PINC RESEARCH

PINC POWERPICKS

- Ashoka Buildcon
- HSIL
- India Cements
- Infosys
- Jagran Prakashan
- Jyothy Laboratories
- Mahindra & Mahindra
- MRPL
- Nestle India
- NIIT Tech
- Phoenix Mills
- Power Grid Corporation
- Tecpro Systems

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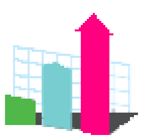
Here's the roster for the PINC PowerPicks:

Company	Sector	CMP (Rs)	Recom.	TP (Rs)	Upside (%)	Market Cap (Rs bn)	P/E (x)		EV/EBITDA (x)		Earnings gr. (%)	ROE (%)	ROCE (%)
							FY13E	FY14E	FY13E	FY14E	(FY12E-14E)	FY13E	FY13E
Ashoka Buildcon	Infrastructure	192	BUY	280	46	10	7.8	6.0	4.4	3.4	25.9	12.3	9.3
HSIL	Diversified	145	BUY	230	59	10	6.5	5.1	4.0	3.5	31.7	17.9	13.6
India Cements	Cement	102	BUY	114	12	31	8.1	6.7	5.2	4.5	21.9	8.8	10.9
Infosys	IT services	2879	ACCUMULATE	3,200	11	1,645	17.1	15.3	10.7	9.2	12.8	23.0	27.4
Jagran Prakashan	Media	104	BUY	145	39	33	13.0	11.8	8.1	7.4	6.7	27.5	30.7
Jyothy Laboratories	FMCG	183	BUY	212	16	15	14.7	12.1	10.2	8.6	69.1	17.0	16.7
Mahindra & Mahindra	Auto	670	BUY	885	32	393	12.8	11.2	9.1	7.7	14.6	22.8	25.6
MRPL	Oil & Gas	68	BUY	88	29	120	9.5	6.2	6.3	3.9	101.0	17.2	15.5
Nestle India	FMCG	4,496	SELL	3,685	(18)	434	38.0	30.9	23.1	18.7	20.5	67.6	66.1
NIIT Tech	IT services	245	BUY	300	22	14	6.3	5.9	3.3	2.9	9.9	22.3	21.7
Phoenix Mills	Real Estate	218	BUY	265	22	32	18.4	12.5	14.0	10.1	23.1	9.0	6.4
Power Grid Corp.	Power Utilities	113	BUY	125	10	524	15.6	13.3	10.7	9.7	11.2	13.7	8.6
Tecpro Systems	Material Handling	169	BUY	318	88	9	4.8	3.7	4.3	4.2	19.4	20.2	21.3



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

What moved in and what moved out:

In our March issue of PINC Power Picks, we have introduced India Cements.

We have removed Ashok Leyland and Bajaj Auto in the March series due to limited upside available for both the stocks.

15th March 2012

ASHOKA BUILDCON: BUY, TP-Rs280 (46% upside)

Sector: Infrastructure
CMP: Rs192; Mcap: Rs10bn
Bloomberg: ASBL IN; Reuters: ABDL.BO

What's the theme?

We believe, Ashoka Buildcon (ABL), a well experienced BOT road player with 18 operational projects and 6 projects of ~2500kms under construction, is likely to become a prominent player in road infra over the next 3 years. However, due to unhealthy economic and market dynamics the stock is available at a sharp discount of P/BV 0.9x, which we believe does not reflect a long term average valuation for the company.

What will move the stock?

1) The P/E deal, which is likely post March 2012, wherein ABL will offload stake in a bouquet of 7-8 large BoT road assets. We believe ABL may offload approximately 20-25% stake for a value of Rs6-7bn.
2) Going ahead, we expect ABL to substantially improve its EPC execution as OB has improved to Rs43.1bn (Rs54.1bn including Cuttack-Angul project). We estimate EPC revenue to grow by 29.4% in FY13E and then improve by 20% in FY14E.

Where are we stacked versus consensus?

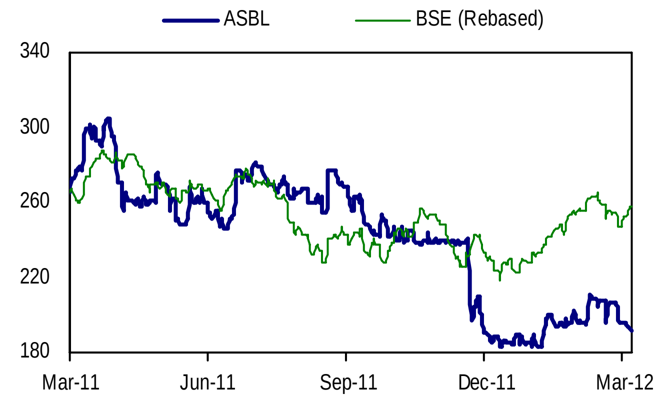
Our FY13 and FY14 earnings estimates are Rs24.7 and Rs31.9, 8.5% and 8.2% lower than consensus estimates, respectively. We expect top-line growth of 31.7% and 23% to Rs19.9bn and Rs24.6bn in FY13E and FY14E vs. consensus forecasts of 29.7% and 29.1% to Rs20.9bn and Rs26.9bn, respectively.

We value BOT (on a DCF basis) FY13E equity multiple of 1.1x. Our SOTP-based target price is Rs280, where BOT is valued at Rs196 and EPC at Rs84 (8x FY13E earnings). The stock offers an upside potential of 46% at our SOTP-based target price of Rs280 vs. consensus target of Rs266.

What will challenge our target price?

1) Lower IRR owing to further increase in interest rates; 2) Lower traffic growth; 3) Slowdown in execution of current orders; and 4) Adverse impact on tolling charges from any changes in the government policy.

Price performance



(Rs mn)	FY11	FY12E	FY13E	YoY %	FY14E	YoY %
Net Sales	13,020	15,168	19,980	31.7	24,567	23.0
EBITDA	2,522	3,315	4,609	39.0	5,979	29.7
EBITDA Marg. (%)	19.4	21.9	23.1	121 bps	24.3	5.5 bps
Adj. Net Profits	1,008	1,060	1,299	22.5	1,680	29.4
Dil. EPS (Rs)	19.2	20.1	24.7	22.5	31.9	29.4
PER (x)	10.0	9.5	7.8	-	6.0	-
ROE (%)	31.2	11.3	12.3	100 bps	14.0	13.4 bps
ROCE (%)	17.2	9.5	9.3	(26)bps	9.8	5.3 bps

SOTP

Particulars	Rs/Share	Percentage
BOT Operational (SPV)	88	31.3%
BOT Operational (Standalone)	31	11.0%
BOT Under construction	78	27.7%
Construction business	84	30.0%
Total	**280**	
Upside (%)	**45.8**	

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HSIL: BUY, TP-Rs230 (59% upside)

Sector: Diversified
CMP: Rs145; Mcap: Rs10bn
Bloomberg: HSI IN; Reuters: HSNT.BO

What's the theme?

HSIL operates in 2 business segments, sanitary ware and container glass. Strong recall of the flagship brand Hindware enhances HSIL's leadership with 40% share in organised sanitaryware market and advantageous location of container glass plants has helped achieve a 70% market share in south India.

What will move the stock?

