ESPIRITO SANTO INVESTMENT BANK

India Snapshot

LITTLE BLACK BOOK

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FIT FOR
A NEW ERA

Nov 2013

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INTRODUCTION

Welcome to the November 2013 edition of the Espirito Santo Little Black Book. In this monthly publication we offer a quick snapshot view of Indian equities, with our summary view on key markets issues, as well as valuation, momentum, investor flows, IPOs and key economic statistics and some key ideas from the sales desk.

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THE INDIAN ROLLERCOASTER

Diwali rally

After the tapering panic of August, the rally from 18,000 to >21,000 has been a violent and largely unexpected one, particularly as it broke through the broad trading range that the market has been stuck in this year, with both the previous rallies having petered out well below 21,000.

YTD Sensex performance

Source: Bloomberg

Over the last few years investors globally have had to grapple with the disconnect between the macroeconomic and stock market performance, as politicians, central bankers and fund flows drove markets more than the underlying fundamentals. The same is true for India also. Have fundamentals changed? Not really. There are some green shoots, with the earnings season better than our and the Street's beaten-down expectations (and not just the exporters, even banks largely navigated what could have been a very tricky quarter better than most anticipated), the CAD situation improving, and an above normal monsoon. But there are also downside risks to GDP growth, and it is very early to call a turn in the earnings cycle. The primary drivers have instead been the combination of tapering respite (at least temporarily), and optimism around Raghuram Rajan at RBI's helm and the possibility of Modi as PM. Yet tapering timing, political mood and FII flows are all highly uncertain variables, making broad market predictions particularly perilous at present. One also needs to be mindful that we have been here several times before, with a rally built on reform/policy/political optimism and a predicted turnaround in the economy/earnings failing to consolidate when hope gives way to reality. The point isn't that there are no grounds for optimism – as there are some green shoots – rather that one needs to be careful, and maintain valuation discipline and not chase stocks. The market still has to navigate some tricky issues: a likely weak GDP number later this month, stagflation, the fag end of the earnings season when there are normally the most disappointments, tapering rearing its ugly head and political gyrations etc. All of which suggest volatile markets aren't yet behind us.

Overall we remain cautiously optimistic and expect pockets of Banks, Financials, IT, Pharma and Materials to continue to perform well. We don't think all the value has disappeared; you just have to look harder for it, now that many of the FII favourites have rallied so far. Our Silver Bullets for the quarter (below) are up between 8-54% so far, but we believe there is still upside left in all of them.

Q3 CY 13 silver bullet performance

Company		Rating	Price 30-Aug	Price 7-Nov	Total retum	FV - today	Upside Left
Federal Bank	FB IN Equity	Buy	51	79	54%	113	43%
IDFC	IDFC IN Equity	Buy	81	107	33%	122	14%
Infosys	INFO IN Equity	Buy	3106	3358	8%	3,670	9%
Hindustan Zinc	HZ IN Equity	Buy	124	133	8%	169	27%

Source: ESIB Research, Bloomberg

It is also important to note that looking at the Sensex or Nifty, or at average earnings growth, is unusually misleading at present, given the huge divergence in stock and

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underlying performance. It masks a much more complex picture of some stocks and sectors trading at rich valuations, others languishing near their lows while some deliver >20% earnings growth while others' earnings decline. To illustrate: although the Sensex is currently 1% off its all-time high, the BSE Mid Cap and Small Cap indices are 36% and 54% off their respective highs. This is something we develop below, looking at the divergence between large and mid/small cap, and highlighting some ideas in the latter category that we think still look good value. But first it's worth a quick recap on earnings season so far.

Q2 – finally a quarter where results beat expectations

Earnings season so far has been moderately ahead of Street expectations, given the beaten-down expectations. Among Sensex companies that have reported Q2 FY14 earnings until 5th November (19 companies), 68% of companies have reported earnings better than expectations. The universe (ex-financials) reported strong revenue growth of 13.3% YoY in Q2 FY14. However, limited ability to pass the impact of higher raw material prices and a depreciating rupee resulted in EBITDA margin contraction by ~80bps YoY to 16.5% in Q2 FY14. At the same time forex volatility and higher interest cost resulted in 90bps YoY net margin contraction, thereby restricting net earnings growth to 3.8% YoY in Q2 FY14. Post earnings season we will be coming out with our detailed analysis of aggregate quarterly earnings of ~400 companies to get clarity on how the broader India Inc.'s earnings panned out.

Sensex aggregate quarterly performance

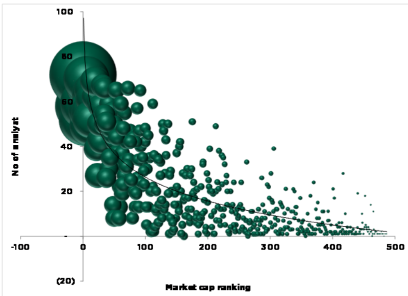
Sensex (ex-financials)	Q2FY14	Q2FY13	YoY
Revenue (Rs. bn)	2,671	2,358	13.3%
EBITDA (Rs. bn)	442	408	8.3%
EBITDA Margin (%)	16.5%	17.3%	-0.8%
Net Profit (Rs. bn)	262	252	3.8%
Net Margin (%)	9.8%	10.7%	-0.9%

Source: ESIB Research, Bloomberg

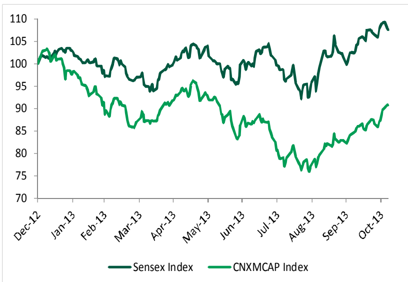
Look below the line...

One section of the market that has been ignored in the rally is small & midcap stocks. The CNX Midcap index has underperformed the broader market (Nifty) by 15% YTD, whilst the BSE Smallcap index has underperformed by 22% YTD. Key reasons for this underperformance in our view are: 1) profitability erosion in smaller companies has been worse in this cycle, with poor pricing power making it difficult to pass on higher input costs; 2) mid-caps have sharply increased leverage in a high interest rate environment, with aggregate net gearing rising from 60% in FY08 to 90% currently; 3) mid and small caps are less owned by FIIs, which have been the only buyers of Indian equities for some time due to the difficulties faced by domestic financial institutions; and finally 4) the neglect effect (as the bubble graph illustrates how quickly the number of analysts covering a stock drops off with market cap).

Analyst coverage vs. market cap



YTD SENSEX vs. CNXMIDCAP performance



Source: ESIB Research, Bloomberg

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...quality mid-caps at a sane price

All of the above are real issues, but as we've said before, they don't apply anything like equally to all mid-caps. In this month's edition we highlight some quality mid-cap ideas that have not benefited much from the recent rally and offer opportunities to investors looking for quality names still available at reasonable valuations. As we argued earlier this year, midcaps outperform larger stocks globally, with India being no exception – the 10-year compounded return of CNX Midcap is 23% vs. 20% for the Sensex. The four listed companies with 60%+ CAGR returns in the last 10 years were all mid-sized firms and the number of mid-sized firms that provided 50%+ CAGR returns in the last decade is 4.5x the number of large caps.

Midcaps and Small caps still way off all time high levels

Return	% from life high
Sensex	-1.3%
BSEMDCAP Index	-35.8%
BSE Small-Cap	-54.3%

Source: ESIB Research, Bloomberg

Our top mid-cap picks

Our focus below was to identify decent quality mid-sized firms in a structural growth phase with a respectable moat around them, which remain mispriced by the market. We have sought businesses with good upside potential, defensible margins, sound balance sheets and no major governance issues on our scoring system. These are: Bajaj Finserve, Max India, Radico Khaitan, Balkrishna Industries, Development Credit Bank and Redington.

Radico Khaitan (RDCK IN, Rs143, BUY, FV: Rs200)

With its continued focus on branded premium spirits, we expect Radico's volumes to reach 22m cases by 2016 (19m cases in 2013) with the premium segment's contribution increasing from 16% in 2013 to 21% in 2016. We expect RoE to improve from 11.9% in FY13 to 14.9% by FY16E, following working capital improvements, and we expect it to become free cash flow positive from FY14 onwards.

The impact of premiumization is visible in volumes. Over the years, Radico Khaitan's product mix has evolved, with semi-premium and above categories now accounting for ~16% of the total Indian made foreign liquor (IMFL) volumes compared with 3% in 2007. Overall, we expect the IMFL segment to grow at faster than the industry rate due to (a) aggressive launches and (b) consumers trading up. We expect the premium category liquor volumes to grow at 15% CAGR (2013-16E) vs. ~8% market volume growth.

The stock is currently trading at a P/E of 16.0x our FY15 estimates, a sharp discount to the FMCG sector, which is currently trading at a 1-yr forward P/E of 30.0x, and well below the extreme heights of USL and UBL. Our DCF fair value is INR 200, implying 40% upside. Against this backdrop, we believe the risk reward is favourable.

For a detailed analysis, valuation methodology and risks to our fair value, please see our note (Link)

Company	Sector	Rating	Market Cap ($ mn)	CMP (Rs)	FV (Rs)	Upside
Radico Khaitan	Consumers	BUY	317	143	200	40%
Max India	Financials	BUY	853	193	308	59%
Redington	Tech	BUY	431	65	74	14%
Balkrishna Industries	Auto-Comps	BUY	487	303	362	20%
Development Credit Bank	Banks	BUY	230	55	63	14%
Bajaj Finserv	Financials	BUY	1,778	671	859	28%

Source: ESIB Research, Bloomberg; all stocks priced as of 07 November

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Max India (MAX IN, Rs193, Buy, FV:Rs308): Quality is not an act, it is a habit

No prizes for guessing our preferred insurance play! We see a striking disconnect between Max India's share price and the underlying business performance. Max Life's strategy and execution abilities have been evident from its last three year performance, when established players faced huge pressure on their AUMs (Bajaj reported 12% decline in AUM, ICICI reported 1% growth, Max reported 13% YoY growth) and its new business growth. The key factors which highlight its differentiation from competition are:

- Customer focus aligned to key value proposition of life insurance (long-term savings and protection)
- Never got into the market share game and always concentrated on long-term traditional plans
- Pre-2010, when ULIPs were in fashion, the company continued its focus on traditional products
- In 2012-13, when NAV guarantee products were offered by leading insurers, it refrained from any such products which benefited it when product design guidelines were introduced in February 2013
- Management's focus on customer service and quality is also highlighted in its industry leading persistency numbers.
- It has gained 300bps market share (8.5% in FY2013 versus 5.5% in FY2010).

In our opinion Max Life has come out stronger on three occasions (ULIP guidelines in 2010, Product design guidelines in Feb-2013 and CobraPost expose in March-2013) and this cannot be down to luck or sheer coincidence. We believe it is Max Life's focused strategy on long-term savings and customer service that has helped the company in the last three years when others have struggled. But does a high quality franchise, focused strategy and customer services lead to higher shareholder returns? In the long-term, we believe yes. Look at Max Life's embedded value growth for the last three years: it grew 49% (versus share price return of just 10%) despite cost overruns, lower growth and lower-than-expected persistency. With the management changing its persistency expectations to its experience in 2013, we expect underlying embedded value (without variances) to grow in excess of a 15% CAGR over the next three years. The divergence in the stock price and underlying reality cannot go on for long in our view.

