8	2.0	3.3

TVS Motors is the 3rd largest Two-Wheeler Manufacturer with a cumulative market share from April-September 2010 at 15.3%. The company leads the moped segment and ranks 2nd & 3rd in the scooter and bike segment respectively.

Investment Argument:

- The company has been expanding its product mix by launching models like 125cc Flame, Jive and Wego, which are higher margin products propelling the growth in its monthly sales at its highest ever levels.
- Its 3 wheelers have shown a phenomenal jump of >2x on a YoY basis since April 2010. It has a 5% cumulative market share in this segment leaving huge room for upside from the current levels.
- Its Indonesian Venture is expected to break even in FY12 on the back of sustained volume growth and improved product mix and finance availability through bank tie-ups. This would provide a thrust to its FY12 earnings.
- Two-Wheeler Industry is looking up and is expected to grow by an average of 16% over the next 3 years given its rural market under-penetration, low capex requirement and export potential.

At the CMP of Rs 75.7, the stock discounts its FY11E & FY12E earnings of Rs 4.3 & Rs 6.5, by a multiple of 17.6x and 11.6x respectively. At our target multiple of 14x, we get a Target Price of Rs91. Valuations are attractive, given its average discount of 11% to its peers and growth prospects. We Advise Investors to Accumulate.

Bajaj Auto

Rs mn	FY09	FY10	FY11E
Volumes	2194154	2852580	3920000
Net sales	88103.6	119209.8	166070.0
Total Expenditure	76080.4	93284.2	132015.7
Operating Profit	12023.2	25925.6	34054.3
PAT	6545.0	17001.1	25807.9
EPS	45.3	58.8	89.2
OPM (%)	13.6	21.7	20.5
PAT (%)	7.4	14.3	15.5

Bajaj Auto is the second largest Two-Wheeler manufacturer. Among the Two Wheeler segment, its market share has increased from 19.1% in FY10 to 21.3% in April-September 2010. It has the highest market share in the 3 wheeler segment with its cumulative share being 39.7%. Going forward export market would contribute to its 3wheeler growth.

Investment Argument:

- The company's branding strategy consisting of bigger brands such as Discover & Pulsar form >86% of its domestic sales, which has enabled it to surpass the industry's growth by a good margin.
- We have recently upgraded our FY11 volume estimates by 4.5% at 3.92mn units on the back of the performance of its Discover & Pulsar range, which are high margin products.
- Capacity concerns have been addressed with incremental capacity being build up at its Pantnagar plant. Infact higher produce from this plant would give better margins as its is accountable for tax benefits.
- The issue with Honda exiting the venture with Hero, would lead to market share gains for BAL, on account of the lack of technological expertise with Hero Honda.

At the CMP of Rs 1581.2, the stock discounts its FY11E & FY12E earnings of Rs 89.2 & Rs 107, by a multiple of 17.7x and 14.7x respectively. At our target multiple of 16x, we get a Target Price of Rs 1712. We advise an Accumulate.

Allahabad Bank (ALBK)

ALBK is the oldest Joint Stock Bank of India. It's a mid-sized PSU bank with a total business size of Rs.1,785 bn as on Mar '10. The bank has an overseas branch at Hong Kong & a representative office at China.

Particulars (Rs,bn)	FY 07	FY 08	FY 09	FY 10
Interest Income	48.84	61.71	73.65	83.72
Net Interest Income	17.52	16.72	21.59	26.54
Other Income	5.31	10.52	12.78	17.38
Operating Expenses	9.24	10.33	12.47	14.45
Provisions	5.15	2.26	10.92	11.50
Profit Before Tax	8.44	14.65	10.99	17.96
Profit After Tax	7.59	9.94	7.90	12.28
Cost/Income Ratio	40.5%	37.9%	36.3%	32.9%

Investment Argument:

- ALBK has been able to show a consistent performance with improved focus on income from advances & consistent performance in margins. ALBK has also been able to improve its credit-deposit (CD) ratio from ~60% in FY06 to ~68% in FY10.
- ALBK cost to income has decreased from as high as ~48% in FY07 to ~39% in FY10. The bank has been able to curtail its cost due to implementation of CBS across some of its branches & opening only 27 branches during the last fiscal. We expect ALBK to have this ratio at ~40% for FY11E & FY12E.
- CAR of ALBK was ~13.6% as on Mar'10 with Tier I at ~8.1% & Tier II at ~5.5%. ALBK is expecting Rs.10 bn infusion from the government in the second half of this fiscal. The government currently holds ~55.2% in the bank; this is a key concern for the bank's ability to raise money through Tier I capital. The bank has a head room of Rs.26.12 bn available to them for raising capital through bonds or debentures.

At the CMP of Rs 258, the stock quotes at price to book value of 1.65x on a TTM basis. ALBK has been consistently performing well & bringing down its NPA's. We expect the bank to continue maintaining the RoA at above 1% level & NIM at 3% level.

HDFC Bank (HDFC)

HDFC Bank has a balance sheet size stands at INR 2,224 bn as on March 2010. HDFC is among the top three players in auto loans, personal loans, commercial vehicles, cash management and supply chain management.

