

9 January 2014

## India Autos

### Margin expansion to drive profit growth

Sensex: 20729

Nifty: 6175

#### Key takeaways

**Revenue growth decent.** Auto volumes in most segments were under pressure in 3QFY14, with the weak continuing to struggle. In four wheelers, CVs registered a decline of >25%, while PVs were marginally negative yoy. Two wheelers were the better performing segment due to a lower base as well as sustained scooter demand. A robust performance at JLR would result in the sector revenues growing 17.2% yoy and 7.3% qoq.

**EBITDA margin improvement.** A period of heavy discounting and slump in demand has led the top two CV companies to record low single-digit EBITDA margins in ytd FY14. For Tata Motors, however, the trigger is sustained sales growth and robust EBITDA margins at JLR, which would render the losses at India operations irrelevant. Hero MotoCorp. and Bajaj Auto are faring much better, with the latter's performance also being boosted by higher export realizations. Among the PV companies, M&M has been able to compensate for the slowdown in UV sales with robust performance in the lower realization but higher profitability in tractors. MSIL has had margin recovery on a favourable rate in imports and absence of labour strife this year. As a result, despite CV companies dragging down sector margins, yoy improvement in the other companies would lead to the auto sector's EBITDA margins improving 246bps yoy. Our profit growth expectation is 46.5% in 3Q (ex Tata Motors, it is 17.5%).

**Our take.** The sector valuations normally suffer during periods of weak demand. However, the current valuations are at a significant premium to historical averages and appear to ignore the weak underlying demand (except in Tata Motors, where domestic demand is not a factor). Other stocks like Hero MotoCorp., Maruti Suzuki, and Ashok Leyland are trading at significant premium to fair valuations. **Top picks.** M&M, on a favourable tractor cycle, subsidiaries adding substantial value to the SOTP and bottoming out of UV demand. On a long-term perspective, Tata Motors and Wabco India look good. Among others, we like Bajaj Auto and Motherson Sumi Systems.

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#### India Autos: Dec '13 quarter, forecasts

Company	Revenues		EBITDA		PAT	
	₹m	yoy chg (%)	Margin (%)	yoy chg (bps)	₹m	yoy chg (%)
Ashok Leyland	19,221	-19.3	1.0	-331	-1,173	76.4
Bajaj Auto	53,015	-2.1	22.5	377	9,151	11.8
Eicher Motors*	16,885	2.1	8.6	146	819	12.6
Hero MotoCorp	68,724	11.1	14.7	212	5,984	22.7
Mahindra & Mahindra	106,692	-1.0	13.0	176	9,402	12.4
Maruti Suzuki	110,030	-1.8	12.0	399	6,947	38.6
Tata Motors	607,684	6.8	15.5	218	34,279	90.3
TVS Motors	19,827	-0.3	5.9	-9	605	15.3

Source: Company, Anand Rathi Research

\* Estimates for 4QCY13

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Fig 1 – Snapshot: Quarterly result estimates – Dec '13 (₹m)

Company Name	Revenues	EBITDA	Profit	Revenue YoY change (%)	EBITDA YoY change (%)	Profit YoY change (%)	Dec'13 EBITDA Margin (%)	Sep'13 EBITDA Margin (%)	Dec'12 EBITDA Margin (%)	EBITDA Margin YoY change (bps)
Ashok Leyland	19,221	190	-1,173	-19.3	-81.5	76.4	1.0	2.2	4.3	-331
Bajaj Auto	53,015	11,907	9,151	-2.1	17.7	11.8	22.5	22.6	18.7	377
Eicher Motors*	16,885	1,452	819	2.1	23.1	12.6	8.6	9.3	7.1	146
Hero MotoCorp	68,724	10,102	5,984	11.1	29.7	22.7	14.7	14.5	12.6	212
Mahindra & Mahindra	106,692	13,870	9,402	-1	14.5	12.4	13.0	12.8	11.2	176
Maruti Suzuki	110,030	13,149	6,947	-1.8	47.5	38.6	12.0	12.6	8	399
Tata Motors	607,684	94,248	34,279	31.8	53.4	90.3	15.5	16.3	13.3	218
TVS Motors	19,827	1,161	605	10.2	8.5	15.3	5.9	5.9	5.9	-9
VST Tillers & Tractors	1,557	279	178	26.8	42.6	37.4	17.9	17.8	15.9	198
Amara Raja Batteries	8,555	1,405	919	12.7	15.3	13.6	16.4	17.6	16	37
Apollo Tyres	36,034	4,619	2,086	12	20.8	15.5	12.8	12.3	11.9	94
Balkrishna Industries	8,732	2,000	1,009	23.9	29.2	19.9	22.9	24.1	22	94
Bharat Forge	8,368	2,174	934	24.4	52.7	96.6	26.0	26.4	21.2	482
Ceat	13,297	1,730	758	10.7	70	190.5	13.0	12.9	8.5	454
Exide Industries	15,348	2,249	1,372	4.9	31.4	26.1	14.7	14.1	11.7	296
Gabriel India	3,268	206	95	9.9	13.1	5.9	6.3	6.3	6.1	18
NRB Bearings	1,528	261	123	6	-1.4	-16.5	17.1	17.1	18.3	129
Phillips Carbon Black	6,072	327	45	11.3	124.9	488	5.4	2.8	2.7	272
Motherson Sumi Systems	74,197	7,062	2,164	11.4	38.6	54.8	9.5	9.6	7.6	187
Munjal Showa	4,299	281	166	10	0.8	3.6	6.5	5.1	7.1	-59
Setco Auto	758	76	54	0.7	-30.9	-13.9	10.0	9.5	14.6	-458
SKF India*	5,438	499	362	5	13.7	12.5	9.2	11.4	8.5	70
Suprajit Engineering	1,400	240	139	23.4	23.9	24.3	17.1	17.6	17.1	6
Swaraj Engines	1,667	258	188	33.8	40.4	36.7	15.5	14.9	14.8	73
Wabco India	2,391	358	245	8.1	-9.8	-12.8	15.0	13.2	17.9	-297

Source: Company, Anand Rathi Research

\* Estimates for 4QCY13

9 January 2014

## Tata Motors

*Domestic weakness, JLR strong; Hold*Rating: **Hold**

Target Price: ₹402

Share Price: ₹367

### Key takeaways

**3Q results likely to be good.** For 3QFY14, we expect Tata Motors' consolidated profits to register 90.3% yoy growth, chiefly following the good performance at JLR. The Indian operations are, however, expected to continue to be a drag due to the slump in CV sales and lower PV sales. We expect consolidated sales to grow 31.8% yoy to ₹607.7bn, with a 15.5% EBITDA margin and 90.3% yoy profit growth, to ₹34.3bn.

**Standalone numbers to disappoint.** Following a sharp volume drop in 3QFY14, on the back of incrementally worse demand environment vis-a-vis 1H, we expect losses to sustain. We expect EBITDA margin at 0.5% and losses at ₹6.5bn.

**JLR to be the key growth driver.** JLR's 3Q volumes are estimated to have grown 19.6%. Unlike FY13 however, Jaguar is the key growth driver, not Land Rover. Backed by good volume growth, we expect JLR to report 32.7% yoy revenue growth, to ₹5bn. Our EBITDA margin expectation is 16.6% (up 260bps yoy), with 71.2% growth in profit to ₹443m (net profit margin of 8.8%, which is up 200bps yoy).

**Our take.** The cyclical M&H CV slowdown would continue to heap pressure on Indian operations. Other divisions too are shifting to a lower trajectory. The demand context for M&H CVs in 1HFY14 has been challenging. Better performance in the standalone operations is likely only in FY15. For JLR, good volume growth and continued demand are the clearest positives at present, with the margin expected to improve ~180bps in FY14. We currently have a Hold recommendation. Our target is ₹402, based on Mar'15 estimates (₹362 for JLR, ₹40 as the value of the India operations and other investments and subsidiaries). **Risks.** Downside: Dip in Chinese demand, negative surprises at JLR; Upside: Better M&H CV and car demand.

Key data	TTMT IN / TAMO.BO
52-week high / low	₹402 / ₹252
Sensex / Nifty	20729 / 6175
3-m average volume	US\$54.1m
Market cap	₹1079.54bn / US\$17.41bn
Shares outstanding	3189.9m

Shareholding pattern (%)	Sep '13	Jun '13	Mar '13
Promoters	34.33	34.35	34.71
- of which, Pledged	7.55	7.55	7.55
Free Float	65.67	65.65	65.29
- Foreign Institutions	26.73	26.59	28.38
- Domestic Institutions	11.69	11.39	10.50
- Public	27.25	27.67	26.41

Financials (YE Mar)	FY14e	FY15e
Sales (₹m)	2,331,725	2,856,385
Net profit (₹m)	138,073	172,848
EPS (₹)	41.5	52.0
Growth (%)	31.6	25.2
PE (x)	8.8	7.0
PBV (x)	2.3	1.7
RoE (%)	26.7	25.3
RoCE (%)	27.7	27.8
Dividend yield (%)	0.0	0.0
Net gearing (%)	51.8	54.2

Source: Anand Rathi Research

Quarterly results (YE Mar)	3QFY13	3QFY14e	% yoy	1HFY13	1HFY14	% yoy
Sales (₹m)	460,895	607,684	31.8	867,265	1,036,669	19.5
EBITDA (₹m)	61,438	94,248	53.4	120,957	160,263	32.5
EBITDA margin (%)	13.3	15.5	218	13.9	15.5	151bps
Interest (₹m)	9,346	11,215	20.0	16,517	20,600	24.7
Depreciation (₹m)	25,565	34,269	34.0	41,674	62,489	49.9
Other income (₹m)	1,886	2,169	15.0	4,454	4,144	-7.0
PBT (₹m)	26,679	50,933	90.9	62,713	76,793	22.5
Tax (₹m)	10,318	16,472	59.6	18,565	23,576	27.0
Tax rate (%)	38.7	32.3	-634	29.6	30.7	110bps
Adjusted Profit (₹m)	18,010	34,279	90.3	47,703	57,204	19.9

Source: Company

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## Quick Glance – Financials and Valuations

**Fig 1 – Income statement (₹m)**

Year-end: Mar	FY12	FY13	FY14e	FY15e	FY16e
Net revenues	1,656,545	1,888,176	2,331,725	2,856,385	3,260,917
Revenue growth (%)	35.6	14.0	23.5	22.5	14.2
- Op. expenses	1,419,540	1,622,487	1,968,674	2,409,493	2,754,447
<b>EBIDTA</b>	<b>237,005</b>	<b>265,689</b>	<b>363,051</b>	<b>446,892</b>	<b>506,470</b>
EBITDA margin (%)	14.3	14.1	15.6	15.6	15.5
- Interest expenses	29,822	35,533	42,640	42,214	41,158
- Depreciation	70,146	95,909	133,132	169,112	197,638
+ Other income	6,618	8,115	8,521	8,734	9,171
- Extraordinary items	-9,621	6,027	3,806	0	0
- Tax	17,536	37,710	56,842	70,426	77,864
Effective tax rate (%)	11.4	27.7	29.6	28.8	28.1
Reported Profit	135,165	98,926	136,287	172,848	197,832
<b>Adjusted Profit</b>	<b>125,544</b>	<b>104,953</b>	<b>138,073</b>	<b>172,848</b>	<b>197,832</b>
Adj. Profit growth (%)	38.8	-16.4	31.6	25.2	14.5
Adj. FDEPS (₹/share)	37.8	31.6	41.5	52.0	59.5
Adj. FDEPS growth (%)	38.8	-16.4	31.6	25.2	14.5

Source: Company, Anand Rathi Research

**Fig 2 – Balance sheet (₹m)**

Year-end: Mar	FY12	FY13	FY14e	FY15e	FY16e
Share capital	6,348	6,381	6,438	6,438	6,438
Reserves & surplus	325,152	369,992	508,065	680,914	871,044
Net worth	331,499	376,373	514,503	687,351	877,482
Total debt	387,041	437,223	457,223	477,223	497,223
Def. tax liab. (net)	-25,186	-20,390	-20,390	-20,390	-20,390
<b>Capital employed</b>	<b>693,354</b>	<b>793,206</b>	<b>951,336</b>	<b>1,144,185</b>	<b>1,354,315</b>
Net fixed assets	603,062	735,860	902,997	1,140,473	1,232,319
Investments	89,177	90,577	90,577	140,577	215,577
Net working capital	-181,266	-244,358	-262,987	-294,057	-323,373
Cash and bank balance	182,381	211,127	220,749	157,192	229,791
<b>Capital deployed</b>	<b>693,354</b>	<b>793,206</b>	<b>951,336</b>	<b>1,144,185</b>	<b>1,354,315</b>
No. of shares (m)	3,174	3,190	3,219	3,219	3,219
Net debt	204,659	226,096	236,474	320,031	267,431
Net debt / Equity	0.6	0.6	0.5	0.5	0.3
WC turn days	-10	-18	-12	-16	-15
Book value (₹/sh)	104.5	118.0	159.8	213.5	272.6

Source: Company, Anand Rathi Research

**Fig 3 – Cash-flow statement (₹m)**

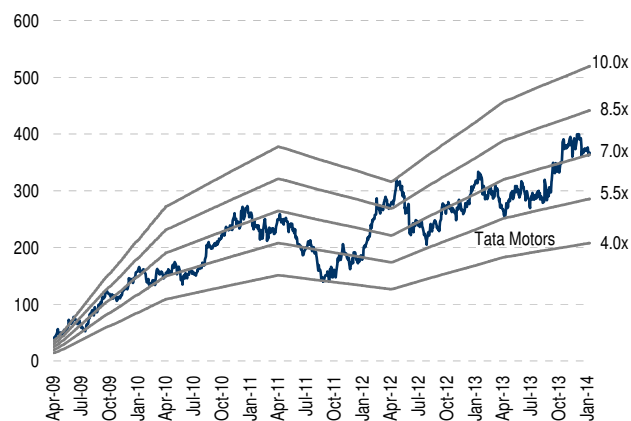
Year-end: Mar	FY12	FY13	FY14e	FY15e	FY16e
Reported Profit	135,165	98,926	136,287	172,848	197,832
+ Depreciation	56,254	75,693	107,863	137,525	158,153
Cash profit	191,419	174,619	244,150	310,373	355,985
- Incr./decr.) in WC	-86,110	-63,091	-18,629	-31,070	-29,316
Operating cash-flow	277,528	237,710	262,779	341,443	385,301
- Capex	228,053	228,404	275,000	375,000	250,000
Free cash-flow	49,476	9,306	-12,221	-33,557	135,301
- Dividend	12,807	6,429	0	0	6,697
+ Equity raised	-30	33	57	0	0
+ Debt raised	83,419	50,182	20,000	20,000	20,000
- Investments	63,735	1,400	0	50,000	75,000
- Misc. items	-11,961	22,947	-1,786	0	1,005
Net cash-flow	68,285	28,745	9,622	-63,557	72,599
+ Op. cash & bank bal.	114,096	182,381	211,127	220,749	157,192
Cl. cash & bank bal.	182,381	211,127	220,749	157,192	229,791

Source: Company, Anand Rathi Research

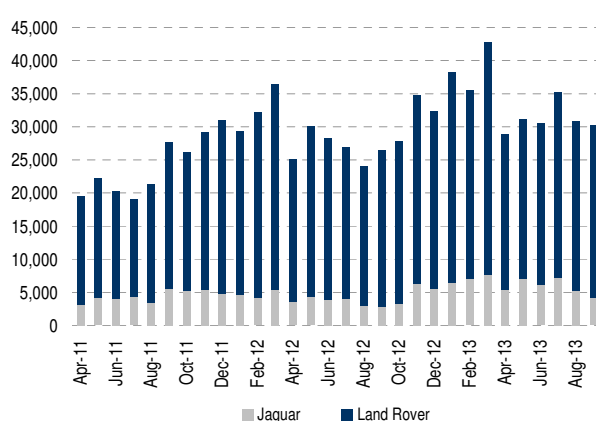
**Fig 4 – Ratio analysis @ ₹367**

Year-end: Mar	FY12	FY13	FY14e	FY15e	FY16e
P/E (x)	9.7	11.6	8.8	7.0	6.1
P/B (x)	3.5	3.1	2.3	1.7	1.3
EV/EBITDA (x)	5.4	4.9	3.6	3.0	2.4
RoE (%)	40.9	26.2	26.7	25.3	22.7
RoCE (%)	26.8	25.0	27.7	27.8	26.4
Dividend yield (%)	1.1	0.6	0.0	0.0	0.6
Dividend payout (%)	10.8	7.5	0.0	0.0	3.9
Debt to equity (%)	1.2	1.2	0.9	0.7	0.6
Core P/E (x)	10.2	12.6	9.4	7.4	6.4
Cash P/E	6.1	6.7	4.8	3.8	3.3
EV/sales	0.8	0.7	0.6	0.5	0.4
Inventory days	31	36	40	37	38
Receivables days	18	15	16	15	15
Payables days	59	69	68	68	68
Asset Turnover	2.4	2.4	2.4	2.5	2.4

Source: Company, Anand Rathi Research

**Fig 5 – PE band**


Source: Bloomberg, Anand Rathi Research

**Fig 6 – JLR Product Mix**


Source: Company

9 January 2014

## Mahindra & Mahindra

*Tractors to drive growth; Buy*Rating: **Buy**

Target Price: ₹1,037

Share Price: ₹900

### Key takeaways

**Tractors the growth driver.** After a robust performance in FY13, Mahindra & Mahindra's (M&M) automotive division volumes have been constrained in 9MFY14 (in 3QFY14 9.5% lower yoy). This was more than made up for by robust tractor volumes; in 3QFY14 (as in 1HFY14), these were prolific (growing 21% yoy). Among the automotive segments, pick-up sales were up 0.7% yoy, UVs were lower ~16% yoy, and three-wheelers were down 4.1% yoy). M&M's overall volumes in 2QFY14 dipped marginally, by 0.1% yoy.

**3Q likely to be good.** For 3Q, on yoy flat volumes, we expect 1% yoy income dip to ₹106.7bn and 14.5% EBITDA growth to ₹13.9bn. Our EBITDA margin expectation is 13.5% (up 230bps yoy, 70bps qoq). The higher share of tractors in the product mix qoq could result in EBITDA margin improving qoq. We expect the quarter's profit, at ₹9.4bn, to be up 12.4% yoy.

**FES to drive EBIT margins.** We expect 9% EBIT margin for the automotive division (50bps higher yoy, 40bps lower qoq) and 16.8% for the farm-equipment segment (130bps higher yoy, 20bps lower qoq). EBIT per tractor is expected to be 9.5% higher yoy, while EBIT per vehicle in the automotive division is expected to be 2.8% higher yoy.

**Our take.** Tractors have recorded a strong recovery in 1H, with a good trajectory in 3Q as well. For the segment, 1HCY14 should also be decent. The higher tractor-segment growth would also result in a better operating performance for M&M. The consolidated performance should also be good, but Systech, and the two-wheeler business would be drags on profitability. We have a Buy rating, with a sum-of-parts-based target of ₹1,037. The stock trades at ~10.6x FY15 consolidated earnings. **Risks.** Downside: Delay in rural demand recovery, keener competition, diesel price hike, negatives on the merger of the truck business.

Key data	MM IN / MAHM.BO
52-week high / low	₹1027 / ₹742
Sensex / Nifty	20729 / 6175
3-m average volume	US\$18.6m
Market cap	₹528.49bn / US\$8.52bn
Shares outstanding	589m

Shareholding pattern (%)	Sep '13	Jun '13	Mar '13
Promoters	25.26	25.35	25.18
- of which, Pledged	8.12	8.10	8.18
Free Float	74.74	74.65	74.82
- Foreign Institutions	35.86	35.82	35.01
- Domestic Institutions	16.57	15.37	15.54
- Public	22.31	23.46	25.27

Financials (YE Mar)	FY14e	FY15e
Sales (₹m)	399,438	448,977
Net profit (₹m)	37,605	41,569
EPS (₹)	61.3	67.7
Cons. EPS (₹)	70.4	84.7
PE (x)	14.7	13.3
Cons PE (x)	12.8	10.6
RoE (%)	21.5	20.2
RoCE (%)	22.6	22.0
Dividend yield (%)	1.6	1.7
Net gearing (%)	33.6	29.7

Source: Anand Rathi Research

Quarterly results (YE Mar)	3QFY13	3QFY14e	% yoy	1HFY13	1HFY14	% yoy
Sales (₹m)	107,743	106,692	-1.0	191,804	189,521	-1.2
EBITDA (₹m)	12,113	13,870	14.5	22,284	24,324	9.2
EBITDA margin (%)	11.2	13.0	176	11.6	12.8	122bps
Interest (₹m)	466	582	25.0	935	1,116	19.4
Depreciation (₹m)	1,790	2,014	12.5	3,332	3,776	13.3
Other income (₹m)	742	780	5.0	3,827	5,249	37.1
PBT (₹m)	10,599	12,054	13.7	21,844	24,680	13.0
Tax (₹m)	2,238	2,652	18.5	5,569	5,406	-2.9
Tax rate (%)	21.1	22.0	89	25.5	21.9	-359bps
Adjusted Profit (₹m)	8,362	9,402	12.4	16,274	19,274	18.4

Source: Company

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## Quick Glance – Financials and Valuations

**Fig 1 – Income statement (₹m)**

Year-end: Mar	FY12	FY13	FY14e	FY15e	FY16e
Net revenues	318,535	404,412	399,438	448,977	514,957
Revenue growth (%)	36.2	27.0	-1.2	12.4	14.7
- Op. expenses	280,907	357,469	347,595	391,244	448,339
<b>EBIDTA</b>	<b>37,629</b>	<b>46,943</b>	<b>51,843</b>	<b>57,733</b>	<b>66,618</b>
EBITDA margin (%)	11.8	11.6	13.0	12.9	12.9
- Interest expenses	1,628	1,912	2,243	2,393	2,393
- Depreciation	5,761	7,108	8,000	9,198	10,405
+ Other income	4,658	5,492	6,613	7,498	8,506
- Extraordinary items	-2,647	-1,056	0	0	0
- Tax	8,755	10,943	10,607	12,069	14,335
Effective tax rate (%)	23.3	24.6	22.0	22.5	23.0
Reported Profit	28,789	33,528	37,605	41,569	47,988
<b>Adjusted Profit</b>	<b>26,169</b>	<b>32,578</b>	<b>37,605</b>	<b>41,569</b>	<b>47,988</b>
Adj. Profit growth (%)	4.8	24.5	15.4	10.5	15.4
Adj. FDEPS (₹/share)	42.6	53.1	61.3	67.7	78.2
Adj. FDEPS growth (%)	4.8	24.5	15.4	10.5	15.4

Source: Company, Anand Rathi Research

**Fig 2 – Balance sheet (₹m)**

Year-end: Mar	FY12	FY13	FY14e	FY15e	FY16e
Share capital	2,945	2,952	2,952	2,952	2,952
Reserves & surplus	118,766	144,227	172,060	203,159	239,981
Net worth	121,711	147,179	175,012	206,111	242,932
Total debt	35,808	34,886	39,886	39,886	39,886
Def. tax liab. (net)	4,607	5,203	7,203	7,203	7,203
<b>Capital employed</b>	<b>162,126</b>	<b>187,268</b>	<b>222,101</b>	<b>253,200</b>	<b>290,022</b>
Net fixed assets	50,808	58,213	65,214	73,015	78,611
Investments	103,105	118,335	128,335	143,335	163,335
Net working capital	-3,671	-7,094	6,435	7,204	8,062
Cash and bank balance	11,884	17,814	22,117	29,645	40,014
<b>Capital deployed</b>	<b>162,126</b>	<b>187,268</b>	<b>222,101</b>	<b>253,200</b>	<b>290,022</b>
No. of shares (m)	589	590	590	590	590
Net debt	-79,181	-101,263	-110,566	-133,094	-163,462
Net debt / Equity	-0.7	-0.7	-0.6	-0.6	-0.7
WC turn days	-16	-5	-9	2	2
Book value (₹/sh)	206.6	249.3	296.5	349.2	411.5

Source: Company, Anand Rathi Research

**Fig 3 – Cash-flow statement (₹m)**

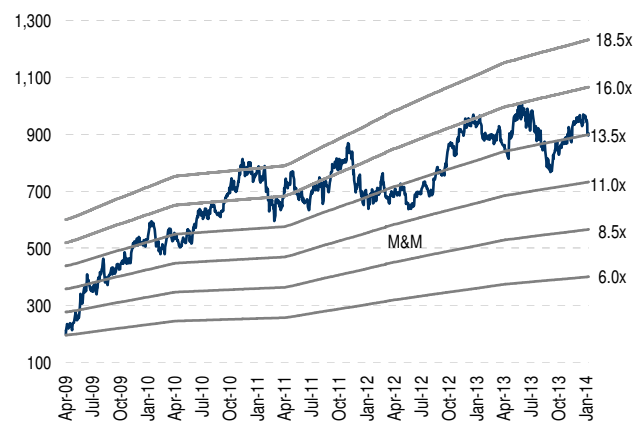
Year-end: Mar	FY12	FY13	FY14e	FY15e	FY16e
Reported Profit	28,789	33,528	37,605	41,569	47,988
+ Depreciation	5,761	7,108	8,000	9,198	10,405
Cash profit	34,550	40,636	45,605	50,767	58,393
- Incr./decr. in WC	909	-3,424	13,530	769	858
Operating cash-flow	33,641	44,060	32,075	49,998	57,535
- Capex	18,881	12,362	15,000	17,000	16,000
Free cash-flow	14,760	31,698	17,075	32,998	41,535
- Dividend	7,675	7,982	8,596	9,210	9,824
+ Equity raised	9	6	0	0	0
+ Debt raised	12,597	-922	5,000	0	0
- Investments	13,848	15,230	10,000	15,000	20,000
- Misc. items	104	1,642	-823	1,260	1,343
Net cash-flow	5,738	5,929	4,303	7,528	10,368
+ Op. cash & bank bal.	6,146	11,884	17,814	22,117	29,645
Cl. cash & bank bal.	11,885	17,814	22,117	29,645	40,014

Source: Company, Anand Rathi Research

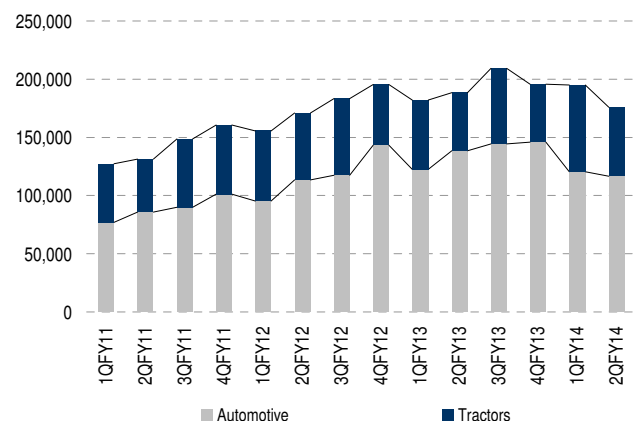
**Fig 4 – Ratio analysis @ ₹900**

Year-end: Mar	FY12	FY13	FY14e	FY15e	FY16e
Consolidated P/E (x)	17.6	14.7	12.8	10.6	9.0
P/B (x)	4.4	3.6	3.0	2.6	2.2
EV/EBITDA (x)	14.7	11.7	10.6	9.4	8.0
RoE (%)	21.5	22.1	21.5	20.2	19.8
RoCE (%)	22.4	24.1	22.6	22.0	22.2
Dividend yield (%)	1.4	1.4	1.6	1.7	1.8
Dividend payout (%)	33.2	27.4	26.0	25.2	23.3
Debt to equity (%)	0.3	0.2	0.2	0.2	0.2
Standalone P/E (x)	21.1	17.0	14.7	13.3	11.5
Cash P/E	16.8	13.5	11.7	10.6	9.2
EV/sales	1.4	1.1	1.1	0.9	0.7
Inventory days	27	22	25	25	25
Receivables days	23	20	25	25	25
Payables days	56	51	48	48	48
Asset Turnover	1.9	2.1	1.8	1.7	1.7

Source: Company, Anand Rathi Research

**Fig 5 – PE band**


Source: Bloomberg, Anand Rathi Research

**Fig 6 – Product mix**


Source: Company

9 January 2014

## Bajaj Auto

*Valuations attractive; Buy*Rating: **Buy**

Target Price: ₹2,144

Share Price: ₹1,899

### Key takeaways

**Weak demand.** In 3QFY14, demand for Bajaj Auto's motorcycles remained weak owing to intense competition. During the quarter, its total sales were down 11.9% yoy; motorcycles declined 10% and three wheelers 25.1%, yoy. We expect stability in volumes hereon, with the worst part of volume decline likely to be over. We expect better exports in CY14, along with arresting of the slide in market share.

**Stable EBITDA margin.** We expect a 2.1% dip in income, to ₹53bn, but a 17.7% yoy improvement in EBITDA to ₹11.9bn. Our EBITDA margin expectation is 22.5% (380bps higher yoy, stable qoq). We expect the EBITDA per vehicle to grow 33.6% yoy, but decline 1.6% qoq. The contribution per vehicle is expected to be higher 32.1% yoy. Our tax-rate expectation is 31%, which would be 80bps higher yoy. We also expect non-operating income to be lower 10% yoy. This would lead to a relatively lower 11.8% yoy growth in the adjusted profit, to ₹9.2bn, with a 17.3% net profit margin (up 220bps yoy). The adjusted profit per vehicle is expected to be 26.8% higher yoy.

**Our take.** For 4QFY14, the demand outlook remains unexciting (residual growth estimate 3.5%). Dec '13 performance indicates that motorcycle market share loss persisted (423bps lower in Apr-Nov '13). However, we believe that the worse performance is now factored in the estimates and stock price. The key positives are sustained better export realisations yoy and a higher share of exports in the product mix. Recovery in three-wheeler sales ahead would be an added positive. We have a Buy recommendation on the stock. At our price target, the stock would trade at PE of 15.8x FY15e. The stock is also trading lower to its past three-year average EV/EBITDA multiple. **Risks.** Later-than expected demand recovery, problems in export destinations, unfavourable forex movements, and higher commodity prices.