Over the next three years, we also see fortunes of the life insurance changing materially, the signs of which are evident as most of the private players have reported new business premium growth in second quarter (ICICI Pru, Bajaj, Max). Over the last six months, the regulator (under new chairman Mr. TS Vijayan) has taken a series of steps to improve the operating environment (especially on the distribution side like agency hiring etc.). In such an environment, we do not expect Max Life to gain further market share, however, it will remain focused on its strengths and in our view should show high growth and profitability on an embedded value basis. We see nearly 60% upside in the stock.

For a detailed analysis, valuation methodology and risks to our fair value, please see our note (Link)

Bajaj Finserv (BJFIN IN, Rs671, BUY, FV: Rs859): Preferred play on forgotten insurance sector in India

Bajaj Finserv is one of the top quality businesses in Indian insurance with interest in life and general insurance and finance. However, the stock has been out of favour with investors given the life insurance sector has been going through tough times and the general insurance industry has been almost been forgotten given the losses it has incurred in last couple of years. However, we believe that the general insurance business has turned around and can deliver more than 30% ROE from 2014. The life insurance business as well as is showing signs of a turnaround. Its financing business has been consistently showing

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more than 20% ROE and more than 20% loan book growth.

We see 28% upside from current levels even after pricing in 49% FDI in both general and life insurance entities. We understand that consensus is pricing in 51% economic interest in both entities and hence do not see increase in FDI as negative for the stock (at current levels). We believe that the company will generate >20% RoE over the next three years, and at 7x FY15E P/E (at 49%FDI), the stock remains cheap in our opinion given its substantial growth potential (EPS 20%+ CAGR for FY14E-16E).

For a detailed analysis, valuation methodology and risks to our fair value, please see our note (Link).

Balkrishna Industries (BIL IN, Rs303, BUY, FV: Rs 362): Niche player, pick-up in sight

BKT has created a niche in the highly specialized off-highway tyre (OHT) industry, building a strong brand, a network of over 200 distributors across 120 countries and, more importantly, a portfolio of over 2,000 SKUs to cater to the vast needs of the OHT market. The high degree of customization has made the business "high variety low volume", thereby making it less interesting for mass tyre manufacturers. With manufacturing facilities in India and given its export orientation and focus on the OHT market, BKT's profitability in our view is well ahead of other global and domestic tyre companies. Given its ability to price products aggressively (BKT's products are priced 25-30% cheaper than competitors), combined with its expansion plans, we expect it to gain market share from competitors. At a FY15E P/E of 7.4x, BKT trades at a 40% discount to the pure OHT play Titan International (TWI US, $14, not rated). We think BKT should trade at a premium given its pedigree, robust business model and ability to gain market share. We have a DCF based fair value of Rs.362, suggesting 20% upside.

For a detailed analysis, valuation methodology and risks to our fair value, please see our note (Link).

Development Credit Bank (DEVB IN, Rs55, BUY, FV: Rs63): Right ingredients for a scalable model

Development Credit Bank (DCB) has all the right ingredients for a scalable model: (a) a stable top management, (b) a non-unionized workforce, (c) a metro-centric branch network and (d) high capital adequacy. These factors convince us that DCB is potentially on the cusp of a high growth phase with an improving profitability profile. The bank has successfully navigated difficult times and has emerged stronger with an improved advances and liabilities profile suitable for scalability. The credit rating upgrade by CRISIL along with a strong set of results in what has been a particularly difficult quarter for the banking system validates our view on DCB. We model RoE to improve from 10.7% in FY13 to 15.3% in FY15E. DCB currently trades at FY15E P/B 1.1x, which is one of the lowest amongst new generation private sector banks. Reiterate BUY with FV of Rs63, 17% upside.

For a detailed analysis, valuation methodology and risks to our fair value, please see our note (Link)

Redington (REDI IN, Rs65, BUY, FV: Rs74): Transitory concerns should recede

Redington's Middle East and Africa business continues to do well, growing 18% in FY13 and 16% in Q1 FY14. While growth had been impacted by political uncertainties in Egypt, Turkey, and Saudi Arabia, normality is returning. We believe the MENA region's revenues could grow 18-20% YoY. Compared with India, MENA is underpenetrated when it comes to the IT business in terms of number of OEMs and there is scope to improve growth by adding more vendors. We also see scope to improve the non IT part of the business, which only contributes 9% of overseas revenues (vs. 28% in India). On the domestic front, given the muted growth environment in the last three quarters,

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discretionary capex (mainly by corporates on IT hardware) is under pressure. Having said this, consensus does not appear to be building in any demand recovery in the domestic market. However, recent consumer conferences we have attended across India suggest a possible delta in revenues from aspirational shift to smartphones in rural as well as urban areas. While 70% of the business (i.e. IT) may grow at single digits, the remaining 30% could in our view grow 25% with revenues from Apple growing 50% YoY in FY14E. We reiterate BUY with FV of Rs74.

For a detailed analysis, valuation methodology and risks to our fair value, please see our note (Link)

Conviction ideas from the sales desk

Sundaram Finance (SUF IN, Rs552, BUY, FV: Rs696): Ideal for midcap fund
Rohan Karnani

Sundaram Finance has been in business since 1954 and has been one of the very few players who have consistently served the commercial vehicle segment for the last six decades. Notably, the company has also paid consistent dividends since then. It comes as no surprise then that the company is admired by its competitors and many try to emulate its model (though not successfully). In the past 11 years, its loan book has registered a CAGR of 19% and over the same period the stock price return (excluding dividends) is 35% CAGR, without raising capital even once. In times of uncertainty, when competitors report high credit losses and exit the market, Sundaram continues to report strong credit quality and gain market share.

We firmly believe the stock price return should not be fundamentally different from returns generated from the underlying business. Sundaram Finance has consistently been a more than 15% RoE (on a consolidated basis) generating company for the last 10 years with RoEs of more than 25% over the last three years. We believe that the RoEs of the last two years were down because of:

1. Provisions on motor third party in its general insurance franchise.
2. Migration to 120DPD from 180DPD in FY13 in its asset financing company.
3. High capex in branch expansion in both commercial finance and housing finance franchises.

Over the next three years, the underlying net worth (assuming dividends re-invested) should grow in excess of 25% (1.95x FY13 net worth) and we see upside to our 25% RoE number. It is currently trading at 1.8x / 1.5x FY14/15E book value, which we believe is not justified given the quality of its franchise and the structural strength of the business model. We estimate that as the company will consistently deliver 20% EPS CAGR it should be accompanied by some rerating in multiple, thereby leading to potentially substantial returns for investors over next three years.

We consider Sundaram to be an ideal stock for a midcap portfolio.

Key assumptions for FY14/15E:

EPS: 60/ 71, BVPS: 284/ 342

United Spirits (UNSP IN, Rs2390, SELL, FV: Rs1600): Not a time to say Cheers!
Sunny Shah

The stock is up 38% YTD and 120% in the last 12 months as i) the change in management control, ii) premiumisation hopes, iii) possible debt load reduction and iv) improvement in working capital have fuelled investors' expectations. We are of the view that this euphoria is not justified. We are below consensus numbers as we believe working capital improvement and margin expansion will be a slow process; we are lower than consensus on FY15E EPS by ~23% as we expect tepid volume growth (~2% lower than Street on FY15E revenues) and limited EBITDA margin improvement (we expect 12.7%/13.4% EBITDA margins in FY15E/FY16E, vs. consensus' 14.5%/15.6%)

The Street expects the investment by Diageo will lead to portfolio premiumisation, which in turn will lead to margin expansion as Diageo's professional management drive efficiency gains and improve working capital.

Premiumisation

With the new management in place at United Spirits, we expect the competitive intensity to heat up in the premium segment. However, United Spirits has relied on brands at the mass end to drive volumes and we don't expect a significant change from this strategy. Further, with the pace of premiumisation slowing down and competition heating up in the regular whisky category, we expect overall volume to remain under stress.

Margins
Consensus is assuming the EBITDA margin will expand from 11.5% in FY13 to 15.6% in FY16E. Though we also expect some efficiency improvements, we do not expect efficiency improvements to materialize at the pace the market expects. We expect margins to improve by ~190bps to 13.4% in FY16E.

Working capital
Working capital should in our view improve gradually, however it will continue to remain high due to the nature of business. In many states the company needs to pay upfront duties; however, sales realization (especially in states where the Government acts as a wholesaler) takes time. Against this backdrop, we see limited room for working capital improvement.

Valuation
United Spirits is currently trading at a P/E of 60.3x and 39.0x on consensus FY14 and FY15 EPS estimates, historic peak multiples. We are ~23% below consensus on FY15 EPS estimates, so the stock is currently trading at 48.7x our FY15 EPS estimate. Our reservations on the competitive dynamics and unfavourable risk reward warrant our SELL rating.

Motherson Sumi (MSS IN, Rs281, BUY, FV: Rs347): The story has just begun – Mukul Kochhar

Motherson Sumi is our top idea in auto components, as we expect all its divisions to outperform. We estimate that the consolidated entity will post a 50% CAGR in EPS till FY15E, reflecting SMP's (Peguform) turnaround, and improved utilization of plants also enhancing SMR's profitability. We feel that the stock is at a substantial discount, trading at just 5.5x FY15E EBITDA (12x P/E, for ~20%+ EPS growth beyond FY15), given we get: 1) a three global, distinct and important auto-component businesses 2) a near monopoly domestic wiring harness business, which is growing at above industry growth led by increased content per car; 3) in our opinion, very good quality management and 4) a FY15E consolidated ROE of 36%. Further the stock doesn't factor in a turnaround in subsidiaries. Its European subsidiaries have been spinning off substantial amounts of cash; we estimate that MSS has already earned c. EUR200m in cash from Europe over the past two years, while the acquisitions have cost the company only c. EUR190m.We reiterate BUY with a FV of Rs347, offering 30+% upside from current levels.

Standalone business

1) We rate highly its domestic wiring harness business, where Motherson has a near monopoly with over 65% market share, generating ROE of 30%+

2) We expect the standalone entity's profit to grow at a FY13-15E CAGR of 17% as the company: (a) benefits from increasing content per car and (b) increases cross product penetration and sales to group companies.

SMR – utilization led growth to continue

1) We are impressed by the overall operational improvement of SMR with margin scaling up to 8.8% in Q2FY13.

2) We feel that SMR has the potential to further expand margins to 10+% in FY14, as capacity utilization improves and sourcing of products from group companies increases; SMR now sources 65% of its wiring harness and only 7% of its plastic requirements from group companies, leaving further scope for margin improvement through increased integration.

3) New contracts worth €2.2bn enjoy higher profitability levels, execution of the same begins by end FY14.

SMP – The story has just begun

We believe that SMP, its interior and exterior polymer products division, is on the verge of showing a remarkable improvement in its financial performance as:

1) The management is focused on improving efficiency of its biggest loss making Brazilian unit which we think should break-even soon.

2) Our discussions with industry experts and Faurecia's management suggest to us that double-digit margins in this business are easily achievable and sustainable as interior/exterior systems & mirrors is a high operating leverage business. We believe SMP can achieve 10+% EBITDA margins in FY15E as the execution of new higher margin orders kicks in from FY15; however we adopt a conservative stance and estimate an 8% margin (6.5% previously) in FY15E.

3) SMP's order book stands at €4.3bn and entails high double digit margins.

4) Currently, SMP only sources 1.5-2% of its plastic requirements from group companies and hence a significant lever to improve its future margin is still unused. We estimate the company currently saves 15-20% on costs through in-sourcing at the group level.

