PINC RESEARCH

PINC POWERPICKS

- Apollo Tyres
- Godawari Power
- HCL Tech
- IRB Infra
- Jagran Prakashan
- M&M
- NIIT Tech
- Shree Cement
- Tata Steel
- Usha Martin

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Financial Securities Ltd
Small World, Infinite Opportunities

Here's the roster for the PINC PowerPicks:

Company	Sector	CMP (Rs)	Market Cap (Rs bn)	TP (Rs)	Upside (%)	P/E (x)		EV/EBITDA (x)		Earnings gr. (%)	ROE (%)	ROCE (%)
						FY11E	FY12E	FY11E	FY12E	(FY10-12E)	FY11E	FY11E
Apollo Tyres	Auto Ancillary	64	32	97	51	8.3	6.6	5.1	4.2	(7.2)	18.3	16.4
Godawari Power	Metals	192	5	276	44	7.5	4.7	5.2	3.5	50.0	14.1	11.4
HCL Tech	IT services	442	307	488	10	18.5	14.2	8.8	6.9	27.0	20.0	23.2
IRB Infra	Const & Infra	224	74	301	34	14.3	14.6	9.9	9.1	14.6	22.8	24.7
Jagran Prakashan	Media	135	41	165	22	18.9	16.4	11.4	9.5	21.8	27.5	34.2
M&M	Auto	758	429	872	15	18.3	16.7	12.9	11.4	11.9	26.4	28.0
NIIT Tech	IT services	191	11	278	46	7.0	6.2	5.2	4.2	19.8	24.8	19.4
Shree Cement	Cement	2,081	73	2,580	24	15.7	12.4	6.0	4.8	(9.9)	22.9	17.2
Tata Steel	Metals	646	613	759	18	10.1	8.7	5.5	5.0	NA	20.2	10.3
Usha Martin	Metals	70	21	120	72	10.9	6.2	5.0	3.3	42.4	11.1	10.2

PINC POWERPICKS is a list of our high-conviction stock ideas, a choice of stocks from across sectors in our coverage universe.

What moved in and what moved out:

In our December issue of PINC Power Picks, we have introduced Jagran Prakashan.

We have replaced Patel Engg by IRB Infra and dropped Ranbaxy from the list due to reallocation of resources.

15th December 2010

APOLLO TYRES: BUY, TP-Rs97 (51% upside)

Sector: Auto Ancillary
CMP: Rs64; Mcap: Rs32bn
Bloomberg: APTY IN; Reuters: APLO.BO

What's the theme?

Lock-outs at Apollo Tyres' Cochin facility and Dunlop (South Africa) operations took a toll on its H1FY11 results. Further, high natural rubber prices impacted margins. Rubber supply has been disrupted due to unseasonal weather in India and South East Asia, driving prices to an all-time high of Rs200/kg. Domestic tyre manufacturers have undertaken 3-4 rounds of price increases and another round is expected soon. The demand momentum is expected to continue, however ability to take price increases seems to be limited.

What will move the stock?

1) Re-rating of the sector on the back of radialisation in the truck-bus radial (TBR) segment. 2) Ramp-up at the Chennai facility and commencement of production of TBR tyres. 3) Correction in natural rubber prices due to production growth or reduction in import duty on natural rubber as demanded by the tyre industry. 4) Germany, the largest European automobile market, passed a legislation making it mandatory for motorists to use winter tyres. This will benefit Apollo Tyres' European subsidiary, VBBV, which specializes in this segment. With cold weather conditions becoming severe across Europe, demand for winter tyres is expected to be robust. Subsidiaries are expected to contribute Rs1.9bn in profit in FY11.

Where are we stacked versus consensus?

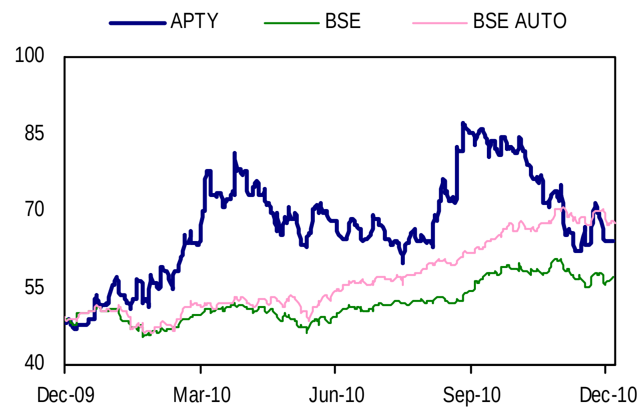
Our FY11 and FY12 consolidated earnings estimates are Rs7.8 and Rs9.7 respectively. Our FY11 consolidated earnings estimate is 11.9% higher than consensus expectation of Rs6.9. We reiterate our 'BUY' recommendation on the stock with a target price of Rs97.

What will challenge our target price?

