Post Conference Notes

16 corporates and one expert (Dr Rao) participated in our Conference last week wherein we organised ~250 meetings with institutional investors.

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Participating corporates

- ABNL
- Alstom India
- Ashoka Buildcon
- CESC
- Heidelberg Cement
- ICRA
- Magma Fincorp
- Manappuram Finance
- Marico Ltd.
- Motilal Oswal Financial Services
- Phillips Carbon Black
- Prime Focus
- Redington
- Sadbhav Engineering
- Shriram City Union Finance
- Sobha Developers

Participating Corporates

Corporate	Representative	Designation
ABNL	Romi Talwar	IR
Alstom India	Sunand Sharma	Country Head India & South Asia
Ashoka Buildcon	Paresh Mehta	CFO
CESC	Pankaj Kedia	Chief Manager
Heidelberg Cement	Himanshu Jindal & Amit Angra	IR & VP Strategy
ICRA	L Shivakumar	Senior Group VP & Head - Western region
Magma Fincorp	Lakshmi Narayan	CFO
Manappuram Finance	I Unnikrishnan	MD
Marico Ltd.	Anubhav Rastogi	IR
Motilal Oswal Financial Services	Sameer Kamath & Sourajit Aiyer	CFO, GM IR
Phillips Carbon Black	Jatin Kapoor	CFO
Prime Focus	Ramki S & Nishant Fadia	CEO, CFO
Redington	S V Krishnan & Jayaraman	CFO, Treasurer
Sadbhav Engineering	Nitin Patel	ED
Shriram City Union Finance	Krithika Doraiswamy	AVP Finance
Sobha Developers	Baaskaran S	CFO

Participating Experts

Experts	Background
Dr. Govinda Rao	Dr. Rao is the country's leading fiscal expert and currently is the Director of the National Institute of Public Finance (NIPFP) as well as a member of the Prime Minister's Economic Advisory Council (PMEAC). Besides being an authority on Central and State-level public finances, Dr. Rao is also an Independent Board Member of National Thermal Power Corporation (NTPC) and Rural Electrification Corporation (REC).

Key Takeaways from Meetings

India's fiscal deficit in FY13 will be capped at 5.6% of GDP, land sales to buffer FY14 fiscal deficit

The fiscal expert was of the view that the current FM is likely to cap the current year's fiscal deficit at 5.6% of GDP under all circumstances given that his credibility and the country's sovereign credit rating is at risk.

As regards the mathematics, he summarized the same as follows:

(a) **Areas of slippages :** Given the current pace of tax collections, the expert expects the tax revenue target to be missed by ~INR200bn (i.e. **0.2% of GDP**) mainly owing to direct taxes as indirect taxes are expected to marginally exceed the budget estimates. As regards 2G spectrum given that the auction receipts are lower than expected and given that they are likely to be partially deferred, the slippage is likely to be in the vicinity of INR350bn (i.e. **0.35% of GDP**). A combination of tactics including administering an INR 2-3/litre diesel hike after the Winter Session of the Parliament, increasing oil companies share in subsidies and postponing the payment due to OMCs into FY14 is likely to help restrict the extent of slippage owing to petroleum subsidy to ~INR250bn (i.e. **0.25% of GDP**).

(b) **Areas of increments:** The expert was of the view that the Govt. is likely to meet its disinvestment target given that the FM is keen to overshoot the same. The decision to divest its share in NTPC is an indicator of their drive to do so given that this company was not part of the original disinvestment plan. Furthermore the Central Govt. is likely to deliver expenditure savings to the tune of ~INR300bn (i.e. **0.3% of GDP**) by holding back plan expenditure and capex to some extent.

The net effect of these dynamics, says Dr.Rao, is likely to translate into a fiscal slippage of 50bps from the budgeted sum of 5.1% of GDP.

As regards FY14, our fiscal expert highlights 3 potential sources of incremental revenue that is likely to help more than set-off the burden imposed by increased expenditure on food subsidies (in the form of the food security bill) and health expenditure (in the form of a move towards Universal Health care provision). Firstly, the sale of surplus land parcels held by the Government (or Government bodies such as the railways) as recommended by the Kelkar Committee report will prove to be a source of windfall gains. Secondly, improvement in the tax infrastructure in preparation of GST implementation is likely to improve compliance levels. Lastly, 2G spectrum receipts are likely to spill into FY14 as well.

RBI looks likely to administer a repo rate cut on December 18, 2012
Dr.Rao was of the view that given that food inflation is likely to soften from a seasonal perspective from November to February and given that economic growth rates are meaningfully low, the RBI looks likely to administer a minimum repo rate cut of 25 bps at the next monetary policy meeting scheduled on December 18, 2012.

Furthermore, Dr. Rao expects this rate-cutting bout to be intermittent as he expects inflation to ease temporarily in 4QFY13 and then rise once again in 1QFY14.

GST implementation expected to be at least 2 years away but a 'GST-like' structure could be created by 1QFY14
Dr. Govinda Rao, who was one of the first economists to moot the concept of a unified GST, is of the opinion that a full-blown GST is unlikely to be implemented before FY16 given the series of issues that need to be resolved.

However, the current FM can expedite the process by executing a GST-like framework by passing the GST Amendment Bill and unifying the various tiers of excise duty rates as well as service tax rates at the Budget Session of the Parliament in CY13. Furthermore, beginning the process of GST implementation by integrating the GST systems with the existing income tax systems is likely to help plug tax evasion. In fact, countries with no problems relating to fiscal balance management (like Singapore implementing GST in the early nineties at a nominal rate of 3%) have often implemented the GST given its benefits in improving tax compliance levels.

FDI limit in insurance likely to be increased, NIB creation on the cards
The expert highlighted his view that the first day of the Winter Session of the Parliament was symbolic where parties like the TMC tried their best to disrupt the session but at the end of the day their plans to table a "no confidence" motion were rejected by the speaker of the house (as the minimum number of 50 MPs required to bring a "no confidence" motion did not express support regarding the same).

He expects the rest of the Winter Session of the Parliament to be similar whereby despite the occasional disruptions, legislative activity will take place. The expert highlighted his expectation of FDI limits in insurance being increased to 49% in the Winter Session of the Parliament and the high probability of the passage of the Banking Amendments Bill which will act as a stepping stone for the RBI to issue bank licenses.

As regards the ambitious National Investment Board (NIB), Dr. Govinda Rao was of the view that the same will be operationalized in FY13. As regards the structure, the NIB will be an inter-ministerial body that will recommend projects to a specialized Empowered Group of Ministers (EGoM) that will implement the same. In specific, both these bodies will have representation from the Ministry of Environment thereby ensuring that this critical Ministry is part of the decision-making process rather than being imposed on by a decision of the NIB.

Investment Implications

As highlighted in our email dated November 22, 2012 we expect legislative activity to be resurrected in the ongoing winter session of the parliament with a high probability of the passage of the Banking Amendments Bill as well as FDI in insurance. As highlighted by a senior political economy expert, the Congress commands a majority in the Lok Sabha and has not been able to push through legislative activity mainly because of the non-cooperation of the BJP. The BJP can no longer afford the perception of blocking economic reform with elections less than one year away and hence bills will be passed in this parliamentary session.

We reiterate our view that the resurrection of parliamentary activity, administration of repo rate cuts by the RBI and the continuation of the outside-of-parliament (spearheaded by the FM) will translate into a cyclical economic recovery leading GDP numbers in 3QFY13 to record an improvement over the poor print of 2QFY13 that will be published on November 30, 2012 (we expect it to be in the vicinity of 5.0 – 5.5% YoY).

We reiterate 3 strategies of playing the economic recovery namely:

1. **Focus on high quality plays from the cyclical sectors**
This would mean focusing on our long preferred "Good and Clean" approach. Such high quality cyclicals can be found in our 17 September note ("Good & Clean 4.1: The Classical Switch"). This is a relatively low risk strategy with relatively modest return expectations. This strategy has generated alpha of 220bps (using the Sensex as the benchmark) since inauguration on 14th Sept 2012.

2. Invest in credible broken balance sheet plays
The second strategy involves playing stocks which have the potential to disproportionately gain from the rising tide. This would mean picking up the more credible of the broken balance sheet plays. We had identified some such names in the note "Return of value investing and the best recovery plays" dated Oct 11, 2012 and further elaborate on these in "The top ten turnaround plays" note dated Nov 02, 2012. These stocks are very different from the Good & Clean plays that we have traditionally focused on (and which remains the mainstay of our house). Furthermore, recognising the governance and accounting issues associated with a number of these stocks, investors focusing on these names should do so with a clear short–medium-term horizon over which these names could generate market-beating performance. This strategy has generated alpha of negative 380 bps (using the Sensex as the benchmark) since inauguration on 10th Oct 2012 - as yet the market has not embraced "value" over "growth".

3. Invest in top quality small cap stocks
The third approach is to focus on top quality small cap stocks with market leading franchises, strong cashflows and strong Balance Sheets. In our October 1 Smallcap thematic, we had highlighted stocks such as Balkrishna Industries, Motilal Oswal, Sadbhav Engineering, Kirloskar Oil Engines, Supreme Industries, etc.

