

# India Strategy & Top Ideas

Domestic economy to drive growth

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*(Prices as on December 16, 2014)*

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- Domestic growth slow, achieving GDP growth of 5.6% in FY15 a challenge?** : The IIP numbers continue to slump and we believe that the GDP growth of 5.6% is going to be a challenge. The manufacturing growth was at -4.5% for October 2014, and is going to be the key and we expect to see a subdued growth in 3QFY15 as well. The cement off take and the recent coming off prices also indicates the demand not keeping the expected momentum. As mentioned in our report dated November 17, 2014, the poor manufacturing data is unlikely to be offset by the performance of the services sector. The challenges in solving issues with regard to coal block allocations is key to the growth in the mining sector.
- GST implementation and Insurance bill, key to reform process:** For long we have different tax regime in different states and the issue of implementing a uniform tax regime( Goods and Service Tax or GST) has been on the sidelines as there was no consensus among the states. It is expected that once the GST is implemented, it will lead to the abolition of other taxes such as Octroi, Central Sales Tax, State-level Sales Tax, Entry Tax, Stamp Duty, Telecom License Fees, Turnover Tax, Tax on Consumption or Sale of Electricity, Taxes on Transportation of Goods and Services, etc., thus avoiding multiple layers of taxation that currently exist in India. Increase in FDI in the insurance sector to 49% is keenly awaited, as a part of the pushing through the economic reforms.
- Remain Overweight Financials and Automobiles :** Lower crude and commodity prices have ensured a low inflation level for India in the near term and we believe that this will lead to an increase in consumption. We continue to remain overweight in financials and automobiles, the beneficiaries of the consumption demand as they will continue to benefit from the low inflation environment. Given this scenario, we remain with overweight position in the Financials and Automobiles while maintaining Neutral in IT, FMCG and Capital Goods. We remain underweight in Pharma.
- Midcaps rallies, but commodities under pressure:** The commodity stocks continue to remain under pressure. The global events notwithstanding, the commodity space of metals and resources are seeing the under performance due to the global events. With the market having corrected from the peak, the global events may result in the market in a range bound movement till the Budget in February 2015. We expect to see the market range bound between the 7500-8600 levels till February and then see a pre budget rally in the run upto the budget in February 2015.
- Our preferred picks** are HDFC Bank, SBI, and ICICI bank among the financials, L&T and Ashoka Buildcon among Eng & Capital Goods and Infosys, TCS, MindTree, Tech Mahindra and KPIT Technologies among IT., ACC and JK Lakshmi cement among Basic materials, Maruti Suzuki and Tata Motors among Automobiles. While we continue to like the FMCG sector fro a margin expansion and earnings growth perspective , the steep valuations in the sector forces us to maintain Neutral on the sector.

- **Global Economic indicators:** The US economy is expected to drive global growth in the coming years, while economies in the Euro zone, Japan and many emerging markets may falter. The global growth is expected at 2.3% in CY14, 3.1% in CY15 and at 3.0% in CY16, while among the major economies USA is expected to grow at 2.5% in CY14, 2.9% in CY15 and at 3.0% in CY16. Among the emerging markets, both Brazil and Russia is expected to have a tough year ahead of them with the latter falling into a recession.
- **US Non farm pay roll, on a roll:** The US non farm payroll additions were 321,000 in November 2014, from the October number of 243,000, while the unemployment rate maintained at 5.8%. The demand environment in the US continues to remain robust and the job growth was widespread led by professional and business services, retail trade, health care and manufacturing.
- **Europe continue to face new challenges:** The European growth estimates continue to remain under pressure, and the ECB has cut the GDP estimates to 0.8% in CY14, down from 0.9% three months back. The cuts were sharper for CY15 and CY 16 with the revised forecasts being 1.0% and 1.5%, down from the earlier estimates of 1.6% and 1.9% respectively. The ECB president warning that risks remain and that the economic growth could become even weaker.
- **Crude oil Prices heading downwards:** The Brent crude oil prices have reached a new low of US\$65. While at one end this could be beneficial for some of the economies, a reduction in demand owing to the lower economic growth could spell trouble for others. The challenging times for the oil producers continue to remain and does not augur well for the long term. Though a country like India should benefit from lower import bill on account of lower crude prices, it is the export numbers that needs closer scrutiny.
- **Volatility increase, increasing Risk premium, Key to flows into equity and especially emerging markets:** The CBOE VIX volatility index, a measure of the cost of equity portfolio protection have shot up to a one month high of 18.53, while the Indian VIX at 12.77 have remained muted with lower volatility, despite the market correction seen in the last few days.

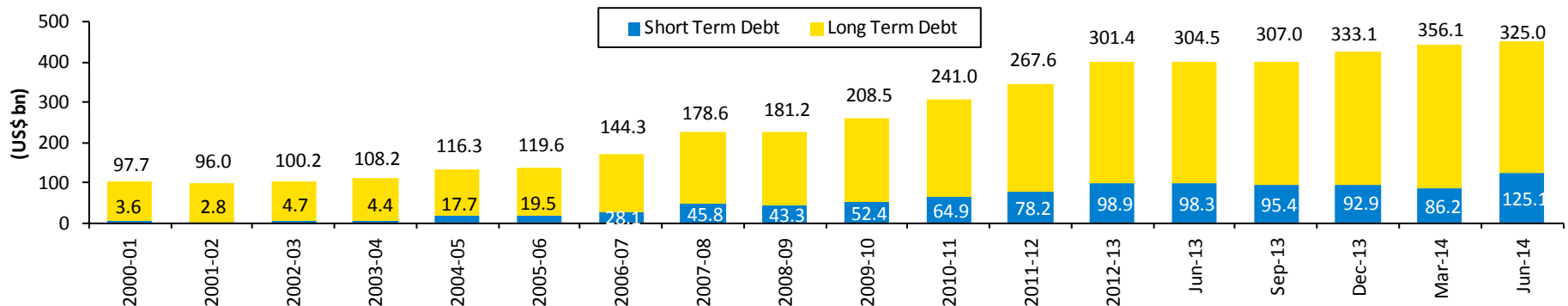
- After showing an improvement in October, the trade deficit has deteriorated in November 2014 to US\$16.86bn, the worst in the last twelve months. Though the oil import bill was the lowest in the last twelve months, a combination of higher non oil non gold imports, lower exports and increase in gold imports resulted in the widening trade deficit. We continue to believe as the domestic economic growth improves, chances are that we will see increase in non oil non gold imports. With the world economies facing challenges, export sector is likely to face head winds.

## Trade Deficit

US \$ Mn	Jan'14	Feb'14	Mar'14	Apr'14	May'14	Jun'14	Jul'14	Aug'14	Sep'14	Oct'14	Nov'14	YTD	YTD YoY
Exports	26,752	25,689	29,578	25,634	27,999	26,480	27,728	26,958	28,903	26,094	25,961	215,756	204,894
Imports	36,666	33,819	40,086	35,720	39,233	38,243	39,956	37,797	43,151	39,452	42,822	316,373	305,720
- Oil	13,186	13,697	15,784	12,978	14,465	13,343	14,355	12,839	14,497	12,365	11,716	106,558	109,425
- Gold	1,720	1,630	3,136	1,750	2,600	3,120	1,810	2,040	3,752	4,170	5,610	24,852	24,681
- Non Oil Non Gold	21,760	18,492	21,166	20,992	22,168	21,780	23,791	22,918	24,902	22,916	25,496	184,963	171,614
<b>Trade Deficit</b>	<b>(9,914)</b>	<b>(8,130)</b>	<b>(10,507)</b>	<b>(10,086)</b>	<b>(11,235)</b>	<b>(11,763)</b>	<b>(12,229)</b>	<b>(10,839)</b>	<b>(14,247)</b>	<b>(13,357)</b>	<b>(16,861)</b>	<b>(100,617)</b>	<b>(100,826)</b>

Source: RBI, PL Research

## External debt break-up between ST and LT

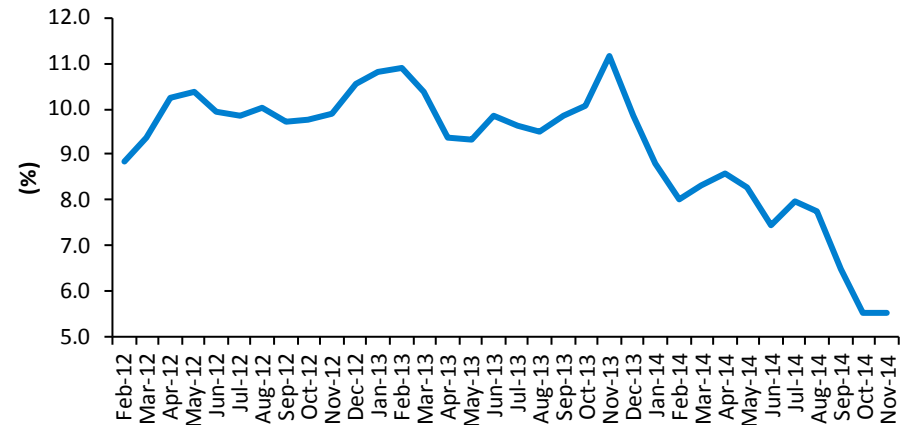


Source: RBI, PL Research

\* Data revised on exchange rate fluctuation

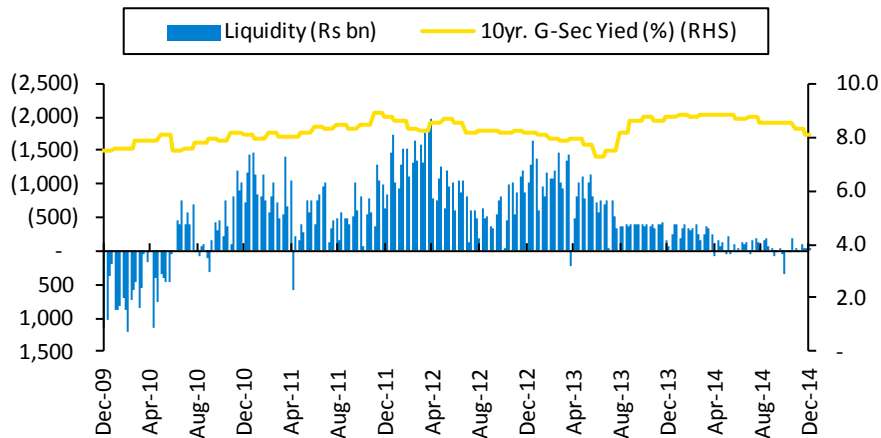
- With the WPI at near zero, thanks to low crude oil prices, the CPI inflation too has reduced to 4.3% for November 2014 against the level of 5.5% in October 2014. The rural inflation level has dropped to 4.0% while the urban inflation remains at an elevated level of 4.7%. The lower rural inflation, could feel through to reduced offtake of FMCG products in the rural areas as well.
- 10yr G-Sec Yield have touched a low of 7.95%, reflecting the increased liquidity available. In the system.
- The Oct 14 IIP data has been disappointing and we expect improvements from 4QFY15.

## CPI Inflation



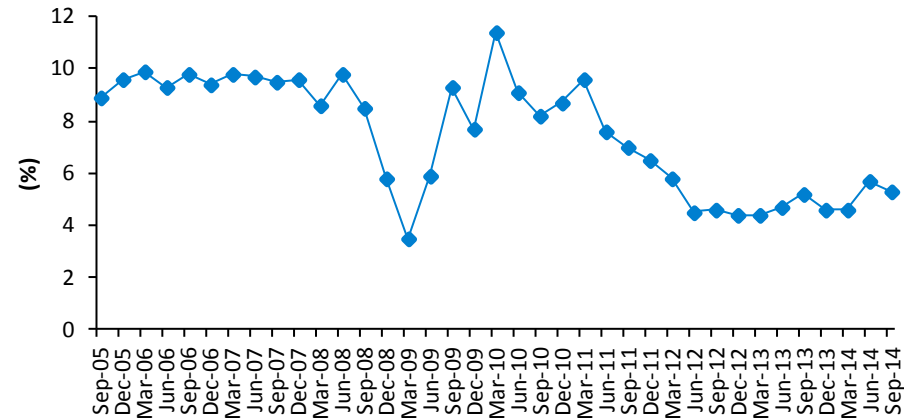
Source: Bloomberg, PL Research

## 10yr. G-Sec Yield & Liquidity



Source: Bloomberg, PL Research

## GDP Growth YoY (Quarterly)

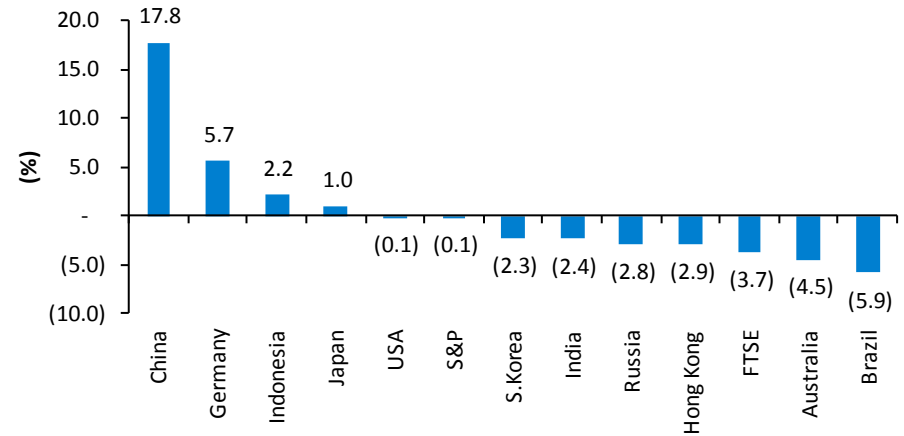


Source: Bloomberg, PL Research

# Global Equity Markets Scales new highs before correcting

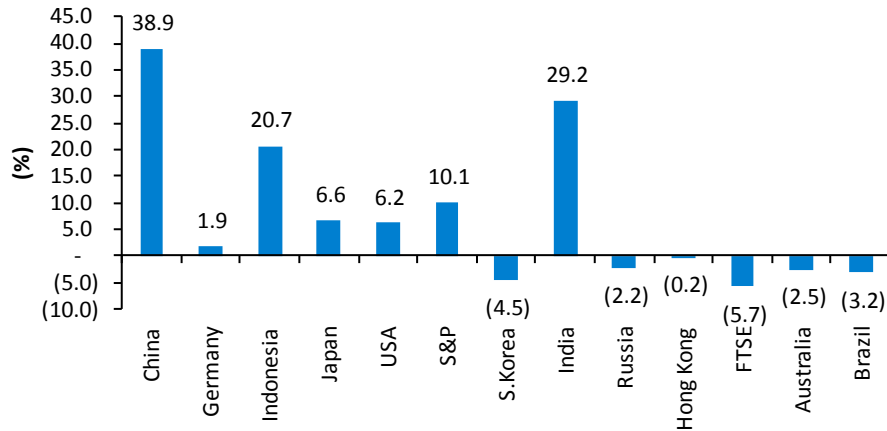
- MoM:** The performance of equity markets across the globe have been determined more by the monetary policies than on fundamentals with November being no exception. With the Chinese market returning the highest gains on a one month basis, the resources exporting countries Brazil, Australia continue to see the pressure losing over 5.9% and 4.5% respectively during the month.
- YoY and YTD:** India continues to display the strength, while thanks to the easing, Chinese markets have gained the maximum during YTD so far with a gain of 38.9%.

## Month-on-Month



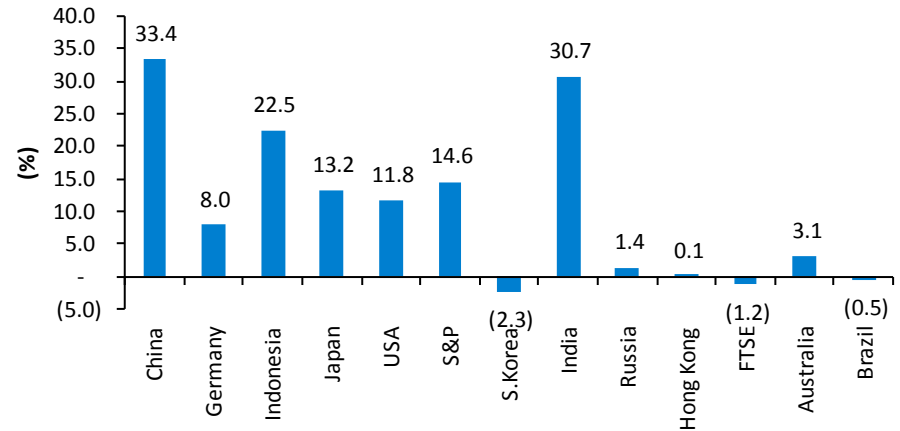
Source: Bloomberg, PL Research

## Calendar Year-to-date



Source: Bloomberg, PL Research

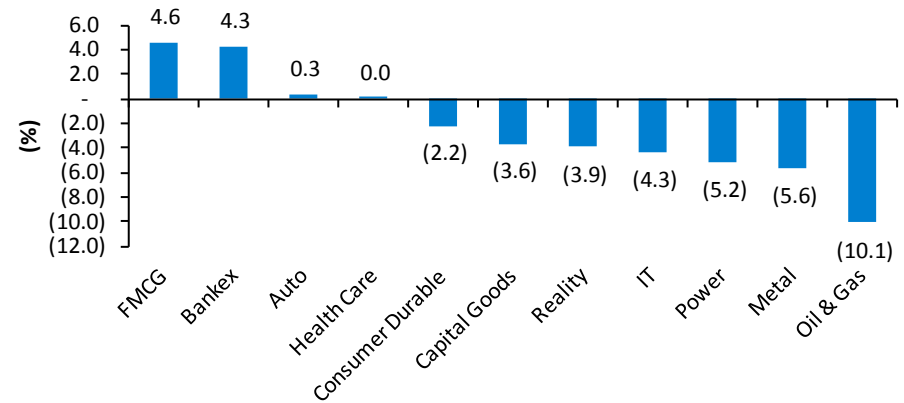
## Year-on-Year



Source: Bloomberg, PL Research

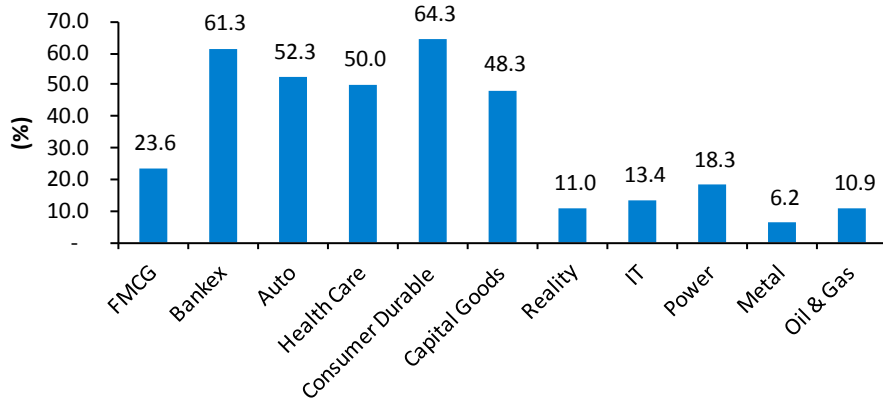
- MoM:** Financials and FMCG have been the stars of the previous month. A combination of falling bond yields and expectation of improving domestic growth are the key to the out performance.
- YoY:** On a YTD basis, Financials, Autos, Capital Goods and Health care have been the best performers, while on a YoY basis, Healthcare sector too have given an out performance. Metals and Oil& Gas continue to be under performers.

## Month-on-Month



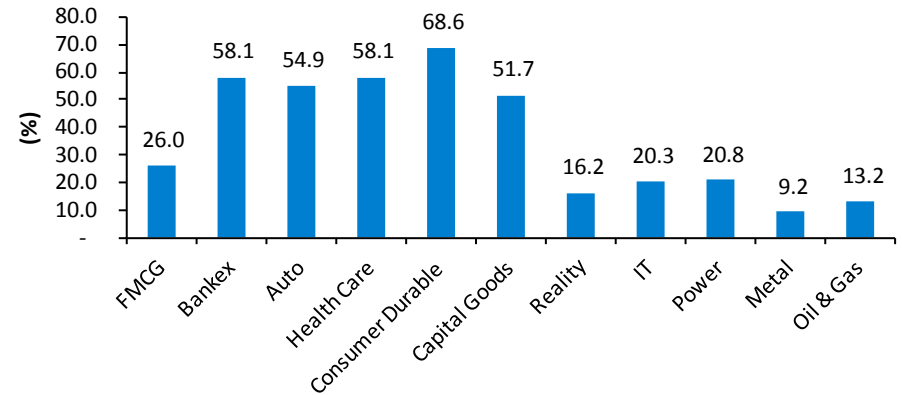
Source: Bloomberg, PL Research

## Calendar Year-to-date



Source: Bloomberg, PL Research

## Year-on-Year

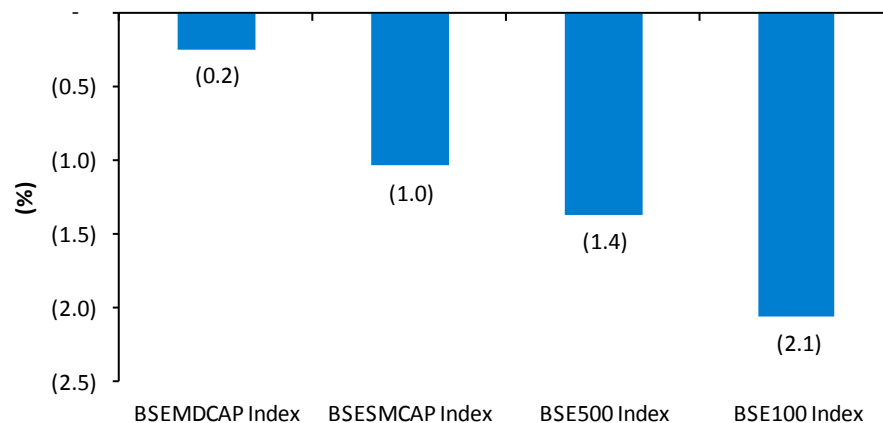


Source: Bloomberg, PL Research



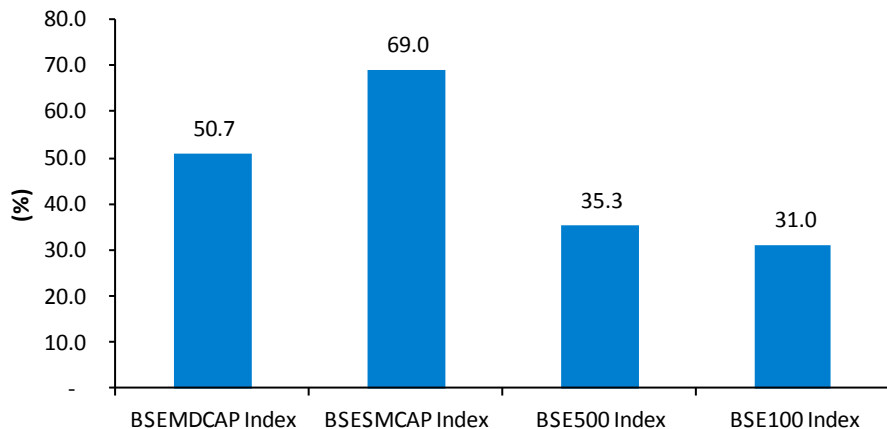
- **MoM:** Small and mid caps continue with their out performance. New highs in the markets increases the appetite for the small and mid cap companies and so is the risk appetite.
- **YoY:** The risk appetite for the small and mid cap companies continues to be on the rise.