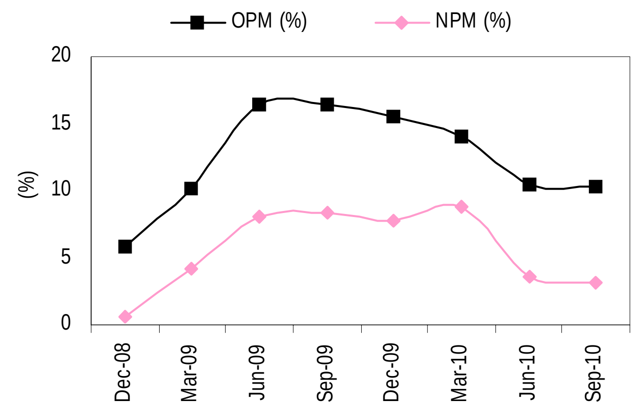
1) Further increase in natural rubber prices, a key raw material; 2) Payment of penalty due to involvement in a price fixing cartel alleged by Competition Commission of South Africa.

(Rs mn)	FY09	FY10	FY11E	YoY %	FY12E	YoY %
Net Sales	49,841	81,207	95,286	17.3	111,914	17.5
EBITDA	4,161	11,796	10,274	(12.9)	12,449	21.2
EBITDA Marg. (%)	8.3	14.5	10.8	(370)bps	11.1	30 bps
Adj. Net Profits	1,286	5,659	3,911	(30.9)	4,873	24.6
Dil. EPS (Rs)	2.6	11.2	7.8	(30.9)	9.7	24.6
PER (x)	25.1	5.7	8.3	-	6.6	-
ROE (%)	10.2	34.1	18.3	(1580)bps	19.4	110 bps
ROCE (%)	13.5	29.3	16.4	(1300)bps	16.7	30 bps

Price performance



Profitability Trend



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GODAWARI POWER: BUY, TP-Rs276 (44% upside)

Sector: Metals
CMP: Rs192; Mcap: Rs5bn
Bloomberg: GODPI IN; Reuters: GDPI.BO

What's the theme?

We expect GPIL to record earnings CAGR of 50% over FY10-12 on volume growth and margin expansion, driven by the recently-commissioned Ari Dongri mine, 0.6mtpa pellet plant, and 20MW biomass power plant. The 0.6mtpa pellet plant of Ardent Steel (75%-owned subsidiary) is expected to provide additional earnings growth, but this is not factored into our estimates.

What will move the stock?

1) Stabilisation of the newly-commissioned 20MW biomass power plant. 2) Improved utilisation of the 0.6mtpa pellet plant and captive usage for DRI production to improve DRI output and profitability. 3) Contribution from Ardent Steel to consolidated earnings is expected from Q3FY11 onwards (not included in our valuations). 4) Boria Tibu mine, which was affected by delay in handover of forest area, is now expected to commence from Q1FY12. 5) Steel profitability expected to improve in seasonally strongest Q4.

Where are we stacked versus consensus?

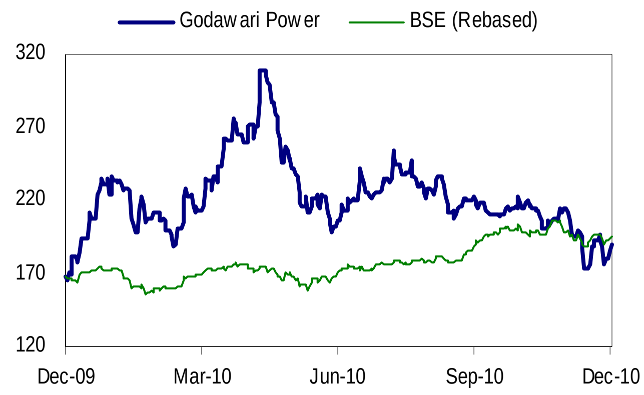
Our earnings estimates are below consensus, mainly because we have not included Ardent Steel in our projections.

What will challenge our target price?

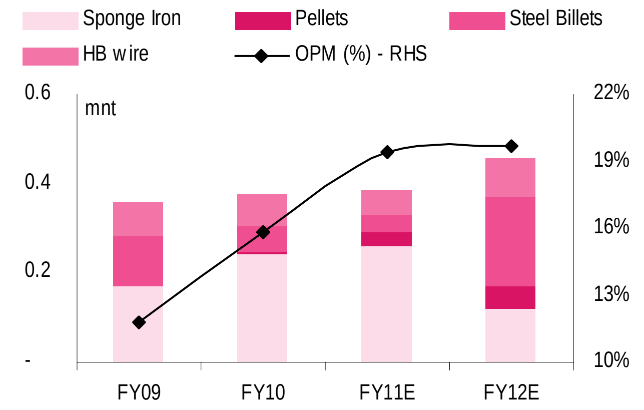
1) Obstacles in ramping up of output from the pellet plant (own as well as Ardent Steel's) and the 20MW power plant; 2) Continued delay in acquiring forest land in the Boria Tibu mine; 3) Simultaneous decline in steel prices and power tariff.

(Rs mn)	FY09	FY10	FY11E	YoY %	FY12E	YoY %
Net Sales	10,355	7,764	8,304	6.9	11,601	39.7
EBITDA	1,226	1,226	1,615	31.7	2,282	41.3
EBITDA Marg. (%)	11.8	15.8	19.4	366 bps	19.7	22 bps
Adj. Net Profits	645	514	720	40.2	1,156	60.5
Dil. EPS (Rs)	23.0	18.3	25.7	40.2	41.2	60.5
PER (x)	5.7	10.5	7.5	-	4.7	-
ROE (%)	15.7	11.2	14.1	288 bps	19.5	539 bps
ROCE (%)	13.6	10.0	11.4	138 bps	15.1	372 bps

Price performance



Volume growth and margin expansion



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HCL Tech: BUY, TP-Rs488 (10% upside)

Sector: Information Technology
CMP: Rs442; Mcap: Rs307bn
Bloomberg: HCLT IN; Reuters: HCLT.BO

What's the theme?

