Hello India!

ANTIQUE

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Executive Summary

We travelled across five states - Chhattisgarh, Uttar Pradesh, Punjab, Andhra Pradesh and Rajasthan, and covered both, rural and urban regions in all states. Our primary agenda was to assess the underlying consumer sentiment in these states and the gravity of the concern over delayed monsoons.

In the process, we met with >60 farmers, >70 retailers/distributors, >50 Auto dealers and even the consumer at large. The idea really was to cover the trend at every level of discretionary spends - starting with something as low-discretionary as laundry, to something as high-discretionary as a Harley Davidson motorcycle (while we met a few luxury car dealers as well, demand for a bike that costs ~INR2m, deserves special mention).

We also met up with ~10 administrators to gauge the progress of social welfare schemes like NREGA/mid-day meal, and the much-touted benefits.

Each state in a nutshell:

- In Chhattisgarh, consumption seems to be at an inflection point, with rapid industrialisation and infrastructure development.
- In Uttar Pradesh, while consumption drivers seemed intact, corruption at the grass-root level has restricted the effectiveness of social schemes.
- In Punjab, locals aren't letting short-term income variations affect their lifestyle.
- In Andhra Pradesh, the general consumer sentiment has been affected by the Telangana issue.
- In Rajasthan, offshore labour has strongly emerged as a preferred career option for the educated rural youth (who otherwise are reluctant to work as labourers in India).

While we have discussed our findings at length in this report, here are some broader trends that could not be missed:

A. Across rural geographies, dependence on agriculture as the primary income stream has reduced consistently over the past few years. This is partially alienating rural income from the vagaries of monsoon.

B. Contrary to popular belief, social spends, like NREGA, are no longer an incremental driver for demand in the rural markets (at least in the states we visited). Also, in certain cases, we gathered that the farm loan waiver has built-in complacency among the farmers.

C. There is a declining preference among labourers to work on farms. Rising literacy rates and uncertainty in agricultural income have led to a significant shortage of unskilled labour. This has been a key trigger for inflationary pressures for the farming community and SMEs across geographies, while it has been a positive catalyst for broad-based consumption.

D. In consumer staples, most categories continue to witness healthy growth rates despite price hikes. Higher discretionary categories like paints and consumer durables have witnessed moderation in certain cases, but dealers expect things to recover in the festive season.

E. We were enthused post our interaction with Auto dealers. While conversions are yet to see a meaningful uptick, footfalls and enquiries remain extremely robust. Every dealer we interacted with was upbeat about the festive season given that the first leg of festivities, i.e. Ganesh Chaturthi, has begun on a very encouraging note.

Overall, we came back convinced that the Indian consumer (both urban & rural) continues to aspire for better products and lifestyle (notwithstanding short-term sentiment dampeners). Low penetration levels signify the need for deeper distribution, which we believe will improve with infrastructure development. Nevertheless, companies with deep in-roads in rural India, comprehensive product portfolio, and strong presence in emerging categories, would stand to benefit.

Interesting Tidbits

Richer foam, providing richer dividend for Ghadi detergent
According to our interaction with wholesalers and retailers, Ghadi detergent's dominance is primarily due to the perception amongst consumers about the product's ability to create richer foam. According to the retailers, consumers believe that richer foam leads to higher cleanliness.

Punjab - A highly matured tractor market
The Punjab tractor market is highly matured and 95% of tractors that are purchased are for replacement… In fact, Patiala houses the world's largest used tractor market.

Cerelac - Bigger pack for lesser content
The new Cerelac pack with a lesser weight apparently looks bigger than the older pack with a higher weight. The new pack is being made hexagonal to make it look larger.

Shortage of truck drivers - A burgeoning issue!
Shortage of drivers is a huge problem that transporters are facing. Several large fleet operators have 5-10% of trucks standing idle, solely due to this shortage of drivers. The driver to truck ratio which was 1,300 drivers per 1,000 trucks in 1992 has deteriorated to 1,000 drivers per 1,000 trucks in 2002 and currently (2012) stands at 750 drivers per 1,000 trucks. Industry veterans expect this to taper down to 500 drivers per 1,000 trucks by 2020.

In Chhattisgarh there is a strong preference for gel based toothpaste (both urban and rural markets)

Himgange - The strongest cooling oil brand in the region
In the cooling oil segment, Himgange is the strongest brand in Chhattisgarh, MP and Bihar, while it has recently lost its leading position in Uttar Pradesh to Emami's extra thanda oil. Himgange is a Haridwar (Uttar Pradesh) based brand since 1987, estimated to have a all India market share of about 28%.

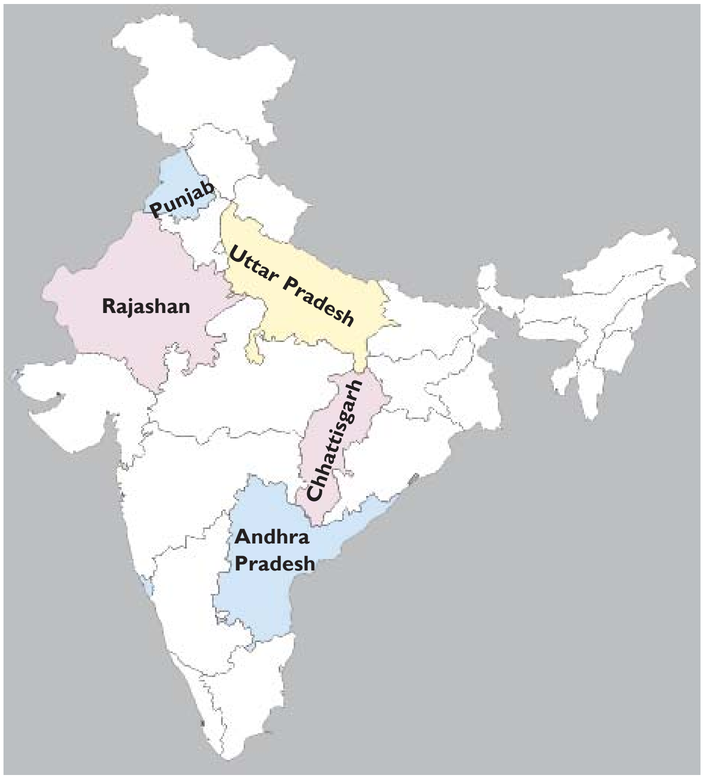
Pulsar's poor resale continues to haunt Pulsar owners
A 2007 model Pulsar 150 which used to cost around INR70k when new, is not finding buyers for even INR10k at the moment. This is only restricted to the Pulsar (2006-07 year models) and dealers cannot put their finger on why this is the case. That said, it isn't happening on the newer Pulsars.

Nestogen, biggest baby food brand in Chhattisgarh
Majority of the sales in baby and infant foods in Chhattisgarh (both urban & rural) for Nestle is through Nestogen due to its reasonable pricing.

Honda is not approving groups that already have an existing Hero dealership
Contrary to market rumours, Honda has not directly poached any Hero dealers. In fact, a prominent business group in AP (that owns various Auto company dealership chains for Hero, Hyundai, Nissan, among others), also wanted to add a Honda dealership to its network. However, they were not approved by Honda, because this group also has a Hero dealership.

Honda is consciously setting up new dealerships right next to existing Hero dealers
Honda seems to have made a conscious decision to set up any new dealership right next to an existing Hero dealership. Presumably, Honda is trying to create a clear and visible demarcation between Hero & Honda in the eyes of the Splendor/Passion loyalists.

"Fancy and gift" stores (Chudi Bindi shops) are fast emerging, indicating the changing lifestyle
A host of "fancy and gift" stores have been rapidly emerging in the rural markets. These shops are called 'Chudi Bindi' shops which are the one stop shops for household products, cosmetics and personal hygiene, in these villages. These shops are primarily frequented by feminine population of the village. Consequently these shops play a larger role as a distribution channel for personal care and personal hygiene products as compared to a chemist shop.



Synopsis

A team of five people travelled extensively across five states - Chhattisgarh, Uttar Pradesh, Punjab, Andhra Pradesh and Rajasthan. The idea was to gauge the mood of the consumer (at every level of discretion) across both urban and rural geographies of each state. In all, we met >60 farmers, >70 retailers/distributors, >50 Auto dealers and numerous locals. We also met up with ~10 administrators to understand the progress and much touted benefits of social welfare schemes, like NREGA and mid-day meal.

Broadly, it was apparent across rural geographies, that there is a declining preference among labourers to work on farms. Also, rising literacy rates and uncertainty in agriculture as a source of income has led to an acute shortage of unskilled labour. While this has been a key trigger for inflationary pressures for the farming community/SMEs across geographies, it has also been a positive catalyst for broad-based consumption. Also, dependence on agriculture as a primary income stream has reduced consistently over the past few years, which has partially alienated a large proportion of rural income from the vagaries of monsoon. On the flip side, social spends, like NREGA, is no more an incremental driver for demand in the rural markets that we visited. Also, in certain cases, we gathered that the farm loan waiver has built-in complacency among the farmers.

For consumer staples, despite price hikes, most categories continue to witness healthy growth rates. Higher discretionary categories like paints and consumer durables have witnessed moderation in certain cases, but dealers expect a recovery in the upcoming festive season. Auto dealers cite that while conversions are slow at the moment, footfalls and enquiries remain extremely robust. The first leg of festivities, i.e. Ganesh Chaturthi, has begun on a very encouraging note and hence dealers were upbeat about the upcoming festive season. Resultantly, they weren't too perturbed about the higher than normal inventory.

Broad consumption trends

Across all states, urban markets continue to defer high discretionary spends, primarily due to weak sentiment. However, non-discretionary spends continue to see no deterioration in demand (though in certain pockets, primarily low-income localities, some down-trading has been seen). With improvement in media penetration and literacy rates, brand awareness in rural markets has increased, thus creating demand for lifestyle products (branded FMCG, 2Ws, etc.).

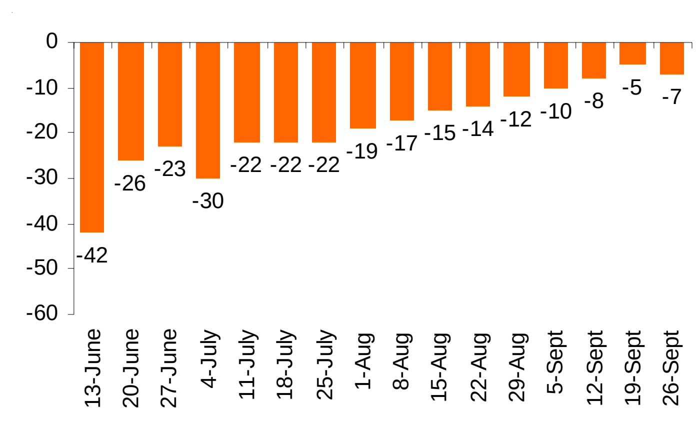
In Punjab, consumption remains buoyant, as locals across rural and urban markets continue to spend on lifestyle products, even during times of uncertainty. On the other hand, in Andhra Pradesh, consumer sentiment and corporate expansion plans outside Hyderabad have been impacted due to high uncertainty over the Telangana issue. In Chhattisgarh, consumption seems to be at an inflection point, with rapid industrialisation and infrastructure development.

Monsoon - Delay, more than deficiency, a concern!

While costs have escalated due to a deficient monsoon, in Punjab, most farmers expect to end the season with a bumper crop. Even for farmers in UP, while the year so far has been challenging (primarily due to the delayed monsoon and increase in price of farm inputs), the recent recovery in rains has been of some relief.

On the flip side, in Rajasthan, delayed monsoons have currently impacted farming revenues by 20%. This could escalate if rains continue during the next 2-3 weeks. Even in Chhattisgarh, some farmers were worried that the delayed heavy monsoons could destroy the standing crop.

Week-by-week seasonal rainfall departure (%) from LPA



Source: IMD, Antique

NREGA – Not a key income source

NREGA is not a key source of income, at least in Rajasthan and Punjab, while in UP, implementation of the scheme has been unsuccessful due to high pilferages.

In case of Rajasthan, diversified income alternatives for the rural population has reduced the dependence on NREGA, while in Punjab, shortage of unskilled labour and inability to meet the work standard has led to a failure of the scheme. Also, people prefer to work in the open-market for a higher pay of INR250-INR300/day (as against INR166/day in NREGA).

Labour shortage – A growing concern!

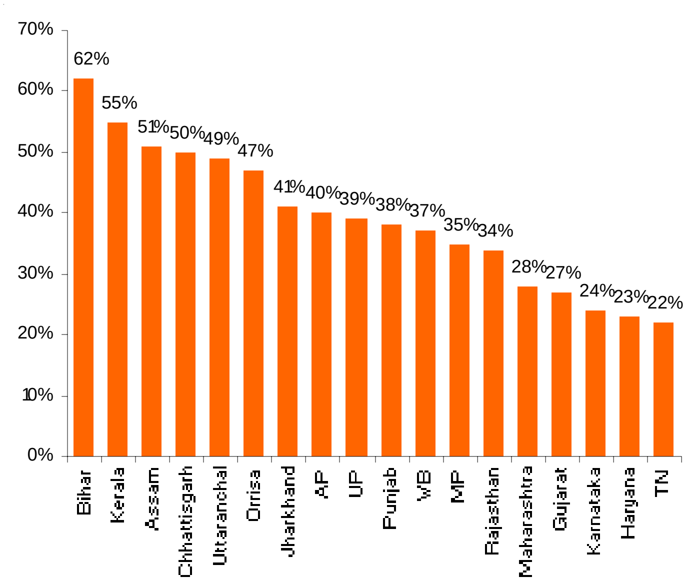
Acute labour shortage (and the consequent rise in labour costs), is a growing concern across our five sample states (we don't imagine the rest of the country being any different). Particularly in the case of the farming community, labour shortage has been one of the key reasons for cost escalations.

This acute labour shortage stems from rising literacy rates and reluctance to get employed as labourers on farm lands. In rural Rajasthan, we noticed that there is a rising preference among the younger generation to seek jobs in international geographies (a trend which was known to be prevalent in South India).

FMCG - Rising aspirations, maintains buoyancy

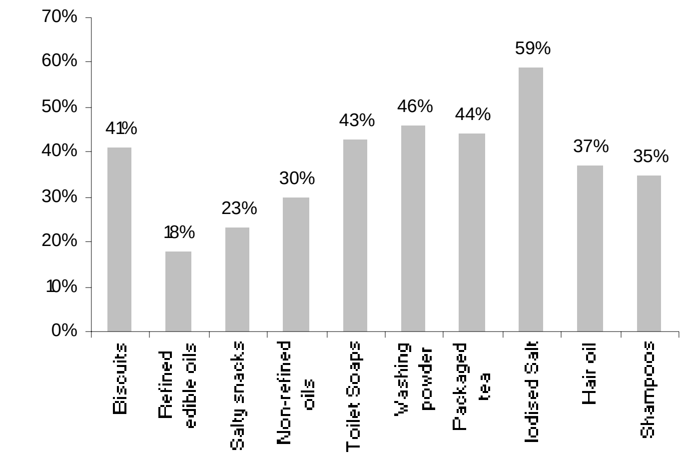
Across our sample geographies, the rising awareness for branded products was evident in the rural markets. Resultantly even in an uncertain environment, FMCG sales (non-discretionary spends) have continued to grow by 15-20% led by higher growth in the rural markets. Though in certain cases, the rising inflation has led to down-trading in low income localities (particularly in urban markets).

Contribution of rural market to total FMCG sales (2011)



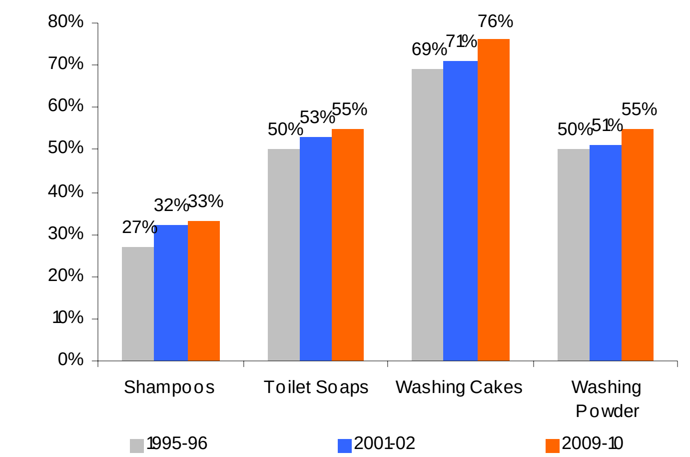
Source - Nielsen retail audit, Antique

Top 10 Rural Categories



Source - Nielsen retail audit, Antique

FMCG - Share of rural market share as of all India market



Source: National Council for Applied Economic Research, Antique

Our visits in the rural markets signified the strength of wholesalers in a rural distribution channel and the need for FMCG companies to increase their direct coverage of these markets.

In Chhattisgarh, we witnessed a strong emergence of "beauty and fancy" stores (Chudi-Bindi stores) in the rural markets, indicating the changing lifestyle of the incumbents and therefore the rising penetration of hygiene products like sanitary napkins and baby diapers. The potential in snack foods was quite visible with growing number of branded snack foods and a large presence of local brands.

Food companies in our view have been outperformers within the sector According to our channel checks in Uttar-Pradesh, Cadbury has grown its volumes by 20-25% during the current year, while Pepsico Foods and Kellogg's have been growing its volumes by 30% and 40% respectively. Further according to our channel checks in Hyderabad, Haldiram volumes have been growing at 25-30%. Nestle India however has continued to be a laggard in foods, with price hikes and grammage reductions impacting volumes (sales growth of 10-12%). Further Food retailers are growing at a moderate of about 8-10%.

In Home and personal care, laundry and personal wash have continued to witness stable growth despite price hikes. According to distributors, HUL is witnessing healthy sales growth of 15-20% (as in the case of Hyderabad). In personal care, toothpastes, have been witnessing strong volume growth, with Colgate Palmolive leading the pack.

In UP, higher prices of cigarettes have led to loss in volumes for cigarette distributors in the state. Consequently, according to the trade, price increases are expected to be initiated going ahead, to align prices across the country. In Paint dealers are looking forward to the festive demand to see a revival in demand. In Rajasthan, IMFL sales are witnessing strong traction in sales.

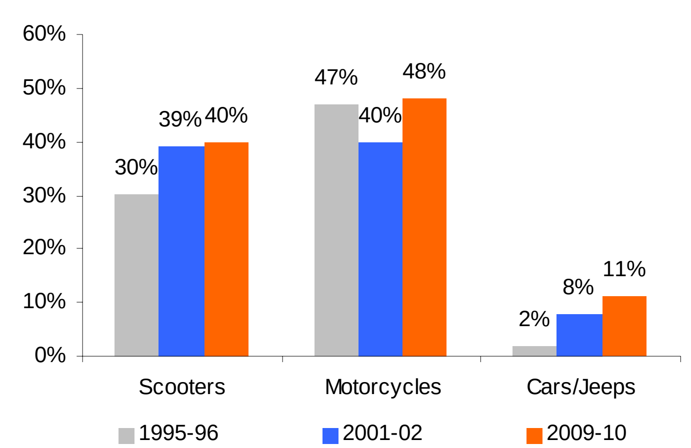
From our interaction with a few distributors, wholesalers and retailers, cash and carry stores like Metro are gaining market share in the city and are increasingly posing competition for distributors and wholesalers.

Auto – Footfalls have increased, conversions yet to pick up

Most Auto dealers that we interacted with cite that footfalls and enquiries have seen an improvement in recent months, while conversions are yet to pick-up. Dealers were confident that the footfalls that didn't convert into a sale, have merely postponed their purchase for Diwali (November) and hence dealers are hopeful of a strong festive season. The first leg of festivities, i.e. Ganesh Chaturthi, was extremely encouraging.

While demand in rural regions seemed undeterred, in urban regions, high discretionary spends have taken a higher beating on account of weak sentiment due to the usual suspects (high fuel prices, inflation, general economic sluggishness, etc.). In AP specifically, buyer sentiment in the region has been impacted by the Telangana issue.

Automobiles - Share of rural market share as % of all india market



Source: MHB 2012, Antique

As usual, there are some outliers to this trend, who remain immune to a weak macro – popular models like a Mahindra XUV, Maruti Swift/Dzire/Ertiga, Toyota Innova/Fortuner, Hyundai Verna and even the Hero Maestro and Bajaj Discover 125ST..

For Maruti, supply is the only constraint for the Swift family. For petrol variants, retails have seen a marginal uptick and inventory levels are comfortable (around ~4 weeks). Resultantly, discounts on petrol variants remain flattish.

The new Ritz (supply of which is unaffected by the Manesar lock-out) has received a strong response in the wake of the high waiting period on the Swift. That said, it was encouraging to note that despite the increase in waiting period post the Manesar lock-out, dealers say that not a single Swift customer has cancelled their bookings in the last 2 months.

On the other hand, after a strong initial response to the Hyundai Eon, demand for the same has gradually tapered off. As per the Hyundai dealers themselves, the target audience, i.e. the conservative first-time buyer in smaller towns, hasn't been able to venture out of his Maruti comfort-zone.

For 2Ws, the contraction in demand doesn't seem to be as sudden as the dispatch trend suggests. This is more a case of indiscipline by the leader in terms of inventory management throughout the year. For Hero dealers, given that the company does not budge against its maximum 15 day credit policy, the high inventory has put stress on working capital.

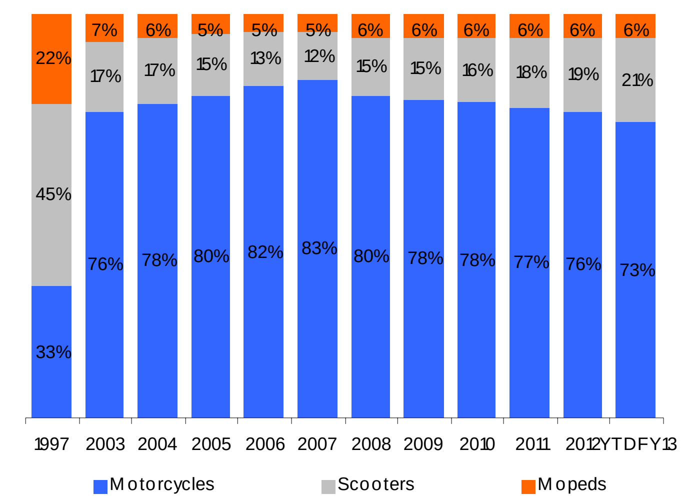
Overall, 2W dealers were optimistic about the festive season and weren't too perturbed about the high inventory levels at their dealerships (they cite that they rather have it high, going into the festive season). However, with rains delayed by a month, some 2W dealers in Rajasthan feared that farmers might not be able to monetize their harvest before November, which could impact festive demand.

Sales for Honda Motorcycles remain strong, but more for the Activa and Shine. Honda's Dream Yuga has not met initial targets and hence dealers are willing to reduce their own margin by 100bps to 4%, given that they earn a ~25% margin on spares service, etc. (current dealer margins: Honda - 5%, Hero - 3%, Bajaj - 4%, Yamaha - 8%, Suzuki - 9%). The company now has a quasi quota system with dealers. If they want the best sellers (Activa/Shine), they will have to order a Dream Yuga or CB Twister as well. This compels them to push the Dream Yuga more purposefully.

The scooter segment continues to outpace motorcycle segment sales by 2x. Dealers cite that almost everyone who might be buying a second 2W in the family is opting for a scooter given that it can be used by not only women, but also elderly men. For Hero, the Maestro fits the bill even better than the Pleasure did, as the latter was almost unusable by men.

Bajaj dealers miss having a scooter in their product offering. They reckoned that sales would be at least 25% higher if they had a scooter to offer at their dealership.

Two-wheelers - Segment-wise break-up



Source: SIAM, Antique

For tractors, while inventory is now under control (around 4 weeks), retails remain weak and resultantly, discounts remain high (we noticed an M&M dealer offering a 32inch LCD with every tractor purchased).

While all related parties (farmers and dealers) are pinning their hopes on a good kharif crop, dependence on farm-usage of tractors has declined. Our interactions with farmers suggest that tractor leasing has slowly become an alternate source of income. Some dealers cite that the current lull in sales has had less to do with a delayed/deficient rainfall and more to do with sluggish economic activity (which has affected non-farm usage).

Some PSUs have withdrawn from tractor financing and while this has been made up for by NBFCs, their lending norms are stricter (NBFC: 50% LTV, 3-year tenure vs. PSU: 80% LTV, 9-year tenure). Consequently, there has been an uptick in the second-hand tractor market.

The trend is clearly towards higher HP tractors. Given the versatility of a tractor (with regard to both farm and non-farm usage), most buyers see tractor purchases as an investment and hence prefer opting for a higher HP tractor.

Valuation and Recommendation

FMCG - Valuations capture buoyancy

We remain positive on the overall Indian FMCG space in the longer term due to the rising awareness for branded products. However in the short term, the space provides limited scope upside potential. We therefore have neutral rating on the sector.

Our top pick in the sector is ITC which provides a scope for re-rating from the current levels, in view of its dominance and resilience in the cigarettes division. We believe that the company is well placed to grow its cigarette EBIT by 21% during the next two years. We therefore recommend a BUY on the stock at the current levels.

We remain positive on Nestle in the medium to long term due its strong presence in low penetration categories like nutrition, instant foods and chocolates and confectionaries. However in the short term, the stock lacks triggers as the recovery in its business would be gradually spread over 12 month period. We therefore maintain our HOLD rating on the stock at the current levels.

In the liquor space, we believe that Radico Khaitan is a strong re-rating candidate with price hikes being implemented across states and the premiumisation initiative of the company. The company also witnessed an improvement in its cash flows during FY12. We recommend a BUY on the stock with a target price of INR158

Summary of Recommendations:

Company	Mcap (INRbn)	Reco	CMP	Target	Return (%)	FY14e		
						EPS (INR)	P/E (x)	ROCE (%)
ITC	2,337	BUY	297	322	9	11.8	25.2	49.9
HUL	1,241	HOLD	574	524	(9)	17.5	32.9	65.5
Nestle	458	HOLD	4,766	4,495	(6)	149.8	31.8	39.1
Colgate	168	HOLD	1,236	1,213	(2)	48.5	25.5	125.9
Godrej	230	HOLD	674	625	(7)	28.4	23.7	25.6
Dabur	235	HOLD	135	129	(4)	5.4	25.2	29.8
Marico	131	HOLD	203	198	(2)	8.6	23.5	20.5
Asian Paints	373	HOLD	3,885	3,799	(2)	152.0	25.6	50.0
Radico	16	BUY	117	158	35	10.7	10.9	34.0

Source: Antique

Valuation and Recommendation

Autos – Dusk ends, dawn begins!

While current volumes/margins might not provide too much to cheer about, we believe that we are nearing the fag-end of the pain. Going into an easing rate cycle, we expect the auto companies with a higher sensitivity to an improving macro (cars/CVs) to witness a gradual uptick in volumes and consequently margins. This makes them strong re-rating candidates as well. Analysing the past few cycles, we can infer that even an indication of rates easing-off, re-rates multiples for the rate-sensitives, much before an actual uptick in volumes (which could be even 2-3 quarters away). This also makes us believe that directionally, defensives (2Ws) would underperform from here on.

Among the large caps, our pecking order remains Maruti Suzuki (multiple cycles turning its favour), Tata Motors (JLR's product cycle in a sweet spot) and M&M (impeccable auto business; tractor downgrades behind us). Outside the front-liners, we like Eicher Motors, as we foresee a positive delta in volumes & margins for the cash cow, i.e. Royal Enfield. Furthermore, while playing a cyclical uptick in CVs, we prefer Eicher (VECV) to Ashok Leyland, given the cleaner business structure and superior return ratios.

For two-wheelers, while we maintain our positive bias for the superior business model (which is a boon in any environment), we believe that good businesses seem to get their due credit only in tough times. Between the two-wheeler biggies, while we prefer Bajaj Auto to Hero, staying true to our underlying theme, we would avoid the 2W pack for now. We downgrade Bajaj Auto to HOLD post the recent run-up in the stock and maintain our HOLD recommendation on Hero.

Among the ancillaries, we like Bosch as a structural play, but foresee a better entry point in the near-term. For Exide, while operating metrics are finally improving, our bull-case target price provides less upside. With risk-reward unfavourable at this level, we recommend a HOLD.

Summary of Recommendations:

Company	Mcap (INRbn)	Reco	CMP	Target	Return (%)	FY14e EPS (INR)	FY14e P/E (x)	FY14e ROCE (%)
Maruti Suzuki	394	BUY	1,365	1,712	25	99.1	13.8	22.0
Tata Motors	835	BUY	262	324	24	47.0	5.6	31.3
Mahindra & Mahindra	540	BUY	825	925	12	63.2	10.3*	30.1
Bajaj Auto	507	HOLD	1,752	1,856	6	133.6	13.1	60.5
Hero MotoCorp	359	HOLD	1,800	1,935	7	115.3	15.6	47.9
Eicher Motors	60	BUY	2,220	2,575	16	190.4	11.7	37.6
Bosch	276	HOLD	8,790	9,502	8	475.1	18.5	30.3
Ashok Leyland	64	HOLD	24	26	7	2.3	10.3	13.4
Exide Industries	126	HOLD	148	146	(1)	9.1	15.2*	26.8
Escorts	7	HOLD	68	66	(3)	13.2	5.1	6.8

Source: Antique; * for M&M & Exide - *Core auto P/E below

Rajasthan

Key Stats:	
Population (Mn)	68.6
GDP per capita (INR)	39,967
Population density (Persons / sq km)	201
Literacy rate (%)	67.1
Sex ratio (Females per 1,000 males)	926
Area (Sq km)	342,239

To get a sense of the consumer behaviour and the demand trend of Rajasthan, we visited the town of Jaipur and two villages on the outskirts - Malakali (~45kms from Jaipur) and Kanchanpur (~90kms from Jaipur), both located in the district of Sikar. Our sample villages, Kanchanpur & Malakali are located in the centre of Sikar district, and hence, act as feeders to the surrounding smaller villages. In our visit to these rural markets, a member of the Gram Seva Sahkari Samiti accompanied and guided us on the tour.

During our visit, we met with villagers and the trade channel (comprising of wholesalers and retailers), to get a sense of the rural demand trend for FMCG products. We also interacted with 2W dealers in the region. Further, to get a view on the urban consumption trend, we visited FMCG retailers & Auto dealers in Jaipur, and also visited the market place - Jayanti Bazaar (a key market for consumer electronics in Jaipur).

Key takeaways:

- Delayed monsoons have currently impacted farming revenues by 20%. This could escalate if rains continue during the next 2-3 weeks.
- For rural income, dependency on agriculture is on the decline, and has diversified into: 1) Employment in international geographies and 2) Dairy-farming. Contrary to popular belief, NREGA is not a key source of income. It acts more as other income for the incumbents in the sample rural markets.
- With increasing literacy rates and reluctance to get employed as labourers in the domestic markets, the issue of labour shortage is here to stay. Desire to seek jobs in international markets like Middle East has increased substantially (income from skilled labour in international markets forms 45% of a household income in one of the sample villages).
- With consistent and diversified income streams, coupled with improvement in media penetration and literacy rates, aspirations in rural markets continue to get higher, thus creating demand for lifestyle products (branded FMCG, 2Ws, etc.).
- Urban markets continue to defer high discretionary spends, primarily due to weak sentiment. However, non-discretionary spends continue to see no deterioration in demand (though in certain pockets, primarily low-income localities, some down-trading has been seen).
- Demand for FMCG products, both in the rural and urban markets are witnessing undeterred growth in volumes despite the price hikes in the past 12 months. However discretionary spends categories white goods and consumer electricals have witnessed some slackening in demand except in case of categories like fans and kitchen appliances.
- Auto dealers cite that while retails are still slow at the moment (and have been over the past couple of quarters), footfalls and enquiries have seen a gradual uptrend in recent months. They are hopeful that conversions will improve going into the festive season given that the first leg of festivities (Ganesh Chaturthi) has begun on a very encouraging note.
- For Maruti, with the popular models like Maruti Swift/Dzire/Ertiga, supply is the only constraint. While retails for petrol variants remain sluggish, inventory levels are comfortable (around ~4 weeks). Resultantly, discounts on petrol variants (at around ~INR30,000 per vehicle) have not increased sequentially. For 2Ws, there has been no sudden deterioration in retails (as the dispatch trend might suggest).
- Honda's Dream Yuga has not met initial dealer targets of 50 units/month (currently selling ~25 units/month). Resultantly, dealers are willing to reduce their own margins on the Dream Yuga by 1%. There is headroom to do that, as Honda's dealer margins are at 5% (across all models), while Hero's is at 3%, Bajaj's at 4% (Yamaha's at 8%; Suzuki's at 9%). The cash-cow for all 2W dealers are service, spares, etc., where margins are >25%.

Rural visit (Kanchanpur) - Delayed monsoon a concern

We visited Kanchanpur village in Sikar district, about 90kms from Jaipur. We were guided by Mr. Ram Chandra, the Manager of Gram Seva Sahkari Samiti (Kanchanpur).

Only road to enter Kanchanpur, becomes extremely difficult to access during heavy rains (thankfully it wasn't raining at the time of our visit)

The impact of delayed rainfall was visible in the standing crops in Kanchanpur

Delayed rains have impacted the agricultural output in Kanchanpur. Additionally, high inflation has led to expensive seeds and fertilizers leading to cost escalations for farmers.

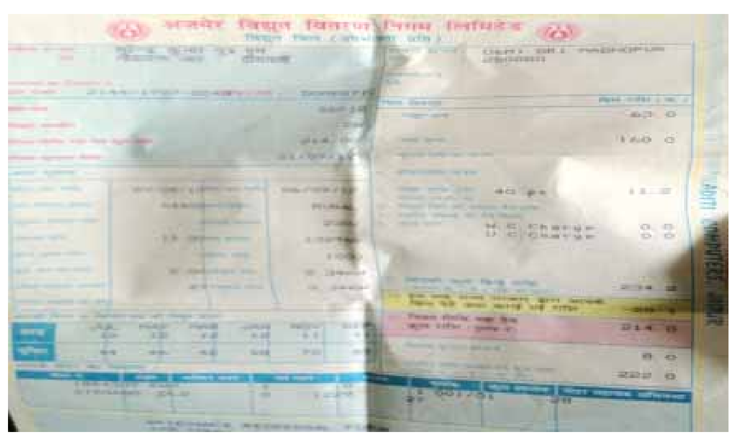
According to our interaction with the farming community, delayed rains are expected to impact income levels by 20% in the current year.

Should the rains continue for another 2-3 weeks, it could further damage the standing crops

Electricity woes…

Lack of electricity makes farming un-remunerative:

- Kanchanpur (and the adjoining villages) face huge power shortages. According to our interaction with the villagers, electricity supply in most villages is available only at night, that too for about 3-5 hours. This is a major hurdle for irrigated farming activities, thus increasing the dependency on monsoons.
- Additionally the cost of electricity (despite being subsidised) remains high (INR7/unit), partly due to the bribe that the villagers have to pay (about INR250 per month). Diesel remains an expensive option.



Repayment of farm loan - Not a concern!

Farm loan waivers (at the state level) has built-in complacency among farmers

- Despite the fact that the farmers of Kanchanpur are concerned over the delayed rains impacting their agri income levels in the current year, farm loan waivers (at the state level) has built-in complacency among the farmers.
- **From our interaction with some farmers, we gathered that they are not too concerned about the loan repayment. Some said "In the worst-case scenario, our loans will be waived-off by the government".**
- The state government of Rajasthan through the Gram Seva Sahkari Samiti allows easy access to credit for farmers (around INR50,000 per farmer) at a rate of 7%. Additionally **in the current year, this 7% interest on farm loans have been waived off - with 3% borne by the Central Govt. and 4% borne by the Rajasthan Govt.**

Diverse income streams have lowered dependence on agriculture

Lowering dependence on agriculture

- From our interaction with a few locals in Kanchanpur, dependence on agriculture has reduced over the years. For most people, current agricultural output from their own land is primarily used for their captive consumption and use their excess output to buy products for household consumption like edible oil, salt, masala, cooking fuel etc.

Skilled labor in international geographies - A new source of employment

- Over the years, due to the uncertainty related to agriculture, labour (specially as carpenters and painters) has become the largest source of income for the villagers of Kanchanpur. In particular, the villagers seek employment in the Middle East and other high-paying Arab destinations (a phenomenon known to be prevalent in South India, particularly Kerala).
- We found that in almost every household in the village, one of the family members (primarily the son) was employed as a skilled labour in an Arab country and was remitting an average of ~INR12,000/month to his household. Keep in mind, this component forms roughly about 40-45% of the household income. Additionally the other male family member (primarily the father) is a general labourer for local infra projects, earning about INR9,000/month. Therefore, cumulatively, labour as an income stream contributes about 75% of the total income of an average household in the village.

Income break up for an average household in Kanchanpur (Family of 4)

Source	Income (INR per annum)
NREGA	16,000
Farming for own consumption	-
Labour (Head of the family)	72,000
Son (labourer in an Arab country)	144,000
Milk (Profit)	69,120
Total Income	**301,120**

NREGA INR160 per day for 100 man days per annum

Earns a labour income of INR300 per day (assuming he is employed for at least 20 days in a month)

Working as a skilled worker in an Arab country, the son remits an average of ~INR12,000 per month

Sells 20 litres/day (10 litre per cow) for INR 32/litre (for all 30 days in the month) and earns a profit margin of 30%

Dairy farming - Emerging as a new income stream

Diversification into non-agri activities on the rise

- Over the years, dairy has emerged as a key and sustainable income stream for the villagers of Kanchanpur.An average villager sells about 20 litres of milk (assuming 2 buffaloes) for INR32 per litre and earns around 30% margin per litre.This forms about 20-25% of the household income (about INR69,000 per annum).
- The villagers sell their milk produce to private companies like Saras, Gorus and Lotus, who have chilling plants in this village, and similarly in the adjoining villages.
- Additionally the state government through its organisation, Dudh Uthpadhak Sahakari Samiti (catering to around 20 villages) procures milk from a group of farmers to sell to the Zilla Sahakari Sangh.

Asset break up of an average household in Kanchanpur

	Min
Average Land (Acre)	3
Value (INR) per land (Acre)	200,000
Value of land (INR)	600,000
No of buffaloes (Average)	2

An average household earns ~20-25% from dairy farming and owns ~2-3 buffaloes

Does NREGA matter here? Not really…

NREGA is just an other income (forms only 5% of household income)

- Our visits to rural Rajasthan suggest that the employment guarantee scheme under NREGA has become a mere source of other income for the rural population.An average villager in Kanchanpur earns about INR150-160 per day under the program, for work which is normally completed in a span of about 2-3 hours.
- The employment guarantee scheme has substantially reduced the unemployment rate in Kanchanpur. In certain cases, we found that many locals allow their fellow villagers to use their employment guarantee card to seek jobs under the scheme through manipulative practices.The villagers get a certain portion of the wage for using their card, which in turn becomes free money for them.

Rise in literacy rates causing labor shortage

- From our interaction with the locals in Kanchanpur, we understand that a skilled labourer earns about INR500 per day, while an unskilled labourer earns about INR300 per day. An average person in the village earns about INR250-300 per day, which is a stark improvement from the income levels about 5-7 years back. The rise in literacy rates has led to acute labour shortage and resultantly an increase in labour rates.According to the villagers, there is a rising proportion of graduates in the village which has led to high reluctance to work as a labourer.

Labourers from Kanchanpur boarding a bus on the highway (a daily phenomenon) to go to the nearest town – be it Jaipur (90 kms) or Sikar (60 kms), for their jobs…

Demand remains strong… Brand awareness on the rise!

In soaps, the retail store primarily sells Dettol and Lifebuoy.