Whilst such small caps do not have significant Balance Sheet risk, they are illiquid (usually with ADV of less than $1mn); hence investors seeking alpha face a trade-off between Balance Sheet risk (from the broken Balance Sheet names) or Iliquidity risk (from the best small caps). This strategy has generated alpha of 190 bps (using the Sensex as the benchmark) since inauguration on 28th Sept 2012.

NOT RATED

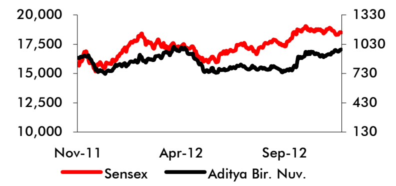
Stock Information

Bloomberg Code:	ABNL IN
CMP (Rs):	975
TP (Rs):	NA
Mcap (Rs bn/US$ mn):	111/1995
52-wk H/L (Rs):	1029/708
3M ADV (Rs mn/US$mn):	194/3.5

Stock Performance (%)

	1M	3M	12M	YTD
Absolute	6.5	22.8	12.7	31.8
Rel. to Sensex	7.6	19.1	(5.2)	12.0

Performance



Source: Bloomberg, Ambit Capital research

ABNL

We hosted Mr. Romi Talwar from Investor Relations of Aditya Birla Nuvo Ltd (ABNL). ABNL is a part of the Aditya Birla Group and has a presence in sectors such as financial services (insurance, mutual fund, etc.), telecom (stake in Idea Cellular), retail, and manufacturing. The company reported FY12 revenue of Rs218bn (20% growth) and a PAT of Rs8.9bn (8% growth). The manufacturing business contributed 32% of FY12 EBIT whereas financial services and telecom each contributed 28%. The Retail and IT business contributed 7% and 6% respectively to the FY12 EBIT. The company recently acquired the Pantaloon format stores from the listed Pantaloon entity. Overall, the management indicated that whilst growth momentum in financial services should be steady, they expect significant synergies from the integration of the newly acquired retail business.

Financial services – growth momentum to continue: Within financial services over the past one year, the company has established its presence in mortgage funding and promoter funding, though the company continues to avoid the retail finance business. Overall, given the varied financial services within ABNL, the company believes that they would rank within the top-20 banks in India based on assets. Therefore, applying for a banking licence is a natural corollary. In the insurance business, with recent IRDA norms enabling faster product approvals, the company expects to bridge certain specific product plan gaps.

Retail – time for business consolidation: In retail, the management expects significant synergies between its branded retail business and the recently acquired business of Pantaloon Retail in areas such as: (a) negotiations for retail space, and (b) raw material. Moreover, given the limited common geographical footprint, the overall reach is likely to magnify. The acquisition is likely to close by end-FY13.

Other business lines: The remaining businesses remain steady performers, led by the VFY (viscose filament yarn business), where the company expects the current strong margin trends to largely sustain. In the carbon black business, the imposition of anti-dumping duties should provide relief; however, margin recovery is unlikely to be rapid. The agri-business continues to see steady demand for urea though DAP and SSP demand has been sluggish due to the increased price differential to urea.

Overall, on financial leverage, the management expects the standalone Debt/EBITDA to moderate from the current levels of ~4x to 3x-3.5x over the longer term. Current debt numbers (~Rs40bn) have been inflated due to build up in fertiliser subsidy arrears, which should reverse by end FY13. Further, the debt repayment schedule remains comfortably spaced out.

Relative valuation: The stock is currently trading at a 1-year forward EV/EBITDA of 9.4x, in line with its five-year average of 9.3x. On a P/E basis, the stock is trading at an FY13 P/E of 4.7x and FY14 P/E of 4.1x. Consensus estimates reflect an EBITDA CAGR of 6% over FY12-14 and EPS CAGR of 21%.

NOT RATED

Alstom India

We hosted Mr. Sunand Sharma, Country President – India and South Asia of Alstom India (AIL). AIL is a listed Indian subsidiary of Alstom France, with FY12 revenue of Rs19bn. The company has a presence across the power and transportation segments, with the power segment accounting for more than 95% of FY12 revenue. The management blamed the concerns on coal availability for the lack of new orders in the country. He further highlighted significant challenges in maintaining the current double-digit margins for BTG manufacturers given strong competition from Chinese vendors.

Here are the key takeaways, which are primarily from the power sector, from our meeting:

Indian BTG manufacturers lost out to Chinese vendors in FY05-08 due to unpreparedness: None of the domestic manufacturers anticipated the surge of orders that happened in FY05-08, because it was very difficult to envisage a UMPP of 4GW at a single location. Consequently, the Chinese vendors took advantage of this opportunity and won several orders on the premise of lower cost and speedy deliveries. However, now the scenario has changed and the domestic manufacturers have built sufficient capacity to meet domestic demand. But unfortunately the projects are now awarded on tariff-based bidding, which gives the Chinese an advantage, given that majority of the projects are won on the basis of initial cost and not on lifecycle cost, which is detrimental to the growth of the sector and puts companies like BHEL and Alstom at a disadvantage.

No visibility on the Shanghai Electric JV: Alstom SA has entered into an agreement to form a boiler JV with Shanghai Electric Company. Whilst there has been no recent development since this announcement, if and when the JV gets formed, Alstom will transfer its Durgapur unit and some staff based in Noida to service the Durgapur operations. The Durgapur plant had contributed around Rs6bn-7bn to Alstom's topline in FY12.

Lot of work being done to resolve the coal problem: Without dwelling into specifics, the management highlighted that a lot of work is being done by the Ministry of Coal and the Ministry of Power to sort out the challenges on coal availability. According to the Power Ministry, ~66,230MW out of the 84,756MW of proposed power capacity addition planned in the XII Plan is coal-based, but fuel supply agreements (FSAs) have been signed only for 16,000MW.

Tariff increases likely: The right way to keep the interest of the private sector alive is to increase tariff to compensate for higher fuel costs. The Dabhol power project is a very good case study. Had the Government not bailed out Dabhol, private sector IPPs would never have invested in the sector.

Relative valuation: The stock is currently trading at 15.80x FY14 consensus P/E, which is at a premium of ~10% compared with its peers, BHEL and Thermax. We do not have any rating on the stock.

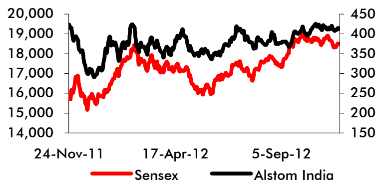
Stock Information

Bloomberg Code:	ALST IN
CMP (Rs):	413
TP (Rs):	NA
Mcap (Rs bn/US$ mn):	28/500
52-wk H/L (Rs):	442/280
3M ADV (Rs mn/US$mn):	30/0.5

Stock Performance (%)

	1M	3M	12M	YTD
Absolute	(1.4)	2.0	(2.0)	39.2
Rel. to Sensex	(0.3)	(1.7)	(19.9)	19.5

Performance



Source: Bloomberg, Ambit Capital research

NOT RATED

Ashoka Buildcon

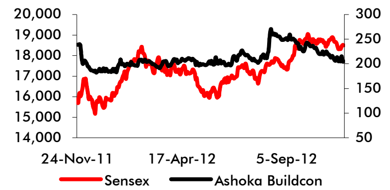
Stock Information

Bloomberg Code:	ASBL IN
CMP (Rs):	205
TP (Rs):	NA
Mcap (Rs bn/US$ mn):	11/195
52-wk H/L (Rs):	283/176
3M ADV (Rs mn/US$mn):	1/.02

Stock Performance (%)

	1M	3M	12M	YTD
Absolute	(6.9)	(20.1)	(14.2)	7.4
Rel. to Sensex	(5.8)	(23.8)	(32.1)	(12.4)

Performance



Source: Bloomberg, Ambit Capital research

We hosted Mr. Paresh Mehta, the CFO, from Ashoka Buildcon (ABL). ABL is one of the strongest road developers, thanks to its successful completion of three BOT road concession projects, in-house execution capabilities, and low debt–equity (standalone). The management's strategy to bid for road projects, which pass through National Highway (NH)-6, is based on the highway's proximity to high industrial activity states and mineral-rich regions. ABL's present valuations (0.8x FY14 book) appear to be out of sync with the underlying cash assets and the cash flows that the same can generate from FY14 onwards.

Requisition formalities (related to SBI-Macquarie partnership) likely to be completed by December 2012: SBI-Macquarie is likely to invest Rs3.1bn in FY13 and Rs2.2bn in FY14, given that the necessary approvals and formalities related to the partnership with SBI-Macquarie are likely to be completed by December 2012. ABL has already invested Rs6.9bn (by end-September 2013) as its share of equity in the Ashoka Concessions Ltd (ACL) BOT assets, and once SBI-Macquarie invests Rs5.25bn by FY14, both parties will invest their share for the remaining equity need of Rs3.3bn for ACL's assets. The management stated that this partnership not only provides equity for existing projects and partial equity for new projects (expects to win Rs20bn worth of road BOT assets in FY13), but also enhances ACL's potential to bid for larger BOT assets worth Rs12bn (including expressways) compared with its earlier limit of Rs2.4bn (excluding expressways).

