Strategy & Economy

AMBIT
Acumen at work

November 2013

Rural Thematic Has 'rural' India been overhyped?

Saurabh Mukherjea, CFA,
saurabhmukherjea@ambitcapital.com
Tel: +91 99877 85848

Nitin Bhasin
nitinbhasin@ambitcapital.com
Tel: +91 22 3043 3241

CONTENTS

THEMATIC

Strategy & Economy: Has 'rural' India been overhyped?................................3

Will the rural demand story persist beyond 2HFY14?....................................4

Fundamental change #1: The road connectivity boom................................5

Fundamental change #2: The telecom revolution......................................6

Fundamental change #3: The dramatic increase in land prices.................. 7

Fundamental change #4: The rise and rise of blue-collar wages................ 8

Fundamental change #5: The increase in social spending by states and the Centre................... 10

SECTORS

Auto: Two Wheelers.. 13

Auto: Tractors – utility in the hinterland...17

BFSI: Fundamentals factored in...21

Cement: Rural retail remains steady..23

Consumer: Robust consumption in rural areas.......................................29

Media: Media spend tracks consumption..33

Telecom: Growth tapers off...35

AMBIT
Acumen at work

Strategy & Economy

THEMATIC | **November 14, 2013**

Has 'rural' India been overhyped?

Whilst the cyclical drivers of rural demand at this stage are evident, will the rural story persist beyond 2HFY14? We highlight five fundamental changes that have unfolded in rural India over the past five years and are likely to systematically lend greater fervour to India's rural demand story. These fundamental changes (in order of importance) include: (1) The boom in road connectivity, (2) The rise in rural teledensity, (3) The dramatic increase in land prices in rural India, (4) The rise and rise of blue-collar wages, and (5) The increase in social spending by states and the Centre. We highlight Idea, Dish TV, Ramco Cements and M&M as compelling plays on this underlying theme.

'Consumption' remains robust in rural areas (see page 29)

Our channel checks ***(Click here)*** suggest that whilst urban consumption has been adversely affected, **rural consumption remains robust,** with rural consumption having grown 1.5x faster than urban consumption in FY13. **HUL and Colgate have the highest rural exposure in the consumer sector; however, we maintain our SELL stance on these stocks** owing to expensive valuations.

Tractors – Utility in the hinterland (see page 17)

We expect the strong pace of tractor volume growth seen over FY10-13 to sustain, as growth drivers such as rising use for non-agricultural purposes whilst rising rural prosperity and labour shortages remain intact. With a leadership position in the tractor market, we highlight **Mahindra & Mahindra** as one of the key beneficiaries of this dynamic.

Media - Spends may follow (see page 33)

Improvements in rural prosperity may lead to increased focus on tier III/IV and rural markets by advertisers. Print media companies and DTH operators are likely to be the primary beneficiaries if rural incomes were to rise. We are currently BUYers of **Dish TV** (target price of Rs55) and **Hathway** (target price of Rs339).

BFSI and 2Ws – Valuations fully factor in the rural surge (see page 21 & 13)

Whilst we expect rural prosperity to be a structural theme, the valuations of BFSI players such as **M&M Finance** and **GRUH Finance**, are already factoring in this, with the stocks trading at a premium over their historical valuations as well as their urban peers. Likewise, in 2Ws, revenue upgrades have to be driven by improvement in the urban markets with the rural angle being fully factored in.

Telecom – Growth tapers (see page 35)

Whilst wireless rural penetration is still poor, growth in rural teledensity has tapered off recently. The sector has not seen any significant upsides from a 'rural revival' though this may be clouded by deceleration of coverage investments by the operators. **Idea** (target price of Rs185) is the primary beneficiary of rural prosperity given its larger exposure to rural subscribers.

Cement – A rural housing play but rich valuations (see page 23)

Volume growth should improve from 2HFY14 owing to higher farm income and election dole-outs. Retail remains the dominant driver of demand growth and incremental impetus requires institutional demand, a constraint for pricing/ profitability. Except **Ramco Cements,** which has a strong franchise amongst retail in rural south, we are SELLers of large players given expensive valuations.

Top plays on India's rural economy

Stocks	Upside	MCap
Ramco	16%	US$650mn
Idea	16%	US$8.9bn
Dish TV	2%	US$879mn
M&M	Not Rated	US$8.7bn

Ambit's India Yatra : 20-22 Nov

Ambit is hosting an 'India Yatra' in November 2013 to help clients assess the political mood in India. The trip will kick off in Delhi on 20 November 2013 with meetings with top political experts and then move to UP (Lucknow on 21 November 2013 and Kanpur on 22 November 2013) where we will meet civil servants, journalists and local businesspeople in this critical swing state (UP accounts for the most number of Lok Sabha seats: 80). Please contact your Ambit Salesperson to register now for this unique road trip.

Analyst Details

Saurabh Mukherjea, CFA
saurabhmukherjea@ambitcapital.com
+91 99877 85848

Nitin Bhasin
nitinbhasin@ambitcapital.com
+91 22 3043 3241

Will the rural demand story persist beyond 2HFY14?

Whilst the immediate-term catalysts are evident...

2HFY14 presents a window of opportunity for investors to buy rural-demand-driven stocks for two obvious reasons. Firstly, the normal status of the South-West monsoons is likely to result in higher farm sector growth of 3.9% YoY in FY14 (vs 1.9% YoY in FY13) with the bulk of this impact being concentrated in 2HFY14. Secondly, given the low base effect created by the brutal expenditure cuts administered by the Finance Minister in 2HFY13, revenue expenditure growth in 2HFY14 is likely to be recorded at a higher level of more than 13% YoY vs 1% YoY in 2HFY13.

Whilst the cyclical drivers of rural demand at this stage are evident, the more pertinent question is, **'will this story persist beyond 2HFY14?'** Has India's countryside undergone a fundamental change over the past five years which has made this segment of the Indian economy inherently more resilient? Has income growth in rural India slowed down as dramatically as that in urban India or do a different set of dynamics govern labour market trends in this segment of the economy?

... will the rural demand story persist beyond 2HFY14?

Our travels into the interiors of India suggest that the Indian rural economy has transformed over the past few years in a way that the air-conditioned Indian office-worker cannot possibly envisage. Besides the obvious catalysts presented by the normal monsoons and higher Government expenditure, the rural demand story is likely to be a theme that is likely to persist beyond 2HFY14 owing to certain critical changes that have transpired in India over the past five years.

Whilst the rising penetration of banks, electrification as well as sanitation has played a role in driving demand in India's rural areas, we highlight five fundamental changes that have unfolded in rural India over the past five years and are likely to systematically lend greater fervour to India's rural demand.

These fundamental changes (in order of importance) are:

#1: The road connectivity boom

#2: The silent telecom revolution

#3: The dramatic increase in land prices

#4: The rise and rise of blue-collar wages

#5: The increase in social spending by states and the Centre

In the subsequent section, we illustrate these changes using a combination of data as well as anecdotal evidence collected during our travels into India's interiors.

Given that six states namely Uttar Pradesh (UP), Bihar, West Bengal (WB), Maharashtra, Andhra Pradesh (AP) and Madhya Pradesh (MP) account for nearly 60% of India's rural population, we focus on the rural economies in these states to demonstrate the quantum of these changes.

Analyst

Ritika Mankar Mukherjee, CFA
ritikamankar@ambitcapital.com,
Tel: +91 22 3043 3175

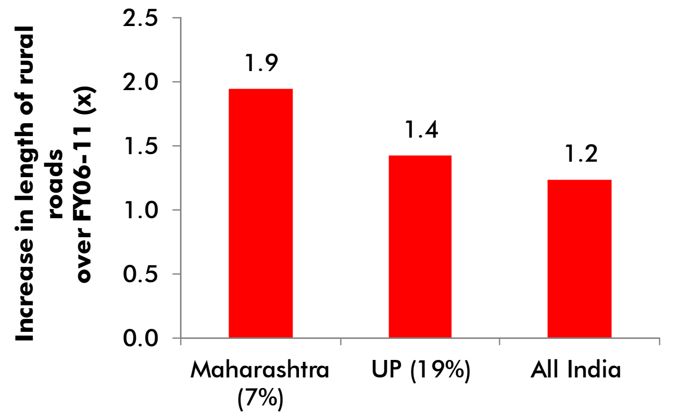
Fundamental change #1: The road connectivity boom

Our discussions with dealers of Royal Enfield, manufacturers of a relatively high-end two wheeler, in UP (a state which accounts for a fifth India's rural population) suggests that 'farmers' are accounting for a growing share of their sales. And the sales of these bikes are evidently increasing at a rapid clip in central UP, as the number of Enfield showrooms is likely to expand from 1 in FY13 to 5 by FY15.

Besides the rise and rise of blue-collar wages in India (refer to page 9 for details), a significant increase in the number of rural roads, state highways as well as national highways in India's rural regions is largely responsible for this step-up in demand. (For our detailed blue-collar wage thematic, published on 12 April, click here)

Despite the general slowdown in the pace of road network expansion since FY10, the total length of rural roads in India has increased 1.5x from 2.2mn km in FY01 to 3.4mn km as at FY11, according to the latest available data. Specifically, over FY06-11, the length of rural roads in India has increased 1.2x, with the bulk of the improvement concentrated in two states namely Maharashtra and Uttar Pradesh which together account for a quarter of India's rural population (see Exhibit 1 below).

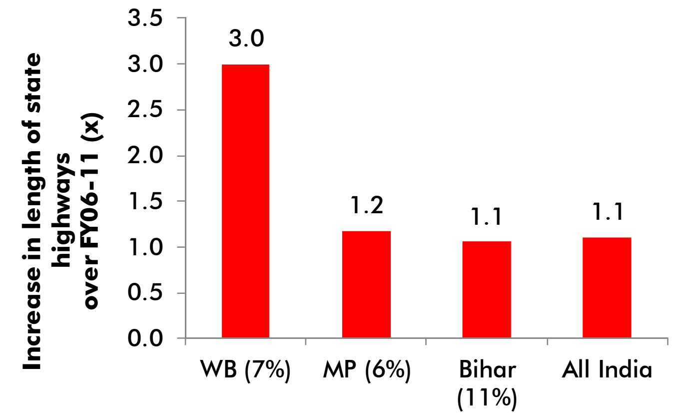
Exhibit 1: The length of rural roads in India increased by 1.2x over FY06-11, with the pace being faster in Maharashtra and UP



Source: CEIC, Ambit Capital research

Note: Figures in parentheses indicate the share of the total rural population of India accounted for by these states.

Exhibit 2: The length of state highways in India increased by 1.1x over FY06-11, with the pace being faster in WB, MP and Bihar



Source: CEIC, Ambit Capital research

Note: Figures in parentheses indicate the share of the total rural population of India accounted for by these states.

Whilst rural roads in Maharashtra and UP have expanded at a faster pace than the national average, the pace of expansion in the length of state highways has been higher in WB, MP and Bihar, which together account for another quarter of India's rural population (see Exhibit 2 above). Finally, the national highway network in UP has expanded by 1.3x over FY06-12 as against the national average of 1.2x.

Roads are known to play a pivotal role in the expansion of a market, as this allows producers located in urban areas to sell their products in rural interiors. Correspondingly, roads allow producers in rural peripheries to supply to larger urban markets. This in turn plays an enabling role in driving demand for automobiles, ranging from tractors to two wheelers.

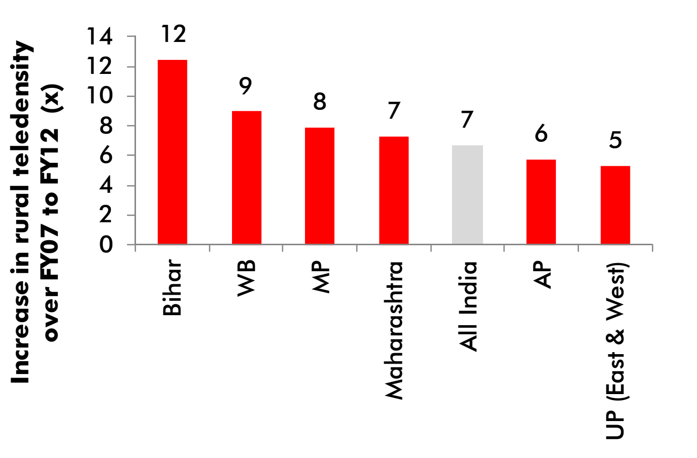
The expansion of roads into the interiors of India over the last few years has been the most pivotal change that has transformed the Indian rural economy and the after effects of this development are likely to persist going forward.

Fundamental change #2: The telecom revolution

The first leg of the telecom connectivity revolution in India was concentrated in urban areas, with metros accounting for more than 90% of total subscribers in the late 1990s. The next phase of this revolution has in fact been concentrated in rural areas, with metro subscribers accounting only for 11% of total subscribers as of today.

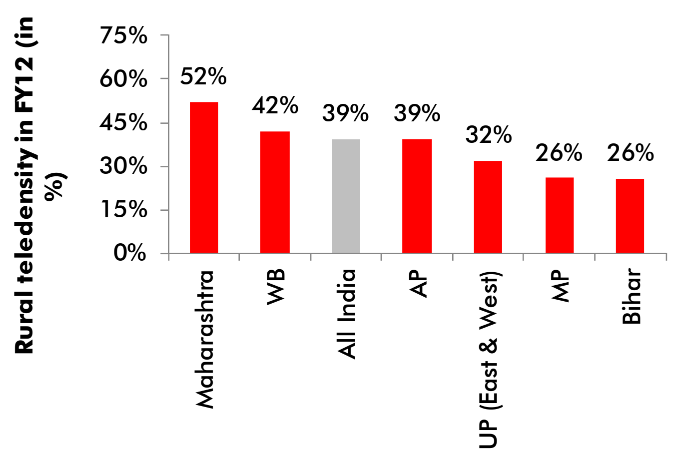
Urban teledensity in India expanded from 48% in FY07 to 169% in FY12, implying a 4x increase (note: teledensity refers to the number of telephone connections for every hundred individuals living within an area). Simultaneously, rural teledensity has increased by 7x over the same period from 6% to 39%, with the metric having improved at a faster clip in Bihar, WB, MP and Maharashtra, which together account for nearly a third of India's rural population (see Exhibit 3 below).

Exhibit 3: Rural teledensity has increased by 7x over FY07-12, with growth in Bihar, WB and MP being greater than the national average



Source: CEIC, Ambit Capital research

Exhibit 4: Rural teledensity in AP, UP , MP and Bihar is still lower than the national average



Source: CEIC, Ambit Capital research

Besides the rapid increase in teledensity that has materialised over the past few years, the potential for this metric to improve further remains meaningful (see Exhibit 4 above), with urban teledensity levels currently at 169%.

In fact, cross-country as well as intra-country studies within India point to a strong positive correlation between telecom penetration and the GDP growth of a region. More importantly, past research suggests that 24-25% is a critical threshold level for teledensity, as the impact on growth is pronounced once this threshold is breached. This finding is relevant in the current context, given that rural teledensity hit this threshold of 24% in FY10 (see Exhibit 5 below).

