

# Q2FY15 Results Review



**IndiaNivesh Securities Private Limited**

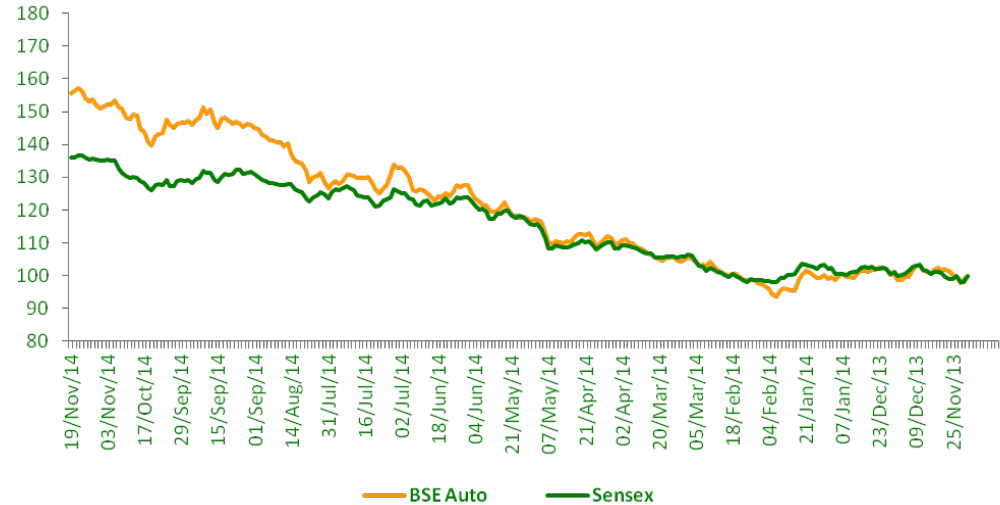
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# AUTO SECTOR

*Showing sign of recovery*

*Volumes rebounded on the back of improved consumer segment, Two wheeler and Three wheeler recorded double digit growth.*

*In the commercial vehicle segment LCV sales continued to show weakness while M&HCV sales show some sign of recovery led by better freight movement in agri, consumer durables and autos, housing construction material (in tier I-II cities).*



Sensex VS BSE Auto			
	1m	3m	12m
BSE Auto	8.3%	11.5%	55.5%
Sensex	6.2%	6.7%	36.0%

*higher marketing and advertisement expenses offset the benefit of higher operating leverage*

- Auto companies posted mixed set of numbers. Volumes rebounded on the back of improved consumer sentiment.
- Tata motors showed muted performance due to higher depreciation and higher tax provision mainly from JLR front. Maruti Suzuki posted strong set of number due to revival in volume and cost reduction initiatives. M&M showed moderation in automobile and tractor segment growth
- In two wheeler segment, Bajaj Auto and Hero Motocorp EBITDA margin contracted YoY due to higher marketing and advertisement expenses
- In Auto ancillaries, Exide Industries witnessed impressive 23 % YoY growth in top line which was offset by 228 bps EBITDA margin contractions and Swaraj Engines reported Q2FY15 numbers (Standalone) above expectations due to higher sales volume and capacity addition respectively.

## AUTO SECTOR (contd...)

### Q2FY15 Review

Company	Q2FY15			Margin %		Change in EBITDA margin (bps)		QoQ % Change			YoY % Change			Comments
	Sales	EBITDA	PAT	EBITDA	PAT	Q-o-Q	Y-o-Y	Sales	EBITDA	PAT	Sales	EBITDA	PAT	
Ashok Leyland	32,177	2,344	1,207	7.3	3.8	259.9	508.8	29.9	101.9	NA	26.2	318.6	NA	Margin improved due to better operating leverage
Bajaj Auto	59,631	11,268	5,909	18.9	9.9	128.2	-297.8	13.5	21.8	-20.1	15.2	-0.5	-29.4	EBITDA margin expanded QoQ. driven by higher net realization and favorable currency movement
Eicher Motor*	22,750	3,053	1,650	13.4	7.3	74.7	132.6	1.3	7.3	4.8	31.0	45.4	13.3	Consolidated operating performance above est. driven by VECV margin improvement. Royal Enfield strong performance continues.
Exide Ind	17,633	2,077	1,258	11.8	7.1	-344.5	-228.1	-7.8	-28.7	-30.3	23.1	3.2	6.0	Impressive 23 % YoY growth in top line which was offset by 228 bps EBITDA margin contraction
Hero Moto	69,153	9,348	7,634	13.5	11.0	5.7	-102.4	-1.7	-1.3	35.6	20.8	12.3	58.6	EBITDA margin contracted 102 bps YoY to 13.5 % due to higher raw material cost and other expenses.
M&M	95,438	10,093	9,467	10.6	9.9	-179.6	-224.7	-7.0	-20.5	7.4	6.9	-11.9	-4.3	Operating performance below estimate. Pressure on PBIT margins in both businesses auto and tractor.
Maruti Suzuki	123,038	15,208	8,625	12.4	7.0	67.9	-26.3	8.2	14.5	13.2	17.5	15.1	28.7	In line estimates EBITDA margin expanded 68 bps QoQ to 12.4% due to favorable currency movement and cost reduction initiative.
Tata Motors	605,642	95,665	32,909	15.8	5.4	-143.0	59.1	-6.4	-14.1	-39.0	6.5	10.6	-7.1	Higher depreciation and tax rate dented bottom line
TVS Motor	26,831	1,627	948	6.1	3.5	37.6	17.5	16.4	24.1	31.1	34.9	38.9	6.7	EBITDA margin Below est. due to adverse mix

Source: Company Filings; Indianivesh Research; \* Q3CY14, All standalone numbers except Eicher and Tata Motors

- In Q2FY15, growth in top-line was fueled by higher volume coupled with slight increase in realization.
- On the EBITDA margin front, almost all (except Ashok Leyland, Eicher Motors and r TVS) Auto related companies witnessed a contraction on YoY basis due to higher raw material cost along with higher marketing and advertisement expenses
- Though total sales of Maruti Suzuki jumped significantly in H1FY15(15% Growth YoY) management is cautious for sustainability of the growth in coming months and targeting 10% growth in FY15

## AUTO SECTOR (contd...)

### Valuation & Outlook

Company	Sales	EBITDA	PAT	Mcap	P/E(x)	M cap/Sales(x)	EBITDA%	NPM%	ROE %	CMP	Target Price	Rating
Name	FY16E	FY16E	FY16E	FY16E	FY16E	FY16E	FY16E	FY16E	FY16E	Rs.	Rs.	Recom.
	(Rs. Mn)	(Rs. Mn)	(Rs. Mn)	(Rs. Mn)								
Ashok Leyland	154635	14580	6260	150120	24	1.0	9.4	4.0	12.2	53	UR	Neutral
Bajaj Auto	250948	48063	41098	769543	19	3.1	19.2	16.4	33.3	2659	2840.0	Buy
Eicher Motors*	40527	10953	7585	394534	58	9.7	27.0	18.7	35.7	14557	UR	Neutral
Exide Industries	84989	13213	8362	132770	16	1.6	15.5	9.8	19.5	156	195	Buy
Hero MotoCorp	337307	54803	36624	602857	17	1.8	16.2	10.9	46.4	3019	3157	HoLD
Mahindra & Mahindra	906957	108362	57195	764037	13	0.8	11.9	6.3	20.7	1230	1212.0	Hold
Maruti Suzuki India	487937	53414	30374	1002000	33	2.1	10.9	6.2	18.1	3317	2522.0	sell
Tata Motors Company	3087347	501402	219899	1587032	8	0.5	16.2	7.1	23.1	529	UR	Neutral
TVS Motor Company	119308	8125	4627	110363	24	0.9	6.8	3.9	25.6	232	146.0	Sell
SKF India	29062	3914	2715	70767	26	2.4	13.5	9.3	15.4	1342	808.0	Hold
Swaraj Engines	7668	1226	915	11427	12	1.5	16.0	11.9	31.0	920	1184.0	Buy

Source: Company Filings; IndiaNivesh Research; CMP-20-11-2014; \* CY15E; All consolidated numbers except Ashok Leyland and Hero Motocorp

- We believe good governance and faster reform would lead to higher employment/ disposable income that will improve consumer sentiment. As consumer sentiments are improving, post general elections passenger vehicle demand has improved considerably. Lead indicators of CV industry such as freight rates, fleet operators' utilization are turning positive over the last few months. Recovery in two-wheeler industry continues with double digit growth led by scooters.
- We expect the new government would have more focus on rural employment and development. Thus we expect rural market to be a key source of sustained automotive demand in coming years. Rural demand and new launches would act as a positive trigger for two wheeler and PV segment. In two wheeler Scooter segment is likely to outperform Motorcycle.
- We believe long term volume outlook of auto companies remain positive driven by lower penetration rate, new product launches and exports potential.
- The recent rally in the auto sector in festive season has led to most companies trading at above or near their fair valuations, based on one-year forward multiples. Considering these, we maintain our neutral stance on the sector.

**Top Pick:** Bajaj auto would be beneficiary of increase in export sales. Exide industries would be benefited from higher capacity utilization due to revival in OEM's segment demand.

# BANKING & FINANCIAL SERVICES

Banks from our (INSPL) banking coverage universe reported much better credit growth of 13% y-o-y in Q2FY15 as compared to industry's 9.7%\* y-o-y credit growth. Deposits growth was ahead of credit growth as our banking universe reported 15% y-o-y growth in Q2FY15 as compared to industry's 13.4%\* y-o-y deposit growth. Private sector banks continue to outperform public sector banks (PSBs) in terms of overall business growth.

INSPL's PSBs and private sector banks universe delivered loan growth of 11% and 18% y-o-y, respectively. Among all the PSBs under our coverage, PNB/BOB reported the highest loan growth of 14% y-o-y led by overseas and agriculture advances whereas within private sector banks, DCB reported the highest loan growth of 32% y-o-y led by agriculture and mortgage advances.

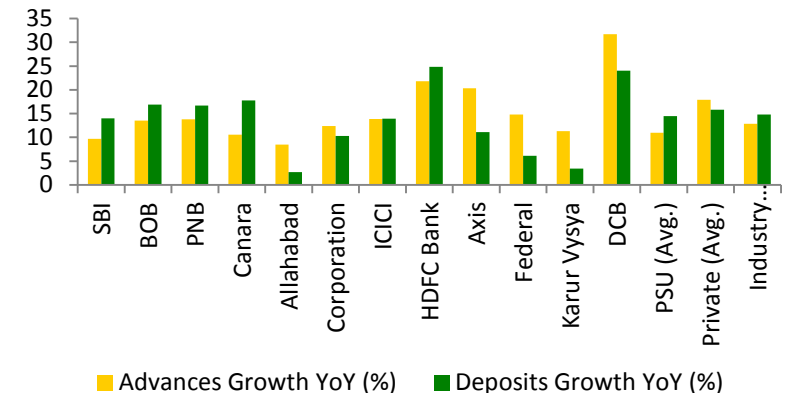
INSPL's PSBs and private sector banks universe reported deposit growth of 14% and 16% y-o-y, respectively. Within PSBs space, Canara reported the highest deposit growth of 18% y-o-y. Within private sector banks HDFC Bank continue to report the highest deposit growth of 25% y-o-y. The deposit growth was mainly led by the growth in retail term deposits.

Management of majority of the banks under our coverage indicated that the growth in advances book will continue to be driven by retail (home and auto loans) advances in H2FY15E while banks will continue to adopt cautious approach towards corporate loans and any fresh disbursements to large corporates will be only on selective basis. However, we expect lending to corporates may get some traction from Q4FY15 onwards.

## On track of recovery....

	Advances		Deposits	
	YoY (%)	QoQ (%)	YoY (%)	QoQ (%)
SBI	10	1	14	4
BOB	14	1	17	3
PNB	14	3	17	6
Canara	11	3	18	8
Allahabad Corporation	9	3	3	1
Corporation	12	0	10	1
<b>PSU</b>	<b>11</b>	<b>1</b>	<b>14</b>	<b>4</b>
ICICI	14	4	14	5
HDFC Bank	22	5	25	5
Axis	20	5	11	4
Federal	15	8	6	0
Karur Vysya	11	2	3	-1
DCB	32	6	24	3
<b>Private</b>	<b>18</b>	<b>5</b>	<b>16</b>	<b>4</b>
<b>Industry</b>	<b>13</b>	<b>2</b>	<b>15</b>	<b>4</b>

Source: Company Filings, IndiaNivesh Research



INSPL: IndiaNivesh Securities Private Limited; \* Outstanding as on September 19, 2014 as per RBI

## BANKING & FINANCIAL SERVICES (contd...)

### CASA ratio improved sequentially:

CASA ratio of INSPL's banking universe improved slightly by 9 bps q-o-q and stood at 34.8% in Q2FY15. However, it declined by 57 bps on y-o-y basis. Private banks continued to outperform their PSBs peers on CASA ratio front. Amongst our coverage, Axis bank and Allahabad bank reported the highest sequential CASA ratio growth of 300 bps and 115 bps to 45.0% and 32.7%, respectively.

### Healthy growth in NII and stable NIM:

The NIM of INSPL's banking universe was almost stable (muted sequentially and increased 4 bps y-o-y to 3.3%).

Private Sector Banks increased their NIM by 8 bps sequentially and stood at 3.9% whereas PSB's NIM contracted 6 bps sequentially to 2.9%. Federal Bank reported the highest sequential growth of 15 bps to 3.5%.

On the NII front, while Private sector banks reported a healthy performance with 19% y-o-y growth, PSBs witnessed much slower growth of 9% y-o-y due to elevated asset quality pressures. Within private banking space, DCB reported the highest growth of 29% y-o-y (due to low base) whereas among PSBs, BOB reported 17% y-o-y growth (due to healthy advances growth).

We expect NIMs of PSBs to improve slowly and steadily in H2FY15E due to gradual improvement in asset quality. Banks with stable CASA are better positioned to sustain their NIMs.

	CASA Ratio (%)				
	Q2FY15	Q2FY14	YoY (bps)	Q1FY15	QoQ (bps)
SBI	42.8	43.6	-79	43.5	-71
BOB	31.9	32.7	-76	31.3	56
PNB	36.2	38.5	-231	36.8	-55
Canara	23.7	25.6	-192	24.2	-44
Allahabad Corporation	32.7	31.2	152	31.5	115
	18.9	18.8	13	18.4	50
<b>PSU</b>	<b>32.4</b>	<b>33.3</b>	<b>-90</b>	<b>32.6</b>	<b>-21</b>
ICICI	43.7	43.3	40	43.0	70
HDFC Bank	43.2	45.0	-185	43.0	16
Axis	45.0	43.0	200	42.0	300
Federal	30.6	30.7	-16	29.4	112
Karur Vysya	21.8	19.2	260	21.0	80
DCB	25.5	26.9	-146	25.4	8
<b>Private</b>	<b>41.9</b>	<b>41.6</b>	<b>30</b>	<b>41.0</b>	<b>97</b>
<b>Industry</b>	<b>34.8</b>	<b>35.4</b>	<b>-57</b>	<b>34.7</b>	<b>9</b>

Source: Company Filings, IndiaNivesh Research

## BANKING & FINANCIAL SERVICES (contd...)

	NII (Rs mn)					NIM (%)				
	Q2FY15	Q2FY14	YoY (%)	Q1FY15	QoQ (%)	Q2FY15	Q2FY14	YoY (bps)	Q1FY15	QoQ (bps)
SBI	132,746	121,907	9	132,522	0	3.1	3.2	-7	3.1	-2
BOB	34,011	28,948	17	33,283	2	2.4	2.3	8	2.4	5
PNB	41,512	40,155	3	43,797	-5	3.2	3.5	-29	3.4	-24
Canara	23,678	21,912	8	24,293	-3	2.2	2.2	2	2.3	-6
Allahabad	15,042	13,091	15	16,097	-7	3.1	2.8	30	3.3	-20
Corporation	9,831	9,099	8	9,442	4	2.0	2.0	-4	1.9	7
<b>PSU (Total)</b>	<b>256,820</b>	<b>235,111</b>	<b>9</b>	<b>259,434</b>	<b>-1</b>	<b>2.9</b>	<b>3.0</b>	<b>-7</b>	<b>3.0</b>	<b>-6</b>
ICICI	46,566	40,435	15	44,919	4	3.4	3.3	11	3.4	2
HDFC Bank	55,110	44,765	23	51,716	7	4.5	4.3	20	4.4	10
Axis	35,249	29,367	20	33,105	6	4.0	3.8	18	3.9	9
Federal	6,058	5,484	10	5,642	7	3.5	3.4	10	3.3	15
Karur Vysya	3,374	2,984	13	3,400	-1	2.7	2.5	18	2.7	-6
DCB	1,177	913	29	1,390	-15	3.7	3.7	4	3.7	1
<b>Private (Total)</b>	<b>147,534</b>	<b>123,947</b>	<b>19</b>	<b>140,172</b>	<b>5</b>	<b>3.9</b>	<b>3.8</b>	<b>18</b>	<b>3.9</b>	<b>8</b>
<b>Industry (Total)</b>	<b>404,354</b>	<b>359,058</b>	<b>13</b>	<b>399,606</b>	<b>1</b>	<b>3.3</b>	<b>3.2</b>	<b>4</b>	<b>3.3</b>	<b>0</b>

Source: Company Filings, IndiaNivesh Research

## BANKING & FINANCIAL SERVICES (contd...)

### Higher treasury income helped other income to grow:

Other Income increased 23% y-o-y for INSPL's banking universe led by higher treasury income. The y-o-y growth in treasury income was mainly due to lower base on the treasury side in Q2FY14. The RBI came out with a number of regulations last year which led to a spike in yields and as a result, banks had booked heavy treasury losses / minimal gain. However, there were two exceptions. Allahabad Bank and Corporation Bank. Allahabad reported 26% y-o-y de-growth as it booked income of Rs 3.5 bn from sale of assets to ARCs in Q2FY14.