Uptick in discretionary IT spend will continue to provide robust revenue growth for HCL Tech. Recovery of the BPO segment will also provide support to operating margin in FY12. Further strengthening of EUR against USD will have positive near-term impact.

What will move the stock?

1) Robust volume growth of 7.4% QoQ in Q2FY11; 2) Broad based growth across key verticals; 3) Returning to growth trajectory of the BPO segment that appears to have bottomed out; 4) High growth in IMS and custom application segment driven by discretionary spend; 5) Large deal pipeline and highest gross addition proves the confidence in demand environment; 6) Lower forex losses due to absence of negative impact of OCI losses in the ensuing quarters.

Where are we stacked versus consensus?

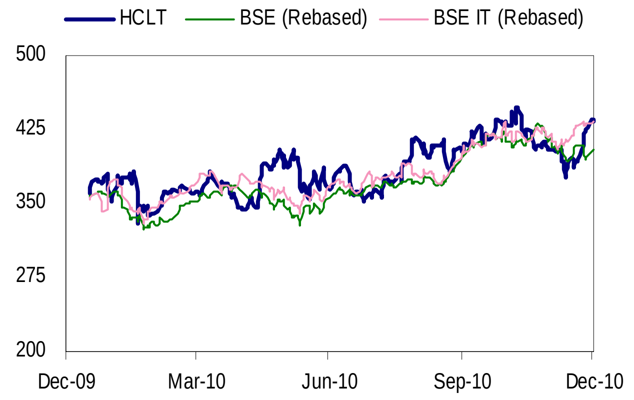
Our revenue estimates vary from Consensus by ~1%, underpinned by stronger volumes and modest uptick in pricing for FY12. Our EBITDA margin forecast for FY12 is in line with consensus. Our FY12 EPS estimate is also in line with consensus.

What will challenge our target price?

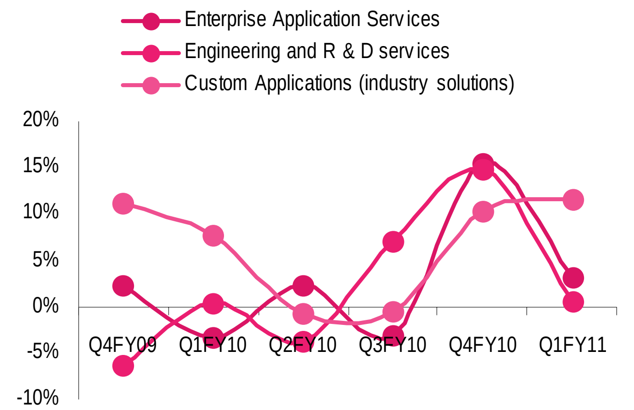
1) Slower recovery in the US economy; 2) Appreciation of INR vs. USD; 3) Increase in tax rates after the sunset clause; 4) Higher attrition and wage increments.

(Rs mn)	FY09	FY10	FY11E	YoY %	FY12E	YoY %
Net Sales	105,046	125,650	152,008	21.0	186,718	22.8
EBITDA	22,201	25,729	26,965	4.8	34,272	27.1
EBITDA Marg. (%)	21.1	20.5	17.7	(274)bps	18.4	62 bps
Adj. Net Profits	12,776	13,029	16,136	23.8	21,016	30.2
Dil. EPS (Rs)	19.0	18.9	23.4	23.8	30.5	30.2
PER (x)	23.1	22.9	18.5	-	14.2	-
ROE (%)	22.5	18.5	20.0	147 bps	21.2	123 bps
ROCE (%)	23.6	24.6	23.2	(147)bps	25.5	227 bps

Price performance



Discretionary IT spend (QoQ growth)



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IRB INFRA: BUY, TP-Rs301 (34% upside)

Sector: Construction & Infrastructure
CMP: Rs224; Mcap: Rs74bn
Bloomberg: IRB IN; Reuters : IRBI BO

What's the theme?

We believe IRB Infra is a proxy play on the Indian road sector. NHAI awarding is expected to pick up in CY11, IRB is the largest BOT operators in India with in-house execution capabilities; it currently has 16 BOT projects in its portfolio, of which ten are operational, five are under construction, and one is in advance stages of financial closure. IRB appears well positioned to add projects worth US$1bn (about 4-6 BOT projects per annum) without any equity dilution.

What will move the stock?

1) Timely execution of projects under construction will act as a catalyst for stock price, the execution in H1FY11 has been satisfactory. 2) Awarding of orders by the NHAI has been slow this fiscal; we believe it would increase the pace of awarding activity in Q4FY11, to achieve its full-year target. We expect IRB to be a major beneficiary of this as it is pre-qualified for projects worth Rs250bn. 3) After the recent correction in stock price, it is available at compelling FY11E and FY12E P/BV of 3.0x and 2.5x respectively and it is trading at FY12E P/E of 14.6x.

