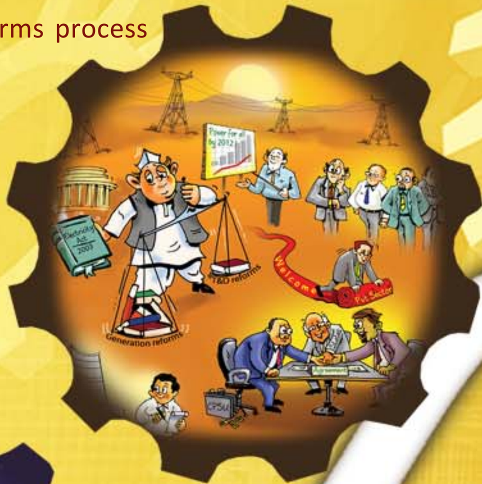
MOTILAL OSWAL

Capital Goods

Dire "State" (Pre-2001)
In dire state! SEBs nearly bankrupt thanks to high power theft

Rise of reforms (2001-2006)
Ray of reforms! SEBs bailed out! Electricity Act 2003 rolls out the reforms process

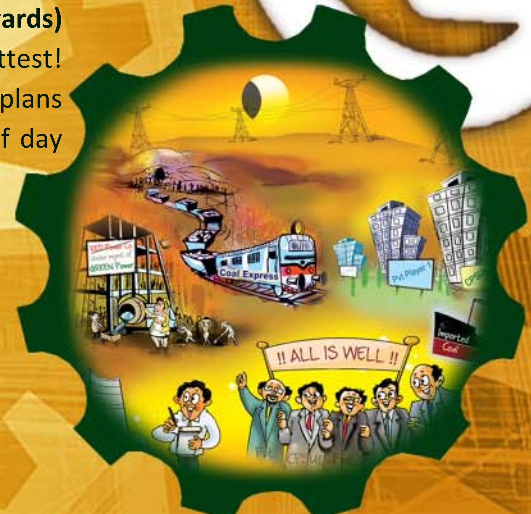


Euphoria!! (2007-2009)
Phase of excesses! Perennial power deficit! Sky-rocketing prices! BTG project awards at 30GW+ pa...record levels

Capital Goods Index

Self-correction (2010-2012)
Reality hits! SEBs curtail high-cost power. Hibernation in project awards

Redefining period (2013 onwards)
Survival of the fittest! Sound capacity plans see light of day



BTG Ordering: Emerging from the Eclipse

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BTG Ordering: Emerging from the Eclipse

- Our statistical analysis of the macro data-points on demand and supply dynamics in the power sector suggests that the new cycle of powergen capex could commence over the next 12-15 months.
- From a market structure that was threatened by: i) intense competition from Chinese, Koreans and Japanese companies ii) and, possibility of ~5-6 players in the domestic market, BTG sector is undergoing a metamorphosis. Imported products have witnessed erosion of competitiveness, while the domestic players are engaging into disciplined 'aggression'.

About the Cover

- We track the journey and evolution of the Indian Power sector over the last 20 years, and juxtapose the same on the Capital Goods Index. Electricity Act 2003 was a watershed event, a panacea for the economic viability. Between 2007 and 2009, several events acted as tipping points that fuelled a fresh wave of private investments in power generation. However, 'reversal to mean' happened rather fast, given several challenges and constraints.
- Over the last 12-18 months, there have been a series of attempts by the government to address various contentious issues surrounding SEB finances, fuel availability, tariff review, etc. The progress has been encouraging, and an eclipse always ends.

BTG Ordering: Emerging from the Eclipse

Page No.

Prices as on December 5, 2013

Recommended Reading: India's Capex J-Curve - Comforting, yet Troubling (April 2013)

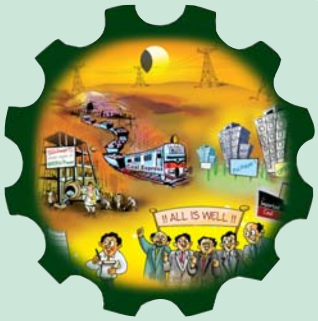
India's capex J-curve poised to kick-start

- India's capex J-Curve will be kick-started by (1) reorientation of fiscal expenditure, and (2) higher capex by Public Sector Units. This will be followed by revival in the industrial cycle culminating with greenfield/mega projects.
- Historical analysis (1995 onwards) suggests that government capex is largely stable across cycles, while private capex has been volatile. History seems to be repeating itself - even now, government projects adds continue to be at normative levels of INR1,600b/qtr whereas private projects adds are in negative territory for last 4 quarters.
- Policy initiatives offer ray of hope; but execution challenges persist across sectors.

Capital Goods

Self-correction (2010-2012)

Reality hits! SEBs curtail high-cost power. Hibernation in project awards



Redefining period (2013 onwards)

Survival of the fittest! Sound capacity plans see light of day

BTG ordering: Emerging from the 'Eclipse'

BHEL has the highest leverage; L&T and TMX key beneficiaries

Powergen capex: Emerging from the 'Eclipse'

Our statistical analysis of the macro data-points on demand and supply dynamics in the power sector suggests that the new cycle of powergen capex could commence over the next 12-15 months. Despite aggressive assumptions on capacity additions and PLF; the electricity generation CAGR till FY19 when juxtaposed with aggregate FY13 demand stands at 8.8% and compares with last 10-years electricity consumption CAGR of 6.2%. Thus, we believe that SEBs will, sooner than later, start planning about capacity additions.

'Timing the recovery' remains the key moving variable. However we believe that what matters is not 'timing the project awards', but the time when markets believe that project awards 'could possibly' commence. And that time is now.

Expect 20GW of project awards, interplay of structural factors

During FY12 and FY13, power BTG project awards stood at just ~10GW pa, including 13GW of cumulative capacities being awarded under the bulk tender, and compares with annual run-rate of 25-30GW pa during FY07-10. Going forward, we believe that the pipeline is showing initial signs of recovery with projects of ~20GW likely to be awarded in 12-15 months. This could be a Tipping point, particularly for the equipment manufacturers, given that industry capacity for super-critical boilers and turbines stands at ~21-24GW pa.

An important driver has been the 'Case 2' Bidding Document (approved in Sept 2013) with bidding for 9.3GW has already been initiated. The trend of increased project awards could possibly be supported by interplay of structural factors: i) Improved demand planning by distribution companies ii) Ensuring financial viability of the Distribution business models iii) Coal mine allocations post gap of 5 years, etc.

Metamorphosis: Disciplined competitive 'aggression'

From a market structure that was threatened by: i) intense competition from Chinese, Koreans and Japanese companies ii) and, possibility of ~5-6 players in the domestic market, BTG sector is undergoing a metamorphosis. Imported products have witnessed erosion of competitiveness, while the domestic players are witnessing disciplined 'aggression'. Business models from state gencos around vendor financing have witnessed muted bidding interest and unviable bids; and thus its again back to basics.

For private capacities, overseas orders have also started trickling-in

We understand that there have been few international orders received by the new manufacturing capacities of L&T-Mitsubishi and JSW-Toshiba; while TMX-Babcock JV is also qualified as a global manufacturing base. The quantum of orders is not meaningful initially; we believe that the opportunities exist to scale up the export business over the next few years. Currency depreciation has also made Indian manufacturing more competitive.

Target price snapshot (INR)

	CMP	TP	Upside
BHEL	171	210	23%
L&T	1,087	1,186	9%
TMX	670	850	27%

How to Play the Theme: BHEL best positioned as cyclical factors support recovery

BHEL CMP: INR171 TP: INR210 Rating: Buy Upside:23%

Financials & Valuations (INR b)

Y/E Mar	2014E	2015E	2016E
Net Sales	395.6	325.8	358.8
EBITDA	47.2	33.7	47.6
Adj PAT	35.1	23.6	36.7
EPS (INR)	14.4	9.6	15.0
EPS Gr. (%)	(46.4)	(32.9)	55.6
BV/Sh.(INR)	133.3	139.6	149.3
RoE (%)	11.1	7.1	10.4
RoCE (%)	11.4	7.3	10.7
Payout (%)	30.0	30.0	30.0
Valuations			
P/E (x)	11.9	17.8	11.4
P/BV (x)	1.3	1.2	1.1
EV/EBITDA (x)	7.5	9.0	5.1
Div Yield (%)	2.4	1.7	2.6

*Consolidated

- BHEL is strongly exposed to cyclical factors: i) Contribution margins at ~40-41% vs expected EBIDTA margin of 11.9% in FY14, leading to a meaningful operating leverage ii) Core NWC stable at ~200 days; cyclical factors of Retention money (at ~200 days in FY14E vs 55-60 days in FY07-09) and customer advances (deteriorated from 63% of revenues in FY09 to 34% in FY13) that impacted reported NWC are expected to normalize, as we expect BTB to increase from 2.2x currently to 3x in FY15/16E.

- We expect Free Cash Flows to improve from ~INR16-19b in FY13/14E to ~INR75-88b in FY15/16E, leading to a meaningful increase in net cash from INR63b in FY13 to INR174b in FY16E (~43% of current market cap). We upgrade the stock to **Buy** with a Price target of INR210/sh (14x FY16E).

LT CMP: INR1,087 TP: INR1,186 Rating: Buy Upside:9%

Financials & Valuations (INR b)

Y/E Mar	2014E	2015E	2016E
Sales	664.8	745.5	833.7
EBITDA	67.6	76.3	88.2
Adj PAT *	40.4	48.3	59.4
EPS (INR)*	43.8	52.4	64.3
EPS Gr. (%)	-18.1	19.6	22.9
BV/Sh (INR)	351.4	392.8	440.4
RoE (%)	14.5	14.4	14.8
RoCE (%)	12.4	12.5	12.9
Payout (%)	27.7	26.9	26.9
Valuations			
P/E (x)*	24.8	20.7	16.9
P/BV (x)	3.1	2.8	2.5
EV/EBITDA(x)	15.6	13.9	11.7
Div Yield (%)	1.2	1.3	1.5

*Consolidated

- L&T has emerged as a formidable 'challenger', and is the most integrated player in the power sector value chain. L&T is a strong play on the recovery in the investment climate, and hence the recent stock price rally is largely led by expectations of a decisive election mandate.
- We believe that India's capex J-Curve will be kick-started by (1) accelerated spending on flagship government projects, and (2) government's attempt to address the contentious issues in several sectors. This phase will then be followed with revival in industrial cycle culminating with traction in greenfield projects.
- Given the dependence on greenfield projects for the next level of growth , we believe that a large part of L&T's business model depicts characteristics of a mid to late cycle recovery. Asset monetization is an important near term stock driver. Maintain **Buy**, with revised SOTP based price target of INR1,186/sh, as we roll over to FY16E.

TMX CMP: INR670 TP: INR850 Rating: Buy Upside:27%

Financials & Valuations (INR b)

Y/E Mar	2014E	2015E	2016E
Net Sales	53.7	58.2	70.0
EBITDA	4.8	5.6	7.0
Adj PAT	3.0	3.5	4.7
EPS (INR)	25.2	29.5	39.4
EPS Gr. (%)	(6.6)	17.0	33.3
BV/Sh. (INR)	177.1	197.3	223.8
RoE (%)	15.3	16.1	19.0
RoCE (%)	12.8	14.2	17.2
Payout (%)	32.4	31.7	32.7
Valuations			
P/E (X)	26.5	22.7	17.0
P/BV (X)	3.8	3.4	3.0
EV/EBITDA (X)	15.5	13.0	10.2
Div Yield (%)	1.0	1.2	1.6

*Consolidated

- Thermax is a beneficiary of several structural trends, like energy efficiency, stringent regulations for environment compliance, green products, and currency depreciation. Overseas revenues contributed 27% of the consolidated revenues in FY13, and we expect the share to increase to 40% by FY16E.

- We understand that TMX is possibly an 'early' stage beneficiary of the possible uptick in the investment climate, particularly in the heating / WHR segment (25-28% of consolidated revenues). We expect TMX to report earnings CAGR of 5% over FY13-15, and 33% in FY16E. We maintain **Buy**, with an 18-month price target of INR850 (20x FY16E at INR762/sh and INR86/sh in subsidiaries).

Expect 20GW of project awards, interplay of structural factors

When juxtaposed with aggregate FY13 demand (as reported by CEA) at 997BUs, the supply CAGR stands at 8.8%. This compares with 10 year electricity consumption growth of 6.2% CAGR

Statistical analysis of the macro datapoints suggests that new cycle of powergen capex could possibly commence in next 12-15 months

	FY13	FY19	CAGR
Installed Coal based Capacity (MW)	**130,221**	**220,221**	**9.2%**
- Centre	44,055	66,769	7.2%
- State	51,661	65,592	4.1%
- Private	34,505	89,485	17.2%
Coal Based PLF (%)	**64.5%**	**70.6%**	
- Centre	74.0%	80.0%	
- State	62.0%	60.0%	
- Private	56.0%	70.0%	
Generation (BUs)	**907**	**1653**	**10.5%**
- Coal	694	1361	11.9%
- Gas	67	111	8.8%
- Hydro	114	135	2.9%
- Nuclear	33	46	5.7%
Demand (BUs)	**997**	**1,653**	**8.8%**

Source: CEA, MOSL

67% of the capacity under construction has 50%+ of project cost already spent. This reflects the maturity of projects, led by hibernation in awards since mid FY11

Under construction coal capacity (MW), in terms of project cost spent as at Sept 2013

	Under Constr	0-25%	25-50%	50%+
Centre	22,714	13,360	890	8,464
State	13,931	-	2,100	11,831
Private	54,980	4,560	9,310	41,110
Total	**91,625**	**17,920**	**12,300**	**61,405**
Composition (%)		19.6	13.4	67.0

Source: CEA, MOSL

Of the 25GW projects awarded by the private sector from FY10 onwards to both BHEL and L&T, already 3.9GW has been cancelled and another 7GW are non-moving. Thus, 45% of the private sector project awards have been impacted

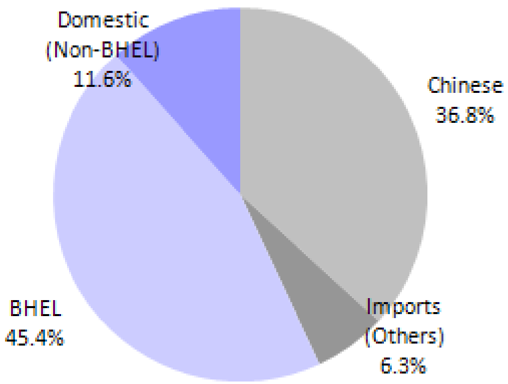
Announced Project Awards for BHEL & L&T (excl 12.8GW of bulk tender projects), in MW

	FY10	FY11	FY12	FY13	1HFY14	Cumulative
BHEL	**14,800**	**8,820**	**2,520**	**3,140**	**1,500**	**30780**
Private	12,910	4,920	1,320	-	-	19,150
State	-	3,900	1,200	2,640	-	7,740
Central	1,890	-	-	500	1,500	3,890
L&T	**4,620**	**2,680**	**-**	**1,320**	**-**	**8,620**
Private	2,640	2,680	-	-	-	5,320
State	1,980	-	-	1,320	-	3,300
Total	**19,420**	**11,500**	**2,520**	**4,460**	**1,500**	**39,400**
Private	15,550	7,600	1,320	-	-	24,470
State	1,980	3,900	1,200	3,960	-	11,040
Central	1,890	-	-	500	1,500	3,890

Source: MOSL, Company

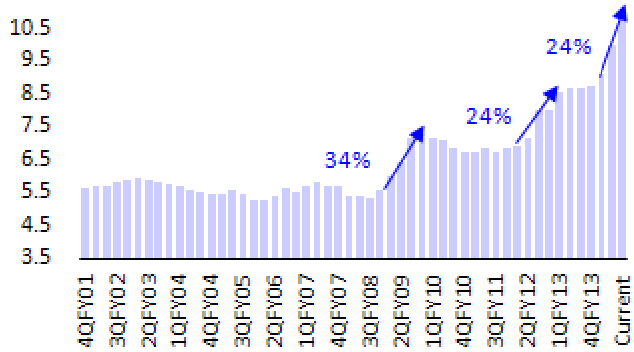
Imported products witness erosion of competitive dynamics

Capacity under construction: Imports (Chinese and Others) constitutes 43% of capacity



Source: CEA

INR vs CNY: currency movement has been sharp, impacting competitiveness of imported products



Source: Bloomberg

Domestic competitive intensity stabilizing

Project award pipeline of ~16-20GW pa could lead to optimum capacity utilization

Supercritical installed capacity at ~21-24GW

	Boilers		Turbines	
	GW	INR B*	GW	INR B*
BHEL	12.0	Na	12.0	Na
L&T - MHI	4.0	8.7	4.0	12.9
Thermax – Babcock Wilcox	3.0	8.2		
Doosan	2.2	Na		
JSW - Toshiba			3.0	9.8
Bharat Forge - Alstom			5.0	18.0
Total	**21.2**		**24.0**	

*Project Cost; Source: MOSL, Company

Most of the capacities are operational, while Bharat Forge – Alstom will be commissioned by Feb 2015

Large part of domestic capacity already commissioned

	Stake (%)	Location	Commissioning	Remarks
BHEL	100	TG - Haridwar; Boilers - Trichy	2010	
L&T - MHI	51:49	Hazira	2010	Can ramp-up to 6GW quickly
Thermax - BW	51:49	Baroda	2013	Ready for commissioning
Doosan	100	Chennai	na	
JSW - Toshiba	25:75	Chennai	2011	Expanding to 6GW; construction commenced FY13
Bharat Forge - Alstom	49:51	Gujarat	2015	Shifted from Mundra to Sanand; construction started 2013

Source: MOSL, Company

BTG ordering: Emerging from the 'Eclipse'

Expect possibility of 20GW project awards in the next 12-15 months

Our statistical analysis of the macro data-points on demand and supply dynamics in the power sector suggests that the new cycle of powergen capex could commence over the next 12-15 months. Despite aggressive assumptions on capacity additions and PLF; the electricity generation CAGR till FY19 when juxtaposed with aggregate FY13 demand stands at 8.8% and compares with last 10-years electricity consumption CAGR of 6.2%. Thus, we believe that SEBs will, sooner than later, start planning about capacity additions. 'Timing the recovery' remains the key moving variable. However we believe that what matters is not 'timing the project awards', but the time when markets believe that project awards 'could possibly' commence. And that time is now.