### Asset quality continued to deteriorate sequentially, albeit at a much slower pace :

Asset quality continued to deteriorate further in Q2FY15. However, it was at a much slower pace as compared to the past few quarters. The private sector banks continue to maintain better asset quality and performed relatively much better as compared to PSBs.

Gross NPA of PSBs and private sector banks increased 6 bps and 4 bps sequentially and stood at 4.7% and 2.3%, respectively. Within our banking universe, Corporation Bank's asset quality deteriorated the most as it reported 49 bps q-o-q increase in its Gross NPA to 4.5%. On the other hand, Federal Bank surprised positively with decline of 12 bps and 2 bps q-o-q in its Gross and Net NPA to 2.1%. And 0.7%, respectively.

Provision Coverage Ratio (PCR) was almost stable sequentially for both PSBs and private sector banks universe. However, Allahabad Bank's PCR increased to 55% in Q2FY15 from 50% in Q1FY15.

	Other Income (Rs mn)				
	Q2FY15	Q2FY14	YoY (%)	Q1FY15	QoQ (%)
SBI	45,708	33,386	37	42,521	7
BOB	9,917	9,739	2	10,245	-3
PNB	15,584	8,993	73	12,364	26
Canara	10,213	7,730	32	10,269	-1
Allahabad	5,156	6,960	-26	4,689	10
Corporation	2,889	3,397	-15	3,616	-20
<b>PSU (Total)</b>	<b>89,466</b>	<b>70,204</b>	<b>27</b>	<b>83,705</b>	<b>7</b>
ICICI	27,384	21,665	26	28,498	-4
HDFC Bank	20,471	18,444	11	18,506	11
Axis	19,476	17,661	10	16,911	15
Federal	1,959	1,434	37	1,565	25
Karur Vysya	1,360	1,062	28	1,180	15
DCB	370	273	36	345	7
<b>Private (Total)</b>	<b>71,019</b>	<b>60,538</b>	<b>17</b>	<b>67,004</b>	<b>6</b>
<b>Industry (Total)</b>	<b>160,485</b>	<b>130,742</b>	<b>23</b>	<b>150,709</b>	<b>6</b>

Source: Company Filings, IndiaNivesh Research



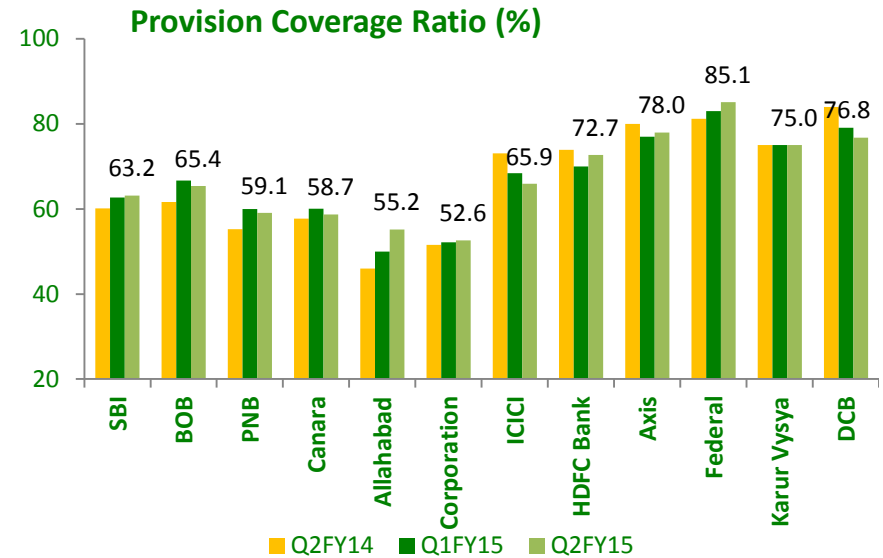
## BANKING & FINANCIAL SERVICES (contd...)

	GNPA (%)				
	Q2FY15	Q2FY14	YoY (bps)	Q1FY15	QoQ (bps)
SBI	4.9	5.6	-75	4.9	-2
BOB	3.4	3.2	23	3.1	27
PNB	5.7	5.1	51	5.5	17
Canara	2.9	2.6	28	2.7	25
Allahabad	5.4	4.9	42	5.5	-12
Corporation	4.5	3.2	128	4.0	49
<b>PSU (Avg.)</b>	<b>4.7</b>	<b>5.0</b>	<b>-27</b>	<b>4.6</b>	<b>6</b>
ICICI	3.1	3.1	4	3.1	7
HDFC Bank	1.0	1.1	-10	1.1	-7
Axis	1.3	1.2	15	1.3	0
Federal	2.1	3.4	-129	2.2	-12
Karur Vysya	1.4	1.6	-19	1.3	6
DCB	1.9	3.4	-153	1.8	12
<b>Private (Avg.)</b>	<b>2.3</b>	<b>2.5</b>	<b>-11</b>	<b>2.3</b>	<b>4</b>
<b>Industry (Avg.)</b>	<b>4.4</b>	<b>4.6</b>	<b>-26</b>	<b>4.3</b>	<b>6</b>

	NNPA (%)				
	Q2FY15	Q2FY14	YoY (bps)	Q1FY15	QoQ (bps)
SBI	2.7	2.9	-19	2.7	7
BOB	1.7	1.9	-12	1.6	16
PNB	3.3	3.1	19	3.0	24
Canara	2.3	2.3	1	2.0	28
Allahabad	3.5	3.8	-29	3.9	-34
Corporation	2.9	2.2	72	2.7	21
<b>PSU (Avg.)</b>	<b>2.7</b>	<b>2.8</b>	<b>-6</b>	<b>2.7</b>	<b>9</b>
ICICI	1.1	0.9	24	1.0	10
HDFC Bank	0.3	0.3	0	0.3	0
Axis	0.4	0.4	7	0.4	0
Federal	0.7	1.0	-32	0.7	-2
Karur Vysya	0.6	0.5	8	0.5	6
DCB	1.1	0.9	21	1.0	10
<b>Private (Avg.)</b>	<b>0.8</b>	<b>0.7</b>	<b>15</b>	<b>0.7</b>	<b>8</b>
<b>Industry (Avg.)</b>	<b>2.6</b>	<b>2.7</b>	<b>-8</b>	<b>2.5</b>	<b>8</b>

Source: Company Filings, IndiaNivesh Research



Source: Company Filings, IndiaNivesh Research

During Q2FY15, fresh addition to restructuring books for PSBs and private sector banks declined sequentially. Amongst our coverage, SBI witnessed the highest restructuring during the quarter at Rs 35 bn (Rs 36 bn)\* followed by PNB at Rs 33 bn (Rs 15 bn)\* and Canara Bank at Rs 9 bn (Rs 14 bn)\*.

\*figures in brackets () are of Q1FY15

We sense that going forward, given the stress in the economy, the increase in addition of restructuring advances may continue in H2FY15E for both PSBs and private sector banks.

Overall, there will be gradual improvement in asset quality for the entire banking system in H2FY15E. However, private sector banks continue to maintain better asset quality as they have better credit standards and their focus on retail lending as compared to their nationalized counterparts.

## BANKING & FINANCIAL SERVICES (contd...)

### Earnings divergence continues:

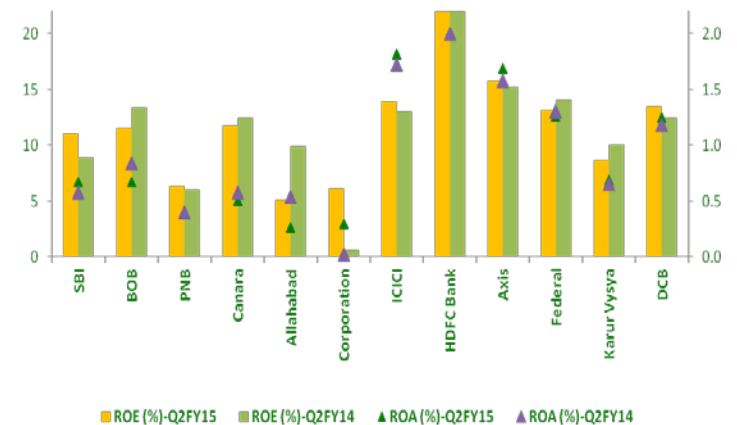
Pre Provisioning Profit (PPP) of our INSPL banking universe grew 20% y-o-y (stable growth of 19% y-o-y in private sector banks and 21% y-o-y in PSBs) led by low base of Q2FY14. Net profit of INSPL banking universe improved 16% y-o-y led by 15% y-o-y growth in PSBs and 17% y-o-y growth in private sector banks. However, provision expenses of PSBs increased 14% y-o-y led by high base due to significant increase in provisioning expenses in FY14.

ROE and ROA of our universe was stable on y-o-y basis at 12% and 1% respectively. Banks with superior ROE / ROA profile include HDFC bank (23% / 2%), Axis Bank (16% / 1.7%) and ICICI Bank (13% / 1.8%) in Q2FY15.

	Pre Pro. Profit (Rs mn)			Provisions (Rs mn)			Net Profit (Rs mn)		
	Q2FY15	Q2FY14	YoY (%)	Q2FY15	Q2FY14	YoY (%)	Q2FY15	Q2FY14	YoY (%)
SBI	84,219	63,117	33	42,750	30,287	41	31,004	23,750	31
BOB	24,029	21,090	14	8,880	8,608	3	11,042	11,681	-5
PNB	28,760	25,348	13	17,679	18,987	-7	5,753	5,055	14
Canara	16,255	14,250	14	8,137	6,740	21	6,268	6,259	0
Allahabad	11,567	11,535	0	7,300	7,422	-2	1,414	2,758	-49
Corporation	6,380	6,643	-4	5,204	6,998	-26	1,605	155	937
<b>PSU (Total)</b>	<b>171,211</b>	<b>141,984</b>	<b>21</b>	<b>89,950</b>	<b>79,043</b>	<b>14</b>	<b>57,088</b>	<b>49,658</b>	<b>15</b>
ICICI	46,979	38,879	21	8,495	6,248	36	27,090	23,521	15
HDFC Bank	40,602	33,867	20	4,559	3,859	18	23,815	19,823	20
Axis	31,623	27,498	15	7,250	6,875	5	16,107	13,623	18
Federal	4,098	3,539	16	457	110	316	2,403	2,258	6
Karur Vysya	2,071	1,568	32	931	1,185	-21	905	829	9
DCB	598	401	49	137	70	96	411	331	24
<b>Pvt. (Total)</b>	<b>125,971</b>	<b>105,752</b>	<b>19</b>	<b>21,830</b>	<b>18,347</b>	<b>19</b>	<b>70,731</b>	<b>60,385</b>	<b>17</b>
<b>Ind. (Total)</b>	<b>297,182</b>	<b>247,735</b>	<b>20</b>	<b>111,780</b>	<b>97,390</b>	<b>15</b>	<b>127,818</b>	<b>110,043</b>	<b>16</b>

Source: Company Filings, IndiaNivesh Research

### ROE / ROA (%)



Source: Company Filings, IndiaNivesh Research

## BANKING & FINANCIAL SERVICES (contd...)

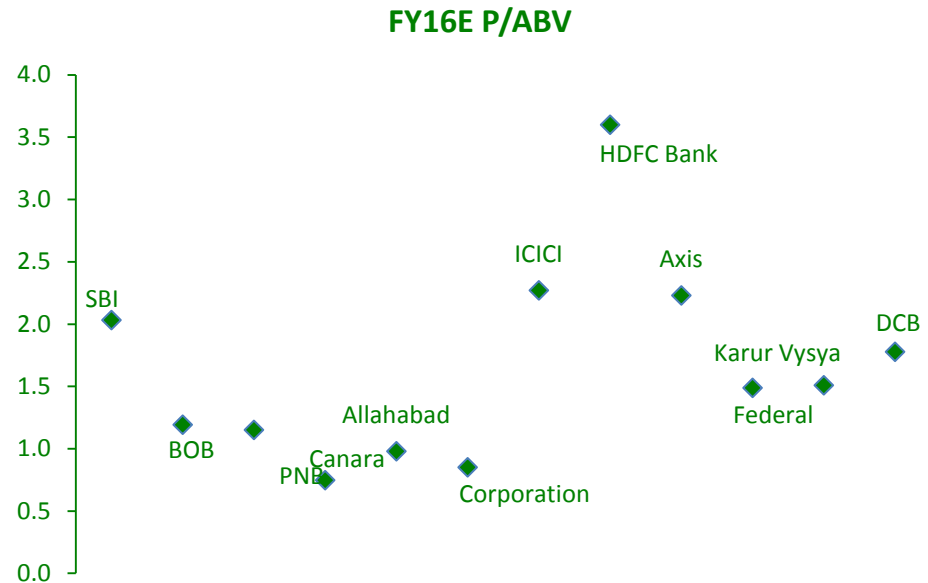
### Valuation and recommendation:

Private sector banks continue to outperform PSBs despite the stress in the economy. Asset quality concerns for PSBs continues barring SBI and BOB where the fresh impairments have stabilised. However private sector banks continue to maintain their asset quality. On operating front, Private sector banks continues to do well while PSBs was helped by low base of last year.

From a cyclical perspective, improvement in the macro environment is likely to benefit all banks. However, we maintain our cautious stance on some of the PSBs, given the asset quality concerns. With significant increase in stock price on back of expectation of rate cut, valuations of most of the stocks from our banking universe have reached their fair valuation. Hence we have hold rating on most of them barring SBI, BOB, Federal and KVB where we have a BUY rating .

	P/ABV (x)		CMP (Rs.)	Recom	Target
	FY15E	FY16E	Latest		Price (Rs.)
SBI	2.3	2.0	297	<b>BUY</b>	323
BOB	1.4	1.2	1,026	<b>BUY</b>	1,118
PNB	1.3	1.2	953	HOLD	827
Canara	0.8	0.7	393	HOLD	383
Allahabad	1.0	1.0	118	<b>SELL</b>	87
Corporation	0.9	0.9	328	NR	NR
ICICI	2.5	2.3	1,688	HOLD	1,751
HDFC Bank	4.3	3.6	918	HOLD	910
Axis	2.6	2.2	467	HOLD	450
Federal	1.6	1.5	142	<b>BUY</b>	153
Karur Vysya	1.6	1.5	527	<b>BUY</b>	620
DCB	2.0	1.8	104	HOLD	88

Source: Bloomberg, IndiaNivesh Research; NR: Not Rated; CMP as of Nov. 20, 2014



Source: IndiaNivesh Research

## BANKING & FINANCIAL SERVICES (*contd...*)

*FINANCIAL SERVICES: Healthy Performance continues.. |  
Top Pick: CFL and CARE*

**Given the diversified business models of stocks under our coverage, we have discussed them individually.**

### **Max India**

- Consolidated total revenues of the Max India increased by 47% yoy (-11% qoq) to Rs 32.9 bn. Total revenues include investment gains of Rs 3.93 bn in Max Life insurance which was booked in Q2FY15 as against Rs 13.6 bn in Q1FY15 and loss of Rs 2 bn in Q2FY14. Consolidated EBITDA grew by 46% yoy to Rs 1420 mn and consolidated EBITDA margins were at 3.9% for Q1FY15.
- Healthcare business has also delivered healthy growth of 24% yoy to Rs 4.4 bn in Q2FY15 led by strong growth of 51% yoy in new hospitals revenue while existing hospital also grew reasonably by 17% yoy. Contribution margin was stable qoq to 62% while EBITDA margins improved to 10.3% vs 9.7% in Q1FY15.

### **LIC Housing Finance Limited (LICHFL)**

- Loan book of LIC housing finance grew by 17% yoy which is inline with our expectation with individual loan book growth of 18% yoy and project loan book was down 5% yoy. Out of the total loan book, Individual loan book constitutes 93.5% to loan book, LAP is 4% and Project loan at 2.5%.
- NIMs (calc) of LIC housing was also inline with expectation at 2.2%, up 4 bps qoq. This was largely led by increase in Yields by 13 bps qoq to 10.9%. Net interest income was at Rs 5.3 bn.
- Asset quality of LIC housing improved as Gross and Net NPA improved by 18 and 15 bps qoq to 0.63% and 0.33% respectively. Gross NPA in individual loan was stable qoq at 0.38% (0.46% in Q2FY14) and project loan Gross NPA has improved to Rs 2.5 bn from Rs 3.9 bn in Q1FY15 mainly led by recovery of one project loan account of Rs 1.3 bn.

## BANKING & FINANCIAL SERVICES (*contd...*)

### **Bajaj Finance Limited**

- AUM growth was ahead of expectation at 41% yoy (4% qoq) to Rs 280 bn led by strong growth in SME segment growth of 54% yoy (5% qoq) to Rs 145 bn and Consumer segment growth of 33% yoy (3% qoq) to Rs 110.7 bn. Disbursements growth was also equally strong at 50.3% yoy (down 16% qoq) to Rs 78.2 bn. Consumer financing segment has delivered growth of 52% yoy (down 18% qoq) and SME of 55% yoy (down 14% qoq).
- Net interest income was ahead of our expectation at Rs 6.3 bn (vs Rs 6.5 bn est.), up 27% yoy. Net Interest Margins declined by 156 bps qoq to 9.1% as against our expectation of 120 bps qoq decline
- Asset quality of BFL was impacted due to NPA from one infra account of Rs 500 mn. As a result, Gross and Net NPA increased by 28 and 21 bps qoq respectively to 1.41% and 0.48% vs 1.13% and 0.27% in Q1FY15. However adjusted for one NPA account, asset quality would have been stable on qoq basis. Provision coverage ratio has come down to 67% vs 76% in Q1FY15.

