Non-linear winners

Oxford defines '*Extrapolate'* as *"extend the application of (a method or conclusion, especially one based on statistics) to an unknown situation by assuming that existing trends will continue or similar methods will be applicable".* Extrapolating a company's performance, good and bad, to estimate a company's likely financial performance works in a trending economy, but it can play truant when cycles turn, like in the current scenario.

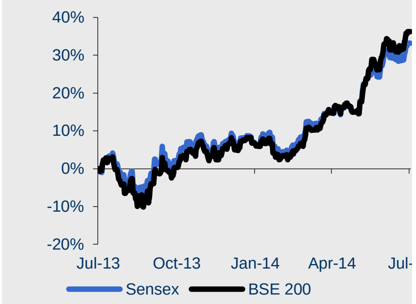
The rally over the past few months, in anticipation of a turnaround in fortunes, has made many stocks, esp. cyclicals, appear costly on expected next 12-18 month 'moderately improved earnings'. When cycles turn, can the earnings trajectory change materially in such a way that the current traded multiples are misleading? Are these stocks priced in already for the improvement? Is it the right time to play a 3 year improvement cycle even if the first 12-18 months show no material improvement? If the economics of the companies mean revert over the ensuing 3 years, is there a case to invest even now and make non-linear stock returns, both from earnings and multiples?

In this note, we question assumptions behind the estimates of our coverage stocks conscious of the risk of both 1) extrapolating current trends and 2) throwing caution to the winds assuming improvement across the board. We try to answer the questions posed above and identify 12 midcaps we see have justifiable non-linear improvement to their economics and likely stock returns due to a combination of a) demand recovery, b) better pricing environment, c) high fixed cost businesses giving significant operating leverage leading to EBITDA margin improvement, d) financial leverage, e) beneficial trade terms leading to improved cash flows and f) RoE expansion.

1. **Ashok Leyland** – CV recovery, margin expansion and deleveraging leading to mean reversion of traded multiples.
2. **Akzo Nobel -** Biz transformation / margin expansion
3. **Blue Star -** Improved order visibility, better execution can aid huge margin and RoE improvement; financial leverage.
4. **Chola –** Asset diversification, CV recovery, declining credit costs, operating leverage and RoA/ RoE expansion
5. **Dalmia Bharat –** Better capacity utilisation should lead to operating leverage and help deleverage the balance sheet
6. **Federal Bank –** Asset quality improvement, lower credit costs leading to RoA / RoE improvement
7. **Gujarat Pipavav** – Capacity expansion led container traffic growth, operating leverage and cash flows improvement.
8. **Jyothi Laboratories -** Volumes and Pricing mix to improve margins, RoE and cashflows significantly
9. **PTC India -** Trading volume pickup, Non-linear revenue model and improving receivables can provide huge kicker
10. **Ramco Cements -** South cement demand recovery, margin, cashflow & RoE expansion; deleveraging.
11. **South Indian Bank –** Transformation of loan book to lead to better risk-reward and RoA expansion
12. **Whirlpool** - New product launches, likely urban discretionary spend can result in volume-led operating leverage

Date	July 07, 2014

Market data	
BSE Sensex	25962
NSE Nifty	7751



Performance (%)	1m	3m	12m
Sensex	2%	16%	33%
BSE 200	2%	19%	36%

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Ashok Leyland

CMP	3 Yr. TP
Rs. 36	Rs. 63

Future

Particulars	FY10	FY11	FY12	FY13	FY14	FY15	FY16	FY17	FY18
MHCV	63,926	94,108	94,425	79,915	60,304	66,299	82,210	98,241	1,13,960
LCV	0	-	7,593	34,795	28,407	32,000	40,000	48,000	56,000
Volumes	**63,926**	**94,108**	**1,02,018**	**1,14,710**	**88,711**	**98,299**	**1,22,210**	**1,46,241**	**1,69,960**
Volume growth %	17%	47%	8%	12%	-23%	11%	24%	20%	16%
Realization growth %	4%	4%	6%	-14%	3%	7%	5%	1%	1%
Revenue growth %	22%	54%	15%	-3%	-20%	18%	30%	21%	18%
Gross Margin %	**29%**	**27%**	**26%**	**27%**	**24%**	**27%**	**27%**	**27%**	**27%**
EBITDA %	11%	11%	10%	7%	2%	6%	9%	9%	10%
EBITDA (Rs. bn)	8.0	12.1	12.6	8.8	1.7	7.1	13.0	17.1	21.7

Key positive triggers for volume & margin improvement

(1) Industry CV cycle bottomed out

(2) Discounts reduce significantly

(3) Company's efforts on lowering break-even levels, reducing fixed overheads and reducing employee cost to yield results

(4) significant operating leverage to aid margin improvement

Risks: Recovery to be delayed; increase in competition and hence discounts to remain high

Particulars	FY10	FY11	FY12	FY13	FY14	FY15	FY16	FY17	FY18
OCF as a % of sales	15.5%	5.3%	8.7%	5.8%	5.6%	0.4%	4.5%	5.8%	6.9%
Net Debt (Rs. Bn)	16.8	24.3	30.7	43.4	46.8	38.5	36.6	33.7	27.7
Net Leverage	0.46	0.61	0.73	0.97	1.05	0.80	0.72	0.61	0.44
Adj. PAT	4.6	6.3	5.6	2.4	-3.8	-0.5	4.4	7.6	11.1
Adj.EPS	1.7	2.4	2.1	0.9	-1.4	-0.2	1.6	2.7	4.0
ROE	13.0%	16.5%	13.8%	5.5%	-8.5%	-1.0%	8.9%	14.4%	18.9%
EV/EBITDA	FY10	FY11	FY12	FY13	FY14	FY15 (current)	FY16	FY17	FY18
Mean	**9.9**	**9.3**	**6.9**	**6.9**	**10.2**	**19.9**	**10.6**	**7.9**	**6.0**
								Rs. Bn	**Rs. /sh**
EV (Rs. bn)							**@ 9x FY18 EBITDA**	**195**	**69**
Debt (Rs. bn)							**Mar'18**	**28**	**10**
Core Mcap (Rs. bn)								**167**	**60**
Other Inv. (Rs. Bn)								**10**	**3**
Total								**177**	**63**