Particulars (Rs,bn)	FY 07	FY 08	FY 09	FY 10
Interest Income	66.46	101.17	163.14	162.33
Net Interest Income	34.67	52.30	74.11	84.35
Other Income	16.56	23.76	36.17	40.37
Operating Expenses	17.84	27.77	42.81	46.14
Provisions	16.93	25.34	34.29	34.39
Profit Before Tax	16.45	22.94	33.18	44.19
Profit After Tax	11.41	15.95	22.46	30.01
Cost/Income Ratio	34.8%	36.5%	38.8%	37.0%

Investment Argument:

- High credit standards has helped HDFC's delinquencies declining across all segments of the loan book. HDFC expects the period of 110-120bps bps credit cost to extend by a couple of quarters. Management guided for 140bps credit cost over FY12.

- Management expects both wholesale and retail books to grow at same pace — faster than the system. In the wholesale segment, while focus continues to remain on working capital funding, growth opportunities are also being targeted in the term/project lending space, especially with existing customers. In the retail segment, competition is heating up. However, intensity of underlying demand is too strong for disruptive pricing to act as a growth deterrent in the segment.
- Mgt believes that with limited liquidity in the banking system, banks will exhibit pricing power and pass on this cost to borrowers. This will help sustain NIMs at the current level, which, coupled with decline in credit costs, could boost RoAs to a new high of ~1.7% and RoAE to ~20% by FY12E.

At the CMP of Rs 2358, the stock quotes at price to book value of 5.04x on a TTM basis. The expectation of mgt is in line with the kind of growth seen in the sector i.e. retail & wholesale credit have already started picking up in the peers. We expect the return ratios to improve going forward.

ICICI Bank (ICICI)

ICICI Bank Ltd is a major banking and financial services organization in India. The Bank is the second largest bank in India and the largest private sector bank in India by market capitalization. ICICI offers a wide range of banking and financial services.

Particulars (Rs,bn)	FY 07	FY 08	FY 09	FY 10
Interest Income	240.03	340.95	362.51	301.54
Net Interest Income	63.27	83.28	97.63	94.25
Other Income	175.40	264.37	283.76	294.46
Operating Expenses	56.66	79.21	78.39	74.33
Provisions	148.07	226.22	253.35	248.62
Profit Before Tax	33.94	42.22	49.65	65.76
Profit After Tax	27.61	33.98	35.77	46.70
Cost/Income Ratio	23.7%	22.8%	20.6%	19.1%

Investment Argument:

- Having completed the restructuring exercise, ICICI Bank has renewed its focus on credit growth. We estimate the loan book to be driven by corporate and retail loans (home and auto loans).
- Margins are likely to remain under pressure in the short term due to competitive pressures and rising cost of deposit. But we expect the margins to improve due to rising proportion of domestic business; international business aiding in margins and increase in the share of CASA in the total deposit (CASA at Q2FY11 was ~44% level).
- ICICI has addressed one of the main concerns of investors on asset quality by arresting fresh slippages. While this has resulted in a re-rating of the stock, we believe for further re-rating the bank will need to effectively manage growth with profitability. In our view, the bank is well positioned to capitalize on the economic growth.

At the CMP of Rs 1238, the stock quotes at price to book value of 2.77x on a TTM basis. Till now the bank had been shrinking its balance sheet. Now is the time for the asset size to grow & the bank is well positioned to capitalize on the economy uptick expected in the next few years.

Shriram Transport Finance (STFC)

STFC is the largest NBFC in India with major focus on CV financing. The business model is next best to none. The superior return ratios has always enable the firm to command premium over its peers. STFC is well poised to take advantage of the upbeat economic environment in India.

Particulars (Rs,bn)	FY 07	FY 08	FY 09	FY 10
Interest Income	13.96	24.39	36.59	44.03
Net Interest Income	6.58	11.42	16.82	21.56
Other Income	0.19	0.55	0.72	0.97
Operating Expenses	2.21	3.60	5.27	5.18
Provisions	1.67	2.32	3.06	4.11
Profit Before Tax	2.89	6.06	9.21	13.25
Profit After Tax	1.90	3.90	6.12	8.73
Cost/Income Ratio	32.7%	30.0%	30.1%	23.0%

Investment Argument:

The entry of new CV sales of ~1.4 mn vehicles between FY04 to FY07 into the resale market over the next couple of years provide ample business opportunity for pre-owned CV financier like STFC.

- STFC is the only organized player in the pre-owned CV financing business with a market share of ~25%. Its strength lies in credit evaluation of its customers, valuation of pre-owned CV's, collection of payment from customers, strong customer base & extensive branch network.
- STFC has recorded RoAE of 20%-30% range in the last couple of years on the back of strong loan growth, improvement in securitization income and control over operating cost. We expect this ratio stay at a sustainable rate of ~28% mark till FY12E. STFC has been consistently improving its return on average assets (RoAA) i.e. from 2.3% in FY07 to 3.4% in FY10. We expect RoAA to improve to ~4.3%.

At the CMP of Rs 876, the stock quotes at price to book value of 5.14x on a TTM basis. STFC is well set to capitalize on the opportunity available in the resale market due to vehicles sold between FY04-FY07. Construction equipment business is another area of expansion that the firm is undertaking. We expect the RoA to improve to 4.3% by FY12E from 3.4% in FY10.

Thank you

&

Happy Trading

Come and experience trading with a difference with us