

Q1FY17 preview: Order flows / profits looking up; execution challenges to persist

Price Objective Change



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Industrials – Order flows / profits looking up

Whilst we expect revenue growth to continue to be modest (+ 9% YoY), we forecast 26% YoY growth in Rec PAT for the Indian Engineering & Construction (E&C) sector (represented by the eight stocks under our coverage including L&T, BHEL, ABB India, BEL, Cummins India, Inox Wind, Siemens Ltd and Voltas), primarily led by higher EBITDA margins (+60bps YoY) and lower taxes (-8% YoY). We expect execution to remain modest for most E&C companies; however, excluding BHEL, order inflows should pick up led by L&T, ABB and Siemens. Our ratings on all Industrial stocks under our coverage remain unchanged as we believe current valuations more than price in the near-term pick-up in the capex cycle. In our view, potential earnings surprise for 1QFY17 include L&T, Voltas, PGCIL and ABB (2QFY16), and potential earnings disappointment could come from BHEL.

Strong growth in NTPC's power generation

Strong growth in India's power demand has led to more than >10% gross generation growth for NTPC. We estimate 6% YoY growth in NTPC's Rec PAT in 1Q led by a combination of higher regulated profit, marginally higher incentives and higher other income. For PGCIL, we think robust growth in capitalization in the previous 12months (Rs317bn; +46% YoY) could help drive a 16% YoY increase in Rec PAT.

Weakness in traffic to limit upside for ADSEZ / Pipavav

In our view, continued weakness in coal and container traffic is likely to result in muted business growth for the port companies (ADSEZ & Gujarat Pipavav) in 1QFY17. Overall, we expect (1) 4%/-7% YoY growth in sales, and (2) 3%/-9% YoY growth in Rec PAT for Gujarat Pipavav and Adani ports respectively in 1QFY17. We continue to await a sustained pick up in EXIM trade before turning more positive on India's port traffic.

L&T: Order inflow to revive on a low base

L&T has announced projects worth Rs191bn in 1QFY17, which is 24% higher than projects announced in 1QFY16 (Rs155bn) by June-end. Consequently, we expect L&T to report 40% YoY growth in order inflows ex-services. However, we expect (1) a continuation of execution challenges is likely to constrain consolidated sales growth to 9% YoY, and (2) further losses in its hydrocarbons, heavy engineering and metallurgy & material handling segment could restrict EBITDA margin improvement to ~80bps YoY in 1QFY17. Overall, we expect a 22% increase in consolidated Rec PAT led by (1) 17% YoY growth in EBITDA, and (2) 10% reduction in taxes (effective tax rate of 38% in 1QFY17). We reiterate our Neutral rating on L&T and revise our PO by 4% to Rs1,597 due to a 3 month rollover of our sum of the parts valuation.

Voltas: Sharp up-tick in AC sales to drive growth

We expect Voltas to report a robust 25% YoY growth in room AC sales (Unitary Cooling Products (UCP) segment) led by heat waves in April and May. We think UCP margins are likely to expand >200bps YoY despite high competition due to operating leverage gains. We expect the MEP (Mechanical Electrical Projects) business to remain muted (sales growth: +4% YoY; EBIT margin: 2.5%) due to: (1) a subdued pick up in India's commercial real estate market, and (2) low oil prices impacting the Middle East. Overall, we forecast 150bps expansion in EBIT margins resulting in 34% YoY growth in EBIT and 25% YoY growth in Rec PAT.

India
Industrials/Multi-Industry

Amish Shah, CFA >>
Research Analyst
DSP Merrill Lynch (India)
+91 22 6632 8656
shah.amish@bamll.com

Tanuj Mukhija, CFA >>
Research Analyst
DSP Merrill Lynch (India)
+91 22 6632 8661
tanuj.mukhija@bamll.com

