

HAPPY
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INVESTMENT INTERMEDIATES LTD.



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THERMAX-RIGHT SCRIP FOR PATIENT INVESTORS

Introduction

Thermax is a global solutions provider in energy and environment engineering. The company offers products and services in heating, cooling, waste heat recovery, captive power, water treatment and recycling, waste management and performance chemicals. It caters to a wide range of industries such as cement, fertilisers, petrochemicals, power, textiles, dairy, sugar, food, pharmaceuticals, refineries, distillery and aluminum, covering business areas such as boilers and heaters, absorption cooling, chemicals, water and waste solutions, power and air pollution control. It has presence in over 75 countries.

Investment rationale

The sluggishness in the industrial activity in the past 2-3 years has had its negative impact on the company with margins getting squeezed.

Increasing exports is a priority across businesses. The management recently stated the same that the focus was to try and make up for the shortfalls in domestic order bookings. The depreciation in the rupee is being viewed positively as exports become competitive and import substitution possibilities increase.

Despite sluggish revenue and pressure on margins, the company has been steadily increasing its investments in gross block. Interest cover is at 30 times as of March 13, which is excellent for a capital-intensive industry. Any improvement in the investment climate would lead to improvement in margins which has been hovering around 10-11%. For FY14 the company could be expected to post EPS of approximately ₹ 30. The current market price discounts the same by 22 times. The stock has been trading in a band of 550-630. Gradual buying near the lower band is advised for a possible price target of 700-725.

Financials

(₹ in crore)								
Particulars	Q1FY14	Q1FY13	% Chg (YoY)	Q4FY13	% Chg (QoQ)	FY13	FY12	% Chg
Net Sales	862.82	983.47	-12.27%	1,468.20	-41.23%	4,690.88	5,303.86	-11.56%
Expenditure	781.40	887.08	-11.91%	1,300.95	-39.94%	4,183.75	4,719.95	-11.36%
Ebitda	81.42	96.39	-15.53%	167.25	-51.32%	507.13	583.91	-13.15%
Other Income	8.14	18.7	-56.47%	24.43	-66.68%	73.01	70.50	3.56%
PBIDT	89.56	115.09	-22.18%	191.68	-53.28%	580.14	654.41	-11.35%
Depreciation	14.24	13.21	7.80%	14.52	-1.93%	54.86	46.96	16.82%
Interest	0.79	3.74	-78.88%	0.47	68.09%	9.65	6.55	47.33%
PBT & exceptional item	74.53	98.14	-24.06%	176.69	-57.82%	515.63	600.90	-14.19%
Exceptional Item	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Tax	24.28	30.93	-21.50%	61.37	-60.44%	165.67	194.04	-14.62%
PAT	50.25	67.21	-25.23%	115.32	-56.43%	349.96	406.86	-13.99%
No. of shares	11.92	11.92		11.92		11.92	11.92	
EBIDTA %	9.44%	9.80%	-3.72%	11.39%	-17.16%	10.81%	11.01%	-1.80%
NPM %	5.82%	6.83%	-14.78%	7.85%	-25.85%	7.46%	7.67%	-2.75%
Adjusted EPS	4.22	5.64		9.68		29.37	34.14	
Source: Company								

L&T Finance Holding Ltd.

Introduction

L&T Finance Holdings Ltd (LTFH), promoted by Larsen & Toubro, is a holding company offering a diverse range of financial products and services through its direct and indirect wholly owned subsidiaries. LTFH operation are arranged in four business segments, infrastructure finance segment, retail finance segment, corporate finance segment and investment management segment. The said business segment is carried out through wholly owned subsidiaries being L&T Infrastructure Finance Company Limited (L&T Infra), L&T Finance Limited (L&T Finance) and L&T Investment Management Limited (L&TIM).

Investment rationale

Growing aggressively through inorganic route: LTFH is growing aggressively through acquisition route as it bought several businesses in past couple of years.

- In March 2012 it bought Pacific Housing finance and rename it to L&T Housing Finance.
- In October 2012, the company bought Family Credit Ltd, which provides auto loans.
- In 2012, the company acquired Fidelity Worldwide Investment's Mutual fund business.

This acquisition has helped LTFH to expand its business, product and access to individual customers. Currently, LTFH has 100+ branches across 23 states, 500+ rural points of presence. Now it has pan India reach to cater to customers across rural, corporate and SME segments.

Strong contender for a banking license: RBI is in the final stage of distributing new banking license, we believe the L&T group (through L&T FH) could be a strong contender for receiving a license. One of the main criteria in RBI's discussion paper was industrial and business houses promoting banks must have diversified ownership. Considering that any licensee would in our view need to have deep pockets and strong reputation, professional management. Hence, we believe amongst various corporate who have evinced interest in a banking foray, the L&T group (through LTFH) could emerge as a meaningful contender for receiving a banking license.

Valuation:

LTFH has witnessed robust earnings growth during Q2 FY14, with strong growth in overall loan book driven by sequential increase in disbursements in both financing subsidiaries. LTFH is well positioned to take the advantage of rural credit growth. At the CMP of ₹82, the stock is trading at 18.74x its TTM EPS of ₹4.27 and 3.85x its book value of ₹ 20.76. We assign 20x FY14E EPS of ₹ 5. We reiterate our 'Accumulate' call on the stock with a target price of ₹100.

