Conviction Ideas

Optimism sustaining amidst strong flows

Your success is our success

Emkay Global Financial Services Ltd.

January, 2013

Optimism still sustaining

- **Optimism prices in strong rebound in fundamentals:** Persistent optimism in global equities (up 3-5% over past month) following the partial headway through the US fiscal cliff, notwithstanding the mixed data releases, have kept up the sell off in treasuries and USD pressure. 10-year treasury yields for US, UK and Euro firmed up 20-30bp to 8-month highs of 1.9%, 2% and 1.76% indicating reflationary steepening. USD-EUR index decline 3.5% MoM and crude Brent rose to over USD111/bbl (6% MoM). The spill over response of the risk-on trade also reflected in 3-3.5%MoM rally in Indian benchmarks with supportive FII flows. Justification for local optimism reflects in expectations of rate cuts and postponement of GAAR implementation to 2016 overshadowing continued weakening in macro indicators and our expectations of modest earning growth this quarter (Q3FY13).
- Clearly, markets is pricing in stronger fundamentals going forward and is largely feeding into rate sensitives. The dichotomy between weak fundamentals and market expectations of a stronger tomorrow will sustain only if global treasury sell off continues and could be supported in anticipation of rate cut on Jan 29.
- **Q1 preview indicate renewed margins pressure:** Q2FY13 marked first sign of earnings revival (Emkay universe APAT growth of 13%) as margins expansion counterbalanced decelerating sales growth. However, hopes of earnings revival could possibly hit a road block as our Q3FY13 earnings estimate highlights renewed margin pressures even as sales growth continues to be in slow lane. Emkay Universe (ex financials & oil) is expected to deliver sales growth of 10.3%YoY in Q3FY13E vs 15.1%YoY in Q2FY13. Decline in margins is expected to dent APAT growth at 2.1%YoY vs 13.5%YoY in Q2FY13. Outside of Financial and Oil sectors, robust PAT expansion is expected from Real Estate (122%YoY), Auto Ancillary (22%), Media & Entertainment (18.5%) and Consumers (18.1%). Stress is likely to be seen for Telecom (-24%), Construction (-20.2%YoY), Autos (-5%), Metals & Mining (-3.3%) and Engineering & Capital goods (-2.4%).

Macro conditions have not improved much

Emkay©
Your success is our success

- Decline in non-food credit and deposit growth of banks to 14.9% and 11.1% by Dec end (vs 16.8% & 12.8% respectively in Nov’12). Reserve money and M3 growth declined to 2.2% and 11.3% respectively. Declining growth in monetary aggregates is indicative of further slowdown in activities
- Liquidity deficit has eased a little over Dec’12 but at Rs 900-800bn, the LAF deficit is still >1% of aggregate bank deposits. Rise in credit/deposit ratio 77% from 75% three months back highlight sustenance of credit-deposit wedge and liquidity deficit. FX flows have not been sufficient to boost money supply growth.
- IIP growth contracted 0.1%YoY in Nov’12, realigning to the muted growth trend seen during most of this fiscal and follows an erratic 8.3% YoY bounce in Oct’12. Nov’12 IIP witnessed a 1.4%MoM contraction on a seasonally adjusted basis. We expect it to contract even in Dec’12
- WPI inflation has inched lower at 7.2% in Dec’12 (7.24% in Nov) even as CPI inflation increased to 10.8% on the back of elevated food inflation
- Trade deficit remains elevated at USD17.7bn on the back of 2% YoY contraction in exports (USD24.9bn) and 6.3%YoY expansion in imports (USD42.5bn)
- Truck sales (5–49 ton) declined 39% YoY in Dec’12, extending the 33% YoY decline in Nov’12 (-22% YoY growth YTD FY13)
- **Monetary policy:** Decline in headline WPI inflation & weak IIP growth will justify a 25bp rate cut in the Jan’13 policy announcement. However, other relevant indicators that limit scope for aggressive easing are high CPI inflation, persistent credit-deposit growth wedge, high trade deficit and a vulnerable INR.

Conviction Ideas: Amidst strong fund flows

Emkay© Your success is our success

- **Amidst Strong Flows:** CY2012 saw strong fund flows into Indian markets. Fund flows remained under spotlight in December 2012; expectations for extrapolation of fund flows in January-March 2013 is running agog. *Amidst this, benchmark nifty clocked return of 2.1%* (vs. our Conviction Idea report, Dec 11, 12)
- **Our portfolio withstood the tide:** Against the 2.1% return on Nifty benchmark, Emkay portfolio notched 2.6% return and outperformed by 50 bps to the Nifty Benchmark. Though, Emkay's portfolio tuned to Defensives outperformed the index; thanks to higher allocation to IT and alpha returns delivered by Tata Motors. The **Outperformers** were Tata Motors (18.0%), Tech Mahindra (13.9%), HCL Tech (9.5%), Colgate Palmolive (5.6%), ICICI Bank (5.6%) and Madras Cements (5.1%). The **Underperformers** were Grasim (-4.7%), Exide (-3.4%) and Hind Zinc (-2.5%).
- **Changes made to conviction list:** (1) **Removed Large Cap BUY:** Grasim Industries (muted earnings performance in near term), Hindustan Zinc (2) **Added Large Cap BUY:** Hero Honda, NMDC, Power Grid, Zee (contrarian BUY with expected re-rating) (3) **Removed Mid Cap BUY:** Dish TV, Madras Cement (achieved target returns) and (4) **Added Mid Cap BUY:** Berger Paints (discount to Asian Paints has widened).
- **Large Cap BUY:** Cadilla, Colgate, Dr Reddy, HCL Tech, Hero Honda, ICICI Bank, NMDC, Power Grid, Tata Motors, Zee
- **Mid-Cap BUY:** Berger Paints, Crisil, Exide, Federal Bank, LIC Housing, Tech Mahindra, Wockhardt

