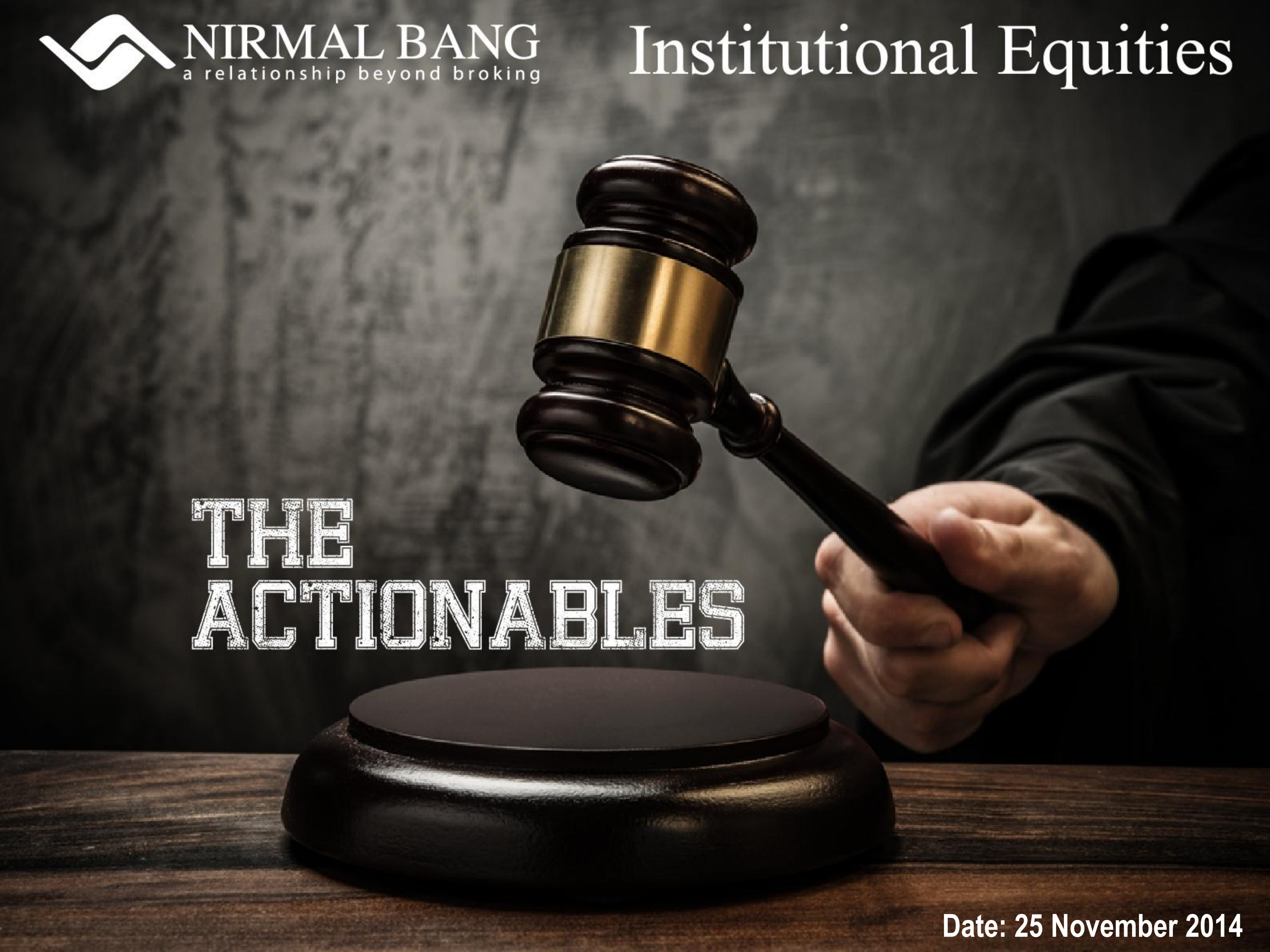
NIRMAL BANG
a relationship beyond broking
Institutional Equities
THE ACTIONABLES
Date: 25 November 2014

Introduction

There are stocks and there are businesses. We, at Nirmal Bang Institutional Equities, have tried very hard over the past four years to identify good, solid businesses in the mid-cap space for you, whilst trying to be value additive / contrarian on the large-caps, wherever pertinent. In this brief piece today, we look at some of the stocks wherein our conviction level is high on the upside and downside, our reasons for the same and therein looking to provide an opportunity for a switch trade in certain sectors, wherever applicable. The stocks that we have recommended to buy into in this report, especially the mid-caps, have been secular buys for us and continue to be and similarly for the sells, be in on the large-caps or the mid-caps. We think, at the current prices, the companies that have a buy recommendation in this report offer good prospects of incremental cash flows, strong return ratio profiles, good governance and strong earnings visibility. The rationale for the sell calls in this piece would be the exact converse of the previous stated statement. You can also find on the last page on this report, a list of our top mid-cap stock (business) ideas that we continue to recommend at this price and at every dip as they fulfill the criteria mentioned earlier in the paragraph. Our research team would be happy to engage with you on any of the ideas wherein there is an interest from your end.