In toothpastes, Colgate is the only brand sold by the retailer

Awareness of brands increasing, led by better income levels and lifestyle improvement

- Consistency and diversification in income streams, in addition to the growth in income levels has led to an improvement in lifestyle and consequently rise in demand for consumer products in Kanchanpur and the adjoining villages.
- The rising aspiration levels and awareness of brands was quite visible in our interaction with the villagers and the retailers of Kanchanpur. The brand awareness is also aided by a high penetration of televisions in the village.

No slowdown witnessed in FMCG products despite price hikes

- Our interactions with retailers also suggested that the villagers are keen to consume branded products even if they are available at a premium over local brands. Even the rise in prices of branded products (particularly during the last 12 months) has not impacted the demand scenario.
- Further the trend of premiumisation in FMCG products has also picked up, with demand for a premium fabric wash brand like Surf Excel, witnessing traction against a economy brand like Wheel.

This is the largest retail store in Kanchanpur catering to a radius of about 25km. This store had a wide variety of branded products

In snack foods, Uncle Chips and Bikaji Bhujia were the prevalent brands

Smaller stores stock higher unbranded products

The exhibit above displays a small retail store in Kanchanpur which stocks products in relatively smaller quantities. This retailer had a large component of unbranded and duplicate brands. The component of duplicate brands was high in confectionaries. He too has not witnessed any slowdown in his off-take.

A duplicate version of Eclairs

A duplicate version of Alpenliebe

Malakali village – Less inventory, but premium brands…

Our next stop was at **Malakali Village**, about 60Km from Jaipur. This village has a population of around **200 people** and has **4 small retail stores**.

A small store in Malakali which stocked products of just about INR3,000

But still sells premium detergent brand Surf Excel's sachets and shampoos like Clinic Plus

AMW (Asia Motor Works) – Slowdown imminent… No visibility on improvement!

We met the MD of the largest AMW (Asia Motor Works) CV dealership chain in the outskirts of Jaipur. Predominantly in tippers, AMW has a ~7% market share in the tipper segment (which translates into a total MHCV market share of ~2%; no presence in any the LCV segment). This particular AMW dealer sells ~50 CVs a month across 2 dealership (one in Punjab and one in Jaipur). In both regions, tipper sales are slow at the moment and the dealer is not confident of an improvement anytime over the next year.

AMW brand is synonymous for tippers

- AMW is predominantly in the tipper segment and resultantly, the brand has become synonymous with tippers **(to the extent that people earlier mistook AMW for a type of tipper, not a separate brand). This dealer recalled a time when people thought that AMW is a type of truck that players like Tata Motors and Ashok Leyland make.**
- **AMW currently doesn't have a presence in the haulage segment (~80% of total trucks),** which is where they plan on foraying into next.

Times are tough…

- **Currently, MHCV sales (for the industry overall) are under pressure and discounts remain high. As per the dealer, the stalemate should continue in the near term, with no clarity on when things would improve.** While the sales of AMW tucks have fallen sharply in the last couple of quarter (mirroring the industry), from a market share perspective, AMW has maintained market share in the tipper segment.

Key monitorables for freight operators

- Key monitorable for freight operators are A) on-road service (satisfactory) b) freight availability (very slow at the moment) c) Driver shortage (a huge problem at the moment, with no immediate solution).
- **On-road service network:** Presently, as far as on-road service goes all major players have sufficient service centers on all major routes and hence this area is satisfactory.
- **Load (freight availability):** Freight availability is very slow at the moment due to the lull in economic activity. Resultantly, there is high unutilised capacity at the moment. All hopes are on a good harvest, which will enable crop movement.
- **Driver:** Shortage of drivers is the biggest problem that transporters are facing, which will only deteriorate in the coming years. This has led to higher idle time for trucks and resultantly, large fleet operators have 5-10% of trucks standing idle, solely due to lack of drivers.

The burgeoning issue of truck drivers

The driver to truck ratio which was 1,300 drivers per 1,000 trucks in 1992, has deteriorated to 1,000 drivers per 1,000 trucks in 2002, and currently (2012) stands at 750 drivers per 1,000 trucks. Industry veterans expect this ratio to further taper down to 500 drivers per 1,000 trucks by 2020.

Why is this happening?

We spoke to a host of truck drivers to gauge why this is happening:

- With majority of time spent on the road, there is a lack of family life.
- Taxing work environment which leads to health issues. Keep in mind, most freight operators do not provide health insurance for their drivers.
- While the ratio of FBVs (Fully Built Vehicles) is on the increase, a large proportion of trucks still have manually fitted cabins (also known as "kaul"), which is much cheaper than FBVs but very unsafe.
- Many drivers are usually mistreated by the police and hence there is less pride in being a truck driver.
- Even the society has a poor perception about the job. Resultantly, in many parts of the country, young men do not get a suitable bride if they are a truck-driver.
- Drivers' sons do not want to be drivers. We note an instance when one of the drivers we interacted with, stated that "I am working hard only so that I can make sure that my son doesn't have to become a truck driver".

These issues might seem petty to us and we might not relate to them, but it is a reality that is gradually diverting truck drivers to other fields.

The fact that several large fleet operators have 5-10% of trucks standing idle solely due to this, makes it a point which shouldn't be ignored.

Honda Motorcycle & Scooters – Not immune to slowdown & high inventory…

We met the GM of the largest Honda Motorcycle dealership in Jaipur. They also happen to be the largest distributor of Savsol lubricants in the region. Currently, they sell ~300 2Ws per month and supply lubricants to all the 2W dealerships in Jaipur. It's worth noting that these lubricants are required during the first service of a 2W, i.e. ~3 months from date of sale. Given that they supply to all the 2W dealers in Jaipur, they have a very strong pulse of actual retail sales across OEMs.

Scooters – the backbone of HMSI…

- Demand for Honda scooters remain strong. Even for the industry overall, scooters are not as badly impacted as much as motorcycles. There is a very rampant trend in Jaipur of car owners buying a scooter as second vehicle. Also, some view scooters as a relatively safer 2W than compared to a motorcycles and given the flexibility of use, it makes for an apt second vehicle in the house.
- For **Savsol lubricants, in the last 6 months the demand from Bajaj dealers has dropped 15% while from Hero dealers it has dropped by nearly 20%. This clearly shows the sluggish trend in retails. For Honda, lubricant sales have gone up by 25% in the region.**

Impact of delayed monsoon

- While monsoon recovered towards the end, the delay in monsoons could impact 2W sales going ahead. In their view, the biggest driver for sales in the more rural regions is how quickly the farmer converts his crop into harvest. During the normal monsoon season (June – September), the farmer is ready to monetize his harvest by October and therefore has cash to buy a 2W in the festive season.
- **This year with rains delayed by around a month, the farmer might not be able to monetize his harvest before November and hence, purchases during the festive season might be impacted. In his view, this could impact replacement buyers (which constitute ~35% of festive purchase).**

High Inventory? Yes, for Honda as well

- On a monthly volume run-rate of ~300 units, this dealership had 350 2Ws in inventory (~4.5 weeks), despite festive stocking a couple of months away. While Honda is normally disciplined about dealer inventory (a weekly sales data goes into Honda's MIS and hence dispatches mirror retails), **for the Dream Yuga dispatches have exceeded retails.**

Dream Yuga completes the portfolio

- Dream Yuga is a good product. While it has started slowly it is expected to pick-up gradually. **It did not meet the initial dealer target of 50 units/month and its currently selling 25/month. What is going against the Dream Yuga is the premium pricing (INR2-2.5K more than the Hero Splendour).**
- Resultantly, dealers are willing to reduce their own margins on the Dream Yuga by 1%. There is headroom to do that, as Honda's dealer margins are at 5% (across all models), while Hero's is at 3%, Bajaj 4% (Yamaha's is 8%; Suzuki's is 9%).

The Dream Yuga has not meet initial dealers targets of 50 units/month (currently selling ~25 units/month).

As per the dealer, the marketing campaign is not very effective since the advertisement targets more of an urban audience and holds less relevance for rural India.

Not happy with marketing campaign

- **As per the dealer, the marketing campaign could have been a lot more effective.** While they have roped in Akshay Kumar, the advertisement doesn't leverage him well enough. In his view, the advertisement targets more of an urban audience and holds less relevance for rural India.

Dealers can sustain on lower margins as service income is key

- Every dealership agency has to set up a service centre. The margins for any job in the service centre (be it spares, repairing, etc.) is >25%. The service centre is a high fixed cost business and hence operating leverage is the key. This is precisely why Hero can afford to keep its dealer margins at ~3%.
- In Honda's case, dealers are willing to cut their own margin on the **Dream Yuga, in order to make up for it during the service. Hence dealers are upbeat about the** Dream Yuga as it opens them up to a larger part of the pie (which was relatively untapped) and hence provide steady state cash flows over the years merely from service income.

The Dream Yuga Sales Mela (fair)

- As per the dealer, **the Dream Yuga is not a showroom product.** By this, he means that word of mouth publicity will be more effective and the marketing needs to be on the ground; not on television. The dealership has adopted a unique marketing technique to address this issue. They organize a sales mela where a lucky draw system is used to entice people to test drive the Dream Yuga.
- So far they have done only 2 such melas, but given the success, they will do one a week for the next 15 weeks. **Under this scheme, 300 people have taken a test drive in the last 2 mela. Of these, the conversion ratio has been ~3% (9 purchases).**
- This has been restricted only to Jaipur for now and going ahead, they plan do such melas in rural regions as well. **Given that they retail only 25 units/month of the Dream Yuga currently, a conversion of even 10 incremental units from such a mela, translates into a noteworthy 40% jump in volumes.**

Dream Yuga Mela (completely the dealer's initiative):

A unique marketing initiative where a lucky draw is used to entice people to test drive the Dream Yuga (they are doling out ball pens as assured gifts, with the chance of winning a mobile, watch or sunglasses).

In Jaipur, so far they have done only 2 such melas, in which ~300 people have taken a test drive. Of these, the conversion ratio has been ~3% (9 purchases). Given that they currently retail only 25 units of the Dream Yuga every month, a conversion of even 10 incremental units from such a mela, translates into a noteworthy 40% jump in volumes.

Showroom layout attempts to divert the scooter buyer to motorcycles

- **It was Honda's idea to have two different sections in the dealership. A "motorcycle area" and a "scooter area".** The entry is from the motorcycle area, which makes up 80% of display space. **While scooters accounts for *~60% of volumes, there was only one scooter displayed in the corner (covering only 20% of the display area).*** The idea here is to divert the scooter buyer towards motorcycles.

While scooters accounts for ~60% of volumes, there was only one scooter displayed in the corner (which covered not more than 20% of the display area). The entry of the showroom is the motorcycle display area makes up the balance 80% of display space. The idea here is to divert the scooter buyer towards motorcycles. This idea has stemmed from Honda itself.

Recently, the Rajasthan government has reduced road tax on <125cc bikes from 8% to 4% (>125cc bikes, the road tax is 6% vs. 8% earlier)

Most <125cc bikes (the 124.6cc Honda Shine in this case) are carrying a tag which reads "Road tax cut by 50% (from 8% to 4%), which translates into a saving of INR2,019"

Maruti Suzuki dealer – Inventory under control… Awaiting supply!

We met the GM of one of the largest Maruti Suzuki dealerships in Rajasthan, selling around ~250 cars per month. Petrol Inventory is at a comfortable ~4 weeks and discounts have not increased incrementally. For the Swift family, supply is the only constraint.

Footfalls are encouraging but conversions still low

- While footfalls are encouraging (a marked uptrend over the last 3 months back), conversions still remain low. They are hopeful that the same will improve substantially in the coming festive season.

Petrol inventory not alarming… Discounts haven't increased incrementally

- While retails for petrol variants remain sluggish, inventory levels are comfortable (around ~4 weeks). Resultantly, **discounts on petrol variants (at around ~INR30,000 per vehicle) have not increased on a QoQ basis.**

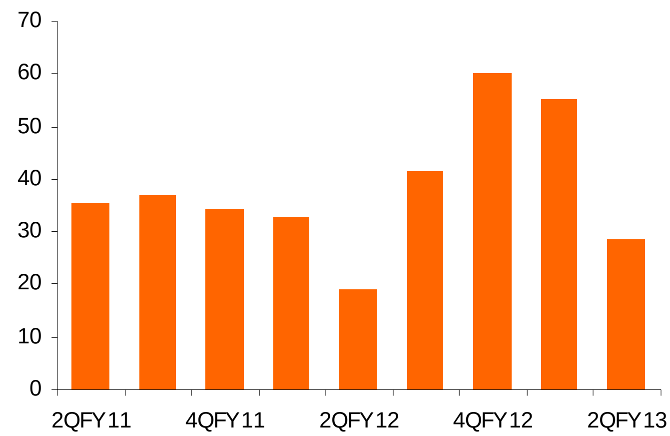
Dealers pitching petrol variants more effectively

- Given the constraint in diesel supply, dealers are training their sales team with appropriate methods of pitching petrol variants more effectively. Resultantly, **with every customer who walks in, they explain how buying a diesel vehicle over a petrol one (at this price differential), mathematically doesn't make sense if their daily commute is very short (which is very often the case). Post this, petrol variants have seen a gradual uptick in retail.**

Swift family – Supply the only issue

- At the moment, there is no discount on even the petrol variant of the Swift, which is a testimony to the popularity of the Swift platform. While the waiting period has gone up due to the Manesar plant lock-out, **dealers have been assured that most Swift bookings taken for the festive season will be met. So far there have been no cancellation in bookings.**
- **Ertiga retails have been on an uptrend ever since the launch. Hence, while capacity has increased, the waiting period has not come down substantially. Currently the Ertiga has a ~5 month waiting period.**

Swift quarterly volumes ('000s)



Source: Crisil, Antique

Petrol inventory is at normal levels (~4 weeks). The sales team is being trained to pitch petrol variants more effectively. With every customer who walks in, they explain the economics of diesel vehicle over a petrol one and how at this price differential (between both vehicles), mathematically is doesn't make sense for most people to opt for a diesel variant.

Post this, petrol models have seen a gradual uptick in retail and resultantly, discounts on petrol variants (at around ~INR30,000/vehicle) remain flattish.

Bajaj Auto dealer – New Discover 125ST a runaway hit!

We met the GM of a Bajaj Auto dealership in Jaipur. They sell ~200 motorcycles every month. While inventory is on the higher side (~5 weeks), they were upbeat about the festive season, more so because the new Discover 125ST and Pulsar 200NS have been very well received.

Inventory higher than normal

- Bajaj is normally quite disciplined as far as dealer inventory management is concerned. However, **over the last quarter or so, the is sluggishness in retail has been higher than expected, which resulted in higher than normal inventory build up (~5 weeks) at the dealership.** However, they are hopeful of this inventory being cleared during the festive season. **Bookings for Ganesh Chaturthi have been much better than expected.**

Pulsar 200NS and Discover 125ST – Runaway hits

- **The new Pulsar 200NS and New Discover 125ST have been very well received with dealers selling all that has been dispatched.** Despite the ramp-up in production, there is a marginal period on both models and hence they await more dispatches from the company. That said, the Pulsar 200NS has severely cannibalised the old Pulsar 220. They also miss having a scooter in their product portfolio, as it opens up their market to a very fast growing segment, i.e. women riders.

Inventory is higher than normal (~5 weeks). Dealers are hopeful that this would be cleared off in the festive season

The Pulsar 200NS has been so well received that it has severely cannibalised the Pulsar 220 (resultantly, inventory of the Pulsar 220 has increased)

KTM – Seeking attention!

We met the GM of a KTM dealership to get a sense of how high-end motorcycle sales are trending. This is the only KTM dealership in all of Rajasthan and they sell around 20 KTM Dukes per month. The focus for them initially is to increase awareness of the KTM brand. The dealership also sells the Kawasaki Ninja and has sold 40 units till now.

The showroom is a major attraction

- The KTM showroom is designed to garner attention. This idea has stemmed from Bajaj Auto as a strategy to create awareness about KTM. In their view, the only factor which has kept retails at a dismal 20 units/month is the lack of awareness.
- As per dealers, people who are aware of the KTM brand, are very easy to convert given that the 200 Duke is actually very good value for money (only around INR25k more expensive than the Pulsar 200NS). They hope to increase brand awareness among the others by enticing them into the showroom and hopefully educate them about the KTM brand and superior product before they leave.

So far, so good

- So far, they have succeeded in doing so. Despite a huge Mahindra dealership in the same vicinity, all the rickshaw-walas we interacted with knew about this area only because of this KTM showroom. While they naturally lack the brand awareness, they all were aware of the showroom which has a radical display of fancy orange bikes.

Bajaj Auto has consciously designed the KTM showroom to garner attention, as they believe that lack of brand awareness is the sole factor for small retail numbers (those who are aware of the brand are very easy to convert given that the 200 Duke is actually very good value for money - only around INR25k more expensive than the Pulsar 200NS).

So far, they have succeeded in doing so. Despite a huge Mahindra dealership just a stone's throw away, even rickshaw-walas identify the area itself with this new KTM showroom. They obviously know nothing about the brand, but knew about the showroom with fancy orange bikes on a very radical display.

Middle and lower income sales impacted

We visited a few wholesalers and retailers in Jaipur to get a view on the consumption trend in FMGC.

- As per our interactions with the FMCG trade, consumers from the higher middle income group have largely absorbed the price hike and have not down-traded. **According to retailers, sales have been growing at about 20%.**
- However in case of the middle and lower income group the impact of the price hike was felt leading to a reduction in demand for branded products. Additionally consumers have started down-trading to local cheaper products.

Raj departmental store is located in Vidhyadhar Nagar and engaged in both wholesaling and retailing activity.

Vidhyadhar nagar is a upper middle class locality (Income levels of +INR500,000) with a population of 50,000 people

RDS has monopoly in the locality. This retailer has a wide product basket, offers discounted rates and offers facility of free home delivery.

- **Retailers from lower income localities are witnessing down-trading and higher demand for local brands.** Further there are seeing a higher demand for duplicate products in chocolates and confectionaries.

An unbranded detergent cake in the mass locality retail store in Shastri nagar - Vishnu Departmental Store.

Shastri nagar is a lower income locality with a population of about 30,000 people with an average annual income of below INR300,000.

ITC on a promotion spree, witnessing pick-up in both soaps and shampoos

According to our interaction with retailers in upscale localities, ITC is doing heavy sales promotion activity.

For instance, for every block of shelf-space they are paying about INR350 per month for displaying their products as compared to INR200-250 per month paid by its competitors.

In both soaps and shampoos, ITC is witnessing fresh demand in its premium brand Fiama Di Wills.

In skin care as well, ITC has intensified its promotional activities.

Bournvita, strongest in malted drinks

In malted health drinks in the upper middle income group localities, Bournvita is the largest selling brand with a substantial portion of its sales happening through refill packs of 500gm priced at INR171.

The second biggest player in the category is Boost. This indicates that the city has a preference for chocolate malted health drinks.

However the trade is now witnessing very aggressive sales promotion activity by GSK Consumer for their largest brand 'Horlicks'. Currently according to retailers, Horlicks is primarily preferred by families who have children below the age of 4 years. Horlicks according to retailers is growing at 6-7% per annum in terms of volumes.

ITC on a promotion spree, witnessing pick-up in both soaps and shampoos

Nestle's Maggi according to the feedback from retailers has been recording 20% volume growth

HUL witnessing premiumisation in soaps

- In the premium soaps segment, **Dove has created a strong branding in Jaipur. According to the trade, the brand has been recording a volume growth of 13%-15%,** despite the price hikes made by the company.
- Lux is the strongest and the largest selling brands in soaps in Jaipur. However in the last 5-6 months heavy competition from ITC has been witnessed in the category.
- **According to retailers, the highest competition has been in the laundry category, where HUL and P&G have been the key competitors**
- **Rohit Surfactants the manufacturers of Ghadi detergents has been aggressively attempting to penetrate Rajasthan during the last one year.**
- However has failed to make its presence felt despite increasing the retailer margins from 10% to 15%.

Oswal soaps is the largest regional detergent cake brand in Rajasthan and finds high acceptability particularly in Industrial area.

The company provides higher retailing margins of 10% as against HUL and P&G's 8%.

United Spirits witnessing buoyancy

We met some of the biggest retailers of alcoholic beverages in Jaipur, to understand the demand scenario in the liquor industry in Rajasthan as a whole:

- In Rajasthan IMFL manufacturers sell their brands to government depots managed by the Rajasthan State Beverage Corporation (RSBCL) and those depots in turn distribute to retailers, institutions etc.The IMFL companies gets weekly receipts from Rajasthan State Beverage Corporation Limited (RSBCL).
- In Rajasthan, United Spirits (UNSP) sells about 3,50,000 - 3,75,000 cases per month (4.5m cases per annum), contributing about 4-5% to the company's sales volumes. **In Rajasthan over a lower base, UNSP is growing at 15-20% in the current fiscal.**
- According to the trade, Whisky is the largest component of the company's sales volumes in Rajasthan forming about 30-35% of the company's total volumes.Within whisky, the regular segment (INR180-200 per 750ml) is the largest contributor, (60-65% of whisky volumes).
- UNSP is consciously de-focusing on the regular segment in whisky to promote premiumisation in its portfolio
- In line with this strategy, UNSP reduced the prices of Royal Challenge whisky by 25% leading to a substantial growth in volumes of the brand to 6,500-7,500 cases per month as against 2,500-3,000 cases per month in the previous year. Mc Dowell's No 1 Platinum is the second biggest brand for UNSP in the prestige plus (INR400-420 per 750ml) segment with about 7-8% market share. In this segment, Royal Stag is the dominant brand with about 85% market share indicating to a total volume of about 23,000-28,000 cases per month in the state.
- Pernod Ricard has taken up to aggressive promotional offers of Imperial blue (Prestige whisky- INR350-360 per bottle of 750ml) in the state leading to a substantial growth in volumes of the brand to 8,500 case per month during September as compared to its normal average volumes of 2,500 cases per month. UNSP's Mc Dowell No 1 is the largest brand in this segment with volumes of about 48,000 -52,000 cases per month, growing at about 13-15% per annum.
- In regular scotch whisky, UNSP's brand, Black Dog 8year and 12 year faces competition from Beam Inc brand Teachers highland and Teachers highland cream while in the premium whisky segment UNSP's two brands, Antiquity (2,500-2,800 cases per month) and Signature (2,300-2,500 cases per month) faces competition from the leader in the segment, Pernod Ricard's Blenders Pride (5,500 cases per month). In the regular segment the company faces competition from ABD's Officers Choice Whisky.
- Carews dry gin and Celebration rum are the largest brands in gin and rum category respectively. Gin and Rum each form about 20-22% of UNSP's volumes.

Consumer durables - Demand slackens...

We visited Jayanti Bazaar, (the largest market for consumer durables in Jaipur) to get an understanding of the demand trend in consumer durables.

- Within consumer durables and electricals, fans have been the outperformers recording about 10% growth while other white goods categories like LCDs, Refrigerators, washing machines and Air Conditioners have witnessed significant moderation in demand.
- **According to the retailers, this slowdown in the broader white good categories has been one of the most intense in the last 10 years.** The trade is looking forward to the festive season to see some pick-up in sales. However not much could be expected according to the retailers.
- **Kitchen appliances however are witnessing increased traction with aggressive product introductions by organised players.** According to our interaction with retailers, healthy margins in the category ha attracted the interest of organised players. Key organised players in Kitchen appliances are, Bajaj Electricals, Havells, Usha
- **In stabilizers, V-Guard is a dominant brand** and has been gaining ground in Jaipur led by product quality and after sales service. **Online shopping is gaining traction** in consumer durables in Jaipur contributing about 6-7% of the total market. This could be attributed to the increasing preference for branded consumer durables in Jaipur.
- **Fans have recorded a growth of 10% in volumes during the current year.** Within Fans, **Bajaj Electricals has been a clear outperformer due to reasonable pricing and strong brand equity** amongst the middle and lower income group and the rural population. In Rajasthan according to the trade, rural markets form about 60%-70% of the total consumer durable market. This in turn facilitates Bajaj Electricals performance.
- **Consumer electricals and durables manufacturers have initiated price hikes to offset the RM cost inflation and currency impact, as majority of the components are imported.** Bajaj has increased fan prices by about 10%-15% while Havells has increased prices by 10%. In water heaters prices have been increased by 10%. In refrigerators price increases have been to the tune of 30%.

Jayanti Bazaar is the largest market for consumer durables in Jaipur

Punjab

Key Stats:	
Population (Mn)	27.7
GDP per capita (INR)	67,473
Population density (Persons / sq km)	550
Literacy rate (%)	76.7
Sex ratio (Females per 1,000 males)	893
Area (Sq km)	50,362

We travelled to Chandigarh (UT) and also visited some villages in Sangrur & Patiala district (Punjab). In Patiala district, we visited Mandaur (~90kms from Chandigarh) and Nabha (~100kms from Chandigarh), while in Sangrur district, we visited Bidwal (~120kms from Chandigarh).

We met up with the farming community, retailers, and Auto dealers across the three villages to assess the consumer sentiment in the region in the backdrop of the uncertainty over a delayed/deficient monsoon. We also met the village Sarpanch and rural development officials to get a view on the implementation of government schemes like NREGA and the related impact.

Key takeaways:

- Locals across both rural and urban markets have a relatively higher standard of living (compared to the rest of the country) and like to spend on lifestyle products, even during times of uncertainty.
- The farmers in the area have had a mixed year. While they expect to end the season with a bumper crop, costs have doubled due to a deficient monsoon and general inflationary pressures. This has impacted margins as MSPs have remained flattish.
- Almost everyone we interacted with (be it a farmer or a local businessman) cribbed about the ballooning labour cost which stems from the acute labour shortage.
- Power shortage remains a big problem for farmers. They get free electricity in the state but only for 6-7 hours a day, that too at varied times. Most farmers we interacted with are ready to pay for electricity, provided they get at least 12-14 hours of uninterrupted supply in a day.
- With the desire to lead a better lifestyle coupled with the rising penetration of media, the level of brand awareness in Punjab's rural areas is high. This in turn has led to a consistent demand growth in FMCG sales (15-20% growth) even in an uncertain environment.
- Retail outlets in small villages have a broad based portfolio of branded products and the retailers like to manage their outlets in a fashion similar to urban retailers.
- In Chandigarh, Mohali, Panchkula, and the adjoining areas, demand for consumer durables and electricals are witnessing consistent demand due to ramp up in home improvement initiatives. However bulk demand in electricals has been impacted due to stalled real estate projects. V Guard's dominance in the region in stabilizers was evident led by a strong product quality and best in the class after sales service.
- Most Auto dealers (across both rural and urban regions) stated that there was no real slowdown in the sector as both footfalls and conversions have been satisfactory. Among PVs, the area as a whole is heavily skewed towards the diesel variants (more than the pan-India average), as it comprises of 80% of all models that have a diesel option available. Among PVs, Mahindra XUV5oo, Toyota Fortuner and Maruti Swift/Dzire/Ertiga remain the favourites and facing a massive supply constraint.
- 2W dealers sounded optimistic about sales in the festive season and hence didn't seem too perturbed about the high inventory levels at their dealerships. They seemed supremely confident going into the festive season (much more than 2W dealers in other states).
- For the tractor segment, things are slow currently and all related parties (farmers and dealers) are pinning their hopes on the next couple of months (a good kharif crop), which would be very crucial in determining future trends.

Effects of a delayed/deficient monsoon

We interacted with the farming community across a few villages in Punjab, to assess the pressures on account of a delayed monsoon and its exact impact. We understand, that a delayed monsoon in the region causes multifold problems - not only for farmers, but the regional economy as a whole.

Farmers bear maximum brunt

- Clearly, the main brunt is borne by the farmer as problems for them start right at the onset - the ground surface gets harder and ploughing becomes difficult (for tractors, this is actually positive given that the number of tractor hours required increases substantially in this case).

Burgeoning cost pressures

- The delayed/deficient monsoons even leads to a meaningful uptick in cost pressures, due to higher dependence on complex fertilizers like sulphur, zinc and dye. Further, with higher demand, the prices of these fertilizers also increase (sulphur, which used to cost INR900/bag last year, is now ~30% higher at INR1,200/ bag). Additionally, in a normal monsoon, farmers use 3 bags of urea (of 50kgs each) per acre, whereas in a delayed/deficient monsoon (as was this year), they require 5 bags of urea per acre.

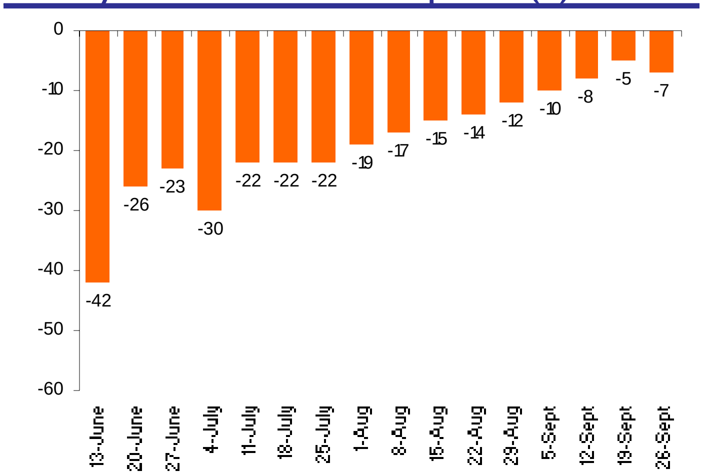
Electricity – Free, but sporadic… This leads to further cost escalation

- A delayed monsoon increases the need for irrigation as well. In the state of Punjab, the state government provides free electricity to all farmers, primarily for the usage of running water pumps. However, electricity is available for only 6-7 hours in a day, that too at varied times. Also, after every 12 days, there is a 36 hour power-cut.
- Therefore, dependence on diesel to power the water pumps has increased (on an average, an hour of running uses around 5 liters of diesel). However, if these pumps are run on electricity, it consumes only 4-5 units. Farmers are willing to pay for electricity, provided they get uninterrupted supply for 12-14 hours in a day. This further escalates costs.

Income from other sources also gets impacted

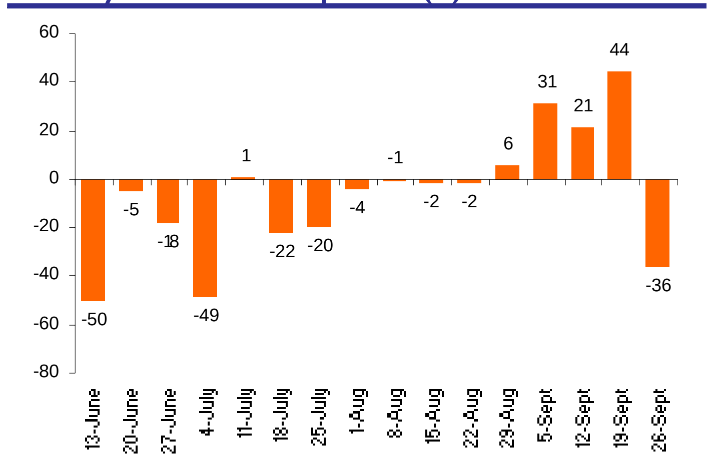
- Income from dairy products also takes a hit due to lower agri output, which in turn leads to a drop in feedstock. Additionally, livestock is also affected by the rising temperature and resultantly, the milk output reduces substantially.

Week-by-week seasonal rainfall departure (%) from LPA



Source: IMD, Antique

Week-by-week rainfall departure (%) from LPA



Source: IMD, Antique

Delayed monsoon could impact the agri output adversely…

To get a view on the trend in rural Punjab we travelled to Patiala and Sangrur District (about 100 kms from the capital city of Chandigarh). We started our journey by visiting Mandaur, the largest village in Patiala district, with an electoral population of 4,000.

According to our interactions with the farming community in the village, the cost of farming has witnessed a steep increase due to lack of rains and labour shortage.

Bidwal, Sangrur District

Farmers said that any further rainfall would adversely impact the standing crops.

For local farmers, a good crop is a matter of pride, irrespective of the profit he earns

Mandaur, Patiala District

Costs have witnessed steep increase primarily due to high dependence on diesel for both ploughing and irrigation purposes.

Use of tractor hours increased due to the hard surface in the region

Nabha, Patiala District

All local workshops in the region are in full swing, working overtime to get the harvesting combines ready in time for the upcoming season.

Rich farmers of India

We met a few farmers in Nabha village (Patiala)… Not surprisingly, these farmers were HNIs (with networths ranging from INR60m to INR210m). That said, they are ultimately dependent on farming income and hence would never consider selling their land (irrespective of the value).

Farmer from Mandaur: Owns 10 acres of land, valued at INR150m (at INR15m per acre)

Another farmer from Mandaur: Owns 14 acres of land, valued at INR210m

His farm income is ~INR700,000 per annum (detailed P&L below)

A farmer from Bidwal: Owns 6 acres of land, valued at INR60m (his land is valued at INR10m per acre)

P&L of the farmer with 14 acres of farm land

Farming Revenues (INR)	Rice	Wheat
Land size (acre)	14	14
Output per acre (Quintal)	30	20
Total output (Quintal)	420	280
Price/quintal (INR)	1,280	1,180
Revenue from crop output	**537,600**	**330,400**
Total Farming Revenues	**(Rice + Wheat)**	**868,000**
Less expenditure:		
Contract labour		98,000
Permanant labour		180,000
Diesel Cost		31,500
Maintenance for equipment		15,000
Pesticides & fertilizers		134,400
Total Expenditure		**458,900**
Total Farming Income		**409,100**
Other Income		
Tractor Leasing		50,000
Combine Leasing		235,000
Total Other Income		**285,000**
Total Income		**694,100**

Contract labour cost:
28 acres x INR3,500/acre

Diesel cost:
700 litres of diesel (350 per crop) x INR45/litre

Pesticides & fertilizer cost:
28 acres x INR2,400/acre (used twice for each crop)

Mandaur, Patiala District - Discretionary spends taking a hit

In this region, high discretionary spends are highly dependent on a healthy farm (and farm related) income. One of the farmers we met had bought a top-end Volkswagen polo diesel (right) due to a good crop in the previous year.

He had planned to replace his tractor this year (after using it for ~5 years), but has deferred his purchase to the next year due to high inflation and pressure on income.

Similar story of another farmer who purchased a Toyota Innova and a LCD TV after last year's bumper crop. However he has deferred tractor replacement to next year, on the hopes of a good crop…

High inclination towards branded products

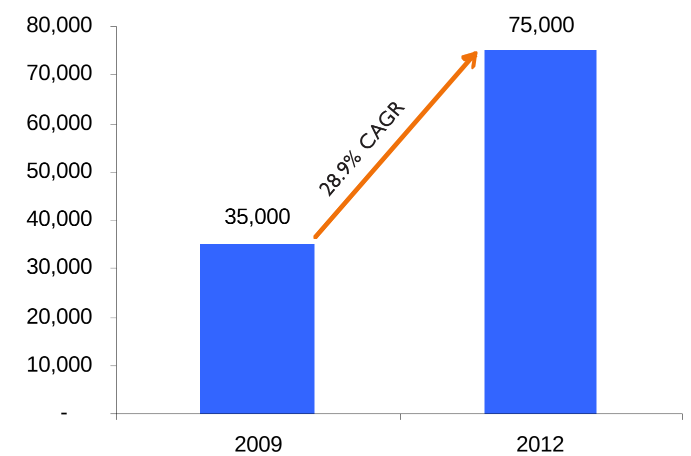
- Our interactions with the villagers of Mandaur suggested very high level of brand awareness amongst the incumbents. According to the villagers they would not like to compromise on quality and branded products provided them the surety of better quality.
- The high penetration of media in the region has also aided the improvement in brand awareness.
- Product price hikes, raging inflation, and uncertainty over monsoon has not deterred them from consuming branded products. Therefore no signs of slowdown in FMCG products was seen in our sample village.
- In our interactions we noticed a high brand recall for Lifebuoy in soaps, Parachute in coconut oil and Colgate in Toothpaste.

80% of the households have DTH connections. They are being powered by invertors and generators, as there is shortage of power (Village Mandaur, Patiala District).

Labour shortage increasing cost of labour

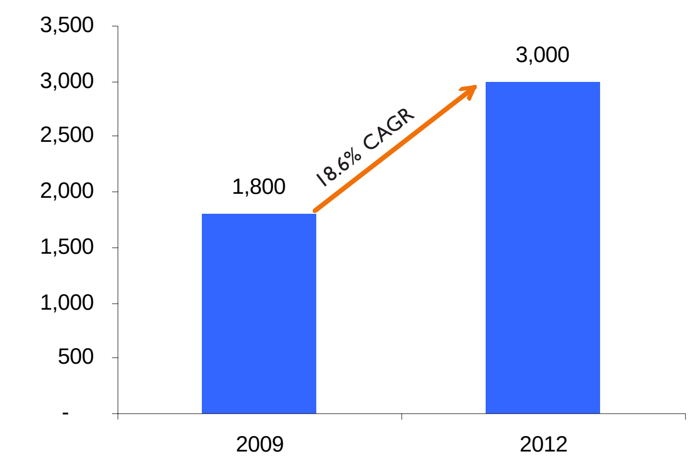
- Majority of the seasonal labor supply from Bihar and Uttar Pradesh, are witnessing consistent drop during the last three years leading to an acute shortage of labour. According to the farmers, this shortage is primarily due to a declining preference amongst labourers towards agricultural jobs.
- On the contrary there is a rising preference amongst labourers to migrate to cities or work on infrastructure projects. Resultantly, **the labour cost per acre of paddy crop during the sowing season has increased to INR3,000 per acre in CY2012 (payment in cash - INR2,500 + supply of groceries during the period of the season) as against INR1,800 in CY2009 (implying a ~19% CAGR during the period)**.
- **The cost of annual contractual labour has risen to INR75,000 in CY2012 as against INR35,000 in CY2009 (a CAGR of ~29%). In case of contractual labour, about 50% of the labour cost has to be paid upfront.**

Permanent labour (INR/Annum)



Source: Antique

Contractual labour (INR/Acre)



Source: Antique

Soaring land prices - Paper gains

- Land prices in the region have risen substantially in the last 5 years. **For Bidwal, despite being a village in the interiors of Punjab, One acre of land is valued at about INR15m currently (was INR12m two years back; INR10m five years back)**. However, no land deals have happened as the landowners/farmers have opted to sit on their land bank.

Different farmer, different area, but same problems

- Our interactions with the farming community in Bidwal suggested a similar trend in terms of cost inflation (as was in Mandaur). **According to a farmer in Bidwal, his diesel consumption has increased substantially – from 50 litres last year to 100 litres this year (due to higher dependence on water pumps on account of the deficient rainfall).**
- His labour cost has increased to INR1,800 per acre as compared to INR1,500 per acre last year. The relatively lower cost inflation in labour when compared to Mandaur was primarily due to a better quality of soil (the land in Bidwal is easier for sowing and does not require the same effort).

Brand conscious people everywhere

- In Bidwal as well, we saw reasonable penetration of LCD televisions and DTH. Consequently, there is a high preference for branded products in the village. They have a preference for branded clothes as well. Further power sortages have led to a growing demand for inverters.

We met Mr. Amreek Singh, Sarpanch of Bidwal in Sangrur District, which has an electoral population of 1,500 people. Additionally we also met up with the farming community in the village.

NREGA - Unheard about for over a year now

According to the Sarpanch**, NREGA has not been very successful in his village. The scheme was last operational about one year back and had provided employment to around 70 people at INR123 per day.**

The key reason for the failure was inability to meet the specified job standards under the NREGA scheme. This in turn was due to the shortage of unskilled labor. The Sarpanch remarked that in **most of the cases, elderly people and women turned up for the job, which led to job delays and also led to failure to meet the prescribed standards under NREGA**.

