CENTRUM WEALTH: 10 Investment Ideas for Diwali

31 October 2013

Centrum Broking Ltd.

2013 Diwali Recommendations

Dear Clients / Colleagues,

We present 10 stock ideas which we believe can give significant returns by next Diwali.

Company	CMP (30-Oct-13)	52 week (Rs./share)		Market Cap (Rs. Crore)	Target Price (Rs.)	Expected Return (%)
		High	Low			
Bombay Burmah	114	159	83	796	140	23%
Cairn India	315	350	268	60,211	375	19%
City Union Bank	47	66	38	2,511	65	39%
ITC	333	380	272	263,775	375	13%
JK Tyre & Inds.	119	131	80	488	140	18%
Karur Vysya Bank	339	592	298	3,629	520	54%
MOIL	232	275	182	3,898	285	23%
NMDC	135	187	93	53,583	170	26%
Tata Coffee	1,087	1,675	880	2,030	1,400	29%
Zensar Tech	272	296	181	1,188	327	20%

During the last one year, since the Diwali 2012, markets have been very volatile. While large cap stock performed well, with the Sensex giving returns of 11%, mid cap stock underperformed with the BSE Mid Cap Index declining by 10%. In comparison, our portfolio of 10 mid cap stocks recommended during last Diwali declined by 4.4% (dividend adjusted return, assuming equal investment in each of the recommended stocks). (Refer to slide no.13)

We wish all our investors a "Happy Diwali & Prosperous Samvat 2070"

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Bombay Burmah Trading Corp. CMP: Rs. 114

Hidden Gem, available at attractive valuation

- Bombay Burmah Trading Corporation (BBTC), a 150-year-old company, is a leading company of the Wadia Group with diverse business interests;
- BBTC is an asset and investment rich company with 2,822 hectares of tea and 972 hectares of coffee plantations. It is also engaged in other businesses including healthcare and horticulture. BBTC also holds 50.96% stake in Britannia Industries (a leading FMCG company in India) and 14.35% stake in Bombay Dyeing;
- BBTC has large tracts of real estate under development with book value of ~Rs.18 crore. According to secondary research, we believe that BBTC has land parcels at Kanjurmarg Mumbai (2 acres), Akrudi Pune (17 acres) and at Coimbatore (4 acres), the current value of these is expected to be significantly higher;
- According to media reports, BBTC is considering various options to develop its real estate properties, including developing a few coffee estates as holiday destinations. BBTC started restructuring its businesses in FY2012 and sold its sunmica and springs divisions for a profit of Rs.40 crore and Rs.125 crore respectively. We expect the company to continue restructuring its business and unlock huge hidden value;

BBTC: Steep discount to Investment value

Cash & Investments	Rs. Cr.	Rs./share
Britannia (50.96%)	5,759	826
Bombay Dyeing (14.35% stake)	201	29
Total	**5,960**	**855**
Gap	5,093	731

- Valuation of equity stake in Britannia and Bombay Dyeing alone is worth around Rs.5,960 crore – a gap of Rs.5,093 crore compared to its net Enterprise Value of Rs.867 crore. This valuation gap alone works out to Rs.731 per share. The total investment in Britannia and Bombay Dyeing comes to Rs.855/share. The current market price of the stock is 16% of its valuation gap (a discount of 84%, or a gap of Rs.731/share);
- BBTC sees opportunity in washed robusta. Indian washed robusta continues to be the preferred choice of roasters specializing in espresso in Europe and no real competition from other countries is noticed in this niche market;
- For Q1FY2014, on a standalone basis, net profit grew by 15.5% YoY to Rs.3.4 crore, while revenue increased marginally by 1% to Rs.68 crore. EBITDA increased by 19.5% YoY to Rs.7.5 crore, with margins improving by 170 bps YoY to 11.1%, mainly on the back of lower raw material cost. Both the major segments Plantation and Auto Electric component performed well during Q1FY2014, with profit growing by 166% and 22% YoY to Rs.4.1 crore and Rs.4.3 crore respectively. For FY2013, on a standalone basis, BBTC's net profit declined by 86.1% YoY to Rs.18.9 crore, while profit before tax and exceptional item grew by 52% YoY to Rs.18.0 crore. After adjusting for exceptional items (profit of sale of divisions) the adjusted net profit declined marginally by 1.5% to Rs.12.8 crore as against Rs.13 crore last year. Revenue for the year declined by 8.4% YoY to Rs.249 crore. The board has paid a dividend of Rs.3 per share for FY2013, resulting in dividend yield of 2.6%;
- The stock is currently available at an attractive valuation of 5.2x its FY2014E consolidated EPS of Rs.22/share and we recommend investors to accumulate the stock with a medium to long term investment horizon;

Financial Summary

(Figures in Rs. Cr.)