- Growth in demand of the user industries of sanitaryware and glass will help engender a CAGR of 27% and 20% for sanitary and glass over FY11-FY13E.
- Margin expansion of 100bps to 19.8% in FY13E over FY11 on increased realisation, reduced
- outsourcing and focus on value mix.
- Improvement in FCF in FY12-FY13E through better operational efficiency.

Where are we stacked versus consensus?

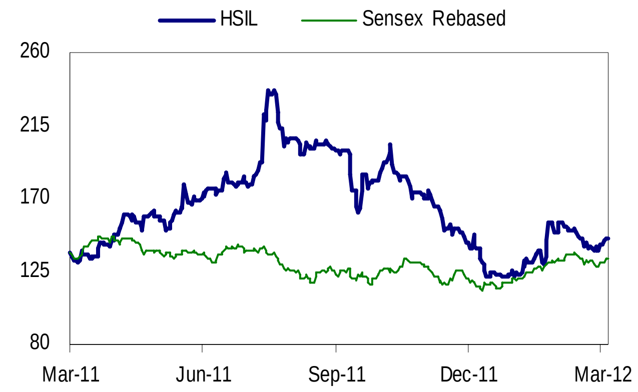
Our earnings estimates (EPS) for FY13 and FY14 are Rs22.5 and Rs28.5, respectively. Our FY13 earnings estimate is 11% higher than the consensus estimate of Rs20.3. We have a 'BUY' recommendation on the stock with a target price of Rs230, which discounts FY12E earnings by 14.0x.

What will challenge our target price?

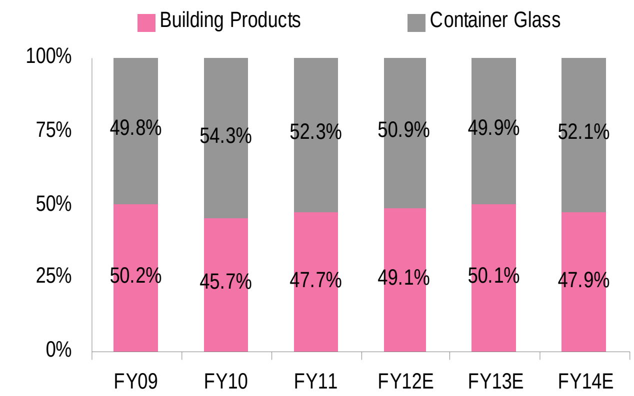
- Fall in real estate demand
- Rise in soda ash prices

(Rs mn)	FY11	FY12E	FY13E	YoY %	FY14E	YoY %
Net Sales	10,785	13,391	16,583	23.8	19,364	16.8
EBITDA	2,064	2,615	3,313	26.7	3,866	16.7
EBITDA Marg. (%)	18.8	19.3	19.8	48 bps	20.0	18 bps
Adj. Net Profits	782	1,086	1,486	36.9	1,881	26.6
Dil. EPS (Rs)	12.9	16.4	22.5	37.0	28.5	26.5
PER (x)	11.3	8.8	6.5	-	5.1	-
ROE (%)	13.7	15.1	17.9	277 bps	19.1	123 bps
ROCE (%)	10.5	12.6	13.6	101 bps	14.6	99 bps

Price performance



Revenue breakup



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INDIA CEMENTS: BUY, TP-Rs114 (12% upside)

Sector: Cement
CMP: Rs102; Mcap: Rs31bn
Bloomberg: ICEM IN; Reuters: ICMN.BO

What's the theme?

India Cements is the largest player in the Southern region with a capacity of 13mn MT (out of its total capacity of 14mn MT). Besides this, its subsidiary, Trinetra Cement, has a 1.5mn mt capacity in Rajasthan. In FY11, the high capacity addition in the industry (especially Southern region) and a sharp fall in demand in Andhra Pradesh (AP) led to a significant fall in capacity utilisation which threatened the industry profitability. The production discipline initiated in Sep'10 helped manufacturers tide over the difficult period and remain profitable.

What will move the stock?

1) India Cement continues to benefit from the higher cement prices in the southern region as the realisations is supported through production discipline. Due to this, the company is well placed to pass on the increase in freight, coal cost etc. On a depleted base, cement demand is expected to grow by 8-10% in FY13. 2) Commissioning of 50MW CPP Tamil Nadu will reduce dependence on state grids leading to a saving of Rs1/unit. Another 50MW CPP in AP is expected to be on-stream in H2FY13. 3) ICEM sources 65% of its fuel requirement through imported coal and the rest through linkages from Singareni coal mines. Company has also bought coal mines in Indonesia and same is likely to be operational in FY13. However, this is not considered in our estimates and any benefit on this account will add to the upside. 4) India Cements is the owner of IPL's most successful franchisee i.e. Chennai Super Kings. This brand would be useful to the company in entering markets other than the Southern region.

Where are we stacked versus consensus?

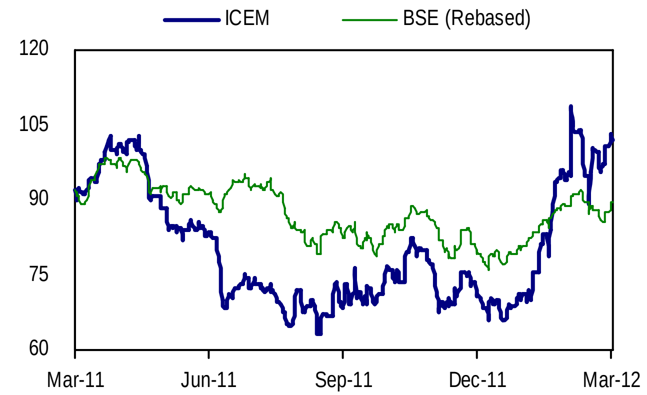
Our FY13 and FY14 earnings forecast are Rs12.5 and Rs15.2 respectively. Our FY13 earnings estimate is 19.7% higher than the consensus estimate of Rs10.5. The stock of the company at 5.2x FY13E EV/EBITDA is at significant discount to the peers. We value the stock at 5.5x FY13E EV/EBITDA to derive at a target price of Rs114.

What will challenge our target price?

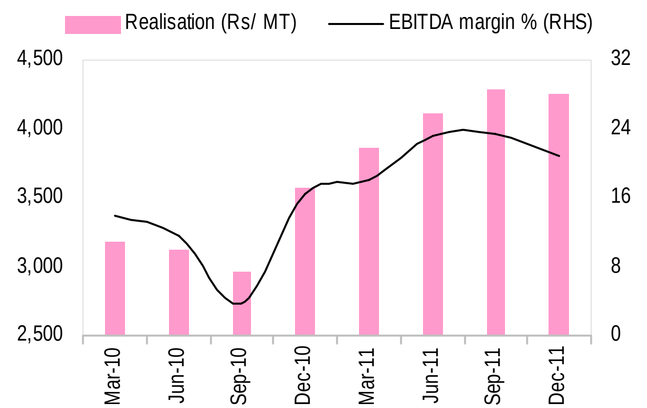
1) The collapse in the production discipline remains the single biggest threat to profitability of the company. 2) Indonesian Government regulations will have a bearing on the timeline for evacuation of coal from Indonesian mines.

