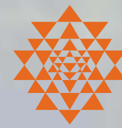
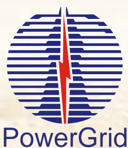


Size Matters

12 BlueChips to ride on

HCL



HINDUSTAN ZINC LIMITED

Way of Life!

India Strategy

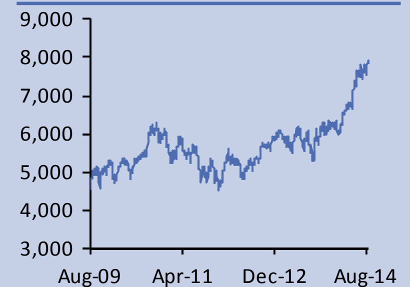
IIFL INDIA PRIVATE CLIENTS

Size Matters! - 12 Bluechips to ride on

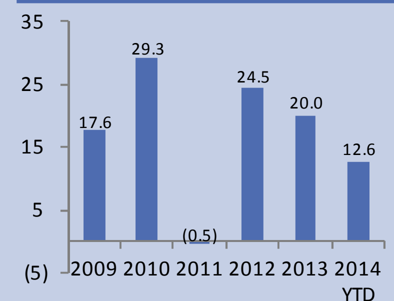
Nifty: 7,905
Sensex: 26,443

Price as on August 26, 2014

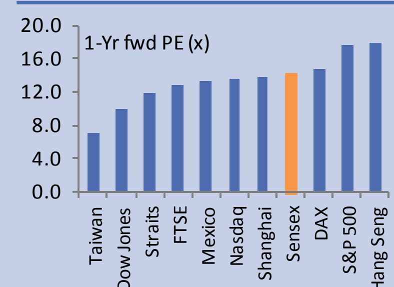
Nifty chart



FII flows in equities (US$bn)



India relative valuation



We continue to believe that the long term upward trajectory for Indian equities is intact. A consolidation around 8,000 levels on the Nifty is the general expectation, given 11% run up since election outcome and valuations (P/E) touching 15x FY16 earnings but our research team sees significant upside not just in select mid-caps but also a number of large caps. We have identified 12 bluechips, which are extremely attractive even at current levels of the market. Each of these 12 large caps can potentially deliver 35-45% returns over a period of two years.

Indian equities are significantly better placed than most emerging markets today. India's equity market capitalization is higher than the likes of Mexico, Brazil, Russia and South Africa with a wide range of large-sized companies across industries to keep FIIs excited. A slowing China only adds to India's relative attractiveness. Little wonder that equities have already seen net FII inflows of $13bn in 2014 and tipped to touch $20bn by end of this year. Already rates have softened due to the liquidity in the system, even as RBI maintains status quo on Repo. Notwithstanding below par monsoons, both WPI and CPI are showing signs of moderation. We have achieved significant control over fiscal and current account deficits and these twin deficits are unlikely to impact the market in the foreseeable future.

The Q1 FY15 earnings season didn't fail to impress with double digit growth in turnover and profits, reaffirming a recovery in corporate earnings. A sharp 150bps expansion in EBIDTA margins was the big surprise. If this pace of margin expansion continues in rest of the year, margins would return to long-term average from two-decade lows in FY15 itself. Margin expansion coupled with moderation in interest expense growth has resulted in an improvement in financial health of companies.

The government action so far, hasn't let down the market either. While a long term roadmap is awaited, measures taken to clear stalled projects, continued diesel deregulation, focus on inflation control, opening up of FDI in insurance and defence, support extended to Aadhaar and railway passenger fare hikes are encouraging moves. The Budget also attempted to correct expenditure with focus on investment related spending from consumption related focus in the past few years. Expected supply side reforms will result in a gradual recovery in economic growth. The IIP data has improved in last three months and will aid GDP growth recovery.

Midcap ideas in our previous strategy piece (Double your stake, quadruple your money) released on June 30th have delivered 14% return so far (assuming equal investment in all stocks). It's time to add large cap weight to portfolios. Having these large companies in your portfolio will make its risk profile more palatable without diluting the return potential materially. These 12 recommendations manifest our sectoral preference for domestic cyclicals (Financials, Auto, Infra, etc) and a more cherry picking approach within other sectors. The selected stocks are in sync with our time-tested theme of backing companies with strong managements, advantageous competitive position, high earnings growth visibility, better corporate governance and relatively attractive valuation.

Amar Ambani
research@indiainfoline.com

August 27, 2014

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Theme Report

BUY recommendation summary

Company	Sector	CMP (Rs)	24m Target (Rs)	Upside (%)	FY14-17E PAT CAGR (%)	FY17E		
						P/E (x)	RoE (%)	EV/EBIDTA
Maruti	Auto	2,772	3,800	37.1	27.6	14.5	18.9	7.7
Motherson Sumi	Auto	357	500	40.0	31.7	14.5	40.4	5.8
L&T	Capital Goods	1,506	2,120	40.7	9.1	19.6	16.3	14.7
ITC	FMCG	352	486	38.1	16.3	19.9	37.3	14.0
HCL Tech	IT	1,597	2,202	37.9	14.3	11.7	27.5	7.1
Hindustan Zinc	Metals	165	230	39.4	10.6	7.5	17.6	2.9
Tata Steel	Metals	525	728	38.7	31.7	6.2	15.3	4.8
Reliance Ind	Oil & Gas	993	1,400	41.0	26.6	7.2	16.9	5.8
Lupin	Pharma	1,288	1,750	36.0	19.1	18.6	25.5	10.6
Powergrid	Power	131	187	42.7	18.0	9.3	15.9	8.2
Company	**Sector**	**CMP (Rs)**	**24m Target (Rs)**	**Upside (%)**	**FY14-17E PAT CAGR (%)**	**FY17E**		
						P/ABV (x)	**ROA (%)**	**ROE (%)**
ICICI Bank	Banking	1,510	2,125	40.7	17.0	1.8	1.7	16.5
IndusInd Bank	Banking	562	811	44.2	29.1	2.0	2.0	21.7

Source: India Infoline Research

HCL Technologies Ltd.

Closing gap with larger peers

Revenue visibility at HCT Tech remains high thanks to huge deal backlog, increasing pipeline and improving win rate. While growth in infrastructure services is expected to remain strong, pick-up in core software services would broad base the incremental growth mix. Over the past couple of years, HCL Tech has structurally converged margin profile with larger peers through productivity gains and SG&A leverage. In an environment where larger and smaller peers have witnessed some disruptions in either growth or margins, HCL Tech has stood out as one of the most consistent performers. This and a superior earnings growth trajectory notwithstanding, company trades at lowest valuation of 13.7x FY16 P/E amongst the Top 5 players. Sustenance of high RoEs and robust free cash generation would also support valuation re-rating over the medium term.

Robust foundation in place to sustain sector leading growth

Enabled by strong competence in infrastructure services, HCL Tech has demonstrated impressive capability of winning large integrated deals in the re-bid market. The company has sustained a hefty deal win momentum of US$1bn+ TCV for the past 8-9 quarters. In the full year ending June 2014, HCL Tech signed 50+ large and complex deals aggregating US$5bn+ in TCV (equivalent to annual revenues) which were well-distributed across all service lines and geographies. Company has found itself in a sweet spot with infrastructure services forming a significant proportion in renewal deals. As per the company, the re-bid market opportunity is close to US$56-58bn, of which, about 40% is the addressable market for HCL Tech. The pipeline is strong not only in the re-bid market but also in the first-time outsourcing market. Company is being invited for more and more complex/larger deals as is also indicated by higher deal closures in F6/14 as compared to F6/13.

There has been a peculiarity about the nature of growth being witnessed by HCL Tech in recent years. It has been mainly driven by infrastructure services (2-year CAGR of 35%) whose share in revenues has increased from 24% in F6/12 to 34% in F6/14. Robust growth in this segment is led by ramp-ups on large deals having substantial infrastructure services component.

Financial summary

Y/e 31 Mar (Rs m)	F6/14	F6/15E	F6/16E	F6/17E
Revenues	329,180	360,882	419,634	488,722
yoy growth (%)	27.9	9.6	16.3	16.5
Operating profit	86,670	92,384	106,841	123,815
OPM (%)	26.3	25.6	25.5	25.3
Reported PAT	63,710	71,046	81,741	95,086
yoy growth (%)	57.9	11.5	15.1	16.3
EPS (Rs)	91.1	101.6	116.9	136.0
P/E (x)	17.5	15.7	13.7	11.7
Price/Book (x)	5.6	4.4	3.6	2.9
EV/EBITDA (x)	11.8	10.7	8.8	7.1
RoE (%)	37.1	31.4	29.0	27.5
RoCE (%)	23.8	21.3	20.5	19.8

Source: Company, India Infoline Research

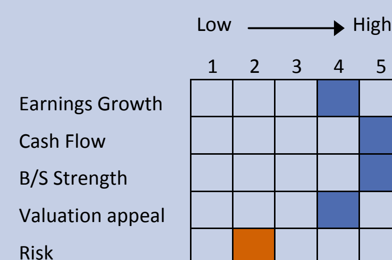
IIFL
INDIA PRIVATE CLIENTS

Rating:	BUY
Target (2-years):	**Rs2,202**
CMP:	**Rs1,597**
Upside:	**37.9%**

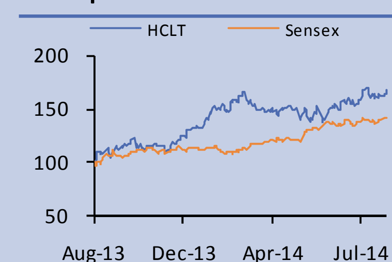
Sector:	**IT**
Sector view:	**Positive**
Sensex:	26,443
52 Week h/l (Rs):	1,630/940
Market cap (Rscr) :	111737
6m Avg vol ('000Nos):	1,244
Bloomberg code:	HCLT IN
BSE code:	532281
NSE code:	HCLTECH
FV (Rs):	2

Price as on August 26, 2014

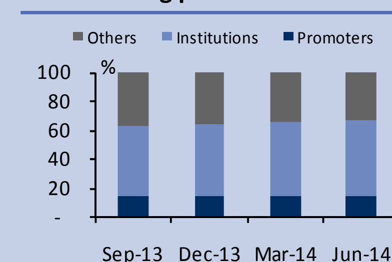
Company rating grid



Share price trend



Share holding pattern



Research Analyst:
Rajiv Mehta
research@indiainfoline.com

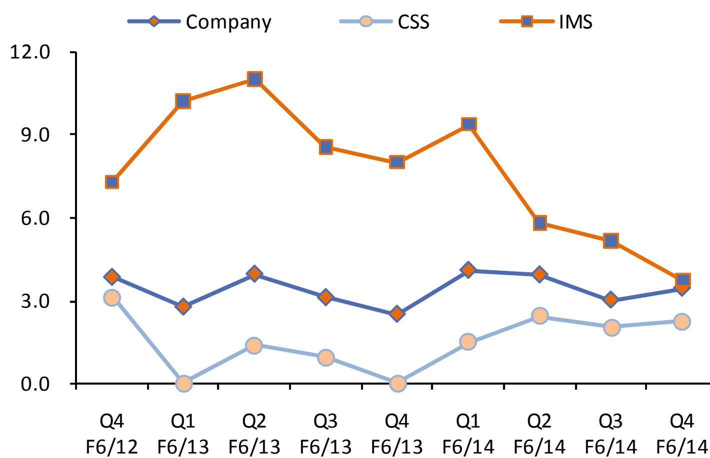
The only hitch in company's growth story has been negligible participation from the core software services (custom application, enterprise and engineering/R&D) - incremental revenue share in F6/13 at 29% and in F6/14 at 27%. However, with broadening execution on some deals and more diversified nature of deals won recently, growth in core software services (60% of revenues) has started to revive as manifested in an improved 2%+ CQGR over the past three quarters (incremental revenue share has also improved to 40%). So while growth in infrastructure services is expected to remain strong, core software services is likely to witness an improved 13-14% CAGR over F6/14-17 as compared to muted 6% CAGR over the past two years. Not only would this enable HCL Tech to outperform industry growth but will also improve its growth mix. We estimate company to deliver 17% dollar revenue CAGR over F6/14-17 aided by huge deal backlog, increasing pipeline and improving win rate.

Only hitch in company's growth story has been negligible participation from core software services

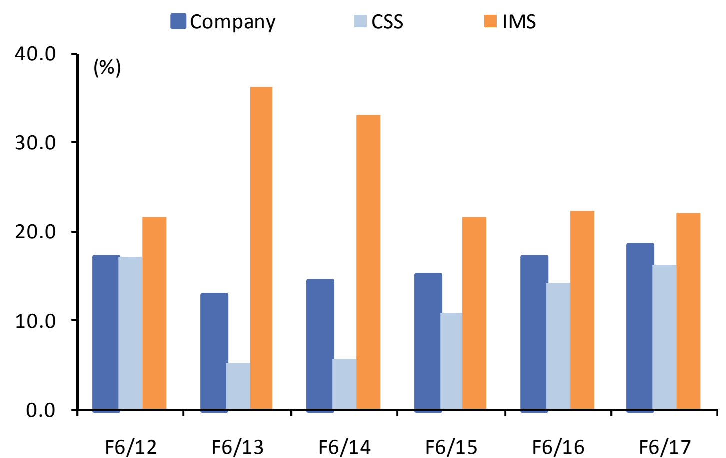
Core software services is likely to witness an improved 13-14% CAGR over F6/14-17

Estimate HCLT to deliver 17% dollar revenue CAGR over F6/14-17

So far growth has been driven by IMS



However, CSS participation to improve markedly



Source: Company, India Infoline Research

Operating margin resilience has been commendable

Apart from an impressive growth trajectory displayed by HCL Tech, it has structurally converged margin profile with larger peers over the past three years. Its F6/14 operating margin at 26.3% was much higher than Wipro and just a shade below Infosys. Apart from rupee depreciation, the sharp margin improvement at HCL Tech was driven by multiple structural levers of a) transition towards fixed price projects/managed services contracts (includes outcome-based pricing) b) automation-led productivity gains on such projects c) steep improvement in employee utilization levels and d) decline in SG&A cost as a proportion of sales.

Converged margin profile with larger peers over the past three years aided by multiple structural levers

The share of fixed price projects/managed services contracts has increased by substantial 14ppts over the past 12 quarters. This was partially attributable to 10ppt increase in infrastructure services' revenue share in the aforementioned period. While there are risks related to under pricing in such contracts, HCL Tech has demonstrated rare capability of squeezing gains out of it which in turn has encouraged company to adopt this pricing model more widely. On the utilization front, continuance of growth momentum and frugal hiring has enabled the company to sustain it at elevated levels.

Key margin levers were a) shift towards fixed price projects b) automation-led productivity gains c) improvement in employee utilization and d) SG&A leverage

HCL Tech's SG&A cost at 12.3% of revenues in F6/14 is one of the lowest in the industry, therefore representing limited scope for further improvement. The decline in recent years was driven by marked progress in client mining; over the past 8 quarters company added 22 US$20mn+ (LTM basis) accounts, also the revenue share of Top 20 clients has remained stable at 34%. With the profitability profile of large deals signed non-dilutive, we expect the company to maintain operating margin in a narrow band of 25-26.5% during F6/14-17.

Limited scope for further improvement in SG&A but productivity gains would continue

Expect company to maintain operating margin in a narrow band of 25-26.5%

Cash flow generation has remained substantial

For the past many years, company has been converting more than 100% of its earnings into operational cash flows. This has been aided by efficient working capital management as reflected in company sustaining debtors and unbilled revenues combined in a narrow range of 75-85 days which is one of the best in the industry. In the absence of substantial capex, robust free cash flows (average 16-18% of revenues in the past two years) have shored up HCL Tech's ability to pay dividends and cash on the balance sheet. Cash & equivalents as a proportion of total assets have increased significantly from 13% at the end of F6/12 to 32% at the end F6/14. Company has raised the dividend payout to Rs22 per share in F6/14 as compared to Rs12 per share in previous two years.

Company has been converting more than 100% of its earnings into operational cash flows

Cash & equivalents has increased from 13% of total assets at end F6/12 to 32% at end F6/14

Valuation converging with larger peers; Buy for 24m target of Rs2,202

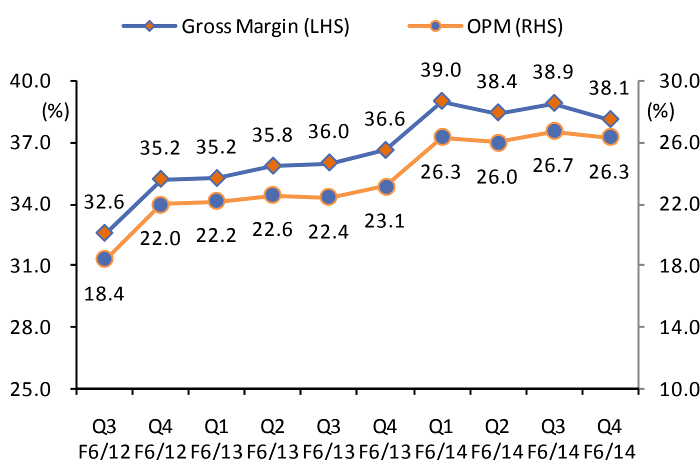
In an environment where larger and smaller peers have witnessed some disruptions on either growth or margins, HCL Tech has stood out as one of the most consistent performers. Company's progression into US$5bn+ revenue club should further lend stability and predictability to its performance. This and a superior earnings growth trajectory notwithstanding, company trades at lowest valuation of 13.7x FY16 P/E amongst the Top 5 players. As we expect revenue growth to accelerate and become more broad-based in coming quarters, HCL Tech's valuation in likely to converge with Infosys and Wipro in the medium term and probably even exceed them in the longer term. Sustenance of high RoEs and roust free cash generation would also support valuation re-rating. Key risks to our view are a) slower-than-anticipated ramp-up on large deals b) under pricing/execution risks in fixed priced projects and c) sharp rupee appreciation.

HCL Tech has been one of the most consistent performers in recent years

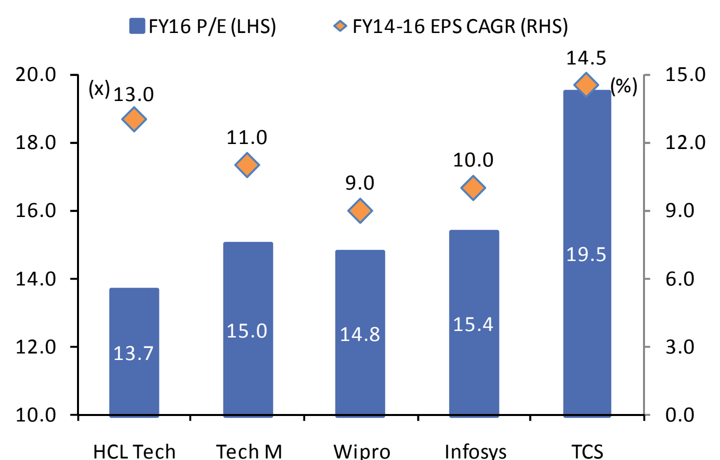
Company trades at lowest valuation amongst the Top 5 players despite a superior earnings growth trajectory

Expect valuation to re-rate; Buy with 24-month target of Rs2,202

Margins have improved significantly



Offers most attractive risk-reward among the Top 5



Source: Company, India Infoline Research

Financials

Income statement

Y/e 31 Mar (Rs mn)	F6/14E	F6/15E	F6/16E	F6/17E
Revenue	329,180	360,882	419,634	488,722
Operating profit	**86,670**	**92,384**	**106,841**	**123,815**
Depreciation	(7,320)	(8,052)	(8,857)	(9,743)
Other income	(160)	5,600	6,812	7,833
Profit before tax	**79,190**	**89,932**	**104,796**	**121,905**
Taxes	(15,480)	(18,886)	(23,055)	(26,819)
Net profit	**63,710**	**71,046**	**81,741**	**95,086**

Balance sheet

Y/e 31 Mar (Rs mn)	F6/14E	F6/15E	F6/16E	F6/17E
Equity Capital	1,399	1,399	1,399	1,399
Reserves	199,415	250,822	309,651	378,552
Networth	**200,814**	**252,221**	**311,050**	**379,951**
Current Liabilities	81,966	86,612	100,712	117,293
Borrowings	7,509	7,509	7,509	7,509
Other Liabilities	14,615	16,077	17,684	19,453
Total Liabilities	**104,090**	**110,197**	**125,905**	**144,255**
Total Equity & Liab	**304,904**	**362,418**	**436,955**	**524,205**
Assets				
Property and Equip	31,465	35,965	40,465	45,465
Intangible Assets	51,492	51,492	51,492	51,492
Inv in Equity	156	156	156	156
Other assets	23,462	25,808	28,389	31,228
Non Current Assets	**106,575**	**113,421**	**120,502**	**128,341**
Cash and equiv	10,206	11,227	12,349	13,584
Accounts receivable	56,843	62,317	72,463	84,393
Unbilled revenues	20,243	22,192	25,805	30,054
Fixed Deposits	83,701	121,843	169,724	226,252
Investment Sec	2,120	2,332	2,565	2,822
Inv Sec - AFS	3,971	4,368	4,805	5,285
Other Current Asset	21,245	24,718	28,742	33,474
Current Assets	**198,329**	**248,997**	**316,453**	**395,864**
Total Assets	**304,904**	**362,419**	**436,955**	**524,205**

Cash flow statement

Y/e 31 Mar (Rs m)	F6/14E	F6/15E	F6/16E	F6/17E
Profit before tax	79,190	89,932	104,796	121,905
Depreciation	7,320	8,052	8,857	9,743
Tax paid	(15,480)	(18,886)	(23,055)	(26,819)
Working capital Δ	(951)	(6,251)	(3,682)	(4,330)
Other Op. items				
Operating cash flow	**70,079**	**72,847**	**86,916**	**100,499**
Capex	(13,413)	(12,552)	(13,357)	(14,743)
Free cash flow	**56,666**	**60,295**	**73,559**	**85,756**
Equity raised	-	-	-	-
Investments	(1,292)	(212)	(233)	(257)
Debt raised/repaid	13	1,462	1,608	1,768
Dividends paid	(18,003)	(19,639)	(22,912)	(26,186)
Other items	11,126	(2,346)	(2,581)	(2,839)
Net Δ in cash	**48,510**	**39,560**	**49,440**	**58,244**

Key ratios

Y/e 31 Mar	F6/14E	F6/15E	F6/16E	F6/17E
Growth matrix (%)				
Revenue growth	27.9	9.6	16.3	16.5
Op profit growth	48.5	6.6	15.6	15.9
EBIT growth	48.9	13.6	16.5	16.3
Net profit growth	55.6	11.5	15.1	16.3
Profitability ratios (%)				
OPM	26.3	25.6	25.5	25.3
EBIT margin	24.1	24.9	25.0	24.9
Net profit margin	19.4	19.7	19.5	19.5
RoCE	23.8	21.3	20.5	19.8
RoNW	37.1	31.4	29.0	27.5
Per share ratios				
EPS	91.1	101.6	116.9	136.0
Dividend per share	22.0	24.0	28.0	32.0
Cash EPS	101.6	113.1	129.5	149.9
Book value per share	287.1	360.6	444.7	543.3
Valuation ratios (x)				
P/E	17.5	15.7	13.7	11.7
P/B	5.6	4.4	3.6	2.9
EV/EBIDTA	11.8	10.7	8.8	7.1
Payout (%)				
Dividend payout	28.3	27.6	28.0	27.5
Tax payout	19.5	21.0	22.0	22.0
Liquidity ratios				
Debtor days	63	63	63	63
Unbilled Revenues	22	22	22	22

Du-pont analysis

Y/e 31 Mar (Rs m)	F6/14E	F6/15E	F6/16E	F6/17E
Tax burden (x)	0.80	0.79	0.78	0.78
Interest burden (x)	1.00	1.00	1.00	1.00
EBIT margin (x)	0.24	0.25	0.25	0.25
Asset turnover (x)	1.23	1.08	1.05	1.02
Financial leverage (x)	1.56	1.47	1.42	1.39
RoE (%)	**37.1**	**31.4**	**29.0**	**27.5**

Hindustan Zinc Ltd

IIFL India Private Clients

Strong zinc prices to add zing

Hindustan Zinc Ltd (HZL) is one of world's largest integrated zinc-lead producers and its assets are in the lowest quartile on the global cost curve. The company has managed to report earnings CAGR of 12% over the period FY11-14 even though zinc prices have been subdued and integrated metal production has remained flat over the same period. Over the next two years, earnings growth for the company would be led by higher volumes and strong realisations. The zinc market has turned into deficit over the last one year due to lower mined output (on account of mine closures) and rising demand from the developed nations. We believe that the tight market condition in zinc global market would continue going forward. HZL's mined metal output is expected to jump from FY16 due to a ramp-up in its underground mining operations. Integrated metal production is estimated to increase by 15% over the period FY14-17E. The SC ruling on coal blocks would not impact the company's earnings in the near term. At the CMP, the stock is trading at 8.5x P/E and 4.2x EV/EBIDTA on FY16E, which is lower than the range of its international peers. We believe that the company should trade at a premium to its peers due to its low cost operations. We recommend a BUY on the stock with 2 year price target of Rs230.

Volume growth to resume from FY16

HZL's mined metal output has been a bit lower than our estimate. The underperformance was due to the change in its mining strategy from Open pit to Underground at Rampura Agucha (RA) and also due to a change in mining sequence wherein preference was given to primary mine development. We believe that the company's mined metal output would increase from FY16 with the ramp up of the underground mines at RA and higher contribution from the new mines. We expect mined metal output to remain flat in FY15 at 0.88mn tons and then increase to 0.93mn tons in FY16 and 1mn tons in FY17. An increase in mined metal production would lead to an increase in production of integrated metal production. Silver production too would increase with a rise in mined output. Integrated metal production is estimated to increase by 15% over the period FY14-17E.