Best Regards,
Rahul Arora
Chief Executive Officer

Sector-wise Top BUY-Top SELL

- **Banking**
  - **Top Buy:** IndusInd Bank
  - **Top Sell:** Syndicate Bank
- **Capital Goods**
  - **Top Buy:** Triveni Turbine
  - **Top Sell:** Bharat Heavy Electricals
- **Cement**
  - **Top Buy:** UltraTech Cement
- **FMCG**
  - **Top Buy:** Colgate-Palmolive (India)
  - **Top Sell:** Britannia Industries
- **Metal & Mining**
  - **Top Buy:** Tata Steel
  - **Top Sell:** Coal India
- **Mid-cap**
  - **Top Buy:** CCL Products, Adi Finechem
- **Pharmaceuticals**
  - **Top Buy:** Aurobindo Pharma
  - **Top Sell:** Torrent Pharma

IndusInd Bank

CMP: Rs720; Rating: Buy; M-Cap: US$6.3bn; TP: Rs800

- **Strong growth ahead**
  - Management is targeting to double the branch network as well as customer base over next three years. It is targeting credit growth of 25%-30%.
- **Outlook on automobile segment improves**
  - Indusind Bank has exposure of 37% of its loan book to the commercial vehicle segment, two-wheeler loans, car loans and equipment financing. With the upturn in the automobile segment, Indusind Bank will be the biggest beneficiary.
- **New innovation on a regular basis**
  - Some of the innovations are video branches, option to choose account number, currency denomination selection while withdrawing money from ATMs, direct connect to phone banking officer and higher interest rate on savings deposit accounts.
- **MD & CEO likely to get extension of his term**
  - With the recent stipulation of maximum age of 70 years, Mr. Ramesh Sobti is likely to get an extension of his term as managing director and chief executive officer.
- **Return ratios one of the best in the industry**
  - With strong traction in net interest margin and fee income, we expect RoA to improve to ~1.9% and RoE to rise to ~20%, which will be one of the best in the industry.

Y/E March (Rsmn)	FY13	FY14	FY15E	FY16E	FY17E
Net interest income	*22,329*	*28,907*	*34,180*	*41,591*	*49,313*
Pre-provision profit	*18,395*	*25,960*	*30,286*	*37,830*	*44,782*
PAT	*10612*	*14080*	*16958*	*21763*	*25840*
EPS (Rs)	*20.3*	*26.8*	*32.3*	*41.4*	*49.2*
ABV (Rs)	*143.1*	*168.3*	*191.5*	*222.9*	*261.2*
P/E	35.5	26.9	22.3	17.4	14.6
P/ABV	5.0	4.3	3.8	3.2	2.8
Gross NPAs (%)	*1.0*	*1.1*	*1.2*	*1.2*	*1.3*
Net NPAs (%)	*0.3*	*0.3*	*0.3*	*0.3*	*0.3*
RoA (%)	*1.6*	*1.8*	*1.8*	*1.9*	*1.9*
RoE (%)	*17.2*	*16.9*	*17.5*	*19.5*	*19.9*

Source: Company, Nirmal Bang Institutional Equities Research

Syndicate Bank

CMP: Rs128; Rating: Sell; M-cap: US$1.3bn; TP: Rs110

- **Weak asset quality**
  - Incremental addition to stressed assets continuously remains above our comfort level. On the other hand, loan recovery/upgradation showing no signs of improvement.
- **Corporate governance problem**
  - We remain cautious on the bank and its asset quality outlook after the arrest of Mr. Sudhir Kumar Jain, ex-chairman and managing director, in a bribery case. This position is still vacant.
- **Low capital to hinder growth**
  - Syndicate Bank's current CRAR is 10.4% with Tier I at only 7.9%. Such low capital will act as a barrier to higher balance sheet growth.
- **Return ratios may remain subdued for next three years**
  - Despite factoring in loan slippage easing from 3.3% in FY15 to 2.2%/1.8% in FY16E/FY17E, respectively, credit costs will continue to remain high so as to provide for past slippage. As a result, we expect its RoA to languish at ~0.6-0.7% over the next three years.

Y/E March (Rsmn)	FY13	FY14	FY15E	FY16E	FY17E
Net Interest income	54,541	55,398	57,819	67,908	79,661
Pre-provision profit	34,496	35,629	40,221	46,435	54,261
PAT	20044	17114	16336	19350	25053
EPS (Rs)	33.3	27.4	26.2	31.0	40.1
ABV (Rs)	130.9	137.2	119.2	124.9	154.3
P/E (x)	3.8	4.7	4.9	4.1	3.2
P/ABV	1.0	0.9	1.1	1.0	0.8
Gross NPAs (%)	*2.0*	*2.6*	*3.5*	*3.6*	*3.2*
Net NPAs (%)	*0.8*	*1.6*	*2.5*	*2.5*	*2.2*
RoA (%)	*1.0*	*0.7*	*0.6*	*0.6*	*0.7*
RoE (%)	*21.6*	*15.7*	*13.2*	*14.2*	*16.4*

Source: Company, Nirmal Bang Institutional Equities Research

Triveni Turbine

CMP: Rs102; Rating: Buy; M-cap: US$559mn; TP: Rs134

- **Technology-driven customised products**
  - Industrial turbines are customised as per end-user industry and output capacity. Therefore, it is a low competition and high-margin business. The 0-30MW segment enjoys duopoly in India.
- **Strong financial health**
  - Robust margin profile, high return ratios, low working capital cycle, strong cash flows and healthy dividend payout.
- **Rising exports and after-market services**
  - Both have aided margins and posted healthy growth, thereby countering the slowdown in domestic market.
  - Exports accounted for 32%/60% of 1HFY15 revenue/order intake, respectively.
  - Steady and high-margin after-market services business (26% of 1HFY15 revenue) is a key differentiator.
- **Scale-up of GE-Triveni joint venture (30-100MW segment)**
  - The JV garnered order book of Rs2.4bn (31% of consolidated order book of Rs7.7bn) with a healthy mix of domestic and international orders, and the potential for further scale-up is immense.
- **Recovery in domestic captive power market**
  - Market size collapsed from 1,800MW in FY10 to 700MW in FY14, likely gradual recovery to provide a significant boost.
- **Healthy growth momentum likely over FY14-FY16E**
  - Revenue/EBITDA/PAT likely to post 36%/47%/51% CAGR, respectively.

