

7 October 2013

India Industrials

Waiting for deliverance

Key takeaways

Hoping for positive developments in FY14. The domestic industrials sector, which had experienced a serious lack of activity in the past 6-7 quarters, suddenly seems to be emerging out of hibernation. Several developments in quick succession have generated hope regarding return of growth in industry. These include the clearance of fuel supply to several power plants under construction as well as awards of several large road and power transmission projects. Simultaneously, the depreciating rupee has boosted the competitiveness of domestic industrials companies, now scrambling to improve their operational efficiencies in order to alleviate pressures of lower margins.

No singular trend in operating performance. The execution of existing order books would drive revenues of companies we cover. However, revenue growth would vary vastly, depending on business models and addressable markets. We estimate the turnover of our coverage universe to rise 5% yoy, with companies like L&T (up 23% yoy), BGR (up 33% yoy) and V-Guard (up 24% yoy) leading the pack. BHEL and Sanghvi Movers are companies that we estimate would experience a sharp contraction in revenues and a fall in EBITDA consequent on weak orders in the past.

Order book to grow selectively. As we believe that the sector will gradually revive, we feel that large-scale ordering is still some time away. At present, the backlog of delayed projects is being cleared, albeit at an unsatisfactory pace. Ahead, pockets of demand are emerging in the form of Central and state enterprises, which are emerging as the bulwarks of domestic capex.

Financials could improve in 2-3 quarters. In the absence of large orders, the float-generating ability of the sector has been impaired. As a result, companies such as BHEL, Thermax and L&T have registered declines in the cash component of their balance sheets. However, an improvement in receivables is the priority as most companies are reconciled to margin contraction. We believe that 2HFY14 would be crucial as the backlog of projects come up for award in the run-up to the general elections in CY14.

Industrials sector: 2QFY14 estimates

Company Name	Revenue		EBITDA		PAT	
	₹m	YoY (%)	Margin (%)	YoY bps	₹m	YoY (%)
Larsen & Toubro	162,338	23.0	10.0	(65.1)	10,647.5	(6.4)
BHEL	81,206	(23.1)	10.0	(798.5)	8,120.6	(57.2)
Siemens*	36,910	9.4	2.6	(38.7)	537.9	(196.5)
Havells	11,046	14.6	13.5	10.1	994.9	14.5
Thermax	13,629	14.3	10.0	(21.1)	804.8	(11.6)
V-guard	3,880	23.8	9.0	(56.7)	196.5	9.3
BGR	8,329	32.8	11.0	(419.5)	246.2	(29.1)
Bajaj Electricals	9,029	23.0	4.0	65.5	101.1	98.2
Sanghvi Movers	660	(25.3)	64.0	(436.5)	11.8	(89.4)
Tecpro	4,966	(16.0)	15.0	(11.4)	(33.0)	(126.5)

Source: Anand Rathi Research * Sep. year end

Overweight

Sensex: 19915

Nifty: 5907

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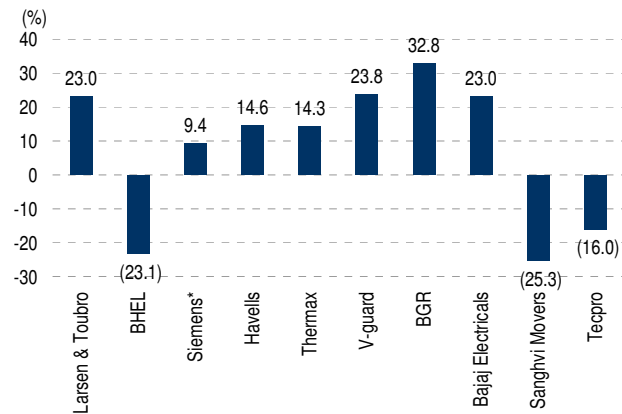
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Fig 1 – 2QFY14: Key estimates

Company Name	Sales		Change			OPM		Change		PAT		Change		
	Sep'13	Jun'13	Sep'12	YoY %	QoQ %	Sep'13	Jun'13	Sep'12	YoY bps	Sep'13	Jun'13	Sep'12	YoY %	QoQ %
Larsen & Toubro	162,338	125,551	131,952	23.0	29.3	10.0	8.5	10.7	(65.1)	10,647	7,560	11,373	(6.4)	40.8
BHEL	81,206	64,581	105,616	(23.1)	25.7	10.0	6.0	18.0	(798.5)	8,121	3,886	18,995	(57.2)	109.0
Siemens*	36,910	26,426	33,752	9.4	39.7	2.6	(0.2)	2.9	(38.7)	538	(488)	(558)	(196.5)	(210.2)
Havells	11,046	10,513	9,641	14.6	5.1	13.5	12.7	13.4	10.1	995	947	869	14.5	5.1
Thermax	13,629	8,628	11,924	14.3	58.0	10.0	9.4	10.2	(21.1)	805	502	911	(11.6)	60.2
V-guard	3,880	4,082	3,135	23.8	(5.0)	9.0	7.6	9.6	(56.7)	196	176	180	9.3	11.4
BGR	8,329	8,213	6,273	32.8	1.4	11.0	12.9	15.2	(419.5)	246	374	347	(29.1)	(34.1)
Bajaj Electricals	9,029	7,835	7,338	23.0	15.2	4.0	2.6	3.3	65.5	101	7	51	98.2	1,431.4
Sanghvi Movers	660	673	884	(25.3)	(2.0)	64.0	63.3	68.4	(436.5)	12	10	112	(89.4)	15.5
Tecpro	4,966	3,086	5,911	(16.0)	60.9	15.0	13.5	15.1	(11.4)	(33)	(601)	125	(126.5)	(94.5)
Total	331,993	259,589	316,425	4.9	27.9	9.3	7.4	12.5	(317.7)	21,628	12,373	32,404	(33.3)	74.8

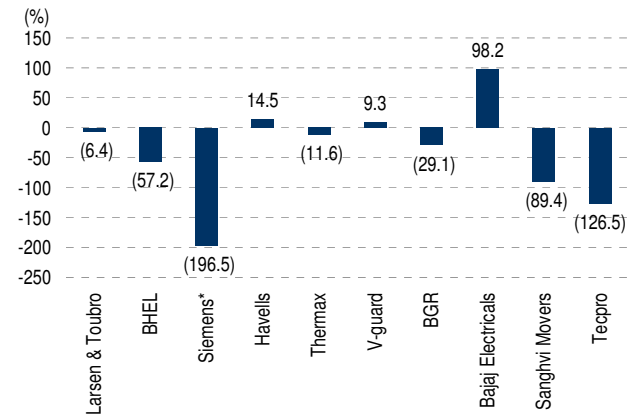
Source: Anand Rathi Research * Sep. year end

Fig 2 – 2QFY14 Revenue growth of industrial companies



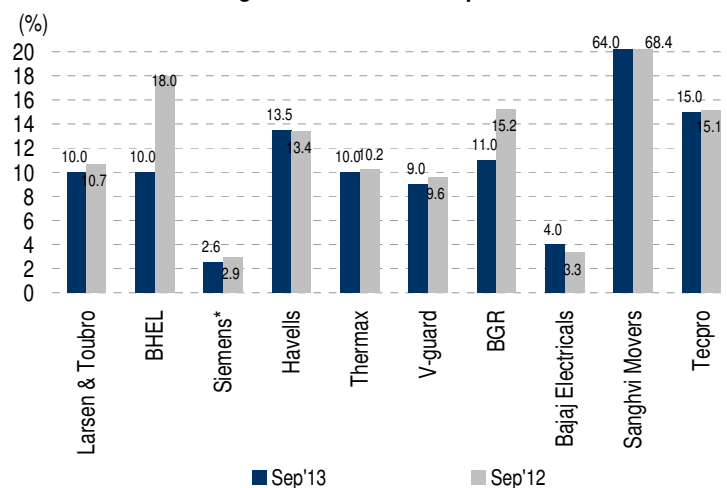
Source: Anand Rathi Research * Sep. year end

Fig 3 – 2QFY14 PAT growth rates of industrial companies



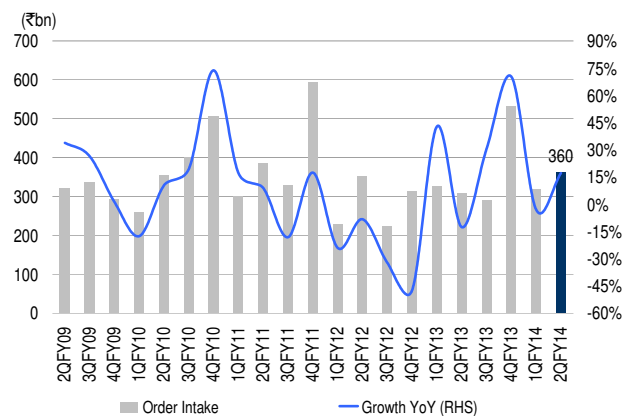
Source: Anand Rathi Research * Sep. year end

Fig 4 – 2QFY14 EBITDA margins of industrial companies



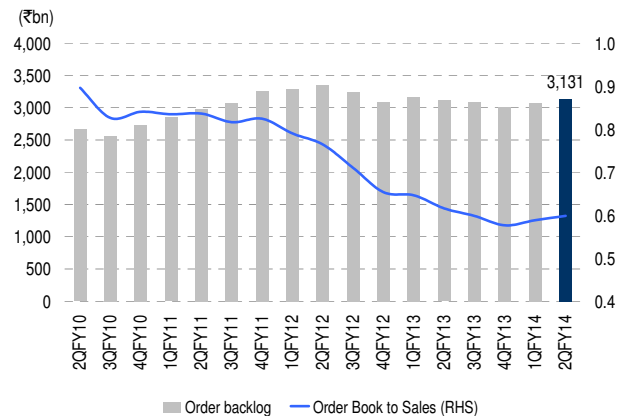
Source: Anand Rathi Research * Sep. year end

Fig 5 – Quarterly order-inflow trend



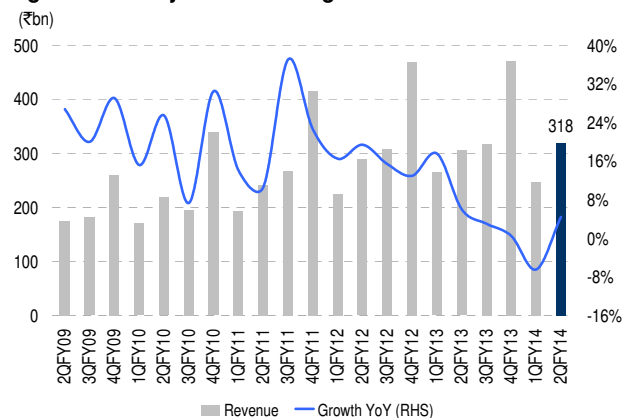
Source: Anand Rathi Research

Fig 6 – Quarterly order-backlog and book-to-bill trends



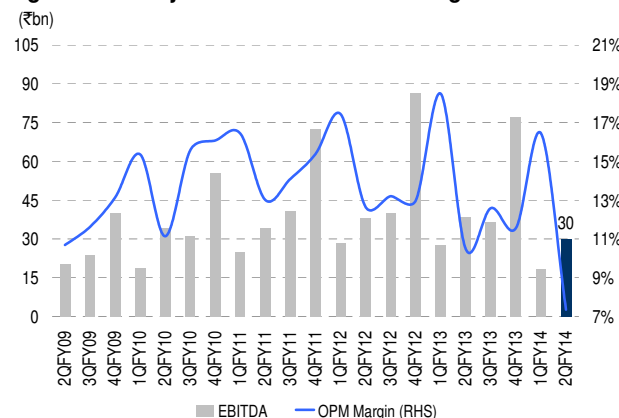
Source: Anand Rathi Research

Fig 7 – Quarterly revenue and growth trend



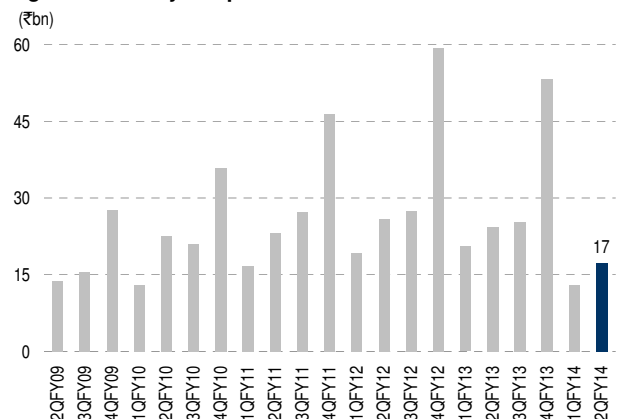
Source: Anand Rathi Research

Fig 8 – Quarterly EBITDA and EBITDA-margin trend



Source: Anand Rathi Research

Fig 9 – Quarterly net-profit trend



Source: Anand Rathi Research

Fig 10 – BSE Capital Goods Index - PE



Source: Anand Rathi Research

7 October 2013

Larsen & Toubro

Strong order flows to offset margin contraction; Buy

Key takeaways

Momentum in order booking to have been maintained. L&T has announced orders of ₹253bn in the quarter, incl. ~₹45bn in its construction arm. It has also been active in securing business in the power T&D space, with orders of ₹26bn in its kitty. We expect it to declare additional orders won of ~₹20bn, ending the quarter with orders worth ~₹273bn and the year with ₹1,000bn. It would be interesting to see the traction in international business given L&T's concerted efforts to increase this.

No major surprises expected in quarterly operating metrics. We expect L&T to clock standalone revenue of ~₹162bn in 1QFY14, a 23% yoy growth. Revenues would flow largely from heightened execution in the engineering and construction (E&C) vertical. We expect a 10% OPM as the company encounters cost escalation in executing overseas contracts because of the rupee depreciation. We expect EBIDTA to come at ₹16bn.

Performance of infrastructure assets. While the company has clearly guided regarding the capex schedule for its assets across roads, ports and transmission projects, we await details in its power-generation business.

No change in estimates for now. For FY14, we have retained our previous estimates. We anticipate standalone revenue at ₹696bn, EBIDTA at ₹69bn and PAT at ₹50bn. We expect consolidated turnover to settle at ₹881bn, with PAT at ₹50bn.