Financial summary

Y/e 31 Mar (Rs m)	FY14	FY15E	FY16E	FY17E
Revenues	136,361	147,148	155,645	172,134
yoy growth (%)	7.4	7.9	5.8	10.6
Operating profit	69,616	74,745	81,239	93,632
OPM (%)	51.1	50.8	52.2	54.4
Reported PAT	69,046	75,636	81,942	93,479
yoy growth (%)	0.1	9.5	8.3	14.1
EPS (Rs)	16.5	17.9	19.4	22.1
P/E (x)	10.0	9.2	8.5	7.5
EV/EBITDA (x)	6.3	5.3	4.2	2.9
Cash per share (Rs)	60.4	71.8	84.6	101.1
RoE (%)	20.0	18.8	17.7	17.6
RoCE (%)	22.2	20.8	19.7	19.7

Source: Company, India Infoline Research

Rating:	BUY
Target (2-years):	**Rs230**
CMP:	**Rs165**
Upside:	**39.4%**

Sector:	**Metals & mining**
Sector view:	**Neutral**
Sensex:	26,443
52 Week h/l (Rs):	184 / 107
Market cap (Rscr) :	69,718
6m Avg vol ('000Nos):	1,940
Bloomberg code:	HZ IB
BSE code:	500188
NSE code:	HINDZINC
FV (Rs):	2

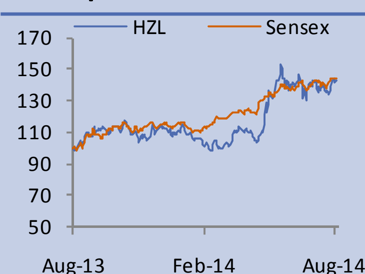
Price as on August 26, 2014

Company rating grid

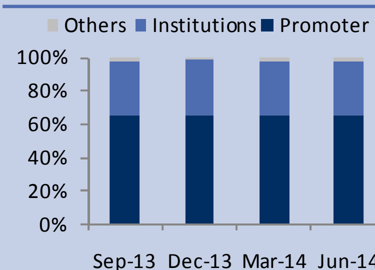
Low → High

	1	2	3	4	5
Earnings Growth				■	
Cash Flow					■
B/S Strength					■
Valuation appeal				■	
Risk		■			

Share price trend



Share holding pattern



Research Analyst:
Tarang Bhanushali
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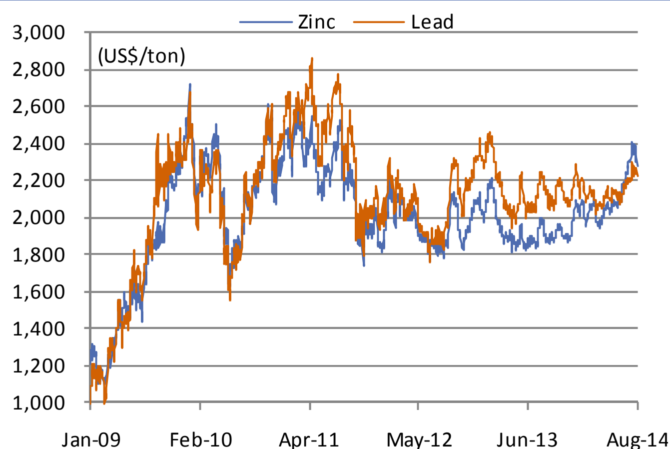
Zinc prices to remain strong

Zinc prices have largely remained above the US$2,000/ton level for most part of 2014. The 3-month LME zinc price has largely traded between the range of US$1,900 and $2,300 per ton. The quantum of the rise in zinc prices has surprised us positively over the last one year and has outperformed other base metals during the same period. The global zinc market, after remaining in surplus state for six consecutive years (2007-2012), turned into deficit in 2013 and has stayed in the deficit state for the first four months of the year. Adding to the bullish sentiment was the sharp decline in zinc inventory levels. The tightness in the market was witnessed earlier than anticipated. We believe that the tight market condition in zinc global market would continue in 2014 as we estimate demand from the developed nations of US, Europe and Japan would be higher due to the on-going monetary easing in the regions. This, coupled with steady demand from China and India, would lead to a strong recovery in zinc demand. As a result, we raise our zinc price estimates for FY15 and FY16 to US$2,100/ton and US$2,200/ton, respectively. During the year, zinc producers have been raising the premium they charge customers for refined metal as shortfall begins to emerge due to mine closures and strong Chinese demand. Premiums charges for delivery of zinc have risen to around US$180-200/ton in FY14 from US$120-130/ton last year.

The global zinc market, after remaining in surplus state for six consecutive years (2007-2012), turned into deficit in 2013 and has stayed in the deficit state for the first four months of the year

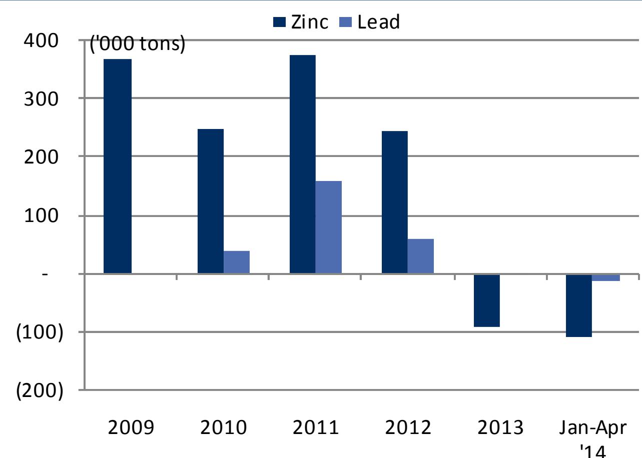
Premiums rise as shortfall begins to emerge due to mine closures and rising demand globally

Zinc and lead prices have stayed above US$2,000/ton for most part of 2014



Source: Company, India Infoline Research

Zinc and lead markets have remained in deficit over the last one year



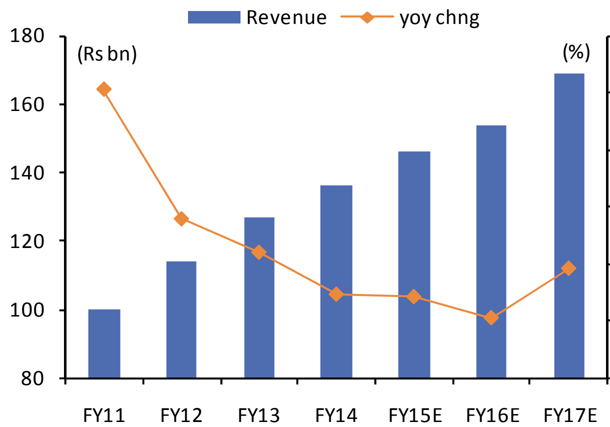
Source: Company, India Infoline Research

Costs to decline from current levels

HZL, over the last one year, has witnessed a sharp increase in its costs on account of lower strip ratio, lower by-product credits and an increase in consumption of imported coal. We believe that CoP would peak out in H1 FY15 and would decline from thereon due to higher volumes coupled with operational efficiencies. We also believe that by-product prices have bottomed out and would marginally increase from current levels. Prices of international coal too are expected to remain flat over the next one year. A jump in zinc prices coupled with steady spot premiums would more than offset the increase in costs due to the transformation of mining operations and higher power costs. We expect OPM to decline in FY15 due to increase in royalty rates and then increase sharply in the next two years. As a result, we expect operating profit to increase by 7.4% yoy to Rs74.7bn in FY15 and by 8.7% yoy to Rs81.3bn in FY16.

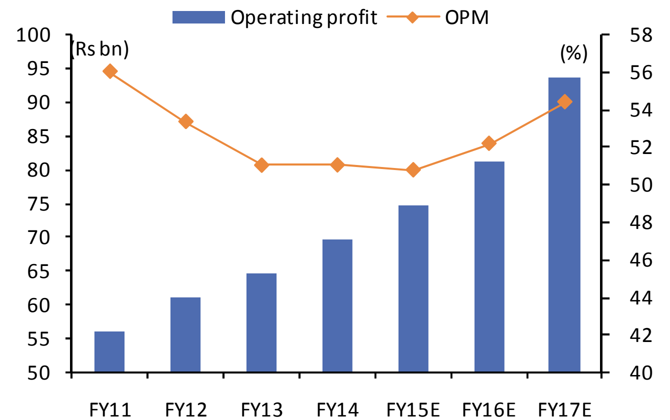
We believe that CoP would peak out in H1 FY15 and would decline from thereon due to higher volumes coupled with operational efficiencies

Revenue growth to resume from FY17E



Source: Company, India Infoline Research

Operating profit to jump aided by higher prices and cost declines



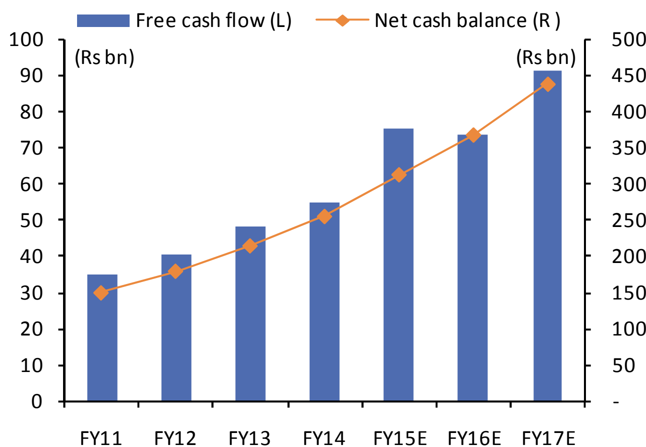
Source: Company, India Infoline Research

High zinc prices coupled with increase in mined metal output to boost earnings over FY15-17E

HZL continues to generate huge free cash flow even though commodity prices remained weak during the year. Cash and cash equivalents increased at the end of Q1 FY15 stood at Rs262bn (~38% of current market cap) and are expected to jump to Rs303bn by the end of FY15 and Rs357.6bn by FY16. Over the next two years, earnings growth for the company would be led by higher volumes and strong realisations. We expect HZL to witness earnings CAGR of 10.6% over the period FY14-17 despite our assumption of a stronger rupee in FY16 and FY17. At the CMP, the stock is trading at 8.5x P/E and 4.2x EV/EBIDTA on FY16E, which is lower than the range of its international peers. We believe the company should trade at a premium to its peers due to its low cost operations and rising contribution from silver sales. We recommend a BUY on the stock with 2 year price target of Rs230.

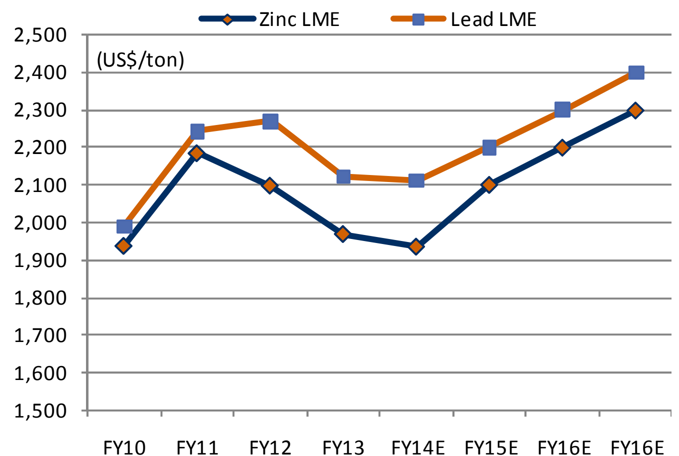
We expect HZL to witness earnings CAGR of 10.6% over the period FY14-17 despite our assumption of a stronger rupee in FY16 and FY17

Cash balance to increase from Rs255bn in FY14 to 427bn in FY17E



Source: Company, India Infoline Research

Average zinc and lead prices to rise due to deficit market conditions



Source: Company, India Infoline Research

Financials

Income statement

Y/e 31 Mar (Rs mn)	FY14	FY15E	FY16E	FY17E
Revenue	136,361	147,148	155,645	172,134
Operating profit	**69,616**	**74,745**	**81,239**	**93,632**
Depreciation	(7,846)	(8,424)	(9,290)	(10,156)
Interest expense	(449)	(240)	(240)	(240)
Other income	18,994	21,118	22,761	24,536
Profit before tax	**80,314**	**87,200**	**94,470**	**107,771**
Taxes	(10,651)	(11,564)	(12,528)	(14,292)
Adj. profit	**69,663**	**75,636**	**81,942**	**93,479**
Exceptional items	(617)	-	-	-
Net profit	**69,046**	**75,636**	**81,942**	**93,479**

Balance sheet

Y/e 31 Mar (Rs mn)	FY14	FY15E	FY16E	FY17E
Equity capital	8,451	8,451	8,451	8,451
Reserves	365,726	423,663	486,431	558,037
Net worth	**374,176**	**432,114**	**494,882**	**566,487**
Deferred tax liab (net)	16,581	16,581	16,581	16,581
Total liabilities	**390,757**	**448,695**	**511,463**	**583,068**
Fixed assets	106,882	118,049	128,759	133,603
Investments	225,064	225,064	225,064	225,064
Net working capital	**28,497**	**27,357**	**25,068**	**22,250**
Inventories	11,982	12,874	13,617	15,060
Sundry debtors	3,995	4,311	4,560	5,043
Other current assets	38,529	36,892	35,337	33,859
Sundry creditors	(5,103)	(5,507)	(5,825)	(6,442)
Other current liabilities	(20,906)	(21,213)	(22,621)	(25,270)
Cash	30,314	78,225	132,571	202,152
Total assets	**390,757**	**448,695**	**511,463**	**583,068**

Cash flow statement

Y/e 31 Mar (Rs mn)	FY14	FY15E	FY16E	FY17E
Profit before tax	80,314	87,200	94,470	107,771
Depreciation	7,846	8,424	9,290	10,156
Tax paid	(10,651)	(11,564)	(12,528)	(14,292)
Working capital Δ	(3,413)	1,140	2,289	2,818
Operating cashflow	74,096	85,199	93,520	106,454
Capital expenditure	(19,173)	(19,591)	(20,000)	(15,000)
Free cash flow	**54,924**	**65,609**	**73,520**	**91,454**
Equity raised	(326)	-	-	-
Investments	(79,665)	-	-	-
Debt financing/ disposal	(4)	-	-	-
Dividends paid	(17,302)	(17,698)	(19,174)	(21,873)
Other items	(617)	-	-	-
Net Δ in cash	**(42,990)**	**47,911**	**54,347**	**69,580**

Key ratios

Y/e 31 Mar	FY14	FY15E	FY16E	FY17E
Growth matrix (%)				
Revenue growth	7.4	7.9	5.8	10.6
Op profit growth	7.4	7.4	8.7	15.3
EBIT growth	2.7	8.3	8.3	14.0
Net profit growth	0.7	8.6	8.3	14.1
Profitability ratios (%)				
OPM	51.1	50.8	52.2	54.4
EBIT margin	59.2	59.4	60.9	62.7
Net profit margin	51.1	51.4	52.6	54.3
RoCE	22.2	20.8	19.7	19.7
RoNW	20.0	18.8	17.7	17.6
RoA	18.1	17.0	16.1	16.2
Per share ratios				
EPS	16.5	17.9	19.4	22.1
Dividend per share	3.5	3.6	3.9	4.4
Cash EPS	18.3	19.9	21.6	24.5
Book value per share	88.6	102.3	117.1	134.1
Valuation ratios				
P/E	10.0	9.2	8.5	7.5
P/CEPS	9.0	8.3	7.6	6.7
P/B	1.9	1.6	1.4	1.2
EV/EBIDTA	6.3	5.3	4.2	2.9
Payout (%)				
Dividend payout	24.8	23.4	23.4	23.4
Tax payout	13.3	13.3	13.3	13.3
Liquidity ratios				
Debtor days	11	11	11	11
Inventory days	32	32	32	32
Creditor days	14	14	14	14

Du-Pont Analysis

Y/e 31 Mar	FY14	FY15E	FY16E	FY17E
Tax burden (x)	0.87	0.87	0.87	0.87
Interest burden (x)	0.99	1.00	1.00	1.00
EBIT margin (x)	0.59	0.59	0.61	0.63
Asset turnover (x)	0.35	0.33	0.31	0.30
Financial leverage (x)	1.11	1.11	1.10	1.09
RoE (%)	**20.0**	**18.8**	**17.7**	**17.6**

ICICI Bank

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INDIA PRIVATE CLIENTS

Rating:	BUY
Target (2-years):	Rs2,125
CMP:	Rs1,510
Upside:	40.7%

Set for an incremental re-rating

ICICI Bank has impressively delivered on its strategy of improving profitability amid a highly testing period of FY11-14. Bank's focus on altering its balance sheet profile (towards retail), improving its NIMs, increasing cost productivity and mitigating credit risks have been the key drivers of RoA expansion. Though there is little headspace for incremental RoA improvement, an acceleration in growth (estimate 19% loan CAGR over FY14-17) should produce leverage-driven RoE improvement. Subsidiary valuation has been significantly enriched by FDI limit increase in Insurance and improvement in capital market condition. On a stand-alone basis, the bank is trading at an attractive valuation of 1.3x FY17 P/ABV. Re-iterate BUY on ICICI Bank and introduce a 24-month SOTP target of Rs2,125.

Loan book to witness a strong 19% CAGR over FY14-17

A strong focus on retail lending has enabled ICICI Bank to grow its domestic loan book ahead of the system despite cyclical weakness in large corporate segment and self-imposed caution in the SME segment. In the domestic credit (~75% of overall advances), the share of retail credit has see a sharp increase from 47% in Q3 FY13 to 53% in Q1 FY15. Whereas the share of lumpy corporate advances has declined to 41% and that of SME lending has come-off to marginal 6%. Within the retail franchise, home loans and auto loans (excluding CV financing) have been the prime drivers of growth with their combined share currently standing at 65%. As per the bank, the retail loan book would continue to grow at 20%+ yoy thus driving the overall growth for the bank in the near term.

In the longer term through, revival in corporate and SME loan growth on the back of pick-up in investment and trade activity will be a critical driver of credit growth for the bank. ICICI Bank is also keen to advantage of the recently permitted bond issuance by commercial banks for long-term financing to infrastructure and affordable housing sectors without the requirements of SLR, CRR and PSL. The bank has just announced a small issue to test the market but could raise larger amounts in the future.

Financial summary

Y/e 31 Mar (Rs m)	FY14	FY15E	FY16E	FY17E
Total operating income	269,034	307,282	357,935	427,444
Yoy growth (%)	21.1	14.2	16.5	19.4
Operating profit (pre-provisions)	165,945	189,246	219,832	265,173
Net profit	98,105	109,860	128,364	156,615
yoy growth (%)	17.8	12.0	16.8	22.0
EPS (Rs)	84.9	95.0	111.0	135.5
Adj. BVPS (Rs)	605.3	664.8	739.5	830.2
P/E (x)	17.8	15.9	13.6	11.1
P/Adj.BV (x)	2.5	2.3	2.0	1.8
ROE (%)	14.0	14.3	15.1	16.5
ROA (%)	1.7	1.7	1.7	1.7
CAR (%)	17.7	16.2	14.9	13.5

Source: Company, India Infoline Research

Sector:	Financials
Sector view:	Positive
Sensex:	26,443
52 Week h/l (Rs):	1,590/759
Market cap (Rscr) :	174,618
6m Avg vol ('000Nos):	3,529
Bloomberg code:	ICICIBC IN
BSE code:	532174
NSE code:	ICICIBANK
FV (Rs):	10

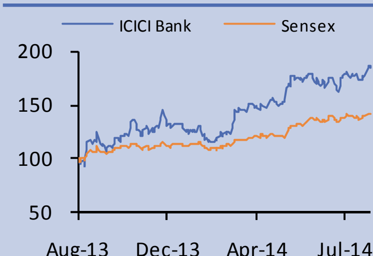
Price as on August 26, 2014

Company rating grid

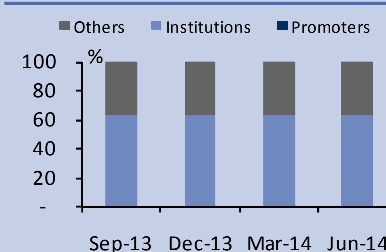
Low → High

	1	2	3	4	5
Earnings Growth				■	
RoA Progression				■	
B/S Strength				■	
Valuation appeal				■	
Risk		■			

Share price trend



Share holding pattern



Research Analyst:
Rajiv Mehta
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We estimate ICICI Bank to witness a strong 19% loan CAGR over FY14-17. Bank remains well-capitalized for growth with Tier-1 ratio at 12.6% (including Q1 FY15 profits) and therefore does not envisage equity capital raising in the next three years.

Loan book to witness a strong 19% CAGR over FY14-17

NIM to remain sturdy

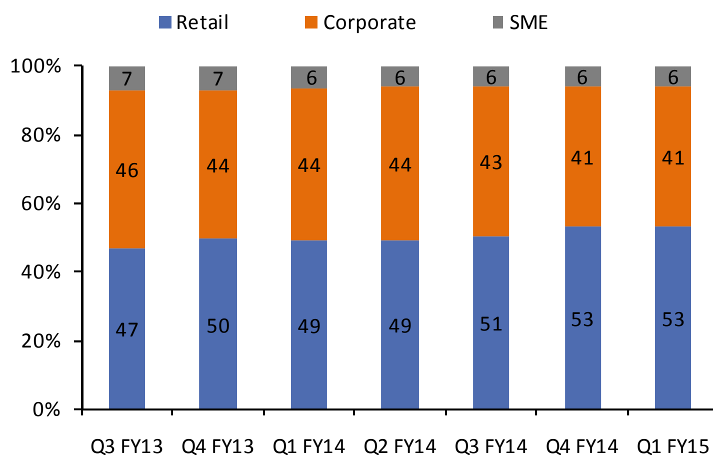
Over the past three years, ICICI Bank has done a commendable job on the NIMs front. The blended margin of the bank has improved by 80bps largely driven by a nearly equivalent expansion in domestic NIM. Here the margin improvement has been driven by a) shift in loan mix towards better-yielding loans b) improvement in loan/deposit ratio and c) benign cost of deposits aided by stable CASA. Despite attractive rate differential of term deposits and much higher savings rate offered by smaller private banks, ICICI Bank has been successful in sustaining its savings growth in a healthy range thereby enabling it to maintain average CASA level in a narrow band of 38-40%. With domestic NIM at 3.8%, ICICI Bank has largely bridged the gap with its peers who earn NIMs in excess of 4%. However, as incremental improvement looks tough for hereon, bank expects to sustain margin around the current level in the medium term. In our view, a material softening in wholesale funding rates will open scope for some additional margin improvement.

Over the past three years, blended NIM of the bank has improved by 80bps

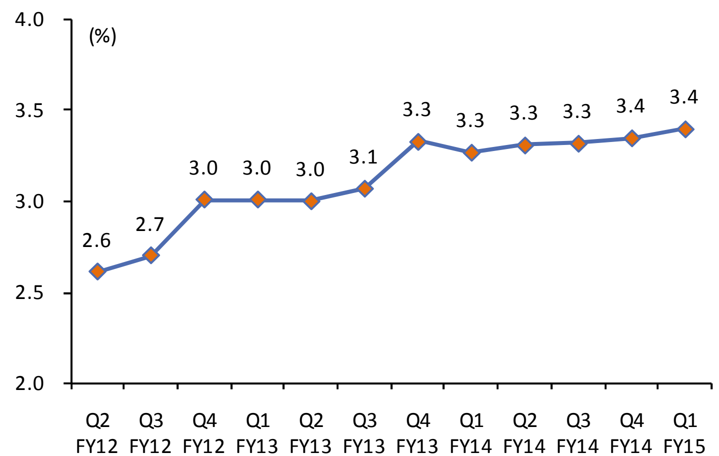
Bank has been successful in sustaining its savings growth in a healthy range

Bank expects to sustain margin around the current level in the medium term

Domestic loan mix has shifted towards retail segment



NIM has improved significantly driven by structural factors



Source: Company, India Infoline Research

Fee growth to accelerate; cost/income ratio to be sustained

ICICI Bank's fee growth was severely impacted during FY11-13 due to sharp slowdown in Corporate and SME lending. In the aforesaid period, fee growth declined to low single digits and stood substantially below the overall credit growth. However, supported by bank's focus on strengthening retail fees franchise and robust growth in the underlying portfolio, retail fees have witnessed brisk traction over the past couple of years and its share in the overall fee income of the bank has increased to 50%+. While strong growth in retail fees will continue, corporate and SME fee growth is expected to markedly improve in the longer term thus reducing the gap between loan growth and fee growth.

Fee growth was severely impacted during FY11-13 but has been on the mend aided by strong retail fee growth

Revival in corporate and SME fees to strengthen overall fee growth

Management's focus on enhancing productivity in a slow growth environment has underpinned a restrained cost growth enabling the bank to improve its cost/income ratio significantly. This was achieved despite substantial investments on the distribution network; bank added 1000 branches during FY13-14, a 36% growth over FY12 base. We expect the cost/income ratio to be around 38-39% in coming years.

Focus on enhancing productivity has underpinned a restrained cost growth

Asset quality stress to ease gradually

With the retail portfolio holding-up well, a lower SME exposure and proactive efforts towards containing risks in large corporate segment, ICCI Bank has been able to resiliently navigate through the credit cycle. Loan workouts, forcing defaulting promoters to sale assets and debt refinancing have been the key risk mitigation strategies in the corporate segment. On account of it, the stress assets (slippages + new restructuring) addition rate was contained at 3.7% in FY14. With restructuring pipeline modest at ~Rs15bn and economic environment gradually improving, the influx of impaired assets would most likely be lower in FY15. Thus the gross NPL ratio is estimated to be stable at around 3% through the year and thereafter come-off as asset quality stress recedes and loan growth accelerates.

ICCI Bank has been able to resiliently navigate through the credit cycle

Influx of impaired assets would most likely be lower in FY15

Valuation to re-rate as growth and RoE improves

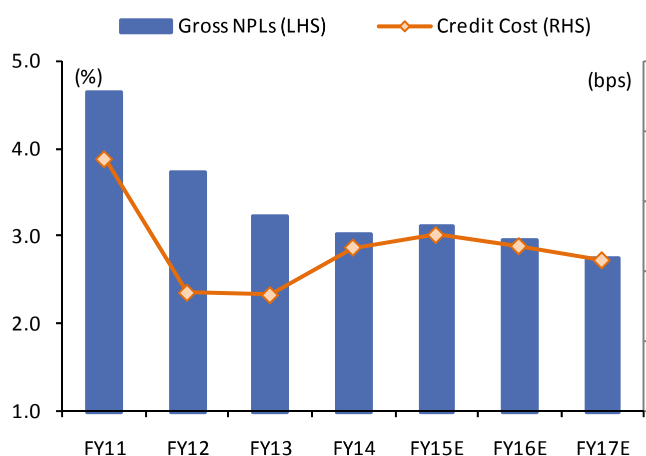
ICICI Bank has impressively delivered on its strategy of improving profitability amid a highly testing period of FY11-14. Bank's focus on altering its balance sheet profile (towards retail), improving its NIMs, increasing cost productivity and mitigating credit risks have been the key drivers of RoA expansion. Though there is little headspace for incremental RoA improvement (in-line with peers currently), an acceleration in growth should produce leverage-driven RoE improvement. We estimate the stand-alone RoE of the bank to improve from 14% in FY14 to 16.5% in FY17. A sharp improvement in capital market conditions and FDI limit increase in Insurance has significantly enhanced valuation of the bank's subsidiaries in these sectors. Stripping-off the valuation of subsidiaries from the current price, bank is trading at an attractive 1.3x FY17 P/ABV. ICICI Bank remains one of our preferred picks in Banking sector.