Impression that NREGA guarantees pay… Working for it has become optional

The Sarpanch further remarked that another **reason for the failure of NREGA was that the locals are under the impression that 100 days of employment is their right.** Therefore, the locals have no motive to work for NREGA wages as they just want the money without putting in any effort. Further, **as the job done under the scheme (widening of roads, digging of ponds and filling up of pot holes) requires hard manual labour, people prefer to work in the open-market for a higher pay, which is around INR250-INR300 per day**.

Subsidized food grains increasing reluctance to work

Availability of food grains at subsidized rates has made life easy for the village incumbents qualifying to work under the scheme. He said that the **people qualifying under the scheme are provided substantially subsidised rates.** This alienates them from the vagaries of food inflation, thus reducing their willingness to work.

Meeting with the Block Panchayat Officer (who overlooks ~25 villages in the Sangrur district in Punjab) and the Panchayat Secretary (secretary to 6 village panchayats in Sangrur)…

They highlighted that the deficient rainfalls has escalated cost pressures for the farming community, which has only added to the woes of labour shortage.

Block Panchayat Officer and Panchayat Secretary of Sangrur district (Punjab)

We met the Block Panchayat Officer (who overlooks ~25 villages in Sangrur district in Punjab) and the Panchayat Secretary (secretary to 6 village panchayats in Sangrur).

Deficient rainfall… Problems aplenty!

For the farming community, the deficient rainfall increases cost pressures substantially. For starters, **the dependence on irrigation increases. Given the acute power shortage as well (required more during a deficient monsoon for the usage of water pumps), farmers are more dependent on diesel (on an average, running a water pump for an hour uses around 5 litres of diesel).** Additionally, income from dairy products are also impacted as the rising temperatures affect the livestock and as a result, milk output reduces.

Labour shortage … a huge concern

The state as whole has witnessed acute shortage in labour inflow from other states like Bihar and UP, which stems from rising preference towards more lucrative infra projects. Resultantly, labour cost has also increased. **Currently, the labour cost on a 1 acre land in the region is INR2,200/acre (per sowing season, i.e. 1.5 months), but including all the food, rations and other freebies, the total labour cost is around INR3,000/acre. This amount used to be INR1,800/acre in 2009**, which suggests that labour costs have increased by a 19% CAGR in the last three years.

NREGA not diverting as much labour as perceived

While NREGA is perceived to have diverted a lot of labour out of farms, it hasn't been the case completely. **While a NREGA worker gets around INR166/per day, normal labourers are earning around INR250-300/day**. Also, the work standard according to the NREGA rules, measures the quality of work done by unskilled labour to the work that would have been done by machines and skilled labour in the same time. Hence, there is ambiguity regarding performance as well.

Teachers are more like canteen managers

Education standards in government schools are extremely poor. The mid-day meal scheme in schools is part to blame as **most teachers were occupied with mid-day meal tasks and majority of their time is spent keeping an account on the amount of food grains received, rather than concentrating on teaching the students**.

Retail store in Mandaur - Rural India or metro city?

- Amongst our meetings in Mandaur comprising of about 4 retailers, we came across a local FMCG store in Mandaur, which could be mistaken with a urban retailer. All major brands and products were available on the shelf.
- Our interactions with retailers, suggested that the incumbents have a high preference towards branded products in the area and there was less preference for local products. The awareness for branded products was aided by a reasonable media penetration in the region and higher aspiration levels.
- **FMCG sales across retailers in Mandaur has grown by 15-20% over the previous year and therefore no slowdown has been witnessed**
- Retailers in Mandaur source their requirement from wholesalers as the distribution of FMCG companies has not yet reached Mandaur. This signifies the potential for expansion of direct distribution network of FMCG companies in the coming years.

In this store in Mandaur owned by Mr.Karandeep Singh Dhaliwal, all the major brands were present on the shelves.

Tech savvy shopkeeper, uses excel for maintaining stock inventory

Tide is the largest selling detergent and Clinic plus is the most popular in the shampoo segment

We met the owner of a local harvester combine manufacturer (Hira Combines) in Nabha, Patiala District Punjab.

- **They manufacturer and sell a noteworthy 200 harvester combines every year - that's more than Punjab Tractors (Mahindra Swaraj brand) sells, which is ~170 units in a year.**
- In line with sluggish tractor sales, demand for combines has also been impacted, with flat sales growth YTD. Their sales would have de-grown had it not been for aggressive marketing, coupled with a hit on their own margins (in not passing on all of their cost pressures to customers).

Hira Combines

P&L (INRm)	2012	2011	YoY (%)
Volumes (In nos)	**200**	**200**	**0**
Realisation (INR)	**1,630,000**	**1,600,000**	**2**
Net Sales	**326.0**	**320.0**	**2**
Raw Material Cost	**262.4**	**249.0**	**5**
RM as % of Net Sales	80.5%	77.8%	268
Labour Cost	**18.0**	**16.0**	**13**
Labour as % of Net Sales	5.5%	5.0%	52
Other Expenses	**19.0**	**14.0**	**36**
O/E as % of Net Sales	5.8%	4.4%	145
EBITDA	**26.6**	**41.0**	**(35)**
EBITDA margins (%)	***8.2%***	***12.8%***	***(465)***
Interest	2.6	2.0	30
Depreciation	4.4	4.0	10
PBT	**19.6**	**35.0**	**(44)**
Tax	5.9	10.5	(44)
PAT	**13.7**	**24.5**	**(44)**

We visited Hira Combine Harvester's workshop at around 11.30pm...

…Work was going on round-the-clock, to get things ready for the upcoming harvesting season.

Hero MotoCorp dealer – Inventory? Prefer it high…

We met a Hero MotoCorp dealer in Nabha (District of Patiala). The dealership sells ~50 2Ws a month.

The inventory levels here were slightly higher than normal (~5 weeks), but the dealer felt that it is manageable, given that they are going into the festive season.

No material impact on conversions after dropping the 'Honda' tag

- Contrary to what some other dealers have had to say, there has been no impact on Splendor conversions after the company has dropped the 'Honda' tag.
- In fact, **in most of North India, this has had a positive bearing on sales as some mistake the sticker change for a refreshment of the Splendor.**

Inventory – High, but manageable levels…all eyes on festive season:

- Inventory is slightly higher than normal (at ~5 weeks), but dealers feel that this is manageable going into the festive season.
- **July and August were sluggish for retails, but in September, footfalls and conversions both improved a tad and hence dealers are hopeful of a strong festive season**.

Maestro gets a thumping response (2 month waiting period)

- The scooter segment continues to outperform motorcycle sales. **Most people buying a second 2W for the house are opting for a scooter, due to its flexibility of usage.** The response to the newly launched Maestro has been very strong and it has a two-month waiting period.

Inventory is slightly higher than normal (at ~5 weeks), but given an option, dealers would much rather have higher inventory going into the festive season, than less stock (which was the case in the last couple of years).

Royal Enfield – No bikes to even display!

We met a Royal Enfield dealer in Nabha (western part of the Patiala district). He also owns an LML dealership right next door. For Royal Enfield, they sell ~10 units/month (purely based on supply) and for LML, they sell only ~6 units/month (purely due to low demand).

While LML had inventory aplenty (~6 weeks), Royal Enfield had only one display bike, that too thewas the owner's personal bike, which instead of parking on the road, he has to park it inside the showroom (just so that there is at least a bike to display). Such is the demand-supply mismatch for Royal Enfield, despite ramping up production by ~2x.

Royal Enfield - Waiting for supply…

- Even after ramping up production by almost 2x in the last year, there is a waiting period of ~6 months on the best-seller, i.e. the Classic 350. **The fact that the lone Enfield on display was the one that belonged to the owner, says a lot about the demand-supply mismatch.**

Why has the waiting period not come down?

- **While Eicher Motors has doubled Royal Enfield production in the last 18 months or so (now at ~10k/month), demand too has increased in almost the same proportion.** That's the sole reason why the waiting period has not coming down much.

Tale of two brands – while the LML inventory speaks for itself (~6 weeks), there is only one Royal Enfield bike available for display (that too, which happens to be the personal bike of the owner of the dealership). Such is the demand-supply mismatch!

M&M dealer – No inventory… Waiting for supply!

We met the GM of the largest M&M dealership in Chandigarh. They sell ~200 vehicles every month. We were positively surprised by their lack of inventory. Almost every vehicle that they sell was in short supply and the only ones you could see in the entire property were the ones that were on display. Demand has exceeded supply in both PVs and CVs.

Lowest inventory among all passenger vehicle players

- **Despite being the largest dealer in Chandigarh, they had very low inventory (<2 weeks).** The only vehicles that were in the property were the ones on display (single units of all models).
- **Although August/September is generally a lean period for Auto sales, M&M has seen no slowdown in passenger vehicle sales which is a stark contrast to its peers.**

New product launches will help maintain momentum

- The new Verito has been very well received. This particular dealership sells ~30 units/month post launch (previously ~15 units/month of the Logan). As per the dealer, the **Quanto could be a game changer for M&M as it targets buyers looking to buy a premium hatchback or entry-level sedan.** Hence, it could add significantly to retails without cannibalising any of the existing SUVs.
- They also look forward to the Ssangyong Rexton (mid-October launch). That said, there hasn't been any enquiry for the same, given the low awareness about the Ssangyong brand.

XUV5oo obviously the king… Cannibalising the top-end Scorpio though

- Like every other region, the XUV5oo has been a phenomenal success in Chandigarh. **Despite the ramp-up in capacity the XUV5oo is expected to be in short supply going into the festive season.**
- That said, **the top-end Scorpio has been cannibalized by the XUV. We suspect that the Renault Duster too might have impacted Scorpio sales.**

CVs/3Ws too doing fine… Gio - The only product not up to the mark…

- The Maxximo and Genio are doing well and so is the Alpha (M&M's 3W). **The only product which is not up to the mark is the Gio. In fact, customers would rather buy a 3W, than the Gio. The passenger variant of Gio is cannibalized by the 3W Alpha.**

Virtually no inventory of most models with the largest M&M dealer in Chandigarh (stark contrast to other OEMs)… The only vehicles that were in the property were the ones on display (single units of all models).

Sales of the new Verito are ~2x that of the older version (Mahindra Renault Logan)

Dealers have high hopes from the Quanto as it could add significantly to retails without cannibalising any of the existing SUVs

Honda Motorcycle & Scooters dealer – Supremely confident; glad to have high inventory…

We met the largest HMSI dealer in Chandigarh. The dealership sells ~650 2Ws a month. What struck us the most was the dealer confidence. That said, Honda is no exception to the inventory build-up in the industry. Their inventory stands at ~5 weeks (vs. the usual 3.5 weeks).

Supremely confident

- **As an old dealership (11 years), they are very happy after the Hero and Honda split and the resultant focus of HMSI on motorcycles.** The dealer was very confident that Honda will be able to become the largest 2W player in India.

Inventory higher than normal; all eyes on a good festive season

- The dealership is carrying an inventory of ~5 weeks (vs. the usual 3.5 weeks), but they didn't seem too perturbed by it. In fact, the dealer was happy that for the first time in 11 years, they will be carrying enough stock of a complete 2W portfolio, going into Diwali.
- **There are no outright discounts on any models, but they are providing some freebies. They believe that freebies (more than discounts) help in better word-of-mouth publicity.**

Dream Yuga completes the product portfolio

- **The scooter motorcycle ratio which is currently 70:30 is expected to move 60:40 in the next 12 months.** The dealer is happy about the fact that Honda has plugged the gap in their commuter segment with the Dream Yuga. **They currently sell ~60 Dream Yugas a month (<10% of their total volumes).**

This HMSI dealership (largest in Chandigarh) is carrying an inventory of ~5 weeks (vs. the usual ~3.5 weeks). Inventory was high across both, motorcycles and scooters.

That said, the dealer was not too perturbed about the higher inventory… In fact, they were happy that for the first time in 11 years, they will be carrying enough stock of a complete 2W portfolio, going into Diwali.

Toyota – No slowdown whatsoever…

We met the GM of the largest Toyota dealership in Chandigarh. Currently, they sell ~150 vehicles per month. Demand continues to remain robust (across all models) and nothing has slowed, at least for Toyota.

Demand is robust… Targets have been easily met

- Demand is robust for Toyota vehicles in Chandigarh. In CY09, this dealer sold 620 units, followed by 850 units in CY10 and 1,050 units in CY11. For CY12, they had a set a target of 1,500 units (higher growth due to the inclusion of the Liva & Etios) and they are on track to achieve this target very easily as it has already sold 1,410 units YTD (Jan to Sep).
- Buoyancy has been across models - be it SUVs (Innova or Fortuner), Sedan (Altis, Camry, Etios) or hatchbacks (Liva).

Diesel rules the roost

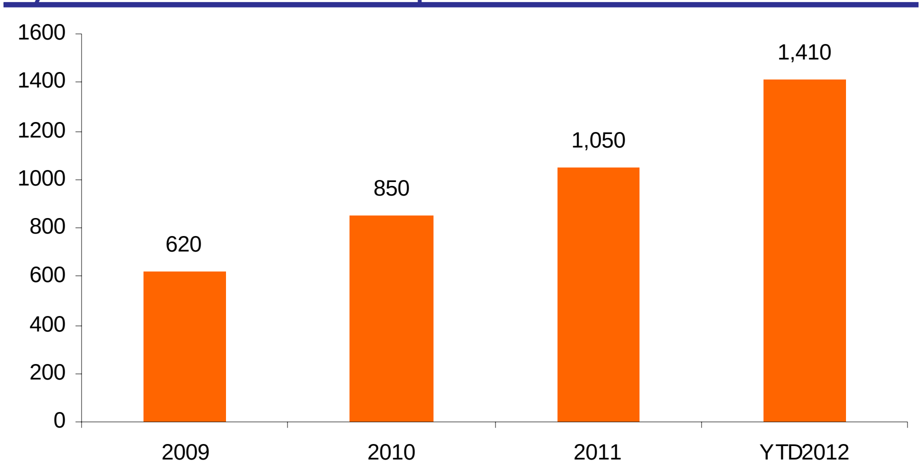
- Diesel comprises for 85% of cars sold. For instance, for the Liva, the dealership has sold 248 diesel variants vs. 20 petrol variants, while for the Etios, they have sold 380 diesel variants vs. 18 petrol variants.

High inventory is welcome

- Inventory is currently at ~4 weeks (normal), but dealers would rather have more supply of the Fortuner and Innova as they go into the festive season. The Fortuner has always been in short supply, ever since its launch.

On a Wednesday morning, the Toyota dealership is abuzz with customers… No deceleration in footfalls/conversions in recent months.

Toyota - Volumes at this dealership



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For CY12, they had a set a target of 1,500 units (higher growth due to the inclusion of the Liva & Etios) and they are on track to achieve this target very easily as they have already sold 1,410 units YTD (Jan to Sep).

Tata Motors dealer – Fed-up with UV business; LCV inventory has increased…

We met a Tata Motors LCV and UV dealer in Chandigarh. The dealer sells a dismal ~8 UVs a month whereas it sells ~25 LCVs a month.

In this particular region, the LCV business has seen an inventory build-up (~5 weeks vs. ~3 weeks earlier) primarily due to a deterioration in retail sales.

UV business – Disappointment galore

- Dealers are very disappointed with the response to Tata's UV's and that the company has not been able to capitalise on this boom in diesel SUVs (like M&M has). They are disappointed with the ineffective marketing and lack of awareness for its products.
- One such instance they mentioned - **Even before the XUV5oo/Quanto were launched, M&M dealerships received lot of enquiries and bookings. Alternatively, with the new Tata Safari Strom, while it is going to be launched soon, there has not even been a single enquiry.**
- Clearly Tata UV dealers are disappointed, more so due to the lack of scale. In Chandigarh, Tata Motors has 4 dealers selling UV's, all of which combined sell a dismal ~25 units a month.

LCVs – Inventory build-up in recent months

- While LCVs (Ace in particular) have done extremely well so far, retails have seen some slowdown in the last couple of months. Resultantly, **inventory of the Ace has gone up to ~5 weeks from ~3 weeks earlier. The Ace has never had a discount, but is now being sold at a discount of INR8,000.**

Tata UV dealers are disappointed that the company has not been able to capitalise on this boom in diesel SUVs (like M&M has). In all of Chandigarh, Tata Motors has 4 dealers selling UV's, all of which combined sell a dismal ~25 units a month.

Consumer Durables & Electricals - Home improvement led growth

We visited a few consumer electrical and consumer durable retailers in Chandigarh and its outskirts to get a view on the demand trend in Chandigarh, Panchkula (Haryana), Mohali (Punjab) and the adjoining areas. From our interaction with the retailers and dealers, we gathered that the demand environment for consumer durables remains favorable and is not impacted by the inflationary trend due to the high income profile and richer lifestyle.

- In consumer electricals, sales in Chandigarh and the neighbouring areas have been growing at a strong rate, due to pick up in home improvement activity during the last 3 years (highest growth in the last 10 years). However bulk purchases have witnessed a slowdown due to stalled real estate projects.

V-Guard the best stabilizer in the market

- According to a V-guard dealer in Chandigarh, the company's performance in the area has been exceptional, especially in the stabilizer segment. V-guard has about 70% market share in Chandigarh in stabilizers. The company has made substantial gains in market share from the local players who previously dominated a major portion of the market.

Product quality & after sales service, the key selling factor

- V-Guard's success has been led by better product quality and the best in the class after sales service. Nevertheless the company has a comprehensive product portfolio.

Wider product offering has aided market share

- According to a retailer, Daikin's air conditioners have been witnessing strong growth in sales during the current year. This according to retailers has been due to an expansion in its product offering within the category, which is now very similar to Samsung's product offering (which has the highest number of models in the market).

White Goods: Steady growth of 13-15% in all products

Bansal Electronics - Dealer for Samsung, LG, Hitachi, Panasonic, Voltas, O-General.

The overall demand for products has been healthy according to retailers and sales have been growing by about 13-15%.

This retailer sells about 200 units of televisions in a month across all brands.

Demand for LEDs has picked up with Samsung and Panasonic having the majority share.

For the AC segment, sales have grown by ~20%. O-General is the market leader, followed by Hitachi, Daikin, Voltas and Samsung. He also stated that V-Guard stabilizers are the best product in the market and enjoy the highest market share (again, for the same reasons - good product quality and after sales service).

Voltas – Negative feedback on aluminium condenser tray…

- According to a retailer, the condenser tray used by Voltas across majority of its air conditioner models are made up of aluminium (which is not repairable) as against copper used by other companies (which can be repaired easily).
- The company has made this change in the past 10-12 months due to aluminium's relatively lower cost. According to the retailer, previously, Voltas had primarily 2 grades of AC's, Gold and Silver, which had an aluminium and copper condenser tray respectively. The one with aluminium condenser tray had a higher price tag.
- As per AC repairmen, aluminum condenser trays cannot be repaired and have to be fully replaced, which is an expensive option. He too was of the opinion that copper trays were a better fit.

The dealer stated that V-guard stabilizers are the best in its class and are the market leaders due to its superior product quality and after sales service.

At his store, of the 10 stabilizers on display, 7 were V-guard…

Strict pricing policy by Samsung

According to retailers, all Samsung products, be it refrigerators, washing machines and televisions, have witnessed stable growth rates. Amongst the consumer durables manufacturers, Samsung follows a strict pricing policy and does not believe in providing very high discounts to boost sales.

According to retailers, Samsung sends decoy customers every month to ensure that its pricing policy is adhered to by retailers.

Consumer Electricals

Disha Agencies a major retailer for all electrical goods and stocks all major brands, located in the industrial area (outskirts of Chandigarh). This retailer primarily caters to Chandigarh, Panchkula (Haryana), Mohali(Punjab) and the adjoining area.

Sales for this retailer have grown by 30-35% over the previous year and no slowdown in demand is witnessed. Largest selling brands were Crompton Greaves in fans, Legrand in switches and Racold in geysers.

Branded products gaining ground

- According to consumer electricals retailers, majority of their customers are brand conscious and are willing to pay the premium for it . This has led to a substantial reduction in demand for local brands across categories in his target geography. Further majority of the lighting products sold by them were CFL and there was no clear favorite within brands. Consumer electricals retailers enjoy about 10% margins in the region.

No aggressive sales push from companies

- According to retailers they have not seen any aggressive inventory push from the consumer electricals players.

Effects of real estate slowdown felt

- Stalled fresh real estate projects across Chandigarh, Mohali and Panchkula has impacted bulk sales of consumer electricals in the region. The lack of credit facility in the market has impacted the demand
- Frequent price hikes without any prior intimation by the manufacturers have been a concern for consumer electricals retailers.

Anticipating a pick up in demand during the festive season, inventory levels have gone up from 30 days last year to 45 days.

Uttar Pradesh

Key Stats:

Population (Mn)	199.5
GDP per capita (INR)	26,051
Population density (Persons / sq km)	828
Literacy rate (%)	69.7
Sex ratio (Females per 1,000 males)	908
Area (Sq km)	243,286

We travelled to the city of Kanpur and also some villages around it. In our visit, we met up with C&F agents, distributors, FMCG and Auto dealers to understand the trend in discretionary and non-discretionary spends.

We also interacted with the locals in Bidhun village (outskirts of Kanpur) to get a sense of their income sources and the impact of inflation and a delayed monsoon.

Key takeaways:

- For farmers, so far the year has been challenging, primarily due to the delayed monsoon coupled with the increase in prices of farm inputs. However, the recent recovery in rains has been of some relief.
- In the last 12-18 months, cost of unskilled labour has gone up from INR80/day to INR100/day, primarily due to shortage of labour.
- As per our interaction with the locals, NREGA implementation has been unsuccessful due to high pilferages. The mid-day meal initiative in schools has failed to take-off as the allocated food under the scheme is being diverted to the open-market.
- Income from dairy products has reduced on account of lower agri output. Rising temperatures have also affected the health of livestock which resultantly reduces milk output.
- For tractors, the current lull in sales has had less to do with a delayed/deficient rainfall and more to do with sluggish economic activity (which has affected non-farm usage). For local farmers, tractor leasing has slowly become an alternate source of income.
- Some PSUs have withdrawn from tractor financing and while this has been made up for by NBFCs, their lending norms are stricter (NBFC: 50% LTV, 3-year tenure vs. PSU: 80% LTV, 9-year tenure). Consequently, there has been an uptick in the second-hand tractor market. In 2000, for every 10 tractors that were sold, 2 were second-hand. In 2012, for every 10 tractors that are sold, 6 are second-hand.
- Strong volume growth has been witnessed across food companies during the year. Cadbury has grown by 20-25% during the current year, while Pepsico and Kellogg's have been growing by 30% and 40% respectively.
- Higher prices of cigarettes in Uttar Pradesh have led to loss in volumes for cigarette distributors in the state. Consequently, according to the trade, price increases are expected to be initiated going ahead, to align prices across the country.
- Paint dealers are looking forward to the festive demand to see a revival in demand. Addictive businesses like alcoholic beverages are witnessing strong growth in the state.
- Auto dealers across the state cite that while footfalls have seen a gradual improvement (more so in recent months) conversions remain static. Dealers are optimistic about the upcoming festive season, given the recent uptick in footfalls. In light of the low conversions, most dealers were of the view, that all those footfalls that didn't convert into a sale, have merely postponed their purchase for the upcoming festive season.
- Retails for petrol cars have seen a marginal uptrend in recent months and resultantly, discounts on them have also remained flattish. For the Swift family, it was encouraging to know that despite high waiting periods, not a single customer has cancelled their bookings in the last 2 months.
- After a strong initial response to the Hyundai Eon, demand for the same has gradually tapered off. As per Hyundai dealer themselves, the target audience, i.e. the conservative first-time buyer in smaller towns, hasn't been able to venture out of his Maruti comfort-zone.

Bidhun village - Outskirts of Kanpur

We travelled to the Bidhun village (outskirts of Kanpur) and interacted with the locals. While the pick-up in monsoons has been a relief, shortage of labour continues to be a concern. Also, implementation of MNREGA and the mid-day meal program have been marred by corruption.

Pick-up in monsoon has provided some relief

- From our interactions with the farming community, we understand that the year so far has been challenging, primarily due to the delayed monsoon coupled with the increase in prices of diesel and farm inputs. That said, the recent recovery in rains has been of some relief.

Shortage/cost of labour continues to trouble

- **In the last 12-18 months, cost of unskilled labor has gone up from INR80/day to INR100/day. This is primarily due to shortage of labour, which stems from lack of preference to work in farms**. Farmers take the help of extended family members for farm work, but that isn't sustainable in the longer term.

Implementation NREGA/mid-day meal has not been effective

- NREGA implementation has been unsuccessful here as well. Some corrupt officers are partly to blame. **There were instances reported where people eligible for the scheme don't work, but get paid (only provided that half the money is returned to the officer in-charge)**. The mid-day meal in schools is almost inoperative as most of the food supply under this scheme is sold by the officer in-charge in the open market.

A farmer we interacted with (circled), bought a tractor on full down payment as he was unable to get a financier (industry sources cite that PSUs have recently withdrawn from tractor financing).

He pumped in all his savings into buying the tractor as he estimates it to provide him an additional income of INR20,000-25,000/- per month (by way of farm and non-farm leasing).

Separately, when his tractor is leased out, he earns a wage ~INR1,000/acre by working on other peoples fields during the farming season.

His income from dairy products has reduced substantially due to lower agri output (which in turn leads to a drop in feedstock). Rising temperatures has also affected the health of livestock which resultantly reduces milk output

All his kids go to school (the fee is ~INR120 per month). But the mid-day meal is almost inoperative in the area, as majority of the food supply under the scheme is sold in the open market by the corrupt officials in-charge.

The farmer himself doesn't care for any branded FMCG products and buys whatever is available in the local shop. However, his kids are aware of all the brands and would much rather their father buy these branded products for the family.

Buffalo market (Bhains Mandi)

Trade at the Buffalo market (locally known as "Bhains Mandi") takes place twice a month (we happened to be there at the time).

In total, 1,500 people participate in the trade and the total livestock that is traded in the day is around INR3m. FYI, the current market price of a buffalo is INR60,000.

In the outskirts of Kanpur, we spotted many Ace mini-trucks which were also being used to ferry people around. With the lack of public transport, this seemed to be the only option. Clearly, there is huge scope for demand of an effective people transporter (be it an Ace Magic or RE60).

According to retailers, sales have been growing at a stable rate during the year and no slowdown has been witnessed. According to a retailer, the brand awareness is higher amongst the younger generation. However this market has higher sales in the mass category of branded products.

Across stores we found a mix of branded and local products

Ghadi is the most popular brand in fabric wash

Uncle chips is the most favoured snack in the area. This retailer sells about 10-15 packs a day.

Swaraj Tractors – It's all about non-farm usage!

We met the owner of a Swaraj tractor dealership in Kanpur. The dealership sells ~90 tractors/month. In his opinion, farm usage rainfall no more the primary driver for a tractor purchase. Like CVs, tractors are now highly dependent on economic activities as non-farm usage is very rampant, at least in UP. This is also why Swaraj (with its higher HP tractors) has done relatively better than the industry).

Tractor demand impacted by:

Lower non-farm usage:

- Non-farm usage has come down drastically in the current year due to the lull in industrial activities. Resultantly, **the idle time for tractors in the non-farming season has increased substantially**. **In the past, rampant leasing of tractors (for farm as well as non-farm usage) had enticed farmers to purchase tractors**. While this aided growth in the last few years, the lull in leasing out for non-farm usage has impacted tractor purchases this year.

PSU lending has come down:

- Financing by PSUs has reduced significantly over the last few years. **While some NBFCs have now stepped in, their lending norms are much more stringent (NBFC: 50% LTV, 3-year tenure vs. PSU: 80% LTV, 9-year tenure)**. This has also impacted the industry.

The rise of the second-hand tractor market:

- **In 2000 for every 10 tractors that were sold, 2 were second-hand. In 2012, for every 10 tractors that are sold, 6 are second-hand**. This is primarily due to the stringent financing norms of NBFCs. **Farmers now prefer second-hand tractors as its ~50% cheaper than the new tractor and is thereby equal to the down-payment required for a new tractor, if its financed by an NBFC.**
- **This dealer sells ~75 second-hand tractors in addition to the ~90 new tractors every month.**

Tractor leasing (for farm as well as non-farm usage) has become an alternate source of income for farmers.

In UP, leasing for non-farm usage has increased substantially over the years. Therefore, the fortunes of the tractor industry are now more dependent on economic activities and less on agriculture.

Maruti Suzuki dealer – Supply the only constraint!

We met the GM of one of the largest Maruti Suzuki dealerships in Kanpur. The dealership sells ~200 cars a month. Footfalls are encouraging and so are conversions. For the Swift family, it was encouraging to know that despite high waiting periods not a single customer has cancelled their bookings in the last 2 months. Hopes are high on the festive season.

Encouraging footfalls/conversions:

- Both footfalls and conversions have seen no weakness in recent months. In fact, footfalls have been on an uptrend, even though the festive season is a month away. Demand remains skewed towards the Swift family. Here too, **there have been lot of enquiries for the Alto 800 despite not a single advertisement/teaser by the company.**

Inventory at normal levels… Discounts have not increased incrementally:

- Inventory for the slower-moving petrol variants remains normal (around 4 weeks). **Retails for petrol variants have seen a marginal uptrend in recent months and resultantly, discounts on them have also remained flattish** (average remains around ~INR30,000/vehicle).

Expecting a good festive season… but supply remains a concern:

- Dealers are hopeful of a good festive season but are worried about supply of the best-selling Swift. **While the company has assured dealers that most festive bookings that have been taken will be met, just as a precaution, dealers are pushing the newly upgraded Ritz more purposefully**. That said, it was encouraging to know that despite high waiting period on the entire Swift platform, not a single customer has cancelled their Swift bookings in the last 2 months.

On a Monday morning, this dealership is abuzz with customers (so much so, that there weren't enough salesmen to attend to them)… While sales for the entire Swift platform remain on auto-pilot, retails of the normally slow-moving petrol variants have also seen an uptick in recent months.

Hyundai – Eon not appealing to conservative first-time buyer…

We met the GM of a Hyundai Motors dealership in Kanpur. The dealership sells ~150 cars a month. While retails have seen an uptick in recent months, the Eon has not performed as well as earlier envisaged. An under-powered engine or targeting the conservative first-time buyer (who is still fixated with the Maruti Alto) could be the reasons.

Encouraging footfalls… Conversions should improve

- **Dealers had no complaints about current level of footfalls and enquiries**. While conversions could have been higher, they are confident of things improving going into the festive season.

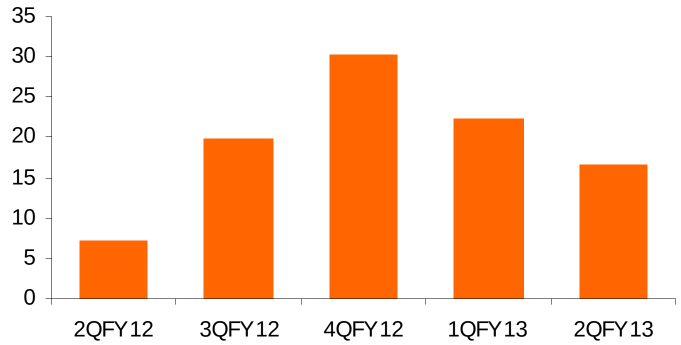
Inventory at normal levels; Diesel waiting has come down:

- **Inventory is at ~4 weeks, which is normal**. The Verna diesel is now available off the shelf post capacity expansion by Hyundai (prior waiting period was ~6-8 months). **The Verna diesel and the i10 are their best selling products. Lack of a diesel i10 is hurting though.**

Eon not appealing to conservative first-time buyer (where Alto is king)

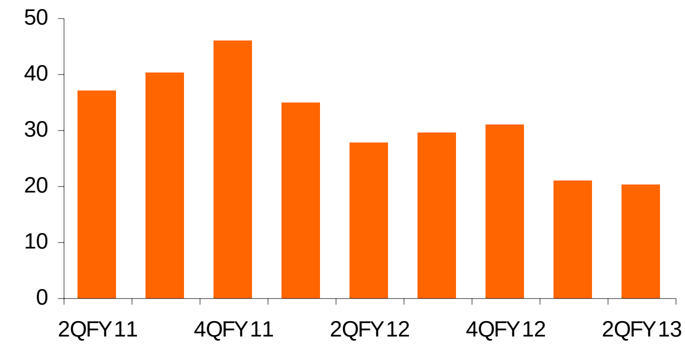
- After an encouraging response to the Eon initially, demand for the same has gradually tapered off. **Dealers cite that besides an under-powered engine, the primary reason for sluggish Eon sales is that the target audience of the Eon, i.e. the conservative first-time buyer hasn't been able to venture out of his Maruti comfort-zone.**
- **As per the dealer, in smaller towns, Maruti is synonymous with reliability and hence first-time buyers remain fixated with the Alto (or even the tried and tested Santro for that matter).**

Eon quarterly volumes ('000s)



Source:Crisil, Antique

i10 quarterly volumes ('000s)



Source:Crisil, Antique

Processed foods witnessing traction

In Kanpur we met a C&F agent of Cadbury, Pepsico Foods, Kellogg's and Britannia. He covers around 500-550 km of around Kanpur, Uttar Pradesh and has a fleet of 45 trucks.

No concerns on volume growth

- According to the C&F agent, volume growth across food companies has remained healthy in Uttar Pradesh during the year. Cadbury has grown by 20-25% during the current year while Pepsico and Kellogg's have been growing by 30% and 40% respectively during the year.
- According to him, Cadbury's mass segment has driven its category growth in chocolates, while in premium chocolates the growth has been flattish for the company.
- Going ahead, the C&F agent expects his volumes to grow by around 30-40% for Diwali.

Margins witnessing pressure

- The strong growth in volumes has been the saviour for the C&F agent in the current scenario of rising cost. His margins consequently have been impacted by about 100-150bps. According to him, the recent hike in prices of diesel and the consistent increase in toll charges have been the key components of cost inflation.
- The earnings of a C&F agent is based on the volumes transported by him. He gets a fixed amount on specific volumes transported by him.The rate is decided at the start of the year and is very rarely revised.Therefore the impact of any inflation (like the recent diesel price hike) would have to borne by the C&F agent.
- Further due to lack of infrastructure and damaged roads in the state the cost of transportation has been increasing.

Labor shortage leading to further cost escalation

- In addition to the cost of transportation, inflationary trends have been witnessed in the labour cost. Labour cost (for loading and unloading) has increased from INR220 per day in the previous year to INR 280 per day in the current year.
- This could be primarily attributed to the acute shortage of labour in the area as compared to 5 years earlier.
- Additionally, there is a rising shortage of truck drivers and the consequent increase in their wages. This shortage has been largely due to lower preference towards truck driving as a job.
- **In Kanpur, we met a few cigarette retailers and dealers to assess the impact of differential VAT (50%) in Uttar Pradesh and the growth trend in its non-cigarette FMCG business.**

Differential VAT impacting volumes

- Uttar Pradesh and Rajasthan are two of the states which have the highest taxes in the country on tobacco products. According to the distributors, two key brands (Gold Flake Premium and Capstan Filter), have a premium pricing in the state. Gold Flake Premium is available at INR49 per pack of 10 (against INR44 in rest of India) while Capstan Filter is available at INR35 per pack of 10 (against INR28 in rest of India).This has led to a substantial drop in volumes of the two brands. Gold Flake Premium is the biggest brand in ITC's portfolio. Therefore it has impacted company's distributors both in Uttar Pradesh and Rajasthan. However according to the retailers, ITC's volumes may not have witnessed a similar impact, as cheaper supplies of these two brands sneak in from the neighbouring states of Delhi and Bihar.

Price hike on the cards?

- According to the trade, ITC has been compensating its distributors for the loss of volumes due to the differential VAT. Going ahead, the expectations are that the differential pricing of cigarettes would not sustain as ITC has to compensate a total of 170 distributors, about 100 distributors in UP and about 70 distributors in Rajasthan. Consequently the trade expects that price hikes in these two brands would be initiated to align the prices

Gold flake premium still the king

- According to the trade, Gold flake premium commands about 40% market share in the regular filter segment (RSFT) in cigarettes. Therefore the regular filter segment for ITC's distributors has witnessed a slowdown from the price hikes.
- In the king size segment (KSFT), volume growth continues to sustain despite the price hikes.

Growth in personal care better over expectations

- In the personal care category, the growth has better over the trade's expectations. ITC's economy offering, Superia has posted a strong growth of about 30-40% in soaps and gained substantial market share in the rural markets. ITC's mid priced offering, Vivel has grown by about 20%. However ITC's premium offering, Fiama Di Wills has not witnessed any significant traction in demand.

Gaining share from Nestle in instant noodles

- ITC's Yippee instant noodles have grown by about 55-60% during the current year and currently has a market share of about 10-15 %. According to the trade, gaining any sizeable market share in instant noodles is considered to be commendable given the domination of Nestle's Maggie brand for a long period of time.

Colgate Palmolive posting a strong performance in UP

- According to the trade, Colgate Palmolive's (CPIL) has posted a robust performance during the current year.
- The company has been witnessing about 30-35% growth in sales during the current year led by strong growth in toothpastes. According to distributors they have been achieving there targets by around 21st of every month. Therefore there has not been any concern over slowdown in sales.

Paints demand stable

In Kanpur we met a few local paints dealers. According to the trade, paint sales are growing by 15-20% during the current fiscal.

Asian Paints the clear market Leader

- Asian paints enjoy around 50% market share in and around Kanpur. According to paint dealers, most informed buyers or the paint contractors prefer only Asian paints whereas for the rest of the customers a dealer plays a key role in selling a specific brand. According to the trade, Emulsions and Enamels form majority of the sales, whereas there is negligible demand for premium emulsions.

Demand likely to pick up

- Paint dealers are anticipating a strong pick up in demand in the coming festive season and therefore are increasing their inventory levels.

Asian Paints remains the leader despite aggressive marketing by its competitors

- According to the trade, Asian paints is the clear market leader and all the other companies are trying to increase the market share with aggressive marketing and promotional deals.

This paint dealer stocks all the major products in the market. According to him, Asian paints is the clear market leader, as most informed buyers ie painters have a high preference towards Asian paints. Asian Paints enjoys about 50% of the market share.

Mistaken Identity

While travelling to Kanpur by train, we were in the same coach as Aseem Trivedi (the controversial Indian political cartoonist/activist).

He was just released after his week-long stint in jail (from his controversial cartoons against the ruling government)

Given that he had become a hero in the eyes of the media (and the opposition), at the station there were around 300 people waiting to receive him.

Ironically, when we asked a few of the people who were there, most of them had no clue who Trivedi was and what he has done…

…They just blindly wanted to support anyone who was with this so-called "India against Corruption" movement!

With only a vague idea of what Trivedi looked like, when one of his colleagues (who looked and dressed exactly like him) got off the train (right), the crowd mistook him for Trivedi and made him wear a garland, carried him on their shoulders, etc.

Then Trivedi walks out (bottom)… The crowd immediately realise that they got the wrong guy, and go back to join the real Trivedi, leaving his colleague alone (bottom right)…

Chhattisgarh

Key Stats:	
Population (Mn)	25.5
GDP per capita (INR)	44,097
Population density (Persons / sq km)	189
Literacy rate (%)	71.0
Sex ratio (Females per 1,000 males)	991
Area (Sq km)	135,194

We visited Simga - a transit village (Nagar panchayat), ~50kms from Raipur. Simga acts as a feeder to the surrounding small villages and therefore provides a good view on the consumption trend in rural Chhattisgarh (Central India). Being a transit village to the capital city of Raipur, benefits from the ongoing industrialisation and development in the state could be seen here. Additionally, as is the case with the state, the key source of income for the population is farming, majority of which is derived from rice (paddy) and soya.

We also visited Bemetra - a small town (recently upgraded to district), ~30kms from Simga and ~80km from Raipur. In these two regions, we met wholesalers, retailers, Auto dealers, and also spoke to the locals to understand their consumption trends.