## Month-on-Month



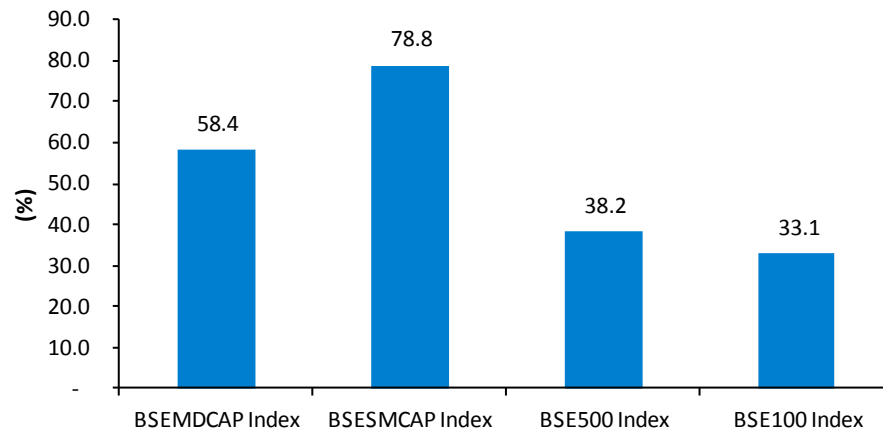
Source: Bloomberg, PL Research

## Calendar Year-to-date



Source: Bloomberg, PL Research

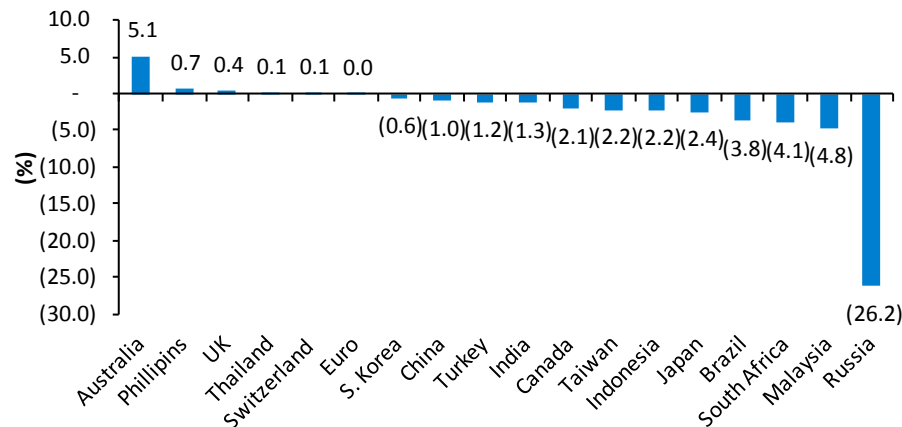
## Year-on-Year



Source: Bloomberg, PL Research

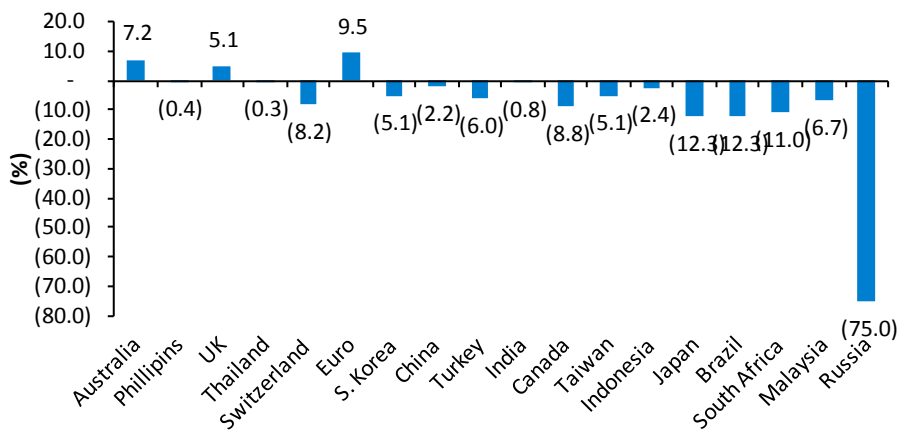
- MoM:** Russian Ruble, Japanese yen, Brazilian Real, South African Rand and Malaysian Ringgit were the weaker currencies of the month. While the weakness in Ruble has been on account of a combination of lower crude prices and the effect of a continuing Russia-Ukraine dispute, the others were on account of easy monetary policies and higher correction from resources exports.
- YoY:** Ruble, Yen and Real continue to see the worse performance over the last twelve months.

## Month-on-Month



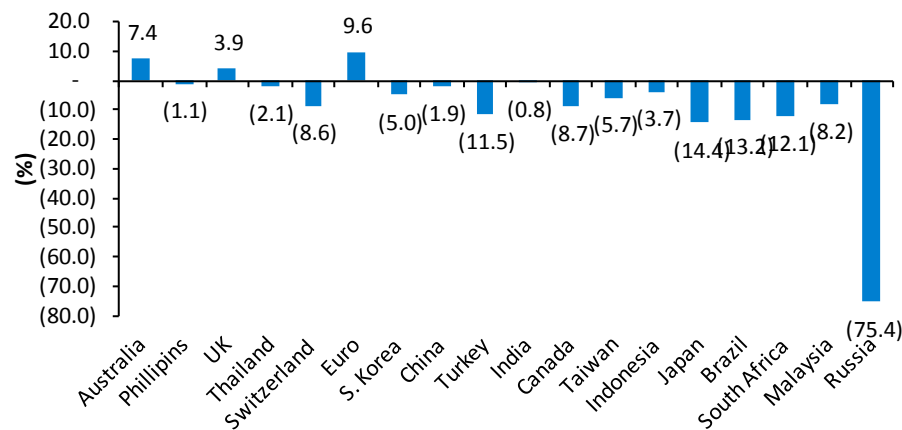
Source: Bloomberg, PL Research

## Calendar Year-to-date



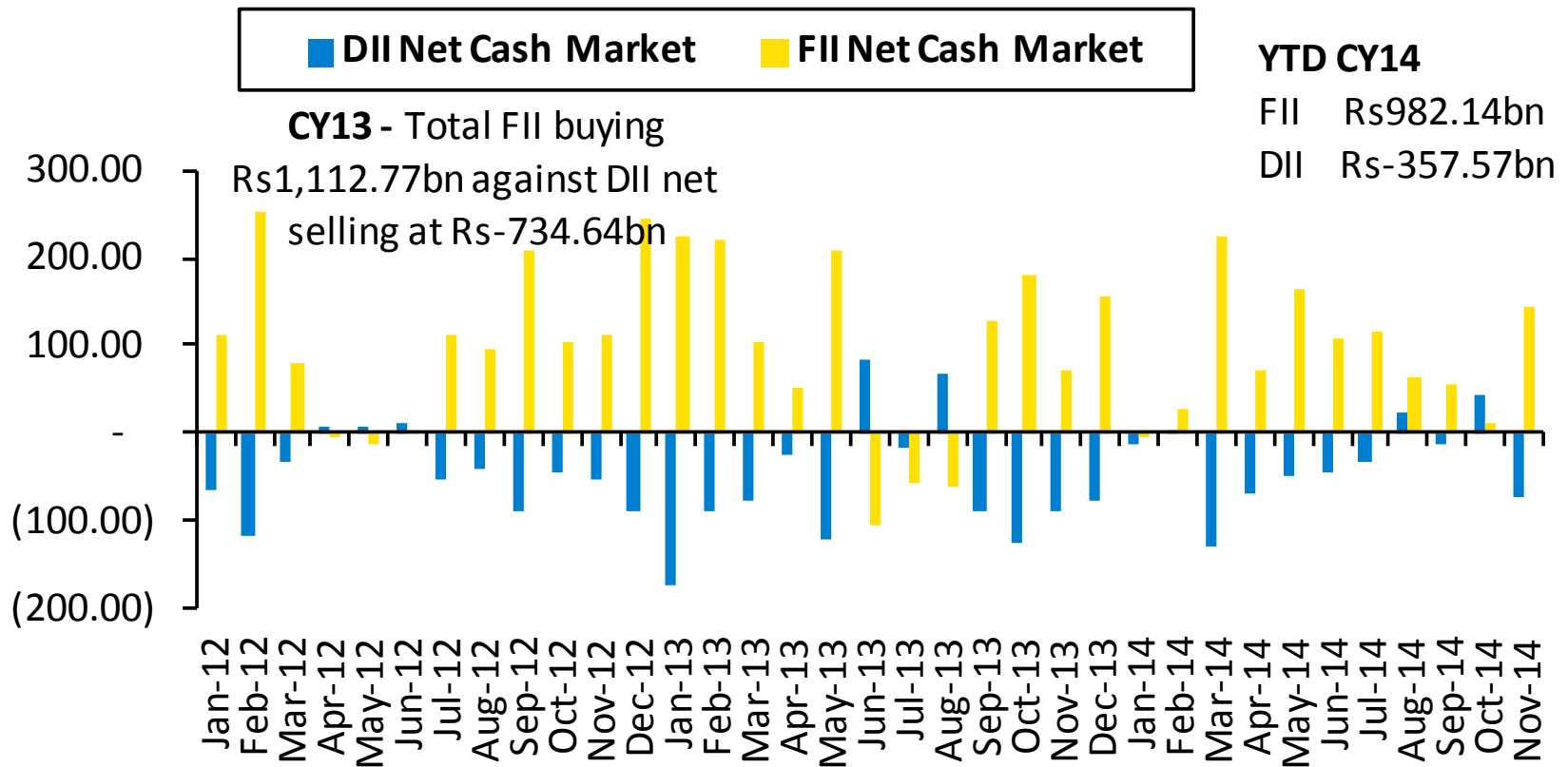
Source: Bloomberg, PL Research

## Year-on-Year



Source: Bloomberg, PL Research

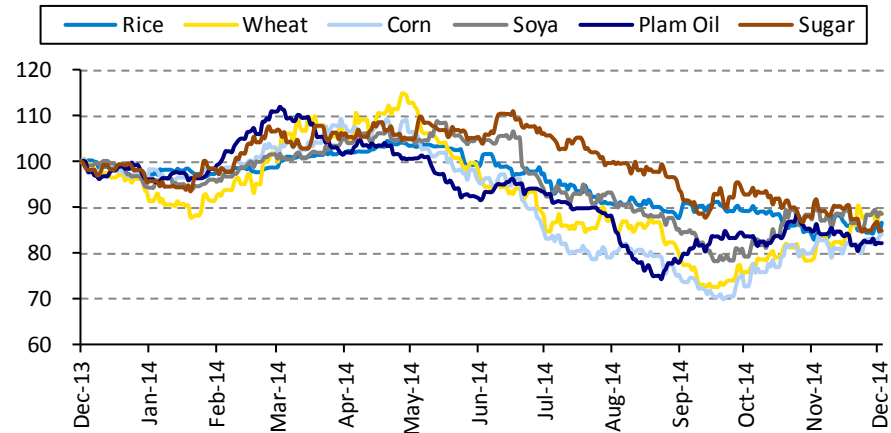
# India: Strong FII Equity Flows continues



- We believe that India continue to offer a better growth opportunity among the Emerging markets and should the domestic growth returns stronger, the relative flows are likely to be higher. FII flows continue to be robust with YTD net inflow at INR982.14bn(US\$15.84bn) in 2014.
- While the FII numbers are positive, the new NFOs of domestic players are seeing good inflows, reflecting the change in mood of the domestic investors.

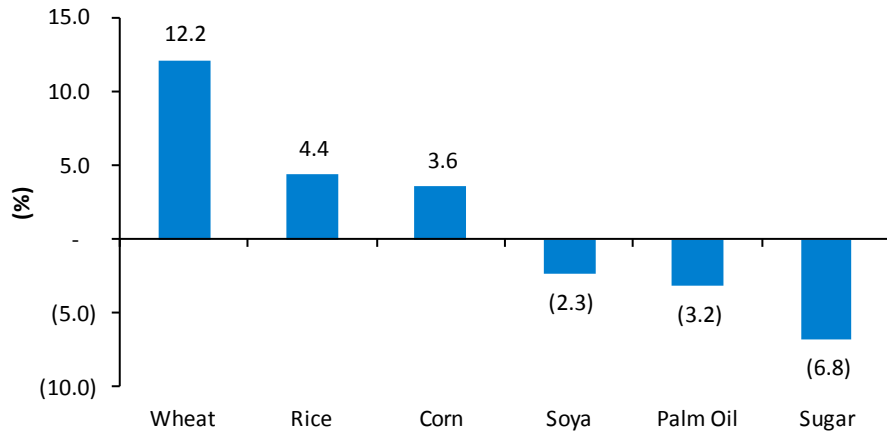
- Maize and Soyabean prices have seen an upward movement in the last few months, however, the record harvest means that YoY prices remain subdued and across the board the agri commodity prices have corrected in double digits.
- Wheat price have gained recently, however still continue to remain close to four year low, with the concern of weather contributing to gains.
- Rice prices climbed marginally over the last two months over expected fall in production in India and a new high in global demand.
- Palm Oil prices continue to remain under pressure with rising production, expanding inventory and slow demand from consuming markets

## Performance of Global Agricultural Commodities



Source: Bloomberg, PL Research

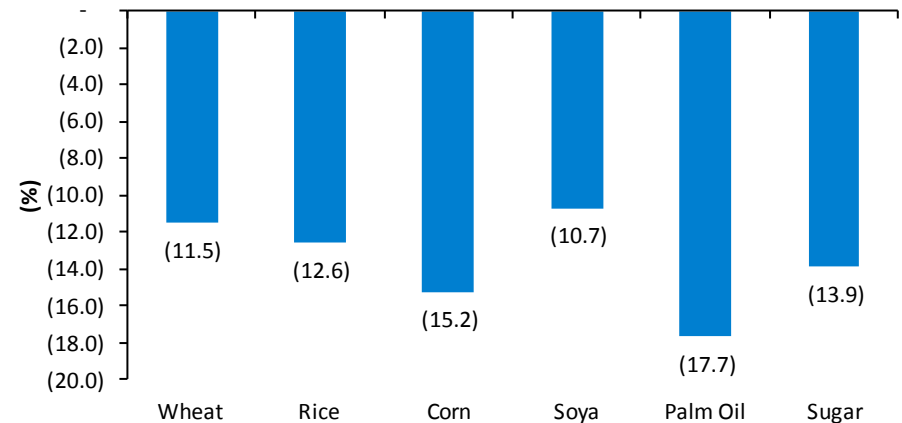
## Month-on-Month Performance



Source: Bloomberg, PL Research

\*Price in US\$

## Year-on-Year Performance

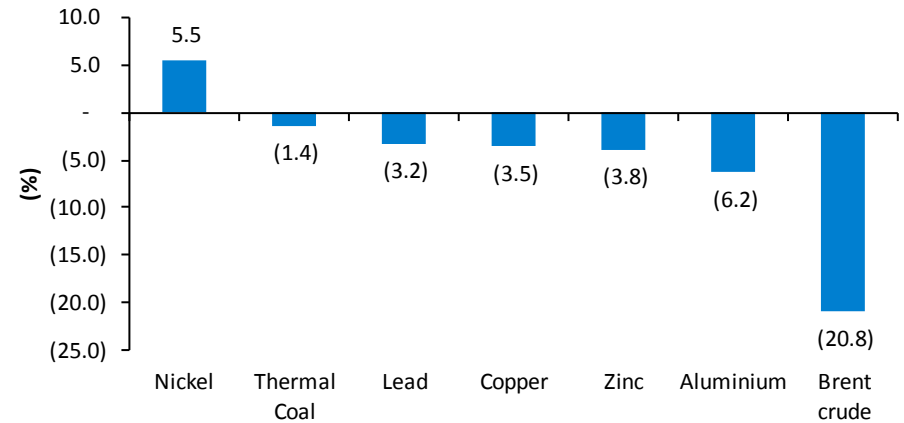


Source: Bloomberg, PL Research

\*Price in US\$

- After remaining firm for some months, Aluminum too corrected by 5% while crude oil continue to slide down.
- Energy components, Brent crude and Thermal coal has seen a correction of 40% and 26.9% respectively on a YTD basis, and continues to slide down.

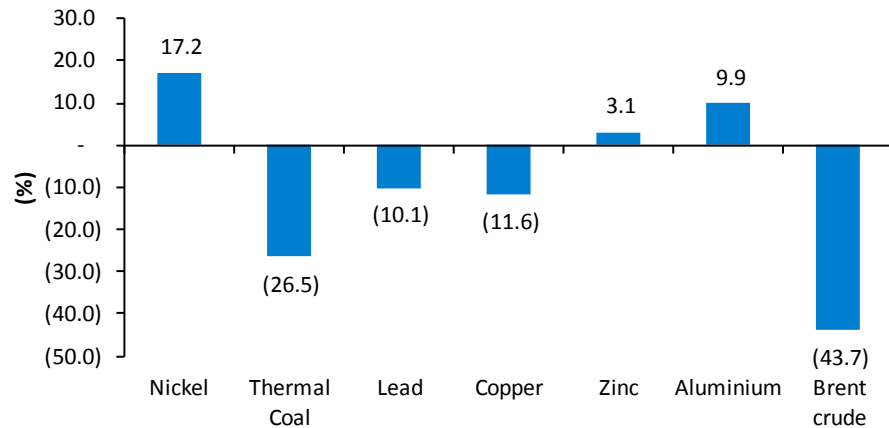
## Month-on-Month



Source: Bloomberg, PL Research

\*Price in US\$

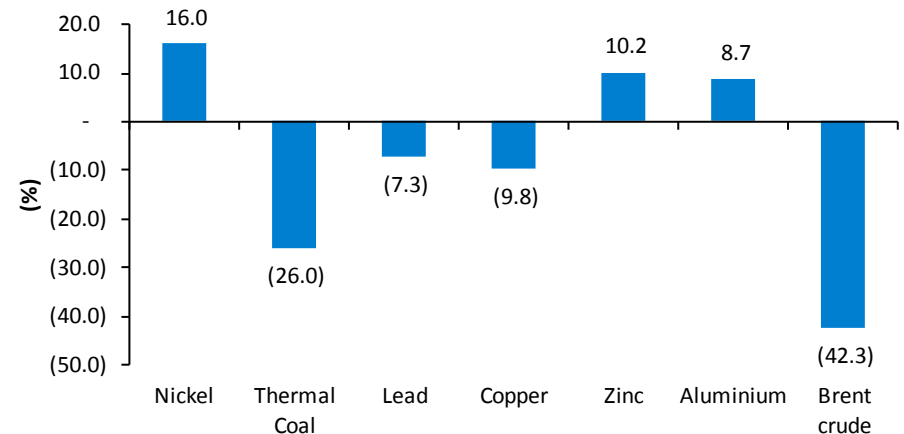
## Calendar Year-to-date



Source: Bloomberg, PL Research

\*Price in US\$

## Year-on-Year



Source: Bloomberg, PL Research

\*Price in US\$

- Among the large economies, US continue to drive the growth and the market performance. The global growth is expected to be at 2.3% in CY14, 3.1% in CY15 and 3.0% in CY16, with the US growth at 2.5% , 2.9% and 3.0% in CY14, CY15 and CY16. The non farm payroll additions were at 321,000 in November 2014 with the job additions widespread among different sectors.
- The Euro zone challenges is yet to see a breather and the ECB has cut the GDP estimates down to 0.8% in CY14. The cuts were sharper for CY15 and CY16 and the revised estimates for are at 1.0% and 1.5% respectively. Russia is expected to go into a recession, with the steep fall in crude oil, depreciation of Ruble and the effects these are having on the economy.
- The Chinese slowdown has deepened in October 2014, with the factory output up only 7.7%, the second weakest since 2009.
- The Indian equity markets have corrected in the last few days in line with the global cues. The market will be keenly watching the winter session on the implementation of GST, hiking the FDI limit in insurance etc. The implementation of these are some of the key policy initiatives the markets will be waiting for. We also believe that India is relatively better placed in the EM universe.

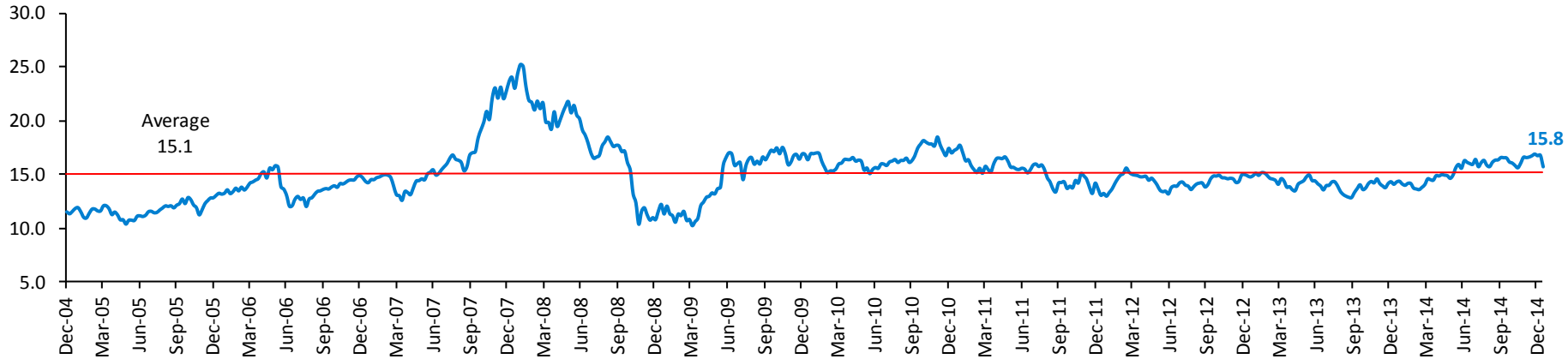
## World Equity Indices:

Index	Country	Value	YTD (%)	1 Week (%)	1 Mth (%)	3 Mth (%)
Dow Jones	USA	17,281	3.64	(3.76)	(2.57)	0.29
S&P 500	USA	2,002	7.64	(3.43)	(2.46)	(0.47)
Nasdaq	USA	4,654	10.26	(2.86)	(1.78)	1.15
FTSE 100	LONDON	6,183	(7.74)	(4.64)	(6.43)	(8.32)
DAX	GERMANY	9,334	(1.72)	(4.15)	1.46	(2.55)
CAC 40	FRANCE	4,005	(6.53)	(5.83)	(4.45)	(8.93)
Nikkei	JAPAN	17,099	2.85	(5.94)	(4.21)	5.30
TSX	CANADA	13,731	0.61	(3.10)	(7.67)	(11.64)
MICEX	RUSSIA	1,425	(6.34)	(4.50)	(6.13)	(4.64)
JSE	SA	42,400	0.66	(5.04)	(7.49)	(9.00)
SGX	SA	8,220	27.98	(3.27)	(3.84)	1.70
TING	TURKEY	102,252	22.82	(1.68)	1.11	4.99
IBOV	BRAZIL	48,002	(8.71)	(6.48)	(9.18)	(20.46)
Jakarta Comp	INDONESIA	5,108	17.59	(1.88)	(0.46)	(2.04)
PSEI Phillipine	PHILIPPINES	7,276	21.57	(0.33)	(0.79)	(0.28)
SE THAI 50	THAILAND	989	10.00	(7.96)	(7.62)	(6.89)
Euro Stoxx	EUROZONE	2,983	(3.80)	(5.44)	(2.26)	(7.17)
IBEX 35	SPAIN	9,904	(0.34)	(5.53)	(2.61)	(8.48)
Hang Seng	HONG KONG	23,028	(2.73)	(3.47)	(5.88)	(6.07)
AS30	AUSTRALIA	5,165	(4.15)	(2.42)	(5.57)	(5.79)
Shanghai	CHINA	2,953	42.80	5.79	21.89	31.57
Taiwan	TAIWAN	8,986	3.94	(1.95)	(0.36)	(2.00)
Kospi	KOREA	1,920	(5.33)	(3.39)	(2.11)	(6.79)
CNX Nifty	INDIA	8,220	27.98	(3.27)	(3.84)	1.70
BSE Sensex	INDIA	27,320	26.50	(3.65)	(4.51)	1.09
KLCI	MALAYSIA	1,697	(10.34)	(3.69)	(7.71)	(9.38)
NZX 50	NEWZEALAND	5,499	16.02	(0.85)	0.21	5.90
MEXBOL	MEXICO	41,715	(5.60)	(6.70)	(7.00)	(12.05)