Key data	BJAUT IN / BAJA.BO
52-week high / low	₹2,229 / ₹1,658
Sensex / Nifty	20729 / 6175
3-m average volume	US\$16.1m
Market cap	₹549.5bn / US\$8.86bn
Shares outstanding	289m

Shareholding pattern (%)	Sep '13	Jun '13	Mar '13
Promoters	50.02	50.02	50.02
- of which, Pledged	0.06	0.06	0.10
Free Float	49.98	49.98	49.98
- Foreign Institutions	17.81	17.43	18.20
- Domestic Institutions	7.79	7.78	7.26
- Public	24.38	24.77	24.52

Financials (YE Mar)	FY14e	FY15e
Sales (₹m)	208,113	238,745
Net profit (₹m)	34,835	39,366
EPS (₹)	120.4	136.0
Growth (%)	14.6	13.0
PE (x)	15.8	14.0
PBV (x)	5.6	4.5
RoE (%)	35.4	32.3
RoCE (%)	49.9	45.7
Dividend yield (%)	2.6	2.9
Net gearing (%)	18.8	15.7

Source: Anand Rathi Research

Quarterly results (YE Mar)	3QFY13	3QFY14e	% yoy	1HFY13	1HFY14	% yoy
Sales (₹m)	54,127	53,015	-2.1	98,381	100,860	2.5
EBITDA (₹m)	10,118	11,907	17.7	18,349	21,740	18.5
EBITDA margin (%)	18.7	22.5	377	18.7	21.6	290bps
Interest (₹m)	1	1	0.0	3	1	-50.0
Depreciation (₹m)	411	472	15.0	763	887	16.3
Other income (₹m)	2,032	1,829	-10.0	2,967	2,998	1.0
PBT (₹m)	11,738	13,263	13.0	20,591	22,496	9.3
Tax (₹m)	3,550	4,111	15.8	6,000	6,748	12.5
Tax rate (%)	30.2	31.0	75	29.1	30.0	86bps
Adjusted Profit (₹m)	8,187	9,151	11.8	14,563	16,696	14.6

Source: Company

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## Quick Glance – Financials and Valuations

**Fig 1 – Income statement (₹m)**

Year-end: Mar	FY12	FY13	FY14e	FY15e	FY16e
Net revenues	195,290	199,973	208,113	238,745	274,609
Revenue growth (%)	19.1	2.4	4.1	14.7	15.0
- Op. expenses	158,090	163,140	162,995	187,566	217,861
<b>EBIDTA</b>	<b>37,200</b>	<b>36,833</b>	<b>45,118</b>	<b>51,179</b>	<b>56,747</b>
EBITDA margin (%)	19.0	18.4	21.7	21.4	20.7
- Interest expenses	222	5	4	4	4
- Depreciation	1,456	1,640	1,873	2,012	2,144
+ Other income	6,080	7,435	6,871	7,479	8,517
- Extraordinary items	1,340	-40	1,354	0	0
- Tax	10,221	12,227	14,871	17,276	19,250
Effective tax rate (%)	25.4	28.7	30.5	30.5	30.5
Reported Profit	30,041	30,436	33,887	39,366	43,866
<b>Adjusted Profit</b>	<b>31,046</b>	<b>30,408</b>	<b>34,835</b>	<b>39,366</b>	<b>43,866</b>
Adj. Profit growth (%)	18.7	-2.1	14.6	13.0	11.4
Adj. FDEPS (₹/share)	107.3	105.1	120.4	136.0	151.6
Adj. FDEPS growth (%)	18.7	-2.1	14.6	13.0	11.4

Source: Company, Anand Rathi Research

**Fig 2 – Balance sheet (₹m)**

Year-end: Mar	FY12	FY13	FY14e	FY15e	FY16e
Share capital	2,894	2,894	2,894	2,894	2,894
Reserves & surplus	57,517	76,126	95,545	118,995	145,499
Net worth	60,411	79,020	98,438	121,889	148,392
Total debt	1,250	884	884	884	884
Def. tax liab. (net)	484	1,151	1,151	1,151	1,151
<b>Capital employed</b>	<b>62,145</b>	<b>81,055</b>	<b>100,474</b>	<b>123,924</b>	<b>150,428</b>
Net fixed assets	15,234	20,980	22,107	23,095	23,951
Investments	48,828	64,305	84,305	101,305	120,305
Net working capital	-18,455	-9,818	-11,198	-8,613	-6,170
Cash and bank balance	16,538	5,589	5,260	8,137	12,342
<b>Capital deployed</b>	<b>62,145</b>	<b>81,055</b>	<b>100,474</b>	<b>123,924</b>	<b>150,428</b>
No. of shares (m)	289	289	289	289	289
Net debt	-64,116	-69,009	-88,681	-108,558	-131,762
Net debt / Equity	-1.1	-0.9	-0.9	-0.9	-0.9
WC turn days	-17	-11	-11	-11	-11
Book value (₹/sh)	208.8	273.1	340.2	421.2	512.8

Source: Company, Anand Rathi Research

**Fig 3 – Cash-flow statement (₹m)**

Year-end: Mar	FY12	FY13	FY14e	FY15e	FY16e
Reported Profit	30,041	30,436	33,887	39,366	43,866
+ Depreciation	1,456	1,640	1,873	2,012	2,144
Cash profit	31,497	32,075	35,760	41,378	46,010
- Incr./decr. in WC	-6,344	8,637	-1,380	2,585	2,443
Operating cash-flow	37,841	23,439	37,140	38,793	43,567
- Capex	-237	6,847	3,000	3,000	3,000
Free cash-flow	38,078	16,592	34,140	35,793	40,567
- Dividend	15,134	15,235	16,927	18,620	20,313
+ Equity raised	0	0	0	0	0
+ Debt raised	-2,236	-366	0	0	0
- Investments	1,609	15,477	20,000	17,000	19,000
- Misc. items	4,848	-3,535	-2,459	-2,705	-2,951
Net cash-flow	14,251	-10,950	-328	2,877	4,205
+ Op. cash & bank bal.	2,288	16,538	5,589	5,260	8,137
Cl. cash & bank bal.	16,539	5,588	5,260	8,137	12,342

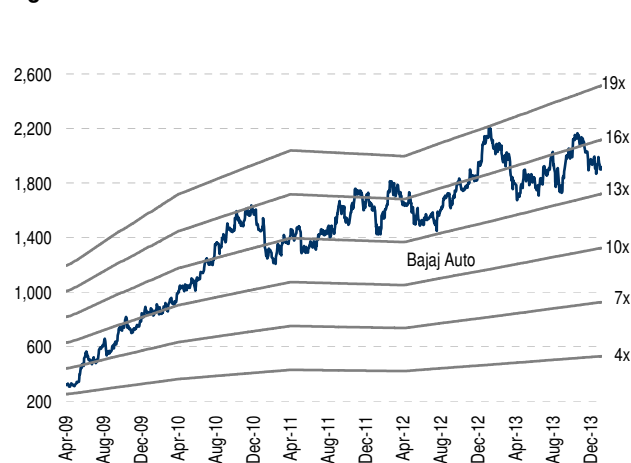
Source: Company, Anand Rathi Research

**Fig 4 – Ratio analysis @ ₹1,899**

Year-end: Mar	FY12	FY13	FY14e	FY15e	FY16e
P/E (x)	17.7	18.1	15.8	14.0	12.5
P/B (x)	9.1	7.0	5.6	4.5	3.7
EV/EBITDA (x)	13.0	13.0	10.2	8.6	7.4
RoE (%)	51.4	38.5	35.4	32.3	29.6
RoCE (%)	67.3	52.6	49.9	45.7	42.0
Dividend yield (%)	2.4	2.4	2.6	2.9	3.2
Dividend payout (%)	49.8	49.2	49.1	46.5	45.5
Debt to equity (%)	0.0	0.0	0.0	0.0	0.0
Core P/E (x)	20.0	20.0	17.6	15.0	13.6
Cash P/E	16.9	17.1	15.0	13.3	11.9
EV/sales	2.6	2.5	2.3	1.9	1.5
Inventory days	13	12	12	12	12
Receivables days	8	14	14	14	14
Payables days	38	37	37	37	37
Asset Turnover	3.0	2.4	2.0	1.9	1.8

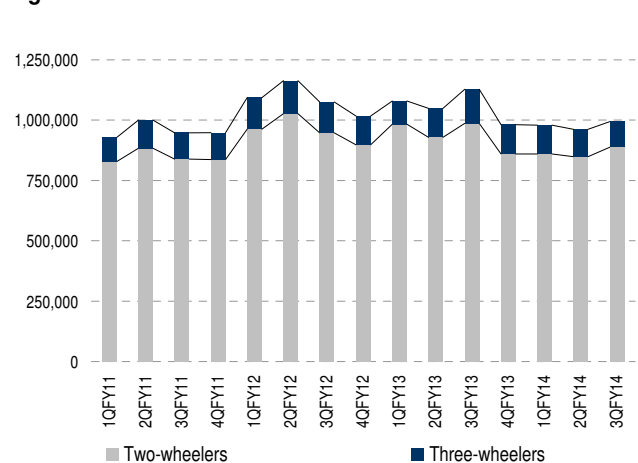
Source: Company, Anand Rathi Research

**Fig 5 – PE band**



Source: Bloomberg, Anand Rathi Research

**Fig 6 – Product mix**



Source: Company



9 January 2014

## Maruti Suzuki

*Margins to improve, but premium valuations; Sell*Rating: **Sell**

Target Price: ₹1,476

Share Price: ₹1,775

### Key takeaways

**Vehicle sales lower.** Maruti Suzuki's 3QFY14 sales volume was weak, as it declined 4.4% yoy to 288,151 units. We expect it to grow 2.4% in FY14 against 3.3% in FY13, yoy. In early Jun'13, the company had to control production at its diesel plant, which till last year was running at full utilisation. We estimate residual growth of 7.5% for the rest of the year.

**Decent results expected.** We expect 1.8% yoy revenue decline (4.4% volume decline and 2.5% growth in realisations) to ₹110.03bn. Our EBITDA margin expectation is 12% (up 400bps yoy, 60bps lower qoq). Our EBITDA growth estimate is 47.5% and our profit growth estimate is 38.6% yoy, to ₹6.9bn. Profit growth in 3QFY14 is also inflated due to Suzuki Powertrain merger in 4QFY13, which has not been accounted for in the base for 3Q.

**New lines onstream.** The new diesel engine plant at Gurgaon and the third assembly facility at Manesar went on stream during Jul-Sep'13. With this, capacity for vehicle assembly is now 1.5 million vehicles per annum.

**Our take.** In FY14, a favourable exchange rate and low base for its vehicle sales would benefit the company. Most carmakers are looking to increase prices 1-2% in Jan'14 to compensate for increasing input costs, higher overheads and the impact of a depreciated rupee. Nevertheless, headwinds from curtailed demand for passenger cars and from launches by competitors would be the rough road in the next two quarters. We believe the price factors in the short-term positives, while possible downgrades in sales estimates have not yet been fully captured. Even the pick-up in exports is not likely in the near term. Hence, we retain a Sell, with a target of ₹1,476. Our target price is based upon 13.5x FY15e EPS. At CMP, the stock trades at 16.2x FY15e EPS. **Risks.** Above-expected volume growth, currency-related benefits, lower commodity costs, possibility of stake increase by Suzuki.

Key data	MSIL IN / MRTI.BO
52-week high / low	₹1,857 / ₹1,217
Sensex / Nifty	20729 / 6175
3-m average volume	US\$23.1m
Market cap	₹540.01bn / US\$8.71bn
Shares outstanding	302m

Shareholding pattern (%)	Sep '13	Jun '13	Mar '13
Promoters	56.21	56.21	56.21
- of which, Pledged	-	-	-
Free Float	43.79	43.79	43.79
- Foreign Institutions	19.66	22.03	22.36
- Domestic Institutions	15.36	13.07	12.60
- Public	8.77	8.69	8.83

Financials (YE Mar)	FY14e	FY15e
Sales (₹m)	462,473	528,237
Net profit (₹m)	29,783	33,026
EPS (₹)	98.6	109.3
Growth (%)	28.3	10.9
PE (x)	18.0	16.2
PBV (x)	2.5	2.2
RoE (%)	14.0	13.6
RoCE (%)	17.8	17.7
Dividend yield (%)	0.6	0.6
Net gearing (%)	22.5	23.8

Source: Anand Rathi Research

Quarterly results (YE Mar)	3QFY13	3QFY14e	% yoy	1HFY13	1HFY14	% yoy
Sales (₹m)	112,003	110,030	-1.8	190,836	207,054	8.5
EBITDA (₹m)	8,913	13,149	47.5	12,948	24,875	92.1
EBITDA margin (%)	8.0	12.0	399	6.8	12.0	523
Interest (₹m)	459	550	19.7	712	876	23.1
Depreciation (₹m)	3,583	5,250	46.5	6,870	9,793	42.6
Other income (₹m)	1,886	1,792	-5.0	2,256	3,053	35.3
PBT (₹m)	6,756	9,141	35.3	8,054	17,259	114.3
Tax (₹m)	1,743	2,194	25.8	1,541	4,241	175.2
Tax rate (%)	25.8	24.0	-180	19.1	24.6	544
Adjusted Profit (₹m)	5,013	6,947	38.6	6,211	13,017	109.6

Source: Company

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## Quick Glance – Financials and Valuations

**Fig 1 – Income statement (₹m)**

Year-end: Mar	FY12	FY13	FY14e	FY15e	FY16e
Net revenues	355,871	435,879	462,473	528,237	604,306
Revenue growth (%)	-3.9	22.5	6.1	14.2	14.4
- Op. expenses	331,052	394,083	406,745	466,433	532,998
<b>EBIDTA</b>	<b>24,819</b>	<b>41,797</b>	<b>55,728</b>	<b>61,804</b>	<b>71,308</b>
EBITDA margin (%)	7.0	9.6	12.1	11.7	11.8
- Interest expenses	552	1,898	2,271	2,459	2,459
- Depreciation	11,384	18,612	21,228	24,945	27,245
+ Other income	8,269	7,694	7,088	9,634	9,241
- Extraordinary items	-310	-930	0	0	0
- Tax	5,111	5,989	9,534	11,009	12,711
Effective tax rate (%)	23.8	20.0	24.3	25.0	25.0
Reported Profit	16,352	23,921	29,783	33,026	38,134
<b>Adjusted Profit</b>	<b>16,119</b>	<b>23,215</b>	<b>29,783</b>	<b>33,026</b>	<b>38,134</b>
Adj. Profit growth (%)	-30.9	44.0	28.3	10.9	15.5
Adj. FDEPS (₹/share)	55.8	76.8	98.6	109.3	126.2
Adj. FDEPS growth (%)	-30.9	37.8	28.3	10.9	15.5

Source: Company, Anand Rathi Research

**Fig 2 – Balance sheet (₹m)**

Year-end: Mar	FY12	FY13	FY14e	FY15e	FY16e
Share capital	1,445	1,510	1,510	1,510	1,510
Reserves & surplus	150,429	184,279	211,041	240,744	275,253
Net worth	151,874	185,789	212,552	242,254	276,763
Total debt	10,783	13,892	16,392	16,392	16,392
Def. tax liab. (net)	3,023	4,087	4,087	4,087	4,087
<b>Capital employed</b>	<b>165,680</b>	<b>203,768</b>	<b>233,031</b>	<b>262,733</b>	<b>297,242</b>
Net fixed assets	81,321	117,414	136,483	146,538	149,293
Investments	61,474	70,783	75,783	100,783	125,783
Net working capital	-1,476	7,822	7,780	7,266	6,538
Cash and bank balance	24,361	7,750	12,985	8,147	15,629
<b>Capital deployed</b>	<b>165,680</b>	<b>203,768</b>	<b>233,031</b>	<b>262,733</b>	<b>297,242</b>
No. of shares (m)	289	302	302	302	302
Net debt	-75,052	-64,640	-72,376	-92,538	-125,020
Net debt / Equity	-0.5	-0.3	-0.3	-0.4	-0.5
WC turn days	-6	-8	-8	-8	-8
Book value (₹/sh)	525.5	615.0	703.6	802.0	916.2

Source: Company, Anand Rathi Research

**Fig 3 – Cash-flow statement (₹m)**

Year-end: Mar	FY12	FY13	FY14e	FY15e	FY16e
Reported Profit	16,352	23,921	29,783	33,026	38,134
+ Depreciation	11,384	18,612	21,228	24,945	27,245
Cash profit	27,735	42,533	51,010	57,970	65,379
- Incr./decr. in WC	-3,425	9,298	-42	-514	-728
Operating cash-flow	31,160	33,235	51,053	58,485	66,107
- Capex	27,459	63,968	40,296	35,000	30,000
Free cash-flow	3,701	-30,733	10,757	23,485	36,107
- Dividend	2,167	2,417	3,021	3,323	3,625
+ Equity raised	0	65	0	0	0
+ Debt raised	9,081	3,109	2,500	0	0
- Investments	10,406	9,309	5,000	25,000	25,000
- Misc. items	933	-22,673	0	0	0
Net cash-flow	-724	-16,611	5,236	-4,838	7,482
+ Op. cash & bank bal.	25,085	24,361	7,750	12,985	8,147
Cl. cash & bank bal.	24,361	7,750	12,985	8,147	15,629

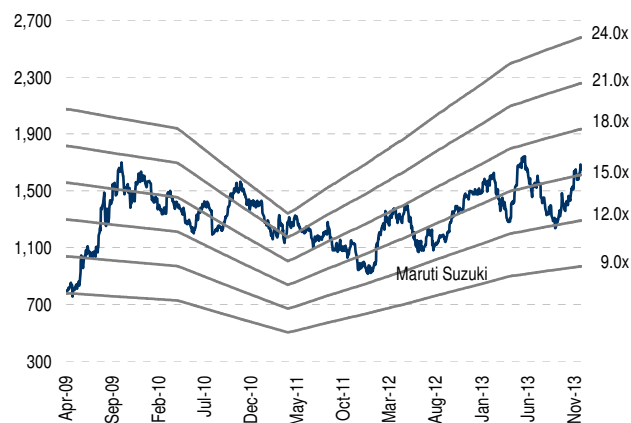
Source: Company, Anand Rathi Research

**Fig 4 – Ratio analysis @ ₹1,775**

Year-end: Mar	FY12	FY13	FY14e	FY15e	FY16e
P/E (x)	31.8	23.1	18.0	16.2	14.1
P/B (x)	3.4	2.9	2.5	2.2	1.9
EV/EBITDA (x)	17.6	11.3	8.3	7.2	5.8
RoE (%)	10.8	12.9	14.0	13.6	13.8
RoCE (%)	13.1	15.2	17.8	17.7	17.9
Dividend yield (%)	0.4	0.5	0.6	0.6	0.7
Dividend payout (%)	13.4	10.4	10.1	10.1	9.5
Debt to equity (%)	0.1	0.1	0.1	0.1	0.1
Core P/E (x)	49.7	30.1	21.6	20.4	16.9
Cash P/E	18.7	12.8	10.5	9.2	8.2
EV/sales	1.3	1.1	1.0	0.9	0.7
Inventory days	20	17	18	17	17
Receivables days	9	11	11	11	11
Payables days	65	61	65	64	63
Asset Turnover	2.1	2.1	1.9	2.0	2.0

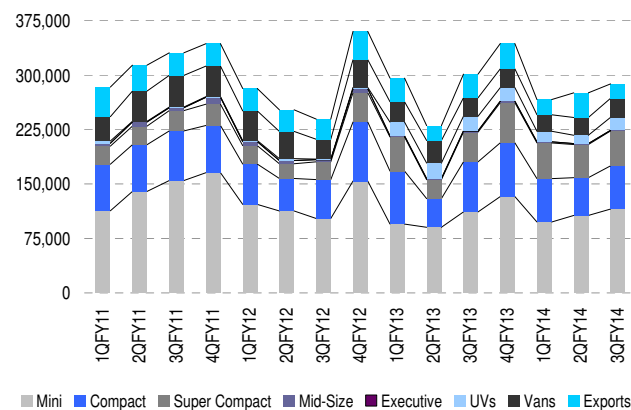
Source: Company, Anand Rathi Research

**Fig 5 – PE band**



Source: Bloomberg, Anand Rathi Research

**Fig 6 – Product mix**



Source: Company

9 January 2014

## Hero MotoCorp.

*Decent quarter, but valuations fair; Sell*Rating: **Sell**

Target Price: ₹1,897

Share Price: ₹2,079

### Key takeaways

**Demand scenario was decent.** Hero MotoCorp.'s 3QFY14 numbers were decent, and on a lower base the company reported yoy growth for a second successive quarter (after a yoy decline for the preceding four quarters). Two-wheeler sales were up 6.9% yoy and 18.7% qoq. Consequent on the weak demand environment in the auto industry and keener competition, we expect this challenging industry scenario to continue into 4QFY14.

**3Q likely to be good.** We expect 11.1% yoy income growth, to ₹68.7bn, and 29.7% yoy EBITDA growth, to ₹10.1bn. Our expected EBITDA margin is 14.7% (21bps higher yoy, and 20bps higher qoq). We expect the 2Q tax rate to have come at 26%. We expect 22.7% yoy profit growth, to ₹6bn.

**Laying groundwork for future.** The company has started work on building a new R&D centre at Kukas, Rajasthan. This would be a ₹4.5bn project, slated to commence operations in 1QCY15. The existing R&D centres at Gurgaon and Dharuhera would also be shifted to Kukas once it is complete. Kukas would be the hub for developing models for domestic and export markets. Besides, the company is setting up a manufacturing plant and a global parts centre at Neemrana, both of which would start operations in 2014. Overall investment in the three projects in Rajasthan would be to the tune of ₹13bn.

**Our take.** In FY13 and 1QFY14, the company reported yoy decline in profitability. A lower base and yoy margin improvement from 2QFY14 could arrest this movement for now. However, the prevailing weak demand environment is likely to continue. The new R&D centre could, though, be a long-term positive. We maintain a Sell with a target of ₹1,897 (based on the value of core earnings at 13.5x Mar'15 to ₹1,693 and the value of cash and investments at ₹204). **Risks.** Above expected volumes and recovery in rural growth, lower royalty expense.

Key data	HMCL IN / HROM.BO
52-week high / low	₹2,215 / ₹1,434
Sensex / Nifty	20729 / 6175
3-m average volume	US\$14.8m
Market cap	₹415.4bn / US\$6.69bn
Shares outstanding	199.7m

Shareholding pattern (%)	Sep '13	Jun '13	Mar '13
Promoters	39.91	52.21	52.21
- of which, Pledged	0.00	0.00	0.00
Free Float	60.09	47.79	47.79
- Foreign Institutions	30.38	29.85	30.57
- Domestic Institutions	8.77	9.26	8.46
- Public	20.94	8.68	8.76

Financials (YE Mar)	FY14e	FY15e
Sales (₹m)	252,927	283,762
Net profit (₹m)	21,962	27,615
EPS (₹)	110.0	138.3
Growth (%)	3.7	25.7
PE (x)	18.9	15.0
PBV (x)	7.4	6.5
RoE (%)	39.2	43.4
RoCE (%)	51.9	59.2
Dividend yield (%)	3.8	4.8
Net gearing (%)	34.7	34.3

Source: Anand Rathi Research

Quarterly results (YE Mar)	3QFY13	3QFY14e	% yoy	1HFY13	1HFY14	% yoy
Sales (₹m)	61,876	68,724	11.1	114,347	118,857	3.9
EBITDA (₹m)	7,786	10,102	29.7	16,561	17,479	5.5
EBITDA margin (%)	12.6	14.7	212	14.5	14.7	22bps
Interest (₹m)	30	32	8.1	59	59	0.5
Depreciation (₹m)	2,832	2,974	5.0	5,930	5,613	-5.3
Other income (₹m)	901	991	10.0	2,038	2,277	11.8
PBT (₹m)	5,826	8,087	38.8	12,610	14,084	11.7
Tax (₹m)	947	2,103	122.1	2,049	3,785	84.7
Tax rate (%)	16.3	26.0	975	16.3	26.9	1,062bps
Adjusted Profit (₹m)	4,879	5,984	22.7	10,560	10,300	-2.5

Source: Company

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## Quick Glance – Financials and Valuations

**Fig 1 – Income statement (₹m)**

Year-end: Mar	FY12	FY13	FY14e	FY15e	FY16e
Net revenues	235,790	237,681	252,927	283,762	321,777
Revenue growth (%)	21.5	0.8	6.4	12.2	13.4
- Op. expenses	199,743	204,836	215,684	242,282	275,341
<b>EBIDTA</b>	<b>36,048</b>	<b>32,845</b>	<b>37,243</b>	<b>41,479</b>	<b>46,436</b>
EBITDA margin (%)	15.3	13.8	14.7	14.6	14.4
- Interest expenses	-136	119	126	146	139
- Depreciation	10,974	11,418	11,798	7,705	6,568
+ Other income	3,408	3,984	4,359	4,725	5,294
- Extraordinary items	0	0	0	0	0
- Tax	4,866	4,110	7,716	10,739	12,606
Effective tax rate (%)	17.0	16.3	26.0	28.0	28.0
Reported Profit	23,752	21,182	21,962	27,615	32,417
<b>Adjusted Profit</b>	<b>23,752</b>	<b>21,182</b>	<b>21,962</b>	<b>27,615</b>	<b>32,417</b>
Adj. Profit growth (%)	17.2	-10.8	3.7	25.7	17.4
Adj. FDEPS (₹/share)	118.9	106.1	110.0	138.3	162.3
Adj. FDEPS growth (%)	17.2	-10.8	3.7	25.7	17.4

Source: Company, Anand Rathi Research

**Fig 2 – Balance sheet (₹m)**

Year-end: Mar	FY12	FY13	FY14e	FY15e	FY16e
Share capital	399	399	399	399	399
Reserves & surplus	42,499	49,663	55,649	63,293	71,746
Net worth	42,898	50,062	56,048	63,693	72,146
Total debt	9,949	0	0	0	0
Def. tax liab. (net)	2,083	1,324	1,324	1,324	1,324
<b>Capital employed</b>	<b>54,929</b>	<b>51,387</b>	<b>57,372</b>	<b>65,017</b>	<b>73,470</b>
Net fixed assets	38,244	31,331	30,533	31,828	31,260
Investments	39,643	36,238	45,238	55,238	65,238
Net working capital	-23,725	-17,993	-21,258	-24,897	-25,714
Cash and bank balance	768	1,810	2,859	2,848	2,686
<b>Capital deployed</b>	<b>54,929</b>	<b>51,387</b>	<b>57,372</b>	<b>65,017</b>	<b>73,470</b>
No. of shares (m)	200	200	200	200	200
Net debt	-30,462	-38,049	-48,098	-58,086	-67,924
Net debt / Equity	-0.7	-0.8	-0.9	-0.9	-0.9
WC turn days	-21	-9	-9	-9	-9
Book value (₹/sh)	214.8	250.7	280.7	318.9	361.3

Source: Company, Anand Rathi Research

**Fig 3 – Cash-flow statement (₹m)**

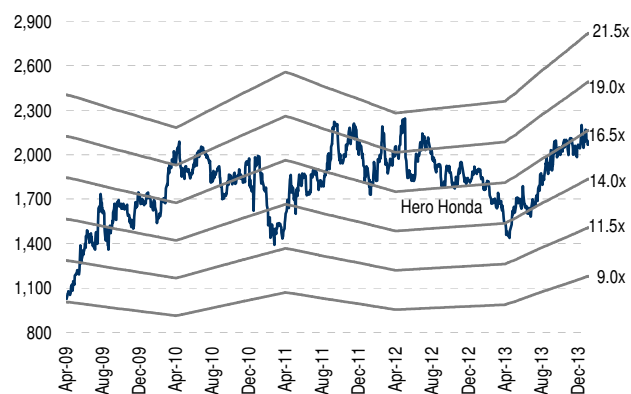
Year-end: Mar	FY12	FY13	FY14e	FY15e	FY16e
Reported Profit	23,752	21,182	21,962	27,615	32,417
+ Depreciation	10,974	11,418	11,798	7,705	6,568
Cash profit	34,726	32,599	33,759	35,319	38,985
- Incr./decr. in WC	22,967	5,732	-3,265	-3,639	-817
Operating cash-flow	11,758	26,867	37,025	38,959	39,802
- Capex	7,587	4,505	11,000	9,000	6,000
Free cash-flow	4,171	22,362	26,025	29,959	33,802
- Dividend	8,987	11,982	15,976	19,970	23,964
+ Equity raised	0	0	0	0	0
+ Debt raised	-4,636	-9,949	0	0	0
- Investments	-11,645	-3,404	9,000	10,000	10,000
- Misc. items	2,141	2,794	0	0	0
Net cash-flow	53	1,042	1,049	-11	-162
+ Op. cash & bank bal.	715	768	1,810	2,859	2,848
Cl. cash & bank bal.	768	1,810	2,859	2,848	2,686

Source: Company, Anand Rathi Research

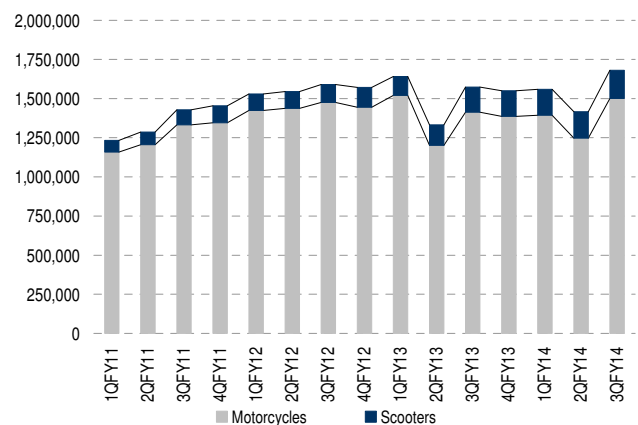
**Fig 4 – Ratio analysis @ ₹2,079**

Year-end: Mar	FY12	FY13	FY14e	FY15e	FY16e
P/E (x)	17.5	19.6	18.9	15.0	12.8
P/B (x)	9.7	8.3	7.4	6.5	5.8
EV/EBITDA (x)	10.7	11.5	9.9	8.6	7.5
RoE (%)	55.4	42.3	39.2	43.4	44.9
RoCE (%)	51.9	49.5	51.9	59.2	61.5
Dividend yield (%)	2.2	2.9	3.8	4.8	5.8
Dividend payout (%)	44.3	66.2	85.1	84.6	86.5
Debt to equity (%)	0.2	0.0	0.0	0.0	0.0
Core P/E (x)	19.4	22.6	22.0	17.1	14.5
Cash P/E	12.0	12.7	12.3	11.8	10.6
EV/sales	1.6	1.6	1.5	1.3	1.1
Inventory days	11	10	10	10	10
Receivables days	4	10	10	10	10
Payables days	36	29	29	29	29
Asset Turnover	4.3	4.6	4.4	4.3	4.4

Source: Company, Anand Rathi Research

**Fig 5 – PE band**


Source: Bloomberg, Anand Rathi Research

**Fig 6 – Product mix**


Source: Company

9 January 2014

## Eicher Motors

*Royal Enfield does well, CVs dip again; Sell*Rating: **Sell**

Target Price: ₹4,220

Share Price: ₹4,955

### Key takeaways

**Royal Enfield's performance steadfast.** The operating performance at Royal Enfield (RE) is expected to be strong, helped by robust sales and operating leverage. Following ~70% yoy volume growth, we expect income to grow ~76% yoy, to ₹5.2bn. EBITDA margin is expected to be 18%, up 750bps yoy. As a result, we expect Eicher Motors' standalone profits to be ₹705m, up 2x yoy.

**Lower CV sales to hit VE Commercial Vehicles' performance.** For the subsidiaries, we expect ~14% decline in revenues and 39% yoy decline in EBITDA. We expect EBITDA margin to be 4.4% (lower 120bps qoq, and 180bps yoy). Due to higher depreciation, profit is expected to decline 70% yoy to ₹114m.

**Consolidated profits to be led by RE.** Consolidated revenues would be impacted due to the current slump in M&H CV sales, but strong standalone performance is likely to undo a lot of the damage. We expect revenues to grow 2.1% yoy in the consolidated results. On weaker CV sales, we expect EBITDA margin to come at 8.6% (down 70bps qoq). We expect the adjusted net profit to be ₹819m, up 12.6% yoy.

**Our take.** Royal Enfield continues to be robust due to greater capacity and sustained demand. The M&H CV slide, however, is expected to result in a lower growth rate for VECV. The recent run-up in the stock price has rendered valuations rich. While we are optimistic from a long-term perspective, we downgrade the stock to a Sell to reflect the premium valuations. Our target price is ₹4,220. At the ruling price, the stock trades at a PE of 29.6x CY14e. **Risks.** Upside: Sequential improvement in operating performance, recovery in the CV cycle in CY15, and quicker revenue accretion from the engine plant.