Y/E Mar	Net Sales	Growth %	EBIDTA	EBIDTA (%)	NPAT	Growth %	EPS (Rs.)	P/E
2012A	5,930	14.9	353	6.0	230	94.9	33	3.5
2013A	6,519	9.9	440	6.7	132	-42.6	19	6.0
2014E	7,497	15.0	506	6.7	152	15.2	22	5.2
2015E	8,650	15.4	585	6.8	179	17.8	26	4.4

Source: Company, Centrum Wealth Research

Abhishek Anand, VP Research
Vidrum Mehta, Research Analyst

Cairn India

CMP: Rs. 315

A thematic play on crude oil as access to cheap oil is gone

- Cairn India Ltd. (CIL) is one of the largest independent oil and gas exploration and production companies in India producing more than 20% of India's domestic crude oil production. It operates the largest onshore oil field in India, the MBA (Mangala, Bhagyam and Aishwariya) fields in Rajasthan, having gross recoverable oil reserves of ~1 billion barrels and has made over 40 oil & gas discoveries. The CIL-ONGC JV has started commercial sale of 5 million standard cubic feet per day of natural gas initially from its Barmer fields in March 2013, to be sold at around $5/mBtu. Also, CIL has commenced production at its Aishwariya field, the 3rd largest discovery in the Rajasthan block. The field will be ramped up to its plateau of 10,000bpd in FY2014E;
- CIL has recovery and basin production potential of 300,000 bpd from the Rajasthan block. The JV expects product made its 26th discovery in India so far in the RJ-ON-90/1 block and has commenced drilling of 1st exploration well in Barmer after a gap of over 4 years which will help realise the estimated 0.5 billion barrels of oil equivalent (boe) of risked recoverable prospective resource, amounting to ~1/3rd of the Estimated Ultimate ion rate of 200,000-215,000 bpd from the block by end FY2014. CIL has also acquired 600 sq. km of 3D seismic in Block SL 2007-01-001 in early 2012 and spud its 4th exploration well in the block on February 2, 2013;
- CIL has plans to invest over Rs.16,000 crore ($3 billion) for new exploration till FY2016 including Rs.13,000 crore to drill more than 450 wells in its Rajasthan block which are likely to add 530 million barrels of oil to its reserves. CIL indicated delayed ramp up of Bhagyam field (in H2FY2014E) with drilling of 15 additional wells. However, it is accelerating its plans to drill 30 wells in FY2014 and FY2015 each. So far CIL has invested a total of Rs.18,000 crore in Rajasthan fields and plans to invest Rs.6,000 crore in FY2014. The Petroleum Ministry is likely to approve CIL's Rs.5,000 crore integrated block development plan (IBDP) for its Barmer block. For Q2FY2014 and H1FY2014, CIL's avg. gross operated production and the total oil and gas production increased by 3% YoY each;
- CIL has posted a net profit growth of 46% YoY to Rs.3,385 crore in Q2FY2014 mainly due to forex gain of Rs.429 crore during the quarter compared to forex loss of Rs.786 in Q2FY2013. The operating income grew by 4.7% YoY to Rs.4,650 crore. The operating profit margin of the company declined by 223bps (basis points) YoY to 74.9% in Q2FY2014 mainly on the back of a 64% YoY growth in the production cost which as a % to sales increased by 230bps YoY to 6.4%. The average daily production from CIL's Rajasthan and Ravva block increased by 2% YoY each to 175,478 boepd (barrels of oil equivalent per day) and to 29,151 boepd;
- The company has net cash reserve of Rs.18,319 crore as on September 30, 2013 and is expected to generate about Rs.10,000 crore each year for next few years. With most of the regulatory issues being addressed, CIL is poised to focus on ramping up its production. Considering capacity expansion, firm oil prices and substantial cash flow we maintain our 'BUY' on CIL which trades at 6.8x FY2015E EPS of Rs.46.2/share with a price target of Rs.375;

Financial Summary

(Figures in Rs. Cr.)

Y/E Mar	Net Sales	Growth %	EBIDTA	EBIDTA (%)	Adj. PAT	Growth %	EPS (Rs.)	P/E
2012A	11,861	15.4	9873	83.2	7,938	25.3	41.5	7.6
2013A	17,524	47.8	13,347	76.2	11,920	50.2	62.4	5.1
2014E	16,582	-5.4	12,049	72.7	9,847	-17.4	51.5	6.1
2015E	17,076	3.0	11,494	67.3	8,827	-10.4	46.2	6.8

Source: Company, Centrum Wealth Research

Siddhartha Khemka, VP Research
Payal V. Pandya, Research Analyst

City Union Bank (CUB)

