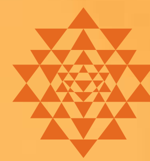
India Strategy



IIFL

Midcaps

June 2014

Double your stake, quadruple your money

IIFL
INDIA PRIVATE CLIENTS

Midcaps

Nifty:	7,509
Sensex:	25,100

Price as on June 27, 2014

Double your stake, quadruple your money

Only buy something that you'd be perfectly happy to hold if the market shut down for 10 years - Warren Buffett

After five tumultuous years for Indian equities as an asset class, we are at the onset of a new multi-year Bull Market. In this phase, we assign high probability to Nifty delivering 60% return or even doubling in 4 years. Many individual stocks, in the meanwhile, could double in much smaller periods. While many would be skeptical of taking fresh positions given the new highs that benchmark indices and stocks have hit, our belief is that it is just the beginning. Our premise for this belief is purely tectonic given that India has achieved political stability and is on the course of repairing its macro economic situation. Moreover, valuations are nowhere close to the highs achieved in the previous Bull run and are near long term historical average levels.

Globally too, things are getting better with macro factors in US (except Q1 CY14 GDP, which was a blip) showing signs of recovery. Euro Zone has also shown stability post the financial crisis. With Japan and Euro Zone likely to ease monetary policy, liquidity is expected to be benign and will chase growth in emerging nations leading to strong FII inflows. India, for the aforementioned factors is one of the most attractive destinations.

Empirically, during Bull markets, midcaps outperform large caps. To make the most of the ensuing Bull run, we have handpicked several interesting mid cap stocks having potential to double in two years. All stocks rank high in terms of earnings growth potential, balance sheet strength, future cash flows, management bandwidth and valuation appeal.

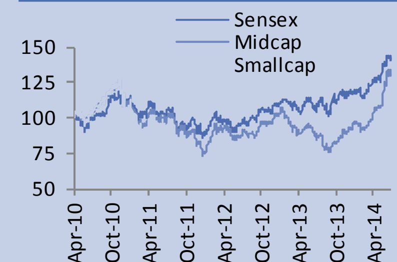
BUY recommendation summary

Company Name	Sector	M. Cap Rs crore	CMP Rs	Target Rs	Upside %
Alembic Pharma	Pharma	5,071	269	550	104
Bharat Forge	Auto Ancillary	14,163	608	1,250	106
Dhanuka Agritech	Agriculture	1,990	397	800	101
Finolex Cables	Capital Goods	2,694	176	352	100
Greaves Cotton	Auto Ancillary	2,786	115	232	102
Indiabulls Housing Fin	Financials	12,801	383	771	101
JK Lakshmi Cement	Cement	2,475	210	433	106
Jyoti Strucutres	Capital Goods	487	59	120	102
Kirloskar Oil Engines	Capital Goods	3,450	238	485	104
LG Balakrishnan	Auto Ancillary	693	883	1,878	113
Magma Fincorp	Financials	1,857	98	198	102
PTC India Fin Services	Financials	1,773	32	65	103
SREI Infra Finance	Financials	2,465	48	97	102

Source: India Infoline Research

Nifty chart

Sensex vis-à-vis midcap and smallcap indices



Amar Ambani
research@indiainfoline.com

June 30, 2014

Theme Report

This report is published by IIFL 'India Private Clients' research desk. IIFL has other business units with independent research teams separated by 'Chinese walls' catering to different sets of customers having varying objectives, risk profiles, investment horizon, etc. The views and opinions expressed in this document may at times be contrary in terms of rating, target prices, estimates and views on sectors and markets.

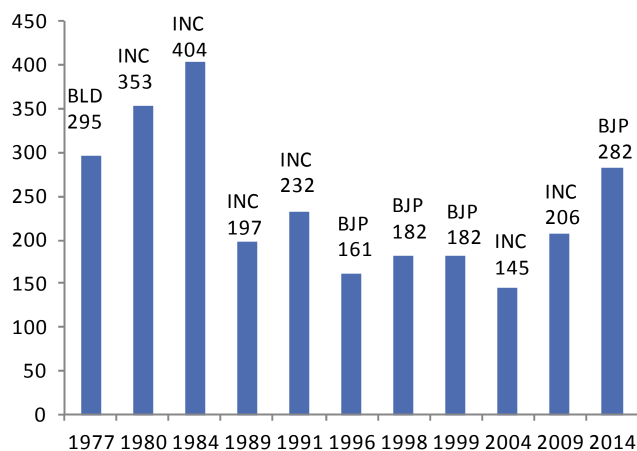
Onset of a new multiyear Bull Market

A strong government will bring about much needed reforms

After 1984, it's the first time that any political party has achieved an absolute majority in the Lok Sabha elections with BJP winning 282 seats out of the 574 seats. Along with its allies the tally was higher at 336 seats. The thumping victory will ensure implementation of tough reforms, which the past government, being a coalition one, found difficult to execute. During the one month in power, the new government has got the ball rolling with measures such as 1) railway passenger and freight tariff hikes, 2) continued diesel price hikes.

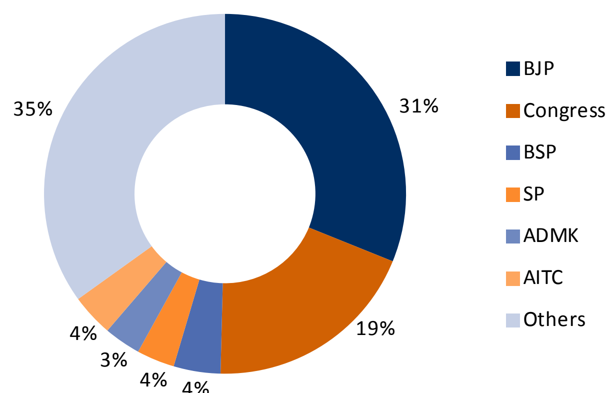
The thumping victory for BJP will ensure implementation of tough reforms

A strong mandate for BJP



Source: Election Commission, India Infoline Research

One in every three voters opted for BJP



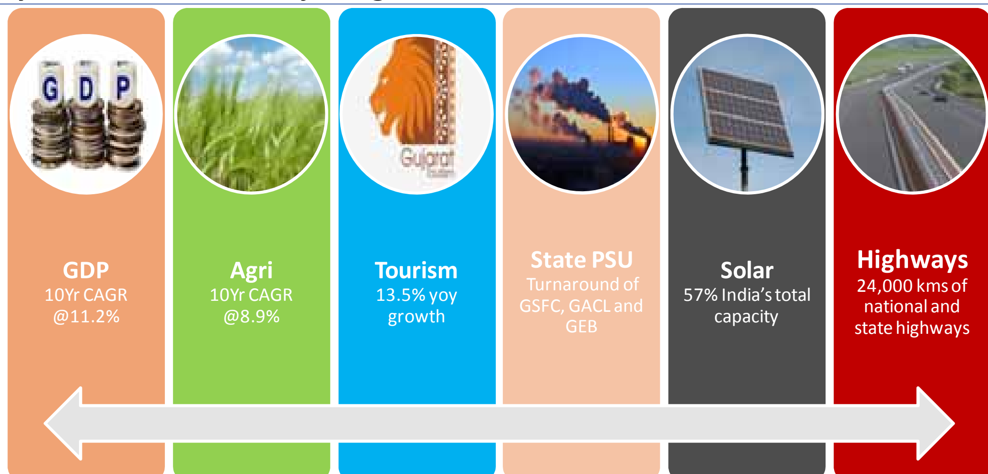
Source: Election Commission, India Infoline Research

Modi's exemplary track record in Gujarat

The pre-election period saw high debates about the Gujarat model of development and whether the same can be replicated at the national level. While spatial, cultural, demographic and topographic disparities exist, we believe a part of Gujarat model can be applied at the national level. This includes faster clearances of projects, ensuring power availability for all, building robust infrastructure, deeper penetration of irrigation facilities and turning around of PSUs. With proper execution (Narendra Modi's forte) these steps can add to the improving GDP growth.

While spatial, cultural, demographic and topographic disparities exist, we believe a part of Gujarat model can be applied at the national level

Key achievements of Gujarat growth model



Source: India Infoline Research

Economy in a much better shape

Over the past one year, marked improvement has been seen in India's macro economic variables. GDP growth which had dwindled from 6%+ to less than 5% in a matter of 4 quarters, has bottomed out and has been stable at 4.5%-4.7% range in the past few quarters. RBI then was raising interest rates but has now maintained status quo for past two monetary policies indicating peaking out of interest rates. Inflation, which was mounting then, has now seen downward trajectory in the past few months, notwithstanding near term risk from weak monsoon. Fiscal and current account deficits have been well reigned in through measures such as curbs on gold imports and postponement of subsidies to next year. Rating agencies, a year ago, were considering a downgrade in rating for India with a negative outlook on the economy. The outlook for ratings has now been revised to stable. Currency, which was on a depreciating spree and had reached Rs68/US$, has now stabilized in a range of Rs58-61/US$.

Economic variables such as GDP growth, inflation, fiscal and current account deficits have seen a marked improvement in the past one year

With regards to investment cycle, steps were taken by the UPA government which shall fructify in the medium term. These steps include 1) setting up of CCI (Cabinet Committee on Investment) which has cleared bottlenecks of 210 projects worth more than Rs3.8tn across various sectors. 2) Around 85-90% of 173 FSAs have been signed; full completion would ensure fuel supply to 78,000 MW worth of power capacity. 3) Partial mining ban reversals. Furthermore, announcements from the new government have also been encouraging towards this space. With regards to the asset quality in the banking system, after a period of sustained uptrend in NPAs, Q4 FY14 results indicated stable trend.

Steps towards revival of investment cycle have been taken, while asset quality in the banking system has seen stability in Q4 FY14

Intermittently, issues such as current geo political tensions in Iraq and Russia-Ukraine tussle can pose short term risks to the economy as these results in high crude oil prices. With India importing more than 80% of its crude oil requirements, firm crude oil prices have a cascading impact on macro economic variables such as current account deficit, fiscal deficit, inflation and GDP growth. Nevertheless, India will still remain one of the most attractive destinations for FIIs given that most emerging economies face similar risks while India has a track record of managing these risks better.

Summarizing the shift in Indian economy

Macro Indicators	One Year Back	Current Status
Economic Growth	Slowing down steeply	Consolidating
Inflation	Firm and Inching-up	Moderating
Interest Rate	Rising	Peaked-out
System Liquidity	Tight	Comfortable
CAD	Uncomfortably High	Substantially Reduced
Fiscal Deficit	High Risk of Slippage	In-control
Currency	Weak and Volatile	Stabilized & Worst Behind
Sovereign Rating	Downward Bias	Stable outlook
Policy & Reforms	Chaos & Paralysis	Bright prospects
Investment Cycle	Frozen	Still in Inertia
Banking Asset Quality	Deteriorating	Stabilizing

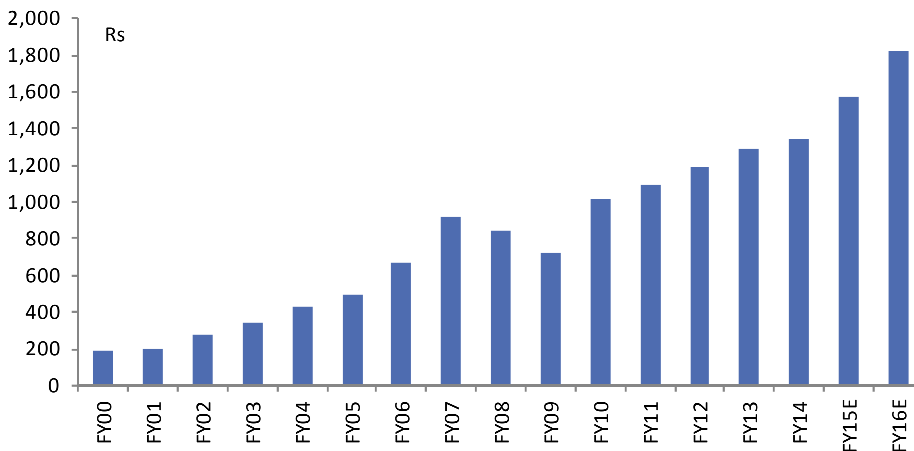
Source: India Infoline Research

Earnings momentum to pick up

We expect strong traction in earnings for India Inc in the next three years. Corporate revenue growth and GDP growth have a strong correlation. With GDP growth expected to revive from the current levels of 4.7% to 6.0-6.5% in the next couple of years, India Inc having built capacities in the past three years is well placed to service the expected rise in demand. Benefits of operating leverage will translate into margin expansion while interest savings will come on two counts 1) expected decline in interest rates and 2) lower debt positions serviced by strong cash flow generation. Conservatively, we expect Sensex earnings to witness 15%+ CAGR over the next three years. A point worth noting here is that, in the previous Bull run Sensex earnings CAGR was at 25%.

While economic growth will drive revenue growth for India Inc, operating leverage and lower interest costs will drive earnings growth

Trend in Sensex EPS



Source: Bloomberg, India Infoline Research

India Inc RoE to improve further

India, over the years, has outperformed emerging nations as well as the developed world in terms of RoE. We believe the gap is set to widen further for two major reasons:

Improvement in asset turnover and margin improvement to drive RoEs for India increasing its differential with rest of the world

1) *Asset Turnover*: With capacity expansion in place, we believe revenue generated per rupee of incremental capital infusion will be much higher when compared with the previous few years

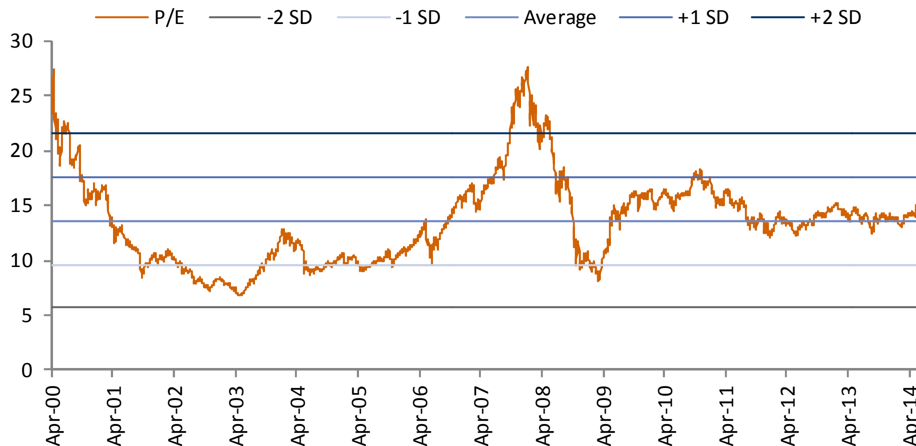
2*) Operating Margins*: With fixed costs getting distributed over a larger number of unit sales, margins are expected to inch higher.

Valuations inexpensive, Nifty 4-year target of 12,000

Based on FY16E EPS, Nifty is trading at a P/E multiple of 14.5x, which is much lower than the highs achieved during the previous Bull run. While earnings upgrades have just started, we see upsides to our earnings assumptions. So in terms of PEG, we are currently just below 1x. If earnings see material traction (higher than our estimates) we believe valuation re-rating will follow. Considering, this we see Nifty at 12,000 in four years.

While earnings upgrades have just started, we see upsides to our earnings assumptions

Valuations closer to historical average



Source: Bloomberg, India Infoline Research

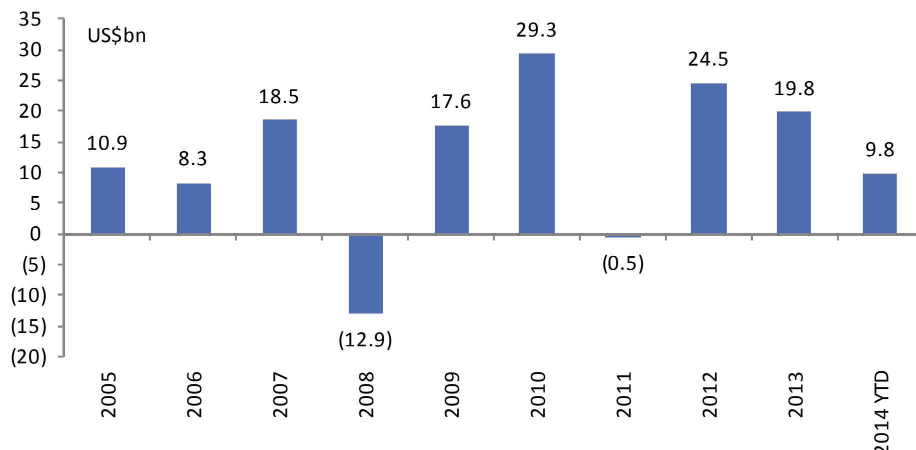
FII flows to rise

FIIs have invested only US$10bn YTD in Indian equities. We believe the flows will pick up as:

FII flows to increase over the next few years

- US 10-yr Treasury Yield likely to remain in modest range of 2.5-2.8%
- Benign global liquidity as Europe & Japan expected to ease monetary policy
- Strong prospects for Indian economy - GDP growth to reach 7% by FY17
- Corporate earnings growth to recover sharply - Market valuation attractive in that context
- High relative attractiveness of India is vis-à-vis China, Russia and Brazil
- Strong government in place - reform environment expected to improve
- Excessive volatility behind for the Rupee - likely to stabilize in the range of Rs58-62/US$

FII Flows in India



Source: Bloomberg, India Infoline Research

Time to pick more quality midcaps

At the end of March 2014, we had recommended 10 midcaps with 1-year upsides of 18.4%-27.3%. 8 stocks have already hit the targets within three months. We believe that in a Bull run, quality midcaps can outperform large caps substantially and investors should increase weightage to midcaps in their long term portfolio. For making most of the ensuing Bull run, we have handpicked several interesting mid cap stocks having potential to double in two years. All stocks rank high in terms of earnings growth potential, balance sheet strength, future cash flows, management bandwidth and valuation appeal.

In a Bull run, quality midcaps can outperform large caps substantially and investors should increase weightage to midcaps in their long term portfolio

BUY recommendation summary

Company Name	Sector	M. Cap Rs crore	CMP Rs	Target Rs	Upside %
Alembic Pharma	Pharma	5,071	269	550	104
Bharat Forge	Auto Ancillary	14,163	608	1,250	106
Dhanuka Agritech	Agriculture	1,990	397	800	101
Finolex Cables	Capital Goods	2,694	176	352	100
Greaves Cotton	Auto Ancillary	2,786	115	232	102
Indiabulls Housing Fin	Financials	12,801	383	771	101
JK Lakshmi Cement	Cement	2,475	210	433	106
Jyoti Strucutres	Capital Goods	487	59	120	102
Kirloskar Oil Engines	Capital Goods	3,450	238	485	104
LG Balakrishnan	Auto Ancillary	693	883	1,878	113
Magma Fincorp	Financials	1,857	98	198	102
PTC India Fin Services	Financials	1,773	32	65	103
SREI Infra Finance	Financials	2,465	48	97	102

Source: India Infoline Research

Alembic Pharmaceuticals

IIFL
India Private Clients

Rising star

Alembic Pharmaceuticals offers opportunity to play the growing domestic branded formulations market combined with its US-centric international generics business. The latter has posted ~39% cagr over FY12-14 and we expect robust US-led momentum in international generics to continue while domestic branded formulations growth would be closer to 20% over next 2-3 years. Our confidence on strong revenue visibility stems from ramp up in FY15 capex guidance while margin expansion would be back ended, supported by enhanced focus on specialty therapies within domestic market. Expect stock to rerate on back of impressive RoEs and free cash flows even as near term valuations appear compelling; recommend BUY.

Expanding focus on specialty therapies

Alembic has increased the proportion of specialty products within its domestic formulation business from 39% in FY10 to ~54% in FY14; the specialty segment grew by 17% in the previous fiscal vs degrowth of 3% for the acute segment which comprises the cough and cold and anti infective businesses. Company would attempt to reduce focus on low margin areas in domestic formulations and look to consolidate its presence in specialty segment with the launch of a third cardio division, up gradation of legacy respiratory therapy and expansion of gastroenterology.

Capex ramp up indicates mgmt confidence on revenue visibility

Alembic has guided for FY15 capex of Rs2.5bn spread across international APIs and generics as well domestic branded formulations and R&D and is much higher than its typical run rate of Rs1-1.2bn seen in the previous years. Capex ramp up was necessitated by sharp growth in international generics business which has posted ~39% cagr over FY12-14 and consequently company needs to augment its APIs and formulations capacities. Viewed alternately, we believe the capex ramp up from ~4.4% of sales to an estimated 11% of current year revenues indicate an extremely strong visibility on revenue pipeline once most of the capex is completed by end of FY15.

Financial summary

Y/e 31 Mar (Rs m)	FY14	FY15E	FY16E	FY17E
Revenues	18,632	22,228	26,996	33,020
yoy growth (%)	22.6	19.3	21.5	22.3
Operating profit	3,577	4,312	5,426	6,967
OPM (%)	19.2	19.4	20.1	21.1
Reported PAT	2,355	2,778	3,605	4,729
yoy growth (%)	42.5	18.0	29.8	31.2
EPS (Rs)	12.5	14.7	19.1	25.1
P/E (x)	21.5	18.3	14.1	10.7
P/BV (x)	1.5	1.1	0.9	0.6
EV/EBITDA (x)	3.1	2.7	2.0	1.2
Debt/Equity (x)	0.2	0.2	0.1	0.0
ROE (%)	40.0	35.6	34.9	34.1
ROCE (%)	39.7	35.8	38.1	38.4

Source: Company, India Infoline Research

Rating:	BUY
Target (2 years):	**Rs550**
CMP:	**Rs269**
Upside:	**104%**

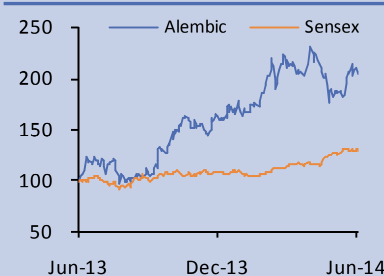
Sector:	**Pharmaceuticals**
Sector view:	**Positive**
Sensex:	25,100
52 Week h/l (Rs):	316 / 118
Market cap (Rscr) :	5,071
3m Avg vol ('000Nos):	227
Bloomberg code:	ALPM IN
BSE code:	533573
NSE code:	APLLTD
FV (Rs):	2

Price as on June 27, 2014

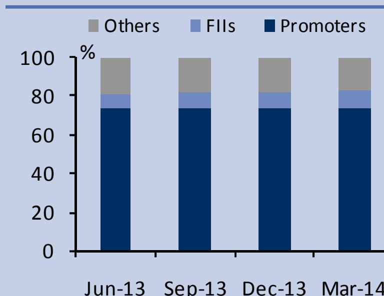
Company rating grid

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

Share price trend



Share holding pattern



Research Analyst:
Bhavesh Gandhi
research@indiainfoline.com

Robust growth likely to continue in international generics

International generics sales nearly doubled yoy in FY14 with US being the main focus area accounting for 65-70% of total exports though this included sales from previous year backlogs. International market growth would come through new filings (para IV, NDA and technically complex products) and launches. Company has filed 61 ANDAs all in the oral solids with focus on US market.

Alembic has lined up 6-8 product launches in US every year while pace of annual ANDA filings is also likely to ramp up from FY14 levels

Although company filed only 4 ANDAs in FY14 (due to more complex products leading to higher failure rates and capacity constraints), it hopes for a gradual ramp up in filings in next two years; Alembic would have 6-8 product launches in US every year. Moreover, capacity in oral solid tablets has been expanded to 5bn and through debottlenecking would again increased it to 7bn which take care of capacity constraints seen in previous year.

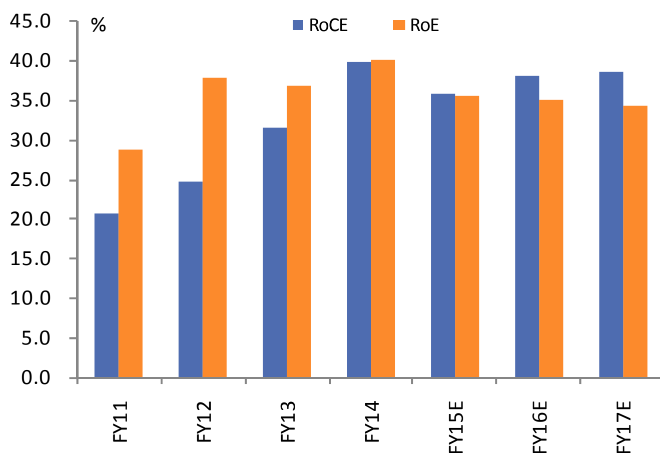
Impressive RoEs, free cash flows and compelling valuations; BUY

Overall India branded formulations business grew by 14% in FY14 impacted by degrowth in anti infective business but we expect a better run rate from current year on the back of new formulation capacity being put for domestic market as also new prices come in to effect from Q2. Increased capex in current fiscal is likely to reduce free cash generation though we expect healthy cash generation in FY16 and beyond. Company's return ratios too are expected to remain impressive with both RoE and RoCE in the range of 35-38%. Robust 26% earnings cagr over FY14-17 is likely to be accompanied by a strong balance sheet as leverage ratios remain within comfortable limits.

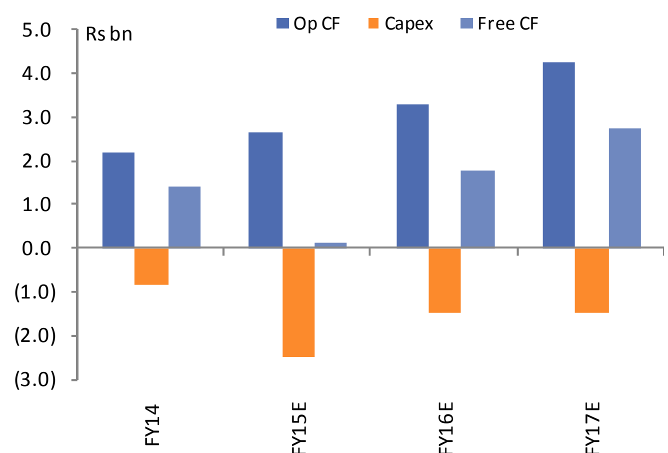
A strong revenue visibility, scope for margin expansion and impressive financial metrics (RoEs, cash flows) would drive stock rerating; recommend BUY

Our earnings forecasts factor in a ~18.5% growth in domestic branded formulations while international generics are projected to grow at ~30% compounded over next three years. We expect the stock to rerate on back of strong growth visibility, margin upsides and robust balance sheet; current valuations provide an attractive entry point and we recommend BUY with a 2-year price target of Rs550.

Impressive return ratios despite high upfront capex

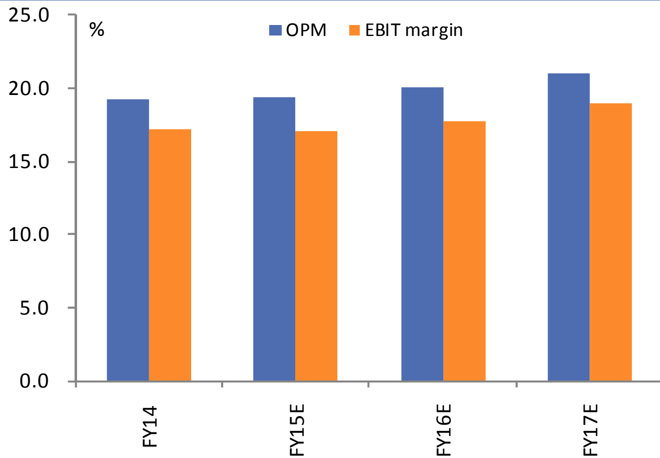


Healthy free cash generation in FY16 and beyond

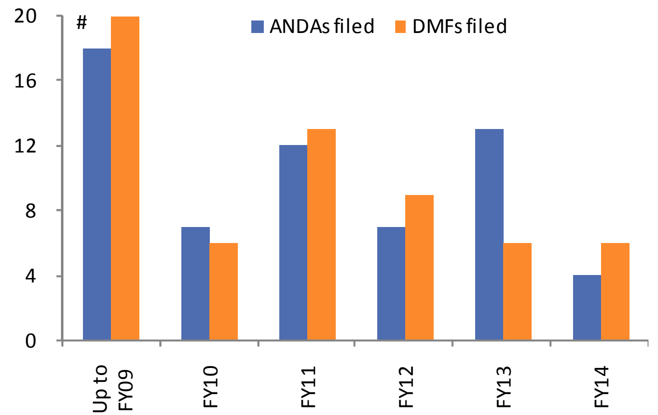


Source: Company, India Infoline Research

Margin expansion seen in the medium term



Pace of ANDA filings to ramp up from current fiscal



Source: Company, India Infoline Research

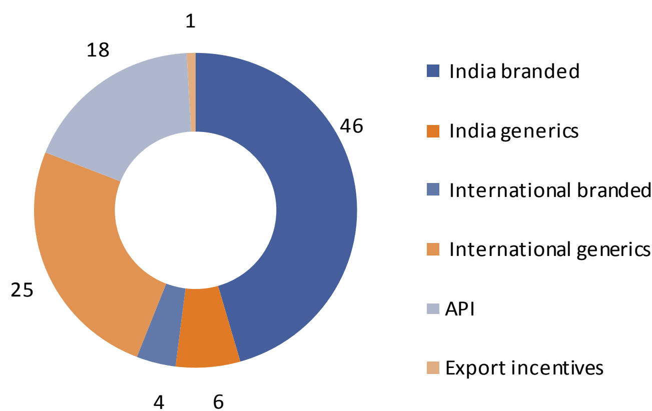
Note: *Drug Master File (DMF) contains chemistry, mfg etc of drug component and is required to supply bulk drugs to US*

About Alembic Pharma: stellar earnings cagr over FY12-14

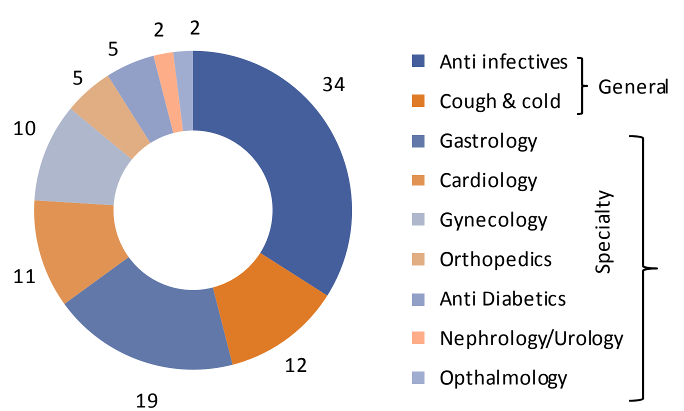
Alembic posted 35% profit cagr over past two years driven by strong momentum in international generics business

Established in 1907, Alembic Pharmaceuticals (erstwhile part of Alembic Ltd) possess manufacturing and marketing capabilities across the value chain from bulk drugs and intermediaries to branded formulations. Company is the market leader in the Macrolides segment of anti-infective drugs in India. It owns manufacturing facilities in Vadodara (APIs and formulations-both US FDA approved) and Baddi (formulations for domestic and non-regulated markets) in Himachal Pradesh. It posted FY12-14 revenue/PAT cagr of 13%/35% driven by doubling of international generics sales in FY14; exports accounted for ~44% of FY14 sales. Within overall revenues, domestic branded formulations share stood at ~45% while international generics (majority US bound) accounted for ~25%. Alembic has filed for 61 ANDAs (Abbreviated New Drug Application) out of which it has received approvals for 31 applications plus one 505 (b) (2) (a variation of typical NDA approval).