Key data	EIM IN / EICH.BO
52-week high / low	₹5295 / ₹2512
Sensex / Nifty	20729 / 6175
3-m average volume	US\$0.9m
Market cap	₹133.97bn / US\$2.16bn
Shares outstanding	27m

Shareholding pattern (%)	Sep '13	Jun '13	Mar '13
Promoters	55.18	55.18	55.19
- of which, Pledged	-	-	-
Free Float	44.81	44.81	44.81
- Foreign Institutions	19.09	15.96	12.88
- Domestic Institutions	6.02	8.89	11.83
- Public	19.97	19.97	20.10

Financials (YE Dec)	CY13e	CY14e
Sales (₹m)	67,661	86,290
Net profit (₹m)	3,401	4,513
EPS (₹)	125.0	165.9
Growth (%)	4.9	32.7
PE (x)	39.6	29.6
PBV (x)	6.1	5.0
RoE (%)	15.6	16.8
RoCE (%)	18.7	20.6
Dividend yield (%)	0.5	0.5
Net gearing (%)	8.7	11.1

Source: Anand Rathi Research

Quarterly results (YE Dec)	4QCY12	4QCY13e	% yoy	9M CY12	9M CY13	% yoy
Sales (₹m)	16,536	16,885	2.1	47,363	50,776	7.2
EBITDA (₹m)	1,180	1,452	23.1	4,311	4,939	14.6
EBITDA margin (%)	7.1	8.6	146	9.1	9.7	63
Interest (₹m)	10	23	135.4	28	41	46.6
Depreciation (₹m)	245	369	50.6	577	907	57.2
Other income (₹m)	271	244	-10.1	1,095	808	-26.3
PBT (₹m)	1,196	1,312	9.7	4,801	5,326	10.9
Tax (₹m)	145	317	119.3	1,104	1,284	16.3
Tax rate (%)	12.1	24.1	1,206	23.0	24.1	112
Adjusted Profit (₹m)	727	819	12.6	2,515	2,582	2.6

Source: Company

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## Quick Glance – Financials and Valuations

**Fig 1 – Income statement (₹m)**

Year-end: Dec	CY10	CY11	CY12	CY13e	CY14e
Net revenues	44,213	56,844	63,899	67,661	86,290
Revenue growth (%)	49.5	28.6	12.4	5.9	27.5
- Op. expenses	40,402	50,951	58,409	61,271	77,834
<b>EBIDTA</b>	<b>3,811</b>	<b>5,894</b>	<b>5,490</b>	<b>6,391</b>	<b>8,456</b>
EBITDA margin (%)	8.6	10.4	8.6	9.4	9.8
- Interest expenses	95	77	38	56	56
- Depreciation	573	640	822	1,275	1,546
+ Other income	1,034	1,425	1,366	1,052	896
- Extraordinary items	0	0	0	-527	0
- Tax	1,108	1,628	1,249	1,601	1,938
Effective tax rate (%)	26.5	24.7	20.8	24.1	25.0
Reported Profit bef MI	3,069	4,974	4,749	5,037	5,813
Profit after MI	1,889	3,088	3,243	3,796	4,513
<b>Adj. Profit</b>	<b>1,889</b>	<b>3,088</b>	<b>3,243</b>	<b>3,401</b>	<b>4,513</b>
Adj. Profit growth (%)	126.5	63.4	5.0	4.9	32.7
Adj. FDEPS (₹/share)	69.4	113.5	119.2	125.0	165.9

Source: Company, Anand Rathi Research

**Fig 2 – Balance sheet (₹m)**

Year-end: Dec	CY10	CY11	CY12	CY13e	CY14e
Share capital	269	270	270	270	270
Reserves & surplus	12,052	14,661	17,279	21,592	26,589
Net worth	12,321	14,931	17,549	21,862	26,859
Total debt	956	371	384	384	384
Def. tax liab. (net)	7,023	9,021	10,717	10,717	10,717
<b>Capital employed</b>	<b>20,301</b>	<b>24,324</b>	<b>28,649</b>	<b>32,962</b>	<b>37,959</b>
Net fixed assets	4,547	8,567	14,962	13,143	15,097
Investments	4,586	5,126	6,385	7,185	9,085
Net working capital	-1,289	-1,285	-733	-779	-872
Cash and bank balance	12,457	11,915	8,035	13,414	14,650
<b>Capital deployed</b>	<b>20,301</b>	<b>24,324</b>	<b>28,649</b>	<b>32,962</b>	<b>37,959</b>
No. of shares (m)	0	0	0	0	0
Net Debt	-16,086	-16,670	-14,036	-20,215	-23,350.5
Net debt / Equity	-1.3	-1.1	-0.8	-0.9	-0.9
WC turn days	-1	-1	-1	-1	-1
Book value (₹/sh)	457	553	650	810	995

Source: Company, Anand Rathi Research

**Fig 3 – Cash-flow statement (₹m)**

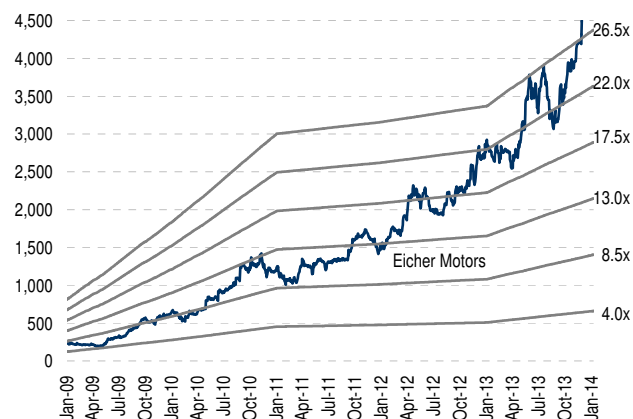
Year-end: Dec	CY10	CY11	CY12	CY13e	CY14e
Reported Profit	3,069	4,974	4,749	5,037	5,813
+ Depreciation	573	640	822	1,275	1,546
Cash profit	3,642	5,614	5,570	6,313	7,359
- Incr./decr. in WC	-297	111	758	129	82
Operating cash-flow	3,939	5,503	4,812	6,184	7,277
- Capex	1,363	4,660	7,216	-544	3,500
Free cash-flow	2,576	843	-2,404	6,728	3,777
- Dividend	296	432	540	621	700
+ Equity raised	143	1	0	0	0
+ Debt raised	-307	-585	12	0	0
- Investments	-1,645	-540	-1,259	-800	-1,900
- Misc. items	3,010	909	2,207	1,527	3,741
Net cash-flow	750	-542	-3,880	5,379	1,236
+ Op. cash & bank bal.	11,707	12,457	11,915	8,035	13,414
Cl. cash & bank bal.	12,457	11,915	8,035	13,414	14,650

Source: Company, Anand Rathi Research

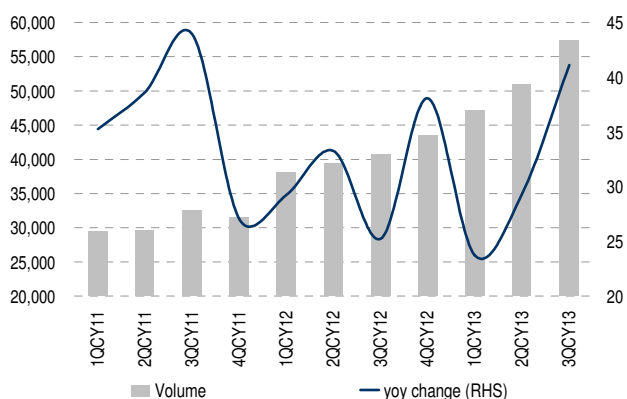
**Fig 4 – Ratio analysis @ ₹4,955**

Year-end: Dec	CY10	CY11	CY12	CY13e	CY14e
P/E (x)	70.7	43.3	41.3	39.6	29.6
P/B (x)	10.8	9.0	7.6	6.1	5.0
EV/EBITDA (x)	30.8	19.9	21.8	17.8	13.1
RoE (%)	15.3	20.7	18.5	15.6	16.8
RoCE (%)	21.0	27.5	21.1	18.7	20.6
Dividend yield (%)	0.2	0.3	0.4	0.5	0.5
Dividend payout (%)	18.3	16.3	19.4	21.3	18.1
Debt to equity (%)	0.1	0.0	0.0	0.0	0.0
Core P/E (x)	157.6	81.1	71.9	57.4	37.3
Cash P/E	36.7	23.8	24.0	21.2	18.2
EV/sales	2.7	2.1	1.9	1.7	1.3
Inventory days	27.1	27.7	28.2	28.2	28.2
Receivables days	21.7	22.3	25.7	25.7	25.7
Payables days	50.1	51.4	55.1	55.1	55.1
Asset Turnover	5.4	5.7	4.1	3.4	3.7

Source: Company, Anand Rathi Research

**Fig 5 – PE band**


Source: Bloomberg, Anand Rathi Research

**Fig 6 – Trend in volume growth**


Source: Company, Anand Rathi Research

9 January 2014

## Ashok Leyland

*Weak demand persists; Sell*

Rating: **Sell**

Target Price: ₹13

Share Price: ₹18

### Key takeaways

**Sales down yoy and qoq.** Ashok Leyland's 3QFY14 sales were poor, down 18.4% yoy, capping a weak 9MFY14. The decline is all encompassing, as LCVs dipped 4.1% yoy and M&H CVs were down 26.4% yoy. A near-term recovery is unlikely, although 3Q may mark the bottom in absolute volumes. A full-fledged cyclical recovery is likely only in 2HFY15.

**Revenues to dip.** For a fifth consecutive quarter, AL's revenues are expected to decline in 3QFY14. Moreover, we do not expect any respite for the company in 4Q either. On the 18.4% yoy volume decline, and an expected 1% yoy dip in realisations, we expect AL's 3Q revenues to be ₹19.2bn, lower 19.3% yoy and 24.6% qoq.

**Losses to sustain for third successive quarter.** On low operating leverage, we expect 3Q EBITDA margin to be 1%, while there would be an adjusted loss of ₹1.1bn. Sale of 1.8m IndusInd Bank shares would provide a boost to the reported profit in 3Q.

**Our take.** With the company at the wrong end of the CV cycle, the poor performance is likely to continue in 1HCY14. Although its LCV, Dost, was faring better, its recent performance has been a bit restrained. The bread-and-butter M&H CV segment continues to sputter. We have a Sell on the stock because of the ongoing downswing in the M&H CV cycle, with a short-term recovery appearing unlikely. While the low 2HFY13 base would arrest the fall, recouped volumes based on swelling demand are likely only in 2HFY15. On a positive note, the company is taking steps to de-leverage the balance sheet, which is a long-term positive; in the near-term, the cyclical downturn would be an overbearing factor. The stock quotes at 12x FY15e EV/EBITDA. Our target of ₹13 is based upon a target EV/E of 10.5x FY15e. **Risks.** Strong economic growth, rise in freight rates, more-than-expected LCV profitability.

Key data	ALIN / AL.BO
52-week high / low	₹28 / ₹12
Sensex / Nifty	20729 / 6175
3-m average volume	US\$3.7m
Market cap	₹47.1bn / US\$759.5m
Shares outstanding	2,661m

Shareholding pattern (%)	Sep '13	Jun '13	Mar '13
Promoters	38.61	38.61	38.61
- of which, Pledged	14.11	14.11	7.05
Free Float	61.39	61.39	61.39
- Foreign Institutions	16.00	17.07	16.89
- Domestic Institutions	12.38	12.81	13.13
- Public	33.01	31.51	31.37

Financials (YE Mar)	FY14e	FY15e
Sales (₹m)	100,726	116,528
Net profit (₹m)	-3,109	753
EPS (₹)	-1.2	0.3
Growth (%)	-291.6	-124.2
PE (x)	-15.4	63.6
PBV (x)	1.6	1.6
RoE (%)	-10.6	2.6
RoCE (%)	-0.4	5.7
Dividend yield (%)	0.0	1.4
Net gearing (%)	67.8	70.1

Source: Anand Rathi Research

Quarterly results (YE Mar)	3QFY13	3QFY14e	% yoy	1HFY13	1HFY14	% yoy
Sales (₹m)	23,805	19,221	-19.3	63,034	49,134	-22.1
EBITDA (₹m)	1,023	190	-81.5	5,628	795	-85.9
EBITDA margin (%)	4.3	1.0	-331	8.9	1.6	-731bps
Interest (₹m)	1,071	1,178	10.0	1,870	2,251	20.4
Depreciation (₹m)	931	922	-1.0	1,877	1,853	-1.3
Other income (₹m)	141	148	5.0	367	354	-3.7
PBT (₹m)	725	-1,153	-259.1	2,369	-2,517	-206.3
Tax (₹m)	-17	-529	3,028.2	273	-914	-434.7
Tax rate (%)	-2.3	45.9	4,820	11.5	36.3	2,478bps
Adjusted Profit (₹m)	-665	-1,173	76.4	1,987	-2,003	-200.8

Source: Company

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## Quick Glance – Financials and Valuations

**Fig 1 – Income statement (₹m)**

Year-end: Mar	FY12	FY13	FY14e	FY15e	FY16e
Net revenues	129,043	124,812	100,726	116,528	133,728
Revenue growth (%)	15.5	-3.3	-19.3	15.7	14.8
- Op. expenses	115,972	116,167	98,087	107,810	121,811
<b>EBIDTA</b>	<b>13,071</b>	<b>8,645</b>	<b>2,638</b>	<b>8,718</b>	<b>11,917</b>
EBITDA margin (%)	10.1	6.9	2.6	7.5	8.9
- Interest expenses	2,553	3,769	4,611	4,280	4,048
- Depreciation	3,528	3,808	3,720	4,192	4,392
+ Other income	404	624	698	758	823
- Extraordinary items	494	-3,016	-982	0	0
- Tax	1,240	370	-1,787	251	1,075
Effective tax rate (%)	18.0	7.9	44.5	25.0	25.0
Reported Profit	5,660	4,337	-2,225	753	3,225
<b>Adjusted Profit</b>	<b>6,092</b>	<b>1,623</b>	<b>-3,109</b>	<b>753</b>	<b>3,225</b>
Adj. Profit growth (%)	-3.5	-73.4	-291.6	-124.2	328.0
Adj. FDEPS (₹/share)	2.3	0.6	-1.2	0.3	1.2
Adj. FDEPS growth (%)	-3.5	-73.4	-291.6	-124.2	328.0

Source: Company, Anand Rathi Research

**Fig 2 – Balance sheet (₹m)**

Year-end: Mar	FY12	FY13	FY14e	FY15e	FY16e
Share capital	2,661	2,661	2,661	2,661	2,661
Reserves & surplus	26,287	28,933	26,708	26,684	28,352
Net worth	28,948	31,594	29,369	29,344	31,013
Total debt	31,421	44,261	59,761	58,761	58,761
Def. tax liab. (net)	4,945	5,264	5,264	5,264	5,264
<b>Capital employed</b>	<b>65,315</b>	<b>81,119</b>	<b>94,394</b>	<b>93,369</b>	<b>95,038</b>
Net fixed assets	41,484	46,742	51,022	50,830	50,439
Investments	15,345	23,376	25,376	23,376	24,876
Net working capital	8,161	10,861	16,714	17,291	16,496
Cash and bank balance	326	139	1,282	1,872	3,227
<b>Capital deployed</b>	<b>65,314</b>	<b>81,119</b>	<b>94,394</b>	<b>93,369</b>	<b>95,038</b>
No. of shares (m)	2,661	2,661	2,661	2,661	2,661
Net debt	31,096	44,122	58,479	56,889	55,534
Net debt / Equity	1.1	1.4	2.0	1.9	1.8
WC turn days	26	25	35	35	35
Book value (₹/sh)	10.9	11.9	11.0	11.0	11.7

Source: Company, Anand Rathi Research

**Fig 3 – Cash-flow statement (₹m)**

Year-end: Mar	FY12	FY13	FY14e	FY15e	FY16e
Reported Profit	5,660	4,337	-2,225	753	3,225
+ Depreciation	3,528	3,808	3,720	4,192	4,392
Cash profit	9,188	8,145	1,495	4,945	7,617
- Incr./(decr.) in WC	2,010	2,701	5,852	577	-795
Operating cash-flow	7,178	5,444	-4,358	4,368	8,412
- Capex	7,477	8,923	8,000	4,000	4,000
Free cash-flow	-299	-3,479	-12,358	368	4,412
- Dividend	2,661	1,596	0	665	1,330
+ Equity raised	0	0	0	0	0
+ Debt raised	5,326	12,840	15,500	-1,000	0
- Investments	3,045	8,032	2,000	-2,000	1,500
- Misc. items	791	-81	0	113	226
Net cash-flow	-1,469	-186	1,142	590	1,355
+ Op. cash & bank bal.	1,795	326	139	1,282	1,872
Cl. cash & bank bal.	326	139	1,282	1,872	3,227

Source: Company, Anand Rathi Research

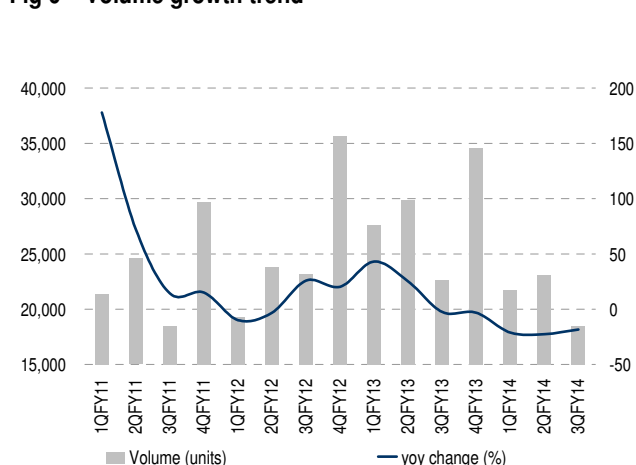
**Fig 4 – Ratio analysis @ ₹18**

Year-end: Mar	FY12	FY13	FY14e	FY15e	FY16e
P/E (x)	7.9	29.5	-15.4	63.6	14.8
P/B (x)	1.7	1.5	1.6	1.6	1.5
EV/EBITDA (x)	6.0	10.6	40.3	12.0	8.7
RoE (%)	21.0	5.1	-10.6	2.6	10.4
RoCE (%)	15.2	6.7	-0.4	5.7	8.8
Dividend yield (%)	5.6	3.3	0.0	1.4	2.8
Dividend payout (%)	43.7	98.4	0.0	88.3	41.2
Debt to equity (%)	1.1	1.4	2.0	2.0	1.9
Core P/E (x)	8.3	41.4	-13.2	259.1	18.4
Cash P/E	5.0	8.8	78.4	9.7	6.3
EV/sales	0.5	0.5	0.8	0.7	0.6
Inventory days	64	57	50	55	55
Receivables days	35	42	40	40	40
Payables days	74	74	55	60	60
Asset Turnover	1.9	1.5	1.0	1.2	1.4

Source: Company, Anand Rathi Research

**Fig 5 – PB band**


Source: Bloomberg, Anand Rathi Research

**Fig 6 – Volume growth trend**


Source: Company



9 January 2014

## TVS Motors

*Competitive pressures continue; Sell*Rating: **Sell**

Target Price: ₹60

Share Price: ₹71

### Key takeaways

**Weak demand continues.** During 3QFY14, TVS Motors' sales of mopeds were down 10.1% yoy. Motorcycles and scooters fared better, registering 1.7% and 9.4% yoy sales growth, respectively, on a lower base. The three-wheeler segment displayed a strong growth trajectory, up 49.7% yoy. Three-wheelers have been up consistently, while two wheelers continue to struggle.

**3QFY14 results to be decent.** On a lower base the previous year, 3QFY14 results are expected to be decent, with 10.2% yoy revenue growth (0.2% volume growth yoy and 10% yoy realisation improvement), to ₹19.8bn. The EBITDA margin is expected to be 5.9% (flat yoy and qoq). We expect 8.5% yoy EBITDA growth. As we expect lower interest expense yoy, we anticipate profit to grow 15.3% yoy, to ₹605m. Our profit margin expectation is 3% (10bps higher yoy, 10bps lower qoq).

**Per-unit parameters lower qoq.** We expect EBITDA per vehicle to be 8.3% higher yoy (lower 3.3% qoq), while the contribution per vehicle is expected to be up 9.2% yoy (2.3% qoq). Profit per vehicle is expected to be 15.1% higher yoy (lower 4.2% qoq).

**Our take.** Restrained domestic and overseas sales resulted in TVS Motors reporting lower 1QFY14 results yoy. In 2Q, the performance was much better, driven by higher realizations. While intense competition, subdued domestic demand and lower overseas sales curtailed potential for yoy growth in 1HFY14, demand recovery is likely in FY15. The 1QFY14 volume decline was 4.7% (after a 7.5% yoy decline in FY13), while 2Q and 3Q growth at 4.3% yoy and 0.2% yoy respectively was also subdued. In view of the recent run-up in the stock price, we downgrade to a Sell. **Risks.** Above-expected demand and operating performance, possibility of a technology tie-up or partnership with a foreign partner, which would lead to faster product development and new product launches.

Key data	TVSL IN / TVSM.BO
52-week high / low	₹82 / ₹28
Sensex / Nifty	20729 / 6175
3-m average volume	US\$1.1m
Market cap	₹37.22bn / US\$600.3m
Shares outstanding	475.1m

Shareholding pattern (%)	Sep '13	Jun '13	Mar '13
Promoters	57.40	57.40	57.40
- of which, Pledged	-	-	-
Free Float	42.60	42.60	42.60
- Foreign Institutions	2.51	2.60	1.83
- Domestic Institutions	18.29	18.11	18.18
- Public	21.80	21.89	22.59

Financials (YE Mar)	FY14e	FY15e
Sales (₹m)	77,614	85,698
Net profit (₹m)	2,308	2,645
EPS (₹)	4.9	5.6
Growth (%)	16.7	14.6
PE (x)	14.6	12.8
PBV (x)	2.4	2.1
RoE (%)	16.4	16.6
RoCE (%)	16.4	17.7
Dividend yield (%)	2.1	2.5
Net gearing (%)	58.3	53.8

Source: Anand Rathi Research

Quarterly results (YE Mar)	3QFY13	3QFY14e	% yoy	1HFY13	1HFY14e	% yoy
Sales (₹m)	17,992	19,827	10.2	35,104	37,486	6.8
EBITDA (₹m)	1,070	1,161	8.5	2,087	2,155	3.3
EBITDA margin (%)	5.9	5.9	-9	5.9	5.7	-20bps
Interest (₹m)	118	70	-40.7	307	117	-61.7
Depreciation (₹m)	328	340	3.8	630	629	-0.1
Other income (₹m)	46	55	20.1	92	163	77.6
PBT (₹m)	670	806	20.3	1,243	1,875	50.9
Tax (₹m)	146	202	38.5	280	468	67.2
Tax rate (%)	21.7	25.0	328	22.5	25.0	244bps
Adjusted Profit (₹m)	525	605	15.3	963	1,134	17.8

Source: Company

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## Quick Glance – Financials and Valuations

**Fig 1 – Income statement (₹m)**

Year-end: Mar	FY12	FY13	FY14e	FY15e	FY16e
Net revenues	71,262	70,650	77,614	85,698	94,906
Revenue growth (%)	13.3	-0.9	9.9	10.4	10.7
- Op. expenses	66,568	66,560	73,113	80,471	89,021
<b>EBIDTA</b>	<b>4,694</b>	<b>4,090</b>	<b>4,502</b>	<b>5,228</b>	<b>5,884</b>
EBITDA margin (%)	6.6	5.8	5.8	6.1	6.2
- Interest expenses	571	480	282	349	349
- Depreciation	1,175	1,304	1,351	1,503	1,654
+ Other income	217	238	274	298	324
- Extraordinary items	0	908	-303	0	0
- Tax	674	476	864	1,029	1,178
Effective tax rate (%)	21.3	29.1	25.1	28.0	28.0
Reported Profit	2,491	1,160	2,581	2,645	3,028
<b>Adjusted Profit</b>	<b>2,491</b>	<b>1,978</b>	<b>2,308</b>	<b>2,645</b>	<b>3,028</b>
Adj. Profit growth (%)	28.0	-20.6	16.7	14.6	14.5
Adj. FDEPS (₹/share)	5.2	4.2	4.9	5.6	6.4
Adj. FDEPS growth (%)	28.0	-20.6	16.7	14.6	14.5

Source: Company, Anand Rathi Research

**Fig 2 – Balance sheet (₹m)**

Year-end: Mar	FY12	FY13	FY14e	FY15e	FY16e
Share capital	475	475	475	475	475
Reserves & surplus	11,218	11,772	13,640	15,454	17,532
Net worth	11,693	12,247	14,115	15,929	18,007
Total debt	8,311	5,459	5,809	5,809	5,809
Def. tax liab. (net)	976	931	931	931	931
<b>Capital employed</b>	<b>20,979</b>	<b>18,637</b>	<b>20,855</b>	<b>22,669</b>	<b>24,747</b>
Net fixed assets	10,781	10,476	12,124	13,122	14,468
Investments	9,309	8,688	8,688	9,688	10,688
Net working capital	759	-702	-736	-760	-786
Cash and bank balance	130	175	778	619	377
<b>Capital deployed</b>	<b>20,979</b>	<b>18,637</b>	<b>20,855</b>	<b>22,669</b>	<b>24,747</b>
No. of shares (m)	475	475	475	475	475
Net debt	8,181	5,284	5,030	5,190	5,432
Net debt / Equity	17.2	11.1	10.6	10.9	11.4
WC turn days	4	-1	-1	-1	-1
Book value (₹/sh)	24.6	25.8	29.7	33.5	37.9

Source: Company, Anand Rathi Research

**Fig 3 – Cash-flow statement (₹m)**

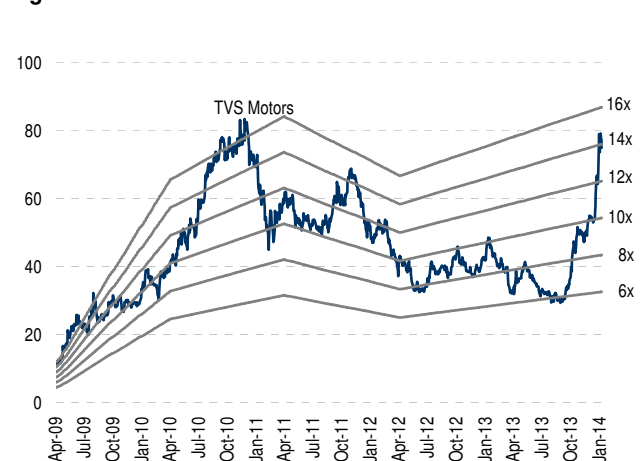
Year-end: Mar	FY12	FY13	FY14e	FY15e	FY16e
Reported Profit	2,491	1,160	2,581	2,645	3,028
+ Depreciation	1,175	1,304	1,351	1,503	1,654
Cash profit	3,666	2,464	3,932	4,148	4,682
- Incr./(decr.) in WC	-1,249	-1,461	-34	-24	-26
Operating cash-flow	4,915	3,926	3,966	4,172	4,708
- Capex	1,773	999	3,000	2,500	3,000
Free cash-flow	3,141	2,927	966	1,672	1,708
- Dividend	618	570	713	831	950
+ Equity raised	0	0	0	0	0
+ Debt raised	633	-2,852	350	0	0
- Investments	2,698	-621	0	1,000	1,000
- Misc. items	388	81	0	0	0
Net cash-flow	71	44	604	-159	-242
+ Op. cash & bank bal.	60	130	175	778	619
Cl. cash & bank bal.	131	174	778	619	377

Source: Company, Anand Rathi Research

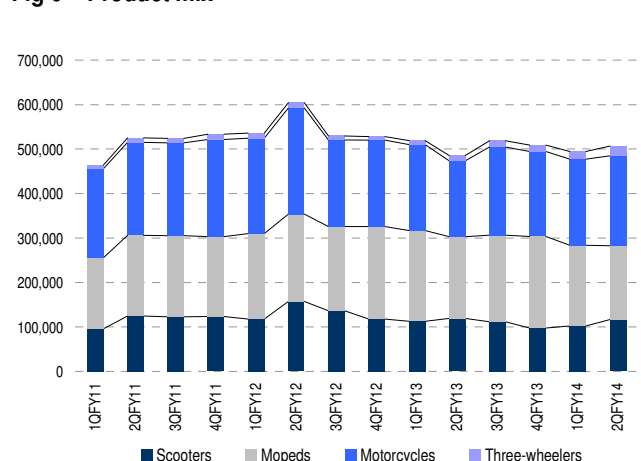
**Fig 4 – Ratio analysis @ ₹71**

Year-end: Mar	FY12	FY13	FY14e	FY15e	FY16e
P/E (x)	13.5	17.1	14.6	12.8	11.1
P/B (x)	2.9	2.8	2.4	2.1	1.9
EV/EBITDA (x)	8.9	9.5	8.6	7.4	6.7
RoE (%)	21.3	16.1	16.4	16.6	16.8
RoCE (%)	17.8	16.2	16.4	17.7	18.4
Dividend yield (%)	1.8	1.7	2.1	2.5	2.8
Dividend payout (%)	28.5	56.5	31.8	36.1	36.1
Debt to equity (%)	0.7	0.4	0.4	0.4	0.3
Core P/E (x)	14.8	19.4	16.6	14.4	12.5
Cash P/E	9.2	10.3	9.2	8.1	7.2
EV/sales	0.5	0.4	0.4	0.3	0.3
Inventory days	30.5	26.7	26.7	26.7	26.7
Receivables days	12.2	15.7	15.7	15.7	15.7
Payables days	38.5	43.1	43.1	43.1	43.1
Asset Turnover	3.3	3.7	3.7	3.7	3.8

Source: Company, Anand Rathi Research

**Fig 5 – PE band**


Source: Bloomberg, Anand Rathi Research

**Fig 6 – Product mix**


Source: Company

9 January 2014

## VST Tillers & Tractors

*Expect a healthy performance; Buy*

Rating: **Buy**

Target Price: ₹765

Share Price: ₹699

### Key takeaways

**3QFY14 should continue the 1H trend.** While tractor industry sales were robust in 1H, power tillers also displayed a good trajectory in 1H. Consequent on 24.1% yoy estimated volume growth, we expect 26.8% yoy revenue growth to ₹1.6bn. Our EBITDA margin expectation is 17.9% (up 200bps yoy, up 10bps qoq). We expect EBITDA to grow 42.6% yoy, to ₹279m. We expect ₹178m in profit, a 37.4% yoy growth (stable qoq).

**Per-unit parameters to improve yoy.** We expect realisations to be 2.2% higher yoy, while the contribution per unit is expected to be 9.9% higher yoy. While the base is no longer low as it was in 2Q, we expect EBITDA per vehicle and profit per vehicle to be 14.9% and 10.7% higher yoy.

**Long-term outlook good.** More than 50% of cultivated land is less than four hectares (of this ~42% is less than two hectares). Nearly 83% of operational landholders are marginal or small farmers, who own less than two hectares. This trend augurs well for the company.

**Our take.** Lower offtake of tractors and power tillers hit 2QFY13 performance. While 2HFY13 was better, 1HFY14 has marked a return to robust volumes. The management targets over 20% growth in FY14 (we estimate 25% and 22.5% growth for power tillers and tractors respectively). Demand for tractors is expected to be good, despite the company facing problems on sourcing a few components. In 3Q, power-tiller sale could be hit by adverse weather conditions in a key market. However, we are optimistic for the long term and maintain a Buy. The stock currently trades at 7.3x FY15e.

**Risks.** Intense competition, change in government policies, adverse weather conditions.

Key data	VSTT IN / VST.BO
52-week high / low	₹740 / ₹330
Sensex / Nifty	20729 / 6175
3-m average volume	US\$0.1m
Market cap	₹6.1bn / US\$98.1m
Shares outstanding	8.6m

Shareholding pattern (%)	Sep'13	Jun'13	Mar'13
Promoters	53.85	53.85	53.85
- of which, Pledged	-	-	-
Free Float	46.15	46.15	46.15
- Foreign Institutions	2.27	2.27	2.64
- Domestic Institutions	5.30	5.30	5.47
- Public	38.58	38.58	38.41

Financials (YE Mar)	FY14e	FY15e
Sales (₹m)	6,160	7,465
Net profit (₹m)	728	826
EPS (₹)	84.2	95.7
Growth (%)	49.8	13.6
PE (x)	8.3	7.3
PBV (x)	2.0	1.6
RoE (%)	23.7	21.8
RoCE (%)	35.2	32.5
Dividend yield (%)	1.4	1.6
Net gearing (%)	14.8	-2.7

Source: Anand Rathi Research

Quarterly results (YE Mar)	3QFY13	3QFY14e	% yoy	1HFY13	1HFY14	% yoy
Sales (₹m)	1,228	1,557	26.8	2,183	3,018	38.2
EBITDA (₹m)	196	279	42.6	313	538	72.2
EBITDA margin (%)	15.9	17.9	198	14.3	17.8	352bps
Interest (₹m)	3	3	0.0	5	7	37.0
Depreciation (₹m)	8	16	90.5	17	19	16.3
Other income (₹m)	3	3	0.0	13	39	188.1
PBT (₹m)	187	263	40.4	304	550	81.0
Tax (₹m)	58	86	46.9	98	186	88.9
Tax rate (%)	31.1	32.5	144	32.4	33.8	142bps
Profit (₹m)	129	178	37.4	206	364	77.2

Source: Company

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## Quick Glance – Financials and Valuations

**Fig 1 – Income statement (₹m)**

Year-end: Mar	FY12	FY13	FY14e	FY15e	FY16e
Net revenues	5,306	4,817	6,174	7,479	9,143
Revenue growth (%)	24.8	-9.2	28.2	21.1	22.3
- Op. expenses	4,578	4,095	5,073	6,203	7,563
<b>EBIDTA</b>	<b>728</b>	<b>722</b>	<b>1,101</b>	<b>1,275</b>	<b>1,580</b>
EBITDA margin (%)	13.7	15.0	17.8	17.1	17.3
- Interest expenses	9	13	14	15	17
- Depreciation	32	34	56	71	79
+ Other income	46	21	47	35	37
- Extraordinary items	0	0	0	0	0
- Tax	234	211	350	398	494
Effective tax rate (%)	31.9	30.2	32.5	32.5	32.5
Reported Profit	499	486	728	826	1,026
<b>Adjusted Profit</b>	<b>499</b>	<b>486</b>	<b>728</b>	<b>826</b>	<b>1,026</b>
Adj. Profit growth (%)	8.1	-2.7	49.8	13.6	24.2
Adj. FDEPS (₹/share)	57.8	56.2	84.2	95.7	118.8
Adj. FDEPS growth (%)	8.1	-2.7	49.8	13.6	24.2

Source: Company, Anand Rathi Research

**Fig 2 – Balance sheet (₹m)**

Year-end: Mar	FY12	FY13	FY14e	FY15e	FY16e
Share capital	86	86	86	86	86
Reserves & surplus	1,963	2,357	2,984	3,699	4,604
Net worth	2,049	2,444	3,070	3,786	4,691
Total debt	160	0	0	0	0
Def. tax liab. (net)	32	29	29	29	29
<b>Capital employed</b>	<b>2,241</b>	<b>2,473</b>	<b>3,100</b>	<b>3,815</b>	<b>4,720</b>
Net fixed assets	632	915	1,259	1,388	1,509
Investments	244	42	42	142	342
Working capital	1,159	1,187	1,614	2,028	2,553
Cash	206	329	185	258	317
<b>Capital deployed</b>	<b>2,241</b>	<b>2,473</b>	<b>3,100</b>	<b>3,815</b>	<b>4,720</b>
Net Debt	-290	-370	-226	-399	-658
No. of shares (m)	8.6	8.6	8.6	8.6	8.6
Net Debt/ Equity (%)	-2.2	-13.5	-6.0	-6.8	-6.8
WC days	103	120	120	120	120
Book value (₹/sh)	237	283	355	438	543

Source: Company, Anand Rathi Research

**Fig 3 – Cash-flow statement (₹m)**

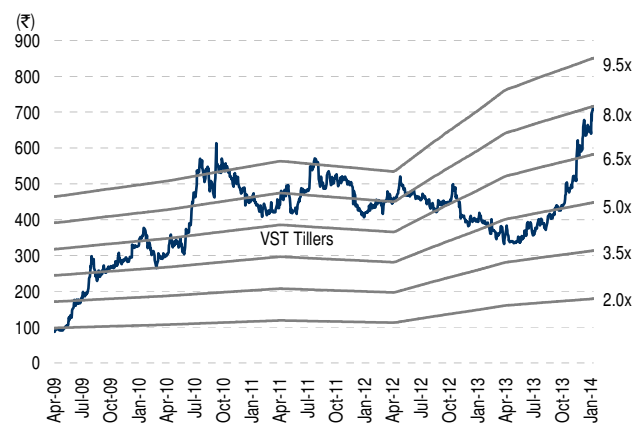
Year-end: Mar	FY12	FY13	FY14e	FY15e	FY16e
PAT	499	486	728	826	1,026
+ Non-cash items	32	34	56	71	79
Cash profit	531	519	784	898	1,106
- Incr./Decr. in WC	624	35	442	419	531
Operating cash-flow	-93	484	342	478	574
- Capex	107	317	400	200	200
Free cash-flow	-200	168	-58	278	374
- Dividend	78	78	86	95	104
+ Equity raised	0	0	0	0	0
+ Debt raised	160	-160	0	0	0
- Investments	-124	-202	0	100	200
- Misc. items	8	10	0	10	12
Net cash-flow	-2	123	-144	73	59
+ Op. cash & bank bal.	208	206	329	185	258
Cl. cash & bank bal.	206	329	185	258	317

Source: Company, Anand Rathi Research

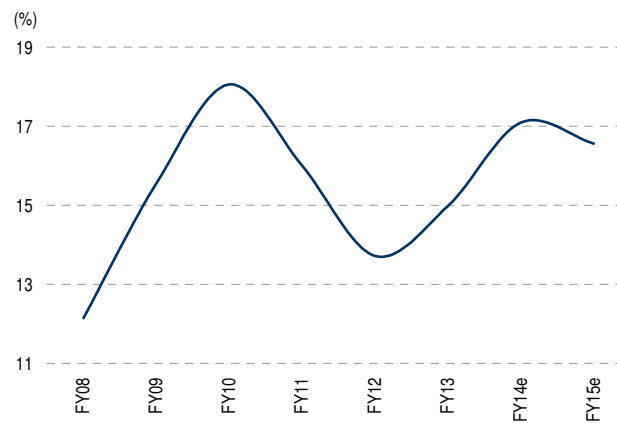
**Fig 4 – Ratio analysis @ ₹699**

Year-end: Mar	FY12	FY13	FY14e	FY15e	FY16e
P/E (x)	12.1	12.4	8.3	7.3	5.9
P/B (x)	2.9	2.5	2.0	1.6	1.3
EV/EBITDA (x)	7.9	7.9	5.3	4.4	3.4
RoE (%)	24.4	19.9	23.7	21.8	21.9
RoCE (%)	33.1	28.7	35.2	32.5	32.6
Dividend yield	1.3	1.3	1.4	1.6	1.7
Dividend payout (%)	15.6	16.0	11.9	1.1	1.0
Debt to equity (%)	0.1	0.0	0.0	0.0	0.0
Core P/E (x)	13.3	13.0	8.9	7.6	6.1
Cash P/E	11.4	11.6	7.7	6.7	5.5
EV/sales	1.1	1.2	0.9	0.8	0.6
Inventory days	45	63	63	63	63
Receivables days	85	74	74	74	74
Payables days	28	17	17	17	17
Asset Turnover	2.4	1.9	2.0	2.0	1.9

Source: Company, Anand Rathi Research

**Fig 5 – PE band**


Source: Bloomberg, Anand Rathi Research

**Fig 6 – EBITDA margin trend**


Source: Company

9 January 2014

## Motherson Sumi Systems

Good performance to continue; Buy

Rating: **Buy**

Target Price: ₹208

Share Price: ₹191

### Key takeaways

**Domestic performance to be decent.** While car sales in India have been lower yoy, Motherson Sumi Systems is in a position to ably combat this deceleration through supply for new models, consolidation of vendors by OEMs and the lower base for Maruti Suzuki. Ytd performance at its India operations has been good, as exports have been ramped up and plants were commissioned to meet further demand. We expect standalone revenue to grow 11.3% yoy, to ₹11.8bn, with adj. profit growth at 12.7% yoy, to ₹1.4bn.

