

Ashok Leyland

Ashoka Buildcon

Bajaj Auto

CESC

HCL Tech

HSIL

Infosys

IRB Infrastructure

Jagran Prakashan

Jyothy Laboratories

Mahindra & Mahindra

Nestle India

NIIT Tech

Phoenix Mills

Power Grid Corporation

Tecpro Systems

## Here's the roster for the PINC PowerPicks:

| Company             | Sector            | CMP (Rs) | Recom.     | TP (Rs) | Upside (%) | Market Cap (Rs bn) | P/E (x) |       | EV/EBITDA (x) |       | Earnings gr. (%) | ROE (%) | ROCE (%) |
|---------------------|-------------------|----------|------------|---------|------------|--------------------|---------|-------|---------------|-------|------------------|---------|----------|
|                     |                   |          |            |         |            |                    | FY12E   | FY13E | FY12E         | FY13E | (FY11-13E)       | FY12E   | FY12E    |
| Ashok Leyland       | Auto              | 25       | BUY        | 38      | 54         | 66                 | 9.9     | 8.1   | 7.0           | 6.2   | 13.4             | 23.7    | 17.9     |
| Ashoka Buildcon     | Infrastructure    | 185      | BUY        | 321     | 73         | 10                 | 10.0    | 7.3   | 5.5           | 4.2   | 15.3             | 10.5    | 11.0     |
| Bajaj Auto          | Auto              | 1,648    | BUY        | 1,850   | 12         | 477                | 15.3    | 13.4  | 11.0          | 9.3   | 16.8             | 54.5    | 68.5     |
| CESC                | Power Utilities   | 216      | BUY        | 346     | 60         | 27                 | 5.5     | 5.3   | 4.5           | 4.6   | 3.6              | 9.8     | 11.3     |
| HCL Tech            | IT services       | 412      | BUY        | 490     | 19         | 289                | 11.7    | 11.1  | 6.2           | 6.0   | 21.9             | 24.7    | 24.5     |
| HSIL                | Diversified       | 148      | BUY        | 270     | 82         | 10                 | 7.4     | 5.4   | 4.5           | 3.5   | 45.7             | 18.2    | 14.4     |
| Infosys             | IT services       | 2,740    | ACCUMULATE | 2,950   | 8          | 1,566              | 18.9    | 16.8  | 12.5          | 10.9  | 17.0             | 25.6    | 30.8     |
| IRB Infrastructure  | Infrastructure    | 144      | BUY        | 216     | 50         | 48                 | 9.9     | 11.5  | 7.8           | 7.5   | (4.2)            | 18.2    | 19.9     |
| Jagran Prakashan    | Media             | 95       | BUY        | 148     | 56         | 30                 | 12.4    | 11.9  | 9.7           | 8.4   | 10.1             | 29.8    | 31.2     |
| Jyothy Laboratories | FMCG              | 152      | BUY        | 212     | 40         | 12                 | 27.1    | 12.1  | 14.7          | 8.9   | 21.3             | 8.5     | 10.5     |
| Mahindra & Mahindra | Auto              | 676      | BUY        | 877     | 30         | 397                | 14.8    | 12.8  | 10.8          | 9.1   | 10.5             | 23.7    | 25.9     |
| Nestle India        | FMCG              | 4,161    | SELL       | 3,578   | (14)       | 401                | 41.0    | 34.2  | 28.6          | 23.7  | 19.8             | 81.2    | 102.7    |
| NIIT Tech           | IT services       | 195      | BUY        | 285     | 46         | 11                 | 6.2     | 5.4   | 3.6           | 2.8   | 7.3              | 22.0    | 20.3     |
| Phoenix Mills       | Real Estate       | 170      | BUY        | 265     | 56         | 25                 | 15.7    | 14.2  | 13.6          | 11.6  | 43.1             | 9.0     | 6.4      |
| Power Grid Corp.    | Power Utilities   | 96       | BUY        | 120     | 25         | 445                | 14.8    | 12.7  | 10.5          | 9.5   | 16.7             | 13.5    | 9.5      |
| Tecpro Systems      | Material Handling | 156      | BUY        | 375     | 140        | 8                  | 5.0     | 4.2   | 4.3           | 4.1   | 18.9             | 21.4    | 23.1     |



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

### What moved in and what moved out:

In our December issue of PINC Power Picks, we have introduced CESC and HSIL.

We have excluded Sintex Industries due to near-term concerns pertaining to currency volatility and overseas revenue exposure.

15th December 2011

## ASHOK LEYLAND: BUY, TP-Rs38 (54% upside)

### What's the theme?

Despite the macroeconomic headwinds and a high base, the domestic MHCV Truck segment has grown 8.9% YoY in H1FY12 aided by an increase in freight rates. Ashok Leyland has underperformed the industry with a 10% decline in volumes in the segment which is primarily attributable to the high base of H1FY11. However, we expect a rebound in H2FY12 with a 21% growth in MHCV truck volumes and a 15.6% growth in overall volumes.

### What will move the stock?

1) Ashok Leyland dispatches in Q3FY11 has been lower due to the pre-buying and pipeline stocking related to change in emission norms. We expect Ashok Leyland volumes to grow 15.6% in H2FY12 partly aided by the low base of Q3FY11. 2) Management expects to increase contribution from Pantnagar facility from 13k units in H1FY12 to 20k units in H2FY12. We expect FY12 margins at 10.8% driven by higher contribution from the Pantnagar facility which is eligible for fiscal benefits. 3) Benefits of Pantnagar operations are already visible in AL's profitability during H1FY12 wherein despite inflationary pressures and low volumes, it has managed to have operating margins at ~10%. 4) Ashok Leyland's JV with Nissan for LCVs launched its first product 'Dost' recently. The company targets a sale of 10k units in H2FY12.

### Where are we stacked versus consensus?

Our earnings estimates for FY11 and FY12 are Rs2.5 and Rs3.1 respectively. Our FY12 earnings estimate is 9% higher than the consensus estimate of Rs2.3. We have a 'BUY' recommendation on the stock with a target price of Rs38, which discounts FY13E earnings by 12.5x.

### What will challenge our target price?

1) Increase in prices of raw materials such as steel and rubber affecting profitability; 2) Significant slowdown in industrial activity leading to a drop in freight rates and operator profitability.

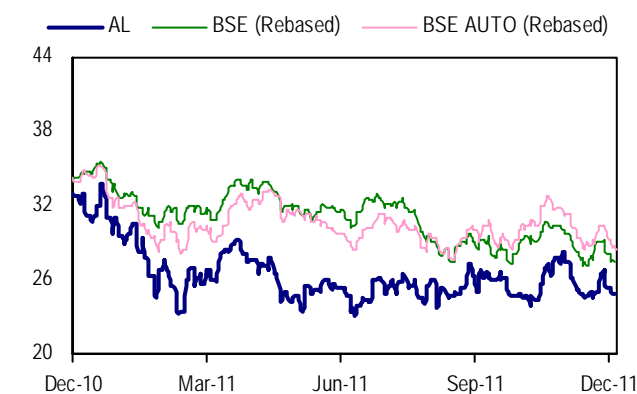
| (Rs mn)          | FY10   | FY11    | FY12E   | YoY %    | FY13E   | YoY %    |
|------------------|--------|---------|---------|----------|---------|----------|
| Net Sales        | 72,447 | 111,177 | 129,095 | 16.1     | 145,380 | 12.6     |
| EBITDA           | 7,596  | 12,176  | 13,992  | 14.9     | 15,913  | 13.7     |
| EBITDA Marg. (%) | 10.5   | 11.0    | 10.8    | (10)bps  | 10.9    | 10 bps   |
| Adj. Net Profit  | 4,237  | 6,313   | 6,687   | 5.9      | 8,119   | 21.4     |
| Dil. EPS (Rs)    | 1.6    | 2.4     | 2.5     | 5.9      | 3.1     | 21.4     |
| PER (x)          | 15.6   | 10.5    | 9.9     | -        | 8.1     | -        |
| ROE (%)          | 19.0   | 25.2    | 23.7    | (150)bps | 18.2    | (560)bps |
| ROCE (%)         | 13.7   | 18.4    | 17.9    | (50)bps  | 18.2    | 30 bps   |

Sector: Auto

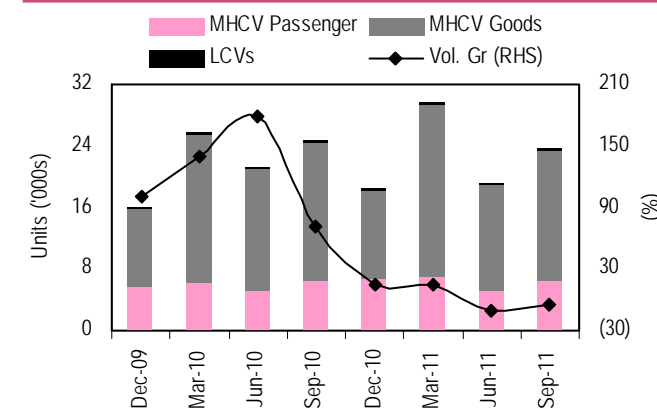
CMP: Rs25; Mcap: Rs66bn

Bloomberg: AL IN; Reuters: ASOK.BO

### Price performance



### Sales volume



## ASHOKA BUILDCON: BUY, TP-Rs321 (73% upside)

### What's the theme?

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

### What will move the stock?

- 1) The P/E deal, which is likely by March 2012, wherein ABL will offload stake in a bouquet of 7-8 large BoT road assets. We believe ABL may offload approximately 20-25% stake for a value of Rs6-7bn.
- 2) Going ahead we expect ABL to substantially improve its EPC execution as OB has improved to Rs50bn. We estimate EPC revenue to grow by 23.5% in FY12E and then improve by 34.2% in FY13E.