Top Ideas

Emkay©
Your success is our success

	Stock idea
Large Cap : BUY	Cadilla Colgate Dr Reddy HCL Technologies Hero Honda ICICI Bank NMDC Power Grid Tata Motors Zee Entertainment
Mid Cap : BUY	Berger Paint Crisil Exide Inds. Federal Bank LIC Housing Tech Mahindra Wockhardt

Valuation Summary

	Sector	Mcap (Rs bn)	CMP (Rs)	Target Price (Rs)	% Upside/ Downside	Reco	Net Sales (NII for Banks) (Rs mn)			EBITDA (PPP for Banks) (Rs mn)			APAT (Rs mn)			EPS (Rs)		
							FY12	FY13E	FY14E	FY12	FY13E	FY14E	FY12	FY13E	FY14E	FY12	FY13E	FY14E
Overweight																		
Berger Paints	Consumers	52	150	152	1.3%	Accumulate	29,477	33,914	38,361	3,097	3,480	4,040	1,802	2,087	2,409	5.2	6.0	7.0
Cadila Healthcare	Pharmaceuticals	178	871	940	7.9%	Buy	50,900	37,005	42,809	10,839	8,028	9,312	6,525	4,239	4,969	31.9	20.7	24.3
Colgate-Palmolive	Consumers	203	1,490	1,400	-6.0%	Buy	26,932	30,947	35,841	5,822	6,413	7,589	5,159	5,486	6,400	37.9	40.3	47.1
Crisil	Fin. Services - Others	73	1,043	1,050	0.7%	Accumulate	8,070	10,072	12,901	2,625	3,247	4,168	1,877	2,252	2,788	26.8	32.1	39.8
Dr. Reddy's Lab	Pharmaceuticals	325	1,913	1,730	-9.6%	Hold	94,329	121,255	143,501	23,096	28,170	32,591	14,362	17,567	20,533	84.7	103.6	121.1
Exide Industries	Auto Ancillaries	122	143	190	32.7%	Buy	51,070	63,536	76,064	6,839	9,218	12,143	4,612	6,194	8,476	5.4	7.3	10.0
Federal Bank	Banks & Fin. Services	89	520	500	-3.8%	Hold	19,534	21,408	25,980	15,065	16,288	20,223	7,768	8,830	10,724	45.4	51.6	62.7
HCL Tech	IT Services	467	673	650	-3.4%	Accumulate	210,315	248,649	271,179	39,408	50,071	51,543	24,571	33,232	34,410	35.0	47.3	49.0
Hero MotoCorp	Automobiles	368	1,843	2,350	27.5%	Buy	235,790	228,923	255,469	36,188	33,278	37,070	23,781	21,880	22,952	119.1	109.6	114.9
ICICI Bank	Banks & Fin. Services	1,363	1,185	1,100	-7.2%	Hold	107,342	135,719	159,466	103,865	129,321	152,816	64,640	79,820	95,504	56.1	69.2	82.8
LIC Housing Finance	Banks & Fin. Services	144	285	280	-1.9%	Accumulate	14,022	15,042	20,830	13,882	14,758	20,351	9,142	10,438	15,826	18.1	20.7	31.3
NMDC	Metals & Mining	644	162	196	20.7%	Hold	112,615	114,095	126,872	89,281	86,168	95,641	73,167	72,373	78,244	18.5	18.3	19.7
Power Grid Corp.	Power	519	112	121	8.0%	Accumulate	95,698	125,180	157,673	79,168	104,071	129,035	34,063	39,523	47,971	7.4	8.5	10.4
Tata Motors	Automobiles	963	328	350	6.8%	Accumulate	1,656,545	1,881,917	2,229,967	237,005	258,580	310,893	143,480	113,721	138,548	43.2	34.2	41.7
Tech Mahindra	IT Services	128	1,002	1,050	4.8%	Accumulate	54,897	68,638	76,455	9,194	14,081	14,346	11,255	14,548	14,557	85.9	111.1	111.1
Wockhardt	Pharmaceuticals	183	1,667	2,160	29.6%	Buy	46,091	56,256	64,989	14,351	16,685	19,506	6,824	11,161	13,127	62.4	102.0	120.0
Zee Entertainment	Media & Entertainment	223	233	275	18.2%	Buy	30,405	36,000	41,651	7,395	8,770	11,477	5,891	6,608	8,658	6.2	6.9	9.1

