Top Picks - 2010

Our top/relative picks among large caps within our coverage universe are ITC, Tata Steel, BHEL, PNB and Tata Power. Our top/relative picks in niche mid caps are Dabur, Power Trading Corporation, Nagarjuna Constructions, Crompton Greaves and Sun TV.

Macro indicators are more favorable than they were a year ago: IIP is gathering pace and is coming off a low base and the lead indicators of consumption have recorded positive growth. We have strong liquidity and probable earnings upgrades as the growth cycle surprises.

Focus on stocks driven by earnings: We have a Sensex trading band of 14,900-19,000 and expect the markets to trade in this range. There could be short-term volatility as markets have priced in the current growth numbers into stock prices and multiples are not cheap. Our Sensex EPS for FY10E is Rs805 and for FY11E, Rs1,013 implying a P/E band of 14.7x-18.8x FY11E EPS. The index currently trades at 17.2x FY11EPS.

Our recommendation: Our high-conviction sectors are Consumer, Healthcare, Automobiles, Media, Infrastructure/Construction, Metals, and Capital Goods. We have lower preference for Cement, Real Estate and Telecom. We are Neutral on Financials from a valuation perspective.

Key performance triggers: The key trigger is performance of global economies. Within our universe Autos, Metals, Infrastructure/Construction and Financials are the key drivers of Sensex earnings in FY11. Barring Metals that are a global commodity, the others are interest rates sensitive sectors.

Investment key to recovery: Clearly, one expects a broader global recovery (stronger commodity prices, higher outsourcing revenues and a return of the investment cycle). This assumes significance if the government should plan to exit from the monetary and fiscal stimulus it has set, for it could impact the consumption demand in FY11E. Thus we strongly believe the next leg of recovery will require a return to the investment cycle (thereby reflecting strong loan growth and capex for capital goods).

Risks to our call: In our view the predominant risk to the market is valuations. Others are global economic recovery and reaction of the dollar and the consequential flows into Emerging Markets and India; RBI's exit policy on soft rates that could see monetary tightening by early CY10; unwinding through the reversal of fiscal concessions; withdrawal of tax cuts, expenditure cuts and higher disinvestment targets; new paper supply and a reversal in dollar carry trade.

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AMBIT
Acumen at work

Sector Recommendations

Sector	Rating	Comments
Automobiles	**Positive**	▪ Volume growth may trend lower on account of high base but it should still meet expectations. We expect most sub-categories to maintain double-digit volume growth supported by strong consumer confidence, innovation and migration to new emission norms. ▪ Raw material cost escalation could impact operating margins in the coming period. However, the strong demand trend would enable auto makers to take partial price increases. ▪ Pricing trends remain healthy and we do not envisage any major discounting. ▪ Increase in excise duty rates could act as a potential dampener to the current growth trajectory.
Capital Goods	**Positive**	▪ Increasing inquiries from private players for industrial capacity building capex which should translate to improved order flows in the forthcoming quarters. ▪ Players who have already increased capacities and have strong execution capabilities would benefit from the forthcoming up-tick in demand ▪ While generation projects continued to get delayed, transmission projects are also facing a similar situation, and the distribution segment has not yet taken-off at all. However, continued traction is witnessed in generation equipment orders leading us to believe that the transmission segment projects too would have to be taken up sooner rather than later. ▪ In addition, we expect an increase in demand for reliable and assured power as the economy expands thereby providing an impetus to set up captive power projects ▪ Though the environment is still challenging and competition higher, stock price performance has been strong and the sector has clearly moved above the trough valuations
Cement	**Negative**	▪ Cement demand remains in line with our expectations ▪ We have been surprised by the resilience in the cement prices. However, we continue to believe that the increase in supply will lead to pricing pressure
Consumer	**Positive**	▪ Volume growth should remain in double-digits supported by buoyancy in rural markets, improved consumer confidence and increased restocking trend ▪ Pricing across several categories has remained stable and could be an important story for 2010 ▪ Cost dynamics continues to remain favourable though marketing spends may have seen increase despite low media inflation
Construction	**Positive**	▪ Order book/sales at 3x would drive revenue growth over the next 2-3 years ▪ Pricing power recovery would offset losses on account of benign interest rate and commodity inflation, resulting in sustained earnings growth momentum ▪ Transportation sector awards in 1HFY11 would add further fillip to order book growth ▪ BOT infra assets' value unlocking theme would ease balance sheet pressure ▪ We maintain our bullish stance on the sector
Financial	**Neutral**	▪ Credit demand @15-18% for FY10E. However, credit growth sluggish (at 12.2%) as of 25th Dec'09 ▪ Our credit growth estimates for the top eight banks within our coverage universe (51% of overall bank credit) indicates credit expansion of ~19% on the supply side during FY10E ▪ NPLs surfacing for individual banks that went overboard on restructuring ▪ We expect PSU banks to continue garnering the lion's share of incremental business over the next 12 months - PSU banks continue to outperform their private sector counterparts in terms of balance sheet expansion and credit quality control ▪ We expect the liability-side repricing at a portfolio level to begin reflecting in lower cost of funds, thereby cushioning the decline in margins to an extent during 2HFY10E (starting this earnings season) ▪ We expect the RBI to begin monetary tightening measures before the next policy meeting - yields are expected to harden from current levels and stay in the 7.3%-7.7% range until the RBI's next move
IT sector	**Positive**	▪ We believe that the IT sector is poised to benefit from the upturn in the global economy with a strong pick up in the offshoring demand. Demand revival in large verticals (BFSI, Retail) and large geographies (US) is currently aiding for the growth for the IT sector. Going forward, with the expected revival in the European macro scenario (~2 qtrs lag), we expect the other large verticals i.e. Manufacturing and Telecom to report stronger growth. Further, uptick in discretionary spending should aid +20% YoY growth levels in FY11/12E. While rupee appreciation worries remain, strong volume growth would itself be able to absorb most negatives.
Media	**Positive**	▪ With a strong recovery in economy and GDP, we expect corporate spending to go up, resulting in higher ad revenue for media companies ▪ During 2QFY10, companies reported significant revenue growth on the back of increase in inventory utilization. Any increase in ad rate would provide further fillip to the revenue growth. ▪ Increasing digitisation by way of DTH, digital cable and IPTV, would result in higher subscription revenues

Metal	**Positive**	▪ We do not expect any significant correction to Chinese or CIS international steel prices in the short term though a possible dollar strengthening scenario would be negative. ▪ Domestic steel prices have corrected, and premium to the landed costs has reduced. Henceforth, the downside risk to domestic steel prices is limited. ▪ Our top pick in the steel sector is Tata Steel due to the upside provided by recovery in European steel demand and benefits from company's cost restructuring measures. ▪ We like JSW Steel, given the strong earnings momentum led by 1) volume growth and 2) improved product mix.
Oil&Gas	**Neutral**	▪ Crude oil prices though stretched beyond demand-supply fundamentals, are likely to trade in US$65-US$80 range primarily on liquidity cues and weakness in dollar ▪ 2QFY10 witnessed contracting of 4 out of 7 idle jack-ups of Aban Offshore, which improves the revenue visibility. Two more jack-ups are likely to be contracted by end FY10 ▪ With crude prices consolidating around US$75, we expect drilling activity to pick up ▪ We have a cautious outlook on the refining and marketing sector. Refining margins are looking weak due to low product demand. Distillate and FO margins might see some improvement in coming months due to winter heating demand. ▪ OMC valuations at current level appear expensive. Ad hoc measures on subsidy sharing remains an overhang and explains our cautious outlook. For FY10 we estimate the under-recovery to be ~Rs500bn ▪ Oil discovery in the Cambay basin and allocation of 12.42mmscmd of KG-D6 gas to RIL has added to our confidence in the stock. However refining and petrochemical margins are looking weak. RIL-RNRL litigation continues to be an overhang. ▪ In the gas distribution space we believe in lieu of forthcoming Commonwealth Games IGL is expected to roll out its expansion plans aggressively
Pharma	**Positive**	▪ The R&D productivity of large US companies is on the decline (and real blockbusters have been few and far between). This has started putting significant pressure on these companies, giving rise to cost management as the major theme for the big pharma (likes of Pfizer, GSK, Merck) across the world. These companies have already started looking at low-cost destinations like India as more economical manufacturing possibilities. They could do this either by outsourcing manufacturing (CRAMS) or by buying a company that has the requisite manufacturing capabilities (with the required regulatory approvals). ▪ Domestically, increased competition, changes in the regulatory environment and pressure by the government to lower generic prices have resulted in muted cash flows. Going forward, no big ticket acquisitions are expected from Indian companies. The future trend would be focused acquisitions to acquire certain product or a product portfolio (as opposed to acquiring topline) . ▪ Increased competition and pressure on the margin would result in smaller Indian companies potentially becoming takeover targets. Large companies can come under the M&A scanner of the larger pharma companies from the US, Japan, and Europe. In the near term, consolidation and cross border M&A will continue to remain in focus. ▪ In the quarter gone by most companies reported healthy topline and stable EBIDTA margins. The sector has been one of the better performers relative to the market. ▪ An increased focus on markets other than the highly regulated markets of US and Europe - increased penetraion in the Rest-of-the-World markets
Real Estate	**Negative**	▪ CY2010 will be driven by A) Continued balance sheet improvement by improving debt equity ratio, reduction in debtors B) Cash flows will be driven by sale of affordable housing; we expect sharp increase in housing launches C) Sale of non core assets to increase as the companies meet their debt and interest repayment commitments D) Housing price rise is expected to be muted due to increasing supply and gradual increase in demand-implying limited increase in valuations E) Margin growth expected to be weak since profits will be driven by affordable housing where the profits are weak F) Key risk- increase in interest rates; tightening norms by the RBI for real estate lending
Telecom	**Negative**	▪ Though subscriber growth is expected to remain robust, revenue growth is expected to be under pressure due to significant pricing pressure ▪ Cash outflow on account of 3G spectrum auction and 3G capex, along with implementation of MNP, is expected to exert further pressure on financials
Power Utilities	**Positive**	▪ Generation capacity additions though higher than historicals are lagging behind the planned additions. For example: in the current five year plan though we have added as much capacity as that in the full term on the 10th five year plan, this is way below the targeted capacity additions. ▪ Given the assured RoE model we believe that the industry will continue to growth on the back of higher capacity additions as well as higher demand from an expanding economy.

Top Picks

ITC

BUY

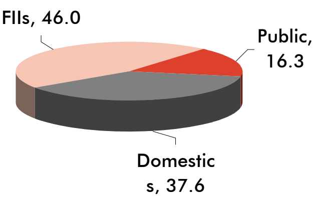
Price	Rs251
Target Price	**%Upside**
Rs305	20↑
Market Capitalisation	
Rs950,040mn	(US$20,327mn)
52 week range H/L (Rs)	271/156
Shares o/s (mn)	**Daily vol (mn)**
3,788.04	4.46
Reuters	**Bloomberg**
ITC.BO	ITC IN

Perfm(%)	1M	3M	12M	YTD
Absolute	(2.7)	8.2	46.2	46.3
Rel. to Sensex	(5.1)	6.8	(18.1)	(18.6)

BSE Sensex	Nifty
17,344	5,169

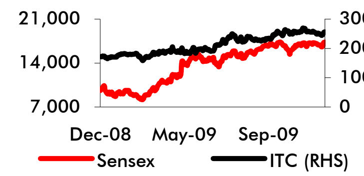
Source: Bloomberg

Shareholding pattern (%)



Source: Bloomberg

Price performance



Source: Bloomberg

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Operating Margins Surprise; Expect Bouyancy In Earnings

ITC's operating earnings for 2QFY10 surprised significantly. We expect this buoyancy in earnings to sustain and therefore recommend it as a top pick in the consumer space with a March 2010 target price of Rs305, implying upside of 20% from current levels.