FY14 sales: domestic branded formulations account for 46% share



Focus on specialty segment within domestic branded business



Source: Company, India Infoline Research

Financials

Income statement

Y/e 31 Mar (Rs m)	FY14	FY15E	FY16E	FY17E
Revenue	18,632	22,228	26,996	33,020
Operating profit	**3,577**	**4,312**	**5,426**	**6,967**
Depreciation	(405)	(562)	(657)	(751)
Interest expense	(98)	(128)	(61)	(31)
Other income	32	33	35	37
Profit before tax	**3,106**	**3,655**	**4,744**	**6,222**
Taxes	(751)	(877)	(1,139)	(1,493)
Net profit	**2,355**	**2,778**	**3,605**	**4,729**

Balance sheet

Y/e 31 Mar (Rs m)	FY14	FY15E	FY16E	FY17E
Equity capital	377	377	377	377
Reserves	6,379	8,495	11,438	15,506
Net worth	**6,756**	**8,872**	**11,816**	**15,883**
Debt	1,309	1,709	809	409
Def.tax lia	227	227	227	227
Total liabilities	**8,292**	**10,808**	**12,852**	**16,519**
Fixed assets	4,176	6,114	6,957	7,705
Investments	33	33	33	33
Net working cap	**4,083**	**4,662**	**5,862**	**8,781**
Inventories	3,108	3,715	4,512	5,518
Sundry debtors	2,734	3,289	3,994	4,885
Cash	240	123	350	2,039
Other curr assets	1,887	2,223	2,700	3,302
Sundry creditors	(2,884)	(3,471)	(4,216)	(5,157)
Other current lia	(1,001)	(1,216)	(1,477)	(1,807)
Total assets	**8,292**	**10,808**	**12,852**	**16,519**

Cash flow statement

Y/e 31 Mar (Rs m)	FY14	FY15E	FY16E	FY17E
Profit before tax	3,106	3,655	4,744	6,222
Depreciation	405	562	657	751
Def.tax lia	88	-	-	-
Tax paid	(751)	(877)	(1,139)	(1,493)
Working capital Δ	(638)	(695)	(974)	(1,230)
Operating CF	2,210	2,645	3,289	4,250
Capital exp	(816)	(2,500)	(1,500)	(1,500)
Free CF	**1,394**	**145**	**1,789**	**2,750**
Equity raised	33	-	-	-
Debt fin/disp	(686)	400	(900)	(400)
Dividends	(662)	(662)	(662)	(662)
Net Δ in cash	**79**	**(117)**	**227**	**1,689**

Key ratios

Y/e 31 Mar	FY14	FY15E	FY16E	FY17E
Growth matrix (%)				
Revenue growth	22.6	19.3	21.5	22.3
Op profit growth	42.0	20.6	25.8	28.4
EBIT growth	45.0	18.1	27.0	30.1
Net profit growth	42.5	18.0	29.8	31.2
Profitability ratios (%)				
OPM	19.2	19.4	20.1	21.1
EBIT margin	17.2	17.0	17.8	18.9
Net profit margin	12.6	12.5	13.4	14.3
RoCE	41.5	39.6	40.6	42.6
RoNW	40.0	35.6	34.9	34.1
RoA	20.8	20.1	21.2	22.5
Per share ratios				
EPS	12.5	14.7	19.1	25.1
Dividend per share	3.0	3.0	3.0	3.0
Cash EPS	14.6	17.7	22.6	29.1
Book value per share	35.8	47.1	62.7	84.3
Valuation ratios (x)				
P/E	21.5	18.3	14.1	10.7
P/BV	7.5	5.7	4.3	3.2
M Cap/Sales	2.7	2.3	1.9	1.5
EV/EBIDTA	14.5	12.1	9.4	7.0
Payout (%)				
Tax payout	24.2	24.0	24.0	24.0
Dividend payout	24.0	23.8	18.4	14.0
Liquidity ratios				
Debtor days	54	54	54	54
Inventory days	61	61	61	61
Creditor days	57	57	57	57
Leverage ratios				
Interest coverage	32.7	29.5	79.1	203.7
Net debt / equity	0.2	0.2	0.0	(0.1)
Net debt / op. profit	0.3	0.4	0.1	(0.2)

Du-Pont Analysis

Y/e 31 Mar (Rs m)	FY14	FY15E	FY16E	FY17E
Tax burden (x)	0.76	0.76	0.76	0.76
Interest burden (x)	0.97	0.97	0.99	1.00
EBIT margin (x)	0.17	0.17	0.18	0.19
Asset turnover (x)	1.64	1.61	1.59	1.57
Financial leverage (x)	1.92	1.77	1.65	1.52
RoE (%)	**40.0**	**35.6**	**34.9**	**34.1**

Bharat Forge

IIFL
INDIA PRIVATE CLIENTS

Growth engine cranked

Bharat Forge Ltd (BFL) is an indirect play on the expected resurgence in domestic commercial vehicle demand, improvement in overall investment climate and gradual global economic recovery. In the down cycle, both domestic and global, seen in the past three years, BFL has emerged as a company with more diversified business, stronger balance sheet and better production efficiency. With capacity utilization rates at below 55%, recovery in revenues would translate into earnings CAGR of 28% over FY14-17E led by benefits of operating leverage. With superior earnings growth, we believe the valuations should inch towards its previous bull cycle multiples.

Revenue base much more diversified

High dependence on the domestic CV business had hit BFL hard during the down cycle of the past couple of years. However, during this phase the company has diversified not only outside of auto business but also within the auto business. Non automotive sector contribution has risen from 27% in FY12 to 37% in FY14. Amongst auto sector, while contribution of passenger cars to total revenues has risen from 10% to 15%, CV proportion has fallen from 63% to 48%. Also in terms of geographies, the contribution of India has declined from 53% in FY12 to 46% in FY14, while that of US and Europe has increased by 5% and 2% respectively. This makes the business less cyclical.

Domestic automotive business to gain traction

Past two years have been difficult for the automotive players in the domestic market due to the weak economic backdrop, rising fuel prices, high interest rates and weak consumer sentiment. CVs were the worst hit being most closely linked to economic growth. With a stable government and the anticipated reforms, we expect strong overall economic recovery in the medium term which eventually translates into a strong demand for automobiles. BFL being a supplier of critical components and having expanded its capacity is well poised to garner the ensuing business opportunities. We expect a 20% revenue CAGR in BFL's automotive business during FY14-17E.

Financial summary

Y/e 31 Mar (Rs m)	FY14	FY15E	FY16E	FY17E
Revenues	67,161	77,948	92,495	112,628
yoy growth (%)	30.0	16.1	18.7	21.8
Operating profit	10,271	13,166	16,193	20,518
OPM (%)	15.3	16.9	17.5	18.2
Reported PAT	5,215	6,018	8,051	10,961
yoy growth (%)	110.8	15.4	33.8	36.1
EPS (Rs)	17.9	25.8	34.6	47.1
P/E (x)	32.3	22.4	16.8	12.3
Price/Book (x)	4.9	4.0	3.2	2.6
EV/EBITDA (x)	14.3	10.5	8.0	5.6
Debt/Equity (x)	0.7	0.5	0.4	0.2
RoE (%)	16.7	19.7	21.4	23.3
RoCE (%)	15.4	20.2	23.4	27.1

Source: Company, India Infoline Research

Rating:	BUY
Target (2 Years):	**Rs1,250**
CMP:	**Rs608**
Upside:	**106%**

Sector:	**Auto Ancillary**
Sector view:	**Positive**
Sensex:	25,100
52 Week h/l (Rs):	611 / 186
Market cap (Rscr) :	14,163
6m Avg vol ('000Nos):	892
Bloomberg code:	BHFC IB
BSE code:	500493
NSE code:	BHARATFORG
FV (Rs):	2

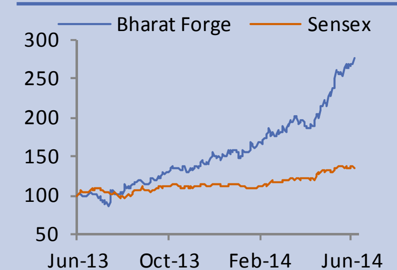
Price as on June 27, 2014

Company rating grid

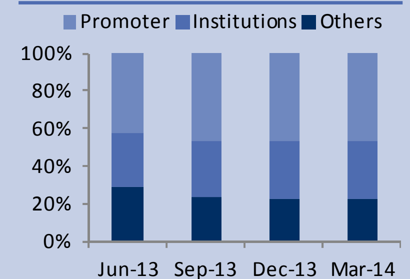
Low → High

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

Share price trend



Share holding pattern



Research Analyst:
Prayesh Jain
research@indiainfoline.com

International auto business also recovering

Following the financial crisis, automotive sales in the developed world had seen a marked slowdown. With growth prospects emerging in US and stability expected in Europe, automotive volumes are expected to revive. Particularly in US CV market, fleet has aged and replacement demand is rising. Passenger car sales there have also been gaining strength. We expect this trend to continue in the medium term and see 18% CAGR in its BFL's international auto business.

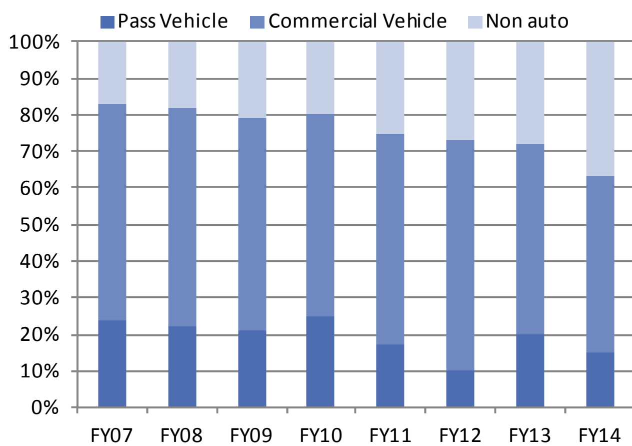
With growth prospects emerging in US and stability expected in Europe, automotive volumes are expected to revive

Non automotive business could see exponential growth

BFL, in its non-auto business, services demand for critical components of five major segments 1) oil & gas, 2) unconventional sources of power, 3) railways, 4) aerospace and 5) mining. Investments in all these sectors are expected to rise substantially in India given the strong focus of the new government on building infrastructure, improving energy security and providing power to all. Non-auto currently contributes about 40% of the standalone revenues and BFL plans to increase it to 60% over the medium term. To achieve this, it has entered into tie-ups with global leaders such as Alstom, Areva, David Brown etc. Also it has set up dedicated manufacturing locations. We expect a 30% revenue CAGR in BFL's non-auto revenues.

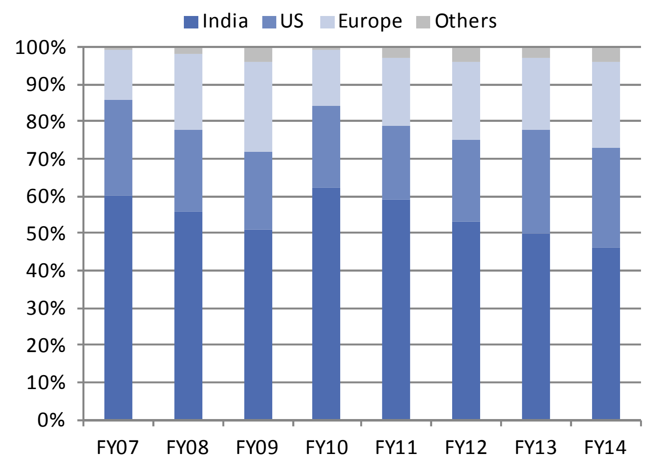
Non-auto currently contributes about 40% of the standalone revenues and BFL plans to increase it to 60% over the medium term

Rising contribution of non-auto and passenger cars



Source: Company, India Infoline Research

Reducing dependence on India



Source: Company, India Infoline Research

Operating leverage, value addition and favorable product mix to drive margins

1) Operating leverage: Capacity utilization levels for BFL was at 65% in its auto and non-auto business across domestic and international facilities at the end of FY14 leaving substantial scope for operating leverage. To add to this, the company has brought down breakeven levels across its facilities.

2) Value addition: Over the years the company has increased value addition by adding machining capacity utilization of which stood at 50% at the end of FY14. Margins on machining are substantially higher.

3) Favorable product mix: Non-auto business proportion is set to rise significantly and we note here that non-auto segment requiring more technologically advanced components command better margins than auto.

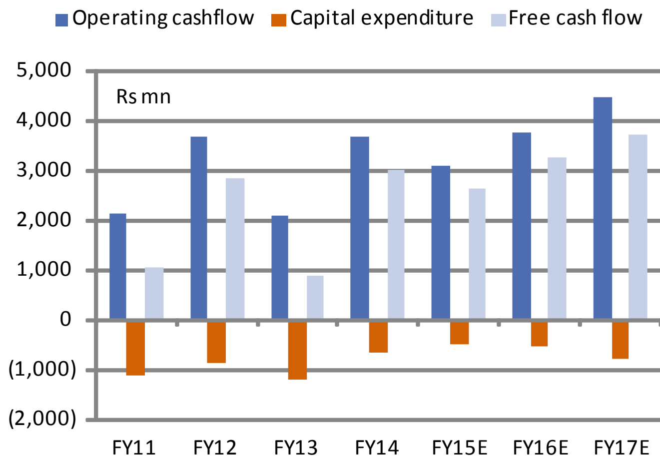
The aforementioned factors could result in substantial improvement in margins for BFL even from the current levels.

Improvement in capacity utilization, lower breakeven levels, higher machining contribution to revenues and higher non-auto contribution will drive margin expansion

Financials to gain further strength

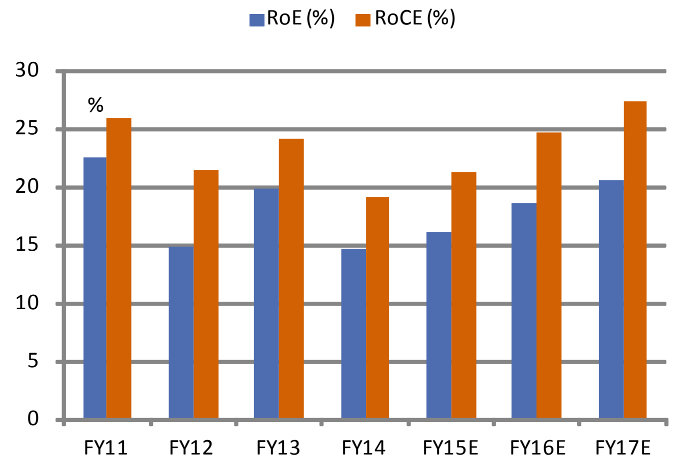
Driven by robust growth across segments and geographies and capacity in place, we expect BFL to report a FY14-17E revenue CAGR of 19%. As outlined above, OPM is expected to expand by 300bps during the same period. Resultantly, earnings CAGR is expected to be much higher at 29%. RoE and RoCE are expected to improve meaningfully. With no major capex plans in the near future (given low capacity utilization) free cash flows are expected to surge during this period.

Strong free cash flow generation



Source: Company, India Infoline Research

Improved RoE and RoCE



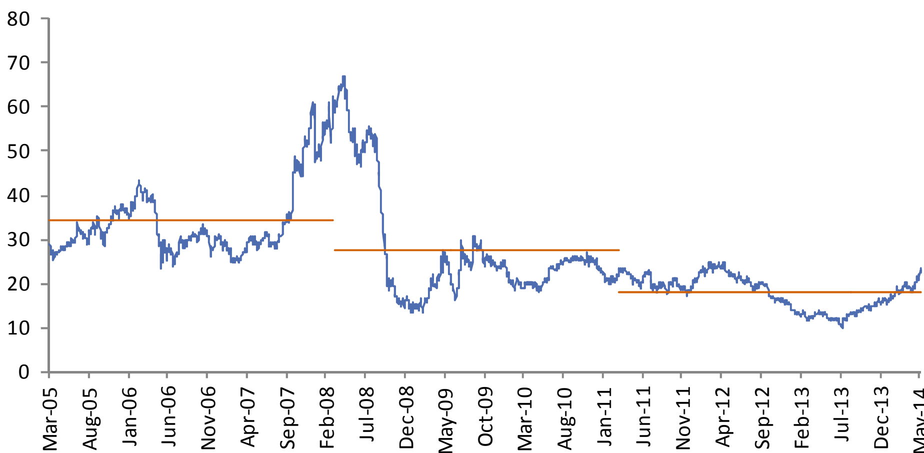
Source: Company, India Infoline Research

Valuations below historical average

BFL trades at one year forward P/E multiple of 16.8x compared to its historical average of 24x. Given the top quartile earnings growth expected in the next three years we believe the stock should re-rate to the historical average levels. Reduced cyclicality in business also supports our thesis of re-rating. We maintain our BUY rating with a 2-year price target of Rs1,250.

Given the top quartile earnings growth expected in the next three years we believe the stock should re-rate to the historical average levels

Trading substantially below historical P/E valuations



Source: Company, India Infoline Research

Financials

Income statement

Y/e 31 Mar (Rs m)	FY14	FY15E	FY16E	FY17E
Revenue	67,161	77,948	92,495	112,628
Operating profit	**10,271**	**13,166**	**16,193**	**20,518**
Depreciation	(3,579)	(3,768)	(3,896)	(4,024)
Interest expense	(1,692)	(1,506)	(1,326)	(1,146)
Other income	1,249	1,000	1,000	1,000
Profit before tax	**6,250**	**8,892**	**11,971**	**16,348**
Taxes	(2,100)	(3,050)	(4,097)	(5,563)
Minorities and other	29	176	176	176
Adj. profit	**4,178**	**6,018**	**8,051**	**10,961**
Exceptional items	1,037	0	0	0
Net profit	**5,215**	**6,018**	**8,051**	**10,961**

Balance sheet

Y/e 31 Mar (Rs m)	FY14	FY15E	FY16E	FY17E
Equity capital	466	466	466	466
Reserves	27,083	33,101	41,152	52,113
Net worth	**27,549**	**33,567**	**41,618**	**52,579**
Minority interest	1,842	2,042	2,242	2,442
Debt	18,737	16,737	14,737	12,737
Deferred tax liab (net)	1,345	1,345	1,345	1,345
Total liabilities	**49,474**	**53,692**	**59,943**	**69,104**
Fixed assets	28,487	26,719	24,824	22,800
Investments	4,160	4,160	4,160	4,160
Net working capital	**9,573**	**9,764**	**9,934**	**10,074**
Inventories	12,880	14,949	17,739	21,600
Sundry debtors	8,832	10,251	12,164	14,811
Other current assets	12,524	13,224	13,924	14,624
Sundry creditors	(22,080)	(25,627)	(30,409)	(37,028)
Other current liabilities	(2,583)	(3,033)	(3,483)	(3,933)
Cash	7,254	13,049	21,025	32,070
Total assets	**49,474**	**53,692**	**59,943**	**69,104**

Cash flow statement

Y/e 31 Mar (Rs m)	FY14	FY15E	FY16E	FY17E
Profit before tax	6,250	8,892	11,971	16,348
Depreciation	3,579	3,768	3,896	4,024
Tax paid	(2,100)	(3,050)	(4,097)	(5,563)
Working capital Δ	(1,312)	(191)	(170)	(140)
Operating cashflow	6,416	9,419	11,600	14,669
Capital expenditure	3,324	(2,000)	(2,000)	(2,000)
Free cash flow	**9,741**	**7,419**	**9,600**	**12,669**
Equity raised	696	926	926	926
Debt financing/disposal	(9,108)	(2,000)	(2,000)	(2,000)
Dividends paid	(926)	(926)	(926)	(926)
Other items	1,266	376	376	376
Net Δ in cash	**1,668**	**5,795**	**7,976**	**11,045**

Key ratios

Y/e 31 Mar	FY14	FY15E	FY16E	FY17E
Growth matrix (%)				
Revenue growth	30.0	16.1	18.7	21.8
Op profit growth	29.8	28.2	23.0	26.7
EBIT growth	36.0	30.9	27.9	31.6
Net profit growth	98.2	44.0	33.8	36.1
Profitability ratios (%)				
OPM	15.3	16.9	17.5	18.2
EBIT margin	11.8	13.3	14.4	15.5
Net profit margin	6.2	7.7	8.7	9.7
RoCE	15.4	20.2	23.4	27.1
RoNW	16.7	19.7	21.4	23.3
RoA	5.6	7.7	9.1	10.8
Per share ratios				
EPS	17.9	25.8	34.6	47.1
Dividend per share	4.0	4.0	4.0	4.0
Cash EPS	33.3	42.0	51.3	64.4
Book value per share	118.3	144.2	178.7	225.8
Valuation ratios				
P/E	33.9	23.5	17.6	12.9
P/CEPS	18.2	14.5	11.8	9.4
P/BV	5.1	4.2	3.4	2.7
EV/EBIDTA	14.9	11.0	8.4	6.0
Payout (%)				
Dividend payout	22.2	15.4	11.5	8.4
Tax payout	33.6	34.3	34.2	34.0
Liquidity ratios				
Debtor days	48	48	48	48
Inventory days	70	70	70	70
Creditor days	120	120	120	120
Leverage ratios				
Interest coverage	4.7	6.9	10.0	15.3
Net debt / equity	0.4	0.1	(0.2)	(0.4)
Net debt / op. profit	1.1	0.3	(0.4)	(0.9)

Du-Pont Analysis

Y/e 31 Mar	FY14	FY15E	FY16E	FY17E
Tax burden (x)	0.67	0.68	0.67	0.67
Interest burden (x)	0.79	0.86	0.90	0.93
EBIT margin (x)	0.12	0.13	0.14	0.16
Asset turnover (x)	0.90	1.00	1.05	1.10
Financial leverage (x)	2.96	2.56	2.34	2.16
RoE (%)	**16.7**	**19.7**	**21.4**	**23.3**

Dhanuka Agritech Ltd

IIFL
INDIA PRIVATE CLIENTS

Set to reap bumper harvest

Dhanuka Agritech Ltd (DAL) is a leading player in the agrochemical sector. DAL's inherent strength lies in its asset light business model which has led to higher return on asset than the industry. Management's focus on building strong distribution network while collaborating with major global chemical players to introduce high-margin specialty products has paid rich dividends and will continue to do so in the years to come. Debt free balance sheet, sound financial backing and experienced management team are some of the other things that make this stock attractive.

New innovative products key to exponential growth

In April 2014, company has announced the receipt of approvals for its innovative product registered under the 9(3) section of the Insecticide Act of India, which gives it exclusive rights to sell the product in Indian markets. These products will be launched in this kharif season. Management has filed for license for 6 new products and is confident of launching at least 2 products each year in the coming 3 years. Of these 6 products three will be herbicide which is a fast growing category in the agrochemical space. Specialty products contribute two-third revenue while generic products contribute one-third revenue.

Crop protection gaining importance; DAL direct beneficiary

According to estimates from Crop Care Federation of India (CCFI), 85% of annual crop losses are due to pest infestation, diseases and weeds. Pesticide penetration is low in India (0.6kg/ha) vs. global peers (5-17 kg/ha). The government's focus on increasing the MSP (minimum support prices) for key crops like rice, wheat, maize, sugarcane etc will lead to higher farm income and provide an incentive for farmers to use more pesticides to improve yields. All this augers well for DAL.

Financial summary

Y/e 31 Mar (Rs m)	FY14	FY15E	FY16E	FY17E
Revenues	7,395	9,317	11,745	14,877
yoy growth (%)	27.0	26.0	26.1	26.7
Operating profit	1,216	1,540	1,961	2,499
OPM (%)	16.4	16.5	16.7	16.8
Pre-exceptional PAT	931	1,151	1,405	1,806
Reported PAT	931	1,151	1,405	1,806
yoy growth (%)	44.5	23.5	22.1	28.5
EPS (Rs)	18.6	23.0	28.1	36.1
P/E (x)	21.5	17.4	14.2	11.1
Price/Book (x)	6.0	4.8	3.8	3.0
EV/EBITDA (x)	16.9	13.3	10.4	8.1
Debt/Equity (x)	0.2	0.1	0.1	0.1
RoE (%)	31.3	30.6	29.8	30.5
RoCE (%)	34.9	34.5	36.1	37.7

Source: Company, India Infoline Research

Rating:	BUY
Target (2 Years):	**Rs 800**
CMP:	**Rs 397**
Upside:	**101.5%**

Sector:	**Agrochemicals**
Sector view:	**Positive**
Sensex:	25,100
52 Week h/l (Rs):	408 / 125
Market cap (Rscr) :	1,990
6m Avg vol ('000Nos):	143
Bloomberg code:	DAGRI IN
BSE code:	507717
NSE code:	DHANUKA
FV (Rs):	2

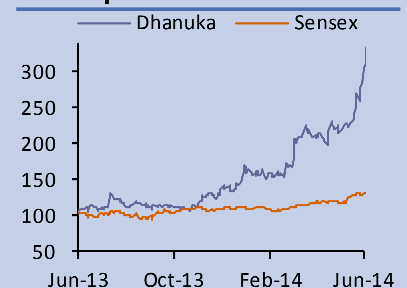
Price as on June 27, 2014

Company rating grid

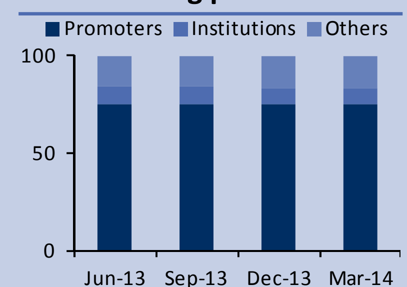
Low → High

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

Share price trend



Share holding pattern



Research Analyst:
Pratik Tholiya
research@indiainfoline.com

New In-Licensed Products launched in FY14

Product Name	Description
Maxyld	Plant Growth Regulator; In-Licensed product launched in FY14. Application: Cotton & paddy
Danfuron	Insecticide; In-Licensed product from Bayer Cropscience, launched in Q3FY14. Application: Chilli, Cotton, Tea Plantation
Protocol	Fungicide; launched in Q3FY14. Application: Potato, Grapes, Black Gram
Defend	Insecticide; launched in Q3FY14. Application: Chilli, Cotton, Grapes

Source: Company, IILF Research

Long standing International tie-ups gives the edge

DAL has long standing tie ups with leading chemical companies of the world such as Nissan, Sumitomo, Chemtura, DuPont, FMC etc. Technicals are sourced from MNCs and the formulations are made in the company's manufacturing plants. These products command higher margins which can be seen by DAL's superior EBITDA margins (~16%) compared to industry average (~14%). For MNCs, DAL comes as a preferred choice due to its profound understanding of the Indian agrochemical market, nationwide distribution network and strong farmer contact. So far DAL has 25 products from its partners out of which 6 are among the top 10 revenue contributors. Majority of the new products in the pipeline will be coming from such tie-ups.