Key takeaways:

- Our interaction with the wholesalers and retailers suggest that no slowdown has been witnessed in consumption. Further in our interaction with villagers, we didn't notice any major concern over the delay in monsoons. However, some villagers were concerned over the possibility of the continuation of recent heavy rains destroying crops, particularly the Soya crop.
- Our visits in the rural markets signified the strength of wholesalers in a rural distribution channel and the need for FMCG companies to increase their direct coverage of these markets.
- We witnessed a strong emergence of "beauty and fancy" stores (Chudi-Bindi stores) in the rural markets, indicating the changing lifestyle of the incumbents and therefore the rising penetration of hygiene products like sanitary napkins and baby diapers. The potential in snack foods was quite visible with growing number of branded snack foods and a large presence of local brands.
- Our interactions with Auto dealers suggest an uptick in retail (across segments) primarily due to the festive season (Ganpati). Contrary to our earlier perceptions, locals in Chhattisgarh celebrate Ganpati even more than those in Maharashtra.
- For tractors, while inventory is now under control, retails remain weak. As a result, discounts remain high (we noticed an M&M dealer offering a 32inch LCD with every tractor purchased). That said, the trend is towards higher HP tractors. Given the versatility of a tractor (with regard to both farm and non-farm usage), most buyers see tractor purchases as an investment and hence prefer opting for a higher HP tractor.
- Sales for Honda Motorcycles remain strong, but more for the Activa and Shine. The company now has a quasi quota system with dealers. If they want the best sellers (Activa/Shine), they will have to order a Dream Yuga or CB Twister as well. This compels them to push the Dream Yuga more purposefully.
- Bajaj dealers miss having a scooter in their product offerings as it not only appeal to women, but also elderly men. They reckoned that sales would be at least 25% higher if they had a scooter to offer at their dealership.
- Based on our interaction with distributors and dealers, FMCG companies excluding Nestle are witnessing healthy growth in sales of about 15-20%. Colgate Palmolive, Marico and Reckitt Benkiser are growing in the range of 20-25% in the state, led by higher growth in the rural markets.
- Nestle is yet to witness recovery and is growing at about 10-12% in Chhattisgarh during the year. Our interactions suggested that the inventory days with retailers have gone up with the slowdown in demand. However, contrary to popular belief, no significant push from the company's end has happened.

Chhattisgarh - The growth destination

Chhattisgarh's broader economy is primarily dependent on the metal sector.The steel industry is one of the biggest heavy industries of Chhattisgarh.

Besides CVs, we spotted several tractors being used for haulage of goods…

While 80% of the population is dependent on agriculture, 20% of the country's steel and cement are produced here.

Almost 90% of the villagers in Chhattisgarh receive regular electricity supply

We visited Simga - a transit village (Nagar panchayat), ~50kms from Raipur. Simga acts as a feeder to the surrounding small villages and therefore provides a good view on the consumption trend in rural Chhattisgarh (Central India).

Being a transit village to the capital city of Raipur, benefits from the ongoing industrialisation and development in the state could be seen here. Additionally, as is the case with the state, the key source of income for the population is farming, majority of which is derived from rice (paddy) and soya.

A buzzing market place in Simga

Rural check - No slowdown witnessed

Wholesalers a key constituent in the rural trade channel

- Keeping in mind, Simga's proximity to small villages we started our journey by meeting wholesalers where we came across small time retailers from remote villages buying their requirements.
- Wholesalers play a key role in rural trade as they have the capability to provide the required assortment of products to retailer as against the company distributor who has a limited bouquet of products.
- We saw a high acceptability of wholesalers amongst the retailers in the rural areas as against the company distributors

One of the largest wholesalers in Simga with sales of approximately INR50,000 per day (INR1.5m per month and INR18m per annum)

No slowdown witnessed in consumption

- According to wholesalers, no slowdown has been witnessed in sales from the ensuing inflationary pressures for the common man.
- According to him, consumers have not cut down on their non-discretionary spends and therefore the demand remains favorable even in small villages.

A small retailer from a nearby village buying his requirement from the wholesaler.

Ghadi leads the detergent category in rural Chhattisgarh

Richer foam, providing richer dividend for Ghadi detergent

According to our interaction with wholesalers and retailers, Ghadi detergent dominates the rural market especially in large packs. This dominance according to the distribution channel is primarily due to the perception amongst consumers about the product's ability to create richer foam. According to the retailers, consumers believe that richer foam leads to higher cleanliness. This perception has continued to be strong despite the efforts of bigger MNC players like HUL and P&G to educate consumers about the low correlation between foam and cleanliness.

However mid priced and premium brands like Surf Excel, Ariel and Tide are witnessing some traction in the smaller packs (sachets).

The presence of branded players is the highest in fabric wash and practically no local players were noticed in the category.

Backed by its strong presence in fabric wash, Rohit Surfactants (the manufacturers of Ghadi) has been pushing their toilet soap brand, 'Venus' very aggressively in this region.

Ghadi's 235gm pack is the undoubted leader in fabric wash in rural markets as against MNC brands

Backed by its strong presence in fabric wash, Rohit Surfactants (the manufacturer of Ghadi) have been pushing their toilet soap brand, 'Venus' very aggressively in this region.

Clinic Plus largest shampoo, Parachute biggest CNO

Clinic plus one of the strongest selling brands in shampoos

- According to wholesalers and retailers, being primarily a mass market, Clinic plus is the largest selling brand in shampoos. Dove shampoo, which has been the strongest performer for HUL in the urban markets has yet to witness any traction in the rural markets of Chhattisgarh though we show that the availability of the product has improved.

Marico enjoys dominance in coconut oil

- According to the distribution channel, Marico's Parachute coconut oil has an undoubted domination over the coconut oil category in rural Chhattisgarh, though it faces problems with duplicity. Consequently to fight duplicity, the company keeps changing its packaging very frequently. Additionally there are local brands like KCC coconut oil which have been prevailing in the region.

Clinic plus a clear leader in shampoos amongst masses

Dove shampoo sachets availability was strong, but not favored much. A local brand KCC, which was prevalent across retailers

Himgange larger than Navratna??

Himgange - The strongest cooling oil brand in the region

In the value added hair oil segment, Dabur provides competition to Marico (especially in the Amla segment). In the cooling oil segment, Himgange is the strongest brand in the region. We noticed higher shelf space for Himgange cooling oil, as compared to the national leader, Navratna cooling oil. Himgange is a Haridwar (Uttar Pradesh) based brand since 1987 owned by Gautam Burman (an ex-chemistry professor at Montreal University, Canada) and is estimated to have a market share of about 28%.

According to industry players, Himgange is a leader in Bihar and Madhya Pradesh, while it has recently lost its leading position in Uttar Pradesh to Emami's extra thanda oil.

According to the trade and industry players, Himgange primarily sells by providing higher trade margins and has a higher cooling effect.

Emami has followed the same strategy of providing higher trade margins to gain market share in Uttar Pradesh and displace Himgange.

Himgange cooling oil in a small retail outlet in Simga

Snack foods are a huge opportunity

Huge presence of local brands in snack foods

- The maximum local brands were noticed in snack foods, one of the fastest growing segments within foods. Haldiram was the only national brand having a broad based presence while local brands like Everest and Topiwala (featuring Charlie Chaplin) were widely noticed across the village.

Snack foods according to retailers have been growing at 25-30% in these markets.

The regional version of 'Kurkure' by Pepsico foods branded as Everest 'Maska Chaska'

Local version of Haldiram, branded as Topiwala, displaying Charlie Chaplin's picture

Emergence of "fancy and gift" stores

"Fancy and gift" stores (Chudi Bindi shops) are fast emerging, indicating the changing lifestyle

A host of "fancy and gift" stores have been rapidly emerging in the rural markets of Chhattisgarh. These shops are called 'Chudi Bindi' shops which are the one stop shops for household products, cosmetics and personal hygiene, in these villages.

These shops are primarily frequented by feminine population of the village. Consequently these shops play a larger role as a distribution channel for personal care and personal hygiene products as compared to a chemist shop. In urban markets, chemists are the key distributors for personal products and personal hygiene.

According to our interaction with wholesalers and retailers, sanitary napkins and baby diapers are finding high acceptability in the rural markets and are growing at a strong pace in the rural markets. This in turn increases the importance of fancy and gift stores as a rural distribution channel.

Fancy and gift store in Bemetra known as Chudi Bindi shop in the Indian context

This fancy and gift store sells products right from household products like crockery, mirrors, mosquito nets to personal care products

Feminine hygiene & baby diapers – An emerging category

A Fancy and gift store in Simga, who is also a wholesaler, with a space of about 2,000 sq feet (including warehouse space)

Fancy and gift stores by the day have become more prevalent than a kirana/grocery store

A fancy and gift store, displaying personal hygiene products, which typically would never be sold or displayed by a kirana store in rural India

Personal products premiumisation in nascent stage

In the smaller villages, low unit packs of baby diapers are witnessing strong traction. This photograph is from the only medical shop that we could find in Simga

In the recently turned district town of Bemetra, we met a beauty and fancy store retailer who sells two packets of an oil of Olay Total Effect worth about 750 per pack, reflecting the changing lifestyle in a small town which could be categorised as a rural market graduating to a semi-urban market.

ITC's packaged foods witnessing strong growth

Dark Fantasy (premium offering in biscuits) according to a ITC dealer is finding high acceptance in the semi urban and rural markets of Chhattisgarh.

According to our interaction with ITC dealer and retailers in Simga and Bemetra, the company's newer products in the packaged foods business, Dark Fantasy and Yipee noodles are witnessing strong growth.

Nestogen - The largest selling baby food brand

Majority of the sales in baby and infant foods in Chhattisgarh for Nestle is through Nestogen due to its reasonable pricing.

Nestogen has high acceptability both in the urban and the rural markets of Chhattisgarh.

In one of the small stores in Simga, we saw sachets of Tang, which sells well in the scorching heat of Chhattisgarh.This also indicates the potential for sales of glucose drinks like Glucon D in these region.

This sub dealer of Pepsi in Bemetra sells about 25,000 crates in a year. He has not seen any slowdown in sales. He is witnessing approximately 15-20% growth in volumes during the current year

Fair and Lovely - Dominates skin creams

Fair and lovely continues to be the largest selling fairness cream in the rural markets of Chhattisgarh.

No slowdown witnessed in skin creams

Fair and Handsome has not yet made an impact in Chattisgarh. Therefore the mens fairness segment as a whole is yet to be absorbed in this market.

According to our interaction with retailers, Boroplus antiseptic cream is the largest selling antiseptic cream in this region

Toothpastes witnessing acceleration in demand…

Toothbrush sales have been growing at a strong rate in the rural markets of Chattisgarh. Colgate leads the category, while there is an improvement in demand for the premium toothbrush brand, Oral B (key selling SKU is INR14)

The picture displays the INR1 sachet of toothpowder, which is getting extinct by the day in Chhattisgarh.

Toothpowder sales have been dropping on a consistent basis while Toothpaste sales are growing by about 40-45%

Toothbrush sales are witnessing strong growth in this region. In addition to Colgate, Oral B too has been able to gain market share in rural Chhattisgarh

Malted drinks witnessing healthy growth

Malted health drinks are witnessing healthy growth rates of about 20-25% in rural Chhattisgarh. According to a dealer, Bournvita (Cadbury brand) sales have been impacted by lack of distribution. The largest selling SKU in this region is the INR25 pack due to its easy affordability. According to the rural trade channel, GSK Consumer has a strong distribution in rural Chhattisgarh

Bajaj Auto dealers – Missing a scooter!

We met a couple of Bajaj Auto dealers in the Simga and Bemetara village (outskirts of Raipur). Both dealers were enthused about the response to the new Discover 125ST. However, both continue to miss having a scooter in their product offerings and reckoned that sales would be at least 25% higher if Bajaj offered a scooter. This is clearly hurting Bajaj. For motorcycles, retails have seen an uptick primarily on the back of festive buying. Inventory too is under control (at <4 weeks).

Sales have picked up due to Ganpati/new Discover 125ST

- While retails have been slow YTD, the last month has seen a pick-up in sales on the back of Ganpati festival. **The Discover 125ST has received a strong response and has a waiting period of around a month.**

Pulsar 135/220cc not doing well…

- **While the 135 started off well, buyers didn't like the fact that it was so underpowered and hence preferred going for the 150 or 180. At the moment, there are virtually no enquiries for the 135.** The Pulsar 200NS has received quite a few enquiries, which is surprising given for such a rural region. **The 200NS has cannibalised the 220 big time.**

Boxer a mistake… Should have been launched as a 100cc bike

- **The Boxer 150 bombed right from the start. The dealer in Simga mentioned that not a single unit has been sold in the last 6 months!** Both dealers mentioned that the 100cc buyer preferred the Platina over the 150cc Boxer. **Had the Boxer been launched even cheaper than the Platina with a 100cc displacement, then it might have done well.**

Scooter gap hurting sales

- Both dealers missed having a scooter in their dealership. **They mentioned that Scooters not only appeal to women, but also elderly men.**
- **Both dealers were of the view that having a scooter in their showroom would have increased sales by >25% as it wouldn't cannibalise motorcycle sales. Till date, not a single buyer who walked-in enquiring for a scooter, has walked away with a motorcycle instead.**

The new Discover 100 (4G vs. the earlier 5G) and the new Discover 125ST has received a strong response. The 125ST has a 1 month waiting period in smaller towns.

Among the Pulsar's, while the 135 started off well, buyers didn't like the fact that it was so underpowered and hence preferred going for the 150 instead.

At the moment, there are virtually no enquiries for the 135. The Pulsar 200NS has received quite a few enquiries and has severely cannibalised the 220.

The Boxer 150 was on a weak note right from the start. One of the dealers mentioned that he has not sold a single unit of the Boxer in the last 6 months!

Both dealers mentioned that the 100cc buyer preferred the Platina over the 150cc Boxer. Had the Boxer been launched much cheaper than the Platina (with a 100cc displacement) then it might have done well.

For Bajaj, inventory was under control (<4 weeks). Both dealers we interacted with were of the view that having a scooter in their showroom would have increased their sales by >25% (as it not only appeals to women, but also elderly men).

In their view, it wouldn't cannibalise motorcycle sales as till date, not a single buyer who walked-in enquiring for a scooter, has walked away with a motorcycle instead…

Pulsar's poor resale continues to haunt Pulsar owners. A 2007 model Pulsar 150 which used to cost around INR70k when new, is not finding buyers for even INR10k at the moment. This is only restricted to the Pulsar (2006-07 year models) and dealers cannot put their finger on why this is the case. That said, it isn't happening on the newer Pulsars.

Hero MotoCorp dealer – No deterioration in retails; upbeat about festive season…

We met the owner of a Hero dealership in the Bemetra village and were enthused by the buzz in the dealership. Hero's brand strength in rural regions was very apparent with buyers waiting for the sales person to attend to them (at least at the time when we were there). The owner of the dealership sounded upbeat about the upcoming festive season, while acknowledging that inventory is slightly on the higher side at the moment.

Retails volumes have seen an uptick

- **Retail volumes which had slowed a bit a couple of months back, have picked up again with the Ganpati festival**. In fact, at the time that we were present at the dealership, the customer rush was so much that there weren't enough sales persons to attend to the customers.

Minimal impact on conversions after the Honda tag has been dropped

- This particular dealership has seen no impact on Splendor conversions after the Honda tag has been dropped, which is contrary to our interaction with some other dealers (refer to our last Hero update: "Hero" vs. "Splendor"). **Among the models, there is a waiting period on the Ignitor and Maestro.**

Inventory is high, but hopeful that it will get cleared soon

- **While retail sales have picked up, inventory levels are quite high (around 5 weeks). We noticed that maximum inventory was of the Splendor model.** However, the owner of the dealership didn't seem too deterred about it and mentioned that he rather have high inventory going into the festive season than less stock (as was the case in the past few years).

Retail volumes which had slowed down a bit a couple of months back, have picked up again with the Ganpati festival. Contrary to our earlier perceptions, locals in Chhattisgarh celebrate Ganpati even more than those in Maharashtra.

At the time that we were present at the dealership (at around 4.00PM on a weekday), the customer rush was so much that there weren't enough sales persons to attend to the customers (visible in these photos).

While retail sales have picked up, inventory levels were still on the higher side (around 5 weeks).We noticed that maximum inventory was of the Splendor model.

However, the owner of the dealership didn't seem too deterred about the higher inventory and mentioned that he rather have high inventory going into the festive season than less stock (as was the case in the past few years)…

Retail volumes which had slowed down a bit a couple of months back, have picked up again with the Ganpati festival. Contrary to our earlier perceptions, locals in Chhattisgarh celebrate Ganpati even more than those in Maharashtra.

At the time that we were present at the dealership (at around 4.00PM on a weekday), the customer rush was so much that there weren't enough sales persons to attend to the customers (visible in these photos).

Contrary to market rumours, Honda has not directly poached any Hero dealers. In fact, a prominent business group in AP (that owns various Auto company dealership chains for Hero, Hyundai, Nissan, among others), also wanted to add a Honda dealership to its network. However, they were not approved by Honda, because this group also has a Hero dealership.

M&M tractors – Inventory under control; retails remain slow…

We met a Mahindra tractor dealer in Bemetra. While inventory is now under control, retails remain weak. As a result, discounts remain high (this particularly dealer is offering a 32inch LCD with every tractor purchased). They were hopeful that the festive season would help revive sales, but there is limit to how much festivity matters as a driver for tractor purchase. Overall, they weren't too perturbed about the delayed monsoon as they were hopeful of a strong Rabi crop.

Inventory under control... Retails yet to pick-up

- Inventory has been under control (<4 weeks) for 3-4 months now. Retails however, are yet to pick-up and hence discounts remain high. **At this particularly dealership you are being offered a 32inch LCD with every tractor purchased (this is not the case with the Swaraj tractors).**
- While they were hopeful that festive demand would bring about some cheer, they acknowledged that **mere festive mood has relatively less to do as a demand driver for tractor purchases.**

Not too perturbed by delayed monsoon

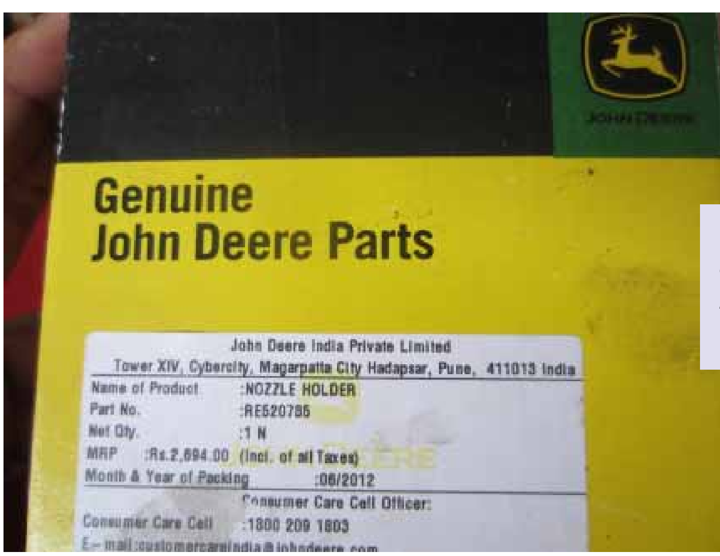
- **While the delayed monsoon might aid a strong Rabi crop, some people we interacted with were of the view that a delayed heavy rainfall towards in the September month can damage the standing crop**. This dealer wasn't too perturbed about the latter and was more hopeful of a pick-up in non-farm activities, which could boost tractor sales.

Demand towards higher HP…

- **Given the versatility of a tractor (with regard to both farm and non-farm usage), most buyers see tractor purchases as an investment and hence prefer opting for a higher HP tractor.** Having a higher HP tractor not only aids more effective farm usage in a weak monsoon year, but also gives them more leeway in terms of haulage capacity for non-farm usage.

Inventory has been under control for 3-4 months now (currently <4 weeks). Retails however, are yet to pick-up and hence discounts remain high. On Mahindra tractors, you are being offered a 32inch LCD with every tractor purchased (not on Swaraj though).

Market is shifting towards higher HP… Having a higher HP tractor not only aids more effective farm usage in a weak monsoon year, but also gives them more leeway in terms of haulage capacity for non-farm usage.



M&M dealers cite that Mahindra's advantage over peers is cheaper spare parts. For example, one of John Deere's FIS nozzle holder retails for around INR2,700, while the same part for a Mahindra tractor costs INR1,100.

Yamaha – Slow and steady…

We met the owner of a Yamaha dealership in the Simga village in Chhattisgarh. While the conservative locals in this region were tentative venturing out of their Hero/Bajaj comfort zone early on, word-of-mouth coupled with a sincere/value-for-money product has helped Yamaha make small in-roads into the 150cc space in the region.

Word-of-mouth helping…

- Yamaha's SZ/FZ series didn't start off too well in this small town as the conservative locals were tentative venturing out of their Hero/Bajaj comfort zone. However, **with existing customers happy with the product, sales have picked up in small numbers driven by word-of-mouth marketing**.

Hopeful of the new scooter…

- **This dealer was very hopeful of the new Yamaha scooter (Ray). He mentioned that several walk-ins (even men) enquire for scooters, but turn away since Yamaha has no offering in the scooter space**. Whether it will make a dent to any of the incumbents is irrelevant. The fact that it can add to his retails, without cannibalising motorcycle volumes is the key point.

Yamaha's SZ/FZ series isn't the first choice for the conservative locals in this small town who are tentative venturing out of their Hero/Bajaj comfort zone. However, word-of-mouth marketing by existing customers who were happy with the product has helped…

Yamaha dealers are waiting for the new scooter (Ray), mentioning that several walk-ins (even men) enquire for scooters, but turn away since Yamaha has no offering in the scooter space

Honda Motorcycles & Scooters – All sights on Hero…

We met the GM of a Honda Motorcycle dealership in Raipur. Overall, scooter retails have actually slowed down a bit while it is too early to call the Dream Yuga a success. The Shine (which competes with the Passion), is the only motorcycle that has done well on a sustained basis. What was apparent was the company's aggression in motorcycles and how core focus only revolves around toppling Hero.

All sights on Hero

- **While Honda has not poached any Hero dealer directly, they seem to have made a conscious decision to set up any new dealership right next to an existing Hero dealership.** We noticed this with almost every Honda dealer.
- **Presumably, Honda is trying to create a clear and visible demarcation between Hero & Honda in the eyes of the Splendor/Passion loyalists.**

Focus is completely on motorcycles

- **From the posters in the showroom to the way the bikes are displayed, it was very evident that Honda is trying to divert all customer attention from the Activa to its motorcycles**. Honda has instructed its dealers to do this consciously.

Dispatches – 40% dealer's choice; 60% company's choice!

- This trend in dispatches says it all. In some areas, **should a dealer order 100 2Ws from the company, the company will send 40 of the dealer's choice (which is normally 30 Activas/10 Shines), while the balance 60 will be Honda's choice (which is normally 50 Dream Yugas/10 Twisters).**
- To put it simply, **if a dealer wants the best sellers (Activa/Shine), he will have to order a Dream Yuga or CB Twister as well. This compels them to push the Dream Yuga more purposefully**. This trend cannot carry on for long unless demand stabilises in the same proportion. **Hence we would wait before calling Dream Yuga a success.**

Model-wise trends

- The Dream Yuga has received a decent response, but it's too soon to call it a success. The Shine (which competes with the Hero Passion) is the one motorcycle which is doing sustainably well, while the Twister, Unicorn, etc. are not doing well. **The Activa is now available off the shelf as the uptick in capacity has coincided with plateauing out of retails.**

Honda is trying its best to build a perception around itself as a motorcycle specialist.

From the posters in the showroom to the way the bikes are displayed, it was very evident that Honda is trying to divert all customer attention from the Activa to its motorcycles.

Honda has instructed its dealers to do this consciously. While scooters accounts for almost ~60% of volumes, there was not a single scooter on display.

Should a dealer order 100 2Ws from the company, the company will send 40 of the dealer's choice (which is normally 30 Activas/10 Shines), while the balance 60 will be Honda's choice (which is normally 50 Dream Yugas/10 Twisters).

This compels them to push the Dream Yuga more purposefully. Hence we would wait before calling the Dream Yuga a success.

The only scooters that were visible in the property were the ones in the inventory.

The Activa is now available off the shelf as the uptick in capacity has coincided with plateauing out of retails.

While Honda has not poached any Hero dealer directly, they seem to have made a conscious decision to set up any new dealership right next to an existing Hero dealership. Presumably, Honda is trying to create a clear and visible demarcation between Hero & Honda in the eyes of the Splendor/Passion loyalists.

Nestle - Yet to see a recovery

Nestle dealer says that about two years back, sales were growing at a healthy pace of 20-25%. However with consistent price increases and grammage reductions, sales growth has dropped to 10% during CY12. According to the dealers and distributors, the company has not witnessed any signs of recovery as of now and further said that the recovery would be gradual

- According to a Nestle dealer, **the company's chocolates and confectionaries sales were impacted by the change in price points from INR5 and INR10 to INR6 and INR12.**
- **The given price changes led to loss in sales to duplicates and local brands. According to dealers, these duplicate products provided margins of about 10-12% to the wholesalers and 20-25% to the retailers.**
- Nestle has recently changed the price points to INR5 and INR10 through effective price increases. However the recovery in chocolates and confectionaries according to the trade is gradual and would take some time to show its impact.
- **To revive sales in chocolates and confectionaries, Nestle has been aggressively launching variants.**

- There is an apprehension over Maggi losing sales due to the reduction in grammage. However the company is not providing any promotional offers in its instant noodles brand, Maggi to accelerate sales and support the aggressive expansions done by the company during the last two years
- **Most of the new product introductions done by the company have failed.** The debtors days for Nestle's products at the retail level has increased with the slowdown in sales
- According to the dealers, inventory push from Nestle post the capacity expansion has increased but has not touched alarming levels. Therefore, inventory levels in the market are under manageable levels and have not soared out of proportion.
- Nestle's coffee sales have been moderate and according to the trade has been losing share to Hindustan Unilever's coffee brand, Bru. The trade channel feel that Nestle is focusing more on coffee exports rather than the domestic markets.
- Nestle has remained dominant in the infant and baby foods category. However post the rapid price hikes and grammage reductions, volume growth in the business has been impacted and according to the trade would take some time to recover.

The new pack (left) with a lesser weight (grammage) apparently looks bigger than the older pack (right) with a higher weight. The new pack is being made hexagonal to make it look larger.

Reckitt Benkiser selling through promotional offers

Reckitt Benkiser growing at a strong rate of 20%

- According to a distributor of Reckitt Benkiser, his sales are growing by about 20% in value terms during the year, therefore not witnessing any impact from the current economic slowdown. Sales for Reckitt Benkiser according to him have been led by strong growth in its toilet soap brand, Dettol. This in turn has been aided by frequent launch of variants (the recent being the Orange variant).

Promotional offers aiding Reckitt Benkiser

- Reckitt primarily sells largely through regular promotional offers across its key categories like toilet soaps, toilet cleaners, floor cleaners and household cleaners, pain relief and mosquito repellants. Therefore the focus is on promotions as compared to advertisements. In case of soaps, it regularly provides additional units within the existing packs to promote sales while in case of handwash, the company has combo offers involving products of a different category.

Marico growing at 25%

Marico sales growing by about 22-25%

- According to a distributor of Marico products, the company sales are growing by 22-25% during FY13. Dealer interactions suggest that the company has witnessed some moderation in volume growth due to price hikes. However the overall sales volume growth remains healthy at about 13-15% during FY13.
- **The company provides 3% margin on edible oil and 5%on coconut and hair oils.**

Marico enjoys supremacy in coconut oil in the urban markets as well

- Our interactions across urban and rural markets of Chhattisgarh clearly suggested towards strong domination of Marico's Parachute coconut oil. However as suggested by the rural dealers as well, in value added hair oils, Dabur poses some competition in Amla.

Colgate growing at 30-35%

In Chhattisgarh, CPIL's sales are growing at a strong rate of 30-35% led by strong growth in the rural markets. Colgate Palmolive India's (CPIL's) volumes are growing by about 15% during the year. The company is witnessing strong growth from the gel based and premium segment in toothpastes. Toothbrush sales are also witnessing a strong growth in the state. According to our interactions with dealers and distributors, the company is therefore not witnessing any slowdown in sales during FY13.

Colgate Palmolive sales growing at about 30-35% in Chhattisgarh, rural growth at 45-50%

- According to our interactions with various retailers, wholesalers and distributors, we understand that CPIL's sales, primarily toothpaste sales are growing at a strong rate of 30-35% led by about 45-50% growth in the rural markets. Urban sales are growing by 25%.

Chhattisgarh growth is primarily led by gel based toothpastes

- Our interactions across urban and rural markets of Chhattisgarh suggest that the state is primarily witnessing growth from the gel based toothpaste segment. In the urban markets, specifically in the I NR10 SKU category Close up is the leader in gel based toothpastes followed by Colgate Max fresh gel.

CPIL dominates the above 50gm category while, Dabur leads the INR5 category driven by Babool

- Colgate Palmolive leads the above 50gm category in the overall state. According to the trade channel, they dominate almost about 60-70% of the above 50gm category. Dabur has a strong holding in the rural markets of Chattisgarh with a strong positioning in the INR5 SKU category through Babool.

HUL's Pepsodent losing out, New launches have failed to make an impact

- HUL's positioning in the toothpaste category excluding Close Up remains weak due to the loss of sales in Pepsodent. According to the trade channel, Pepsodent continues to lose share and the new launches have failed to make an impact. The brand is primarily sold through the 150+150 promotional offer.

GSK Consumer's Sensodyne leads the super premium category

- GSK Consumer's Sensodyne has the first mover advantage in aggressively marketing the sensitive segment and leads the super premium toothpaste category. CPIL too is witnessing strong growth of about 100% in the sensitive segment.

CPIL leads toothbrushes, Oral B picking up

- CPIL dominates the toothbrush category across urban and rural markets. However Oral B has gained momentum especially in the urban markets with a share roughly of about 30-40% according to the trade channel. Oral B's presence in the rural markets is also witnessing a consistent improvement.

CPIL derives about 80% sales from toothpaste in Chhattisgarh

- In Chhattisgarh, toothpaste contributes about 80% of CPIL's sales while (50% (regular white toothpastes and 30% Gel Based), other categories like brushes, body wash, hand wash etc form the remaining portion.

Ford dealer – All hopes on EcoSport...

We met the owner of a Ford dealership in Raipur. While all models (particularly the Figo) started off on a strong note, sales have fizzled out big time! After the initial uptrend, Figo sales have stabilised at lower levels. While the Fiesta showed a lot of potential early on, that model too has slumped. All eyes are now on the EcoSport, which is expected early next year.

Figo started off well… Now stabilised at lower levels

- The Ford Figo showed a lot of potential when the diesel car boom gained momentum a couple of years back. **With the perception around Ford's knack for churning out a very competent diesel engine, the Figo was at the right place at the right time.**
- **However, over time, sales have fizzled out completely and the Figo is now one of the few diesel hatchbacks being sold at a discount**.

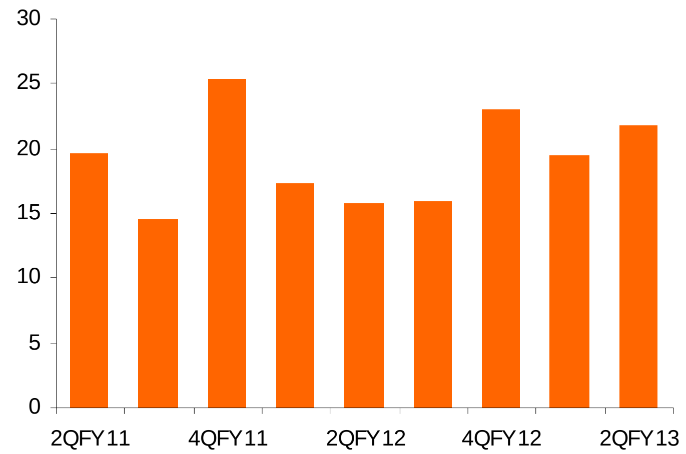
Fiesta boasts of a lot of features, but styling is not to everyone's liking…

- While the Fiesta has some impressive features and the diesel automatic was one of the few of its kind, the styling has not been to everyone's liking. **The Fiesta globally is a hatchback, but in that price segment, Indian customers prefer a prominent boot. While the Ford has done that for the Indian Fiesta, the addition of the boot looks more like an afterthought and looks slightly disproportionate when the car is seen in totality**.

Waiting for EcoSport

- With Figo and Fiesta not doing so well and the Fiesta Classic appealing more to taxi operators, dealers are waiting for the EcoSport. **Apparently, customers have been enquiring about the EcoSport just after it was showcased at the Indian Auto Expo (10 months back) and are eager to know when bookings would open**.
- These are signs of incredible success initially, but for the product to do well on a sustained basis it will have to satisfy more criteria than just styling and price point.

Figo quarterly volumes ('000s)



Source:Crisil, Antique

Mercedes Benz/BMW – Capitalising on the SUV boom!

To get a sense of how high discretionary spends in a tier-2 city like Raipur have trended, we met a Mercedes Benz and BMW dealer. While sales are in small numbers (~25/ month cumulatively), the current sluggish demand environment seems to have no impact on the pocket of the luxury car buyer. What was very apparent (more with Merc) is the conscious change in guard towards SUVs with the new ML Class. The Merc dealership was not even displaying any of their sedans (that says a lot!).

No impact on deeper pockets…

- For both Mercedes and BMW, while cumulatively they sell only ~25 units per month, there has been no deviation in the upward trend in retails from this sluggish demand environment. However, model-wise demand remains skewed towards SUVs which has led to weakness in demand for sedans.

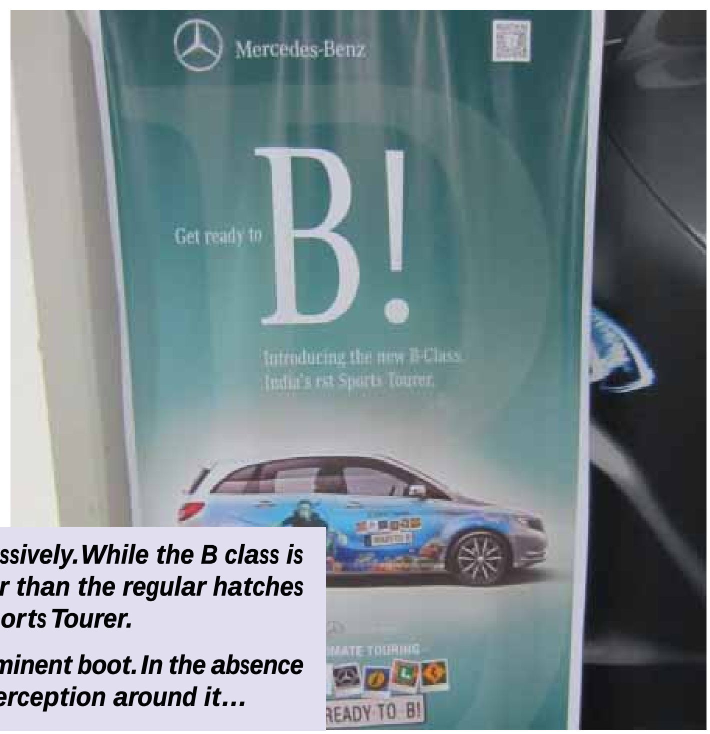
Merc trying to capitalise with the new ML after missing the initial SUV boom

- In Raipur at least, SUVs are preferred due to the poor roads. **While BMW and Audi have been able to capitalise on the boom in SUV demand in the region (and the country), Mercedes has had no competent product offering in this segment, until now.**
- **Merc has recently launched the ML Class, which is an SUV in the same category of an Audi Q7/BMW X5, but is priced almost 20% cheaper.** Merc dealers are pushing this model most purposefully as they hope to make up for the lost opportunity over the last couple of years. **In fact, they hadn't even displayed any of their flagship sedans at the dealership.**

While BMW and Audi have been able to capitalise on the boom in SUV demand in the region (and the country), Mercedes has had no competent product offering in this segment, until now. Merc has recently launched the ML Class, which is an SUV in the same category of an Audi Q7/BMW X5, but is priced almost 20% cheaper.

Merc dealers are pushing this model most purposefully as they hope to make up for the lost opportunity over the last couple of years.

In fact, they hadn't even displayed any of their flagship sedans at the dealership they hadn't even displayed any of their flagship sedans at the dealership (only car on display was the ML and B class).



Besides the ML class, Merc is pushing their B class very aggressively. While the B class is actually just an ultra-premium hatchback (albeit much bigger than the regular hatches available at 1/5th the price), it is pitching the B Class as a Sports Tourer.

At that price bracket (INR2.5m), Indian customers prefer a prominent boot. In the absence of the same, the "Sports Tourer" tag is just to build an SUV perception around it…

Andhra Pradesh

Key Stats:	
Population (Mn)	84.6
GDP per capita (INR)	60,458
Poulation density (Persons / sq km)	308
Literacy rate (%)	67.7
Sex ratio (Females per 1,000 males)	992
Area (Sq km)	275,045

In our visit to Hyderabad (AP), we witnessed that the general consumer sentiment has been affected by the Telangana issue. Almost everyone we interacted with suggested that the uncertainty regarding this issue has led to an uptick in cash hoarding and consequently deferral of high discretionary spends. Non-discretionary purchases have continued to witness healthy growth, though the competition within retailers is increasing.

Key takeaways:

- According to our channel checks, companies have put their expansion plans outside Hyderabad on hold due to a high uncertainty over the Telangana issue. Companies and most locals believe that the Telangana issue can erupt anytime soon.
- Competition amongst modern retailers is on the rise, with more number of players entering the market in addition to the existing players increasing their penetration. We saw a similar trend with Auto Dealers across the city. Auto dealers too are increasing their retail outlets within the city which is leading to intensification in competition among dealers.
- There was acute lack of electricity in the entire area. Even in main city Hyderabad, many commercial establishments do not receive electricity for almost 4 hours every day. We interacted with a person who runs a stone crushing plant (a business which is very prevalent in Andhra Pradesh), who mentioned that his plant is shut for 3 days every week, merely due to the power shortage.
- From our interaction with a few distributors, wholesalers and retailers, cash and carry stores like Metro are gaining market share in the city and are increasingly posing competition for distributors and wholesalers.
- Retailers get working capital funding from SKS Microfinance (a model which other microfinance companies can follow).
- HUL is witnessing healthy sales growth of 15-20% in Hyderabad while food companies like Haldiram are witnessing strong growth of about 30%. Food retailers are growing by about 8-10% in the city.
- Auto dealers cite that high discretionary spends have taken a higher beating on account of weak sentiment in the region. Besides the usual suspects (high fuel prices, inflation, general economic sluggishness, etc.), buyer sentiment in the region has been impacted by the Telangana issue. As usual, there are some outliers to this trend, who remain immune to a weak macro - popular models like a Mahindra XUV, Maruti Swift/Dzire/Ertiga, Toyota Innova/Fortuner, Hyundai Verna and even Hero Maestro.
- For Maruti, The new Ritz (the supply of which is unaffected by the Manesar lock-out) has received a strong response in the wake of the high waiting period on the Swift. Overall, footfalls/enquiries remain strong, which suggests that there is some huge pent-up demand (directionally, this makes us confident on car sales).
- For 2Ws, the contraction in demand doesn't seem to be as sudden as the dispatch trend suggests. This is more a case of indiscipline by the leader in terms of inventory management throughout the year. For Hero dealers, given that the company does not budge against its maximum 15 day credit policy, the high inventory has put stress on working capital.
- The scooter segment continues to outpace motorcycle segment sales by 2x. Dealers cite that almost everyone who might be buying a second 2W in the family is opting for a scooter given that it can be used by not only women, but also elderly men. For Hero, the Maestro fits the bill even better than the Pleasure did, as the latter was almost unusable by men. Even after production has been ramped up, the Maestro has a one month waiting period.

