

Our Top Recommendations



Your success is our success

Emkay Global Financial Services Ltd.

Our Top Recommendations

Large Caps	Mid Caps
Bajaj Auto	Allahabad Bank
Cadila Healthcare	Chambal Fertilisers
SBI	Coromandel International
TCS	Greaves Cotton

12.9x FY2012E

CMP : Rs1,374

RECO : BUY

TP : Rs1,650

Investment Rationale

- We expect company to grow at above industry rate in FY12 due to its increasing focus on semi-urban/rural market and 'discover' family.
- We expect exports to be a strong growth driver over next three years (upwards of 15% CAGR) on volumes as well as profitability due to the strategy of focusing on new markets and increasing market share in existing markets.
- Contrary to the perception, we believe that recent changes in product mix (higher share of Pulsar 135 cc and Discover 100cc/150cc) will be margin remunerative.

Valuations

- We have valued the stock at a target PER of 15.5x our FY12 estimates.
- The key trigger in the stock will be positive surprise on three wheeler business.
- While rising metal prices is a concern, given high EBITDA margin (20%) the impact of high metal prices will be lowest in our auto universe.

19.1x FY2012E

CMP : Rs766

RECO : ACCUMULATE

TP : Rs847

Investment Rationale

- Cadlila Healthcare emerges our top pick given its strong growth prospects (30% earnings CAGR over FY10-13E), wide geographical reach and foray into difficult to manufacture generics such as transdermal patches, bio-similar and vaccines.
- Expect international business to grow at a CAGR of 28% over FY10-12E
- US likely to witness 8-10 ANDA launches in FY12E and FY13E each
- 3 products slated to get introduced in US and 6 in Europe over the next 18 months (includes recently approved Taxotere (Docetaxel, US\$1.2bn market))
- Clarity on niche product filings in the US generic market could provide a positive upside and lead to expansion in valuation multiple
- Hospira ramp-up to allay concerns around Nycomed JV (expect Rs2550mn contribution from Hospira in FY12E). Cadila currently has supply agreement for 6 Oncology products with Hospira.
- Aiming to attain revenue of US\$3bn by 2016
- Healthy return ratios (RoE > 30%)

Valuations

- We expect an earnings CAGR of 30% over FY10-12E
- At CMP, the stock is trading at 25x/ 19x/ 15x, FY11E/ FY12E/ FY13E EPS of Rs31.3/ Rs40/ Rs51.6 respectively.

2.1x FY2012E

CMP : Rs2,572

RECO : ACCUMULATE

TP : Rs3,000

Investment Rationale

- **Healthy CASA keeps margin higher:** The bank's CASA mix which is among the highest in the industry at 45%, has helped the bank to maintain higher margins in the current rising rate scenario. The NIM's for the Q3FY11 stood higher at 3.6%.
- **Slippages likely to come down in H1CY11:** Though the slippages during M9FY11 was higher at 2.3% (annualised) as compare to 1.9% in FY10, we believe that from H1CY11 onwards the slippage number is likely to come down with NPAs in agriculture and restructured asset portfolio likely to taper off.
- **Return ratios to show improvement over FY11-12:** Earnings likely to grow by a healthy 30% over FY11-12 driven by higher margins and healthy asset growth. Consequently, the RoA and RoE of the bank likely to improve to 1.15% and 18.73% in FY12 from 0.91% and 14.8% respectively in FY10.

Valuations

- At the CMP, the stock is quoting at 2.6x FY11E ABV and 2.1x FY12E ABV with a likely average RoE of 18% over FY11-12E

21x FY12E

CMP : Rs. 1,076

RECO : ACCUMULATE

TP : Rs 1,275

Investment Rationale

- Fastest growing Offshore IT services player amongst Tier I Universe
 - Expected to end FY11 with 29.3% YoY Growth for US\$ Revenue, second consecutive year to post the highest growth in the industry.
 - Demand for offshore services to continue growing and India's market share being <5% globally, huge opportunity persists.
 - Posed at the right position, at the right time with the right scale! Has showed tremendous resilience in slowdown.
 - Growing at ~6% CQGR since last 7 Quarters.
- Investments made in slowdown is paying well!!
 - Margin expansion by ~400 bps in last seven quarters. Large scale to further help manage wage and currency pressures.
 - The only player hiring aggressively in slowdown. Better placed to capture the flush of demand.
- Premium Valuations to continue
 - Considering huge potential, and growth rate, premium valuations to sustain.