Exhibit 5: Studies point to a strong positive impact of telecom penetration on GDP growth of a region and point to 24-25% being a critical threshold level for teledensity

Name of Study	Key Finding
Röller and Waverman (1996)	In this study which included both developed and developing countries, Röller and Waverman found that a 10% increase in the telecom penetration rate leads to a 2.8% increase in GDP and that a minimum threshold of telecom density (of around 24%) must be achieved to generate growth.
Kathuria and Uppal, ICRIER (2009)	Indian states with high mobile penetration can be expected to grow faster than those states with lower mobile penetration rates, by 1.2 percentage points a year more on average for every 10% increase in the penetration rate. There is evidence of a critical mass around a penetration rate of 25%, beyond which the impact of mobile on growth is amplified by network effects.

Source: Ambit Capital research

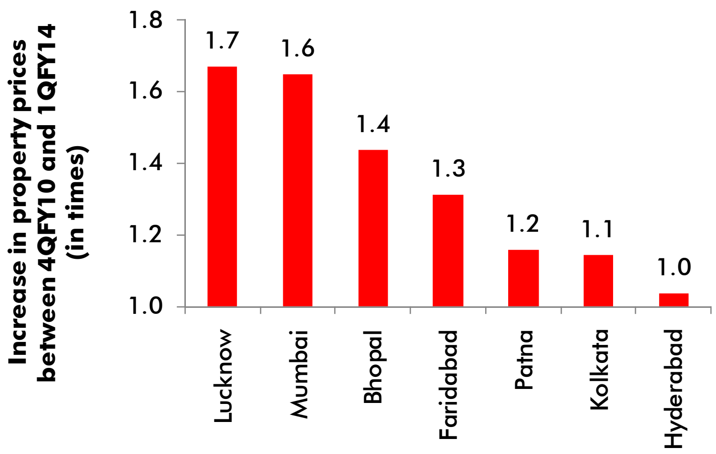
Deeper penetration of mobile phones into the countryside has helped rural prosperity in several ways. **Firstly**, by giving farmers access to crop prices in the urban wholesale markets, mobile phones have either allowed the larger farmers to disintermediate the middle or, and this is more likely, get a better deal from the middle man. **Secondly**, by making it easier to stay in touch with the folks back at the village, mobile phones have encouraged new patterns of migration (eg. from the village to the state capital) for an even larger number of people (especially, young single women who would have historically stayed back at the village until they got married). **Thirdly**, by enabling daily contact between migrants to the large metros and their relatives back at the village, mobile phones have catalysed changes in consumption habits. For example, for a range of basic FMCG items, such as hair oil, soaps, and biscuits, the rural market is almost as important as the urban market, and the rural volume growth in these items is nearly 2x that in urban India.

Fundamental change #3: The dramatic increase in land prices

Of the 2.9mn sq km of land area in India, 60% is agricultural land. Consequently, farmers in rural India are structurally positioned to gain the most from the increase in the prices of land in India.

The dramatic and continued increase in land prices in urban areas has imparted a centrifugal force to land prices in surrounding semi-urban and rural areas. Moreover, the increasing length of roads in India, improving agricultural yields and most importantly, the passage of the Right to Fair Compensation and Transparency in Land Acquisition, Rehabilitation and Resettlement Act, 2013 have led to higher land prices in rural India (see Exhibit 7 below for details).

Exhibit 6: Property prices in cities located in states accounting for most of India's rural population continue to rise rapidly



Source: CEIC, Ambit Capital research

Exhibit 7: The drivers of rising land prices in rural India

Dynamic	Quantification
Rising property prices in urban India	Despite lackluster economic growth, urban property prices have increased by 1.5x in Delhi, Mumbai and Chennai over the past three years.
Increased penetration of roads	Over FY06-11, the length of rural roads and state highways has increased by 1.2x and 1.1x to 3.4mn km and 164,000 km respectively.
Rise in agricultural yields	Yields for major crops and food grains in India have risen at 1.7% CAGR over FY02-12.
Passage of the Land Acquisition Act,2013	The Act requires the total minimum compensation for rural land acquired to be at a minimum of 4x the market value for land. Our checks suggest that even though this Act comes into force in CY14, prices are rising in anticipation of this landmark change.

Source: CEIC, Ambit Capital research

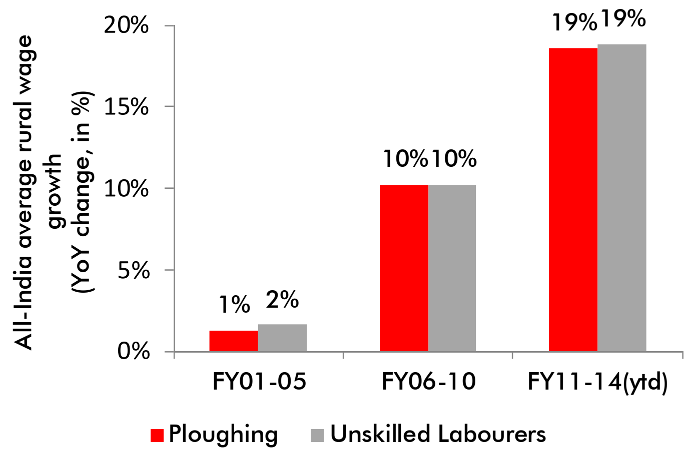
Discussions with the largest business families in north India suggest that the Land Acquisition Act of 2013 (which becomes effective on 1 January 2014) represents an enormous windfall benefit for these landed families, as they now become gatekeepers to corporate India's land rush. Not only can these families (many of whom were farmers until a decade or two ago) encash their personal landholdings at a massive premium to the purchase cost, they can also control the implementation of the bill at the state level. Thus, for example, they can make land available in a steady phased manner to those corporate groups that are allied to them, thereby providing additional opportunities to expand their wealth.

The inorganic wealth effect created by the passage of this bill as well the organic increase in rural land driven by the drivers listed in Exhibit 7 above have transformed the purchasing power of rural India.

Fundamental change #4: The rise and rise of blue-collar wages

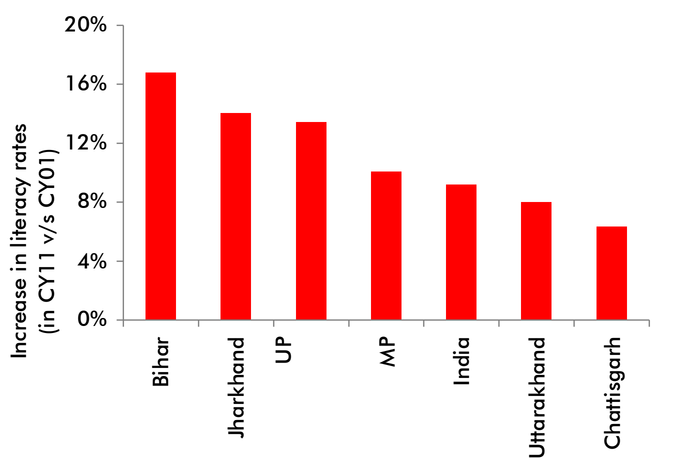
In a note dated 12 April 2013 *(click here for details)*, we highlighted the fact that blue-collar wage inflation in India has been recorded at a staggering CAGR of 15% or more over the past few years despite the recent deceleration in headline GDP growth (see Exhibit 8 below).

Exhibit 8: Wage inflation in rural India has risen at an average of 19% YoY over FY11-FY14YTD



Source: RBI, Ambit Capital research, Note: FY14 data presents data till August 2013.

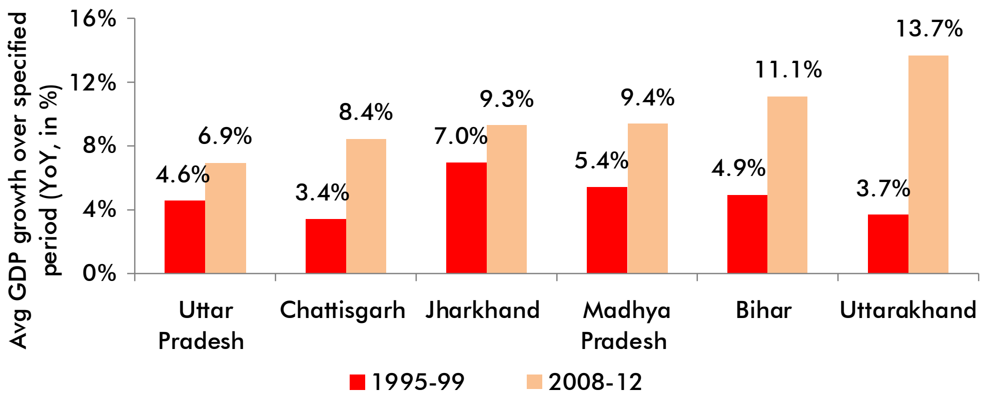
Exhibit 9: The improvement in literacy levels has been the most profound in 'labour-supplier states'



Source: CEIC, Ambit Capital research.

Given that consumer inflation over this period has been around 10% per annum, such wage growth points to a very real increase in the purchasing power of the vast majority of Indians.

Exhibit 10: GDP growth rates in traditional labour-supplier states (that account for 37% of India's population) have risen meaningfully



Source: CEIC, Ambit Capital research

We highlighted that two sets of forces were responsible for the high wage inflation experienced over FY11-14, namely:

- **The ongoing wave of 'reverse migration'** with migrant labour migrating back to the traditional labour-supplier states like Bihar and Chhattisgarh owing to the pickup in economic growth in their home states (see Exhibit 10 above) and the accompanying improvement in job prospects, and
- **The steadily rising demand for education** especially in the labour-supplier states (see Exhibit 9 above), which in turn has meant a delayed entry into the labour force.

It is encouraging to see blue-collar wages rising, but as a greater chunk of the Indian populace opts for education, the question is 'Can these trends sustain?'

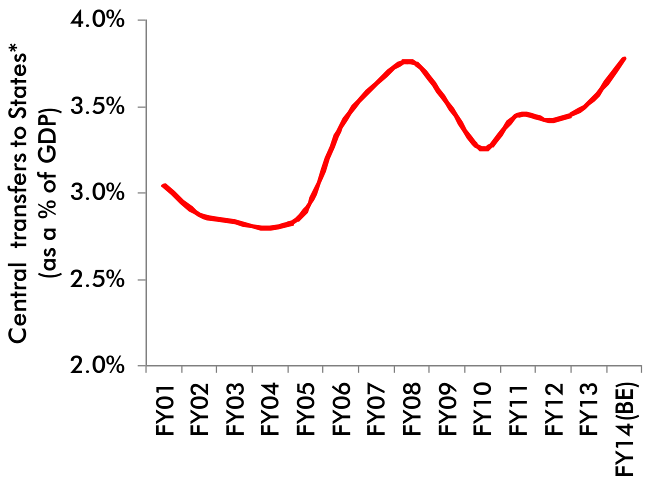
We reckon that this trend is likely to continue for the next 4-5 years, as cross-country experience suggests that literacy rates increase by leaps and bounds as a nation transitions from a low income to an upper middle income country.

Moreover, the high growth in the labour-supplier states is unlikely to decelerate soon given that most of them are run by ambitious and growth-driven leaders. Clearly, the rising seat share of regional parties in the Lok Sabha has strengthened the hand of regional political overlords who have used their increased bargaining power vis-à-vis the Centre to push-for greater diversion of the Centre's resources to the States (see section below for details). The rising might of regional parties has also had a salutary effect to the extent that this has made state-level politics more competitive and that in turn has made Chief Minister more focused on delivering better governance. We will provide investors with greater granularity on the rise of the erstwhile backward states following our 'India Yatra' *(click here for details)* as this theme is at the heart of the surge in rural prosperity, a surge which is propelling blue collar wages and living standards for the majority of India's population.

Fundamental change #5: The increase in social spending by states and the Centre

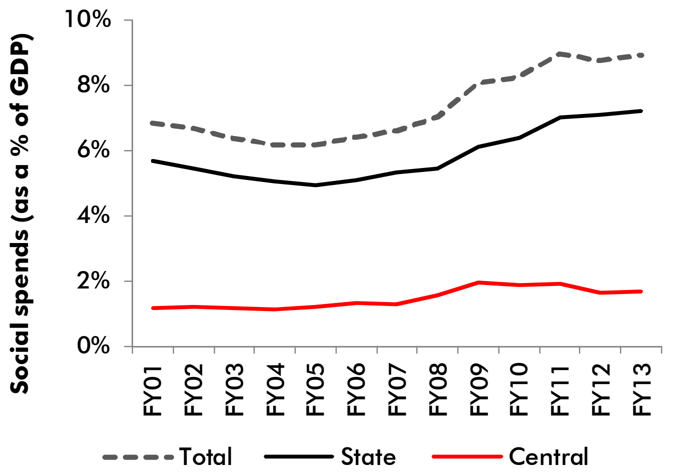
The rising seat share of regional parties over the past few years has translated into greater bargaining power for State Governments vis-à-vis the Centre. One of the tangible manifestations of this increased bargaining power has been the systematically rising Central transfers to the states (see Exhibit 11 below).

Exhibit 11: Central transfers to states have increased by 1% of GDP over the past decade



Source: CEIC, Ambit Capital research Note: BE refers to Budget Estimates(BE), Transfers include states' share in taxes, loans and grants

Exhibit 12: Spending on social services has increased by 2.6% of GDP over the past decade, mainly driven by state-level spending



Source: CEIC, Ambit Capital research

As is evident from the chart above, central transfers to states (which includes state's share of centrally collected taxes, grants made to state Governments and loans extended by the Central Government) have risen from 2.8% of GDP in FY04 to 3.8% of GDP as at FY14, thereby implying a 100bps increase.

Simultaneously, spending on social services has increased from 6.4% of GDP in FY03 to 8.9% of GDP in FY13, implying an increase of 260bps over the past decade (see Exhibit 12 above). As one would expect, the bulk of the increase has been driven by higher state-level spending (see Exhibit 12 above), thereby pump-priming demand in the rural economy.

The combination of rising Central transfers to the state Governments in general and Government spending greater amounts on social services, a trend that has visibly gathered momentum over the past five years, is the final fundamental change that has played a pivotal role in igniting rural demand in India and immunising it from the broader business cycle.

Given that regional parties will remain critical components of any coalition government that is formed at the Centre after the next General Election (regardless of whether the BJP or the Congress emerges as the largest party), we would expect these fiscal transfer trends to continue.

This page has been intentionally left blank

AMBIT
Acumen at work

Auto

THEMATIC	TWO-WHEELERS	November 14, 2013

Two-wheelers

Rural demand for two-wheelers (2Ws) would continue outperforming urban demand, owing to rising rural prosperity and a good monsoon. But, we expect rural volume growth to moderate to double-digit growth (15-20%), as penetration levels have increased to nearly 30% of addressable rural households. Whilst Hero MotoCorp (which derives nearly 48% of its volumes from rural markets) would undoubtedly benefit from the buoyancy in rural demand, we believe this is largely factored into consensus earnings estimates. We believe any further catalyst to a revenue upgrade has to be driven by a demand improvement in urban markets, which remains elusive at present.

