

9 July 2013

## India Autos

*Stuck in first gear*

BSE Auto: 10818

Sensex: 19496

Nifty: 5868

### Key takeaways

**PV companies do better.** Auto companies are expected to report subdued 3.2% revenue growth, as volumes were lower in most segments. We expect a 10bps yoy reduction in EBITDA margins. On lower profitability at two-wheeler and CV companies, we expect net profit to be lower 3% yoy. The standout auto companies would be Tata Motors, Maruti Suzuki and M&M.

**Revenue growth subdued.** We expect sector revenues to grow just 3.2%, led by higher realisations, while auto volumes declined in most segments. Two-wheeler volumes and M&H CVs were particularly under pressure. Passenger vehicle growth was also subdued, but tractor sales surprised positively. Three-wheelers were decent, while LCVs which performed well in FY13, also witnessed lower demand.

**Stagnant EBITDA margins.** An increase in operating costs, lower operating leverage and continued competition are key challenges for the sector, though we could see tailwinds on this front. We expect 12.9% EBITDA margin for the sector (lower just 6bps yoy).

**Net profit likely to decline.** In 1QFY14, we expect profit to be lower just 3% yoy, driven mainly by Tata Motors, Maruti Suzuki and M&M. Among auto component companies, Motherson Sumi and Swaraj Engines could be the standout performers.

**Our take.** We are underweight on the sector as we expect valuations to correct in the near term. **Top picks.** Tata Motors and Motherson Sumi Systems. We also like M&M and Wabco India from a long-term perspective. Among the smaller companies, we prefer VST Tillers and Suprajit Engineering. We have a Sell on Maruti Suzuki and Bajaj Auto on fair valuations. We are negative on Ashok Leyland due to the CV cycle, and on Hero MotoCorp on weak two-wheeler demand. **Risks.** Faster than expected recovery in volumes, lower commodity costs.

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### India Autos: June '13 quarter, forecasts

Company	Revenues		EBITDA		PAT	
	₹m	yoy chg (%)	Margin (%)	yoy chg (bps)	₹m	yoy chg (%)
Tata Motors	464,170	7.1	13.2	(115.9)	24,325	(9.4)
Bajaj Auto	102,792	9.7	13.0	115.6	8,859	22.1
Mahindra & Mahindra	47,420	(2.5)	18.0	(68.0)	7,131	(3.2)
Maruti Suzuki	102,536	(4.9)	11.5	420.5	5,846	37.9
Hero MotoCorp	61,143	(2.1)	14.0	(99.6)	5,152	(16.3)
Eicher Motors*	16,600	4.7	9.3	49.7	772	1.6
Ashok Leyland	23,214	(22.8)	5.3	(267.3)	(352)	(152.6)
TVS Motors	18,229	0.2	5.7	(19.8)	439	(14.1)

Source: Company, Anand Rathi Research

\* Estimates for 2QCY13

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Fig 1 – Snapshot: Quarterly result estimates

Company Name	Sales			EBITDA			OPM		PAT		
	Jun'13	YoY %	QoQ %	Jun'13	YoY %	QoQ %	Jun'13	YoY bps	Jun'13	YoY %	QoQ %
Tata Motors	464,170	7.1	(17.1)	61,417	(1.5)	(26.3)	13.2	(115.9)	24,325	(9.4)	(38.0)
Mahindra & Mahindra	102,792	9.7	(2.0)	13,363	20.4	6.5	13.0	115.6	8,859	22.1	9.4
Bajaj Auto	47,420	(2.5)	(0.1)	8,524	(6.1)	1.9	18.0	(68.0)	7,131	(3.2)	(6.9)
Maruti Suzuki	102,536	(4.9)	(22.9)	11,792	50.0	(39.5)	11.5	420.5	5,846	37.9	(51.4)
Hero MotoCorp	61,143	(2.1)	(0.5)	8,560	(8.6)	0.7	14.0	(99.6)	5,152	(16.3)	(10.3)
Eicher Motors*	16,600	4.7	(3.7)	1,544	10.6	(9.5)	9.3	49.7	772	1.6	(21.2)
Ashok Leyland	23,214	(22.8)	(37.7)	1,237	(48.6)	(37.6)	5.3	(267.3)	(352)	(152.6)	(221.0)
TVS Motors	18,229	0.2	4.3	1,041	(3.2)	11.0	5.7	(19.8)	439	(14.1)	(10.5)
VST Tillers & Tractors	1,448	12.1	3.0	225	6.8	5.2	15.5	(77.8)	152	8.9	0.9
Motherson Sumi Systems	67,185	5.2	0.6	4,929	8.3	(13.4)	7.3	21.0	1,342	20.7	(21.8)
Exide Industries	16,313	5.0	5.9	2,204	(9.3)	8.5	13.5	(213.4)	1,486	(6.8)	2.1
Bharat Forge	6,857	(26.8)	1.6	1,417	(39.7)	(0.1)	20.7	(444.3)	532	(49.4)	6.3
Amara Raja Batteries	7,979	15.0	(0.7)	1,196	0.0	6.9	15.0	(224.0)	747	(1.9)	25.6
Apollo Tyres	30,381	(4.0)	0.0	3,485	(0.9)	(2.1)	11.5	36.3	1,309	(5.1)	4.8
Wabco India	2,290	(8.1)	(6.3)	443	(22.3)	(4.3)	19.4	(352.4)	308	(26.5)	10.0
SKF India	5,318	(8.0)	(1.2)	511	(14.8)	(13.9)	9.6	(77.1)	402	(13.9)	(1.3)
Swaraj Engines	1,446	22.4	26.3	222	23.2	35.2	15.4	9.8	162	18.6	16.6
Balkrishna Industries	8,180	(1.6)	5.0	1,606	2.2	3.0	19.6	72.8	888	2.2	7.7
Gabriel India	3,000	2.6	(3.6)	182	(11.2)	(8.0)	6.1	(94.1)	76	(16.2)	(40.1)
Mahindra Forgings	1,108	5.5	1.2	174	47.0	(12.7)	15.7	442.4	99	118.6	(36.7)
Ceat	12,895	8.4	(1.6)	1,286	20.3	(7.6)	10.0	98.5	422	64.0	(30.6)
Munjal Showa	3,989	(5.0)	0.4	212	(8.4)	(34.5)	5.3	(19.6)	108	(20.1)	(51.6)
JK Tyres & Industries	14,529	0.7	5.0	1,370	8.8	0.5	9.4	70.6	305	(19.9)	(11.1)
NRB Bearings	1,406	(0.8)	(1.0)	236	(8.0)	17.8	16.8	(132.0)	94	(13.3)	(7.2)
Setco Auto	706	(5.0)	(32.3)	92	(17.3)	(14.1)	13.1	(194.6)	40	(35.8)	(21.2)
Phillips carbon	5,508	(11.3)	2.9	311	(13.0)	5.1	5.6	(11.0)	26	(59.8)	(46.5)
Suprajit engineering	996	3.9	(12.2)	159	(3.6)	(14.4)	15.9	(124.2)	89	(34.7)	(24.2)
<b>Total</b>	<b>1,027,636</b>	<b>2.7</b>	<b>(12.0)</b>	<b>127,737</b>	<b>1.7</b>	<b>(19.1)</b>	<b>12.4</b>	<b>(12.5)</b>	<b>60,761</b>	<b>(3.6)</b>	<b>(27.3)</b>

Source: Company, Anand Rathi Research

\* Estimates for 2QCY13

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## Tata Motors

*Domestic weakness, JLR strong; Buy*

Rating: **Buy**

Target Price: ₹348

Share Price: ₹296

### Key takeaways

**1Q to be good.** In 1Q, we expect Tata Motors' consolidated profits to register 9.4% yoy decline; while JLR's good performance continues, the Indian operations are expected to continue to be a drag due to the slump in CV sales and lower PV sales. We expect consolidated sales to grow 7.1% yoy to ₹464.2bn, with a 13.2% EBITDA margin and 9.4% profit decline to ₹24.3bn.

**4Q performance was good.** The company's consolidated performance was impressive, boosted chiefly by the robust performance at JLR. Income growth was ~ 10%, driven chiefly by better-than-expected JLR realizations, which contributed to the better-than-expected EBITDA margin.

**JLR to be the growth driver.** JLR's 1Q volumes are estimated to have grown 9.7%. Unlike FY13 however, Jaguar is the key growth driver, not Land Rover. Backed by good volume growth, we expect JLR to report 11.9% yoy revenue growth to ₹4.1bn. We expect an EBITDA margin of 15%, with a 16.8% rise in profit to ₹334m.

**M&H CVs under pressure.** The cyclical slowdown in M&H CVs would continue to heap pressure on the Indian operations. Other segments too are not displaying a lower trajectory. We expect the standalone entity to record a third quarter of losses on the weak sales performance.

**Our take.** The demand context for M&H CVs would be challenging, at least in 1HCY13. An improved performance in the standalone operations is likely only in 2HFY14 and FY15. For JLR, good volume growth and continuing demand are the clearest positives at present, with the margin expected to improve ~30bps in FY14. We maintain a Buy with a price target of ₹348.

**Risks.** Currency fluctuations, dip in European demand, negative surprises at JLR, longer-than-expected M&H CV slowdown.

Key data	TTMT IN / TAMO.BO
52-week high / low	₹337 / ₹203
Sensex / Nifty	19496 / 5868
3-m average volume	US\$54.1m
Market cap	₹770.1bn / US\$12.8bn
Shares outstanding	3189.9m

Shareholding pattern (%)	Mar '13	Dec '12	Sep '12
Promoters	34.71	34.72	34.74
- of which, Pledged	7.55	7.55	6.38
Free Float	65.29	65.28	65.26
- Foreign Institutions	28.38	29.01	28.47
- Domestic Institutions	10.50	11.50	11.91
- Public	26.41	24.77	24.88

Financials (YE Mar)	FY14e	FY15e
Sales (₹m)	2,148,862	2,468,905
Net profit (₹m)	129,444	153,996
EPS (₹)	38.9	46.3
Growth (%)	23.3	19.0
PE (x)	7.6	6.4
PBV (x)	1.9	1.5
RoE (%)	26.0	24.2
RoCE (%)	25.7	25.8
Dividend yield (%)	0.8	1.4
Net gearing (%)	54.4	48.7

Source: Anand Rathi Research

Quarterly results (YE Mar)	1QFY13	1QFY14e	% yoy	FY12	FY13	% yoy
Sales (₹m)	433,236	464,170	7.1	1,656,545	1,888,176	14.0
EBITDA (₹m)	62,346	61,417	-1.5	237,005	265,689	12.1
EBITDA margin (%)	14.4	13.2	-116bps	14.3	14.1	-24bps
Interest (₹m)	8,044	9,250	15.0	29,822	35,533	19.2
Depreciation (₹m)	20,456	22,262	8.8	70,146	95,909	36.7
Other income (₹m)	2,386	2,220	-6.9	6,618	8,115	22.6
PBT (₹m)	31,827	32,125	0.9	153,275	136,335	-11.1
Tax (₹m)	8,688	8,000	-7.9	17,536	37,710	115.0
Tax rate (%)	27.3	24.9	-240bps	11.4	27.7	1,622bps
Adjusted Profit (₹m)	26,854	24,325	-9.4	125,544	104,953	-16.4

Source: Company

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## Quick Glance – Financials and Valuations

**Fig 1 – Income statement (₹m)**

Year-end: Mar	FY11	FY12	FY13	FY14e	FY15e
Net revenues	1,221,279	1,656,545	1,888,176	2,148,862	2,468,905
Revenue growth (%)	32.0	35.6	14.0	13.8	14.9
- Op. expenses	1,043,129	1,419,540	1,622,487	1,837,428	2,111,358
<b>EBIDTA</b>	<b>178,150</b>	<b>237,005</b>	<b>265,689</b>	<b>311,434</b>	<b>357,546</b>
EBITDA margin (%)	14.6	14.3	14.1	14.5	14.5
- Interest expenses	23,853	29,822	35,533	34,645	33,779
- Depreciation	56,531	70,146	95,909	105,126	115,836
+ Other income	4,295	6,618	8,115	8,521	8,947
- Extraordinary items	-2,310	-9,621	6,027	0	0
- Tax	12,164	17,536	37,710	51,128	63,375
Effective tax rate (%)	11.7	11.4	27.7	28.4	29.2
Reported Profit	92,736	135,165	98,926	129,444	153,996
Adjusted Profit	90,426	125,544	104,953	129,444	153,996
Adj. Profit growth (%)	666.9	38.8	-16.4	23.3	19.0
Adj. FDEPS (₹/share)	27.2	37.8	31.6	38.9	46.3
Adj. FDEPS growth (%)	666.9	38.8	-16.4	23.3	19.0

Source: Company, Anand Rathi Research

**Fig 2 – Balance sheet (₹m)**

Year-end: Mar	FY11	FY12	FY13	FY14e	FY15e
Share capital	6,377	6,348	6,381	6,381	6,381
Reserves & surplus	185,338	325,152	369,992	490,208	628,857
Net worth	191,715	331,499	376,373	496,589	635,238
Total debt	303,622	387,041	437,223	457,223	477,223
Def. tax liab. (net)	17,104	-25,186	-20,390	-20,390	-20,390
<b>Capital employed</b>	<b>512,440</b>	<b>693,354</b>	<b>793,206</b>	<b>933,422</b>	<b>1,092,071</b>
Net fixed assets	468,058	603,062	735,860	931,004	1,046,755
Investments	25,443	89,177	90,577	90,577	90,577
Net working capital	-95,157	-181,266	-244,358	-258,611	-280,527
Cash and bank balance	114,096	182,381	211,127	170,453	235,266
<b>Capital deployed</b>	<b>512,440</b>	<b>693,354</b>	<b>793,206</b>	<b>933,422</b>	<b>1,092,071</b>
No. of shares (m)	638	3,174	3,190	3,190	3,190
Net debt	189,526	204,659	226,096	286,770	241,957
Net debt / Equity	1.0	0.6	0.6	0.6	0.4
WC turn days	-18	-10	-18	-14	-14
Book value (₹/sh)	60.1	104.5	118.0	155.7	199.1

Source: Company, Anand Rathi Research

**Fig 3 – Cash-flow statement (₹m)**

Year-end: Mar	FY11	FY12	FY13	FY14e	FY15e
Reported Profit	92,736	135,165	98,926	129,444	153,996
+ Depreciation	56,531	56,254	75,693	79,856	84,248
Cash profit	149,267	191,419	174,619	209,300	238,244
- Incr./decr. in WC	-15,812	-86,110	-33,091	-14,254	-21,916
Operating cash-flow	165,079	277,528	207,710	223,554	260,161
- Capex	99,999	228,053	208,404	275,000	200,000
Free cash-flow	65,080	49,476	-694	-51,446	60,161
- Dividend	12,742	12,807	6,429	8,024	13,346
+ Equity raised	671	-30	33	0	0
+ Debt raised	-48,302	83,419	50,182	20,000	20,000
- Investments	3,251	63,735	1,400	0	0
- Misc. items	-25,208	-11,961	12,947	1,204	2,002
Net cash-flow	26,663	68,285	28,745	-40,674	64,813
+ Op. cash & bank bal.	87,433	114,096	182,381	211,127	170,453
Cl. cash & bank bal.	114,096	182,381	211,127	170,453	235,266

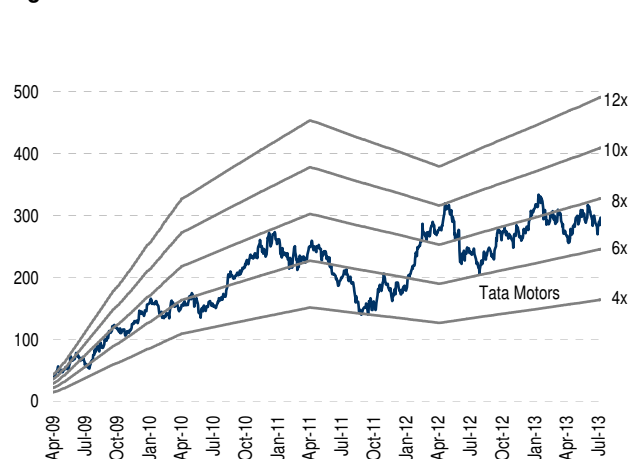
Source: Company, Anand Rathi Research

**Fig 4 – Ratio analysis @ ₹296**

Year-end: Mar	FY11	FY12	FY13	FY14e	FY15e
P/E (x)	10.9	7.8	9.4	7.6	6.4
P/B (x)	4.9	2.8	2.5	1.9	1.5
EV/EBITDA (x)	6.2	4.5	4.1	3.7	3.1
RoE (%)	48.1	40.9	26.2	26.0	24.2
RoCE (%)	26.5	26.8	25.0	25.7	25.8
Dividend yield (%)	1.4	1.4	0.7	0.8	1.4
Dividend payout (%)	15.8	10.8	7.5	7.1	10.0
Debt to equity (%)	1.6	1.2	1.2	0.9	0.8
Core P/E (x)	11.4	8.3	10.2	8.1	6.8
Cash P/E	6.8	4.9	5.4	4.5	4.0
EV/sales	0.9	0.6	0.6	0.5	0.4
Inventory days	30	31	36	36	36
Receivables days	20	18	15	16	16
Payables days	68	59	69	66	66
Asset Turnover	2.4	2.4	2.4	2.3	2.2

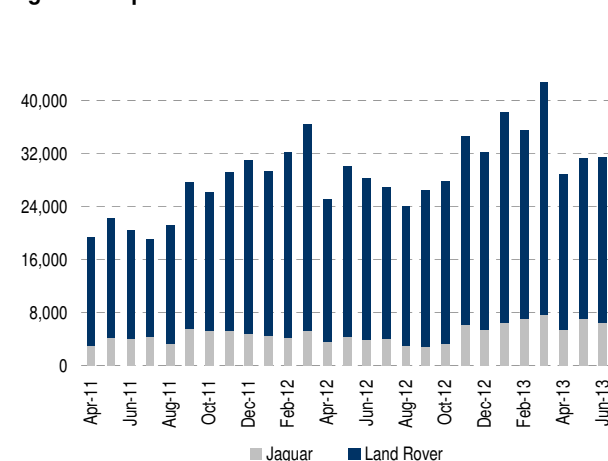
Source: Company, Anand Rathi Research

**Fig 5 – PE band**



Source: Bloomberg, Anand Rathi Research

**Fig 6 – JLR product mix**



Source: Company

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## Mahindra & Mahindra

*Tractors bounce back; Hold*Rating: **Hold**

Target Price: ₹1,015

Share Price: ₹968

### Key takeaways

**Tractors, the growth driver.** After a robust performance in FY13, Mahindra & Mahindra's automotive division volumes were subdued in 1Q (1.8% lower yoy). However, the robust performance of the farm-equipment division made up for this. Tractor sales grew 25.2% yoy to 74,577 units, a noticeably sharp recovery after yoy declines in four consecutive quarters. Sales of pickups were also decent, rising 9.2% yoy. The weaker performing segments were UVs (down ~4.5% yoy), three-wheelers (down 10.5% yoy) and cars (down ~1.8% yoy). M&M's overall volume growth in 1QFY14 was 7% yoy.

**1Q likely to be good.** For 1Q we expect 9.7% yoy income growth to ₹102.8bn and 20.4% EBITDA growth to ₹13.4bn. We expect an EBITDA margin of 13% (up 120bps yoy, 100bps qoq). The greater proportion of tractors in the product mix is likely to drive up profitability for the quarter. We expect profit for the quarter to grow 22.1% yoy to ₹8.6bn.

**FES to drive EBIT margin.** We expect the automotive division EBIT margin at 9.2% (up 40bps yoy, but 60bps lower qoq), with the farm-equipment division EBIT margin at 17% (130bps higher yoy, 100bps qoq). EBIT per tractor is expected to be 11.7% higher yoy, while EBIT per vehicle in the automotive division is expected to be 6.6% higher yoy.

**Our take.** UVs, the growth driver in FY13, are expected to record a lower growth rate in FY14, while pickups would maintain a decent pace. Tractors have registered a strong recovery in 1Q. The consolidated performance also should be good, but Systech and the two-wheeler business would drag on profitability. We have a Hold rating on the stock, with a sum-of-parts-based target of ₹1,015. It trades at ~12.2x consolidated earnings; valuations appear fair from an FY14 perspective. **Risks.** Upside: Recovery in tractor demand, lower commodity costs. Downside: Delay in Ssangyong's recovery, keener competition, diesel price hike.

Key data	MM IN / MAHM.BO
52-week high / low	₹1026 / ₹675
Sensex / Nifty	19496 / 5868
3-m average volume	US\$18.6m
Market cap	₹584.01bn / US\$9.73bn
Shares outstanding	589m

Shareholding pattern (%)	Mar '13	Dec '12	Sep '12
Promoters	25.18	25.30	25.35
- of which, Pledged	8.18	8.85	8.83
Free Float	74.82	74.70	74.65
- Foreign Institutions	35.01	32.86	30.00
- Domestic Institutions	15.54	16.40	18.60
- Public	24.27	25.44	26.05

Financials (YE Mar)	FY14e	FY15e
Sales (₹m)	454,475	519,355
Net profit (₹m)	35,079	39,830
EPS (₹)	57.1	64.9
Cons. EPS (₹)	79.5	93.0
PE (x)	16.9	14.9
Cons PE (x)	12.2	10.4
RoE (%)	20.4	19.8
RoCE (%)	23.8	23.5
Dividend yield (%)	1.4	1.5
Net gearing (%)	37.4	33.9

Source: Anand Rathi Research

Quarterly results (YE Mar)	1QFY13	1QFY14e	% yoy	FY12	FY13	% yoy
Sales (₹m)	93,674	102,792	9.7	318,535	404,412	27.0
EBITDA (₹m)	11,094	13,363	20.4	37,629	46,943	24.8
EBITDA margin (%)	11.8	13.0	116bps	11.8	11.6	-21bps
Interest (₹m)	460	506	10.0	1,628	1,912	17.5
Depreciation (₹m)	1,548	1,703	10.0	5,762	7,109	23.4
Other income (₹m)	599	658	10.0	4,658	5,492	17.9
PBT (₹m)	9,684	11,812	22.0	37,543	44,470	18.5
Tax (₹m)	2,428	2,953	21.6	8,755	10,943	25.0
Tax rate (%)	25.1	25.0	-7bps	23.3	24.6	129bps
Adjusted Profit (₹m)	7,256	8,859	22.1	26,168	32,735	25.1

Source: Company

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## Quick Glance – Financials and Valuations

### Fig 1 – Income statement (₹m)

Year-end: Mar	FY11	FY12	FY13	FY14e	FY15e
Net revenues	233,877	318,535	404,412	454,475	519,355
Revenue growth (%)	26.2	36.2	27.0	12.4	14.3
- Op. expenses	200,060	280,907	357,469	403,237	461,415
<b>EBIDTA</b>	<b>33,817</b>	<b>37,629</b>	<b>46,943</b>	<b>51,238</b>	<b>57,940</b>
EBITDA margin (%)	14.5	11.8	11.6	11.3	11.2
- Interest expenses	725	1,628	1,912	2,084	2,045
- Depreciation	4,139	5,761	7,108	8,713	10,101
+ Other income	4,342	4,658	5,492	6,334	7,317
- Extraordinary items	-1,901	-2,647	-1,056	0	0
- Tax	8,576	8,755	10,943	11,694	13,278
Effective tax rate (%)	24.4	23.3	24.6	25.0	25.0
Reported Profit	26,620	28,789	33,527	35,079	39,830
Adjusted Profit	24,961	26,169	32,482	35,079	39,830
Adj. Profit growth (%)	25.5	4.8	24.1	8.0	13.5
Adj. FDEPS (₹/share)	40.7	42.6	52.9	57.1	64.9
Adj. FDEPS growth (%)	25.5	4.8	24.1	8.0	13.5

Source: Company, Anand Rathi Research

### Fig 2 – Balance sheet (₹m)

Year-end: Mar	FY11	FY12	FY13	FY14e	FY15e
Share capital	2,936	2,945	2,952	2,952	2,952
Reserves & surplus	100,198	118,766	143,638	168,945	198,307
Net worth	103,134	121,711	146,589	171,897	201,259
Total debt	23,211	31,742	32,271	27,271	27,271
Def. tax liab. (net)	3,544	4,607	6,149	6,149	6,149
<b>Capital employed</b>	<b>129,889</b>	<b>158,060</b>	<b>185,008</b>	<b>205,316</b>	<b>234,678</b>
Net fixed assets	39,066	50,808	58,213	67,502	74,402
Investments	89,256	103,105	118,335	128,335	143,335
Net working capital	-4,580	-7,736	-9,354	662	1,162
Cash and bank balance	6,146	11,884	17,814	8,819	15,782
<b>Capital deployed</b>	<b>129,889</b>	<b>158,060</b>	<b>185,008</b>	<b>205,317</b>	<b>234,680</b>
No. of shares (m)	587	589	590	590	590
Net debt	-72,192	-83,247	-103,878	-109,883	-131,845
Net debt / Equity	-0.7	-0.7	-0.7	-0.6	-0.7
WC turn days	-16	-16	-5	-9	0
Book value (₹/sh)	175.6	206.6	248.3	291.2	340.9

Source: Company, Anand Rathi Research

### Fig 3 – Cash-flow statement (₹m)

Year-end: Mar	FY11	FY12	FY13	FY14e	FY15e
Reported Profit	26,620	28,789	33,527	35,079	39,830
+ Depreciation	4,139	5,761	7,108	8,713	10,101
Cash profit	30,759	34,550	40,635	43,792	49,931
- Incr./decr. in WC	4,394	-3,156	-1,618	10,016	500
Operating cash-flow	26,365	37,706	42,253	33,776	49,431
- Capex	5,045	18,881	14,514	18,000	17,000
Free cash-flow	21,320	18,825	27,739	15,776	32,431
- Dividend	7,061	7,675	7,982	8,596	9,210
+ Equity raised	107	9	6	0	0
+ Debt raised	-5,591	8,531	528	-5,000	0
- Investments	25,276	13,848	15,230	10,000	15,000
- Misc. items	-5,215	104	-867	1,178	1,262
Net cash-flow	-11,286	5,738	5,929	-8,998	6,959
+ Op. cash & bank bal.	17,432	6,146	11,884	17,814	8,819
Cl. cash & bank bal.	6,146	11,885	17,813	8,816	15,778

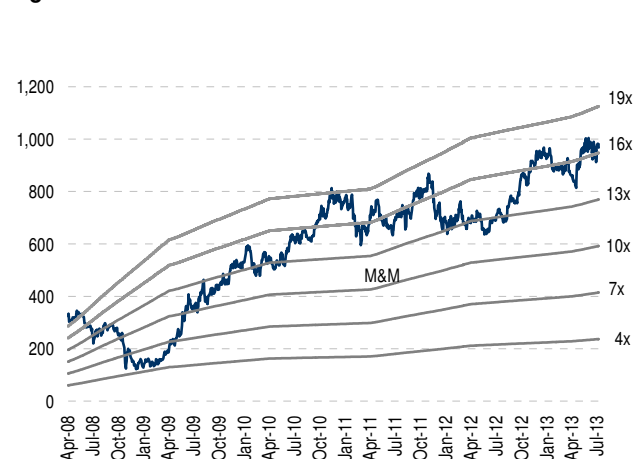
Source: Company, Anand Rathi Research

### Fig 4 – Ratio analysis @ ₹968

Year-end: Mar	FY11	FY12	FY13	FY14e	FY15e
Consolidated P/E (x)	20.5	19.0	15.8	12.2	10.4
P/B (x)	5.5	4.7	3.9	3.3	2.8
EV/EBITDA (x)	17.3	15.7	12.5	11.5	10.1
RoE (%)	24.2	21.5	22.2	20.4	19.8
RoCE (%)	26.2	23.0	24.5	23.8	23.5
Dividend yield (%)	1.2	1.3	1.3	1.4	1.5
Dividend payout (%)	32.5	33.2	27.9	27.9	26.3
Debt to equity (%)	0.2	0.3	0.2	0.2	0.1
Standalone P/E (x)	23.8	22.7	18.3	16.9	14.9
Cash P/E	19.8	18.0	14.6	13.2	11.5
EV/sales	2.2	1.6	1.2	1.0	0.9
Inventory days	27	27	22	30	30
Receivables days	20	23	20	25	25
Payables days	63	56	51	55	55
Asset Turnover	1.8	2.0	2.2	2.2	2.2

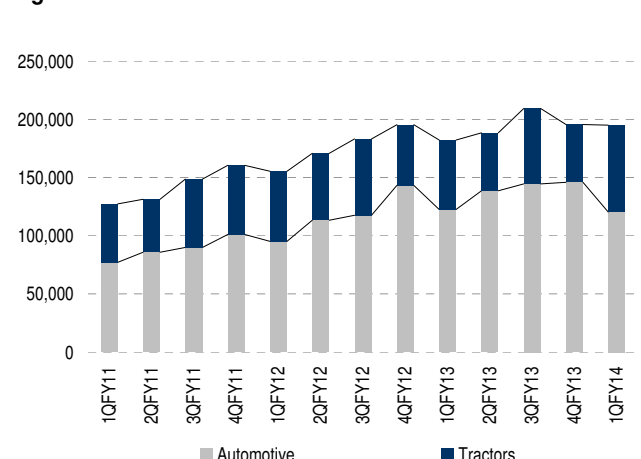
Source: Company, Anand Rathi Research

### Fig 5 – PE band



Source: Bloomberg, Anand Rathi Research

### Fig 6 – Product mix



Source: Company



9 July 2013

## Bajaj Auto

*Weak performance likely; Sell*Rating: **Sell**

Target Price: ₹1,721

Share Price: ₹1,873

### Key takeaways

**Weak demand.** In 1Q, weak demand, labour strife at its Chakan plant, problems in key export markets and keener competition, all impacted Bajaj Auto's sales. During the quarter, sales declined 9.2% yoy; of this motorcycles dropped 12.5% yoy. Three-wheelers grew 23.6% yoy, but this was on the lower base of the previous year when exports to Sri Lanka had been impacted by a sudden increase in duties. We expect the weak demand trend to continue in 1HFY14.

**Decent sales growth.** We expect a 2.5% dip in income to ₹47.4bn, and a 6.1% yoy decline in EBITDA to ₹8.5bn. We expect an EBITDA margin of 18% (70bps lower yoy, up 40bps qoq). Our tax rate expectation is 29%. We expect a 3.2% yoy fall in adjusted profit to ₹7.1bn, a profit margin of 15% (down 110bps qoq, 10bps yoy).

**Our take.** The demand outlook for FY14 is dim, both in domestic sales as well as exports. The key positive is better export realisations and a low base of the healthy-profitability three-wheeler division. Additional positives are the strong cash-flow generation and consistently displaying the highest EBITDA margin in the Indian auto industry. However, demand weakness and keener competition would result in market-share loss and cost pressures, ultimately weighing on profitability.

We have a Sell rating on the stock as we expect lower volumes to result in a short-term PE de-rating. At our price target of ₹1,721, the stock would trade at PE of 15.4x FY14e and 13.4x FY15e. At the ruling price, it trades at 16.8x FY14e and 14.6x FY15e EPS. We expect valuations to shrink in the short term. **Risks.** Quicker-than-expected demand recovery, further favorable forex movements, sharp recovery in demand in export markets and a drop in commodity prices.

