

October 19, 2011

BHEL	Hold
CMP: Rs 326	Target: Rs 376
L&T	Accumulate
CMP: Rs 1,380	Target: Rs 1,603
Cummins India	Hold
CMP: Rs 403	Target: Rs 388
Thermax India	Accumulate
CMP: Rs 430	Target: Rs 495
Voltas	Accumulate
CMP: Rs 104	Target: Rs 121
Blue Star	Hold
CMP: Rs 221	Target: Rs 196
Greaves Cotton	Buy
CMP: Rs 90	Target: Rs 103
Punj Lloyd	Hold
CMP: Rs 55	Target: Rs 63
TRF	Hold
CMP: Rs 335	Target: Rs 282
McNally Bharat	Accumulate
CMP: Rs 128	Target: Rs 147
Elecon Engineering	Hold
CMP: Rs 71	Target: Rs 61

Source: Bloomberg

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There is a fine line between dreams and reality, it's up to you to draw it.

...B. Quilliam

Sinking feeling that scenario is worsening; current environment remains non-conducive for asset creation

- High inflation, high BPLR, high commodity prices, indecisiveness, procedural delays, unwillingness, etc appear to be all-pervasive, omnipresent
- These factors have surprisingly taken centre-stage for a fairly long duration of time – about 4-5 quarters...
- ...Resulting in drying out of order announcements, slowdown in execution and decision-making coming to a grinding halt
- In a nutshell, catalysts are nowhere in sight, with concerns or risks dominating both capital (Corporate) and financial investments (Investors)

Revisiting our assumptions for FY12E and FY13E earnings forecasts

- Have revised order inflow growth assumptions to -3% and +8% (Ex-BHEL) for FY12E and FY13E respectively
- Revised order backlog growth to 5% for FY12E and 6% in FY13E
- Marginally revised the execution run-rate of order backlog owing to operational and financial challenges
- Cut growth in product business to 7% in FY13E, assuming investment spend at 1X GDP growth
- Case specific increase in interest rate by 1-2% for FY12E

Ex-BHEL, cutting earnings forecasts by -6% and -11% for FY12E and FY13E

- Revenues revised by -3% and -7% for FY12E and FY13E respectively. Highest cuts in Voltas, Blue Star, Mcnally Bharat and TRF
- Cut operating margins by 20 bps & 50 bps to 12.8% & 13.0% for FY12E & FY13E. Highest cut - Cummins (-110 bps), Blue Star (-100 bps), Greaves Cotton (-110 bps)
- Earnings forecasts revised by -6% and -11% for FY12E and FY13E. Highest cut in Cummins, Voltas, Blue Star, Greaves Cotton and TRF for FY12-13E period

Revisiting valuation methodology- Valuing the ECG sector at 15-year average PER

- Earnings CAGR dropping to 7% in FY11-13E period versus 12% in FY09-11 and 42% in FY04-08 period. ROCE to soften from peak of 24% in FY08 to 16.6% in FY13E (Ex-BHEL)
- No strong catalysts at play with higher probability of gradual recovery (spanning atleast 3-4 quarters) against immediate recovery.
- Erstwhile target valuations were based on average PER of FY04-08 investment cycles. With no strong catalysts in place, FY04-08 valuations remain out of sight
- Valuing sector at 15-year average PER with best case upside potential of 15-16%

Change in ratings –Prefer L&T, Thermax, Voltas and Greaves Cotton

- *Despite all gloom, only silver lining remains healthy ROCE and relatively strong balance sheets*
- *Downgraded L&T, Thermax and Mcnally Bharat by a notch from BUY to ACCUMULATE*
- *Downgraded Cummins and Elecon Engineering by two notches from BUY to HOLD*
- *Prefer companies, where risk or ambiguity is lowest with strong return ratios and valuations being closer to 15-year average PER*
- *Prefer L&T, Thermax, Voltas and Greaves Cotton. Top Avoids- BHEL, Cummins and Blue Star*

Valuing the sector at 15-year average PER multiple...

	Historical Average PE	Adjustments Required	Core Business Target PER Multiple	Earnings FY13E	Value Core Business	Embedded Value	Target Value	CMP	Upside/Downside
BHEL	13.0	No	13.6	27.7	376	0	376	326	15.2%
L&T	18.3	No	18.3	68.8	1261	341	1603	1380	16.2%
Cummins	17.3	No	17.3	22.4	388	0	388	403	-3.6%
Thermax	14.4	No	13.7	36.1	495	0	495	430	15.0%
Voltas	13.7	No	13.7	8.8	121	0	121	104	17.0%
Blue Star	10.7	Yes	12.3	15.9	196	0	196	221	-11.2%
Punj Lloyd	10.2	Yes	10.2	2.5	63	0	63	55	14.6%
Greaves Cotton	7.5	Yes	12.5	8.3	103	0	103	90	15.0%
TRF	9.3	No	7.3	15.2	111	142	282	335	-15.8%
McNally Bharat	17.7	Yes	7.3	20.1	147	0	147	128	15.2%
Elecon Engineering	7.3	No	7.3	8.3	61	0	61	71	-13.6%

Summary of change in ratings

	Previous Rating	Revised Rating	Previous Target Price	Revised Target Price	CMP	Upside/Downside
BHEL	Hold	Hold	430	376	326	15.2%
L&T	Buy	Accumulate	1936	1603	1380	16.2%
Cummins	Buy	Hold	687	388	403	-3.6%
Thermax	Buy	Accumulate	735	495	430	15.0%
Voltas	Accumulate	Accumulate	165	121	104	17.0%
Blue Star	Hold	Hold	280	196	221	-11.2%
Punj Lloyd	Hold	Hold	76	63	55	14.6%
Greaves Cotton	Buy	Buy	124	103	90	15.0%
TRF	Hold	Hold	390	282	335	-15.8%
McNally Bharat	Buy	Accumulate	201	147	128	15.2%
Elecon Engineering	Buy	Hold	101	61	71	-13.6%

At Crossroads – Highlighted room for 20% downside to earnings estimates and non-revival of order inflows being biggest de-rating trigger

In our preceding note, “At Crossroads”, dated Mar’11, (Refer Annexure) we had highlighted (1) 20% risk to earnings forecasts from delay or postponement in resumption of investment spends and order inflows and (2) Non-resumption of order inflow being the biggest de-rating trigger for the sector. We had observed that FY12E earnings estimates factored healthy growth assumptions at 21% and had largely remained unchanged for a long time.

Analyzing H1FY12E* performance – Not encouraging so far

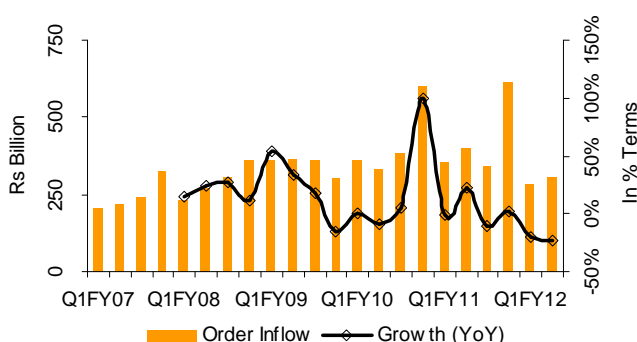
- **Order Inflows** → Order book growth to moderate from +15% in FY11 to 8% in Q2FY12E
- **Revenues** → Revenue growth has remained subdued for the past 10 quarters (except for H2FY11). Expectations of 15.2% yoy growth in H1FY12E
- **Operating Margins** → For the second consecutive quarter, expect operating margins to decline by 20 bps in Q2FY12E (Q1FY12 – down by 50 bps yoy). Consequently, growth in operating profits also to be subdued at 13% yoy in Q2FY12E and 12% yoy in H1FY12E
- **Net Profits** → Q2FY12E net profit growth expected at 9% yoy and H1FY12E at 10.7% yoy – lower than 13% yoy growth reported in Q1FY12 and 33% growth reported in FY11

Note: (1) Please refer Annexure 1 for details

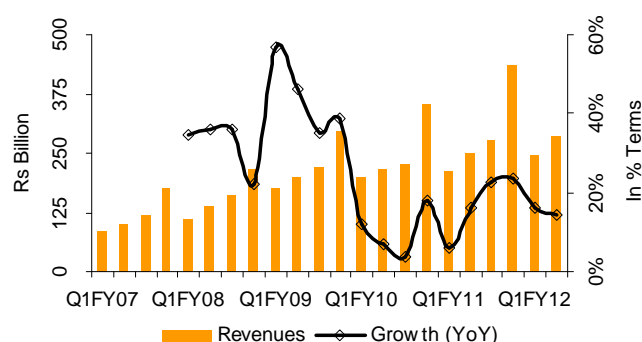
(2) * H1FY12E considers EMKAY expectation for Q2FY12E

	Emkay ECG Universe				Emkay ECG Universe (Ex-BHEL)			
	Q2FY12E	% Change Yoy	H1FY12E	% Change Yoy	Q2FY12E	% Change Yoy	H1FY12E	% Change Yoy
Order Inflows	309,804	-23.3	591,074	-21.9	209,826	-19.1	466,386	-8.1
Revenues	286,380	14.5	530,919	15.2	185,361	12.2	357,185	15.3
Operating Margins (%)	13.7	-20 bps	13.0	-40 bps	10.7	-40 bps	10.8	-70 bps
Net Profits	24,250	8.8	43,401	10.6	11,091	2.0	22,087	4.5

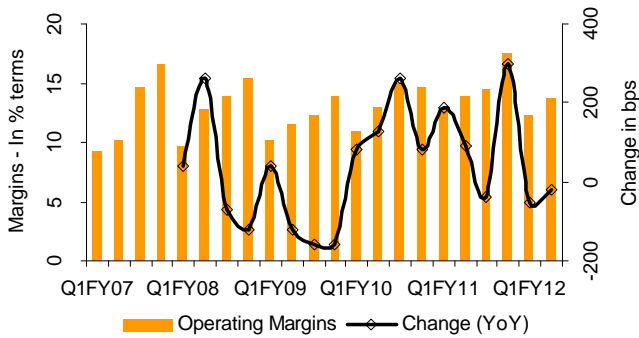
Order inflows trend



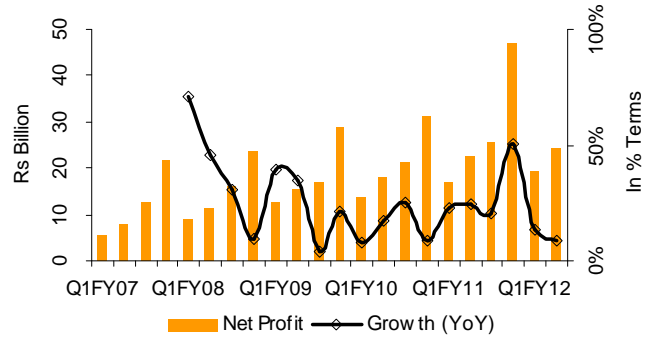
Revenues trend



Operating margins trend



Net profits trend



Sinking feeling that scenario is worsening, current environment not appealing

- High inflation, high BPLR, high commodity prices, indecisiveness, procedural delays, unwillingness, etc appear to be all-pervasive, omnipresent
- These factors have surprisingly taken centre-stage for a fairly long duration of time – about 4-5 quarters
- ...Leading to dry-out of order announcements, slowdown in execution and decision-making coming to a grinding halt
- In a nutshell, catalysts are nowhere in sight with concerns or risks dominating both capital (Corporate) and financial investments (Investors)

Macro / Economic indicators remain un-conducive

GCF	IIP
<ul style="list-style-type: none"> • After robust growth during FY04-08 period, growth in GCF has been trending downwards since FY09 • Correspondingly, GCF to GDP ratio has also come down from +2.0X to a dismal 1.0X in FY11 • Lead indicators to GCF growth – namely interest rates, inflation and IIP growth are not supportive for growth 	<ul style="list-style-type: none"> • During Sep'11- to Jun'11, IIP growth was range-bound between 7-8% yoy • This is sharply lower than average 13% yoy growth witnessed during Jun'06 to Sep'08 period • Empirically, sustainable pick-up in IIP growth has acted as a lead indicator to GCF growth and a pre-requisite thereof
	<p>After initial signs of uptick, IIP growth appears to have lost momentum...</p>

Interest Rates	Inflation
<ul style="list-style-type: none"> • Prevalent interest rates at a decade high... no signs of respite visible yet • Empirically, high interest rates non-conducive for asset creation cycle (though moderate levels encourage asset creation) • Reduction in finance charges and an improvement in availability of finance – an imperative for robust GCF growth 	<ul style="list-style-type: none"> • Current inflation levels marginally lower than all time high of 11% in Sep'08 • Though, a bigger concern area– Inflation hovering at +9% for a long duration of 5 quarters • Like interest rates, moderation of inflation and eventual return to historical mean in the near-to-medium term – to act as a catalyst for asset creation cycle
<p>Interest rates well above previous peak of Sep'08 (pre-)</p> <p>Y-axis: In % terms (10 to 15) X-axis: Mar-00, Jun-01, Sep-02, Dec-03, Mar-05, Jun-06, Sep-07, Dec-08, Mar-10, Jun-11</p> <p>Legend: Bank Rate</p>	<p>Y-axis: Growth in % terms (0 to 12) X-axis: Jun-05, Mar-06, Dec-06, Sep-07, Jun-08, Mar-09, Dec-09, Sep-10, Jun-11</p> <p>Legend: Inflation Rate</p>

Softer issues are more pronounced than ever before

- Government's indecisiveness and policy paralysis amidst global concerns have turned out to be the single most important factor limiting fresh investments by Corporate India
- Even seemingly non important events like loan scam, telecom scam, etc have eventually clogged the wheels of growth for the ECG sector
- Government spending, erstwhile considered secular, has seen a sharp slow-down in growth momentum. It has come down from 16-17% in FY06-08 period to about 7-9% during FY10-11 period.
- Investment decisions have been hit across sectors

Sector	Issues / Concerns	Major Projects Affected
Fertilizer	<ul style="list-style-type: none"> • Continuous delays on implementation of NBS and urea policy - impacting new investments • Gas availability 	<ul style="list-style-type: none"> • Urea projects valuing Rs250-300 bn affected – Zuari Industries, Tata Chemicals, IFFCO, Indo Gulf
Oil & Gas	<ul style="list-style-type: none"> • No progress - Lack of new oil & gas discovery and exploration • No fresh investments in refining - Most of the refinery projects (Paradeep, Bina, Bhatinda) underway • Government approvals / clearances 	<ul style="list-style-type: none"> • Various environmental clearances awaited on pipeline planned by RGTIL (Kakinada- Chennai-Mangalore – Tuticorin). • Reliance Industries' future project approvals impacted due to recent CAG report on working of DGH /RIL
Power	<ul style="list-style-type: none"> • Land Acquisition • Coal Linkage • Looming risk of excess supply • Weak financial position of SEBs 	<ul style="list-style-type: none"> • Clogged all existing and new projects

Sector	Issues / Concerns	Major Projects Affected
Metal	<ul style="list-style-type: none"> Ample projects across states... but investments stuck for want of approvals like – (1) Environmental clearances (2) Land acquisition (3) Mine allocation 	<ul style="list-style-type: none"> Posco, Orissa (12 MTPA integrated steel facility) - MoEF clearance & land acquisition challenges remain Arcelor-Mittal (Jharkhand & Karnataka) – Land acquisitions and regulatory approvals delaying the projects Bhushan Steel (West Bengal) – Litigation with Coal India and land acquisition issues JSW Steel Bengal (1st phase 3 mtpa) - land acquisition issues and raw material linkages Hindalco's Aditya smelter (359 ktpa) - lack of coal linkage, poor market scenario Vedanta Aluminium expansion in Orissa - on hold due to MoEF ban Sterlite Energy's commissioning of 2x600 MW at Jharsuguda - delayed and 4x660 MW at Punjab – uncertain
Mining	<ul style="list-style-type: none"> Litigation Go / No-go area (though currently under debate with MoEF itself) 	<ul style="list-style-type: none"> Mahan coal block for Hindalco and Essar Energy fall under no- go area. Fate still uncertain JSW Steel's Hadimpade iron mine - under litigation SC ban on all mining activities in Karnataka for indefinite period since August '2011 About 206 coal blocks under no- go area at present
Construction	<ul style="list-style-type: none"> Policy paralysis and non-decision making in infrastructure sector Depleting economics in real estate Environmental clearance Land acquisition High interest rates 	<ul style="list-style-type: none"> Works stalled at Lavasa for over a year due to MOEF clearance issue Rising challenges for land acquisition in Goa, Orissa, West Bengal and UP – Owing to state land acquisition bills High interest rates starting to pinch smaller developers

Increasing competitive intensity across sectors – Hurting the sector

- Persistent delays in order finalization over the past few quarters have resulted in depleting order book covers [our ECG universe order book cover down from 3.1X in FY11 to 2.8X revenues in Q2FY12E (Ex-BHEL)]
- Increasing India-focus by international players has further fueled the competitive intensity in the domestic market
- ...Leading to (1) Lower threshold limit for bidding projects (2) stretched working capital requirements from diluted payment terms
- Highlighting specific instances of reduction in operating margin guidance by managements

- Crompton Greaves – reduced by 300-500 bps
- Voltas – reduced threshold bidding limit for Middle East orders by 300-400 bps
- Blue Star – Reduced expected margins on order backlog by 300-500 bps
- TRF – reduced sustainable margin guidance from 10% to 7%
- (5) L&T - After continuously recording margin expansion for the last 7 years, has guided for a 50-75 bps drop in FY12E margins

- Highlighted below are anecdotal evidences seen across sectors:

Power – Boiler Turbine & Generator Sets

In the recently awarded 9x800 MW bulk tenders by NTPC, we noted the following firsts

- Beating domestic majors like BHEL, L&T and Thermax, Doosan (Korea) emerged as L1 for boiler orders → It was for the first time ever that NTPC (PSU) awarded contracts to a non-domestic company
- BGR Energy (in JV with Hitachi), a new entrant in the super-critical space, emerged as the L1 for Turbine-Generator (TG) sets
- The TG set order (won by BGR) was observed to be lower on a like-to-like comparison with other industry players (21% lower than BHEL and about 9% lower than L&T's 1st super-critical TG order), suggesting presence of some predatory pricing. However, predatory pricing appeared non-existent in the case of Boilers
- For more details, also see our earlier note – *"BTG Equipments... Is this new era in the offing?"* dated 16 Sep'11

Power – Transmission & Distribution

- Market share of foreign players (Chinese and Korean) in PGCIL's 76kV transformer/reactors has grown from under 10% in FY07 to about 60% in FY11.
- After witnessing +20% p.a. growth in realizations over 3 years (FY06-10), the transformer industry's realizations dropped by a massive 22% during FY09-10 period – attributed to (1) aggressive expansion by industry players (2) gross under-utilization of existing capacities (3) high competition
- Recent entrant in Power T&D is a construction player – Ashoka Buildcon

Power – Balance of Plants

Witnessed entry of multiple players in the past few years

- McNally Bharat → a pure-play MHE player
- Punj Lloyd → an EPC player in the Oil & Gas and construction space
- Recent entry by a construction player – NCC
- Looking to gain entry (not secured any order yet) → TRF, Elecon Engineering

Construction

- Despite substantial yoy increase in awarding of road projects, NHAI remains remarkably short of achieving its targets
 - During FY10, NHAI awarded 3,361 kms against the work plan target of 11,618 kms
 - Emkay expects 5,100 kms to be awarded in FY11 → Vs NHAI's cumulative target/backlog of 19,856 kms (FY11 target of 11,599 kms + FY10 spillover of ~8,250 kms)
- Developer friendly policies & limited entry barriers driving competition in the sector – 55 players in the national highway market
 - Market share of the top 15 players diluted by 15%

Implied earnings estimates (H2FY12E) for ECG sector factor in-built optimism

The implied estimates for H2FY12E (On all counts – growth in order inflows, revenue, net profits and operating margin performance) are much higher than the muted growth expectations for H1FY12E. It reflects an-inbuilt optimism versus the muted performance expected in H1FY12E. It is certainly built on the inherent assumption of resumption in order inflows and in-time execution of order backlog. Our implied growth estimates for order inflows, revenue, operating margins and net profits for H2FY12E are –

- **Order inflows** → H2FY12E growth implied at +39% yoy Vs decline of 22% yoy in H1FY12
- **Revenues** → Implied growth for H2FY12E at 20% yoy Vs 15% yoy in H1FY12
- **Operating margins** → Implied margin improvement of 70 bps yoy in H2FY12E versus decline of 40 bps yoy in H1FY12
- **Net profit** → Implied growth to accelerate to 25% yoy in H2FY12E Vs 5% yoy achieved in H1FY12E (Ex-BHEL)

Note: Please refer Annexure 2 for details

	Emkay ECG Universe				Emkay ECG Universe (Ex-BHEL)			
	H1FY12E	% Change Yoy	H2FY12E	% Change Yoy	H1FY12E	% Change Yoy	H2FY12E	% Change Yoy
Order Inflows	590,854	-21.9	1,327,712	39.1	466,166	-8.1	785,883	33.4
Revenues	530,933	15.2	852,093	19.6	357,198	15.3	530,862	21.1
Operating Margins (%)	13.0	-40 bps	15.7	-70 bps	10.8	-70 bps	12.4	40 bps
Net Profits	43,411	10.7	82,149	13.4	22,107	4.6	38,894	24.7

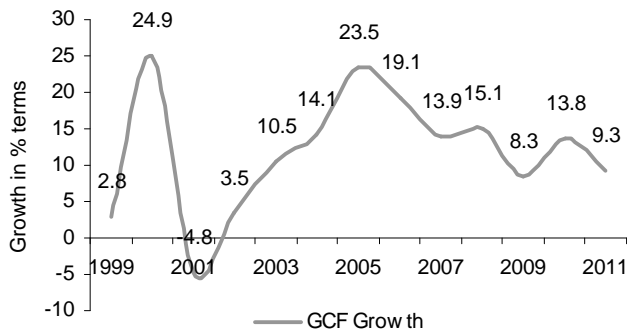
Revisiting our assumptions for FY12E and FY13E earnings estimates

We are revisiting our assumptions on (1) Order Inflows, (2) Order Backlog, (3) Order Execution/Revenues (4) EBIDTA Margins, (5) Interest expenses and (6) Working capital. We are fine-tuning our assumptions to factor near term challenges and threats.