### Where are we stacked versus consensus?

Our FY12 and FY13 earnings estimates are Rs18.5 and Rs25.5, 14.2% and 16.3% lower than consensus estimates respectively. We expect top-line growth of 29.3% and 30.1% to Rs16.8bn and Rs21.9bn in FY12E and FY13E vs. consensus forecasts of 28.2% and 32.5% to Rs16.7bn and Rs22.1bn, respectively. We value BOT (on a DCF basis) at FY12E and FY13E equity multiples of 1.6x and 1.1x, respectively. Our SOTP-based target price is Rs321, where BOT is valued at Rs198 and EPC at Rs122 (8x FY12E earnings). The stock offers an upside potential of 73.4% at our SOTP-based target price of Rs321 vs. consensus target of Rs323.

### What will challenge our target price?

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

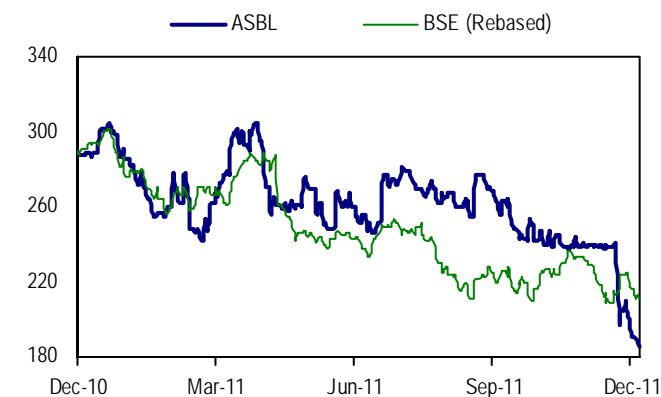
| (Rs mn)          | FY10  | FY11   | FY12E  | YoY %     | FY13E  | YoY %    |
|------------------|-------|--------|--------|-----------|--------|----------|
| Net Sales        | 7,956 | 13,020 | 16,835 | 29.3      | 21,900 | 30.1     |
| EBITDA           | 2,143 | 2,522  | 3,629  | 43.9      | 4,785  | 31.9     |
| EBITDA Marg. (%) | 26.9  | 19.4   | 21.6   | 219 bps   | 21.8   | 1.4 bps  |
| Adj. Net Profits | 804   | 1,008  | 976    | (3.2)     | 1,341  | 37.5     |
| Dil. EPS (Rs)    | 17.6  | 19.2   | 18.5   | (3.2)     | 25.5   | 37.5     |
| PER (x)          | 10.5  | 9.7    | 10.0   | -         | 7.3    | -        |
| ROE (%)          | 20.6  | 31.2   | 10.5   | (2074)bps | 12.8   | 233 bps  |
| ROCE (%)         | 12.5  | 17.2   | 11.0   | (623)bps  | 9.4    | (156)bps |

Sector: Infrastructure

CMP: Rs185; Mcap: Rs10bn

Bloomberg: ASBL IN; Reuters: AB DL.BO

### Price performance



### SOTP

| Particulars                  | Rs/Share    | Percentage |
|------------------------------|-------------|------------|
| BOT Operational (SPV)        | 89          | 27.8%      |
| BOT Operational (Standalone) | 31          | 9.6%       |
| BOT Under construction       | 78          | 24.5%      |
| Construction business        | 122         | 38.2%      |
| <b>Total</b>                 | <b>321</b>  |            |
| <b>Upside (%)</b>            | <b>73.4</b> |            |

## BAJAJ AUTO: BUY, TP-Rs1,850 (12% upside)

### What's the theme?

The high-margin brands Pulsar and Discover, now account for 70% of the Bajaj Auto's motorcycle sales thus validating its brand-centric strategy. The company is scheduled to launch a complete upgrade of the Pulsar family and KTM branded motorcycles in Q4FY12. In addition, continued demand for three-wheelers and robust exports would help Bajaj Auto achieve volume growth of 16.2% in FY12E and 11.9% in FY13E. Export profitability is all set to get a boost due to the price hikes taken and the rupee depreciation.

### What will move the stock?

1) The two-wheeler industry is less sensitive to current macro headwinds. We expect Bajaj Auto to maintain market share with domestic volume growth of 16%, in line with the industry. 2) The company undertook a price hike of 3.5% in all export geographies to compensate for the lower export benefit under the Duty drawback scheme. The rupee depreciation, increase in benefit rate under the Focused Market Scheme (FMS) and an additional 1% special incentive till FY12 are set to substantially boost export profitability. 3) The company recently launched Boxer-150, thus reviving the Boxer brand, which is targeted at the rural segment (where Hero MotoCorp is the dominant player) and 4) With continued contribution from three wheelers and the high margin motorcycles, we expect BJAUT to restrict contraction in margins to 70bps in FY12.

### Where are we stacked versus consensus?

Our FY12 and FY13 earnings estimates are Rs107.5 and Rs123.3, respectively. We have a 'BUY' recommendation on the stock with a target price of Rs1,850 discounting FY13E earnings at 15x. Our FY12 earnings estimate is 1.2% higher than the consensus estimate of Rs106.2.

### What will challenge our target price?

1) Significant increase in prices of commodities such as steel and rubber might exert pressure on margins.

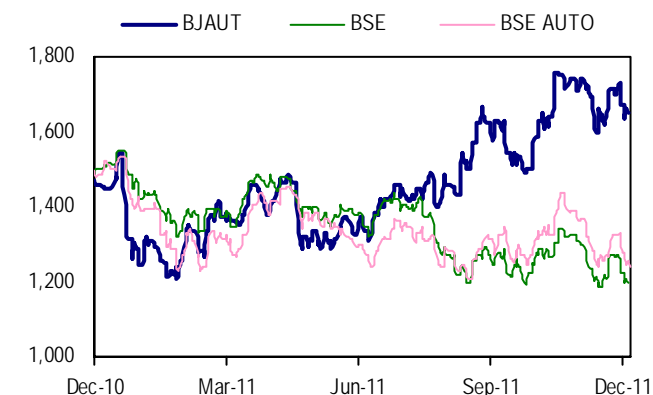
| (Rs mn)          | FY10    | FY11    | FY12E   | YoY %     | FY13E   | YoY %    |
|------------------|---------|---------|---------|-----------|---------|----------|
| Net Sales        | 115,085 | 159,981 | 192,131 | 20.1      | 218,257 | 13.6     |
| EBITDA           | 25,752  | 33,836  | 39,090  | 15.5      | 44,112  | 12.8     |
| EBITDA Marg. (%) | 21.6    | 20.4    | 19.7    | (70)bps   | 19.6    | (10)bps  |
| Adj. Net Profit  | 18,118  | 26,152  | 31,106  | 18.9      | 35,691  | 14.7     |
| Dil. EPS (Rs)    | 62.6    | 90.4    | 107.5   | 18.9      | 123.3   | 14.7     |
| PER (x)          | 26.3    | 18.2    | 15.3    | -         | 13.4    | -        |
| ROE (%)          | 78.5    | 66.7    | 54.5    | (1220)bps | 48.0    | (660)bps |
| ROCE (%)         | 65.4    | 73.4    | 68.5    | (490)bps  | 61.4    | (710)bps |

Sector: Auto

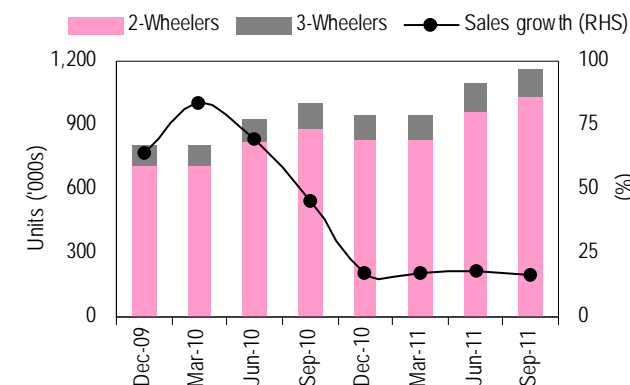
CMP: Rs1,648; Mcap: Rs477bn

Bloomberg: BJAUT IN; Reuters: BAJA.BO

### Price performance



### Sales volume



## CESC: BUY, TP-Rs346 (60% upside)

### What's the theme?

CESC is one of the most efficient power utilities operating at more than 85% PLF. It plans to nearly double its installed capacity to 2.4GW by FY15 by adding 600MW each at Chandrapur and Haldia - power from these projects will be sold largely on long term basis. Unlike its private sector peers, CESC currently has no merchant exposure and operates all existing units under a regulatory framework - thus aiding steady cash flow. All power generated from these units is sold to its distribution arm, thus reducing risk of backing-down and default. We believe a robust base business would generate sufficient cash to fund capex of the consolidated entity and Spencer's losses. At the current market price, the generating business is available at 0.5x FY13 book, thus making CESC the most attractive generator in our coverage universe.