Valuation Summary

Emkay ©
Your success is our success

	PE (x)			PB (x)			ROE (%)			ROCE (ROA for Banks) (%)		
	FY12	FY13E	FY14E	FY12	FY13E	FY14E	FY12	FY13E	FY14E	FY12	FY13E	FY14E
Overweight												
Berger Paints	28.8	24.9	21.6	6.6	5.5	4.7	24.4	24.2	23.6	26.1	26.6	26.9
Cadila Healthcare	27.3	42.1	35.9	6.9	6.8	6.3	27.5	16.3	18.2	23.6	13.2	15.2
Colgate-Palmolive	39.3	36.9	31.7	46.5	36.3	28.9	125.9	110.5	101.8	166.8	151.3	140.5
Crisil	38.9	32.5	26.2	22.1	16.1	12.0	58.4	57.4	52.4	81.4	85.5	78.1
Dr. Reddy's Lab	22.6	18.5	15.8	6.5	5.0	3.9	30.9	30.7	28.0	24.5	27.3	27.9
Exide Industries	26.4	19.7	14.4	4.0	3.4	2.9	15.9	18.8	22.0	21.9	26.1	29.9
Federal Bank	11.4	10.1	8.3	1.6	1.5	1.3	14.4	14.6	15.9	1.4	1.4	1.4
HCL Tech	19.2	14.2	13.7	4.4	3.6	3.1	25.6	27.9	24.1	28.1	31.5	27.9
Hero MotoCorp	15.5	16.8	16.0	8.6	6.9	5.8	65.6	45.5	39.3	56.7	47.3	49.9
ICICI Bank	21.1	17.1	14.3	2.3	2.1	1.9	11.2	12.6	13.8	1.5	1.6	1.7
LIC Housing Finance	15.8	13.8	9.1	2.6	2.3	1.9	18.6	17.2	22.5	1.5	1.4	1.8
NMDC	8.8	8.9	8.2	2.6	2.2	1.9	33.5	27.0	24.7	49.3	39.9	36.5
Power Grid Corp.	15.2	13.1	10.8	2.0	1.8	1.6	13.8	14.6	16.0	8.4	9.1	9.7
Tata Motors	7.6	9.6	7.9	3.3	2.5	2.0	55.3	30.1	28.1	28.2	25.2	26.6
Tech Mahindra	11.7	9.0	9.0	3.2	2.5	2.0	30.4	31.0	24.2	14.2	20.4	17.7
Wockhardt	26.7	16.3	13.9	12.4	7.0	4.7	73.5	52.7	40.4	28.2	32.5	34.8
Zee Entertainment	37.7	33.6	25.6	6.5	5.8	5.1	18.0	18.3	21.2	26.0	26.6	30.3

Cadila Healthcare

Buy, Target Price Rs 1,000 | **On the path to recovery**

Domestic business to grow above industry rate: Management has guided for 25-28% growth in domestic business in FY13 on back of new product launches & Biochem acquisition. The company has launched 30 products in Q1FY13 and 16 in Q2FY13 which will ramp up going forward

New launches to drive US business: US business is expected to grow at 27% CAGR over FY12-14E on back of 10-15 new launches every year. The company has got 10 new approvals including 4 Injectable in Q2FY13 which will start ramping up from H2'13 onwards

USFDA clearance for Moraiya facility to boost company performance: Moraiya Injectable facility has recently been approved, which will provide strong impetus to the US business as Cadila has 17 Injectable filings from this facility.

Zydus Wellness business came back to growth trajectory: Zydus wellness business , which had grown single digit in FY12 has come back to double digit growth in first half and is expected to grow by 15% CAGR over FY12-14

Near term catalyst and earnings performance: We expect Cadila to report 22% revenue growth in FY13 and 16% growth in FY14. We expect EBIDTA margins to move from 20.4% in FY12 to 21% in FY13 and FY14. Earnings will grow by 22% CAGR over FY12-14E. Maintain Buy with a target price of Rs1000 (20xFY14E EPS). At current price, the stock trades at 21x FY13E EPS of Rs40 and 17x FY14E EPS of 50.

Colgate-Palmolive

Buy, Target Price Rs1,400 | **Market share gain continues**

Promises sustained volume growth: Robust volume growth on account of 1) Increase in per capita consumption; 2) Entry into newer sub-categories (mouthwash, sensitive toothpaste); 3) Premiumization; 4) Brand building exercise; 5) Customer acquisition drive.

Resilient price led growth to continue: Persistent innovation and value addition in oral care segment to aid premiumization and pricing power. We estimate 5-7% price led growth to sustain in FY13E and FY14E despite tough macro environment.