### **L&T Finance Holdings Limited**

- LTFH's loan book was strong at 21% yoy led by strong growth in housing finance business (recently acquired) which grew by 213% yoy (17% qoq) to Rs 24.6 bn and Infra financing business which grew by 24% yoy to Rs 197 bn while L&T Finance (which includes all retail business) grew by 10% yoy (stable qoq) to Rs 206.4 bn
- On consolidated basis, Asset quality improved with decline of 61 / 67 bps qoq in Gross / Net NPA to 3 % / 2%. In absolute terms, both have declined by 14% / 22% qoq to Rs 12.2 / Rs 8.2 bn.
- Net interest margins (rep) on consolidated basis was up by 52 bps qoq to 6.1% largely driven by margin expansion on back of higher recoveries and prepayments. NIMs (rep) of L&T Infra were up by 16 bps qoq to 4.4%.

## BANKING & FINANCIAL SERVICES (*contd...*)

### **Credit Analysis and Research Limited (CARE)**

- Despite sluggish growth in bank credit, CARE's income from operations increased 14% y-o-y to Rs 743 mn mainly backed by higher income from surveillance cases.
- EBITDA grew 8% y-o-y to Rs 515 mn mainly due to higher operating expenses.
- However, other income surprised positively which helped net profit to grow 50% y-o-y to Rs 524 mn.
- CARE continues to enjoy one of the best profitability margins (69.4% of EBITDA margin) and (54.1% of net profit margin) among the listed peers.

### **Capital First Limited (CFL)**

- CFL continues to report strong set of numbers in Q2FY15 as Net Interest Income (NII) of CFL increased at a robust pace of 55% y-o-y (+13% q-o-q) to Rs 1.5 bn.
- Pre Provisioning Profit (PPP) increased 155% y-o-y (+14% q-o-q) to Rs 612 mn (our estimate: 588 mn). The sharp increase in y-o-y growth of PPP was also the result of change in accounting policy from FY14.
- Net profit of CFL increased 18% q-o-q to Rs 259 mn. The company reported net loss of Rs 240 mn in the Q2FY14 as the company closed down its loss making broking business in Q2FY14 and as a result it had to book a loss of Rs 315 mn under the head of exceptional items. However, if we adjust that one-off transaction, adjusted net profit of CFL increased 245% y-o-y.
- CFL successfully continue to maintain its asset quality at one of the lowest levels in the industry. Gross NPA of the company increased marginally 2 bps q-o-q to 0.56% and Net NPA reduced 8 bps to 0.01% in Q2FY15.

## BANKING & FINANCIAL SERVICES (contd...)

### Valuation

	P/ABV (x)		CMP (Rs.)	Recom	Target Price
	FY15E	FY16E	Latest		(Rs.)
LIC Housing	2.5	2.1	407	HOLD	380
Bajaj Finance	3.3	2.7	3,116	HOLD	2,855
L&T Finance*	1.8	1.6	72	<b>BUY</b>	80
Max India*	3.4	3.1	403	HOLD	367
CARE	12.8	10.4	1,449	<b>BUY</b>	1,551
CFL	2.4	2.0	352	<b>BUY</b>	400

Source: Bloomberg, IndiaNivesh Research; \*Consolidated; CMP as of Nov. 20, 2014

### Outlook:

NBFCs under our coverage universe have delivered reasonable performance despite current challenging macro environment. Bajaj Finance and Capital First continue to outperform in terms of growth followed by reasonable performance by LIC housing and L&T Finance. We believe that the growth momentum of these NBFCs like Bajaj Finance, Capital First and LIC housing finance are likely to continue with gradual improvement in assets quality of L&T Finance in H2FY15.

Max India's performance was ahead of expectation led by higher investment income in life insurance segment. Gross written premium growth was ahead of expectation and likely to improve gradually in H2FY15. CARE ratings Q2FY15 performance was slightly better than our expectations. We are positive on huge long term opportunities for the credit rating sector on the back of development in Indian debt market over next two to three years and we believe that CARE ratings is the best pick among all listed rating agencies.

Within our NBFCs universe, we have hold rating on Bajaj Finance, LIC Housing and MAX India. Our preferred picks in this segment remains Capital First and CARE where we have a buy rating.

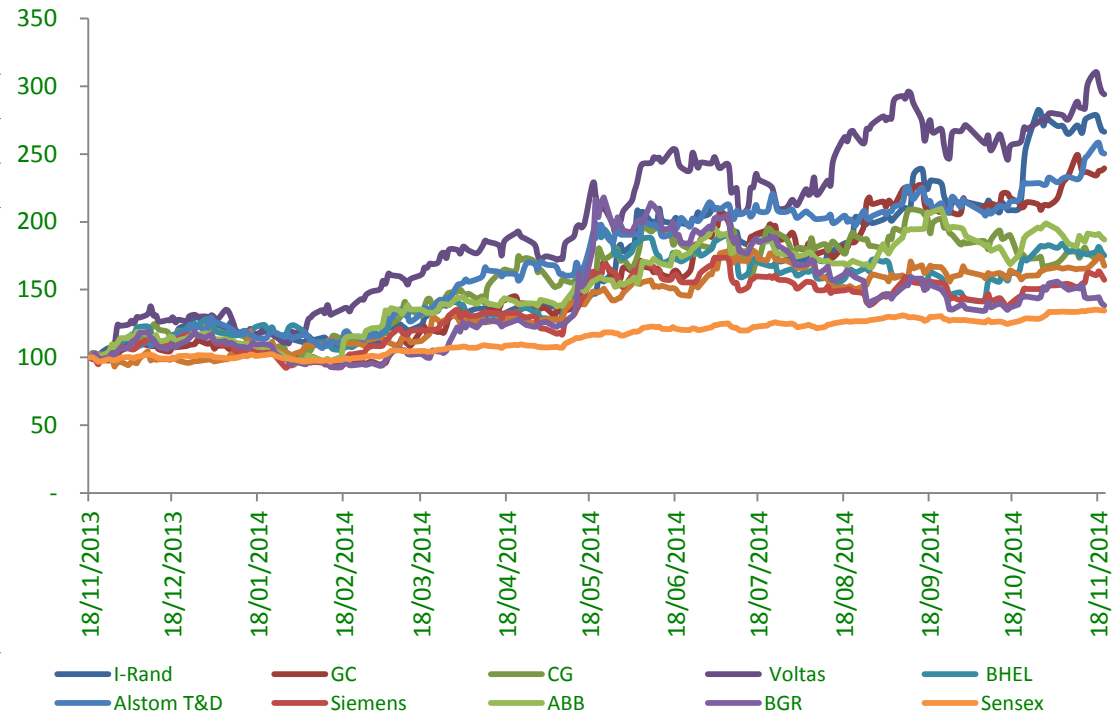
# CAPITAL GOODS SECTOR

*Capital Goods stocks running ahead of actual economic revival*

*CG stocks from our coverage in last 1-year have delivered 34.5%-191% returns vs. 36% returns for Sensex*

Cap-Good stocks Vs Sensex			
	1m	3m	12m
<b>Sensex</b>	<b>6.2%</b>	<b>6.7%</b>	<b>36.0%</b>
I-Rand	27.4%	44.5%	162.3%
GC	12.1%	29.3%	144.0%
CG	3.3%	-4.6%	79.2%
Voltas	14.0%	10.6%	191.0%
BHEL	7.8%	6.4%	74.1%
KOIL	5.1%	14.2%	77.2%
Alstom T&D	15.8%	23.8%	148.4%
Siemens	8.9%	4.6%	59.4%
ABB	6.8%	10.1%	81.3%
BGR	-0.2%	-14.7%	34.5%

Source: BSE, IndiaNivesh Research



Capital Goods stocks under our coverage have given impressive 34.5%-191% (vs. 36% Sensex returns) absolute returns in the last 1-year. Most of the stocks in CG sector has risen mainly on hope of capex cycle revival rather than the actual financial performance by the individual companies.

We believe for capital goods stocks to advance from current levels, actual ground reality turnaround and financial performance of individual companies will matter more.

Within capital goods space we remain positive on companies serving the power transmission sector.



## CAPITAL GOODS SECTOR (*contd...*)

### What was recent quarter performance in Capital Goods (CG) Sector?

Q2FY15 performance for companies in Cap Goods sector has been a mix bag.

Amongst Power BTG/ BoP space, BHEL and BGR Energy Systems reported disappointing set of numbers and reported large y/y decline in their top-line and bottom line, reflecting slower execution and margin pressure. Whereas, companies from Power Transmission space like Crompton Greaves, Alstom T&D and ABB have shown comparatively better topline and EBITDA numbers. Crompton greaves margin has remained flat, whereas MNC's like Alstom T&D and ABB has shown impressive y/y margin expansion. In non-Power Capital Goods space, new CPCB norms helped in price increase for products. KOIL reported better performance than Greaves cotton due to drag on later by construction equipment business. Ingersoll-Rand reported better topline however margin was under pressure due to fall in air solution business margin. For Voltas consumer business has performed well but EMPS and EPS business continue to remain under pressure.

#### Top-line growth Analysis

- Power BTG/BOP players reported y/y top-line de-growth in range of 16-31.6%
- Power Transmission sector top-line grew in the range of 3.3% to 11.9%
- Non-power companies topline growth varied from negative 8.9% to positive 21.4%

#### Profitability Analysis

- Slower execution and inability to cover fixed costs led to sharp y/y PAT de-growth for BHEL and BGR Energy by 72.6% and 68.3% respectively. Whereas, improved execution , better cost management and better margin orders helped, Power transmission players to report profit growth in the range of 19.1% to 70.6%
- For Non-Power companies, barring Ingersoll Rand (whose profit has remained flat), all other companies have shown net profit growth of 15.2% to 31.2%

## CAPITAL GOODS SECTOR (contd...)

### Q2FY15 Results Review

Company Rs. Mn	Q2FY15			Margin %		QoQ %			YoY %			Comments
	Sales	EBITDA	Adj. PAT	EBITDA	Adj. PAT	Sales	EBITDA	Adj. PAT	Sales	EBITDA	Adj. PAT	
BHEL	61,440	2,915	1,248	4.7	2.0	19.2	33.8	(35.5)	(31.6)	(29.2)	(72.6)	Steep decline in topline was due to degrowth in both power (by 37.5%) and industry (by 9%) segments. Combination of decline in power system margin (by 44 bps) and increase in industry margin (by 211 bps), resulted in flat EBITDA margin of 4.7%.
Crompton Greaves	34,303	1,684	696	4.9	2.0	(0.3)	(2.5)	8.7	5.8	4.4	19.1	Growth of 10.6% in consumer products segment & positive growth across all other segment led to topline growth of 5.8%. Stable margin in power systems and consumer products segment led to flat margin growth to 4.9%
Alstom T&D	9,137	938	355	10.3	3.9	35.7	22.5	24.8	11.9	23.8	70.6	Healthy execution rate on large order book helped company to report 11.9% increase in top-line. Company maintains double digit EBITDA margin on account of better margin orders and cost optimization.
BGR Energy Systems	6,943	723	95	10.4	1.4	9.4	2.7	3.5	(16.0)	(28.9)	(68.3)	Continuing execution headwinds led to 16% decline in topline. Slow execution and elevated finance cost resulted in EBITDA and PAT decline of 28.9% and 68.3%, respectively
ABB India	18,450	1,241	450	6.7	2.4	1.3	(1.3)	(5.7)	3.3	17.7	26.3	Positive growth across all segment led to 3.3% rise in top-line. Margin growth in power products and low volatge division helped in EBITDA margin expansion by 83 bps to 6.7%

Source: Company filings, IndiaNivesh research Note: Numbers of CG and Voltas are consolidated, rest are standalone Financial Year for Siemens-Oct-Sept, for ABB-Jan-Dec

## CAPITAL GOODS SECTOR (contd...)

### Q2FY15 Results Review

Company Rs. Mn	Q2FY15			Margin %		QoQ %			YoY %			Comments
	Sales	EBITDA	Adj. PAT	EBITDA	Adj. PAT	Sales	EBITDA	Adj. PAT	Sales	EBITDA	Adj. PAT	
Ingersoll Rand	1,672	166	185	9.9	10.2	15.4	127.9	41.9	12.7	51.2	(0.6)	6.9% and 139.4% increase in air solutions and environment soln business, respectively led to 12.7% increase in topline. EBITDA margin declined by 180 bps to 9.9% due to y/y fall in air solution business margin from 14.5% to 11.5% in Q2FY15.
Greaves Cotton	4,410	560	421	12.7	9.5	4.6	21.5	43.3	(1.0)	17.2	31.2	Muted growth in engine segment and degrowth in infra segment kept top-line under pressure. EBITDA margin improved by 127 bps on account of closing of loss making construction equipment business and cost optimization.
Voltas	9,847	777	499	7.9	5.1	(44.0)	(41.1)	(54.0)	(8.9)	79.8	18.1	Revenue decline in EMPS & EPS segments by 15.9% and 16.7%, respectively; caused topline to degrow by 8.9%. EBITDA margin of the company increased by 389 bps to 7.9% due to Increase in margin of EPS and UCP segment.
Kirloskar Oil Engines	6,279	638	353	10.2	5.6	(1.7)	(15.4)	(25.3)	21.4	7.0	15.2	Robust growth of 21.4% in topline on account of strong growth of 46.1% & 76.3% in power gen and large engine business, respectively. Higher material cost resulted in EBITDA margin decline by 137 bps to 10.2%.

Source: Company filings, IndiaNivesh research Note: Numbers of CG and Voltas are consolidated, rest are standalone Financial Year for Siemens-Oct-Sept, for ABB-Jan-Dec

## CAPITAL GOODS SECTOR (contd...)

### Valuation

Company Name	M-Cap (Rs Mn.)	Sales FY16E	EBITDA FY16E	PAT FY16E	NPM (%)	P/E FY16E	CMP (as of 20/11/14)	Rating	Price Target (Rs.)
Ingersoll Rand	27,527	6,777	779	774	11.4%	35.6	872	SELL	613
Greaves Cotton	35,654	2,04,977	3,035	1,811	0.9%	19.7	146	HOLD	124
Alstom T&D	1,03,699	58,371	7,334	3,789	6.5%	27.4	405	BUY	444
BGR Energy Systems	10,824	37,496	3,935	1,551	4.1%	7.0	150	HOLD	172
Crompton Greaves	1,22,215	1,61,065	11,562	6,611	4.1%	18.5	195	Under Review	NA
Voltas	86,692	62,929	5,046	4,014	6.4%	21.6	262	Under Review	NA
BHEL	6,04,557	3,59,727	39,293	28,859	8.0%	20.9	247	Under Review	NA
Kirloskar Oil Engines	37,455	28,773	3,631	2,351	8.2%	15.9	259	Under Review	NA
ABB India	2,33,947	98,102	8,960	5,054	5.2%	46.3	1,104	Not Rated	NA

Source: Company, IndiaNivesh Research, Bloomberg

### Outlook

Going by the management commentary and order book positions of the companies in capital goods space, investment cycle is yet to show any green shoots of revival. Liquidity position in power sector continue to remain tight on account of 1) poor financials of many SEBs 2) delays in project execution and 3) high debt on books of many private contractors.

However Power transmission players have started reporting better set of numbers on account of internal cost controls and high margin orders. Power Generation/BOP players are still under pressure due to execution lag. Non-power based Cap-Goods players have shown decent growth in past few quarters. With focus shifting towards Power sector reforms, we expect stocks from this space to see maximum gains (vs. Non-Power good stocks).

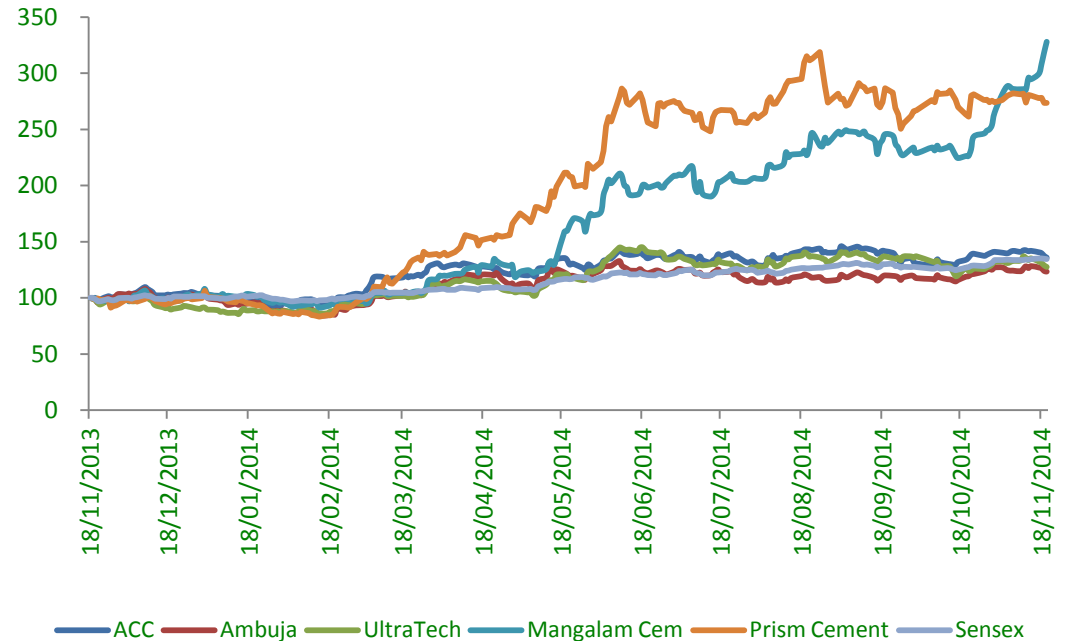
**Preferred Picks: Alstom T&D**

# CEMENT SECTOR

*Good times ahead....*

**Cement stocks in last 1-year delivered 25.1-232.4% returns vs. 36% returns for Sensex**

Sensex Vs Cement stocks			
	1m	3m	12m
<b>Sensex</b>	<b>6.2%</b>	<b>6.7%</b>	<b>36.0%</b>
ACC	1.5%	-5.2%	35.8%
Ambuja	4.1%	2.9%	25.1%
UltraTech	0.7%	-8.5%	30.2%
Mangalam	46.3%	45.9%	232.4%
Prism	4.0%	-13.1%	177.6%



Source: NSE, IndiaNivesh Research

In last 3 months top 3 players (ACC, Ambuja & Ultratech) delivered absolute return in range of negative 8.5% to positive 2.9%. Mangalam cement stock has outperformed other cement stocks, delivering absolute return of 45.9% in same period.