Balance sheet improvement to be significant

1. Improvement in EBITDA and tight leash on capex to improve FCFF
2. Sale of non-core assets and investments, working capital improvement (driven by lean inventory) coupled with improved FCFF to drive decline in Net Debt
3. Decline in interest expense to be driven by decline in debt levels
4. PAT to see steep non-linear growth driven by improved profitability and balance sheet

SPARK CAPITAL enhancing value

CMP	3 Yr. TP
Rs. 1126	Rs. 1666

Akzo Nobel

Akzo Nobel India despite having a superior gross margin to industry, lags well behind industry average on operating margins

		FY09	FY10	FY11	FY12	FY13	FY14	FY15E	FY16E	FY17E	FY18E
Gross Margin %	Asian Paints	38.3%	43.8%	42.1%	39.8%	41.3%	42.3%	42.4%	42.6%		
	Kansai Nerolac	34.6%	37.2%	34.8%	33.3%	32.2%	32.5%	32.7%	32.7%		
	Berger Paints	33.9%	36.9%	37.3%	36.4%	38.6%	39.5%	39.8%	40.1%		
	Average	**35.6%**	**39.3%**	**38.1%**	**36.5%**	**37.4%**	**38.1%**	**38.3%**	**38.5%**		
	Akzo Nobel	**43.4%**	**48.6%**	**47.8%**	**43.7%**	**43.0%**	**43.8%**	**43.4%**	**43.5%**	**43.5%**	**43.5%**
	Positive Delta (%)	**7.8%**	**9.3%**	**9.7%**	**7.2%**	**5.6%**	**5.7%**	**5.1%**	**5.0%**		
Other Expenses %	Asian Paints	26.1%	25.4%	24.9%	24.2%	25.5%	26.6%	26.6%	26.5%		
	Kansai Nerolac	23.1%	21.7%	21.1%	20.2%	20.3%	21.0%	20.4%	19.9%		
	Berger Paints	25.7%	26.4%	26.6%	26.1%	27.5%	28.4%	28.2%	26.8%		
	Average	**24.9%**	**24.5%**	**24.2%**	**23.5%**	**24.5%**	**25.3%**	**25.1%**	**24.4%**		
	Akzo Nobel	**31.4%**	**36.1%**	**35.5%**	**34.7%**	**34.3%**	**35.7%**	**35.1%**	**34.1%**	**32.0%**	**31.0%**
	Negative Delta(%)	**-6.5%**	**-11.6%**	**-11.3%**	**-11.2%**	**-9.9%**	**-10.4%**	**-10.0%**	**-9.7%**		
EBITDA %	Asian Paints	12.3%	18.4%	17.2%	15.7%	15.8%	15.7%	15.8%	16.1%		
	Kansai Nerolac	11.5%	15.5%	13.7%	13.0%	11.8%	11.5%	12.3%	12.8%		
	Berger Paints	8.2%	10.5%	10.7%	10.3%	11.1%	11.2%	11.6%	11.9%		
	Average	**10.7%**	**14.8%**	**13.9%**	**13.0%**	**12.9%**	**12.8%**	**13.2%**	**13.6%**		
	Akzo Nobel	**11.9%**	**12.5%**	**12.2%**	**9.0%**	**8.6%**	**8.1%**	**8.3%**	**9.4%**	**11.5%**	**12.5%**
	Negative Delta(%)	**1.2%**	**-2.3%**	**-1.7%**	**-4.0%**	**-4.3%**	**-4.7%**	**-4.9%**	**-4.2%**		
EPS		**36.6**	**43.2**	**45.5**	**54.8**	**46.9**	**32.2**	**34.5**	**42.2**	**51.6**	**69.4**
	OCF/Sales	**2.1%**	**10.6%**	**3.3%**	**7.1%**	**9.5%**	**7.3%**	**4.6%**	**5.5%**	**6.8%**	**7.4%**
	ROE	**16.1%**	**16.2%**	**16.1%**	**15.9%**	**17.2%**	**15.4%**	**18.4%**	**21.1%**	**25.8%**	**34.7%**

PE		FY09	FY10	FY11	FY12	FY13	FY14	FY15 (current)	FY16	FY17	FY18
	Mean	**14.7**	**12.5**	**12.5**	**16.6**	**17.6**	**16.4**	**32.6**	**26.7**	**21.8**	**16.2**
	Exit multiple										**24.0**
Target Price											**1,666**

Why we believe operating margins are to expand

- *Despite having highest gross margins among paint company peers, Akzo Nobel India operating margins are the lowest among the 4 players indicating immense potential of margin improvement on cost cutting measures.*
- *We believe the recent commentary and efforts from the management would see the operating margins significantly improving in long term*
- *Akzo Nobel India being asked to maintain ~10% operating margins by Akzo Nobel Global, in line with their other subsidiaries.*
- *Recent change in top management.*
- *Peers in the industry who reports ~12% margin (similar biz profile) command higher multiples of >25x. With margins returning, we believe Akzo would trade at similar levels*

CMP	3 Yr. TP
Rs. 306	Rs. 566

Bluestar

	Past				Present			Future		
Particulars	FY09	FY10	FY11	FY12	FY13	FY14	FY15E	FY16E	FY17E	FY18E
Order inflow (Rs. mn)	19,371	21,900	20,981	15,052	11,206	15,820	15,820	18,984	24,679	32,083
Order inflow growth (%)	0.0%	13.1%	-4.2%	-28.3%	-25.5%	41.2%	0.0%	20.0%	30.0%	30.0%
Net Revenue (Rs. mn)	25,026	25,250	29,807	28,204	29,240	29,149	31,603	35,922	43,995	54,292
Revenue growth (%)	12.7%	0.9%	18.1%	-5.4%	3.7%	-0.3%	8.4%	13.7%	22.5%	23.4%
Gross Margin (%)	25.1%	25.9%	28.0%	22.0%	25.3%	27.8%	28.5%	28.5%	29.0%	29.2%
EBITDA Margin (%)	10.4%	11.4%	8.6%	-0.8%	3.1%	3.6%	5.4%	6.9%	8.2%	9.6%