Scope for a competent 3W replacement...

For normal inter-city usage for 3 or less passengers, the regular Bajaj 3W is by far the most economical vehicle for the job...

Nevertheless, such a 3W passenger carrier is not permitted to carry more than 4 persons (including the driver) – see picture of the 3W which reads "4 in all"…

… However, most 3Ws break this rule (see left) with several 3Ws that we spotted with 5 persons (4 passengers + 1 driver).

The Magic Iris (above right), although a better/safer vehicle (not necessarily more economical), doesn't solve this problem.

However, the normal Tata Magic (don't confuse it with the smaller Magic Iris) is perfect for the job, as it safely accommodates "8 in all"… We spotted several of them in smaller towns. For longer distance travels with more than 3 passengers, this is the perfect vehicle for the job… Besides the Tata Ace (goods-carrier), this is the primary driver for buoyancy in Tata Motors' LCV division.

HUL - Demand undeterred

We met one of the 8 HUL distributors in Hyderabad to take a view on the demand environment for HUL products. According to the HUL distributor, he has not witnessed any slowdown in FMCG demand. His sales are growing by about 15%.

- According to the HUL distributor, demand scenario for FMCG products remains stable. He has been recording a sales growth of about 15% during the current year
- Inventory levels at the distributors end is nil. According to the company's distribution process, the distributor gets orders from the retailers and in turn sends his requirement and payment to the company through RTGS.
- Earlier the inventory levels used to be about one week at the distributors end and about one week with the retailers.
- Currently the distributor has not witnessed any increase in debtors days and inventory days at the retail level for HUL.
- HUL's promotional activities in fabric wash is focused on Wheel and Rin Advanced powder , while Surf excel carries the least promotional offers
- According to the HUL distributor, in fabric wash, local brands like Triple X, Urvashi, Hunter and Eta are also doing well. Ghadi detergent sells its products primarily through the wholesaler channel. The wholesale and retail margins are relatively higher in case of Ghadi
- In soaps, HUL's strategy of shifting Rexona consumers to Hamam failed and a lot of conversion actually happened in favour of Santoor. However with consistent launch of variants, HUL has been able to improve sales of Lux. Additionally, Dove soap has been witnessing strong traction in these markets.
- Not much competition has been witnessed from ITC's soap brands. Particularly ITC's mid priced brand, Vivel De Wills has not been able to make a mark. However he has seen better demand for the economy brand, Superia in the semi urban and rural markets of Andhra Pradesh.
- In case of shampoos, Dove is witnessing higher volumes in the anti dandruff segment due to a demand shift from All Clear. About 50% of the sales happen in the form of sachets. Other brands like Chic (Cavinkare) and Meera too have a market in Hyderabad.
- According to the distributor, HUL currently has about 8 distributors in Hyderabad. About 3 years back, HUL had 64 distributors in Hyderabad with every product division of the company having a separate distributor. However, post the reduction in number of distributors to 8, all the distributors sell products of all the divisions under one roof. This in turn has led to better management of the distribution system and savings in cost. Further the company also had the kiosks channel which had sales to the tune of INR5000 per month. These channel was also consolidated under he new reduced distributors.
- The number of sales officers on HUL's rolls have also reduced substantially post the distribution restructuring.

GSK Consumer - Volumes remains healthy

- We met a large dealer of GSK Consumer in Hyderabad.
- According to our interaction with him, GSK Consumer on an all India basis is witnessing about 13-15% growth in volumes.
- GSK Consumer's products are not witnessing any slowdown during the current year.
- According to the dealer, South and East of India contributes a major portion of the company's product demand.
- The dealer said that according to his interactions with the company's officials they have been witnessing about 20-25% increase in cost over the previous corresponding period and the price hikes have been able to offset only a part of the overall cost inflation.

Haldiram witnessing >30% growth

We met a Haldiram distributor in Hyderabad with an annual sales of INR12m. According to him, Haldiram has been growing at a strong rate of 25-30% and has not witnessed any slowdown in demand from the inflationary pressure.

- Haldiram products are witnessing strong traction in the city with growth rates of more than 30%.
- The distribution system for Haldiram products is based on SKU. Every distributor has a specific SKU to sell. Haldiram primarily sells a majority of its products in the price packs of INR5 and INR10
- There are about 30 distributors of Haldiram in Hyderabad
- Margins on Haldiram products are to the tune of 9-10%
- The highest selling product for Haldiram is Namkeen and Sonpapdi

MNC retailer - No slowdown in food retailing

We met with a top official of an MNC retailer specializing in foods and personal care in Hyderabad. According to him the company has not witnessed any material slowdown in foods. However the competition in the city is increasing with the foray of higher number of retailers. Additionally expansion plans outside the city have been put on hold due to uncertainty over Telangana.

- Demand for food products even in the current inflationary scenario has remained stable. No impact has been witnessed on the demand growth in foods products.
- The MNC retailer has not witnessed any slowdown in the premium food product range in the city. Infact there is an increasing demand for higher quality food products. Both premium range fruits and vegetable and imported staple and processed foods have witnessed stable performance.
- For food retailers about 20-25% of sales are contributed by fresh fruits and vegetables while 28-30% is contributed by staples. The residual portion is contributed majorly by processed foods and also by non-food items.
- Competition in organised retailing has been intensifying in the twin city with higher number of organised retailers entering the market while the existing players are increasing their coverage.
- Modern retailers have currently put their expansion plans on hold due to the Telangana issue and would expand outside Hyderabad only after the Telangana issue is resolved. Expansions however are being executed within the city.
- Kirana stores or small time retailers continue to co-exist with modern retailers. Neighborhood stores have a preference due to the constraint of time for nuclear families in the working class population.

Maruti Suzuki dealer – Petrol inventory at reasonable levels; waiting for supply!

We met a couple of Maruti Suzuki dealers. The Senior Manager of one large Maruti dealership in Hyderabad was quite upbeat about the dominance of the Swift/Dzire/Ertiga sustaining going ahead, with the only complaint being supply, not demand. They also note that customers have started enquiring about the new Alto 800 even though the company has not put up any advertisement. On a broader level, it's the same story of encouraging footfalls/enquiries, but low conversions.

Swift family – Swiftest of them all!

- The Swift family (Swift, Dzire & Ertiga) has seen no sluggishness in retail. In fact, **the Swift petrol is one of the few petrol cars across manufacturers that have no discounts**. Waiting period has gone up after the Manesar plant lock-out, but the dealership has been assured that all festive bookings that have been taken will be met. **Dealers note that despite the high waiting in the Swift, there has been no cancellation in bookings.**

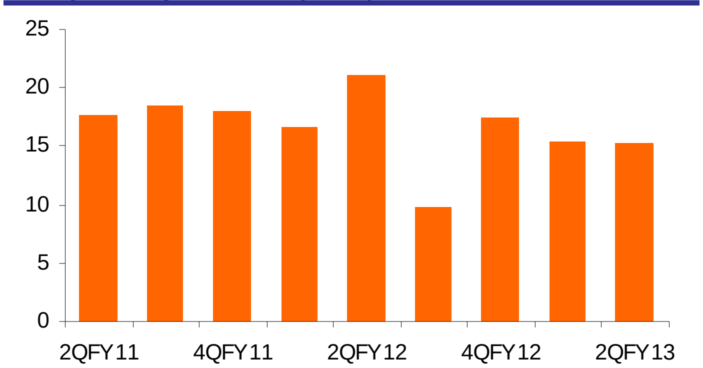
New Ritz received a encouraging response; new Alto 800 creating some buzz

- **The new Ritz (the supply of which is unaffected by the Manesar lock-out) has received a strong response in the wake of the high waiting period on the Swift.** The upcoming Alto 800 has received a lot of enquiries despite no official poster/advertisement being put up by the company. As a result, dealers are hopeful of some recovery in petrol variants post launch.

Inventory at reasonable levels

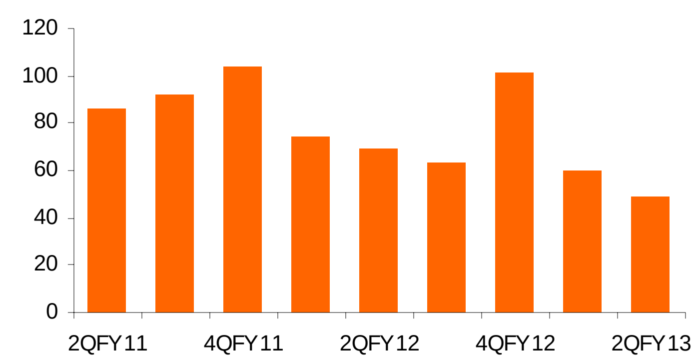
- While most diesel variants have high waiting periods, inventory for petrol variants are reasonable at a little over 4 weeks. **Even demand for petrol variants has not worsened incrementally, which is why discounts have remained flattish.**

Ritz quarterly volumes ('000s)



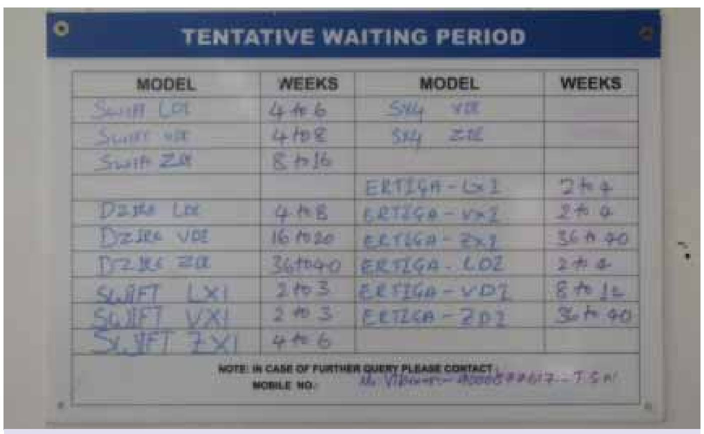
Source:Crisil, Antique

Alto quarterly volumes ('000s)



Source:Crisil, Antique

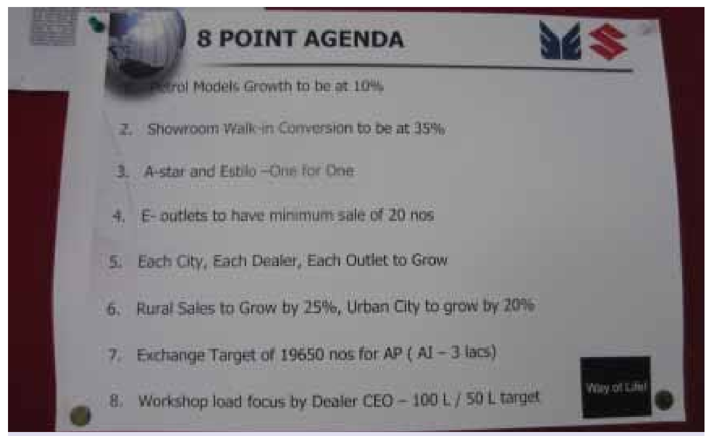
Footfalls/enquiries remain robust. Both dealerships we went to didn't have enough salesmen to attend to the customers. Among the models, besides the Swift family, the upcoming Alto 800 has received a lot of enquiries despite no official poster/advertisement being put up by the company.



Below figures indicate the minimum waiting period. Very high waiting period on the entire Swift family (Swift/Dzire/ Ertiga).

This is not restricted to the diesel variants; post the Manesar lock-out, there is also a waiting period on the Swift petrol.

The company has assured dealers that with the ramp-up in the Manesar plant, this waiting period will come down and most orders taken during the festive season will be met…



We got a glimpse of a Hyderabad based dealer's internal target (please note this is not the company's target).

They aim to increase sales of the slow-moving petrol models (to a growth of ~10%) and also increase the conversion ratio to ~35% (we understand it's around 20-25% currently).

As per the senior sales managers of this dealership, this target is ambitious, but achievable…

A Maruti Motor Driving School we interacted with stated that they don't have enough vehicles for new drivers…

Notwithstanding the current sluggishness in car sales, the number of new driver enrolments at this motor driving school is higher by 30% YoY! !

Hero MotoCorp dealer – Not worried about Honda!

We met the owner of one of the largest Hero MotoCorp dealerships chain in Andhra Pradesh, with a total of 4 touch points. As one of the oldest Hero dealers in the region, they had no complaints about the recent apparent inventory management issues or rising competition from Honda.

Inventory still a little high, but demand has picked up

- **Inventory is a little high (at around 5 weeks vs. the usual 3), which is less to do with some sudden collapse in retail, but more to do with an Hero underestimating how slow retails were right at the start of the year.** However, they are hopeful of the festive season easily helping them clear the entire excess inventory. **Given that the company does not budge against its maximum 15 day credit policy, the current period has put stress on working capital for dealers**.

Scooters as a segment doing very well... Maestro appealing to men and women

- **The scooter segment continues to outpace motorcycle segment sales by 2x. Almost everyone who might be buying a second 2W in the family is opting for a scooter given that it can be used by not only the women in the household, but also the elderly men.**
- **The Maestro fits the bill even better than the Pleasure as the latter was almost unusable by men.** Even after production has been ramped up, the Maestro has a one month waiting period.

Not too worried about Dream Yuga

- They acknowledge Honda as the king of the scooter space, but would wait before declaring the Dream Yuga a success. **They believe that the most of the growth in dispatch numbers for Honda motorcycles has been driven by filling channel inventory with all the new dealers they are appointing**.
- Backed by the rapid expansion phase, over a longer period, profitability per Honda dealer could gradually decline. **And given that Honda follows a cash-and-carry policy with its dealers, this growth in dispatches would cool off after the expansion phase cools off and channel inventory is sufficiently filled**.

Inventory is on the higher side (at around 5 weeks vs. the usual ~3.5) as we noticed a truck-full of bikes without any room to offload. According to dealers, the poor inventory management has had less to do with some sudden collapse in retail, but more to do with Hero underestimating the severity of the sluggishness right at the start of the year.

That said, dealers are hopeful that the upcoming festive season will help them clear the entire excess inventory easily…

The "Fill it. Shut it. Forget it." campaign still remains as popular as ever, more now with mileage being of utmost importance.

Contrary to what happened 3-4 years back, big banks are lending to 2W buyers

Hyundai – High footfalls, low conversions…

We met the GM of one of the largest Hyundai Motors dealership chains in Andhra Pradesh. Throughout AP, they have a total of 5 Hyundai dealerships which cumulatively sell a noteworthy 1,500 vehicles per month.

Conversions are low… But footfalls remain encouraging

- The market is definitely slow at the moment, which is mainly why conversions are low… However, **footfalls/enquiries remain high, which gives them the confidence that sales will pick-up as and when the overall sentiment improves**.

Sentiment impacted by Telangana issue

- Specific to Andhra, the Telangana issue has impacted sentiment. Even if income levels haven't fallen meaningfully, in an uncertain environment, people have naturally increased their savings and lowered high discretionary spends.

Trend is towards diesel, but petrol is appealing to some at this price differential

- Clearly the broader market is towards diesel. Most self-employed people don't mind the higher capital given that their travelling distance is more. **However, at this price differential (between both vehicles) at a high interest rate, several salaried class people with often a shorter commute, actually prefer petrol vehicles**. There also remains a school of thought that diesel cars require much higher maintenance (even though it isn't the case any more). That is primarily why i10 sales are still holding up.

Marginal diesel price increase is not enough to divert demand to petrol

- Even after the diesel prices have been increased, **the differential in diesel and petrol is still quite high and hence the preference for diesel cars remain**. Also, besides the cheaper fuel bill, the perception of a diesel car has changed among most people. Thanks to technologies like CRDi, diesel cars have become much more refined, which has also aided diesel car sales.

With Hyundai, there is a perception that the cost of spares, servicing, etc. is very economical (probably second only to Maruti), which is primarily why it has been able to withstand competitive pressures pretty well.

Inventory for petrol variants is normal… Diesel waiting has come down

- Inventory levels, only for petrol variants are at around 4 weeks (which is the normal level). For diesel variants, the waiting period has come down after capacity had increased. **The waiting for the Verna diesel has come down from >8 months to <1 month**.

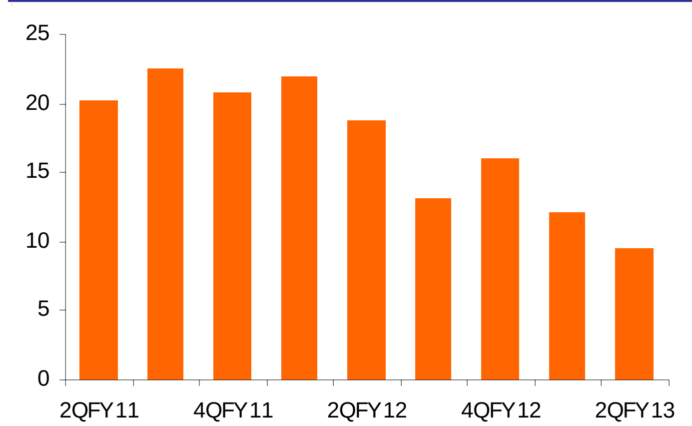
Not so worried about new competitors

- After the initial euphoria with some of the new models by competitors, sales have stabilised, if not tapered down. Things haven't changed too much in AP. At the moment, the market share is quite stable. Tata might have lost a bit, but Maruti is still over 40% and Hyundai is still over 20%. **Among the new OEMs, Ford Figo sales have slowed down due to the bad perception regarding service and spares. Same is the case with VW. Presumably, first time buyers are more comfortable with the older manufacturers**.

Model-wise demand scenario

- The luxury models of Hyundai (Sonata/Santa Fe) are not doing so well. People are more comfortable with the brand in smaller cars. **The Santro is still a preferred car for people over the age of 40 (which is now the average age of a Santro buyer), as it's much easier to get in and out of.** The i10 (petrol) is also doing ok, but buyers don't like the automatic variant at a time when fuel prices are so high.
- **The Hyundai Eon saw a lot of enquiries early on, but sales have now tapered down due to an underpowered engine (800cc). The attractive styling did bring a lot of customers into showrooms, but very few of them booked the car after they took the test drive.**

Santro quarterly volumes ('000s)



Source:Crisil, Antique

Toyota Etios a hit with taxi operators (unfortunately)

We met a Senior Sales Manager of a large Toyota dealership in Hyderabad. They were dolling out high discounts on even the diesel Liva & Etios. The Innova remains the king of the MUVs with no discounts even though there is no waiting period. The Fortuner too remains the most popular SUV in the INR2.5m price range.

Liva has slowed a bit…

- Sales of the Toyota Liva remain slow with discounts to the tune of INR20k, even on the diesel variant. **This seems to be a Liva specific issue where the quality of interiors hasn't been to everyone's liking.** The dealer was candid enough to admit that **Maruti's production woes has not helped the Liva as most people prefer to wait for the Swift than to switch to another brand**.

Etios is unfortunately a hit with taxi operators

- **The Etios has other issues. It has found the fancy of the taxi operator (1 in every 2 Etios buyers is a taxi operators).** Past inferences suggest that this is a **sure-shot way of warding off the larger audience**, i.e. personal vehicle buyers.

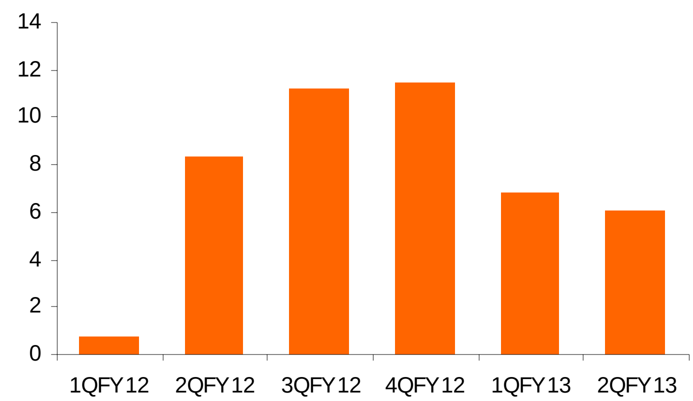
Innova remains king. But worried about competition

- **Innova sales remain very strong and probably the sole exception to the taxi operator rule** (where personal vehicle owners not being repelled by a vehicle that is very popular among private taxi operators). However, with competition in this segment on the rise, dealers are worried about whether this dominance of the Innova will sustain in the future.

Altis sales have slowed down substantially… Fortuner going from strength to strength!

- The Altis started off well, but has slowed down substantially in recent months. Discounts galore even on the diesel variant. **With the Fortuner on the other hand, demand has always succeeded supply with a perpetually high waiting period**. The only criticism against it has been the dull interiors (which was very similar to that of the Innova). Post refreshment, the interior look has improved substantially and the Automatic variant has also appealed to most buyers.

Liva quarterly volumes ('000s)



Source:Crisil, Antique

With Innova sales on Auto-pilot, All Toyota advertisements are towards the Etios and the Liva.

While the Liva has suffered due to quality of interiors not being to everyone's liking, the Etios has been impacted by becoming synonymous as a taxi vehicle (1 in every 2 Etios buyers is a taxi operators) -- Past inferences suggest that this is a sure-shot way of warding off the larger audience, i.e. personal vehicle buyers.

The Innova remains the king of the MUVs, with the recent improvement in the interiors only helping matters (albeit some claiming that the chrome centre console looks a tad aftermarket).

With competition in this segment on the rise, dealers are worried about whether this dominance of the Innova will sustain in the future.

Nissan dealer – Excited about the Evalia; Renault alliance confusing…

We met the GM of the largest chain of Nissan dealerships in AP. While Nissan has had its fair share of ups and downs, they are extremely optimistic about the soon to be launched Nissan Evalia which is not only more spacious/ economical and powerful than a Toyota Innova, but also slightly cheaper.

Renault-Nissan badge engineering not doing so well for Renault

- **The badge engineering agreement between Renault and Nissan hasn't worked too well for Renault.** While Renault currently supplies engines to Nissan, Renault supplies it bodies. So far, badge engineering has been restricted to the Nissan Micra (Renault Pulse) and the Nissan Sunny (Renault Scala). **As per dealers, while Nissan is viewed as a more premium brand and given that its products are cheaper than the Renault counterpart, Renault sales are suffering**.

Waiting for Evalia

- While customer awareness has been less at this point, dealers are optimistic about the Evalia as it boasts of better mileage/ space/power as compared to a Toyota Innova, while being cheaper in price. **Only apprehension is whether Indian consumers will adapt to the sliding doors**. Initially, the Evalia was going to be launched only in a petrol variant, but dealers rightfully advised against it. Hence the launch was delayed by a few months.

Duster conversions being impacted by lack of rear leg-room

- The Duster has done wonders for Renault and enquiries/ footfalls have been increased exponentially post the launch. **While the response to the Duster has surpassed expectations, dealers note that after the test drive, conversions have been impacted due to the lack or leg-room for rear seat passengers**.

Harley Davidson – Promoting the Cruiser Life...

We met the GM of a Harley Davidson dealership to get a sense of how ultra-high discretionary spends are trending. This is the first Harley dealership to have come up in India and sells around 10 units per month (around 10% of Harley's pan-India volumes).

Leisure biking an evolving trend… Target audience immune to slow macro

- Leisure biking as a culture is rapidly evolving in India. **In Harley's case, the buyer is completely different – probably someone who owns a car and is buying the bike purely for the love of riding. They are also very well aware of the brand. Such a person doesn't care if the bike cost INR700k or INR900k.** Given the clientele, there has been no variation in demand in the current slow period.

Cheapest model is not the best-seller

- **They currently have models starting from INR690k and going all the way up to INR4.2m.** The best selling bike isn't the cheapest one (INR690k), but the one above that, which costs INR800k. They've noticed that buyers consciously don't buy the cheapest Harley in the showroom. They have even sold one unit of the INR4.2m bike. The buyer had seen the model in Australia and ordered it through them.

HOG – The unique marketing initiative (which inspired Royal Enfield)

- HOG (Harley's Owner Group) as the name suggests is a road-trip exclusively for Harley owners (a concept copied by Royal Enfield). That said, in India, other non-Harley bikers also often join the HOG road-trips, with the Harley owners often obliging them **(unlike the foreign HOG road-trips where Harley owners don't allow non-Harley bikers to even park their motorcycle next theirs).**

Sports-bikers cannot keep up with cruisers

- **During these trips, any sports-biker that joins in normally gets tired after riding for more than an hour. The Harley rider on the other hand can continue riding for hours on end.** This is due to the comfortable sitting position (legs out in front as against folded under you) and placement of the handlebars (closer to the chest), which results in the rider not crouching down while riding (unlike a sportsbike).

Cost of servicing is reasonable… Done at your doorstep!

- Cost of servicing such expensive bikes is quite reasonable (INR3,000 every 6 months). **As a special privilege to Harley customers, Harley sends the service mechanic right to the customer's doorstep for a cost of around INR500 more.** Most customers opt for this service as it enables them to see their beloved bike being serviced right in front of them.

Harley – assembled in India?

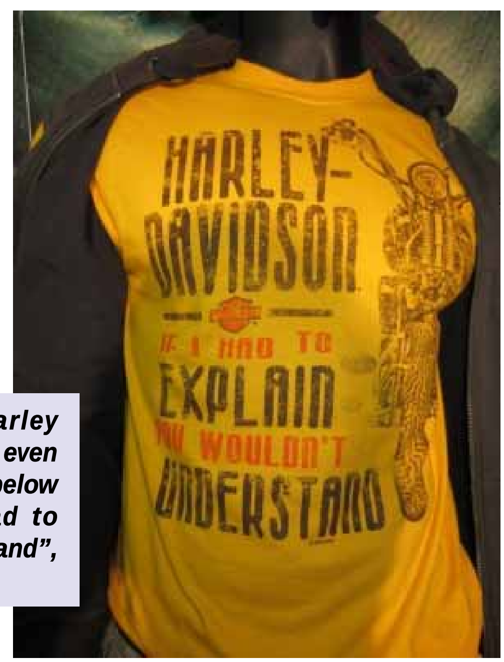
- Due to the high ticket size, Harley Davidson is considering the option of assembling some of their entry level models in India. **Consequently, their cheapest model, which retails for INR690k could be available for even <INR500k**. This might still be a few years away though.

The best selling bike isn't the cheapest one (INR690k), but the one above that, which costs INR800k. They've noticed that buyers consciously don't buy the cheapest Harley in the showroom.

Endless number of customisations possible in each and every Harley Davidson. It is said, that no two Harley bikes in the world are completely alike.

The unique Harley experience begins right from the test ride. With every test ride, riders have to wear the Harley test ride kit.

The Apparel section of Harley Davidson is extremely popular, even among non-Harley riders. The below t-shirt which reads "If I had to explain, you wouldn't understand", is their best-seller.



Notes

COMPANIES

FMCG:

AUTO & AUTO ANCS:

Current Reco	:	BUY
Previous Reco	:	BUY
CMP	:	INR297
Target Price	:	INR322
Potential Return	:	9%

Abhijeet Kundu
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Market data

Sector	:	FMCG
Market Cap (INRbn)	:	2,337
Market Cap (USDbn)	:	43
O/S Shares	:	7,856
Free Float (m)	:	4,826
52-wk HI/LO (INR)	:	288/189
Avg Daily Vol ('000)	:	4,749
Bloomberg	:	ITC IN

Source: Bloomberg

Returns (%)

	1m	3m	6m	12m
Absolute	17	17	22	44
Relative	16	8	14	31

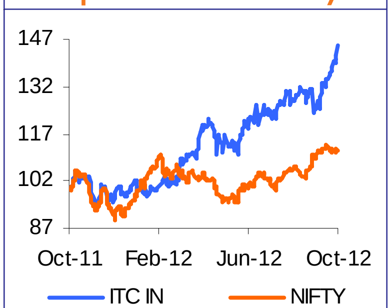
Source: Bloomberg

Shareholding pattern

FIIs	:	18%
DII	:	34%
Others	:	48%

Source: Bloomberg

Price performance *vs* Nifty



Source: Bloomberg

ITC Limited

Resilience unmatched

Plain packaging could work in ITC's favor

The raging concern over the probability of plain packaging norms we believe is overdone for ITC. We believe that a plain packaging norm would be favorable for the existing players and more so, for the dominant player in the category where advertising is not permitted.

Loss in RSFT compensated by gains in KSFT

Our channels across a few states suggests that ITC's king size filter cigarette segment has been growing at a strong rate of about 14-15% despite sharp price hikes taken by the company during the last 9 months. This in turn has compensated for the loss in volumes in the regular filter segment. Consequently, we expect ITC to record flat growth in cigarette volumes during FY13.

Launch of 64mm would further make up for volume loss

ITC according to our channel checks has been test launching 64mm cigarettes across states, depending on the strength of the brand in that specific geography. For instance in Rajasthan it has launched Gold Flake super star (64mm version of Gold Flake premium) on a larger scale while in the southern markets it has launched the 64mm version of Scissors. In other geographies, the company is launching the 64mm versions of Bristol, Capstan and Wills flake. The initial response to few of these key brands has been encouraging. Though the margins on 64mm cigarettes would be relatively lower than the 69mm cigarettes, in the medium to longer term, it would arrest the volume loss in 69mm.

Expect cigarette EBIT to record 20% CAGR

We expect ITC's cigarette EBIT to grow by 20% during FY12-FY14e led by a total price hike of about 20%. This in turn would lead to an overall PAT growth of 19% during FY12-14e to INR87.8bn.

FMCG to breakeven by FY14

We expect ITC to achieve breakeven in the non-cigarette FMCG division by FY14. This would be led by a consistent improvement in margins of the packaged foods division. We estimate the packaged foods division to record about 7% EBIT margins during FY13 and 8% EBIT margins during FY14.

Valuation

In view of the strong performance of the cigarette division despite the price hikes and ITC's expected increase in the domination in cigarettes with the launch of 64mm, we believe that the division would witness a re-rating going ahead. We therefore value the division at 18x EV/EBITDA as against our current EV/EBITDA multiple of 17x. We maintain a BUY with a target price of INR322. At the CMP of INR297, the stock is trading at a PE of 31.1x FY13e and 25.2x FY14e.

Key financials (Standalone)

Year ended 31 Mar (INRm)	2010	2011	2012	2013e	2014e
Revenues	156,119	181,532	211,674	247,984	291,038
EBITDA	48,585	60,740	71,533	84,732	103,138
EBITDA margins (%)	33.5	33.8	34.2	35.4	35.8
PAT	32,636	40,610	49,875	61,624	73,969
EPS (INR)	4.3	5.3	6.4	8.0	9.6
PE (x)	55.8	46.1	37.3	31.1	25.2
EV/EBITDA (x)	36.8	31.2	26.4	21.7	17.5
RoE (%)	28.9	31.3	32.8	35.2	38.3

Source: Company, Antique

Financials

Profit and loss account (INRm)

Year ended 31 Mar	2010	2011	2012	2013e	2014e
Revenues	181,532	211,674	247,984	291,038	357,198
Expenses	120,792	140,141	163,252	187,900	229,464
EBITDA	**60,740**	**71,533**	**84,732**	**103,138**	**127,734**
Depreciation & amortisation	6,087	6,560	6,985	7,890	8,500
EBIT	**54,653**	**64,973**	**77,747**	**95,248**	**119,234**
Interest expense	648	481	779	700	750
Other income	6,147	8,188	12,007	13,000	14,000
Profit before tax	**60,153**	**72,680**	**88,975**	**107,548**	**132,484**
Taxes incl deferred taxation	19,543	22,806	27,352	33,579	41,438
Profit after tax	**40,610**	**49,875**	**61,624**	**73,969**	**91,046**
Adjusted profit after tax	**40,610**	**49,875**	**61,624**	**73,969**	**91,046**
Recurring EPS (INR)	**5.3**	**6.4**	**8.0**	**9.6**	**11.8**

Balance sheet (INRm)

Year ended 31 Mar	2010	2011	2012	2013e	2014e
Share Capital	3,818	7,738	7,818	7,738	7,738
Reserves & Surplus	136,826	151,795	180,101	202,498	230,067
Networth	**140,644**	**159,533**	**187,919**	**210,236**	**237,805**
Debt	1,077	992	946	992	992
Capital Employed	**141,721**	**160,525**	**188,865**	**211,228**	**238,797**
Gross Fixed Assets	119,679	127,658	164,948	179,948	194,948
Accumulated Depreciation	(38,255)	(44,208)	(51,193)	(59,083)	(67,583)
Net Assets	**81,424**	**83,451**	**113,756**	**120,866**	**127,366**
Capital work in progress	10,090	13,334	-	-	-
Investments	57,269	55,547	63,170	63,170	63,170
Current Assets, Loans & Advances					
Inventory	45,491	52,675	56,378	47,053	57,749
Debtors	8,588	9,076	9,860	8,229	10,100
Cash & Bank balance	11,263	22,432	28,189	63,257	90,442
Loans & advances and others	15,929	17,656	18,311	21,490	26,375
Current Liabilities & Provisions					
Creditors	34,983	44,579	47,961	55,202	67,413
Other liabilities & provisions	45,499	41,048	44,111	48,907	60,265
Net Current Assets	**788**	**16,212**	**20,667**	**35,920**	**56,989**
Deferred tax assets/(liabilities)	(7,850)	(8,019)	(8,727)	(8,727)	(8,727)
Misc.Expenses	-	-	-	-	-
Application of Funds	**141,721**	**160,525**	**188,865**	**211,228**	**238,797**

Per share data

Year ended 31 Mar	2010	2011	2012	2013e	2014e
No. of shares (m)	7,636	7,738	7,738	7,738	7,738
BVPS (INR)	18.4	20.6	24.3	27.2	30.7
CEPS (INR)	4.5	5.6	7.1	8.5	10.7
DPS (INR)	10.0	4.5	4.8	5.8	7.2

Source: Company, Antique

Cash flow statement (INRm)

Year ended 31 Mar	2010	2011	2012	2013e	2014e
EBIT	**54,653**	**64,973**	**77,747**	**95,248**	**119,234**
Depreciation & amortisation	6,087	6,560	6,985	7,890	8,500
Interest expense	(648)	(481)	(779)	(700)	(750)
(Inc)/Dec in working capital	34,712	(4,254)	1,302	19,814	6,117
Tax paid	(19,543)	(22,809)	(27,352)	(33,579)	(41,438)
CF from operating activities	**75,261**	**43,989**	**57,904**	**88,673**	**91,663**
Capital expenditure	(12,041)	(11,224)	(23,956)	(15,000)	(15,000)
Inc/(Dec) in investments	(28,891)	1,722	(7,624)	-	-
Income from investments	6,147	8,188	12,007	13,000	14,000
CF from investing activities	**(34,785)**	**(1,313)**	**(19,572)**	**(2,000)**	**(1,000)**
Inc/(Dec) in share capital	44	3,920	80	(80)	-
Inc/(Dec) in debt	(699)	(85)	(46)	46	-
Dividends paid	(44,533)	(40,021)	(42,964)	(51,571)	(63,477)
Others	5,650	4,680	10,355	-	-
CF from financing activities	**(39,538)**	**(31,506)**	**(32,575)**	**(51,605)**	**(63,477)**
Net cash flow	**938**	**11,170**	**5,757**	**35,068**	**27,185**
Opening balance	10,323.90	11,263	22,432	28,189	63,257
Closing balance	**11,262**	**22,432**	**28,189**	**63,257**	**90,442**

Growth indicators (%)

Year ended 31 Mar	2010	2011	2012	2013e	2014e
Revenue	16.28	16.60	17.15	17.36	22.73
EBITDA	25.02	17.77	18.45	21.72	23.85
PAT	24.43	22.81	23.56	20.03	23.09
EPS	23.01	21.20	23.56	20.03	23.09

Valuation (x)

Year ended 31 Mar	2010	2011	2012	2013e	2014e
PE	55.8	46.1	37.3	31.1	25.2
P/BV	16.1	14.4	12.2	10.9	9.7
EV/EBITDA	36.8	31.2	26.4	21.7	17.5
EV/Sales	12.3	10.6	9.0	7.7	6.3
Dividend Yield (%)	3.4	1.5	1.6	2.0	2.4

Financial ratios

Year ended 31 Mar	2010	2011	2012	2013e	2014e
RoE (%)	28.87	31.26	32.79	35.18	38.29
RoCE (%)	38.56	40.48	41.17	45.09	49.93
Debt/Equity (x)	0.0	0.0	0.0	0.0	0.0
EBIT/Interest (x)	(84.4)	(135.0)	(99.8)	(136.1)	(159.0)

Margins (%)

Year ended 31 Mar	2010	2011	2012	2013e	2014e
EBITDA	33.5	33.8	34.2	35.4	35.8
EBIT	30.1	30.7	31.4	32.7	33.4
PAT	22.4	23.6	24.8	25.4	25.5

Source: Company Antique

Current Reco	:	HOLD
Previous Reco	:	HOLD
CMP	:	INR574
Target Price	:	INR524
Potential Return	:	-9%

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Hindustan Unilever Limited

Valuations capture buoyancy

Key beneficiary of the rural demand growth backed by its distribution expansion

Backed by its wide spread distribution and increase in direct reach, HUL would be the key beneficiary of the rising demand for branded products in rural India. The company has gained to a large extent from the buoyancy in rural consumption supported by increase in direct distribution. During the last two years, the company has increased its direct distribution from about 1mn outlets to about 1.6m outlets.

Limited room for positive surprises in soaps and detergents

We see limited scope for surprises on the profitability front going ahead, which would be primarily driven by soap and detergent margins (assuming personal product margins to remain stable at 25.4%). Our scenario analysis based on diverse levels of PBIT margins in soaps and detergents and attracting different levels of PE multiples, provides a target price of INR524 in the base case (most likely), INR664 in the bull case and INR422 in the bear case (most unlikely). We believe that in the base case, soap and detergent margins would touch 14.1% during FY14e leading to a CAGR growth in earnings of 19% to INR37.8bn (EPS-INR17.5). In this scenario, the stock would trade at 30x FY14e. In the bull case, PBIT margins of soaps and detergents would touch 16.5% by FY14e and would lead to an earnings growth of 22% CAGR to INR39.5bn (EPS - INR18.3). In the bull case, the stock could get re-rated to its CY00 PE multiples of 36.3x.

Valuations close to HUL's peak multiples of CY06

Hindustan Unilever has witnessed a re-rating every 6 years during CY00/FY01, CY06/ FY07 and now during FY13. During CY00, the stock traded at an average PE multiple of 36.3x while during CY06 the stock witnessed a re-rating to an average PE multiple of 31.5x. During CY00, the stock re-rating was led by a sharp improvement in profitability (EBITDA margin) during CY2000 to 13.8% from about 10% during CY98 (which were broadly the margins during CY1995 to CY1998). The sharp improvement in profitability continued during the next three years to touch about 19.6% in CY04. We believe that HUL has witnessed a similar re-rating in the stock valuations during FY13, after almost 6 years, when the company has witnessed an improvement in performance since FY12 led by recovery in margins of soaps and detergents from the trough levels of FY11.

Valuation

At the CMP of INR574, the stock is trading at 38.1x FY13e and 32.9x FY14e. At the current levels, we believe a majority of the valuation re-rating is factored in the stock valuations and hence we recommend a HOLD. We continue to be optimistic about the performance of the company led by distribution gains, broad based focus across categories and a favorable pricing scenario. However even after factoring in the positive scenario, the stock is richly valued.