Our take. L&T has guided to ~20% growth in order flows in FY14 and a 15% jump in revenue booking. In order to achieve this ambitious target, it might compromise on pricing and, correspondingly, margins. Given the extremely challenging operating environment, we believe that this is perfectly justified. At the ruling price of ₹820, the stock trades at a P/E and an EV/EBIDTA of 14.2x and 11.8x respectively, discounting our FY14e figures. We maintain our Buy recommendation on the stock, with a price target of ₹977, representing a 19% upside.

Quarterly results (YE Mar)	2QFY13	2QFY14e	% yoy	FY12	FY13	% yoy
Sales (₹m)	131,952	162,338	23.0	531,705	608,733	14.5
EBITDA (₹m)	14,054	16,234	15.5	62,639	64,071	2.3
EBITDA margin (%)	10.7	10.0	-65bps	11.8	10.5	-126bps
Interest (₹m)	2,350	1,500	(36.2)	6,661	9,824	47.5
Depreciation (₹m)	2,040	2,368	16.1	6,807	8,185	20.2
Other income(₹m)	3,294	4,425	34.3	13,383	18,509	38.3
PBT (₹m)	15,630	16,791	7.4	63,104	67,047	6.2
Tax (₹m)	4,257	6,143	44.3	18,538	17,940	(3.2)
Tax rate (%)	27.2	36.6	935bps	29.4	26.8	-262bps
PAT (₹m)	11,373	10,647	(6.4)	44,566	49,107	10.2

Source: Company, Anand Rathi Research

Key data	LT IN / LART.BO
52-week high / low	₹1147/ ₹678
Sensex / Nifty	19916 / 5907
3-m average volume	US\$47.8m
Market cap	₹759bn/US\$14.6bn
Shares outstanding	923m

Shareholding pattern (%)	Jul' 13	Jun' 13	Mar' 13
Promoters	-	-	-
- of which, Pledged	-	-	-
Free Float	100.0	100.0	100.0
- Foreign Institutions	16.06	15.96	16.58
- Domestic Institutions	37.01	36.85	36.28
- Public	46.93	47.19	47.14

Financials (YE Mar)	FY14e	FY15e
Sales (₹m)	881,221	1,032,110
Net profit (₹m)	53,166	60,210
EPS (₹)	57.6	65.2
Growth (%)	2.13	13.25
PE (x)	14.2	12.6
PBV (x)	2.0	1.8
RoE (%)	14.9	15.2
RoCE (%)	10.7	12.0
Dividend yield (%)	2.0	2.0
Net gearing (%)	179.3	170.9

Source: Anand Rathi Research

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Quick Glance – Financials and Valuations

Fig 1 – Income statement (₹m)

Year-end: Mar	FY11	FY12	FY13	FY14e	FY15e
Revenue	520,891	643,131	744,980	881,221	1,032,110
- Op. expenses	351,522	417,022	546,930	621,261	732,798
- Employee Costs	37,320	68,731	62,242	82,560	90,816
- Other Administrative	44,470	51,754	37,217	66,973	77,408
EBIDTA	87,579	105,625	98,592	110,427	131,087
- Interest	19,309	28,944	20,950	24,461	32,373
- Depreciation	13,189	15,803	16,371	16,887	17,203
+ Other income	12,241	8,857	10,959	10,248	10,248
- Tax	23,479	22,826	23,920	24,988	30,281
Reported PAT	43,843	46,909	48,311	54,339	61,479
- Minority Interest	786	348	722	1,904	2,109
+ Profit from Ass. Co.s	871	462	384	731	841
+ Extraord. Items	634	-87	4,084	0	0
Net Profits	44,562	46,937	52,057	53,166	60,210
FDEPS (₹ / share)	48.3	50.8	56.4	57.6	65.2
BV (₹ / share)	411.4	479.9	550.2	405.7	452.2

Source: Company, Anand Rathi Research

Fig 2 – Balance sheet (₹m)

Year-end: Mar	FY11	FY12	FY13	FY14e	FY15e
Share capital	1,218	1,225	1,231	1,846	1,846
Reserves & surplus	249,288	292,643	337,366	372,636	415,566
Shareholders' fund	250,506	293,868	338,597	374,483	417,413
Debt	373,402	516,464	665,893	698,893	719,393
Deferred Tax Liab (net)	3,109	818	1,837	1,837	1,837
Minority interests	10,260	17,535	26,529	28,433	30,542
Capital employed	637,277	828,685	1,032,855	1,103,645	1,169,184
Net Fixed Assets	281,637	343,135	417,400	434,914	457,112
Investments	92,158	87,895	87,675	87,675	87,675
Current Assets	588,416	757,623	924,034	1,093,910	1,209,188
Cash	36,454	35,221	35,715	27,358	5,916
Current Liab and Prov	324,934	359,968	396,253	512,854	584,791
Net Current Assets	263,482	397,655	527,780	581,056	624,398
Misc Exp (not w/o)	-	-	-	-	-
Capital deployed	637,277	828,685	1,032,855	1,103,645	1,169,184
Net Debt/Equity (%)	134.5	163.8	186.1	179.3	170.9

Source: Company, Anand Rathi Research

Fig 3 – Cash-flow statement (₹m)

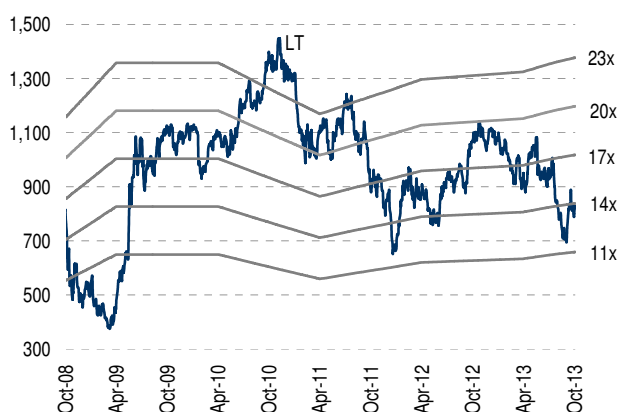
Year-end: Mar	FY11	FY12	FY13	FY14e	FY15e
Consolidated PAT	43,843	46,909	48,695	55,070	62,320
+ Depreciation	13,189	15,803	16,371	16,887	17,203
+ Other non-cash	(10,887)	(13,244)	0	0	0
Cash profit	46,144	49,469	65,066	71,957	79,523
- Incr./Decr. in WC	70,007	127,948	129,631	61,633	64,784
Operating cash-flow	(23,863)	(78,480)	(64,566)	10,324	14,739
- Capex	68,942	71,039	90,636	34,401	39,401
Free cash-flow	(92,804)	(149,519)	(155,201)	(24,077)	(24,662)
- Dividend	9,094	10,627	13,320	17,280	17,280
+ Equity raised	3,473	1,926	6	0	0
+ Debt raised	96,952	150,941	168,790	33,000	20,500
- Investments	(4,712)	(6,046)	(220)	0	0
- Misc. items	0	0	0	0	0
Net cash-flow	3,239	(1,233)	494	(8,357)	(21,442)
+ Opening cash	33,216	36,454	35,222	35,716	27,359

Source: Company, Anand Rathi Research

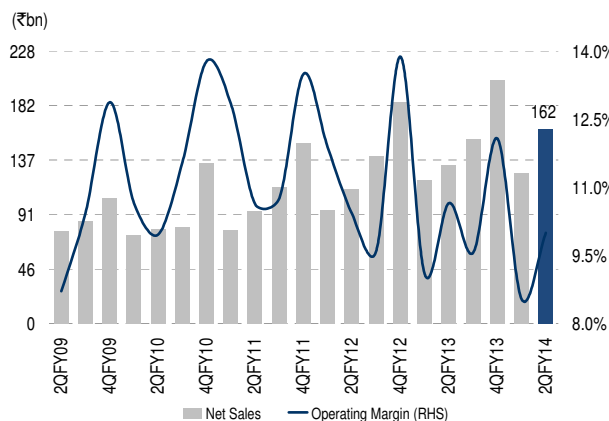
Fig 4 – Ratio analysis @ ₹820

Year-end: Mar	FY11	FY12	FY13	FY14e	FY15e
P / E	11.2	10.7	9.7	14.2	12.6
P / BV	2.0	1.7	1.5	2.0	1.8
EV / Sales	1.6	1.5	1.5	1.6	1.4
EV / EBIDTA	8.4	8.6	10.4	11.8	10.4
RoAE (%)	19.4	17.2	16.5	14.9	15.2
RoACE (%)	19.0	16.6	11.6	10.7	12.0
Dividend yield (%)	1.8	2.0	2.3	2.0	2.0
Dividend payout (%)	23.0	23.7	25.6	32.5	28.7
Net Debt / Equity (%)	134.5	163.8	186.1	179.3	170.9
Revenue growth (%)	18.5	23.5	15.8	18.3	17.1
EBIDTA growth (%)	21.3	20.6	-6.7	12.0	18.7
EBIDTA (%)	16.8	16.4	13.2	12.5	12.7
Net profit growth (%)	-18.2	5.3	10.9	2.1	13.2
Order book (₹ bn)	1,302.2	1,457.2	1,536.0	1,844.0	2,180.4
Order inflow (₹ bn)	797.7	705.7	880.0	1,004.7	1,154.6

Source: Company, Anand Rathi Research

Fig 5 – PE band


Source: Bloomberg, Anand Rathi Research

Fig 6 – Qtr. revenue and OPM trend


Source: Company, Anand Rathi Research

7 October 2013

BHEL*Weathering the storm; Buy*Rating: **Buy**

Target Price: ₹199

Share Price: ₹144

Key takeaways

Performance to have been sluggish in 2QFY14. The stalled execution of some sizeable projects (Bajaj Hind, Abhijeet Power, Monnet, Surana) would be reflected in the 2QFY14 results. We don't expect any sizeable orders in the power segment, but aren't overly perturbed about it. This is characteristic of the Indian capital-goods sector: business momentum picks up in 2H of a financial year. Also, we expect orders of ~₹10bn to be booked in the 'industry' segment.

Slower execution and mounting costs to be evident. We estimate BHEL's revenues in the quarter at ₹81bn, with OPM at 10%. The dip in margins would follow from scarce orders, stiff competition from new players as well as the rise in fixed costs such as payroll expenses. We expect EBIDTA to come at ₹8bn (57% lower yoy).

Inflows to improve slowly and steadily over FY14. After securing orders for 7,800 MW of BTG equipment in FY13, we expect BHEL to garner ~6,000 MW of BTG orders in FY14 as the economy limps back to normalcy consequent on resumption of infrastructure capex. Urgent capex to augment power generation capacity by Maharashtra, Orissa, Tamil Nadu, etc., would provide opportunities to augment the order book (OB). We expect the company to end the year with an OB of ~₹958bn and an OB coverage of 2.2x.

Our take. We maintain our view that BHEL would be one of the largest beneficiaries of any pickup in the domestic macro-economic environment. We believe that it should consolidate and improve its share of 1.5—2% in India's gross fixed-capital formation, given the scale of its operations and technical expertise. While we are cautiously optimistic regarding its prospects, we have maintained our target at ₹199 following delayed execution of orders and a lower margin outlook over the next several quarters. **Risk:** Any untoward delays in receipt of payments would diminish the company's float generation and jeopardize earnings.

Quarterly results (YE Mar)	2Q FY13	2Q FY14e	% yoy	FY12	FY13	% yoy
Sales (₹m)	105,616	81,206	(23.1)	479,789	484,247	0.9
EBITDA (₹m)	18,995	8,121	(57.2)	99,073	93,894	(5.2)
EBITDA margin (%)	18.0	10.0	-798bps	20.6	19.4	-126bps
Interest (₹m)	259	615	137.8	513	1,253	144.3
Depreciation (₹m)	2,163	2,529	16.9	8,000	9,534	19.2
Other income(₹m)	1,307	772	(40.9)	12,463	11,217	(10.0)
PBT (₹m)	17,880	5,749	(67.8)	103,023	94,324	(8.4)
Tax (₹m)	5,135	1,725	(66.4)	32,623	28,177	(13.6)
Tax rate (%)	28.7	30.0	128bps	31.7	29.9	-179bps
PAT (₹m)	12,745	4,024	(68.4)	70,400	66,147	(6.0)

Source: Company, Anand Rathi Research

Key data	BHELIN / BHEL.BO
52-week high / low	₹272 / ₹100
Sensex / Nifty	19916 / 5907
3-m average volume	US\$14.4m
Market cap	₹352bn / US\$6.8bn
Shares outstanding	2448m

Shareholding pattern (%)	Jun'13	Mar'13	Dec'12
Promoters	67.72	67.72	67.72
- of which, Pledged	-	-	-
Free Float	32.28	32.28	32.28
- Foreign Institutions	14.98	14.75	14.92
- Domestic Institutions	12.24	12.42	12.47
- Public	5.06	5.11	4.89

Year-end: Mar	FY14e	FY15e
Sales (₹m)	451,145	430,073
Net profit (₹m)	46,514	43,365
EPS (₹)	19.0	17.7
Growth (%)	(29.7)	(6.8)
PE (x)	7.6	8.1
PBV (x)	1.1	1.0
RoE (%)	14.6	12.5
RoCE (%)	20.6	17.7
Dividend yield (%)	4.2	4.2
Net gearing (%)	(12.7)	(42.6)

Source: Anand Rathi Research

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Quick Glance – Financials and Valuations

Fig 1 – Income statement (₹m)

Year-end: Mar	FY11	FY12	FY13	FY14e	FY15e
Revenue	420,375	479,789	484,247	451,145	430,073
- Operating. expenses	237,505	290,991	273,558	282,868	265,355
- Emp. Costs	53,966	54,658	57,528	64,895	68,789
- Office Administration	51,796	35,068	59,267	32,618	30,874
EBIDTA	77,107	99,073	93,894	70,764	65,055
- Interest	547	513	1,253	2,123	2,123
- Depreciation	5,441	8,000	9,534	9,894	10,666
+ Other income	18,917	12,463	11,217	7,701	9,684
- Tax	29,945	32,623	28,177	19,935	18,585
PAT	60,091	70,400	66,147	46,514	43,365
Dividend	15,249	15,827	13,242	14,686	14,686
FDEPS	25	29	27	19	18
CEPS	27	32	31	23	22
DPS	6	6	5	6	6
BV (₹/share)	82	104	124	136	147
Shares outstanding	2,448	2,448	2,448	2,448	2,448