Where are we stacked versus consensus?

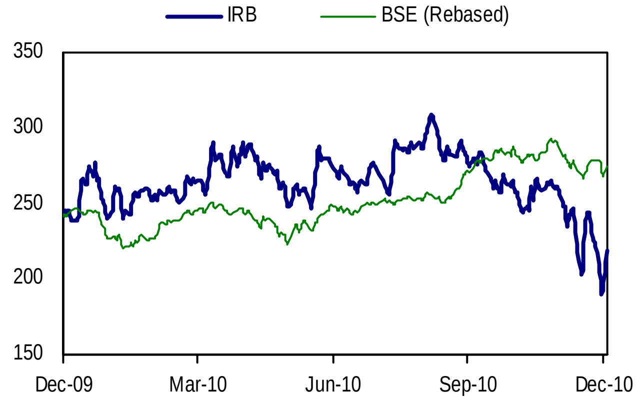
Our FY11 and FY12 earnings estimates are Rs15.6 and Rs15.2, 9.8% higher and 6.1% lower than consensus respectively. We expect revenue growth of 62.6% and 48% to Rs 27.7bn and Rs41bn vs. consensus expectation of 58.3% and 42.3% to Rs26.9bn and Rs38.4bn in FY11 and FY12 respectively.

We believe the recent stock price correction provides a good entry point for investors with a long-time horizon; our SOTP-based target price of Rs301 (vs. consensus target of Rs290) indicates potential upside of 34.4%.

What will challenge our target price?

1) Lower traffic growth; 2) Slowdown in execution of current orders; 3) Change in government policies, which may adversely affect current tolling charges.

Price performance



(Rs mn)	FY09	FY10	FY11E	YoY %	FY12E	YoY %
Net Sales	9,918	17,049	27,719	62.6	41,016	48.0
EBITDA	4,388	7,990	11,421	42.9	13,841	21.2
EBITDA Marg. (%)	44.2	46.9	41.2	(566)	33.7	(746)
Adj. Net Profits	1,758	3,854	5,171	34.2	5,063	(2.1)
Dil. EPS (Rs)	5.3	11.6	15.6	34.2	15.2	(2.1)
PER (x)	42.0	19.1	14.3	-	14.6	-
ROE (%)	10.5	20.4	22.8	239	18.7	(414)
ROCE (%)	12.7	19.4	24.7	532	20.8	(386)

SOTP

Particulars	Rs/Share	Percentage
BOT	164	54.5%
Construction business	112	37.2%
Real Estate	10	3.3%
Cash in hand	15	5.0%
Total	**301**	
Upside (%)	**34**	

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JAGRAN PRAKASHAN (JPL): BUY, TP-Rs165 (22% upside)

Sector: Media
CMP: Rs135; Mcap: Rs41bn
Bloomberg: JAGP IN: Reuters: JAGP BO

What's the theme?

We like JPL for its leadership in UP (the largest print market in terms of readership and print ad value), strong position in growing regions such as Bihar and Jharkhand, better cost efficiency, phased expansion into other forms of media businesses, and a wider portfolio (including Mid-Day). Business growth in H1FY11 (15% ad growth) strengthens our belief that the company is well poised to benefit from steady growth in the print media sector.

What will move the stock?

1) Robust ad CAGR of 18% over FY10-12E and improvement in margins; 2) Broad-based traction in other business verticals; 3) Inorganic growth supported by the Blackstone investment.

Where are we stacked versus consensus?

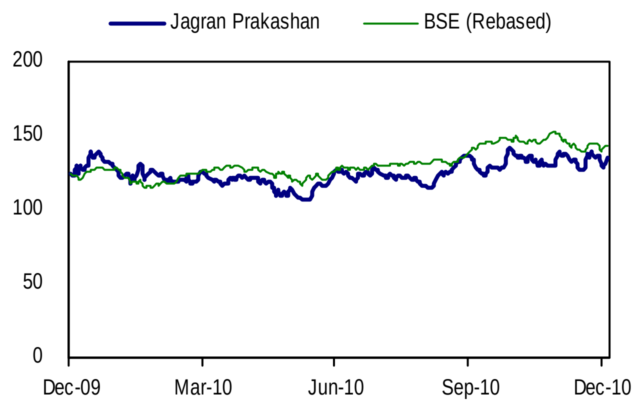
Our revenue estimates vary from consensus by ~8% for FY12E. Our FY12 net margin forecast of 19% is in line with consensus. Our FY12 EPS estimate, however, is 4% higher than consensus.

What will challenge our target price?

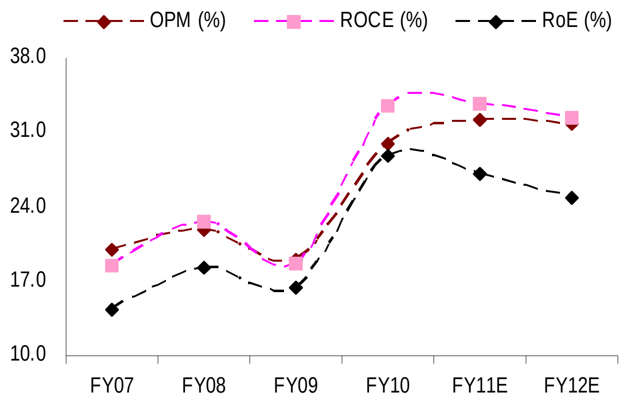
1) Increase in newsprint prices; 2) Slowdown in economic activity; 3) Increased competition in the markets where JPL is present.