Market data

Sector	:	FMCG
Market Cap (INRbn)	:	1,241
Market Cap (USDbn)	:	23
O/S Shares	:	2,162
Free Float (m)	:	933
52-wk HI/LO (INR)	:	580/325
Avg Daily Vol ('000)	:	1,381
Bloomberg	:	HUVR IN

Source: Bloomberg

Returns (%)

	1m	3m	6m	12m
Absolute	8	29	36	72
Relative	7	19	26	58

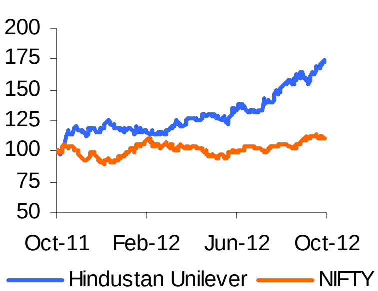
Source: Bloomberg

Shareholding pattern

Promoters	:	53%
FII	:	18%
DII	:	12%
Others	:	17%

Source: Bloomberg

Price performance *vs* Nifty



Source: Bloomberg

Key financials (Standalone)

Year ended 31 Mar (INRm)	2010	2011	2012	2013e	2014e
Revenues	175,238	194,011	225,393	261,255	295,687
EBITDA	25,484	23,652	30,307	36,785	42,283
EBITDA Margin (%)	14.5	12.2	13.4	14.1	14.3
Adjusted profit after tax	20,587	21,605	26,564	32,576	37,759
Recurring EPS (INR)	9.4	10.0	12.3	15.1	17.5
PE	60.8	57.4	46.7	38.1	32.9
RoE (%)	79.7	82.0	75.6	71.8	62.1

Source: Company, Antique

Financials

Profit and loss account (INRm)

Year ended 31 Mar	2010	2011	2012	2013e	2014e
Revenues	175,238	194,011	225,393	261,255	295,687
Expenses	149,754	170,359	195,085	224,471	253,404
EBITDA	**25,484**	**23,652**	**30,307**	**36,785**	**42,283**
Depreciation & amortisation	1,840	2,208	2,272	2,353	2,442
EBIT	**23,644**	**21,444**	**28,035**	**34,432**	**39,841**
Interest expense	70	2	14	190	220
Other income	4,490	7,315	7,325	8,152	9,375
Profit before tax	**28,064**	**28,757**	**35,346**	**42,394**	**48,996**
Taxes incl deferred taxation	6,044	5,697	7,781	9,817	11,237
Profit after tax	**22,020**	**23,059**	**27,565**	**32,576**	**37,759**
Adjusted profit after tax	**20,587**	**21,605**	**26,564**	**32,576**	**37,759**
Recurring EPS (INR)	**9.4**	**10.0**	**12.3**	**15.1**	**17.5**

Balance sheet (INRm)

Year ended 31 Mar	2010	2011	2012	2013e	2014e
Share Capital	2,182	2,160	2,162	2,162	2,162
Reserves & Surplus	23,654	24,180	32,968	43,228	58,671
Networth	**25,835**	**26,339**	**35,129**	**45,390**	**60,833**
Debt	-	-	-	-	-
Capital Employed	**25,835**	**26,339**	**35,129**	**45,390**	**60,833**
Gross Fixed Assets	35,820	37,596	38,815	40,315	41,815
Accumulated Depreciation	14,199	15,905	18,177	20,529	22,971
Net Assets	**21,621**	**21,692**	**20,638**	**19,786**	**18,844**
Capital work in progress	2,740	2,991	2,991	2,991	2,991
Investments	12,641	12,607	24,382	24,382	24,382
Current Assets, Loans & Advances	**53,678**	**60,952**	**59,429**	**83,373**	**107,680**
Inventory	21,799	28,113	25,167	51,535	58,327
Debtors	6,716	9,432	6,790	7,873	9,721
Cash & Bank balance	18,922	16,400	18,300	14,529	28,952
Loans & advances and others	6,240	7,007	9,172	9,436	10,679
Current Liabilities & Provisions	**67,332**	**73,999**	**74,453**	**87,284**	**95,206**
Creditors	52,917	60,749	54,994	63,184	70,041
Other liabilities & provisions	14,416	13,250	19,459	24,100	25,165
Net Current Assets	**(13,655)**	**(13,047)**	**(15,024)**	**(3,911)**	**12,474**
Deferred tax assets/(liabilities)	2,488	2,097	2,142	2,142	2,142
Misc.Expenses					
Application of Funds	**25,835**	**26,339**	**35,129**	**45,390**	**60,833**

Per share data

Year ended 31 Mar	2010	2011	2012	2013e	2014e
No. of shares (m)	2,181.7	2,159.5	2,161.5	2,161.5	2,161.5
BVPS (INR)	11.8	12.2	16.3	21.0	28.1
CEPS (INR)	10.3	11.0	13.3	16.2	18.6
DPS (INR)	6.5	6.5	7.4	8.8	8.8

Margins (%)

Year ended 31 Mar	2010	2011	2012	2013e	2014e
EBITDA	14.5	12.2	13.4	14.1	14.3
EBIT	13.5	11.1	12.4	13.2	13.5
PAT	11.7	11.1	11.8	12.5	12.8

Source: Company, Antique

Key assumptions

Year ended 31 Mar	2010	2011	2012	2013e	2014e
Raw material cost	50.7	51.8	54.4	53.5	52.4
Advertisement exp	13.6	14.2	11.8	12.6	13.6
Staff cost	5.3	5.0	5.0	4.8	4.7
Other expenditure	15.8	16.8	15.4	15.0	15.1

Cash flow statement (INRm)

Year ended 31 Mar	2010	2011	2012	2013e	2014e
EBIT	**23,644**	**21,444**	**28,035**	**34,432**	**39,841**
Depreciation & amortisation	1,840	2,208	2,272	2,353	2,442
Interest expense	(70)	(2)	(14)	(190)	(220)
(Inc)/Dec in working capital	12,975	(3,130)	3,878	(14,885)	(1,962)
Tax paid	(6,044)	(5,697)	(7,781)	(9,817)	(11,237)
CF from operating activities	**32,345**	**14,823**	**26,390**	**11,892**	**28,865**
Capital expenditure	(5,021)	(2,028)	(1,219)	(1,500)	(1,500)
Inc/(Dec) in investments	(9,315)	34	(11,775)	-	-
Income from investments	4,490	7,315	7,325	8,152	9,375
CF from investing activities	**(9,846)**	**5,322**	**(5,669)**	**6,652**	**7,875**
Inc/(Dec) in share capital	2	(22)	2	-	-
Inc/(Dec) in debt	(4,219)	-	-	-	-
Dividends paid	(16,560)	(16,429)	(18,735)	(22,316)	(22,316)
Others	(574)	(6,214)	(88)	-	-
CF from financing activities	**(21,351)**	**(22,666)**	**(18,821)**	**(22,316)**	**(22,316)**
Net cash flow	**1,148**	**(2,522)**	**1,900**	**(3,772)**	**14,423**
Opening balance	17773	18922	16400	18300	14529
Closing balance	**18,922**	**16,401**	**18,300**	**14,529**	**28,952**

Growth indicators (%)

Year ended 31 Mar	2010	2011	2012	2013e	2014e
Revenue	(13)	11	16	16	13
EBITDA	(5)	(7)	28	21	15
PAT	(16)	5	23	23	16
EPS	(16)	6	23	23	16

Valuation (x)

Year ended 31 Mar	2010	2011	2012	2013e	2014e
PE	60.8	57.4	46.7	38.1	32.9
P/BV	48.5	47.1	35.3	27.3	20.4
EV/EBITDA	54.2	58.4	45.6	37.5	32.7
EV/Sales	7.9	7.1	6.1	5.3	4.7
Dividend Yield (%)	1.1	1.1	1.3	1.5	1.5

Financial ratios

Year ended 31 Mar	2010	2011	2012	2013e	2014e
RoE (%)	80	82	76	72	62
RoCE(%)	92	81	80	76	65
Debt/Equity (x)	-	-	-	-	-
EBIT/Interest (x)	(338.7)	(9323.4)	(2016.9)	(181.2)	(181.1)

Source: Company Antique

Current Reco	:	HOLD
Previous Reco	:	HOLD
CMP	:	INR4,766
Target Price	:	INR4,495
Potential Return	:	-6%

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Nestle India Limited

Yet to see the sun

Trend reversal will take some time due to rapid price hikes

Nestle has completed the first phase of its medium to long term growth plan through an aggressive capacity addition during the past three years. The company has almost doubled its capacity except in the case of beverages. The next phase of the strategy we believe would depend on the ramping up of distribution. The company has been increasing its distribution on a consistent basis to support its expansion plans. It has increased its distribution reach from about 2.5m outlets in CY2008 to 3.7m outlets in CY2011 (adding about 380,000 outlets in CY10 and 490,000 outlets in CY11). We understand that the company has taken up aggressive marketing of its product categories to revive sales and utilize the added capacity. However recovery would be gradual due to the rapid price hikes done by the company, which has been the primary factor behind the slowdown in sales.

Chocolates and confectionaries yet to recover

Nestle's chocolates and confectionaries business witnessed a volume drop of 15% during 1HCY12. This according to our channel checks was primarily due to the change in price points to INR6 and INR12 from INR5 and INR10, which in turn led to a substantial loss in volumes to duplicates. Nestle has now increased prices and changed the price points to INR5 and INR10 respectively leading to arresting of the fall in volumes. However regaining of the lost volumes, would take some time.

Largest beneficiary of the rural opportunity

Nestle India would be one of the largest beneficiaries of the rural opportunity led by the growing awareness for nutrition. The company has successfully gained on the growing consumption opportunity in India and increased penetration through small unit packs in instant noodles and chocolates and confectionaries.

Maggi maintains its domination despite new competition

Over the years, Nestle has successfully customised its flagship brand in instant noodles, Maggi to Indian taste buds. Newer players like GSK consumer and Hindustan Unilever after tasting some initial success in an expanding market have not been able to secure any major inroads in to the category challenging . However ITC has been able to show some potential in terms of competition.

Strong candidate for re-rating, but inflection point could be still 3 quarters ahead

At the CMP of INR4,766, the stock is trading at a one-year forward PE of 39.1x CY12e and 31.8x FY13e. We are extremely positive over Nestle India's long term growth potential backed by the rising awareness for nourishment and the lower penetration of the processed foods industry. However in the short term, performance revival would take about 3-4 quarters. We therefore recommend a HOLD on the stock at the current levels.

Market data

Sector	:	FMCG
Market Cap (INRbn)	:	459
Market Cap (USDbn)	:	9
O/S Shares	:	96
Free Float (m)	:	33
52-wk HI/LO (INR)	:	5429/3925
Avg Daily Vol ('000)	:	33
Bloomberg	:	NEST IN

Source: Bloomberg

Returns (%)

	1m	3m	6m	12m
Absolute	6	5	(0)	14
Relative	6	(3)	(8)	5

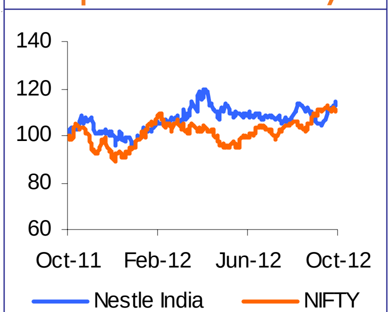
Source: Bloomberg

Shareholding pattern

Promoters	:	63%
FII	:	11%
DII	:	7%
Others	:	19%

Source: Bloomberg

Price performance *vs* Nifty



Source: Bloomberg

Key financials (Standalone)

Year ended 31st Dec (INRm)	2009	2010	2011E	2012E	2013E
Revenue	51,294	62,547	74,908	87,120	109,158
EBITDA	10,345	12,497	15,608	18,741	23,250
EBITDA Margin (%)	20.2	20.0	20.8	21.5	21.3
PAT	6,976	8,370	9,982	11,762	14,448
EPS(INR)	72	87	104	122	150
PE (x)	65.9	54.9	46.0	39.1	31.8
EV/EBITDA (x)	42.6	35.2	28.2	23.5	18.9
RoE (%)	120.0	97.9	78.4	68.1	62.1

Source: Company, Antique

Financials

Profit and loss account (INRm)

Year ended 31st Dec	2009	2010	2011E	2012E	2013E
Revenues	51,294	62,547	74,908	87,120	109,158
Expenses	40,949	50,051	59,301	68,379	85,908
EBITDA	**10,345**	**12,497**	**15,608**	**18,741**	**23,250**
Depreciation & amortisation	1,113	1,278	1,534	2,170	2,650
EBIT	**9,232**	**11,219**	**14,074**	**16,571**	**20,600**
Interest expense	14	11	51	100	120
Other income	378	427	509	650	550
Profit before tax	**9,596**	**11,635**	**14,532**	**17,121**	**21,030**
Taxes incl deferred taxation	2,620	3,264	4,550	5,359	6,582
Profit after tax	**6,550**	**8,187**	**9,617**	**11,762**	**14,448**
Adjusted profit after tax	**6,976**	**8,370**	**9,982**	**11,762**	**14,448**
Recurring EPS (INR)	**72.4**	**86.8**	**103.5**	**122.0**	**149.8**

Balance sheet (INRm)

Year ended 31st Dec	2009	2010	2011E	2012E	2013E
Share Capital	964	964	964	964	964
Reserves & Surplus	4,848	7,590	11,775	16,307	22,302
Networth	**5,813**	**8,554**	**12,739**	**17,271**	**23,267**
Debt	-	-	9,709	13,709	10,709
Capital Employed	**5,813**	**8,554**	**22,448**	**30,979**	**33,975**
Gross Fixed Assets	16,408	18,547	25,522	33,522	38,522
Accumulated Depreciation	(7,446)	(8,420)	(9,765)	(11,935)	(14,585)
Net Assets	**8,962**	**10,127**	**15,758**	**21,588**	**23,938**
Capital work in progress	796	3,489	14,186	14,186	14,186
Investments	2,033	1,507	1,344	1,344	1,344
Current Assets, Loans & Advances					
Inventory	4,987	5,760	7,340	12,346	15,511
Debtors	642	633	1,154	1,298	1,748
Cash & Bank balance	1,556	2,553	2,272	1,184	2,746
Loans & advances and others	1,380	1,514	1,964	2,563	3,220
Current Liabilities & Provisions					
Creditors	5,876	7,617	10,096	11,967	14,614
Other liabilities & provisions	8,348	9,079	11,038	11,128	13,668
Net Current Assets	**(5,658)**	**(6,236)**	**(8,404)**	**(5,703)**	**(5,057)**
Deferred tax assets/(liabilities)	(320)	(333)	(435)	(435)	(435)
Misc.Expenses					
Application of Funds	**5,813**	**8,554**	**22,448**	**30,979**	**33,975**

Per share data

Year ended 31st Dec	2009	2010	2011E	2012E	2013E
No. of shares (m)	96.4	96.4	96.4	96.4	96.4
BVPS (INR)	60.3	88.7	132.1	179.1	241.3
CEPS (INR)	83.9	100.1	119.4	144.5	177.3
DPS (INR)	48.5	48.5	48.5	61.0	74.9

Margins (%)

Year ended 31st Dec	2009	2010	2011E	2012E	2013E
EBITDA	20.2	20.0	20.8	21.5	21.3
EBIT	18.0	17.9	18.8	19.0	18.9
PAT	13.6	13.4	13.3	13.5	13.2

Source: Company, Antique

Key assumptions

Year ended 31st Dec	2009	2010	2011E	2012E	2013E
Revenues (INRm)					
Milk products and nutrition	23,113	27,763	33,510	38,414	45,944
Prepared dishes and cooking aids	13,350	17,250	21,545	26,242	35,479
Chocolates and confectionary	7,719	9,759	10,997	13,152	17,098
Raw material as % of net sales	47.7	48.9	47.9	45.8	45.9

Cash flow statement (INRm)

Year ended 31st Dec	2009	2010	2011E	2012E	2013E
EBIT	**9,232**	**11,219**	**14,074**	**16,571**	**20,600**
Depreciation & amortisation	1,113	1,278	1,534	2,170	2,650
Interest expense	(14)	(11)	(51)	(100)	(120)
(Inc)/Dec in working capital	1,417	1,575	1,887	(3,790)	917
Tax paid	(2,620)	(3,264)	(4,550)	(5,359)	(6,582)
CF from operating activities	**9,128**	**10,796**	**12,894**	**9,493**	**17,464**
Capital expenditure	(2,064)	(4,832)	(17,672)	(8,000)	(5,000)
Inc/(Dec) in investments	(1,684)	526	163	(0)	-
Income from investments	378	427	509	650	550
CF from investing activities	**(3,370)**	**(3,880)**	**(17,000)**	**(7,350)**	**(4,450)**
Inc/(Dec) in share capital	-	-	-	-	-
Inc/(Dec) in debt	(8)	-	9,709	4,000	(3,000)
Dividends paid	(5,471)	(5,448)	(5,430)	(6,881)	(8,452)
Others	(661)	(472)	(453)	(350)	-
CF from financing activities	**(6,140)**	**(5,920)**	**3,826**	**(3,231)**	**(11,452)**
Net cash flow	**(381)**	**997**	**(281)**	**(1,088)**	**1,562**
Opening balance	1937	1556	2553	2272	1184
Closing balance	**1,556**	**2,553**	**2,272**	**1,184**	**2,746**

Growth indicators (%)

Year ended 31st Dec	2009	2010	2011E	2012E	2013E
Revenue	19	22	20	16	25
EBITDA	20	21	25	20	24
PAT	24	20	19	18	23
EPS	24	20	19	18	23

Valuation (x)

Year ended 31st Dec	2009	2010	2011E	2012E	2013E
PE	65.9	54.9	46.0	39.1	31.8
P/BV	79.0	53.7	36.1	26.6	19.7
EV/EBITDA	42.6	35.2	28.2	23.5	18.9
EV/Sales	8.6	7.0	5.9	5.1	4.0
Dividend Yield (%)	1.0	1.0	1.0	1.3	1.6

Financial ratios

Year ended 31st Dec	2009	2010	2011E	2012E	2013E
RoE (%)	120	98	78	68	62
RoCE (%)	159	131	63	53	61
Debt/Equity (x)	-	-	0.8	0.8	0.5
EBIT/Interest (x)	(660.2)	(1044.1)	(275.5)	(165.7)	(171.7)

Source: Company Antique

ANTIQUE

Current Reco	:	HOLD
Previous Reco	:	HOLD
CMP	:	INR1,236
Target Price	:	INR1,213
Potential Return	:	-2%

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Market data

Sector	:	FMCG
Market Cap (INRbn)	:	168
Market Cap (USDbn)	:	3
O/S Shares	:	136
Free Float (m)	:	61
52-wk HI/LO (INR)	:	1288/932
Avg Daily Vol ('000)	:	66
Bloomberg	:	CLGT IN

Source: Bloomberg

Returns (%)

	1m	3m	6m	12m
Absolute	(1)	9	10	24
Relative	(1)	0	2	14

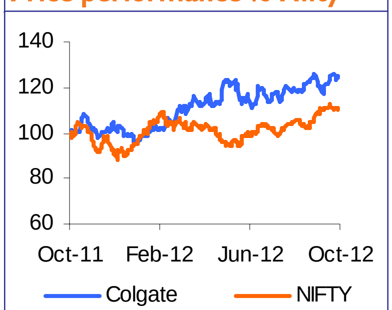
Source: Bloomberg

Shareholding pattern

Promoters	:	51%
FIIs	:	21%
DII	:	6%
Others	:	22%

Source: Bloomberg

Price performance *vs* Nifty



Source: Bloomberg

Colgate Palmolive India Limited

Strong growth but valuation concerns

Witnessing strong traction in sales

Our channel checks across the five states, indicated to the strong domination of CPIL in oral care. According to our interaction with the trade, CPIL is witnessing accelerated growth in sales backed by its premium portfolio in the urban markets and Cibaca in the rural markets. The company's low unit packs, especially Max fresh gel, is receiving high acceptance in the rural markets. We therefore are increasing our sales growth estimates for the company from about 15% CAGR during the next two years, FY12-FY14e to 18% CAGR.

Strong branding and rural reach to aid volume growth

Backed by its strong distribution and a brand which is synonymous with toothpaste in India, CPIL is well placed to benefit from the urbanisation and rural opportunity. Additionally a growing awareness for personal hygiene would aid its performance in the coming years.

Consistent market share gains reinforces dominance

During the last 5 years, CPIL has reinforced its dominance in the Indian oral care category by increasing its market share from about 49% in FY08 to about 51.3% in FY12 in toothpastes. This could be largely attributed to the increase in market share of Cibaca in the economy segment. Additionally, the company's relatively newer portfolio, comprising of Colgate Max fresh and Colgate Active Salt have gained strength during the last five years in the premium segment and currently command a market share of 5.9% and 4.3% respectively.

Continued dominance in turn has led to more stable ad-spends

The consistent improvement in market share over the years has facilitated a relatively lower and less volatile spend on advertisements during the last four years. The company's ad-spends have been maintained in the range of 15-16% during FY09-FY12. This in turn has aided profitability of the company as in the past, ad-spends have had a high bearing on the company's EBITDA margins.

Valuation

At the CMP of INR1,236, the stock is trading at a PE of 30.4x FY13e and 25.5x FY14e. After witnessing a consistent improvement in toothpastes market share during FY10-FY12, the stock has witnessed a re-rating from an average PE of 21.9x to 26.9x. Post the re-rating during the last three years, the stock's average PE valuation stands at about 24.8x. Though we believe in the company's long term growth potential from the rural dividend, we feel that the current valuations factor in majority of the positives. From its average valuations of 24.8x we dont see any case for a major re-rating from the current levels. We therefore maintain a HOLD on the stock with a target price if INR1,213 (implying a PE of 25.0x).

Key financials (Standalone)

Year ended 31 Mar (INRm)	2010	2011	2012	2013E	2014E
Revenue	19,625	22,206	26,239	31,187	36,286
EBITDA	4,257	4,507	5,091	6,487	7,983
EBITDA Margin (%)	21.7	20.3	19.4	20.8	22.0
PAT	4,023	4,026	4,465	5,521	6,600
EPS (INR)	30	30	33	41	49
PE (x)	41.8	41.7	37.6	30.4	25.5
EV/EBITDA (x)	39.0	36.8	32.6	25.6	20.8
RoE (%)	123.4	104.8	102.5	108.4	110.3

Source: Company, Antique

Financials

Profit and loss account (INRm)

Year ended 31 Mar	2010	2011	2012	2013E	2014E
Revenues	19,625	22,206	26,239	31,187	36,286
Expenses	15,367	17,699	21,147	24,700	28,303
EBITDA	**4,257**	**4,507**	**5,091**	**6,487**	**7,983**
Depreciation & amortisation	376	343	393	410	444
EBIT	**3,882**	**4,164**	**4,698**	**6,077**	**7,539**
Interest expense	15	33	15	17	17
Other income	981	1,068	1,201	1,350	1,458
Profit before tax	**4,848**	**5,200**	**5,884**	**7,410**	**8,979**
Taxes incl deferred taxation	825	1,174	1,419	1,890	2,379
Profit after tax	**4,233**	**4,026**	**4,465**	**5,521**	**6,600**
Adjusted profit after tax	**4,023**	**4,026**	**4,465**	**5,521**	**6,600**
Recurring EPS (INR)	**29.6**	**29.6**	**32.8**	**40.6**	**48.5**

Balance sheet (INRm)

Year ended 31 Mar	2010	2011	2012	2013E	2014E
Share Capital	136	136	136	136	136
Reserves & Surplus	3,125	3,705	4,218	4,959	5,845
Networth	**3,261**	**3,841**	**4,354**	**5,095**	**5,981**
Debt	46	9	8	8	8
Capital Employed	**3,307**	**3,850**	**4,362**	**5,103**	**5,989**
Gross Fixed Assets	5,345	5,798	6,132	6,532	6,932
Accumulated Depreciation	(2,876)	(3,248)	(3,587)	(3,997)	(4,442)
Net Assets	**2,469**	**2,550**	**2,544**	**2,534**	**2,490**
Capital work in progress	62	82	694	694	694
Investments	210	387	471	471	471
Current Assets, Loans & Advances					
Inventory	1,106	1,537	2,177	5,143	5,583
Debtors	98	753	873	1,037	1,207
Cash & Bank balance	3,476	3,951	3,098	4,522	6,435
Loans & advances and others	1,222	910	1,318	1,466	1,745
Current Liabilities & Provisions					
Creditors	4,267	5,907	5,862	7,463	8,552
Other liabilities & provisions	1,248	583	1,073	3,668	4,451
Net Current Assets	**387**	**661**	**531**	**1,038**	**1,968**
Deferred tax assets/(liabilities)	179	168	121	366	366
Misc.Expenses	-	-	-	-	-
Application of Funds	**3,307**	**3,850**	**4,362**	**5,103**	**5,989**

Per share data

Year ended 31 Mar	2010	2011	2012	2013E	2014E
No. of shares (m)	136.0	136.0	136.0	136.0	136.0
BVPS (INR)	24.0	28.2	32.0	37.5	44.0
CEPS (INR)	26.8	27.1	29.9	37.6	45.3
DPS (INR)	20.0	22.0	29.1	30.0	35.9

Margins (%)

Year ended 31 Mar	2010	2011	2012	2013E	2014E
EBITDA	21.7	20.3	19.4	20.8	22.0
EBIT	19.8	18.8	17.9	19.5	20.8
PAT	20.5	18.1	17.0	17.7	18.2

Source: Company, Antique

Key assumptions

Year ended 31 Mar	2010	2011	2012	2013E	2014E
Toothpaste sales (INRm)	15,360	17,414	20,758	24,972	28,718
Raw material cost as % of net sales	39.6	39.3	40.0	39.7	39.1
Advt. expenditure as % of net sales	15.3	15.7	15.7	14.5	14.5
Other expenditure as % of net sales	23.5	24.7	19.9	25.0	24.4

Cash flow statement (INRm)

Year ended 31 Mar	2010	2011	2012	2013E	2014E
EBIT	**3,882**	**4,164**	**4,698**	**6,077**	**7,539**
Depreciation & amortisation	376	343	393	410	444
Interest expense	(15)	(33)	(15)	(17)	(17)
(Inc)/Dec in working capital	424	146	(723)	918	983
Tax paid	(825)	(1,174)	(1,419)	(1,890)	(2,379)
Cash flow from operating activities	**3,841**	**3,446**	**2,934**	**5,499**	**6,569**
Capital expenditure	(1,108)	(473)	(945)	(400)	(400)
Inc/(Dec) in investments	(173)	177	84	-	-
Income from investments	981	1,068	1,201	1,350	1,458
Cash flow from investing activities	**(300)**	**772**	**339**	**950**	**1,058**
Inc/(Dec) in share capital	-	-	-	-	-
Inc/(Dec) in debt	(1)	(37)	(2)	-	-
Dividends paid	(3,178)	(3,500)	(4,623)	(4,780)	(5,714)
Others	602	(206)	498	(245)	(0)
Cash flow from financing activities	**(2,577)**	**(3,743)**	**(4,127)**	**(5,024)**	**(5,714)**
Net cash flow	**964**	**476**	**(853)**	**1,424**	**1,913**
Opening balance	2511	3476	3951	3098	4522
Closing balance	**3,476**	**3,951**	**3,098**	**4,522**	**6,435**

Growth indicators (%)

Year ended 31 Mar	2010	2011	2012	2013E	2014E
Revenue	16	13	18	19	16
EBITDA	55	6	13	27	23
PAT	37	0	11	24	20
EPS	37	0	11	24	20

Valuation (x)

Year ended 31 Mar	2010	2011	2012	2013E	2014E
PE	41.8	41.7	37.6	30.4	25.5
P/BV	51.5	43.8	38.6	33.0	28.1
EV/EBITDA	39.0	36.8	32.6	25.6	20.8
EV/Sales	8.5	7.5	6.3	5.3	4.6
Dividend Yield (%)	1.6	1.8	2.4	2.4	2.9

Financial ratios

Year ended 31 Mar	2010	2011	2012	2013E	2014E
RoE (%)	123	105	103	108	110
RoCE (%)	117	108	108	119	126
Debt/Equity (x)	0.0	0.0	0.0	0.0	0.0
EBIT/Interest (x)	(258.8)	(126.6)	(310.6)	(365.2)	(431.5)

Source: Company Antique

Current Reco	:	HOLD
Previous Reco	:	HOLD
CMP	:	INR674
Target Price	:	INR625
Potential Return	:	-7%

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Market data

Sector	:	FMCG
Market Cap (INRbn)	:	230
Market Cap (USDbn)	:	4
O/S Shares	:	340
Free Float (m)	:	122
52-wk HI/LO (INR)	:	719/368
Avg Daily Vol ('000)	:	278
Bloomberg	:	GCPL IN

Source: Bloomberg

Returns (%)

	1m	3m	6m	12m
Absolute	2	17	38	69
Relative	2	7	27	55

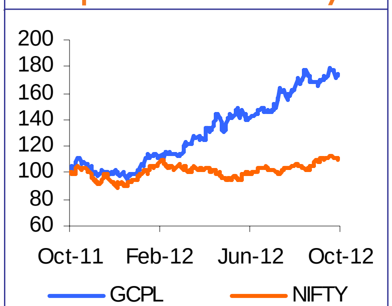
Source: Bloomberg

Shareholding pattern

Promoters	:	44%
FII	:	27%
DII	:	1%
Others	:	8%

Source: Bloomberg

Price performance *vs* Nifty



Source: Bloomberg

Godrej Consumer Products Limited

Integration and acquisition gains

Rural expansion to aid growth

Expansion of rural penetration will aid GCPL's performance during the next three years. We believe that the rising rural consumerism would benefit all its key product categories like soaps, hair colors and insect repellants. Particularly in case of hair colors, which has been a relatively underperformer, a higher rural penetration would lead to accelerated volume growth in the coming years.

Distribution integration with GHPL driving growth in soaps and insect repellant

Distribution integration with Godrej Household Product post the merger has led to rich dividends in terms of strong volume growth in key categories. GCPL's soaps business has benefited from insect repellants distribution strength in the southern markets while insect repellant business has benefited from the strength of soaps in the northern markets. The management expects these distribution gains to continue during the next two years

International acquisitions in high growth geographies to drive medium to long term growth

We believe that in majority of the acquired businesses which are from emerging geographies like Indonesia, Africa and Latin America, GCPL would be able to generate a growth in revenues of about 15-20% per annum in the next few years. Further we believe that the increase in contribution from the high margin geographies like Indonesia (18% EBITDA margin) and Africa (19% EBITDA margin) would drive profitability in the coming years. We believe that Darling would record sales of about INR5.89bn in FY13e and INR8.77bn in FY14e (assuming 70% of Darling group business would be consolidated during 4QFY13.

Better management of working capital to aid valuations

The company has been able to control the increase in working capital requirement arising from the higher debtor days of the international operations (due to high dependence on modern trade) led by better terms with creditors. A consistency in the working capital management and a reduction in debt/equity levels would lead to a re-rating for the company going ahead.

Valuations factors in the strong growth in earnings

At the CMP of INR674, the stock is trading at a PE of 29.3x FY13e and 23.7x FY14e. The stock has traded at an average PE of 18.9x during the last five years(FY08-FY12). During FY10-FY12, the stock has witnessed a re-rating and has traded at an average of 21.5x. We believe that at the current levels, the stock is factoring in the high growth trajectory of the company. We therefore maintain our HOLD recommendation on the stock at the current levels with a target price of INR625, (implying a PE of 23.7x FY14e).

Key financials (Consolidated)

Year ended 31 Mar (INRm)	2010	2011	2012	2013E	2014E
Revenue	20,412	36,430	48,509	63,586	77,743
EBITDA	4,078	6,407	8,650	11,453	14,068
EBITDA Margin %	20.0	17.6	17.8	18.0	18.1
PAT	3,396	4,658	5,844	7,829	9,673
EPS	11.0	14.4	17.2	23.0	28.4
PE (x)	61.2	46.8	39.2	29.3	23.7
EV/EBITDA (x)	37.7	24.0	17.8	13.4	10.9
RoE %	35.6	27.0	20.8	24.2	25.8

Source: Company, Antique

Financials

Profit and loss account (INRm)

Year ended 31 Mar	2010	2011	2012	2013E	2014E
Revenues	20,412	36,430	48,509	63,586	77,743
Expenses	16,334	30,023	39,859	52,133	63,675
EBITDA	**4,078**	**6,407**	**8,650**	**11,453**	**14,068**
Depreciation & amortisation	236	499	644	810	1,013
EBIT	**3,842**	**5,908**	**8,006**	**10,643**	**13,055**
Interest expense	111	519	914	1,000	1,057
Other income	468	1,118	2,331	1,065	1,164
Profit before tax	**4,199**	**6,507**	**9,423**	**10,708**	**13,162**
Taxes incl deferred taxation	803	1,360	1,910	2,334	2,817
Profit after tax	**3,396**	**5,147**	**7,513**	**8,373**	**10,345**
Minority Interest	0.00	0.00	245.20	544.27	672.44
PAT after Minority Int	**3,396**	**5,147**	**7,268**	**7,829**	**9,673**
Adjusted profit after tax	**3,396**	**4,658**	**5,844**	**7,829**	**9,673**
Recurring EPS (INR)	**11.0**	**14.4**	**17.2**	**23.0**	**28.4**

Balance sheet (INRm)

Year ended 31 Mar	2010	2011	2012	2013E	2014E
Share Capital	308	323.6	340.3	340.3	340.3
Reserves & Surplus	9,239	16,928	27,812	31,977	37,123
Networth	**9,547**	**17,252**	**28,152**	**32,317**	**37,463**
Minority Interest	-	-	882	882	882
Debt	369	20,054	15,712	13,712	12,712
Capital Employed	**9,916**	**37,306**	**44,746**	**46,911**	**51,057**
Gross Fixed Assets	4,149	19,147	20,258	23,508	26,508
Accumulated Depreciation	(1,531)	(3,775)	(4,419)	(5,229)	(6,241)
Net Assets	**2,617**	**15,373**	**15,840**	**18,280**	**20,267**
Capital work in progress	8	154	-	-	-
Goodwill	3,119	15,404	21,454	21,454	21,454
Investments	670	-	-	-	-
Current Assets, Loans & Advances					
Inventory	2,644	4,394	7,839	10,235	12,487
Debtors	1,153	3,840	4,725	6,097	7,455
Cash & Bank balance	3,052	2,269	6,399	5,690	7,524
Loans & advances and others	2,247	4,559	3,911	5,126	6,267
Current Liabilities & Provisions					
Creditors	5,326	8,448	14,683	19,139	23,377
Other liabilities & provisions	202	225	743	837	1,025
Net Current Assets	**3,567**	**6,389**	**7,447**	**7,172**	**9,331**
Deferred tax assets/(liabilities)	(66)	(14)	-	-	-
Misc.Expenses	-	-	5	5	5
Application of Funds	**9,916**	**37,306**	**44,746**	**46,911**	**51,057**

Per share data

Year ended 31 Mar	2010	2011	2012	2013E	2014E
No. of shares (m)	308.2	323.6	340.3	340.3	340.3
BVPS (INR)	31.0	53.3	82.7	95.0	110.1
CEPS (INR)	11.8	15.9	19.1	25.4	31.4
DPS (INR)	0.7	4.1	6.4	9.2	9.2

Source: Company, Antique

Cash flow statement (INRm)

Year ended 31 Mar	2010	2011	2012	2013E	2014E
EBIT	**3,842**	**5,908**	**8,006**	**10,643**	**13,055**
Depreciation & amortisation	236	499	644	810	1,013
Interest expense	(111)	(519)	(914)	(1,000)	(1,057)
(Inc)/Dec in working capital	(270)	(3,605)	3,072	(433)	(326)
Tax paid	(803)	(1,360)	(1,910)	(2,334)	(2,817)
Cash flow from operating activities	**2,894**	**923**	**8,898**	**7,685**	**9,869**
Capital expenditure	(1,793)	(27,430)	(7,007)	(3,250)	(3,000)
Inc/(Dec) in investments	-	-	-	-	-
Income from investments	442	468	1,118	2,331	1,065
Cash flow from investing activities	**(1,351)**	**(26,962)**	**(5,889)**	**(919)**	**(1,935)**
Inc/(Dec) in share capital	51	15	17	-	-
Inc/(Dec) in debt	(2,407)	19,685	(4,342)	(2,000)	(1,000)
Dividends paid	(231)	(2,567)	(3,415)	(3,664)	(4,527)
Others	315	8,122	8,862	(1,811)	(573)
Cash flow from financing activities	**(2,272)**	**25,256**	**1,121**	**(7,475)**	**(6,100)**
Net cash flow	**(730)**	**(782)**	**4,130**	**(708)**	**1,833**
Opening balance	3781	3052	2269	6399	5690
Closing balance	**3,052**	**2,269**	**6,399**	**5,691**	**7,524**

Growth indicators (%)

Year ended 31 Mar	2010	2011	2012	2013E	2014E
Revenue	47	78	33	31	22
EBITDA	100	57	35	32	23
PAT	97	37	25	34	24
EPS	64	31	19	34	24

Valuation (x)

Year ended 31 Mar	2010	2011	2012	2013E	2014E
PE	61.2	46.8	39.2	29.3	23.7
P/BV	21.8	12.6	8.1	7.1	6.1
EV/EBITDA	37.7	24.0	17.8	13.4	10.9
EV/Sales	7.5	4.2	3.2	2.4	2.0
Dividend Yield (%)	0.1	0.6	0.9	1.4	1.4

Financial ratios

Year ended 31 Mar	2010	2011	2012	2013E	2014E
RoE (%)	36	27	21	24	26
RoCE (%)	39	16	18	23	26
Debt/Equity (x)	0.0	1.2	0.6	0.4	0.3
EBIT/Interest (x)	(34.6)	(11.4)	(8.8)	(10.6)	(12.4)

Margins (%)

Year ended 31 Mar	2010	2011	2012	2013E	2014E
EBITDA	20.0	17.6	17.8	18.0	18.1
EBIT	18.8	16.2	16.5	16.7	16.8
PAT	16.6	12.8	12.0	12.3	12.4

Source: Company Antique

Current Reco	:	HOLD
Previous Reco	:	HOLD
CMP	:	INR135
Target Price	:	INR129
Potential Return	:	-4%

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Market data

Sector	:	FMCG
Market Cap (INRbn)	:	235
Market Cap (USDbn)	:	4
O/S Shares	:	1,743
Free Float (m)	:	812
52-wk HI/LO (INR)	:	139/92
Avg Daily Vol ('000)	:	835
Bloomberg	:	DABUR IN

Source: Bloomberg

Returns (%)

	1m	3m	6m	12m
Absolute	6	19	21	34
Relative	5	9	11	24

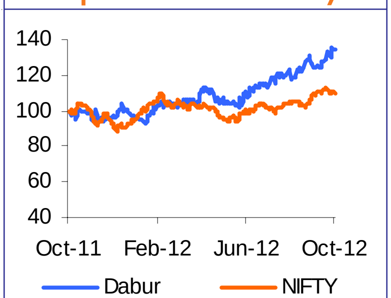
Source: Bloomberg

Shareholding pattern

Promoters	:	69%
FII	:	19%
DII	:	5%
Others	:	7%

Source: Bloomberg

Price performance *vs* Nifty



Source: Bloomberg

Dabur India Limited

Re-rating in the price

A strong contender for rural consumption

Dabur is a strong contender for the growth potential in the rural markets given its strong rural distribution in place and a rural heavy product portfolio. Dabur's hair oils, oral care and home care portfolio are strong fits in the rural market. Further the company's health supplements portfolio can benefit from the rising awareness for nourishment in the rural markets.

To witness revival during FY13 led by higher ad-spends

We believe that Dabur India will be back in the reckoning from FY13 with revival in IBD sales (ex-HOBI and Namaste) and acceleration in domestic volumes. In the short term, Dabur's domestic volumes would be aided by higher ad-spends. For a niche player like Dabur, ad-spends play a key role in driving growth.

Namaste to witness accelerated growth in the next 2-3 years

We expect acceleration in Namaste's growth with increasing exposure to Africa from the current 27% over the next 2- 3 years. Profitability of HOBI currently is impacted by depreciation of Lira versus USD and would witness recovery led by cost cutting initiatives of the company.

Rural distribution restructuring could lead the recovery in shampoos

The re-structuring of the rural distribution would lead the revival in volumes over the next 2-3 years. Dabur's renewed focus on rural markets could be a game changer for this category and aid volume growth going ahead.