Source: Company, Anand Rathi Research

Fig 2 – Balance sheet (₹m)

Year-end: Mar	FY11	FY12	FY13	FY14e	FY15e
Share capital	4,895	4,895	4,895	4,895	4,895
Reserves & surplus	196,643	248,837	299,546	328,992	355,289
Shareholders' fund	201,538	253,732	304,441	333,887	360,184
Debt	1,634	1,234	14,152	14,152	14,152
Deferred Tax Liab (net)	(21,636)	(15,462)	(15,507)	(15,507)	(15,507)
Capital employed	181,536	239,504	303,086	332,532	358,829
Gross Fixed Assets	80,497	97,078	110,945	112,045	112,645
Less: Depreciation	46,486	54,110	63,644	73,539	84,204
Net Fixed Assets	51,631	56,444	56,301	43,006	32,941
Investments	4,392	4,617	4,292	4,292	4,292
Current Assets	589,283	591,237	625,185	573,559	638,126
Cash	96,302	66,720	77,321	56,692	167,420
Current Liab and Prov	463,769	412,794	382,692	288,325	316,529
Net Current Assets	125,514	178,443	242,494	285,234	321,597
Working Capital	29,212	111,723	165,173	228,542	154,177
Capital deployed	181,536	239,504	303,086	332,532	358,829

Source: Company, Anand Rathi Research

Fig 3 – Cash-flow statement (₹m)

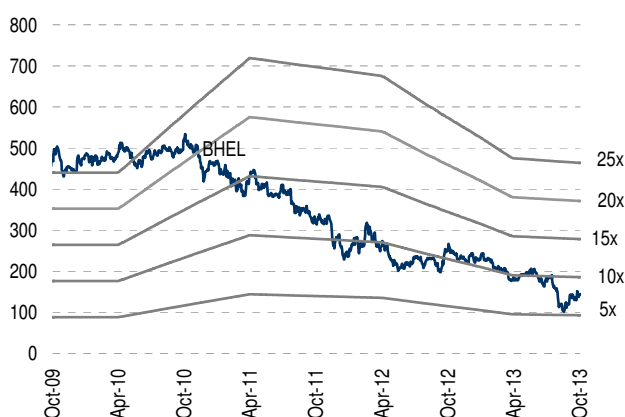
Year-end: Mar	FY11	FY12	FY13	FY14e	FY15e
Consolidated PAT	60,091	70,400	66,147	46,514	43,365
+ Depreciation	5,441	8,000	9,534	9,894	10,666
+ Deferred Tax	(6,363)	6,173	(45)	0	0
+ Other non-cash	21	188	(49)	0	0
Cash profit	59,190	84,761	75,588	56,408	54,031
- Incr./Decr. in WC	22,387	82,511	53,450	63,369	(74,365)
Operating cash-flow	36,803	2,250	22,138	(6,961)	128,396
- Capex	17,418	12,813	9,391	(3,400)	600
Free cash-flow	19,386	(10,564)	12,747	(3,561)	127,796
- Dividend	17,747	18,394	15,390	17,068	17,068
+ Equity raised	0	0	0	0	0
+ Debt raised	356	(399)	12,918	0	0
- Investments	3,593	225	(325)	0	0
Net cash-flow	(1,599)	(29,582)	10,601	(20,629)	110,729
+ Opening cash	97,901	96,302	66,720	77,320	56,692

Source: Company, Anand Rathi Research

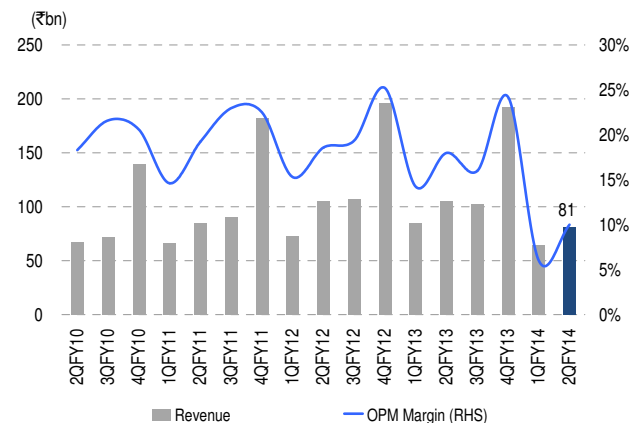
Fig 4 – Ratio analysis @ ₹144

Year-end: Mar	FY11	FY12	FY13	FY14e	FY15e
P / E	5.9	5.0	5.3	7.6	8.1
P / BV	1.7	1.4	1.2	1.1	1.0
EV / Sales	0.6	0.6	0.6	0.7	0.5
EV / EBIDTA	2.7	2.6	2.8	3.9	2.7
RoAE (%)	33.3	30.9	23.7	14.6	12.5
RoACE (%)	49.8	45.2	33.3	20.6	17.7
Dividend yield (%)	4.3	4.5	3.8	4.2	4.2
Dividend payout (%)	29.5	26.1	23.3	36.7	39.4
Net Debt / Equity	(47.0)	(25.8)	(20.7)	(12.7)	(42.6)
Revenue growth (%)	26.4	14.1	0.9	(6.8)	(4.7)
EBIDTA growth (%)	130.9	28.5	(5.2)	(24.6)	(8.1)
EBIDTA (%)	18.3	20.6	19.4	15.7	15.1
Net profit growth (%)	39.5	17.2	(6.0)	(29.7)	(6.8)
Order book (₹ bn)	1,551	1,277	1,152	959	945
Order book (MW)	3.7	2.7	2.4	2.1	2.2

Source: Company, Anand Rathi Research

Fig 5 – Valuation chart (PE Band)


Source: Bloomberg, Anand Rathi Research

Fig 6 – Qtr. revenue and OPM trend


Source: Company, Anand Rathi Research

7 October 2013

Havells India

*Advertising push for sales; Buy*Rating: **Buy**

Target Price: ₹714

Share Price: ₹672

Key takeaways

Restrained performance in domestic operations. We estimate Havells' 2QFY14 standalone revenues to come at ₹11bn, a 15% yoy growth. We see a subdued performance in its domestic business as de-stocking of inventory by channel partners, especially in the cables & wires business, restricts offtake.

Operating performance could have been hit by a depreciating rupee. Despite stable commodity prices, the depreciating rupee could have trimmed profit in the consumer-appliances vertical. This would be due to large-scale imports from China. Hence, currency could be the only spoilsport for margins as ad-spends in the quarter would have been lower due to fewer cricket tournaments. We expect margins of the standalone business, at 13.5%, to be flat yoy.

Capex and distribution network. We would like to hear about the amount spent on capacity addition on a quarterly basis as well as additions to the company's dealer network in the rural hinterland.

Sylvania's performance to be steady. We expect Sylvania's sales to have settled at €100m. However, currency volatility in Latin America could have dented margins and EBIDTA, especially on account of imports to those areas. We estimate the international operations at €5m in the quarter. We believe that there could be some upside to our margin estimate on account of stable international commodity prices.

Our take. We maintain our preference for Havells as one of our top picks in electricals. Its large-scale manufacturing operations, one of the most comprehensive distribution networks in the country and aggressive advertising are some of the key drivers of its domestic revenues. Continuous additions to its basket of relevant products and deeper penetration into India's hinterland also serve to inspire confidence. At the ruling price of ₹672, the stock's FY14e P/E and EV/EBIDTA are 17.1x and 10.3x respectively. We maintain our Buy recommendation, with a target of ₹714.

Key data	HAVL IN / HVEL.BO
52-week high / low	₹817/₹556
Sensex / Nifty	19916 / 5907
3-m average volume	US\$4.6m
Market cap	₹84bn/US\$1.6bn
Shares outstanding	125m

Share holding pattern(%)	Jun'13	Mar'13	Dec'12
Promoters	61.63	61.63	61.56
-of which, Pledged	-	-	-
Free Float	38.37	38.37	38.44
-Foreign Institutions	30.73	25.78	19.96
-Domestic Institutions	0.96	0.96	1.21
-Public	6.67	11.63	17.27

Financials (YE Mar)	FY14e	FY15e
Sales (₹m)	80,354	91,067
Net profit (₹m)	4,911	5,913
EPS (₹)	39.4	47.4
Growth (%)	(15)	20
PE (x)	17.1	14.2
PBV (x)	4.5	3.6
RoE (%)	29.9	28.2
RoCE (%)	27.6	27.4
Dividend yield (%)	0.9	0.9
Net gearing (%)	4.9	(15.9)

Source: Anand Rathi Research

Quarterly results (YE Mar)	2QFY13	2QFY14e	% yoy	FY12	FY13	% yoy
Sales (₹m)	9,641	11,046	14.6	36,156	42,250	16.9
EBITDA (₹m)	1,292	1,491	15.4	4,557	5,340	17.2
EBITDA margin (%)	13.4	13.5	10bps	12.6	12.6	4bps
Interest (₹m)	99	69	(30.2)	444	286	(35.7)
Depreciation (₹m)	159	170	7.2	447	579	29.6
Other income(₹m)	20	23	16.2	72	96	34.2
PBT (₹m)	1,053	1,275	21.0	3,738	4,572	22.3
Tax (₹m)	185	280	51.5	684	858	25.5
Tax rate (%)	17.5	22.0	442bps	18.3	18.8	47bps
PAT (₹m)	869	995	14.5	3,054	3,714	21.6

Source: Company, Anand Rathi Research

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Quick Glance – Financials and Valuations

Fig 1 – Income statement (₹m)

Year-end: Mar	FY11	FY12	FY13	FY14e	FY15e
Revenue	56,126	65,182	72,479	80,354	91,067
- Material Cost	32,556	36,369	41,593	45,776	52,609
- Op. expenses	3,197	3,984	15,522	5,112	5,923
- Employee Costs	6,405	7,904	8,503	8,862	9,416
- Other Administrative	8,398	10,352	172	12,717	13,899
EBIDTA	5,571	6,573	6,689	7,887	9,220
- Interest	902	1,281	1,232	1,250	1,221
- Depreciation	804	949	1,097	1,224	1,419
+ Other income	237	414	334	300	300
- Tax	1,031	1,058	824	800	963
Reported PAT	3,071	3,699	3,870	4,913	5,917
- Minority Interest	4	-	-	2	4
+ Extraord. Items	(36)	-	1,944	-	-
Net Profits	3,031	3,699	5,814	4,911	5,913
FDEPS (₹ / share)	24.3	29.7	46.6	39.4	47.4
BV (₹ / share)	52.4	76.6	115.6	147.9	188.3

Source: Company, Anand Rathi Research

Fig 2 – Balance sheet (₹m)

Year-end: Mar	FY11	FY12	FY13	FY14e	FY15e
Share capital	624	624	624	624	624
Reserves & surplus	5,914	8,932	13,797	17,832	22,869
Shareholders' fund	6,537	9,556	14,420	18,456	23,493
Debt	9,706	8,840	8,342	8,322	7,952
Deferred Tax Liab (net)	559	556	480	480	480
Minority interests	6	1	0	2	7
Capital employed	16,807	18,953	23,243	27,260	31,932
Net Fixed Assets	13,558	14,570	15,250	15,825	15,406
Investments	-	-	-	-	-
Current Assets	20,299	24,847	24,594	28,933	32,359
Cash	1,779	2,337	4,736	7,425	11,695
Current Liab and Prov	18,828	22,801	21,337	24,923	27,529
Net Current Assets	3,249	4,383	7,993	11,435	16,525
Misc Exp (not w/o)	-	-	-	-	-
Capital deployed	16,807	18,953	23,243	27,260	31,932
Net Debt/Equity (%)	121	68	25	5	-16

Source: Company, Anand Rathi Research

Fig 3 – Cash-flow statement (₹m)

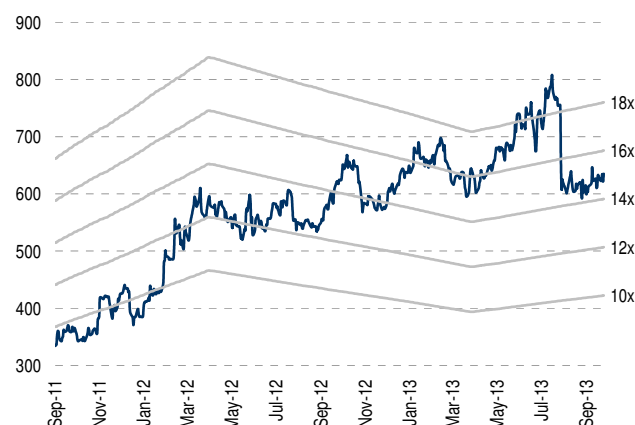
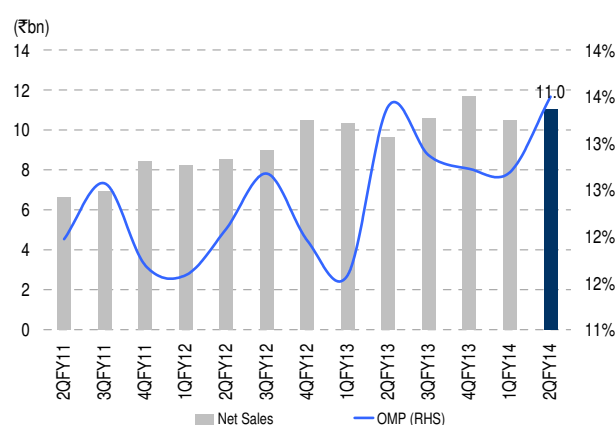
Year-end: Mar	FY11	FY12	FY13	FY14e	FY15e
Consolidated PAT	3,031	3,699	5,814	4,911	5,913
+ Depreciation	804	949	1,097	1,224	1,419
+ Deferred Tax	-	(2)	-	-	-
Cash profit	3,835	4,645	6,911	6,136	7,332
- Incr./Decr.) in WC	440	575	1,212	753	820
Operating cash-flow	3,396	4,071	5,699	5,383	6,511
- Capex	1,799	1,690	1,707	1,800	1,000
Free cash-flow	1,597	2,381	3,992	3,583	5,511
- Dividend	365	949	876	876	876
+ Debt raised	(958)	(866)	(498)	(20)	(370)
- Investments	-	-	-	-	-
- Misc. items	(312)	(465)	189	(3)	(4)
Net cash-flow	586	1,031	2,430	2,690	4,270
+ Opening cash	1,192	1,306	2,305	4,736	7,425
Closing cash	1,779	2,337	4,735	7,426	11,694

Source: Company, Anand Rathi Research

Fig 4 – Ratio analysis @ ₹672

Year-end: Mar	FY11	FY12	FY13	FY14e	FY15e
P / E	28	23	14	17	14
P / BV	13	9	6	5	4
EV / Sales	2	1	1	1	1
EV / EBIDTA	16	13	12	10	8
RoAE (%)	58	46	49	30	28
RoACE (%)	32	34	28	28	27
Dividend yield (%)	0	1	1	1	1
Revenue growth (%)	3	16	11	11	13
RM / Sales (%)	58	56	57	57	58
Other Exp / Sales (%)	20.3	15.0	15.9	0.2	15.8
EBIDTA (%)	10	10	9	10	10
Debtors (days)	50	49	45	45	45
Inventory (days)	77	84	80	80	80
Creditors (days)	106	109	100	100	100
Working Capital (days)	21	24	25	25	25

Source: Company, Anand Rathi Research

Fig 5 – PE band

Fig 6 – Qtr. revenue and OPM trend


7 October 2013

V-Guard Industries

Expecting a decent performance; Hold

Rating: **Hold**

Target Price: ₹487

Share Price: ₹495

Key takeaways

Cyclical upswing in sales. We expect V-Guard Industries' turnover in the quarter to come at ₹3.9bn, a 24% yoy rise. As stated in our previous notes, a large part of this would arise from further sales in the northern and central parts of India as well as strong sales for the Onam festival. Overall, we believe the mix of sales in the south and the rest of India to be 60:40.