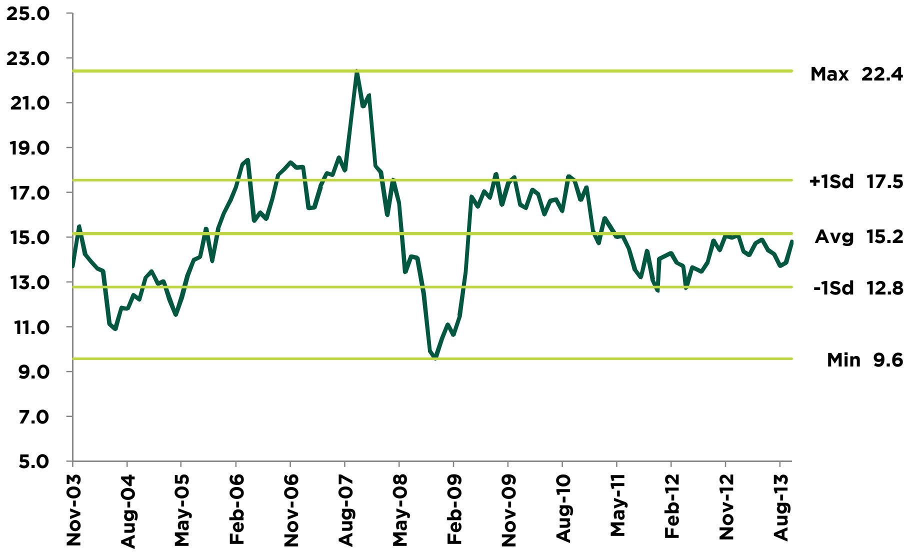
India Valuation Matrix

Indices	PE (x)		PB (x)		EV/EBITDA (x)		ROE (%)		Div Yield (%)	
	FY14E	FY15E	FY14E	FY15E	FY14E	FY15E	FY14E	FY15E	FY14E	FY15E
Sensex	15.5	13.0	2.5	2.2	9.6	8.4	17.3	18.1	1.6	1.9
BSE 100	15.0	12.4	2.2	2.0	10.2	8.9	16.0	16.7	1.6	1.8
BSE Mid-Cap	12.3	9.3	1.4	1.2	10.2	8.4	7.4	10.1	1.8	2.0
Sector Indices										
Auto	12.5	11.0	2.9	2.4	6.7	6.1	25.0	23.6	1.4	1.6
Bankex	11.9	8.9	1.8	1.5	-	-	14.2	16.9	1.7	2.0
Consumer Durables	18.4	15.7	4.2	3.5	18.8	15.9	29.6	27.8	1.0	1.2
Capital Goods	18.4	15.1	2.0	1.9	8.8	7.7	13.2	12.8	1.5	1.6
FMCG	32.1	27.1	9.1	8.6	21.5	18.1	36.6	38.4	1.7	2.0
Healthcare	22.5	18.9	4.2	3.5	15.1	12.7	22.8	23.2	0.8	0.9
IT	17.8	15.3	4.6	3.8	12.1	10.7	29.8	28.1	1.5	1.7
Metal	9.6	8.1	1.0	0.9	6.2	5.6	14.4	14.1	2.3	2.5
Oil & Gas	10.4	9.2	1.4	1.2	6.3	5.6	14.3	14.9	2.1	2.3
Power	14.8	11.4	1.2	1.1	9.2	7.8	10.7	11.4	2.3	2.0
Realty	13.3	9.1	0.7	0.6	10.0	8.1	3.5	4.6	1.3	1.5
Teck*	19.7	17.1	3.8	3.3	11.1	9.8	16.3	17.1	1.3	1.5

Source: Bloomberg, Espirito Santo Investment Bank Research, * Teck – IT, Media and Telecom, All sector indices are published by BSE.

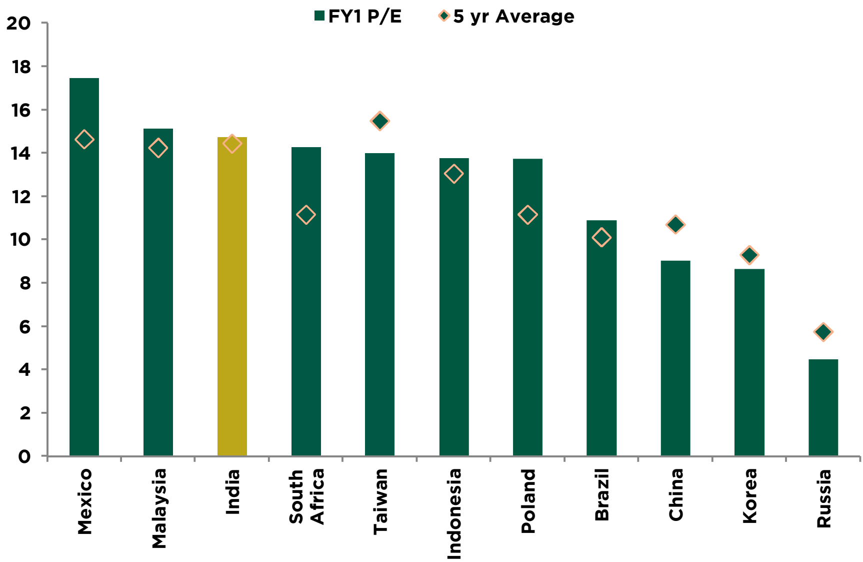
Valuations

Figure 1: Sensex 12M forward P/E



Source: FactSet , Espirito Santo Investment Bank Research

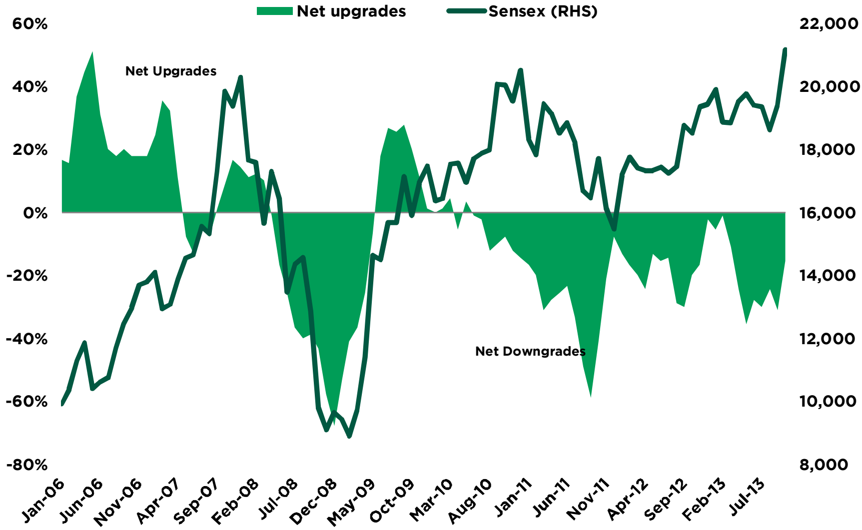
Figure 2: FY1 P/E of leading MSCI Emerging market indices.



Source: Bloomberg , Espirito Santo Investment Bank Research

Earnings Momentum

Figure 3: Earnings sentiment



Source: FactSet , Espirito Santo Investment Bank Research

In the earnings sentiment chart above we look at the cycle of three months' rolling net earnings upgrades/downgrades of the 30 stocks in the Sensex and the index price movements.

Earnings Momentum

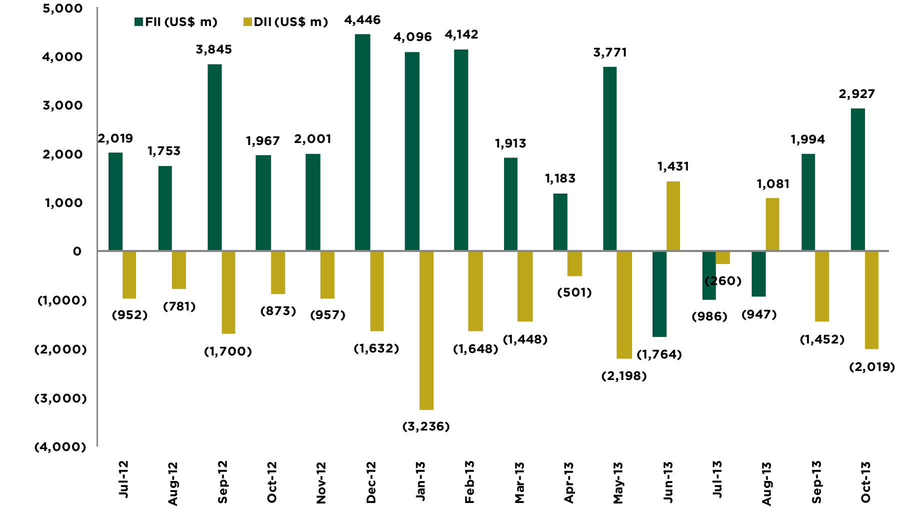
Figure 4: Earnings revisions for FY14

Company	Sector	% Change in EPS			No of EPS
		1m	2m	3m	est.
BSE 100 - Top 15 by EM					
Bharat Forge Ltd	Consumer Discretionary	10.2	10.6	**22.6**	21
Idea Cellular Limited	Telecommunication Services	3.5	4.1	**17.5**	41
Tech Mahindra Limited	Information Technology	1.3	5.4	**11.1**	39
Tata Consultancy Services Limited	Information Technology	4.5	7.7	**10.4**	50
Sun Pharmaceutical Industries Limited	Health Care	1.3	1.7	**9.7**	35
Wipro Limited	Information Technology	4.1	5.9	**9.1**	56
Cairn India Limited	Energy	5.7	6.7	**8.8**	43
Lupin Limited	Health Care	3.8	4.0	**7.9**	41
Dr. Reddy's Laboratories Ltd.	Health Care	6.7	7.8	**7.1**	40
Infosys Limited	Materials	0.3	1.9	**5.0**	63
Hindustan Zinc Limited	Materials	2.9	5.1	**4.5**	28
Tata Steel Limited	Materials	(1.1)	(1.1)	**3.8**	42
Sesa Sterlite Ltd	Materials	(7.0)	1.5	**3.7**	26
Tata Motors Limited	Consumer Discretionary	1.2	3.4	**3.1**	51
Reliance Infrastructure Limited	Utilities	1.2	0.4	**1.9**	10
BSE 100 - Bottom 15 by EM					
Reliance Communications Limited	Telecommunication Services	0.2	(4.5)	**(16.1)**	25
Bharat Heavy Electricals Limited	Industrials	(0.5)	(1.8)	**(16.2)**	46
ABB India Limited	Industrials	(1.7)	(0.2)	**(17.8)**	27
Tata Chemicals Limited	Materials	0.0	(6.5)	**(17.9)**	10
Ambuja Cements Limited	Materials	(13.0)	(14.4)	**(18.1)**	40
Housing Development & Infrastructure Ltd.	Financials	0.0	(12.7)	**(20.3)**	8
Indian Oil Corp. Ltd.	Energy	(4.9)	(8.4)	**(21.5)**	28
Union Bank of India Limited	Financials	(8.8)	(10.3)	**(23.4)**	35
Canara Bank	Financials	(2.2)	(5.7)	**(25.5)**	23
IDBI Bank Limited	Financials	(21.5)	(23.6)	**(25.9)**	8
Hindustan Petroleum Corporation Limited	Energy	(6.2)	(11.3)	**(29.1)**	32
The Tata Power Co. Ltd.	Utilities	(6.0)	(12.2)	**(29.8)**	31
Siemens Limited	Industrials	(1.5)	4.5	**(35.9)**	18
Adani Enterprises Limited	Industrials	(18.6)	(18.6)	**(36.4)**	8
Ranbaxy Laboratories Ltd	Health Care	(54.4)	(57.9)	**(70.2)**	29