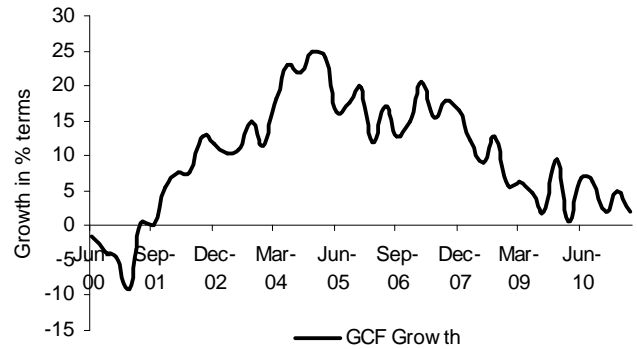
	Erstwhile assumptions	Revised assumptions
Order Inflows	<ul style="list-style-type: none"> Factored continuation of order inflows in FY12E and FY13E. Assumed 12% and 13% growth in order inflows in FY12E and FY13E respectively. Implied growth in order inflows at 39% for H2FY12E 	<ul style="list-style-type: none"> Order inflows have dried-out in H1FY12E, prevalent across sectors. Implied expectations for H2FY12E have gone-up significantly. No change catalysts in sight. Revised order inflow assumptions to -3% and +8% (Ex-BHEL) for FY12E and FY13E* respectively. Revised order inflow growth at 2% (Ex-BHEL) for H2FY12E.
Order Backlog	<ul style="list-style-type: none"> Order backlog closely mirrored inflow growth. Assumed 17% and 19% growth in order backlog in FY12E and FY13E respectively. 	<ul style="list-style-type: none"> Order backlog growth revised to 5% for FY12E and 6% in FY13E.
Order Execution / Revenues	<ul style="list-style-type: none"> Assumed execution and revenue booking on orders received in FY12E. Maintained the execution of order backlog at historic run-rate. In case of product business, growth expectation was 15-17% in FY12E and FY13E – assuming investment spends at 2 X GDP growth. 	<ul style="list-style-type: none"> Since, order inflows are clocked in H2FY12E, execution not factored in FY12E. Marginally revised the execution run-rate of order backlog citing operational and financial challenges. Revenue growth in product business revised to 7% in FY13E, assuming investment spend at 1X GDP growth.
EBIDTA Margins	<ul style="list-style-type: none"> Factoring gains from operational efficiency, EBIDTA margins expansion of 90 bps and 20 bps in FY12E and FY13E respectively. Competition threat remains partly factored in estimates. 	<ul style="list-style-type: none"> Lower execution has impacted margins, making way for operational inefficiency. New order inflows to come at lower margins owing to competition. EBIDTA margins in H2FY12E lowered by 50 bps to 12.0%.
Interest Expenses	<ul style="list-style-type: none"> Interest rates are 2% lower than the prevailing borrowing rate for corporate. No difference in interest rate for FY12E and FY13E. 	<ul style="list-style-type: none"> Case specific increase in interest rate by 1-2% for FY12E. Kept 100 bps differential rate between FY12E and FY13E. Interest expenses to decline in FY13E over FY12E by 5%.
Working Capital Cycle	<ul style="list-style-type: none"> Factored minor improvement in working capital cycle in FY12E. 	<ul style="list-style-type: none"> No improvement in working capital cycle in FY13E.

*Order inflow assumptions are toned down to -3% and 8% for FY12E and FY13E respectively. This is aligned closer to 1X GDP growth instead of 2X GDP growth. It also remains similar to the intensity of GCF growth in FY00-03 period, which time period was symbolized by global concerns followed by domestic concerns like high inflation accompanied by moderation in consumption growth.

Witnessing moderation in GCF growth



...On quarterly basis, it is heading for muted growth



Company specific revision in assumptions

Company	Order Inflow	Revenue Booking	Margins	Interest Expenses
BHEL	Expect 35% decline in FY12E (Vs growth of 10% earlier) and growth of 7% in FY13E (Vs 8%)	Retained revenue booking assumptions on back of healthy order backlog (3.5X FY11 revenues)	No Change	No change
L&T	Factored marginal decline of 4% in FY12E (Vs 16% growth) followed by 7% growth in FY13E (Vs 16%)	No change in revenue booking on order backlog Lowered growth expectations for M&IP and E&E segments to 7% each from 15% earlier	Reduced by 50 bps to factor execution of low margin E&C orders as well as competitively secured orders	No Change
Cummins India	Not Applicable	Lowered domestic business growth to 1% in FY12E (Vs 11%) and to 8% in FY13E (Vs 18%) → led by lower volumes in power gensets, industrial and auto engines	Reduced by 110 bps in FY12E to 15.7% and by 190 bps in FY13E to 14.9% to factor higher fixed costs and higher COGS	Not Applicable
Thermax	Assumed Nil growth in FY12E (Vs 10%) and 7% in FY13E (Vs 17%)	Revenue growth lowered to 10% in FY12E (Vs 12%) and to 7% in FY13E (Vs 11%), consequent to lower order inflow expectations	Margin assumptions for FY12E → Reduced by 50 bps to 11.3% (Vs 11.7%). Reduced FY13E margin estimates by 140 bps to 10.4% (Vs 11.8%)	Not Applicable
Voltas	Assumed Nil growth in FY12E (Vs 8%) and 7% in FY13E (Vs 12%)	Factored slower booking on existing order backlog → Expect marginal decline of 1% in FY12E (Vs +5%) and growth of 13% in FY13E (Vs 15%)	Reduced by 40 bps in FY12E to 7.9% and by 100 bps in FY13E to 7.6%.	No Change
Blue Star	Assumed Nil growth in FY12E (Vs 13%) and 7% in FY13E (Vs 19%).	Revenue growth assumptions revised downwards – Muted growth in FY12E at 3% (Vs 10%) and 14% growth in FY13E (Vs 19%)	Reduced FY12E margins by 100 bps to 7.2% and FY13E margins by 40 bps to 8.3% (Margin expansion in FY13E attributed to base effect in EMP&PAC segment)	Increased by 200 bps in FY12E and by 100 bps in FY13E
Punj Lloyd	Assumed 34% growth in FY12E led by strong order inflows already secured in H1FY12 (Vs 51%). Normalized growth of 8% for FY13E (Vs 13%)	Consequent to lower order inflow assumptions, revenue growth reduced to 25% for FY12E (Vs 33%) and 11% for FY13E (Vs 13%)	Since +8% margins clocked in last 3 quarters. Revised margins by 40 bps in FY12E to 7.4% and by 30 bps in FY13E to 7.5%	No change in FY12E. Lowered marginally in FY13E

Company specific revision in assumptions (Cont'd...)

Company	Order Inflow	Revenue Booking	Margins	Interest Expenses
Greaves Cotton	Not Applicable	Lowered revenue growth to 11% for FY12E (Vs 15%) and to 14% for FY13E (Vs19%). → lowered both volume and realization growth estimates. Infrastructure pick-up postponed to FY13E	Reduced FY12E margins by 100 bps to 15.6% (led by Infrastructure segment) and FY13E margins by 70 bps to 15.9%	No Change
TRF	Assumed Nil growth in FY12E (Vs 32%). Retained FY13E growth at 41%, assumed market share gains.	Retained FY12E revenue growth at 26%. Expect muted growth in FY13E at 4% (Vs19%) – attributed to low opening order backlog	Lowered by 50 bps in FY12E to 5.2% – in view of subdued operating performance in H1FY12 in both MHE and auto business. Correspondingly, FY13E margins also reduced by 60 bps to 5.6%	Increased by 170 bps for FY12E and by 60 bps for FY13E
McNally Bharat	Assumed Nil growth in FY12E (Vs 15%) and 7% in FY13E (Vs18%)	Revised revenue growth estimates for FY12E at 7% (Vs19%) – No revenue booking on new order wins. Revenue growth in FY13E is 4% (Vs 20%) due to lower opening order backlog and lower booking on new orders	Improved margin assumptions by 40 bps for FY12E to 7.2% and by 10 bps for FY13E to 7.1% - in view of steady operating performance in past 3 quarters	No change in FY12E. Reduced by 160 bps in FY13E
Elecon Engineering	Retained FY12E estimates of 0% growth. Reduced FY13E growth to 7% (Vs 18%)	FY12E growth marginally reduced to 15% (Vs 18%) – led by Transmission Equipment division (Factored moderate growth at 8% Vs 21% earlier). Expect FY13E growth at 5% (Vs 18%) – led by lower revenue booking in MHE division and lower growth in TE division	Marginally toned down FY12E estimates by 10 bps to 14.9%. FY13E estimates increased marginally by 30 bps to 14.7%	No change in FY12E. Reduced by 40 bps in FY13E

Note: Downward revision in operating margin assumptions for FY13E is higher vis-à-vis FY12E estimates as we expect pressure on operating margin to continue in FY13E (versus earlier expectation of an improvement). This is due to combined effect of (1) slower execution of existing order backlog and (2) execution of new orders - secured in FY11 & FY12E at competitive prices with lower margins.

Revising FY12E and FY13E earnings – revised earnings by -6% for FY12E and -11% for FY13E

- **Revenues** → Cut revenues by 2% for FY12E and 5% for FY13E, whereas Ex-BHEL it is revised downwards by 3% and 7% for FY12E and FY13E respectively. Highest revision done in Voltas, Blue Star, Mcnally Bharat and TRF for FY12-13E period.
- **Operating margins** → Reduced operating margin by 10 bps for FY12E to 15.2% and 20 bps for FY13E to 14.9%. Ex-BHEL, revised operating margins by 20 bps for FY12E to 12.8% and by 50 bps in FY13E to 13.0%. For FY12E, highest revision done in Cummins India (-110 bps), Blue Star (-100 bps) and Greaves Cotton (-110 bps).
- **Net Profit** → We have lowered our earnings estimates by 3% and 6% for FY12E and FY13E respectively and Ex-BHEL by 6% and 11% respectively. Highest earnings cut in Cummins, Voltas, Blue Star, Greaves Cotton and TRF for FY12-13E period.

Note: Please refer Annexure 3 for details

Summary of change in FY12E and FY13E estimates

FY12E Estimates	Emkay ECG Universe			Emkay ECG Universe (Ex-BHEL)		
	Previous	Revised	% Change	Previous	Revised	% Change
Revenues	14,85,792	14,56,930	-1.9	9,90,827	9,62,035	-2.9
Operating Margins (%)	15.3	15.2	-10 bps	13.0	12.8	-20 bps
Net Profits	1,32,809	1,28,703	-3.1	68,250	64,154	-6.0

FY13E Estimates	Emkay ECG Universe			Emkay ECG Universe (Ex-BHEL)		
	Previous	Revised	% Change	Previous	Revised	% Change
Revenues	16,97,573	16,14,146	-4.9	11,41,808	10,61,530	-7.0
Operating Margins (%)	15.1	14.9	-20 bps	13.4	13.0	-50 bps
Net Profits	1,51,163	1,41,740	-6.2	82,975	73,983	-10.8

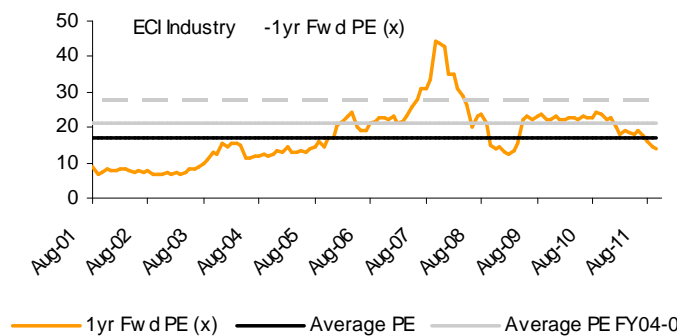
PER valuations on revised earnings – ECG sector trading at a 16% discount to 15-year average PER multiple

On our revised earnings, ECG sector is trading at 14.2X 1-year forward PER – which is a 16% discount to 15-year average PER multiple of 16.9X and 8% premium relative to Sensex PER valuations. Post earnings revision and corresponding de-rating in valuations; few companies are trading at attractive valuations. There is high probability that current valuation is truly discounting medium-term concerns on (1) sustainability of earnings growth (2) competition fears and (3) resumption of order inflows. However, sheer lack of near-term catalysts with overriding concerns on timing for resumption of order inflows and earnings growth remains hangover on current valuations.

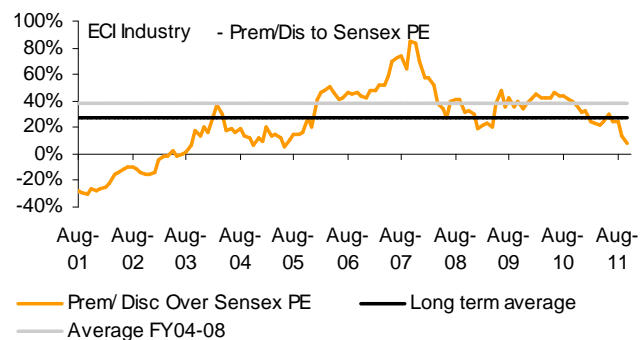
- Amongst the large-caps, L&T, BHEL, Thermax are trading at a 10-20% discount to their respective 15-year average PER multiples
- Cummins, however, continues to trade at a 4% premium to the long term multiple
- In the mid-to-small caps, except for Voltas, all other companies are trading at a premium to their 15-year average PER multiples.

	Current	15-year	FY04-08		
	1-Yr Fwd PER	PER	Prem/(Disc)	PER	Prem/(Disc)
BHEL	11.8	13.0	-9%	20.1	-41%
L&T	15.4	18.3	-16%	21.9	-30%
Cummins	18.0	17.3	4%	16.6	8%
Thermax	11.9	14.4	-17%	17.4	-31%
Voltas	11.7	13.7	-15%	18.4	-36%
Blue Star	13.9	10.7	30%	13.7	1%
Punj Lloyd	21.5	10.2	110%	32.9	-35%
Greaves Cotton	10.9	7.5	45%	12.5	-13%
TRF	11.4	9.3	22%	10.9	4%
McNally	7.6	17.7	-57%	23.3	-68%
Elecon	8.5	7.3	17%	14.9	-43%

ECG sector trading at 14.2X 1-year forward PER



ECG sector trading at mere 8% discount to Sensex



Re-visiting the erstwhile valuations methodology on account of...

- Scaling down order inflow expectations to 8% in FY13E

Multiple headwinds at the global, local and sector-specific level have already impacted the order inflows in the sector. There is high probability of gradual recovery – with time spanning 3-4 quarters. Hence, order inflow expectations have been scaled down to 8% in FY13E.

Order Inflow (Rs Mn)	FY04	FY05	FY06	FY07	FY08	FY09	FY10	FY11	FY12E	FY13E
BHEL	1,65,625	1,84,364	1,89,380	3,56,430	5,02,700	5,96,780	5,90,370	6,05,070	3,93,296	4,21,437
L&T	1,30,830	1,49,420	2,23,700	3,06,000	4,20,180	5,16,000	6,95,720	7,97,690	7,69,223	8,26,768
Thermax	9,322	10,961	22,062	42,317	23,968	39,061	57,996	60,216	60,216	65,685
Voltas	8,778	10,896	22,233	17,739	41,679	28,618	32,814	37,511	37,511	39,972
Blue Star	7,909	9,396	13,117	17,984	26,016	27,066	29,190	31,236	31,236	35,711
Punj Lloyd	13,160	8,880	56,027	1,56,941	1,12,628	1,29,314	1,73,165	87,340	1,17,074	1,27,029
TRF	1,380	1,380	3,500	4,470	8,813	8,732	9,299	5,112	5,112	7,221
McNally Bharat	4,000	4,379	2,292	10,310	17,470	8,468	29,470	20,144	20,144	21,554
Elecon	2,500	4,250	6,785	9,271	12,834	13,033	6,624	14,214	14,214	15,209
Total	3,43,503	3,83,926	5,39,095	9,21,461	11,66,287	13,67,073	16,24,648	16,58,532	14,48,026	15,60,587
Growth		12%	40%	71%	27%	17%	19%	2%	-13%	8%
Total Ex-BHEL	1,77,879	1,99,562	3,49,715	5,65,031	6,63,587	7,70,293	10,34,278	10,53,462	10,54,730	11,39,149
Growth		12%	75%	62%	17%	16%	34%	2%	0%	8%

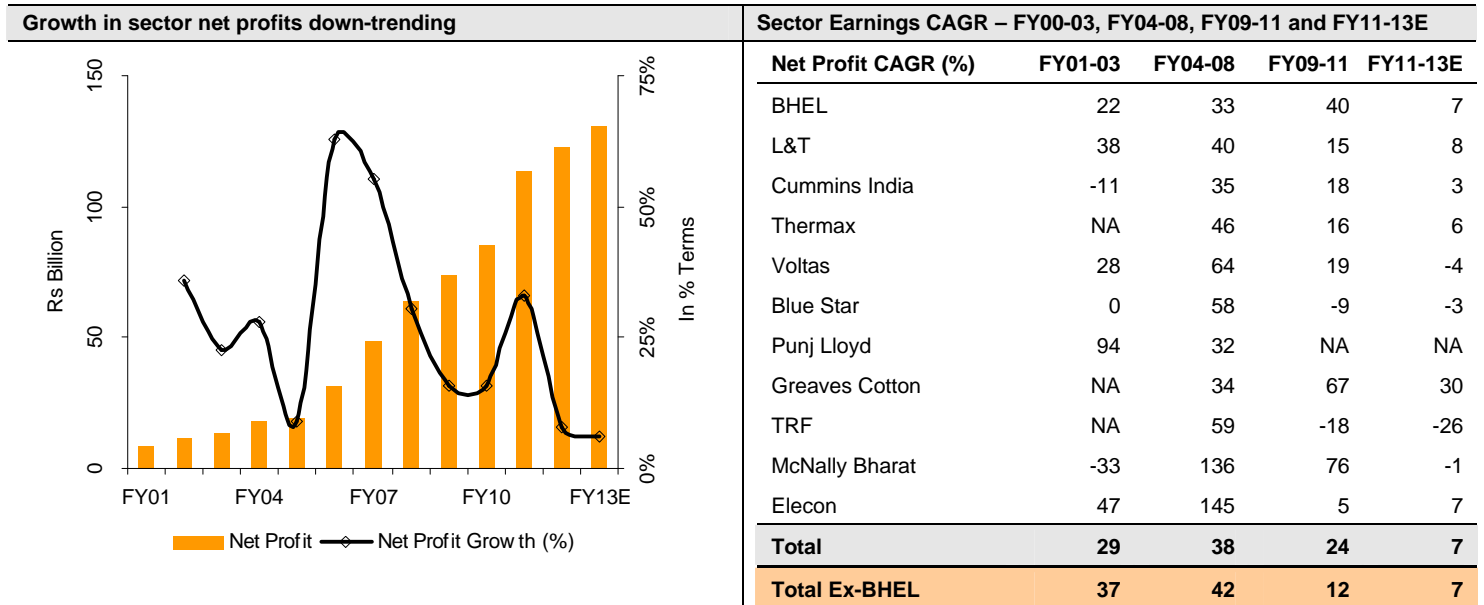
- Competition and operational inefficiency lowering the margin profiles

Sector is already experiencing pressure on margins on the execution of orders received after September 2008. The quality of order wins has further worsened in FY11 (either margins or credit terms) – This is synonymous across jobs/contracts in power equipments, BOP orders, MEP orders, pure-play civil jobs, etc. Also, dwindling book-to-bill ratio would lead to operational inefficiencies. Sector at large is expected to undergo - 170 bps decline in EBIDTA margin versus FY08 (peak margins) and 20 bps reduction in EBIDTA margins versus FY13E.

EBITDA Margins (%)	FY03	FY04	FY05	FY06	FY07	FY08	FY09	FY10	FY11	FY12E	FY13E
BHEL	14.6	15.8	16.8	19.0	20.5	19.0	15.9	18.0	20.6	19.8	18.7
L&T	10.0	7.3	7.6	8.8	10.9	13.2	12.9	13.3	13.5	12.4	12.0
Cummins India	12.1	9.7	11.9	14.0	16.1	13.9	14.9	18.5	16.9	15.7	14.9
Thermax	12.5	10.5	9.3	11.6	13.2	12.9	15.1	12.3	11.0	11.3	10.4
Voltas	2.9	4.3	4.6	6.1	5.7	8.3	6.7	9.9	9.0	7.9	7.6
Blue Star	6.5	6.3	6.1	7.5	7.4	10.6	11.3	12.1	9.2	7.2	8.3
Punj Lloyd	17.1	17.1	10.4	11.2	7.6	9.3	7.2	3.3	5.1	7.4	7.5
Greaves Cotton	13.0	13.0	14.6	16.0	15.0	13.4	10.2	15.4	15.6	15.6	15.9
TRF	0.6	5.9	6.2	9.9	11.8	16.5	13.6	13.9	5.4	7.1	5.7
McNally Bharat	3.8	0.5	4.1	5.3	5.9	7.6	9.2	8.2	7.3	7.2	7.1
Elecon	8.6	11.1	13.8	14.2	16.6	16.8	18.1	14.7	16.0	14.9	14.7
Total	11.7	10.9	10.9	12.9	13.9	14.2	12.9	13.7	15.1	14.5	13.9
<i>Change (bps)</i>		-80	0	200	100	30	-130	80	140	-60	-60
Total Ex-BHEL	10.3	8.4	8.2	9.6	10.5	12.2	11.6	11.5	11.9	11.4	11.1
<i>Change (bps)</i>		-190	-20	80	90	170	-50	-10	40	-50	-30

■ **Earnings CAGR drops to 7% in FY11-13E period**

Downward revision in earnings has led to resultant earnings CAGR dropping to 7% in FY11-13E period versus 12% in FY09-11 and 42% in FY04-08 period. Also, we would like to highlight the deterioration in sector fundamentals in recent times. The sector is probably bracing for muted order inflows in near-term i.e. H2FY12E and moderate growth in order inflows in medium term i.e. FY12-13E.