Y/E March (Rsmn)	FY13	FY14	FY15E	FY16E	FY17E
Net sales	6,653	5,154	7,049	9,483	11,539
EBITDA	1,609	1,036	1,613	2,229	2,721
Net profit	1,045	680	1,112	1,539	1,852
EPS (Rs)	3.2	2.1	3.4	4.7	5.6
EPS growth (%)	*19.6*	*(35.0)*	*63.7*	*38.3*	*20.3*
EBITDA margin (%)	*24.2*	*20.1*	*22.9*	*23.5*	*23.6*
PER (x)	32.2	49.5	30.3	21.9	18.2
P/BV (x)	24.3	19.3	14.0	10.0	7.4
EV/EBITDA (x)	20.7	32.6	20.8	14.9	11.8
Dividend yield (%)	*0.8*	*0.7*	*1.2*	*1.5*	*1.7*
RoCE (%)	*97.5*	*43.5*	*56.8*	*57.8*	*52.1*
RoE (%)	*75.6*	*38.9*	*46.4*	*45.8*	*40.6*

Source: Company, Nirmal Bang Institutional Equities Research

Bharat Heavy Electricals

CMP: Rs257; Rating: Sell; M-cap: US$9.9bn; TP: Rs190

- **Demand likely to remain weak**
  - Significant revival of BTG orders in India over the next three years is unlikely considering: (a) ~90GW of power plants are already under construction (b) Private sector's capex towards setting up new power plants is unlikely to revive soon, and (c) NTPC and state electricity boards' orders are insufficient for the BTG industry
  - BHEL's average annual order inflow fell from Rs595bn over FY09-FY11 to Rs270bn over FY12-FY14, while it is unlikely to exceed an average of Rs350bn over FY15E-FY17E.
- **High competitive intensity to ensure pressure on pricing**
  - Competition has intensified with at least four credible domestic boiler and turbine manufacturers compared to a duopoly earlier.
  - Unfavorable demand-supply dynamics, with 35GW capacity to service 15GW annual demand leading to sustained pricing pressure .
- **Potentially high impact of pay revision from 1 January 2016**
  - Wage cost revision as per 7th Pay Commission is due from 1 January 2016.
  - It could have a potentially large impact on BHEL where staff costs are likely to be 20% of FY15E sales, with 45,000 employees.
- **Weak financial health**
  - Elongated working capital cycle with rising receivables and a sub-optimal return ratios (in single digit) to exert pressure on financials.
- **Earnings decline phase to continue in FY14-FY16E**
  - BHEL posted 19%/52%/48% YoY decline in revenue/EBITDA/PAT, respectively, in FY14. Revenue/EBITDA/PAT likely to post 7%/10%/11% CAGR decline, respectively, over FY14-FY16E, despite the subdued base of FY14.

Y/E March (Rsmn)	FY13	FY14	FY15E	FY16E	FY17E
Net sales	484,247	391,088	305,230	335,872	380,194
EBITDA	93,898	45,198	31,022	36,247	45,254
Net profit	66,147	34,608	23,018	27,348	34,553
EPS (Rs)	27.0	14.1	9.4	11.2	14.1
EPS growth (%)	*(6.7)*	*(47.7)*	*(33.5)*	*18.8*	*26.3*
EBITDA margin (%)	*19.4*	*11.6*	*10.2*	*10.8*	*11.9*
PER (x)	9.5	18.2	27.3	23.0	18.2
P/BV (x)	2.1	1.9	1.8	1.7	1.6
EV/EBITDA (x)	6.0	11.9	17.2	14.4	11.3
Dividend yield (%)	*2.1*	*1.1*	*0.8*	*1.0*	*1.2*
RoCE (%)	*29.3*	*10.5*	*5.7*	*6.7*	*8.3*
RoE (%)	*23.7*	*10.9*	*6.8*	*7.6*	*9.1*

Source: Company, Nirmal Bang Institutional Equities Research

UltraTech Cement

CMP: Rs2,522; Rating: Buy; M-cap: US$11.2bn; TP: Rs3,081

Strong cement demand recovery expected

- After witnessing close to a 4% CAGR growth in the past four years, this year cement demand picked up at 9% in 1HFY15 driven by a low base, pent-up demand and increase in government spending because of elections. We expect this strong demand growth to sustain driven by the government's focus on infrastructure, clearing of stuck projects, focus on smart cities and increase in investment through initiatives like 'Make In India' . We expect a 8%-9% demand CAGR over FY14-FY17E.

Robust volume growth likely

- We expect UltraTech Cement to deliver a 13% CAGR in cement volume over FY14-FY17E, driven by integration of Jaypee assets in Gujarat and demand growth across India.

Costs are showing a declining trend

- After witnessing a sustained rise in costs in the past three-four years on account of constant hike in diesel prices and increase in coal prices (partially driven by rupee depreciation), the cost environment has begun to ease considerably. Diesel price reduction after a steep fall in crude oil prices and a sizeable fall in coal prices globally amid a stable Indian rupee against the US dollar will result in a 3%-5% decline in costs.

Earnings growth trajectory to remain strong

- Driven by strong volume growth and steady price improvement, we expect 26%/30% CAGRs in EBITDA/PAT, respectively, over FY14-FY17E.