Sources : Bloomberg

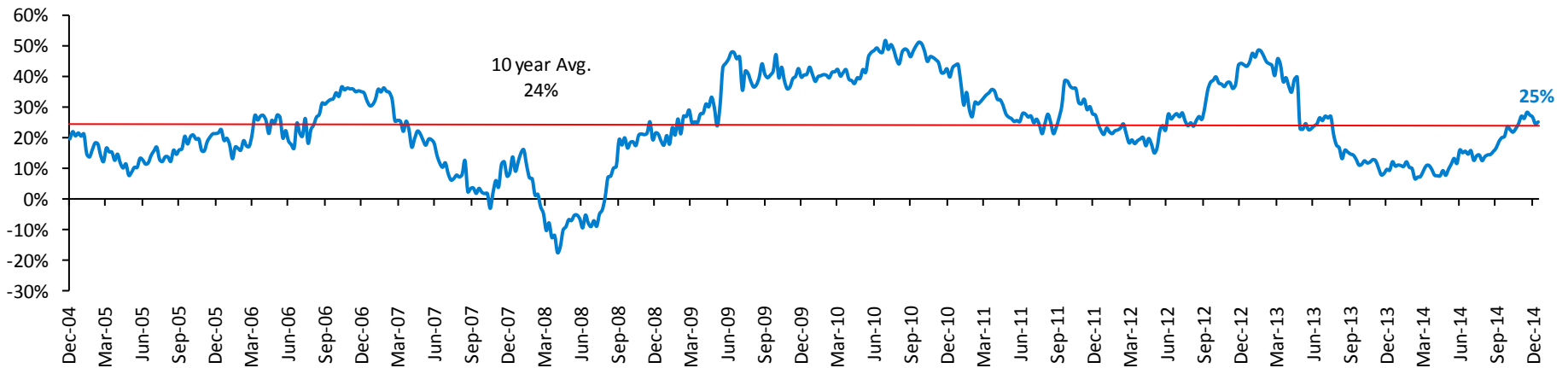
# Nifty Valuations: Historic Trends

## Nifty 1-year forward P/E



Source: Bloomberg, PL Research

## MSCI India Premium to MSCI Asia (Ex-Japan)



Source: Bloomberg, PL Research

- **NIFTY earnings revised downwards for FY15:** The free float EPS for NIFTY companies in FY15 and FY16 are estimated at Rs448.9 and 536.8 respectively, representing a YoY growth of 13.0% and 19.6% respectively. BFSI at 20.8% and 24.5%, IT at 15.9% and 16.1%, FMCG at 15.5% and 19.4%. Automobiles at 19.3% and 23.6% is expected to lead the earnings growth in FY15 and FY16. While there has been an earnings revision downwards for FY15, the lower commodity prices have ensured an upward revision for earnings in FY16.
- NIFTY at 8068 is trading at 18.0x FY15E and 15.0x FY16E estimated free-float earnings. The last ten-year average for NIFTY's one-year forward PE is at 15.1x, implying the NIFTY at 15.8x (EPS for year-ending March 2015 is Rs448.9) is trading at a premium to its last 10-years average of one-year forward multiple.
- The chart on Page 15 indicates MSCI India's premium to MSCI Asia (excluding Japan) over the last ten years. The average of the last 10-year's premium was at 24% and the current premium is at 25%. With the expected growth in the domestic economy in FY16 and with a superior earnings growth among the emerging markets, we expect to see increased relative flows from FIIs.
- While the 2QFY15 results were nothing to cheer about, the commentary on the outlook has been a slight disappointment. The corporates have been running on hope and this hope or the business confidence is the biggest positive. While the confidence level has not materialized into big ticket investments, our channel checks indicate that the financial institutions have started seeing increased proposals for investments and the view looks optimistic. In our report dated 17 Nov 2014, we had mentioned that We expect to see the improvement in the growth to be felt through by the third quarter in FY15 and this looks set to get postponed to 4QFY15 or early FY16. We see no material change in the ground in the last one month and our view still stands. The inflation expectations have moderated despite the lower crude prices as the base effect starts to catch up. With the 10 year Gsec at 7.95%, the interest rates are headed lower. We continue to believe that given the optimism in the economy, the financials and autos will have a good run over longer term, though in the near term sectors where crude derivatives are raw materials may see an expansion in margins. However, the market has probably over estimated the margin expansion on account of lower commodity prices Given this, we continue to recommend *overweight* position in the Financial Services, Autos while remaining Neutral in IT, Capital Goods and FMCG and remaining *underweight* in *Healthcare*.
- *We have removed Cipla and Motherson Sumi Systems from our top picks and added and added TCS, Aurobindo Pharma, Tata Motors and Cummins India.*
- We had in our report dated 17 Nov 2014, forecasted a Nifty levels of **7500-8600** levels for December 2014 and we are maintaining the same till Feb 15. The winter session of the parliament is key as the market is keenly awaiting the GST bill and increasing FDI in insurance which can further boost confidence. The global issues continue to overshadow the domestic optimism and the market may remain range bound till February 2015 where we may see a pre budget rally.



	Weight-age (%)	FY13	FY14	FY15E	FY16E
<b>Banking &amp; Fin.</b>	<b>30.8%</b>				
PER (x)		21.2	21.0	17.4	14.0
PAT Growth (%)		15.0	0.8	20.8	24.5
<b>Technology</b>	<b>15.5%</b>				
PER (x)		29.9	22.9	19.7	17.0
PAT Growth (%)		23.5	30.5	15.9	16.1
<b>FMCG</b>	<b>11.1%</b>				
PER (x)		47.2	41.6	36.0	30.2
PAT Growth (%)		21.8	13.4	15.5	19.4
<b>Oil &amp; Gas</b>	<b>9.6%</b>				
PER (x)		12.1	10.9	10.6	9.5
PAT Growth (%)		3.9	10.6	3.1	11.2
<b>Auto</b>	<b>9.4%</b>				
PER (x)		22.1	17.4	14.6	11.8
PAT Growth (%)		(7.1)	27.0	19.3	23.6
<b>Eng. &amp; Power</b>	<b>7.9%</b>				
PER (x)		15.0	17.2	17.6	15.1
PAT Growth (%)		17.5	(12.9)	(2.4)	17.0
<b>Pharma</b>	<b>6.1%</b>				
PER (x)		42.7	30.8	27.2	23.9
PAT Growth (%)		1.6	38.5	13.4	13.5
<b>Metals</b>	<b>4.0%</b>				
PER (x)		13.0	12.2	12.3	10.0
PAT Growth (%)		(2.1)	6.7	(0.7)	22.5

	Weight-age (%)	FY13	FY14	FY15E	FY16E
<b>Cement</b>	<b>2.8%</b>				
PER (x)		20.4	24.1	24.7	19.1
PAT Growth (%)		29.2	(15.5)	(2.4)	29.4
<b>Telecom</b>	<b>1.7%</b>				
PER (x)		62.1	50.9	25.8	20.4
PAT Growth (%)		(46.6)	21.8	97.3	26.9
<b>Media</b>	<b>0.7%</b>				
PER (x)		49.1	39.6	38.3	31.5
PAT Growth (%)		22.2	24.0	3.5	21.7
<b>Real Estate</b>	<b>0.3%</b>				
PER (x)		39.6	43.6	39.3	25.2
PAT Growth (%)		(40.7)	(9.2)	11.1	55.7

<b>Nifty as on Dec 16</b>	<b>8,068</b>				
EPS (Rs) - Free Float		355.7	397.2	448.9	536.8
Growth (%)		1.3	11.7	13.0	19.6
PER (x)		22.7	20.3	18.0	15.0
<b>EPS (Rs) - Free Float</b>					
<b>Nifty Cons.</b>		355.7	397.2	461.5	547.3
<b>Var. (PLe v/s Cons.) (%)</b>		-	-	(2.7)	(1.9)
<b>Sensex as on Dec 16</b>	<b>26,781</b>				
EPS (Rs) - Free Float		1,126.0	1,251.8	1,429.5	1,703.5
Growth (%)		(1.8)	11.2	14.2	19.2
PER (x)		23.8	21.4	18.7	15.7
<b>Sensex Cons.</b>		1,126.0	1,251.8	1,440.5	1,711.2
<b>Var. (PLe v/s Cons.) (%)</b>		-	-	(0.8)	(0.5)

Note: Telecom Nos. are Bloomberg Consensus / Sector Weightages are updated as on December 16, 2014

	CMP (Rs.)	TP (Rs)	Upside	Mcap (Rs bn)	Revenue Growth (%)		Earnings Growth (%)		RoE (%)		RoCE (%)		PER (x)		P/BV (x)*	
					2015E	2016E	2015E	2016E	2015E	2016E	2015E	2016E	2015E	2016E	2015E	2016E
<b>Large Cap</b>																
Tata Consultancy Services	2,443	3,050	24.8%	4,785.2	16.5	15.2	12.2	14.0	34.2	31.0	32.8	29.9	22.2	19.5	6.8	5.4
State Bank of India	296	351	18.7%	2,206.9	10.2	14.7	18.8	23.6	10.9	12.3	0.7	0.8	16.3	13.2	2.2	1.9
HDFC Bank	926	1,090	17.7%	2,220.9	20.5	22.7	18.4	23.0	19.7	19.5	1.9	2.0	22.0	17.9	3.4	2.9
Infosys	1,938	2,550	31.6%	2,217.1	7.7	13.2	14.9	13.2	24.5	25.1	24.3	24.9	18.1	16.0	4.2	3.8
ICICI Bank	331	389	17.6%	1,909.9	20.6	18.0	15.8	19.0	14.7	15.8	1.8	1.8	16.8	14.1	3.0	2.6
Tata Motors	482	611	26.9%	1,550.4	12.6	15.3	18.6	23.5	26.4	27.3	16.4	18.2	8.7	7.1	2.2	1.7
Larsen & Toubro	1,483	1,778	19.9%	1,362.5	9.7	16.5	(0.8)	20.7	12.6	13.9	11.3	12.6	28.0	23.2	3.4	3.1
Maruti Suzuki	3,310	3,490	5.4%	999.8	13.3	19.5	28.8	33.7	14.7	14.7	15.3	15.3	27.9	20.9	4.0	3.5
Tech Mahindra	2,535	3,050	20.3%	591.8	17.7	21.7	1.6	31.3	29.1	30.0	23.9	25.6	19.6	14.9	5.1	4.0
Bank of Baroda	1,009	1,175	16.5%	434.3	10.9	13.3	9.3	19.2	13.2	14.2	0.7	0.8	8.7	7.3	1.3	1.2
Aurobindo Pharma	1,096	1,308	19.4%	319.4	46.0	14.4	16.6	18.3	37.3	33.0	21.8	22.8	19.9	16.8	6.6	4.8
ACC	1,392	1,650	18.5%	261.6	5.5	13.8	(3.8)	50.8	10.8	15.4	11.2	15.7	30.2	20.0	3.2	3.0
<b>Mid Caps</b>																
Cummins India	857	909	6.1%	237.5	9.5	22.5	10.3	34.1	24.1	29.6	24.0	29.3	37.9	28.3	9.0	7.8
Federal Bank	134	150	12.0%	114.5	6.4	14.6	14.0	20.2	13.1	14.2	1.2	1.2	12.0	10.0	1.6	1.4
MindTree	1,192	1,350	13.3%	99.4	18.6	21.7	22.9	31.8	29.4	29.6	29.1	29.4	17.9	13.6	4.7	3.5
JK Lakshmi Cement	388	425	9.5%	45.7	19.9	33.2	86.9	23.2	14.7	16.4	8.3	10.4	22.8	18.5	3.2	2.9
KPIT Technologies	184	220	19.8%	35.4	12.8	13.4	7.9	24.1	19.3	20.2	18.2	18.9	13.2	10.6	2.4	2.0
Ashoka Buildcon	131	176	35.0%	20.6	21.5	29.3	(7.4)	(5.7)	8.1	7.2	3.9	5.7	19.7	20.9	1.5	1.5

\* For Banks P/ABV

# LARGE CAP

**No unusual furloughs during the quarter:** According to the management, the quarter will see usual seasonality in-line with previous year Q3. In terms of verticals, BFSI and Retail vertical to witness usual seasonality, whereas Telecom and smaller verticals would grow faster than company average, while Insurance and Energy is likely to witness weakness. In terms of geography, North America would grow adjusted to seasonality, Europe (ex UK) to grow stronger than other geographies, and UK likely to be impacted due to Insurance and seasonality. IMS would continue to lead the growth in terms of services.

**Currency headwinds across P&L, pricing stable:** A) Revenue negative impact: There will be an negative cross currency impact. 1) (-)25bps impact from constant currency(cc) to reported INR 2) -220bps impact from cc to reported USD due to GBP/Euro weakening. B) Margin uptick: In Q3FY15, operating margin is expected to witness uptick of (+)20bp. We expect margins to witness uptick (~40bps QoQ) during the quarter. C) Other income: Forex income is likely to witness uptick QoQ whereas other income would be touch softer than previous quarter. 4) Pricing stable: Realization is likely to witness uptick QoQ (impact of FPP).

**Too early to call-out for CY15 IT budget, but macro related challenges persist:** The management was circumspect to talk about any early trends. However, the challenges highlighted by them were largely linked to macro challenges.

**Other highlights:** 1) No change in hedging policy. 2) Involuntary attrition in-line with company policy. 3) H2 likely to witness uptick in offshore revenue.

**Valuation & Recommendation – BUY with revised TP of Rs 3050:** We don't expect downward revision in earnings for FY15 and FY16 despite challenges. We roll our model forward for FY17, and revise TP to 3050 (from Rs 2,800).

## Key Financials (Rs m)

Y/e March	FY12	FY13	FY14	FY15E	FY16E
Revenue (Rs m)	488,938	629,895	818,094	952,838	1,097,652
<i>Growth (%)</i>	<i>31.0</i>	<i>28.8</i>	<i>29.9</i>	<i>16.5</i>	<i>15.2</i>
EBITDA (Rs m)	144,203	180,872	251,570	276,762	317,414
PAT (Rs m)	106,996	140,122	191,889	215,309	245,352
EPS (Rs)	54.7	71.6	98.0	109.9	125.3
<i>Growth (%)</i>	<i>21.5</i>	<i>31.0</i>	<i>36.8</i>	<i>12.2</i>	<i>14.0</i>
Net DPS (Rs)	19.8	29.0	28.0	34.0	38.0

Source: Company Data, PL Research

## Profitability & valuation

Y/e March	FY12	FY13	FY14	FY15E	FY16E
EBITDA margin (%)	29.5	28.7	30.8	29.0	28.9
RoE (%)	36.9	38.1	39.9	34.2	31.0
RoCE (%)	37.1	38.1	39.8	32.8	29.9
EV / sales (x)	9.7	7.5	5.7	4.8	4.0
EV / EBITDA (x)	32.8	26.1	18.5	16.4	14.0
PER (x)	44.7	34.1	24.9	22.2	19.5
P / BV (x)	14.7	11.7	8.6	6.8	5.4
Net dividend yield (%)	0.8	1.2	1.1	1.4	1.6

Source: Company Data, PL Research

## Stock Performance

(%)	1M	6M	12M
Absolute	(6.3)	9.3	22.9
Relative to Sensex	(1.8)	3.0	(6.8)

**Income Statement (Rs m)**

Y/e March	FY12	FY13	FY14	FY15E	FY16E
<b>Net Revenue</b>	<b>488,938</b>	<b>629,895</b>	<b>818,094</b>	<b>952,838</b>	<b>1,097,652</b>
Direct Expenses	264,561	339,245	430,645	518,084	599,895
<i>% of Net Sales</i>	<i>54.1</i>	<i>53.9</i>	<i>52.6</i>	<i>54.4</i>	<i>54.7</i>
Employee Cost	-	-	-	-	-
<i>% of Net Sales</i>	<i>0.0</i>	<i>0.0</i>	<i>0.0</i>	<i>0.0</i>	<i>0.0</i>
SG&A Expenses	80,174	109,779	135,878	157,993	180,343
<i>% of Net Sales</i>	<i>16.4</i>	<i>17.4</i>	<i>16.6</i>	<i>16.6</i>	<i>16.4</i>
Other Expenses	-	-	0	-	-
<i>% of Net Sales</i>	<i>0.0</i>	<i>0.0</i>	<i>0.0</i>	<i>0.0</i>	<i>0.0</i>
<b>EBITDA</b>	<b>144,203</b>	<b>180,872</b>	<b>251,570</b>	<b>276,762</b>	<b>317,414</b>
<i>Margin (%)</i>	<i>29.5</i>	<i>28.7</i>	<i>30.8</i>	<i>29.0</i>	<i>28.9</i>
Depreciation	9,035	10,792	13,492	15,832	19,168
<b>PBIT</b>	<b>135,168</b>	<b>170,080</b>	<b>238,079</b>	<b>260,930</b>	<b>298,245</b>
Interest Expenses	-	-	-	-	-
<b>PBT</b>	<b>139,692</b>	<b>181,960</b>	<b>254,691</b>	<b>283,512</b>	<b>322,267</b>
Total tax	31,585	40,345	60,712	65,775	74,121
<i>Effective Tax rate (%)</i>	<i>22.6</i>	<i>22.2</i>	<i>23.8</i>	<i>23.2</i>	<i>23.0</i>
<b>PAT</b>	<b>106,996</b>	<b>140,122</b>	<b>191,889</b>	<b>215,309</b>	<b>245,352</b>
Extraordinary Gain/(Loss)	-	-	-	-	-
<b>Adjusted PAT</b>	<b>106,996</b>	<b>140,122</b>	<b>191,889</b>	<b>215,309</b>	<b>245,352</b>

Source: Company Data, PL Research

**Balance Sheet (Rs m)**

Y/e March	FY12	FY13	FY14	FY15E	FY16E
Share Capital	1,957	1,957	1,959	1,959	1,959
Reserves & Surplus	298,659	379,319	517,434	668,626	842,340
Shareholder's Fund	325,447	409,560	553,352	704,545	878,258
Preference Share Capital	-	-	-	-	-
Total Debt	1,154	1,310	1,273	1,273	1,273
Other Liabilities(net)	12,049	15,358	18,193	18,193	18,193
Deferred Tax Liability	4,331	4,982	5,556	5,556	5,556
<b>Total Liabilities</b>	<b>342,981</b>	<b>431,209</b>	<b>578,374</b>	<b>729,566</b>	<b>903,280</b>
Gross Block	106,819	135,005	170,197	208,311	252,217
Less: Depreciation	42,270	53,062	66,553	82,385	101,553
Net Block	64,549	81,943	103,644	125,926	150,663
Capital Work in Progress	-	-	-	-	-
Cash & Cash Equivalent	73,024	87,950	179,396	269,614	382,423
Total Current Assets	222,880	305,367	418,115	580,056	746,092
Total Current Liabilities	69,068	89,526	110,752	143,782	160,842
Net Current Assets	153,812	215,841	307,363	436,274	585,250
Other Assets	109,838	113,021	132,878	132,878	132,878
<b>Total Assets</b>	<b>342,981</b>	<b>431,209</b>	<b>578,374</b>	<b>729,566</b>	<b>903,280</b>

Source: Company Data, PL Research

**SBI has reported a pick-up in growth in core operating profits (31% YoY), though NII growth has been slightly soft due to flattish trend in advances growth. Asset quality has showed some positive signs with stressed assets accretion moderating on sequential basis. We reiterate that Opex efficiency will help better PPOP growth with SBI adequately provided on pensions & wage revisions. We retain BUY with revised PT of Rs351.**

**Opex efficiency continues; other income drives revenue growth:** SBI's core operating profit grew 31% YoY on continued opex efficiency and momentum in other income growth – led by healthy fees (19% YoY growth). NII growth was slightly soft due to flattish trend in advances and 5bp decline in domestic margins (2bp decline in global margins) even as international NIMs improved. Management indicated gradual improvement in international NIMs going ahead.

**Asset quality showing positive signs; restructuring pipeline stands at modest ~Rs30bn:** Asset quality held stable with fresh slippages moderating to 2.6% annualized vs 3.3% in Q1FY15 while fresh restructuring also declined on sequential basis. GNPLs remained flat on QoQ basis which appears better when compared with most other SOE banks.. Fresh standard restructuring declined to Rs34.48bn and o/s standard restructured asset stands at 3.6% of total loans. SBIN guided for restructuring pipeline of Rs30 bn going ahead.

**Return ratios to improve; reiterate BUY with revised PT of Rs351:** We estimate SBIN's RoA to improve gradually over next two years as – (i) provisioning expenses moderates in line with improving asset quality; bank is already going slow on mid-corporate and SME segments for few quarters now, (ii) CD ratio picks up and low yielding investments (30% of total assets currently) moves to loans, (iii) international NIM continues to improve further. We retain our BUY rating with revised PT of Rs351 based on Sep-2016 earnings.

## Key Financials (Rs m)

Y/e March	FY12	FY13	FY14	FY15E	FY16E
Net interest income	432,911	443,313	492,822	542,852	622,746
<i>Growth (%)</i>	<i>33.1</i>	<i>2.4</i>	<i>11.2</i>	<i>10.2</i>	<i>14.7</i>
Operating profit	315,735	310,817	321,092	363,438	427,311
PAT	117,073	141,050	108,912	134,992	166,832
EPS (Rs)	17.9	20.8	15.2	18.1	22.3
<i>Growth (%)</i>	<i>37.7</i>	<i>16.1</i>	<i>-26.9</i>	<i>18.8</i>	<i>23.6</i>
Net DPS (Rs)	3.5	4.1	1.5	3.3	3.5

Source: Company Data, PL Research

## Profitability & valuation

Y/e March	FY12	FY13	FY14	FY15E	FY16E
NIM (%)	3.5	3.2	3.0	2.9	2.9
RoAE (%)	15.7	15.4	10.0	10.9	12.3
RoAA (%)	0.9	1.0	0.6	0.7	0.8
P / BV (x)	2.0	1.9	1.7	1.6	1.4
P / ABV (x)	2.9	2.8	2.5	2.2	1.9
PE (x)	16.5	14.2	19.4	16.3	13.2
Net dividend yield (%)	1.2	1.4	0.5	1.1	1.2

Source: Company Data, PL Research

## Stock Performance

(%)	1M	6M	12M
Absolute	6.0	14.5	70.7
Relative to Sensex	10.5	8.2	41.0

**Income Statement (Rs m)**

Y/e March	FY12	FY13	FY14	FY15E	FY16E
Int. Earned from Adv.	810,777	905,371	1,024,841	1,185,947	1,342,346
Int. Earned from Invt.	239,491	272,006	319,419	343,891	397,029
Others	-	-	-	-	-
<b>Total Interest Income</b>	<b>1,065,215</b>	<b>1,196,571</b>	<b>1,363,508</b>	<b>1,550,735</b>	<b>1,762,334</b>
Interest expense	632,304	753,258	870,686	1,007,883	1,139,588
<b>NII</b>	<b>432,911</b>	<b>443,313</b>	<b>492,822</b>	<b>542,852</b>	<b>622,746</b>
<i>Growth (%)</i>	<i>33.1</i>	<i>2.4</i>	<i>11.2</i>	<i>10.2</i>	<i>14.7</i>
Treasury Income	(9,197)	10,981	20,767	15,160	24,256
NTNII	152,712	149,367	164,762	188,922	208,397
Non Interest Income	143,514	160,348	185,529	204,082	232,654
<b>Total Income</b>	<b>1,208,729</b>	<b>1,356,919</b>	<b>1,549,037</b>	<b>1,754,817</b>	<b>1,994,987</b>
<i>Growth (%)</i>	<i>24.3</i>	<i>12.3</i>	<i>14.2</i>	<i>13.3</i>	<i>13.7</i>
Operating Expense	260,690	292,844	357,259	383,496	428,088
<b>Operating Profit</b>	<b>315,735</b>	<b>310,817</b>	<b>321,092</b>	<b>363,438</b>	<b>427,311</b>
<i>Growth (%)</i>	<i>24.6</i>	<i>(1.6)</i>	<i>3.3</i>	<i>13.2</i>	<i>17.6</i>
NPA Provisions	115,458	106,570	144,785	152,111	163,158
Investment Provisions	6,638	(9,670)	5,633	(1,690)	1,014
<b>Total Provisions</b>	<b>130,902</b>	<b>111,308</b>	<b>159,354</b>	<b>161,957</b>	<b>178,308</b>
PBT	184,833	199,509	161,739	201,481	249,003
Tax Provisions	67,760	58,459	52,827	66,489	82,171
<i>Effective Tax Rate (%)</i>	<i>36.7</i>	<i>29.3</i>	<i>32.7</i>	<i>33.0</i>	<i>33.0</i>
<b>PAT</b>	<b>117,073</b>	<b>141,050</b>	<b>108,912</b>	<b>134,992</b>	<b>166,832</b>
<i>Growth (%)</i>	<i>41.7</i>	<i>20.5</i>	<i>(22.8)</i>	<i>23.9</i>	<i>23.6</i>

Source: Company Data, PL Research

**Balance Sheet (Rs m)**

Y/e March	FY12	FY13	FY14	FY15E	FY16E
Par Value	1	1	1	1	1
No. of equity shares	6,710	6,840	7,466	7,466	7,466
Equity	6,710	6,840	7,466	7,466	7,466
Networth	839,512	988,837	1,182,822	1,287,085	1,420,823
Adj. Networth	681,324	769,272	871,862	958,729	1,079,816
Deposits	10,436,474	12,027,396	13,944,085	15,924,145	18,806,415
<i>Growth (%)</i>	<i>11.7</i>	<i>15.2</i>	<i>15.9</i>	<i>14.2</i>	<i>18.1</i>
Low Cost deposits	4,676,066	5,390,634	5,984,004	6,799,610	8,199,597
<i>% of total deposits</i>	<i>44.8</i>	<i>44.8</i>	<i>42.9</i>	<i>42.7</i>	<i>43.6</i>
<b>Total Liabilities</b>	<b>13,355,192</b>	<b>15,662,609</b>	<b>17,922,346</b>	<b>20,307,892</b>	<b>23,815,232</b>
Net Advances	8,675,789	10,456,165	12,098,287	13,683,163	15,981,934
<i>Growth (%)</i>	<i>14.7</i>	<i>20.5</i>	<i>15.7</i>	<i>13.1</i>	<i>16.8</i>
Investments	3,121,976	3,509,273	3,983,082	4,641,409	5,543,017
<b>Total Assets</b>	<b>13,355,192</b>	<b>15,662,609</b>	<b>17,922,346</b>	<b>28,198,553</b>	<b>32,812,368</b>

Source: Company Data, PL Research

**We expect HDFCB's earnings to improve as significant investment made in branch expansion over past two years begins to show results while pick-up in loan growth and benign delinquency trend helps keep credit cost under control. Also, potential capital issuance to strengthen B/s, earnings base is turning favourable, coupled with strong floating provisioning cushion will help pull earnings growth in near term. We retain BUY with revised PT of Rs1,090.**

**PPOP performance has been better among peers:** HDFCB in Q2FY15 delivered ~20% PPOP growth as (1) NII growth was robust on better retail mix especially some rebound in auto loans and healthy growth in high yielding unsecured loans. Margins improvement was also combination of increased yield on investments and some part from transactional floats which reduced cost of funds. (2) Core fee growth of 13% was better on higher volumes in third party distribution products (3) Opex was up as Bank added 112 branches during the quarter and high staff addition in Q2FY15. Management expects opex growth to moderate as business prospects improve from new branches.