Strong volume growth enabled by rural demand

The domestic two-wheeler industry has seen strong volume CAGR of 14% in FY10-13 vs 1% volume CAGR in FY06-09. Commentary from the managements of 2W companies as well as industry sources attributes the higher growth in recent years to higher demand from rural markets. The rise in rural demand is attributed to increasing rural prosperity driven by higher MSPs, higher rural spending by the Government and increasing real estate prices. Management commentaries on the rural volume growth story remain bullish. The tone has turned more optimistic in recent months on the back of a good monsoon this year.

We expect rural demand to continue outperforming urban demand

Our discussions with dealers, financiers as well as other industry sources largely corroborates the management's bullish stance both on: (a) rural demand continuing to significantly outperform urban demand; and (b) the underlying demand growth drivers in the rural market. Also, sources point out that: (a) the dealer network of 2W companies is expanding in the interiors of India; and (b) rural-specific bike models would aid in rural sales growth. Whilst we expect 2W sales in rural areas to continue outperforming urban demand, rural volume growth would be modest (at 15-20%), as penetration levels have increased to nearly 30% of the addressable households in rural areas.

However, the rural story appears to be priced in

We estimate rural markets would constitute ~40% of total 2W demand and hence rural volume growth would help overall 2W sales. We expect Hero MotoCorp which derives nearly 48% of its sales from rural areas to be the key beneficiary from an uptick in rural demand. On the flipside, however, the urban markets remain subdued and we remain concerned of the rising competition from Honda in the 2W space. As a result, we believe the uptick in rural demand and its positive impact on Hero MotoCorp's earnings are largely factored in consensus revenue growth expectations of 7% YoY in 2HFY14 (vs 4% YoY in 1HFY14) and 12% in FY15. The stock is currently trading at 14.1x FY15 (at a marginal discount of 5% to the five-year average). We maintain our SELL stance.

Snapshot of major two-wheeler companies

Company	Mcap (US$ mn)	Revenue CAGR FY11-13	Revenue CAGR FY13-15E	EBITDA CAGR FY11-13	EBITDA CAGR FY13-15E	EPS CAGR FY11-13	EPS CAGR FY13-15E	RoE FY14E	RoE FY15E
Hero MotoCorp	6,275	10.7	8.4	12.1	9.8	2.7	13.3	41.5	45.8
Bajaj Auto	9,183	10.7	9.6	8.6	13.9	7.0	16.9	41.3	40.1

Source: Bloomberg, Ambit Capital research

Key Recommendations

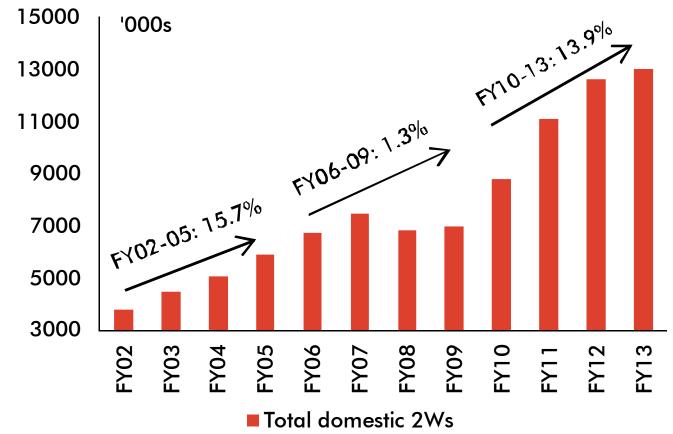
Hero MotoCorp	SELL
Target Price: Rs2,000	Downside : 0%
Bajaj Auto	**BUY**
Target Price: Rs2,350	Upside : 16%

Analysts Details

Ashvin Shetty, CFA
+91 22 3043 3285
ashvinshetty@ambitcapital.com

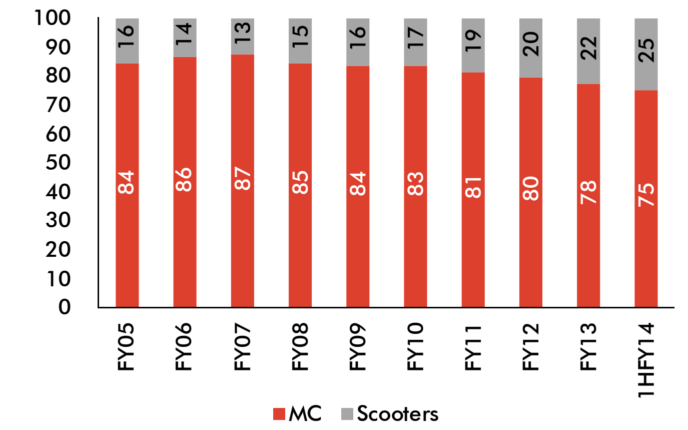
Ritu Modi
+91 22 3043 3292
ritumodi@ambitcapital.com

Exhibit 1: Strong 2W volume growth in recent years



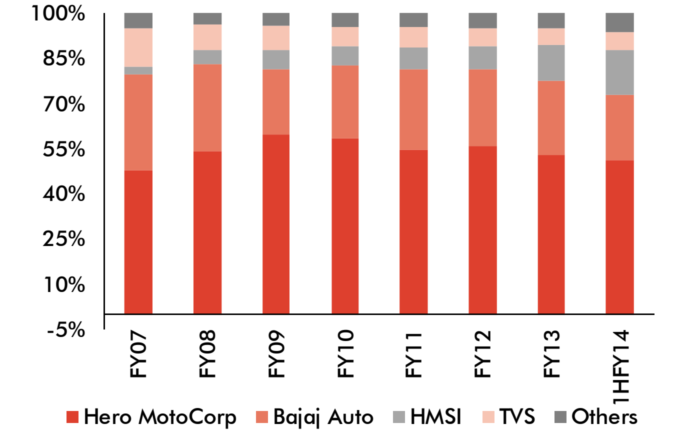
Source: SIAM, Ambit Capital research

Exhibit 2: Scooters gain share over motorcycles, implying rising share of urban market



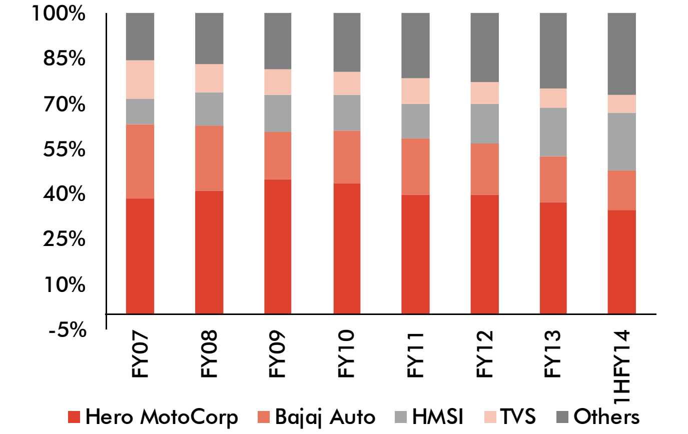
Source: SIAM, Ambit Capital research

Exhibit 3: HMSI makes inroads into domestic motorcycles at the expense of incumbents



Source: SIAM, Ambit Capital research

Exhibit 4: Market shift towards scooters further helps HMSI's share in overall 2W space



Source: Company

Exhibit 5: Economy segment's rising share and faster growth suggest that rural markets have consumed more motorcycle in the last couple of years

	Price point (Rs)	FY10	FY11	FY12	FY13	1HFY14
Economy segment	35-45k	19.2%	17.2%	18.5%	19.3%	19.4%
Executive segment	45-65k	64.2%	64.4%	64.7%	64.4%	63.8%
Premium segment	>65k	16.6%	18.3%	16.9%	16.3%	16.8%

Source: Company

Hero MotoCorp

(HMCL IN, mcap US$6.3bn, SELL, TP Rs2,000)

Our channel checks suggest an uptick in rural sales on positive sentiments surrounding a good monsoon this year; urban demand remains subdued due to concerns on inflation, rising fuel prices as well as the general macro sentiment. **With nearly 45-48% of the company's sales coming from rural areas vs likely industry average of 40%**, Hero MotoCorp would undoubtedly be a primary beneficiary of an improvement in rural demand.

On the flipside, however, the urban markets remain subdued. Moreover, we continue to remain concerned of Honda's aggressive ambitions, technological strengths and deep financial pockets.

Furthermore, Hero has already lost a market share of 200bps in the domestic motorcycle space in the last two years since its split with Honda. Whilst Hero MotoCorp has been gaining market share in the scooters space, a volume gain in the scooters segment (which accounts for only 25% of the total 2W market excluding mopeds) would not make up for the market share loss in the domestic motorcycle space. At the same time, brand building and setting up distribution networks in the export markets involve long gestation periods and hence they are unlikely to provide any meaningful contribution to overall volumes in the medium term.

As a result, we believe the uptick in rural demand and its positive impact on Hero MotoCorp's earnings is largely factored in consensus revenue growth expectations of 7% YoY in 2HFY14 (vs 4% YoY in 1HFY14) and 12% in FY15.

The stock is currently trading at 14.1x FY15 (at a marginal discount of 5% to the five-year average). **We retain our SELL stance on the stock.**

This page has been intentionally left blank

AMBIT
Acumen at work

Auto

THEMATIC | **TRACTORS** | **November 14, 2013**

Tractors – utility in the hinterland

The strong tractor volume growth of 9.5% seen in FY10-13 (vs 4.8% in FY06-09) would likely sustain in the future (10-12% CAGR over the next five years), owing to growth drivers such as the rising use of tractors for non-agricultural purposes, rising rural prosperity and labour shortage. Mahindra & Mahindra (M&M) has a strong leadership position in the tractor market (41% market share) and nearly 40% of its operating profits come from the tractor business. Thus, M&M is one of the key beneficiaries of rising tractor demand in India.

Strong growth in recent years…

The domestic tractor industry has recorded a strong 9.5% volume CAGR over the last three years, nearly twice the growth in FY06-09 (4.8%). Whilst industry growth in FY13 (down 2% YoY) was adversely affected by the poor monsoons, the growth bounced back in FY14, with 1HFY14 volumes increasing 24% YoY, owing to positive market sentiments after a good monsoon.

…attributed to rural prosperity and increasing non-farm use

The higher pace of growth in recent years is attributed to: (a) increasing rural prosperity driven by higher Minimum Support Price (MSP) and rural spending by the Government; (b) increasing use of tractors for non-farm purposes; (c) increase in disbursal of agri credit; and (d) shortage of manual labour, emanating from a shift of labour to non-farm purposes. The non-agricultural use of tractors (currently ~40% of tractors are used for non-farm purposes), particularly for construction, haulage and transportation, has increased. This extensive use of tractors in newer avenues has also shortened the replacement cycle for tractors from ~15-18 years earlier to ~8-10 years now.

Primary data discussions indicate that growth drivers remain intact

Our primary data discussions (with dealers, farmers, and financiers) largely corroborate the management's views and make us believe that factors such as increasing use for non-farm purposes, rising rural income and shortage of labour would continue to support volume growth over the next 3-5 years. Furthermore, the current penetration level for tractors in India is much lower vs developed and other emerging economies. Hence, we expect the industry to expand at ~10-12% over the next five years, in line with the growth seen in FY10-13 and higher than the growth seen in the last decade.

M&M remains the largest beneficiary

Mahindra & Mahindra would be the largest beneficiary of higher tractor demand, due to its leadership position in the tractor market (41% market share). Nearly 40% of the company's operating profits come from the Farm and Equipment Services (FES) segment. We believe M&M's strong brand name, distribution reach and presence across all the key price segments/HP range would continue to provide sustainable competitive advantages to the company in the FES segment. Consensus, on average, expect tractor volume growth of 13-15% over FY13-15 (the company has achieved a volume growth of 24% in 1HFY14). The stock is currently trading at 15.4x FY14 earnings and 13.9x FY15 earnings, at a 5-8% discount to its historical three-year average.

Snapshot of tractor companies

Company	Mcap (US$ mn)	% profits from FES	Revenue CAGR FY11-13	Revenue CAGR FY13-15E	EBITDA CAGR FY11-13	EBITDA CAGR FY13-15E	EPS CAGR FY11-13	EPS CAGR FY13-15E	RoE FY14E	RoE FY15E
M&M	8,657	40%	30.4	8.0	16.8	10.2	10.9	6.4	21.3	20.2
Escorts	221	79%	13.5	5.7	33.7	16.0	9.4	3.3	8.4	8.9

Source: Company, Bloomberg

Key Recommendations

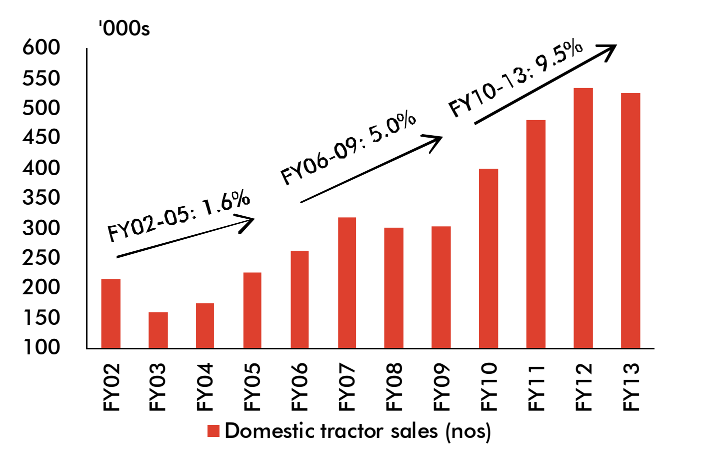
Mahindra & Mahindra	**NOT RATED**

Analysts Details

Ashvin Shetty, CFA
+91 22 3043 3285
ashvinshetty@ambitcapital.com

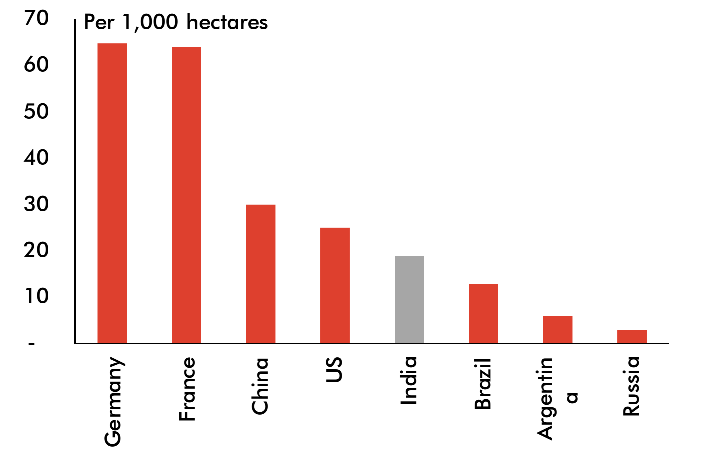
Ritu Modi
+91 22 3043 3292
ritumodi@ambitcapital.com