### What will move the stock?

- 1) Approval of FY12 tariff order, 2) Lower than expected cash infusion by CESC into Spencer's Retail and 3) Faster than expected turnaround of Spencer's Retail.

### Where are we stacked versus consensus?

Our FY12 & FY13 PAT estimates are in line with consensus. We value various projects - both existing and future - on FCFE basis to arrive at a target price of Rs346 (terminal growth rate 3% and cost of equity 15%)

### What will challenge our target price?

- 1) Delay in approval of tariff order
- 2) Higher cash infusion by CESC into Spencer's Retail due to increased losses
- 3) Delay in bringing in a strategic investor into Spencer's Retail
- 4) Delay in turnaround of Spencer's Retail

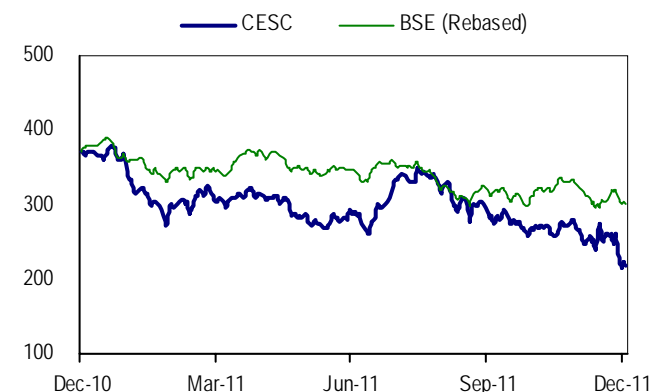
| (Rs mn)          | FY10   | FY11   | FY12E  | YoY %    | FY13E  | YoY %   |
|------------------|--------|--------|--------|----------|--------|---------|
| Net Sales        | 33,584 | 40,105 | 46,251 | 15.3     | 48,250 | 4.3     |
| EBITDA           | 9,533  | 12,030 | 13,005 | 8.1      | 13,487 | 3.7     |
| EBITDA Mar (%)   | 28.4   | 30.0   | 28.1   | (188)bps | 28.0   | (17)bps |
| Adj. Net Profits | 4,233  | 4,781  | 4,946  | 3.5      | 5,133  | 3.8     |
| Dil. EPS (Rs)    | 33.7   | 38.1   | 39.4   | 3.5      | 40.9   | 3.8     |
| PER (x)          | 6.4    | 5.7    | 5.5    | -        | 5.3    | -       |
| RoE (%)          | 10.6   | 10.5   | 9.8    | (70)bps  | 9.4    | (46)bps |
| ROCE (%)         | 10.0   | 11.2   | 11.3   | 7 bps    | 10.8   | (46)bps |

Sector: Power Utilities

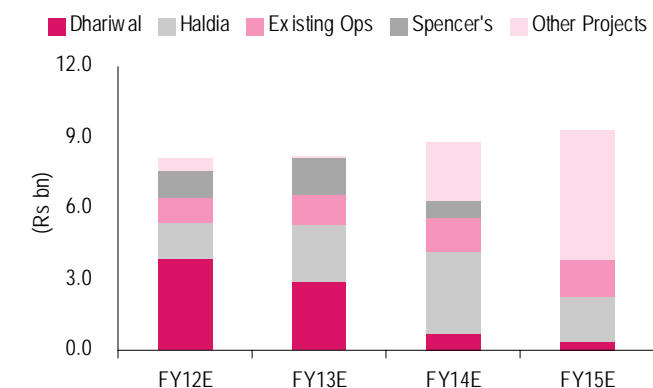
CMP: Rs216; Mcap: Rs27bn

Bloomberg: CESC IN; Reuters: CESC.BO

### Price performance



### Sufficient cashflow to meet capex and Spencer's losses



## HCL TECH: BUY, TP-Rs490 (19% upside)

### What's the theme?

HCL Tech has capability to win new projects due to its strengths in IMS and package implementation (through AXON) particularly when project restructuring deals are growing faster. HCL Tech is focused on developing capabilities in Enterprise Mobility, Cloud Computing and Analytics to complement its existing offerings and is looking for acquisitions for the same. It has potential to improve margins on the back of an improving employee pyramid and scale efficiencies.

### What will move the stock?

1) Outperformance in emerging verticals such as energy and utilities and retail; 2) Higher EBITDA margins in the near term, supported by higher offshoring and utilisation; 3) Support to EBITDA margins from improvement in the employee pyramid (last 4-5 quarters have seen huge lateral addition, which is likely to be subdued, going ahead); 4) Absence of forex losses (cash-flow hedges) a positive for the bottom line; 5) Relatively cheaper valuation compared to other large firms

### Where are we stacked versus consensus?

Our revenue, EBITDA margin and EPS estimates for FY12 are higher than consensus by 2.1%, 78 bps and 9.3% respectively. For FY13; our revenue, EBITDA margin and EPS estimates marginally lag the consensus by 1.3%, 39bps and 1% respectively.

### What will challenge our target price?

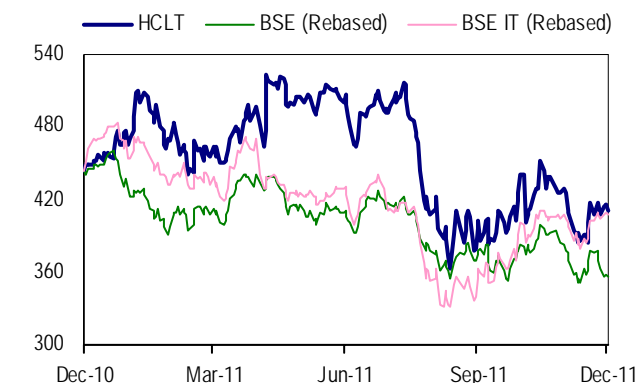
1) Slower recovery in the US economy; 2) Appreciation of INR vs. USD and strengthening of USD against EUR; and 3) Higher attrition and wage increments.

| (Rs mn)          | FY10    | FY11    | FY12E   | YoY %   | FY13E   | YoY %    |
|------------------|---------|---------|---------|---------|---------|----------|
| Net Sales        | 125,650 | 160,342 | 205,171 | 28.0    | 229,508 | 11.9     |
| EBITDA           | 25,729  | 27,488  | 37,577  | 36.7    | 38,352  | 2.1      |
| EBITDA Marg. (%) | 20.5    | 17.1    | 18.3    | 117 bps | 16.7    | (160)bps |
| Adj. Net Profits | 13,029  | 17,095  | 24,239  | 41.8    | 25,515  | 5.3      |
| Dil. EPS (Rs)    | 18.9    | 24.5    | 34.6    | 41.1    | 36.5    | 5.3      |
| PER (x)          | 21.3    | 16.5    | 11.7    | -       | 11.1    | -        |
| ROE (%)          | 18.5    | 20.3    | 24.7    | 445 bps | 21.5    | (318)bps |
| ROCE (%)         | 19.8    | 20.0    | 24.5    | 451 bps | 21.2    | (331)bps |

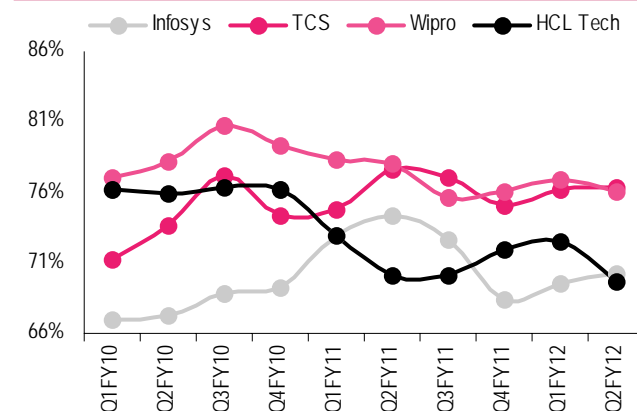
\* June year end

Sector: Information Technology  
 CMP: Rs412; Mcap: Rs289bn  
 Bloomberg: HCLT IN; Reuters: HCLT.BO

### Price performance



### Utilisation rates - scope for expansion



## HSIL: BUY, TP-Rs270 (82% upside)

### What's the theme?

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

### What will move the stock?

- Growth in demand of the user industries of sanitaryware and glass will help engender a CAGR of 30% and 23% for sanitary and glass over FY11-FY13e.
- Margin expansion of 317bps to 22.0% in FY13e over FY11 on increased realisation, reduced outsourcing and fuel cost.
- Improvement in FCF in FY12-FY13e through better operational efficiency.

### Where are we stacked versus consensus?

Our earnings estimates (EPS) for FY12 and FY13 are Rs20.1 and Rs27.4, respectively. Our FY12 earnings estimate is 11% higher than consensus estimate of Rs18.1. We have a 'BUY' recommendation on the stock with a target price of Rs270, which discounts FY12e earnings by 13.5x.