Particulars	FY09	FY10	FY11	FY12	FY13	FY14	FY15E	FY16E	FY17E	FY18E
OCF as a % of sales	7.6%	3.6%	-2.5%	9.2%	0.9%	3.7%	5.6%	5.6%	5.6%	6.2%
Net Leverage (x)	0	0.1	0.6	0.9	1	0.9	0.8	0.8	0.6	0.3
Net Debt (Rs. mn)	181	456	3,719	3,437	4,051	4,260	4,379	4,764	4,301	2,704
Finance cost (Rs. mn)	173	85	244	721	528	542	612	681	567	352
PAT (Rs. mn)	1,803	1,975	1,545	-1,051	391	775	907	1,183	1,993	3,183
EPS (Rs.)	20.1	22	17.2	-11.7	4.3	8.6	10.1	13.2	22.2	35.4
RoE (%)	57.2	46	29	-23.1	9.6	16.8	18	20.9	29.2	35.4
PE multiple (1yr fwd)	FY09	FY10	FY11	FY12	FY13	FY14	FY15 (current)	FY16E	FY17E	FY18E
Average 1-yr fwd. multiple	11.2	14.3	14.3	13.4	16.5	15	30.2	23.1	13.7	8.6
Exit multiple										16.0
Target Price (Rs.)										566.4

Key positive triggers -

(1) Pick up in order inflow in the EMP segment especially from infrastructure projects and commercial/office space

(2) Improvement in execution pace in EMP segment coupled with strong room A/C sales traction to provide revenue growth momentum in FY15E-FY18E

(3) Improved bidding environment on the back of strong demand scenario to result in relatively lower competition and higher project-level margins

Risks: Continued delays/ lack of demand from new infrastructure projects could impact EMP order inflow

Earnings to witness sharp recovery

1. Net debt and interest costs to reduce as working capital position improves progressively
2. PAT to witness steep improvement between FY14 and FY18E
3. Strong free cash flow to be generated in FY17E and FY18E
4. Assigning a multiple of 16x (historical average), the stock presents a considerable upside of 92% (TP of Rs. 566) from the current market price

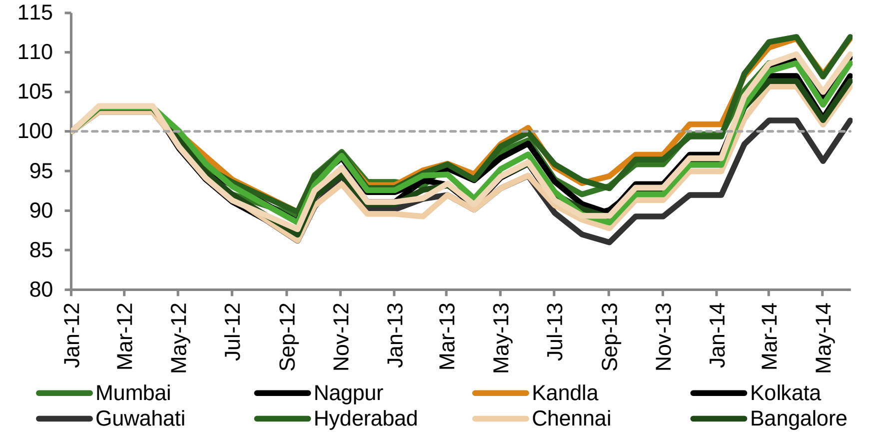
CMP	3Y Target
Rs. 409	Rs. 742

Cholamandalam Investment & Finance

Structural improvement in C/I ratios, diversification of loan book towards cars portfolio, normalization of credit costs to translate the business to ~2.5% ROA business. Bump-up in book value due to capital raise points to a potential re-rating

	Past	Present	Projection			
	FY12	FY14	FY15E	FY16E	FY17E	FY18E
Loan Growth	48%	22%	21%	22%	23%	27%
Borrowings + Securitization Growth	43%	24%	18%	22%	23%	25%
NII growth	29%	30%	18%	24%	24%	24%
Cost/Income	56%	44%	43%	36%	33%	29%
Credit costs	0.1%	1.2%	1.0%	1.0%	0.9%	0.8%
PAT growth	178%	19%	29%	50%	34%	38%
ROA tree						
NII/Total Assets	6.5%	6.7%	6.5%	6.7%	6.8%	6.8%
OI/Total Assets	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Total Income/ TA	6.5%	6.7%	6.5%	6.7%	6.8%	6.8%
Opex/Total Assets	3.6%	3.0%	2.8%	2.4%	2.2%	2.0%
PPOP/Total Assets	2.8%	3.8%	3.7%	4.3%	4.6%	4.8%
Prov/Total Assets	0.2%	1.3%	1.1%	1.1%	1.0%	0.9%
PBT/Total Assets	2.7%	2.5%	2.6%	3.2%	3.5%	3.9%
PAT/Total Assets	**1.4%**	**1.6%**	**1.7%**	**2.2%**	**2.4%**	**2.6%**
Assets/Equity	9.6	10.4	9.9	9.4	9.4	9.4
ROE	**14%**	**17%**	**17%**	**20%**	**22%**	**25%**
T1 CAR	10.1%	9.4%	10.7%	10.6%	10.6%	10.7%
NIM	6.9%	7.0%	6.8%	7.0%	7.1%	7.0%
BV (Rs. / sh)	107	160	202	243	299	378
ABV (Rs. / sh)	104	149	199	238	293	371
P/ABV	FY10	FY14	Current (FY15)	FY16	FY17	FY18
Average P/ABV	1.3	1.4	2.1	1.7	1.4	1.1
Exit multiple						2.0
3 yr target						742

Improvement in freight rates to drive CV cycle improvement



Source: Spark Research

Significant thrust into rural financing to diversify loan book over the next 4-5 years

Demand drivers	Loan Book Diversification	FY14	FY18
Cyclical	MHCV & Used	27%	20%
Consumption	LCV & Tractors	45%	31%
Steady state	Cars	3%	5%
Steady state	LAP	25%	19%
	New business additions		
Strucutural	Rural finance	0%	13%
Strucutural	Self Employed home loans	0%	13%
	Total	**100%**	**100%**