Timely execution/completion of under-construction assets will drive revenues and cash flows over FY13-15E: Large projects under ACL (Belgaum-Dharwad, Dhankuni-Kharagpur and Sambhalpur) are likely to become operational by end-FY14 (despite land-acquisition delays in the Sambhalpur project). This means that 100% of the equity invested in ACL will be operational in FY15, with toll revenue of Rs6bn from these assets in FY15 (one full year of revenue with all assets becoming operational). Whilst projects under ACL are progressing according to schedule, Cuttack-Angul is delayed by 11-12 months, due to environmental issues and is likely to start construction by March 2013.

Focus will remain on the western and southern regions: The management mentioned that company will continue to bid for road projects which either pass through National Highway (NH)-6 or southern states. Whilst projects on NH-6 can benefit from the pick up in mining activity in India , projects in the southern region can benefit from increased industrial activity in these states. The management also mentioned that they are bidding for a few projects in Punjab and Rajasthan, but are not comfortable with bidding in other northern or eastern states.

Strong revenue growth guidance in the construction business for FY13: The management stated that in FY13, the construction business (in the standalone entity) can post revenue of Rs15bn-16bn (~Rs15bn from faster execution of the road projects and Rs1bn from power T&D EPC contracts), which implies 12-20% YoY revenue growth. EBITDA margin are likely to remain stable at 12.5-13%. We highlight that in 1HFY13, ABL has posted revenue of Rs6.6bn (12% YoY revenue growth) and will need to post standalone revenue of Rs8.3bn-10.1bn in 2HFY13 to meet its FY13 revenue guidance.

Relative valuation: On FY14E P/B, Ashoka Buildcon trades 0.8x book, which is at a ~43% and ~22% discount to the other pure road asset developers, Sadbhav and IRB, respectively. Given that the concerns regarding availability of equity capital for the under-construction assets have been addressed and given that partial funding for future growth aspirations are also in place, the discount to peers should narrow. We highlight that, ABL's management has also always focused on maintaining financial discipline and has followed prudent asset development strategy (taking manageable risk), yet the company trades at very low valuations.

NOT RATED

CESC

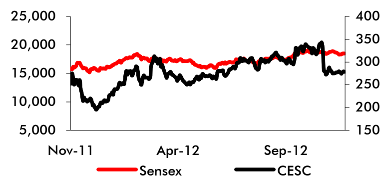
Stock Information

Bloomberg Code:	CESC IN
CMP (Rs):	279
TP (Rs):	NA
Mcap (Rs bn/US$ mn):	35/627
52-wk H/L (Rs):	347/186
3M ADV (Rs mn/US$mn):	203/3.7

Stock Performance (%)

	1M	3M	12M	YTD
Absolute	(18.7)	(13.2)	16.2	38.3
Rel. to Sensex	(17.6)	(16.8)	(1.7)	18.5

Performance



Source: Bloomberg, Ambit Capital research

We hosted Mr. Pankaj Kedia, Chief Manager – Investor Relations of CESC. CESC is an integrated power utility in Kolkata with an installed capacity of 1.2GW. The management is confident of doubling its generation capacity to 2.4GW by FY15 through green-field expansion at Haldia (600MW) and buying the Chandrapur (600MW) power plant in Nagpur from the Dhariwal Group. In retail, they guided for achieving break-even in 2HFY14. With regards to the Firstsource acquisition they highlighted attractive valuations (FY13 guidance on PAT of Rs1.5bn) as the main reason for the acquisition coupled with lack of any opportunity in the power sector. In the real estate business, they expect revenue of Rs720mn in FY14 and PAT of ~Rs300mn.

Strong portfolio of existing power assets: CESC's operational power portfolio, which includes generation assets of 1,225MW and its own distribution circle in Kolkata, is impressive. The company generated an average cash flow from operations of ~Rs11bn from these assets over FY10-12. Whilst the generation assets reported an average PLF of 89% over FY10-12 compared with India's average of ~74%, average T&D losses in the Kolkata circle stood at 12.8% over FY10-12 compared with India's average of ~25-30%. Consequently, the company generated an impressive RoE post incentives of ~21% over FY10-12 compared with a regulated RoE of 15.5% in generation and 16.5% in distribution. The regulated equity in this business as on 31 March stood at Rs26bn, which is likely to increase every year by Rs2bn (yearly capex is Rs6bn of which 30% is equity) through maintenance capex.

Under-construction power assets await coal linkages and PPA approvals: CESC has two coal-fired generation projects of 600MW each at Chandrapur and Haldia, which are likely to be commissioned in FY14 and FY15, respectively. The concern regarding Chandrapur is whether the company will be successful in signing the case-1 PPA of 300MW with MSEDCL and whether it will be able to enter into a fuel supply arrangement with Coal India for 70% of the coal required. Note that the Chandrapur unit has also bid in the recent case-1 Uttar Pradesh bid (to the extent of 245MW), the results of which are expected soon. The concern regarding Haldia is its rationale for entering into a PPA with its existing distribution circle for 450MW, despite the fact that the demand for this distribution circle in FY12 stood at 950MW, for which it already has operational capacity of 1,225MW.

Exhibit 1: Snapshot of CESC's operational and under-construction portfolio

Existing Projects	Capacity (mW)	FY12 PLF (%)	PPA Details	Fuel Source
Budge Budge	750	90	Own Distribution Circle	Total requirement is 5.7MT of which 3MT is sourced from group company ICML, 2.2MT from Coal India and balance 0.5MT is imported
Southern Generating Station	135	87	Own Distribution Circle	
Titagarh	240	81	Own Distribution Circle	
New Cossipore	100	28	Own Distribution Circle	
	1,225			
Under-construction	**Capacity (mW)**	**Expected CoD**		
Chandrapur, Maharashtra	600	FY14	Bidding for Case 1 PPA for 300mW with MSDECL, balance merchant	LoA with Coal India
Haldia, WB	600	FY15	PPA with CESC for 450mW, balance merchant	70% linkage from CIL and balance imported coal
	1,200			

Source: Company, Ambit Capital research

Spencer's continues to bleed: Even four years after its acquisition, Spencer's (a retail chain) continues to make losses. To date, CESC has invested ~Rs11bn, equivalent to 19% of its standalone net worth. With the shutdown of unviable and unprofitable stores, the company achieved EBITDA break-even at the store level (i.e. excluding unallocated corporate expenditure) from FY10 onwards. However, the management expects the entity to achieve EBITDA break-even by 4QFY14, assuming a modest expansion in floor space of 0.2mn sq feet per year. After achieving EBITDA break-even, CESC plans to reduce its stake either through listing Spencer's as a separate entity or diluting a strategic stake to a foreign retailer after the approval of retail FDI.

Acquisition of Firstsource implies lower interest in power: Leaving aside the valuations, the acquisition of Firstsource comes at a time when: (1) CESC requires an additional ~Rs6bn as equity investment in Chandrapur and Haldia, and (2) the company is planning to develop a further ~5.9GW, which would need an equity investment of ~Rs89bn compared with its current consolidated CFO of Rs0.9bn, net worth of Rs48bn and net debt:equity of 0.8x. In other words, given the high capital requirements of CESC's power business, through its investment of ~US$120mn in Firstsource, CESC's management has given a sign that it is not very keen to invest in the power sector.

Relative valuations: The stock is currently trading at 0.66x FY14 P/B, at a ~55% discount compared with its peers and at a ~35% discount to its five-year average P/B. CESC's main asset is its 1,225MW operational power plants in West Bengal, which are worth ~Rs43bn (implied multiple of 1.7x of the FY12 regulated book value of existing generation and distribution assets) or Rs345/share compared with its current share price of Rs278.

Unfortunately, the firm has been trading well below the fair value of the operational assets because it has been draining the cash generated by these power assets into funding Spencer's losses, CESC Properties' upcoming luxury mall in Kolkata and now the Firstsource acquisition. For CESC to get re-rated, the management will have to reverse its aspirations of venturing into unrelated sectors.

NOT RATED

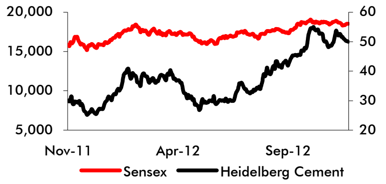
Stock Information

Bloomberg Code:	HEIM IN
CMP (Rs):	50
TP (Rs):	NA
Mcap (Rs bn/US$ mn):	11/204
52-wk H/L (Rs):	56/25
3M ADV (Rs mn/US$mn):	18/0.3

Stock Performance (%)

	1M	3M	12M	YTD
Absolute	-	19.0	60.8	96.9
Rel. to Sensex	1.1	15.4	42.9	77.1

Performance



Source: Bloomberg, Ambit Capital research

Heidelberg Cement

We hosted Mr. Himanshu Jindal, the Senior General Manager (Finance) at Heidelberg Cement. A subsidiary of the world's fourth-largest cement producer, Heidelberg Cement India currently has 3.1mn tonnes of cement capacity and 1.6mn tonnes of clinker capacity across four manufacturing locations. For 9MCY12, the company generated revenues of Rs8.5bn (15% growth) and PAT of Rs382mn (23% growth).