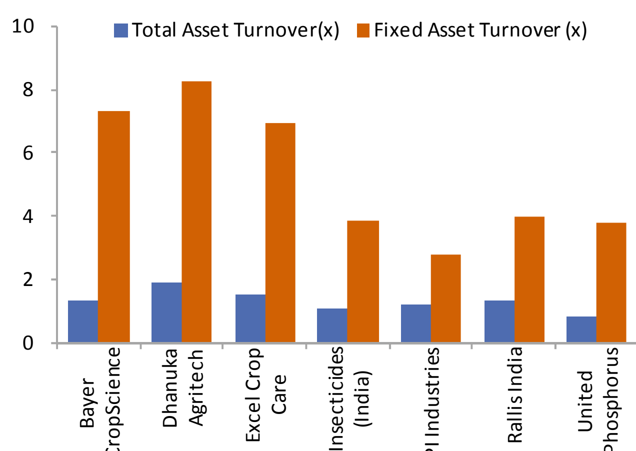
DAL's ability to source technicals from MNCs has resulted in higher margins than industry

Asset light model, marketing and distribution centric

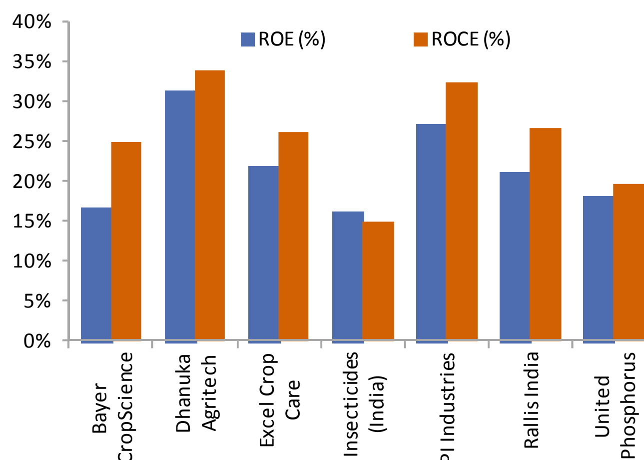
DAL's asset light business model has enabled it to achieve superior asset turnover ratio as well as return ratios compared to its peers. The more capital-intensive technical manufacturing process has been consciously avoided. Management's priority remains on leveraging its marketing and distribution network which is one of the largest in the country. It has also built a robust team of sales and marketing workforce which has fostered strong relationship with the farmers. Last year, it had roped in superstar Amitabh Bachchan as its brand ambassador. This marketing exercise has improved DAL's brand visibility, increased brand recognition and has had a positive influence on the target audience.

Asset light model, various marketing initiatives and strong distribution network has resulted in superior ratios.

Superior Asset Turnover Ratio

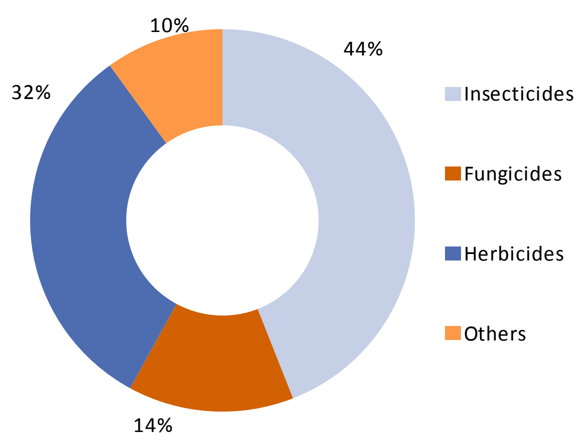


Return Ratios higher than peers

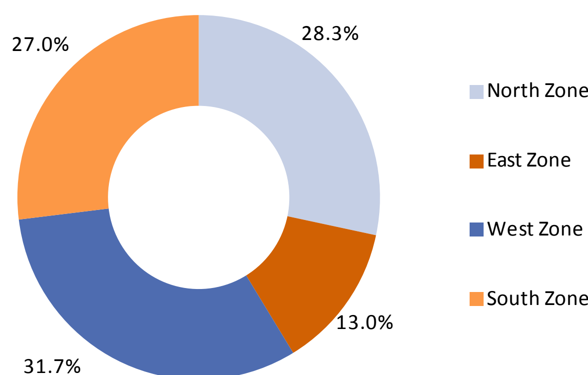


Source: Company, IIFL Research

Category-wise Revenue breakup



Region-wise Revenue breakup



Source: Company, IIFL Research

Debt free balance sheet, strong operating cash flow and experienced management team

RoCE above 30% due to strong balance sheet and higher profitability

Over the last few years management has taken measures to reduce the working capital which has resulted in strong in operating cashflow. Debt free balance sheet coupled with higher profitability gives the flexibility to invest its cash back into the business for further expansion or development of new products. RoCE has consistently been maintained above 30% which is higher than the industry. DAL is led by first generation entrepreneurs- Mr. R G Agarwal (Chairman) and Mr M K Dhanuka (MD) who have been instrumental in the steady rise of the company. Both have over 40 years of experience in the agrochemical business.

Outlook & Valuation

We are positive on the company's prospects in the coming years, given the launch of new innovative products which command higher margins and will help in increasing market share. We expect DAL to report revenue CAGR of 26% during FY2014-17E. EBITDA is expected to clock a CAGR of 27% while margins are to remain above 16.5% during this period. At CMP of Rs 397, the stock is trading at a P/E of 11x based on FY17E EPS of Rs. 36. We recommend Buy on the stock with a target price of Rs 800.

Company Background

New Delhi based Dhanuka Agritech Ltd is one of the leading companies in the agro chemical space. It has featured thrice in the prestigious 'Inc. India-500' list. It has a diversified portfolio of herbicide, insecticide and fungicide, along with various types of plant growth nutrients. DAL has 3 formulations facilities located at Jammu, Gurgaon and Gujarat. A fourth facility in Rajasthan will be commissioned in FY15 that will double the existing capacity. Current product portfolio comprises of 85 products, two thirds of which are specialty products. Top 5 products include Targa Super (herbicide), Marker, Calden (insecticide), Omite (miticide) and Dhanzyme Granules (plant growth regulator).

Financials (Consolidated)

Income statement

Y/e 31 Mar (Rs mn)	FY14	FY15E	FY16E	FY17E
Revenue	7,395	9,317	11,745	14,877
Operating profit	**1,216**	**1,540**	**1,961**	**2,499**
Depreciation	(48)	(79)	(85)	(89)
Interest expense	(42)	(43)	(42)	(42)
Other income	37	38	39	40
Profit before tax	**1,163**	**1,456**	**1,873**	**2,408**
Taxes	(232)	(306)	(468)	(602)
Adj. profit	**931**	**1,151**	**1,405**	**1,806**
Net profit	**931**	**1,151**	**1,405**	**1,806**

Balance sheet

Y/e 31 Mar (Rs m)	FY14	FY15E	FY16E	FY17E
Equity capital	100	100	100	100
Reserves	3,225	4,086	5,137	6,489
Net worth	**3,325**	**4,186**	**5,237**	**6,589**
Debt	544	559	551	543
Deferred tax liab (net)	36	36	36	36
Total liabilities	**3,905**	**4,781**	**5,825**	**7,168**
Fixed assets	893	965	930	941
Investments	10	10	10	10
Net working capital	**2,979**	**3,699**	**4,687**	**5,894**
Inventories	2,148	2,664	3,351	4,239
Sundry debtors	1,709	2,144	2,703	3,424
Other current assets	385	511	644	774
Sundry creditors	(1,115)	(1,406)	(1,769)	(2,238)
Other current liabilities	(148)	(213)	(241)	(305)
Cash	23	108	198	323
Total assets	**3,905**	**4,781**	**5,825**	**7,168**

Cash flow statement

Y/e 31 Mar (Rs mn)	FY14	FY15E	FY16E	FY17E
Profit before tax	1,163	1,456	1,873	2,408
Depreciation	48	79	85	89
Tax paid	(232)	(306)	(468)	(602)
Working capital Δ	(764)	(720)	(988)	(1,207)
Operating cashflow	216	509	501	688
Capital expenditure	(303)	(150)	(50)	(100)
Free cash flow	**(87)**	**359**	**451**	**588**
Equity raised	(0)	-	-	-
Debt financing/ disposal	207	15	(8)	(8)
Dividends paid	(234)	(289)	(353)	(454)
Net Δ in cash	**(31)**	**85**	**90**	**126**

Key ratios

Y/e 31 Mar	FY14	FY15E	FY16E	FY17E
Growth matrix (%)				
Revenue growth	27.0	26.0	26.1	26.7
Op profit growth	48.5	26.6	27.4	27.4
EBIT growth	45.9	24.4	27.7	27.9
Net profit growth	44.5	23.5	22.1	28.5
Profitability ratios (%)				
OPM	16.4	16.5	16.7	16.8
EBIT margin	16.3	16.1	16.3	16.5
Net profit margin	12.6	12.3	12.0	12.1
RoCE	34.9	34.5	36.1	37.7
RoNW	31.3	30.6	29.8	30.5
RoA	19.9	19.9	19.7	20.6
Per share ratios				
EPS	18.6	23.0	28.1	36.1
Dividend per share	4.0	4.8	5.9	7.6
Cash EPS	19.6	24.6	29.8	37.9
Book value per share	66.5	83.7	104.7	131.7
Valuation ratios				
P/E	21.5	17.4	14.2	11.1
P/CEPS	20.4	16.3	13.4	10.6
P/B	6.0	4.8	3.8	3.0
EV/EBIDTA	16.9	13.3	10.4	8.1
Payout (%)				
Dividend payout	25.2	25.2	25.2	25.2
Tax payout	19.9	21.0	25.0	25.0
Liquidity ratios				
Debtor days	84	84	84	84
Inventory days	127	125	125	125
Creditor days	66	66	66	66
Leverage ratios				
Interest coverage	28.9	35.0	45.4	58.9
Net debt / equity	0.2	0.1	0.1	0.0
Net debt / op. profit	0.4	0.3	0.2	0.1

Du-Pont Analysis

Y/e 31 Mar	FY14	FY15E	FY16E	FY17E
Tax burden (x)	0.80	0.79	0.75	0.75
Interest burden (x)	0.97	0.97	0.98	0.98
EBIT margin (x)	0.16	0.16	0.16	0.16
Asset turnover (x)	1.58	1.61	1.65	1.70
Financial leverage (x)	1.57	1.54	1.51	1.48
RoE (%)	**31.3**	**30.6**	**29.8**	**30.5**

Finolex Cables Ltd

IIFL INDIA PRIVATE CLIENTS

Cabled for Growth

Finolex Cables Ltd (FCL) stands to benefit from the expected revival in user industries such as construction, power, telecom and automobile. FCL's dominant position in the cable industry can be attributed to its inherent advantages such as high brand recognition, strong goodwill, sound financial backing and experienced management team. As a part of its diversification strategy, FCL has ventured into switchgears, electric motors and transformers. FCL will launch various types of circuit breakers and cabinets in the market by end of this fiscal. Strong balance sheet, positive free cash flows owing to better working capital management, higher profitability, low capex and debt along with robust ROE support our bullish stance on the company.

Resurgence in the infrastructure industry to boost demand

With the new government's focus on reviving the economic activity, FCL's revenue growth will be led by robust construction activity, significant infrastructure improvement in power and telecom industries, and strong automobile production. Positive outlook for the automotive industry also bodes well for automotive wires and cables. Currently electrical and communication data wire and cable contributes 94% of the revenues.

NOFC project, 4G launch provide big opportunity

Indian government's ambitious project to connect 2.5 lac gram panchayats across the country with optical fiber cable network under the National Optic Fiber Network (NOFN) project has significantly increased the demand for optical fiber cables. In Jan 2014, FCL was awarded an advance purchase order of over Rs. 2 bn for Metal Free Optical Fibre Cable (OFC) under the NOFN project. FCL is a front runner to win many more contracts. Rollout of 4G services will provide ample opportunities for FCL's communication wires and cables business.

Financial summary

Y/e 31 Mar (Rs m)	FY14	FY15E	FY16E	FY17E
Revenues	23,590	28,210	34,327	42,081
yoy growth (%)	3.9	19.6	21.7	22.6
Operating profit	2,471	2,986	3,761	4,762
OPM (%)	10.5	10.6	11.0	11.3
Pre-exceptional PAT	1,973	2,272	2,861	3,622
Reported PAT	2,077	2,272	2,861	3,622
yoy growth (%)	43.0	9.4	26.0	26.6
EPS (Rs)	12.9	14.9	18.7	23.7
P/E (x)	13.6	11.9	9.4	7.4
Price/Book (x)	2.4	2.1	1.8	1.5
EV/EBITDA (x)	11.2	9.0	6.9	5.2
Debt/Equity (x)	0.1	0.1	0.1	0.1
RoE (%)	19.5	19.0	20.3	21.6
RoCE (%)	20.7	21.8	23.6	25.3

Source: Company, India Infoline Research

Rating:	BUY
Target (2 Years):	**Rs 352**
CMP:	**Rs 176**
Upside:	**100%**

Sector:	**Capital Goods**
Sector view:	**Positive**
Sensex:	25,100
52 Week h/l (Rs):	177/ 47
Market cap (Rscr) :	2,694
6m Avg vol ('000Nos):	757
Bloomberg code:	FNXC IN
BSE code:	500144
NSE code:	FINCABLES
FV (Rs):	2

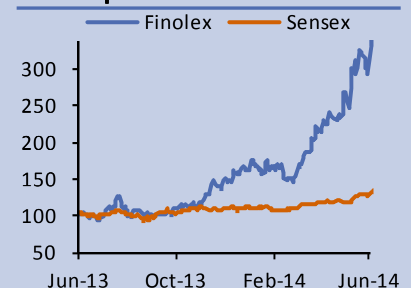
Price as on June 27, 2014

Company rating grid

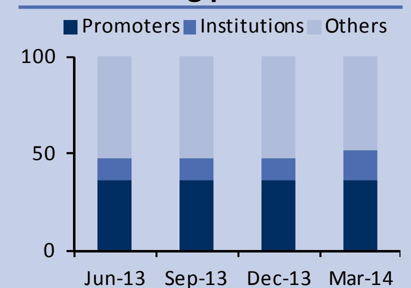
Low → High

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

Share price trend



Share holding pattern



Research Analyst:
Pratik Tholiya
research@indiainfoline.com

Product mix change to drive margins

The company has ventured into new products like lights and electrical switches. New range of lamps including LED based lighting systems meant for home use, street lighting and other commercial spaces were launched in FY14. The company plans to enter the switchgear product segment and will launch a series of products within the MCB, ELCB and MCCB range by FY15. For this purpose manufacturing unit has been setup in Gujarat. Apart from switchgears, the company also plans to venture into motors and transformer business. The non-cable business of the company, which currently forms 1% of the total sales, is expected to contribute 3-4% to the top line by FY17-18 as per management. With this, the company expects to significantly de-risk the business and change its image from a cable manufacturer to electrical product manufacturer.

Diversification into electrical products to aid margin expansion.

Product Portfolio

Category	Product
Wires and Cables	Light Duty and Communication Cables.
Power Cables	Power and Control Cables
Switches	Brand Name Finoswitch- Premium and Classic
CFL's	Brand Name Finoglow Retrofit and non-retrofit
Copper Rods	Based on Essex Concast

Source: Company, IIFL Research

Entering new geographies

FCL is looking at exploring newer territories. Some of the African countries are on top the agenda of the management as they provide immense untapped growth opportunity. Currently, it is present in the UK and Gulf Co-operation Council (GCC) countries. In next 2-3 years, FCL plans to double its revenue from exports.

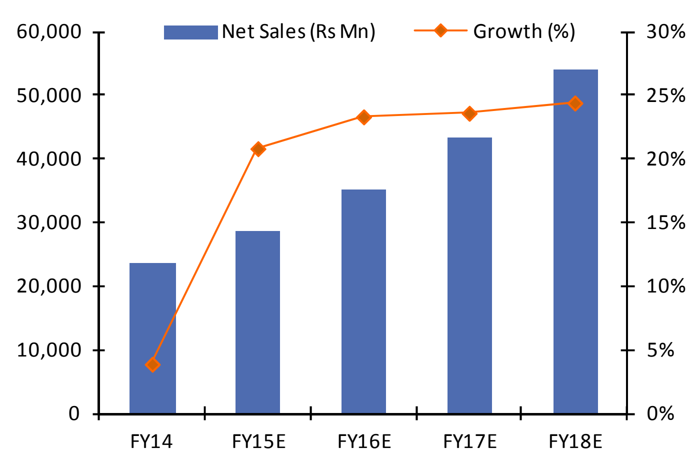
Export revenue to double in 2-3 years.

Strong Balance sheet, positive cash flow can lead to higher dividend payout ratio.

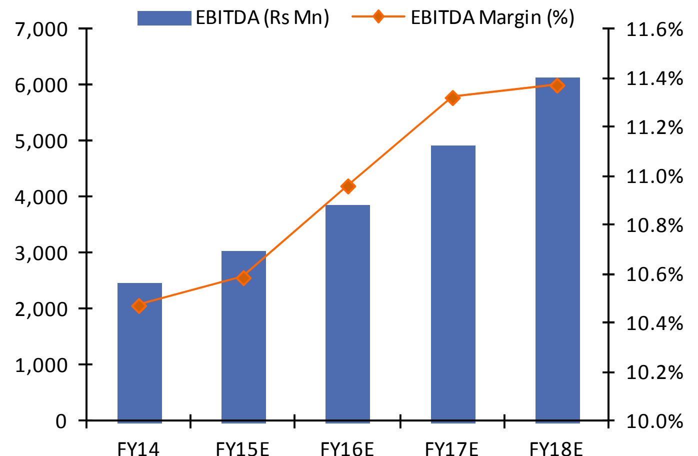
For the period FY14-17E, we expect FCL to post strong positive cash flow owing to better working capital management, higher PAT, low capex and debt along with robust ROE of 21%. RoCE has been consistently improving from 9% in FY10 to 17% in FY14 and is further expected to improve to 23% during FY14-17E. Dividend payout ratio has increased from 10% in FY11 to 14% in FY14 and can be expected to further increase on account of higher free cash flow in the future.

Dividend payout can increase due to higher profitability and low debt.

Net Sales CAGR 21% during FY14-17E



Margins to hover around 11% during FY14-17E

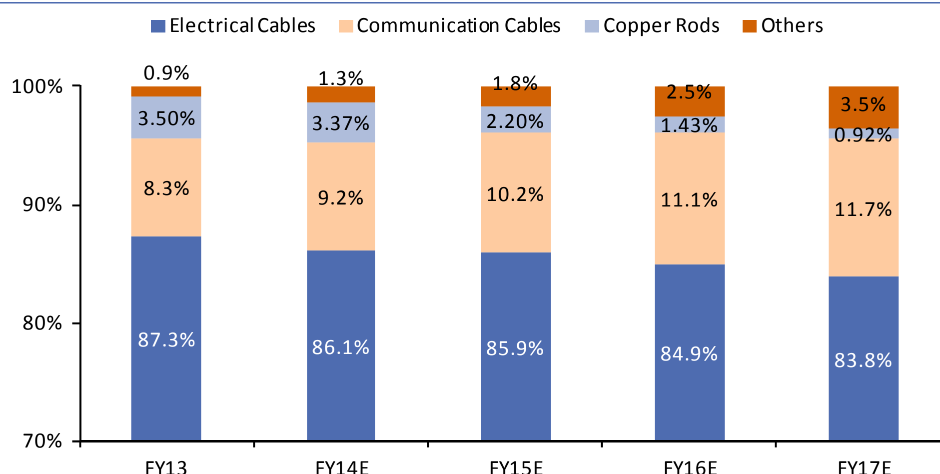


Source: Company, India Infoline Research

International JVs

JV Name	Tech Partner	FCL's Ownership	Product
Corning Finolex Optical Fibre Pvt Ltd.	Corning SAS (USA)	50%	Optical Fibre
Finolex J-Power Systems Pvt Ltd	J Power - Systems Corp (Japan)	49%	Extra High Voltage Cable

Category wise Revenue Breakup



Source: India Infoline Research

Outlook & Valuation

We are positive on the company's prospects in the coming years, owing to (1) expectation of robust growth in traditional user industries, (2) diversification into non-cable products, (3) retaining market share. We expect the company to post a CAGR of 21% in top-line over FY2014-17E. EBITDA is expected to clock a CAGR of 24% while margins are to remain above 11% in FY16-17E. With the end of derivative contract losses, PAT is expected to grow at a CAGR of 20% over FY2014-17E. At CMP of Rs 176, the stock trades at a P/E of 7.4x based on FY17E EPS of Rs. 23.7. We recommend Buy on the stock with a target price of Rs 352.

Company Background

Pune based Finolex Cables Ltd is a 56-year-old cable manufacturing company. It is the leading manufacturer of electrical and communication cables. With over 3000 distributors FCL has one of the largest distribution networks in India. Company has a market leadership position in West and South India and is making efforts to expand its footprint in North and East India. FCL has Four manufacturing plants which are located at Pune (Urse and Pimpri), Goa and Uttarakhand (Roorkee). It has launched switches under the brand name "Finoswitch". It has also started manufacturing and marketing compact fluorescent lamps under band name "Finoglow". Two types of CFLs are currently manufactured - Retrofit Lamps and Non Retrofit Lamps.

Financials (Standalone)

Income statement

Y/e 31 Mar (Rs mn)	FY14	FY15E	FY16E	FY17E
Revenue	23,590	28,210	34,327	42,081
Operating profit	**2,471**	**2,986**	**3,761**	**4,762**
Depreciation	(484)	(514)	(552)	(602)
Interest expense	(134)	(116)	(116)	(116)
Other income	484	484	484	484
Profit before tax	**2,336**	**2,840**	**3,577**	**4,528**
Taxes	(363)	(568)	(715)	(906)
Adj. profit	**1,973**	**2,272**	**2,861**	**3,622**
Exceptional items	104	0	0	0
Net profit	**2,077**	**2,272**	**2,861**	**3,622**

Balance sheet

Y/e 31 Mar (Rs m)	FY14	FY15E	FY16E	FY17E
Equity capital	306	306	306	306
Reserves	10,728	12,591	14,953	17,952
Net worth	**11,034**	**12,897**	**15,259**	**18,258**
Debt	1,285	1,285	1,285	1,285
Deferred tax liab (net)	295	295	295	295
Total liabilities	**12,614**	**14,477**	**16,839**	**19,838**
Fixed assets	5,065	4,366	4,814	5,212
Investments	4,031	4,031	4,031	4,031
Net working capital	**2,868**	**4,619**	**5,807**	**7,299**
Inventories	3,524	4,492	5,443	6,646
Sundry debtors	1,452	1,932	2,351	2,882
Other current assets	919	1,932	2,351	2,882
Sundry creditors	(2,117)	(2,419)	(2,931)	(3,579)
Other current liabilities	(909)	(1,319)	(1,408)	(1,533)
Cash	649	1,460	2,187	3,294
Total assets	**12,614**	**14,477**	**16,839**	**19,838**

Cash flow statement

Y/e 31 Mar (Rs mn)	FY14	FY15E	FY16E	FY17E
Profit before tax	2,336	2,840	3,577	4,528
Depreciation	484	514	552	602
Tax paid	(363)	(568)	(715)	(906)
Working capital Δ	238	(1,751)	(1,188)	(1,493)
Operating cashflow	2,696	1,035	2,225	2,731
Capital expenditure	(1,071)	185	(1,000)	(1,000)
Free cash flow	**1,624**	**1,221**	**1,225**	**1,731**
Debt financing/ disposal	(351)	-	-	-
Dividends paid	(285)	(410)	(499)	(624)
Other items	54	-	-	-
Net Δ in cash	**151**	**812**	**726**	**1,108**

Key ratios

Y/e 31 Mar	FY14	FY15E	FY16E	FY17E
Growth matrix (%)				
Revenue growth	3.9	19.6	21.7	22.6
Op profit growth	7.6	20.8	25.9	26.6
EBIT growth	19.2	19.6	24.9	25.8
Net profit growth	17.2	15.1	26.0	26.6
Profitability ratios (%)				
OPM	10.5	10.6	11.0	11.3
EBIT margin	10.5	10.5	10.8	11.0
Net profit margin	8.4	8.1	8.3	8.6
RoCE	20.7	21.8	23.6	25.3
RoNW	19.5	19.0	20.3	21.6
RoA	13.3	13.4	14.5	15.7
Per share ratios				
EPS	12.9	14.9	18.7	23.7
Dividend per share	1.6	2.3	2.8	3.5
Cash EPS	16.1	18.2	22.3	27.6
Book value per share	72.1	84.3	99.8	119.4
Valuation ratios (x)				
P/E	13.6	11.9	9.4	7.4
P/CEPS	11.0	9.7	7.9	6.4
P/B	2.4	2.1	1.8	1.5
EV/EBIDTA	11.2	9.0	6.9	5.2
Payout (%)				
Dividend payout	14	18	17	17
Tax payout	15.6	20.0	20.0	20.0
Liquidity ratios				
Debtor days	22	25	25	25
Inventory days	61	65	65	65
Creditor days	37	35	35	35
Leverage ratios				
Interest coverage	18.4	25.6	31.9	40.2
Net debt / equity	0.1	(0.0)	(0.1)	(0.1)
Net debt / op. profit	0.3	(0.1)	(0.2)	(0.4)

Du-Pont Analysis

Y/e 31 Mar	FY14	FY15E	FY16E	FY17E
Tax burden (x)	0.84	0.80	0.80	0.80
Interest burden (x)	0.95	0.96	0.97	0.98
EBIT margin (x)	0.10	0.10	0.11	0.11
Asset turnover (x)	1.59	1.67	1.74	1.82
Financial leverage (x)	1.46	1.41	1.40	1.38
RoE (%)	**19.5**	**19.0**	**20.3**	**21.6**

Greaves Cotton

IIFL
INDIA PRIVATE CLIENTS

Firing all cylinders

Greaves Cotton (GCL) is well poised to gain from the expected broad based economic recovery where we expect revival in auto sales, spurt in infrastructure investments and sustained growth in agriculture. A leading supplier of engines to three-wheelers and small commercial vehicle segment (SCV), GCL is also a supplier of gensets, farm equipments and construction equipments. The company has built a strong balance sheet, generates robust cash flows and has RoCE in excess of 20%. At P/E of 13.6x FY16E EPS of Rs7.2, the stock is relatively attractive when compared with the industry leader. We believe the valuation gap will narrow down and hence initiate coverage with a BUY recommendation.

Commercial vehicle industry set to revive

While M&HCVs have seen sharp fall in demand over the past couple of years, LCVs have seen weakness only in the past one year. We believe the industry will revive from H2 FY15 as industrial activity picks up, interest rates are cut down and fuel price hikes are ceased. With the new government having an agenda of building 100 cities, demand for LCVs should recover as manufacturers seek last mile connectivity using the hub and spoke model. GCL is the market leader in the three wheeler engines market, while it gradually increases its share in the 4W SCV market. We expect 3W domestic sales to remain strong as pace of urbanization picks up in the country leading to higher requirements of public transport.

Agri equipment business provides large opportunities

Penetration of mechanization in Indian agriculture is at substantially lower levels when compared with other emerging nations. With increasing finance availability and higher MSPs, farmers should resort to mechanization to improve productivity. GCL manufactures engines in the 1-4 HP range and portable gensets in the 1.4 KVA range which are popular for agriculture applications. Also recently, GCL has launched Greaves Power Tiller, manufactured by a leading manufacturer in China and customized to suit Indian conditions. Impetus on irrigation development by the new government would provide ample opportunities for GCL's products.

Financial summary

Y/e 31 Mar (Rs m)	FY14	FY15E	FY16E	FY17E
Revenues	17,189	19,252	22,717	26,806
yoy growth (%)	(8.2)	12.0	18.0	18.0
Operating profit	1,936	2,237	2,942	3,805
OPM (%)	11.3	11.6	13.0	14.2
Reported PAT	1,211	1,377	1,860	2,450
yoy growth (%)	(18.0)	21.8	35.0	31.8
EPS (Rs)	5.0	5.6	7.6	10.0
P/E (x)	23.2	20.4	15.1	11.5
Price/Book (x)	3.4	2.9	2.5	2.0
EV/EBITDA (x)	14.4	12.3	9.3	7.2
Debt/Equity (x)	0.0	0.0	0.0	0.0
RoE (%)	15.5	15.5	17.7	19.4
RoCE (%)	21.6	22.2	25.3	27.7

Source: Company, India Infoline Research

Rating:	BUY
Target (2 Years):	Rs232
CMP:	Rs115
Upside:	102%

Sector:	Auto Ancillary
Sector view:	Positive
Sensex:	25,100
52 Week h/l (Rs):	116 / 53
Market cap (Rscr) :	2,786
6m Avg vol ('000Nos):	446
Bloomberg code:	GRV IB
BSE code:	501455
NSE code:	GREAVESCOT
FV (Rs):	2

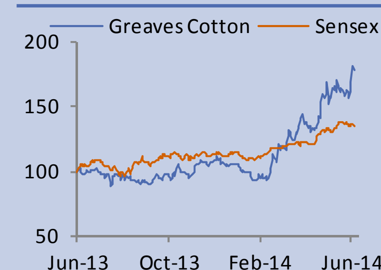
Price as on June 27, 2014

Company rating grid

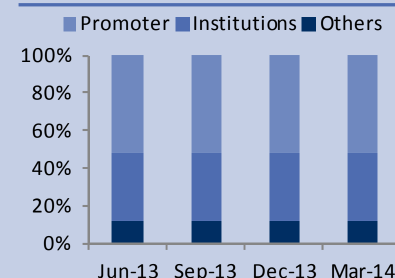
Low → High

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

Share price trend



Share holding pattern



Research Analyst:
Prayesh Jain
research@indiainfoline.com

Promising outlook for the construction equipment business:

Construction equipment business over the past couple of years has seen torrid times owing to sharp slowdown in infrastructure activities. Given the past track record of the NDA government, infrastructure investments are expected to surge. In fact, for the 12th Five year plan, infrastructure expenditure outlay is planned to be doubled to US$1 trillion. GCL has built a portfolio of products which include Transit Mixers, Concrete Pumps and Batching Plants. With applications primarily in construction of roads, bridges, buildings and other ready mix concrete activities, GCL is well placed to play the infrastructure revival theme.