Net Profits (Rs Mn)	FY03	FY04	FY05	FY06	FY07	FY08	FY09	FY10	FY11	FY12E	FY13E
BHEL	6,710	9,060	9,839	16,759	24,273	28,703	30,407	42,639	59,273	64,549	67,757
L&T	4,055	5,120	5,806	8,651	13,727	19,675	27,044	30,302	36,050	39,167	41,698
Cummins India	849	910	1,265	1,683	2,476	2,990	4,260	4,439	5,912	5,874	6,217
Thermax	402	622	703	1,009	2,098	2,857	2,830	2,593	3,820	4,331	4,298
Voltas	299	379	553	1,157	1,502	2,760	3,400	5,078	4,842	4,186	4,439
Blue Star	222	224	338	493	696	1,413	1,829	1,999	1,518	991	1,428
Punj Lloyd	1,055	1,055	203	559	1,946	3,236	2,289	-4,274	-472	478	847
Greaves Cotton	270	270	400	725	1,190	861	424	1,167	1,188	1,714	2,020
TRF	-6	51	43	73	202	322	456	500	308	272	167
McNally Bharat	9	7	32	53	154	223	205	521	635	594	624
Elecon	-10	19	122	277	551	663	613	500	670	757	772
Total	13,855	17,716	19,302	31,440	48,814	63,701	73,759	85,462	1,13,744	1,22,914	1,30,266
<i>Growth</i>	23%	28%	9%	63%	55%	30%	16%	16%	33%	8%	6%
Total Ex-BHEL	7,145	8,655	9,464	14,681	24,541	34,998	43,351	42,824	54,472	58,365	62,509
<i>Growth</i>	48%	21%	9%	55%	67%	43%	24%	-1%	27%	7%	7%

■ **Return ratios soften, but stay above the threshold levels**

With moderation in inflows and resultant execution, coupled with softer margin regime and impact from operating inefficiencies, return profile of sector would get impacted. We expect the aggregate sector ROCE to soften from a peak of 22% in FY07 to 16.6% (Ex-BHEL) in FY13E – infact, they have nearly halved from the best reported in FY04-08 investment cycle. The return ratios, though healthy on relative basis, are closer to the worst reported in FY04-08 investment cycle.

ROCE (%)	FY01	FY02	FY03	FY04	FY05	FY06	FY07	FY08	FY09	FY10	FY11	FY12E	FY13E
BHEL	10.9	19.5	20.5	24.3	27.2	37.1	45.7	40.9	39.4	45.1	51.6	54.4	64.0
L&T	8.7	9.7	10.5	15.5	20.8	24.1	29.7	29.3	27.1	23.5	23.0	22.4	21.3
Cummins India	26.3	18.9	19.5	17.6	24.0	30.3	38.9	38.4	44.0	40.3	37.5	32.7	31.0
Thermax	4.1	9.4	15.7	20.8	23.2	36.6	58.8	64.8	47.4	38.0	43.6	40.3	34.7
Voltas	6.7	6.2	7.5	15.0	20.2	36.9	37.9	50.0	44.2	49.8	38.2	27.3	25.2
Blue Star	16.6	15.7	20.9	23.5	25.5	31.6	34.2	70.0	73.4	56.9	31.6	18.3	22.9
Punj Lloyd	18.8	16.3	18.8	16.6	8.0	8.5	11.8	15.4	12.7	1.7	1.7	5.5	6.0
Greaves Cotton	NA	NA	11.6	78.8	47.3	53.0	47.3	34.3	17.5	39.4	46.7	42.1	40.8
TRF	14.4	10.7	-1.1	11.0	11.5	21.3	53.3	67.4	49.3	35.7	9.8	12.9	9.0
McNally Bharat	12.0	14.2	5.6	-0.4	10.8	11.6	15.0	35.9	21.2	19.8	19.6	16.7	15.5
Elecon	1.7	3.0	4.2	7.2	18.5	21.3	26.6	21.6	19.2	13.5	16.2	15.6	14.6
Agg ROCE	7.8	12.1	14.0	17.6	19.6	24.9	29.1	27.6	24.9	22.7	25.2	26.7	27.0
Agg ROCE Ex-BHEL	7.8	9.5	12.0	15.2	16.7	19.6	22.0	23.9	21.4	17.0	17.2	17.1	16.6

■ **Erstwhile valuations pegged on peak cycle valuations, which had optimism**

Our erstwhile target valuations for the sector were based on average PER of investment cycles, more so on the FY04-08 investment cycle- which has been the most robust and longest so far. We had pegged the target valuations of the sector on FY04-08 average at PER of 21X 1-year forward earnings. Whereas 15-year average is higher than FY04-08 cycle capturing multiple cycles and valuation in Lehman crisis and consequent downfall. Owing to (1) changes in earnings forecast and resultant reduction in earnings CAGR and (2) deterioration in sector fundamentals- we are revisiting erstwhile valuation methodology.

■ **Tale of two time periods is totally different**

The September 2008 de-rating during Lehman Crisis also witnessed immediate recovery thereafter. But, since then, sector fundamentals have undergone dramatic changes. There are no strong catalysts at play. Probability of gradual recovery against immediate recovery is more likely- with time period spanning atleast 3-4 quarters. All the more reason for FY04-08 valuations being out of sight.

Analyzing the change in two time periods

	September 2008 de-rating & recovery thereafter	October 2011 & thereafter – FY12 & FY13E period
Global Concerns +	Started with global concerns, but eventually resolved	High risk – sovereigns at risk
Local Concerns	Not existent – India remain de-coupled from global concerns	High risk – lack of fiscal ammunition coupled with policy paralysis
Catalyst 1 - Global	It was corporates at risk and not sovereigns... Hence, global concerns got temporarily resolved	* It is Sovereign at risk. No solution in sight. Also, course of events remain a mystery thereafter.
Catalyst 2 – Local (Economic Indicators)	<ul style="list-style-type: none"> Domestic growth remained unaffected So did, economic indicators like consumption growth, IIP, credit growth, GCF growth and GDP growth Inflation started softening with immediate effect Interest rates softened immediately Ample fiscal ammunition with government – issued stimulus package as well Capital flows regaining strength 	<ul style="list-style-type: none"> Forecasting moderation in consumption growth in ensuing quarters All economic indicators are weak – slowdown in IIP, credit growth and GCF growth Inflation and bank lending rates remains above threshold level, no ammunition to tame down Government lacks fiscal ammunition – slippage in fiscal deficit, weak capital flows, etc
Catalyst 3 – Local (Softer Aspects)	<ul style="list-style-type: none"> Election 2009, followed with strong coalition government Resumption of government spends and order inflows Normal course of decision making and policy initiatives 	<ul style="list-style-type: none"> Same coalition government facing multiple headwinds No decision-making – hence order inflows being impacted Complete policy paralysis and lack of direction
Catalyst – Sector Specific	<ul style="list-style-type: none"> Order inflows saw continued momentum No disappointment in order execution Minor moderation in margins owing to execution of old high margin orders Competition was benign and not dominant Willingness and ability for capital investment remained unaffected- so growth in new investments 	<ul style="list-style-type: none"> Order inflows have stopped. Moderation is an under statement Order execution impacted in few sectors New order wins are at competitive margins, hence, sector witnessing decline in margins Competition is agile, already disturbed the power equipment market Lack of willingness and ability for capital investment

...Valuing the sector at 15-year average

As a result, we have realigned target prices by valuing companies at 15-year average PER with few exceptions like Blue Star, Punj Lloyd, Greaves Cotton and McNally Bharat. The exceptions are valued on combination of (1) relative to peer company's valuations and (2) own historical averages.

	Historical Average PE	Adjustments Required	Core Business Target PER Multiple	Earnings FY13E	Value Core Business	Embedded Value	Target Value	CMP	Upside/Downside
BHEL	13.0	No	13.6	27.7	376	0	376	326	15.2%
L&T	18.3	No	18.3	68.8	1261	341	1603	1380	16.2%
Cummins	17.3	No	17.3	22.4	388	0	388	403	-3.6%
Thermax	14.4	No	13.7	36.1	495	0	495	430	15.0%
Voltas	13.7	No	13.7	8.8	121	0	121	104	17.0%
Blue Star	10.7	Yes	12.3	15.9	196	0	196	221	-11.2%
Punj Lloyd	10.2	Yes	10.2	2.5	63	0	63	55	14.6%
Greaves Cotton	7.5	Yes	12.5	8.3	103	0	103	90	15.0%
TRF	9.3	No	7.3	15.2	111	142	282	335	-15.8%
McNally Bharat	17.7	Yes	7.3	20.1	147	0	147	128	15.2%
Elecon Engineering	7.3	No	7.3	8.3	61	0	61	71	-13.6%

■ **Fear of de-rating to FY00-03 levels is discarded**

We certainly discard de-rating to FY00-03 levels – which is PER of 9.2X 1-year forward earnings versus 15-year average PER of 16.9X. Simply put, return ratios remain healthy and above the threshold levels of FY00-03 period. This is despite expected moderation in inflow and execution in FY11-13E period coupled with anticipated decline in margins. Sector actually heading for slower earnings CAGR, quite similar back then.

	FY06-08 Average PE	FY04-08 Average PE	Historical Average PE	Current PER
BHEL	26.9	20.1	13.0	11.8
L&T	27.7	21.9	18.3	15.4
Cummins	18.4	16.6	17.3	18.0
Thermax	21.8	17.4	14.4	11.9
Voltas	25.1	18.4	13.7	11.7
Blue Star	16.5	13.7	10.7	13.9
Punj Lloyd	32.9	32.9	10.2	21.5
Greaves Cotton	17.0	12.5	7.5	10.9
TRF	13.5	10.9	9.3	11.4
McNally Bharat	25.1	23.3	17.7	7.6
Elecon Engineering	23.9	14.9	7.3	8.5

Assessing risk to reward ratios - Best placed on earnings cuts and accompanied de-rating is L&T, Voltas, Thermax and Greaves Cotton

Despite all gloom with significant earnings downgrade and moderation in earnings CAGR, only silver lining in the sector remains healthy ROCE and relatively strong balance sheets (also considering the universe of capital spends linked sub-sectors like Construction, Asset Leasing and Asset Operators). We prefer companies where (1) expectations are lowest with strong return ratios (2) sub-sector fundamentals are relatively stronger with low risk or ambiguity factor and (3) valuations are closer to 15-year average PER.

	Expectations			Return Ratios	Sub-Sector Fundamentals	Risk Or Ambiguity Factor	Valuations
	Inflow	Execution	Margins	ROCE	Market Specific	Non-Estimable Variable	Vs 15-year average
BHEL	Low	High	High	High	Non-Encouraging	No	Lower
L&T	Low	High	High	High	Encouraging	Yes	Lower
Cummins	NA	Low	High	High	Encouraging	No	Higher
Thermax	Low	High	Low	High	Non-Encouraging	Yes	Lower
Voltas	Low	High	High	High	Encouraging	Yes	Lower
Blue Star	Low	High	Low	Low	Encouraging	No	Higher
Punj Lloyd	High	High	Low	Low	Encouraging	Yes	Lower
Greaves Cotton	NA	Low	High	High	Encouraging	No	Higher
TRF	Low	Low	Low	Low	Non-Encouraging	Yes	Lower
McNally Bharat	Low	High	Low	High	Non-Encouraging	Yes	Lower
Elecon Engineering	Low	Low	Low	High	Non-Encouraging	Yes	Lower

Change of ratings – We prefer L&T, Thermax, Voltas and Greaves Cotton

On aligning the target valuations to 15-year average, we have changed ratings for few stocks under coverage. We have downgraded L&T, Thermax and McNally Bharat by a notch from BUY to ACCUMULATE. Whereas, we have downgraded Cummins and Elecon Engineering by two notches from BUY to HOLD. Consequent to the rating changes, we have ACCUMULATE rating on L&T, Thermax, Voltas and McNally Bharat, BUY rating on Greaves Cotton and HOLD rating on BHEL, Cummins, Blue Star, Punj Lloyd, TRF and Elecon Engineering. We prefer L&T, Thermax, Voltas and Greaves Cotton as the downsides are limited.

	Previous Rating	Revised Rating	Previous Target Price	Revised Target Price	CMP	Upside/Downside
BHEL	Hold	Hold	430	376	326	15.2%
L&T	Buy	Accumulate	1936	1603	1380	16.2%
Cummins	Buy	Hold	687	388	403	-3.6%
Thermax	Buy	Accumulate	735	495	430	15.0%
Voltas	Accumulate	Accumulate	165	121	104	17.0%
Blue Star	Hold	Hold	280	196	221	-11.2%
Punj Lloyd	Hold	Hold	76	63	55	14.6%
Greaves Cotton	Buy	Buy	124	103	90	15.0%
TRF	Hold	Hold	390	282	335	-15.8%
McNally Bharat	Buy	Accumulate	201	147	128	15.2%
Elecon Engineering	Buy	Hold	101	61	71	-13.6%

Risks to above assessment are-

- Despite an assumption of 7% growth in order inflows, timing and path for order inflows remain elusive. Though, order inflow assumptions have been revised downwards, timing for resumption of order inflows remains an overhang on the sector in near term.
- With Emkay's revised earnings being 9% (Ex-BHEL) lower than consensus in FY12E, downgrades would clog the sector for next two quarters and remain key overhang.
- Underlying assumption for 7% order inflow growth is equal distribution amongst all companies and sub-sector. Any variation could distort the earnings picture.

BHEL

CMP (Rs)	Price Target (Rs/Share)	Rating	PER (FY13E x)	FY11-13E Earnings CAGR (%)
326	376	Hold	11.8	6.9

- While decline in market share has been considered to be a certainty, the extent and pace of decline in market share continues to remain a key overhang. This is especially in view of planned capacity expansion plans by competitors
- Do not expect expansion in operating margins – owing to (1) increase in fixed costs from commissioning of new capacities and (2) execution of competitively secured orders. We have factored a decline of 80 bps in FY12E and a further fall of 110 bps in FY13E
- Expect muted earnings growth at 7% CAGR during FY11-13E period (much lower than 33% CAGR recorded during FY04-08 period) due to falling book to bill ratio and pressure on operating margins
- Valuations seem attractive at 11.8X FY13E earnings, representing a discount of 13% to 15-year PER multiples. But, lack of re-rating catalysts amidst risk of sustenance of earnings growth and fears of market share loss remain overhang. Retain Hold rating with a price target of Rs376 per share (@13.6X FY13E earnings)

Standalone Financial Snapshot

YE- Mar	Net Sales	EBITDA (Core)	(%)	APAT	EPS (Rs)	EPS % chg	RoE (%)	P/E	EV/ EBITDA	P/BV
FY10	333,545	60,069	18.0	42,639	17.4	5.9	29.6	18.7	11.7	5.0
FY11	422,466	86,854	20.6	59,273	24.2	39.0	32.9	13.5	8.1	4.0
FY12E	494,895	97,879	19.8	64,549	26.4	8.9	33.6	12.4	7.7	4.4
FY13E	552,615	103,264	18.7	67,757	27.7	5.0	38.9	11.8	7.5	4.8

Revision in Earning Estimates

Y/E, Mar (Rs. mn)	FY12E			FY13E		
	Earlier	Revised	% Change	Earlier	Revised	% Change
Revenues	494,965	494,895	(0.0)	555,765	552,615	(0.6)
EBITDA	97,894	97,879	(0.0)	103,919	103,264	(0.6)
EBITDA Margin (%)	19.8	19.8	0 bps	18.7	18.7	0 bps
APAT	64,559	64,549	(0.0)	68,189	67,757	(0.6)
EPS	26.4	26.4	(0.0)	27.9	27.7	(0.6)
Order Inflows	666,517	393,296	-41.0	714,209	421,437	-41.0
Order Backlog	1,771,038	1,497,890	-15.4	1,911,712	1,349,087	-29.4

Financials - BHEL

Income Statement

Y/E, Mar (Rs. mn)	FY10	FY11	FY12E	FY13E
Net Sales	333,545	422,466	494,895	552,615
Growth (%)	24.8	26.7	17.1	11.7
Expenditure	273,476	335,612	397,016	449,352
Materials Consumed	198,857	230,817	302,082	346,334
Employee Cost	65,395	53,967	65,178	69,398
Manufacturing Exp	8,460	11,340	13,695	15,780
Other Exp	764	39,489	16,060	17,839
EBITDA	60,069	86,854	97,879	103,264
Growth (%)	41.4	44.6	12.7	5.5
EBITDA Margin (%)	18.0	20.6	19.8	18.7
Depreciation	4,580	5,441	6,973	8,021
EBIT	55,489	81,412	90,906	95,243
EBIT Margin (%)	16.6	19.3	18.4	17.2
Other Income	2,597	2,899	2,830	3,366
Interest Expenses	-7,745	-5,721	-4,311	-4,311
PBT	65,831	90,032	98,046	102,919
Tax	23,192	30,759	33,497	35,162
Effective Tax Rate (%)	35.2	34.2	34.2	34.2
Adjusted PAT	42,639	59,273	64,549	67,757
Growth (%)	40.2	39.0	8.9	5.0
Net Margin (%)	12.8	14.0	13.0	12.3
E/O items	468	839	0	0
Reported PAT	43,107	60,112	64,549	67,757
Growth (%)	37.4	39.4	7.4	5.0

Cash Flow

Y/E, Mar (Rs. mn)	FY10	FY11	FY12E	FY13E
PBT	65,907	90,057	98,046	102,919
Depreciation	4,312	5,304	6,973	8,021
Interest Provided	336	547	-4,311	-4,311
Other Non-Cash Items	-3	6,674	0	0
Change in working Capital	-27,428	-30,929	-22,246	-5,552
Tax paid	-19,035	-38,648	-33,497	-35,162
Operating Cash Flow	24,089	33,004	44,965	65,916
Capital expenditure	-17,137	-17,238	-12,000	-7,000
Free Cash Flow	6,952	15,767	32,965	58,916
Other Income	-493	985	0	0
Investments	-275	-3,594	0	0
Investing Cash Flow	-768	-2,609	0	0
Equity Capital Raised	0	0	0	0
Loans Taken / (Repaid)	-215	351	0	0
Interest Paid	-337	-545	4,311	4,311
Dividend Paid (Incl Tax)	-10,879	-14,563	-83,096	-85,544
Others	0	0	0	0
Financing Cash Flow	-11,430	-14,757	-78,785	-81,233
Net Change in Cash	-5,246	-1,599	-45,820	-22,317
Opening Cash Position	103,147	97,901	96,302	50,481
Cash & Cash Equivalents	0	0	0	0
Closing Cash Position	97,901	96,302	50,481	28,164

Balance Sheet

Y/E, Mar (Rs. mn)	FY10	FY11	FY12E	FY13E
Equity Share Capital	4,895	4,895	4,895	4,895
Reserves & Surplus	154,278	196,643	178,096	160,310
Networth	159,174	201,538	182,991	165,205
Secured Loans	0	0	0	0
Unsecured Loans	1,278	1,634	1,634	1,634
Loan Funds	1,278	1,634	1,634	1,634
Net Deferred Tax Liability	-15,272	-21,636	-21,636	-21,636
Total Liabilities	145,179	181,536	162,989	145,203
Gross Block	65,801	80,497	92,497	99,497
Less: Depreciation	41,505	46,486	53,459	61,480
Net block	24,154	34,009	39,036	38,015
Capital Work in Progress	15,296	17,622	17,622	17,622
Investment	798	4,392	4,392	4,392
Current Assets	429,348	514,947	548,725	580,841
Inventories	92,355	109,630	132,404	147,978
Sundry Debtors	206,888	273,546	330,370	369,230
Cash & Bank Balance	97,901	96,302	50,481	28,164
Loans & Advances	28,137	32,373	32,373	32,373
Other Current Assets	4,069	3,096	3,096	3,096
Current Lia & Prov	324,417	389,434	446,785	495,667
Current Liabilities	280,237	313,466	370,817	419,699
Provisions	44,180	75,968	75,968	75,968
Net Current Assets	104,931	125,514	101,940	85,174
Miscellaneous Exp	0	0	0	0
Total Assets	145,179	181,536	162,989	145,203

Key Ratios

Y/E, Mar	FY10	FY11	FY12E	FY13E
Profitability (%)				
EBITDA Margin	18.0	20.6	19.8	18.7
Net Margin	12.8	14.0	13.0	12.3
ROCE	45.1	51.6	54.4	64.0
ROE	29.6	32.9	33.6	38.9
RoIC	390.5	172.5	118.3	102.7
Per Share Data (Rs)				
EPS	17.4	24.2	26.4	27.7
CEPS	19.3	26.4	29.2	31.0
BVPS	65.0	82.3	74.8	67.5
DPS	23.3	31.2	34.0	35.0
Valuations (x)				
PER	18.7	13.5	12.4	11.8
P/CEPS	16.9	12.3	11.2	10.5
P/BV	5.0	4.0	4.4	4.8
EV / Sales	2.1	1.6	1.5	1.4
EV / EBITDA	11.7	8.1	7.7	7.5
Dividend Yield (%)	7.1	9.5	10.4	10.7
Gearing Ratio (x)				
Net Debt / Equity	(0.6)	(0.5)	(0.3)	(0.2)
Net Debt / EBIDTA	(1.6)	(1.1)	(0.5)	(0.3)
Working Cap Cycle (days)	7.7	25.2	38.0	37.7

L&T

CMP (Rs)	Price Target (Rs/Share)	Rating	PER (FY13E x)	FY11-13E Earnings CAGR (%)
1380	1603	Accumulate	20.1	7.5