(Rs mn)	FY11	FY12E	FY13E	YoY %	FY14E	YoY %
Net Sales	34,171	41,035	46,485	13.3	51,450	10.7
EBITDA	4,365	9,422	10,902	15.7	12,068	10.7
EBITDA Marg. (%)	12.5	22.1	22.6	50 bps	22.6	(0)bps
Adj. Net Profit	681	3,133	3,852	22.9	4,659	21.0
Dil. EPS (Rs)	2.2	10.2	12.5	22.9	15.2	21.0
PER (x)	46.0	10.0	8.1	-	6.7	-
ROE (%)	1.7	7.5	8.8	130 bps	9.9	120 bps
ROCE (%)	3.5	9.7	10.9	120 bps	12.0	100 bps

Price performance



Realisation and Profitability trend



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INFOSYS: ACCUMULATE, TP-Rs3,200 (11% upside)

Sector: Information Technology
CMP: Rs2,879; Mcap: Rs1,645bn
Bloomberg: INFO IN; Reuters: INFY BO

What's the theme?

Infosys has a full-services portfolio with exposure to well-diversified verticals. The new management appears more aggressive on aspects such as inorganic growth and is looking for acquisitions in healthcare vertical and for increasing presence in Europe which seems to be opening up to outsourcing.

What will move the stock?

1) In anticipation of future demand, the company maintains an overall hiring guidance for FY12 at 45,000 and for FY13 has already given 23,000 campus offers. 2) The company can exercise the utilisation lever to take care of demand spurt which would boost the operating margins. 3) Large deal wins in the recent past along with higher client mining gives revenue visibility over a longer term. 4) Salary increment will be lower in FY13 compared to previous two years and rupee depreciation (average, compared to FY12) is expected to support operating margin 5) Potential for utilisation of huge cash (~USD3.9bn) for acquisitions; the management indicated its interest in large-ticket acquisition to plug the gaps and drive growth; and 6) In case of recovery in the global economy, clients will stick to established and reliable brands such as Infosys with excellent execution skills.

Where are we stacked versus consensus?

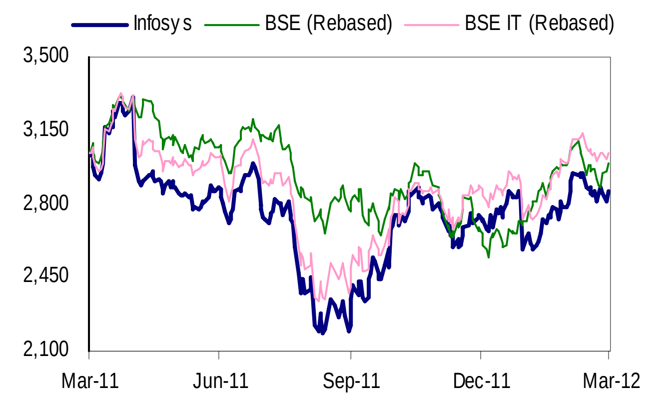
Our revenue estimates for FY13 and FY14 are in-line consensus. For FY13, our EBITDA margin estimate is marginally higher than consensus by 46bps and for FY14 EBITDA margin estimate is marginally lower than consensus by 20bps. Our EPS estimate is in-line consensus for FY13 while lower than consensus by 0.8% for FY14. We have 'ACCUMULATE' rating with a target price of Rs3,200 based on 18x PER multiple on 18-months forward earnings.

What will challenge our target price?

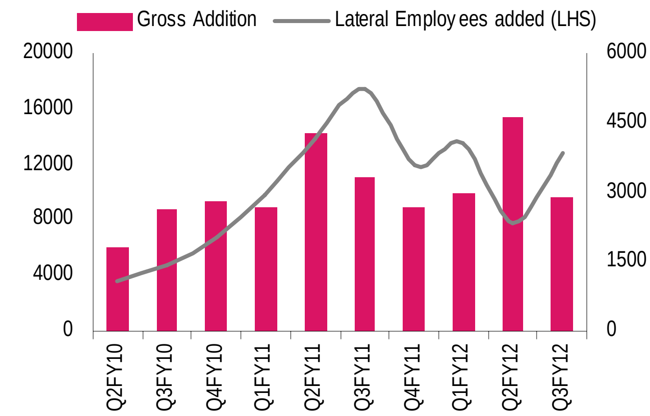
1) Prolonged delays in clients' decision making on project ramp-ups and new initiatives; 2) Appreciation of INR vs. USD and strengthening of USD against EUR; and 3) Higher attrition and wage increments.

(Rs mn)	FY11	FY12E	FY13E	YoY %	FY14E	YoY %
Net Sales	275,010	342,182	397,566	16.2	452,347	13.8
EBITDA	89,640	111,242	126,750	13.9	138,407	9.2
EBITDA Marg. (%)	32.6	32.5	31.9	(63) bps	30.6	(128) bps
Adj. Net Profits	68,230	84,591	95,979	13.5	107,692	12.2
Dil. EPS (Rs)	119.4	148.0	168.0	13.5	188.5	12.2
PER (x)	24.1	19.4	17.1	-	15.3	-
ROE (%)	25.0	24.9	23.0	(192) bps	21.2	(175) bps
ROCE (%)	29.3	29.7	27.4	(235) bps	24.5	(291) bps

Price performance



Strong employee addition



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JAGRAN PRAKASHAN (JPL): BUY, TP-Rs145 (39% upside)

Sector: Media
CMP: Rs104; Mcap: Rs33bn
Bloomberg: JAGP IN: Reuters: JAGP BO

What's the theme?

We like JPL for its leadership in the UP market (the largest print market in terms of readership and print ad value). We believe the company is well poised to benefit from steady growth in the print media sector, underpinned by: 1) its well-entrenched position in growing regions such as Bihar and Jharkhand; 2) phased and planned expansion into new media businesses; and 3) a wide portfolio (including Mid-day, I-next and Cityplus). JPL's well-balanced business model (more than 30% revenue from circulation and other media businesses), its growth strategy to further increase penetration in terms of circulation in its current market, and monetisation of its readership insulates it from slowdown in advertisements due to the current macroeconomic scenario.

What will move the stock?

1) Broad-based growth across other new media businesses; 2) Attractive valuations-At CMP, the stock is trading at an attractive 13xFY13E EPS.

Where are we stacked versus consensus?

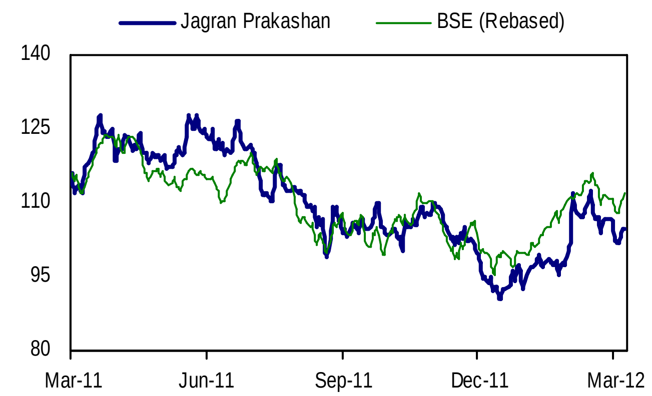
Our FY14 revenue and EPS estimate of Rs8.8 is 6% and 3% below consensus estimates, respectively. We have a 'BUY' recommendation on the stock with a target price of Rs145 (18xFY13E EPS).