Y/E March (Rsmn)	FY13	FY14	FY15E	FY16E	FY17E
Net sales	201,800	202,798	238,318	290,032	338,394
EBITDA	46,755	38,179	46,282	65,292	76,465
Net profit	26,554	21,445	25,895	37,930	46,648
Adj. EPS	96.9	78.2	94.4	138.3	170.1
EPS growth (%)	*8.5*	*(19.3)*	*20.8*	*46.5*	*23.0*
EBITDAM (%)	*23.2*	*18.8*	*19.4*	*22.5*	*22.6*
PER (X)	*26.0*	*32.3*	*26.7*	*18.2*	*14.8*
P/BV (x)	*4.5*	*4.0*	*3.6*	*3.1*	*2.6*
EV/EBITDA	*15.2*	*18.2*	*15.9*	*11.1*	*9.0*
RoCE (%)	*12.4*	*9.7*	*10.2*	*13.4*	*14.4*
RoE (%)	*17.4*	*12.5*	*14.5*	*18.0*	*18.4*

Source: Company, Nirmal Bang Institutional Equities Research

Colgate-Palmolive (India)

CMP: Rs1,930; Rating: Buy; M-Cap: US$4.2bn; TP: Rs2,044

- Oral care in India offers a tremendous growth opportunity because of low toothpaste penetration in rural areas at 63%, low per capita consumption even when compared to emerging markets and also the ongoing/potential increase in premiumisation.
- Colgate, the clear market leader with ~ 57% market share in toothpastes, enjoys unparalleled barriers to entry in the form of phenomenal brand strength, widest product portfolio, advantage of dedicated focus (oral care business accounts for 97% of sales), huge distribution reach, unmatched category development efforts, remarkable track record of success in emerging markets and continued high spending on advertising and promotion (A&P), which its peers can't match.
- Despite unprecedented competitive intensity over the past year from P&G's Oral-B toothpaste launch and increased aggression from HUL, Colgate has increased its market share by 80bps YoY in toothpastes, went for higher-than-usual price hikes in the past few years, did not offer any discounts and its working capital cycle actually improved substantially in the past one year.
- A large part of the pain because of high A&P spending (up 380bps YoY in FY14 at 19.2% of sales) has already been witnessed on margins and with steady sales growth, ongoing premiumisation, lower A&P spending to sales ratio going forward and operating leverage, EPS is likely to post a 21.5% CAGR for the next three years. The stock trades at 35.7x/30.8x FY16E/FY17E EPS, respectively, well below MNC peers, despite best-in-class earnings growth, RoE and RoCE of ~100% and attractive dividend yield of 2.0%-2.3%.

Y/E March (Rsmn)	FY13	FY14	FY15E	FY16E	FY17E
Revenue	31,654	35,788	*40,118*	*46,938*	*54,449*
YoY (%)	*17.4*	*13.1*	*12.1*	*17.0*	*16.0*
EBITDA	6,584	6,640	*8,304*	*10,749*	*12,687*
EBITDA (%)	*20.8*	*18.6*	*20.7*	*22.9*	*23.3*
PAT	4,968	4,755	*5,750*	*7,363*	*8,528*
YoY (%)	*11.3*	*(4.3)*	*20.9*	*28.1*	*15.8*
FDEPS (Rs)	*36.5*	*35.0*	*42.3*	*54.1*	*62.7*
RoE (%)	*107.4*	*87.3*	*88.8*	*97.5*	*96.2*
RoCE (%)	*105.2*	*85.4*	*87.3*	*95.5*	*93.9*
P/E (x)	*52.8*	*55.2*	*45.7*	*35.7*	*30.8*
EV/EBITDA (x)	*39.1*	*39.0*	*31.0*	*23.8*	*19.9*
P/BV (x)	*53.6*	*43.8*	*37.8*	*32.2*	*27.4*
Price/sales (x)	*8.1*	*7.2*	*6.4*	*5.4*	*4.6*

Source: Company, Nirmal Bang Institutional Equities Research

Britannia Industries

CMP: Rs1,653; Rating: Sell; M-Cap:US$3.2bn; TP: Rs1,202

- While Britannia Industries has done well in recent years on the margins front and the near-term outlook is good because of stable commodity costs, its fundamental weaknesses versus peers remain. Lower procurement strength compared to ITC (crucial in a low gross margin category), absence of investment in research and development or R&D (spending of less than 0.1% of sales in each of the past 10 years), weaker distribution compared to market leader Parle (3.6mn outlets versus 5.5mn outlets), and continued weakness of its low-end brand Tiger brand compared to Parle-G, the largest-selling biscuit brand in India, will hurt earnings growth in the medium to long-term.
- What is also of concern is the stark decline in advertisement and promotion (A&P) spending. A&P not just declined as a percentage of sales, but also on an absolute basis YoY in the past three quarters. Even on a percentage-to-sales basis, standalone A&P spending for the past two quarters has been at the lowest level in any quarter over the past six years. Given the extremely high competitive intensity, steep market share loss witnessed in the past 10 years (only a fraction of which has been recouped, of late) and likely advertisement spending on new product launches, A&P spending is poised to increase substantially from the low level witnessed in 1HFY15 (7.3% of consolidated sales).
- While the company is likely to increase R&D and advertisement spending from the current levels, costs will be heavily frontloaded and the positive impact on earnings may take years, given the low likely impact of successful new products on a company with Rs78.2bn of sales likely in FY15E
- Earnings growth is likely to be weak at a 8% CAGR over FY15E-FY7E because of the concerns stated above. Any sharp increase in commodity costs in FY16 or FY17 (not in our estimates) could in fact lead to EPS decline. Earnings growth lower than peers over FY15E-FY17E, its subsequent impact on return ratios, and prevailing valuation of 36.6xFY16E EPS and 33.1xFY17E EPS, a premium not only to domestic FMCG peers but also a huge premium to its own 3-year,5-year and 10-year forward P/E average of 21x-24x, led us to set a target price of Rs1,202 on Britannia Industries, down 27% from the current market price.