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Sector Highlights

Table 1: Results Preview 1QFY17E – Industrials & Infrastructure

Company	Sales		% change		PAT			% change		EBITDA Margin			
Name	Jun 16A	Mar 16A	Jun 16E	YoY	QoQ	Jun 16A	Mar 16A	Jun 16E	YoY	QoQ	Jun 16A	Mar 16A	Jun 16E
L&T	202,522	331,570	221,262	9.3%	-33.3%	6,062	24,051	7,383	21.8%	-69.3%	11.3%	14.7%	12.1%
BHEL	43,617	100,048	44,929	3.0%	-55.1%	(1,371)	2,230	(1,044)	-23.9%	-146.8%	-4.8%	3.6%	-3.1%
ABB India*	19,316	20,003	21,098	9.2%	5.5%	700	763	1,014	44.8%	32.9%	8.3%	7.9%	9.6%
Bharat Electronics	10,953	32,149	12,570	14.8%	-60.9%	607	8,017	947	55.9%	-88.2%	-0.5%	31.1%	2.5%
Cummins India	12,825	10,381	13,309	3.8%	28.2%	2,107	1,642	2,274	7.9%	38.5%	14.5%	13.8%	15.5%
Inox Wind	6,358	18,287	7,225	13.6%	-60.5%	587	2,116	619	5.4%	-70.8%	14.9%	17.2%	15.4%
Siemens*	23,760	27,836	26,520	11.6%	-4.7%	1,683	1,774	2,085	23.9%	17.5%	10.7%	11.0%	12.4%
Voltas	15,983	17,807	18,055	13.0%	1.4%	1,000	1,452	1,245	24.6%	-14.2%	8.2%	10.1%	9.7%
Industrials	335,334	558,080	364,968	8.8%	-34.6%	11,375	42,046	14,523	27.7%	-65.5%	8.7%	13.1%	9.9%
Adani Ports & SEZ	17,484	16,032	16,307	-6.7%	1.7%	6,754	4,607	6,153	-8.9%	33.6%	66.6%	56.8%	69.0%
Gujarat Pipavav	1,846	1,610	1,922	4.1%	19.4%	915	829	941	2.8%	13.5%	58.3%	62.8%	57.9%
Infrastructure	19,330	17,642	18,229	-5.7%	3.3%	7,669	5,436	7,094	-7.5%	30.5%	65.8%	57.3%	67.8%

Source: Company reports, BofA Merrill Lynch Global Research estimates

*Note: Jun 16E is 2Q16E for ABB India (December YE) and 3Q16E for Siemens (September YE)

Table 2: Results Preview 1QFY17E – Power Utilities

Company Name	Sales			% change		PAT			% change		Margin		
	Jun 16A	Mar 16A	Jun 16E	YoY	QoQ	Jun 16A	Mar 16A	Jun 16E	YoY	QoQ	Jun 16A	Mar 16A	Jun 16E
NHPC	19,861	15,856	19,075	-4.0%	20.3%	6,605	3,849	5,911	-10.5%	53.6%	62.0%	60.5%	59.8%
NTPC	179,196	181,087	187,994	4.9%	3.8%	19,547	24,883	20,778	6.3%	-16.5%	23.9%	28.5%	25.7%
PGCIL	47,176	57,601	56,520	19.8%	-1.9%	13,665	15,340	15,849	16.0%	3.3%	87.7%	87.3%	89.3%
Tata Power	88,718	96,261	93,391	5.3%	-3.0%	1,277	4,810	2,268	77.6%	-52.8%	21.7%	22.5%	20.8%
Power	334,950	350,804	356,980	6.6%	1.8%	41,093	48,881	44,806	9.0%	-8.3%	34.5%	37.9%	36.3%

Source: Company reports, BofA Merrill Lynch Global Research estimates

Table 3: India Industrials & Infrastructure coverage - valuation comparable summary

Company Name	BofAML Rating	BofAML QRQ	Current Price	BofAML PO	Return Potential (%)	Mkt cap (US\$ mn)	P/E (x)		EPS CAGR (%) FY16-18E	P/BV (x)		RoE (%)	
							FY17E	FY18E		FY17E	FY18E	FY17E	FY18E
Industrials													
L&T	Neutral	C-2-8	1,564	1,597	2%	21,610	28.3	23.3	16.9	3.0	2.8	11.2	12.5
BHEL	Underperform	C-3-8	140	95	-32%	5,076	79.3	38.2	na	1.0	1.0	1.3	2.7
ABB India	Underperform	C-3-7	1,207	861	-29%	3,792	58.6	45.3	34.2	7.7	6.8	13.8	15.9
BEL	Underperform	B-3-7	1,278	1,084	-15%	4,546	19.6	21.4	1.4	3.0	2.7	16.3	13.3
Cummins India	Underperform	C-3-7	847	718	-15%	3,480	26.6	22.6	16.2	6.7	5.9	26.4	27.7
Inox Wind	Buy	C-1-7	238	328	38%	781	9.7	8.7	13.3	2.3	1.9	26.7	24.5
Siemens India	Underperform	C-3-8	1,281	712.66	-44%	6,760	63.6	53.2	20.8	8.5	8.0	13.6	15.5
Voltas	Underperform	C-3-8	324	299	-8%	1,588	25.1	21.6	20.4	3.9	3.5	16.7	17.1
Industrials Average							38.8	29.3	17.6	4.5	4.1	15.7	16.1
Adani Ports & SEZ	Buy	B-1-7	215	264.39	23%	6,606	17.1	16.7	11.0	2.8	2.5	17.9	15.8
Gujarat Pipavav	Neutral	B-2-7	163	165	1%	1,170	19.1	21.7	8.1	3.7	3.4	20.3	16.3
Ports Average							18.1	19.2	9.5	3.3	2.9	19.1	16.0