What will challenge our target price?

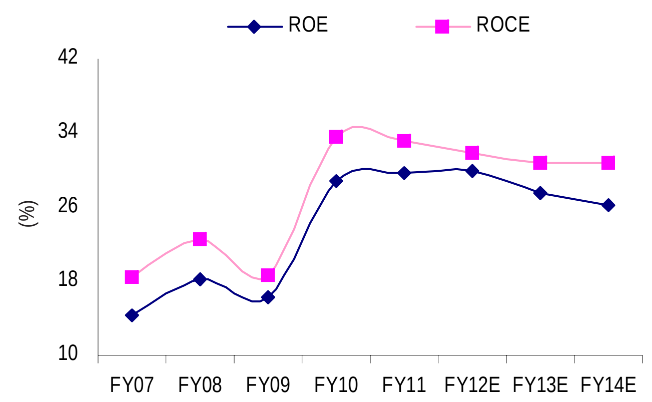
1) Increase in imported newsprint prices; 2) Slowdown in the economy; and 3) Increased competition in markets where JPL has presence.

Consolidated (Rs mn)	FY11	FY12E	FY13E	YoY %	FY14E	YoY %
Net Sales	12,210	13,251	14,575	10.0	15,922	9.2
EBITDA	3,568	3,885	4,120	6.0	4,477	8.7
EBITDA Marg. (%)	29.2	29.3	28.3	(105)bps	28.1	(15)bps
Adj. Net Profits	2,080	2,440	2,539	4.0	2,776	9.3
Dil. EPS (Rs)	6.6	7.7	8.0	4.0	8.8	9.3
PER (x)	15.8	13.5	13.0	-	11.8	-
ROE (%)	29.6	29.8	27.5	(239)bps	26.3	(115)bps
ROCE (%)	33.1	31.8	30.7	(112)bps	30.8	13 bps

Price performance



Financial performance



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JYOTHY LABORATORIES: BUY, TP-Rs212 (16% upside)

Sector: FMCG
CMP: Rs183; Mcap: Rs15bn
Bloomberg: JYL IN; Reuters: JYOI.BO

What's the theme?

Jyothy Labs' (Jyothy) standalone business is getting on track and its strong performance during Q3FY12 was very encouraging. We expect the momentum to continue going forward as except Maxo, the dynamics of the standalone business are still at the same level. Ujala Supreme reported 10% volume growth during Q3FY12 and we believe the recent price hike would help in showing good sales growth going forward. National launch of Exo has already started showing strong numbers and reported 30% growth in 9MFY12. We are bullish on turnaround performance of Henkel India (Henkel) and its profitable performance since acquisition has been encouraging. Jyothy is among the few companies in the FMCG space which has immense potential for long-term profitability growth.

What will move the stock?

1) Improvement in standalone business would provide better visibility; 2) Full impact of the 7% price increase of Ujala Supreme will support revenue and profitability growth; 3) Exo's national launch benefits has been showing through 30% sales growth in 9MFY12; 4) Jyothy's revenue mix has improved post the addition of Henkel's 4-5 national brands; 5) Henkel's sustainable profitability would boost investors confidence; 6) Merger of Jyothy and Henkel India will engender massive tax benefits of Rs1.2bn; 7) Restructuring of Jyothy's distribution model would improve EBITDA margin by 3% and 8) Debt rationalisation can lead to higher profitability.

Where are we stacked versus consensus?

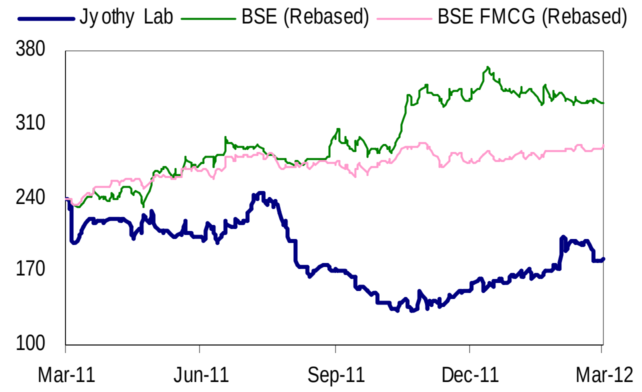
Our estimates for FY13 are among the highest on the street, led by expectation of better performance of the core business and sustainability of Henkel's profitable performance. We assign 16x to FY13E earnings and add Rs12/ share NPV on tax saving of Rs1.2bn @12% discount rate to derive the TP of Rs212.

What will challenge our target price?

1) Further volatility in the core business owing to higher marketing spending; 2) Delay in achieving growth in Henkel's brands; 3) Debt restructuring can lead to higher interest cost; 4) Sharp rise in input prices due to volatility in crude prices and 5) Inability to attract retail clients in the laundry business.

(Rs mn)	FY11	FY12E	FY13E	YoY %	FY14E	YoY %
Net Sales	6,174	11,603	13,729	18.3	15,654	14.0
EBITDA	727	1,076	1,755	63.1	1,984	13.1
EBITDA Marg. (%)	11.8	9.3	12.8	351bps	12.7	(11)bps
Adj. Net Profits	688	426	1,002	135.4	1,218	21.5
Dil. EPS (Rs)	8.5	5.3	12.4	135.4	15.1	21.5
PER (x)	21.5	34.7	14.7	-	12.1	-
ROE (%)	10.9	8.1	17.0	892bps	18.1	108bps
ROCE (%)	10.4	10.0	16.7	665bps	18.1	141bps

Price performance



Product portfolio post acquisition			Rs mn
Brands	**FY12E**	**FY13E**	**FY14E**
Ujala Supreme	2,127	2,549	2,892
Techno Bright and Ujala	647	776	893
Henko	982	1,239	1,541
Mr White	578	606	637
Check	420	441	463
Stiff & Shine	242	284	326
Maxo & Maxo Military	1,325	1,526	1,582
EXO	1,482	2,001	2,501
Prill	648	762	921
Margo	61	73	81
Fa	678	741	801
Laundry Business	179	223	276

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MAHINDRA & MAHINDRA: BUY, TP-Rs885 (32% upside)

What's the theme?

New launches and strong performance from its existing products has helped M&M retain its dominance in the utility vehicle (UV) and pick-up segments in addition to maintaining healthy margins despite surge in raw material costs. We expect an 18% growth in the automobile sector in FY13. The farm equipment segment too is expected to grow 8.2% in FY13, given the shortage of labour, rising rural income and increasing non-farm usage of tractors.

What will move the stock?

1) The passenger UV segment has grown 17.3% in 9MFY12 aided by the launch of lower end EX variant of the Scorpio and refreshed Bolero. 2) New offering XUV500 received an overwhelming response since its launch in Sep'11 and the company received a whooping 25k applications for the 7.2k units on offer in the second phase. The company has taken a price hike of up to Rs55k on the vehicle production and the capacity has been ramped up from 2k to 3k per month. 3) M&M is expected to launch the mini SUV based on the Xylo in H1FY13 which would provide incremental volumes. 2) Pick-up and SCVs segment is expected to maintain its impressive performance with continued contribution coming from Genio and Maxximo minivan. 3) M&M is working on turning around its recent acquisition of South Korean automaker Ssangyong. Two SUVs from the Ssangyong Motors' portfolio (Rexton and Korando) would be assembled at M&M's Chakan facility. 4) Tractor sales have remained soft in the past few months and volumes are expected to pick up from Apr'12 with the new season. The company has cut tractor production in Mar'12 to rationalise inventory levels.