Market share grows unabated: Generic brand and strong distribution network have aided Colgate expand market share. In toothpaste, Colgate has twice the share (54%) than its nearest rival. Also, toothbrush category Colgate has witnessed market share gain of ~200bps(market share: 39%) indicating strong revival against strong rival P&G.

P&G entry in toothpaste category likely to impact No. 2 player more than Colgate: Despite presence of P&G in international markets, Colgate enjoys leadership position across the globe with over three times the market share (~45% in toothpaste) of its nearest competitor. Hence, P&G entry in India is likely to unravel No 2 Player as compared to Colgate.

Valuation Discount To Glaxosmithkline Unjustified: Construct of Colgate is synonymous to Glaxosmithkline Consumer (which trades at 30x 1-year fwd earning) due to 1) majority of revenue comes from single category; 2) pricing power; 3) market leadership. We have price target of Rs1400/Share (30x FY14E earnings).

Dr. Reddy

Emkay©
Your success is our success

Buy, Target Price Rs 2,240 | **US business showing traction**

Niche launches to drive US business: US business, which contributes 50% of the formulation revenue is the key driver for the profitability. It is expected to grow by 15% CAGR over FY12-14 on back of nuche launches like Toprol and Propecia and increase in market share in some key products i.e. Lipitor, Tacrolimus and Amoxcillin.

Launch of Toprol, USD 650 million market: Company had launched Toprol in US market on 11th September 2012 which has a market of USD 650 million. It is estimated the company will garner 8% market share in first year of launch or USD 50 million in revenue

Propecia launch in January, 2013: Dr. Reddy have a unshared exclusivity on this Merck's beningn prostatic hyperplasia product which have a market of USD 420 million in US. Dr. Reddy is expected to launch this product on Ist January 2013. This will give USD 50 million revenue to Dr. Reddy in the exclusivity period and post exclusivity the competition will be limited.

India & PSAI business to witness consistent growth: Domestic business is expected to clock 15% CAGR over FY12-14E on back of rampup in bio-similar portfolio and launch of new products. PSAI business will grow at 16% CAGR to Rs32bn in FY14 led by new customer orders on account of products going off-patent globally

Near term catalyst and earnings performance: We expect Dr. Reddy to report revenue CAGR of 21% over FY12-14E. Base earnings will grow by 22% CAGR over FY12-14E. Recommend Buy rating on the stock with a TP of Rs2240. At CMP, the stock is trading at 18x FY14E EPS of Rs. 112.

HCL Technologies

Buy, Target Price Rs 650 **On solid footing**

On a strong footing- Unlike in the past when it was either' revenue or margin' performance , we believe that HCLTech's on a solid footing ahead with strong revenue visibility (52 transformational deals worth US$ 2.5 bn+ TCV worth deals signed in FY12) with all the top 10 clients now Fortune 500/G2000 names.

Growth led by client mining now V/s new clients earlier –HCL's revenue growth is now being driven by client mining (unlike in the past) which is evident both from top 10 clients growing higher than co average and the improvement in clients across US$ 20 mn+/US$ 50 mn+ buckets

Revenue growth+ stable/ improving margins- Co remains confident of sustaining rev growth within the Top tier league along with maintaining/improving margins (ex currency) through operational levels. In this context worth highlighting that HCLT continued the superior performance on margins in Sep'12 qtr on the back of solid improvement in June'12 qtr

Near term catalyst and earnings performance We continue to back HCL Tech on upside risks to street (including our's) earnings estimates. HCL Tech currently trades at ~14x/13.5xFY13/14E P/E.

Hero Motocorp

Your success is our success

Buy, Target Price Rs 2,350	**Improving margin trajectory**

Strong brand portfolio: Two-wheeler sales are polarized towards strong brands and new products from competition can only slowly gain market share. HMCL has a big advantage as it owns amongst the strongest brand portfolio in the domestic motorcycle market with *Splendor, Passion* and *HF Dawn/Deluxe* accounting for ~50% of domestic motorcycle sales.

Fears over competition unfounded: In the recent past there has been a host of new product launches from competition, none of which have sustained the initial momentum. We believe that customers in the economy and executive segment, given their utilitarian nature, prefer tried and tested brands and therefore we see limited success for new products.

Successful new launches: HMCL has been able to capitalize on the opportunities in the gearless scooter segment and has gained a 17%+ market share. The scooter segment in the past five years has grown at a CAGR of 18% vs 10% for the two-wheeler industry. Recent products from HMCL like the *Maestro* scooter, *Passion Xpro* and the *Ignitor* have seen good initial response and tie-ups with three firms for technology alleviate concerns on product development capability.

Margin trajectory on the up: We see a significant 300 bps expansion in EBIT margins for HMCL over the next couple of years as license fees cost to Honda being paid gets over completely in Q1FY15. We therefore expect to see a significant 30%+ growth in earnings in FY15.

Long term positive: While near term concerns on the two-wheeler industry volume growth remains, we believe that earnings growth for HMCL will be driven by margins improvement in FY15 and the stock is a good investment opportunity on a 12-18 month view. The stock also trades significantly cheaper than Bajaj Auto.