**Asset quality stable, stress abating in CVs:** CVs portfolio was seeing some stress in last few quarters which is now abating. Asset quality in Q2 was stable with some improvement in retail assets portfolio. Management seemed comfortable with continued build-up in unsecured book and does not see large slippages, which will keep credit cost at current levels of 50-60bps. Also, floating provisions of Rs17.6bn provides certainty of low credit costs even in FY15/16.

**Intended capital raise to strengthen B/s and improve ratios:** Though profit growth levels have moderated, RORWAs have inched to an all-time high of +2.6% on improved operating leverage. With intended capital raise, balance sheet will strengthen and improve RoAs further as revenue momentum picks up while costs increase will be gradual. Hence, higher RORWAs/ROEs will help higher valuations. We maintain 'BUY' with revised PT of Rs1,090/share.

## Key Financials (Rs m)

Y/e March	FY12	FY13	FY14	FY15E	FY16E
Net interest income	128,846	158,111	184,826	222,655	273,129
<i>Growth (%)</i>	<i>22.2</i>	<i>22.7</i>	<i>16.9</i>	<i>20.5</i>	<i>22.7</i>
Operating profit	93,906	114,276	143,601	176,295	221,508
PAT	51,671	67,263	84,784	103,291	130,130
EPS (Rs)	22.1	28.5	35.5	42.0	51.7
<i>Growth (%)</i>	<i>30.0</i>	<i>28.7</i>	<i>24.7</i>	<i>18.4</i>	<i>23.0</i>
Net DPS (Rs)	4.3	5.5	6.8	7.3	9.0

Source: Company Data, PL Research

## Profitability & valuation

Y/e March	FY12	FY13	FY14	FY15E	FY16E
NIM (%)	4.5	4.6	4.4	4.4	4.5
RoAE (%)	18.7	20.3	21.3	19.7	19.5
RoAA (%)	1.7	1.8	1.9	1.9	2.0
P / BV (x)	6.1	5.1	3.8	3.2	2.7
P / ABV (x)	6.3	5.4	4.0	3.4	2.9
PE (x)	41.9	32.5	26.1	22.0	17.9
Net dividend yield (%)	0.5	0.6	0.7	0.8	1.0

Source: Company Data, PL Research

## Stock Performance

(%)	1M	6M	12M
Absolute	(0.5)	10.3	35.3
Relative to Sensex	4.0	4.0	5.6



**Income Statement (Rs m)**

Y/e March	FY12	FY13	FY14	FY15E	FY16E
Int. Earned from Adv.	211,244	268,224	316,869	384,519	458,939
Int. Earned from Inv.	65,046	78,203	90,368	103,960	123,552
Others	-	-	-	-	-
<b>Total Interest Income</b>	<b>278,742</b>	<b>350,649</b>	<b>411,355</b>	<b>493,612</b>	<b>588,488</b>
Interest expense	149,896	192,538	226,529	270,957	315,359
<b>NII</b>	<b>128,846</b>	<b>158,111</b>	<b>184,826</b>	<b>222,655</b>	<b>273,129</b>
<i>Growth (%)</i>	<i>22.2</i>	<i>22.7</i>	<i>16.9</i>	<i>20.5</i>	<i>22.7</i>
Treasury Income	(897)	349	65	-	-
NTNII	58,733	68,178	79,131	88,700	104,666
Non Interest Income	57,836	68,526	79,196	88,700	104,666
<b>Total Income</b>	<b>336,578</b>	<b>419,175</b>	<b>490,552</b>	<b>582,312</b>	<b>693,154</b>
<i>Growth (%)</i>	<i>38.7</i>	<i>24.5</i>	<i>17.0</i>	<i>18.7</i>	<i>19.0</i>
Operating Expense	92,776	112,361	120,422	135,060	156,287
<b>Operating Profit</b>	<b>93,906</b>	<b>114,276</b>	<b>143,601</b>	<b>176,295</b>	<b>221,508</b>
<i>Growth (%)</i>	<i>21.6</i>	<i>21.7</i>	<i>25.7</i>	<i>22.8</i>	<i>25.6</i>
NPA Provisions	10,918	12,342	16,326	19,889	24,049
Investment Provisions	934	522	(41)	(37)	(33)
<b>Total Provisions</b>	<b>18,774</b>	<b>16,770</b>	<b>15,873</b>	<b>22,130</b>	<b>27,284</b>
PBT	75,132	97,506	127,728	154,165	194,223
Tax Provisions	23,461	30,243	42,944	50,874	64,094
<i>Effective Tax Rate (%)</i>	<i>31.2</i>	<i>31.0</i>	<i>33.6</i>	<i>33.0</i>	<i>33.0</i>
<b>PAT</b>	<b>51,671</b>	<b>67,263</b>	<b>84,784</b>	<b>103,291</b>	<b>130,130</b>
<i>Growth (%)</i>	<i>31.6</i>	<i>30.2</i>	<i>26.0</i>	<i>21.8</i>	<i>26.0</i>

Source: Company Data, PL Research

**Balance Sheet (Rs m)**

Y/e March	FY12	FY13	FY14	FY15E	FY16E
Par Value	2	2	2	2	2
No. of equity shares	2,347	2,379	2,399	2,517	2,517
Equity	4,693	4,759	4,798	5,033	5,033
Networth	299,244	362,141	434,786	616,510	720,140
Adj. Networth	295,720	357,452	426,586	607,509	710,700
Deposits	2,467,064	2,962,470	3,673,375	4,275,808	5,259,244
<i>Growth (%)</i>	<i>18.3</i>	<i>20.1</i>	<i>24.0</i>	<i>16.4</i>	<i>23.0</i>
Low Cost deposits	1,194,059	1,405,215	1,646,214	1,945,493	2,445,549
<i>% of total deposits</i>	<i>48.4</i>	<i>47.4</i>	<i>44.8</i>	<i>45.5</i>	<i>46.5</i>
<b>Total Liabilities</b>	<b>3,379,092</b>	<b>4,003,318</b>	<b>4,915,995</b>	<b>5,854,438</b>	<b>7,135,898</b>
Net Advances	1,954,200	2,397,206	3,030,003	3,599,643	4,416,762
<i>Growth (%)</i>	<i>22.2</i>	<i>22.7</i>	<i>26.4</i>	<i>18.8</i>	<i>22.7</i>
Investments	974,829	1,116,136	1,209,511	1,459,400	1,753,141
<b>Total Assets</b>	<b>3,379,095</b>	<b>4,003,318</b>	<b>4,915,995</b>	<b>5,854,438</b>	<b>7,135,898</b>

Source: Company Data, PL Research

**Moving from CIO to CEO/COO/CXO connect:** Dr. Sikka highlighted an endeavour to move from 'CIO connect' to 'CEO/COO/CXOs connect' to become an integral part of clients' strategy. He wants clients to feel proud to be associated with Infosys. He emphasized on the use of Design Thinking to achieve the duality of NEW and RENEW, and help client identifying their business problem.

**Long term objectives on-track:** The management was confident of achieving industry leading growth with steady operating margin by Q1FY17. The stated objective of 15-18% YoY revenue growth with 25-28% operating margin is still in reach. Despite the investments on newer initiatives, the management was confident of retaining operating margin 25% in narrow range of +/-1%.

**Sales – Ten initiatives to increase effectiveness:** The managements' new initiatives for sales effectiveness 1) Training program 2) Deployed Sales readiness assessment framework 3) 10 weeks induction program 4) Introduce Design Thinking training 5) Adopted a proposal quality management framework – Early trends positive 6) Increased fixed salary and average bonus payouts 7) Quarterly promotions 8) Optimization of performance measure (lesser metrics) 9) Moved from relative to absolute performance rating. 10) Focus on high potential clients mining and improve quality of new clients' acquisition.

**Near term challenges to be ignored:** The management highlighted weaknesses across the verticals except BFSI. Moreover, early indication of IT budgets for CY15 is likely to be flat with negative bias.

**Valuation & Recommendation – Retain "BUY" with TP 2,550:** We are confident about the new management's strategy to achieve its long term objective. We roll our estimates for FY17 and revised TP to Rs 2,550 (Old: Rs 2,225).

## Key Financials (Rs m)

Y/e March	FY12	FY13	FY14E	FY15E	FY16E
Revenue (Rs m)	337,340	403,520	501,330	539,957	611,160
<i>Growth (%)</i>	<i>22.7</i>	<i>19.6</i>	<i>24.2</i>	<i>7.7</i>	<i>13.2</i>
EBITDA (Rs m)	107,160	115,580	134,150	150,113	168,106
PAT (Rs m)	83,160	94,210	106,480	122,329	138,520
EPS (Rs)	145.4	82.4	93.1	106.9	121.1
<i>Growth (%)</i>	<i>21.9</i>	<i>(43.4)</i>	<i>13.0</i>	<i>14.9</i>	<i>13.2</i>
Net DPS (Rs)	40.7	27.3	27.5	64.9	69.9

Source: Company Data, PL Research

## Profitability & valuation

Y/e March	FY12	FY13	FY14E	FY15E	FY16E
EBITDA margin (%)	31.8	28.6	26.8	27.8	27.5
RoE (%)	27.4	25.7	24.4	24.5	25.1
RoCE (%)	27.2	25.6	24.3	24.3	24.9
EV / sales (x)	2.7	5.0	3.9	3.6	3.1
EV / EBITDA (x)	8.4	17.3	14.6	12.9	11.3
PER (x)	13.3	23.5	20.8	18.1	16.0
P / BV (x)	3.3	5.6	4.7	4.2	3.8
Net dividend yield (%)	2.1	1.4	1.4	3.3	3.6

Source: Company Data, PL Research

## Stock Performance

(%)	1M	6M	12M
Absolute	(7.5)	19.5	12.3
Relative to Sensex	(3.0)	13.2	(17.4)

**Income Statement (Rs m)**

Y/e March	FY12	FY13	FY14E	FY15E	FY16E
<b>Net Revenue</b>	<b>337,340</b>	<b>403,520</b>	<b>501,330</b>	<b>539,957</b>	<b>611,160</b>
Direct Expenses	188,710	241,510	307,670	324,429	369,317
<i>% of Net Sales</i>	<i>55.9</i>	<i>59.9</i>	<i>61.4</i>	<i>60.1</i>	<i>60.4</i>
Employee Cost	-	-	-	-	-
<i>% of Net Sales</i>	<i>0.0</i>	<i>0.0</i>	<i>0.0</i>	<i>0.0</i>	<i>0.0</i>
SG&A Expenses	41,470	46,430	59,510	65,415	73,737
<i>% of Net Sales</i>	<i>12.3</i>	<i>11.5</i>	<i>11.9</i>	<i>12.1</i>	<i>12.1</i>
Other Expenses	-	-	-	-	-
<i>% of Net Sales</i>	<i>0.0</i>	<i>0.0</i>	<i>0.0</i>	<i>0.0</i>	<i>0.0</i>
<b>EBITDA</b>	<b>107,160</b>	<b>115,580</b>	<b>134,150</b>	<b>150,113</b>	<b>168,106</b>
<i>Margin (%)</i>	<i>31.8</i>	<i>28.6</i>	<i>26.8</i>	<i>27.8</i>	<i>27.5</i>
Depreciation	9,370	11,290	13,740	11,407	13,599
<b>PBIT</b>	<b>97,790</b>	<b>104,290</b>	<b>120,410</b>	<b>138,706</b>	<b>154,507</b>
Interest Expenses	-	-	-	-	-
<b>PBT</b>	<b>116,830</b>	<b>127,880</b>	<b>147,100</b>	<b>171,089</b>	<b>189,753</b>
Total tax	33,670	33,670	40,620	48,760	51,233
<i>Effective Tax rate (%)</i>	<i>28.8</i>	<i>26.3</i>	<i>27.6</i>	<i>28.5</i>	<i>27.0</i>
<b>PAT</b>	<b>83,160</b>	<b>94,210</b>	<b>106,480</b>	<b>122,329</b>	<b>138,520</b>
Extraordinary Gain/(Loss)	-	-	-	-	-
<b>Adjusted PAT</b>	<b>83,160</b>	<b>94,210</b>	<b>106,480</b>	<b>122,329</b>	<b>138,520</b>

Source: Company Data, PL Research

**Balance Sheet (Rs m)**

Y/e March	FY12	FY13	FY14E	FY15E	FY16E
Share Capital	2,860	5,720	5,720	5,720	5,720
Reserves & Surplus	300,860	361,350	438,680	486,755	545,310
Shareholder's Fund	334,610	397,970	475,300	523,375	581,930
Preference Share Capital	-	-	-	-	-
Total Debt	-	-	-	-	-
Other Liabilities(net)	1,090	1,490	3,230	3,230	3,230
Deferred Tax Liability	120	1,190	640	640	640
<b>Total Liabilities</b>	<b>335,820</b>	<b>400,650</b>	<b>479,170</b>	<b>527,245</b>	<b>585,800</b>
Gross Block	90,300	106,760	134,120	156,258	181,316
Less: Depreciation	36,210	42,080	55,250	66,657	80,256
Net Block	54,090	64,680	78,870	89,601	101,060
Capital Work in Progress	-	-	-	-	-
Cash & Cash Equivalent	209,680	235,710	292,210	315,505	350,409
Total Current Assets	298,690	335,740	397,480	433,687	488,489
Total Current Liabilities	47,660	62,860	91,380	90,244	97,949
Net Current Assets	251,030	272,880	306,100	343,444	390,539
Other Assets	26,930	45,700	61,490	61,490	61,490
<b>Total Assets</b>	<b>335,820</b>	<b>400,650</b>	<b>479,170</b>	<b>527,245</b>	<b>585,800</b>

Source: Company Data, PL Research

**Core PPOP holding up well:** PPOP reported a growth of 21% YoY helped by controlled opex and continued repatriation of gains held in overseas branches (Rs1.65bn in Q2FY15 vs Rs1.03bn in Q1FY15). Fee income continues to remain sluggish led by muted corporate fees while retail fee growth showed healthy traction and now accounts for ~60% of total fees. Margins improved by 2bps QoQ as retail (mortgage, personal loans) and SME loan growth remain healthy while CASA mix improved further by 70bp QoQ to 43.7%. Management has guided for NIMs of 3.3-3.4% and retail loan growth of ~25% in FY15.

**Asset quality deteriorates; unchanged stressed asset formation guidance gives comfort:** Asset quality deteriorated led by lumpy slippage from restructured assets even as the bank maintained its guidance of lower stress asset accretion in FY15 v/s FY14. Bank did fresh restructuring of Rs8.29bn; however outstanding restructured assets yet declined marginally to Rs110.2bn (3% of total loans). Restructuring pipeline stands at Rs18bn while credit cost during the quarter increased to 97bp (85bp in Q1FY15).

**Subsidiaries show mixed performance; valuations still reasonable:** AMC and Capital market business continue to do well, while insurance and overseas branches performance remain tepid. Robust PPOP and reasonable valuations at 1.9x Sep-16 book provides us comfort. Hence, we maintain our BUY recommendation with a revised PT of Rs389 per share.

### Key Financials (Rs m)

Y/e March	FY12	FY13	FY14	FY15E	FY16E
Net interest income	107,342	138,664	164,756	198,759	234,476
<i>Growth (%)</i>	<i>19.0</i>	<i>29.2</i>	<i>18.8</i>	<i>20.6</i>	<i>18.0</i>
Operating profit	103,865	131,992	165,946	197,507	232,781
PAT	64,653	83,255	98,105	113,652	135,279
EPS (Rs)	11.2	14.4	17.0	19.7	23.4
<i>Growth (%)</i>	<i>23.4</i>	<i>28.7</i>	<i>17.7</i>	<i>15.8</i>	<i>19.0</i>
Net DPS (Rs)	3.3	4.0	4.5	5.5	6.4

Source: Company Data, PL Research

### Profitability & valuation

Y/e March	FY12	FY13	FY14	FY15E	FY16E
NIM (%)	2.6	2.9	3.1	3.3	3.3
RoAE (%)	11.2	13.1	14.0	14.7	15.8
RoAA (%)	1.4	1.6	1.7	1.8	1.8
P / BV (x)	0.7	3.0	2.7	2.5	2.2
P / ABV (x)	4.4	3.9	3.5	3.1	2.7
PE (x)	30.8	23.9	20.3	17.5	14.7
Net dividend yield (%)	1.0	1.2	1.3	1.6	1.9

Source: Company Data, PL Research

### Stock Performance

(%)	1M	6M	12M
Absolute	2.0	20.9	59.1
Relative to Sensex	4.6	12.6	27.2

**Income Statement (Rs m)**

Y/e March	FY12	FY13	FY14	FY15E	FY16E
Int. Earned from Adv.	221,299	273,411	314,279	366,138	421,764
Int. Earned from Invt.	96,840	110,093	115,571	132,408	158,835
Others	-	-	-	-	-
<b>Total Interest Income</b>	<b>335,427</b>	<b>400,756</b>	<b>441,782</b>	<b>514,283</b>	<b>599,782</b>
Interest expense	228,085	262,092	277,026	315,524	365,306
<b>NII</b>	<b>107,342</b>	<b>138,664</b>	<b>164,756</b>	<b>198,759</b>	<b>234,476</b>
<i>Growth (%)</i>	<i>19.0</i>	<i>29.2</i>	<i>18.8</i>	<i>20.6</i>	<i>18.0</i>
Treasury Income	(740)	4,364	7,654	-	-
NTNII	75,767	79,093	96,625	117,418	136,440
Non Interest Income	75,028	83,457	104,279	117,418	136,440
<b>Total Income</b>	<b>410,454</b>	<b>484,213</b>	<b>546,060</b>	<b>631,701</b>	<b>736,221</b>
<i>Growth (%)</i>	<i>25.8</i>	<i>18.0</i>	<i>12.8</i>	<i>15.7</i>	<i>16.5</i>
Operating Expense	78,504	90,129	103,089	118,670	138,135
<b>Operating Profit</b>	<b>103,865</b>	<b>131,992</b>	<b>165,946</b>	<b>197,507</b>	<b>232,781</b>
<i>Growth (%)</i>	<i>14.8</i>	<i>27.1</i>	<i>25.7</i>	<i>19.0</i>	<i>17.9</i>
NPA Provisions	9,932	13,948	22,523	32,952	36,582
Investment Provisions	4,132	1,262	711	-	-
<b>Total Provisions</b>	<b>15,891</b>	<b>18,025</b>	<b>26,264</b>	<b>35,147</b>	<b>39,525</b>
PBT	87,973	113,967	139,682	162,360	193,255
Tax Provisions	23,321	30,712	41,577	48,708	57,977
<i>Effective Tax Rate (%)</i>	<i>26.5</i>	<i>26.9</i>	<i>29.8</i>	<i>30.0</i>	<i>30.0</i>
<b>PAT</b>	<b>64,653</b>	<b>83,255</b>	<b>98,105</b>	<b>113,652</b>	<b>135,279</b>
<i>Growth (%)</i>	<i>25.5</i>	<i>28.8</i>	<i>17.8</i>	<i>15.8</i>	<i>19.0</i>

Source: Company Data, PL Research

**Balance Sheet (Rs m)**

Y/e March	FY12	FY13	FY14	FY15E	FY16E
Par Value	2	2	2	2	2
No. of equity shares	5,764	5,768	5,775	5,775	5,775
Equity	11,528	11,536	11,550	11,550	11,550
Networth	604,029	667,015	732,068	811,133	906,166
Adj. Networth	585,420	644,708	699,087	771,284	862,276
Deposits	2,555,000	2,926,135	3,319,137	3,886,709	4,648,504
<i>Growth (%)</i>	<i>13.3</i>	<i>14.5</i>	<i>13.4</i>	<i>17.1</i>	<i>19.6</i>
Low Cost deposits	1,110,194	1,225,762	1,423,784	1,690,718	2,022,099
<i>% of total deposits</i>	<i>43.5</i>	<i>41.9</i>	<i>42.9</i>	<i>43.5</i>	<i>43.5</i>
<b>Total Liabilities</b>	<b>4,890,688</b>	<b>5,367,946</b>	<b>5,946,416</b>	<b>6,998,486</b>	<b>8,332,486</b>
Net Advances	2,537,277	2,902,494	3,387,026	3,935,725	4,671,705
<i>Growth (%)</i>	<i>17.3</i>	<i>14.4</i>	<i>16.7</i>	<i>16.2</i>	<i>18.7</i>
Investments	1,595,600	1,713,936	1,770,218	2,068,436	2,496,295
<b>Total Assets</b>	<b>4,890,688</b>	<b>5,367,946</b>	<b>5,946,416</b>	<b>6,998,486</b>	<b>8,332,486</b>

Source: Company Data, PL Research

**We remain positive on TTMT given the strong product portfolio at JLR level and bottoming out of volumes in the standalone business. With the recent new launches i.e. New Range Rover, New Range Rover Sport and Jaguar F-Type, the management expects volume to be strong. At the JLR level, the 'Baby Jag (XE)' is likely to be launched in Q1CY15 and is likely to be pegged against 'Audi A4', 'BMW 3 series'. Currently, the market size for these products is 1.5m. New launches over next one year also include the new Discovery Sport and Ingenium family of 2.0litre engines at the new engine plant.**

**Volumes bottomed out; new launches to drive growth:** With the recent new launches i.e. New Range Rover, New Range Rover Sport and Jaguar F-Type, the management expects volume to be strong. At the JLR level, the 'Baby Jag (XE)' is likely to be launched in Q1CY15 and is likely to be pegged against 'Audi A4', 'BMW 3 series'. Currently, the market size for these products is 1.5m. New launches over next one year also include the new Discovery Sport and Ingenium family of 2.0litre engines at the new engine plant. At the same time, the company continues to invest in new products, new technologies as well as capacity augmentation.

**We built in a volume growth of 8% in FY15E followed by a strong 17% growth in FY16E:** We estimate a volume growth of 8.0% at JLR in FY15E at 4.65lac units. At the same time, ASP/vehicle increased by 6.3% YoY during FY14. Given that the product mix has peaked and currency being unfavourable, we built in only 3.0% increase in ASP/vehicle in FY15E.

**Our SOTP stands at Rs611:** We value JLR to 4.0x Mar'16E EV/EBITDA at Rs551/share. With M&HCV segment bottoming out, we built in a strong recovery in volumes and margins in FY16E. We assign a 10.0x FY16E EV/EBITDA multiple to arrive at a fair value of Rs40/share for the standalone business. And other subsidiaries at Rs20/share, resulting in a TP of Rs611. We retain our 'Accumulate' call on the stock. as we foresee a potential upside of ~16.0% from the current levels.