Key data	BJAUT IN / BAJA.BO
52-week high / low	₹2229 / ₹1423
Sensex / Nifty	19496 / 5868
3-m average volume	US\$16.1m
Market cap	₹534.18bn / US\$8.9bn
Shares outstanding	289.4m

Shareholding pattern (%)	Mar' 13	Dec' 12	Sep' 12
Promoters	50.02	50.02	50.02
- of which, Pledged	0.10	0.12	0.14
Free Float	49.98	49.98	49.98
- Foreign Institutions	18.20	17.04	15.11
- Domestic Institutions	7.26	8.30	9.97
- Public	24.52	24.64	24.90

Financials (YE Mar)	FY14e	FY15e
Sales (₹m)	213,074	242,308
Net profit (₹m)	32,251	37,042
EPS (₹)	111.5	128.0
Growth (%)	4.3	14.9
PE (x)	16.8	14.6
PBV (x)	5.6	4.6
RoE (%)	33.2	31.1
RoCE (%)	45.8	43.1
Dividend yield (%)	2.7	2.9
Net gearing (%)	21.7	20.6

Source: Anand Rathi Research

Quarterly results (YE Mar)	1QFY13	1QFY14e	% yoy	FY12	FY13	% yoy
Sales (₹m)	48,657	47,420	-2.5	195,290	199,973	2.4
EBITDA (₹m)	9,077	8,524	-6.1	37,200	36,833	-1.0
EBITDA margin (%)	18.7	18.0	-68bps	19.0	18.4	-63bps
Interest (₹m)	0	0	-105.0	60	0	-100.0
Depreciation (₹m)	352	370	5.0	1,456	1,640	12.6
Other income (₹m)	1,720	1,892	10.0	6,080	7,955	30.8
PBT (₹m)	10,184	10,044	-1.4	40,262	43,182	7.3
Tax (₹m)	3,000	2,913	-2.9	10,221	12,227	19.6
Tax rate (%)	29.5	29.0	-46bps	25.4	28.3	293bps
Adjusted Profit (₹m)	7,366	7,131	-3.2	31,045	30,928	-0.4

Source: Company

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## Quick Glance – Financials and Valuations

**Fig 1 – Income statement (₹m)**

Year-end: Mar	FY11	FY12	FY13	FY14e	FY15e
Net revenues	163,982	195,290	199,973	213,074	242,308
Revenue growth (%)	37.6	19.1	2.4	6.6	13.7
- Op. expenses	132,270	158,090	163,140	174,451	197,788
<b>EBIDTA</b>	<b>31,712</b>	<b>37,200</b>	<b>36,833</b>	<b>38,622</b>	<b>44,520</b>
EBITDA margin (%)	19.3	19.0	18.4	18.1	18.4
- Interest expenses	17	222	5	4	4
- Depreciation	1,228	1,456	1,640	1,731	1,851
+ Other income	5,765	6,080	7,955	8,537	9,507
- Extraordinary items	-7,246	1,340	-40	0	0
- Tax	10,080	10,221	12,227	13,173	15,130
Effective tax rate (%)	23.2	25.4	28.3	29.0	29.0
Reported Profit	33,397	30,041	30,956	32,251	37,042
Adjusted Profit	26,152	31,046	30,928	32,251	37,042
Adj. Profit growth (%)	44.0	18.7	-0.4	4.3	14.9
Adj. FDEPS (₹/share)	90.4	107.3	106.9	111.5	128.0
Adj. FDEPS growth (%)	44.0	18.7	-0.4	4.3	14.9

Source: Company, Anand Rathi Research

**Fig 2 – Balance sheet (₹m)**

Year-end: Mar	FY11	FY12	FY13	FY14e	FY15e
Share capital	2,894	2,894	2,894	2,894	2,894
Reserves & surplus	46,209	57,517	76,126	94,364	116,149
Net worth	49,102	60,411	79,020	97,257	119,043
Total debt	3,487	1,250	884	884	884
Def. tax liab. (net)	297	484	1,151	1,151	1,151
<b>Capital employed</b>	<b>52,886</b>	<b>62,145</b>	<b>81,055</b>	<b>99,293</b>	<b>121,078</b>
Net fixed assets	15,490	15,234	20,980	22,106	23,103
Investments	47,219	48,828	64,305	86,305	105,305
Net working capital	-12,111	-18,455	-9,818	-11,381	-8,711
Cash and bank balance	2,288	16,538	5,589	2,263	1,381
<b>Capital deployed</b>	<b>52,886</b>	<b>62,145</b>	<b>81,055</b>	<b>99,293</b>	<b>121,078</b>
No. of shares (m)	289	289	289	289	289
Net debt	-46,020	-64,116	-69,009	-87,683	-105,802
Net debt / Equity	-0.9	-1.1	-0.9	-0.9	-0.9
WC turn days	-20	-17	-11	-11	-11
Book value (₹/sh)	169.7	208.8	273.1	336.1	411.4

Source: Company, Anand Rathi Research

**Fig 3 – Cash-flow statement (₹m)**

Year-end: Mar	FY11	FY12	FY13	FY14e	FY15e
Reported Profit	33,397	30,041	30,956	32,251	37,042
+ Depreciation	1,228	1,456	1,640	1,731	1,851
Cash profit	34,626	31,497	32,595	33,982	38,892
- Incr./decr. in WC	1,644	-6,344	8,637	-1,563	2,670
Operating cash-flow	32,982	37,841	23,959	35,545	36,222
- Capex	1,507	1,200	7,386	2,857	2,847
Free cash-flow	31,475	36,641	16,573	32,688	33,375
- Dividend	13,311	14,975	14,975	16,639	18,303
+ Equity raised	1,447	0	0	0	0
+ Debt raised	-10,134	-2,001	-366	0	0
- Investments	7,004	1,609	15,477	22,000	19,000
- Misc. items	1,199	3,805	-3,295	-2,625	-3,046
Net cash-flow	1,274	14,251	-10,949	-3,326	-882
+ Op. cash & bank bal.	1,014	2,288	16,538	5,589	2,263
Cl. cash & bank bal.	2,288	16,539	5,589	2,263	1,381

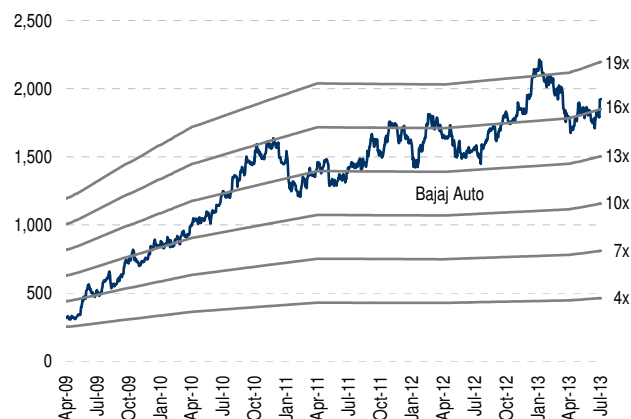
Source: Company, Anand Rathi Research

**Fig 4 – Ratio analysis @ ₹1,873**

Year-end: Mar	FY11	FY12	FY13	FY14e	FY15e
P/E (x)	20.7	17.5	17.5	16.8	14.6
P/B (x)	11.0	9.0	6.9	5.6	4.6
EV/EBITDA (x)	15.6	12.8	12.8	11.8	9.8
RoE (%)	53.3	51.4	39.1	33.2	31.1
RoCE (%)	68.5	67.3	53.2	45.8	43.1
Dividend yield (%)	2.1	2.4	2.4	2.7	2.9
Dividend payout (%)	39.9	49.8	48.4	51.6	49.4
Debt to equity (%)	0.1	0.0	0.0	0.0	0.0
Core P/E (x)	17.6	19.7	19.4	17.9	15.6
Cash P/E	19.8	16.7	16.6	15.9	13.9
EV/sales	3.1	2.5	2.4	2.2	1.8
Inventory days	13	13	12	12	12
Receivables days	8	8	14	14	14
Payables days	41	38	37	37	37
Asset Turnover	3.0	3.0	2.4	2.1	2.0

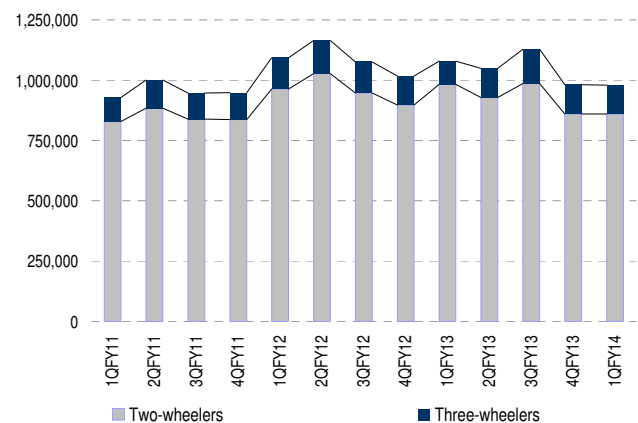
Source: Company, Anand Rathi Research

**Fig 5 – PE band**



Source: Bloomberg, Anand Rathi Research

**Fig 6 – Product mix**



Source: Company



9 July 2013

## Maruti Suzuki

*Margins to improve, but valuations are premium; Sell*

Rating: **Sell**

Target Price: ₹1,521

Share Price: ₹1,555

### Key takeaways

**Vehicle sales lower.** Maruti Suzuki's 1Q sales volume growth was unexciting; total sales dropped 10% yoy to 266,434 units. This was the second straight quarter of yoy sales decline. Compared to the FY13 growth rate (3.3% yoy), we expect a 4.2% growth rate in FY14. Channel inventory stands at ~4-5 weeks. In early Jun'13, the company had to control production at its diesel plant, which till last year ran at top utilisation. We estimate residual growth of 9% for the rest of the year.

**Decent results expected.** We expect a 4.9% yoy decline in revenue (10% volume decline and 5% realisation growth) to ₹102.5bn. We expect the EBITDA margin to come at 11.5% (up 420bps yoy, down 320bps qoq). Our EBITDA growth estimate is 50% and our profit growth estimate is 37.9% yoy to ₹5.8bn.

**Per-unit parameters to improve.** We expect the contribution per vehicle to be 33.5% higher yoy and 49.7% qoq. Our expectation for EBITDA per vehicle is 66.5% higher yoy, and profit per vehicle 53.2% higher yoy. Qoq comparison of parameters is not suitable as the consolidation of Suzuki Powertrain in 4Q distorts the financials.

**Our take.** In FY14 the company would benefit from a favourable exchange rate and a low base for its vehicle sales. Nevertheless, headwinds from curtailed demand for passenger cars and from launches by competitors would be the bumpy road in the next two quarters. We believe that the near-term positives have been factored into the price and the stock now trades at fair valuations.

Hence, we maintain a Sell with a price target of ₹1,521 (based on 14x Sep'14 EPS; the target multiple is at a 10% discount to the past five-year average).

**Risks.** Above-expected volume growth and currency-related benefits.

Key data	MSIL IN / MRTI.BO
52-week high / low	₹1,773 / ₹1,075
Sensex / Nifty	19496 / 5868
3-m average volume	US\$23.1m
Market cap	₹463.52bn / US\$7.72bn
Shares outstanding	289m

Shareholding pattern (%)	Mar '13	Dec '12	Sep '12
Promoters	56.21	54.21	54.21
- of which, Pledged	-	-	-
Free Float	43.79	45.79	45.79
- Foreign Institutions	22.36	23.13	20.45
- Domestic Institutions	12.60	14.35	16.15
- Public	8.83	8.31	9.19

Financials (YE Mar)	FY14e	FY15e
Sales (₹m)	482,358	563,515
Net profit (₹m)	30,287	35,341
EPS (₹)	100.3	117.0
Growth (%)	30.5	16.7
PE (x)	15.5	13.3
PBV (x)	2.2	1.9
RoE (%)	14.2	14.4
RoCE (%)	18.1	18.7
Dividend yield (%)	0.6	0.6
Net gearing (%)	22.7	21.4

Source: Anand Rathi Research

Quarterly results (YE Mar)	1QFY13	1QFY14e	% yoy	FY12	FY13	% yoy
Sales (₹m)	107,782	102,536	-4.9	355,871	435,879	22.5
EBITDA (₹m)	7,863	11,792	50.0	24,819	41,797	68.4
EBITDA margin (%)	7.3	11.5	420bps	7.0	9.6	261bps
Interest (₹m)	332	450	35.7	552	1,898	243.8
Depreciation (₹m)	3,399	4,750	39.7	11,384	18,612	63.5
Other income (₹m)	1,123	1,151	2.5	8,269	7,694	-7.0
PBT (₹m)	5,255	7,743	47.3	21,462	29,911	39.4
Tax (₹m)	1,018	1,897	86.4	5,111	5,989	17.2
Tax rate (%)	19.4	24.5	514bps	23.8	20.0	-379bps
Adjusted Profit (₹m)	4,238	5,846	37.9	16,116	23,215	44.0

Source: Company

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## Quick Glance – Financials and Valuations

**Fig 1 – Income statement (₹m)**

Year-end: Mar	FY11	FY12	FY13	FY14e	FY15e
Net revenues	370,401	355,871	435,879	482,358	563,515
Revenue growth (%)	25.0	-3.9	22.5	10.7	16.8
- Op. expenses	333,362	331,052	394,083	426,404	500,965
<b>EBIDTA</b>	<b>37,038</b>	<b>24,819</b>	<b>41,797</b>	<b>55,953</b>	<b>62,550</b>
EBITDA margin (%)	10.0	7.0	9.6	11.6	11.1
- Interest expenses	244	552	1,898	2,084	2,084
- Depreciation	10,135	11,384	18,612	21,817	21,496
+ Other income	4,823	8,269	7,694	7,805	8,151
- Extraordinary items	395	-310	-930	0	0
- Tax	8,201	5,111	5,989	9,571	11,780
Effective tax rate (%)	26.4	23.8	20.0	24.0	25.0
Reported Profit	22,886	16,351	23,921	30,287	35,341
Adjusted Profit	23,342	16,119	23,215	30,287	35,341
Adj. Profit growth (%)	-6.5	-30.9	44.0	30.5	16.7
Adj. FDEPS (₹/share)	80.8	55.8	76.8	100.3	117.0
Adj. FDEPS growth (%)	-6.5	-30.9	37.8	30.5	16.7

Source: Company, Anand Rathi Research

**Fig 2 – Balance sheet (₹m)**

Year-end: Mar	FY11	FY12	FY13	FY14e	FY15e
Share capital	1,445	1,445	1,510	1,510	1,510
Reserves & surplus	137,230	150,429	184,279	211,848	244,168
Net worth	138,675	151,874	185,790	213,358	245,678
Total debt	1,702	10,783	13,892	13,892	13,892
Def. tax liab. (net)	1,644	3,023	4,087	4,087	4,087
<b>Capital employed</b>	<b>142,021</b>	<b>165,680</b>	<b>203,768</b>	<b>231,337</b>	<b>263,657</b>
Net fixed assets	63,919	81,321	117,414	125,597	129,101
Investments	51,068	61,474	70,783	85,783	110,783
Net working capital	1,949	-1,476	7,822	8,207	7,874
Cash and bank balance	25,085	24,361	7,750	11,749	15,898
<b>Capital deployed</b>	<b>142,021</b>	<b>165,680</b>	<b>203,768</b>	<b>231,337</b>	<b>263,657</b>
No. of shares (m)	289	289	302	302	302
Net debt	-74,451	-75,052	-64,641	-83,640	-112,790
Net debt / Equity	-0.5	-0.5	-0.3	-0.4	-0.5
WC turn days	-4	-6	-8	-8	-8
Book value (₹/sh)	479.8	525.5	615.0	706.3	813.3

Source: Company, Anand Rathi Research

**Fig 3 – Cash-flow statement (₹m)**

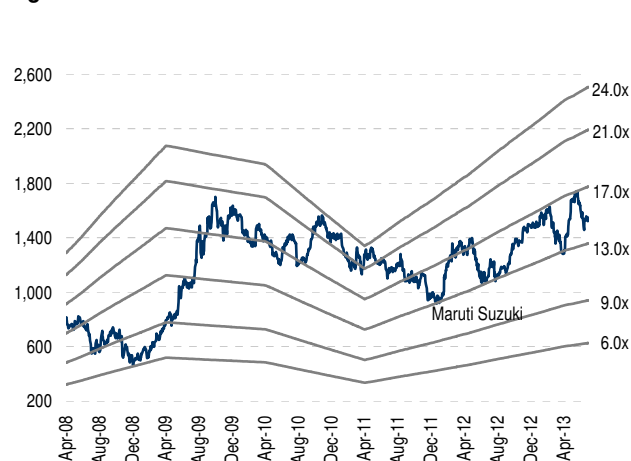
Year-end: Mar	FY11	FY12	FY13	FY14e	FY15e
Reported Profit	22,886	16,351	23,921	30,287	35,341
+ Depreciation	10,135	11,384	18,612	21,817	21,496
Cash profit	33,021	27,735	42,533	52,104	56,837
- Incr./decr. in WC	885	-3,425	9,298	385	-333
Operating cash-flow	32,136	31,160	33,235	51,718	57,170
- Capex	18,059	27,459	54,704	30,000	25,000
Free cash-flow	14,077	3,701	-21,469	21,718	32,170
- Dividend	2,167	2,167	2,417	2,719	3,021
+ Equity raised	0	0	65	0	0
+ Debt raised	-6,512	9,081	3,109	0	0
- Investments	-20,698	10,406	9,309	15,000	25,000
- Misc. items	1,993	933	-13,410	0	0
Net cash-flow	24,103	-724	-16,611	4,000	4,149
+ Op. cash & bank bal.	982	25,085	24,361	7,750	11,749
Cl. cash & bank bal.	25,085	24,361	7,750	11,749	15,898

Source: Company, Anand Rathi Research

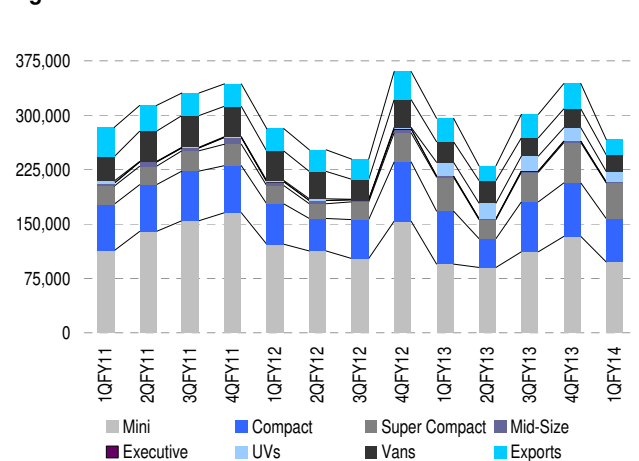
**Fig 4 – Ratio analysis @ ₹1,555**

Year-end: Mar	FY11	FY12	FY13	FY14e	FY15e
P/E (x)	19.3	27.9	20.2	15.5	13.3
P/B (x)	3.2	3.0	2.5	2.2	1.9
EV/EBITDA (x)	10.1	15.1	9.7	6.9	5.7
RoE (%)	16.5	10.8	12.9	14.2	14.4
RoCE (%)	22.5	13.1	15.2	18.1	18.7
Dividend yield (%)	0.5	0.5	0.5	0.6	0.6
Dividend payout (%)	9.3	13.4	10.4	9.0	8.5
Debt to equity (%)	0.0	0.1	0.1	0.1	0.1
Core P/E (x)	22.5	43.5	26.3	18.9	15.9
Cash P/E	13.4	16.3	11.2	9.0	8.3
EV/sales	1.0	1.1	1.0	0.8	0.6
Inventory days	14	20	17	17	17
Receivables days	8	9	11	11	11
Payables days	26	65	61	63	62
Asset Turnover	2.5	2.1	2.1	2.0	2.1

Source: Company, Anand Rathi Research

**Fig 5 – PE band**


Source: Bloomberg, Anand Rathi Research

**Fig 6 – Product Mix**


Source: Company

9 July 2013

## Hero MotoCorp

Weak demand; Sell

Rating: **Sell**

Target Price: ₹1,530

Share Price: ₹1,647

### Key takeaways

**Demand scenario unexciting.** Hero MotoCorp's 1Q sales were subdued and marked a fourth successive quarter of yoy volume decline. Two-wheeler sales were 5.1% lower yoy (flat qoq). Consequent on the weak demand context for two-wheelers and on keener competition, we expect this challenging industry scenario to continue into 1HCY13.

**1Q likely to be subdued.** We expect a slight 2.1% yoy income decline to ₹61.1bn, and an 8.6% yoy EBITDA decline to ₹8.6bn. We expect a 14% EBITDA margin (100bps lower yoy, 20bps up qoq). As previously guided to by the management, in 4QFY13 the gross margin was better because of a ramp-up in production of the new models. We expect the tax rate in 1Q to be 24%. We expect a 16.3% yoy drop in adjusted profit to ₹5.2bn.

**Lower profitability per vehicle.** Hurt by lower sales yoy, per-unit parameters would deteriorate. While we expect realisation per unit to rise 3% yoy, per vehicle contribution is expected to be better (3.8% yoy). EBITDA per vehicle would decline 3.8% yoy and profit per vehicle drop 11.8% yoy.

**Our take.** We expect Hero MotoCorp to report yoy decline in profitability due to lower two-wheeler dispatches in the quarter. In the past three quarters, a weak demand environment has prevailed and is likely to continue into 1HFY13. We expect the entire two-wheeler sector to be under pressure in the near term, with only Honda Motors and Scooters India faring better than the rest of the sector.

We maintain our Sell rating with a price target of ₹1,534, based on 13x Sep'14 core earnings of ₹1,323 and the value of cash and investments at ₹207. At the current market price, the stock quotes at a PE of 15.6x FY14e. **Risks:** More-than expected rupee appreciation that could reduce royalty outflow, better-than expected volumes and faster-than-expected recovery in rural growth.

Key data	HMCL IN / HROM.BO
52-week high / low	₹2,135 / ₹1,434
Sensex / Nifty	19496 / 5868
3-m average volume	US\$14.8m
Market cap	₹330.13bn / US\$5.50bn
Shares outstanding	199.7m

Shareholding pattern (%)	Mar '13	Dec '12	Sep '12
Promoters	52.21	52.21	52.21
- of which, Pledged	3.00	3.00	3.00
Free Float	47.79	47.79	47.79
- Foreign Institutions	31.99	31.99	32.24
- Domestic Institutions	7.10	7.10	6.67
- Public	8.70	8.70	8.78

Estimates revision (%)	FY13e	FY14e	FY15e
Sales		-0.8	-0.8
EBITDA		-0.7	-0.7
EPS		-0.9	-0.8
Target Core PE multiple (x)		13	

Financials (YE Mar)	FY14e	FY15e
Sales (₹m)	260,164	291,860
Net profit (₹m)	21,044	26,449
EPS (₹)	105.4	132.4
Growth (%)	-0.6	25.7
PE (x)	15.6	12.4
PBV (x)	5.8	4.9
RoE (%)	36.8	39.1
RoCE (%)	48.2	53.5
Dividend yield (%)	4.3	4.9
Net gearing (%)	34.5	34.6

Source: Anand Rathi Research

Quarterly results (YE Mar)	1QFY13	1QFY14e	% yoy	FY12	FY13	% yoy
Sales (₹m)	62,473	61,143	-2.1	235,790	237,681	0.8
EBITDA (₹m)	9,369	8,560	-8.6	36,048	32,845	-8.9
EBITDA margin (%)	15.0	14.0	-100bps	15.3	13.8	-147bps
Interest (₹m)	29	29	0.0	-79	119	-250.5
Depreciation (₹m)	3,035	2,900	-4.4	10,974	11,418	4.0
Other income (₹m)	1,044	1,149	10.0	3,408	3,984	16.9
PBT (₹m)	7,349	6,779	-7.7	28,561	25,292	-11.4
Tax (₹m)	1,194	1,627	36.2	4,866	4,110	-15.5
Tax rate (%)	16.3	24.0	775bps	17.0	16.3	-78bps
Adjusted Profit (₹m)	6,155	5,152	-16.3	23,695	21,182	-10.6

Source: Company

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## Quick Glance – Financials and Valuations

**Fig 1 – Income statement (₹m)**

Year-end: Mar	FY11	FY12	FY13	FY14e	FY15e
Net revenues	194,012	235,790	237,681	260,164	291,860
Revenue growth (%)	22.6	21.5	0.8	9.5	12.2
- Op. expenses	167,848	199,743	204,836	224,595	252,491
<b>EBIDTA</b>	<b>26,164</b>	<b>36,048</b>	<b>32,845</b>	<b>35,569</b>	<b>39,369</b>
EBITDA margin (%)	13.5	15.3	13.8	13.7	13.5
- Interest expenses	-19	-136	119	112	131
- Depreciation	4,024	10,974	11,418	11,758	7,455
+ Other income	2,688	3,408	3,984	4,359	4,951
- Extraordinary items	1,148	0	0	0	0
- Tax	4,419	4,866	4,110	7,015	10,286
Effective tax rate (%)	18.6	17.0	16.3	25.0	28.0
Reported Profit	19,279	23,752	21,182	21,044	26,449
Adjusted Profit	20,269	23,752	21,182	21,044	26,449
Adj. Profit growth (%)	-9.2	17.2	-10.8	-0.6	25.7
Adj. FDEPS (₹/share)	101.5	118.9	106.1	105.4	132.4
Adj. FDEPS growth (%)	-9.2	17.2	-10.8	-0.6	25.7

Source: Company, Anand Rathi Research

**Fig 2 – Balance sheet (₹m)**

Year-end: Mar	FY11	FY12	FY13	FY14e	FY15e
Share capital	399	399	399	399	399
Reserves & surplus	29,161	42,499	49,663	56,728	67,201
Net worth	29,561	42,898	50,062	57,127	67,600
Total debt	14,585	9,949	0	0	0
Def. tax liab. (net)	2,468	2,083	1,324	1,324	1,324
<b>Capital employed</b>	<b>46,613</b>	<b>54,929</b>	<b>51,387</b>	<b>58,451</b>	<b>68,924</b>
Net fixed assets	41,302	38,244	31,331	29,573	28,118
Investments	51,288	39,643	36,238	45,238	60,238
Net working capital	-46,692	-23,725	-17,993	-19,430	-21,090
Cash and bank balance	715	768	1,810	3,070	1,658
<b>Capital deployed</b>	<b>46,613</b>	<b>54,929</b>	<b>51,387</b>	<b>58,451</b>	<b>68,924</b>
No. of shares (m)	200	200	200	200	200
Net debt	-37,418	-30,462	-38,049	-48,308	-61,896
Net debt / Equity	-1.3	-0.7	-0.8	-0.8	-0.9
WC turn days	-27	-21	-9	-9	-9
Book value (₹/sh)	148.0	214.8	250.7	286.1	338.5

Source: Company, Anand Rathi Research

**Fig 3 – Cash-flow statement (₹m)**

Year-end: Mar	FY11	FY12	FY13	FY14e	FY15e
Reported Profit	19,279	23,752	21,182	21,044	26,449
+ Depreciation	4,024	10,974	11,418	11,758	7,455
Cash profit	23,303	34,726	32,599	32,802	33,904
- Incr./decr. in WC	-8,132	22,967	5,732	-1,437	-1,660
Operating cash-flow	31,435	11,758	26,867	34,238	35,564
- Capex	27,893	7,587	4,505	10,000	6,000
Free cash-flow	3,542	4,171	22,362	24,238	29,564
- Dividend	20,967	8,987	11,982	13,979	15,976
+ Equity raised	0	0	0	0	0
+ Debt raised	13,924	-4,636	-9,949	0	0
- Investments	12,030	-11,645	-3,404	9,000	15,000
- Misc. items	2,825	2,141	2,794	0	0
Net cash-flow	-18,357	53	1,042	1,259	-1,412
+ Op. cash & bank bal.	19,072	715	768	1,810	3,070
Cl. cash & bank bal.	715	768	1,810	3,070	1,658

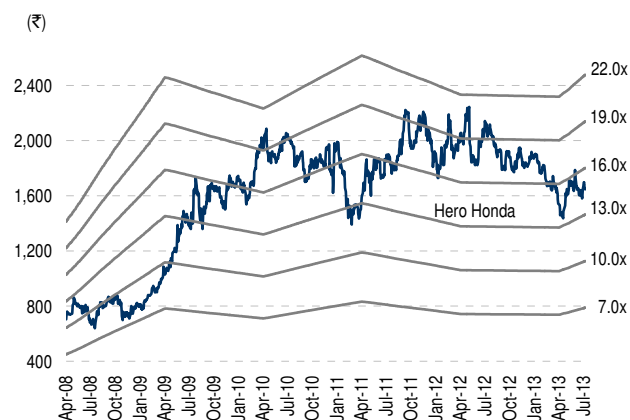
Source: Company, Anand Rathi Research

**Fig 4 – Ratio analysis @ ₹1,647**

Year-end: Mar	FY11	FY12	FY13	FY14e	FY15e
P/E (x)	16.2	13.8	15.5	15.6	12.4
P/B (x)	11.1	7.7	6.6	5.8	4.9
EV/EBITDA (x)	11.1	8.3	8.9	7.9	6.8
RoE (%)	68.6	55.4	42.3	36.8	39.1
RoCE (%)	53.3	51.9	49.5	48.2	53.5
Dividend yield (%)	6.4	2.7	3.6	4.3	4.9
Dividend payout (%)	126.4	44.3	66.2	77.7	70.7
Debt to equity (%)	0.5	0.2	0.0	0.0	0.0
Core P/E (x)	17.9	15.4	17.9	18.3	14.3
Cash P/E	13.5	9.5	10.1	10.0	9.7
EV/sales	1.5	1.3	1.2	1.1	0.9
Inventory days	10	11	10	10	10
Receivables days	2	4	10	10	10
Payables days	39	36	29	29	29
Asset Turnover	4.1	4.3	4.6	4.4	4.2

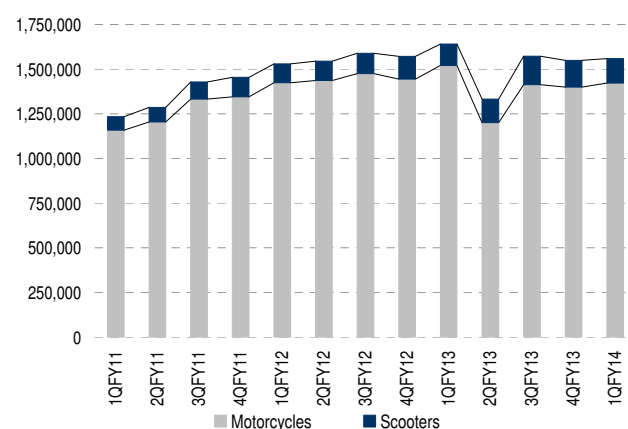
Source: Company, Anand Rathi Research

**Fig 5 – PE band**



Source: Bloomberg, Anand Rathi Research

**Fig 6 – Product mix**



Source: Company

9 July 2013

## Eicher Motors

*CV weakness to hamper growth; we downgrade to a Hold*

Rating: **Hold**

Target Price: ₹3,437

Share Price: ₹3,610

### Key takeaways

**Operating performance at Royal Enfield to be strong.** The operating performance at Royal Enfield is expected to be strong, helped by robust sales and operating leverage. Following 30% yoy volume growth, we expect income to grow 34.5% yoy to ₹3.4bn. The EBITDA margin is expected to come at 15%, 30bps lower yoy. While 1Q performance was good, we do not expect the significantly high margin to recur. As a result, we expect Eicher Motors' standalone profit to be ₹402m, up 24.6% yoy.

**Lower CV sales to eat into VECV growth.** For the subsidiaries, we expect a 1% revenue decline and 2.4% EBITDA growth. We expect the EBITDA margin to be 7.8% (20bps lower qoq and 20bps higher yoy). Due to greater depreciation, profit is expected to decline 15.4% yoy to ₹370m.

**Consolidated profit to stagnate.** Consolidated revenue would be hit by the present slump in M&H CV sales. CV sales in 2QCY13 were 3% lower yoy. This would result in revenue in the consolidated results growing just 4.7% yoy. On the weaker sales, we expect the EBITDA margin to come at 9.3% (down 60bps qoq). We expect the adjusted net profit to be ₹772m, up 1.6% yoy.

**Our take.** Royal Enfield continues to be robust due to greater capacity and sustained demand. The M&H CV slide, however, is expected to result in a lower growth rate for VECV. The recent run-up in the stock price has rendered valuations rich. While we are optimistic from a long-term perspective, we lower our rating to a Hold to reflect the fair valuations.

We have a target of ₹3,437. At the ruling price, the stock trades at a PE of 22.5x CY14e. **Risks.** Downside: Sustained M&H CV slump, commodity price rise, delay in new project execution. Upside: Sequential improvement in operating performance, recovery in the CV cycle in CY15, and quicker revenue accretion from the engine plant.