- L&T has a robust order backlog of Rs1.3 tn (Mar'11) – equivalent to 3.0X FY11 revenues, lending visibility for the next 8 quarters.
- In comparison with peers, L&T remains in the top quartile in terms of (1) revenue visibility and (2) earnings growth (second best in our universe, first being Greaves Cotton). Further, it would witness relatively moderate pressure on operating margins and working capital cycle considering the complexity of operations
- We have toned down our assumptions on order inflows for FY12E and FY13E. Consequently, we have cut earnings estimates by 4.5% to Rs76.3 per share for FY12E and by 8.6% to Rs89.6 per share for FY13E. It factors lower order inflows and slower order book execution, alongside muted growth in E&E and M&IP segments and contraction of operating margins
- Current under-performance and earnings revision in L&T factors medium-term concerns. After revised earnings, L&T is trading at attractive valuations of 15.4X FY13E earnings i.e. discount of 16% to 15-year average PER. We retain L&T as a top pick in our ECG universe with a price target of Rs1,603 and Accumulate rating

Consolidated Financial Snapshot

YE- Mar	Net Sales	EBITDA (Core) (%)		APAT	EPS (Rs)	EPS % chg	RoE (%)	EV/ P/E EBITDA P/BV		
FY10	436,989	65,390	15.0	33,745	56.2	9.7	19.3	24.6	14.4	4.0
FY11P	520,991	81,855	15.7	41,790	68.9	22.7	18.2	20.0	12.4	3.4
FY12E	610,615	88,875	14.6	45,700	76.3	10.7	17.3	18.1	11.7	2.9
FY13E	675,814	100,633	14.9	52,679	89.6	17.5	17.6	15.4	10.5	2.5

Revision in Earning Estimates

Y/E, Mar (Rs. mn)	FY12E			FY13E		
	Earlier	Revised	% Change	Earlier	Revised	% Change
Revenues	622,428	610,615	-1.9	717,662	675,814	-5.8
EBITDA	92,211	88,875	-3.6	110,146	100,633	-8.6
EBITDA Margin (%)	14.8	14.6	-30 bps	15.3	14.9	-50 bps
APAT	48,425	46,259	-4.5	59,462	54,343	-8.6
EPS	79.8	76.3	-4.5	98.0	89.6	-8.6
Order Inflows	923,258	769,223	-16.7	1,066,391	826,768	-22.5
Order Backlog	1,701,633	1,559,412	-8.4	2,230,724	1,893,157	-15.1

Financials - L&T

Income Statement

Y/E, Mar (Rs. mn)	FY10	FY11P	FY12E	FY13E
Net Sales	436,989	520,991	610,615	675,814
Growth (%)	8.3	18.3	18.4	10.7
Expenditure	371,599	439,137	521,740	575,181
Materials Consumed	273,933	326,668	386,851	428,157
Employee Cost	30,661	38,020	45,024	49,831
Manufacturing Exp	22,140	22,660	26,834	29,700
Other Exp	44,865	51,790	63,031	67,492
EBITDA	65,390	81,855	88,875	100,633
Growth (%)	16.4	25.2	8.6	13.2
EBITDA margin (%)	15.0	15.7	14.6	14.9
Depreciation	9,793	13,197	19,289	27,007
EBIT	55,597	68,658	69,586	73,626
EBIT margin (%)	12.7	13.2	11.4	10.9
Other Income	5,442	4,920	11,010	18,979
Interest expenses	6,919	8,309	9,221	10,329
PBT	54,119	65,269	71,375	82,276
Tax	20,374	23,479	25,676	29,597
Effective tax rate (%)	37.6	36.0	36.0	36.0
Adjusted PAT	33,745	41,790	45,700	52,679
Growth (%)	15.7	23.8	9.4	15.3
Net Margin (%)	7.7	8.0	7.5	7.8
(Profit)/loss from JVs/Ass/MI	71	10	559	1,663
Adjusted PAT After JVs/Ass/MI	33,816	41,800	46,259	54,343
E/O items	20,691	2,761	-	-
Reported PAT	54,507	44,562	46,259	54,343
Growth (%)	12.8	23.6	10.7	17.5

Cash Flow

Y/E, Mar (Rs. mn)	FY10	FY11P	FY12E	FY13E
PBT (Ex-Other income)	73,454	65,269	71,375	82,276
Depreciation	9,793	13,197	19,289	27,007
Interest Provided	6,919	8,309	9,221	10,329
Other Non-Cash items	-18,655	2,771	559	1,663
Chg in working cap	-28,318	-63,163	-51,236	-53,375
Tax paid	-17,547	-23,479	-25,676	-29,597
Operating Cashflow	25,647	2,904	23,532	38,304
Capital expenditure	-44,800	-62,057	-27,738	-28,280
Free Cash Flow	-19,154	-59,153	-4,205	10,024
Other income	0	0	0	0
Investments	-10,802	8,500	-1,368	-1,505
Investing Cashflow	-10,802	8,500	-1,368	-1,505
Equity Capital Raised	21,327	2,570	2,561	2,561
Loans Taken / (Repaid)	43,098	110,303	36,978	44,935
Interest Paid	-6,919	-8,309	-9,221	-10,329
Dividend paid (incl tax)	-7,219	-8,794	-10,553	-12,663
Income from investments	0	0	0	0
Others	114	786	532	-456
Financing Cashflow	50,402	96,556	20,298	24,048
Net chg in cash	20,446	45,903	14,725	32,567
Opening cash position	14,590	33,216	79,119	93,844
Closing cash position	33,499	79,119	93,844	126,410

Balance Sheet

Y/E, Mar (Rs. mn)	FY10	FY11P	FY12E	FY13E
Equity share capital	4,699	4,707	4,707	4,707
Reserves & surplus	205,214	243,543	281,810	326,051
Net worth	209,913	248,250	286,518	330,759
Minority Interest	10,873	11,658	12,190	11,734
Secured Loans	141,859	0	0	0
Unsecured Loans	84,701	0	0	0
Loan Funds	226,561	336,864	373,842	418,777
Net deferred tax liability	1,530	1,530	1,530	1,530
Total Liabilities	448,876	598,302	674,080	762,800
Gross Block	161,081	223,138	250,876	279,155
Less: Depreciation	37,476	50,673	69,961	96,969
Net block	123,605	172,465	180,914	182,187
Capital work in progress	66,184	66,184	66,184	66,184
Investment	99,279	90,779	92,147	93,652
Current Assets	417,009	535,845	637,730	738,939
Inventories	23,782	42,996	67,646	93,385
Sundry debtors	125,280	142,097	168,276	186,244
Cash & bank balance	33,216	79,119	93,844	126,410
Loans & advances	160,299	197,200	233,531	258,467
Other current assets	0	0	0	0
Current lia & Prov	257,201	266,971	302,895	318,162
Current liabilities	232,459	240,593	271,556	283,612
Provisions	24,743	26,378	31,340	34,550
Net current assets	159,808	268,874	334,835	420,777
Misc. exp	-	-	-	-
Total Assets	448,876	598,302	674,080	762,800

Key Ratios

Y/E, Mar	FY10	FY11P	FY12E	FY13E
Profitability (%)				
EBITDA Margin	15.0	15.7	14.6	14.9
Net Margin	7.7	8.0	7.5	7.8
ROCE	15.6	14.3	12.9	13.1
ROE	19.3	18.2	17.3	17.6
RoIC	22.2	19.0	16.5	15.4
Per Share Data (Rs)				
EPS	56.2	68.9	76.3	89.6
CEPS	70.7	87.4	101.1	122.6
BVPS	348.6	409.3	472.4	545.4
DPS	12.5	14.5	17.4	20.9
Valuations (x)				
PER	24.6	20.0	18.1	15.4
P/CEPS	19.5	15.8	13.6	11.3
P/BV	4.0	3.4	2.9	2.5
EV / Sales	2.2	2.0	1.7	1.6
EV / EBITDA	14.4	12.4	11.7	10.5
Dividend Yield (%)	0.9	1.1	1.3	1.5
Gearing Ratio (x)				
Net Debt/ Equity	0.5	0.7	0.7	0.7
Net Debt/EBIDTA	1.6	2.2	2.3	2.1
Working Cap Cycle (days)	113.6	151.7	180.4	204.0

Cummins India

CMP (Rs)	Price Target (Rs/Share)	Rating	PER (FY13E x)	FY11-13E Earnings CAGR (%)
403	388	Hold	18.0	2.5

- The domestic business has continuously been under pressure for past 3 quarters reporting yoy decline. No respite in sight amidst high inflation and interest rates.
- While export business has delivered robust growth for last 5 quarters, sustained growth momentum on a high base and current international environment remains a challenge
- Cummins could evince decline in operating margins considering (1) rise in pig iron prices (5% qoq and 20% yoy in Q2FY12) (2) product mix changes with higher export and (3) high base
- We downgrade our earnings estimates by 10% to Rs21.2 per share for FY12E and by 18% for FY13E to Rs22.4 per share – led by cut in operating margin assumptions (from commencement of new facility and high COGS). Post the above revision, we are lower than consensus estimates by 10% and 18% respectively.
- We believe that at 18.0X FY13E earnings, the stock is fairly priced. We downgrade the stock to Hold with revised price target of Rs388 (@17.3X FY13E earnings)

Standalone Financial Snapshot

YE-Mar	Net Sales	EBITDA		APAT	EPS	EPS	RoE (%)	EV/		
		(Core)	(%)		(Rs)	% chg		P/E	EBITDA	P/BV
FY10	28,449	5,303	18.6	4,458	16.0	7.1	30.0	25.2	21.0	7.2
FY11	39,454	6,656	16.9	5,898	21.3	33.3	35.1	18.9	16.7	6.2
FY12E	42,793	6,724	15.7	5,874	21.2	(0.6)	30.7	19.0	16.7	5.5
FY13E	47,717	7,121	14.9	6,217	22.4	5.8	29.5	18.0	15.8	5.1

Revision in Earning Estimates

Y/E, Mar (Rs. mn)	FY12E			FY13E		
	Earlier	Revised	% Change	Earlier	Revised	% Change
Revenues	43,927	42,793	-2.6	51,611	47,717	-7.5
EBITDA	7,389	6,724	-9.0	8,686	7,121	-18.0
EBITDA Margin (%)	16.8	15.7	-110 bps	16.8	14.9	-190 bps
APAT	6,526	5,874	-10.0	7,561	6,217	-17.8
EPS	33.0	21.2	-35.7	38.2	22.4	-41.3

Financials - Cummins India

Income Statement

Y/E, Mar (Rs mn)	FY10	FY11	FY12E	FY13E
Net Sales	28,449	39,454	42,793	47,717
Growth (%)	-13.9	38.7	8.5	11.5
Expenditure	23,146	32,799	36,068	40,596
Materials Consumed	18,026	25,808	28,291	31,594
Employee Cost	1,953	2,546	2,890	3,223
Other Exp	3,168	4,445	4,887	5,779
EBITDA	5,303	6,656	6,724	7,121
Growth (%)	10.7	25.5	1.0	5.9
EBITDA margin (%)	18.6	16.9	15.7	14.9
Depreciation	361	366	472	591
EBIT	4,942	6,289	6,253	6,530
EBIT margin (%)	17.4	15.9	14.6	13.7
Other Income	1,207	1,741	1,741	1,928
Interest expenses	21	19	19	19
PBT	6,129	8,011	7,975	8,439
Tax	1,670	2,114	2,100	2,223
Effective tax rate (%)	27.3	26.4	26.3	26.3
Adjusted PAT	4,458	5,898	5,874	6,217
Growth (%)	7.1	33.3	(0.6)	5.8
Net Margin (%)	15.7	14.9	13.7	13.0
(Profit)/loss from JVs/Ass/MI	0	0	0	0
Adj. PAT After JVs/Ass/MI	4,458	5,898	5,874	6,217
E/O items	5	-2	342	0
Reported PAT	4,463	5,896	6,217	6,217
Growth (%)	2.4	33.1	5.2	0.0

Cash Flow

Y/E, Mar (Rs mn)	FY10	FY11	FY12E	FY13E
PBT (Ex-Other income)	6,109	8,024	7,975	8,439
Depreciation	361	366	472	591
Interest Provided	21	19	19	19
Other Non-Cash items	20	20	342	0
Chg in working cap	1,436	-1,452	-1,289	-217
Tax paid	-1,549	-2,181	-2,100	-2,223
Operating Cashflow	6,397	4,796	5,418	6,609
Capital expenditure	-618	-1,479	-3,500	-2,000
Free Cash Flow	5,779	3,316	1,918	4,609
Other income	0	0	0	0
Investments	-3,340	75	1,000	-1,000
Investing Cashflow	-3,340	75	1,000	-1,000
Equity Capital Raised	0	0	0	0
Loans Taken / (Repaid)	-143	96	0	0
Interest Paid	-21	-19	-19	-19
Dividend paid (incl tax)	-1,992	-2,991	-4,132	-4,372
Income from investments	0	0	0	0
Others	0	0	0	0
Financing Cashflow	-2,155	-2,913	-4,151	-4,391
Net chg in cash	284	478	-1,233	-782
Opening cash position	323	559	1,037	-195
Closing cash position	607	1,037	-195	-977

Balance Sheet

Y/E, Mar (Rs mn)	FY10	FY11	FY12E	FY13E
Equity share capital	396	396	554	554
Reserves & surplus	15,214	17,667	19,593	21,438
Net worth	15,610	18,063	20,148	21,992
Finance Lease Liability	0	0	0	0
Secured Loans	86	183	183	183
Unsecured Loans	0	0	0	0
Loan Funds	86	183	183	183
Net deferred tax liability	-170	-187	-187	-187
Total Liabilities	15,526	18,058	20,143	21,987
Gross Block	7,776	9,144	12,644	14,644
Less: Depreciation	4,440	4,734	5,206	5,796
Net block	3,337	4,411	7,439	8,848
Goodwill	0	0	0	0
Investment	7,329	7,255	6,255	7,255
Current Assets	12,673	16,804	16,830	18,080
Inventories	4,097	5,190	5,583	6,327
Sundry debtors	5,229	7,182	7,925	8,678
Cash & bank balance	559	1,037	-195	-977
Loans & advances	2,695	3,297	3,419	3,954
Other current assets	93	98	98	98
Current lia & Prov	7,812	10,411	10,380	12,195
Current liabilities	5,178	7,109	7,480	8,531
Provisions	2,634	3,302	2,900	3,664
Net current assets	4,861	6,393	6,450	5,885
Misc. exp	0	0	0	0
Total Assets	15,526	18,058	20,143	21,987

Key Ratios

Y/E, Mar	FY10	FY11	FY12E	FY13E
Profitability (%)				
EBITDA Margin	18.6	16.9	15.7	14.9
Net Margin	15.6	15.0	13.7	13.0
ROCE	33.5	37.5	32.7	31.0
ROE	30.0	35.1	30.7	29.5
ROIC	57.2	72.3	52.4	43.8
Per Share Data (Rs)				
EPS	16.0	21.3	21.2	22.4
CEPS	17.3	22.6	24.1	24.6
BVPS	56.3	65.2	72.7	79.3
DPS	8.6	15.0	14.9	15.8
Valuations (x)				
PER	25.2	18.9	19.0	18.0
P/CEPS	23.3	17.8	16.7	16.4
P/BV	7.2	6.2	5.5	5.1
EV / Sales	3.9	2.8	2.6	2.4
EV / EBITDA	21.0	16.7	16.7	15.8
Dividend Yield (%)	2.1	3.7	3.7	3.9
Gearing Ratio (x)				
Net Debt/ Equity	0.0	0.0	0.0	0.1
Net Debt/EBITDA	-0.1	-0.1	0.1	0.2
Working Cap Cycle (days)	53.2	48.7	51.4	49.5

Thermax India

CMP (Rs)	Price Target (Rs/Share)	Rating	PER (FY13E x)	FY11-13E Earnings CAGR (%)
430	495	Accumulate	11.9	6.1

- Despite high exposure to the power sector, Thermax has shown healthy order inflows in H1FY12E, down marginally by 5% yoy to Rs33.5 bn. It has met about 50% of (erstwhile) FY12E target order inflows. This performance is far superior to our ECG universe thus far.
- Thermax also remains amongst the few companies with low probability of negative earning surprises in FY12E – on back of healthy order backlog and debt-free balance-sheet.
- Slow progress on super-critical boilers business (in JV with Babcock & Wilcox) – remains a key overhang on the stock, especially since it has failed to secure any order so far. Thermax has about 12% of its consolidated balance sheet invested therein
- We have cut earnings estimates by 6% for FY12E to Rs36.3 per share and by 16% for FY13E to Rs36.1 per share. Extent of earnings cut in FY13E is higher due to (1) downward revision in order inflow estimates alongside margin contraction – to factor orders secured at competitive rates
- Despite no earnings CAGR, we hold a positive bias on Thermax in view of healthy return ratios (+25% ROE - second best only to BHEL), healthy cash flow generation, debt-free balance sheet and low risk to earnings. We revise our target price to Rs495 (@ 13.7X FY13E earnings) with an Accumulate rating.

Consolidated Financial Snapshot

YE-Mar	Net Sales	EBITDA		APAT	EPS	EPS	RoE (%)	P/E	EV/	
		(Core)	(%)		(Rs)	% chg			EBITDA	P/BV
FY10	33,678	4,154	12.3	2,593	21.8	(8.4)	24.4	19.8	9.9	4.8
FY11	53,350	5,855	11.0	3,820	32.1	47.3	28.8	13.4	7.3	3.9
FY12E	58,692	6,604	11.3	4,331	36.3	13.4	26.6	11.8	5.9	3.2
FY13E	62,563	6,515	10.4	4,298	36.1	(0.8)	23.0	11.9	5.5	2.7

Revision in Earning Estimates

Y/E, Mar (Rs. mn)	FY12E			FY13E		
	Earlier	Revised	% Change	Earlier	Revised	% Change
Revenues	59,763	58,692	-1.8	66,143	62,563	-5.4
EBITDA	7,017	6,604	-5.9	7,808	6,515	-16.6
EBITDA Margin (%)	11.7	11.3	-50 bps	11.8	10.4	-140 bps
APAT	4,603	4,331	-5.9	5,135	4,298	-16.3
EPS	38.6	36.3	-5.9	43.1	36.1	-16.3
Order Inflows	66,390	60,216	-9.3	77,399	65,685	-15.1
Order Backlog	61,981	59,437	-4.1	72,112	62,248	-13.7

Financials - Thermax India

Income Statement

Y/E, Mar (Rs. mn)	FY10	FY11	FY12E	FY13E
Net Sales	33,678	53,350	58,692	62,563
Growth (%)	-2.5	58.4	10.0	6.6
Expenditure	29,524	47,495	52,088	56,048
Materials Consumed	20,452	36,474	39,540	42,648
Employee Cost	3,300	4,597	5,175	5,516
Manufacturing Exp	2,883	2,918	3,211	3,422
Other Exp	2,891	3,505	4,163	4,461
EBITDA	4,154	5,855	6,604	6,515
Growth (%)	-2.0	4.1	1.3	-0.1
EBITDA margin (%)	12.3	11.0	11.3	10.4
Depreciation	442	541	584	610
EBIT	3,712	5,314	6,019	5,905
EBIT margin (%)	11.0	10.0	10.3	9.4
Other Income	314	467	539	582
Interest expenses	20	41	41	21
PBT	4,005	5,740	6,517	6,467
Tax	1,416	1,967	2,233	2,216
Effective tax rate (%)	35.4	34.3	34.3	34.3
Adjusted PAT	2,589	3,773	4,284	4,251
Growth (%)	-8.5	45.7	13.5	-0.8
Net Margin (%)	7.7	7.2	7.4	6.9
(Profit)/loss from JVs/Ass/MI	-4	-47	-47	-47
Adjusted PAT After JVs/Ass/MI	2,593	3,820	4,331	4,298
E/O items	-1,150	-4	0	0
Reported PAT	1,443	3,817	4,331	4,298
Growth (%)	-50.0	164.4	13.5	-0.8

Cash Flow

Y/E, Mar (Rs. mn)	FY10	FY11	FY12E	FY13E
PBT	4,004	5,737	6,564	6,514
Depreciation	442	516	584	610
Interest Provided	20	41	41	21
Other Non-Cash items	133	-1,149	0	0
Chg in working cap	3,709	-910	450	146
Tax paid	-1,439	-1,911	-2,233	-2,216
Operating Cashflow	6,869	2,324	5,407	5,074
Capital expenditure	-840	-1,507	-500	-500
Free Cash Flow	6,030	818	4,907	4,574
Other income	0	0	0	0
Investments	-2,263	-544	0	0
Investing Cashflow	-2,263	-544	0	0
Equity Capital Raised	0	0	0	0
Loans Taken / (Repaid)	39	1,166	-1,400	0
Interest Paid	-20	-41	-41	-21
Dividend paid (incl tax)	-697	-695	-1,238	-1,207
Income from investments	-82	-84	0	0
Others	0	173.5	0	0
Financing Cashflow	-760	520	-2,679	-1,227
Net change in cash	3,006	794	2,228	3,347
Opening cash position	3,696	6,702	7,496	9,724
Closing cash position	6,702	7,496	9,724	13,071

Balance Sheet

Y/E, Mar (Rs. mn)	FY10	FY11	FY12E	FY13E
Equity share capital	238	238	238	238
Reserves & surplus	10,544	12,911	16,004	19,095
Net worth	10,782	13,149	16,243	19,334
Minority Interest	94	520	520	520
Secured Loans	80	1,476	76	76
Unsecured Loans	0	4	4	4
Loan Funds	80	1,479	79	79
Net deferred tax liability	144	298	298	298
Total Liabilities	11,099	15,447	17,140	20,231
Gross Block	7,418	10,677	11,531	12,031
Less: Depreciation	2,048	2,824	3,408	4,017
Net block	5,369	7,853	8,124	8,014
Capital work in progress	115	354	0	0
Investment	3,703	2,415	2,415	2,415
Current Assets	23,477	28,650	32,797	37,618
Inventories	4,916	6,155	6,114	6,517
Sundry debtors	7,984	10,672	12,478	13,301
Cash & bank balance	6,702	7,496	9,724	13,071
Loans & advances	3,282	3,596	3,750	3,998
Other current assets	594	731	731	731
Current lia & Prov	21,566	23,826	26,196	27,816
Current liabilities	20,581	22,193	24,563	26,182
Provisions	985	1,633	1,633	1,633
Net current assets	1,912	4,824	6,602	9,802
Misc. exp	0	0	0	0
Total Assets	11,099	15,447	17,140	20,231

Key Ratios

Y/E, Mar	FY10	FY11	FY12E	FY13E
Profitability (%)				
EBITDA Margin	12.3	11.0	11.3	10.4
Net Margin	7.7	7.2	7.4	6.9
ROCE	38.0	43.6	40.3	34.7
ROE	24.4	28.8	26.6	23.0
RoIC	137.8	184.5	118.2	121.2
Per Share Data (Rs)				
EPS	21.8	32.1	36.3	36.1
CEPS	25.5	36.6	41.3	41.2
BVPS	90.5	110.4	136.3	162.3
DPS	6.0	9.0	10.4	10.1
Valuations (x)				
PER	19.8	13.4	11.8	11.9
P/CEPS	16.9	11.8	10.4	10.4
P/BV	4.8	3.9	3.2	2.7
EV / Sales	1.2	0.8	0.7	0.6
EV / EBITDA	9.9	7.3	5.9	5.5
Dividend Yield (%)	1.4	2.1	2.4	2.4
Gearing Ratio (x)				
Net Debt/ Equity	-1.0	-0.6	-0.7	-0.8
Net Debt/EBIDTA	-2.5	-1.4	-1.8	-2.4
Working Cap Cycle (days)	29.8	23.0	35.5	47.9

Voltas

CMP (Rs)	Price Target (Rs/Share)	Rating	PER (FY13E x)	FY11-13E Earnings CAGR (%)
104	121	Accumulate	11.7	-3.6

- We believe that the dismal performance of unitary cooling products in Q1FY12 was an aberration. Expect the segment to revert to +20% growth in ensuing quarters
- Sustenance of order inflow momentum amidst low order book cover (1.5X FY11 revenues) and muted order inflows remains a big concern. It is critical for sustaining earnings growth momentum.
- Voltas is likely to be a key beneficiary of any revival of investment spends in Middle East. Also, concerns on Rohini Industrial Electrical remain fully factored in estimates.
- We have lowered earnings estimates by 10% to Rs8.3 per share for FY12E and by 19% to Rs8.8 per share for FY13E, factoring above concerns. We are 16% and 22% lower than consensus earnings respectively. Consensus earnings downgrades remains key overhang
- At CMP, concerns are factored and upside triggers outweigh any concerns. The stock is trading at attractive valuation at 11.7X FY13E earnings, representing a 15% discount to 15-year forward PER. We have lowered our price target to Rs121 (@ 13.7X FY13E earnings), but retained our Accumulate rating.