Multiple upsides to cigarette business - We expect the strong 7% volume growth seen in 1HFY10 to continue. Pricing, which has remained stable on account of price points and competitive challenges, could also see improvement in 1QCY10. Mix trends which have seen improvement, could get a further boost from positive consumer confidence trends. GST and other tax proposals that are expected could be positive, considering the moderate taxation stance adopted by the government.

Other Business is also on a much stronger wicket - Step-up seen in non-cigarette business' EBIT margins to double digits (14.4% in 2Q10) could sustain though not supported by continued buoyancy in agri-business (leaf tobacco crop conditions continue to remain favourable for India), further improvements in paper (import pulp substitution can be further enhanced) and FMCG business (improved profitability of food business and steady performance of non-food business).

Earnings outlook and valuations - Our forecast implies earnings growth of 22% for FY09-FY11. Although the stock is trading at levels above its recent averages we believe the significant improvement in medium term demand and margin outlook along with possible consensus earnings upside of 6-7% could support these valuations. Our target price implies a forward EV/EBIDTA multiple of 17x and P/E multiple of 24x. Key risks to our rating: 1) sharp decline in consumer confidence and economic activity; 2) legislation and or tax that can impact profitability of cigarette business.

Exhibit 1: Key financials

Y/E Mar (Rs mn)	FY08	FY09	FY10	FY11E
Net Sales	139,475	153,880	172,674	194,450
EBIDTA	50,148	53,670	63,664	72,249
Net Profit	31,201	32,636	39,791	47,870
EPS	8.2	8.4	10.5	12.7
EPS Growth %	15.1	4.8	21.9	20.2
P/E (x)	30.3	28.9	23.7	19.7
EV/EBIDTA (x)	19.8	19.1	15.7	13.7
Dividend Yield %	1.4	1.5	1.7	1.8
ROE %	25.9	23.8	24.7	25.1
ROCE %	40.0	37.0	38.9	37.5

Source: Company, Ambit Capital research estimates

Company financial snapshot

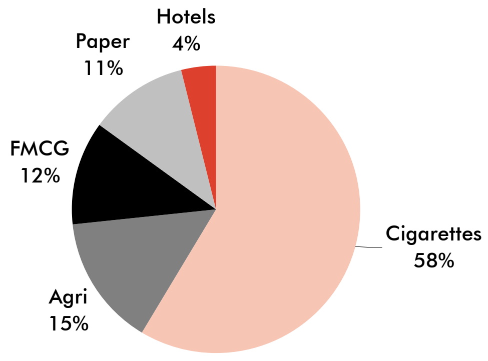
Profit and Loss (Rs. Mn)

	FY09E	FY10E	FY11E
Net Sales	153,880	172,674	194,450
Optg. Exp (Adj for OI.)	100,211	109,010	122,202
EBIDTA	53,670	63,664	72,249
Depreciation	5,229	4,983	5,614
Interest Expense	183	165	148
PBT	48,257	58,516	66,486
Tax	15,622	18,725	18,616
PAT	32,636	39,791	47,870

Profit and Loss Ratios

EEBIDTA Margin %	34.9	36.9	37.2
Net Margin %	21.2	23.0	24.6
P/E (x)	28.9	23.7	19.7
EV/EBIDTA(x)	19.1	15.7	13.7
Dividend Yield (%)	1.5	1.7	1.8

Revenue Break-up



Source: Company, Ambit Capital research

Balance Sheet (Rs. Mn)

	FY09E	FY10E	FY11E
Total Assets	194,848	215,976	243,479
Net Fixed Assets	84,860	96,124	106,689
Current Assets	101,066	110,928	127,867
Other Assets	8,923	8,923	8,923
Total Liabilities	194,848	220,394	252,833
Networth	137,351	161,083	190,715
Debt	1,776	1,776	1,776
Current Liabilities	47,050	48,863	51,670
Deferred Tax	8,672	8,672	8,672

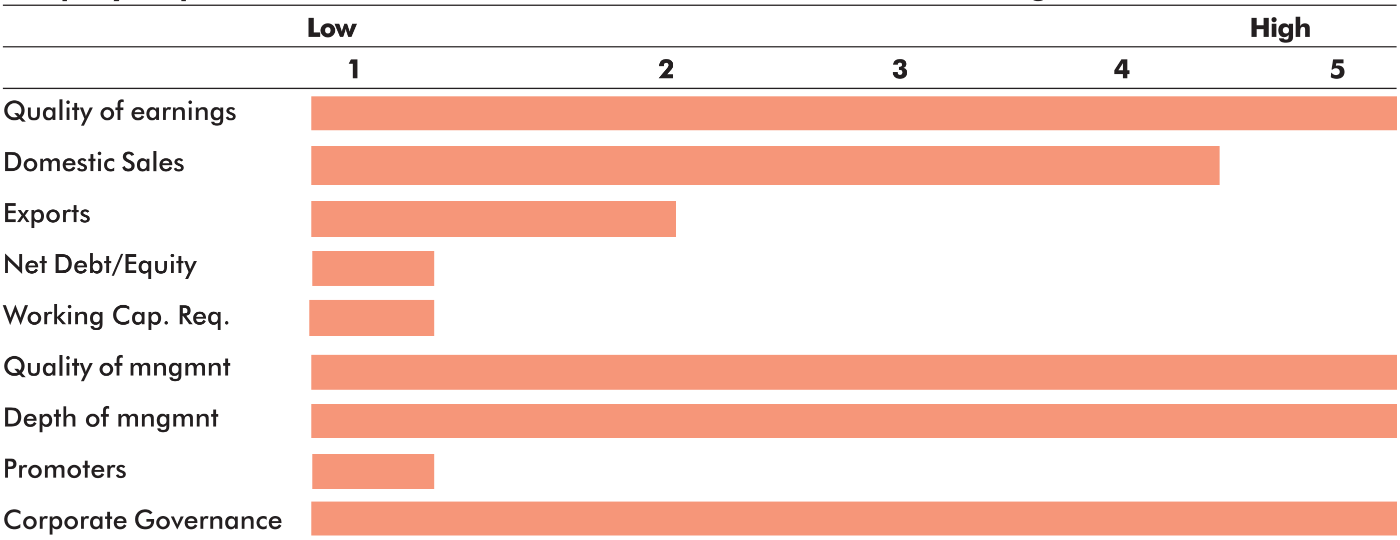
Balance Sheet Ratios (%)

ROE %	23.8	24.7	25.1
ROCE %	37.0	38.9	37.5
Net Debt/Equity	-20.4	-19.4	-20.1
Equity/Total Assets	92.9	93.9	94.8
P/BV (x)	6.9	5.9	5.0

Cash Flow (Rs. Mn)

	FY09E	FY10E	FY11E
EBIDTA	52,021	62,486	70,962
Other Income	1,649	1,178	1,287
Interest	(183)	(165)	(148)
Tax	(14,266)	(18,725)	(18,616)
Change in Wkg Cap	(2,975)	(4,742)	(7,108)
CF from Operations	36,246	40,032	46,376
Capex	(14,298)	(16,247)	(16,179)
Investment	0	0	0
CF from Investing	(14,298)	(16,247)	(16,179)
Change in Equity	0	0	0
Debt	(369)	0	0
Dividends	(15,226)	(16,058)	(18,238)
CF from Financing	(15,595)	(16,058)	(18,238)
Change in Cash	6,354	7,726	11,958

Company snapshot **Ratings**



Top Picks

Tata Steel

Expect Better European Operations

BUY

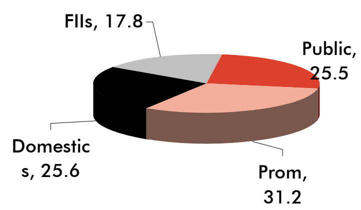
Price	Rs626
Target Price	**%Upside**
Rs630	1 ↑
Market Capitalisation	
Rs555,618mn	(US$12,153mn)
52 week range H/L (Rs)	662/149
Shares o/s (mn)	**Daily vol (mn)**
887.21	10.79
Reuters	**Bloomberg**
TISC.BO	TATA IN

Perfm(%)	1M	3M	12M	YTD
Absolute	14.8	14.7	212.7	1.4
Rel. to Sensex	12.8	12.1	63.5	1.6

BSE Sensex	**Nifty**
17,423	5,210

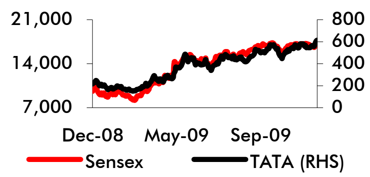
Source: Bloomberg

Shareholding pattern (%)



Source: Bloomberg

Price performance



Source: Bloomberg

European steel production volumes show continued improvement over the past two months, and we expect Corus to operate at an average utilisation rate of 77% in 2H, compared to 67% in 1H. Led by the higher volumes, lower raw material costs, and headcount resizing in 2QFY10, the European operations should be EBITDA positive in 2HFY10.

2H mothballing of Teesside is a postive

The Teesside plant, which has a high cost of production and has incurred US$220mn (Rs10bn) operating losses in 1H, will be mothballed in January 2010. We expect the decision to have no significant impact on Tata Steel Europe's topline, as any Teesside orders can be diverted to other blast furnaces (since the offtake agreement was reneged by the consortium partners, TCP has been producing for internal orders diverted to it, as well as some ad hoc external orders). Our FY11E forecasts for Corus include a 16.7mt liquid steel production, implying 92% capacity (excluding Teesside) utilisation. The mothballing will result in ~1,700 additional headcount reduction, and while there will be one-time exceptional expenses, it should result in Corus being leaner and more viable.

Jamshedpur expansion on track; will drive profit growth in FY12E

Major orders for the 2.9mtpa expansion project have been given and from our recent plant visit, we understand that the civil construction is about 50% complete. Given that civil construction (building the structures) is the time consuming stage of a brownfield expansion, it indicates that the project is on schedule for completion by mid-2011.Given that Tata Steel's domestic operations are highly profitable, capacity expansion in India will be a major profitability driver for the company. Our estimate of 8.1mt sales volume for FY12E is based on our assumption that the plant will be operational, beginning July 2011. At an EBITDA/ tonne contribution of Rs15,300, the incremental volumes will add ~Rs20bn to the group's EBITDA in FY12E.

Maintain our Buy recommendation

Recovery in European operations and capacity expansion in India will drive profits over the next three years, and we maintain our Buy recommendation on the stock. Our March 2010 target price to Rs630 is based on the sum-of-the-parts methodology, and values the Indian, European and SE Asian operations at an FY11 EV/EBITDA of 6.0x, 5.5x and 5.5x respectively. At the current price, the stock trades at 5.7x FY11 EV/EBITDA and 7.3x FY11 P/adj.EPS.

