Prabhudas Lilladher

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India Strategy & Top Ideas

Need for the Real economy to keep pace with Exuberant headline indices

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(Prices as on November 8, 2013)

Oct 2013 - Fourth successive monthly contraction in services, deteriorating manufacturing conditions for third successive month & Core sector growth at eleven-month high

- **Services PMI** rose from September's four-and-a-half year low of 44.6 to 47.1 in Oct 13. However, the latest reading indicated fourth successive monthly contraction of service sector output, with business activity falling in 5 out of 6 service sectors surveyed. New business placed at private sector firms has dropped for the fourth consecutive month. The survey indicated that worsening client confidence, economic instability, competitive pressures and Cyclone Phailin has all contributed to the latest drop in new work. There was little change in payroll numbers in Oct.
- **Manufacturing PMI** for Oct 13 remained unchanged from last month's level of 49.6, indicating third (though marginal) successive deterioration in business conditions. The survey indicated lowering of production volumes due to a sustained reduction in order books and incoming new work falling at a faster rate due to weaker demand and impact of Cyclone Phailin. Export demand, on the back of weaker currency, rose for the first time in three months. Overall rate of employment in the manufacturing sector was marginal as gains in consumer goods sector were offset by losses in intermediate and capital goods sector. The month was also marked by rise in inventory levels and persisting inflationary pressures with input price inflation rising to a 16-month high and selling prices rising at the fastest pace since Feb 13. Weaker rupee has led to rise in input costs which were partially passed on by the manufacturers.
- Growth in eight **core infrastructure industries** that constitutes 37.9% of IIP rose to an eleven-month high at 8% YoY in Sept 13, sharply higher than 3.7% YoY notched up in Aug 13 but lower than 8.3% YoY recorded in Sept 12. On a YoY basis, natural gas with weight of 1.71% was the only sector that de-grew at -14.1% YoY. All the other sectors posted positive YoY growth. The growth rates on YoT basis for other sectors is as follows: Electricity (weight 10.32%) 12.6%, Coal (weight 4.38%) 12.5%, Cement (weight 2.41%) 11.5%, Petroleum refinery (weight 5.94%) 8%, Steel (weight 6.68%) 6.6%, Fertilizers (weight 1.25%) 5.5% and Crude oil (weight 5.22%) 0.6%. The cumulative growth rate in April-Sept 13 marks a slowdown of 3.2% vis-à-vis 6.6% YoY and 4.4% for FY13. **In the 12 months since Sept12- Aug 13, although the core sector has grown in 11 months, IIP has grown only in 7 months.**

Sept 13 - Rise in WPI at fastest pace since Feb 13 and continued upward march in CPI & food elevation, both of which remain elevated and hover in & around double digits

- WPI inflation in Sept 13 accelerated to a seven-month high at 6.46% as compared to 6.10% in Aug 13 and 8.07% in Sept 12. **WPI continues to remain beyond RBI's comfort zone of 5% for the last three months.** The rise in Sept 13 was due to a surge in inflation in non-food articles and minerals within primary article basket. Build-up of WPI in April-Sept 13 is at 5.64% vis-à-vis 4.84% in the same period last financial year. Non-food manufacturing (Core) inflation accelerated to 2.06% in Sept 13 from 1.97% in Aug 13.
- CPI for Sept 13 accelerated to 9.84% versus 9.52% in Aug 13 due to elevated prices of vegetables (34.93%), cereals (12.77%) and eggs/fish/meat (11.9%). Overall food inflation (constituting around 50% of CPI) stands at unacceptably high 11.44%.
- **RBI is hopeful that the good monsoon should have a salutary effect on food inflation but cautions that second-round effects from already high food and fuel inflation could impart upside pressures on prices of other commodities and services.**
- The recent upturn in inflation and inflationary expectations remains elevated due to anticipated pass-through of Rupee depreciation & ongoing adjustment in fuel prices. RBI has resolved that it will do all it takes to break the spiralling rising prices to strengthen the foundations of sustainable medium-term growth. It has also expressed concern at flight of savings from financial assets to physical assets like gold due to disincentive to save as a result of negative real rates of return to depositors. The necessity to offer depositors positive real rates of return (i.e. nominal deposit rates minus the consumer inflation to be positive) is the only sustainable path to increase financial savings. The process faces a particularly daunting challenge in the wake of sticky near double-digit consumer inflation. We believe unless consumer inflation cools off post-harvest over the next month or so, RBI will have to further tighten its monetary stance.

Q2FY14 trade deficit narrows due to plunge in gold imports & double-digit growth in exports. CAD expected to mirror the trend

- Monthly trade deficit in Sept 13 fell to a two-and-a-half year low of US$6.7bn due to the continuance of double-digit growth in exports for the third consecutive month and sharp contraction in imports, mainly gold imports. Merchandise exports grew by 11.15% to US$27.68bn, while imports fell 18.1% to US$34.4bn. Imports of gold & silver in Sept 13 fell 82% YoY to US$800m, while oil imports fell 5.94% YoY to US$13.2bn. For the period April-Sept 13, exports have grown by 5.1% YoY to US$152.1bn, while imports have fallen by 1.8% to US$232.2bn, resulting in cumulative trade deficit of US$80.1bn vis-à-vis US$91.7bn in the same period last year.

$ bn	April 13	May13	June13	July13	August13	September 13
Gold & silver imports	7.5	8.4	4.47	2.97	0.65	0.80
Trade deficit	18.29	20.71	12.25	12.26	10.91	6.7

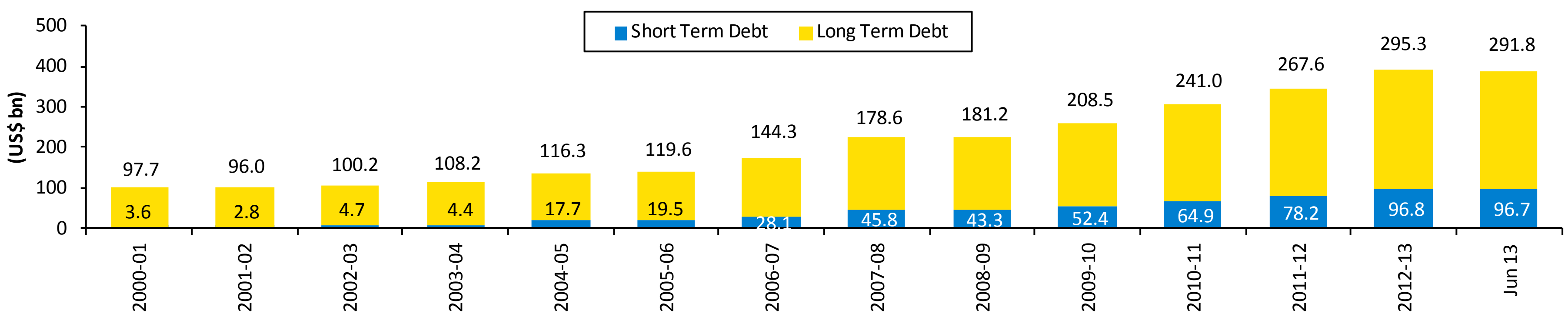
Source: RBI, PL Research

- Although India's CAD widened from 3.6% of GDP (US$18.1bn) in Q4FY13 to 4.9% in Q1FY14 (US$21.8bn), a sharp fall in trade deficit in Q2FY14 to US$29.87bn from US$50.5bn in Q1FY14 is likely to reflect in a similar sharp moderation in CAD.

- According to RBI, although external risks have somewhat lowered, it is important to build on the recent CAD improvement through further structural adjustments. It has urged to focus on encouraging stable long-term capital flows and to exercise caution with regards to private external debt that has been rising in recent years.

- Since 2000-01, India's external debt grew 69.2% CAGR to US$389bn till end-June 2013. The quantum of short-term debt (residual maturity of up to one year) has risen over the period, with its share moving up from 3.6% to 24.9% of the total debt.

External debt break-up between ST and LT



Source: RBI, PL Research

Grim Fiscal situation in H1FY14: How to rev-up revenues and control subsidies in a slowing economy and on the verge of looming polls?

- **India's fiscal deficit for April-Sept 13 stands at Rs4.12lakh crores (or Rs4.12trn) or almost 76% of FY14's budgeted target vis-à-vis 65.6% of the budget estimate in April-Sept 12.** The government has projected a fiscal deficit of Rs5.42lakh crores for FY14 or 4.8% of GDP as against 4.9% achieved in FY13.

- Fiscal situation continues to look exceedingly grim with slowing economic growth impacting tax collections (especially indirect taxes) which continue to lag massively behind the budgeted assumptions. As the table above clearly indicates Net tax revenues are up only 4.69% vis-à-vis 19.1% increase budgeted for the full year. A yawning gap has opened up in H1FY14 indirect tax collections like Union Excise (-8.15%), Customs (5.69%) and Service tax (16.29%) vis-à-vis the full year growth estimates of 14.9%, 13.6% and 35.8%, respectively. Even in case of corporation tax as against 16.9% estimated increase, H1FY14 has only risen by 7.53%.

Apr-Sep'13 – Trends in Tax Receipts

No.	Figures in Rs lakhs crores or Rs Trillion	Apr-Sep'13	Apr-Sep'12	*% Chng.*	*Budgeted rise for FY14 (%)*
1=2-3-4	**Net tax receipts**	**3.08**	**2.94**	***4.69***	***19.1***
2=a to f	Gross tax receipts	4.58	4.25	*7.83*	*19.1*
A	Corporation tax	1.54	1.43	*7.53*	*16.9*
B	Income tax	0.98	0.83	*18.37*	*20.2*
C	Customs tax	0.83	0.79	*5.69*	*13.6*
D	Excise tax	0.62	0.67	*-8.15*	*14.9*
E	Service tax	0.57	0.49	*16.29*	*35.8*
F	Other taxes	0.046	0.043	*8.54*	
3	Surcharge for financing NCCF	0.019	0.017	*10.77*	
4	Assignment to States	1.49	1.29	*14.93*	

Source: Controller General of Accounts – Ministry of Finance, PL Research

Apr-Sep'13 – Trends in Disinvestment, Sale of Minority Stakes and Telecom Auction Proceeds

No.	Rs bn	Target for FY14	Achieved till Sep 13
1	Disinvestment	400.00	14.79
2	Sale of shares in non-government companies or SUUTI	158.14	0
3	Telecom proceeds from spectrum auction	200.00	0
	Total	**758.14**	**14.79**

Source: Controller General of Accounts – Ministry of Finance, PL Research

- Proceeds from disinvestment in H1FY14 at Rs14.79bn are woefully short of the full year estimates of Rs400bn. Similarly, there has been absolutely no mop-up in H1FY14 through sale of minority stakes in non-government companies like Hindustan Zinc and BALCO as well as sale of shares held by SUUTI vis-à-vis a full year budgeted estimate of Rs158.14bn.

- The inter-ministerial Telecom Commission (TC) has recommended 25% increase in the reserve price for 900 MHz spectrum in Delhi, Mumbai and Kolkata circles, 25% increase for 1800 MHz spectrum price in 8 circles including Delhi, Mumbai, Kolkata and 5 key 'A' circles of AP, Gujarat, Maharashtra, Karnataka and TN. For the other 14 circles, the reserve price set by TRAI mostly in line with what market operators paid in Nov 12 auction has been accepted as the base price. TC has also recommended auction of the 800 MHz spectrum rejecting TRAI recommendation that an extended GSM band (EGSM) be created and asked it to come up with a reserve price. Once EGoM clears TC's recommendations it is hoped that an auction would be held in Jan 14 that would help raise Rs110bn. This would still fall short of Rs200bn assumed in the budget from telecom spectrum auction proceeds.

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Apr-Sep'13 – Trends in Non-plan Expenditure in Fertiliser, Food & Petroleum Departments

- The non-plan expenditure in fertiliser, food and petroleum departments in H1FY14 have already reached 69%, 76% and 83% of the FY14's budgeted estimates.
- Fuel under-recoveries for OMCs in H1FY14 are Rs609.07bn. Upstream oil companies like ONGC and OIL have been forced to bear 52.6% of under-recoveries at Rs320.34bn with the government releasing cash subsidy of Rs257.72bn (42.3%) leaving the already-bleeding OMCs to shoulder losses of Rs31.01bn (5.1%).
- In view of the impending Assembly polls in four crucial states of Rajasthan, MP, Chhattisgarh and Delhi, it looks increasingly unlikely that policy makers would administer a one-time hefty price hike in diesel, kerosene and LPG prices to slash under-recoveries and announce a fixed subsidy per litre of diesel & kerosene and per cylinder of LPG that we have been strenuously advocating (Refer- Our Strategy report ***Indian Markets – Bracing for a likely Fiscal Wobble?*** dated ***September 5, 2013***). The Kirit Parekh panel late last month made similar recommendations but even its Chairman has expressed apprehensions whether the recommendations on pricing would be accepted in the current political milieu. The result is a glacial pace of increase in monthly diesel prices by Rs0.50/litre with no changes in kerosene and LPG prices.
- OMCs continue to face daily under-recoveries of Rs4.20bn on sale of these three products with current under-recoveries running at Rs9.28/litre for diesel, Rs35.77/litre for kerosene and Rs482.41/cylinder for LPG.

Apr-Sep'13 - Non-plan Expenditure in Fertiliser, Food & Petroleum Dept.

No.	Rs bn	FY13	FY14-BE	*Est. YoY % Chnge.*	Actual Apr-Sept'13	*Apr-Sep'13 as % of BE FY14*
1	Dept. of Fertilizer	660	660	*0.0%*	457	*69.2%*
2	Dept. of Food & PDS	850	908	*6.8%*	688	*75.8%*
3	Ministry of Petroluem & Natural Gas	969	651	*-32.8%*	543	*83.3%*
	Total	**2,479**	**2,219**	***-10.5%***	**1,688**	***76.0%***

Source: Controller General of Accounts – Ministry of Finance, PL Research

Sharing of Under-recoveries

(Rs bn)	Under-recoveries	Upstream contribution	% of UR	Cash Subsidy	% of UR	OMC burden	% of UR
1QFY14	255.8	153.0	59.8%	80.0	31.3%	22.8	8.9%
2QFY14	353.3	167.3	47.4%	177.7	50.3%	8.3	2.3%
1HFY14	6.1	3.2	52.6%	2.6	42.3%	0.3	5.1%

Source: PL Research

RBI flags off need to raise diesel prices & inadequacy of food subsidy provision. Worrying trends in Primary & Revenue Deficit

- RBI in its Macroeconomic & Monetary Developments Second Quarter Review 2013-14 dated October 28, 2013 has urged the government to raise diesel prices to cut under-recoveries. It warns that 'given the spill over from previous year's under-recovery compensation, fuel subsidies could significantly overshoot budgetary provisions'. On food subsidy, RBI warns that 'the overall food subsidy provision of Rs900bn for the current year may not be adequate to meet the requirements of the existing targeted public distribution system. In subsequent years, implementation of the NFS Act could lead to increase in the food subsidies depending on how it is rolled out and how other food-related schemes are merged with it'. We have been flagging-off these issues for the last few months (Refer- Our India Strategy Report ***Indian fiscal train: Lurching towards a treacherous terrain - Fears of marked deterioration in quality of fiscal consolidation*** dated ***October 8, 2013***).

- **Quality of fiscal consolidation needs to be strictly monitored as Revenue deficit in H1FY14 has reached 84.8% of FY14's estimate vis-à-vis 75.1% in the same period last year. The trends in Primary deficit (fiscal deficit minus interest payments) at 146.7% of the full year's estimates are equally worrisome vis-à-vis 106.1% same period last year. Primary deficit is the most basic measure of fiscal irresponsibility.**

- As per RBI's latest monetary policy, it is expecting a modest improvement in growth in H2FY14. RBI's recent survey of professional forecasters has scaled down the median GDP growth to 4.8% from 5.7% in the previous round. It is lower than 5% GDP growth in FY13. The survey also scaled up the expectation for average WPI from 5.3% to 6%, improvement in CAD from 4.4% to 3.5% and a moderate slippage in fiscal deficit from 4.8% to 5.0%.

Tapering deferral, RBI's concessional swap window stabilize Rupee. Impact on Rupee of moving Dollar demand for Oil to market to be closely monitored

- Some calm has been restored to the foreign exchange market primarily due to deferral of start of tapering of US$85bn in monthly bond purchases by the US Fed by a few more months leading to surge in risk-on trade and a gush of FII inflows in emerging markets like India. Overseas investors pumped in more than Rs157bn (US$2.55bn) in the Indian equity market in October 2013. Total foreign investment in the stock market has reached Rs907bn (US$16.5bn) so far in CY2013. This is the second consecutive month of inflows. FIIs had invested a net Rs130bn in stocks in September, following three straight months of net FII equity outflows amounting to Rs230bn. **However, FIIs pulled out Rs135.78bn (US$2.21bn) from debt securities in October.** This takes the net outflow from the debt market to Rs512.12bn since the beginning of the year. FIIs have helped push up the benchmark S&P BSE Sensex by about 1,785 points, or 9.2%, during the month to settle at 21,164.52 points on Oct 31.

- RBI's announcement of special concessional window to swap FCNR (B) deposits at a fixed rate of 3.5% per year for the tenure of the deposits with minimum maturity of three years and allowing banks to borrow overseas up to 100% of their Tier-1 equity capital has led to inflows of US$15.1bn till date. The scheme announced in September will remain valid till November 30, 2013.

- As a result of receding fears of tapering and large forex inflows, Rupee that had plunged to Rs68.85/$ in late August has clawed back to around Rs62/$ levels. However, it must be kept in mind that in late August, RBI had opened a special window to provide dollars directly to oil importers in a bid to reduce selling pressure on Rupee. Under the swap window, oil companies were buying dollars through forward contracts from RBI (reportedly a 3-month swap) at market determined rates with a promise to pay back those dollars to RBI. Oil imports at roughly US$300-350m per day form the largest component of India's total imports. RBI has said that it will slowly move the dollar demand for oil imports to the markets and according to Economic Affairs Secretary, Dr. Arvind Mayaram, oil companies have already started buying 30-40% of their demand from the market. The impact on Rupee needs to be closely monitored when eventually the entire demand comes back to market.

Choking of Gold Imports & Saudi's Nitaqat policy - Impact on Remittances?, Flurry of hopes from Winter Session

- **Need to monitor impact on NRI remittances due to throttling of gold imports through legit channels?:** The other factor one needs to watch is the impact on remittances as a result of throttling of gold imports by the RBI through imposition of severe restrictions and increase in import duty by the government to 10%. Many gold trade associations are sounding ominous warnings that this would encourage gold smuggling, hawala trading and hoarding in gold besides leading to artificial price rise in domestic market. Many NRIs, the associations feel, might be tempted to route their remittances through unauthorized channels, resulting in diversion of NRI remittances from government coffers and loss of import duty that the government should have received through legitimate imports. Remittances in FY13 and Q1FY14 were US$64.4 and US$16.7bn, respectively.

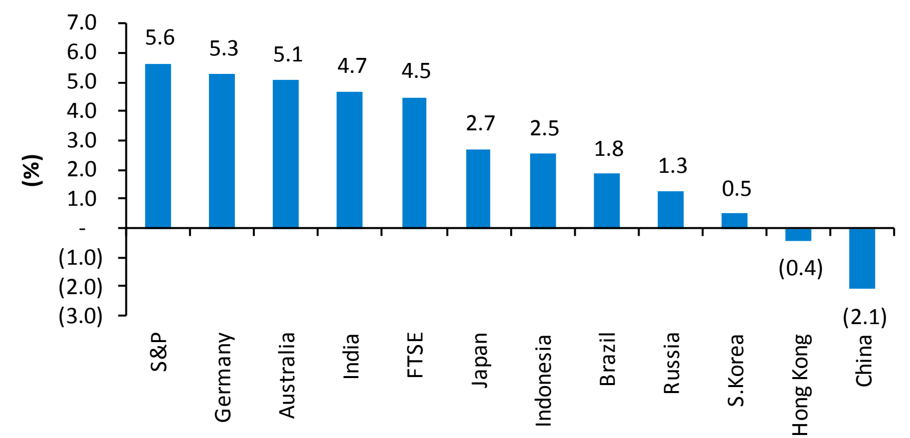
- **What impact will Saudi Arabia's Nitaqat policy have on NRI remittances?:** As part of its policy to improve job avenues for its nationals the Saudi Arabian government has started implementing a new law Nitaqat (classification) that will reserve 10% of jobs for Saudi nationals with the law being applicable to even menial jobs in small and medium businesses. It is reported that 6.5m non-Saudis are working in the private sector as compared to 700000 Saudis. Saudi Arabia has launched a strict inspection campaign to target illegal foreign workers after a seven month grace period ended on November 3, 2013. According to Mr. V. Ravi (Minister for Overseas Indian Affairs), of the estimated 2.8m Indian workers, 134000 have already come back. One would need to watch the impact of this policy on NRI remittances and whether other Gulf States would emulate this policy.

- **Winter Session - Will it sound the bugle for heralding new legislative reforms or lost in the usual cacophony of toxic political discourse?:** Several key reform initiatives expected by the markets to stimulate investments and kick-start growth like passage of GST bill, dismantling of monopoly of Coal India & allowing commercial miners to bridge the yawning gap between domestic consumption and production, more private initiatives in the slothful Indian Railways, DTC and Increase in FDI cap in Insurance sector are unlikely to see the light of the day due to toxic political discourse. A busy political calendar with four crucial States of Delhi, Madhya Pradesh, Rajasthan & Chhattisgarh are slated to go to polls around in Nov-Dec 2013 followed by national polls in May 2014 may constrain the government from carrying out some politically unpopular but economically necessary reforms. In all the four states going for polls, the Ruling Party is pitted against the Principal Opposition Party.

Global Equity Market Performance

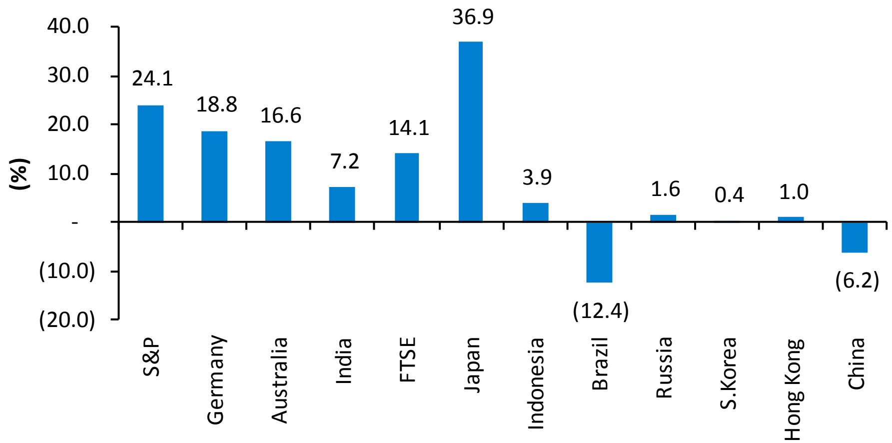
- **MoM:** Receding of fears of tapering by the US Fed leads to a sharp rally in Global Equities with India being one of the prime beneficiaries of massive FII equity inflows
- **YoY:** Developed markets like Japan, US, Germany, Australia and UK lead outperformance due to continuance of easy monetary policy, subdued inflation and gathering economic strength

Month-on-Month



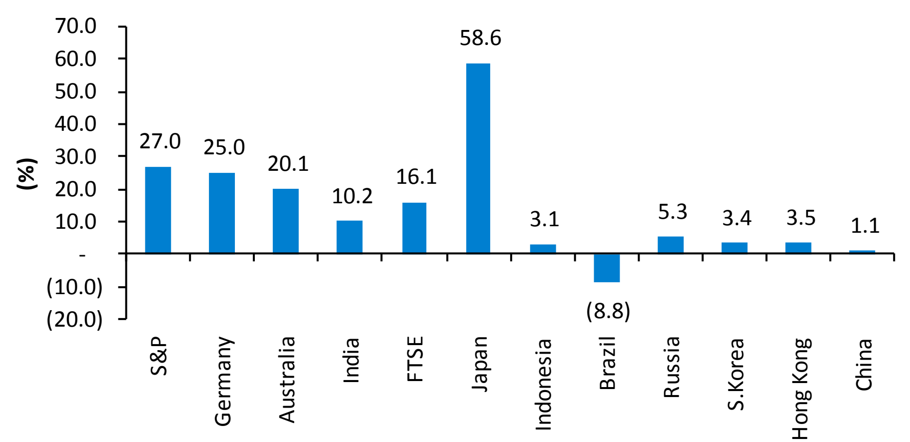
Source: Bloomberg, PL Research

Calendar Year-to-date



Source: Bloomberg, PL Research

Year-on-Year

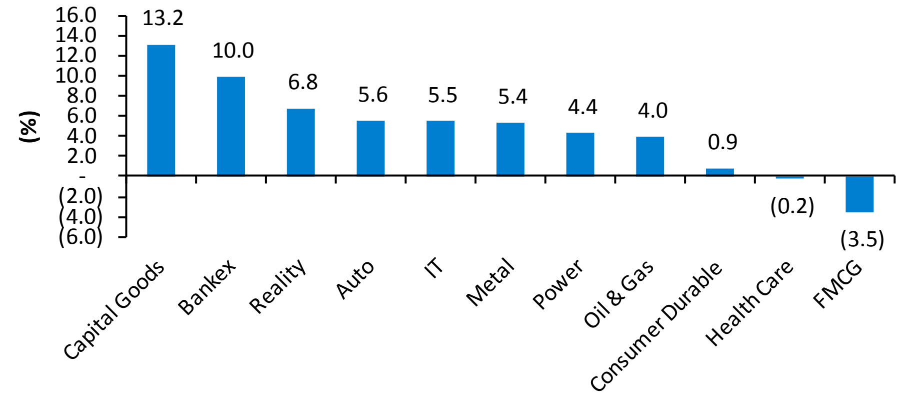


Source: Bloomberg, PL Research

Indian Equities – Sector Performance

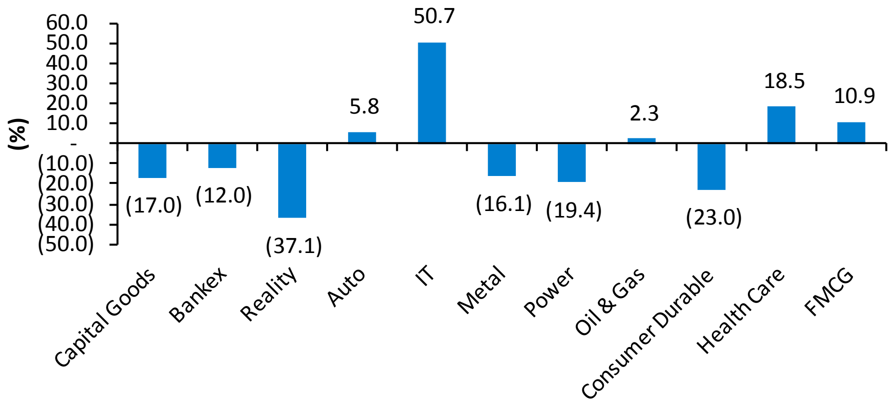
- **MoM:** Cyclical & Interest rate sensitive sectors like Capital Goods, Banks, Real Estate, Auto & Metals stage strong re-bound on the hopes of cyclical turnaround, relief in liquidity by RBI, hopes of cooling off of food & consumer inflation after bountiful monsoons and hopes of turnaround in investment cycle due to large approvals granted by CCI
- **YoY:** Defensive sectors like IT, Healthcare & FMCG outperform