Key data	EIM IN / EICH.BO
52-week high / low	₹3,882 / ₹1,900
Sensex / Nifty	19496 / 5868
3-m average volume	US\$0.9m
Market cap	₹97.31bn / US\$1.62bn
Shares outstanding	27m

Shareholding pattern (%)	Mar '13	Dec '12	Sep '12
Promoters	55.19	55.19	55.20
- of which, Pledged	-	-	-
Free Float	44.81	44.81	44.80
- Foreign Institutions	12.88	10.68	9.08
- Domestic Institutions	11.83	13.70	15.34
- Public	20.10	20.43	20.38

Estimates revision (%)	CY13e	CY14e	CY15e
Sales	2.4	-0.4	0.0
EBITDA	1.9	1.5	2.2
EPS	0.5	-7.7	-6.2
Target PE multiple (x)	-	SOTP	-

Financials (YE Dec)	CY13e	CY14e
Sales (₹m)	69,536	87,886
Net profit (₹m)	3,375	4,333
EPS (₹)	124.1	159.3
Growth (%)	4.1	28.4
PE (x)	29.1	22.5
PBV (x)	4.5	3.6
RoE (%)	15.6	16.0
RoCE (%)	20.5	22.3
Dividend yield (%)	0.6	0.7
Net gearing (%)	69,536	87,886

Source: Anand Rathi Research

Quarterly results (YE Dec)	2QCY12	2QCY13e	% yoy	CY11	CY12	% yoy
Sales (₹m)	15,850	16,600	4.7	56,844	63,899	12.4
EBITDA (₹m)	1,395	1,544	10.6	5,894	5,490	-6.8
EBITDA margin (%)	8.8	9.3	50bps	10.4	8.6	-178bps
Interest (₹m)	8	11	40.1	77	38	-50.6
Depreciation (₹m)	187	305	63.3	640	822	28.5
Other income (₹m)	306	329	7.4	1,425	1,366	-4.1
PBT (₹m)	1,507	1,559	3.5	6,602	5,997	-9.2
Tax (₹m)	381	417	9.5	1,628	1,249	-23.3
Tax rate (%)	25.3	26.8	148bps	24.7	20.8	-384bps
Adjusted Profit (₹m)	760	772	1.6	3,088	3,243	5.0

Source: Company

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## Quick Glance – Financials and Valuations

**Fig 1 – Income statement (₹m)**

Year-end: Dec	CY10	CY11	CY12	CY13e	CY14e
Net revenues	44,213	56,844	63,899	69,536	87,886
Revenue growth (%)	49.5	28.6	12.4	8.8	26.4
- Op. expenses	40,402	50,951	58,409	62,976	79,194
<b>EBIDTA</b>	<b>3,811</b>	<b>5,894</b>	<b>5,490</b>	<b>6,561</b>	<b>8,692</b>
EBITDA margin (%)	8.6	10.4	8.6	9.4	9.9
- Interest expenses	95	77	38	38	38
- Depreciation	573	640	822	1,243	1,502
+ Other income	1,034	1,425	1,366	1,415	1,296
- Extraordinary items	0	0	0	0	0
- Tax	1,108	1,628	1,249	1,855	2,276
Effective tax rate (%)	26.5	24.7	20.8	27.7	26.9
Reported Profit bef MI	3,069	4,974	4,749	4,839	6,172
Profit after MI	1,889	3,088	3,243	3,375	4,333
Adj. Profit	1,889	3,088	3,243	3,375	4,333
Adj. Profit growth (%)	126.5	63.4	5.0	4.1	28.4
Adj. FDEPS (₹/share)	69.4	113.5	119.2	124.1	159.3

Source: Company, Anand Rathi Research

**Fig 2 – Balance sheet (₹m)**

Year-end: Dec	CY10	CY11	CY12	CY13e	CY14e
Share capital	269	270	270	270	270
Reserves & surplus	12,052	14,661	17,279	21,394	26,750
Net worth	12,321	14,931	17,549	21,664	27,020
Total debt	956	371	384	384	384
Def. tax liab. (net)	7,023	9,021	10,717	10,717	10,717
<b>Capital employed</b>	<b>20,301</b>	<b>24,324</b>	<b>28,649</b>	<b>32,764</b>	<b>38,120</b>
Net fixed assets	4,547	8,567	14,962	13,175	15,173
Investments	4,586	5,126	6,385	7,185	9,085
Net working capital	-1,289	-1,285	-733	-785	-878
Cash and bank balance	12,457	11,915	8,035	13,190	14,740
<b>Capital deployed</b>	<b>20,301</b>	<b>24,324</b>	<b>28,649</b>	<b>32,764</b>	<b>38,120</b>
No. of shares (m)	0	0	0	0	0
Net Debt	-16,086	-16,670	-14,036	-19,991	-23,441.1
Net debt / Equity	-1.3	-1.1	-0.8	-0.9	-0.9
WC turn days	-1	-1	-1	-1	-1
Book value (₹/sh)	457	553	650	802	1,001

Source: Company, Anand Rathi Research

**Fig 3 – Cash-flow statement (₹m)**

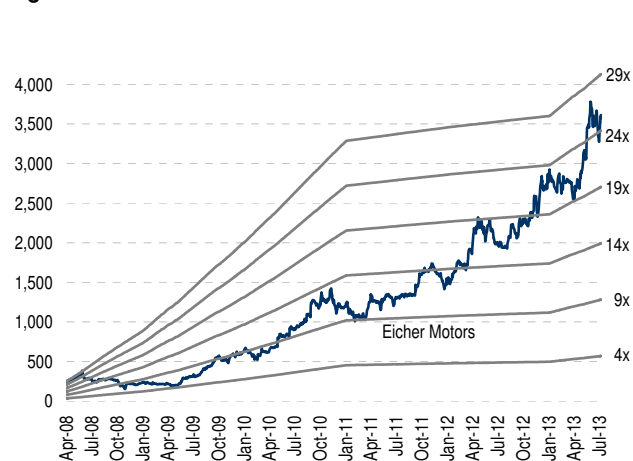
Year-end: Dec	CY10	CY11	CY12	CY13e	CY14e
Reported Profit	3,069	4,974	4,749	4,839	6,172
+ Depreciation	573	640	822	1,243	1,502
Cash profit	3,642	5,614	5,570	6,082	7,674
- Incr./decr. in WC	-297	111	758	123	82
Operating cash-flow	3,939	5,503	4,812	5,960	7,592
- Capex	1,363	4,660	7,216	-544	3,500
Free cash-flow	2,576	843	-2,404	6,503	4,092
- Dividend	296	432	540	621	700
+ Equity raised	143	1	0	0	0
+ Debt raised	-307	-585	12	0	0
- Investments	-1,645	-540	-1,259	-800	-1,900
- Misc. items	3,010	909	2,207	1,527	3,741
Net cash-flow	750	-542	-3,880	5,155	1,550
+ Op. cash & bank bal.	11,707	12,457	11,915	8,035	13,190
Cl. cash & bank bal.	12,457	11,915	8,035	13,190	14,740

Source: Company, Anand Rathi Research

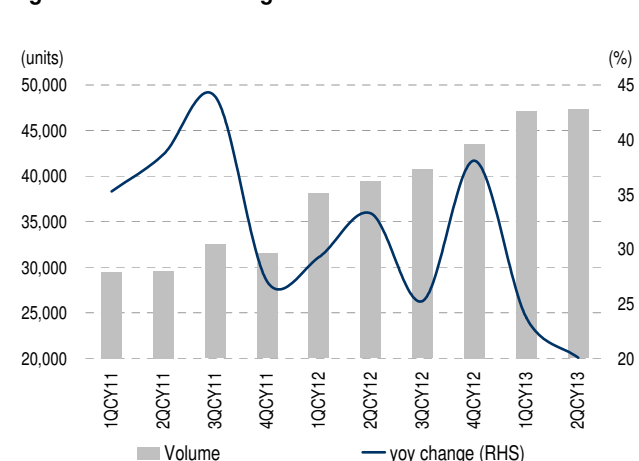
**Fig 4 – Ratio analysis @ ₹3,610**

Year-end: Dec	CY10	CY11	CY12	CY13e	CY14e
P/E (x)	51.5	31.6	30.1	29.1	22.5
P/B (x)	7.9	6.5	5.6	4.5	3.6
EV/EBITDA (x)	21.3	13.7	15.2	11.8	8.5
RoE (%)	15.3	20.7	18.5	15.6	16.0
RoCE (%)	21.0	27.5	21.1	20.5	22.3
Dividend yield (%)	0.3	0.4	0.6	0.6	0.7
Dividend payout (%)	18.3	16.3	19.4	21.4	18.8
Debt to equity (%)	0.1	0.0	0.0	0.0	0.0
Core P/E (x)	114.8	59.1	52.3	50.1	32.3
Cash P/E	26.7	17.4	17.5	16.0	12.7
EV/sales	1.8	1.4	1.3	1.1	0.9
Inventory days	27.1	27.7	28.2	28.2	28.2
Receivables days	21.7	22.3	25.7	25.7	25.7
Payables days	50.1	51.4	55.1	55.1	55.1
Asset Turnover	5.4	5.7	4.1	3.5	3.7

Source: Company, Anand Rathi Research

**Fig 5 – PE band**


Source: Bloomberg, Anand Rathi Research

**Fig 6 – Trend in volume growth**


Source: Company, Anand Rathi Research



9 July 2013

## Ashok Leyland

*Demand squeeze continues; Sell*

Rating: **Sell**

Target Price: ₹19

Share Price: ₹19

### Key takeaways

**Sales down, yoy and qoq.** Ashok Leyland's 1QFY14 sales were poor, a 21.2% yoy decline. The drop was all encompassing, as LCVs dipped 11.1% yoy and M&H CVs were down 25.1% yoy. A near-term recovery is unlikely, although 2H may have a slightly positive trajectory because of the lower base. A full-fledged cyclical recovery is likely only in FY15.

**Muted 1Q results.** Following the poor sales performance, we expect a 22.8% yoy drop in sales to ₹23.2bn. We expect an EBITDA margin of 5.3%, and EBITDA would be 48.6% lower yoy to ₹1.2bn. We estimate a 1QFY14 loss of ₹352m, against ₹669m profit last year.

**Ramp-up of Dost's presence across India to continue.** Dost covered 12 states in FY13. Ashok Leyland is now targeting an all-India presence by FY14-end. It is aiming to sell nearly 50,000 units of Dost in FY14 (a growth rate of over 40% yoy; our estimate is for ~9% growth). The company plans a slew of launches in coming months. These include the Dost CNG, the 4-tonner Partner, the Stile positioned in the Innova segment in 2H, and the 12-tonner A-truck in the next 2-3 months.

**Our take.** At the wrong end of the CV cycle, Ashok Leyland is likely to continue doing poorly in 1HFY14. Although its light commercial vehicle Dost is doing well, and providing apparent support to volumes, the bread-and-butter M&H CV segment continues to sputter. We have a Sell on the stock due to the ongoing downswing in the M&H CV cycle, with a near-term recovery appearing unlikely. While the low 2HFY13 base would arrest the fall, a recovery in volumes based on mounting demand is likely only in FY15. The stock trades at 12.6x FY15e. Our target of ₹19 is based upon 8x Sep'14e EV/E. At this target, the stock would trade at a PE of 17x Sep'14 EPS.

**Risks.** Strong economic growth, rise in freight rates, more-than-expected LCV profitability.

Key data	ALIN / AL.BO
52-week high / low	₹29 / ₹18
Sensex / Nifty	19496 / 5868
3-m average volume	US\$3.7m
Market cap	₹50.28bn / US\$838m
Shares outstanding	2,661m

Shareholding pattern (%)	Mar' 13	Dec' 12	Sep' 12
Promoters	38.61	38.61	38.61
- of which, Pledged	7.05	7.05	7.05
Free Float	61.39	61.39	61.39
- Foreign Institutions	16.89	16.93	14.79
- Domestic Institutions	13.13	13.67	14.32
- Public	31.37	30.79	32.28

Financials (YE Mar)	FY14e	FY15e
Sales (₹m)	125,116	146,410
Net profit (₹m)	1,942	3,999
EPS (₹)	0.7	1.5
Growth (%)	12.2	105.9
PE (x)	26.0	12.6
PBV (x)	1.6	1.6
RoE (%)	6.3	12.4
RoCE (%)	8.4	11.8
Dividend yield (%)	3.9	4.7
Net gearing (%)	68.5	70.3

Source: Anand Rathi Research

Quarterly results (YE Mar)	1QFY13	1QFY14e	% yoy	FY12	FY13	% yoy
Sales (₹m)	30,073	23,214	-22.8	128,420	124,812	-2.8
EBITDA (₹m)	2,407	1,237	-48.6	13,071	8,765	-32.9
EBITDA margin (%)	8.0	5.3	-267bps	10.2	7.0	-316bps
Interest (₹m)	834	875	5.0	2,553	3,769	47.7
Depreciation (₹m)	893	937	5.0	3,528	3,808	7.9
Other income (₹m)	129	135	5.0	404	624	54.5
PBT (₹m)	809	-440	-154.4	6,900	4,707	-31.8
Tax (₹m)	140	-88	-162.9	1,240	370	-70.2
Tax rate (%)	17.3	20.0	270bps	18.0	7.9	-1,011bps
Adjusted Profit (₹m)	669	-352	-152.6	6,092	1,731	-71.6

Source: Company

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## Quick Glance – Financials and Valuations

**Fig 1 – Income statement (₹m)**

Year-end: Mar	FY11	FY12	FY13	FY14e	FY15e
Net revenues	111,771	128,420	124,812	125,116	146,410
Revenue growth (%)	54.3	14.9	-2.8	0.2	17.0
- Op. expenses	99,634	115,349	116,047	114,769	133,128
<b>EBIDTA</b>	<b>12,137</b>	<b>13,071</b>	<b>8,765</b>	<b>10,348</b>	<b>13,282</b>
EBITDA margin (%)	10.9	10.2	7.0	8.3	9.1
- Interest expenses	1,889	2,553	3,769	4,362	4,322
- Depreciation	2,674	3,528	3,808	4,203	4,407
+ Other income	445	404	624	708	779
- Extraordinary items	0	494	-2,896	0	0
- Tax	1,705	1,240	370	548	1,333
Effective tax rate (%)	21.3	18.0	7.9	22.0	25.0
Reported Profit	6,313	5,660	4,337	1,942	3,999
Adjusted Profit	6,313	6,092	1,731	1,942	3,999
Adj. Profit growth (%)	65.2	-3.5	-71.6	12.2	105.9
Adj. FDEPS (₹/share)	2.4	2.3	0.7	0.7	1.5
Adj. FDEPS growth (%)	65.2	-3.5	-71.6	12.2	105.9

Source: Company, Anand Rathi Research

**Fig 2 – Balance sheet (₹m)**

Year-end: Mar	FY11	FY12	FY13	FY14e	FY15e
Share capital	1,330	2,661	2,661	2,661	2,661
Reserves & surplus	25,237	26,287	28,757	28,380	29,595
Net worth	26,567	28,948	31,417	31,040	32,256
Total debt	26,095	31,421	44,536	45,036	44,036
Def. tax liab. (net)	4,439	4,940	5,274	5,274	5,274
<b>Capital employed</b>	<b>57,100</b>	<b>65,309</b>	<b>81,227</b>	<b>81,350</b>	<b>81,566</b>
Net fixed assets	36,855	41,484	46,575	44,871	42,464
Investments	12,300	15,345	23,376	25,876	28,376
Net working capital	6,150	8,155	11,137	9,544	9,376
Cash and bank balance	1,795	326	139	1,059	1,349
<b>Capital deployed</b>	<b>57,100</b>	<b>65,309</b>	<b>81,227</b>	<b>81,350</b>	<b>81,566</b>
No. of shares (m)	1,330	2,661	2,661	2,661	2,661
Net debt	24,299	31,096	44,396	43,977	42,686
Net debt / Equity	0.9	1.1	1.4	1.4	1.3
WC turn days	35	20	25	25	25
Book value (₹/sh)	20.0	10.9	11.8	11.7	12.1

Source: Company, Anand Rathi Research

**Fig 3 – Cash-flow statement (₹m)**

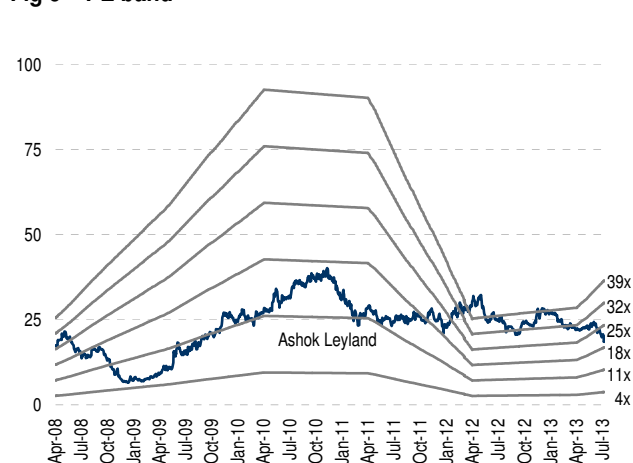
Year-end: Mar	FY11	FY12	FY13	FY14e	FY15e
Reported Profit	6,313	5,660	4,337	1,942	3,999
+ Depreciation	2,674	3,528	3,808	4,203	4,407
Cash profit	8,987	9,188	8,145	6,146	8,406
- Incr./decr. in WC	-450	2,005	2,982	-1,593	-168
Operating cash-flow	9,437	7,183	5,163	7,739	8,574
- Capex	4,966	7,477	8,899	2,500	2,000
Free cash-flow	4,471	-294	-3,736	5,239	6,574
- Dividend	2,661	2,661	1,596	1,996	2,395
+ Equity raised	0	0	0	0	0
+ Debt raised	4,056	5,326	13,115	500	-1,000
- Investments	9,038	3,045	8,032	2,500	2,500
- Misc. items	221	797	-63	324	388
Net cash-flow	-3,394	-1,470	-186	919	291
+ Op. cash & bank bal.	5,189	1,795	326	139	1,059
Cl. cash & bank bal.	1,795	325	140	1,059	1,350

Source: Company, Anand Rathi Research

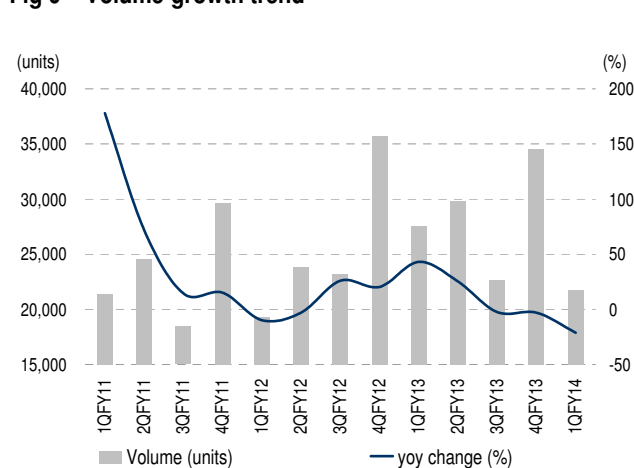
**Fig 4 – Ratio analysis @ ₹19**

Year-end: Mar	FY11	FY12	FY13	FY14e	FY15e
P/E (x)	8.0	8.3	29.2	26.0	12.6
P/B (x)	1.0	1.7	1.6	1.6	1.6
EV/EBITDA (x)	4.1	6.2	10.8	9.1	7.0
RoE (%)	23.8	21.0	5.5	6.3	12.4
RoCE (%)	17.4	15.2	6.9	8.4	11.8
Dividend yield (%)	10.5	5.3	3.2	3.9	4.7
Dividend payout (%)	42.1	43.7	92.2	102.7	59.9
Debt to equity (%)	1.0	1.1	1.4	1.5	1.4
Core P/E (x)	8.5	8.7	40.0	35.8	14.8
Cash P/E	2.8	5.3	9.1	8.2	6.0
EV/sales	0.3	0.5	0.6	0.5	0.4
Inventory days	73	64	57	57	57
Receivables days	38	36	42	42	42
Payables days	76	80	74	74	74
Asset Turnover	1.9	1.9	1.5	1.5	1.8

Source: Company, Anand Rathi Research

**Fig 5 – PE band**


Source: Bloomberg, Anand Rathi Research

**Fig 6 – Volume-growth trend**


Source: Company

9 July 2013

## TVS Motors

*Competitive pressures persist; Hold*

Rating: **Hold**

Target Price: ₹39

Share Price: ₹33

### Key takeaways.

**Weak demand continues.** During 1QFY14, moped and scooter sales were down 10.9% and 9.5% respectively. Motorcycles fared better, but recorded just 0.1% sales growth. Only the three-wheeler segment displayed a rocking growth trajectory, up 90.5% yoy. Three-wheelers have been up consistently, while two-wheelers continue to sputter.

**1Q results subdued.** TVS Motors' 1QFY14 results are expected to be weak, with revenue growth of just 0.2% yoy to ₹18.2bn (volumes dipping 4.7% yoy and realisations improving 5% yoy). We expect an EBITDA margin of 5.7% (30bps higher qoq, 20bps yoy), and the EBITDA dipping 3.2% yoy. We expect profit to decline 14.1% yoy to ₹439m. Our profit margin expectation is 2.4% (40bps lower qoq and yoy).

**Per-unit parameters lower qoq.** We expect the EBITDA per vehicle to be up 1.6% yoy (14.3% qoq), while the contribution per vehicle is expected to be up 10.8% yoy (3.8% qoq). Profit per vehicle is expected to be lower 9.8% yoy (down 7.8% qoq).

**Our take.** Subdued domestic and overseas sales would result in lower 1Q results yoy. Yoy, profit is expected to be lower for a fifth consecutive quarter. While intense competition, subdued domestic demand and lower overseas sales could curb the yoy growth potential in 1HFY14, demand recovery is likely in CY14. After FY13's 7.5% yoy decline, 1QFY14 volume decline was 4.7%. In view of the relatively inexpensive valuations, we maintain a Hold.

**Risks.** Upside: Better-than-expected demand and operating performance, possibility of a foreign technology tie-up or partnership, which would lead to faster product development and product launches. Downside: Intensifying competition leading to destructive price wars, steep rises in commodity prices and lower-than-expected demand due to an industry slowdown.

Key data	TVSL IN / TVSM.BO
52-week high / low	₹50 / ₹31
Sensex / Nifty	19496 / 5868
3-m average volume	US\$1.1m
Market cap	₹15.25bn / US\$254.16m
Shares outstanding	475.1m

Shareholding pattern (%)	Mar '13	Dec '12	Sep '12
Promoters	57.40	57.40	57.40
- of which, Pledged	-	-	-
Free Float	42.60	42.60	42.60
- Foreign Institutions	1.83	1.93	1.27
- Domestic Institutions	18.18	18.09	18.27
- Public	22.59	22.58	23.06

Estimates revision (%)	FY14e	FY15e
Sales	0.0	0.0
EBITDA	0.0	-4.0
EPS	-4.3	-6.6

Financials (YE Mar)	FY14e	FY15e
Sales (₹m)	74,932	82,684
Net profit (₹m)	2,032	2,284
EPS (₹)	4.3	4.8
Growth (%)	2.8	12.4
PE (x)	7.7	6.9
PBV (x)	1.2	1.0
RoE (%)	15.0	15.2
RoCE (%)	16.1	16.7
Dividend yield (%)	4.5	5.3
Net gearing (%)	58.3	53.8

Source: Anand Rathi Research

Quarterly results (YE Mar)	1QFY13	1QFY14e	% yoy	FY12	FY13	% yoy
Sales (₹m)	18,198	18,229	0.2	71,262	70,650	-0.9
EBITDA (₹m)	1,075	1,041	-3.2	4,694	4,090	-12.9
EBITDA margin (%)	5.9	5.7	-20bps	6.6	5.8	-80bps
Interest (₹m)	155	170	10.0	571	480	-15.9
Depreciation (₹m)	310	341	10.0	1,175	1,304	11.0
Other income (₹m)	51	56	10.0	217	238	9.8
PBT (₹m)	661	585	-11.4	3,165	1,636	-48.3
Tax (₹m)	150	146	-2.5	674	476	-29.4
Tax rate (%)	22.7	25.0	230bps	21.3	29.1	778bps
Adjusted Profit (₹m)	511	439	-14.1	2,491	1,978	-20.6

Source: Company

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## Quick Glance – Financials and Valuations

**Fig 1 – Income statement (₹m)**

Year-end: Mar	FY11	FY12	FY13e	FY14e	FY15e
Net revenues	62,880	71,262	70,650	74,932	82,684
Revenue growth (%)	41.9	13.3	-0.9	6.1	10.3
- Op. expenses	58,960	66,568	66,560	70,473	77,764
<b>EBIDTA</b>	<b>3,921</b>	<b>4,694</b>	<b>4,090</b>	<b>4,458</b>	<b>4,920</b>
EBITDA margin (%)	6.2	6.6	5.8	6.0	5.9
- Interest expenses	723	571	480	451	465
- Depreciation	1,073	1,175	1,304	1,444	1,564
+ Other income	356	217	238	259	282
- Extraordinary items	0	0	908	0	0
- Tax	535	674	476	790	888
Effective tax rate (%)	21.6	21.3	29.1	28.0	28.0
Reported Profit	1,946	2,491	1,160	2,032	2,284
Adjusted Profit	1,946	2,491	1,978	2,032	2,284
Adj. Profit growth (%)	451.7	28.0	-20.6	2.8	12.4
Adj. FDEPS (₹/share)	4.1	5.2	4.2	4.3	4.8
Adj. FDEPS growth (%)	451.7	28.0	-20.6	2.8	12.4

Source: Company, Anand Rathi Research

**Fig 2 – Balance sheet (₹m)**

Year-end: Mar	FY11	FY12	FY13e	FY14e	FY15e
Share capital	475	475	475	475	475
Reserves & surplus	9,519	11,218	11,772	13,091	14,544
Net worth	9,994	11,693	12,247	13,566	15,019
Total debt	7,678	8,311	5,459	5,809	5,809
Def. tax liab. (net)	957	976	931	931	931
<b>Capital employed</b>	<b>18,629</b>	<b>20,979</b>	<b>18,637</b>	<b>20,306</b>	<b>21,759</b>
Net fixed assets	9,950	10,781	10,476	11,032	11,467
Investments	6,611	9,309	8,688	8,488	9,488
Net working capital	2,008	759	-702	565	676
Cash and bank balance	60	130	175	221	127
<b>Capital deployed</b>	<b>18,629</b>	<b>20,979</b>	<b>18,637</b>	<b>20,306</b>	<b>21,759</b>
No. of shares (m)	475	475	475	475	475
Net debt	7,618	8,181	5,284	5,588	5,682
Net debt / Equity	16.0	17.2	11.1	11.8	12.0
WC turn days	8	4	-1	6	6
Book value (₹/sh)	21.0	24.6	25.8	28.6	31.6

Source: Company, Anand Rathi Research

**Fig 3 – Cash-flow statement (₹m)**

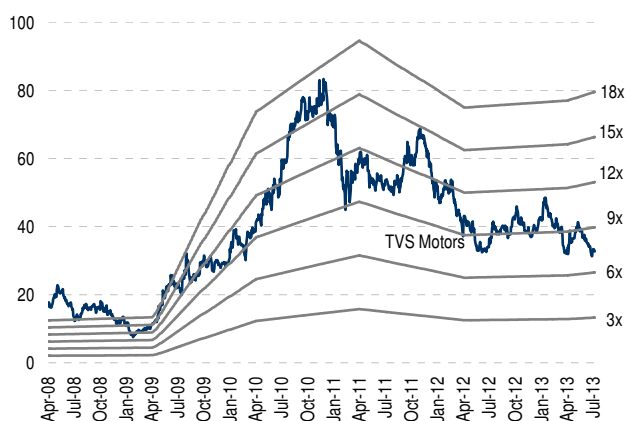
Year-end: Mar	FY11	FY12	FY13e	FY14e	FY15e
Reported Profit	1,946	2,491	1,160	2,032	2,284
+ Depreciation	1,073	1,175	1,304	1,444	1,564
Cash profit	3,018	3,666	2,464	3,476	3,848
- Incr./decr.) in WC	707	-1,249	-1,461	1,267	111
Operating cash-flow	2,312	4,915	3,926	2,209	3,737
- Capex	935	1,773	999	2,000	2,000
Free cash-flow	1,377	3,141	2,927	209	1,737
- Dividend	523	618	570	713	831
+ Equity raised	0	0	0	0	0
+ Debt raised	-2,355	633	-2,852	350	0
- Investments	-781	2,698	-621	-200	1,000
- Misc. items	231	388	81	0	0
Net cash-flow	-950	71	44	46	-94
+ Op. cash & bank bal.	1,010	60	130	175	221
Cl. cash & bank bal.	60	131	174	221	127

Source: Company, Anand Rathi Research

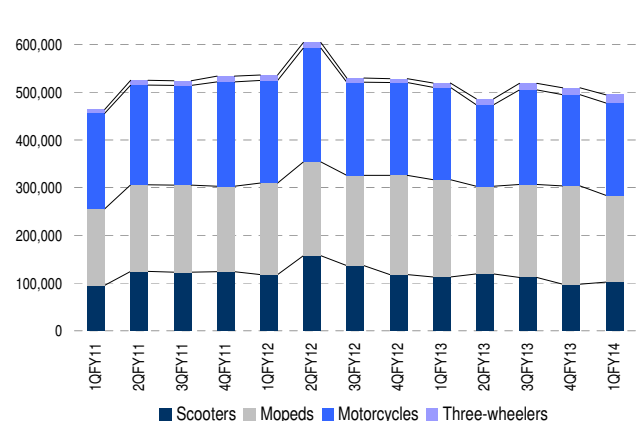
**Fig 4 – Ratio analysis @ ₹33**

Year-end: Mar	FY11	FY12	FY13e	FY14e	FY15e
P/E (x)	8.1	6.3	7.9	7.7	6.9
P/B (x)	1.6	1.3	1.3	1.2	1.0
EV/EBITDA (x)	5.9	5.1	5.1	4.8	4.3
RoE (%)	19.5	21.3	16.1	15.0	15.2
RoCE (%)	17.2	17.8	16.2	16.1	16.7
Dividend yield (%)	3.3	3.9	3.6	4.5	5.3
Dividend payout (%)	30.9	28.5	56.5	40.3	41.9
Debt to equity (%)	0.8	0.7	0.4	0.4	0.4
Core P/E (x)	9.9	6.9	9.0	8.8	7.8
Cash P/E	5.2	4.3	4.8	4.5	4.1
EV/sales	0.3	0.2	0.2	0.2	0.1
Inventory days	31.2	30.5	26.7	30.0	30.0
Receivables days	16.0	12.2	15.7	15.7	15.7
Payables days	39.5	38.5	43.1	40.0	40.0
Asset Turnover	3.3	3.3	3.7	3.6	3.7

Source: Company, Anand Rathi Research

**Fig 5 – PE band**


Source: Bloomberg, Anand Rathi Research

**Fig 6 – Product mix**


Source: Company

9 July 2013

## VST Tillers & Tractors

Long-term outlook good; Buy

### Key takeaways

**2HFY13 was decent.** After a dismal 2QFY13, which experienced channel inventory correction, in the subsequent two quarters VST's performance recovered. While volumes of both power tillers and tractors dropped more than we expected, realisations came better than we anticipated. In 4Q, sales of power tillers declined 23.4% yoy, while sales of tractors dipped 13.5% yoy. For FY13, sales of the latter were down 19.1% yoy, those of the former 12.2% yoy.

**1QFY14 should continue the 2HFY14 trend.** While there are nascent signs of a recovery in tractors, the cyclical nature of the industry suggests that the recovery would only be affirmed after the monsoon. Supported by estimated 15% yoy volume growth, we expect 12.1% yoy revenue growth to ₹1.4bn. We expect an EBITDA margin of 15.5% (up 30bps qoq, down 80bps yoy). We expect 6.8% growth in EBITDA to ₹225m, and profit of ₹152m, 8.9% yoy and 0.9% qoq growth.

**Long-term outlook good.** Of the cultivated land, more than 50% is smaller than four hectares; of this, ~42% is less than two hectares. Nearly 83% of operational land-holders are marginal or small farmers, who own less than two hectares. This trend augurs well for the company.