Statistical analysis suggests a new 'cycle' for powergen capex

We believe that the new cycle of power generation capex could commence over the next 12-15 months

Our statistical analysis of the macro data-points on demand and supply dynamics in the power sector suggests that the new cycle of power generation capex could commence over the next 12-15 months. Our calculations factor in:

- 90GW of coal based capacity addition over the next 5 years, and thus we assume that all projects under construction will be commissioned; note that this pipeline comprises 60% of capacities by the private sector and some of these projects face funding and other constraints
- PLF improvement for Central sector plants from 74% in FY13 to 80% and for the private sector from 56% to 70%.

We thus calculate the possible coal based generation growth at 11.9% CAGR till FY19; and on an aggregate basis at 10.5% CAGR. When juxtaposed with aggregate FY13 demand (as reported by CEA) at 997BUs, the supply CAGR stands at 8.8%.

Calculated supply CAGR of 8.8% till FY19 compares with last 10 years electricity consumption growth of 6.2% CAGR

The aggregate electricity consumption growth stands at 6.2% CAGR over the last 10 years, and has declined from peak levels of 8.4-8.7% 10-year growth CAGR ending FY1992-1996. The calculated supply CAGR of 8.8% till FY19 (under fairly aggressive assumptions of all projects under construction getting commissioned and increased PLFs on aggregate capacity) needs to be seen in that context. In case we extend the lull period for new power generation project awards by 2 years, the calculated supply CAGR declines to 6.4% from 8.8%; which is in line with the last 10-year average.

When juxtaposed with aggregate FY13 demand (as reported by CEA) at 997BUs, the supply CAGR stands at 8.8%. This compares with 10 year electricity consumption growth of 6.2% CAGR

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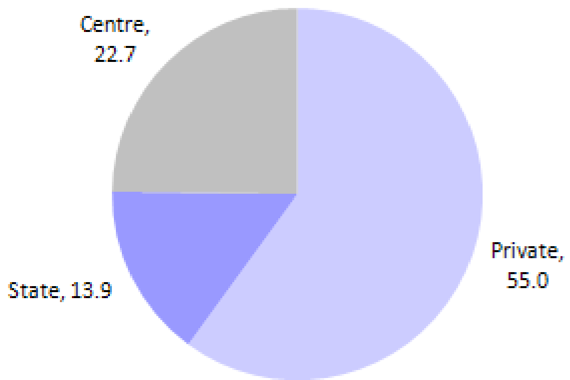
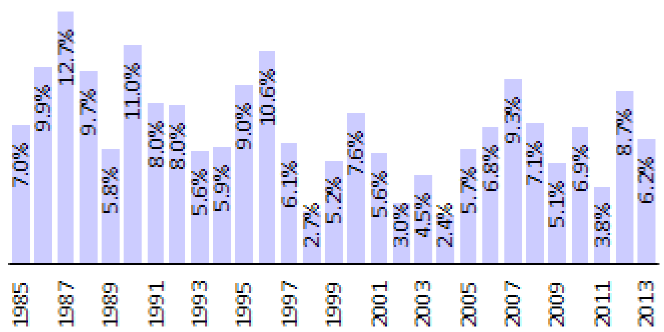
Source: CEA, MOSL

91GW of capacity under construction as at Sept 2013 (GW), including 55GW from the private sector



Source: CEA

Electricity consumption growth stood at 6.2% over the last 10 years (% YoY)



Source: CEA

67% of the capacity under construction has 50%+ of project cost already spent, and is a clear reflection of the hibernation in awards since mid FY11

Under construction coal capacity (MW), in terms of project cost spent as at Sept 2013

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Private	54,980	4,560	9,310	41,110
Total	**91,625**	**17,920**	**12,300**	**61,405**
%		19.6%	13.4%	67.0%

Source: CEA, MOSL

Expect powergen capex to pick up, driven by structural trends

The Indian power sector has witnessed a series of attempts by the government to address the various contentious issues surrounding SEB finances, fuel availability, tariff review, etc. While the progress has been encouraging, there is still a lot that needs to be done.

Distribution companies having burnt their fingers once, could look for long-term tie-ups fairly in advance

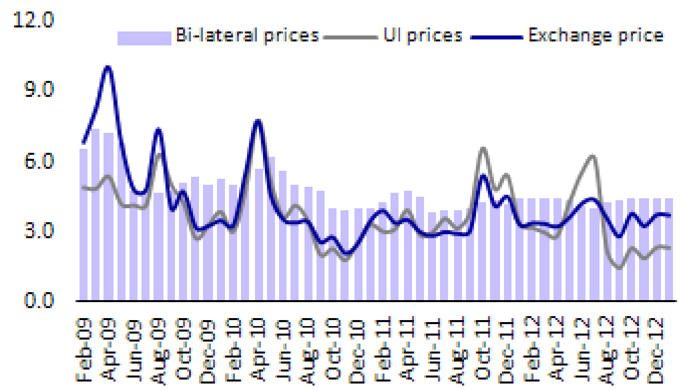
❶ **Improved demand planning by distribution companies**: Power generation capacity addition entails long gestation (of ~50-54 months), and hence projects awarded over the next 12 -15 months will likely be commissioned in FY18-20. We believe that State Electricity Boards will commence planning for the long-term energy procurement well in advance; as over the last cycle, most of the SEBs incurred a meaningful financial burden by procuring power at higher rates under short to medium term contracts.

❷ **Coal mine allocations, post gap of 5 years:** In July 2013, 14 coal blocks with reserves of 8b tons were allocated to the power companies (including NTPC, State Gencos, etc). In Sept 2013, media articles indicated that government will offer four coal blocks in Orissa with reserves of 2b tons to power companies in the country's first round of coal mine auction. The blocks will be awarded under a model similar to the ultra mega power projects where a firm that quotes the lowest tariff for electricity supply gets to develop a plant based on the mine. The allocations will be made after a gap of five years, as coal blocks have not been allotted to private firms after 2008.

❸ **Economic and Financial viability of the Distribution business models:** An important driver of the power demand in our opinion, will be the economic and financial viability of the distribution business models; and the longer term trend is being supported by: i) AT&C losses (as per CEA) have declined from peak levels of 32.9% in FY01 to 24.2% in FY11 and the target is to reduce the same to 15% with R-APDRP; we understand that of the 1400 towns sanctioned under Part A, 500 towns have already been integrated with data centers ii) Financial Restructuring Plan of the SEBs has been approved, with Uttar Pradesh, Rajasthan, Tamil Nadu and Haryana already completing the exercise; also CCEA has extended the cut-off date for re-structuring to March 2014 and thus would enable Bihar, Andhra Pradesh, Karnataka and Jharkhand to also participate in the same and iii) FY13/FY14 had seen tariff hikes by 24-26 states each year, at record levels.

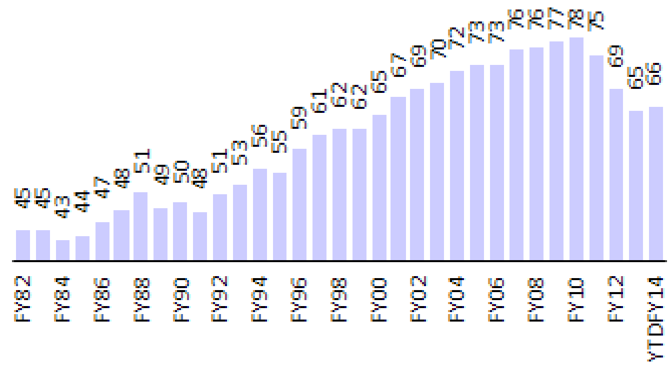
Model Bidding Documents, including Case 1 and Case 2 has been approved: We believe that an important driver of the incremental projects will be the 'Case 2' Model Bidding Document which was approved in Sept 2013. Post this, bidding process has been initiated for the two UMPP projects of 4GW each on Design Build Finance Operate and Transfer (DBFOT) basis and 1.3GW in Jharkhand. The UMPPs are in Orissa (pit head) and Cheyyur (imported coal), and we understand that the target is to award these projects by end FY14. Approval of Case 1 document also entails that IPPs will now be able to tie-up capacities under construction on a long term PPA route; which was also the key requirement for coal allocation by Coal India.

❶ SEBs financials were impacted as they procured power at higher costs through medium term contracts (INR/kwh)



Source: CERC

Coal PLFs have declined meaningfully given the fuel shortages and poor SEB financials impacting demand (%)



Source: CEA

In July 2013, 14 coal blocks with reserves of 8b tons were allocated to the power companies (including NTPC, State Gencos, etc)

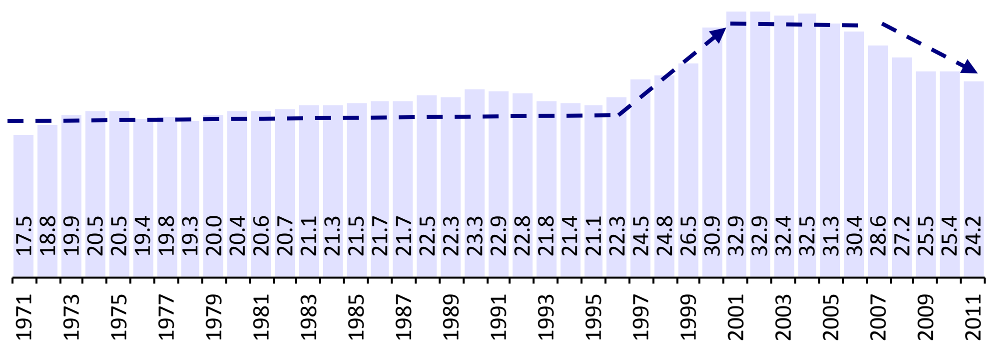
❷ Coal mine allocations of 8b tons for power projects in July 2013

Captive Block	Allottee	m tons
Tentuloi, Orissa	Orissa Thermal Power	1234
Bhalumuda, Chhattisgarh	NTPC	550
Banai, Chhattisgarh	NTPC	629
Chandrabila, Orissa	NTPC	550
Kudanali-Luburi, Orissa	NTPC	266
	J&K State Power Dev	130
Baisi, Chhattisgarh	Chhattisgarh State Power Dev	150
Pachwara South, Jharkhand	Neyveli UP Power	279
Jilga-Barpali, Chhattisgarh	Neyveli UP Power	396
	Chhattisgarh State Power Dev	150
Sarapal-Nuapara, Orissa	Andhra Pradesh Power Gen	701
Kente Extension, Chhattisgarh	Rajasthan Vidyut Utpadan	200
Mahajanvadi, Maharashtra	Maharashtra State Power Gen	170
	Gujarat State Electricity	170
Gondbahera Ujheni, MP	MP Power Gen	532
Deocha-Pachami, WB	Karnataka Power Corp	382
	WB Power	584
	Bihar State Power	486
	Punjab State Power	229
	TANGEDCO	171
	UP Rajya Vidyut	250
Kalyyanpur- Badalpara, Jharkhand	Haryana Power	51
	UP Rajya Vidyut	51
Total		**8,311**

Source: MOSL, Media Articles

Pace of reduction could accelerate as we understand that of the 1400 towns sanctioned under Part A, 500 towns have already been integrated with data centers and target is to reduce losses to 15%

❸ AT&C losses have declined from peak levels (%)



Source: CEA, MOSL

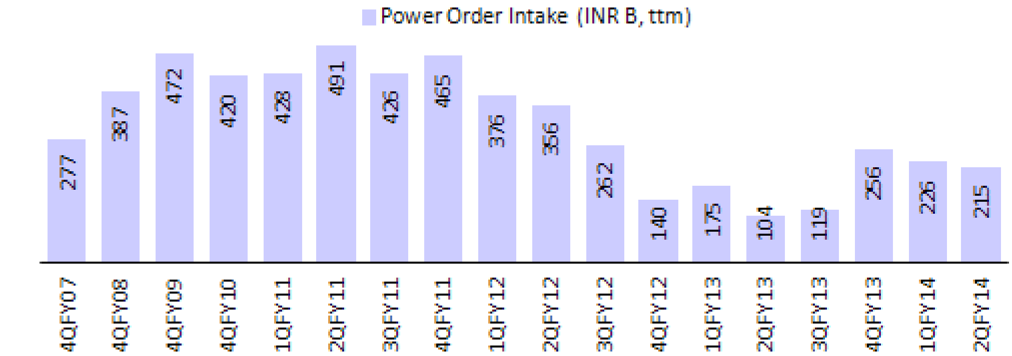
BTG award pipeline showing initial signs of recovery

Possible project awards of 20GW in next 12-15 months will be an important driver, given that industry capacity for super-critical boilers and turbines stand at ~21-24GW pa

- During FY12 and FY13, the power BTG project awards stood at just ~20GW, including 13GW of capacities being awarded under the bulk tender route. This compares with an annual order award run-rate of ~25-30GW pa during FY07-FY10. Going forward, we believe that the pipeline is again showing initial signs of recovery with projects of ~20GW likely to be awarded in the next 12-15 months. This could be an important turning point, particularly for the equipment manufacturers, given that industry capacity for super-critical boilers and turbines stands at ~21-24GW pa.
- An important driver of the incremental projects has been the 'Case 2' Standard Bidding Document which was approved in Sept 2013. Post this, bidding process has been initiated for the two UMPP projects of 4GW each on Design Build Finance Operate and Transfer (DBFOT) basis and 1.3GW in Jharkhand. The UMPPs are in Orissa (pit head) and Cheyyur (imported coal), and we understand that the target is to award these projects by end FY14.
- We expect NTPC to award ~5GW of projects, including 2GW of North Karanpura which had been cleared by the Cabinet Committee on Investments in February 2013 and the bidders are L&T, BHEL and Doosan; 1.3GW of Tanda (where L&T is already L1 in boilers, while TG bids have been invited) and 1.6GW of retendering for Darlipalli post exit of BGR (BHEL is L1 for supply of boilers).
- In addition, we expect project awards of ~5-7GW by state sector, including 1.3GW by Mahagenco, 1.3GW for Malwa project in Madhya Pradesh (L&T is already L1), 800MW Wanakbori in Gujarat, 2.4GW by AP Genco, etc. We also expect an increasing trend of several state governments to invite bids on Case 2 basis, going forward. Other key projects include 1980MW by Neyveli Lignite for the Ghatampur project, with the BOP tender also been invited in Oct 2013.
- In addition, we expect possibilities of project awards by Jindal Power for the 1.3GW Kineta Power / Dumka, etc; but a revival in the private IPP interest still seems a long way ahead.