Cement companies reported impressive y/y sales growth in Q2FY15, mainly on back of increase in blended realization. However q/q increase in power/fuel and freight expenses dragged margins on q/q basis. Surge in topline of Mangalam cement by 61.9% was on account of capacity addition of 1.25 mnt in May-2014.

## CEMENT SECTOR (contd...)

### Q3CY14/Q2FY15 Results Review

Company Rs. Mn	Q2FY15			Margin %		QoQ %			YoY %			Comments
	Sales	EBITDA	Adj. PAT	EBITDA	Adj. PAT	Sales	EBITDA	Adj. PAT	Sales	EBITDA	Adj. PAT	
ACC	28,150	3,791	1,926	13.5	6.8	(8.0)	(16.2)	(20.8)	9.7	32.3	62.0	y/y Increase in despatch and realisation by 1.4% and 7.9% led to topline growth of 9.7%. q/q decline in EBITDA margin by 131 bps to 13.5% was on account of per tonne increase in power/fuel and other expenses.
Ambuja Cements	22,021	3,934	2,391	17.9	10.9	(19.0)	(33.1)	(41.5)	9.1	46.1	69.4	Net revenue increased y/y by 9.1% on back of Impressive jump in blended realisaion by 10.4% to Rs 4,684. High employee cost and other expenses dragged EBITDA margin q/q by 374 bps to 17.9%
Mangalam Cements	2,396	232	46	9.7	1.9	4.0	(38.4)	(51.2)	61.9	222.7	80.2	On account of new capacity of 1.25 mnt added in may-2014, top-line jumped by 61.9% y/y. EBITDA margin contracted q/q by 666 bps to 9.7% due to ~14% increase in power/fuel and distribution expenses.
Prism Cement	13,378	462	-198	3.5	(1.5)	(3.3)	(59.0)	(249.3)	15.4	(75.9)	(118.1)	On back of growth of 20% and 15.6% in cement and TBK business repectively, topline grew by 15.4%. Company reported loss of Rs 198 mn due to sharp contraction of operating margin and high interest cost.
Ultratech	53,818	8,295	4,101	15.4	7.6	(5.0)	(18.0)	(34.0)	20.0	26.0	55.0	Strong growth of 4.9% in dispatches and 14% in realisation led to topline growth of 20%. Higher freight,fuel and other expenses resulted in q/q EBITDA margin reduction of 175 bps to 15.4%

Source: Company filings, IndiaNivesh research Note: ACC & Ambuja reported Q3CY14 and Ultratech, Prism & MCL reported Q2FY15 results

## CEMENT SECTOR (contd...)

### Valuation

Company Name	M-Cap (Rs Mn.)	Sales FY16E/CY15E	EBITDA FY16E/CY15E	Adj. PAT FY16E/CY15E	EV/EBITDA FY16E/CY15E	\$ EV/tonne FY16E/CY15E (x)	CMP (as of 20/11/14)	Rating	Price Target (Rs.)
ACC	2,71,480	1,43,733	22,612	13,108	11.88	168	1,446	Hold	1,476
Amb. Cem.	3,40,089	1,13,897	25,242	16,013	13.38	145	220	Hold	229
Mangalam	9,209	13,112	2,229	1,152	5.21	60	345	Buy	426
Prism Cem.	37,752	65,646	5,510	1,429	6.85	NA	75	Buy	103
Ultratech Cem.	6,74,085	2,60,411	58,859	31,961	12.90	156	2,458	Buy	3,029

Source: Company, IndiaNivesh Research Note: NA- Not Applicable; Assumed \$= Rs 60

### Outlook

We expect new government to continue reforms, thereby supporting demand recovery. This demand recovery would bring more pricing discipline (already seeing some signs of it). With dispatch and realization growth trends likely to continue, we expect cost base of these companies to be covered and EBITDA margins expand.

Within our coverage, we expect strong y/y PAT growth across smaller players (vs. larger players). Recent capacity addition would drive the PAT growth for Mangalam, whereas demand recovery and cost rationalisation initiative should contribute to PAT growth for Prism (FY15E would be a turn-around year).

Large cap stocks in our view have less scope for further re-rating, as they are trading at higher-end of valuation band. However, there is still steam left across mid-cap cement stocks from our coverage.

### Preferred Picks: Mangalam Cement

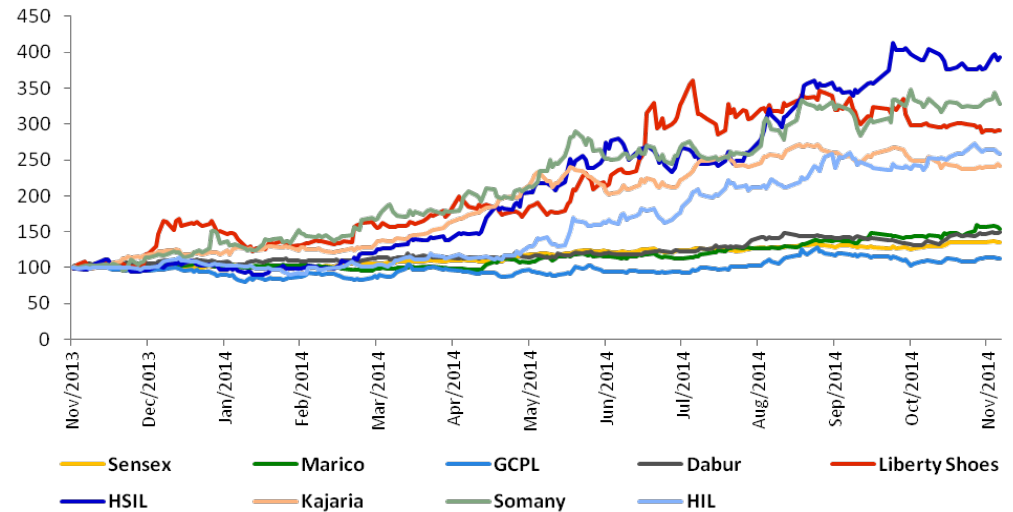
# CONSUMPTION SECTOR

**EBITDA margin flat yoy due to pressure in FMCG companies while building product companies witnessed ~197 bps improvement**

YoY % Growth	Sales	EBITDA	PAT
Marico	28.1	15.9	11.7
Godrej Consumer	4.6	11.3	20.3
Dabur India	10.4	6.6	15.1
Liberty Shoes	31.9	5.1	25.0
HIL	40.8	LP	LP
HSIL	9.3	41.6	109.1
Kajaria Ceramics	12.5	19.2	47.7
Somany Ceramics	21.9	11.6	9.4

Source: Bloomberg, IndiaNivesh Research

**Input price correction to improve margins in FMCG companies and increasing thrust on sanitation to improve growth for building products companies | Top Picks: HIL and Liberty**



Source: Capitaline, IndiaNivesh Research

- Consumption stocks in our universe reported mixed set of results. In FMCG sub-category, Marico outperformed while GCPL and Liberty disappointed. In building products sub-category, Kajaria and HIL outperformed on bottomline front while HSIL disappointed on bottomline front. Though on yoy basis these companies reported stellar set of results.
- Though HSIL underperformed on building products segment thereby leading to underperformance at the bottomline, the company reported stellar result in absolute terms with PAT growth of 109% yoy.



## CONSUMPTION SECTOR (contd...)

### Q2FY15 Review

Company	Q2FY15			Margin %		YoY % Change			QoQ % Change			Comments
	Sales	EBITDA	Adj. PAT	EBITDA	Adj. PAT	Sales	EBITDA	Adj. PAT	Sales	EBITDA	Adj. PAT	
<b>Marico</b>	14,291	1,953	1,183	13.7	8.3	28.1	15.9	11.7	-11.7	-26.8	-36.2	Sales growth driven by strong growth of 34.2% yoy in domestic business and 12.1% yoy in international business. Margins likely to expand in H2 due to decline in key raw material price i.e copra.
<b>GCPL</b>	20,475	3,289	2,346	16.1	11.5	4.6	11.3	20.3	8.5	37.3	63.5	Sales growth was slightly lower than expectation due to muted growth in international business primarily on account of currency fluctuation. PAT was in-line with expectation due to higher other income and lower growth in fixed expenses. Benefit of lower crude oil and palm oil to accrue in H2FY15.
<b>Dabur India</b>	19,241	3,508	2,875	18.2	14.9	10.4	6.6	15.1	3.2	30.9	36.4	Dabur performance was driven by domestic business which grew by 13.8% yoy with double digit growth across most of the sectors, EBITDA margin was under pressure while PAT growth was in-line with market expectations due to higher other income and reduction in finance cost.
<b>Liberty Shoes</b>	1,438	86	25	6.0	1.8	31.9	5.1	25.0	41.5	-6.9	-24.0	Disappointing results due to lower than expected margin in institutional business.
<b>HIL Ltd</b>	2,278	167	80	7.3	3.5	40.8	LP	LP	-36.8	-68.3	-75.8	HIL outperformed expectations on bottomline front due to higher other income and lower effective tax rate.
<b>HSIL</b>	4,171	680	191	16.3	4.6	9.3	41.6	109.1	2.4	10.7	27.2	HSIL missed expectations due to underperformance in building products segment while packaging products segment surprised with better performance.
<b>Kajaria Ceramics</b>	5,377	779	398	14.5	7.4	12.5	19.2	47.7	6.9	-2.4	3.0	Kajaria outperformed on bottomline front on account of higher other operating income and reduction in interest cost
<b>Somany Ceramics</b>	3,702	197	47	5.3	1.3	21.9	11.6	9.4	12.8	18.0	24.0	Somany results were in-line with expectations. Margins were under pressure due to higher share of joint venture products in reveue mix. However, lower interest and depreciation cost improved PAT magin.

Source: Company Filings; Indianivesh Research;

## CONSUMPTION SECTOR (*contd...*)

### Key Inferences from Q2FY15 performance

#### FMCG Companies

- Volume growth in the coverage universe remained in single high digits. In all the three companies, the growth was driven by domestic business. International businesses performed well on constant currency basis, but they grew in mid single digits in INR terms.
- Input cost pressure remained in this quarter for our universe FMCG companies due to lag effect despite declining input prices. The companies managed to maintain EBITDA margin by better cost management strategies including reducing advertisement expenditure.
- FMCG companies are expecting the H2FY15E to be better than H1FY15E on the back of revival in urban demand and current fall in input prices.

#### Building Product Companies

- All Building product companies in our coverage universe , except HSIL, reported average healthy topline growth of 17.2% yoy. This was driven by robust volume growth and minor price increases.
- EBITDA margin of our coverage universe improved to 11.7% against 9.8% in Q2FY14. EBITDA growth for the universe stood at 40.8% yoy. This was primarily driven by improving profitability of HSIL and HIL.
- PAT margin of our coverage universe increased to 4.6% in Q2FY15 from 2.8% in Q2FY14, an improvement of 185 bps. The bottomline increment was at a higher pace due to benefits arising from operating and financial leverage .

## CONSUMPTION SECTOR (contd...)

### Valuation & Outlook

Company	CMP (Rs)	TP (Rs)	Reco	Sales		EBITDA		EPS		ROE		P/E		EV/EBITDA	
				FY15E	FY16E	FY15E	FY16E	FY15E	FY16E	FY15E	FY16E	FY15E	FY16E	FY15E	FY16E
Marico*	323	UR	HOLD	57344	65678	8724	10391	8.9	10.7	35.6	33.8	36.3	30.2	24.0	20.2
GCPL*	967	UR	UR	85602	99465	13545	16155	26.5	32.4	22.0	23.1	36.6	29.9	21.2	18.2
Dabur India*	235	204	HOLD	80684	93072	13475	16029	6.1	7.3	35.5	34.4	38.3	32.2	30.0	25.2
Liberty Shoes	273	336	BUY	5808	7410	473	654	9.9	16.8	11.6	17.4	27.7	16.3	12.0	9.3
HIL	683	898	BUY	10984	13840	1074	1748	75.2	136.1	14.2	23.2	9.1	5.0	5.1	2.7
HSIL	392	380	HOLD	21147	25731	2958	3873	12.9	22.1	8.0	12.7	30.4	17.7	38.6	29.4
Kajaria Ceramics	601	635	HOLD	21862	28868	3321	4417	20.2	28.9	25.4	27.6	29.8	20.8	14.7	11.0
Somany Ceramics	314	332	HOLD	15853	20483	1013	1320	11.6	16.6	18.7	22.2	27.0	18.9	12.3	9.4

Source: Company Filings; IndiaNivesh Research; \* Bloomberg estimates

FMCG companies are likely to continue their growth momentum. Urban demand is likely to provide fillip to sales in H2FY15. EBITDA margin is likely to improve on account of decline in input prices and crude oil price. The companies are likely to manage their profitability on the back of cost management initiatives taken both on Indian as well as international businesses.

On building products companies, we are positive on the increasing demand both at consumer and government level. With focus on capacity expansion and higher margin products and diversification into new product lines, we are of the opinion that these companies would be able to harness the current boost in demand.

#### Preferred Picks:

- HIL
- Liberty Shoes

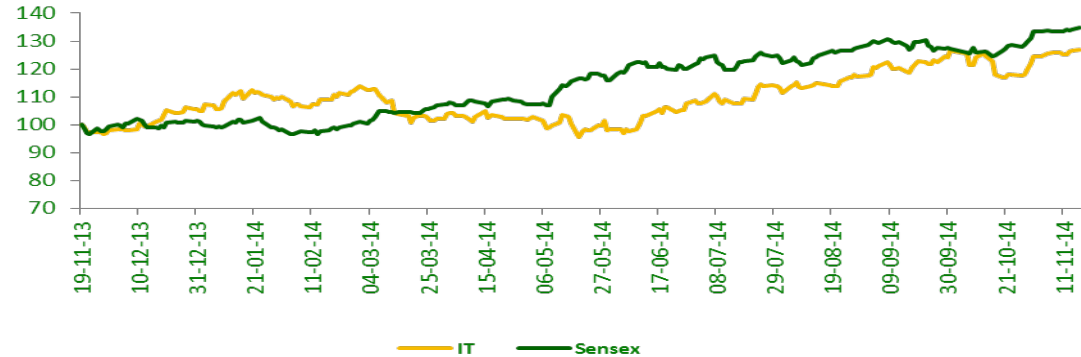
#### Key concerns

- **Rupee appreciation** – For FMCG companies it will reduce the revenue in INR terms. For building product companies, it increases the possibility of higher imports, thereby creating more competition
- **Input prices** – Input prices for FMCG companies have declined significantly which may bring in unorganized players in business. The companies may not realize full benefit of decline in prices, if prices start increasing again.

# IT SECTOR

**Robust outlook | Top Picks: KPIT, Mastek, & OnMobile**

**IT index underperform the Sensex by 7.9% over last 12M. On absolute basis IT Index went up 26.3% in last 12M.**



IT v/s Sensex Return %			
	1 Months	3 Months	1 Year
IT	0.3	-14.4	26.3
Sensex	6.2	6.7	36.0

Source: BSE India (as on 20 Nov. 2014)

Companies	QoQ Growth %		
	\$-Revenue	Volume	Pricing
Infosys	3.2	3.4	-0.2
TCS	6.4	6.1	-0.3
Wipro	1.8	NA	NA
HCLT	1.9	NA	NA
KPIT	8.5	3.1	5.3
NIIT Tech*	1.9	NA	NA
Mastek	11.0	NA	NA
Thinksoft	8.6	2.2	6.8
Onmobile	4.4	NA	NA
TechM	5.2	NA	NA
<b>Average</b>	<b>5.3</b>	<b>3.7</b>	<b>2.9</b>

Source: Company Filings; IndiaNivesh Research

- Tier-I IT companies reported in-line performance & sounded positive on future revenue outlook. TCS, and TechM delivered healthy \$-revenue growth. Despite below average revenue guidance, Infosys sounded positive and expect FY15 to be better than FY14. Wipro's next quarter revenue guidance range continue to remain wide, but overall FY15 outlook remain robust. Amongst Tier-I, TCS reported leading \$-rev growth followed by TechM.

## Conference call key takeaway:

- **TCS:** Strong FY15 revenue outlook – expect \$-rev growth ahead of Industry growth.
- **HCLT:** Positive revenue & margin outlook on back of \$6 bn of TCV.
- **Infosys:** FY15 \$-rev guidance of 7-9% Y/Y implies 1.4-4.4% Q/Q \$-rev growth for next 2 qtrs.
- **Wipro:** Guided \$-rev growth in the range of 2.1% to 4.0% Q/Q in Q3FY15.
- **TechM:** Solid deal pipeline on back of existing four prong growth strategy
- Infosys Top 10 account grew by +3.2% Q/Q, followed by HCLT (+2.9% Q/Q) followed by Wipro +2.2% Q/Q.