Source: Spark Research

CMP	3 Yr. TP
Rs. 455	Rs. 1027

Dalmia Bharat

	Past				Present				Future	
Key metrics - Past and current										
Dalmia Bharat	**FY09**	**FY10**	**FY11**	**FY12**	**FY13**	**FY14**	**FY15E**	**FY16E**	**FY17E**	**FY18E**
Utilisations - Company	68%	63%	60%	60%	58%	57%	56%	62%	73%	80%
Volume growth	4%	20%	14%	17%	11%	11%	13%	24%	18%	10%
Realisation growth	10%	-7%	-3%	19%	5%	-6%	10%	7%	7%	6%
EBITDA margin			21%	24%	22%	14%	21%	25%	26%	28%
EBITDA (Rs. bn)			3.6	5.6	6.2	4.1	7.1	11.2	15.1	18.5
	FY09	**FY10**	**FY11**	**FY12**	**FY13**	**FY14**	**FY15E**	**FY16E**	**FY17E**	**FY18E**
OCF as a % of Sales			4%	8%	5%	3%	8%	12%	13%	13%
Net Debt (Rs. bn)			12.8	13.3	27.7	36.4	42.8	42.8	41.6	40.6
Net Leverage (x)			0.5	0.4	0.9	1.2	1.3	1.2	1.1	0.9
Finance cost (Rs. bn)			1.7	1.5	2.3	3.2	3.7	5.2	5.2	5.2
RoE %			2%	5%	7%	0%	4%	7%	11%	14%
EV/EBITDA	FY09	FY10	FY11	FY12	FY13	FY14	FY15 (current)	FY16	FY17	FY18
Mean (x)			**NA**	**NA**	**5.1**	**6.2**	**10.1**	**6.3**	**4.5**	**3.5**
									Rs. bn	**Rs. /sh**
Enterprise Value (Rs. bn)					**@ "6.5x" on FY18 EBITDA**				120	1,478
Debt (Rs. bn)									42	512
Core Market Cap (Rs. bn)									**78**	966
Others (48% in OCL)									5	62
Total									**83**	**1,027**

Key positive triggers for volume & margin improvement

(1) Demand recovery in South, esp from the two new states

(2) Resultant demand will aid price hikes

(3) No fresh capacity additions in the region over the next three years

(4) Higher profitability from North East post commissioning of clinker line in Assam

Risks: Lower than expected price hikes.

The company will generate significant operating cash flows which will aid deleveraging

Improved margin and balance sheet profile and increase in scale will result in multiple re-ratingto >7x, however we currently assign only 6x

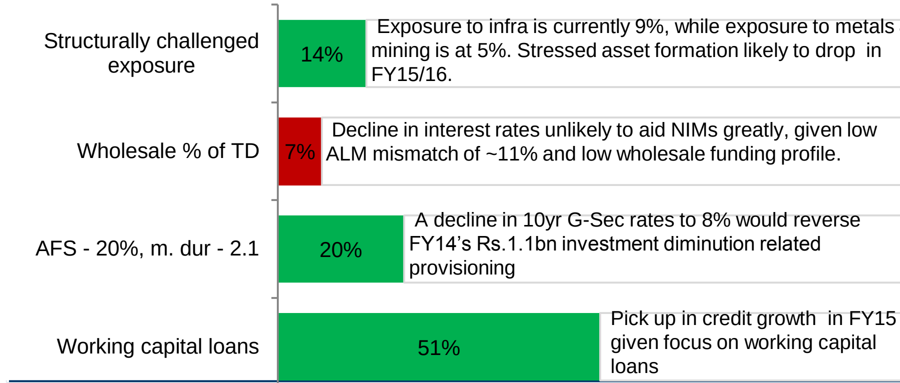
CMP	3Y Target
Rs. 129	Rs. 227

Federal Bank

FB is set to reap the benefits of a slow transition executed over the last 4 years; on the macro front >20% growth in retail/SME businesses is expected for FY15/16, while provisions are expected to decline meaningfully in FY15. Low exposure to structurally challenged sectors is another positive. On the micro front the business model will remain largely unchanged.

	Past	Present	Projection			
	FY10	**FY14**	**FY15E**	**FY16E**	**FY17E**	**FY18E**
Loan Growth	20%	-1%	16%	16%	18%	19%
Deposit Growth	12%	4%	14%	14%	16%	17%
CASA ratio	26%	31%	31%	31%	31%	31%
NII growth	7%	13%	14%	15%	17%	16%
Other income growth	3%	4%	15%	20%	20%	20%
Cost/Income	35%	48%	49%	49%	48%	46%
Credit costs	1.6%	0.7%	0.6%	0.5%	0.5%	0.5%
PAT growth	-7%	0%	15%	18%	26%	22%
ROA tree						
NII/Total Assets	3.4%	3.1%	3.2%	3.1%	3.2%	3.2%
OI/Total Assets	1.3%	1.0%	1.0%	1.0%	1.1%	1.1%
Total Income/ TA	4.7%	4.0%	4.2%	4.2%	4.2%	4.3%
Opex/Total Assets	1.6%	1.9%	2.0%	2.0%	2.0%	2.0%
PPOP/Total Assets	3.1%	2.1%	2.1%	2.1%	2.2%	2.3%
Prov/Total Assets	1.0%	0.4%	0.4%	0.3%	0.3%	0.3%
PBT/Total Assets	2.1%	1.7%	1.8%	1.8%	1.9%	2.0%
PAT/Total Assets	**1.1%**	**1.2%**	**1.2%**	**1.2%**	**1.3%**	**1.4%**
Assets/Equity	9.2	10.9	10.9	11.4	11.7	11.8
ROE	10.3%	12.6%	13.2%	13.9%	15.6%	16.6%
T1 CAR	16.9%	14.6%	14.3%	13.6%	12.9%	12.8%
NIM	3.6%	3.3%	3.4%	3.4%	3.4%	3.4%
NNPA	0.48%	0.74%	0.74%	0.74%	0.65%	0.60%
BV (Rs. / sh)	55	81	90	100	114	131
ABV (Rs. / sh)	53	77	86	95	109	126
P/ABV	FY10	FY14	Current (FY15)	FY16	FY17	FY18
Average P/ABV	0.9	1.0	1.5	1.4	1.2	1.0
Exit multiple						1.8
3 yr target						227

Macro Track: Positive for growth, asset quality and treasury income. No dramatic uptick in margins expected.