**Steady performance by SMR, SMP.** We expect the Europe-centric companies, SMR and SMP, to maintain trajectories of steadily improving performances. We estimate SMP's 3QFY14 EBITDA margin to be 5.8% (up 180bps yoy, lower 20bps qoq) and SMR's at 8.8% (up 180bps yoy, lower 30bps qoq). Ahead, a recovery in European automotive production may strongly benefit both these companies.

**Consolidated results to be impressive.** Consolidated revenues could grow 11.4% yoy, to ₹74.2bn. We expect 9.5% consolidated EBITDA margin (up 190bps yoy). We expect adjusted profit to grow 54.8% yoy, to ₹2.2bn (up 0.8% qoq).

**Our take.** The company is expected to continue marching ahead, aided by product launches and customer additions, greater synergies from integrating its European acquisitions and the turnaround of its unprofitable plants. Launches by OEMs and customer additions would further boost growth. We retain a Buy, with a target of `208. At our target, the stock would trade at 16x Mar'15e; at the ruling price, it trades at 14.7x FY15e.

**Risks.** Sustained slowdown in demand, delay in launches of new models, currency volatility.

Key data	MSS IN / MOSS.BO
52-week high / low	₹205 / ₹116
Sensex / Nifty	20729 / 6175
3-m average volume	US\$1.2m
Market cap	₹168.4bn / US\$2.71bn
Shares outstanding	882m

Shareholding pattern (%)	Sep '13	Jun '13	Mar '13
Promoters	65.59	65.59	65.59
- of which, Pledged	16.82	17.36	17.85
Free Float	34.41	34.41	34.41
- Foreign Institutions	16.13	15.18	15.19
- Domestic Institutions	8.98	9.84	9.57
- Public	9.30	9.65	10.98

Financials (YE Mar)	FY14e	FY15e
Sales (₹m)	296,090	338,989
Net profit (₹m)	8,474	11,441
EPS (₹)	9.6	13.0
Growth (%)	56.9	35.0
PE (x)	19.9	14.7
PBV (x)	6.1	4.6
RoE (%)	29.6	35.4
RoCE (%)	22.7	26.8
Dividend yield (%)	1.2	1.3
Net gearing (%)	75.8	70.0

Source: Anand Rathi Research

Quarterly results (YE Mar)	3QFY13	3QFY14e	% yoy	1HFY13	1HFY14	% yoy
Sales (₹m)	66,626	74,197	11.4	122,785	143,256	16.7
EBITDA (₹m)	5,095	7,062	38.6	8,652	13,160	52.1
EBITDA margin (%)	7.6	9.5	187	7.0	9.2	214bps
Interest (₹m)	624	700	12.2	1,293	1,427	10.4
Depreciation (₹m)	1,822	2,075	13.9	3,311	3,869	16.8
Other income (₹m)	48	49	2.7	77	91	18.9
PBT (₹m)	1,918	4,336	126.1	2,791	5,098	82.6
Tax (₹m)	936	1,625	73.6	1,522	2,281	49.9
Tax rate (%)	48.8	37.5	-1,131	54.5	44.8	-975bps
PAT (₹m)	1,398	2,164	54.8	2,328	4,128	77.4

Source: Company

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## Quick Glance – Financials and Valuations

**Fig 1 – Income statement (₹m)**

Year-end: Mar	FY12	FY13e	FY14e	FY15e	FY16e
Net revenues	149,076	256,170	296,090	338,989	382,022
Revenue growth (%)	78.6	71.8	15.6	14.5	12.7
- Oper. expenses	138,332	236,730	268,792	305,410	342,966
<b>EBIDTA</b>	<b>10,744</b>	<b>19,440</b>	<b>27,298</b>	<b>33,579</b>	<b>39,056</b>
EBITDA margins (%)	7.2	7.6	9.2	9.9	10.2
- Interest	1,649	2,495	2,806	2,666	2,266
- Depreciation	3,796	7,145	8,217	9,039	9,716
+ Other income	135	170	191	215	241
- Extraordinaries & others	1,318	1,628	2,857	0	0
- Tax	2,153	3,835	5,443	9,056	11,199
Effective tax rate (%)	52.3	46.0	40.0	41.0	41.0
Reported PAT before MI	1,963	4,507	8,165	13,032	16,116
<b>Adjusted PAT</b>	<b>3,519</b>	<b>5,400</b>	<b>8,474</b>	<b>11,441</b>	<b>14,324</b>
PAT growth (%)	-1.8	53.5	56.9	35.0	25.2
Adj. FDEPS (₹/share)	4.0	6.1	9.6	13.0	16.2
Adj. FDEPS growth (%)	-1.8	53.5	56.9	35.0	25.2

Source: Company, Anand Rathi Research

**Fig 2 – Balance sheet (₹m)**

Year-end: Mar	FY12	FY13e	FY14e	FY15e	FY16e
Share capital	388	588	882	882	882
Reserves & surplus	18,329	22,302	26,747	35,983	47,882
Net worth	18,717	22,890	27,629	36,865	48,764
Total debt	46,023	40,712	50,712	47,712	44,712
Def. tax liab. (net)	5,629	4,585	6,685	7,885	8,085
<b>Capital employed</b>	<b>70,369</b>	<b>68,186</b>	<b>85,025</b>	<b>92,462</b>	<b>101,561</b>
Net fixed assets	51,379	56,629	68,412	74,373	79,657
Investments	938	717	867	1,017	1,167
Working capital	13,494	4,897	8,888	13,146	18,369
Cash	4,557	5,944	6,859	3,926	2,368
<b>Capital deployed</b>	<b>70,369</b>	<b>68,186</b>	<b>85,025</b>	<b>92,462</b>	<b>101,561</b>
Net debt	388	588	882	882	882
No. of shares (m)	41,466	34,768	43,854	43,786	42,344
Net debt/equity (x)	221.5	151.9	158.7	118.8	86.8
W C turn (days)	54	34	38	38	38
Book value (₹/sh)	48.3	38.9	31.3	41.8	55.3

Source: Company, Anand Rathi Research

**Fig 3 – Cash-flow statement (₹m)**

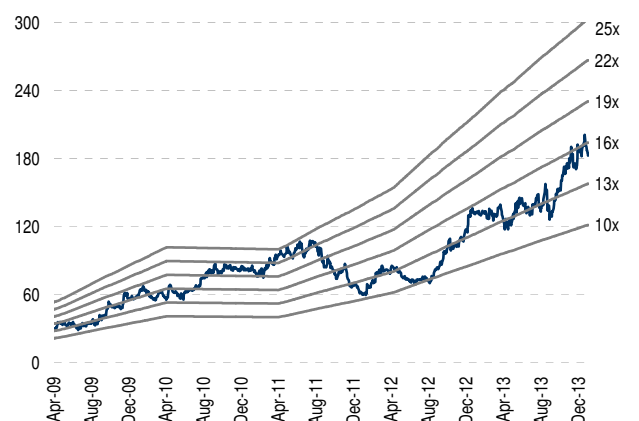
Year-end: Mar	FY12	FY13e	FY14e	FY15e	FY16e
PAT	2,596	4,445	6,474	11,441	14,324
+ Non-cash items	3,796	7,145	8,217	9,039	9,716
Cash profit	6,393	11,591	14,691	20,480	24,041
- Incr./decr. in WC	8,076	-8,598	3,992	4,257	5,224
Operating cash-flow	-1,684	20,188	10,699	16,222	18,817
- Capex	56,666	12,395	20,000	15,000	15,000
Free cash-flow	-58,349	7,794	-9,301	1,222	3,817
- Dividend	890	1,176	2,028	2,205	2,425
+ Equity raised	0	0	294	0	0
+ Debt raised	33,416	-5,311	10,000	-3,000	-3,000
- Investments	473	-221	150	150	150
- Misc. items	-27,322	141	-2,100	-1,200	-200
Net cash-flow	1,025	1,387	914	-2,932	-1,558
+ Op. cash & bank bal.	3,532	4,557	5,944	6,859	3,926
Cl. Cash & bank bal.	4,557	5,944	6,859	3,926	2,368

Source: Company, Anand Rathi Research

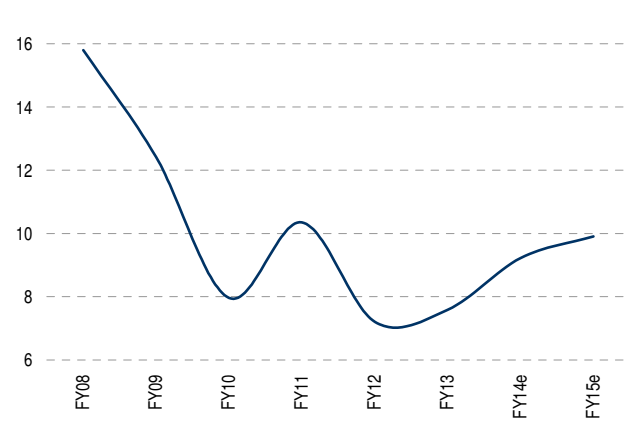
**Fig 4 – Ratio analysis @ ₹191**

Year-end: Mar	FY12	FY13e	FY14e	FY15e	FY16e
P/E (x)	47.9	31.2	19.9	14.7	11.8
P/B (x)	4.0	4.9	6.1	4.6	3.5
EV/EBITDA (x)	10.7	7.5	7.7	6.3	5.4
RoE (%)	10.5	19.7	29.6	35.4	33.0
RoCE (%)	10.1	18.3	22.7	26.8	29.1
Dividend yield (%)	1.2	1.0	1.2	1.3	1.4
Dividend payout (%)	34.3	26.4	31.3	19.3	16.9
Debt to equity (x)	2.5	1.8	1.8	1.3	0.9
Core P/E (x)	49.1	31.9	20.2	14.9	11.9
Cash P/E (x)	12.8	9.6	10.3	7.6	6.5
EV/sales (x)	0.8	0.6	0.7	0.6	0.6
Inventory days	55.8	37.7	44.0	44.0	44.0
Receivables days	74.8	42.5	40.0	40.0	40.0
Payables days	76.9	46.0	46.0	46.0	46.0
Asset T/O (x)	2.1	3.7	3.4	3.6	3.7

Source: Company, Anand Rathi Research

**Fig 5 – PE band**


Source: Bloomberg, Anand Rathi Research

**Fig 6 – EBITDA margin trend**


Source: Company, Anand Rathi Research

9 January 2014

## Exide Industries

*Lower base beckons; Buy*

### Key takeaways

**Weak demand.** During the quarter, following a weak demand trend, Exide Industries' had been forced to reduce prices. Competitors followed this move after a two month lag. This move came about after a disappointing performance in 2QFY14, where revenues declined 5.9% yoy, with subdued demand from both auto OEMs and industrial segments (telecoms, infrastructure, inverters).

**Subdued sales growth.** While OEM sales continue to be subdued in 3QFY14, auto-replacement demand is expected to be the major growth driver. We expect sales growth to come at just 4.9% yoy, to ₹15.3bn. In FY13, the company had regained some of its lost market share and hopes to further recover lost share.

**Margin to improve yoy.** We expect a 300bps yoy EBITDA margin growth (80bps higher yoy), to 14.7%. On the lower base of the previous year, we expect 26.1% yoy profit growth, to ₹1.4bn.

**Our take.** While FY13 performance was average, 4QFY13 and 1QFY14 had registered a markedly better trajectory. 2QFY14 saw a subdued trend again due to weak demand, which price increases could not counter. Consistency in operating performance and pricing discipline ahead would be crucial. We have a Buy rating, with a price target of ₹144, based upon a one-year forward standalone PE of 16x (amounting to ₹130), and value the company's investments in ING Vysya Life Insurance and Hathway Cable at ₹14. At the ruling price, the stock trades at 15.3x FY15e standalone earnings.

**Risks.** Market-share loss, sustained low demand, price wars, commodity risk and currency depreciation.

Quarterly results (YE Mar)	3QFY13	3QFY14e	% yoy	1HFY13	1HY14	% yoy
Sales (₹m)	14,632	15,348	4.9	30,749	30,595	-0.5
EBITDA (₹m)	1,711	2,249	31.4	4,313	4,676	8.4
EBITDA margin (%)	11.7	14.7	296	14.0	15.3	126bps
Interest (₹m)	11	8	-23.8	23	8	-64.5
Depreciation (₹m)	289	318	10.0	558	614	10.0
Other income (₹m)	121	80	-34.1	273	99	-63.8
PBT (₹m)	1,469	2,003	36.4	3,901	4,115	5.5
Tax (₹m)	428	631	47.6	1,179	1,341	13.7
Tax rate (%)	29.1	31.5	238	30.2	32.6	236bps
PAT (₹m)	1,088	1,372	26.1	2,797	2,802	0.2

Source: Company

Rating: **Buy**

Target Price: ₹144

Share Price: ₹124

Key data	EXID IN / EXID.BO
52-week high / low	₹150 / ₹111
Sensex / Nifty	20729 / 6175
3-m average volume	US\$4.2m
Market cap	₹105.4bn / US\$1.70bn
Shares outstanding	850m

Shareholding pattern (%)	Sep'13	Jun'13	Mar'13
Promoters	45.99	45.99	45.99
- of which, Pledged	-	-	-
Free Float	54.01	54.01	54.01
- Foreign Institutions	17.48	17.33	17.67
- Domestic Institutions	15.74	14.48	13.63
- Public	20.79	22.20	22.71

Financials (YE Mar)	FY14e	FY15e
Sales (₹m)	62,445	71,422
Net profit (₹m)	5,842	6,786
EPS (₹)	6.9	8.0
Growth (%)	11.5	16.2
PE (x)	18.0	15.5
PBV (x)	2.7	2.4
RoE (%)	15.2	15.7
RoCE (%)	21.9	22.6
Dividend yield (%)	1.6	1.8
Net gearing (%)	10.8	12.9

Source: Anand Rathi Research

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## Quick Glance – Financials and Valuations

**Fig 1 – Income statement (₹m)**

Year-end: Mar	FY12	FY13	FY14e	FY15e	FY16e
Net revenues	51,110	60,768	62,445	71,422	81,935
Revenue growth (%)	12.2	18.9	2.8	14.4	14.7
- Op. expenses	44,232	52,859	53,063	60,584	69,421
<b>EBIDTA</b>	<b>6,879</b>	<b>7,910</b>	<b>9,382</b>	<b>10,837</b>	<b>12,514</b>
EBITDA margin (%)	13.5	13.0	15.0	15.2	15.3
- Interest expenses	53	42	25	25	25
- Depreciation	1,007	1,135	1,225	1,303	1,471
+ Other income	633	704	460	470	527
- Extraordinaries	0	15	38	0	0
- Tax	1,840	2,195	2,737	3,193	3,694
Effective tax rate (%)	28.5	29.6	32.0	32.0	32.0
Reported PAT	4,612	5,228	5,817	6,786	7,850
<b>Adjusted PAT</b>	<b>4,612</b>	<b>5,238</b>	<b>5,842</b>	<b>6,786</b>	<b>7,850</b>
PAT growth (%)	-26.2	13.6	11.5	16.2	15.7
FDEPS (₹/share)	5.4	6.2	6.9	8.0	9.2
FDEPS growth (%)	-26.2	13.6	11.5	16.2	15.7

Source: Company, Anand Rathi Research

**Fig 2 – Balance sheet (₹m)**

Year-end: Mar	FY11	FY12	FY13	FY14e	FY15e
Share capital	850	850	850	850	850
Reserves & surplus	29,723	33,386	37,503	42,376	48,102
Net worth	30,573	34,236	38,353	43,226	48,952
Total debt	0	0	0	0	0
Def. tax liab. (net)	825	977	977	977	977
<b>Capital employed</b>	<b>31,398</b>	<b>35,212</b>	<b>39,329</b>	<b>44,203</b>	<b>49,928</b>
Net fixed assets	9,932	10,532	11,307	13,004	14,533
Investments	15,546	16,401	18,401	20,901	23,401
Working capital	5,343	7,531	7,751	9,299	11,113
Cash	577	748	1,870	999	882
<b>Capital deployed</b>	<b>31,398</b>	<b>35,212</b>	<b>39,329</b>	<b>44,203</b>	<b>49,928</b>
Net Debt	-576.7	-747.9	-1,870.0	-999.4	-881.6
No. of shares (m)	850	850	850	850	850
Net Debt/ Equity (%)	-1.9	-2.2	-4.9	-2.3	-1.8
WC days	57	67	67	67	67
Book value (₹/sh)	36.0	40.3	45.1	50.9	57.6

Source: Company, Anand Rathi Research

**Fig 3 – Cash-flow statement (₹m)**

Year-end: Mar	FY11	FY12	FY13	FY14e	FY15e
PAT	4,612	5,228	5,817	6,786	7,850
+ Non-cash items	1,007	1,135	1,225	1,303	1,471
Cash profit	5,618	6,363	7,042	8,089	9,321
- Incr./Decr. in WC	62	2,200	220	1,547	1,814
Operating cash-flow	5,557	4,163	6,822	6,542	7,507
- Capex	1,946	1,735	2,000	3,000	3,000
Free cash-flow	3,611	2,428	4,822	3,542	4,507
- Dividend	1,275	1,360	1,700	1,913	2,125
+ Equity raised	0	0	0	0	0
+ Debt raised	-1	0	0	0	0
- Investments	1,766	855	2,000	2,500	2,500
- Misc. items	139	42	0	0	0
Net cash-flow	430	171	1,122	-871	-118
+ Op. cash & bank bal.	147	577	748	1,870	999
Cl. cash & bank bal.	577	748	1,870	999	882

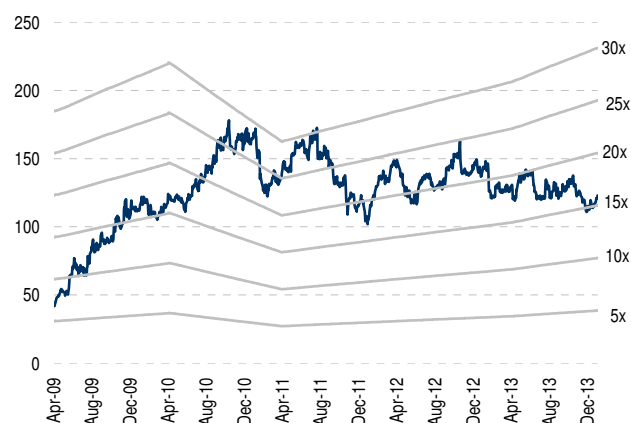
Source: Company, Anand Rathi Research

**Fig 4 – Ratio analysis @ ₹124**

Year-end: Mar	FY11	FY12	FY13	FY14e	FY15e
P/E (x)	22.9	20.1	18.0	15.5	13.4
P/B (x)	3.4	3.1	2.7	2.4	2.2
EV/EBITDA (x)	13.0	11.2	9.1	7.7	6.5
RoE (%)	15.1	15.3	15.2	15.7	16.0
RoCE (%)	20.7	21.2	21.9	22.6	23.2
Dividend yield	1.2	1.3	1.6	1.8	2.0
Dividend payout (%)	27.6	26.0	29.1	28.2	27.1
Debt to equity (%)	0.0	0.0	0.0	0.0	0.0
Core P/E (x)	25.2	22.1	19.0	16.3	14.1
Cash P/E	18.8	16.5	14.9	13.0	11.3
EV/sales	1.7	1.5	1.4	1.2	1.0
Inventory days	69	70	70	70	70
Receivables days	29	31	31	31	31
Payables days	41	34	34	34	34
Asset Turnover	1.6	1.7	1.6	1.6	1.6

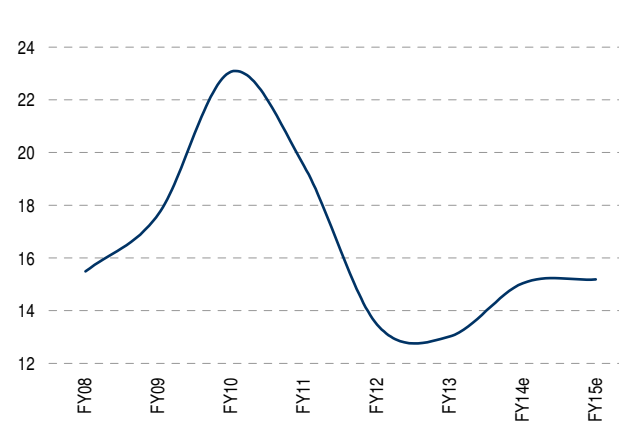
Source: Company, Anand Rathi Research

**Fig 5 – PE band**



Source: Bloomberg, Anand Rathi Research

**Fig 6 – EBITDA margin trend**



Source: LME



9 January 2014

## Bharat Forge

*Export boost; Hold*Rating: **Hold**

Target Price: ₹321

Share Price: ₹329

### Key takeaways

**Tonnage to grow on low base.** Bharat Forge's production tonnage is expected to grow 14% yoy during 3QFY14 on a lower base of the previous year, where the company witnessed shrunken customer demand in India and Europe. Qoq, the trajectory is expected to be flat. At home, continued slowdown in M&H CVs and lower non-auto offtake have impacted sales, but higher exports, along with better rupee realisation would boost it. We are optimistic about the company's long-term strategy to become a diversified forgings-parts manufacturer as well as strong US demand in FY13, but believe these will not suffice to counter stagnation in domestic revenue.

**Standalone profitability benefits from lower base.** We expect standalone income to grow 24.4% yoy, to ₹8.4bn. We expect a sequential reduction of 40bps in the EBITDA margin, to 26%, and a 52.7% yoy growth in EBITDA. EBITDA per ton is expected to be 34% higher yoy. Our profit expectation is ₹934m, a 96.6% yoy growth on a depressed base.

**Subsidiaries too expected to do well.** As in 2QFY14, Bharat Forge's wholly-owned subsidiary and China revenues are expected to do well, boosted by strong demand from Europe. The key would be to sustain the momentum into CY14, which may prove to be difficult. We also expect PBT losses at the China operations to continue.

**Our take.** As the company largely depends on M&H CVs, the ongoing slowdown in the segment could weigh on its results. Favourable currency movement, though, is a positive, together with a better product mix. On short-to-medium term concerns, we retain Hold on the stock. It trades at 18x FY15e consolidated EPS, which would be a 20% discount to its past four-year average). **Risks.** Downside: Slowdown in execution, drop in US sales. Upside: Quicker-than-expected CV recovery, improved overseas demand.

Key data	BHFC IN / BRFG.BO
52-week high / low	₹336 / ₹186
Sensex / Nifty	20729 / 6175
3-m average volume	US\$2.1m
Market cap	₹76.6bn / US\$1.2bn
Shares outstanding	232.8m

Shareholding pattern (%)	Sep '13	Jun '13	Mar '13
Promoters	42.05	42.05	42.05
- of which, Pledged	-	-	-
Free Float	57.95	57.95	57.95
- Foreign Institutions	9.49	9.49	9.44
- Domestic Institutions	19.80	19.80	18.95
- Public	28.66	28.66	29.56

Cons Financials (YE Mar)	FY14e	FY15e
Sales (₹m)	64,975	74,648
Net profit (₹m)	3,897	4,266
EPS (₹)	16.7	18.3
Growth (%)	66.7	9.5
PE (x)	19.7	18.0
PBV (x)	3.0	2.6
RoE (%)	13.3	13.9
RoCE (%)	13.6	14.6
Dividend yield (%)	0.9	1.1
Net gearing (%)	52.1	53.3

Source: Anand Rathi Research

Standalone Quarterly results (YE Mar)	3QFY13	3QFY14e	% yoy	1HFY13	1HFY14e	% yoy
Sales (₹m)	6,726	8,368	24.4	18,040	16,367	-9.3
EBITDA (₹m)	1,424	2,174	52.7	4,295	4,189	-2.5
EBITDA margin (%)	21.2	26.0	482	23.8	25.6	178bps
Interest (₹m)	363	385	6.0	837	748	-10.6
Depreciation (₹m)	574	630	9.7	1,120	1,238	10.6
Other income (₹m)	195	225	15.6	536	567	5.9
PBT (₹m)	681	1,384	103.3	2,980	2,770	-7.1
Tax (₹m)	206	450	118.8	900	900	0.0
Tax rate (%)	30.2	32.5	230	30.2	32.5	229bps
Adjusted Profit (₹m)	475	934	96.6	2,009	1,870	-6.9

Source: Company

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## Quick Glance – Financials and Valuations

**Fig 1 – Income statement (₹m)**

Year-end: Mar	FY12	FY13	FY14e	FY15e	FY16e
Net revenues	62,791	57,022	64,975	74,648	86,419
Revenue growth (%)	23.4	-9.2	13.9	14.9	15.8
- Op. expenses	52,830	49,328	54,688	62,874	72,525
<b>EBIDTA</b>	<b>9,961</b>	<b>7,694</b>	<b>10,287</b>	<b>11,774</b>	<b>13,894</b>
EBITDA margin (%)	15.9	13.5	15.8	15.8	16.1
- Interest expenses	1,837	1,908	1,961	2,044	2,091
- Depreciation	3,019	3,360	3,864	4,135	4,424
+ Other income	893	1,126	1,238	1,288	1,339
- Extraordinary items	0	-198	0	0	0
- Tax	1,796	1,728	2,280	2,856	3,574
Effective tax rate (%)	29.9	46.1	40.0	41.5	41.0
Reported Profit bef MI	4,202	2,021	3,420	4,026	5,143
<b>Adjusted Profit</b>	<b>4,130</b>	<b>2,337</b>	<b>3,897</b>	<b>4,266</b>	<b>5,205</b>
Adj. Profit growth (%)	39.8	-43.4	66.7	9.5	22.0
Adj. FDEPS (₹/share)	17.7	10.0	16.7	18.3	22.4
Adj. FDEPS growth (%)	39.8	-43.4	66.7	9.5	22.0

Source: Company, Anand Rathi Research

**Fig 2 – Balance sheet (₹m)**

Year-end: Mar	FY12	FY13	FY14e	FY15e	FY16e
Share capital	466	466	466	466	466
Reserves & surplus	21,437	22,098	25,180	28,495	32,749
Net worth	21,903	22,564	25,646	28,961	33,214
Total debt	27,608	26,745	27,745	28,745	29,745
Def. tax liab. (net)	2,843	2,988	3,113	3,238	3,363
<b>Capital employed</b>	<b>52,353</b>	<b>52,296</b>	<b>56,503</b>	<b>60,943</b>	<b>66,322</b>
Net fixed assets	31,652	35,423	35,558	36,423	36,999
Investments	3,870	4,160	6,160	7,160	8,160
Net working capital	10,113	7,161	9,275	11,653	14,439
Cash and bank bal.	6,718	5,554	5,511	5,708	6,725
<b>Capital deployed</b>	<b>52,353</b>	<b>52,296</b>	<b>56,503</b>	<b>60,943</b>	<b>66,322</b>
No. of shares (m)	233	233	233	233	233
Net debt	20,890	21,191	22,234	23,037	23,020
Net debt / Equity	95.4	93.9	86.7	79.5	69.3
WC turn days	65	51	51	51	51
Book value (₹/sh)	94.1	96.9	110.1	124.4	142.6

Source: Company, Anand Rathi Research

**Fig 3 – Cash-flow statement (₹m)**

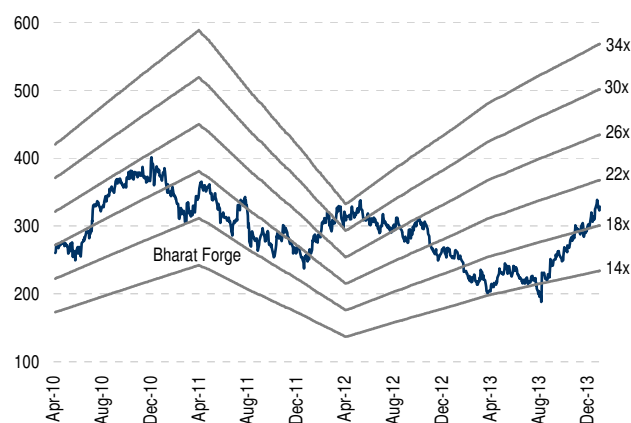
Year-end: Mar	FY12	FY13	FY14e	FY15e	FY16e
Reported Profit	4,130	2,476	3,897	4,266	5,205
+ Depreciation	3,019	3,360	3,864	4,135	4,424
Cash profit	7,149	5,836	7,762	8,401	9,629
- Incr./decr. in WC	1,919	-2,953	2,114	2,377	2,786
Operating cash-flow	5,230	8,789	5,647	6,024	6,843
- Capex	8,215	7,131	4,000	5,000	5,000
Free cash-flow	-2,985	1,657	1,647	1,024	1,843
- Dividend	931	792	699	815	815
+ Equity raised	0	0	0	0	0
+ Debt raised	8,594	-863	1,000	1,000	1,000
- Investments	1,256	290	2,000	1,000	1,000
- Misc. items	668	877	-8	11	11
Net cash-flow	2,753	-1,164	-43	198	1,017
+ Op. cash & bank bal.	3,964	6,718	5,554	5,511	5,708
Cl. cash & bank bal.	6,718	5,554	5,510	5,708	6,725

Source: Company, Anand Rathi Research

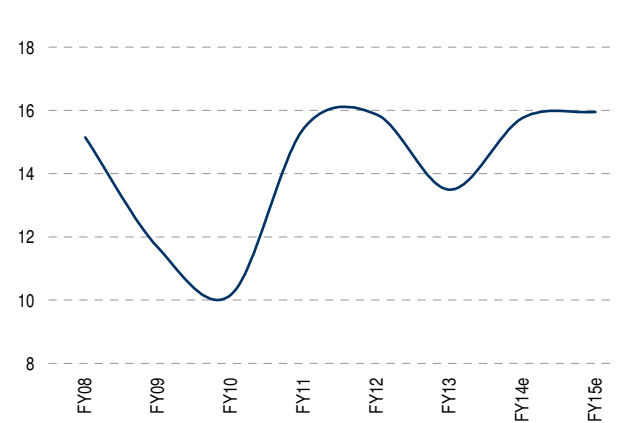
**Fig 4 – Ratio analysis @ ₹329**

Year-end: Mar	FY12	FY13	FY14e	FY15e	FY16e
P/E (x)	18.5	32.8	19.7	18.0	14.7
P/B (x)	3.5	3.4	3.0	2.6	2.3
EV/EBITDA (x)	9.4	12.2	9.0	7.9	6.6
RoE (%)	19.2	9.0	13.3	13.9	15.5
RoCE (%)	15.0	10.4	13.6	14.6	16.3
Dividend yield (%)	1.2	1.0	0.9	1.1	1.1
Dividend payout (%)	25.8	45.7	23.8	23.6	18.5
Debt to equity (%)	1.3	1.2	1.1	1.0	0.9
Core P/E (x)	22.8	50.9	26.3	23.7	18.7
Cash P/E	10.6	14.2	10.5	9.4	8.0
EV/sales	1.5	1.7	1.4	1.3	1.1
Inventory days	84.5	85.1	87.3	87.1	87.3
Receivables days	46.8	38.5	38.6	38.5	38.5
Payables days	116.6	137.2	140.4	140.5	139.8
Asset Turnover	1.2	1.1	1.1	1.2	1.3

Source: Company, Anand Rathi Research

**Fig 5 – PE band**


Source: Bloomberg, Anand Rathi Research

**Fig 6 – EBITDA margin trend (%)**


Source: Company

9 January 2014

## Amara Raja Batteries

Replacement demand benefit; Buy

Rating: **Buy**

Target Price: ₹367

Share Price: ₹336

### Key takeaways

**Decent performance likely in 3QFY14.** Amara Raja Batteries (ARB) is expected to report decent performance in 3QFY14 on its sustained leadership in the telecom and UPS segments as well as replacement demand. This will offer some stability to the automotive segment. We expect 12.7% yoy sales growth, to ₹8.6bn, and 15.3% yoy EBITDA growth, to ₹1.4bn; EBITDA margin is expected to be 16.4% (lower 80bps qoq, higher 40bps yoy). Backed by decent EBITDA, adjusted profit growth is expected to be 13.6% yoy, to ₹919m.