## Key Financials (Rs m)

Y/e March	FY12	FY13	FY14	FY15E	FY16E
Revenue (Rs m)	1,659,382	1,888,176	2,328,337	2,621,729	3,021,649
<i>Growth (%)</i>	<i>35.9</i>	<i>13.8</i>	<i>23.3</i>	<i>12.6</i>	<i>15.3</i>
EBITDA (Rs m)	236,791	265,890	374,029	443,264	506,793
PAT (Rs m)	128,668	104,958	149,764	184,083	227,279
EPS (Rs)	40.5	32.9	46.5	55.2	68.1
<i>Growth (%)</i>	<i>43.0</i>	<i>(18.9)</i>	<i>41.4</i>	<i>18.6</i>	<i>23.5</i>
Net DPS (Rs)	4.2	2.1	2.5	3.0	3.5

Source: Company Data, PL Research

## Profitability & valuation

Y/e March	FY12	FY13	FY14	FY15E	FY16E
EBITDA margin (%)	14.3	14.1	16.1	16.9	16.8
RoE (%)	49.2	29.7	29.0	26.4	27.3
RoCE (%)	21.8	15.3	17.5	16.4	18.2
EV / sales (x)	1.1	0.9	0.8	0.7	0.6
EV / EBITDA (x)	7.7	6.6	4.8	4.4	3.7
PER (x)	11.9	14.6	10.4	8.7	7.1
P / BV (x)	4.6	4.1	2.4	2.2	1.7
Net dividend yield (%)	0.9	0.4	0.5	0.6	0.7

Source: Company Data, PL Research

## Stock Performance

(%)	1M	6M	12M
Absolute	(8.1)	11.8	30.9
Relative to Sensex	(3.6)	5.5	1.2

**Income Statement (Rs m)**

Y/e March	FY12	FY13	FY14	FY15E	FY16E
<b>Net Revenue</b>	<b>1,659,382</b>	<b>1,888,176</b>	<b>2,328,337</b>	<b>2,621,729</b>	<b>3,021,649</b>
Direct Expenses	1,094,675	1,203,010	1,435,864	1,643,104	1,889,975
<i>% of Net Sales</i>	<i>66.0</i>	<i>63.7</i>	<i>61.7</i>	<i>62.7</i>	<i>62.5</i>
Employee Cost	122,985	165,840	215,564	233,697	257,364
<i>% of Net Sales</i>	<i>7.4</i>	<i>8.8</i>	<i>9.3</i>	<i>8.9</i>	<i>8.5</i>
SG&A Expenses	-	-	-	-	-
<i>% of Net Sales</i>	<i>0.0</i>	<i>0.0</i>	<i>0.0</i>	<i>0.0</i>	<i>0.0</i>
Other Expenses	204,931	253,436	302,879	301,665	367,516
<i>% of Net Sales</i>	<i>12.3</i>	<i>13.4</i>	<i>13.0</i>	<i>11.5</i>	<i>12.2</i>
<b>EBITDA</b>	<b>236,791</b>	<b>265,890</b>	<b>374,029</b>	<b>443,264</b>	<b>506,793</b>
<i>Margin (%)</i>	<i>14.3</i>	<i>14.1</i>	<i>16.1</i>	<i>16.9</i>	<i>16.8</i>
Depreciation	69,931	96,109	136,434	152,480	166,260
<b>PBIT</b>	<b>166,860</b>	<b>169,781</b>	<b>237,596</b>	<b>290,784</b>	<b>340,533</b>
Interest Expenses	27,490	35,533	47,338	36,615	34,863
<b>PBT</b>	<b>130,325</b>	<b>130,311</b>	<b>178,836</b>	<b>263,169</b>	<b>315,670</b>
Total tax	(400)	37,710	47,648	77,841	86,835
<i>Effective Tax rate (%)</i>	<i>(0.3)</i>	<i>28.9</i>	<i>26.6</i>	<i>29.6</i>	<i>27.5</i>
<b>PAT</b>	<b>138,614</b>	<b>98,930</b>	<b>139,910</b>	<b>184,083</b>	<b>227,279</b>
Extraordinary Gain/(Loss)	9,946	(6,027)	(9,854)	-	-
<b>Adjusted PAT</b>	<b>128,668</b>	<b>104,958</b>	<b>149,764</b>	<b>184,083</b>	<b>227,279</b>

Source: Company Data, PL Research

**Balance Sheet (Rs m)**

Y/e March	FY12	FY13	FY14	FY15E	FY16E
Share Capital	6,348	6,381	6,438	6,670	6,670
Reserves & Surplus	325,152	369,992	649,597	729,299	919,680
Shareholder's Fund	331,499	376,373	656,035	735,969	926,350
Preference Share Capital	-	-	-	-	-
Total Debt	471,489	437,755	549,545	545,979	495,954
Other Liabilities(net)	27,657	36,545	30,175	34,270	38,950
Deferred Tax Liability	21,651	(23,807)	(7,748)	(7,748)	(7,748)
<b>Total Liabilities</b>	<b>852,296</b>	<b>826,866</b>	<b>1,228,007</b>	<b>1,308,471</b>	<b>1,453,506</b>
Gross Block	897,791	1,087,676	1,354,542	1,629,542	1,834,652
Less: Depreciation	366,882	403,977	376,000	403,000	460,000
Net Block	530,910	683,699	978,542	1,226,542	1,374,652
Capital Work in Progress	31,215	55,954	45,000	60,000	45,000
Cash & Cash Equivalent	271,558	298,796	403,985	324,777	363,409
Total Current Assets	705,932	832,193	1,046,103	882,649	993,482
Total Current Liabilities	601,530	832,627	948,506	967,587	1,066,494
Net Current Assets	104,402	(434)	97,598	(84,938)	(73,012)
Other Assets	96,592	-	-	(5,000)	(10,000)
<b>Total Assets</b>	<b>852,296</b>	<b>826,867</b>	<b>1,228,007</b>	<b>1,308,471</b>	<b>1,453,506</b>

Source: Company Data, PL Research

**Domestic Inflow picking up:** Consolidated Order inflow for the quarter was up 17% YoY to Rs398bn. The management highlighted that the domestic market has started to see some revival in sectors like Power, Oil & Gas and Transportation. Domestic orders contributed 83% Inflow in Q2FY15 (Vs 54% In Q1 FY15). Consolidated order book at the end of Q2FY15 stood at Rs2.1trn (up 14% YoY).

**Infrastructure to dominate inflows:** L&T is looking at overall inflow of ~US\$25bn in the current year out of prospects worth US\$100bn. The company expects ~US\$11bn orders from infrastructure (US\$45bn prospects), US\$5bn from Power (US\$15bn prospects), US\$1bn from Metal & Mining (US\$4bn prospects), US\$3bn from Hydrocarbon (US\$15bn prospects) and US\$5bn from Others segment.

**IDPL - Fund-raising to ease burden on parent's balance sheet:** IDPL has a current portfolio of 28 projects; with total project cost of Rs613bn. IDPL has invested equity worth Rs70bn and has balance equity commitment of Rs65bn for current portfolio of projects. IDPL has recently raised INR10bn from Canadian Pension Fund and INR13.5bn from Dhamra port stake sale. The fund-raising will help reduce burden on standalone balance sheet and help improve RoEs.

**Outlook and Valuation:** The stock is trading at a core PE of 16.5x FY16E earnings. L&T continues to be the best play in the Indian infrastructure space, given its strong business model, diverse skill sets, strong execution capabilities and relatively healthy/large balance sheet. Maintain 'BUY'.

## Key Financials (Rs m)

Y/e March	FY12	FY13	FY14	FY15E	FY16E
Revenue (Rs m)	531,705	516,110	565,989	620,828	723,161
<i>Growth (%)</i>	<i>21.1</i>	<i>(2.9)</i>	<i>9.7</i>	<i>9.7</i>	<i>16.5</i>
EBITDA (Rs m)	62,687	54,731	66,671	68,703	82,281
PAT (Rs m)	43,855	41,366	49,047	48,676	58,776
EPS (Rs)	48.0	45.0	53.4	53.0	64.0
<i>Growth (%)</i>	<i>19.1</i>	<i>(6.1)</i>	<i>18.6</i>	<i>(0.8)</i>	<i>20.7</i>
Net DPS (Rs)	10.9	12.1	14.4	14.3	17.2

Source: Company Data, PL Research

## Profitability & valuation

Y/e March	FY12	FY13	FY14	FY15E	FY16E
EBITDA margin (%)	11.8	10.6	11.8	11.1	11.4
RoE (%)	18.6	15.2	14.7	12.6	13.9
RoCE (%)	15.1	13.1	13.0	11.3	12.6
EV / sales (x)	2.7	2.8	2.6	2.3	2.0
EV / EBITDA (x)	22.9	26.2	21.9	21.2	17.6
PER (x)*	22.1	23.5	19.8	20.0	16.5
P / BV (x)	5.4	4.7	3.6	3.4	3.1
Net dividend yield (%)	0.7	0.8	1.0	1.0	1.2

Source: Company Data, PL Research \* Core PE

## Stock Performance

(%)	1M	6M	12M
Absolute	(8.5)	(10.1)	40.2
Relative to Sensex	(4.0)	(16.4)	10.5



	Fair Value (Rs)	Basis
L&T Core business	1,353	21x March'16 EPS
L&T Hydrocarbon business	30	10x March '16EPS
L&T IDPL	146	2x P/B
L&T InfoTech	88	11x PE FY15E
L&T Finance Holding	87	83% stake; 20% Hold co discount on current market cap
L&T's equity investment in BTG	4	2x equity investment
Other businesses	70	Manufacturing, urban Infra,
<b>Target price</b>	<b>1,778</b>	

**Income Statement (Rs m)**

Y/e March	FY12	FY13	FY14	FY15E	FY16E
<b>Net Revenue</b>	<b>531,705</b>	<b>516,110</b>	<b>565,989</b>	<b>620,828</b>	<b>723,161</b>
Direct Expenses	446,836	440,658	480,088	534,818	622,706
<i>% of Net Sales</i>	<i>84.0</i>	<i>85.4</i>	<i>84.8</i>	<i>86.1</i>	<i>86.1</i>
Employee Cost	-	-	-	-	-
<i>% of Net Sales</i>	<i>0.0</i>	<i>0.0</i>	<i>0.0</i>	<i>0.0</i>	<i>0.0</i>
SG&A Expenses	22,182	20,721	19,231	17,308	18,173
<i>% of Net Sales</i>	<i>4.2</i>	<i>4.0</i>	<i>3.4</i>	<i>2.8</i>	<i>2.5</i>
Other Expenses	-	-	-	-	-
<i>% of Net Sales</i>	<i>0.0</i>	<i>0.0</i>	<i>0.0</i>	<i>0.0</i>	<i>0.0</i>
<b>EBITDA</b>	<b>62,687</b>	<b>54,731</b>	<b>66,671</b>	<b>68,703</b>	<b>82,281</b>
<i>Margin (%)</i>	<i>11.8</i>	<i>10.6</i>	<i>11.8</i>	<i>11.1</i>	<i>11.4</i>
Depreciation	7,014	7,277	7,924	9,451	10,759
<b>PBIT</b>	<b>55,673</b>	<b>47,454</b>	<b>58,746</b>	<b>59,252</b>	<b>71,523</b>
Interest Expenses	6,661	9,548	10,761	10,959	9,959
<b>PBT</b>	<b>62,394</b>	<b>56,779</b>	<b>66,794</b>	<b>67,606</b>	<b>81,633</b>
Total tax	18,538	15,413	17,748	18,930	22,857
<i>Effective Tax rate (%)</i>	<i>29.7</i>	<i>27.1</i>	<i>26.6</i>	<i>28.0</i>	<i>28.0</i>
<b>PAT</b>	<b>44,565</b>	<b>43,845</b>	<b>54,932</b>	<b>48,676</b>	<b>58,776</b>
Extraordinary Gain/(Loss)	710	2,479	5,885	-	-
<b>Adjusted PAT</b>	<b>43,855</b>	<b>41,366</b>	<b>49,047</b>	<b>48,676</b>	<b>58,776</b>

Source: Company Data, PL Research

**Balance Sheet (Rs m)**

Y/e March	FY12	FY13	FY14	FY15E	FY16E
Share Capital	1,225	1,231	1,231	1,231	1,231
Reserves & Surplus	178,528	217,719	259,435	294,996	337,935
Shareholder's Fund	252,230	291,427	374,455	400,300	443,239
Preference Share Capital	-	-	-	-	-
Total Debt	98,958	88,342	114,589	104,589	94,590
Other Liabilities (net)	-	-	-	-	-
Deferred Tax Liability	1,333	2,422	4,099	4,099	4,099
<b>Total Liabilities</b>	<b>352,520</b>	<b>382,191</b>	<b>493,143</b>	<b>508,989</b>	<b>541,929</b>
Gross Block	105,064	119,606	153,517	161,517	169,516
Less: Depreciation	28,403	35,497	43,421	52,872	63,631
Net Block	76,661	84,109	110,096	108,645	105,885
Capital Work in Progress	6,975	4,911	5,000	5,000	5,001
Cash & Cash Equivalent	228,140	222,633	209,975	206,658	209,658
Total Current Assets	384,206	425,035	508,527	561,239	650,296
Total Current Liabilities	324,410	339,551	322,626	363,041	421,400
Net Current Assets	59,796	85,485	185,901	198,197	228,896
Other Assets	-	-	-	-	-
<b>Total Assets</b>	<b>352,520</b>	<b>382,191</b>	<b>493,143</b>	<b>508,988</b>	<b>541,928</b>

Source: Company Data, PL Research

**Best play on Macroeconomic recovery:** Given the last three years of flat volumes in the Passenger Car segment (expected latent demand) and new launches, we expect volumes to grow at 14.1% CAGR over FY14-FY16E period. MSIL has gained market share to the tune of ~400bps given the strong product portfolio.

**CIAZ seeing encouraging response:** Including 'CIAZ' (which has received good response), the management indicated couple of new launches in FY15E. 'CIAZ' is likely to deliver 5-6,000 units/month, which itself would lead to 4-5% growth for MSIL in FY16E, assuming other segments remain flat. Recently, MSIL has launched the new Alto K10, with 15% improved efficiency and an automatic variant at attractive price point.

**EBITDA margins likely to sustain at 12%+ levels:** With an uptick in volumes, lower commodity prices and lower discounting, we expect EBITDA margins to remain healthy at 12.5-13% levels. Management indicated that the imported content of raw material has been brought down to ~16-17% currently from 20% in FY13.

**Our volume estimates:** Given the fact that the Passenger car industry has been flattish for the last three years, any improvement in macroeconomic scenario could lead to recovery in sales for MSIL. Given its strong product portfolio, we have built in 12.4% volume growth for FY15E at 1.29m units (led by new launches) and a 16.0% YoY in FY16E (on account of strong recovery in economy) at 1.5m units.

**Earnings to grow at ~30% CAGR:** Given estimated earnings CAGR of ~30%, the current valuations of 27.9x FY15E EPS and 20.9x FY16E EPS seem fair. We reiterate that MSIL is the best play on the recovery in the macroeconomic situation. Our TP is based on 22x FY16E EPS (@ 20% premium to its average multiple).

## Key Financials (Rs m)

Y/e March	FY12	FY13	FY14	FY15E	FY16E
Revenue (Rs m)	355,871	435,879	437,006	495,044	591,776
<i>Growth (%)</i>	<i>(2.8)</i>	<i>22.5</i>	<i>0.3</i>	<i>13.3</i>	<i>19.5</i>
EBITDA (Rs m)	25,130	42,297	50,899	61,412	77,637
PAT (Rs m)	16,352	23,921	27,830	35,837	47,912
EPS (Rs)	56.6	79.2	92.1	118.6	158.6
<i>Growth (%)</i>	<i>(30.5)</i>	<i>39.9</i>	<i>16.3</i>	<i>28.8</i>	<i>33.7</i>
Net DPS (Rs)	7.5	8.0	12.0	18.0	24.0

Source: Company Data, PL Research

## Profitability & valuation

Y/e March	FY12	FY13	FY14	FY15E	FY16E
EBITDA margin (%)	7.1	9.7	11.6	12.4	13.1
RoE (%)	10.6	13.0	15.7	14.7	14.7
RoCE (%)	11.1	13.5	16.3	15.3	15.3
EV / sales (x)	2.6	2.3	2.3	2.0	1.7
EV / EBITDA (x)	37.5	23.8	19.9	16.5	13.0
PER (x)	58.5	41.8	35.9	27.9	20.9
P / BV (x)	6.3	5.4	4.8	4.0	3.5
Net dividend yield (%)	0.2	0.2	0.4	0.5	0.7

Source: Company Data, PL Research

## Stock Performance

(%)	1M	6M	12M
Absolute	(0.6)	39.0	94.5
Relative to Sensex	3.9	32.7	64.9

Y/e March	FY10	FY11	FY12	FY13	FY14	FY15E	FY16E
A2 segment volumes (nos)	633,190	808,552	709,430	673,009	678,240	763,020	869,843
A3 segment volumes (nos)	99,315	131,410	128,587	176,467	201,715	225,921	268,846
Domestic Volumes (nos)	870,790	1,132,739	1,006,316	1,051,047	1,054,072	1,181,591	1,371,030
Export Volumes (nos)	147,575	138,266	127,379	120,388	99,816	115,000	140,000
Volumes (nos)	1,018,365	1,271,005	1,133,695	1,171,435	1,153,888	1,296,591	1,511,030
<i>Growth (%)</i>	<i>28.6</i>	<i>24.8</i>	<i>(10.8)</i>	<i>3.3</i>	<i>(1.5)</i>	<i>12.4</i>	<i>16.5</i>
Av. Real. / Veh. (Rs)	290,887	288,106	313,904	367,909	380,133	379,865	389,976
<i>Growth (%)</i>	<i>10.5</i>	<i>(1.0)</i>	<i>9.0</i>	<i>17.2</i>	<i>3.3</i>	<i>(0.1)</i>	<i>2.7</i>
RM cost / veh. (Rs)	220,092	222,959	247,559	286,508	271,340	271,493	278,136
<i>Growth (%)</i>	<i>7.3</i>	<i>1.3</i>	<i>11.0</i>	<i>15.7</i>	<i>(5.3)</i>	<i>0.1</i>	<i>2.4</i>
Contr. / Veh. (Rs)	70,795	65,147	66,345	81,402	108,793	108,372	111,840
Selling expenses (Rs mn)	9,160	11,029	10,136	11,823	13,894	15,082	17,032
Selling exp. / Veh. (Rs)	8,995	8,677	8,941	10,093	12,041	11,632	11,271
<i>Growth (%)</i>	<i>(3.5)</i>	<i>(3.5)</i>	<i>3.0</i>	<i>12.9</i>	<i>19.3</i>	<i>(3.4)</i>	<i>(3.1)</i>
Other exp. / Veh. (Rs)	26,393	30,472	36,736	42,635	51,418	50,695	50,139
<i>Growth (%)</i>	<i>(3.8)</i>	<i>15.5</i>	<i>20.6</i>	<i>16.1</i>	<i>20.6</i>	<i>(1.4)</i>	<i>(1.1)</i>
EBITDA / Veh. (Rs)	39,044	29,140	22,166	30,368	46,075	43,883	42,108
<i>Growth (%)</i>	<i>(4.4)</i>	<i>(25.4)</i>	<i>(23.9)</i>	<i>37.0</i>	<i>51.7</i>	<i>(4.8)</i>	<i>(4.0)</i>
Net Profit / Veh. (Rs)	24,526	18,006	14,195	19,634	28,766	27,608	26,937

Source: Company Data, PL Research

**Income Statement (Rs m)**

Y/e March	FY12	FY13	FY14	FY15E	FY16E
<b>Net Revenue</b>	<b>355,871</b>	<b>435,879</b>	<b>437,006</b>	<b>495,044</b>	<b>591,776</b>
Direct Expenses	280,656	325,149	313,096	352,016	420,272
<i>% of Net Sales</i>	<i>78.9</i>	<i>74.6</i>	<i>71.6</i>	<i>71.1</i>	<i>71.0</i>
Employee Cost	8,438	10,696	13,681	15,886	18,106
<i>% of Net Sales</i>	<i>2.4</i>	<i>2.5</i>	<i>3.1</i>	<i>3.2</i>	<i>3.1</i>
SG&A Expenses	-	-	-	-	-
<i>% of Net Sales</i>	<i>0.0</i>	<i>0.0</i>	<i>0.0</i>	<i>0.0</i>	<i>0.0</i>
Other Expenses	41,647	57,738	59,330	65,731	75,762
<i>% of Net Sales</i>	<i>11.7</i>	<i>13.2</i>	<i>13.6</i>	<i>13.3</i>	<i>12.8</i>
<b>EBITDA</b>	<b>25,130</b>	<b>42,297</b>	<b>50,899</b>	<b>61,412</b>	<b>77,637</b>
<i>Margin (%)</i>	<i>7.1</i>	<i>9.7</i>	<i>11.6</i>	<i>12.4</i>	<i>13.1</i>
Depreciation	11,384	18,612	20,844	23,487	25,491
<b>PBIT</b>	<b>13,746</b>	<b>23,685</b>	<b>30,055</b>	<b>37,925</b>	<b>52,145</b>
Interest Expenses	552	1,898	1,759	1,560	1,550
<b>PBT</b>	<b>21,203</b>	<b>29,910</b>	<b>36,585</b>	<b>46,541</b>	<b>62,224</b>
Total tax	5,111	5,989	8,755	10,704	14,312
<i>Effective Tax rate (%)</i>	<i>24.1</i>	<i>20.0</i>	<i>23.9</i>	<i>23.0</i>	<i>23.0</i>
<b>PAT</b>	<b>16,092</b>	<b>23,921</b>	<b>27,830</b>	<b>35,837</b>	<b>47,912</b>
Extraordinary Gain/(Loss)	(260)	-	-	-	-
<b>Adjusted PAT</b>	<b>16,352</b>	<b>23,921</b>	<b>27,830</b>	<b>35,837</b>	<b>47,912</b>

Source: Company Data, PL Research

**Balance Sheet (Rs m)**

Y/e March	FY12	FY13	FY14	FY15E	FY16E
Share Capital	1,445	1,510	1,510	1,510	1,510
Reserves & Surplus	150,429	184,279	208,270	248,723	285,293
Shareholder's Fund	151,874	185,790	209,781	250,233	286,803
Preference Share Capital	-	-	-	-	-
Total Debt	10,784	13,892	16,851	17,151	17,451
Other Liabilities (net)	2,648	2,364	-	16	85
Deferred Tax Liability	3,023	4,087	5,866	5,866	5,866
<b>Total Liabilities</b>	<b>168,329</b>	<b>206,133</b>	<b>232,497</b>	<b>273,266</b>	<b>310,205</b>
Gross Block	147,347	198,007	237,429	279,433	321,837
Less: Depreciation	72,140	100,015	115,315	133,088	152,407
Net Block	75,207	97,992	122,114	146,345	169,430
Capital Work in Progress	9,419	19,422	12,004	12,404	12,804
Cash & Cash Equivalent	86,096	73,656	107,476	125,069	145,707
Total Current Assets	76,659	74,692	67,674	74,093	90,887
Total Current Liabilities	54,691	51,880	70,473	77,915	98,214
Net Current Assets	21,968	22,812	(2,799)	(3,822)	(7,327)
Other Assets	-	-	-	-	-
<b>Total Assets</b>	<b>168,329</b>	<b>206,133</b>	<b>232,498</b>	<b>273,250</b>	<b>310,120</b>

Source: Company Data, PL Research

**Strategy continues to eye for \$5bn revenue:** The management is still eyeing for the goal set by them last year to achieve \$5bn exit rate by Q4CY15. They see a steeper growth opportunities led by their 4 growth opportunities: 1) Business Momentum: Increasing vertical exposure/ Strengthening our market reach; 2) Organic Growth: Mobility, VAS & Emerging Market; 3) Innovation & Entrepreneurship: Co-innovation and Entrepreneurship Ventures; 4) Simplification of process: 150 Solutions/ 12 platforms/Industrialized Offering. The management sees inorganic endeavours as a key to achieve the goal. Moreover, the new 2018 mission will be finalized by July-15. Tech Mahindra may miss 2015 goal, but only by a narrow margin.