Source: Spark Capital Research

Micro Track: Loan book transition done, strong liability franchise a key positive. Calibrated branch expansion & opex to continue.

		FY11	FY14	FY15	FY16	FY17	FY18
Assets	Retail	28%	32%	33%	33%	32%	31%
	SME	29%	37%	37%	37%	36%	35%
	Corp	43%	31%	31%	30%	32%	34%
	Kerala share	38%	42%	42%	41%	41%	40%
	Non-Kerala share	62%	58%	58%	59%	59%	60%
Liabilities/liquidity	Inward remittances mkt. share	5%	8%	8%	9%	9%	10%
	I/D ratio	34%	40%	39%	38%	36%	35%
Opex	Branch addition	71	71	75	75	80	80
	Employees/Branch	12	9	9	9	9	9
	Opex yoy increase	24%	18%	17%	17%	16%	16%

Source: Spark Capital Research

SPARK CAPITAL enhancing value

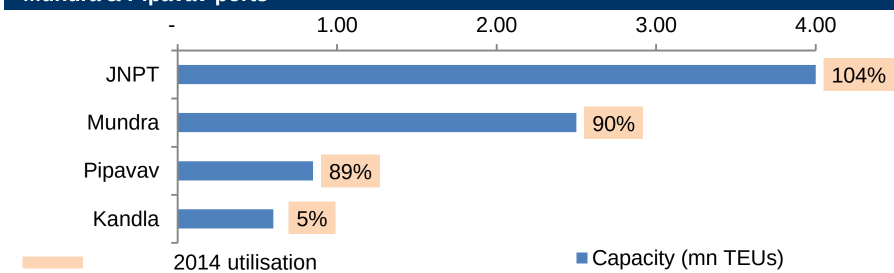
Gujarat Pipavav

CMP	3 Yr. TP
Rs. 126	Rs. 218

					Future		
Cargo Volumes	**CY11**	**CY12**	**CY13**	**CY14E**	**CY15E**	**CY16E**	**CY17E**
Yard Capacity, TEUs	8,50,000	8,50,000	8,50,000	8,50,000	8,50,000	13,00,000	13,00,000
Containers, TEUs	6,10,243	5,70,272	6,61,000	7,53,230	8,75,162	10,15,040	11,61,990
yoy growth, %		**-7%**	**16%**	**14%**	**16%**	**16%**	**14%**
Utilisation %		**67%**	**78%**	**89%**	**103%**	**78%**	**89%**
Bulk Volumes, mn tonnes			3.1	3.3	3.4	3.6	3.8
Financials (Rs. mn)	**CY11**	**CY12**	**CY13**	**CY14E**	**CY15E**	**CY16E**	**CY17E**
Revenues – Containers	2,499	2,335	3,503	4,112	4,921	5,879	6,932
Revenues - Bulk Volumes	1,181	1,220	1,363	1,460	1,548	1,642	1,776
Revenues - Liquid Cargo	-	0	19	94	253	402	536
Total Revenues	**3,680**	**3,555**	**4,885**	**5,665**	**6,722**	**7,923**	**9,243**
growth, %		*-3%*	*37%*	*16%*	*19%*	*18%*	*17%*
EBITDA	**1,828**	**1,819**	**2,568**	**3,319**	**4,156**	**4,926**	**5,970**
EBITDA margin, %	*50%*	*51%*	*53%*	*59%*	*62%*	*62%*	*65%*
PAT	**571**	**740**	**1,918**	**2,538**	**3,439**	**4,336**	**5,261**
EPS (Rs. / sh)	1.2	1.5	4.0	5.3	7.1	9.0	10.9
growth, %		*30%*	*159%*	*32%*	*36%*	*26%*	*21%*
ROE	***7%***	***7%***	***15%***	***17%***	***19%***	***20%***	***20%***

PE (1 yr fwd)	CY11	CY12	CY13	CY14 (current)	CY15	CY16	CY17
Mean Multiple	33.8	21.5	16.8	23.2	17.3	13.7	11.3
Exit multiple							20
3 yr target							218.0

Pipavav port forms 10% of the overall West Coast Container capacity – Incremental volumes (~5%) are likely to benefit Mundra & Pipavav ports



Key positive triggers for Cargo Volumes

- Rebound in container volume growth in the North Western ports (having a share of 68% of total container volumes in the country) at 7% in FY14 vs. just 1% in FY13 is expected to continue in over the next few years as macro improves
- Benefit of volume growth likely to be see in Mundra and Pipavav (grew at 30% and 21% in FY14) as JNPT & Kandla will continue to grapple with high utilization, lower productivity and degrowth in volumes.
- While current utilization at Pipavav are nearing its peak (byCY15), capacity expansion in CY16 will support growth through to CY17. Expect container volumes to grow at a minimum of ~15% for the next 3-4 years.
- Increasing container volumes and commencement of handling liquid cargo from 2QCY14 in the newly set-up liquid tanks will further unlock the benefits from operating leverage (we expect the EBITDA margin to improve to 65% by CY16 from 50% in CY13)
- Sizeable cash flow generation (can fund future capex internally), near zero debt and superior ROEs makes it an attractive investment.

Risks: a) lower than expected volume growth b) sudden and sharp appreciation in rupee against USD; 10% appreciation would impact 5% impact on earnings.