Consolidated Financial Snapshot

YE-Mar	Net Sales	EBITDA		APAT	EPS	EPS	RoE (%)	P/E	EV/	
		(Core)	(%)		(Rs)	% chg			EBITDA	P/BV
FY10	47,575	4,731	9.9	3,442	10.3	55.8	36.3	10.1	5.4	3.2
FY11	51,768	4,680	9.0	3,090	9.5	(7.6)	25.7	10.9	5.7	2.5
FY12E	51,304	4,071	7.9	2,763	8.3	(12.4)	18.5	12.4	7.0	2.1
FY13E	57,392	4,344	7.6	2,931	8.8	6.1	17.0	11.7	6.5	1.9

Revision in Earning Estimates

Y/E, Mar (Rs. mn)	FY12E			FY13E		
	Earlier	Revised	% Change	Earlier	Revised	% Change
Revenues	54,110	51,304	-5.2	62,448	57,392	-8.1
EBITDA	4,513	4,071	-9.8	5,358	4,344	-18.9
EBITDA Margin (%)	8.3	7.9	-40 bps	8.6	7.6	-100 bps
APAT	3,050	2,758	-9.6	3,594	2,925	-18.6
EPS	9.2	8.3	-9.6	10.9	8.8	-18.6
Order Inflows	40,387	37,511	-7.1	45,288	39,972	-11.7
Order Backlog	56,524	55,980	-1.0	65,096	63,546	-2.4

Financials - Voltas

Income Statement

Y/E, Mar (Rs. mn)	FY10	FY11	FY12E	FY13E
Net Sales	47,575	51,768	51,304	57,392
Growth (%)	10.0	8.8	(0.9)	11.9
Expenditure	42,844	47,088	47,233	53,047
Materials Consumed	32,876	36,808		41,282
Employee Cost	5,450	5,563	5,513	6,167
Manufacturing Exp	157	164	163	182
Other Exp	4,361	4,554	4,911	5,416
EBITDA	4,731	4,680	4,071	4,344
Growth (%)	62.6	(1.1)	(13.0)	6.7
EBITDA margin (%)	9.9	9.0	7.9	7.6
Depreciation	214	210	346	377
EBIT	4,517	4,470	3,724	3,967
EBIT margin (%)	9.5	8.6	7.3	6.9
Other Income	659	537	783	783
Interest expenses	98	165	321	310
PBT	5,078	4,842	4,186	4,439
Tax	1,635	1,752	1,423	1,509
Effective tax rate (%)	32.2	36.2	34.0	34.0
Adjusted PAT	3,442	3,090	2,763	2,931
Growth (%)	55.3	(10.2)	(10.6)	6.0
Net Margin (%)	7.2	6.0	5.4	5.1
(Profit)/loss from JVs/Ass/MI	36	-57	6	6
Adjusted PAT After JVs/Ass/MI	3,407	3,147	2,758	2,925
E/O items	403	426	595	-
Reported PAT	3,810	3,572	3,352	2,925
Growth (%)	51.5	-6.2	-6.2	-12.8

Cash Flow

Y/E, Mar (Rs. mn)	FY10	FY11	FY12E	FY13E
PBT (Ex-Other income)	5,318	5,245	4,186	4,439
Depreciation	214	210	346	377
Interest Provided	98	165	321	310
Other Non-Cash items	-401	198	595	0
Chg in working cap	-348	-3,320	-5,619	-1,141
Tax paid	-1,611	-1,879	-1,423	-1,509
Operating Cashflow	3,271	618	-1,594	2,477
Capital expenditure	40	-3	-500	-500
Free Cash Flow	3,311	615	-2,094	1,977
Other income	0	0	0	0
Investments	-1,011	-514	0	0
Investing Cashflow	-1,011	-514	0	0
Equity Capital Raised	0.014	0.039	0	0
Loans Taken / (Repaid)	-1,463	1,030	300	-200
Interest Paid	-99	-165	-321	-310
Dividend paid (incl tax)	-615	-768	-794	-860
Income from investments	0	2,476	0	0
Others	0	0	0	0
Financing Cashflow	-2,176	99	-815	-1,370
Net chg in cash	124	200	-2,908	607
Opening cash position	4,571	4,689	4,980	2,072
Closing cash position	4,695	4,889	2,072	2,678

Balance Sheet

Y/E, Mar (Rs. mn)	FY10	FY11	FY12E	FY13E
Equity share capital	331	331	331	331
Reserves & surplus	10,521	13,286	15,845	17,910
Net worth	10,852	13,617	16,176	18,241
Minority Interest	139	218	224	229
Secured Loans	306	1,280	1,280	1,280
Unsecured Loans	45	101	401	201
Loan Funds	352	1,381	1,681	1,481
Net deferred tax liability	-202	-152	-152	-152
Total Liabilities	11,140	15,064	17,929	19,799
Gross Block	4,654	5,325	5,825	6,325
Less: Depreciation	1,821	1,987	2,334	2,711
Net block	2,832	3,338	3,492	3,614
Capital work in progress	193	36	36	36
Investment	2,339	2,613	2,613	2,613
Current Assets	28,249	35,310	36,759	41,192
Inventories	6,579	8,224	12,394	13,865
Sundry debtors	10,060	11,705	11,963	13,383
Cash & bank balance	4,689	4,980	2,072	2,678
Loans & advances	2,055	2,440	2,440	2,440
Other current assets	4,866	7,961	7,889	8,826
Current lia & Prov	22,475	26,232	24,971	27,655
Current liabilities	19,830	23,075	21,813	24,498
Provisions	2,645	3,157	3,157	3,157
Net current assets	5,774	9,077	11,788	13,536
Misc. exp	0	0	0	0
Total Assets	11,140	15,064	17,929	19,799

Key Ratios

Y/E, Mar	FY10	FY11	FY12E	FY13E
Profitability (%)				
EBITDA Margin	9.9	9.0	7.9	7.6
Net Margin	7.2	6.0	5.4	5.1
ROCE	49.8	38.2	27.3	25.2
ROE	36.3	25.7	18.5	17.0
RoIC	141.8	88.2	43.7	34.3
Per Share Data (Rs)				
EPS	10.3	9.5	8.3	8.8
CEPS	11.2	10.7	9.4	10.0
BVPS	32.8	41.2	48.9	55.2
DPS	2.0	2.0	2.4	2.6
Valuations (x)				
PER	10.1	10.9	12.4	11.7
P/CEPS	9.2	9.7	11.0	10.4
P/BV	3.2	2.5	2.1	1.9
EV / Sales	0.6	0.5	0.6	0.5
EV / EBITDA	5.4	5.7	7.0	6.5
Dividend Yield (%)	1.9	1.9	2.3	2.5
Gearing Ratio (x)				
Net Debt/ Equity	-0.6	-0.4	-0.2	-0.2
Net Debt/EBIDTA	-1.4	-1.3	-0.7	-0.8
Working Cap Cycle (days)	41.8	52.4	74.2	80.5

Blue Star

CMP (Rs)	Price Target (Rs/Share)	Rating	PER (FY13E x)	FY11-13E Earnings CAGR (%)
221	196	Hold	13.9	-3.0

- Blue Star's operations and profitability are yet to stabilise – both at the company level (from execution of erstwhile competitively secured orders) and at subsidiary level, DG Gupta Constructions (from execution of legacy orders).
- Only silver lining is – Steady momentum in order inflows witnessed in H1FY12E, best in our ECG universe with a 6.5% yoy growth in H1FY12E Vs decline of 8% witnessed for our universe (Ex-BHEL).
- We have cut earnings estimates by 29% to Rs11.0 per share for FY12E and by 19% to Rs15.9 per share for FY13E, factoring above concerns. Post the earnings revision, we are 16% and 22% lower than consensus earnings for FY12E and FY13E respectively.
- Despite the stock price correcting by over 40% in the past 6 months, we believe that Blue Star will continue to under-perform given (1) ambiguity on expected operating margins (2) concerns on sustainability of order inflows and (3) expectations of earnings decline by 3% CAGR during FY11-13E period. Hence we retain our Hold rating on the stock (despite healthy ROEs of +20%) with revised price target of Rs196 per share (@ 12.3X FY13E earnings)

Standalone Financial Snapshot

YE- Mar	Net Sales	EBITDA		EPS		RoE (%)	EV/			
		(Core)	(%)	APAT (Rs)	% chg		P/E	EBITDA	P/BV	
FY10	25,250	3,055	12.1	1,999	22.2	9.3	46.6	9.9	7.4	4.0
FY11	28,569	2,631	9.2	1,518	16.9	-24.1	30.9	13.1	9.5	4.0
FY12E	29,468	2,118	7.2	991	11.0	-34.7	19.6	20.0	12.5	3.8
FY13E	33,633	2,807	8.3	1,428	15.9	44.1	25.9	13.9	9.4	3.4

Revision in Earning Estimates

Y/E, Mar (Rs. mn)	FY12E			FY13E		
	Earlier	Revised	% Change	Earlier	Revised	% Change
Revenues	31,493	29,468	-6.4	37,351	33,633	-10.0
EBITDA	2,572	2,118	-17.7	3,273	2,807	-14.3
EBITDA Margin (%)	8.2	7.2	-100 bps	8.8	8.3	-40 bps
APAT	1,401	991	-29.3	1,794	1,428	-20.4
EPS	15.6	11.0	-29.3	20.0	15.9	-20.4
Order Inflows	35,360	31,236	-11.7	42,194	33,525	-20.5
Order Backlog	23,547	21,448	-8.9	28,390	21,340	-24.8

Financials - Blue Star

Income Statement

Y/E, Mar (Rs. mn)	FY10	FY11	FY12E	FY13E
Net Sales	25,250	28,569	29,468	33,633
Growth (%)	0.9	13.1	3.1	14.1
Expenditure	22,195	25,938	27,350	30,826
Materials Consumed	18,701	21,851	22,553	25,404
Employee Cost	1,855	2,067	2,133	2,434
Manufacturing Exp	103	118	121	138
Other Exp	1,536	1,902	2,543	2,850
EBITDA	3,055	2,631	2,118	2,807
Growth (%)	8.2	(13.9)	(19.5)	32.5
EBITDA margin (%)	12.1	9.2	7.2	8.3
Depreciation	347	317	359	402
EBIT	2,708	2,314	1,758	2,405
EBIT margin (%)	10.7	8.1	6.0	7.1
Other Income	27	168	45	45
Interest expenses	85	244	465	440
PBT	2,650	2,238	1,339	2,010
Tax	651	720	348	582
Effective tax rate (%)	24.6	32.2	26.0	29.0
Adjusted PAT	1,999	1,518	991	1,428
Growth (%)	9.3	-24.1	-34.7	44.1
Net Margin (%)	7.9	5.3	3.4	4.2
E/O items	116	32	0	0
Reported PAT	2,115	1,550	991	1,428
Growth (%)	17.3	-26.7	-36.1	44.1

Cash Flow

Y/E, Mar (Rs. mn)	FY10	FY11	FY12E	FY13E
PBT (Ex-Other income)	2,766	2,270	1,339	2,010
Depreciation	347	317	359	402
Interest Provided	85	244	465	440
Other Non-Cash items	35	131	0	0
Chg in working cap	-1,522	-2,834	867	-1,053
Tax paid	-732	-834	-348	-582
Operating Cashflow	979	-706	2,683	1,216
Capital expenditure	-239	-502	-500	-500
Free Cash Flow	740	-1,208	2,183	716
Other income	-3	1	0	0
Investments	62	-972	0	0
Investing Cashflow	59	-971	0	0
Equity Capital Raised	0	0	0	0
Loans Taken / (Repaid)	132	3,524	800	0
Interest Paid	-85	-240	-465	-440
Dividend paid (incl tax)	-737	-839	-737	-737
Income from investments	0	0	0	0
Others	0	0	0	0
Financing Cashflow	-689	2,445	-401	-1,177
Net chg in cash	110	265	1,781	-460
Opening cash position	92	204	465	2,246
Closing cash position	202	469	2,246	1,786

Balance Sheet

Y/E, Mar (Rs. mn)	FY10	FY11	FY12E	FY13E
Equity share capital	180	180	180	180
Reserves & surplus	4,737	5,555	5,810	6,501
Net worth	4,917	5,735	5,989	6,680
Secured Loans	601	2,046	2,846	2,846
Unsecured Loans	59	2,138	2,138	2,138
Loan Funds	660	4,184	4,984	4,984
Net deferred tax liability	-15	-7	-7	-7
Total Liabilities	5,562	9,912	10,966	11,657
Gross Block	3,519	3,741	4,241	4,741
Less: Depreciation	1,542	1,810	2,169	2,571
Net block	1,977	1,931	2,071	2,169
Capital work in progress	26	285	285	285
Investment	42	1,018	1,018	1,018
Current Assets	13,990	18,344	19,361	21,320
Inventories	2,580	4,006	3,769	4,302
Sundry debtors	6,282	7,786	7,621	8,698
Cash & bank balance	204	465	2,246	1,786
Loans & advances	1,314	1,362	1,499	1,711
Other current assets	3,609	4,725	4,225	4,822
Current lia & Prov	10,473	11,666	11,769	13,135
Current liabilities	9,312	10,643	10,747	12,112
Provisions	1,160	1,023	1,023	1,023
Net current assets	3,517	6,678	7,592	8,185
Misc. exp	0	0	0	0
Total Assets	5,562	9,912	10,966	11,657

Key Ratios

Y/E, Mar	FY10	FY11	FY12E	FY13E
Profitability (%)				
EBITDA Margin	12.1	9.2	7.2	8.3
Net Margin	7.9	5.3	3.4	4.2
ROCE	56.9	29.9	16.8	21.3
ROE	46.6	28.5	16.9	22.5
RoIC	61.2	34.4	22.6	30.1
Per Share Data (Rs)				
EPS	22.2	16.9	11.0	15.9
CEPS	26.1	20.4	15.0	20.3
BVPS	54.7	63.8	66.6	74.3
DPS	8.0	7.0	7.0	7.0
Valuations (x)				
PER	9.9	13.1	20.0	13.9
P/CEPS	8.5	10.8	14.7	10.8
P/BV	4.0	3.5	3.3	3.0
EV / Sales	0.8	0.8	0.8	0.7
EV / EBITDA	7.4	9.5	12.5	9.4
Dividend Yield (%)	3.6	3.2	3.2	3.2
Gearing Ratio (x)				
Net Debt/ Equity	0.1	0.6	0.5	0.5
Net Debt/EBIDTA	0.1	1.4	1.3	1.1
Working Cap Cycle (days)	38.3	65.1	88.4	85.6

Greaves Cotton

CMP (Rs)	Price Target (Rs/Share)	Rating	PER (FY13E x)	FY11-13E Earnings CAGR (%)
90	103	Buy	10.9	30.4

- Cementing position and making inroads with LCV manufacturers. Has signed long term (5-10 years) supply agreements with Tata Motors (secured long-term supply contracts for Ace Zip and Ace Magic – to commence production from H2FY12E) and M&M (sole supplier for entire LCV range barring Maximmo)
- Expanded capacity by 80,000 units under phase 1. Benefits of expansion to trickle in H2FY12E. Phase-2 expansion in capacity of 80,000 units to hit production in Q1FY13E
- Expect Infrastructure division to hit road block in near term. But, anticipate pick-up in growth momentum and improvement in profitability in FY13E
- Despite earnings cut of 11% in FY12E and 12% in FY13E, we expect Greaves Cotton to report earnings CAGR of 13% in FY11-13E period. This is alongside strong cash generation and return ratios – ROCE at +40% and ROE at +30%
- At CMP, the stock is trading attractively at 10.5X FY13E earnings. Retain our BUY rating with revised price target of Rs103 (@ 12.5X FY13E earnings) – Reiterate as top mid-cap pick in our ECG universe

Consolidated Financial Snapshot

YE- Mar	Net Sales	EBITDA		EPS		RoE		EV/		
		(Core)	(%)	APAT	(Rs)	% chg	(%)	P/E	EBITDA	P/BV
FY10	13,923	2,139	15.4	1,167	4.8	115.2	28.8	18.2	11.5	5.1
FY11	12,789	1,999	15.6	1,188	4.9	36.2	34.2	17.9	11.7	4.3
FY12E	18,878	2,944	15.6	1,714	7.0	7.4	30.6	12.4	8.2	3.5
FY13E	21,539	3,426	15.9	2,020	8.3	17.9	29.6	10.5	7.0	2.9

Revision in Earning Estimates

Y/E, Mar (Rs. mn)	FY12E			FY13E		
	Earlier	Revised	% Change	Earlier	Revised	% Change
Revenues	19,606	18,878	-3.7	23,259	21,539	-7.4
EBITDA	3,249	2,944	-9.4	3,860	3,426	-11.2
EBITDA Margin (%)	16.6	15.6	-100 bps	16.6	15.9	-70 bps
APAT	1,922	1,714	-10.8	2,292	2,020	-11.9
EPS	7.9	7.0	-10.8	9.4	8.3	-11.9

Financials - Greaves Cotton

Income Statement

Y/E, Mar (Rs. mn)	FY10	FY11	FY12E	FY13E
Net Sales	13,923	12,789	18,878	21,539
Growth (%)	30.7	22.5	10.7	14.1
Expenditure	11,784	10,790	15,935	18,112
Materials Consumed	9,439	8,828	13,080	14,935
Employee Cost	1,180	945	1,381	1,562
Manufacturing Exp	421	388	567	646
Other Exp	744	630	907	969
EBITDA	2,139	1,999	2,944	3,426
Growth (%)	97.0	24.6	10.5	16.4
EBITDA margin (%)	15.4	15.6	15.6	15.9
Depreciation	305	236	400	466
EBIT	1,834	1,763	2,543	2,961
EBIT margin (%)	13.2	13.8	13.5	13.7
Other Income	27	67	72	105
Interest expenses	136	75	94	94
PBT	1,725	1,755	2,522	2,972
Tax	558	567	808	952
Effective tax rate (%)	32.3	32.3	32.0	32.0
Adjusted PAT	1,167	1,188	1,714	2,020
Growth (%)	175.3	35.7	8.2	17.9
Net Margin (%)	8.4	9.3	9.1	9.4
(Profit)/loss from JVs/Ass/MI	0	0	0	0
Adj. PAT After JVs/Ass/MI	1,167	1,188	1,714	2,020
E/O items	7	75	-1	-1
Reported PAT	1,175	1,263	1,713	2,019
Growth (%)	164.0	43.4	1.7	17.9

Cash Flow

Y/E, Mar (Rs. mn)	FY10	FY11	FY12E	FY13E
PBT	1,732	1,831	2,522	2,972
Depreciation	305	236	400	466
Interest Provided	136	75	94	94
Other Non-Cash items	-13	-93	0	0
Chg in working cap	113	-307	260	-168
Tax paid	-460	-548	-808	-952
Operating Cashflow	1,814	1,193	2,467	2,411
Capital expenditure	-274	-363	-700	-500
Free Cash Flow	1,540	830	1,767	1,911
Other income	0	0	0	0
Investments	-636	469	0	0
Investing Cashflow	-636	469	0	0
Equity Capital Raised	0	0	0	0
Loans Taken / (Repaid)	-423.5	16	0	0
Interest Paid	-134	-89	-94	-94
Dividend paid (incl tax)	-313	-822	-591	-697
Income from investments	0	0	0	0
Others	0	0	0	0
Financing Cashflow	-871	-895	-685	-791
Net change in cash	34	401	1,082	1,120
Opening cash position	192	225	626	1,708
Closing cash position	225	626	1,708	2,828