Exhibit 1: Tractor volume CAGR over FY10-13 was almost double the growth seen over FY06-0S9



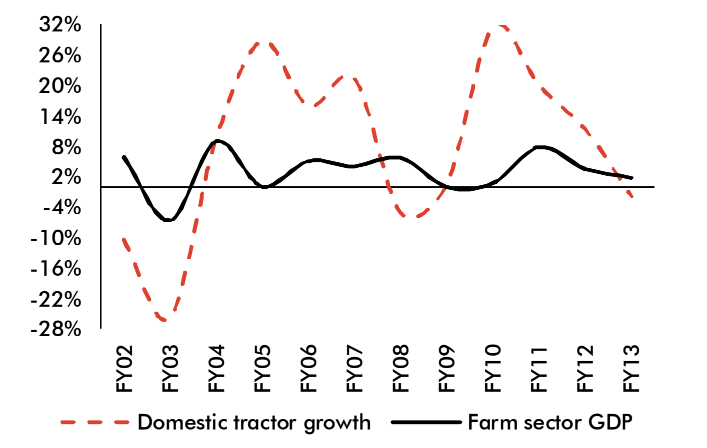
Source: Industry, Ambit Capital research

Exhibit 2: Penetration of tractors in India is significantly lower than other economies, implying potential for growth



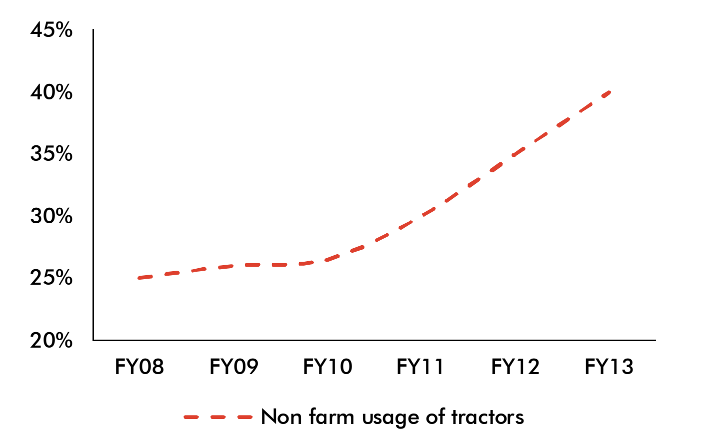
Source: Industry, Ambit Capital research

Exhibit 3: Domestic tractor growth and farm sector GDP growth have a correlation of only 32%



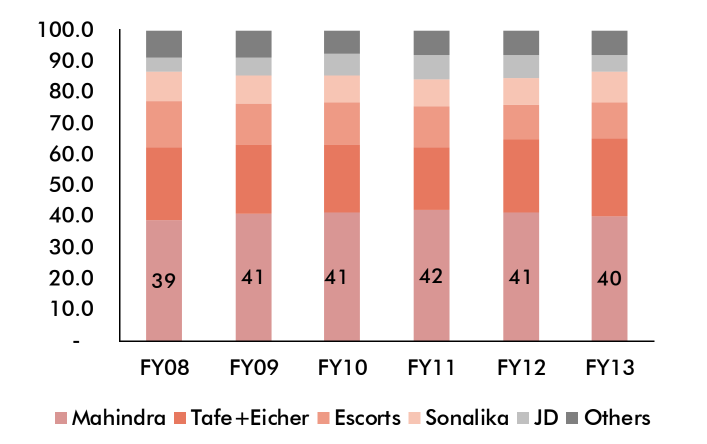
Source: Industry, Ambit Capital research

Exhibit 4: Non-farm use has contributed significantly to tractor demand in recent years



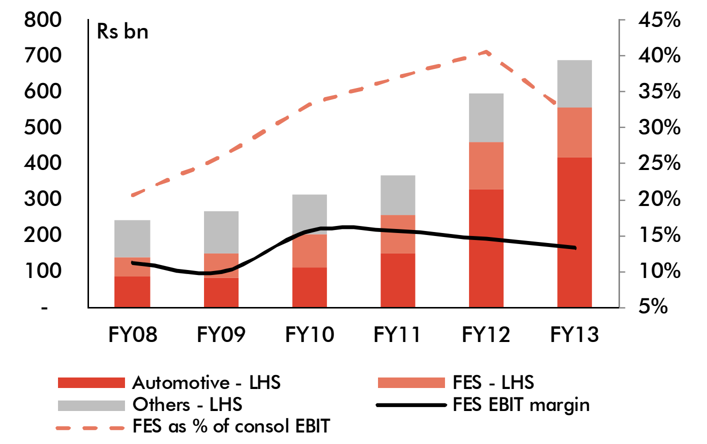
Source: Industry, Ambit Capital research

Exhibit 5: The acquisition of Punjab Tractors in 2008 further strengthened M&M's leadership



Source: Company, Ambit Capital research

Exhibit 6: M&M's FES segment contributes to 25% of consolidated revenues and 41% of operating profits



Source: Company, Ambit Capital research

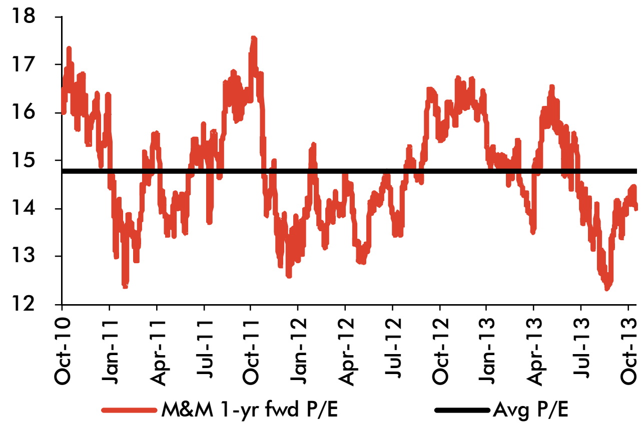
M&M – Key beneficiary of rural growth

Over the years, M&M has diversified into many new businesses across various sectors of manufacturing and services. The company has operations in over 18 key industries. However, it continues to be India's leading utility vehicle (42% market share) and tractor manufacturer (41% market share).

The company's market leadership in the Farm and Equipment Services (FES) segment is driven by: (a) first mover advantage with strong brand name and distribution reach; (b) presence across all the key price segments/HP range and; (c) diversification across all the key regions/states (especially strong in western and southern India with market shares of 47% and 49% respectively). M&M has been able to hold on its market share despite the entry of global giants such as John Deere and New Holland. M&M acquired a 63% stake in Punjab Tractors in July 2007 and merged it with the company w.e.f. FY09. This further consolidated M&M's presence in the Indian tractor market.

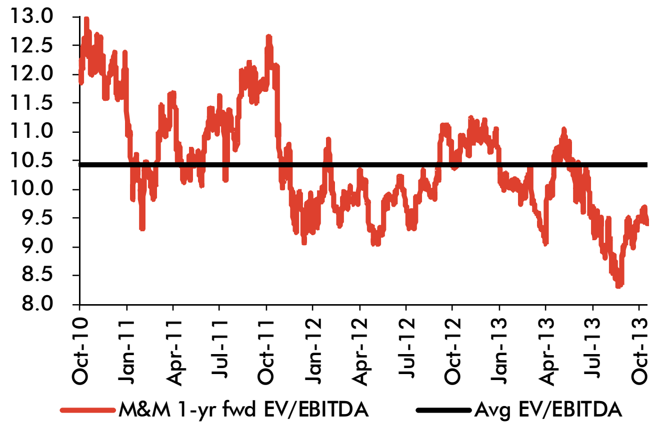
We believe M&M would continue to enjoy sustainable competitive advantages in the FES space. We expect the industry to expand at ~10-12% over the next five years, in line with the growth seen over FY10-13 but higher than the growth seen over the last decade. M&M would be the largest beneficiary of the increasing tractor demand.

Exhibit 7: On P/E, M&M is currently trading at a 5% discount to its historical three-year average



Source: Bloomberg, Ambit Capital research

Exhibit 8: On EV/EBITDA also, M&M is currently trading at a 10% discount to its historical three-year average



Source: Bloomberg, Ambit Capital research

This page has been intentionally left blank

Fundamentals factored in

Rural-focussed lenders such as M&M Financial and GRUH Finance have shown better profitability trends in FY10-13 vs FY06-09 due to strong loan growth and improving asset quality. Increasing rural prosperity driven by higher minimum support price (MSPs) and rural spending by the Government, increasing use of tractors for non-farm purposes, improved roads and connectivity, shortage of manual labour, and people moving from *kuccha* houses to *pukka* houses seem to have driven higher demand for auto and home loans from rural areas. Whilst we expect such demand to remain strong, the valuations of the primary beneficiaries of such trends (i.e. M&M Financial and GRUH Finance) seem to be already factoring this in.

Strong profitability in recent years...

Over the last three years, lenders such as M&M Financial Services (MMFS) and GRUH Finance (GRUH), which are operating in the rural segment, have shown strong profitability growth due to strong loan growth and improving asset quality trends. MMFS's and GRUH's loan books have recorded a CAGR of 40% in FY10-13 vs <20% CAGR in FY06-09. Similarly, asset quality trends have also improved considerably for both the lenders, with MMFS's and GRUH's provisioning cost falling from an average 3.1% and 0.33% respectively in FY06-09 to 1.5% and 0.13% respectively in FY10-13. Such an uptick in growth has been primarily driven by a relatively stronger demand for auto loans (tractors, UVs and CVs) and housing loans in rural areas. Consequently, loan growth in the rural segment has remained immune to the general economic slowdown.

...attributed to rural prosperity, better roads and inertia by PSUs

We believe that the recent uptick in demand for vehicles and homes in rural areas is attributed to: (a) increasing rural prosperity driven by higher minimum support prices (MSPs) and rural spending by the Government; (b) increasing use of tractors for non-farm purposes; (c) increase in disbursal of agri-credit; (d) improved roads and connectivity; and (e) shortage of manual labour, emanating from a shift of labour to non-farm purposes. Further, slower turnaround time of the PSU banks has helped the more nimble-footed lenders like M&M Financial and GRUH to firmly establish their rural franchises through efficient processes, innovative technologies and rapid turnaround times.

Growth drivers are intact and factored into valuations

Our discussions with companies and primary data sources indicate that the increased penetration of manufacturers, increasing use of tractors for non-farm purposes, rising rural income, shortage of labour and better roads should continue to support auto sales growth in rural areas resulting in better loan growth for lenders focused on rural areas.

Moreover, conversion of *kuccha* houses into *pukka* houses along with the nuclearisation of families should continue to drive demand for home loans in rural areas. Hence, we expect rural credit demand for auto/home loans to continue to be stronger than urban areas. However, the pace of growth could come down due to the base effect. In case of MMFS, the pace of loan disbursement growth is coming off over the last two years (22% growth in FY13 vs 62% in FY11) and has further fallen to just 5% growth in 2QFY14. In case of Gruh Finance, the disbursement growth has fallen from 55% in FY11 to 25% in 1HFY14.

Key Recommendations

MMFS	UNDER REVIEW
GRUH Finance	NOT RATED

Analysts Details

Pankaj Agarwal, CFA
+91 22 3043 3206
pankajagarwal@ambitcapital.com

Aadesh Mehta
+91 22 3043 3239
aadeshmehta@ambitcapital.com

Ravi Singh
+91 22 3043 3181
ravisingh@ambitcapital.com

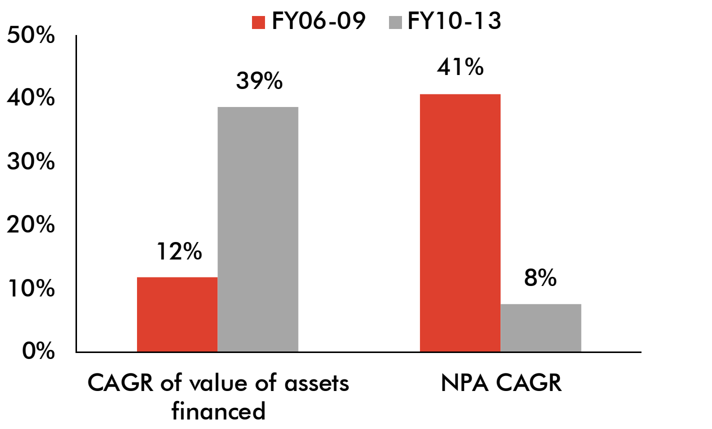
Krishnan ASV
+91 22 3043 3205
vkrishnan@ambitcapital.com

MMFS, GRUH remain the largest beneficiaries of the rural surge

We highlight MMFS and GRUH as the lenders best placed to benefit from the strong demand for auto and home loans from rural areas. However, the punchy valuations of these rural lenders seem to be already factoring in better growth trends from rural areas, leaving little room for any negative surprises. M&M Financial (MMFS IN, Mkt Cap US$2.6bn, UNDER REVIEW) is trading at 2.9x one-year forward P/B, which is a 36% premium over its cross-cycle valuations and a 100% premium over its peer, Shriram Transport Finance. GRUH Finance (GRHF IN, Mkt Cap US$0.6bn, NOT RATED) is trading at 5.9x one-year forward P/B, which is a ~76% premium to its cross-cycle valuations and a 50-300% premium over its urban-centric peers like HDFC and LIC Housing Finance. A negative surprise may cause these elevated valuation multiples to contract significantly.

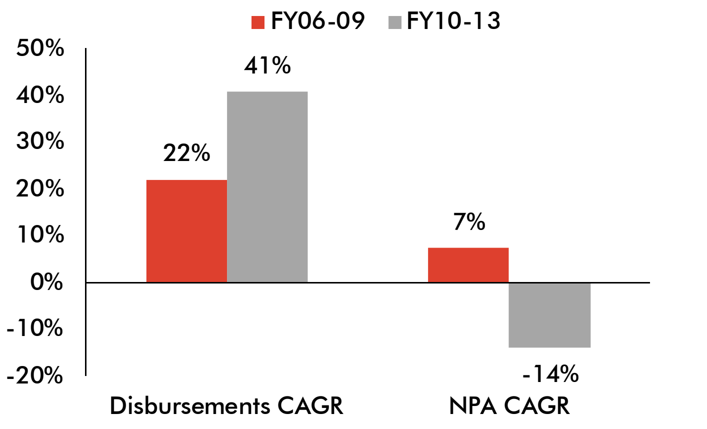
Whilst Shriram Transport is also expanding its presence in rural areas, the rural segment does not comprise more than 5% of Shriram Transport's loan book. Moreover, we believe that consumer loans for passenger vehicles and tractors would be more correlated with rural prosperity than CVs, which we believe is more correlated with industrial activity in the country. Hence, Shriram Transport is not a straightforward play on rural consumption as M&M Finance and GRUH Finance are.