**Our take.** Lower offtake of tractors and power tillers had impacted the 2QFY13 performance. While 2HFY13 marked a noticeable improvement, FY14 is expected to build on that. In 1QFY14 we expect a 12% yoy revenue growth and 9% profit growth.

We are optimistic from a long-term perspective and maintain our Buy based on 7.5x FY14e EPS. The stock quotes at 5.6x FY14e. **Risks.** High interest rates, commodity-price rises, keener competition, delayed tractor recovery.

Quarterly results (YE Mar)	1QFY13	1QFY14e	% yoy	FY12	FY13	% yoy
Sales (₹m)	1,291	1,448	12.1	5,306	4,817	-9.2
EBITDA (₹m)	211	225	6.8	728	722	-0.9
EBITDA margin (%)	16.3	15.5	-78bps	13.7	15.0	126bps
Interest (₹m)	3	4	53.8	9	13	48.8
Depreciation (₹m)	8	9	13.9	32	34	4.4
Other income (₹m)	8	9	11.1	46	21	-54.6
PBT (₹m)	208	221	6.1	734	696	-5.1
Tax (₹m)	68	68	0.3	234	211	-10.2
Tax rate (%)	32.8	31.0	-177bps	31.9	30.2	-171bps
Profit (₹m)	140	152	8.9	499	486	-2.7

Source: Company

Key data	VSTT IN / VST.BO
52-week high / low	₹563 / ₹407
Sensex / Nifty	19496 / 5868
3-m average volume	US\$0.1m
Market cap	₹3.2bn / US\$53.3m
Shares outstanding	8.6m

Shareholding pattern (%)	Mar'13	Dec'12	Sep'12
Promoters	53.85	53.85	53.85
- of which, Pledged	-	-	-
Free Float	46.15	46.15	46.15
- Foreign Institutions	2.27	2.27	2.64
- Domestic Institutions	5.47	5.46	4.89
- Public	38.41	38.42	38.62

Financials (YE Mar)	FY14e	FY15e
Sales (₹m)	5,847	7,072
Net profit (₹m)	581	727
EPS (₹)	67.2	84.2
Growth (%)	19.6	25.2
PE (x)	5.6	4.4
PBV (x)	1.1	0.9
RoE (%)	19.9	20.5
RoCE (%)	29.0	30.0
Dividend yield (%)	2.7	2.9
Net gearing (%)	14.8	-2.7

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	4,253	5,306	4,817	5,861	7,086
Revenue growth (%)	23.4	24.8	-9.2	21.7	20.9
- Op. expenses	3,573	4,579	4,095	4,973	5,972
<b>EBIDTA</b>	<b>681</b>	<b>728</b>	<b>722</b>	<b>888</b>	<b>1,114</b>
EBITDA margin (%)	16.0	13.7	15.0	15.2	15.7
- Interest expenses	7	9	13	14	15
- Depreciation	23	32	34	54	67
+ Other income	60	46	21	22	23
- Extraordinary items	0	0	0	0	0
- Tax	249	234	211	261	327
Effective tax rate (%)	35.0	31.9	30.2	31.0	31.0
Reported Profit	462	499	486	581	727
Adjusted Profit	462	499	486	581	727
Adj. Profit growth (%)	9.3	8.1	-2.7	19.6	25.2
Adj. FDEPS (₹/share)	53.5	57.8	56.2	67.2	84.2
Adj. FDEPS growth (%)	9.3	8.1	-2.7	19.6	25.2

Source: Company, Anand Rathi Research

**Fig 2 – Balance sheet (₹m)**

Year-end: Mar	FY11	FY12	FY13	FY14e	FY15e
Share capital	86	86	86	86	86
Reserves & surplus	1,554	1,963	2,357	2,838	3,455
Net worth	1,640	2,049	2,444	2,924	3,541
Total debt	0	160	0	0	0
Def. tax liab. (net)	28	32	29	29	29
<b>Capital employed</b>	<b>1,668</b>	<b>2,241</b>	<b>2,473</b>	<b>2,953</b>	<b>3,570</b>
Net fixed assets	557	632	915	1,161	1,294
Investments	368	244	42	42	42
Working capital	534	1,158	1,185	1,509	1,896
Cash	208	206	329	239	336
<b>Capital deployed</b>	<b>1,668</b>	<b>2,241</b>	<b>2,473</b>	<b>2,953</b>	<b>3,570</b>
Net Debt	-576	-290	-370	-280	-377
No. of shares (m)	8.6	8.6	8.6	8.6	8.6
Net Debt/ Equity (%)	-12.6	-2.2	-13.5	-8.2	-9.5
WC days	69	103	120	120	120
Book value (₹/sh)	190	237	283	338	410

Source: Company, Anand Rathi Research

**Fig 3 – Cash-flow statement (₹m)**

Year-end: Mar	FY11	FY12	FY13	FY14e	FY15e
PAT	462	499	486	581	727
+ Non-cash items	23	32	34	54	67
Cash profit	485	531	519	635	795
- Incr./Decr. in WC	-125	624	35	340	393
Operating cash-flow	610	-93	484	296	402
- Capex	52	107	317	300	200
Free cash-flow	558	-200	168	-4	202
- Dividend	78	78	78	86	95
+ Equity raised	0	0	0	0	0
+ Debt raised	-108	160	-160	0	0
- Investments	325	-124	-202	0	0
- Misc. items	-10	8	10	-1	9
Net cash-flow	58	-2	123	-90	98
+ Op. cash & bank bal.	150	208	206	329	239
Cl. cash & bank bal.	207	206	329	239	337

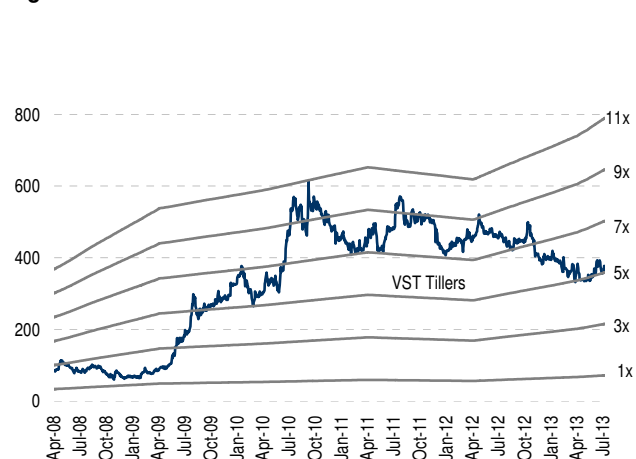
Source: Company, Anand Rathi Research

**Fig 4 – Ratio analysis @ ₹374**

Year-end: Mar	FY11	FY12	FY13	FY14e	FY15e
P/E (x)	7.0	6.5	6.7	5.6	4.4
P/B (x)	2.0	1.6	1.3	1.1	0.9
EV/EBITDA (x)	3.9	4.0	4.0	3.3	2.6
RoE (%)	28.2	24.4	19.9	19.9	20.5
RoCE (%)	43.0	33.1	28.7	29.0	30.0
Dividend yield	2.4	2.4	2.4	2.7	2.9
Dividend payout (%)	16.8	15.6	16.0	14.9	1.3
Debt to equity (%)	0.0	0.1	0.0	0.0	0.0
Core P/E (x)	8.0	7.1	7.0	5.8	4.6
Cash P/E	6.7	6.1	6.2	5.1	4.1
EV/sales	0.6	0.6	0.6	0.5	0.4
Inventory days	47	45	63	63	63
Receivables days	53	85	74	74	74
Payables days	32	28	17	17	17
Asset Turnover	2.5	2.4	1.9	2.0	2.0

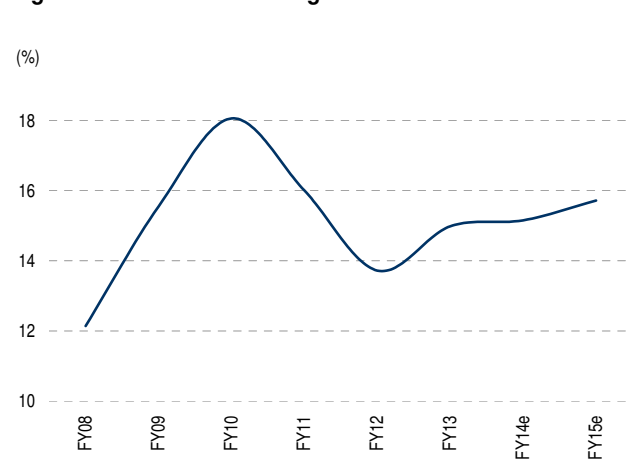
Source: Company, Anand Rathi Research

**Fig 5 – PE band**



Source: Bloomberg, Anand Rathi Research

**Fig 6 – Trend in EBITDA margin**



Source: Company



9 July 2013

## Motherson Sumi Systems

*Rising trajectory to continue; Buy*

Rating: **Buy**

Target Price: ₹249

Share Price: ₹206

### Key takeaways

**Domestic performance to be decent.** While car sales in India have been lower yoy, Motherson Sumi Systems (MSS) is in a position to ably combat this deceleration. This is possible through supply of new models, fewer supplies to OEMs and the upward trend in passenger-car models. Ytd performance at its India operations has been good, as exports were ramped up and plants commissioned to meet further demand.

**Steady performance by SMR, SMP.** We expect the Europe-centric companies, SMR and SMP, to maintain a trajectory of steadily improving performances. We expect SMP's 1QFY13 EBITDA margin to be 3% and SMR's 7%. Ahead, a recovery in European automotive production may strongly benefit both these companies.

**Consolidated results likely to be good.** Consolidated revenues are expected to grow 5.2% yoy, to ₹67.2bn. We expect 7.3% consolidated EBITDA margin (up 20bps yoy) and profit to grow 20.7% yoy to ₹1.3bn.

**Our take.** MSS is expected to continue marching ahead, aided by product launches and customer additions, greater synergies from integrating its European acquisitions and turnaround of its unprofitable plants. Launches by OEMs and customer additions would further boost growth.

We retain a Buy, with a price target of ₹249. At our target price, the stock would trade at 16.5x Sep '14e; at the ruling price, it trades at 15.5x FY14e.

**Risks.** Sustained slowdown in European demand, delay in launches of new models, currency volatility, complicated company structure.

Key data	MSS IN / MOSS.BO
52-week high / low	₹213/ ₹103
Sensex / Nifty	19496 / 5868
3-m average volume	US\$1.2m
Market cap	₹121.69bn / US\$2.44bn
Shares outstanding	587.9m

Shareholding pattern (%)	Mar '13	Dec '12	Sep'12
Promoters	65.59	65.59	65.60
- of which, Pledged	17.85	24.70	26.43
Free Float	34.41	34.41	34.40
- Foreign Institutions	15.19	13.93	13.66
- Domestic Institutions	9.57	9.50	9.96
- Public	9.65	10.98	10.78

Financials (YE Mar)	FY14e	FY15e
Sales (₹m)	297,595	338,194
Net profit (₹m)	7,802	9,945
EPS (₹)	13.3	16.9
Growth (%)	44.5	27.5
PE (x)	15.5	12.2
PBV (x)	4.1	3.2
RoE (%)	26.9	26.8
RoCE (%)	23.9	28.0
Dividend yield (%)	1.1	1.2
Net gearing (%)	75.8	70.0

Source: Anand Rathi Research

Standalone Quarterly results (YE Mar)	1QFY13	1QFY14e	% yoy	FY12	FY13	% yoy
Sales (₹m)	63,880	67,185	5.2	149,076	256,170	71.8
EBITDA (₹m)	4,552	4,929	8.3	10,744	19,440	80.9
EBITDA margin (%)	7.1	7.3	21bps	7.2	7.6	38bps
Interest (₹m)	660	601	-8.9	1,649	2,495	51.3
Depreciation (₹m)	1,643	1,825	11.1	3,796	7,145	88.2
Other income (₹m)	38	45	17.8	135	170	25.5
PBT (₹m)	279	2,548	813.6	4,117	8,342	102.6
Tax (₹m)	700	637	-9.0	2,153	3,835	78.1
Tax rate (%)	251.1	25.0	NM	52.3	46.0	-633bps
PAT (₹m)	1,112	1,342	20.7	3,519	5,400	53.5

Source: Company

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## Quick Glance – Financials and Valuations

**Fig 1 – Income statement (₹m)**

Year-end: Mar	FY11	FY12	FY13	FY14e	FY15e
Net revenues	83,460	149,076	256,170	297,595	338,194
Revenue growth (%)	21.8	78.6	71.8	16.2	13.6
- Op. expenses	74,824	138,332	236,730	272,118	307,860
<b>EBIDTA</b>	<b>8,636</b>	<b>10,744</b>	<b>19,440</b>	<b>25,477</b>	<b>30,334</b>
EBITDA margins (%)	10.3	7.2	7.6	8.6	9.0
- Interest	576	1,649	2,495	2,594	2,400
- Depreciation	2,465	3,796	7,145	8,038	8,842
+ Other income	130	135	170	191	215
- Extraordinaries & others	-465	1,318	1,628	0	0
- Tax	1,883	2,153	3,835	7,142	9,171
Effective tax rate (%)	30.4	52.3	46.0	47.5	47.5
Reported PAT before MI	4,307	1,963	4,507	7,893	10,136
Adjusted PAT	3,583	3,519	5,400	7,802	9,945
PAT growth (%)	90.6	-1.8	53.5	44.5	27.5
Adj. FDEPS (₹/share)	6.1	6.0	9.2	13.3	16.9
Adj. FDEPS growth (%)	90.6	-1.8	53.5	44.5	27.5

Source: Company, Anand Rathi Research

**Fig 2 – Balance sheet (₹m)**

Year-end: Mar	FY11	FY12	FY13	FY14e	FY15e
Share capital	388	388	588	588	588
Reserves & surplus	15,700	18,329	22,302	28,752	37,226
Net worth	16,087	18,717	22,890	29,339	37,814
Total debt	12,607	46,023	40,712	39,712	34,712
Def. tax liab. (net)	2,286	5,629	4,585	4,785	4,985
<b>Capital employed</b>	<b>30,980</b>	<b>70,369</b>	<b>68,186</b>	<b>73,836</b>	<b>77,511</b>
Net fixed assets	21,566	51,379	56,629	57,590	57,748
Investments	465	938	717	717	717
Working capital	5,418	13,494	4,897	6,068	7,218
Cash	3,532	4,557	5,944	9,461	11,828
<b>Capital deployed</b>	<b>30,980</b>	<b>70,369</b>	<b>68,186</b>	<b>73,836</b>	<b>77,511</b>
Net debt	388	388	588	588	588
No. of shares (m)	9,075	41,466	34,768	30,251	22,884
Net debt/equity (x)	56.4	221.5	151.9	103.1	60.5
W C turn (days)	39	54	34	34	34
Book value (₹/sh)	41.5	48.3	38.9	49.9	64.3

Source: Company, Anand Rathi Research

**Fig 3 – Cash-flow statement (₹m)**

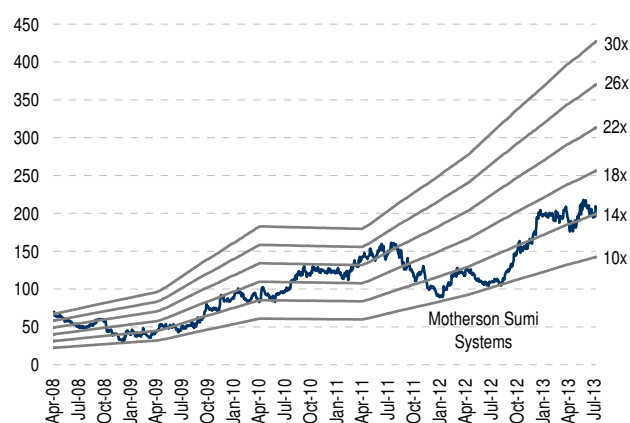
Year-end: Mar	FY11	FY12	FY13	FY14e	FY15e
PAT	3,908	2,596	4,445	7,802	9,945
+ Non-cash items	2,465	3,796	7,145	8,038	8,842
Cash profit	6,373	6,393	11,591	15,840	18,787
- Incr./decr. in WC	3,798	8,076	-8,598	1,172	1,149
Operating cash-flow	2,575	-1,684	20,188	14,669	17,638
- Capex	8,486	56,666	12,395	9,000	9,000
Free cash-flow	-5,911	-58,349	7,794	5,669	8,638
- Dividend	1,070	890	1,176	1,352	1,470
+ Equity raised	13	0	0	0	0
+ Debt raised	4,428	33,416	-5,311	-1,000	-5,000
- Investments	-6	473	-221	0	0
- Misc. items	-2,636	-27,322	141	-200	-200
Net cash-flow	102	1,025	1,387	3,517	2,368
+ Op. cash & bank bal.	3,431	3,532	4,557	5,944	9,461
Cl. Cash & bank bal.	3,532	4,557	5,944	9,461	11,828

Source: Company, Anand Rathi Research

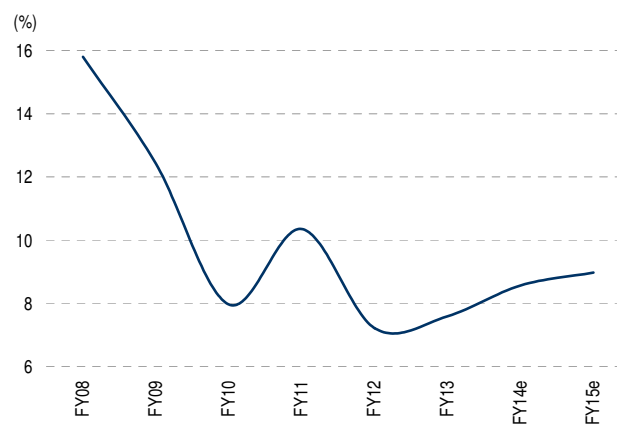
**Fig 4 – Ratio analysis @ ₹206**

Year-end: Mar	FY11	FY12	FY13	FY14e	FY15e
P/E (x)	33.8	34.4	22.4	15.5	12.2
P/B (x)	5.0	4.3	5.3	4.1	3.2
EV/EBITDA (x)	10.2	11.2	8.0	5.9	4.7
RoE (%)	26.8	10.5	19.7	26.9	26.8
RoCE (%)	20.3	10.1	18.3	23.9	28.0
Dividend yield (%)	1.3	1.1	1.0	1.1	1.2
Dividend payout (%)	27.4	34.3	26.4	17.3	14.8
Debt to equity (x)	0.8	2.5	1.8	1.4	0.9
Core P/E (x)	34.6	35.3	22.9	15.8	12.4
Cash P/E (x)	11.8	13.9	10.4	7.6	6.4
EV/sales (x)	1.1	0.8	0.6	0.5	0.4
Inventory days	46.3	55.8	37.7	37.7	37.7
Receivables days	42.7	74.8	42.5	42.5	42.5
Payables days	50.0	76.9	46.0	46.0	46.0
Asset T/O (x)	2.6	2.1	3.7	4.0	4.3

Source: Company, Anand Rathi Research

**Fig 5 – PE band**


Source: Bloomberg, Anand Rathi Research

**Fig 6 – Trend in EBITDA Margin**


Source: Company, Anand Rathi Research

9 July 2013

## Exide Industries

*Hoping for a recovery again; Buy*

### Key takeaways

**Weak sales growth.** On lower OEM sales and subdued auto-replacement demand, we expect sales growth to come at just 5% yoy, to ₹16.3bn. In FY13, the company had regained some of its lost market share and hopes to further recover lost share.

**Margin to be lower.** We expect 210bps yoy EBITDA margin decline (30bps higher yoy), to 13.5%. Although FY13 margin had disappointed, price increases taken by the company in July would help cover costs, going forward. Delays from OEMs, in terms of sanction of price increases, has been adversely affecting Exide's gross margins. With these price hikes now sanctioned, profitability could improve. We expect 2.2% yoy profit decline, to ₹1.5bn (up 1.5% qoq).

**Lower capex guidance.** The company intends to spend ₹1.9bn in FY13 towards capex, lowering it from the previously mentioned ₹2.5bn.

**Our take.** While Exide Industries' FY13 performance was average, 4Q marked a qoq improvement. With price increases, hopes for an operational recovery has build up again, although lower OEM demand is a dampener. An improving replacement-to-OEM ratio and ~5% price hikes in auto replacement and UPS segments in July would help counter cost pressures, thereby improving profitability.

We maintain Buy on the company, with a price target of ₹154, based upon a one-year-forward standalone PE of 18.5x (on par with its past five-year average) and value the company's stake in ING Vysya Life Insurance at ₹17.

**Risks.** Market-share loss, low industrial demand and pricing power, commodity risk and price wars.

Quarterly results (YE Mar)	1QFY13	1QFY14e	% yoy	FY12	FY13	% yoy
Sales (₹m)	15,536	16,313	5.0	51,110	60,768	18.9
EBITDA (₹m)	2,431	2,204	-9.3	6,879	7,910	15.0
EBITDA margin (%)	15.6	13.5	-213bps	13.5	13.0	-44bps
Interest (₹m)	14	7	-48.5	53	42	-21.3
Depreciation (₹m)	276	280	1.4	1,007	1,135	12.7
Other income (₹m)	147	176	19.4	633	704	11.3
PBT (₹m)	2,185	2,093	-4.2	6,452	7,423	15.1
Tax (₹m)	665	607	-8.7	1,840	2,195	19.3
Tax rate (%)	30.4	29.0	-143bps	28.5	29.6	105bps
PAT (₹m)	1,595	1,486	-6.8	4,612	5,238	13.6

Source: Company

Key data	EXID IN / EXID.BO
52-week high / low	₹166 / ₹115
Sensex / Nifty	19496 / 5868
3-m average volume	US\$4.2m
Market cap	₹103.74bn / US\$1.73bn
Shares outstanding	850m

Shareholding pattern (%)	Mar'13	Dec'12	Sep'12
Promoters	45.99	45.99	45.99
- of which, Pledged	-	-	-
Free Float	54.01	54.01	54.01
- Foreign Institutions	17.67	16.69	17.57
- Domestic Institutions	13.63	13.29	13.84
- Public	22.71	24.03	22.60

Financials (YE Mar)	FY14e	FY15e
Sales (₹m)	70,149	81,774
Net profit (₹m)	6,436	7,858
EPS (₹)	7.6	9.2
Growth (%)	22.9	22.1
PE (x)	16.4	13.4
PBV (x)	2.7	2.3
RoE (%)	16.5	17.5
RoCE (%)	23.1	24.6
Dividend yield (%)	1.6	1.8
Net gearing (%)	10.5	11.5

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	45,775	51,110	60,768	70,149	81,774
Revenue growth (%)	20.0	12.2	18.9	15.4	16.6
- Op. expenses	36,902	44,232	52,859	60,437	69,961
<b>EBIDTA</b>	<b>8,873</b>	<b>6,879</b>	<b>7,910</b>	<b>9,711</b>	<b>11,813</b>
EBITDA margin (%)	19.4	13.5	13.0	13.8	14.4
- Interest expenses	57	53	42	42	42
- Depreciation	835	1,007	1,135	1,286	1,467
+ Other income	799	633	704	811	921
- Extraordinaries	-623	0	15	0	0
- Tax	2,740	1,840	2,195	2,758	3,368
Effective tax rate (%)	29.1	28.5	29.6	30.0	30.0
Reported PAT	6,664	4,612	5,228	6,436	7,858
Adjusted PAT	6,246	4,612	5,238	6,436	7,858
PAT growth (%)	19.3	-26.2	13.6	22.9	22.1
FDEPS (₹/share)	7.3	5.4	6.2	7.6	9.2
FDEPS growth (%)	19.3	-26.2	13.6	22.9	22.1

Source: Company, Anand Rathi Research

**Fig 2 – Balance sheet (₹m)**

Year-end: Mar	FY11	FY12	FY13	FY14e	FY15e
Share capital	850	850	850	850	850
Reserves & surplus	26,575	29,723	33,386	38,122	44,068
Net worth	27,425	30,573	34,236	38,972	44,918
Total debt	1	0	0	0	0
Def. tax liab. (net)	675	825	977	977	977
<b>Capital employed</b>	<b>28,100</b>	<b>31,398</b>	<b>35,212</b>	<b>39,949</b>	<b>45,894</b>
Net fixed assets	8,833	9,932	10,532	12,246	13,778
Investments	13,780	15,546	16,401	18,401	20,901
Working capital	5,340	5,343	7,531	4,933	7,161
Cash	147	577	748	4,369	4,053
<b>Capital deployed</b>	<b>28,100</b>	<b>31,398</b>	<b>35,212</b>	<b>39,949</b>	<b>45,894</b>
Net Debt	-146.8	-576.7	-747.9	-4,368.6	-4,053.1
No. of shares (m)	850	850	850	850	850
Net Debt/ Equity (%)	-0.5	-1.9	-2.2	-11.2	-9.0
WC days	59	57	67	45	49
Book value (₹/sh)	32.3	36.0	40.3	45.8	52.8

Source: Company, Anand Rathi Research

**Fig 3 – Cash-flow statement (₹m)**

Year-end: Mar	FY11	FY12	FY13	FY14e	FY15e
PAT	6,664	4,612	5,228	6,436	7,858
+ Non-cash items	835	1,007	1,135	1,286	1,467
Cash profit	7,498	5,618	6,363	7,722	9,325
- Incr./Decr. in WC	2,068	62	2,200	-2,598	2,228
Operating cash-flow	5,430	5,557	4,163	10,321	7,097
- Capex	2,344	1,946	1,735	3,000	3,000
Free cash-flow	3,086	3,611	2,428	7,321	4,097
- Dividend	1,275	1,275	1,360	1,700	1,913
+ Equity raised	0	0	0	0	0
+ Debt raised	-899	-1	0	0	0
- Investments	426	1,766	855	2,000	2,500
- Misc. items	367	139	42	0	0
Net cash-flow	119	430	171	3,621	-316
+ Op. cash & bank bal.	29	147	577	748	4,369
Cl. cash & bank bal.	148	577	748	4,369	4,053

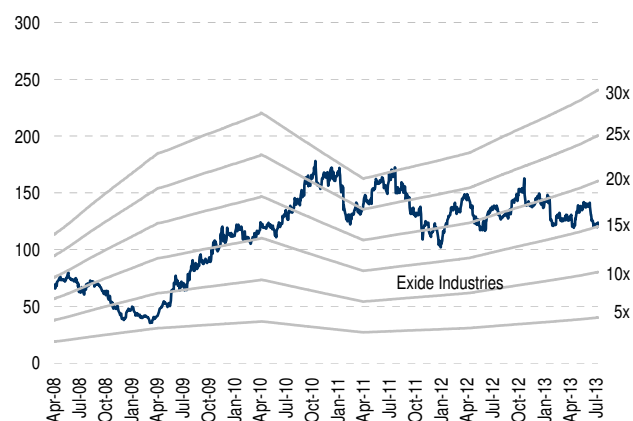
Source: Company, Anand Rathi Research

**Fig 4 – Ratio analysis @ ₹124**

Year-end: Mar	FY11	FY12	FY13	FY14e	FY15e
P/E (x)	16.9	22.9	20.1	16.4	13.4
P/B (x)	3.8	3.4	3.1	2.7	2.3
EV/EBITDA (x)	10.3	13.0	11.2	8.5	6.8
RoE (%)	22.8	15.1	15.3	16.5	17.5
RoCE (%)	31.5	20.7	21.2	23.1	24.6
Dividend yield	1.2	1.2	1.3	1.6	1.8
Dividend payout (%)	20.4	27.6	26.0	26.4	24.3
Debt to equity (%)	0.0	0.0	0.0	0.0	0.0
Core P/E (x)	18.5	25.2	22.1	17.9	14.6
Cash P/E	14.9	18.8	16.5	13.6	11.3
EV/sales	2.0	1.7	1.5	1.2	1.0
Inventory days	68	69	70	64	66
Receivables days	29	29	31	25	25
Payables days	39	41	34	44	42
Asset Turnover	1.6	1.6	1.7	1.8	1.8

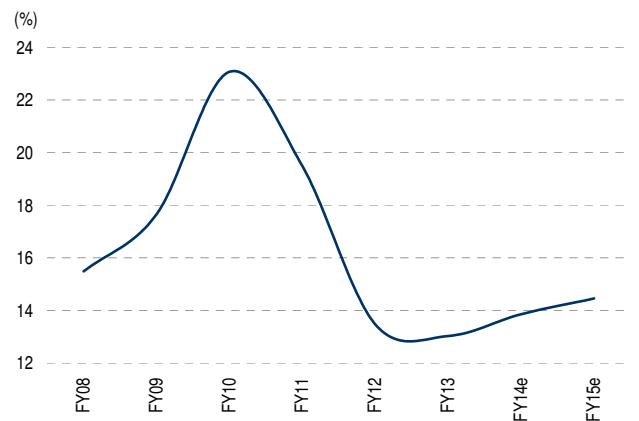
Source: Company, Anand Rathi Research

**Fig 5 – PE band**



Source: Bloomberg, Anand Rathi Research

**Fig 6 – Trend in EBITDA Margin**



Source: LME

9 July 2013

## Bharat Forge

*Sluggish times continue; Hold*

Rating: **Hold**

Target Price: ₹236

Share Price: ₹216

### Key takeaways

**Dip in tonnage.** Bharat Forge's production tonnage is expected to decline 27.5% yoy during the quarter due to shrunken customer demand in India and Europe. At home, continued slowdown in M&H CVs and lower non-auto offtake has hit sales. In Europe, the industry-wide slowdown would have an adverse impact. We are optimistic about the company's long-term strategy to become a diversified forgings-parts manufacturer as well as strong US demand in FY13, but believe that these will not suffice to counter the stagnation in its domestic revenue. Moreover, for North America, the company has projected a weak outlook ahead.

**Standalone profitability down.** We expect standalone income to decline 26.8% yoy, to ₹6.9bn. We expect a sequential reduction of 30bps in the EBITDA margin, to 20.7%, and a 39.7% decline in EBITDA. EBITDA per tonne is expected to be lower 16.9% yoy. Our profit expectation is ₹532m, a 49.4% yoy decline.

**Subsidiaries weak.** In 4QFY12, revenue contribution from subsidiaries and the China operations declined 6.5% yoy. However, both of them did manage to report relatively good EBITDA margins of 9.1% and 3% respectively. Nevertheless, PBT level losses at its China operations continued, leading to consolidated PBT declining ~22% yoy. In 1QFY14, we expect the weak trend to continue.

**Our take.** As the company heavily depends on M&H CVs, the ongoing slowdown in this segment would bear on its results. The outlook for 1HFY14 is weak due to poor domestic M&H CV sales, slowdown in Europe and shrinking demand from North America. We lower our estimates to factor in narrower EBITDA margins (consolidated) in FY14. On short-to-mid term concerns, we maintain Hold on the stock. **Risks.** Downside. Slowdown in execution, drop in US sales. Upside. Faster-than-expected CV recovery, improvement in overseas demand.