Four years of constrained ordering environment for BHEL: i) FY12/FY13 - Limited gross project awards of INR198b / INR256b, and largely driven by NTPC bulk tender ii) FY10/FY11: Sizeable part of awards at 89%/51% respectively from private sector, with several of these projects facing execution challenges

BHEL: Power sector order intake has been impacted by constrained demand environment



Source: MOSL, Company; Note: FY12 numbers are net of order cancellations

Of the 25GW projects awarded by the private sector from FY10 onwards to both BHEL and L&T, already 3.9GW has been cancelled and another 7GW are non-moving. Thus, 45% of the private sector project awards have been impacted

Announced Project Awards for BHEL & L&T (excl 12.8GW of bulk tender projects), in MW

	FY10	FY11	FY12	FY13	1HFY14	Cumulative
BHEL	**14,800**	**8,820**	**2,520**	**3,140**	**1,500**	**30,780**
Private	12,910	4,920	1,320	-	-	19,150
State	-	3,900	1,200	2,640	-	7,740
Central	1,890	-	-	500	1,500	3,890
L&T	**4,620**	**2,680**	**-**	**1,320**	**-**	**8,620**
Private	2,640	2,680	-	-	-	5,320
State	1,980	-	-	1,320	-	3,300
Total	**19,420**	**11,500**	**2,520**	**4,460**	**1,500**	**39,400**
Private	15,550	7,600	1,320	-	-	24,470
State	1,980	3,900	1,200	3,960	-	11,040
Central	1,890	-	-	500	1,500	3,890

Source: MOSL, Company

Bids for ~9.3GW of Case 2 projects have already been invited

Post the approval of the Case 2 bid document in Sept 2013, bidding process for ~9.3GW of capacity has already been initiated

An important driver of the incremental projects has been the 'Case 2' Standard Bidding Document which was approved in Sept 2013. Post this, bidding process has been initiated for the two UMPP projects of 4GW each on Design Build Finance Operate and Transfer (DBFOT) basis and 1.3GW in Jharkhand. The UMPPs are in Orissa (pit head) and Cheyyur (imported coal), and we understand that the target is to award these projects by end FY14.

- For the **Orissa UMPP**, the Request for Qualification has seen interest from nine players: NHPC (teamed up with Bhel and Singareni Colleries), NTPC, Tata Power, Adani Power, JSW Energy, Jindal Power, Sterlite Infraventures, China Light & Power and L&T. Land for the project is expected to be in possession shortly, water is available from Hirakud reservoir and coal supply is assured through allocated coal blocks; thus we understand that the project will have limited execution and operational risks.
- For the **Cheyyur UMPP**, there have been issues with local fishermen protesting environmental clearances, and National Green Tribunal had restricted Power Finance Corporation to go ahead with the award process; and thus the speedy resolution of the matter will be closely watched. Again, the Request for Qualification has seen interest from eight players: NTPC, Adani Power, JSW Energy, Jindal Power, Sterlite Infraventures, China Light & Power, GMR Energy and L&T. Recent PFC release stated that the Environment clearance, forest

clearance and water linkage for the project is already in-place; and land is expected to be in possession shortly.

- **Jharkhand SEB** invited bids for pre-qualification of developer for setting up 1320 MW Patratu power plant on DFBOT basis. Coal for the proposed project is to be supplied from Banhardih captive coal block. Jharakhad SEB intends to set up three power plants with an aggregate capacity of 3.6GW, and Patratu is amongst the first tenders being invited; other projects are expected to be set up in Godda and Chatra with coal to be provided from Urma - Paharitha and Maurya coal blocks.

Disciplined Competitive 'Aggression'

BHEL has the highest operating leverage

From a market structure that was threatened by: i) intense competition from Chinese, Koreans and Japanese companies ii) and, possibility of ~5-6 players in the domestic market, BTG sector is undergoing a metamorphosis. Imported products have witnessed erosion of competitiveness, while the domestic players are engaging in disciplined 'aggression'. Business models from state gencos around vendor financing have witnessed muted bidding interest and unviable bids; and thus its again back to basics.

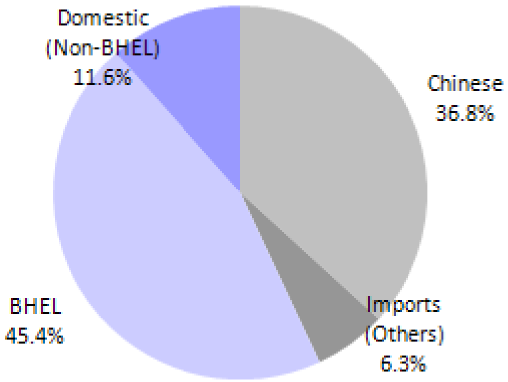
Possible project awards of 20GW in next 12-15 months will be an important driver, given that industry capacity for super-critical boilers and turbines stand at ~21-24GW pa

From a market structure that was threatened by: i) intense competition from Chinese, Koreans and Japanese companies ii) and, possibility of ~5-6 players in the domestic market, the BTG manufacturing sector is undergoing a metamorphosis.

- **Imported products witness erosion of competitive intensity:** Of the 90GW capacity under construction as per CEA, share of Chinese and other imported equipments stand at 36.8% and 6.3% respectively. This is a large market pie being captured by imported products. Going forward, we believe the competitive intensity of such players has been largely eroded given i) currency movements (sharp 56% currency depreciation over the last 3 years), ii) imposition of 21% import duty in 2012 leading to differential of ~14% for domestic players and iii) also intense competition given commissioning of ~21-24GW of supercritical BTG manufacturing capacities in India has led to a 15% price correction in boilers and 20% in turbines under bulk tender 2 vs bulk tender 1.
- **Disciplined competitive aggression amongst domestic players:** The domestic market structure is also showing resemblance of stability, with ~4 players each in boilers and turbines setting up manufacturing capacities of ~21-24GW pa for supercritical projects. Based on interactions with industry players, we understand that there has been limited progress in setting up integrated manufacturing capacities for supercritical projects by few players like BGR-Hitachi, GB Engineering - Ansaldo, ISGEC - Foster Wheeler, Cethar - Riley, etc. Recently in October 2013, the EPC bid for 600MW Surat Lignite project awarded to Lanco Infra (INR33b) was cancelled as the company did not submit 10% bank guarantee.

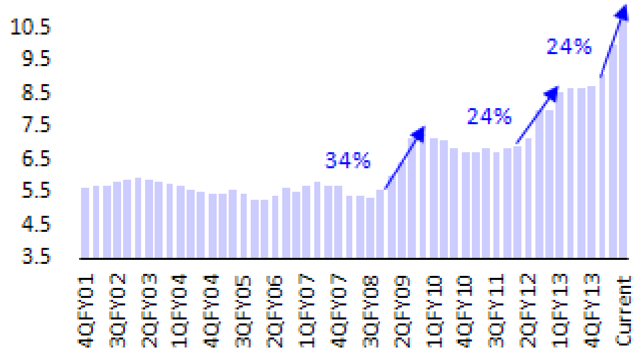
Imported products witness erosion of competitive dynamics

Capacity under construction: Imports (Chinese and Others) constitutes 43% of capacity



Source: CEA

INR vs CNY: currency movement has been sharp, impacting competitiveness of imported products



Source: Bloomberg

Our calculation suggests a net gain of approx 14% for domestic manufacturers

Imposition of 21% import duty in 2012 leading to differential of ~14% for domestic players

	Earlier			Wef 2012		
	Duty	**BHEL**	**Chinese**	**Duty**	**BHEL**	**Chinese**
Domestic		650	-		650	-
Imports	35%	350	1,000	35%	350	1,000
Value		**1,000**	**1,000**		**1,000**	**1,000**
RM Costs	0%	325			325	
Customs (%)	0%	-	-	5%	18	50
Excise (Adj for Cenvat)	12%	78	-	12%	120	120
Sales Tax, etc	4%	29	-	4%	46	47
Duty Impact		**107**	**-**		**183**	**217**
Net Impact		**10.7%**			**-3.4%**	
Net Gain (for domestic mfgrs)		**14.1%**				

Note: Calculations based on theoretical product value of 1,000

Source: MOSL, Company

Domestic competitive intensity stabilizing

Project award pipeline of ~16-20GW pa could lead to optimum capacity utilization

Supercritical installed capacity at ~21-24GW

	Boilers		Turbines	
	GW	**INR B***	**GW**	**INR B***
BHEL	12.0	na	12.0	na
L&T - MHI	4.0	8.7	4.0	12.9
Thermax – Babcock Wilcox	3.0	8.2		
Doosan	2.2	Na		
JSW - Toshiba			3.0	9.8
Bharat Forge - Alstom			5.0	18.0
Total	**21.2**		**24.0**	

*Project Cost; Source: MOSL, Company

Most of the capacities are operational, while Bharat Forge – Alstom will be commissioned by Feb 2015

Large part of domestic capacity already commissioned

	Stake (%)	Location	Commissioning	Remarks
BHEL	100	TG - Haridwar; Boilers - Trichy	2010	
L&T - MHI	51:49	Hazira	2010	Can ramp-up to 6GW quickly
Thermax - BW	51:49	Baroda	2013	Ready for commissioning
Doosan	100	Chennai	na	
JSW - Toshiba	25:75	Chennai	2011	Expanding to 6GW; construction commenced FY13
Bharat Forge - Alstom	49:51	Gujarat	2015	Shifted from Mundra to Sanand; construction started 2013

Source: MOSL, Company

Business models around vendor financing witness muted bidding interest, and unviable bids

Another encouraging trend is that new business models being contemplated like vendor financing, etc have witnessed poor response given the stringent funding conditions. Our channel checks indicate that for the TANGECO project, the sole bidder quoted a price that was at 35-50% premium to the contracts which do not entail financing pre-conditions.

- In early 2012, Mahagenco had invited expressions of interest for coal-based power projects at Dondaicha (3.3GW) and Dhopawe (1.98GW).
- TANGEDCO in 2013 come out with tenders for Udangudi (1.32GW) project which also entailed suppliers credit under "EPC cum Debt Financing Contract". The contract terms entailed funding atleast 75% of the EPC cost and 100% of the Interest during Construction period. The bidding condition was flexible towards project imports and stipulated that i) Bidder shall be an Indian manufacturer who has designed, engineered, manufactured, supplied, erected, commissioned at least one number 500 MW or above which is in successful operation for at least one year OR ii) Bidder shall be a manufacturer who has designed, engineered, manufactured, supplied, erected, commissioned at least one unit of minimum 660 MW capacity which is in successful operation for at least one year as on date of techno commercial bid opening. Indian JV company can also participate based on the experience of the parent company.

For private capacities, overseas orders have also started trickling-in

We understand that there have been few international orders received by the new manufacturing capacities of L&T-Mitsubishi and JSW-Toshiba. While the quantum is not meaningful initially, we believe that the opportunities exist to scale up the export business over the next few years. Currency depreciation has also made Indian manufacturing more competitive.

- In its Press Release in 2013, **JSW-Toshiba** had stated that "Going forward, in addition to India, Toshiba Group, will look to reinforce its presence by making the best use of Toshiba JSW in markets around the world including Asia and the Middle East, where demand for thermal power plants is strong".
- **L&T** in its FY13 Annual Report had also stated that "The Joint Ventures with Mitsubishi Heavy Industries for manufacture of Steam Turbines and Steam Generators are seeking to supply components to MHI's third country projects." It also stated that "The export market thrust which is an integral part of the

company’s business strategy got impetus as the company bagged a prestigious order from MHI to supply pressure parts for Rabigh Arabian Water Electricity Company, Saudi Arabia.”

- For **TMX**, there are options of bagging orders from the overseas markets, as part of the global manufacturing network of Babcock and Wilcox. The TBW manufacturing plant is the only second plant globally (apart from China), and being a modern plant combined with the sharp currency depreciation, we believe that competitiveness for the Indian manufacturing has comparatively improved.

Despite a constrained environment, L&T has managed to achieve EBIDTA breakeven with sub 50% capacity utilization

L&T reported strong EBIDTA improvement despite revenue decline in FY13; comparison with BHEL (INR M)

	BHEL		LT Turbine		LT Boiler		LT BTG	
	FY12	FY13	FY12	FY13	FY12	FY13	FY12	FY13
Capacity (MW)	20,000	20,000					4,000	4,000
Revenues	**479,788**	**484,246**	**12,323**	**9,923**	**24,478**	**23,790**	**36,801**	**33,713**
RM cost	283,440	273,155	10,630	7,397	20,068	18,410	30,698	25,807
% of sales	59%	56%	86%	75%	82%	77%	83%	77%
Other manufacturing cost	42,618	59,666	898	1,760	2,808	2,205	3,706	3,965
% of sales	9%	12%	7%	18%	15%	11%	10%	12%
Staff cost	54,654	57,528	400	439	956	923	1,356	1,362
% of sales	11%	12%	3%	4%	4%	4%	4%	4%
Total Expenses	**380,712**	**390,348**	**11,927**	**9,596**	**23,832**	**21,537**	**35,760**	**31,133**
EBITDA	**99,076**	**93,898**	**396**	**328**	**646**	**2,253**	**1,042**	**2,581**
% of sales	21%	19%	3%	3%	3%	9%	3%	8%

Source: MOSL, Company

BHEL best positioned, as cyclical factors support recovery

We believe that BHEL is the most actionable play on the theme of a possible recovery in power generation project awards.

- **BHEL** is strongly exposed to cyclical factors: i) Contribution margins at ~40-41% vs expected EBIDTA margin of 11.9% in FY14, leading to a meaningful operating leverage ii) Core NWC stable at ~200 days; cyclical factors of Retention money (at ~200 days in FY14E vs 55-60 days in FY07-09) and customer advances (deteriorated from 63% of revenues in FY09 to 34% in FY13) that impacted reported NWC are expected to normalize, as we expect BTB to increase from 2.2x currently to 3x in FY15/16E.

  We expect Free Cash Flows to improve from ~INR16-19b in FY13/14E to ~INR75-88b in FY15/16E, leading to a meaningful increase in net cash from INR63b in FY13 to INR174b in FY16E (~43% of current market cap). We upgrade the stock to **Buy** with a Price target of INR210/sh (14x FY16E).

- **L&T** has emerged as a formidable 'challenger', and is the most integrated player in the power sector value chain. L&T is a strong play on the recovery in the investment climate, and hence the recent stock price rally is largely led by expectations of a decisive election mandate.

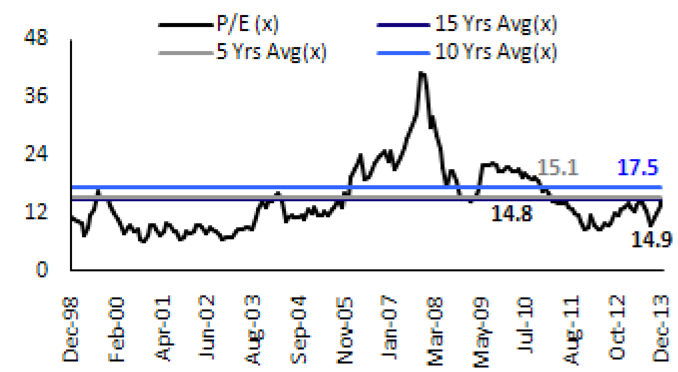
  We believe that India's capex J-Curve will be kick-started by (1) accelerated spending on flagship projects, and (2) government's attempt to address the contentious issues in several sectors. This phase will then be followed with revival in industrial cycle culminating with traction in greenfield projects.

Given the dependence on greenfield projects for the next level of growth , we believe that a large part of L&T's business model depicts characteristics of a mid to late cycle recovery. Asset monetization is an important near term stock driver. Maintain **Buy**, with revised SOTP based price target of INR1,186/sh, as we roll over to FY16E.

- **Thermax** is a beneficiary of several structural trends, like energy efficiency, stringent regulations for environment compliance, green products, and currency depreciation. Overseas revenues contributed 27% of the consolidated revenues in FY13, and we expect the share to increase to 40% by FY16E.