New expansions to increase market share: Heidelberg is doubling its capacity to 6mn tonnes by the end of CY12 by setting up 2.9mn grinding units in Madhya Pradesh (MP) and Uttar Pradesh (UP) and plans to enter into the markets of Bihar, Delhi, NCR, Haryana, Punjab, and Uttarakhand. Along with this, the company is also increasing its clinker capacity to 3.1mn tonnes. The management indicated that the trial runs for the new capacity have already started, and they expect commercial production by the end of December 2012. Expansion of capacities in the home markets of MP and UP would further increase their market share in these regions. The management expects a gradual ramp up in capacity utilisation of the new expansion, with a likely annual average of ~65-70% for CY13.

Central India seeing signs of improvement in infra demand: Central India, the best-placed region in India considering the demand-supply scenario, contributes ~65% to the overall revenue of Heidelberg, followed by the west (~22%) and the south (~13%). Over the past three years (FY09-12), whilst demand in India has seen a CAGR of 7%, central India grew by 10% (mainly driven by 23% demand growth in UP). The management indicated that the Government's initiative to ramp up pending road projects of Rs550bn in UP and the robust demand from the rural segment will keep the demand momentum in the region strong. However, current demand remains affected because of sand and labour availability issues.

Significant cost savings from incremental capacities: Apart from increasing capacities, Heidelberg is incurring Rs2bn of capex on conveyor belts for the transportation of limestone between the plant and the new quarry (20km away) which would result in savings of Rs70-100/tonne from the current scenario of transporting via road. The new plants are state-of-the-art and are more efficient in use of petcoke. Savings in power and fuel from the new plant would be to the tune of 10 units (in power) and 50kcal/kg of clinker (in fuel). The state of MP provides certain tax incentives on VAT. Heidelberg is entitled to 75% VAT refund for the incremental production, which is sold in the state of MP.

Increased spend on marketing and advertising: To gain market share in UP and increase sales to newer markets, Heidelberg has not only increased their dealer network but has also invested in branding (through television and print media) mainly to convey high/better quality.

Relative valuation: Heidelberg is currently trading at 7.3x 1-year forward EV/EBITDA on consensus EBITDA estimates. However, on an EV/tonne basis, the stock is trading at US$56, a 30% premium to its 5-year average (but at a significant discount to the large-cap cement plays). On 1-year forward EV/EBITDA, the stock is trading at a 14% premium to its 5-year average. Consensus estimates indicate that Heidelberg's EBITDA and EPS will register a CAGR of 97% and 87% respectively over CY11-13, resulting in a sharp jump in return ratios going forward. We expect return ratios to improve from hereon. Expansions and cost rationalisation should lead to improvement in EBITDA/tonne; however, the overall improvement will be restricted due to low EBITDA/tonne in Maharashtra. Continued delays in capacity expansions have restricted valuation rerating for the last quarter or so.

NOT RATED

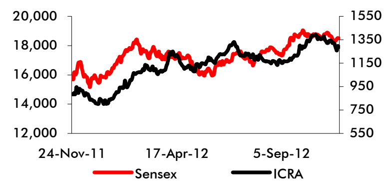
Stock Information

Bloomberg Code:	ICRA IN
CMP (Rs):	1287
TP (Rs):	NA
Mcap (Rs bn/US$ mn):	13/232
52-wk H/L (Rs):	1450/793
3M ADV (Rs mn/US$mn):	8/0.2

Stock Performance (%)

	1M	3M	12M	YTD
Absolute	(7.2)	10.4	47.5	60.5
Rel. to Sensex	(6.1)	6.8	29.6	40.7

Performance



Source: Bloomberg, Ambit Capital research

ICRA

We hosted Mr. L Shivakumar, Senior Group VP & Head-Western region of ICRA. ICRA is the second-largest credit rating agency in India (~21% market share), with a presence in other business segments such as consultancy, IT services and outsourcing. After a strong 31% revenue CAGR and 39% PAT CAGR over FY06-10, ICRA's revenue CAGR and PAT CAGR has slowed down to 14% and 1%, respectively, over FY10-12. This slowdown has been due to sluggish debt markets, a slowdown in credit offtake, increased employee overheads, and competitive pressures from an increase in the number of players in the credit rating industry.

SMEs and DCM (debt capital market) ratings to fuel future growth: Whilst growth in the BLR (bank loan rating) vertical would remain muted (because corporate loan demand has been sluggish), margins in the segment continue to be lower due to higher competitive intensity. Key driver of future growth would be the highly volatile DCM vertical and the low ticket-sized SME ratings product.

SME business to be volume and efficiency driven: Efficiency should be driven by: (i) outsourcing of physical due diligence and site visits of SMEs based outside the eight centers, where ICRA is located, to local CA firms, and (ii) lower employee cost (analysts rating SMEs would cost less compared with those rating large corporates). In fact, over the past two quarters, ICRA has built capacity in this regard by recruiting lower overhead employees, which should ideally bear fruit going forward.

Default rates not comparable across rating firms: Mr. Shivakumar defended ICRA's high default statistics by claiming that its default rates are higher compared with its peers, because the firm is more conservative than its peers in terms of accounting for defaults. This is because banks are not mandated to share genuine data on defaults (unlike CIBIL), which implies that default rates published by the ratings agencies are a function of follow ups by the rating agencies and the degree of conservatism of judgment applied by them.

Undercutting of fees, compromise of independence predominant: Such phenomenon, driven by aggressive practices by some rating agencies and banks alike is precarious for the health of the rating industry, because the independence of some rating agencies may be compromised whilst chasing growth.

Relative valuation: ICRA is currently trading at 19.5x FY13E P/E and 17.5x FY14E P/E based on consensus estimates and is at a 22% discount to its closest listed peer CRISIL on 1-year rolling forward P/E. Increased competition in the segment, leading to pressure on growth and margins, is the key risk to the company.

BUY

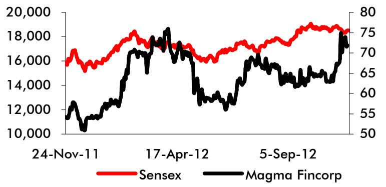
Stock Information

Bloomberg Code:	MGMA IN
CMP (Rs):	72
TP (Rs):	80
Mcap (Rs bn/US$ mn):	14/246
52-wk H/L (Rs):	79/45
3M ADV (Rs mn/US$mn):	4/0.1

Stock Performance (%)

	1M	3M	12M	YTD
Absolute	10.7	7.2	33.1	33.1
Rel. to Sensex	11.8	3.5	15.2	13.3

Performance



Source: Bloomberg, Ambit Capital research

Magma Fincorp

We hosted Mr. Lakshmi Narsimhan, CFO of Magma Fincorp. The company is one of the biggest vehicle financing NBFCs in India. Mr. Narsimhan reiterated that the recent acquisition of GE's home financing business is value-accretive for the company, and he expects that the RBI would accept the Thorat Committee's recommendations.

High probability of Thorat Committee's recommendations going through: The management stated that there is a high probability that the RBI would accept the Thorat Committee's recommendations on higher tier-1 capital.

GE deal value-accretive: The management stated that the recent deal through which the company bought GE Capital's housing finance business is value-accretive, because the company has not paid more than book value for this business which has a very high yield, very high capital adequacy, and gives Magma direct access to housing finance through NHB funds.

Valuation and stance: Given the valuations that Magma has paid for this acquisition, we believe that these acquisitions would be value-accretive for Magma from FY14 onwards itself. However, the long-term value accretion from this acquisition would depend on how quickly and profitably the management scales up this business given the hyper-competitive nature of the housing finance business. Whilst we believe that these acquisitions would be value-accretive for Magma Fincorp, the re-rating of the stock from current valuations would depend on how quickly the core Magma lending business ramps up its RoAs to ~2% (from 1.1% currently). We maintain our BUY stance on the stock with **a target price of Rs80/share (11% upside), implied valuation of 1.3x 1-year forward P/B.**

BUY

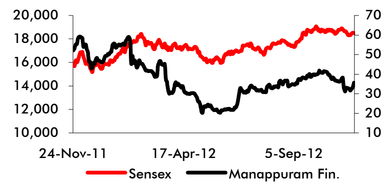
Stock Information

Bloomberg Code:	MGFL IN
CMP (Rs):	36
TP (Rs):	51
Mcap (Rs bn/US$ mn):	30/540
52-wk H/L (Rs):	68/18
3M ADV (Rs mn/US$mn):	113/2

Stock Performance (%)

	1M	3M	12M	YTD
Absolute	(7.8)	(1.1)	(30.4)	(21.4)
Rel. to Sensex	(6.7)	(4.8)	(48.3)	(41.2)

Performance



Source: Bloomberg, Ambit Capital research

Manappuram Finance

We hosted Mr. I Unnikrishnan, Deputy MD and ED of Manappuram Finance. The company is India's second-largest specialised gold loan NBFC. Without being ultra-bullish on the future prospects of the company, Mr. Unnikrishnan stated that business conditions would be only better from hereon in terms of financial performance and the regulatory regime.

Maintained guidance on 20% annualised growth: Mr. Unnikrishnan maintained the earlier guidance of 20% annualised growth, with the possibility of some marginal compression in NIMs (~50bps) and some improvement in operational efficiency, keeping RoAs intact in the near term.