Exhibit 1: Key financials

Y/E Mar (Rs mn)	FY07	FY08	FY09	FY10E	FY11E
Net revenue	252,124	1,315,359	1,473,293	1,005,296	1,188,219
EBITDA	79,904	188,837	161,517	51,268	188,397
EBITDA margin %	29.5%	13.7%	12.3%	5.1%	15.9%
PAT (Adj.)	48,705	71,161	70,695	(15,069)	82,900
EV/ EBITDA	7.5	5.6	5.8	21.7	5.8
ROCE	17.1%	16.3%	16.0%	1.3%	15.4%
EPS (adj.)	64.6	79.3	102.3	(16.0)	84.7
P/E (adj.)	9.7	7.9	6.1	-39.2	7.4

Source: Company, Ambit Capital research estimates

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Company financial snapshot

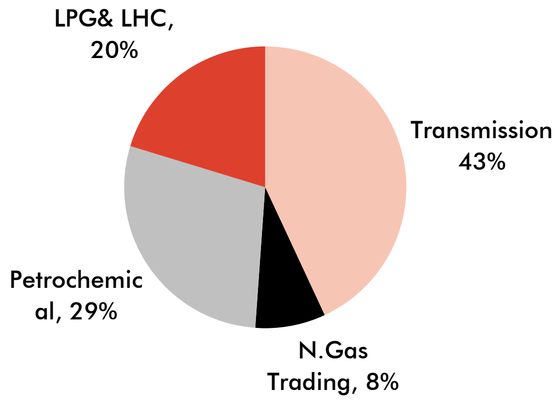
Profit and Loss (Rs. Mn)

	FY09	FY10E	FY11E
Net revenue	1,473,293	1,005,296	1,188,219
EBITDA	161,517	51,268	188,397
Depreciation	42,654	43,246	44,692
Interest expense	32,902	37,805	39,711
Adjusted PBT	88,618	(25,761)	108,746
Total taxes	18,940	(10,293)	26,246
Adj. PAT to shareholders	70,695	(15,069)	82,900
Rep. PAT to shareholders	29,750	(28,894)	75,100

Profit and Loss Ratios

EBITDA margin %	12.3%	5.1%	15.9%
Reported PAT Margin %	3.4%	-2.9%	6.3%
EV/ EBITDA	5.8	21.7	5.8
P/E on adjusted basis	6.1	(39.2)	7.4
Dividend yield	3%	2%	2%

EBIT share - FY09



Source: Company, Ambit Capital research

Balance Sheet (Rs. Mn)

	FY09	FY10E	FY11E
Networth	286,266	265,686	326,101
Borrowings	599,005	640,505	640,505
Net Fixed Assets	453,056	459,770	499,578
Investments	64,111	64,111	64,111
Net current assets	236,202	250,408	271,015
Capital employed	913,551	934,471	994,886

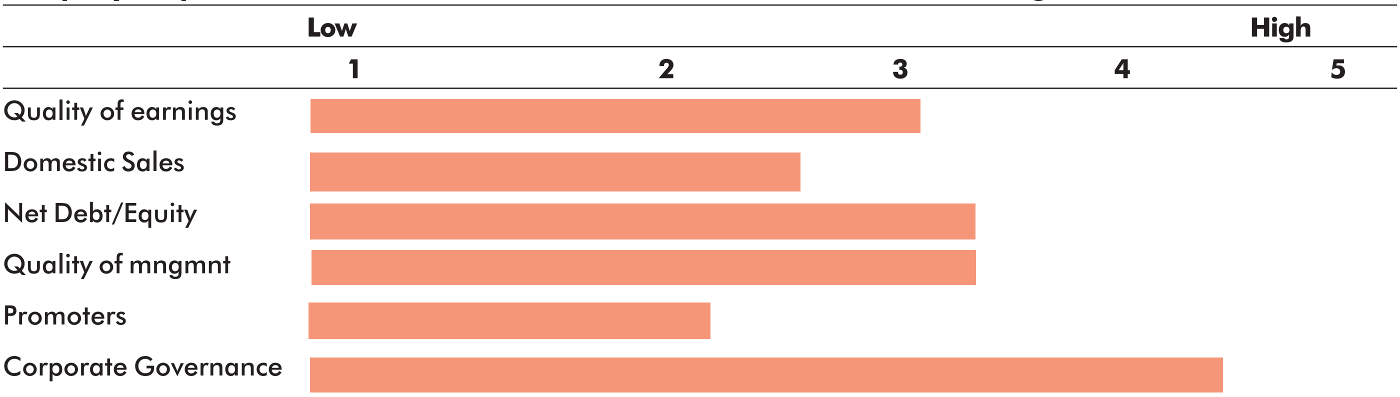
Balance Sheet Ratios (%)

ROE	31.6%	-5.7%	25.4%
ROCE	16.0%	1.3%	15.4%
Gross Debt/ Equity	2.1	2.4	2.0
Net Debt (Cash)/ Eq	1.9	2.1	1.6
P/BV	1.6	2.1	1.7

Cash Flow (Rs. Mn)

	FY09	FY10E	FY11E
Reported PBT	67,432	(39,587)	100,946
+ Depr exp &impairments	42,654	43,246	44,692
+ Interest expense	32,902	37,805	39,711
+/- Other adjustments	44,936	(4,021)	(4,753)
CF pre WC changes	187,924	37,443	180,597
Changes in WC	2,254	18,805	(2,425)
Direct Taxes Paid	(33,879)	10,293	(26,246)
Net Cash from Oper Acti	156,299	66,540	151,926
Net capex	(83,609)	(49,960)	(84,500)
Invt & acqns	(30,074)	-	-
Interest & dividend received	6,115	4,021	4,753
Net Cash from Invst Acti	(107,567)	(45,939)	(79,747)
Eq inc warr, cap contribution	144	23,000	-
Net proceeds from borrowings	20,521	41,500	-
Interest paid	(35,473)	(37,805)	(39,711)
Dividends paid	(12,266)	(14,950)	(14,286)
Net Cash from Fin Acti	(27,540)	11,745	(53,997)
Net Inc in Cash & Cash Equiv	21,192	32,347	18,182

Company snapshot **Ratings**



Top Picks

BHEL

BUY

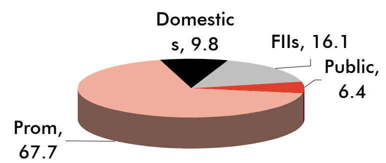
Price	Rs2356
Target Price	**%Upside**
Rs2,450	4 ↑
Market Capitalisation	
Rs1,153,309mn	(US$25,227mn)
52 week range H/L (Rs)	2,550/ 1,250
Shares o/s (mn)	**Daily vol (mn)**
489.52	0.85
Reuters	**Bloomberg**
BHEL.BO	BHEL IN

Perfm(%)	1M	3M	12M	YTD
Absolute	(0.3)	(2.8)	75.3	(2.1)
Rel. to Sensex	(2.1)	(5.0)	(8.3)	(1.8)

BSE Sensex	**Nifty**
17,423	5,210

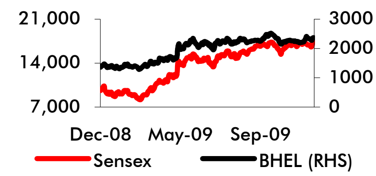
Source: Bloomberg

Shareholding pattern (%)



Source: Bloomberg

Price performance



Source: Bloomberg

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High Order Backlog To Sustain Strong Revenues And Profitability Growth

A high order backlog is likely to translate into strong revenue and profitability growth for BHEL over the next three years. Nevertheless, in spite of capacity expansion from 10GW p.a. to 15GW p.a., overcoming execution constraints will continue to be key challenge.

Topline/profitability to grow

On the back of an all-time high order backlog of Rs1,240bn, we estimate BHEL's revenues to reach Rs361.7bn in FY11, a 3-year CAGR of 22.3%. Over the same period, we expect the company's EPS to reach Rs103.3 (FY11E), up from Rs58.4 in FY08E, a 20.9% CAGR. EBITDA margin is likely to expand from 16.5% in FY09E to 20.9% in FY11E.

Order book-to-bill ratio to decline over the medium term

We believe that BHEL could see continued growth in order inflows, especially with a bulk of the recent orders arising from the private sector. This indicates an increasing preference by IPPs for domestic equipment suppliers. However, execution constraints, along with the fact that almost all of the equipment ordering for the 11th Five Year Plan capacity additions is in place, could hinder higher revenue booking. Considering these factors, we expect the order book-to-bill ratio to decline from 5.9 in FY09 to 4.6 in FY11E.

Valuations fair; target P/E at 22x

We expect the premium to historical averages as well as the market to expand on account of: (a) higher demand for power equipment, pegged at around 25-30GW p.a., indicating that Indian power equipment market will continue to be in short supply; and (b) growing uncertainty about the quality of Chinese equipment, placing BHEL is a favourable position. The historical 1-year forward P/E has ranged from 6x to 32x across cycles v/s 20.1x in the past five years (2005-09). BHEL presently trades at 22.2x our FY11E EPS, and we maintain our TP of Rs2,450.

Exhibit 1: Key financials

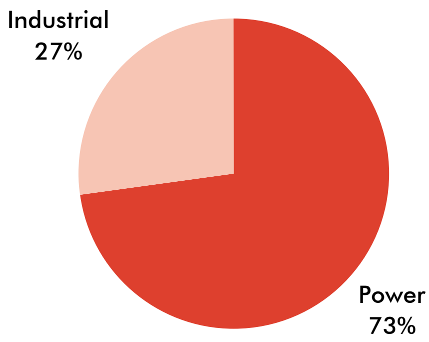
Y/E Mar (Rs mn)	FY07	FY08	FY09	FY10E	FY11E
Operating income	176,427	197,652	267,880	329,147	377,347
EBITDA	36,248	37,830	42,190	55,670	70,625
EBITDA (%)	20.5	19.1	15.7	16.9	18.7
Net profit	24,339	29,019	30,977	40,819	52,273
EPS (Rs)	49.3	58.4	63.9	83.4	106.8
RoE (%)	30.0	29.2	26.4	28.6	30.1
RoCE (%)	29.5	29.5	26.5	28.8	30.3
P/E (x)	22.6	33.1	36.9	28.3	22.1
P/BV (x)	6.2	8.8	8.9	7.4	6.1

Source: Company, Ambit Capital research estimates

Company financial snapshot

Profit and loss (Rsmn)	FY09E	FY10E	FY11E
Net Sales	267,880	329,147	377,347
Operating Expenses	225,689	273,477	306,723
EBIDTA	42,190	55,670	70,625
Depreciation	3,343	3,785	4,084
Net Interest Expense	-7,573	-8,290	-10,985
PBT	48,083	61,838	79,189
Tax	17,106	21,019	26,916
PAT	30,977	40,819	52,273
Profit and loss ratios			
EBIDTA Margin (%)	15.7	16.9	18.7
PAT Margin (%)	11.6	12.4	13.9
PE Adjusted (x)	36.9	28.3	22.1
EV / EBIDTA (x)	22.7	16.9	11.7
Dividend Yield (%)	0.3%	0.3%	0.4%

Business Break up - Segment wise

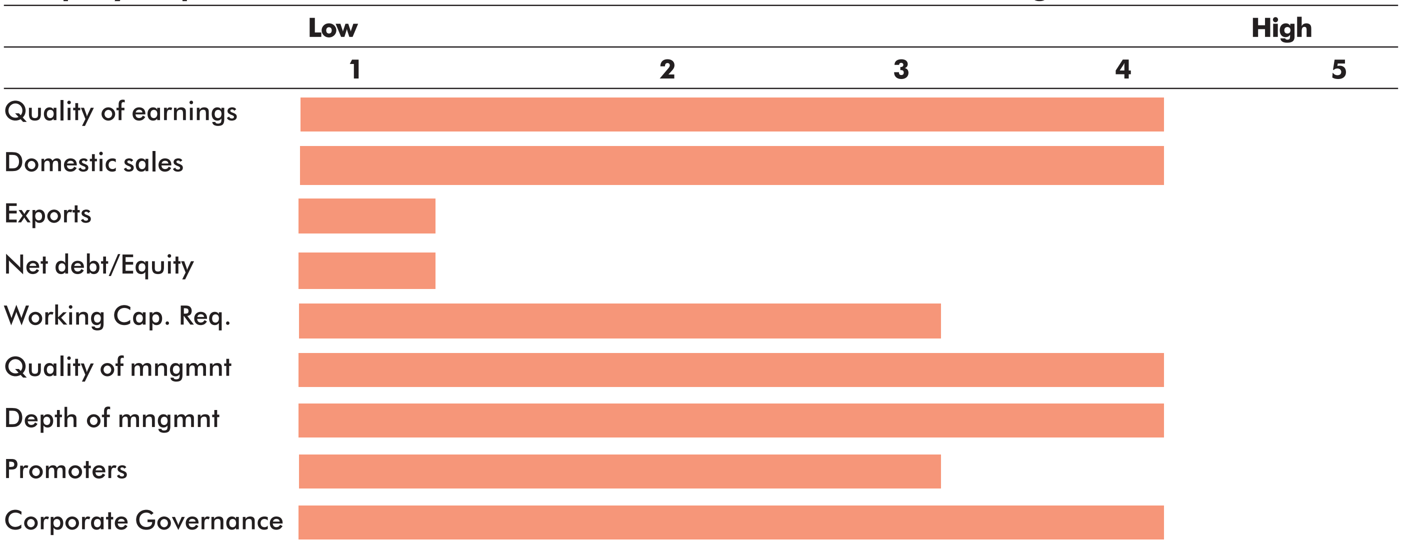


Source: Company, Ambit Capital research

Balance sheet (Rsmn)	FY09E	FY10E	FY11E
Total Assets	415,149	460,893	533,306
Net Fixed Assets	26,274	23,817	29,733
Current Assets	369,011	437,218	548,722
Other assets	19,865	-142	-45,149
Total Liabilities	414,211	459,534	551,528
Net Worth	129,388	155,890	190,982
Total Debt	0	0	0
Current Liabilities	284,823	303,644	360,545
Balance sheet ratios (%)			
RoE	26.4	28.6	30.1
RoCE	26.5	28.8	30.3
Net Debt / Equity	-71.7	-65.1	-83.9
Total Debt / Equity	8.0	6.6	5.4
P / BV (x)	8.9	7.4	6.1