Profitability of operations outside south India. Even with sales in other parts of India gaining traction, we do not expect operational breakeven at several of these locations. Consequently, we expect margins to register a yoy 60-bp decline to 9%. EBIDTA in 2QFY14 should settle at ₹349m. Despite declining debt and insignificant capex, we expect capital charges to be slightly higher yoy because of higher financing costs. Thus we expect PAT of ₹196m in the quarter, a 5% yoy improvement.

Status of product launches. With new products such as induction cookers and switchgear already launched in Kerala, we expect several kitchen appliances to be launched in the next couple of quarters. We await specific information on product description and launch schedules.

Our take. A predominantly south-Indian brand in electricals, the company has been gradually widening its footprint to other parts of India by broadening its distribution network in major towns and semi-urban agglomerations. Simultaneously, it is introducing products such as consumer appliances and switchgear in its bastion of south India in order to boost revenue from the region. It does a creditable job by balancing growth in new areas with profitability and cash flows in established markets. This is the reason for its rich valuations. At the ruling price of ~₹495, the stock trades at a P/E and an EV/EBIDTA of 17.4x and 10.7x respectively, discounting our FY14e figures. We have a Hold recommendation on it and a price target of ₹487. **Risk:** Currency fluctuations could impact our earnings estimates for the quarter.

Key data	VGRD IN / VGUA.BO
52-week high / low	₹591 / ₹381
Sensex / Nifty	19916 / 5907
3-m average volume	US\$0.6m
Market cap	₹15bn/US\$0.3bn
Shares outstanding	30m

Shareholding pattern (%)	Jun'13	Mar'13	Dec'12
Promoters	65.29	65.29	65.21
-of which, Pledged	-	-	-
Free Float	34.71	34.71	34.79
-Foreign Institutions	14.54	12.71	12.09
-Domestic Institutions	3.54	3.75	3.56
-Public	16.42	18.25	20.53

Financials (YE Mar)	FY14e	FY15e
Sales (₹m)	16,165	19,670
Net profit (₹m)	848	1,017
EPS (₹)	28	34
Growth (%)	35	20
PE (x)	17	15
PBV (x)	4	4
RoE (%)	0.9	0.9
RoCE (%)	28.7	27.2
Dividend yield (%)	0.9	0.9
Net gearing (%)	36.0	29.9

Source: Anand Rathi Research

Quarterly results (YE Mar)	2QFY13	2QFY14e	% yoy	FY12	FY13	% yoy
Sales (₹m)	3,135	3,880	23.8	9,646	13,602	41.0
EBITDA (₹m)	300	349	16.4	935	1,099	17.5
EBITDA margin (%)	9.6	9.0	-57bps	9.7	8.1	-161bps
Interest (₹m)	43	61	42.0	170	200	17.3
Depreciation (₹m)	29	29	(1.7)	97	114	17.7
Other income (₹m)	11	8	(33.0)	24	36	54.0
PBT (₹m)	239	267	11.7	692	822	18.8
Tax (₹m)	59	71	19.0	184	193	4.8
Tax rate (%)	24.8	26.5	161bps	26.6	23.4	-312bps
PAT (₹m)	180	196	9.3	508	629	23.9

Source: Company, Anand Rathi Research

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Quick Glance – Financials and Valuations

Fig 1 – Income statement (₹m)

Year-end: Mar	FY11	FY12	FY13	FY14e	FY15e
Net sales	7,266	9,646	13,602	16,165	19,670
Sales growth (%)	60.02	32.76	41.009	18.839	21.684
- Op. expenses	6,536	8,711	12,503	14,706	17,874
EBIDTA	730	935	1,099	1,459	1,796
EBITDA margins (%)	10.05	9.696	8.0822	9.025	9.1303
- Interest	113	170	200	244	259
- Depreciation	79	97	114	114	115
+ Other income	17	24	36	30	30
- Tax	165	184	193	283	436
Income tax rate (%)	29.69	26.56	23.438	25	30
Reported PAT	390	508	629	848	1,017
+ Extraordinary Items	36	-	-	-	-
Minority Interest	-	-	-	-	-
Profit from Ass. Co.s	-	-	-	-	-
Net Profits	426	508	629	848	1,017
FDEPS (Rs / share)	14.3	17.0	21.1	28.4	34.1

Source: Company, Anand Rathi Research

Fig 2 – Balance sheet (₹m)

Year-end: Mar	FY11	FY12	FY13	FY14e	FY15e
Share capital	298	298	299	299	299
Reserves & surplus	1,421	1,808	2,315	3,007	3,867
Shareholders' fund	1,720	2,106	2,613	3,305	4,166
Minority interests	-	-	-	-	-
Debt	127	1,049	1,574	1,674	1,774
Deferred Tax Liab (net)	61	43	80	80	80
Capital employed	1,908	3,199	4,268	5,060	6,020
Net Fixed Assets	1,152	1,341	1,470	1,512	1,652
Investments	30	-	-	-	-
Net working capital	654	1,824	2,648	3,064	3,839
Cash	72	34	150	484	529
Misc. Exp (not w/o)	-	-	-	-	-
Capital deployed	1,908	3,199	4,268	5,060	6,020
Net debt	55	1,016	1,425	1,191	1,245
WC days	29	69	66	60	60
BV (Rs / share)	57.6	70.6	87.5	110.7	139.6

Source: Company, Anand Rathi Research

Fig 3 – Cash-flow statement (₹m)

Year-end: Mar	FY11	FY12	FY13	FY14e	FY15e
PAT	426	508	629	848	1,017
+ Non-cash items	83	79	151	114	115
Cash profit	510	587	780	963	1,132
- Incr./ (Decr.) in WC	(352)	1,170	825	416	775
Operating cash-flow	862	(583)	(44)	547	357
- Capex	80	286	243	157	255
Free cash-flow	782	(869)	(287)	390	102
- Dividend	121	121	121	156	156
+ Equity raised	-	-	-	-	-
+ Debt raised	(678)	923	525	100	100
- Investments	(15)	(30)	-	-	-
Misc. items	-	-	-	-	-
Net cash-flow	(3)	(38)	117	334	45
+ Opening cash	74	72	34	150	484
Closing cash	72	34	150	484	529

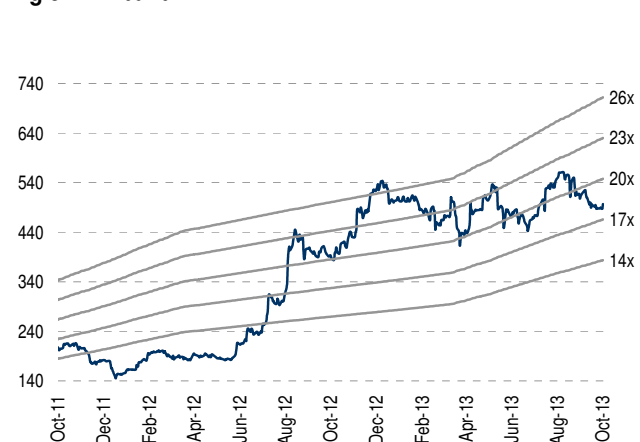
Source: Company, Anand Rathi Research

Fig 4 – Ratio analysis @ ₹495

Year-end: Mar	FY11	FY12	FY13	FY14e	FY15e
PE	34.6	29.1	23.5	17.4	14.5
P/BV	8.6	7.0	5.7	4.5	3.5
EV/EBITDA	19.8	16.5	14.3	10.7	8.8
EV/Sales	2.0	1.6	1.2	1.0	0.8
Dividend Yield (%)	0.7	0.7	0.7	0.9	0.9
RoE (%)	27.2	26.6	26.7	28.7	27.2
RoCE (%)	31.9	33.8	27.4	29.5	30.9
Debt/Equity (x)	0.1	0.5	0.6	0.5	0.4
EBIT/Interest (x)	5.9	5.1	5.1	5.6	6.6
CEPS (INR)	16.9	20.3	24.9	32.2	37.9
DPS (INR)	3.5	3.5	3.5	4.5	4.5
EBITDA growth (%)	45.0	28.1	17.5	32.7	23.1
PAT growth (%)	67.3	19.1	23.9	34.8	19.9
RM/Sales (%)	71.2	73.3	74.5	73.9	73.8
Adv./Sales (%)	9.0	7.3	6.9	7.9	8.1

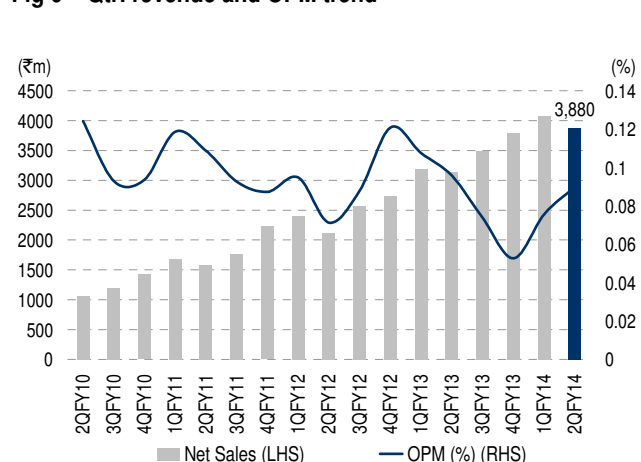
Source: Company, Anand Rathi Research

Fig 5 – PE band



Source: Bloomberg, Anand Rathi Research

Fig 6 – Qtr. revenue and OPM trend



Source: Company

7 October 2013

Bajaj Electricals

E&P to drive revenue in 2QFY14, but EBIT loss to continue; Sell

Rating: **Sell**

Target Price: ₹163

Share Price: ₹161

Key takeaways

Strong revenue growth expected in 2QFY14. We expect Bajaj Electricals' consumer-related businesses to have experienced robust growth. Its 2QFY14 revenue should have grown 23% yoy, to ₹9bn. Despite a 60% rise in revenue in its E&P division, we estimate a ₹250m EBIT loss in this division. We expect its EBITDA margin to have improved slightly, to 4%. We anticipate a 1.12% net profit margin (up 42bps yoy) with ₹101m in profit (the adjusted profit is expected to be 98% higher yoy).

2QFY14 segment-wise performance. We anticipate the consumer-durables division to report a decent quarter, with revenue rising 15% yoy, to ₹4.58bn. The EBIT margin could come in at 9% (30bps lower than in 2QFY13). We expect revenue of the lighting division to come at ₹2.3bn, 15% higher yoy, with the EBIT margin at 6.2%. We expect revenue of the E&P division to rise by a steep 60% yoy, to ₹2.12bn, with the EBIT margin at -11.8% (-20.2% in 2QFY13). The 2QFY14 EBITDA margin is expected to be 4%. The chief reason for this is the expected loss in its E&P business, a ₹250m EBIT loss (vs a ₹268m loss in 2QFY13).

Recovery expected in 2HFY14. In its 2QFY14 performance we expect a marked improvement in sales over its disappointing FY13 figure. In FY13, it had been faced with margin pressures due to a revenue slump in its E&P division and its inability to pass on higher costs at its consumer-durables division. For the short term, we are negative on the company, as its E&P business would drag it down till 1HFY14.

Our take. On the bleak outlook and dipping margins in its E&P division, we retain our Sell recommendation, with a price target of ₹163. At this target, the stock would trade at 12x Sep'14e earnings. **Risks.** Better E&P business performance, rising demand for electrical appliances.