Liability side is a bigger challenge: Mr Unnikrishnan stated that loan growth is constrained more due to liability-side constraints rather than asset-side constraints (LTV cap, increased competition, etc.). Over the past 18 months, various regulatory changes related to priority sector guidelines, securitisation guidelines, and cap on bank's exposure to gold loan NBFCs have reduced the liability generation capacity of gold loan NBFCs. However, according to the management, the scenario has started improving over the past month on the liability side and regulatory clarity for the sector should further improve the liability generation of the company.

Do not expect further regulatory clampdown: Mr. Unnikrishnan does not expect any further regulatory clampdown for the sector and expects the RBI guidelines for the sector (based on the Rao Committee's recommendations) to be positive for the sector.

Maintain our BUY stance: Whilst the previous quarter's results were below our expectations, the return on assets during the quarter was still robust at ~3.4% (RoEs of 17%). The yields on its loan book may further decline by 50-70bps going forward (due to the increasing proportion of lower-yield assets); however, as long as the company expands its loan book at 20% annualised going forward, RoAs and RoEs could further return to >3.5% and >20%, respectively, given the high operational leverage in the business model and an over-capitalised balance sheet with leverage of only 4.9x. The growth, we believe, is constrained more due to the liability side challenges (rather than LTV cap) where a barrage of regulatory changes has impacted the liability-generating capacity of the company. Any regulatory clarity from the RBI based on the Rao Committee's report on the gold loan sector would not only remove a major overhang from the stock but could also make life easier for the company in terms of generating liabilities to increase its loan book. With the stock trading at 0.9x 1-year forward P/B and ~6.0x even on depressed earnings assumptions, we believe the risk-reward is favourable despite a 100% run up in the stock price from its bottom. We retain our **BUY** stance with a valuation of Rs51, ~42% upside, implying a 1.4x 1-year forward P/B, a fair multiple for 18-20% earnings growth and 18-20% RoE (for reference, MGFL's past 5-year earnings CAGR is more than 100% and average RoE is >25%).

NOT RATED

Marico

We hosted Mr. Anubhav Rastogi of Marico. Whilst growth remains strong in the Parachute hair oil business, higher raw material prices have led to muted growth in the Saffola edible oil franchise because the premium of Saffola to other regional brands has risen to 55-60% from the 30-40% levels generally maintained. South East Asia continues to perform well in the international business, and an improving macro situation is likely to see a revival in the Bangladesh business, which is likely to close the year with a positive growth rate. Marico expects the Kaya business to break-even by FY14 and expects steady state operating margins of ~17-20% in the Paras business.

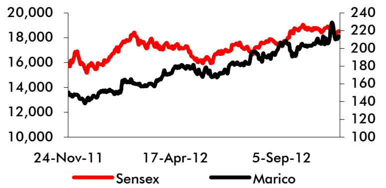
Stock Information

Bloomberg Code:	MRCO IN
CMP (Rs):	213
TP (Rs):	NA
Mcap (Rs bn/US$ mn):	138/2479
52-wk H/L (Rs):	233/134
3M ADV (Rs mn/US$mn):	87/1.6

Stock Performance (%)

	1M	3M	12M	YTD
Absolute	1.6	10.3	48.1	46.8
Rel. to Sensex	2.7	6.6	30.2	27.1

Performance



Source: Bloomberg, Ambit Capital research

Core business strong, concerns in Saffola: The company continues to see strong growth in the Parachute business led by a continuing shift from the unorganised to organised space. However, the Saffola business is likely to see muted growth for the next 1-2 quarters, given that increasing raw material prices have led to the price differential between Saffola and other regional players to rise to 55-60% (from the 30-40% levels generally maintained). The company intends to narrow this gap by making adjustments to its pricing or packet size of products.

Recovery in the international business: Whilst the international business has seen a mixed performance so far, the company expects the momentum in the South East Asian business to continue. The Bangladesh business, which struggled to see YoY growth so far this year, is likely to see stronger growth in 2HFY13, because the macro environment in Bangladesh is starting to improve. The company expects ~10% constant currency growth in the international business this year.

Looking at breaking even in Kaya in FY14: Kaya is unlikely to see the strong momentum from 2QFY13 to continue for the rest of the year and will likely break-even in FY14. The company is not looking at expanding aggressively currently nor is it looking to shut down stores. It has invested Rs2.2bn so far in the business and is working on a newer, smaller format for the business. The company intends to increase the share of products (versus services) in the business, leading to a better margin profile. The company's new CRM initiatives have helped increase the share of repeat customers to 43% from 27% 2-3 years ago.

After Paras acquisition, company to look at growth in the breakfast space: In India, the company is keen on expanding in the breakfast space. The portfolio of products under the Paras acquisition generated Rs1.5bn of revenue in FY12 (under the ownership of Reckitt Benckiser). The business derives 40% of sales from deodorants, 40% from hair serums and 20% from hair gels. Whilst high advertising spends will lead to lower operating margins in the initial years (by 200-300bps), the company expects steady state operating margins of ~17-20% after its initial investments from the Paras portfolio.

Relative valuation: The stock is currently trading at 33x FY13 and 27x FY14 consensus earnings with an EPS CAGR of 25% over FY12-14.

BUY

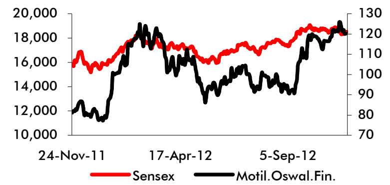
Stock Information

Bloomberg Code:	MOFS IN
CMP (Rs):	120
TP (Rs):	143
Mcap (Rs bn/US$ mn):	17/314
52-wk H/L (Rs):	138/75
3M ADV (Rs mn/US$mn):	52/0.9

Stock Performance (%)

	1M	3M	12M	YTD
Absolute	6.8	25.5	48.0	54.6
Rel. to Sensex	7.9	21.9	30.2	34.9

Performance



Source: Bloomberg, Ambit Capital research

Motilal Oswal Financial Services

We hosted Mr. Sameer Kamath, CFO of Motilal Oswal Financial Services (MOFS). MOFS is one of the biggest stockbrokers in India, with a strong presence in both the retail and institutional broking space along with a business presence in asset management and investment banking as well. Mr. Kamath stated that whilst cash market volumes have improved in this quarter, the retail participation in the markets is still to improve meaningfully. However, irrespective of the market conditions, the company continues to invest in its existing businesses and sees huge structural opportunity in its businesses.

Retail investors are still staying away from the market: Mr. Kamath stated that whilst cash market volumes have improved over the past two months, retail investors have still not come back to the markets. A sustained market rally coupled with more IPOs hitting the market would be the key catalysts for the retail investors to come back to the markets and hence improve the profitability for the company.

Continues to invest in its existing businesses: Whilst the broking business is very competitive and cyclical in nature, the company continues to invest in its broking business, because the management believes in the long-term business opportunity in the broking business. Mr Kamath stated that the company has cautiously stayed away from some businesses, because the management does not see natural competitive advantages for the company in these businesses.

Business has been affected due to yield cap: The recent SEBI directive to mutual funds to not pay more than 12bps as trading commission has affected the business; however, this impact has not been meaningful, because the broking business is spread over retail, FIIs, insurance companies and mutual funds.

Government initiatives are noble but implementation is the key: The recent government initiatives (such as tax breaks on equity investment below <Rs10K) are in the right direction but the real impact of these regulations would come only if the government implements these schemes in a well-coordinated way with the help of various agencies such as SEBI, income tax authorities, etc.

Valuation and stance: Given that MOFS has a strong institutional and retail broking franchisee, the company's profitability is highly geared towards a stock market recovery. If cash market volumes on the Indian exchanges remain at the levels seen over the past two months, we expect robust revenue CAGR and PAT CAGR of 24% and 34% over FY12-14, respectively. Given the cyclical nature of the business, we expect earnings multiples to expand. Our DCF model assumes a cost of equity of 15.0% and terminal growth of 5%. This translates to a valuation of Rs143, implying 23% upside and a FY14 P/E multiple of 11.0x (in line with its average multiple over FY10-12).

NOT RATED

Phillips Carbon Black

Phillips Carbon Black Limited has faced a challenging time over the past four quarters from a combined impact of influx of cheaper Chinese carbon black imports, margin pressure on tyre companies and rupee depreciation. These factors adversely impacted its utilisation rates, pricing power and margin, owing to which the company recorded a net loss for 1HFY13. However, the company expects the situation to turn better in the medium term with the recent imposition of the safeguard duty on Chinese imports, relief on margin pressure from softening rubber prices, and the company's focus on increasing exports.

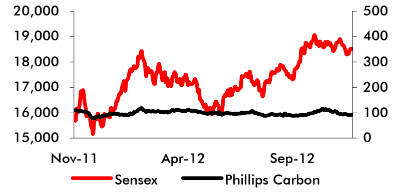
Stock Information

Bloomberg Code:	PHCB IN
CMP (Rs):	92
TP (Rs):	NA
Mcap (Rs bn/US$ mn):	3/57
52-wk H/L (Rs):	122/76
3M ADV (Rs mn/US$mn):	18/0.3

Stock Performance (%)

	1M	3M	12M	YTD
Absolute	(16.7)	3.2	(13.0)	5.5
Rel. to Sensex	(15.6)	(0.5)	(30.8)	(14.2)

Performance



Source: Bloomberg, Ambit Capital research

Company background: Phillips Carbon Black Limited (PCBL), belonging to the RP-Sanjiv Goenka Group, is the largest producer of carbon black in India and the seventh-largest globally, with an annual capacity of 472,000 tonnes across four locations in India. Carbon black is mainly used in tyres besides finding application in other black rubber products such as conveyor belt, plastic products, printing ink, etc. The company also generates sizeable revenue from export of carbon black (30% of revenue in FY12). Furthermore, the company generated ~4% of revenue and a much higher 23% share of PBIT from the sale of surplus power from its co-generation power plants in FY12.