Valuations

- At CMP of Rs 1,076, the stock is trading at a P/E of 24.6x/21.0x on FY11E/FY12E earnings of Rs 43.8/Rs 51.3 respectively

1.1x FY2012E

CMP : Rs199

RECO : BUY

TP : Rs250

Investment Rationale

- **Healthy CASA proportion to help in rising rate scenario:** The bank's CASA mix which stands at a healthy 33.3%, will help bank to get better margins than peers in the current rising rate scenario. The NIM's for the Q3FY11 stood higher at 3.4%.
- **Healthy asset quality:** The bank's asset quality is comfortable with gross and net NPAs at 1.8% and 0.6% respectively. Moreover slippage rate remain under control at 1.4% (annualised) for FY11.
- **Superior Cost/Income (C/I) ratio:** The bank C/I ratio, which reflects the operating efficiency of the bank, is 39.7%, one of the lowest among the peers.
- **Attractive return ratios:** The savings on account of lower provisions requirement on account of lower slippages and improvement in cost structure will help maintain the RoAs at 1.2%, while RoE's likely to be healthy at 23% for FY11-12.

Valuations

- At the CMP, the stock is quoting at 1.3x FY11E ABV and 1.1x FY12E ABV with a likely average RoE of 23% over FY11-12E

8.2x FY2012E

CMP : Rs70

RECO : ACCUMULATE

TP : Rs 86

Investment Rationale

- Chambal Fertilisers is one of the leading urea players in India, constituting 10% of the domestic urea capacity. Chambal is proxy play on urea since it contributes ~ 80% to its profits
- Chambal is one of the biggest beneficiaries of the change in Urea policy where subsidy on company's additional urea production of ~140 thousand mt will be linked with International Price Party (IPP) with a floor and ceiling of US\$ 250 - 425/ mt. It expected to contribute ~15% to company's profit in FY11
- Expected policy changes in urea like urea decontrol and bringing it under Nutrient Based Scheme (NBS) is positive for Chambal due to its energy efficiency, strong distribution network and access to feedstock. Under NBS, company should benefit from the low production cost due energy efficiency
- It has further plans to increase its capacity through debottlenecking / brownfield which will benefit from current IPP linked subsidy. In recent budget, fertiliser companies have been given infrastructure status which is likely to result in lower tax rates for new projects however additional gas allocation for new projects is key concern

Valuations

- We expect revenue to grow at a CAGR (FY10-12E) of 7.5% and PAT at 14.5% with FY11E/FY12E EPS of Rs 8.5 / Rs 8.6. RoIC to improve from 12% in FY10 to 16% by FY12E. At current valuations of 8x and dividend yield of ~3%, the stock looks attractive. Demerger of its shipping business and policy announcements are near term catalysts for the company

9.9x FY2012E

CMP : Rs287

RECO : BUY

TP : Rs435

Investment Rationale

- CIL has presence in Di-Ammonium Phosphate (DAP) and complex fertilisers and commands approx 15% market share. It also has presence in the non fertiliser business which includes agrochemicals, specialty fertilisers, micro nutrients, compost etc and contributes approximately 10% to revenues
- CIL's presence in complex fertilisers and its raw material sourcing arrangements make it a key beneficiary of the recently announced Nutrient Based Scheme which is likely to drive its fertiliser profitability
- Its non subsidy business enjoys high margins of 20-30% compared to ~10% in fertilisers. Attractive growth of 30-40% in non-subsidy business is likely to drive the company's earnings going forward. We expect, CIL to leverage its strong brand equity and its rural retail chain of 400 own stores in Andhra Pradesh to sell its products and support growth in non subsidy based business
- Recently government has revised the NBS rates for FY12 which are ~12% higher than the previous year and is in line with global prices which should help CIL maintain its margins

Valuations

- We expect the company to report 13% CAGR (FY10-12E) in revenues and 43% in PAT. With improved profitability in fertiliser segment and rising share of high margin business, EBITDA margins are expected to improve by 600 bps to 15.3% in FY12E
- We expect CIL to generate free cash of Rs 6-7 bn every year and hold net cash of Rs 6 bn by FY11. We expect the company to report an EPS of Rs 22.2 and Rs 28.9 in FY11E and FY12E, respectively. FOSKAR listing and inorganic growth plans are future positive triggers for the stock