CMP: Rs. 47

A thematic play in Old Private Sector Banking Space

- CUB, a 108-year-old regional bank, has performed well consistently through business cycles and has shown steady improvement in its business growth and asset quality. Considering the consistently good business growth, impressive asset quality and the possibility of further consolidation in private regional banks, we expect CUB to continue to create significant wealth going forward;
- The Banking Laws (Amendment) Bill which was passed in the Parliament, is aimed at strengthening the powers of RBI and to further develop the banking sector in India. It aims to increase the voting rights to 26% which is a very positive development for the OPSBs which lack identifiable promoters or have low promoter holding such as CUB (with "zero" promoter holding). This is expected to attract foreign banks, overseas investors as well as the domestic NBFCs (especially the ones which aspire to apply for banking licenses) to explore the opportunities to acquire up to 26% equity stake in efficient OPSBs with possible approval of the RBI;
- CUB has maintained a loan book CAGR of 28% over the past five years and we expect the bank to maintain a loan growth CAGR of over 25% in the next five years as well, considering its strong presence in the SME (Small & Medium Enterprises) space. The overall business of CUB grew by 20.3% YoY to Rs.35,904 crore as on June 30, 2013 backed by a 20.5% YoY growth in its advances and a 20.3% YoY growth in its deposits. The CD ratio of the bank improved by 14 bps YoY to 75.0% as on June 30, 2013. The bank is focusing on expansion and has added about 125 branches over the last 2 years of which over 50% have already achieved breakeven. Most of the others are expected to breakeven in FY2014. The bank further expects to add about 70-80 branches in FY2014;
- CUB posted impressive result in Q1FY2014 despite stress on asset quality across industry: net profit of CUB grew by 22.2% YoY to Rs.90 crore backed by a 41.5% growth in PPP (pre provisioning profit) to Rs.162 crore in Q1FY2014. The NII (net interest income) grew by 21.8% YoY to Rs.1,061 crore. CUB has maintained its healthy asset quality despite stress on NPAs across the industry. The gross and net NPA% grew by 18bps YoY to 1.25% and by 13bps to 0.63%, respectively, as on June 30, 2013. The current quarterly net NPA of CUB is almost equivalent (1.1 x) to its net NPA of Rs.97 crore as on June 30, 2013. This when compared to various PSU banks' which have net NPAs above 7-8 times their net profits for the quarter, implying that CUB's asset quality is well under control;
- CUB has plans to raise capital by Rs.350 crore through QIP route. The bank is looking to increase its loan book at about Rs.30,000 crore by FY2016 for which the bank will require net owned funds of Rs.3,000 crore. As a result of this, CUB plans to raise about Rs.1,000 crore over next 3-4 years and has already received shareholders' approval for the same. CUB has also raised about Rs.250 crore via rights issue in the ratio 1:4 at a rights price of Rs.20/share which is fully paid up as on July 30, 2013;
- CUB is expected to be a major beneficiary of the consolidation in the OPSB space. L&T Finance Holdings has a 4.59% stake in CUB as on June 30, 2013. Acquisitions in OPSB space have taken place at 2.5x-6x Adj. Book Value in the past, whereas CUB currently trades at 1.0x FY2015E Adj. Book Value. Hence, we maintain BUY on CUB with a fair value of Rs.65 which is 1.5x FY2015E Adj. Book Value;

Financial Summary

(Figures in Rs. Cr.)

Y/E Mar	NII	Growth %	Adj. PAT	Growth %	Net NPA %	EPS in Rs.	P/E	Adj. BV	P/Adj. BV
2012A	500	19.0	280	30.3	0.44	5.5	8.5	29.1	1.6
2013A	624	24.9	322	14.9	0.63	6.3	7.4	30.2	1.5
2014E	778	24.6	389	20.7	0.67	7.6	6.1	36.5	1.3
2015E	1,009	29.7	498	28.1	0.56	9.7	4.8	44.4	1.0

Source: Company, Centrum Wealth Research

Abhishek Anand, VP Research
Payal V. Pandya, Research Analyst

ITC Ltd. CMP: Rs. 333

Best play in the FMCG space

- ITC is a 100-year old company and a leading player in the tobacco and FMCG space. ITC's revenues and net profit have grown 5.1 and 5.5 times over FY2003-FY2013 to Rs.31,627 crore and Rs.7,608 crore respectively;
- The company has accelerated its capex plan and is likely to spend Rs.25,000 crore over the next 5-7 years, mainly in non-cigarette businesses. It has already committed investment in 40 projects which are under implementation. We believe that capex would help maintain its revenue growth momentum at 14-15% CAGR over FY2012-2015. The company launched its super premium luxury hotel having 600 keys, ITC Grand Chola, the world's largest LEED Platinum green hotel, with an investment of around Rs.1,200 crore;
- ITC has entered new segments in the FMCG food space as well as a portfolio of personal care products which are gaining market share. Launch of new variants and increase in distribution network is expected to aid further growth. The other businesses like hotels, agri-products, non-cigarette FMCG business, paper, paperboard and packaging are now profit making and performing well (for FY2013, on a consolidated basis company posted PBIT growth of 8% YoY to Rs.1,892 crore);
- We believe that regulatory concerns such as Australia calling on the world to match its tough new anti-tobacco marketing laws that will ban logos on cigarette packs and consistent increase in tax and duties on cigarettes have been overdone in India. Cigarettes have been a dominant contributor of tax to the government and historical trends indicate that the company has always been able to pass on the incremental tax liability by raising product prices. EBIT has been growing between 15-20% since past 8 years despite consistent increases in tax liability;
- For Q2FY2014, while revenue grew by 9% YoY to Rs.7,863 crore, net profit (after adjusting for one-time write back) increased by 14% YoY to Rs.2,098 crore aided by 117 bps improvement in operating margins and higher other income. Adjusted EBITDA grew by 12% YoY to Rs.3,018 crore with margins expanding by 117 bps YoY to 38.4%. For H1FY2014, revenue and adjusted PAT grew by 10% YoY to Rs.15,273 crore and Rs.3,797 crore respectively. For H1FY2014 EPS stood at Rs.4.80 per share as compared to Rs.4.38 per share in H1FY2013. Balance sheet remains strong with net cash and current investment (after deducting debt) stands at Rs.7,763 crore as on September 30, 2013. It has been consistently maintaining high dividend payout ratio of 55-60% every year;
- ITC's performance has been spectacular and the stock has given return of ~17% over the last one year vis-à-vis the Sensex 1-year return of ~13%. ITC remains attractive at the current levels considering higher capex and turnaround expected in non–cigarette FMCG segments. We suggest investors consider ITC from a medium to long term perspective. Going forward, we believe that price hikes taken in the cigarette segment would further help improve growth and profitability for the company. At CMP the stock is trading at 24.9x FY2015E EPS of Rs.13.4 per share. We continue to remain positive on the stock;