**Auto replacement, industrials driving growth.** As in 2QFY14, ARB's revenue growth in 3QFY14 too is expected to be driven by double-digit growth in auto-replacement demand and the industrial segment. However, auto OEM and home-UPS trading businesses is expected to be sluggish due to lower auto demand and mild summer/good monsoons, respectively. ARB's enhanced two-wheeler capacities are expected to come on-stream in 4QFY14. This would not only help it grow its OEM business in this segment, but also tap replacement demand. The expanded capacities for medium and large VRLA batteries are also expected to commence operations in 4Q.

**Our take.** Competitive intensity in the industry is likely to increase with continued weakness in OEM demand. However, with a good product range, greater replacement exposure and decent industrial demand, ARB could outperform peers in the auto-ancillary segment. The stock had stagnated in 1HCY13 after a re-rating in CY12 and has, thereafter, put up a better performance. We maintain Buy, with target price of ₹367. At the ruling price, it trades at 13.7x FY15e EPS. **Risks.** Keener competition, input cost rise, valuations at a substantial premium to its past five-year average of 9.1x.

Key data	AMRJ IN / AMAR.BO
52-week high / low	₹366 / ₹208
Sensex / Nifty	20729 / 6175
3-m average volume	US\$1.8m
Market cap	₹57.39bn / US\$925.69m
Shares outstanding	170.8m

Shareholding pattern (%)	Sep '13	Jun '13	Mar '13
Promoters	52.06	52.06	52.06
- of which, Pledged	3.00	3.00	4.08
Free Float	47.94	47.94	47.94
- Foreign Institutions	11.08	10.08	10.10
- Domestic Institutions	14.96	14.21	15.28
- Public	21.90	22.91	22.56

Financials (YE Mar)	FY14e	FY15e
Sales (₹m)	35,013	40,724
Net profit (₹m)	3,706	4,175
EPS (₹)	21.7	24.4
Growth (%)	26.6	12.7
PE (x)	15.5	13.7
PBV (x)	4.2	3.3
RoE (%)	27.0	24.2
RoCE (%)	36.5	33.2
Dividend yield (%)	0.9	1.0
Net gearing (%)	2.1	-2.5

Source: Anand Rathi Research

Standalone Quarterly results (YE Mar)	3QFY13	3QFY14e	% yoy / bps	1HFY13	1HFY14e	% yoy / bps
Sales (₹m)	7,592	8,555	12.7	14,125	17,009	20.4
EBITDA (₹m)	1,218	1,405	15.3	2,375	2,874	21.0
EBITDA margin (%)	16.0	16.4	37	16.8	16.9	8bps
Interest (₹m)	2	8	412.2	8	1	-89.1
Depreciation (₹m)	132	165	25.0	261	299	14.6
Other income (₹m)	71	81	15.0	129	170	32.2
PBT (₹m)	1,155	1,313	13.6	2,141	2,744	28.2
Tax (₹m)	346	394	13.8	679	820	20.8
Tax rate (%)	30.0	30.0	4	31.7	29.9	-183bps
Adjusted Profit (₹m)	809	919	13.6	1,525	1,924	26.2

Source: Company

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## Quick Glance – Financials and Valuations

**Fig 1 – Income statement (₹m)**

Year-end: Mar	FY12	FY13	FY14e	FY15e	FY16e
Net revenues	23,674	29,811	35,013	40,724	46,998
Revenue growth (%)	34.4	25.9	17.5	16.3	15.4
- Op. expenses	20,134	25,099	29,230	34,141	39,448
<b>EBITDA</b>	<b>3,540</b>	<b>4,712</b>	<b>5,783</b>	<b>6,583</b>	<b>7,551</b>
EBITDA margins (%)	15.0	15.8	16.5	16.2	16.1
- Interest	41	10	35	44	44
- Depreciation	465	661	694	845	959
+ Other income	152	269	318	356	407
- Extraordinaries & others	0	92	0	0	0
- Tax	1,036	1,351	1,665	1,876	2,156
Effective tax rate (%)	32.5	32.0	31.0	31.0	31.0
Reported PAT	2,151	2,867	3,706	4,175	4,799
<b>Adjusted PAT</b>	<b>2,151</b>	<b>2,928</b>	<b>3,706</b>	<b>4,175</b>	<b>4,799</b>
PAT growth (%)	45.2	36.2	26.6	12.7	14.9
Adj. FDEPS (₹/share)	12.6	17.1	21.7	24.4	28.1
Adj. FDEPS growth (%)	45.2	36.2	26.6	12.7	14.9

Source: Company, Anand Rathi Research

**Fig 2 – Balance sheet (₹m)**

Year-end: Mar	FY12	FY13	FY14e	FY15e	FY16e
Share capital	171	171	171	171	171
Reserves & surplus	8,064	10,427	13,534	17,070	21,169
Net worth	8,235	10,598	13,705	17,241	21,340
Total debt	855	872	872	872	872
Def. tax liab. (net)	220	195	220	245	270
<b>Capital employed</b>	<b>9,310</b>	<b>11,665</b>	<b>14,797</b>	<b>18,357</b>	<b>22,482</b>
Net fixed assets	3,861	4,618	6,549	7,704	8,245
Investments	161	161	1,511	1,511	1,511
Working capital	2,996	2,778	4,383	5,649	6,998
Cash	2,292	4,108	2,353	3,494	5,728
<b>Capital deployed</b>	<b>9,310</b>	<b>11,665</b>	<b>14,797</b>	<b>18,357</b>	<b>22,482</b>
Net debt	-1,437	-3,236	-1,482	-2,622	-4,856
No. of shares (m)	85	85	85	85	85
Net debt/equity (x)	-0.2	-0.3	-0.1	-0.2	-0.2
W C turn (days)	77	66	66	66	66
Book value (₹/sh)	96	62	80	101	125

Source: Company, Anand Rathi Research

**Fig 3 – Cash-flow statement (₹m)**

Year-end: Mar	FY12	FY13	FY14e	FY15e	FY16e
PAT	2,151	2,867	3,706	4,175	4,799
+ Non-cash items	465	661	694	845	959
Cash profit	2,615	3,528	4,400	5,020	5,758
- Incr./decr. in WC	-537	-257	1,596	1,255	1,339
Operating cash-flow	3,152	3,785	2,805	3,765	4,419
- Capex	799	1,418	2,625	2,000	1,500
Free cash-flow	2,353	2,367	180	1,765	2,919
- Dividend	323	430	512	547	598
+ Equity raised	0	0	0	0	0
+ Debt raised	-144	16	0	0	0
- Investments	0	0	1,350	0	0
- Misc. items	45	137	72	78	87
Net cash-flow	1,841	1,816	-1,754	1,140	2,234
+ Op. cash & bank bal.	451	2,292	4,108	2,353	3,494
Cl. Cash & bank bal.	2,292	4,108	2,353	3,494	5,728

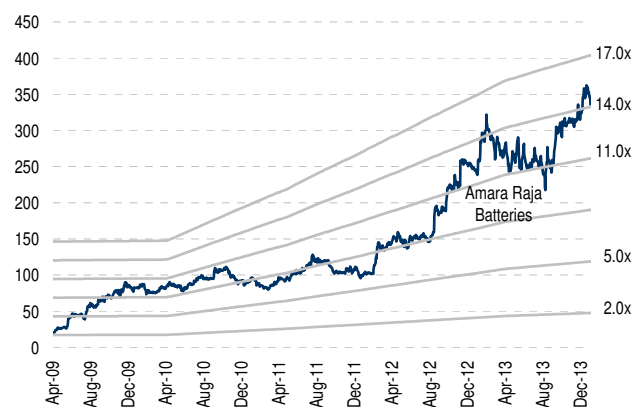
Source: Company, Anand Rathi Research

**Fig 4 – Ratio analysis @ ₹336**

Year-end: Mar	FY12	FY13	FY14e	FY15e	FY16e
P/E (x)	26.7	19.6	15.5	13.7	12.0
P/B (x)	3.5	5.4	4.2	3.3	2.7
EV/EBITDA (x)	15.8	11.5	9.4	8.1	6.8
RoE (%)	26.1	27.1	27.0	24.2	22.5
RoCE (%)	34.7	37.0	36.5	33.2	31.1
Dividend yield (%)	1.1	0.8	0.9	1.0	1.0
Dividend payout (%)	15.0	15.0	13.8	13.1	12.5
Debt to equity (x)	0.1	0.1	0.1	0.1	0.0
Core P/E (x)	14.0	20.9	16.4	14.6	12.7
Cash P/E (x)	11.0	8.1	6.5	5.7	5.0
EV/sales (x)	2.4	1.8	1.6	1.3	1.1
Inventory days	41	36	36	36	36
Receivables days	49	47	47	47	47
Payables days	14	17	17	17	17
Asset T/O (x)	2.5	2.6	2.4	2.2	2.1

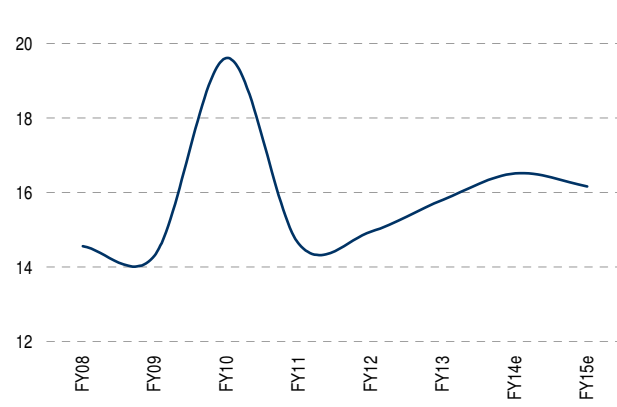
Source: Company, Anand Rathi Research

**Fig 5 – P/E band**



Source: Bloomberg, Anand Rathi Research

**Fig 6 – Trend in EBITDA margin**



Source: Company, Anand Rathi Research

9 January 2014

## Apollo Tyres

Acquisition overhang clears; Buy

Rating: **Buy**

Target Price: ₹127

Share Price: ₹105

### Key takeaways

**3Q another good quarter for India operations.** Apollo Tyres' domestic operation is expected to continue to grow decently, backed by higher EBITDA margin and sanguine commodity costs. We expect 10% yoy revenue growth, to ₹22.4bn, with a 12.9% EBITDA margin (up 280bps yoy, 90bps qoq). Replacement demand growth is likely to be good. Our EBITDA growth expectation is 40.5% yoy. We expect 58.8% yoy profit growth, to ₹1.2bn.

**Consolidated profit growth at a slower pace.** The slowdown in the European market would bear heavily on the consolidated results. Being the peak period for winter tyre demand, this would help sales growth. Yoy, currency depreciation would also benefit. But in 2Q, the company had taken price reduction due to competitive pressures. As a result, we expect consolidated revenues to grow 12% yoy to ₹36bn, with a 12.8% EBITDA margin (up 90bps yoy, 50bps qoq). We expect EBITDA to grow 20.8% yoy. We expect 15.5% yoy profit growth to ₹2.1bn.

**Cooper acquisition overhang over.** The proposed Cooper acquisition was a near-term overhang. With recent events now clearing the potential financial burden that a leveraged buyout posed, the outlook is much brighter. The only threat remains from the possibility of penal break-up fees being imposed by the courts. In our view, given the nature of the break-up, this seems unlikely.

**Our take.** With the Cooper overhang over, we upgrade the stock to Buy on continued strong financial performance of the company. While future expansion plans may include overseas capex or another acquisition, so long as the scale is not as big as Cooper, it would not pose a severe threat. At CMP, the stock trades at 6.6x FY15e EPS. Our target price is at 8x earnings.

**Risks.** Increase in rubber prices, above-expected impact of the European slowdown, unfavourable forex movements.

Key data	APTY IN / APLO.BO
52-week high / low	₹113 / ₹55
Sensex / Nifty	20729 / 6175
3-m average volume	US\$0.5m
Market cap	₹53.16bn / US\$857.36m
Shares outstanding	504.1m

Shareholding pattern (%)	Sep '13	Jun '13	Mar '13
Promoters	43.50	43.37	43.37
- of which, Pledged	17.45	16.36	16.34
Free Float	56.50	56.63	56.63
- Foreign Institutions	33.48	26.30	28.62
- Domestic Institutions	8.04	5.17	6.77
- Public	14.98	25.16	21.24

Financials (YE Mar)	FY14e	FY15e
Sales (₹m)	135,189	145,976
Net profit (₹m)	7,205	8,008
EPS (₹)	14.3	15.9
Growth (%)	19.8	11.1
PE (x)	7.4	6.6
PBV (x)	1.3	1.1
RoE (%)	18.3	16.5
RoCE (%)	20.5	20.8
Dividend yield (%)	0.8	0.9
Net gearing (%)	40.8	33.8

Source: Anand Rathi Research

Quarterly results (YE Mar)	3QFY13	3QFY14e	% yoy	1HFY13	1HFY14e	% yoy
Sales (₹m)	32,173	36,034	12.0	65,395	66,234	1.3
EBITDA (₹m)	3,822	4,619	20.8	7,185	8,154	13.5
EBITDA margin (%)	11.9	12.8	94	11.0	12.3	132bps
Interest (₹m)	806	825	2.3	1,580	1,480	-6.3
Depreciation (₹m)	919	1,075	16.9	1,848	2,024	9.5
Other income (₹m)	268	240	-10.4	238	296	24.4
PBT (₹m)	2,364	2,959	25.2	3,995	5,244	31.2
Tax (₹m)	558	873	56.3	1,074	1,389	29.4
Tax rate (%)	23.6	29.5	588	26.9	26.5	-38bps
PAT (₹m)	1,806	2,086	15.5	2,902	3,557	22.6

Source: Company

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## Quick Glance – Financials and Valuations

**Fig 1 – Income statement (₹m)**

Year-end: Mar	FY12	FY13	FY14e	FY15e	FY16e
Net revenues	121,533	127,946	135,189	145,976	167,169
Revenue growth (%)	37.1	5.3	5.7	8.0	14.5
- Op. expenses	109,872	113,380	118,216	127,759	146,820
<b>EBIDTA</b>	<b>11,661</b>	<b>14,567</b>	<b>16,973</b>	<b>18,217</b>	<b>20,349</b>
EBITDA margins (%)	9.6	11.4	12.6	12.5	12.2
- Interest	2,873	3,128	3,180	3,403	3,722
- Depreciation	3,256	3,966	4,355	4,514	4,810
+ Other income	326	944	702	763	829
- Extraordinaries & others	294	-169	-297	0	0
- Tax	1,444	2,448	2,922	3,042	3,478
Effective tax rate (%)	25.9	28.5	28.0	27.5	27.5
Reported PAT	4,099	6,126	7,502	8,008	9,156
<b>Adjusted PAT</b>	<b>4,393</b>	<b>6,013</b>	<b>7,205</b>	<b>8,008</b>	<b>9,156</b>
PAT growth (%)	20.3	36.9	19.8	11.1	14.3
Adj. FDEPS (₹/share)	8.7	11.9	14.3	15.9	18.2
Adj. FDEPS growth (%)	20.3	36.9	19.8	11.1	14.3

Source: Company, Anand Rathi Research

**Fig 2 – Balance sheet (₹m)**

Year-end: Mar	FY12	FY13	FY14e	FY15e	FY16e
Share capital	504	504	504	504	504
Reserves & surplus	27,831	33,505	40,539	47,962	56,534
Net worth	28,335	34,009	41,043	48,466	57,038
Total debt	28,720	22,816	18,816	15,816	12,816
Def. tax liab. (net)	4,025	4,928	5,128	5,328	5,528
<b>Capital employed</b>	<b>61,081</b>	<b>61,753</b>	<b>64,987</b>	<b>69,610</b>	<b>75,382</b>
Net fixed assets	44,881	46,328	47,972	49,458	52,648
Investments	158	546	546	546	546
Working capital	14,311	11,532	12,722	14,419	17,856
Cash	1,730	3,348	3,747	5,188	4,333
<b>Capital deployed</b>	<b>61,081</b>	<b>61,753</b>	<b>64,987</b>	<b>69,610</b>	<b>75,382</b>
Net debt	504	504	504	504	504
No. of shares (m)	26,990	19,469	15,069	10,629	8,484
Net debt/equity (x)	1.0	0.6	0.4	0.2	0.1
W C turn (days)	56	57	57	57	57
Book value (₹/sh)	56.2	67.5	81.4	96.1	113.2

Source: Company, Anand Rathi Research

**Fig 3 – Cash-flow statement (₹m)**

Year-end: Mar	FY12	FY13	FY14e	FY15e	FY16e
PAT	4,099	6,126	7,502	8,008	9,156
+ Non-cash items	3,256	3,966	4,355	4,514	4,810
Cash profit	7,355	10,092	11,857	12,523	13,967
- Incr./decr. in WC	3,568	-1,792	1,640	2,198	3,837
Operating cash-flow	3,787	11,884	10,217	10,324	10,130
- Capex	11,122	5,313	6,000	6,000	8,000
Free cash-flow	-7,335	6,571	4,217	4,324	2,130
- Dividend	252	353	403	504	504
+ Equity raised	0	0	0	0	0
+ Debt raised	3,918	-5,904	-4,000	-3,000	-3,000
- Investments	46	388	0	0	0
- Misc. items	-3,537	-1,691	-586	-620	-519
Net cash-flow	-179	1,617	400	1,440	-855
+ Op. cash & bank bal.	1,909	1,730	3,348	3,747	5,188
Cl. Cash & bank bal.	1,730	3,348	3,747	5,188	4,332

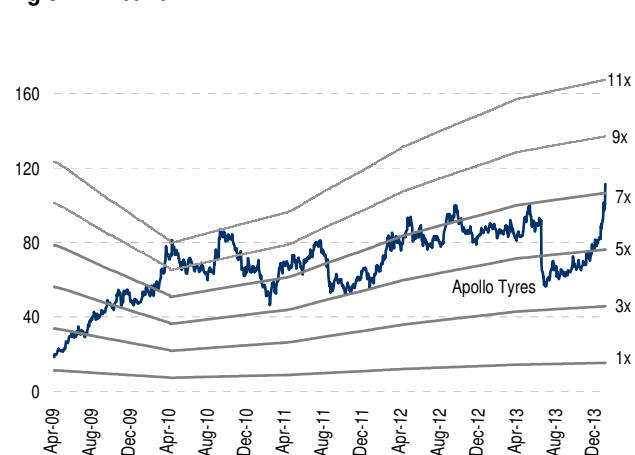
Source: Company, Anand Rathi Research

**Fig 4 – Ratio analysis @ ₹105**

Year-end: Mar	FY12	FY13	FY14e	FY15e	FY16e
P/E (x)	12.1	8.8	7.4	6.6	5.8
P/B (x)	1.9	1.6	1.3	1.1	0.9
EV/EBITDA (x)	6.9	5.0	4.0	3.5	3.0
RoE (%)	14.5	18.0	18.3	16.5	16.1
RoCE (%)	14.3	18.7	20.5	20.8	21.7
Dividend yield (%)	0.5	0.7	0.8	0.9	0.9
Dividend payout (%)	7.1	6.7	6.2	7.3	6.4
Debt to equity (x)	1.0	0.7	0.5	0.3	0.2
Core P/E (x)	12.9	10.1	8.0	7.2	6.3
Cash P/E (x)	7.2	5.3	4.5	4.2	3.8
EV/sales (x)	0.7	0.6	0.5	0.4	0.4
Inventory days	60	58	58	58	58
Receivables days	34	28	28	28	28
Payables days	39	29	29	29	29
Fixed asset T/O (x)	2.0	2.1	2.1	2.1	2.2

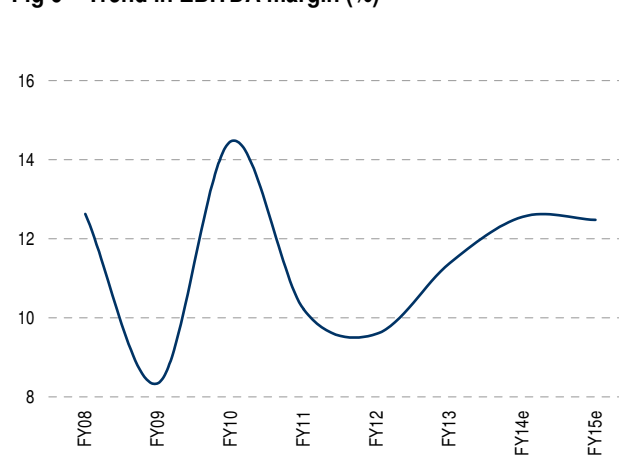
Source: Company, Anand Rathi Research

**Fig 5 – PE band**



Source: Bloomberg, Anand Rathi Research

**Fig 6 – Trend in EBITDA margin (%)**



Source: Company, Anand Rathi Research

9 October 2013

## Wabco India

### Short-term impact from M&H CV slowdown; Buy

Rating: **Buy**

Target Price: ₹2,162

Share Price: ₹1,975

### Key takeaways

**Industry slowdown to hit growth.** We expect subdued, 8.1%, yoy revenue growth for Wabco India (Wabco), to ₹2.4bn. Growth would be hit by the ongoing slump in M&H CV sales (down ~25% yoy in 3Qe). Revenue growth ahead would be buoyed into positive territory by more exports (commencement of the plant at Mahindra World City), sales of spares and software. Recovery in the M&H CV cycle is likely only in 2HFY15.

**Restrained operating performance.** We expect EBITDA margin to grow 15% (down 290bps yoy, up 180bps qoq) and EBITDA to dip 9.8%, yoy. Profit could decline 12.8% yoy, to ₹245m, for the sixth successive quarter.

**Prospects good.** 2HFY14 should see Wabco's performance stabilise, although significant improvement is likely only in FY15. We are positive on the company from a long-term perspective as it would be a key beneficiary of the recovery in the CV cycle. Increased exports, potential regulatory changes and good aftermarket potential add to the positives. Wabco Holdings, the parent, seeks to make Wabco India an R&D hub for its global operations.

**Our take.** 2HFY14 should mark an improvement over the disappointing past-12-month performance. From a long-term perspective, we are positive on the company, as it would be a key beneficiary of the recovery in the CV cycle in FY15, with mounting exports and good aftermarket potential adding to the positives. Wabco Holdings, the parent, seeks to make Wabco an R&D hub for its global operations. The possibility of implementing the mandatory ABS fitment into M&H CVs is an additional positive. In the near term, the ongoing slowdown in commercial vehicles and Wabco's heavy dependence on M&H CVs would weigh on its results. We maintain Buy. **Risks.** Above-expected CV slowdown, higher input costs, royalty increase.

Key data	WIL IN / WABC.BO
52-week high / low	₹2094 / ₹1250
Sensex / Nifty	20729 / 6175
3-m average volume	US\$0.2m
Market cap	₹37.46bn / US\$604.2m
Shares outstanding	19m

Shareholding pattern (%)	Sep '13	Jun '13	Mar '13
Promoters	75.00	75.00	75.00
- of which, Pledged	-	-	-
Free Float	25.00	25.00	25.00
- Foreign Institutions	1.98	2.32	2.39
- Domestic Institutions	9.43	8.80	8.65
- Public	13.59	13.96	13.55

Financials (YE Mar)	FY14e	FY15e
Sales (₹m)	11,302	13,785
Net profit (₹m)	1,307	1,730
EPS (₹)	68.9	91.2
Growth (%)	-0.1	32.4
PE (x)	28.7	21.7
PBV (x)	4.9	4.1
RoE (%)	17.1	18.7
RoCE (%)	23.8	26.2
Dividend yield (%)	0.3	0.4
Net gearing (%)	1.3	-0.5

Source: Anand Rathi Research

Quarterly results (YE Mar)	3QFY13	3QFY14e	% yoy	1HFY13	1HFY14	% yoy
Sales (₹m)	2,213	2,391	8.1	5,002	5,354	7.0
EBITDA (₹m)	397	358	-9.8	1,080	807	-25.3
EBITDA margin (%)	17.9	15.0	-297	21.6	15.1	-651bps
Interest (₹m)	0	0	-60.0	0	1	NM
Depreciation (₹m)	50	70	40.6	91	140	53.3
Other income (₹m)	42	55	29.9	70	258	266.5
PBT (₹m)	390	343	-11.9	1,059	924	-12.8
Tax (₹m)	108	98	-9.4	312	279	-10.7
Tax rate (%)	27.7	28.5	78	29.5	30.2	70bps
PAT (₹m)	282	245	-12.8	747	645	-13.6

Source: Company

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## Quick Glance – Financials and Valuations

**Fig 1 – Income statement (₹m)**

Year-end: Mar	FY12	FY13	FY14e	FY15e	FY16e
Net revenues	10,457	9,659	11,302	13,785	15,919
Revenue growth (%)	17.2	-7.6	17.0	22.0	15.5
- Op. expenses	8,257	7,719	9,468	11,169	12,850
<b>EBIDTA</b>	<b>2,199</b>	<b>1,940</b>	<b>1,834</b>	<b>2,616</b>	<b>3,069</b>
EBITDA margin (%)	21.0	20.1	16.2	19.0	19.3
- Interest expenses	1	0	1	1	1
- Depreciation	156	217	295	319	356
+ Other income	121	126	316	158	182
- Tax	628	542	547	724	854
- Extraordinaries	0	0	0	0	0
Effective tax rate (%)	29.1	29.3	29.5	29.5	29.5
Reported PAT	1,534	1,308	1,307	1,730	2,040
Adjusted PAT	1,534	1,308	1,307	1,730	2,040
PAT growth (%)	20.4	-14.7	-0.1	32.4	17.9
FDEPS (₹/share)	80.9	69.0	68.9	91.2	107.5
FDEPS growth (%)	20.4	-14.7	-0.1	32.4	17.9

Source: Company, Anand Rathi Research

**Fig 2 – Balance sheet (₹m)**

Year-end: Mar	FY12	FY13	FY14e	FY15e	FY16e
Share capital	95	95	95	95	95
Reserves & surplus	5,196	6,393	7,568	9,144	11,029
Net worth	5,291	6,488	7,663	9,239	11,124
Total debt	9	0	0	0	0
Def. tax liab. (net)	109	117	117	117	117
<b>Capital employed</b>	<b>5,409</b>	<b>6,605</b>	<b>7,780</b>	<b>9,356</b>	<b>11,241</b>
Net fixed assets	2,430	2,889	3,194	3,475	3,719
Investments	232	255	355	455	555
Working capital	1,928	2,470	3,030	3,790	4,482
Cash	819	991	1,202	1,636	2,486
<b>Capital deployed</b>	<b>5,409</b>	<b>6,605</b>	<b>7,780</b>	<b>9,356</b>	<b>11,241</b>
Net Debt	-1,042	-1,246	-1,556	-2,090	-3,040
No. of shares (m)	19.0	19.0	19.0	19.0	19.0
Net Debt/Equity (%)	-15.3	-15.3	-15.7	-17.7	-22.3
W C turn (days)	60	89	89	89	89
Book value (₹/sh)	279	342	404	487	586

Source: Company, Anand Rathi Research

**Fig 3 – Cash-flow statement (₹m)**

Year-end: Mar	FY12	FY13	FY14e	FY15e	FY16e
PAT	1,534	1,308	1,307	1,730	2,040
+ Non-cash items	156	217	295	319	356
Cash profit	1,691	1,525	1,602	2,049	2,396
- Incr./ (Decr.) in WC	120	550	579	781	692
Operating cash-flow	1,571	975	1,024	1,268	1,704
- Capex	680	676	600	600	600
Free cash-flow	891	299	424	668	1,104
- Dividend	96	95	114	133	133
+ Equity raised	0	0	0	0	0
+ Debt raised	3	-9	0	0	0
- Investments	110	23	100	100	100
- Misc. items	-2	0	-1	1	21
Net cash-flow	690	173	211	434	850
+ Op. cash & bank bal.	129	819	991	1,202	1,636
Cl. cash & bank bal.	819	991	1,202	1,636	2,486

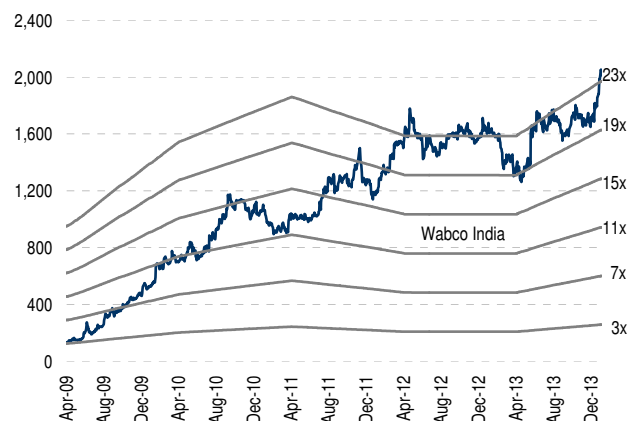
Source: Company, Anand Rathi Research

**Fig 4 – Ratio analysis @ ₹1,975**

Year-end: Mar	FY12	FY13	FY14e	FY15e	FY16e
P/E (x)	24.4	28.6	28.7	21.7	18.4
P/B (x)	7.1	5.8	4.9	4.1	3.4
EV/EBITDA (x)	16.6	18.7	19.6	13.5	11.2
RoE (%)	29.0	20.2	17.1	18.7	18.3
RoCE (%)	40.0	28.0	23.8	26.2	25.7
Dividend yield	0.3	0.3	0.3	0.4	0.4
Dividend payout (%)	7.2	8.4	10.1	8.9	7.6
Debt to equity (x)	0.0	0.0	0.0	0.0	0.0
Core P/E (x)	26.5	31.7	37.8	23.8	20.2
Cash P/E	22.2	24.6	23.4	18.3	15.6
EV/sales	3.5	3.7	3.2	2.6	2.2
Inventory days	42	54	54	54	54
Receivables days	57	76	76	76	76
Payables days	39	41	41	41	41
Fixed Asset T/O	1.9	1.4	1.4	1.4	1.4

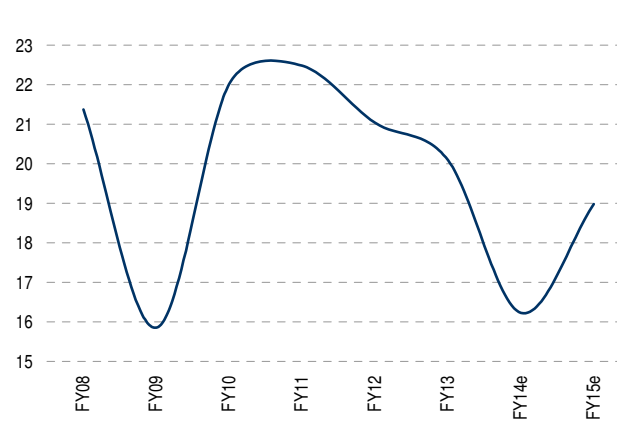
Source: Company, Anand Rathi Research

**Fig 5 – PE band**



Source: Bloomberg, Anand Rathi Research

**Fig 6 – EBITDA margin trend**



Source: Company



9 January 2014

**SKF India***Tough demand environment; good long-term bet; Hold*Rating: **Hold**

Target Price: ₹641

Share Price: ₹660

**Key takeaways**

**4QCY13 sales to grow 5%.** We expect SKF India's 4Q revenues to be ₹5.4bn (up just 5% yoy). This growth would have come on last year's lower base. Curtailed demand continues in both its key target markets, industrials and automotives. We expect an improvement in revenue from exports and from the auto division. Amidst these adversities, the company is focusing on tightening its working-capital requirement. We had earlier expected demand to pick up in 2HCY13 but now believe that demand will pick up in CY14.