10.7x FY2012E

CMP : Rs85

RECO : BUY

TP : Rs111

Investment Rationale

- Growth drivers of Engines segment remain strong – Auto to maintain momentum, Industrial to pick-up and Agriculture to nudge along
- In Autos → Break-through with Tata Motors; Increasing penetration with M&M
 - Tata Motors → secured long-term supply contracts for Ace Zip and Ace Magic
 - M&M – single source supplier of single cylinder 3-Wheel vehicle engines
- Infrastructure segment broke-even in Q2FY11 at EBIT level – after 8 quarters of posting loss
- Expanding capacity by 160,000 units over next 2 years → To add 80,000 Units under Phase 1 by April 2011
- Strong cash generation and return ratios – ROCE and ROE at +35%

Valuations

- At CMP, the stock is trading at 13.1X FY11E and 10.7X FY12E consolidated earnings of Rs6.4 per share and Rs7.9 per share respectively

Valuation

Company Name	Year End	Sales (Rs mn)	EBITDA (Rs mn)	EBITDA Margin (%)	PAT (Rs mn)	PAT Margin (%)	EPS (Rs)	PE (x)	PB (x)	EV/EBitda (x)	ROCE (%)	ROE (%)	
Large Caps													
Bajaj Auto													
CMP(Rs)	1374	FY08	89527	12001	13.4	8583	9.6	29.7	46.3	25.0	32.7	24.4	24.1
Mkt Cap (Rs bn)	397.6	FY09	87556	11373	13.0	8616	9.8	29.8	46.2	23.6	34.6	38.2	52.6
Reco	Buy	FY10	118637	25353	21.4	18651	15.7	64.5	21.3	13.6	14.6	68.5	80.8
Target Price (Rs)	1650	FY11e	165323	33784	20.4	26170	15.8	90.4	15.2	9.5	10.7	75.0	73.7
% Upside	20%	FY12e	197243	38569	19.6	30914	15.7	106.8	12.9	7.0	9.0	69.4	63.0
Cadila Healthcare													
CMP(Rs)	766	FY08	23213	4564	19.7	2643	11.4	12.9	59.3	14.8	36.0	22.8	27.2
Mkt Cap (Rs bn)	156.8	FY09	29275	6058	20.7	3185	10.9	15.6	49.2	12.7	27.6	22.8	25.6
Reco	Accumulate	FY10	36580	7798	21.3	4799	13.1	23.4	32.7	9.6	21.2	25.0	37.0
Target Price (Rs)	847	FY11e	45150	9801	21.7	6408	14.2	31.3	24.5	7.0	16.5	29.8	37.2
% Upside	11%	FY12e	55383	12238	22.1	8191	14.8	40.0	19.1	5.4	12.9	33.4	34.0
TCS													
CMP(Rs)	1076	FY08	227680	58543	25.7	53891	23.7	27.5	39.1	17.0	35.9	45.4	50.5
Mkt Cap (Rs bn)	2106.5	FY09	278129	71781	25.8	51732	18.6	26.4	40.7	13.5	29.0	43.9	37.0
Reco	Accumulate	FY10	300289	86843	28.9	68694	22.9	35.1	30.7	10.1	23.7	41.4	37.6
Target Price (Rs)	1275	FY11e	373090	111533	29.9	85742	23.0	43.8	24.6	8.5	18.4	43.9	37.5
% Upside	18%	FY12e	460077	133740	29.1	100317	21.8	51.3	21.0	7.1	15.1	44.6	36.8

Valuation

Company Name	Year End	Sales (Rs mn)	EBITDA (Rs mn)	EBITDA Margin (%)	PAT (Rs mn)	PAT Margin (%)	EPS (Rs)	PE (x)	PB (x)	EV/EBitda (x)	ROCE (%)	ROE (%)	
Mid Caps													
Chambal Fertilisers													
CMP(Rs)	70	FY08	27201	4316	15.9	1689	6.2	4.1	17.3	2.6	10.1	9.8	15.7
Mkt Cap (Rs bn)	29.2	FY09	45955	5494	12.0	2218	4.8	5.3	13.2	2.4	8.4	12.1	18.7
Reco	Accumulate	FY10	35990	6826	19.0	2724	7.6	6.5	10.7	2.1	5.7	12.2	20.5
Target Price (Rs)	86	FY11e	41258	7599	18.4	3553	8.6	8.5	8.2	1.7	5.2	16.3	22.9
% Upside	22%	FY12e	41557	7474	18.0	3572	8.6	8.6	8.2	1.5	4.5	15.9	19.7
Coromandel International													
CMP(Rs)	287	FY08	37948	4877	12.9	3250	8.6	11.6	24.7	10.1	17.7	30.8	49.7
Mkt Cap (Rs bn)	80.8	FY09	94007	7696	8.2	4780	5.1	17.1	16.8	7.1	12.0	36.4	49.8
Reco	Buy	FY10	62388	5787	9.3	3953	6.3	14.1	20.4	5.4	15.5	20.0	30.1
Target Price (Rs)	435	FY11e	72974	9820	13.5	6241	8.6	22.2	12.9	4.3	8.9	29.0	36.9
% Upside	52%	FY12e	80197	12259	15.3	8118	10.1	28.9	9.9	3.4	6.8	37.3	38.0
Greaves Cotton													
CMP(Rs)	85	FY08	11500	1621	14.1	1102	9.6	4.5	18.8	5.6	12.9	38.5	33.1
Mkt Cap (Rs bn)	20.7	FY09	10408	1156	11.1	560	5.4	2.3	36.9	5.1	18.1	22.3	14.4
Reco	Buy	FY10	13472	2104	15.6	1180	8.8	4.8	17.5	4.7	9.7	39.6	28.0
Target Price (Rs)	111	FY11e	16133	2636	16.3	1572	9.7	6.4	13.1	3.8	7.8	46.4	32.0
% Upside	31%	FY12e	19155	3212	16.8	1925	10.0	7.9	10.7	3.0	6.1	45.6	31.3