Month-on-Month



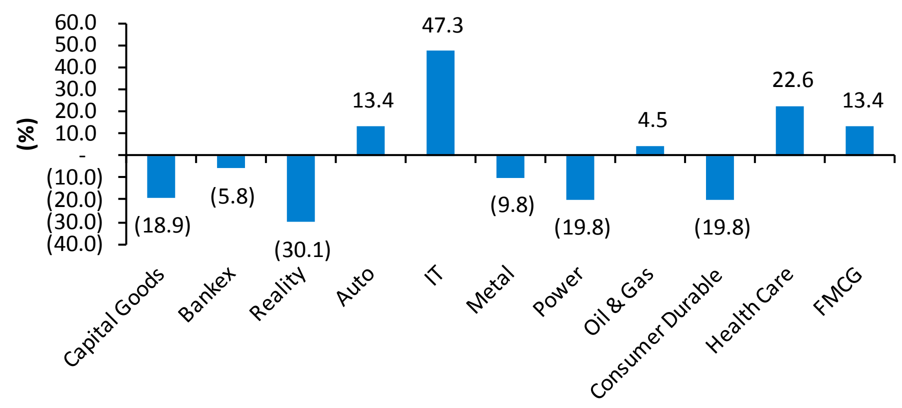
Source: Bloomberg, PL Research

Calendar Year-to-date



Source: Bloomberg, PL Research

Year-on-Year

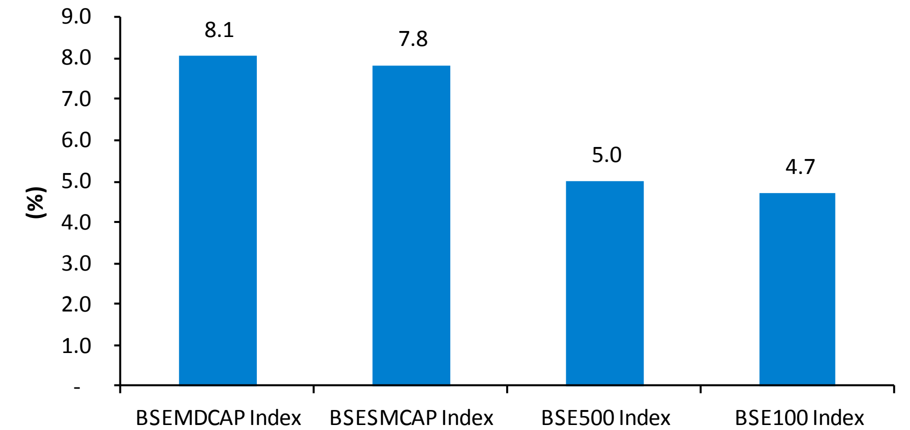


Source: Bloomberg, PL Research

India: Market cap-wise Performance

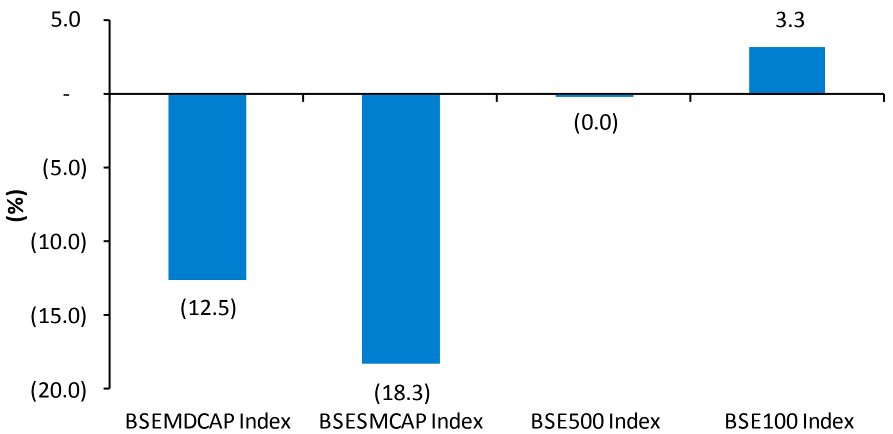
- **MoM:** Smart improvement in the breadth of the rally leads to Mid & Small Caps outperforming Large Caps.
- **YoY:** Large Caps yield a mid-single digit positive returns whereas Mid & Small Caps see an erosion.

Month-on-Month



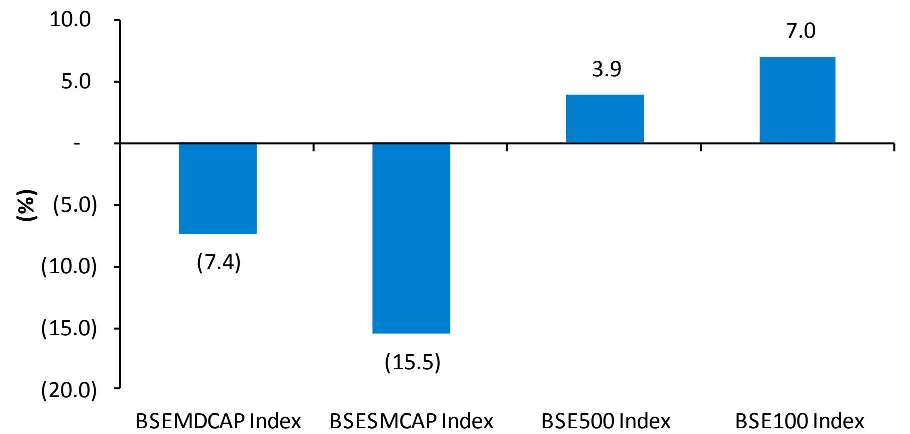
Source: Bloomberg, PL Research

Calendar Year-to-date



Source: Bloomberg, PL Research

Year-on-Year

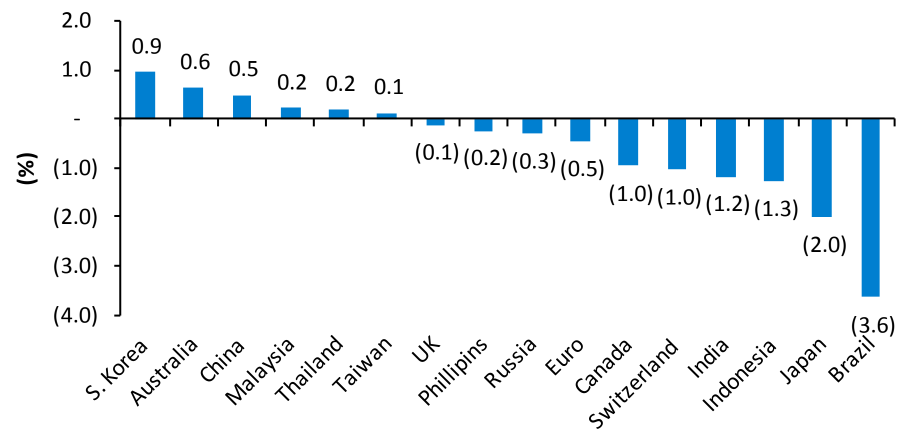


Source: Bloomberg, PL Research

Global Currency Movement

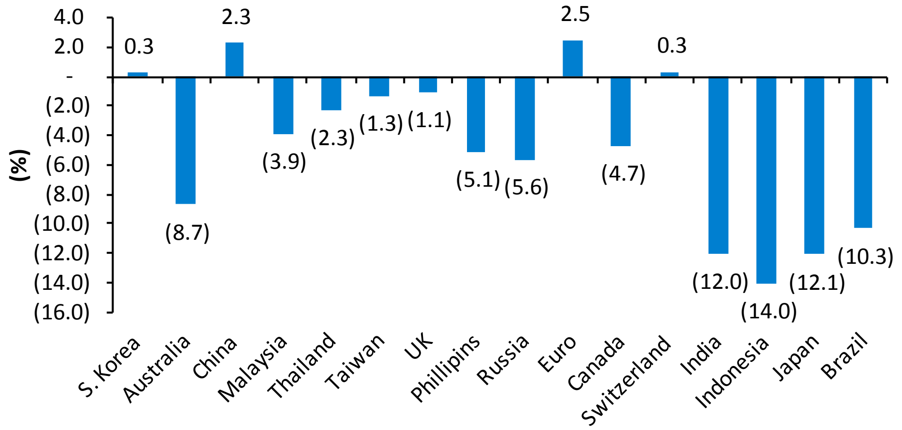
- **MoM:** After severe bouts of volatility in the previous few months, October saw a relative calm return to the currency markets.
- **CYTD & YoY:** CAD – Challenged countries like India, Brazil and Indonesia saw sharp plunge in their currencies. Adoption of ultra-loose Monetary policy leads to weakening of Japanese Yen.

Month-on-Month



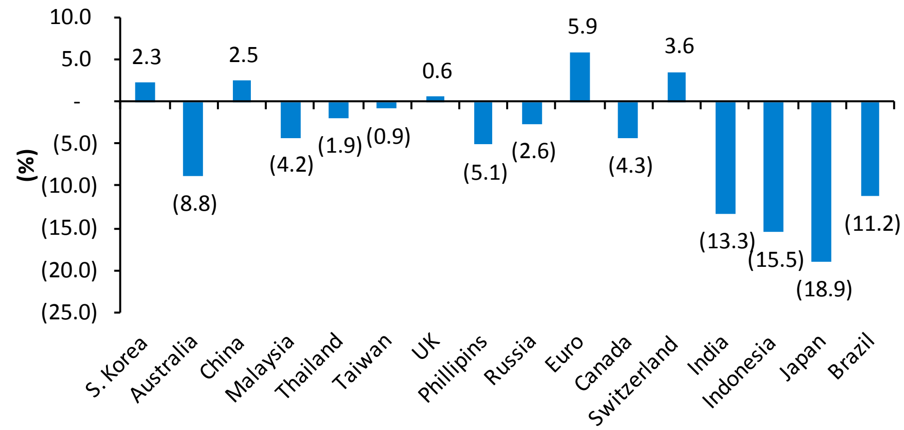
Source: Bloomberg, PL Research

Calendar Year-to-date



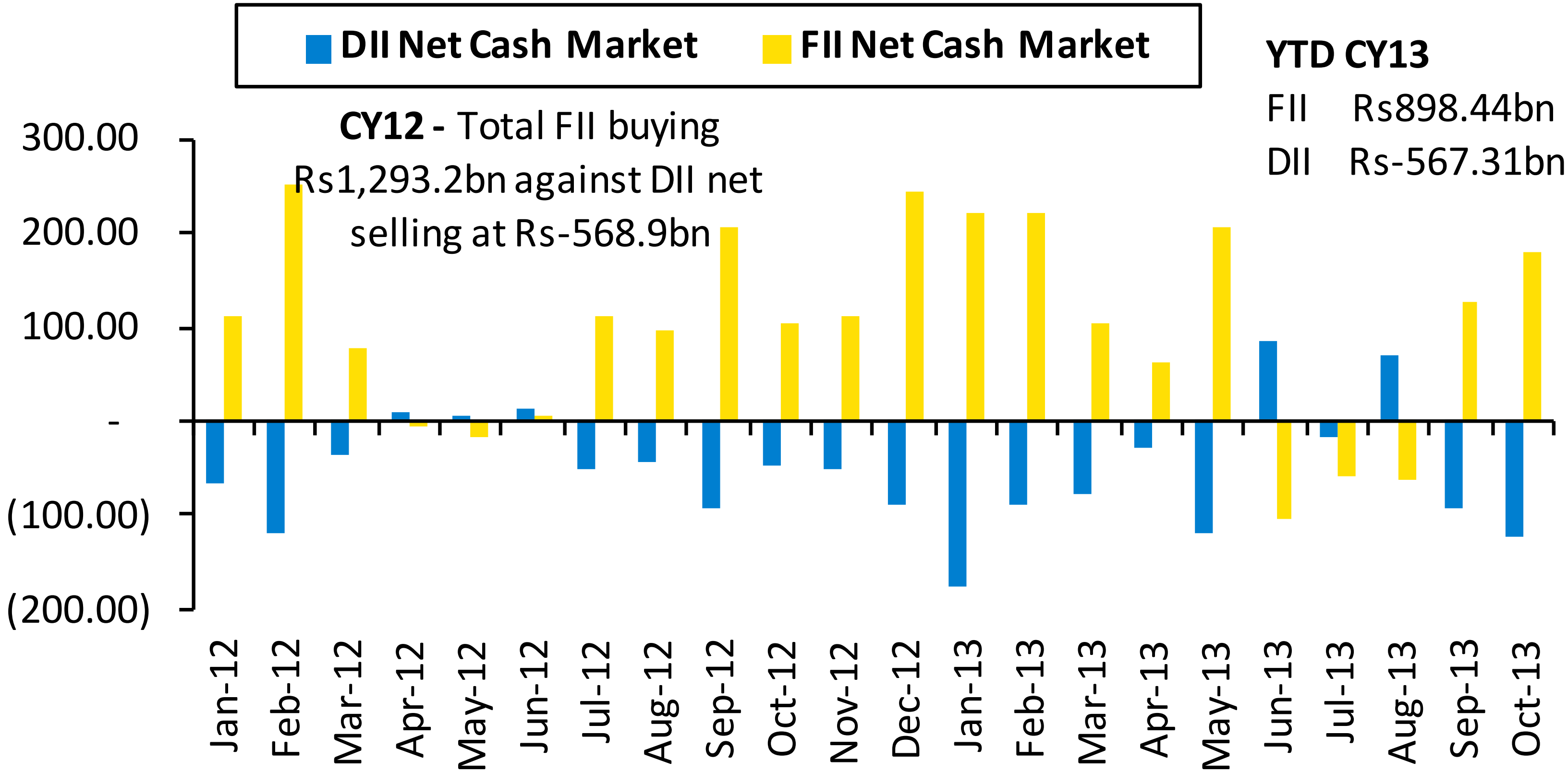
Source: Bloomberg, PL Research

Year-on-Year



Source: Bloomberg, PL Research

India: FII/DII Equity Flows



YTD CY13

FII Rs898.44bn

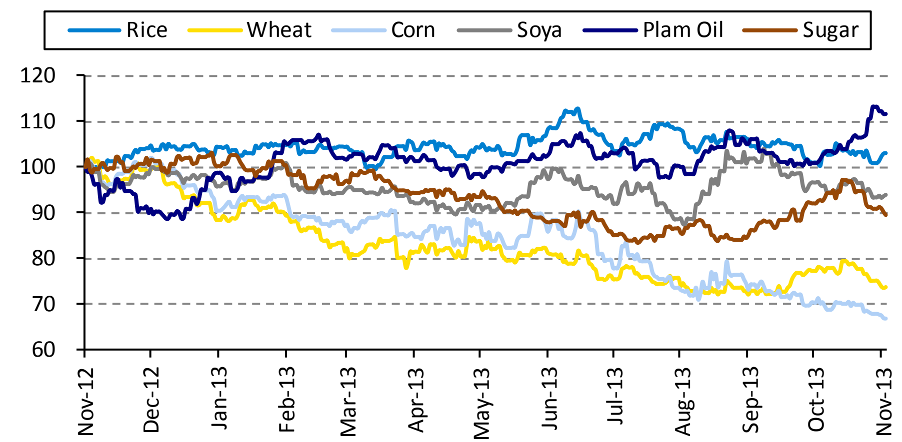
DII Rs-567.31bn

- FII turn heavy net buyers of equity to the tune of Rs180.13bn on the back of earlier purchases of Rs126.33bn in September, reversing the trend from June to August that saw outflows of Rs226.39bn.
- DII turn net sellers of equity to the tune of Rs124.11bn as against a selling of Rs91.30bn in September.
- FII Debt outflows continued in October of Rs129.16bn as compared to outflows of Rs313.42bn in September.

Global Agricultural Commodities

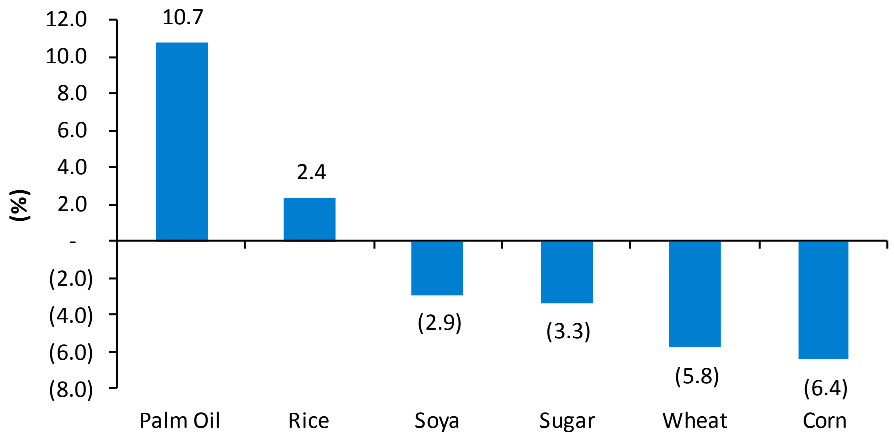
- **YoY:** Palm Oil price climbed sharply during Oct'13 as lower than expected production among dominant South East Asian growers boosted pricing outlook.
- Corn price declined as expectations of higher output kept prices under check.
- Sugar surplus globally has put pressure on prices and is likely to keep them under check.

Performance of Global Agricultural Commodities



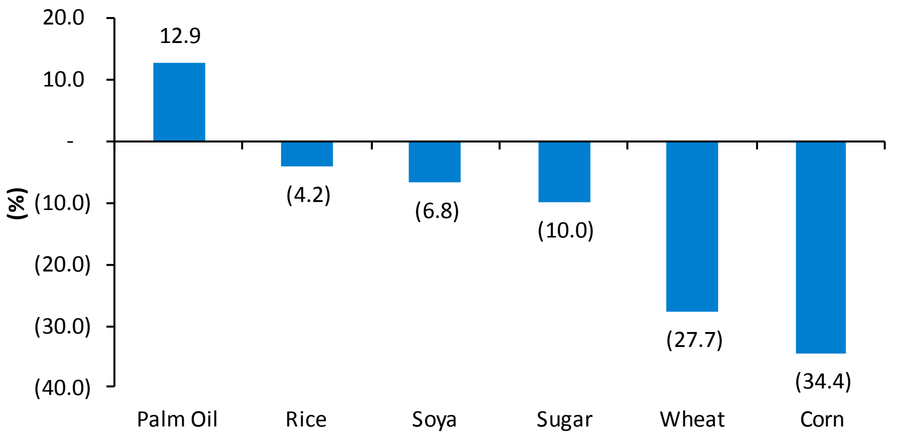
Source: Bloomberg, PL Research

Month-on-Month Performance



Source: Bloomberg, PL Research **Price in US$*

Year-on-Year Performance

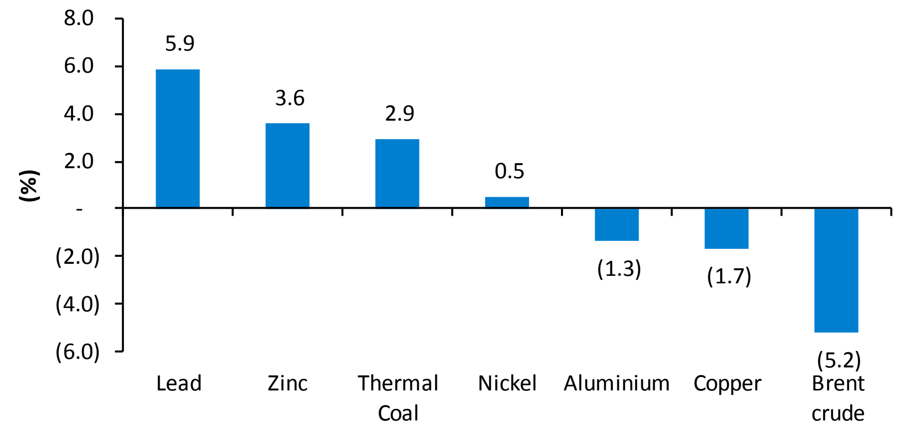


Source: Bloomberg, PL Research **Price in US$*

Global Industrial Commodities

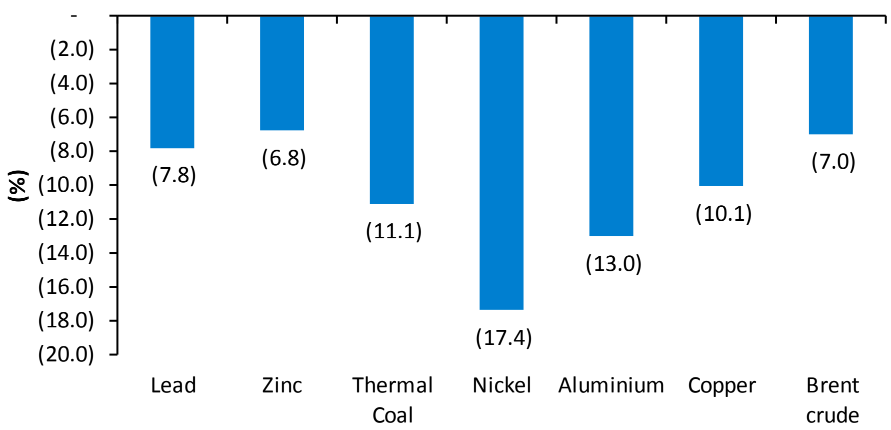
- **MoM:** Base metal prices rose due to positive economic data from China and Europe.
- Brent Crude fall due to higher than expected inventory in US

Month-on-Month



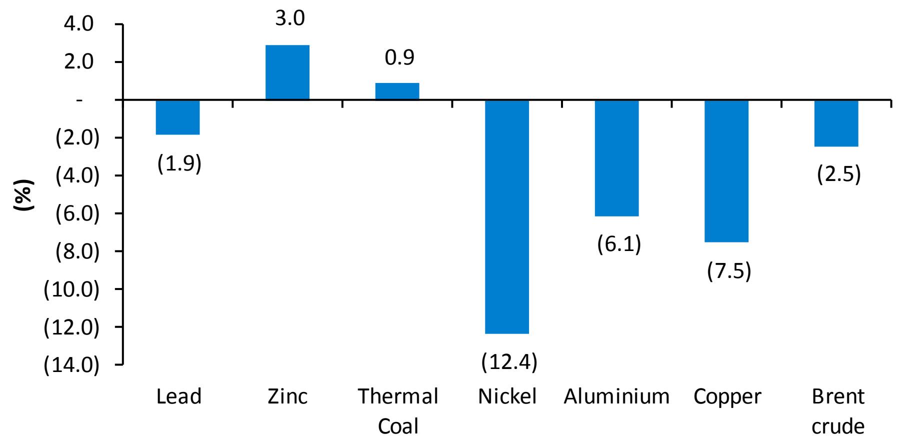
Source: Bloomberg, PL Research **Price in US$*

Calendar Year-to-date



Source: Bloomberg, PL Research **Price in US$*

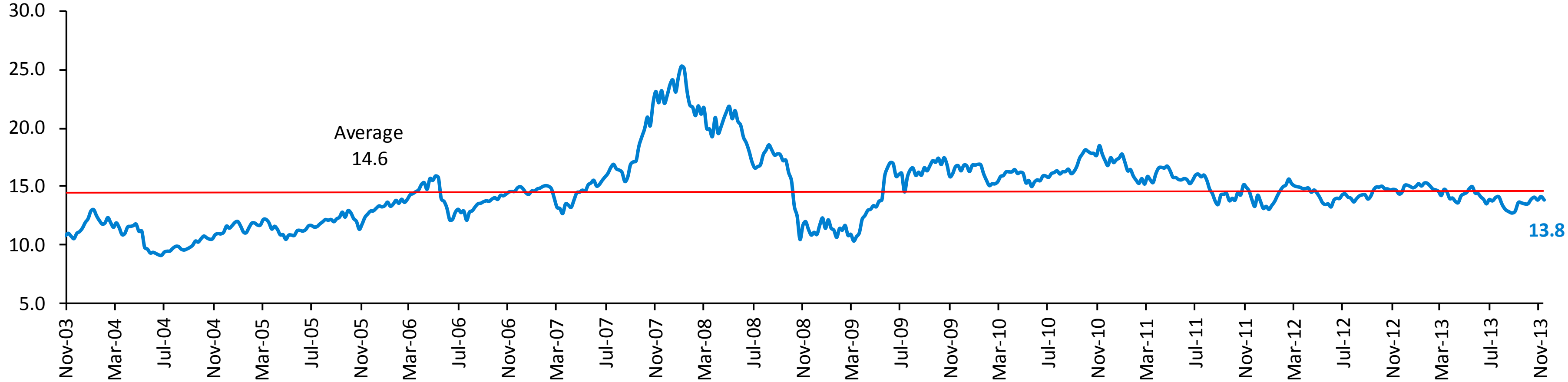
Year-on-Year



Source: Bloomberg, PL Research **Price in US$*

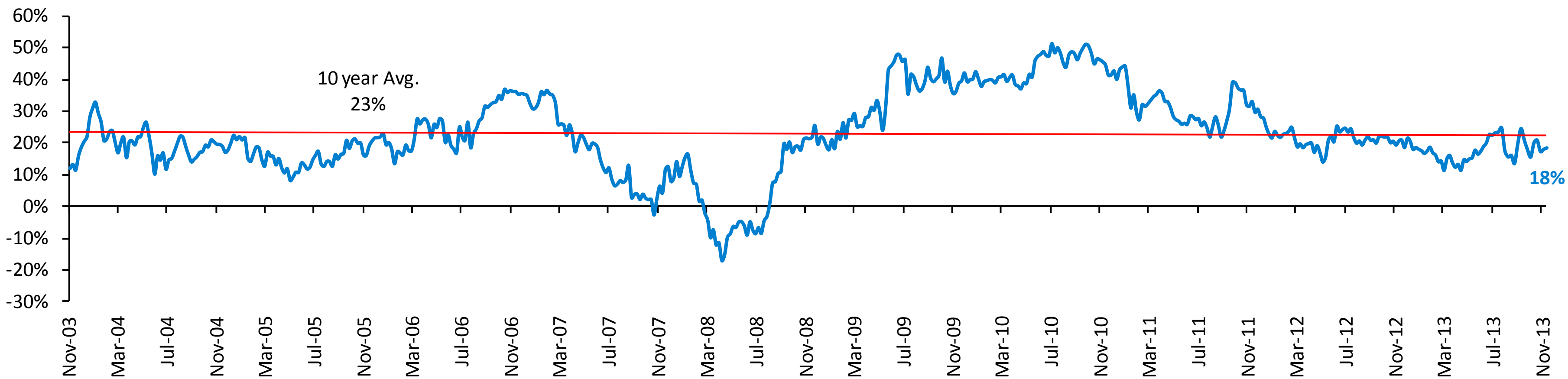
Nifty Valuations: Historic Trends

Nifty 1-year forward P/E



Source: Bloomberg, PL Research

MSCI India Premium to MSCI Asia (Ex-Japan)



Source: Bloomberg, PL Research

Indian Markets

- **NIFTY valuations -** We estimate the free-float EPS for NIFTY companies in FY13, FY14, FY15 at Rs 356.6, Rs 405.8 and Rs 475.5, respectively, representing a YoY growth of 13.8% and 17.2%, respectively. Auto (22.0% YoY growth), and Technology (31.9% YoY growth) are expected to lead the charge in PAT growth in FY14. Cement (-8.2% YoY growth), Engineering & Power (-0.8% YoY growth), Banking & Financials (3.0% YoY growth) and Oil & Gas (6.0% YoY growth) would be the laggards. Slow economic growth, elevated inflation, continuation of tight Monetary policy and as-yet-tentative global growth environment make us believe that the estimated earnings growth in FY14 and FY15 runs a strong risk of downgrades as we move forward.