Source: FactSet, Espirito Santo Investment Bank Research

FII Flows

Figure 5: Net FII and DII inflows in the Indian equity market



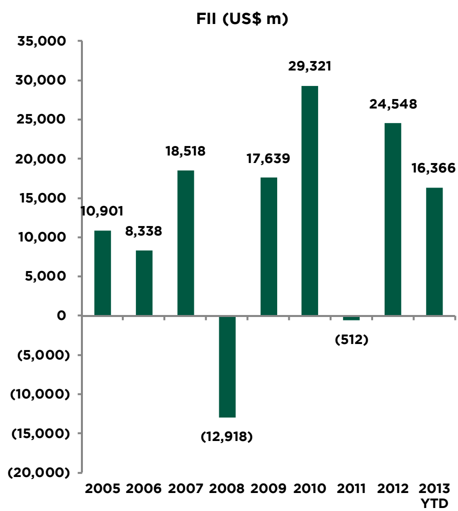
Source: Bloomberg, Espirito Santo Investment Bank Research

Figure 6: FII & DII flows

Month	FII (US$ m)	DII (US$ m)	Sensex Perf (%)
Aug-12	1,753	(781)	1.1
Sep-12	3,845	(1,700)	7.6
Oct-12	1,967	(873)	(1.4)
Nov-12	2,001	(957)	4.5
Dec-12	4,446	(1,632)	0.4
Jan-13	4,096	(3,236)	2.4
Feb-13	4,142	(1,648)	(5.2)
Mar-13	1,913	(1,448)	(0.1)
Apr-13	1,183	(501)	3.5
May-13	3,771	(2,198)	1.3
Jun-13	(1,764)	1,431	(1.8)
Jul-13	(986)	(260)	(0.3)
Aug-13	(947)	1,081	(3.8)
Sep-13	1,994	(1,452)	4.1
Oct-13	2,927	(2,019)	9.2

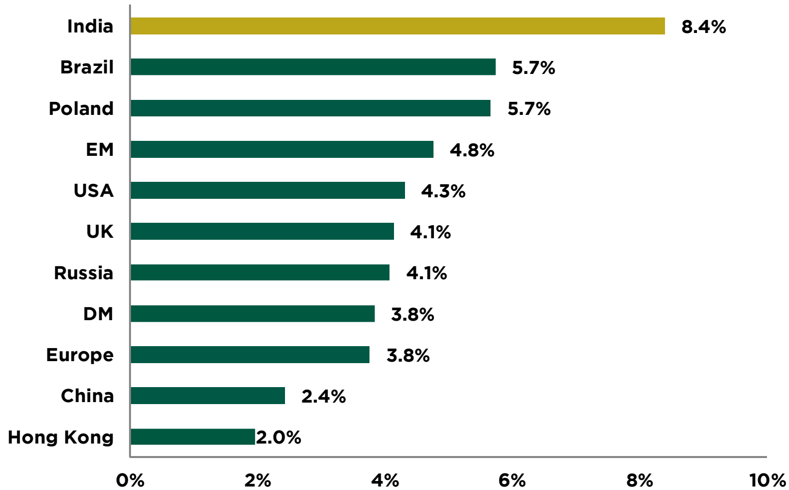
Source: Bloomberg, ESIB Research

Figure 7: Yearly FII flows (US$ m)



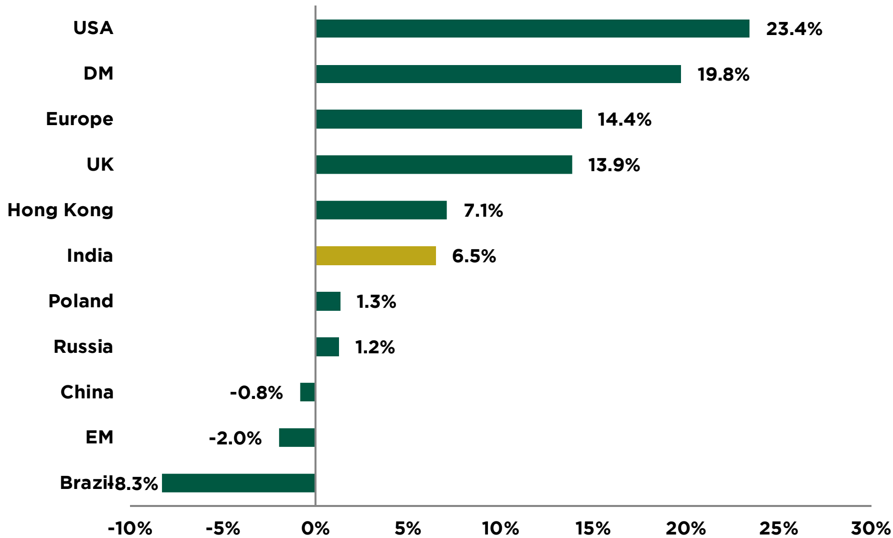
Price Momentum

Figure 8: Performance of major MSCI indices in Oct-13



Source: Bloomberg , Espirito Santo Investment Bank Research

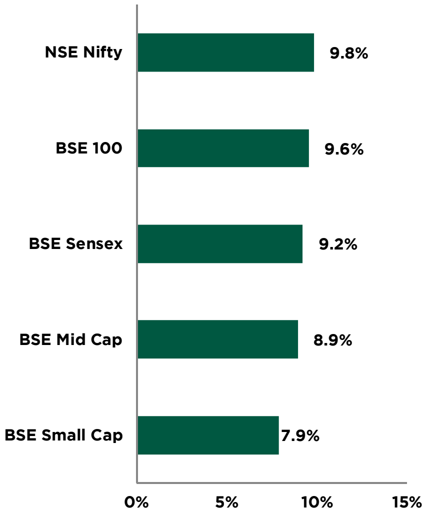
Figure 9: 2013-TD performance of major MSCI indices



Source: Bloomberg , Espirito Santo Investment Bank Research

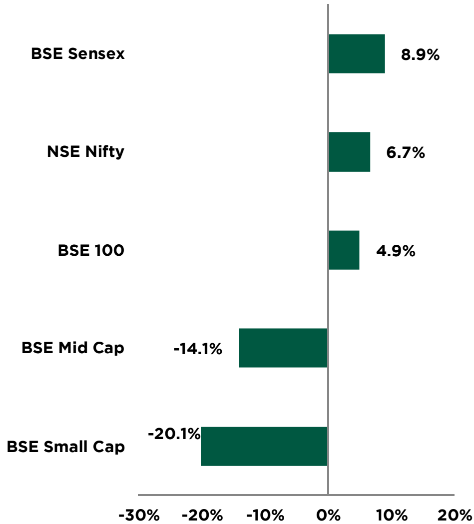
Price Momentum

Figure 10: Performance of key indices in Oct -13



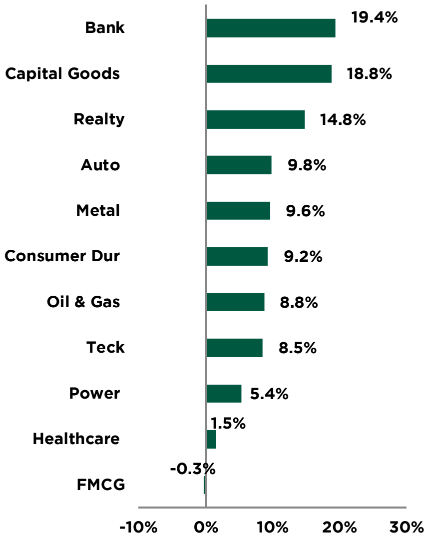
Source: Bloomberg , Espirito Santo Investment Bank Research

Figure 11: 2013-TD performance of key indices



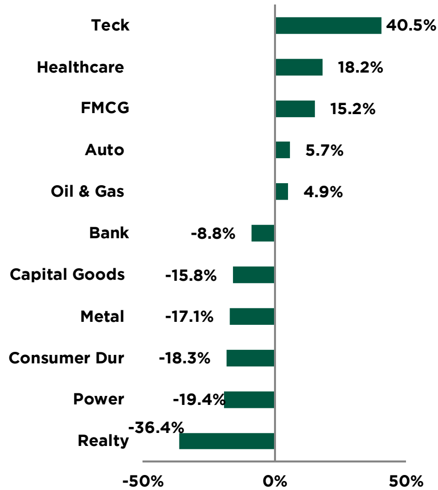
Source: Bloomberg , Espirito Santo Investment Bank Research

Figure 12: Performance of sector indices in Oct -13



Source: Bloomberg, Espirito Santo Investment Bank Research

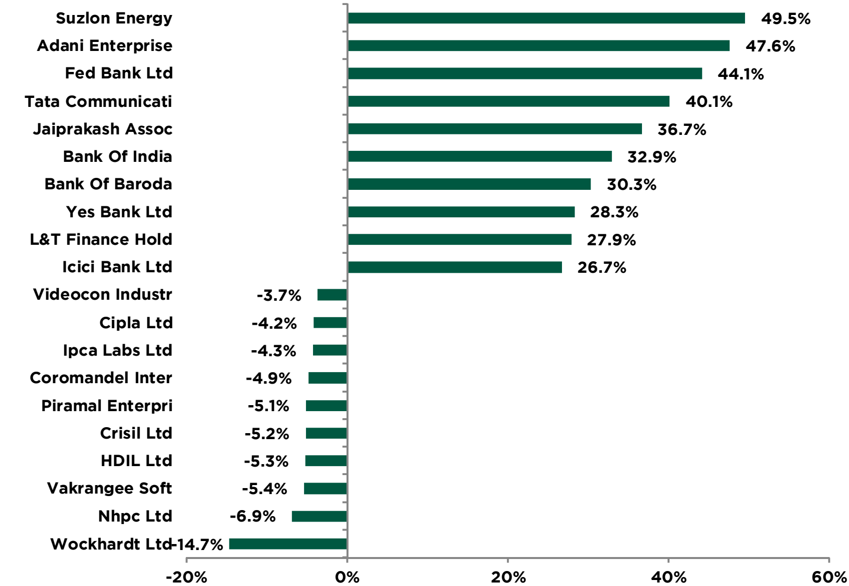
Figure 13: 2013-TD performance of sector indices