Where are we stacked versus consensus?

Our FY13 and FY14 earnings forecast are Rs52.2 and Rs59.6 respectively. Our FY13 earnings estimate is 6.4% higher than the consensus estimate of Rs49.7. We value M&M at Rs885 using SOTP methodology, discounting the standalone business at 13x FY13E earnings.

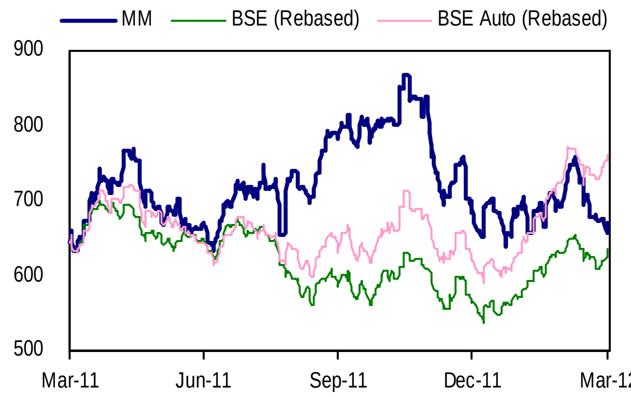
What will challenge our target price?

1) Imposition of additional taxes on diesel powered vehicles or dual pricing for diesel would adversely impact demand for M&M's products; and 2) Global turbulence may delay turnaround at Ssangyong.

(Rs mn)	FY11	FY12E	FY13E	YoY %	FY14E	YoY %
Net Sales	227,575	300,745	356,993	18.7	401,821	12.6
EBITDA	34,581	38,165	42,535	11.5	47,860	12.5
EBITDA Marg. (%)	14.7	12.4	11.7	(70)bps	11.7	0 bps
Adj. Net Profits	25,443	26,665	30,684	15.1	34,993	14.0
Dil. EPS (Rs)	44.1	45.4	52.2	15.1	59.6	14.0
PER (x)	15.2	14.7	12.8	-	11.2	-
ROE (%)	28.1	23.6	22.8	(80)bps	21.8	(100)bps
ROCE (%)	28.5	25.9	25.6	(30)bps	25.3	(30)bps

Sector: Auto
CMP: Rs670; Mcap: Rs393bn
Bloomberg: MM IN; Reuters: MAHM.BO

Price performance



SOTP

	Valuation Method	Per share (Rs)	Multiple	Value (Rs)
M&M (Standalone)	P/E	49.3	13	641
M&M Veh. Mfg. (MVML)	EV/EBITDA	8.5	4	34
Tech Mahindra	CMP	66.4	0.8	53
Mahindra Holiday	CMP	35.7	0.8	29
M&M Financial Services	CMP	68.5	0.8	55
Mahindra Lifespace	CMP	10.9	0.8	9
M&M (Treasury Stocks)	CMP	60.8	0.8	49
Swaraj Engines	CMP	3.1	0.8	2
Mahindra Forgings	CMP	4.5	0.8	4
Mahindra Ugine Steel	CMP	1.5	0.8	1
Mahindra Composites	CMP	1.1	0.8	1
Mahindra Navistar	P/BV	5.1	1.5	8
SOTP Value (Rs)				**885**

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MRPL: BUY, TP-Rs88 (29% upside)

Sector: Oil & Gas
CMP: Rs68; Mcap: Rs120bn
Bloomberg: MRPL IN; Reuters: MRPL.BO

What's the theme?

Capacity addition of ~30% to 15.4mmpta along with enhancement in complexity index from ~6 to ~9 should boost the future profitability. Progress has been expedited keeping in mind the target of commissioning before Mar'12 so as to get the full benefit of tax exemption. Capacity expansion along with polypropylene and SPM project should improve the GRM substantially.

What will move the stock?

1) Hangover on crude imports from Iran (~70% for MRPL) post recent sanctions by US is abated after inter government agreement under which 45% of payment will be done in INR
2) Strong GRM supported by diesel cracks as MRPL has ~43% of HSD in their portfolio
3) As of Mar'11, the company has Net Debt/ equity at around zero, which provides significant leverage to the company. Around 70% of the upcoming capex (~Rs160bn) will be funded through debt and even at peak debt levels, Net Debt/ Equity for MRPL should be below 1.0.

Where are we stacked versus consensus?

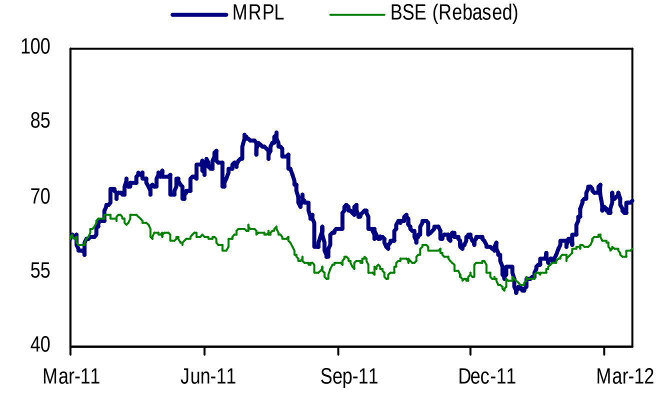
We expect that full impact of ongoing capex should materialise in FY14 with partial benefit coming in FY13. As a result, our FY13 earnings estimate is ~3% lower while FY14 estimate is ~15% higher than consensus.

What will challenge our target price?

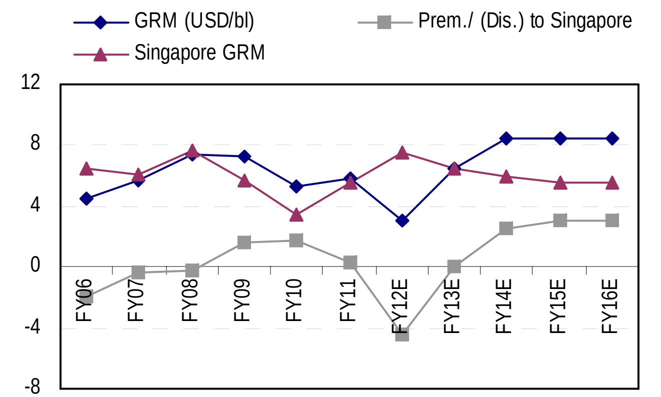
Delay in refinery-III commissioning beyond Mar'12, problem in crude sourcing from Iran (ME ~90%, Iran ~70%), volatility in crude oil price/ international GRM/ USD-INR exchange rate in the current weak global environment may impact the earnings substantially.