### What will challenge our target price?

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

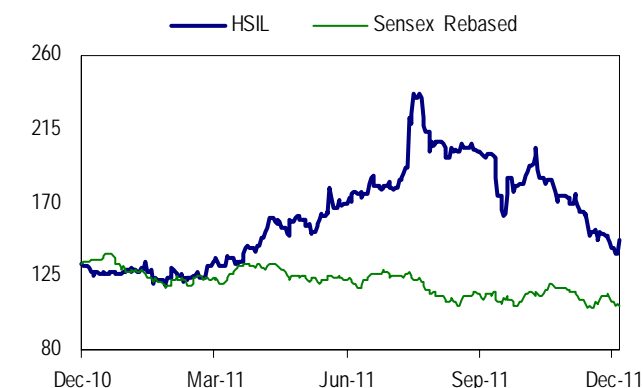
| (Rs mn)          | FY10  | FY11   | FY12E  | YoY %   | FY13E  | YoY %   |
|------------------|-------|--------|--------|---------|--------|---------|
| Net Sales        | 8,042 | 10,785 | 14,002 | 29.8    | 17,181 | 22.7    |
| EBITDA           | 1,458 | 2,064  | 3,015  | 46.1    | 3,817  | 26.6    |
| EBITDA Marg. (%) | 17.8  | 18.8   | 21.3   | 245 bps | 22.0   | 72 bps  |
| Adj. Net Profits | 436   | 782    | 1,326  | 69.6    | 1,810  | 36.5    |
| Dil. EPS (Rs)    | 7.9   | 12.9   | 20.1   | 55.5    | 27.4   | 36.6    |
| PER (x)          | 18.6  | 11.4   | 7.4    | -       | 5.4    | -       |
| ROE (%)          | 12.4  | 13.7   | 18.2   | 443 bps | 20.8   | 262 bps |
| ROCE (%)         | 9.1   | 10.5   | 14.4   | 391 bps | 15.5   | 105 bps |

Sector: Diversified

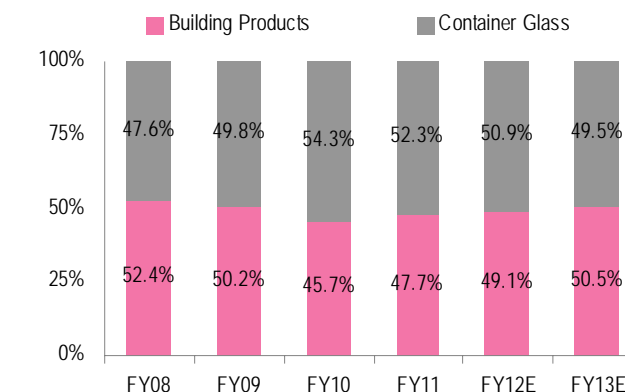
CMP: Rs148; Mcap: Rs10bn

Bloomberg: HSI IN; Reuters: HSNT.BO

### Price performance



### Revenue breakup





## INFOSYS: ACCUMULATE, TP-Rs2,950 (8% upside)

### What's the theme?

We recommend staying with the leader during uncertain times. Infosys has a full-services portfolio with exposure to well-diversified verticals. The new management appears more aggressive on aspects such as inorganic growth and is looking for acquisitions in healthcare vertical and for increasing presence in Europe.

### What will move the stock?

1) Hiring guidance intact for FY12 (campus joiners at 27,500 and overall hiring of 45,000 at last year's closing headcount of 130,820); 2) Utilization levels low; can be improved via lower lateral hiring to match the existing demand, which will result in better margins; 3) Salary increment will be lower going ahead and rupee depreciation, is expected to support margins 4) Potential for utilization of huge cash (~USD3.9bn) for acquisitions; the management indicated its interest in large-ticket acquisition to plug the gaps and drive growth; and 5) In case of recovery in the global economy, clients will stick to established and reliable brands such as Infosys with excellent execution skills.

### Where are we stacked versus consensus?

Our revenue estimate is marginally higher than consensus at 0.5% for FY12 and is in line with consensus for FY13. EBITDA margin estimates are higher by 110bps for FY12 and 28 bps for FY13. While our EPS estimate is 2% higher than consensus EPS for FY12, it is in line with consensus for FY13.

### What will challenge our target price?

1) Slower recovery in the US economy; 2) Appreciation of INR vs. USD and strengthening of USD against EUR; and 3) Higher attrition and wage increments

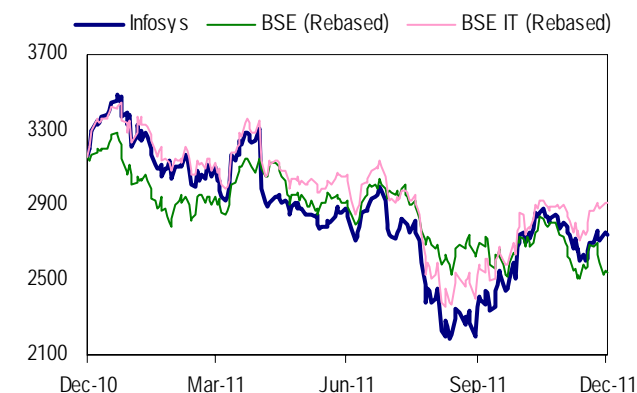
| (Rs mn)          | FY10    | FY11    | FY12E   | YoY %   | FY13E   | YoY %    |
|------------------|---------|---------|---------|---------|---------|----------|
| Net Sales        | 227,420 | 275,010 | 339,184 | 23.3    | 391,079 | 15.3     |
| EBITDA           | 78,520  | 89,640  | 109,699 | 22.4    | 121,280 | 10.6     |
| EBITDA Marg. (%) | 34.5    | 32.6    | 32.3    | (25)bps | 31.0    | (133)bps |
| Adj. Net Profits | 62,340  | 68,230  | 82,599  | 21.1    | 93,382  | 13.1     |
| Dil. EPS (Rs)    | 109.2   | 119.4   | 144.6   | 21.1    | 163.4   | 13.1     |
| PER (x)          | 25.1    | 22.9    | 18.9    | -       | 16.8    | -        |
| ROE (%)          | 27.0    | 26.3    | 25.6    | (68)bps | 24.4    | (122)bps |
| ROCE (%)         | 30.0    | 31.2    | 30.8    | (40)bps | 28.4    | (243)bps |

Sector: Information Technology

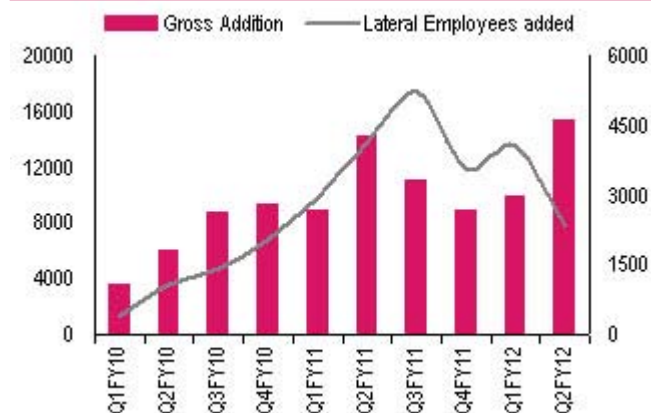
CMP: Rs2,740; Mcap: Rs1,566bn

Bloomberg: INFO IN; Reuters: INFY BO

### Price performance



### Strong employee addition



## IRB INFRASTRUCTURE: BUY, TP-Rs216 (50% upside)

### What's the theme?

Despite the infra segment languishing due to fundamental issues, we believe road BoT segment would fare well and we prefer IRB due to its unique ability to manage and win competitive projects. We strongly believe in IRB's ability to grow and sustain its strong business model.

### What will move the stock?

- 1) NHAI is targeting to award 7,300km of projects in FY12. With the Rs35bn Ahm-Vado project under its belt, the road ahead becomes easier for IRB as it becomes choosier in bidding. We expect it to maintain an 8% share in NHAI projects.
- 2) IRB can well manage to garner USD1bn order book per annum without any risk of dilution, as internal accruals and debt funding from parent entity would suffice requirement.

### Where are we stacked versus consensus?

Our FY12 and FY13 earnings estimates are Rs14.5 and Rs12.5, 1% and 21.5% lower than consensus estimates respectively. We expect top-line growth of 28.2% and 22.3% to Rs31.3bn and Rs38.2bn in FY12 E and FY13E vs. consensus forecasts of 30.7% and 31.1% to Rs31.8bn and Rs41.7bn, respectively.

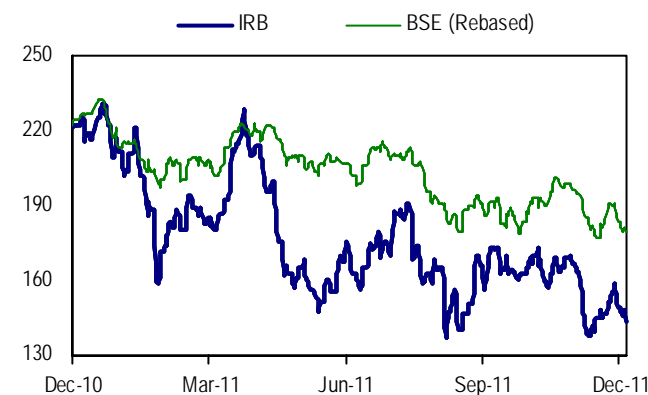
### What will challenge our target price?