Source: Bloomberg , Espirito Santo Investment Bank Research

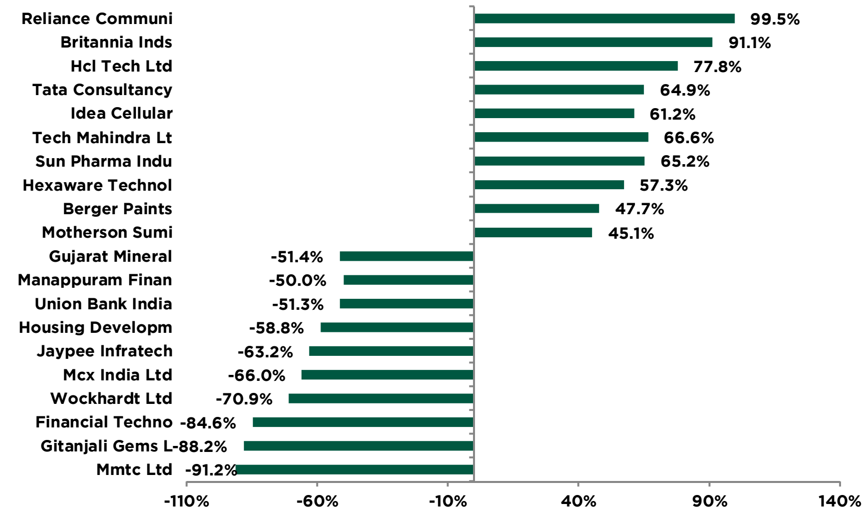
Price Momentum

Figure 14: BSE 200 best and worst performing stocks in Oct -13



Source: Bloomberg , Espirito Santo Investment Bank Research

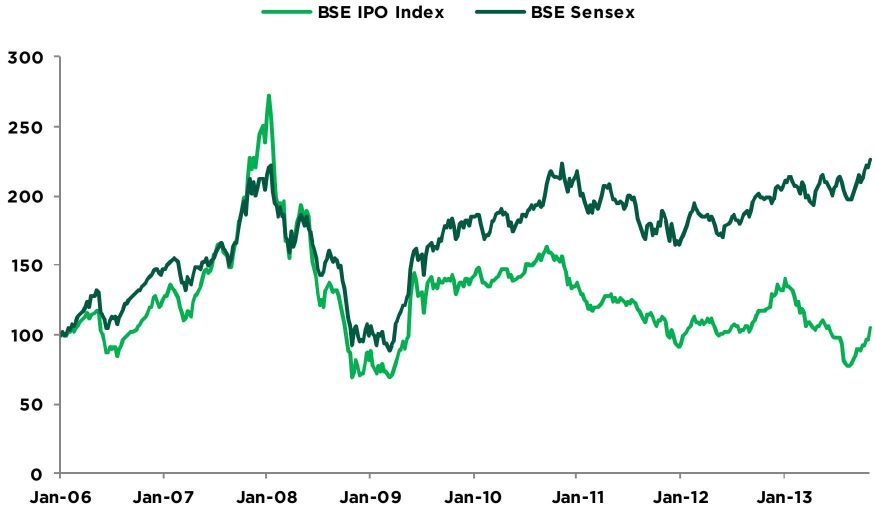
Figure 15: BSE 200 2013-TD best and worst performing stocks



Source: Bloomberg , Espirito Santo Investment Bank Research

IPO Snapshot

Figure 16: Performance of IPO index vs. Sensex (Rebased to 100 as of Jan 2006)



Source: Bloomberg, Espirito Santo Investment Bank Research

Figure 17: Table showing performance of last few IPO listings.

					Performance (%)		
Company Name	Offer Price (Rs)	Amount Raised (Rs mn)	Date of Listing	Latest Price	Offer price till date	1st day return	Relative to Sensex post listing
Gravita India Ltd	125	450	11/16/2010	33	30%	-66%	-31%
Tree House Education and Accessories Ltd	135	1,138	8/26/2011	259	88%	-13%	63%
L&T Finance Holdings Ltd	52	12,450	8/12/2011	79	54%	-4%	33%
Lovable Lingerie Ltd	205	933	3/24/2011	321	59%	22%	10%
BS Transcomm Ltd	248	1,904	10/27/2010	128	4%	-23%	-3%
Coal India Ltd	245	154,751	11/4/2010	298	21%	40%	2%
Speciality Restaurants Ltd	150	1,760	5/30/2012	125	-18%	6%	-47%
Omkar Speciality Chemicals Ltd	98	794	2/10/2011	96	-2%	-53%	-25%
Repco Home Finance Ltd	172	2,704	4/1/2013	304	72%	-6%	79%
Prestige Estates Projects Ltd	183	12,000	10/27/2010	144	-22%	6%	-29%
TD Power Systems Ltd	256	2,270	9/8/2011	187	-26%	8%	-52%
Credit Analysis & Research Ltd	750	5,400	12/26/2012	723	-3%	23%	-31%
Multi Commodity Exchange of India Ltd	1032	6,630	3/9/2012	502	-52%	26%	-84%
Oberoi Realty Ltd	260	10,286	10/20/2010	190	-27%	9%	-36%
Innoventive Industries Ltd	117	2,170	5/13/2011	14	-88%	-20%	-101%
Bharti Infratel Ltd	210	40,897	12/28/2012	165	-23%	-9%	-25%
PC Jeweller Ltd	135	6,093	12/27/2012	99	-27%	11%	-36%
Claris Lifesciences Ltd	228	3,000	12/20/2010	181	-22%	-10%	-18%
Muthoot Finance Ltd	175	9,010	5/6/2011	110	-40%	1%	-54%
C Mahendra Exports Ltd	110	1,650	1/20/2011	191	73%	1%	56%
SRS Ltd	58	2,030	9/16/2011	39	-34%	-43%	-67%
Ashoka Buildcon Ltd	324	2,250	10/14/2010	47	-57%	-66%	-60%
MOIL Ltd	375	12,600	12/15/2010	234	-37%	24%	-66%
Punjab & Sind Bank	120	4,708	12/30/2010	52	-57%	6%	-68%
PTC India Financial Services Ltd	28	4,332	3/30/2011	12	-58%	-11%	-64%
PG Electroplast Ltd	210	1,210	9/26/2011	157	-26%	98%	-57%
Sudar Industries Ltd	77	700	3/11/2011	27	-67%	47%	-85%
Inventure Growth & Securities Ltd	117	819	8/4/2011	8	-75%	-56%	-92%
Commercial Engineers & Body Builders Co Ltd	127	1,724	10/18/2010	10	-92%	-11%	-96%
Birla Pacific Med Spa Ltd	11	652	7/7/2011	0	-96%	81%	-108%
Acropetal Technologies Ltd	90	1,700	3/9/2011	6	-94%	0%	-108%
A2Z Maintenance	400	7,762	12/23/2010	10	-97%	-18%	-102%

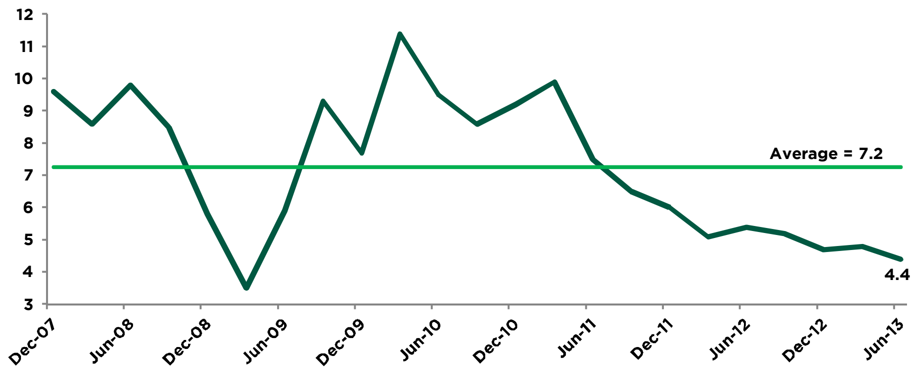
Source: Bloomberg, Espirito Santo Investment Bank Research

Economic Indicators

- Both WPI and CPI inflation surprised on the upside in the month of September. WPI inflation came at 6.46% YoY vs. the expectation of 6.00%. CPI inflation came at 9.84% YoY vs. the expectation of 9.50%

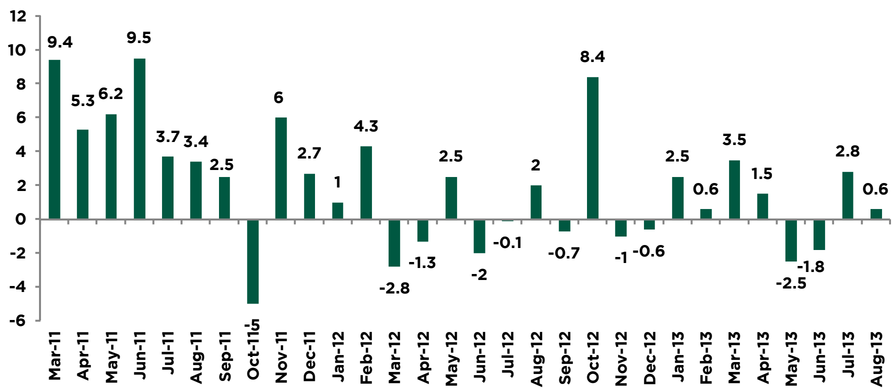
- We think RBI policy measures entail normalisation of exceptional measures taken by the RBI earlier, and was not ultra-hawkish. We think RBI's guidance for further course of action is rather weak. While further rate hikes cannot be ruled out, we expect the pace to be more calibrated than aggressive. We expect the RBI to pause in the next policy meeting, though we pencil in another hike of 25bps for the rest of FY14.

Figure 18: India real GDP growth (yoy%)



Source: Bloomberg , Espirito Santo Investment Bank Research

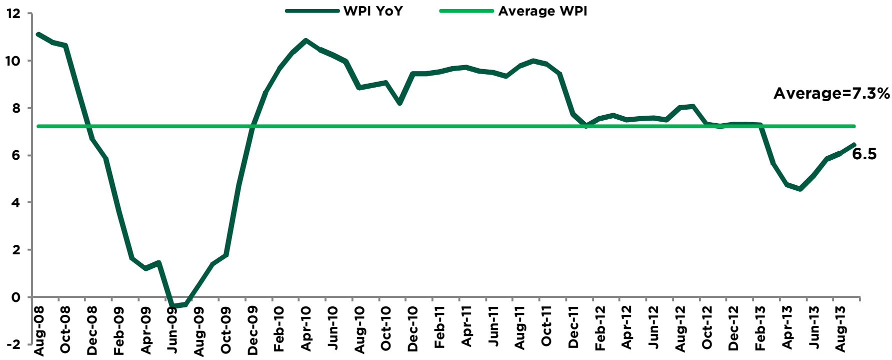
Figure 19: Industrial Production (IIP, yoy%)



Source: Bloomberg , Espirito Santo Investment Bank Research

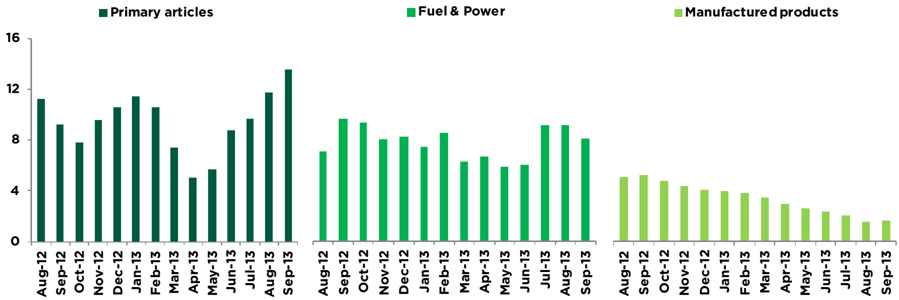
Economic Indicators

Figure 20: yoy % change in WPI inflation



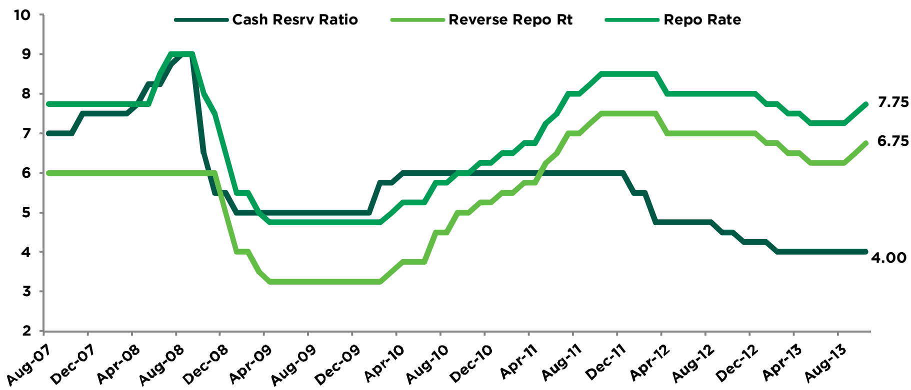
Source: Bloomberg , Espirito Santo Investment Bank Research