- NIFTY at 6,141 is currently trading at 17.2x FY13, 15.1x FY14E and 12.9x FY15E estimated free-float earnings. As the chart on Page 21 indicates, the last ten-year average for NIFTY's one-year forward PE is at 14.6x. Thus, NIFTY is currently trading at 13.8x one-year forward earnings (EPS for year-ending November 2014 is Rs 444.7) i.e. at 5.5% discount to its last 10-years average of one-year forward multiple.

- The chart on Page 21 indicates MSCI India's premium to MSCI Asia (excluding Japan) over the last ten years. The average of the last 10-year's premium is 23% and the current premium is at 18%, indicating a de-rating of the market due to tough macro-economic conditions, margin pressures and drop in RoEs.

Exuberance in headline indices not yet reflected in broader markets, shifts to cyclicals happening on the margins. Results of State Polls & hopes for fall in inflation being closely watched

- Indian Markets would continue to remain at the complete mercy of FII flows with lacklustre retail participation and no significant equity inflows by the domestic institutional investors. The chasm between the all-time high headline indices (Sensex and Nifty) and the broader market was never so stark. Quite contrary to the Sensex & Nifty, the Mid-cap and Small-cap indices are down nearly 37% and 55%, respectively, from their all-time high in January 2008. In Dollar terms, Nifty is down 39% from its peak in January 2008.

- Although lately some buoyancy is being witnessed in beaten down sectors like PSU Banks, Metals, Power, Capital goods, Construction, Real Estate etc. due to some reshuffle by investors out of defensive sectors (like FMCG, IT and Pharma) which are very richly valued to inexpensively-valued cyclical sectors, we remain cautious. For the last two months, we have been advocating allocating part of the portfolio to leverage buoyant rural demand due to bountiful rains and would continue to do so.

- Fall in food & consumer inflation, post kharif-harvest, would increase RBI's manoeuvrability in adopting a more neutral stance. Signs of gathering economic strength in the US would determine the start of tapering and would influence the trajectory of flows in the Indian markets.

- With crucial State Elections and National Polls slated over the next six months, markets would remain hostage to swings in popular moods and likely policy planks being adopted by the major political alliances i.e Congress-led UPA, BJP-led NDA, Third Front comprising the Communists, Samajwadi Party, Janata Dal (United), Janata Dal (Secular) etc. or Federal Front comprising some of the non-Congress, non-BJP regional parties like Trinamool Congress, Biju Janata Dal, AIADMK, YSR Congress etc.

- We expect market to take a breather after the spectacular rally witnessed post the relief offered by the US Fed and trade between 6400 and 5700.

Prabhudas Lilladher

Need to monitor implementation of 92 mega projects (Rs3.5tn outlay) approved by the CCI as indicator for the revival of sluggish investment cycle

Sector	Projects	Investments (Rs bn)
Power	76	3090.2
Railways	3	71.2
Mines	1	70.1
Roads	3	33.0
Petroleum & Natural Gas	3	16.9
Steel	2	22.1
Shipping	2	17.1
Coal	1	12.3
Civil Aviation	1	120.0
Total	**92**	**3452.7**

Source: Planning Commission, PL Research

- We would like to see more signs of improvement in the investment climate and are closely monitoring the pick-up in implementation in the 92 mega investment projects, entailing an investment of Rs3.5trn approved by the CCI. Over 125 different clearances pending for these 92 projects have been cleared by the CCI. Of these, 76 are power projects involving investments of Rs3.09lakh, where coal supply issues for 70000 MW capacities have been sorted out.

- Financing remains a daunting challenge due to risk averseness among lenders as a result of burgeoning NPA and restructured assets, high leverage among promoters and difficulty they face in infusing equity capital due to challenging primary market conditions. These 92 projects are part of 330 mega projects in both public and private sector entailing investment of Rs15.5trn were stalled. We had comprehensively covered the Surge in Investment approvals vide our report ***WILL GOVERNMENT'S MASSIVE SURGE IN INVESTMENT - APPROVALS THROUGH TWIN FORCE-MULTIPLIERS OF - CCI & CCEA REVIVE INDIA'S INVESTMENT CYCLE?*** dated ***July 8, 2013***

Prabhudas Lilladher

Nifty Valuation

	Weight-age (%)	FY12	FY13	FY14E	FY15E
Banking & Fin.	**19.7%**				
PER (x)		14.5	12.6	12.2	10.3
PAT Growth (%)		26.8	15.1	3.3	18.4
Auto	**14.9%**				
PER (x)		13.9	14.9	12.2	10.2
PAT Growth (%)		23.1	(6.8)	22.0	20.2
Technology	**14.0%**				
PER (x)		30.7	24.9	18.9	15.8
PAT Growth (%)		15.4	23.2	31.9	19.6
Oil & Gas	**11.5%**				
PER (x)		10.6	10.2	9.6	8.5
PAT Growth (%)		13.6	3.9	6.0	13.5
FMCG	**10.6%**				
PER (x)		44.6	36.6	32.1	26.8
PAT Growth (%)		35.5	21.8	14.0	19.9
Metals	**10.2%**				
PER (x)		11.1	11.3	9.8	8.6
PAT Growth (%)		1.2	(2.1)	15.3	14.1
Eng. & Power	**9.2%**				
PER (x)		12.9	12.5	12.6	11.4
PAT Growth (%)		7.3	3.2	(0.8)	10.0
Pharma	**6.0%**				
PER (x)		31.4	27.0	25.2	21.9
PAT Growth (%)		44.3	16.3	7.1	14.9

	Weight-age (%)	FY12	FY13	FY14E	FY15E
Cement	**2.9%**				
PER (x)		20.4	15.8	17.2	15.2
PAT Growth (%)		10.1	29.6	(8.2)	12.9
Telecom	**0.4%**				
PER (x)		32.3	60.4	35.8	21.1
PAT Growth (%)		(29.6)	(46.6)	68.9	69.7
Real Estate	**0.3%**				
PER (x)		22.2	35.6	27.0	19.1
PAT Growth (%)		(20.5)	(37.8)	32.1	41.4
Nifty as on Nov 8	**6,141**				
EPS (Rs) - Free Float		**351.9**	**356.6**	**405.8**	**475.5**
Growth (%)		**8.1**	**1.4**	**13.8**	**17.2**
PER (x)		**17.5**	**17.2**	**15.1**	**12.9**
EPS (Rs) - Free Float Nifty Cons.		**351.9**	**356.6**	**409.0**	**477.6**
Var. (PLe v/s Cons.) (%)		**-**	**-**	**(0.8)**	**(0.4)**
Sensex as on Nov 8	**20,666**				
EPS (Rs) - Free Float		**1,149.8**	**1,128.8**	**1,298.7**	**1,531.4**
Growth (%)		**8.5**	**(1.8)**	**15.0**	**17.9**
PER (x)		**18.0**	**18.3**	**15.9**	**13.5**
Sensex Cons.		**1,149.8**	**1,128.8**	**1,316.2**	**1,548.2**
Var. (PLe v/s Cons.) (%)		**-**	**-**	**(1.3)**	**(1.1)**

Top Pick Summary

	CMP (Rs.)	TP (Rs)	*Upside*	Mcap (Rs bn)	Revenue Growth (%)		Earnings Growth (%)		RoE (%)		PER (x)		P/BV (x)	
					2014E	2015E	2014E	2015E	2014E	2015E	2014E	2015E	2014E	2015E
Large Cap														
ITC	320	358	*12.0%*	2,525.0	15.7	14.5	15.4	21.3	35.9	38.0	29.5	24.3	9.9	8.7
Infosys	3,360	3,900	*16.1%*	1,921.9	26.0	16.3	10.7	20.5	24.1	24.5	18.4	15.3	4.1	3.5
HDFC Bank	653	725	*11.1%*	1,552.6	19.9	16.4	23.0	18.4	20.1	20.0	19.5	16.5	3.6	3.0
NTPC	153	176	*15.2%*	1,257.9	13.0	11.3	17.1	13.6	13.2	14.2	11.7	10.3	1.5	1.4
Wipro	482	600	*24.6%*	1,186.1	20.0	11.9	27.6	17.5	25.2	24.6	15.1	12.8	3.5	2.9
Larsen & Toubro	975	1,025	*5.1%*	901.7	13.3	15.2	0.5	12.6	15.0	15.2	19.7	17.5	2.8	2.5
Hindustan Zinc	135	150	*11.4%*	568.7	8.7	5.3	0.4	8.3	19.7	18.5	8.3	7.6	1.5	1.3
NMDC	137	148	*8.3%*	542.6	(1.1)	13.2	(10.9)	9.0	19.9	20.1	9.6	8.8	1.8	1.7
Maruti Suzuki	1,581	1,732	*9.6%*	477.5	2.8	15.9	17.0	24.6	14.0	15.0	17.1	13.7	2.2	1.9
Hero Motocorp	2,093	2,282	*9.1%*	417.9	6.3	13.6	2.2	36.4	38.8	43.1	19.4	14.2	6.8	5.5
Dr.Reddy's Laboratories	2,402	2,697	*12.3%*	407.9	19.7	9.3	5.4	13.2	22.2	21.2	23.1	20.4	4.7	4.0
Adani Port & SEZ	148	180	*21.3%*	297.3	51.9	2.9	60.7	(12.3)	33.8	22.6	11.4	13.0	3.2	2.7
Glenmark Pharmaceuticals	524	590	*12.5%*	142.0	20.1	15.2	19.4	26.1	23.7	24.1	19.4	15.3	4.1	3.3
Mid-Caps														
ING Vysya Bank	609	630	*3.5%*	94.3	18.2	14.8	(0.6)	17.5	12.7	11.7	15.5	13.2	1.6	1.5
Aurobindo Pharma	260	310	*18.9%*	75.8	21.9	16.1	48.9	20.8	24.4	26.1	11.9	9.8	2.9	2.3
UPL	168	185	*10.2%*	74.3	15.0	12.0	15.2	14.5	19.3	18.8	7.6	6.6	1.4	1.2
P.I. Industries	209	225	*7.7%*	28.3	40.0	23.5	71.1	33.8	27.6	28.6	17.0	12.7	4.2	3.2
KSB Pumps	240	265	*10.7%*	8.3	4.7	7.2	23.3	14.8	15.8	16.3	11.7	10.1	1.7	1.6

LARGE CAP

ITC

CMP: Rs320 TP: Rs358 Rating: BUY MCap: Rs2,547.4bn

ITC reported Adj. PAT of Rs21bn on the back of 15.9% EBIT growth in Cigarettes even as Hotels and Paperboard businesses disappointed, resulting in Non-cigarette business EBIT decline of 5% YoY, mainly led by 58% decline in losses in the FMCG business. Cigarette volumes declined 3.7% (est2.5%) as higher prices continued to impact demand. We expect continued softness in Paper and Hotels business in the near term. FMCG sales growth at 16% was lowest in the past 10 quarters and has the potential to delay the likely turnaround in FY14. We are reducing FY14 and FY15 EPS estimates by 2% to Rs10.8 and Rs13.1 which factors in 1) lower margins in paper business 2) delayed recovery and lower margins in Hotels and 3) flat cigarette volumes in FY14 and 4.8% volume growth in FY15. Sustained weakness in cigarette volume growth and slowdown in FMCG demand remains a key risk to further re-rating of the stock. We value the stock at Rs358 on SOTP. Maintain '**BUY**'.

Cigarettes EBIT up 15.9%, volumes decline 3.7%: Cigarette business reported 15.9% EBIT growth with 340bps EBIT margin expansion even as volumes declined 3.7%. We are assuming flat volumes in FY14 and 4.8% growth in FY15; price increase in Q2 and growth in 64mm cigarettes will enable ITC to sustain 17% EBIT growth in FY14.

Non-cigarette businesses EBIT declines 5%; recovery unlikely in H2FY14: Non-cigarette business reported 5% decline in EBIT YoY. FMCG sales grew 16.1%, with EBIT loss of Rs127m, decline of 58%. Hotels business reported 43% decline in EBIT due to soft occupancy and decline in ARR. Paperboard business reported 22% decline in EBIT due to higher pulp and coal costs despite 4-5% price increase. Agri business reported 9.8% EBIT growth on 12% decline in sales due to presence of low margin wheat exports in base quarter. Leaf tobacco sales were strong and recent INR depreciation augurs well for the segment.

Key Financials (Rs m)

Y/e March	FY11	FY12	FY13	FY14E	FY15E
Revenue (Rs m)	214,590	251,475	299,013	345,954	396,276
Growth (%)	*16.7*	*17.2*	*18.9*	*15.7*	*14.5*
EBITDA (Rs m)	74,302	88,486	106,275	125,538	148,208
PAT (Rs m)	50,051	61,624	74,184	86,344	105,482
EPS (Rs)	6.5	7.9	9.4	10.8	13.1
Growth (%)	*(36.1)*	*21.9*	*19.1*	*15.4*	*21.3*
Net DPS (Rs)	4.5	4.5	5.3	6.5	8.0

Source: Company Data, PL Research

Profitability & valuation

Y/e March	FY11	FY12	FY13	FY14E	FY15E
EBITDA margin (%)	*34.6*	*35.2*	*35.5*	*36.3*	*37.4*
RoE (%)	*33.3*	*35.5*	*36.1*	*35.9*	*38.0*
RoCE (%)	*33.4*	*35.6*	*36.3*	*36.0*	*38.1*
EV / sales (x)	11.2	9.7	8.2	7.0	6.1
EV / EBITDA (x)	32.5	27.4	23.0	19.3	16.2
PER (x)	49.4	40.5	34.0	29.5	24.3
P / BV (x)	15.5	13.3	11.3	9.9	8.7
Net dividend yield (%)	*1.4*	*1.4*	*1.6*	*2.0*	*2.5*

Source: Company Data, PL Research

Stock Performance

(%)	1M	6M	12M
Absolute	(1.4)	6.3	16.4
Relative to Sensex	(5.5)	(0.3)	6.2

Segmental Performance

ITC

	FY10	FY11	FY12	FY13	FY14E	FY15E
Net Sales (Rs m)						
Cigarettes	93,212	105,737	123,244	139,696	155,092	175,921
FMCG	36,339	44,716	55,256	69,828	86,602	106,542
Hotels	8,507	10,008	10,062	10,742	12,297	13,282
Agri Business	38,621	47,480	56,953	72,007	82,346	95,170
Paperboards & Paper	31,078	35,072	39,234	42,368	48,957	50,546
EBIT (Rs m)						
Cigarettes	49,381	57,668	69,077	83,259	97,708	114,349
FMCG	(3,495)	(2,976)	(1,955)	(813)	433	1,598
Hotels	2,166	2,666	2,794	1,377	1,231	1,728
Agri Business	4,478	5,663	6,432	7,313	8,729	9,993
Paperboards & Paper	6,843	8,192	9,368	9,640	10,156	11,561
EBIT Margin (%)						
Cigarettes	53.0	54.5	56.0	59.6	63.0	65.0
FMCG	(9.6)	(6.7)	(3.5)	(1.2)	0.5	1.5
Hotels	25.5	26.6	27.8	12.8	10.0	13.0
Agri Business	11.6	11.9	11.3	10.2	10.6	10.5
Paperboards & Paper	22.0	23.4	23.9	22.8	20.7	22.9
EBIT Growth (%)						
Cigarettes	18.0	16.8	19.8	20.5	17.4	17.0
FMCG	NA	NA	NA	NA	NA	NA
Hotels	(31.5)	23.0	4.8	(50.7)	(10.6)	40.4
Agri Business	74.8	26.5	13.6	13.7	19.4	14.5
Paperboards & Paper	34.5	19.7	14.3	2.9	5.4	13.8
Non Cigarette Businesses						
Net Sales	114,545	137,277	161,505	194,945	230,201	265,540
Growth %	9.8	19.8	17.6	20.7	18.1	15.4
EBIT	9,991	13,545	16,638	17,516	20,549	24,880
EBIT Growth (%)	67.2	35.6	22.8	5.3	17.3	21.1
EBIT Margin (%)	8.7	9.9	10.3	9.0	8.9	9.4

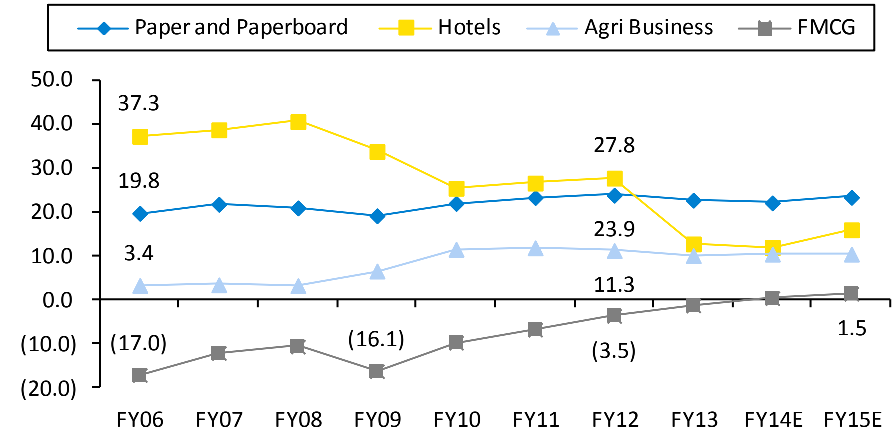
Source: Company Data, PL Research

Excise duty on cigarettes

Rs/1,000 sticks	Length (mm)	FY11	FY12	FY13E	FY14E	FY15E
Plains	65-70	1,473	1,473	1,768	2,086	2,242
Small Filter	<65mm	669	669	669	669	719
Filter - Regular	<70	969	969	1,163	1,372	1,475
Filter - Long	71-75	1,473	1,473	1,768	2,086	2,242
Filter - King	76-85	1,959	1,959	2,351	2,774	2,982
Filter - Extra large	86-100	2,363	2,363	2,836	3,346	3,597
Excise Duty Change (%)		11	0	20	18	8
		RFC - 18				
VAT (%)		14.5	18.0	20.8	23.7	25.0
Volume Growth (%)		-2.8	6.4	2.0	0.9	5.0
Excise (% of realisation)		47	45	46	48	47
Net Realisation Gr (%)		16.6	9.6	12.0	9.4	8.4
EBIT Growth (%)		16.8	19.8	20.9	14.5	15.6

Source: Company Data, PL Research

FMCG and Hotel Business key profit drivers



Source: Company Data, PL Research

Financials

ITC

Income Statement (Rs m)

Y/e March	FY11	FY12	FY13	FY14E	FY15E
Net Revenue	**214,590**	**251,475**	**299,013**	**345,954**	**396,276**
Direct Expenses	97,750	114,297	140,822	162,080	183,279
% of Net Sales	*45.6*	*45.5*	*47.1*	*46.9*	*46.3*
Employee Cost	11,400	12,576	13,870	15,074	16,714
% of Net Sales	*5.3*	*5.0*	*4.6*	*4.4*	*4.2*
SG&A Expenses	31,137	36,116	38,045	43,262	48,075
% of Net Sales	*14.5*	*14.4*	*12.7*	*12.5*	*12.1*
Other Expenses	-	-	-	-	-
% of Net Sales	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*
EBITDA	**74,302**	**88,486**	**106,275**	**125,538**	**148,208**
Margin (%)	*34.6*	*35.2*	*35.5*	*36.3*	*37.4*
Depreciation	6,560	6,985	7,956	9,093	10,053
PBIT	**67,743**	**81,501**	**98,320**	**116,444**	**138,154**
Interest Expenses	684	779	865	865	865
PBT	**72,857**	**88,975**	**106,842**	**126,977**	**151,773**
Total tax	22,806	27,352	32,658	40,633	46,291
Effective Tax rate (%)	*31.3*	*30.7*	*30.6*	*32.0*	*30.5*
PAT	**50,051**	**61,624**	**74,184**	**87,665**	**105,482**
Extraordinary Gain/(Loss)	-	-	-	1,321	-
Adjusted PAT	**50,051**	**61,624**	**74,184**	**86,344**	**105,482**

Source: Company Data, PL Research

Balance Sheet (Rs m)

Y/e March	FY11	FY12	FY13	FY14E	FY15E
Share Capital	7,738	7,818	7,902	7,972	8,032
Reserves & Surplus	133,742	154,478	180,214	207,254	237,559
Shareholder's Fund	159,533	187,919	222,879	258,388	296,553
Preference Share Capital	-	-	-	-	-
Total Debt	992	891	777	777	777
Other Liabilities(net)	-	-	-	-	-
Deferred Tax Liability	8,019	8,727	12,037	13,713	14,990
Total Liabilities	**168,543**	**197,537**	**235,692**	**272,878**	**312,320**
Gross Block	127,659	141,444	169,444	189,444	209,444
Less: Depreciation	44,208	50,452	57,350	66,444	76,497
Net Block	83,451	90,992	112,093	123,000	132,947
Capital Work in Progress	13,334	22,768	14,878	12,000	12,000
Cash & Cash Equivalent	77,979	91,355	106,753	146,494	185,404
Total Current Assets	141,920	156,590	193,194	246,016	298,289
Total Current Liabilities	85,795	92,345	104,482	128,146	150,924
Net Current Assets	56,125	64,245	88,713	117,869	147,365
Other Assets	-	-	-	-	-
Total Assets	**168,543**	**197,537**	**235,692**	**272,878**	**312,320**

Source: Company Data, PL Research

Prabhudas Lilladher

Infosys

CMP: Rs3,360 TP: Rs3,900 Rating: BUY MCap: Rs1,921.9bn

Infosys reported strongest quarter since Q3FY12 aided by strong deal closure and project ramp-ups. The management remains non-committal on the margin expansion. However, we believe, the margin profile of the company has bottomed-out in the current quarter and we are confident of margin improvement in H2FY14. Management sounded more assertive about improving demand environment and steady growth. We see no change in the upper-end of guidance, a style consistent with Murthyism. We expect revenue momentum to remain intact (excluding seasonality), with steady improvement in margin.

Performance gaining momentum: Revenue grew 3.8% (4.2%@cc) QoQ (Cons.: 2-3.6%, PLe: 2.3%), strongest performance since Q3FY12. The management sees return of stability in demand environment.

Margin performance bottomed, expansion likely: Infosys witnessed margin erosion of ~350bps due to wage hike, S&M investment and bonuses. We see margins bottoming-out as the management has undertaken initiatives to optimize cost, improve sales effectiveness and improve productivity. We expect margin to witness uptick in CY14.

Focus on sales engine and deal wins: Management is eyeing for stronger deal pipeline and deal wins by Q4FY14 as investment in S&M accelerated to the highest level since Q2FY08. The company bagged 5 large new scope deals of TCV US$450m in the quarter with 3 in FSI, 1 each in retail and manufacturing. We expect stronger deal wins to drive mid-teens USD revenue growth in FY15.

New initiatives for new growth markets: The company is going to have independent P&L for Australia, China, Japan, Middle East and Southeast Asia, with respective country heads to bring more focus on growth markets.

Valuation & Recommendation – Retain 'BUY', revise TP to Rs3,900: We expect Infosys to return back to mid-teens revenue growth with mean reversion on margin in FY15. Hence, the valuation gap between Infosys and TCS will narrow. We revise our TP to Rs3,900 (Old: Rs3,700), 18x FY15e earnings estimate.