Robust outlook for construction equipment business given huge impetus on infrastructure investments expected from the new government

Industrial engines segment to see a multi-pronged growth

GCL has built flexibility at its manufacturing locations so as to enable it to manufacture any engine which is required to power equipment for pumping, digging, pulling, pushing, carrying or moving. Hence, GCL products find presence in marine equipments, fire fighting instruments, agriculture, mining & construction, material handling, rail cars, etc. Strong pick up is expected in most of these areas in the near future. Fire fighting particularly could be a major driving force as stricter safety norms will entail heavier investments from the corporate world. GCL with a 25% share in the business is well placed to capture the ensuing growth in demand.

GCL's flexibility in manufacturing of engines puts in good stead to gain from the ensuing surge in industrial activity

Strategic initiatives for future growth

1) **Expanding product plays**: GCL facilities are ready for producing engines and gensets complying with CPCBII norms and BSIV norms for 0.6T SCV and 3W segment. The company is working on products such as higher capacity automotive engines, power tiller, other light agriculture equipments, diesel engines for pumpset applications and CNG variant for 0.6T SCV (Tata Magic Iris).

Adding new engines and new customers to its profile

2) **Strengthening market play**: Amongst OEMs, GCL is developing products for TVS (3W), Piaggio (4W SCV), M&M (genset engines), Ashok Leyland (genset engines) and international OEMs (non-automotive applications). Also the company has established channels in SAARC, East Africa and Middle East to develop GCL as a locally entrenched entity. It is also building similar network in South East Asia. In the aftermarket, GCL is enhancing dealer network and is leveraging the existing network for distribution and sale of non-traditional products.

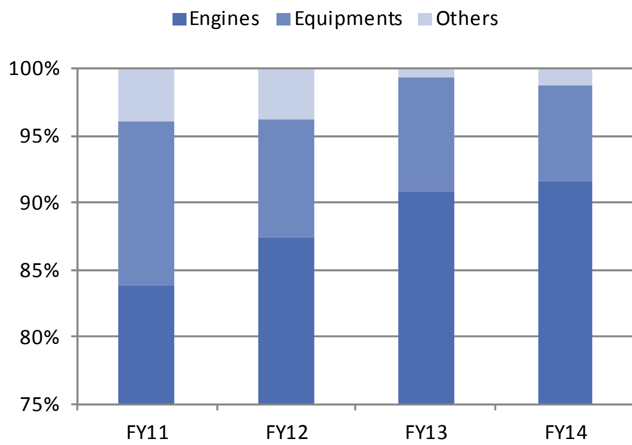
Deepening its market reach both domestically and internationally

3) **Operational excellence**: GCL, with a focus on improving gross margins, initiated a company-wide initiative – Project PROPEL. In FY14, the project helped improving the contribution by 1%. Exiting from non strategic investments such as divestment of Greaves Farymann Diesel, closure of Greaves Cotton Netherlands and closure of foundry unit in Pune has proved beneficial.

Cost cutting initiatives to drive margins along with operating leverage

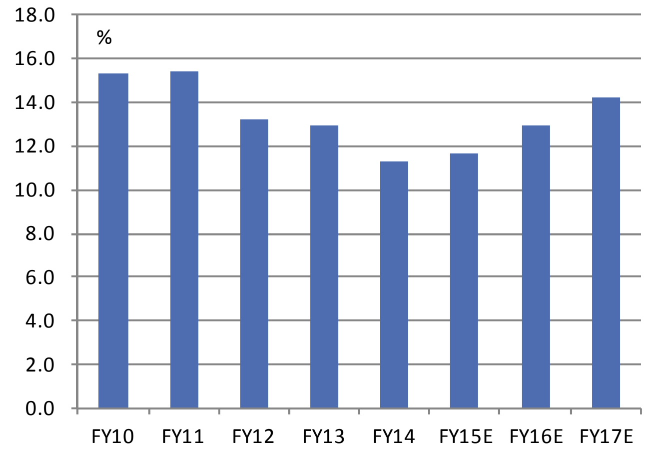
4) **Building functional capabilities**: GCL has consolidated its automotive and industrial engines into unified engines business to derive synergy benefits such as sourcing of RM and logistics. Consolidation of aftermarket for all businesses has enabled rapid development of service capability.

Trend in revenue breakup



Source: Company, India Infoline Research

OPM expected to improve



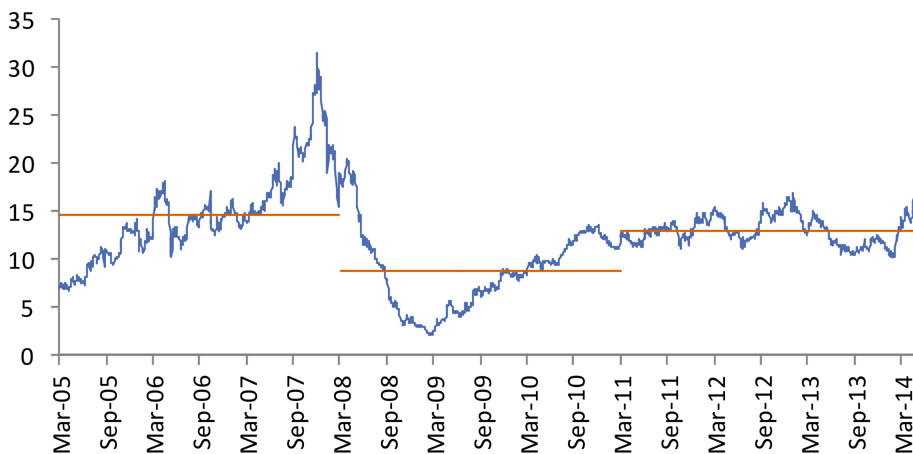
Source: Company, India Infoline Research

Deserve previous bull cycle valuation multiple

GCL over the past three years, when the CV sales and industrial activity in India witnessed a sharp slowdown, saw a valuation de-rating. It was justified then given the decline in revenue growth. However, in the years to come, we expect strong upsurge in CV sales, industrial activity and development of irrigation infrastructure. This should translate into large business opportunities for GCL. We expect 16% revenue CAGR for GCL during FY14-17E. With benefits of operating leverage, we see strong recovery in margins and resultantly a PAT CAGR of 29% during FY14-17E. In the previous bull cycle GCL had traded at an average P/E multiple range of 12-25x. We believe given the strong cash flow generation and RoCE of above 20%, we expect a re-rating in the stock.

In the previous bull cycle GCL had traded at an average P/E multiple range of 12-25x. We believe given the strong cash flow generation and RoCE of above 20%, we expect a re-rating in the stock

Substantially below previous bull market 1-year forward P/E multiple



Source: Company, India Infoline Research

Company Background

Greaves Cotton manufactures various industrial engineering products like diesel & petrol engines, gensets, agro equipment and construction equipment. The business is operated through five main divisions - agricultural equipment, automotive, industrial engines, auxiliary power and construction equipments. In recent years, GCL has made rapid strides in the export markets. GCL has 11 manufacturing units located all over India, with overseas offices in UAE, Tanzania and China. The Company's manufacturing plants are equipped with state-of-the-art production facilities, backed by in house R&D.

Financials

Income statement

Y/e 31 Mar (Rs m)	FY14	FY15E	FY16E	FY17E
Revenue	17,189	19,252	22,717	26,806
Operating profit	**1,936**	**2,237**	**2,942**	**3,805**
Depreciation	(435)	(465)	(495)	(525)
Interest expense	(46)	(46)	(46)	(46)
Other income	268	275	300	325
Profit before tax	**1,723**	**2,001**	**2,701**	**3,559**
Taxes	(512)	(623)	(842)	(1,109)
Adj. profit	**1,211**	**1,377**	**1,860**	**2,450**
Exceptional items	(80)	0	0	0
Net profit	**1,131**	**1,377**	**1,860**	**2,450**

Balance sheet

Y/e 31 Mar (Rs m)	FY14	FY15E	FY16E	FY17E
Equity capital	488	488	488	488
Reserves	7,691	9,069	10,928	13,379
Net worth	**8,180**	**9,557**	**11,417**	**13,867**
Debt	40	40	40	40
Deferred tax liab (net)	334	334	334	334
Total liabilities	**8,553**	**9,930**	**11,790**	**14,240**
Fixed assets	3,734	3,781	3,786	3,762
Investments	1,781	2,543	3,543	5,543
Net working capital	**2,698**	**3,029**	**3,605**	**4,287**
Inventories	1,581	1,771	2,089	2,466
Sundry debtors	3,330	3,730	4,401	5,194
Other current assets	1,235	1,358	1,494	1,643
Sundry creditors	(1,864)	(2,088)	(2,464)	(2,908)
Other current liabilities	(1,584)	(1,742)	(1,916)	(2,108)
Cash	340	577	855	648
Total assets	**8,553**	**9,930**	**11,790**	**14,240**

Cash flow statement

Y/e 31 Mar (Rs m)	FY14	FY15E	FY16E	FY17E
Profit before tax	1,723	2,001	2,701	3,559
Depreciation	435	465	495	525
Tax paid	(512)	(623)	(842)	(1,109)
Working capital Δ	17	(331)	(576)	(683)
Operating cashflow	1,662	1,511	1,778	2,292
Capital expenditure	(408)	(511)	(500)	(500)
Free cash flow	**1,254**	**1,000**	**1,278**	**1,792**
Equity raised	(307)	-	-	-
Investments	(842)	(763)	(1,000)	(2,000)
Debt financing/disposal	(21)	-	-	-
Dividends paid	(65)	-	-	-
Other items	(94)	-	-	-
Net Δ in cash	**(74)**	**237**	**278**	**(208)**

Key ratios

Y/e 31 Mar	FY14	FY15E	FY16E	FY17E
Growth matrix (%)				
Revenue growth	(8.2)	12.0	18.0	18.0
Op profit growth	(20.1)	15.6	31.5	29.3
EBIT growth	(19.2)	15.7	34.2	31.2
Net profit growth	(22.2)	13.8	35.0	31.8
Profitability ratios (%)				
OPM	11.3	11.6	13.0	14.2
EBIT margin	10.3	10.6	12.1	13.5
Net profit margin	7.0	7.2	8.2	9.1
RoCE	21.6	22.2	25.3	27.7
RoNW	15.5	15.5	17.7	19.4
RoA	10.2	10.7	12.4	13.8
Per share ratios				
EPS	5.0	5.6	7.6	10.0
Dividend per share	0.3	0.0	0.0	0.0
Cash EPS	6.7	7.5	9.6	12.2
Book value per share	33.5	39.1	46.8	56.8
Valuation ratios				
P/E	23.2	20.4	15.1	11.5
P/CEPS	17.1	15.2	11.9	9.4
P/B	3.4	2.9	2.5	2.0
EV/EBIDTA	14.4	12.3	9.3	7.2
Payout (%)				
Dividend payout	5.4	0.0	0.0	0.0
Tax payout	29.7	31.2	31.2	31.2
Liquidity ratios				
Debtor days	71	71	71	71
Inventory days	38	38	39	39
Creditor days	45	45	45	46
Leverage ratios				
Interest coverage	38.1	44.1	59.2	77.7
Net debt / equity	(0.0)	(0.1)	(0.1)	(0.0)
Net debt / op. profit	(0.2)	(0.2)	(0.3)	(0.2)

Du-Pont Analysis

Y/e 31 Mar	FY14	FY15E	FY16E	FY17E
Tax burden (x)	0.70	0.69	0.69	0.69
Interest burden (x)	0.97	0.98	0.98	0.99
EBIT margin (x)	0.10	0.11	0.12	0.13
Asset turnover (x)	1.44	1.49	1.52	1.51
Financial leverage (x)	1.53	1.45	1.43	1.40
RoE (%)	**15.5**	**15.5**	**17.7**	**19.4**

Indiabulls Housing Finance Ltd.

IIFL INDIA PRIVATE CLIENTS

Surfing smoothly

IHF is one of the fastest growing and most profitable housing finance companies. Strong asset quality, liquidity and capitalization underlie its robust balance sheet. Aided by sustained strong volume growth in mortgages (market share at just ~2.5%) and stable-to-increasing property prices, company is expected to deliver 23% CAGR in loan assets over FY14-17. With CV book running-off fast, the portfolio mix is moving towards mortgages. On account of this, blended spreads are under pressure currently but are likely to stabilize in the longer term. IHF's asset quality has remained largely unscathed amid stressful macro; now with NPL accruals and write-offs to decline, credit cost should start moderating. This along with higher securitization would drive further RoE improvement. Valuation at 1.4x FY17 P/ABV is inexpensive given estimated average RoA and RoE delivery of 4% and 32% respectively over FY14-17. High dividend yield (8-9%) further sweetens buying proposition of the stock.

AUM to witness 23% CAGR over FY14-17; market share to improve

Indiabulls Housing Finance (IHF) has witnessed a robust loan assets growth of 28% pa over the past three years. With an AUM of Rs411bn, IHF is currently the third largest HFC with a share of ~2.5% in country's expanding home loan market. About 74% of loan assets is mortgages (~50% home loans and ~24% LAP), 21% is commercial credit (largely LDR/construction finance to developers) and the residual 5% is CV financing. In retail home loans, IHF's focus on the middle and upper-middle class and salaried individuals has been driving market outperforming growth. In the LAP segment, company's customers are self-employed individuals and small enterprises having established income records. With CV portfolio (company has quit the business) expected to run-off completely over the next two years, the loan mix is expected to shift towards mortgages. Despite shrinking CV book, the company is confident of achieving 25% asset growth in the current year. In our view, IHF would deliver 23% CAGR in loan assets over FY14-17 aided by 1) sustained volume growth in mortgages given its small share 2) stable-to-increasing property prices and 3) increase in distribution network.

Financial summary

Y/e 31 Mar (Rs m)	FY14	FY15E	FY16E	FY17E
Total operating income	26,789	32,427	40,439	50,393
Yoy growth (%)	23.0	21.0	24.7	24.6
Operating profit (pre-provisions)	22,678	27,534	34,421	42,931
Net profit	15,642	18,761	23,691	29,650
yoy growth (%)	24.3	19.9	26.3	25.2
EPS (Rs)	47.0	56.3	65.6	82.1
Adj. BVPS (Rs)	166.4	188.3	222.0	265.9
P/E (x)	8.2	6.8	5.8	4.7
P/Adj.BV (x)	2.3	2.0	1.7	1.4
ROE (%)	28.8	30.8	32.3	32.8
ROA (%)	3.7	3.8	4.0	4.2
CAR (%)	19.1	18.0	18.8	19.1

Source: Company, India Infoline Research

Rating:	BUY
Target (2 Years):	Rs771
CMP:	Rs383
Upside:	101.3%

Sector:	**Financials**
Sector view:	**Positive**
Sensex:	25,100
52 Week h/l (Rs):	407/166
Market cap (Rscr) :	12,801
6m Avg vol ('000Nos):	746
Bloomberg code:	IHFL IN
BSE code:	535789
NSE code:	IBULHSGFIN
FV (Rs):	2

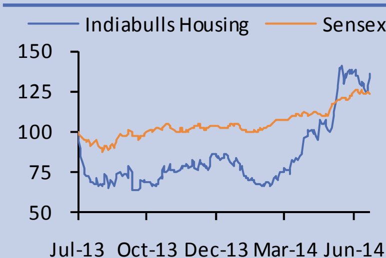
Price as on June 27, 2014

Company rating grid

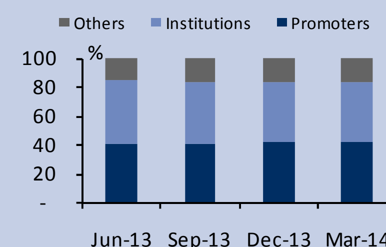
Low → High

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

Share price trend



Share holding pattern



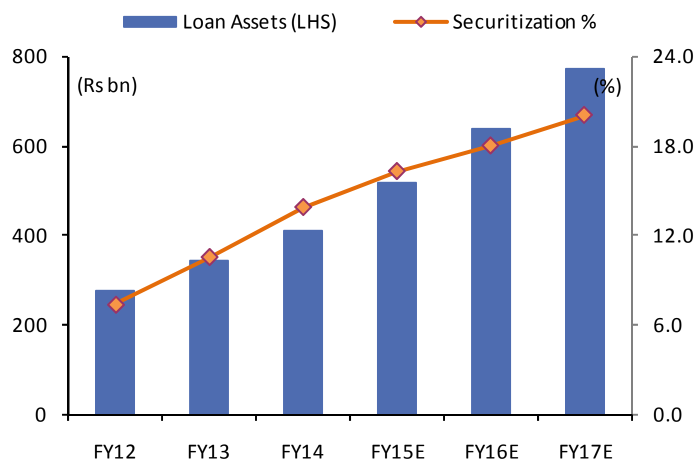
Research Analyst:
Rajiv Mehta
research@indiainfoline.com

The securitization activity has witnessed increased traction towards the end of FY14 thus aiding profitability and liquidity of the company. During FY14, IHF sold down loans worth Rs42bn and the outstanding stock of it stood at Rs57bn at the end of year. Going forward, company intends to sell down 30-40% of incremental origination and therefore proportion of securitized loans is expected to increase. Spreads of ~3.3-3.5% on these loans are recognized as income over the life of the loan. IHF is currently well-capitalized with Tier-1 ratio at 15%. In our view, even if the company were to continue its high dividend payout policy (40-60%), robust internal capital generation and conversion of warrants in FY16 (27.5mn @ Rs225/share) would ensure that capital position remains strong till FY17.

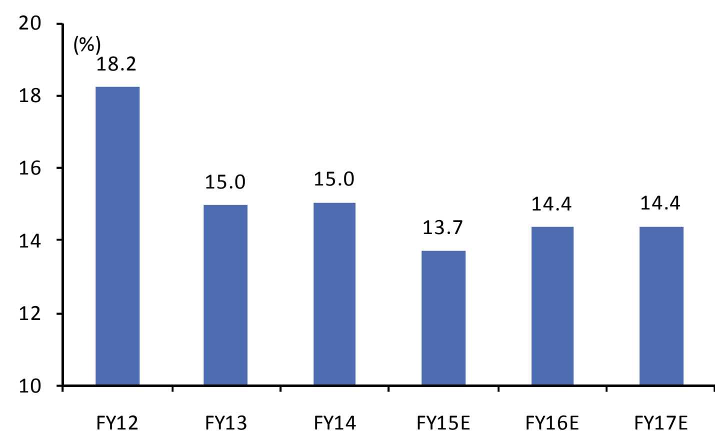
Company intends to sell down 30-40% of incremental origination

Currently well-capitalized with Tier-1 ratio at 15%

AUM to double by FY17; Securitization to increase



Well-capitalized (Tier-1 ratio) for robust growth



Source: Company, India Infoline Research

Strong balance sheet; spreads to come-off

As a policy, IHF has been maintaining adequate liquidity in its balance sheet; end-FY14 cash & liquid investments stood at Rs74bn, ~18% of loan assets. Though maintaining such high levels of liquidity is RoA dilutive, it reduces liquidity risks substantially and immunes spread from high interest rate volatility. Last year, company was least affected by the exceptional volatility in liquidity conditions and consequent spike in borrowing rates. Across various duration buckets, company has a closely matched ALM profile.

Cash & liquid investments stand at ~18% of loan assets; company has a closely matched ALM profile

IHF's spreads are expected to come-off in the medium term as better-than-average yielding CV portfolio (14.6% v/s 13.6% for overall book) runs-off whereas incremental yields in LAP segment have been lower (14.5% v/s 15.5% for the existing portfolio). So the blended book yield is expected to correct from 13.6% to 13.3% in FY15. On the other hand, the average cost of borrowings (10.1%) is likely to remain firm for a couple of quarters before starting to gradually decline. Currently, the borrowing mix is more skewed towards bank loans (share at 62%) which the management intends to shift towards bonds (share at 30%), a relatively stable and cheaper source. Aided by strong asset growth, IHF has reaped significant efficiency gains over the past three years. The cost/income ratio has declined from 19% in FY12 to 15.4% in FY14 on the back of 1) improving business productivity of centers 2) calibration of network expansion (closure of CV loan centers) and 3) increasing in-house sourcing of loans leading to lower DSA commissions.

Spreads are expected to come-off in the medium term

Management intends to shift borrowing mix towards bonds

Aided by strong asset growth, IHF has reaped significant efficiency gains over the past three years

With headroom available for further productivity improvements and persistent increase in in-house loan sourcing (targeting 80% in FY15 v/s 74% in FY14), the cost/income ratio is estimated to be comfortably sustained at near current levels even if the company were to expanding its network at a faster pace. We expect IHF to deliver 23% CAGR in pre-provisioning operating profit over FY14-17 in-line with the asset growth

Cost/income ratio is estimated to be comfortably sustained at near current levels even

Asset quality has been resilient; credit cost to come down

Notwithstanding heightened stress in the economy over the past two years, IHF's asset quality has remained largely unscathed as manifested in stable gross and net NPL ratios. Asset quality has held up particularly well in mainstay mortgages segment where the gross NPLs stand at marginal 0.25-0.3%. It has increased in the CV segment (~3.3%) which is largely attributable to decreasing size of the portfolio. Commercial credit portfolio has behaved resiliently due to exposure to large and reputed developers. With macro recovery on the anvil, management is reasonably confident of sustaining Gross NPLs in the range of 70-90bps and Net NPLs in the range of 30-50bps. In FY14, the credit cost was higher at ~76bps due to higher provisioning on written-off accounts. Going forward, it is expected to normalize towards 50bps.

Asset quality has held up particularly well in mainstay mortgages segment

Management confident of sustaining Gross NPLs in the range of 70-90bps

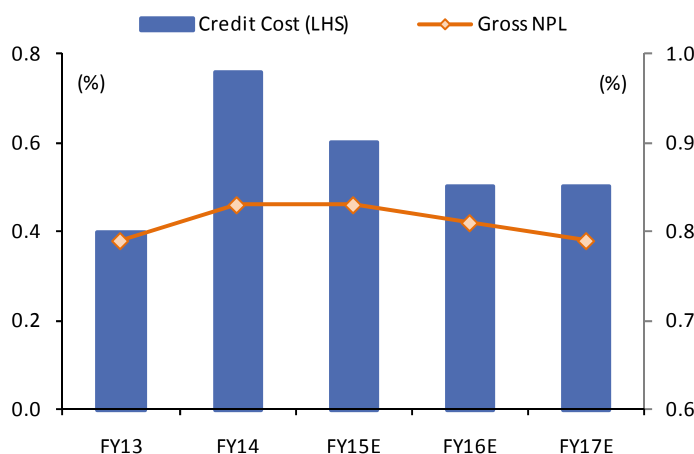
RoEs to improve further; inexpensive valuation and attractive dividend yield

IHF is one of the fastest growing and the most profitable housing finance companies. Strong asset quality, liquidity and capitalization underlie its robust balance sheet. Over the next three years, we don't expect any dilution in company's performance both on growth and profitability front. Rather, increasing securitization should lead to further improvement in RoE. With the company estimated to deliver average RoA and RoE of 4% and 32% respectively over FY14-17, current valuation at 1.4x FY17 P/ABV appears extremely attractive. High dividend yield on the stock further sweetens the buying proposition. We expect IHF price to double from current levels over the next couple of years aided by substantial growth in networth and a sharp re-rating in valuation.

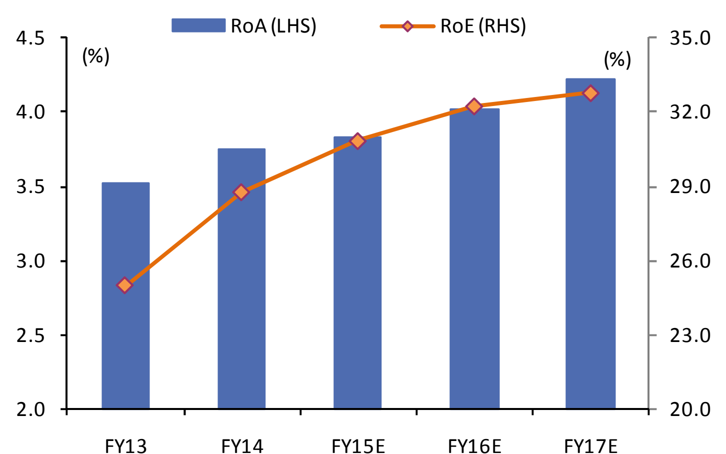
Increasing securitization should lead to further improvement in RoE

Estimated to deliver average RoA and RoE of 4% and 32% resp over FY14-17

Credit cost to moderate sharply



Profitability to improve further



Source: Company, India Infoline Research

Financials

Income statement

Y/e 31 Mar (Rs mn)	FY14	FY15E	FY16E	FY17E
Income from Operatns	54,194	65,307	79,459	95,096
Interest expense	(32,824)	(38,841)	(45,876)	(52,929)
Net interest income	**21,370**	**26,466**	**33,583**	**42,167**
Non-interest income	5,419	5,961	6,855	8,226
Total op income	**26,789**	**32,427**	**40,439**	**50,393**
Total op expenses	(4,111)	(4,893)	(6,018)	(7,462)
Op profit (pre-prov)	**22,678**	**27,534**	**34,421**	**42,931**
Provisions	(2,860)	(3,112)	(3,190)	(3,860)
Profit before tax	**19,818**	**24,422**	**31,231**	**39,071**
Taxes	(4,133)	(5,617)	(7,495)	(9,377)
Minority Interest	(44)	(44)	(44)	(44)
Net profit	**15,642**	**18,761**	**23,691**	**29,650**

Balance sheet

Y/e 31 Mar (Rs mn)	FY14	FY15E	FY16E	FY17E
Equity Capital	668	668	723	723
Reserves	56,402	63,930	81,594	97,820
Shareholder's funds	**57,070**	**64,599**	**82,317**	**98,544**
Minority interest	**19**	**19**	**19**	**19**
Long-term borrow	201,655	246,019	292,763	345,460
Other long-term liab	2	3	3	4
Long term provi	3,684	4,421	5,305	6,366
Total non-curr liab	**205,341**	**250,443**	**298,071**	**351,830**
Short Term Borrow	91,474	111,598	132,802	156,706
Trade payables	23	28	34	40
Other current liab	81,438	99,354	118,231	139,513
Short term prov	8,819	10,583	12,699	15,239
Total current liab	**181,754**	**221,563**	**263,766**	**311,499**
Equity + Liab	**444,184**	**536,623**	**644,173**	**761,891**
Fixed Assets	469	483	502	523
Goodwill	700	700	700	700
Non-current inv	247	247	247	247
Deferred tax assets	1,848	2,217	2,660	3,192
Long-term loans/adv	310,302	378,569	454,283	536,053
Other non-curr asset	8,153	9,783	11,740	14,088
Total non-curr asset	**321,719**	**391,999**	**470,133**	**554,804**
Current investments	29,223	35,068	42,082	50,498
Trade receivables	6	8	9	11
Cash and cash equiv	44,190	49,713	60,147	71,852
Short-term loans	45,498	55,507	66,609	78,598
Other current assets	3,548	4,328	5,194	6,129
Total Current assets	**122,465**	**144,624**	**174,040**	**207,088**
Total Assets	**444,184**	**536,623**	**644,173**	**761,891**

Key ratios

Y/e 31 Mar	FY14	FY15E	FY16E	FY17E
Growth matrix (%)				
Net interest income	12.2	23.8	26.9	25.6
Total op income	23.0	21.0	24.7	24.6
Op profit (pre-prov)	27.5	21.4	25.0	24.7
Net profit	24.3	19.9	26.3	25.2
Advances	14.8	22.5	20.5	18.0
Borrowings	13.6	22.5	19.0	18.0
Total assets	13.5	20.8	20.0	18.3
Profitability Ratios (%)				
NIM	5.7	5.7	5.8	6.0
Non-int inc/Total inc	20.2	18.4	17.0	16.3
Return on Avg Equity	28.8	30.8	32.3	32.8
Return on Avg Assets	3.7	3.8	4.0	4.2
Per share ratios (Rs)				
EPS	47.0	56.3	65.6	82.1
Adj.BVPS	166.4	188.3	222.0	265.9
DPS	29.0	29.0	29.0	32.0
Valuation ratios (x)				
P/E	8.2	6.8	5.8	4.7
P/Adj.BVPS	2.3	2.0	1.7	1.4
Other key ratios (%)				
Loans/Borrowings	1.0	1.0	1.0	1.0
Cost/Income	15.3	15.1	14.9	14.8
CAR	19.1	18.0	18.8	19.1
Tier-I capital	15.0	13.7	14.4	14.4
Gross NPLs/Loans	0.8	0.8	0.8	0.8
Credit Cost	0.8	0.6	0.5	0.5
Net NPLs/Net loans	0.4	0.3	0.3	0.3
Tax rate	20.9	23.0	24.0	24.0
Dividend yield	7.9	7.9	7.9	8.8

JK Lakshmi Cement Ltd

IIFL INDIA PRIVATE CLIENTS

Up-cycle on an anvil

Government emphasis on a) housing for all, b) 100 new cities, c) connecting major rivers and d) infrastructure development like building ports and roads is most likely to boost up cement demand in the coming year. As incremental capacity addition for industry slows down and demand picks up, it would lead to better capacity utilization for JK Lakshmi (JKLCE) and thereby support improved realizations. Company is enhancing its capacity from 6.6mtpa to 10mtpa in the current year and we expect it to be a major beneficiary of the anticipated volume traction in the northern, eastern and western regions; moreover supply surplus is at a minimum level in these areas. We factor in 44% earning CAGR over FY14-18 and recommend BUY with 2-yr price target of Rs433.