Exhibit 1: MMFS - loan growth and asset quality trends



Source: Company, Ambit Capital research

Exhibit 2: GRUH - disbursement and asset quality trends



Source: Company, Ambit Capital research

Exhibit 3: Auto financers and housing finance companies - relative valuation synopsis

Name	Price	MCap	P/BV			P/E			RoA (%)			RoE (%)		
		(US$bn)	14Y	15Y	16Y	14Y	15Y	16Y	14Y	15Y	16Y	14Y	15Y	16Y
Auto Financers														
M&M Finance	289	2.6	3.1	2.7	2.2	16.1	13.1	11	3.5	3.5	3.5	21.2	22.1	22.4
Shriram Transport	554	2	1.5	1.3	1.1	8.7	7.5	6.3	2.9	3	3.2	18.2	18.3	19.1
Cholamandalam	237	0.5	1.5	1.3	1.1	9.1	7	5.8	1.8	2	2.1	17.5	19.2	19.6
Magma Fincorp	65	0.2	0.8	0.7	0.6	7.5	5.3	4	1.4	1.6	1.8	12.4	14.9	17.7
Sundaram Finance	581	1	2.6	2.2	NA	14	12.3	11.4	3	3	2.8	20.1	19.6	18.9
Average			**1.9**	**1.6**	**1.2**	**11.1**	**9**	**7.7**	**2.5**	**2.6**	**2.7**	**17.9**	**18.8**	**19.5**
HFCs														
HDFC	791	19.5	4.3	3.9	3.4	22.3	19.1	16.2	2.6	2.6	2.7	20.8	21.5	22.9
LIC Housing Finance	209	1.7	1.4	1.2	1.1	8.4	7	6.1	1.4	1.4	1.4	17.9	18.3	18.6
Gruh Finance Ltd	228	0.6	6.5	5.2	4.4	23.8	19.6	15.4	2.8	2.7	2.6	30.3	29	31.3
Dewan Housing Finance Corp	137	0.3	0.5	0.4	0.4	3.3	2.7	2.1	1.5	1.5	1.6	16.6	17.6	17.8
Average			**3.2**	**2.7**	**2.3**	**14.4**	**12.1**	**9.9**	**2.1**	**2.1**	**2.1**	**21.4**	**21.6**	**22.7**

Source: Bloomberg

AMBIT
Acumen at work

Cement

THEMATIC | CEMENT | November 14, 2013

Rural retail remains steady

Moderate volume growth of 5-6% in FY10-13 would likely improve to 7-9% in FY13-16, owing to higher farm income (from a good monsoon in FY14), pre-election dole-outs and improving industrial/ infrastructure activity after a dismal FY12-14. Retail demand from Individual House Builders (IHB) remains the dominant driver of demand growth currently and any major impetus will have to come from institutional demand, which may not be good for pricing and hence profitability. Ramco Cement, a player with a strong franchise amongst IHBs in rural south India, is trading at attractive valuations.

Individual house builders remain a dominant and growing client base

Pickup in housing construction and increasing urbanisation with higher disposable income led to 8% volume CAGR in the last decade. Whilst institutional demand weakened, steady growth in retail/rural consumption led to 5.5% CAGR over FY10-13. We believe that housing remains a large opportunity for cement companies, given the significant housing shortfall, shift in housing pattern to *pucca* from *kuccha* and increasing urbanisation.

Anecdotal evidence suggests strong rural demand post good monsoon

Industry participants highlight that cement demand picks up in the year after a good monsoon, as rural incomes increase. Whilst several states will benefit from this, Bihar, Jharkhand and Rajasthan might see muted demand, owing to the sporadic rainfall distribution. Furthermore, despite a rise in rural income, cement demand could fail to improve materially, as significant cost inflation of house construction impacts the steadily growing retail demand.

IHBs are favoured but institutional needed for growth impetus

Rural demand is extremely important for cement companies both from a volume and realisation standpoint. Rural clients are brand-conscious, premium customers, and hence, companies aggressively target these customers through various promotion programmes. However, large capacity additions over the last 3-4 years mean that industry utilisation and growth will have to come from the less-profitable infra/institutional clients.

Large-caps leave little for investors to play the theme; BUY Ramco

Larger companies have a strong brand reach with retail clients and are better placed to grow when retail demand recovers. However, the positives are largely priced in and current valuations of ACC, Ambuja and UltraTech (18-45% premium to five-year EV/EBITDA) leave little room for investors to play the theme. We build in favourable near-term assumptions, but still our DCF-based valuations do not justify the current valuations; hence, we retain our SELL stance. We highlight Ramco to play the rural theme given its strong franchise in south Indian rural markets and inexpensive valuations of 6.1x FY15 consensus EBITDA.

Key financials

	Rating	TP	Upside/ Downside	EV/EBITDA (x)		RoCE (%)	
		(Rs)	(%)	FY14E	FY15E	FY14E	FY15E
UltraTech	SELL	1,640	(11.8)	13.1	11.1	9.9	10.5
Ambuja	SELL	160	(8.0)	12.6	11.1	12.7	13.4
ACC	SELL	1,039	(0.3)	8.7	7.6	10.9	11.9
Ramco	BUY	200	16.3	8.0	6.5	5.8	7.5

Source: Company, Ambit Capital research

Key Recommendations

UltraTech	**SELL**
Target Price: 1,640	Downside: 11.8%
Ambuja	**SELL**
Target Price: 160	Downside: 8.0%
ACC	**SELL**
Target Price: 1,039	Downside: 0.3%
Ramco Cement	**BUY**
Target Price: 200	Upside: 16.3%

Analyst Details

Nitin Bhasin
Tel: +91 22 3043 3241
nitinbhasin@ambitcapital.com

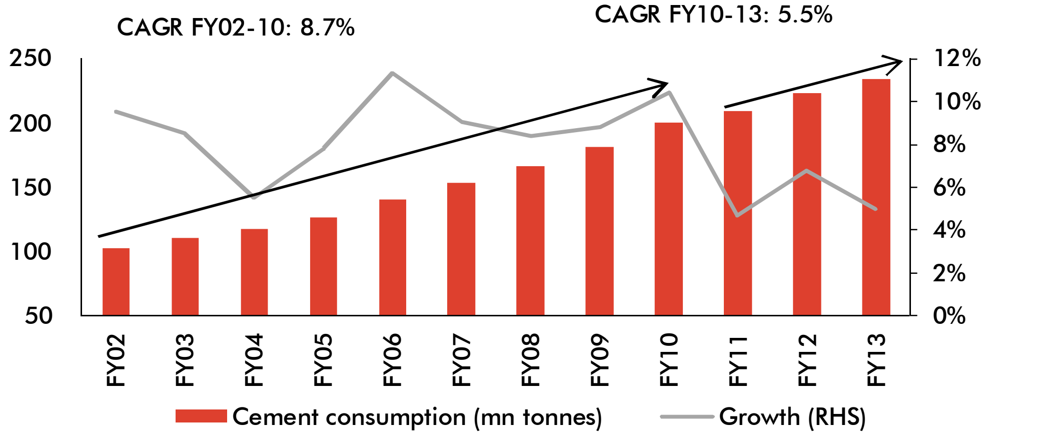
Achint Bhagat
Tel: +91 22 3043 3178
achintbhagat@ambitcapital.com

Growth in the last decade driven by structural changes

Cement consumption recorded a CAGR of 8.7% in FY02-10, owing to structural changes in India's economy, such as: (a) increasing urbanisation, (b) increasing employment (especially in the IT industry) and (c) rising rural income (through a significant increase in land prices, welfare schemes like MNREGA and rising farm output).

In recent years, deceleration in institutional demand has resulted in muted cement consumption (FY10-13 CAGR of 5.5%). However, our discussions with industry participants (dealers and companies) suggest that retail/rural demand has increased steadily, but this is not visible in industry figures, owing to a decline/deceleration in institutional demand.

Exhibit 1: Cement demand slowed down in recent years

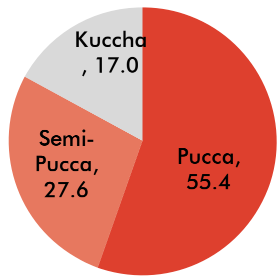


Source: CMA, Ambit Capital research

Housing shortfall is a pertinent opportunity

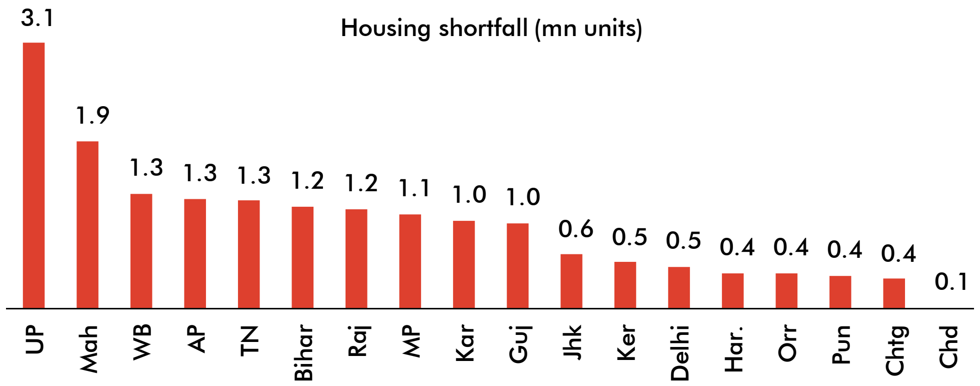
Individual house builders remain a dominant client base in the Indian cement landscape, comprising 60% of overall sales, of which 40% comes from rural demand. **Housing shortage and shift towards *pucca* houses from *kuccha/semi-pucca* houses is likely to drive cement demand in rural and semi-urban locations.** (Note that 45% of rural India resides in *semi-pucca* and *kuccha* houses). India's urban housing shortage currently stands at 19mn residential units (reduced from 24mn units in FY07), which means that ~25% of the total households do not have adequate housing. Uttar Pradesh, Maharashtra, Bihar and West Bengal have the highest shortfall.

Housing pattern in India



Source: Mospi, Ambit Capital research

Exhibit 2: Housing shortfall remains high in India

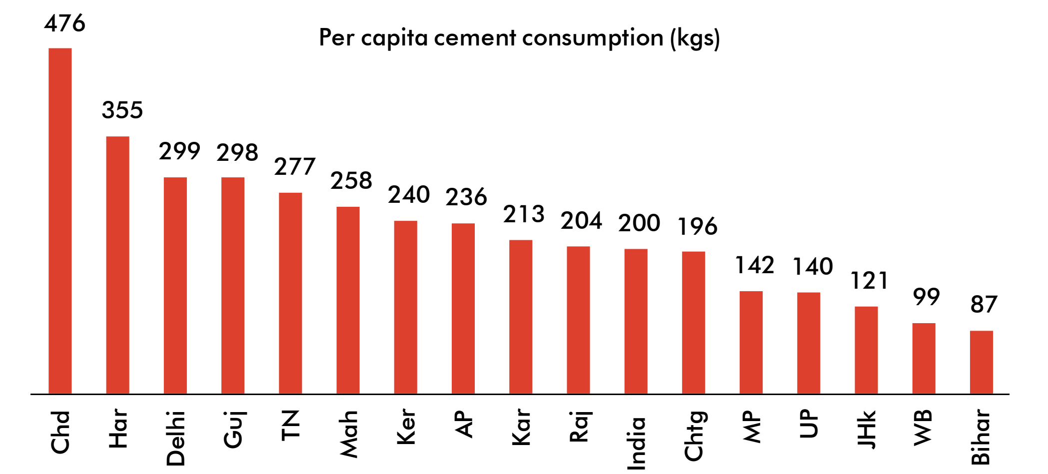


Source: Census, 2011, Ambit Capital research

Several states' per capita cement consumption is paltry

States such as Bihar, Uttar Pradesh, Jharkhand and West Bengal have low per capita cement consumption, owing to a high housing shortfall, poor infrastructure and low industrialisation. Industry experts highlight that an increase in disposable income in these states with rising industrialisation and better farm output would drive cement consumption in the future.

Exhibit 3: Per capita consumption of several Indian states below the country average



Source: Census 2011, Ambit Capital research

Note that cement demand growth of states, such as Maharashtra and Tamil Nadu, have a low dependence on agriculture. Hence, despite the low agricultural NSDP growth, cement demand growth was strong or stable. This can be explained by the high infrastructure activity and the large number of real estate projects. Whilst agri NSDP did not expand materially in Punjab and Haryana, cement demand was driven by higher rural disposable income through sale of land, sporadic good monsoons and again industrial activity in nearby states.

Exhibit 4: IHBs form the dominant share of cement buyers, but the incomes of IHBs need not be agri-dependent or drive cement growth in the immediately succeeding period

States	Agri NSDP (Rs bn)	Agri NSDP as a % of state NSDP	Agri NSDP as a % of India Agri NDP	Agri NSDP growth (FY05-09)	Agri NSDP growth (FY10-12)	Cement demand growth (FY05-09)	Cement demand growth (FY10-12)	Cement consumption as a % of India
Maharashtra	556	8%	8.8%	5.0%	3.4%	8.3%	8.6%	13.5%
Tamil Nadu	317	9%	5.0%	4.3%	5.8%	15.4%	4.4%	8.4%
Uttar Pradesh	860	23%	13.6%	2.6%	2.6%	6.1%	9.5%	11.4%
Andhra Pradesh	726	20%	11.5%	6.4%	2.4%	23.2%	-5.7%	6.3%
Gujarat	461	13%	7.3%	4.8%	7.9%	8.6%	9.1%	7.6%
West Bengal	546	18%	8.7%	1.6%	2.5%	5.4%	7.4%	4.5%
Karnataka	397	16%	6.3%	5.2%	3.7%	11.2%	3.5%	5.9%
Rajasthan	445	23%	7.1%	3.1%	8.9%	11.9%	5.4%	6.0%
Kerala	159	9%	2.5%	0.3%	-3.1%	6.7%	2.0%	3.8%
Haryana	281	17%	4.5%	4.5%	4.0%	14.4%	6.3%	4.1%
MP	437	25%	6.9%	3.9%	8.9%	7.2%	7.4%	4.9%
Punjab	329	24%	5.2%	2.2%	0.4%	4.3%	12.7%	4.4%
Bihar	306	23%	4.9%	4.1%	5.3%	7.6%	11.1%	3.4%
Jharkhand	125	15%	2.0%	9.6%	1.4%	7.6%	6.9%	1.8%
Chhattisgarh	268	39%	4.3%	14.3%	18.8%	19.2%	6.4%	2.4%

Source: RBI Database, CMA, Ambit Capital research

Impact of good monsoons on cement demand

The impact of a good monsoon season on cement demand cannot be corroborated by statistical evidence; however, **anecdotal evidence suggests that demand typically picks up in subsequent years after rural income increases.** To gauge the impact of a good monsoon season on cement demand, we met several companies and dealers/distributors. Here are the key takeaways:

Cement demand to pick up in FY15

Dealers suggest that the **impact of the monsoons on cement demand comes with a lag of one year,** as during periods of good rainfall, labour becomes very expensive (as they prefer to work in the farms and not on construction sites). Furthermore, they believe that farm income rises after the Rabi crop season, which is likely to be harvested in April-May 2014. **Dealers highlight that generally the income effect of a good rainfall lasts for 1.5-2 years.** Above-average rainfall in FY10 and FY11 has kept rural demand steady till FY13.