Financial Summary (Consolidated)

(Figures in Rs. Cr.)

Y/E Mar	Net Sales	Growth %	EBIDTA	EBIDTA (%)	Adj. PAT	Growth %	EPS (Rs.)	P/E
2012A	26,525	17.5	9,210	34.7	6,258	26.3	8.0	41.6
2013A	31,627	19.2	11,174	35.3	7,608	21.6	9.6	34.7
2014E	36,650	15.9	13,078	35.7	8,950	17.6	11.3	29.5
2015E	42,500	16.0	15,250	35.9	10,575	18.2	13.4	24.9

Source: Company, Centrum Wealth Research

Abhishek Anand, Co - Head Research
Vidrum Mehta, Research Analyst

Jk Tyre & Industries

CMP: Rs. 119

A major tyre brand with impressive performance in Mexcian operations available at attractive valuation

- JK Tyre & Industries (JKT), the third largest tyre manufacturer in India and ranked 19th in the world, has presence in 80 countries across 6 continents. JKT has 9 plants (6 in India & 3 in Mexico) with total capacity of 19.8 million tyres and utilization level of 75%. The current market cap (Rs.488 crore) of JKT is less than the cumulative advertisement expenditure incurred over the last 15 years (Rs.444 crore). Considering its 3rd largest position in the market and real value of these nominal ad expenses, we believe that the company's value of intangible asset alone would be in multiple of its current market cap;
- JKT posted strong for JK Tornel (its Mexican operations) in FY2013, with the segment reporting profit of Rs.129 crore on a net capital employed of Rs.170 crore and improved its RoCE to 76%. Revenue of JK Tornel registered 21% CAGR to Rs.1,571 crore over FY2010-2013, while PBIT witnessed 16% CAGR to Rs.129 crore during the same period. JKT had bought Tornel in FY2008 for about Rs.270 crore and turned it around immediately. Further, contribution from Mexico to its overall revenues has doubled in the last four years from 11% in FY2009 to 22% in FY2013;
- The replacement demand accounts for more than 75% of JKT's total turnover. Also, the current Truck and Bus Radialisation (TBR) in India which is just 22% is expected to increase to 45% by FY2015. This augurs well for future growth for JKT;
- Domestic Natural Rubber (NR) prices has again started softening and is down almost 19% at Rs.158.5 per kg after touching a high of Rs.196 per kg in July 2013. We expect global demand for NR to remain subdued, which is likely to bring down international NR prices going forward. This in turn is expected to bring down domestic NR prices which would be beneficial for JKT;
- On a consolidated basis, for Q2FY2014, JKT reported a net profit decline of 5% YoY to Rs.66 crore. However adjusting exceptional item, net profit increased by 55% YoY to Rs.78 crore. Revenue increased by 4% YoY to Rs.1,807 crore. While profit from Indian operations grew by 50% YoY to Rs.126 crore, Mexican operation's profit increased by 42% YoY to Rs.44 crore;
- JKT is planning an investment of Rs.1,430 crore in its Sriperumbudur plant, Chennai and would add capacity of 2.3 million tyre p.a. which is expected to complete in 2 years. Further, JK Tornel is also adding a capacity of 1.5 million tyres p.a. for its passenger car segment which would require an investment of Rs.140 crore which would be funded partly via debt and rest from internal accrual. This addition would take existing capacity of 20 million tyres p.a. to around 24 million tyres p.a. almost by FY2016;
- At CMP, the stock is trading at 1.9x FY2015E EPS of Rs.62.8. Considering JKT's strong brand value, improvement in demand, acceleration in revenue growth from its Mexican operations, we believe that there is a strong case for re-rating of P/E multiple. We recommend BUY and ascribe conservatively 2.2x FY2015E EPS of Rs.62.8 to arrive at target price of Rs.140 per share;

Financial Summary

(Figures in Rs. Cr.)