- 1) Lower IRR owing to further increase in interest rates;
- 2) Strain on the balance sheet from infusion of Rs12.8bn in equity in Ahm-Vado project;
- 3) Lower traffic growth;
- 4) adverse impact on IRB's tolling charges from any change in the government policy.

| (Rs mn)          | FY10   | FY11   | FY12E  | YoY %    | FY13E  | YoY %    |
|------------------|--------|--------|--------|----------|--------|----------|
| Net Sales        | 17,390 | 24,381 | 31,257 | 28.2     | 38,220 | 22.3     |
| EBITDA           | 8,331  | 10,939 | 13,190 | 20.6     | 15,267 | 15.7     |
| EBITDA Marg. (%) | 47.9   | 44.9   | 42.2   | (267)bps | 39.9   | (225)bps |
| Adj. Net Profits | 4,196  | 4,524  | 4,807  | 6.3      | 4,149  | (13.7)   |
| Dil. EPS (Rs)    | 12.6   | 13.6   | 14.5   | 6.3      | 12.5   | (13.7)   |
| PER (x)          | 11.4   | 10.6   | 9.9    | -        | 11.5   | -        |
| ROE (%)          | 22.3   | 20.2   | 18.2   | (201)bps | 13.7   | (447)bps |
| ROCE (%)         | 20.4   | 21.5   | 19.9   | (160)bps | 15.1   | (483)bps |

Sector: Construction & Infrastructure  
 CMP: Rs144; Mcap: Rs48bn  
 Bloomberg: IRB IN; Reuters: IRBI BO

### Price performance



### SOTP

| Particulars           | Rs/Share    | Percentage |
|-----------------------|-------------|------------|
| BOT                   | 125         | 57.9%      |
| Construction business | 89          | 40.9%      |
| Real Estate           | 3           | 1.2%       |
| <b>Total</b>          | <b>216</b>  |            |
| <b>Upside (%)</b>     | <b>50.4</b> |            |

## JAGRAN PRAKASHAN (JPL): BUY, TP-Rs148 (56% upside)

### What's the theme?

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

### What will move the stock?

1) Momentum in ad revenue led by government spends (UP election in Q4); 2) Broad-based growth across other new media businesses; 3) Attractive valuations-at the CMP, the stock is trading at an attractive 12x FY13E EPS.

### Where are we stacked versus consensus?

Our FY13 revenue estimate is 5% below consensus. However, our FY13 EPS estimate of Rs8 is in-line with estimates. We have a 'BUY' recommendation on the stock with a target price of Rs148 (18x FY13E EPS).

### What will challenge our target price?

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

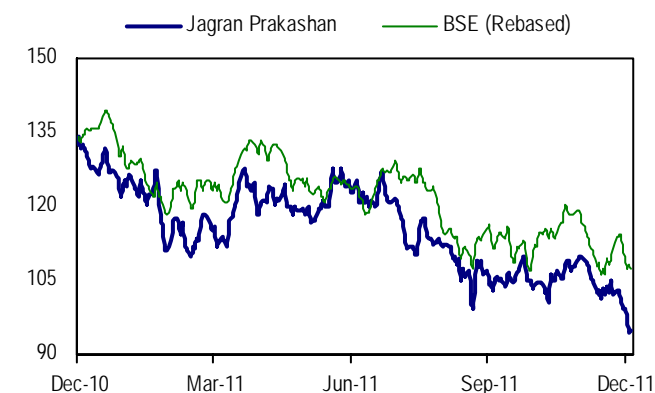
| Consolidated (Rs mn) | FY10  | FY11   | FY12E  | YoY %    | FY13E  | YoY %    |
|----------------------|-------|--------|--------|----------|--------|----------|
| Net Sales            | 9,419 | 12,210 | 13,105 | 7.3      | 14,234 | 8.6      |
| EBITDA               | 2,821 | 3,568  | 3,786  | 6.1      | 4,068  | 7.5      |
| EBITDA Marg. (%)     | 29.9  | 29.2   | 28.9   | (33)bps  | 28.6   | (31)bps  |
| Adj. Net Profits     | 1,759 | 2,080  | 2,431  | 16.9     | 2,520  | 3.7      |
| Dil. EPS (Rs)        | 5.8   | 6.6    | 7.7    | 16.9     | 8.0    | 3.7      |
| PER (x)              | 16.4  | 14.5   | 12.4   | -        | 11.9   | -        |
| ROE (%)              | 28.7  | 29.6   | 29.8   | 14 bps   | 27.3   | (243)bps |
| ROCE (%)             | 33.6  | 33.1   | 31.2   | (189)bps | 30.5   | (71)bps  |

Sector: Media

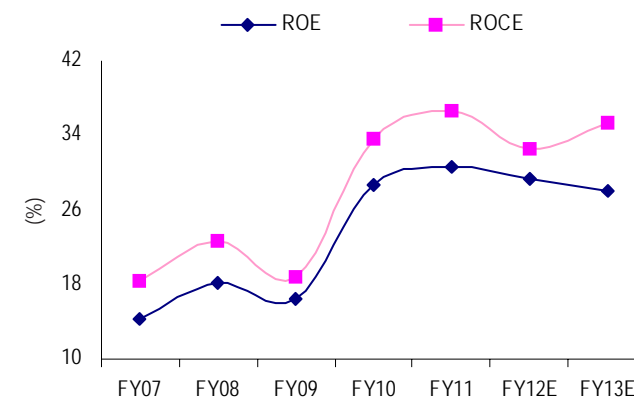
CMP: Rs95; Mcap: Rs30bn

Bloomberg: JAGP IN; Reuters: JAGP BO

### Price performance



### Financial performance



## JYOTHY LABORATORIES: BUY, TP-Rs212 (40% upside)

### What's the theme?

In our opinion, Jyothy Laboratories (Jyothy) 23% correction in the stock price in the past 6 months has factored all the near term worry. Jyothy's standalone business should recover in H2FY12 onwards and we believe except Maxo the dynamics of the standalone business are still at the same level. We are bullish on turnaround performance of Henkel India (Henkel) and its profitable performance since acquisition has been encouraging. Jyothy is among the few companies in the FMCG space which has immense potential for long-term profitability growth.

### What will move the stock?

1) Improvement in standalone business would provide better visibility; 2) Full impact of the 7% price increase of Ujala Supreme will support revenue and profitability growth; 3) Exo's national launch benefits has been showing through 23% sales growth in H1FY12; 4) Jyothy's revenue mix has improved post the addition of Henkel's 4-5 national brands; 5) Henkel's sustainable profitability would boost investors confidence; 6) Merger of Jyothy and Henkel India will engender massive tax benefits of Rs1.2bn; 7) Restructuring of Jyothy's distribution model would improve EBITDA margin by 3% and 8) Debt rationalisation can lead to higher profitability.

### Where are we stacked versus consensus?

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

### What will challenge our target price?

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

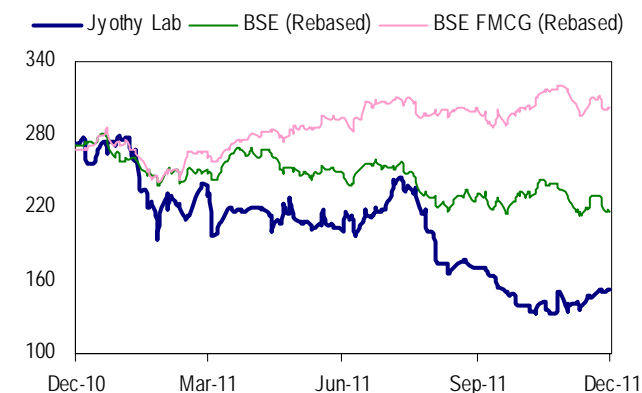
| (Rs mn)          | FY10  | FY11  | FY12E  | YoY %    | FY13E  | YoY %   |
|------------------|-------|-------|--------|----------|--------|---------|
| Net Sales        | 5,975 | 6,174 | 11,675 | 89.1     | 13,754 | 17.8    |
| EBITDA           | 929   | 727   | 1,132  | 55.7     | 1,775  | 56.8    |
| EBITDA Marg. (%) | 15.6  | 11.8  | 9.7    | (208)bps | 12.9   | 321bps  |
| Adj. Net Profits | 743   | 688   | 452    | (34.3)   | 1,012  | 124.2   |
| Dil. EPS (Rs)    | 9.2   | 8.5   | 5.6    | (34.3)   | 12.6   | 124.2   |
| PER (x)          | 16.5  | 17.8  | 27.1   | -        | 12.1   | -       |
| ROE (%)          | 19.2  | 10.9  | 8.5    | (237)bps | 17.1   | 854 bps |
| ROCE (%)         | 23.2  | 10.4  | 10.5   | 15 bps   | 17.3   | 678 bps |

Sector: FMCG

CMP: Rs152; Mcap: Rs12bn

Bloomberg: JYL IN; Reuters: JYOI.BO

### Price performance



### Product portfolio post acquisition

| Brands                  | FY11P | FY12E | FY13E |
|-------------------------|-------|-------|-------|
| Ujala Supreme           | 2,119 | 2,127 | 2,549 |
| Techno Bright and Ujala | 660   | 647   | 763   |
| Henko                   | 1,378 | 982   | 1,239 |
| Mr White                | 550   | 578   | 606   |
| Check                   | 400   | 420   | 441   |
| Stiff & Shine           | 255   | 242   | 284   |
| Maxo & Maxo Military    | 1,426 | 1,397 | 1,564 |
| EXO                     | 1,140 | 1,482 | 2,001 |
| Prill                   | 702   | 648   | 762   |
| Margo                   | 60    | 61    | 73    |
| Fa                      | 756   | 678   | 741   |
| Laundry Business        | 201   | 179   | 223   |

## MAHINDRA & MAHINDRA: BUY, TP-Rs877 (30% upside)

### What's the theme?

An extensive product range has helped M&M maintain its dominance in the utility vehicle (UV) and pick-up segments and maintain healthy margins despite raw material cost increases. During FY12, we expect double-digit growth of 13.2% in the automotive segment. A normal monsoon this fiscal and expectation of higher crop yields bode well for the tractor segment; we expect 11% growth in the tractor segment.