Bank has impressively improved its RoA amid a highly testing period of FY11-14

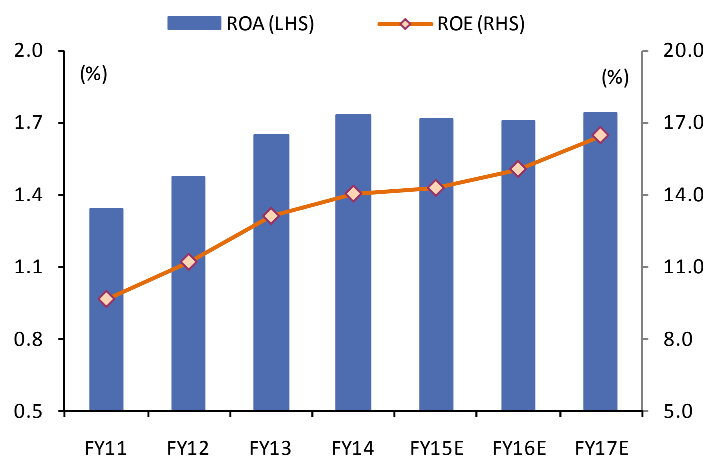
Now acceleration in growth should produce leverage-driven RoE expansion

The stand-alone bank is trading at an attractive 1.3x FY17 P/ABV

Gross NPLs and Credit Cost to stabilize



Higher RoA to be sustained, RoE to improve



Source: Company, India Infoline Research

Financials

Income statement

Y/e 31 Mar (Rs mn)	FY14	FY15E	FY16E	FY17E
Interest income	441,781	501,164	562,588	646,604
Interest expense	(277,026)	(310,674)	(338,381)	(376,290)
Net interest income	**164,755**	**190,490**	**224,207**	**270,315**
Non-interest income	104,279	116,792	133,727	157,130
Total op income	**269,034**	**307,282**	**357,935**	**427,444**
Total op expenses	(103,089)	(118,036)	(138,103)	(162,271)
Op profit (pre-prov)	**165,945**	**189,246**	**219,832**	**265,173**
Total provisions	(26,264)	(32,302)	(36,455)	(41,437)
Profit before tax	**139,681**	**156,944**	**183,377**	**223,736**
Taxes	(41,577)	(47,083)	(55,013)	(67,121)
Net profit	**98,105**	**109,860**	**128,364**	**156,615**

Balance sheet

Y/e 31 Mar (Rs mn)	FY14	FY15E	FY16E	FY17E
Total cash & equiv	415,296	451,242	494,288	555,869
Investments	1,770,218	2,053,453	2,464,144	2,993,934
Advances	3,387,027	3,954,353	4,725,452	5,765,052
Total int-earn assets	**5,572,541**	**6,459,049**	**7,683,884**	**9,314,856**
Fixed assets	48,794	52,454	56,388	60,617
Other assets	325,081	357,589	411,228	472,912
Total assets	**5,946,416**	**6,869,092**	**8,151,499**	**9,848,384**
Net worth	**732,133**	**808,186**	**897,527**	**1,006,015**
Deposits	3,319,137	3,883,390	4,660,068	5,708,583
Borrowings	1,547,591	1,795,205	2,154,246	2,628,180
Total int-bear liab	**4,866,727**	**5,678,595**	**6,814,314**	**8,336,763**
Non-int-bearing liab	347,556	382,311	439,658	505,606
Total liabilities	**5,214,283**	**6,060,906**	**7,253,971**	**8,842,369**
Equity + Total liab	**5,946,416**	**6,869,092**	**8,151,499**	**9,848,384**

Key ratios

Y/e 31 Mar	FY14	FY15E	FY16E	FY17E
Growth matrix (%)				
Net interest income	18.8	15.6	17.7	20.6
Total op income	21.1	14.2	16.5	19.4
Op profit (pre-prov)	25.7	14.0	16.2	20.6
Net profit	17.8	12.0	16.8	22.0
Advances	16.7	16.8	19.5	22.0
Deposits	13.4	17.0	20.0	22.5
Total assets	10.8	15.5	18.7	20.8
Profitability Ratios (%)				
NIM	3.1	3.2	3.2	3.2
Non-int inc/Total inc	38.8	38.0	37.4	36.8
Return on Avg Equity	14.0	14.3	15.1	16.5
Return on Avg Assets	1.7	1.7	1.7	1.7
Per share ratios (Rs)				
EPS	84.9	95.0	111.0	135.5
Adj.BVPS	605.3	664.8	739.5	830.2
DPS	23.0	26.0	30.0	37.0
Valuation ratios (x)				
P/E	17.8	15.9	13.6	11.1
P/Adj.BVPS	2.5	2.3	2.0	1.8
Other key ratios (%)				
Credit/Deposits	102.0	101.8	101.4	101.0
Cost/Income	38.3	38.4	38.6	38.0
CASA	42.9	44.5	45.5	46.5
CAR	17.7	16.2	14.9	13.5
Tier-I capital	12.8	11.8	10.9	10.0
Gross NPLs/Loans	3.0	3.1	3.0	2.8
Prov/Avg loans	0.8	0.9	0.8	0.8
Net NPLs/Net loans	1.0	1.0	0.9	0.8
Tax rate	29.8	30.0	30.0	30.0
Dividend yield	1.6	1.8	2.0	2.5

IndusInd Bank

IIFL INDIA PRIVATE CLIENTS

Growth to revive strongly

IndusInd Bank's loan growth is set to accelerate from FY16 driven by growth revival in its consumer financing segment. With underlying industry volume growth incrementally improving, growth in vehicle financing portfolio is likely to pick-up over coming quarters. Though corporate and commercial loan growth would remain healthy, a much faster growth in consumer financing would shift the loan mix towards the latter segment from FY16. NIM has scope to expand further in the longer term aided by the loan mix shift, persistent CASA gains, softening of wholesale funding rates and structural resistance in lending yield. This along with buoyant fee growth should enable IndusInd Bank to sustain cost/income ratio despite continued investments in network expansion. Bank's asset quality has been resilient in this credit cycle and with delinquencies expected to moderate, credit cost is likely to ease. We estimate RoA to expand to 2% by FY17 thus driving a robust earnings CAGR of 29%. With IndusInd Bank offering the best growth-profitability trajectory, its valuation should re-rate towards 3x FY17 P/ABV in the longer term. Reiterate BUY with a 24-month price target of Rs811.

Revival in consumer financing growth to accelerate overall loan growth

IndusInd Bank's loan growth is set to accelerate from FY16 driven by growth revival in its consumer financing segment (43% of loan book). This segment has witnessed a significant moderation in growth (from 48% yoy to 8% yoy over the past two years) impacted by severe growth slowdown in vehicle financing (segmental contribution at 75%) and equipment financing (segmental contribution at 11%) portfolios. With the underlying industry volume growth in passenger cars and 2Ws improving and demand for CVs, UVs and 3Ws expected to strengthen on the back of economic recovery, the vehicle financing portfolio growth is set to accelerate from current abysmal level of 2-4% yoy. Similarly, improvement in construction and mining activity should drive growth in the equipment financing portfolio. Growth in other consumer financing products such as credit cards, LAP, etc would continue to remain high given a benign base and low penetration amongst bank's clients.

Financial summary

Y/e 31 Mar (Rs m)	FY14	FY15E	FY16E	FY17E
Total operating income	47,636	58,910	74,213	94,109
Yoy growth (%)	32.5	23.7	26.0	26.8
Operating profit (pre-provisions)	25,783	31,594	39,796	50,743
Net profit	13,904	17,891	23,013	29,893
yoy growth (%)	31.0	28.7	28.6	29.9
EPS (Rs)	26.4	34.0	43.8	56.8
Adj. BVPS (Rs)	168.4	196.2	232.7	279.5
P/E (x)	21.3	16.5	12.8	9.9
P/Adj.BV (x)	3.3	2.9	2.4	2.0
ROE (%)	16.7	18.3	20.0	21.7
ROA (%)	1.7	1.9	1.9	2.0
CAR (%)	13.8	13.0	12.6	12.1

Source: Company, India Infoline Research

Rating:	BUY
Target (2-years):	**Rs811**
CMP:	**Rs562**
Upside:	**44.2%**

Sector:	**Financials**
Sector view:	**Positive**
Sensex:	26,443
52 Week h/l (Rs):	587/318
Market cap (Rscr) :	29,650
6m Avg vol ('000Nos):	1,561
Bloomberg code:	IIB IB
BSE code:	532187
NSE code:	INDUSINDBK
FV (Rs):	10

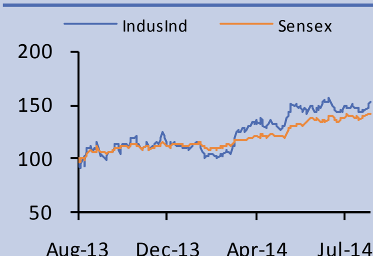
Price as on August 26, 2014

Company rating grid

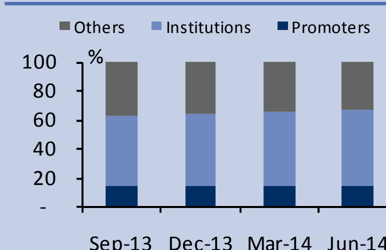
Low → High

	1	2	3	4	5
Earnings Growth					■
RoA Progression					■
B/S Strength				■	
Valuation appeal				■	
Risk		■			

Share price trend



Share holding pattern



Research Analyst:
Rajiv Mehta
research@indiainfoline.com

During FY12-14, when the growth in consumer book was weakening, IndusInd Bank pushed growth through its corporate & commercial Banking segment (2-year CAGR at 35%). Growth in this segment was well-distributed between large corporate (segmental contribution at 50%), mid corporate (segmental contribution at 31%) and small corporate (segmental contribution at 19%) lending. The bank mainly has exposure to short-term working capital loans. We estimate bank's advances to witness a robust 25% CAGR over FY14-17 and the share of consumer financing segment (currently at a multi-quarter low of 43%) to increase to 45% by FY16 and 47% by FY17.

Loan book to witness a robust 25% CAGR over FY14-17

Consumer Financing share to increase to 47% by FY17 from current 43%

Deposit franchise will continue to improve; NIM to expand gradually

Substantial branch additions (nearly tripled network over FY10-14) and higher savings rate offered have been driving strong savings deposits mobilization. Savings deposits growth has remained robust over the past many quarters and its contribution in total deposits has increased from 11% at the end of FY12 to 16% at end FY14. The CASA ratio has improved by 600bps over the aforesaid period to reach 33%. Improving productivity of young branches (<24 months old) and continuance of significant network investments (plans to double over FY14-17) should drive persistent improvement in CASA ratio.

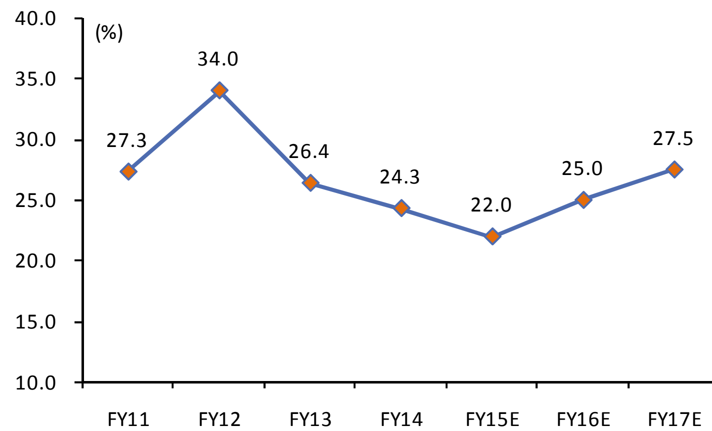
Savings ratio has increased from 11% at the end of FY12 to 16% at end FY14

Significant network investments to drive further CASA improvement

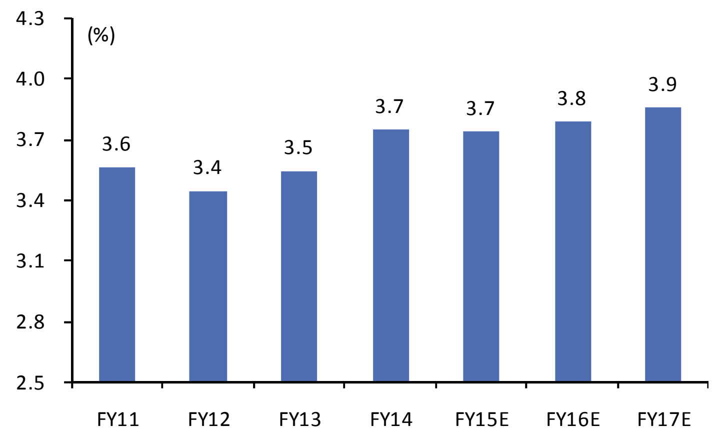
Though currently NIM is near historic high, it has scope to expand further in the longer term aided by loan mix shift towards better yielding consumer financing segment, sustained CASA gains, softening of wholesale funding rates and structural resistance in lending yield (due to fixed-rate nature of CF book). We estimate bank's NIM to be stable in FY15 and improve by 10bps over FY15-17.

NIM to be stable in FY15 and improve by 10bps over FY15-17

Loan growth to pick-up over FY15-17 driven by revival in consumer financing



NIM to gradually climb-up; loan mix shift towards retail segment being the main driver



Source: Company, India Infoline Research

Cost/income ratio to remain in control despite significant network investments

IndusInd's fee growth has been buoyant over the past few years (FY11-14 CAGR at 37%) supported by a strong balance sheet growth, strengthening of fee sources and addition of new streams. Bank expects fee income to grow well ahead of the balance sheet in coming years. Opex growth is likely to remain elevated driven by continued substantial investments on network expansion. However, loan growth acceleration, NIM expansion and robust fee growth are likely to keep the cost/income ratio under check.

Fee growth has been buoyant over the past few years

Cost/income ratio to remain near 46%

Asset quality has displayed strong resilience

Bank's asset quality has behaved resiliently in the current credit cycle with Gross NPLs remain in a tight range of 1-1.2% (despite moderation in credit growth). Annualized delinquencies have been in a manageable band of 1-2%. While portfolio quality has seen some deterioration in CV, equipment and 2W financing, slippages in other consumer financing products and in corporate & commercial banking segment have remained benign. Given bank's granular and short-term exposure to well-rated corporates, outstanding restructured assets are negligible at 0.4% of loans, one of the lowest in the industry. With delinquencies likely to moderate in the consumer financing segment, credit cost is expected to moderate over FY14-17 thus driving a handsome pre-provisioning operating profit CAGR of 25%.

Asset quality has behaved resiliently in current credit cycle

Restructured assets are negligible at 0.4% of loans

Credit cost is expected to moderate

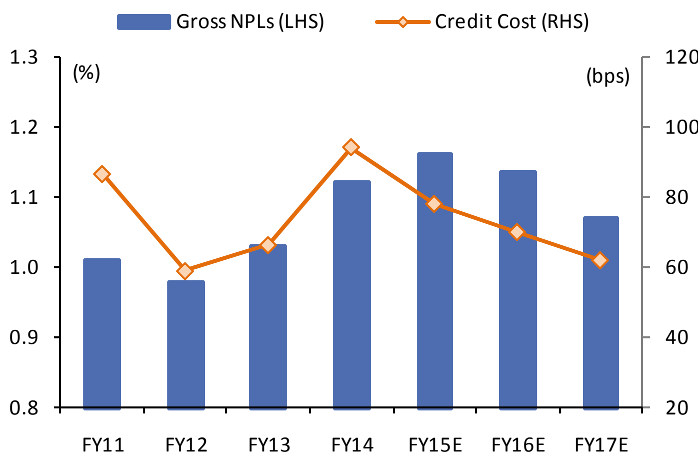
Improvement in growth-profitability matrix to enrich valuation

Notwithstanding the challenging operating environment during FY11-14, IndusInd Bank delivered an improvement of 30bps in RoA. The bank's RoA is set to expand further by another 30bps and reach 2% by FY17 aided by NIM expansion, marginal improvement in cost/income ratio and moderation in credit cost. The improvement in inherent profitability would drive a higher-than-balance sheet earnings CAGR of 29% over FY14-17. With IndusInd Bank offering the best growth-profitability trajectory in the industry, we believe its valuation would re-rate from current 2x to 3x FY17 P/ABV over the longer term. We reiterate BUY with 24-month price target of Rs811.

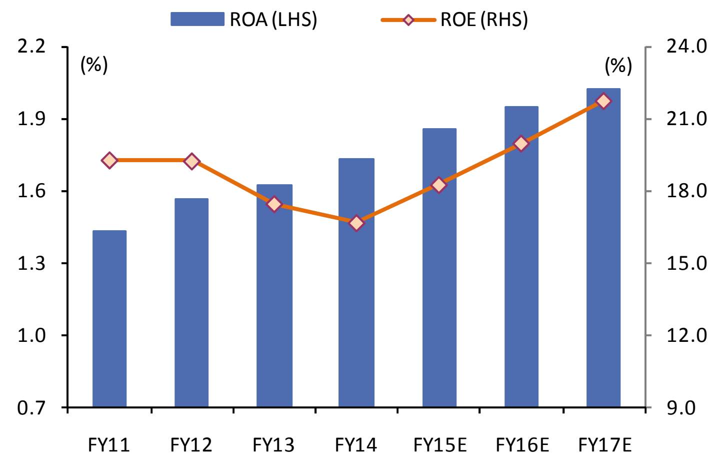
RoA is set to expand and reach 2% by FY17

IndusInd Bank offers the best growth-profitability trajectory in the industry

Improvement in asset quality to drive moderation in Credit Cost



Profitability to improve further; RoA/RoE to reach historic highs



Source: Company, India Infoline Research

Financials

Income statement

Y/e 31 Mar (Rs mn)	FY14	FY15E	FY16E	FY17E
Interest income	82,531	98,485	117,989	143,964
Interest expense	(53,628)	(63,917)	(74,851)	(88,824)
Net interest income	**28,904**	**34,568**	**43,138**	**55,140**
Non-interest income	18,732	24,342	31,075	38,969
Total op income	**47,636**	**58,910**	**74,213**	**94,109**
Total op expenses	(21,853)	(27,316)	(34,418)	(43,366)
Op profit (pre-prov)	**25,783**	**31,594**	**39,796**	**50,743**
Total provisions	(4,676)	(4,771)	(5,294)	(5,926)
Profit before tax	**21,107**	**26,823**	**34,502**	**44,817**
Taxes	(7,203)	(8,932)	(11,489)	(14,924)
Net profit	**13,904**	**17,891**	**23,013**	**29,893**

Balance sheet

Y/e 31 Mar (Rs mn)	FY14	FY15E	FY16E	FY17E
Total cash & equiv	67,700	77,663	89,830	103,471
Investments	215,630	266,303	332,879	422,756
Advances	551,020	672,244	840,306	1,071,390
Total int-earn assets	**834,350**	**1,016,210**	**1,263,015**	**1,597,617**
Fixed assets	10,160	10,668	11,735	12,908
Other assets	25,750	28,325	32,574	37,460
Total assets	**870,260**	**1,055,203**	**1,307,323**	**1,647,985**
Net worth	**90,440**	**105,580**	**124,925**	**150,232**
Deposits	605,020	744,175	933,939	1,190,772
Borrowings	147,620	174,192	212,514	265,642
Total int-bear liab	**752,640**	**918,366**	**1,146,453**	**1,456,415**
Non-int-bearing liab	27,180	31,257	35,946	41,337
Total liabilities	**779,820**	**949,623**	**1,182,398**	**1,497,752**
Equity + Total liab	**870,260**	**1,055,203**	**1,307,323**	**1,647,984**

Key ratios

Y/e 31 Mar	FY14	FY15E	FY16E	FY17E
Growth matrix (%)				
Net interest income	29.4	19.6	24.8	27.8
Total op income	32.5	23.7	26.0	26.8
Op profit (pre-prov)	40.2	22.5	26.0	27.5
Net profit	31.0	28.7	28.6	29.9
Advances	24.3	22.0	25.0	27.5
Deposits	11.8	23.0	25.5	27.5
Total assets	18.7	21.3	23.9	26.1
Profitability Ratios (%)				
NIM	3.7	3.7	3.8	3.9
Non-int inc/Total inc	39.3	41.3	41.9	41.4
Return on Avg Equity	16.7	18.3	20.0	21.7
Return on Avg Assets	1.7	1.9	1.9	2.0
Per share ratios (Rs)				
EPS	26.4	34.0	43.8	56.8
Adj.BVPS	168.4	196.2	232.7	279.5
DPS	3.5	4.5	6.0	7.5
Valuation ratios (x)				
P/E	21.3	16.5	12.8	9.9
P/Adj.BVPS	3.3	2.9	2.4	2.0
Other key ratios (%)				
Credit/Deposits	91.1	90.3	90.0	90.0
Cost/Income	45.9	46.4	46.4	46.1
CASA	32.5	34.5	36.0	37.5
CAR	13.8	13.0	12.6	12.1
Tier-I capital	12.7	11.5	11.0	10.4
Gross NPLs/Loans	1.1	1.2	1.1	1.1
Prov/Avg loans	0.5	0.7	0.6	0.5
Net NPLs/Net loans	0.3	0.4	0.3	0.3
Tax rate	34.1	33.3	33.3	33.3
Dividend yield	0.6	0.8	1.1	1.4

ITC

IIFL
INDIA PRIVATE CLIENTS

Dominance to continue…

ITC remains one of our high conviction buys in the sector given the strong resilience in its core cigarette business. The stock is trading at 20x FY17E EPS of Rs17.4, a steep discount to large caps like HUL and Nestle. The current valuations ignore positives such as ITC's dominant position in the cigarettes business and the consistent strong performance of its other-FMCG business. We remain confident of ITC's pricing power to pass on any tax or duty hike to consumers and deliver mid-teen EBIT growth in cigarettes business. Further, strong cigarette revenue growth with healthy EBIT margins, increasing profitability in other-FMCG business and steady ~16% CAGR in earnings are triggers to maintain buying interest.

Strong resilience in cigarette business

ITC's cigarette business continues to display resilience with stable earnings growth and healthy margin expansion despite heavy tax burden and regulatory restrictions. In its FY15 budget, Government increased duties on the 64mm cigarette segment by 72%, reducing its attractiveness vs. 69mm segment. Excise duties on other segments were increased by 11-20% (11% in longs, 17% in regular, ~20% in kings). The weighted average impact on ITC is expected to be ~20% (annualised) increase in tax. It is steeper than expected but is significantly lower than the fears of doubling the excise duty. We believe ITC will be able to manage it in terms of delivering EPS growth as micro filter cigarettes (64mm) account for mere ~10% of ITC's total cigarette volumes. However, this being the third consecutive year of ~20% increase, cigarette volumes could decline by ~4% yoy in FY15. On the other hand, most states have not increased VAT this year, which would boost bottom line.

Financial summary

Y/e 31 Mar (Rs m)	FY14	FY15E	FY16E	FY17E
Revenues	3,28,826	3,81,053	4,33,391	4,89,755
yoy growth (%)	11.1	15.9	13.7	13.0
Operating profit	1,24,548	1,46,608	1,68,923	1,93,072
OPM (%)	37.9	38.5	39.0	39.4
Reported PAT	87,852	1,04,248	1,20,445	1,38,021
yoy growth (%)	18.4	18.7	15.5	14.6
EPS (Rs)	11.0	13.1	15.1	17.4
P/E (x)	31.3	26.4	22.8	19.9
Price/Book (x)	10.5	9.1	8.0	7.0
EV/EBITDA (x)	21.8	18.5	16.0	14.0
Debt/Equity (x)	0.0	0.0	0.0	0.0
RoE (%)	36.2	36.9	37.2	37.3
RoCE (%)	49.5	50.8	51.4	51.8

Source: Company, India Infoline Research

Rating:	BUY
Target (2-years):	**Rs486**
CMP:	**Rs352**
Upside:	**38.1%**

Sector:	**FMCG**
Sector view:	**Positive**
Sensex:	26,443
52 Week h/l (Rs):	387 / 285
Market cap (Rscr) :	281,168
6m Avg vol ('000Nos):	7,022
Bloomberg code:	ITC IB
BSE code:	500875
NSE code:	ITC
FV (Re):	1

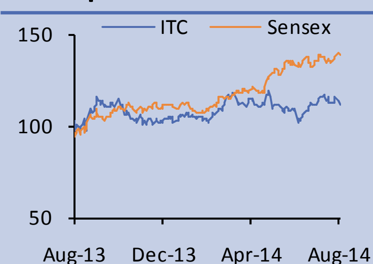
Price as on August 26, 2014

Company rating grid

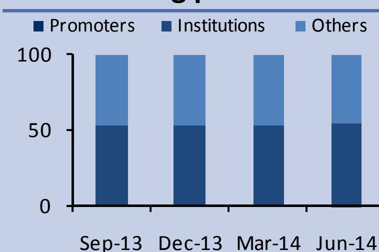
Low → High

	1	2	3	4	5
Earnings Growth					
Cash Flow					
B/S Strength					
Valuation appeal					
Risk					

Share price trend



Share holding pattern



Research Analyst:
Vanmala Nagwekar
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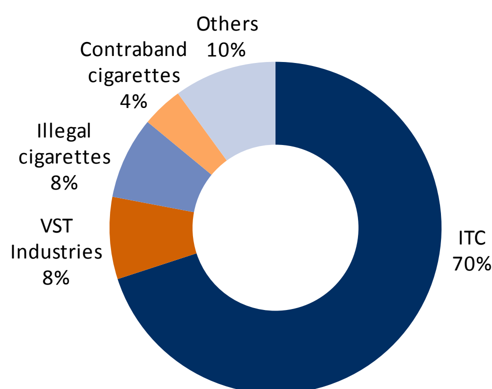
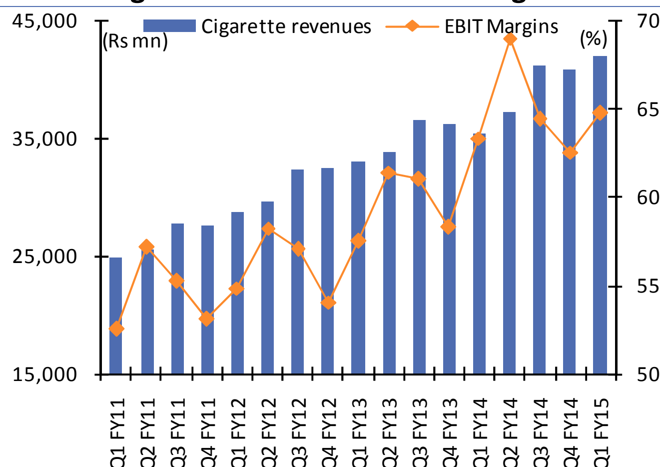
ITC - the undisputed market leader*



Source: Company, India Infoline Research *Volume market share

Trend in cigarette revenues & EBIT margins



Source: Company, India Infoline Research

Mgt's focus more on profitability over volumes in adverse years

ITC's mgt has always focused on delivering EBIT growth in the cigarette business over volumes in years of adverse taxation changes. FY08 and FY09 saw steep increases in cigarette taxation and ITC reacted by implementing price hikes well beyond what was needed; it succeeded in passing on the impact and expanded margins, even as it took a marginal hit on cigarette volumes. We expect the mgt to continue with this strategy in future as well which will show higher visibility of earnings growth for ITC going ahead. ITC has already started taking price hikes across its brands to mitigate the steep duty impact (Classic and Gold Flake Kings from Rs85 to Rs95 for packs of 10, Bristol Filter from Rs45 to Rs47, Capstan Filter from Rs39 to Rs47, Gold Flake Filter from Rs39 to Rs48 and Gold Flake Excel Filter from Rs39 to Rs45).