(Rs mn)	FY11	FY12E	FY13E	YoY %	FY14E	YoY %
Net Sales	389,567	513,116	561,257	9.4	586,247	4.5
EBITDA	20,482	8,653	28,158	225.4	41,239	46.5
EBITDA Marg. (%)	5.3	1.7	5.0	333 bps	7.0	202 bps
Adj. Net Profits	11,765	4,749	12,580	164.9	19,188	52.5
Dil. EPS (Rs)	6.7	2.7	7.1	164.9	10.9	52.5
PER (x)	10.2	25.2	9.5	-	6.2	-
ROE (%)	19.4	7.1	17.2	1005 bps	22.4	521 bps
ROCE (%)	22.5	7.9	15.5	762 bps	21.4	589 bps

Price performance



Substantial jump in GRM



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NESTLE INDIA: SELL, TP-Rs3,685 (18% downside)

Sector: FMCG
CMP: Rs4,496; Mcap: Rs434bn
Bloomberg: NEST IN; Reuters: NEST.BO

What's the theme?

Rising competition in almost all the categories along with sharp price hike on all the key brands resulted into slower volume growth of 9% (lowest in the past 5 years) during 9MCY11 and the similar volume pressure was also witnessed in the Q4CY11 performance in which sales grew at slower pace of 17% (lowest in the last 7 quarters). Nestle is in the capacity expansion mode which would force the company to focus more on the volume growth. Higher marketing efforts would be required for retaining leadership position which would exert pressure on profitability.

What will move the stock?

1) Noodles contribute ~35% of the total EBITDA and higher competition would force Nestle to invest more on marketing efforts. As a result, we expect limited scope of rise in EBITDA margin going forward; 2) Nestle currently trades at 37x 12-month forward earnings which is ~35% premium over the FMCG sector P/E. Considering pressure on Nestle's EBITDA margin, reduction in the return ratios and improvement in performance of peers, we argue that Nestle's P/E premium should reduce.

Where are we stacked versus consensus?

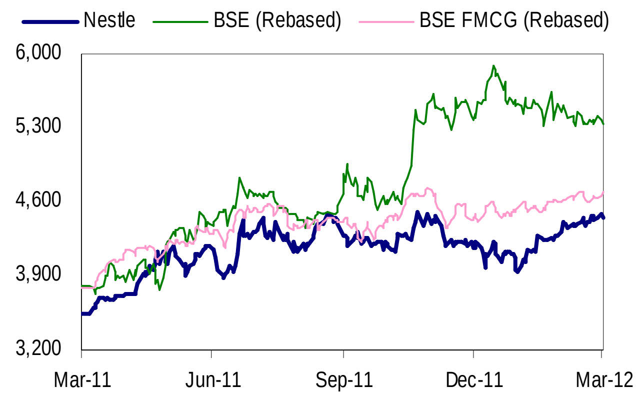
Our estimates and target price are lower than the consensus, led by the expectation of pressure on EBITDA margin and argument of narrowing down of the Nestle's valuation premium. We assign P/E of 30x on the next 12-months earnings to derive a TP of Rs3,685.

What will challenge our target price?

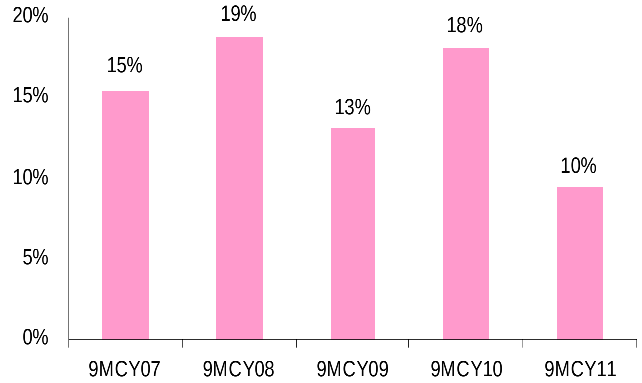
1) We expect Nestle would focus on retaining the volume market share for Maggi noodles hence there will be volume driven growth going forward. This assumption would result in lower profitability for Nestle and any change in this proposition might change our estimates; 2) We expect ITC, GSK Consumer and HUL to be very aggressive in noodle segment, any delay in such efforts would again help Nestle to earn better profitability.

(Rs mn)	CY10	CY11P	CY12E	YoY %	CY13E	YoY %
Net Sales	62,609	75,336	93,176	23.7	115,376	23.8
EBITDA	12,559	15,484	18,559	19.9	22,775	22.7
EBITDA Marg. (%)	20.3	20.1	20.6	49 bps	19.9	(64)bps
Adj. Net Profits	8,188	9,673	11,403	17.9	14,046	23.2
Dil. EPS (Rs)	84.9	100.3	118.3	17.9	145.7	23.2
PER (x)	52.9	44.8	38.0	-	30.9	-
ROE (%)	95.7	75.7	67.6	(812)bps	66.6	(101)bps
ROCE (%)	146.8	68.9	66.1	(277)bps	70.5	440 bps

Price performance



Domestic Volume Growth



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NIIT TECH: BUY, TP-Rs300 (22% upside)

Sector: Information Technology
CMP: Rs245; Mcap: Rs14bn
Bloomberg: NITEC IN; Reuters: NITT.BO

What's the theme?

Sustained performance and aggressive deal wins reflected in strong order book would drive re-rating of the stock. NIIT Tech has large exposure to high-growth niche verticals such as travel and transportation. Moreover, it has a differentiated strategy with development of IPs in emerging technologies (such as cloud computing) & verticals (such as insurance & healthcare).

What will move the stock?

1) Good performance in the BFSI and travel and transportation verticals, which contribute ~75% to revenue; 2) Recent acquisition of Proyecta Sistemas and JV with Morris, will give further thrust to growth through access to untapped markets and presence in newer industries. 3) Large untapped opportunity in the APAC and Latin American markets where NIIT Tech has seen good traction; 4) Strong order book of USD245mn to be implemented over the next 12 months and continued high order bookings; 5) Ramp-ups of the major deals won in the recent quarters would substantiate growth in FY13 6) New service lines would boost non-linear growth and lead to improvement in realisations.

Where are we stacked versus consensus?

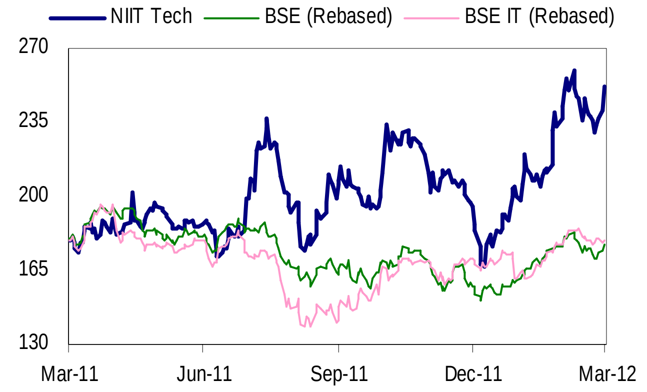
Our top-line estimate is below consensus by 4.6% for FY13 and by 4% for FY14. Our EBITDA margin estimates are higher than consensus by 127bps for FY13 and by 84bps for FY14. Our EPS estimates for FY13 & FY14 are higher than consensus by 0.9% and 2.2% respectively. We have 'BUY' rating with a target price of Rs300 based on 7.5x PER multiple on 18-months forward earnings.

What will challenge our target price?