Y/E March (Rsmn)	FY13	FY14	FY15E	FY16E	FY17E
Revenue	61,854	68,927	78,163	89,106	103,363
YoY (%)	*12.9*	*11.4*	*13.4*	*14.0*	*16.0*
EBITDA	4,206	6,072	7,894	8,643	9,716
EBITDA (%)	*6.8*	*8.8*	*10.1*	*9.7*	*9.4*
Adj. PAT	*2,595*	*3,954*	*5,137*	*5,406*	*5,987*
YoY (%)	*30.1*	*52.3*	*29.6*	*5.2*	*10.7*
FDEPS (Rs)	21.7	33.0	42.9	45.1	50.0
RoE (%)	*53.7*	*58.3*	*52.2*	*40.7*	*36.1*
RoCE (%)	*25.5*	*39.6*	*54.6*	*35.3*	*31.9*
P/E (x)	*76.2*	*50.1*	*38.6*	*36.6*	*33.1*
EV/EBITDA (x)	*47.6*	*32.3*	*24.5*	*22.3*	*19.6*
P/ BV (x)	*9.9*	*12.0*	*19.2*	*16.2*	*18.0*
Price/ sales	*3.2*	*2.8*	*2.5*	*2.2*	*1.8*

Source: Company, Nirmal Bang Institutional Equities Research

Tata Steel

CMP: Rs477; Rating: Buy; M-cap: US$7.5bn; TP: Rs634

Margin expansion likely in Europe

- We expect strong margin expansion in Europe driven by lower raw material prices. 2QFY15 margins have been partially impacted as iron ore prices are on a declining trend and the fall in steel prices preceded the decline in raw material prices. Tata Steel Europe (TSE) will get the full benefit of lower raw material prices in the coming quarters. We expect its EBITDA margin to improve from US$36/tn in FY14 to US$52/US$60/US$74 per tonne in FY15/FY16/FY17, respectively.

Sale of long product division to be positive

- Tata Steel has indicated that it is currently in negotiations with Klesch Group to sell the long product division of Tata Steel Europe, which has a total capacity of 4.5mt. We like to highlight that this division is not performing well and it is currently close to break-even at the EBITDA level. Therefore, selling this division will not result in a meaningful hit on EBITDA, while it will lower debt.

Regulatory concerns likely to resolved soon

- We expect regulatory concerns on Odisha and Jharkhand mines to be resolved soon, as seen from Steel Authority of India's management commentary, where Odisha government has granted mining lease and Jharkhand government has been told to give an express order on mining lease.

Volume growth to pick up in domestic market

- Commissioning of Tata Steel Kalinganagar and improvement in domestic demand will result in steady volume growth of 9% in the domestic market over FY15E-FY17E

Y/E March (Rsmn)	FY13	FY14	FY15E	FY16E	FY17E
Revenue	1,347,115	1,486,136	1,460,570	1,478,664	1,539,625
YoY (%)	*1.4*	*10.3*	*(1.7)*	*1.2*	*4.1*
EBITDA	123,212	164,110	177,521	195,604	221,689
EBITDA (%)	*9.1*	*11.0*	*12.2*	*13.2*	*14.4*
PAT	(70,576)	35,949	44,544	57,669	78,628
YoY (%)	(72.7)	37.0	45.9	59.4	80.9
FDEPS (Rs)	*(230.9)*	*(150.9)*	*23.9*	*29.5*	*36.3*
RoE (%)	*(18.6)*	*9.8*	*10.7*	*12.6*	*15.2*
RoCE (%)	*12.3*	*5.3*	*5.0*	*6.3*	*7.7*
P/E (x)	(6.6)	12.9	10.4	8.0	5.9
EV/EBITDA (x)	8.6	7.2	6.8	6.1	5.1

Source: Company, Nirmal Bang Institutional Equities Research

Coal India

CMP: Rs347; Rating: Sell; M-cap: US$35.5bn; TP: Rs321

E-auction volume reduction to hurt profitability sharply

- Coal India (CIL) has been directed to cut e-auction volume to 25mt compared to 58mt in FY14. We like to highlight that e-auction accounted for 13% of its volume, but 42% of EBITDA. Although e-auction realisation has risen, it has not been able to compensate to the full extent, while a steep fall in imported coal prices is keeping a check on e-auction prices.

Price hike appears unlikely this year

- There has been growing noise for a price hike in view of profitability taking a hit because of e-auction volume reduction and quality concerns which negated the price hike done in May 2013. However, lower profitability cannot be a reason for allowing a price hike as CIL has maximum profitability in the entire power chain and it has sufficient cash to fund its future expansion (FY15 capex guidance at Rs50bn and cash reserves at the end of FY14 at Rs600bn). With the power and coal ministries coming under a common minister, it will be difficult to justify a price hike for CIL.

Next round of pay revision could also be huge

- The next round of pay revision is due on 1 January 2017 (for executive staff) and on 1 July 2016 (for non-executive staff). We like to highlight that executive staff will get pay revision after a period of 10 years (non-executive pay revision cycle is five years) and, therefore, the overall hike is likely to be steep. As per our calculations, it requires around 20% price hike to just offset the rise in employee costs.