ITC has raised the prices of select cigarette brands like Classic and Gold Flake Kings to mitigate the steep duty impact

Excise duty increases (Rs per '000 sticks) - post budget

Excise rates Rs/1,000 cigarettes	Length (mm)	FY10	FY11	FY12	FY13	FY14	FY15
Micros	<65	819	669	669	669	669	**1,150**
Plains	65-70	1,323	1,473	1,473	1,718	2,027	**2,250**
Small Filter	<65		669	669	669	669	**1,150**
Filter - Regular	<70	819	969	969	1,194	1,409	**1,650**
Filter - Long	70-75	1,323	1,473	1,473	1,718	2,027	**2,250**
Filter - King	75-85	1,759	1,959	1,959	2,309	2,725	**3,290**
Filter - Extra large	>85	2,163	2,363	2,363	2,788	3,290	**3,290**

Source: Company, India Infoline Research

In its FY15 budget, Government increased excise duty on cigarettes by 11-72% across various slabs, with the sharpest 72% hike in 64mm segment

Enters E-cigarettes segment with Eon

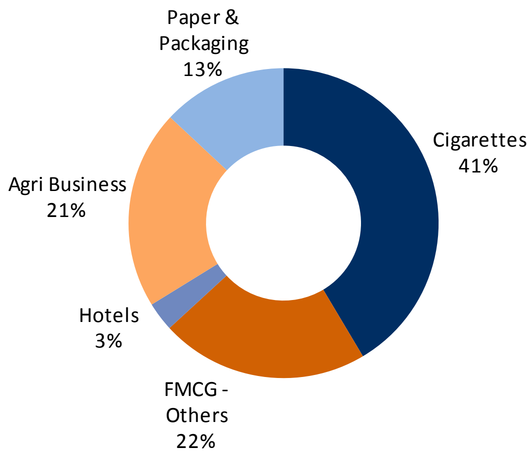
ITC has recently forayed into the Electronic Vaping Device (EVD) i.e. E-cigarette segment with the launch of Eon. An e-cigarette is a battery-powered device containing a nicotine-based liquid that is vaporised and inhaled, to simulate the experience of smoking tobacco. Currently, ITC has launched e-cigarettes in Hyderabad and Kolkata and plans to roll out pan-India in phases. They will also be sold online. This EVD which has no tar, smoke and ash, is available in two variants - Rich Flavour and Menthol. Each Eon gives 250 puffs, measured under standard laboratory conditions, and is priced at Rs300. The EVD, manufactured in China, has been designed by the product development team of ITC.

Unlike conventional tobacco cigarettes, e-cigarettes release vapour and not smoke

The vapour does not contain tar, the main harmful component in conventional tobacco cigarettes

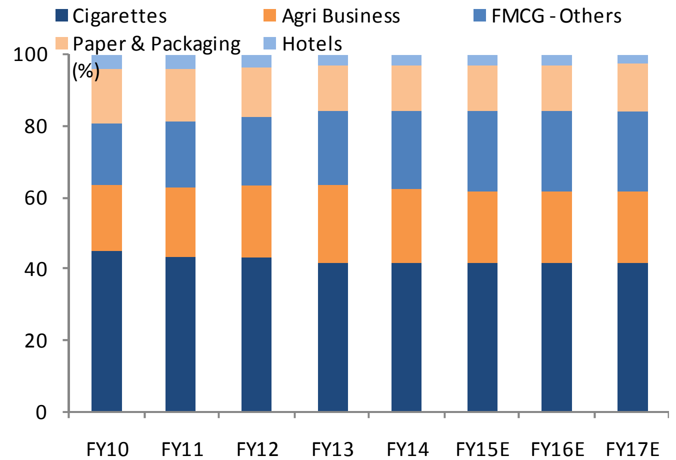
ITC has also forayed into the nicotine replacement therapy (NRT) market with 'Kwiknic' in Oct'13

Segment-wise revenue mix (FY14)



Source: Company, India Infoline Research

Lowering dependence on cigarettes business



Source: Company, India Infoline Research

Business mix continues to evolve

While cigarettes remain the main profit center for ITC, investments in the non-cigarette businesses such as FMCG, hotels and paperboards have given the company a strong foothold in the respective businesses. With improving profitability in the foods segment (65%+ of FMCG business) driven by higher margins in biscuits and staples segment, the other-FMCG segment is emerging stronger (~22% revenue CAGR over FY10-14). Personal care products are also gaining good traction in key categories and within a short span of time, ITC has emerged as a strong competitor in the personal care segment. Over the years, ITC has demonstrated its ability to absorb losses to build its FMCG business (achieved break even in FY14) driven by i) better margins in branded packaged foods business led by higher operating leverage and economies of scale across categories and ii) consistent benefits of in-house sourcing, packaging and distribution. ITC is investing heavily in brand building and plans to enter new categories (dairy, juices, tea, coffee, chocolates etc), which will further drive growth. The management targets to generate ~Rs1trn revenues from its non-cigarette FMCG business by 2030 from ~Rs80bn in FY14.

Aashirvaad and Sunfeast brands are worth Rs20bn each while Bingo! and Candyman are over Rs5bn each

The stationery products brand - Classmate is now worth ~Rs10bn

Targets to generate ~Rs1trn revenues from its non-cigarette FMCG business by 2030 from ~Rs80bn in FY14

Valuations attractive… recommend Buy

ITC remains one of our high conviction buys in the sector given the strong resilience in its core cigarette business. At current market price, the stock is trading at 20x FY17E EPS of Rs17.4, a steep discount to large caps like HUL and Nestle. The current valuations ignore positives such as ITC's dominant position in the cigarettes business and the consistent strong performance of its other-FMCG business. We remain confident of ITC's pricing power and its ability to pass on any tax or duty hike to consumers and deliver mid-teen EBIT growth in cigarettes business. The recent duty hike impact is steeper than expected but we believe it is manageable in terms of delivering EPS growth. Given this would be a third consecutive year of ~20% increase, cigarette volumes could decline by ~4% yoy in FY15. On the other hand, most states have not increased VAT this year, which would boost the bottom line. We expect ITC to witness a revenue/PAT CAGR of ~14%/16% respectively over FY14-17.

ITC is currently trading at a steep discount to large caps like HUL and Nestle

Financials

Income statement

Y/e 31 Mar (Rs m)	FY14	FY15E	FY16E	FY17E
Revenue	3,28,826	3,81,053	4,33,391	4,89,755
Operating profit	**1,24,548**	**1,46,608**	**1,68,923**	**1,93,072**
Depreciation	(8,999)	(9,684)	(10,644)	(11,604)
Interest expense	(30)	(50)	(75)	(75)
Other income	11,071	13,124	15,099	17,199
Profit before tax	**1,26,591**	**1,49,998**	**1,73,302**	**1,98,592**
Taxes	(38,739)	(45,749)	(52,857)	(60,570)
Adj. profit	**87,852**	**1,04,248**	**1,20,445**	**1,38,021**
Exceptional items	-	-	-	-
Net profit	**87,852**	**1,04,248**	**1,20,445**	**1,38,021**

Balance sheet

Y/e 31 Mar (Rs m)	FY14	FY15E	FY16E	FY17E
Equity capital	7,953	7,953	7,953	7,953
Reserves	2,54,667	2,93,779	3,37,455	3,87,077
Net worth	**2,62,620**	**3,01,732**	**3,45,409**	**3,95,030**
Debt	511	511	511	511
Def. tax liab (net)	12,970	12,970	12,970	12,970
Total liabilities	**2,76,101**	**3,15,213**	**3,58,890**	**4,08,511**
Fixed assets	1,43,085	1,58,400	1,72,756	1,86,152
Investments	88,234	96,234	1,06,234	1,16,234
Net working cap	**11,889**	**19,688**	**32,661**	**50,555**
Inventories	73,595	85,606	97,364	1,10,027
Sundry debtors	21,654	25,056	28,497	32,203
Other curr. assets	32,832	36,832	43,832	53,832
Sundry creditors	(19,876)	(23,490)	(26,716)	(30,190)
Other curr. Liab.	(96,317)	(1,04,317)	(1,10,317)	(1,15,317)
Cash	32,894	40,890	47,238	55,569
Total assets	**2,76,101**	**3,15,213**	**3,58,890**	**4,08,511**

Cash flow statement

Y/e 31 Mar (Rs m)	FY14	FY15E	FY16E	FY17E
Profit before tax	1,26,591	1,49,998	1,73,302	1,98,592
Depreciation	8,999	9,684	10,644	11,604
Tax paid	(38,739)	(45,749)	(52,857)	(60,570)
Working capital Δ	(10,033)	(7,799)	(12,973)	(17,894)
Operating cashflow	86,818	1,06,133	1,18,116	1,31,731
Capital expenditure	(25,113)	(25,000)	(25,000)	(25,000)
Free cash flow	**61,706**	**81,133**	**93,116**	**1,06,731**
Equity raised	7,719	-	-	-
Investments	(17,631)	(8,000)	(10,000)	(10,000)
Debt fin./disposal	(153)	-	-	-
Dividends paid	(55,829)	(65,137)	(76,768)	(88,400)
Other items	932	-	-	-
Net Δ in cash	**(3,256)**	**7,997**	**6,348**	**8,331**

Key ratios

Y/e 31 Mar	FY14	FY15E	FY16E	FY17E
Growth matrix (%)				
Revenue growth	11.1	15.9	13.7	13.0
Op profit growth	17.2	17.7	15.2	14.3
EBIT growth	17.6	18.5	15.5	14.6
Net profit growth	18.4	18.7	15.5	14.6
Profitability ratios (%)				
OPM	37.9	38.5	39.0	39.4
EBIT margin	38.5	39.4	40.0	40.6
Net profit margin	26.7	27.4	27.8	28.2
RoCE	49.5	50.8	51.4	51.8
RoNW	36.2	36.9	37.2	37.3
RoA	24.0	25.0	25.7	26.3
Per share ratios				
EPS	11.0	13.1	15.1	17.4
Dividend per share	6.0	7.0	8.3	9.5
Cash EPS	12.2	14.3	16.5	18.8
Book value per share	33.0	37.9	43.4	49.7
Valuation ratios (x)				
P/E	31.3	26.4	22.8	19.9
P/CEPS	28.4	24.1	21.0	18.4
P/B	10.5	9.1	8.0	7.0
EV/EBIDTA	21.8	18.5	16.0	14.0
Payout (%)				
Dividend payout	63.5	62.5	63.7	64.0
Tax payout	30.6	30.5	30.5	30.5
Liquidity ratios				
Debtor days	24	24	24	24
Inventory days	82	82	82	82
Creditor days	22	23	23	23

Du-Pont Analysis

Y/e 31 Mar (Rs m)	FY14	FY15E	FY16E	FY17E
Tax burden (x)	0.69	0.70	0.70	0.70
Interest burden (x)	1.00	1.00	1.00	1.00
EBIT margin (x)	0.39	0.39	0.40	0.41
Asset turnover (x)	0.90	0.91	0.92	0.93
Financial leverage (x)	1.51	1.48	1.45	1.42
RoE (%)	**36.2**	**36.9**	**37.2**	**37.3**

Larsen & Toubro Ltd

IIFL INDIA PRIVATE CLIENTS

Infra behemoth to reap new India benefits

Larsen and Toubro Ltd (LT) is India's largest Engineering & Construction (E&C) and is a proxy play to the domestic infrastructure theme. The company is rightly placed given its strong business model, superior execution capability and exposure to diverse businesses. With the economy likely bottoming and prospects for re-investment in infrastructure improving, we believe L&T has a multi-year growth opportunity ahead. We see earnings cycle bottoming out in FY15 and new orders improving from FY16. At the consolidated level, the company has given a FY15 guidance of 20% order inflow growth, 15% growth in topline and margin risk of 50-100 bps (consolidated entity ex of services business). We believe revenue growth would be lower as we do not expect execution rate to pick up given the slow revival in macroeconomic conditions. We see an expansion in margins from end-FY15 as the share of domestic orders increases and execution rate picks up. Asset monetization steps taken by the company would reduce near term balance sheet stress. On a consolidated basis, we believe lower losses in new businesses like ship building, heavy engineering and higher contribution from real estate and IT business could see an improvement in contribution from subsidiaries. We value the company on a SOTP basis and arrive at a fair value of Rs2,120 on a two year time frame.

Strong guidance maintained

In a tough environment in FY14, LT's consolidated order inflow increased 23% yoy to Rs1.3tn led by strong order inflows in the infrastructure segment. This was higher than the 15-20% guidance given by the company. For FY15, the company reiterated its guidance of 20% yoy order inflow growth at the consolidated level. It has also guided for consolidated revenue growth of 15% yoy with a margin risk of 50-100bps for the year. We believe, the company would manage to meet its order guidance, but would continue to underperform on the revenue front. Execution risks, both in the domestic and international market, persist and would lead to lower growth in topline. However, with a rise in the share of domestic orders and faster clearance for stuck projects, we expect execution to pick up pace from end-FY15.

Financial summary (Standalone)

Y/e 31 Mar (Rs m)	FY14	FY15E	FY16E	FY17E
Revenues	565,989	616,861	736,657	879,020
yoy growth (%)	9.7	9.0	19.4	19.3
Operating profit	66,671	66,907	80,761	99,716
OPM (%)	11.8	10.8	11.0	11.3
Reported PAT	54,936	46,579	57,089	71,380
yoy growth (%)	25.3	(15.2)	22.6	25.0
EPS (Rs)	52.9	50.3	61.6	77.0
P/E (x)	28.5	30.0	24.5	19.6
EV/EBITDA (x)	22.4	22.4	18.4	14.7
Debt/Equity (x)	0.3	0.3	0.3	0.2
RoE (%)	15.6	13.2	14.6	16.3
RoCE (%)	18.5	16.1	17.7	20.0

Source: Company, India Infoline Research

Rating:	BUY
Target (2-years):	**Rs2,120**
CMP:	**Rs1,506**
Upside:	**40.7%**

Sector:	**Capital Goods**
Sector view:	**Neutral**
Sensex:	26,443
52 Week h/l (Rs):	1,775 / 678
Market cap (Rscr) :	139,885
6m Avg vol ('000Nos):	2,520
Bloomberg code:	LT IB
BSE code:	500510
NSE code:	LT
FV (Rs):	2

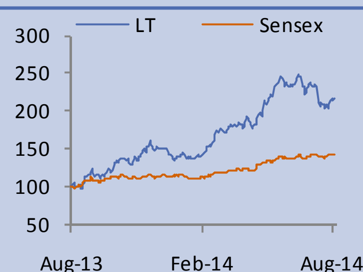
Price as on August 26, 2014

Company rating grid

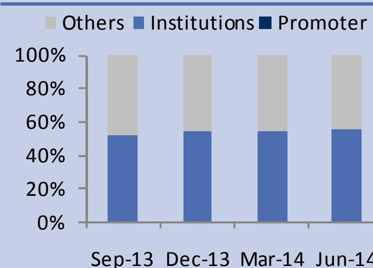
Low → High

	1	2	3	4	5
Earnings Growth				■	
Cash Flow			■		
B/S Strength		■			
Valuation appeal			■		
Risk		■			

Share price trend



Share holding pattern



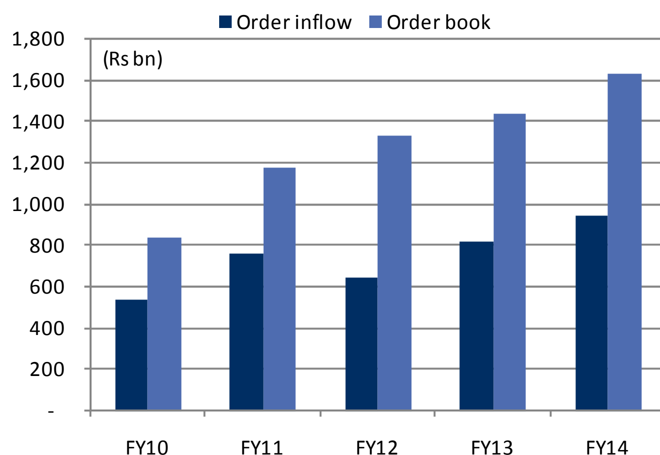
Research Analyst:
Tarang Bhanushali
research@indiainfoline.com

Order book at Rs1.95tn, implying BTB of 2.9x

LT's order book at the end of Q1 FY15 stood at Rs1.95tn, implying a Book to Bill of 2.9x. The strong growth in order book has been achieved even after the company had cancelled slow moving orders worth Rs150bn in FY14 and Rs170bn in FY13. The jump in the order book in the last one year has largely been due to an increase in share of export orders. Export orders accounted for 26% of the total order book at the end of Q1 FY15 and 44% of the order inflows during the quarter. The management has guided for an order inflow growth of 20% yoy in FY15 for the consolidated entity on the back of huge opportunities from the Middle-East and on expectations of a revival in the domestic infrastructure spending. The company is also expecting orders for the hydrocarbon segment to jump in FY15 largely due to huge capex in Kuwait. LT is looking at overall inflow of ~US$25bn in the current year, with infrastructure segment accounting for more than 50% of the orders. The company expects ~US$11bn orders from infrastructure, US$5bn from power, US$1bn from metals & mining, US$3bn from hydrocarbon and US$5bn from other segments.

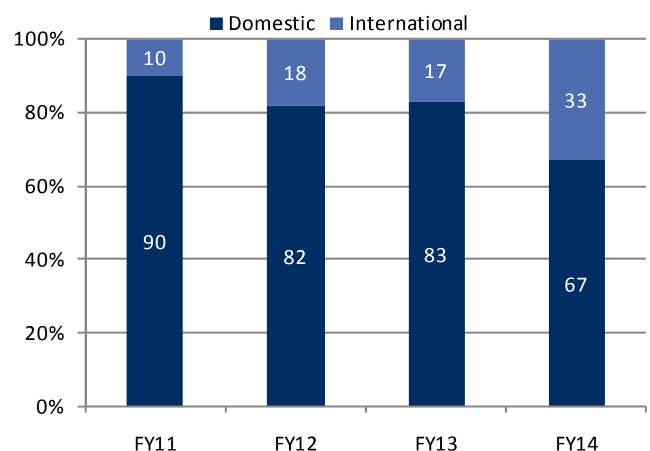
Export orders accounted for 26% of the total order book at the end of Q1 FY15 and 44% of the order inflows during the quarter

Order inflow and order book trend



Source: Company, India Infoline Research

Share of order inflow from international markets has grown to 33% in FY14



Source: Company, India Infoline Research

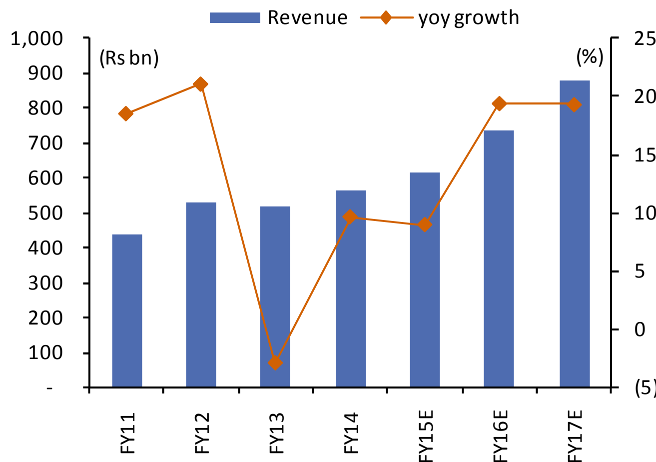
Revenue growth to strengthen from FY16

LT's revenue growth has been below expectations over the last one year due to lack of regulatory clearances at the customers' end in the domestic market. We believe the underperformance in revenue growth would extend till end FY15; we do not expect the execution rate to pick up given the slow revival in macroeconomic conditions. Execution cycle for the company is expected to be longer than the average as the company in FY14 has won certain multi-year big ticket orders like Doha Metro (Rs45bn), Riyadh Metro (Rs82.5bn) and DFC order (Rs67bn). However, post FY15, topline growth is set to pick up, primarily driven by the infrastructure segment, railways, real estate and international markets. The current Government is focused on reviving investments in the country and has announced many steps for the same. We believe the benefits of these would be witnessed in FY16. The management expects minor reforms to revive projects worth Rs800bn in the domestic market. We estimate LT to report a ~19% CAGR in topline over FY15-17. We expect the change in geographical mix (higher export market share) to hurt L&T's standalone business operating margins in FY15. We see an expansion from FY16 with an increase in share of domestic orders.

The current Government is focused on reviving investments in the country and has announced many steps for the same. We believe the benefits of these would be witnessed in FY16

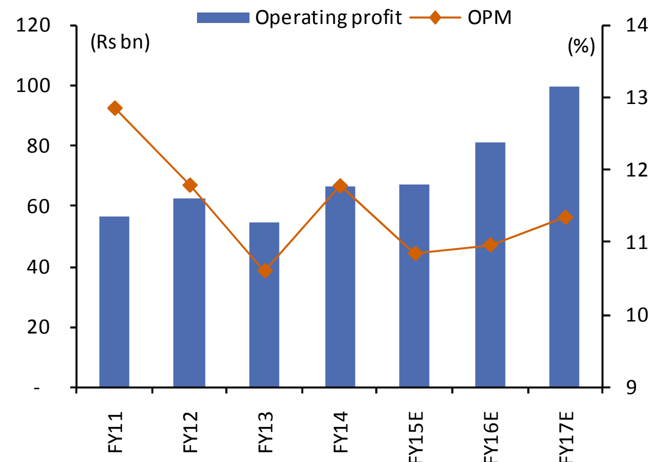
We see an expansion from FY16 with an increase in share of domestic orders and momentum in execution picks up

Revenue growth to gain momentum from FY16



Source: Company, India Infoline Research

Operating margin to expand post FY15 with an increase in execution of domestic order



Source: Company, India Infoline Research

Performance of other segments to improve

Except the infrastructure and housing segments, most segments have been underperforming. The Hydrocarbon, shipbuilding division and the development projects business dented the company's profitability in FY14. Hydrocarbon reported an operating margin of just 3% vs 11.6% yoy in FY14. The underperformance increased further in Q1 FY15 when the company took ~Rs9bn of cost provision to account for any future losses and due to reversal of past profits. The company believes that they have fully provided for the variations and have incorporated this experience while bidding for future projects. The shipbuilding business too is expected to improve on the back of rising utilization levels. Bottomline growth would be aided by an increase in contribution from the real estate business. In FY14, revenues grew by 3.3x to Rs13bn and operating profit margin increased to 63% in FY14 from 56.4% in FY13. On a consolidated basis, we believe lower losses in new businesses like ship building, heavy engineering and higher contribution from real estate and IT business could see an improvement in contribution from subsidiaries.

On a consolidated basis, we believe lower losses in new businesses like ship building, heavy engineering and higher contribution from real estate and IT business could see an improvement in contribution from subsidiaries

Asset monetisation to reduce balance sheet stress

To reduce the stress on the company's balance sheet, LT over the last one year has taken many steps. LT has recently sold its stake in Dhamra port to Adani Ports for an enterprise value of Rs55bn. The company booked a gain/loss reversal of Rs13.5bn in Q1 FY15 due to the above sales. It further plans to raise ~Rs40bn in next 2 years to fund projects in IDPL. LT inked an agreement with Canada Pension Plan Investment Board for an initial investment of Rs10bn, which will be followed by a second tranche of Rs10bn within 12 months after the initial investment. The company reduced its stake in its financial services subsidiary, L&T Finance Holdings Ltd in June '2014. It also intends to list IT business subsidiaries by July '16, as part of value unlocking initiative. We expect net working capital cycle to decline from FY16 due to easing of liquidity in the domestic market.

The company booked a gain/loss reversal of Rs13.5bn in Q1 FY15 due to the sale of Dhamra Port. It further plans to raise ~Rs40bn in next 2 years to fund projects in IDPL

Financials (Standalone)

Income statement

Y/e 31 Mar (Rs mn)	FY14	FY15E	FY16E	FY17E
Revenue	565,989	616,861	736,657	879,020
Operating profit	**66,671**	**66,907**	**80,761**	**99,716**
Depreciation	(7,924)	(9,905)	(10,500)	(11,235)
Interest expense	(10,761)	(11,622)	(11,041)	(10,489)
Other income	18,809	19,313	20,069	21,146
Profit before tax	**66,794**	**64,693**	**79,290**	**99,139**
Taxes	(17,743)	(18,114)	(22,201)	(27,759)
Adj. Profit	**49,051**	**46,579**	**57,089**	**71,380**
Exceptional items	5,885	0	0	0
Net profit	**54,936**	**46,579**	**57,089**	**71,380**

Balance sheet

Y/e 31 Mar (Rs mn)	FY14	FY15E	FY16E	FY17E
Equity capital	1,854	1,854	1,854	1,854
Reserves	334,765	368,709	410,528	463,001
Net worth	**336,618**	**370,563**	**412,381**	**464,855**
Debt	114,589	119,589	109,589	99,589
Deferred tax liab (net)	4,099	4,099	4,099	4,099
Total liabilities	**455,307**	**494,251**	**526,070**	**568,544**
Fixed assets	82,372	80,843	80,343	79,109
Investments	192,146	222,146	257,146	292,146
Net working capital	**162,332**	**174,824**	**166,533**	**167,451**
Inventories	19,825	21,607	25,803	30,790
Sundry debtors	367,773	388,804	427,167	484,233
Other current assets	102,472	111,682	126,703	143,630
Sundry creditors	(303,608)	(320,969)	(383,303)	(457,378)
Other current liabilities	(24,131)	(26,300)	(29,837)	(33,824)
Cash	18,456	16,438	22,048	29,838
Total assets	**455,307**	**494,251**	**526,070**	**568,544**

Cash flow statement

Y/e 31 Mar (Rs mn)	FY14	FY15E	FY16E	FY17E
Profit before tax	66,794	64,693	79,290	99,139
Depreciation	7,924	9,905	10,500	11,235
Tax paid	(17,743)	(18,114)	(22,201)	(27,759)
Working capital Δ	(91,794)	(12,493)	8,292	(918)
Operating cashflow	(34,819)	43,992	75,880	81,696
Capital expenditure	(1,277)	(8,376)	(10,000)	(10,000)
Free cash flow	**(36,095)**	**35,616**	**65,880**	**71,696**
Equity raised	3,471	-	-	-
Investments	15,540	(30,000)	(35,000)	(35,000)
Debt financing/ disposal	26,247	5,000	(10,000)	(10,000)
Dividends paid	(13,216)	(12,635)	(15,270)	(18,906)
Other items	7,562	-	-	-
Net Δ in cash	**3,510**	**(2,019)**	**5,610**	**7,790**

Key ratios

Y/e 31 Mar	FY14	FY15E	FY16E	FY17E
Growth matrix (%)				
Revenue growth	9.7	9.0	19.4	19.3
Op profit growth	21.8	0.4	20.7	23.5
EBIT growth	16.9	(1.3)	18.3	21.4
Net profit growth	18.6	(4.4)	20.9	23.8
Profitability ratios (%)				
OPM	11.8	10.8	11.0	11.3
EBIT margin	13.7	12.4	12.3	12.5
Net profit margin	8.7	7.6	7.7	8.1
RoCE	18.5	16.1	17.7	20.0
RoNW	15.6	13.2	14.6	16.3
RoA	6.5	5.7	6.4	7.1
Per share ratios				
EPS	52.9	50.3	61.6	77.0
Dividend per share	14.3	13.6	16.5	20.4
Cash EPS	61.5	60.9	72.9	89.1
Book value per share	363.2	399.8	444.9	501.5
Valuation ratios				
P/E	28.5	30.0	24.5	19.6
P/CEPS	24.5	24.7	20.7	16.9
P/B	4.1	3.8	3.4	3.0
EV/EBIDTA	22.4	22.4	18.4	14.7
Payout (%)				
Dividend payout	26.9	27.1	26.7	26.5
Tax payout	26.6	28.0	28.0	28.0
Liquidity ratios				
Debtor days	237	230	212	201
Inventory days	13	13	13	13
Creditor days	196	190	190	190
Leverage ratios				
Interest coverage	7.2	6.6	8.2	10.5
Net debt / equity	0.3	0.3	0.2	0.2
Net debt / op. profit	1.4	1.5	1.1	0.7

Du-Pont Analysis

Y/e 31 Mar	FY14	FY15E	FY16E	FY17E
Tax burden (x)	0.73	0.72	0.72	0.72
Interest burden (x)	0.86	0.85	0.88	0.90
EBIT margin (x)	0.14	0.12	0.12	0.12
Asset turnover (x)	0.75	0.76	0.83	0.88
Financial leverage (x)	2.40	2.30	2.27	2.28
RoE (%)	**15.6**	**13.2**	**14.6**	**16.3**

Lupin

IIFL
India Private Clients

Best play on US generics

Lupin represents the best bet among large cap pharma to play the robust growth in US generics expected over the next 2-3 years driven by new launches in FY14 and large opportunity size linked to pending ANDA approvals. Domestic formulations business with growth in high teens would easily outpace the industry supported by increasing share of chronic therapies and rise in market share. Margin profile would undergo a transformation from 23.5% in FY13 to >28% by FY17 with sustainable range seen at 28-30% according to the management. We forecast 19% EPS cagr over FY14-17 driven by 17% revenue cagr and ~160bps margin expansion and recommend BUY for 2-yr target of Rs1,750.