ICICI Bank

Your success is our success

Buy, Target Price Rs 1,100	Well on track

Lower slippages and NPA seasoning to limit incremental credit cost at 70bps : ICICI Bank has already seen seasoning of the NPA book with amount of NPAs in SS and D1 category reducing by 2% of its loans. Credit cost to remain at 60bps due to controlled slippages and incremental NPAs only in SS and D1 category requiring low provisions

Well built operating matrix: Remarkable improvement in operating matrix over FY09-12E with CASA at 40%+, domestic NIMs at almost 4%, PCR at 80%. Subsidiaries reported mixed performance for FY12 with insurance and AMC business generating profits. Balance sheet consolidation continues at its UK subsidiary.

Adequate capital; lower leverage the only constrain: Adequately capitalized for growth with tier I CAR at 12.8% (total CAR at 18.5%). Improvement in leverage ratio with superior 1.6%+ RoA would ensure better RoEs (Core RoE set to increase to 15-16% over FY13-14E).

Attractive valuations: Concerns over asset quality and margin maintenance had dragged stock performance in past. However, steady state balance sheet expansion with easing NPA pressure will warrant re-rating. We have valued the bank at 1.5x standalone FY13E ABV plus Rs250/share for subsidiaries.

Near term catalyst and earnings performance: We expect the bank to witness 19% CAGR in NII / customer assets each over FY12-14E. Improvement in margins with easing credit cost pressures would aid RoA performance. Any material spike in restructured loan portfolio remains key risk in near term. Maintain positive bias.

NMDC

Your success is our success

Buy, Target Price Rs 196 **Strong growth potential on higher volume; attractive valuation**

Gradual volume growth to be the key driver: NMDC would be ready to address higher demand from the rise in domestic steel capacity with its capacity expansion from 32 mtpa to 48 mtpa by FY15. Focus on evacuation facilities would help NMDC to ramp up volume Q4FY13 onwards. Restarting of Essar pipeline would be an immediate trigger with additional annual volume of 6-7 mt

Strong global prices should provide a cushion to NMDC's domestic price: NMDC had cut its lumps prices recently to align it with the international prices. While, this should result into better response for its lumps, sharp rise in international iron ore prices would provide a cushion for further cuts and even making a case for a hike in fines prices

High grade and low CoP to continue support strong margins and high cash generation: High quality (66% Fe grade) reserve and low CoP of US$17/ tonne would continue to help NMDC to post strong margins (~75%). With more than 60% net margin, NDMC would continue to generate ~Rs 25 bn cash even after annual capex of Rs ~50 bn

Attractive and inexpensive valuation: At the CMP of Rs 162, the stock is available at 8.2xFY14 EPS and 4.7xFY14 EV/ EBITDA against current global valuation of 9.7xCY13 (FY14) PE and 5.9xFY14E EV/ EBITDA for pure play iron players . Also the EV/ tonne of US$10/ tonne looks very attractive on the basis of reserves adjusted for Fe content compared to more than US$20/ tonne for its comparable peers. We believe, based on its strong fundamentals NMDC deserves a premium over its peers and our observation reveals that in the past two years, NMDC has been trading at an average EV/EBITDA of 8x. We however value the company at 6xFY14 EV/ EBITDA, at par with the current average global multiple. On this basis we arrive at a fair value of Rs 196/ share. Recommend BUY.

PGCIL

Buy, Target Price Rs 136	Earnings Growth and potential re-rating story

Expect excellent commissioning in 4Q13 and FY14: Even though 3Q13 could be soft, expect Rs70bn+commissioning in 4Q13 and Rs180-200bn in FY14E. Looking at commissioning schedule, we expect the management to reiterate and maintain its guidance for FY13E and guide for Rs180-200bn commissioning in FY14E.

Regulated equity growth at 25% to drive earnings CAGR of 17% in FY12-FY15E: Driven by high commissioning in FY12, FY13E and FY14E, we expect regulated equity likely to grow at 25% CAGR in FY12-FY15E. This is likely to drive earnings CAGR of 17% during FY12-14E.

Solid ROE with no regulatory overhang: PGCIL's current core ROE of 20% (including consultancy and STOA) has limited downside in the form of lower STOA as all other ROE components are likely to stay at current levels (currently uses MAT rate to gross up its ROE and therefore we do not see regulatory risk to its ROE)

Earnings growth and a potential re-rating story: Stock trades at 11xFY14E EPS and 1.6xFY14E Book. We believe PGCIL is an earnings Growth (17% during FY12-15E) as well as a re-rating story (trades at 11x FY14E, could re-rate to market multiple 13-14x). Re-rating Reasons – 1) Superior earnings growth visibility and certainty (strong certainty of 17% earnings growth during FY12-FY15E, as regulated business model with solid ROE and huge capitalization lined up), 2) Strong management (Mr. RN Nayak, CMD will remain in office until Sep 2015) and 3) stock at 20% discount to broader market and 10% discount to NTPC despite superior earnings growth and certainty. Recommend Buy with PT of Rs136/sh

Emkay©
Your success is our success

Buy, Target Price Rs 350 | **JLR – New launches to drive growth**

New launches to maintain growth momentum: New launch pipeline for JLR remains healthy with new *Range Rover* in Q3FY13 followed by new Range Rover sports in H1FY14. New RR volumes are expected to exceed its previous peak of ~32k per annum. Jaguar is also expected to see slew of new launches like *F-Type*, AWD versions of *XF* / *XJ* (~50% of the market) and the *Sportsbrake*.