Y/E March (Rsmn)	FY13	FY14	FY15E	FY16E	FY17E
Revenue	683,027	688,100	715,184	788,902	856,844
YoY (%)	*9.4*	*0.7*	*3.9*	*10.3*	*8.6*
EBITDA	180,836	159,632	154,107	179,581	200,937
EBITDA (%)	26.5	23.2	21.5	22.8	23.5
PAT	173,603	151,116	145,885	166,944	187,527
YoY (%)	27.5	23.9	23.1	26.4	29.7
FDEPS (Rs)	*17.4*	*(13.0)*	*(3.5)*	*14.4*	*12.3*
RoE (%)	*39.0*	*33.3*	*33.0*	*34.3*	*33.9*
RoCE (%)	*37.5*	*32.3*	*32.6*	*34.3*	*33.9*
P/E (x)	12.6	14.5	15.0	13.1	11.7
EV/EBITDA (x)	8.7	10.4	10.2	8.1	6.6

Source: Company, Nirmal Bang Institutional Equities Research

CCL Products (India)

CMP:Rs148; Rating: Buy; M-cap: US$320.9mn; TP: Rs183

- **Newly commissioned plant to drive growth**
  - CCL Products (India) or CCL commissioned its 10,000tn instant coffee plant in Vietnam in 2HFY14, which is expected to drive consolidated volume by 25.8%/11.9% in FY15E/FY16E versus 3.3%/6.4% in FY13/FY14, respectively.
  - Vietnam plant offers four benefits: 1) Logistical advantage, 2) Better raw material availability as Vietnam is largest Robusta coffee grower in the world, 3) Favourable duty structure and close proximity to coffee-consuming ASEAN nations, and 4) Nil income-tax for the first four years and 50% tax benefit for the next nine years.
- **Improvement in the working capital cycle**
  - Following faster ramp-up of Vietnam facility, consolidated working capital requirement is likely to reduce from 39.7%/32.4% in FY13/FY14 to 27.9%/26.4% in FY16E/FY17E, respectively.
- **Lower capex, better WC to drive cash flow/return ratios**
  - With brownfield expansion, capex is likely to be lower in future. Against US$32mn spent for a new 10,000tn plant at Vietnam, incremental cost would be a mere US$10mn-US$12mn for the next 10,000tn capacity.
  - With lower brownfield capex and healthy earnings growth, we expect CCL to generate FCF of Rs3.5bn over FY14-FY17E, which will be utilised to repay Rs2.9bn debt and also improve dividend payout.
- **Foray into retailing of instant coffee**
  - CCL has forayed into retailing of branded coffee and aims to achieve revenue of Rs3bn in the next five years.

Y/E March (Rsmn)	FY12	FY13	FY14	FY15E	FY16E	FY17E
Revenue	5,022	6,507	7,168	9,507	10,788	11,555
YoY (%)	*38.0*	*29.6*	*10.2*	*32.6*	*13.5*	*7.1*
EBITDA	871	1,213	1,431	1,826	2,136	2,321
EBITDA (%)	*17.4*	*18.6*	*20.0*	*19.2*	*19.8*	*20.1*
Adj. PAT	363	474	644	999	1,312	1,552
FDEPS (Rs)	2.7	3.6	4.8	7.5	9.9	11.7
YoY (%)	*46.2*	*30.8*	*35.8*	*55.0*	*31.3*	*18.3*
RoE (%)	*15.9*	*18.3*	*20.4*	*25.6*	*27.4*	*26.2*
RoCE (%)	*9.8*	*11.2*	*12.3*	*17.0*	*20.7*	*23.8*
RoIC (%)	*9.6*	*10.7*	*12.0*	*16.9*	*20.4*	*22.8*
P/E (x)	54.2	41.4	30.5	19.7	15.0	12.7
P/BV (x)	8.2	7.1	5.6	4.6	3.7	3.0
EV/EBITDA (x)	25.6	18.6	15.5	11.9	9.8	8.4

Disclaimer: Nirmal Bang Financial Services owns 1.36mn shares (1.02% stake) in CCL

Source: Nirmal Bang Institutional Equities Research

Adi Finechem

CMP: Rs309; Rating: Buy; M-cap: US$68.2mn; TP: Rs460

- **Brownfield capex to provide healthy volume growth at lower costs**
  - Adi Finechem (AFL) plans to increase its capacity by 80% to 45,000tn at a cost of Rs210mn by December 2014, which is likely to result in a healthy 40.4% volume CAGR over FY14-FY16E as against a 23.3% CAGR over FY11-FY14.
- **Healthy cash flow and return ratios**
  - RoCE is expected to improve by 270bps from 32.8% to 35.5% over FY14-FY16E.
  - Healthy operating cash flow/free cash flow of Rs678mn/ Rs137mn, respectively, likely over FY14-FY17E.
  - D/E ratio likely to fall from 0.6x in FY14 to 0.2x in FY17E.
- **Value addition and lower costs to support margins**
  - AFL started selling an additional product called concentrated sterol, which directly aids EBITDA without incurring significant costs. With a better product mix and reduction in manufacturing costs, operating margin improved 799bps at 21.9% in FY14, which is sustainable.
  - Following lower interest costs and modest capex, net profit is expected to grow 83.8% in FY16E.