Source: Bloomberg, BofA Merrill Lynch Global Research estimates

Table 4: India Utilities coverage - valuation comparable summary

Company Name	BofAML Rating	BofAML QRQ	Current Price	BofAML PO	Return Potential (%)	Mkt cap (US\$ mn)	P/E (x)		EPS CAGR (%) FY16-18E	P/BV (x)		RoE (%)	
							FY17E	FY18E		FY17E	FY18E	FY17E	FY18E
NTPC	Buy	C-1-7	153	159	4%	18,744	13.7	12.0	11.0	1.3	1.2	10.0	10.7
NHPC	Underperform	B-3-7	25.6	18.4	-28%	4,201	10.2	9.3	8.1	0.8	0.8	8.4	8.9
Power Grid	Neutral	C-2-7	164	166	1%	12,707	11.4	10.0	18.1	1.8	1.6	16.5	16.8
Tata Power	Underperform	C-3-7	74	72	-3%	2,983	13.0	11.6	10.0	1.3	1.2	10.0	10.4
Average							12.1	10.7		1.3	1.2	11.2	11.7

Source: Bloomberg, BofA Merrill Lynch Global Research estimates

Industrials

Potential earnings surprise: L&T, Voltas, ABB, Siemens

Potential earnings disappointment: BHEL

- **L&T:** L&T has announced projects worth Rs191bn in 1QFY17, which is 24% higher than projects announced in 1QFY16 (Rs155bn) by June-end. Consequently, we expect L&T to report 40% YoY growth in order inflows ex-services. However, we expect (1) a continuation of execution challenges is likely to restrict consolidated sales growth at 9% YoY, and (2) further losses in its hydrocarbons, heavy engineering and metallurgy & material handling segment could restrict EBITDA margin improvement to ~80bps YoY in 1QFY17. Overall, we expect 22% increase in consolidated Rec PAT led by (1) 17% YoY growth in EBITDA, and (2) 10% reduction in taxes (effective tax rate of 38% in 1QFY17).
- **BHEL:** We expect execution to remain subdued in 1QFY17 led by rising share of slow-moving orders. We forecast a 3% YoY increase in sales. However, margin pressure is likely to continue led by: (1) continued pricing pressure in the BTG (Boiler Turbine Generator) segment, and (2) lower margins on super-critical orders. As such, we expect EBITDA to remain in the red and the company to report a PAT loss of Rs1bn in 1Q.
- **ABB:** ABB will report its 2Q16 result. We forecast a 12%YoY rise in new order inflows. Improved execution in power products and DAM (Discrete Automation and Motion) segments to drive a +9% YoY increase in revenues. We expect margins to expand 130bps YoY to ~10%, which should drive EPS growth of 45% YoY.
- **Bharat Electronics:** We forecast 20% YoY growth order inflow in 1QFY17 to Rs6.5bn. We expect sales to witness 15% YoY growth and estimate EBITDA margins to improve by 300bps to 2.5% as the company benefits from lower material costs. As such, we estimate recurring PAT to increase 56% YoY led by higher other income.
- **Cummins India:** We expect Cummins to report a subdued 4% YoY growth in 1Q sales led by (1) moderating growth in power genset sales (8% YoY in 1QFY17 vs. 18% YoY growth in FY16), and (2) continued pressure on exports (6% YoY decline in 1Q). Overall, we forecast a ~100bps expansion in EBITDA margin, resulting in 11% YoY growth in EBITDA and 8% YoY growth in Rec PAT.
- **Inox Wind:** We expect Inox Wind to report a ~30% YoY rise in its order flows to 160MW on a low base. The order book should remain healthy at ~1.2GW, providing good visibility for the next 12-18 months.
- We expect Inox Wind's sales to register a growth of 14% YoY. EBITDA margins should expand 50bps YoY to ~15.5%, resulting in 18% YoY growth in EBITDA. However, higher depreciation expense related to the new manufacturing could result in a subdued 5.4% YoY growth in Rec PAT.
- **Siemens:** Siemens will report its 3Q16 result. We expect revenue growth to increase to 12% YoY in 3Q (vs. 5% YoY in 1HFY16) led by a strong 29% YoY growth in order inflows in 9MFY16E. We forecast 180bps improvement in EBITDA margins to 12.4% on improved utilization levels, leading to a 24% YoY growth in its earnings to Rs2.1bn.
- **Voltas:** We expect Voltas to report a robust 25% YoY growth in room AC sales led by heat waves in April and May. We expect UCP margins to expand >200bps YoY despite high competition given some operating leverage gains from high AC sales. We expect the MEP business to remain muted (sales growth: +4% YoY; EBIT margin: 2.5%) due to: (1) subdued pick-up and continued high competition in India's commercial real estate market, and (2) low oil prices impacting the Middle-East.
- Overall, we expect 150bps expansion in EBIT margins, resulting in 34% YoY growth in EBIT and 25% YoY growth in Rec PAT.