Rural demand growth unlikely to be strong pan-India

Dealers in Bihar, Jharkhand and Rajasthan highlight that the rainfall distribution has been sporadic, with floods in some regions and drought in others. Furthermore, the heavy rainfall in end-September and early-October has resulted in crops getting damaged. That said, states such as Tamil Nadu, Maharashtra, and Punjab have seen a good amount and distribution of rainfall. Dealers sound enthused about the demand in the next few years from retail clients. Andhra Pradesh had a good rainfall but the recent cyclone destroyed the crops to some extent.

Rising costs of ancillary inputs could dampen demand growth

Whilst rural income is likely to increase, a possible deterrent to demand from rural clients is significant inflation in the cost of labour and ancillary inputs such as sand and gravel. (Prices of sand in Maharashtra have increased by 3x over the last two years.) Dealers suggest that the cost of constructing a house has increased by at least 40-50% in the last two years, and hence even with increase in rural income, high costs could lead to lower demand.

Exhibit 5: Takeaways from our discussions with dealers in rural markets

State	Cities covered	Rainfall Intensity	Demand growth (FY06-09)	Demand growth (FY10-12)	Outlook
Punjab	Patiala	✓✓✓	Mid single-digit demand growth mainly driven by retail segment.	Higher disposable income through rising land prices resulted in steady demand from rural consumers.	Farm output is likely to be good, and so demand from rural consumers could be strong.
Rajasthan	Pali, Ajmer	✓✓	Strong growth from rural consumers. MNREGA allocation resulted in higher disposable income, driving rural demand.	Demand declined due to declining institutional sales but rural demand was steady due to good farm output in FY11.	Does not expect a material increase in rural demand, as rainfall distribution has not been good and crops have been destroyed in certain regions.
Maharashtra	Jalegaon, Malegaon	✓✓✓	Strong demand from institutional clients but retail demand was not material.	Stable demand from rural consumers but institutional demand was weak.	Demand expected to be strong, with good farm output likely to drive demand in the next two years.
Bihar	Gaya, Bhagalpur	✓	Demand driven primarily from rural consumer but infrastructure construction picked up in FY08.	Whilst institutional demand was strong, rural demand decelerated due to weak farm output and rising cost of ancillary inputs and labour.	Sporadic rainfall distribution is leading to poor farm output, and hence rural demand is likely to be muted.
Chhattisgarh	Bilaspur, Durg	✓✓✓	Strong demand growth driven by significant growth in agricultural output.	Demand growth driven by infrastructure projects; retail demand was strong with significant increase in agricultural output.	Demand expected to be strong, with good farm output likely to drive demand in the next two years.
Uttar Pradesh	Mirzapur, Bareilly	✓✓	Institutional demand picked up in FY08 and FY09, but prior to that, volume growth was primarily driven by retail clients.	Strong volume growth but largely from institutional clients.	Retail/rural demand is expected to pick up in FY15.
Andhra Pradesh	Kurnool, Kadappa	✓✓	Strong growth both from retail and institutional clients.	Rural demand was stable; however, institutional demand declined by 8-10%.	Good rainfall and even distribution but cyclone destroyed crops in certain parts. Still expect above-average demand.
Tamil Nadu	Tirupur, Avadi	✓✓✓	Both institutional and retail demand increased materially in this period.	Whilst institutional demand was weak, retail demand kept demand growth in the mid-single digits.	Rainfall has been extremely good and hence rural demand should pick up in FY15.

Source: Company, Ambit Capital research

Cement companies' approach to rural markets

Rural demand is extremely important for cement companies both from a volume and realisation standpoint. Given that cement demand from institutional clients has been extremely weak in recent years, rural demand has helped maintain the demand growth momentum. Furthermore, rural clients are brand-conscious (as they are first-time house builders, and they prefer to buy recognised brands even at a premium). Companies aggressively target these customers through various promotion programmes. Industry experts highlight that the choice of rural consumers is influenced by masons, and hence the companies run training programmes to educate masons about cement quality, etc.

Retail:institutional mix of top-6 cement companies

Company	Retail	Institutional
UltraTech	73	27
ACC	82	18
Ambuja	80	20
Shree	65	35
Madras	80	20
India Cement	70	30

Source: Company, Ambit Capital research

Exhibit 6: Rural marketing strategy of cement companies

Company	Strategy
UltraTech	The company does several educational seminars with masons and contractors. It also meets the *sarpanch* in the villages to establish its brand in micro markets.
ACC	ACC Cement ventured out to establish the superiority of ACC Suraksha blended cement and build an image of a premium cement brand. To reach the opinion leaders viz. architects, engineers, contractors, etc., the assistance of the regional local press was sought and other direct marketing efforts such as field meetings with small groups of masons and customers were used.
Ambuja Cement	Holcim hired NCAER to conduct a detailed study on the rural market of India and plan several initiatives. The company will seek participation in Government programmes as well as private housing by engaging the local governments, local builders and skilled manpower.
Shree Cement	The company is opening 2,000 new dealers in rural India over the next one year and has set a target of 40% revenue (from 20%) from the rural market in two years.
Ramco Cement	Ramco Cement appointed Percept Out of Home, Rural Vertical, as their outdoor activity partner to promote their brand, 'Ramco' across south India. The Rural vertical will be carried out in three phases. In the first phase, pre-publicity activity took place through branded mobile van units, retail branding, in-shop branding, gate arches and other visibility mediums including signages, leaflets, danglers, posters and kiosks. In the second phase, a 'Mystery Shopper' contest will be announced and in the third phase, the Mystery Shopper's name will be declared after a lucky draw. Apart from increasing brand visibility, Percept Out of Home, Rural Vertical, will also be reaching out and motivating the dealer network with loyalty programmes.
Binani Cement	It is creating awareness for its cement brand in rural India. It is increasing its penetration in villages through retail outlets. They are targeting villages with a population of 5,000-12,000 in the districts of Panchmahal, Dahod, Jamnagar, Porbandar, and Junaghad in Gujarat and identifying 118 new retailers. The company will reach another 300 villages with a population of 10,000.

Source: Company, Ambit Capital research

Large-caps to benefit but positives priced in

Cement stocks have rallied over the last month, given the multiple price increases undertaken across India on the hope of a pickup in rural/retail demand. Larger companies such as UltraTech, ACC and Ambuja have the brand and dealer reach to cater to retail clients and are better placed for a retail demand recovery. Hence, we expect these companies to have a relatively favourable business environment. However, we believe the positives are largely priced in and the current valuations of ACC, Ambuja and UltraTech (12-35% premium to five-year EV/EBITDA) leave little room for investors to play the theme. Despite the extremely weak performance of UltraTech in 2QFY14, the stock price remains firm. Whilst we build in favourable near-term assumptions, our DCF-based model does not justify the current valuations, hence we maintain our SELL stance on large-cap cement companies.

Ramco Cement is one of the better rural plays

Ramco Cement stands out as the best company on our south Indian competitive matrix, given its premium pricing, lower cost of production (100% captive power) and high market share (13%). A strong brand and retail-dominant client mix (75%) support premium pricing and regional leadership. With near doubling of capacities to 14.5mn tonnes over FY07-13, we expect Ramco's market-leading volume growth to pick up pace with the demand momentum.

We highlight Ramco Cement as an investable idea to play the rural theme, given its exposure to south India (which we believe has a large potential), a strong franchise in key markets and inexpensive valuations (6.1x FY15 consensus EBITDA; in line with its five-year average and at a significant discount to its large-cap peers).

This page has been intentionally left blank

Robust consumption in rural areas

Rural consumption has grown 1.5x faster than urban consumption in FY13. Our channel checks suggest that the economic turmoil has adversely affected urban consumption but the rural segment has remained robust. Rural consumption has historically been supported by media penetration, government spends and distribution expansion. These drivers are likely to sustain in the future, owing to women empowerment, continued welfare spends by the Government, rise of traditionally backward regions, and favourable demographics. HUL and Colgate have the highest rural exposure in the sector. We have a SELL stance on both, owing to their rich valuations and weak prospects on earnings growth.

Rural consumption is growing at 1.5x-2x urban growth rates

In 2010-13, rural consumption expenditure recorded 19.2% CAGR, outpacing urban consumption expenditure by ~200bps, thereby reversing the historical trend. The broader economic slowdown has been a substantial drag on urban consumption over the past 12 months, especially around premiumisation and high price elasticity of demand in the urban staples segments. As highlighted in our '***B2C Distributor Survey***', the ratio of rural to urban growth has increased to ~2x in 2QFY14 as compared to ~1.5x in the preceding quarters.

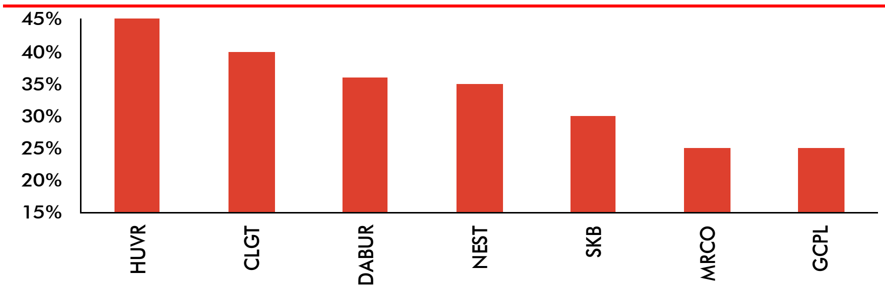
Growth drivers: Higher media awareness, distribution and Govt spends

Rural disposable household income over the past five years has been underpinned by: (a) increased **media penetration**, resulting in awareness of products, health and hygiene, thereby creating an aspiration for a better lifestyle; (b) distribution expansion by companies helped by **infrastructure development** (e.g. HUL's overall reach expanded from ~4mn outlets in 2006 to ~6.5mn currently, led by rural expansion); and (c) accelerated **Government spending** on community, social and personal services (20% CAGR in FY05-13).

Robust structural growth in rural consumption likely over the next decade

Household income growth is likely to remain robust in the future due to: (a) rising female literacy levels and hence women empowerment; (b) continued growth in rural development spends by the Government; and (c) employment opportunities in traditionally backward states like Uttarakhand, Bihar and Madhya Pradesh, resulting in 'reverse migration' from urban to rural cities. Further, with 48% of the Indian population below 25 years of age and changing demographics (including higher proportion of nuclear families), **consumption is likely to evolve** around increased width and depth of SKUs consumed.

Exhibit 1: Stock-specific implications: HUL has the highest rural exposure



Source:

As shown in the chart above, HUL and Colgate have the highest proportion of rural consumption in their product portfolio. However, given constraints around only 8-10% EPS CAGR in FY13-16 and punchy valuations, we maintain our SELL stance on both firms.

Key Recommendations

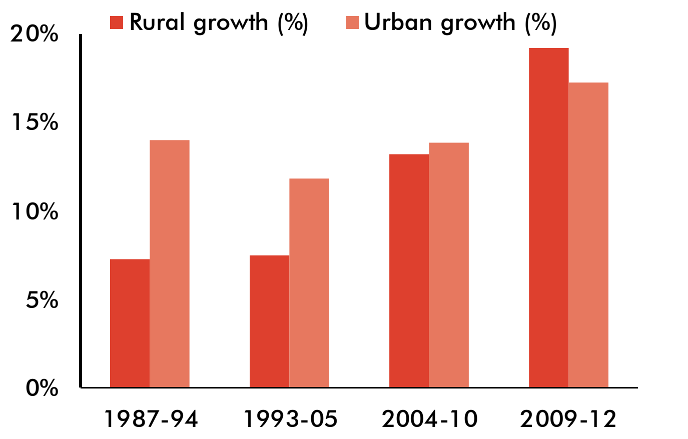
HUL	**SELL**
Target Price: Rs487	Downside : 16%
Dabur	**SELL**
Target Price: Rs136	Downside : 16%
Nestle	**SELL**
Target Price: Rs4,446	Downside : 20%
GCPL	**SELL**
Target Price: Rs748	Downside : 12%
GSK Consumer	**SELL**
Target Price: Rs3,945	Downside : 11%
Colgate	**SELL**
Target Price: Rs1,224	Downside : 1%
Marico	**SELL**
Target Price: Rs198	Downside : 4%

Analyst Details

Rakshit Ranjan, CFA
rakshitranjan@ambitcapital.com
+91 22 3043 3201

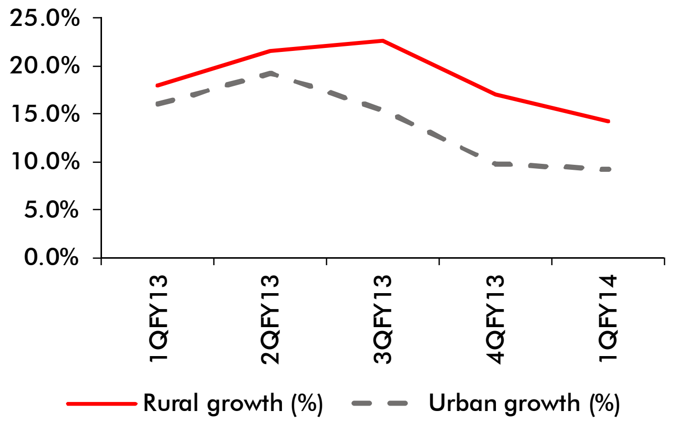
Shariq Merchant
shariqmerchant@ambitcapital.com
+91 22 3043 3246

Exhibit 2: Rural consumption expenditure has been faster than urban over 2009-12 …



Source: Dabur, Ambit Capital research

Exhibit 3: … with the gap between rural and urban growth widening substantially in recent quarters



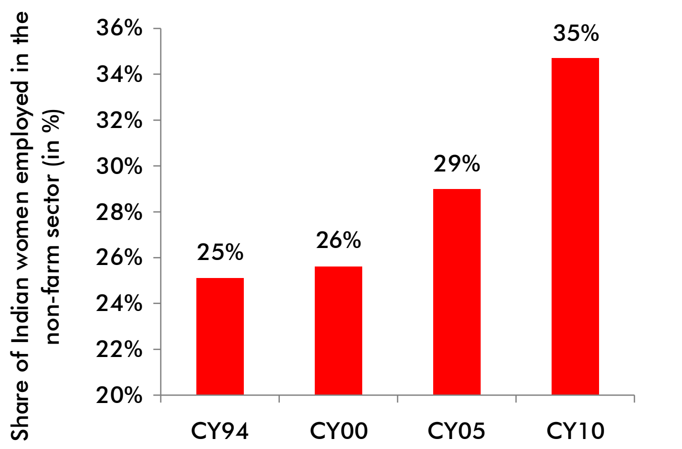
Source: Dabur, Ambit Capital research

Exhibit 4: Although rural penetration levels have increased rapidly over 2007-12, several categories are far from being fully penetrated