Y/E Mar	Net Sales	Growth %	EBIDTA	EBIDTA %	NPAT	Growth %	EPS (Rs.)	P/E
2012A	6,783	13.4	329	4.9	-32	-148.6	NA	NA
2013A	6,985	3.0	618	8.8	203	NA	49.4	2.4
2014E	7,850	12.4	710	9.0	235	15.8	57.2	2.1
2015E	8,900	13.4	850	9.6	258	9.8	62.8	1.9

Source: Company, Centrum Wealth Research

Abhishek Anand, VP Research
Vidrum Mehta, Research Analyst

Karur Vysya Bank (KVB) CMP: Rs. 339

A thematic play on consolidation in Old Private Sector Banks

- KVB, a nearly 100 year old bank, successfully survived business cycles and has grown consistently over the decades. KVB is known for consistent wealth creation for shareholders with market cap increasing 7.5 times in the last 10 years and 1.8 times in the last 5 years. KVB's asset quality is among the best in the industry with minimal exposure to risky assets and over 95% of its loans secured. Net Non-Performing Assets (NPAs) are very low at mere 0.50%. Over the last 10 years, its business has grown 8 fold to Rs.68,133 crore while its Gross NPA on absolute basis has remained similar levels at Rs.286 crore, as on March 31, 2013;
- KVB has posted good quarterly results: Despite the macroeconomic pressures, the Net NPAs continue to be at a comfortable territory of 0.5% much better than industry average. For Q1FY2014, the NII (Net Interest Income) and the PPP (pre-provisioning profit) grew by 30.7% YoY to Rs.332 crore and by 57.2% YoY to Rs.319 crore, respectively. The gross and net NPA (in absolute terms) increased by 23.8% YoY and 67.4% YoY, respectively. However, the gross NPA% declined by 2bps to 1.51% while the net NPA% increased by 12 bps to 0.50%, as on June 30, 2013. The bank's PCR (provision coverage ratio stood at 75.03% as on June 30, 2013;
- KVB's overall business grew by 21.5% in FY2013 with its advances growing at a faster pace of 23.1% YoY compared to the industry growth of around 16% YoY during the period. The total business of the bank stood at Rs.72,800 as on June 30, 2013. For FY2014, the bank expects its overall business to grow by about 25% YoY with focus on SME and small ticket advances to counter weak spreads in corporate segment through its existing network of 500 branches and 1,440 ATMs. In FY2016, its centenary year, we expect KVB to reward its shareholders through attractive rights/ bonus issues (in line with past trend of giving such rewards once in 3 to 4 years). KVB has been earning profits and giving dividends (at or above 100% since FY2004) uninterruptedly since inception (140% for FY2013 at Rs.14/share, yielding 4.1%);
- Successful passage of Banking Laws (Amendment) Bill, which facilitates increase in the cap on shareholders' voting rights in private banks to 26% from 10% earlier, is expected to attract foreign banks as well as the domestic NBFCs (especially the ones which aspire to apply for banking licenses) to explore the opportunities to acquire up to 26% equity stake in efficient banks like KVB. Moreover, the proposed implementation of Basel III norms, which will gradually increase the total capital requirement to 11.5% by FY2018, will not impact on KVB as it is already well capitalized with its CAR at a comfortable at 12.52% as per Basel III, as on June 30, 2013;
- KVB is expected to be a major beneficiary of the consolidation in the Old Private Sector Banking (OPSB) space as the promoters' equity stake is only 3.08% as on June 30, 2013. Past acquisitions in OPSB space were at 2.5x – 6x Adj. BV. KVB trades at very attractive valuation of 1.1x FY2014E Adj. Book Value of Rs.320. KVB will complete 100 years in 2016 and the stock price could double or triple by then as the management (with a proven track record) is targeting a business growth of 2x to Rs.1.25 lakh crore by 2016. We recommend a BUY on the stock of KVB with near term (1 year) a fair value of Rs.520/share and a long term fair value of Rs.1,200, expecting the stock price to appreciate by about 3.5 times from current level by the end of FY2016;

Financial Summary

(Figures in Rs. Cr.)

Y/E Mar	NII	Growth %	Adj. PAT	Growth %	Net NPA %	EPS in Rs.	P/E	Adj. BV	P/Adj. BV
2012A	917	19.6	502	20.1	0.33	46.8	7.2	245	1.4
2013A	1,158	26.3	550	9.7	0.37	51.3	6.6	278	1.2
2014E	1,426	23.1	687	24.7	0.35	64.1	5.3	320	1.1
2015E	1,804	26.5	868	26.5	0.40	81.0	4.2	378	0.9