US momentum to sustain on recent launches and large untapped potential

Lupin launched 19 new products in FY14, including generic versions of Zymaxid (antibiotic, October 2013), Trizivir (antiviral) and Cymbalta (anti depressant, December 2013) and in current fiscal, company plans to launch another 20+ products. Although Cymbalta pricing has descended largely to generic levels and Niaspan, launched in Q4 FY14, would see additional competition, we believe latter would be large enough opportunity to boost US growth in the current year. Other products like Doxycycline (anti-infective, March 2014) and Yaz (under launch process in the oral contraceptive portfolio) would also support growth. Lupin's pending ANDAs imply an addressable opportunity of over US$80bn of which 30 are first-to-file (FTF) addressing a market size of ~US$14bn; it also has 15 exclusive FTF addressing a market size of US$1.5bn.

Overall we believe company's existing US portfolio remains robust and growth would accrue from either price increases or additional market share gains. The recent consolidation in US distribution channels would have a mixed impact as in some cases the sheer scale of buying customers might entail price concessions while in others Lupin can gain additional volumes.

Financial summary

Y/e 31 Mar (Rs m)	FY14	FY15E	FY16E	FY17E
Revenues	112,866	132,998	155,967	180,546
yoy growth (%)	17.1	17.8	17.3	15.8
Operating profit	30,028	36,175	43,203	50,914
OPM (%)	26.6	27.2	27.7	28.2
Reported PAT	18,363	21,854	26,207	31,003
yoy growth (%)	39.7	19.0	19.9	18.3
EPS (Rs)	41.7	49.6	59.3	70.1
P/E (x)	31.4	26.4	22.0	18.6
Price/Book (x)	8.3	6.6	5.2	4.2
EV/EBITDA (x)	19.2	15.7	12.8	10.6
Debt/Equity (x)	0.1	0.1	0.1	0.0
RoE (%)	30.8	28.2	26.8	25.5
RoCE (%)	39.8	39.2	38.1	36.7

Source: Company, India Infoline Research

Rating:	BUY
Target (2-years):	Rs1,750
CMP:	Rs1,288
Upside:	36%

Sector:	Pharmaceuticals
Sector view:	Positive
Sensex:	26,443
52 Week h/l (Rs):	1,308 / 742
Market cap (Rscr) :	57,732
3m Avg vol ('000Nos):	587
Bloomberg code:	LPC IN
BSE code:	500257
NSE code:	LUPIN
FV (Rs):	2

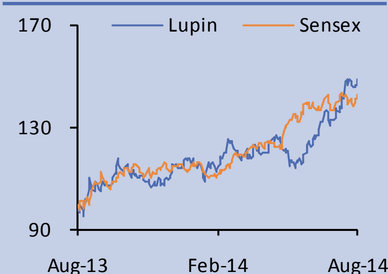
Price as on August 26, 2014

Company rating grid

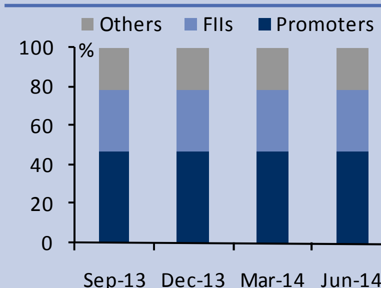
Low → High

	1	2	3	4	5
Earnings Growth				■	
Cash Flow					■
B/S Strength					■
Valuation appeal				■	
Risk	■				

Share price trend



Share holding pattern



Research Analyst:
Bhavesh Gandhi
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Chronic therapies to drive domestic formulations growth

India formulation business has recorded a robust 17% cagr over the last five years and the company is amongst the fastest growing players in high growth therapy segments like Cardiology (23% revenue share), Anti-Diabetics (15%), Anti-Asthma (10%), Central Nervous System (CNS), Gynecology, Anti-Infective and Gastro-Intestinal (8%). The company has shifted from a dependence on acute therapies to the higher margin chronic therapy segments like CVS, CNS, anti-asthma etc which now account for 64% of domestic formulations' revenues. In Q1 the momentum continued with revenue growth of 29% yoy compared to 9% yoy growth for the industry. Company indicated that July 2014 NPPA decision on price control would have negligible impact (~Rs100-120mn).

Higher market share and increased contribution from chronic therapy portfolio to support robust domestic growth, much ahead of industry run rate

We believe Lupin is well positioned to grow its relatively low market share of 2.8% (as of March 2014) supported by a portfolio of 21 brands with sales in excess of Rs300mn each. Company has launched 23 in-licensed products in the past four years of which 9 were first to be introduced in the domestic market. A robust field force of ~5,450 (~4,800 are sales reps) and 16 new product launches in Q1 FY15 is expected to drive a strong 16-17% growth over next 2-3 years.

Japan: large opportunity but steady revenues in near term

Japan is the 3rd most important market accounting for 10.4% of revenues after US and India. Japan generics offer a vast opportunity from both higher generics penetration (govt target of 60% vs current 44%) and patent expiries. Higher penetration would translates in to an additional 30-35% of the pharma volumes open to generics in the next 4 years while patent expiries of key molecules to the tune of US$17bn by 2017 would also add to the growth pool. I'rom (niche injectable player acquired in FY12 and 25% of Japan revenues) sales declined 4% yoy in Q1 (-6% yoy for FY14) due to fall in out-licensing business and company indicated in its earnings call that turnaround would take some more time. Kyowa, its other subsidiary, grew by JPY 14% in FY14 with a portfolio of 350 products. Although margins in Japanese business are below overall corporate level but company expect to sustain them. We factor in ~7-11% INR growth driven by Kyowa over the next 2-3 years. Besides Japan, South Africa accounted for 2.6% of the formulation revenues in Q1 FY15 and Lupin's subsidiary Pharma Dynamics remains the largest player in cardiovascular segment. Overall generics market growth remained muted in FY14 (2%/6% by volume/value) and we expect steady growth for Lupin on the back of 6 new product launches in the previous fiscal.

Japan offers a large generic opportunity on the back of higher penetration and key patent expiries over next 3-4 years

Q1 results reaffirm our confidence on underlying business

A stellar growth in US (+35%) and India (+29%) in Q1 FY15 was accompanied by significant margin expansion to 33.4% (+950bps yoy). Margin picture at a sustainable 28-30% has changed dramatically from 23.5% in FY13. Although near term margins may vary depending on the product mix, forex rates and extent of preemptive R&D spending, overall we remain positive on sustained improvement in margin over FY14-17 and have factored in FY17 margin at lower end of the guided sustainable range. Yield improvement and increasing throughput on same cost base would support margins in the medium term.

Better revenue mix and operating leverage tailwind would support margin expansion over FY14-17

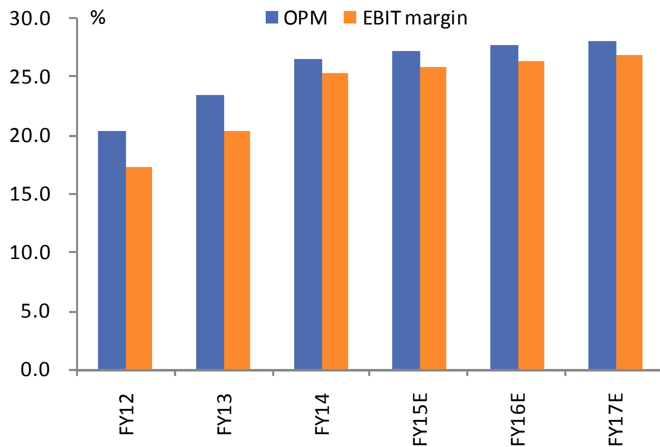
Growth visibility + margin expansion = top large cap pharma pick

Lupin is our preferred bet in large cap pharma on the back of robust growth visibility and margin expansion

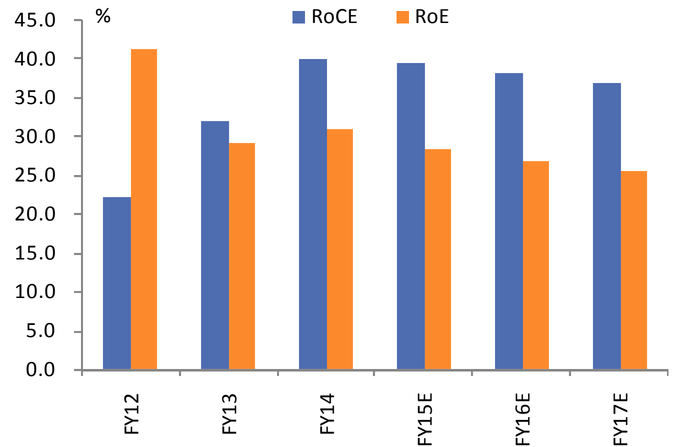
Lupin offers a robust play on US generics given the slew of launches in the previous fiscal and opportunity size of the pending ANDA approvals. India business would also easily outpace the domestic growth as the market share improves and higher margin chronic therapy segment continues to gain traction. As compared to other pharma peers, we remain much more confident on Lupin's growth visibility especially in the key US market. R&D spend is likely to trend in the range of ~9-10% of sales as company ramps up its capabilities on respiratory, dermatology and complex injectables. On inorganic growth, company has expressed its intention to build a robust injectables pipeline in US to complement its generic portfolio and is on look out for acquisitions/partnerships which would provide capabilities in the injectables space (similar to Nanomi acquisition in Feb 2014 which provides platform for complex injectables).

We project a 160bps rise in margins over FY14-17 which would support valuations in the medium term. Forecast 17% and 19% revenue and PAT cagr respectively during the same period and recommend BUY with a 2-year price target of Rs1,750. Key risks to our bullish stance include higher competition in US generics and delay in launch of anticipated products.

FY17 margins at lower end of guided sustainable range of 28-30%

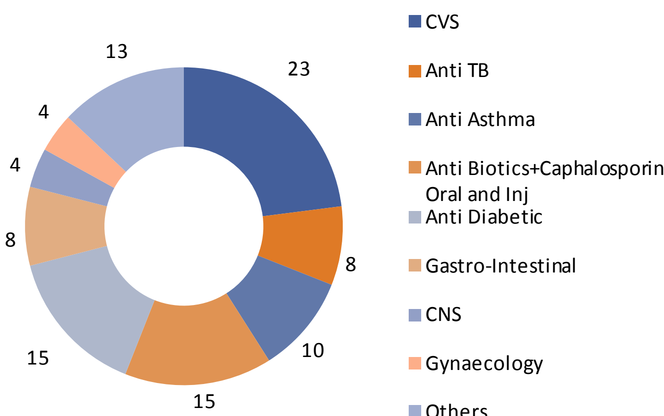


Higher cash balances to restrain return ratios but still seen at 25-35%

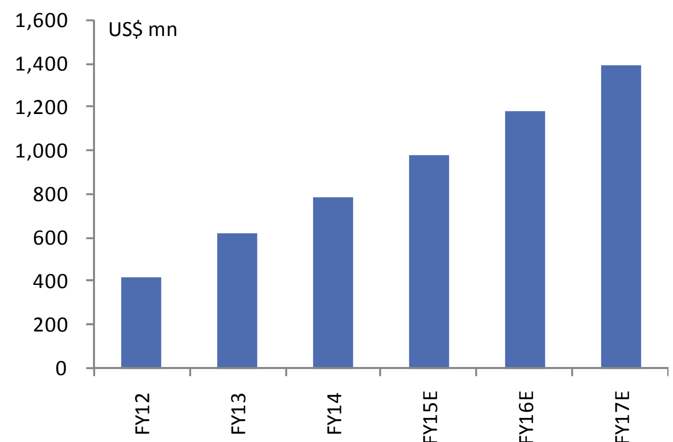


Source: Company, India Infoline Research

Cardiovascular has the largest share of domestic formulations revenues



US $ revenue cagr projected at ~21% over FY14-17



Source: Company, India Infoline Research

Financials

Income statement

Y/e 31 Mar (Rs m)	FY14	FY15E	FY16E	FY17E
Revenue	112,866	132,998	155,967	180,546
Operating profit	**30,028**	**36,175**	**43,203**	**50,914**
Depreciation	(2,610)	(2,946)	(3,282)	(3,618)
Interest expense	(267)	(270)	(270)	(270)
Other income	1,165	1,223	1,284	1,348
Profit before tax	**28,316**	**34,183**	**40,935**	**48,375**
Taxes	(9,622)	(11,964)	(14,327)	(16,931)
Minority interest	(331)	(364)	(401)	(441)
Net profit	**18,363**	**21,854**	**26,207**	**31,003**

Balance sheet

Y/e 31 Mar (Rs m)	FY14	FY15E	FY16E	FY17E
Equity capital	897	897	897	897
Reserves	68,419	87,099	109,338	135,843
Net worth	**69,316**	**87,996**	**110,235**	**136,740**
Debt	5,992	5,992	5,992	5,992
Minority interest	669	669	669	669
Def.tax lia	2,487	2,487	2,487	2,487
Total liabilities	**78,464**	**97,144**	**119,383**	**145,888**
Goodwill	6,579	6,579	6,579	6,579
Fixed assets	30,019	33,073	35,791	38,173
Investments	21	21	21	21
Net working cap	**41,138**	**56,764**	**76,284**	**100,407**
Inventories	21,295	25,506	29,912	34,625
Sundry debtors	24,641	29,150	34,185	39,572
Cash	7,975	15,817	28,265	44,821
Other curr assets	10,824	13,300	15,597	18,055
Sundry creditors	(15,941)	(18,219)	(21,365)	(24,732)
Other curr liab	(7,655)	(8,791)	(10,309)	(11,933)
Def tax assets	708	708	708	708
Total assets	**78,464**	**97,144**	**119,383**	**145,888**

Cash flow statement

Y/e 31 Mar (Rs m)	FY14	FY15E	FY16E	FY17E
Profit before tax	28,316	34,183	40,935	48,375
Depreciation	2,610	2,946	3,282	3,618
Def.tax (net)	146	-	-	-
Tax paid	(9,622)	(11,964)	(14,327)	(16,931)
Working capital Δ	(6,132)	(7,784)	(7,072)	(7,567)
Other op items	(331)	(364)	(401)	(441)
Operating CF	14,987	17,016	22,417	27,053
Capital exp	(6,098)	(6,000)	(6,000)	(6,000)
Free cash flow	**8,889**	**11,016**	**16,417**	**21,053**
Equity raised	2,096	-	-	-
Minority int	75	-	-	-
Debt fin/disp	(4,248)	-	-	-
Dividends	(3,186)	(3,174)	(3,968)	(4,497)
Net Δ in cash	**3,626**	**7,842**	**12,449**	**16,556**

Key ratios

Y/e 31 Mar	FY14	FY15E	FY16E	FY17E
Growth matrix (%)				
Revenue growth	17.1	17.8	17.3	15.8
Op profit growth	32.3	20.5	19.4	17.8
EBIT growth	45.4	20.5	19.6	18.1
Net profit growth	39.7	19.0	19.9	18.3
Profitability ratios (%)				
OPM	26.6	27.2	27.7	28.2
EBIT margin	25.3	25.9	26.4	26.9
Net profit margin	16.6	16.7	17.1	17.4
RoCE	39.8	39.2	38.1	36.7
RoNW	30.8	28.2	26.8	25.5
RoA	21.0	21.0	20.4	19.7
Per share ratios				
EPS	41.7	49.6	59.3	70.1
Dividend per share	6.0	6.0	7.5	8.5
Cash EPS	47.5	56.1	66.7	78.2
Book value per share	154.6	196.2	245.8	305.0
Valuation ratios (x)				
P/E	31.4	26.4	22.0	18.6
P/BV	8.3	6.6	5.2	4.2
M Cap/Sales	5.1	4.3	3.7	3.2
EV/EBIDTA	19.2	15.7	12.8	10.6
Payout (%)				
Tax payout	34.0	35.0	35.0	35.0
Dividend payout	14.6	14.5	15.1	14.5
Liquidity ratios				
Debtor days	80	80	80	80
Inventory days	69	70	70	70
Creditor days	52	50	50	50
Leverage ratios				
Interest coverage	107.3	127.8	152.8	180.4
Net debt / equity	(0.0)	(0.1)	(0.2)	(0.3)
Net debt / op. profit	(0.1)	(0.3)	(0.5)	(0.8)

Du-Pont Analysis

Y/e 31 Mar (Rs m)	FY14	FY15E	FY16E	FY17E
Tax burden (x)	0.66	0.65	0.65	0.65
Interest burden (x)	0.99	0.99	0.99	0.99
EBIT margin (x)	0.25	0.26	0.26	0.27
Asset turnover (x)	1.27	1.26	1.20	1.13
Financial leverage (x)	1.47	1.35	1.31	1.29
RoE (%)	**30.8**	**28.2**	**26.8**	**25.5**

Maruti Suzuki

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Accelerating times

MSIL is one of the best proxy-play on the expected economic recovery in the country. Macro headwinds in the past couple of years had weakened demand for passenger cars. However, during this phase MSIL has emerged stronger with 1) market share gains, 2) line up of new launches, 3) increased localization and 4) deeper presence in domestic markets. While economic recovery and existing latent demand will result in robust volume growth for MSIL, its profitability will improve further with 1) increase in localization, 2) reduction in discounts and 3) weakening of Yen. We expect MSIL to see revenue and PAT CAGR of 17% and 27% respectively during FY14-17E. At P/E of 14.5x on FY17E EPS of Rs191.5 we find the valuations attractive.

Passenger car demand to revive

Passenger car demand in India has been weak during FY12-14 due to high cost of ownership owing to rising fuel prices, firm interest rates and increase in vehicle prices. In the meanwhile wage increases were stunted leading to poor consumer sentiment. We believe there is a lot of latent demand in the system and with economic growth on the mend increase in wage rates would exceed rise in cost of ownership. Car penetration in India is still lower than other emerging markets and the developed world. For FY15, SIAM expects the passenger car demand to rise by 5-8%, which we believe is a conservative estimate. We expect 8-10% growth in FY15 and strengthening further to 15% CAGR during FY16-17. A point worth noting here is that during previous strong economic growth phase passenger car demand grew by 20-25%.

Market share gains in a weak market

In FY14, MSIL's market share in the domestic passenger car market increased to 49.8% from 46% in FY13 while its share in the total passenger vehicle market increased from 39.4% to 42.1%. YTD FY15, MSIL's market in share in passenger car and passenger vehicle markets have increased by 351bps and 394bps respectively. In FY14, gains were across all segments most noteworthy being xxbps gain in the super compact car segment in spite of the launch of Amaze. It also strengthened its position in the compact car segment through a successful launch of Celerio. The gains have been on the back of a stronger growth in rural areas which account for ~40% of MSIL's volumes.

Financial summary

Y/e 31 Mar (Rs m)	FY14	FY15E	FY16E	FY17E
Revenues	437,006	485,003	584,741	704,391
yoy growth (%)	0.3	11.0	20.6	20.5
OPM (%)	11.7	12.5	12.9	13.2
Reported PAT	27,831	33,431	44,600	57,853
yoy growth (%)	16.3	20.1	33.4	29.7
EPS (Rs)	92.1	110.7	147.6	191.5
P/E (x)	30.1	25.0	18.8	14.5
Price/Book (x)	4.0	3.5	3.0	2.5
EV/EBITDA (x)	16.6	13.5	10.3	7.7
RoE (%)	14.1	14.9	17.2	18.9
RoCE (%)	17.6	18.5	21.5	23.9

Source: Company, India Infoline Research

Rating:	BUY
Target (2-years):	**Rs3,800**
CMP:	**Rs2,772**
Upside:	**37.1%**

Sector:	**Automobiles**
Sector view:	**Positive**
Sensex:	26,443
52 Week h/l (Rs):	2,825 / 1,215
Market cap (Rscr) :	83,749
6m Avg vol ('000Nos):	436
Bloomberg code:	MSIL IS
BSE code:	532500
NSE code:	MARUTI
FV (Rs):	5

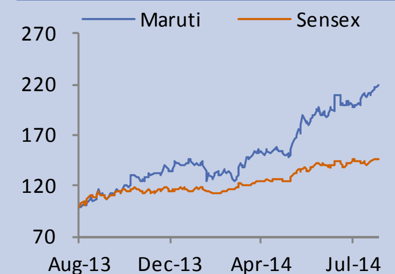
Price as on August 26, 2014

Company rating grid

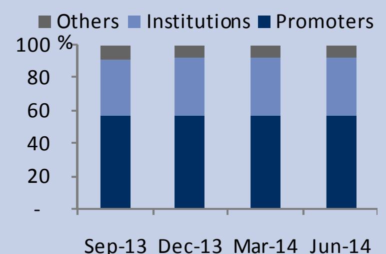
Low → High

	1	2	3	4	5
Earnings Growth				■	
Cash Flow				■	
B/S Strength				■	
Valuation appeal				■	
Risk		■			

Share price trend



Share holding pattern



Research Analyst:
Prayesh Jain
research@indiainfoline.com

New model launches will allow further market share gains

To strengthen its leadership position MSIL has lined up new launches in the next 15 months. These models were showcased at the Auto Expo 2014 and show a lot of promise viz Sedan – Ciaz, MUV, LCV. Also the company is expected to introduce new diesel engines and introduce its automatic gear technology from Celerio in other models. Refreshes of existing models are also lined up. While MSIL has host of new launches, we believe competition is lagging behind in this respect enabling MSIL to gain further market share.

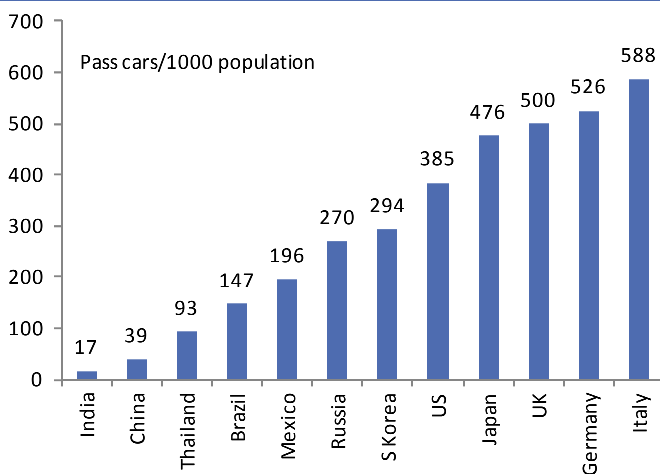
MSIL expected to launch 3 new products and many refreshments of existing products in the next 12 months

Wide service network difficult to replicate for competition

Over the years, MSIL's competitors in the domestic market have expanded their dealership and service network but still remain far behind MSIL. This has enabled MSIL to be the top of the mind recall brand for passenger cars. With dealers earning good chunk of revenues from servicing, dealers ensure good quality servicing. This has enabled MSIL to top JD Power Customer Satisfaction survey consistently for many years. This is also supported by lowest maintenance cost for MSIL Cars. We believe competition will find it difficult to match MSIL's market reach and brand positioning.