Here are the key takeaways from our meeting:

Faced a challenging time over the past 1-1.5 years: The company had to face many obstacles over the past 1-1.5 years, due to: (a) influx of cheap imports particularly from China (cheap pricing facilitated by the decline in coke prices); (b) severe margin pressure on tyre companies from high rubber prices, which led them to rely more on imports; (c) rupee depreciation (vs USD), because the company is a significant net importer (imports ~80% of carbon black feedstock mainly from the US, which is much more than its export revenue). These factors have had a negative impact on the company's capacity utilisation rates, pricing power and thereby the EBITDA margin and net earnings. For 1HFY13, the company recorded an EBITDA margin of 2.5% (YoY decline of ~800bps) and loss at the PBT and net earnings level.

Turnaround expected in the medium term: The company expects things to turn for the better in the medium term due to: (a) imposition of the safeguard duty of 30% on the Chinese carbon black imports recently (from October 2012 to December 2013), which is likely to reduce the level of Chinese discounts and improve domestic manufacturers' bargaining power; (b) softening of rubber prices in the recent months, which is likely to relieve some margin pressure on the tyre companies; (c) the company's target to increase exports to 40% from the current ~30%, which will help in improving volumes as well reducing net currency exposure; (d) power generation business continuing to generate stable revenue and profit. The company is comfortable with the current level of leverage (1.2x).

Valuation: The stock is currently trading at 4.2x FY14 consensus EBITDA and 3x FY14 consensus net earnings. Phillips Carbon has historically traded in an EV/EBITDA band of 3-6x. We currently do not have a rating on the stock.

NOT RATED

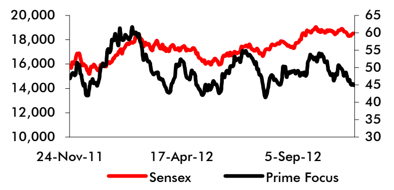
Stock Information

Bloomberg Code:	PRIF IN
CMP (Rs):	45
TP (Rs):	NA
Mcap (Rs bn/US$ mn):	8/150
52-wk H/L (Rs):	64/33
3M ADV (Rs mn/US$mn):	40/0.7

Stock Performance (%)

	1M	3M	12M	YTD
Absolute	(6.2)	(10.7)	(6.7)	(2.0)
Rel. to Sensex	(5.1)	(14.4)	(24.6)	(21.7)

Performance



Source: Bloomberg, Ambit Capital research

Prime Focus

We hosted the CEO & CFO of Prime Focus at our conference. Prime Focus is a leading visual media post production and effects company. Its largest business and primary growth driver is 2D to 3D content conversion that is likely to remain robust over the next couple of years as 2D filming and upgrades to 3D remain popular and back catalogues of older content is converted. Prime Focus content management platform has seen strong uptake from broadcasters and is a promising earnings driver as its lower margin legacy post production business slows down.

Set up as a traditional post production firm in the mid nineties, Prime Focus has diversified into 3D conversion, visual effects and digital media asset management.

- **2D to 3D conversion market:** 3D film content popularity is rising among movie studios due to better content protection from piracy, higher sale prices and mass market acceptance. Within this 2D to 3D conversion is the addressable market for Prime Focus. This remains a medium term opportunity as digital editing lends itself better to 2D filming as opposed to native 3D filming. Conversion of existing movie libraries of US studios provides another medium term revenue stream. Management highlight that 3D theatrical releases tend to earn ~40% more than 2D releases at 7-8% increase in production costs. Its annual new 3D release market is $250-300mn in size. Overall addressable market for converting back catalogues of older films is estimated to be $1.8-3.4bn in size providing robust medium term growth opportunities.

- **Prime Focus conversion capabilities:** Prime Focus has emerged as a leading 2D-3D conversion services firm since it bagged the contract to convert Star Wars to 3D. The company's project portfolio contains several leading Hollywood projects. With 3500 people in its India centers, Prime Focus can handle 4-5 large conversion projects at a time. Project management capabilities are key to achieving timely delivery of content and thus make Prime Focus' staff a key differentiator and retention a key challenge. Limited competition and established credentials help Prime Focus maintain its pricing power. Prime Focus primarily sells on a fixed fee basis and earns $12-15mn per movie, netting 35-37% margins in this business.

- **VFX:** Prime Focus is the leading visual effects services firm in India and has diversified into providing such services for the global market. With revenues of $26mn from these services Prime focus cross sells these services on the back of its established 3D conversion business. Prime Focus earns 25-27% margins on this business.

- **Content management platform:** Prime Focus incubated a visual content management platform targeted at broadcasters over the last three years. This platform has reached maturity with revenues expected to cross Rs1bn a year in FY13 and large anchor clients including Star TV. Management highlight that addressable market for its platform, branded Clear, is potentially larger than its traditional post production services and conversion. With EBITDA margins of 37-38% (ahead of Group margins) strong growth is likely to be an earnings driver in the medium term.

- **Key risks:** Key risks to the business include: (a) Faster shift to native 3D film recording making conversion from 2D obsolete, (b) potential cost over-runs in a difficult project management business, and (c) faster commoditization of its conversion, VFX and post production services.

Exhibit 1: Relative valuation

	Curr	Price	Mcap	Div Yield	Sales CAGR	EV/SALES		EBITDA CAGR	EV/EBITDA		EPS CAGR	P/E		P/B	
			(US$ Mn)	FY12	(FY12-14)	FY13	FY14	(FY12-14)	FY13	FY14	(FY12-14)	FY13	FY14	FY13	FY14
Dish TV	INR	73	1,405	0.0%	17%	3.8	3.2	26%	13.6	10.8	NA	NA	93.4	173.2	61.5
Hathway	INR	260	670	0.0%	27%	3.5	2.5	38%	19.1	11.7	NA	NA	130.7	4.7	4.5
Hinduja Ventures	INR	477	177	3.1%	64%	2.1	1.2	30%	9.2	5.7	13%	8.5	7.6	1.2	1.1
Den Networks	INR	185	441	0.0%	6%	2.6	2.1	48%	12.7	9.5	102%	58.4	41.2	2.9	2.8
Zee TV	INR	204	3,528	0.7%	16%	5.2	4.5	21%	20.6	16.8	20%	28.4	23.3	5.1	4.5
Sun TV	INR	384	2,723	2.5%	11%	7.5	6.5	7%	10.3	9.0	9%	21.1	18.4	5.5	5.0
Network 18	INR	39	103	0.0%	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA
TV 18	INR	32	199	0.0%	NA	NA	NA	NA	NA	NA	NA	124.8	NA	NA	NA
Prime Focus	INR	46	152	0.0%	21%	1.2	1.0	13%	4.1	3.5	18%	6.0	4.6	1.6	1.2
HT Media	INR	95	403	0.4%	8%	1.1	1.0	-2%	8.3	6.7	11%	13.8	11.0	1.4	1.2
Hindustan Media Ventures	INR	140	186	0.9%	12%	1.3	1.2	NA	NA	NA	13%	13.9	12.4	NA	NA
DB Corp	INR	214	707	2.3%	10%	2.5	2.3	12%	10.8	8.9	16%	17.9	14.5	3.8	3.4
Jagran Prakashan	INR	100	572	3.5%	13%	2.3	2.1	12%	10.7	9.1	14%	15.0	13.7	3.6	3.3
Median				**0.4%**	**13.0%**	**2.5**	**2.1**	**17.0%**	**10.8**	**9.0**	**14.2%**	**16.5**	**14.5**	**3.7**	**3.3**
Mean				**1.0%**	**18.6%**	**3.0**	**2.5**	**20.6%**	**11.9**	**9.2**	**24.0%**	**30.8**	**33.7**	**20.3**	**8.8**

Source: Company, Ambit Capital research

Prime Focus trades at a substantial discount to Indian peers.

BUY

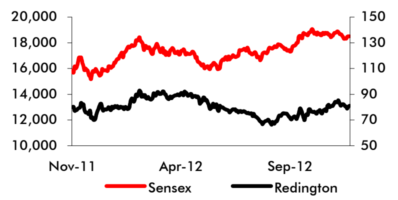
Stock Information

Bloomberg Code:	REDI IN
CMP (Rs):	81
TP (Rs):	114
Mcap (Rs bn/US$ mn):	32/583
52-wk H/L (Rs):	94/65
3M ADV (Rs mn/US$mn):	29/0.5

Stock Performance (%)

	1M	3M	12M	YTD
Absolute	5.5	10.4	4.7	(0.7)
Rel. to Sensex	6.5	6.7	(13.2)	(20.4)

Performance



Source: Bloomberg, Ambit Capital research

Redington

Recovery in IT demand (from the Government) and the recent iPhone distribution agreement have addressed the two largest concerns regarding Redington's domestic growth. Redington views a shift to consumer electronics powered by Apple in India and rising proportion of value business to be the primary earnings driver in the medium term. Guidance for FY13 was reiterated while confidence remains high on15-20% medium term revenue growth. Redington remains a class act in distribution in India and abroad and deserves to trade at historical levels of 11x year ahead PE. We reiterate BUY.