**Network services – Disrupt the current harmony:** Network Services' market opportunities are expected to grow faster than IT Services. Industry is witnessing opex pressure, network consolidation, explosion of data, and ecosystem disruption. The network managed services will move to hybrid network from heterogeneous and highly complex network. This will throw opportunities for TechM. KPN deal has been executed successfully and attained stability. TechM will participate in more bids after KPN's success. The concern on margin is overdone as economy of scale in the segment can unleash the levers effectively.

**Enterprise Solution – Success from investment and integration:** Tech Mahindra's investment in Enterprise Solution has met with success. Over the last one year: 1) New Logos TCY up by 90% YoY 2) Invested in new market including Saudi Arabia, Norway, Mexico, Brazil etc. 3) Revenue/Clients up 14% YoY for top 100 clients 4) Large deals TCY is up 75% for new businesses 5) Deal wins from North America 6) Telecom Leverage – Wins up 50% and pipeline up 5x. We see renewed focus on select few verticals will meet with more success.

## Key Financials (Rs m)

Y/e March	FY12	FY13	FY14	FY15E	FY16E
Revenue (Rs m)	117,024	143,320	188,314	221,636	269,685
<i>Growth (%)</i>	<i>127.7</i>	<i>22.5</i>	<i>31.4</i>	<i>17.7</i>	<i>21.7</i>
EBITDA (Rs m)	19,518	30,631	41,837	44,266	54,976
PAT (Rs m)	17,895	21,756	29,759	30,236	39,709
EPS (Rs)	140.4	169.8	127.4	129.5	170.1
<i>Growth (%)</i>	<i>136.4</i>	<i>21.0</i>	<i>(25.0)</i>	<i>1.6</i>	<i>31.3</i>
Net DPS (Rs)	7.3	9.0	20.0	25.1	30.1

Source: Company Data, PL Research

## Profitability & valuation

Y/e March	FY12	FY13	FY14	FY15E	FY16E
EBITDA margin (%)	16.7	21.4	22.2	20.0	20.4
RoE (%)	48.3	45.9	40.7	29.1	30.0
RoCE (%)	36.1	34.4	32.5	23.9	25.6
EV / sales (x)	2.8	2.3	3.0	2.4	1.9
EV / EBITDA (x)	17.0	10.8	13.4	12.2	9.5
PER (x)	18.1	14.9	19.9	19.6	14.9
P / BV (x)	8.0	6.0	6.4	5.1	4.0
Net dividend yield (%)	0.3	0.4	0.8	1.0	1.2

Source: Company Data, PL Research

## Stock Performance

(%)	1M	6M	12M
Absolute	(3.9)	25.3	45.2
Relative to Sensex	0.6	19.0	15.6

**Income Statement (Rs m)**

Y/e March	FY12	FY13	FY14	FY15E	FY16E
<b>Net Revenue</b>	<b>117,024</b>	<b>143,320</b>	<b>188,314</b>	<b>221,636</b>	<b>269,685</b>
Direct Expenses	75,405	90,007	117,001	142,716	173,352
<i>% of Net Sales</i>	<i>64.4</i>	<i>62.8</i>	<i>62.1</i>	<i>64.4</i>	<i>64.3</i>
Employee Cost	-	-	-	-	-
<i>% of Net Sales</i>	<i>0.0</i>	<i>0.0</i>	<i>0.0</i>	<i>0.0</i>	<i>0.0</i>
SG&A Expenses	22,101	22,682	29,476	34,654	41,357
<i>% of Net Sales</i>	<i>18.9</i>	<i>15.8</i>	<i>15.7</i>	<i>15.6</i>	<i>15.3</i>
Other Expenses	-	-	-	-	-
<i>% of Net Sales</i>	<i>0.0</i>	<i>0.0</i>	<i>0.0</i>	<i>0.0</i>	<i>0.0</i>
<b>EBITDA</b>	<b>19,518</b>	<b>30,631</b>	<b>41,837</b>	<b>44,266</b>	<b>54,976</b>
<i>Margin (%)</i>	<i>16.7</i>	<i>21.4</i>	<i>22.2</i>	<i>20.0</i>	<i>20.4</i>
Depreciation	3,190	3,896	5,222	6,072	6,861
<b>PBIT</b>	<b>16,328</b>	<b>26,735</b>	<b>36,615</b>	<b>38,194</b>	<b>48,115</b>
Interest Expenses	1,073	922	798	39	39
<b>PBT</b>	<b>20,268</b>	<b>27,934</b>	<b>36,947</b>	<b>41,270</b>	<b>53,047</b>
Total tax	2,289	6,479	7,524	11,143	13,527
<i>Effective Tax rate (%)</i>	<i>11.3</i>	<i>23.2</i>	<i>20.4</i>	<i>27.0</i>	<i>25.5</i>
<b>PAT</b>	<b>18,264</b>	<b>20,156</b>	<b>30,959</b>	<b>30,236</b>	<b>39,709</b>
Extraordinary Gain/(Loss)	369	(1,600)	1,200	-	-
<b>Adjusted PAT</b>	<b>17,895</b>	<b>21,756</b>	<b>29,759</b>	<b>30,236</b>	<b>39,709</b>

Source: Company Data, PL Research

**Balance Sheet (Rs m)**

Y/e March	FY12	FY13	FY14	FY15E	FY16E
Share Capital	1,275	1,281	2,335	2,335	2,335
Reserves & Surplus	39,234	52,972	89,470	113,737	146,226
Shareholder's Fund	40,509	54,256	91,820	116,087	148,576
Preference Share Capital	-	-	-	-	-
Total Debt	11,266	10,804	524	524	524
Other Liabilities(net)	6,181	5,407	21,637	21,637	21,637
Deferred Tax Liability	-	-	-	-	-
<b>Total Liabilities</b>	<b>57,956</b>	<b>70,467</b>	<b>113,981</b>	<b>138,248</b>	<b>170,737</b>
Gross Block	14,471	20,083	48,960	57,825	68,613
Less: Depreciation	7,679	11,044	28,656	34,728	41,589
Net Block	6,792	9,039	20,304	23,098	27,024
Capital Work in Progress	1,671	343	2,662	2,662	2,662
Cash & Cash Equivalent	38,294	46,345	47,921	66,278	85,196
Total Current Assets	20,599	29,167	102,947	139,728	177,760
Total Current Liabilities	11,397	19,377	45,415	60,722	70,192
Net Current Assets	9,202	9,790	57,532	79,006	107,568
Other Assets	4,415	10,308	18,764	18,764	18,764
<b>Total Assets</b>	<b>57,956</b>	<b>70,467</b>	<b>113,981</b>	<b>138,248</b>	<b>170,737</b>

Source: Company Data, PL Research

**BOB reported a modest quarter with Q2FY15 PAT declining by 5.5% YoY at Rs 11.4bn. NII growth remains healthy at 17.5% YoY, much ahead of loan growth, and was led by 5bps sequential improvement in global margins. However sluggish fee income on account of weak B/s growth and higher tax provisions affected earnings. Valuations at 0.9x Sep-16 book appears reasonable and we maintain BUY with a revised PT of Rs1,175/share.**

**PPOP growth remains modest despite steady NII growth:** BOB's PPOP growth stood modest at 13% YoY dragged by muted fee income and sequential rise in opex on new employee additions. NII growth stood in-line and was supported by 8bps QoQ rise in domestic margins even as domestic loan growth was flat. Bank further shed preferential rate deposits and CDs which helped it manage funding cost while steady growth in retail has helped improve lending yields.

**Well provided on pension & wage provisions:** BOB is making adequate provision for potential wage revision at Rs750mn per quarter which is expected to be sufficient to cover potential wage hike up to 15-16% (quite adequate in our view). Also it has been adequately providing on pension provisions with better than industry assumptions especially with shift to mortality table, which will not require large provisions going ahead.

**Asset quality deterioration maintains trend; higher coverage ratio/CAR comforts us:** Fresh slippages at Rs17.58bn (1.8% annualized) was slightly lower than Rs18.81bn that slipped in Q1FY15. BOB restructured loans worth Rs11.75bn (Rs9.25bn in domestic business) taking o/s standard restructured assets to 5.9% of total loans. Overseas business also saw fresh restructuring of Rs2.5bn comprising of two accounts though the management guided for improving trends in asset quality over medium term. Higher coverage ratio ~65%, healthy Tier-I at ~9.3% and better RoE profile still gives us comfort. Valuations at 1.0x Sep-16 book appears reasonable and we maintain BUY with a PT of Rs1,175/share.

## Key Financials (Rs m)

Y/e March	FY12	FY13	FY14	FY15E	FY16E
Net interest income	103,170	113,153	119,653	132,732	150,425
<i>Growth (%)</i>	<i>17.2</i>	<i>9.7</i>	<i>5.7</i>	<i>10.9</i>	<i>13.3</i>
Operating profit	85,806	89,992	92,910	103,093	120,277
PAT	50,070	44,807	45,411	50,097	59,728
EPS (Rs)	124.4	107.3	106.4	116.3	138.7
<i>Growth (%)</i>	<i>11.2</i>	<i>-13.7</i>	<i>-0.8</i>	<i>9.3</i>	<i>19.2</i>
Net DPS (Rs)	19.7	25.1	25.2	23.0	25.0

Source: Company Data, PL Research

## Profitability & valuation

Y/e March	FY12	FY13	FY14	FY15E	FY16E
NIM (%)	2.6	2.3	2.0	1.9	1.9
RoAE (%)	20.6	15.1	13.4	13.2	14.2
RoAA (%)	1.2	0.9	0.8	0.7	0.8
P / BV (x)	1.6	1.4	1.2	1.1	1.0
P / ABV (x)	1.7	1.6	1.5	1.3	1.2
PE (x)	8.1	9.4	9.5	8.7	7.3
Net dividend yield (%)	2.0	2.5	2.5	2.3	2.5

Source: Company Data, PL Research

## Stock Performance

(%)	1M	6M	12M
Absolute	(0.6)	18.3	53.4
Relative to Sensex	3.9	12.0	23.7



**Income Statement (Rs m)**

Y/e March	FY12	FY13	FY14	FY15E	FY16E
Int. Earned from Adv.	223,694	258,671	278,781	343,124	387,543
Int. Earned from Invnt.	61,847	74,834	86,960	87,190	92,662
Others	-	-	-	-	-
<b>Total Interest Income</b>	<b>296,737</b>	<b>351,967</b>	<b>389,397</b>	<b>455,567</b>	<b>509,325</b>
Interest expense	193,567	238,814	269,744	322,835	358,899
<b>NII</b>	<b>103,170</b>	<b>113,153</b>	<b>119,653</b>	<b>132,732</b>	<b>150,425</b>
<i>Growth (%)</i>	<i>17.2</i>	<i>9.7</i>	<i>5.7</i>	<i>10.9</i>	<i>13.3</i>
Treasury Income	6,067	6,173	7,438	3,421	4,379
NTNII	28,157	30,133	37,189	46,829	54,916
Non Interest Income	34,223	36,306	44,627	50,250	59,296
<b>Total Income</b>	<b>330,961</b>	<b>388,273</b>	<b>434,025</b>	<b>505,818</b>	<b>568,620</b>
<i>Growth (%)</i>	<i>34.0</i>	<i>17.3</i>	<i>11.8</i>	<i>16.5</i>	<i>12.4</i>
Operating Expense	51,587	59,467	71,371	79,890	89,444
<b>Operating Profit</b>	<b>85,806</b>	<b>89,992</b>	<b>92,910</b>	<b>103,093</b>	<b>120,277</b>
<i>Growth (%)</i>	<i>22.9</i>	<i>4.9</i>	<i>3.2</i>	<i>11.0</i>	<i>16.7</i>
NPA Provisions	15,689	30,670	29,352	31,383	33,286
Investment Provisions	2,363	2,255	1,986	(1,243)	(746)
<b>Total Provisions</b>	<b>25,548</b>	<b>41,679</b>	<b>37,937</b>	<b>32,534</b>	<b>36,153</b>
PBT	60,258	48,312	54,973	70,560	84,124
Tax Provisions	10,188	3,505	9,562	20,462	24,396
<i>Effective Tax Rate (%)</i>	<i>16.9</i>	<i>7.3</i>	<i>17.4</i>	<i>29.0</i>	<i>29.0</i>
<b>PAT</b>	<b>50,070</b>	<b>44,807</b>	<b>45,411</b>	<b>50,097</b>	<b>59,728</b>
<i>Growth (%)</i>	<i>18.0</i>	<i>(10.5)</i>	<i>1.3</i>	<i>10.3</i>	<i>19.2</i>

Source: Company Data, PL Research

**Balance Sheet (Rs m)**

Y/e March	FY12	FY13	FY14	FY15E	FY16E
Par Value	10	10	10	10	10
No. of equity shares	412	423	431	431	431
Equity	4,124	4,225	4,307	4,307	4,307
Networth	274,769	319,694	359,857	398,464	445,702
Adj. Networth	259,332	277,774	299,509	332,404	375,410
Deposits	3,848,711	4,738,833	5,688,944	6,291,972	7,248,352
<i>Growth (%)</i>	<i>26.0</i>	<i>23.1</i>	<i>20.0</i>	<i>10.6</i>	<i>15.2</i>
Low Cost deposits	1,035,239	1,199,809	1,464,878	1,598,161	1,891,820
<i>% of total deposits</i>	<i>26.9</i>	<i>25.3</i>	<i>25.7</i>	<i>25.4</i>	<i>26.1</i>
<b>Total Liabilities</b>	<b>4,473,215</b>	<b>5,471,354</b>	<b>6,595,045</b>	<b>7,373,255</b>	<b>8,553,210</b>
Net Advances	2,873,773	3,281,858	3,970,058	4,398,824	5,111,434
<i>Growth (%)</i>	<i>25.7</i>	<i>14.2</i>	<i>21.0</i>	<i>10.8</i>	<i>16.2</i>
Investments	832,094	1,213,936	1,161,127	1,201,270	1,342,874
<b>Total Assets</b>	<b>4,473,215</b>	<b>5,471,353</b>	<b>6,595,045</b>	<b>7,373,255</b>	<b>8,553,210</b>

Source: Company Data, PL Research

**Diversified portfolio strategy to be a winner:** The strategy to leverage on its manufacturing and strong product filings capability is likely to result in strong earnings growth. Unlocking Injectable Portfolio with launches of more products from Unit IV would accelerate growth and margin expansion in US. We believe that main drivers for Aurobindo are a) Business mix improvement with more formulation sales, b) Scaling up of Aurolife's control substances sales c) Scale-up of injectable business and d) Higher operating cash flow to reduce debt.

**US remains mainstay for growth:** Formulation growth will be driven by injectables and orals. It has filed 22 products from Unit IV (NPNC injectable/ophthalmic) and expects approval of 3-5 products to start with. It is targeting US\$25-30m sales from this unit in FY14E. The company plans to file 100 products from this facility, addressing brand size of US\$40bn and hopes to achieve sales of US\$200-300m in 2-3 years. High value para-IV opportunities especially in injectables would provide boost for growth, margin and operating cash flow in FY15E-17E.

**Maintainable margins revised:** Management revised maintainable operating margins to 22-24% in FY15E-16E. Core EU formulation sales of US\$100m are from six key markets – UK, Netherlands, Italy, Spain, Germany and Portugal. It expects to turn profitable in EU in FY16E, while FY15E is earmarked for operational break-even. The company's EU acquisition would include additional sales of US\$430m in FY15E, while we expect improvement in EBITDA margin in FY16E.

**Strong candidate for valuation re-rating:** The stock currently trades at PE of 19.9x and 16.8x of FY15E and FY16E, which is at a significant (10%) discount to mid-cap peers. Better cash flow from launches of high margin and limited competition drugs to further reduce gearing ratio and narrow valuation differential with peers in the industry. Our SOTP valuation of Aurobindo's set immediate target price at Rs1,308. We maintain 'BUY'.

## Key Financials (Rs m)

Y/e March	FY12	FY13	FY14	FY15E	FY16E
Revenue (Rs m)	46,274	58,553	80,385	117,377	134,274
<i>Growth (%)</i>	<i>5.6</i>	<i>26.5</i>	<i>37.3</i>	<i>46.0</i>	<i>14.4</i>
EBITDA (Rs m)	6,138	8,610	20,715	26,175	30,883
PAT (Rs m)	4,210	4,292	13,759	16,040	18,978
EPS (Rs)	14.5	14.7	47.2	55.0	65.1
<i>Growth (%)</i>	<i>(20.0)</i>	<i>1.9</i>	<i>220.3</i>	<i>16.6</i>	<i>18.3</i>
Net DPS (Rs)	1.0	1.5	1.3	1.3	1.3

Source: Company Data, PL Research

## Profitability & valuation

Y/e March	FY12	FY13	FY14	FY15E	FY16E
EBITDA margin (%)	13.3	14.7	25.8	22.3	23.0
RoE (%)	17.6	17.4	43.3	37.3	33.0
RoCE (%)	9.5	8.9	21.4	21.8	22.8
EV / sales (x)	7.5	6.0	4.4	3.0	2.6
EV / EBITDA (x)	56.9	40.8	17.1	13.3	11.2
PER (x)	75.8	74.4	23.2	19.9	16.8
P / BV (x)	13.6	12.2	8.5	6.6	4.8
Net dividend yield (%)	0.1	0.1	0.1	0.1	0.1

Source: Company Data, PL Research

## Stock Performance

(%)	1M	6M	12M
Absolute	(2.2)	54.8	214.0
Relative to Sensex	2.4	48.5	184.3

**Income Statement (Rs m)**

Y/e March	FY12	FY13	FY14	FY15E	FY16E
<b>Net Revenue</b>	<b>46,274</b>	<b>58,553</b>	<b>80,385</b>	<b>117,377</b>	<b>134,274</b>
Direct Expenses	30,311	35,980	42,290	61,858	71,165
<i>% of Net Sales</i>	<i>65.5</i>	<i>61.4</i>	<i>52.6</i>	<i>52.7</i>	<i>53.0</i>
Employee Cost	5,357	6,633	8,319	14,085	15,442
<i>% of Net Sales</i>	<i>11.6</i>	<i>11.3</i>	<i>10.3</i>	<i>12.0</i>	<i>11.5</i>
SG&A Expenses	4,468	7,331	9,060	15,259	16,784
<i>% of Net Sales</i>	<i>9.7</i>	<i>12.5</i>	<i>11.3</i>	<i>13.0</i>	<i>12.5</i>
Other Expenses	-	-	-	-	-
<i>% of Net Sales</i>	<i>0.0</i>	<i>0.0</i>	<i>0.0</i>	<i>0.0</i>	<i>0.0</i>
<b>EBITDA</b>	<b>6,138</b>	<b>8,610</b>	<b>20,715</b>	<b>26,175</b>	<b>30,883</b>
<i>Margin (%)</i>	<i>13.3</i>	<i>14.7</i>	<i>25.8</i>	<i>22.3</i>	<i>23.0</i>
Depreciation	2,005	2,487	3,125	3,777	4,510
<b>PBIT</b>	<b>4,132</b>	<b>6,122</b>	<b>17,590</b>	<b>22,398</b>	<b>26,373</b>
Interest Expenses	1,028	1,313	1,079	779	732
<b>PBT</b>	<b>3,315</b>	<b>5,094</b>	<b>17,356</b>	<b>21,911</b>	<b>25,935</b>
Total tax	(888)	827	3,635	5,916	7,002
<i>Effective Tax rate (%)</i>	<i>(26.8)</i>	<i>16.2</i>	<i>20.9</i>	<i>27.0</i>	<i>27.0</i>
<b>PAT</b>	<b>(1,235)</b>	<b>2,939</b>	<b>11,729</b>	<b>14,440</b>	<b>18,978</b>
Extraordinary Gain/(Loss)	(5,445)	(1,353)	(2,031)	(1,600)	-
<b>Adjusted PAT</b>	<b>4,210</b>	<b>4,292</b>	<b>13,759</b>	<b>16,040</b>	<b>18,978</b>

Source: Company Data, PL Research

**Balance Sheet (Rs m)**

Y/e March	FY12	FY13	FY14	FY15E	FY16E
Share Capital	291	291	292	292	292
Reserves & Surplus	23,105	25,766	37,210	48,316	66,068
Shareholder's Fund	23,397	26,058	37,502	48,608	66,359
Preference Share Capital	-	-	-	-	-
Total Debt	31,002	34,445	36,431	28,953	26,281
Other Liabilities(net)	102	110	257	27	(18)
Deferred Tax Liability	(16)	680	2,054	317	(202)
<b>Total Liabilities</b>	<b>54,485</b>	<b>61,292</b>	<b>76,243</b>	<b>77,905</b>	<b>92,421</b>
Gross Block	30,863	37,635	43,671	47,671	57,171
Less: Depreciation	8,916	11,246	14,121	17,952	22,462
Net Block	21,947	26,389	29,550	29,719	34,709
Capital Work in Progress	6,454	2,185	764	2,185	2,185
Cash & Cash Equivalent	1,094	2,307	1,984	159	1,235
Total Current Assets	32,454	41,367	56,312	63,351	77,758
Total Current Liabilities	7,837	11,486	18,655	19,138	22,867
Net Current Assets	24,616	29,881	37,657	44,213	54,892
Other Assets	1,082	2,615	8,075	3,431	4,094
<b>Total Assets</b>	<b>54,485</b>	<b>61,292</b>	<b>76,243</b>	<b>79,771</b>	<b>96,103</b>

Source: Company Data, PL Research

**ACC would be the biggest beneficiary of an improvement in the domestic economy due to its Pan-India presence and have one of the cheapest valuations compared to its peers. The recent modernization of Wadi and Chanda and upcoming commissioning of modernized Jamul plant should see improved efficiencies kicking in. Stock trades at EV/T of US\$115 CY15E capacity, significantly lower compared to US\$156 and US\$160 of UTCEM and ACEM, respectively. We maintain our BUY rating with TP of Rs1,650 at EV/T of US\$140 CY15E capacity of 34m tonnes.**

**Key beneficiary of recovery in South and Maharashtra:** From contraction in demand, we expect to see a strong revival in Andhra Pradesh's (AP's) demand, led by an end to the political uncertainty and bifurcation of the state. Hence, stabilization of AP, strong demand environment in IT sector and improved competitiveness of southern industries with the connectivity to national electricity grid, would drive demand in the South. Stronger demand in South, in turn, would keep prices in Maharashtra firm. We see ACC as a big beneficiary of all these as they sell 40% of volumes in these two regions.

**Cost likely to reduce by Rs150/t with newer facilities:** ACC replaced outdated capacity of ~5m tonnes at Wadi (Karnataka) and Chanda (Maharashtra) and also added 6m tonnes of new capacity at these locations. However, due to weak market conditions in these markets, ACC was unable to realise the benefit of lower operating costs from the new facilities. We expect costs to be lower by Rs90/t on an aggregate level in CY15, led by higher utilization at these units. We expect savings of additional Rs60/t in CY16 with the upcoming modernized plant of 3.7mtpa in Jamul. We see only an upward risk to our estimates due to cost savings, primarily on account of increased usage of pet coke and commissioning of captive coal mines.