Key data	BJE IN / BJEL.BO
52-week high / low	₹234 / ₹150
Sensex / Nifty	19916 / 5907
3-m average volume	US\$0.5m
Market cap	₹16.2bn / US\$261m
Shares outstanding	100m

Shareholding pattern (%)	June'13	Mar'13	Dec'12
Promoters	66.4	66.4	66.4
- of which, Pledged	-	-	-
Free Float	33.6	33.6	33.6
- Foreign Institutions	10.9	11.5	11.4
- Domestic Institutions	5.9	4.5	5.6
- Public	16.8	17.6	16.6

Financials (YE: Mar)	FY14e	FY15e
Sales (₹m)	41,108	48,837
Net profit (₹m)	974	1,736
EPS (₹)	9.8	17.4
Growth (%)	209.6	78.2
PE (x)	16.5	9.2
PBV (x)	2.1	1.8
RoE (%)	12.9	20.7
RoCE (%)	22.4	33.0
Dividend yield (%)	2.5	2.8
Net gearing (%)	13.4	10.0

Source: Anand Rathi Research

Quarterly results (YE: Mar)	2QFY13	2QFY14e	% yoy	FY12	FY13	% yoy
Sales (₹m)	7,338	9,029	23.0	30,990	33,876	9.3
EBITDA (₹m)	243	359	47.3	2,371	1,108	(53.3)
EBITDA margin (%)	3.3	4.0	65 bps	7.7	3.3	(438) bps
Interest (₹m)	169	190	12.5	630	690	9.4
Depreciation (₹m)	34	40	16.3	125	145	15.4
Other income(₹m)	36	20	(44.4)	144	169	17.7
Adj. PBT (₹m)	76	149	95.3	1,760	443	(74.9)
Adj. Tax (₹m)	25	48	89.4	581	128	(77.9)
Adj. Tax rate (%)	33.0	32.0	(100) bps	33.0	29.0	(404) bps
Adj. PAT (₹m)	51	101	98.2	1,179	314	(73.3)

Source: Company, Anand Rathi Research

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Quick Glance – Financials and Valuations

Fig 1 – Income statement (₹m)

Year-end: Mar	FY11	FY12	FY13	FY14e	FY15e
Net sales	27,408	30,990	33,876	41,108	48,837
Sales growth (%)	23.0	13.1	9.3	21.3	18.8
- Op. expenses	25,028	28,619	32,768	38,888	45,370
EBIDTA	2,380	2,371	1,108	2,220	3,467
EBITDA margins (%)	8.7	7.7	3.3	5.4	7.1
- Interest	291	631	690	768	870
- Depreciation	108	125	145	175	192
+ Other income	57	144	169	178	187
- Tax	748	581	178	480	855
Effective tax rate (%)	34.2	33.0	25.7	33.0	33.0
Reported PAT	1,438	1,179	512	974	1,736
+/- Extraordinary items	-	-	198	-	-
+/- Minority interest	-	-	-	-	-
Adjusted PAT	1,438	1,179	315	974	1,736
Adj. FDEPS (₹/share)	14.4	11.8	3.2	9.8	17.4
Adj. FDEPS growth (%)	22.8	(18.0)	(73.3)	209.6	78.2

Source: Company, Anand Rathi Research

Fig 2 – Balance sheet (₹m)

Year-end: Mar	FY11	FY12	FY13	FY14e	FY15e
Share capital	198	199	200	200	200
Reserves & surplus	5,913	6,799	7,087	7,595	8,806
Shareholders' fund	6,111	6,999	7,286	7,794	9,006
Debt	1,165	1,912	1,600	1,550	1,500
Deferred Tax Liab (net)	-	-	-	-	-
Minority interests	-	-	-	-	-
Capital employed	7,276	8,910	8,886	9,344	10,506
Net Fixed assets	1,533	1,866	2,323	2,498	2,656
Investments	366	441	298	298	298
- of which liquid					
Working capital	4,876	6,044	5,686	6,258	7,169
Cash	481	536	500	211	304
Capital deployed	7,276	8,910	8,886	9,344	10,506
Net Debt/Equity (%)	5.2	13.4	11.0	13.4	10.0
W C turn (days)	62	64	63	53	50
Book value	61.4	70.3	73.2	78.3	90.5

Source: Company, Anand Rathi Research

Fig 3 – Cash-flow statement (₹m)

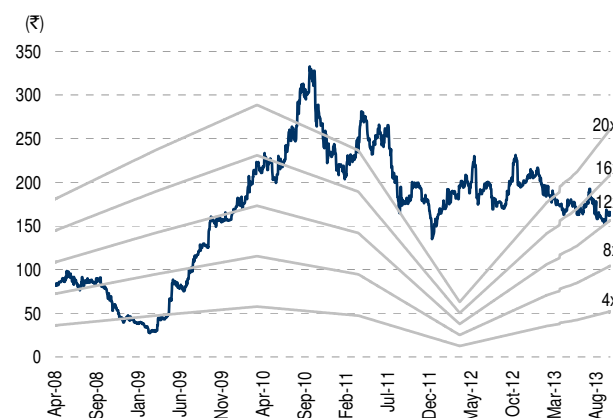
Year-end: Mar	FY11	FY12	FY13	FY14e	FY15e
PAT	1,438	1,179	512	974	1,736
+Non Cash Items	93	126	85	175	192
Cash profit	1,530	1,305	597	1,149	1,929
- Incr/(Decr) in WC	414	1,168	(358)	572	911
Operating cash flow	1,117	136	955	577	1,018
-Capex	623	459	601	350	350
Free cash flow	493	(322)	354	227	668
-Dividend	322	326	233	466	525
+ Equity raised	51	35	9	0	(0)
+ Debt raised	(354)	747	(312)	(50)	(50)
-Investments	0	75	(143)	-	-
-Misc. items	-	3	(3)	-	-
Net cash flow	(131)	55	(36)	(289)	93
+Opening cash	612	481	536	500	211
Closing cash	481	536	500	211	304

Source: Company, Anand Rathi Research

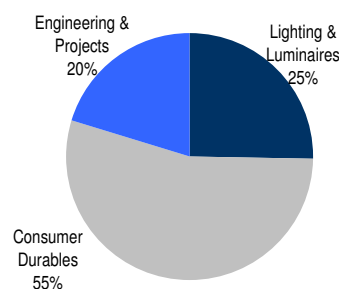
Fig 4 – Ratio analysis @ ₹161

Year-end: Mar	FY11	FY12	FY13	FY14e	FY15e
P/E (x)	11.2	13.6	51.0	16.5	9.2
P/B (x)	2.6	2.3	2.2	2.1	1.8
EV/Sales (x)	0.6	0.5	0.5	0.4	0.3
EV/EBITDA (x)	6.8	7.2	15.2	7.7	4.9
RoAE (%)	26.0	18.0	7.2	12.9	20.7
RoACE (%)	36.0	27.8	10.8	22.4	33.0
Dividend yield (%)	1.7	1.7	1.2	2.5	2.8
Dividend payout (%)	22.4	27.7	45.5	47.9	30.2
RM to sales (%)	76.4	75.8	78.8	77.5	77.0
Ad spend / sales (%)	1.3	1.3	1.1	1.5	1.4
EBITDA growth (%)	1.9	(0.4)	(53.3)	100.4	56.2
EPS growth (%)	22.8	(18.0)	(73.3)	209.6	78.2
PAT margin (%)	5.2	3.8	1.5	2.4	3.5
Volume growth (%)	-	-	-	-	-
Real. Growth (%)	-	-	-	-	-

Source: Company, Anand Rathi Research

Fig 5 – PE band


Source: Bloomberg, Anand Rathi Research

Fig 6 – FY13 revenue break-up


Source: Company

7 October 2013

Sanghvi Movers

Revenue and profit slump to continue; Hold

Key takeaways

Sales continue to decline, with slowdown persisting. We expect Sanghvi Movers' 2QFY14 sales to have dropped 25.3% yoy, to ₹660m, affected by the sharp decline in business in wind turbines and power. The proportion of revenue from other segments is expected to have risen; but, overall, such contribution is small. On the drop in orders in its wind-turbine and power divisions, we expect FY14 to be a tough year. In FY12, utilization was 87% (82% in FY11). We expect this to hold below 75% in FY14 vs 75% in FY13.

Margin expected to decline by a steep 437bps. The EBITDA margin is expected to be down 437bps yoy (slightly up qoq) chiefly from lower yields due to keener competition and discounts. Yields continue under pressure and we expect them to be lower in FY14 (2.86% in FY12) because of intensifying competition. Utilization too would be lower.

Profits to decline 89%. Lower margins clubbed with lower other income (high in earlier years from the sale of cranes) are expected to pull profit down 89% yoy, to ₹12m.

Our take. This leading domestic crane-hiring company provides hydraulic and crawler cranes to industries in infrastructure. The slowdown, however, in its target market (wind and power) would weigh on its results. Keener competition from foreign operators at lower rates and the slowdown in fresh investment have led to less planned capex for the next two years. The company has been struggling with delays in executing wind and power projects and the slowdown in steel and cement capacity expansions. Its cranes are operating at lower utilisation and yields, and it is grappling with bad-debt issues. With no capex for the next two years, debt would slide 50% (FY13 debt at ₹5.9bn.). The stock quotes at 12.3x FY14e and 3.1x FY15e earnings. On account of the bleak outlook, we maintain a Hold. **Risks:** Lower demand, higher interest rates.

Quarterly results (YE Mar)	2QFY13	2QFY14e	% yoy	FY12	FY13	% yoy
Sales (₹m)	884	660	(25.3)	4,505	3,392	(24.7)
EBITDA (₹m)	604	422	(30.1)	3,154	2,317	(26.5)
EBITDA margin (%)	68.4	64.0	(437) bps	70.0	68.3	(170) bps
Interest (₹m)	144	110	(23.8)	771	634	(17.8)
Depreciation (₹m)	296	297	0.3	1,106	1,181	6.8
Other income (₹m)	2	2	(0.4)	210	82	(60.8)
PBT (₹m)	166	17	(89.5)	1,487	585	(60.7)
Tax (₹m)	54	6	(89.6)	484	176	(63.7)
Tax rate (%)	32.4	32.0	(45) bps	32.5	30.0	(250) bps
PAT (₹m)	112	12	(89.4)	1,004	409	(59.2)

Source: Company

Key data	SGM IN / SGM.BO
52-week high / low	₹103/ ₹35
Sensex / Nifty	19916 / 5907
3-m average volume	US\$0.1m
Market cap	₹1.8bn / US\$29m
Shares outstanding	43.3m

Shareholding pattern (%)	June'13	Mar'13	Dec'12
Promoters	46.5	46.5	46.4
- of which, Pledged	3.1	3.1	3.1
Free Float	53.5	53.5	53.6
- Foreign Institutions	15.2	15.4	15.4
- Domestic Institutions	3.6	3.6	3.6
- Public	34.7	34.5	34.6

Financials (YE Mar)	FY14e	FY5e
Sales (₹m)	2,902	3,514
Net profit (₹m)	144	567
EPS (₹)	3.3	13.1
Growth (%)	(64.8)	294.0
PE (x)	12.3	3.1
PBV (x)	0.2	0.2
RoE (%)	1.9	7.2
RoCE (%)	6.0	10.6
Dividend yield (%)	1.3	5.0
Net gearing (%)	47.5	30.0

Source: Anand Rathi Research

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Quick Glance – Financials and Valuations

Fig 1 – Income statement (₹m)

Year-end: Mar	FY11	FY12	FY13	FY14e	FY15e
Net sales	3,612	4,505	3,392	2,902	3,514
Sales growth (%)	9.0	24.7	(24.7)	(14.5)	21.1
- Op. expenses	1,052	1,350	1,075	1,001	1,177
EBIDTA	2,560	3,154	2,317	1,901	2,337
EBITDA margins (%)	70.9	70.0	68.3	65.5	66.5
- Interest	494	771	634	558	377
- Depreciation	929	1,106	1,181	1,194	1,198
+ Other income	123	210	82	60	60
- Tax	397	484	176	65	255
Effective tax rate (%)	31	33	30	31	31
PAT	863	1,004	409	144	567
Extraordinary items	0	0	0	0	0
Minority Interest	0	0	0	0	0
PAT	862	1,004	423	144	567
FDEPS (Rs/share)	19.9	23.2	9.5	3.3	13.1
PAT growth (%)	(4.7)	16.3	(59.2)	(64.8)	294.0

Source: Company, Anand Rathi Research

Fig 2 – Balance sheet (₹m)

Year-end: Mar	FY11	FY12	FY13	FY14e	FY15e
Share capital	87	87	87	87	87
Reserves & surplus	5,385	6,188	6,537	6,655	7,119
Shareholders' fund	6,251	7,184	7,577	7,685	8,149
Minority interests	0	0	0	0	0
Debt	6,328	7,040	5,860	4,278	2,578
Def Tax Liab (net)	779	909	909	909	909
Capital employed	12,580	14,224	13,437	11,963	10,727
Fixed assets	10,789	11,999	10,904	9,611	8,513
Investments	0	0	0	0	0
Working capital	1,604	2,073	2,243	1,728	2,084
Cash	187	153	291	625	130
Capital deployed	12,580	14,224	13,437	11,963	10,727
No. of shares (m)	43.3	43.3	43.3	43.3	43.3
Net Debt/Equity (%)	98.2	95.9	73.5	47.5	30.0
W C turn (days)	143.0	148.9	232.2	249.8	198.0
Book Value	144.4	166.0	175.0	177.5	188.2

Source: Company, Anand Rathi Research

Fig 3 – Cash-flow statement (₹m)

Year-end: Mar	FY11	FY12	FY13	FY14e	FY15e
PAT	863	1,004	409	144	567
+ Depreciation	1,051	1,236	1,181	1,194	1,198
Cash profit	1,914	2,240	1,590	1,338	1,765
- Incr./Decr. in WC	377	469	170	(515)	356
Operating cash-flow	1,537	1,771	1,420	1,854	1,409
- Capex	2,905	2,315	86	(99)	100
Free cash-flow	(1,368)	(544)	1,334	1,952	1,309
- Dividend	152	185	74	26	103
+ Equity raised	66	(16)	0	0	0
+ Debt raised	1,584	712	(1,180)	(1,582)	(1,700)
- Investments	0	0	0	0	0
- Misc. items	1	0	(58)	11	0
Net cash-flow	128	(34)	138	334	(494)
+ Opening cash	59	187	153	291	625
Closing cash	187	153	291	625	130

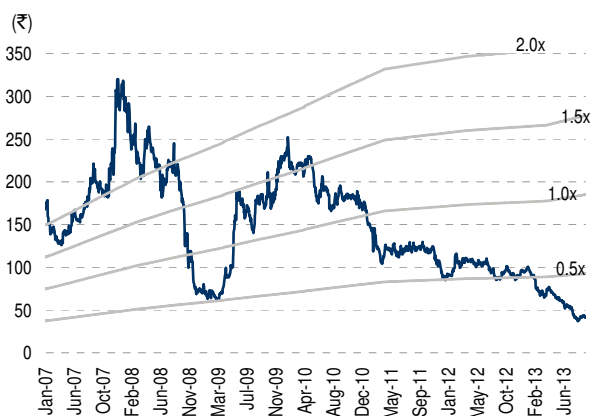
Source: Company, Anand Rathi Research

Fig 4 – Ratio analysis @ ₹41

Year-end: Mar	FY11	FY12	FY13	FY14e	FY15e
P/E (x)	2.1	1.8	4.3	12.3	3.1
P/B (x)	0.3	0.2	0.2	0.2	0.2
EV/Sales (x)	2.2	1.9	2.2	1.9	1.2
EV/EBITDA (x)	3.0	2.6	3.1	2.8	1.9
RoAE (%)	14.9	14.9	5.5	1.9	7.2
RoACE (%)	15.5	16.8	8.8	6.0	10.6
Dividend yield (%)	7.3	8.9	3.6	1.3	5.0
Dividend payout (%)	17.6	18.4	18.1	18.1	18.1
EBITDA growth (%)	1.6	25.4	(28.7)	(18.3)	22.3
EPS growth (%)	(4.7)	16.3	(59.2)	(64.8)	294.0
Gross Margins (%)	81.1	82.4	83.7	79.5	80.0
EBIT Margins (%)	48.6	50.1	35.9	26.4	34.1
PAT margin (%)	23.9	22.3	12.1	5.0	16.1
Asset Turn (x)	3.3	3.1	4.2	4.5	3.3
Debtor Turn (Days)	134.2	137.5	230.7	245.9	191.7