Beneficiary of favourable market mix

JKLCE's capacity is located across Rajasthan, Haryana and Gujarat with North/West regions accounting for 62%/38% of sales. Post Durg plant expansion, each region (northern, western and eastern) is likely to account for one third of the sales. Pan-India cement consumption is likely to grow 8-12% over the next two years; assuming evenly spread growth rates across the five regions, north and western region could run into a minor deficit in FY17. We believe the up-cycle witnessed in FY13 could repeat itself post H2 FY15 where demand push can boost realizations and hence earnings of the companies catering to these low surplus zones.

Volume traction to translate into strong revenue growth

JKLCE is enhancing its capacity to ~10mtpa by Q4 FY15; this would translate in to 15% volume CAGR over FY13-FY16. This expansion includes 1) 2.7mtpa plant at Durg, Chhattisgarh by Q2 FY15, 2) revival of defunct cement capacity (adding 1.4mtpa by 1HFY15) at Udaipur Cement Works (JKLCE is likely to have a majority stake) and 3) 0.55mtpa grinding unit in Surat coming up in H2FY15 to boost blending ratio. Volume traction along with improvement in realization is likely to translate into 18%/24% revenue growth in FY15/16.

Financial summary

Y/e 31 Mar (Rs m)	FY14	FY15E	FY16E	FY17E
Revenues	20,567	24,265	30,272	35,706
yoy growth (%)	0.1	18.0	24.8	18.0
Operating profit	3,021	4,482	6,577	8,605
OPM (%)	14.7	18.5	21.7	24.1
Pre-exceptional PAT	1,115	1,315	2,329	3,862
Reported PAT	1,115	1,315	2,329	3,862
yoy growth (%)	(41.9)	17.9	77.1	65.9
EPS (Rs)	9.5	11.2	19.8	32.8
P/E (x)	22.2	18.8	10.6	6.4
Price/Book (x)	1.9	1.7	1.5	1.2
EV/EBITDA (x)	11.6	8.8	5.9	4.3
Debt/Equity (x)	1.1	1.3	1.2	0.9
RoE (%)	8.7	9.6	15.0	20.8
RoCE (%)	7.7	9.5	13.4	17.5

Source: Company, India Infoline Research

Rating:	BUY
Target (2 Years):	**Rs433**
CMP:	**Rs210**
Upside:	**106.2%**

Sector:	**Cement**
Sector view:	**Positive**
Sensex:	25,100
52 Week h/l (Rs):	248 / 49
Market cap (Rscr) :	2,475
6m Avg vol ('000Nos):	352
Bloomberg code:	JKLC IN
BSE code:	500380
NSE code:	JKLAKSHMI
FV (Rs):	5

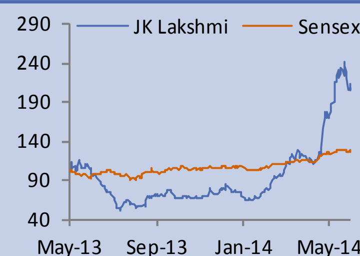
Price as on June 27, 2014

Company rating grid

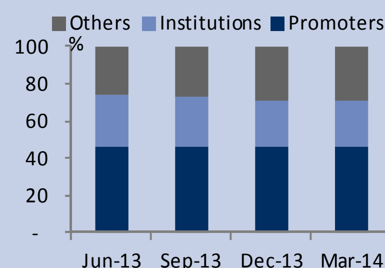
Low → High

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

Share price trend



Share holding pattern



Research Analyst:
Hemant Nahata
research@indiainfoline.com

Cement demand likely to regain its historical average

Over the past three years, slowdown in the economy (3-year avg GDP at +5.3%) impacted growth in sectors like infrastructure and manufacturing which in turn lowered cement demand. Cement demand/GDP multiplier also dipped below 1x as against an average of 1.3x seen in high GDP growth phase between 1999 and 2009. Post election, we expect a decisive focus on infrastructure development and housing which would lead to an improvement in cement demand in the medium term. We expect the GDP growth multiplier to re-gain 1.2-1.3x levels in the coming year, thereby translating into a cement growth of approx 8-12% over the next five years.

Slow down in new capacity additions to support utilization

After adding ~121mtpa in last five years, the pace of incremental capacity addition has slowed down significantly. According to the announcement made by the companies we are likely to see addition of ~16/19/15mtpa in FY15/16/17. In addition, a sub 75% level of capacity utilization for the industry has also led to delay in capacity expansion by certain players.

All- India cement demand-supply scenario

Mn tons	FY13E	FY14E	FY15E	FY16E	FY17E
Effective Cem Capacity	306	322	338	357	372
yoy growth (%)	4.8	5.2	5.0	5.6	4.2
Possible production	296	311	328	342	362
Cement Dispatches	238	247	262	289	310
yoy growth (%)	5.8	3.8	6.1	10.3	7.3
Capacity Utilization	77.8	76.7	77.5	81.0	83.3
Surplus/(Deficit)	58.0	64.0	66.0	53.0	52.0

Cement demand-supply scenario in northern region

Mn tons	FY13E	FY14E	FY15E	FY16E	FY17E
Effective Cem Capacity	67	74	79	85	90
yoy growth (%)	1.5	10.4	6.8	7.6	5.9
Possible production	64	69	76	82	87
Cement Dispatches	61	65	69	76	85
yoy growth (%)	8.9	6.6	6.2	10.1	11.8
Capacity Utilization	91.0	87.8	87.3	89.4	94.4
Surplus/(Deficit)	3.0	4.0	7.0	6.0	2.0

Source: Company, India Infoline Research

Cement demand-supply scenario in Western region

Mn tons	FY13E	FY14E	FY15E	FY16E	FY17E
Effective Cem Capacity	45	44	47	49	49
yoy growth (%)	2.3	(2.2)	6.8	4.3	-
Possible production	44	47	49	46	49
Cement Dispatches	38	39	41	44	48
yoy growth (%)	5.6	2.6	5.1	7.3	9.1
Capacity Utilization	84.4	88.6	87.2	89.8	98.0
Surplus/(Deficit)	6.0	8.0	8.0	2.0	1.0

Cement demand-supply scenario in southern region

Mn tons	FY13E	FY14E	FY15E	FY16E	FY17E
Effective Cem Capacity	119	115	118	121	124
yoy growth (%)	8.2	(3.4)	2.6	2.5	2.5
Possible production	114	114	116	120	121
Cement Dispatches	70	72	77	85	94
yoy growth (%)	4.5	2.9	6.9	10.4	10.6
Capacity Utilization	58.8	62.6	65.3	70.2	75.8
Surplus/(Deficit)	44.0	42.0	39.0	35.0	27.0

Source: Company, India Infoline Research

Cement demand-supply scenario in central region

Mn tons	FY13E	FY14E	FY15E	FY16E	FY17E
Effective Cem Capacity	40	44	49	50	51
yoy growth (%)	11.1	10.0	11.4	2.0	2.0
Possible production	37	43	46	46	46
Cement Dispatches	34	37	38	42	45
yoy growth (%)	3.0	8.8	2.7	10.5	7.1
Capacity Utilization	85.0	84.1	77.6	84.0	88.2
Surplus/(Deficit)	3.0	6.0	8.0	4.0	1.0

Cement demand-supply scenario in Eastern region

Mn tons	FY13E	FY14E	FY15E	FY16E	FY17E
Effective Cem Capacity	39	41	48	52	60
yoy growth (%)	5.4	5.1	17.1	8.3	15.4
Possible production	38	42	44	45	56
Cement Dispatches	35	38	41	41	44
yoy growth (%)	9.4	8.6	7.9	-	7.3
Capacity Utilization	89.7	92.7	85.4	78.8	73.3
Surplus/(Deficit)	3.0	4.0	3.0	4.0	12.0

Source: Company, India Infoline Research

Stock trades at discount to replacement cost - Compelling BUY

On an EV/ton basis, company trades at FY16 EV/ton of US$70, representing a discount to the replacement cost. We believe JKLCE will be a major beneficiary of improvement in key dynamics such as expansion-led volume growth in a deficit market and availability of fuel linkages. This would translate into 44% earnings CAGR over FY14-18. Stock trades at FY17 PER of 6.4x, at a deep discount to much larger players such as ACC, Ultratech and Ambuja Cements, which are trading at ~14-18x. We recommend BUY for 2-year target price of Rs433.

Company Background

JKLCE, a Hari Shankar Singhania group company was incorporated in 1982 started operations by setting up a cement manufacturing plant in Sirohi, Rajasthan. The company has its 6.6mtpa capacity in Rajasthan, Gujarat and Haryana and 100% captive power capacity (54MW thermal power plant and 12MW waste heat recovery; JKLCE also has a tie-up with VS Lignite to source power). JKLCE use pet coke for KILN and power production.

Financials

Income statement

Y/e 31 Mar (Rs mn)	FY14	FY15E	FY16E	FY17E
Revenue	20,567	24,265	30,272	35,706
Operating profit	**3,021**	**4,482**	**6,577**	**8,605**
Depreciation	(1,352)	(1,830)	(2,195)	(2,220)
Interest expense	(772)	(1,180)	(1,560)	(1,480)
Other income	442	330	368	386
Profit before tax	**1,339**	**1,801**	**3,190**	**5,291**
Taxes	(224)	(486)	(861)	(1,429)
PAT	**1,115**	**1,315**	**2,329**	**3,862**

Balance sheet

Y/e 31 Mar (Rs m)	FY14	FY15E	FY16E	FY17E
Equity capital	589	589	589	589
Reserves	12,446	13,488	15,545	19,135
Net worth	**13,034**	**14,077**	**16,133**	**19,724**
Debt	14,962	18,462	19,962	18,962
Deferred tax liab (net)	1,226	1,226	1,226	1,226
Total liabilities	**29,222**	**33,764**	**37,321**	**39,911**
Intangible Asset	764			
Fixed assets	25,511	30,511	32,511	35,011
Investments	3,577	3,577	3,577	3,577
Net working capital	**(1,407)**	**(1,577)**	**(1,778)**	**(2,062)**
Inventories	1,081	1,279	1,617	1,901
Sundry debtors	566	701	918	1,136
Other current assets	4,138	4,851	6,072	7,073
Sundry creditors	(6,768)	(7,985)	(9,962)	(11,750)
Other current liabilities	(423)	(423)	(423)	(423)
Cash	777	1,253	3,011	3,386
Total assets	**29,222**	**33,764**	**37,321**	**39,911**

Cash flow statement

Y/e 31 Mar (Rs mn)	FY14	FY15E	FY16E	FY17E
Profit before tax	1,339	1,801	3,190	5,291
Depreciation	1,352	1,830	2,195	2,220
Tax paid	(224)	(486)	(861)	(1,429)
Working capital Δ	1,463	170	201	284
Operating cashflow	3,930	3,314	4,725	6,366
Capital expenditure	(6,378)	(6,066)	(4,195)	(4,720)
Free cash flow	**(2,448)**	**(2,752)**	**530**	**1,646**
Debt financing/ disposal	3,208	3,500	1,500	(1,000)
Dividends paid	(275)	(272)	(272)	(272)
Net Δ in cash	**650**	**476**	**1,758**	**374**

Key ratios

Y/e 31 Mar	FY14	FY15E	FY16E	FY17E
Growth matrix (%)				
Revenue growth	0.1	18.0	24.8	18.0
Op profit growth	(29.5)	48.4	46.8	30.8
EBIT growth	(37.0)	41.2	59.3	42.5
Net profit growth	(41.9)	17.9	77.1	65.9
Profitability ratios (%)				
OPM	14.7	18.5	21.7	24.1
EBIT margin	10.3	12.3	15.7	19.0
Net profit margin	5.4	5.4	7.7	10.8
RoCE	7.7	9.5	13.4	17.5
RoNW	8.7	9.7	15.4	21.5
RoA	3.3	3.3	5.2	7.7
Per share ratios				
EPS	9.5	11.2	19.8	32.8
Dividend per share	2.0	2.0	2.0	2.0
Cash EPS	21.0	26.7	38.4	51.7
Book value per share	110.7	119.6	137.1	167.6
Valuation ratios (x)				
P/E	9.5	11.2	19.8	32.8
P/B	1.9	1.8	1.5	1.3
EV/EBIDTA	11.6	8.6	5.8	4.3
Payout (%)				
Dividend payout	24.7	20.7	11.7	7.0
Tax payout	16.7	27.0	27.0	27.0
Liquidity ratios				
Debtor days	10	11	11	12
Inventory days	19	19	19	19
Creditor days	120	120	120	120
Leverage ratios				
Interest coverage	2.7	2.5	3.0	4.6
Net debt / equity	1.1	1.2	1.1	0.8
Net debt / op. profit	4.7	3.8	2.6	1.8

Du-Pont Analysis

Y/e 31 Mar	FY14	FY15E	FY16E	FY17E
Tax burden (x)	0.83	0.73	0.73	0.73
Interest burden (x)	0.63	0.60	0.67	0.78
EBIT margin (x)	0.10	0.12	0.16	0.19
Asset turnover (x)	0.61	0.62	0.67	0.72
Financial leverage (x)	2.65	2.90	2.98	2.78
RoE (%)	**8.7**	**9.7**	**15.4**	**21.5**

Jyoti Structures Ltd

IIFL
INDIA PRIVATE CLIENTS

Worst is behind

Jyoti Structures Ltd (JSL) is a leading player in the domestic transmission and distribution space. The company has been widening its reach in the export market to offset the decline in domestic order flows. Company's order book of Rs48.5bn (44% exports) provides revenue visibility over the next 18 months. Going forward order inflows would gain momentum as the new government remains focused on reducing transmission losses and increase power supply to rural areas. Debtors are expected to decline as many projects would be completed in H1 FY15. Project payments, which have been stuck on account of dependency clauses and also retention amounts, will get released. As a result, interest costs as a % of operating profit which stood at 84% in FY14 would decline and boost the company's bottomline over the next two years. Margins too are expected to expand as legacy low margin orders are getting executed. Combination of the above two factors would drive PAT by 4.7x from Rs324mn in FY14 to Rs1.5bn in FY17. The company is currently trading at a FY16E P/E of 4.7x, which is quite inexpensive compared to its peers and largely discounts most of the negatives. We believe recovery from debtors and faster execution of projects would lead to a re-rating of the company. We recommend a BUY with a two years perspective for a price target of Rs120.

Order backlog remains steady at 1.6x BTB

JSL at the end of Q3 FY14 had an orderbook of Rs48.5bn, implying a book to bill (BTB) ratio of 1.6x, in spite of the dearth of orders in the domestic market. The company, over the last two years has been focussing on widening its reach globally to reduce the impact of slowdown in the domestic market. The company has forayed into the many nations in Middle East and South America. 36% of the total orders are from overseas customers and if we include the orders deemed for exports, share of exports of overall order book has increased to 44%. Of the total order book, transmission lines account for 66% of total orders and substation and rural electrification is ~34%. Order inflow for 9M FY14 stood at Rs21.3bn largely on account of increased export orders.

Financial summary

Y/e 31 Mar (Rs m)	FY14	FY15E	FY16E	FY17E
Revenues	33,308	35,111	37,192	41,910
yoy growth (%)	18.9	5.4	5.9	12.7
Operating profit	2,604	2,931	3,366	4,027
OPM (%)	7.8	8.3	9.1	9.6
Reported PAT	324	509	1,028	1,523
yoy growth (%)	(50.1)	57.1	102.0	48.2
EPS (Rs)	3.9	6.2	12.5	18.5
P/E (x)	15.1	9.6	4.7	3.2
EV/EBITDA (x)	5.6	4.6	3.6	3.0
Debt/Equity (x)	1.3	1.1	0.8	0.7
RoE (%)	4.2	6.4	11.9	15.5
RoCE (%)	16.2	16.0	19.4	22.7

Source: Company, India Infoline Research

Rating:	BUY
Target: (2-years)	**Rs120**
CMP:	**Rs59**
Upside:	**102%**

Sector:	**Capital Goods**
Sector view:	**Neutral**
Sensex:	25,100
52 Week h/l (Rs):	68 / 15
Market cap (Rscr) :	487
6m Avg vol ('000Nos):	724
Bloomberg code:	JYS IN
BSE code:	513250
NSE code:	JYOTISTRUC
FV (Rs):	2

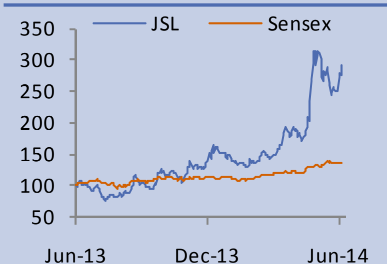
Price as on June 27, 2014

Company rating grid

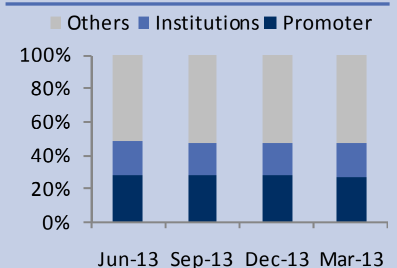
Low → High

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

Share price trend



Share holding pattern



Research Analyst:
Tarang Bhanushali
research@indiainfoline.com

Order pipeline boosts confidence

The management has guided that there are opportunities worth Rs80bn to be grabbed by the company in FY15

The company is quite confident of obtaining large orders in H1 FY15. The management guided that there are opportunities worth Rs80bn to be grabbed by the company in FY15. Of this, the company expects export orders worth Rs28bn to be received largely from regions in South America. The company is targeting nations like Namibia, Uganda, Kenya, Zambia, Nigeria and Nepal, wherein the competition is less compared to the Middle East. In the domestic sector, the company expects orders to jump in H2 FY15 on the back increased ordering from Power Grid. It also expects state utilities to increase expenditure as the focus of the new regime continues to reduce transmission losses by upgrading its networks and increasing the availability of power to rural areas. We expect order inflows to jump from H2 FY15 and expect the company to end FY15 at Rs52bn, an increase of 6% yoy. We believe order inflows would be quite strong in FY16 and expect the order book to end at Rs54bn, an increase of 13% yoy.

Order inflow would be quite strong in FY16 and we expect the order book to end at Rs54bn, an increase of 13% yoy

Margins to improve

JSL's margins in FY14 declined sharply to 7.8% due to execution of low margin orders during the year and also on account of some forex losses. Orders which were bagged with low margins during the intense competition over the last two years and some slow movement in orders belonging to the state utilities are the major reasons behind the decline in the margins in FY14. We believe this impact would last in H1 FY15 and then recover to average levels as legacy low margins orders are completed and execution of export projects gains momentum. We expect margins to improve slightly in FY15 to 8.3% as the company would remain focused on reducing its receivables. However, with the intensity of completion lower in Power Grid orders, we expect margins would improve by 80bps to 9.1% in FY16 and a further expansion of 50bps yoy in FY17 to 9.6%.

Margins to recover to average levels as legacy low margins orders are executed and execution of export projects gains momentum

Focus on reducing receivables a trigger for the company

JSL's profitability over the last two years has been severely impacted by the increase in its interest costs, led by a jump in its debtors. Over the last two years debtors have jumped sharply due to delay in payments from various SEBs. Debtors at the end of FY14 stood at Rs28bn, a jump of 79% since FY12. As per the company, the sharp bump up in debtors in Q4 FY14 was due to delay in disbursals by SEBs. The company expects payments to increase in Q1 FY15, as many projects are expected to be completed during the quarter. Cash flow for the company is expected to increase in H1 FY15 as project payments, which have been stuck on account of dependency clauses and also retention amounts will get released as the projects are completed. The company has indicated that debtors worth Rs4-4.5bn, wherein payments are contention, have shown signs of easing out. The company has started to receive some payments in addition to the execution picking up in some of the projects. We believe that the company would be able to reduce the debtors by 17%, reducing the stress on the company's balance sheet and profitability.

Cash flow for the company is expected to increase in H1 FY15 as project payments which have been stuck on account of dependency clauses and also retention amounts will get released as the projects are completed

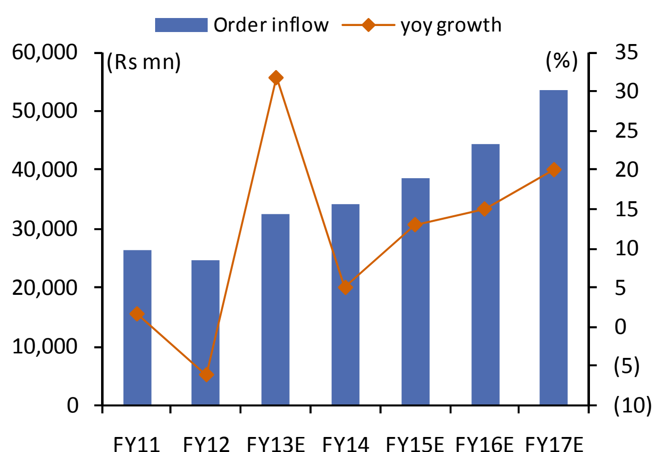
Margin expansion coupled with reducing debtors to boost bootline

JSL's profitability over the last two years has been impacted by increasing interest costs and a decline in margins. Interest costs as a % of operating profit stood at 84% in FY14 leading to a sharp decline in bottomline. The jump in interest costs has been largely due to an increase in short term loans taken to fund working capital. Over the next two years, we expect debtor days to decline as many projects are expected to be complete in FY15 and execution is expected to speed up post the change in the regime at the centre. We expect interest costs as a % of operating profit to decline from 84% in FY14 to 70% in FY15 and 51.2% in FY16 on the back of lower interest costs and rising operating profit. We also expect operating profit to increase by 12.5% yoy to Rs2.9bn and by 14.8% yoy to Rs3.4bn in FY16. As a result of the above, we estimate PAT to jump from Rs324mn in FY14 to Rs509mn in FY15, Rs1bn in FY16 and Rs1.5bn in FY17. The company is currently trading at a FY16E P/E of 4.7x, which is quite cheap compared to its peers and largely discounts most of the negatives. We believe recovery from debtors and faster execution of projects would lead to a re-rating of the company. We recommend a BUY with a two years perspective for a price target of Rs112.

We expect interest costs as a % of operating profit to decline from 84% in FY14 to 70% in FY15 and 51.2% in FY16 on the back of lower interest costs and rising operating profit

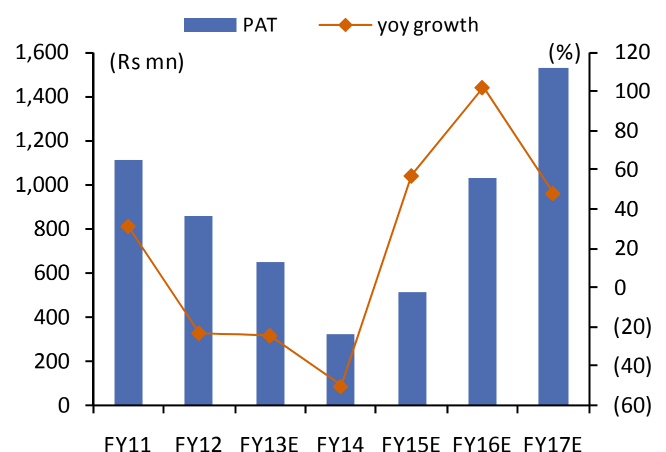
The company is currently trading at a FY16E P/E of 4.7x, which is quite cheap compared to its peers and largely discounts most of the negatives

Order inflows to increase on the back of higher government spending



Source: Company, India Infoline Research

PAT to jump 4.7x over FY14-17E



Source: Company, India Infoline Research

Company Background

Jyoti Structures Ltd is among the leading player in the transmission Engineering, Procurement and Construction (EPC) sector in India. The company is a focused player in the Transmission & Distribution segment and provides turnkey solutions in the field of Transmission lines, Substations and Rural Electrification. It also undertakes turnkey projects on a global scale, offering a complete range of services in Design, Testing, Manufacturing, Sourcing, Supply and Construction with its in-house expertise. It has an in-house Tower Testing facility at Igatpuri in India. JSL has established a joint venture company in Dubai in 2008, viz. Gulf Jyoti International LLC (GJI). This venture was formed between Gulf Investment Corporation, Kuwait and JSL. It has also started a subsidiary company named Jyoti Structures Africa (JSA), which is based out of Johannesburg and Jyoti Americas LLC in the United States.

Financials

Income statement

Y/e 31 Mar (Rs mn)	FY14	FY15E	FY16E	FY17E
Revenue	33,308	35,111	37,192	41,910
Operating profit	**2,604**	**2,931**	**3,366**	**4,027**
Depreciation	(270)	(291)	(311)	(331)
Interest expense	(2,203)	(2,071)	(1,724)	(1,642)
Other income	392	196	215	237
Profit before tax	**523**	**765**	**1,546**	**2,291**
Taxes	(199)	(256)	(518)	(767)
Net profit	**324**	**509**	**1,028**	**1,523**

Balance sheet

Y/e 31 Mar (Rs mn)	FY14	FY15E	FY16E	FY17E
Equity capital	164	164	164	164
Reserves	7,621	8,027	8,952	10,372
Net worth	**7,786**	**8,191**	**9,116**	**10,537**
Debt	10,465	8,965	7,465	7,465
Deferred tax liab (net)	1	1	1	1
Total liabilities	**18,252**	**17,157**	**16,582**	**18,003**
Fixed assets	1,890	1,817	1,756	1,675
Investments	866	866	866	866
Net working capital	**14,674**	**14,192**	**13,681**	**15,223**
Inventories	4,562	3,705	3,901	4,375
Sundry debtors	27,951	23,087	22,926	24,113
Other current assets	5,968	5,830	6,171	6,945
Sundry creditors	(23,448)	(18,068)	(18,955)	(19,847)
Other current liabilities	(360)	(362)	(362)	(362)
Cash	823	282	280	238
Total assets	**18,252**	**17,157**	**16,582**	**18,003**

Cash flow statement

Y/e 31 Mar (Rs mn)	FY14	FY15E	FY16E	FY17E
Profit before tax	523	765	1,546	2,291
Depreciation	270	291	311	331
Tax paid	(199)	(256)	(518)	(767)
Working capital Δ	(2,381)	481	511	(1,543)
Operating cashflow	(1,788)	1,281	1,851	312
Capital expenditure	(192)	(219)	(250)	(250)
Free cash flow	**(1,980)**	**1,062**	**1,601**	**62**
Equity raised	77	(0)	(0)	(0)
Debt financing/ disposal	2,579	(1,500)	(1,500)	-
Dividends paid	(75)	(103)	(103)	(103)
Other items	(108)	(0)	-	-
Net Δ in cash	**493**	**(541)**	**(2)**	**(42)**

Key ratios

Y/e 31 Mar	FY14	FY15E	FY16E	FY17E
Growth matrix (%)				
Revenue growth	18.9	5.4	5.9	12.7
Op profit growth	(6.6)	12.6	14.8	19.6
EBIT growth	2.2	4.0	15.3	20.3
Net profit growth	(50.1)	57.1	102.0	48.2
Profitability ratios (%)				
OPM	7.8	8.3	9.1	9.6
EBIT margin	8.2	8.1	8.8	9.4
Net profit margin	1.0	1.4	2.8	3.6
RoCE	16.2	16.0	19.4	22.7
RoNW	4.2	6.4	11.9	15.5
RoA	0.9	1.3	2.9	4.1
Per share ratios				
EPS	3.9	6.2	12.5	18.5
Dividend per share	0.8	1.1	1.1	1.1
Cash EPS	7.2	9.7	16.3	22.6
Book value per share	94.7	99.6	110.9	128.2
Valuation ratios				
P/E	15.1	9.6	4.7	3.2
P/CEPS	8.2	6.1	3.6	2.6
P/B	0.6	0.6	0.5	0.5
EV/EBIDTA	5.6	4.6	3.6	3.0
Payout (%)				
Dividend payout	23.2	20.3	10.0	6.8
Tax payout	38.1	33.5	33.5	33.5
Liquidity ratios				
Debtor days	306	240	225	210
Inventory days	50	39	38	38
Creditor days	257	188	186	173
Leverage ratios				
Interest coverage	1.2	1.4	1.9	2.4
Net debt / equity	1.2	1.1	0.8	0.7
Net debt / op. profit	3.7	3.0	2.1	1.8

Du-Pont Analysis

Y/e 31 Mar	FY14	FY15E	FY16E	FY17E
Tax burden (x)	0.62	0.67	0.67	0.67
Interest burden (x)	0.19	0.27	0.47	0.58
EBIT margin (x)	0.08	0.08	0.09	0.09
Asset turnover (x)	0.95	0.90	1.04	1.13
Financial leverage (x)	4.60	4.86	4.13	3.77
RoE (%)	**4.2**	**6.4**	**11.9**	**15.5**

Kirloskar Oil Engines

IIFL
INDIA PRIVATE CLIENTS

Well oiled for the run

Kirloskar Oil Engines Ltd (KOEL) is well placed to gain from the country's power deficit situation and an expected economic revival. While the power deficit in the country is expected to improve over the longer term, we believe, it would continue to be strained in the shorter term. On the other hand, industrial activity is expected to see strong revival in the near term. This would lead to strong demand for power gensets, where KOEL is a leading player. With capacity expansion in place KOEL is not only expected to see strong revenue traction but also margin expansion translating into earnings CAGR of 26% during FY14-17E. Considering the robust earnings growth, we find the valuations attractive at P/E of 12.7x FY16E EPS.