Cash flow (Rsmn)	FY09E	FY10E	FY11E
EBIT	38,848	51,885	66,541
Other Income (expenditure)	1,663	1,663	1,663
Depreciation	3,343	3,785	4,084
Interest	-7,573	-8,290	-10,985
Tax	22,130	20,592	26,489
Net Working Capital	-12,986	40,749	-4,129
CF from operating activities	42,281	4,282	60,912
Capital expenditure	13,224	1,328	10,000
Investments	441	-20,000	-25,000
CF from investing activities	-13,664	18,672	15,000
Inc (decr) in borrowings	0	0	0
Issuance of equity	0	0	0
Net dividends	-8,612	-4,582	-14,317
Others	-10,011	-2,863	-2,863
CF from financing activities	-18,623	-7,445	-17,180
Net change in cash	9,995	15,510	58,732

Company snapshot **Ratings**



Top Picks

Punjab National Bank

First Among Equals

BUY

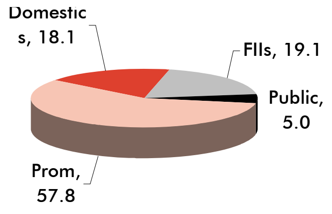
Price	Rs927
Target Price	**%Upside**
Rs1,000	7↑
Market Capitalisation	
Rs292,365mn	(US$6,395mn)
52 week range H/L (Rs)	960/286
Shares o/s (mn)	**Daily vol (mn)**
315.3	0.57
Reuters	**Bloomberg**
PNBK.BO	PNB IN

Perfm(%)	1M	3M	12M	YTD
Absolute	1.1	8.8	95.8	2.2
Rel. to Sensex	(0.7)	6.3	2.4	2.5

BSE Sensex	**Nifty**
17,423	5,210

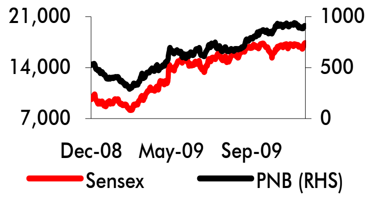
Source: Bloomberg

Shareholding pattern (%)



Source: Bloomberg

Price performance



Source: Bloomberg

Strong P&L performance on the back of balance sheet improvement: PNB reported strong 44% growth in net profit during 1HFY10 predominantly driven by healthy core operating income and lower NPA provisioning as a result of tight control over incremental delinquencies.

Provisioning coverage upward of 90%; to exert lower burden incrementally: With near-90% provisioning coverage ratio, the RBI's proposed provisioning norms would be of little or no consequence to PNB as far as any incremental provisioning burden is concerned.

Revising FY11E estimates to factor in reversal of interest rate environment: We have revised our FY11E estimates to factor in a reversal in the interest rate regime. Our FY11E business estimates has been revised upward by ~7% while our FY11E net NPA estimates have been pruned by nearly 22%, resulting in a marginal 2% increase in our FY11E ABVPS estimates, from Rs638 to Rs651.

5-yr tenure for newly-appointed CMD to lend strategic stability/visibility: The appointment of Mr. K.R. Kamath as a successor to Dr. K.C. Chakrobarty for a period of five years until 2014 lends immense strategic stability. Although Kamath has a difficult act to follow, we believe that a longer term tenure granted to the chief of the largest PSU bank (after SBI) would go a long way in getting the stock re-rated.

Valuation and Recommendation: At its CMP of Rs927, the stock quotes at 1.4x our FY11E ABVPS estimate of Rs651. We recommend PNB as the top BUY from within our BFSI coverage universe.

Exhibit 70: Key Financials

(Rs bn)	FY07	FY08	FY09	FY10E	FY11E
Net interest income	52.1	55.3	70.3	83.5	102.4
Non Interest Income	17.3	20.0	29.2	32.3	42.4
Operating profit	36.2	40.1	57.4	67.3	87.2
Net profit	15.4	20.5	30.9	35.4	44.4
Net Profit grth (%)	7.0	33.0	50.9	14.5	25.3
NIM (%)	3.4	3.1	3.2	3.1	3.0
RoE (%)	15.5	18.0	22.9	22.0	23.0
Adj. BVPS (Rs)	307.9	366.8	456.4	538.8	651.3
P/ABV (x)	3.0	2.5	2.0	1.7	1.4

Source: Company, Ambit Capital Research estimates

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Company financial snapshot

Profit and Loss (Rs. bn)	FY09	FY10E	FY11E
Net interest income	70.3	83.5	102.4
Non Interest Income	29.2	32.3	42.4
Operating profit	**57.4**	**67.3**	**87.2**
Loan loss provisions	9.8	12.8	19.0
Net profit	**30.9**	**35.4**	**44.4**
Net Profit grth (%)	**50.9**	**14.5**	**25.3**

Balance Sheet (Rs. bn)	FY09	FY10E	FY11E
Deposits	2,097.6	2,485.1	3,181.7
Advances	1,547.0	1,896.8	2,419.2
Business	3,644.6	4,381.8	5,600.9
Balance Sheet	2,469.2	2,954.6	3,761.89
Deposits grth (%)	**26.0**	**18.5**	**28.0**
Advances grth (%)	**29.5**	**22.6**	**27.5**

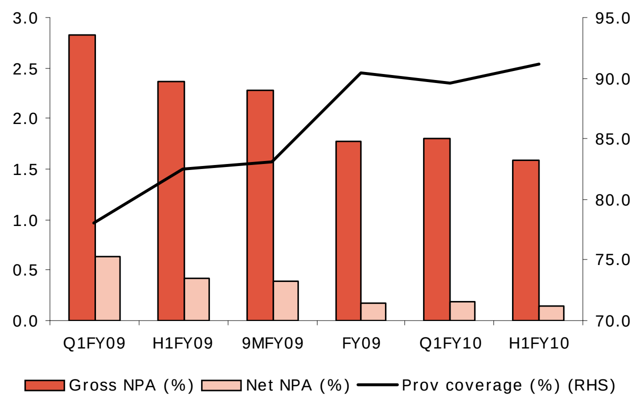
Valuation parameters	FY09	FY10E	FY11E
EPS (Rs)	98.0	112.3	140.7
Adj. BVPS (Rs)	456.4	538.8	651.3
P/E (x)	9.2	8.1	6.4
P/ABV (x)	3.0	1.7	1.4

Business Ratios	FY09	FY10E	FY11E
RoAA (%)	1.4	1.3	1.3
RoE (%)	22.9	22.0	23.0
NIM (%)	3.2	3.1	3.0

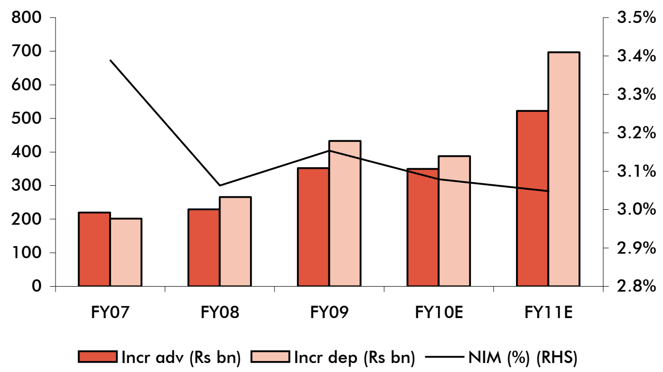
Asset Quality	FY09	FY10E	FY11E
Gross NPA (Rs bn)	27.67	30.01	35.08
Net NPA (Rs bn)	2.64	4.79	6.43

Capital Adequacy Ratio	FY09	FY10E	FY11E
Total CAR (%)	13.1	13.8	14.1

Movement in asset quality parameters

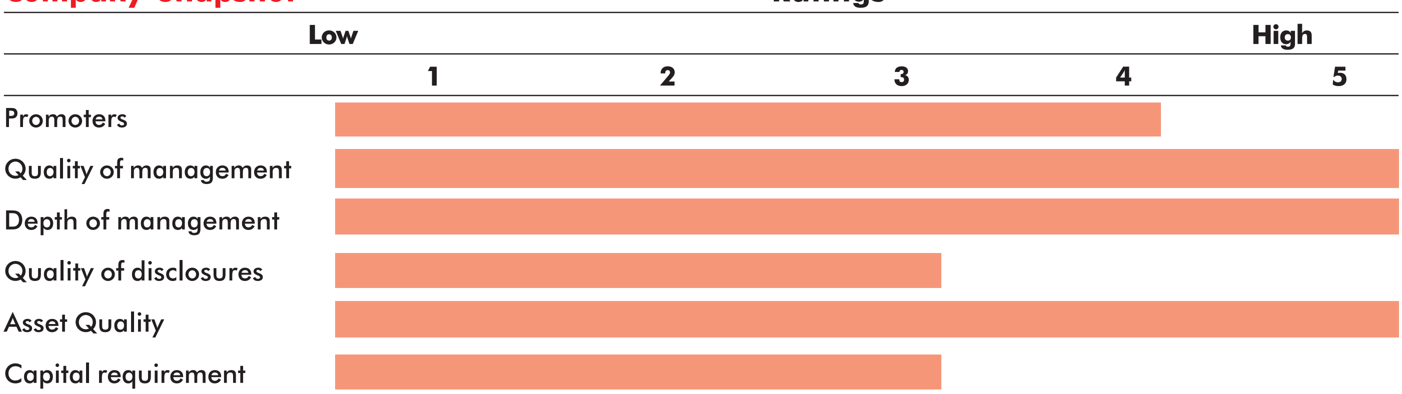


Incremental business growth (Rsbn)



Company Snapshot

Ratings



Top Picks

Tata Power

In A League of Its Own

HOLD

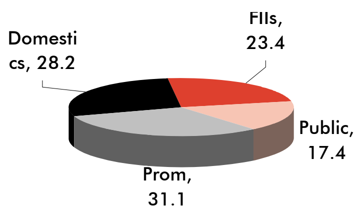
Price	Rs1,478
Target Price Rs1,500	**%Upside** 1 ↑
Market Capitalisation Rs350,577mn	(US$7,734mn)
52 week range H/L (Rs)	1,519/602
Shares o/s (mn) 237.19	**Daily vol (mn)** 0.54
Reuters TPWR.BO	**Bloomberg** TPWR IN

Perfm(%)	**1M**	**3M**	**12M**	**YTD**
Absolute	9.1	12.5	104.0	7.7
Rel. to Sensex	7.2	9.9	6.7	7.9

BSE Sensex 17,527	**Nifty** 5,249

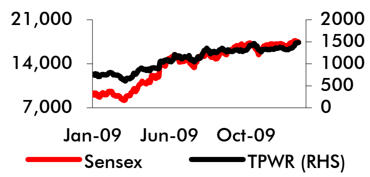
Source: Bloomberg

Shareholding pattern (%)



Source: Bloomberg

Price performance



Source: Bloomberg

Tata Power (TPC) is India's leading private utility given its presence in all facets of the power value chain. This attribute gives the company a distinct advantage and inherent risk hedge/mitigation mechanism. We initiate with a HOLD and a 12-month TP of Rs1,500.