Key Financials (Rs m)

Y/e March	FY11	FY12	FY13	FY14E	FY15E
Revenue (Rs m)	275,010	337,340	403,520	508,588	591,691
Growth (%)	*20.9*	*22.7*	*19.6*	*26.0*	*16.3*
EBITDA (Rs m)	89,640	107,160	115,580	132,237	158,319
PAT (Rs m)	68,230	83,160	94,210	104,274	125,679
EPS (Rs)	119.3	145.4	164.7	182.3	219.7
Growth (%)	*8.9*	*21.9*	*13.3*	*10.7*	*20.5*
Net DPS (Rs)	64.1	40.7	54.6	59.9	64.9

Source: Company Data, PL Research

Profitability & valuation

Y/e March	FY11	FY12	FY13	FY14E	FY15E
EBITDA margin (%)	*32.6*	*31.8*	*28.6*	*26.0*	*26.8*
RoE (%)	*27.1*	*27.4*	*25.7*	*24.1*	*24.5*
RoCE (%)	*26.9*	*27.2*	*25.6*	*24.0*	*24.5*
EV / sales (x)	6.4	5.1	4.2	3.3	2.7
EV / EBITDA (x)	19.6	16.0	14.7	12.6	10.1
PER (x)	28.2	23.1	20.4	18.4	15.3
P / BV (x)	7.0	5.7	4.8	4.1	3.5
Net dividend yield (%)	*1.9*	*1.2*	*1.6*	*1.8*	*1.9*

Source: Company Data, PL Research

Stock Performance

(%)	1M	6M	12M
Absolute	10.7	42.9	41.5
Relative to Sensex	7.3	39.6	31.8

Financials

Infosys

Income Statement (Rs m)

Y/e March	FY11	FY12	FY13	FY14E	FY15E
Net Revenue	**275,010**	**337,340**	**403,520**	**508,588**	**591,691**
Direct Expenses	150,540	188,710	241,510	309,776	357,202
% of Net Sales	*54.7*	*55.9*	*59.9*	*60.9*	*60.4*
Employee Cost	-	-	-	-	-
% of Net Sales	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*
SG&A Expenses	34,830	41,470	46,430	66,575	76,170
% of Net Sales	*12.7*	*12.3*	*11.5*	*13.1*	*12.9*
Other Expenses	-	-	-	-	-
% of Net Sales	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*
EBITDA	**89,640**	**107,160**	**115,580**	**132,237**	**158,319**
Margin (%)	*32.6*	*31.8*	*28.6*	*26.0*	*26.8*
Depreciation	8,620	9,370	11,290	14,675	15,946
PBIT	**81,020**	**97,790**	**104,290**	**117,562**	**142,373**
Interest Expenses	-	-	-	-	-
PBT	**93,130**	**116,830**	**127,880**	**142,841**	**169,836**
Total tax	24,900	33,670	33,670	38,567	44,158
Effective Tax rate (%)	*26.7*	*28.8*	*26.3*	*27.0*	*26.0*
PAT	**68,230**	**83,160**	**94,210**	**104,274**	**125,679**
Extraordinary Gain/(Loss)	-	-	-	-	-
Adjusted PAT	**68,230**	**83,160**	**94,210**	**104,274**	**125,679**

Source: Company Data, PL Research

Balance Sheet (Rs m)

Y/e March	FY11	FY12	FY13	FY14E	FY15E
Share Capital	2,860	2,860	2,860	2,860	2,860
Reserves & Surplus	239,350	300,860	364,210	434,213	522,765
Shareholder's Fund	273,030	334,610	397,970	467,973	556,525
Preference Share Capital	-	-	-	-	-
Total Debt	-	-	-	-	-
Other Liabilities(net)	3,190	1,090	1,490	1,490	1,490
Deferred Tax Liability	-	120	1,190	1,190	1,190
Total Liabilities	**276,220**	**335,820**	**400,650**	**470,653**	**559,205**
Gross Block	80,980	90,300	106,760	127,612	151,871
Less: Depreciation	32,540	36,210	42,080	56,755	72,702
Net Block	48,440	54,090	64,680	70,857	79,170
Capital Work in Progress	-	-	-	-	-
Cash & Cash Equivalent	168,760	209,680	235,710	276,641	335,803
Total Current Assets	234,790	298,690	335,740	414,614	504,836
Total Current Liabilities	36,410	47,660	62,860	77,908	87,890
Net Current Assets	198,380	251,030	272,880	336,706	416,946
Other Assets	27,300	26,930	45,700	45,700	45,700
Total Assets	**276,220**	**335,820**	**400,650**	**470,653**	**559,205**

Source: Company Data, PL Research

Prabhudas Lilladher

HDFC Bank

CMP: Rs653 TP: Rs725 Rating: BUY MCap: Rs1,552.6bn

Challenging macros seems to be having some impact on HDFCB's financials but we see limited risks to overall profitability as we draw comfort from (1) Floating provisions (credit cost comfort) (2) Opex efficiency (offset growth pressure) and (3) Superior liability franchise. We continue to prefer HDFCB over other defensives (HDFC Ltd/Kotak) despite expensive valuations.

Growth slowdown - Some incidental and some intentional: Retail loan growth across product categories have come off (9% YoY auto loan growth) in-line with trend in OEM sales. Some part of the slowdown in corporate book (15% YoY growth v/s 17-18% in the last 2-3 quarters) was largely a margin decision which could pick-up with funding having eased a bit.

Some vulnerability on liabilities impact NIMs but operating metrics remain robust: High LAF dependence and low floating rate book seems the key reasons for the ~20-25bps QoQ margin decline at 4.55% but Revenue momentum slowdown was largely expected but HDFCB has managed PPOP growth fairly well (27% YoY growth in Q2FY14). Opex growth has moderated to ~10% YoY now and though levers could be getting a little stretched, opex growth is unlikely to jump meaningfully in the near term aiding PPOP growth. Also asset quality ex-CV/CE has held up well with limited slippages in the corporate book, retail slippage levels remained at Q1 levels in most retail segments with CV/CE continuing to face pressure.

Macro remains difficult but comfort high on many fronts; Preferred defensive name: Macro has turned difficult for financials but HDFCB provides comfort on multiple fronts despite valuations (1) Rs19bn of floating provisions provides significant credit cost comfort (2) treasury accounting for Rs1.7bn of MTM losses and choosing not to amortise MTM losses of Rs1.4bn displays conservativeness (3) Low bulk reliance and no ALM mismatch will lead reduce impact on HDFC's margins (4) Certain slowdown in revenue will be offset by significant cost levers that HDFCB has built by expanding network. HDFCB remains preferred defensive over HDFC Ltd/ Kotak with a PT of Rs725/share.

Key Financials (Rs m)

Y/e March	FY11	FY12	FY13	FY14E	FY15E
Net interest income	105,431	128,846	158,111	189,570	220,702
Growth (%)	*25.7*	*22.2*	*22.7*	*19.9*	*16.4*
Operating profit	77,254	93,906	114,276	140,047	166,004
PAT	39,264	51,671	64,749	79,652	94,269
EPS (Rs)	16.9	22.0	27.2	33.5	39.6
Growth (%)	*31.0*	*30.4*	*23.6*	*23.0*	*18.4*
Net DPS (Rs)	3.3	4.3	3.3	4.1	4.8

Source: Company Data, PL Research

Profitability & valuation

Y/e March	FY11	FY12	FY13	FY14E	FY15E
NIM (%)	*73.3*	*72.9*	*72.3*	*73.9*	*75.2*
RoAE (%)	*16.7*	*18.7*	*19.6*	*20.1*	*20.0*
RoAA (%)	*1.6*	*1.7*	*1.8*	*1.8*	*1.9*
P / BV (x)	6.0	5.1	4.3	3.6	3.0
P / ABV (x)	6.0	5.2	4.3	3.6	3.1
PE (x)	38.7	29.6	24.0	19.5	16.5
Net dividend yield (%)	*0.5*	*0.7*	*0.5*	*0.6*	*0.7*

Source: Company Data, PL Research

Stock Performance

(%)	1M	6M	12M
Absolute	3.1	(6.4)	2.1
Relative to Sensex	(0.3)	(9.8)	(7.5)

Financials

HDFC Bank

Income Statement (Rs m)

Y/e March	FY11	FY12	FY13	FY14E	FY15E
Int. Earned from Adv.	150,850	211,244	268,224	315,175	364,221
Int. Earned from Invt.	46,754	65,046	78,203	88,453	100,781
Others	-	-	-	-	-
Total Interest Income	199,282	278,742	350,649	408,131	469,843
Interest expense	93,851	149,896	192,538	218,561	249,141
NII	**105,431**	**128,846**	**158,111**	**189,570**	**220,702**
Growth (%)	*25.7*	*22.2*	*22.7*	*19.9*	*16.4*
Treasury Income	(534)	(1,944)	1,602	2,500	2,500
NTNII	43,886	59,780	66,924	77,602	94,271
Non Interest Income	43,352	57,836	68,526	80,102	96,771
Total Income	242,634	336,578	419,175	488,233	566,613
Growth (%)	*21.4*	*38.7*	*24.5*	*16.5*	*16.1*
Operating Expense	71,529	92,776	112,361	129,625	151,468
Operating Profit	**77,254**	**93,906**	**114,276**	**140,047**	**166,004**
Growth (%)	*20.2*	*21.6*	*21.7*	*22.6*	*18.5*
NPA Provisions	14,430	12,428	13,579	21,653	25,768
Investment Provisions	-	-	522	-	-
Total Provisions	19,061	18,774	16,764	22,912	27,373
PBT	58,193	75,132	97,512	117,136	138,631
Tax Provisions	18,929	23,461	32,764	37,483	44,362
Effective Tax Rate (%)	*32.5*	*31.2*	*33.6*	*32.0*	*32.0*
PAT	**39,264**	**51,671**	**64,749**	**79,652**	**94,269**
Growth (%)	*33.1*	*31.6*	*25.3*	*23.0*	*18.4*

Source: Company Data, PL Research

Balance Sheet (Rs m)

Y/e March	FY11	FY12	FY13	FY14E	FY15E
Par Value	2	2	2	2	2
No. of equity shares	2,326	2,347	2,379	2,379	2,379
Equity	4,652	4,693	4,759	4,759	4,759
Networth	253,793	299,244	362,141	430,492	511,386
Adj. Networth	250,829	295,720	357,452	423,376	501,413
Deposits	2,085,864	2,467,064	2,962,470	3,458,635	4,076,247
Growth (%)	*24.6*	*18.3*	*20.1*	*16.7*	*17.9*
Low Cost deposits	1,099,083	1,194,059	1,405,215	1,628,195	1,939,325
% of total deposits	*52.7*	*48.4*	*47.4*	*47.1*	*47.6*
Total Liabilities	**2,773,517**	**3,379,093**	**4,003,320**	**4,648,913**	**5,445,281**
Net Advances	1,599,827	1,954,200	2,397,206	2,816,718	3,351,894
Growth (%)	*27.1*	*22.2*	*22.7*	*17.5*	*19.0*
Investments	709,293	974,829	1,116,136	1,258,284	1,436,154
Total Assets	**2,773,517**	**3,379,098**	**4,003,325**	**4,648,913**	**5,445,281**

Source: Company Data, PL Research

NTPC

CMP: Rs153 TP: Rs176 Rating: Accumulate MCap: Rs1,257.9bn

Capacity addition on track, Q2FY14 generation healthy: NTPC has commissioned close to 3820MWs which is one of the fastest and highest additions as compared to its past. Further, we expect 3500MWs commercialization in FY14E and 4000MWs in FY15E. NTPC's PLFs at 75.9% (up by 100bps YoY and down by 350bps QoQ) reported improvement on account of availability of coal in new plants. Volume growth was 3.4% YoY and ESO was also up by 3.8% YoY at 50.7bn units. There was a remarkable improvement in PAF which showed a rise of 736bps YoY at 87.5%..

Coal supply situation under control: NTPC has always enjoyed merit in dispatches of coal and will continue to do so in the future. The shortages in domestic coal supply will be met by imports of 3-5mt every year. The new scheme of coal pooling, where CIL will be supplying imported coal, will also augur well for the company as it will receive close to 5-8MTs from it. Pakri-Barwadih captive mine, is also expected to contribute from FY14E, with 2-5MTs initially. Above this, reallocation of three captive blocks, which can contribute close to 10MT (initially) from FY15E, should mitigate long-term fuel supply risks. ACQ materialization of domestic coal was 101% in Q2FY14.

Valuation undemanding, time to enter: The stock has been beaten down on the fears of pressure on operating parameters due to non-availability of imported coal and shortage of domestic coal. The company will have a challenging task further in the event of aggressive capacity addition plans on account of shortage of coal supplies. The stock has recouped from beaten down valuations (of 1.1x FY15E). However, a further improvement in operations will help re-rate it further. At 1.4x FY15E, we maintain '**Accumulate**' on the stock.

Key Financials (Rs m)

Y/e March	FY11	FY12	FY13E	FY14E	FY15E
Revenue (Rs m)	549,387	611,963	656,739	741,930	826,058
Growth (%)	*18.6*	*11.4*	*7.3*	*13.0*	*11.3*
EBITDA (Rs m)	125,770	131,938	170,843	188,714	208,656
PAT (Rs m)	88,332	82,608	91,859	107,611	122,273
EPS (Rs)	10.7	10.0	11.1	13.1	14.8
Growth (%)	*4.5*	*(6.5)*	*11.2*	*17.1*	*13.6*
Net DPS (Rs)	3.8	3.9	5.7	5.5	5.5

Source: Company Data, PL Research

Profitability & valuation

Y/e March	FY11	FY12	FY13E	FY14E	FY15E
EBITDA margin (%)	*22.9*	*21.6*	*26.0*	*25.4*	*25.3*
RoE (%)	*13.6*	*11.7*	*12.0*	*13.2*	*14.2*
RoCE (%)	*9.6*	*8.0*	*8.1*	*8.9*	*9.1*
EV / sales (x)	2.8	2.6	2.5	2.4	2.2
EV / EBITDA (x)	12.1	11.9	9.6	9.3	8.8
PER (x)	14.2	15.2	13.7	11.7	10.3
P / BV (x)	1.9	1.7	1.6	1.5	1.4
Net dividend yield (%)	*2.5*	*2.5*	*3.8*	*3.6*	*3.6*

Source: Company Data, PL Research

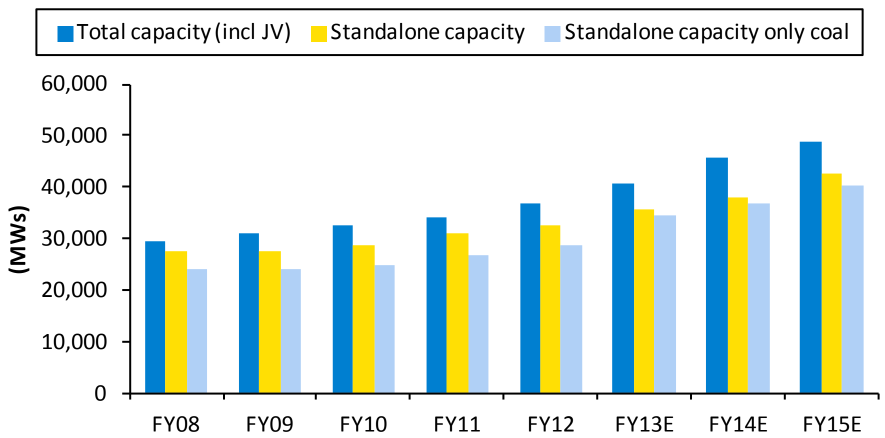
Stock Performance

(%)	1M	6M	12M
Absolute	5.7	(1.5)	(9.4)
Relative to Sensex	2.3	(4.8)	(19.0)

Operating Metrics

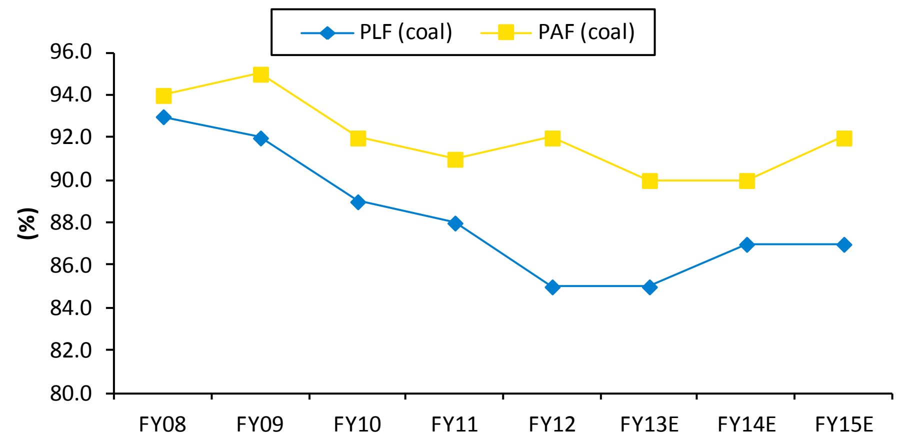
NTPC

Trend in Installed Capacity



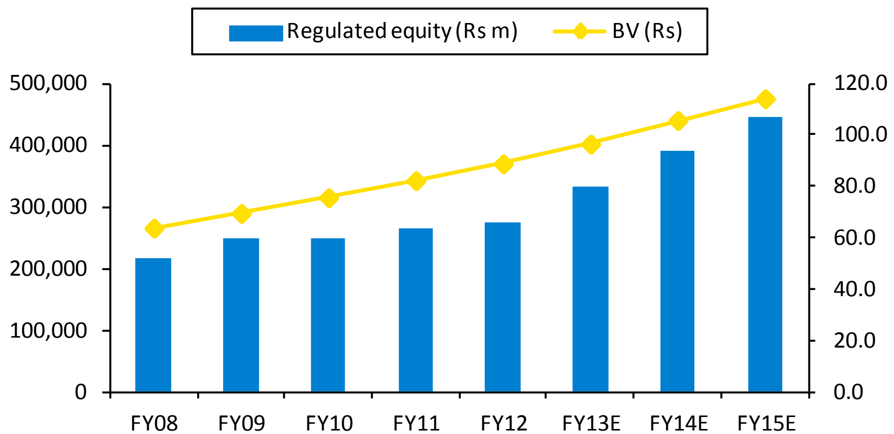
Source: Company Data, PL Research

PLF and PAF Scenario



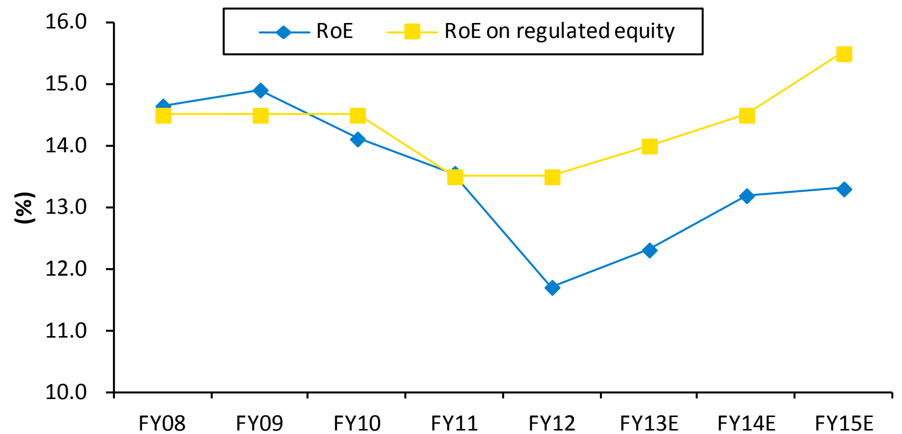
Source: Company Data, PL Research

BVPS on a rise



Source: Company Data, PL Research

Returns have bottomed-out



Source: Company Data, PL Research

Financials

NTPC

Income Statement (Rs m)

Y/e March	FY11	FY12	FY13E	FY14E	FY15E
Net Revenue	**549,387**	**611,963**	**656,739**	**741,930**	**826,058**
Direct Expenses	423,617	480,025	485,896	553,216	617,402
% of Net Sales	*77.1*	*78.4*	*74.0*	*74.6*	*74.7*
Employee Cost	-	-	-	-	-
% of Net Sales	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*
SG&A Expenses	-	-	-	-	-
% of Net Sales	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*
Other Expenses	-	-	-	-	-
% of Net Sales	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*
EBITDA	**125,770**	**131,938**	**170,843**	**188,714**	**208,656**
Margin (%)	*22.9*	*21.6*	*26.0*	*25.4*	*25.3*
Depreciation	24,857	27,917	33,968	44,000	46,923
PBIT	**100,913**	**104,021**	**136,875**	**144,714**	**161,733**
Interest Expenses	21,491	17,116	19,244	29,983	30,944
PBT	**120,496**	**123,763**	**165,786**	**143,483**	**163,033**
Total tax	29,470	31,024	39,592	35,871	40,758
Effective Tax rate (%)	*24.5*	*25.1*	*23.9*	*25.0*	*25.0*
PAT	**91,026**	**92,738**	**126,194**	**107,611**	**122,273**
Extraordinary Gain/(Loss)	2,694	10,131	34,335	-	-
Adjusted PAT	**88,332**	**82,608**	**91,859**	**107,611**	**122,273**

Source: Company Data, PL Research

Balance Sheet (Rs m)

Y/e March	FY11	FY12	FY13E	FY14E	FY15E
Share Capital	82,455	82,455	82,455	82,455	82,455
Reserves & Surplus	596,468	650,457	721,421	743,927	811,095
Shareholder's Fund	678,923	732,912	803,876	826,382	893,550
Preference Share Capital	-	-	-	-	-
Total Debt	431,882	482,403	552,197	655,473	751,341
Other Liabilities(net)	4,919	14,301	12,441	11,510	10,579
Deferred Tax Liability	6,030	6,369	9,253	9,845	10,452
Total Liabilities	**1,121,754**	**1,235,984**	**1,377,766**	**1,503,210**	**1,665,921**
Gross Block	727,552	818,303	1,028,761	1,288,631	1,413,631
Less: Depreciation	335,192	365,719	401,887	450,868	497,791
Net Block	392,360	452,584	626,874	837,763	915,840
Capital Work in Progress	333,263	418,279	371,094	298,220	298,677
Cash & Cash Equivalent	285,301	279,554	278,764	286,474	323,088
Total Current Assets	403,411	431,481	505,594	460,240	495,271
Total Current Liabilities	130,729	178,423	233,401	225,140	192,306
Net Current Assets	272,682	253,058	272,194	235,100	302,965
Other Assets	-	1	2	3	4
Total Assets	**1,121,753**	**1,235,985**	**1,377,765**	**1,503,210**	**1,665,921**

Source: Company Data, PL Research

Wipro

CMP: Rs482 TP: Rs600 Rating: BUY MCap: Rs1,186.1bn

Q2FY14 - In-line performance: Wipro reported Q2FY14 results slightly softer than expectation. IT Services (USD) revenue grew by 2.7% QoQ (3.2% @cc) to US$1,631m (PLe: US$1,638m, Cons: US$1,630m). Overall revenue grew by 10.7% QoQ to Rs107.7bn (PLe: Rs110.9bn, Cons.: Rs109.9bn). Operating margin expanded by 64bps to 18.8% (PLe: 19.8%, Cons: 19.5%), despite full-impact of wage hike aided by currency depreciation. EPS grew by 18.4% QoQ to Rs7.85 (PLe: Rs7.73, Cons: Rs7.53).

Revenue momentum improving – Q4FY14 is the inflexion point: Management has given IT Services revenue guidance of 1.8% to 3.6% QoQ (PLe: 1-3%, Cons.: 2-4%) growth in USD terms in an otherwise seasonally weak quarter. The company sees improving deal closure in terms of TCV and number of deals along with improvement in sales cycle. According to the management, Q4FY14 will be the inflexion point, wherein the growth rate will accelerate and is expected to regain industry leading growth in FY15.

Margin levers – Utilization, Productivity and Growth: Management continues to focus on productivity improvement and skills development of employees in order to increase fungibility, which would help driving utilization up. Moreover, the company has developed next generation tool for managed service offering "ServiceNXT" (Exhibit: 3), which help drive cost-efficiency. We see improving growth momentum to drive other operating leverage like SG&A.

Valuation & Recommendation – Retain BUY, TP to Rs600: We see improvement in the win rate to drive the business momentum, along with available margin levers to drive accelerated growth. We see Wipro in an early stage of re-rating cycle. We reiterate "**BUY**" rating, with a TP of Rs600, 16x FY15E earnings estimate (20% discount to TCS).