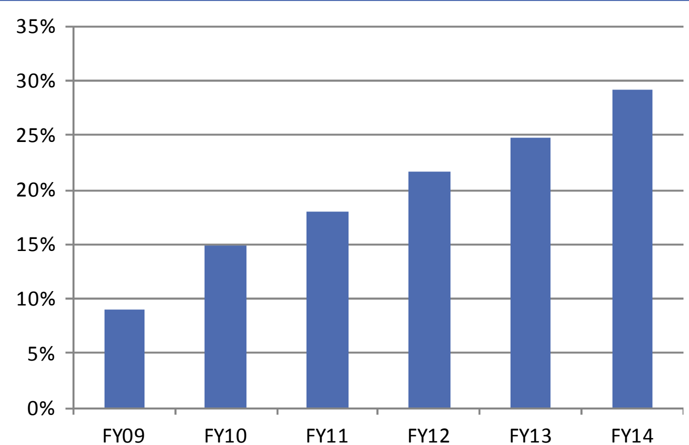
Deepest presence in the domestic market, which we believe is difficult for competition to replicate

India car penetration still very low



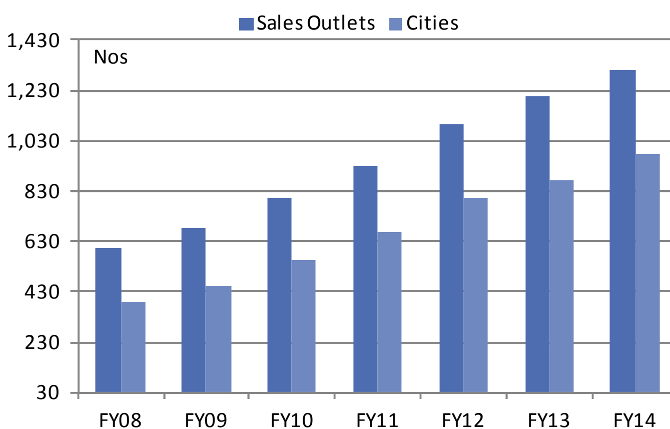
Source: Company, India Infoline Research

Rising proportion of rural sales for MSIL



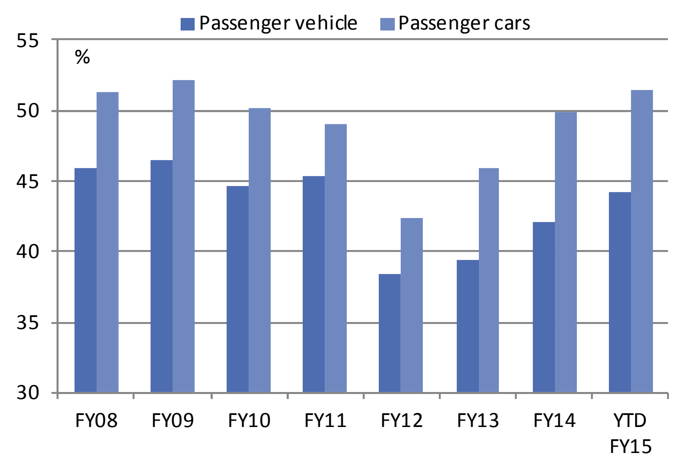
Source: Company, India Infoline Research

Deepening presence of MSIL in domestic markets



Source: Company, India Infoline Research

Increasing market share



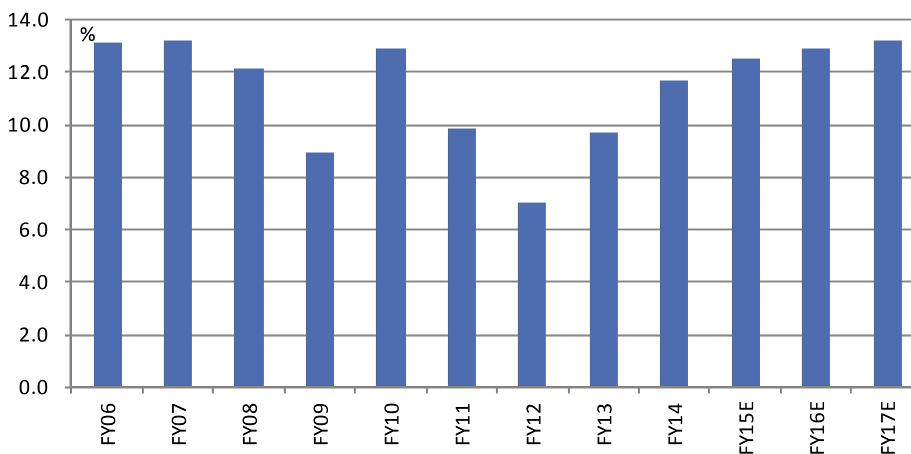
Source: Company, India Infoline Research

Margin expansion on the cards

Amidst the weak macro environment for the sector, MSIL has been able to improve its marketing margins indicating 1) increasing localized content and 2) benefits of cost cutting initiatives taken by the company. We believe, margins would continue to head north as higher volumes will translate into benefits of operating leverage. Furthermore, there is further scope of increasing localized content which will not only lower costs but also improve supply chain management. Weakening of Yen against the Greenback would provide additional upsides to margins. Current high margins are in spite of historical high discounting levels. As demand scenario improves we believe discounts would normalize leading to higher margins.

Increase in localization, cost cutting initiatives, weaker yen and lower discounts would aid margin expansion

OPM to improve from hereon



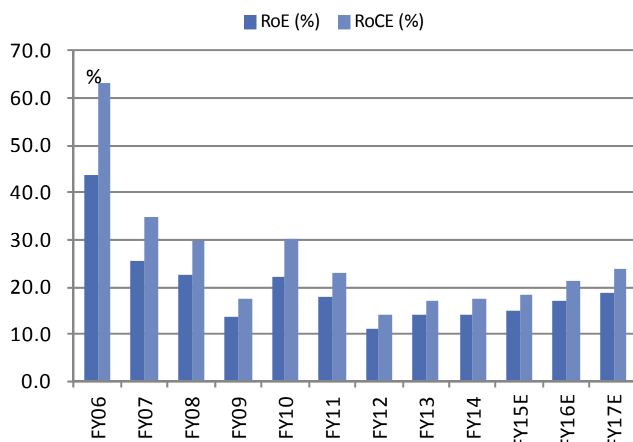
Source: Company, India Infoline Research

Upsides to earnings and valuations exist

During the previous economic up-cycle passenger car demand surge was in the range of 20-25%. Currently, we are forecasting the industry to grow by 8-10% in FY15 and 15-18% growth in FY16 and FY17. We believe if the macro economic factors turn around faster than expectations, upsides exist to our estimates. For MSIL we expect revenue CAGR of 17.2% and a PAT CAGR of 27.6% during FY14-17E. With such strong earnings growth, robust cash flows, strong balance sheet and healthy return ratios, valuations do not look expensive at P/E of 14.5x FY17E EPS.

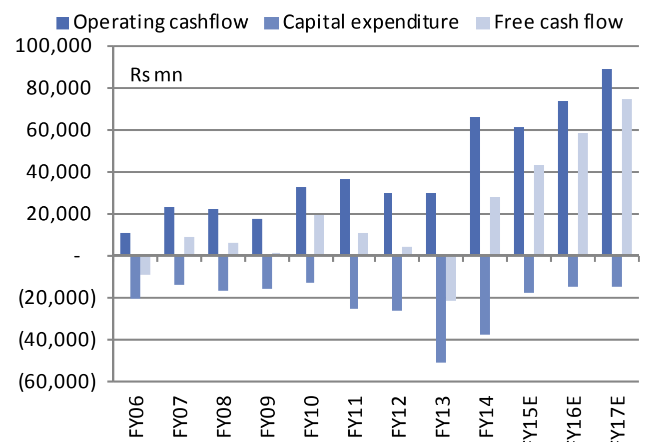
Given previous 20-25% growth in passenger car demand in previous up cycle our estimates are conservative

Return ratios back on rising trend



Source: Company, India Infoline Research

Strong cash flow generation



Source: Company, India Infoline Research

Financials

Income statement

Y/e 31 Mar (Rs m)	FY14	FY15E	FY16E	FY17E
Revenue	437,006	485,003	584,741	704,391
Operating profit	**50,959**	**60,625**	**75,432**	**92,980**
Depreciation	(20,844)	(24,253)	(25,663)	(27,073)
Interest expense	(1,759)	(1,385)	(1,085)	(785)
Other income	8,229	9,000	10,000	11,000
Profit before tax	**36,586**	**43,988**	**58,684**	**76,122**
Taxes	(8,755)	(10,557)	(14,084)	(18,269)
Adj. profit	**27,831**	**33,431**	**44,600**	**57,853**

Balance sheet

Y/e 31 Mar (Rs m)	FY14	FY15E	FY16E	FY17E
Equity capital	1,510	1,510	1,510	1,510
Reserves	208,270	237,489	277,876	331,517
Net worth	**209,781**	**238,999**	**279,387**	**333,027**
Debt	16,851	13,851	10,851	7,851
Deferred tax liab (net)	5,866	6,116	6,366	6,616
Total liabilities	**232,498**	**258,966**	**296,604**	**347,494**
Fixed assets	134,118	127,895	117,233	105,160
Investments	101,179	111,179	121,179	131,179
Net working capital	**(9,097)**	**(12,432)**	**(15,966)**	**(20,275)**
Inventories	17,060	18,933	22,827	27,497
Sundry debtors	14,137	15,689	18,916	22,786
Other current assets	32,567	32,140	33,657	35,250
Sundry creditors	(48,975)	(54,354)	(65,532)	(78,941)
Other current liabilities	(23,885)	(24,840)	(25,834)	(26,867)
Cash	6,297	32,324	74,159	131,430
Total assets	**232,498**	**258,966**	**296,604**	**347,494**

Cash flow statement

Y/e 31 Mar (Rs m)	FY14	FY15E	FY16E	FY17E
Profit before tax	36,586	43,988	58,684	76,122
Depreciation	20,844	24,253	25,663	27,073
Tax paid	(8,755)	(10,557)	(14,084)	(18,269)
Working capital Δ	16,919	3,335	3,534	4,308
Operating cashflow	65,594	61,018	73,797	89,234
Capital expenditure	(37,548)	(18,030)	(15,000)	(15,000)
Free cash flow	**28,045**	**42,989**	**58,797**	**74,234**
Equity raised	373	-	-	-
Investments	(30,396)	(10,000)	(10,000)	(10,000)
Debt financing/disposal	2,959	(3,000)	(3,000)	(3,000)
Dividends paid	(4,212)	(4,212)	(4,212)	(4,212)
Other items	1,779	250	250	250
Net Δ in cash	**(1,452)**	**26,026**	**41,835**	**57,271**

Key ratios

Y/e 31 Mar	FY14	FY15E	FY16E	FY17E
Growth matrix (%)				
Revenue growth	0.3	11.0	20.6	20.5
Op profit growth	20.5	19.0	24.4	23.3
EBIT growth	20.5	18.3	31.7	28.7
Net profit growth	16.3	20.1	33.4	29.7
Profitability ratios (%)				
OPM	11.7	12.5	12.9	13.2
EBIT margin	8.8	9.4	10.2	10.9
Net profit margin	6.4	6.9	7.6	8.2
RoCE	17.6	18.5	21.5	23.9
RoNW	14.1	14.9	17.2	18.9
RoA	9.7	10.4	12.3	13.8
Per share ratios				
EPS	92.1	110.7	147.6	191.5
Dividend per share	12.0	12.0	12.0	12.0
Cash EPS	161.1	191.0	232.6	281.1
Book value per share	694.5	791.2	924.9	1,102.4
Valuation ratios				
P/E	30.1	25.0	18.8	14.5
P/CEPS	17.2	14.5	11.9	9.9
P/BV	4.0	3.5	3.0	2.5
EV/EBIDTA	16.6	13.5	10.3	7.7
Payout (%)				
Dividend payout	15.1	12.6	9.4	7.3
Tax payout	23.9	24.0	24.0	24.0
Liquidity ratios				
Debtor days	12	12	12	12
Inventory days	14	14	14	14
Creditor days	41	41	41	41
Leverage ratios				
Interest coverage	21.8	32.8	55.1	98.0
Net debt / equity	0.1	(0.1)	(0.2)	(0.4)
Net debt / op. profit	0.2	(0.3)	(0.8)	(1.3)

Du-Pont Analysis

Y/e 31 Mar	FY14	FY15E	FY16E	FY17E
Tax burden (x)	0.76	0.76	0.76	0.76
Interest burden (x)	0.95	0.97	0.98	0.99
EBIT margin (x)	0.09	0.09	0.10	0.11
Asset turnover (x)	1.53	1.51	1.61	1.67
Financial leverage (x)	1.45	1.43	1.40	1.37
RoE (%)	**14.1**	**14.9**	**17.2**	**18.9**

Motherson Sumi

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Best in Class

Motherson Sumi is now a leading global auto component player with presence across 25 countries. In the domestic market, when auto sales were declining in the past two years, Motherson weathered the storm through increasing content per car. Its acquisitions SMR and SMP have reported outstanding recovery from the strained levels seen when they were acquired. Going ahead, domestic business will see strong traction as demand recovery is seen from H2 FY15. Recovery in US and stability in Europe are expected to benefit SMR and SMP substantially which are already sitting on new orders worth €4bn. With track record of meeting its five year targets, we will be keenly watching FY20 targets it will set for itself at the end of FY15. For FY14-17E, we expect Motherson to report earnings CAGR of 41%.

Well placed to play the domestic automobile sector recovery theme

During the past couple of years, automobile market in India saw tough times with volumes declining across segments. With diesel price hikes behind us, interest rate not expected to increase from here on, hopes of recovery in industrial activity and a positive consumer sentiment, we expect auto volumes to recover from H2 FY15 and gain further strength in FY16 and FY17. During the lull phase of auto OEMs in India, Motherson was able to protect its revenue base and profitability as it increased its market share by enrolling new customers and increasing content per car by adding new products to its profile. Going ahead too, we expect Motherson with its strong OEM relationships will post a higher than industry average topline growth.

Inorganic route has been a critical part of MSSL growth strategy

One of the key drivers for the 47.8% 10-year CAGR in consolidated revenues has been the sound acquisition strategy of the company. Motherson's strategy is to acquire assets with high growth potential with their existing customer contracts and relationships. Further, it improves and stabilizes their business through enhanced quality and delivery parameters and engineering support, coupled with its management know-how and experience.

Financial summary

Y/e 31 Mar (Rs m)	FY14	FY15E	FY16E	FY17E
Revenues	307,210	346,848	395,885	457,820
yoy growth (%)	21.4	12.9	14.1	15.6
Operating profit	28,781	35,887	44,483	54,992
OPM (%)	9.4	10.3	11.2	12.0
Reported PAT	7,650	12,552	16,982	21,780
yoy growth (%)	72.1	64.1	35.3	28.3
EPS (Rs)	10.8	14.2	19.3	24.7
P/E (x)	33.0	25.1	18.5	14.5
Price/Book (x)	10.6	8.5	6.7	5.2
EV/EBITDA (x)	12.3	9.7	7.6	5.8
Debt/Equity (x)	1.3	1.1	0.7	0.5
RoE	36.3	37.6	40.2	40.4
RoCE	28.5	32.5	37.2	41.9

Source: Company, India Infoline Research

Rating:	BUY
Target (2-years):	**Rs500**
CMP:	**Rs357**
Upside:	**40%**

Sector:	**Auto Ancillary**
Sector view:	**Positive**
Sensex:	26,443
52 Week h/l (Rs):	391 / 124
Market cap (Rscr) :	31,490
6m Avg vol ('000Nos):	1,475
Bloomberg code:	MSS IS
BSE code:	517334
NSE code:	MOTHERSUMI
FV (Re):	1

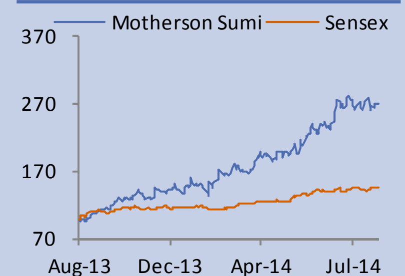
Price as on August 26, 2014

Company rating grid

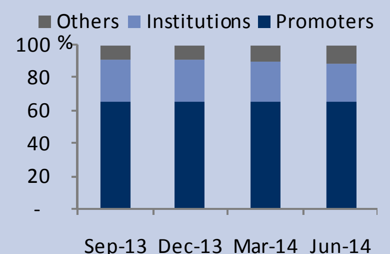
Low → High

	1	2	3	4	5
Earnings Growth				■	
Cash Flow					■
B/S Strength					■
Valuation appeal				■	
Risk		■			

Share price trend



Share holding pattern



Research Analyst:
Prayesh Jain
research@indiainfoline.com

Large business opportunities and margin expansion scope for SMP

SMP contributes ~50% of revenues for MSSL at the consolidated level. Owing to starkly lower margins of SMP (5.5% in FY14), as compared to SMR (9.7% in FY14) and standalone business (19.1% in FY14), the EBIT contribution from SMP is largely depressed. Any incremental improvement in margins will come against a large revenue base, and thereby will add significantly at consolidated EBIT level. Progress is seen and also the company is implementing measures such as 1) plant level cost cutting, 2) diversification of customer base, 3) building capacities in emerging market and 4) in-sourcing from Motherson standalone operations. Since acquisition a steady uptick has been seen on this front and OPM has risen from 3.7% Q2 FY13 to 6% in Q1 FY15. Revenue growth will come from repeat orders from existing clients, new orders from existing clients and addition of new customers.

Revenue growth for SMP will come from repeat orders from existing clients, new orders from existing clients and addition of new customers

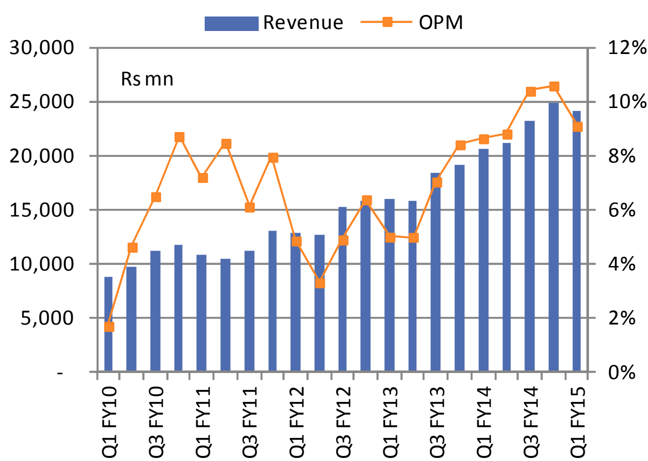
Margins will continue to improve due to several measures adopted by the company

SMR to sustain on growth trajectory

SMR, since its acquisition in FY09 has seen strong revenue traction in spite of the global financial crisis impacting auto sales in Europe severely. Margins have surged from 4.9% in FY12 to 9.7% in FY14. One of the key strengths of SMR's sustained growth momentum is its innovation capabilities. As a technology leader, SMR has been able provide its customers with significant advantages by offering differentiated and value-added products. This has ensured SMR's competitive advantage leading to strong pricing power. As global OEMs accept newer technology to offer their customers better value, demand for high end mirrors will continue to rise giving robust business opportunities for SMR. With new capacities having commenced operations in the recent past, SMR is well placed to see further margin expansion through benefits of operating leverage.

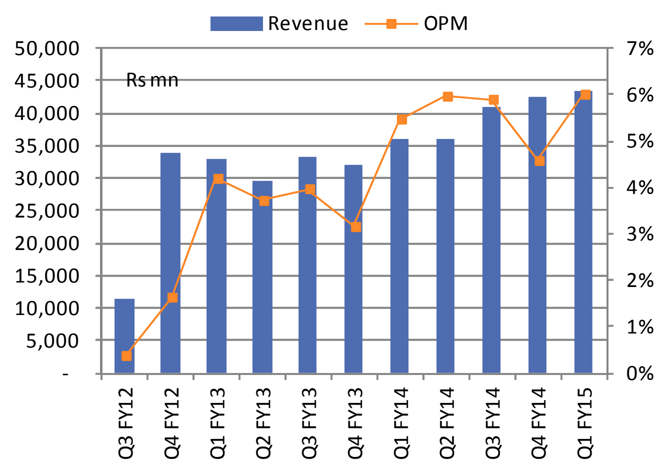
New plants to drive revenues for SMR and value addition will be to core to further margin expansion

Steady improvement in SMR performance



Source: Company, India Infoline Research

SMP recovered from lows



Source: Company, India Infoline Research

Stoneridges' wiring harness business provides synergy benefits

Motherson's latest acquisition is that of Stoneridge's wiring harness business for a sum of US$65.7mn. In CY13, the company had a turnover of US$300mn and made a loss at PBT level. As in previous acquisitions Motherson was requested by its customers to take over the business. With Motherson's capability of turning around acquisitions and expertise in wiring harness business we see strong traction in revenues and profitability for this division. Also it will provide large opportunities within US markets for its other divisions.

Acquisition of Stoneridges's wiring harness division will give Motherson access to customers in US for its other divisions

Exemplary track record of meeting financial targets

Motherson Sumi (MSSL) sets for itself five year targets for revenue growth, RoCE, exports and dividend payout. The targets set in the year 2000 were fully met by 2005 and most of the targets set in the year 2005 were closely met by 2010. For 2015, MSSL has set a target of achieving US$5bn revenues, 70% of which will be from exports, a RoCE of 40% and dividend payout of 40%. With large acquisitions of Visiocorp and Peguform in place, we expect the revenue and export sales target to be on track. However, RoCE and dividend payout targets could be missed owing to high debt used to fund Peguform acquisition. At the end of FY15, the company will be announcing its targets for FY20, which we expect to be aggressive and assign high probability to the company achieving it during that period.

At the end of FY15, the company will be announcing its targets for FY20, which we expect to be aggressive and assign high probability to the company achieving it during that period

Management focus on capital efficiency: Five year targets

	Target	Achieved	Target	Achieved	Target	Current (FY14)
Year	2005		2010		2015	
Revenue	Rs10bn	Rs10.3bn	USD 1bn	USD1.5bn	USD 5bn	USD 5.1bn~
ROCE	40%	39%	40%	22%*	40%	26%
Exports	30%	29%	60%	70%	70%	84%
Div payout	40%	43%	40%	32%	40%	34%

Source: Company, India Infoline Research

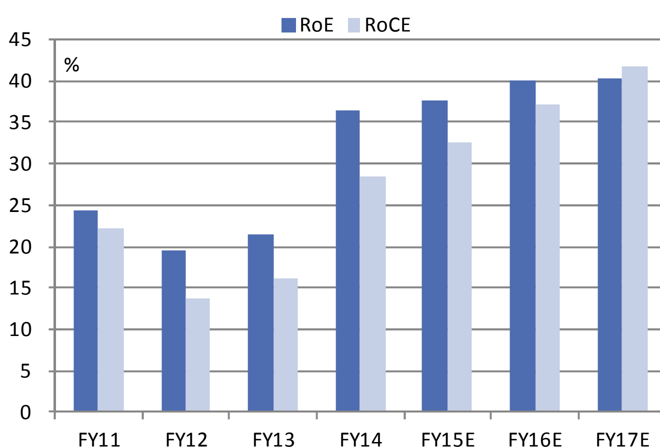
** Visiocorp acquisition in 2009, ~ includes only one quarter revenues of SMP*

Financials to gain further strength

Benefits of in-sourcing, strong pricing power in domestic markets, recovery in passenger car demand and favorable change in product-mix towards premium cars will ensure that MSSL's standalone revenues will witness 18% revenue CAGR over FY14-17E. SMR revenues will be driven by robust volume growth backed by new capacities. SMP revenue growth is expected to inch up in FY15E as new plants commence operations in new markets. Operating margins will expand across all entities translating into earnings CAGR of 41% over the next three years. Balance sheet strength will only improve as cash flows see sustained rise. RoCE should head towards company's target of 40% and surpass it in the next few years. Given the strength in financials we believe premium valuations are justified.

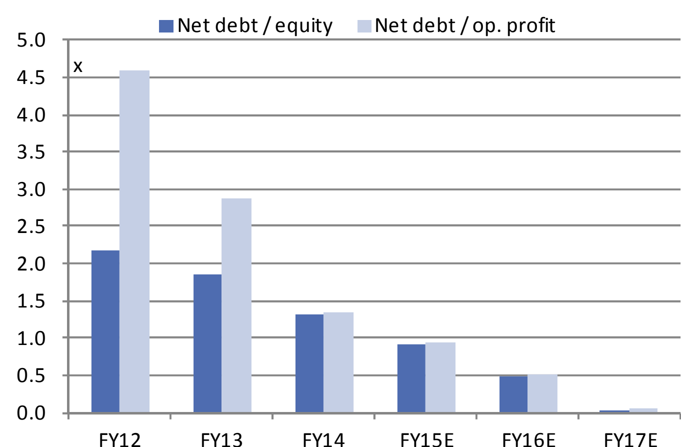
Strong earnings CAGR of 41% estimated for FY14-17E. RoCE to move beyond the targeted 40% mark

Strength in RoE and RoCE



Source: Company, India Infoline Research

Almost net debt free by FY17E



Source: Company, India Infoline Research

Financials

Income statement

Y/e 31 Mar (Rs m)	FY14	FY15E	FY16E	FY17E
Revenue	307,210	346,848	395,885	457,820
Operating profit	**28,781**	**35,887**	**44,483**	**54,992**
Depreciation	(8,172)	(8,803)	(9,453)	(10,103)
Interest expense	(2,944)	(3,196)	(2,376)	(1,956)
Other income	176	200	225	250
Profit before tax	**17,842**	**24,089**	**32,880**	**43,183**
Taxes	(4,995)	(7,227)	(9,864)	(12,955)
Minorities and other	(3,317)	(4,310)	(6,034)	(8,448)
Adj. profit	**9,530**	**12,552**	**16,982**	**21,780**
Exceptional items	(1,880)	0	0	0
Net profit	**7,650**	**12,552**	**16,982**	**21,780**

Balance sheet

Y/e 31 Mar (Rs m)	FY14	FY15E	FY16E	FY17E
Equity capital	882	882	882	882
Reserves	28,711	36,242	46,431	59,499
Net worth	**29,592**	**37,123**	**47,312**	**60,381**
Minority interest	7,896	12,206	18,241	26,688
Debt	39,946	39,946	33,946	27,946
Deferred tax liab (net)	496	496	496	496
Total liabilities	**77,931**	**89,772**	**99,995**	**115,511**
Fixed assets	73,832	81,879	87,967	90,818
Investments	749	749	749	749
Net working capital	**2,450**	**1,216**	**(148)**	**(1,541)**
Inventories	32,822	37,057	42,296	48,913
Sundry debtors	32,384	36,562	41,731	48,260
Other current assets	11,763	14,115	16,939	20,326
Sundry creditors	(40,917)	(46,196)	(52,727)	(60,976)
Other current liabilities	(33,602)	(40,322)	(48,387)	(58,064)
Cash	899	5,927	11,427	25,485
Total assets	**77,931**	**89,772**	**99,995**	**115,511**

Cash flow statement

Y/e 31 Mar (Rs m)	FY14	FY15E	FY16E	FY17E
Profit before tax	17,842	24,089	32,880	43,183
Depreciation	8,172	8,803	9,453	10,103
Tax paid	(4,995)	(7,227)	(9,864)	(12,955)
Working capital Δ	10,290	1,234	1,364	1,393
Operating cashflow	31,309	26,898	33,833	41,724
Capital expenditure	(25,375)	(16,850)	(15,540)	(12,954)
Free cash flow	**5,934**	**10,049**	**18,293**	**28,770**
Equity raised	2,113	(1,196)	(1,319)	(1,658)
Investments	(32)	-	-	-
Debt financing/disposal	(8,610)	-	(6,000)	(6,000)
Dividends paid	(3,060)	(3,825)	(5,473)	(7,054)
Other items	(1,389)	-	-	-
Net Δ in cash	**(5,044)**	**5,028**	**5,500**	**14,058**

Key ratios

Y/e 31 Mar	FY14	FY15E	FY16E	FY17E
Growth matrix (%)				
Revenue growth	21.4	12.9	14.1	15.6
Op profit growth	94.9	24.7	24.0	23.6
EBIT growth	91.8	31.3	29.2	28.0
Net profit growth	72.1	64.1	35.3	28.3
Profitability ratios (%)				
OPM	9.4	10.3	11.2	12.0
EBIT margin	6.8	7.9	8.9	9.9
Net profit margin	3.1	3.6	4.3	4.8
RoCE	28.5	32.5	37.2	41.9
RoNW	36.3	37.6	40.2	40.4
RoA	6.8	7.6	9.0	10.0
Per share ratios				
EPS	10.8	14.2	19.3	24.7
Dividend per share	3.0	4.9	6.6	8.5
Cash EPS	20.1	24.2	30.0	36.2
Book value per share	33.6	42.1	53.6	68.5
Valuation ratios				
P/E	33.0	25.1	18.5	14.5
P/CEPS	17.8	14.7	11.9	9.9
P/BV	10.6	8.5	6.7	5.2
EV/EBIDTA	12.3	9.7	7.6	5.8
Payout (%)				
Dividend payout	32.1	30.5	32.2	32.4
Tax payout	28.0	30.0	30.0	30.0
Liquidity ratios				
Debtor days	38	38	38	38
Inventory days	39	39	39	39
Creditor days	49	49	49	49
Leverage ratios				
Interest coverage	7.1	8.5	14.8	23.1
Net debt / equity	1.3	0.9	0.5	0.0
Net debt / op. profit	1.4	0.9	0.5	0.0

Du-Pont Analysis

Y/e 31 Mar	FY14	FY15E	FY16E	FY17E
Tax burden (x)	0.53	0.52	0.52	0.50
Interest burden (x)	0.86	0.88	0.93	0.96
EBIT margin (x)	0.07	0.08	0.09	0.10
Asset turnover (x)	2.20	2.11	2.10	2.10
Financial leverage (x)	5.33	4.93	4.47	4.05
RoE (%)	**36.3**	**37.6**	**40.2**	**40.4**

Power Grid Corp. of India Ltd

IIFL
INDIA PRIVATE CLIENTS

Rating:	BUY
Target (2-years):	Rs187
CMP:	Rs130
Upside:	42.9%

Stable and strong compared to IPP players

Power Grid Corporation of India Ltd (PWG), a Navratna company, is India's largest power transmission utility transmitting ~50% of power generated. The company is in a regulated business which guarantees reasonable profitability along with steady returns. PWG provides investors an opportunity to participate in the nation's power sector reforms as the company is the indirect beneficiary and offers relatively defensive and stable growth compared to IPPs. The company has reported strong growth in capitalization in FY15 YTD at Rs85bn, more than 50% of the projects commissioned in FY14. We expect the momentum to remain strong over the next two years and estimate FY15 capitalizing at Rs202bn, 26.8% higher on a yoy basis. The company has diversified into broadband and telecom services and is also into consultancy for T&D projects. A jump in capitalization and increase in revenues from diversified business would lead to earnings CAGR of 15.7% over the period FY14-17. With a slew of reforms being implemented for the state SEBS, any restructuring of SEBs would lead to a re-rating for the company. We value the company at 2x FY17 P/B and recommend a BUY rating with a 2-year price target of Rs187.