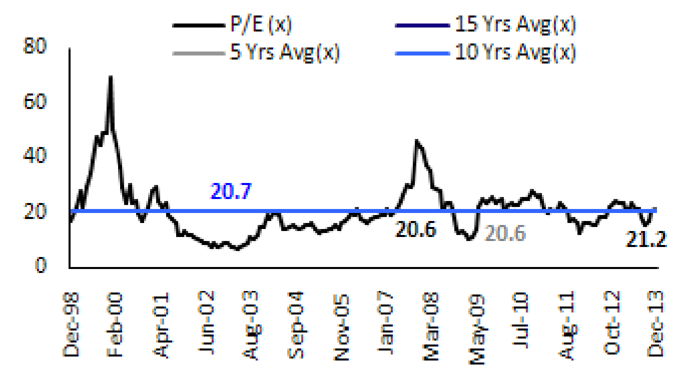
  We understand that TMX is possibly an 'early' stage beneficiary of the possible uptick in the investment climate, particularly in the heating / WHR segment (25-28% of consolidated revenues). We expect TMX to report earnings CAGR of 5% over FY13-15, and 33% in FY16E. We maintain **Buy**, with an 18-month price target of INR850 (20x FY16E at INR762/sh and INR86/sh in subsidiaries).

BHEL P/E band



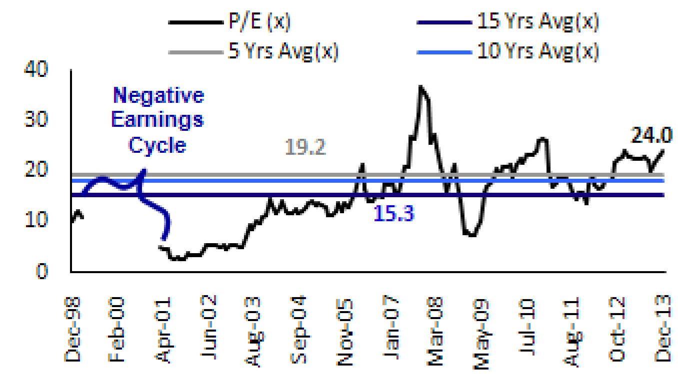
Source: Bloomberg, MOSL

L&T P/E band



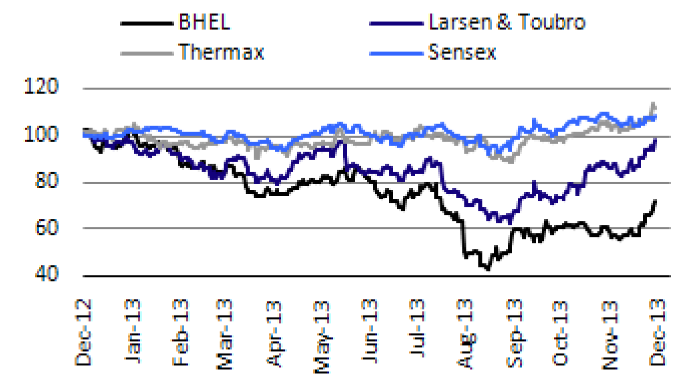
Source: Bloomberg, MOSL

Thermax P/E band



Source: Bloomberg, MOSL

1 Year Relative Performance to Sensex



Source: Bloomberg, MOSL

9 December 2013

Update | Sector: Capital Goods

BHEL

BSE Sensex	S&P CNX
20,958	6,241

CMP: INR171 TP: INR210 Buy

Stock Info

Bloomberg	BHEL IN
Equity Shares (m)	2,447.6
52-Week Range (INR)	248/100
1, 6, 12 Rel. Per (%)	20/-18/-36
M.Cap. (INR b)	418.5
M.Cap. (USD b)	6.8

Financial Snapshot (INR b)

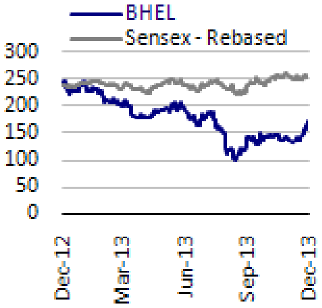
Y/E Mar	2014E	2015E	2016E
Net Sales	395.6	325.8	358.8
EBITDA	47.2	33.7	47.6
Adj PAT	35.1	23.6	36.7
EPS (INR)	14.4	9.6	15.0
EPS Gr. (%)	(46.4)	(32.9)	55.6
BV/Sh. (INR)	133.3	139.6	149.3
RoE (%)	11.1	7.1	10.4
RoCE (%)	11.4	7.3	10.7
Payout (%)	30.0	30.0	30.0
Valuations			
P/E (x)	11.9	17.8	11.4
P/BV (x)	1.3	1.2	1.1
EV/EBITDA	7.5	9.0	5.1
Div Yield (%)	2.4	1.7	2.6

* Consolidated

Shareholding pattern (%)

	Sep-13	Jun-13	Sep-12
Promoter	67.7	67.7	67.7
Dom. Inst	12.0	12.2	12.7
Foreign	15.5	15.2	14.6
Others	4.8	4.8	5.0

Stock Performance (1-year)



Cyclical factors support recovery

Strong operating leverage and improvement in FCF to drive re-rating

Expect BTB to bounce back from 2.2x currently to ~3x in FY15/16E

- Based on our expectations that the new cycle for powergen capex will possibly commence in the next 12-15 months, we expect BHEL's power segment order intake to improve from average levels of INR196b in FY12-14E to average of INR280b in FY15/16E. Since FY10, BHEL's BTB has nearly halved from peak levels of 4.3x to 2.2x in FY13/1HFY14; and we expect the ratio to improve to 2.6x in end FY14 and further to ~3x in FY15/16E.
- Improvement in BTB is an all important trend for capital goods companies, and has linkages with several components including working capital, operating free cash flows and operating leverage.

Expect margins to bottom in FY15, meaningful operating leverage

We expect BHEL's EBIDTA margins to decline from 19.4% in FY13 to 10.3% in FY15E, and improve to 13.3% in FY16E. During this period, we expect contribution margins to be maintained at 40-41%, and thus the expectations of margin expansion in FY16E are largely a function of the operating leverage, particularly staff costs (17% in FY16E, vs 18.8% in FY15E) and provisions, including LDs (at 3.6% in FY16E vs 7.1% in FY14E).

Operating cash flows to improve; Core NWC stable

- For BHEL, a large part of the variation in the reported net working capital is being driven by cyclical factors, such as retention money (at ~200 days in FY14E vs 55-60 days in FY07-09) and customer advances (deteriorated from 63% of revenues in FY09 to 34% in FY13, but stable as % of order book at 12-14%). Thus, while the core net working capital has been fairly stable at ~200days, the reported number has been volatile from negative 24 days in FY09 to 188 days in FY14E.
- Given that we expect the above cyclical factors impacting NWC to normalize in FY15/16E, we expect Free Cash Flows to improve from ~INR16-19b in FY13/14E to ~INR75-88b in FY15/16E. This will lead to a meaningful increase in net cash from INR63b in FY13 to INR174b in FY16E (~43% of current market cap).

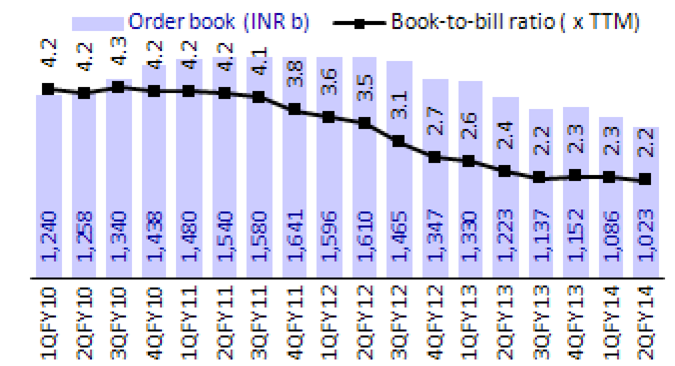
Valuations, upgrade to Buy

We roll over our price target to FY16, and assign a PER multiple of 14x based on long term averages. We upgrade the stock to **Buy**, with a Price target of INR210, upside of 23%. The key variable to watch out for is the impact of the Pay Commission in FY17, and could be an important swing factor. The key risk to our view is a delay in pick-up in power gen ordering cycle and also possibility of write-off of a large part of the retention money (~INR220b currently).

Expect BTB to bounce back from lows of 2.2x currently to ~3x in FY15/16E

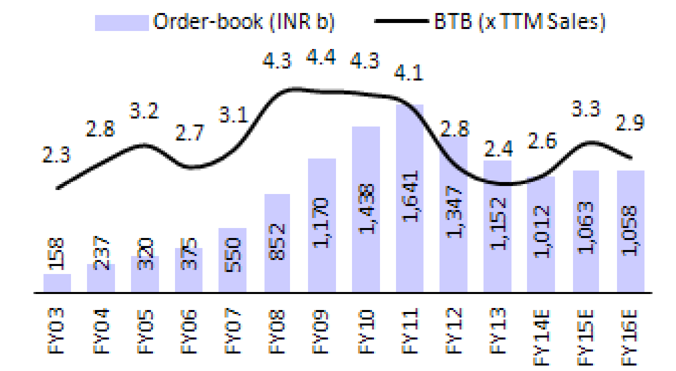
- For BHEL, BTB has nearly halved from peak levels of 4.3x in FY10 to 2.2x in FY13/1HFY14. We expect the ratio to improve marginally to 2.6x in end FY14 and further to ~3x in FY15/16E. This is being led by increased order intake, particularly in the power segment, from average levels of INR196b in FY12-14E to average of INR280b in FY15/16E.
- During the 2QFY14 post results concall, the management had also stated that 15GW of projects are likely to be finalized in 2HFY14, and BHEL is favorably positioned for ~5GW of projects. Going forward, we expect that the new cycle of powergen capex could possibly commence in the next 12-15 months and the pipeline is again showing initial signs of recovery.
- Improvement in BTB is an all important trend for companies in the capital goods sector, and has linkages on several components including working capital, operating free cash flows and operating leverage.

BTB has declined to 2.2x, at all time lows



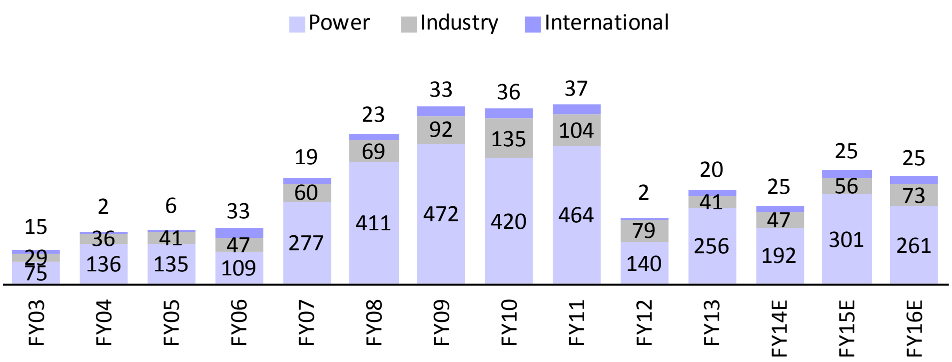
Source: MOSL, Company

Expect BTB to inch-upwards to ~3x in FY15/FY16E



Source: MOSL, Company

Expect Power sector orders to bounce back from average levels of INR196b in FY12-14E to average of INR280b in FY15/16E



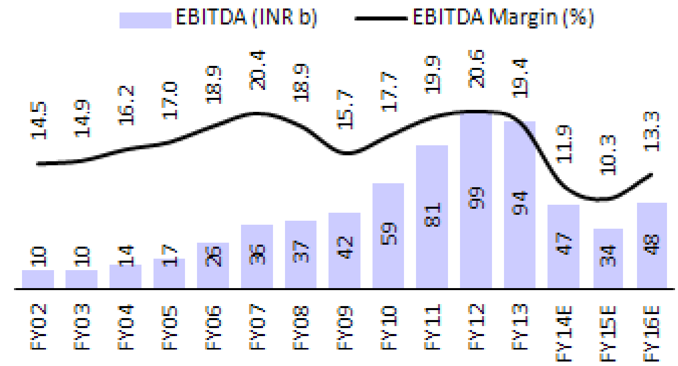
Source: MOSL, Company

Expect margins to bottom in FY15, BHEL has meaningful operating leverage

- Given our expectations of BTB bottoming in 1HFY14, we expect reported EBIDTA margins to bottom in FY15, given the time lag of ~18 months. We expect BHEL's EBIDTA margins to decline from 19.4% in FY13 to 10.3% in FY15E, and improve to 13.3% in FY16E. During this period, we expect contribution margins to be maintained at 40-41%, and thus the expectations of margin expansion are largely a function of the cyclical factors: staff costs and provisions (plus liquidated damages).

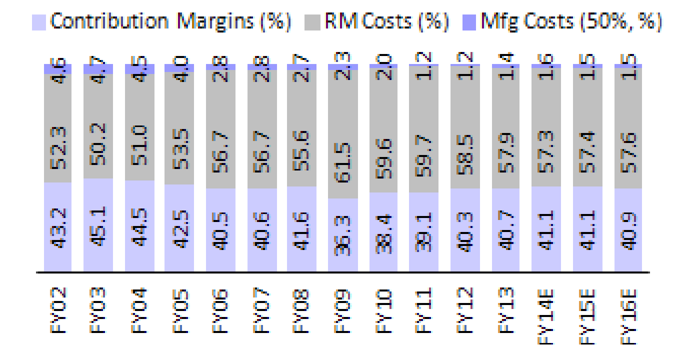
- Staff cost for BHEL is largely fixed in nature and thus entails a very strong operating leverage: during FY01-FY12, staff cost declined meaningfully from 23.9% of revenues to 11.4% of revenues; and given the poor operating leverage, we expect the same to increase to 18.8% of revenues in FY15E. Provisions also have a cyclical character, and are a function of the execution stage of the projects. Given the meaningful cost and time overruns in terms of project execution over the last 2-3 years, the quantum is expected to increase meaningfully in FY14 and we expect the trends to normalize going forward.

Expect EBIDTA margins to bottom in FY15E, improvement is a function of operating leverage led by cyclical factors



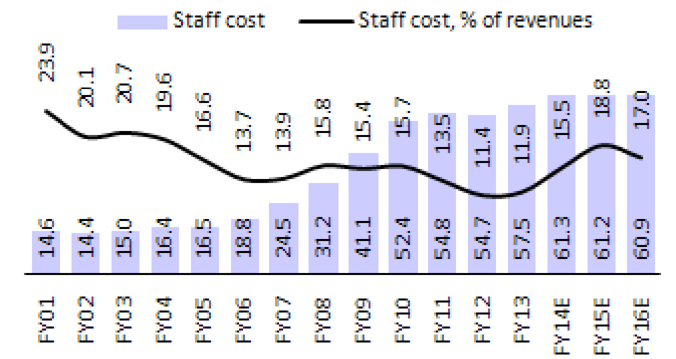
Source: MOSL, Company

Contribution margins has been maintained at ~40-41% despite intense competitive pressures



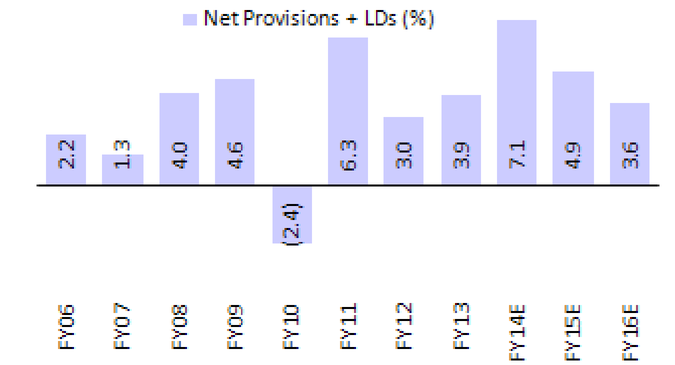
Source: MOSL, Company

Expect Staff cost at 18.8% of revenues in FY15, completing a full circle



Source: MOSL, Company

Net additions to provisions, plus Liquidated damages are also highly cyclical in nature



Source: MOSL, Company

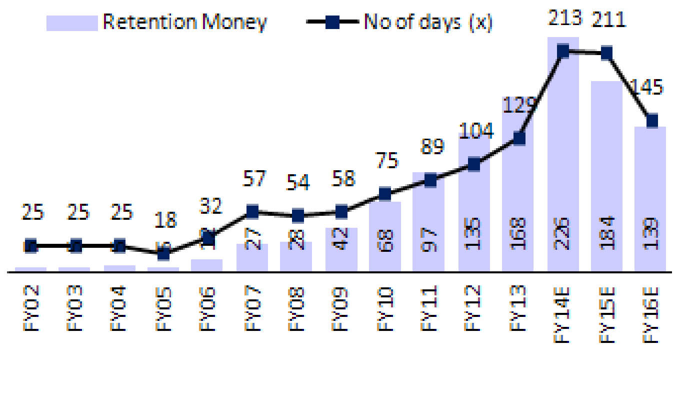
Operating cash flows to improve; Core NWC stable

- For BHEL, a large part of the variation in the reported net working capital is being driven by cyclical factors, like retention money and customer advances. Thus, while the core net working capital has been fairly stable at ~200days, the reported number has been volatile from negative 24 days in FY09 to 188 days in FY14E.
- Retention money is largely a function of negotiations with the customers and the schedule of project completions; the quantum has increased meaningfully from 55-60 days in FY07-09 to ~200 days in FY14. Improving collections has been an important area of focus and the intense efforts had led to 15% higher

collections in FY13. Media reports had indicated that BHEL is also taking legal steps to recover the dues. Also, BHEL is taking direct line of credit from bankers / financial institutions and hence will get a priority in terms of payments for equipment supplies. Customer advances is a function of the order intake and order book, and has been fairly stable at ~12-14%; however as a % of revenues the number has been volatile from 63% in FY09 to 34% in FY13.