Key data	BHFC IN / BRFG.BO
52-week high / low	₹322 / ₹196
Sensex / Nifty	19496 / 5868
3-m average volume	US\$2.1m
Market cap	₹50.39bn / US\$839.8bn
Shares outstanding	232.8m

Shareholding pattern (%)	Mar '13	Dec '12	Sep '12
Promoters	42.05	42.05	42.05
- of which, Pledged	-	-	-
Free Float	57.95	57.95	57.95
- Foreign Institutions	9.44	9.47	9.51
- Domestic Institutions	18.95	18.89	19.06
- Public	29.56	29.59	29.38

Cons Financials (YE Mar)	FY14e	FY15e
Sales (₹m)	57,545	67,710
Net profit (₹m)	2,453	3,405
EPS (₹)	10.3	14.2
Growth (%)	4.9	38.8
PE (x)	21.1	15.2
PBV (x)	2.1	1.9
RoE (%)	8.2	12.3
RoCE (%)	9.5	12.6
Dividend yield (%)	1.4	1.6
Net gearing (%)	52.1	53.3

Source: Anand Rathi Research

Standalone Quarterly results (YE Mar)	1QFY13	1QFY14e	% yoy	FY12	FY13	% yoy
Sales (₹m)	9,364	6,857	-26.8	36,860	31,512	-14.5
EBITDA (₹m)	2,351	1,417	-39.7	9,168	7,156	-21.9
EBITDA margin (%)	25.1	20.7	-444bps	24.9	22.7	-216bps
Interest (₹m)	547	356	-35.0	1,505	1,534	1.9
Depreciation (₹m)	565	560	-0.9	2,149	2,239	4.2
Other income (₹m)	279	293	5.0	661	916	38.6
PBT (₹m)	1,518	794	-47.7	5,471	4,405	-19.5
Tax (₹m)	466	262	-43.7	1,850	1,349	-27.1
Tax rate (%)	30.7	33.0	231bps	33.8	30.6	-319bps
Adjusted Profit (₹m)	1,052	532	-49.4	4,325	2,950	-31.8

Source: Company

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## Quick Glance – Financials and Valuations

**Fig 1 – Income statement (₹m)**

Year-end: Mar	FY11	FY12	FY13	FY14e	FY15e
Net revenues	50,873	62,791	57,022	57,545	67,710
Revenue growth (%)	52.9	23.4	-9.2	0.9	17.7
- Op. expenses	43,022	52,830	49,328	49,877	57,671
<b>EBIDTA</b>	<b>7,851</b>	<b>9,961</b>	<b>7,694</b>	<b>7,667</b>	<b>10,039</b>
EBITDA margin (%)	15.4	15.9	13.5	13.3	14.8
- Interest expenses	1,529	1,837	1,908	1,836	1,916
- Depreciation	2,548	3,019	3,360	3,663	3,938
+ Other income	671	893	1,126	1,238	1,288
- Extraordinary items	77	0	-198	0	0
- Tax	1,402	1,796	1,728	1,431	2,189
Effective tax rate (%)	32.1	29.9	46.1	42.0	40.0
Reported Profit bef MI	2,966	4,202	2,021	1,976	3,284
Adjusted Profit	2,956	4,130	2,337	2,453	3,405
Adj. Profit growth (%)	1,831.6	39.8	-43.4	4.9	38.8
Adj. FDEPS (₹/share)	12.4	17.3	9.8	10.3	14.2
Adj. FDEPS growth (%)	1,831.6	39.8	-43.4	4.9	38.8

Source: Company, Anand Rathi Research

**Fig 2 – Balance sheet (₹m)**

Year-end: Mar	FY11	FY12	FY13	FY14e	FY15e
Share capital	466	466	466	466	466
Reserves & surplus	19,064	21,437	22,098	23,739	26,197
Net worth	19,529	21,903	22,564	24,205	26,663
Total debt	19,014	27,608	26,745	27,745	28,745
Def. tax liab. (net)	2,863	2,843	2,988	3,113	3,238
<b>Capital employed</b>	<b>41,406</b>	<b>52,353</b>	<b>52,296</b>	<b>55,063</b>	<b>58,645</b>
Net fixed assets	26,634	31,652	35,423	35,760	36,822
Investments	2,614	3,870	4,160	6,160	7,160
Net working capital	8,195	10,113	7,161	8,231	10,678
Cash and bank balance	3,964	6,718	5,554	4,912	3,985
<b>Capital deployed</b>	<b>41,406</b>	<b>52,353</b>	<b>52,296</b>	<b>55,063</b>	<b>58,645</b>
No. of shares (m)	233	233	233	233	233
Net debt	15,050	20,890	21,191	22,833	24,759
Net debt / Equity	77.1	95.4	93.9	94.3	92.9
WC turn days	58	65	51	51	51
Book value (₹/sh)	83.9	94.1	96.9	104.0	114.5

Source: Company, Anand Rathi Research

**Fig 3 – Cash-flow statement (₹m)**

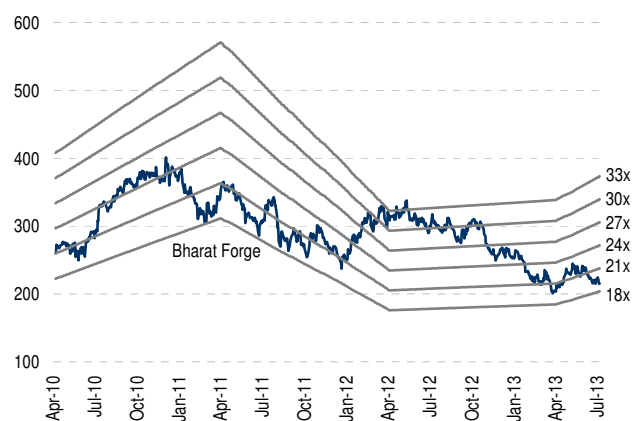
Year-end: Mar	FY11	FY12	FY13	FY14e	FY15e
Reported Profit	2,902	4,130	2,476	2,453	3,405
+ Depreciation	2,548	3,019	3,360	3,663	3,938
Cash profit	5,450	7,149	5,836	6,116	7,342
- Incr./decr. in WC	4,062	1,919	-2,953	1,071	2,447
Operating cash-flow	1,387	5,230	8,789	5,045	4,896
- Capex	3,655	8,215	7,131	4,000	5,000
Free cash-flow	-2,268	-2,985	1,657	1,045	-104
- Dividend	815	931	559	699	815
+ Equity raised	20	0	0	0	0
+ Debt raised	-3,513	8,594	-863	1,000	1,000
- Investments	-123	1,256	290	2,000	1,000
- Misc. items	-4,439	668	1,110	-12	7
Net cash-flow	-2,013	2,753	-1,164	-641	-926
+ Op. cash & bank bal.	5,977	3,964	6,718	5,554	4,912
Cl. cash & bank bal.	3,964	6,718	5,553	4,912	3,985

Source: Company, Anand Rathi Research

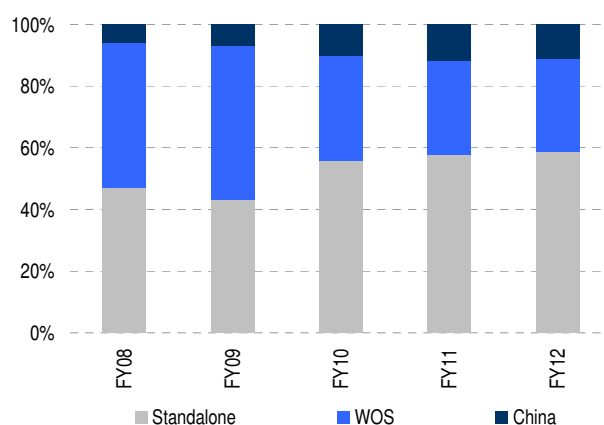
**Fig 4 – Ratio analysis @ ₹216**

Year-end: Mar	FY11	FY12	FY13	FY14e	FY15e
P/E (x)	17.5	12.5	22.1	21.1	15.2
P/B (x)	2.6	2.3	2.2	2.1	1.9
EV/EBITDA (x)	8.0	6.8	8.8	8.7	6.8
RoE (%)	15.2	19.2	9.0	8.2	12.3
RoCE (%)	14.4	15.0	10.4	9.5	12.6
Dividend yield (%)	1.6	1.9	1.1	1.4	1.6
Dividend payout (%)	31.9	25.8	32.1	41.1	28.8
Debt to equity (%)	1.0	1.3	1.2	1.1	1.1
Core P/E (x)	21.1	15.0	33.4	32.6	20.8
Cash P/E	9.1	7.0	9.3	8.9	7.0
EV/sales	1.3	1.1	1.2	1.2	1.0
Inventory days	68.8	84.5	85.1	84.8	86.1
Receivables days	53.7	46.8	38.5	38.4	38.4
Payables days	117.4	116.6	137.2	136.9	136.6
Asset Turnover	1.2	1.2	1.1	1.0	1.1

Source: Company, Anand Rathi Research

**Fig 5 – PE band**


Source: Bloomberg, Anand Rathi Research

**Fig 6 – Consolidated sales break-up, by business**


Source: Company



9 July 2013

## Amara Raja Batteries

Replacement demand key; upgrade to Buy

Rating: **Buy**

Target Price: ₹319

Share Price: ₹267

### Key takeaways

**Decent performance.** Amara Raja Batteries (ARB) is expected to report a decent performance in 1QFY14, on its sustained leadership in the telecom and UPS segments, as well as replacement demand providing some stability to the automotive segment. We expect 15% yoy sales growth to ₹8bn and flat yoy EBITDA at ₹1.2bn, while EBITDA margin is expected to be 15% (up 110bps qoq, but down 220bps yoy). The adjusted profit growth is expected to be slightly lower yoy by 1.9%, to ₹747m (25.6% higher qoq).

**Growth triggers in place.** Through its increased capacity in two wheelers, ARB registered strong growth in the automotive segment in FY13. Good product quality, improved brand equity, and a sound technological base and support from foreign partner is helping ARB take on competition in a resounding way. Its centralized operations have also helped ARB to maintain a relatively lower cost structure vis-à-vis competition.

**Our take.** The battery segment would feel the need for price increases due to mounting input costs, currency volatility and weak OEM demand. Competitive intensity is likely to increase with OEM demand weakness continuing. However, with a good product portfolio, higher replacement exposure, good industrial demand, ARB would outperform in the auto ancillary space. The stock has stagnated in the past six months after a re-rating in CY12, but is poised for a better performance hereon. Hence, we upgrade it to a Buy with a target price of ₹319 based upon 15x Sep'14 earnings. At the ruling price, it trades at 13.8x FY14e EPS. **Risks.** Keener competition, input cost rise, capacity constraints, negative impact of rupee depreciation, valuations close to its all-time high, and a substantial premium to its past 5-year average of 8.3x.

Key data	AMRJ IN / AMAR.BO
52-week high / low	₹328 / ₹134
Sensex / Nifty	19496 / 5868
3-m average volume	US\$1.8m
Market cap	₹45.26bn / US\$754.33m
Shares outstanding	170.8m

Shareholding pattern (%)	Mar '13	Dec '12	Sep '12
Promoters	52.06	52.06	52.06
- of which, Pledged	4.08	4.61	4.61
Free Float	47.94	47.94	47.94
- Foreign Institutions	10.10	6.82	6.32
- Domestic Institutions	15.28	17.62	18.62
- Public	22.56	23.50	23.00

Estimates revision (%)	FY14e	FY15e
Sales	-3.4	-3.5
EBITDA	-3.5	-2.6
EPS	-5.3	-3.5

Financials (YE Mar)	FY14e	FY15e
Sales (₹m)	34,483	40,617
Net profit (₹m)	3,313	3,941
EPS (₹)	19.4	23.1
Growth (%)	13.1	19.0
PE (x)	13.8	11.6
PBV (x)	3.4	2.7
RoE (%)	24.9	23.7
RoCE (%)	34.3	33.2
Dividend yield (%)	1.1	1.2
Net gearing (%)	-12.9	-16.2

Source: Anand Rathi Research

Standalone Quarterly results (YE Mar)	1QFY13	1QFY14e	% yoy	FY12	FY13	% yoy
Sales (₹m)	6,938	7,979	15.0	29,811	34,483	15.7
EBITDA (₹m)	1,195	1,196	0.0	4,712	5,316	12.8
EBITDA margin (%)	17.2	15.0	-224bps	15.8	15.4	-39bps
Interest (₹m)	1	8	548.8	10	35	249.3
Depreciation (₹m)	129	149	15.0	661	691	4.5
Other income (₹m)	59	67	15.0	269	318	18.2
PBT (₹m)	1,123	1,106	-1.5	4,218	4,908	16.4
Tax (₹m)	362	360	-0.7	1,351	1,595	18.1
Tax rate (%)	32.3	32.5	25bps	32.0	32.5	47bps
Adjusted Profit (₹m)	761	747	-1.9	2,928	3,313	13.1

Source: Company

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## Quick Glance – Financials and Valuations

**Fig 1 – Income statement (₹m)**

Year-end: Mar	FY11	FY12	FY13	FY14e	FY15e
Net revenues	17,611	23,674	29,811	34,483	40,617
Revenue growth (%)	20.2	34.4	25.9	15.7	17.8
- Op. expenses	15,037	20,134	25,099	29,167	34,335
<b>EBIDTA</b>	<b>2,574</b>	<b>3,540</b>	<b>4,712</b>	<b>5,316</b>	<b>6,282</b>
EBITDA margins (%)	14.6	15.0	15.8	15.4	15.5
- Interest	31	41	10	35	44
- Depreciation	417	465	661	691	755
+ Other income	78	152	269	318	356
- Extraordinaries & others	0	0	92	0	0
- Tax	723	1,036	1,351	1,595	1,898
Effective tax rate (%)	32.8	32.5	32.0	32.5	32.5
Reported PAT	1,481	2,151	2,867	3,313	3,941
Adjusted PAT	1,481	2,151	2,928	3,313	3,941
PAT growth (%)	-6.8	45.2	36.2	13.1	19.0
Adj. FDEPS (₹/share)	8.7	12.6	17.1	19.4	23.1
Adj. FDEPS growth (%)	-6.8	45.2	36.2	13.1	19.0

Source: Company, Anand Rathi Research

**Fig 2 – Balance sheet (₹m)**

Year-end: Mar	FY11	FY12	FY13	FY14e	FY15e
Share capital	171	171	171	171	171
Reserves & surplus	6,288	8,064	10,427	13,145	16,451
Net worth	6,459	8,235	10,598	13,316	16,621
Total debt	1,000	855	872	872	872
Def. tax liab. (net)	205	220	195	220	245
<b>Capital employed</b>	<b>7,664</b>	<b>9,310</b>	<b>11,665</b>	<b>14,407</b>	<b>17,738</b>
Net fixed assets	3,526	3,861	4,618	5,303	6,047
Investments	161	161	161	161	161
Working capital	3,526	2,996	2,778	4,539	5,764
Cash	451	2,292	4,108	4,405	5,766
<b>Capital deployed</b>	<b>7,664</b>	<b>9,310</b>	<b>11,665</b>	<b>14,407</b>	<b>17,738</b>
Net debt	548	-1,437	-3,236	-3,533	-4,894
No. of shares (m)	85	85	85	85	85
Net debt/equity (x)	0.1	-0.2	-0.3	-0.3	-0.3
W C turn (days)	101	77	77	77	77
Book value (₹/sh)	76	96	62	78	97

Source: Company, Anand Rathi Research

**Fig 3 – Cash-flow statement (₹m)**

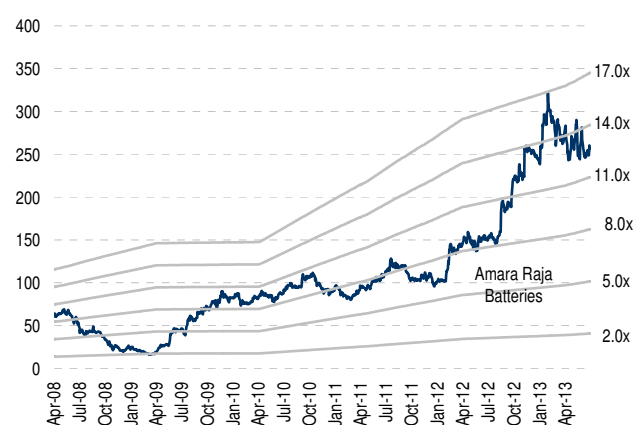
Year-end: Mar	FY11	FY12	FY13	FY14e	FY15e
PAT	1,481	2,151	2,867	3,313	3,941
+ Non-cash items	417	465	661	691	755
Cash profit	1,898	2,615	3,528	4,004	4,697
- Incr./decr.) in WC	1,005	-537	-257	1,751	1,215
Operating cash-flow	893	3,152	3,785	2,252	3,482
- Capex	659	799	1,418	1,375	1,500
Free cash-flow	234	2,353	2,367	877	1,982
- Dividend	222	323	430	512	547
+ Equity raised	0	0	0	0	0
+ Debt raised	88	-144	16	0	0
- Investments	0	0	0	0	0
- Misc. items	273	45	127	68	74
Net cash-flow	-174	1,841	1,826	297	1,361
+ Op. cash & bank bal.	625	451	2,292	4,108	4,405
Cl. Cash & bank bal.	451	2,292	4,118	4,405	5,766

Source: Company, Anand Rathi Research

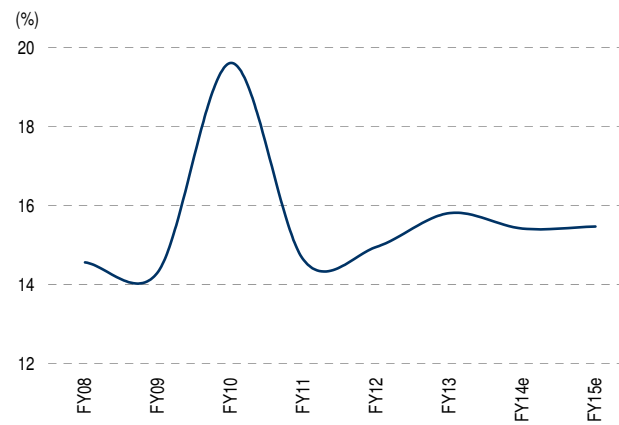
**Fig 4 – Ratio analysis @ ₹267**

Year-end: Mar	FY11	FY12	FY13	FY14e	FY15e
P/E (x)	30.8	21.2	15.6	13.8	11.6
P/B (x)	3.5	2.8	4.3	3.4	2.7
EV/EBITDA (x)	17.9	12.4	9.0	7.9	6.5
RoE (%)	22.9	26.1	27.1	24.9	23.7
RoCE (%)	29.2	34.7	37.0	34.3	33.2
Dividend yield (%)	1.0	1.4	0.9	1.1	1.2
Dividend payout (%)	15.0	15.0	15.0	15.5	13.9
Debt to equity (x)	0.2	0.1	0.1	0.1	0.1
Core P/E (x)	16.0	11.1	16.6	14.7	12.3
Cash P/E (x)	12.0	8.7	6.5	5.7	4.9
EV/sales (x)	2.6	1.9	1.4	1.2	1.0
Inventory days	59	41	41	41	41
Receivables days	63	49	49	49	49
Payables days	22	14	14	14	14
Asset T/O (x)	2.3	2.5	2.6	2.4	2.3

Source: Company, Anand Rathi Research

**Fig 5 – P/E band**


Source: Bloomberg, Anand Rathi Research

**Fig 6 – Trend in EBITDA margin**


Source: Company, Anand Rathi Research

9 July 2013

## Apollo Tyres

*Weak demand, acquisition overhang; Sell*

Rating: **Sell**

Target Price: ₹58

Share Price: ₹61

### Key takeaways

**India operations to do better.** Apollo Tyres' domestic operations would be showing a better trajectory, backed by improvement in demand and sanguine commodity costs. We expect the company to report a marginal 1% yoy revenue growth to ₹21.7bn, with an 11.5% EBITDA margin (up 120bps yoy, but 60bps lower qoq). Our EBITDA growth expectation is 12.9% yoy. We expect 23.7% yoy profit growth to ₹931m.

**Europe likely to be weak.** Slowdown in the European market would bear down heavily on the company's consolidated results. Although this would lead to less-than-full capacity utilisation, currency depreciation would somewhat compensate for it. As a result, we expect consolidated revenues to decline 4% yoy to ₹30.4bn, with an 11.5% EBITDA margin (up 40bps yoy, but 20bps lower qoq). We expect EBITDA to decline 0.9% yoy and profit to dip 5.1% yoy (to ₹1.3bn).

**Cooper acquisition overhang.** The Cooper acquisition is likely to be a near-term overhang. Since the deal completion is likely only in 2HFY14, the impact of consolidation would be felt only by 4QFY14 at the earliest. However, the sizeable leverage to finance this acquisition would be a concern over the next few years.

**Our take.** While we do not yet factor Cooper into our estimates, we lower our rating to Sell to acknowledge concerns arising from a leveraged buyout, weak European demand, and medium-term uncertainty. Over the long term, this acquisition may propel Apollo Tyres into a different league, but in the near term could cause it a lot of stress. We rate the company a Sell with a price target of ₹58. **Risks.** Decline in rubber prices, less-than-expected impact of the European slowdown, favourable forex movements, faster-than-expected integration of Cooper Tires.

Key data	APTY IN / APLO.BO
52-week high / low	₹102 / ₹55
Sensex / Nifty	19496 / 5868
3-m average volume	US\$0.5m
Market cap	₹30.56bn / US\$509.33m
Shares outstanding	504.1m

Shareholding pattern (%)	Mar '13	Dec '12	Sep '12
Promoters	43.37	43.37	43.37
- of which, Pledged	16.34	15.15	16.06
Free Float	56.63	56.63	56.63
- Foreign Institutions	28.62	23.77	22.30
- Domestic Institutions	6.77	9.39	11.23
- Public	21.24	23.47	23.10

Estimates revision (%)	FY14e	FY15e
Sales	0.4	1.6
EBITDA	9.4	10.3
EPS	-11.0	-12.8

Financials (YE Mar)	FY14e	FY15e
Sales (₹m)	138,665	157,247
Net profit (₹m)	6,170	7,270
EPS (₹)	12.2	14.4
Growth (%)	2.6	17.8
PE (x)	5.0	4.2
PBV (x)	0.8	0.7
RoE (%)	15.6	15.7
RoCE (%)	21.2	23.5
Dividend yield (%)	1.3	1.6
Net gearing (%)	44.2	40.1

Source: Anand Rathi Research

Quarterly results (YE Mar)	1QFY13	1QFY14e	% yoy	FY12	FY13	% yoy
Sales (₹m)	31,647	30,381	-4.0	121,533	127,946	5.3
EBITDA (₹m)	3,516	3,485	-0.9	11,661	14,567	24.9
EBITDA margin (%)	11.1	11.5	36bps	9.6	11.4	179bps
Interest (₹m)	751	775	3.2	2,873	3,128	8.9
Depreciation (₹m)	936	1,000	6.9	3,256	3,966	21.8
Other income (₹m)	98	108	10.0	326	944	189.4
PBT (₹m)	1,928	1,819	-5.7	5,565	8,586	54.3
Tax (₹m)	539	500	-7.2	1,444	2,448	69.6
Tax rate (%)	28.0	27.5	-46bps	25.9	28.5	257bps
PAT (₹m)	1,380	1,309	-5.1	4,393	5,957	35.6

Source: Company

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## Quick Glance – Financials and Valuations

**Fig 1 – Income statement (₹m)**

Year-end: Mar	FY11	FY12	FY13	FY14e	FY15e
Net revenues	88,677	121,533	127,946	138,665	157,247
Revenue growth (%)	9.2	37.1	5.3	8.4	13.4
- Op. expenses	79,626	109,872	113,380	121,831	137,841
<b>EBIDTA</b>	<b>9,051</b>	<b>11,661</b>	<b>14,567</b>	<b>16,834</b>	<b>19,405</b>
EBITDA margins (%)	10.2	9.6	11.4	12.1	12.3
- Interest	1,970	2,873	3,128	5,245	5,848
- Depreciation	2,719	3,256	3,966	4,366	4,617
+ Other income	359	326	944	1,020	1,103
- Extraordinaries & others	-750	294	-169	0	0
- Tax	1,063	1,444	2,448	2,061	2,762
Effective tax rate (%)	19.4	25.9	28.5	25.0	27.5
Reported PAT	4,402	4,099	6,126	6,170	7,270
Adjusted PAT	3,652	4,393	6,013	6,170	7,270
PAT growth (%)	-35.5	20.3	36.9	2.6	17.8
Adj. FDEPS (₹/share)	7.2	8.7	11.9	12.2	14.4
Adj. FDEPS growth (%)	-35.5	20.3	36.9	2.6	17.8

Source: Company, Anand Rathi Research

**Fig 2 – Balance sheet (₹m)**

Year-end: Mar	FY11	FY12	FY13	FY14e	FY15e
Share capital	504	504	504	504	504
Reserves & surplus	23,630	27,831	33,814	40,361	48,057
Net worth	24,134	28,335	34,318	40,865	48,561
Total debt	24,802	28,720	25,720	21,720	18,720
Def. tax liab. (net)	3,162	4,025	4,225	4,425	4,625
<b>Capital employed</b>	<b>52,098</b>	<b>61,081</b>	<b>64,264</b>	<b>67,011</b>	<b>71,907</b>
Net fixed assets	38,770	44,881	45,842	47,797	49,515
Investments	112	158	158	158	158
Working capital	11,307	14,311	15,565	17,156	19,728
Cash	1,909	1,730	2,698	1,900	2,505
<b>Capital deployed</b>	<b>52,098</b>	<b>61,081</b>	<b>64,264</b>	<b>67,011</b>	<b>71,907</b>
Net debt	504	504	504	504	504
No. of shares (m)	22,893	26,990	23,022	19,820	16,215
Net debt/equity (x)	0.9	1.0	0.7	0.5	0.3
W C turn (days)	62	56	56	56	56
Book value (₹/sh)	47.9	56.2	68.1	81.1	96.3

Source: Company, Anand Rathi Research

**Fig 3 – Cash-flow statement (₹m)**

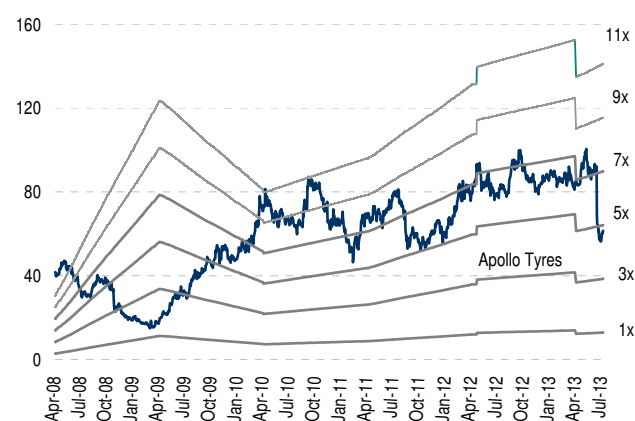
Year-end: Mar	FY11	FY12	FY13	FY14e	FY15e
PAT	4,402	4,099	6,126	6,170	7,270
+ Non-cash items	2,719	3,256	3,966	4,366	4,617
Cash profit	7,121	7,355	10,092	10,537	11,886
- Incr./decr. in WC	8,571	3,568	-1,792	2,188	3,426
Operating cash-flow	-1,450	3,787	11,884	8,349	8,461
- Capex	11,539	11,122	5,313	6,000	6,000
Free cash-flow	-12,989	-7,335	6,571	2,349	2,461
- Dividend	252	252	353	403	504
+ Equity raised	0	0	0	0	0
+ Debt raised	7,731	3,918	-5,904	-4,000	-3,000
- Investments	53	46	388	0	0
- Misc. items	-3,982	-3,537	-1,583	-478	-512
Net cash-flow	-1,581	-179	1,509	-1,576	-531
+ Op. cash & bank bal.	3,490	1,909	1,730	3,348	1,879
Cl. Cash & bank bal.	1,908	1,730	3,240	1,772	1,348

Source: Company, Anand Rathi Research

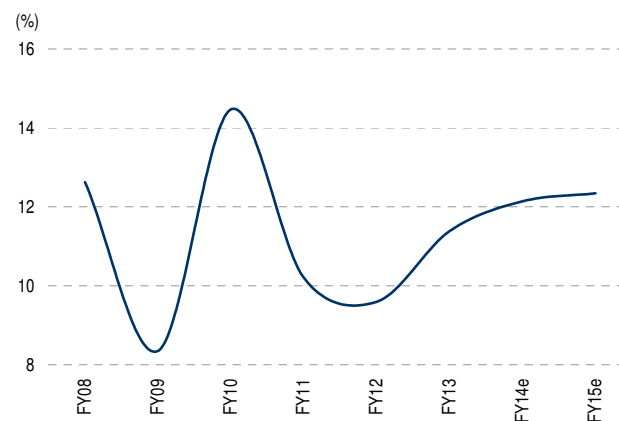
**Fig 4 – Ratio analysis @ ₹61**

Year-end: Mar	FY11	FY12	FY13	FY14e	FY15e
P/E (x)	8.4	7.0	5.1	5.0	4.2
P/B (x)	1.3	1.1	0.9	0.8	0.7
EV/EBITDA (x)	5.9	4.9	3.4	2.8	2.3
RoE (%)	18.3	14.5	18.0	15.6	15.7
RoCE (%)	12.8	14.3	18.7	21.2	23.5
Dividend yield (%)	0.8	0.8	1.1	1.3	1.6
Dividend payout (%)	6.7	7.1	6.7	7.6	8.0
Debt to equity (x)	1.0	1.0	0.7	0.5	0.3
Core P/E (x)	9.1	7.4	5.8	5.7	4.8
Cash P/E (x)	4.3	4.2	3.0	2.9	2.6
EV/sales (x)	0.6	0.5	0.4	0.3	0.3
Inventory days	72	60	58	58	58
Receivables days	39	34	28	28	28
Payables days	49	39	29	29	29
Fixed asset T/O (x)	1.7	2.0	2.1	2.2	2.3

Source: Company, Anand Rathi Research

**Fig 5 – PE band**


Source: Bloomberg, Anand Rathi Research

**Fig 6 – Trend in EBITDA margin**


Source: Company, Anand Rathi Research

9 July 2013

**SKF India***Tough demand environment; good long-term bet; Buy*Rating: **Buy**

Target Price: ₹622

Share Price: ₹490

**Key takeaways**

**2QCY13 sales to decline.** We expect SKF India's 2Q revenues to come at ₹5.3bn (down 8% yoy, a sixth consecutive quarterly decline). The dip would primarily be because of lower demand in its key target market, autos and industrials. We expect a sharper decline in revenue from the exports and industrial divisions. Amidst these adversities, the company is focused on tightening its working-capital requirement. We expect demand to pick up in 2HCY13.

**Margins expected to decline 77bps yoy.** In the past few quarters, margin pressures have arisen due to slowing revenue growth and the company's inability to pass on higher costs. With facilities underutilised, the margin will be contained, primarily due to lower fixed-cost absorption. We expect the 2Q EBIDTA margin to come at 9.6%, 77bps lower yoy.

**Profit to decline 13.9%.** We expect profit to decline 13.9% yoy to ₹402m, down 1% qoq on an adjusted basis. Other income is expected to be ₹200m, up 1.4% yoy.

**Tightening working capital.** In the tough situation today, the company is focusing on tightening the working capital required. It has been generating strong operating cash-flows over the years. We expect revenue and profit CAGRs over CY12-14 of 10% and 13.6% respectively.

**Our take.** The slowdown in both industrial and auto industries are expected to impact SKF's 2QCY13 results. A debt-free company, with ₹3bn in cash at end-CY12, it has been generating strong operating cash flows over the years. We value the stock at a one-year forward-PE of 15x Jun'14e (on par with its past two-year average), at a target of ₹622. With no short-term trigger, the long-term story is intact. **Risks.** Slowdown in industrial activity, auto sales; commodity price fluctuations and increase in imports.