(Rs mn)	FY09	FY10	FY11E	YoY %	FY12E	YoY %
Net Sales	8,234	9,419	11,422	21.3	13,643	19.4
EBITDA	1,567	2,823	3,686	30.6	4,342	17.8
EBITDA Marg. (%)	19.0	30.0	32.3	230 bps	31.8	(44)bps
Adj. Net Profits	916	1,759	2,254	28.2	2,608	15.7
Dil. EPS (Rs)	3.0	5.8	7.1	22.4	8.2	15.5
PER (x)	44.4	23.1	18.9	-	16.4	-
ROE (%)	16.4	28.7	27.5	(120)bps	24.7	(280)bps
ROCE (%)	18.7	33.6	34.2	60 bps	32.2	(200)bps

Price performance



Financial Performance



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M&M: BUY, TP-Rs872 (15% upside)

Sector: Auto
CMP: Rs758; Mcap: Rs429bn
Bloomberg: MM IN; Reuters: MAHM.BO

What's the theme?

M&M, with significant rural presence, is expected to benefit from strong monsoons this year. The automobile segment is expected to grow 20.8% and 13.2% in FY11 and FY12 respectively, on new product launches. The tractor segment too is expected to grow 10.3% in FY11, due to higher crop output.

What will move the stock?

1) M&M acquired Ssangyong, Korea. This acquisition would provide it a 2-3 year leap in terms of product development. The transaction is expected to be completed by year-end. Two SUVs from Ssangyong's portfolio (Rexton and Korando) would be assembled at M&M's Chakan facility. 2) Production for the JV with Navistar began at the Chakan plant. 3) M&M received EPA approval for launch in the US. 3) Demand appears strong for small commercial vehicles (SCVs), the fastest-growing CV segment, which M&M entered into recently with the launch of Maximmo and Gio. 4) The company is expected to roll out expansion plans to ramp up capacity given current growth in the tractor segment.

Where are we stacked versus consensus?

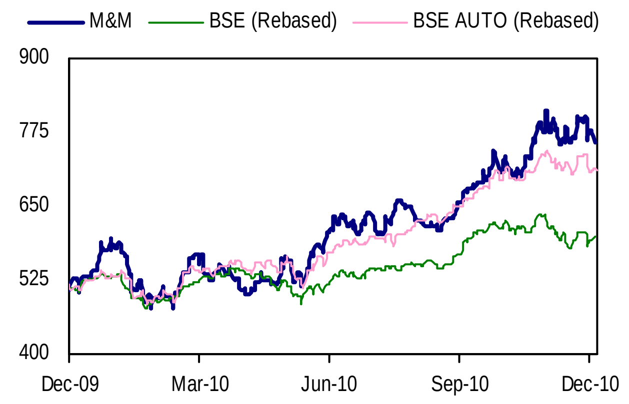
We expect EPS of Rs41.3 and Rs45.5 in FY11 and FY12 respectively. Our FY11 earnings estimate is 8.2% lower than consensus expectation of Rs44.9. We value M&M using SOTP methodology at Rs872, discounting the standalone business at 15x FY12E earnings.

What will challenge our target price?

1) Steep raw material price increases and M&M's inability to pass it on to customers; 2) Increased competition in the UV segment on new launches affecting market share; and 3) Litigation with Global Vehicles Distributor, USA.

(Rs mn)	FY09	FY10	FY11E	YoY %	FY12E	YoY %
Net Sales	126,491	180,381	215,629	19.5	240,800	11.7
EBITDA	10,923	29,758	33,362	12.1	37,081	11.1
EBITDA Marg. (%)	8.3	16.0	15.1	(90)bps	15.0	(0)bps
Adj. Net Profits	8,287	20,181	23,746	17.7	26,554	11.8
Dil. EPS (Rs)	16.2	36.3	41.3	13.7	45.5	10.1
PER (x)	46.8	20.9	18.3	-	16.7	-
ROE (%)	17.3	30.9	26.4	(450)bps	23.8	(260)bps
ROCE (%)	13.8	28.0	28.0	(0)bps	27.3	(60)bps

Price performance



SOTP Valuation

	Valuation Method	Per share (Rs)	Multiple	Value (Rs)
M&M (Standalone)	P/E	43.0	15	645
Tech Mahindra	CMP	62.0	0.8	50
Mahindra Holidays	CMP	44.1	0.8	35
M&M Financial Services	CMP	71.8	0.8	57
Mahindra Lifespace	CMP	13.9	0.8	11
M&M (Treasury Stocks)	CMP	67.2	0.8	54
Swaraj Engines	CMP	3.4	0.8	3
Mahindra Forgings	CMP	6.0	0.8	5
Mahindra Ugine Steel	CMP	1.8	0.8	1
Mahindra Composites	CMP	1.6	0.8	1
Mahindra Navistar	P/BV	6.8	1.5	10
SOTP Value (Rs)				**872**

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NIIT TECH: BUY, TP-Rs278 (46% upside)

Sector: Information Technology
CMP: Rs191; Mcap: Rs11bn
Bloomberg: NITEC IN; Reuters: NIITT.BO

What's the theme?