Competition in hair oils and oral care is a concern

Two key categories for Dabur, hair oils and oral care are witnessing heightened competition from players like Marico and Colgate Palmolive respectively. Marico has been consistently gaining market share primarily in the Amla segment (relating to Dabur) while in the oral care category, Colgate Palmolive has competing through its economy brand and low units packs. This has led to relatively moderate for Dabur in these two categories.

Valuation

At the CMP of INR135, the stock is trading at a PE of 31.5x FY13e and 25.1x FY14e. The previous re-rating of the stock was led by the acquisition of Balsara and its turnaround. In view of the resilience witnessed in FMCG demand, Dabur's valuations have witnessed a re-rating. We believe that in the current environment, Dabur's valuations would be sustainable. Therefore we upgrade our target price to INR129 (implying 5 year average PE multiple of 23.9x). However, even at its historic PE valuations , the stock appears fairly valued. We therefore maintain our HOLD rating on the stock at the current levels.

Key financials (Consolidated)

Year ended 31 Mar (INRm)	2010	2011	2012	2013E	2014E
Revenue	33,657	40,774	52,832	61,346	71,945
EBITDA	6,330	7,547	8,441	9,967	12,292
EBITDA Margin %	18.8	18.5	16.0	16.2	17.1
PAT	5,024	5,689	6,442	7,429	9,335
EPS	2.9	3.3	3.7	4.3	5.4
PE (x)	39.5	34.9	36.4	31.5	25.1
RoE %	39.3	40.8	37.5	34.5	35.3

Source: Company, Antique

Financials

Profit and loss account (INRm)

Year ended 31 Mar	2010	2011	2012	2013E	2014E
Revenues	33,914	40,774	52,832	61,346	71,945
Expenses	27,673	33,420	44,390	51,380	59,653
EBITDA	**6,241**	**7,355**	**8,441**	**9,967**	**12,292**
Depreciation & amortisation	503	624	929	1,080	1,120
EBIT	**5,738**	**6,730**	**7,512**	**8,887**	**11,172**
Interest expense	202	303	538	900	930
Other income	482	652	931	1,300	1,500
Profit before tax	**6,018**	**7,079**	**7,905**	**9,287**	**11,742**
Taxes incl deferred taxation	1,005	1,390	1,464	1,857	2,407
Profit after tax	**5,022**	**5,686**	**6,449**	**7,437**	**9,343**
Adjusted profit after tax	**5,014**	**5,689**	**6,442**	**7,429**	**9,335**
Recurring EPS (INR)	**2.9**	**3.3**	**3.7**	**4.3**	**5.4**

Balance sheet (INRm)

Year ended 31 Mar	2010	2011	2012	2013E	2014E
Share Capital	869	1,741	1,741	1,741	1,741
Reserves & Surplus	8,523	12,211	15,457	19,815	24,682
Networth	**9,392**	**13,952**	**17,198**	**21,556**	**26,422**
Debt	1,792	10,699	11,010	11,010	11,010
Capital Employed	11,184	24,651	28,208	32,566	37,432
Gross Fixed Assets	9,857	19,338	21,528	22,328	22,728
Accumulated Depreciation	(3,391)	(4,351)	(5,280)	(6,360)	(7,480)
Net Assets	6,466	14,987	16,248	15,968	15,248
Capital work in progress	**301**	**430**	**430**	**430**	**430**
Investments	2,641	4,274	4,820	4,820	4,820
Current Assets, Loans & Advances					
Inventory	4,262	7,085	8,240	7,905	8,164
Debtors	1,198	3,555	4,620	4,710	5,800
Cash & Bank balance	1,923	2,724	4,480	9,761	17,759
Loans & advances and others	3,674	5,161	7,380	5,162	5,162
Current Liabilities & Provisions					
Creditors	4,669	7,141	9,790	11,261	13,075
Other liabilities & provisions	4,533	7,435	8,220	4,929	6,817
Net Current Assets	**1,855**	**3,950**	**6,710**	**11,348**	**16,993**
Deferred tax assets/(liabilities)	(107)	-	-	-	(59)
Misc.Expenses	27	1,010	-	-	-
Application of Funds	**11,184**	**24,651**	**28,208**	**32,566**	**37,432**

Per share data

Year ended 31 Mar	2010	2011	2012	2013E	2014E
No. of shares (m)	1,740.7	1,740.7	1,741.0	1,740.7	1,740.7
BVPS (INR)	5.4	8.0	9.9	12.4	15.2
CEPS (INR)	3.2	3.6	4.2	4.9	6.0
DPS (INR)	2.0	1.2	1.4	1.5	2.1

Margins (%)

Year ended 31 Mar	2010	2011	2012	2013E	2014E
EBITDA	18.4	18.0	16.0	16.2	17.1
EBIT	16.9	16.5	14.2	14.5	15.5
PAT	14.8	14.0	12.2	12.1	13.0

Source: Company, Antique

Key assumptions

Year ended 31 Mar	2010	2011	2012	2013E	2014E
CCD sales (INRm)	20,791	23,687	27,088	30,119	34,583
CHD sales (INRm)	2,115	2,390	2,725	3,025	3,388
IBD sales (INRm)	6,637	7,805	9,757	12,684	15,854
Foods sales (INRm)	3,294	4,226	5,346	6,683	8,020
Raw material cost as % of net sales	45.7	46.7	50.8	48.5	47.4

Cash flow statement (INRm)

Year ended 31 Mar	2010	2011	2012	2013E	2014E
EBIT	**5,738**	**6,730**	**7,512**	**8,887**	**11,172**
Depreciation & amortisation	503	624	929	1,080	1,120
Interest expense	(202)	(303)	(538)	(900)	(930)
(Inc)/Dec in working capital	39	(1,293)	(1,005)	643	2,352
Tax paid	(1,005)	(1,390)	(1,464)	(1,857)	(2,407)
CF from operating activities	**5,073**	**4,368**	**5,435**	**7,853**	**11,307**
Capital expenditure	(1,573)	(9,610)	(2,190)	(800)	(400)
Inc/(Dec) in investments	829	(1,633)	(546)	-	-
Income from investments	482	652	931	1,300	1,500
CF from investing activities	**(262)**	**(10,591)**	**(1,804)**	**500**	**1,100**
Inc/(Dec) in share capital	4	872	-	-	-
Inc/(Dec) in debt	(508)		311	-	-
Dividends paid	(2,031)	(2,343)	(2,839)	(3,072)	(4,410)
Others	(1,837)	8,495	654	-	-
CF from financing activities	**(4,372)**	**7,024**	**(1,875)**	**(3,072)**	**(4,410)**
Net cash flow	**439**	**801**	**1,756**	**5,281**	**7,997**
Opening balance	1484	1923	2724	4480	9761
Closing balance	**1,923**	**2,724**	**4,480**	**9,761**	**17,759**

Growth indicators (%)

Year ended 31 Mar	2010	2011	2012	2013E	2014E
Revenue	20.9	20.2	29.6	16.1	17.3
EBITDA	33.9	17.8	14.8	18.1	23.3
PAT	28.3	13.5	13.2	15.3	25.6
EPS	28.3	13.5	13.2	15.4	25.6

Valuation (x)

Year ended 31 Mar	2010	2011	2012	2013E	2014E
PE	46.7	41.2	36.4	31.5	25.1
P/BV	24.9	16.8	13.6	10.9	8.9
EV/EBITDA	37.6	31.9	27.8	23.5	19.1
EV/Sales	6.9	5.8	4.4	3.8	3.3
Dividend Yield (%)	1.5	0.9	1.0	1.1	1.6

Financial ratios

Year ended 31 Mar	2010	2011	2012	2013E	2014E
RoE (%)	53.4	40.8	37.5	34.5	35.3
RoCE (%)	51.3	27.3	26.6	27.3	29.8
Debt/Equity (x)	0.2	0.8	0.6	0.5	0.4
EBIT/Interest (x)	(28.4)	(22.2)	(14.0)	(9.9)	(12.0)

Source: Company Antique

Current Reco	:	HOLD
Previous Reco	:	HOLD
CMP	:	INR203
Target Price	:	INR198
Potential Return	:	-2%

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Market data

Sector	:	FMCG
Market Cap (INRbn)	:	131
Market Cap (USDbn)	:	2
O/S Shares	:	645
Free Float (m)	:	237
52-wk HI/LO (INR)	:	211/134
Avg Daily Vol ('000)	:	760
Bloomberg	:	MRCO IN

Source: Bloomberg

Returns (%)

	1m	3m	6m	12m
Absolute	3	12	14	35
Relative	2	3	5	24

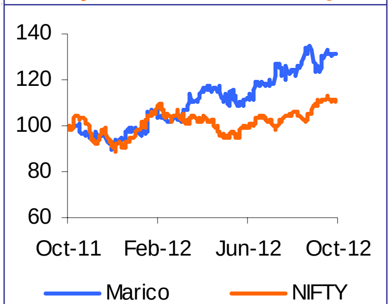
Source: Bloomberg

Shareholding pattern

Promoters	:	60%
FII	:	26%
DII	:	7%
Others	:	7%

Source: Bloomberg

Price performance *vs* Nifty



Source: Bloomberg

Marico Limited

The strongest branding play

A strong play on rural consumerism

Our interactions across our five sample states, re-affirmed our belief in Marico's dominance in coconut and hair oils. The company is capitalising on the opportunity of shift in preference towards branded coconut and hair oils in rural markets. This would be done through expanding its rural exposure during the last three years from about 27% to the current 32%.

Strong pricing power to aid margins

Pricing power of Parachute coconut oil, its key profit generator has been the success factor during the past few years. The brands strength and pricing power led to a substantial 454 bps improvement in Marico's margins from 8.8% in FY05 to 12.9% in FY08. Additionally during FY11 and FY12, years of steep inflation, the brand re-affirmed its strength by recording a volume growth of 11% despite a price hike of 32% in the last 12 months. During FY13, we expect the pricing power of Parachute coupled with drop in copra prices to expand EBITDA margins by 204bps to 14.2%.

Increasing dominance in coconut oil

Marico witnessed a marked improvement over its long term performance by gaining ground in the coconut oil segment where market shares across companies normally remain stagnant. In the coconut oil category Parachute gained about 300bps market share during 1QFY13.

Gaining ground in value added hair oils

Marico has successfully expanded the value added hair oils business through aggressive marketing and entry in to newer categories. This in turn has led to market share gains to the tune of 780bps to 24.8% during the last 5 years. Our channel checks suggest that a majority of the market share gains have been led by improvement in the South Indian market.

Acquisition of Paras Pharma's personal care biz to aid scalability

The acquisition provides the company meaningful entry in a fast growing category like Deodorant and strengthens its market share in hair styling gel and creams. The acquisition also provides Marico an entry in to a better margin profile business when compared to its existing business like hair oils and health based edible oil. Parachute coconut oil nevertheless has a high margin profile.

Valuation

We maintain our earnings estimates for FY13e and FY14e at INR7.2 and INR8.6 respectively. At the CMP of INR203, the stock is trading at a PE of 28.3x FY13e and 23.5x FY14e. We maintain our target price of INR198. In the current scenario, we don't see any scope for further upgrade in the stock or any case for further re-rating. We therefore maintain our HOLD rating on the stock with a target price of INR198.

Key financials (Consolidated)

Year ended 31 Mar (INRm)	2010	2011	2012	2013E	2014E
Revenue	26,608	31,283	39,986	49,602	59,899
EBITDA	3,847	4,098	4,865	7,044	8,566
EBITDA Margin (%)	14.5	13.1	12.2	14.2	14.3
PAT (INRm)	2,601	2,563	3,319	4,626	5,555
EPS(INR)	4.3	4.2	5.4	7.2	8.6
PE (x)	47.5	48.6	37.6	28.3	23.5
EV/EBITDA (x)	35.0	32.9	27.7	19.1	15.7
RoE (%)	39.8	28.0	29.0	22.5	21.7

Source: Company, Antique

Financials

Profit and loss account (INRm)

Year ended 31 Mar	2010	2011	2012	2013E	2014E
Revenues	26,608	31,283	39,986	49,602	59,899
Expenses	22,760	27,185	35,121	42,559	51,333
EBITDA	**3,847**	**4,098**	**4,865**	**7,044**	**8,566**
Depreciation & amortisation	452	708	725	1,200	1,650
EBIT	**3,395**	**3,390**	**4,140**	**5,844**	**6,916**
Interest expense	257	393	383	500	540
Other income	183	279	394	550	700
Profit before tax	**3,321**	**3,275**	**4,151**	**5,894**	**7,076**
Taxes incl deferred taxation	701	662	782	1,197	1,436
Profit after tax	**2,277**	**2,864**	**3,319**	**4,626**	**5,555**
Adjusted profit after tax	**2,601**	**2,563**	**3,319**	**4,626**	**5,555**
Recurring EPS (INR)	**4.3**	**4.2**	**5.4**	**7.2**	**8.6**

Balance sheet (INRm)

Year ended 31 Mar	2010	2011	2012	2013E	2014E
Share Capital	609	614	615	644	644
Reserves & Surplus	5,930	8,539	10,815	19,935	25,012
Networth	**6,540**	**9,153**	**11,430**	**20,579**	**25,657**
Debt	4,584	7,937	7,913	7,983	8,067
Capital Employed	11,124	17,090	19,343	28,562	33,724
Gross Fixed Assets	5,292	7,615	9,109	18,509	20,009
Accumulated Depreciation	(2,424)	(3,366)	(4,091)	(5,291)	(6,941)
Net Assets	2,868	4,250	5,019	13,219	13,069
Capital work in progress	**1,979**	**4,622**	**3,955**	**3,955**	**3,955**
Investments	827	890	2,956	2,956	2,956
Current Assets, Loans & Advances					
Inventory	4,448	6,011	7,202	8,154	9,846
Debtors	1,507	1,880	1,816	2,718	3,282
Cash & Bank balance	1,115	2,131	1,588	2,233	6,129
Loans & advances and others	1,900	2,181	3,336	4,143	5,006
Current Liabilities & Provisions					
Creditors	3,369	4,098	5,547	7,833	9,518
Other liabilities & provisions	768	1,077	1,206	1,206	1,225
Net Current Assets	**4,833**	**7,028**	**7,189**	**8,209**	**13,521**
Deferred tax assets/(liabilities)	616	301	223	223	223
Misc.Expenses	-	-	-	-	-
Application of Funds	**11,124**	**17,090**	**19,343**	**28,562**	**33,724**

Per share data

Year ended 31 Mar	2010	2011	2012	2013E	2014E
No. of shares (m)	609.0	614.4	614.9	644.3	644.3
BVPS (INR)	10.7	14.9	18.6	31.9	39.8
CEPS (INR)	3.5	3.0	4.2	5.3	6.1
DPS (INR)	0.7	0.6	0.7	0.7	0.7

Margins (%)

Year ended 31 Mar	2010	2011	2012	2013E	2014E
EBITDA	14.5	13.1	12.2	14.2	14.3
EBIT	12.8	10.8	10.4	11.8	11.5
PAT	9.8	8.2	8.3	9.3	9.3

Source: Company, Antique

Key assumptions

Year ended 31 Mar	2010	2011	2012	2013E	2014E
Parachute coconut oil sales (INRm)	7,743	9,059	12,683	14,585	16,773
Saffola sales (INRm)	3,844	4,459	5,351	6,314	7,261
Raw material as % of net sales	47.4	51.7	53.5	48.5	49.0
Advertisement as % of net sales	13.2	11.1	11.0	13.5	13.0
Other expenditure as % of net sales	24.9	24.1	24.1	23.8	23.7

Cash flow statement (INRm)

Year ended 31 Mar	2010	2011	2012	2013E	2014E
EBIT	**3,395**	**3,390**	**4,140**	**5,844**	**6,916**
Depreciation & amortisation	452	708	725	1,200	1,650
Interest expense	(257)	(393)	(383)	(500)	(540)
(Inc)/Dec in working capital	(1,066)	(1,178)	(704)	(374)	(1,416)
Tax paid	(701)	(662)	(782)	(1,197)	(1,436)
CF from operating activities	**1,824**	**1,864**	**2,995**	**4,972**	**5,174**
Capital expenditure	(1,275)	(1,840)	(848)	(9,400)	(1,500)
Inc/(Dec) in investments	706	63	2,067	-	-
Income from investments	183	279	394	550	700
CF from investing activities	**(387)**	**(1,499)**	**1,612**	**(8,850)**	**(800)**
Inc/(Dec) in share capital	-	5	1	5,000	-
Inc/(Dec) in debt	716	3,260	(55)	-	-
Dividends paid	(467)	(470)	(470)	(477)	(477)
Others	(1,474)	(2,144)	(4,626)	-	-
CF from financing activities	**(1,225)**	**651**	**(5,150)**	**4,523**	**(477)**
Net cash flow	**213**	**1,016**	**(543)**	**645**	**3,896**
Opening balance	902	1115	2131	1588	2233
Closing balance	**1,115**	**2,131**	**1,588**	**2,233**	**6,129**

Growth indicators (%)

Year ended 31 Mar	2010	2011	2012	2013E	2014E
Revenue	11	18	28	24	21
EBITDA	27	7	19	45	22
PAT	25	(1)	29	39	20
EPS	25	(2)	29	33	20

Valuation (x)

Year ended 31 Mar	2010	2011	2012	2013E	2014E
PE	47.5	48.6	37.6	28.3	23.5
P/BV	18.9	13.6	10.9	6.4	5.1
EV/EBITDA	35.0	32.9	27.7	19.1	15.7
EV/Sales	5.1	4.3	3.4	2.7	2.2
Dividend Yield (%)	0.3	0.3	0.3	0.3	0.3

Financial ratios

Year ended 31 Mar	2010	2011	2012	2013E	2014E
RoE (%)	40	28	29	22	22
RoCE (%)	31	20	21	20	21
Debt/Equity (x)	0.7	0.9	0.7	0.4	0.3
EBIT/Interest (x)	(13.2)	(8.6)	(10.8)	(11.7)	(12.8)

Source: Company Antique

ANTIQUE

Current Reco	:	HOLD
Previous Reco	:	HOLD
CMP	:	INR3,885
Target Price	:	INR3,779
Potential Return	:	-2%

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Market data

Sector	:	FMCG
Market Cap (INRbn)	:	373
Market Cap (USDbn)	:	7
O/S Shares	:	96
Free Float (m)	:	68
52-wk HI/LO (INR)	:	4191/2550
Avg Daily Vol ('000)	:	57
Bloomberg	:	APNT IN

Source: Bloomberg

Returns (%)

	1m	3m	6m	12m
Absolute	(0)	5	16	23
Relative	(1)	(3)	7	14

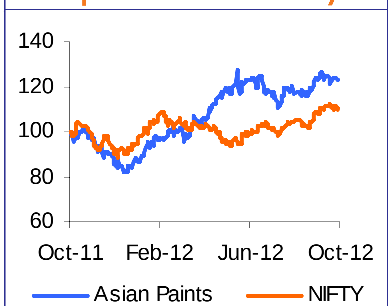
Source: Bloomberg

Shareholding pattern

Promoters	:	53%
FII	:	18%
DII	:	9%
Others	:	20%

Source: Bloomberg

Price performance *vs* Nifty



Source: Bloomberg

Asian Paints Limited

Margin expansion priced in

Government housing development schemes to drive paint sales in the future

Asian Paints would be a key beneficiary from the improvement in rural housing led by government initiatives during the last five years. Further the consistent growth in urbanisation would facilitate decorative paints volume growth in the coming years.

Strong supply chain driving Asian Paints success

Asian Paints has exhaled and gained market share due to its strong supply chain across India supported by its broad-based manufacturing set up in the country. The key success factor for the company has been servicing of its wide spread distribution reach. Dealers in paints are multi paint dealers, and therefore, servicing of this distribution makes a difference. Asian Paints has been able to improve its leadership position due to its ability to replenish the smallest of the SKU in the widest colors in an average of 24 hours in majority of its key geographies.

Working capital management displays domination

From our analysis of balance sheets across all the paint players, we understand that Asian Paints has one of the most effective management of working capital with relatively lower debtors days and higher creditor days as against its competitors. This shows the strength arising from its leadership in the decorative paint industry and consequently its dominance on the distribution network and its raw material vendors. Asian Paints and Akzo Nobel stand out in working capital management as compared to the peers.

Correction in titanium-dioxide prices to aid margins

Prices of key raw material, Titanium-dioxide have witnessed a sequential drop of about 14% during the last five months. Particularly during October 2012, prices have declined by 9% on a sequential basis. Titaniumdioxide accoridng to our understanding forms about 30% of the total raw material cost and has higher significance in a portfolio, which is dominated by water based paints. In water based paints, titaniumdioxide is the key raw material. Therefore correction in the commodity coupled with the current appreciation in INR is expected to lead to an EBITDA margin expansion during 2HFY13. Consequently we are increasing our EPS estimates for FY13 and FY14 by 2% and 3% to INR123 and INR152.

Valuation

We remain positive on the company's strength in decorative paints and pricing power, particularly in the domestic market. However we believe that the stock factors in these positives at the current levels. The stock is trading at a PE of 31.7x FY13e and at 25.6x FY14. With the upgrade in earnings we increase our target price to INR 3,799(implying 25x FY14e). We therefore maintain a HOLD recommendation on the stock at the current levels.

Key financials (Consolidated)

Year ended 31 Mar (INRm)	2010	2011	2012	2013E	2014E
Revenue	66,810	77,062	95,983	112,729	133,765
EBITDA	12,276	13,130	14,749	17,924	22,205
EBITDA Margin (%)	18.4	17.0	15.4	15.9	16.6
PAT (INRm)	7,664	8,385	9,887	11,768	14,576
EPS(INR)	79.9	87.4	103.1	122.7	152.0
PE (x)	48.6	44.4	37.7	31.7	25.6
RoE (%)	44.8	38.3	36.0	41.2	41.0

Source: Company, Antique

Financials

Profit and loss account (INRm)

Year ended 31 Mar	2010	2011	2012	2013E	2014E
Revenues	66,810	77,062	95,983	112,729	133,765
Expenses	54,534	63,933	81,235	94,805	111,560
EBITDA	**12,276**	**13,130**	**14,749**	**17,924**	**22,205**
Depreciation & amortisation	836	1,131	1,211	1,514	1,696
EBIT	**11,440**	**11,998**	**13,537**	**16,410**	**20,509**
Interest expense	285	222	410	605	638
Other income	1,405	826	1,413	1,526	1,908
Profit before tax	**12,561**	**12,602**	**14,541**	**17,331**	**21,778**
Taxes incl deferred taxation	3,787	3,837	4,335	5,199	6,751
Profit after tax	**8,774**	**8,766**	**10,206**	**12,132**	**15,027**
Adjusted profit after tax	**7,664**	**8,385**	**9,887**	**11,768**	**14,576**
Recurring EPS (INR)	**79.9**	**87.4**	**103.1**	**122.7**	**152.0**

Balance sheet (INRm)

Year ended 31 Mar	2010	2011	2012	2013E	2014E
Share Capital	959	959	959	959	959
Reserves & Surplus	16,141	20,915	26,526	27,610	34,556
Networth	**17,100**	**21,874**	**27,485**	**28,569**	**35,516**
Minority Interest	945	1099	1367	1731	2182
Debt	2,292	2,347	3,359	3,359	3,359
Capital Employed	20,337	25,320	32,210	33,659	41,056
Gross Fixed Assets	15,004	19,878	27,123	31,123	34,123
Accumulated Depreciation	(6,276)	(7,151)	(8,362)	(9,876)	(11,573)
Net Assets	8,728	12,727	18,761	21,247	22,550
Goodwill on consolidation	367	372	415	372	372
Capital work in progress	**4,072**	**433**	**-**	**-**	**-**
Investments	6,241	9,220	3,547	3,547	3,547
Current Assets, Loans & Advances					
Inventory	9,559	13,054	15,989	17,013	18,099
Debtors	6,072	6,748	7,813	8,030	9,528
Cash & Bank balance	1,058	1,330	6,243	9,855	18,785
Loans & advances and others	1,748	2,056	6,194	2,465	3,012
Current Liabilities & Provisions					
Creditors	13,796	16,404	21,374	24,252	28,745
Other liabilities & provisions	3,150	3,365	4,449	3,690	5,165
Net Current Assets	**1,490**	**3,421**	**10,415**	**9,421**	**15,514**
Deferred tax assets/(liabilities)	(562)	(852)	(928)	(928)	(928)
Application of Funds	**20,337**	**25,320**	**32,210**	**33,659**	**41,056**

Per share data

Year ended 31 Mar	2010	2011	2012	2013E	2014E
No. of shares (m)	95.9	95.9	95.9	95.9	95.9
BVPS (INR)	178.3	228.0	286.5	297.8	370.3
CEPS (INR)	88.6	99.2	115.7	138.5	169.6
DPS (INR)	27.0	32.0	36.1	55.2	68.4

Margins (%)

Year ended 31 Mar	2010	2011	2012	2013E	2014E
EBITDA	18.4	17.0	15.4	15.9	16.6
EBIT	17.1	15.6	14.1	14.6	15.3
PAT	11.5	10.9	10.3	10.4	10.9

Source: Company, Antique

Key assumptions

Year ended 31 Mar	2010	2011	2012	2013E	2014E
Domestic paints sales (m)	53,387	66,168	82,048	99,186	118,914
Raw material cost % of net sales	56.2	58.1	60.2	58.6	58.1
Staff cost % of net sales	6.5	5.9	5.5	5.9	5.9
Other expenses % of net sales	18.8	19.0	19.0	19.6	19.4

Cash flow statement (INRm)

Year ended 31 Mar	2010	2011	2012	2013E	2014E
EBIT	**11,440**	**11,998**	**13,537**	**16,410**	**20,509**
Depreciation & amortisation	836	1,131	1,211	1,514	1,696
Interest expense	(285)	(222)	(410)	(605)	(638)
(Inc)/Dec in working capital	3,527	(1,658)	(2,084)	4,606	2,836
Tax paid	(3,787)	(3,837)	(4,335)	(5,199)	(6,751)
CF from operating activities	**11,731**	**7,412**	**7,920**	**16,726**	**17,651**
Capital expenditure	(3,541)	(1,235)	(6,812)	(4,000)	(3,000)
Inc/(Dec) in investments	(5,457)	(2,978)	5,672	-	-
Income from investments	1,405	826	1,413	1,526	1,908
CF from investing activities	**(7,593)**	**(3,387)**	**273**	**(2,474)**	**(1,092)**
Inc/(Dec) in share capital	(265)	(87)	(251)	(4,523)	(0)
Inc/(Dec) in debt	(794)	55	1,012	-	-
Dividends paid	(3,023)	(3,571)	(4,026)	(6,160)	(7,630)
Others	(1,101)	(150)	(15)	43	-
CF from financing activities	**(5,183)**	**(3,753)**	**(3,280)**	**(10,640)**	**(7,630)**
Net cash flow	**(1,046)**	**272**	**4,913**	**3,612**	**8,929**
Opening balance	2104	1058	1330	6243	9855
Closing balance	**1,058**	**1,330**	**6,243**	**9,855**	**18,785**

Growth indicators (%)

Year ended 31 Mar	2010	2011	2012	2013E	2014E
Revenue	22	15	25	17	19
EBITDA	83	7	12	22	24
PAT	94	9	18	19	24
EPS	94	9	18	19	24

Valuation (x)

Year ended 31 Mar	2010	2011	2012	2013E	2014E
PE	48.6	44.4	37.7	31.7	25.6
P/BV	21.8	17.0	13.6	13.0	10.5
EV/EBITDA	31.9	29.8	26.5	21.8	17.6
EV/Sales	5.9	5.1	4.1	3.5	2.9
Dividend Yield (%)	0.7	0.8	0.9	1.4	1.8

Financial ratios

Year ended 31 Mar	2010	2011	2012	2013E	2014E
RoE	45	38	36	41	41
RoCE	56	47	42	49	50
Debt/Equity (x)	0.1	0.1	0.1	0.1	0.1
EBIT/Interest (x)	(40.2)	(54.0)	(33.0)	(27.1)	(32.1)

Source: Company Antique

Current Reco	:	BUY
Previous Reco	:	BUY
CMP	:	INR117
Target Price	:	INR158
Potential Return	:	35%

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Market data

Sector	:	FMCG
Market Cap (INRbn)	:	16
Market Cap (USDbn)	:	0
O/S Shares	:	133
Free Float (m)	:	84
52-wk HI/LO (INR)	:	144/92
Avg Daily Vol ('000)	:	101
Bloomberg	:	RDCK IN

Source: Bloomberg

Returns (%)

	1m	3m	6m	12m
Absolute	(1)	1	(4)	(3)
Relative	(2)	(7)	(12)	(11)

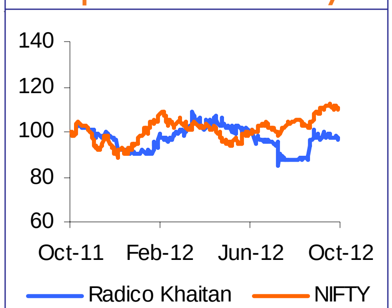
Source: Bloomberg

Shareholding pattern

Promoters	:	40%
FII	:	26%
DII	:	10%
Others	:	24%

Source: Bloomberg

Price performance *vs* Nifty



Source: Bloomberg

Radico Khaitan Limited

Re-rating candidate

Established ability of brand creation in a regulated environment

In a highly regulated environment, Radico's strength of brand creation is un-matched in the Indian spirits industry. It has created four renowned brands and owns six (8PM Whisky, Contessa Rum, Old Admiral Brandy, Magic Moments Vodka, 8PM Excellency Brandy, 8PM Bermuda Rum, Morpheus) of the 20 relevant brands launched industry-wide.

Premiumisation the way ahead

Radico's clear focus on a richer mix in the IMFL segment is expected to aid margins going ahead. From being largely an economy and regular segment IMFL player (sub INR300 per 750ml), it is fast emerging as a premium IMFL player with successful launches in the semi premium and premium category (above INR300 per 750ml) since FY06. We expect premium portfolio contribution to touch 16% of IMFL volumes by FY13e from about 8% in FY09 and 13% in FY11. The premiumisation initiative coupled with declining contribution from country liquor is expected to aid margins in the coming years.

Change in UP governance to aid performance

Post instatement of the new government in Uttar Pradesh led by SP (Samajwadi Party), we expect liberalisation initiatives in the distribution channel to be beneficial for national players like Radico Khaitan. This in turn could increase Radico's market share from 12% in Uttar Pradesh, to about 19%, favorably aiding earnings by about 3-4%.

Improvement in cash flow comes as a positive

Radico Khaitan recorded positive cash flow from operations during FY12 refuting the concerns over cash flow generation. This was led by reduction in Debtors outstanding days to 107 days from about 117 days in the previous fiscal. We believe that going ahead, there would be a further improvement in the company's cash flow position leading to a re-rating of the company.

Better pricing scenario to aid margins

Pricing scenario for the Indian IMFL industry has improved during the last 3 quarters with many of the states approving price hikes. Radico Khaitan plans to hike prices by a total of 4-5% during FY13. This in turn would aid margins in a scenario of moderate in input costs.

Valuations

We are maintaining our EPS estimates for FY13e and FY14e at INR8.1 and INR10.7 respectively. At the CMP of INR117, the stock is trading at a PE of 14.4x FY13e and at 10.9x FY14e. We maintain our BUY recommendation on the stock at the current levels with a target price of INR162.

Key financials (Standalone)

Year ended 31 Mar (INRm)	2010	2011	2012	2013E	2014E
Revenue	8,356	9,965	11,872	13,544	16,051
EBITDA	1,304	1,491	1,711	2,231	2,697
EBITDA Margin %	15.6	15.0	14.4	16.5	16.8
PAT	381	728	789	1,075	1,420
EPS(INR/share)	2.9	5.5	6.0	8.1	10.7
PE (x)	40.6	21.3	19.7	14.4	10.9
EV/EBITDA (x)	12.7	11.1	9.7	7.4	6.1
RoE %	6	11	11	14	16

Source: Company, Antique

Financials

Profit and loss account (INRm)

Year ended 31 Mar	2010	2011	2012	2013E	2014E
Revenues	8,356	9,965	11,872	13,544	16,051
Expenses	7,052	8,474	10,161	11,312	13,354
EBITDA	**1,304**	**1,491**	**1,711**	**2,231**	**2,697**
Depreciation & amortisation	256	271	328	406	461
EBIT	**1,048**	**1,219**	**1,383**	**1,826**	**2,236**
Interest expense	619	335	549	697	722
Other income	70	111	61	290	360
Profit before tax	**499**	**995**	**895**	**1,419**	**1,874**
Taxes incl deferred taxation	84	267	258	343	453
Profit after tax	**415**	**728**	**637**	**1,075**	**1,420**
Adjusted profit after tax	**381**	**728**	**789**	**1,075**	**1,420**
Recurring EPS (INR)	**2.9**	**5.5**	**6.0**	**8.1**	**10.7**

Balance sheet (INRm)

Year ended 31 Mar	2010	2011	2012	2013E	2014E
Share Capital	264	265	265	265	265
Reserves & Surplus	5,689	6,249	6,688	7,602	8,811
Networth	**5,952**	**6,514**	**6,953**	**7,868**	**9,076**
Preference capital					
Debt	4,461	4,912	6,179	6,733	6,633
Capital Employed	10,414	11,426	13,132	14,601	15,709
Gross Fixed Assets	5,505	5,728	6,889	7,339	7,789
Accumulated Depreciation	(1,366)	(1,539)	(1,867)	(2,273)	(2,734)
Net Assets	4,139	4,189	5,022	5,067	5,055
Capital work in progress	530	715	48	48	48
Investments	894	709	1,113	1,113	1,113
Current Assets, Loans & Advances					
Inventory	1,230	1,275	1,774	1,789	2,075
Debtors	2,356	3,191	3,478	3,896	4,529
Cash & Bank balance	332	94	218	1,022	1,000
Loans & advances and others	2,851	3,503	4,669	4,943	5,795
Current Liabilities & Provisions					
Creditors	976	1,153	2,703	3,010	3,553
Other liabilities & provisions	479	598	193	268	354
Net Current Assets	**5,315**	**6,311**	**7,243**	**8,372**	**9,492**
Deferred tax assets/(liabilities)	(451)	(497)	(563)	-	-
Foreign currency monetary item	(13)	-	-	-	-
Application of Funds	**10,414**	**11,426**	**12,863**	**14,601**	**15,709**

Per share data

Year ended 31 Mar	2010	2011	2012	2013E	2014E
No. of shares (m)	131.8	132.6	132.6	132.6	132.6
BVPS (INR)	45.2	49.1	52.5	59.4	68.5
CEPS (INR)	4.8	7.5	8.4	11.2	14.2
DPS (INR)	0.6	4.1	0.6	1.0	1.4

Margins (%)

Year ended 31 Mar	2010	2011	2012	2013E	2014E
EBITDA	15.6	15.0	14.4	16.5	16.8
EBIT	12.5	12.2	11.6	13.5	13.9
PAT	4.6	7.3	6.6	7.9	8.8

Source: Company, Antique

Key assumptions

Year ended 31 Mar	2010	2011	2012	2013E	2014E
Raw material cost (% of net sales)	48.2	45.8	47.8	44.1	43.9
Staff cost (% of net sales)	6.5	6.2	5.9	6.0	5.8
Other exp (% of sales)	30.9	33.7	32.4	33.6	33.6

Cash flow statement (INRm)

Year ended 31 Mar	2010	2011	2012	2013E	2014E
EBIT	**1,048**	**1,219**	**1,383**	**1,826**	**2,236**
Depreciation & amortisation	256	271	328	406	461
Interest expense	(619)	(335)	(549)	(697)	(722)
(Inc)/Dec in working capital	(1,042)	(1,235)	(808)	(325)	(1,142)
Tax paid	(84)	(267)	(258)	(343)	(453)
CF from operating activities	**(441)**	**(346)**	**96**	**866**	**380**
Capital expenditure	(146)	(408)	(495)	(450)	(450)
Inc/(Dec) in investments	(368)	185	(405)	-	-
Income from investments	70	111	61	290	360
CF from investing activities	**(443)**	**(112)**	**(839)**	**(160)**	**(90)**
Inc/(Dec) in share capital	3,292	(59)	(103)	-	-
Inc/(Dec) in debt	(2,542)	450	1,267	554	(100)
Dividends paid	(92)	(108)	(95)	(161)	(212)
Others	139	(64)	(203)	(295)	-
CF from financing activities	**797**	**219**	**866**	**99**	**(312)**
Net cash flow	**(87)**	**(238)**	**124**	**805**	**(23)**
Opening balance	420	332	94	218	1022
Closing balance	**332**	**94**	**218**	**1,022**	**1,000**

Growth indicators (%)

Year ended 31 Mar	2010	2011	2012	2013E	2014E
Revenue	20	19	19	14	19
EBITDA	68	14	15	30	21
PAT	(3)	91	8	36	32
EPS	(24)	90	8	36	32

Valuation (x)

Year ended 31 Mar	2010	2011	2012	2013E	2014E
PE	40.6	21.3	19.7	14.4	10.9
P/BV	2.6	2.4	2.2	2.0	0.9
EV/EBITDA	12.7	11.1	9.7	7.4	6.1
EV/Sales	2.0	1.7	1.4	1.2	1.0
Dividend Yield (%)	0.5	3.5	0.5	0.9	12.1

Financial ratios

Year ended 31 Mar	2010	2011	2012	2013E	2014E
RoE	6	11	11	14	16
RoCE	10	11	11	13	34
Debt/Equity (x)	0.7	0.8	0.9	0.9	0.7
EBIT/Interest (x)	(1.7)	(3.6)	(2.5)	(2.6)	(3.1)

Source: Company Antique

Current Reco	:	BUY
Previous Reco	:	BUY
CMP	:	INR1,365
Target Price	:	INR1,712
Potential Return	:	25%

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Market data

Sector	:	Automobiles
Market Cap (INRbn)	:	395
Market Cap (USDbn)	:	7
O/S Shares	:	289
Free Float (m)	:	90
52-wk HI/LO (INR)	:	1429/900
Avg Daily Vol ('000)	:	848
Bloomberg	:	MSIL IN

Source: Bloomberg

Returns (%)

	1m	3m	6m	12m
Absolute	8	14	2	33
Relative	8	5	(6)	22

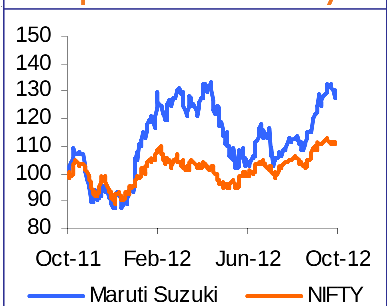
Source: Bloomberg

Shareholding pattern

Promoters	:	54%
FIIs	:	20%
DII	:	16%
Others	:	10%

Source: Bloomberg

Price performance *vs* Nifty



Source: Bloomberg

Maruti Suzuki India Limited

Positive cycle ahead...

Volumes/Margin catalysts ahead...

An improving macro normally leads to an improvement in consumer sentiment and a consequent uptick in high discretionary spends. That coupled with the fag-end of the rate-tightening cycle, a relatively more stable fuel price environment and clearly some huge pent-up demand should bode well for Maruti volumes going ahead. Entry into relatively untapped segments, coupled with much-needed refreshments of existing models would enable Maruti to maintain market share, if not improve it.

On the margin side, besides an improving product mix (higher share of nil discount diesel variants/ Swift family), the focus on reducing the net import bill (from USD1.7bn currently to USD400m in FY15) will be a positive catalyst for margins. In the interim, an appreciating INR is an icing on the cake. We let this be an upside risk to our estimates.

Well-balanced fuel mix - Cushion in an uncertain fuel price environment

The quantum of this last diesel price increase seems unlikely to impact diesel car demand and/or swing demand towards petrol variants, as the petrol-diesel price differential remains very high.