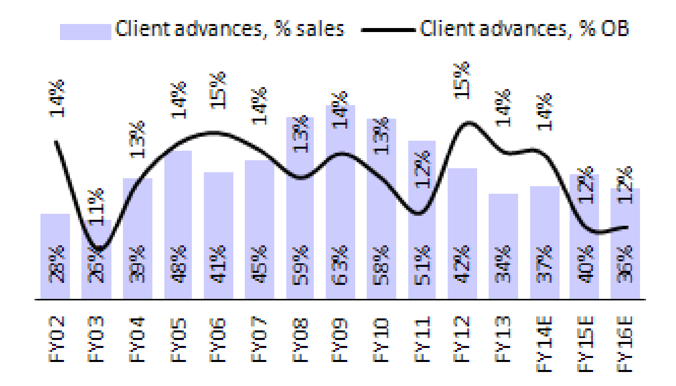
- Given that we expect the cyclical factors (retention money and customer advances) impacting Net Working Capital to normalize in FY15/16E, we expect Free Cash Flows to improve from ~INR16-19b in FY13/14E to ~INR75-88b in FY15/16E. This will lead to a meaningful increase in net cash from INR63b in FY13 to INR174b in FY16E.

Retention money is largely a function of negotiation with the customers, and expect the quantum to decline (INR b)



Source: MOSL, Company

Customer advances have remained stable (as % of order book), but volatile as % of revenues



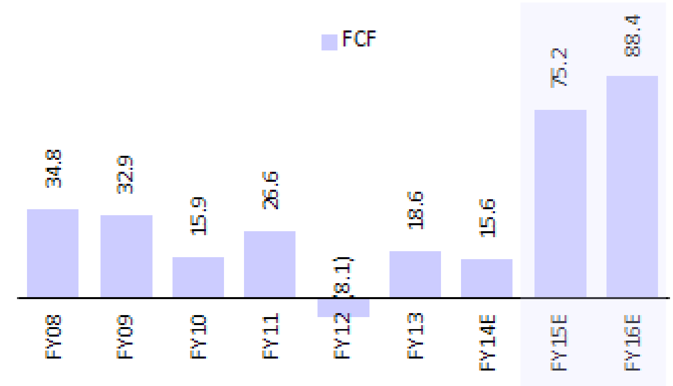
Source: MOSL, Company

NWC volatility a function of cyclical factors; expect a meaningful improvement in FY16E (Days)

	FY02	FY03	FY04	FY05	FY06	FY07	FY08	FY09	FY10	FY11	FY12	FY13	FY14E	FY15E	FY16E
Debtors (excl Retention Money)	220	190	185	211	164	148	173	164	155	163	172	177	177	198	177
Inventories	107	105	96	112	102	89	108	109	103	100	105	90	95	102	110
Loans and Advances	53	50	47	47	33	24	22	34	31	30	23	22	23	25	24
Sundry Creditors	99	96	79	80	77	75	84	81	84	74	84	80	80	77	77
Other Liabilities	17	17	15	17	14	12	14	15	14	19	9	14	16	16	13
Core NWC	**264**	**232**	**234**	**273**	**208**	**174**	**206**	**211**	**190**	**200**	**207**	**195**	**200**	**232**	**220**
Volatility led by Cyclical Factors															
Retention Money	25	25	25	18	32	57	54	58	75	89	104	129	213	211	145
Customer Advances	101	95	143	176	150	165	215	229	213	187	154	124	133	146	132
Provisions	29	37	49	47	40	47	56	64	42	70	59	69	91	112	106
Reported NWC	**158**	**125**	**68**	**68**	**50**	**20**	**(12)**	**(24)**	**10**	**32**	**97**	**131**	**188**	**184**	**127**

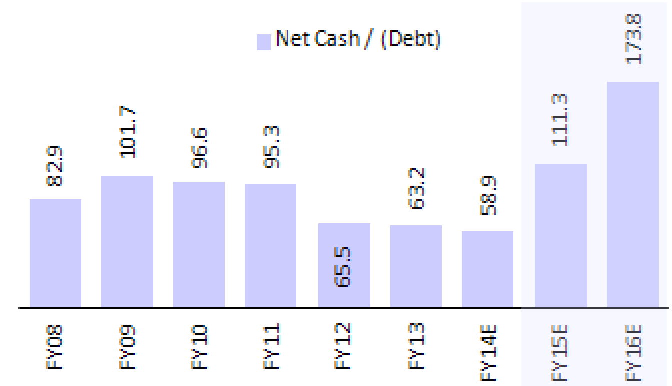
Source: MOSL, Company

Given the correction in cyclical factors impacting NWC, expect FCF to improve in FY15/16E (INR b)



Source: MOSL, Company

Improved FCF to entail meaningfully improved cash levels, expect FY16E net cash at 43% of market cap (INR b)



Source: MOSL, Company

Valuations, Upgrade to Buy

We expect BHEL to report EPS of INR14.4 in FY14/INR9.6 in FY15E / INR15 in FY16E. At the CMP of INR171/sh, the stock quotes at PER of 119x FY14E / 17.8x FY15 / 11.4x FY16E. We roll over our price target to FY16, and assign a PER multiple of 14x based on long term averages. We upgrade the stock to **Buy**, with a price target of INR210, upside of 23%.

BHEL is making efforts in terms of expanding the contribution from the industry business, particularly transmission and transportation, and they provide interesting long term business drivers. The key variable to watch out for is the impact of the Pay Commission in FY17, and could be an important swing factor. However, we believe that a part of the impact will be mitigated by productivity improvements over the medium term, and thus the impact is possibly not structural. We would be watchful of the trends.

BHEL: Operating Matrix

	FY06	FY07	FY08	FY09	FY10	FY11	FY12	FY13	FY14E	FY15E	FY16E
Order Intake (INR b)											
Power	90	245	387	444	401	443	176	227	162	264	217
R&M	19	32	24	28	19	21	23	29	30	36	44
Industry	47	60	69	92	135	114	79	41	47	56	73
International	33	19	23	33	36	37	2	20	25	25	25
Cancellations	-	-	-	-	-	-	58	-	-	-	-
Total Order Intake	**189**	**356**	**503**	**597**	**590**	**605**	**221**	**317**	**264**	**382**	**359**
Order intake Growth (% YoY)											
Power	(19)	155	48	15	(11)	11	(57)	29	(25)	57	(13)
Industry	15	27	15	34	46	(15)	(31)	(48)	15	20	30
International	425	(43)	21	41	9	5	(94)	756	25	-	-
Order backlog (INR b)											
Power	280	376	710	974	1,125	1,258	1,077	933	792	822	789
Industry	60	70	88	130	208	232	175	115	97	98	108
International	35	43	57	71	91	117	94	104	123	142	161
Total Order backlog	**375**	**550**	**852**	**1,170**	**1,424**	**1,641**	**1,347**	**1,152**	**1,012**	**1,063**	**1,058**
Growth (%)	**3.9**	**88.2**	**41.1**	**18.7**	**(1.1)**	**2.5**	**(63.5)**	**43.2**	**(16.6)**	**44.7**	**(5.9)**
Segmental Revenues (INR b)											
Power	98	127	159	213	269	348	379	396	333	270	295
Industry	37	50	44	56	57	90	102	100	65	55	64
International	10	11	11	12	16	12	15	6	6	6	6
Total Revenues	**145**	**187**	**214**	**280**	**342**	**450**	**495**	**502**	**404**	**331**	**365**
Revenue Growth (% YoY)											
Power	50.5	29.5	25.5	34.1	25.8	29.5	8.8	4.5	(15.8)	(18.9)	9.1
Industry	21.9	34.9	(12.7)	27.8	3.0	56.3	13.5	(1.6)	(35.0)	(15.0)	15.0
International	29.9	3.2	5.7	4.8	32.0	(22.2)	21.7	(60.8)	-	-	10.0
Total	**40.5**	**29.0**	**14.2**	**31.0**	**21.8**	**31.6**	**10.1**	**1.3**	**(19.5)**	**(18.0)**	**10.1**
EBITDA Margins (%)	**18.9**	**20.4**	**18.9**	**15.7**	**17.7**	**19.9**	**20.3**	**19.4**	**12.4**	**10.3**	**13.3**
Employees (in 000)	42.6	42.6	42.1	43.6	45.7	46.3	46.7	49.4	48.4	49.9	48.4
Staff Cost (INR B)	18.8	23.7	26.1	41.9	65.4	54.0	54.7	57.5	61.3	61.2	60.9
INR 000/empl	441	559	608	939	1,423	1,160	1,137	1,177	1,247	1,247	1,285
Net Working Capital (Days)											
Reported (excl Cash)	53	24	-4	-19	14	35	98	133	190	186	129
Customer Advances	150	165	215	229	213	187	154	124	133	146	132
NWC (excl Customer Adv)	**202**	**189**	**212**	**210**	**228**	**222**	**253**	**257**	**324**	**333**	**261**

Source: Company, MOSL

Financials and valuation

Income statement (INR Million)

Y/E March	2011	2012	2013	2014E	2015E	2016E
Total Income	**404,443**	**479,788**	**484,247**	**395,587**	**325,823**	**358,824**
Change (%)	21.0	18.8	0.8	-18.6	-18.0	10.1
Staff Cost	54,769	54,654	57,528	61,267	61,240	60,874
Mfg. Expenses	230,816	280,845	280,156	226,819	186,880	206,512
Selling Expenses	38,325	45,213	52,665	60,285	43,997	43,868
EBITDA	**80,532**	**99,076**	**93,898**	**47,216**	**33,706**	**47,570**
Change (%)	36.0	23.0	-5.2	-49.7	-28.6	41.1
% of Net Sales	19.9	20.6	19.4	11.9	10.3	13.3
Depreciation	5,441	8,000	9,534	9,516	10,664	11,908
Interest	547	513	1,253	1,206	1,155	1,245
Other Income	10,206	12,656	11,217	13,565	12,254	17,953
Extra-ord. Items (net)	5,305	-193	-4	0	0	0
PBT	**90,055**	**103,026**	**94,324**	**50,058**	**34,141**	**52,370**
Tax	29,945	32,623	28,177	16,269	10,584	15,711
Rate (%)	33.3	31.7	29.9	32.5	31.0	30.0
Reported PAT	**60,110**	**70,403**	**66,148**	**33,789**	**23,557**	**36,659**
Adjusted PAT	**56,650**	**68,922**	**65,540**	**35,129**	**23,557**	**36,659**
Change (%)	20.9	21.7	-4.9	-46.4	-32.9	55.6

Balance sheet (INR Million)

Y/E March	2011	2012	2013	2014E	2015E	2016E
Share Capital	4,895	4,895	4,895	4,895	4,895	4,895
Reserves	196,643	248,837	299,546	321,475	336,764	360,555
Net Worth	**201,538**	**253,732**	**304,441**	**326,370**	**341,659**	**365,451**
Loans	1,021	1,234	14,152	14,094	14,094	14,094
Differed Tax Liability	-21,636	-15,462	-15,507	-15,507	-15,507	-15,507
Capital Employed	**180,924**	**239,504**	**303,086**	**324,958**	**340,246**	**364,038**
Gross Fixed Assets	80,497	97,066	107,832	117,634	129,424	143,214
Less: Depreciation	46,488	54,098	63,248	72,005	82,669	94,577
Net Fixed Assets	**34,009**	**42,968**	**44,585**	**45,630**	**46,755**	**48,638**
Capital WIP	17,338	13,476	11,716	5,000	5,000	5,000
Investments	4,392	4,617	4,292	4,292	4,292	4,292
Curr. Assets	**515,229**	**591,237**	**625,185**	**614,786**	**594,222**	**626,907**
Inventory	108,521	135,487	117,638	100,808	88,990	105,006
Debtors	274,656	357,405	398,882	414,470	356,072	308,949
Cash & Bank Balance	96,302	66,720	77,321	72,946	125,394	187,898
Loans & Advances	32,654	30,118	29,344	24,562	21,766	23,054
Other Current Assets	3,096	1,506	2,000	2,000	2,000	2,000
Curr. Liab. & Prov.	**390,043**	**412,794**	**382,692**	**344,750**	**310,023**	**320,799**
Creditors	80,526	108,717	104,313	84,643	67,311	74,303
Other Liabilities	224,790	211,999	180,916	158,150	141,396	139,648
Provisions	84,728	92,078	97,462	101,956	101,315	106,848
Net Current Assets	**125,186**	**178,443**	**242,493**	**270,036**	**284,199**	**306,109**

E: MOSL Estimates

Financials and valuation

Ratios

Y/E March	2011	2012	2013	2014E	2015E	2016E
Basic (INR)						
EPS	**23.1**	**28.2**	**26.8**	**14.4**	**9.6**	**15.0**
Change (%)	20.9	21.7	-4.9	-46.4	-32.9	55.6
Cash EPS	25.4	31.4	30.7	18.2	14.0	19.8
Book Value	82.3	103.7	124.4	133.3	139.6	149.3
DPS	6.2	6.4	5.4	4.1	2.9	4.5
Payout (incl. Div. Tax.)	25.4	22.3	20.0	30.0	30.0	30.0
Valuation (x)						
P/E			6.4	11.9	17.8	11.4
Cash P/E			5.6	9.4	12.2	8.6
EV/EBITDA			3.7	7.5	9.0	5.1
EV/Sales			0.7	0.9	1.0	0.7
Price/Book Value			1.4	1.3	1.2	1.1
Dividend Yield (%)			3.2	2.4	1.7	2.6
Return Ratio (%)						
RoE	31.4	30.3	23.5	11.1	7.1	10.4
RoCE	35.0	33.0	24.5	11.4	7.3	10.7
Turnover Ratios						
Debtors (Days)	241	263	290	375	393	309
Inventory (Days)	100	105	90	95	102	110
Creditors. (Days)	77	83	79	79	76	77
Asset Turnover (x)	11.7	11.0	10.7	8.5	6.8	7.2
Leverage Ratio						
Debt/Equity (x)	-0.6	-0.5	-0.3	-0.2	-0.2	-0.3

Cash flow statement (INR Million

Y/E March	2011	2012	2013	2014E	2015E	2016E
PBT bef. EO Items	**84,750**	**103,218**	**94,329**	**50,058**	**34,141**	**52,370**
Add : Depreciation	5,441	8,000	9,534	9,516	10,664	11,908
Interest	547	513	1,253	1,206	1,155	1,245
Less : Direct taxes paid	29,945	32,623	28,177	16,269	10,584	15,711
(Inc)/Dec in WC	-36,596	-85,648	-8,217	-8,409	53,947	39,245
CF from Operations	**36,198**	**-11,245**	**31,113**	**15,567**	**75,196**	**88,441**
EO Income	5,305	-193	-4	0	0	0
CF from Op. Incl. EO Items	**41,503**	**-11,438**	**31,108**	**15,567**	**75,196**	**88,441**
(Inc)/dec in FA	-17,339	-13,097	-9,390	-3,846	-11,790	-13,790
(Pur)/Sale of Investments	-3,593	-225	325	0	0	0
CF from Investments	**-20,932**	**-13,322**	**-9,065**	**-3,846**	**-11,790**	**-13,790**
(Inc)/Dec in Net Worth	-6,369	6,169	-43	0	0	0
(Inc)/Dec in Debt	-256	213	12,918	-58	0	0
Less : Interest Paid	547	513	1,253	1,206	1,155	1,245
Dividend Paid	14,999	11,302	23,064	14,833	9,803	10,902
CF from Fin. Activity	**-22,171**	**-5,434**	**-11,442**	**-16,097**	**-10,958**	**-12,147**
Inc/Dec of Cash	**-1,599**	**-30,194**	**10,601**	**-4,376**	**52,448**	**62,504**
Add: Beginning Balance	97,901	96,302	66,720	77,321	72,946	125,394
Closing Balance	**96,301**	**66,720**	**77,321**	**72,945**	**125,394**	**187,898**