Key Financials (Rs m)

Y/e March	FY11	FY12	FY13	FY14E	FY15E
Revenue (Rs m)	310,542	318,747	374,256	449,041	502,498
Growth (%)	*14.2*	*2.6*	*17.4*	*20.0*	*11.9*
EBITDA (Rs m)	65,463	66,713	78,181	98,584	117,038
PAT (Rs m)	53,004	52,568	61,684	78,688	92,479
EPS (Rs)	21.6	21.4	25.0	31.9	37.5
Growth (%)	*(29.4)*	*(1.0)*	*17.1*	*27.6*	*17.5*
Net DPS (Rs)	6.4	7.0	6.9	9.0	9.0

Source: Company Data, PL Research

Profitability & valuation

Y/e March	FY11	FY12	FY13	FY14E	FY15E
EBITDA margin (%)	*21.1*	*20.9*	*20.9*	*22.0*	*23.3*
RoE (%)	*24.3*	*20.0*	*21.7*	*25.2*	*24.6*
RoCE (%)	*22.0*	*18.2*	*20.5*	*24.8*	*24.3*
EV / sales (x)	3.7	3.5	2.9	2.4	2.0
EV / EBITDA (x)	17.4	16.9	14.1	10.8	8.6
PER (x)	22.3	22.5	19.2	15.1	12.8
P / BV (x)	4.9	4.1	4.2	3.5	2.9
Net dividend yield (%)	*1.3*	*1.5*	*1.4*	*1.9*	*1.9*

Source: Company Data, PL Research

Stock Performance

(%)	1M	6M	12M
Absolute	(0.4)	37.2	43.8
Relative to Sensex	(3.8)	33.8	34.2

Financials

Wipro

Income Statement (Rs m)

Y/e March	FY11	FY12	FY13	FY14E	FY15E
Net Revenue	**310,542**	**318,747**	**374,256**	**449,041**	**502,498**
Direct Expenses	212,823	225,794	260,665	306,904	339,949
% of Net Sales	*68.5*	*70.8*	*69.6*	*68.3*	*67.7*
Employee Cost	-	-	-	-	-
% of Net Sales	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*
SG&A Expenses	32,256	26,240	35,410	43,552	45,511
% of Net Sales	*10.4*	*8.2*	*9.5*	*9.7*	*9.1*
Other Expenses	-	-	-	-	-
% of Net Sales	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*
EBITDA	**65,463**	**66,713**	**78,181**	**98,584**	**117,038**
Margin (%)	*21.1*	*20.9*	*20.9*	*22.0*	*23.3*
Depreciation	8,211	10,129	10,835	10,940	14,325
PBIT	**57,252**	**56,584**	**67,346**	**87,645**	**102,713**
Interest Expenses	(11)	-	-	-	-
PBT	**63,063**	**65,523**	**78,596**	**101,138**	**118,820**
Total tax	9,714	12,955	16,912	22,250	26,140
Effective Tax rate (%)	*15.4*	*19.8*	*21.5*	*22.0*	*22.0*
PAT	**53,004**	**52,568**	**61,684**	**78,688**	**92,479**
Extraordinary Gain/(Loss)	-	-	-	-	-
Adjusted PAT	**53,004**	**52,568**	**61,684**	**78,688**	**92,479**

Source: Company Data, PL Research

Balance Sheet (Rs m)

Y/e March	FY11	FY12	FY13	FY14E	FY15E
Share Capital	4,908	4,917	4,926	4,926	4,926
Reserves & Surplus	203,250	241,912	259,178	315,772	386,159
Shareholder's Fund	239,680	285,314	283,812	340,406	410,793
Preference Share Capital	-	-	-	-	-
Total Debt	19,759	22,510	854	854	854
Other Liabilities(net)	6,064	4,736	4,688	4,688	4,688
Deferred Tax Liability	5,322	5,756	5,636	5,636	5,636
Total Liabilities	**270,825**	**318,316**	**294,990**	**351,584**	**421,971**
Gross Block	94,554	109,736	101,685	115,156	130,231
Less: Depreciation	46,708	56,207	57,096	68,036	82,361
Net Block	47,846	53,529	44,589	47,120	47,870
Capital Work in Progress	7,248	5,459	5,936	-	-
Cash & Cash Equivalent	113,407	123,089	154,060	188,227	251,481
Total Current Assets	178,077	225,892	230,824	290,581	376,653
Total Current Liabilities	100,618	117,685	144,740	150,434	166,869
Net Current Assets	77,459	108,207	86,084	140,147	209,784
Other Assets	86,006	105,698	89,159	95,095	95,095
Total Assets	**270,825**	**318,316**	**294,990**	**351,584**	**421,971**

Source: Company Data, PL Research

Larsen & Toubro

CMP: Rs975 TP: Rs1,025 Rating: Accumulate MCap: Rs901.7bn

Below trend valuations: L&T is certainly facing the turmoil of a slow economic growth environment. However, the stock is in a comfort zone on the backdrop of healthy set of announcements in the recently policies. L&T is trading at P/E of 12.5X FY15E core earnings. However, with the recent news flow in terms of order intake being positive, L&T seems to be on a comfortable wicket and poised to end the year with a 15% order inflow and 12-15% revenue growth.

Order book at comfortable footing: LT's order inflow stood at Rs510bn in H1FY14. L&T, in FY13, bagged orders worth Rs880bn, a growth of 25% YoY. The company has maintained the order inflow guidance of 20% YoY which amounts to Rs1.1trn. L&T has seen some revival in Hydrocarbon, Power and International orders (especially Middle East). However, Infrastructure projects remain the prime contributors. Within Infrastructure, Urban Infrastructure and Buildings show a promising growth path ahead. We have taken 17% growth YoY, amounting to Rs1trn, keeping in view the challenging domestic environment. Further, with the impetus given to DMIC, DFC and other BOT projects in transportation (Budget 2013-14), along with a strong financial backing, we expect L&T to be able to secure sizeable orders. However, any adverse mix in terms of order inflow may alter the margins. We are expecting a 5.3% CAGR in standalone earnings for the period of FY13-15E which is again not an out-of-reach assumption.

Asset monetization - a key trigger: L&T is trying to monetize assets in its subsidiary like Dharma port/few road projects. Successful asset monetization could act as a catalyst as it will reduce the burden on L&T's balance sheet to invest in subsidiary and, in turn, improve parents ROE profile.

Key Financials (Rs m)

Y/e March	FY11	FY12	FY13	FY14E	FY15E
Revenue (Rs m)	434,959	531,705	608,738	689,490	794,394
Growth (%)	*18.6*	*22.2*	*14.5*	*13.3*	*15.2*
EBITDA (Rs m)	52,136	62,826	64,200	68,884	81,198
PAT (Rs m)	36,720	44,196	45,499	45,739	51,513
EPS (Rs)	39.7	47.8	49.2	49.5	55.7
Growth (%)	*16.0*	*20.4*	*2.9*	*0.5*	*12.6*
Net DPS (Rs)	7.6	11.0	13.0	15.1	15.1

Source: Company Data, PL Research

Profitability & valuation

Y/e March	FY11	FY12	FY13	FY14E	FY15E
EBITDA margin (%)	*12.0*	*11.8*	*10.5*	*10.0*	*10.2*
RoE (%)	*18.4*	*18.8*	*16.7*	*15.0*	*15.2*
RoCE (%)	*15.3*	*15.2*	*14.2*	*13.2*	*13.6*
EV / sales (x)	2.2	1.8	1.6	1.4	1.2
EV / EBITDA (x)	18.3	15.6	15.3	14.2	12.1
PER (x)*	17.7	14.7	14.3	14.2	12.6
P / BV (x)	4.1	3.6	3.1	2.8	2.5
Net dividend yield (%)	*0.8*	*1.1*	*1.3*	*1.6*	*1.6*

Source: Company Data, PL Research ** Core PE*

Stock Performance

(%)	1M	6M	12M
Absolute	17.7	(6.4)	(10.6)
Relative to Sensex	14.3	(9.8)	(20.2)

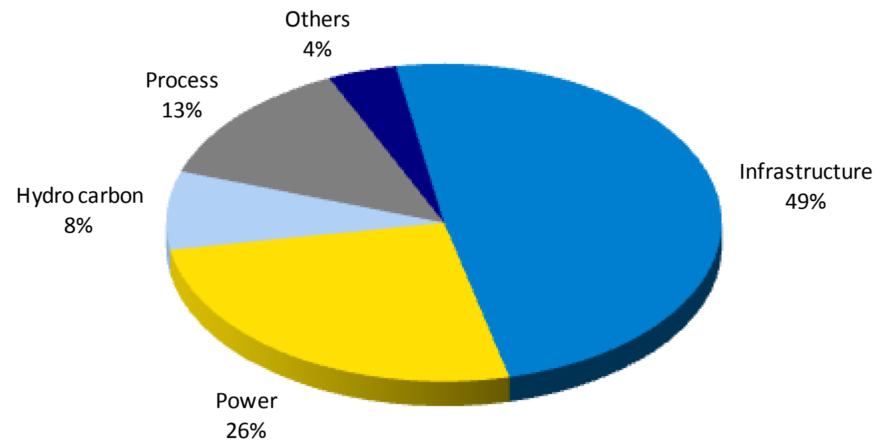
Operating Metrics

SOTP Valuation

Sectors	Valuation Parameter	Rs / Share
L&T Standalone	13.5x FY15 EPS of Rs55.7	752
L&T Infotech	12x FY15E PAT of Rs 8 bn @25% HOLDCO	78
L&T Finance Holdings	25% HOLDCO Discount to Mkt Cap of LT Finance -LT share 82%	92
L & T IDPL & developmet projects	1.0x Equity in Q1FY14E of Rs60bn @ HOLDCO of 25%	47
LT Power Equipement	P/E 6x FY15E PAT @ HOLDCO of 25%	2
L & T Manufacturing	10x FY15E Rs1.6bn PAT of various facilities	18
L&T Urban Infra	1x BV of Real Estate Cost @ 20% HOLDCO	17
Others busineeses	3x FY15E Rs6bn PAT of various businesses	19
Total Value		**1,025**

Source: PL Research

Order Book Break-up



Source: Company Data, PL Research

Order Inflow (Rs bn)

	Q1FY11	Q2FY11	Q3FY11	Q4FY11	Q1FY12	Q2FY12	Q3FY12	Q4FY12	Q1FY13	Q2FY13	Q3FY13	Q4FY13
Order inflow Composites												
In-house	53	48	22	75	29	20	0	0	86	0	0	57
Third Party	103	157	111	226	133	141	171	211	110	196	198	222
Total	156	205	133	301	162	161	171	211	196	196	198	279
Order Inflow by sectors (Eng)												
Infra	39	62	77	163	83	50	102	110	127	126	115	73
Hydrocarbon	11	18	0	0	15	40	65	25	4	26	36	10
Process	13	20	0	72	0	16	11	22	10	2	0	5
Power	81	88	44	61	35	42	22	36	41	22	24	123
Others	13	16	12	6	20	13	19	17	14	20	24	12

Source: Company Data, PL Research

Financials

Larsen & Toubro

Income Statement (Rs m)

Y/e March	FY11	FY12	FY13	FY14E	FY15E
Net Revenue	**434,959**	**531,705**	**608,738**	**689,490**	**794,394**
Direct Expenses	100,640	242,424	431,648	544,650	634,847
% of Net Sales	*23.1*	*45.6*	*70.9*	*79.0*	*79.9*
Employee Cost	28,845	9,754	44,363	50,456	49,658
% of Net Sales	*6.6*	*1.8*	*7.3*	*7.3*	*6.3*
SG&A Expenses	-	19,867	20,651	25,500	28,691
% of Net Sales	*0.0*	*3.7*	*3.4*	*3.7*	*3.6*
Other Expenses	253,338	196,834	47,876	-	-
% of Net Sales	*58.2*	*37.0*	*7.9*	*0.0*	*0.0*
EBITDA	**52,136**	**62,826**	**64,200**	**68,884**	**81,198**
Margin (%)	*12.0*	*11.8*	*10.5*	*10.0*	*10.2*
Depreciation	5,992	6,995	8,184	9,000	10,045
PBIT	**46,144**	**55,831**	**56,016**	**59,884**	**71,153**
Interest Expenses	6,474	6,661	9,824	10,421	11,932
PBT	**56,181**	**62,553**	**64,572**	**65,342**	**74,672**
Total tax	19,459	18,357	17,940	19,603	23,160
Effective Tax rate (%)	*34.6*	*29.3*	*27.8*	*30.0*	*31.0*
PAT	**39,580**	**44,565**	**49,107**	**45,739**	**51,513**
Extraordinary Gain/(Loss)	-	-	3,608	-	-
Adjusted PAT	**36,720**	**44,196**	**45,499**	**45,739**	**51,513**

Source: Company Data, PL Research

Balance Sheet (Rs m)

Y/e March	FY11	FY12	FY13	FY14E	FY15E
Share Capital	1,850	1,850	1,850	1,850	1,850
Reserves & Surplus	216,613	250,380	289,577	315,854	351,086
Shareholder's Fund	218,463	252,231	291,427	319,513	358,613
Preference Share Capital	-	-	-	-	-
Total Debt	71,611	98,969	93,362	96,326	102,915
Other Liabilities(net)	-	1	-	3	4
Deferred Tax Liability	2,635	1,330	2,422	2,874	1,986
Total Liabilities	**292,709**	**352,532**	**387,212**	**418,716**	**463,518**
Gross Block	89,567	105,364	119,760	132,813	145,670
Less: Depreciation	23,125	29,242	36,706	45,839	56,187
Net Block	66,442	76,122	83,054	86,974	89,483
Capital Work in Progress	8,139	7,587	5,968	4,734	2,950
Cash & Cash Equivalent	164,152	177,772	176,414	182,611	186,665
Total Current Assets	349,511	505,245	471,256	519,145	581,438
Total Current Liabilities	278,233	395,142	334,530	355,706	375,181
Net Current Assets	71,279	110,104	136,726	163,439	206,257
Other Assets	-	-	(4)	-	-
Total Assets	**292,708**	**352,532**	**387,211**	**418,715**	**463,517**

Source: Company Data, PL Research

Hindustan Zinc

CMP: Rs135 TP: Rs150 Rating: BUY MCap: Rs568.7bn

Hike in offer price by Vedanta in line with our expectation: Vedanta hiked its offer price to Rs150 for acquiring Govt of India's 29.5% stake. This broadly sets a floor price for stock. However, Ministry of Finance and mines continued to dispute on the modalities of sale with regards to legality and mode, either auction or direct sale to Vedanta, Notwithstanding, we believe that sale would be completed in the next couple of months, given the CAD management compulsions of Govt.

Strong outlook for Zn and Pb: Zn is expected to remain in deficit for couple of years, primarily on account of growth in consumption outpacing the rise in production. Pb is expected to be in marginal surplus in 2013; however, the trend is expected to reverse on the back of lower growth in production. We built in LME-Zn and LME-Pb at US$1930 and US$2200 in FY15E.

Valuation and Outlook: We remain positive on the stock, given the play on attractive valuations and quality assets, coupled with strong likelihood of Govt's stake sale at a significant premium. We maintain our "**BUY**" rating, with PT of Rs150, EV/EBITDA of 4.5x FY15E.

Key Financials (Rs m)

Y/e March	FY11	FY12	FY13	FY14E	FY15E
Revenue (Rs m)	99,121	112,551	125,257	136,139	143,339
Growth (%)	*23.6*	*13.5*	*11.3*	*8.7*	*5.3*
EBITDA (Rs m)	54,859	59,193	63,075	69,538	72,049
PAT (Rs m)	49,008	54,610	68,448	68,752	74,458
EPS (Rs)	11.6	12.9	16.2	16.3	17.6
Growth (%)	*21.3*	*11.4*	*25.3*	*0.4*	*8.3*
Net DPS (Rs)	1.0	2.4	3.1	3.5	4.0

Source: Company Data, PL Research

Profitability & valuation

Y/e March	FY11	FY12	FY13	FY14E	FY15E
EBITDA margin (%)	*55.3*	*52.6*	*50.4*	*51.1*	*50.3*
RoE (%)	*24.1*	*22.1*	*23.1*	*19.7*	*18.5*
RoCE (%)	*24.1*	*22.1*	*23.2*	*19.8*	*18.6*
EV / sales (x)	5.2	4.6	4.0	3.3	2.8
EV / EBITDA (x)	9.3	8.7	7.9	6.5	5.6
PER (x)	11.6	10.4	8.3	8.3	7.6
P / BV (x)	2.5	2.1	1.8	1.5	1.3
Net dividend yield (%)	*0.7*	*1.8*	*2.3*	*2.6*	*3.0*

Source: Company Data, PL Research

Stock Performance

(%)	1M	6M	12M
Absolute	2.8	9.3	(2.1)
Relative to Sensex	(0.6)	6.0	(11.8)

Financials

Hindustan Zinc

Income Statement (Rs m)

Y/e March	FY11	FY12	FY13	FY14E	FY15E
Net Revenue	**99,121**	**112,551**	**125,257**	**136,139**	**143,339**
Direct Expenses	35,572	43,807	50,502	53,388	56,836
% of Net Sales	*35.9*	*38.9*	*40.3*	*39.2*	*39.7*
Employee Cost	5,108	5,346	6,499	7,149	7,864
% of Net Sales	*5.2*	*4.8*	*5.2*	*5.3*	*5.5*
SG&A Expenses	3,582	4,206	5,181	6,064	6,590
% of Net Sales	*3.6*	*3.7*	*4.1*	*4.5*	*4.6*
Other Expenses	-	-	-	-	-
% of Net Sales	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*
EBITDA	**54,859**	**59,193**	**63,075**	**69,538**	**72,049**
Margin (%)	*55.3*	*52.6*	*50.4*	*51.1*	*50.3*
Depreciation	4,747	6,107	6,470	7,394	7,665
PBIT	**50,112**	**53,086**	**56,604**	**62,144**	**64,385**
Interest Expenses	194	140	291	316	333
PBT	**59,637**	**68,884**	**77,675**	**80,994**	**87,597**
Total tax	10,591	14,185	9,206	12,149	13,140
Effective Tax rate (%)	*17.8*	*20.6*	*11.9*	*15.0*	*15.0*
PAT	**48,834**	**54,268**	**68,293**	**68,228**	**74,458**
Extraordinary Gain/(Loss)	(174)	(342)	(155)	(524)	-
Adjusted PAT	**49,008**	**54,610**	**68,448**	**68,752**	**74,458**

Source: Company Data, PL Research

Balance Sheet (Rs m)

Y/e March	FY11	FY12	FY13	FY14E	FY15E
Share Capital	8,451	8,451	8,451	8,451	8,451
Reserves & Surplus	216,881	260,362	314,307	365,964	420,779
Shareholder's Fund	225,332	268,813	322,757	374,415	429,229
Preference Share Capital	-	-	-	-	-
Total Debt	4	4	4	4	4
Other Liabilities(net)	-	-	-	-	-
Deferred Tax Liability	9,447	11,088	12,799	14,418	16,170
Total Liabilities	**234,783**	**279,905**	**335,560**	**388,837**	**445,404**
Gross Block	98,023	116,579	122,648	130,148	134,148
Less: Depreciation	25,481	31,451	37,811	45,205	52,869
Net Block	72,542	85,128	84,837	84,943	81,279
Capital Work in Progress	8,752	6,049	14,305	24,555	39,955
Cash & Cash Equivalent	149,675	179,502	214,820	262,455	309,297
Total Current Assets	76,369	76,724	110,113	155,916	203,621
Total Current Liabilities	15,747	14,945	19,094	21,976	24,849
Net Current Assets	60,622	61,779	91,018	133,940	178,771
Other Assets	-	-	-	-	-
Total Assets	**235,263**	**279,905**	**335,560**	**388,837**	**445,404**

Source: Company Data, PL Research

Prabhudas Lilladher

NMDC

CMP: Rs137 TP: Rs148 Rating: BUY MCap: Rs542.6bn

Chinese steel production on a strong footing: After initial hiccups associated with transition of new regime, China's crude steel production growth rebounded to 7% YoY in Jan-July'13 against a meager 2% in CY12, lowest in almost a decade. Reading of recent policy initiatives indicates expansion in domestic production by 5-7% on sustainable basis.

High cost of Chinese domestic iron ore to keep prices above US$120 (CFR China): Chinese production stand in disadvantageous position with an average cash cost of US$110/t against global miner's average of US$50-60/t (CFR) due to poor grade of ore. Given the high cost of Chinese ore and strong demand, we see US$120 as strong support for global prices.

Concerns on over-supply overdone: Market is concerned about the announced capacity addition of ~350m tonnes, expected to get commissioned during the next 3-4 years. Compared to the addition, world iron ore demand would grow at an average 75m tonnes/year, while keeping the surplus below 50-60m tonnes. This, coupled with high cost of Chinese ore, continuous project delays and elevated capital cost would further lessen the concerns on overcapacity.

Downtrend in domestic prices reversed: Impacted by weak demand, NMDC's ex-mine prices dipped to ~40 months low in August despite reduced supplies. Thanks to steep correction in Rupee and strong global prices, we expect prices to rise by 4% or Rs100/t in the next couple of months.

Valuation and Outlook: Backed by lean operations (an exception to PSU) and logistically best placed operations, NMDC would be the sole beneficiary of the strength in iron ore prices. This, coupled with strong balance sheet (cash of Rs54/share), attractive dividend yield at 7% and undemanding valuations (EV/EBITDA of 4.4x FY15E), substantiates our positive recommendation on the stock. We value the stock at Rs152, EV/EBITDA of 5x FY15E.

Key Financials (Rs m)

Y/e March	FY11	FY12	FY13	FY14E	FY15E
Revenue (Rs m)	113,693	112,619	107,043	105,917	119,934
Growth (%)	*82.2*	*(0.9)*	*(5.0)*	*(1.1)*	*13.2*
EBITDA (Rs m)	86,450	89,262	73,752	66,953	75,502
PAT (Rs m)	64,992	72,654	63,424	56,539	61,621
EPS (Rs)	16.4	18.3	16.0	14.3	15.5
Growth (%)	*87.5*	*11.8*	*(12.7)*	*(10.9)*	*9.0*
Net DPS (Rs)	3.3	4.5	7.0	8.0	8.0

Source: Company Data, PL Research

Profitability & valuation

Y/e March	FY11	FY12	FY13	FY14E	FY15E
EBITDA margin (%)	*76.0*	*79.3*	*68.9*	*63.2*	*63.0*
RoE (%)	*38.8*	*33.3*	*24.4*	*19.9*	*20.1*
RoCE (%)	*38.8*	*33.3*	*24.4*	*19.9*	*20.1*
EV / sales (x)	3.3	3.0	3.1	3.1	2.9
EV / EBITDA (x)	4.3	3.8	4.5	5.0	4.5
PER (x)	8.3	7.5	8.6	9.6	8.8
P / BV (x)	2.8	2.2	2.0	1.8	1.7
Net dividend yield (%)	*2.4*	*3.3*	*5.1*	*5.8*	*5.8*

Source: Company Data, PL Research

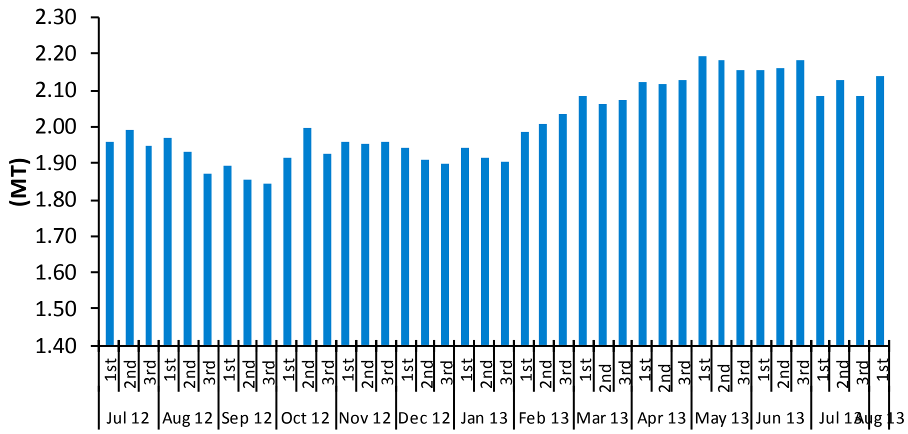
Stock Performance

(%)	1M	6M	12M
Absolute	1.5	(0.7)	(34.6)
Relative to Sensex	(2.2)	(9.1)	(41.4)

Operating Metrics

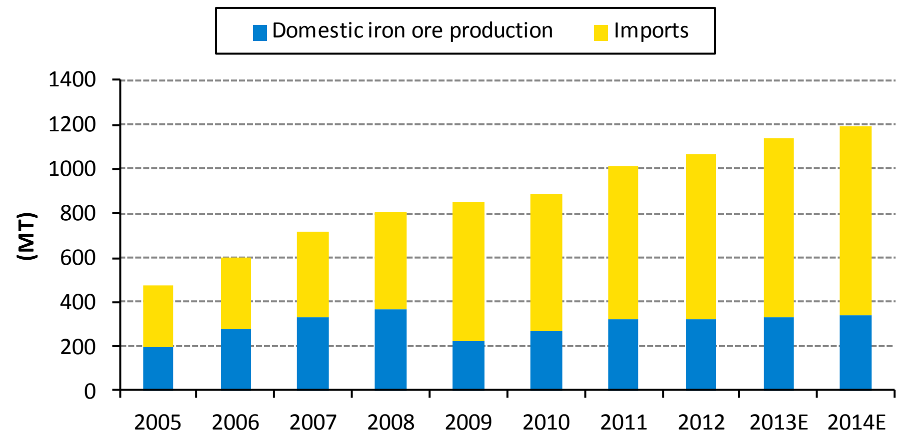
NMDC

China Average Daily Production



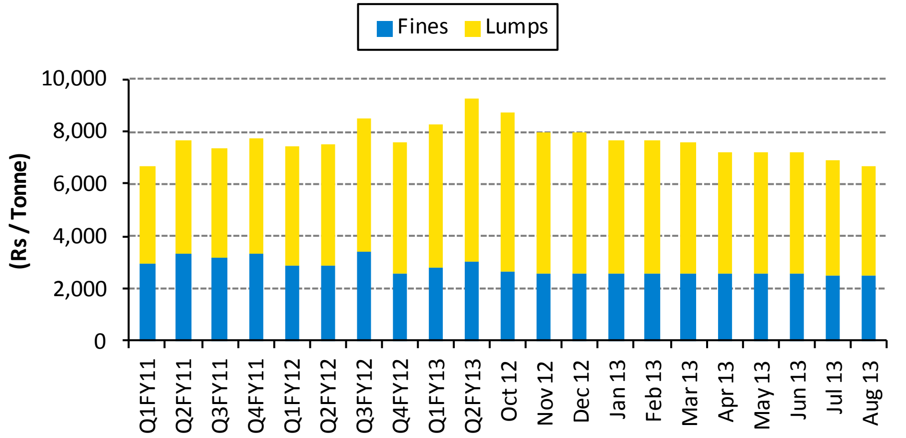
Source: CISA, PL Research

China iron ore consumption



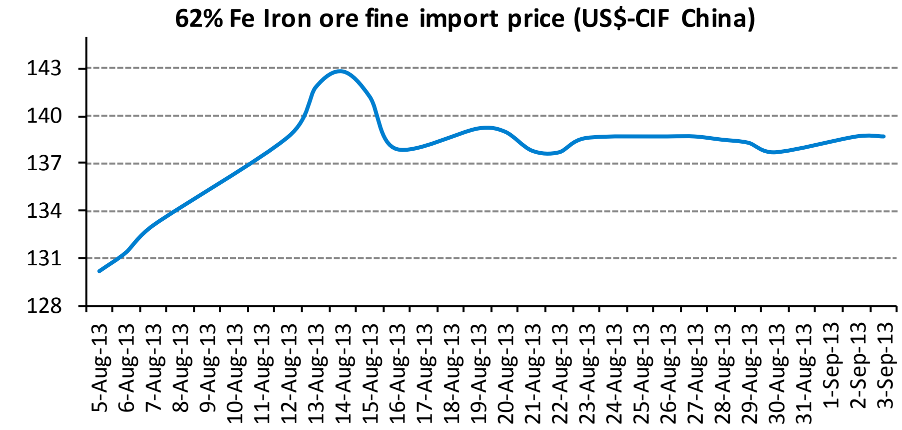
Source: World Steel, China Customs, PL Research