**Margins expected to improve 70bps yoy.** In the past few quarters, margin pressures have arisen due to slowing revenue growth and the company's inability to pass on higher costs. With facilities underutilised, the margin will now be contained, primarily due to lower fixed-cost absorption. We expect the 4Q EBIDTA margin to come at 9.2%, 70bps higher yoy. This improvement is on account of lower raw-material costs.

**Profit expected to grow 12.5%.** We expect profit to grow 12.5% yoy, to ₹362m, down 22% qoq. Other income is expected to be ₹170m, 13% higher than what it was in 4QCY12.

**Tightening working capital.** In the tough situation today, the company is focusing on tightening working capital required. It has been generating strong operating cash-flows over the years. We expect revenue and profit CAGRs over CY12-14 of 9% each.

**Our take.** A slowdown is evident in the industrial and automobile segments. A debt-free company (₹3bn in cash at end-CY12), it has generated strong operating cash-flows over the years. We value the stock at a one-year forward-PE of 15x CY14 (on par with its past two-year average), at a target of ₹641. With no short-term trigger, the long-term story is unharmed. **Risks.** Slowdown in industrial activity, auto sales; commodity price fluctuations and increase in imports.

Key data	SKF IN / SKFB.BO
52-week high / low	₹679 / ₹432
Sensex / Nifty	20729 / 6175
3-m average volume	US\$0.3m
Market cap	₹34.8bn / US\$561m
Shares outstanding	52.7m

Shareholding pattern (%)	Sep '13	June '13	Mar '13
Promoters	53.6	53.6	53.6
- of which, Pledged	-	-	-
Free Float	46.4	46.4	46.4
- Foreign Institutions	16.4	16.9	17.3
- Domestic Institutions	15.8	15.3	14.7
- Public	14.2	14.8	14.4

Financials (YE Dec)	CY14e	CY15e
Sales (₹m)	26,223	30,146
Net profit (₹m)	2,255	2,627
EPS (₹)	42.8	49.8
Growth (%)	33.2	16.5
PE (x)	15.4	13.2
PBV (x)	2.4	2.1
RoE (%)	16.7	17.2
RoCE (%)	18.6	19.3
Dividend yield (%)	1.7	1.7
Net gearing (%)	(41.8)	(41.0)

Source: Anand Rathi Research

Quarterly results (YE Dec)	4QCY12	4QCY13e	% yoy	9MCY12	9MCY13	% yoy
Sales (₹m)	5,179	5,438	5.0	17,076	16,754	(1.9)
EBITDA (₹m)	439	499	13.7	2,137	1,917	(10.3)
EBITDA margin (%)	8.5	9.2	70 bps	12.5	11.4	107 bps
Interest (₹m)	-	-	-	-	-	-
Depreciation (₹m)	115	129	12.3	321	363	13.2
Other income(₹m)	151	170	12.7	540	462	(14.5)
PBT (₹m)	475	540	13.7	2356	1795	(23.8)
Tax (₹m)	153	178	16.3	777	611	(21.3)
Tax rate (%)	32.3	33.0	74 bps	33.0	34.1	108 bps
PAT (₹m)	322	362	12.5	1,579	1,183	(25.1)

Source: Company

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## Quick Glance – Financials and Valuations

**Fig 1 – Income statement (₹m)**

Year-end: Dec	CY10	CY11	CY12	CY13e	CY14e
Net sales	20,684	24,167	22,041	22,246	26,223
Sales growth (%)	31.7	16.8	(8.8)	0.9	17.9
- Op. expenses	13,511	15,737	14,415	14,015	16,652
<b>EBIDTA</b>	<b>2,506</b>	<b>2,807</b>	<b>2,349</b>	<b>2,403</b>	<b>3,016</b>
EBITDA margins (%)	12.1	11.6	10.7	10.8	11.5
- Interest	(200)	(339)	(235)	(491)	(591)
- Depreciation	333	385	436	479	504
+ Other income	288	378	683	111	262
- Tax	891	1,054	931	833	1,110
Effective tax rate (%)	33.5	33.6	32.9	33.0	33.0
Reported PAT	1,770	2,085	1,901	1,692	2,255
+/- Extraordinary items	-	-	-	-	-
Adjusted PAT	1,770	2,085	1,901	1,692	2,255
Adj. FDEPS (₹/share)	33.6	39.5	36.0	32.1	42.8
Adj. FDEPS growth (%)	87.8	17.8	(8.8)	(11.0)	33.2
DPS (₹/share)	7.0	7.5	7.5	9.0	11.0

Source: Company, Anand Rathi Research

**Fig 2 – Balance sheet (₹m)**

Year-end: Dec	CY10	CY11	CY12	CY13e	CY14e
Share capital	527	527	527	527	527
Reserves & surplus	7,960	9,585	11,026	12,163	13,739
Shareholders' fund	8,487	10,112	11,554	12,690	14,266
Debt	0	-	-	-	-
Minority interests	-	-	-	-	-
Def Tax Liab (net)	30	16	84	84	84
<b>Capital employed</b>	<b>8,517</b>	<b>10,128</b>	<b>11,637</b>	<b>12,774</b>	<b>14,350</b>
Net Fixed assets	3,193	3,619	4,072	3,669	3,665
Working capital	3,205	4,265	4,496	5,091	4,724
Cash	2,119	2,244	3,070	4,014	5,960
<b>Capital deployed</b>	<b>8,517</b>	<b>10,128</b>	<b>11,637</b>	<b>12,774</b>	<b>14,350</b>
Net Debt	(2,119)	(2,244)	(3,070)	(4,014)	(5,960)
No. of shares (m)	52.7	52.7	52.7	52.7	52.7
Net Debt/Equity (%)	(25.0)	(22.2)	(26.6)	(31.6)	(41.8)
W C turn (days)	43	56	73	79	68
Book Value (₹/share)	161	192	219	241	271

Source: Company, Anand Rathi Research

**Fig 3 – Cash-flow statement (₹m)**

Year-end: Dec	CY10	CY11	CY12	CY13e	CY14e
PAT	1,770	2,085	1,901	1,692	2,255
+Non-cash Items	372	371	503	479	504
Cash profit	2,142	2,456	2,404	2,171	2,758
- Incr./Decr. in WC	1,526	1,060	231	595	(367)
Operating cash-flow	617	1,396	2,174	1,576	3,125
-Capex	959	811	889	76	500
Free cash-flow	(342)	585	1,285	1,499	2,625
-Dividend	430	460	463	555	679
+ Equity raised	(0)	(0)	3	-	(0)
+ Debt raised	(1)	(0)	-	-	-
-Investments	-	-	-	-	-
-Misc. items	-	-	-	-	-
Net cash-flow	(774)	125	825	944	1,946
+Opening cash	2,893	2,119	2,244	3,070	4,014
Closing cash	2,119	2,244	3,070	4,014	5,960

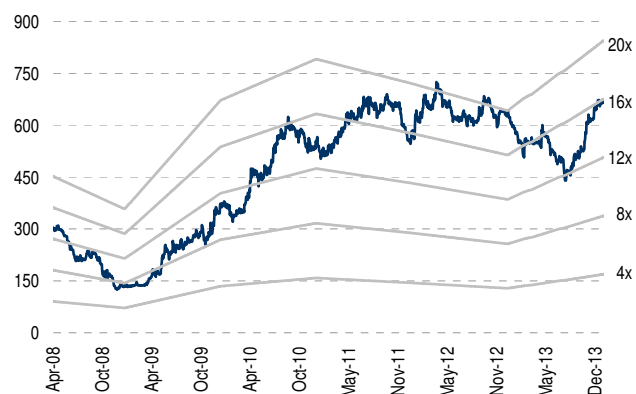
Source: Company, Anand Rathi Research

**Fig 4 – Ratio analysis @ ₹660**

Year-end: Dec	CY10	CY11	CY12	CY13e	CY14e
P/E (x)	19.7	16.7	18.3	20.6	15.4
Cash P/E (x)	16.2	14.2	14.9	16.0	12.6
EV/EBITDA (x)	13.0	11.6	13.5	12.8	9.6
EV/Sales (x)	1.6	1.3	1.4	1.4	1.1
P/B (x)	4.1	3.4	3.0	2.7	2.4
RoAE (%)	22.6	22.4	17.5	14.0	16.7
RoACE (%)	27.7	26.0	17.7	15.9	18.6
Dividend yield (%)	1.1	1.1	1.1	1.4	1.7
Dividend payout (%)	24.3	22.0	24.3	32.8	30.1
Debt/Equity (x)	0.0	-	-	-	-
Receivables days	43.0	48.6	57.3	52.0	47.0
Inventory days	37.4	38.9	43.2	39.4	34.6
Payables days	85.5	83.6	92.9	84.0	80.0
Working capital days	43.1	56.4	72.5	78.6	68.3
Fixed asset T/O (x)	7.2	7.1	5.7	5.7	7.2

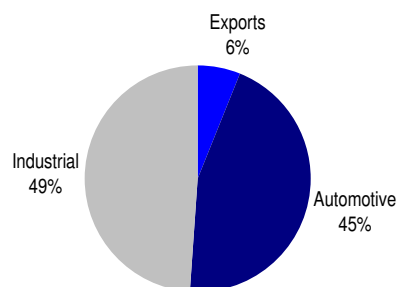
Source: Company, Anand Rathi Research

**Fig 5 – PE band**



Source: Bloomberg, Anand Rathi Research

**Fig 6 – CY12 revenue break-up**



Source: Company

9 January 2014

## Swaraj Engines

Expect a good quarter; Buy

Rating: **Buy**

Target Price: ₹697

Share Price: ₹640

### Key takeaways

**Tractors do well.** Mahindra & Mahindra's (M&M) tractor volumes were robust in 3QFY14 (as in 1HFY14), up 21% yoy. Being a key supplier to Swaraj Tractors, Swaraj Engines would also benefit by this robust performance by M&M. In the previous two quarters, Swaraj Engines' volume growth has comfortably outpaced that of M&M. We expect this trajectory to sustain in 3Q as well.

**Expect good growth in 3Q.** Swaraj Engines' 3Q tractor engine sales are expected to be good. This would result in ~32.5% yoy engine volume growth. We expect 33.8% revenue growth yoy, to `1.7bn (realisation growth of 1%). Our EBITDA margin expectation is 15.5% (60bps higher qoq, 70bps yoy). We expect EBITDA per engine to be 6% higher yoy, while profit per engine is expected to be 3.2% lower yoy. Our EBITDA growth expectation is 40.4% yoy.

**Robust profit growth.** Being debt free, and with steady depreciation and non-operating income and a constant tax rate of 31.5%, we expect 36.7% yoy profit growth, to ₹188m (up 9.5% qoq).

**Our take.** Growth would be boosted by sustained recovery in tractor demand. We expect tractors to do well in the long run, led by more scope for productivity, low penetration, need for mechanization and shortage of labour. Higher capacity could be a huge fillip. We are positive on the stock and maintain Buy on it, with a price target of `697. At the ruling price, it trades at a PE of 9.2x FY15e earnings. At our target price, it would trade at ~10x FY15e EPS (on par with its past five-year average).

**Risks.** Commodity price rises, loss of market share by M&M.

Key data	SWE IN / SWAR.BO
52-week high / low	₹672 / ₹382
Sensex / Nifty	20729 / 6175
3-m average volume	US\$0.1m
Market cap	₹7.95bn / US\$128.2m
Shares outstanding	12.4m

Shareholding pattern (%)	Sep'13	Jun'13	Mar'13
Promoters	50.62	50.62	50.62
- of which, Pledged	-	-	-
Free Float	49.38	49.38	49.38
- Foreign Institutions	1.90	1.45	1.53
- Domestic Institutions	10.43	10.59	10.90
- Public	37.05	37.34	39.95

Financials (YE Mar)	FY14e	FY15e
Sales (₹m)	6,316	7,633
Net profit (₹m)	717	865
EPS (₹)	57.8	69.6
Growth (%)	29.5	20.6
PE (x)	11.1	9.2
PBV (x)	3.2	2.5
RoE (%)	29.1	27.6
RoCE (%)	41.3	39.3
Dividend yield (%)	2.3	2.5
Net gearing (%)	-13.1	-13.7

Source: Anand Rathi Research

Quarterly results (YE Mar)	3QFY13	3QFY14e	% yoy	1HFY13	1HFY14	% yoy
Sales (₹m)	1,246	1,667	33.8	2,399	2,987	24.5
EBITDA (₹m)	184	258	40.4	367	448	22.1
EBITDA margin (%)	14.8	15.5	73	15.3	15.0	-30bps
Interest (₹m)	1	1	-54.5	0	0	0.0
Depreciation (₹m)	21	23	8.5	28	43	55.0
Other income (₹m)	36	40	10.8	60	93	56.3
PBT (₹m)	198	275	39.0	398	497	24.9
Tax (₹m)	60	86	44.2	121	157	29.8
Tax rate (%)	30.4	31.5	114	30.4	31.6	121bps
PAT (₹m)	138	188	36.7	277	340	22.7

Source: Company

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## Quick Glance – Financials and Valuations

**Fig 1 – Income statement (₹m)**

Year-end: Mar	FY12	FY13	FY14e	FY15e	FY16e
Net revenues	4,486	4,790	6,316	7,633	8,878
Revenue growth (%)	24.2	6.8	31.9	20.9	16.3
- Op. expenses	3,792	4,075	5,356	6,457	7,528
<b>EBIDTA</b>	694	715	960	1,177	1,350
EBITDA margin (%)	15.5	14.9	15.2	15.4	15.2
- Interest expenses	1	2	2	2	2
- Depreciation	43	72	90	101	112
+ Other income	122	153	180	189	200
- Tax	0	0	0	0	0
- Extraordinaries	245	241	330	398	452
Effective tax rate (%)	31.6	30.3	31.5	31.5	31.5
Reported PAT	528	554	717	865	984
<b>Adjusted PAT</b>	528	554	717	865	984
PAT growth (%)	20.3	4.9	29.5	20.6	13.7
FDEPS (₹/share)	42.5	44.6	57.8	69.6	79.2
FDEPS growth (%)	20.3	4.9	29.5	20.6	13.7

Source: Company, Anand Rathi Research

**Fig 2 – Balance sheet (₹m)**

Year-end: Mar	FY12	FY13	FY14e	FY15e	FY16e
Share capital	124	124	124	124	124
Reserves & surplus	1,739	1,813	2,344	3,010	3,783
Net worth	1,863	1,937	2,468	3,135	3,907
Total debt	0	0	0	0	0
Def. tax liab. (net)	32	63	73	83	93
<b>Capital employed</b>	<b>1,895</b>	<b>2,001</b>	<b>2,542</b>	<b>3,218</b>	<b>4,001</b>
Net fixed assets	505	832	942	1,040	1,128
Investments	811	742	642	942	1,242
Working capital	-119	-380	-63	-36	-9
Cash	697	807	1,022	1,272	1,640
<b>Capital deployed</b>	<b>1,895</b>	<b>2,001</b>	<b>2,542</b>	<b>3,218</b>	<b>4,001</b>
Net Debt	12	12	12	12	12
No. of shares (m)	-1,508	-1,549	-1,663	-2,213	-2,881
Net Debt/ Equity (%)	-81.0	-79.9	-67.4	-70.6	-73.7
WC days	2	6	6	6	6
Book value (₹/sh)	150.0	156.0	198.7	252.4	314.6

Source: Company, Anand Rathi Research

**Fig 3 – Cash-flow statement (₹m)**

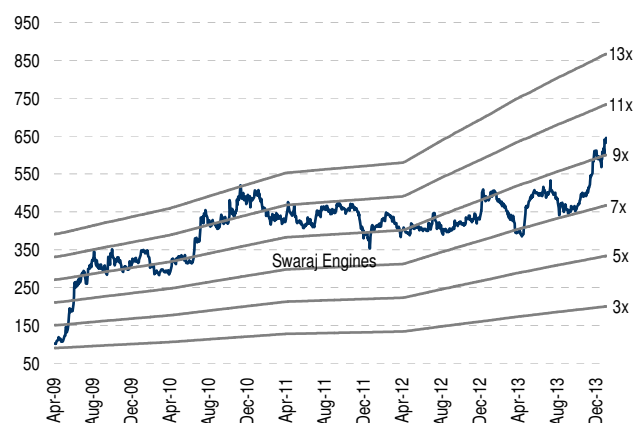
Year-end: Mar	FY12	FY13	FY14e	FY15e	FY16e
PAT	528	554	717	865	984
+ Non-cash items	43	72	90	101	112
Cash profit	571	626	808	966	1,096
- Incr./Decr. in WC	-76	-261	317	28	27
Operating cash-flow	646	887	491	939	1,070
- Capex	266	392	200	200	200
Free cash-flow	380	495	291	739	870
- Dividend	161	410	186	199	211
+ Equity raised	0	0	0	0	0
+ Debt raised	0	0	0	0	0
- Investments	233	-70	-100	300	300
- Misc. items	50	44	-10	-10	-10
Net cash-flow	-65	110	215	250	368
+ Op. cash & bank bal.	762	697	807	1,022	1,272
Cl. cash & bank bal.	697	807	1,022	1,272	1,640

Source: Company, Anand Rathi Research

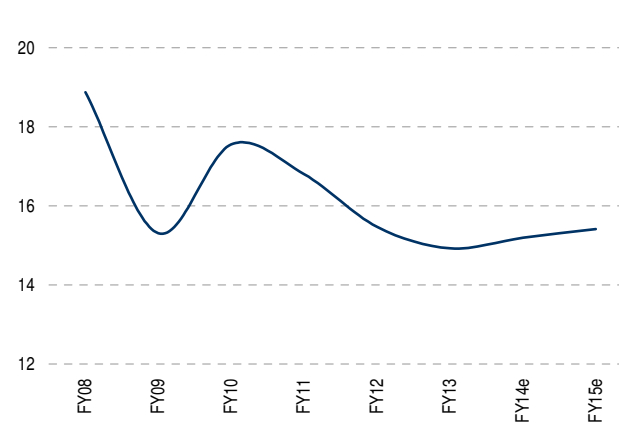
**Fig 4 – Ratio analysis @ ₹640**

Year-end: Mar	FY12	FY13	FY14e	FY15e	FY16e
P/E (x)	15.0	14.3	11.1	9.2	8.1
P/B (x)	4.3	4.1	3.2	2.5	2.0
EV/EBITDA (x)	9.3	9.0	6.5	4.9	3.8
RoE (%)	28.4	28.6	29.1	27.6	25.2
RoCE (%)	40.8	39.8	41.3	39.3	35.9
Dividend yield	2.0	5.2	2.3	2.5	2.7
Dividend payout (%)	30.6	74.0	26.0	23.0	21.5
Debt to equity (%)	0.0	0.0	0.0	0.0	0.0
Core P/E (x)	17.8	17.6	13.3	10.8	9.4
Cash P/E	13.9	12.7	9.8	8.2	7.3
EV/sales	1.4	1.3	1.0	0.8	0.6
Inventory days	27.2	30.0	30.0	30.0	30.0
Receivables days	9.7	7.0	7.0	7.0	7.0
Payables days	35.4	31.5	31.5	31.5	31.5
Asset Turnover	2.4	2.4	2.5	2.4	2.2

Source: Company, Anand Rathi Research

**Fig 5 – PE band**


Source: Bloomberg, Anand Rathi Research

**Fig 6 – EBITDA margin trend**


Source: Company

9 January 2014

## Balkrishna Industries

Expect a decent quarter; Buy

### Key takeaways

**Tonnage to improve in 3Q.** Balkrishna Industries' 1H sales tonnage was 8.2% lower yoy due to demand slowing down in Europe and North America. However, with the low base now catching up, we expect 18% sales tonnage growth in 3Q. We expect BI to report marginal tonnage growth in FY14. In terms of geographical sales mix, in FY13, Europe constituted 45%, India 9%, North America 25% and the rest of the world 21%, similar to that in FY12.

**Bhuj plant starts operations.** The new ₹18bn plant at Bhuj partly commenced operations in Sep'12, and is now in a scale-up mode. 10,000-ton capacity was available for production in FY13, which would be ramped up to 60,000 tons in FY14 and to the full extent of 120,000 tons by FY15.

**Healthy EBITDA margin.** On better yoy sales, we expect revenues to grow 23.9% yoy, to ₹8.7bn. Our EBITDA margin expectation is 22.9%, 90bps higher yoy (lower 120bps qoq). We expect 19.9% yoy decline in adjusted profit, to ₹1bn.

**Our take.** We are optimistic on the company's prospects, though it may experience short-term weakness in demand (despite demand pressures, FY13 performance was good). Also, a better product mix would help it counter sluggish revenues. Catering to the replacement market, with a strong global, well-diversified distributor network, and an expanding market reach, the company is poised to do better. Factors to watch out are improvement overseas and better demand in emerging markets. We maintain Buy, with a price target of ₹379 (based upon 7.75x FY15 earnings). At the ruling price, the stock trades at 7x FY15e EPS, and an EV/EBITDA of 4.9x FY15e.

**Risks.** Spike in rubber prices, adverse forex movements, a further dip in demand in North America and Europe.

Standalone Quarterly results (YE Mar)	3QFY13	3QFY14e	% yoy	1HFY13	1HFY14	% yoy
Sales (₹m)	7,047	8,732	23.9	17,184	16,555	-3.7
EBITDA (₹m)	1,548	2,000	29.2	3,444	3,811	10.7
EBITDA margin (%)	22.0	22.9	94	20.0	23.0	298bps
Interest (₹m)	43	100	132.6	122	92	-24.8
Depreciation (₹m)	272	410	50.5	483	746	54.2
Other income (₹m)	14	15	10.3	16	214	1,274.4
PBT (₹m)	1,102	1,505	36.7	2,910	3,168	8.8
Tax (₹m)	358	497	39.0	942	1,064	12.9
Tax rate (%)	32.5	33.0	55	32.4	33.6	121bps
PAT (₹m)	841	1,009	19.9	1,930	2,118	9.7

Source: Company

Key data	BIL IN / BLKI.BO
52-week high / low	₹349 / ₹199
Sensex / Nifty	20729 / 6175
3-m average volume	US\$1.2m
Market cap	₹33.24bn / US\$536.1m
Shares outstanding	96.7m

Shareholding pattern (%)	Sep'13	Jun'13	Mar'13
Promoters	58.30	58.30	58.30
- of which, Pledged	-	-	-
Free Float	41.70	41.70	41.70
- Foreign Institutions	10.74	10.60	10.27
- Domestic Institutions	19.64	19.68	19.75
- Public	11.32	11.42	11.68

Financials (YE Mar)	FY14e	FY15e
Sales (₹m)	34,468	42,000
Net profit (₹m)	3,955	4,729
EPS (₹)	40.9	48.9
Growth (%)	10.0	19.5
PE (x)	8.4	7.0
PBV (x)	1.8	1.5
RoE (%)	22.0	21.1
RoCE (%)	16.1	18.1
Dividend yield (%)	0.5	0.5
Net gearing (%)	44.2	38.9

Source: Anand Rathi Research

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## Quick Glance – Financials and Valuations

**Fig 1 – Income statement (₹m)**

Year-end: Mar	FY12	FY13	FY14e	FY15e	FY16e
Net revenues	28,200	31,906	34,468	42,000	51,034
Revenue growth (%)	40.8	13.1	8.0	21.9	21.5
- Op. expenses	23,142	25,262	26,610	32,550	39,679
<b>EBIDTA</b>	<b>5,058</b>	<b>6,644</b>	<b>7,859</b>	<b>9,450</b>	<b>11,355</b>
EBITDA margins (%)	17.9	20.8	22.8	22.5	22.3
- Interest	278	200	401	538	483
- Depreciation	831	1,077	1,616	1,939	2,327
+ Other income	33	42	74	85	97
- Extraordinaries & others	203	57	21	0	0
- Tax	1,297	1,794	1,960	2,329	2,852
Effective tax rate (%)	34.3	33.5	33.3	33.0	33.0
Reported PAT	2,482	3,558	3,935	4,729	5,791
<b>Adjusted PAT</b>	<b>2,655</b>	<b>3,597</b>	<b>3,955</b>	<b>4,729</b>	<b>5,791</b>
PAT growth (%)	43.9	35.5	10.0	19.5	22.5
Adj. FDEPS (₹/share)	27.5	37.2	40.9	48.9	59.9
Adj. FDEPS growth (%)	43.9	35.5	10.0	19.5	22.5

Source: Company, Anand Rathi Research

**Fig 2 – Balance sheet (₹m)**

Year-end: Mar	FY12	FY13	FY14e	FY15e	FY16e
Share capital	193	193	193	193	193
Reserves & surplus	10,608	13,996	17,746	22,271	27,837
Net worth	10,801	14,190	17,939	22,464	28,031
Total debt	16,630	20,636	20,314	18,314	16,314
Def. tax liab. (net)	626	999	1,098	1,208	1,329
<b>Capital employed</b>	<b>28,056</b>	<b>35,824</b>	<b>39,352</b>	<b>41,986</b>	<b>45,674</b>
Net fixed assets	12,780	22,232	25,617	26,678	27,351
Investments	322	329	354	379	404
Working capital	11,380	10,599	7,902	9,818	12,062
Cash	3,574	2,663	5,479	5,111	5,856
<b>Capital deployed</b>	<b>28,056</b>	<b>35,824</b>	<b>39,352</b>	<b>41,986</b>	<b>45,674</b>
Net debt	13,056	17,972	14,835	13,203	10,458
No. of shares (m)	97	97	97	97	97
Net debt/equity (x)	120.9	126.7	82.7	58.8	37.3
W C turn (days)	99	80	80	80	80
Book value (₹/sh)	112	147	186	232	290

Source: Company, Anand Rathi Research

**Fig 3 – Cash-flow statement (₹m)**

Year-end: Mar	FY12	FY13	FY14e	FY15e	FY16e
PAT	2,482	3,558	3,935	4,729	5,791
+ Non-cash items	831	1,077	1,616	1,939	2,327
Cash profit	3,313	4,636	5,551	6,667	8,117
- Incr./decr.) in WC	2,088	-2,019	-2,697	1,916	2,244
Operating cash-flow	1,225	6,655	8,248	4,751	5,873
- Capex	6,235	10,529	5,000	3,000	3,000
Free cash-flow	-5,010	-3,874	3,248	1,751	2,873
- Dividend	145	145	159	175	193
+ Equity raised	0	0	0	0	0
+ Debt raised	10,649	4,006	-322	-2,000	-2,000
- Investments	0	7	25	25	25
- Misc. items	2,029	891	-74	-81	-90
Net cash-flow	3,464	-911	2,816	-368	745
+ Op. cash & bank bal.	110	3,574	2,663	5,479	5,111
Cl. Cash & bank bal.	3,574	2,663	5,479	5,111	5,857

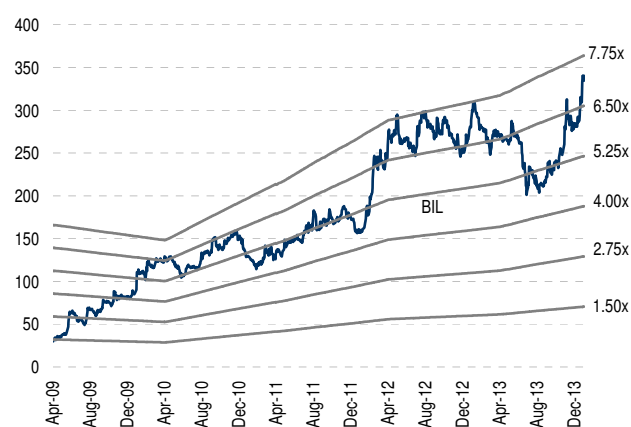
Source: Company, Anand Rathi Research

**Fig 4 – Ratio analysis @ ₹342**

Year-end: Mar	FY12	FY13	FY14e	FY15e	FY16e
P/E (x)	12.5	9.2	8.4	7.0	5.7
P/B (x)	3.1	2.3	1.8	1.5	1.2
EV/EBITDA (x)	9.1	7.6	6.0	4.9	3.8
RoE (%)	24.6	25.3	22.0	21.1	20.7
RoCE (%)	15.2	15.7	16.1	18.1	20.0
Dividend yield (%)	0.4	0.4	0.5	0.5	0.6
Dividend payout (%)	6.3	4.7	4.7	4.3	3.9
Debt to equity (x)	1.5	1.5	1.1	0.8	0.6
Core P/E (x)	12.6	9.3	8.5	7.1	5.8
Cash P/E (x)	10.0	7.1	6.0	5.0	4.1
EV/sales (x)	1.6	1.6	1.4	1.1	0.9
Inventory days	63	50	50	50	50
Receivables days	63	58	58	58	58
Payables days	26	28	28	28	28
Fixed Asset T/O (x)	2.3	1.2	1.1	1.2	1.3

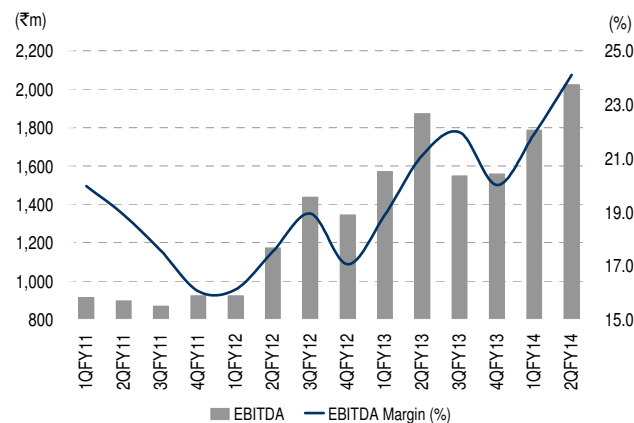
Source: Company, Anand Rathi Research

**Fig 5 – PE band**



Source: Bloomberg, Anand Rathi Research

**Fig 6 – Trend in EBITDA Margin (%)**



Source: Company, Anand Rathi Research

9 January 2014

## Gabriel India

*A weak 3Q, but outlook good; Buy*

Rating: **Buy**

Target Price: ₹27

Share Price: ₹24

### Key takeaways

**Weak OEM sales on low demand.** Decline in demand across most auto segments have weighed down on Gabriel India's (Gabriel) ytd performance. After robust growth in past three years in autos (22% CAGR), FY13 was subdued (at ~3%) with a weak trend expected to sustain in FY14. However, Gabriel recorded ~3% growth in 1H, and we expect ~7% growth in revenues in FY14 (expectation of 9.9% in 3QFY14), mainly due to business from new two-wheeler customers like Honda Motorcycle, Mahindra Two Wheelers. The proportion of two wheelers in sales has increased from less than 50% in FY13 to ~55% in 9MFY14.

**Lower EBITDA.** We expect revenue growth of 9.9% yoy to ₹3.3bn. Our EBITDA margin expectation is 6.3%, 20bps higher yoy, flat qoq. While EBITDA is expected to be 13.1% higher yoy, we expect profit of ₹95m (5.9% lower yoy).

**Our take.** Gabriel is focused completely on innovation and raising productivity, and reducing costs, working capital and overheads. It has also taken measures to improve the working capital cycle, results of which have begun to show. Debt reduction is also a focus area for the company, where results are now being visible. Additions to the customer base, exports and steady replacement sales are future growth drivers. Despite lower vehicle demand, Gabriel has sustained a decent, > 6% EBITDA margin, which can be boosted further by operating leverage and higher contribution from more profitable segments like exports and replacement. We maintain Buy, with target of ₹27 (at PE of 7.25x Mar'15e; current PE is 6.4x FY15e).