E: MOSL Estimates

MOTILAL OSWAL

9 December 2013

Update | Sector: Capital Goods

Larsen & Toubro

BSE Sensex	S&P CNX
20,958	6,241

CMP: INR1,087 **TP: INR1,186** **Buy**

Stock Info

Bloomberg	LT IN
Equity Shares (m)	926.1
52-Week Range (INR)	1,133/678
1, 6, 12 Rel. Per (%)	12/8/-10
M.Cap. (INR b)	1,006.3
M.Cap. (USD b)	16.3

Financial Snapshot (INR Billion)

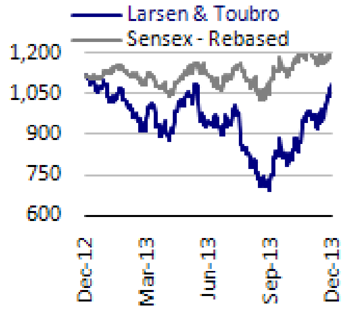
Y/E Mar	2014E	2015E	2016E
Sales	664.8	745.5	833.7
EBITDA	67.6	76.3	88.2
Adj PAT *	40.4	48.4	59.6
EPS (INR)*	43.8	52.4	64.5
EPS Gr. (%)	-18.1	19.6	22.9
BV/Sh (INR)	351.4	392.8	440.4
RoE (%)	14.5	14.4	14.8
RoCE (%)	12.4	12.5	12.9
Payout (%)	27.7	26.9	26.9
Valuations			
P/E (x)*	24.8	20.8	16.9
P/BV (x)	3.1	2.8	2.5
EV/EBITDA (x)	15.6	13.9	11.7
Div Yield (%)	1.2	1.3	1.5

* Consolidated

Shareholding pattern (%)

	Sep-13	Jun-13	Sep-12
Promoter	0.0	0.0	0.0
Dom. Inst	37.3	36.8	37.8
Foreign	19.2	20.0	19.5
Others	43.5	43.2	42.7

Stock Performance (1-year)



Integrated player in power segment value chain

Maintain Buy, but risk-reward increasingly skewed

Integrated player in power value chain

L&T Power offers turnkey solutions for up to 1GW super critical coal-based power plants, and has also demonstrated capability of executing BOP packages for both subcritical and supercritical thermal projects on EPC basis. We believe that integration in the value chain is the key competitive advantage; also given the increasing trend of a large number of projects being awarded on EPC basis.

BTG Manufacturing: FY16 improvement to be led by strong leverage

During FY13, BTG business reported net profit of INR520m, and is commendable given that the capacity utilization stood at sub-50%. The improved performance is also being led by the fast tracked indigenization program, with current levels at ~80-85% for boilers and ~60% for turbines. Given the possible pick up in power generation project awards, we expect revenues to increase 35% during FY16E/FY13 and net profit at INR2.2b in FY16.

Tapping opportunities globally and also spares and services in India

L&T-MHI BTG manufacturing unit in Hazira is part of the MHI global network, and thus would be a beneficiary of the outsourcing possibilities by MHI for its global requirements. L&T MHI Boilers is also looking for opportunities to make inroads for operational spares for pressure parts and coal pulverizers in the Indian market. We understand that, going forward, adding capabilities in Repairs and Maintenance and Operations of power plants will be an important growth driver.

Maintain Buy, but risk-reward increasingly skewed

For L&T, we expect consolidated earnings CAGR of 6.4% during FY13-16E, and the muted growth is largely a reflection of: i) expectations of margin pressures in E&C business from 12% in FY13 to 10.8% in FY16 given possibility of increased competitive intensity, adverse project mix towards government contracts and also higher contribution of overseas revenues (at 23% in FY16, vs 19% in FY13), and ii) increased losses from asset development portfolio, at INR8b in FY16E vs INR3.7b in FY13. Maintain **Buy**, with revised SOTP based price target of INR1,186/sh, as we roll over to FY16E.

L&T is a strong play on the recovery in the investment climate, and hence the recent stock price rally is largely led by expectations of a decisive election mandate. Given the dependence on mega Greenfield projects for the next level of growth trajectory, we believe that a large part of L&T's business model depicts characteristics of a mid to late cyclical recovery. Asset monetization is an important near term stock driver.

Integrated player in power value chain

L&T Power offers turnkey solutions for up to 1GW super critical coal-based power plants, and has also demonstrated capability of executing BOP packages for both subcritical and supercritical thermal projects on EPC basis. We believe that integration in the value chain is the key competitive advantage; also given the increasing trend of a large number of projects being awarded on EPC basis.

L&T Power: Technology tie-ups for Product Manufacturing

Technology Provider	Product
Mitsubishi Electric Corporation	High capacity Generators
Mitsubishi Heavy Industries	Supercritical Boilers & turbine generators, and pulverizers
Clyde Bergemann, USA	Electrostatic Precipitators
CMI, Belgium	Heat Recovery Steam Generators
Howden	Axial Fans and Air Pre-heaters
Sargent and Lundy, USA	Power Plant Engineering

Source: MOSL, Company

L&T Power: Large part of the auxiliaries manufactured in-house

Product	Comments
Critical piping	Commissioned in March 2011, has an annual fabrication capability of 12,000 tons of critical piping , including alloy steel piping for high pressure and high temperature steam conditions
Coal Pulverizers	Manufactured as part of L&T-MHI Boilers
Foundry	Set up heavy foundry with capacity of 2500tons pa; and capable of producing castings of up to 60 tons
Heat Exchangers	Heavy Engineering supplies heat exchangers and vessels for power plants

Source: MOSL, Company

We believe that integration in the value chain is the key competitive advantage; also given the increasing trend of a large number of projects being awarded on EPC basis

L&T Power: Integrated offering in the value chain

Segment	Capability
Engineering Services	L&T Sargent and Lundy; one of the key players for designing power plants globally
Construction and Erection	Extertise of building 100+ power plants, capacity 35GW
Electrical and Automation	Leading provider of turnkey solutions for switchyards in India; executed sub-stations ranging from 33kv to 400kv; manufacturer of LV and MV Switchgear products

Source: MOSL, Company

L&T MHI Boiler: FY16 improvement led by operating and financial leverage

- Given the increased indigenization levels of ~80-85%, the boiler business reported gross margins of 14.3% in FY13 (vs 10.3% in FY12), which is encouraging. Reported EBIDTA margins also improved to 8.7% in FY13 (vs 1.7% YoY) and is being supported by: i) Embedded derivative gains of INR741m and ii) Provision write backs of INR317m. Adjusted for the same, net profits stand at just INR348m, vs reported INR1.4b.
- During FY13, order intake stood at INR19.3b and closing order book stood at INR90b (we understand that this includes slow moving orders of Jaiprakash Karchana 1,980MW and Rajpura 700MW).
- We model revenue decline of 7% till FY15 to INR21.9b and EBIDTA margins at 4.5% / 5.2% in FY14/15 respectively; vs 8.7% in FY13. We model recovery in FY16E led by an improvement in the BTG ordering cycle, and expect revenues at

INR29b (up 35% YoY) and EBIDTA margins at 7.9%. We estimate net profits at INR535m in FY14, INR647m in FY15 and INR1.7b in FY16 largely led by operating and financial leverage.

L&T MHI Boilers: strong profits of INR1.4b in FY13 supported by Derivative gains and provisions write back (INR m)

	FY12	FY13	FY14E	FY15E	FY16E
Revenues	24,250	23,598	22,603	21,902	29,486
% YoY	140.4	-2.7	-4.2	-3.1	34.6
Gross Profit	2,498	3,380	3,390	3,504	5,307
Gross Margins (%)	10.3	14.3	15.0	16.0	18.0
EBIDTA	417	2,060	1,025	1,020	2,327
EBIDTA (%)	1.7	8.7	4.5	4.7	7.9
Net Profit	**111**	**1,414**	**535**	**554**	**1,685**

Source: MOSL, Company

L&T MHI Turbine Generator: Improving indigenization levels to drive margins

- Revenues in FY13 declined 19% YoY to INR9.9b; however given the various initiatives in terms of cost rationalization, improved supply chain management, etc, the gross margin improved meaningfully from 6.9% in FY12 to 15.1% in FY13. We understand that indigenization levels currently stands at 60%, and the next phase in terms of heavy forgings will be important in driving the longer-term margin profile.
- EBIDTA margins stood at 3.3% in FY13 vs 2.9% YoY, and were impacted by forex provisions of INR421m. Adjusted for the same, EBIDTA margins in FY13 improved meaningfully to 7.5% in FY13. Forex debt outstanding as at March 2013 stands at INR9.6b; and given the sharp currency volatility, we model in exchange loss of INR700m in FY14.
- Net loss in FY13 stood at INR895m, and given the constrained business environment / currency volatility, we model in losses at INR1.2b in FY14 and declining to INR187m in FY15. For FY16, given our expectations of a recovery in BTG ordering, we model in revenues at INR15.7b (up 49% YoY), EBIDTA margins at 9.7% (up 100bpa YoY) and net profits at INR473m.

L&T MHI Turbine Generator: FY13 impacted by forex loss of INR421m (INR M)

	FY12	FY13	FY14E	FY15E	FY16E
Revenues	12,288	9,923	8,373	10,545	15,684
% YoY	9.2	-19.2	-15.6	25.9	48.7
Gross Profit	849	1,499	1,340	1,687	2,588
Gross Margins (%)	6.9	15.1	16.0	16.0	16.5
EBIDTA	361	328	(60)	917	1,527
EBIDTA (%)	2.9	7.5	7.6	8.7	9.7
Net Profit	**(171)**	**(895)**	**(1,221)**	**(187)**	**473**

Source: Company, MOSL

Tapping opportunities globally and also spares and services in India

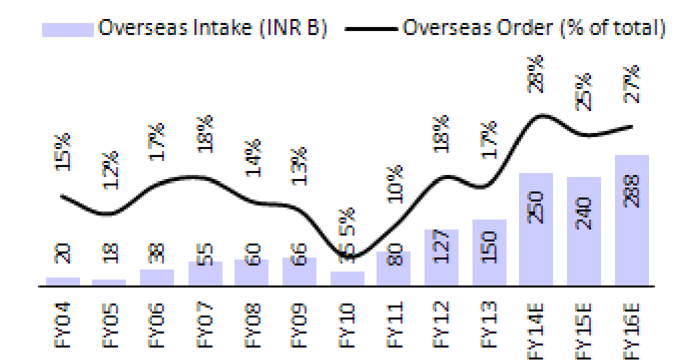
- We understand that the BTG manufacturing unit in Hazira is part of the MHI global network, and thus would be a beneficiary of the outsourcing possibilities by MHI for its global requirements. L&T in its FY13 Annual Report had also stated that “The Joint Ventures with Mitsubishi Heavy Industries for manufacture of Steam Turbines and Steam Generators are seeking to supply components to MHI’s third country projects.” It also stated that “The export market thrust which is an integral part of the company’s business strategy got impetus as the company bagged a prestigious order from MHI to supply pressure parts for Rabigh Arabian Water Electricity Company, Saudi Arabia.”

- L&T MHI Boilers is also looking for opportunities to make inroads for operational spares for pressure parts and coal pulverizers in the Indian market. We understand that, going forward, adding capabilities in Repairs and Maintenance and Operations of power plants will be an important driver.

Maintain Buy, but risk-reward increasingly skewed

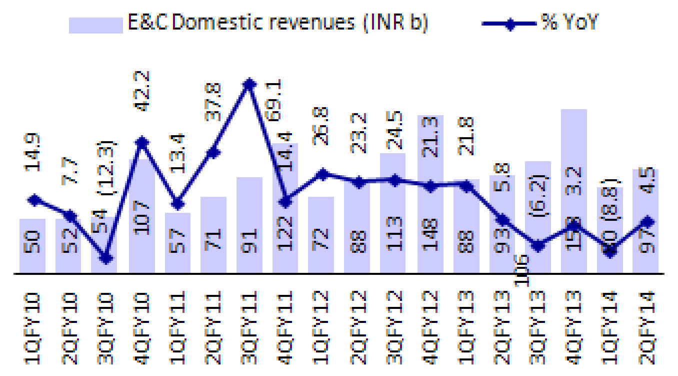
For L&T, we expect consolidated earnings CAGR of 6.4% during FY13-16E, and the muted growth is largely a reflection of: i) expectations of margin pressures in E&C business from 12% in FY13 to 10.8% in FY16 given possibility of increased competitive intensity, adverse project mix towards government contracts and also higher contribution of overseas revenues (at 23% in FY16, vs 19% in FY13) ii) increased losses from asset development business, at INR8b in FY16E vs INR3.7b in FY13. Maintain **Buy**, with revised SOTP based price target of INR1,186/sh, as we roll over to FY16E.

Increased contribution of overseas orders



Source: MOSL, Company

Domestic execution has been impacted by several factors



Source: MOSL, Company

Overseas revenues to contribute ~47% of the consolidated profits in FY14E

	Revenues (INR b)					EPS (INR/share)				
	FY12	FY13	FY14E	FY15E	FY16E	FY12	FY13	FY14E	FY15E	FY16E
E&C, MIP, Electricals	54	109	105	132	164	3.2	6.5	6.3	7.9	9.8
FZE	30	40	50	56	61	1.5	0.8	1.6	2.0	2.1
IES	9	13	16	21	25	1.3	3.9	4.1	5.4	6.4
Infotech	32	39	46	52	58	3.8	5.7	7.1	8.0	8.2
Total	**125**	**200**	**218**	**261**	**309**	**9.8**	**16.9**	**19.2**	**23.3**	**26.6**
L&T Consolidated	643	745				48	49	40	48	59
% Share	**19**	**27**				**21**	**34**	**47**	**48**	**45**

Source: MOSL, Company

Without drawing any conclusions, we understand that L&T could possibly be a ‘mid’ to ‘late’ stage beneficiary of any possible uptick in investment cycle:

- Overseas business is expected to contribute ~47% of the consolidated profits in FY14E, of which 60% is being contributed by largely contributed by IT services.

- Comparatively lower operating leverage vs peers, with FY13 contribution margins at 21.2% vs adj EBIDTA margins at 11%.
- L&T's order intake has been relatively insulated even in a turbulent environment, given the adaptability and diversity, with management guiding for 20% order intake growth in FY14E. This factor could also possibly limit the near term business upsides (in terms of percentages, given the higher base).

Asset monetization an important near-term driver

For L&T, subsidiaries are expected to contribute 45% of the invested capital, but just 5% of the consolidated profits in FY14. L&T's consolidated RoE has deteriorated significantly from 31% in FY07 to 16% in FY13. Correcting the capital structure and improving RoEs are important stock triggers. For the infrastructure development business, we expect losses to increase from INR3.9b in FY13 (also supported by previous year goodwill write back) to INR5.5b / INR5.3b / INR8b in FY14/15/16 respectively, and is led by commissioning of ~INR63b of road portfolio. Successful asset monetization will be an important event to monitor, and will be the key interim value driver.