Key data	SKF IN / SKFB.BO
52-week high / low	₹690 / ₹483
Sensex / Nifty	19496 / 5868
3-m average volume	US\$0.3m
Market cap	₹25.8bn / US\$431m
Shares outstanding	52.7m

Shareholding pattern (%)	Mar '13	Dec '12	Sep '12
Promoters	53.6	53.6	53.6
- of which, Pledged	-	-	-
Free Float	46.4	46.4	46.4
- Foreign Institutions	15.8	15.8	14.6
- Domestic Institutions	16.2	16.2	17.5
- Public	14.4	14.4	14.3

Financials (YE Dec)	CY13e	CY14e
Sales (₹m)	22,683	26,754
Net profit (₹m)	1,923	2,452
EPS (₹)	36.5	46.5
Growth (%)	1.2	27.5
PE (x)	13.5	10.6
PBV (x)	2.0	1.8
RoE (%)	15.7	17.8
RoCE (%)	16.0	18.4
Dividend yield (%)	1.8	2.2
Net gearing (%)	(35.2)	(43.2)

Source: Anand Rathi Research

Quarterly results (YE Dec)	2QCY12	2QCY13e	% yoy	CY11	CY12	% yoy
Sales (₹m)	5,780	5,318	(8.0)	24,349	22,276	(8.5)
EBITDA (₹m)	600	511	(14.8)	2,979	2,584	(13.3)
EBITDA margin (%)	10.4	9.6	(77) bps	12.2	11.6	(63) bps
Interest (₹m)	-	-	-	-	-	-
Depreciation (₹m)	107	118	9.7	385	436	13.2
Other income(₹m)	197	200	1.4	546	683	25.2
PBT (₹m)	690	593	(14.0)	3139	2831	(9.8)
Tax (₹m)	223	192	(14.1)	1,054	931	(11.7)
Tax rate (%)	32.4	32.3	(5) bps	33.6	32.9	(72) bps
PAT (₹m)	467	402	(13.9)	2,085	1,901	(8.8)

Source: Company

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## Quick Glance – Financials and Valuations

**Fig 1 – Income statement (₹m)**

Year-end: Dec	CY10	CY11	CY12	CY13e	CY14e
Net sales	20,684	24,167	22,041	22,683	26,754
Sales growth (%)	31.7	16.8	(8.8)	2.9	17.9
- Op. expenses	13,511	15,737	14,415	14,812	17,390
<b>EBIDTA</b>	<b>2,506</b>	<b>2,807</b>	<b>2,349</b>	<b>2,415</b>	<b>3,023</b>
EBITDA margins (%)	12.1	11.6	10.7	10.6	11.3
- Interest	(200)	(339)	(235)	(586)	(734)
- Depreciation	333	385	436	460	484
+ Other income	288	378	683	355	419
- Tax	891	1,054	931	973	1,240
Effective tax rate (%)	33.5	33.6	32.9	33.6	33.6
Reported PAT	1,770	2,085	1,901	1,923	2,452
+/- Extraordinary items	-	-	-	-	-
Adjusted PAT	1,770	2,085	1,901	1,923	2,452
Adj. FDEPS (₹/share)	33.6	39.5	36.0	36.5	46.5
Adj. FDEPS growth (%)	87.8	17.8	(8.8)	1.2	27.5
DPS (₹/share)	7.0	7.5	7.5	9.0	11.0

Source: Company, Anand Rathi Research

**Fig 2 – Balance sheet (₹m)**

Year-end: Dec	CY10	CY11	CY12	CY13e	CY14e
Share capital	527	527	527	527	527
Reserves & surplus	7,960	9,585	11,026	12,394	14,168
Shareholders' fund	8,487	10,112	11,554	12,922	14,695
Debt	0	-	-	-	-
Minority interests	-	-	-	-	-
Deferred Tax Liab (net)	30	16	84	84	84
<b>Capital employed</b>	<b>8,517</b>	<b>10,128</b>	<b>11,637</b>	<b>13,005</b>	<b>14,779</b>
Net Fixed assets	3,193	3,619	4,072	3,688	3,704
Working capital	3,205	4,265	4,496	4,771	4,725
Cash	2,119	2,244	3,070	4,546	6,349
<b>Capital deployed</b>	<b>8,517</b>	<b>10,128</b>	<b>11,637</b>	<b>13,005</b>	<b>14,779</b>
Net Debt	(2,119.0)	(2,244.4)	(3,069.8)	(4,545.7)	(6,349.4)
No. of shares (m)	52.7	52.7	52.7	52.7	52.7
Net Debt/Equity (%)	(25.0)	(22.2)	(26.6)	(35.2)	(43.2)
W C turn (days)	43	56	73	75	65
Book Value (₹/share)	161	192	219	245	279

Source: Company, Anand Rathi Research

**Fig 3 – Cash-flow statement (₹m)**

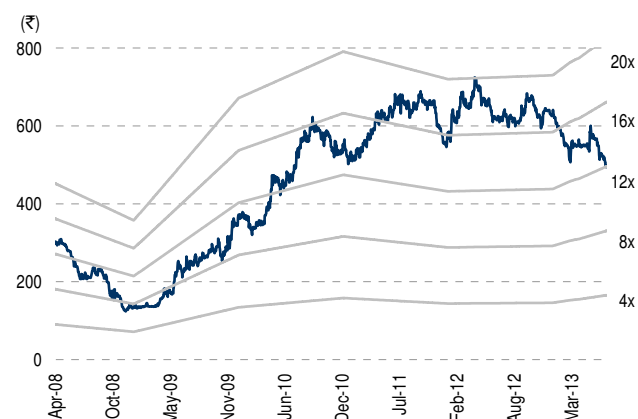
Year-end: Dec	CY10	CY11	CY12	CY13e	CY14e
PAT	1,770	2,085	1,901	1,923	2,452
+Non-cash Items	372	371	503	460	484
Cash profit	2,142	2,456	2,404	2,383	2,936
- Incr./ (Decr.) in WC	1,526	1,060	231	276	(46)
Operating cash-flow	617	1,396	2,174	2,108	2,982
-Capex	959	811	889	76	500
Free cash-flow	(342)	585	1,285	2,031	2,482
-Dividend	430	460	463	555	679
+ Equity raised	(0)	(0)	3	-	(0)
+ Debt raised	(1)	(0)	-	-	-
-Investments	-	-	-	-	-
-Misc. items	-	-	-	-	-
Net cash-flow	(774)	125	825	1,476	1,804
+Opening cash	2,893	2,119	2,244	3,070	4,546
Closing cash	2,119	2,244	3,070	4,546	6,349

Source: Company, Anand Rathi Research

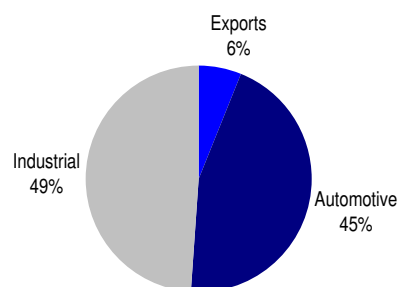
**Fig 4 – Ratio analysis @ ₹490**

Year-end: Dec	CY10	CY11	CY12	CY13e	CY14e
P/E (x)	14.6	12.4	13.6	13.5	10.6
Cash P/E (x)	12.1	10.5	11.1	10.9	8.8
EV/EBITDA (x)	9.5	8.4	9.7	8.8	6.5
EV/Sales (x)	1.1	1.0	1.0	0.9	0.7
P/B (x)	3.1	2.6	2.2	2.0	1.8
RoAE (%)	22.6	22.4	17.5	15.7	17.8
RoACE (%)	27.7	26.0	17.7	16.0	18.4
Dividend yield (%)	1.4	1.5	1.5	1.8	2.2
Dividend payout (%)	24.3	22.0	24.3	28.9	27.7
Debt/Equity (x)	0.0	-	-	-	-
Receivables days	43.0	48.6	57.3	52.0	47.0
Inventory days	37.4	38.9	43.2	39.0	34.6
Payables days	85.5	83.6	92.9	84.0	80.0
Working capital days	43.1	56.4	72.5	74.6	64.8
Fixed asset T/O (x)	7.2	7.1	5.7	5.8	7.2

Source: Company, Anand Rathi Research

**Fig 5 – PE band**


Source: Bloomberg, Anand Rathi Research

**Fig 6 – CY12 revenue break-up**


Source: Company

9 July 2013

## Balkrishna Industries

*Short-term pressure; Buy*Rating: **Buy**

Target Price: ₹310

Share Price: ₹234

### Key takeaways

**Near-term weakness likely.** Balkrishna Industries' 4Q sales tonnage was 6.3% lower yoy due to demand slowing down in Europe and North America. Qoq, however, tonnage improved 13%, better than ~1% qoq growth guided by the management in the previous quarter. The order book position stands at 45-50 days of existing sales. In terms of geographical sales mix, in FY13, Europe constituted 45%, India 9%, North America 25% and the Rest of the World 21%, similar to that in FY12.

**Bhuj plant commercialised.** The new ₹18bn plant at Bhuj partly commenced operations in Sep'12, and is in a scale-up mode. The 10,000-ton capacity was available for production in FY13, which would be ramped up to 60,000 tons in FY14 and the full extent of 120,000 tons by FY15.

**EBITDA margin to be healthy.** On weaker demand (volume dip of 5.4% yoy), we expect revenues to decline 1.6% yoy to ₹8.2bn. Our EBITDA margin expectation is 19.6%, 70bps higher yoy (though 40bps lower yoy). Our EBITDA growth expectation is 2.2% yoy. We expect 2.2% yoy adjusted profit growth, to ₹888m.

**Our take.** We are optimistic regarding the company's prospects, though it may see a near-term weakness in demand. A better product mix, though, would help it counter sluggish revenue growth. Despite demand pressures, FY13 performance has been good. The outlook ahead is expected to improve. We maintain Buy, with a price target of ₹310. At our target, the stock would trade at a standalone PE of 7.25x Sep'14e. At the ruling price, it trades at 6.1x FY14e EPS.

**Risks.** Spike in rubber prices, adverse forex movements and further dip in North American demand.

Key data	BIL IN / BLKI.BO
52-week high / low	₹318 / ₹199
Sensex / Nifty	19496 / 5868
3-m average volume	US\$1.2m
Market cap	₹22.56bn / US\$376.0m
Shares outstanding	96.7m

Shareholding pattern (%)	Mar'13	Dec'12	Sep'12
Promoters	58.30	54.37	54.37
- of which, Pledged	-	-	-
Free Float	41.70	45.63	45.63
- Foreign Institutions	10.27	9.67	10.77
- Domestic Institutions	19.75	19.98	19.92
- Public	11.68	15.98	14.94

Financials (YE Mar)	FY14e	FY15e
Sales (₹m)	37,407	45,461
Net profit (₹m)	3,715	4,553
EPS (₹)	38.4	47.1
Growth (%)	3.3	22.6
PE (x)	6.1	5.0
PBV (x)	1.3	1.0
RoE (%)	21.0	20.6
RoCE (%)	15.2	17.6
Dividend yield (%)	0.7	0.8
Net gearing (%)	45.9	40.2

Source: Anand Rathi Research

Standalone Quarterly results (YE Mar)	1QFY13	1QFY14e	% yoy	FY12	FY13	% yoy
Sales (₹m)	8,313	8,180	-1.6	28,200	32,024	13.6
EBITDA (₹m)	1,571	1,606	2.2	5,058	6,551	29.5
EBITDA margin (%)	18.9	19.6	73bps	17.9	20.5	252bps
Interest (₹m)	61	75	23.2	278	200	-28.0
Depreciation (₹m)	229	305	33.1	831	1,077	29.6
Other income (₹m)	5	8	56.9	33	135	310.0
PBT (₹m)	1,083	1,234	13.9	3,779	5,352	41.6
Tax (₹m)	352	345	-1.9	1,297	1,794	38.3
Tax rate (%)	32.5	28.0	-451bps	34.3	33.5	-81bps
PAT (₹m)	869	888	2.2	2,655	3,597	35.5

Source: Company

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## Quick Glance – Financials and Valuations

**Fig 1 – Income statement (₹m)**

Year-end: Mar	FY11	FY12	FY13	FY14e	FY15e
Net revenues	20,029	28,200	31,906	37,407	45,461
Revenue growth (%)	43.6	40.8	13.1	17.2	21.5
- Op. expenses	16,426	23,142	25,262	29,514	35,687
<b>EBIDTA</b>	<b>3,602</b>	<b>5,058</b>	<b>6,644</b>	<b>7,893</b>	<b>9,774</b>
EBITDA margins (%)	18.0	17.9	20.8	21.1	21.5
- Interest	212	278	200	401	538
- Depreciation	744	831	1,077	1,993	2,491
+ Other income	90	33	42	46	51
- Extraordinaries & others	-14	203	57	0	0
- Tax	894	1,297	1,794	1,830	2,243
Effective tax rate (%)	32.5	34.3	33.5	33.0	33.0
Reported PAT	1,856	2,482	3,558	3,715	4,553
<b>Adjusted PAT</b>	<b>1,845</b>	<b>2,655</b>	<b>3,597</b>	<b>3,715</b>	<b>4,553</b>
PAT growth (%)	-10.8	43.9	35.5	3.3	22.6
Adj. FDEPS (₹/share)	19.1	27.5	37.2	38.4	47.1
Adj. FDEPS growth (%)	-10.8	43.9	35.5	3.3	22.6

Source: Company, Anand Rathi Research

**Fig 2 – Balance sheet (₹m)**

Year-end: Mar	FY11	FY12	FY13	FY14e	FY15e
Share capital	193	193	193	193	193
Reserves & surplus	8,124	10,608	13,996	17,526	21,876
Net worth	8,318	10,801	14,190	17,720	22,069
Total debt	5,981	16,630	20,636	20,345	18,345
Def. tax liab. (net)	570	626	999	1,098	1,208
<b>Capital employed</b>	<b>14,869</b>	<b>28,056</b>	<b>35,824</b>	<b>39,163</b>	<b>41,623</b>
Net fixed assets	7,315	12,780	22,232	25,240	25,749
Investments	322	322	329	354	379
Working capital	7,122	11,380	10,599	8,573	10,608
Cash	110	3,574	2,663	4,996	4,887
<b>Capital deployed</b>	<b>14,869</b>	<b>28,056</b>	<b>35,824</b>	<b>39,163</b>	<b>41,623</b>
Net debt	5,871	13,056	17,972	15,349	13,459
No. of shares (m)	97	97	97	97	97
Net debt/equity (x)	70.6	120.9	126.7	86.6	61.0
W C turn (days)	113	99	80	80	80
Book value (₹/sh)	86	112	147	183	228

Source: Company, Anand Rathi Research

**Fig 3 – Cash-flow statement (₹m)**

Year-end: Mar	FY11	FY12	FY13	FY14e	FY15e
PAT	1,856	2,482	3,558	3,715	4,553
+ Non-cash items	744	831	1,077	1,993	2,491
Cash profit	2,601	3,313	4,636	5,708	7,044
- Incr./decr. in WC	3,764	2,088	-2,019	-2,026	2,035
Operating cash-flow	-1,164	1,225	6,655	7,734	5,009
- Capex	1,227	6,235	10,529	5,000	3,000
Free cash-flow	-2,390	-5,010	-3,874	2,734	2,009
- Dividend	135	145	145	159	175
+ Equity raised	0	0	0	0	0
+ Debt raised	1,338	10,649	4,006	-290	-2,000
- Investments	-485	0	7	25	25
- Misc. items	-771	2,029	891	-74	-81
Net cash-flow	68	3,464	-911	2,333	-110
+ Op. cash & bank bal.	42	110	3,574	2,663	4,996
Cl. Cash & bank bal.	110	3,574	2,663	4,996	4,886

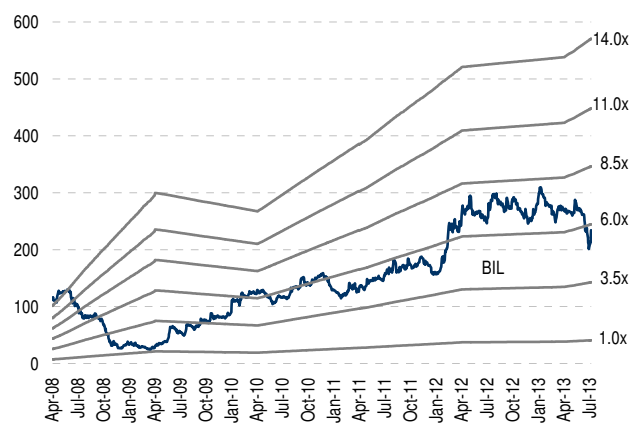
Source: Company, Anand Rathi Research

**Fig 4 – Ratio analysis @ ₹234**

Year-end: Mar	FY11	FY12	FY13	FY14e	FY15e
P/E (x)	12.3	8.5	6.3	6.1	5.0
P/B (x)	2.7	2.1	1.6	1.3	1.0
EV/EBITDA (x)	7.8	7.0	6.1	4.8	3.7
RoE (%)	22.2	24.6	25.3	21.0	20.6
RoCE (%)	19.8	15.2	15.7	15.2	17.6
Dividend yield (%)	0.6	0.6	0.6	0.7	0.8
Dividend payout (%)	8.5	6.3	4.7	5.0	4.5
Debt to equity (x)	0.7	1.5	1.5	1.1	0.8
Core P/E (x)	12.9	8.6	6.4	6.2	5.0
Cash P/E (x)	8.7	6.8	4.9	4.0	3.2
EV/sales (x)	1.4	1.3	1.3	1.0	0.8
Inventory days	75	63	50	50	50
Receivables days	59	63	58	58	58
Payables days	21	26	28	28	28
Fixed Asset T/O (x)	2.0	2.3	1.2	1.2	1.3

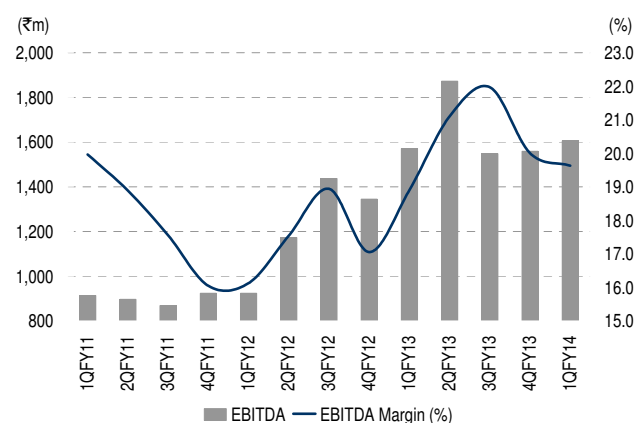
Source: Company, Anand Rathi Research

**Fig 5 – PE band**



Source: Bloomberg, Anand Rathi Research

**Fig 6 – Geographical Mix (%)**



Source: Company, Anand Rathi Research

9 July 2013

## Wabco India

*Near-term bleak; Buy*Rating: **Buy**

Target Price: ₹1,864

Share Price: ₹1,642

### Key takeaways

**Industry slowdown to hit growth.** We expect 8.1% yoy revenue decline, to ₹2.3bn, impacted by the ongoing slump in M&H CV sales. Revenue growth ahead would be buoyed into positive territory by more exports (commencement of the plant at Mahindra World City), sales of spares and software. Recovery in the M&H CV cycle is likely only in FY15.

**Subdued operating performance.** We expect 19.4% EBITDA margin (250bps lower yoy, up 40bps qoq). Our EBITDA decline expectation is 22.3% yoy. We expect 26.5% yoy profit decline, to ₹308m, the fourth successive quarter of qoq profit drop.

**Long-term prospects intact.** 2HFY14 could mark an improvement over the disappointing 2HFY13 performance. We are positive on the company from a long-term perspective, as it would be a key beneficiary of the recovery in the CV cycle in FY15, with mounting exports, potential regulatory changes and good aftermarket potential adding to the positives. Wabco Holdings, the parent, seeks to make Wabco India an R&D hub for its global operations, which augurs well for the company.

**Our take.** The ongoing slowdown in commercial vehicles and Wabco India's heavy dependence on M&H CVs would weigh on its results. Moreover, the recent uptick in the stock price due to the possibility of implementation of mandatory ABS fitment into M&HCVs has driven the stock close to its fair valuations. Due to this, we lower our rating to Hold. However, the lean cost structure, strong parent backing and specialised products would help sustain a strong performance in a recovered cycle. **Risks.** Downside. Above-expected CV slowdown, keener competition and higher input costs, delay in ramp-up of exports. Upside. Mandatory ABS fitment, resulting into a re-rating.

Key data	WIL IN / WABC.BO
52-week high / low	₹1848 / ₹1250
Sensex / Nifty	19496 / 5868
3-m average volume	US\$0.2m
Market cap	₹31.80bn / US\$464.77m
Shares outstanding	19m

Shareholding pattern (%)	Mar '13	Dec '12	Sep '12
Promoters	75.00	75.00	75.00
- of which, Pledged	Nil	Nil	Nil
Free Float	25.00	25.00	25.00
- Foreign Institutions	2.39	2.40	2.38
- Domestic Institutions	8.65	9.05	9.37
- Public	13.96	13.55	13.25

Financials (YE Mar)	FY14e	FY15e
Sales (₹m)	10,924	13,444
Net profit (₹m)	1,464	1,903
EPS (₹)	77.2	100.3
Growth (%)	11.9	30.0
PE (x)	21.3	16.4
PBV (x)	4.0	3.3
RoE (%)	18.7	19.9
RoCE (%)	26.0	27.7
Dividend yield (%)	0.4	0.4
Net gearing (%)	-2.0	-4.7

Source: Anand Rathi Research

Quarterly results (YE Mar)	1QFY13	1QFY14e	% yoy	FY12	FY13	% yoy
Sales (₹m)	2,493	2,290	-8.1	10,516	9,659	-8.1
EBITDA (₹m)	571	443	-22.3	2,265	1,940	-14.3
EBITDA margin (%)	22.9	19.4	-352bps	21.5	20.1	-144bps
Interest (₹m)	0	0	971.4	1	0	-85.2
Depreciation (₹m)	47	70	49.5	156	217	38.9
Other income (₹m)	67	60	-10.9	55	126	128.3
PBT (₹m)	591	433	-26.7	2,162	1,849	-14.5
Tax (₹m)	173	126	-27.3	628	542	-13.8
Tax rate (%)	29.2	29.0	-22bps	29.1	29.3	23bps
PAT (₹m)	418	308	-26.5	1,534	1,308	-14.7

Source: Company

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## Quick Glance – Financials and Valuations

**Fig 1 – Income statement (₹m)**

Year-end: Mar	FY11	FY12	FY13	FY14e	FY15e
Net revenues	8,925	10,457	9,659	10,924	13,444
Revenue growth (%)	46.9	17.2	-7.6	13.1	23.1
- Op. expenses	6,919	8,257	7,719	8,703	10,597
<b>EBIDTA</b>	<b>2,007</b>	<b>2,199</b>	<b>1,940</b>	<b>2,221</b>	<b>2,847</b>
EBITDA margin (%)	22.5	21.0	20.1	20.3	21.2
- Interest expenses	2	1	0	0	0
- Depreciation	144	156	217	304	334
+ Other income	54	121	126	145	167
- Tax	639	628	542	598	777
- Extraordinaries	0	0	0	0	0
Effective tax rate (%)	33.4	29.1	29.3	29.0	29.0
Reported PAT	1,274	1,534	1,308	1,464	1,903
<b>Adjusted PAT</b>	<b>1,274</b>	<b>1,534</b>	<b>1,308</b>	<b>1,464</b>	<b>1,903</b>
PAT growth (%)	63.0	20.4	-14.7	11.9	30.0
FDEPS (₹/share)	67.2	80.9	69.0	77.2	100.3
FDEPS growth (%)	63.0	20.4	-14.7	11.9	30.0

Source: Company, Anand Rathi Research

**Fig 2 – Balance sheet (₹m)**

Year-end: Mar	FY11	FY12	FY13	FY14e	FY15e
Share capital	95	95	95	95	95
Reserves & surplus	3,772	5,196	6,393	7,725	9,473
Net worth	3,867	5,291	6,488	7,820	9,568
Total debt	6	9	0	0	0
Def. tax liab. (net)	82	109	117	117	117
<b>Capital employed</b>	<b>3,954</b>	<b>5,409</b>	<b>6,605</b>	<b>7,937</b>	<b>9,685</b>
Net fixed assets	1,903	2,430	2,889	3,185	3,450
Investments	122	232	255	355	455
Working capital	1,801	1,928	2,470	2,938	3,708
Cash	129	819	991	1,460	2,073
<b>Capital deployed</b>	<b>3,954</b>	<b>5,409</b>	<b>6,605</b>	<b>7,937</b>	<b>9,685</b>
Net Debt	-245	-1,042	-1,246	-1,814	-2,527
No. of shares (m)	19.0	19.0	19.0	19.0	19.0
Net Debt/Equity (%)	-3.2	-15.3	-15.3	-18.7	-21.7
W C turn (days)	70	60	89	89	89
Book value (₹/sh)	204	279	342	412	504

Source: Company, Anand Rathi Research

**Fig 3 – Cash-flow statement (₹m)**

Year-end: Mar	FY11	FY12	FY13	FY14e	FY15e
PAT	1,274	1,534	1,308	1,464	1,903
+ Non-cash items	144	156	217	304	334
Cash profit	1,419	1,691	1,525	1,768	2,237
- Incr./ (Decr.) in WC	963	120	550	487	790
Operating cash-flow	455	1,571	975	1,281	1,447
- Capex	174	680	676	600	600
Free cash-flow	281	891	299	681	847
- Dividend	96	96	95	114	133
+ Equity raised	0	0	0	0	0
+ Debt raised	-66	3	-9	0	0
- Investments	100	110	23	100	100
- Misc. items	-85	-2	0	-1	1
Net cash-flow	104	690	173	469	613
+ Op. cash & bank bal.	24	129	819	991	1,460
Cl. cash & bank bal.	128	819	991	1,460	2,073

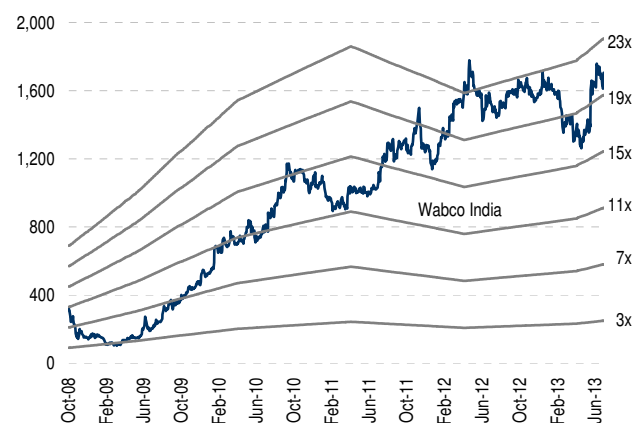
Source: Company, Anand Rathi Research

**Fig 4 – Ratio analysis @ ₹1,642**

Year-end: Mar	FY11	FY12	FY13	FY14e	FY15e
P/E (x)	24.4	20.3	23.8	21.3	16.4
P/B (x)	8.1	5.9	4.8	4.0	3.3
EV/EBITDA (x)	15.4	13.7	15.4	13.2	10.1
RoE (%)	33.0	29.0	20.2	18.7	19.9
RoCE (%)	48.4	40.0	28.0	26.0	27.7
Dividend yield	0.3	0.3	0.3	0.4	0.4
Dividend payout (%)	8.7	7.2	8.4	9.0	8.1
Debt to equity (x)	0.0	0.0	0.0	0.0	0.0
Core P/E (x)	25.5	22.0	26.4	23.6	17.9
Cash P/E	22.0	18.4	20.4	17.6	13.9
EV/sales	3.5	2.9	3.1	2.7	2.1
Inventory days	34	42	54	54	54
Receivables days	72	57	76	76	76
Payables days	35	39	41	41	41
Fixed Asset T/O	2.2	1.9	1.4	1.3	1.3

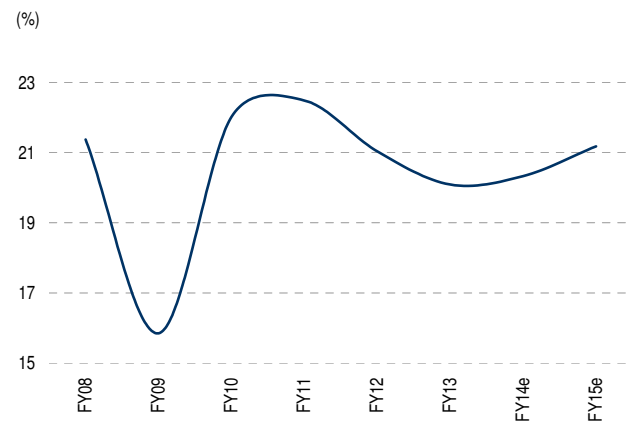
Source: Company, Anand Rathi Research

**Fig 5 – PE band**



Source: Bloomberg, Anand Rathi Research

**Fig 6 – Trend in EBITDA Margin**



Source: Company



9 July 2013

## Swaraj Engines

*A decent quarter likely; Buy*

Rating: **Buy**

Target Price: ₹551

Share Price: ₹501

### Key takeaways

**Tractor growth healthy.** 1Q tractor sales have been good, which could result in ~20% engine volume growth yoy. We expect just 22.4% revenue growth yoy, to ₹1.4bn. In 3Q, the company had scaled a fresh peak in engine sales, which is likely to have been crossed in 1Q. With the second phase of its expansion nearly complete, available capacity is now 75,000 engines a year.

**Steady EBITDA margin.** We expect 15.4% EBITDA margin (up 110bps qoq and 10bps yoy). Our EBITDA growth expectation is 23.2% yoy. We expect 18.6% yoy profit growth, to ₹162m.

**Long-term prospects good.** Growth could be boosted by recovery in tractor cycle (probably in FY14). We expect tractors to do well in the long run, led by more productivity, low penetration, need for mechanization, higher MSPs and policies such as the MGNREG scheme. Higher capacity would help the company bank on this recovery. Short-term macroeconomic headwinds and a high base, however, are near-term constraints.

**Our take.** We expect higher growth, led by recovery in tractors (likely in FY14), which in turn will be owing to: (1) More scope for productivity; (2) low penetration; (3) need for mechanization; (4) higher MSPs; (4) and favourable govt policies such as MGNREG. With this, there could be an increase in the company's capacity. Short-term macroeconomic headwinds and a high base, however, are near-term constraints.

We are positive on Swaraj Engines and maintain Buy, with a price target of ₹551. At the ruling price, the stock trades at PE of 8.5x FY14e earnings. At our target price, it trades at ~10x Sep'14e earnings. **Risks.** Commodity price rises, loss of market share by M&M.