Valuation

Company Name	Year End	Net Interest income (Rs mn)	Operating Profit (Rs mn)	NIM (%)	PAT (Rs mn)	PAT Margin (%)	EPS (Rs)	PE (x)	PB (x)	Tier I CAR (x)	ROA (%)	ROE (%)	
Large Caps													
State Bank of India													
CMP(Rs)	2572	FY07	170212	131076	2.8	67291	39.5	106.5	24.1	3.9	8.3	1.1	16.8
Mkt Cap (Rs bn)	1632.9	FY08	208731	179152	2.6	91212	43.7	143.7	17.9	3.4	7.7	1.1	17.1
Reco	Accumulate	FY09	232289	178784	2.4	87247	37.6	137.4	18.7	3.0	7.5	0.9	14.1
Target Price (Rs)	3000	FY10e	335659	268895	3.0	114974	34.3	181.1	14.2	2.6	7.4	1.0	16.3
% Upside	17%	FY11e	400470	332179	3.1	153169	38.2	241.3	10.7	2.1	7.1	1.1	18.7
Mid Caps													
Allahabad Bank													
CMP(Rs)	199	FY07	16723	14795	2.3	9748	58.3	21.8	9.1	2.2	7.6	1.3	20.0
Mkt Cap (Rs bn)	88.7	FY08	21587	19012	2.5	7686	35.6	17.2	11.5	1.9	7.2	0.9	13.8
Reco	Buy	FY09	26505	26510	2.5	12063	45.5	27.0	7.4	1.6	7.3	1.1	19.1
Target Price (Rs)	250	FY10e	40697	33380	3.0	16679	41.0	37.3	5.3	1.3	7.3	1.2	22.5
% Upside	26%	FY11e	45827	38127	2.8	20529	44.8	46.0	4.3	1.1	7.6	1.3	23.0

Price Performance



Your success is our success

Outperformers

	Absolute (%)							Rel to Sensex (%)						
	1d	1w	1m	3m	6m	1yr	YTD	1d	1w	1m	3m	6m	1yr	YTD
Large Caps														
Bajaj Auto	-1.9	-0.3	13.9	-10.4	-5.8	50.4	-10.9	-1.0	1.5	9.9	-5.1	-2.5	41.7	0.4
Cadila Healthcare	-0.2	-0.1	3.9	4.0	24.6	46.7	-1.6	0.7	1.6	0.3	10.1	29.0	38.3	10.9
State Bank Of India	-0.7	-4.8	-0.7	-4.3	-13.8	25.7	-8.5	0.2	-3.1	-4.2	1.4	-10.7	18.5	3.1
TCS	-2.9	-5.1	-2.0	0.3	23.4	36.0	-7.6	-2.0	-3.5	-5.4	6.3	27.9	28.2	4.1
Mid Caps														
Allahabad Bank	-2.6	-2.8	5.1	-2.6	-12.6	39.2	-12.1	-1.8	-1.2	1.4	3.1	-9.4	31.3	-1.0
Chambal Fertilisers	-2.5	0.1	4.9	-5.0	-7.3	18.5	-22.2	-1.6	1.9	1.2	0.6	-3.9	11.7	-12.4
Coromandel International	-0.3	5.4	26.1	4.5	-8.5	81.8	-9.4	0.6	7.2	21.6	10.7	-5.3	71.4	2.1
Greaves Cotton	0.0	-1.0	-3.9	-11.0	0.3	50.0	-15.3	0.9	0.7	-7.2	-5.8	3.8	41.4	-4.6