	2012		2007		Key players
	Rural	Urban	Rural	Urban	
Biscuits	83%	94%	55%	80%	Parle, Britannia
Soaps	99%	100%	89%	97%	HUL, GCPL
Toothpaste	42%	77%	38%	75%	Colgate, HUL
Skin creams	57%	67%	18%	32%	HUL, L'Oreal
Washing powder/liquid	97%	99%	84%	91%	HUL, P&G
Mosquito repellents	18%	59%	27% (avg)		GCPL, Reckitt Benckiser
Noodles	3%	19%	1%	8%	Nestle, ITC
Milk Food Drinks	11%	22%	5%	13%	GSK Consumer, Heinz
Floor cleaners	4%	26%	2% (avg)		HUL, Reckitt Benckiser

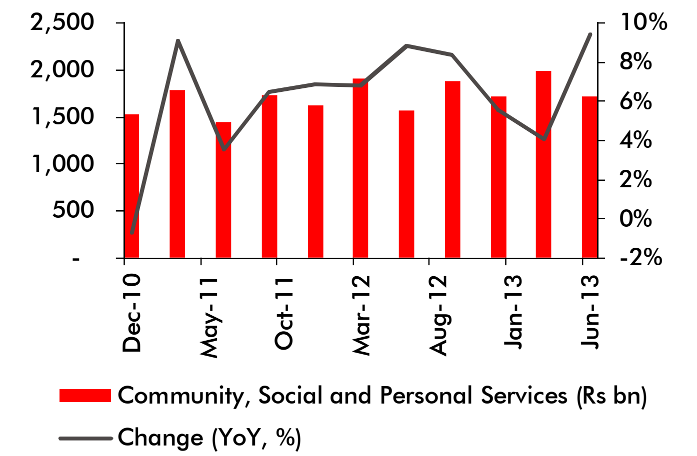
Source: Industry, Ambit Capital research

Exhibit 5: Increasing labour participation by women will support long-term rural consumption growth …



Source: Ambit Capital research

Exhibit 6: … Government's recent acceleration in social spends will drive growth in the short term



Source: Ambit Capital research

Relative valuations: Overvalued given drag from company-specific factors on EPS CAGR (only 10% in FY13-15) for rural plays - HUL and Colgate

HUL and Colgate are the largest beneficiaries of rural growth given their large exposure to rural demand. However, we remain SELLers on both stocks, as their current valuations (see table below) do not adequately factor in the following: (a) drag on earnings growth due to rising competitive intensity and hence the need to aggressively advertise to defend market shares; and (b) saturated penetration levels in their key product categories (soaps and detergents for HUL and oral care for Colgate); and hence, the prospect of EPS CAGR in FY13-15 not exceeding 10% for either of the two firms.

Exhibit 7: Relative valuations

	CMP	Mcap	Stance	Target	Upside/	P/E		EV/EBITDA		EV/Sales		Div Yield	EPS Growth
	(Rs)	($mn)		Price	Downside	FY14E	FY15E	FY14E	FY15E	FY14E	FY15E	FY14E (%)	FY13-15
ITC	314	42,511	NOT RATED	NA	NA	28.5	24.2	19.9	16.9	7.3	6.3	2.0	17%
HUL	583	21,453	SELL	487	-16%	37.1	32.7	28.3	25.0	4.4	3.9	1.8	10%
Nestle	5596	8,821	SELL	4,466	-20%	46.8	39.1	26.0	22.6	5.6	4.9	1.3	14%
Dabur	162	5,058	SELL	136	-16%	32.0	27.6	24.6	21.4	4.1	3.6	0.9	15%
GCPL	852	4,749	SELL	748	-12%	35.8	28.7	25.1	20.2	3.9	3.3	0.8	23%
GSK Consumer	4427	3,143	SELL	3,945	-11%	36.5	30.5	29.8	25.0	4.7	4.0	1.2	18%
Colgate	1239	2,765	SELL	1,224	-1%	32.6	28.9	26.7	22.7	5.3	4.5	2.0	10%
Marico	207	2,231	SELL	198	-4%	29.0	24.6	19.1	16.4	2.8	2.4	0.6	24%
Emami	467	1,868	NOT RATED	NA	NA	26.8	22.9	22.6	19.2	5.3	4.6	1.2	22%
Britannia	891	1,821	NOT RATED	NA	NA	30.6	26.4	20.6	17.8	1.5	1.3	1.2	25%

Source: Bloomberg, Ambit Capital research

This page has been intentionally left blank

Media spend tracks consumption

Dish TV's strong subscriber growth over FY08-13 (34% CAGR) highlights the rising appetite for pay TV in rural markets. However, the customer base remains price sensitive and any price increases by Dish TV have been met with package downgrades. Improvement in rural prosperity may lead to increased focus on tier III/IV and rural markets by advertisers. Indeed, print and TV companies have reported increasing interest in regional advertising. Print media companies and DTH operators would likely be the primary beneficiaries of any increase in rural incomes. We are currently BUYers of Dish TV (target price of Rs55) and Hathway (target price of Rs339) in the media space.

Initial signs of media growth in smaller centres

Dish TV's subscriber base has expanded rapidly over FY08-13 (CAGR of 34%) backed by increasing pickup in cable and satellite services in rural areas. Almost 65-70% of DTH's subscriber base is rural-centric. Attempts to include LC1 markets in TAM, increasing regional portfolio of broadcasters and rural-specific marketing strategies indicate growing interest in targeting these segments. Limitations in audience measurement systems (in TV) and focus of advertisers on the SEC-A group are current inhibitors which are likely to change once income levels rise.

Media spends are likely to closely track consumption

If rural prosperity were to improve significantly, spends on rural-centric advertising are likely to increase. This can be driven by expansion of TAM ratings beyond cities and better data penetration (thus enhancing alternative media for advertising). As advertisers are shifting their focus to smaller markets to tap rising consumption, broadcasters are expanding their regional offerings. Indeed, Zee's management recently highlighted the growth in its regional channels as a key factor for its industry outperformance. Print is likely to benefit due to its reach in the rural segment.

Print and DTH are likely to be key near-term beneficiaries

Improving TV and C&S penetration in smaller towns may result in higher advertising revenues. Zee (NOT RATED) and Sun TV (NOT RATED) are likely beneficiaries. However, in the near term, print advertisers may be immediate beneficiaries led by growth in local advertising through the real estate, automobile and FMCG segments. Jagran Prakashan (NOT RATED) and DB Corp (NOT RATED) may be the leading plays within this space. Lastly, Dish TV (BUY; target price of Rs55) may benefit from growing prosperity (through higher ARPU growth driven by increased pickup in more expensive packages and value-added services).

Key Highlights

YE March	Revenue CAGR	EBITDA CAGR	RoE	EV/EBITDA (x)	P/E (x)
	FY13-15	FY13-15	FY15	FY14E	FY14E
Dish TV	12.3%	12.7%	NA	11.1	NA
Jagran Prakashan	12.8%	21.3%	23.2%	8.0	12.4
DB Corp	16.7%	16.3%	25.4%	10.2	17.0
Sun TV	16.7%	14.7%	28.2%	9.5	19.1
Zee	16.9%	20.9%	22.1%	22.3	31.1

Source: Company, Ambit Capital research; Note: All estimates represent consensus, barring Dish TV

Key Recommendations

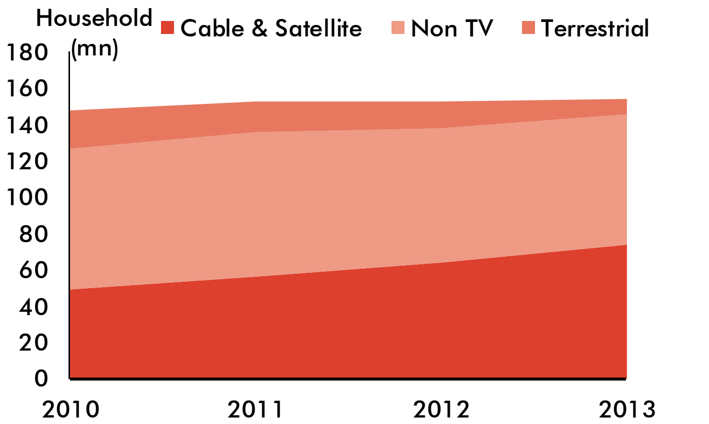
Hathway	BUY
Target Price: 339	Upside : 28%
Dish TV	**BUY**
Target Price: 55	Upside : 2%

Analyst Details

Ankur Rudra, CFA
ankurrudra@ambitcapital.com
+91 22 3043 3211

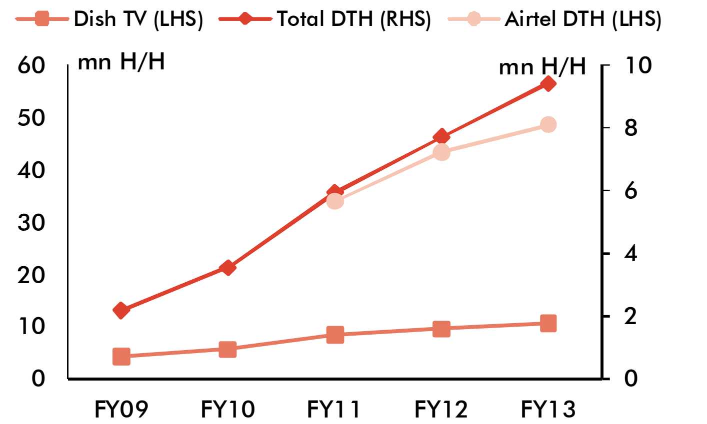
Utsav Mehta
utsavmehta@ambitcapital.com
+91 22 3043 3209

Exhibit 1: Cable and satellite households have recorded 15% CAGR over 2010-13 in rural vs 7% in urban India…



Source: TAM, Ambit Capital research

Exhibit 2: …driven by growth in DTH services, resulting in a 2,000bps increase in C&S penetration in rural India



Source: Company, TRAI, Ambit Capital research

Exhibit 3: Regional readership is disproportionate to regional revenue market share

	AIR* Split	Revenue Split – FY12	Revenue Split – FY17E
English	10%	39%	32%
Hindi	36%	30%	32%
Vernacular	54%	31%	34%

*Source: FICCI-KPMG, Note: * AIR is All India Readership measured by IRS Survey*

Exhibit 4: Regional print is likely to outpace English print media in revenue growth

Print market	CAGR (2012-17E)
English	**4.8%**
Advertising	6.0%
Circulation	2.1%
Hindi	**10.8%**
Advertising	13.3%
Circulation	5.6%
Vernacular	**10.9%**
Advertising	13.3%
Circulation	5.8%

Source: FICCI-KPMG

AMBIT
Acumen at work

Telecom

THEMATIC | November 14, 2013

Growth tapers off

Whilst wireless rural penetration is still poor (at 41% vs 149% in urban), growth in rural teledensity has tapered off recently (190bps YoY in FY13 vs 558bps YoY in FY12). Lower investments due to financial stress and regulatory uncertainty have contributed to lower growth. The sector has not seen any significant upsides from a 'rural revival' though this may be clouded by deceleration of investments by the operators undertaking coverage expansion. Idea (BUY; target price of Rs185) is the primary beneficiary of rural prosperity given its larger exposure to rural subscribers vs Bharti (BUY; target price of Rs380).

No evidence of increasing rural demand in recent years

Rural subscriber growth has been higher than urban growth, and this was the case even during the hay days of FY07-10. The rural subscriber base recorded a CAGR of 52% in FY07-10 and 15% in FY10-13 (vs urban growth rate of 30% and 7% respectively). However, in terms of teledensity, whilst rural teledensity has improved by 26ppts since 1QFY10 (to 41%), urban teledensity has increased by 63ppts, despite a larger headroom for growth (in rural India). This suggests despite rural prosperity, urban markets have outperformed rural markets in terms of subscriber growth.

Limited investments may cloud the picture partially

ARPUs have been supressed over the last five years (17% CAGR decline for GSM operators over FY08-13) due to high competitive intensity. Furthermore, regulatory uncertainty and financial stress have caused operators to ease off on their expansion plans (8% CAGR in cellsites for Bharti and Idea over FY13-11 vs 26% over FY08-11). However, given the vast number of operators per circle (10-13 in the last three years), it is possible that less-penetrated rural markets were targeted without the desired growth rates.

Future growth depends on investments

Better pricing power and consolidation is likely to lead to improving ARPUs which may spur further investments. As the data opportunity grows (18-24% CQGR in data revenues for Bharti and Idea over 1QFY13-1QFY14), investments are likely to be split between data and rural coverage expansion. Potential for data growth in rural India may be faster given the lack of broadband alternatives. Hence, improvement in rural prosperity may translate into higher ARPUs which may lead to higher investments and penetration.

Idea is a better play on rural India

Rural India accounts for 54% of Idea's subscriber base vs 43% for Bharti. Idea's rural exposure is evidenced by its sharper seasonal usage downturn during monsoons. However, in absolute terms, Bharti's rural presence is 25% larger than Idea's. We are currently BUYers of both Bharti and Idea. Idea would be our pick for a play on the rising prosperity in rural India.