## Geo-Wise Performance (Q/Q Growth %)

Q1FY15	HCLT	INFY	TCS	Wipro
U.S	5.6	3.2	3.4	4.3
Europe	0.3	4.0	1.9	-4.4
RoW	8.2	3.2	9.7	2.9

## IT SECTOR (contd...)

- In mid-tier space, performance was above our estimates for following: (1) Mastek (+11.7% Q/Q) (2) KPIT (+9.8% Q/Q) (3) SQS BFSI (+10.0 Q/Q), and (4) OnMobile (+4.4% Q/Q). However, NIIT Tech continue to delivered below estimate performance from last three quarters on account of delays in the client budgets.

### Key take away from conference call :

- **KPIT:** Despite strong performance , KPIT reduced its FY15E \$-rev growth guidance to 12.5% Y/Y (v/s 12 -14% y/y earlier).
- **NIIT Tech:** Muted 12M Executable order book growth (+1.0% y/y to \$298 mn) reduces the overall revenue outlook.
- **Mastek:** FY15 revenue outlook likely to remain muted due to anticipated shortfall in revenue (\$2.4 mn) from insurance client.
- **Thinksoft:** SQS & TGSL together brings huge capacity expansion along with cross-selling and up-scaling opportunity.
- On back of robust deal pipeline and strong order intake majority of our Tier-II coverage companies revenue outlook remains strong. However, shortfall in NIIT Tech performance v/s our estimate is likely to revive in medium-term. The revival in Europe & US should lead to acceleration in KPIT's overall revenue outlook.

Company Rs. Mn	Q2FY15			Margin %		QoQ %			YoY %			Comments
	Sales	EBITDA	PAT	EBITDA	PAT	Sales	EBITDA	PAT	Sales	EBITDA	PAT	
INFY	1,33,420	43,600	30,960	32.7	23.2	4.5	7.9	7.3	2.9	30.3	28.6	Expect upward revision in FY15 revenue guidance
TCS	2,38,160	74,630	52,440	31.3	22.0	7.7	-2.0	-5.8	13.5	13.0	13.2	Above Est. Performance; Strong FY15 revenue outlook
WIPRO	1,18,160	31,250	20,850	26.4	17.6	5.1	1.3	-0.9	7.5	9.8	7.9	In-line performance; wide range in guidance
HCL TECH*	87,350	24,840	18,730	28.4	21.4	3.7	5.2	2.1	9.7	26.7	32.3	Strong Software performance; Lower IMS growth
TECHM	54,880	11,550	7,200	21.0	13.1	7.2	13.5	14.1	15.0	0.5	0.2	Above expectation performance; Solid Deal Pipeline
KPIT	7,570	1050	710	13.8	9.3	9.8	11.8	38.9	7.8	-5.3	5.7	FY15 \$-rev guidance of 12.4% (\$500mn)
NIIT	1,320	210	50	16.2	4.0	15.6	42.0	1772.7	-0.8	-25.5	-13.8	IT revival could provide respite
NIIT Tech	5,880	820	400	13.9	6.8	1.9	6.1	-7.4	0.2	-7.2	-35.8	Below Expectation Performance, Downgraded to SELL
Mastek	2,440	160	20	6.6	0.7	11.7	72.9	104.7	4.5	-44.4	-88.4	Above expectation performance; Strong growth in Gov.
SQS BFSI	564	117	71	20.7	12.6	10.0	15.7	13.2	11.9	0.3	-32.4	Above est. performance; TP revised Upward to Rs.665
OnMobile	2,074	278	-12	13.4	0.6	4.4	77.4	-94.9	-7.8	-17.2	-179.6	Revival in the overall performance

Source: Company Filings; IndiaNivesh Research Note : \* Q1FY15 – June ending

## IT SECTOR (contd...)

### Revisiting the past.....

Company Name	CMP Rs.	Previous Target	Previous Rating	Current Target	Current Rating
Infosys	4,158	3,952	BUY	3,952	HOLD
TCS	2,631	2,666	BUY	2,609	HOLD
Wipro	573	611	BUY	611	HOLD
HCL	1,649	1,697	HOLD	1,697	HOLD
TechM	2,688	2,151	HOLD	2,629	HOLD
NIIT Tech	380	414	BUY	326	SELL
KPIT	171	190	BUY	190	BUY
Mastek	274	230	BUY	550	BUY
NIIT Ltd	53	55	BUY	55	HOLD
Thinksoft	616	494	HOLD	665	HOLD
OnMobile	61	NA	NA	82	BUY

**Preferred Picks:**  
**KPIT, Mastek, OnMobile**

### Valuation

Company Name	Mcap Rs. Mn	P/E (x) FY16E	P/Sales (x) FY16E	EV/EBITDA (x) FY16E	PBV (x) FY16E	EBITDA % FY16E	ROE % FY16E	CMP Rs.	Current Target	Current Rating
Infosys	23,87,530	17.4	4.0	11.7	3.1	29.6	21.3	4,158	3,952	HOLD
TCS	51,53,413	20.5	4.5	14.4	6.0	30.2	32.0	2,631	2,609	HOLD
Wipro	14,13,504	15.5	2.5	10.5	2.9	22.1	20.0	573	611	HOLD
HCL	11,57,113	14.2	2.7	10.0	3.5	25.2	29.6	1,649	1,697	HOLD
TechM	6,33,131	16.6	2.3	10.3	3.5	21.4	24.3	2,688	2,629	HOLD
NIIT Tech	23,090	8.7	0.9	5.2	1.4	15.9	18.3	380	326	SELL
KPIT	33,505	11.5	1.0	6.8	1.4	17.0	17.5	171	190	BUY
Mastek	6,121	11.7	0.6	4.6	0.6	9.7	12.2	274	550	BUY
NIIT Ltd	8,738	13.2	0.7	9.1	0.9	8.0	10.3	53	55	BUY
Thinksoft	6,376	17.0	2.0	6.8	2.8	20.5	25.7	616	665	HOLD
OnMobile	6958	6.6	0.7	3.0	0.8	24.7	33.6	61	82	BUY

Source: Company filings; Bloomberg; IndiaNivesh Research Note: CMP and MCap – 20/11/2014

### Sector Outlook

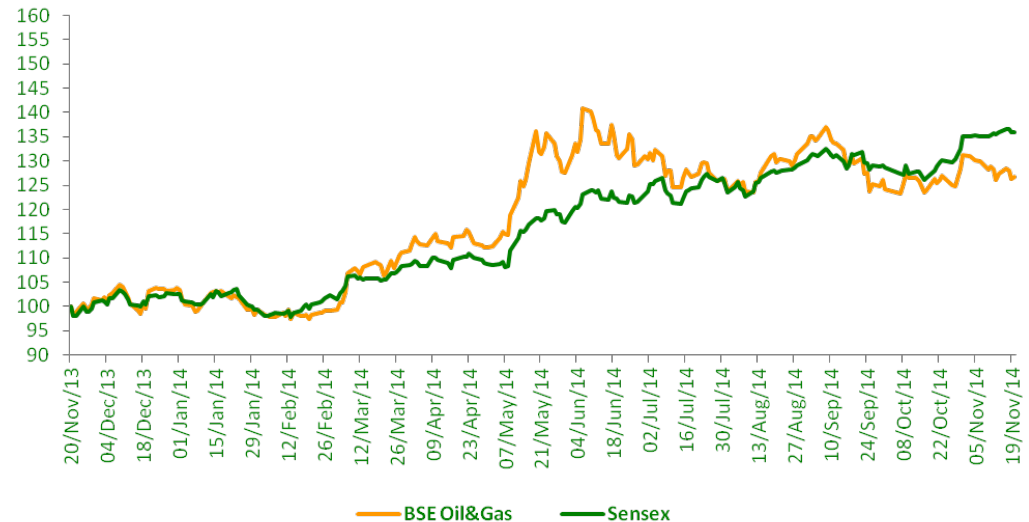
- On back of improved global economic situation, positive management commentary and strong order intake we maintain our positive view on overall IT sector. Further, revival in discretionary budget, inorganic expansion and diversification in new age IT services could foster revenue growth going-ahead. However, on back of valuation comfort, we like Mid-cap IT over larger cap universe.

# OIL & GAS SECTOR

*Diesel de-regulation and natural gas price hike are positives for the sector*

*Oil & Gas sector posted mixed set of performance, Oil India and ONGC profitability was hit by higher under recovery*

PERFORMANCE (%)	1m	3m	12m
Sensex	6.2%	6.7%	36.0%
BSE Oil&Gas	0.3%	-2.3%	26.8%



*In Q2FY15, Gross under recovery for OMCs stood at Rs 214 bn, of this the total upstream share was at Rs 163.79 bn (76.5% of the total under-recovery).*

Oil & Gas sector posted subdued performance in Q2FY15. Gross under recovery for OMCs stood at Rs 214 bn, of this the total upstream share was at Rs 163.79 bn (76.5% of the total under-recovery). Net profit of ONGC and Oil India impacted by higher than expected subsidy burden. Cairn India's reported Q2FY15 PAT was significantly low due to lower oil production volumes (effect of shutdown in Mangala processing terminal). On operational front, the company achieved total gross operated production of 194.5 kboepd (thousand barrels of oil equivalent per day) vs. 215 kboepd in Q1FY15. RIL reported Q2FY15 PAT (Standalone) above street expectation on the back of higher than expected GRM and better petchem margin.

## OIL & GAS SECTOR (contd...)

### Q2FY15 Review

Company	Q2FY15			Margin %		QoQ % Change			YoY % Change			Comments
	Sales	EBITDA	PAT	EBITDA	PAT	Sales	EBITDA	PAT	Sales	EBITDA	PAT	
Cairn India	39,821	26,556	22,779	66.7	57.2	-11.2	-13.0	108.4	-14.4	-23.7	-32.7	PAT showed significant decline on lower oil production volumes, due to shutdown in Mangala processing terminal
GAIL	141,297	20,222	13,029	14.3	9.2	5.7	93.5	109.7	0.9	38.2	42.3	Pat number above our expectation led by nil subsidy burden
OIL	21,925	8,092	6,083	36.9	27.7	-17.4	-35.5	-28.6	-22.7	-44.2	-32.7	PAT below our expectation due to higher than expected subsidy burden
ONGC	204,478	90,286	54,447	44.2	26.6	-6.4	1.9	13.9	-8.8	-10.0	-10.2	Profitability hurt by higher subsidy burden, revival in volume positive for the company
Reliance	964,860	82,350	57,420	8.5	6.0	0.1	9.4	1.6	-7.0	4.9	4.6	PAT above street expectation on the back of higher GRM and higher petchem margin

Source: Company Filings; IndiaNivesh Research, All standalone numbers except Cairn India

- In Q2FY15, Brent average crude price decreased 7% QoQ to US\$102.5/bbl driven by rise in output from Iraq and Libya in spite of the unrest in the region, higher production from US and lower demand from China due to economic slowdown.
- Refining margin hurt. Singapore GRM declined 19% QoQ from USD5.8/bbl to USD4.7/bbl, touching low of USD2.5/bbl in July-end, as auto-fuel cracks declined.
- Petchem business benefited from increase in the margins across all the petchem products. Petchem margins expanded QoQ basis led by higher polymer and polyester spreads.
- Spot LNG prices declined during the quarter due to seasonality factor and lower global demand



## OIL & GAS SECTOR (contd...)

### Valuation

Company	Sales (Rs. bn)	EBITDA (Rs. bn)	PAT(Rs. bn)	Mcap(Rs.bn)	P/E(x)	Mcap/Sales(x)	EBITDA%	NPM(%)	EV/ EBITDA(x)	ROE %	CMP	Target	Reco
Name	FY16e	FY16e	FY16e	FY16e	FY16e	FY16e	FY16e	FY16e	FY16e	FY16e	Rs.	Rs.	Rs.
Cairn India	198	131	110	501	4.6	2.5	66.3	55.6	2.9	13.6	267	377	BUY
GAIL	577	70	48	600	12.5	1.0	12.2	8.3	9.5	13.4	473	530	HOLD
OIL	132	66	45	349	8.1	2.6	50.1	33.9	6.2	18.6	581	680	BUY
ONGC	2002	764	364	3310	9.2	1.7	38.2	18.2	5.2	17.8	387	462	BUY
Reliance	4425	472	258	3179	11.1	0.7	10.7	5.8	9.5	11.9	983	1111	BUY

Source: Company Filings; IndiaNivesh Research; Bloomberg (CMP-20-11-2014) All consolidated numbers

### Outlook

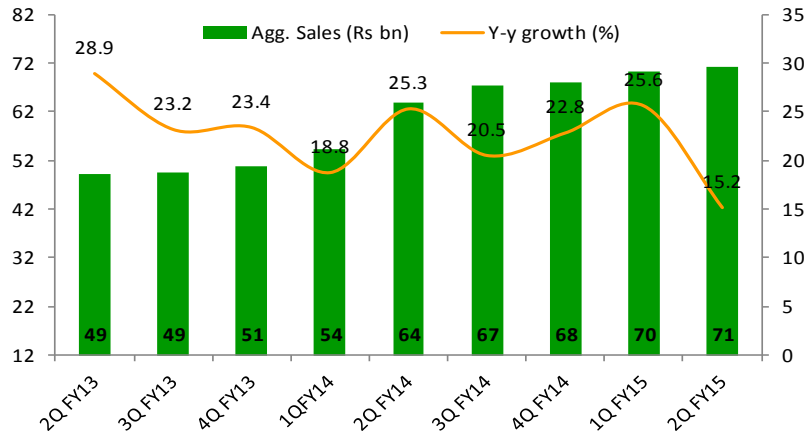
Despite strong rally in oil & Gas sector, we continue with our positive stance on the sector on the back of ongoing reforms like rationalization of subsidy, increase in natural gas prices and potential reserve accretion from large E&P acreage. Further fall in crude prices will lead to lower under-recovery in coming quarters. ONGC and Oil India is expected to outperform due to reduction in subsidy burden and volume growth from new fields. We believe GAIL would be able to overcome constraints of gas supply shortages and maintain growth due to dominant market position in gas transmission as well as diversified business model. We expect Cairn to deliver strong production growth from Rajasthan field, that will enable Cairn to generate strong free cash flows. We believe that hike in natural gas price and plans to invest Rs. 1.5t in the next 3 years in petcoke gasification, polyester expansion & off-gases crack, E&P activities, telecom and retail businesses are big trigger in medium term for RIL.

### Preferred Pick

Among Oil & Gas space we prefer Reliance, ONGC, GAIL, Cairn India and OIL India due to stable business, strong balance sheet and low valuations.

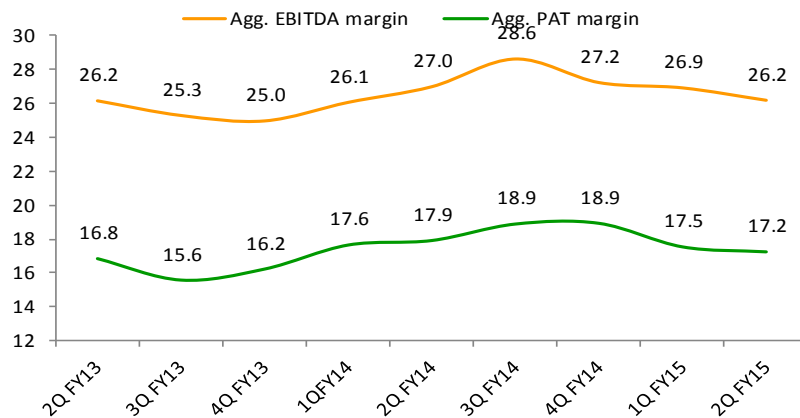
# PHARMA SECTOR

## Coverage Pharma universe growth (%):



Source: Company Filings; IndiaNivesh Research

## Coverage Pharma universe Margins (%):



Source: Company Filings; IndiaNivesh Research

**Robust performance takes a pause; witnessed (revenue growth of 15%, EBITDA growth of 12% & PAT growth of 11%).**

**Preferred Picks: Aurobindo Pharma, Shilpa Medicare, Cadila Healthcare.**

Performance			
	1 Months	3 Months	1 year
Healthcare	9.40%	13.10%	57.60%
Sensex	6.20%	6.70%	36%

Source; BSE India

## Performance in Q2FY15:

- Aggregate sales of seventeen companies under INSPL coverage grew at 15% y-y, which is lowest y-y growth in past twelve quarters.. The aggregate sales came in at Rs71bn for the quarter.
- The EBITDA margin as well as Adj. PAT margin also showed moderate downtrend.
- The outperformers for the quarters were AJP, ARBP, CDH, LPC, SBML and TRP, whose earnings grew more than average for the quarter.
- The underperformers were BIOS, CIPLA, DIVI, DRRD, GNP, IPCA, JBCP, JOL, SLPA and SUNP for the quarter.
- The lower growth in aggregate earnings has been mainly due to moderate growth shown by SUNP, which contributed 34% of aggregate adjusted PAT and contraction shown by DRRD, which contributed 13% of aggregate adjusted PAT for the quarter.