### What will move the stock?

1) Aided by the launch of lower end EX variant the Scorpio has averaged 4k units per month in YTD FY12. 2) The new offering XUV500 received overwhelming response prompting M&M to close bookings on capacity constraints. With an increase in monthly capacity from 2k to 3k the company is expected to re-open bookings in Jan'12 alongwith roll out to newer cities. 2) Pick-up and SCV maintain their impressive performance with the launch of the Genio and Maxximo mini van. 3) M&M is working on turning around its recent acquisition of South Korean automaker Ssangyong. Two SUVs from the Ssangyong Motors' portfolio (Rexton and Korando) would be assembled at M&M's Chakan facility. 4) Tractor sales have received a boost due to the increased prosperity and shortage of labour in rural India. In YTD FY12, market leader M&M's volumes have grown an impressive 21%. We expect the strength in tractor segment to continue.

### Where are we stacked versus consensus?

Our FY12 and FY13 earnings forecast are Rs45.7 and Rs52.9 respectively. Our FY12 earning estimate is 1.2% higher than the consensus estimate of Rs45.2. We value M&M at Rs877 using SOTP methodology, discounting the standalone business at 13x FY13E earnings.

### What will challenge our target price?

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

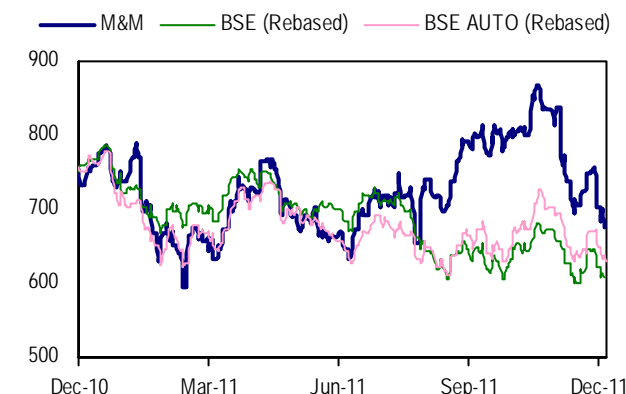
| (Rs mn)          | FY10    | FY11    | FY12E   | YoY %    | FY13E   | YoY %   |
|------------------|---------|---------|---------|----------|---------|---------|
| Net Sales        | 180,381 | 227,575 | 286,533 | 25.9     | 329,116 | 14.9    |
| EBITDA           | 29,758  | 34,581  | 37,436  | 8.3      | 42,699  | 14.1    |
| EBITDA Marg. (%) | 16.0    | 14.7    | 12.8    | (200)bps | 12.7    | (10)bps |
| Adj. Net Profits | 20,181  | 25,443  | 26,867  | 5.6      | 31,078  | 15.7    |
| Dil. EPS (Rs)    | 36.3    | 44.1    | 45.7    | 3.7      | 52.9    | 15.7    |
| PER (x)          | 18.6    | 15.3    | 14.8    | -        | 12.8    | -       |
| ROE (%)          | 30.9    | 28.1    | 23.7    | (430)bps | 23.0    | (80)bps |
| ROCE (%)         | 28.0    | 28.5    | 25.9    | (260)bps | 25.9    | (0)bps  |

Sector: Auto

CMP: Rs676; Mcap: Rs397bn

Bloomberg: MM IN; Reuters: MAHM.BO

### Price performance



### SOTP

|                        | Valuation Method | Per share (Rs) | Multiple | Value (Rs) |
|------------------------|------------------|----------------|----------|------------|
| M&M (Standalone)       | P/E              | 49.9           | 13       | 649        |
| M&M Veh. Mfg. (MVML)   | EV/EBITDA        | 8.5            | 4        | 34         |
| Tech Mahindra          | CMP              | 57.3           | 0.8      | 46         |
| Mahindra Holiday       | CMP              | 34.7           | 0.8      | 28         |
| M&M Financial Services | CMP              | 63.8           | 0.8      | 51         |
| Mahindra Lifespace     | CMP              | 9.3            | 0.8      | 7          |
| M&M (Treasury Stocks)  | CMP              | 59.6           | 0.8      | 48         |
| Swaraj Engines         | CMP              | 2.7            | 0.8      | 2          |
| Mahindra Forgings      | CMP              | 4.0            | 0.8      | 3          |
| Mahindra Ugine Steel   | CMP              | 1.4            | 0.8      | 1          |
| Mahindra Composites    | CMP              | 0.9            | 0.8      | 1          |
| Mahindra Navistar      | P/BV             | 5.1            | 1.5      | 8          |
| <b>SOTP Value (Rs)</b> |                  |                |          | <b>877</b> |

## NESTLE INDIA: SELL, TP-Rs3,578 (14% downside)

### What's the theme?

Nestle's monopoly in Maggi noodles would be difficult to maintain for long period post the entrance of big players. Competition is rising in almost all the categories while Nestle is expanding capacities which would force the company to maintain volume market share. Higher marketing efforts would be required for retaining leadership position which would exert pressure on profitability. In the past 6 months, Nestle underperformed FMCG sector by ~8% resulting in the reduction in P/E premium over FMCG sector to ~31% from ~45%. Despite, we believe valuations are still very expensive.

### What will move the stock?

1) Noodles contribute ~35% of the total EBITDA and higher competition would force Nestle to invest more on marketing efforts. As a result, we expect 31bps and 40bps decline in overall EBITDA margin in CY11E and CY12E respectively; 2) Nestle currently trades at 34x 12-month forward earnings which is ~31% premium over FMCG sector P/E. Considering pressure on Nestle's EBITDA margin, reduction in return ratios and improvement in performance of peers, we argue that Nestle's P/E premium should reduce further.

### Where are we stacked versus consensus?

Our estimates and target price are lower than the consensus, led by the expectation of pressure on EBITDA margin and argument of narrowing down of the Nestle's valuation premium. We assign P/E of 30x on the next 12-months earnings to derive TP of Rs3,578.

### What will challenge our target price?

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

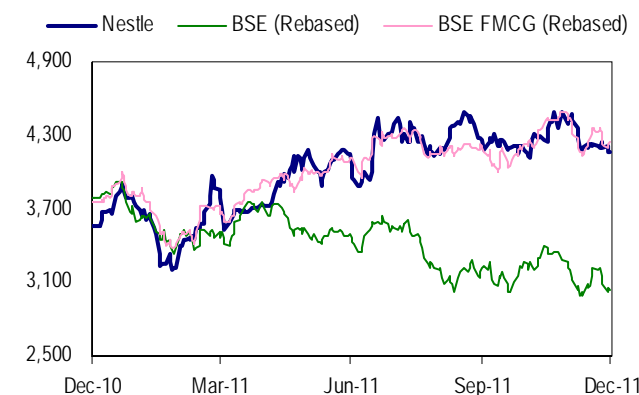
| (Rs mn)          | CY09   | CY10   | CY11E  | YoY %      | CY12E  | YoY %    |
|------------------|--------|--------|--------|------------|--------|----------|
| Net Sales        | 51,395 | 62,609 | 76,556 | 22.3       | 94,126 | 23.0     |
| EBITDA           | 10,448 | 12,559 | 15,122 | 20.4       | 18,212 | 20.4     |
| EBITDA Marg. (%) | 20.3   | 20.1   | 19.8   | (31)bps    | 19.3   | (40)bps  |
| Adj. Net Profits | 6,575  | 8,188  | 9,782  | 19.5       | 11,745 | 20.1     |
| Dil. EPS (Rs)    | 68.2   | 84.9   | 101.4  | 19.5       | 121.8  | 20.1     |
| PER (x)          | 61.0   | 49.0   | 41.0   | -          | 34.2   | -        |
| ROE (%)          | 113.1  | 95.7   | 81.2   | (1,449)bps | 72.4   | (886)bps |
| ROCE (%)         | 179.7  | 146.8  | 102.7  | (4,412)bps | 96.3   | (640)bps |