Redington highlighted the following:

- **SI demand turning the corner:** Management highlighted large orders from government schemes such as UID in its System Integration (SI) channel. Other large orders are expected in this channel. Demand from corporates remains muted. Demand from this end market historically has constituted 20-30% of India revenues; this had slowed down substantially into 1HFY13 and promises to pick up in 2HFY13.
- **iPhone confidence:** Management expects Apple to be one of its primary growth drivers in FY14 given the existing momentum in iPad tablets, potential in iPhone and mini iPads (expected to be launched in India by the next quarter).
- **Shift to consumer:** While IT demand remains relatively muted, growth in consumer electronics remains strong. Redington is in talks to a couple of Android smartphone/tablet brands to enhance its bouquet and accelerate its portfolio shift towards consumer. This is likely to help bolster growth and reduce working capital intensity.
- **Middle East:** While HP remains challenged in Middle East, Lenovo, Dell and ASUS are doing well. The transition from Nokia to Samsung is progressing smoothly and is expected to be over by 2QFY14 in terms of revenues and profitability.
- **Value business is a margin driver:** Rise in proportion of value business in India to 30% of sales has helped bolster margins. Value business is currently only 7% of its overseas revenues. Management expects a rise in share of value over the next couple of years to bolster overseas margins.
- **Guidance:** Management reiterated 10-15% revenue and earnings growth for FY13 and 15-20% medium term revenue growth.

Valuation: Our triangulated valuation uses three approaches - FCFE, Excess Return and SOTP – and points to a valuation of Rs114, implying 41% upside and a modest 11x FY14 PE, in-line with historical valuation multiples (and that too on trough earnings).

Exhibit 2: Redington India Ltd Relative Valuation

	Curr	Price	Mkt Cap (mn)	EV	Sales CAGR (CY11-13)	EV/Sales		EBITDA CAGR (CY11-13)	EV/EBITDA		EPS CAGR (CY11-13)	P/E	
						CY12	CY13		CY12	CY13		CY12	CY13
India Peers													
Redington India	INR	80.6	33,800	51,221	14%	0.2	0.2	17%	7.6	6.6	19%	9.7	8.2
Hcl Infosystems	INR	36.8	8,202	8,370	NA	NA	NA	NA	NA	NA	NA	NA	NA
US													
Tech Data Corp	USD	44.0	1,661	1,566	1%	0.1	0.1	-1%	4.2	3.9	7%	8.6	7.6
Ingram Micro Inc	USD	15.7	2,354	1,969	7%	0.1	0.0	11%	3.7	3.1	6%	8.7	7.4
Synnex Corp	USD	32.0	1,193	1,312	2%	0.1	0.1	2%	4.8	4.5	0%	8.2	7.6
Avnet Inc	USD	28.6	3,922	5,228	-3%	0.2	0.2	-9%	5.5	5.9	-8%	8.2	8.3
Arrow Electronics	USD	36.4	3,854	5,441	-2%	0.3	0.3	-11%	6.2	6.2	-2%	8.5	8.4
Celestica Inc	USD	7.4	1,510	912	-9%	0.1	0.2	-9%	3.4	3.9	-7%	8.2	9.6
Flextronics Inc	USD	5.7	3,787	4,321	-8%	0.2	0.2	5%	3.8	3.5	12%	6.6	5.8
Jabil Circuit Inc	USD	18.6	3,813	4,274	6%	0.2	0.2	11%	4.2	3.6	19%	8.7	7.0
Sanmina Sci Corp	USD	9.2	755	1,242	0%	0.2	0.2	0%	4.5	4.2	25%	9.5	6.0
Benchmark Elec. Inc	USD	15.2	844	529	4%	0.2	0.2	20%	4.7	4.4	11%	13.0	12.1
Median					1%	0.2	0.2	1%	4.4	4.0	7%	8.6	7.6
Mean					0%	0.2	0.2	2%	4.5	4.3	6%	8.8	8.0
UK													
Computacenter Plc	GBP	386.6	595	511	4%	0.2	0.2	3%	5.0	4.4	4%	10.9	9.3
Others													
Synnex Tech	TWD	54.0	85,150	110,581	1%	0.4	0.3	11%	19.7	19.7	8%	13.7	12.0
Compal Electronics Inc	TWD	18.2	80,059	68,472	-1%	0.1	0.1	-2%	4.3	4.3	12%	10.6	8.8
Hon Hai Precision	TWD	92.0	1,088,900	1,072,900	13%	0.3	0.2	19%	6.5	6.5	8%	11.9	9.9
Quanta Computer	TWD	70.9	272,650	273,562	-5%	0.3	0.2	12%	11.2	11.2	4%	11.6	10.5
Venture Corp	TWD	7.7	2,107	1,845	1%	0.8	0.7	3%	9.6	9.6	11%	14.7	12.3
Vst Holdings	HKD	1.6	2,009	4,219	15%	0.1	0.1	5%	6.0	6.0	6%	4.0	3.7
Digital China	HKD	13.1	14,278	16,350	13%	0.2	0.2	29%	8.9	8.9	11%	10.5	9.1
Median					1%	0.3	0.2	11%	8.9	8.9	8%	11.6	9.9
Mean					5%	0.3	0.3	11%	9.5	9.5	8%	11.0	9.5

Source: Bloomberg, Ambit Capital research

Redington trades at 8.2x CY13 EPS. This is at 7-8% premium to competitors such as Tech Data and Ingram Micro. However, it is currently trading at a discount to peers in developing markets. Given the several medium to long term growth drivers (the presence in growth markets such as India and Africa) and historical track record of maintaining return ratios across hardware and interest rate cycles, we believe Redington is undervalued at current multiples.

BUY

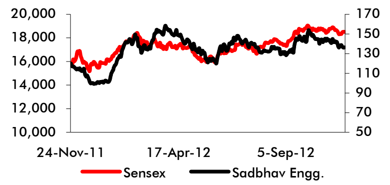
Stock Information

Bloomberg Code:	SADE IN
CMP (Rs):	136
TP (Rs):	175
Mcap (Rs bn/US$ mn):	21/371
52-wk H/L (Rs):	165/82
3M ADV (Rs mn/US$mn):	25/0.5

Stock Performance (%)

	1M	3M	12M	YTD
Absolute	(5.5)	1.0	15.2	34.9
Rel. to Sensex	(4.4)	(2.7)	(2.6)	15.2

Performance



Source: Bloomberg, Ambit Capital research

Sadbhav Engineering

We hosted Mr. Nitin Patel, Executive Director of Sadbhav Engg (SEL). Mr Patel highlighted that the weak 1HFY13 standalone results should be considered in light of the weak operating environment and strong FY12, which captured revenue from FY13. Mr. Patel stated that the recent three road BOT projects wins and the expected mining/ irrigation orders should lead to revenue growth of more than 30% in FY14. Toll revenue will materially pick up in FY14, given that expansion work at the Ahmedabad Ring Road will be completed and the Maharashtra Border Check Posts start collecting toll from end-FY13. Present equity needs remain manageable (Rs9bn over the next four years) and financial engineering can support equity commitments above another Rs5bn.

Rajsamand-Bhilwara project, supplementary to Gomati Chauraha-Udaipur section of NH-8: The Bhilwara to Rajsamand road joins the Gomati Chauraha to Udaipur road and offers a parallel and shorter route to GMR's expressway from Bhilwara to Udaipur (part of Kishangarh to Ahmedabad). The management highlighted that the recent project win may not see any delays (100% land acquired) or legal issues despite it being the only bidder (with 39.3% grant). The equity needs of this project will be 50% of grant, i.e., Rs1.33bn and debt will be Rs3.1bn, whilst the construction cost will be Rs6.15bn. Construction is likely to start by end-January 2013 and complete within 30 months. The likely toll collection for the first full year will be Rs300mn and the management expects that normal traffic will be augmented by diversion of 5-7% (3,500 PCUs) of the GMR expressway traffic.

Financial Engineering, likely equity raise and further equity commitments: Over the next couple of years, Sadbhav Infra Private Ltd (SIPL) through financial engineering will extract surplus cash (~Rs9bn) which its SPVs would otherwise generate far into the horizon. We believe that lengthening the duration of the debt to match the concession life, especially of the older assets, can generate cash to fund further equity needs. The management does not expect any equity dilution in SEL and any dilution in SIPL will happen after this financial engineering. SIPL currently has total equity needs of Rs9bn, of which Rs7bn is required within the next three years; over and above this, the management expects that present assets can fund another Rs5bn of project equity before any benefits from financial engineering kick in. Lastly, the management expects that the debt:equity of the standalone entity will remain stagnant at end-FY13 and it may raise NCDs to replace expensive working capital debt.