NMDC Iron Ore Prices



Source: Industry, PL Research

China Iron Ore Import Prices



Source: Bloomberg, PL Research

Financials

NMDC

Income Statement (Rs m)

Y/e March	FY11	FY12	FY13	FY14E	FY15E
Net Revenue	**113,693**	**112,619**	**107,043**	**105,917**	**119,934**
Direct Expenses	1,220	2,339	1,046	3,244	3,916
% of Net Sales	*1.1*	*2.1*	*1.0*	*3.1*	*3.3*
Employee Cost	4,911	5,291	5,799	6,379	7,224
% of Net Sales	*4.3*	*4.7*	*5.4*	*6.0*	*6.0*
SG&A Expenses	8,639	1,440	8,180	11,879	13,691
% of Net Sales	*7.6*	*1.3*	*7.6*	*11.2*	*11.4*
Other Expenses	12,474	14,288	18,266	17,462	19,600
% of Net Sales	*11.0*	*12.7*	*17.1*	*16.5*	*16.3*
EBITDA	**86,450**	**89,262**	**73,752**	**66,953**	**75,502**
Margin (%)	*76.0*	*79.3*	*68.9*	*63.2*	*63.0*
Depreciation	1,204	1,302	1,385	1,521	1,928
PBIT	**85,247**	**87,960**	**72,367**	**65,431**	**73,575**
Interest Expenses	15	15	132	130	130
PBT	**97,263**	**107,597**	**94,624**	**85,665**	**93,365**
Total tax	32,266	34,942	31,219	29,126	31,744
Effective Tax rate (%)	*33.2*	*32.5*	*33.0*	*34.0*	*34.0*
PAT	**64,992**	**72,654**	**63,424**	**56,539**	**61,621**
Extraordinary Gain/(Loss)	-	-	-	-	-
Adjusted PAT	**64,992**	**72,654**	**63,424**	**56,539**	**61,621**

Source: Company Data, PL Research

Balance Sheet (Rs m)

Y/e March	FY11	FY12	FY13	FY14E	FY15E
Share Capital	3,965	3,965	3,965	3,965	3,965
Reserves & Surplus	188,181	240,099	271,145	290,576	315,089
Shareholder's Fund	192,145	244,064	275,110	294,540	319,053
Preference Share Capital	-	-	-	-	-
Total Debt	-	-	-	-	-
Other Liabilities(net)	221	234	308	308	308
Deferred Tax Liability	1,029	1,001	1,045	1,045	1,512
Total Liabilities	**193,395**	**245,299**	**276,462**	**295,893**	**320,873**
Gross Block	22,728	23,882	25,820	29,672	44,163
Less: Depreciation	11,736	11,994	13,173	14,694	16,622
Net Block	10,993	11,888	12,647	14,977	27,541
Capital Work in Progress	6,772	19,147	36,808	54,408	75,536
Cash & Cash Equivalent	173,637	205,124	212,754	212,163	202,458
Total Current Assets	191,860	232,972	256,992	257,462	250,590
Total Current Liabilities	17,586	21,186	32,481	33,451	35,291
Net Current Assets	174,274	211,786	224,511	224,011	215,299
Other Assets	-	-	-	-	-
Total Assets	**193,395**	**245,299**	**276,462**	**295,893**	**320,873**

Source: Company Data, PL Research

Maruti Suzuki

CMP: Rs1,581 TP: Rs1,732 Rating: BUY MCap: Rs477.5bn

Best play on Macroeconomic recovery: We expect MSIL to maintain strong EBITDA margins of ~11-12% over the next few quarters, with increased discounts being offset by a stable currency. We reiterate that MSIL is the best play on recovery in the macroeconomic situation. We expect a rebound in volumes in FY15E (@13.0%). We maintain our **BUY** rating, with a TP of Rs1,732 based on 15x FY15E EPS of Rs115.4.

Management sounded cautiously optimistic: Management maintained its guidance of flat growth in the domestic market for FY14E, with flattish export volumes. Growth during the festive has improved by 5-6% YoY. Diesel accounted for 30% of overall volumes in Q2FY14 as against 34% in Q1FY14. Rural sales accounted for ~32-33% of volumes in Q2FY14, with growth in H1FY14 pegged at 24%. Discount/vehicle increased by 30% QoQ to Rs17,500, mainly on account of higher discounts on petrol vehicle. Full impact of diesel vehicle discounting started in June'13. Management indicated that indirect imports are likely to cost more as they need to be compensated for Rupee depreciation in Q3FY14 (with a quarter lag; vendor imports in Q2FY14 reflected Q1FY14 rates of Rs55/$).

Further cost-cutting in offing: MSIL's JPY-denominated imported content (direct + indirect) stands at ~18% of net sales. It has targeted a savings of 150-200bps every year by increasing localisation and thereby, bring imported content down to 14-15% of net sales by FY15E end. For FY14, we have assumed a cross-currency rate of INR/JPY at 0.62 v/s 0.66 in FY13. Hence, we expect gross margins to improve by 250bps YoY in FY14E and margins to improve by ~250bps over the next two years, mainly on account of lower material cost and favourable currency partially mitigated by higher other expenses.

Outlook & Valuation: We expect volumes to de-grow by 0.8% YoY in FY14E and expect a strong recovery of 13.1% YoY in FY15E (flattish volume growth in FY13 and FY14E). We believe current valuations of 17.1x FY14E EPS and 13.7x FY15E EPS seem attractive, given an estimated earnings CAGR of 20.9%.

Key Financials (Rs m)

Y/e March	FY11	FY12	FY13	FY14E	FY15E
Revenue (Rs m)	366,184	355,871	435,879	448,140	519,489
Growth (%)	*23.6*	*(2.8)*	*22.5*	*2.8*	*15.9*
EBITDA (Rs m)	37,037	25,130	42,297	52,239	63,116
PAT (Rs m)	23,538	16,352	23,921	27,985	34,875
EPS (Rs)	81.4	56.6	79.2	92.6	115.4
Growth (%)	*(6.6)*	*(30.5)*	*39.9*	*17.0*	*24.6*
Net DPS (Rs)	7.5	7.5	8.0	10.0	11.0

Source: Company Data, PL Research

Profitability & valuation

Y/e March	FY11	FY12	FY13	FY14E	FY15E
EBITDA margin (%)	*10.1*	*7.1*	*9.7*	*11.7*	*12.1*
RoE (%)	*17.8*	*11.3*	*14.2*	*14.0*	*15.0*
RoCE (%)	*17.2*	*10.9*	*13.7*	*13.5*	*14.5*
EV / sales (x)	1.2	1.2	1.1	1.1	0.9
EV / EBITDA (x)	11.7	17.6	11.4	9.1	7.3
PER (x)	19.4	27.9	20.0	17.1	13.7
P / BV (x)	3.3	3.0	2.6	2.2	1.9
Net dividend yield (%)	*0.5*	*0.5*	*0.5*	*0.6*	*0.7*

Source: Company Data, PL Research

Stock Performance

(%)	1M	6M	12M
Absolute	12.4	(6.0)	8.3
Relative to Sensex	9.0	(9.3)	(1.4)

Operating Metrics

Operating Matrix

Y/e March	FY10	FY11	FY12	FY13	FY14E	FY15E
A2 segment volumes (nos)	633,190	808,552	709,430	673,009	686,469	765,413
A3 segment volumes (nos)	99,315	131,410	128,587	176,467	187,055	209,502
Domestic Volumes (nos)	870,790	1,132,739	1,006,316	1,051,047	1,044,524	1,184,755
Export Volumes (nos)	147,575	138,266	127,379	120,388	118,000	130,000
Volumes (nos)	1,018,365	1,271,005	1,133,695	1,171,435	1,162,524	1,314,755
Growth (%)	*28.6*	*24.8*	*(10.8)*	*3.3*	*(0.8)*	*13.1*
Av. Real. / Veh. (Rs)	290,887	288,106	313,904	367,909	384,045	393,420
Growth (%)	*10.5*	*(1.0)*	*9.0*	*17.2*	*4.4*	*2.4*
RM cost / veh. (Rs)	220,092	222,959	247,559	286,508	288,260	291,828
Growth (%)	*7.3*	*1.3*	*11.0*	*15.7*	*0.6*	*1.2*
Contr. / Veh. (Rs)	70,795	65,147	66,345	81,402	95,785	101,592
Selling expenses (Rs mn)	9,160	11,029	10,136	11,823	14,631	16,594
Selling exp. / Veh. (Rs)	8,995	8,677	8,941	10,093	12,585	12,621
Growth (%)	*(3.5)*	*(3.5)*	*3.0*	*12.9*	*24.7*	*0.3*
Other exp. / Veh. (Rs)	26,393	30,472	36,736	42,635	45,051	46,500
Growth (%)	*(3.8)*	*15.5*	*20.6*	*16.1*	*5.7*	*3.2*
EBITDA / Veh. (Rs)	39,044	29,140	22,166	30,368	41,342	45,544
Growth (%)	*57.3*	*(25.4)*	*(23.9)*	*37.0*	*36.1*	*10.2*
Net Profit / Veh. (Rs)	24,526	18,006	14,195	19,634	25,486	28,700

Source: Company Data, PL Research

Financials

Maruti Suzuki

Income Statement (Rs m)

Y/e March	FY11	FY12	FY13	FY14E	FY15E
Net Revenue	**366,184**	**355,871**	**435,879**	**448,140**	**519,489**
Direct Expenses	283,382	280,656	325,149	322,609	371,683
% of Net Sales	*77.4*	*78.9*	*74.6*	*72.0*	*71.5*
Employee Cost	7,036	8,438	10,696	12,919	15,554
% of Net Sales	*1.9*	*2.4*	*2.5*	*2.9*	*3.0*
SG&A Expenses	11,029	-	-	-	-
% of Net Sales	*3.0*	*0.0*	*0.0*	*0.0*	*0.0*
Other Expenses	27,701	41,647	57,738	60,373	69,136
% of Net Sales	*7.6*	*11.7*	*13.2*	*13.5*	*13.3*
EBITDA	**37,037**	**25,130**	**42,297**	**52,239**	**63,116**
Margin (%)	*10.1*	*7.1*	*9.7*	*11.7*	*12.1*
Depreciation	10,135	11,384	18,612	20,810	23,243
PBIT	**26,902**	**13,746**	**23,685**	**31,429**	**39,873**
Interest Expenses	250	552	1,898	1,835	1,735
PBT	**31,087**	**21,203**	**29,910**	**36,344**	**45,888**
Total tax	8,201	5,111	5,989	8,359	11,013
Effective Tax rate (%)	*26.4*	*24.1*	*20.0*	*23.0*	*24.0*
PAT	**22,886**	**16,092**	**23,921**	**27,985**	**34,875**
Extraordinary Gain/(Loss)	(652)	(260)	-	-	-
Adjusted PAT	**23,538**	**16,352**	**23,921**	**27,985**	**34,875**

Source: Company Data, PL Research

Balance Sheet (Rs m)

Y/e March	FY11	FY12	FY13	FY14E	FY15E
Share Capital	1,445	1,445	1,510	1,510	1,510
Reserves & Surplus	137,230	150,429	184,279	213,669	247,915
Shareholder's Fund	138,675	151,874	185,790	215,180	249,425
Preference Share Capital	-	-	-	-	-
Total Debt	312	10,784	13,892	14,192	14,492
Other Liabilities(net)	2,355	2,648	2,364	1,694	1,395
Deferred Tax Liability	1,644	3,023	4,087	4,087	4,087
Total Liabilities	**142,987**	**168,329**	**206,133**	**235,153**	**269,399**
Gross Block	123,998	147,347	198,007	242,429	287,301
Less: Depreciation	63,955	72,140	100,015	115,534	133,063
Net Block	60,043	75,207	97,992	126,895	154,238
Capital Work in Progress	3,876	9,419	19,422	19,872	20,322
Cash & Cash Equivalent	87,308	86,096	78,610	77,677	94,298
Total Current Assets	56,246	76,659	69,738	78,292	105,435
Total Current Liabilities	39,402	54,691	51,880	50,459	76,552
Net Current Assets	16,844	21,968	17,858	27,833	28,883
Other Assets	-	-	-	-	-
Total Assets	**142,986**	**168,329**	**206,133**	**235,153**	**269,399**

Source: Company Data, PL Research

Hero Motocorp

CMP: Rs2,093 TP: Rs2,282 Rating: Accumulate MCap: Rs417.9bn

Two wheeler outlook positive: Management seems cautiously optimistic and expects a recovery in two-wheeler volumes driven by good monsoon and pre-election spending. In the country's main cropping regions, monsoon has been timely and 20-30% above average so far, prompting farmers to expand cultivated area by 9% to 930lakh hectares, with the biggest gains in pulses, oilseeds and coarse cereals. Low penetration level, lack of adequate mode public transport and rising per capita income in rural India would lead to long-term healthy volume of two-wheelers. Hero has benefited from stronger rural demand-rural forms 45% of HMCL's sales v/s 40% for the industry and beneficial impact of the warranty scheme (first to offer a 5-year warranty on two-wheelers).

Management optimistic on volume recovery due to good monsoons: Retail volumes improved by 7% YoY in Q2FY14 similar to the preceding quarter. Growth for FY14E in motorcycles is likely to be in lower single digit (compared to flat growth in FY13) implying growth between 7-8% in H2FY14 as compared to flattish growth in H1FY14. Margins are likely to be sustained at current levels, given cost-cutting efforts by the mgmt. It has undertaken a cost-cutting drive spread over 5 phases. With the 1st phase being completed, mgmt expects cost savings to the tune of Rs600-800m over next 2 quarters. It has started exporting to Central America & certain markets in Africa. HMCL has also started its assembly facility in Kenya.

Competitive intensity receding; HMCL to maintain its turf: Given the strong distribution reach and wider product portfolio, including scooters, volumes are expected to grow by ~4% in FY14E and 11% in FY15E, thereby, maintaining its turf in motorcycles with a market share of 53.6%. Going forward, Hero is liekly to gain 180bps in market share in the scooter segment, thanks to 'Maestro' and 'Pleasure' at 21.6%. HMSI is likely to further gain market share to the tune of 260bps to 14.7% by FY15E at the cost of Bajaj Auto.

Earnings to grow at a CAGR of 18.0% for FY13-FY15E period: We expect Hero to gain market share in scooters segment and maintain its market share in the motorcycle segment. We expect a 10.0% CAGR in revenues with margins likely to expand by 150bps (given the cost-cutting initiatives). At the same time, we expect savings of Rs4.5bn on account of royalty payments to Honda ending by March 2014. As a result, earnings are expected to grow at 19.0% CAGR for FY13-FY15E period. At the CMP, the stock trades at 19.4x FY14E EPS and 14.2x FY15E EPS. Maintain **Accumulate**

Key Financials (Rs m)

Y/e March	FY11	FY12	FY13	FY14E	FY15E
Revenue (Rs m)	194,012	235,789	237,681	252,718	287,007
Growth (%)	*22.3*	*21.5*	*0.8*	*6.3*	*13.6*
EBITDA (Rs m)	29,804	36,047	32,845	36,840	43,777
PAT (Rs m)	20,077	23,782	21,100	21,557	29,402
EPS (Rs)	100.5	119.1	105.7	107.9	147.2
Growth (%)	*(10.0)*	*18.5*	*(11.3)*	*2.2*	*36.4*
Net DPS (Rs)	105.0	45.0	60.0	65.0	70.0

Source: Company Data, PL Research

Profitability & valuation

Y/e March	FY11	FY12	FY13	FY14E	FY15E
EBITDA margin (%)	*15.4*	*15.3*	*13.8*	*14.6*	*15.3*
RoE (%)	*62.5*	*65.6*	*45.4*	*38.8*	*43.1*
RoCE (%)	*50.2*	*48.4*	*39.8*	*37.9*	*43.2*
EV / sales (x)	2.2	1.8	1.8	1.6	1.4
EV / EBITDA (x)	14.0	11.6	12.7	11.2	9.4
PER (x)	20.8	17.6	19.8	19.4	14.2
P / BV (x)	14.1	9.7	8.3	6.8	5.5
Net dividend yield (%)	*5.0*	*2.2*	*2.9*	*3.1*	*3.3*

Source: Company Data, PL Research

Stock Performance

(%)	1M	6M	12M
Absolute	3.6	24.8	8.8
Relative to Sensex	0.1	21.4	(0.8)

Financials

Hero Motocorp

Income Statement (Rs m)

Y/e March	FY11	FY12	FY13	FY14E	FY15E
Net Revenue	**194,012**	**235,789**	**237,681**	**252,718**	**287,007**
Direct Expenses	141,111	172,816	173,977	183,127	205,753
% of Net Sales	*72.7*	*73.3*	*73.2*	*72.5*	*71.7*
Employee Cost	6,189	7,355	8,209	8,907	9,976
% of Net Sales	*3.2*	*3.1*	*3.5*	*3.5*	*3.5*
SG&A Expenses	5,044	3,661	4,687	4,877	5,740
% of Net Sales	*2.6*	*1.6*	*2.0*	*1.9*	*2.0*
Other Expenses	11,863	15,911	17,963	18,967	21,761
% of Net Sales	*6.1*	*6.7*	*7.6*	*7.5*	*7.6*
EBITDA	**29,804**	**36,047**	**32,845**	**36,840**	**43,777**
Margin (%)	*15.4*	*15.3*	*13.8*	*14.6*	*15.3*
Depreciation	7,657	10,973	11,418	11,875	8,503
PBIT	**22,147**	**25,074**	**21,427**	**24,965**	**35,274**
Interest Expenses	(19)	(79)	120	110	100
PBT	**24,847**	**28,647**	**25,291**	**29,455**	**40,274**
Total tax	4,770	4,864	4,191	7,898	10,872
Effective Tax rate (%)	*19.2*	*17.0*	*16.6*	*26.8*	*27.0*
PAT	**20,875**	**23,782**	**21,100**	**21,557**	**29,402**
Extraordinary Gain/(Loss)	798	-	-	-	-
Adjusted PAT	**20,077**	**23,782**	**21,100**	**21,557**	**29,402**

Source: Company Data, PL Research

Balance Sheet (Rs m)

Y/e March	FY11	FY12	FY13	FY14E	FY15E
Share Capital	399	399	399	399	399
Reserves & Surplus	29,161	42,499	49,663	60,765	74,951
Shareholder's Fund	29,561	42,898	50,062	61,165	75,351
Preference Share Capital	-	-	-	-	-
Total Debt	357	380	-	-	-
Other Liabilities(net)	14,710	10,114	3,022	-	-
Deferred Tax Liability	2,468	2,083	1,324	-	-
Total Liabilities	**47,096**	**55,475**	**54,408**	**61,165**	**75,351**
Gross Block	59,391	63,083	66,851	78,472	91,093
Less: Depreciation	18,579	25,228	36,141	39,016	38,518
Net Block	40,812	37,855	30,710	39,456	52,574
Capital Work in Progress	490	388	621	621	621
Cash & Cash Equivalent	52,003	40,411	38,049	40,166	43,934
Total Current Assets	14,674	21,003	28,848	35,713	42,006
Total Current Liabilities	60,167	43,414	42,008	48,864	56,089
Net Current Assets	(45,493)	(22,411)	(13,161)	(13,151)	(14,083)
Other Assets	-	-	-	-	-
Total Assets	**47,096**	**55,475**	**54,408**	**61,165**	**75,351**

Source: Company Data, PL Research

Prabhudas Lilladher

Dr. Reddy's Laboratories

CMP: Rs2,402 TP: Rs2,697 Rating: Accumulate MCap: Rs407.9bn

Dr. Reddy's Labs is one of the best play on global generic space: Dr. Reddy's has built a very strong global generic business and has emerged as one of the leading Indian companies in the large generic markets like US, Europe and Russia/CIS. Apart from strong formulation business, the company is one of the largest suppliers of APIs to global generic companies. We believe that the company will be a key beneficiary of large patent expiries taking place in US and Europe and strong growth movement in branded generic markets like Russia, LatAm and India.

US remains a key performance driver for the company: Dr. Reddy's has built a sizable US business on the back of strong product pipeline of niche and limited competition products like Geodon, Lipitor, Toprol XL, Arixtra, Tacrolimus etc. The company has also developed a strong OTC franchise in US market with revenue of US$130m (25% of US revenue). US market remains a key revenue and profit contributor to the company in medium term. We expect top-line growth of 37% for US business over FY12-14E.

Branded formulation continues to grow in double digits: Dr. Reddy will continue to report strong growth in branded formulation business, going forward, led by strong franchise in Russia/CIS markets, reviving growth in Indian markets and ramping up revenue from its alliance with GSK for emerging markets. Further, the launch of biologics will be a key growth driver in emerging markets. We expect 22% and 15% revenue CAGR for International branded formulation and India formulation over FY12-14E

Outlook and Valuations: We expect strong earnings CAGR of 31% over FY12-14 led by robust top-line growth of 22% over the same period. All the key business segments, excluding Europe, are likely to contribute to the performance. Further, the company will benefit from the operating leverage, going forward. Concerns over FY14 Revenue and PAT growth are overdone as we expect 14% YoY earnings growth in FY14 despite a high base. The stock currently trades at 10-15% discount to some of its peers which we feel is unjustified. At the current price, the stock trades at 23.1x FY14E and 20.4x FY15E earnings. '**BUY**' with target price of Rs2,414.

Key Financials (Rs m)

Y/e March	FY11	FY12	FY13	FY14E	FY15E
Revenue (Rs m)	74,693	96,737	116,266	139,158	152,079
Growth (%)	*6.3*	*29.5*	*20.2*	*19.7*	*9.3*
EBITDA (Rs m)	15,660	23,741	24,762	32,006	35,282
PAT (Rs m)	11,040	14,262	16,776	17,687	20,028
EPS (Rs)	65.2	84.1	98.8	104.2	118.0
Growth (%)	*931.4*	*28.9*	*17.5*	*5.4*	*13.2*
Net DPS (Rs)	11.3	13.7	15.0	15.0	15.0

Source: Company Data, PL Research

Profitability & valuation

Y/e March	FY11	FY12	FY13	FY14E	FY15E
EBITDA margin (%)	*21.0*	*24.5*	*21.3*	*23.0*	*23.2*
RoE (%)	*24.8*	*27.6*	*25.7*	*22.2*	*21.2*
RoCE (%)	*22.4*	*23.6*	*21.6*	*20.1*	*19.3*
EV / sales (x)	5.4	4.3	3.6	3.0	2.7
EV / EBITDA (x)	26.0	17.6	16.8	13.0	11.8
PER (x)	36.8	28.6	24.3	23.1	20.4
P / BV (x)	8.8	7.1	5.6	4.7	4.0
Net dividend yield (%)	*0.5*	*0.6*	*0.6*	*0.6*	*0.6*

Source: Company Data, PL Research

Stock Performance

(%)	1M	6M	12M
Absolute	0.4	20.2	35.2
Relative to Sensex	(3.0)	16.8	25.5

Financials

Dr. Reddy's Laboratories

Income Statement (Rs m)

Y/e March	FY11	FY12	FY13	FY14E	FY15E
Net Revenue	**74,693**	**96,737**	**116,266**	**139,158**	**152,079**
Direct Expenses	20,321	26,504	35,274	38,964	42,126
% of Net Sales	*27.2*	*27.4*	*30.3*	*28.0*	*27.7*
Employee Cost	14,109	16,928	20,413	23,657	25,549
% of Net Sales	*18.9*	*17.5*	*17.6*	*17.0*	*16.8*
SG&A Expenses	24,603	29,565	35,817	44,530	49,122
% of Net Sales	*32.9*	*30.6*	*30.8*	*32.0*	*32.3*
Other Expenses	-	-	-	-	-
% of Net Sales	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*
EBITDA	**15,660**	**23,741**	**24,762**	**32,006**	**35,282**
Margin (%)	*21.0*	*24.5*	*21.3*	*23.0*	*23.2*
Depreciation	2,961	3,628	3,859	4,118	4,395
PBIT	**11,513**	**18,528**	**19,213**	**26,198**	**29,197**
Interest Expenses	305	1,067	1,018	1,579	1,427
PBT	**12,497**	**18,764**	**20,675**	**26,010**	**29,672**
Total tax	1,403	4,205	4,900	8,323	9,643
Effective Tax rate (%)	*11.2*	*22.4*	*23.7*	*32.0*	*32.5*
PAT	**11,040**	**14,262**	**16,776**	**17,687**	**20,028**
Extraordinary Gain/(Loss)	-	-	-	-	-
Adjusted PAT	**11,040**	**14,262**	**16,776**	**17,687**	**20,028**

Source: Company Data, PL Research

Balance Sheet (Rs m)

Y/e March	FY11	FY12	FY13	FY14E	FY15E
Share Capital	846	848	849	849	849
Reserves & Surplus	45,144	56,596	72,236	85,231	102,279
Shareholder's Fund	45,990	57,444	73,085	86,080	103,128
Preference Share Capital	-	-	-	-	-
Total Debt	5,978	17,441	13,635	13,847	14,107
Other Liabilities(net)	-	-	20	20	20
Deferred Tax Liability	87	(833)	(1,669)	(3,372)	(3,512)
Total Liabilities	**52,055**	**74,052**	**85,071**	**96,576**	**113,743**
Gross Block	44,888	46,775	51,835	58,835	64,635
Less: Depreciation	-	-	-	-	-
Net Block	44,888	46,775	51,835	58,835	64,635
Capital Work in Progress	276	417	487	502	555
Cash & Cash Equivalent	6,075	18,520	22,780	21,902	22,114
Total Current Assets	47,560	59,179	68,751	76,288	83,522
Total Current Liabilities	41,015	43,460	53,646	56,808	52,752
Net Current Assets	6,545	15,719	15,105	19,480	30,770
Other Assets	-	-	-	-	-
Total Assets	**52,055**	**74,052**	**85,071**	**96,576**	**113,743**

Source: Company Data, PL Research

Adani Port & SEZ

CMP: Rs148 TP: Rs180 Rating: BUY MCap: Rs297.3bn

Coal volumes to continue its uptrend: Tata UMPP and Adani Power's coal contribution increased from 8.6mt in FY12 to 18.4mt in FY13. These volumes are expected to continue their uptrend to 22mt in FY14 & 28.5mt in FY15. Overall, Mundra's volumes are expected to increase from 82.1mt in FY13 to 99.6mt in FY14 and 115mt in FY15.