Balance Sheet

Y/E, Mar (Rs. mn)	FY10	FY11	FY12E	FY13E
Equity share capital	488	488	488	488
Reserves & surplus	3,722	4,559	5,681	7,003
Net worth	4,211	5,047	6,169	7,491
Minority Interest	-	-	-	-
Secured Loans	4	23	23	23
Unsecured Loans	143	139	139	139
Loan Funds	146	162	162	162
Net deferred tax liability	246	264	264	264
Total Liabilities	4,603	5,474	6,595	7,917
Gross Block	4,233	4,652	5,452	6,052
Less: Depreciation	1,710	1,878	2,278	2,743
Net block	2,523	2,774	3,174	3,309
Capital work in progress	282	233	133	33
Investment	983	532	532	532
Current Assets	5,003	6,529	7,621	9,574
Inventories	1,594	1,971	1,973	2,252
Sundry debtors	2,182	2,909	2,818	3,215
Cash & bank balance	225	626	1,708	2,828
Loans & advances	1,001	1,024	1,121	1,279
Other current assets	-	-	-	-
Current lia & Prov	4,188	4,595	4,864	5,529
Current liabilities	2,860	3,592	3,573	4,062
Provisions	1,328	1,003	1,291	1,467
Net current assets	815	1,934	2,757	4,045
Misc. exp	-	-	-	-
Total Assets	4,603	5,474	6,596	7,918

Key Ratios

Y/E, Mar	FY10	FY11	FY12E	FY13E
Profitability (%)				
EBITDA Margin	15.4	15.6	15.6	15.9
Net Margin	8.4	9.3	9.1	9.4
ROCE	39.4	46.7	42.1	40.8
ROE	28.8	34.2	30.6	29.6
RoIC	51.5	65.3	61.2	67.7
Per Share Data (Rs)				
EPS	4.8	4.9	7.0	8.3
CEPS	6.2	6.2	8.7	10.2
BVPS	16.9	20.3	24.9	30.3
DPS	5.4	1.5	2.1	2.5
Valuations (x)				
PER	18.2	17.9	12.4	10.5
P/CEPS	14.0	14.1	10.0	8.5
P/BV	5.1	4.3	3.5	2.9
EV / Sales	1.5	1.7	1.1	1.0
EV / EBITDA	11.5	11.7	8.2	7.0
Dividend Yield (%)	6.2	1.7	2.4	2.9
Gearing Ratio (x)				
Net Debt/ Equity	-0.2	-0.1	-0.3	-0.4
Net Debt/EBITDA	-0.3	-0.3	-0.6	-0.8
Working Cap Cycle (days)	31.0	29.4	45.3	57.6

Punj Lloyd

CMP (Rs)	Price Target (Rs/Share)	Rating	PER (FY13E x)	FY11-13E Earnings CAGR (%)
55	63	Hold	21.5	(L) to P

- Visible signs of improvement in operational performance - (1) shown sequential growth in revenues for the past 5 quarters (2) posted +8% operating margins for past 3 quarters (3) No write-offs or provisions made for the past 4 quarters
- The only company in our universe to post strong growth in order inflows in H1FY12E. Grew by 55% yoy and secured 58% of erstwhile order inflow assumptions
- High DER remains key risk to earnings and overhang (leverage has increased to Rs49.0bn from Rs47.0bn in FY11). Could offset gains from improvement in operational performance (through equity dilution)
- We downgrade our earnings estimates by 3% to Rs1.4 per share for FY12E and by 7% to Rs2.5 per share for FY13E – led by slower execution of order book
- Despite improvement in operational performance we retain our Hold rating as there is no corresponding improvement in balance sheet and working capital cycles or emergence of strong catalyst . We revise our target price to Rs63 (@ 0.7X FY11 book value)

Consolidated Financial Snapshot

YE- Mar	Net Sales	EBITDA (Core) (%)		EPS APAT	EPS (Rs)	EPS % chg	RoE (%)	EV/ P/E EBITDA P/BV		
FY10	104,733	3,441	3.3	-4,353	-12.9	-270.6	-14.4	-5.9	17.4	0.8
FY11	78,750	3,977	5.1	-381	-1.4	-89.0	-1.3	-53.8	13.8	0.9
FY12E	98,691	7,311	7.4	487	1.4	-201.4	1.6	53.0	8.9	0.8
FY13E	109,222	8,144	7.5	857	2.5	77.1	2.8	29.9	8.0	0.8

Revision in Earning Estimates

Y/E, Mar (Rs. mn)	FY12E			FY13E		
	Earlier	Revised	% Change	Earlier	Revised	% Change
Revenues	104,701	98,691	-5.7	118,166	109,222	-7.6
EBITDA	7,342	7,311	-0.4	8,509	8,144	-4.3
EBITDA Margin (%)	7.0	7.4	40 bps	7.2	7.5	30 bps
APAT	491	478	-2.7	913	847	-7.2
EPS	1.5	1.4	-2.7	2.7	2.5	-7.2
Order Inflows	131,530	117,074	-11.0	148,642	127,029	-14.5
Order Backlog	256,205	247,758	-3.3	288,006	266,890	-7.3

Financials - Punj Lloyd

Income Statement

Y/E, Mar (Rs. mn)	FY10	FY11	FY12E	FY13E
Net sales	104,733	78,750	98,691	109,222
Growth (%)	-12.1	-24.8	25.3	10.7
Expenditure	101,291	74,773	91,380	101,078
Materials consumed	37,701	23,276	29,170	32,282
Employee cost	13,452	11,260	13,914	15,399
Manufacturing exp	43,782	33,141	40,490	44,810
Other exp	6,356	7,096	7,806	8,587
EBITDA	3,441	3,977	7,311	8,144
Growth (%)	-59.9	15.6	83.8	11.4
EBITDA margin (%)	3.3	5.1	7.4	7.5
Depreciation	2,270	2,692	2,969	3,303
EBIT	1,171	1,285	4,343	4,841
EBIT margin (%)	1.1	1.6	4.4	4.4
Other income	-910	2,654	1,252	1,252
Interest expenses	3,241	3,656	4,517	4,542
PBT	-2,980	282	1,078	1,552
Tax	1,372	663	590	695
Effective tax rate (%)	-46.0	234.8	54.8	44.8
Adjusted PAT	-4,353	-381	487	857
Growth (%)	-289.6	-91.3	-228.0	75.8
Net Margin (%)	-4.2	-0.5	0.5	0.8
(Profit)/loss from JVs/Ass/MI	-78	91	9	10
Adj. PAT after JVs/Ass/MI	-4,274	-472	478	847
E/O items	3,190	-124	0	0
Reported PAT	-1,084	-595	478	847
Growth (%)	-51.9	-45.1	-180.3	77.1

Cash Flow

Y/E, Mar (Rs. mn)	FY10	FY11	FY12E	FY13E
PBT (Ex-Other income)	210	159	1,078	1,552
Depreciation	2,270	2,692	2,969	3,303
Interest Provided	3,063	3,568	4,517	4,542
Other Non-Cash items	-3,101	-817	-9	-10
Chg in working cap	-16,181	8,018	-10,896	-2,130
Tax paid	-1,617	-1,207	-590	-695
Operating Cashflow	-15,356	12,413	-2,932	6,561
Capital expenditure	-3,153	-3,094	-3,000	-2,000
Free Cash Flow	-18,509	9,320	-5,932	4,561
Other income	140	0	0	0
Investments	3,905	124	0	0
Investing Cashflow	4,045	124	0	0
Equity Capital Raised	6,556	190	0	0
Loans Taken / (Repaid)	9,939	870	1,500	2,000
Interest Paid	-2,690	-3,331	-4,517	-4,542
Dividend paid (incl tax)	-106	-58	-133	-133
Income from investments	0	-116	0	0
Others	0	0	0	0
Financing Cashflow	13,698	-2,444	-3,150	-2,675
Net chg in cash	-766	6,999	-9,082	1,887
Opening cash position	6,992	5,266	12,150	3,068
Closing cash position	5,266	11,477	3,068	4,954

Balance Sheet

Y/E, Mar (Rs. mn)	FY10	FY11	FY12E	FY13E
Equity share capital	664	664	664	664
Reserves & surplus	29,619	29,124	29,469	30,183
Net worth	30,283	29,788	30,133	30,847
Minority interest	415	744	744	744
Secured loans	39,828	41,948	43,448	45,448
Unsecured loans	4,727	3,477	3,477	3,477
Loan Funds	44,554	45,425	46,925	48,925
Net deferred tax liability	1,804	1,516	1,516	1,516
Total liabilities	77,057	77,472	79,317	82,031
Gross Block	31,203	33,650	36,650	38,650
Less: Depreciation	9,426	11,129	14,098	17,400
Net block	21,777	22,521	22,552	21,249
Capital work in progress	1,605	2,129	2,129	2,129
Investment	3,818	3,837	3,837	3,837
Current assets	88,282	93,668	101,581	110,988
Inventories	46,496	48,425	56,774	59,840
Sundry debtors	21,847	22,038	26,147	28,937
Cash & bank balance	6,110	12,150	3,068	4,954
Loans & advances	10,417	10,131	12,876	14,250
Other current assets	3,412	924	2,717	3,007
Current lia & prov	38,424	44,684	50,783	56,172
Current liabilities	36,338	42,905	48,421	53,560
Provisions	2,087	1,779	2,362	2,613
Net current assets	49,857	48,985	50,799	54,815
Misc. exp	0	0	0	0
Total assets	77,057	77,472	79,317	82,031

Key Ratios

Y/E, Mar	FY10	FY11	FY12E	FY13E
Profitability (%)				
EBITDA Margin	3.3	5.1	7.4	7.5
Net Margin	-4.2	-0.5	0.5	0.8
ROCE	0.3	5.1	7.1	7.4
ROE	-14.4	-1.3	1.6	2.8
RoIC	2.5	-2.8	2.7	3.7
Per Share Data (Rs)				
EPS	-12.9	-1.4	1.4	2.5
CEPS	-6.0	6.7	10.4	12.5
BVPS	91.2	89.7	90.7	92.9
DPS	0.4	0.4	0.4	0.4
Valuations (x)				
PER	-5.9	-53.8	53.0	29.9
P/CEPS	-12.7	11.4	7.4	6.1
P/BV	0.8	0.9	0.8	0.8
EV / Sales	0.6	0.7	0.7	0.6
EV / EBITDA	17.4	13.8	8.9	8.0
Dividend Yield (%)	0.3	0.3	0.3	0.3
Gearing Ratio (x)				
Net Debt/ Equity	1.3	1.1	1.5	1.4
Net Debt/EBIDTA	11.2	8.4	6.0	5.4
Working Cap Cycle (days)	111.5	127.7	127.6	117.7

TRF

CMP (Rs)	Price Target (Rs/Share)	Rating	PER (FY13E x)	FY11-13E Earnings CAGR (%)
335	282	Hold	22.1	-26.4

- Dry out of order inflows for past 4 quarters, deteriorating order book position (1.8X FY11 revenues) and tough business conditions – have severely impacted the earnings performance for FY11-13E
- While management has emphatically stated that performance issues with core MHE business are past it, TRF is yet to achieve stability in the business. It posted a loss of Rs60 mn in Q1FY12 (partially attributed to Q1FY12 typically being a low revenue quarter)
- The auto business is expected to drive earnings growth for TRF over FY11-13E period (Standalone earnings to decline by 26% CAGR Vs growth in consolidated earnings by 3% CAGR during FY11-13E period). While clarity has emerged on revenue visibility, ambiguity on operational performance continues, posing a risk to earnings estimates
- ...Consequently we expect TRF's margins to continue to remain compressed. Expect consolidated EBITDA margins of 5.7% in FY12E and 5.6% in FY13E (lowest in our ECG universe)
- Cut our consolidated earnings estimates by 13% to Rs32.7 per share for FY12E and by 31% to Rs29.4 per share for FY13E to factor (1) lower order inflows (2) deteriorating order book cover and (3) lower operating margins. With no upside catalysts, retain HOLD rating with revised price target of Rs282/Share.

Consolidated Financial Snapshot

YE- Mar	Net Sales	EBITDA (Core) (%)	APAT	EPS (Rs)	EPS % chg	RoE (%)	P/E	EV/ EBITDA	P/BV	
FY10	8,659	879	10.1	481	41.9	13.6	33.9	8.4	6.4	2.6
FY11P	11,136	507	4.6	319	27.5	-34.3	20.7	12.9	13.1	2.7
FY12E	13,992	803	5.7	398	32.7	19.0	22.3	10.8	8.4	2.2
FY13E	14,517	816	5.6	391	29.4	-10.1	16.9	12.0	7.9	1.9

Revision in Earning Estimates

Y/E, Mar (Rs. mn)	FY12E			FY13E		
	Earlier	Revised	% Change	Earlier	Revised	% Change
Revenues	14,544	13,992	-3.8	17,238	14,517	-15.8
EBITDA	907	803	-11.5	1,075	816	-24.1
EBITDA Margin (%)	6.2	5.7	-50 bps	6.2	5.6	-60 bps
APAT	413	360	-12.9	470	324	-31.2
EPS	37.6	32.7	-12.9	42.8	29.4	-31.2
Order Inflows	6,770	5,112	-24.5	9,563	7,221	-24.5
Order Backlog	12,739	11,344	-11.0	12,825	11,141	-13.1

Financials - TRF

Income Statement

Y/E, Mar (Rs. mn)	FY10	FY11P	FY12E	FY13E
Net Sales	8,659	11,136	13,992	14,517
Growth (%)	19.6	28.6	25.7	3.8
Expenditure	7,781	10,629	13,189	13,701
Materials Consumed	5,978	8,174	10,350	10,733
Employee Cost	694	830	1,077	1,095
Manufacturing Exp	403	518	572	594
Other Exp	705	1,107	1,190	1,280
EBITDA	879	507	803	816
Growth (%)	9.8	(42.3)	58.4	1.6
EBITDA margin (%)	10.1	4.6	5.7	5.6
Depreciation	61	85	95	100
EBIT	817	422	708	716
EBIT margin (%)	9.4	3.8	5.1	4.9
Other Income	41	125	92	64
Interest expenses	126	176	261	241
PBT	732	371	539	540
Tax	251	52	142	149
Effective tax rate (%)	34.3	14.1	26.3	27.6
Adjusted PAT	481	319	398	391
Growth (%)	18.7	(33.7)	24.8	(1.7)
Net Margin (%)	5.6	2.9	2.8	2.7
(Profit)/loss from JVs/Ass/MI	20	16	38	67
Adjusted PAT After JVs/Ass/MI	461	303	360	324
E/O items	7	-300	0	0
Reported PAT	467	3	360	324
Growth (%)	15.4	(99.4)	13,869.6	(10.1)

Balance Sheet

Y/E, Mar (Rs. mn)	FY10	FY11P	FY12E	FY13E
Equity share capital	110	110	110	110
Reserves & surplus	1,362	1,338	1,665	1,934
Net worth	1,472	1,448	1,775	2,044
Minority Interest	597	687	724	791
Secured Loans	1,996	3,129	3,129	3,129
Unsecured Loans	170	155	155	155
Loan Funds	2,166	3,283	3,283	3,283
Net deferred tax liability	-27	-17	-17	-17
Total Liabilities	4,208	5,400	5,765	6,101
Gross Block	1,705	2,328	2,478	2,578
Less: Depreciation	623	708	803	902
Net block	1,082	1,620	1,675	1,676
Capital work in progress	136	136	136	136
Investment	37	33	33	33
Current Assets	7,634	9,194	11,784	12,412
Inventories	1,554	1,805	2,767	2,871
Sundry debtors	4,198	5,223	6,903	7,162
Cash & bank balance	435	521	469	734
Loans & advances	1,446	1,645	1,645	1,645
Other current assets	0	0	0	0
Current lia & Prov	4,681	5,582	7,863	8,156
Current liabilities	4,375	5,263	7,544	7,837
Provisions	305	319	319	319
Net current assets	2,953	3,612	3,921	4,257
Misc. exp	0	0	0	0
Total Assets	4,208	5,400	5,765	6,101

Cash Flow

Y/E, Mar (Rs. mn)	FY10	FY11P	FY12E	FY13E
PBT (Ex-Other income)	739	371	539	540
Depreciation	61	85	95	100
Interest Provided	125	176	261	241
Other Non-Cash items	-75	0	0	0
Chg in working cap	-521	-572	-361	-70
Tax paid	-244	-52	-142	-149
Operating Cashflow	85	7	392	661
Capital expenditure	-268	-623	-150	-100
Free Cash Flow	-183	-616	242	561
Other income	0	0	0	0
Investments	-478	4	0	0
Investing Cashflow	-478	4	0	0
Equity Capital Raised	33	0	0	0
Loans Taken / (Repaid)	1,049	1,117	0	0
Interest Paid	-125	-176	-261	-241
Dividend paid (incl tax)	-76	-22	-33	-55
Income from investments	0	0	0	0
Others	0	0	0	0
Financing Cashflow	881	919	-294	-296
Net chg in cash	220	308	-52	266
Opening cash position	215	435	521	469
Closing cash position	435	742	469	734

Key Ratios

Y/E, Mar	FY10	FY11P	FY12E	FY13E
Profitability (%)				
EBITDA Margin	10.1	4.6	5.7	5.6
Net Margin	5.6	2.9	2.8	2.7
ROCE	24.1	8.8	12.7	12.1
ROE	33.9	20.7	22.3	16.9
RoIC	27.6	10.2	14.4	13.9
Per Share Data (Rs)				
EPS	41.9	27.5	32.7	29.4
CEPS	47.4	35.2	41.3	38.5
BVPS	133.7	131.6	161.3	185.7
DPS	7.5	2.0	3.0	5.0
Valuations (x)				
PER	8.4	12.9	10.8	12.0
P/CEPS	7.5	10.0	8.6	9.2
P/BV	2.6	2.7	2.2	1.9
EV / Sales	0.6	0.6	0.5	0.4
EV / EBITDA	6.4	13.1	8.4	7.9
Dividend Yield (%)	2.1	0.6	0.8	1.4
Gearing Ratio (x)				
Net Debt/ Equity	1.2	1.9	1.6	1.2
Net Debt/EBIDTA	2.0	5.5	3.5	3.1
Working Cap Cycle (days)	105.1	107.6	98.3	102.8

McNally Bharat

CMP (Rs)	Price Target (Rs/Share)	Rating	PER (FY13E x)	FY11-13E Earnings CAGR (%)
128	147	Accumulate	6.4	-0.9

- McNally Bharat has strong consolidated order backlog at Rs40.6 bn – equivalent to 2.0X FY11 revenues. But, with order inflows drying out, the order book cover will soon come down. Hence, we have fine-tuned assumptions on order inflows.
- However, performance of McNally Sayaji and CHD Humboldt remains overhang. Infact, McNally Sayaji has reported contraction in operating margin from +19% in FY10 to 11% in Q1FY12. The operations of CMT business (CHD Humboldt, Germany) are yet to stabilize.
- Lowered consolidated earnings estimates by 5% in FY12E to Rs19.1 per share and by 25% in FY13E to Rs20.1 per share. Higher revisions in FY13E earnings linked to toning down of order inflows and revenue booking. We are 21% and 34% below consensus earnings for FY12E and FY13E respectively
- At CMP, the stock is trading at un-demanding valuations of 6.4X FY13E consolidated earnings. We revise our price target to Rs147 per share (@ 7.3X FY13E earnings) and downgrade ratings by one-notch to Accumulate.