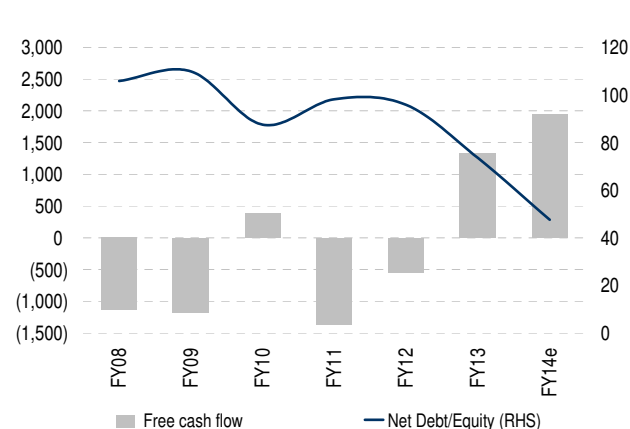
Source: Company, Anand Rathi Research

Fig 5 – PB band



Source: Bloomberg, Anand Rathi Research

Fig 6 – Net debt-to-equity and free cash-flow



Source: Company

7 October 2013

Siemens

*In troubled waters, Sell*Rating: **Sell**

Target Price: ₹290

Share Price: ₹496

Key takeaways

Driven by non-traditional verticals, growth to be constrained. Given its focus on power T&D and industrial automation, and weak demand from these end-user segments, we expect scant improvement in Siemens' 4QFY13 revenue. With total revenues of ₹37bn, we expect segments such as healthcare and infrastructure to have grown, while its traditionally strong verticals of energy and industrial solutions would have decelerated due to the sluggish economy. We expect margin compression on account of high operating costs as well as the depreciating rupee, which would have rendered imports more expensive. We estimate the OPM to settle at 2.6%, a 30-bp yoy decline. EBITDA should settle at ₹945m, a 5% yoy decline.

Capex scaled down. Siemens is currently focusing on implementing projects that are well funded, as opposed to the conventional practice of boosting its order book at the cost of margins. Consequently, it is cautious about its capex and is reluctant to spend on adding capacities in certain verticals of the power and industrial segments where demand is likely to shrink in the foreseeable future. Additionally, it is planning to cut down some of its fixed costs by shedding some manpower.

Order inflows and order book. We expect the company to have secured orders of ₹37bn in 4QFY13. With this, we expect its unexecuted order book to be ~₹95bn at the quarter's end. We estimate these orders to come in the energy and infrastructure verticals.

Our take. Siemens India has been struggling with intensifying competition and low levels of operational profitability. We expect it to continue to face headwinds in the next few quarters; as a result, growth in revenue and cash flow would be severely constrained. At the ruling price of ~₹496, the stock trades at a P/E and an EV/EBIDTA of 55x and 22.4x respectively, discounting our FY14e figures. We believe that it is quoting significantly above fair valuation levels and, hence, maintain our Sell recommendation.

Key data	SIEM IN / SIEM.BO
52-week high / low	₹750/₹414
Sensex / Nifty	19916 / 5907
3-m average volume	US\$3m
Market cap	₹177bn / US\$3.4bn
Shares outstanding	355m

Shareholding pattern (%)	Jun' 13	Mar' 13	Dec' 12
Promoters	75.00	74.96	74.7
- of which, Pledged	-	-	-
Free Float	25.0	25.3	25.3
- Foreign Institutions	3.6	3.6	3.5
- Domestic Institutions	8.0	8.0	8.4
- Public	13.4	13.4	13.5

Financials (YE Sep)	FY14e	FY15e
Sales (₹m)	126,302	139,177
Net profit (₹m)	2,673	3,899
EPS (₹)	7.9	11.5
Growth (%)	147.5	45.9
PE (x)	63.2	43.3
PBV (x)	4.4	4.3
RoE (%)	7.0	10.1
RoCE (%)	12.0	17.0
Dividend yield (%)	1.3	1.3
Net gearing (%)	0.0	0.0

Source: Anand Rathi Research

Quarterly results (YE Sep)	4QFY12	4QFY13e	% yoy	FY12	FY13e	% yoy
Sales (₹m)	33,752	36,910	9.4	129,199	117,748	(8.9)
EBITDA (₹m)	995	945	(5.0)	8,411	3,252	(61.3)
EBITDA margin (%)	2.9	2.6	-39bps	6.5	2.8	-375bps
Interest (₹m)	66	75	15.2	270	246	(8.9)
Depreciation (₹m)	559	222	(60.4)	2,010	2,019	0.4
Other income (₹m)	126	366	189.8	575	600	4.3
PBT (₹m)	496	1,014	104.4	6,706	1,588	(76.3)
Tax (₹m)	(154)	476	(408.3)	1,777	508	(71.4)
Tax rate (%)	(31.1)	46.9	7805bps	26.5	32.0	550bps
PAT (₹m)	650	538	(17.3)	4,929	1,080	(78.1)

Source: Company, Anand Rathi Research

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Quick Glance – Financials and Valuations

Fig 1 – Income statement (₹m)

Year-end: Sep	FY11	FY12	FY13e	FY14e	FY15e
Net revenues	120,521	129,199	117,748	126,302	139,177
Revenue growth (%)	28.2	7.2	(8.9)	7.3	10.2
- Op. Expenses	107,163	120,788	114,496	120,636	131,583
EBIDTA	13,358	8,411	3,252	5,666	7,594
EBITDA margin (%)	11.1	6.5	2.8	4.5	5.5
- Interest	127	270	246	263	278
- Depreciation	1,522	2,010	2,019	2,172	2,282
+ Other income	1,047	575	600	700	700
- Tax	4,295	1,777	508	1,258	1,835
Effective tax rate (%)	33.7	26.5	32.0	32.0	32.0
Reported PAT	8,461	4,929	1,080	2,673	3,899
+/- Extraordinary items	0	-1,200	0	0	0
+/- Minority interest	0	0	0	0	0
Adjusted PAT	8,461	3,729	1,080	2,673	3,899
Adj. FDEPS (₹/share)	24.8	11.0	3.2	7.9	11.5
Adj. FDEPS growth (%)	2.3	(55.9)	(71.0)	147.5	45.9

Source: Company, Anand Rathi Research

Fig 2 – Balance sheet (₹m)

Year-end: Sep	FY11	FY12	FY13e	FY14e	FY15e
Share capital	681	681	711	711	711
Reserves & surplus	37,481	38,945	37,339	37,326	38,539
Net worth	38,162	39,626	38,050	38,037	39,250
Minority interest	-	-	-	-	-
Total debt	-	-	-	-	-
Def. tax liab. (net)	(1,889)	(3,176)	(3,176)	(3,176)	(3,176)
Capital employed	36,273	36,450	34,874	34,861	36,074
Net Fixed Assets	13,486	14,972	14,953	15,281	15,500
Investments	405	410	410	410	410
Net working capital	9,632	11,300	8,999	8,366	9,214
Cash and bank balance	12,750	9,768	10,512	10,804	10,951
Capital deployed	36,273	36,450	34,874	34,861	36,074
Net debt	(12,750)	(9,768)	(10,512)	(10,804)	(10,951)
WC days	(1)	11	10	5	5
Book value (₹/sh)	112	116	107	107	110
No. of shares (m)	341	341	355	355	355

Source: Company, Anand Rathi Research

Fig 3 – Cash-flow statement (₹m)

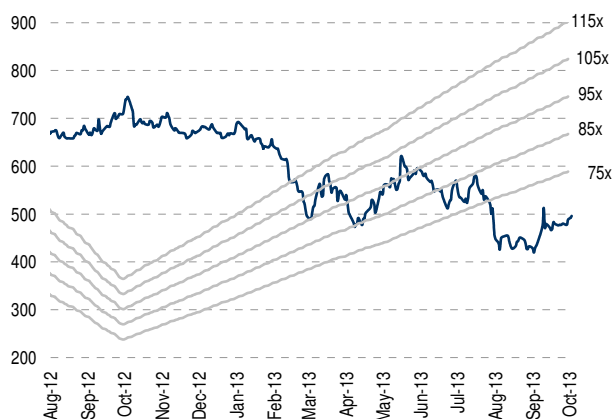
Year-end: Sep	FY11	FY12	FY13e	FY14e	FY15e
PAT	8,461	3,729	1,080	2,673	3,899
+ Non-cash items	1,180	829	2,019	2,172	2,282
Cash profit	9,641	4,558	3,099	4,845	6,181
- Incr./ (Decr.) in WC	8,389	1,668	(2,301)	(633)	848
Operating cash-flow	1,253	2,890	5,400	5,478	5,333
- Capex	5,203	3,496	2,000	2,500	2,500
Free cash-flow	(3,950)	(606)	3,400	2,978	2,833
- Dividend	2,373	2,455	2,686	2,686	2,686
+ Equity raised	0	0	30	0	0
+ Debt raised	(2)	0	0	0	0
- Investments	(3,480)	5	0	0	0
- Misc. items	2,939	(84)	(1)	0	0
Net cash-flow	(5,784)	(2,982)	745	292	147
+Op. Cash & bank bal.	18,534	12,750	9,768	10,512	10,805
Cl. cash & bank bal.	12,750	9,768	10,512	10,805	10,951

Source: Company, Anand Rathi Research

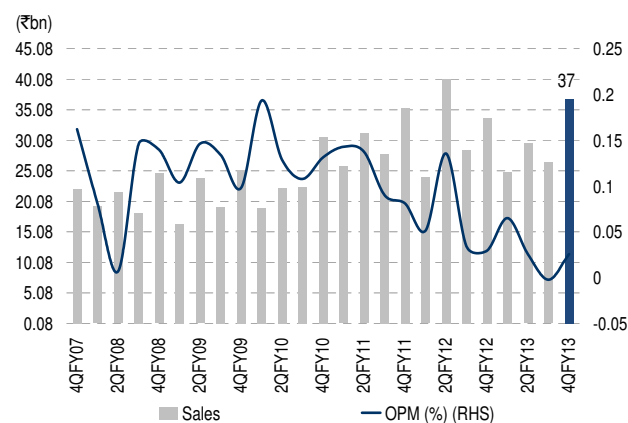
Fig 4 – Ratio analysis @ ₹496

Year-end: Sep	FY11	FY12	FY13e	FY14e	FY15e
P/E (x)	20.0	45.3	156.4	63.2	43.3
P/B (x)	4.4	4.3	4.4	4.4	4.3
EV/Sales (x)	1.3	1.2	1.4	1.3	1.2
EV/EBITDA (x)	10.8	17.7	43.0	26.0	19.9
RoAE (%)	23.2	9.6	2.8	7.0	10.1
RoACE (%)	36.9	19.2	5.1	12.0	17.0
Dividend yield (%)	1.2	1.3	1.3	1.3	1.3
Dividend payout (%)	28.0	65.8	248.7	100.5	68.9
Debt / Equity (x)	0.0	0.0	0.0	0.0	0.0
DPS (₹ / share)	6.0	6.2	6.5	6.5	6.5
CEPS (₹ / share)	29.3	16.9	8.7	13.6	17.4
Order book (₹m)	135,839	101,900	95,210	96,625	110,709
Order inflow (₹m)	124,305	102,832	111,059	127,717	153,261
Order book/Sales (X)	1.1	0.8	0.8	0.8	0.8
Order inflow/Sales (X)	1.0	0.8	0.9	1.0	1.1

Source: Company, Anand Rathi Research

Fig 5 – PE band


Source: Bloomberg, Anand Rathi Research

Fig 6 – Qtr. revenue and OPM trend


Source: Company, Anand Rathi Research

7 October 2013

Thermax

Survival of the fittest; Buy

Key takeaways

Focus on maintaining operational integrity. Thermax has maintained that the business environment continues to be challenging. Nevertheless, enquiries from various sectors in the economy are picking up. In terms of prospects, the company maintains that the food processing sector is promising, the cement sector is slow while demand from steel companies is negligible as the sector is deep in the doldrums. According to the management, orders from the power sector could revive after the monetary easing in CY13. At present the company is cautious about FY14 but expects to maintain a double-digit EBITDA margin despite tough market conditions, largely through cost control. Also, the recent depreciation of the rupee adds an interesting dimension to order booking, as it enhances Thermax' export competitiveness.

2QFY14 performance. We estimate Thermax to clock standalone revenues of ₹13bn (14% higher yoy), with EBIDTA of ₹1.4bn and PAT of ₹805m, a 6% increase yoy. We expect OPM to settle at 10%, 20bps lower yoy. We believe that this is line with the broad guidance and are confident of the company achieving it.

Status of orders. Thermax is positive on captive power orders, especially in the 5-15 MW range as power shortages and higher power tariffs have made setting up a captive power plant more attractive. We expect the company to win orders worth ₹22bn in the quarter.

Our take. As one of the most reputed home-grown operators in power generation, Thermax maintains a cautious stance while bidding for business. In the recent past, it has opted to concentrate on operating profits and has tightened its belt through its focus on cost optimization and process efficiency. At the ruling price of ₹592, the stock trades at a P/E and an EV/EBIDTA of 17x and 9.6x respectively, discounting our FY14e figures. We are bullish on it and maintain our Buy recommendation with a target of ₹660.