CMP	3 Yr. TP
Rs. 181	Rs. 348

Jyothy Laboratories

Power Brands	Category	FY14					3 years CAGR		2018		
		Peak Sales	Reported Sales	Market Size	% market Share	Peak Market Share	Category Growth Potential	Probable Share	Probable Market Size	JYL Sales	CAGR
Ujala	Whitener/ Detergents	3,218	3,497	5,500	64%	64%	14.00%	63.00%	9,289	5,852	14%
Henko	Detergents	1,280	1,220	25,000	5%	7%	10.00%	11.00%	36,603	4,026	35%
Exo	Dishwash	2,604	2,604	18,000	14%	15%	12.00%	18.00%	28,323	5,098	18%
Pril	Dishwash	865	865	4,500	19%	24%	15.00%	23.00%	7,871	1,810	20%
Maxo	Mosquito Repellent	1,997	1,997	25,000	8%	14%	18.00%	12.00%	48,469	5,816	31%
Margo	Bath Soap	1,068	1,068	1,30,000	1%	2%	8.00%	1.50%	1,76,864	2,653	26%
Others			1,299						1,579	1,579	5%
Laundry			633						769	769	5%
Total (Rs. Mn)			**13,183**						**3,09,767**	**27,605**	**20%**

	FY08	FY09	FY10	FY11	FY12	FY13	FY14	FY15	FY16	FY17	FY18
Sales	**3,859**	**3,619**	**5,963**	**6,264**	**9,188**	**11,066**	**13,239**	**15,513**	**18,240**	**22436**	**27605**
% growth		-6.20%	64.80%	5.00%	46.70%	20.40%	19.60%	17.20%	17.60%	23.00%	23.00%
EBITDA	**673**	**488**	**918**	**793**	**899**	**1305**	**1572**	**1982**	**2466**	**3141**	**4003**
% growth		*-27%*	*88%*	*-14%*	*13%*	*45%*	*20%*	*26%*	*24%*	*27%*	*27%*
% margin	17.40%	13.50%	15.40%	12.70%	9.80%	11.80%	11.90%	12.80%	13.50%	14.00%	14.50%
PAT	**499**	**384**	**743**	**688**	**446**	**478**	**854**	**1316**	**1782**	**2131**	**2622**
% margin	12.90%	10.60%	12.50%	11.00%	4.90%	4.30%	6.40%	8.50%	9.80%	9.50%	9.50%
EPS	**2.8**	**2.1**	**4.1**	**3.8**	**2.5**	**2.6**	**4.7**	**7.3**	**9.8**	**11.8**	**14.5**
ROE	**16.10%**	**11.40%**	**20.20%**	**13.50%**	**7.20%**	**7.60%**	**12.40%**	**17.30%**	**21.70%**	**26.00%**	**32.00%**
OCF/Sales	16.30%	8.30%	8.40%	-1.90%	13.60%	2.50%	6.80%	14.90%	12.90%		

PE (1 yr fwd)	**FY08**	**FY09**	**FY10**	**FY11**	**FY12**	**FY13**	**FY14**	**FY15 (Current)**	**FY16**	**FY17**	**FY18**
Mean			13.0	17.6	17.5	23.3	22.7	24.8	18.5	15.3	12.5
Exit multiple											24
3 yr target											348

Volumes and Pricing mix to improve significantly over the next 4 years driven by

1. Increasing traction in the Non-South Indian Markets, Proportion of sales from Non-South Indian markets has increased to 56% from 52% in FY13. Contribution from the Non-south Indian markets to increase as Jyothy Laboratories continue to integrate erstwhile Henkel distribution network and expand its offerings in the non-south Indian markets.

2. Increasing reach has been backed by significant A&P outlay, as the company continues to invest behind brands.

3. Re-launch of Henkel (June 2014) is beginning to receive good acceptance in the market which could lead to revival in Henkel revenues.

Margins to improve significantly as operating efficiency as JYL begins to invest in Pull strategy rather than Push strategy which is expected to significantly lead to lower lower trade margins and discounts.

Even by conservative estimates, we believe JYL earnings have a potential to grow by ~30% cagr over the next 4 years, which could lead to stock pricing doubling even without multiple expansion

CMP	3 Yr. TP
Rs. 98	Rs. 191

PTC India

Trading Volumes for PTC India						Future		
mn units	FY11	FY12	FY13	FY14	FY15	FY16	FY17	FY18
MT - Medium Term	0	0	0	1,407	1,477	1,551	1,629	1,710
LT - Sale of cross-border power	5,569	5,275	4,791	5,564	5,675	5,789	5,905	6,023
LT - Sale of power from PPAs	1,274	4,749	**3,771**	**6,674**	**12,961**	**31,324**	**39,946**	**41,691**
% growth	***-17%***	***273%***	***-21%***	***77%***	***94%***	***142%***	***28%***	***4%***
ST - Sale of short term power/ bilateral	13,581	10,706	12,460	12,151	13,001	13,651	14,334	15,051
ST - Sale of power from exchanges	4,044	3,595	6,623	7,750	8,138	8,545	8,972	9,420
LT - Tolling	0	0	**952**	**1,569**	**2,015**	**2,321**	**2,321**	**2,321**
Total traded volumes	24,468	24,325	**28,597**	**35,115**	**43,268**	**63,182**	**73,107**	**76,217**
% growth	***34%***	***-1%***	***18%***	***23%***	***23%***	***46%***	***16%***	***4%***
EBITDA (Rs. mn)	**FY11**	**FY12**	**FY13**	**FY14**	**FY15**	**FY16**	**FY17**	**FY17**
MT - Medium Term	0	0	0	49	52	54	57	60
LT - Sale of cross-border power	223	211	192	195	199	203	207	211
LT - Sale of power from PPAs	71	233	**185**	**340**	**674**	**1,660**	**2,157**	**2,293**
% growth	**-**	***226%***	***-21%***	***84%***	***98%***	***146%***	***30%***	***6%***
ST - Sale of short term power/ bilateral	761	525	611	425	455	478	502	527
ST - Sale of power from exchanges	101	90	166	194	203	214	224	236
LT - Tolling	**534**	**535**	**536**	**245**	**185**	**214**	**214**	**214**
Total Core Trading Business EBITDA	1,690	1,593	**1,689**	**1,448**	**1,768**	**2,822**	**3,360**	**3,540**
Total PTC EBITDA (other op. income	1,413	1,454	**1,700**	**3,129**	**1,992**	**3,012**	**3,627**	**3,813**
% growth	***71%***	***3%***	***17%***	***84%***	***-36%***	***51%***	***20%***	***5%***