## PHARMA SECTOR (contd...)

### Individual company's performance in Q2FY15

Company Rs. Mn	Sep-14			Margin %		QoQ %			YoY %			Comments
	Sales	EBITDA	Adj.PAT	EBITDA	Adj.PAT	Sales	EBITDA	Adj.PAT	Sales	EBITDA	Adj.PAT	
Ajanta Pharma	3,312	1,046	775	31.6	23.4	18.0	26.0	32.1	22.3	39.4	39.9	Superior performance in DF and emerging markets as well as lower material cost led to highest ever quarterly PAT in past 14 quarters
Aurobindo	28,622	6,372	4,142	22.3	14.5	(1.1)	(3.2)	0.3	50.8	45.4	37.1	US market was the key driver for 37% y-y growth in adjusted PAT for the quarter
Alembic Pharma	5,463	1,083	773	19.8	14.1	10.7	12.7	19.6	12.9	16.7	25.3	Domestic formulation and lower tax drive earnings; US generics sales remained muted due to high base of past year
Biocon	7,410	1,650	1,120	22.3	15.1	5.9	(5.3)	8.4	1.3	(6.1)	6.7	Weak bio-pharma as well as contract research sales led to moderate growth of 7% y-y in adjusted PAT for the quarter
Cadila	20,635	4,210	2,767	20.4	13.4	2.1	11.9	14.6	21.5	61.6	62.0	Strong US sales and improved operating leverage led to 62% y-y growth in adjusted earnings for the quarter
Cipla	26,298	5,585	3,121	21.2	11.9	(0.7)	3.1	6.0	6.8	(1.0)	(12.8)	Though sales grew by 7% y-y, adjusted PAT contracted by 13% due to lower exports and continued front end cost for US market
Divi's Lab	8,298	3,034	2,253	36.6	27.2	29.7	30.6	34.2	46.6	22.5	9.9	Lower contribution from Custom chemical synthesis in total sales led adjusted PAT to grow at lower rate than sales for the quarter on y-y basis
Dr Reddy	35,879	8,423	5,860	23.5	16.3	2.0	0.9	6.5	6.9	(7.4)	(10.0)	Adjusted PAT down 15% y-y due to inferior performance in US and Russia market; DF maintains growth momentum; PSAI segment to show better traction going forward
Glenmark	16,807	3,352	1,650	19.9	9.8	13.7	(2.1)	(10.8)	14.9	6.2	15.8	Outperformance in DF, Europe, Latin America and API segment was offset by underperformance in US resulting in similar growth of 15% y-y in sales as well as PAT
Ipca Lab	7,749	1,348	707	17.4	9.1	(16.5)	(41.6)	(50.8)	(7.1)	(42.5)	(56.2)	Region specific issues adversely affected performance of IPCA in US, institutional, promotional and API business segment; DF continued to outperform industry
JB Chemicals	2,749	578	400	21.0	14.5	7.1	20.8	44.8	11.1	14.8	(1.6)	Strong DF sales led to better operational performance; however, higher depreciation and lower other income led to marginal y-y drop in adjusted PAT

Sources: Company fillings; IndiaNivesh Research

## PHARMA SECTOR (contd...)

### Individual company's performance in Q2FY15

Company Rs. Mn	Sep-14			Margin %		QoQ %			YoY %			Comments
	Sales	EBITDA	Adj.PAT	EBITDA	Adj.PAT	Sales	EBITDA	Adj.PAT	Sales	EBITDA	Adj.PAT	
Jubilant LifeScience	13,621	1,110	(987)	8.1	(7.2)	(6.7)	(23.7)	(600.8)	(4.4)	(59.0)	(349.4)	Regulatory changes and increased competition in LSI segment and shutdown in Spokane facility adversely affected earnings for the quarter
Lupin	31,168	8,325	6,300	26.7	20.2	(5.1)	(25.3)	0.8	18.4	26.2	55.1	Strong growth in DF, decent growth in US generics and improved operating leverage led to 55% y-y growth in adjusted PAT for the quarter
Sharon Bio-medicine	3,249	386	195	11.9	6.0	(7.0)	(13.3)	11.2	3.0	9.7	18.7	Lower y-y sales growth due to postponement of sales and increased expense to meet regulatory compliance led to 13% y-y decrease in EBITDA; however; long term growth driver remains intact
Shilpa Medicare	1,537	277	172	18.0	11.2	10.6	(6.1)	2.7	13.1	(0.8)	1.2	Muted performance for the quarter due to high base of past year; however, foundation building for next phase of growth is on track
Sun Pharma	47,505	21,800	15,725	45.9	33.1	21.0	25.8	13.1	13.3	18.3	15.4	Taro and DF drive earnings for the quarter; however; high base of past year resulted in moderate y-y growth in sales as well as adjusted PAT
Torrent	12,030	2,730	1,980	22.7	16.5	10.2	(20.4)	(22.0)	28.5	52.5	40.3	Superior performance in key markets of US, DF and Brazil and addition of Elder portfolio led to 40% y-y growth in earnings for the quarter
<b>Total</b>	<b>314,213</b>	<b>71,309</b>	<b>46,953</b>	<b>22.7</b>	<b>14.9</b>	<b>3.7</b>	<b>1.5</b>	<b>2.6</b>	<b>13.0</b>	<b>11.8</b>	<b>10.8</b>	

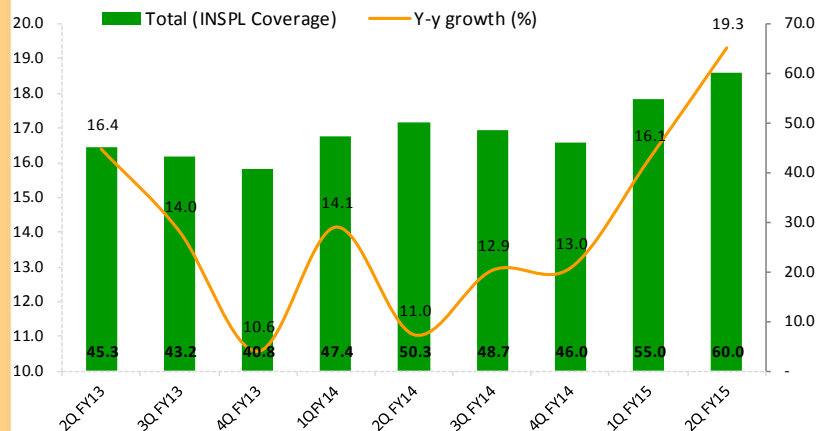
Sources: Company filings; IndiaNivesh Research

## PHARMA SECTOR (contd...)

### Uptrend in Domestic formulation (DF) continues

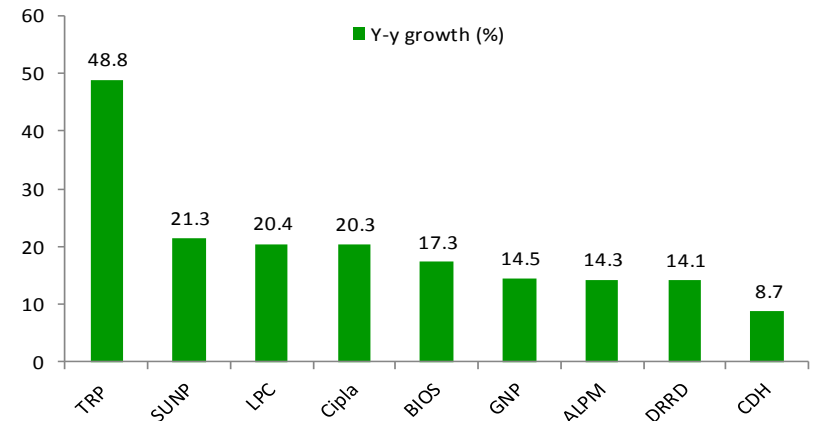
- DF sales growth have been robust for three quarters now, post implementation of price cuts and resolution of trade related issues.
- DF sales of companies under coverage of INSPL came in at Rs60bn, up 19.3% y-y
- TRP showed maximum growth due to addition of Elder portfolio, which was absent in 2QFY14. Adjusting for the same, TRP y-y growth rate has been 17%, which is still better than industry average.
- CDH showed minimum y-y growth in the pack. This is mainly due to high base of past year and absence of Boehringer Ingelheim products for the quarter. However, adjusting for the same, the growth is healthy at 14% y-y.
- The chronic therapeutic categories continued to show better growth, in terms of volume as well as value, than acute therapeutic categories.
- The tussle between industry lobby and National Pharma Pricing Authority (NPPA) continues on pricing of the products. During the quarter, NPPA tried to fix prices of those medicines, which were not under list of essential medicines (NLEM). The industry growth remains vulnerable due to uncertain policy measures by NPPA.

### DF sales up 19% y-y as the base effect reduces



Source: Company Filings; IndiaNivesh Research

### Addition of Elder portfolio led spike in TRP growth

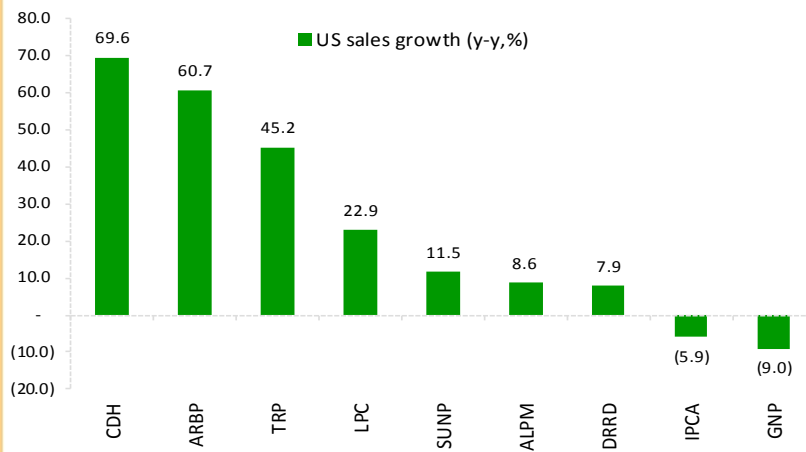


## PHARMA SECTOR (contd...)

### US growth momentum lowers its pace

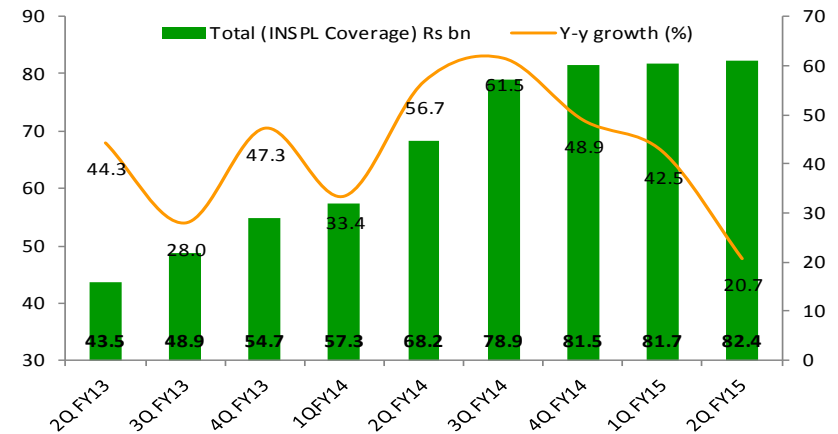
- Though US market remains the key driver for most of the pharma companies under our coverage, the momentum in sales growth has toned down a bit, partly due to high base of past year and partly due to delay in getting regulatory approval to launch new products.
- The channel consolidation also led to price erosion in some products for few players.
- The filing rate was also lower for the quarter. However, filing rate is expected to pick up in 2H FY15 and uptick in approval would pick up sales as well in 2H FY15.
- The ANDA pipeline pending for approval remained healthy, with ARBP having maximum and TRP having minimum ANDA pending for approval.

### CDH outperforms in US on strong execution

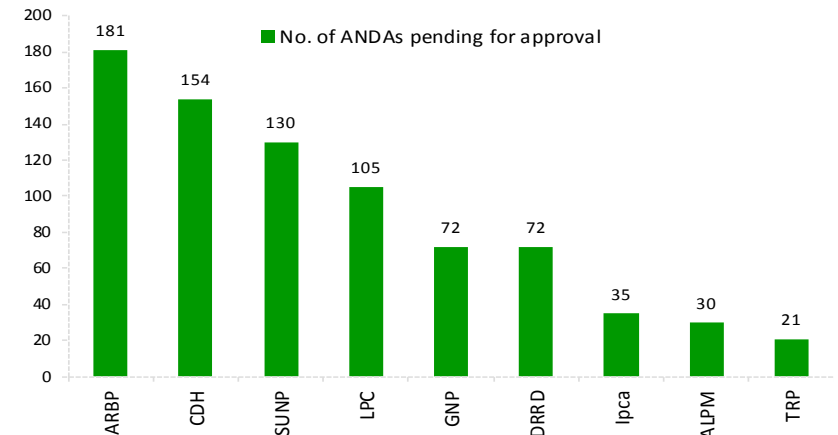


Source: Company Filings; IndiaNivesh Research

### US Y-y growth moderates on high base of past year



### ARBP leads for number of ANDA pending for approval



## PHARMA SECTOR (*contd...*)

### Other key highlights during the quarter....

- R&D spend by the pharma companies for new molecules as well for generic in regulated markets has been moving up gradually in order to develop molecules in limited competition space.
- The niche opportunities not only increases profitability but also lengthens the visibility of profitability.
- R&D spend has been in the range of 4-8% of net sales for most of the pharma companies now.
- During the quarter, INR appreciated by ~3%, resulting in lower exports value for pharma companies. However, the adverse impact varied for different companies, depending on hedging positions of each companies.
- During the quarter, manufacturing plant of SUNP and ARBP were inspected by USFDA. The observations by USFDA has not been critical and business would continue as usual, as per the respective management of the SUNP and ARBP.

### Sector outlook: Positive

- We believe that there is enough scope of growth for pharma companies under coverage on the back of ample opportunities in both regulated as well as unregulated markets. And, Indian pharma companies have been building foundation to take benefit of the opportunities.
- We continue to like pharma companies based on good management quality, superior execution and attractive valuation.
- During the quarter, we downgraded JOL from HOLD to sell, based on muted business outlook and TRP and IPCA from BUY to HOLD, based on valuation.
- Our preferred picks are ARBP, CDH, SLPA, and JBCP as key triggers in each of the stocks are yet to play out and valuation has also not yet factored it.
- The unfavorable currency movement, delay in ANDA approvals and failure in R&D effort remains the key risk to our call and estimates.

## PHARMA SECTOR (contd...)

### Valuations & Recommendations:

Company	Sales (Rs mn)		EBITDA Margin(%)		Adj. PAT (Rs mn)		EPS (Rs)		ROE (%)		P/E (x)		CMP (Rs)	Target Price (Rs)	Reco
	FY15E	FY16E	FY15E	FY16E	FY15E	FY16E	FY15E	FY16E	FY15E	FY16E	FY15E	FY16E			
Ajanta Pharma	13,935	16,466	30.9	31.2	2,880	3,462	81.5	98.0	33.8	29.9	29.2	24.3	2,377	1,569	HOLD
Alembic Pharma	22,694	26,585	20.3	21.0	3,124	3,834	16.6	20.3	28.7	25.1	26.3	21.4	435	412	HOLD
Aurobindo Pharma	125,460	142,379	22.6	23.4	17,462	20,903	60.0	71.8	33.5	30.0	18.6	15.5	1,114	1,293	BUY
Biocon	33,263	38,801	23.5	23.1	4,608	5,320	23.0	26.6	13.8	14.3	19.9	17.2	458	479	HOLD
Cadila	84,145	99,115	20.1	21.0	10,887	13,958	53.2	68.2	25.6	26.4	29.4	22.9	1,564	1,636	BUY
Cipla	112,980	112,980	21.6	24.0	14,240	20,305	17.7	25.3	16.9	21.0	35.4	24.8	627	632	HOLD
Divis Lab	31,786	38,011	42.5	42.9	9,946	11,951	74.9	90.0	28.6	28.7	23.2	19.3	1,737	1,802	HOLD
Dr Reddy	150,023	169,881	22.6	22.2	22,035	24,401	130.0	143.9	25.7	24.1	27.2	24.5	3,530	3,453	BUY
Glenmark	69,747	80,060	21.3	21.4	8,965	10,460	33.2	38.8	26.7	25.0	24.6	21.1	819	775	HOLD
Ipca Lab	33,272	39,987	20.4	22.1	4,266	5,890	33.8	46.7	26.2	29.3	19.7	14.3	667	747	HOLD
JB Chemicals	11,282	12,734	16.1	16.6	1,559	1,784	18.4	21.1	18.6	20.8	11.2	9.8	206	295	BUY
Jubilant LifeSciences	60,354	68,332	9.8	14.1	188	2,332	1.2	14.6	0.8	12.9	116.7	9.4	138	130	SELL
Lupin	135,950	158,435	26.3	26.6	22,527	26,529	54.3	64.4	25.0	23.2	27.0	22.7	1,464	1,545	BUY
Sharon Bio-medicine	15,897	19,077	12.5	13.5	1,040	1,470	7.3	11.9	25.7	27.7	7.7	4.7	57	140	BUY
Shilpa Medicare	6,114	7,642	20.5	21.6	809	1,118	21.0	29.0	17.1	19.3	26.0	18.8	547	473	HOLD
Sun Pharma	187,329	203,407	45.4	43.8	68,796	71,687	33.2	34.6	50.4	49.3	25.4	24.3	842	831	HOLD
Torrent	48,834	48,834	25.3	25.3	8,916	8,916	52.7	52.7	33.9	33.9	19.0	19.0	1,001	1,010	HOLD

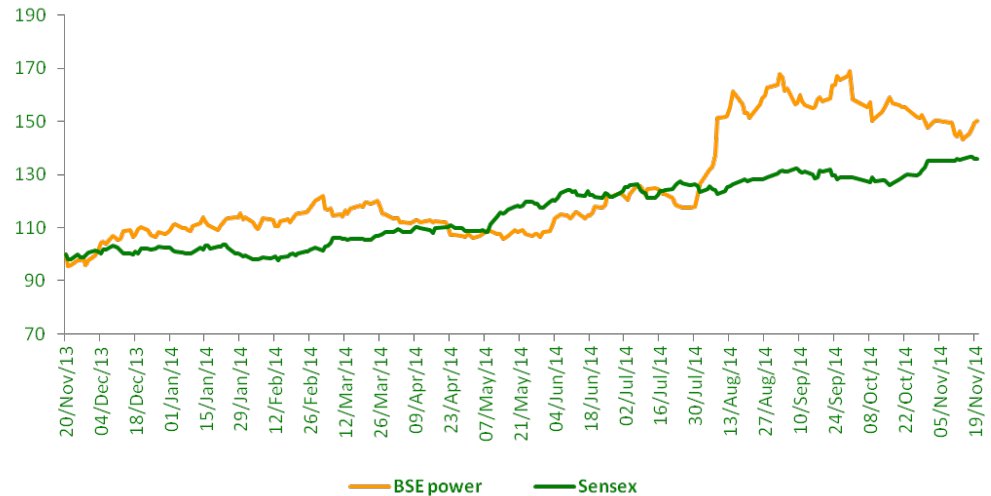
Sources: Company filings; IndiaNivesh Research



# POWER SECTOR

## Sector on reforms track

*Sound growth was seen on top line due to capacity addition and tariff hike, however bottom line was impacted by depreciation and interest cost*



PERFORMANCE (%)	BSE power	Sensex
1m	-3.6%	6.2%
3m	-1.9%	6.7%
12m	50.4%	36.0%

Power sector posted mixed performance in Q2FY15. International coal prices were favorable during the quarter leading to lower fuel prices.