Quarterly results (YE Mar)	2QFY13	2QFY14e	% yoy	FY12	FY13	% yoy
Sales (₹m)	11,924	13,629	14%	53,041	46,909	-12%
EBITDA (₹m)	1,218	1,363	12%	5,927	5,071	-14%
EBITDA margin (%)	10.2	10.0	-21bps	11.2	10.8	-36bps
Interest (₹m)	35	75	119%	153	96	-37%
Depreciation (₹m)	139	131	-5%	470	549	17%
Other income(₹m)	274	206	-25%	705	730	4%
PBT (₹m)	1,318	1,363	3%	6,009	5,156	-14%
Tax (₹m)	407	558	37%	1,940	1,657	-15%
Tax rate (%)	30.9	40.9	1003bps	32.3	32.1	-16bps
PAT (₹m)	911	805	-12%	4,069	3,500	-14%

Source: Company, Anand Rathi Research

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Rating: **Buy**

Target Price: ₹660

Share Price: ₹592

Key data	TMX IN / THMX.BO
52-week high / low	₹684 / ₹526
Sensex / Nifty	19916 / 5907
3-m average volume	US\$0.7m
Market cap	₹71/US\$1.4bn
Shares outstanding	119m

Shareholding pattern (%)	Jun'13	Mar'13	Dec'12
Promoters	61.98	61.98	61.98
-of which, Pledged	-	-	-
Free Float	38.02	38.02	38.02
-Foreign Institutions	14.35	14.29	13.6
-Domestic Institutions	8.80	9.19	10.5
-Public	14.87	14.54	13.92

Financials (YE Mar)	FY14e	FY15e
Sales (₹m)	56,789	68,536
Net profit (₹m)	4,017	5,157
EPS (₹)	33.7	43.3
Growth (%)	14.8	28.4
PE (x)	17.6	13.7
PBV (x)	3.1	2.6
RoE (%)	17.9	18.9
RoCE (%)	26.8	28.2
Dividend yield (%)	0.3	0.3

Source: Anand Rathi Research

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Quick Glance – Financials and Valuations

Fig 1 – Income statement (₹m)

Year-end: Mar	FY11	FY12	FY13	FY14e	FY15e
Net revenues	48,524	53,041	46,909	56,789	68,536
Revenue growth (%)	57.1	9.3	(11.6)	21.1	20.7
- Op. Expenses	43,082	47,114	41,837	50,786	60,745
EBIDTA	5,442	5,927	5,071	6,003	7,791
EBITDA margin (%)	11.2	11.2	10.8	10.6	11.4
- Interest Expenses	113	153	96	234	280
- Depreciation	433	470	549	536	644
+ Other income	831	705	730	700	750
- Tax	1,903	1,940	1,657	1,916	2,460
Effective tax rate (%)	33.2	32.3	32.1	32.3	32.3
Reported PAT	3,824	4,069	3,500	4,017	5,157
+/- Extraordinary items	0	0	0	0	0
+/- Minority interest	0	0	0	0	0
Adjusted PAT	3,824	4,069	3,500	4,017	5,157
Adj. FDEPS (₹ / share)	32	34	29	34	43
Adj. FDEPS growth (%)	170.5	6.4	(14.0)	14.8	28.4

Source: Company, Anand Rathi Research

Fig 2 – Balance sheet (₹m)

Year-end: Mar	FY11	FY12	FY13	FY14e	FY15e
Share capital	238	238	238	238	238
Reserves & surplus	12,685	15,774	18,454	22,194	27,073
Net worth	12,923	16,012	18,693	22,432	27,311
Minority interest	-	-	-	-	-
Total debt	112	220	123	360	430
Def. tax liab. (net)	201	230	247	247	247
Capital employed	13,236	16,463	19,063	23,040	27,989
Net Fixed Assets	5,163	5,736	6,455	6,651	7,007
Investments	5,998	6,849	8,040	9,040	10,040
Net working capital	(3,882)	(1,820)	2,342	3,456	1,669
Cash and bank balance	5,957	5,698	2,226	3,892	9,273
Capital deployed	13,236	16,463	19,063	23,040	27,989
Net debt	(5,845)	(5,477)	(2,103)	(3,532)	(8,842)
WC days	(76)	(53)	(40)	(22)	(29)
Book value (₹ / share)	108	134	157	188	229
No. of share	119	119	119	119	119

Source: Company, Anand Rathi Research

Fig 3 – Cash-flow statement (₹m)

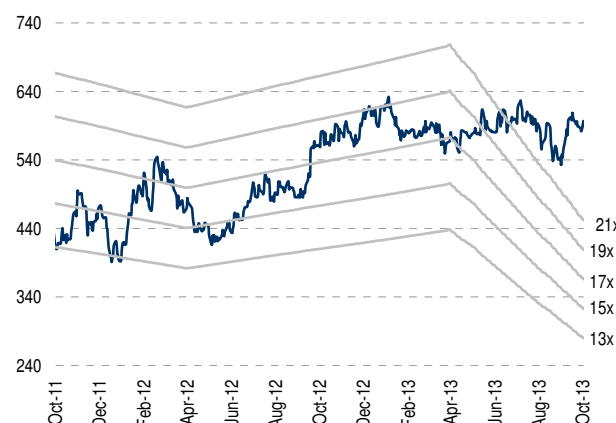
Year-end: Mar	FY11	FY12	FY13	FY14e	FY15e
PAT	3,824	4,069	3,500	4,017	5,157
+ Non-cash items	404	441	531	536	644
Cash profit	4,228	4,510	4,031	4,553	5,802
- Incr./ (Decr.) in WC	326	2,062	4,162	1,114	(1,787)
Operating cash-flow	3,903	2,448	(131)	3,439	7,588
- Capex	547	1,042	1,268	732	1,000
Free cash-flow	3,356	1,406	(1,399)	2,707	6,588
- Dividend	125	278	973	278	278
+ Equity raised	0	0	0	0	0
+ Debt raised	112	109	(97)	237	70
- Investments	2,216	851	1,191	1,000	1,000
Misc. items	1,226	645	(188)	0	0
Net cash-flow	(99)	(260)	(3,471)	1,666	5,380
+ Opening cash	6,056	5,957	5,697	2,226	3,892
Closing cash	5,957	5,697	2,226	3,892	9,272

Source: Company, Anand Rathi Research

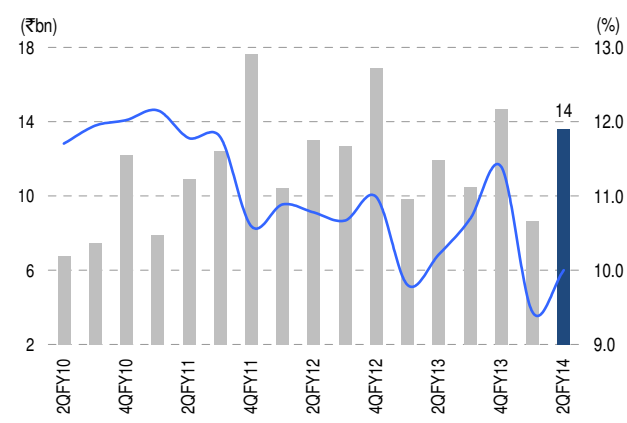
Fig 4 – Ratio analysis @ ₹592

Year-end: Mar	FY11	FY12	FY13	FY14e	FY15e
P/E (x)	18.4	17.3	20.1	17.6	13.7
P/B (x)	5.5	4.4	3.8	3.1	2.6
EV/Sales (x)	1.3	1.2	1.5	1.2	0.9
EV/EBITDA (x)	10.3	9.8	11.8	10.0	7.2
RoAE (%)	29.6	25.4	18.7	17.9	18.9
RoACE (%)	44.1	37.4	27.6	26.8	28.2
Dividend yield (%)	0.2	0.3	1.2	0.3	0.3
Dividend payout (%)	3.3	6.8	27.8	6.9	5.4
Debt / Equity (x)	0.0	0.0	0.0	0.0	0.0
DPS (₹ / share)	1	2	7	2	2
CEPS (₹ / share)	36	38	34	38	49
Order book (₹ m)	56,050	42,300	42,487	43,795	46,467
Order inflow (₹ m)	53,180	40,300	47,790	58,097	71,208
Order book/Sales (x)	1.1	0.8	0.9	0.8	0.7
Order inflow/Sales (x)	1.1	0.8	1.0	1.0	1.0

Source: Company, Anand Rathi Research

Fig 5 – PE band


Source: Bloomberg, Anand Rathi Research

Fig 6 – Qtr. revenue and OPM trend


Source: Company, Anand Rathi Research

7 October 2013

BGR Energy Systems

*Pace to pick up in 2HFY14; Buy*Rating: **Buy**

Target Price: ₹182

Share Price: ₹107

Key takeaways

Order inflows and order book. In 2QFY14, BGR announced it had secured an order of ₹15bn in the BoP space. With this, we expect its unexecuted order book at the quarter's end at ~₹115bn. We seek clarity on any fresh orders that might have been bid for in the BTG/BOP or power plant EPC sub-segments.

Capex for new supercritical facilities. The company will manufacture supercritical boilers and TG island sets through its JV with Hitachi. The JV is in the process of setting up manufacturing facilities for TG in Tamil Nadu at an estimated outlay of ₹23bn. We await any information on the progress made on this front as well as the status of the boiler-manufacturing factory of the JV.

Earnings expectations in 2QFY14. With the ongoing EPC execution of several power projects (Kalisindh, TRN Energy Chhattisgarh), we estimate ₹8.2bn in revenue, a 35% increase yoy. We expect EBIDTA to rise to ₹1bn (21% higher yoy) with OPM at 12.9% (down 150bps yoy).

Our take. A relatively newer entrant in the Indian BTG arena, the company created a stir by winning a large chunk of the NTPC Bulk Tenders I and II in CY11. With orders of ₹67.8bn, it had emerged as the second-largest beneficiary in both bulk tenders. However, the going has since been slow, with the gap between order wins and awards stretching to almost 6-7 quarters. At the ruling price of ₹107, the stock trades at a P/E and an EV/EBIDTA of 4.1x and 5.9x respectively, discounting our FY14e figures. While there are some risks such as the company's stretched working-capital position, concentrated streams of earnings and execution risk associated with the new BTG manufacturing venture, we believe that they have been captured in the price. We have conservatively valued the stock at 7x FY14e earnings and arrived at a price target of ₹182. Hence we maintain our Buy recommendation.

Quarterly results (YE Mar)	2QFY13	2QFY14e	% yoy	FY12	FY13	% yoy
Sales (₹m)	6,273	8,329	32.8	34,505	31,133	(9.8)
EBITDA (₹m)	953	916	(3.9)	5,102	4,268	(16.3)
EBITDA margin (%)	15.2	11.0	-419bps	14.8	13.7	-108bps
Interest (₹m)	401	424	5.7	1,788	1,749	(2.2)
Depreciation (₹m)	43	75	74.1	174	203	16.6
Other income(₹m)	5	45	836.1	144	119	(17.2)
PBT (₹m)	514	462	(10.0)	3,285	2,436	(25.8)
Tax (₹m)	167	216	29.7	1,041	823	(21.0)
Tax rate (%)	32.4	46.7	1432bps	31.7	33.8	209bps
PAT (₹m)	347	246	(29.1)	2,244	1,613	(28.1)

Source: Company, Anand Rathi Research

Key data	BGRL IN / BGRE.BO
52-week high / low	₹297/₹71
Sensex / Nifty	19916/5907
3-m average volume	US\$0.5m
Market cap	₹7.6bn/US\$0.14bn
Shares outstanding	72m

Shareholding pattern (%)	Jun'13	Mar'13	Dec'12
Promoters	78.10	81.13	81.13
-of which, Pledged	-	-	-
Free Float	21.99	18.87	18.87
-Foreign Institutions	3.37	1.61	1.45
-Domestic Institutions	2.85	2.13	2.14
-Public	15.77	15.13	15.28

Financials (YE Mar)	FY14e	FY15e
Sales (₹m)	37,859	46,380
Net profit (₹m)	1,872	2,352
EPS (₹)	25.9	32.6
Growth (%)	0.0	0.0
PE (x)	4.1	3.3
PBV (x)	0.6	0.5
RoE (%)	14.1	15.9
RoCE (%)	10.5	11.9
Dividend yield (%)	9.3	9.3
Dividend payout (%)	37,859	46,380

Source: Anand Rathi Research

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Quick Glance – Financials and Valuations

Fig 1 – Income statement (₹m)

Year-end: Mar	FY11	FY12	FY13	FY14e	FY15e
Net revenues	47,526	34,505	31,133	37,859	46,380
Revenue growth (%)	54.6	(27.4)	(9.8)	21.6	22.5
- Op. Expenses	41,633	29,403	26,864	33,291	40,809
EBIDTA	5,893	5,102	4,268	4,569	5,571
EBITDA margin (%)	12.4	14.8	13.7	12.1	12.0
- Interest Expenses	1,107	1,788	1,749	1,718	2,117
- Depreciation	173	174	203	272	196
+ Other income	195	144	119	135	150
- Tax	1,577	1,041	823	841	1,057
Effective tax rate (%)	32.8	31.7	33.8	31.0	31.0
Reported PAT	3,231	2,244	1,613	1,872	2,352
+/- Extraordinary items	0	0	0	0	0
+/- Minority interest	4	-2	8	0	0
Adjusted PAT	3,234	2,242	1,621	1,872	2,352
Adj. FDEPS (₹ / share)	44.8	31.1	22.5	25.9	32.6
Adj. FDEPS growth (%)	60.2	(30.6)	(27.7)	15.5	25.6

Source: Company, Anand Rathi Research

Fig 2 – Balance sheet (₹m)

Year-end: Mar	FY11	FY12	FY13	FY14e	FY15e
Share capital	722	722	722	722	722
Reserves & surplus	8,799	10,453	11,512	12,542	14,052
Net worth	9,521	11,175	12,233	13,264	14,774
Minority interest	518	913	905	905	905
Total debt	13,373	17,699	22,036	23,787	26,457
Def. tax liab. (net)	3,078	3,974	4,203	4,203	4,203
Capital employed	26,489	33,761	39,377	42,159	46,339
Net Fixed Assets	2,845	4,135	5,752	6,179	6,483
Investments	4	5	5	1,962	4,905
Net working capital	13,233	20,214	23,789	30,273	33,451
Cash and bank balance	10,408	9,407	9,832	3,745	1,500
Capital deployed	26,489	33,761	39,377	42,159	46,339
Net debt	2,965	8,292	12,205	20,042	24,957
WC days	36	112	22	77	76
Book value (₹ / sh)	132	155	170	184	205
No. of shares (m)	72	72	72	72	72