Figure 21: Breakdown of WPI inflation (yoy %)



Source: Bloomberg , Espirito Santo Investment Bank Research

Figure 22: Key policy rates (%)



Source: Bloomberg , Espirito Santo Investment Bank Research

Economic Indicators

Figure 23: Forthcoming Economic Data releases

Major release for India		Major release for US	
Date	**Event**	**Date**	**Event**
11-Nov	Import/Export data	6-Nov	MBA Mortgage Applications
11-Nov	India Local Car Sales	7-Nov	Initial Jobless Claims
12-Nov	Industrial Production	7-Nov	GDP Annualized QoQ
15-Nov	Oct WPI	8-Nov	Change in Nonfarm Payrolls
29-Nov	India fiscal deficit	8-Nov	Unemployment Rate
29-Nov	India GDP YoY	8-Nov	Univ. of Michigan Confidence
		13-Nov	MBA Mortgage Applications
		14-Nov	Initial Jobless Claims
		14-Nov	Trade Balance
		15-Nov	Industrial Production MoM
		20-Nov	MBA Mortgage Applications
		20-Nov	CPI MoM
		20-Nov	Retail Sales Advance MoM
		20-Nov	Existing Home Sales
		21-Nov	PPI MoM
		21-Nov	Initial Jobless Claims
		26-Nov	Housing Starts
		26-Nov	S&P/CaseShiller Home Price Index I
		27-Nov	MBA Mortgage Applications
		27-Nov	Initial Jobless Claims
		27-Nov	Durable Goods Orders
		27-Nov	Univ. of Michigan Confidence
		4-Dec	MBA Mortgage Applications

Source: Bloomberg , Espirito Santo Investment Bank Research

Economic Indicators

Figure 24: India – Summary of key economic indicators

	Apr-11	May-11	Jun-11	Jul-11	Aug-11	Sep-11	Oct-11	Nov-11	Dec-11	Jan-12	Feb-12	Mar-12	Apr-12	May-12	Jun-12	Jul-12	Aug-12	Sep-12	Oct-12	Nov-12	Dec-12	Jan-13	Feb-13	Mar-13	Apr-13	May-13	Jun-13	Jul-13	Aug-13	Sep-13
Sectoral growth (%YoY)																														
Industrial production	5.3	6.2	9.5	3.7	3.4	2.5	(5.0)	6.0	2.7	1.0	4.3	(2.8)	(1.3)	2.5	(2.0)	(0.1)	2.0	(0.7)	8.4	(1.0)	(0.6)	2.5	0.6	3.5	1.5	(2.5)	(1.8)	2.8	0.6	-
Mining	1.6	1.8	(1.4)	0.6	(5.5)	(7.6)	(5.9)	(3.5)	(3.3)	(2.1)	2.3	(1.1)	(2.8)	(0.7)	(1.1)	(3.5)	(0.3)	2.2	(0.2)	(5.5)	(3.1)	(1.8)	(7.7)	(2.1)	(3.4)	(5.9)	(4.3)	(2.5)	(0.2)	-
Manufacturing	5.7	6.3	11.2	3.1	3.9	3.1	(6.0)	6.6	2.8	1.1	4.1	(3.6)	(1.8)	2.6	(3.2)	-	2.4	(1.6)	9.9	(0.8)	(0.8)	2.7	2.1	4.3	1.8	(3.2)	(1.7)	3.2	(0.1)	-
Electricity	6.5	10.3	7.9	13.1	9.5	9.0	5.6	14.6	9.1	3.2	8.0	2.7	4.6	5.9	8.8	2.8	1.9	3.9	5.5	2.4	5.2	6.4	(3.2)	3.5	4.2	6.2	-	5.2	7.2	-
Domestic passanger car sales	13.2	7.0	2.0	(15.3)	(9.7)	(1.5)	(22.9)	7.8	9.8	8.3	14.2	21.4	3.4	2.8	6.7	5.3	(20.2)	(7.0)	23.1	(8.3)	(12.5)	(12.4)	(25.7)	(22.5)	(10.4)	(12.3)	(9.0)	(7.4)	15.4	0.7
Monetory aggregates (%YoY)																														
M3 Money supply	17.7	17.0	17.3	16.7	17.0	16.6	14.9	15.5	16.0	14.8	13.9	13.2	13.3	13.8	13.7	14.0	14.1	13.6	13.3	12.5	11.2	12.7	12.4	13.6	12.4	12.1	12.8	12.5	12.2	12.5
Bank deposit	17.4	16.5	17.7	17.3	18.0	19.2	13.6	18.0	17.0	15.7	14.4	13.5	13.1	14.1	13.5	13.9	14.7	13.8	13.4	12.8	11.1	13.1	12.7	17.4	13.3	13.4	13.8	13.4	13.0	14.1
Credit Growth	21.3	21.9	19.6	18.7	20.7	21.6	17.9	17.6	16.0	16.5	15.6	17.0	17.5	17.8	16.5	17.3	16.9	15.7	16.0	17.1	15.1	16.1	16.3	17.0	14.5	14.1	13.7	14.9	17.1	17.9
External sector																														
Exports (%YoY)	29.4	53.5	28.4	55.4	39.4	40.1	23.9	3.1	8.6	11.8	8.4	-5.2	1.2	-6.6	-6.1	-12.2	-6.5	-7.2	0.7	-2.5	0.6	1.2	2.3	6.6	-0.8	-3.3	-5.3	11.6	13.0	11.2
Imports (%YoY)	15.8	52.2	42.3	38.1	47.5	34.6	26.8	35.1	27.1	28.8	21.7	23.7	3.3	-7.8	-11.5	-1.1	-6.7	5.0	8.4	5.5	8.3	6.3	2.8	-4.3	11.2	7.0	-0.7	-6.2	-0.7	-18.1
Trade defecit (USD bn)	(13.1)	(18.7)	(14.3)	(14.7)	(15.2)	(13.2)	(17.5)	(15.8)	(14.7)	(17.6)	(14.9)	(13.5)	(14.0)	(17.0)	(11.2)	(17.5)	(14.2)	(17.1)	(20.8)	(18.6)	(17.8)	(20.0)	(15.5)	(9.8)	(18.5)	(20.7)	(12.3)	(12.3)	(10.9)	(6.8)
FX Reserve (USD bn)	314	310	309	319	319	311	320	304	297	294	295	294	295	288	290	289	290	295	295	295	297	296	292	293	296	288	285	280	275	276
Inflation																														
WPI Inflation	9.7	9.6	9.5	9.4	9.8	10.0	9.9	9.5	7.7	7.2	7.6	7.7	7.5	7.6	7.6	7.5	8.0	8.1	7.3	7.2	7.3	7.3	7.3	5.7	4.8	4.6	5.2	5.9	6.1	6.5
Primary articles	15.1	12.9	11.3	11.5	12.5	12.2	11.0	8.9	3.6	2.8	7.1	10.4	9.6	10.3	9.8	10.5	11.2	9.2	7.8	9.6	10.6	11.4	10.5	7.4	5.1	5.7	8.8	9.7	11.7	13.5
Food	8.1	8.5	7.1	9.7	9.6	9.5	10.8	6.6	-2.9	-1.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Fuel and Power	13.0	12.3	12.9	12.0	12.9	14.0	14.8	15.5	15.0	17.0	15.1	12.8	12.1	11.5	12.1	8.4	8.7	12.0	11.7	10.0	10.3	9.3	10.6	7.8	8.3	7.3	7.5	11.4	11.3	10.1
Manufacturing	6.8	7.4	7.9	7.7	7.9	8.0	8.1	8.2	7.6	6.7	5.8	5.2	5.3	5.2	5.4	5.9	6.4	6.5	6.0	5.4	5.0	5.0	4.8	4.3	3.7	3.3	2.9	2.6	1.9	2.0
Interest rates																														
Reverse repo rate	5.75	6.25	6.50	7.00	7.00	7.25	7.50	7.50	7.50	7.50	7.50	7.50	7.00	7.00	7.00	7.00	7.00	7.00	7.00	7.00	7.00	6.75	6.75	6.50	6.50	6.25	6.25	6.25	6.25	6.50
Repo rate	6.75	7.25	7.50	8.00	8.00	8.25	8.50	8.50	8.50	8.50	8.50	8.50	8.00	8.00	8.00	8.00	8.00	8.00	8.00	8.00	8.00	7.75	7.75	7.50	7.50	7.25	7.25	7.25	7.25	7.50
Cash reserve ratio	6.00	6.00	6.00	6.00	6.00	6.00	6.00	6.00	6.00	5.50	5.50	4.75	4.75	4.75	4.75	4.75	4.75	4.50	4.50	4.25	4.25	4.25	4.00	4.00	4.00	4.00	4.00	4.00	4.00	4.00

Source: Bloomberg, Espirito Santo Investment Bank Research

Economic Indicators

Figure 25: India – Summary of key economic indicators

	Q1FY09	Q2FY09	Q3FY09	Q4FY09	Q1FY10	Q2FY10	Q3FY10	Q4FY10	Q1FY11	Q2FY11	Q3FY11	Q4FY11	Q1FY12	Q2FY12	Q3FY12	Q4FY12	Q1FY13	Q2FY13	Q3FY13	Q4FY13	Q1FY14
GDP																					
Real GDP growth (%)	9.8	8.5	5.8	3.5	5.9	9.3	7.7	11.4	9.5	8.6	9.2	9.9	7.5	6.5	6.0	5.1	5.4	5.2	4.7	4.8	4.4
Real GDP by production (%YoY)																					
Agriculture	2.9	1.1	(3.7)	1.6	0.6	2.0	(1.3)	2.7	3.1	4.9	11.0	7.5	5.4	3.2	4.1	2.0	2.9	1.7	1.8	1.4	2.7
Mining	3.0	2.3	3.4	0.1	6.3	5.6	4.0	7.6	6.9	7.3	6.1	0.6	(0.4)	(5.3)	(2.6)	5.2	0.4	1.7	(0.7)	(3.1)	(2.8)
Manufacturing	12.1	8.9	2.9	(5.2)	2.0	8.2	12.6	22.8	9.1	6.1	7.8	7.3	7.4	3.1	0.7	0.1	(1.0)	0.1	2.5	2.6	(1.2)
Electricity	3.9	4.9	4.7	4.7	6.2	7.3	4.3	7.1	2.9	0.3	3.8	5.1	6.6	8.4	7.7	3.5	6.2	3.2	4.5	2.8	3.7
Constrution	9.3	6.6	0.6	5.2	4.1	5.4	8.8	8.1	8.4	6.0	8.7	8.9	3.8	6.5	6.9	5.1	7.0	3.1	5.8	4.4	2.8
Balance of Payments, $ bn																					
Exports	57.5	53.6	39.4	39.8	39.2	43.4	47.2	52.4	57.2	54.8	66.3	77.9	78.6	79.6	71.5	80.0	75.0	72.6	74.2	84.8	73.9
Imports	82.7	92.8	73.5	54.4	64.8	73.0	78.1	83.9	88.0	89.8	98.2	107.4	123.7	124.1	120.1	131.7	118.9	120.4	132.6	130.4	124.4
Trade balance	(25.3)	(39.1)	(34.0)	(14.6)	(25.6)	(29.6)	(30.9)	(31.5)	(30.8)	(35.1)	(31.9)	(29.6)	(45.0)	(44.5)	(48.6)	(51.6)	(43.8)	(47.8)	(58.4)	(45.6)	(50.5)
Current account	(3.3)	(12.6)	(11.7)	4.7	(4.5)	(9.2)	(12.2)	(13.0)	(13.4)	(17.2)	(11.2)	(6.2)	(17.5)	(18.9)	(20.2)	(21.7)	(17.1)	(21.1)	(31.8)	(18.2)	(21.8)
Capital account	5.5	7.8	(6.1)	(5.3)	4.0	19.3	14.6	16.1	17.2	21.9	16.3	8.3	23.9	19.6	7.9	16.5	16.5	20.7	31.5	20.5	20.5