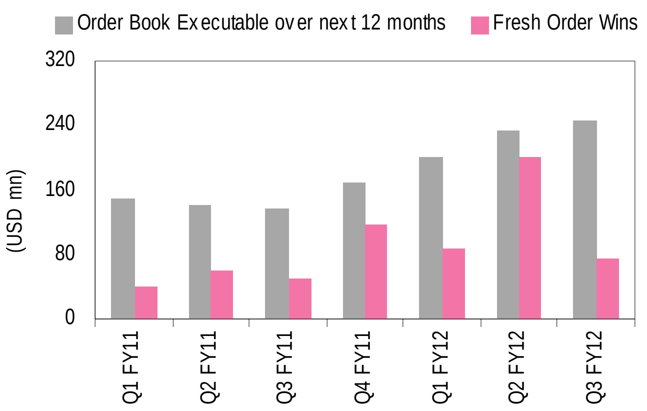
1) Prolonged macroeconomic uncertainty in Europe; 2) Sharp currency volatility; 3) Higher attrition and wage increments; and 4) Project delays and cancellation of government contracts.

(Rs mn)	FY11	FY12E	FY13E	YoY %	FY14E	YoY %
Net Sales	12,323	15,785	18,211	15.4	20,410	12.1
EBITDA	2,363	2,719	3,484	28.1	3,690	5.9
EBITDA Marg. (%)	19.2	17.2	19.1	191 bps	18.1	(105)bps
Adj. Net Profits	1,823	2,032	2,319	14.1	2,479	6.9
Dil. EPS (Rs)	30.9	34.2	38.6	13.0	41.3	6.9
PER (x)	7.9	7.2	6.3	-	5.9	-
ROE (%)	24.2	23.6	22.3	(127)bps	20.1	(222)bps
ROCE (%)	20.4	19.9	21.7	176 bps	19.4	(231)bps

Price performance



Healthy order book



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PHOENIX MILLS: BUY, TP-Rs265 (22% upside)

Sector: Real Estate
CMP: Rs218; Mcap: Rs32bn
Bloomberg: PHNX IN; Reuters: PHOE.BO

What's the theme?

PHNX's key project, High Street Phoenix (HSP), is now fully operational and is likely to generate rental income of ~Rs2-2.2bn in FY12E. In Q3FY12, three out of four market cities were operational and are expected to show higher occupancy going forward. This will help strengthen the company's rental model. At present, PHNX's rental revenue (FY11- Rs1.8bn) comes from HSP and the launch of Pune, Chennai and Bengaluru Market Cities is likely to add ~Rs550mn of rental revenue to the top line in FY12E.

What will move the stock?

We see the following near-term stock triggers: (i) Kurla Market City project commenced operation in Q3FY12 and is ramping up, (ii) The first phase of Shangri-La Hotel to commence in H1FY13, (iii) HSP Phase-IV (at present 0.25 msf) to provide a strong delta to the company's valuation if it manages to get hospitality FSI (5x), (iv) repositioning of its hospitality project under Phoenix hospitality (PHCPL) into retail/commercial and residential projects is likely to help PHNX have a better cash flow visibility and reduce debt levels and (v) PHNX recently entered into an SPA to increase its stake in Chennai market city thereby making it a subsidiary. PHNX may further opt to raise its stake in Kurla and Bengaluru market city projects 12-15 months down the line which will help improve the stock's valuation.

Where are we stacked versus consensus?

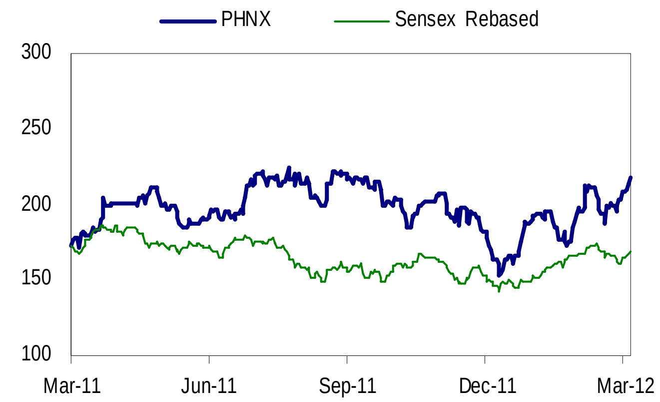
Our EPS estimates for FY13 and FY14 are Rs11.8 and Rs17.5 respectively. Our FY13 earnings estimate is 21% higher than consensus estimate of Rs9.7. We have a 'BUY' recommendation on the stock with a target price of Rs265 after assigning 15% discount to NAV.

What will challenge our target price?

1) Slowdown in execution in Market City projects and extending free rental periods may hamper the holding company's profitability, 2) economic slowdown may affect revenue from Market City and HSP.

(Rs mn)	FY11	FY12E	FY13E	YoY %	FY14E	YoY %
Net Sales	2,102	3,993	4,349	8.9	6,317	45.2
EBITDA	1,406	2,447	2,872	17.4	3,963	38.0
EBITDA Marg. (%)	66.9	61.3	66.0	474 bps	62.7	(330)bps
Adj. Net Profits	842	1,675	1,713	2.3	2,537	48.1
Dil. EPS (Rs)	5.8	11.6	11.8	2.3	17.5	48.1
PER (x)	37.5	18.9	18.4	-	12.5	-
ROE (%)	5.1	9.6	9.0	(57)bps	12.1	305 bps
ROCE (%)	4.1	6.8	6.4	(44)bps	8.3	192 bps

Price performance



PHNX one year forward NAV

Project	NAV (Rs)
High Street Phoenix	142
Market City (Kurla, Bengaluru, Chennai, Pune)	87
Other Residential	36
BARE	10
Investment in Treasure World Developers	18
Investment in Galaxy Entertainment	0.2
Investment in Phoenix construction	0.1
Other investments	26
Shangrila hotel	11
HSP Phase IV	21
Share Application Money	21
Less: Net Debt	60
NAV (Post 15% discount)	**265**

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POWER GRID: BUY, TP-Rs125 (10% upside)

Sector: Power Utilities
CMP: Rs113; Mcap: Rs524bn
Bloomberg: PWGR IN; Reuters: PGRD.BO

What's the theme?

PGCIL remains confident of achieving not only its XIth Plan capex and capitalisation target but also achieving a large part of its XIIth Plan target too. Till January 2012, the company achieved 84% and 86% of its XIth Plan capex and capitalisation target respectively. PGCIL already has investment approvals for ~Rs700bn worth of projects and has placed orders for Rs560bn - all of which will commission in the XIIth Plan. PGCIL targets to achieve a yearly capex and ordering run rate of Rs200bn and Rs180bn respectively. This should translate into 17% CAGR in regulated equity over FY11-15E. We believe the stock offers safe and steady returns as compared to its private sector peers as it is insulated from risks like rising fuel cost, backing down and SEB defaults (as payments are secured through a tripartite agreement).

What will move the stock?

1) Conversion of its huge CWIP into regulatory assets will translate into increased earnings for the company, 2) Increased capex run rate, translating into higher capitalisation and hence higher earnings, 3) Earnings visibility is further supported by healthy growth in telecom division and growing order book of consultancy division 4) Improving debtor days as distribution tariffs are revised.

Where are we stacked versus consensus?