*International coal prices were favorable for independent power producers*

Among PSUs, NTPC's operating performance was impacted due to adoption of new regulation. PGCIL showed decent revenue growth on the back of higher capitalization of assets while NHPC showed strong performance owing to capacity addition and re-commissioning of Dhauliganga Plant. Coal India reported number lower than our expectation due to lower e-auction volume.

Among IPP's JSW Energy witnessed higher volume which was offset by lower realization. Adani power earnings was boosted by compensatory tariff while Tata power's earning was impacted due to lower volume coupled with lower tariff. CESC reported EBITDA margin above expectation due to lower employee cost and other expenditure.

## POWER SECTOR (contd...)

### Q2FY15 Review

Company	Q2FY15			Margin %		QoQ % Change			YoY % Change			Comments
	Rs. Mn	Sales	EBITDA	PAT	EBITDA	PAT	Sales	EBITDA	PAT	Sales	EBITDA	
Adani Power	41,479	12,222	-7,987	29.5	-19.3	-20.6	-27.9	NA	36.2	NA	NA	Revenue boosted by compensatory tariff, Adjusted bottom line (after excluding exceptional item) below street expectation
CESC	16,610	4,230	1,920	25.5	11.6	-10.8	11.9	26.3	1.8	12.5	12.3	EBITDA margin expanded YoY due to higher power purchase cost and other expenditure
Coal India	156,780	20,696	21,924	13.2	14.0	-11.9	-51.7	-45.6	1.7	-25.9	-28.2	Profitability hurt by lower E-auction quantity coupled with lower realization
JSW Energy	22,513	8,479	3,255	37.7	14.5	-12.0	-6.4	-2.9	11.2	1.2	NA	Higher volume was offset by lower realization.
NHPC	20,988	12,881	6,841	61.4	32.6	2.1	-2.2	11.0	27.2	26.4	-3.3	Revenue increased by 29% YoY and 3% QoQ to Rs. 20.86 bn led by capacity addition and re-commissioning of Dhauliganga Plant
NTPC	167,366	32,423	20,716	19.4	12.4	-8.7	-7.9	-5.9	2.0	-23.7	-16.9	Below our expectation due to lower than expected production coupled with lower tariff
Power Grid	41,785	35,903	12,013	85.9	28.7	6.0	5.5	5.7	4.5	6.0	-3.1	EBITDA margin above our expectation, higher income from transmission business offset by lower income from consultancy and telecom business
Rpower	17,832	5,972	2,531	33.5	14.2	1.7	-5.9	3.6	35.0	38.5	1.0	consolidated PAT above our expectation due to better than expected operating margin, higher other income and lower effective tax rate
Tata Power	83,942	16,919	430	20.2	0.5	-4.2	-4.7	NA	-4.2	-	NA	Lower than consensus, due to non recognition of compensatory tariff

Source: Company Filings; Indianivesh Research, All consolidate numbers except CESC, NHPC, NTPC and Power Grid

**Imported coal prices fell , ST prices increased** Average Imported coal prices (during the quarter) stood at USD65/ton against USD74/ton in Q1FY15 and USD81/ton in Q2FY14. The short term prices have increased to Rs. 3.8/unit in Q2FY15 vs. Rs. 3.6/unit in Q1FY15

**Appreciation of INR favorable for IPP's:** International coal prices were favorable sequentially for independent power producers like Tata Power, JSW Energy and Adani power. These companies have higher exposure on imported coal and large dollar-denominated debt

**Tata power non recognition of compensatory tariff:** Among IPP's PAT growth of Tata power and Adani power would be suppressed due to losses from Mundra Plant. Although CERC had allowed a tariff hike, it has been referred back to the Appellate Tribunal for Electricity by the Supreme Court and will be reviewed. As the final tariff award is pending, Tata power is not booking the approved compensatory tariff

## POWER SECTOR (contd...)

### Valuation

	Sales (Rs. mn)	EBITDA (Rs. mn)	PAT (Rs. mn)	Mcap	P/E(x)	Mcap / Sales(x)	EBITDA%	NPM(%)	PBV(x)	ROE %	CMP	Target	Reco
Name	FY16e	FY16e	FY16e	FY16e	FY16e	FY16e	FY16e	FY16e	FY16e	FY16e	Rs.	Rs.	Rs.
Adani Power	203757	70417	2071	131678	40.0	0.6	34.6	1.0	2.2	7.0	46	50.0	HOLD
CESC Ltd.	63496	16251	7296	94546	10.8	1.5	25.6	11.5	1.3	12.5	713	NR	NR
Coal India	882648	240101	208341	2185146	10.5	2.5	27.2	23.6	4.1	36.0	346	422.0	HOLD
JSW Energy	96766	33004	12324	136043	11.1	1.4	34.1	12.7	1.6	15.2	83	NR	NR
NHPC	81847	52573	24548	225288	9.0	2.8	64.2	30.0	0.7	8.0	20	UR	NR
NTPC	882519	207942	104680	1173330	11.4	1.3	23.6	11.9	1.2	11.1	142	190.0	BUY
Power Grid	210265	180051	66617	765382	11.5	3.6	85.6	31.7	1.8	15.7	146	164.0	BUY
Rpower	89011	39784	19735	201969	10.3	2.3	44.7	22.2	1.0	7.0	72	118.0	BUY
Tata Power	387916	84721	17629	239630	12.9	0.6	21.8	4.5	1.5	11.4	89	104.0	BUY

Source: Company Filings; India Nivesh Research; Bloomberg CMP- 20-11-2014, ALL consolidated except CESC Ltd.

### Outlook

While the capacity addition and the private participation have been encouraging developments in the sector, there have been several problems plaguing the sector. The inadequate domestic fuel availability and the weak financial condition of the state electricity boards (which own more than 90% of the distribution in the country) are the key investment deterrents. Most private producers' projects are jeopardized due to non-availability of fuel, both coal and gas. Most power units are operating at below optimal plant load factors, leading to bleeding profit and loss accounts and debt-laden balance sheets.

We expect government will come up with policy measures to address the key issues plaguing the growth of power sector and help kick-start the weak investment cycle. Likely policy actions by government would be 1) Ensure availability of fuel, both coal and gas. 2) Auction of coal blocks 3) Easing of environment norms to help in ramp up coal and gas production and 4) Restructuring of SEB's to make them profitable.

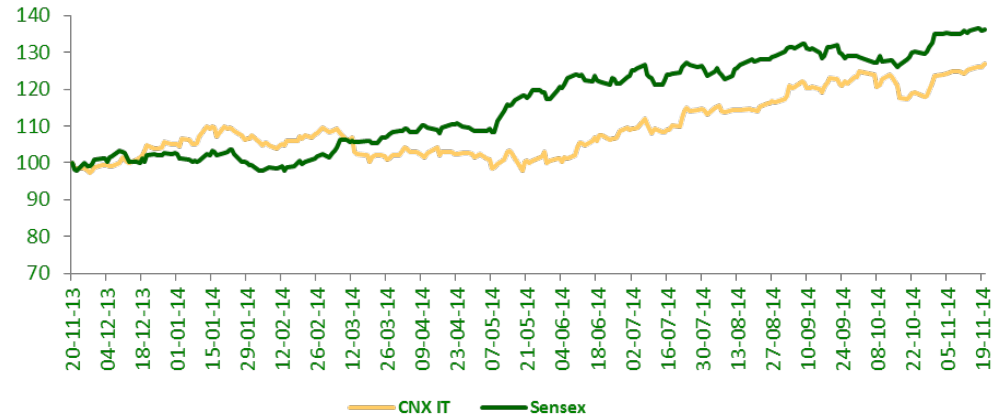
### Top Pick

We prefer Tata power, Power Grid, RPower, Coal India and NTPC.

# TELECOM SECTOR

*Risk of rise in competitive intensity | Top Picks: Idea*

**Telecom sector underperformed the Sensex by ~9.0% in past 12M. On absolute basis Telecom Index went up 27.0% in last 12M due to rational initiatives from telcos and strong performance in recent quarters.**



Telecom v/s Sensex Return %			
	1 Months	3 Months	1 Year
<b>Telecom</b>	2.0	16.0	27.0
<b>Sensex</b>	6.2	6.7	36.0

Source: BSE India (as on 20<sup>th</sup> Nov. 2014)

- In Q2FY15, the operating performance of telecom companies under our coverage was largely in-line with our estimates. Despite, seasonally weak quarter, Bharti (India-Mobile) and Idea's EBITDA margin largely remain stable.
- On account of seasonally weak quarter, ARPU trajectory came down (2.4%/2.8%) for Bharti/Idea, in line with the historical trend. The ARPM rise in case of Idea was a positive surprise for the street in Q2FY15.
- Bharti (Africa-Mobile) EBIDTA went down 70 bps Y/Y to 22.5% due to increase in the operating cost. Revenue was impacted by currency depreciation relative to USD. Subscriber base increased 3.3% Q/Q despite promotional bans in Nigeria and KYC changes in Uganda.

Company	Q/Q Growth %			No's (mn)
	ARPU	MOU	ARPM	Net Sub Adds (Q/Q)
BHARTI	-2.4	-2.5	-1.0	2,514
IDEA	-2.8	-4.2	1.8	4,600

Source: Company filings; IndiaNivesh Research

## TELECOM SECTOR (contd...)

- The wireless-India EBITDA margin went up 40-21bps Q/Q for Bharti/Idea on account of seasonally weak quarter.
- Consolidated net debt reduced sequentially for both Idea (Rs.146 bn v/s Rs.162) and Bharti (Rs.677bn v/s Rs.692bn).
- However, with Reliance JIO launch expected from January 2015 onwards, the focus is likely to shift towards potential disruption for incumbents and their data strategy. With new recommendations on spectrum trading/sharing already in place from regulator and consultation on upcoming spectrum auction currently in progress, policy decisions of the new government on these crucial issues would be keenly watched.

### Sector Outlook

Industry wide rational decision making like - (I) increase in headline tariffs, and (II) curtailment of freebies remains positive for the overall sector. Further, the softened stance from regulators towards telcos should resolve various unfavourable pending issues (one-time penalty). Additionally, high growth in data revenue and improving voice ARPM remains the key positives. However, Reliance-JIO 4G launch may increase the competitive intensity, which may lead to price war in high margin data business. Additionally, the competitive intensity in the upcoming spectrum action would be key watchable. We continue to maintain SELL rating on Bharti & HOLD on Idea.

Company	Q2FY15			Margin %		QoQ %			YoY %			Comments
	Sales	EBITDA	PAT	EBITDA	PAT	Sales	EBITDA	PAT	Sales	EBITDA	PAT	
Bharti	228452	77053	13831	32.0	6.0	-0.5	-0.2	24.8	7.1	12.8	170.2	Mixed set of performance–Africa business de-grew
Idea	75699	22394	5,898	29.6	10.3	0.1	-0.5	3.8	19.7	26.3	68.9	Above expectation performance

Source: Company filings; IndiaNivesh Research

## TELECOM SECTOR (contd...)

### Revisiting the past.....

Company	CMP	Previous Target	Previous Rating	Current Target	Current Rating
BHARTI	398	405	BUY	UR	SELL
IDEA	172	166	BUY	165	HOLD

Source: Company Filings; IndiaNivesh Research; Bloomberg; UR – Under Review ; CMP – 20/11/2014

### Valuations

Company	Mcap	P/E (x)	P/Sales (x)	EV/EBITDA (x)	EBITDA %	ROE %	CMP	Target	Reco
Name	Rs. Mn	FY16E	FY16E	FY16E	FY16E	FY16E	Rs.	Rs.	Rs.
Bharti	1,589,966	21.0	1.7	6.3	37.5	9.5	398	UR	SELL
Idea	617,222	18.7	2.3	6.1	32.5	13.6	172	165	HOLD

Source: Company Filings; IndiaNivesh Research; Bloomberg Note: MCAP – 20/11/2014

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## Thank You

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Current	Previous
<b>CMP : Rs.280</b>	
<b>Rating : BUY</b>	<b>Rating : NR</b>
<b>Target : Rs.352</b>	<b>Target : NR</b>

Note: CMP as of 20th Nov. 2014.

NR-Not Rated

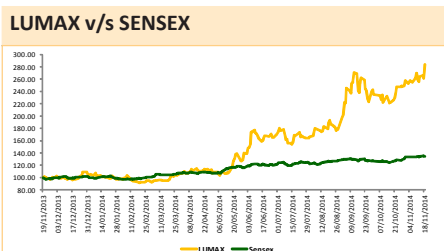
STOCK INFO	
BSE	532796
NSE	LUMAXTECH
Bloomberg	LUAT.BO
Reuters	LMAX IN
Sector	Auto Ancilliary
Face Value (Rs)	10
Equity Capital (Rs Mn)	136
Mkt Cap (Rs Mn)	3,885
52w H/L (Rs)	302/91
Avg Daily Vol (BSE+NSE)	29,239

SHAREHOLDING PATTERN	%
(as on Sep. 2014)	
Institutions	14.28
Others, Incl Public	30.05
Promoters	55.67

Source: BSE

STOCK PERFORMANCE (%)	1m	3m	12m
LUMAX	24	59	184
SENSEX	5	6	34

Source: Capitaline, IndiaNivesh Research



Source: Capitaline, IndiaNivesh Research

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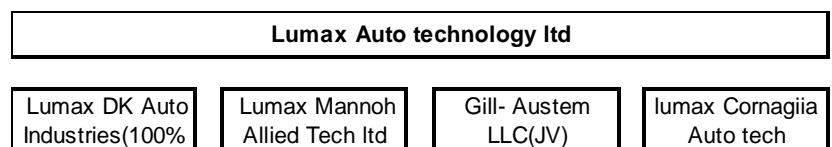
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*Lumax Auto Technologies (LATL) is a supplier of key components to the two-wheeler and the passenger car industries. Its key customers include Bajaj Auto, Piaggio, Honda Motorcycles and Scooters, Maruti Suzuki, Toyota and Tata Motors. Strong tie-ups with these OEMs will entail large business opportunities in the next few years. In spite of weak environment for auto OEMs, LATL's revenues stayed flattish in the past couple of years. However, EBIT margin weakened due to impact of higher depreciation and interest costs related to new plants. From here on we expect strong volume growth coupled with margin expansion in the next couple of years. With comfortable D/E of 0.2x and robust ROCE of 17%+, we find current valuations attractive, hence we recommend to BUY LATL with target price of Rs. 352 (10x FY16e EPS).*

### Structure of Lumax Auto Technology Ltd.

- Lumax Auto Technologies Ltd (is a part of the D.K. Jain Group of companies) through its wholly owned subsidiary, LDK, is the market leader in Design, Testing and Manufacturing of Parking Brakes & Gear Shift with a strong presence in both passenger cars & commercial vehicle segments.



Source: Company, IndiaNivesh Research

- However, in order to fully exploit the opportunity in exports market and speed to the Gear Shift lever business, Lumax Mannoh Allied Technologies Limited (LMAT) was incorporated on July 22, 2013, as a 100% subsidiary of LATL. The Gear Shifter division (including research and development facilities) of LDK has been demerged from the LDK and transferred to LMAT w.e.f. October 01, 2013. Recently the company has sold some stake of LMAT to Mannoh Industrial Co, Ltd, Japan.
- In order to strengthen its foothold in the seat frame business, the Company has entered into a Joint Venture Agreement with Gill-Austem LLC as new JV Company - Lumax Gill-Austem Auto Technologies Private Limited (LGAT) was incorporated during the year.
- Another JV, Lumax Cornagiia Auto Tech (LCAT) is supplying Air Intake System (AIS) to leading automobile manufactures in India viz. TATA, FIAT, VOLKSWAGEN, SKODA & General Motors.

### Wide range of product portfolio and strategic location

- Lumax has a wide range of product portfolio to cater large number of customers in the automotive industry. Company makes Head lamp, Tail lamp, Frame Chassis, Adjustor Motor, Handle bar, Mufflers, Gear shift lever, Parking breaks and other small parts. It satisfies major demands arising across the auto industry. LATL, primarily, was in the business of automotive lighting systems which now accounts only 30% of its standalone revenues and 19% of consolidated revenues. The company has diversified into new product lines wherein it is now a market leader in manufacturing of parking brakes and gear shift levers with a 60% share. Also the company is a major supplier of chasis, exhaust systems and petrol tanks for two-wheelers. Further, LATL has now diversified into non-automotive segments such as infrastructural lighting.