Source: Company, Centrum Wealth Research

Abhishek Anand, VP Research
Payal V. Pandya Research Analyst

MOIL Limited (MOIL) CMP: Rs. 232

A deep value play in mining sector

- MOIL Ltd. (MOIL), India's largest producer of manganese ore, has a dominant position (51% share) in the domestic industry with good quality ore, centrally located mines and mine life of 22 years. It has about 44% of proven reserves with about 73.5 million tonne (MT) of reserves and resources of manganese ore – hence, it is well positioned to capitalize on long term growth prospects in the steel industry. MOIL is a debt free, cash rich company with cash balance of Rs.2,277 crore as of March 2013, which is equal to 58% of its current market cap. The cash on books translates to a strong Rs.135/share;
- MOIL currently has beneficiation plants of 0.4 MT at Dongri Buzurg mine and of 0.5 MT at Balaghat mine to upgrade the quality of ore produced. MOIL intends to expand its value-added capacity and has entered into JVs with SAIL and Rashtriya Ispat Nigam Ltd (RINL) to set up two ferro alloy plants in Chhattisgarh and Andhra Pradesh. The proposed installed capacity in case of the JV with SAIL is 1,06,000 tonne and that in case of RINL is 57,500 tonne. Further it has started expanding its existing mines to augment its production capacity to 1.5 MT by FY2016 from 1.2 MT in FY2013;
- MOIL Ltd had applied for an area of 815 hector land in Nagpur & Bhandara district of Maharashtra, out of which it has been granted a prospecting license for 597 hectors. The total lease areas held by MOIL as on 31st March 2013 is 1,803 hectors. The addition of this new area in Maharashtra would add to the production of the manganese ore to cater its demand in future and to achieve planned production of 1.5 MT by FY2017 and 2.2 MT by FY2021 (from the current level of 1.1 MT) for which an investment of Rs.1,200 crore would be made in a phased manner;
- Global manganese ore prices which had hit a low of $4.6/dmtu in Feb 2012, have gained 11% since to $5.1/dmtu currently. We believe that global prices have bottomed out on account of low inventories in China and lower production worldwide. Further, INR has also depreciated by 12% in the last 6 months making imports expensive. We believe this would be positive for MOIL. Further, the company has increased ore prices by 5% across most of its product range for the October-December 2013 due to increase in global prices. This would also be positive as it would help improve the realizations of the company;
- MOIL for Q1FY2014, reported 12.7% YoY growth in net profit to Rs.112 crore led by lower raw material costs. Revenue for the quarter declined by 1.5% YoY to Rs.239 crore. The company’s operating profit increased by 14% YoY to Rs.117 crore with margin improving by 665 bps to 48.8%. EPS for the quarter stood at Rs.6.7;
- MOIL currently trades at a 8.5x its FY2015E earnings, which is low considering its leadership position in the Indian manganese ore segment, sound financials and cash rich status. We continue to maintain a positive view on the stock with a fair value of Rs.285;

Financial Summary

(Figures in Rs. Cr.)

Y/E Mar	Net Sales	Growth %	EBIDTA	EBIDTA (%)	NPAT	Growth %	EPS (Rs.)	P/E
2012A	900	-21.1	435	48.3	411	-0.8	24.5	9.5
2013A	967	7.5	435	44.9	432	5.1	25.7	9.0
2014E	985	1.8	453	46.0	447	3.6	26.6	8.7
2015E	1,029	4.5	482	46.8	460	2.9	27.4	8.5

Source: Company, Centrum Wealth Research

Siddhartha Khemka, VP Research
Dhaval Sangoi, Research Analyst

NMDC Ltd CMP: Rs. 135

Attractive mining assets, poised to deliver impressive returns

- NMDC is the largest domestic iron ore miner by volume with annual production capacity of 32 MTPA and high grade (66% fe average) reserves of 1,160 million tonne (MT) in Chhattisgarh and Karnataka. The company sells 37% of its volumes in the form of lumps, which commands a significant premium over iron ore fines. NMDC plans to expand its capacity to 48 MTPA by FY2015E. It is also planning to enter value added products like pellet and steel in the next two years;
- The global iron ore price has increased 41% from a low of $94/tonne in September 2012 to $133/tonne currently on expectation of steel industry recovery in FY2014 and increased iron ore demand from China;
- NMDC boasts of a strong balance sheet with zero debt and cash on books exceeding Rs.22,520 crore as on September 30, 2013 (42% of current market cap). With the huge cash balance on its books, NMDC is aggressively looking at entering into partnerships and JVs with global steel players and miners to acquire stakes in various resource assets. NMDC bought 50% stake in Legacy Iron Ore, Australia, for Rs.92 crore during FY2012. NMDC is also looking at reviving its equal JV with global mining giant Rio Tinto. It is also eyeing Rs.8,000-10,000 crore from the sale of its 50% stake in the upcoming 3 MTPA steel plant in Chhattisgarh to a strategic partner to bring in necessary technologies capable of producing high-end steel products like CRGO, CRNO and auto-garde steels;
- NMDC for Q2FY2014 reported 21.5% YoY decline in net profit to Rs.1,318 crore led by lower income from operations and higher expenses. Revenue declined by 5% YoY to Rs.2,480 crore. Operating profit declined by 22.8% YoY to Rs.1,494 crore with margin contracting by 1,385 bps to 60.2%. During the quarter, selling expenses including freight grew by 72% YoY and as a % of revenue increased by 663 bps to 14.8%. Raw material costs as a % of sales also increased by 487 bps to 4.8% impacting the overall margins. For H1FY2014 while the revenue declined by 2% YoY to Rs.5,351 crore, net profit declined by 19.4% YoY to Rs.2,891 crore. Operating profit declined by 19.8% YoY to Rs.3,399 crore while the margin contracted by 1,419 bps to 63.5%. EPS for Q2FY2014 and H1FY2014 stood at Rs.3.3 and Rs.7.3 respectively. The board has declared an interim dividend of Rs.3. We expect the company to declare Rs.8 for FY2014 which would translate into an yield of 5.9%;
- NMDC achieved an output of 27.2 MT in FY2013 and is targeting an output of 30-32 MT during FY2014 (up 17.7% YoY). During H1FY2014, its production grew by 5.3% YoY to 12.9 MT while sales grew by 8.1% YoY to 13.75 MT. NMDC increased iron ore rates by Rs.100/tonne for October 2013 after nearly a year amid good domestic demand and rising prices in the global market. We believe this would help improve realizations. Further, it is planning to incur capex of Rs.2,720 crore (up 70% YoY) in FY2014 and another Rs.6,000 crore in FY2015 mainly for its steel project. We believe there may be some value unlocking through divestment of stake;
- The stock of NMDC has corrected by 31% from its 52 week high of Rs.197 and at the current price, the stock trades at 8.5x FY2015E EPS of Rs.15.8. Considering NMDC's high margins, robust free cash flow generation and cash rich balance sheet, we maintain BUY on NMDC with a fair value of Rs.170;