Power situation not expected to change materially in the near term

India continues to see power deficit in many states. While the new government, with its superior track record in Gujarat, is expected to improve the situation materially over the longer term, we believe the issues such as fuel availability and land acquisition cannot be solved overnight. On the other hand, industrial activity is expected to pick up in the near term which would cause a surge in demand for gensets. With KOEL having wide range of production capacity from 5kVA to 3,000kVA, it is well placed to service the expected rise in demand.

Agri business demand to recover

Power deficit has a major impact on the agri sector which in turn translates into rise in demand for engines below 20hp. We believe that the new government will lay impetus on improving agricultural productivity leading to marked improvement in demand for engines from the segment. Also KOEL now plans to manufacture agriculture equipments and will start with power tillers. With an established brand in pump sets and engines, KOEL hopes to garner substantial market share. The power tillers market over the past decade has seen a growth of 15-20% per annum, which we expect to sustain over the medium term.

Financial summary

Y/e 31 Mar (Rs m)	FY14	FY15E	FY16E	FY17E
Revenues	23,200	25,740	30,328	35,607
yoy growth (%)	(1.6)	10.9	17.8	17.4
Operating profit	3,044	3,521	4,367	5,302
OPM (%)	13.1	13.7	14.4	14.9
Reported PAT	1,785	2,117	2,718	3,382
yoy growth (%)	(10.3)	18.7	28.4	24.4
EPS (Rs)	12.3	14.6	18.8	23.4
P/E (x)	19.3	16.3	12.7	10.2
Price/Book (x)	2.7	2.5	2.2	1.9
EV/EBITDA (x)	11.2	9.4	7.2	5.6
Debt/Equity (x)	0.0	0.0	0.0	0.0
RoE (%)	14.7	15.9	18.4	20.2
RoCE (%)	19.3	21.0	24.4	26.9

Source: Company, India Infoline Research

Rating:	BUY
Target (2 Years):	**Rs485**
CMP:	**Rs238**
Upside:	**104%**

Sector:	**Capital Goods**
Sector view:	**Neutral**
Sensex:	25,100
52 Week h/l (Rs):	249 / 141
Market cap (Rscr) :	3,450
6m Avg vol ('000Nos):	32
Bloomberg code:	KOEL IB
BSE code:	533293
NSE code:	KIRLOSENG
FV (Rs):	2

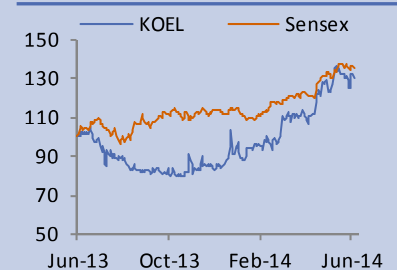
Price as on June 27, 2014

Company rating grid

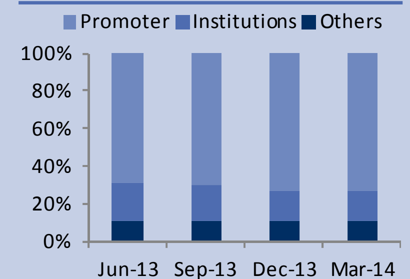
Low → High

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

Share price trend



Share holding pattern



Research Analyst:
Prayesh Jain
research@indiainfoline.com

Consolidation post implementation of CPCB-2 norms to benefit KOEL

The new central pollution control board (CPCB-2) norms for diesel generation sets and engines up to 800 KVA are expected to be introduced in India from July 01, 2014. Post implementation, the prices of engines and gensets are expected to rise by 15-20%, which will lead to pre-buying in Q1 FY15. In the longer run, a consolidation is expected as smaller players would find it difficult to meet the revised parameters which will eventually benefit larger players like KOEL.

A consolidation is expected as smaller players would find it difficult to meet the revised parameters which will eventually benefit larger players like KOEL

Increasing focus on exports

Exports currently account for less than 10% of annual revenues for KOEL. To diversify geographically and reduce cyclicality from the domestic business, KOEL aims to increase its exports by 20% per annum. The markets to which company currently exports include Sri Lanka, Nepal, Tanzania, Zambia, Nigeria, Kenya, Saudia Arabia, and South Africa. The company has set up dealership and distributor network in these countries and plans to increase the same. Post sales service responsibilities are also taken by these dealers and distributors. In the near future, the company expects strong growth from Middle East and Africa. Also in terms of new markets the plans to enter Europe and North American markets.

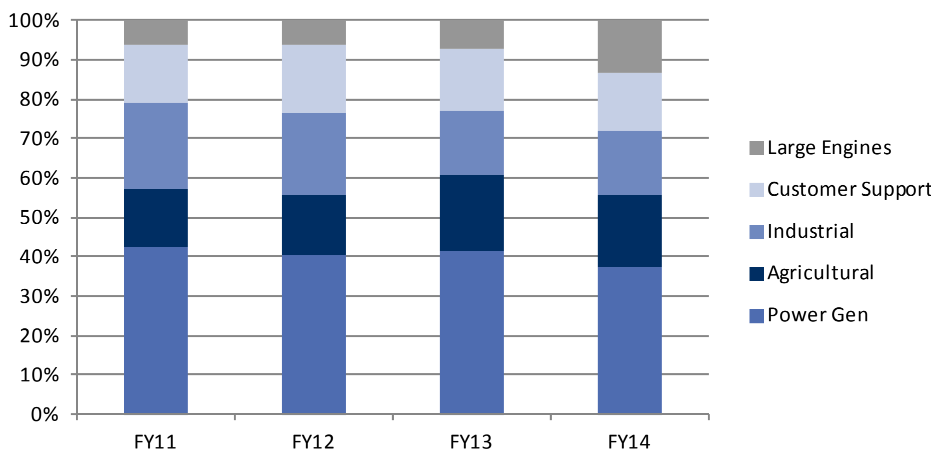
In the near future, the company expects strong growth from Middle East and Africa. Also in terms of new markets the plans to enter Europe and North American markets

Diversified product base reduces earnings cyclicality

In spite of a sharp slowdown in industrial activity in the past couple of years KOEL reported a 1.3% growth in revenues in FY13 and a modest decline of 1.6% in FY14 (much lower than industry decline). This has been possible on the back of a diversified customer profile which includes the power industry, agriculture and allied activities and industrial segment. Also it earns revenues by setting up large engines and providing customer support to existing engine users. Going ahead a broad based economic recovery in India would drive demand from all sectors KOEL operates in.

Going ahead a broad based economic recovery in India would drive demand from all sectors KOEL operates in

Reducing dependence on power sector



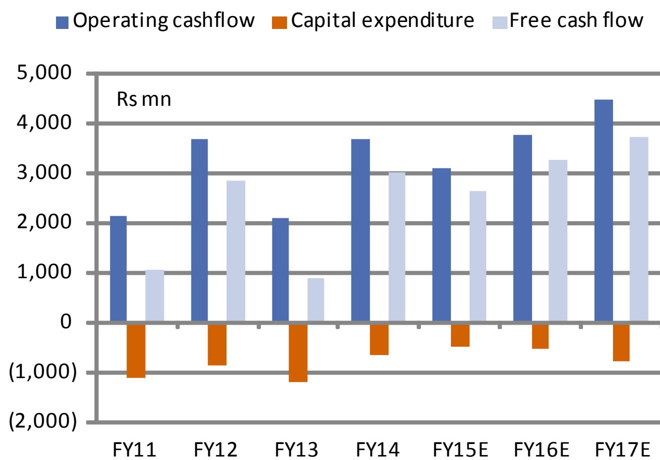
Source: Company, India Infoline Research

Deserves re-rating

KOEL, since its listing in 2010, has been trading in the range of 10x-16x one-year forward P/E. While this was in line with industry, we note here that industry multiples had witnessed a de-rating as weak economic backdrop laid stress on revenues and profitability. In the previous bull cycle, the industry average one year forward P/E range was 15x-20x. With robust outlook for industrial activity, sustained investments in mechanization of agriculture and thrust on infrastructure investments, we see large business opportunities for proxy plays such as KOEL. We expect 15% revenue CAGR for KOEL during FY14-17E. With capacity utilization at 55% at the end of FY14, benefits of operating leverage will cause strong recovery in margins and resultantly a PAT CAGR of 24% during FY14-17E. Given the strong cash flow generation and healthy balance sheet, KOEL will re-rate along with the industry.

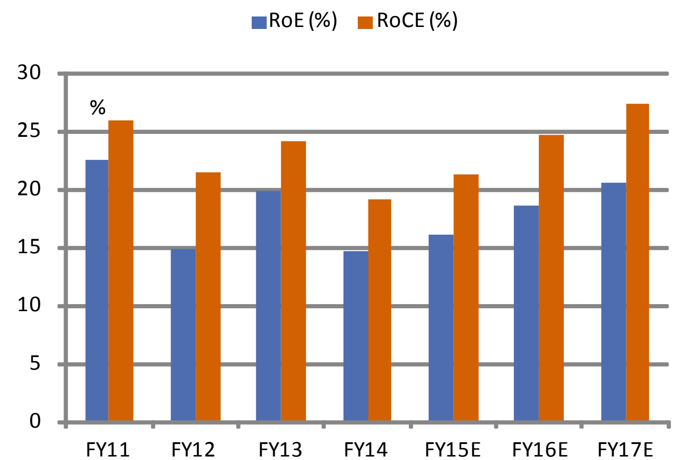
Given the strong cash flow generation and healthy balance sheet, KOEL will re-rate along with the industry

Strong free cash flow generation



Source: Company, India Infoline Research

Improved RoE and RoCE



Source: Company, India Infoline Research

Company Background

Incorporated in 1946, KOEL is the flagship company of the Kirloskar group. It has four state-of-the-art manufacturing units in India. The company also has a sizable presence in international markets, with offices in Dubai, South Africa, and Kenya, and representatives in Nigeria. KOEL also has a strong distribution network throughout the Middle East and Africa. It specializes in the manufacturing of both air-cooled and liquid-cooled diesel engines and generating sets across a wide range of power output from 5kVA to 3000kVA. It also offers engines operating on alternative fuels such as bio-diesel, natural gas, biogas and straight vegetable oil (SVO). KOEL's large engines business group manufactures and markets diesel engines from 2,400 hp to 11,000 hp. The main applications of these engines are captive power plants (base load / critical standby - AMF or black start) and marine main propulsion. In the agriculture market, company sells products to farmers which require products in 3 hp to 130 hp. Products include a variety of diesel pumpsets and agri engines powering more than 25 applications across five sectors. In the industrial engine business group the company supplies 20 hp to 800 hp which find applications in more than 85 segments across seven sectors.

Financials

Income statement

Y/e 31 Mar (Rs m)	FY14	FY15E	FY16E	FY17E
Revenue	23,200	25,740	30,328	35,607
Operating profit	**3,044**	**3,521**	**4,367**	**5,302**
Depreciation	(983)	(1,032)	(1,084)	(1,138)
Interest expense	(4)	-	-	-
Other income	378	400	425	450
Profit before tax	**2,434**	**2,889**	**3,708**	**4,614**
Taxes	(650)	(771)	(990)	(1,232)
Net profit	**1,785**	**2,117**	**2,718**	**3,382**

Balance sheet

Y/e 31 Mar (Rs m)	FY14	FY15E	FY16E	FY17E
Equity capital	289	289	289	289
Reserves	12,383	13,633	15,339	17,565
Net worth	**12,672**	**13,922**	**15,628**	**17,854**
Debt	131	131	131	131
Deferred tax liab (net)	303	303	303	303
Total liabilities	**13,106**	**14,355**	**16,062**	**18,287**
Fixed assets	5,850	5,299	4,716	4,328
Investments	6,077	6,827	7,577	8,327
Net working capital	**655**	**723**	**823**	**936**
Inventories	1,668	1,851	2,181	2,560
Sundry debtors	1,774	1,968	2,319	2,722
Other current assets	2,617	2,878	3,166	3,483
Sundry creditors	(3,124)	(3,466)	(4,084)	(4,795)
Other current liabilities	(2,280)	(2,508)	(2,759)	(3,034)
Cash	524	1,506	2,946	4,697
Total assets	**13,106**	**14,355**	**16,062**	**18,287**

Cash flow statement

Y/e 31 Mar (Rs m)	FY14	FY15E	FY16E	FY17E
Profit before tax	2,434	2,889	3,708	4,614
Depreciation	983	1,032	1,084	1,138
Tax paid	(650)	(771)	(990)	(1,232)
Working capital Δ	921	(68)	(100)	(113)
Operating cashflow	3,689	3,081	3,702	4,407
Capital expenditure	(649)	(482)	(500)	(750)
Free cash flow	**3,040**	**2,599**	**3,202**	**3,657**
Equity raised	68	-	-	-
Investments	(1,901)	(750)	(750)	(750)
Debt financing/disposal	(169)	-	-	-
Dividends paid	(723)	(868)	(1,012)	(1,157)
Other items	(38)	-	-	-
Net Δ in cash	**277**	**982**	**1,440**	**1,751**

Key ratios

Y/e 31 Mar	FY14	FY15E	FY16E	FY17E
Growth matrix (%)				
Revenue growth	(1.6)	10.9	17.8	17.4
Op profit growth	(12.0)	15.7	24.0	21.4
EBIT growth	(16.7)	18.5	28.4	24.4
Net profit growth	(18.1)	18.7	28.4	24.4
Profitability ratios (%)				
OPM	13.1	13.7	14.4	14.9
EBIT margin	10.5	11.2	12.2	13.0
Net profit margin	7.7	8.2	9.0	9.5
RoCE	19.3	21.0	24.4	26.9
RoNW	14.7	15.9	18.4	20.2
RoA	9.9	10.9	12.6	13.8
Per share ratios				
EPS	12.3	14.6	18.8	23.4
Dividend per share	5.0	6.0	7.0	8.0
Cash EPS	19.1	21.8	26.3	31.3
Book value per share	87.6	96.3	108.1	123.5
Valuation ratios				
P/E	19.3	16.3	12.7	10.2
P/CEPS	12.4	10.9	9.1	7.6
P/B	2.7	2.5	2.2	1.9
EV/EBIDTA	11.2	9.4	7.2	5.6
Payout (%)				
Dividend payout	40.5	41.0	37.2	34.2
Tax payout	26.7	26.7	26.7	26.7
Liquidity ratios				
Debtor days	28	28	28	28
Inventory days	30	30	31	31
Creditor days	57	57	57	58

Du-Pont Analysis

Y/e 31 Mar	FY14	FY15E	FY16E	FY17E
Tax burden (x)	0.73	0.73	0.73	0.73
Interest burden (x)	1.00	1.00	1.00	1.00
EBIT margin (x)	0.11	0.11	0.12	0.13
Asset turnover (x)	1.29	1.33	1.40	1.45
Financial leverage (x)	1.48	1.46	1.46	1.46
RoE (%)	**14.7**	**15.9**	**18.4**	**20.2**

LG Balakrishnan & Bros

IIFL
INDIA PRIVATE CLIENTS

Breaking the chains

LG Balakrishnan & Bros (LGB) is a proxy play on the sustained strong momentum (which we expect to continue) in two wheeler sales. LGB will not only benefit from a robust demand recovery from OEMs but will also gain from a potent replacement market. Export growth is expected to improve with increasing two wheeler sales in the emerging economies. With stock trading at a P/E multiple of 7.4x FY16E EPS of Rs120 much lower than the industry average in spite of robust cash flows, a clean balance sheet and an expected 3-year earnings CAGR of 23%, we expect a re-rating in the stock and hence recommend a BUY with a two year price target of Rs1,878.

Proxy play on the two-wheeler industry

LGB is a major supplier of chains to the automotive industry especially the two wheeler segment. In the OEM market, having tie-ups with leading players such as Honda Motors, Bajaj Auto, Hero Motocorp, TVS and Yamaha Motors, LGB is the market leader with a 70% share. Here we see protracted demand growth for LGB as two wheeler sales surge on back of improved economic backdrop. LGB has also established a strong foothold in the replacement market with a 50% market share through its widespread marketing network. This will benefit LGB in the near term as the robust two wheeler sales (especially scooters) in the past couple of years will translate into strong replacement demand.

Diversifying in other segments

While LGB is the market leader in supply of chains to the two wheeler industry, it has presence in other automotive segments such as passenger cars, LCVs, three wheelers and tractors. The key products it supplies to these segments are cogged belts, timing belts and Poly V belts. Also it has forging and machining operations, which can be extended to other products. It supplies break shoes for mopeds, scooters and motorcycles as well. This would bode well for the company as we see broad based recovery for the domestic automotive sector in India.

Financial summary

Y/e 31 Mar (Rs m)	FY14	FY15E	FY16E	FY17E
Revenues	11,086	12,784	14,889	17,569
yoy growth (%)	15.9	15.3	16.5	18.0
Operating profit	1,261	1,510	1,795	2,188
OPM (%)	11.4	11.8	12.1	12.5
Reported PAT	627	788	943	1,167
yoy growth (%)	91.6	25.7	19.6	23.8
EPS (Rs)	79.9	100.4	120.1	148.7
P/E (x)	11.0	8.8	7.4	5.9
Price/Book (x)	2.2	1.8	1.5	1.2
EV/EBITDA (x)	6.5	5.3	4.4	3.4
Debt/Equity (x)	0.4	0.3	0.3	0.2
RoE (%)	22.1	23.0	22.7	23.1
RoCE (%)	22.0	23.6	24.7	26.5

Source: Company, India Infoline Research

Rating:	BUY
Target (2 Years):	**Rs1,878**
CMP:	**Rs883**
Upside:	**113%**

Sector:	**Auto Ancillary**
Sector view:	**Positive**
Sensex:	25,100
52 Week h/l (Rs):	905 / 152
Market cap (Rscr) :	693
6m Avg vol ('000Nos):	24
Bloomberg code:	LGBB IB
BSE code:	500250
NSE code:	LGBBROSLTD
FV (Rs):	10

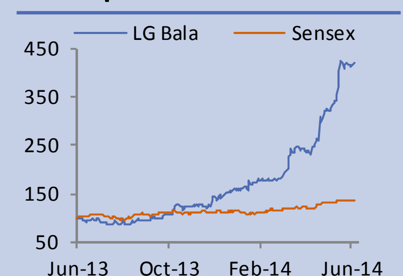
Price as on June 27, 2014

Company rating grid

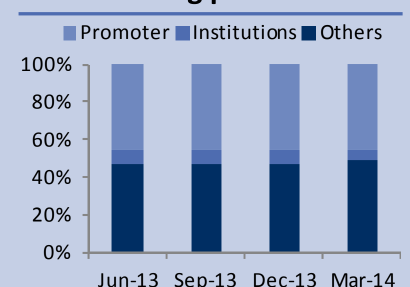
Low → High

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

Share price trend

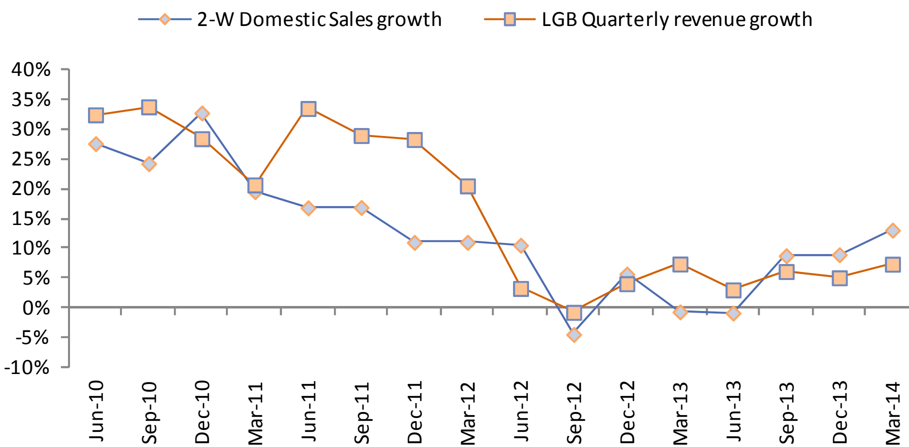


Share holding pattern



Research Analyst:
Prayesh Jain
research@indiainfoline.com

Strong correlation of LGB revenues with domestic 2-W sales



Source: SIAM, Company, India Infoline Research

Large export opportunities

Exports accounted for just 10% of the standalone revenues in FY13. To strengthen its position in international markets, LGB in FY13 acquired 100% stake in GFM Corporation, USA through its 70% subsidiary LGB USA INC. For FY12, GFM had posted a revenue of US$15mn for which LGB paid a sum of US$5.5mn. GFM will add new products (precision metal stampings) and new markets (USA) to LGB's existing international portfolio. Also it is yet to enter major two wheeler markets in the emerging economies which have seen strong presence of Indian OEMs like Bajaj Auto and TVS Motors.

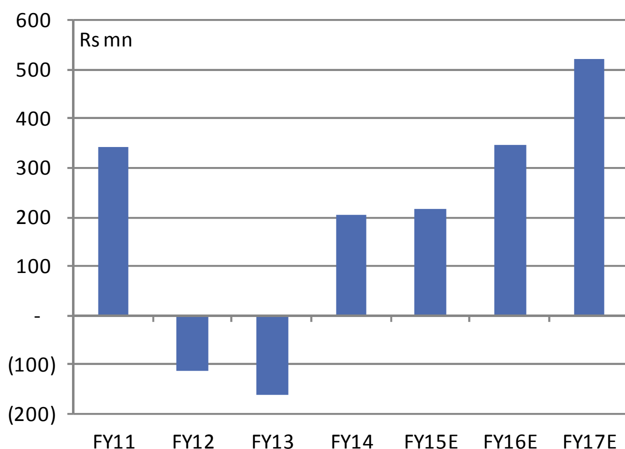
LGB is yet to enter major two wheeler markets in the emerging economies which have seen strong presence of Indian OEMs like Bajaj Auto and TVS Motors

Vertically integrated operations

LGB has the advantage of vertical integration in all its product lines. Right from procurement of the raw material to the finished product, LGB has installed comprehensive quality check cycles. Furthermore, to maintain control over quality standards LGB has built facilities for manufacturing of all critical components in-house. This includes a steel rolling division to produce cold rolled steel strips, wires and strips with profiles. LGB's tooling division is equipped with sophisticated CNC wire cutting, spark erosion and Mikron CNC Boring machines for precision and complicated machining. This not only helps the company to customize products as per the OEM requirements but also aids in Just in Time delivery leading to comfortable working capital requirements.

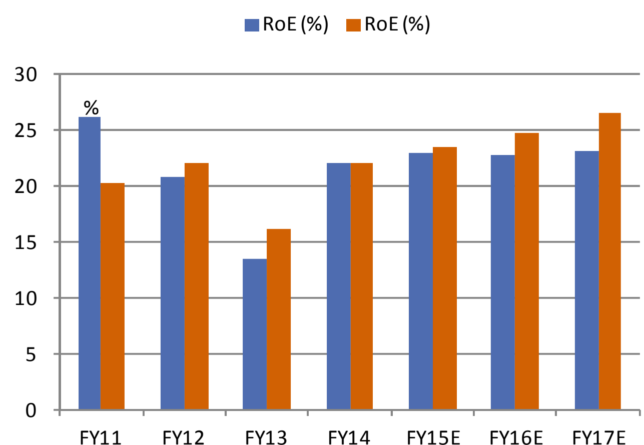
Right from procurement of the raw material to the finished product, LGB has installed comprehensive quality check cycles and has capacity to manufacture all major components

Strong free cash flow generation



Source: Company, India Infoline Research

Improved RoE and RoCE



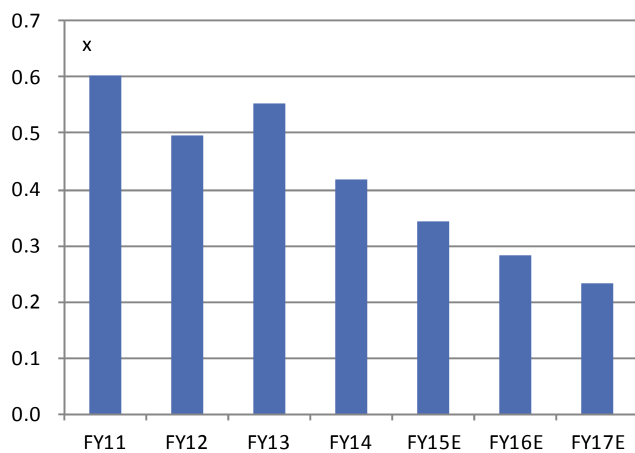
Source: Company, India Infoline Research

Robust financials and attractive valuations

LGB over the years has seen sustained growth in revenues, at times better than two-wheeler industry growth. In FY13, when revenue growth was soft at 4.8% yoy margins shrunk 210bps. However, with strong recovery in revenues, margins were back to FY12 levels in FY14. We expect the revenue growth to remain strong given our belief of a strong recovery in two wheeler sales growth led by scooters over the next 3-5 years which will also translate into robust margin expansion for LGB. The company on back of strong cash flows has built a healthy balance sheet with D/E of 0.4x at the end of FY14. In spite of robust fundamentals and outstanding growth prospects the stock trades at a substantial discount to the average valuation parameters of domestic auto ancillary players. We believe this discount will narrow down over the next couple of years leading to near doubling of the stock price.

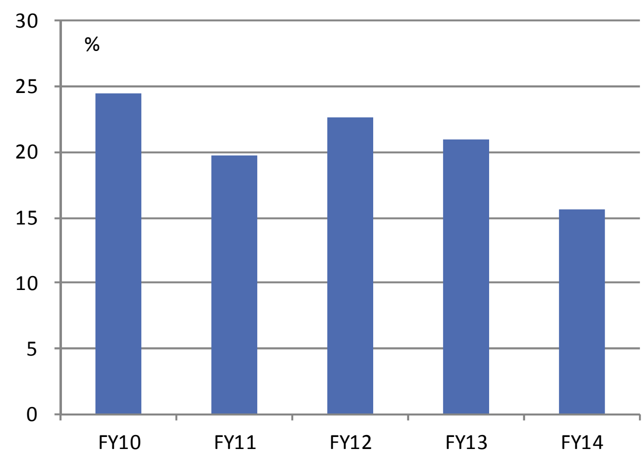
In spite of robust fundamentals and outstanding growth prospects the stock trades at a substantial discount to the average valuation parameters of domestic auto ancillary players

Sustained improvement in D/E



Source: Company, India Infoline Research

Steady dividend payout track record



Source: Company, India Infoline Research

Company Background

LGB was incorporated as a private limited company in March 1956 and was converted into a public limited company in January 1975. The company is part of the Elgi Group and was promoted by Late L G Varadarajulu and B Vijaykumar. The company is a roller chain manufacturer. It manufactures both automotive and industrial chains like motorcycle and moped chains, heavy duty chains, timing chains and automotive kits. The products are marketed under the brand name 'Rolon'. The company also does metal forming, which includes fine blanking, rolled strips & profiles, hot & cold forging and precision machine parts. The company has 17 chain manufacturing plants, all ISO 9001 certified by Underwriters Laboratories Inc., USA. Three of the manufacturing facilities along with the central functions have been registered to ISO/TS 16949 by UL, USA.