Ports

Potential earnings disappointment: ADSEZ, Gujarat Pipavav

- **Adani Ports & SEZ:** We expect Adani Ports to register a subdued 1% YoY growth in volumes (40mnt vs. 39.5mnt) primarily led by a -5% YoY decline in volumes at Mundra. Weakness in traffic at Mundra is likely to be offset by a strong 20% YoY growth in traffic at the newer ports (on a low base). We expect falling coal imports and weakness in container traffic to continue to impact port traffic and consequently, margins in 1Q.
- Overall, we forecast: (1) revenue decline of 7% YoY (realizations down YoY), and (2) 4% decline in EBITDA during 1QFY17. Consequently, we expect Rec PAT to decline 9% YoY.
- **Gujarat Pipavav:** We expect Gujarat Pipavav to report a 6% YoY decline in its volumes led by subdued container traffic growth (+2% YoY). However, the addition of a new shipping line and a low base should help Pipavav report 11% sequential volume growth.
- Overall, we forecast a 4% increase in sales led by a ramp-up in higher realization liquid cargo and benefits from rupee depreciation. We forecast EBITDA growth of 3% YoY as margins largely remain flat YoY. We expect Rec PAT to grow 3% YoY, in line with EBITDA growth.

Power Utilities

Potential earnings surprise: Power Grid

Potential earnings disappointment: NHPC

- **NHPC:** We expect a 4% YoY fall in 1QFY17 revenues due to 12% YoY fall in generation post a weak monsoon season. We estimate PAT to decline 11% YoY.
- **NTPC:** Generation growth for NTPC during 1QFY17 remained strong at >10% YoY. However, we think an absence of capacity addition during the current quarter is likely to restrict NTPC's revenue and earnings growth at 5% / 6% respectively.
- **Power Grid Corporation (PGCIL):** We forecast PGCIL to capitalize transmission projects worth Rs73bn in 1QFY17 (+62% YoY). We think this, coupled with robust growth in capitalization in the preceding 12months (Rs317bn; +46% YoY), could drive a 22% YoY growth in EBITDA and 16% YoY increase in Rec PAT in 1Q.
- **Tata Power:** We forecast Tata Power's revenues to grow 5% YoY driven by a 8% YoY rise in consolidated power revenues. We expect overall EBIT margins to improve by 60bps. Overall, we expect consolidated PAT to grow 77% YoY (on a low 1QFY16 base).

Table 5: Stocks mentioned

BofAML Ticker	Bloomberg ticker	Company name	Price	Rating
ABVFF	ABB IN	ABB India	Rs 1206.25	C-3-7
XMANF	ADSEZ IN	Adani Ports	Rs 214.55	B-1-7
BHRTF	BHE IN	Bharat Electronics	Rs 1274.7	B-3-7
XBHEF	BHEL IN	BHEL	Rs 139.4	C-3-8
CUIDF	KKC IN	CIL	Rs 841.65	C-3-7
XJGUF	GPPV IN	Gujarat Pipavav Port	Rs 166.15	B-2-7
XPJYF	INXW IN	Inox Wind	Rs 235.1	C-1-7
XYUYF	LT IN	L&T	Rs 1576.1	C-2-8
LTOUF	LTOD LI	Larsen & Toub -G	US\$ 23.3	C-2-8
XNTHF	NHPC IN	NHPC	Rs 25.55	B-3-7
NTHPF	NTPC IN	NTPC	Rs 152.6	C-1-7
XPPWF	PWGR IN	Power Grid	Rs 161.25	C-2-7
SMNBF	SIEM IN	Siemens Ltd	Rs 1284.95	C-3-8
XNSGF	TPWR IN	Tata Power	Rs 74.3	C-3-7
VTSJF	VOLT IN	Voltas	Rs 325.2	C-3-8

Source: BofA Merrill Lynch Global Research

Price objective basis & risk

ABB India Ltd (ABVFF)

Our PO of Rs861 is based on a PE of 30x on two year forward EPS. Our target multiple is based on ABB's 1SD above mean on a two year forward EPS which is in line with its historical valuation premium to domestic T&D companies . Downside risks: raw material costs, execution risk, increasing competition and potential delay in power sector reforms/capex. Upside risks: rebound power T&D capex faster than our estimates.