Mumbai license area and surplus capacity to enhance earnings: TPC has obtained open-access approvals to distribute electricity to suburban Mumbai enhancing its distribution strengths and enabling slightly higher ROEs. Further, since RInfra has not renewed its PPA, TPC has a 500MW uncommitted generation capacity. We expect these to trigger higher realisations from the next fiscal.

Total fuel security ensures a hedge for Mundra UMPP: We believe TPC having secured fuel supply would help it operate all its plants optimally, maximizing returns. Moreover, ahead, TPC's fuel mix would change from 31% liquid fuel capacity to 46% imported coal-based capacity, simultaneously morphing from a predominantly distribution entity to one with presence in all the key segments of the power sector value chain.

Debt service obligations and equity funding gap in SPVs manageable: We estimate TPC would need Rs187bn in the next four years, with equity of Rs49.56bn (Rs16.17bn raised via a GDR issue, and balance Rs33.39bn would be funded through internal accruals and debt) and debt of Rs137.45bn, of which merely Rs26.78bn is yet to be tied up. We believe this scenario would ease the recent funding pressure TPC experienced.

Investments to cushion funding requirement: TPC's investments are valued at Rs53.99bn, of which investments in the Tata group telecom companies are worth Rs37.0bn (Rs156/share). We believe these investments will provide a cushion for TPC's incremental funding requirements.

Valuation: We initiate coverage on TPC relying on SOTP methodology, with a HOLD recommendation and TP of Rs1,500. TPC is our prefered long-term stock in the power sector that will remain expensive. We believe that TPC would continue to perform well mainly on account of its changing portfolio and fuel mix, which would lead to a balanced growth as well as reduction in perceived risks.

Key risks: (1) Fuel price risk, and (2) Shipping venture.

Exhibit 1: Key financials

Y/E Dec (Rs mn)	FY07	FY08	FY09	FY10E	FY11E
Standalone					
EPS (Rs)	48.7	38.0	40.9	42.3	47.1
P/E (x)	30.3	39.0	36.2	35.0	31.4
EV / EBITDA (x)	28.4	36.7	31.7	27.6	25.2
Consolidated					
EPS (Rs)	29.2	53.3	58.7	72.7	85.5
P/E (x)	50.6	27.7	25.2	20.4	17.3
EV / EBITDA (x)	23.6	15.3	10.6	10.6	10.0

Source: Company, Ambit Capital research estimates

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Company financial snapshot

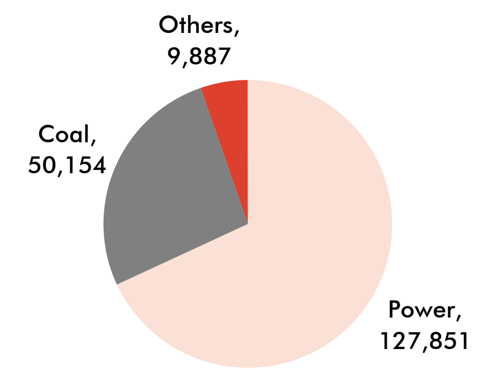
Profit and loss (Rsmn)

	FY09	FY10E	FY11E
Net Sales	175,875	187,893	220,490
Operating Expenses	139,379	147,144	172,148
EBIDTA	36,496	40,749	48,343
Depreciation	6,565	9,280	11,568
Net Interest Expense	7,349	7,328	8,730
PBT	27,442	29,977	34,465
Tax	11,651	12,764	14,211
PAT	15,791	17,213	20,254

Profit and loss ratios

	FY09	FY10E	FY11E
EBIDTA Margin (%)	20.8	21.7	21.9
PAT Margin (%)	6.7	8.4	8.5
PE Adjusted (x)	25.2	20.4	17.3
EV / EBIDTA (x)	10.6	10.6	10.0
Dividend Yield (%)	0.5	0.5	0.5

Business Break up - Segment wise



Source: Company, Ambit Capital research

Balance sheet (Rsmn)

	FY09	FY10E	FY11E
Total Assets	318,442	370,486	453,076
Net Fixed Assets	157,464	209,274	281,406
Current Assets	74,466	80,384	90,841
Other assets	86,513	80,828	80,828
Total Liabilities	318,442	370,486	453,076
Net Worth	86,181	113,345	129,325
Total Debt	149,852	179,237	230,645
Current Liabilities	79,914	69,843	83,662
Minority Interests	2,496	8,062	9,444

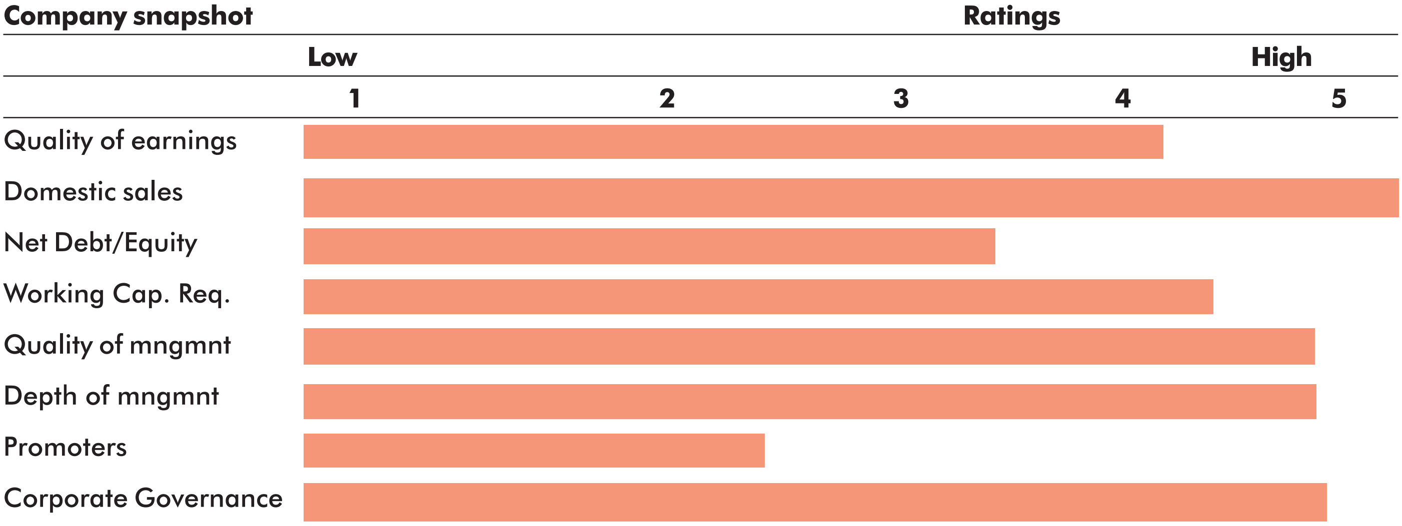
Balance sheet ratios (%)

	FY09	FY10E	FY11E
RoE	15.0	11.0	10.6
RoCE	7.0	8.4	8.4
Net Debt / Equity	1.6	1.5	1.7
Total Debt / Equity	1.6	1.8	1.3
P / BV (x)	3.8	3.1	2.7

Cash flow (Rsmn)

	FY09	FY10E	FY11E
EBIT	29,931	31,469	36,775
Other Income (expenditure)	4,860	5,836	6,420
Depreciation	6,565	9,280	11,568
Interest	-7,349	-7,328	-8,730
Tax	-11,651	-12,764	-14,211
Net Working Capital	-11,013	12,140	-4,147
CF from operating activities	7,333	38,633	27,674
Capital expenditure	-58,708	-51,810	-72,132
Investments	1,260	0	0
CF from investing activities	-57,448	-51,810	-72,132
Inc (decr) in borrowings	29,386	51,408	31,418
Issuance of equity	7	13,956	0
Net dividends	-2,872	-3,206	-3,473
Others	29,751	-53,154	17,776
CF from financing activities	56,272	9,004	45,721
Net change in cash	6,156	-4,173	1,263

Company snapshot **Ratings**



Top Picks

Dabur

BUY

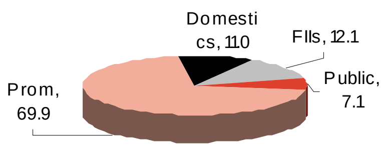
Price	Rs163
Target Price	%Upside
Rs175	10↑
Market Capitalisation	
Rs138,308mn	(US$2,959mn)
52 week range H/L (Rs)	2,959/172
Shares o/s (mn)	Daily vol (mn)
865.78	0.84
Reuters	Bloomberg
DABU.BO	DABUR IN

Perfm(%)	1M	3M	12M	YTD
Absolute	1.0	12.3	91.5	90.2
Rel. to Sensex	(1.5)	10.9	7.3	5.8

BSE Sensex	Nifty
17,344	5,169

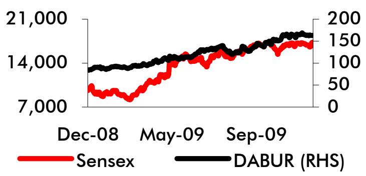
Source: Bloomberg

Shareholding pattern (%)



Source: Bloomberg

Price performance



Source: Bloomberg

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Best Overall Earnings Growth Momentum Among Consumer Companies

Dabur India's earnings performance led by Consumer Care and Health businesses has been encouraging. Amongst consumer companies it has the best overall earnings growth momentum with upside to consensus earnings estimate. We recommend BUY on the stock with a March 2010 target price of Rs175, implying upside of 10% from current levels.

Growth trends in Hair Care, Shampoo, Consumer Health and International Business divisions remained encouraging. Gross margin trends also have been positive. Oral Care and Home Care business performance has been below expectation but we expect this to change with relaunches.

We expect volume growth to sustain in the region of 15% with rural sales remaining healthy and urban growth stabilising. Commodity costs, particularly soft commodities, could see increase in 2HFY10. However, increase in such costs would be offset by moderation in advertising expenditure.

Earnings outlook valuations - On an aggregate basis we retain our above consensus growth expectations of 26% for FY10-11 considering stronger-than-expected topline growth and margin performance. Our target price implies a forward P/E multiple of 24x which is consistent with its multiple during strong growth period and relative P/E multiple of 1.3x.