Financials

Income statement

Y/e 31 Mar (Rs m)	FY14	FY15E	FY16E	FY17E
Revenue	11,086	12,784	14,889	17,569
Operating profit	**1,261**	**1,510**	**1,795**	**2,188**
Depreciation	(328)	(383)	(432)	(481)
Interest expense	(179)	(179)	(179)	(179)
Other income	46	50	55	60
Profit before tax	**800**	**998**	**1,240**	**1,589**
Taxes	(149)	(186)	(273)	(397)
Minorities and other	(24)	(24)	(24)	(24)
Net profit	**627**	**788**	**943**	**1,167**

Balance sheet

Y/e 31 Mar (Rs m)	FY14	FY15E	FY16E	FY17E
Equity capital	78	78	78	78
Reserves	3,011	3,676	4,472	5,476
Net worth	**3,089**	**3,755**	**4,551**	**5,554**
Minority interest	97	121	145	169
Debt	1,295	1,295	1,295	1,295
Deferred tax liab (net)	170	170	170	170
Total liabilities	**4,651**	**5,341**	**6,161**	**7,189**
Fixed assets	2,638	2,955	3,224	3,443
Investments	182	182	182	182
Net working capital	**1,766**	**2,046**	**2,396**	**2,847**
Inventories	2,075	2,393	2,787	3,289
Sundry debtors	1,461	1,685	1,962	2,315
Other current assets	480	550	632	725
Sundry creditors	(1,464)	(1,688)	(1,966)	(2,320)
Other current liabilities	(786)	(894)	(1,019)	(1,162)
Cash	65	157	359	716
Total assets	**4,651**	**5,341**	**6,161**	**7,189**

Cash flow statement

Y/e 31 Mar (Rs m)	FY14	FY15E	FY16E	FY17E
Profit before tax	800	998	1,240	1,589
Depreciation	328	383	432	481
Tax paid	(149)	(186)	(273)	(397)
Working capital Δ	(122)	(280)	(350)	(451)
Operating cashflow	857	915	1,048	1,221
Capital expenditure	(653)	(700)	(700)	(700)
Free cash flow	**204**	**215**	**348**	**521**
Equity raised	(24)	-	-	-
Investments	5	-	-	-
Debt financing/disposal	(133)	-	-	-
Dividends paid	(98)	(123)	(147)	(163)
Other items	9	-	-	-
Net Δ in cash	**(38)**	**93**	**201**	**357**

Key ratios

Y/e 31 Mar	FY14	FY15E	FY16E	FY17E
Growth matrix (%)				
Revenue growth	15.9	15.3	16.5	18.0
Op profit growth	41.2	19.7	18.9	21.9
EBIT growth	54.8	20.2	20.5	24.6
Net profit growth	91.6	25.7	19.6	23.8
Profitability ratios (%)				
OPM	11.4	11.8	12.1	12.5
EBIT margin	8.8	9.2	9.5	10.1
Net profit margin	5.7	6.2	6.3	6.6
RoCE	22.0	23.6	24.7	26.5
RoNW	22.1	23.0	22.7	23.1
RoA	9.6	10.6	11.0	11.8
Per share ratios				
EPS	79.9	100.4	120.1	148.7
Dividend per share	12.0	15.0	18.0	20.0
Cash EPS	121.7	149.2	175.1	209.9
Book value per share	393.6	478.5	579.8	707.7
Valuation ratios				
P/E	11.0	8.8	7.4	5.9
P/CEPS	7.3	5.9	5.0	4.2
P/B	2.2	1.8	1.5	1.2
EV/EBIDTA	6.5	5.3	4.4	3.4
Payout (%)				
Dividend payout	15.6	15.5	15.6	14.0
Tax payout	18.6	18.6	22.0	25.0
Liquidity ratios				
Debtor days	48	48	48	48
Inventory days	77	77	78	78
Creditor days	54	55	55	55
Leverage ratios				
Interest coverage	5.5	6.6	7.9	9.9
Net debt / equity	0.4	0.3	0.2	0.1
Net debt / op. profit	1.0	0.8	0.5	0.3

Du-Pont Analysis

Y/e 31 Mar	FY14	FY15E	FY16E	FY17E
Tax burden (x)	0.78	0.79	0.76	0.73
Interest burden (x)	0.82	0.85	0.87	0.90
EBIT margin (x)	0.09	0.09	0.10	0.10
Asset turnover (x)	1.69	1.72	1.74	1.77
Financial leverage (x)	2.31	2.17	2.06	1.96
RoE (%)	**22.1**	**23.0**	**22.7**	**23.1**

Magma Fincorp Ltd.

IIFL
INDIA PRIVATE CLIENTS

Rating:	BUY
Target (2 Years):	Rs198
CMP:	Rs98
Upside:	102.7%

Well positioned for better times

Magma Fincorp has done a commendable job of diversifying and de-risking its AUM through portfolio re-balancing and new product additions over the past couple of years. With signs of revival in vehicle sales and renouncement of self imposed caution in CV and CE segments, the disbursement growth is set to improve from the current year. A strong recovery in asset growth should follow from FY16. NIM is set to expand further on the back of persistent improvement in spreads, higher recognition of securitization income and NPLs upgradation/recovery. Operating leverage benefits would manifest in sharp decline in cost/income ratio. The improvement in collection efficiency in recent months indicate that NPL stress is stabilizing; so credit cost is likely to come-off significantly as collections improve further. Driven by cyclical and structural levers, RoA will improve from current sub-optimal 1.2% to healthy 2.2% by FY17. Consequently, we expect a sharp valuation recovery in the medium term.

Impressive execution on asset mix diversification

Magma Fincorp is a mid-size NBFCs with an AUM of Rs17.9bn at the end of FY14. Over the past two years, company has diversified its loan assets through 1) portfolio re-balancing - de-emphasizing CV and CE financing and focusing on tractors and used assets financing 2) new product additions - mortgages and gold loans. Currently, no product constitutes more than 30% of company's AUM and regionally, no state contributes more than 10%. Magma focuses essentially on the rural and semi-rural markets and has ~70% of its 274 branches in these areas. Key product mix trends over FY12-14 have been 1) share of CV and CE portfolio has substantially declined from 53% to 27% 2) contribution of tractor financing and used assets financing (~60% is used CVs) has increased from 16% to 27% 3) mortgages comprise 9% of the book post acquisition of GE's portfolio towards the end of FY13. While steep slowdown in industrial activity and rural consumption has moderated Magma's AUM growth (~16-17% organic CAGR over FY12-14), management's well-executed effort towards diversifying and de-risking AUM is highly laudable.

Financial summary

Y/e 31 Mar (Rs m)	FY14	FY15E	FY16E	FY17E
Total operating income	9,403	11,659	14,522	18,307
Yoy growth (%)	21.3	24.0	24.6	26.1
Operating profit (pre-provisions)	3,818	5,124	6,843	9,169
Net profit	1,518	2,403	3,466	4,664
yoy growth (%)	9.8	58.3	44.2	34.6
EPS (Rs)	8.0	12.6	14.4	19.4
Adj. BVPS (Rs)	61.8	71.4	95.7	110.0
P/E (x)	12.2	7.7	6.2	4.6
P/Adj.BV (x)	1.6	1.4	0.9	0.8
ROE (%)	9.3	13.8	15.1	15.8
ROA (%)	1.2	1.7	2.1	2.2
CAR (%)	16.6	16.9	19.7	17.8

Source: Company, India Infoline Research

Sector:	Financials
Sector view:	Positive
Sensex:	25,100
52 Week h/l (Rs):	117/62
Market cap (Rscr) :	1,857
6m Avg vol ('000Nos):	175
Bloomberg code:	MGMA IN
BSE code:	524000
NSE code:	MAGMA
FV (Rs):	2

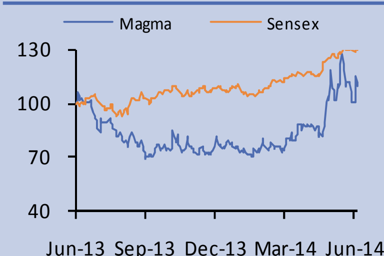
Price as on June 27, 2014

Company rating grid

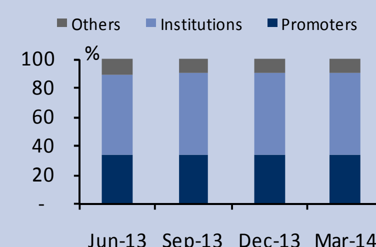
Low → High

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

Share price trend



Share holding pattern



Research Analyst:
Rajiv Mehta
research@indiainfoline.com

AUM to grow by 20% pa over FY14-17

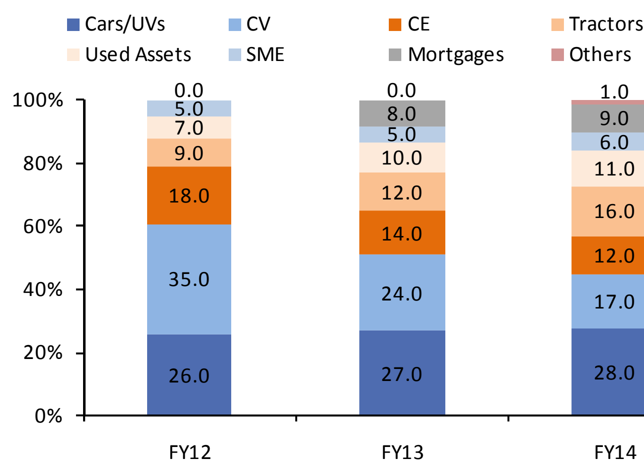
Though disbursement growth in tractor and SME financing is expected to sharply moderate, overall disbursement growth for the year would still be much higher than FY14 at 13-14% on account of improving trends in CV, CE and Car/UV financing and sustained robust growth in mortgages. After purposely running-down the CV and CE portfolio since FY12, company now intends to retain their current contribution in AUM. While the company believes that poor monsoons would have little impact on tractor sales, the deceleration in tractor financing book will largely be on account of higher base (portfolio grew by 47% in FY14). Given the unsecured nature of SME book, Magma intends to grow it slowly from here on. AUM growth in FY15 is likely to be only slightly better than FY14 at 12% impacted by subdued disbursement growth in preceding 12-15 months. However, it should accelerate quite significantly from FY16 on the back of a reasonably strong economic recovery. Over FY14-17, we estimate Magma to record a disbursement and asset growth of 24% pa and 20% pa respectively. Given modest Tier-1 capital at 11.5% and RoE of 10% currently, company will need to raise equity capital in early FY16.

Disbursement growth for the year would still be much higher than FY14 at 13-14%

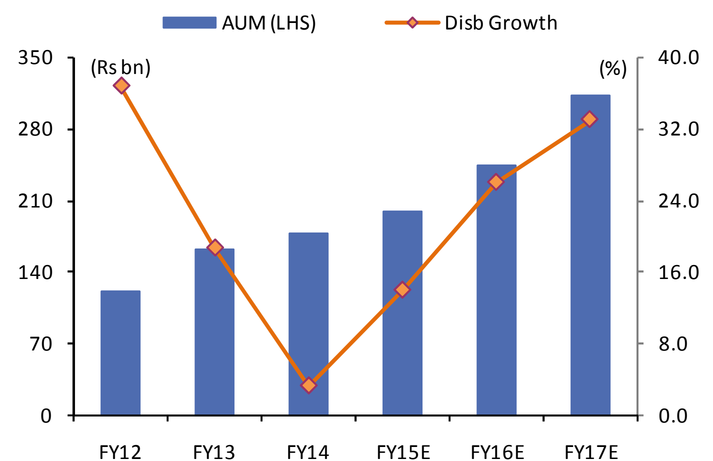
AUM growth in FY15 is likely to be only slightly better than FY14 at 12%

Over FY14-17, estimate disbursement and asset growth of 24% pa and 20% pa respectively

Diversification and de-risking of AUM



Asset growth to accelerate from FY16



Source: Company, India Infoline Research

NIM and cost/income to improve substantially

Notwithstanding the increase in borrowing cost, Magma's net interest spread (NIS) improved significantly over the past two years aided by shift in product mix and customer mix. As mentioned before, the share of CV and CE financing has fallen dramatically where average lending yields are 15-15.5% and 13-14% respectively, whereas the contribution of tractor and used assets financing has increased where average lending yields are 19-20% and 18-19% respectively. Company has also been successful in optimizing the customer mix in CV financing business by incrementally focusing on SRTOs and FTBs where yields are ~2% higher as compared to large fleet operators. Magma expects NIS to improve further from 5.8% in FY14 to 6.3% in FY15 and 6.5% in FY16 aided by 1) continued product mix shift 2) running down of low yielding loans disbursed 3-4 years back and 3) softening of borrowing cost from end FY15. Expansion in spreads, higher recognition of income on securitized portfolio (recognized on cash basis, currently suppressed by weak collections) and NPLs upgradation/recovery would drive a more dramatic improvement in NIMs (~100bps over FY14-16). NII would witness a strong 25% CAGR over FY14-17.

NIS improved significantly over the past two years aided by shift in product mix and customer mix

Magma expects NIS to improve further from 5.8% in FY14 to 6.3% in FY15 and 6.5% in FY16

On the cost side, opex growth stood at 20% in FY14 despite no addition to the branch network as it largely driven by intensification of recovery efforts amid challenging collections environment. While focus on recoveries will continue in the medium term, robust income growth and improvement in branch productivity should drive a significant decline in the cost/income ratio. We estimate the ratio to fall to 50% by FY17 from 59% in FY14.

Cost/income ratio to fall to 50% by FY17 from 59% in FY14

Asset quality has seen the worst; credit cost to moderate

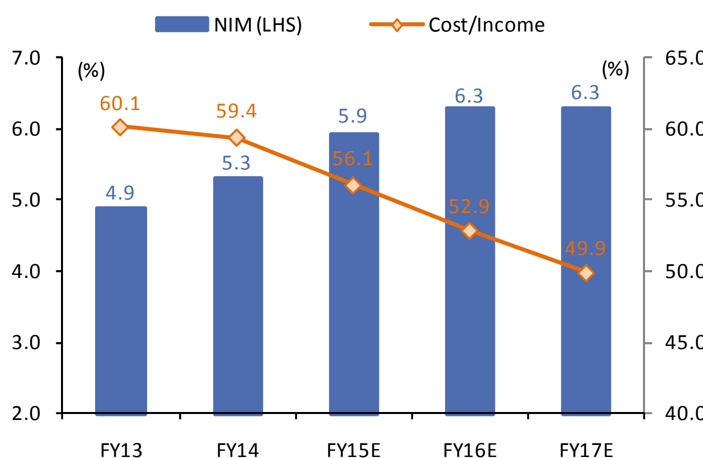
During FY14, Magma's asset quality deteriorated substantially with GNPLs reaching 3.6%. The collection efficiency declined from 98%+ in FY13 to 95.7% in FY14. However, after touching a low 94% during Q2 CY13, it has improved to 97-98% in recent months leading to stabilization of gross NPL levels. Company follows an aggressive NPL recognition policy of 120 dpd as against RBI regulated 180dpd which is followed by peers. This not only leads to higher reported NPLs (gross NPLs at 2.7% as per RBI norms) but also depresses income due to associated interest de-recognition. Magma also wrote-off Rs1bn worth of NPLs during in the previous year thus further pushing credit cost to 108bps as against 68bps in FY13. As economic activity recovers from H2 FY15, collection efficiency should gradually improve towards 100% thus driving a cycle of upgradation/recoveries and low fresh accruals. Gross NPL levels, as a result, are expected to decline to 2.8% by FY17. This along with lower write-offs should lead to a material decline in credit cost.

Collection efficiency has improved in recent months leading to stabilization of gross NPL levels

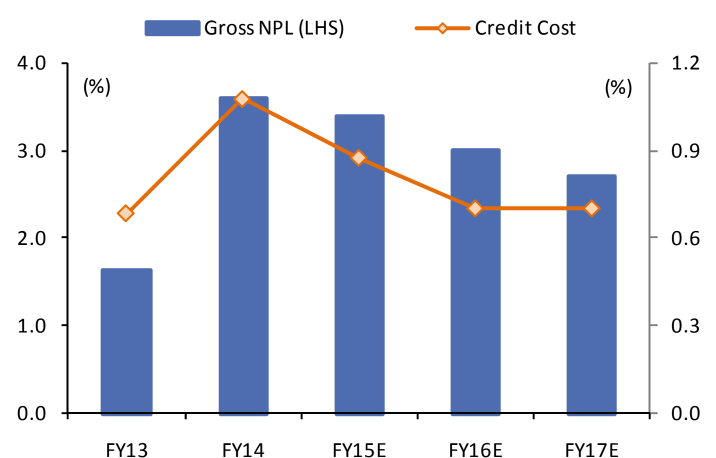
Gross NPL levels are expected to decline to 2.8% by FY17.

Expect a material decline in credit cost.

NIM and cost metric to improve sharply



NPLs and credit cost have peaked out



Source: Company, India Infoline Research

Profitability to recover sharply thus pushing valuation higher

A lethal combination of improving asset growth, significant NIM expansion, decline in cost/income ratio and moderating credit cost would drive a handsome 45% CAGR in Magma's earnings growth over FY14-17. Thus RoA would improve from the current sub-optimal level of 1.2% to healthy 2.2% by FY17. RoE is estimated to improve from sub-10% to 16%. So we expect a sharp recovery in valuation from 0.8x to 1.7x FY17 P/ABV over the next two years. Consequently, we believe that Magma can deliver more than 100% return over the coming 24 months.

Earnings growth to witness 45% CAGR over FY14-17

RoA to improve healthy 2.2% by FY17

Financials

Income statement

Y/e 31 Mar (Rs mn)	FY14	FY15E	FY16E	FY17E
Income from Operatns	20,813	23,878	28,450	35,229
Interest expense	(11,771)	(12,653)	(14,491)	(17,711)
Net interest income	**9,042**	**11,226**	**13,959**	**17,518**
Non-interest income	361	433	563	789
Total op income	**9,403**	**11,659**	**14,522**	**18,307**
Total op expenses	(5,586)	(6,535)	(7,679)	(9,138)
Op profit (pre-prov)	**3,818**	**5,124**	**6,843**	**9,169**
Provisions	(1,839)	(1,658)	(1,556)	(1,949)
Profit before tax	**1,979**	**3,465**	**5,287**	**7,219**
Taxes	(381)	(936)	(1,639)	(2,310)
Minority Interest	(78)	(126)	(182)	(245)
Net profit	**1,521**	**2,403**	**3,466**	**4,664**

Balance sheet

Y/e 31 Mar (Rs mn)	FY14	FY15E	FY16E	FY17E
Equity Capital	380	380	480	480
Reserves	16,156	17,936	26,987	31,061
Shareholder's funds	**16,536**	**18,316**	**27,467**	**31,541**
Minority interest	**332**	**398**	**498**	**623**
Long-term borrow	32,189	36,374	44,376	57,689
Deferred Tax liab	285	313	344	379
Long term provi	1,568	1,725	1,898	2,088
Total non-curr liab	**34,042**	**38,412**	**46,618**	**60,155**
Short Term Borrow	52,328	59,130	72,139	93,781
Trade payables	2,705	2,975	3,273	3,600
Other current liab	24,581	27,776	33,887	44,054
Short term prov	1,258	1,447	1,663	1,913
Total current liab	**80,871**	**91,329**	**110,963**	**143,347**
Equity + Liab	**131,782**	**148,456**	**185,546**	**235,666**
Fixed Assets	1,980	2,079	2,287	2,515
Non-current inv	2,920	2,920	2,920	2,920
Long-term loans/adv	74,117	83,752	104,690	136,097
Other non-curr asset	1,769	1,946	2,141	2,355
Total non-curr asset	**80,786**	**90,697**	**112,038**	**143,888**
Current investments	1,099	1,209	1,813	1,250
Trade receivables	155	171	188	207
Cash and cash equiv	8,266	9,512	12,923	14,163
Short-term loans	40,273	45,508	56,886	73,951
Other current assets	1,202	1,359	1,698	2,208
Total Current assets	**50,995**	**57,759**	**73,508**	**91,778**
Total Assets	**131,782**	**148,456**	**185,546**	**235,666**

Key ratios

Y/e 31 Mar	FY14	FY15E	FY16E	FY17E
Growth matrix (%)				
Net interest income	31.2	24.1	24.3	25.5
Total op income	21.3	24.0	24.6	26.1
Op profit (pre-prov)	23.5	34.2	33.6	34.0
Net profit	10.0	58.0	44.2	34.6
Advances	3.4	13.1	24.8	30.6
Borrowings	(0.9)	13.0	22.0	30.0
Total assets	0.5	12.7	25.0	27.0
Profitability Ratios (%)				
NIM	5.3	5.9	6.3	6.3
Non-int inc/Total inc	3.8	3.7	3.9	4.3
Return on Avg Equity	9.3	13.8	15.1	15.8
Return on Avg Assets	1.2	1.7	2.1	2.2
Per share ratios (Rs)				
EPS	8.0	12.6	14.4	19.4
Adj.BVPS	61.8	71.4	95.7	110.0
DPS	1.0	1.4	1.6	2.1
Valuation ratios (x)				
P/E	12.2	7.7	6.2	4.6
P/Adj.BVPS	1.6	1.4	0.9	0.8
Other key ratios (%)				
Loans/Borrowings	104.1	104.2	106.6	107.1
Cost/Income	59.4	56.1	52.9	49.9
CAR	16.6	16.9	19.7	17.8
Tier-I capital	11.5	11.7	14.7	13.0
Gross NPLs/Loans	3.6	3.4	3.0	2.7
Credit Cost	1.1	0.9	0.7	0.7
Net NPLs/Net loans	2.9	2.7	2.3	2.0
Tax rate	19.2	27.0	31.0	32.0
Dividend yield	1.1	1.5	1.7	2.3

PTC India Fin Services Ltd.

IIFL INDIA PRIVATE CLIENTS

Set for a rapid growth

PTC India Financial Services Ltd (PFS) is a niche play on revival in power capex. Under the new reform-oriented government, the policy environment for power sector is expected to improve distinctly. Since inception, PFS has witnessed rapid expansion in its loan book. With huge sanctions in place and likely improvement in project execution as well as pipeline, company is on course to triple its loan book by FY17. As funding cost is expected to trend down, NIM will be comfortably sustained at higher levels of 6-6.5%. Though loan book is unseasoned, it is likely to behave well in an improving environment. With PFS estimated to deliver average RoA and RoE of 3.3% and 19% respectively over FY14-17, current valuation of 0.9x FY17 P/ABV is extremely attractive.

Loan book in a sweet spot… to grow 3x by FY17

Notwithstanding the investment cycle freeze in Indian power sector, PFS grew its loan book by nearly 4x over the past two years albeit on a very small base. Apart from a strong positioning in renewable energy segment, focus on funding energy value chain activities enabled PFS to grow strongly when thermal power activity had slowed down. Renewable energy generation projects (80%+ is wind energy) and energy value chain funding currently comprise 35% and 21% of loan assets respectively.

PFS has robust visibility to sustain rapid growth in the coming years; outstanding sanctions stand at Rs103bn (2x of loan assets). Company also periodically reviews viability of sanctions; for instance, it cancelled sanctions worth Rs20-25bn during FY14 due to lack of progress in developmental activity. So the management is pretty confident about draw downs from the current outstanding sanctions. Company is also hopeful that sanction pipeline would start building quickly in thermal and hydro segment once the new government addresses issues related to land acquisition, environment/forest clearances and fuel linkages. Investment activity in the renewable energy segment continues to move smoothly due to far lesser regulatory hiccups. PFS is also looking at funding other types of infra projects.

Financial summary

Y/e 31 Mar (Rs m)	FY14	FY15E	FY16E	FY17E
Total operating income	2,430	3,973	5,722	7,988
Yoy growth (%)	35.1	63.5	44.0	39.6
Operating profit (pre-provisions)	2,192	3,652	5,241	7,315
Exceptional Item	822	0	0	0
Net profit	2,077	2,210	3,221	4,543
yoy growth (%)	99.4	6.4	45.8	41.0
EPS (Rs)	3.7	3.9	5.7	8.1
Adj. BVPS (Rs)	24.0	26.5	30.5	36.2
P/E (x)	8.5	8.0	5.5	3.9
P/Adj.BV (x)	1.3	1.2	1.0	0.9
ROE (%)	16.1	15.4	19.5	23.2
ROA (%)	5.0	3.3	3.4	3.4
CAR (%)	25.2	19.5	17.2	16.1

Source: Company, India Infoline Research

Rating:	BUY
Target (2 years):	**Rs65**
CMP:	**Rs32**
Upside:	**103.1%**

Sector:	Financials
Sector view:	Positive
Sensex:	25,100
52 Week h/l (Rs):	36/9.5
Market cap (Rscr) :	1,773
6m Avg vol ('000Nos):	4,978
Bloomberg code:	PTCIF
BSE code:	533344
NSE code:	PFS
FV (Rs):	10

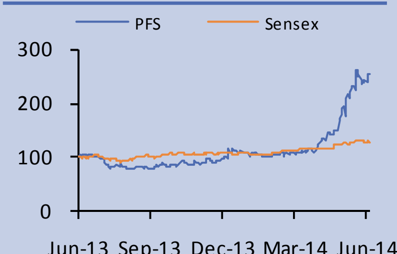
Price as on June 27, 2014

Company rating grid

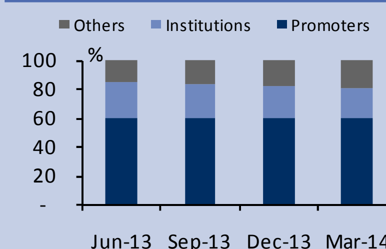
Low → High

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

Share price trend



Share holding pattern



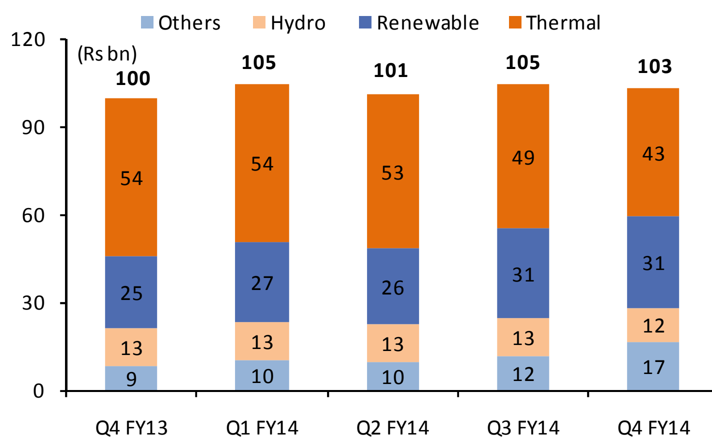
Research Analyst:
Rajiv Mehta
research@indiainfoline.com

PFS witnessed an acceleration in disbursement growth during FY14 (Rs30.7bn, up 130% yoy) as many of the sanctioned projects achieved developmental milestones. Given huge sanctions in place, company is fairly confident of disbursing a higher amount in the current year. With sanction pipeline likely to increase as overall power/infra investments improve, the disbursement growth is estimated to remain strong in the longer term also. So in all likelihood, PFS's loan book would continue to grow at rapid pace. We estimate its loan assets to increase to ~Rs150bn by FY17 (nearly 3x the current size) representing a robust CAGR of 44%.

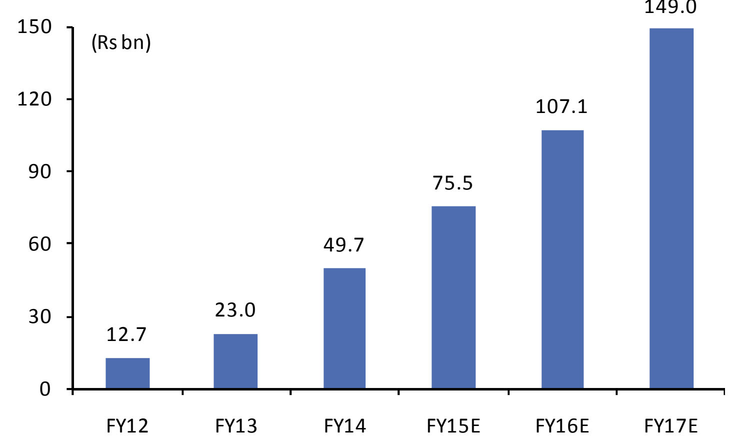
Given huge sanctions in place, company is confident of disbursing a higher amount in the current year

Estimate loan assets to increase to ~Rs150bn by FY17, nearly 3x the current size

Outstanding sanctions at 2x loan assets



Loan book to grow 3x in three years



Source: Company, India Infoline Research

NIM to remain comfortably above 6%

PFS has been earning handsome spreads and NIMs of 4.5% and 6.8% respectively. Lending yield is generally at 13-14% across various types of generation projects and for energy value chain activities it is 15%+. With average duration of loans at about 10 years, PFS tries to run a fairly matched liability profile. Of total borrowings, 50% is long term (8-10 years) loans from banks, 11-12% is ECBs and the rest is largely short term loans from banks. Bank borrowings are near Base Rate and are floating in nature. The projects loans disbursed by company are also at floating rate so that any increase in funding cost is passed on without much lag.

Earns handsome spreads and NIMs of 4.5% and 6.8% respectively

In our view, company's NIM would comfortably remain above 6% over FY14-17 aided by 1) gradually decline in the cost of bank borrowings as Base Rates start moving lower and 2) shift in borrowing mix towards relatively cheaper non-bank sources viz ECBs, long term loans from domestic and global DFIs and CPs. Further, PFS has applied for being classified as a Public Financial Institution which will give access to long-term insurance and pension money at 8-9%.