Financials

(₹ in crore)								
Particulars	Q2FY14	Q2FY13	% Chg (YoY)	Q1FY14	% Chg (QoQ)	FY13	FY12	% Chg
Net Sales	1,232.63	935.15	31.81%	1,158.81	6.37%	3,956.76	2,980.90	32.74%
Expenditure	306.44	174.36	75.75%	273.80	11.92%	838.31	555.77	50.84%
Ebitda	926.19	760.79	21.74%	885.01	4.65%	3,118.45	2,425.13	28.59%
Other Income	87.433	6.52	1241.00%	24.25	260.55%	49.702	26.40	88.24%
PBIDT	1,013.63	767.31	32.10%	909.26	11.48%	3,168.15	2,451.53	29.23%
Depreciation	19.786	15.298	29.34%	18.291	8.17%	65.13	60.04	8.47%
Interest	771.529	545.391	41.46%	689.404	11.91%	2,332.41	1,707.24	36.62%
PBT & exceptional item	222.31	206.62	7.59%	201.57	10.29%	770.62	684.25	12.62%
Exceptional Item	0.00	0.00	0.00	0.00	0.00	217.99	0.00	0.00
Tax	67.01	62.881	6.57%	56.868	17.83%	259.42	229.45	13.06%
PAT	155.30	143.74	8.04%	144.70	7.33%	729.19	454.80	60.33%
No. of shares	171.69	171.69		171.69		171.69	171.69	
EBIDTA %	75.14%	81.36%	-7.64%	76.37%	-1.61%	78.81%	81.36%	-3.12%
NPM %	12.60%	15.37%	-18.03%	12.49%	0.90%	18.43%	15.26%	20.79%
Adjusted EPS	0.90	0.84		0.84		4.25	2.65	
Source: Company								

Mahindra & Mahindra Financial Services Ltd.

Introduction

Mahindra & Mahindra Financial Services Limited (MMFSL), a subsidiary of Mahindra & Mahindra Limited was incorporated on January 1, 1991. Being one of the leading NBFCs, the company provides vehicle finance (for utility vehicles, tractors, CVs, construction equipment, and Cars) and housing finance, focusing on the rural and semi-urban segments. MMFSL has a wide distribution network of 675 branches as on June 30, 2013 spanning 80% of the districts in India. MMFSL is one of the leading rural financiers with AUM of ₹295.39 bn as on June 30, 2013

Investment rationale

Strong Distribution Network: As on June 2013, MMFSL has 675 branches covering ~80% of the districts in India. This spells a huge advantage as such a strong distribution network in rural areas creates high entry barriers for the competitors. Widespread rural presence, strong parentage, and low loan disbursement time compared with banks has conferred a strong brand recall upon the company. Despite continuous branch expansion, the cost to income ratio has declined from 36.3% in FY11 to 32.6% in FY13 signaling operational efficiency.

Rural Advantage: More than 60% of the Indian population resides in rural areas, which remain a huge untapped opportunity. MMFSL is expected to benefit from growing per capita income in rural areas resulting due to the increasing focus of the government, launch of various rural development schemes such as NREGA, and the rising Minimum Support Prices for various crops. The increasing disposable income boosts consumption demand and in turn increases demand for vehicles and farm equipment.

Valuation:

MMFS has well placed asset-liability management profile coupled adequate pricing power, which allows cost increase to be passed on to its customer. The structural and cyclical drivers are conducive for long-term growth of the company. At the CMP of ₹280, the stock is trading at 17.20x its TTM EPS of ₹16.28 and 3.57x its book value of ₹ 78.34. We assign 18x FY14E EPS of ₹ 18. We reiterate our 'Accumulate' call on the stock with a target price of ₹ 325.

Financials

(₹ in crore)								
Particulars	Q2FY14	Q2FY13	% Chg (YoY)	Q1FY14	% Chg (QoQ)	FY13	FY12	% Chg
Net Sales	1,285.80	969.79	32.58%	1,164.68	10.40%	4,094.99	2,884.90	41.95%
Expenditure	377.80	278.46	35.67%	358.71	5.32%	1,096.58	788.88	39.00%
Ebitda	908.00	691.33	31.34%	805.97	12.66%	2,998.41	2,096.02	43.05%
Other Income	4.879	5.834	-16.37%	5.976	-18.36%	17.974	25.46	-29.41%
PBIDT	912.88	697.17	30.94%	811.94	12.43%	3,016.39	2,121.48	42.18%
Depreciation	6.256	5.928	5.53%	6.625	-5.57%	23.66	20.29	16.63%
Interest	547.746	401.55	36.41%	494.757	10.71%	1,670.59	1,139.90	46.56%
PBT & exceptional item	358.88	289.69	23.88%	310.56	15.56%	1,322.14	961.30	37.54%
Exceptional Item	0.00	0.00	0.00	0.00	0.00	30.52	0.00	0.00
Tax	123.565	96.716	27.76%	106	16.57%	423.75	316.78	33.77%
PAT before minority int.	235.31	192.97	21.94%	204.56	15.03%	928.91	644.52	44.12%
Minority interest	2.82	0.47	505.38%	1.51		1.87	1.02	82.81%
PAT after minority int.	232.50	192.51	20.77%	203.06	0.15	927.04	643.50	44.06%
No. of shares	56.88	10.36		56.88		56.88	10.36	
EBIDTA %	70.62%	71.29%	-0.94%	69.20%	2.05%	73.22%	72.65%	0.78%
NPM %	18.30%	19.90%	-8.03%	17.56%	4.20%	22.68%	22.34%	1.53%
Adjusted EPS	4.14	18.62		3.60		16.33	62.20	

Source: Company

Note:



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Disclosure of Interest	Thermax Ltd. L&T Finance Holding Ltd. Mahindra & Mahindra Financial Services Ltd
1. Analyst ownership of the stock	NO
2. Broking Relationship with the company covered	NO
3. Investment Banking relationship with the company covered	NO
4. Discretionary Portfolio Management Services	NO

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