Favorable geographic/product mix structural positive: JLR's most profitable market - China, continues to remain its fastest growth market as well, aiding overall profitability growth. Also, the RR platform are premium SUVs and should see revival in volume trajectory with the new platform aiding improving realizations and profitability.

JLR to continue generating free cash despite higher capex plans: Despite increasing capex guidance to GBP 2bn, we expect JLR to generate free cash flows to the tune of ~GBP 140 mn/ 350 mn in FY14/15 which we see as a big positive.

Capacity ramp up on track: Third shift in Halewood plant has commenced already, surprising street estimates positively with the output – this should help reduce waiting periods in the *Evoque* and *Freelander* models. Also, the company is already ramping up capacities for the *Range Rover,* which should help capitalize on the likely strong demand.

New launches and improving mix could throw in positive surprises : We expect that the successive launches of the RR and RR Sport, along with the launches in the Jaguar platform will help improve the realizations and profitability for the company and likely surprise positively. Emkay's earnings forecast are Rs 42/share and Rs 48/share for FY14E and FY15E respectively, a strong 19% CAGR going ahead.

Zee Entertainment

Your success is our success

Buy, Target Price Rs 275	Entering a new orbit

Digitization to trigger 2.2x jump in domestic subscription over FY12-15E: Implementation of digitization will trigger 2.2x jump in Zee's domestic subscription revenues over FY12-15E to Rs20.3bn. The growth to be driven by 1) Improving subscriber declaration, 2) Increase in ARPU share of broadcaster, 3) Media-Pro JV providing better negotiating power with MSOs for content deals, 4) healthy subscriber addition in DTH and 5) Increase in consumer ARPU.

Increasing ad spend by FMCG sector and stable market share to drive ad growth: Zee's revamped strategy with higher no. of programming hours and good quality content resulted in re-gaining lost market share and drove 26% ad growth in H1FY13. Improving ad spends by FMCG companies to augur well for Zee and its presence in fast growing regional markets would further fuel ad growth. We estimate ad revenue of Rs23.1bn at 13.4% CAGR over FY12-15E.

Robust balance sheet with improving return ratios: Robust subscription revenue with no incremental capex is likely to drive cash generation. Robust profitability and limited capex over FY12-15E would result in strong FCF of Rs15.3bn. We expect cash and investments to increase to Rs19bn by FY15E.

Promising growth drivers: Broadcasting industry is entering a phase of promising revenue growth as subscription revenue has annuity model, unlike ad revenues which is cyclical due to direct linkage with macro economic factors. With implementation of digitization, the growth driver stated above are promising than ever in the past.

Robust earnings performance: Consolidated revenue is expected to grow at 17.8% CAGR (FY12-15E), EBITDA and PAT is expected grow at a CAGR of 25% over FY12-15E, reduction in carriage charge could emerge as an additional benefit for Zee in the long run. We recommend BUY with TP of Rs275, discounting our FY14 and FY15 earnings by 30x and 22.6x respectively.

Berger Paints

Buy, Target Price Rs185 | **Gap to Asian Paints widened**

Second largest player with 17% market share: Berger Paints is the second largest player in the decorative paints market with a 17% market share. Decorative paints constitute 80% of its sales and enjoy strong brand equity in eastern regions. It has a pan India distribution network of 14,000 dealers and 7,700 tinting machines.

Decorative paints market to grow at a healthy rate in the future: Decorative paints constitute 70% of the Rs 170bn paints market. While short term macro environment could result in lower velocity of paint consumption growth to GDP growth, we believe, in long term, with increasing per capita income and healthy economic growth, paints sector demand is poised for robust growth.

Shift in product mix to augur well: Berger is focusing on raising share of water-based paints in its total product portfolio and has also filled the product gap that existed with Asian Paints, through introduction of premium products in water-based paints. This shift towards emulsions augurs well for Berger as water-based paint is not only a high growth category, but also a higher margin product segment compared to solvent-based paints.

To benefit from increasing size and scale: Berger is poised for strong growth ahead, given inherent growth in decorative as well industrial paint segment and its increasing aggression to enhance its capacity and distribution reach. We expect revenue and earnings to grow at 14% and 16% CAGR respectively, over FY12-14E.