NIIT Tech has large exposure to high-growth niche verticals such as insurance and travel. New service lines would boost non-linear growth and lead to improvement in realizations. NIIT Tech has no exposure to the PIIGS zone and it has been able to achieve volume growth in Europe despite economic headwinds.

What will move the stock?

1) Recent wins in the Indian market: Five-year BSF contract of Rs2,280mn; 2) Good performance in the Insurance and travel and transport verticals, which contribute ~72% to revenue; 3) Large untapped opportunity in the APAC markets, which are expected to be highest IT spenders in CY10; 4) Strong order book and high growth in top 10 clients; and 5) Stable EBIDTA margins in the IT services business.

Where are we stacked versus consensus?

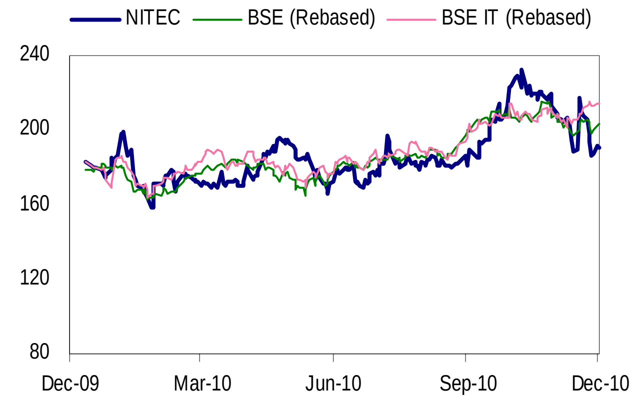
Our top-line estimates vary from consensus by ~5.3%, underpinned by stronger volumes and modest uptick in pricing for FY12. Our EBITDA margin estimate for FY12 is 20.6% which is in line with consensus. Our FY12 EPS estimate is 4.3% higher than consensus.

What will challenge our target price?

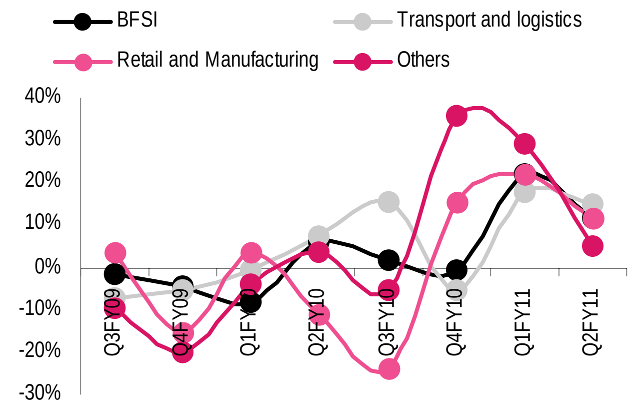
1) Slower recovery in Europe; 2) Sharp currency volatility; 3) Higher attrition and wage increments; and 4) Project delays and cancellation of government contracts.

(Rs mn)	FY09	FY10	FY11E	YoY %	FY12E	YoY %
Net Sales	9,800	9,138	12,077	32.2	13,274	9.9
EBITDA	1,765	1,889	2,193	16.1	2,737	24.8
EBITDA Marg. (%)	18.0	20.7	18.2	(251)bps	20.6	246 bps
Adj. Net Profits	1,148	1,265	1,592	25.9	1,814	13.9
Dil. EPS (Rs)	19.6	21.5	27.1	25.9	30.9	13.9
PER (x)	9.8	8.9	7.0	-	6.2	-
ROE (%)	29.5	21.7	24.8	313 bps	26.4	157 bps
ROCE (%)	17.1	19.1	19.4	31 bps	21.1	177 bps

Price performance



Vertical split (QoQ growth)



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SHREE CEMENT: BUY, TP-Rs2,580 (24% upside)

Sector: Cement
CMP: Rs2,081; Mcap: Rs73bn
Bloomberg: SRCM IN; Reuters: SHCM BO

What's the theme?

Shree Cement's Q2FY11 results were dismal as cement and power demand in North India was affected due to above-average monsoons. With a flood-like situation prevailing in parts of North India, construction activity slowed. However, cement demand has started to pick up, thus providing some respite to the cement manufacturers. Shree Cement has already commissioned its 1mn MT clinker unit at Ras and it will commission a 1mn MT grinding unit at Jaipur H2FY11. Over the next 12 months, it also intends to commission 300MW of power, which will be available for sale in the merchant market. The company has aggressive plans in the power business with addition of 600MW. Shree Cement is thus well positioned to overcome the current oversupply situation in the cement industry, given its balanced portfolio of cement and power.

What will move the stock?

1) Given a good monsoon season across the country, we expect strong cement demand. 2) For Shree Cement, we estimate a 9% volume CAGR over FY10-12. 3) With improvement in the demand scenario, cement realizations would improve from the recent low levels. 4) Q2FY11 was a difficult quarter for the power business as demand from state electricity boards was lower. It is gradually picking up and the company has managed to enter into a forward contract for 100MW power until July-2011. 5) The power business would contribute ~20% to revenue by FY12E and provide an incremental source of earnings.