Y/E March (Rsmn)	FY12	FY13	FY14	FY15E	FY16E	FY17E
Revenue	972	1,231	1,518	1,748	2,830	3,396
YoY (%)	*69.4*	*26.7*	*23.3*	15.1	61.9	20.0
EBITDA	147	171	333	329	583	699
EBITDA (%)	*15.2*	*13.9*	*21.9*	18.8	20.6	20.6
Adj. PAT	74	84	187	190	349	420
FDEPS (Rs)	5.9	6.7	14.9	13.8	25.3	30.4
YoY (%)	*46.2*	*13.6*	*122*	(7.6)	83.8	20.2
RoE (%)	*35.9*	*30.9*	*47.9*	34.2	43.6	36.1
RoCE (%)	*23.2*	*21.6*	*32.8*	25.1	35.5	31.5
RoIC (%)	*21.1*	*19.7*	*30.4*	23.4	33.4	29.9
P/E (x)	52.2	46.0	20.7	22.4	12.2	10.1
P/BV (x)	16.3	12.6	8.2	6.7	4.4	3.1
EV/EBITDA (x)	27.7	23.6	12.5	13.7	7.7	6.4

Source: Company, Nirmal Bang Institutional Equities Research

Aurobindo Pharma

CMP: Rs1,118; Rating: Buy; M-Cap: US$5.2bn; TP: Rs1,234

- Play on the US growth story, with one of the largest pipeline among Indian generic players (181 ANDAs pending approval).
- Around 70% of the injectables (66 filed, 8 approved) and controlled substances (26 filed, 9 approved) portfolio in the US yet to unfold. Monetisation of the large pending pipeline, focus on complex products (penems/peptides) and diversification into non-generic segments (acquisition of Natrol's over-the-counter business; revenue of US$80mn in CY13 and US$60mn in 1HCY14) will keep the momentum strong in the US.
- Base business margins are strong at ~22% - as reaffirmed by 2QFY15 results – and has a positive bias with: a) Rising contribution from high-margin products like injectables/controlled substances, and b) Improvement in profitability of the acquired EU portfolio through backward integration.
- Further, Hospira's commentary indicates that injectable drug shortage is likely to continue in the medium term, which can improve realisation for Aurobindo Pharma.
- Expect a 17% earnings CAGR over FY14-FY17E, including an one-time upside from generic Cymbalta launch in FY14/FY15.
- Strong cash flow generation (repaid ~US$85mn debt in 1HFY15 and expects to repay another US$25mn-US$40mn in 2HFY15) to drive reduction in net D/E from 1.0x in FY14 to 0.1x in FY17E, which will lead to the next phase of valuation re-rating.
- Current valuation at 15x is at around 20%-25% discount to peers, despite favourably comparing with peers (trading at 18x-22x) on multiple parameters like US revenue, base margin and return ratios.

Y/E March (Rsmn)	FY13	FY14	FY15E	FY16E	FY17E
Net sales	57,793	80,873	121,063	136,503	153,513
YoY (%)	*26.5*	*39.9*	*49.7*	*12.8*	*12.5*
EBITDA	7,850	21,195	25,603	29,091	32,736
EBITDA margin (%)	*13.6*	*26.2*	*21.1*	*21.3*	*21.3*
Net profit	2,939	11,729	16,151	18,684	21,268
YoY (%)	(337.9)	299.1	37.7	15.7	13.8
Adj. PAT	2,939	13,333	16,151	18,684	21,268
YoY (%)	48.7	353.7	21.1	15.7	13.8
EPS	10.1	40.2	55.4	64.1	73.0
Adj. EPS	10.1	45.7	55.4	64.1	73.0
RoE (%)	*11.9*	*36.9*	*35.6*	*29.9*	*25.9*
RoCE (%)	*9.3*	*26.1*	*26.4*	*26.2*	*25.8*
P/E (x)	110.8	24.4	20.2	17.4	15.3
EV/EBITDA (x)	45.6	17.1	12.9	11.1	9.5

Source: Company, Nirmal Bang Institutional Equities Research

Torrent Pharma

CMP: Rs1,008; Rating: Sell; M-Cap: US$2.8bn; TP: Rs833

- US business likely to remain subdued over the next few years owing to: a) Higher contribution expected from generic Cymbalta and Micardis in FY15, which has witnessed increased competition, b) US portfolio being largely commodity generic and unlikely to bridge the revenue loss.
- Some green shoots in Brazil with improved performance in 1HFY15, but we believe the government's focus on promoting generic products (through tenders) is a structural risk to the company's branded portfolio. Increase in the share of generic-generic portfolio cannibalises and can pull the margins down.
- While the acquisition of Elder Pharma's branded portfolio cements Torrent Pharma's position in the domestic market (2.7% market share likely versus 2.0% currently) and comes with higher margins (~40%), we believe the higher leverage (D/E ratio of ~0.9x by FY15E-end from zero leverage in FY14), long gestation period (at least six-seven years) and a sharp fall in RoE (from 40% in FY14 to 26% in FY17) is likely to lead to stock price underperformance in the medium term.
- All this, coupled with muted earnings growth (13% earnings CAGR likely over FY14-FY17E), leads us to believe that the current valuation at 21x/18x FY16E/FY17E earnings, respectively, (at a premium to the historical average of 14x-16x) is unlikely to sustain .