HMEL to contribute to growth in crude volumes: HMEL's contribution to crude volumes witnessed strong growth in FY13, resulting in overall crude volumes increasing from 9.3mt in FY12 to 14mt in FY13. Further, crude volumes in FY14 are expected to scale up to 19mt on account of HMEL's production increasing.

Developing new port assets: Operations at Dahej have scaled up quite strongly. In FY13, volumes stood at ~7.56mt as against 2.14mt in FY12. The financial performance at Dahej was also extremely robust contributing to revenues of Rs2.4bn and PAT of Rs0.7bn. Hazira is likely to be the next big contributor for the company. Besides, capex at Kandla, Vishakhapatnam and Mormugao are likely to continue. Total capex for the company is likely to be ~Rs25-30bn in FY14. Further, the company is looking at investing into port assets in the Eastern & Southern India.

Abbot divested at cost: In order to focus on growth in India and on account of investor criticism, the company has divested its stake in Abbot Point in favor of Adani's promoters. This would result in the consolidated debt declining by Rs112bn which is the debt on Abbot Point. Further, the parent has invested US$235m as equity in the company which has been bought by the promoters at the same valuation plus an additional US$15m on account of exchange-rate fluctuation. The divestment of Abbot shall provide a clear roadmap for the company as it can now focus on its India business

Valuations: Our SOTP for the company stands at Rs180, We remain confident on the long-term fundamentals of the company despite the risk of volatility in the company's stock price on account of the issues surrounding the 'Adani' group.

Key Financials (Rs m)

Y/e March	FY11	FY12	FY13	FY14E	FY15E
Revenue (Rs m)	20,001	26,973	35,766	54,317	55,910
Growth (%)	*33.7*	*34.9*	*32.6*	*51.9*	*2.9*
EBITDA (Rs m)	12,994	17,908	23,835	40,449	38,228
PAT (Rs m)	8,342	11,018	16,232	26,950	23,647
EPS (Rs)	4.2	5.5	8.1	13.0	11.4
Growth (%)	*23.4*	*32.1*	*47.3*	*60.7*	*(12.3)*
Net DPS (Rs)	1.3	1.0	1.0	2.5	2.6

Source: Company Data, PL Research

Profitability & valuation

Y/e March	FY11	FY12	FY13	FY14E	FY15E
EBITDA margin (%)	*65.0*	*66.4*	*66.6*	*74.5*	*68.4*
RoE (%)	*21.8*	*24.4*	*28.9*	*33.8*	*22.6*
RoCE (%)	*10.9*	*8.4*	*9.8*	*15.4*	*12.1*
EV / sales (x)	16.5	17.1	11.2	7.7	6.8
EV / EBITDA (x)	25.5	25.8	16.8	10.4	9.9
PER (x)	35.6	27.0	18.3	11.4	13.0
P / BV (x)	7.1	6.1	4.7	3.2	2.7
Net dividend yield (%)	*0.8*	*0.7*	*0.7*	*1.7*	*1.7*

Source: Company Data, PL Research

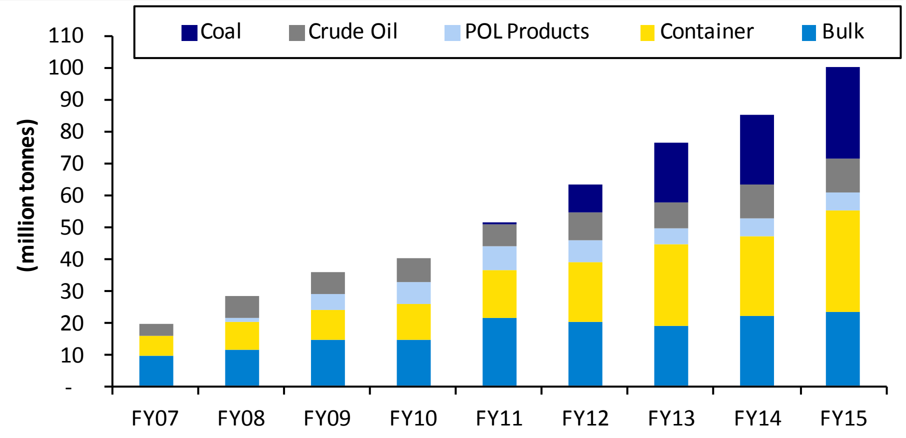
Stock Performance

(%)	1M	6M	12M
Absolute	2.7	(3.9)	13.6
Relative to Sensex	(0.7)	(7.3)	4.0

Operating Metrics

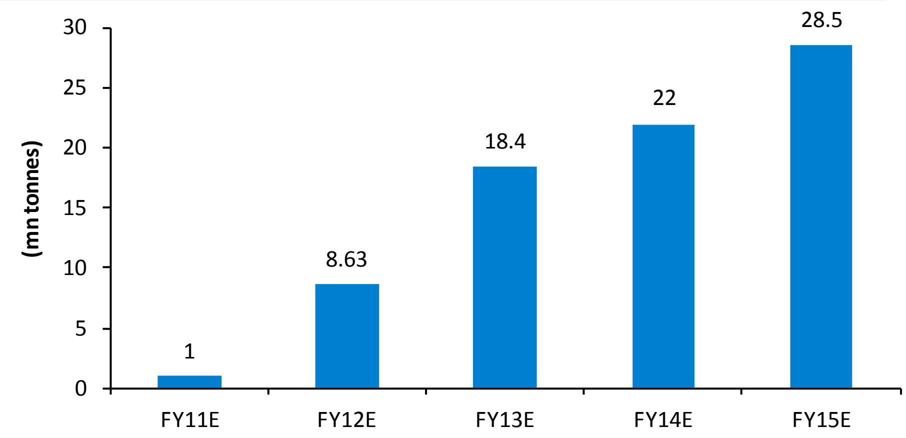
Adani Port & SEZ

Commodity-wise port volumes



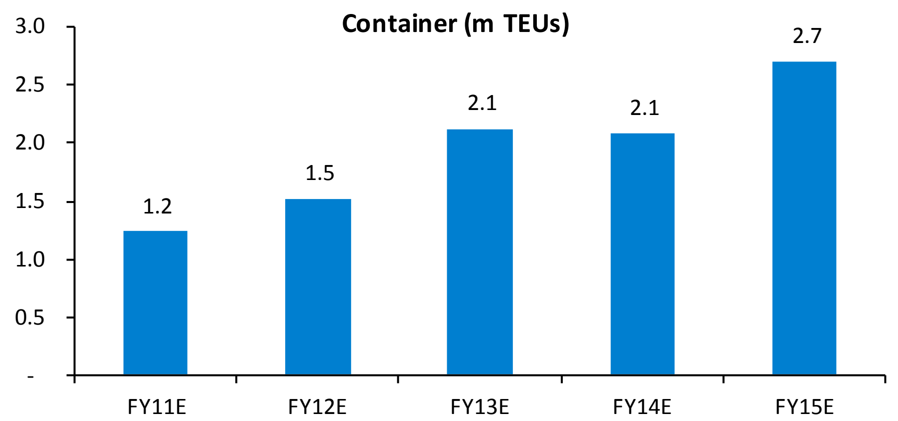
Source: Company Data, PL Research

Coal volumes to bump up with upcoming Adani and UMPP power plants



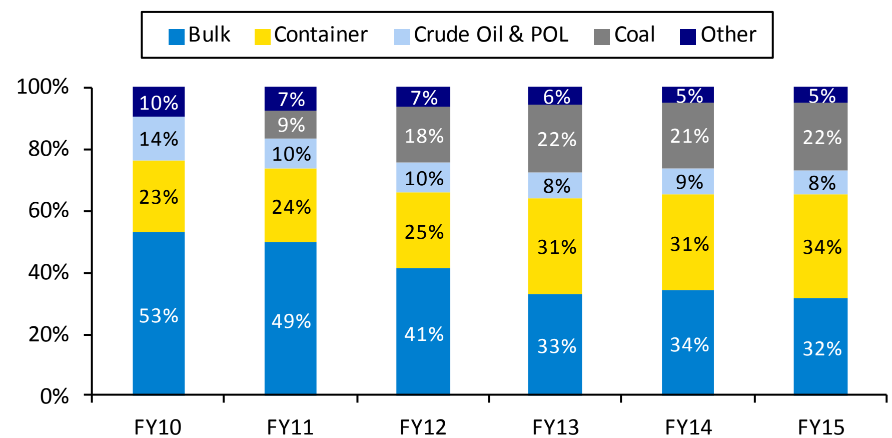
Source: PL Research

Container volumes to show rapid growth in FY11-15 period



Source: PL Research

Commodity-wise contribution to port revenues



Source: Company Data, PL Research

Contd…

Adani Ports & SEZ

Revenue Break-up *(Rs m)*

Y/e March	FY10	FY11	FY12	FY13E	FY14E	FY15E
Port	13,634	19,023	23,544	28,735	36,990	42,683
SEZ	865	515	805	4,399	11,220	2,850
Abbot Point	0	0	6,120	15,344	20,320	23,162
Others	456	463	(3,497)	(12,711)	(14,213)	(12,786)
Total	**14,955**	**20,001**	**26,973**	**35,766**	**54,317**	**55,910**

Source: Company Data, PL Research

Details of SEZ	Area (Acres)
Total Size of SEZ	32,000
Area in Possesion	23,000
Notified Area	18,000

Opearting Parameters of Port & SEZ

Y/e March	FY10	FY11E	FY12E	FY13E	FY14E	FY15E
Port Volumes (m tonnes)	40.3	51.7	64.0	82.1	99.6	115.6
Average Realization/tonne Rs	338.4	368.1	368.1	349.9	371.5	369.2
SEZ Sales (Acres)	160.0	27.0	15.0	80.0	150.0	150.0

Source: Company Data, PL Research

Summary of Valuations

	NAV/Share Rs.
Mundra Port	152
Dahej Port (75% Stake)	4
Mormogao Port	2
Hazira Port	4
Kandla	4
SEZ (40% discount to NAV)	14
Total NAV	**180**

Breakup of Volumes (m Tonnes)

Y/e March	FY10	FY11E	FY12E	FY13E	FY14E	FY15E
Bulk	14.7	21.7	20.6	19.0	22.3	23.2
POL	6.9	7.5	7.1	5.3	5.3	5.3
Container	11.2	14.9	18.3	25.5	25.0	32.4
Crude	7.5	6.7	9.3	14.0	19.0	20.0
Coal	-	1.0	8.6	18.4	22.0	28.5
Total	**40.3**	**51.7**	**64.0**	**82.1**	**93.6**	**109.4**

Source: Company Data, PL Research

Financials

Adani Port & SEZ

Income Statement (Rs m)

Y/e March	FY11	FY12	FY13	FY14E	FY15E
Net Revenue	**20,001**	**26,973**	**35,766**	**54,317**	**55,910**
Direct Expenses	5,321	6,735	9,129	7,676	11,308
% of Net Sales	*26.6*	*25.0*	*25.5*	*14.1*	*20.2*
Employee Cost	798	1,098	1,308	1,304	1,342
% of Net Sales	*4.0*	*4.1*	*3.7*	*2.4*	*2.4*
SG&A Expenses	888	1,232	1,496	4,888	5,032
% of Net Sales	*4.4*	*4.6*	*4.2*	*9.0*	*9.0*
Other Expenses	-	-	-	-	-
% of Net Sales	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*
EBITDA	**12,994**	**17,908**	**23,835**	**40,449**	**38,228**
Margin (%)	*65.0*	*66.4*	*66.6*	*74.5*	*68.4*
Depreciation	2,388	3,159	4,220	7,308	8,773
PBIT	**10,606**	**14,748**	**19,615**	**33,141**	**29,455**
Interest Expenses	880	3,256	5,493	6,316	6,936
PBT	**10,036**	**12,007**	**17,619**	**29,125**	**25,078**
Total tax	874	896	1,231	2,175	1,430
Effective Tax rate (%)	*8.7*	*7.5*	*7.0*	*7.5*	*5.7*
PAT	**9,181**	**11,018**	**15,379**	**26,950**	**23,647**
Extraordinary Gain/(Loss)	839	-	(853)	-	-
Adjusted PAT	**8,342**	**11,018**	**16,232**	**26,950**	**23,647**

Source: Company Data, PL Research

Balance Sheet (Rs m)

Y/e March	FY11	FY12	FY13	FY14E	FY15E
Share Capital	4,007	4,007	4,007	4,140	4,140
Reserves & Surplus	19,381	24,817	41,724	63,351	81,552
Shareholder's Fund	41,871	48,357	63,935	95,561	113,762
Preference Share Capital	28	28	28	28	28
Total Debt	35,925	175,649	112,492	132,477	126,483
Other Liabilities(net)	7,108	6,658	1,423	-	-
Deferred Tax Liability	3,468	15,179	5,286	5,286	5,286
Total Liabilities	**88,400**	**245,871**	**183,163**	**233,352**	**245,559**
Gross Block	74,216	189,285	133,342	142,782	179,438
Less: Depreciation	10,708	16,131	19,921	27,229	36,162
Net Block	63,508	173,154	113,421	115,553	143,276
Capital Work in Progress	21,174	36,377	29,512	44,500	16,000
Cash & Cash Equivalent	3,181	11,882	10,521	33,498	84,082
Total Current Assets	9,433	37,868	64,799	91,244	96,132
Total Current Liabilities	6,786	13,350	27,189	31,081	37,734
Net Current Assets	2,647	24,518	37,611	60,163	58,397
Other Assets	404	11,125	403	-	-
Total Assets	**88,400**	**245,871**	**183,163**	**233,352**	**245,559**

Source: Company Data, PL Research

Glenmark Pharmaceuticals

CMP: Rs524 TP: Rs590 Rating: BUY MCap: Rs142.0bn

Low competition drugs to drive upside in US generics: While the company remains flat at revenues of USD80mn/quarter in US generics, we believe sales momentum to accelerate above USD90mn/quarter from H2FY14E on the back of opportunities in limited competition generics. GNP obtained the approval for Campral (USD22m in sales) in July 2013, which is the only generic in the market. The company is expected to launch Locoid Lipocream (USD33mn) and Vanos in 2HFY14. Besides, management expects possibility of the launch of undisclosed products which can contribute USD15-20mn in sales, we believe.

Domestic formulations remain largely untouched from DPCO impact: With only INR90mn impact annually due to implementation of new DPCO prices, we believe that Glenmark to continue 18%-20% growth in domestic formulations in FY14E-FY15E. Leadership in dermatology and cardiovascular drugs to maintain growth in FY14E-15E.

Valuations: At Rs524, the stock is currently trading at 15.3x FY15E EPS and 19.4x FY14E EPS. Current valuation of the company is ~25% discount to front-line generic companies. We project earnings CAGR of 23% over FY13-15E. We estimate ROE to remain at 22% over FY13-15E. We consider the valuations as attractive and believe that the recent correction is an opportunity to accumulate.

Key Financials (Rs m)

Y/e March	FY11	FY12	FY13	FY14E	FY15E
Revenue (Rs m)	29,491	40,206	50,123	60,176	69,335
Growth (%)	*22.2*	*36.3*	*24.7*	*20.1*	*15.2*
EBITDA (Rs m)	5,923	8,460	10,100	12,156	15,115
PAT (Rs m)	4,578	4,603	6,147	7,338	9,256
EPS (Rs)	16.9	17.0	22.7	27.1	34.2
Growth (%)	*40.9*	*0.5*	*33.4*	*19.4*	*26.1*
Net DPS (Rs)	0.4	2.0	2.0	2.0	2.0

Source: Company Data, PL Research

Profitability & valuation

Y/e March	FY11	FY12	FY13	FY14E	FY15E
EBITDA margin (%)	*20.1*	*21.0*	*20.1*	*20.2*	*21.8*
RoE (%)	*20.8*	*20.7*	*23.8*	*23.7*	*24.1*
RoCE (%)	*16.3*	*17.1*	*16.7*	*16.8*	*18.1*
EV / sales (x)	5.0	3.8	3.1	2.6	2.2
EV / EBITDA (x)	24.6	18.0	15.5	12.9	10.3
PER (x)	30.9	30.8	23.1	19.4	15.3
P / BV (x)	7.0	5.9	5.1	4.1	3.3
Net dividend yield (%)	*0.1*	*0.4*	*0.4*	*0.4*	*0.4*

Source: Company Data, PL Research

Stock Performance

(%)	1M	6M	12M
Absolute	(7.9)	(0.5)	21.7
Relative to Sensex	(11.3)	(3.9)	12.0

Financials

Glenmark Pharmaceuticals

Income Statement (Rs m)

Y/e March	FY11	FY12	FY13	FY14E	FY15E
Net Revenue	**29,491**	**40,206**	**50,123**	**60,176**	**69,335**
Direct Expenses	11,013	13,454	16,536	21,844	24,267
% of Net Sales	*37.3*	*33.5*	*33.0*	*36.3*	*35.0*
Employee Cost	5,103	6,289	7,882	9,327	10,400
% of Net Sales	*17.3*	*15.6*	*15.7*	*15.5*	*15.0*
SG&A Expenses	7,451	12,003	15,605	16,849	19,552
% of Net Sales	*25.3*	*29.9*	*31.1*	*28.0*	*28.2*
Other Expenses	-	-	-	-	-
% of Net Sales	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*
EBITDA	**5,923**	**8,460**	**10,100**	**12,156**	**15,115**
Margin (%)	*20.1*	*21.0*	*20.1*	*20.2*	*21.8*
Depreciation	947	979	1,270	1,422	1,659
PBIT	**4,977**	**7,482**	**8,830**	**10,733**	**13,456**
Interest Expenses	1,605	1,466	1,600	2,009	2,290
PBT	**4,166**	**6,198**	**7,337**	**8,841**	**11,288**
Total tax	237	238	1,107	1,503	2,032
Effective Tax rate (%)	*5.7*	*3.8*	*15.1*	*17.0*	*18.0*
PAT	**4,578**	**4,603**	**6,147**	**7,338**	**9,256**
Extraordinary Gain/(Loss)	-	-	-	-	-
Adjusted PAT	**4,578**	**4,603**	**6,147**	**7,338**	**9,256**

Source: Company Data, PL Research

Balance Sheet (Rs m)

Y/e March	FY11	FY12	FY13	FY14E	FY15E
Share Capital	270	271	271	271	271
Reserves & Surplus	20,102	23,746	27,359	34,051	42,239
Shareholder's Fund	20,372	24,016	27,630	34,322	42,510
Preference Share Capital	-	-	-	-	-
Total Debt	6,272	14,050	20,263	20,708	21,138
Other Liabilities(net)	267	250	244	244	244
Deferred Tax Liability	(1,081)	(2,674)	(3,803)	(4,156)	(4,495)
Total Liabilities	**25,830**	**35,643**	**44,334**	**51,117**	**59,397**
Gross Block	24,685	28,384	32,968	36,468	41,468
Less: Depreciation	3,168	4,137	5,286	6,709	8,367
Net Block	21,518	24,248	27,682	29,760	33,101
Capital Work in Progress	-	-	-	-	-
Cash & Cash Equivalent	2,268	3,552	6,434	6,593	7,735
Total Current Assets	25,988	29,472	37,493	42,996	48,750
Total Current Liabilities	22,591	19,017	21,805	22,662	23,545
Net Current Assets	3,397	10,454	15,688	20,333	25,205
Other Assets	606	609	604	664	730
Total Assets	**25,830**	**35,643**	**44,334**	**51,117**	**59,397**

Source: Company Data, PL Research

MID-CAP

ING Vysya Bank

CMP: Rs609 TP: Rs630 Rating: BUY MCap: Rs94.3bn

ING continues to deliver well on most P&L metrics (core-fees/ opex growth/ credit cost) also asset quality held up well with limited slippages. ING reported higher-than-expected PAT driven by lower NPA provisions. Sub 14% ROEs in FY15e will remain a constraint for higher multiples capping upside but current tough macro environment provide comfort on ING's underwriting.

P&L Metrics stable to improving: It will continue to deliver on P&L with better core PPOP growth. (1) Core fee growth of 16% YoY was higher than customer assets growth (14% YoY) driven largely by client FX business after disappointing for the last few quarters (2) Part of the bulky SA contraction of Q1FY14 reversed and management expects pick-up from here on (3) Opex growth further calibrates at ~13% YoY with cost-income ratios continuing to move favourably though some network expansion is planned in H2, cost focus is unlikely to lead to any increase in opex growth.

NIMs moderate; expect some improvement in H2FY14: ING's reported NIMs moderated by ~10bps QoQ despite Rs18bn of QIP (25-30bps NIM accretive) due to large LAF borrowing and bulk deposit dependence. With MSF rates moderating and some easing in bulk funding rates; margin is likely to inch up again in H2FY14.

Superior underwriting turns ING defensive despite sub-average ROEs: We have reasonable comfort on ING's underwriting but low RORWAs v/s peers will correct only gradually and the current macro environment will not allow ING to leverage up significantly, we thus expect ROEs to remain <14% for FY15. Though recent run-up provides limited upside superior underwriting turns ING a better bet in tough macro-environment with low risk exposure/assets. Valuations at 1.6x Sep-14book still look attractive and hence we recommend 'BUY' with a PT of Rs630/share.

Key Financials (Rs m)

Y/e March	FY11	FY12	FY13	FY14E	FY15E
Net interest income	10,065	12,084	15,386	18,194	20,894
Growth (%)	*21.3*	*20.1*	*27.3*	*18.2*	*14.8*
Operating profit	6,355	7,679	9,927	12,349	14,975
PAT	3,186	4,563	6,131	7,272	8,548
EPS (Rs)	26.3	30.4	39.6	39.3	46.2
Growth (%)	*30.4*	*15.4*	*30.2*	*-0.6*	*17.5*
Net DPS (Rs)	3.0	4.0	5.5	6.3	7.3

Source: Company Data, PL Research

Profitability & valuation

Y/e March	FY11	FY12	FY13	FY14E	FY15E
NIM (%)	*63.1*	*63.5*	*64.5*	*67.9*	*71.7*
RoAE (%)	*13.5*	*14.3*	*14.6*	*12.7*	*11.7*
RoAA (%)	*0.9*	*1.1*	*1.2*	*1.3*	*1.3*
P / BV (x)	2.9	2.4	2.1	1.6	1.5
P / ABV (x)	2.9	2.3	2.0	1.6	1.5
PE (x)	23.1	20.0	15.4	15.5	13.2
Net dividend yield (%)	*0.5*	*0.7*	*0.9*	*1.0*	*1.2*

Source: Company Data, PL Research

Stock Performance

(%)	1M	6M	12M
Absolute	4.5	(0.3)	32.4
Relative to Sensex	1.1	(3.7)	22.7

Financials

ING Vysya Bank

Income Statement (Rs m)

Y/e March	FY11	FY12	FY13	FY14E	FY15E
Int. Earned from Adv.	20,326	28,678	35,498	40,090	45,939
Int. Earned from Invt.	21	6	18	18	18
Others	-	-	-	-	-
Total Interest Income	26,941	38,568	48,616	55,332	61,469
Interest expense	16,875	26,485	33,230	37,138	40,575
NII	**10,065**	**12,084**	**15,386**	**18,194**	**20,894**
Growth (%)	*21.3*	*20.1*	*27.3*	*18.2*	*14.8*
Treasury Income	970	131	307	450	600
NTNII	5,579	6,567	6,962	8,215	9,858
Non Interest Income	6,550	6,698	7,269	8,665	10,458
Total Income	33,490	45,266	55,885	63,997	71,927
Growth (%)	*17.4*	*35.2*	*23.5*	*14.5*	*12.4*
Operating Expense	10,260	11,102	12,728	14,510	16,377
Operating Profit	**6,355**	**7,679**	**9,927**	**12,349**	**14,975**
Growth (%)	*(1.0)*	*20.8*	*29.3*	*24.4*	*21.3*
NPA Provisions	1,501	1,078	880	1,655	2,404
Investment Provisions	55	(4)	87	-	-
Total Provisions	1,518	1,140	913	1,655	2,404
PBT	4,836	6,539	9,014	10,695	12,571
Tax Provisions	1,650	1,976	2,884	3,422	4,023
Effective Tax Rate (%)	*34.1*	*30.2*	*32.0*	*32.0*	*32.0*
PAT	**3,186**	**4,563**	**6,131**	**7,272**	**8,548**
Growth (%)	*31.5*	*43.2*	*34.4*	*18.6*	*17.5*

Source: Company Data, PL Research

Balance Sheet (Rs m)

Y/e March	FY11	FY12	FY13	FY14E	FY15E
Par Value	10	10	10	10	10
No. of equity shares	121	150	155	185	185
Equity	1,210	1,501	1,549	1,849	1,849
Networth	25,182	38,748	45,231	69,512	76,472
Adj. Networth	24,264	38,223	45,140	68,833	75,200
Deposits	301,942	351,954	413,340	448,044	522,403
Growth (%)	*16.7*	*16.6*	*17.4*	*8.4*	*16.6*
Low Cost deposits	104,586	120,473	134,351	143,831	169,008
% of total deposits	*34.6*	*34.2*	*32.5*	*32.1*	*32.4*
Total Liabilities	**389,078**	**468,955**	**547,328**	**614,424**	**711,312**
Net Advances	236,021	287,367	317,720	368,556	438,581
Growth (%)	*27.5*	*21.8*	*10.6*	*16.0*	*19.0*
Investments	110,583	127,155	182,782	193,477	211,783
Total Assets	**389,078**	**468,955**	**547,328**	**614,424**	**711,312**

Source: Company Data, PL Research

Prabhudas Lilladher

Aurobindo Pharma

CMP: Rs260 TP: Rs310 Rating: BUY MCap: Rs75.8bn

Changing product mix to increase upside in US: Management's focus in injectables, shortage drugs and limited competition products to bring better product mix in US generics of the company. Besides, current wave of new approvals in high value generics and expected launch of peptides and penems to bring upside in operating margin in FY14E-15E.