Exhibit 1: Key financials

Y/E Mar (Rs mn)	FY08	FY09	FY10	FY11E
Net Sales	23,611	28,054	34,382	40,555
EBIDTA	4,376	5,129	6,941	8,116
Net Profit	3,339	3,908	5,197	6,219
EPS	3.8	4.5	6.0	7.2
EPS Growth %	20.8	17.0	33.0	19.7
P/E (x)	41.6	35.6	26.7	22.4
EV/EBIDTA (x)	34.5	30.0	20.9	17.5
Dividend Yield %	0.9	1.1	1.4	1.6
ROE %	60.9	54.4	53.6	47.7
ROCE %	59.2	53.1	53.2	50.4

Source: Company, Ambit Capital research estimates

Company financial snapshot

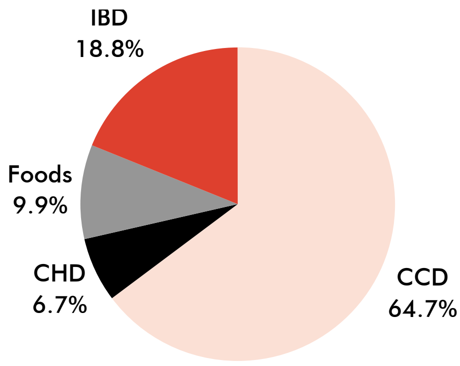
Profit and Loss (Rs. Mn)

	FY09	FY10E	FY11E
Net Sales	28,054	34,382	40,555
Optg. Exp (Adj for OI.)	22,925	27,441	32,439
EBIDTA	5,129	6,941	8,116
Depreciation	449	567	660
Interest Expense	232	112	(37)
PBT	4,448	6,262	7,493
Tax	540	1,065	1,274
PAT	3,908	5,197	6,219

Profit and Loss Ratios

	FY09	FY10E	FY11E
EBIDTA Margin %	18.3	20.2	20.0
Net Margin %	13.9	15.1	15.3
P/E (x)	35.6	26.7	22.4
EV/EBIDTA(x)	30.0	20.9	17.5
Dividend Yield (%)	1.1	1.4	1.6

Revenue Break-up



Source: Company, Ambit Capital research

Balance Sheet (Rs. Mn)

	FY09	FY10E	FY11E
Total Assets	18,891	22,635	26,876
Net Fixed Assets	7,875	10,098	10,489
Current Assets	10,929	12,450	16,301
Other Assets	86	86	86
Total Liabilities	18,891	22,635	26,876
Networth	8,234	11,252	14,896
Debt	2,276	2,276	1,276
Current Liabilities	8,076	8,802	10,400
Deferred Tax	305	305	305

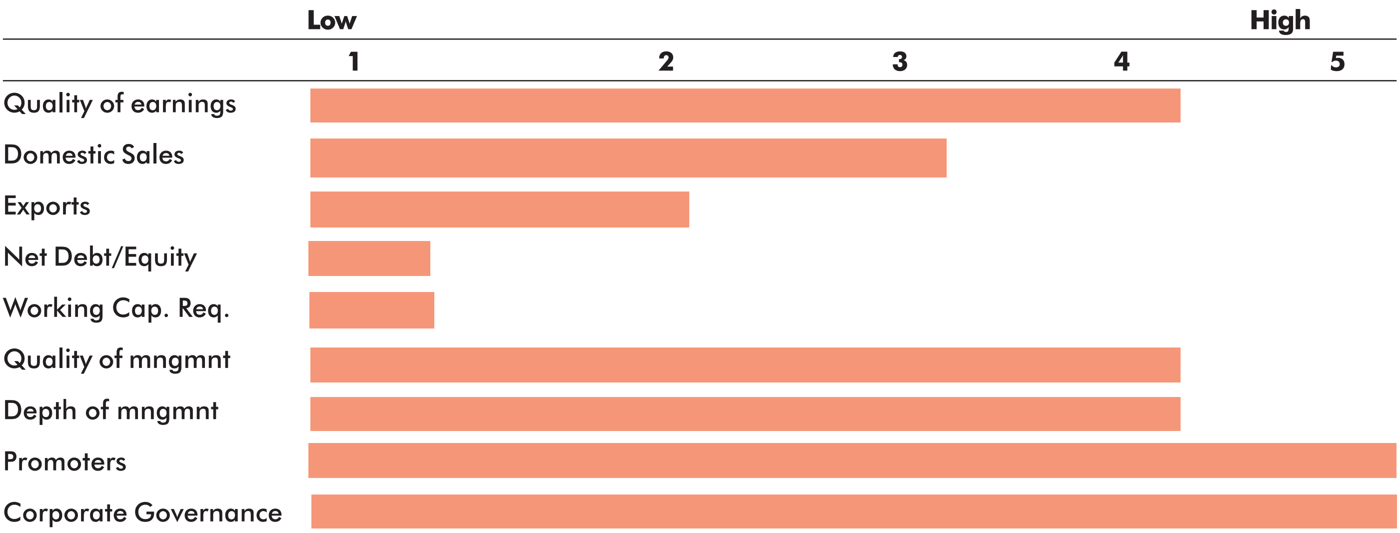
Balance Sheet Ratios (%)

	FY09	FY10E	FY11E
ROE %	54.4	53.6	47.7
ROCE %	53.1	53.2	50.4
Net Debt/Equity	7.1	3.6	(13.8)
Equity/Total Assets	43.5	49.7	55.4
P/BV (x)	17.0	12.4	9.4

Cash Flow (Rs. Mn)

	FY09	FY10E	FY11E
EBIDTA	4,661	6,660	7,764
Other Income	468	281	351
Interest	232	112	(37)
Tax	540	1,065	1,274
Change in Wkg Cap	(947)	183	(46)
CF from Operations	4,955	8,301	9,307
Capex	(1,664)	(2,000)	(1,000)
Investment	(1,224)	(750)	0
CF from Investing	(2,888)	(2,750)	(1,000)
Change in Equity	1	0	0
Debt	1,303	(98)	(791)
Dividends	(1,297)	(2,179)	(2,575)
CF from Financing	7	(2,277)	(3,366)
Change in Cash	719	880	2,417

Company snapshot **Ratings**



Top Picks

BUY

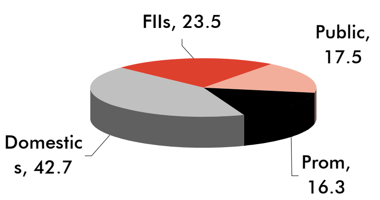
Price	Rs116
Target Price	**%Upside**
Rs135	16↑
Market Capitalisation	
Rs34,153mn	(US$747mn)
52 week range H/L (Rs)	126/55
Shares o/s (mn)	**Daily vol (mn)**
294.55	4.26
Reuters	**Bloomberg**
PTCI.BO	PTCIN IN

Perfm(%)	1M	3M	12M	YTD
Absolute	10.5	33.4	74.8	2.7
Rel. to Sensex	8.6	30.3	(8.6)	3.0

BSE Sensex	**Nifty**
17,423	5,210

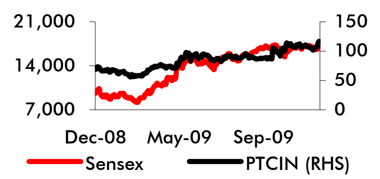
Source: Bloomberg

Shareholding pattern (%)



Source: Bloomberg

Price performance



Source: Bloomberg

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PTC India

Opportunity Beckons - Relaxation Of Cap On Trading Margins To Boost Profitability

Power Trading Corporation (PTC) is the leading power trader in India with over 50% market share. We believe PTC is well poised to take full advantage of all the opportunities in the power sector with strategic tie-ups for long-term power purchases being executed through itself as well as through PTC Financial Services (PFS) and PTC Energy (PEL), both subsidiaries and via a strategic stake in India Energy Exchange. We expect PTC to leverage its knowledge and information base of power trading; and well-established relationships to its own advantage.

Power trading is still nascent ...: We believe power trading in India is still in the nascent stage. The power traded, in volume terms, is just 8.1% of total power generation in the country (4.9% excluding UI). Of this, 52% is through bilateral trades, 39.2% through the UI mechanism and 8.8% is traded through the power exchanges. We expect bilateral trades would continue to dominate the power trading market mainly on account of the ability to structure volume, pricing and duration separately for both the buyer and the seller.

... expect volume growth to be high: PTC has entered into new long-term agreements to purchase over 5,088MW of power in 1HFY10, which will partially ensure that the company's traded volumes grow at 27% CAGR over the next three years. Apart from these PPAs, investments in power projects through its own balance sheet and through PTC Financial Services and PTC Energy would ensure volumes continue to increase. Some of the projects in which PTC has invested are already commissioned, while investments through PTC Energy, which is a co-developer, are expected to begin generation FY12 onward.

Relaxation of cap on trading margins to boost profitability: In May 2006, CERC capped margins on short-term inter-state power trading at 4 paise/unit (p/u). This is hurting profitability of all the power traders including PTC. CERC recently released draft regulations which aim to partially raise the cap on margins to a maximum of 7 p/u. We believe this would help PTC increase its average margin per unit traded from 5.74 p/u in 1HFY10 to 6.00 p/u in FY11 and FY12.

Valuation and recommendation: At the CMP of Rs116, PTC trades at 15.6x our FY12 earnings of Rs6.8. We value the power trading business at Rs109, based on 16x our estimated FY12 earnings, PFS is valued at Rs12 based on 1x adj P/BV for FY12, and investments in PEL and other power projects at Rs14 based on 1.5x P/BV. We initiate coverage on PTC with BUY and a TP of Rs135.

Exhibit 1: Key financials

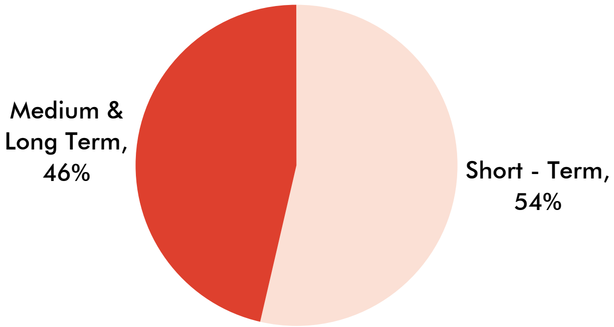
Y/E Mar (Rs mn)	FY08	FY09	FY10	FY11E	FY12E
Operating income	37,897	63,537	85,555	116,782	147,146
EBITDA	204	203	699	979	1,214
EBITDA (%)	0.5	0.3	0.8	0.8	0.8
Net profit	486	908	1,421	1,791	2,001
EPS (Rs)	2.1	4.0	4.8	6.1	6.8
RoE (%)	5.6	6.0	7.7	7.9	8.1
P/E (x)	54.2	29.0	23.2	18.4	16.5
P/BV (x)	1.8	1.7	1.5	1.4	1.3

Source: Company, Ambit Capital research estimates

Company financial snapshot

Profit and loss (Rsmn)	FY09	FY10E	FY11E
Net Sales	63,537	85,555	116,782
Operating Expenses	63,335	84,855	115,803
EBIDTA	203	699	979
Depreciation	62	39	40
Net Interest Expense	-311	-575	-759
PBT	1,134	1,775	2,236
Tax	226	354	446
PAT	908	1,421	1,791
Profit and loss ratios			
EBIDTA Margin (%)	0.3	0.8	0.8
PAT Margin (%)	1.4	1.7	1.5
PE Adjusted (x)	29.0	23.2	18.4
EV / EBIDTA (x)	85.7	24.0	17.2
Dividend Yield (%)	1.4	1.5	1.7

Business Break up - Segment wise

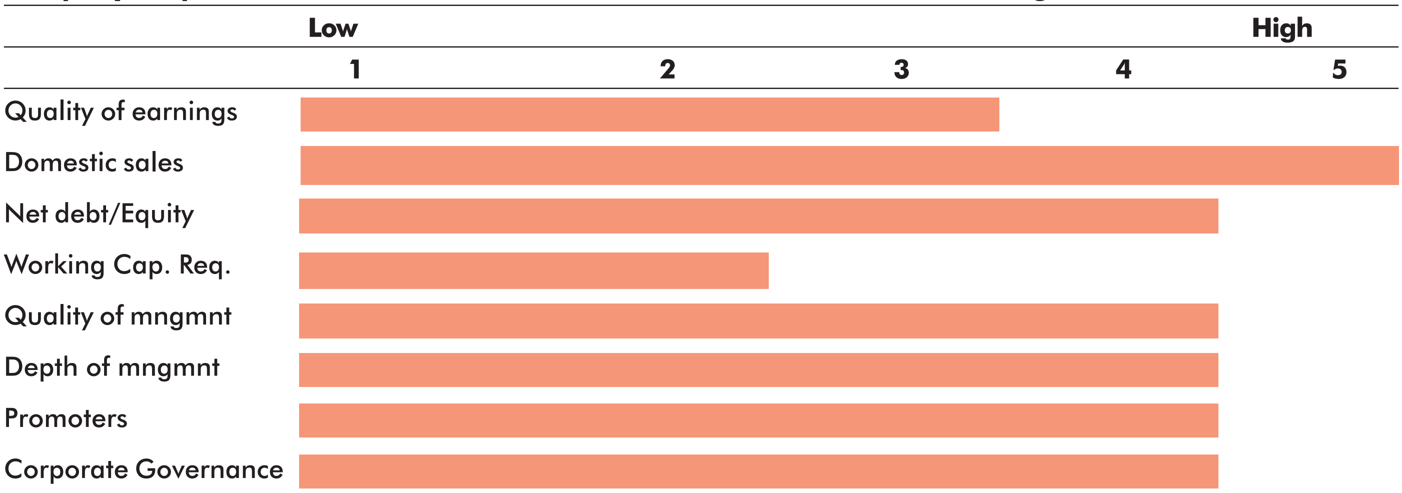


Source: Company, Ambit Capital research

Balance sheet (Rsmn)	FY09	FY10E	FY11E
Total Assets	18,370	25,843	28,969
Net Fixed Assets	475	437	397
Current Assets	9,995	16,506	18,672
Other assets	7,899	8,899	9,899
Total Liabilities	18,370	25,843	28,969
Net Worth	15,365	21,786	23,577
Total Debt	4	4	4
Current Liabilities	3,001	4,052	5,387
Balance sheet ratios (%)			
RoE	6.0	7.7	7.9
RoCE	6.1	7.6	7.9
Net Debt / Equity	-40.7	-53.0	-50.7
Total Debt / Equity	0.0	0.0	0.0
P / BV (x)	1.7	1.5	1.4