### Key Financials (Rs m)

Y/e Dec	CY11	CY12	CY13	CY14E	CY15E
Revenue (Rs m)	100,021	111,306	109,084	115,132	130,988
<i>Growth (%)</i>	<i>21.1</i>	<i>11.3</i>	<i>(2.0)</i>	<i>5.5</i>	<i>13.8</i>
EBITDA (Rs m)	16,861	19,690	14,027	13,245	19,354
PAT (Rs m)	10,209	13,305	9,002	8,660	13,060
EPS (Rs)	54.3	70.8	47.9	46.1	69.5
<i>Growth (%)</i>	<i>4.3</i>	<i>30.3</i>	<i>(32.3)</i>	<i>(3.8)</i>	<i>50.8</i>
Net DPS (Rs)	28.0	30.0	30.0	26.0	34.7

Source: Company Data, PL Research

### Profitability & valuation

Y/e Dec	CY11	CY12	CY13	CY14E	CY15E
EBITDA margin (%)	16.9	17.7	12.9	11.5	14.8
RoE (%)	15.4	18.5	11.9	10.8	15.4
RoCE (%)	15.2	18.7	12.2	11.2	15.7
EV / sales (x)	2.4	2.1	2.2	2.1	1.8
EV / EBITDA (x)	14.1	11.8	16.9	18.2	12.2
PER (x)	25.6	19.7	29.1	30.2	20.0
P / BV (x)	3.7	3.5	3.3	3.2	3.0
Net dividend yield (%)	2.0	2.2	2.2	1.9	2.5

Source: Company Data, PL Research

### Stock Performance

(%)	1M	6M	12M
Absolute	(7.9)	(6.3)	28.0
Relative to Sensex	(3.4)	(12.7)	(1.6)

**Income Statement (Rs m)**

Y/e Dec	CY11	CY12	CY13	CY14E	CY15E
<b>Net Revenue</b>	<b>100,021</b>	<b>111,306</b>	<b>109,084</b>	<b>115,132</b>	<b>130,988</b>
Direct Expenses	37,708	41,146	42,453	45,028	48,674
<i>% of Net Sales</i>	<i>37.7</i>	<i>37.0</i>	<i>38.9</i>	<i>39.1</i>	<i>37.2</i>
Employee Cost	5,743	6,179	6,630	7,278	7,934
<i>% of Net Sales</i>	<i>5.7</i>	<i>5.6</i>	<i>6.1</i>	<i>6.3</i>	<i>6.1</i>
SG&A Expenses	19,400	22,063	22,992	25,290	28,322
<i>% of Net Sales</i>	<i>19.4</i>	<i>19.8</i>	<i>21.1</i>	<i>22.0</i>	<i>21.6</i>
Other Expenses	20,308	22,228	22,983	24,291	26,705
<i>% of Net Sales</i>	<i>20.3</i>	<i>20.0</i>	<i>21.1</i>	<i>21.1</i>	<i>20.4</i>
<b>EBITDA</b>	<b>16,861</b>	<b>19,690</b>	<b>14,027</b>	<b>13,245</b>	<b>19,354</b>
<i>Margin (%)</i>	<i>16.9</i>	<i>17.7</i>	<i>12.9</i>	<i>11.5</i>	<i>14.8</i>
Depreciation	5,100	5,689	5,838	5,629	5,734
<b>PBIT</b>	<b>11,761</b>	<b>14,001</b>	<b>8,189</b>	<b>7,616</b>	<b>13,620</b>
Interest Expenses	969	1,147	517	447	458
<b>PBT</b>	<b>15,053</b>	<b>14,410</b>	<b>12,136</b>	<b>11,864</b>	<b>17,958</b>
Total tax	2,155	3,911	1,319	2,194	5,028
<i>Effective Tax rate (%)</i>	<i>14.3</i>	<i>27.1</i>	<i>10.9</i>	<i>18.5</i>	<i>28.0</i>
<b>PAT</b>	<b>13,008</b>	<b>10,593</b>	<b>10,947</b>	<b>9,788</b>	<b>13,060</b>
Extraordinary Gain/(Loss)	520	(2,460)	(223)	-	-
<b>Adjusted PAT</b>	<b>10,209</b>	<b>13,305</b>	<b>9,002</b>	<b>8,660</b>	<b>13,060</b>

Source: Company Data, PL Research

**Balance Sheet (Rs m)**

Y/e Dec	CY11	CY12	CY13	CY14E	CY15E
Share Capital	1,880	1,880	1,880	1,880	1,880
Reserves & Surplus	67,911	71,845	76,254	80,323	85,751
Shareholder's Fund	69,791	73,724	78,134	82,202	87,631
Preference Share Capital	-	-	-	-	-
Total Debt	5,107	1,631	350	-	-
Other Liabilities(net)	25	26	27	29	31
Deferred Tax Liability	5,238	5,226	5,128	5,484	6,023
<b>Total Liabilities</b>	<b>80,161</b>	<b>80,606</b>	<b>83,640</b>	<b>87,716</b>	<b>93,685</b>
Gross Block	100,322	103,994	105,867	107,867	109,867
Less: Depreciation	36,258	44,680	50,167	55,796	61,530
Net Block	64,065	59,314	55,700	52,071	48,337
Capital Work in Progress	4,408	5,083	12,236	22,736	29,736
Cash & Cash Equivalent	29,530	31,594	26,313	21,412	26,203
Total Current Assets	49,756	53,871	52,208	48,313	55,277
Total Current Liabilities	39,049	38,676	37,371	36,391	40,784
Net Current Assets	10,707	15,195	14,837	11,922	14,493
Other Assets	-	-	-	-	-
<b>Total Assets</b>	<b>80,161</b>	<b>80,606</b>	<b>83,640</b>	<b>87,716</b>	<b>93,685</b>

Source: Company Data, PL Research

# MID-CAP

**Technology edge in new CPCB-2 Norms:** Central Pollution Control Board (CPCB) has notified CPCB-2 norms for implementation w.e.f July 1, 2014 or Diesel gensets up to 800kw (~1000hp). We expect KKC to benefit most, as stringent norms would lead to increased consolidation, given the technology requirements.

**Strong exports and bottoming of domestic markets:** Management believes that the domestic business has bottomed out and expects recovery to be visible from H2FY15. Also, management has increased overall guidance to 10-15% for FY15 against earlier guidance of 5-10%. They expect domestic business to grow by 0-5% in FY15 and exports to grow by 30% in FY15 due to strong ramp-up in LHP (~Rs7bn in FY15 against Rs3.8bn in FY14) . The current utilization levels are at ~50-60%.

**Outlook and Valuation:** The stock is trading at 28.3x FY16E earnings. We have upgraded our earnings by ~5% for FY15 to factor in revised guidance. Cummins continues to be the best franchise in the Capital goods space. Outlook for Cummins continues to be positive, given the strong ramp-up in exports and likely improvement in market position, post changes in emission norms. Low capitalization utilization of 50-60% also leaves upside surprise on margin once volumes improve.

## Key Financials (Rs m)

Y/e March	FY12	FY13	FY14	FY15E	FY16E
Revenue (Rs m)	41,172	45,894	39,786	43,567	53,380
<i>Growth (%)</i>	<i>1.8</i>	<i>11.5</i>	<i>(13.3)</i>	<i>9.5</i>	<i>22.5</i>
EBITDA (Rs m)	6,972	8,349	6,986	7,319	9,555
PAT (Rs m)	5,398	6,846	5,676	6,262	8,400
EPS (Rs)	19.5	24.7	20.5	22.6	30.3
<i>Growth (%)</i>	<i>(8.7)</i>	<i>26.8</i>	<i>(17.1)</i>	<i>10.3</i>	<i>34.1</i>
Net DPS (Rs)	11.0	13.0	13.0	14.0	13.6

Source: Company Data, PL Research

## Profitability & valuation

Y/e March	FY12	FY13	FY14	FY15E	FY16E
EBITDA margin (%)	16.9	18.2	17.6	16.8	17.9
RoE (%)	28.0	30.9	22.9	24.1	29.6
RoCE (%)	28.0	30.8	23.0	24.0	29.3
EV / sales (x)	5.7	5.1	5.9	5.5	4.4
EV / EBITDA (x)	33.8	28.2	33.9	32.4	24.8
PER (x)	44.0	34.7	41.8	37.9	28.3
P / BV (x)	11.6	10.0	9.3	9.0	7.8
Net dividend yield (%)	1.3	1.5	1.5	1.6	1.6

Source: Company Data, PL Research

## Stock Performance

(%)	1M	6M	12M
Absolute	0.9	32.9	103.5
Relative to Sensex	5.4	26.5	73.9

**Income Statement (Rs m)**

Y/e March	FY12	FY13	FY14	FY15E	FY16E
<b>Net Revenue</b>	<b>41,172</b>	<b>45,894</b>	<b>39,786</b>	<b>43,567</b>	<b>53,380</b>
Direct Expenses	26,454	28,874	24,241	27,011	33,096
<i>% of Net Sales</i>	<i>64.3</i>	<i>62.9</i>	<i>60.9</i>	<i>62.0</i>	<i>62.0</i>
Employee Cost	3,039	3,386	3,396	2,832	3,470
<i>% of Net Sales</i>	<i>7.4</i>	<i>7.4</i>	<i>8.5</i>	<i>6.5</i>	<i>6.5</i>
SG&A Expenses	-	-	-	-	-
<i>% of Net Sales</i>	<i>0.0</i>	<i>0.0</i>	<i>0.0</i>	<i>0.0</i>	<i>0.0</i>
Other Expenses	4,706	5,285	5,162	6,404	7,260
<i>% of Net Sales</i>	<i>11.4</i>	<i>11.5</i>	<i>13.0</i>	<i>14.7</i>	<i>13.6</i>
<b>EBITDA</b>	<b>6,972</b>	<b>8,349</b>	<b>6,986</b>	<b>7,319</b>	<b>9,555</b>
<i>Margin (%)</i>	<i>16.9</i>	<i>18.2</i>	<i>17.6</i>	<i>16.8</i>	<i>17.9</i>
Depreciation	420	473	528	742	806
<b>PBIT</b>	<b>6,553</b>	<b>7,876</b>	<b>6,459</b>	<b>6,577</b>	<b>8,749</b>
Interest Expenses	54	46	42	6	-
<b>PBT</b>	<b>8,246</b>	<b>10,492</b>	<b>8,194</b>	<b>7,927</b>	<b>10,633</b>
Total tax	2,334	2,872	2,175	1,665	2,233
<i>Effective Tax rate (%)</i>	<i>28.3</i>	<i>27.4</i>	<i>26.5</i>	<i>21.0</i>	<i>21.0</i>
<b>PAT</b>	<b>5,912</b>	<b>6,846</b>	<b>6,019</b>	<b>7,085</b>	<b>8,400</b>
Extraordinary Gain/(Loss)	-	-	343	823	-
<b>Adjusted PAT</b>	<b>5,398</b>	<b>6,846</b>	<b>5,676</b>	<b>6,262</b>	<b>8,400</b>

Source: Company Data, PL Research

**Balance Sheet (Rs m)**

Y/e March	FY12	FY13	FY14	FY15E	FY16E
Share Capital	554	554	554	554	554
Reserves & Surplus	19,877	23,313	25,097	27,719	31,786
Shareholder's Fund	20,432	23,867	25,652	26,331	30,398
Preference Share Capital	-	-	-	-	-
Total Debt	147	150	-	200	400
Other Liabilities(net)	-	-	-	-	-
Deferred Tax Liability	-	-	-	-	-
<b>Total Liabilities</b>	<b>20,579</b>	<b>24,018</b>	<b>25,652</b>	<b>26,531</b>	<b>30,798</b>
Gross Block	9,703	11,703	16,203	21,203	25,203
Less: Depreciation	5,054	5,526	6,054	6,796	7,603
Net Block	4,649	6,177	10,149	14,407	17,600
Capital Work in Progress	497	1,208	-	-	-
Cash & Cash Equivalent	8,211	8,579	5,818	4,236	4,187
Total Current Assets	19,826	23,035	22,625	19,629	24,050
Total Current Liabilities	10,438	12,350	11,611	10,994	13,342
Net Current Assets	9,388	10,685	11,014	8,635	10,708
Other Assets	70	(328)	(465)	(465)	(465)
<b>Total Assets</b>	<b>20,579</b>	<b>24,017</b>	<b>25,652</b>	<b>26,530</b>	<b>30,797</b>

Source: Company Data, PL Research



**Management's focus on B/S growth is back and is well positioned to grow with granular improvement in its asset and liability franchise. High RORWAs provide comfort on FB's ability to leverage. Valuations re-rated to 1.35x Sep-16 book factoring in ROA improvement over FY15-17, led by improving PPOP and stable credit costs. We maintain BUY with a PT of Rs150/share based on Sep-16 book.**

**Focus on B/s growth back; robust liability franchise:** (1) Loan growth of 7.7% QoQ was from all segments but corporate loan pick up (grew 9.5% QoQ) has been faster from last two quarters. (2) CASA ratio was stable at 30% as both CA & SA profile saw decent accretion mainly contributed from non-Kerala geography. Management is focusing on better efficiency of its existing branches to improve its CASA accretion instead of aggressive branch expansion which will keep C/I at 48-50%.

**Base rate cut to impact margins slowly; fees revival will still take some time:** (1) Better mix of SME & retail loans compared to corporate loans contained yield drop as Bank cut its base rate by 35bps to 10.2% in mid-June. But higher incremental growth in loan book has been from corporate segment which will reflect in margins going ahead. We have lowered our NIM estimate by 6bps for FY15E & 3bps for FY16E (2) Core fees growth of 17% YoY bounced back on better loan processing and commission fees. Management is optimistic to grow fees 200-300bps above loan growth target of 20% YoY which we think is difficult to achieve in this challenging environment.

**Asset quality remains stable:** Asset quality trends have been improving from last few quarters with tight leash on corporate slippages. In Q2FY15, asset quality was stable with no slippages from corporate book but increased slightly in SME book from trend levels. O/s restructured book stood at Rs29bn with fresh restructuring of Rs0.68bn in Q2FY15. We reiterate that Bank has high SR book of Rs+5bn on which provisions are yet to be made. We maintain BUY with a PT of Rs150/share based on Sep-16 book.

## Key Financials (Rs m)

Y/e March	FY12	FY13	FY14	FY15E	FY16E
Net interest income	19,534	19,747	22,286	23,712	27,178
<i>Growth (%)</i>	<i>11.8</i>	<i>1.1</i>	<i>12.9</i>	<i>6.4</i>	<i>14.6</i>
Operating profit	15,065	14,596	14,804	16,206	19,343
PAT	7,768	8,382	8,389	9,564	11,495
EPS (Rs)	9.1	9.8	9.8	11.2	13.4
<i>Growth (%)</i>	<i>32.3</i>	<i>7.9</i>	<i>0.1</i>	<i>14.0</i>	<i>20.2</i>
Net DPS (Rs)	1.8	1.8	2.0	2.3	2.7

Source: Company Data, PL Research

## Profitability & valuation

Y/e March	FY12	FY13	FY14	FY15E	FY16E
NIM (%)	3.6	3.1	3.2	3.1	3.0
RoAE (%)	14.4	13.9	12.6	13.1	14.2
RoAA (%)	1.4	1.3	1.2	1.2	1.2
P / BV (x)	2.0	1.8	1.6	1.5	1.3
P / ABV (x)	2.1	1.9	1.7	1.6	1.4
PE (x)	14.7	13.7	13.7	12.0	10.0
Net dividend yield (%)	1.3	1.3	1.5	1.7	2.0

Source: Company Data, PL Research

## Stock Performance

(%)	1M	6M	12M
Absolute	(4.1)	12.4	73.6
Relative to Sensex	0.4	6.1	43.9

**Income Statement (Rs m)**

Y/e March	FY12	FY13	FY14	FY15E	FY16E
Int. Earned from Adv.	41,898	46,357	50,111	54,467	64,640
Int. Earned from Invt.	13,157	14,646	17,768	17,423	17,140
Others	-	-	-	-	-
<b>Total Interest Income</b>	<b>55,584</b>	<b>61,676</b>	<b>69,461</b>	<b>72,837</b>	<b>82,812</b>
Interest expense	36,050	41,929	47,175	49,125	55,634
<b>NII</b>	<b>19,534</b>	<b>19,747</b>	<b>22,286</b>	<b>23,712</b>	<b>27,178</b>
<i>Growth (%)</i>	<i>11.8</i>	<i>1.1</i>	<i>12.9</i>	<i>6.4</i>	<i>14.6</i>
Treasury Income	824	2,059	1,575	1,625	1,750
NTNII	4,499	4,585	5,363	6,344	7,451
Non Interest Income	5,323	6,644	6,938	7,969	9,201
<b>Total Income</b>	<b>60,907</b>	<b>68,320</b>	<b>76,399</b>	<b>80,806</b>	<b>92,013</b>
<i>Growth (%)</i>	<i>33.3</i>	<i>12.2</i>	<i>11.8</i>	<i>5.8</i>	<i>13.9</i>
Operating Expense	9,793	11,795	14,421	15,476	17,035
<b>Operating Profit</b>	<b>15,065</b>	<b>14,596</b>	<b>14,804</b>	<b>16,206</b>	<b>19,343</b>
<i>Growth (%)</i>	<i>5.6</i>	<i>(3.1)</i>	<i>1.4</i>	<i>9.5</i>	<i>19.4</i>
NPA Provisions	2,582	2,386	2,409	2,445	2,684
Investment Provisions	349	(368)	1,116	-	-
<b>Total Provisions</b>	<b>3,370</b>	<b>2,658</b>	<b>2,684</b>	<b>2,445</b>	<b>2,684</b>
PBT	11,695	11,938	12,120	13,761	16,659
Tax Provisions	3,927	3,556	3,731	4,197	5,164
<i>Effective Tax Rate (%)</i>	<i>33.6</i>	<i>29.8</i>	<i>30.8</i>	<i>30.5</i>	<i>31.0</i>
<b>PAT</b>	<b>7,768</b>	<b>8,382</b>	<b>8,389</b>	<b>9,564</b>	<b>11,495</b>
<i>Growth (%)</i>	<i>32.3</i>	<i>7.9</i>	<i>0.1</i>	<i>14.0</i>	<i>20.2</i>

Source: Company Data, PL Research

**Balance Sheet (Rs m)**

Y/e March	FY12	FY13	FY14	FY15E	FY16E
Par Value	2	2	2	2	2
No. of equity shares	855	855	855	855	855
Equity	1,710	1,711	1,711	1,711	1,711
Networth	57,009	63,595	69,456	76,738	85,490
Adj. Networth	54,554	59,275	66,240	73,152	81,508
Deposits	489,371	576,149	597,313	690,919	821,504
<i>Growth (%)</i>	<i>13.8</i>	<i>17.7</i>	<i>3.7</i>	<i>15.7</i>	<i>18.9</i>
Low Cost deposits	134,759	156,521	186,638	222,876	265,822
<i>% of total deposits</i>	<i>27.5</i>	<i>27.2</i>	<i>31.2</i>	<i>32.3</i>	<i>32.4</i>
<b>Total Liabilities</b>	<b>606,214</b>	<b>710,444</b>	<b>745,891</b>	<b>854,139</b>	<b>1,012,770</b>
Net Advances	377,560	440,967	434,361	510,374	617,553
<i>Growth (%)</i>	<i>18.2</i>	<i>16.8</i>	<i>(1.5)</i>	<i>17.5</i>	<i>21.0</i>
Investments	174,025	211,546	241,179	266,675	304,503
<b>Total Assets</b>	<b>606,214</b>	<b>710,444</b>	<b>745,891</b>	<b>854,139</b>	<b>1,012,770</b>

Source: Company Data, PL Research

**Sales led organization – A strategic shift:** The company sales team has been sharpened with more investments to tackle growth. The win rate for the company has improved from 1:12 (24 months back) to 1: 6 (last 6-12 months). The company has taken following initiatives 1) Sales reorganization – clear delineation of hunters and farmers 2) Marketing transformation for branding and lead generation like conferences, webinars, 3rd party marketing, tools to track leads etc. 3) Structured large account classification & investment 4) New performance measurements structure and new compensation plan to attract top talents (like rewards for must have accounts and large deal wins). We expect focus on selected few logos with high growth potential will give good RoI.

**Focus on new logos – Hunters, the new epicentres:** The company is through with all sales engine transition in sales team in the US, in the middle of transition in Europe and would take over APac transition next year. The company currently has 40 hunters (FY14) and would hire 10 more in FY15. The focus on hunting has helped improve new logos pipeline by 20% over last 6 months (100% over last 18 months). The company has seen improvement in deal pipeline quality.

**Seasonality and slower ramp-up to impact Q3FY15, and bounce back in Q4FY15:** MTCL is likely to have strong FY15 beating NASSCOM guidance. However, the seasonality and slow ramp-up would impact Q3FY15, which is expected to grow marginally. Nevertheless, the management expects the growth to bounce back in Q4FY15. We remain confident about the growth prospect of the company in CY15.

**investments to continue, but margins likely to be stable:** The management highlighted limited room for margin improvement due to continued investment in Europe (esp. Germany, Austria, the Netherlands), along with increasing client mining scope to Top 30 clients (from Top 10 earlier). Moreover, fresher addition in H2FY15 (Q3+Q4FY15: 350+400) and wage hike to 15% workforce in Q3FY15 would put additional pressure on operating margin in the near term. However, continued benefits from pyramid rationalization, SG&A efficiency, and offshore drive would provide tailwinds for operating margin. We expect margin improvement by ~50bps for FY15.

**Valuation & Recommendation – Accumulate, Target Price Rs1,350:** We expect revenue momentum to accelerate in CY15 with improvement in operating margin expansion at constant currency. We see scope of earnings upgrade from consensus. We upgrade MTCL to “BUY” (from “Accumulate”).

## Key Financials (Rs m)

Y/e March	FY12	FY13	FY14	FY15E	FY16E
Revenue (Rs m)	19,152	23,618	30,316	35,943	43,725
<i>Growth (%)</i>	<i>26.9</i>	<i>23.3</i>	<i>28.4</i>	<i>18.6</i>	<i>21.7</i>
EBITDA (Rs m)	2,930	4,864	6,104	7,306	9,366
PAT (Rs m)	2,156	3,395	4,512	5,543	7,309
EPS (Rs)	26.6	40.9	54.1	66.5	87.6
<i>Growth (%)</i>	<i>109.6</i>	<i>53.7</i>	<i>32.3</i>	<i>22.9</i>	<i>31.8</i>
Net DPS (Rs)	2.2	2.6	6.0	7.0	8.0

Source: Company Data, PL Research

## Profitability & valuation

Y/e March	FY12	FY13	FY14	FY15E	FY16E
EBITDA margin (%)	15.3	20.6	20.1	20.3	21.4
RoE (%)	24.9	29.9	30.5	29.4	29.6
RoCE (%)	24.7	29.7	30.3	29.1	29.4
EV / sales (x)	5.0	4.1	3.2	2.6	2.0
EV / EBITDA (x)	32.8	20.1	16.1	13.0	9.6
PER (x)	44.8	29.1	22.0	17.9	13.6
P / BV (x)	10.1	7.5	6.1	4.7	3.5
Net dividend yield (%)	0.2	0.2	0.5	0.6	0.7

Source: Company Data, PL Research

## Stock Performance

(%)	1M	6M	12M
Absolute	8.7	55.4	62.2
Relative to Sensex	2.3	37.7	24.7

<b>Y/e March</b>	<b>FY11</b>	<b>FY12</b>	<b>FY13E</b>	<b>FY14</b>	<b>FY15E</b>	<b>FY16E</b>
Volume (persons months)	69,749	80,671	85,803	97,203	111,783	131,904
Realization (US\$ / Hr)	26	28	29	26	28	30
Currency (USDINR)	46	48	54	60	61	61
<i>SW Devp. Cost (% of Sales)</i>	<i>67.2</i>	<i>64.0</i>	<i>60.4</i>	<i>58.8</i>	<i>58.9</i>	<i>58.1</i>
<i>SG&amp;A (% of sales)</i>	<i>21.0</i>	<i>20.7</i>	<i>19.0</i>	<i>21.1</i>	<i>20.8</i>	<i>20.5</i>
Revenue (US\$ m)	331	403	436	502	594	717
EBITDA Margin Expansion/(Erosion) (bps)	(717)	352	530	(46)	19	110
<i>Tax Rate (%)</i>	<i>22.1</i>	<i>16.4</i>	<i>20.0</i>	<i>22.0</i>	<i>22.5</i>	<i>21.5</i>

Source: Company Data, PL Research

**Income Statement (Rs m)**

Y/e March	FY12	FY13	FY14	FY15E	FY16E
<b>Net Revenue</b>	<b>19,152</b>	<b>23,618</b>	<b>30,316</b>	<b>35,943</b>	<b>43,725</b>
Direct Expenses	12,261	14,274	17,820	21,170	25,407
<i>% of Net Sales</i>	<i>64.0</i>	<i>60.4</i>	<i>58.8</i>	<i>58.9</i>	<i>58.1</i>
Employee Cost	-	-	-	-	-
<i>% of Net Sales</i>	<i>0.0</i>	<i>0.0</i>	<i>0.0</i>	<i>0.0</i>	<i>0.0</i>
SG&A Expenses	3,961	4,480	6,392	7,468	8,951
<i>% of Net Sales</i>	<i>20.7</i>	<i>19.0</i>	<i>21.1</i>	<i>20.8</i>	<i>20.5</i>
Other Expenses	-	-	-	-	-
<i>% of Net Sales</i>	<i>0.0</i>	<i>0.0</i>	<i>0.0</i>	<i>0.0</i>	<i>0.0</i>
<b>EBITDA</b>	<b>2,930</b>	<b>4,864</b>	<b>6,104</b>	<b>7,306</b>	<b>9,366</b>
<i>Margin (%)</i>	<i>15.3</i>	<i>20.6</i>	<i>20.1</i>	<i>20.3</i>	<i>21.4</i>
Depreciation	695	624	809	933	965
<b>PBIT</b>	<b>2,235</b>	<b>4,240</b>	<b>5,295</b>	<b>6,373</b>	<b>8,402</b>
Interest Expenses	3	10	4	2	5
<b>PBT</b>	<b>2,618</b>	<b>4,242</b>	<b>5,787</b>	<b>7,152</b>	<b>9,310</b>
Total tax	462	847	1,275	1,609	2,002
<i>Effective Tax rate (%)</i>	<i>17.6</i>	<i>20.0</i>	<i>22.0</i>	<i>22.5</i>	<i>21.5</i>
<b>PAT</b>	<b>2,156</b>	<b>3,395</b>	<b>4,512</b>	<b>5,543</b>	<b>7,309</b>
Extraordinary Gain/(Loss)	-	-	-	-	-
<b>Adjusted PAT</b>	<b>2,156</b>	<b>3,395</b>	<b>4,512</b>	<b>5,543</b>	<b>7,309</b>

Source: Company Data, PL Research

**Balance Sheet (Rs m)**

Y/e March	FY12	FY13	FY14	FY15E	FY16E
Share Capital	405	415	417	417	417
Reserves & Surplus	9,167	12,722	15,988	20,946	27,586
Shareholder's Fund	9,572	13,137	16,405	21,363	28,003
Preference Share Capital	-	-	-	-	-
Total Debt	71	89	156	156	156
Other Liabilities(net)	-	-	-	-	-
Deferred Tax Liability	-	-	-	-	-
<b>Total Liabilities</b>	<b>9,643</b>	<b>13,226</b>	<b>16,561</b>	<b>21,519</b>	<b>28,159</b>
Gross Block	5,753	6,407	7,846	8,888	10,156
Less: Depreciation	3,205	3,818	4,410	5,343	6,308
Net Block	2,548	2,589	3,436	3,545	3,848
Capital Work in Progress	85	571	496	496	496
Cash & Cash Equivalent	3,684	5,509	6,519	10,158	15,386
Total Current Assets	6,466	7,456	9,528	15,655	23,229
Total Current Liabilities	3,703	3,684	4,433	5,712	6,948
Net Current Assets	2,763	3,772	5,095	9,944	16,280
Other Assets	1,165	2,023	2,199	2,199	2,199
<b>Total Assets</b>	<b>9,643</b>	<b>13,226</b>	<b>16,561</b>	<b>21,519</b>	<b>28,159</b>

Source: Company Data, PL Research

**JK Lakshmi cement (JKLC) is the 5th largest cement producer in North India with a ~7% market share in the region with a capacity of 6.6mtpa. This backed by 1) one of the most efficient operations, 2) entry into the most profitable eastern region with a capacity of 2.7mtpa, scheduled to get commissioned by Dec-14, and 3) increasing consolidation in Gujarat (~40% of its total volumes) ranks JKLC as one of our top pick in the sector, with a PT of Rs425 at EV/T of US\$100 FY16E capacity of 11m tonnes.**

**Efficient and focused producer:** JKLC is the second lowest cost producer in the region on the back of 100% pet-coke usage (one of the first mover), thermal and waste heat recovery based CPP, balanced rail/road mix and low fixed overheads. We expect the trend to continue at its upcoming green field plant in Durg on the back of proximity to both slag source and end markets with well laid logistics.