Capitalisation as a % of capex to remain high

Power Grid achieved capitalization of Rs159bn in FY14, lower than the management guidance due to a week's delay in capitalization of project worth Rs18.5bn. On account of this, capitalization as a % of capex in FY14 declined to 71% below our estimate of 78% and an average of 72% over the period FY11-14. In FY15, we believe this ratio would increase sharply due to (a) commissioning of projects worth Rs18.5bn, which was fully executed in FY14 (b) share of installed CWIP of total CWIP at 60% (c) Strong execution till July provides comfort. Power Grid capitalized assets worth Rs18.5bn in the first week of April '14 which was completed in March '14. Due to a combination of the above points, we have revised upwards our capitalization as a % of capex to 90% in FY15 (previous estimate 80%) and quite higher than 71% achieved in FY14. We estimate FY15 capitalizing at Rs202bn, 26.8% higher on a yoy basis.

Financial summary

Y/e 31 Mar (Rs m)	FY14	FY15E	FY16E	FY17E
Revenues	152,303	187,536	216,114	244,082
yoy growth (%)	19.4	23.1	15.2	12.9
Operating profit	129,563	160,812	186,062	210,646
OPM (%)	85.1	85.7	86.1	86.3
Reported PAT	44,974	57,274	65,595	73,817
yoy growth (%)	6.2	27.3	14.5	12.5
EPS (Rs)	8.6	10.9	12.5	14.1
P/E (x)	15.2	12.0	10.4	9.3
Price/Book (x)	2.0	1.8	1.6	1.4
Debt/Equity (x)	2.2	2.3	2.3	2.3
RoE (%)	14.7	15.4	15.8	15.9
RoCE (%)	8.7	9.2	9.3	9.2

Source: Company, India Infoline Research

Sector:	**Utilities**
Sector view:	**Neutral**
Sensex:	26,443
52 Week h/l (Rs):	147 / 92
Market cap (Rscr) :	68,533
6m Avg vol ('000Nos):	7,650
Bloomberg code:	PWGR IN
BSE code:	532898
NSE code:	POWERGRID
FV (Rs):	10

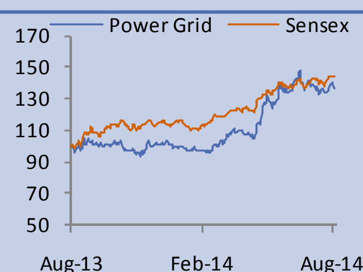
Price as on August 26, 2014

Company rating grid

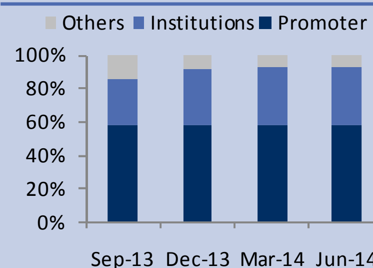
Low → High

	1	2	3	4	5
Earnings Growth					
Cash Flow					
B/S Strength					
Valuation appeal					
Risk					

Share price trend



Share holding pattern



Research Analyst:
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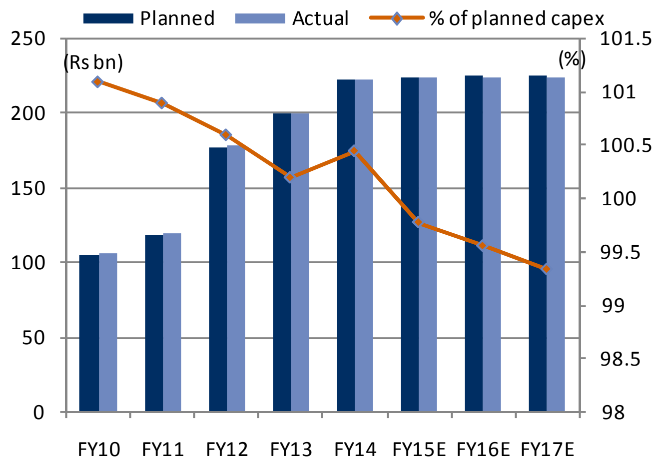
As per company's FY14 presentation, CWIP increased by 32.8% yoy to Rs533bn from Rs401.1bn at the end of FY13. In addition to this, share of installed CWIP of the total has increased from 48% in FY13 to 60% in FY14. Installed CWIP is equipment that is physically present on site and is in the process of being erected or has been already erected. In Q1 FY15, capitalization was Rs48.8bn, 82% higher on a yoy basis. The strong performance has continued till date as the company till August '14 has managed to capitalize projects worth Rs85bn, more than 50% of the projects commissioned in FY14. In physical terms, the company has managed to achieve ~36% of the 15,000 ckm transmission line target set for FY15. On the back of the strong performance witnessed till date, we have revised upwards our capitalization as a % of capex to increase from 71% in FY14 to 90% in FY15. We estimate FY15 capitalizing at Rs202bn, 26.8% higher on a yoy basis.

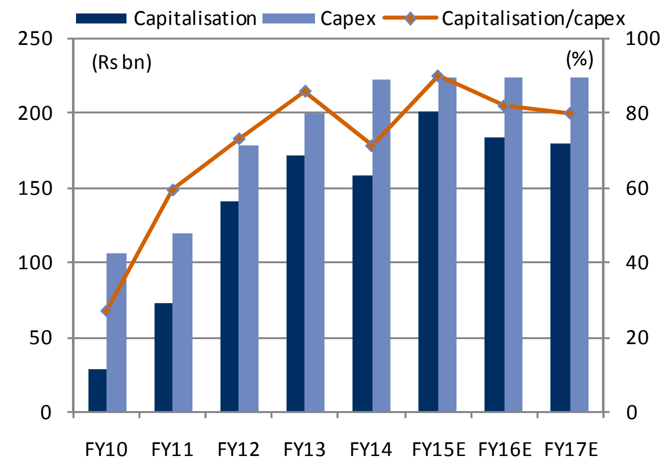
Power Grid till August '14 has managed to capitalize projects worth Rs85bn, more than 50% of the projects commissioned in FY14

Capex to remain high as per plan at ~224bn yearly over the next three years



Source: Company, India Infoline Research

Capitalisation as a % of capex to jump to 90% in FY15E at Rs202bn



Source: Company, India Infoline Research

Capex to remain higher over the next three years

PGCIL revised its capex target in 12th Five Year Plan in FY14 to Rs1,100bn from Rs1,000bn due to addition of additional bidding based projects worth Rs100bn for Green Energy Corridors and other projects. The Rs1,100bn capex involves setting up 40,000 ckm of transmission lines, 65 new substations with a transformation capacity of 106,000 MVA. Investments worth Rs1,016bn have already been approved and we believe there would be many other projects to be executed under the smart grid and gas-insulated sub-stations technology. The company in FY15 plans to add 15,000ckm transmission lines and 15 sub-stations with a capacity of 30,000MVA. FY15 guidance is quite higher than FY14 performance, wherein it managed to add 10,076ckm transmission lines and 17 sub-stations with a capacity of 41,160MVA. Power Grid in Q1 FY15, registered a capex of Rs58.4bn, higher by 15.2% yoy over Rs50.7bn achieved in Q1 FY14. Capex remained strong in the month of July '14, as total capex during the period April-July '14 was Rs75.3bn. With a slew of power generating projects to be commissioned over the next two years, demand for transmission lines is expected to increase. The company has guided for a capex of Rs1,000bn for the 13th Five Year Plan, marginally lower than the capex for 12th year plan. We believe the management is quite conservative in estimating the demand for transmission lines in 13th Plan.

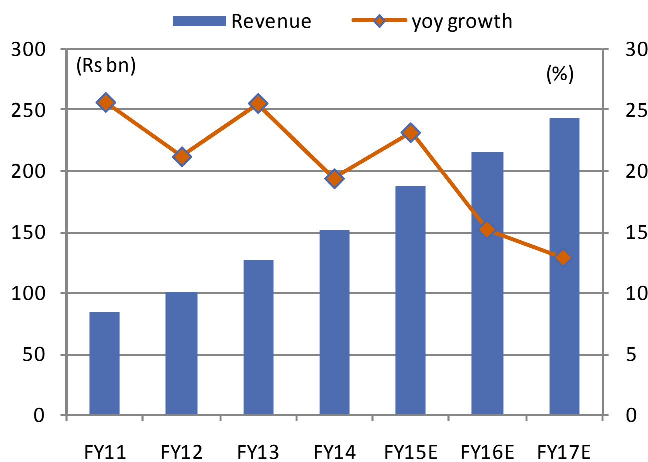
Power Grid in Q1 FY15, registered a capex of Rs58.4bn, higher by 15.2% yoy over Rs50.7bn achieved in Q1 FY14

Diversification; a long term strategy in place

The company is leveraging its vast experience in transmission-related services, by providing consultancy services to India and abroad. The company is also in the telecom space, which has a presence in two business activities (a) Fibre optic business, and (b) Tower leasing business. The company leases bandwidth on this network to more than 106 customers, including major telecom operators. PWG is also partnering with the Government of India in the implementation of the National Knowledge Network project and the National Optic Fibre Network project, but the projects are still in nascent stage. The company is also into Smart Grid technology. Smart Grid facilitates efficient and reliable end-to-end intelligent two-way delivery system from source to sink through integration of renewable energy sources, smart transmission and distribution. We believe over the next three years, share of other businesses is expected to rise and would derisk the company's earnings.

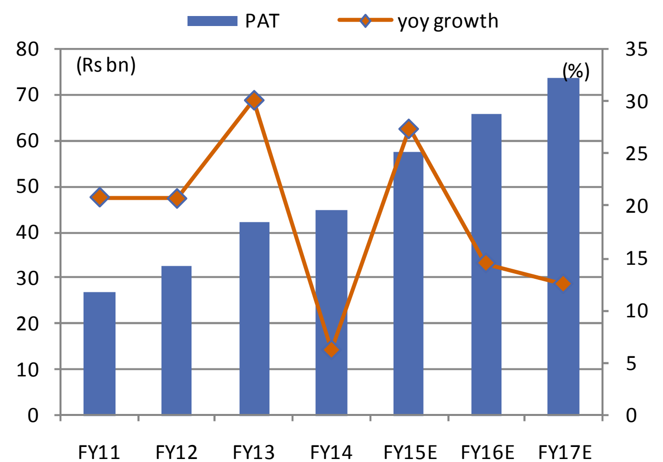
We believe over the next three years, share of other businesses is expected to rise and would derisk the company's earnings

Topline growth to remain strong due to higher capitalization in FY15



Source: Company, India Infoline Research

Earnings CAGR of 15.7% over FY14-17E



Source: Company, India Infoline Research

Earnings growth to remain strong

Operational performance has improved over the last five years. Availability has been higher than 99.6% over the last five years and system reliability too has improved as trippings per line too have declined sharply from 2.56 in FY08 to 0.56 in FY14. Power for most of its projects earns an assured post-tax RoE of 15.5% on equity invested in its capitalized transmission projects along with network availability linked incentives and early commissioning incentives for projects. According to the management, change in CERC norms has not majorly impacted the company's earnings till date. Capitalisation in FY15 YTD has been quite strong, and we expect the momentum to remain strong over the next two years. We estimate FY15 capitalizing at Rs202bn, 26.8% higher on a yoy basis. A jump in capitalization and increase in revenues from diversified business would lead to earnings CAGR of 15.7% over the period FY14-17. With unutilized equity from last year's equity raising and strong internal cash flows, we believe further equity dilution would not be required over FY15-17. With a slew of reforms being implemented for the state SEBS, further restructuring of SEBs would lead to a re-rating for the company. We value the company at 2x FY17 P/B and recommend a BUY rating with a 2-year price target of Rs187.

We estimate FY15 capitalizing at Rs202bn, 26.8% higher on a yoy basis

A jump in capitalization and increase in revenues from diversified business would lead to earnings CAGR of 15.7% over the period FY14-17

With a slew of reforms being implemented for the state SEBS, further restructuring of SEBs would lead to a re-rating for the company

Financials

Income statement

Y/e 31 Mar (Rs mn)	FY14	FY15E	FY16E	FY17E
Revenue	152,303	187,536	216,114	244,082
Operating profit	**129,563**	**160,812**	**186,062**	**210,646**
Depreciation	(39,957)	(49,928)	(58,789)	(67,136)
Interest expense	(31,675)	(35,371)	(40,299)	(45,227)
Other income	4,911	5,156	5,413	5,684
Profit before tax	**62,843**	**80,668**	**92,387**	**103,967**
Taxes	(17,663)	(23,394)	(26,792)	(30,150)
Minorities and others	(205)	0	0	0
Net profit	**44,974**	**57,274**	**65,595**	**73,817**

Balance sheet

Y/e 31 Mar (Rs mn)	FY14	FY15E	FY16E	FY17E
Equity capital	52,316	52,316	52,316	52,316
Reserves	298,067	338,718	385,274	437,665
Net worth	**350,383**	**391,034**	**437,590**	**489,981**
Debt	772,282	884,282	1,007,482	1,130,682
Deferred tax liab (net)	61,690	68,950	77,265	86,622
Total liabilities	**1,184,355**	**1,344,266**	**1,522,336**	**1,707,285**
Fixed assets	752,642	904,314	1,029,204	1,141,268
CWIP and Construction stores	392,883	415,283	455,603	500,403
Investments	12,845	12,845	12,845	12,845
Other long term assets & researves	17,163	17,163	17,163	17,163
Net working capital	**(36,950)**	**(40,034)**	**(48,217)**	**(57,748)**
Inventories	6,618	7,611	8,753	10,066
Sundry debtors	18,643	22,372	25,728	29,587
Other current assets	95,360	108,325	119,157	131,073
Sundry creditors	(143,282)	(161,909)	(182,957)	(206,742)
Other current liabilities	(14,289)	(16,432)	(18,897)	(21,732)
Cash	45,773	34,695	55,738	93,354
Total assets	**1,184,355**	**1,344,266**	**1,522,336**	**1,707,285**

Cash flow statement

Y/e 31 Mar (Rs mn)	FY14	FY15E	FY16E	FY17E
Profit before tax	62,843	80,668	92,387	103,967
Depreciation	39,957	49,928	58,789	67,136
Tax paid	(17,663)	(23,394)	(26,792)	(30,150)
Working capital Δ	9,275	3,084	8,183	9,531
Operating cashflow	94,411	110,286	132,567	150,484
Capital expenditure	(223,240)	(224,000)	(224,000)	(224,000)
Free cash flow	**(128,829)**	**(113,714)**	**(91,433)**	**(73,516)**
Equity raised	58,682	-	-	-
Debt financing/ disposal	111,620	112,000	123,200	123,200
Dividends paid	(15,667)	(16,624)	(19,039)	(21,425)
Other items	4,717	7,260	8,315	9,357
Net Δ in cash	**30,522**	**(11,078)**	**21,043**	**37,615**

Key ratios

Y/e 31 Mar	FY14	FY15E	FY16E	FY17E
Growth matrix (%)				
Revenue growth	19.4	23.1	15.2	12.9
Op profit growth	18.5	24.1	15.7	13.2
EBIT growth	15.9	22.8	14.3	12.4
Net profit growth	6.2	27.3	14.5	12.5
Profitability ratios (%)				
OPM	85.1	85.7	86.1	86.3
EBIT margin	62.1	61.9	61.4	61.1
Net profit margin	29.5	30.5	30.4	30.2
RoCE	8.7	9.2	9.3	9.2
RoNW	14.7	15.4	15.8	15.9
RoA	3.7	4.0	4.0	4.0
Per share ratios				
EPS	8.6	10.9	12.5	14.1
Dividend per share	2.6	2.7	3.1	3.5
Cash EPS	16.2	20.5	23.8	26.9
Book value per share	67.0	74.7	83.6	93.7
Valuation ratios				
P/E	15.2	12.0	10.4	9.3
P/CEPS	9.3	7.9	7.9	7.9
P/B	2.0	1.8	1.6	1.4
EV/EBIDTA	10.9	9.5	8.8	8.2
Payout (%)				
Dividend payout	34.8	29.0	29.0	29.0
Tax payout	28.1	29.0	29.0	29.0
Liquidity ratios				
Debtor days	45	44	43	44
Inventory days	16	15	15	15
Creditor days	343	315	309	309
Leverage ratios				
Interest coverage	3.0	3.3	3.3	3.3
Net debt / equity	2.1	2.2	2.2	2.1
Net debt / op. profit	5.6	5.3	5.1	4.9

Du-Pont Analysis

Y/e 31 Mar	FY14	FY15E	FY16E	FY17E
Tax burden (x)	0.72	0.71	0.71	0.71
Interest burden (x)	0.66	0.70	0.70	0.70
EBIT margin (x)	0.62	0.62	0.61	0.61
Asset turnover (x)	0.12	0.13	0.13	0.13
Financial leverage (x)	4.00	3.86	3.92	3.95
RoE (%)	**14.7**	**15.4**	**15.8**	**15.9**

Reliance Industries

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INDIA PRIVATE CLIENTS

Good times ahead

With flat earnings profile in the past three years, RIL stock has grossly underperformed the broader indices. However, over the next three years we expect RIL's EBIDTA from refining and petrochemicals business to double. E&P profitability should also improve on the back of gas price hike, gradual increase in production and traction in shale gas production. Retail business turned around in FY14 and profits are expected to grow at a decent pace in years to come. Improvement in earnings profile entails a valuation re-rating theme.

RIL GRMs to outperform global benchmarks

Incremental global demand for petroleum products and refining capacity additions are expected to keep pace with each other over the next couple of years. This would mean muted trend in global GRMs. For RIL though, we expect substantial improvement in GRMs leading to widening of its spread when compared with international benchmarks. The key drivers for this growth include 1) commencement of petcoke gasification project in FY17, which would replace expensive RLNG with gas produced from petcoke leading to incremental US$2/bbl GRM (management guidance of US$2.5/bbl), 2) efficient crude sourcing, 3) high complexity at its refineries allowing it to meet the rising demand for cleaner fuels and 4) amongst the lowest operating costs in the world.

Petrochemical segment to see strong traction

In recent times, petrochemical segment performance has been under pressure owing to weak domestic demand environment, rising feedstock prices and surplus capacity situation globally. While these are expected to correct in due course, RIL is doing its bit to garner further benefits from the revival in the cycle. It is expanding capacities across products and is also setting up a large off gas cracker. The cost dynamics of this cracker will be similar to gas based plants in Middle East. Resultantly, the margin profile of this plant would be substantially better than RIL's existing petrochemical assets.

Financial summary (Standalone)

Y/e 31 Mar (Rs mn)	FY14	FY15E	FY16E	FY17E
Revenues	3,901,170	4,093,217	4,236,264	4,454,038
yoy growth (%)	8.3	4.9	3.5	5.1
Operating profit	308,770	339,138	405,675	607,498
OPM (%)	7.9	8.3	9.6	13.6
Reported PAT	219,840	249,939	296,718	446,172
yoy growth (%)	4.7	13.7	18.7	50.4
EPS (Rs)	68.1	77.4	91.9	138.2
P/E (x)	14.6	12.8	10.8	7.2
Price/Book (x)	1.6	1.5	1.3	1.1
EV/EBITDA (x)	12.0	10.8	9.4	5.8
Debt/Equity (x)	0.4	0.4	0.4	0.4
RoE (%)	11.7	12.0	12.8	16.9
RoCE (%)	11.5	11.0	11.9	15.8

Source: Company, India Infoline Research

Rating:	BUY
Target (2-Years):	**Rs1,400**
CMP:	**Rs993**
Upside:	**41%**

Sector:	**Oil & Gas**
Sector view:	**Neutral**
Sensex:	26,443
52 Week h/l (Rs):	1145 / 764
Market cap (Rscr) :	321,241
6m Avg vol ('000Nos):	3,692
Bloomberg code:	RIL IS
BSE code:	500325
NSE code:	RELIANCE
FV (Rs):	10

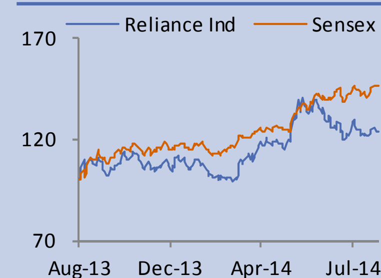
Price as on August 26, 2014

Company rating grid

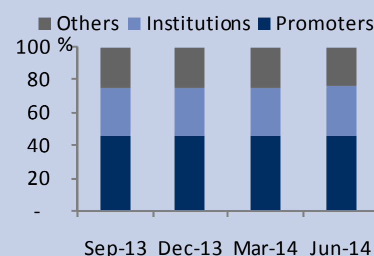
Low → High

	1	2	3	4	5
Earnings Growth				■	
Cash Flow				■	
B/S Strength				■	
Valuation appeal				■	
Risk		■			

Share price trend



Share holding pattern



Research Analyst:
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E&P segment will only get better

Domestic E&P business of RIL has seen pressure from all ends including 1) dwindling production rates, 2) delay in gas price hikes, 3) penalties in the form of disapproval of capex for cost recovery and 4) delays in budget approvals. Decline in production has been arrested and is likely to see a gradual increase (subject to timely government approvals). Price hike, while quantum is uncertain, will eventually come across. Pace of approvals is also expected to gather pace under the new government. Additional momentum for the business will arise from commencement in production from new conventional fields such as NEC-25 and CBM blocks. In the meanwhile, shale gas revenue has surpassed domestic E&P revenue and is gaining prominence in terms of RIL's E&P strategy.

Gas price hike, revival in production at KG-D6, commencement of production at CBM blocks and other new fields to improve performance of E&P segment

We would like to highlight the following facts:

1) E&P segment contributed only 1.3% of revenues in 9m FY14 and only 7.2% of the standalone EBIT. Even in the next couple of years the contribution is expected to remain at 2-2.5% for revenues and 10-14% for EBIT. This indicates low materiality of E&P segment to near term earnings for RIL.
2) Arbitration and gas price hike issues are only with regards to the KG-D6 block. RIL is slated to commence production from other key assets like NEC-25 and CBM blocks over the next couple of years.

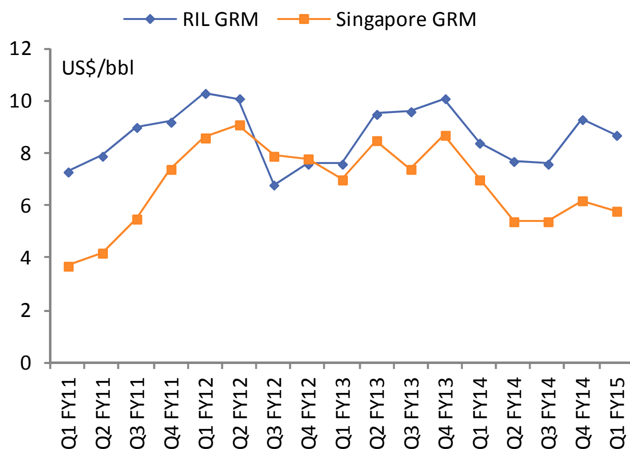
Current concerns are around the KG-D6 gas field only and it is currently not material to overall SOTP valuations

Retail business to grow in all aspects

Weak economic backdrop in the past couple of years has led to stress in India's organised retail industry. RIL, however, used this as an opportunity to cut flab by closing down loss making stores and getting into more lucrative segments. It is now well placed to gain substantially from the expected increase in penetration of organized retail in India. While costs have been cut, RIL has marginalized its stores enabling it to improve profitability. With a superior supply chain management, RIL has been able to outperform peers and is expected to gain further market share in years to come.

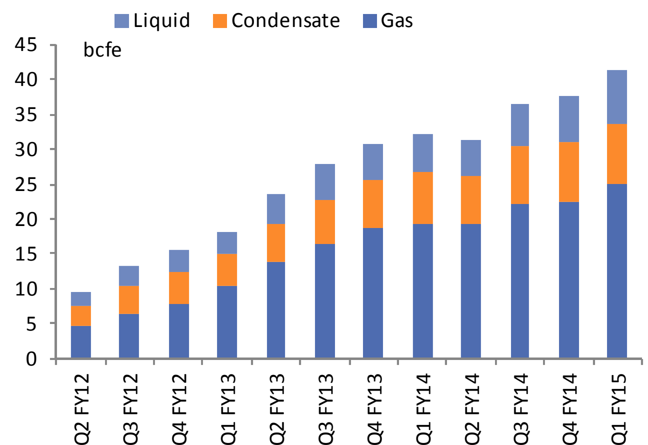
Retail business revenues and profitability to improve on the back of economic revival in the country

Steady outperformance of RIL GRMs to Singapore GRMs



Source: Company, India Infoline Research

Shale gas production continue to surge



Source: Company, India Infoline Research

Telecom segment's asset light strategy bodes well

In the recently concluded spectrum auction round, RIL bids were not too aggressive and the company acquired contiguous spectrum in 14 circles out of 15 circles with contiguous spectrum. The company will have to spend Rs110bn (33% upfront and remaining in 10 equal annual installments with two year moratorium) for the same. These investments are in addition to the Rs128bn paid to get pan-India Broadband Wireless Access (BWA) spectrum in FY11. Since then the company has followed an asset light strategy by entering into tower sharing agreements with Reliance Communications and Bharti Infratel. These agreements will have three pronged benefits 1) faster commencement of operations as compared to setting up all facilities organically, 2) market share gains at a faster clip and 3) reduced costs. While we expect the company to breakeven at the EBIDTA level by FY17E, profits at PAT level should arise only beyond FY20.