Source: Company, Anand Rathi Research

Fig 3 – Cash-flow statement (₹m)

Year-end: Mar	FY11	FY12	FY13	FY14e	FY15e
PAT	3,234	2,242	1,621	1,872	2,352
+Non-cash items	(1,357)	(723)	(26)	272	196
Cash profit	1,878	1,519	1,595	2,144	2,548
- Incr./ (Decr.) in WC	7,105	6,981	3,576	6,484	3,178
Operating cash-flow	(5,227)	(5,462)	(1,981)	(4,340)	(630)
- Capex	1,456	1,465	1,819	700	500
Free cash-flow	(6,683)	(6,926)	(3,800)	(5,040)	(1,130)
- Dividend	842	841	589	841	841
+ Equity raised	66	0	0	0	0
+ Debt raised	5,298	4,327	4,337	1,751	2,669
- Investments	4,989	(956)	463	2,339	4,834
- Misc. items	(8,540)	(1,484)	(939)	(383)	(1,890)
Net cash-flow	1,389	(1,001)	424	(6,085)	(2,246)
+Op. cash & bank bal.	9,019	10,408	9,407	9,831	3,746
Closing cash	10,408	9,407	9,831	3,746	1,500

Source: Company, Anand Rathi Research

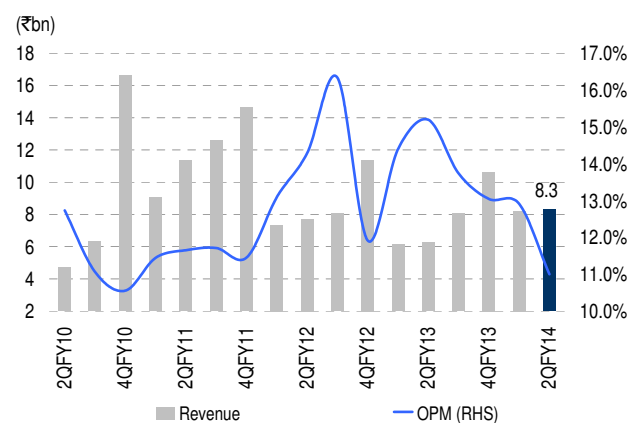
Fig 4 – Ratio analysis @ ₹107

Year-end: Mar	FY11	FY12	FY13	FY14e	FY15e
P/E (x)	2.4	3.4	4.8	4.1	3.3
P/B (x)	0.8	0.7	0.6	0.6	0.5
EV/Sales (x)	0.2	0.5	0.6	0.7	0.7
EV/EBITDA (x)	1.8	3.1	4.5	5.9	5.7
RoAE (%)	34.0	20.1	13.3	14.1	15.9
RoACE (%)	22.3	15.0	10.6	10.5	11.9
Dividend yield (%)	9.4	9.3	6.5	9.3	9.3
Dividend payout (%)	29.3	26.0	37.5	36.3	44.9
Debt / Equity (x)	1.4	1.6	1.8	1.8	1.8
DPS (₹ / share)	10.0	10.0	7.0	10.0	10.0
CEPS (₹ / share)	47.2	33.5	25.3	29.7	35.3
Order book (₹ m)	79,712	68,564	108,100	149,277	155,740
Order inflow (₹ m)	24,938	23,357	81,050	52,485	52,843
Order book/Sales (x)	1.7	2.0	3.5	3.9	3.4
Order inflow/Sales (x)	0.5	0.7	2.6	1.4	1.1

Source: Company, Anand Rathi Research

Fig 5 – PE band


Source: Bloomberg, Anand Rathi Research

Fig 6 – Qtr. revenue and OPM trend


Source: Company, Anand Rathi Research

7 October 2013

Tecpro Systems

Trying to stay afloat

Key takeaways

Operations under a cloud. Despite its vice-like grip in material handling, Tecpro Systems has been encountering turbulence in its core operations. This was evident from the previous quarter's figures. It had slowed down its billing and execution of projects because of liquidity problems encountered by its customers. We expect 2QFY14 to be no different as in the past quarter the economic environment hasn't improved significantly.

Guidance on interest burden and pace of project execution. Debt at end-1QFY14 was ~₹23bn, a debt-to-equity ratio of 2.7x. Retention money to be recovered was ₹10bn (46% of outstanding debt). With BoP projects of ₹12bn under execution (-35% of the order book), the pace of execution would be of paramount importance. We await guidance in this regard, since it would have a direct bearing on cash flows and debt levels. Additionally, we await any information on the recovery of dues and the status of execution of the present projects to correctly assess the cash-flow position of the company.

Order inflows and order book. We expect the company to win orders of ₹2bn in 2QFY14. In the last couple of months it has been receiving a steady stream of orders in coal and ash handling. However, with the slow pace of power-capacity additions, the higher-value and larger BOP orders aren't forthcoming. Consequently, at the end of the quarter we expect an unexecuted order book of ₹36bn, reflecting an order-book coverage of ~1.5x.

Our take. The ability to cling to its operational profitability in these tough times reflects the company's superlative execution capabilities as well its operational efficiencies. The delayed execution of projects and consequent cash-flow mismatch is a significant cause of concern. Because of this we have put the stock under review. We await clarity on steps being taken to alleviate this situation, which we believe is grim as the company's operations are in serious danger of coming to a standstill because of poor liquidity.

Quarterly results (YE Mar)	2QFY13	2QFY14e	% yoy	FY12	FY13	% yoy
Sales (₹m)	5,911	4,966	-16	25,360	26,105	3
EBITDA (₹m)	893	745	-17	3,263	3,555	9
EBITDA margin (%)	15.1	15.0	-11bps	12.9	13.6	75bps
Interest (₹m)	734	739	1	1,231	3,013	145
Depreciation (₹m)	46	46	0	103	198	93
Other income(₹m)	71	25	-65	172	83	-52
PBT (₹m)	185	(16)	-109	2,101	427	-80
Tax (₹m)	60	17	-71	738	139	-81
Tax rate (%)	32.5	(108.5)	-1409bps	35.1	32.5	-263bps
PAT (₹m)	125	(33)	-126	1,363	289	-79

Source: Company, Anand Rathi Research

Rating: **Under Review**

Target Price: N.A.

Share Price: ₹20

Key data	TPRO IN / TPSEI.BO
52-week high / low	₹174/₹13
Sensex / Nifty	19916 / 5907
3-m average volume	US\$0.1m
Market cap	₹1bn/US\$0.02bn
Shares outstanding	50m

Shareholding pattern(%)	Jun'13	Mar'13	Dec'12
Promoters	52.63	52.63	52.63
- of which, Pledged	7.92	7.92	7.92
Free Float	47.37	47.37	47.37
- Foreign Institutions	3.88	3.88	3.99
- Domestic Institutions	17.95	18.43	18.75
- Public	25.52	25.06	24.63

Financials (YE Mar)	FY14e	FY15e
Sales (₹m)	24,831	28,732
Net profit (₹m)	143	730
EPS (₹)	2.8	14.5
Growth (%)	-50.58	412.01
PE (x)	7.1	1.4
PBV (x)	0.1	0.1
RoE (%)	1.8	8.6
RoCE (%)	12.3	15.3
Dividend yield (%)	15.0	15.0
Net gearing (%)	2.3	1.9

Source: Anand Rathi Research

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Quick Glance – Financials and Valuations

Fig 1 – Income statement (₹m)

Year-end: Mar	FY11	FY12	FY13	FY14e	FY15e
Net revenues	19,709	25,360	26,105	24,831	28,732
Revenue growth (%)	35.5	28.7	2.9	(4.9)	15.7
- Op. Expenses	16,121	22,096	22,549	21,577	24,905
EBIDTA	3,588	3,263	3,555	3,254	3,827
EBITDA margin (%)	18.2	12.9	13.6	13.1	13.3
- Interest	1,231	1,231	3,013	2,958	2,620
- Depreciation	103	103	198	185	218
+ Other income	172	172	83	100	100
- Tax	738	738	139	69	360
Effective tax rate (%)	30.4	35.1	32.5	32.5	33.0
Reported PAT	1,688	1,363	289	143	730
+/- Extraordinary items	0	0	0	0	0
+/- Minority interest	0	0	0	0	0
Adjusted PAT	1,688	1,363	289	143	730
Adj. FDEPS (₹/share)	33	27	6	3	14
Adj. FDEPS growth (%)	34.9	(19.2)	(78.8)	(50.6)	412.0

Source: Company, Anand Rathi Research

Fig 2 – Balance sheet (₹m)

Year-end: Mar	FY11	FY12	FY13	FY14e	FY15e
Share capital	505	505	505	505	505
Reserves & surplus	6,279	7,140	7,385	7,395	7,949
Net worth	6,784	7,645	7,890	7,900	8,454
Minority interest	-	-	-	-	-
Total debt	3,260	3,686	20,888	17,927	15,877
Def. tax liab. (net)	(26)	1	(19)	(19)	(19)
Capital employed	10,018	11,332	28,759	25,807	24,311
Net fixed assets	1,578	2,709	3,330	3,790	4,272
Investments	7,214	8,829	177	177	177
- of which, Liquid	-	-	-	-	-
Net working capital	(959)	(2,491)	24,997	5,230	4,129
Cash and bank balance	2,185	2,285	255	16,610	15,733
Capital deployed	10,018	11,332	28,759	25,807	24,311
Net debt	1,075	1,401	20,633	1,316	144
WC days	(161)	(209)	97	(188)	(196)
Book value (₹/sh)	134	151	156	157	168

Source: Company, Anand Rathi Research

Fig 3 – Cash-flow statement (₹m)

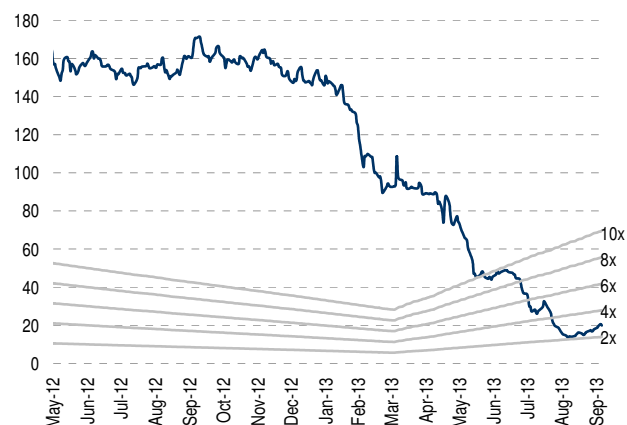
Year-end: Mar	FY11	FY12	FY13e	FY14e	FY15e
PAT	1,688	1,363	289	143	730
+ Non-cash items	1,711	(323)	(17,004)	3,147	2,268
Cash profit	3,399	1,040	(16,716)	3,289	2,998
- Incr./ (Decr.) in WC	(6,104)	(1,532)	27,488	(19,767)	(1,100)
Operating cash-flow	9,503	2,572	(44,204)	23,057	4,098
- Capex	362	1,234	819	645	700
Free cash-flow	9,141	1,338	(45,023)	22,411	3,398
- Dividend	176	176	0	176	176
+ Equity raised	2,218	(141)	0	0	0
+ Debt raised	(1,608)	426	17,202	(2,962)	(2,050)
- Investments	7,120	1,615	(8,652)	0	0
- Misc. items	2,090	(268)	(17,139)	2,919	2,050
Net cash-flow	365	100	(2,029)	16,355	(878)
+Op. Cash & bank bal.	1,820	2,185	2,285	255	16,610
Cl. cash & bank bal.	2,185	2,285	255	16,610	15,733

Source: Company, Anand Rathi Research

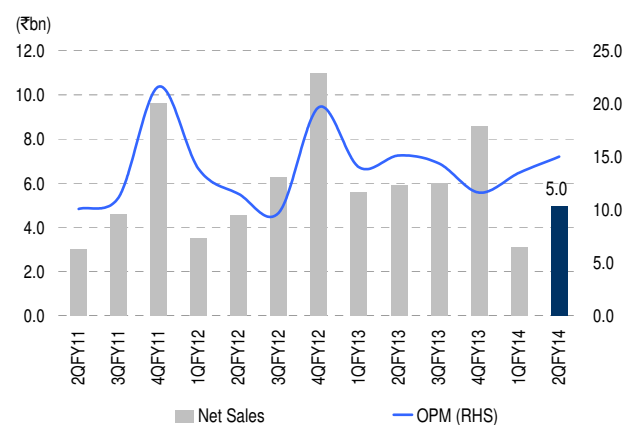
Fig 4 – Ratio analysis @ ₹20

Year-end: Mar	FY11	FY12	FY13	FY14e	FY15e
P/E (x)	0.6	0.7	3.5	7.1	1.4
P/B (x)	0.1	0.1	0.1	0.1	0.1
EV/Sales (x)	0.1	0.1	0.8	0.1	0.0
EV/EBITDA (x)	0.6	0.7	5.9	0.7	0.3
RoAE (%)	24.9	17.8	3.7	1.8	8.6
RoACE (%)	36.5	29.4	12.0	12.3	15.3
Dividend yield (%)	15.0	15.0	0.0	15.0	15.0
Dividend payout (%)	9.0	11.1	0.0	106.2	20.7
Debt / Equity (x)	0.5	0.5	2.6	2.3	1.9
Debtors (days)	211.7	232.6	404.0	242.0	242.0
CEPS (Rs / share)	29.0	29.0	9.6	6.5	18.8
Orderbook (₹ m)	43,710	41,500	37,761	42,514	53,453
Order inflow (₹ m)	43,482	23,352	25,962	29,584	39,672
Orderbook/Sales (x)	2.2	1.6	1.3	1.7	1.9
Order inflow/Sales (x)	2.2	0.9	1.0	1.2	1.4

Source: Company, Anand Rathi Research

Fig 5 – PE band


Source: Bloomberg, Anand Rathi Research

Fig 6 – Qtr. revenue and OPM trend


Source: Company, Anand Rathi Research

Appendix

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% who are investment banking clients	4%	2%	0%

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