Consolidated Debt ballooning, given large investments in Concession business (INR b)

	FY12	FY13	FY14E	FY15E	FY16E
Finance	209	282	324	373	428
Hydrocarbon	7	6	6	6	6
Overseas Infra	3	7	7	7	7
Power Dev	19	38	61	61	61
Heavy Engg	12	15	15	15	15
Shipbuilding	22	28	28	28	28
Power BTG	16	24	24	24	24
Property Dev	22	33	38	48	58
Concession	70	100	134	189	244
Corporate	2	1	1	1	1
Machinery	1	1	1	1	1
Infotech	3	3	3	3	3
Total	**384**	**537**	**641**	**754**	**875**
Excl Finance	176	255	317	382	447

Source: MOSL, Company

SOTP valuation

	Method	Valuation multiple	Value (INR b)	Value (INR/sh)	Rationale
Construction Business					
L&T Standalone	FY16E PER (x)	15.0	818	886	At par with Market average
International Ventures (L&T FZE)	FY16E PER (x)	15.0	33	35	
Service Segments					
Infotech	FY16E PER (x)	10.0	91	99	At par to second tier IT companies
Finance	FY16E PBV (x)	1.20	92	81	At par with NBFCs
General Insurance	FY16E PBV (x)	1.0	6	6	At par with industry average
Sapura Shipping	FY16E PBV (x)	1.5	1	2	
L&T Realty	FY16E PBV (x)	1.0	32	35	
Asset Ownership / Project Developer					
Infrastructure Development Projects	FY16E PBV (x)	1.0	74	81	Lower than Net Worth to capture the macro volatility
Power Development Projects	FY16E PBV (x)	0.5	13	14	At 50% of BV, to factor in the challenges of fuel availability
Manufacturing Ventures					
- Power Equipments	FY16E PBV (x)	1.0	3	3	At Book Value, given the business headwinds
- Special Steel and Heavy Forgings	FY16E PBV (x)	1.0	4	4	
- L&T Komatsu	FY16E PER (x)	10.0	1	1	In line with industry average
- Audco India	FY16E PER (x)	10.0	9	5	Revenue growth and margins have shown strong consistency
- EWAC Alloys	FY16E PER (x)	10.0	7	4	In line with industry average
Less: Holding Company Discount of 20%				-74	
Total				**1,186**	

Note: Seawoods and Shipbuilding JVs not considered in SOTP as these projects are funded through advances

Source: MOSL

Consolidated profits to remain constrained, given losses in manufacturing and asset development businesses (INR m)

INR m	FY09	FY10	FY11	FY12	FY13	FY14E	FY15E	FY16E
Standalone	27,092	43,760	39,580	44,565	49,106	45,570	52,275	60,080
Consolidated	30,046	54,507	44,562	46,937	52,056	38,957	48,340	59,392
Addn to Standalone PAT	**2,953**	**10,747**	**4,982**	**2,372**	**2,950**	**-6,612**	**-3,935**	**-688**
Contribution from key subsidiaries	**FY09**	**FY10**	**FY11**	**FY12**	**FY13**	**FY14E**	**FY15E**	**FY16E**
Service Sector	**4,461**	**5,683**	**7,088**	**6,850**	**10,450**	**12,142**	**14,284**	**15,603**
L&T Infotech	2,674	2,873	3,160	4,190	6,290	7,932	8,919	9,142
L&T Finance	1,788	2,811	3,928	2,660	4,160	4,210	5,366	6,461
Overseas E&C	**-930**	**1,563**	**1,977**	**1,571**	**789**	**1,652**	**1,981**	**2,180**
L&T International FZE	-930	1,563	1,977	1,571	789	1,652	1,981	2,180
Asset Development	**86**	**3,566**	**150**	**-3,101**	**-3,738**	**-5,461**	**-5,253**	**-7,981**
L&T IDPL	86	3,261	-1,132	-3,087	-3,381	-5,793	-6,216	-9,083
L&T Power Development	0	29	34	73	0	0	15	15
Sapura Shipping	0	0	134	-416	177	178	302	352
L&T Sea Woods	0	-22	-32	-5	6	-50	-50	-50
L&T Realty	0	298	1,146	335	-540	204	696	785
Manufacturing	**473**	**348**	**696**	**1,005**	**-1,475**	**-6,450**	**-4,879**	**-1,297**
L&T MHI Turbine & Boilers	-93	-475	-412	-31	265	-350	187	1,101
L&T Special Steel & Heavy Forgings	0	34	35	-83	-1,155	-1,582	-1,506	-1,484
L&T Ship Building	0	-22	-32	-24	-1,906	-5,883	-5,018	-2,894
Komatsu	95	330	305	25	73	116	93	74
Audco	355	160	165	305	398	386	444	918
EWAC	100	120	272	553	581	592	651	716
Divestire Gains (Diff)								
MTM Provision								
Other Subsidiaries	17	202	363	259	271	271	271	271
Total of all Subsidiaries	**4,091**	**11,160**	**9,911**	**6,325**	**6,026**	**1,882**	**6,134**	**8,505**

Source: MOSL, Company

L&T: Operating Matrix

	FY08	FY09	FY10	FY11	FY12	FY13	FY14E	FY15E	FY16E
Order Intake (INR b)	**420**	**516**	**696**	**798**	**706**	**880**	**891**	**956**	**1,086**
Domestic	361	450	661	718	579	731	641	716	798
Growth (%)	**44**	**25**	**47**	**9**	**-19**	**26**	**-12**	**12**	**11**
Overseas	60	66	35	80	127	150	250	240	288
Growth (%)	**8**	**11**	**-47**	**129**	**59**	**18**	**67**	**-4**	**20**
Order Book (INR b)	**527**	**703**	**1,002**	**1,302**	**1,457**	**1,536**	**1,766**	**1,980**	**2,236**
Growth (%)	**43**	**33**	**43**	**30**	**12**	**5**	**15**	**12**	**13**
Process	74	112	160	208	219	154	153	162	181
Oil & Gas	121	98	150	156	146	123	187	230	268
Power	84	155	301	417	408	430	469	556	663
Infrastructure	190	288	331	469	627	753	855	895	947
Others	58	49	60	52	58	77	101	137	176
BTB (x)	**2.1**	**2.1**	**2.7**	**3.0**	**2.7**	**2.5**	**2.7**	**2.7**	**2.7**
BTB (x) E&C	2.7	2.5	3.1	3.4	3.1	2.8	3.0	3.0	3.1
Gross Revenues (INR b)	**252**	**340**	**370**	**439**	**531**	**608**	**661**	**742**	**830**
Growth (%)	**41**	**35**	**9**	**19**	**21**	**15**	**9**	**12**	**12**
E&C	190	280	318	377	465	541	580	651	726
MIP	23	24	21	27	27	22	24	26	30
EBG	24	25	27	28	31	32	33	37	42
Others(including eliminations)	15	12	3	7	9	14	24	28	33
EBITDA (INR b)	**32**	**44**	**54**	**62**	**68**	**75**	**77**	**85**	**97**
E&C	24	36	43	52	59	62	68	72	78
MIP	4	5	5	6	5	4	3	3	4
EBG	4	3	4	5	4	4	4	5	5
Others(including eliminations)	0	0	1	0	0	5	1	6	10
EBITDA Margin (%)	**12.9**	**13.0**	**14.5**	**14.2**	**12.8**	**12.3**	**11.6**	**11.4**	**11.7**
E&C	12.8	12.9	13.6	13.6	12.7	11.5	11.8	11.0	10.8
MIP	18.9	20.1	22.1	21.2	19.5	16.3	12.0	10.0	12.0
EBG	17.0	13.2	15.7	16.7	12.7	13.6	13.5	12.5	12.5
Others(including eliminations)	-1.7	1.9	46.0	4.5	0.5	34.2	4.2	21.2	32.0
Standalone EPS*	23.2	30.7	34.3	37.2	44.3	44.9	45.0	49.6	59.1
Consolidated EPS	26.1	34.2	41.1	46.4	52.0	53.4	43.8	52.4	64.3
RoE (%) [Standalone]	22.0	21.7	17.4	16.6	18.0	16.2	14.5	14.4	14.8
RoE (%) [Consolidated]	22.6	21.8	22.3	17.3	16.5	14.5			
Working Capital (% of sales) - Adj for Subs Adv	7.1	9.3	5.5	6.7	12.0	14.9	19.4	19.9	17.5

Standalone EPS, excluding dividend and interest received from subsidiary companies

Source: Company, MOSL

Financials and valuation

Income statement (INR Billion)

Y/E March	2011	2012	2013	2014E	2015E	2016E
Revenues	**439.1**	**531.7**	**608.7**	**658.3**	**738.2**	**825.6**
Change (%)	18.6	21.1	14.5	8.1	12.1	11.8
Adj EBITDA	**56.3**	**64.6**	**66.8**	**69.7**	**76.3**	**88.2**
EBITDA Margin (%)	12.8	12.2	11.0	10.6	10.3	10.7
Depreciation	5.9	6.8	8.0	8.8	9.6	10.1
EBIT	**50.4**	**55.8**	**55.9**	**58.8**	**66.7**	**756.5**
Interest	6.2	6.7	9.8	11.5	11.0	11.0
Other Income	11.5	13.4	18.5	16.4	17.4	17.1
Extraordinary items	-3.3	-0.6	-2.5	0.0	0.0	0.0
PBT	**59.0**	**63.1**	**67.1**	**63.7**	**73.1**	**762.5**
Tax	19.4	18.5	18.0	18.2	20.8	24.0
Tax Rate (%)	32.9	29.4	26.8	28.5	28.5	3.1
Reported PAT	**39.6**	**44.6**	**49.1**	**45.6**	**52.3**	**738.5**
Adjusted PAT	**36.3**	**45.4**	**47.3**	**47.0**	**52.3**	**60.2**
Change (%)	13.8	25.2	4.3	-0.6	11.2	15.1
Cons PAT	44.6	46.9	52.1	39.0	48.4	59.6
Adj Cons PAT	**42.4**	**47.7**	**49.3**	**40.4**	**48.4**	**59.6**

Balance sheet (INR Billion)

Y/E March	2011	2012	2013	2014E	2015E	2016E
Share Capital	1.2	1.2	1.2	1.2	1.2	1.2
Reserves	217.2	251.0	290.2	323.1	361.3	405.3
Net Worth	**218.5**	**252.2**	**291.4**	**324.4**	**362.6**	**406.6**
Debt	71.6	99.0	88.3	120.0	120.0	120.0
Deferred Tax	2.6	1.3	2.4	2.0	2.0	2.0
Total Capital Employed	**292.7**	**352.5**	**382.2**	**446.3**	**484.6**	**528.6**
Gross Fixed Assets	89.5	105.5	119.8	131.3	142.3	162.3
Less: Acc Depreciation	23.0	29.5	36.8	45.6	55.1	65.3
Net Fixed Assets	**66.4**	**76.0**	**83.1**	**85.7**	**87.2**	**97.0**
Capital WIP	7.7	7.6	6.0	4.5	4.5	4.5
Investments	146.8	158.7	161.0	176.2	169.5	165.5
Current Assets	**350.1**	**434.0**	**471.7**	**523.4**	**601.7**	**695.6**
Inventory	15.8	17.8	20.6	23.0	24.0	26.8
Debtors	124.3	187.2	226.1	250.2	280.5	305.5
Cash & Bank	17.3	17.8	14.6	17.9	36.0	78.7
Loans & Adv, Others	192.8	211.3	210.4	232.3	261.2	284.6
Curr Liabs & Provns	**278.4**	**323.8**	**339.6**	**343.0**	**377.8**	**433.6**
Curr. Liabilities	255.9	299.9	315.9	318.6	351.6	404.8
Provisions	22.4	23.9	23.7	24.5	26.3	28.8
Net Current Assets	**71.7**	**110.2**	**132.1**	**180.4**	**223.9**	**262.0**
Total Assets	**292.7**	**352.5**	**382.2**	**446.8**	**485.0**	**529.0**

E: MOSL Estimates

Financials and valuation

Ratios

Y/E March	2011	2012	2013	2014E	2015E	2016E
Basic (INR)						
Adj Standalone EPS	**39.7**	**49.4**	**51.3**	**50.9**	**56.6**	**65.2**
Adj Consolidated EPS	46.4	52.0	53.4	43.8	52.4	64.5
Book Value	239.2	274.6	315.7	351.4	392.8	440.5
DPS	9.7	11.0	12.3	12.7	14.2	16.3
Payout (incl. Div. Tax.)	24.3	23.3	24.8	31.3	29.0	27.2
Valuation(x)						
P/E (Consolidated)			18.2	24.8	20.8	16.9
Cash P/E			15.6	18.2	15.5	12.9
Price / Book Value			3.1	2.8	2.5	2.2
EV/Sales			1.5	1.4	1.3	1.1
EV/EBITDA			13.6	15.4	13.9	11.7
Dividend Yield (%)			1.3	1.2	1.3	1.5
Profitability Ratios (%)						
RoE	19.7	18.9	18.1	14.8	15.2	18.0
RoCE	18.5	17.3	15.2	14.2	14.3	15.5
Cons ROE	18.4	17.1	15.5	-	-	-
Turnover Ratios (%)						
Asset Turnover (x)	1.6	1.6	1.7	1.6	1.6	1.6
Debtors (No. of Days)	103.3	128.5	135.6	138.7	138.7	135.1
Inventory (No. of Days)	13.1	12.2	12.4	12.8	11.9	11.9
Leverage Ratios (%)						
Net Debt/Equity (x)	-0.1	0.1	0.1	0.2	0.1	0.1

Cash flow statement (INR Billion)

Y/E March	2011	2012	2013	2014E	2015E	2016E
OP/(Loss) before Tax	55.7	63.1	67.1	63.7	73.1	84.2
Depreciation	6.0	7.0	8.2	8.8	9.6	10.1
Others	0.0	0.0	0.0	0.0	0.0	0.0
Interest	6.2	6.7	9.8	11.5	11.0	11.0
Direct Taxes Paid	19.4	18.5	18.0	18.2	20.8	24.0
(Inc)/Dec in Wkg Cap	-8.0	-33.3	-26.4	-36.7	-17.8	4.0
CF from Op. Activity	**43.8**	**25.0**	**40.7**	**29.1**	**55.1**	**85.3**
(Inc)/Dec in FA & CWIP	-16.4	-16.5	-13.6	-10.0	-11.0	-20.0
(Pur)/Sale of Invt	6.8	5.0	12.1	3.7	22.1	20.0
Others	-26.2	-21.5	-13.2	-27.0	-23.1	-15.4
CF from Inv. Activity	**-35.8**	**-33.1**	**-14.7**	**-33.3**	**-11.9**	**-15.4**
Inc/(Dec) in Net Worth	7.9	-1.0	3.4	0.0	0.0	0.0
Inc / (Dec) in Debt	3.6	27.3	-10.6	31.7	0.0	0.0
Interest Paid	6.2	6.7	9.8	11.5	11.0	11.0
Divd Paid (incl Tax)	9.0	10.0	11.1	12.2	12.6	14.1
CF from Fin. Activity	**-3.6**	**9.7**	**-28.1**	**7.9**	**-23.6**	**-25.1**
Inc/(Dec) in Cash	**4.3**	**1.6**	**-2.1**	**3.8**	**19.5**	**44.8**
Add: Opening Balance	14.3	17.3	17.8	14.6	17.9	36.0
Closing Balance	**18.6**	**18.9**	**15.7**	**18.3**	**37.4**	**80.8**

E: MOSL Estimates

MOTILAL OSWAL

THERMAX

9 December 2013

Update | Sector: Capital Goods

Thermax

BSE Sensex	S&P CNX
20,958	6,241

CMP: INR670 TP: INR850 Buy

Stock Info

Bloomberg	TMX IN
Equity Shares (m)	119.2
52-Week Range (INR)	695/526
1, 6, 12 Rel. Per (%)	8/4/3
M.Cap. (INR b)	79.8
M.Cap. (USD b)	1.3

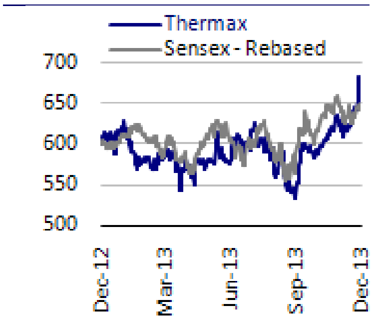
Financial Snapshot (INR b)

Y/E Mar	2014E	2015E	2016E
Net Sales	53.7	58.2	70.0
EBITDA	4.8	5.6	7.0
Adj PAT	3.0	3.5	4.7
EPS (INR)	25.2	29.5	39.4
EPS Gr. (%)	(6.6)	17.0	33.3
BV/Sh. (INR)	177.1	197.3	223.8
RoE (%)	15.3	16.1	19.0
RoCE (%)	12.8	14.2	17.2
Payout (%)	32.4	31.7	32.7
Valuations			
P/E (X)	26.5	22.7	17.0
P/BV (X)	3.8	3.4	3.0
EV/EBITDA (X)	15.5	13.0	10.2
Div Yield (%)	1.0	1.2	1.6

Shareholding pattern (%)

	Sep-13	Jun-13	Sep-12
Promoter	62.0	62.0	62.0
Dom. Inst	8.3	8.8	10.3
Foreign	15.5	14.6	13.7
Others	14.2	14.7	14.0

Stock Performance (1-year)



Multiple growth drivers

Internationalization I New Product Launches I O&M Business

Beneficiary of few structural trends

TMX is benefiting from few structural trends: (1) increased energy pricing (electricity prices up 15-20% over last 18 months) driving demand for energy efficiency products (2) Hunt for alternative energy and TMX derives ~30% of revenues from Green products (3) stringent government regulations and increased environmental concerns (4) currency depreciation is also leading to increased possibilities of exports (currently at 19% of revenues), etc.