Key data	SWE IN / SWAR.BO
52-week high / low	₹529 / ₹382
Sensex / Nifty	19496 / 5868
3-m average volume	US\$0.1m
Market cap	₹6.26bn / US\$104.33m
Shares outstanding	12.4m

Shareholding pattern (%)	Mar'13	Dec'12	Sep '12
Promoters	50.62	50.62	50.62
- of which, Pledged	-	-	-
Free Float	49.38	49.38	49.38
- Foreign Institutions	1.53	1.53	1.75
- Domestic Institutions	10.90	12.17	13.04
- Public	39.95	35.68	34.59

Financials (YE Mar)	FY14e	FY15e
Sales (₹m)	5,639	6,538
Net profit (₹m)	634	736
EPS (₹)	51.0	59.3
Growth (%)	14.4	16.2
PE (x)	9.8	8.5
PBV (x)	2.6	2.1
RoE (%)	26.6	25.2
RoCE (%)	37.1	35.2
Dividend yield (%)	3.0	3.2
Net gearing (%)	-8.1	-7.8

Source: Anand Rathi Research

Quarterly results (YE Mar)	1QFY13	1QFY14e	% yoy	FY12	FY13	% yoy
Sales (₹m)	1,182	1,446	22.4	4,486	4,790	6.8
EBITDA (₹m)	180	222	23.2	694	715	3.1
EBITDA margin (%)	15.3	15.4	10bps	15.5	14.9	-54bps
Interest (₹m)	0	0	-100.0	1	2	87.5
Depreciation (₹m)	14	23	64.3	43	72	68.1
Other income (₹m)	31	33	7.1	122	153	25.2
PBT (₹m)	197	232	17.8	773	795	2.9
Tax (₹m)	60	70	16.1	245	241	-1.4
Tax rate (%)	30.5	30.0	-46bps	31.6	30.3	-133bps
PAT (₹m)	137	162	18.6	528	554	4.9

Source: Company

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## Quick Glance – Financials and Valuations

**Fig 1 – Income statement (₹m)**

Year-end: Mar	FY11	FY12	FY13	FY14e	FY15e
Net revenues	3,610	4,486	4,790	5,639	6,538
Revenue growth (%)	27.8	24.2	6.8	17.7	16.0
- Op. expenses	3,004	3,792	4,075	4,802	5,557
<b>EBIDTA</b>	<b>607</b>	<b>694</b>	<b>715</b>	<b>836</b>	<b>981</b>
EBITDA margin (%)	16.8	15.5	14.9	14.8	15.0
- Interest expenses	0	1	2	0	0
- Depreciation	45	43	72	91	102
+ Other income	82	122	153	166	179
- Tax	0	0	0	0	0
- Extraordinaries	204	245	241	278	323
Effective tax rate (%)	31.8	31.6	30.3	30.5	30.5
Reported PAT	439	528	554	634	736
Adjusted PAT	439	528	554	634	736
PAT growth (%)	17.6	20.3	4.9	14.4	16.2
FDEPS (₹/share)	35.4	42.5	44.6	51.0	59.3
FDEPS growth (%)	17.6	20.3	4.9	14.4	16.2

Source: Company, Anand Rathi Research

**Fig 2 – Balance sheet (₹m)**

Year-end: Mar	FY11	FY12	FY13	FY14e	FY15e
Share capital	124	124	124	124	124
Reserves & surplus	1,398	1,739	1,813	2,260	2,798
Net worth	1,522	1,863	1,937	2,385	2,922
Total debt	0	0	0	0	0
Def. tax liab. (net)	19	32	63	73	83
<b>Capital employed</b>	<b>1,541</b>	<b>1,895</b>	<b>2,001</b>	<b>2,458</b>	<b>3,005</b>
Net fixed assets	245	505	832	941	1,040
Investments	578	811	742	842	1,142
Working capital	-43	-119	-380	-123	-102
Cash	762	697	807	799	926
<b>Capital deployed</b>	<b>1,541</b>	<b>1,895</b>	<b>2,001</b>	<b>2,458</b>	<b>3,005</b>
Net Debt	12	12	12	12	12
No. of shares (m)	-1,340	-1,508	-1,549	-1,640	-2,067
Net Debt/ Equity (%)	-88.0	-81.0	-79.9	-68.8	-70.8
WC days	7	2	6	6	6
Book value (₹/sh)	122.6	150.0	156.0	192.0	235.2

Source: Company, Anand Rathi Research

**Fig 3 – Cash-flow statement (₹m)**

Year-end: Mar	FY11	FY12	FY13	FY14e	FY15e
PAT	439	528	554	634	736
+ Non-cash items	45	43	72	91	102
Cash profit	484	571	626	724	837
- Incr./Decr. in WC	81	-76	-261	256	21
Operating cash-flow	403	646	887	468	816
- Capex	52	266	398	200	200
Free cash-flow	351	380	489	268	616
- Dividend	124	161	410	186	199
+ Equity raised	0	0	0	0	0
+ Debt raised	0	0	0	0	0
- Investments	1	233	-70	100	300
- Misc. items	28	50	38	-10	-10
Net cash-flow	198	-65	111	-9	127
+ Op. cash & bank bal.	564	762	697	807	799
Cl. cash & bank bal.	762	697	808	799	926

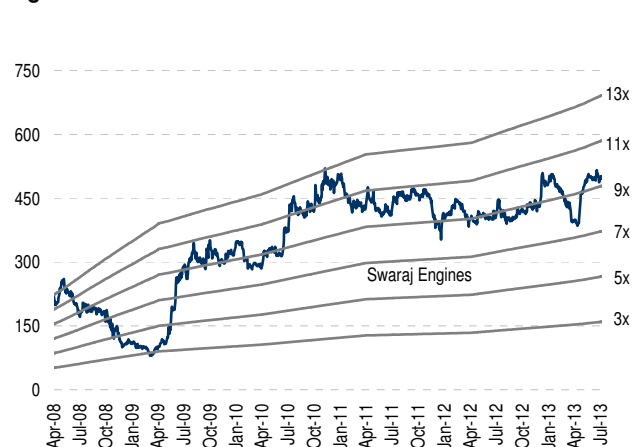
Source: Company, Anand Rathi Research

**Fig 4 – Ratio analysis @ ₹501**

Year-end: Mar	FY11	FY12	FY13	FY14e	FY15e
P/E (x)	14.2	11.8	11.2	9.8	8.5
P/B (x)	4.1	3.3	3.2	2.6	2.1
EV/EBITDA (x)	8.0	6.8	6.5	5.5	4.2
RoE (%)	28.8	28.4	28.6	26.6	25.2
RoCE (%)	41.8	40.8	39.8	37.1	35.2
Dividend yield	2.0	2.6	6.6	3.0	3.2
Dividend payout (%)	28.3	30.6	74.0	29.4	27.0
Debt to equity (%)	0.0	0.0	0.0	0.0	0.0
Core P/E (x)	16.2	13.9	13.8	11.9	10.1
Cash P/E	12.9	10.9	9.9	8.6	7.4
EV/sales	1.4	1.1	1.0	0.8	0.6
Inventory days	35.5	27.2	30.0	30.0	30.0
Receivables days	8.1	9.7	7.0	7.0	7.0
Payables days	36.2	35.4	31.5	31.5	31.5
Asset Turnover	2.3	2.4	2.4	2.3	2.2

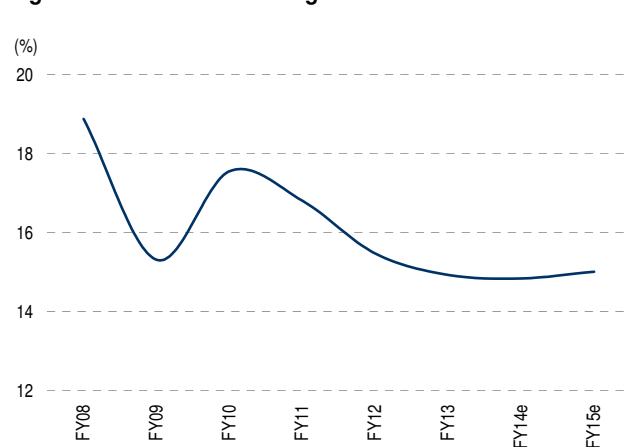
Source: Company, Anand Rathi Research

**Fig 5 – PE band**



Source: Bloomberg, Anand Rathi Research

**Fig 6 – Trend in EBITDA margin**



Source: Company

9 July 2013

## Suprajit Engineering

*Margins expected to be intact despite slowing revenue; Buy*

Rating: **Buy**

Target Price: ₹42

Share Price: ₹35

### Key takeaways

**Sales slowdown.** We expect Suprajit Engineering's sales to increase a mere 3.9% yoy to ₹1bn, affected by the sharp decline in offtake in the two-wheeler segment (OEM clients). Exports would grow at a faster pace on account of the company's export-focused strategy.

**Margin set to decline slightly.** Its EBITDA margin is expected to decline by 124bps yoy, chiefly due to the higher other expenditure expected to come at 20.1% of sales (up 110bps). Ahead, with an expected rise in volumes of high-margin products, the margin would hold at around 16-17%.

**Adj. profit expected to decline 9.5%.** On slowing sales and the consequent drop in margins, adjusted profit is expected to drop 9.5% yoy to ₹89m. The 1QFY14 PAT margin is expected at 8.9% (1QFY13: 10.2%). In 1QFY13 the company had booked profit of ₹52m on sale of land and building.

**Capacity addition, strategic plant location augur well.** Capacity expansion is on track and, by end-1QFY14, capacity touched 150m units. Commercial production at its new unit at the Bommasandra Industrial Area, Bangalore, began in Mar'13. Even Suprajit Automotive, a 100% EOU has commenced trial production at its new plant at Doddaballapur. Land has been allotted in Karnataka for the company's proposed cable plant for one of its key two-wheeler customers. Additional capacities would be of plants to cater to Honda Motors and Scooters India and to Yamaha, by FY15.

**Our take.** Demand for control cables from the two-wheeler segment would be hit during the quarter. Sales growth would be boosted by more revenue from its four-wheeler business (the proportion of sales to M&M is rising). At our target, we value the stock at 9x Mar'14 PE. This translates to FY14e EV/EBITDA of 5.8x. **Risks:** Higher interest rates, commodity price rises and keener competition.

Key data	SEL IN /SUPE.BO
52-week high / low	₹39/ ₹22
Sensex / Nifty	19496 / 5868
3-m average volume	US\$0.1m
Market cap	₹4.2bn / US\$70m
Shares outstanding	120m

Shareholding pattern (%)	Mar '13	Dec '12	Sep '12
Promoters	51.8	51.8	51.8
- of which, Pledged	-	-	-
Free Float	48.2	48.2	48.2
- Foreign Institutions	0.1	0.1	0.1
- Domestic Institutions	1.3	1.3	1.3
- Public	46.8	46.8	46.8

Financials (YE Mar)	FY14e	FY13e
Sales (₹m)	5,469	6,239
Net profit (₹m)	534	625
EPS (₹)	4.5	5.2
Growth (%)	23.0	16.9
PE (x)	7.9	6.7
PBV (x)	2.0	1.6
RoE (%)	28.5	26.7
RoCE (%)	28.4	30.1
Dividend yield (%)	2.3	2.6
Net gearing (%)	37.0	10.6

Source: Anand Rathi Research

Quarterly results (YE Mar)	1Q13	1Q14	% yoy	FY12	FY13	% yoy
Sales (₹m)	958	996	3.9	3,787	4,210	11.2
EBITDA (₹m)	164	159	(3.6)	663	726	9.4
EBITDA margin (%)	17.2	15.9	(124) bps	17.5	17.2	(27) bps
Interest (₹m)	20	24	17.7	85	96	13.2
Depreciation (₹m)	13	17	28.9	51	57	10.8
Other income (₹m)	4	5	18.3	22	31	43.1
PBT (₹m)	187	123	(34.3)	550	657	19.5
Tax (₹m)	52	34	(33.2)	157	183	16.1
Tax rate (%)	27.5	28.0	46 bps	28.6	27.8	(81) bps
Adj. PAT (₹m)	98	89	(9.5)	392	474	20.9

Source: Company

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## Quick Glance – Financials and Valuations

**Fig 1 – Income statement (₹m)**

Year-end: Mar	FY11	FY12	FY13	FY14e	FY15e
Net sales	3,467	4,238	4,625	5,469	6,239
Sales growth (%)	39.5	22.2	9.2	18.2	14.1
- Op. expenses	2,901	3,551	3,853	4,545	5,171
<b>EBIDTA</b>	<b>566</b>	<b>686</b>	<b>772</b>	<b>924</b>	<b>1,069</b>
EBITDA margins (%)	16.3	16.2	16.7	16.9	17.1
- Interest	74	93	102	122	139
- Depreciation	72	75	81	102	112
+ Other income	48	29	28	34	39
- Tax	135	150	197	199	232
Effective tax rate (%)	28.8	27.3	29.5	27.1	27.1
Reported cons.PAT	327	398	471	534	625
Adjusted cons. PAT	327	398	435	534	625
FDEPS (₹/share)	2.7	3.3	3.9	4.5	5.2
Adj. FDEPS (₹/share)	2.7	3.3	3.6	4.5	5.2
Adj. FDEPS growth (%)	47.7	21.6	9.1	23.0	16.9
DPS (₹/share)	0.5	0.7	0.8	0.8	0.9

Source: Company, Anand Rathi Research

**Fig 2 – Balance sheet (₹m)**

Year-end: Mar	FY11	FY12	FY13	FY14e	FY15e
Share capital	120	120	120	120	120
Reserves & surplus	849	1,172	1,547	1,970	2,468
Shareholders' fund	969	1,292	1,667	2,090	2,588
Debt	659	748	1,029	879	679
Deferred Tax Liab (net)	42	46	60	60	60
<b>Capital employed</b>	<b>1,670</b>	<b>2,086</b>	<b>2,757</b>	<b>3,029</b>	<b>3,328</b>
Net Fixed assets	909	1,137	1,365	1,462	1,400
Investments	84	183	454	454	454
- of which liquid					
Working capital	646	735	862	1,008	1,067
Cash	27	31	76	105	406
<b>Capital deployed</b>	<b>1,670</b>	<b>2,086</b>	<b>2,757</b>	<b>3,029</b>	<b>3,328</b>
Net Debt	631.5	717.2	952.8	774.1	273.3
Net Debt/Equity (%)	65.2	55.5	57.1	37.0	10.6
W C turn (days)	62.1	59.5	63.0	62.4	60.7
Book Value (₹/share)	8.1	10.8	13.9	17.4	21.6

Source: Company, Anand Rathi Research

**Fig 3 – Cash-flow statement (₹m)**

Year-end: Mar	FY11	FY12	FY13	FY14e	FY15e
Consolidated PAT	327	398	471	534	625
+Non-cash Items	72	83	96	102	112
Cash profit	399	481	567	637	737
- Incr./Decr) in WC	112	89	127	146	59
Operating cash-flow	288	392	440	491	677
-Capex	265	302	309	200	50
Free cash-flow	23	90	131	291	627
-Dividend	63	91	105	112	126
+ Equity raised	-	-	-	-	-
+ Others	2.1	15.1	9.6	0.0	(0.0)
+ Debt raised	42	90	281	(150)	(200)
-Investments	(11)	100	271	-	-
Net cash-flow	15	4	45	29	301
+Opening cash	12	27	31	76	105
Closing cash	27	31	76	105	406

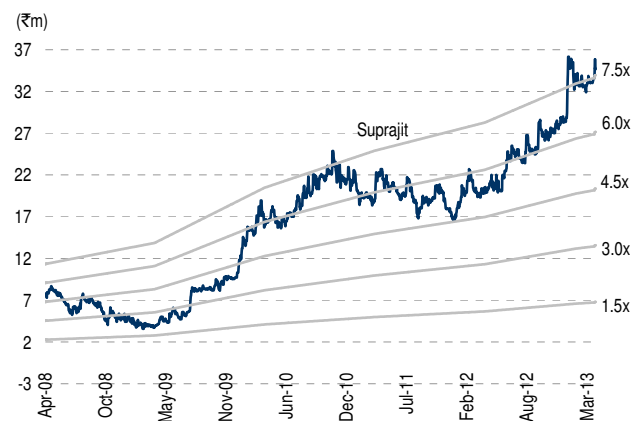
Source: Company, Anand Rathi Research

**Fig 4 – Ratio analysis @ ₹35**

Year-end: Mar	FY11	FY12	FY13	FY14e	FY15e
P/E (x)	12.8	10.5	8.9	7.9	6.7
Cash P/E (x)	10.5	8.7	7.6	6.6	5.7
EV/EBITDA (x)	8.4	6.9	6.1	4.9	3.8
EV/Sales (x)	1.4	1.1	1.0	0.8	0.6
P/B (x)	4.3	3.3	2.5	2.0	1.6
RoAE (%)	39.8	35.2	31.8	28.5	26.7
RoACE (%)	32.6	32.6	28.5	28.4	30.1
Dividend yield (%)	1.3	1.9	2.1	2.3	2.6
Dividend payout (%)	19.2	22.8	22.3	21.0	20.2
Debt/Equity (x)	0.7	0.6	0.6	0.4	0.3
Receivable days	69.0	70.1	71.9	71.0	71.0
Inventory days	28.9	30.9	34.7	32.2	30.0
Payable days	64.8	75.4	84.3	80.0	80.0
Working capital days	62.1	59.5	63.0	62.4	60.7
Fixed asset T/O (x)	4.3	4.1	3.7	3.9	4.4

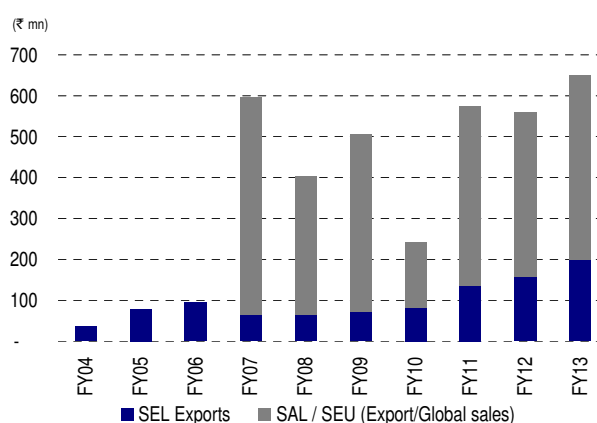
Source: Company, Anand Rathi Research

**Fig 5 – PE band**



Source: Bloomberg, Anand Rathi Research

**Fig 6 – Export revenues**



Source: Company

9 July 2013

## Ceat

*Improved trajectory; Hold*Rating: **Hold**

Target Price: ₹117

Share Price: ₹107

### Key takeaways

**Tonnage sales to improve.** We expect sales tonnage for Ceat to improve 10.7% yoy, to ~57,000 MT. We expect revenues to grow 8.4% yoy to ₹12.9bn. The company had earlier mentioned that in 1HCY13 it expects subdued growth in the range of 0—5%, but now looks set to improve upon that projection.

**Margins better in quality.** In 4QFY13, the company's EBITDA margin was 10.6%, up 210bps qoq, flat yoy. In 1QFY14, however, we expect EBITDA margin at 10%, up 100bps yoy. EBITDA growth is expected to be 20.3% yoy. Ahead, higher input costs can act as a dampener. Due to lower interest cost, we expect adjusted profit to increase 64% yoy, to ₹422m.

**Product mix set to change.** Truck tyres currently constitute ~60% of Ceat's annual sales, but that is expected to change and come down to 50% ahead. As the company changes its product mix, it is also changing its distribution strategy by opening up another channel for the two-wheeler segment, one on which it will have greater control.

**Our take.** In 1QFY14, we expect Ceat to benefit from lower prices of rubber, although the benefit is likely at a diminishing rate. However, demand is yet to pick up significantly.

We maintain Hold on Ceat with a price target of ₹117 based upon 3x FY14e PE. At CMP, Ceat is trading at 2.5x FY14e EPS.

**Risks.** Downside. Spike in rubber prices, late recovery in truck-tyre replacement demand, high leverage and price wars. Upside. Decline in rubber prices, faster-than-expected pick-up in replacement demand, better-than-expected growth in overseas operations.

Key data	CEAT IN / CEAT.BO
52-week high / low	₹125 / ₹87
Sensex / Nifty	19496 / 5868
3-m average volume	US\$0.0m
Market cap	₹3.70bn / US\$61.67m
Shares outstanding	34.2m

Shareholding pattern (%)	Mar'13	Dec'12	Sep'12
Promoters	54.24	52.87	52.87
- of which, Pledged	-	-	-
Free Float	45.76	47.13	47.13
- Foreign Institutions	0.03	1.49	1.58
- Domestic Institutions	11.26	10.96	10.98
- Public	34.47	34.68	34.57

Financials (YE Mar)	FY14e	FY15e
Sales (₹m)	53,060	59,258
Net profit (₹m)	1,338	1,495
EPS (₹)	39.1	43.7
Growth (%)	7.1	11.8
PE (x)	2.7	2.5
PBV (x)	0.4	0.4
RoE (%)	15.5	15.0
RoCE (%)	22.1	23.3
Dividend yield (%)	4.2	4.7
Net gearing (%)	74.9	76.7

Source: Anand Rathi Research

Standalone Quarterly results (YE Mar)	1QFY13	1QFY14e	% yoy	FY12	FY13	% yoy
Sales (₹m)	11,891	12,895	8.4	44,720	48,815	9.2
EBITDA (₹m)	1,069	1,286	20.3	2,556	4,245	66.1
EBITDA margin (%)	9.0	10.0	98bps	5.7	8.7	298bps
Interest (₹m)	530	472	-11.0	1,922	1,944	1.2
Depreciation (₹m)	192	215	11.9	705	782	10.9
Other income (₹m)	34	31	-9.9	200	215	7.3
PBT (₹m)	381	630	65.4	98	1,457	1,390.2
Tax (₹m)	124	208	68.3	23	394	1,650.2
Tax rate (%)	32.4	33.0	57bps	23.0	27.0	401bps
PAT (₹m)	257	422	64.0	96	1,249	NM

Source: Company

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## Quick Glance – Financials and Valuations

**Fig 1 – Income statement (₹m)**

Year-end: Mar	FY11	FY12	FY13	FY14e	FY15e
Net revenues	35,164	44,720	48,815	53,060	59,258
Revenue growth (%)	25.2	27.2	9.2	8.7	11.7
- Op. expenses	33,754	42,165	44,570	48,391	54,162
<b>EBIDTA</b>	<b>1,409</b>	<b>2,556</b>	<b>4,245</b>	<b>4,669</b>	<b>5,096</b>
EBITDA margin (%)	4.0	5.7	8.7	8.8	8.6
- Interest expenses	785	1,922	1,944	2,235	2,459
- Depreciation	342	705	782	812	848
+ Other income	128	200	215	236	260
- Extraordinaries	78	32	277	0	0
- Tax	110	23	394	520	553
Effective tax rate (%)	33.0	23.0	27.0	28.0	27.0
Reported PAT	223	75	1,064	1,338	1,495
<b>Adjusted PAT</b>	<b>301</b>	<b>96</b>	<b>1,249</b>	<b>1,338</b>	<b>1,495</b>
PAT growth (%)	-81.3	-68.0	1,194.9	7.1	11.8
FDEPS (₹/share)	8.8	2.8	36.5	39.1	43.7
FDEPS growth (%)	-81.3	-68.0	1,194.9	7.1	11.8

Source: Company, Anand Rathi Research

**Fig 2 – Balance sheet (₹m)**

Year-end: Mar	FY11	FY12	FY13	FY14e	FY15e
Share capital	342	342	342	342	342
Reserves & surplus	6,088	6,185	7,088	8,271	9,596
Net worth	6,491	6,563	7,466	8,650	9,974
Total debt	9,050	10,722	9,396	9,096	8,596
Def. tax liab. (net)	241	224	745	745	745
<b>Capital employed</b>	<b>15,782</b>	<b>17,510</b>	<b>17,608</b>	<b>18,492</b>	<b>19,316</b>
Net fixed assets	14,684	15,375	15,129	15,317	15,468
Investments	865	745	447	149	-148
Working capital	-247	1,056	1,219	1,432	1,801
Cash	479	334	814	1,594	2,195
<b>Capital deployed</b>	<b>15,782</b>	<b>17,510</b>	<b>17,608</b>	<b>18,492</b>	<b>19,316</b>
Net Debt	7,705	9,643	8,136	7,353	6,550
No. of shares (m)	34.2	34.2	34.2	34.2	34.2
Net Debt/ Equity (%)	225.0	281.6	237.6	214.7	191.3
WC days	31	44	29	29	29
Book value (₹/sh)	190	192	218	253	291

Source: Company, Anand Rathi Research

**Fig 3 – Cash-flow statement (₹m)**

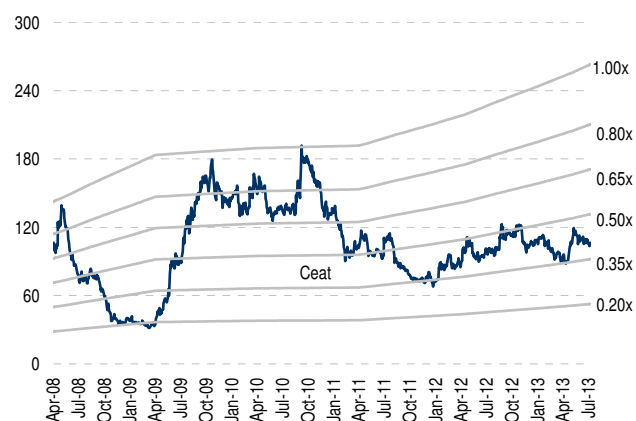
Year-end: Mar	FY11	FY12	FY13	FY14e	FY15e
PAT	223	75	1,064	1,338	1,495
+ Non-cash items	342	705	782	812	848
Cash profit	565	780	1,845	2,150	2,344
- Incr./Decr. in WC	-1,354	1,266	703	255	412
Operating cash-flow	1,918	-486	1,142	1,895	1,932
- Capex	4,987	1,395	535	1,000	1,000
Free cash-flow	-3,069	-1,881	607	895	932
- Dividend	68	34	137	154	171
+ Equity raised	0	0	0	0	0
+ Debt raised	2,511	1,673	-1,326	-300	-500
- Investments	280	-120	-298	-298	-298
- Misc. items	15	22	-1,037	-42	-42
Net cash-flow	-921	-144	479	780	601
+ Op. cash & bank bal.	1,400	479	334	814	1,594
Cl. cash & bank bal.	479	335	813	1,594	2,195

Source: Company, Anand Rathi Research

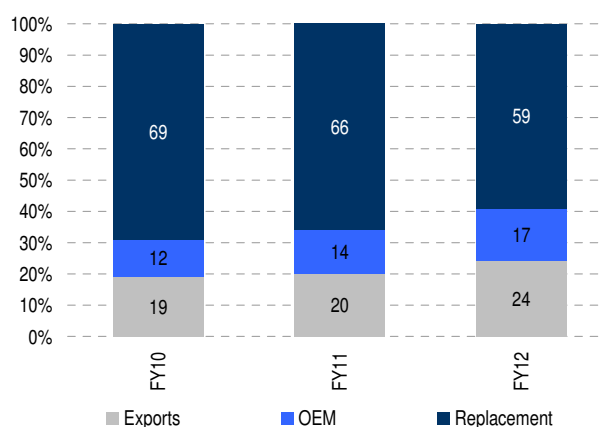
**Fig 4 – Ratio analysis @ ₹107**

Year-end: Mar	FY11	FY12	FY13	FY14e	FY15e
P/E (x)	12.2	38.0	2.9	2.7	2.5
P/B (x)	0.6	0.6	0.5	0.4	0.4
EV/EBITDA (x)	8.1	5.2	2.8	2.4	2.0
RoE (%)	4.6	1.5	16.7	15.5	15.0
RoCE (%)	7.6	11.7	20.9	22.1	23.3
Dividend yield	1.9	0.9	3.7	4.2	4.7
Dividend payout (%)	35.3	52.3	14.8	13.2	13.2
Debt to equity (%)	1.4	1.6	1.3	1.1	0.9
Core P/E (x)	20.8	-57.4	3.4	3.2	2.8
Cash P/E	5.7	4.6	1.8	1.7	1.6
EV/sales	0.4	0.3	0.3	0.2	0.2
Inventory days	59	47	40	40	40
Receivables days	50	50	48	48	48
Payables days	77	54	58	58	58
Asset Turnover	3.3	3.1	3.2	3.5	3.8

Source: Company, Anand Rathi Research

**Fig 5 – PB band**


Source: Bloomberg, Anand Rathi Research

**Fig 6 – Segment-wise mix (% of revenues)**


Source: Company

9 July 2013

## Gabriel India

*More weakness in store; Buy*

Rating: **Buy**

Target Price: ₹27

Share Price: ₹19

### Key takeaways

**OEM sales likely to improve.** Decline in demand across most auto segments would bear down on Gabriel India's (Gabriel) 1Q results. After robust growth over the past three years in autos (22% CAGR), FY13 OEM growth rates were subdued (at ~3%), continuing into 1Q. However, the company would outstrip this growth rate as more revenues from exports and replacement segment help counter the OEM slowdown. We expect the company to report above-estimated OEM sales growth of 2.6% yoy in 1Q.

**EBITDA to come below estimates.** We expect EBITDA margin to be 6.1%, lower 30bps qoq (90bps yoy). Though improvement in gross margin is likely, other expenditure and staff expenses could be higher. EBITDA is expected to be down 11.2% yoy. We expect profit to dip 16.2% yoy, to ₹76m.

**Exports, replacement key to growth.** The company expects strong growth in exports in the next two years, at 40% (despite more than 100% in the two previous years). Replacement sales is another high-growth area. Management expects these two segments to constitute 25% of overall revenues in the next 2-3 years (from 14.3% currently).

**Our take.** Gabriel has started focusing sharply on innovation, reducing costs, working capital and overheads, and improving productivity. Measures have also been taken on the working-capital side because of which there has been significant improvement. Hence, Gabriel could reduce inventories and receivables by ₹210m. Decent profitability and lower interest cost also helped reduce its debt by ~₹400m in FY13. Additions to the customer base, exports and steady replacement sales are future growth drivers. We maintain Buy, with price target of ₹27 (at PE of 7x Sep'14e; the present PE is 5.5x FY14e).

**Risks.** Inadequate price hikes by OEMs, increase in commodity prices, prolonged demand slump, delay in ramp-up by HMSI.

Key data	GABR IN / GABR.BO
52-week high / low	₹33/ ₹18
Sensex / Nifty	19496 / 5868
3-m average volume	US\$0.2m
Market cap	₹2.66bn / US\$44.33m
Shares outstanding	143.7m

Shareholding pattern (%)	Mar '13	Dec '12	Sep '12
Promoters	54.63	54.63	54.63
- of which, Pledged	-	-	-
Free Float	45.37	45.37	45.37
- Foreign Institutions	5.54	5.54	5.54
- Domestic Institutions	0.74	0.73	0.43
- Public	39.09	39.10	39.40

Financials (YE Mar)	FY14e	FY15e
Sales (₹m)	13,501	15,709
Net profit (₹m)	492	599
EPS (₹)	3.4	4.2
Growth (%)	13.2	21.7
PE (x)	5.5	4.6
PBV (x)	0.9	0.8
RoE (%)	17.0	18.3
RoCE (%)	19.5	21.8
Dividend yield (%)	5.3	6.6
Net gearing (%)	42.7	42.7

Source: Anand Rathi Research

Quarterly results (YE Mar)	1QFY13	1QFY14e	% yoy	FY12	FY13	% yoy
Sales (₹m)	2,925	3,000	2.6	11,311	12,053	6.6
EBITDA (₹m)	205	182	-11.2	949	823	-13.2
EBITDA margin (%)	7.0	6.1	-94bps	8.4	6.8	-156bps
Interest (₹m)	37	28	-23.5	170	122	-28.5
Depreciation (₹m)	70	72	3.0	277	273	-1.7
Other income (₹m)	9	11	26.4	45	42	-6.9
PBT (₹m)	71	93	31.4	624	412	-34.0
Tax (₹m)	13	17	32.7	94	30	-67.5
Tax rate (%)	17.8	18.0	18bps	15.0	7.4	-763bps
PAT (₹m)	91	76	-16.2	461	435	-5.7

Source: Company

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## Quick Glance – Financials and Valuations

**Fig 1 – Income statement (₹m)**

Year-end: Mar	FY11	FY12	FY13	FY14e	FY15e
Net revenues	9,701	11,282	12,053	13,501	15,709
Revenue growth (%)	38.0	16.3	6.8	12.0	16.4
- Op. expenses	8,821	10,363	11,230	12,530	14,533
<b>EBIDTA</b>	<b>879</b>	<b>919</b>	<b>824</b>	<b>971</b>	<b>1,176</b>
EBITDA margins (%)	9.1	8.1	6.8	7.2	7.5
- Interest	163	170	122	114	116
- Depreciation	219	276	273	312	347
+ Other income	94	74	42	49	56
- Extraordinaries & others	17	-77	59	0	0
- Tax	120	94	30	101	169
Effective tax rate (%)	21.0	15.0	7.4	17.0	22.0
Reported PAT	453	531	381	492	599
Adjusted PAT	471	461	435	492	599
PAT growth (%)	95.8	-2.0	-5.7	13.2	21.7
Adj. FDEPS (₹/share)	3.3	3.2	3.0	3.4	4.2
Adj. FDEPS growth (%)	95.8	-2.0	-5.7	13.2	21.7

Source: Company, Anand Rathi Research

**Fig 2 – Balance sheet (₹m)**

Year-end: Mar	FY11	FY12	FY13	FY14e	FY15e
Share capital	72	72	144	144	144
Reserves & surplus	1,794	2,241	2,425	2,749	3,139
Net worth	1,865	2,312	2,569	2,893	3,283
Total debt	1,512	1,230	657	607	607
Def. tax liab. (net)	157	133	111	136	161
<b>Capital employed</b>	<b>3,534</b>	<b>3,676</b>	<b>3,336</b>	<b>3,636</b>	<b>4,050</b>
Net fixed assets	2,209	2,175	2,618	2,806	3,058
Investments	133	0	0	0	0
Working capital	1,153	1,445	648	757	924
Cash	39	56	70	72	67
<b>Capital deployed</b>	<b>3,534</b>	<b>3,676</b>	<b>3,336</b>	<b>3,636</b>	<b>4,050</b>
Net debt	1,339	1,174	587	534	540
No. of shares (m)	71.9	71.9	143.7	143.7	143.7
Net debt/equity (x)	0.7	0.5	0.2	0.2	0.2
W C turn (days)	18.7	35.0	27.7	27.7	27.7
Book value (₹/sh)	26.0	32.2	17.9	20.1	22.8

Source: Company, Anand Rathi Research

**Fig 3 – Cash-flow statement (₹m)**

Year-end: Mar	FY11	FY12	FY13	FY14e	FY15e
PAT	453	531	381	492	599
+ Non-cash items	219	276	273	312	347
Cash profit	672	807	654	805	946
- Incr./decr. in WC	264	292	-797	109	167
Operating cash-flow	409	515	1,451	695	779
- Capex	462	243	715	500	600
Free cash-flow	-53	272	735	195	179
- Dividend	72	72	108	144	180
+ Equity raised	0	0	72	0	0
+ Debt raised	24	-281	-573	-50	0
- Investments	0	-133	0	0	0
- Misc. items	-7	35	112	-1	5
Net cash-flow	-95	16	14	3	-5
+ Op. cash & bank bal.	134	39	56	70	72
Cl. Cash & bank bal.	39	56	70	72	67

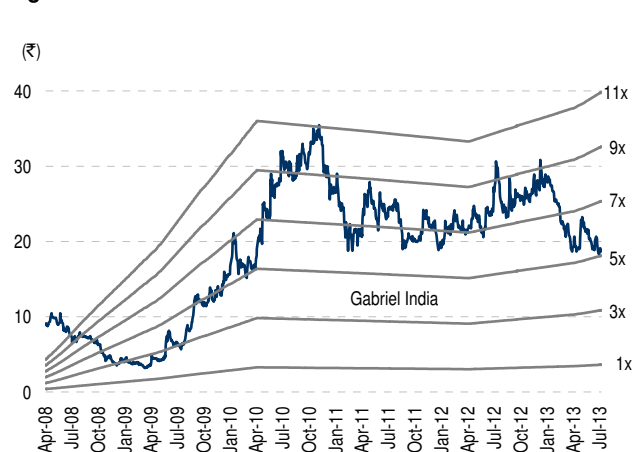
Source: Company, Anand Rathi Research

**Fig 4 – Ratio analysis @ ₹19**

Year-end: Mar	FY11	FY12	FY13	FY14e	FY15e
P/E (x)	5.8	5.9	6.3	5.5	4.6
P/B (x)	0.7	0.6	1.1	0.9	0.8
EV/EBITDA (x)	4.9	4.4	4.7	4.0	3.3
RoE (%)	25.2	19.9	16.9	17.0	18.3
RoCE (%)	21.3	19.5	17.8	19.5	21.8
Dividend yield (%)	5.3	5.3	3.9	5.3	6.6
Dividend payout (%)	17.8	18.1	28.9	34.1	35.0
Debt to equity (x)	0.9	0.6	0.5	0.4	0.4
Core P/E (x)	6.8	6.7	6.8	6.0	4.9
Cash P/E (x)	2.0	1.7	4.2	3.4	2.9
EV/sales (x)	0.5	0.4	0.3	0.3	0.3
Inventory days	39	40	34	34	34
Receivables days	36	41	36	36	36
Payables days	56	46	42	42	42
Fixed asset T/O (x)	2.5	2.8	2.6	2.6	2.7

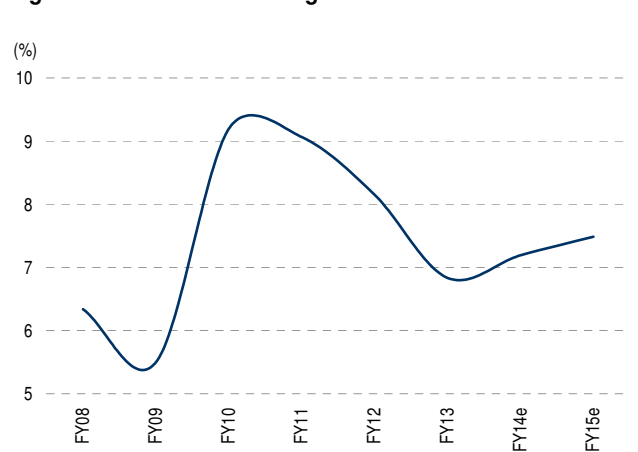
Source: Company, Anand Rathi Research

**Fig 5 – P/E band**



Source: Bloomberg, Anand Rathi Research

**Fig 6 – Trend in EBITDA margin**



Source: Company, Anand Rathi Research

9 July 2013

## Phillips Carbon Black

*Inexpensive valuations; upgrade to Buy*Rating: **Buy**

Target Price: ₹74

Share Price: ₹52

### Key takeaways

**Hit by slowdown in domestic market.** We expect Phillips Carbon Black to report 1QFY14 volumes declining 12.8% yoy (but qoq rising 0.6%). The decline would be chiefly due to the drop in demand in export markets and more imports by domestic clients. On account of the fall in volumes we expect revenue to decline 11.3% yoy. The contribution from power could also decline, by 30% yoy, to ₹183m.