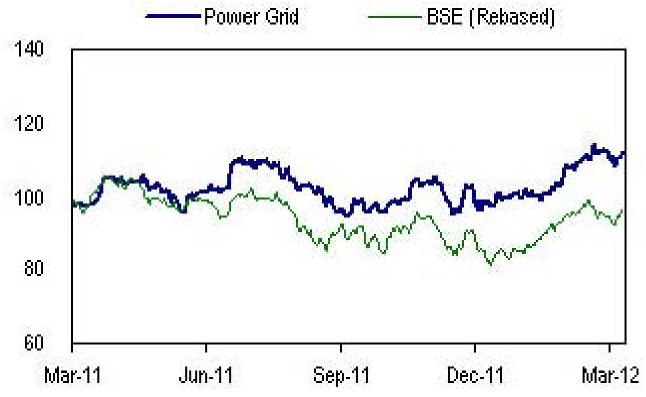
Our FY13 & FY14 PAT estimates are in line with consensus. We value PGCIL on FCFE basis to arrive at a target price of Rs125 (terminal growth rate 3% and 13% Ke).

What will challenge our target price?

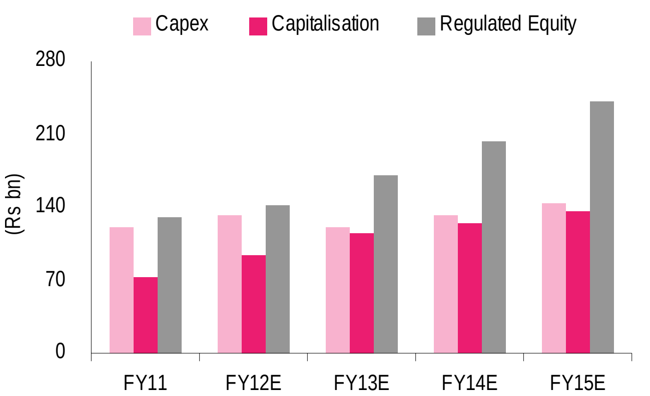
1) Delay in capitalisation of projects under construction & delayed payments by SEBs
2) Lower incentives and STOA income will impact our earnings estimate
3) Slowdown in its consultancy division
4) High debtor days

(Rs mn)	FY11	FY12E	FY13E	YoY %	FY14E	YoY %
Net Sales	84,009	96,126	111,282	15.8	129,104	16.0
EBITDA	74,642	86,619	96,862	11.8	112,492	16.1
EBITDA Marg. (%)	88.9	90.1	87.0	(307)bps	87.1	9 bps
Adj. Net Profits	25,800	31,942	33,696	5.5	39,474	17.1
Dil. EPS (Rs)	5.6	6.9	7.3	5.5	8.5	17.1
PER (x)	20.3	16.4	15.6	-	13.3	-
RoE (%)	13.8	14.3	13.7	(52)bps	14.7	93 bps
ROCE (%)	8.8	8.8	8.6	(15)bps	9.0	31 bps

Price performance



Steady growth in capitalisation



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TECPRO SYSTEMS: BUY, TP-Rs318 (88% upside)

Sector: Material Handling
CMP: Rs169; Mcap: Rs9bn
Bloomberg: TPRO IN; Reuters: TPSL.BO

What's the theme?

Most of the power BoP orders pertaining to the XIIth Five-Year Plan (including orders for coal and ash handling) are yet to be awarded. Tecpro appears to be best placed among peers to bag these orders, given its past experience. If interest rates stabilise in the near term, we expect incremental order inflows to come from the cement, steel, minerals and mining sectors. A healthy (1.7x FY12E revenue) and safe (all orders have achieved financial closure) order book minimises the risk of any delay or cancellations.

What will move the stock?

- Increased pace of order inflow, expected in FY13, mainly from the power sector.
- Execution of the current order book in a timely and profitable manner. We expect Tecpro to achieve revenue and profit CAGR of 25% and 19% respectively over FY11-14E.
- Any decline in interest rates would enable the company to improve net profit margins.
- Improvement in working capital would lead to higher cash flows.

Where are we stacked versus consensus?

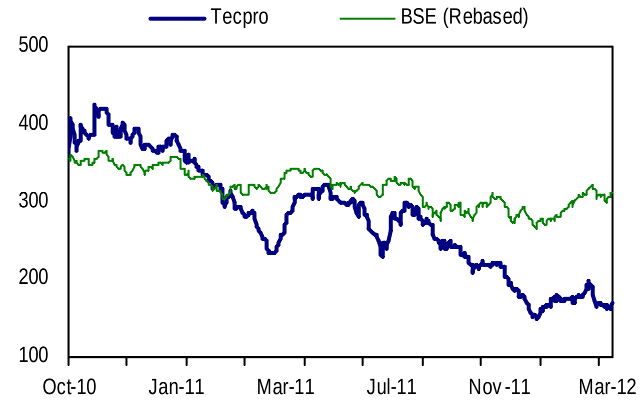
We expect EPS of Rs35.3 and Rs45.1 in FY13E and FY14E respectively, almost in-line with consensus forecasts. We maintain our BUY recommendation on the stock with a target price of Rs318 (9x FY13E).

What will challenge our target price?

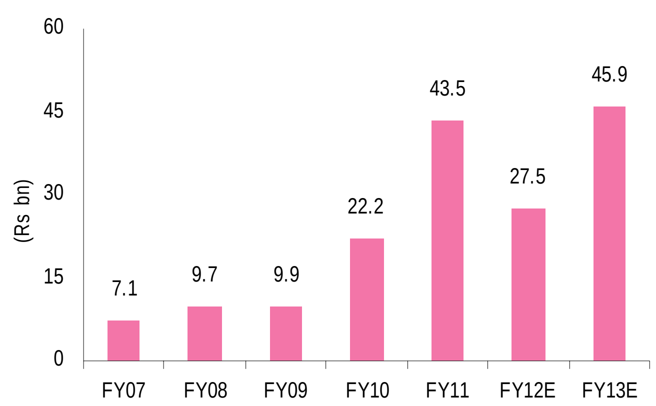
- Further rise in interest rates, which cannot be passed on to customers and hence, impact the bottom line.
- Any delay in execution leading to further deterioration of working capital.
- Less than estimated order inflows.

(Rs mn)	FY11	FY12E	FY13E	YoY %	FY14E	YoY %
Net Sales	19,736	27,193	31,299	15.1	38,721	23.7
EBIDTA	3,010	3,951	4,241	7.3	4,976	17.3
EBIDTA Marg. (%)	15.2	14.5	13.55	(50) bps	12.85	(70)bps
Adj. Net Profit	1,363	1,598	1,780	11.4	2,276	27.9
Dil. EPS (Rs)	27.0	31.7	35.3	11.4	45.1	27.9
PER (x)	6.3	5.3	4.8	-	3.7	
ROE (%)	26.9	21.8	20.2	(164)bps	21.4	126 bps
ROCE (%)	26.9	23.8	21.3	(250)bps	21.9	60 bps

Price performance



Order inflow



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Rating Objective

Rating	Large Caps	Mid Caps
	M.Cap > USD1bn	M.Cap <= USD1bn
	Return %	
BUY	More than 15	More than 20
Accumulate	5 to 15	10 to 20
Reduce	(-)5 to +5	0 to 10
Sell	Below (-)5	Less than 0

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