We expect RIL's telecom business to breakeven at the EBIDTA level by FY17E, profits at PAT level should arise only beyond FY20

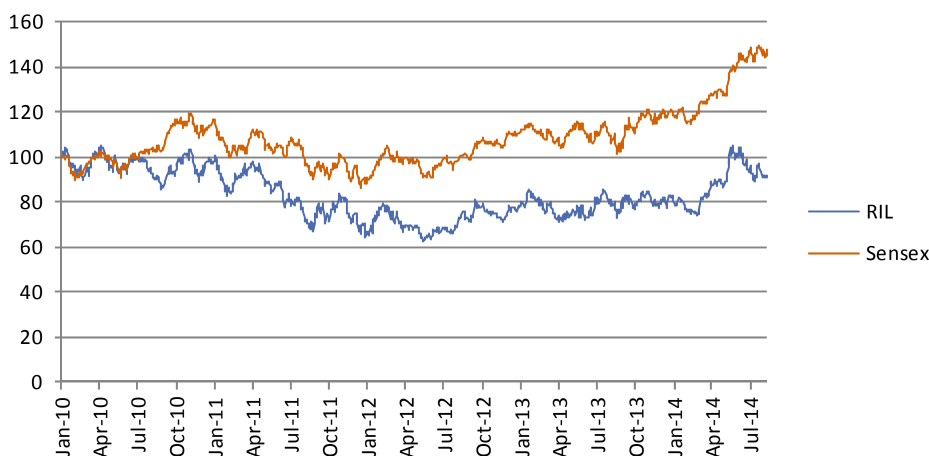
Trading below historical averages

Since January 2010, RIL stock price has fallen by 8.4% as compared to Sensex return of 47.4%. The gross underperformance was driven by risks to earnings as global economic slowdown impacted refining margins and petrochemical spreads. Furthermore, its E&P segment which was then (2009) expected to see significant growth in earnings contribution saw its profitability dwindle. However, over the next three years standalone earnings will grow meaningfully on the back of 1) slow but steady global economic recovery, 2) commencement of new value creating downstream projects of RIL and 3) recovery in E&P operations. In spite of the expected growth in earnings valuations are substantially below historical average. We maintain our BUY rating with a 2-year price target of Rs1,400.

Since January 2010, RIL stock price has fallen by 8.4% as compared to Sensex return of 47.4%

Revival in earnings trajectory to drive valuation re-rating closer to historical averages

Large underperformance compared to broader markets



Source: Bloomberg, India Infoline Research

Financials (Standalone)

Income statement

Y/e 31 Mar (Rs mn)	FY14	FY15E	FY16E	FY17E
Revenue	3,901,170	4,093,217	4,236,264	4,454,038
Operating profit	308,770	339,138	405,675	607,498
Depreciation	(87,890)	(89,967)	(99,999)	(127,980)
Interest expense	(32,060)	(18,096)	(19,096)	(20,096)
Other income	89,360	89,360	93,828	112,594
Profit before tax	278,180	320,435	380,408	572,015
Taxes	(58,340)	(70,496)	(83,690)	(125,843)
Adj. profit	219,840	249,939	296,718	446,172

Balance sheet

Y/e 31 Mar (Rs bn)	FY14	FY15E	FY16E	FY17E
Equity capital	32,490	32,490	32,490	32,490
Reserves	1,938,420	2,150,850	2,408,183	2,813,094
Net worth	1,970,910	2,183,340	2,440,673	2,845,584
Debt	854,810	904,810	954,810	1,004,810
Deferred tax liab (net)	122,150	122,150	122,150	122,150
Total liabilities	2,947,870	3,210,300	3,517,633	3,972,544
Fixed assets	1,511,220	1,619,623	1,919,625	1,941,644
Investments	860,620	910,620	960,620	1,010,620
Net working capital	209,790	237,936	271,524	306,143
Inventories	429,320	450,455	466,197	490,163
Sundry debtors	106,640	111,890	115,800	121,753
Other current assets	401,790	441,503	485,187	533,240
Sundry creditors	(686,290)	(720,075)	(745,239)	(783,550)
Other current liabilities	(41,670)	(45,837)	(50,421)	(55,463)
Cash	366,240	442,121	365,864	714,137
Total assets	2,947,870	3,210,300	3,517,633	3,972,544

Cash flow statement

Y/e 31 Mar (Rs bn)	FY14	FY15E	FY16E	FY17E
Profit before tax	278,180	320,435	380,408	572,015
Depreciation	87,890	89,967	99,999	127,980
Tax paid	(58,340)	(70,496)	(83,690)	(125,843)
Working capital Δ	(51,630)	(28,146)	(33,588)	(34,619)
Operating cashflow	256,100	311,761	363,128	539,533
Capital expenditure	(310,470)	(198,370)	(400,000)	(150,000)
Free cash flow	(54,370)	113,391	(36,872)	389,533
Equity raised	(13,496)	(0)	0	0
Investments	(335,530)	(50,000)	(50,000)	(50,000)
Debt financing/ disposal	309,580	50,000	50,000	50,000
Dividends paid	(35,634)	(37,510)	(39,385)	(41,261)
Other items	220	0	0	0
Net Δ in cash	(129,230)	75,881	(76,257)	348,272

Key ratios

Y/e 31 Mar	FY14	FY15E	FY16E	FY17E
Growth matrix (%)				
Revenue growth	8.3	4.9	3.5	5.1
Op profit growth	0.3	9.8	19.6	49.7
EBIT growth	5.8	9.1	18.0	48.2
Net profit growth	4.7	13.7	18.7	50.4
Profitability ratios (%)				
OPM	7.9	8.3	9.6	13.6
EBIT margin	8.0	8.3	9.4	13.3
Net profit margin	5.6	6.1	7.0	10.0
RoCE	11.5	11.0	11.9	15.8
RoNW	11.7	12.0	12.8	16.9
RoA	6.4	6.5	7.2	9.8
Per share ratios				
EPS	68.1	77.4	91.9	138.2
Dividend per share	9.6	10.1	10.6	11.1
Cash EPS	95.3	105.3	122.9	177.8
Book value per share	610.4	676.2	755.9	881.3
Valuation ratios				
P/E	14.6	12.8	10.8	7.2
P/CEPS	10.4	9.4	8.1	5.6
P/BV	1.6	1.5	1.3	1.1
EV/EBIDTA	12.0	10.8	9.4	5.8
Payout (%)				
Dividend payout	16.2	15.0	13.3	9.2
Tax payout	21.0	22.0	22.0	22.0
Liquidity ratios				
Debtor days	10.0	10.0	10.0	10.0
Inventory days	40.2	40.2	40.2	40.2
Creditor days	64.2	64.2	64.2	64.2
Leverage ratios				
Interest coverage	9.7	18.7	20.9	29.5
Net debt / equity	0.2	0.2	0.2	0.1
Net debt / op. profit	1.6	1.4	1.5	0.5

Du-Pont Analysis

Y/e 31 Mar	FY14	FY15E	FY16E	FY17E
Tax burden (x)	0.79	0.78	0.78	0.78
Interest burden (x)	0.9	0.9	1.0	1.0
EBIT margin (x)	0.1	0.1	0.1	0.1
Asset turnover (x)	1.1	1.1	1.0	1.0
Financial leverage (x)	1.8	1.8	1.8	1.7
RoE (%)	11.7	12.0	12.8	16.9

Tata Steel Ltd

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Ready for take off

Tata Steel has managed to get back on its growth trajectory over the last one year following improved performance in domestic business and a turnaround at operating level in Europe. We believe the turnaround in European operations would gain steam in FY15 led by a revival in European demand, impact of the various cost saving initiatives and subdued raw material prices. Domestic performance is expected to get better with the commissioning of the new plant at Kalinganagar. Domestic margins are expected to increase from current levels due to lower coking coal costs and higher production efficiency. Net debt is expected to decline 11% over FY14-17 on account of higher cash flows in India, European operations turning free cash flow positive from FY16, reducing capex intensity and company's persistent effort to unlock value by selling non-core assets. We believe Tata Steel would further witness some re-rating as the European recovery gains momentum. The SC ruling on coal blocks allocated post 1993 would not impact the company's earnings as mines were allocated prior to 1993. Tata Steel remains our preferred pick in the steel sector on the back of strong performance registered in the last one year and due to the various earnings driver for the company over the next two years. We recommend a BUY rating on the stock with a 2-year price target of Rs728.

Domestic operating profit to surge from H2 FY15

Tata Steel's domestic operations have been persistently delivering strong operational performance even though both the domestic as well as international demand scenario has been subdued. The company has managed to raise its steel sales from 6.6mn tons in FY12 to 8.5mn tons in FY14 led by the commissioning of the 2.9mtpa plant in FY14. Going forward, we expect a volume CAGR of 9.8% led by full utilisation of current capacities and the commissioning of the Kalinganagar plant by the end of FY15. EBIDTA/ton in FY14, which was flat on a yoy basis, is expected to improve due to lower coking coal prices, operational efficiencies, superior product mix and stable steel prices. Led by a combination of higher volumes and expansion in margins, we expect operating profit to jump 45.5% over FY14-17E.

Financial summary

Y/e 31 Mar (Rs m)	FY14	FY15E	FY16E	FY17E
Revenues	1,486,136	1,539,366	1,623,441	1,791,479
yoy growth (%)	10.3	3.6	5.5	10.4
Operating profit	163,833	185,495	212,202	246,288
OPM (%)	11.0	12.1	13.1	13.7
Pre-exceptional PAT	35,949	38,052	54,257	82,208
Reported PAT	35,949	64,302	54,257	82,208
yoy growth (%)	-	78.9	(15.6)	51.5
EPS (Rs)	37.0	39.2	55.9	84.6
P/E (x)	14.2	13.4	9.4	6.2
EV/EBITDA (x)	7.7	6.9	5.9	4.8
Debt/Equity (x)	1.9	1.7	1.5	1.2
RoE (%)	9.6	8.8	11.3	15.3
RoCE (%)	9.4	9.8	11.1	13.2

Source: Company, India Infoline Research

Rating: BUY

Target (2-years):	**Rs728**
CMP:	**Rs525**
Upside:	**38.7%**

Sector:	**Metals & Mining**
Sector view:	**Neutral**
Sensex:	26,443
52 Week h/l (Rs):	579 / 265
Market cap (Rscr) :	50,958
6m Avg vol ('000Nos):	6,731
Bloomberg code:	TATA IN
BSE code:	500470
NSE code:	TATASTEEL
FV (Rs):	10

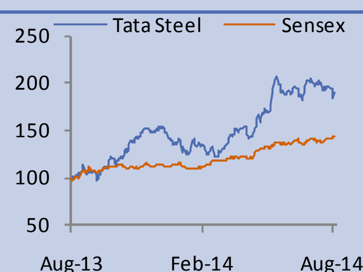
Price as on August 26, 2014

Company rating grid

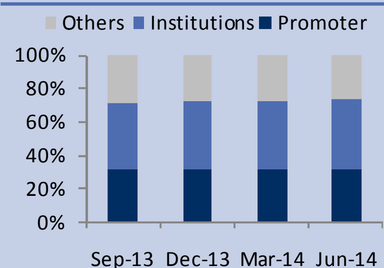
Low → High

	1	2	3	4	5
Earnings Growth				■	
Cash Flow				■	
B/S Strength		■			
Valuation appeal				■	
Risk		■			

Share price trend



Share holding pattern



Research Analyst:
Tarang Bhanushali
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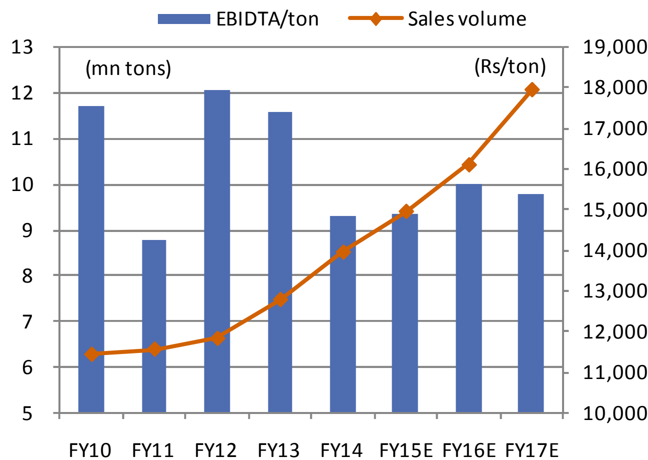
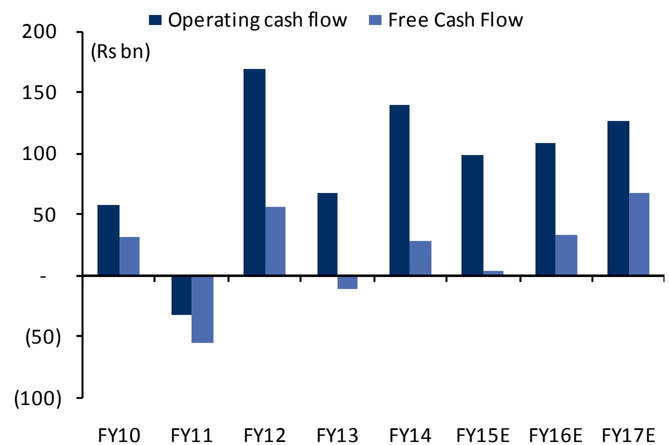
Volume growth to remain strong over FY14-17E



Source: Company, India Infoline Research

FCF to increase sharply due to declining capex intensity and jump in operating profit



Source: Company, India Infoline Research

European region turnaround gaining momentum

Steel demand in the European region has been gradually improving over the last one year. After registering a 10% yoy decline in 2012, steel consumption in Europe remained flat at -0.4% yoy in 2013. However in Q1 CY 2013, led by strong automobile sales and rising domestic consumption, steel consumption in the region increased 4.2% yoy, quite higher than market estimates. This has prompted Europe's steel association (EUROFER) in their latest quarterly update to up its steel consumption forecasts for CY14-15E vs its previous forecast released in January '14. The association now expects CY14 apparent steel consumption growth at 3.4% (vs 3.2% earlier) and CY15 at 3% (vs 2.9% earlier). It also mentions that European domestic demand is seen strengthening, primarily driven by a rebound in investment in machinery and equipment but also owing to a modest recovery of construction equipment. We believe that a stronger demand recovery provides upside risks to our estimate in FY16.

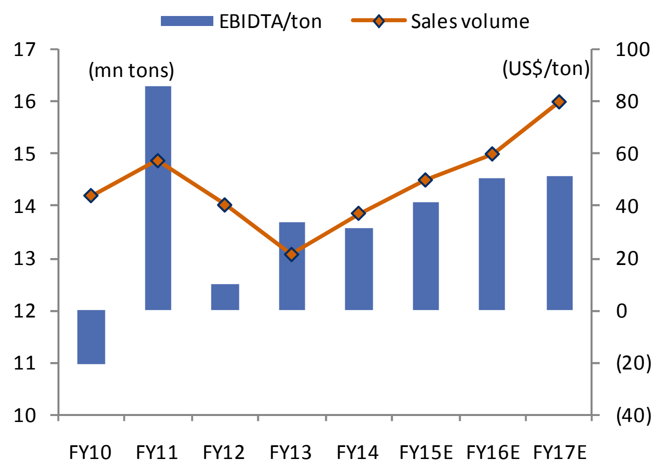
EUROFER expects CY14 apparent steel consumption growth at 3.4% (vs 3.2% earlier) and CY15 at 3% (vs 2.9% earlier).

European operations to turn FCF positive in FY16

The European operations over the last two years have managed to register positive EBIDTA/ton on account of the cost saving measures implemented by the company. The recovery has also been aided by a marginal improvement in the demand scenario in the region. European operations are expected to benefit from the sharp decline in raw material costs over the last one year. Spreads in the region have stayed high in Q1 FY15 as the decline in steel prices has been lower than the fall in raw material prices. Demand estimates for the region have been revised upwards over the last one quarter indicating the change in sentiment in the region. EBIDTA/ton from the European operations is expected to improve to US$50/ton in FY16 from US$31/ton in FY14 led by improvement in steel demand, higher steel spreads and rising volumes. As a result, we expect European operations to be FCF positive from FY16.

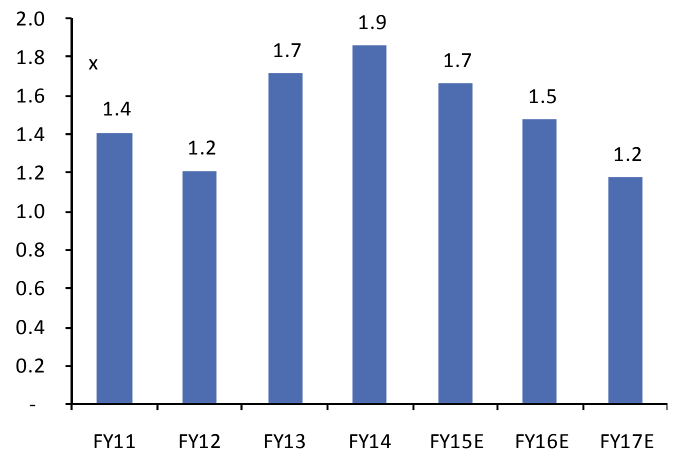
EBIDTA/ton from the European operations is expected to improve to US$50/ton in FY16 from US$31/ton in FY14 led by improvement in steel demand, higher steel spreads and rising volumes

EBIDTA/ton to improve to US$50/ton in FY16E



Source: Company, India Infoline Research

Net debt/equity to decline from 1.9x in FY14 to 1.2x in FY17E



Source: Company, India Infoline Research

Net debt to peak in FY15

Tata Steel's net debt has increased 46.7% over the period FY11-14 to Rs752bn due to the capex incurred in increasing its capacity by 2.9mtpa at Jamshedpur, Kalinganagar plant green field project and Port Talbrot modernisation. Debt has also increased due to the negative FCF at the European operations. The company has incurred a capex of Rs163bn till date out of the total capex of Rs250bn for the Kalingangar plant and has funded this mostly through internal accruals.

We believe that net debt would peak out in FY15 as a)the capex is expected to ease out from FY16, b)European subsidiary is expected to be FCF positive and c)incremental FCF from the domestic operations.

We believe that net debt would peak out in FY15 as a)the capex is expected to ease out from FY16, b)European subsidiary is expected to be FCF positive and c)incremental FCF from the domestic operations. The company's persistent effort to unlock value by selling non-core assets would also reduce debt for the company. Tata Steel, over the last one year, has announced asset sales in Tata International (Australia), land parcel at Borivali, Mumbai, and stake sale in Dhamra port. These three combined are expected to generate cash of ~Rs16bn in FY15 and would aid the company is reducing its debt. We expect net debt to decrease by 10.7% over the period FY14-17 to Rs673bn and net debt/equity to decline from 1.85x to 1.2x over the same period

Merger of subsidiary company has increased current value of investments to ~Rs94bn

Tata Steel merged its investment subsidiary (100%), Kalimati Investments, with itself in FY14. As a result, Tata Steel's holdings in some of the group companies/associate companies increased. The merger has resulted in the company getting a direct stake in Titan, apart from increased direct holding in few others such as Tata Power and Tata Motors. The company's holding in Tata Motors at current prices is now valued at ~Rs77bn, while Titan's holding stands at Rs13.4bn and Tata Power's holding is at Rs3.3bn. Current value of all the investments (excluding the stake in Tata Sons) stands at ~Rs94bn (Rs97/share). If we include the stake of Tata Sons, the value of investments per share increases to Rs239. However, we have not included the above value of investments in our target price calculation.

Current value of all the investments (excluding the stake in Tata Sons) stands at ~Rs94bn (Rs97/share) and if we include the stake of Tata Sons, the value of investments per share increases to Rs239

Financials

Income statement

Y/e 31 Mar (Rs mn)	FY14	FY15E	FY16E	FY17E
Revenue	1,486,136	1,539,366	1,623,441	1,791,479
Operating profit	**163,833**	**185,495**	**212,202**	**246,288**
Depreciation	(58,412)	(63,686)	(71,107)	(74,232)
Interest expense	(43,368)	(53,177)	(52,528)	(48,631)
Other income	5,168	6,202	6,822	7,504
Profit before tax	**67,221**	**74,834**	**95,389**	**130,929**
Taxes	(30,582)	(36,037)	(40,327)	(47,850)
Minorities and other	(691)	(746)	(806)	(870)
Adj. profit	**35,949**	**38,052**	**54,257**	**82,208**
Exceptional items	0	26,250	0	0
Net profit	**35,949**	**64,302**	**54,257**	**82,208**

Balance sheet

Y/e 31 Mar (Rs mn)	FY14	FY15E	FY16E	FY17E
Equity capital	9,714	9,714	9,714	9,714
Preference capital	200	0	0	0
Reserves	395,606	449,709	493,257	564,221
Net worth	**405,520**	**459,423**	**502,971**	**573,935**
Minority interest	17,377	17,004	16,601	16,166
Debt	838,837	818,835	808,833	748,831
Deferred tax liab (net)	25,958	26,477	27,006	27,547
Total liabilities	**1,287,691**	**1,321,739**	**1,355,412**	**1,366,479**
Fixed assets	812,057	883,808	902,701	898,469
Intangible assets	205,237	205,237	205,237	205,237
Investments	50,935	40,935	40,935	40,935
Deferred tax	408	408	408	408
Net working capital	**133,010**	**135,459**	**138,347**	**145,812**
Inventories	268,800	278,428	293,635	324,028
Sundry debtors	160,058	165,791	174,846	192,943
Other current assets	132,906	133,377	134,121	135,609
Sundry creditors	(304,855)	(315,774)	(333,021)	(367,491)
Other current liabilities	(123,898)	(126,362)	(131,233)	(139,278)
Cash	86,045	55,892	67,784	75,619
Total assets	**1,287,691**	**1,321,739**	**1,355,412**	**1,366,479**

Cash flow statement

Y/e 31 Mar (Rs mn)	FY14	FY15E	FY16E	FY17E
Profit before tax	67,221	74,834	95,389	130,929
Depreciation	58,412	63,686	71,107	74,232
Tax paid	(30,582)	(36,037)	(40,327)	(47,850)
Working capital Δ	(13,659)	(2,450)	(2,888)	(7,464)
Operating cashflow	81,392	100,034	123,282	149,846
Capital expenditure	(252,924)	(135,437)	(90,000)	(70,000)
Free cash flow	**(171,532)**	**(35,403)**	**33,282**	**79,846**
Equity raised	37,363	0	0	0
Investments	(18,358)	10,000	0	0
Debt financing/ disposal	155,331	(20,202)	(10,002)	(60,002)
Dividends paid	(9,713)	(10,199)	(10,709)	(11,244)
Other items	(5,643)	25,650	(679)	(765)
Net Δ in cash	**(12,552)**	**(30,153)**	**11,892**	**7,835**

Key ratios

Y/e 31 Mar	FY14	FY15E	FY16E	FY17E
Growth matrix (%)				
Revenue growth	10.3	3.6	5.5	10.4
Op profit growth	33.0	13.2	14.4	16.1
EBIT growth	53.1	15.8	15.5	21.4
Net profit growth	-	5.9	42.6	51.5
Profitability ratios (%)				
OPM	11.0	12.1	13.1	13.7
EBIT margin	7.4	8.3	9.1	10.0
Net profit margin	2.4	2.5	3.3	4.6
RoCE	9.4	9.8	11.1	13.2
RoNW	9.6	8.8	11.3	15.3
RoA	2.3	2.2	3.0	4.5
Per share ratios				
EPS	37.0	39.2	55.9	84.6
Dividend per share	10.0	10.5	11.0	11.6
Cash EPS	97.1	104.7	129.1	161.0
Book value per share	417.2	472.9	517.8	590.8
Valuation ratios				
P/E	14.2	13.4	9.4	6.2
P/CEPS	5.4	5.0	4.1	3.3
P/B	1.3	1.1	1.0	0.9
EV/EBIDTA	7.7	6.9	5.9	4.8
Payout (%)				
Dividend payout	27.0	26.8	19.7	13.7
Tax payout	45.5	48.2	42.3	36.5
Liquidity ratios				
Debtor days	39	39	39	39
Inventory days	66	66	66	66
Creditor days	75	75	75	75
Leverage ratios				
Interest coverage	2.6	2.4	2.8	3.7
Net debt / equity	1.9	1.7	1.5	1.2
Net debt / op. profit	4.6	4.1	3.5	2.7

Du-Pont Analysis

Y/e 31 Mar	FY14	FY15E	FY16E	FY17E
Tax burden (x)	0.53	0.51	0.57	0.63
Interest burden (x)	0.61	0.58	0.64	0.73
EBIT margin (x)	0.07	0.08	0.09	0.10
Asset turnover (x)	0.93	0.88	0.91	0.97
Financial leverage (x)	4.26	4.02	3.72	3.43
RoE (%)	**9.6**	**8.8**	**11.3**	**15.3**

IIFL Research won 3 awards at India's Best Market Analyst Awards 2013 by Zee Business for Banking, Oil & Gas and Pharma.

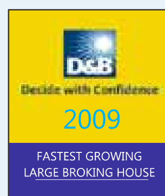
'Best Equity Broker of the Year' – Bloomberg UTV, 2011

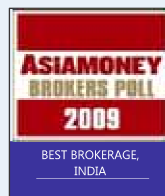
IIFL was awarded the 'Best Equity Broker of the Year' at the recently held Bloomberg UTV Financial Leadership Award, 2011. The award presented by the Hon'ble Finance Minister of India, Shri Pranab Mukherjee. The Bloomberg UTV Financial Leadership Awards acknowledge the extraordinary contribution of India's financial leaders and visionaries from January 2010 to January 2011.

'Best Broker in India' – Finance Asia, 2011

IIFL has been awarded the 'Best Broker in India' by Finance Asia. The award is the result of Finance Asia's annual quest for the best financial services firms across Asia, which culminated in the Country Awards 2011

Other awards





Recommendation parameters for fundamental reports:

Buy – Absolute return of over +15%

Accumulate – Absolute return between 0% to +15%

Reduce – Absolute return between 0% to -10%

Sell – Absolute return below -10%

Call Failure - In case of a Buy report, if the stock falls 20% below the recommended price on a closing basis, unless otherwise specified by the analyst; or, in case of a Sell report, if the stock rises 20% above the recommended price on a closing basis, unless otherwise specified by the analyst

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