Y/E March (Rsmn)	FY13	FY14	FY15E	FY16E	FY17E
Net sales	32,111	41,847	49,707	57,096	64,440
YoY (%)	*19.1*	*30.3*	*18.8*	*14.9*	*12.9*
EBITDA	6,922	9,515	12,247	13,950	15,725
EBITDA margin (%)	*21.6*	*22.7*	*24.6*	*24.4*	*24.4*
Net profit	4,628	6,640	7,687	8,078	9,539
YoY (%)	*28.3*	*43.5*	*15.8*	*5.1*	*18.1*
EPS	27.3	39.2	45.4	47.7	56.4
RoE (%)	*35.4*	*39.9*	*34.3*	*27.5*	*25.7*
RoCE (%)	*30.3*	*32.8*	*24.9*	*21.9*	*22.8*
P/E (x)	43.4	28.3	24.4	23.3	19.7
EV/EBITDA (x)	27.2	20.1	17.2	14.8	12.8

Source: Company, Nirmal Bang Institutional Equities Research

Top Mid-cap Picks

Company	CMP (Rs)	TP (Rs)	Current Rating	M-cap (US$mn)	Net sales (Rsmn)			EBITDA (Rsmn)			PAT (Rsmn)			CAGR FY14-FY16E		
					FY14	FY15E	FY16E	FY14	FY15E	FY16E	FY14	FY15E	FY16E	Sales	EBITDA	PAT
Bata India	1,293	1,502	Buy	1,345	20,652	22,785	26,300	3,220	3,490	4,195	1,976	2,143	2,597	12.8	14.1	14.7
Greenply Inds	1,115	1,248	Buy	436	22,169	25,789	28,506	2,646	3,484	3,940	1,176	1,536	1,820	13.4	22.0	24.4
Kajaria Ceramics	605	848	Buy	778	18,400	22,088	27,099	2,808	3,511	4,307	1,242	1,724	2,212	21.4	23.9	33.5
Supreme Inds	618	683	Buy	1,271	39,622	46,685	55,666	5,888	6,279	7,626	2,585	3,167	3,969	18.5	13.8	23.9
Apar Industries	422	521	Buy	263	46,329	49,520	55,035	2,974	2,963	3,768	896	948	1,529	9.0	12.6	30.6
HeidelbergCement	87	128	Buy	319	11,936	16,798	20,479	867	2,740	4,236	(407)	569	1,619	31.0	121.1	NA
Shree Cement	8,943	9,684	Buy	5,042	58,873	70,576	86,652	13,898	18,099	24,994	7,872	9,189	14,059	21.3	34.1	33.6
Natco Pharma	1,405	1,674	Buy	751	7,389	8,909	10,426	1,794	2,138	2,554	1,027	1,311	1,621	18.8	19.3	25.6
Havells India	312	325	Buy	3,152	81,858	91,999	102,104	7,425	8,962	10,634	4,463	5,375	6,594	11.7	19.7	21.6
V Guard	1,013	1,109	Buy	490	15,176	18,081	21,592	1,226	1,576	1,915	702	943	1,188	19.3	25.0	30.1
Just Dial	1,529	2,062	Buy	1,737	4,613	5,952	7,624	1,422	1,957	2,526	1,206	1,482	1,914	28.6	33.3	26.0

Company	EPS (Rs)			P/E (X)			EV/EBITDA (X)			P/BV (X)			*RoE (%)*			*RoCE (%)*		
	FY14	FY15E	FY16E	FY14	FY15E	FY16E	FY14	FY15E	FY16E	FY14	FY15E	FY16E	*FY14*	*FY15E*	*FY16E*	*FY14*	*FY15E*	*FY16E*
Bata India	30.7	33.3	40.4	42.0	38.8	32.0	25.0	22.8	18.7	9.9	8.4	7.1	*25.7*	*23.5*	*24.1*	*25.3*	*23.5*	*24.1*
Greenply Inds	48.7	63.7	75.4	22.9	17.5	14.8	12.9	9.6	8.2	4.6	3.7	3.0	*22.2*	*23.4*	*22.3*	*13.2*	*14.4*	*14.7*
Kajaria Ceramics	16.4	21.7	27.8	36.8	27.9	21.7	17.9	14.3	11.5	8.6	6.7	5.4	*27.9*	*27.7*	*27.6*	*20.9*	*22.4*	*23.4*
Supreme Inds	20.4	24.9	31.3	30.4	24.8	19.8	13.9	12.9	10.6	7.6	6.3	5.3	*27.0*	*27.7*	*29.1*	*22.7*	*21.9*	*24.0*
Apar Industries	23.3	24.6	39.7	18.1	17.1	10.6	7.3	6.8	5.2	2.3	2.1	1.8	*13.6*	*13.0*	*18.4*	*17.4*	*19.0*	*26.1*
HeidelbergCement	(1.8)	2.5	7.1	(48.4)	34.6	12.2	2.4	2.1	1.8	37.1	11.2	6.9	*(4.8)*	*6.4*	*16.0*	*0.7*	*6.8*	*11.0*
Shree Cement	226.0	263.7	403.5	39.6	33.9	22.2	6.6	5.5	4.4	21.4	16.4	11.6	*18.4*	*17.6*	*21.9*	*17.8*	*15.9*	*19.9*
Natco Pharma	31.1	39.4	48.7	45.2	35.6	28.8	26.4	22.8	19.3	6.4	5.6	4.8	*16.3*	*16.8*	*18.0*	*15.3*	*16.5*	*17.9*
Havells India	7.2	8.6	10.6	43.6	36.2	29.5	27.1	22.4	18.6	11.7	10.0	8.4	*28.7*	*30*	*30.9*	*15.9*	*17.5*	*19.5*
V Guard	23.5	31.6	39.8	43.1	32.1	25.5	25.5	19.7	16.0	9.5	7.6	6.1	*24.2*	*26.4*	*26.5*	*20.5*	*23.3*	*24.3*
Just Dial	17.2	21.1	27.3	88.9	72.4	56.1	70.8	50.8	38.6	20.1	16.8	13.7	*25.1*	*25.2*	*26.9*	*25.1*	*25.1*	*26.9*

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