Adani Ports & SEZ Ltd (XMANF)

We value ADSEZ using sum-of-the-parts (SoTP) methodology to arrive at a PO of Rs264.39/share. We value each of its port assets based on the free cash to equity (FCFE)-based DCF using cost of equity ranging from 14.5% to 16.4% and assuming it gets an extension in its concession agreements wherever applicable (for e.g., 20 years of extension is likely at the Mundra port after its expiry in CY31). We value its stake in Adani Logistics at 3x FY17E book value (in line with peers) and its stake in other businesses at 3x the invested equity as of March 2017 (in line with peers).

Downside risks for ADSEZ are: a) Potential diversion of ADSEZ's cash flows towards cash gap for Adani's group companies (mainly Adani Power), b) continuation of loans to related parties, c) US\$431mn of contingent liability towards Abbot Point and d) issues in extending Mundra port's concession agreement once it expires in 2031.

Bharat Electronics (BHRTF)

We use P/E as our primary valuation tool. We assign a target P/E of 18x to 2-year forward core P/E estimates and 1x P/B on cash in balance sheet to arrive at our PO of Rs1,084. Our target multiple is 1 standard deviation above historic average as:

1. Structural shift in domestic defense equipment manufacturing led by (a) government's focus on 'Make in India' and (b) expedite project clearance would lead to higher order inflows for BEL.
2. Competitive risk for BEL remains low over the next few years from the private sector, as it remains a leader in radar, weapons systems and electronic warfare.

The downside risks to our price objective are: (1) Delay in awarding projects announced by the government, (2) higher competition from JVs formed between foreign OEMs and domestic private companies, (3) execution of 'social' orders such as investment in solar power and (4) client led delay in project execution.

Upside Risks: 1) BEL forms JV with global defense major to improve technical know-how, 2) higher than expected order inflow.

Bharat Heavy Electricals Ltd (XBHEF)

Our PO of Rs95 for BHEL is based on FCFE, using a cost of equity of 14.5% and a terminal growth rate of 4%. Upside risks are: a) high order flow growth for the power sector, b) potential improvement in pricing of BTG equipment, as all the players in the sector aim for winning profitable orders, and c) improvement in its working capital cycle, leading to an improvement in its execution ratio and thereby earnings. Downside risks are: a) a delay in execution of its power segment orders, as customers remain impacted by weak financials and low utilization levels and b) continued elevation of cost of sales and working capital cycle.

Cummins India (CUIDF)

Our PO of Rs718 for Cummins India is based at 19x 2-yr forward EPS (including earnings from its JVs). The stock has traded in a wide band owing to the cyclical nature of its business. We are valuing at 19x, which is one standard deviation above its historical mean. We believe any valuation over this level is excessive given the outlook of a similar earnings CAGR and higher-than-peer valuations. The downside risk to our price objective is lower demand due to improvement in power supply in India. Upside risks to our price objective are higher-than-expected growth for its power gensets segment, ability to achieve its target of 20% market share (from current 14%) for low KVA gensets earlier than its current plans of achieving the target in 3-5 years, stronger-than-expected penetration of its LHP, Heavy Duty, and HHP products in the export market, and stronger economic recovery.

Gujarat Pipavav Port Ltd (XJGUF)

We value GPP's core business based on a free cash flow-to-equity-based DCF valuation. We use a 13.2% cost of equity to value GPP led by GPP's superior balance sheet and strong parentage. We value its 38.8% stake in PRCL at 17x FY17E earnings, adjusted for the dividends received by GPP for its 18% earnings CAGR expected in FY15-17. Based on this, we arrive at an SoTP-based valuation of Rs165.

Upside risks for GPP are a) Faster-than-expected ramp-up of new capacities, b) Potential of higher-than-20% dividend payouts assumed in our estimates now. Downside risk for GPP is its potential inability to grow container traffic due to continued weakness in EXIM trade.

Inox Wind Ltd (XPJYF)

Our PO for Inox Wind is Rs328/share based on 2-year forward PE multiple of 12.0x, which is at a discount to global peers (due to the risks mentioned below). Despite these risks we think IWL is attractive given its cheap valuations and FY16-19E EPS CAGR of 15% and FY19E RoE of 23%.

Risks to our positive view on the stock include (1) weak SEB finances impacting their ability to buy wind power, which is expensive compared to conventional energy sources, (2) potential regulatory changes, (3) growth of solar at the expense of wind energy in India and (4) IWL's exposure to multiple currencies for its import requirements.