Where are we stacked versus consensus?

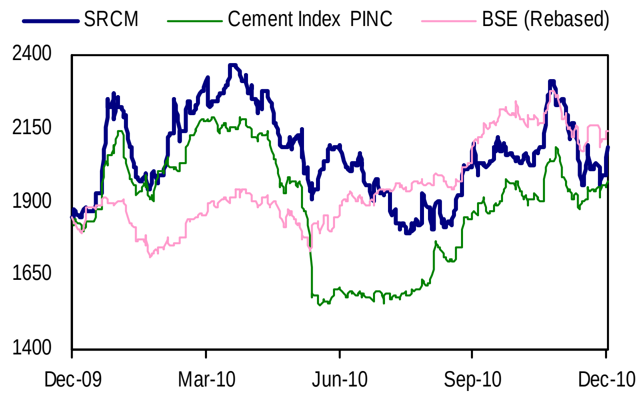
Our FY11 and FY12 earnings estimates are Rs133 and Rs168 respectively. Our FY11 EPS estimate is 5.9% higher than consensus expectation of Rs126. We remain positive on the stock due to management's excellent track record in project execution and strong earnings visibility.

What will challenge our target price?

1) Delay in infrastructure projects leading to lower cement demand in the near term; 2) Delay in commissioning of power projects.

(Rs mn)	FY09	FY10	FY11E	YoY %	FY12E	YoY %
Net Sales	27,106	36,321	37,719	3.8	46,589	23.5
EBITDA	9,377	14,807	12,163	(17.9)	15,064	23.8
EBITDA Marg. (%)	34.4	40.7	32.1	(860)bps	32.2	10 bps
Adj. Net Profits	5,743	7,198	4,630	(35.7)	5,844	26.2
Dil. EPS (Rs)	164.9	206.6	132.9	(35.7)	167.7	26.2
PER (x)	12.6	10.1	15.7	-	12.4	-
ROE (%)	61.0	47.3	22.9	(2440)bps	23.7	80 bps
ROCE (%)	33.6	30.7	17.2	(1350)bps	19.3	210 bps

Price performance



Shree Cement's Power Story

	FY08	FY09	FY10	FY11E	FY12E
Rated Power Cap (MW)	102	119	210	260	560
Effective Power Cap (MW)	77	112	150	219	365
Captive Power Cons (MW)	77	95	112	133	144
Surplus Power Available (MW)	-	17	38	86	221
Surplus Power Sold (Mn units)	-	117	264	599	1,544
Power Sales Revenue (Rs Mn)	-	806	1,770	3,297	7,718
% of Net Sales	-	3.0	4.8	8.0	16.2
% of EBITDA	-	3.0	5.3	14.8	30.7

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TATA STEEL: BUY, TP-Rs759 (18% upside)

Sector: Metals
CMP: Rs646; Mcap: Rs613bn
Bloomberg: TATA IN; Reuters: TISC.BO

What's the theme?

We expect Tata Steel's EBITDA to grow at 48% CAGR over FY10-12, driven by its profitable Indian operations, turnaround at Tata Steel Europe on improved capacity utilization, leaner cost structure, partial resource integration, and better steel profitability. We expect Tata Steel's consolidated net profit to be Rs62.2bn in FY11 and Rs72.7bn in FY12. We find the stock attractively valued at 5.0x FY12E EV/EBITDA.

What will move the stock?

1) Improved profitability of Tata Steel India with better demand and rising steel prices; 2) Easing of high financial leverage with recent debt restructuring at Tata Steel Europe (capital raising of Rs70bn recently approved); 3) Improved fundamentals of Tata Steel Europe notwithstanding a weak Q3FY11E; 5) Progress on raw material integration in Tata Steel Europe; 6) Brownfield expansion of 2.9mn tonnes at Jamshedpur as per schedule.

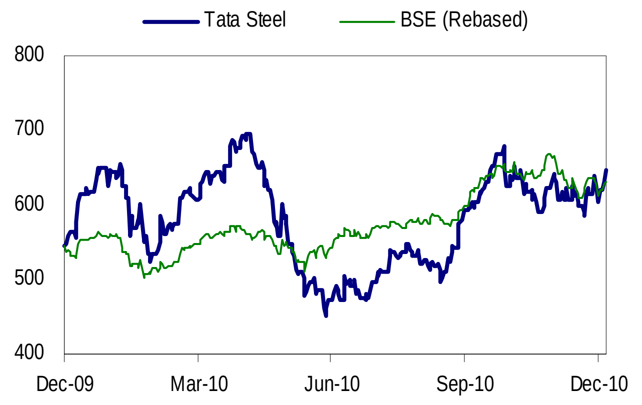
Where are we stacked versus consensus?

Our FY12 consolidated estimates are almost in line with consensus. We value Tata Steel using SOTP methodology at Rs759.

What will challenge our target price?

1) Lower steel profitability on correction in steel prices and/or significant rise in input costs; 2) Weak recovery in Europe leading to lower capacity utilization and sustained subdued profitability at Tata Steel Europe; 3) Delay in Brownfield expansion; 4) Delay in resource integration.