Near term catalyst and earnings performance: The last 2 quarters has seen muted performance in domestic operations led by disappointing volume growth, while international operations positively surprised by reporting margin expansion. However, our core arguments remain intact (1) gains from scale and size (2) shift in product portfolio (3) retaining market shares and (4) backward integration. Berger Paints (22.8x FY14E earnings) trades at significant discount to Asian Paints (30.8x FY14E earnings). Retain Buy.

CRISIL

Buy, Target Price Rs 1,050	Creating strong footboard

Improving client relationship to drive business growth: CRISIL has more than ~40,000 client relations across bonds(500), BLR (9000) and SME (30000). These SMEs over next 3-4 years can migrate into BLR and bond rating clients which will drive ratings revenues. Moreover large addition of clients in IREVNA/ PIPAL/ Coalition to drive growth in research.

Ability to generate cash flows: Cash flow from operations increased at a CAGR of 20% over CY06-11 and likely to grow at the same pace over CY11/13. CRISIL has been using strong cash flows to either grow inorganically or in buybacks. CRISIL completed its last buyback of 0.9mn shares at an average price of 871 in December 2011, totaling to Rs795mn

Inorganic growth strategy boosted returns: CRISIL using strong cash flows from ratings business to buy into other business at regular intervals. They have strategy of buying low and scaling up the business. CRIS Infac/ Irevna acquired earlier, has grown at 34-38% annually since acquition. Coalition, acquisition in July 2012 will add further traction to research.

Near term catalyst and earnings performance: Full impact of the large client addition, to be visible in next 6-9mths**.** Drop in CP rates and improvement in credit in H2FY13, owing to seasonality to drive ratings revenue in H2FY13. Expect earnings to grow at a CAGR of 22% over CY11-13 with RoE/ RoIC of 55%/117%. The stock trades at 25.9x/21.3x CY13/14 EPS.

Exide Inds

Your success is our success

Buy, Target Price Rs 190 | **Turning Around**

Murphy's Law at play: Exide has seen a lackluster last six quarters - capacity constraints and a resultant shift in product mix towards lower margin OEM segment, which along with price cuts impacted margins. With commissioning of new capacity - worst is behind us and the business should now deliver better-than-anticipated results on more than one parameters.

Replacement demand to kick in; expect market share gains: With new capacity of 3.6 mn for 2 wheelers and 1.6 mn for 4 wheelers, Exide is favorably placed to capitalize on the uptick in the replacement demand in FY13/14, which we expect on the back of the strong 26% growth seen in FY10/11 and a three year replacement cycle. We note that its key competitor , Amara Raja, is already suffering from capacity constraints which should help Exide gain back some of its lost market share. We expect Exide to report FY12-15E revenue CAGR of 21% as against our OEM universe revenue CAGR of 15%.

Product mix improvement to drive margins: Expect 200 bps improvement in margins led by an improving product mix in favour of the high margin replacement segment. Also, increased usage of push-start two-wheelers and preference of diesel cars is a structural positive for realizations improvement and margins. In-house smelters give Exide a competitive edge - cheaper and stable supply of lead, the key raw material.

Near term catalyst and earnings performance: We expect the company to report earnings CAGR of 31% in FY12-FY15 and act as a counter cyclical stock when OEMs are facing demand slowdown pressures. We recommend a BUY on Exide with a TP of Rs 190 based on 15xFY15E earnings for the core business and Rs 10/share for its stake in ING Vysya Life Insurance business. Improving margin trajectory should be the key trigger for the stock.

Federal Bank

Buy, Target Price Rs 500 | **Story well on track**

Improving profitability: The avg quarterly profitability has improved to 2-2.2bn over past three quarters vs Rs1.4bn in previous 5-6 quarters. Higher NIM's at ~3.5-3.9% coupled with decline in provision cost aided higher growth in earnings.

Lesser accretion to NPA to keep provisioning requirement low: The net additions to NPAs has slowed down significantly over past four quarters (avg of Rs514mn) implying lesser need of provision costs. The provision cost has come down from an average of 1.6% during FY09-11 to an average 0.6% over the last four-five quarters.

Higher RoA's despite pressure on NIM's: FB has sustained 1.3%+ of ROAs despite some pressure on margins over past few quarters. Lower provisioning requirement on account of improving asset quality offset the compression in NIM's. NIM's compression was inline with management strategy of increased focus on low yielding high rated quality accounts.

Valuations : Concerns over asset quality had dragged stock performance in past. However, steady state balance sheet expansion with easing NPA pressure will warrant re-rating. We have valued the bank at 1.2x FY13E/14 average ABV even as banks like City Union Bank and Karur Vysya Bank with comparable RoA profile are quoting at 1.5x-1.6x one-year forward ABV.

Near term catalyst and earnings performance: With the largest branch network among old pvt sector banks and a healthy deposit profile, moderation in GNPA number could trigger a re-rating in the stock. Expect GNPA to come down to 2.4% by FY14 from 3.6% in Q1FY13

LIC Housing Finance

Your success is our success

Buy, Target Price Rs 280 | **Risk-reward ratio remains favorable**

Enthused by come back in retail spreads even as results disappoint: Even as LICHF's Q2FY13 NII and PAT at Rs3.5bn and Rs2.4bn were below estimates (Rs3.8bn/R2.7bn), we are quite enthused by marked improvement in the retail loans spreads. 6bps qoq expansion in retail spreads point towards the benefit of gradual repricing of the teaser rate loan book.