**Greenfield expansion in Durg to drive the next round of volume growth:** JKLC is putting up 2.7mtpa cement plant in Durg, Chhattisgarh at a cost of Rs17.4bn. Thanks to better market dynamics of the region on the front of consolidation and demand outlook, the addition would improve the earnings profile of JKLC.

**Consolidation in Gujarat, JKLC the key beneficiary:** The recent consolidation in Gujarat due to acquisition of JPA's 4.8mtpa plants by UTCCEM leads to a 15% increase in share of Top 2 (UTCCEM+Holcim)'s combined production in the state from 55% to 70%, is expected to result in the prices stabilizing. In addition, the structural supply disruptions at Binani's plant holding ~10% market share in Gujarat and weak balance sheet of other participants is expected to result in JKLC being the primary beneficiary since Gujarat constitutes 1/3rd of its total volumes.

## Key Financials (Rs m)

Y/e March	FY12	FY13	FY14	FY15E	FY16E
Revenue (Rs m)	17,181	20,550	20,566	24,663	32,841
<i>Growth (%)</i>	<i>29.9</i>	<i>19.6</i>	<i>0.1</i>	<i>19.9</i>	<i>33.2</i>
EBITDA (Rs m)	3,357	4,287	3,020	4,123	6,386
PAT (Rs m)	1,387	1,879	1,073	2,005	2,471
EPS (Rs)	11.3	16.0	9.1	17.0	21.0
<i>Growth (%)</i>	<i>132.1</i>	<i>40.9</i>	<i>(42.9)</i>	<i>86.9</i>	<i>23.2</i>
Net DPS (Rs)	1.9	2.5	2.0	4.3	5.2

Source: Company Data, PL Research

## Profitability & valuation

Y/e March	FY12	FY13	FY14	FY15E	FY16E
EBITDA margin (%)	19.5	20.9	14.7	16.7	19.4
RoE (%)	12.5	15.4	8.4	14.7	16.4
RoCE (%)	9.1	9.9	5.7	8.3	10.4
EV / sales (x)	3.1	2.7	2.8	2.6	1.9
EV / EBITDA (x)	15.7	12.9	19.3	15.4	9.7
PER (x)	34.2	24.3	42.6	22.8	18.5
P / BV (x)	4.0	3.6	3.5	3.2	2.9
Net dividend yield (%)	0.5	0.6	0.5	1.1	1.4

Source: Company Data, PL Research

## Stock Performance

(%)	1M	6M	12M
Absolute	2.7	73.4	441.4
Relative to Sensex	5.3	65.1	409.6

**Income Statement (Rs m)**

Y/e March	FY12	FY13	FY14	FY15E	FY16E
<b>Net Revenue</b>	<b>17,181</b>	<b>20,550</b>	<b>20,566</b>	<b>24,985</b>	<b>33,130</b>
Direct Expenses	7,811	8,926	9,732	11,236	14,129
<i>% of Net Sales</i>	<i>45.5</i>	<i>43.4</i>	<i>47.3</i>	<i>45.0</i>	<i>42.6</i>
Employee Cost	984	1,132	1,230	1,475	1,844
<i>% of Net Sales</i>	<i>5.7</i>	<i>5.5</i>	<i>6.0</i>	<i>5.9</i>	<i>5.6</i>
SG&A Expenses	3,313	4,215	4,568	5,407	7,003
<i>% of Net Sales</i>	<i>19.3</i>	<i>20.5</i>	<i>22.2</i>	<i>21.6</i>	<i>21.1</i>
Other Expenses	1,715	1,989	2,016	2,367	3,275
<i>% of Net Sales</i>	<i>10.0</i>	<i>9.7</i>	<i>9.8</i>	<i>9.5</i>	<i>9.9</i>
<b>EBITDA</b>	<b>3,357</b>	<b>4,287</b>	<b>3,020</b>	<b>4,500</b>	<b>6,879</b>
<i>Margin (%)</i>	<i>19.5</i>	<i>20.9</i>	<i>14.7</i>	<i>18.0</i>	<i>20.8</i>
Depreciation	1,297	1,489	1,352	1,178	2,009
<b>PBIT</b>	<b>2,060</b>	<b>2,798</b>	<b>1,668</b>	<b>3,322</b>	<b>4,870</b>
Interest Expenses	874	835	772	891	1,716
<b>PBT</b>	<b>1,427</b>	<b>2,354</b>	<b>1,154</b>	<b>2,732</b>	<b>3,640</b>
Total tax	340	596	229	472	858
<i>Effective Tax rate (%)</i>	<i>23.8</i>	<i>25.3</i>	<i>19.9</i>	<i>17.3</i>	<i>23.6</i>
<b>PAT</b>	<b>1,088</b>	<b>1,757</b>	<b>925</b>	<b>2,259</b>	<b>2,782</b>
Extraordinary Gain/(Loss)	(299)	(122)	(148)	(136)	-
<b>Adjusted PAT</b>	<b>1,387</b>	<b>1,879</b>	<b>1,073</b>	<b>2,396</b>	<b>2,782</b>

Source: Company Data, PL Research

**Balance Sheet (Rs m)**

Y/e March	FY12	FY13	FY14	FY15E	FY16E
Share Capital	612	589	589	589	589
Reserves & Surplus	10,514	11,648	12,302	13,861	15,829
Shareholder's Fund	11,752	12,598	13,032	14,450	16,418
Preference Share Capital	-	-	-	-	-
Total Debt	10,696	13,370	16,313	19,813	18,313
Other Liabilities(net)	308	364	419	431	565
Deferred Tax Liability	1,233	1,134	1,226	1,526	1,927
<b>Total Liabilities</b>	<b>23,989</b>	<b>27,466</b>	<b>30,990</b>	<b>36,219</b>	<b>37,222</b>
Gross Block	24,500	26,782	29,305	46,745	49,455
Less: Depreciation	11,207	12,436	13,590	14,909	16,918
Net Block	13,293	14,346	15,715	31,836	32,537
Capital Work in Progress	4,929	7,832	9,938	(192)	827
Cash & Cash Equivalent	5,428	4,191	4,829	3,589	2,765
Total Current Assets	9,572	8,950	8,923	9,111	9,364
Total Current Liabilities	3,868	3,971	4,675	5,625	6,594
Net Current Assets	5,704	4,979	4,248	3,487	2,770
Other Assets	-	-	-	-	-
<b>Total Assets</b>	<b>23,989</b>	<b>27,466</b>	<b>30,990</b>	<b>36,219</b>	<b>37,222</b>

Source: Company Data, PL Research

**Q3FY15 to be muted, but guidance in sight:** In-line with Q2FY15 commentary, the management expects muted growth in Q3FY15 due to seasonality and weakness in Telematics contract. However, expectation of strong growth in Q4FY15 keeps guidance (12-14% YoY) in sight. Moreover, FY16 revenue growth is likely to be steadier. We expect revenue momentum to accelerate in FY16.

**Margin and Cash flow – Set to witness improvement:** The management expects margin to improve over next 6 quarters (excluding wage hike) driven by turnaround in SAP SBU, utilization, pyramid rationalization, and operating leverage due to growth momentum. We expect 100bp margin improvement in FY16 over FY15. Moreover, the management is working towards improving cash conversion. FCF is likely to improve as DSOs are set to improve by 2-3 days with no major capex plans and big acquisition. The company wants to repay long term loan through internal accrual in next 2.5 years.

**Account mining and organization restructuring to bear fruits:** The company has invested in account mining and hired new leadership team over the last few quarters to increase their focus on clients. Over the last two quarters, the deal pipeline has improved by ~1.5x. We expect the improved deal pipeline and increasing customer satisfaction (account mining and delivery improvement) would accelerate revenue momentum in FY16.

**Valuation and Recommendation – BUY with TP of Rs220:** KPIT is uniquely positioned to reap the benefits of IoT/M2M adoption by automotive and industrials clients. We expect revenue momentum to accelerate along with margin improvement, implying an accelerated earnings growth. We retain our “BUY” rating with a target price of Rs220.

## Key Financials (Rs m)

Y/e March	FY12	FY13	FY14	FY15E	FY16E
Revenue (Rs m)	15,000	22,386	26,940	30,377	34,444
<i>Growth (%)</i>	<i>46.6</i>	<i>49.2</i>	<i>20.3</i>	<i>12.8</i>	<i>13.4</i>
EBITDA (Rs m)	2,181	3,655	4,233	4,188	5,120
PAT (Rs m)	1,454	1,991	2,490	2,686	3,332
EPS (Rs)	8.2	10.3	12.9	13.9	17.3
<i>Growth (%)</i>	<i>(24.1)</i>	<i>26.4</i>	<i>25.0</i>	<i>7.9</i>	<i>24.1</i>
Net DPS (Rs)	0.4	0.8	1.8	2.2	2.4

Source: Company Data, PL Research

## Profitability & valuation

Y/e March	FY12	FY13	FY14	FY15E	FY16E
EBITDA margin (%)	14.5	16.3	15.7	13.8	14.9
RoE (%)	22.1	22.8	21.5	19.3	20.2
RoCE (%)	19.5	20.9	20.2	18.2	18.9
EV / sales (x)	2.2	1.6	1.3	1.2	1.0
EV / EBITDA (x)	14.9	9.6	8.3	8.4	6.4
PER (x)	22.5	17.8	14.2	13.2	10.6
P / BV (x)	4.6	3.4	2.8	2.4	2.0
Net dividend yield (%)	0.2	0.4	1.0	1.2	1.3

Source: Company Data, PL Research

## Stock Performance

(%)	1M	6M	12M
Absolute	12.2	18.6	17.2
Relative to Sensex	6.0	3.5	(18.8)



**Income Statement (Rs m)**

Y/e March	FY12	FY13	FY14	FY15E	FY16E
<b>Net Revenue</b>	<b>15,000</b>	<b>22,386</b>	<b>26,940</b>	<b>30,377</b>	<b>34,444</b>
Direct Expenses	9,934	14,640	18,180	21,077	24,001
<i>% of Net Sales</i>	<i>66.2</i>	<i>65.4</i>	<i>67.5</i>	<i>69.4</i>	<i>69.7</i>
Employee Cost	-	-	-	-	-
<i>% of Net Sales</i>	<i>0.0</i>	<i>0.0</i>	<i>0.0</i>	<i>0.0</i>	<i>0.0</i>
SG&A Expenses	2,885	4,091	4,528	5,111	5,324
<i>% of Net Sales</i>	<i>19.2</i>	<i>18.3</i>	<i>16.8</i>	<i>16.8</i>	<i>15.5</i>
Other Expenses	-	-	-	-	-
<i>% of Net Sales</i>	<i>0.0</i>	<i>0.0</i>	<i>0.0</i>	<i>0.0</i>	<i>0.0</i>
<b>EBITDA</b>	<b>2,181</b>	<b>3,655</b>	<b>4,233</b>	<b>4,188</b>	<b>5,120</b>
<i>Margin (%)</i>	<i>14.5</i>	<i>16.3</i>	<i>15.7</i>	<i>13.8</i>	<i>14.9</i>
Depreciation	445	472	540	670	712
<b>PBIT</b>	<b>1,736</b>	<b>3,184</b>	<b>3,693</b>	<b>3,518</b>	<b>4,407</b>
Interest Expenses	78	146	287	182	104
<b>PBT</b>	<b>1,786</b>	<b>2,860</b>	<b>3,430</b>	<b>3,581</b>	<b>4,564</b>
Total tax	437	765	941	895	1,232
<i>Effective Tax rate (%)</i>	<i>24.5</i>	<i>26.7</i>	<i>27.4</i>	<i>25.0</i>	<i>27.0</i>
<b>PAT</b>	<b>1,454</b>	<b>1,991</b>	<b>2,490</b>	<b>2,686</b>	<b>3,332</b>
Extraordinary Gain/(Loss)	-	-	-	-	-
<b>Adjusted PAT</b>	<b>1,454</b>	<b>1,991</b>	<b>2,490</b>	<b>2,686</b>	<b>3,332</b>

Source: Company Data, PL Research

**Balance Sheet (Rs m)**

Y/e March	FY12	FY13	FY14	FY15E	FY16E
Share Capital	356	386	386	386	386
Reserves & Surplus	6,768	9,975	12,365	14,635	17,505
Shareholder's Fund	7,125	10,362	12,751	15,021	17,891
Preference Share Capital	-	-	-	-	-
Total Debt	1,189	1,602	1,534	1,534	1,534
Other Liabilities(net)	326	270	-	-	-
Deferred Tax Liability	8	-	-	-	-
<b>Total Liabilities</b>	<b>8,649</b>	<b>12,235</b>	<b>14,285</b>	<b>16,555</b>	<b>19,425</b>
Gross Block	3,822	4,335	5,179	6,091	7,124
Less: Depreciation	2,155	2,573	3,041	3,711	4,423
Net Block	1,668	1,762	2,138	2,380	2,700
Capital Work in Progress	185	243	23	23	23
Cash & Cash Equivalent	2,055	4,075	3,767	3,731	5,834
Total Current Assets	6,619	8,005	10,156	13,724	17,410
Total Current Liabilities	4,714	5,597	6,949	8,489	9,626
Net Current Assets	1,905	2,408	3,207	5,235	7,784
Other Assets	4,309	5,668	7,058	7,058	7,058
<b>Total Assets</b>	<b>8,649</b>	<b>12,235</b>	<b>14,285</b>	<b>16,555</b>	<b>19,425</b>

Source: Company Data, PL Research

### Sector dynamics likely to improve - Expect a pick-up in NHAI ordering:

While the Infrastructure/Roads sector continues to face multiple macro headwinds, various steps are being taken in the right direction to revive it like (1) Relaxing environment clearance norms, (2) Easier exit norms to enable faster asset monetization, (3) Premium rescheduling, (4) Contemplating takeover of stalled projects by the National Highway Authority of India (NHAI) and (5) Looking at setting up Finance Corporations to fund projects. NHAI is also expecting to bid for orders of 5000KM in FY15 against 1450KM in FY14. We expect that a pick-up in NHAI ordering will bring back the much needed momentum in the ailing sector.

**Strong growth expected in EPC and Toll revenues:** We expect EPC sales to grow at a CAGR of 16% and Toll revenues to grow by 127% CAGR to Rs7.1bn over FY14-FY16E, driven by commissioning of large projects like Dhankuni Kharagpur etc. We have assumed average traffic growth of ~5% across projects. We believe this could have an upside bias, given the expected pick-up in economy over the next three years.

### Well-funded to benefit from upcoming opportunities in the Road sector:

ABL has a total outstanding equity of ~Rs2.1bn (ABL's share: Rs850m) in the current project portfolio. We believe ABL is able to meet its equity commitment as well as cash shortfalls comfortably in the current portfolio, debt repayments and premium payments arising from the newly operational BOT projects, cash profits of the EPC business, cash flow from its projects and commitment from SBI Macquarie.

**Outlook and Valuation:** Our NPV for BOT assets works out to Rs111 per share on FY16 basis (1.4x P/B). We have valued the EPC business at PE of 8x FY16E PAT. We are initiating coverage on ABL with a 'BUY' at a price target of Rs176.

### Key Financials (Rs m)

Y/e March	FY12	FY13	FY14	FY15E	FY16E
Revenue (Rs m)	15,000	18,527	17,949	21,807	28,191
<i>Growth (%)</i>	<i>15.1</i>	<i>23.5</i>	<i>(3.1)</i>	<i>21.5</i>	<i>29.3</i>
EBITDA (Rs m)	3,250	3,719	3,945	5,007	7,936
PAT (Rs m)	1,248	1,107	1,132	1,048	988
EPS (Rs)	7.5	7.0	7.2	6.6	6.3
<i>Growth (%)</i>	<i>40.9</i>	<i>(5.6)</i>	<i>1.8</i>	<i>(7.4)</i>	<i>(5.7)</i>
Net DPS (Rs)	0.0	1.5	1.8	1.8	1.8

Source: Company Data, PL Research

### Profitability & valuation

Y/e March	FY12	FY13	FY14	FY15E	FY16E
EBITDA margin (%)	21.7	20.1	22.0	23.0	28.1
RoE (%)	13.0	10.6	9.8	8.1	7.2
RoCE (%)	7.6	5.0	3.9	3.9	5.7
EV / sales (x)	2.6	2.4	2.8	2.9	1.9
EV / EBITDA (x)	11.8	12.0	12.9	12.6	6.9
PER (x)	17.5	18.6	18.2	19.7	20.9
P / BV (x)	2.1	2.0	1.6	1.5	1.5
Net dividend yield (%)	0.0	1.1	1.3	1.4	1.4

Source: Company Data, PL Research

### Stock Performance

(%)	1M	6M	12M
Absolute	0.5	(8.9)	126.5
Relative to Sensex	5.0	(15.2)	96.9

**Income Statement (Rs m)**

Y/e March	FY12	FY13	FY14	FY15E	FY16E
<b>Net Revenue</b>	<b>15,000</b>	<b>18,527</b>	<b>17,949</b>	<b>21,807</b>	<b>28,191</b>
Direct Expenses	11,008	13,824	12,988	15,328	18,776
<i>% of Net Sales</i>	<i>73.4</i>	<i>74.6</i>	<i>72.4</i>	<i>70.3</i>	<i>66.6</i>
Employee Cost	-	-	-	-	-
<i>% of Net Sales</i>	<i>0.0</i>	<i>0.0</i>	<i>0.0</i>	<i>0.0</i>	<i>0.0</i>
SG&A Expenses	-	-	-	-	-
<i>% of Net Sales</i>	<i>0.0</i>	<i>0.0</i>	<i>0.0</i>	<i>0.0</i>	<i>0.0</i>
Other Expenses	742	983	1,015	1,471	1,479
<i>% of Net Sales</i>	<i>4.9</i>	<i>5.3</i>	<i>5.7</i>	<i>6.7</i>	<i>5.2</i>
<b>EBITDA</b>	<b>3,250</b>	<b>3,719</b>	<b>3,945</b>	<b>5,007</b>	<b>7,936</b>
<i>Margin (%)</i>	<i>21.7</i>	<i>20.1</i>	<i>22.0</i>	<i>23.0</i>	<i>28.1</i>
Depreciation	850	1,324	1,389	1,753	2,449
<b>PBIT</b>	<b>2,401</b>	<b>2,395</b>	<b>2,556</b>	<b>3,254</b>	<b>5,486</b>
Interest Expenses	1,144	1,395	1,335	2,160	4,680
<b>PBT</b>	<b>1,610</b>	<b>1,294</b>	<b>1,467</b>	<b>1,495</b>	<b>1,266</b>
Total tax	451	577	688	838	908
<i>Effective Tax rate (%)</i>	<i>28.0</i>	<i>44.6</i>	<i>46.9</i>	<i>56.1</i>	<i>71.7</i>
<b>PAT</b>	<b>1,248</b>	<b>1,107</b>	<b>1,132</b>	<b>1,048</b>	<b>988</b>
Extraordinary Gain/(Loss)	-	-	-	-	-
<b>Adjusted PAT</b>	<b>1,248</b>	<b>1,107</b>	<b>1,132</b>	<b>1,048</b>	<b>988</b>

Source: Company Data, PL Research

**Balance Sheet (Rs m)**

Y/e March	FY12	FY13	FY14	FY15E	FY16E
Share Capital	552	527	790	790	790
Reserves & Surplus	9,640	9,832	11,690	12,454	13,158
Shareholder's Fund	10,341	10,507	12,628	13,392	14,097
Preference Share Capital	-	-	-	-	-
Total Debt	17,069	24,535	31,032	41,519	41,811
Other Liabilities(net)	630	2,787	4,645	5,037	5,668
Deferred Tax Liability	-	-	-	-	-
<b>Total Liabilities</b>	<b>28,039</b>	<b>37,829</b>	<b>48,306</b>	<b>59,948</b>	<b>61,575</b>
Gross Block	20,761	20,275	21,163	141,467	140,958
Less: Depreciation	4,503	5,275	6,664	8,416	10,866
Net Block	16,258	15,000	14,499	133,051	130,092
Capital Work in Progress	26,780	96,100	105,372	10,500	21,500
Cash & Cash Equivalent	2,552	3,341	3,792	2,141	10,844
Total Current Assets	8,648	10,457	12,444	13,094	24,355
Total Current Liabilities	25,688	86,558	86,877	99,564	117,240
Net Current Assets	(17,040)	(76,101)	(74,433)	(86,470)	(92,885)
Other Assets	(10)	7	21	21	21
<b>Total Assets</b>	<b>28,039</b>	<b>37,829</b>	<b>48,306</b>	<b>59,948</b>	<b>61,575</b>

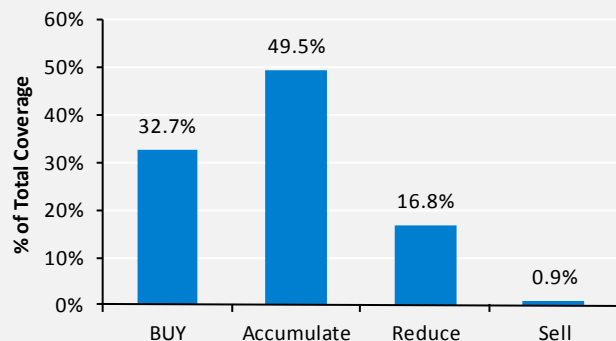
Source: Company Data, PL Research

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## PL's Recommendation Nomenclature

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

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