Consolidated Financial Snapshot

YE- Mar	Net Sales	EBITDA (Core) (%)		APAT	EPS (Rs)	EPS % chg	RoE (%)	EV/ P/E EBITDA P/BV		
FY10	18,028	1,478	8.2	521	16.7	154.2	19.8	7.6	4.2	1.5
FY11P	22,527	1,645	7.3	635	20.4	22.1	21.8	6.2	4.7	1.2
FY12E	24,031	1,738	7.2	594	19.1	-6.6	17.2	6.7	4.6	1.1
FY13E	24,933	1,759	7.1	624	20.1	5.0	15.7	6.4	3.9	0.9

Revision in Earning Estimates

Y/E, Mar (Rs. mn)	FY12E			FY13E		
	Earlier	Revised	% Change	Earlier	Revised	% Change
Revenues	26,787	24,031	(10.3)	32,037	24,933	(22.2)
EBITDA	1,834	1,738	(5.3)	2,220	1,759	(20.8)
EBITDA Margin (%)	6.8	7.2	40 bps	6.9	7.1	10 bps
APAT	624	594	(4.9)	826	624	(24.5)
EPS	20.1	19.1	(4.9)	26.6	20.1	(24.5)
Order Inflows	33,921	20,144	-40.6	40,027	21,554	-46.2
Order Backlog	60,042	39,734	-33.8	73,154	41,353	-43.5

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Financials - McNally Bharat

Income Statement

Y/E, Mar (Rs. mn)	FY10	FY11P	FY12E	FY13E
Net Sales	18,028	22,527	24,031	24,933
Growth (%)	61.9	25.0	6.7	3.8
Expenditure	16,550	20,882	22,294	23,175
Materials Consumed	10,232	11,003	12,290	12,877
Employee Cost	1,272	2,424	2,538	2,633
Manufacturing Exp	3,736	5,158	5,503	5,709
Other Exp	1,309	2,297	1,963	1,956
EBITDA	1,478	1,645	1,738	1,759
Growth (%)	43.8	11.3	5.6	1.2
EBITDA margin (%)	8.2	7.3	7.2	7.1
Depreciation	164	229	267	315
EBIT	1,314	1,416	1,471	1,443
EBIT margin (%)	7.3	6.3	6.1	5.8
Other Income	4	142	122	122
Interest expenses	395	486	629	552
PBT	923	1,072	964	1,014
Tax	331	397	328	345
Effective tax rate (%)	35.9	37.1	34.1	34.1
Adjusted PAT	592	674	635	668
Growth (%)	164.9	124.0	7.3	(0.9)
Net Margin (%)	3.3	3.0	2.6	2.7
(Profit)/loss from JVs/Ass/MI	72	39	42	45
Adjusted PAT After JVs/Ass/MI	521	635	594	624
E/O items	(25)	-	-	-
Reported PAT	495	635	594	624
Growth (%)	13.7	28.4	(6.6)	5.0

Cash Flow

Y/E, Mar (Rs. mn)	FY10	FY11P	FY12E	FY13E
PBT	898	1,072	964	1,014
Depreciation	164	229	267	315
Interest Provided	395	486	629	552
Other Non-Cash items	138	0	0	0
Chg in working cap	-977	-1,988	-182	742
Tax paid	-266	-397	-328	-345
Operating Cashflow	351	-599	1,349	2,278
Capital expenditure	-700	-738	-800	-500
Free Cash Flow	-349	-1,337	549	1,778
Other income	0	1	2	3
Investments	50	-266	0	0
Investing Cashflow	50	-265	2	3
Equity Capital Raised	24	0	0	0
Loans Taken / (Repaid)	1,370	2,032	0	0
Interest Paid	-395	-486	-629	-552
Dividend paid (incl tax)	-46	-61	-79	-102
Income from investments	0	0	0	0
Others	0	0	0	0
Financing Cashflow	952	1,485	-708	-655
Net chg in cash	654	-117	-157	1,126
Opening cash position	418	1,246	1,141	982
Closing cash position	1,246	1,128	982	2,106

Balance Sheet

Y/E, Mar (Rs. mn)	FY10	FY11P	FY12E	FY13E
Equity share capital	311	311	311	311
Reserves & surplus	2,318	2,891	3,406	3,927
Net worth	2,629	3,202	3,717	4,238
Minority Interest	534	555	597	642
Secured Loans	3,413	3,413	3,413	3,413
Unsecured Loans	72	2,105	2,105	2,105
Loan Funds	3,485	5,517	5,517	5,517
Net deferred tax liability	174	207	207	207
Total Liabilities	6,822	9,482	10,038	10,604
Gross Block	3,782	4,520	5,320	5,820
Less: Depreciation	574	802	1,069	1,384
Net block	3,208	3,718	4,251	4,436
Capital work in progress	41	41	41	41
Investment	27	293	293	293
Current Assets	16,706	20,390	18,406	19,270
Inventories	1,173	1,499	1,297	1,346
Sundry debtors	11,346	14,074	12,514	12,125
Cash & bank balance	1,246	1,141	982	2,106
Loans & advances	2,090	2,215	2,152	2,233
Other current assets	2,976	4,198	5,223	6,903
Current lia & Prov	13,161	14,960	12,953	13,436
Current liabilities	12,932	14,232	12,225	12,708
Provisions	229	728	728	728
Net current assets	3,545	5,429	5,452	5,833
Misc. exp	0.1	0.3	0.3	0.3
Total Assets	6,822	9,482	10,038	10,604

Key Ratios

Y/E, Mar	FY10	FY11P	FY12E	FY13E
Profitability (%)				
EBITDA Margin	8.2	7.3	7.2	7.1
Net Margin	3.3	3.0	2.6	2.7
ROCE	19.8	19.6	16.7	15.5
ROE	19.8	21.8	17.2	15.7
RoIC	23.9	17.7	16.9	17.7
Per Share Data (Rs)				
EPS	16.7	20.4	19.1	20.1
CEPS	21.0	25.1	24.7	26.7
BVPS	84.5	103.0	119.5	136.3
DPS	1.5	2.0	2.5	3.3
Valuations (x)				
PER	7.6	6.2	6.7	6.4
P/CEPS	6.1	5.1	5.2	4.8
P/BV	1.5	1.2	1.1	0.9
EV / Sales	0.3	0.4	0.4	0.3
EV / EBITDA	4.2	4.7	4.6	3.9
Dividend Yield (%)	1.2	1.5	2.0	2.6
Gearing Ratio (x)				
Net Debt/ Equity	0.8	1.3	1.1	0.7
Net Debt/EBIDTA	1.5	2.5	2.4	1.8
Working Cap Cycle (days)	57.1	72.7	82.6	82.6

Elecon Engineering

CMP (Rs)	Price Target (Rs/Share)	Rating	PER (FY13E x)	FY11-13E Earnings CAGR (%)
71	61	Hold	8.5	7.4

- Any slowdown in Transmission Equipment (TE) division growth momentum corresponding to lower asset creation in economy (assumed to moderate from 2X GDP to 1X GDP) – will be a key risk to earnings estimates, since TE division contributes about 40% of revenues and 50% to PBIT
- Elecon is running on extremely low order book cover (1.3X total revenues and 1.7X MHE division revenues) – which implies that order inflows are imperative to generate growth momentum. Any delays would impact earnings
- Given the high DER (1.3X as on Mar'11) and high capital expenditure, equity dilution remains a key risk
- Lowered earnings estimates by 6% to Rs8.2 per share for FY12E and by 18% to Rs8.3 per share for FY13E. We are lower than consensus earnings by 12% and 26% for FY12E and FY13E respectively
- At CMP, the stock is trading at 8.5X FY13E earnings. There remains risk to earnings from equity dilution. We downgrade the stock from Buy to Hold with revised price target of Rs61 per share (@ 7.3X FY13E earnings).

Standalone Financial Snapshot

YE-Mar	Net Sales	EBITDA		APAT	EPS	EPS	RoE	EV/		
		(Core)	(%)		(Rs)	% chg	(%)	P/E	EBITDA	P/BV
FY10	10,464	1,540	14.7	500	5.4	-18.5	16.6	13.1	7.4	2.0
FY11	11,772	1,882	16.0	670	7.2	34.0	18.6	9.8	6.2	1.7
FY12E	13,571	2,020	14.9	757	8.2	13.0	17.9	8.6	5.6	1.4
FY13E	14,201	2,084	14.7	772	8.3	2.0	16.0	8.5	5.1	1.3

Revision in Earning Estimates

Y/E, Mar (Rs. mn)	FY12E			FY13E		
	Earlier	Revised	% Change	Earlier	Revised	% Change
Revenues	13,930	13,571	(2.6)	16,438	14,201	(13.6)
EBITDA	2,088	2,020	(3.2)	2,356	2,084	(11.5)
EBITDA Margin (%)	15.0	14.9	-10 bps	14.3	14.7	30 bps
APAT	803	757	(5.7)	939	772	(17.7)
EPS	8.6	8.2	(5.7)	10.1	8.3	(17.7)
Order Inflows	14,214	14,214	0.0	16,772	15,209	-9.3
Order Backlog	15,155	15,514	2.4	15,490	16,522	6.7

Financials - Elecon Engineering

Income Statement

Y/E, Mar (Rs. mn)	FY10	FY11	FY12E	FY13E
Net Sales	10,464	11,772	13,571	14,201
Growth (%)	9.6	12.5	15.3	4.6
Expenditure	8,924	9,890	11,552	12,117
Materials Consumed	6,982	7,434	8,747	9,153
Employee Cost	436	565	651	681
Manufacturing Exp	614	819	944	988
Other Exp	892	1,072	1,210	1,295
EBITDA	1,540	1,882	2,020	2,084
Growth (%)	-10.7	22.2	7.3	3.2
EBITDA margin (%)	14.7	16.0	14.9	14.7
Depreciation	331	384	430	463
EBIT	1,209	1,498	1,590	1,621
EBIT margin (%)	11.6	12.7	11.7	11.4
Other Income	41	-42	40	34
Interest expenses	509	458	502	505
PBT	741	998	1,128	1,150
Tax	241	328	370	378
Effective tax rate (%)	32.6	32.8	32.8	32.8
Adjusted PAT	500	670	757	772
Growth (%)	-18.5	34.0	13.0	2.0
Net Margin (%)	4.8	5.7	5.6	5.4
E/O items	161.7	209.1	0.0	0.0
Reported PAT	662	879	757	772
Growth (%)	20.4	32.9	-13.9	2.0

Cash Flow

Y/E, Mar (Rs. mn)	FY10	FY11	FY12E	FY13E
PBT	748	1,207	1,128	1,150
Depreciation	331	384	430	463
Interest Provided	509	458	502	505
Other Non-Cash items	-19	-223	0	0
Chg in working cap	339	-756	294	-53
Tax paid	-180	-220	-370	-378
Operating Cashflow	1,729	851	1,983	1,688
Capital expenditure	-841	-444	-850	-500
Free Cash Flow	888	406	1,133	1,188
Other income	0	0	0	0
Investments	212	-100	24	0
Investing Cashflow	212	-100	24	0
Equity Capital Raised	0	0	0	0
Loans Taken / (Repaid)	-705	88	500	75
Interest Paid	-455	-492	-502	-505
Dividend paid (incl tax)	-161	-160	-167	-167
Income from investments	0	0	0	0
Others	0	0	0	0
Financing Cashflow	-1,322	-564	-169	-597
Net chg in cash	-222	-258	987	591
Opening cash position	611	388	131	1,118
Closing cash position	388	131	1,118	1,709

Balance Sheet

Y/E, Mar (Rs. mn)	FY10	FY11	FY12E	FY13E
Equity share capital	186	186	186	186
Reserves & surplus	3,075	3,760	4,350	4,956
Net worth	3,261	3,946	4,536	5,141
Secured Loans	3,329	3,135	3,635	3,710
Unsecured Loans	1,887	2,169	2,169	2,169
Loan Funds	5,216	5,303	5,803	5,878
Net deferred tax liability	-403	-411	-411	-411
Total Liabilities	8,074	8,839	9,929	10,609
Gross Block	5,094	5,597	6,447	6,947
Less: Depreciation	1,651	2,020	2,450	2,913
Net block	3,443	3,577	3,997	4,034
Capital work in progress	179	108	108	108
Investment	57	363	340	340
Current Assets	9,263	10,610	11,961	12,870
Inventories	3,152	3,144	3,527	3,690
Sundry debtors	5,176	6,720	6,701	6,856
Cash & bank balance	388	131	1,118	1,709
Loans & advances	547	615	615	615
Other current assets	0	0	0	0
Current lia & Prov	4,088	5,032	5,690	5,956
Current liabilities	3,868	4,786	5,444	5,710
Provisions	220	246	246	246
Net current assets	5,174	5,578	6,271	6,915
Misc. exp	26	34	34	34
Total Assets	8,879	9,660	10,750	11,430

Key Ratios

Y/E, Mar	FY10	FY11	FY12E	FY13E
Profitability (%)				
EBITDA Margin	14.7	16.0	14.9	14.7
Net Margin	4.8	5.7	5.6	5.4
ROCE	13.5	16.2	15.6	14.6
ROE	16.6	18.6	17.9	16.0
RoIC	16.2	18.2	19.0	19.2
Per Share Data (Rs)				
EPS	5.4	7.2	8.2	8.3
CEPS	9.0	11.4	12.8	13.3
BVPS	35.1	42.5	48.8	55.4
DPS	1.5	1.8	1.8	1.8
Valuations (x)				
PER	13.1	9.8	8.6	8.5
P/CEPS	7.9	6.2	5.5	5.3
P/BV	2.0	1.7	1.4	1.3
EV / Sales	1.1	1.0	0.8	0.8
EV / EBITDA	7.4	6.2	5.6	5.1
Dividend Yield (%)	2.1	2.6	2.6	2.6
Gearing Ratio (x)				
Net Debt/ Equity	1.5	1.3	1.0	0.8
Net Debt/EBITDA	3.1	2.7	2.3	2.0
Working Cap Cycle (days)	190.8	166.7	159.3	169.5

Annexure 1

Analyzing H1FY12E* performance – Not encouraging so far...

Note: Following analysis is based on standalone numbers in case of L&T, Thermax and McNally Bharat since these companies do not give consolidated quarterly results

Order Inflows → Order inflows continue to elude the ECG sector on the back of (1) continued deferrals and postponements in investment spends and order finalizations – both by the government and the private sector (2) increased competition from domestic as well as international players.

- Order inflows declined (on yoy basis) in 7 out of past 11 quarters
- In fact, decline in H1FY12 was steepest at 22% yoy, split as ? Q1FY12 – down 20% yoy and Q2FY12E (announced so far)- down 23% yoy
- Consequently, order book growth has moderated from +15% in FY11 to 8% in Q2FY12E. Order book cover has also reduced from 3.1X revenues in FY11 to 2.8X revenues in Q2FY12E

Note (*) H1FY12E considers EMKAY expectation for Q2FY12E

Order Inflows (Rs Mn)	Q2FY12E	YoY Gr (%)	H1FY12E	YoY Gr (%)
BHEL	99,978	-30.8	124,688	-49.9
L&T	150,000	-26.7	311,900	-13.6
Thermax	16,597	13.9	33,477	-4.8
Voltas	7,068	-39.9	10,486	-51.3
Blue Star	8,840	23.3	17,350	6.8
Punj Lloyd	20,000	21.7	76,300	54.8
TRF	-	NA	300	-93.9
McNally Bharat	5,271	95.8	11,121	-2.4
Elecon Engineering	2,050	0.0	5,232	-34.2
Total	309,804	-23.3	591,074	-21.9
Total Ex-BHEL	209,826	-19.1	466,386	-8.1

FY12E growth expectation of 14.1%

Decline in order inflows is across sectors and companies (barring Punj Lloyd)

Order inflow momentum continues to disappoint – bagged only 32% of target annual inflows in H1FY12 Vs historical average of +40%

Revenues → Revenue growth led by execution of order backlog has remained subdued for the past 10 quarters (except for H2FY11) – ranging from 4% to 18%. In fact ex-BHEL, the growth rate moderated to -6% to 12% (case specific).

- This is despite a healthy order backlog cover – (1) Ex-BHEL at 2.4X revenues (trailing 12M) (2) Cum-BHEL at 2.8X revenues (trailing 12M)
- Expectation for revenue growth in Q2FY12E is 15% yoy Vs 16% yoy growth registered in Q1FY12. Ex-BHEL, the moderation in growth momentum is much higher - Q2FY12E revenue growth at 12% yoy Vs 19% yoy reported in Q1FY12.

Revenues (Rs Mn)	Q2FY12E	YoY Gr (%)	H1FY12E	YoY Gr (%)
BHEL	101,019	19.0	173,734	15.1
L&T	108,517	16.3	203,343	18.5
Cummins India	12,340	13.1	22,793	12.9
Thermax	12,564	15.1	23,008	22.3
Voltas	10,054	-5.6	23,538	-4.8
Blue Star	6,119	-11.9	13,166	-3.2
Punj Lloyd	21,542	8.4	44,176	18.7
Greaves Cotton	4,211	11.3	8,230	13.3
TRF	2,892	50.2	5,612	30.0
McNally Bharat	4,037	0.5	7,662	11.7
Elecon Engineering	3,086	9.9	5,659	7.2
Total	286,380	14.5	530,919	15.2
Total Ex-BHEL	185,361	12.2	357,185	15.3

FY12E growth expectation of 18.7%

Operating Margins → After reporting margin expansion for past two years (+140 bps FY10 and +160 bps in FY11), the ECG sector is facing contraction in operating margins. This is due to (1) execution of low margin and competitively secured orders (2) slower execution of order book resulting in negative impact of operating leverage and (3) rising input costs.

- Decline in operating margins seen to be more pronounced in EPC companies vis-à-vis equipment companies or executing short-cycle orders – largely attributed to competitively secured orders and higher material costs
- Operating margins expected to decline for second consecutive quarter in Q2FY12E by 20 bps yoy (Q1FY12 – down by 50 bps yoy)
- Consequently, growth in operating profits also to be subdued at 13% yoy in Q2FY12E and 12% yoy in H1FY12E

Operating Margin (%)	Q2FY12E	YoY Gr (bps)	H1FY12E	YoY Gr (bps)
BHEL	19.2	0	17.6	30
L&T	10.6	-20	11.2	(50)
Cummins India	18.9	-100	18.4	(210)
Thermax	12.2	40	11.6	(30)
Voltas	8.1	-200	8.1	(140)
Blue Star	6.4	-330	5.1	(440)
Punj Lloyd	8.0	-120	8.0	(50)
Greaves Cotton	15.7	-10	15.0	50
TRF	5.6	230	5.4	100
McNally Bharat	6.1	70	6.4	90
Elecon Engineering	15.0	80	16.1	150
Total	13.7	-20	13.0	(40)
Total Ex-BHEL	10.7	-40	10.8	(70)

FY12E margin expectation at 14.6%

2 companies expected to see decline in revenues

TRF an exceptional case due to commencement of new facility in automotive business

6 out of 11 companies expected to report margin decline in H1FY12E

Margin expansion in TRF and McNally Bharat attributed to one-offs and low base effect in previous corresponding period

Net Profit → Led by moderation in revenue growth, contraction in operating margins and higher finance costs, net profits growth to undergo sharper moderation – heading for lowest growth in Q2FY12E, since last 16 quarters

- Q2FY12E net profit growth expected at 9% yoy – lower than 13% yoy growth reported in Q1FY12 and 33% growth reported in FY11
- Ex-BHEL, growth in net profits expected to be dismal at 2% yoy in Q2FY12E Vs 7% reported in Q1FY12 and 29% reported in FY11

Adjusted Net Profit (Rs Mn)	Q2FY12E	YoY Gr (%)	H1FY12E	YoY Gr (%)
BHEL	13,159	15.2	43,254	4.9
L&T	6,958	11.5	26,915	18.8
Cummins India	1,693	0.9	3,402	20.7
Thermax	1,001	11.8	2,578	13.7
Voltas	558	-25.3	1,769	29.0
Blue Star	163	-57.9	1,140	43.9
Punj Lloyd	38	-84.2	598	-234.3
Greaves Cotton	382	5.4	1,192	40.9
TRF	47	-41.8	371	135.4
McNally Bharat	91	-6.3	449	33.4
Elecon Engineering	161	13.2	493	23.7
Total	24,250	8.8	82,162	13.4
Total Ex-BHEL	11,091	2.0	38,907	24.7

FY12E target of 16.6% growth

5 out of 11 companies expected to report decline in net profits.

Additionally, two companies to witness moderate growth in net profit.

Annexure 2

Implied earnings estimates (H2FY12E) for ECG sector factor in-built optimism

Note: Following analysis is based on standalone numbers in case of L&T, Thermax and McNally Bharat since these companies do not give consolidated quarterly results

Order inflows → H2FY12E growth implied at +39% yoy Vs decline of 22% yoy in H1FY12

- Expect to secure about 70% of FY12E target order inflows in H2FY12E – versus historical range of 47-58% (FY07-11 period)
- While the sector had witnessed 48% growth in H2FY10, it was on a low base – unlike the current case (H2FY12E) with a high base in corresponding period

Order Inflows (Rs Mn)	H1FY12E	YoY Gr (%)	H2FY12E	YoY Gr (%)
BHEL	124,688	-49.9	541,830	48.2
L&T	311,900	-13.6	611,358	39.6
Thermax	33,477	-4.8	32,912	31.3
Voltas	10,486	-51.3	29,900	92.3
Blue Star	17,350	6.8	18,010	20.1
Punj Lloyd	76,300	54.8	55,230	-29.0
TRF	300	-93.9	6,470	NA
McNally Bharat	11,121	-2.4	22,801	100.0
Elecon Engineering	5,232	-34.2	9,202	41.9
Total	590,854	-21.9	1,327,712	39.1
Total Ex-BHEL	466,166	-8.1	785,883	33.4

Dismal order inflows in H1FY12 have increased the implied growths for H2FY12E across companies...

Only Blue Star and Punj Lloyd appear to be comfortably placed to achieve their target FY12E order inflow targets

Revenues → Implied growth for H2FY12E at 20% yoy Vs 15% yoy in H1FY12

Sales (Rs Mn)	H1FY12E	YoY Gr (%)	H2FY12E	YoY Gr (%)
BHEL	173,735	15.1	321,230	17.2
L&T	203,343	18.5	324,745	21.2
Cummins India	22,793	12.9	22,266	9.1
Thermax	23,008	22.3	32,113	6.6
Voltas	23,538	-4.8	30,572	12.5
Blue Star	13,166	-3.2	18,327	19.9
Punj Lloyd	44,176	18.7	60,524	36.2
Greaves Cotton	8,230	13.3	10,924	25.3
TRF	5,625	30.3	8,353	22.5
McNally Bharat	7,662	11.7	14,767	37.7
Elecon Engineering	5,659	7.2	8,271	26.0
Total	530,933	15.2	852,093	19.6
Total Ex-BHEL	357,198	15.3	530,862	21.1

Except for Cummins India, Thermax and TRF, all companies in the universe expected to grow at a higher pace in H2FY12E Vs H1FY12

Built-in optimism most in case of - Voltas, Blue Star, Punj Lloyd, McNally Bharat and Elecon Engineering

Operating margins → Implied margin improvement of 70 bps yoy in H2FY12E versus decline of 40 bps yoy in H1FY12

- This implies a 110 bps increase in H2FY12E versus H1FY12E
- Also, implies a sharp recovery in H2FY12E performance over H1FY12E
- Corresponding growth in operating profits is 14% yoy for H2FY12E Vs 12% in H1FY12E

Increase in operating margins in H2FY12E ranges between 90 bps and 500 bps

Only BHEL and Elecon Engineering have implied expectations for decline in operating margins in H2FY12E

Operating Margin (%)	H1FY12E	YoY Gr (bps)	H2FY12E	YoY Gr (bps)
BHEL	17.6	30	21.0	(220)
L&T	11.2	(50)	13.8	40
Cummins India	18.4	(210)	19.4	160
Thermax	11.6	(30)	12.6	130
Voltas	8.1	(140)	8.5	40
Blue Star	5.1	(440)	10.4	60
Punj Lloyd	8.0	(50)	6.3	(50)
Greaves Cotton	15.0	50	18.2	230
TRF	5.4	100	6.3	170
McNally Bharat	6.4	90	6.6	40
Elecon Engineering	16.1	150	14.2	(220)
Total	13.0	(40)	15.7	(70)
Total Ex-BHEL	10.8	(70)	12.4	40

Net profit → Implied growth to accelerate to 25% yoy in H2FY12E Vs 5% yoy achieved in H1FY12E (Ex-BHEL)

Turnaround factored / implied in 5 out of 11 companies in the ECG sector... i.e. from negative or low (single digit) growth to robust double digit growth (+20%)

Higher contribution from other income to achieve the net-profit growth... in view of (1) subdued operational performance (2) high yield on investments

Adjusted Net Profit (Rs Mn)	H1FY12E	Gr (%)	H2FY12E	Gr (%)
BHEL	21,304	17.7	43,254	4.9
L&T	14,419	11.7	26,915	18.8
Cummins India	3,120	1.3	3,402	20.7
Thermax	1,800	15.6	2,578	13.7
Voltas	1,281	-24.0	1,769	29.0
Blue Star	261	-65.4	1,140	43.9
Punj Lloyd	(85)	26.5	598	-234.3
Greaves Cotton	732	14.2	1,192	40.9
TRF	103	-29.0	358	127.2
McNally Bharat	167	5.6	449	33.4
Elecon Engineering	310	12.6	493	23.7
Total	43,411	10.7	82,149	13.4
Total Ex-BHEL	22,107	4.6	38,894	24.7

Annexure 3

Revising FY12E and FY13E earnings – Downgrading earnings by 6% for FY12E and 11% for FY13E (Ex-BHEL)

Revenues → We have reduced our revenue assumptions by 2% for FY12E and by 5% for FY13E.