EV/EBITDA (1 yr fwd)	FY09	FY10	FY11	FY12	FY13	FY14	FY15 (Current)	FY16	FY17	FY18
Mean	15.9	26.7	19.3	9.1	6.7	8.1	11.8	7.9	7.5	6.2

PTC SoTP Valuation					
	Stake	Basis	Valuation	Per share	%
PTC India - Standalone trading business	100%	10x FY18E EBITDA*	38,133	129	68%
PTC India Financial Services	60%	30% holdco discount	7,086	24	13%
Net Cash as of FY17E			5,335	18	9%
Investments	100%	1x investment value	5,669	19	10%
Total			**50,889**	**191**	**100%**

Key positive triggers

- A cumulative PPA capacity of ~4.7GW are at >50% completion levels and are expected to be commissioned in the next few years; news of commissioning these projects is likely to be a key trigger in the near term
- ~5.1GW of PPA capacities (out of a total expected ~6.9GW) will be operational by end of FY16E which will drive the exponential growth in trading volumes from 35.1bn in FY14 to 73.1bn in FY17E
- This will result in a EBITDA CAGR of 32% for FY14-17E for the standalone business from ~Rs. 1.45bn in FY14 to ~Rs. 3.36bn in FY17E
- Valuing the business at 10x FY18 EV/EBITDA (lower than historical average) and summing other investments and cash we get a 3 yr TP of Rs. 191 (potential doubler at CMP)
- Risks: Delays in clearing and de-bottlenecking power projects; continuing coal linkage and coal supply problems; SEB receivables risk; reneging on PPA contracts; regulatory risk affecting PTCs role

SPARK CAPITAL enhancing value

CMP	3 Yr. TP
Rs. 305	Rs. 576

Ramco Cements

	Past				Present				Future	
Key metrics - Past and current										
Ramco Cement	**FY09**	**FY10**	**FY11**	**FY12**	**FY13**	**FY14**	**FY15E**	**FY16E**	**FY17E**	**FY18E**
Utilisations - Company	73%	78%	70%	65%	68%	69%	69%	74%	85%	89%
Volume growth	12%	22%	-9%	4%	11%	3%	5%	10%	15%	5%
Realisation growth	7%	-8%	2%	22%	7%	-7%	10%	8%	8%	5%
EBITDA margin	32%	31%	24%	29%	25%	14%	20%	24%	27%	27%
EBITDA (Rs. bn)	7.8	8.6	6.2	9.2	9.6	5.1	8.6	12.1	16.7	18.6

	FY09	FY10	FY11	FY12	FY13	FY14	FY15E	FY16E	FY17E	FY18E
OCF as % to sales	26%	24%	24%	27%	19%	14%	18%	17%	18%	20%
FCF (Rs. bn)	-6.4	1.1	-0.7	3.1	3.2	-0.6	4.4	5.9	8.0	10.8
Net Debt (Rs. bn)	24.2	25.3	27.5	26.6	26.1	28.9	27.1	24.3	19.3	11.5
Finance cost (Rs. bn)	1.1	1.5	1.4	1.6	1.8	1.9	2.1	2.0	1.9	1.8
Net Leverage (x)	1.9	1.6	1.6	1.3	1.1	1.2	1.0	0.8	0.5	0.2
RoE %	33%	25%	13%	20%	18%	6%	12%	18%	24%	23%
EV/EBITDA (1 yr fwd)	**FY09**	**FY10**	**FY11**	**FY12**	**FY13**	**FY14**	**FY15 (current)**	**FY16**	**FY17**	**FY18**
Mean (x)	**4.1**	**5.2**	**6.9**	**6.0**	**6.2**	**6.4**	**11.3**	**8.0**	**5.3**	**4.3**
									Rs. bn	**Rs. / sh**
Enterprise Value (Rs. bn)					**@ "8x" on FY18 EBITDA**				149	624
Debt (Rs. bn)									11	48
Core Market Cap (Rs. bn)									**137**	**576**

Key positive triggers for volume & margin improvement

(1) Demand recovery in South, esp from the two new states

(2) Resultant demand will aid price hikes

(3) No fresh capacity additions in the region over the next three years

Risks: Lower than expected price hikes.

The company will generate significant operating cash flows which will aid deleveraging

Improved margin and balance sheet profile will result in multiple re-rating to 8x compared to its historical range of 6x-7x.

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enhancing value

CMP	3Y Target
Rs. 33	Rs. 53

South Indian Bank

SIB is set to see a management change in Sep '14. The new management has outlined a move away from large corporate lending to local catchment SME/retail businesses. Other areas of focus include other income – currently the lowest amongst peers at 0.7% of assets and CASA (21% at present). The low cost opex will continue, with gradual branch expansion.

	Past	Present	Projection			
	FY10	**FY14**	**FY15E**	**FY16E**	**FY17E**	**FY18E**
Loan Growth	34%	14%	20%	20%	20%	20%
Deposit Growth	27%	7%	16%	19%	18%	20%
CASA ratio	23%	21%	21%	20%	20%	21%
NII growth	9%	10%	16%	29%	19%	22%
Other income growth	27%	8%	16%	15%	29%	25%
Cost/Income	47%	50%	50%	45%	45%	45%
Credit costs	0.3%	0.5%	0.5%	0.5%	0.5%	0.5%
PAT growth	20%	1%	14%	49%	14%	25%
ROA tree						
NII/Total Assets	2.5%	2.7%	2.7%	3.0%	3.0%	3.1%
OI/Total Assets	0.9%	0.7%	0.7%	0.7%	0.8%	0.8%
Total Income/ TA	3.4%	3.4%	3.4%	3.7%	3.8%	3.9%
Opex/Total Assets	1.6%	1.7%	1.7%	1.7%	1.7%	1.7%
PPOP/Total Assets	1.8%	1.7%	1.7%	2.0%	2.1%	2.1%
Prov/Total Assets	0.2%	0.3%	0.3%	0.3%	0.4%	0.3%
PBT/Total Assets	1.6%	1.4%	1.4%	1.7%	1.7%	1.8%
PAT/Total Assets	**1.0%**	**1.0%**	**1.0%**	**1.2%**	**1.2%**	**1.3%**
Assets/Equity	16.7	17.2	15.3	14.1	13.7	13.7
ROE	17.0%	16.7%	14.9%	17.4%	16.3%	17.2%
T1 CAR	12.4%	10.8%	12.2%	12.1%	12.5%	11.7%
NIM	2.6%	2.9%	2.9%	3.2%	3.2%	3.3%
NNPA	0.4%	0.8%	0.8%	0.8%	0.8%	0.8%
BV (Rs. /sh)	13	24	29	35	39	44
ABV (Rs. / sh)	12	22	27	32	37	41
P/ABV	FY10	FY14	Current (FY15)	FY16	FY17	FY18
Average P/ABV	0.9	0.9	1.1	1.0	0.8	0.7
Exit multiple						1.3
3 yr target						53