New strategy in API to drive growth: Aurobindo is the second largest producer of Active Pharmaceutical Ingredients (API) in the world after Teva, Israel. With the recent decision of Teva Pharma on the discontinuation of API manufacturing at its various sites globally, APL is likely to benefit from the move.

Valuation: The company currently trades at 11.9x and 9.8x of FY14E and FY15E EPS, which is 30% discount to midcap peers. With attractive product pipeline and higher capacity utilization to improve headline margins of the company. Our SOTP methodology values the company at INR310, implies 19% upside at current price. We maintain BUY.

Key Financials (Rs m)

Y/e March	FY11	FY12	FY13	FY14E	FY15E
Revenue (Rs m)	43,815	46,274	58,553	71,390	82,895
Growth (%)	*22.5*	*5.6*	*26.5*	*21.9*	*16.1*
EBITDA (Rs m)	9,804	6,138	8,610	12,136	14,507
PAT (Rs m)	5,263	4,210	4,292	6,390	7,719
EPS (Rs)	18.1	14.5	14.7	21.9	26.5
Growth (%)	*11.0*	*(20.0)*	*1.9*	*48.9*	*20.8*
Net DPS (Rs)	2.0	1.0	1.5	1.0	1.0

Source: Company Data, PL Research

Profitability & valuation

Y/e March	FY11	FY12	FY13	FY14E	FY15E
EBITDA margin (%)	*22.4*	*13.3*	*14.7*	*17.0*	*17.5*
RoE (%)	*24.6*	*17.6*	*17.4*	*24.4*	*26.1*
RoCE (%)	*16.3*	*15.5*	*14.5*	*19.2*	*20.6*
EV / sales (x)	1.8	1.8	1.5	1.2	1.0
EV / EBITDA (x)	8.1	13.8	9.9	7.1	5.9
PER (x)	14.4	18.0	17.7	11.9	9.8
P / BV (x)	3.1	3.2	2.9	2.9	2.3
Net dividend yield (%)	*0.8*	*0.4*	*0.6*	*0.4*	*0.4*

Source: Company Data, PL Research

Stock Performance

(%)	1M	6M	12M
Absolute	26.4	34.4	45.8
Relative to Sensex	23.0	31.0	36.2

Income Statement (Rs m)

Y/e March	FY11	FY12	FY13	FY14E	FY15E
Net Revenue	**43,815**	**46,274**	**58,553**	**71,390**	**82,895**
Direct Expenses	26,513	30,311	35,980	43,405	49,240
% of Net Sales	*60.5*	*65.5*	*61.4*	*60.8*	*59.4*
Employee Cost	4,286	5,357	6,633	7,853	9,201
% of Net Sales	*9.8*	*11.6*	*11.3*	*11.0*	*11.1*
SG&A Expenses	3,212	4,468	7,331	7,996	9,947
% of Net Sales	*7.3*	*9.7*	*12.5*	*11.2*	*12.0*
Other Expenses	-	-	-	-	-
% of Net Sales	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*
EBITDA	**9,804**	**6,138**	**8,610**	**12,136**	**14,507**
Margin (%)	*22.4*	*13.3*	*14.7*	*17.0*	*17.5*
Depreciation	1,715	2,005	2,487	2,929	3,398
PBIT	**8,089**	**4,132**	**6,122**	**9,207**	**11,109**
Interest Expenses	625	1,028	1,313	1,489	1,720
PBT	**7,510**	**3,315**	**5,094**	**8,006**	**9,680**
Total tax	2,251	(888)	827	1,601	1,936
Effective Tax rate (%)	*30.0*	*(26.8)*	*16.2*	*20.0*	*20.0*
PAT	**5,635**	**(1,235)**	**2,939**	**2,566**	**7,719**
Extraordinary Gain/(Loss)	372	(5,445)	(1,353)	(3,824)	-
Adjusted PAT	**5,263**	**4,210**	**4,292**	**6,390**	**7,719**

Source: Company Data, PL Research

Balance Sheet (Rs m)

Y/e March	FY11	FY12	FY13	FY14E	FY15E
Share Capital	291	291	291	291	291
Reserves & Surplus	24,157	23,105	25,766	26,026	32,604
Shareholder's Fund	24,448	23,397	26,058	26,317	32,895
Preference Share Capital	-	-	-	-	-
Total Debt	5,264	9,689	11,573	12,730	14,008
Other Liabilities(net)	91	102	110	125	150
Deferred Tax Liability	1,191	(16)	680	1,000	1,387
Total Liabilities	**30,994**	**33,172**	**38,420**	**40,172**	**48,441**
Gross Block	24,380	30,863	37,635	41,135	45,635
Less: Depreciation	6,994	8,916	11,246	14,175	17,573
Net Block	17,386	21,947	26,389	26,960	28,062
Capital Work in Progress	6,574	6,454	2,185	2,185	2,185
Cash & Cash Equivalent	2,253	1,094	2,307	2,926	4,441
Total Current Assets	33,211	32,454	41,367	46,767	56,709
Total Current Liabilities	27,685	29,151	34,358	38,838	42,169
Net Current Assets	5,527	3,303	7,009	7,928	14,540
Other Assets	1,122	1,082	2,615	2,876	3,431
Total Assets	**30,994**	**33,172**	**38,420**	**40,172**	**48,441**

Source: Company Data, PL Research

UPL

CMP: Rs168 TP: Rs185 Rating: BUY MCap: Rs74.3bn

Sustained organic earnings growth: UPL's higher exposure to emerging markets which are growing @10-12% p.a. compared to global agrochem market growth of 4-5% p.a. promises sustained top-line growth over the medium term. We expect UPL's EBITDA margins to improve by 80bps over the next two years to 18.8% driven by shift in product mix, rationalization of costs and turnaround of DVA. We expect DVA Agro margins to improve by 200-250bps over the medium term driven by consolidation of supply chain in Latin America, improved product profile and better customer mix.

Improvement in Working Capital: UPL was able to improve net working capital days to 101 in Sep'13 compared to 113 days last year through renegotiation of higher creditors days. Despite increasing contribution of Brazil, UPL has been able to maintain debtors at same level. Management has guided for net working capital to be in the range of 90-100 days for FY14E. We believe this guidance is achievable, given the fact that there is room for improvement in working capital across geographies and efficient management of debtors and inventory. Also, company is working on crop diversification towards shorter crops which will be instrumental in bringing down receivable days.

UPL's focus on consolidation and integration: FY13 marked a change in strategy for UPL as company diverted its energies towards consolidating operations. It undertook multiple initiatives (new product launches, entering newer geographies) related to strengthening its market presence, while at the same time, targeting for profitable growth (reduction in overheads, consolidation of the global supply chain,). UPL generated an operating cash flow of Rs17bn in FY13 (compared to Rs1.6bn in FY12) led primarily by reduction in working capital. It also plans to reduce gearing ratio from 0.5 in FY13 to 0.3 by FY15.

Outlook & Valuation: Stock is currently trading at 7.6x FY14E earnings which is at a discount of 30-35% to industry average. We believe sustained earnings growth combined with improved management of working capital will trigger re-rating. Reduction of CCI's penalty also removes overhang on stock.

Key Financials (Rs m)

Y/e March	FY11	FY12	FY13	FY14E	FY15E
Revenue (Rs m)	57,607	76,936	91,866	105,627	118,312
Growth (%)	*5.4*	*33.6*	*19.4*	*15.0*	*12.0*
EBITDA (Rs m)	10,668	14,054	16,539	19,541	22,243
PAT (Rs m)	6,181	6,735	8,469	9,760	11,179
EPS (Rs)	13.4	14.6	19.1	22.1	25.3
Growth (%)	*5.2*	*9.0*	*31.2*	*15.2*	*14.5*
Net DPS (Rs)	2.0	2.5	2.5	3.0	3.0

Source: Company Data, PL Research

Profitability & valuation

Y/e March	FY11	FY12	FY13	FY14E	FY15E
EBITDA margin (%)	*18.5*	*18.3*	*18.0*	*18.5*	*18.8*
RoE (%)	*18.4*	*17.1*	*19.2*	*19.3*	*18.8*
RoCE (%)	*14.6*	*13.5*	*12.8*	*13.0*	*13.4*
EV / sales (x)	1.3	1.3	1.1	0.9	0.8
EV / EBITDA (x)	7.2	7.3	5.9	5.1	4.2
PER (x)	12.5	11.5	8.8	7.6	6.6
P / BV (x)	2.1	1.9	1.6	1.4	1.2
Net dividend yield (%)	*1.2*	*1.5*	*1.5*	*1.8*	*1.8*

Source: Company Data, PL Research

Stock Performance

(%)	1M	6M	12M
Absolute	12.0	12.0	43.8
Relative to Sensex	8.6	8.6	34.2

Income Statement (Rs m)

Y/e March	FY11	FY12	FY13	FY14E	FY15E
Net Revenue	**57,607**	**76,936**	**91,866**	**105,627**	**118,312**
Direct Expenses	29,881	41,421	46,874	53,659	59,866
% of Net Sales	*51.9*	*53.8*	*51.0*	*50.8*	*50.6*
Employee Cost	5,146	6,856	8,646	9,929	11,121
% of Net Sales	*8.9*	*8.9*	*9.4*	*9.4*	*9.4*
SG&A Expenses	-	-	-	-	-
% of Net Sales	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*
Other Expenses	11,912	14,605	19,807	22,499	25,082
% of Net Sales	*20.7*	*19.0*	*21.6*	*21.3*	*21.2*
EBITDA	**10,668**	**14,054**	**16,539**	**19,541**	**22,243**
Margin (%)	*18.5*	*18.3*	*18.0*	*18.5*	*18.8*
Depreciation	2,138	2,924	3,537	3,916	4,361
PBIT	**8,530**	**11,131**	**13,002**	**15,625**	**17,882**
Interest Expenses	2,309	3,178	3,760	4,071	3,913
PBT	**7,157**	**8,654**	**10,162**	**12,473**	**14,796**
Total tax	731	1,514	2,032	2,994	3,847
Effective Tax rate (%)	*10.2*	*17.5*	*20.0*	*24.0*	*26.0*
PAT	**5,138**	**5,555**	**7,747**	**9,760**	**11,179**
Extraordinary Gain/(Loss)	(1,043)	(1,179)	(722)	-	-
Adjusted PAT	**6,181**	**6,735**	**8,469**	**9,760**	**11,179**

Source: Company Data, PL Research

Balance Sheet (Rs m)

Y/e March	FY11	FY12	FY13	FY14E	FY15E
Share Capital	924	924	885	885	885
Reserves & Surplus	23,166	27,686	34,926	43,142	52,778
Shareholder's Fund	37,260	41,731	46,452	54,669	64,304
Preference Share Capital	-	-	-	-	-
Total Debt	14,973	31,475	39,270	38,270	36,270
Other Liabilities(net)	915	6,016	6,802	6,802	6,802
Deferred Tax Liability	731	940	1,170	1,170	1,170
Total Liabilities	**53,879**	**80,162**	**93,694**	**100,911**	**108,546**
Gross Block	22,909	27,325	29,851	34,351	38,851
Less: Depreciation	13,109	14,712	16,634	20,551	24,912
Net Block	9,800	12,613	13,217	13,801	13,940
Capital Work in Progress	568	1,338	2,451	2,451	2,451
Cash & Cash Equivalent	22,536	16,908	25,669	23,432	26,304
Total Current Assets	51,320	57,501	74,375	82,182	92,132
Total Current Liabilities	28,904	23,527	30,836	32,010	34,464
Net Current Assets	22,416	33,973	43,539	50,171	57,668
Other Assets	14,218	22,331	24,301	24,301	24,301
Total Assets	**53,879**	**80,162**	**93,694**	**100,911**	**108,546**

Source: Company Data, PL Research

Prabhudas Lilladher

P.I. Industries

CMP: Rs209 TP: Rs225 Rating: BUY MCap: Rs28.3bn

Custom synthesis order book implies visibility for next 2-2.5 years: Though PI entered the custom synthesis space in mid-1990s, this business gained traction only from FY08 due to high gestation period of this business. In CSM, around 25-27 products are in the pipeline currently, while 13-14 products have been commercialized as of now. Current order book at US$334m implies visibility for the next 2-2.5 years of company's increased capacities. Notably, order book is understated, as it only includes multi-year orders, while expected annual renewals (40% of CS revenues) are not accounted in order book.

Leading player in domestic agri: PI has emerged as a leading player in the domestic agrochemicals industry through its wide distribution network and strengthening product portfolio. Company's clear-cut strategy is to focus on increasing the share of in-licensed molecules. Consequently, share of in-licensing as a % of domestic agri-inputs revenues has increased to 65% in Q2FY14 from 20% in FY09. PI currently has 8-10 novel products in pipeline and plans to launch two products annually over the next few years.

Expect earnings to compound at a CAGR of 51% over FY13-15E: We expect PI's revenues to grow at a CAGR of 31.5% during FY13-15E (expect PI's domestic business to grow at a CAGR of 17.0% during FY13-15E, while custom synthesis is expected to grow at a CAGR of 43.9% over FY13-15E). Margins are likely to improve by 250bps to 18.2% by FY15E. We expect PI's earnings to increase at a CAGR of 51.5%, with EPS likely to increase to Rs16.5 in FY15E.

Re-rating candidate: Company continues to deliver consistently far superior earnings growth due to its unique business model. In Q2FY14, management also upgraded its guidance significantly for FY14E. PI remains our top pick in the agri-inputs coverage universe. With increased visibility of earnings growth/FCF generation/reduction of debt, PI is an obvious re-rating candidate. Our target price is Rs225 implying 13.5x FY15E earnings.

Key Financials (Rs m)

Y/e March	FY11	FY12	FY13	FY14E	FY15E
Revenue (Rs m)	7,200	8,791	11,514	16,120	19,906
Growth (%)	*32.7*	*22.1*	*31.0*	*40.0*	*23.5*
EBITDA (Rs m)	1,152	1,434	1,809	2,839	3,621
PAT (Rs m)	672	715	976	1,670	2,235
EPS (Rs)	3.5	5.7	7.2	12.3	16.5
Growth (%)	*121.4*	*63.9*	*26.2*	*71.1*	*33.8*
Net DPS (Rs)	0.3	1.0	1.0	1.2	1.3

Source: Company Data, PL Research

Profitability & valuation

Y/e March	FY11	FY12	FY13	FY14E	FY15E
EBITDA margin (%)	*16.0*	*16.3*	*15.7*	*17.6*	*18.2*
RoE (%)	*36.5*	*26.5*	*22.8*	*27.6*	*28.6*
RoCE (%)	*17.9*	*14.2*	*14.8*	*19.8*	*22.7*
EV / sales (x)	5.9	3.2	2.6	1.8	1.4
EV / EBITDA (x)	36.8	19.8	16.6	10.3	8.0
PER (x)	60.0	36.6	29.0	17.0	12.7
P / BV (x)	18.9	8.0	5.3	4.2	3.2
Net dividend yield (%)	*0.1*	*0.5*	*0.5*	*0.6*	*0.6*

Source: Company Data, PL Research

Stock Performance

(%)	1M	6M	12M
Absolute	31.2	41.6	82.8
Relative to Sensex	27.0	35.1	72.5

Financials

P.I. Industries

Income Statement (Rs m)

Y/e March	FY11	FY12	FY13	FY14E	FY15E
Net Revenue	**7,200**	**8,791**	**11,514**	**16,120**	**19,906**
Direct Expenses	4,205	4,923	6,745	9,511	11,745
% of Net Sales	*58.4*	*56.0*	*58.6*	*59.0*	*59.0*
Employee Cost	597	719	886	1,257	1,553
% of Net Sales	*8.3*	*8.2*	*7.7*	*7.8*	*7.8*
SG&A Expenses	-	-	-	-	-
% of Net Sales	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*
Other Expenses	1,246	1,715	2,074	2,513	2,988
% of Net Sales	*17.3*	*19.5*	*18.0*	*15.6*	*15.0*
EBITDA	**1,152**	**1,434**	**1,809**	**2,839**	**3,621**
Margin (%)	*16.0*	*16.3*	*15.7*	*17.6*	*18.2*
Depreciation	157	173	220	312	318
PBIT	**995**	**1,261**	**1,589**	**2,527**	**3,303**
Interest Expenses	185	199	218	132	120
PBT	**914**	**1,113**	**1,453**	**2,475**	**3,263**
Total tax	242	398	477	804	1,028
Effective Tax rate (%)	*26.5*	*35.8*	*32.8*	*32.5*	*31.5*
PAT	**651**	**1,035**	**973**	**1,670**	**2,235**
Extraordinary Gain/(Loss)	(21)	321	(3)	-	-
Adjusted PAT	**672**	**715**	**976**	**1,670**	**2,235**

Source: Company Data, PL Research

Balance Sheet (Rs m)

Y/e March	FY11	FY12	FY13	FY14E	FY15E
Share Capital	193	125	135	135	135
Reserves & Surplus	1,944	3,129	5,182	6,664	8,695
Shareholder's Fund	2,137	3,254	5,317	6,799	8,830
Preference Share Capital	-	-	-	-	-
Total Debt	2,137	2,296	1,873	1,200	1,000
Other Liabilities(net)	982	1,178	1,278	1,278	1,278
Deferred Tax Liability	326	329	483	483	483
Total Liabilities	**5,582**	**7,057**	**8,951**	**9,760**	**11,591**
Gross Block	3,587	4,120	5,941	6,941	7,941
Less: Depreciation	1,058	1,162	1,383	1,695	2,013
Net Block	2,529	2,957	4,558	5,246	5,928
Capital Work in Progress	328	778	778	778	778
Cash & Cash Equivalent	278	308	277	377	579
Total Current Assets	3,556	4,017	5,846	7,105	8,538
Total Current Liabilities	1,058	958	2,396	3,533	3,818
Net Current Assets	2,498	3,059	3,450	3,572	4,720
Other Assets	19	50	50	50	50
Total Assets	**5,582**	**7,058**	**8,952**	**9,761**	**11,592**

Source: Company Data, PL Research

KSB Pumps

CMP: Rs240 TP: Rs265 Rating: BUY MCap: Rs8.3bn

Wide application across industries to ensure healthy growth, 290bps improvement in margin over CY12-14E to aid earnings growth: We expect KSB to deliver sales & earnings CAGR of 6% and 19% over CY12-14E against a CAGR of 8.4% & -4.4% over CY10-12, respectively. While the investment cycle might be subdued in the near term, wide application across core industries like Cement, Metals, Steel, Fertilizer, Oil & Gas, Power, Hydrocarbon, Chemical, Water treatment and Agriculture will ensure healthy growth once the investment cycle recovers. We expect EBITDA margin to improve by 290bps over CY12-14E largely driven by improvement in gross margins and benefits accruing out of various cost control measure (strategic project taken over last year), reduction in low margin order book and improved utilization. KSB's recent focus on expansion of standard business and continued development of the service and aftermarket business will help support growth and improve margin.

Healthy balance sheet: KSB has very strong balance sheet and return ratios. The company has generated free cash in 12 of last 16 years and we expect it to generate free cash of ~Rs1bn over CY12-14E. KSB has a debt-free balance sheet and a free cash flow yield of ~6% on CY14 basis. The company had peak RoE of 26% in CY06 which dipped to 11% in CY11 and stood at 13.6% in CY12 due to falling margin and decreasing asset turns. We expect the RoE to improve by 190bps over CY12-14E on account of improving margin profile and improving assets turn driven by better utilization and pick in growth profile of the company. Strong character of balance sheet and good management are likely to restrict downside on valuation and support re-rating once the cycle turns.

Outlook and Valuation: The stock is trading at 11.7x CY13E earnings, which we think is cheap. We believe improving margin and RoE profile should support quick re-rating once demand picks up, while strong balance sheet and cash flow profile should restrict the downside. We have valued the stock at 12x one year forward earnings which is in line with its 10-year average. We rate the stock '**BUY**' with a TP of Rs265.

Key Financials (Rs m)

Y/e Dec	CY10	CY11	CY12	CY13E	CY14E
Revenue (Rs m)	6,085	7,495	7,224	7,564	8,113
Growth (%)	*7.9*	*23.2*	*(3.6)*	*4.7*	*7.2*
EBITDA (Rs m)	764	712	911	1,112	1,258
PAT (Rs m)	516	430	580	716	822
EPS (Rs)	14.8	12.3	16.7	20.6	23.6
Growth (%)	*(22.4)*	*(16.7)*	*35.0*	*23.3*	*14.8*
Net DPS (Rs)	10.0	4.0	5.5	6.0	7.0

Source: Company Data, PL Research

Profitability & valuation

Y/e Dec	CY10	CY11	CY12	CY13E	CY14E
EBITDA margin (%)	*12.6*	*9.5*	*12.6*	*14.7*	*15.5*
RoE (%)	*14.8*	*11.4*	*14.2*	*15.8*	*16.3*
RoCE (%)	*14.5*	*10.8*	*13.7*	*15.7*	*16.1*
EV / sales (x)	1.2	1.1	1.0	1.0	0.9
EV / EBITDA (x)	9.8	11.4	8.2	6.5	5.5
PER (x)	16.2	19.4	14.4	11.7	10.1
P / BV (x)	2.3	2.1	2.0	1.7	1.6
Net dividend yield (%)	*4.2*	*1.7*	*2.3*	*2.5*	*2.9*

Source: Company Data, PL Research

Stock Performance

(%)	1M	6M	12M
Absolute	13.5	14.6	3.9
Relative to Sensex	10.1	11.2	(5.8)

Financials

KSB Pumps

Income Statement (Rs m)

Y/e Dec	CY10	CY11	CY12	CY13E	CY14E
Net Revenue	**6,085**	**7,495**	**7,224**	**7,564**	**8,113**
Direct Expenses	3,147	4,130	3,725	3,752	4,024
% of Net Sales	*51.7*	*55.1*	*51.6*	*49.6*	*49.6*
Employee Cost	912	1,044	1,036	1,088	1,143
% of Net Sales	*15.0*	*13.9*	*14.3*	*14.4*	*14.1*
SG&A Expenses	792	661	535	575	625
% of Net Sales	*13.0*	*8.8*	*7.4*	*7.6*	*7.7*
Other Expenses	471	949	1,017	1,037	1,063
% of Net Sales	*7.7*	*12.7*	*14.1*	*13.7*	*13.1*
EBITDA	**764**	**712**	**911**	**1,112**	**1,258**
Margin (%)	*12.6*	*9.5*	*12.6*	*14.7*	*15.5*
Depreciation	207	219	235	257	282
PBIT	**556**	**493**	**675**	**855**	**976**
Interest Expenses	5	28	52	35	25
PBT	**742**	**623**	**807**	**1,022**	**1,174**
Total tax	227	193	226	307	352
Effective Tax rate (%)	*30.5*	*31.0*	*28.1*	*30.0*	*30.0*
PAT	**516**	**430**	**580**	**716**	**822**
Extraordinary Gain/(Loss)	(0)	-	-	0	0
Adjusted PAT	**516**	**430**	**580**	**716**	**822**

Source: Company Data, PL Research

Balance Sheet (Rs m)

Y/e Dec	CY10	CY11	CY12	CY13E	CY14E
Share Capital	174	348	348	348	348
Reserves & Surplus	3,459	3,553	3,911	4,417	4,996
Shareholder's Fund	3,633	3,901	4,259	4,793	5,307
Preference Share Capital	-	-	-	-	-
Total Debt	137	632	169	169	169
Other Liabilities(net)	-	-	-	-	-
Deferred Tax Liability	-	-	-	-	-
Total Liabilities	**3,770**	**4,533**	**4,427**	**4,961**	**5,475**
Gross Block	3,095	3,311	3,611	3,911	4,211
Less: Depreciation	1,582	1,801	2,036	2,293	2,575
Net Block	1,513	1,510	1,575	1,618	1,636
Capital Work in Progress	87	87	277	277	277
Cash & Cash Equivalent	1,055	881	1,066	1,294	1,648
Total Current Assets	4,356	5,388	5,132	5,519	6,180
Total Current Liabilities	2,296	2,569	2,695	2,591	2,756
Net Current Assets	2,060	2,819	2,438	2,928	3,424
Other Assets	47	52	75	75	75
Total Assets	**3,770**	**4,532**	**4,428**	**4,961**	**5,475**

Source: Company Data, PL Research

Disclaimer

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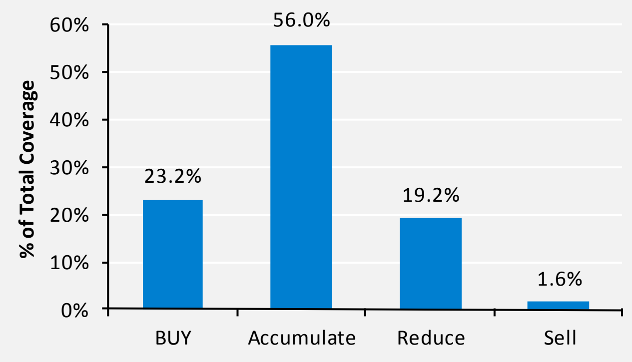

PL's Recommendation Nomenclature

BUY	:	Over 15% Outperformance to Sensex over 12-months	**Accumulate**	:	Outperformance to Sensex over 12-months
Reduce	:	Underperformance to Sensex over 12-months	**Sell**	:	Over 15% underperformance to Sensex over 12-months
Trading Buy	:	Over 10% absolute upside in 1-month	**Trading Sell**	:	Over 10% absolute decline in 1-month
Not Rated (NR)	:	No specific call on the stock	**Under Review (UR)**	:	Rating likely to change shortly

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