Shareholding

Outperformers

	Promoters Holding (%)			DII (%)			FII (%)			Private Corp (%)			Public (%)		
	Dec-10	Sep-10	Jun-10	Dec-10	Sep-10	Jun-10	Dec-10	Sep-10	Jun-10	Dec-10	Sep-10	Jun-10	Dec-10	Sep-10	Jun-10
Large Caps															
Bajaj Auto	49.7	49.7	49.7	6.2	5.1	6.1	18.3	18.9	19.1	8.7	8.9	8.6	17.1	17.4	16.6
Cadila Healthcare	74.8	74.8	74.8	13.8	13.7	13.1	5.1	5.1	5.8	1.4	1.3	1.1	5.1	5.2	5.2
State Bank Of India	59.4	59.4	59.4	15.6	15.5	17.2	16.4	17.2	14.9	2.8	2.4	2.7	5.8	5.4	5.8
TCS	74.1	74.0	74.1	7.9	8.1	8.0	12.8	12.4	12.2	0.7	0.6	0.7	4.6	4.8	5.0
Mid Caps															
Allahabad Bank	55.2	55.2	55.2	16.0	12.6	14.1	16.3	16.3	14.0	1.4	4.8	5.0	11.0	11.1	11.7
Chambal Fertilisers	54.9	54.1	53.7	11.1	10.8	11.1	7.8	8.2	7.0	5.1	5.0	4.9	21.1	21.9	23.4
Coromandel International	64.1	64.2	64.3	8.9	9.8	10.1	9.8	8.6	8.3	2.3	2.2	1.8	14.9	15.2	15.5
Greaves Cotton	51.5	51.5	51.4	29.0	28.5	29.9	7.8	5.3	4.4	2.5	4.1	3.5	9.3	10.7	10.8

Thank You

The logo for Emkay, featuring the word "Emkay" in a stylized, orange, cursive font with a registered trademark symbol (®) to the upper right.

Your success is our success

Emkay Global Financial Services Ltd.

Paragon Center, H -13 -16, 1st Floor, Pandurang Budhkar Marg, Worli, Mumbai – 400 013. Tel no. 6612 1212. Fax: 6624 2410

DISCLAIMER: This document is not for public distribution and has been furnished to you solely for your information and may not be reproduced or redistributed to any other person. The manner of circulation and distribution of this document may be restricted by law or regulation in certain countries, including the United States. Persons into whose possession this document may come are required to inform themselves of, and to observe, such restrictions. This material is for the personal information of the authorized recipient, and we are not soliciting any action based upon it. This report is not to be construed as an offer to sell or the solicitation of an offer to buy any security in any jurisdiction where such an offer or solicitation would be illegal. No person associated with Emkay Global Financial Services Ltd. is obligated to call or initiate contact with you for the purposes of elaborating or following up on the information contained in this document. The material is based upon information that we consider reliable, but we do not represent that it is accurate or complete, and it should not be relied upon. Neither Emkay Global Financial Services Ltd., nor any person connected with it, accepts any liability arising from the use of this document. The recipient of this material should rely on their own investigations and take their own professional advice. Opinions expressed are our current opinions as of the date appearing on this material only. While we endeavor to update on a reasonable basis the information discussed in this material, there may be regulatory, compliance, or other reasons that prevent us from doing so. Prospective investors and others are cautioned that any forward-looking statements are not predictions and may be subject to change without notice. We and our affiliates, officers, directors, and employees world wide, including persons involved in the preparation or issuance of this material may; (a) from time to time, have long or short positions in, and buy or sell the securities thereof, of company(ies) mentioned herein or (b) be engaged in any other transaction involving such securities and earn brokerage or other compensation or act as a market maker in the financial instruments of the company(ies) discussed herein or may perform or seek to perform investment banking services for such company(ies) or act as advisor or lender / borrower to such company(ies) or have other potential conflict of interest with respect to any recommendation and related information and opinions. The same persons may have acted upon the information contained here. No part of this material may be duplicated in any form and/or redistributed without Emkay Global Financial Services Ltd.'s prior written consent. No part of this document may be distributed in Canada or used by private customers in the United Kingdom. In so far as this report includes current or historical information, it is believed to be reliable, although its accuracy and completeness cannot be guaranteed.