Cash flow (Rsmn)	FY09	FY10E	FY11E
EBIT	141	661	939
Other Income (expenditure)	683	539	538
Depreciation	62	39	40
Interest	311	575	759
Tax	-182	-354	-446
Net Working Capital	923	178	408
CF from operating activities	1,937	1,638	2,239
Capital expenditure	68	0	0
Investments	5,269	-1,000	-1,000
CF from investing activities	5,337	-1,000	-1,000
Inc (decr) in borrowings	0	0	0
Issuance of equity	10	5,000	0
Net dividends	-266	-419	-602
Others	-2,001	63	-213
CF from financing activities	-2,257	4,644	-815
Net change in cash	5,017	5,281	424

Company snapshot **Ratings**



Top Picks

Nagarjuna Construction

Robust Order Book; 2.9x FY10E Sales

BUY

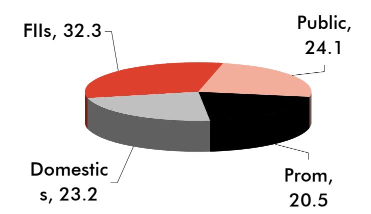
Price	Rs176
Target Price	**%Upside**
Rs185	5 ↑
Market Capitalisation	
Rs45,274mn	(US$990mn)
52 week range H/L (Rs)	184/34
Shares o/s (mn)	**Daily vol (mn)**
256.58	1.89
Reuters	**Bloomberg**
NGCN.BO	NJCC IN

Perfm(%)	**1M**	**3M**	**12M**	**YTD**
Absolute	16.9	6.0	217.6	6.5
Rel. to Sensex	14.9	3.6	66.1	6.7

BSE Sensex	**Nifty**
17,423	5,210

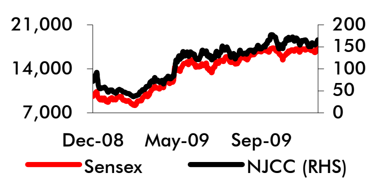
Source: Bloomberg

Shareholding pattern (%)



Source: Bloomberg

Price performance



Source: Bloomberg

NCL's order book at Rs161bn (includes the Rs19bn Oman road project) is well diversified with water projects accounting for 21%; building and housing, 21%; international, 27%; roads, 8% and metals, 12%. Going forward we expect the order book to grow at a CAGR of 11% over FY09-11E to Rs180bn, led largely by CAGR of 16% in water; roads, 19%; irrigation, 30%; building, 3%; power, 22% and international business, 6%.

20% revenue CAGR to FY11E

Led by strong order book we expect revenue CAGR to be 20% over FY09-FY11E with irrigation at a CAGR of 30%, water and environment at 35%, building and housing at 8% and international business at 12%.

Margin improvement to yield 26% earnings CAGR

We expect EBITDA margin to improve 90bp during FY09-11E, as the margin drop reported during FY09 was on account of cost overruns in roadway projects. Although interest rates are expected to be soft, net margins would expand 41bps, leading to faster earnings growth.

BOTs nearing completion - investments ramp up

NCL boasts a diversified BOT portfolio spanning roadways, power, hydel power projects and ports. Some projects have already achieved CODs. NCL is looking at ramping up investment in existing BOTs up to Rs2,000mn during FY10.

Balance sheet manageable

We believe that at 15-20% growth the D:E of 0.7x would be manageable. Historically D:E has been high at 0.6x for FY07. Interest coverage ratios are also expected to improve during FY09-11E.

SOTP target price of Rs185

We retain BUY on the stock with an SOTP-based target price of Rs185 (we value NCL at Rs133 based on 14x FY11E earnings, international business at Rs7, based on 10x FY11E earnings; BOT assets contribute Rs24 to TP, while real estate, Rs21). NCL has already achieved its FY10E order book guidance of Rs63bn in 1HFY10E (Rs65bn) including the Oman coastal road project and this does not include any NHAI awards due in the next 3-6months. We expect the company to perform well as it delivers growth numbers over coming quarters.

Key risks

(a) Slower execution; (b) cost overruns; (c) increase in debtor days; (d) slowdown in ordering activity; (e) increase in interest rates, (e) any penalty on slow progress of the Dubai real estate project would impact our earnings estimates.

Exhibit 1: Key financials

Y/E Mar (Rs mn)	FY07	FY08	FY09	FY10E	FY11E
Operating income	27,952.1	33,883	41,556	47,798	59,912
EBITDA	2,743.6	3,658	3,778	4,662	5,847
Net profit	1,127.9	1,619	1,539	1,844	2,436
EPS (Rs)	5.4	7.1	6.7	7.2	9.5
RoE (%)	12.9	12.5	9.4	9.5	10.6
RoCE (%)	12.3	11.5	9.7	9.5	10.4
P/E (x)	32.5	24.9	26.2	24.5	18.5

Source: Company, Ambit Capital research estimates

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Company financial snapshot

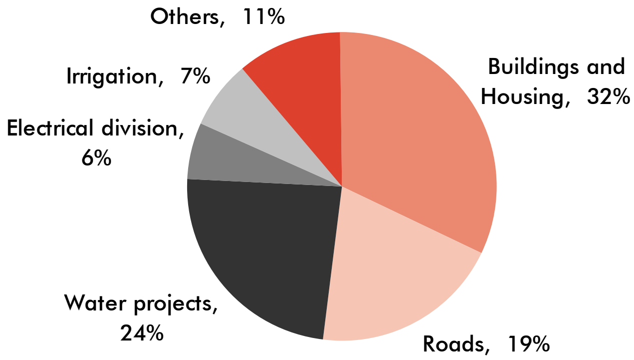
Profit and Loss (Rs. Mn)

	FY09	FY10E	FY11E
Net Sales	41,556	47,798	59,912
Operating expenditure	37,777	43,136	54,065
EBITDA	3,778	4,662	5,847
Depreciation	533	655	779
Interest expenditure	1,621	1,790	2,132
PBT	2,282	2,794	3,690
Tax	743	950	1,254
PAT / Net profit	1,539	1,844	2,436

Profit and Loss Ratios

	FY09	FY10E	FY11E
EBITDA margin (%)	9.1	9.8	9.8
PAT Margin (%)	3.7	3.9	4.1
P/E (x)	26.2	24.5	18.5
EV/EBITDA (x)	11.6	10.2	8.6
Dividend Yield (%)	1.0	1.1	1.4

Segment Revenue break up - FY09



Source: Company, Ambit Capital research

Balance Sheet (Rs. Mn)

	FY09	FY10E	FY11E
Total Assets	29,375	34,052	38,980
Fixed assets	4,735	7,942	8,663
Current assets	33,585	37,886	45,941
Investments	7,402	9,512	10,782
Current Liabilities/Prov.	16,347	21,288	26,406
Total Liabilities	29,482	34,450	39,378
Total Networth	16,856	22,058	23,970
Total debt	12,439	12,132	15,053

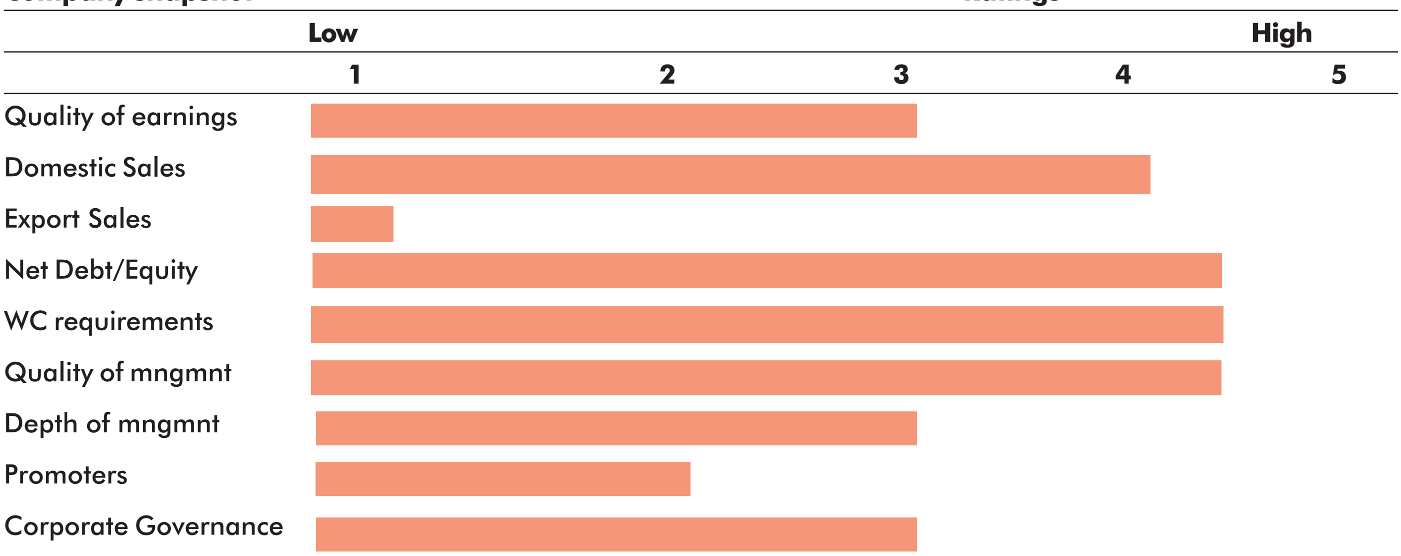
Balance Sheet Ratios (%)

	FY09	FY10E	FY11E
RoE	9.4	9.5	10.6
RoCE	9.7	9.5	10.4
Net Debt/Equity	65.8	48.2	55.9
Total Debt/Equity	73.8	55.0	62.8
P/BV (x)	2.4	2.0	1.9

Cash Flow (Rs. Mn)

	FY09	FY10E	FY11E
EBIT	3,245	4,007	5,068
Depreciation	533	655	779
Tax	(1,418)	(431)	(1,903)
Net working capital	(3,163)	490	(2,174)
Cash flow from operating activities	(803)	4,720	1,769
Capital expenditure	72	(3,862)	(1,500)
Investments	(1,754)	(2,110)	(1,270)
Others	(8)	517	755
Cash flow from investing activities	(1,691)	(5,455)	(2,015)
Incr (decr) in borrowings	3,501	(562)	2,921
Issuance of equity	(76)	3,618	(0)
Net dividends	(348)	(331)	(396)
Interest paid	(1,567)	(1,836)	(2,128)
Cash flow from financing activities	1,509	890	396
Net change in cash	(985)	155	150
Closing cash balance	1,345	1,500	1,650

Company snapshot **Ratings**



Top Picks

Crompton Greaves

Strong Play On Global T&D Spend

Not Rated

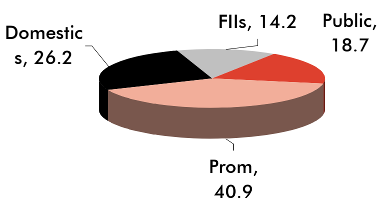
Price	Rs431
Market Capitalisation	
Rs158,027mn	(US$3,457mn)
52 week range H/L (Rs)	445/100
Shares o/s (mn)	**Daily vol (mn)**
366.57	0.86
Reuters	**Bloomberg**
CROM.BO	CRG IN

Perfm(%)	1M	3M	12M	YTD
Absolute	7.7	27.4	209.6	1.2
Rel. to Sensex	5.8	24.5	61.9	1.5

BSE Sensex	**Nifty**
17,344	5,169

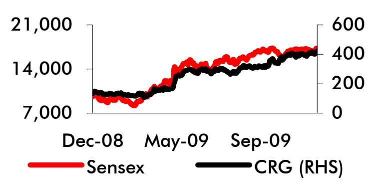
Source: Bloomberg

Shareholding pattern (%)



Source: Bloomberg

Price performance



Source: Bloomberg

Crompton Greaves, market leader in the Indian transformer market and a significant participant in the European and American T&D space through Pauwels and Ganz, is among the best plays on global T&D spend. We expect Crompton Greaves to post earnings CAGR of 23.8% over the next two years. The company's earnings have maintained pace in the past two years, outperforming peers, despite an industrial slowdown. Faster recovery in Europe and North America can provide upside to earnings in FY11. At 17 x FY11E earnings, the company trades at significant discount to Siemens and ABB, despite clear earnings visibility.