Financial Summary

(Figures in Rs. Cr.)

Y/E Mar	Net Sales	Growth %	EBIDTA	EBIDTA (%)	PAT	Growth %	EPS (Rs.)	P/E
2012A	11,262	-0.9	8,926	79.3	7,265	11.8	18.3	7.4
2013A	10,699	-5.0	7,372	68.9	6,342	-12.7	16.0	8.4
2014E	10,880	1.7	6,806	62.6	5,954	-6.1	15.0	9.0
2015E	11,376	4.6	7,067	62.1	6,284	5.5	15.8	8.5

Source: Company, Centrum Wealth Research

Siddhartha Khemka, VP Research
Dhaval Sangoi, Research Analyst

Tata Coffee Ltd. CMP: Rs. 1,087

Major Coffee Player available at attractive valuation

- Tata Coffee Ltd (TCL) is the largest integrated coffee plantation company in the world with business ranges from growing and curing of coffee & tea to manufacture and marketing of value added coffee products. TCL has a huge plantation area of 25,447 acres or 10,303 hectares, as of FY2013. Around 77% of standalone revenue comes from the coffee segment while Tea, Pepper and Estate supplies contribute 12%, 5% and 6% respectively;
- Acquisition of Eight O'clock coffee (EOC), helped TCL to transform from being just a commodity player into a significant branded player. EOC contributes around 65% of the consolidated top-line of TCL numbers. EOC registered sales CAGR of 10.2% to Rs.1,099 crore over FY2008-2013. EOC, re-launched its brand and introduced new products in US and Canadian market which would drive growth growing forward;
- Instant coffee share in the standalone revenue is consistently increasing, from 38% in FY2010 to 54% in FY2013 and is expected to be around 75% going ahead. The segment has higher margins and is helping the overall PAT margins to improve (from 9.8% in FY2010 to 16.8% in FY2013). Company is planning to invest more than Rs.300 crore over the next 3 years to increase its instant coffee production capacity, which may partly be achieved via acquisitions outside India;
- TCL's has made an agreement to supply coffee beans to JV "Tata Starbucks" in India and also to Starbucks operations in South East Asia. Tata Starbucks currently operates around 20 outlets and it plans to have 50 outlets in the country by 2013. Further, Starbucks (Global) approximately has 700 retails (licensed and company operated) chains in South East Asia. Supplying coffee beans to these chains would boost TCL standalone revenue going ahead;
- TCL is a net exporter and as of March 2013, its net forex earnings stood at Rs.216 crore, 36% of the company's standalone revenue and hence INR depreciation is beneficial for TCL;
- On a consolidated basis, for Q1FY2014, net profit grew by 43% to Rs 40.4 crore while total income was up 1% YoY to Rs.418 crore. EBITDA grew by 49.3% YoY to Rs.103 crore while margins stood at 24.5% as compared to 16.6% in Q1FY2013;
- EOC uses Arabica and Robusta green beans as its raw material and hence fall in their prices would be margins accretive for the company. For Q2FY2014, Average Arabica coffee prices are down by 31% YoY to 118.4 cents/lb while Robusta prices are down by 14% YoY to $1,805 tonne. Hence we believe this is positive for TCL and is expected to post better Q2FY2014 results;
- TCL stock has corrected by 35% from its 52-week high of Rs.1,675. The stock is currently trading at attractive valuation of 12.9x its consensus FY2015E EPS of Rs 84.1 per share. We believe that TCL is strong play on branded coffee retail (EOC) and growing demand for coffee & tea. Hence we are positive on the company;

Financial Summary (Consolidated)

(Figures in Rs. Cr.)