Access to global markets - target 40% of revenues

Overseas revenues contributed 27% of the consolidated revenues in FY13, and we expect the share to increase to 40% by FY16E. Key drivers: (1) Many of TMX's technology tie-ups provide opportunities to access overseas markets (2) Danstoker and Rifox (FY13 revenues INR3.6b) are witnessing strong growth particularly in biomass, heat pumps, etc and Danstoker is fully booked for FY14 (3) TMX's successful execution track record for EPC projects also expands possibilities for more such contracts (4) Refinery capex in ME is an important driver (5) Initial forays into LATAM, Africa, Europe and ME and attempt is to scale-up (6) Service exports have increased from INR80-90m in FY11/12 to INR561m in FY13, driving growth (7) Fortified positioning in HRSG (8) TBW also expected to receive preference orders from international markets.

Overseas business to support growth, domestic business constrained

We expect TMX to report 4% revenue CAGR till FY15; and expect acceleration in FY16E (up 20% YoY). We understand that TMX is possibly an 'early' stage beneficiary of the possible uptick in the investment climate, particularly in the heating / WHR segment (25-28% of consolidated revenues). During FY13, exports order intake at INR11.5b was 24% of total intake and was up 46% YoY (revenues INR8.8b). Domestic business remains constrained; however large order finalizations including JSPL 1,320MW, Fertilizer projects, Hydrocarbon capex, Cement capacity expansion, etc are important drivers for TMX.

Valuation and View

We expect TMX to report earnings CAGR of 5% over FY13-15, and 33% in FY16E. We maintain **Buy**, with an 18-month price target of INR850 (20x FY16E at INR762/sh and INR86/sh in subsidiaries). Key concern has been the muted domestic order intake in 1HFY14 / 4QFY13 which declined to INR5-7b/qtr vs run-rate of INR10b. Constrained near term demand environment will impact execution, and could be an important overhang.

Capacity to manufacture 3GW of boilers

Thermax Babcock & Wilcox (TBW), 51% subsidiary of TMX, is in the process of commissioning the manufacturing facility for manufacture of utility boilers with an annual capacity of 3GW at Shirwal, 50kms from Pune in Maharashtra. The factory has provision for expansion to 5GW; and the initial project cost stands at INR8b with DER of 50:50. The facility has capacity to manufacture both Supercritical and Subcritical boilers (unlike L&T-MHI, where the technology license agreement is for supercritical sets).

TBW: Key Products being manufactured

Products	Range
Sub critical Boilers	300-950MW
Super critical Boilers	upto 1300MW
Low NOx Combustion	
Roll Wheel Pulverizers	15-104 TPH

Source: MOSL, Company

Reliance CFBC order / overseas projects to provide initial execution

- TMX management in a recent concall stated that manufacturing for the recent Reliance order of 9 CFBC boilers with a capacity of 500TPH each will be partly taken up at the new facility.
- Also, there are options of bagging orders from the overseas markets, as part of the global manufacturing network of Babcock and Wilcox. The TBW manufacturing plant is the only second plant globally (apart from China), and being a modern plant combined with the sharp currency depreciation, we believe that competitiveness for the Indian manufacturing has comparatively improved.
- In May 2011, Babcock & Wilcox signed a MOU with Toshiba to co-operatively explore strategic, manufacturing, research and other opportunities in advanced supercritical power generation and solar energy technologies around the world. The memorandum outlines a framework under which B&W PGG and Toshiba can pursue technical collaboration on next generation thermal and solar technologies and explore cooperation on project opportunities in Asia, India and other emerging markets.
- We expect the JV to continue to report losses in FY16, largely given under absorption of operating and financing costs. We expect losses to expand from INR303m in FY13 to INR1.1b in FY16E. Given the break-even utilization levels at ~1.2-1.8GW pa, the earnings swing to any order intake can be meaningful, and we would be watchful of the trends.

Access to global markets - target 40% of revenues

Overseas revenues contributed 27% of the consolidated revenues in FY13, and we expect the share to increase to 40% by FY16E. Key drivers: (1) Many of TMX's technology tie-ups provide opportunities to access overseas markets (2) Danstoker and Rifox (FY13 revenues INR3.6b) are witnessing strong growth particularly in biomass, heat pumps, etc and Danstoker is fully booked for FY14 (3) TMX's successful execution track record for EPC projects also expands possibilities for more such contracts (4) Refinery capex in ME is also an important driver (5) Initial forays into LATAM, Africa, Europe and ME and attempt is to scale-up (6) Service exports have increased from INR80-90m in FY11/12 to INR561m in FY13, driving growth (7) Fortified positioning in HRSG (8) TBW also expected to receive preference orders from international markets.

TMX: Overseas Revenues (% of Consolidated Revenues)

(INR m)	FY11	FY12	FY13	FY14E	FY15E	FY16E
Thermax Europe	308	353	435	609	822	863
Thermax USA	523	644	663	729	802	882
Thermax Zheziang	214	436	707	1,061	1,273	1,401
Danstoker	0	5,131	3,603	4,684	5,854	7,318
Exports	10,660	11,430	9,839	11,039	13,247	17,221
Total	**11,705**	**17,994**	**15,247**	**18,122**	**21,999**	**27,686**
Consolidated Revenues	53,921	61,698	55,656	55,131	59,805	71,728
Overseas Revenues (% of total)	**21.7**	**29.2**	**27.4**	**32.9**	**36.8**	**38.6**

Source: MOSL, Company

Maintain Buy, with revised price target of INR850 (20x FY16E)

We believe TMX would benefit from structural trends, which will enable it to make a transition to the 'Big League' in the next economic upturn. We expect acceleration in TMX's revenue growth in FY16E (up 20% YoY); we understand that TMX is possibly an ‘early’ stage beneficiary of the possible uptick in the investment climate, particularly in the heating / WHR segment (25-28% of consolidated revenues). We expect TMX to report earnings CAGR of 5% over FY13-15, and 33% in FY16E. We maintain **Buy**, with an 18-month price target of INR850 (20x FY16E at INR762/sh and INR86/sh in subsidiaries). Key concern has been the muted domestic order intake in 1HFY14 / 4QFY13 which declined to INR5-7b/qtr vs run-rate of INR10b. Constrained near term demand environment will impact execution, and could be an important overhang.

Thermax: Operating Martix

INR m	FY11	FY12	FY13	FY14E	FY15E	FY16E
Standalone Order intake	**53,180**	**40,300**	**48,580**	**51,657**	**50,998**	**60,645**
Energy	41,736	28,830	36,550	42,033	39,931	47,917
- Power EPC	15,300	5,169	15,020	7,500	10,000	12,285
- Energy Ex Power EPC	26,436	23,661	21,530	34,533	29,931	35,632
Environment	11,444	11,470	12,030	9,624	11,068	12,728
Order intake (% YoY)	**-8.3%**	**-24.2%**	**20.5%**	**6.3%**	**-1.3%**	**18.9%**
Energy	-10.0%	-30.9%	26.8%	15.0%	-5.0%	20.0%
- Power EPC	-28.5%	-66.2%	190.6%	-50.1%	33.3%	22.9%
- Energy Ex Power EPC	5.8%	-10.5%	-9.0%	60.4%	-13.3%	19.0%
Environment	-1.2%	0.2%	4.9%	-20.0%	15.0%	15.0%
Standalone Revenues	**50,235**	**54,360**	**47,693**	**45,917**	**48,288**	**57,332**
Energy	38,796	41,509	36,383	34,763	38,510	45,578
Environment	11,439	12,851	11,310	11,155	9,778	11,754
% YoY	**54.5%**	**8.2%**	**-12.3%**	**-3.7%**	**5.2%**	**18.7%**
Energy	60.9%	7.0%	-12.3%	-4.5%	10.8%	18.4%
Environment	35.9%	12.3%	-12.0%	-1.4%	-12.3%	20.2%
Standalone Revenues	**50,235**	**54,360**	**47,693**	**45,917**	**48,288**	**57,332**
Domestic (excl Power EPC)	25,350	29,073	29,202	24,358	25,226	30,153
Domestic (Power EPC)	14,225	13,857	8,652	10,520	9,815	9,957
Exports (Excl Deemed)	10,660	11,430	9,839	11,039	13,247	17,221
% YoY	**54.5%**	**8.2%**	**-12.3%**	**-3.7%**	**5.2%**	**18.7%**
Domestic (excl Power EPC)	25.9%	14.7%	0.4%	-16.6%	3.6%	19.5%
Domestic (Power EPC)	144.0%	-2.6%	-37.6%	21.6%	-6.7%	1.4%
Exports	62.5%	7.2%	-13.9%	12.2%	20.0%	30.0%
EBIT Margin (%)	**11.8**	**11.1**	**11.1**	**10.3**	**10.7**	**11.2**
Energy	10.0	10.7	10.4	10.0	10.5	11.5
Environment	12.6	12.4	10.5	10.0	10.3	11.0
EPS Composition (INR/Sh)						
Standalone	32.1	34.1	29.4	26.4	30.0	38.1
TMX-Babcock JV	0.0	-0.8	-1.3	-3.2	-4.7	-4.8
Other Subsidiaries	-0.1	0.5	-1.1	2.0	4.3	6.1
Consolidated	**32.0**	**33.9**	**27.0**	**25.2**	**29.5**	**39.4**
Balance Sheet Details - Standalone						
Net Working Capital (Days)	-11.9	6.6	18.5	30.1	27.6	13.0
NWC, excl Customer Advances (Days)	60.5	55.6	69.8	84.3	83.5	72.1
Net Cash / (Debt) INR M	6,910	6,050	6,206	7,717	10,493	15,027
RoE (%) Consolidated	31.9	27.4	18.4	15.3	16.1	19.0

Source: Company, MOSL

Financials and valuation

Income statement (INR Million)

Y/E March	2011	2012	2013	2014E	2015E	2016E
Total Revenues	**52,472**	**60,313**	**54,331**	**53,687**	**58,231**	**70,012**
Change (%)	60.3	14.9	-9.9	-1.2	8.5	20.2
Raw Materials	34,803	38,435	33,157	31,010	34,398	41,221
Staff Cost	4,547	5,578	6,122	6,375	7,153	7,935
Other Expenses	8,266	10,795	10,720	12,245	11,916	14,718
EBITDA	**5,669**	**5,919**	**4,999**	**4,783**	**5,562**	**7,017**
% of Total Revenues	10.8	9.8	9.2	8.9	9.6	10.0
Depreciation	541	663	771	1,057	1,269	1,302
Other Income	652	830	769	763	921	1,121
Interest	45	122	165	350	510	500
PBT	**5,736**	**5,964**	**4,832**	**4,139**	**4,703**	**6,336**
Tax	1,965	2,043	1,773	1,494	1,720	2,195
Rate (%)	34.3	34.3	36.7	36.1	36.6	34.6
Adjusted PAT	**3,818**	**4,034**	**3,219**	**3,008**	**3,520**	**4,691**
EO Income (net)	0	0	0	0	0	0
Reported PAT	**3,818**	**4,034**	**3,219**	**3,008**	**3,520**	**4,691**
Change (%)	169.0	5.7	-20.2	-6.6	17.0	33.3

Balance sheet (INR Million)

Y/E March	2011	2012	2013	2014E	2015E	2016E
Share Capital	238	238	238	238	238	238
Reserves	12,911	16,055	18,449	20,481	22,886	26,043
Net Worth	**13,448**	**16,671**	**19,070**	**21,102**	**23,507**	**26,665**
Loans	1,480	2,704	4,210	4,210	4,210	4,210
Deferred Tax Liability	299	378	383	383	383	383
Capital Employed	**15,448**	**20,491**	**24,382**	**26,051**	**27,919**	**30,526**
Gross Fixed Assets	10,678	11,929	12,962	18,737	19,737	21,237
Less: Depreciation	2,825	3,488	4,236	5,293	6,562	7,864
Net Fixed Assets	**7,853**	**8,441**	**8,726**	**13,444**	**13,175**	**13,373**
Capital WIP	354	2,466	5,175	400	400	400
Investments	2,415	2,395	4,430	4,430	4,430	4,430
Curr. Assets	**30,370**	**33,427**	**31,319**	**33,610**	**37,318**	**44,023**
Inventory	3,657	3,666	3,240	3,221	3,494	4,201
Debtors	10,209	13,707	15,468	15,032	16,305	19,603
Cash & Bank Balance	6,880	6,983	3,211	5,496	7,068	8,236
Loans & Advances	4,015	3,560	4,125	4,492	4,628	5,682
Other Assets	5,610	5,512	5,276	5,369	5,823	6,301
Current Liab. & Prov.						
Creditors	8,928	9,690	9,723	9,664	10,482	12,602
Other Liabilities	3,264	5,495	5,404	5,373	5,782	6,842
Provisions	2,782	2,721	2,812	2,779	3,013	3,620
Net Current Assets	**4,825**	**7,190**	**6,051**	**7,777**	**9,914**	**12,323**
Application of Funds	**15,448**	**20,491**	**24,382**	**26,051**	**27,919**	**30,526**

E: MOSL Estimates

Financials and valuation

Ratios

Y/E March	2011	2012	2013	2014E	2015E	2016E
Basic (INR)						
EPS	**32.0**	**33.9**	**27.0**	**25.2**	**29.5**	**39.4**
Cash EPS	36.6	39.4	33.5	34.1	40.2	50.3
Book Value	112.9	139.9	160.0	177.1	197.3	223.8
DPS	9.0	7.0	7.0	7.0	8.0	11.0
Payout (incl. Div. Tax.)	32.6	24.0	30.3	32.4	31.7	32.7
Valuation (x)						
P/E			20.2	26.9	23.0	17.3
Cash P/E			16.3	19.9	16.9	13.5
EV/EBITDA			12.3	15.7	13.3	10.3
EV/Sales			1.1	1.4	1.3	1.0
Price/Book Value			3.4	3.8	3.4	3.0
Dividend Yield (%)			1.3	1.0	1.2	1.6
Profitability Ratios (%)						
RoE	31.9	27.4	18.4	15.3	16.1	19.0
RoCE	29.0	22.9	14.8	12.8	14.2	17.2
Turnover Ratios						
Debtors (Days)	71	83	104	102	102	102
Inventory (Days)	25	22	22	22	22	22
Creditors. (Days)	62	59	65	66	66	66
Asset Turnover (x)	3.4	2.9	2.2	2.1	2.1	2.3
Leverage Ratio						
Debt/Equity (x)	0.1	0.2	0.2	0.2	0.2	0.2

Cash flow statement (INR Million)

Y/E March	2011	2012	2013	2014E	2015E	2016E
PBT before EO Items	**5,736**	**5,964**	**4,832**	**4,139**	**4,703**	**6,336**
Add : Depreciation	541	663	771	1,057	1,269	1,302
Interest	45	122	165	350	510	500
Less : Direct Taxes Paid	1,965	2,043	1,773	1,494	1,720	2,195
(Inc)/Dec in WC	(3,329)	(2,262)	(2,633)	559	(565)	(1,241)
CF from Operations	**1,028**	**2,442**	**1,362**	**4,611**	**4,197**	**4,701**
EO Income	0	0	0	0	0	0
CF from Oper. Incl. EO Items	**1,028**	**2,442**	**1,362**	**4,611**	**4,197**	**4,701**
(Inc)/Dec in FA	(3,265)	(3,361)	(3,765)	(1,000)	(1,000)	(1,500)
(Pur)/Sale of Investments	1,289	20	(2,035)	0	0	0
CF from Investments	**-1,976**	**-3,342**	**-5,800**	**-1,000**	**-1,000**	(1,500)
(Inc)/Dec in Net Worth	1,017	868	295	(128)	89	87
(Inc)/Dec in Debt	1,401	1,224	1,506	0	0	0
Less : Interest Paid	45	122	165	350	510	500
Dividend Paid	695	1,246	976	976	1,115	1,533
CF from Fin. Activity	**1,678**	**724**	**660**	**(1,454)**	**(1,536)**	**(1,947)**
Inc/Dec of Cash	**729**	**(175)**	**(3,778)**	**2,157**	**1,661**	**1,254**
Add: Beginning Balance	6,702	6,880	6,983	3,211	5,496	7,068
Closing Balance	**6,880**	**6,982**	**3,211**	**5,496**	**7,068**	**8,235**

E: MOSL Estimates

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