Indian transformer market poised for stronger growth

The Indian transformer market, at around 200,000 MVA is expected to post growth of over 15% over next three years. Growth is expected to be faster in the high voltage segment (400 KV and 765 KV) as bulk of transmission capacity expansion from 20 GW (now) to 38 GW (FY12) is based on high voltage AC / DC systems.

Crompton ahead of competition in 765 KV segment

Crompton Greaves is the only Indian company to have received order to supply 765 KV transformers (14 so far) and reactors (86 in total). While a large part of the supply will be made by collaborator (Toshiba), the company will be qualified for 100% indigenised supply at least two years ahead of competition, thereby providing significant cost advantages over MNC players such as Siemens, Areva and ABB. We expect the company to maintain a high 35-40% market share in this segment.

Pauwels and Ganz provided access to key markets overseas

With successful turnaround of the company's first two acquisitions overseas, of Pauwels and Ganz, Crompton Greaves has made its presence felt in the developed world (45% of consolidated sales now). While Pauwels provided access to the western European markets including home country Belgium (60% of Pauwels sales) and North America, Ganz opened the markets in the East Europe. The international operations is witnessing slowdown due to slowdown in sales of distribution transformers (1/3rds international sales), even as power transformer sales is witnessing strong demand.

Exhibit 1: Key financials

Y/E Mar (Rs mn)	FY07	FY08	FY09	FY10E	FY11E
Operating income	56,396	68,323	87,373	94,212	105,870
EBITDA	4,828	7,459	9,956	12,392	14,623
EBITDA (%)	8.6	10.9	11.4	13.2	13.8
Net profit	2,871	4,098	5,625	7,545	8,935
EPS (Rs)	7.8	11.2	15.3	20.6	24.4
RoE (%)	32.0	35.5	35.6	34.8	30.9
RoCE (%)	30.7	33.2	38.9	40.4	40.0
P/E (x)	55.3	38.5	28.2	20.9	17.7

Source: Company, Ambit Capital research estimates

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Sun TV Network

BUY

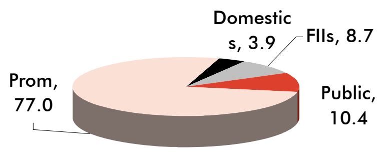
Price	Rs367
Target Price	**%Upside**
Rs370	1↑
Market Capitalisation	
Rs144,629mn	(US$3,164mn)
52 week range H/L (Rs)	381/136
Shares o/s (mn)	**Daily vol (mn)**
394.09	0.23
Reuters	**Bloomberg**
SUN.BO	SUNTV IN

Perfm(%)	1M	3M	12M	YTD
Absolute	12.6	14.8	125.0	7.4
Rel. to Sensex	10.2	11.8	16.7	7.3

BSE Sensex	Nifty
17,423	5,210

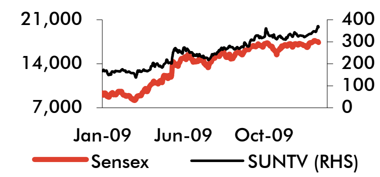
Source: Bloomberg

Shareholding pattern (%)



Source: Bloomberg

Price performance



Source: Bloomberg

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Increased Inventory Utilisation Surprises; Business Confidence Up On Ad Rate Hike

Sun TV reported 2QFY10 revenue and profitability ahead of our expectations. The standalone revenue stood at Rs3.2bn, a growth of 34.7% YoY (11.4% QoQ) whereas PAT grew by 20.5% YoY (9% QoQ) to reach Rs1.3bn in the quarter. We are revising our revenue and EPS estimates for FY10 and FY11. We continue to maintain BUY with a revised TP of Rs370.

Key highlights of 2QFY10 results:

- Advertising revenue grew 31% QoQ
- Growth in ad revenue was driven by increase in inventory utilisation and the company has not resorted to any price hike in the period
- DTH revenue stood at Rs400mn in 2QFY10, a growth of 6% QoQ
- In the quarter, the company released one movie and the revenue from movie distribution stood at Rs30mn
- As a result, the company's standalone revenues grew 11.4% QoQ to reach Rs3.2bn in the quarter under review
- Sun TV reported PAT of Rs1,306mn v/s Rs1,083mn in 2QFY09, up 20.5%
- One radio subsidiary, Kal Radio, has turned EBITDA positive and the company expects the radio business to breakeven in FY11
- Movie featuring Rajanikanth with an estimated budget of Rs700mn would be released in 1QFY11.

Valuation and recommendation

We expect Sun TV continue to benefit from its dominant position in the southern market. Recovery in the economy coupled with higher viewership would lead to increased ad revenue. Increased penetration of DTH services and foray into the international market would result in higher subscription revenue. We expect SUN TV's EPS to grow at 29% CAGR over FY09-FY11E. Currently, the stock is trading at 20x FY11 EPS. Due to Sun TV's dominant market position and sustainable revenue growth, we are valuing the company at 24x FY11 EPS. We continue to maintain BUY on the stock with a TP of Rs370 (19% upside).

Exhibit 1: Key Financials

(Rs mn)	2006-07	2007-08	2008-09	2009-10E	2010-11E
Operating income	6,780	8,699	10,394	13,739	16,316
EBITDA	4,742	5,975	7,368	9,549	11,443
EBITDA mgn (%)	69.95	68.69	70.88	69.50	70.14
PAT	2,461	3,267	3,683	4,803	6,116
PAT mgn (%)	36.30	37.55	35.44	34.96	37.48
EPS (Rs)	6.3	8.3	9.3	12.2	15.5
P/E (x)	58.3	44.3	39.3	25.8	20.2
EV/EBITDA (x)	9.5	23.3	19.0	12.3	9.9
EV/Sales (x)	6.6	16.0	13.5	8.5	6.9

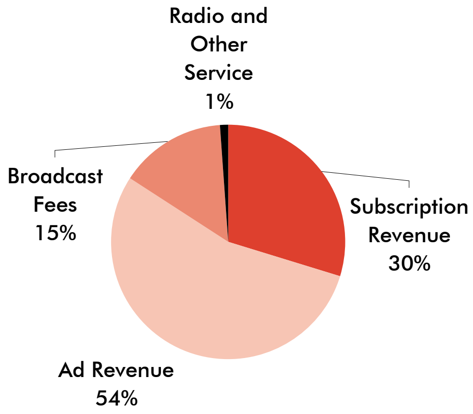
Source: Company Report, Ambit Capital research estimates

Company financial snapshot

Profit and Loss (Rs. Mn)

	FY09E	FY10E	FY11E
Net Sales	10,394	13,739	16,316
Operating Exp	3,026	4,190	4,872
EBITDA	7,368	9,549	11,443
Depreciation	2,205	2,371	2,433
Interest Exp	138	64	54
PBT	5,693	7,810	9,944
Tax	2,293	3,007	3,828
PAT	3,400	4,803	6,116
Profit and Loss Ratios			
EBITDA Margins (%)	70.88	69.50	70.14
PAT Margins (%)	35.44	34.96	37.48
P/E (X)	39.27	25.76	20.23
EV/ EBITDA (X)	18.99	12.30	9.91
Dividend Yield (%)	1.02	1.02	1.02

Business Break up -Segment wise



Source: Company, Ambit Capital research

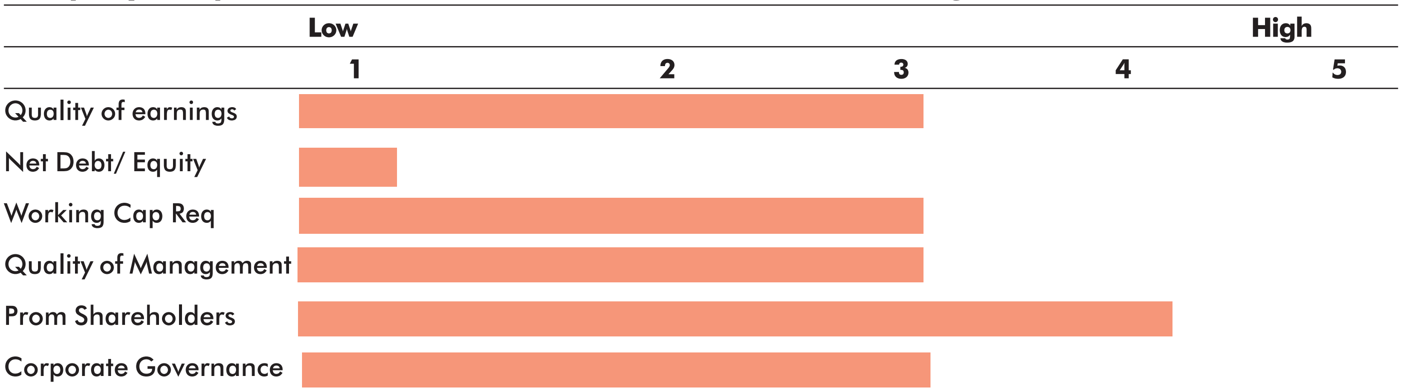
Balance Sheet (Rs. Mn)

	FY10E	FY11E	FY12E
Total Assets	20,721	24,553	29,867
Fixed Assets	9,718	10,409	10,236
Current Assets	9,577	13,082	18,413
Other Assets	1,426	1,062	1,217
Total Liabilities	20,721	24,553	29,867
Total Net Worth	17,016	20,667	25,630
Total Debt	716	595	495
Current Liabilities	2,343	2,645	3,096
Minority Interest	385	385	385
Balance Sheet Ratios (%)			
RoE	21.59	25.49	26.42
RoCE	41.68	47.85	51.28
Net Debt/ Equity	(0.17)	(0.22)	(0.33)
Total Debt/ Equity	0.04	0.03	0.02
P/BV (X)	8.50	5.99	4.83

Cash Flow (Rs. Mn)

	FY10E	FY11E	FY12E
EBIT	5,163	7,177	9,010
Other income (expenditure)	668	697	988
Depreciation	2,205	2,371	2,433
Interest	138	64	54
Tax	2,293	3,007	3,828
Incr (decr) in net working capital	1,428	1,048	999
Cash flow from operating activities	4,744	5,747	7,501
Incr (decr) in capital expenditure	4,254	3,063	2,260
Cash flow from investing activities	4,256	3,063	2,260
Dividend paid	-1,153	-1,153	-1,153
Cash flow from financing activities	-1,131	-1,274	-1,253
Net change in cash	-643	1,411	3,988
Closing cash balance	3,654	5,065	9,052

Company Snapshot **Ratings**



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