Exit calc retail spreads at 1.2% with blended spreads at 1.35%: Going forward we expect the retail spreads to expand to 1.2% in Q4FY13 driven by re-pricing of the teaser rate loans contributing about 28bps over H2FY13. We haven't factored in benefits coming from re-pricing of the liabilities. We expect the blended spreads to improve to 1.35% over the same period

Retail loans show resilience: LICHF Q2FY13 loan portfolio expanded 23% yoy (5% qoq) and was primarily led by 27% yoy / 6% qoq growth in individual loan portfolio. Retail disbursements grew by 21% yoy/27% qoq. Repayment rates in Q2FY13 were at 12% (annualized) of the opening loans despite no prepayment penalty charges and high rate competition

Attractive valuations: With resilience of retail loan portfolio and low NPA risks, the downside in the stock is limited at current valuations of 1.9x FY13/14E ABV. The upside trigger to the stock would be faster than expected growth in the developers' loans and better overall spreads driven by the same.

Near term catalyst and earnings performance: We believe that growth in developers' loan book can come back easily in any quarter due to the bulk nature of the business. We see trend reversal with improving retail spreads.

Tech Mahindra

Buy, Target Price Rs 1,050 | **Scale benefits**

Recent deal wins should drive improvement in revenue growth trajectory: TechM's revenues have grown by ~5.4% CQGR over FY09-12 impacted adversely by pressures from BT (non BT revenues grew impressively by ~21% CAGR over the period). Recent deals in the form of KPN and acquisitions of HGS and stake in Comviva should help drive improvement in revenue growth trajectory.(we forecast a 13.5% US$ revenue CAGR over FY12-14E)

Mah Satyam's margin improvement credible, focus on aggressive client mining ahead: TechM/Mah Satyam management has done well to improve margins for Mah Satyam to ~21.5% in June'12 qtr (V/s <6% in Sep'10 qtr). Management intends to use Satyam's strengths in Manufacturing vertical along with strong execution record in the EAS space to drive aggressive account mining as well winning back old logos.

Consolidated Entity: Scale, Well diversified revenue base: The Tech M+Mah Satyam combine not only has a much larger revenue base (US$ 2.5 bn in FY12E) but a much more well diversified revenue stream (BT <17% of revenues, Telecom <46% of revenues etc)

Near term catalysts and earnings performance: We continue to back upsides in Tech M /Mah Satyam given upside risks to our earnings estimates. We retain ACCUMULATE on Tech M with a TP of Rs 1,050 (based on 11xFY14E pro forma earnings). Merger swap ratio of 8.5:1 implies a TP of Rs 125 for Mahindra Satyam. Valuations at ~9.5x/9x proforma FY13/14 P/E remain attractive.

Wockhardt Ltd.

Buy, Target Price Rs 2,160 | **Still scope for re-rating**

US Generic – the key growth driver: Wockhardt's US business, which currently constitutes 40% of revenues, is likely to grow at 21% CAGR over FY12-14E led by niche launches like Toprol, Flonase, Comtan and Stalevo, which are either difficult to manufacture or are multi-year opportunities with high entry barriers.

Domestic business – Steady growth: We expect domestic biz (25% contr) to grow by 12% CAGR over FY12-14E, led by its focus on Vitamins, Respiratory, Diabetes and Pain therapies, which contribute 55% to domestic portfolio. Post divestment of nutrition biz, brands retained by Wockhardt in Vitamins segment still have the ability to deliver good growth

Balance sheet – Continuously improving visibility: Wockhardt has settled all its liabilities related to currency derivatives last year. Debt, which has been a major overhang on the stock, is likely to reduce to nil by FY14E on the back of strong cash flows from the business and sale of its nutrition business.

Strong cash on books to reduce debt: Wockhardt currently has Rs19bn of cash on the balance sheet after receiving Rs12.8bn of cash from Nutrition business sale. This cash will be used in reduction of Rs32bn of debt of which Rs11.5bn of debt is under the CDR Scheme.

Near Term Catalysts & Earnings Performance: Wockhardt has one of the largest and the most profitable US businesses with steady India business. It has one of the best in class operating and balance sheet ratios. Going forward – 31% CAGR in earnings & reduction in net debt to zero will re-rate the stock from current 14x FY13E to 18x FY14E EPS of Rs120. Initiate coverage with a BUY and TP of Rs 2,160. At CMP, the stock trades at 16x FY13E and 14x FY14E EPS.

Thank You

Your success is our success

Emkay Global Financial Services Ltd.

7th Floor, The Ruby, Senapati Bapat Marg, Dadar - West, Mumbai - 400028. India

Tel: +91 22 66121212 Fax: +91 22 66121299 Web: www.emkayglobal.com