Key Highlights

YE March 2013	Total subscribers (mn)	Rural subscribers (% of total)	Target Price (Rs)	FY14E RoE	FY14E EV/EBITDA (x)
Bharti India	191.5	42.9	380	8%	6.9
Idea	121.6	54.1	185	13%	7.8

Source: Company, Ambit Capital research

Key Recommendations

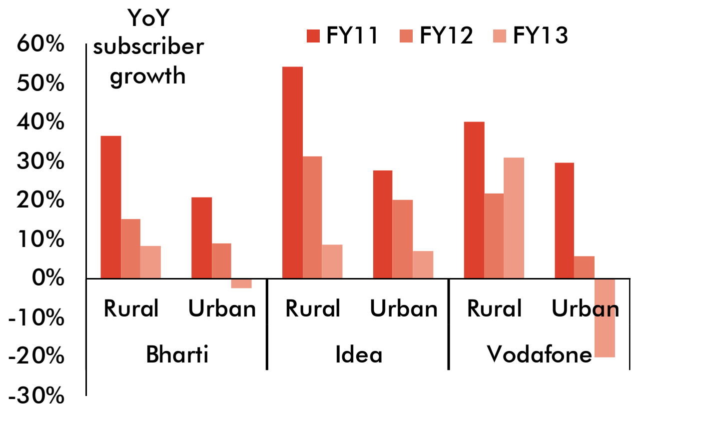
Bharti Airtel	**BUY**
Target Price: 380	Upside : 11%
Idea	**BUY**
Target Price: 185	Upside : 16%

Analyst Details

Ankur Rudra, CFA
ankurrudra@ambitcapital.com
+91 22 3043 3211

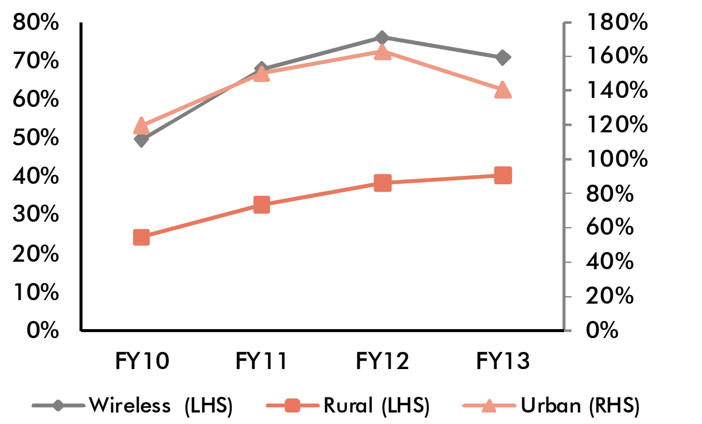
Utsav Mehta
utsavmehta@ambitcapital.com
+91 22 3043 3209

Exhibit 1: Although subscriber growth is faster in rural India…



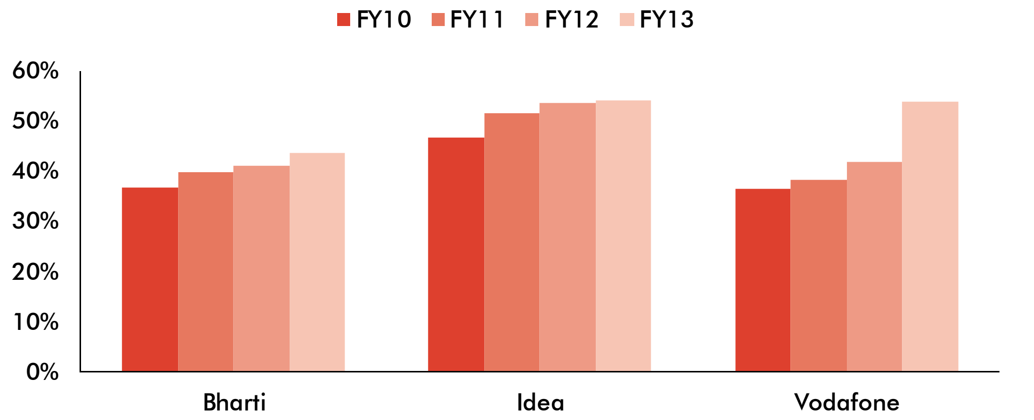
Source: TRAI, Ambit Capital research

Exhibit 2: …teledensity growth has been quicker in urban India despite lower headroom



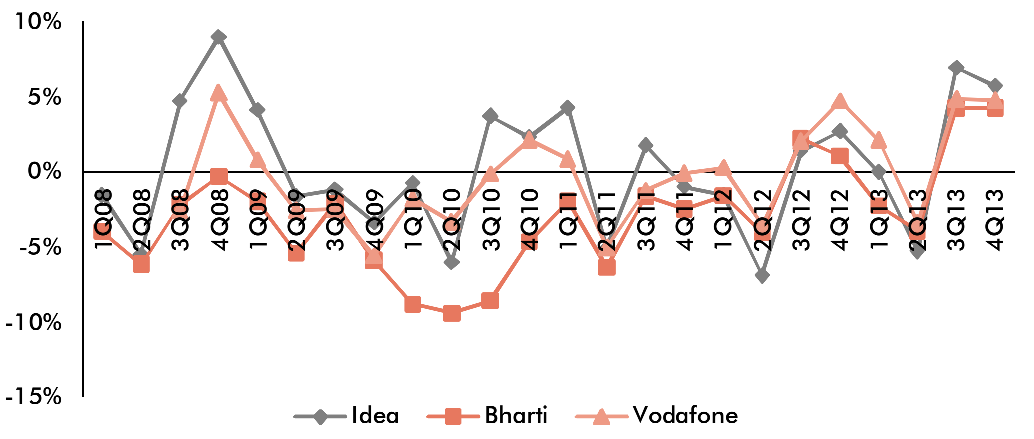
Source: TRAI, Ambit Capital research

Exhibit 3: However, operators' share of rural subscribers as a percentage of total has been steadily rising



Source: TRAI, Ambit Capital research

Exhibit 4: Good monsoons have a negative impact on telecom revenues, as usage from rural India declines; sequential growth in MoU is the weakest in 2Q



Source: Company, Ambit Capital research

Institutional Equities Team

Saurabh Mukherjea, CFA	**CEO, Institutional Equities**	**(022) 30433174**	**saurabhmukherjea@ambitcapital.com**

Research			
Analysts	**Industry Sectors**	**Desk-Phone**	**E-mail**
Aadesh Mehta	Banking & Financial Services	(022) 30433239	aadeshmehta@ambitcapital.com
Achint Bhagat	Cement / Infrastructure	(022) 30433178	achintbhagat@ambitcapital.com
Ankur Rudra, CFA	Technology / Telecom / Media	(022) 30433211	ankurrudra@ambitcapital.com
Ashvin Shetty, CFA	Automobile	(022) 30433285	ashvinshetty@ambitcapital.com
Bhargav Buddhadev	Power / Capital Goods	(022) 30433252	bhargavbuddhadev@ambitcapital.com
Dayanand Mittal, CFA	Oil & Gas	(022) 30433202	dayanandmittal@ambitcapital.com
Gaurav Mehta, CFA	Strategy / Derivatives Research	(022) 30433255	gauravmehta@ambitcapital.com
Karan Khanna	Strategy	(022) 30433251	karankhanna@ambitcapital.com
Krishnan ASV	Banking & Financial Services	(022) 30433205	vkrishnan@ambitcapital.com
Nitin Bhasin	E&C / Infrastructure / Cement	(022) 30433241	nitinbhasin@ambitcapital.com
Nitin Jain	Technology	(022) 30433291	nitinjain@ambitcapital.com
Pankaj Agarwal, CFA	Banking & Financial Services	(022) 30433206	pankajagarwal@ambitcapital.com
Pratik Singhania	Real Estate / Retail	(022) 30433264	pratiksinghania@ambitcapital.com
Parita Ashar	Metals & Mining	(022) 30433223	paritaashar@ambitcapital.com
Rakshit Ranjan, CFA	Consumer / Real Estate	(022) 30433201	rakshitranjan@ambitcapital.com
Ravi Singh	Banking & Financial Services	(022) 30433181	ravisingh@ambitcapital.com
Ritika Mankar Mukherjee, CFA	Economy / Strategy	(022) 30433175	ritikamankar@ambitcapital.com
Ritu Modi	Automobile / Healthcare	(022) 30433292	ritumodi@ambitcapital.com
Shariq Merchant	Consumer	(022) 30433246	shariqmerchant@ambitcapital.com
Tanuj Mukhija, CFA	E&C / Infrastructure	(022) 30433203	tanujmukhija@ambitcapital.com
Utsav Mehta	Telecom / Media	(022) 30433209	utsavmehta@ambitcapital.com

Sales			
Name	**Regions**	**Desk-Phone**	**E-mail**
Deepak Sawhney	India / Asia	(022) 30433295	deepaksawhney@ambitcapital.com
Dharmen Shah	India / Asia	(022) 30433289	dharmenshah@ambitcapital.com
Dipti Mehta	India / USA	(022) 30433053	diptimehta@ambitcapital.com
Nityam Shah, CFA	USA / Europe	(022) 30433259	nityamshah@ambitcapital.com
Parees Purohit, CFA	USA	(022) 30433169	pareespurohit@ambitcapital.com
Praveena Pattabiraman	India / Asia	(022) 30433268	praveenapattabiraman@ambitcapital.com
Sarojini Ramachandran	UK	+44 (0) 20 7614 8374	sarojini@panmure.com

Production			
Sajid Merchant	Production	(022) 30433247	sajidmerchant@ambitcapital.com
Joel Pereira	Editor	(022) 30433284	joelpereira@ambitcapital.com

E&C = Engineering & Construction

Explanation of Investment Rating

Investment Rating	Expected return (over 12-month period from date of initial rating)
Buy	>5%
Sell	≤5%

Disclaimer

This report or any portion hereof may not be reprinted, sold or redistributed without the written consent of Ambit Capital. AMBIT Capital Research is disseminated and available primarily electronically, and, in some cases, in printed form.

Additional information on recommended securities is available on request.

Disclaimer

1. AMBIT Capital Private Limited ("AMBIT Capital") and its affiliates are a full service, integrated investment banking, investment advisory and brokerage group. AMBIT Capital is a Stock Broker, Portfolio Manager and Depository Participant registered with Securities and Exchange Board of India Limited (SEBI) and is regulated by SEBI
2. The recommendations, opinions and views contained in this Research Report reflect the views of the research analyst named on the Research Report and are based upon publicly available information and rates of taxation at the time of publication, which are subject to change from time to time without any prior notice.
3. AMBIT Capital makes best endeavours to ensure that the research analyst(s) use current, reliable, comprehensive information and obtain such information from sources which the analyst(s) believes to be reliable. However, such information has not been independently verified by AMBIT Capital and/or the analyst(s) and no representation or warranty, express or implied, is made as to the accuracy or completeness of any information obtained from third parties. The information or opinions are provided as at the date of this Research Report and are subject to change without notice.
4. If you are dissatisfied with the contents of this complimentary Research Report or with the terms of this Disclaimer, your sole and exclusive remedy is to stop using this Research Report and AMBIT Capital shall not be responsible and/ or liable in any manner.
5. If this Research Report is received by any client of AMBIT Capital or its affiliate, the relationship of AMBIT Capital/its affiliate with such client will continue to be governed by the terms and conditions in place between AMBIT Capital/ such affiliate and the client.
6. This Research Report is issued for information only and should not be construed as an investment advice to any recipient to acquire, subscribe, purchase, sell, dispose of, retain any securities. Recipients should consider this Research Report as only a single factor in making any investment decisions. This Research Report is not an offer to sell or the solicitation of an offer to purchase or subscribe for any investment or as an official endorsement of any investment.
7. If 'Buy', 'Sell', or 'Hold' recommendation is made in this Research Report such recommendation or view or opinion expressed on investments in this Research Report is not intended to constitute investment advice and should not be intended or treated as a substitute for necessary review or validation or any professional advice. The views expressed in this Research Report are those of the research analyst which are subject to change and do not represent to be an authority on the subject. AMBIT Capital may or may not subscribe to any and/ or all the views expressed herein.
8. AMBIT Capital makes no guarantee, representation or warranty, express or implied; and accepts no responsibility or liability as to the accuracy or completeness or currentess of the information in this Research Report. AMBIT Capital or its affiliates do not accept any liability whatsoever for any direct or consequential loss howsoever arising, directly or indirectly, from any use of this Research Report.
9. Past performance is not necessarily a guide to evaluate future performance.
10. AMBIT Capital and/or its affiliates (as principal or on behalf of its/their clients) and their respective officers directors and employees may hold positions in any securities mentioned in this Research Report (or in any related investment) and may from time to time add to or dispose of any such securities (or investment). Such positions in securities may be contrary to or inconsistent with this Research Report.
11. This Research Report should be read and relied upon at the sole discretion and risk of the recipient.
12. The value of any investment made at your discretion based on this Research Report or income therefrom may be affected by changes in economic, financial and/ or political factors and may go down as well as up and you may not get back the full or the expected amount invested. Some securities and/ or investments involve substantial risk and are not suitable for all investors.
13. This Research Report is being supplied to you solely for your information and may not be reproduced, redistributed or passed on, directly or indirectly, to any other person or published, copied in whole or in part, for any purpose. Neither this Research Report nor any copy of it may be taken or transmitted or distributed, directly or indirectly within India or into any other country including United States (to US Persons), Canada or Japan or to any resident thereof. The distribution of this Research Report in other jurisdictions may be strictly restricted and/ or prohibited by law or contract, and persons into whose possession this Research Report comes should inform themselves about such restriction and/ or prohibition, and observe any such restrictions and/ or prohibition.
14. Neither AMBIT Capital nor its affiliates or their respective directors, employees, agents or representatives, shall be responsible or liable in any manner, directly or indirectly, for views or opinions expressed in this Report or the contents or any errors or discrepancies herein or for any decisions or actions taken in reliance on the Report or inability to use or access our service or this Research Report or for any loss or damages whether direct or indirect, incidental, special or consequential including without limitation loss of revenue or profits that may arise from or in connection with the use of or reliance on this Research Report or inability to use or access our service or this Research Report.

Conflict of Interests

15. In the normal course of AMBIT Capital's business circumstances may arise that could result in the interests of AMBIT Capital conflicting with the interests of clients or one client's interests conflicting with the interest of another client. AMBIT Capital makes best efforts to ensure that conflicts are identified and managed and that clients' interests are protected. AMBIT Capital has policies and procedures in place to control the flow and use of non-public, price sensitive information and employees' personal account trading. Where appropriate and reasonably achievable, AMBIT Capital segregates the activities of staff working in areas where conflicts of interest may arise. However, clients/potential clients of AMBIT Capital should be aware of these possible conflicts of interests and should make informed decisions in relation to AMBIT Capital's services.
16. AMBIT Capital and/or its affiliates may from time to time have investment banking, investment advisory and other business relationships with companies covered in this Research Report and may receive compensation for the same. Research analysts provide important inputs into AMBIT Capital's investment banking and other business selection processes.
17. AMBIT Capital and/or its affiliates may seek investment banking or other businesses from the companies covered in this Research Report and research analysts involved in preparing this Research Report may participate in the solicitation of such business.
18. In addition to the foregoing, the companies covered in this Research Report may be clients of AMBIT Capital where AMBIT Capital may be required, inter alia, to prepare and publish research reports covering such companies and AMBIT Capital may receive compensation from such companies in relation to such services. However, the views reflected in this Research Report are objective views, independent of AMBIT Capital's relationship with such company.
19. In addition, AMBIT Capital may also act as a market maker or risk arbitrator or liquidity provider or may have assumed an underwriting commitment in the securities of companies covered in this Research Report (or in related investments) and may also be represented in the supervisory board or on any other committee of those companies.

Additional Disclaimer for U.S. Persons

20. The research report is solely a product of AMBIT Capital
21. AMBIT Capital is the employer of the research analyst(s) who has prepared the research report
22. Any subsequent transactions in securities discussed in the research reports should be effected through J.P.P. Euro-Securities, Inc. ("JPP").
23. JPP does not accept or receive any compensation of any kind for the dissemination of the AMBIT Capital research reports.
24. The research analyst(s) preparing the research report is resident outside the United States and is/are not associated persons of any U.S. regulated broker-dealer and that therefore the analyst(s) is/are not subject to supervision by a U.S. broker-dealer, and is/are not required to satisfy the regulatory licensing requirements of FINRA or required to otherwise comply with U.S. rules or regulations regarding, among other things, communications with a subject company, public appearances and trading securities held by a research analyst account.

Ambit Capital Pvt. Ltd.
Ambit House, 3rd Floor
449, Senapati Bapat Marg, Lower
Parel, Mumbai 400 013, India.
Phone: +91-22-3043 3000
Fax: +91-22-3043 3100