Construction to pick up in FY14 and toll to jump in FY15: Mr. Patel expects that standalone construction revenue will rise from ~Rs22bn in FY13 to ~Rs30bn in FY14, because revenue from the recently won projects and impending irrigation and mining projects will drive revenue. The management does not expect to take in any orders from the NHAI EPC works, because the competition may drive margins very low. A couple of more BOT projects can be funded, and hence if won, may further support revenue in FY14 and FY15. Further, Mr. Patel highlighted that toll revenues of the company will rise to Rs8.5bn in FY15 (vs our estimate Rs6.5bn) from Rs1.2bn in FY12 and expected Rs2.5bn-2.7bn in FY13. The real driver of revenue in FY14 and beyond will be the operational commencement of ~55-60% equity by end-FY13.

Valuations not reflecting fair value of assets: The stock is currently trading at a P/B multiple of 1.5x on our FY14 BVPS estimate of Rs88/share. Sadbhav trades at a significant premium to other road developers (such as ITNL, IRB and Ashoka Buildcon) owing to its prudent business strategy and consistent financial performance. Whilst near-term profitability will decline with new assets becoming operational, we expect a recovery of earnings and returns from FY14 onwards to drive a re-rating. Our SOTP value of Rs175/share implies 2x FY14 book. Our road asset portfolio valuation implies 1.8x FY13 for Sadbhav's investment in SIPL (Rs11.2bn).

NOT RATED

Shriram City Union Finance

We hosted Ms. Krithika Doraiswamy, AVP Finance, Shriram City Union Finance (SCUF). SCUF has a loan book of ~Rs160bn with a niche presence in the SME segment (32% of its loan book) driven by synergies from Shriram Chits. SCUF has delivered an impressive diluted EPS CAGR of 33% over the past five years, powered by 40% CAGR in AUM and RoEs consistently upwards of 20% over the same period. The company's spectacular AUM growth was driven by 144% 5-year CAGR in gold loans and 73% 5-year CAGR in SME loans.

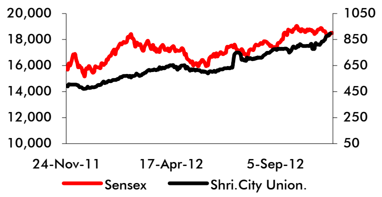
Stock Information

Bloomberg Code:	SCUF IN
CMP (Rs):	894
TP (Rs):	NA
Mcap (Rs bn/US$ mn):	47/846
52-wk H/L (Rs):	907/461
3M ADV (Rs mn/US$mn):	90/1.6

Stock Performance (%)

	1M	3M	12M	YTD
Absolute	11.5	22.6	80.8	84.9
Rel. to Sensex	12.6	18.9	63.0	65.2

Performance



Source: Bloomberg, Ambit Capital research

SME segment to dominate AUM going forward: Ms. Doraiswamy guided for AUM CAGR of ~25-30% for the next two years. The SME lending book should move from the current 32% to 45-50% going forward. Gold lending should come down to 30% of the loan book (from the current 40%); in any scenario, SCUF does not intend to increase this segment to 50% of AUM, because it does not want to be classified as a gold loan company. SCUF intends to achieve on-book–off-book AUM mix of 80:20 going forward.

Not alarmed on asset quality: Whilst gross NPAs currently stand at 1.4%, gross NPAs from the flagship segments of SMEs and gold loans are currently at <1% levels and ~0% levels, respectively. If SCUF were to reclassify its NPAs on 90dpd basis, gross NPAs would be in the range of ~2.5-3%. SCUF is experiencing a healthy collection efficiency ratio in the range of 96-97%.

Margins to expand on rate cuts: Borrowing costs should come down meaningfully if the wholesale rates drop, because SCUF has been realigning all its incremental liabilities to floating rate products since the past two quarters. In fact, 42% of SCUF's current liabilities are floating rate products. Further, Ms. Doraiswamy ruled out any cuts in its lending yields on up to 50bps decrease in system-wide borrowing rates.

Employee absorption merely a change in accounting classification: By FY13, SCUF would absorb ~9,000 employees from Shriram Chits, leading to its employee base shooting up from ~4,000 currently to 12,000. Though this employee absorption should increase the employee cost, it should not have much impact on the total operating expenditure, because these employees were working exclusively for SCUF even though they were employed by Shriram Chits, and SCUF used to pay a commission to Shriram Chits, which now would be avoided.

Cautious on non-south expansion: With only 5% of its flagship SME book from non-chit regions, the management is following a calibrated approach to growth. It expands its branches only when the manpower is adequately trained and available and that too only in geographies where it feels comfortable to lend. SCUF starts out in a new geography by lending against the two-wheeler segment initially and then gradually diversifying into other products. Vintage of an average branch manager is ~10-12 years.

Regulatory changes – a high probability event: SCUF views the regulatory changes in terms of 90dpd recognition of NPAs and increase in Tier-1 capital requirements an event of high probability and is adequately preparing itself by attempting to migrate on a 90dpd classification of NPAs over time.

Relative valuation: Based on consensus estimates, SCUF is currently trading at 2x on one-year forward rolling P/B basis, which is at a 15% premium compared with its peers. The stock is trading at 10x on one-year forward rolling P/E basis, which is at a 11% premium compared with its peers.

Sobha Developers

BUY

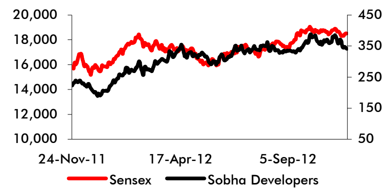
Stock Information

Bloomberg Code:	SOBHA IN
CMP (Rs):	342
TP (Rs):	462
Mcap (Rs bn/US$ mn):	33/604
52-wk H/L (Rs):	398/180
3M ADV (Rs mn/US$mn):	47/0.8

Stock Performance (%)

	1M	3M	12M	YTD
Absolute	(7.3)	1.7	58.6	78.6
Rel. to Sensex	(6.2)	(2.0)	40.7	58.8

Performance



Source: Bloomberg, Ambit Capital research

We hosted Mr. Baaskaran from Sobha Developers. Having learnt lessons from the past around managing balance sheet leverage and having created a robust pipeline of launches over the past 18 months and forthcoming projects, Sobha is moving into the next stage of growth: (a) accelerating annual project execution run-rate to 8msf by 2015 and 10msf by 2017 (1.95msf executed in 1HFY13) and (b) accelerating monthly cash collection run-rate from Rs1.15bn currently to Rs1.50bn by FY15. The company's senior management as well as promoters are firm on maintaining the debt/equity ratio between 0.5-0.6x (expected balance sheet debt of Rs14bn by 2015) without compromising on the project quality whilst trying to achieve these targets. Our DCF model values the Group's land bank at 2.0x its book value (Rs360 per share) and generates an SOTP-based fair value of Rs462 per share for Sobha, implying 35% upside. The stock is currently trading at an FY14 P/B multiple of 1.3x.

Evolution over the next 3-5 years: Sobha has laid a strong foundation and learnt lessons over the past five years by acquiring land bank in FY07-08, deleveraging its balance sheet over FY08-11 and accelerating project launches in FY12. The company is now looking to expand its business over the next five years by focusing on: (a) accelerating annual execution run-rate from ~4msf currently to 8msf by 2015 and 10msf by 2017; (b) accelerating monthly run-rate of cash collection from ~Rs1.15bn currently to ~Rs1.50bn by FY15; (c) monetising the vast land bank available on its balance sheet through a combination of 100% owned real estate development projects and through selling whole or part of its stake in some land parcels through JDA, JV or land sales after another 2-3 years where the land parcel is ready to be monetised immediately; and (d) expanding its geographical reach to possibly include projects in Hyderabad in the coming years. The company will look at developing commercial/hospitality/retail projects through JDAs and JVs solely on an opportunistic basis with surplus operating cash flows over the next five years.

Long-term business plans: The company does not want to digress from the real estate business even in the longer term. Also, after the aggressive expansion of its land bank in FY07-08 and hence overleveraging the balance sheet, the company is cognizant of the price it has paid by losing opportunities for growth in the subsequent years; the focus over FY09-11 was more on balance sheet deleveraging and less on project execution. Consequently, monetisation of the land bank over the longer term will be carried out in a controlled and phased manner to build a sustainable long-term business model.

Our view on Sobha: We expect Sobha to be the best-placed company in the sector, because: **(a)** it has a strong brand built around quality and speed of execution in a relatively stable real estate market such as Bengaluru; and **(b)** its incremental cash flows will flow towards building the launch pipeline and timely execution of ongoing projects, especially at a time when its peers are focusing on servicing debt and repair balance sheets. Sobha owns a land bank of ~2,500 acres (developable area of 110msf and saleable area of more than 200msf), of which over one-third is located in Bengaluru, including locations such as Whitefield, Hosur Road, Hebbal, Old Madras Road and surrounding areas. Estimates based on discussions with real estate brokers around current land valuations in this area, and the present value of development potential over the next 15 years suggest a valuation of at least 4x the book value for the land bank. Our DCF model conservatively values the Group's land bank at 2.0x its book value (Rs360 per share) and generates an SOTP-based fair value of Rs462 per share for Sobha, implying 35% upside. The stock is currently trading at an FY14 P/B multiple of 1.3x. We reiterate our **BUY** stance.

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Explanation of Investment Rating

Investment Rating	Expected return (over 12-month period from date of initial rating)
Buy	>5%
Sell	≤5%

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