Sector: FMCG

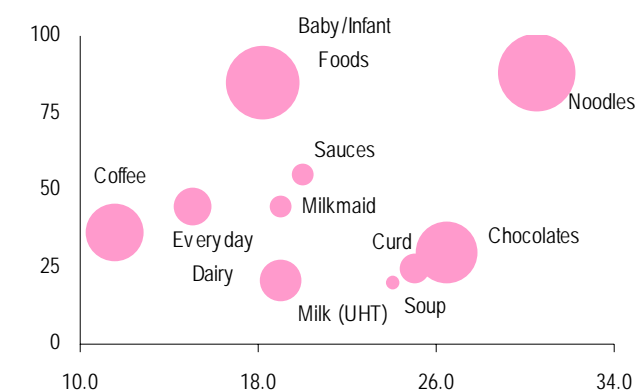
CMP: Rs4,161; Mcap: Rs401bn

Bloomberg: NEST IN; Reuters: NEST.BO

### Price performance



### Key brands' sales (Rsmn), growth (%) & market share (%)



Source: PINC Research, Industry, Company

Note: X Axis - Expected Sales Growth in CY10 (%), Y Axis - Expected Market Share in CY10 (%), Size of bubble - Expected Revenue in CY10

## NIIT TECH: BUY, TP-Rs285 (46% upside)

### What's the theme?

NIIT Tech has large exposure to high-growth niche verticals such as insurance and travel. Recent acquisition of Proyecta Sistemas and JV with Morris, will give further thrust to growth through access to untapped markets and presence in newer industries. New service lines would boost non-linear growth and lead to improvement in realisations. Moreover, it has a differentiated strategy with development of IPs in emerging technologies (such as cloud computing) & verticals (such as insurance & healthcare).

### What will move the stock?

1) Good performance in the BFSI and travel and transportation verticals, which contribute ~75% to revenue; 2) Large untapped opportunity in the APAC and Latin American markets; 3) Strong order book of USD232mn to be implemented over the next 12 months and continued high order bookings; 4) New order win announcements continue (won deals worth USD200mn in Q2FY12); and 5) High EBITDA margin among mid-tier peers in the IT services business.

### Where are we stacked versus consensus?

Our top-line estimate for FY12 is marginally higher by 1.8% than consensus and is in line with consensus for FY13. Our EBITDA margin estimates are marginally lower by 11bps and 25bps for FY12 and FY13 respectively. Our EPS estimates for FY12 & FY13 varies from consensus by 1.3% and (4.2%) respectively.

### What will challenge our target price?

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

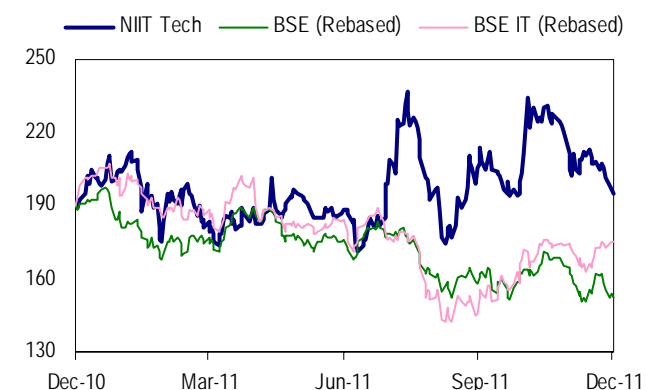
| (Rs mn)          | FY10  | FY11   | FY12E  | YoY %    | FY13E  | YoY %   |
|------------------|-------|--------|--------|----------|--------|---------|
| Net Sales        | 9,138 | 12,323 | 16,080 | 30.5     | 18,434 | 14.6    |
| EBITDA           | 1,889 | 2,363  | 2,750  | 16.4     | 3,236  | 17.7    |
| EBITDA Marg. (%) | 20.7  | 19.2   | 17.1   | (208)bps | 17.6   | 46 bps  |
| Adj. Net Profits | 1,265 | 1,823  | 1,867  | 2.4      | 2,121  | 13.6    |
| Dil. EPS (Rs)    | 21.5  | 30.9   | 31.7   | 2.4      | 35.7   | 12.5    |
| PER (x)          | 9.1   | 6.3    | 6.2    | -        | 5.4    | -       |
| ROE (%)          | 21.7  | 24.2   | 22.0   | (225)bps | 21.0   | (98)bps |
| ROCE (%)         | 19.1  | 20.4   | 20.3   | (15)bps  | 20.0   | (30)bps |

Sector: Information Technology

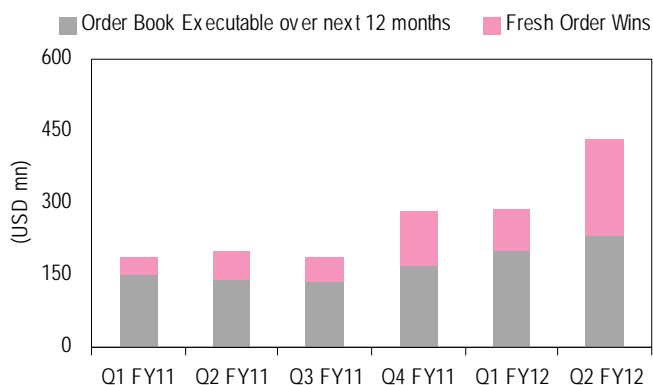
CMP: Rs195; Mcap: Rs11bn

Bloomberg: NITEC IN; Reuters: NITT.BO

### Price performance



### Healthy order book



## PHOENIX MILLS: BUY, TP-Rs265 (56% upside)

### What's the theme?

PHNX's key project, High Street Phoenix (HSP), is now fully operational and is likely to generate rental income of Rs2-2.2bn in FY12E. In Q1FY12, the Pune Market City (PHNX stake: 58.5%) was launched and Bengaluru Market City was launched in Q3FY12. This will help strengthen the company's rental model. At present, PHNX's rental revenue (FY11: Rs1,8bn) comes from HSP and the launch of Pune and Bangalore Market City is likely to add ~Rs550mn of rental revenue to the top line in FY12E.

### What will move the stock?

We see the following near-term stock triggers: (i) Kurla City project to commence in Q3FY12. (ii) The first phase of Shangri-La Hotel to commence in Q3FY12. (iii) HSP-Phase IV (at present 0.25 msf) to provide a strong delta to the company's valuation if it manages to get hospitality FSI (5x). (iv) The company may further choose to increase stake in the Bengaluru and Chennai market city projects, which would enhance stock valuation.

### Where are we stacked versus consensus?

Our EPS estimates for FY12 and FY13 are Rs10.8 and Rs11.9, respectively. Our FY12 earnings estimate is 30% higher than consensus estimate of Rs8.3. We have a 'BUY' recommendation on the stock with a target price of Rs265, which discounts FY12E gross NAV by 15%.

### What will challenge our target price?

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

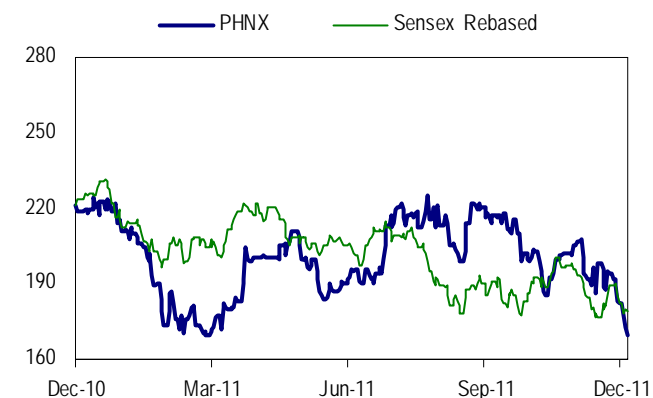
| (Rs mn)          | FY10  | FY11  | FY12E | YoY %    | FY13E | YoY %   |
|------------------|-------|-------|-------|----------|-------|---------|
| Net Sales        | 1,230 | 2,102 | 3,993 | 90.0     | 6,029 | 51.0    |
| EBITDA           | 775   | 1,406 | 2,447 | 74.1     | 3,897 | 59.3    |
| EBITDA Marg. (%) | 63.0  | 66.9  | 61.3  | (559)bps | 64.6  | 331 bps |
| Adj. Net Profits | 620   | 842   | 1,570 | 86.5     | 2,316 | 47.5    |
| Dil. EPS (Rs)    | 4.3   | 5.8   | 10.8  | 86.5     | 16.0  | 47.6    |
| PER (x)          | 39.6  | 29.2  | 15.7  | -        | 10.6  | -       |
| ROE (%)          | 4.0   | 5.1   | 9.0   | 388 bps  | 12.1  | 308 bps |
| ROCE (%)         | 3.2   | 4.1   | 6.4   | 231 bps  | 8.3   | 187 bps |

Sector: Real Estate

CMP: Rs170; Mcap: Rs25bn

Bloomberg: PHNX IN; Reuters: PHOE.BO

### Price performance



### PHNX one year forward NAV

| Project                                       | NAV (Rs)   |
|---|------------|
| High Street Phoenix                           | 142        |
| Market City (Kurla, Bengaluru, Chennai, Pune) | 87         |
| Other Residential                             | 36         |
| BARE  | 10         |
| Investment in Treasure World Developers       | 18         |
| Investment in Galaxy Entertainment            | 0.2        |
| Investment in Phoenix construction            | 0.1        |
| Other investments                             | 26         |
| Shangri-la hotel                              | 11         |
| HSP Phase IV                                  | 21         |
| Share Application Money                       | 21         |
| Less: Net Debt                                | 60.1       |
| <b>NAV</b>                                    | <b>310</b> |
| 15% Discount to NAV                           | 45         |
| <b>Target Price</b>                           | <b>265</b> |



## POWER GRID: BUY, TP-Rs120 (25% upside)

### What's the theme?

PGCIL is moving ahead to achieve its XIth plan capex and capitalisation target of Rs550bn (76% achieved till H1FY12) and Rs320bn (82% achieved till H1FY12) respectively. It aims to significantly ramp up its capex over the XIIth Plan period, as it seeks to nearly double this to Rs1.02trn. It intends to achieve a yearly capex and ordering run rate of ~Rs200bn and ~Rs180bn respectively during the XIIth Plan. This increased capex run rate should translate into 20% CAGR in its regulated equity over FY11-15E. In addition, PGCIL is insulated from risks like rising fuel cost, backing down and SEB defaults (as payments are secured through a tripartite agreement). We believe the stock offers safe and steady returns as compared to its private sector peers.