NIM to remain above 6% over FY14-17 aided by decline in cost of bank borrowings and shift in mix towards cheaper non-bank sources

Perceptible stress on asset quality to moderate

Given that PFS has a recently grown (unseasoned) loan book, the asset quality so far has remained spotless with negligible Gross NPLs. Execution on most loans has been running smoothly and almost all loans are serving interest/repayments on time. Of the generation loans (80% of book), 50% of projects are currently operational and the rest 50% is scheduled to get commissioned by FY16.

Of generation loans, 50% of projects are currently operational and the rest will get commissioned by FY16

As a measure of prudence, PFS does not act as a sole lender even in smaller generation projects. Further, land acquisition and various other clearances are generally a pre-condition before sanctioning of a loan. PFS's current loan book comprises of 70-72 projects implying an individual project exposure of Rs700mn on an average, which is about 5% of networth. This is a risk which is inherent in this business and therefore detailed loan appraisal and periodic evaluation are of paramount importance.

Individual project exposure at Rs700mn on an average, ~5% of networth

As per the management, a gas based power project in the Andhra region is under stress where company has an exposure of ~Rs1bn. It is currently classified as a standard asset by PFS and other lending banks as it has been serving its commitments albeit with a lag. Company has started to proactively provide against this exposure and has cumulative provisions of ~5% as compared to 0.5% provisioning held for other standard assets. Apart from this, we do not envisage any substantial delinquencies to come through as the policy environment is expected to significantly improve for the power sector.

Do not envisage any substantial delinquencies as the policy environment is expected to significantly improve

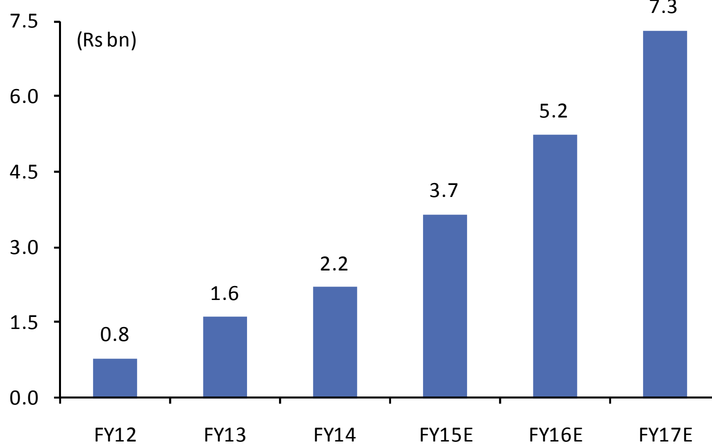
Robust earnings growth + superior RoE + compelling valuation

On the back of strong growth in loan book, PFS is estimated to deliver robust 50% CAGR in pre-exceptional PBT. With no visible threat to profitability, RoA will remain in an impressive band of 3.2-3.5% and driven by improvement in leverage, RoE would increase to 18-20%. While PFS is well-capitalized (Tier-1 capital at 24%) for robust balance sheet growth in FY15, it would need to raise capital by early next fiscal to sustain its growth momentum. For a company poised to deliver rapid earnings growth and superior return ratios, valuation of 0.9x FY17 P/ABV is extremely attractive. We believe PFS's valuation will re-rate towards 2x FY17 P/ABV over the coming two years and therefore expect the stock to deliver more than 100% return over the aforesaid time.

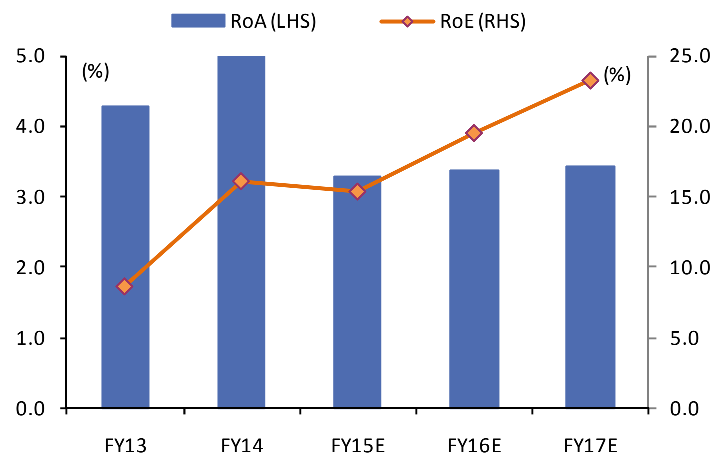
Estimated to deliver robust 50% CAGR in pre-exceptional PBT

Valuation will re-rate towards 2x FY17 P/ABV over the coming two years

Pre-except PBT to witness 50% CAGR over FY14-17



Return ratios to remain robust



Source: Company, India Infoline Research

Financials

Income statement

Y/e 31 Mar (Rs mn)	FY14	FY15E	FY16E	FY17E
Income from Operatns	4,639	8,052	11,648	16,212
Interest expense	(2,210)	(4,079)	(5,926)	(8,223)
Net interest income	**2,430**	**3,972**	**5,722**	**7,988**
Total op income	**2,430**	**3,973**	**5,722**	**7,988**
Total op expenses	(238)	(321)	(481)	(674)
Op profit (pre-prov)	**2,192**	**3,652**	**5,241**	**7,315**
Provisions	(166)	(354)	(433)	(535)
Exceptional Items	822	0	0	0
Profit before tax	**2,849**	**3,298**	**4,808**	**6,780**
Taxes	(772)	(1,088)	(1,586)	(2,237)
Net profit	**2,077**	**2,210**	**3,221**	**4,543**

Balance sheet

Y/e 31 Mar (Rs mn)	FY14	FY15E	FY16E	FY17E
Equity Capital	5,621	5,621	5,621	5,621
Reserves	7,868	9,585	12,148	15,705
Shareholder's funds	**13,489**	**15,206**	**17,769**	**21,325**
Long-term borrow	23,523	37,637	54,573	76,948
Deferred tax liab	249	274	383	536
Long term provi	288	317	444	622
Total non-curr liab	**24,060**	**38,228**	**55,400**	**78,106**
Short Term Borrow	14,173	22,677	32,881	46,363
Trade payables	33	33	33	33
Other current liab	1,724	2,759	4,001	5,641
Short term prov	658	921	1,197	1,557
Total current liab	**16,589**	**26,390**	**38,113**	**53,594**
Equity + Liab	**54,138**	**79,823**	**111,282**	**153,025**
Fixed Assets	253	278	306	337
Non-current inv	4,010	4,010	4,010	4,010
Long-term loans/adv	45,308	68,415	97,149	135,037
Other non-curr asset	392	471	565	678
Total non-curr asset	**49,963**	**73,174**	**102,030**	**140,062**
Trade receivables	3	3	3	3
Cash & equivalents	334	853	1,022	1,524
Short-term loan/adv	1,660	2,506	3,559	4,947
Other current assets	2,177	3,288	4,669	6,490
Total Current assets	**4,174**	**6,650**	**9,252**	**12,963**
Total Assets	**54,138**	**79,824**	**111,282**	**153,025**

Key ratios

Y/e 31 Mar	FY14	FY15E	FY16E	FY17E
Growth matrix (%)				
Net interest income	35.2	63.5	44.0	39.6
Total op income	35.1	63.5	44.0	39.6
Op profit (pre-prov)	36.6	66.6	43.5	39.6
Net profit	99.4	6.4	45.8	41.0
Advances	116.6	51.7	41.9	39.1
Borrowings	144.9	60.0	45.1	42.1
Total assets	87.7	47.4	39.4	37.5
Profitability Ratios (%)				
NIM	6.7	6.3	6.3	6.2
Non-int inc/Total inc	0.0	0.0	0.0	0.0
Return on Avg Equity	16.1	15.4	19.5	23.2
Return on Avg Assets	5.0	3.3	3.4	3.4
Per share ratios (Rs)				
EPS	3.7	3.9	5.7	8.1
Adj.BVPS	24.0	26.5	30.5	36.2
DPS	1.0	0.8	1.0	1.5
Valuation ratios (x)				
P/E	8.5	8.0	5.5	3.9
P/Adj.BVPS	1.3	1.2	1.0	0.9
Other key ratios (%)				
Loans/Borrowings	1.3	1.2	1.2	1.2
Cost/Income	9.8	8.1	8.4	8.4
CAR	25.2	19.5	17.2	16.1
Tier-I capital	24.8	18.5	15.2	13.1
Gross NPLs/Loans	0.1	0.7	1.0	1.0
Credit Cost	0.5	0.6	0.5	0.4
Net NPLs/Net loans	0.0	0.4	0.6	0.6
Tax rate	27.1	33.0	33.0	33.0
Dividend yield	1.0	1.3	1.6	2.0

SREI Infra Finance Ltd.

IIFL
INDIA PRIVATE CLIENTS

Poised for strong comeback

SREI Infra is a proxy play on the expected revival in infra and industrial capex. With business interests in project financing, equipment financing and banking, project advisory, etc, company's growth and profitability is intrinsically linked to the macro cycle. As we expect cyclical recovery in the economy to receive fillip from improvement in policy environment, Srei Infra seems poised for a strong comeback. On consolidated basis, we expect company to post robust 51% CAGR in earnings over FY14-17 on a modest AUM CAGR of 15%. Sharp recovery in profitability would be driven by cyclical factors (spread expansion and moderation in credit cost) and structural levers (liquidation of investments and product mix shift). RoA/RoE is estimated to recover to 1.6%/11% by FY17. Valuation from bargain levels (FY17 P/ABV at 0.6x and P/E at 5x) is expected to recover ahead of the actual profitability.

Infra financing - growth troughing out, spreads to improve

Over the past two years, Srei's infra financing book has witnessed a steep moderation in growth (13% CAGR over FY12-14) on the back of muted disbursements. Due to policy issues and steep macro slowdown, company has been cautious on releasing disbursements on sanctioned loans (almost reappraising sanctions on draw downs). Srei has a reasonably sized book of Rs114bn, well-diversified across power (33%), transportation (30%), social & commercial (20%), communications (8%) and others (9%). Company's power exposure is largely to generation projects of which 60% is to operational projects. Within exposure to under construction projects, only ~20% (ie ~2.5% of overall book) is to projects that are dependent on external coal/gas linkages. Though company's cautious growth approach is unlike to reverse in the near term, it is expecting a cyclical revival in disbursement growth from fiscal-end. Loan growth should follow the trend in disbursements and therefore accelerate post FY15.

Financial summary

Y/e 31 Mar (Rs m)	FY14	FY15E	FY16E	FY17E
Total operating income	8,130	9,028	11,175	14,584
Yoy growth (%)	(9.3)	11.0	23.8	30.5
Operating profit (pre-provisions)	4,320	4,932	6,424	8,787
Exceptional Item	0	2,000	0	0
Net profit	1,389	3,730	3,257	4,738
yoy growth (%)	(47.3)	168.6	(12.7)	45.4
EPS (Rs)	2.8	7.4	6.5	9.4
Adj. BVPS (Rs)	57.7	64.4	69.2	76.5
P/E (x)	17.4	6.5	7.4	5.1
P/Adj.BV (x)	0.8	0.7	0.7	0.6
ROE (%)	4.0	4.7	8.3	11.2
ROA (%)	0.6	0.7	1.3	1.6
CAR (%)	22.6	25.2	23.5	20.3

Source: Company, India Infoline Research

Rating:	BUY
Target (2 Years):	**Rs97**
CMP:	**Rs48**
Upside:	**102.1%**

Sector:	**Financials**
Sector view:	**Positive**
Sensex:	25,100
52 Week h/l (Rs):	52.9/17.5
Market cap (Rscr) :	2,465
6m Avg vol ('000Nos):	1,372
Bloomberg code:	SREI
BSE code:	523756
NSE code:	SREINFRA
FV (Rs):	10

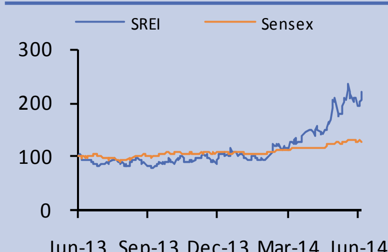
Price as on June 27, 2014

Company rating grid

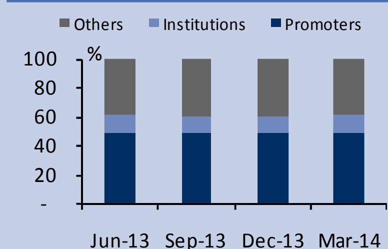
Low → High

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

Share price trend



Share holding pattern



Research Analyst:
Rajiv Mehta
research@indiainfoline.com

With average tenure of loans at about four years and more than 50% borrowings being working capital loans from banks, the spreads in the business are exposed to interest rate risk. Consequently, spreads contracted over the past two years as funding cost escalated due to tight liquidity conditions and rate upcycle. Therefore, spreads should start to improve from here on as liquidity situation has already eased and rates are likely to come down. Company intends to reduce the share of bank working capital loans in total borrowings to 40-45% over the next three years and replace it with longer-term cheaper funds.

Spreads to improve as liquidity situation has already eased and rates are likely to decline

Additionally planned liquidation of equity investments in VIOM Networks (14% stake purchased for Rs16bn) and BOT assets (Rs3.5bn across 8 projects) will unlock substantial capital which will be deployed for lending therefore improving loan/borrowings ratio and margins. The management intends to bring down strategic investments to 25% of networth by FY17 from 65% currently. As the company has already initiated the process of stake sale in VIOM, we have factored it in our projections. Conservatively, we have valued VIOM at discount to Bharti Infratel valuation (10x FY14 EBITDA) despite its superior tenancy ratio/profitability (2.2x/54% EBITDA) and growth prospects (robust order book). Consequently, we estimate SREI to realize ~Rs16-17bn from the stake sale. Improving valuation of BOT projects should also help the company in exiting from its four operational projects profitably.

Planned liquidation of equity investments in VIOM Networks and BOT assets to further aid margin

Estimate SREI to realize ~Rs16-17bn from VIOM stake sale

Equipment financing business - to revert to mid/peak cycle RoAs

Srei BNP Paribas (a 50:50 JV) is the largest construction & mining equipment financier in India with over ~30 % market share. Company has an AUM of Rs183bn which is well distributed regionally. On account of sharp slowdown in the mainstay construction/mining equipment financing segment, Srei BNP's AUM has only marginally grown over the past two years (disbursement growth has been in negative zone). In recent years, company has entered into new segments such as financing of used equipments, IT products, medical equipments, etc to offset slowdown in new equipment financing. Srei BNP has been particularly focusing on used equipment financing due to better risk-return as compared to new equipment financing. Its share in AUM is at 2-3% and is likely to reach 10-12% by FY17. Leveraging on BNP's relationships with global vendors, company is well-poised to address the huge market opportunity in healthcare space.

Srei BNP Paribas is the largest construction & mining equipment financier in India with over ~30 % market share

Focusing on used equipment financing due to better risk-return as compared to new equipment financing

Though, we expect growth in new equipment financing to recover ahead of the macro recovery, Srei BNP's product mix will continue to shift towards better yielding used equipment financing (~19% v/s ~14% for new) and other segments. This along with gradual decline in funding cost (50%+ borrowings is working capital loans from banks) should lead to steady improvement in NIM. In terms of asset quality, the business has likely seen the worst with gross NPLs increasing substantially during FY14 (from 2.8% to 4.8%). Company expects NPL levels to start coming off from H2 FY15 on the back of improvement in economic activity as many accounts will get upgraded. Reversal in provisioning on such accounts along with moderation in new NPL accrual rate should drive a material decline in credit cost over the next two years. Aided by margin expansion and lower NPL provisioning, we believe that Srei BNP's RoA will improve from current 1.5% to 2.5-3% by FY17.

Product mix shift and gradual decline in funding cost should lead to steady improvement in NIM

Company expects NPL levels to start coming off from H2 FY15 on the back of improvement in economic activity

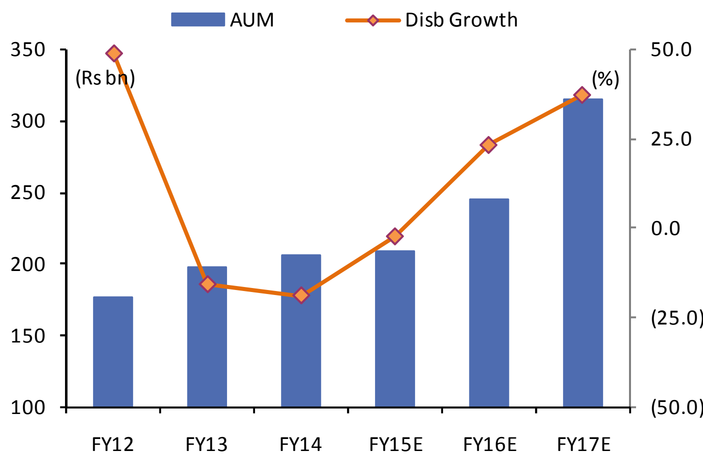
Valuation recovery to lead actual profitability recovery

On consolidated basis, we expect Srei Infra to post robust 51% CAGR in earnings over FY14-17 on a modest AUM CAGR of 15%. A sharp recovery in profitability driven by cyclical factors (spread expansion and moderation in credit cost) and structural levers (liquidation of investments and product mix shift) will be the main story. We estimate consolidated RoE to improve from currently depressed 4-5% to 11-12% by FY17 on the back of sharp RoA recovery from 0.6% to 1.6%. During such phases of turnaround, typically, valuation recovers ahead of the actual profitability. Based on our FY17 estimates, Srei Infra's valuation is at a bargain level of 0.6x P/ABV and 5x P/E.

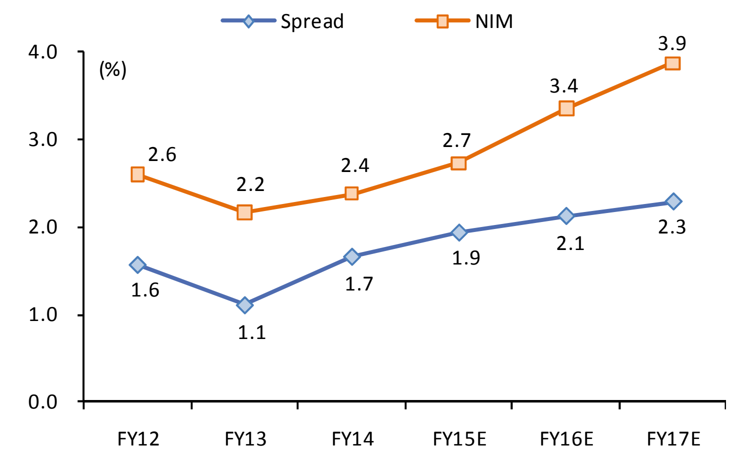
Srei Infra to post robust 51% CAGR in earnings over FY14-17 on a modest AUM CAGR of 15%

Consol RoE to improve to 11-12% by FY17

Consol AUM* to witness 15% CAGR over FY14-17

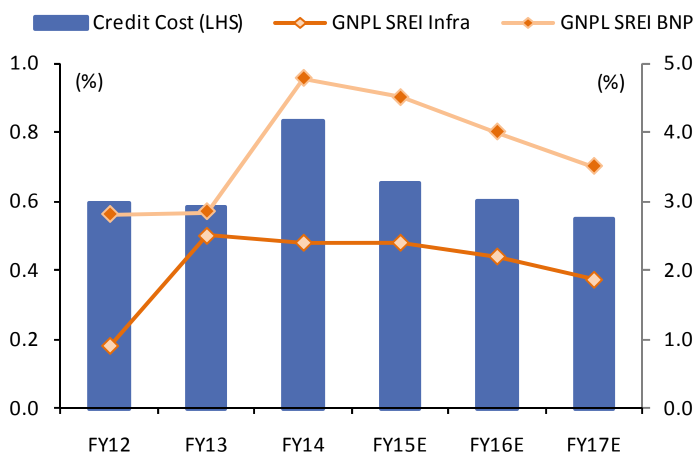


Spreads and NIM to materially improve

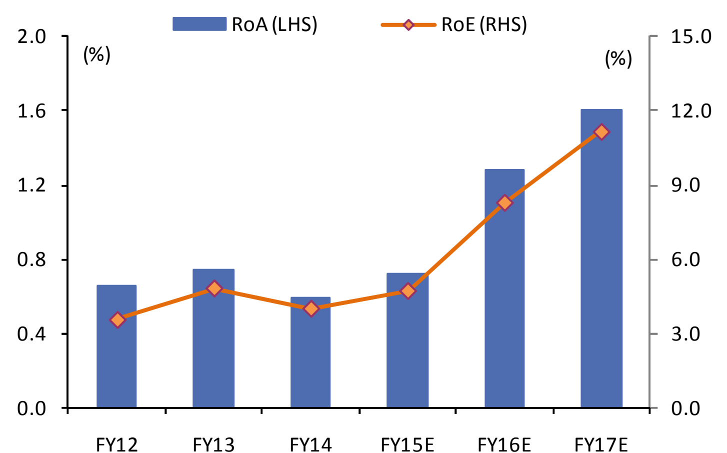


Source: Company, India Infoline Research
**Consol AUM = Srei Infra + 50% of Srei BNP AUM*

Asset quality to improve; credit cost to trend lower



Steep recovery estimated in profitability



Source: Company, India Infoline Research

Strategic Equity Investments	Rs bn	VIOM - Telecom Infra (FY14E)		Road BOT Asset Portfolio	
Telecom Infra – VIOM	15.98	Total No of Towers	41,689	Total No of Projects	8
BOT Road Assets	3.49	Tenancy	2.2x	No of Projects operational	4
Rural IT – Sahaj	0.25	Revenue (Rs bn)	46.29	Total Lane Kms	3264
Other Investments	0.15	EBIDTA Margin (%)	54.0	Lane Km operational	1190
Total	19.87	Cash Profit (Rs bn)	9.29	Lane Km non operational	2074

Source: Company, India Infoline Research

Financials

Income statement

Y/e 31 Mar (Rs mn)	FY14	FY15E	FY16E	FY17E
Income from Operatns	27,930	28,776	31,099	37,763
Interest expense	(23,120)	(23,103)	(23,475)	(26,938)
Net interest income	**4,810**	**5,673**	**7,624**	**10,825**
Non-interest income	3,320	3,356	3,551	3,759
Total op income	**8,130**	**9,028**	**11,175**	**14,584**
Total op expenses	(3,810)	(4,096)	(4,751)	(5,796)
Op profit (pre-prov)	**4,320**	**4,932**	**6,424**	**8,787**
Provisions	(1,680)	(1,352)	(1,364)	(1,539)
Forex MTM	(380)	(266)	(213)	(192)
Exceptional Items	0	2,000	0	0
Profit before tax	**2,260**	**5,315**	**4,847**	**7,056**
Taxes	(881)	(1,594)	(1,599)	(2,329)
Minority Interest	10	10	10	10
Net profit	**1,389**	**3,730**	**3,257**	**4,738**

Balance sheet

Y/e 31 Mar (Rs mn)	FY14	FY15E	FY16E	FY17E
Equity Capital	5,032	5,032	5,032	5,032
Reserves	29,936	32,939	35,470	39,335
Shareholder's funds	**34,969**	**37,972**	**40,502**	**44,367**
Minority interest	**297**	**341**	**410**	**492**
Long-term borrow	71,037	68,195	77,742	94,846
Deferred tax liab	1,831	2,059	2,368	2,724
Other long-term liab	800	899	1,034	1,190
Long term provi	1,526	1,678	1,930	2,219
Total non-curr liab	**75,192**	**72,832**	**83,075**	**100,978**
Short Term Borrow	106,086	101,842	116,100	141,642
Trade payables	1,832	2,015	2,317	2,665
Other current liab	24,153	23,187	26,433	32,248
Short term prov	520	520	520	520
Total current liab	**132,591**	**127,564**	**145,371**	**177,076**
Equity + Liab	**243,048**	**238,710**	**269,357**	**322,912**
Fixed Assets	17,146	18,004	18,904	19,849
Goodwill	3,875	3,875	3,875	3,875
Non-current inv	20,763	4,783	4,783	4,783
Deferred tax assets	205	246	295	354
Long-term loans/adv	113,165	114,297	133,727	171,171
Other non-curr asset	1,837	2,204	2,645	3,174
Total non-curr asset	**156,990**	**143,408**	**164,228**	**203,205**
Current investments	3,434	3,777	4,155	4,570
Inventories	105	105	105	105
Trade receivables	2,125	2,337	2,804	3,365
Cash and cash equiv	5,637	6,849	6,331	7,695
Short-term loans	11,608	12,769	15,322	19,919
Other current assets	63,150	69,465	76,412	84,053
Total Current assets	**86,058**	**95,301**	**105,129**	**119,707**
Total Assets	**243,048**	**238,709**	**269,357**	**322,912**

Key ratios

Y/e 31 Mar	FY14	FY15E	FY16E	FY17E
Growth matrix (%)				
Net interest income	18.8	17.9	34.4	42.0
Total op income	(9.3)	11.0	23.8	30.5
Op profit (pre-prov)	3.8	14.2	30.2	36.8
Net profit	(47.3)	168.6	(12.7)	45.4
Advances	6.6	1.8	17.3	28.2
Borrowings	12.0	(3.9)	14.0	22.0
Total assets	7.3	(1.8)	12.8	19.9
Profitability Ratios (%)				
NIM	2.4	2.7	3.4	3.9
Non-int inc/Total inc	40.8	37.2	31.8	25.8
Return on Avg Equity	4.0	4.7	8.3	11.2
Return on Avg Assets	0.6	0.7	1.3	1.6
Per share ratios (Rs)				
EPS	2.8	7.4	6.5	9.4
Adj.BVPS	57.7	64.4	69.2	76.5
DPS	0.5	1.3	1.3	1.5
Valuation ratios (x)				
P/E	17.4	6.5	7.4	5.1
P/Adj.BVPS	0.8	0.7	0.7	0.6
Other key ratios (%)				
Loans/Borrowings	107.1	98.3	97.7	97.7
Cost/Income	46.9	45.4	42.5	39.7
CAR	23.6	25.4	23.5	20.1
Tier-I capital	15.0	16.1	14.6	12.5
Gross NPLs/Loans	2.4	2.4	2.2	1.9
Credit Cost	0.8	0.7	0.6	0.6
Net NPLs/Net loans	2.1	2.0	1.8	1.4
Tax rate	39.0	30.0	33.0	33.0
Dividend yield	1.0	2.6	2.6	3.1

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

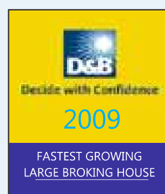
'Best Equity Broker of the Year' – Bloomberg UTV, 2011

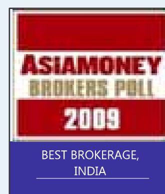
IIFL was awarded the 'Best Equity Broker of the Year' at the recently held Bloomberg UTV Financial Leadership Award, 2011. The award presented by the Hon'ble Finance Minister of India, Shri Pranab Mukherjee. The Bloomberg UTV Financial Leadership Awards acknowledge the extraordinary contribution of India's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

'Best Broker in India' – Finance Asia, 2011

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

Other awards





Recommendation parameters for fundamental reports:

BUY – Absolute return of over +10%

Market Performer – Absolute return between -10% to +10%

SELL – Absolute return below -10%

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

Published in 2014. © India Infoline Ltd 2014

This report is for the personal information of the authorised recipient and is not for public distribution and should not be reproduced or redistributed without prior permission.

The information provided in the document is from publicly available data and other sources, which we believe, are reliable. Efforts are made to try and ensure accuracy of data however, India Infoline and/or any of its affiliates and/or employees shall not be liable for loss or damage that may arise from use of this document. India Infoline and/or any of its affiliates and/or employees may or may not hold positions in any of the securities mentioned in the document.

The report also includes analysis and views expressed by our research team. The report is purely for information purposes and does not construe to be investment recommendation/advice or an offer or solicitation of an offer to buy/sell any securities. The opinions expressed are our current opinions as of the date appearing in the material and may be subject to change from time to time without notice.

Investors should not solely rely on the information contained in this document and must make investment decisions based on their own investment objectives, risk profile and financial position. The recipients of this material should take their own professional advice before acting on this information.

India Infoline and/or its affiliate companies may deal in the securities mentioned herein as a broker or for any other transaction as a Market Maker, Investment Advisor, etc. to the issuer company or its connected persons.

This report is published by IIFL 'India Private Clients' research desk. IIFL has other business units with independent research teams separated by 'Chinese walls' catering to different sets of customers having varying objectives, risk profiles, investment horizon, etc and therefore, may at times have, different and contrary views on stocks, sectors and markets.

This report is not directed or intended for distribution to, or use by, any person or entity who is a citizen or resident of or located in any locality, state, country or other jurisdiction, where such distribution, publication, availability or use would be contrary to local law, regulation or which would subject IIFL and affiliates to any registration or licensing requirement within such jurisdiction. The securities described herein may or may not be eligible for sale in all jurisdictions or to certain category of investors. Persons in whose possession this document may come are required to inform themselves of and to observe such restriction.

IIFL, IIFL Centre, Kamala City, Senapati Bapat Marg, Lower Parel (W), Mumbai 400 013.

For Research related queries, write to: Amar Ambani, Head of Research at amar@indiainfoline.com or research@indiainfoline.com
For Sales and Account related information, write to customer care: info@5pmail.com or call on 91-22 4007 1000