**Disappointment in carbon-black.** We expect a 5.6% EBITDA margin in 1QFY14 versus 5.8% in 1QFY13. This decline would chiefly be due to the rise in raw material costs. Carbon black imports are squeezing the company. We expect other expenditure to be up 380bps to 13%, and the margin up 10bps qoq.

**Little profit expected, profit to decline 59.8% yoy.** We expect 1QFY14 profit to drop by a steep 59.8%. We expect the revenue decline to have dragged the profit down. The company was struck by dumping by China and other countries. The government has imposed a 30% safeguard duty on carbon black imports from China. Though this would help reduce imports over time, we do not see any benefit in 1Q.

**Our take.** Since the 30% safeguard duty was imposed in Oct'12 (till Oct'13) and 25% on CB imports from China till 31 Dec'13, such imports have slid, but imports from Korea have now risen. The 50,000-ton Cochin plant CB expansion was completed in May'13. An MoU has been signed with the Tamil Nadu government to set up a new CB and power plant; environment clearances are in progress. In view of global developments, project work at Vietnam is under review. We value the stock at a target PE of 4.5x FY14e earnings. We upgrade it to a Buy, at a target of ₹74. **Risks.** A slowdown with original equipment manufacturers and adverse forex movement.

Key data	PHCB IN / PHIL.BO
52-week high / low	₹118/ ₹50
Sensex / Nifty	19496 / 5868
3-m average volume	US\$0.2m
Market cap	₹1.8bn / US\$29m
Shares outstanding	34.5m

Shareholding pattern (%)	Mar'13	Dec'12	Sep'12
Promoters	52.3	52.3	52.3
- of which, Pledged	-	-	-
Free Float	47.7	47.7	47.7
- Foreign Institutions	10.1	10.1	10.1
- Domestic Institutions	5.8	6.3	6.3
- Public	31.8	31.3	31.3

Financials (YE Mar)	FY14e	FY15e
Sales (₹m)	26,236	29,839
Net profit (₹m)	571	1,071
EPS (₹)	16.6	31.1
Growth (%)	(376.6)	87.6
PE (x)	3.1	1.7
PBV (x)	0.3	0.2
RoE (%)	9.3	15.8
RoCE (%)	9.2	12.8
Dividend yield (%)	7.7	7.7
Net gearing (%)	120.5	113.5

Source: Anand Rathi Research

Quarterly results (YE Mar)	1QFY13	1QFY14	% yoy	FY12	FY13	% yoy
Sales (₹m)	6210	5508	(11.3)	21,868	22,849	4.5
EBITDA (₹m)	357	311	(13.0)	2,092	736	(64.8)
EBITDA margin (%)	5.8	5.6	(11) bps	9.6	3.2	(634) bps
Interest (₹m)	189	170	(10.0)	676	721	6.7
Depreciation (₹m)	115	134	16.7	486	508	4.5
Other income (₹m)	28	25	(11.0)	104	93	(11.2)
PBT (₹m)	82	32	(61.0)	1034	-400	(138.7)
Tax (₹m)	16	5	(66.2)	163	(194)	(219.0)
Tax rate (%)	19.6	17.0	(258) bps	15.8	48.5	-
PAT (₹m)	66	26	(59.8)	871	-206	(123.7)

Source: Company

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## Quick Glance – Financials and Valuations

**Fig 1 – Income statement (₹m)**

Year-end: Mar	FY11	FY12	FY13e	FY14e	FY15e
Net sales	16,902	21,868	22,849	26,236	29,839
Sales growth (%)	37	29	4	15	14
- Op. expenses	14,688	19,776	22,113	24,294	27,209
EBIDTA	2,214	2,092	736	1,942	2,630
EBITDA margins (%)	13	10	3	7	9
- Interest	274	676	721	748	775
- Depreciation	386	486	508	566	610
+ Other income	89	105	93	86	93
- Tax	481	163	(194)	143	268
Tax rate (%)	29	16	48	20	20
PAT	1,163	871	(206)	571	1,071
PAT growth (%)	(5)	(25)	(124)	(377)	88
FDEPS (₹/share)	35	25	(6)	17	31
FDEPS growth (%)	(19)	(28)	(124)	(377)	88
CEPS (₹/share)	47	39	9	33	49
DPS (₹/share)	5	4	0.5	4	4

Source: Company, Anand Rathi Research

**Fig 2 – Balance sheet (₹m)**

Year-end: Mar	FY11	FY12	FY13e	FY14e	FY15e
Share capital	332	345	345	345	345
Reserves & surplus	4,891	5,773	5,567	5,984	6,895
Shareholders' fund	5,223	6,118	5,911	6,328	7,239
Debt	5,014	6,554	8,210	8,310	8,610
Deferred Tax/ others	569	729	527	527	527
<b>Capital employed</b>	<b>10,806</b>	<b>13,401</b>	<b>14,647</b>	<b>15,164</b>	<b>16,375</b>
Fixed assets	7,842	8,124	9,023	8,850	9,040
Investments	576	724	724	724	724
of which, Liquid	27	-	-	-	-
Working capital	1,736	4,418	4,210	4,906	6,215
Cash	653	135	690	685	396
<b>Capital deployed</b>	<b>10,806</b>	<b>13,401</b>	<b>14,647</b>	<b>15,164</b>	<b>16,375</b>
No. of shares (m)	33	34	34	34	34
Net Debt/Equity (%)	84	105	127	120	113
W C turn (days)	33	51	69	63	68
Book value (₹/share)	157	178	172	184	210

Source: Company, Anand Rathi Research

**Fig 3 – Cash-flow statement (₹m)**

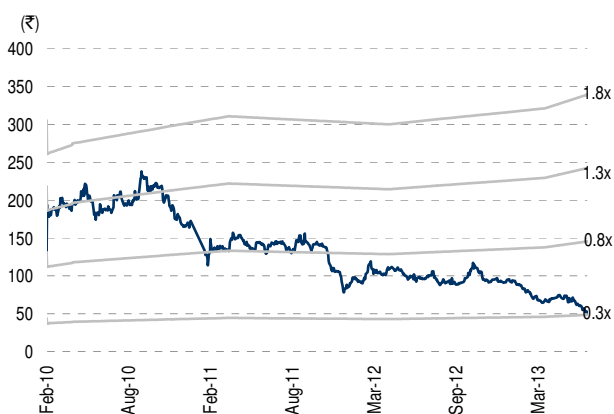
Year-end: Mar	FY11	FY12	FY13e	FY14e	FY15e
Reported PAT	1,160	871	(206)	571	1,071
+ Depreciation	386	486	508	566	610
Cash profit	2,019	1,517	99	1,137	1,681
-Incr./ (Decr.) in WC	404	2,683	(208)	695	1,309
Operating cash-flow	1,615	(1,166)	307	442	371
-Capex	1,373	768	1,407	393	800
Free cash-flow	242	(1,934)	(1,100)	49	(429)
-Dividend	233	203	40	210	160
+ Equity raised	1,052	226	39	56	-
+ Debt raised	(540)	1,540	1,655	100	300
-Investments	198	148	-	-	-
-Misc. items	-	-	-	-	-
Net cash-flow	323	(518)	555	(4)	(289)
+Opening cash	330	653	135	690	685
Closing cash	653	135	690	685	396

Source: Company, Anand Rathi Research

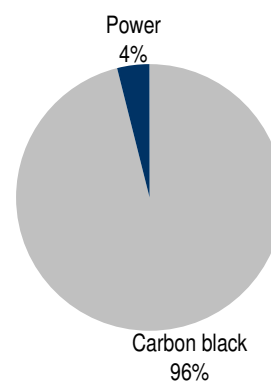
**Fig 4 – Ratio analysis @ ₹52**

Year-end: Mar	FY11	FY12	FY13e	FY14e	FY15e
P/E	1.5	2.1	(8.7)	3.1	1.7
P/BV	0.3	0.3	0.3	0.3	0.2
EV/EBITDA	2.8	3.9	12.7	4.8	3.8
EV/Sales	0.4	0.4	0.4	0.4	0.3
Cash P/E	1.1	1.3	5.9	1.6	1.1
Dividend Yield (%)	9.6	7.7	1.0	7.7	7.7
Dividend Payout (%)	16.7	18.4	(9.7)	28.1	15.0
RoE	27.5	15.4	(3.4)	9.3	15.8
RoCE	18.6	13.3	1.6	9.2	12.8
Debtors (Days)	71	76	85	81	84
Inventory (Days)	49	51	69	70	65
Creditors (Days)	163	148	160	165	158
Working Cap (Days)	33	51	69	63	68
Asset Turnover (x)	2.2	2.7	2.5	3.0	3.3
Debt/Equity (x)	1.0	1.1	1.4	1.3	1.2

Source: Company, Anand Rathi Research

**Fig 5 – PBV band**


Source: Bloomberg, Anand Rathi Research

**Fig 6 – FY13 revenue mix**


Source: Company



9 July 2013

## Setco Automotive

*OE slowdown to eat into sales; Hold*

### Key takeaways

**Sales slowdown mirrors industry slump.** We expect Setco Automotive's sales to decline 5% yoy to ₹706m, affected by the sharp decline in offtake in the M&H CV OEM segment; sales here declined 38% in 4QFY13. To counter the slowdown in domestic OEM sales, management is now focusing on exports and the aftermarket. In FY13, the aftermarket and exports grew 16% and 31% respectively, while OE sales declined 31%.

**Margins and profitability to be hit.** After the EBITDA margin dropped to a multi-year low of 10.3% in 4Q, we expect it to recover to 13.1% though it would still be down 195bps yoy. EBITDA is expected to dip 17.3% yoy owing to lower fixed-cost absorption. Hence, we expect PAT to decline 35.8%, to ₹39.9m. With the expected rise in volumes of high-margin aftermarket clutches, the margin would hold at the present level.

**Long-term prospects good.** We expect 1HFY14 to be a disappointing year in terms of financial performance. However, in 2HFY14, we expect the company to be a key beneficiary of the recovery in the CV cycle, with increasing exports and good aftermarket potential as added positives.

**Our take.** We expect the company's financial performance to disappoint in 1HFY14 as well. In 2HFY14, however, we expect Setco to be a key beneficiary of the recovery and upswing in the CV cycle. Increasing exports and sound aftermarket potential would be added positives. The company's short-term prospects continue to be dim. We maintain our Hold rating on the stock. We assign a one-year-forward-PE of 7x (Sep'13) and arrive at a target of ₹104. **Risks.** Slump in auto demand, rise in commodity prices, insufficient price hikes by OEMs.

Quarterly results (YE Mar)	1QFY13	1QFY14	% yoy	FY12	FY13	% yoy
Sales (₹m)	743	706	(5.0)	3,671	3,408	(7.2)
EBITDA (₹m)	112	92	(17.3)	677	478	(29.5)
EBITDA margin (%)	15.0	13.1	(195)bps	18.5	14.0	(443)bps
Interest (₹m)	42	41	(1.7)	166	174	4.9
Depreciation (₹m)	21	27	26.8	81	92	13.9
Other income(₹m)	19	20	4.7	20	85	336.9
PBT (₹m)	68	44	(34.5)	451	298	(34.0)
Tax (₹m)	6	4	(20.8)	7	24	249.3
Tax rate (%)	8.3	10.0	174bps	1.5	8.1	657bps
PAT (₹m)	62.2	39.9	(35.8)	443.9	273.4	(38.4)

Source: Company

Key data	SETC IN /SETC.BO
52-week high / low	₹153/ ₹94
Sensex / Nifty	19496 / 5868
3-m average volume	US\$0.1m
Market cap	₹2.5bn / US\$42m
Shares outstanding	26.6m

Shareholding pattern (%)	Mar'13	Dec'12	Sep'12
Promoters	63.2	63.2	63.2
- of which, Pledged	-	-	-
Free Float	36.8	36.8	36.8
- Foreign Institutions	4.6	4.6	4.6
- Domestic Institutions	0.0	0.0	0.0
- Public	32.2	32.2	32.2

Financials (YE Mar)	FY14e	FY15e
Sales (₹m)	4,790	5,497
Net profit (₹m)	345	446
EPS (₹)	13.0	16.8
Growth (%)	32.0	29.3
PE (x)	7.2	5.6
PBV (x)	1.2	1.0
RoE (%)	17.8	20.0
RoCE (%)	17.1	19.0
Dividend yield (%)	3.4	4.1
Net gearing (%)	80.1	66.6

Source: Anand Rathi Research

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## Quick Glance – Consolidated Financials and Valuations

**Fig 1 – Income statement (₹m)**

Year-end: Mar	FY11	FY12	FY13	FY14e	FY15e
Net sales	3,529	4,231	3,994	4,790	5,497
Sales growth (%)	37.9	19.9	-5.6	19.9	14.8
- Op. expenses	2,881	3,479	3,427	4,059	4,632
EBIDTA	648	752	567	731	865
EBITDA margins (%)	18.4	17.8	14.2	15.3	15.7
- Interest	125	187	198	215	215
- Depreciation	105	108	123	147	162
+ Other income	22	33	49	55	63
- Tax	104	6	33	79	105
Effective tax rate	24	1	11	19	19
PAT	335	483	261	345	446
PAT growth (%)	133.2	44.2	-45.9	32.0	29.3
Consolidated PAT	335	455	261	345	446
FDEPS (Rs/share)	12.6	18.2	9.8	13.0	16.8
FDEPS Growth (%)	133.2	44.2	-45.9	32.0	29.3
CEPS (Rs/share)	16.6	22.2	14.5	18.5	22.9

Source: Company, Anand Rathi Research

**Fig 2 – Balance sheet (₹m)**

Year-end: Mar	FY11	FY12	FY13	FY14e	FY15e
Share capital	176	176	266	266	266
Reserves & surplus	746	1,160	1,552	1,798	2,125
Shareholders' fund	971	1,393	1,884	2,130	2,457
Debt	1,270	1,421	1,726	1,726	1,726
Minority interests	0	0	0	0	0
Def Tax Liab	49	57	66	66	66
Capital employed	2,241	2,814	3,610	3,856	4,183
Fixed assets	987	1,148	1,509	1,462	1,399
Investments	89	218	368	368	368
Working capital	1,127	1,360	1,707	2,008	2,328
Cash	38	88	28	20	89
Capital deployed	2,241	2,814	3,611	3,857	4,184
No. of shares (m) (FD)	27	27	27	27	27
Net Debt/Equity (%)	127	96	90	80	67
W C turn (days)	105	107	140	142	144
Book Value	37	52	71	80	92

Source: Company, Anand Rathi Research

**Fig 3 – Cash-flow statement (₹m)**

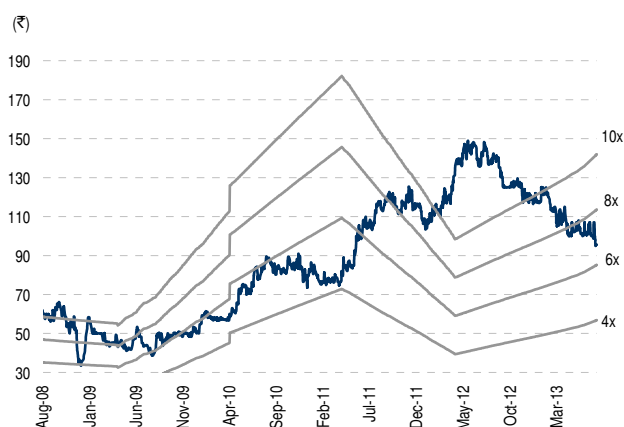
Year-end: Mar	FY11	FY12	FY13	FY14e	FY15e
Consolidated PAT	335	483	261	345	446
+ Depreciation	105	108	123	147	162
Cash profit	458	599	394	492	609
- Incr./ (Decr.) in WC	232	233	347	301	320
Operating cash-flow	226	367	48	191	288
- Capex	155	269	484	100	100
Free cash-flow	71	98	(436)	91	188
- Dividend	82	82	83	99	119
+ Equity raised	0	0	0	0	0
+ Debt raised	100	151	305	0	0
- Investments	78	129	150	0	0
- Misc. items	(4)	(13)	(303)	0	0
Net cash-flow	14	50	(61)	(8)	69
+ Opening cash	23	38	88	27	19
Closing cash	38	88	27	19	89

Source: Company, Anand Rathi Research

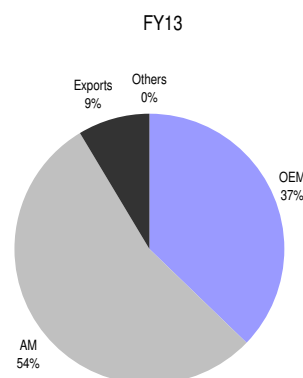
**Fig 4 – Ratio analysis @ ₹94**

Year-end: Mar	FY11	FY12	FY13	FY14e	FY15e
P/E	7.5	5.2	9.6	7.2	5.6
Cash P/E	5.7	4.2	6.5	5.1	4.1
EV/EBITDA	4.3	3.8	5.5	4.3	3.6
EV/Sales	0.8	0.7	0.8	0.7	0.6
Price to Book Value	2.6	1.8	1.3	1.2	1.0
Dividend Yield (%)	2.8	2.8	2.8	3.4	4.1
Dividend payout %	24.5	17.0	31.6	28.7	26.7
RoE (%)	42.1	42.8	16.6	17.8	20.0
RoCE (%)	27.5	26.8	15.3	17.1	19.0
Debtors (Days)	52.8	66.6	76.8	66.6	68.0
Inventory (Days)	67.0	68.4	91.4	93.1	95.0
Creditors (Days)	25.0	30.5	33.7	29.9	32.7
Working Capital (Days)	104.6	107.3	140.2	141.5	144.0
Asset Turnover (x)	0.7	0.7	1.0	0.9	0.9
Debt/Equity (x)	1.3	1.0	0.9	0.8	0.7

Source: Company, Anand Rathi Research

**Fig 5 – PE band**


Source: Bloomberg, Anand Rathi Research

**Fig 6 – FY13 revenue break-up**


Source: Company

9 July 2013

## Munjal Showa

*Two wheelers spoilsport; Buy*

Rating: **Buy**

Target Price: ₹80

Share Price: ₹62

### Key takeaways

**Challenges to continue.** Against the backdrop of weak demand, Munjal Showa (MJS) reported a mere 1.6% revenue growth (we estimated 3.2%) in FY13. Capacity was not a major constraint, but CY13 ytd sales of its customers were weak. It may be recalled that, in 3QFY13 also, when demand was weak, revenue declined 1.9% yoy. On the better EBITDA margin and lower interest costs, however, its 3Q profit jumped 21.4% yoy. We expect this challenging two-wheeler-industry scenario to continue into 1HFY14.

**Profit likely to decline.** In 1QFY14, overall automotive demand was weak. Hence, we expect MJS' revenue to decline 5% yoy. We expect its EBITDA margin to be 5.3% (lower 20bps yoy and down 280bps qoq). This would cause 8.4% yoy EBITDA decline. Hence, the profit decline would be 20.1% yoy, to ₹108m.

**Gujarat plant a possibility.** Although a final announcement is yet to be made, MJS may set up a plant in Gujarat with Hero MotoCorp. If this plan materialises, capex would be ₹1.2-1.5bn; else the normalized range would be ₹300-350m of annual capex.

**Our take.** While the two-wheeler demand was subdued, better operational performance and lower tax rate helped the company put on a good show. Although its key customers are still facing sluggish demand, growth is likely to be driven by non-HMC customers. Positives ahead are inexpensive valuations and more revenues from diversification of its customer base.

We reiterate a Buy, with a price target of ₹80, based upon 4.2x FY14e (on par with its past three-year average). **Risks.** Sustained slump in motorcycle sales, rise in commodity prices and inadequate price hikes allowed by OEMs.

Quarterly results (YE Mar)	1QFY13	1QFY14e	% yoy	FY12	FY13	% yoy
Sales (₹m)	4,199	3,989	-5.0	15,569	15,824	1.6
EBITDA (₹m)	232	212	-8.4	1,227	1,064	-13.3
EBITDA margin (%)	5.5	5.3	-20bps	7.9	6.7	-116bps
Interest (₹m)	19	18	-3.6	112	72	-35.8
Depreciation (₹m)	66	72	8.8	272	276	1.5
Other income (₹m)	5	5	-2.1	16	19	21.1
PBT (₹m)	152	127	-16.3	859	679	-20.9
Tax (₹m)	17	19	14.6	188	72	-61.4
Tax rate (%)	11.0	15.0	404bps	21.9	10.7	-1,120bps
PAT (₹m)	135	108	-20.1	671	644	-4.0

Source: Company

Key data	MJS IN / MNJL.BO
52-week high / low	₹88 / ₹56
Sensex / Nifty	19496 / 5868
3-m average volume	US\$0.03m
Market cap	₹2.48bn / US\$41.33m
Shares outstanding	40m

Shareholding pattern (%)	Mar '13	Dec '12	Sep '12
Promoters	65.02	65.02	65.02
- of which, Pledged	-	-	-
Free Float	34.98	34.98	34.98
- Foreign Institutions	0.23	0.02	0.02
- Domestic Institutions	1.87	1.88	1.86
- Public	32.88	33.08	33.10

Financials (YE Mar)	FY14e	FY15e
Sales (₹m)	16,968	19,474
Net profit (₹m)	723	806
EPS (₹)	18.1	20.2
Growth (%)	12.2	11.5
PE (x)	3.4	3.1
PBV (x)	0.7	0.6
RoE (%)	20.0	18.9
RoCE (%)	22.4	22.3
Dividend yield (%)	5.6	6.5
Net gearing (%)	49.1	35.8

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	12,893	15,569	15,824	16,968	19,474
Revenue growth (%)	30.5	20.8	1.6	7.2	14.8
- Op. expenses	12,083	14,342	14,760	15,763	18,053
<b>EBITDA</b>	<b>810</b>	<b>1,227</b>	<b>1,064</b>	<b>1,205</b>	<b>1,422</b>
EBITDA margin (%)	6.3	7.9	6.7	7.1	7.3
- Interest expenses	91	112	72	63	65
- Depreciation	262	272	276	314	349
+ Other income	23	16	19	23	25
- Extraordinaries	0	0	56	0	0
- Tax	139	188	72	128	227
Effective tax rate (%)	29.0	21.9	9.8	15.0	22.0
Reported PAT	340	671	607	723	806
Adjusted PAT	340	671	644	723	806
PAT growth (%)	38.2	97.3	-4.0	12.2	11.5
FDEPS (₹/share)	8.5	16.8	16.1	18.1	20.2
FDEPS growth (%)	38.2	97.3	-4.0	12.2	11.5

Source: Company, Anand Rathi Research

**Fig 2 – Balance sheet (₹m)**

Year-end: Mar	FY11	FY12	FY13	FY14e	FY15e
Share capital	80	80	80	80	80
Reserves & surplus	1,950	2,482	2,948	3,531	4,177
Net worth	2,030	2,562	3,028	3,611	4,257
Total debt	857	732	320	320	520
Def. tax liab. (net)	142	142	142	142	142
<b>Capital employed</b>	<b>3,029</b>	<b>3,435</b>	<b>3,491</b>	<b>4,074</b>	<b>4,920</b>
Net fixed assets	2,631	2,562	2,534	2,970	3,721
Investments	0	30	200	250	250
Working capital	367	796	577	630	709
Cash	31	47	179	224	240
<b>Capital deployed</b>	<b>3,029</b>	<b>3,435</b>	<b>3,491</b>	<b>4,074</b>	<b>4,920</b>
Net Debt	40	40	40	40	40
No. of shares (m)	826	654	-59	-154	30
Net Debt/ Equity (%)	40.7	25.5	-1.9	-4.3	0.7
WC days	4	13	7	7	7
Book value (₹/sh)	50.7	64.0	75.7	90.3	106.4

Source: Company, Anand Rathi Research

**Fig 3 – Cash-flow statement (₹m)**

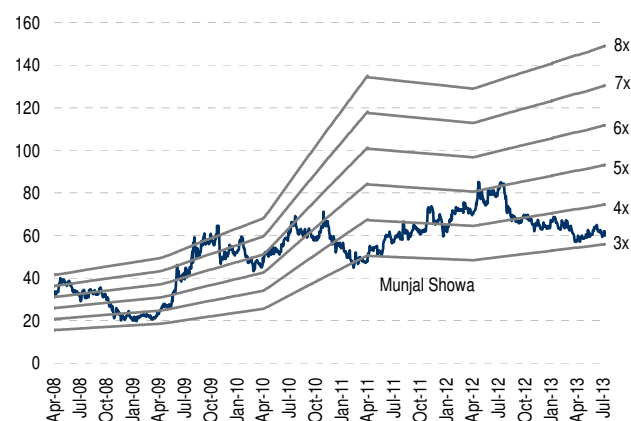
Year-end: Mar	FY11	FY12	FY13	FY14e	FY15e
PAT	340	671	607	723	806
+ Non-cash items	262	272	276	314	349
Cash profit	603	944	883	1,037	1,155
- Incr./Decr. in WC	-110	429	-219	52	79
Operating cash-flow	713	515	1,102	985	1,076
- Capex	286	155	249	750	1,100
Free cash-flow	427	360	853	235	-24
- Dividend	120	120	140	160	150
+ Equity raised	0	0	0	0	0
+ Debt raised	-343	-125	-411	0	200
- Investments	-50	30	170	50	0
- Misc. items	7	68	0	-20	10
Net cash-flow	7	16	132	45	16
+ Op. cash & bank bal.	24	31	47	179	224
Cl. cash & bank bal.	31	47	179	224	240

Source: Company, Anand Rathi Research

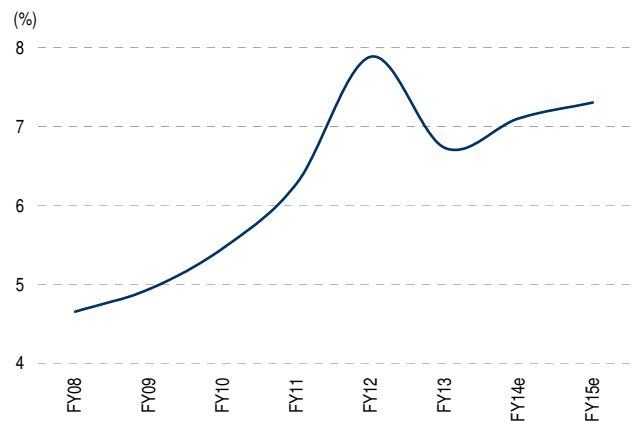
**Fig 4 – Ratio analysis @ ₹62**

Year-end: Mar	FY11	FY12	FY13	FY14e	FY15e
P/E (x)	7.3	3.7	3.8	3.4	3.1
P/B (x)	1.2	1.0	0.8	0.7	0.6
EV/EBITDA (x)	4.1	2.6	2.3	1.9	1.8
RoE (%)	16.8	26.2	20.0	20.0	18.9
RoCE (%)	18.8	28.3	23.1	22.4	22.3
Dividend yield	4.0	4.8	4.8	5.6	6.5
Dividend payout (%)	29.4	17.9	19.8	19.4	19.8
Debt to equity (%)	0.4	0.3	0.1	0.1	0.1
Core P/E (x)	7.7	3.8	3.9	3.5	3.2
Cash P/E	4.1	2.6	2.8	2.4	2.1
EV/sales	0.3	0.2	0.2	0.1	0.1
Inventory days	12.6	13.5	13.8	12.0	11.6
Receivables days	38.4	37.4	36.6	31.6	30.6
Payables days	54.4	52.4	49.5	45.1	43.7
Asset Turnover	4.3	4.5	4.5	4.2	4.0

Source: Company, Anand Rathi Research

**Fig 5 – PE band**


Source: Bloomberg, Anand Rathi Research

**Fig 6 – Trend in EBITDA margin**


Source: Company

## Appendix

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