Rs. 7.5bn capital infusion assumed in FY15 and FY17 each

Macro Track: Positive for margins, growth, NPA resolution, treasury income to remain sedate

Structurally challenged exposure	23%	Largest exposure to infra, metals & mining in the old gen pack limits NPA recovery
Wholesale % of TD	26%	Decline in interest rates to aid NIMs, given low CASA of 21% and large wholesale funding profile
AFS - 9%, m. dur - 3.5	9%	A decline in 10yr G-Sec rates to 8% would only result in MTM gains of Rs.0.4bn or 0.07% of assets.
Working capital loans	45%	No immediate pick up in credit growth given lower focus on working capital

Source: Spark Capital Research

Micro Track: Slow transition to SME, retail lending to be margin and other income accretive; tight leash on opex to continue

		FY14	FY15	FY16	FY17	FY18
Assets	Retail loan book (12.7% yield)	22%	22%	23%	24%	24%
	SME & Agri book (12.8% yield)	28%	30%	33%	35%	36%
	Corporate book (10.7% yield)	50%	47%	44%	41%	40%
	Yield on Advances	11.7%	11.7%	11.8%	11.9%	11.9%
Other Income	Off balance sheet assets %	35%	40%	45%	50%	55%
	Guarantees/Acceptances % of o.b.s.a.	11%	20%	25%	30%	32%
Opex	Employee/Branch	8	8	8	8	8
	Branches	50	50	50	50	50
	Opex yoy increase%	15%	16%	14.40%	14%	14%

Source: Spark Capital Research

CMP	3 Yr. TP
Rs. 334	Rs. 602

Whirlpool

	Past			Present				Future	
Particulars	**FY10**	**FY11**	**FY12**	**FY13**	**FY14**	**FY15E**	**FY16E**	**FY17E**	**FY18E**
Revenue (Rs. mn)	**22,149**	**27,005**	**26,579**	**27,727**	**28,346**	**31,920**	**36,916**	**44,299**	**53,159**
Refrigerator	16,908	19,055	18,386	20,966	21,385	23,951	27,544	33,053	39,663
Washing Machine	5,136	6,592	7,044	7,237	7,381	8,489	10,186	12,224	14,668
Revenue growth (%)	**29%**	**22%**	**-2%**	**4%**	**2%**	**13%**	**16%**	**20%**	**20%**
Refrigerator growth (%)	26%	13%	-4%	14%	2%	12%	15%	20%	20%
Washing Machine growth (%)	40%	28%	7%	3%	2%	15%	20%	20%	20%
Gross Margin (%)	39%	37%	36%	37%	37%	37%	38%	38%	38%
EBITDA Margin (%)	11%	10%	8%	8%	7%	8%	9%	10%	11%

Particulars	FY10	FY11	FY12	FY13	FY14	FY15E	FY16E	FY17E	FY18E
OCF as a % of sales	8.50%	7.60%	8.20%	5.20%	7.60%	6.10%	7.20%	7.60%	8.00%
PAT (Rs. mn)	1,545	1,661	1,238	1,278	1,229	1,529	2,021	2,804	3,816
PAT Growth (%)	93%	8%	-25%	3%	-4%	24%	32%	39%	36%
EPS. (Rs.)	12.2	13.1	9.8	10.1	9.7	12.1	15.9	22.1	30.1
RoE (%)	46.1	42.1	27.1	23.1	18.1	19.1	21.9	26	29.5
RoIC (%)	51.4	43.5	29.8	26.1	22.7	26.9	32.8	43.1	54.7
Net cash (Rs. Mn)	622	531	859	1,550	2,918	3,498	4,416	5,800	7,696
1 yr fwd multiple	FY10	FY11	FY12	FY13	FY14	FY15 (current)	FY16E	FY17E	FY18E
Mean		26.4	19.9	17.0	13.5	27.5	20.9	15.1	11.1
Exit multiple									20.00
Target Price (Rs.)									**602**

Key positive triggers :

(1) New product launches (~40-50 SKUs) by the company to arrest volume de-growth and lead to market share gains (from current ~16% market share)

(2) Sales in refrigerators and washing machines expected to pick up driven by both volume growth and price increase (recent 10-13% increase across products)

(3) Pick up in revenue growth to result in operating leverage, leading to EBITDA margin expansion (from 7% in FY14 to 11% in FY18)

Risks: Threat from Samsung which has an increasingly aggressive stance in the consumer durable market

Earnings growth to pick up strong momentum

1. PAT is expected to grow at a strong CAGR of 33% over the next three years, vis-à-vis flat earnings growth in FY13-FY14
2. Free cash flow is expected to increase significantly as capex spend is expected to taper down.
3. Further re-rating in multiple on cards as growth, margins improve and on the back of market share gains
4. Considering MNC parentage, superior cash flow generation and healthy ROEs, we assign a 20x multiple on FY18E earnings, the stock presents an upside of 97% from the current market price. Current net cash position (Rs. 2.9bn) constitute ~7.5% of overall market cap

Absolute Rating Interpretation	
Buy	Stock expected to provide positive returns of >15% over a 1-year horizon
Add	Stock expected to provide positive returns of >5% – <15% over a 1-year horizon
Reduce	Stock expected to provide returns of <5% – -10% over a 1-year horizon
Sell	Stock expected to fall >10% over a 1-year horizon

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