Larsen & Toubro Ltd (XYUYF / LTOUF)

Our PO of Rs1,597 (US\$24.197) for L&T is based on SoTP valuation. We have valued its parent the core business (adjusted for dividend income from its subsidiaries/JVs) at 20.5x FY18E earnings for core business RoEs at 18% in FY18. We attribute a 20% holding company discount to all its other subsidiaries/JVs. We value its 100% stake in L&T Infotech based on 13.6x its 2 year forward earnings, in line with the valuations of mid-cap IT companies. Its 68% stake in L&T Finance is valued based on current market cap, implying a 1.6x FY17E book value. Its 97.45% stake in IDPL is valued based on FCFE

(CoE of 13.1-13.9%). Nabha Power (100%) is valued based on FCFE at CoE of 13%. Its 100% stake in L&T Hydrocarbon and L&T Realty is valued at 2x and 3x its 2 year forward invested equity respectively. Its 51% stake in L&T-MHI JVs is valued based on 15.0x its FY18E earnings, at our implied target multiple for BHEL. L&T Shipbuilding (97%) and L&T Special Steels & Forging (74%) is valued at 2x its 2 year forward invested equity. The rest of the businesses is valued based on 2.5x its 2 year forward invested equity.

Downside risk to our price objective is: Execution delays in the Middle East could lead to a cut in our earnings and consensus earnings estimates. Upside risks to our price objective are: a pick up in the domestic capex cycle, and a cut in interest rates.

NHPC Ltd (XNTHF)

Our PO of Rs18.4 for NHPC is based on FCFE of consolidated cash flows. We assume a 12.8% cost of equity (CoE) and a terminal growth rate of 3%.

Upside risks to our PO are a) CERC allowing a higher return on equity (RoE) for present and future hydro projects, b) faster-than-expected capacity additions and c) a higher dividend payout on surplus cash. Downside risks to our PO are a) lower-than-estimated capacity add and earnings growth, and b) further delays in Lower Subansiri.

NTPC Ltd (NTHPF)

Our PO of Rs159 for NTPC is based on FCFE, using a cost of equity of 11.75% and a terminal growth rate of 4%. Our PO translates into FY18E P/E of 11.1x and PBV of 1.15x, for 11% EPS CAGR over FY16-18E and FY18E RoE of 10.7%.

Downside risks are: a) weak power demand growth for the sector translating into potential of falling incentives resulting in weak earnings growth and RoE, and b) delay in capacity additions causing delay in translating low yield financial assets into high-yield power assets.

Upside risks: a) Potential of an increase in dividend payout and cut in interest rates, b) sharp pick-up in power demand leading to higher PLFs for its plants and hence, higher incentives, c) strong execution of ongoing projects leading to commissioning of new power projects, and d) news flow surrounding financial restructuring plan (FRP) for state discoms.

Power Grid Corporation of India Ltd (XPPWF)

Our PO of Rs166 for PGCIL is based on discounted cash flow (DCF) equity valuation which translates to 1.8x P/BV of FY18E for RoE of about 16%. We have valued the company assuming cost of equity of 11.5% and terminal growth rate of 4%.

Downside risks: a) Increased competition in competitively bid projects, b) cut in regulatory returns and incentives and c) an equity issuance.

Upside risks: Higher project awards through nomination route with assured RoE.

Siemens Ltd (SMNBF)

Our price objective of Rs712.66 is based on a target PE of 27x on our 2 year forward earnings. Our target multiple is based on its 2 year forward 1+standard deviation valuation in line with its historical premium to domestic T&D companies. Upside risks to our price objective are faster-than-estimated reversal in capex and higher-than-estimated margins for the company's SMART products. Downside risks to our PO are continued pressure on EBITDA margins due to the execution of low-margins orders and lower-than-estimated margins on SMART products.

Tata Power Company Ltd (XNSGF)

Our price objective for Tata Power of Rs72 is based on a sum-of-the-parts valuation. We have valued most of its power businesses / projects and Indonesian coal mines based on

the discounted cash flow equity method (CoE of 12.3% to 15.3%). Its parent's SED and contract business and Power Trading subsidiary are valued at 20x and 15x FY17E profit, respectively. The effective stake in Tata Sons is valued at a 20% discount to BofAML's TCS' fair value (HoldCo discount). The investments in the telecom businesses are valued after a 20% non-strategic stake discount to: a) the current market price for Tata Communications and Tata Teleservices (Maharashtra) and b) the exit valuation for DoCom's stake buy-back for Tata Teleservices. While its parent renewable (wind and solar) projects, Tata Power Solar Systems and other investments are valued at book value. We have deducted unallocated debt to arrive our SoTP based PO.