Y/E Mar	Net Sales	Growth %	EBIDTA	EBIDTA (%)	Adj. PAT	Growth %	EPS (Rs.)	P/E
2012A	1,549	19.1	192	12.4	81	11.9	43.5	25.0
2013A	1,697	9.6	316	18.6	116	43.2	62.2	17.5
2014E	1,890	11.3	363	19.2	135	16.1	72.3	15.0
2015E	2,117	12.0	414	19.6	157	16.3	84.1	12.9

Source: Bloomberg consensestimate

Zensar Technologies Ltd. CMP: Rs. 272

Mid sized company aiming for $1 billion revenue by FY2018

- Zensar Technologies Ltd. (Zensar) is a mid-sized IT company and has offering across service lines of Management Consulting, Business Application Services, Enterprise Solutions, Enterprise Collaboration Services, Testing and Assurance Services, BPM and Infrastructure Management Services;
- In Q2FY2014, on a consolidated basis, Zensar's revenue grew by 12.3% QoQ (10% growth on YoY basis) to Rs.600 crore. The adjusted net profit grew by 15.9% QoQ (net profit grew by 2.2x on a YoY basis) to Rs.71crore. The EBITDA margins increased by 319 bps QoQ to 17.1% mainly due lower SG&A expenses. On a geographical segment basis, USA, Europe and Africa grew by 10.8%, 26.3% and 24.8% respectively on a sequential basis while RoW declined by 3.7% sequentially;
- For H1FY2014 on a consolidated basis, the reported net profit grew by 51.7% YoY to Rs.132 crore. Revenue grew by 3.8% YoY to Rs.1,133 crore. The EBITDA margins stood at 15.6 %, The EPS for H1FY2014 stood at Rs.30.12 per share;
- Zensar had appointed Mckinsey as a consultant to improve its operational efficiency and is expecting to improve its margins during FY2014. In addition, Zensar, whose 70% of revenues come from onsite, is also working on increasing its offshore efforts;
- Further, the company seen the order pipeline grow by nearly 73% over the last one year to $345 million mainly on the back of good demand seen in Mobility, Cloud Computing and social networking side. Zensar added 24 new clients during H1FY2014;
- According to media, Zensar is looking for acquisition opportunities for anywhere between $25-75 million as part of its growth strategy. We believe that this would help strengthen its offerings and growth prospects going forward. In the past, it has acquired US based Akibia Inc. which is now fully integrated with Zensar and positively impacted top-line and bottom-line. The company plans to improve Akibia's margins to 10-12% over the next two years from current 8%. Further, the management also plans to increase its revenue in the Infrastructure Management Services (IMS) (contributing 25% to the total revenue) to $33 million in Q4FY2013 as compared to $29 million in Q2FY2013;
- At CMP, the stock is trading at 5x FY2015E EPS. Attractive valuation and improvement in fundamentals are the key investment arguments. Moreover, there is the possibility of consolidation in the Mid sized IT companies as this would be an important factor to drive growth. Also, sharp rupee crash may attract acquisitions within the sector which would help improve the P/E multiples for the sector. We recommend BUY on Zensar and value the stock at 6x its FY2015E EPS of Rs.54.5 to arrive at a target price of Rs.327 per share, implying an upside of 20% from current levels;

Financial Summary (Consolidated)

(Figures in Rs. Cr.)

Y/E Mar	Net Sales	Growth %	EBIDTA	EBIDTA (%)	Net Profit	Growth %	EPS (Rs.)	P/E
2012A	1,782	56.6	249	14.0	159	25.4	36.4	7.5
2013A	2,115	18.6	304	14.4	175	10.0	40.0	6.8
2014E	2,396	13.3	346	14.4	218	25.1	50.1	5.4
2015E	2,656	10.9	384	14.5	238	8.8	54.5	5.0

Source: Company, Centrum Wealth

Abhishek Anand, VP Research
Rijul Gandhi, Research Analyst

Performance of last year's Diwali recommendations

Company	CMP as on (Rs.)		Return (%)	Dividend Post Reco (Rs./share)	Dividend adj. return (%)
	Nov. 7 , 2012	Oct. 30, 2013			
Akzo Nobel India	952	841	-11.6%	80.0	-3.2%
Balmer Lawrie*	363	310	-14.6%	17.6	-9.8%
Engineers India	230	176	-23.5%	6.0	-20.9%
Indoco Remedies	66	79	19.8%	1.1	21.5%
JB Chem. & Pharma.	74	96	29.6%	3.0	33.6%
KCP Sugar & Inds.	20	17	-16.8%	1.0	-11.8%
MRF Ltd.	10,283	15,626	52.0%	28.0	52.2%
Ramco Inds. Ltd.	64	34	-46.5%	1.1	-44.8%
SBBJ	411	321	-22.0%	16.1	-18.1%
Styrolution ABS	647	383	-40.8%	4.0	-40.2%

**Adjusted post bonus issue of 3:4*

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