- For FY12E, highest revision has been made in Voltas (-5%), Blue Star (-6%), Punj Lloyd (-6%) and McNally Bharat (-10%) – owing to low opening order backlog and revised order inflow estimates
- Despite significant cut in order inflow estimates, revenue estimates for BHEL have only marginally changed given comfortable existing order backlog position

Revenues (Rs Mn)	FY12E			FY13E		
	Previous	Revised	% Ch	Previous	Revised	% Ch
BHEL	4,94,965	4,94,895	0.0	5,55,765	5,52,615	-0.6
L&T	6,22,428	6,10,615	-1.9	7,17,662	6,75,814	-5.8
Cummins India	43,927	42,793	-2.6	51,611	47,717	-7.5
Thermax	59,763	58,692	-1.8	66,143	62,563	-5.4
Voltas	54,110	51,304	-5.2	62,448	57,392	-8.1
Blue Star	31,493	29,468	-6.4	37,351	33,633	-10.0
Punj Lloyd	1,04,701	98,691	-5.7	1,18,166	1,09,222	-7.6
Greaves Cotton	19,605	18,878	-3.7	23,259	21,539	-7.4
TRF	14,083	13,992	-0.6	16,694	14,517	-13.0
McNally Bharat	26,787	24,031	-10.3	32,037	24,933	-22.2
Elecon Engg	13,930	13,571	-2.6	16,438	14,201	-13.6
Total	14,85,792	14,56,930	-1.9	16,97,573	16,14,146	-4.9
Total Ex-BHEL	9,90,827	9,62,035	-2.9	11,41,808	10,61,530	-7.0

- H2FY12E implied growth for the ECG sector now stands at 15.6% yoy Vs 15.2% achieved in H1FY12

Revenues (Rs Mn)	H1FY12E	YoY Gr (%)	H2FY12E	YoY Gr (%)
BHEL	173,734	15.1	321,160	17.2
L&T	203,343	18.5	312,931	16.8
Cummins India	22,793	12.9	21,021	3.0
Thermax	23,008	22.3	31,105	3.3
Voltas	23,538	-4.8	27,766	2.2
Blue Star	13,166	-3.2	16,302	6.6
Punj Lloyd	44,176	18.7	54,514	22.6
Greaves Cotton	8,230	13.3	10,198	16.9
TRF	5,612	30.0	8,367	22.7
McNally Bharat	7,662	11.7	11,971	11.6
Elecon Engineering	5,659	7.2	7,912	20.5
Total	530,919	15.2	823,249	15.6
Total Ex-BHEL	357,185	15.3	502,088	14.6

Operating margins → We have reduced our operating margin assumptions by 10 bps for FY12E to 15.2% and by 20 bps for FY13E to 14.9%. Excluding BHEL, the cut in operating margin assumptions is steeper at 20 bps for FY12E to 12.8% and by 50 bps in FY13E to 13.0%

- The highest revision has been done in Cummins India (-110 bps), Blue Star (-100 bps) and Greaves Cotton (-110 bps) in FY12E
- Operating margin assumptions have been revised upwards for Punj Lloyd, TRF, and McNally Bharat citing good performance over the past few quarters.

Operating Margins (%)	FY12E			FY13E		
	Previous	Revised	Ch (bps)	Previous	Revised	Ch (bps)
BHEL	19.8	19.8	-	18.7	18.7	-
L&T	14.8	14.6	(30)	15.3	14.9	(50)
Cummins India	16.8	15.7	(110)	16.8	14.9	(190)
Thermax	10.8	11.3	50	10.9	10.4	(50)
Voltas	8.3	7.9	(40)	8.6	7.6	(100)
Blue Star	8.2	7.2	(100)	8.8	8.3	(40)
Punj Lloyd	7.0	7.4	40	7.2	7.5	30
Greaves Cotton	14.5	13.5	(110)	14.6	13.7	(80)
TRF	3.4	3.4	-	10.6	10.6	-
McNally Bharat	6.8	7.2	40	6.9	7.1	10
Elecon Engg	15.0	14.9	(10)	14.3	14.7	30
Total	15.3	15.2	(10)	15.1	14.9	(20)
Total Ex-BHEL	13.0	12.8	(20)	13.4	13.0	(50)

- H2FY12E operating margins (Ex-BHEL) are 12.0% Vs 10.8% in H1FY12 (+120 bps sequentially) and 12.1% in H2FY11 (down -10 bps yoy).
- Corresponding revision in operating profits (ex-BHEL) for FY12E is -4% and that for FY13E is -10%. While the implied growth in operating profits for H2FY12E is 13% yoy (8% yoy growth achieved in H1FY12)

Operating Margins (%)	H1FY12E	YoY Ch (bps)	H2FY12E	YoY Ch (bps)
BHEL	17.6	40	21.0	-230
L&T	11.2	-50	13.2	-10
Cummins India	18.4	-210	16.9	-90
Thermax	11.6	-30	12.0	70
Voltas	8.1	-140	7.8	-30
Blue Star	5.1	-440	8.9	-90
Punj Lloyd	8.0	-50	6.9	10
Greaves Cotton	15.0	50	16.4	60
TRF	5.3	80	6.1	150
McNally Bharat	6.4	90	6.1	-10
Elecon Engineering	16.1	150	14.0	-240
Total	13.0	-40	15.5	-90
Total Ex-BHEL	10.8	-70	12.0	-10

Net Profit → We have lowered our earnings estimates by 3% and 6% for FY12E and FY13E respectively and Ex-BHEL by 6% and 11% respectively.

- The highest downgrades affected for Blue Star (-29%), Voltas (-10%), Greaves Cotton (-11%) and Cummins India (-10%) for FY12E – led by reduction in revenue as well as operating margin estimates
- Downgrade in FY13E earnings estimates is higher for Cummins India (-18%), Thermax (-17%), Voltas (-19%), Blue Star (-20%), TRF (-27%) and Elecon Engineering (-18%) due to reduction in operating margins estimates (Vs expansion considered previously) and / or negative impact of financial leverage

Net Profit (Rs Mn)	FY12E			FY13E		
	Previous	Revised	% Ch	Previous	Revised	% Ch
BHEL	64,559	64,549	0.0	68,189	67,757	-0.6
L&T	48,425	46,259	-4.5	59,462	54,343	-8.6
Cummins India	6,526	5,874	-10.0	7,561	6,217	-17.8
Thermax	4,603	4,331	-5.9	5,135	4,298	-16.3
Voltas	3,056	2,763	-9.6	3,600	2,931	-18.6
Blue Star	1,401	991	-29.3	1,794	1,428	-20.4
Punj Lloyd	501	487	-2.8	924	857	-7.2
Greaves Cotton	1,922	1,714	-10.9	2,292	2,020	-11.9
TRF	388	360	-7.2	443	324	-26.9
McNally Bharat	624	616	-1.2	826	795	-3.7
Elecon Engineering	803	757	-5.7	939	772	-17.7
Total	1,32,809	1,28,703	-3.1	1,51,163	1,41,740	-6.2
Total Ex-BHEL	68,250	64,154	-6.0	82,975	73,983	-10.8

- H2FY12E implied growth for the ECG sector now stands at 8% yoy Vs 11% expected in H1FY12. Ex-BHEL, the implied growth is however slightly higher at 11% for H2FY12E Vs 4% expected in H1FY12

Net Profit (Rs Mn)	H1FY12E	YoY Gr (%)	H2FY12E	YoY Gr (%)
BHEL	21,314	17.8	43,235	4.8
L&T	14,419	11.7	24,748	9.3
Cummins India	3,120	1.3	2,750	-2.5
Thermax	1,800	15.6	2,367	4.4
Voltas	1,281	-24.0	1,477	7.7
Blue Star	261	-65.4	730	-7.8
Punj Lloyd	-85	26.5	584	-231.2
Greaves Cotton	732	14.2	983	16.3
TRF	83	-42.9	306	94.1
McNally Bharat	167	5.6	346	2.8
Elecon Engineering	310	12.6	447	12.3
Total	43,401	10.6	77,973	7.7
Total Ex-BHEL	22,087	4.5	34,739	11.4

Note: Above analysis for Half yearly performance is based on standalone numbers in case of L&T, Thermax and McNally Bharat since these companies do not give consolidated quarterly results

Annexure 4**Comparing Emkay estimates with consensus estimates****BHEL – Key Financials**

Y/E, Mar (Rs. mn)	Emkay Estimates			Consensus Estimates		Variation Vs Consensus	
	FY11	FY12E	FY13E	FY12C	FY13C	FY12	FY13
Revenues	422,466	494,895	552,615	483,110	547,421	2.4	0.9
EBITDA	86,854	97,879	103,264	95,686	106,431	2.3	-3.0
EBITDA Margin (%)	20.6	19.8	18.7	19.8	19.4	0 bps	-80 bps
APAT	59,273	64,549	67,757	66,323	73,782	-2.7	-8.2
EPS (Rs)	24.2	26.4	27.7	27.2	30.0	-2.9	-7.8
PER (X)	13.5	12.4	11.8	12.0	10.9		

L&T – Consolidated Key Financials

Y/E, Mar (Rs. mn)	Emkay Estimates			Consensus Estimates		Variation Vs Consensus	
	FY11P	FY12E	FY13E	FY12C	FY13C	FY12	FY13
Revenues	520,991	610,615	675,814	629,941	740,891	-3.1	-8.8
EBITDA	81,855	88,875	100,633	90,160	104,741	-1.4	-3.9
EBITDA Margin (%)	15.7	14.6	14.9	14.3	14.1	20 bps	80 bps
APAT	41,800	46,259	54,343	49,788	58,488	-7.1	-7.1
EPS (Rs)	68.9	76.3	89.6	81.8	96.0	-6.8	-6.7
PER (X)	20.0	18.1	15.4	16.9	14.4		

Cummins India – Key Financials

Y/E, Mar (Rs. mn)	Emkay Estimates			Consensus Estimates		Variation Vs Consensus	
	FY11	FY12E	FY13E	FY12C	FY13C	FY12	FY13
Revenues	39,454	42,793	47,717	46,684	55,158	-8.3	-13.5
EBITDA	6,656	6,724	7,121	8,122	9,563	-17.2	-25.5
EBITDA Margin (%)	16.9	15.7	14.9	17.4	17.3	-170 bps	-240 bps
APAT	5,898	5,874	6,217	6,584	7,589	-10.8	-18.1
EPS (Rs)	21.3	21.2	22.4	23.6	27.5	-10.2	-18.4
PER (X)	18.9	19.0	18.0	17.1	14.7		

Thermax – Consolidated Key Financials

Y/E, Mar (Rs. mn)	Emkay Estimates			Consensus Estimates		Variation Vs Consensus	
	FY11	FY12E	FY13E	FY12C	FY13C	FY12	FY13
Revenues	53,350	58,692	62,563	59,215	65,586	-0.9	-4.6
EBITDA	5,855	6,604	6,515	6,352	7,098	4.0	-8.2
EBITDA Margin (%)	11.0	11.3	10.4	10.7	10.8	50 bps	-40 bps
APAT	3,820	4,331	4,298	4,218	4,699	2.7	-8.5
EPS (Rs)	32.1	36.3	36.1	35.3	39.3	2.9	-8.3
PER (X)	13.4	11.8	11.9	12.2	10.9		

Volta – Consolidated Key Financials

Y/E, Mar (Rs. mn)	Emkay Estimates			Consensus Estimates		Variation Vs Consensus	
	FY11	FY12E	FY13E	FY12C	FY13C	FY12	FY13
Revenues	51,768	51,304	57,392	54,660	60,609	-6.1	-5.3
EBITDA	4,680	4,071	4,344	4,433	5,088	-8.2	-14.6
EBITDA Margin (%)	9.0	7.9	7.6	8.1	8.4	-20 bps	-80 bps
APAT	3,090	2,763	2,931	3,304	3,772	-16.3	-22.3
EPS (Rs)	9.5	8.3	8.8	9.9	11.3	-15.8	-21.6
PER (X)	10.9	12.4	11.7	10.5	9.2		

Blue Star – Key Financials

Y/E, Mar (Rs. mn)	Emkay Estimates			Consensus Estimates		Variation Vs Consensus	
	FY11	FY12E	FY13E	FY12C	FY13C	FY12	FY13
Revenues	28,569	29,468	33,633	32,466	37,583	-9.2	-10.5
EBITDA	2,631	2,118	2,807	2,843	3,506	-25.5	-19.9
EBITDA Margin (%)	9.2	7.2	8.3	8.8	9.3	-160 bps	-100 bps
APAT	1,518	991	1,428	1,577	1,991	-37.2	-28.3
EPS (Rs)	16.9	11.0	15.9	16.9	21.6	-34.6	-26.4
PER (X)	13.1	20.0	13.9	13.1	10.2		

Greaves Cotton – Key Financials

Y/E, Mar (Rs. mn)	Emkay Estimates			Consensus Estimates		Variation Vs Consensus	
	FY11	FY12E	FY13E	FY12C	FY13C	FY12	FY13
Revenues	12,789	18,878	21,539	19,392	22,531	-2.6	-4.4
EBITDA	1,999	2,944	3,426	3,028	3,606	-2.8	-5.0
EBITDA Margin (%)	13.8	13.5	13.7	15.6	16.0	-210 bps	-230 bps
APAT	1,188	1,714	2,020	1,888	2,220	-9.3	-9.0
EPS (Rs)	4.9	7.0	8.3	7.6	9.0	-8.1	-7.9
PER (X)	17.9	12.4	10.5	11.4	9.7		

Punj Lloyd – Consolidated Key Financials

Y/E, Mar (Rs. mn)	Emkay Estimates			Consensus Estimates		Variation Vs Consensus	
	FY11	FY12E	FY13E	FY12C	FY13C	FY12	FY13
Revenues	78,750	98,691	109,222	96,797	111,510	2.0	-2.1
EBITDA	3,977	7,311	8,144	8,186	9,644	-10.7	-15.6
EBITDA Margin (%)	5.1	7.4	7.5	8.5	8.6	-100 bps	-120 bps
APAT	-381	487	857	760	1,662	-35.9	-48.4
EPS (Rs)	-1.4	1.4	2.5	2.7	5.3	-45.9	-51.6
PER (X)	(53.8)	53.0	29.9	28.7	14.5		

TRF – Consolidated Key Financials

Y/E, Mar (Rs. mn)	Emkay Estimates			Consensus Estimates		Variation Vs Consensus	
	FY11	FY12E	FY13E	FY12C	FY13C	FY12	FY13
Revenues	11,136	13,992	14,517	13,478	15,327	3.8	-5.3
EBITDA	507	803	816	883	1,055	-9.1	-22.7
EBITDA Margin (%)	5.3	3.4	10.6	6.6	6.9	-320 bps	370 bps
APAT	303	360	324	380	462	-5.2	-29.9
EPS (Rs)	27.5	32.7	29.4	34.5	42.1	-5.2	-30.1
PER (X)	12.9	10.8	12.0	10.2	8.4		

McNally Bharat – Consolidated Key Financials

Y/E, Mar (Rs. mn)	Emkay Estimates			Consensus Estimates		Variation Vs Consensus	
	FY11	FY12E	FY13E	FY12C	FY13C	FY12	FY13
Revenues	22,527	24,031	24,933	26,427	31,147	-9.1	-19.9
EBITDA	1,645	1,738	1,759	2,035	2,384	-14.6	-26.2
EBITDA Margin (%)	7.3	7.2	7.1	7.7	7.7	-50 bps	-60 bps
APAT	635	594	624	797	978	-25.5	-36.2
EPS (Rs)	20.4	19.1	20.1	24.0	30.4	-20.5	-34.0
PER (X)	6.2	6.7	6.4	5.3	4.2		

Elecon Engineering – Key Financials

Y/E, Mar (Rs. mn)	Emkay Estimates			Consensus Estimates		Variation Vs Consensus	
	FY11	FY12E	FY13E	FY12C	FY13C	FY12	FY13
Revenues	11,772	13,571	14,201	14,907	17,573	-9.0	-19.2
EBITDA	1,882	2,020	2,084	2,211	2,588	-8.6	-19.5
EBITDA Margin (%)	16.0	14.9	14.7	14.8	14.7	10 bps	0 bps
APAT	670	757	772	850	1,040	-11.0	-25.7
EPS (Rs)	7.2	8.2	8.3	9.2	11.3	-11.6	-26.1
PER (X)	9.8	8.6	8.5	7.6	6.3		

Annexure 5

At Crossroads...

Synopsis of our report dated Mar'11

Earnings forecast for FY11E & FY12E have seen marginal changes so far

The ECI (Engineering, Capital Goods & Infrastructure) sector has witnessed marginal earnings changes for FY11E and FY12E. Consensus earnings forecasts for FY11E have been upgraded by 4.9% since Jun'09 – net profit forecasts upgraded from Rs127 bn in Jun'09 to Rs133 bn in Mar'11. Whereas, earnings forecasts for FY12E have been downgraded by 0.5% – net profit forecasts declined from Rs162 bn in Mar'10 to Rs161 bn in Mar'11. Further, the ECI sector's implied earnings forecasts for Q4FY11E is 42% of FY11E earnings - at the higher end of its historic band of 35-44% of annual earnings. Assuming a worst case scenario of 35% of FY11E earnings earned in Q4FY11E, the ECI sector could witness an earnings downgrade upto 10%.

Resumption of capex spends, becomes imperative to sustain current valuations

The ECI sector has underperformed the Nifty index in the last 6 months by approximately 15%. ECI sector's current valuations at 16.9X or 18% premium to Sensex PER, imply resumption of capex spends in India. Hence, non-resumption of capex spends in immediate future could trigger de-rating. Though not quantifiable, based on simple reference to the Lehman crisis (Oct'08-Mar'09 period), ECI sector has risk of upto 20% de-rating in valuations.

BHEL has best risk-to-reward, followed by L&T, Voltas and Greaves Cotton

Amongst ECI companies, BHEL has best risk-to-reward with PER at 14.1X being 15% lower than valuations during the Lehman crisis. Inherently, BHEL's current valuations do not factor resumption of positive events in the near future. Even L&T, Voltas and Greaves Cotton have attractive risk to reward profile with current valuations being 11-37% lower than FY04-08 cycle. Companies like Cummins and Crompton Greaves, trading at premium to FY04-08 cycle have large downside risks and are highly susceptible to negative surprises.

Note:

- ECI sector referred in analysis and assessment comprises of 10 companies → L&T, BHEL, ABB, Cummins India, Siemens, Crompton Greaves, Thermax, Voltas, Blue Star and Greaves Cotton.
- Valuations are based on prices as on 15 March 2011
- Below analysis is based ONLY on consensus earnings estimates as on 15 March 2011 (including for stocks under active coverage)

Comparing PER against different time periods

1-Yr Fwd PER (X)	Current	Vs 15-year Avg		Vs FY04-08 Avg		Pre-Cap Good Rally	
	PER	PER	Prem/(Disc)	PER	Prem/(Disc)	PER	Prem/(Disc)
BHEL	14.1	13.9	1%	20.0	-30%	19.1	-26%
L&T	18.0	18.0	0%	21.8	-17%	20.1	-10%
Cummins	17.8	16.1	10%	16.5	8%	14.8	20%
Thermax	15.5	15.6	-1%	17.4	-11%	14.2	9%
Voltas	11.7	12.9	-10%	18.4	-37%	21.6	-46%
Blue Star	13.7	9.5	44%	13.7	0%	14.6	-6%
Greaves Cotton	11.0	7.1	54%	12.3	-11%	13.2	-17%
Crompton Greaves	15.9	11.8	35%	15.8	0%	17.9	-11%
Siemens	25.2	18.3	38%	27.0	-6%	25.7	-2%
ABB	36.8	33.2	11%	31.7	16%	33.6	9%
Industry	16.9	17.0	-1%	21.0	-20%	20.3	-17%

Computing downsides to current valuations - Worst Case

1-Yr Fwd PER (X)	Current	Versus Lehman Crisis			
		Average Oct08-Mar09		Minimum	
	PER	PER	Downside	PER	Downside
BHEL	14.1	16.5	17%	15.7	12%
L&T	18.0	13.2	-27%	11.1	-38%
Cummins	17.8	8.6	-52%	6.9	-61%
Thermax	15.5	8.8	-43%	7.2	-53%
Voltas	11.7	5.5	-53%	3.7	-69%
Blue Star	13.7	7.1	-48%	6.4	-54%
Greaves Cotton	11.0	3.4	-69%	2.3	-79%
Crompton Greaves	15.9	6.2	-61%	5.4	-66%
Siemens	25.2	11.6	-54%	9.7	-61%
ABB	36.8	24.0	-35%	20.8	-43%
Industry	16.9	13.5	-20%	12.3	-27%

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