Upside risks: Cash realization from compensatory tariff relief for Mundra UMPP, increase in Indonesian coal prices leading to Arutmin's stake sale. Downside risks: Further delay in recovery of regulatory assets in Mumbai and Delhi power distribution businesses and a potential of protracted litigations by the SEBs to avoid payment of compensatory tariff for its Mundra UMPP.

Voltas (VTSJF)

We base our Rs299 PO on 20x estimated 2-year forward earnings (1 std dev above historical avg), which, in our view, is justified given the 18% EPS CAGR expected over FY16-18E and an FY18E RoE of 17%.

Downside risks to our PO are a) potential of cut in the GCC capex and/or delays in executing existing projects led by a sharp decline in oil prices and b) potential increase in competition for its AC business.

Upside risks to our PO are (1) stronger order wins from the Middle East, (2) compensation for cost-overruns seen recently and (3) stronger than expected growth in AC segment.

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APR - Utilities Coverage Cluster

Investment rating	Company	BofA Merrill Lynch ticker	Bloomberg symbol	Analyst
BUY				
	Aboitiz Power Corporation	ABZPF	AP PM	Ping Javier, CFA
	Beijing Enterprises Holdings Limited	BJINF	392 HK	Angello Chan
	Beijing Enterprises Water	BJWTF	371 HK	Xiaobing Wang
	CGN Power	XPRDF	1816 HK	Angello Chan
	China Longyuan Power Group Corp. Ltd.	CLPXF	916 HK	Angello Chan
	Electricity Generating Company Ltd.	EYGGF	EGCO TB	Sirichai Chalokepunrat
	Energy Development Corporation	EGDCF	EDC PM	Ping Javier, CFA
	ENN Energy Holdings Ltd	XNGSF	2688 HK	Angello Chan
	First Gen Corporation	FSGCF	FGEN PM	Ping Javier, CFA
	Glow Energy	GWEFF	GLOW TB	Sirichai Chalokepunrat
	Huadian Fuxin Energy Corp. Ltd	XHRUF	816 HK	Angello Chan
	Huaneng Renewables Corp Ltd	XNUGF	958 HK	Angello Chan
	KEPCO KPS	XPKRF	051600 KS	Jay Yoo
	Korea Gas Corp.	KRAGF	036460 KS	Jay Yoo
	NTPC Ltd	NTHPF	NTPC IN	Amish Shah, CFA
	Origin Energy	OGFGF	ORG AU	Simon Chan
	SIIC Environment	AWAEF	SIIC SP	Xiaobing Wang
	Singyes Solar	CSSXF	750 HK	Angello Chan
	Spark Infrastructure Group	SFDPF	SKI AU	Simon Chan
	Xinyi Solar	XYPJF	968 HK	Angello Chan
NEUTRAL				
	AGL Energy	AGLNF	AGL AU	Simon Chan
	APA	APAJF	APA AU	Simon Chan
	China Everbright International	CHFFF	257 HK	Xiaobing Wang
	China Gas Holdings Limited	CGHOF	384 HK	Angello Chan
	China Power International	CPWIF	2380 HK	Angello Chan
	China Resources Gas Group Limited	XHNCF	1193 HK	Angello Chan
	China Resources Power	CRPJF	836 HK	Angello Chan
	DUET Group	DUETF	DUE AU	Simon Chan
	Hong Kong & China Gas	HOKCF	3 HK	Angello Chan
	Hong Kong & China Gas Company -A	HOKCY	HOKCY US	Angello Chan
	Manila Water	MWTCF	MWC PM	Ping Javier, CFA
	Power Grid Corporation of India Ltd	XPPWF	PWGR IN	Amish Shah, CFA
	Ratchaburi Electricity Generating	RCHPF	RATCH TB	Sirichai Chalokepunrat
UNDERPERFORM				
	AusNet Services	SAUNF	AST AU	Simon Chan
	China Datang Renewable	XGDRF	1798 HK	Angello Chan
	China National Nuclear Power Co.	XCPEF	601985 CH	Angello Chan
	CLP Holdings	CLPHF	2 HK	Angello Chan
	CLP Holdings - A	CLPHY	CLPHY US	Angello Chan
	Huadian Power International	HPIFF	1071 HK	Angello Chan
	Huadian Power Intl Corp-A	HPIZF	600027 CH	Angello Chan
	Huaneng Powe-ADR	HNP	HNP US	Angello Chan
	Huaneng Power International	HUNGF	902 HK	Angello Chan
	Huaneng Power-A	HUNWF	600011 CH	Angello Chan
	Korea Electric Power Corp.	KEPLF	015760 KS	Jay Yoo
	Korea Electric Power Corp.-A	KEP	KEP US	Jay Yoo
	Manila Electric Co.	MERVF	MER PM	Ping Javier, CFA
	NHPC Ltd	XNTHF	NHPC IN	Amish Shah, CFA
	Tata Power Company Ltd	XNSGF	TPWR IN	Amish Shah, CFA
	Yingde Gases	YNGDF	2168 HK	Angello Chan
RVW				
	Power Assets Holdings Ltd	HGKGF	6 HK	Angello Chan
	Power Assets Holdings Ltd	HGKGY	HGKGY US	Angello Chan