**Revenue Mix (Standalone)**

	FY13	FY14
<b>Products</b>		<b>Rs Mn</b>
Head Lamp	1,334.85	1,148.45
Tail Lamp	301.38	281.65
Frame Chassis	742.94	759.56
Adjustor Motor	509.4	469.31
Gear Shifter Assembly/ Parking Brake/nob	3238.65	2490.9
Air Intake Systems [AIS]	225.08	253.36
Other	1,310.8	2,224.4
<b>Total</b>	<b>7,663.10</b>	<b>7,627.60</b>

Source: Company, IndiaNivesh Research

- The company has ten modern manufacturing plants in India. Five plants are located in Pune, two plants in Aurangabad, in Maharashtra, one in Manesar Gurgaon, in Haryana, one plant in Kala Amb in Himachal Pradesh and one in Narsapura, Karnataka. All these facilities are strategically located in the automotive industrial belt.

**Strong clientele base**

Lumax Auto has large and reputed customers which include Bajaj Auto, Honda Motorcycle & Scooters India (HMSI), Piaggio, etc in the commuter segment. Further, company is market leader in Design, Testing and Manufacturing of Parking Brakes & Gear Shift levers in India since past 10 years with an overall domestic market share of more than 60% with a strong presence in both passenger cars & commercial vehicle segments. Its major customers include Maruti Suzuki, Honda Cars, Toyota, Nissan, General Motors India, Daimler, Mahindra and Volvo-Eicher.

**Supply to HMSI commenced last year**

The manufacturing facility at Narsapur, Hubli, Karnataka has commenced supplying plastic moulded parts to Honda Motorcycle & Scooters India (HMSI) last year which helped them to post flat growth in FY14 despite weak automotive sales during the year. With HMSI growing rapidly and capturing significant market share the growth of Lumax is likely to remain intact in the coming years.

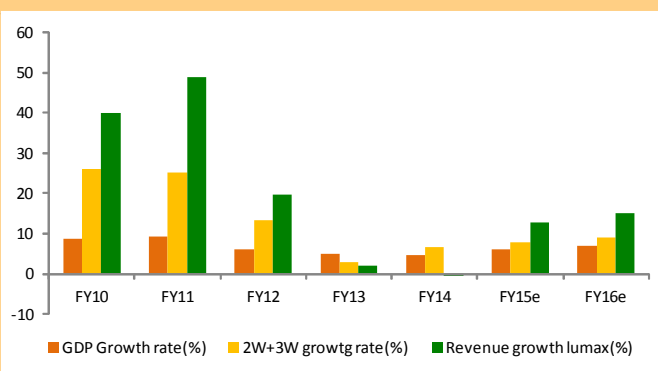
**Financial**

**Revenue is expected to grow by 13% in FY15e and 15% FY16e**

The company had shown poor growth in FY14 due to slowdown in Automotive Industry. We expect a strong revival in automotive industry on the back of 1) overall macro economic recovery, 2) cut in fuel prices and 3) peaking out of interest rates. The auto industry showed decent performance in YTD FY15 and expect it will continue in coming years on the back of revival in economy.

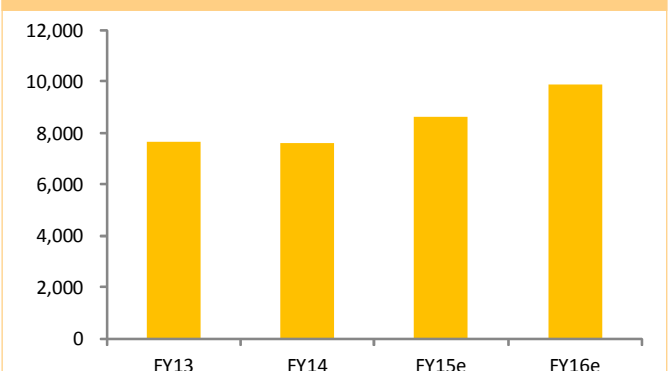
We believe top line to increase by 13% in FY15e and 15% in FY16e on the back of strong volume growth driven by new launches and favorable economic conditions.

**2W+3W industry growth & Revenue growth of Lumax**



Source: Company, IndiaNivesh Research

**Net sales (Rs Mn)**

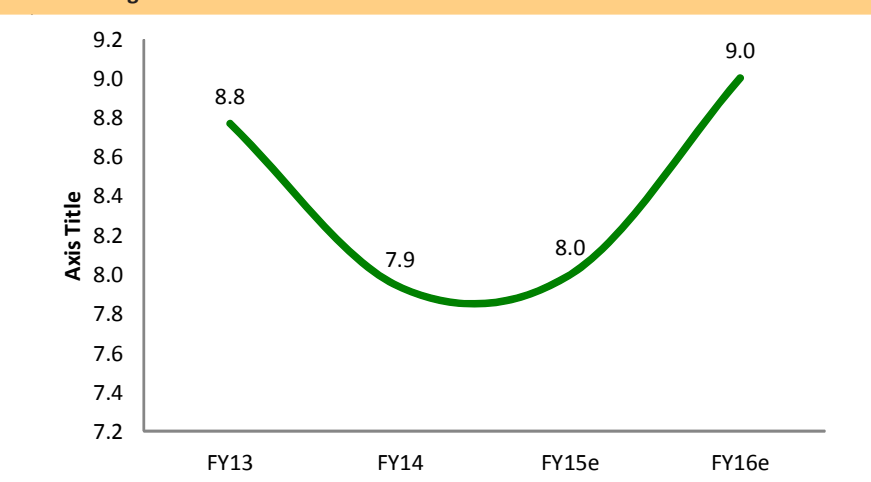


Source: Company, IndiaNivesh Research

### Margin to expand to 9% by FY16e

- With strong volume growth expectations in automotive industry the next couple of years, we expect robust margin expansion. We expect LATL margins to gradually improve in coming quarters led by high operating leverage. We expect margins to gradually improve to 9% by FY16E vs. 7.9% margin in FY14.
- Expansion in operating margin would lead to expansion in ROE by ~300 bps to 16.4%.

EBITDA Margin %



Source: Company, IndiaNivesh Research

### H1FY15 Performance

Total sales for the H1FY15 rose by 13.18% to Rs. 4.2 bn from Rs. 3.7 bn in H1FY14. During H1FY15, the consolidated net profit jumped to Rs. 320 mn against Rs. 145 mn in the corresponding quarter of previous year, an increase of 121%. EBITDA for the H1FY15 was Rs. 345.47 mn as against Rs. 278 mn in H1FY14, growth of 24.24%. EPS of the company stood at Rs. 23.49 a share during the period, registering at 120.8% increase over previous year period. However, during H1FY15, there was an exceptional item of Rs. 213.61 mn in Q1FY15 as profit on sale of shares in Lumax Mannoh Allied Technologies Limited (LMAT) to Mannoh Industrial Co, Ltd, Japan in terms of Joint Venture and Share Purchase and Shareholders' agreement.

	Q2FY15	Q1FY15	Q2FY14	QoQ %	YoY %	H1FY15	H1FY14	Chg % YoY
<b>Total Income</b>	<b>2217.7</b>	<b>1987.4</b>	1836.5	11.6	20.8	<b>4,205.20</b>	<b>3,715.58</b>	13.2
Operating expenses	2032.18	1827.49	1704.19	11.2	19.2	3,859.73	3,437.52	12.3
<b>EBITDA</b>	<b>185.52</b>	<b>159.91</b>	<b>132.31</b>	16.0	40.2	<b>345.47</b>	<b>278.06</b>	24.2
EBITDA Margin (%)	8.37	8.05	7.20	4.0	16.1	8.22	7.48	
Depreciation	51.22	52.51	43.71	-2.5	17.2	103.74	77.577	33.7
<b>EBIT</b>	<b>134.3</b>	<b>107.4</b>	<b>88.6</b>	25.0	51.6	<b>241.73</b>	<b>200.49</b>	20.6
EBIT Margin (%)						5.75	5.40	
Finance costs	12.13	13.02	10.47	-6.8	15.9	25.154	12.27	105.0
Other Income	9.89	16.26	9.99	-39.2	-1.0	26.151	18.303	42.9
<b>PBT before Exceptional Items</b>	<b>132.06</b>	<b>110.64</b>	<b>88.12</b>	19.4	49.9	<b>242.73</b>	<b>206.52</b>	17.5
Exceptional Items		213.62				213.62		NA
<b>PBT</b>	<b>132.06</b>	<b>324.26</b>	<b>88.12</b>	-59.3	49.9	<b>456.35</b>	<b>206.52</b>	121.0
<b>PAT after minority interest</b>	<b>86.22</b>	<b>233.9</b>	<b>64.8</b>	-63.1	33.1	<b>320.20</b>	<b>145.04</b>	120.8
<b>Adjusted PAT</b>	<b>86.22</b>	<b>83.9</b>	<b>64.8</b>	2.8	33.1	<b>170.20</b>	<b>145.04</b>	17.3
PAT Margin (%)	3.89	4.22	3.53			4.05	3.90	
<b>EPS</b>	<b>6.33</b>	<b>6.16</b>	<b>4.75</b>	2.8	33.1	12.49	10.64	17.3

Source: Company, IndiaNivesh Research

### Valuation

At CMP of Rs 280 the LATL trading at 8x of its FY16 expected EPS of Rs 36. With comfortable D/E of 0.2x and robust ROCE of 17%+, we find current valuations attractive, hence we recommend to BUY LATL with target price of Rs. 352 (10x FY16e EPS).

## Consolidated Financials

### Income Statement

Y E March (Rs m)	FY13	FY14	FY15e	FY16e
Net sales	7,663	7,628	8,619	9,912
Y/Y Ch %	2.1	-0.5	13.0	15.0
COGS	6,688	6,679	7,240	8,227
SG&A	304	344	690	793
<b>EBITDA</b>	<b>672</b>	<b>605</b>	<b>690</b>	<b>892</b>
Y/Y Ch %	4.2	-9.9	13.9	29.4
EBITDA Margin %	8.8	7.9	8.0	9.0
Depreciation	108	176	196	214
<b>EBIT</b>	<b>564</b>	<b>429</b>	<b>493</b>	<b>678</b>
EBIT Margin %	7.4	5.6	5.7	6.8
Interest	6	38	38	38
Other Income (Inc Forex)	37	38	41	46
Extra Ordinary Exps/(Income)	-	-	-	-
<b>PBT</b>	<b>594</b>	<b>429</b>	<b>497</b>	<b>686</b>
Tax	183	127	149	206
Effective tax rate %	30.9	29.6	30.0	30.0
<b>Reported PAT</b>	<b>411</b>	<b>302</b>	<b>348</b>	<b>480</b>
Y/Y Ch %	-19.0	-26.4	15.1	38.0
Minority & Exceptional	-	-	-	-
<b>Adj. PAT (APAT)</b>	<b>411</b>	<b>302</b>	<b>348</b>	<b>480</b>
RPAT Margin %	5.4	4.0	4.0	4.8
Y/Y Ch %	-19.0	-26.4	15.1	38.0

Source: Company filings; IndiaNivesh Research

### Balance Sheet

Y E March (Rs m)	FY13	FY14	FY15e	FY16e
Share Capital	136	136	136	136
Reserves & Surplus	1,977	2,123	2,389	2,787
<b>Net Worth</b>	<b>2,113</b>	<b>2,260</b>	<b>2,526</b>	<b>2,924</b>
Minority	0	0	0	0
Long-term + ST loans	274	524	524	524
Others	49	54	54	54
<b>Total Liabilities</b>	<b>2,436</b>	<b>2,837</b>	<b>3,103</b>	<b>3,501</b>
Gross Block	3,841	4,362	4,762	5,162
Less Depreciation	1,835	2,011	2,207	2,422
<b>Net Block</b>	<b>2,006</b>	<b>2,351</b>	<b>2,555</b>	<b>2,741</b>
Intangible	348	240	240	240
Investments	194	194	194	194
Deferred tax (net)	-101	-144	-144	-144
<b>Current Assets</b>	<b>1,781</b>	<b>1,949</b>	<b>2,147</b>	<b>2,662</b>
Sundry Debtors	1,286	1,321	1,435	1,661
Cash & Bank Balance	98	139	275	454
Loans & advances	108	143	121	155
Inventories	288	346	316	392
<b>Current Liabilities</b>	<b>1,607</b>	<b>1,514</b>	<b>1,658</b>	<b>1,966</b>
Provisions	184	239	232	226
<b>Net Current Assets</b>	<b>(10)</b>	<b>195</b>	<b>258</b>	<b>471</b>
<b>Total assets</b>	<b>2,436</b>	<b>2,837</b>	<b>3,103</b>	<b>3,502</b>

Source: Company filings; IndiaNivesh Research

### Cash Flow

Y E March (Rs m)	FY13	FY14	FY15e	FY16e
Operating Profit	564	429	493	678
Depreciation	108	176	196	214
Interest Exp	-6	-38	-38	-38
Changes in Working Capital	208	-79	73	12
<b>Cash Flow After Change in WCapital</b>	<b>874</b>	<b>488</b>	<b>725</b>	<b>866</b>
Tax	-183	-127	-149	-206
Others	0	0	0	0
<b>Cash flow from operations</b>	<b>691</b>	<b>361</b>	<b>576</b>	<b>661</b>
Capital expenditure (net)	-1,111	-414	-400	-400
<b>Free Cash Flow</b>	<b>-420</b>	<b>-53</b>	<b>176</b>	<b>261</b>
Other income	0	0	0	0
Investments	0	0	0	0
<b>Cash flow from investments</b>	<b>-1,111</b>	<b>-414</b>	<b>-400</b>	<b>-400</b>
Long-Term Debt (Decrease) Increase	257	249	0	0
Dividend paid (incl tax)	-82	-82	-82	-82
Share Issue / Repurchase & Others	-44	-74	42	0
<b>Cash flow from Financing</b>	<b>132</b>	<b>94</b>	<b>-40</b>	<b>-82</b>
<b>Net change in cash</b>	<b>-288</b>	<b>41</b>	<b>136</b>	<b>179</b>
<b>Cash at the beginning of the year</b>	<b>386</b>	<b>98</b>	<b>139</b>	<b>275</b>
<b>Cash at the end of the year</b>	<b>98</b>	<b>139</b>	<b>275</b>	<b>454</b>

Source: Company filings; IndiaNivesh Research

### Key Ratios

Y E March	FY13	FY14	FY15e	FY16e
Adj. EPS (Rs)	30.1	22.2	25.5	35.2
Cash EPS (Rs)	38.1	35.1	39.9	50.9
DPS (Rs)	6.0	6.0	6.0	6.0
BVPS	155.0	165.8	185.3	214.5
ROCE %	23.9	16.8	17.4	20.8
ROE %	19.4	13.4	13.8	16.4
ROIC %	13.5	7.8	8.6	11.4
EBITDA Margin %	8.8	7.9	8.0	9.0
PER (x)	9.3x	12.6x	10.9x	7.9x
P/BV (x)	1.8x	1.7x	1.5x	1.3x
P/CEPS (x)	7.3x	8.0x	7.0x	5.5x
EV/EBITDA (x)	4.0x	4.2x	5.9x	4.3x
Dividend Yield %	2.2	2.2	2.2	2.2
m cap/sales (x)	0.3x	0.3x	0.4x	0.4x
net debt/equity (x)	0.1x	0.2x	0.1x	0.0x
net debt/ebitda (x)	0.3x	0.6x	0.4x	0.1x
Debtors (Days)	60	62	61	61
Creditors (Days)	75	71	70	72
Inventory (Days)	14	17	13	14
Cash Conversion Cycle (Days)	-1	7	4	3

Source: Company filings; IndiaNivesh Research

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1. Analyst ownership of the stock	No
2. Clients/Company Associates ownership of the stock	Yes
3. Broking relationship with company covered	No
4. Investment Banking relationship with company covered	No

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## Global Market Update

- **US Markets:** The U.S. stock market ended the week in rally mode Friday. Sparked by a surprise dose of liquidity measures launched by China's central bank and dovish comments from European Central Bank President Mario Draghi on Friday, U.S. equities recorded their fifth-straight week of gains.

After timidly moving higher over the course of the past few trading sessions, more detailed talk of stimulus by economic world leaders at some of the biggest, and most sluggish, economies helped push stocks higher.

China's central bank cut its one-year loan rate by 0.4 percentage points and its one-year deposit rate by 0.25 percentage points while saying it would allow more flexible deposit rates. The ECB said it began buying asset-backed securities Friday, expanding its quantitative easing regimen. The asset-based-securities purchases represent the second leg of the ECB's quest to catalyze growth by expanding its balance sheet. In September, the central bank began buying covered corporate bonds, which are guaranteed against a company's assets.

- **Day's Performance:** The Dow Jones Industrial Average jumped 91.06 points, or 0.5%, to 17,810.06, and booked a 1% gain over the week. The S&P 500 closed 10.75 points, or 0.5% higher at 2,063.50, with broad-based gains led by materials and energy sector stocks. The benchmark index gained 1.2% over the week. The Nasdaq Composite rose 11 points, or 0.2%, to 4,712.97 and added 0.5% over the past five sessions.
- **Set ups** on S&P 500, Dow Industrial Average and Nasdaq 100 are indicating weakness creeping in, we remain cautious on US markets though it is making time highs expecting another round of deep correction soon.
- **Emerging markets:** Asian stocks rose for a second day after U.S. indexes reached another record; on China's unexpected interest-rate cut which stoked optimism in the global economy.
- **Bullions & Commodities:** Gold is trading at \$1200 per troy ounce this morning up 0.13% from previous close. WTI Crude future is trading at 76.48 per barrel while Brent Crude future is trading at \$80.43 per barrel.
- **Currencies:** The U.S. Dollar Index tracking the U.S. currency against a basket of six others currencies trading at 88.33 this morning down (0.04%) from previous close. Long term set ups up on Dollar Index are looking strong. It has broken above 84 on a weekly closing basis. Likely upside in medium term would be around 89 levels. The dollar and U.S. stocks often trade on opposite paths, with a weak dollar seen as providing investors with cheap funding to buy stocks. Plus the dollar's drop generally helps U.S. companies' overseas sales.

Source: Bloomberg



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