### What will move the stock?

1) Conversion of its huge CWIP into regulatory assets will translate into increased earnings for the company, 2) Increased capex run rate, translating into higher capitalisation and hence higher earnings, 3) Healthy growth in its telecom division will offset stagnant earnings in consultancy division and 4) Improving debtor days as distribution tariffs are revised and billing is based on new tariff norms.

### Where are we stacked versus consensus?

Our FY12 & FY13 PAT estimates are in line with consensus. We value PGCIL on FCFE basis to arrive at a target price of Rs120 (terminal growth rate 3% and 13% Ke)

### What will challenge our target price?

- 1) Delay in capitalisation of projects under construction & delayed payments by SEB's
- 2) Lower incentives and STOA income will impact our earnings estimate
- 3) High debtor days

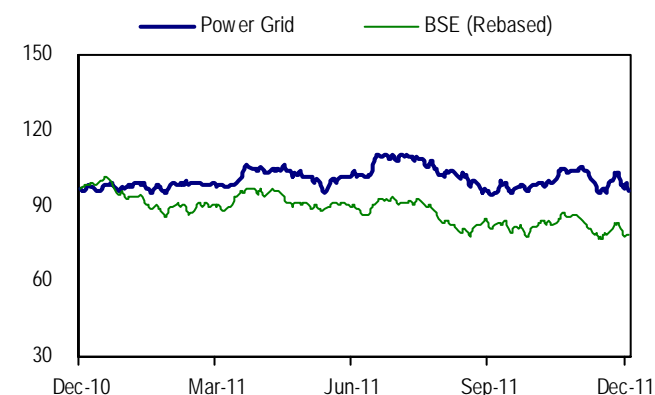
| (Rs mn)          | FY10   | FY11   | FY12E   | YoY %    | FY13E   | YoY %   |
|------------------|--------|--------|---------|----------|---------|---------|
| Net Sales        | 72,182 | 84,009 | 101,983 | 21.4     | 118,719 | 16.4    |
| EBITDA           | 61,593 | 74,642 | 88,778  | 18.9     | 102,538 | 15.5    |
| EBITDA Mar (%)   | 85.3   | 88.9   | 87.1    | (180)bps | 86.4    | (68)bps |
| Adj. Net Profits | 21,308 | 25,800 | 30,141  | 16.8     | 35,119  | 16.5    |
| Dil. EPS (Rs)    | 5.1    | 5.6    | 6.5     | 16.8     | 7.6     | 16.5    |
| PER (x)          | 19.0   | 17.2   | 14.8    | -        | 12.7    | -       |
| RoE (%)          | 13.9   | 13.8   | 13.5    | (34)bps  | 14.4    | 86 bps  |
| ROCE (%)         | 8.8    | 9.2    | 9.5     | 25 bps   | 9.8     | 30 bps  |

Sector: Power Utilities

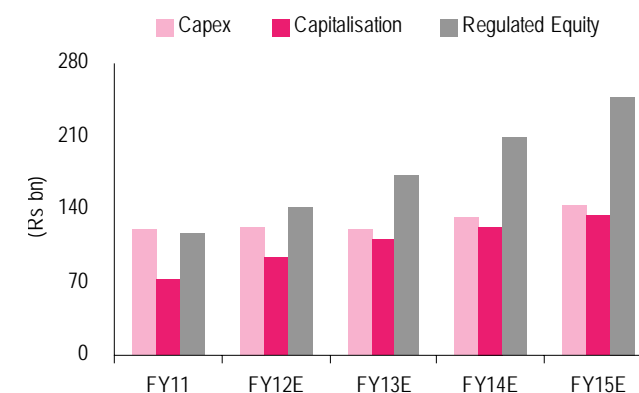
CMP: Rs96; Mcap: Rs445bn

Bloomberg: PWGR IN; Reuters: PGRD.BO

### Price performance



### Steady growth in capitalisation



## TECPRO SYSTEMS: BUY, TP-Rs375 (140% upside)

### What's the theme?

Most of the power BoP orders pertaining to the XIIth Five-Year Plan (including orders for coal and ash handling) are yet to be awarded. Tecpro appears best placed among peers to bag these orders, given its past experience. If interest rates stabilise in the near term, we expect incremental order inflows to come from the cement, steel, minerals and mining sectors. A healthy (1.6x FY12E revenue) and safe (all orders have achieved financial closure) order book minimises the risk of any delay or cancellations.

### What will move the stock?

- Increased pace of order inflow, expected in H2FY11, mainly from the power sector. We expect Tecpro to record 9% growth in order inflow in FY12.
- Execution of the current order book in a timely and profitable manner. We expect Tecpro to achieve a 29% CAGR in revenue and 20% CAGR in profit over FY11-13E.
- Any decline in interest rates would enable the company to improve net profit margins.
- Improvement in working capital would lead to higher cash flows.

### Where are we stacked versus consensus?

We expect EPS of Rs31 and Rs37.4 in FY12E and FY13E, respectively, almost in line with consensus forecasts. We expect 9% growth in order inflow in FY12, whereas some analysts forecast de-growth of ~30-35%. However, the management has guided for ~30% growth in order inflow in FY12. We have a BUY recommendation with a target price of Rs375 (10x FY13E).

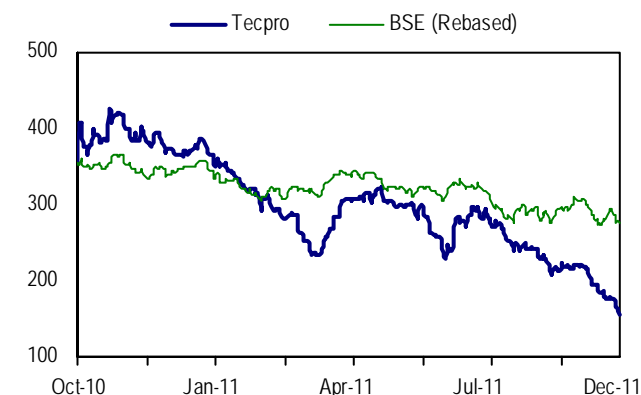
### What will challenge our target price?

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

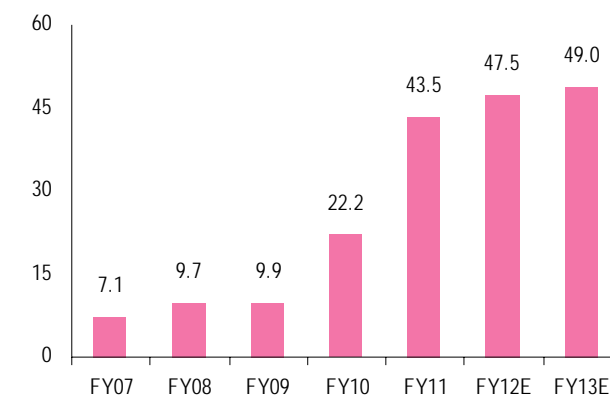
| (Rs mn)          | FY10   | FY11   | FY12E  | YoY %    | FY13E  | YoY %   |
|------------------|--------|--------|--------|----------|--------|---------|
| Net Sales        | 14,628 | 19,725 | 26,594 | 34.8     | 32,889 | 23.7    |
| EBIDTA           | 1,982  | 2,998  | 3,736  | 24.6     | 4,456  | 19.3    |
| EBIDTA Marg. (%) | 13.5   | 15.2   | 14.0   | (115)bps | 13.5   | (50)bps |
| Adj. Net Profit  | 1,096  | 1,334  | 1,565  | 17.3     | 1,887  | 20.5    |
| Dil. EPS (Rs)    | 24.8   | 26.4   | 31.0   | 17.3     | 37.4   | 20.5    |
| PER (x)          | 6.3    | 5.9    | 5.0    | -        | 4.2    | -       |
| ROE (%)          | 42.8   | 26.3   | 21.4   | (490)bps | 21.3   | (10)bps |
| ROCE (%)         | 37.1   | 26.6   | 23.1   | (350)bps | 22.9   | (20)bps |

Sector: Material Handling  
 CMP: Rs156; Mcap: Rs8bn  
 Bloomberg: TPRO IN; Reuters: TPSL.BO

### Price performance



### Order Inflow (Rs Bn)



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


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