India - Industrials Coverage Cluster

Investment rating	Company	BofA Merrill Lynch ticker	Bloomberg symbol	Analyst
BUY				
	Adani Ports & SEZ Ltd	XMANF	ADSEZ IN	Amish Shah, CFA
	Inox Wind Ltd	XPJYF	INXW IN	Amish Shah, CFA
NEUTRAL				
	Gujarat Pipavav Port Ltd	XJGUF	GPPV IN	Amish Shah, CFA
	Larsen & Toub -G	LTOUF	LTOD LI	Amish Shah, CFA
	Larsen & Toubro Ltd	XYUYF	LT IN	Amish Shah, CFA
UNDERPERFORM				
	ABB India Ltd	ABVFF	ABB IN	Amish Shah, CFA
	Bharat Electronics	BHRTF	BHE IN	Amish Shah, CFA
	Bharat Heavy Electricals Ltd	XBHEF	BHEL IN	Amish Shah, CFA
	Cummins India	CUIDF	KKC IN	Amish Shah, CFA
	Siemens Ltd	SMNBF	SIEM IN	Amish Shah, CFA
	Voltas	VTSJF	VOLT IN	Amish Shah, CFA

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Equity Investment Rating Distribution: Electrical Equipment Group (as of 30 Jun 2016)

Coverage Universe	Count	Percent	Inv. Banking Relationships*	Count	Percent
Buy	15	55.56%	Buy	8	53.33%
Hold	6	22.22%	Hold	4	66.67%
Sell	6	22.22%	Sell	4	66.67%

Equity Investment Rating Distribution: Engineering & Construction Group (as of 30 Jun 2016)

Coverage Universe	Count	Percent	Inv. Banking Relationships*	Count	Percent
Buy	9	32.14%	Buy	7	77.78%
Hold	8	28.57%	Hold	5	62.50%
Sell	11	39.29%	Sell	5	45.45%

Equity Investment Rating Distribution: Industrials/Multi-Industry Group (as of 30 Jun 2016)

Coverage Universe	Count	Percent	Inv. Banking Relationships*	Count	Percent
Buy	36	52.94%	Buy	26	72.22%
Hold	11	16.18%	Hold	8	72.73%
Sell	21	30.88%	Sell	14	66.67%

Equity Investment Rating Distribution: Machinery/Diversified Manufacturing Group (as of 30 Jun 2016)

Coverage Universe	Count	Percent	Inv. Banking Relationships*	Count	Percent
Buy	29	44.62%	Buy	18	62.07%
Hold	18	27.69%	Hold	13	72.22%
Sell	18	27.69%	Sell	14	77.78%

Equity Investment Rating Distribution: Transport/Infrastructure Group (as of 30 Jun 2016)

Coverage Universe	Count	Percent	Inv. Banking Relationships*	Count	Percent
Buy	72	48.98%	Buy	55	76.39%
Hold	30	20.41%	Hold	20	66.67%
Sell	45	30.61%	Sell	27	60.00%

Equity Investment Rating Distribution: Utilities Group (as of 30 Jun 2016)

Coverage Universe	Count	Percent	Inv. Banking Relationships*	Count	Percent
Buy	65	47.79%	Buy	53	81.54%
Hold	35	25.74%	Hold	30	85.71%
Sell	36	26.47%	Sell	26	72.22%

Equity Investment Rating Distribution: Global Group (as of 30 Jun 2016)

Coverage Universe	Count	Percent	Inv. Banking Relationships*	Count	Percent
Buy	1560	49.41%	Buy	1178	75.51%
Hold	729	23.09%	Hold	552	75.72%
Sell	868	27.49%	Sell	547	63.02%

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Investment rating	Total return expectation (within 12-month period of date of initial rating)	Ratings dispersion guidelines for coverage cluster*
Buy	≥ 10%	≤ 70%
Neutral	≥ 0%	≤ 30%
Underperform	N/A	≥ 20%

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