Price performance



(Rs mn)	FY09	FY10	FY11E	YoY %	FY12E	YoY %
Net Sales	1,473,293	1,023,931	1,096,191	7.1	1,174,740	7.2
EBITDA	181,277	80,427	156,412	94.5	175,562	12.2
EBITDA Marg. (%)	12.3	7.9	14.3	641 bps	14.9	68 bps
Adj. Net Profits	90,454	(6,430)	62,249	NA	72,700	16.8
Dil. EPS (Rs)	104.1	(6.8)	63.7	NA	74.4	16.8
PER (x)	4.4	-	10.1	-	8.7	-
ROE (%)	26.4	-	20.3	NA	19.5	(75)bps
ROCE (%)	13.7	-	10.3	NA	11.2	87 bps

SOTP Valuation (Based on EV/EBITDA multiple)

In Rs mn	Target EV/EBITDA	Target EV	Residual Equity	Target Price (Rs)
Tata Steel India	6	718,947	665,312	681
Tata Steel Europe (Corus)	5.0	243,271	44,178	45
Tata Steel Thailand	4.5	11,183	11,183	11
Natsteel	4.5	20,691	20,691	21
Tata Steel cons.	**5.7**	**994,092**	**741,364**	**759**

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USHA MARTIN: BUY, TP-Rs120 (72% upside)

Sector: Metals
CMP: Rs70; Mcap: Rs21bn
Bloomberg: USM IN; Reuters: USBL.BO

What's the theme?

We expect Usha Martin to achieve 33% volume CAGR over FY10-12 on an improved cost structure, with completion of expansion of metallics capacity by 0.4mtpa and that of steel by 0.6mtpa and full integration from mineral resources to value-added products. We estimate 36% EBITDA CAGR and 42% EPS CAGR over FY10-12.

What will move the stock?

1) Volume growth on higher metallics and billet output from the recently-commissioned 0.4mtpa blast furnace (aided by feed from 0.8mtpa sinter plant) and 0.6mtpa steel melting shop respectively; 2) Better performance of international subsidiaries; 3) Increased output from captive iron ore and coal mines after the monsoon season.

Where are we stacked versus consensus?

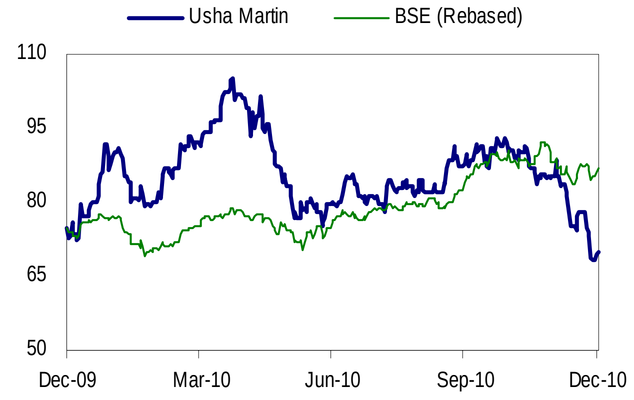
Our operating profit estimates are slightly lower than consensus as we remain cautious on volumes (our FY12E sales volume is 0.67mnt vs. the company's guidance of 0.8mnt) and margin expansion (FY12E OPM of 21.9% vs. guidance of 25% by Q4FY11).

What will challenge our target price?

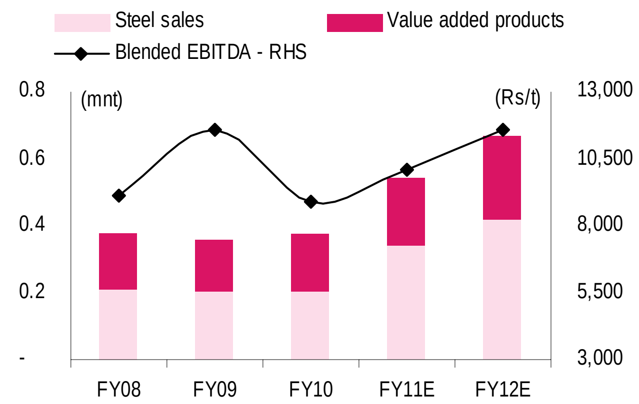
1) Delay in stabilization of recently-commissioned projects impacting volumes and margin expansion; 2) Weak recovery in Europe, which contributes >10% to consolidated revenue; 3) Impact on mining operation either due to regulatory changes or naxalite activities; 4) Severe decline in steel profitability.

(Rs mn)	FY09	FY10	FY11E	YoY %	FY12E	YoY %
Net Sales	29,619	25,344	33,022	30.3	41,318	25.1
EBITDA	5,258	4,895	6,624	35.3	9,053	36.7
EBITDA Marg. (%)	17.8	19.3	20.1	75 bps	21.9	185 bps
Adj. Net Profits	1,853	1,686	1,959	16.2	3,421	74.6
Dil. EPS (Rs)	7.4	5.5	6.4	16.2	11.2	74.6
PER (x)	8.8	12.7	10.9	-	6.2	-
ROE (%)	17.6	11.9	11.1	(84)bps	17.3	620 bps
ROCE (%)	11.5	9.5	10.2	73 bps	12.2	198 bps

Price performance



Volume growth and margin expansion



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