**Risks.** Inadequate price hikes by OEMs, higher commodity prices, prolonged demand slump.

Key data	GABR IN / GABR.BO
52-week high / low	₹33/ ₹16
Sensex / Nifty	20729 / 6175
3-m average volume	US\$0.2m
Market cap	₹3.5bn / US\$56.4m
Shares outstanding	143.7m

Shareholding pattern (%)	Sep '13	Jun '13	Mar '13
Promoters	54.63	54.63	54.63
- of which, Pledged	-	-	-
Free Float	45.37	45.37	45.37
- Foreign Institutions	5.59	5.57	5.54
- Domestic Institutions	0.37	0.74	0.74
- Public	39.06	39.09	39.10

Financials (YE Mar)	FY14e	FY15e
Sales (₹m)	12,941	14,701
Net profit (₹m)	438	543
EPS (₹)	3.0	3.8
Growth (%)	0.7	24.0
PE (x)	8.0	6.4
PBV (x)	1.2	1.1
RoE (%)	15.3	16.8
RoCE (%)	17.6	19.7
Dividend yield (%)	3.4	4.2
Net gearing (%)	40.0	38.8

Source: Anand Rathi Research

Quarterly results (YE Mar)	3QFY13	3QFY14e	% yoy	1HFY13	1HFY14	% yoy
Sales (₹m)	2,973	3,268	9.9	5,970	6,136	2.8
EBITDA (₹m)	182	206	13.1	443	393	-11.5
EBITDA margin (%)	6.1	6.3	18	7.4	6.4	-103bps
Interest (₹m)	27	28	4.1	65	49	-24.3
Depreciation (₹m)	62	68	10.6	140	133	-5.1
Other income (₹m)	4	4	0.0	26	38	45.3
PBT (₹m)	86	114	32.1	228	248	8.9
Tax (₹m)	7	19	181.5	43	46	7.7
Tax rate (%)	7.7	16.5	875	18.8	18.6	-20bps
PAT (₹m)	90	95	5.9	218	202	-7.3

Source: Company

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## Quick Glance – Financials and Valuations

**Fig 1 – Income statement (₹m)**

Year-end: Mar	FY12	FY13	FY14e	FY15e	FY16e
<b>Net revenues</b>	11,282	12,053	12,941	14,701	16,932
Revenue growth (%)	16.3	6.8	7.4	13.6	15.2
- Op. expenses	10,341	11,230	12,072	13,666	15,665
<b>EBIDTA</b>	941	824	869	1,035	1,267
EBITDA margins (%)	8.3	6.8	6.7	7.0	7.5
- Interest	170	122	107	109	113
- Depreciation	276	273	280	303	335
+ Other income	73	42	49	56	64
- Extraordinaries & others	-57	59	0	0	0
- Tax	94	30	93	136	194
Effective tax rate (%)	15.0	7.4	17.5	20.0	22.0
Reported PAT	531	381	438	543	688
<b>Adjusted PAT</b>	479	435	438	543	688
PAT growth (%)	1.9	-9.3	0.7	24.0	26.8
Adj. FDEPS (₹/share)	11,282	12,053	12,941	14,701	16,932
Adj. FDEPS growth (%)	16.3	6.8	7.4	13.6	15.2

Source: Company, Anand Rathi Research

**Fig 2 – Balance sheet (₹m)**

Year-end: Mar	FY12	FY13	FY14e	FY15e	FY16e
Share capital	72	144	144	144	144
Reserves & surplus	2,241	2,425	2,725	3,095	3,568
Net worth	2,312	2,569	2,869	3,239	3,712
Total debt	1,230	657	607	607	607
Def. tax liab. (net)	133	111	136	161	186
<b>Capital employed</b>	<b>3,676</b>	<b>3,336</b>	<b>3,611</b>	<b>4,006</b>	<b>4,504</b>
Net fixed assets	2,175	2,618	2,638	2,835	3,099
Investments	0	0	0	0	0
Working capital	1,445	648	830	979	1,167
Cash	56	70	142	193	238
<b>Capital deployed</b>	<b>3,676</b>	<b>3,336</b>	<b>3,611</b>	<b>4,006</b>	<b>4,504</b>
Net debt	1,174	587	464	414	369
No. of shares (m)	71.9	143.7	143.7	143.7	143.7
Net debt/equity (x)	0.5	0.2	0.2	0.1	0.1
W C turn (days)	35.0	27.7	31.0	31.0	31.0
Book value (₹/sh)	32.2	17.9	20.0	22.5	25.8

Source: Company, Anand Rathi Research

**Fig 3 – Cash-flow statement (₹m)**

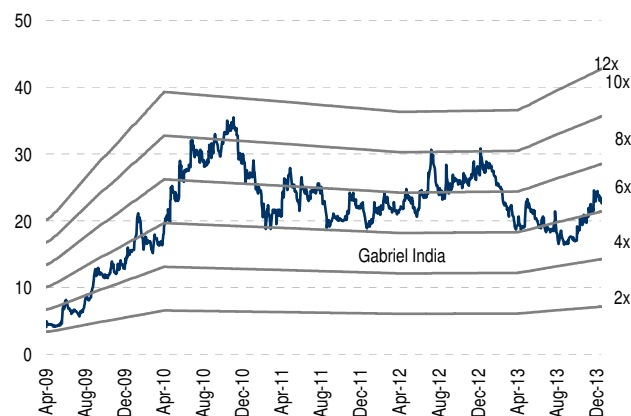
Year-end: Mar	FY12	FY13	FY14e	FY15e	FY16e
PAT	531	381	438	543	688
+ Non-cash items	276	273	280	303	335
Cash profit	807	654	718	846	1,024
- Incr./decr. in WC	292	-797	182	148	188
Operating cash-flow	515	1,451	536	698	836
- Capex	243	715	300	500	600
Free cash-flow	272	735	236	198	236
- Dividend	72	108	119	148	185
+ Equity raised	0	72	0	0	0
+ Debt raised	-281	-573	-50	0	0
- Investments	-133	0	0	0	0
- Misc. items	35	112	-6	-1	5
Net cash-flow	16	14	73	51	45
+ Op. cash & bank bal.	39	56	70	142	193
Cl. Cash & bank bal.	56	70	142	193	238

Source: Company, Anand Rathi Research

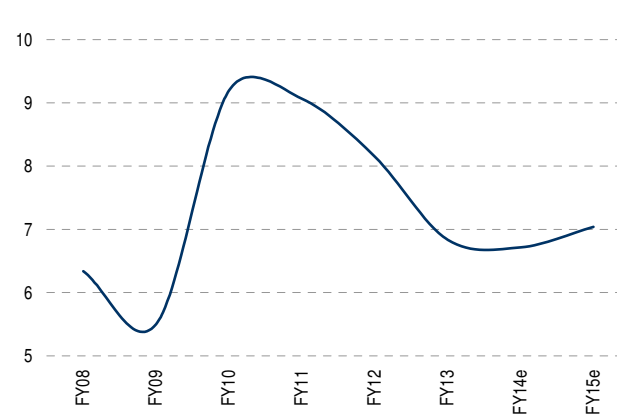
**Fig 4 – Ratio analysis @ ₹24**

Year-end: Mar	FY12	FY13	FY14e	FY15e	FY16e
P/E (x)	7.3	8.0	8.0	6.4	5.1
P/B (x)	0.8	1.4	1.2	1.1	0.9
EV/EBITDA (x)	5.1	5.6	5.2	4.4	3.6
RoE (%)	20.7	16.9	15.3	16.8	18.5
RoCE (%)	20.1	17.8	17.6	19.7	22.1
Dividend yield (%)	4.1	3.1	3.4	4.2	5.3
Dividend payout (%)	17.4	28.8	31.5	31.8	31.3
Debt to equity (x)	0.6	0.5	0.4	0.4	0.4
Core P/E (x)	8.2	8.7	8.7	7.0	5.5
Cash P/E (x)	2.2	5.3	4.9	4.1	3.4
EV/sales (x)	0.4	0.4	0.4	0.3	0.3
Inventory days	40	34	35	35	35
Receivables days	41	36	36	36	36
Payables days	46	42	40	40	40
Fixed asset T/O (x)	2.8	2.6	2.6	2.7	2.8

Source: Company, Anand Rathi Research

**Fig 5 – P/E band**


Source: Bloomberg, Anand Rathi Research

**Fig 6 – EBITDA margin trend**


Source: Company, Anand Rathi Research



9 January 2014

## Ceat

*Improved trajectory, but valuations appear fair; Hold*Rating: **Hold**

Target Price: ₹379

Share Price: ₹368

### Key takeaways

**Robust trajectory to continue in 3Q.** We expect sales tonnage to have improved 10.4% yoy to ~58,500 tons. We expect revenue to have grown 10.7% yoy, to ₹13.3bn (flat yoy realisations). For 2QFY14, we expect the EBITDA margin to be 13%, up 450bps yoy (10bps higher qoq). Ahead, higher input costs can act as a dampener. Our EBITDA growth expectation is 70% yoy to ₹1.7bn. On the lower profit base, we expect standalone profit in 3Q to grow ~3x, to ₹758m.

**Re-rating faster than expected.** The re-rating in Ceat's valuations has been rapid, and much faster than expected. While a decent trajectory is likely to be persisted with in terms of financial performance in 4Q as well, a further re-rating appears unlikely. Fresh capex plans are also on the anvil.

**Our take.** In 1HFY14, Ceat benefited from lower prices of rubber. However, demand is yet to pick up significantly. The post-monsoon period may see improved offtake in replacement. The company's strategy of pursuing an asset-light model is bearing fruit, as evidenced by the success of its two-wheeler tyres. The profitable segments - exports, passenger vehicles and overseas areas - now constitute a greater share of the mix. This explains the improvement in margin profile. The upcoming Bangladesh plant may provide opportunities similar to those provided by Sri Lanka earlier.

However, the valuations are no longer as inexpensive post the run-up in the stock price. Hence we downgrade to Hold. At the ruling price, the stock trades at 4x FY15e EPS. **Risks.** Downside: Spike in rubber prices, late recovery in truck-tyre replacement demand, high leverage and price wars. Upside: further re-rating of the tyre industry, decline in rubber prices.

Key data	CEAT IN / CEAT.BO
52-week high / low	₹385 / ₹87
Sensex / Nifty	20729 / 6175
3-m average volume	US\$0.0m
Market cap	₹11.5bn / US\$185.6m
Shares outstanding	34.2m

Shareholding pattern (%)	Sep'13	Jun'13	Mar'13
Promoters	57.11	54.96	54.24
- of which, Pledged	-	-	-
Free Float	42.89	45.76	45.76
- Foreign Institutions	0.03	0.03	0.03
- Domestic Institutions	10.13	9.91	11.26
- Public	32.73	35.10	34.47

Financials (YE Mar)	FY14e	FY15e
Sales (₹m)	52,970	59,603
Net profit (₹m)	2,777	3,024
EPS (₹)	77.2	84.1
Growth (%)	107.2	8.9
PE (x)	4.4	4.0
PBV (x)	1.2	0.9
RoE (%)	27.4	23.5
RoCE (%)	26.7	24.3
Dividend yield (%)	1.8	2.4
Net gearing (%)	74.9	76.7

Source: Anand Rathi Research

Standalone Quarterly results (YE Mar)	3QFY13	3QFY14e	% yoy	1HY13	1HY14	% yoy
Sales (₹m)	12,017	13,297	10.7	23,623	25,610	8.4
EBITDA (₹m)	1,018	1,730	70.0	1,852	3,161	70.7
EBITDA margin (%)	8.5	13.0	454	7.8	12.3	451bps
Interest (₹m)	465	470	1.1	1,026	915	-10.8
Depreciation (₹m)	199	212	6.4	387	416	7.5
Other income (₹m)	34	50	48.4	124	140	13.1
PBT (₹m)	251	1,098	338.2	422	1,970	366.9
Tax (₹m)	81	340	318.7	137	627	357.3
Tax rate (%)	32.4	31.0	-144	32.5	31.8	-67bps
PAT (₹m)	261	758	190.5	425	1,344	215.9

Source: Company

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## Quick Glance – Financials and Valuations

**Fig 1 – Income statement (₹m)**

Year-end: Mar	FY12	FY13	FY14e	FY15e	FY16e
Net revenues	44,720	48,815	52,970	59,603	68,536
Revenue growth (%)	27.2	9.2	8.5	12.5	15.0
- Op. expenses	42,165	44,570	46,322	52,510	60,826
<b>EBIDTA</b>	<b>2,556</b>	<b>4,245</b>	<b>6,648</b>	<b>7,093</b>	<b>7,710</b>
EBITDA margin (%)	5.7	8.7	12.6	11.9	11.3
- Interest expenses	1,922	1,944	1,895	1,914	1,933
- Depreciation	705	782	934	1,023	1,155
+ Other income	200	215	236	260	286
- Extraordinaries	32	277	0	0	0
- Tax	23	394	1,277	1,391	1,570
Effective tax rate (%)	23.0	27.0	31.5	31.5	32.0
Reported PAT	75	1,064	2,777	3,024	3,337
<b>Adjusted PAT</b>	<b>96</b>	<b>1,341</b>	<b>2,777</b>	<b>3,024</b>	<b>3,337</b>
PAT growth (%)	-68.0	1,289.6	107.2	8.9	10.3
FDEPS (₹/share)	2.7	37.3	77.2	84.1	92.8
FDEPS growth (%)	-68.0	1,289.6	107.2	8.9	10.3

Source: Company, Anand Rathi Research

**Fig 2 – Balance sheet (₹m)**

Year-end: Mar	FY12	FY13	FY14e	FY15e	FY16e
Share capital	342	342	360	360	360
Reserves & surplus	6,185	7,088	9,778	12,514	15,492
Net worth	6,563	7,466	10,137	12,874	15,852
Total debt	10,722	9,396	11,396	12,396	11,396
Def. tax liab. (net)	224	745	745	745	745
<b>Capital employed</b>	<b>17,510</b>	<b>17,608</b>	<b>22,279</b>	<b>26,015</b>	<b>27,993</b>
Net fixed assets	15,375	15,129	16,287	18,763	20,608
Investments	745	447	1,247	1,747	2,247
Working capital	1,056	1,219	3,437	3,846	4,530
Cash	334	814	1,308	1,659	608
<b>Capital deployed</b>	<b>17,510</b>	<b>17,608</b>	<b>22,279</b>	<b>26,015</b>	<b>27,993</b>
Net Debt	9,643	8,136	8,841	8,990	8,541
No. of shares (m)	34.2	34.2	36.0	36.0	36.0
Net Debt/ Equity (%)	281.6	237.6	245.9	250.0	237.5
WC days	44	29	44	44	44
Book value (₹/sh)	192	218	282	358	441

Source: Company, Anand Rathi Research

**Fig 3 – Cash-flow statement (₹m)**

Year-end: Mar	FY12	FY13	FY14e	FY15e	FY16e
PAT	75	1,064	2,777	3,024	3,337
+ Non-cash items	705	782	934	1,023	1,155
Cash profit	780	1,845	3,711	4,048	4,492
- Incr./Decr. in WC	1,266	703	2,322	506	781
Operating cash-flow	-486	1,142	1,390	3,541	3,712
- Capex	1,395	535	2,092	3,500	3,000
Free cash-flow	-1,881	607	-702	41	712
- Dividend	34	137	216	288	360
+ Equity raised	0	0	17	0	0
+ Debt raised	1,673	-1,326	2,000	1,000	-1,000
- Investments	-120	-298	800	500	500
- Misc. items	22	-1,037	-196	-97	-97
Net cash-flow	-144	479	495	351	-1,051
+ Op. cash & bank bal.	479	334	814	1,308	1,659
Cl. cash & bank bal.	335	813	1,309	1,659	608

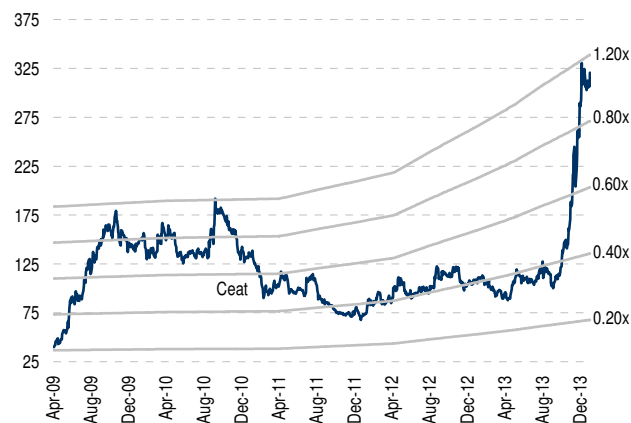
Source: Company, Anand Rathi Research

**Fig 4 – Ratio analysis @ ₹336**

Year-end: Mar	FY12	FY13	FY14e	FY15e	FY16e
P/E (x)	125.3	9.0	4.4	4.0	3.6
P/B (x)	1.8	1.5	1.2	0.9	0.8
EV/EBITDA (x)	8.3	4.6	3.1	3.0	2.7
RoE (%)	1.5	18.0	27.4	23.5	21.1
RoCE (%)	11.7	20.9	26.7	24.3	24.4
Dividend yield	0.3	1.2	1.8	2.4	3.0
Dividend payout (%)	52.3	14.8	8.9	10.9	12.4
Debt to equity (%)	1.6	1.3	1.1	1.0	0.7
Core P/E (x)	-168.2	10.4	4.7	4.3	3.9
Cash P/E	14.4	5.4	3.3	3.0	2.7
EV/sales	0.5	0.4	0.4	0.4	0.3
Inventory days	47	40	50	50	50
Receivables days	50	48	48	48	48
Payables days	54	58	54	54	54
Asset Turnover	3.1	3.2	3.4	3.4	3.5

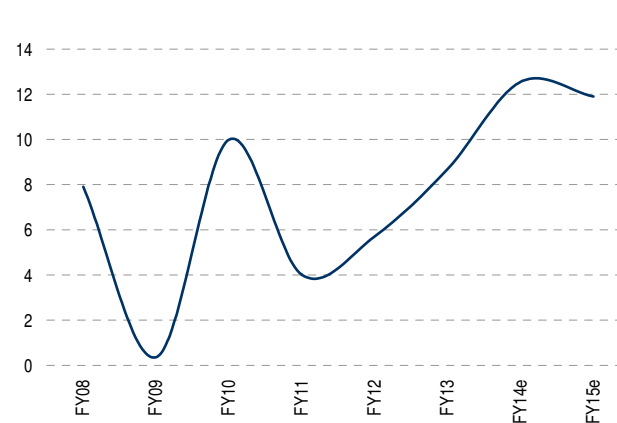
Source: Company, Anand Rathi Research

**Fig 5 – PB band**



Source: Bloomberg, Anand Rathi Research

**Fig 6 – EBITDA-margin trend**



Source: Company

9 January 2014

## Munjal Showa

Growth triggers in place; Buy

### Key takeaways

**Two-wheeler demand scenario average.** Hero MotoCorp, the key customer for Munjal Showa (MS) witnessed decent 3QFY14 numbers, and on a lower base the company reported yoy growth for a second successive quarter (after a yoy decline for the preceding four quarters). Two-wheeler sales were up 6.9% yoy and 18.7% qoq. Consequent on the weak demand environment in the auto industry and keener competition, we expect this challenging industry scenario to continue into 4QFY14.

**Benefit to trickle in for MS.** In 3QFY13, while the overall automotive demand continued to be weak. MS' key customers - Hero MotoCorp. and Maruti Suzuki - reported a decent performance. Hence, we expect MS' revenue to grow 10% yoy. We expect its EBITDA margin to come at 6.5% (60bps lower yoy, though 140bps up qoq). This would result in marginal 0.8% yoy EBITDA growth. As a result, adjusted profit would grow by a marginal 3.6% yoy, to ₹166m.

**Provision for wage hike.** The company's wage-settlement agreement with its workers and staff increments are due for renewal. While negotiations are ongoing, the company has provided ₹54.73m towards increments for 1HFY14, based upon its estimates. This has also had the effect of lowering the EBITDA margin, along with reducing operating leverage.

**Our take.** Although key customers still face demand woes, growth ahead would be driven by non-HMC customers. Positives ahead are inexpensive valuations and more revenue from a diversified customer base. We reiterate a Buy, with a target of ₹80, based upon 4.2x FY15e (a ~10% discount to its past five-year average). At the current price, the stock trades at PE of just 4.1x FY14e and 3.6x FY15e earnings. **Risks.** Sustained slump in motorcycle sales, rise in commodity prices and inadequate price hikes allowed by OEMs.

Quarterly results (YE Mar)	3QFY13	3QFY14e	% yoy	1HFY13	1HFY14	% yoy
Sales (₹m)	3,908	4,299	10.0	7,941	7,654	-3.6
EBITDA (₹m)	279	281	0.8	466	465	-0.3
EBITDA margin (%)	7.1	6.5	-59	5.9	6.1	20bps
Interest (₹m)	19	12	-37.6	36	17	-52.3
Depreciation (₹m)	67	77	15.1	132	145	9.9
Other income (₹m)	3	3	0.0	10	15	44.5
PBT (₹m)	195	195	-0.3	247	338	37.0
Tax (₹m)	36	29	-17.7	24	46	93.9
Tax rate (%)	18.2	15.0	-317	9.6	13.6	400bps
PAT (₹m)	160	166	3.6	272	269	-1.1

Source: Company

Rating: **Buy**

Target Price: ₹80

Share Price: ₹70

Key data	MJS IN / MNJL.BO
52-week high / low	₹75 / ₹52
Sensex / Nifty	20729 / 175
3-m average volume	US\$0.03m
Market cap	₹2.80bn / US\$45.2m
Shares outstanding	40m

Shareholding pattern (%)	Sep '13	Jun '13	Mar '13
Promoters	65.02	65.02	65.02
- of which, Pledged	-	-	-
Free Float	34.98	34.98	34.98
- Foreign Institutions	0.26	0.26	0.23
- Domestic Institutions	1.76	1.76	1.87
- Public	32.96	32.96	32.88

Financials (YE Mar)	FY14e	FY15e
Sales (₹m)	16,406	18,794
Net profit (₹m)	680	769
EPS (₹)	17.0	19.2
Growth (%)	4.3	13.1
PE (x)	4.1	3.6
PBV (x)	0.8	0.7
RoE (%)	19.5	18.4
RoCE (%)	22.2	22.6
Dividend yield (%)	5.0	5.7
Net gearing (%)	49.1	35.8

Source: Anand Rathi Research

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## Quick Glance – Financials and Valuations

**Fig 1 – Income statement (₹m)**

Year-end: Mar	FY11	FY12	FY13	FY14e	FY15e
Net revenues	15,569	15,824	16,406	18,794	21,668
Revenue growth (%)	20.8	1.6	3.7	14.6	15.3
- Op. expenses	14,342	14,760	15,291	17,478	20,151
<b>EBIDTA</b>	<b>1,227</b>	<b>1,064</b>	<b>1,116</b>	<b>1,316</b>	<b>1,517</b>
EBITDA margin (%)	7.9	6.7	6.8	7.0	7.0
- Interest expenses	112	72	41	20	20
- Depreciation	272	276	312	359	419
+ Other income	16	19	23	25	28
- Extraordinaries	0	56	-21	0	0
- Tax	188	72	113	192	221
Effective tax rate (%)	21.9	9.8	14.4	20.0	20.0
Reported PAT	671	607	694	769	884
<b>Adjusted PAT</b>	<b>671</b>	<b>652</b>	<b>680</b>	<b>769</b>	<b>884</b>
PAT growth (%)	97.3	-2.9	4.3	13.1	15.0
FDEPS (₹/share)	16.8	16.3	17.0	19.2	22.1
FDEPS growth (%)	97.3	-2.9	4.3	13.1	15.0

Source: Company, Anand Rathi Research

**Fig 2 – Balance sheet (₹m)**

Year-end: Mar	FY11	FY12	FY13	FY14e	FY15e
Share capital	80	80	80	80	80
Reserves & surplus	2,482	2,948	3,488	4,097	4,821
Net worth	2,562	3,028	3,568	4,177	4,901
Total debt	732	320	20	20	20
Def. tax liab. (net)	142	142	138	138	138
<b>Capital employed</b>	<b>3,435</b>	<b>3,491</b>	<b>3,727</b>	<b>4,336</b>	<b>5,060</b>
Net fixed assets	2,562	2,534	2,724	3,365	3,945
Investments	30	200	170	170	170
Working capital	796	577	699	767	852
Cash	47	179	134	34	93
<b>Capital deployed</b>	<b>3,435</b>	<b>3,491</b>	<b>3,727</b>	<b>4,336</b>	<b>5,060</b>
Net Debt	40	40	40	40	40
No. of shares (m)	654	-59	-284	-184	-242
Net Debt/ Equity (%)	25.5	-1.9	-8.0	-4.4	-4.9
WC days	13	6	12	12	12
Book value (₹/sh)	64.0	75.7	89.2	104.4	122.5

Source: Company, Anand Rathi Research

**Fig 3 – Cash-flow statement (₹m)**

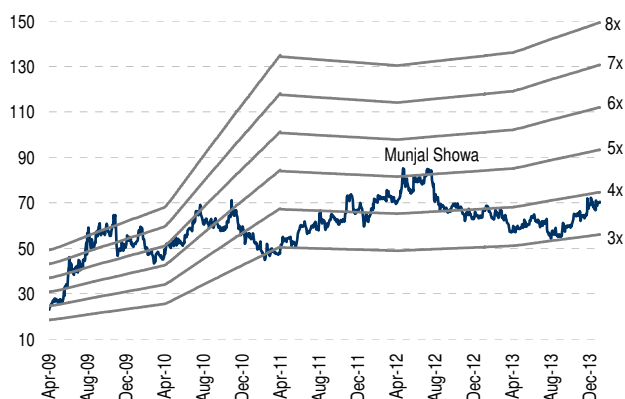
Year-end: Mar	FY11	FY12	FY13	FY14e	FY15e
PAT	671	607	694	769	884
+ Non-cash items	272	276	312	359	419
Cash profit	944	883	1,006	1,128	1,303
- Incr./Decr. in WC	429	-219	121	68	85
Operating cash-flow	515	1,102	885	1,060	1,219
- Capex	155	249	502	1,000	1,000
Free cash-flow	360	853	383	60	219
- Dividend	120	140	160	150	150
+ Equity raised	0	0	0	0	0
+ Debt raised	-125	-411	-300	0	0
- Investments	30	170	-30	0	0
- Misc. items	68	0	-20	10	10
Net cash-flow	16	132	-45	-100	59
+ Op. cash & bank bal.	31	47	179	134	34
Cl. cash & bank bal.	47	179	134	34	93

Source: Company, Anand Rathi Research

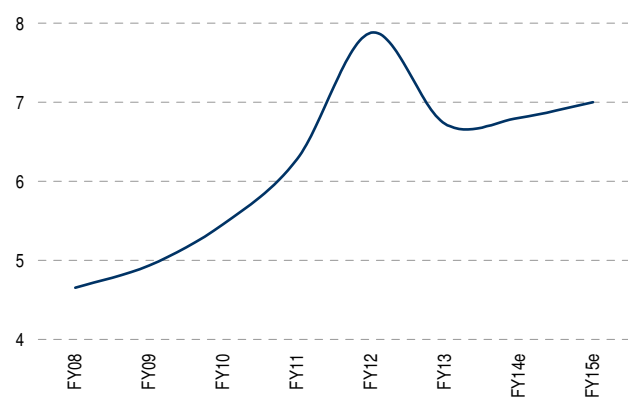
**Fig 4 – Ratio analysis @ ₹70**

Year-end: Mar	FY11	FY12	FY13	FY14e	FY15e
P/E (x)	4.2	4.3	4.1	3.6	3.2
P/B (x)	1.1	0.9	0.8	0.7	0.6
EV/EBITDA (x)	2.8	2.6	2.3	2.0	1.7
RoE (%)	26.2	20.0	19.5	18.4	18.0
RoCE (%)	28.3	23.1	22.2	22.6	22.2
Dividend yield	4.3	4.3	5.0	5.7	5.7
Dividend payout (%)	17.9	19.8	20.2	20.8	18.1
Debt to equity (%)	0.3	0.1	0.0	0.0	0.0
Core P/E (x)	4.3	4.4	4.2	3.7	3.2
Cash P/E	3.0	3.2	2.8	2.5	2.1
EV/sales	0.2	0.2	0.2	0.1	0.1
Inventory days	13.5	13.8	14.1	15.1	15.1
Receivables days	37.4	36.6	33.8	33.7	33.6
Payables days	52.4	49.5	47.0	45.4	45.3
Asset Turnover	4.5	4.5	4.4	4.3	4.3

Source: Company, Anand Rathi Research

**Fig 5 – PE band**


Source: Bloomberg, Anand Rathi Research

**Fig 6 – EBITDA margin trend**


Source: Company

9 January 2014

## NRB Bearings

*Tough domestic market, export-led growth; Buy*

Rating: **Buy**

Target Price: ₹53

Share Price: ₹43

### Key takeaways

**Domestic sales continue to slow down, exports expected to grow.** We expect NRB Bearings' sales to have risen 6% yoy, to ₹1.5bn, despite a decline in offtake in the domestic auto segment (OEM clients). Exports would have grown yoy at a healthy pace on account of the company's export-focused strategy. Sluggish growth in the domestic auto sector, its mainstay, would have kept the yoy margin slightly down.

**Margin set to decline 129bps.** The EBITDA margin is expected to decline 129bps yoy, chiefly due to lower fixed-cost absorption. Ahead, with an expected rise in volumes of high-margin exports, the margin is expected to have expanded to over 17%. The costs involved in exports a present are high. The decline in the domestic business was somewhat counter-balanced by more exports. The long-term focus is now on increasing export revenue. In FY14 exports are anticipated to have clocked ₹2bn (FY13: ₹1.5bn). From 3QFY13 NRB Industrial Bearings has been hived off into a separate company.

**Short-term outlook weak; exports, the silver lining.** While revenue and EBITDA growth continues in 3QFY14, higher revenue from fresh export clients should pick up, and the domestic business, which has bottomed out, start to inch up. Economic growth is expected to improve in the next few quarters, auguring well for the company. Besides, its exports business continues to gain size. This could improve margins and reduce working capital required. For 3QFY14 we expect PAT to decline 16.5% yoy, to ₹123m.

**Our take.** With brightening prospects for the economy and NRB too expected to look up, we maintain a Buy. The stock trades at 7x one-year-forward EPS. Our revised target is based on 9x FY15e EPS. Risks: Keener competition, higher input costs.