Source: Bloomberg, Espirito Santo Investment Bank Research

Economic Indicators

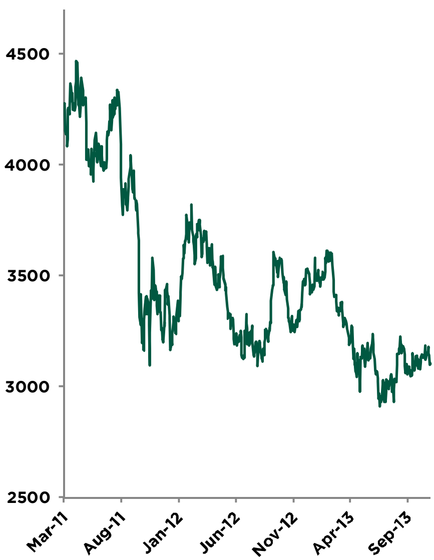
Figure 26: WTI Spot crude oil (US$/bl)

Source: Bloomberg , Espirito Santo Investment Bank Research

Figure 27: Gold spot (US$/per ounce)

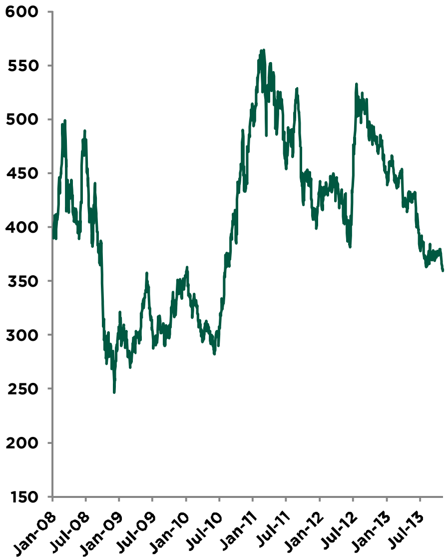
Source: Bloomberg, Espirito Santo Investment Bank Research

Figure 28: LME Metals Index



Source: Bloomberg , Espirito Santo Investment Bank Research

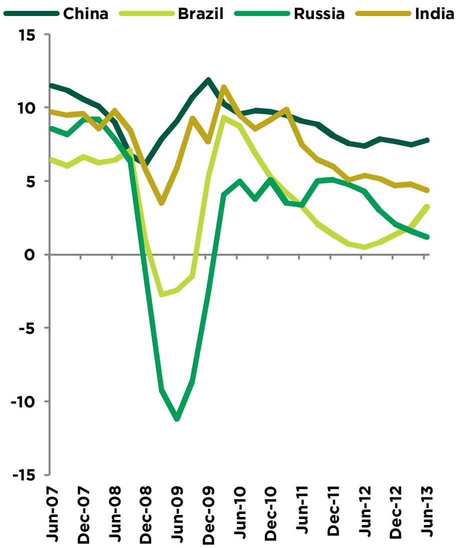
Figure 29: S&P GSCI Agri commodity Index



Source: Bloomberg , Espirito Santo Investment Bank Research

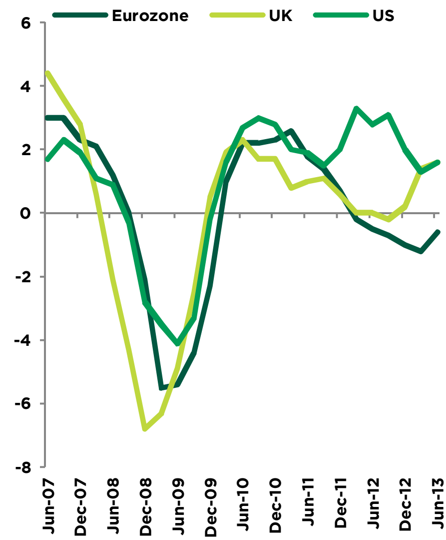
Economic Indicators

Figure 30: GDP growth (yoy %) of key EM



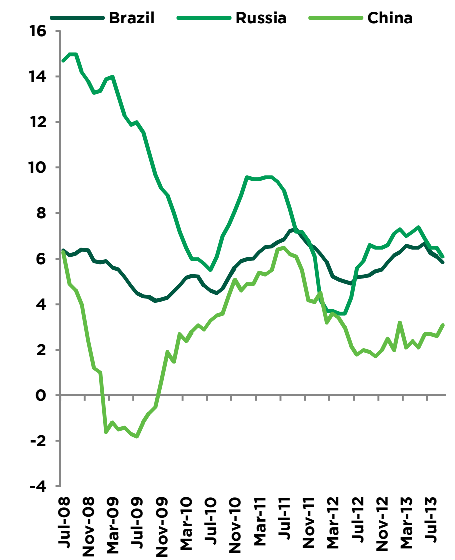
Source: Bloomberg , Espirito Santo Investment Bank Research

Figure 31: GDP growth (yoy %) of DM



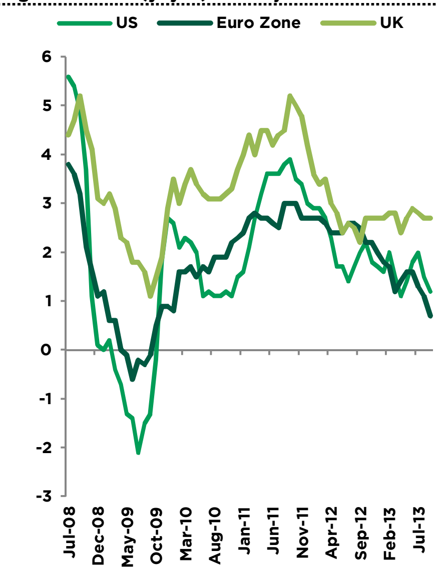
Source: Bloomberg , Espirito Santo Investment Bank Research

Figure 32: CPI (yoy %) for major EM*



Source: Bloomberg, Espirito Santo Investment Bank Research
* Refer to fig 20 for India's WPI.

Figure 33: CPI (yoy %) for major DM



Source: Bloomberg , Espirito Santo Investment Bank Research

Recent Publications

N.B. all prices, valuations and recommendations within this section as per date of research note

Information Technology – Analysts : Nitin Padmanabhan, Soumitra Chatterjee		
23-Oct-13	**Wipro (WPRO IN, Rs515.00, BUY, FV: Rs566.00)** **Consensus upgrades to follow** **08 pages**	Wipro reported Q2FY14 results ahead of our estimates (2.7% QoQ USD revenue growth vs our est of 2% QoQ). Margins in the IT services business were also ahead of our estimates by 170bps. We believe Wipro will continue to see margin expansion and improving revenue growth in the quarters to come. The USD revenue guidance for Q3FY14 implies QoQ growth of 1.8-3.6% which we believe is good considering furloughs in Q3. We remain positive on Wipro and reiterate our BUY rating. We make slight increases to our estimates for FY14 and FY15 earnings, which in turn increases our FV to Rs566 (from Rs530).
11-Oct-13	**Infosys (INFO IN, Rs3275.00, BUY, FV: Rs3670.00)** **Return to 'beat and raise' cycle** **08 pages**	Infosys' (our silver bullet for the quarter) Q2 FY14 results were ahead of our and the Street's expectations. In last two years this is the first time Infosys has surprised positively for two consecutive quarters and H1 FY14 revenue growth now stands at 14% YoY. We believe that NRN's philosophy of bringing back predictability into the business will result in an expansion of Infosys' PE multiple. While EBITDA margins disappointed marginally, with most headwinds now behind and the demand environment improving we expect Infosys to exit FY14 with EBITDA margins of 27.7% from current levels of 24.5%. We reiterate BUY with FV of Rs3,670 (Rs3600 earlier).
3-Oct-13	**Polaris FT (POL IN, Rs128.00, BUY, FV: Rs197.00)** **Better placed to deliver returns** **08 pages**	Polaris' stock has largely flat lined for the past two years, underperforming the BSE-IT index by c.60%. This was because of stagnating Services revenues due to stress in the BFSI segment over FY11-13, lower deal wins and volatility in the products segment. We believe its improving growth prospects and the possible sale of its Services business should improve returns. Is there good value in the Services business if it were to be sold? We think yes. Reiterate BUY.
Telecom – Analysts : Nitin Padmanabhan, Soumitra Chatterjee		
29-Oct-13	**IDEA Cellular (IDEA IN, Rs170, SELL, FV: Rs153)** **Price Elasticity to play out** **10 pages**	Idea's absolute return of 63% YTD and 54% and 60% outperformance to Bharti Airtel and benchmark index was largely driven by strong Q1FY14 earnings, lowering of spectrum prices by TRAI and Bharti's continuing struggles in Africa. While Idea has outpaced Bharti on revenue growth and margin improvement, we believe further pricing improvement is likely to come at the cost of volumes. Additionally, with Bharti's renewed aggression in the domestic market (evident from last five months incremental subscriber market share) we believe Idea will have to remain competitive on prices. We raise our fair value to Rs153 (from Rs99) due to an upgrade in our EBITDA forecasts and lower spectrum prices but maintain our SELL rating.
Consumer – Analysts : Nitin Mathur, Vivek Veda		
17-Oct-13	**Alcoholic Beverages (Initiation)** **A multitude of sins** **41 pages**	We initiate coverage on alcoholic beverages sector with a negative bias. While the opportunity offered by a changing demographic is undeniable, the laundry list of the sector's woes stretches from new entrants (recently Tamil Nadu issued fresh licences) and risk of vertical integration by suppliers (both ADB and Radico Khaitan evolved through this route) to being at the mercy of ad hoc government regulatory changes. Efficiency improvement is not a straight forward process and we question the industry's competitive advantage itself. Against this backdrop Radico Khaitan is our only Buy. We assign a Sell to both United Spirits and United Breweries.
Agri-inputs – Analysts : Aditya Jhawar, Nitesh Sharma, CFA, Nick Paulson-Ellis		
28-Oct-13	**GSFC Ltd (GSFC IN, Rs52.5, BUY, FV:Rs68)** **Shedding worries, heading for growth** **08 pages**	GSFC's Q2 FY14 results were moderately ahead of our estimates with 16%YoY growth in the industrial chemicals segment leading to flat revenue growth over Q2FY13-Q2FY14. Adjusted PAT however declined by 18% YoY primarily because of margin pressure in the industrial chemicals segment. A recovery in caprolactam prices is still distant as China continues to add capacity and flood the market; however, we believe caprolactam prices have bottomed out and the pressure GSFC has seen in the industrial chemical division in the last two years is coming to an end. We update our estimates primarily to factor in lower profitability in the industrial chemicals division and maintain our BUY stance with a revised fair value of Rs.68/share (previously Rs. 86).