Quarterly results (YE Mar)	3QFY13	3QFY14e	% yoy	1HFY13	1HFY14	% yoy
Sales (₹m)	1,442	1,528	6.0	2,908	2,860	(1.6)
EBITDA (₹m)	264	261	(1.4)	498	468	(6.0)
EBITDA margin (%)	18.3	17.1	(129) bps	17.1	16.4	(77) bps
Interest (₹m)	49	45	(7.4)	74	85	14.2
Depreciation (₹m)	75	85	13.6	150	164	9.8
Other income(₹m)	0	12	11,900.0	22	23	4.5
PBT (₹m)	141	143	1.0	296	242	(18.3)
Tax (₹m)	-6	20	(450.9)	74	69	(7.5)
Tax rate (%)	(4.0)	14.0	1807 bps	25.0	28.3	(330) bps
PAT (₹m)	147	123	(16.5)	222	174	(21.9)

Source: Company, Note: FY12&13 consolidated financials

Key data	NRBBR IN / NBEA.BO
52-week high / low	₹42/ ₹26
Sensex / Nifty	20729 / 6175
3-m average volume	US\$0.1m
Market cap	₹4.2bn / US\$68m
Shares outstanding	96.9m

Shareholding pattern (%)	Sep '13	June '13	Mar '13
Promoters	62.8	62.8	72.4
- of which, Pledged	-	-	6.0
Free Float	37.2	37.2	27.6
- Foreign Institutions	19.0	18.7	7.9
- Domestic Institutions	1.2	1.2	5.0
- Public	17.0	17.3	14.7

Financials (YE Mar)	FY14e	FY5e
Sales (₹m)	6,143	7,102
Net profit (₹m)	395	567
EPS (₹)	4.1	5.8
Growth (%)	-16.2	43.4
PE (x)	10.1	7.0
PBV (x)	1.7	1.5
RoE (%)	18.0	22.6
RoCE (%)	16.2	21.1
Dividend yield (%)	3.7	4.5
Net gearing (%)	88.2	66.1

Source: Anand Rathi Research

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## Quick Glance – Consolidated Financials and Valuations

**Fig 1 – Income statement (₹m)**

Year-end: Mar	FY11	FY12	FY13	FY14e	FY15e
Net revenues	4,805	5,611	5,926	6,143	7,102
Revenue growth (%)	34.6	16.8	5.6	3.7	15.6
- Op. expenses	3,704	4,456	4,916	5,138	5,832
<b>EBIDTA</b>	<b>1,101</b>	<b>1,155</b>	<b>1,010</b>	<b>1,005</b>	<b>1,270</b>
EBITDA margins (%)	22.9	20.6	17.0	16.4	17.9
- Interest	71	133	186	206	227
- Depreciation	240	293	321	334	352
+ Other income	26	4	80	90	99
- Tax	268	225	102	147	208
Effective tax rate (%)	33	31	17	26	26
Reported PAT	547	509	480	408	583
Minority Interest	12	10	9	13	16
Adjusted PAT	535	499	472	395	567
PAT growth (%)	146.5	-6.8	-5.4	-16.2	43.4
Adj. FDEPS (₹/share)	5.5	5.1	4.9	4.1	5.8
Adj. FDEPS growth (%)	146.5	-6.8	-5.4	-16.2	43.4

Source: Company, Anand Rathi Research

**Fig 2 – Balance sheet (₹m)**

Year-end: Mar	FY11	FY12	FY13	FY14e	FY15e
Share capital	194	194	194	194	194
Reserves & surplus	1,877	2,144	1,785	2,020	2,394
Net worth	2,187	2,457	2,082	2,316	2,691
Total debt	1,140	2,575	2,601	2,351	2,251
Minority Interest	-2	8	17	17	17
Def. tax liab. (net)	116	119	102	102	102
<b>Capital employed</b>	<b>3,325</b>	<b>5,040</b>	<b>4,700</b>	<b>4,685</b>	<b>4,959</b>
Net fixed assets					
Investments	2,002	2,519	2,380	2,052	1,800
- of which, <i>Liquid</i>	1	1	1	1	1
Working capital	1	1	1	1	1
Cash	1,230	1,964	2,287	2,324	2,686
<b>Capital deployed</b>	<b>91</b>	<b>558</b>	<b>33</b>	<b>308</b>	<b>473</b>
Net debt/equity (%)	<b>3,325</b>	<b>5,040</b>	<b>4,700</b>	<b>4,685</b>	<b>4,959</b>
W C turn (days)	47.9	82.1	123.4	88.2	66.1
Book value (₹/sh)	87.6	103.9	130.9	137.0	128.7

Source: Company, Anand Rathi Research

**Fig 3 – Cash-flow statement (₹m)**

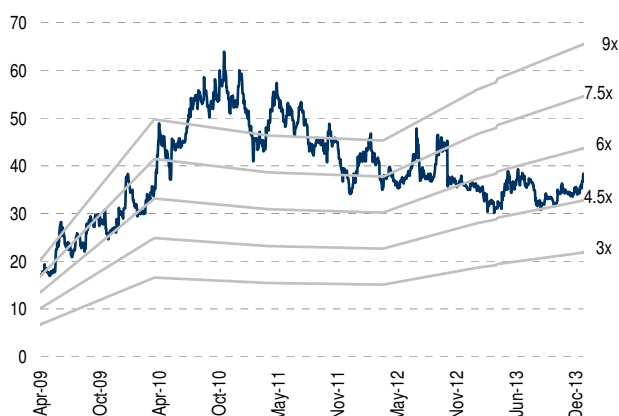
Year-end: Mar	FY11	FY12	FY13	FY14e	FY15e
PAT	535	499	472	395	567
+ Non-cash items	240	293	321	334	352
Cash profit	764	795	775	729	918
- Incr./decr. in WC	155	733	324	37	362
Operating cash-flow	609	61	452	692	557
- Capex	553	809	182	7	100
Free cash-flow	56	(747)	270	686	457
- Dividend	225	224	192	174	208
+ Equity raised	(98)	(6)	(637)	15	18
+ Debt raised	197	1,436	26	(250)	(100)
- Investments	0	0	(0)	0	0
- Misc. items	(95)	2	1	2	2
Net cash-flow	37	466	(525)	275	165
+ Op. cash & bank bal.	55	91	558	33	308
Cl. Cash & bank bal.	<b>91</b>	<b>558</b>	<b>33</b>	<b>308</b>	<b>473</b>

Source: Company, Anand Rathi Research

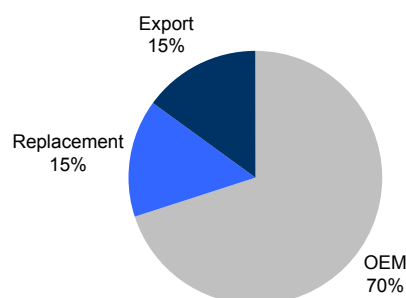
**Fig 4 – Ratio analysis @ ₹43**

Year-end: Mar	FY11	FY12	FY13	FY14e	FY15e
P/E	7.4	8.0	8.4	10.1	7.0
Cash P/E	5.1	5.0	5.0	5.4	4.3
EV/EBITDA	4.5	5.2	6.0	5.5	4.2
EV/Sales	1.0	1.1	1.1	1.0	0.8
Price to Book Value	1.8	1.6	1.9	1.7	1.5
Dividend Yield (%)	4.9	4.9	4.1	3.7	4.5
Dividend payout (%)	42.1	45.0	40.6	43.9	36.7
RoE	26.3	21.5	20.8	18.0	22.6
RoCE	28.8	20.7	15.8	16.2	21.1
Debtors (Days)	67.3	74.2	85.3	91.7	87.1
Inventory (Days)	75.6	81.4	87.9	88.8	83.9
Creditors (Days)	51.1	47.4	41.4	42.9	42.5
Working Cap (Days)	87.6	103.9	130.9	137.0	128.7
Asset Turnover (x)	0.8	1.0	1.0	1.0	0.9
Debt/Equity (x)	0.5	1.0	1.2	1.0	0.8

Source: Company, Anand Rathi Research

**Fig 5 – PE band**


Source: Bloomberg, Anand Rathi Research

**Fig 6 – Export revenue**


Source: Company

9 January 2014

## Setco Automotive

*M&H CV slowdown to eat into sales; valuation inexpensive; Hold*

Rating: **Hold**

Target Price: ₹88

Share Price: ₹73

### Key takeaways

**Sales slowdown mirrors industry slump.** We expect Setco Automotive's sales in 3QFY14 to have declined 12.8% yoy, to ₹758m, affected by the sharp decline in offtake in the M&H CV OEM segment generally; volumes in this segment would decline ~25%. To counter the slowdown in domestic OEM sales, management is now focusing on exports and the aftermarket. In FY13, the aftermarket and exports grew 16% and 31% respectively, while OE sales declined 31%.

**Margins and profitability to continue under pressure.** We expect the EBITDA margin, at 10%, to be down; it would still be down 710bps yoy. On the lower fixed-cost absorption, EBITDA is expected to dip 48.8% yoy. Hence, we expect PAT to fall 44.3%, to ₹54m. With the expected rise in volumes of high-margin after-market clutches, the margin would hold at the present level.

**Short-term pain to continue, long-term brighter.** We expect FY14 sales to be flat, with a 200-bp drop in the EBITDA margin and profit slipping 16.7%. However, in FY15, we expect the company to be a key beneficiary of the CV cycle recovery, with increasing exports and good aftermarket potential as added positives. We foresee 24% revenue growth, margins bouncing back 190bps to 14.1% and the RoCE rising from 15.3% to 18.5% over FY13-15.

**Our take.** We expect the company's financial performance to disappoint in FY14 as well. A recovery and upswing in the CV cycle in 2HFY15, however, would see Setco as the foremost beneficiary. Its short-term prospects continue to be dim. We maintain our Hold rating on the stock. We assign a one-year-forward PE of 6x FY15e and arrive at a target price of ₹88. **Risks.** Slump in auto demand, rise in commodity prices, insufficient price hikes by OEMs.

Key data	SETC IN /SETC.BO
52-week high / low	₹153/ ₹94
Sensex / Nifty	20729 / 6175
3-m average volume	US\$0.1m
Market cap	₹1.9bn / US\$31m
Shares outstanding	26.6m

Shareholding pattern (%)	Sep13	June13	Mar'13
Promoters	63.2	63.2	63.2
- of which, Pledged	-	-	-
Free Float	36.8	36.8	36.8
- Foreign Institutions	4.6	4.6	4.6
- Domestic Institutions	0.0	0.0	0.0
- Public	32.2	32.2	32.2

Financials (YE Mar)	FY14e	FY15e
Sales (₹m)	3,999	4,969
Net profit (₹m)	218	389
EPS (₹)	8.2	14.6
Growth (%)	-16.7	78.8
PE (x)	8.9	5.0
PBV (x)	1.0	0.9
RoE (%)	11.6	18.8
RoCE (%)	13.7	18.5
Dividend yield (%)	4.4	5.2
Net gearing (%)	76.9	72.0

Source: Anand Rathi Research

Quarterly results (YE Mar)	3QFY13	3QFY14e	% yoy	1HFY13	1HFY14	% yoy
Sales (₹m)	869	758	(12.8)	1,496	1,376	(8.0)
EBITDA (₹m)	148	76	(48.8)	222	146	(34.2)
EBITDA margin (%)	17.1	10.0	(705) bps	14.8	10.6	(422) bps
Interest (₹m)	47	50	5.5	83	95	14.2
Depreciation (₹m)	22	27	22.2	43	49	14.4
Other income(₹m)	24	60	149.0	54	126	135.6
PBT (₹m)	103	59	(42.7)	149	128	(14.2)
Tax (₹m)	6	5	(15.7)	24	18	(25.8)
Tax rate (%)	5.4	8.0	256 bps	15.8	13.7	(216) bps
PAT (₹m)	97.4	54.3	(44.3)	125.3	110.3	(12.0)

Source: Company

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## Quick Glance – Consolidated Financials and Valuations

**Fig 1 – Income statement (₹m)**

Year-end: Mar	FY11	FY12	FY13	FY14e	FY15e
Net sales	3,529	4,231	3,994	3,999	4,969
Sales growth (%)	37.9	19.9	-5.6	0.1	24.3
- Op. Expenses	2,881	3,479	3,427	3,513	4,270
<b>EBIDTA</b>	<b>648</b>	<b>752</b>	<b>567</b>	<b>486</b>	<b>699</b>
EBITDA margins (%)	18.4	17.8	14.2	12.2	14.1
- Interest	125	187	198	232	232
- Depreciation	105	108	123	139	154
+ Other income	22	33	49	155	171
- Tax	104	6	33	52	95
Effective tax rate (%)	24	1	11	19	20
PAT	335	483	261	218	389
PAT growth (%)	133.2	44.2	-45.9	-16.7	78.8
Consolidated PAT	335	455	261	218	389
FDEPS (₹/share)	12.6	18.2	9.8	8.2	14.6
FDEPS Growth (%)	133.2	44.2	-45.9	-16.7	78.8
CEPS (₹/share)	16.6	22.2	14.5	13.4	20.4

Source: Company, Anand Rathi Research

**Fig 2 – Balance sheet (₹m)**

Year-end: Mar	FY11	FY12	FY13	FY14e	FY15e
Share capital	176	176	266	266	266
Reserves & surplus	746	1,160	1,552	1,670	1,940
Shareholders' fund	971	1,393	1,884	2,002	2,272
Debt	1,270	1,421	1,726	1,726	1,726
Minority interests	0	0	0	0	0
Def Tax Liab	49	57	66	66	66
<b>Capital employed</b>	<b>2,241</b>	<b>2,814</b>	<b>3,610</b>	<b>3,729</b>	<b>3,999</b>
Fixed assets	987	1,148	1,509	1,469	1,416
Investments	89	218	368	368	368
Working capital	1,127	1,360	1,707	1,706	2,127
Cash	38	88	28	186	89
<b>Capital deployed</b>	<b>2,241</b>	<b>2,814</b>	<b>3,611</b>	<b>3,729</b>	<b>3,999</b>
No. of shares (m) (FD)	27	27	27	27	27
Net Debt/Equity (%)	127	96	90	77	72
W C turn (days)	105	107	140	156	141
Book Value (₹/share)	37	52	71	75	85

Source: Company, Anand Rathi Research

**Fig 3 – Cash-flow statement (₹m)**

Year-end: Mar	FY11	FY12	FY13	FY14e	FY15e
Consolidated PAT	335	483	261	218	389
+ Depreciation	105	108	123	139	154
Cash profit	458	599	394	357	543
- Incr/(Decr) in WC	232	233	347	(1)	421
Operating cash flow	226	367	48	358	122
- Capex	155	269	484	100	100
Free cash flow	71	98	(436)	258	22
- Dividend	82	82	83	99	119
+ Equity raised	0	0	0	0	0
+ Debt raised	100	151	305	0	0
- Investments	78	129	150	0	0
- Misc. items	(4)	(13)	(303)	0	0
Net cash flow	14	50	(61)	159	(97)
+ Opening cash	23	38	88	27	186
Closing cash	38	88	27	186	89

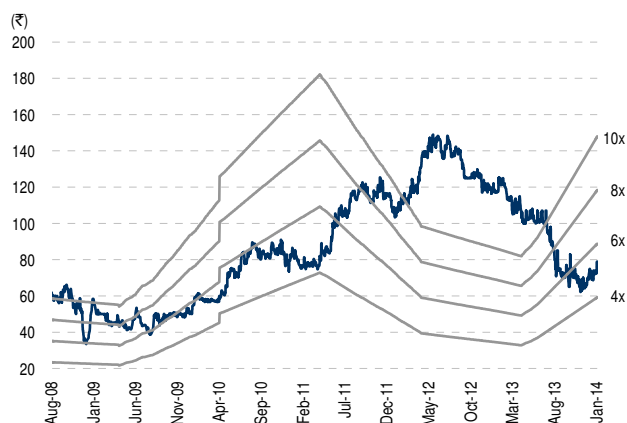
Source: Company, Anand Rathi Research

**Fig 4 – Ratio analysis @ ₹73**

Year-end: Mar	FY11	FY12	FY13	FY14e	FY15e
P/E	5.8	4.0	7.4	8.9	5.0
Cash P/E	4.4	3.3	5.0	5.4	3.6
EV/EBITDA	3.8	3.3	4.9	4.4	3.4
EV/Sales	0.7	0.6	0.7	0.7	0.6
Price to Book Value	2.0	1.4	1.0	1.0	0.9
Dividend Yield (%)	3.6	3.6	3.6	4.4	5.2
Dividend payout %	24.5	17.0	31.6	45.5	30.6
RoE (%)	42.1	42.8	16.6	11.6	18.8
RoCE (%)	27.5	26.8	15.3	13.7	18.5
Debtors (Days)	52.8	66.6	76.8	72.6	65.5
Inventory (Days)	67.0	68.4	91.4	101.5	91.6
Creditors (Days)	25.0	30.5	33.7	32.4	31.6
Working Cap (Days)	104.6	107.3	140.2	155.8	140.8
Asset Turnover (x)	0.7	0.7	1.0	1.1	0.9
Debt/Equity (x)	1.3	1.0	0.9	0.9	0.8

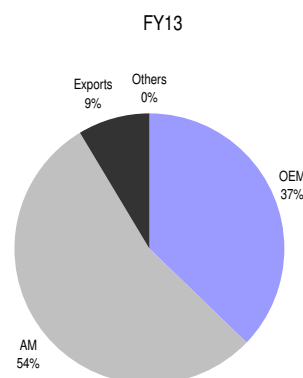
Source: Company, Anand Rathi Research

**Fig 5 – PE band**



Source: Bloomberg, Anand Rathi Research

**Fig 6 – FY13 revenue break-up**



Source: Company



9 January 2014

## Phillips Carbon Black

*Volumes to improve yoy; stock rallied; Hold*Rating: **Hold**

Target Price: ₹49

Share Price: ₹62

### Key takeaways

**Slowdown in domestic market continues.** We expect Phillips Carbon Black to report 3QFY14 volumes have risen 1.2% qoq (11.7% yoy). Last year's quarter had a very low base due to demand in the domestic market dropping and more imports by domestic clients. On account of the rise in export volumes, we expect revenue to have grown 8.4% yoy. And the contribution from power could have declined, by 11.2% yoy, to ₹180m.

**Disappointment in carbon black.** We expect a 5.6% EBITDA margin in 3QFY14 vs 2.7% in 3QFY13. This 290-bp improvement in OPM would be due to the pass-through of raw material costs. Carbon black imports are squeezing the company. Though we expect other expenditure to be up 132bps to 11.5% yoy, we expect the EBITDA margin to have improved 290bps due to substantially lower raw-material costs (as percent of sales).

**Expected to report profit.** We expect a ₹47m profit in 3QFY14, a steep 513% jump yoy. We expect the volume pickup to have pulled the profit up. The company was struck by dumping by China and other countries. The government has imposed a 30% safeguard duty on carbon-black imports from China. Though this would help reduce imports over time, we do not see any benefit in domestic volumes in 3Q.

**Our take.** Since the 30% safeguard duty was imposed in Oct'12 (till Oct'13) and 25% on CB imports from China till 31 Dec'13, such imports have slid. Imports, though, from Korea have now risen. The 50,000-ton Cochin plant CB expansion was completed in May'13. An MoU has been signed with the Tamil Nadu government to set up a new CB and power plant; environment clearances are in progress. In view of global developments, project work at Vietnam is under review. We value the stock at a target PE of 3.5x FY15e earnings. We downgrade the stock to a Hold, with a target price of ₹49. **Risks.** A slowdown with original equipment manufacturers and adverse forex movement.

Key data	PHCB IN /PHIL.BO
52-week high / low	₹118/ ₹31
Sensex / Nifty	20729 / 6175
3-m average volume	US\$0.2m
Market cap	₹2.1bn / US\$33m
Shares outstanding	34.5m

Shareholding pattern (%)	Sep'13	Jun'13	Mar'12
Promoters	52.3	52.3	52.3
- of which, Pledged	-	-	-
Free Float	47.7	47.7	47.7
- Foreign Institutions	10.0	10.0	10.1
- Domestic Institutions	5.8	5.8	6.3
- Public	31.2	31.2	31.3

Financials (YE Mar)	FY14e	FY15e
Sales (₹m)	24,019	27,974
Net profit (₹m)	64	568
EPS (₹)	1.9	16.5
Growth (%)	(131.2)	780.9
PE (x)	28.0	3.2
PBV (x)	0.3	0.3
RoE (%)	1.1	9.1
RoCE (%)	5.0	9.1
Dividend yield (%)	1.0	1.0
Net gearing (%)	128.5	127.4

Source: Anand Rathi Research

Quarterly results (YE Mar)	3QFY13	3QFY14e	% yoy	1HFY13	1HFY14	% yoy
Sales (₹m)	5455	5911	8.4	12,041	11,229	(6.7)
EBITDA (₹m)	145	329	126.4	295	(189)	(163.9)
EBITDA margin (%)	2.7	5.6	290 bps	2.5	(1.7)	(413) bps
Interest (₹m)	174	180	3.2	371	347	(6.5)
Depreciation (₹m)	138	134	(2.8)	244	266	9.2
Other income(Rsm)	22	36	62.2	50	73	46.3
PBT (₹m)	-145	51	(135.0)	-270	-729	169.8
Tax (₹m)	-152	4	(102.7)	(7)	2	(135.3)
Tax rate (%)	105.2	8.0	-	2.5	(0.3)	(285) bps
PAT (₹m)	8	47	513.4	-263	-732	177.7

Source: Company

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## Quick Glance – Financials and Valuations

**Fig 1 – Income statement (₹m)**

Year-end: Mar	FY11	FY12	FY13	FY14e	FY15e
Net sales	16,902	21,868	22,849	24,019	27,974
Sales growth (%)	37	29	4	5	16
- Op. expenses	14,688	19,776	22,113	22,710	25,973
EBIDTA	2,214	2,092	736	1,309	2,001
EBITDA margins (%)	13	10	3	5	7
- Interest	274	676	721	748	775
- Depreciation	386	486	508	566	610
+ Other income	89	105	93	86	93
- Tax	481	163	(194)	16	142
Tax rate (%)	29	16	48	20	20
PAT	1,163	871	(206)	64	568
PAT growth (%)	(5)	(25)	(124)	(131)	781
FDEPS (₹/share)	35	25	(6)	2	16
FDEPS growth (%)	(19)	(28)	(124)	(131)	781
CEPS (₹/share)	47	39	9	18	34
DPS (₹/share)	5	4	0.5	0.5	0.5

Source: Company, Anand Rathi Research

**Fig 2 – Balance sheet (₹m)**

Year-end: Mar	FY11	FY12	FY13	FY14e	FY15e
Share capital	332	345	345	345	345
Reserves & surplus	4,891	5,773	5,567	5,617	6,165
Shareholders' fund	5,223	6,118	5,911	5,962	6,510
Debt	5,014	6,554	8,210	8,310	8,610
Deferred Tax/ others	569	729	527	527	527
<b>Capital employed</b>	<b>10,806</b>	<b>13,401</b>	<b>14,647</b>	<b>14,798</b>	<b>15,646</b>
Fixed assets	7,842	8,124	9,023	8,850	9,040
Investments	576	724	724	724	724
of which, Liquid	27	-	-	-	-
Working capital	1,736	4,418	4,210	4,578	5,563
Cash	653	135	690	647	319
<b>Capital deployed</b>	<b>10,806</b>	<b>13,401</b>	<b>14,647</b>	<b>14,798</b>	<b>15,646</b>
No. of shares (m)	33	34	34	34	34
Net Debt/Equity (%)	84	105	127	129	127
W C turn (days)	33	51	69	67	66
Book value (₹/share)	157	178	172	173	189

Source: Company, Anand Rathi Research

**Fig 3 – Cash-flow statement (₹m)**

Year-end: Mar	FY11	FY12	FY13	FY14e	FY15e
Reported PAT	1,160	871	(206)	64	568
+ Depreciation	386	486	508	566	610
Cash profit	2,019	1,517	99	631	1,178
-Incr./ (Decr.) in WC	404	2,683	(208)	368	985
Operating cash-flow	1,615	(1,166)	307	263	192
-Capex	1,373	768	1,407	393	800
Free cash-flow	242	(1,934)	(1,100)	(130)	(608)
-Dividend	233	203	40	70	20
+ Equity raised	1,052	226	39	56	0
+ Debt raised	(540)	1,540	1,655	100	300
-Investments	198	148	-	-	-
-Misc. items	-	-	-	-	-
Net cash-flow	323	(518)	555	(43)	(328)
+Opening cash	330	653	135	690	647
Closing cash	653	135	690	647	319

Source: Company, Anand Rathi Research

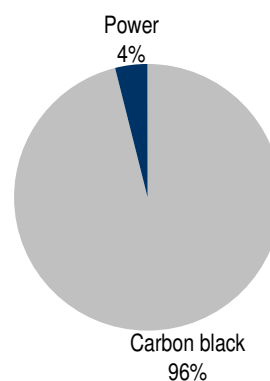
**Fig 4 – Ratio analysis @ ₹62**

Year-end: Mar	FY11	FY12	FY13	FY14e	FY15e
P/E	1.6	2.1	(8.8)	28.0	3.2
P/BV	0.3	0.3	0.3	0.3	0.3
EV/EBITDA	2.8	3.9	12.7	7.2	5.0
EV/Sales	0.4	0.4	0.4	0.4	0.4
Cash P/E	1.1	1.3	6.0	2.9	1.5
Dividend Yield (%)	9.5	7.6	1.0	1.0	1.0
Dividend Payout (%)	16.7	18.4	(9.7)	31.1	3.5
RoE	27.5	15.4	(3.4)	1.1	9.1
RoCE	18.6	13.3	1.6	5.0	9.1
Debtors (Days)	71	76	85	84	83
Inventory (Days)	49	51	69	73	63
Creditors (Days)	163	148	160	171	155
Working Cap (Days)	33	51	69	67	66
Asset Turnover (x)	2.2	2.7	2.5	2.7	3.1
Debt/Equity (x)	1.0	1.1	1.4	1.4	1.3

Source: Company, Anand Rathi Research

**Fig 5 – PBV band**


Source: Bloomberg, Anand Rathi Research

**Fig 6 – FY13 revenue mix**


Source: Company

9 January 2014

## Suprajit Engineering

*Growth continues despite adversities; re-rating justified; Buy*

Rating: **Buy**

Target Price: ₹58

Share Price: ₹54

### Key takeaways

**Strong sales despite slowdown in industry.** Suprajit Engineering's sales are expected to have risen 23.4% yoy, to ₹1.4bn, on account of an increased offtake in the two-wheeler segment (OEM clients) and higher utilisation. Exports and the after-market would have grown faster on account of the company's focused strategy.

**Margin set to be firm, at 17%. The EBITDA margin** is expected to have held at the same level of 17.1% yoy. Despite the cost push, the company has been hiked prices. Ahead, management is hopeful of selling more high-margin products. With an expected rise in volumes of such products, the margin is likely to have held at around 16-17%.

**Profits expected to rise 24.3%.** On improving sales and a firm margin, profit is expected to rise 24.3% yoy, to ₹139m. The 3QFY14 PAT margin is expected to come at 10% (3QFY13: 9.9%).

**Capacity addition, strategic plant location augurs well.** Capacity expansion is on track, and by end-1QFY14 capacity had touched 150m units. Commercial production at its new unit in the Bommasandra Industrial Area, Bangalore, began in Mar'13. Land has been allotted in Karnataka for the company's proposed cable plant for one of its key two-wheeler customers. Additional capacities would be of plants to cater to Honda Motors and Scooters India and to Yamaha, by FY15.

**Our take.** We believe that there exists upside potential to our estimates on account of strong resilience to the slowdown, which could yield better profit consequent on improved asset sweating. Additionally, we believe that ongoing efforts at Suprajit to further improve its aftermarket business would bear fruit 3-4 quarters down the line. At our target, we value the stock at 13x Mar'15e PE. At present, it quotes at FY15e EV/EBITDA of 6.3x. **Risks.** Higher interest rates, commodity price increases and keener competition.

Key data	SEL IN /SUPE.BO
52-week high / low	₹54/ ₹29
Sensex / Nifty	20729 / 6175
3-m average volume	US\$0.1m
Market cap	₹6.5bn / US\$105m
Shares outstanding	120m

Shareholding pattern (%)	Sep '13	June '13	Mar '13
Promoters	51.8	51.8	51.8
- of which, Pledged	-	-	-
Free Float	48.2	48.2	48.2
- Foreign Institutions	0.1	0.1	0.1
- Domestic Institutions	1.3	1.3	1.3
- Public	46.8	46.8	46.8

Financials (YE Mar)	FY14e	FY15e
Sales (₹m)	5,037	5,565
Net profit (₹m)	477	535
EPS (₹)	4.0	4.5
Growth (%)	9.8	12.0
PE (x)	12.8	11.5
PBV (x)	3.0	2.5
RoE (%)	25.8	23.9
RoCE (%)	26.0	27.3
Dividend yield (%)	1.6	1.8
Net gearing (%)	36.3	13.1

Source: Anand Rathi Research

Quarterly results (YE Mar)	3QFY13	3QFY14e	% yoy	1HFY13	1H FY14	% yoy
Sales (₹m)	1,134	1,400	23.4	1,941	2,093	7.8
EBITDA (₹m)	194	240	23.9	347	352	1.3
EBITDA margin (%)	17.1	17.1	6 bps	17.9	16.8	(108) bps
Interest (₹m)	25	30	20.8	44	56	28.4
Depreciation (₹m)	14	17	26.9	27	33	23.8
Other income (₹m)	2	15	752.7	6	31	442.5
PBT (₹m)	157	208	32.3	282	294	4.0
Tax (₹m)	45	69	52.2	89	90	0.9
Tax rate (%)	28.7	33.0	432 bps	31.5	30.6	(93) bps
Adj. PAT (₹m)	112	139	24.3	194	204	5.4

Source: Company

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## Quick Glance – Financials and Valuations

**Fig 1 – Income statement (₹m)**

Year-end: Mar	FY11	FY12	FY13	FY14e	FY15e
Net sales	3,467	4,238	4,625	5,037	5,565
Sales growth (%)	39.5	22.2	9.2	8.9	10.5
- Op. expenses	2,901	3,551	3,853	4,189	4,615
<b>EBIDTA</b>	<b>566</b>	<b>686</b>	<b>772</b>	<b>848</b>	<b>950</b>
EBITDA margins (%)	16.3	16.2	16.7	16.8	17.1
- Interest	74	93	102	122	139
- Depreciation	72	75	81	102	112
+ Other income	48	29	28	31	34
- Tax	135	150	197	177	199
Effective tax rate (%)	28.8	27.3	29.5	27.1	27.1
Reported cons.PAT	327	398	471	477	535
Adjusted cons. PAT	327	398	435	477	535
FDEPS (₹/share)	2.7	3.3	3.9	4.0	4.5
Adj. FDEPS (₹/share)	2.7	3.3	3.6	4.0	4.5
Adj. FDEPS growth (%)	47.7	21.6	9.1	9.8	12.0
DPS (₹/share)	0.5	0.7	0.8	0.8	0.9

Source: Company, Anand Rathi Research

**Fig 2 – Balance sheet (₹m)**

Year-end: Mar	FY11	FY12	FY13	FY14e	FY15e
Share capital	120	120	120	120	120
Reserves & surplus	849	1,172	1,547	1,912	2,320
Shareholders' fund	969	1,292	1,667	2,032	2,440
Debt	659	748	1,029	879	679
Deferred Tax Liab (net)	42	46	60	60	60
<b>Capital employed</b>	<b>1,670</b>	<b>2,086</b>	<b>2,757</b>	<b>2,972</b>	<b>3,180</b>
Net Fixed assets	909	1,137	1,365	1,462	1,400
Investments	84	183	454	454	454
- of which liquid					
Working capital	646	735	862	914	966
Cash	27	31	76	141	359
<b>Capital deployed</b>	<b>1,670</b>	<b>2,086</b>	<b>2,757</b>	<b>2,972</b>	<b>3,180</b>
Net Debt	631.5	717.2	952.8	737.8	320.0
Net Debt/Equity (%)	65.2	55.5	57.1	36.3	13.1
W C turn (days)	62.1	59.5	63.0	64.3	61.7
Book Value (₹/share)	8.1	10.8	13.9	16.9	20.3

Source: Company, Anand Rathi Research

**Fig 3 – Cash-flow statement (₹m)**

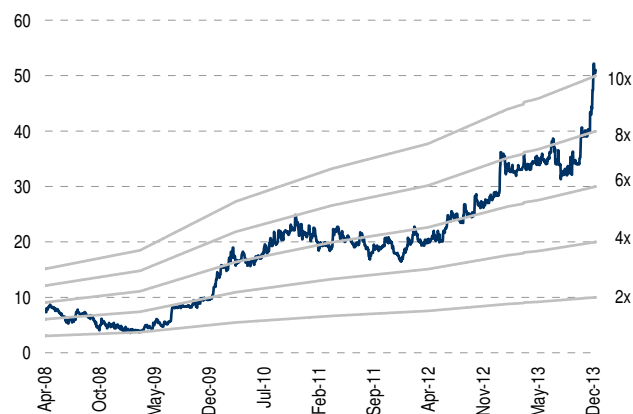
Year-end: Mar	FY11	FY12	FY13	FY14e	FY15e
Consolidated PAT	327	398	471	477	535
+Non-cash Items	72	83	96	102	112
Cash profit	399	481	567	580	646
- Incr./Decr) in WC	112	89	127	52	52
Operating cash-flow	288	392	440	527	594
-Capex	265	302	309	200	50
Free cash-flow	23	90	131	327	544
-Dividend	63	91	105	112	126
+ Equity raised	-	-	-	-	-
+ Others	2.1	15.1	9.6	-	(0.0)
+ Debt raised	42	90	281	(150)	(200)
-Investments	(11)	100	271	-	-
Net cash-flow	15	4	45	65	218
+Opening cash	12	27	31	76	141
Closing cash	27	31	76	141	359

Source: Company, Anand Rathi Research

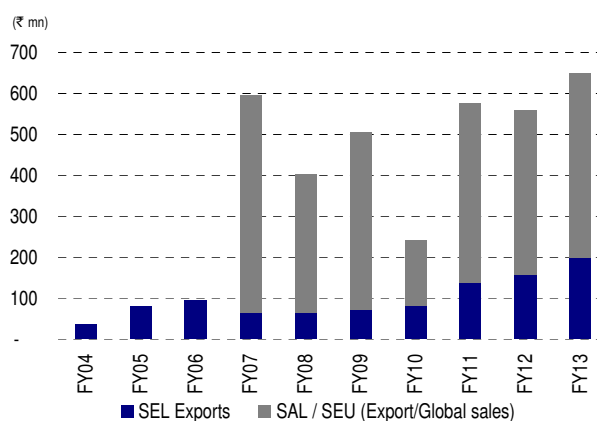
**Fig 4 – Ratio analysis @ ₹54**

Year-end: Mar	FY11	FY12	FY13	FY14e	FY15e
P/E (x)	18.7	15.4	13.0	12.8	11.5
Cash P/E (x)	15.3	12.7	11.1	10.6	9.5
EV/EBITDA (x)	11.8	9.7	8.6	7.5	6.3
EV/Sales (x)	1.9	1.6	1.4	1.3	1.1
P/B (x)	6.3	4.7	3.7	3.0	2.5
RoAE (%)	39.8	35.2	31.8	25.8	23.9
RoACE (%)	32.6	32.6	28.5	26.0	27.3
Dividend yield (%)	0.9	1.3	1.5	1.6	1.8
Dividend payout (%)	19.2	22.8	22.3	23.5	23.6
Debt/Equity (x)	0.7	0.6	0.6	0.4	0.3
Receivable days	69.0	70.1	71.9	71.0	71.0
Inventory days	28.9	30.9	34.7	33.6	30.5
Payable days	64.8	75.4	84.3	80.0	80.0
Working capital days	62.1	59.5	63.0	64.3	61.7
Fixed asset T/O (x)	4.3	4.1	3.7	3.6	3.9

Source: Company, Anand Rathi Research

**Fig 5 – PE band**


Source: Bloomberg, Anand Rathi Research

**Fig 6 – Export revenues**


Source: Company

## Appendix

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Mid/Small Caps (<US\$1bn)	>25%	5-25%	<5%

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% who are investment banking clients	5%	0%	0%

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