Recent Publications

N.B. all prices, valuations and recommendations within this section as per date of research note

Auto & Auto Ancillaries– Analysts : Aditya Jhawar, Nitesh Sharma, CFA, Nick Paulson-Ellis		
30-Oct-13	**Balkrishna Industries (BIL IN, Rs282.00, BUY, FV: Rs362.00)** **Strong quarter, volume pick-up in sight** **08 pages**	BKT has reported robust Q2FY14 earnings, 15% ahead of street expectations primarily led by margin expansion. Although our channel checks highlight near term challenges, we see demand improving from Q4FY14. Furthermore, we believe its robust business model led by low cost manufacturing should also translate into market share gains. Trading at 6.8x FY15E earnings, BKT offers a strong structural business at an appealing valuation. Reiterate BUY with a fair value of Rs 362.
Financials Analysts: Santosh Singh, Nidhesh Jain		
7-Oct-13	**General Insurance Thematic** **On the road to redemption** **30 pages**	The General Insurance sector began with a lot of promise but was knocked off its stride by regulatory changes, intense competition with one too many players and investor apathy given the lack of listed plays. However with some of the previously imposed regulations now being reversed, and more rational competitive behaviour, the sector finally looks ready for its moment in the sun. With the sector growing at c.20% over the last five years and several macroeconomic & regulatory factors in its favour, we expect companies to achieve cross cycle ROEs >20%, and near-term ROEs for some of them being >25%. Its lower cyclicality is another reason for investors to take another look. Whilst there are still no direct general insurance plays, of the stocks we cover with insurance subsidiaries, Bajaj Finserv and Sundaram Finance look the best way to gain exposure to the sector.
Economics Analyst : Deepali Bhargava		
30-Oct-13	**Economics** **RBI normalizes rates --- growth concerns to limit hikes** **06 pages**	We think today's policy measures entails normalisation of exceptional measures taken by the RBI earlier, and it's not ultra-hawkish. We think RBI's guidance for further course of action is rather weak. While further rate hikes cannot be ruled out, we expect the pace to be more calibrated than aggressive. We expect the RBI to pause in the next policy meeting, though we pencil in another hike of 25bps for the rest of FY14.
Pharma Analyst : Chirag Talati, Rakesh Nayadu		
31-Oct-13	**Lupin (LPC IN, Rs901.00, BUY, FV: Rs1000.00)** **Strong quarter helped by forex** **07 pages**	Lupin's Q2FY14 revenues were in line with our expectations though a significant forex gain pushed EBITDA margins above our expectations. Excluding the forex impact, we estimate gross margins would have expanded by c.80bps qoq on constant currencies. We expect a stronger H2 v. H1 as its core cephalosporins portfolio benefits from the onset of the peak winter season in the US and on back of new launches, particularly Yaz and Niaspan in Q4FY14. We see the US pipeline continuing to unfold through the course of FY15 and upgrade our EPS estimates by 14% and 21% for FY14/15 primarily on account of INR depreciation. Re-iterate Buy with a revised FV of Rs.1000 (v. Rs.810 earlier).
28-Oct-13	**Biosimilars (Fundamental Insight)** **Not for the faint-hearted** **25 pages**	Remsima's EU approval has rekindled investor hopes for the biosimilars industry, with rising optimism on future EU launches. Biosimilars are increasingly relevant for Indian generics too, particularly Dr Reddy's, with >20% of its FY13 R&D expenditure focused on biosimilars, and Biocon, which is a leveraged play on biosimilars. Given the recent developments, we take a deep dive into the biosimilars mAb opportunity, only to conclude that the opportunity is still far off and laced with several uncertainties that could lead to sub-optimal returns, thereby warranting careful capital allocation. Re-iterate NEUTRAL on Dr. Reddy's and SELL on Biocon.

Recent Publications

Metals and mining Analyst : Ritesh Shah, Anshuman Atri		
31-Oct-13	**India Metals and Mining Thematic** **44 pages**	Mining bans and slow bureaucratic decision-making have weighed on India's iron ore (IO) production and exports, which have fallen precipitously from their peaks. State miners have emerged as beneficiaries in this phase, while steel mills/sponge iron makers have borne the brunt of IO availability/pricing. However with the mining outlook expected to improve, we think the pendulum will swing the other way to benefit steel mills as fundamentals persist and our IO market distortion theory plays out. Despite multiple headwinds over the past 18 months, we find mills' persistent focus on leaner cost structure, newer technologies and improved product mix encouraging. Macro challenges, event-based risks and leveraged balance sheets notwithstanding, we maintain our long-term BUY preference for JSTL and JSP. We reiterate our BUY ratings on JSTL & JSP, SELL on NMDC & SAIL and NEUTRAL on Tata Steel.
25-Oct-13	**Hindustan Zinc (HZ IN, Rs134, BUY, FV:Rs 169.00)** **On a strong footing** **08 pages**	HZL reported strong a Q2 FY14, with EBITDA clocking 31% yoy growth ahead of our and the Street's estimates. Record refined metal production (20% yoy) and gains from INR depreciation (12.5% yoy) translated into strong growth offsetting the adverse impact of lower LME and by-product credits. A negative surprise was management's downward revision of both Ag volumes (to 335T vs. 350T earlier) and guidance on mined metal production (950kt vs. 1MT earlier) for FY14 owing to delays in ramp-up at the RAM/SK mine. We think Vedanta's shareholder approval (on 30th Oct) will pave the way for a support price of Rs149/share and a best case price of Rs173/share for a potential minority buyout. We reiterate BUY with FV of Rs169.
11-Oct-13	**Hindalco (HZ IN, Rs117, SELL, FV:Rs 90.00)** **Can auto fix Hindalco?** **19 pages**	We like Novelis' strategic move from can stock to automotive capacity, but believe it's a case of too little too late. Despite the automotive segment being likely to report higher per tonne marginal profitability (vs. the rest of Novelis' operations), as a result of our review of Hindalco's plans to sell into the auto sector we think the operational headwinds at its current operations will offset the margin gains on auto volumes, pulling operational metrics down. A steady shift from UBC (used beverage cans) to non-UBC is also likely to drag its return ratios south. Depletion of reserves at existing coal blocks and no guarantee on new linkages to ensure fuel security remain a recurring theme for its Indian operations, even as hope rides high on Mahan coal block. Easing LME warehousing norms and domestic additions to aluminium capacity could raise concerns on sustainability of high domestic premiums, thereby denting profitability metrics. We re-iterate SELL with FV of Rs90.
Capital Goods Analyst: Aditya Bhartia		
21-Oct-13	**Larsen & Toubro (LT IN, Rs872.00, Neutral, FV: Rs915)** **Strong P&L but weak BS; cut to Neutral** **14 pages**	L&T's Q2 FY14 EBITDA came 4% ahead of our estimates on slightly higher revenues and margins. Dividends from subs more than tripled YoY, which meant that PAT was 11% ahead of our forecast. However, despite a strong 27% YoY growth in orders, working capital has continued to increase. We believe this is reflective of a difficult macro-environment, where customer advances are lower, even as the cash collection cycle lengthens. This, coupled with continued subs investments (Rs12bn+ in H1), meant that FCF stayed negative. We tweak our EPS estimates by 1-2%, driving an increase in our FV to Rs915 (from Rs900). We continue to believe that L&T will miss its FY14 revenue and margin guidance. With the stock rallying by c.25% in the last 45 days (Sensex +14%), we see potential upside as capped and downgrade our rating to Neutral (from BUY).
7-Oct-13	**Capital Goods Thematic Middle East: A large, growing but difficult construction market** **25 pages**	The Middle East (ME) construction market is showing strong signs of revival, after having shrunk continuously since 2009. This coupled with the low market share of Indian companies should offer a much-needed boost for order inflows. Pricing pressure is intense as Korean companies continue their aggressive pricing and European players try to regain lost market share. Our analysis suggests L&T's overseas margins should be somewhere in between Korean and European contractors, at c.8-9%, broadly in line with management guidance. While the possibility of cost overruns cannot be ruled out, L&T's risk management systems appear strong. We have raised our L&T's FV slightly to Rs900 (Rs880 earlier) on expectation of higher oderflows. We also see Voltas as a significant beneficiary of a pick-up in MEP orders, which should aid in its margin recovery as well.

Recent Publications

Banks Analysts : Sai Kiran, Sri Karthik		
22-Oct-13	**Federal Bank (FB IN, Rs78.40, BUY, FV: Rs113.00)** **Consensus upgrades to follow** **08 pages**	Federal Bank reported strong Q2 FY14 and we expect the consensus FY14E PAT estimate to be upgraded by c.6%, driven by upgrades to NIMs and lower NPA provisions. We highlighted Federal Bank as our Silver Bullet BUY for this quarter as we expected strong performance on the back of (a) re-appointment of CEO Mr Shyam Srinivasan; (b) an increase in the FIPB limit to 65% and (c) stable Q2 FY14 results. Two of the three catalysts (the RBI approved the reappointment of Mr Shyam on 23rd Sept 2013 and Federal reported strong Q2 FY14 results, a 30% PAT beat) have already played in favour of Federal Bank, leading it outperform the BANKEX by c.33% since 30th Aug 2013. We expect the third catalyst to play out on 24th Oct 2013, when the FIPB meeting for the approval of an increase in the FII limit is scheduled. We expect the bank to re-rate further as we forecast RoE to rise from 12.7% in FY14E to 14.5% in FY15E, driven by stable asset quality and higher growth. We make minor adjustments to our estimates and reiterate our BUY with an unchanged FV of Rs113 (post adjustment of 5x stock split).
1-Oct-13	**Private Sector Banks (Fundamental Insight)** **Prefer Axis over ICICI Bank** **21 pages**	In this note we run the rule over the two heavyweight private sector banks, ICICI and Axis, to see which is better placed to steer through a sluggish macro environment. We untangle perception from reality, analyze capital utilization, asset quality, retail strategy and valuation to contrast both the banks' positioning. Our analysis points to Axis having an edge over ICICI. We upgrade Axis Bank to BUY (from NEUTRAL) with a new FV of Rs1,190 (from Rs1,388) and downgrade ICICI Bank to NEUTRAL with a reduced FV of Rs952 (from Rs1,175).

Blank for notes

Share price and ratings history

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BUY	Analyst expects at least 10% upside potential to fair value, which should be realized in the next 12 months
NEUTRAL	Analyst expects upside/downside potential of between +10% and -10% to fair value, which should be realized in the next 12 months
SELL	Analyst expects at least 10% downside potential to fair value, which should be realized in the next 12 months

TRADING RATING	DEFINITION
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12 Month Rating:					
Buy	205	49.8%	31	79.5%	7.5%
Neutral	121	29.4%	6	15.4%	1.5%
Sell	84	20.4%	2	5.1%	0.5%
Restricted	0	0.0%	0	0.0%	0.0%
Under Review	2	0.5%	0	0.0%	0.0%
Trading Rating:					
Trading Buy	0	0.0%	0	0.0%	0.0%
Trading Sell	0	0.0%	0	0.0%	0.0%
Total recommendations	412	100%	39	100%	9.5%

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