However, given its new-found/long-overdue fiscal obedience, should the government increase diesel prices any further, or if it imposes an additional excise duty on diesel vehicles, any resultant demand diversion from diesel back to petrol vehicles would be neutral (if not positive) for Maruti, given its petrol capacity aplenty.

Peak competitive pressures waded-off ...

We have to make our peace with high competition in small cars in India, but the extent of market share loss for Maruti (which has been de-rating catalyst in the past) has been much lesser than earlier anticipated (notwithstanding the impact of the plant lock-out). Maruti has withheld competitive pressures (peak, in our view) extremely well thus far.

Competitor focus shifting from small cars to SUVs, coupled with tepid performance to some of the existing competitor models is another positive. Also, the Ertiga increases Maruti's presence in a fast growing/relatively untapped segment which could offset any probable market share losses in small cars.

Directionally, our favourite stock in the sector... BUY!

Maruti seems to be nearing the first stage of all its positive cycles - volumes, margins and consequently, multiples. Directionally, the stock seems to be one of the best FY14-15 plays in the sector. Reiterate BUY with a target price of INR1,712 (11x FY14e Cash P/E + INR50 for SPIL).

Key financials (Standalone)

Year ended 31 Mar (INRm)	2010	2011	2012	2013e	2014e
Revenues	296,231	369,199	355,871	438,075	530,270
EBITDA	39,543	35,442	25,129	30,275	42,664
EBITDA Margin (%)	13.3	9.6	7.1	6.9	8.0
Adj PAT	24,976	22,886	16,351	19,247	28,626
EPS (INR)	86.4	79.2	56.6	66.6	99.1
Cash EPS (INR)	115.0	114.3	96.0	112.5	151.1
P/E (x)	15.8	17.2	24.1	20.5	13.8
Cash P/E (x)	11.9	11.9	14.2	12.1	9.0
RoE (%)	21.1	16.5	10.8	11.4	14.7

Source: Company, Antique

Financials

Profit and loss account (INRm)

Year ended 31 Mar	2010	2011	2012	2013e	2014e
Revenues	296,231	369,199	355,871	438,075	530,270
Expenses	256,688	333,757	330,742	407,800	487,606
EBITDA	**39,543**	**35,442**	**25,129**	**30,275**	**42,664**
Depreciation & amortisation	8,250	10,135	11,383	13,247	15,038
EBIT	**31,293**	**25,307**	**13,745**	**17,029**	**27,626**
Interest expense	335	244	552	1,045	896
Other income	4,967	6,025	8,269	9,509	10,935
Profit before tax	**35,925**	**31,088**	**21,462**	**25,492**	**37,665**
Taxes incl deferred taxation	10,949	8,202	5,111	6,246	9,040
Profit after tax	**24,976**	**22,886**	**16,351**	**19,247**	**28,626**
Adjusted profit after tax	**24,976**	**22,886**	**16,351**	**19,247**	**28,626**
EPS (INR)	**86.4**	**79.2**	**56.6**	**66.6**	**99.1**

Balance sheet (INRm)

Year ended 31 Mar	2010	2011	2012	2013e	2014e
Share Capital	1,445	1,445	1,445	1,445	1,445
Reserves & Surplus	116,906	137,230	150,429	167,423	192,700
Networth	**118,351**	**138,675**	**151,873**	**168,868**	**194,144**
Debt	8,214	3,093	11,749	9,890	8,334
Capital Employed	**126,565**	**141,768**	**163,622**	**178,758**	**202,479**
Gross Fixed Assets	104,067	117,377	137,377	162,377	187,377
Accumulated Depreciation	53,820	62,083	73,466	86,713	86,713
Capital work in progress	3,876	14,286	17,411	22,411	27,411
Net Assets	**54,123**	**69,580**	**81,321**	**98,075**	**128,075**
Investments	71,766	51,067	61,473	61,473	61,473
Current Assets, Loans & Advances					
Inventory	12,088	14,150	17,965	16,803	20,339
Debtors	8,099	8,933	9,377	10,802	13,075
Cash & Bank balance	982	25,085	24,362	23,669	19,165
Loans & advances and others	16,555	15,395	20,478	20,478	20,478
Current Liabilities & Provisions					
Liabilities	29,394	35,540	41,345	42,184	49,402
Provisions	6,284	5,258	6,985	7,334	7,701
Net Current Assets	**2,046**	**22,765**	**23,851**	**22,234**	**15,954**
Deferred tax (assets)/liabilities	1,370	1,644	3,023	3,023	3,023
Misc.Expenses	-	-	-	-	-
Application of Funds	**126,565**	**141,768**	**163,622**	**178,758**	**202,479**

Per share data

Year ended 31 Mar	2010	2011	2012	2013e	2014e
No. of shares (m)	289.0	289.0	288.9	288.9	288.9
BVPS (INR)	409.5	479.8	525.7	584.5	672.0
CEPS (INR)	115.0	114.3	96.0	112.5	151.1
DPS (INR)	6.0	7.5	5.7	6.7	9.9

Margins (%)

Year ended 31 Mar	2010	2011	2012	2013e	2014e
EBITDA	13.3	9.6	7.1	6.9	8.0
EBIT	10.6	6.9	3.9	3.9	5.2
PAT	8.4	6.2	4.6	4.4	5.4

Source: Company, Antique

Key assumptions

Year ended 31 Mar	2010	2011	2012	2013e	2014e
Hatchbacks	666,218	835,037	727,143	748,957	861,301
Sedans	99,315	131,410	128,587	138,837	159,576
MPVs	101,325	160,626	144,061	146,942	164,575
UVs	3,932	5,666	6,525	54,656	72,454
Total Domestic	870,790	1,132,739	1,006,316	1,089,392	1,257,906
Growth (%)	**20.6**	**30.1**	**(11.2)**	**8.3**	**15.5**
Exports	147,575	138,266	127,379	133,748	153,810
Total Volumes	1,018,365	1,271,005	1,133,695	1,223,140	1,411,716
Growth (%)	28.6	24.8	(10.8)	7.9	15.4

Cash flow statement (INRm)

Year ended 31 Mar	2010	2011	2012	2013e	2014e
EBIT	**31,293**	**25,307**	**13,745**	**17,029**	**27,626**
Depreciation & amortisation	8,250	10,135	11,383	13,247	15,038
Interest expense	335	244	552	1,045	896
(Inc)/Dec in working capital	(481)	(3,384)	1,810	(925)	(1,776)
Tax paid	11,130	7,928	3,731	6,246	9,040
CF from operating activities	**28,559**	**30,654**	**19,036**	**23,909**	**34,504**
Capital expenditure	12,124	23,720	23,125	30,000	30,000
Inc/(Dec) in investments	40,033	(20,699)	10,406	-	-
Income from investments	4,967	6,025	8,269	9,509	10,935
CF from investing activities	**(47,190)**	**3,004**	**(25,262)**	**(20,491)**	**(19,065)**
Inc/(Dec) in share capital	-	-	(0)	-	-
Inc/(Dec) in debt	1,225	(5,121)	8,656	(1,859)	(1,556)
Dividends paid	(74)	(2,562)	(3,153)	(2,252)	(3,349)
CF from financing activities	**1,151**	**(7,683)**	**5,503**	**(4,111)**	**(4,905)**
Net cash flow	**(18,408)**	**24,103**	**(723)**	**(693)**	**(4,504)**
Opening balance	19,390	982	25,085	24,362	23,669
Closing balance	**982**	**25,085**	**24,362**	**23,669**	**19,165**

Growth indicators (%)

Year ended 31 Mar	2010	2011	2012	2013e	2014e
Revenue	42.1	24.6	(3.6)	23.1	21.0
EBITDA	96.1	(10.4)	(29.1)	20.5	40.9
PAT	78.0	(8.4)	(28.6)	17.7	48.7
EPS	104.9	(8.4)	(28.5)	17.7	48.7

Valuation (x)

Year ended 31 Mar	2010	2011	2012	2013e	2014e
P/E	15.8	17.2	24.1	20.5	13.8
Cash P/E	11.9	11.9	14.2	12.1	9.0
P/BV	3.3	2.8	2.6	2.3	2.0
EV/EBITDA	8.2	9.2	12.9	10.7	7.6
EV/Sales	1.1	0.9	0.9	0.7	0.6
Dividend Yield (%)	0.4	0.5	0.4	0.5	0.7

Financial ratios

Year ended 31 Mar	2010	2011	2012	2013e	2014e
RoE	21.1	16.5	10.8	11.4	14.7
RoCE	29.6	24.6	15.1	17.0	22.0
Debt/Equity (x)	0.1	0.0	0.1	0.1	0.0
EBIT/Interest (x)	93.4	103.7	24.9	16.3	30.8

Source: Company Antique

Current Reco	:	BUY
Previous Reco	:	BUY
CMP	:	INR262
Target Price	:	INR324
Potential Return	:	24%

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Market data

Sector	:	Automobiles
Market Cap (INRbn)	:	777
Market Cap (USDbn)	:	15
O/S Shares	:	2,665
Free Float (m)	:	1,573
52-wk HI/LO (INR)	:	321/160
Avg Daily Vol ('000)	:	7,866
Bloomberg	:	TTMT IN

Source: Bloomberg

Returns (%)

	1m	3m	6m	12m
Absolute	(3)	14	(13)	46
Relative	(4)	5	(19)	34

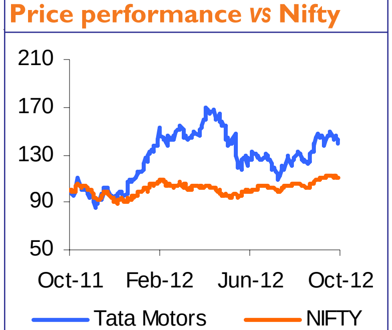
Source: Bloomberg

Shareholding pattern

Promoters	:	35%
FII	:	28%
DII	:	12%
Others	:	25%

Source: Bloomberg

Price performance *vs* Nifty



Source: Bloomberg

Tata Motors Limited

JLR product cycle in a sweet spot!

JLR – An exciting phase in the product life cycle

While the success of the Evoque has taken everyone by surprise and led to significant volume upgrades, we believe that the street is still under-estimating the Evoque's full potential (which we understand is also eating into the share of luxury sedans). Currently at around ~9k per month, we expect this traction in Evoque volumes to continue as it expands its presence in other geographies, with minimal cannibalization of existing Land Rovers.

Non-Evoque, we have high expectations from the recent full-fledged platform upgrade of the flagship Range Rover Vogue which would be followed by an upgrade of the Range Rover Sport (1QFY14). We'd take these launches very seriously, as both models combined account for ~50% of JLR's EBITDA and are witnessing a meaningful upgrade after ~11 years. We estimate JLR volumes at 370k/423k units in FY13e/14e (up 18%/14% YoY), assuming Evoque volumes of 108k/132k (implying a -3/+11% growth for the existing models in FY13/14).

Not relying on currency benefits any more…

Besides the INR depreciation against the GBP (which results in strong translation gains when translating JLR's GBP profits back to INR), even operationally, currency has been extremely favourable for JLR over the last couple of quarters - the USD had appreciated against the GBP {all JLR sales outside Europe (>50% of volumes) are USD denominated} and the EUR had depreciated against the GBP (~45% of components/materials purchased are EUR denominated, which off-set the negative impact of the ~25% of revenues that are EUR denominated). Given that this favourable trend in currency seems to have peaked, we bank upon an improvement in market mix to aid a gradual margin uptick. The fact that the fastest growing market (China) is also the most profitable bodes well for future margins.

Domestic business can't do much worse

MHCV are very sensitive to any improvement on the macro front. While the mini-truck segment (Ace) continues to perform extremely well, as we reach the fag-end of the rate-tightening cycle, we expect the main laggard in the domestic business (MHCV) to improve going ahead. We don't expect much out of the domestic car/UV business. Any positive surprise in volumes from this segment would be an upside risk to our estimates.

Expect some pain, before the gain… BUY!

With the flagship Range Rover due for a huge upgrade, the next quarter could see some pain, in terms of lower volumes coupled with higher incentives (to get rid of old stock), both of which would also weigh on margins. We acknowledge the same, while reiterating our BUY reco with a target price INR324.

Key financials (Consolidated)

Year ended 31 Mar (INRm)	2010	2011	2012	2013e	2014e
Revenues	925,193	1,221,279	1,656,545	1,942,809	2,237,353
EBITDA	81,160	168,175	223,112	252,026	303,046
EBITDA Margin (%)	8.8	13.8	13.5	13.0	13.5
Adjusted PAT	9,994	89,413	144,304	121,330	148,925
Adjusted EPS (INR)	3.5	28.0	45.5	38.2	47.0
P/E (x)	74.8	9.3	5.8	6.9	5.6
EV/EBITDA (x)	10.4	5.0	3.8	3.4	2.8
RoE (%)	12.2	46.6	43.5	27.8	26.5

Source: Company, Antique

Financials

Profit and loss account (INRm)

Year ended 31 Mar	2010	2011	2012	2013e	2014e
Revenues	925,193	1,221,279	1,656,545	1,942,809	2,237,353
Expenses	844,033	1,053,104	1,433,433	1,690,784	1,934,308
EBITDA	**81,160**	**168,175**	**223,112**	**252,026**	**303,046**
Depreciation & amortisation	38,871	46,555	56,254	59,371	71,785
EBIT	**42,288**	**121,620**	**166,859**	**192,655**	**231,261**
Interest expense (net)	22,397	23,853	29,822	31,047	32,735
Other Income	464	4,295	6,618	7,307	8,078
Exceptional Items	15,717	3,324	(9,139)	(1,610)	-
Profit before tax	**36,071**	**105,385**	**134,515**	**167,305**	**206,604**
Tax (incl deferred)	10,058	12,164	(400)	47,858	57,679
Profit after tax	**25,711**	**92,736**	**135,165**	**119,721**	**148,925**
Adjusted profit after tax	**9,994**	**89,413**	**144,304**	**121,330**	**148,925**
Adjusted EPS (INR)	**3.5**	**28.0**	**45.5**	**38.2**	**47.0**

Balance sheet (INRm)

Year ended 31 Mar	2010	2011	2012	2013e	2014e
Share Capital	5,706	6,377	6,348	6,348	6,348
Reserves & Surplus	76,359	185,338	325,152	429,745	556,390
Networth	**82,065**	**191,715**	**331,499**	**436,093**	**562,738**
Debt	353,835	327,914	411,627	396,305	381,787
Other Liabilities	2,135	2,466	3,071	3,071	3,071
Capital Employed	**438,035**	**522,095**	**746,197**	**835,469**	**947,596**
Gross Fixed Assets	682,747	714,629	915,104	1,079,504	1,243,904
Accumulated Depreciation	344,135	396,987	453,241	512,611	584,396
Capital work in progress	80,680	117,289	141,199	174,799	208,399
Net Assets	**419,292**	**434,931**	**603,062**	**741,692**	**867,907**
Investments	22,191	25,443	21,442	21,442	25,560
Current Assets, Loans & Advances					
Inventory	113,120	140,705	182,160	236,302	271,789
Debtors	71,912	68,774	82,368	103,472	119,125
Cash & Bank balance	87,433	109,479	182,381	206,628	218,777
Loans & advances and others	152,831	227,239	264,769	284,617	307,719
Current Liabilities & Provisions					
Liabilities	340,773	371,147	489,825	640,445	730,039
Provisions	76,435	98,692	128,418	141,980	156,984
Net Current Assets	**8,088**	**76,359**	**93,436**	**48,593**	**30,386**
Deferred tax (assets)/liabilities	11,536	14,638	(23,743)	(23,743)	(23,743)
Misc.Expenses	-	-	4,514	-	-
Application of Funds	**438,035**	**522,095**	**746,197**	**835,469**	**947,596**

Per share data

Year ended 31 Mar	2010	2011	2012	2013e	2014e
No. of shares (m)	2,853.0	3,188.6	3,173.8	3,173.8	3,173.8
BVPS (INR)	28.8	60.1	104.5	137.4	177.3
CEPS (INR)	17.1	42.6	63.2	56.9	0.2
DPS (INR)	3.0	4.0	4.0	4.0	6.0

Margins (%)

Year ended 31 Mar	2010	2011	2012	2013e	2014e
EBITDA	8.8	13.8	13.5	13.0	13.5
EBIT	4.6	10.0	10.1	9.9	10.3
PAT	1.1	7.3	8.7	6.2	6.7

Source: Company, Antique

Key assumptions

Year ended 31 Mar	2010	2011	2012	2013e	2014e
Standalone:					
CVs	373,615	446,722	530,309	562,242	646,578
PVs	204,580	228,067	238,858	224,947	248,639
Nano	30,350	70,432	74,526	78,252	86,078
Total domestic	608,545	745,221	843,693	865,442	981,295
Exports	34,141	58,044	62,890	65,945	75,047
Total	**642,686**	**803,265**	**906,583**	**931,386**	**1,056,342**
JLR:					
Jaguar	51,020	51,818	54,039	51,526	54,723
Land Rover	157,177	189,087	260,394	318,294	368,234
Total	**208,197**	**240,905**	**314,433**	**369,820**	**422,957**

Cash flow statement (INRm)

Year ended 31 Mar	2010	2011	2012	2013e	2014e
EBIT	**42,288**	**121,620**	**166,859**	**192,655**	**231,261**
Depreciation & amortisation	38,871	46,555	56,254	59,371	71,785
Interest expense	22,397	23,853	29,822	31,047	32,735
(Inc)/Dec in working capital	(50,154)	46,225	(55,825)	(69,090)	(30,355)
Tax paid	10,058	12,164	(400)	47,858	57,679
CF from operating activities	**98,859**	**85,934**	**249,515**	**242,210**	**242,987**
Capital expenditure	36,217	68,491	224,385	198,000	198,000
Inc/(Dec) in investments	9,617	3,251	(4,001)	-	4,119
Income from investments	464	4,295	6,618	7,307	8,078
CF from investing activities	**(45,371)**	**(67,448)**	**(213,766)**	**(190,693)**	**(194,041)**
Inc/(Dec) in share capital	566	671	(30)	-	-
Inc/(Dec) in debt	4,097	(25,921)	83,712	(15,321)	(14,518)
Others	(5,513)	16,573	5,255	(15,127)	(22,280)
CF from financing activities	**(851)**	**(8,676)**	**88,937**	**(30,449)**	**(36,798)**
Net cash flow	**46,220**	**22,046**	**72,902**	**24,247**	**12,149**
Opening balance	41,213	87,433	109,479	182,381	206,628
Closing balance	**87,433**	**109,479**	**182,381**	**206,628**	**218,777**

Growth indicators (%)

Year ended 31 Mar	2010	2011	2012	2013e	2014e
Revenue	30.4	32.0	35.6	17.3	15.2
EBITDA	339.0	107.2	32.7	13.0	20.2
PAT	202.6	260.7	45.8	(11.4)	24.4
EPS	131.8	700.5	62.1	(15.9)	23.0
Adj PAT	135.3	794.7	61.4	(15.9)	22.7

Valuation (x)

Year ended 31 Mar	2010	2011	2012	2013e	2014e
P/E	74.8	9.3	5.8	6.9	5.6
P/BV	9.1	4.4	2.5	1.9	1.5
EV/EBITDA	10.4	5.0	3.8	3.4	2.8
EV/Sales	0.9	0.7	0.5	0.4	0.4
Dividend Yield (%)	1.1	1.5	1.5	1.5	2.3

Financial ratios

Year ended 31 Mar	2010	2011	2012	2013e	2014e
RoE (%)	12.2	46.6	43.5	27.8	26.5
RoCE (%)	11.8	30.0	27.6	29.2	31.3
Net Debt/Equity (x)	4.3	1.7	0.7	0.4	0.3
Interest Coverage (x)	1.9	5.1	5.6	6.2	7.1

Source: Company Antique

Current Reco	:	BUY
Previous Reco	:	BUY
CMP	:	INR825
Target Price	:	INR925
Potential Return	:	12%

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Market data

Sector	:	Automobiles
Market Cap (INRbn)	:	507
Market Cap (USDbn)	:	10
O/S Shares	:	614
Free Float (m)	:	404
52-wk HI/LO (INR)	:	880/621
Avg Daily Vol ('000)	:	811
Bloomberg	:	MM IN

Source: Bloomberg

Returns (%)

	1m	3m	6m	12m
Absolute	6	15	20	2
Relative	6	6	11	(6)

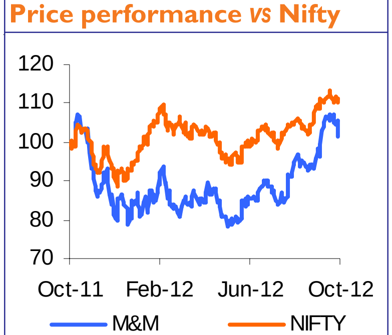
Source: Bloomberg

Shareholding pattern

Promoters	:	25%
FII	:	28%
DII	:	20%
Others	:	27%

Source: Bloomberg

Price performance *vs* Nifty



Source: Bloomberg

Mahindra & Mahindra Limited

Auto business remains buoyant; tractor downgrades behind us!

UVs - Rural king takes on the urban boys!

M&M continues to defy the competitive landscape in the auto industry and the XUV5oo (a continuum of the existing product range) has strengthened the UV portfolio. The phenomenal response in the more brand-conscious metro cities is testimony to the success of the XUV (more so since the parent brand is better associated-with in rural regions).

We reckon that the next (and bigger) leg of XUV's success would come when the product is opened up to Tier 2 & 3 cities where Mahindra's brand equity is unmatched. Additionally, the Quanto creates a new segment and hence should add to retails without cannibalising any of the existing UVs.

Tractor downgrades behind us…

On the tractor side, the current sluggishness in volumes doesn't worry us from a stock perspective as sharp downgrades are already behind us (we forecast a -5%/10% tractor volume growth in FY13e/14e). In fact, after the extremely frantic downgrades, for the first time in the last 3 years, the street is much below the conservative management's guidance (i.e. 0-2% growth in FY13). From a stock perspective, this pessimism is a good thing as it has finally provides scope for tractor volumes positively surprising again.

Dealer inventory has now been corrected (from >5 weeks to ~4 weeks). Fag-end of the rate-tightening cycle can't hurt (80% of tractors are financed). Also, in a softening commodity price scenario, tractors are normally the biggest beneficiary given that its gross metal content (as a proportion of capital cost) is the highest.

Mahindra ~ Ssangyong - Synergies galore

The Mahindra ~ Ssangyong alliance has multiple synergies for both parties. While Ssangyong benefits from access to the lucrative Indian markets (visible with the India launch of the Ssangyong Rexton in October, which will be followed by the Korando C), Mahindra benefits from access to Ssangyong's superior technology (Euro V & VI compliant products; engines ranging up to 175hp - as against M&M's 140hp). The strongest synergy of the alliance is Ssangyong's huge dealership base in markets relatively untapped by M&M (Europe, South America, Middle East, and Africa).

BUY!

We reiterate our BUY recommendation with a target price of INR925, valuing the core Auto business (M&M + MVML) at INR722 per share and other subsidiaries (including Ssangyong) at INR203 per share.

Key financials (Standalone)

Year ended 31 Mar (INRm)	2010	2011	2012	2013e	2014e
Revenues	186,021	235,641	303,931	379,342	449,999
EBITDA	29,552	36,215	41,613	53,159	61,592
EBITDA Margin (%)	15.9	15.4	13.7	14.0	13.7
Adjusted PAT	19,970	25,696	29,970	35,626	41,546
Adjusted EPS (INR)	34.3	39.2	44.0	54.2	63.2
Core Auto P/E (x)	18.9	16.7	15.0	12.1	10.3
Core EV/EBIDTA (x)	14.2	12.0	10.5	8.1	6.9
RoE (%)	25.5	24.9	23.5	24.2	23.7
Dividend Yield (%)	1.1	1.3	1.5	1.8	2.1

Source: Company, Antique

Financials

Profit and loss account (INRm)

Year ended 31 Mar	2010	2011	2012	2013e	2014e
Revenues	186,021	235,641	313,811	390,620	462,876
Expenses	156,469	199,426	272,198	337,461	401,284
EBITDA	**29,552**	**36,215**	**41,613**	**53,159**	**61,592**
Depreciation & amortisation	3,708	4,739	6,699	7,709	8,873
EBIT	**25,845**	**31,476**	**34,914**	**45,450**	**52,719**
Interest expense	278	1,477	2,874	3,117	3,113
Other income	1,994	4,272	4,735	5,168	5,789
Extraordinary Items	908	1,175	1,083	-	-
Profit before tax	**28,468**	**35,445**	**37,858**	**47,501**	**55,395**
Taxes incl deferred taxation	7,590	8,575	7,887	11,875	13,849
Profit after tax	**20,878**	**26,870**	**29,970**	**35,626**	**41,546**
Adjusted profit after tax	**19,970**	**25,696**	**28,888**	**35,626**	**41,546**
EPS (INR)	**35.9**	**41.0**	**45.6**	**54.2**	**63.2**

Balance sheet (INRm)

Year ended 31 Mar	2010	2011	2012	2013e	2014e
Share Capital	2,910	3,276	3,285	3,285	3,285
Reserves & Surplus	75,358	99,824	119,574	143,672	171,769
Networth	**78,268**	**103,100**	**122,859**	**146,956**	**175,054**
Debt	28,802	33,864	42,824	41,381	42,721
Capital Employed	**107,069**	**136,964**	**165,683**	**188,337**	**217,775**
Gross Fixed Assets	52,763	62,277	94,277	109,277	124,277
Accumulated Depreciation	25,378	32,124	38,823	46,532	55,405
Capital work in progress	9,642	25,019	13,362	18,362	23,362
Net Assets	**37,027**	**55,172**	**68,816**	**81,107**	**92,234**
Investments	63,980	79,662	94,872	106,256	122,194
Current Assets, Loans & Advances					
Inventory	11,888	19,121	29,150	36,387	43,117
Debtors	12,581	12,926	18,121	22,474	26,631
Cash & Bank balance	17,432	6,149	12,909	16,939	25,928
Loans & advances and others	18,523	34,538	35,054	37,858	39,915
Current Liabilities & Provisions					
Liabilities	34,000	50,134	68,756	84,224	99,836
Provisions	17,965	16,926	18,593	21,382	23,948
Net Current Assets	**8,458**	**5,673**	**7,885**	**8,051**	**11,808**
Deferred tax (assets)/liabilities	2,403	3,544	5,890	7,077	8,462
Misc.Expenses	7	-	-	-	-
Application of Funds	**107,069**	**136,964**	**165,683**	**188,337**	**217,775**

Per share data

Year ended 31 Mar	2010	2011	2012	2013e	2014e
No. of shares (m)	581.9	655.2	656.9	656.9	656.9
BVPS (INR)	134.5	157.4	187.0	223.7	266.5
CEPS (INR)	42.2	48.2	55.8	66.0	76.7
DPS (INR)	9.4	10.8	12.5	15.0	17.5

Margins (%)

Year ended 31 Mar	2010	2011	2012	2013e	2014e
EBITDA	15.9	15.4	13.3	13.6	13.3
EBIT	13.9	13.4	11.1	11.6	11.4
PAT	10.7	10.9	9.2	9.1	9.0

Source: Company, Antique

Key assumptions

Year ended 31 Mar	2010	2011	2012	2013e	2014e
UV Volumes	227,113	274,793	354,967	445,179	517,355
Total Auto Volumes	298,280	377,063	483,246	582,619	676,169
Tractor Volumes	174,634	213,653	235,452	223,679	246,047
Total Volumes	472,914	590,716	718,698	806,298	922,216
Growth:					
Auto Volumes	30.4	26.4	28.2	20.6	16.1
Tractor Volumes	45.3	22.3	10.2	(5.0)	10.0
Total Volumes	35.5	24.9	21.7	12.2	14.4

Cash flow statement (INRm)

Year ended 31 Mar	2010	2011	2012	2013e	2014e
EBIT	**25,845**	**31,476**	**34,914**	**45,450**	**52,719**
Depreciation & amortisation	3,708	4,739	6,699	7,709	8,873
Interest expense	278	1,477	2,874	3,117	3,113
(Inc)/Dec in working capital	3,938	8,498	(4,548)	(3,864)	(5,232)
Tax paid	7,493	7,617	5,541	10,688	12,464
CF from operating activities	**17,843**	**18,623**	**37,746**	**43,217**	**51,248**
Capital expenditure	6,999	24,891	20,343	20,000	20,000
Inc/(Dec) in investments	6,116	15,682	15,210	11,385	15,938
Income from investments	1,994	4,272	4,735	5,168	5,789
CF from investing activities	**(11,121)**	**(36,301)**	**(30,817)**	**(26,216)**	**(30,150)**
Inc/(Dec) in share capital	118	366	9	-	-
Inc/(Dec) in debt	(11,726)	5,062	8,961	(1,443)	1,340
Others	4,652	(2,404)	(10,221)	(11,528)	(13,449)
CF from financing activities	**(6,957)**	**3,024**	**(1,251)**	**(12,972)**	**(12,109)**
Net cash flow	**1,688**	**(11,283)**	**6,760**	**4,030**	**8,990**
Opening balance	15,744	17,432	6,149	12,909	16,939
Closing balance	**17,432**	**6,149**	**12,909**	**16,939**	**25,928**

Growth indicators (%)

Year ended 31 Mar	2010	2011	2012	2013e	2014e
Revenue	42.6	26.7	33.2	24.5	18.5
EBITDA	130.0	22.5	14.9	27.7	15.9
PAT	140.7	28.7	11.5	18.9	16.6
EPS	15.5	14.3	11.2	18.9	16.6

Valuation (x)

Year ended 31 Mar	2010	2011	2012	2013e	2014e
P/E	23.0	20.1	18.1	15.2	13.0
P/BV	6.1	5.2	4.4	3.7	3.1
EV/EBITDA	18.7	15.7	13.7	10.7	9.1
EV/Sales	3.0	2.4	1.8	1.5	1.2
Dividend Yield (%)	1.1	1.3	1.5	1.8	2.1
Core Auto P/E (incl MVML)	18.9	16.7	15.0	12.1	10.3
Core Auto EV/EBIDTA	14.2	12.0	10.5	8.1	6.9
Core Auto EV/Sales	2.3	1.8	1.4	1.1	0.9

Financial ratios

Year ended 31 Mar	2010	2011	2012	2013e	2014e
RoE	25.5	24.9	23.5	24.2	23.7
RoCE	28.6	31.9	26.0	29.8	30.1
Debt/Equity (x)	0.4	0.3	0.3	0.3	0.2
EBIT/Interest (x)	92.9	21.3	12.1	14.6	16.9

Source: Company Antique

Current Reco	:	HOLD
Previous Reco	:	BUY
CMP	:	INR1,752
Target Price	:	INR1,856
Potential Return	:	6%

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Market data

Sector	:	Automobiles
Market Cap (INRbn)	:	507
Market Cap (USDbn)	:	10
O/S Shares	:	289
Free Float (m)	:	121
52-wk HI/LO (INR)	:	1850/1407
Avg Daily Vol ('000)	:	338
Bloomberg	:	BJAUT IN

Source: Bloomberg

Returns (%)

	1m	3m	6m	12m
Absolute	0	18	6	7
Relative	(0)	8	(2)	(1)

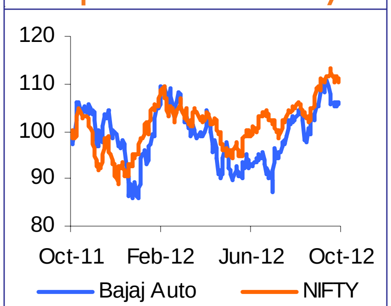
Source: Bloomberg

Shareholding pattern

Promoters	:	54%
FII	:	19%
DII	:	18%
Others	:	9%

Source: Bloomberg

Price performance *vs* Nifty



Source: Bloomberg

Bajaj Auto Limited

Positives priced-in

New products to aid domestic 2Ws

If the initial response of the recently launched Pulsar 200NS and Discover 125ST is anything to go by (the design of which would flow down to all Pulsars/Discovers), the company seems to be on-track to regain some of the lost market share in the domestic motorcycle segment. This will also aid a strong uptick in domestic realisations (as was witnessed in 2QFY13).

On the export front, Egypt has resumed full normalcy, whereas Sri Lanka has resumed ~80% normalcy (better than earlier envisaged). Currency tailwinds would also continue as the company has begun taking fresh hedges for FY14 at a favourable USD rate (~55 being the lower end of the band; current realisation ~50).

Duty drawback could impact margins/EPS by ~120bps/5% (worst case!)

The government has reduced the export duty drawback on 2Ws & 3Ws from 5.5% to 2% (with effect from 10th October 2012). Given their focus on profitability, Bajaj has guided that they plan to pass on this 3.5% shortfall (as it had done earlier, when DEPB @9% was reduced to the duty drawback @5.5%).

However, should they not pass it on (given the headwinds in some of their export markets), margins would be impacted by around ~120bps, which would trickle down to an EPS downgrade of ~5%. This is the worst-case scenario, in our view.

RE60 launch - Trying to stay ahead of the curve!

With the rising popularity of mini-trucks (Tata Ace, in particular), the 3W goods-carrier segment is a dying one. There is always a fear of the same happening to the 3W passenger-carrier segment as well (with the Tata Magic/Magic Iris). This is a cause for worry for Bajaj Auto, as 3W (passenger-carriers) accounts for ~30% of the company's EBITDA.

Hence, in our view, the RE60 is a very proactive product launch, as it targets the existing 3W customers who might want to upgrade to a 4W in the future. RE60's margins are expected to remain as astronomical as those of the current 3Ws (~30%) which should protect the company's coveted high margins as well.

Positives priced-in… Downgrade to HOLD!

While we prefer Bajaj Auto between the two 2W biggies, staying true to our underlying theme, we would avoid the 2W pack for now. Post the recent run-up in the stock, we downgrade our recommendation from BUY to HOLD, with a target price of INR1,856 (13.5x FY14e EPS + INR52 for the stake in KTM).

Key financials (Standalone)

Year ended 31 Mar (INRm)	2010	2011	2012	2013e	2014e
Revenues	119,210	163,982	195,290	214,391	248,043
EBITDA	25,926	31,712	37,200	39,545	48,340
EBITDA Margin (%)	21.7	19.3	19.0	18.4	19.5
PAT	18,109	26,152	30,040	31,748	38,666
Adjusted EPS (INR)	62.6	90.4	108.4	109.7	133.6
PE (x)	28.0	19.4	16.2	16.0	13.1
EV/EBITDA (x)	18.8	14.7	12.3	11.3	8.9
RoE (%)	61.8	53.3	51.9	43.2	42.9
Dividend Yield (%)	1.1	2.3	2.6	3.1	3.7

Source: Company, Antique

Financials

Profit and loss account (INRm)

Year ended 31 Mar	2010	2011	2012	2013e	2014e
Revenues	119,210	163,982	195,290	214,391	248,043
Expenses	93,284	132,270	158,090	174,847	199,703
EBITDA	**25,926**	**31,712**	**37,200**	**39,545**	**48,340**
Depreciation & amortisation	1,365	1,228	1,456	1,553	1,667
EBIT	**24,561**	**30,484**	**35,744**	**37,992**	**46,672**
Interest expense	60	17	222	3	3
Other income	1,225	5,765	6,080	6,992	8,041
Extraordinary Items	(1,650)	7,246	(1,340)	-	-
Profit before tax	**24,076**	**43,478**	**40,262**	**44,981**	**54,711**
Taxes incl deferred taxation	7,075	10,080	10,221	13,233	16,044
Profit after tax	**17,001**	**33,397**	**30,040**	**31,748**	**38,666**
Adjusted profit after tax	**18,109**	**26,152**	**31,380**	**31,748**	**38,666**
EPS (INR)	117.5	115.4	103.8	109.7	133.6
Adjusted EPS (INR)	**62.6**	**90.4**	**108.4**	**109.7**	**133.6**

Balance sheet (INRm)

Year ended 31 Mar	2010	2011	2012	2013e	2014e
Share Capital	1,447	2,894	2,894	2,894	2,894
Reserves & Surplus	27,837	46,209	57,517	70,644	87,303
Networth	**29,283**	**49,102**	**60,411**	**73,538**	**90,196**
Debt	13,386	3,252	2,546	1,273	636
Capital Employed	**42,669**	**52,354**	**62,956**	**74,811**	**90,833**
Gross Fixed Assets	33,793	33,909	35,909	38,909	41,409
Accumulated Depreciation	18,997	19,125	20,581	22,134	23,801
Capital work in progress	415	699	(94)	406	406
Net Assets	**15,211**	**15,483**	**15,234**	**17,181**	**18,013**
Investments	40,215	47,952	48,828	59,570	72,676
Current Assets, Loans & Advances					
Inventory	4,462	5,473	6,785	7,342	8,495
Debtors	2,728	3,628	4,228	4,699	5,437
Cash & Bank balance	1,014	5,565	16,538	16,902	20,053
Loans & advances and others	21,805	14,061	19,197	22,077	25,388
Current Liabilities & Provisions					
Liabilities	20,263	24,267	25,621	28,552	32,428
Provisions	22,487	15,286	21,749	23,924	26,316
Net Current Assets	**(12,740)**	**(10,827)**	**(621)**	**(1,456)**	**628**
Deferred tax (assets)/liabilities	17	297	484	484	484
Misc.Expenses	-	43	-	-	-
Application of Funds	**42,669**	**52,354**	**62,956**	**74,811**	**90,833**

Per share data

Year ended 31 Mar	2010	2011	2012	2013e	2014e
No. of shares (m)	144.7	289.4	289.4	289.4	289.4
Adj BVPS (INR)	101.2	169.7	208.8	254.1	311.7
Adj CEPS (INR)	63.5	119.7	108.8	115.1	139.4
Adj DPS (INR)	20.0	40.0	45.0	55.0	65.0

Margins (%)

Year ended 31 Mar	2010	2011	2012	2013e	2014e
EBITDA	21.7	19.3	19.0	18.4	19.5
EBIT	20.6	18.6	18.3	17.7	18.8
PAT	15.2	15.9	16.1	14.8	15.6

Source: Company, Antique

Key assumptions

Year ended 31 Mar	2010	2011	2012	2013e	2014e
Motorcycles - Domestic	1,782	2,415	2,567	2,695	2,911
Motorcycles - Exports	725	972	1,268	1,394	1,590
Motorcycles - Total	**2,507**	**3,387**	**3,834**	**4,090**	**4,500**
Scooters - Domestic	4	-	-	-	-
Scooters - Exports	1	-	-	-	-
Scooters - Total	**5**	-	-	-	-
Total 2 Wheelers	**2,512**	**3,387**	**3,834**	**4,090**	**4,500**
3W - Domestic	176	206	203	193	202
3W - Exports	165	231	312	312	356
3W - Total	**341**	**437**	**515**	**505**	**558**
Total Volumes	**2,853**	**3,824**	**4,350**	**4,595**	**5,059**
Total Volumes Growth (%)	30.0	34.1	13.7	5.6	10.1

Cash flow statement (INRm)

Year ended 31 Mar	2010	2011	2012	2013e	2014e
EBIT	**24,561**	**30,484**	**35,744**	**37,992**	**46,672**
Depreciation & amortisation	1,365	1,228	1,456	1,553	1,667
Interest expense	60	17	222	3	3
(Inc)/Dec in working capital	(11,263)	(2,638)	(768)	(1,198)	(1,067)
Tax paid	7,126	9,800	10,034	13,233	-
CF from operating activities	**30,002**	**24,533**	**27,711**	**27,507**	**49,403**
Capital expenditure	648	400	1,207	3,500	2,500
Inc/(Dec) in investments	22,130	7,737	876	10,742	13,105
Income from investments	1,225	5,765	6,080	6,992	8,041
CF from investing activities	**(21,553)**	**(2,371)**	**3,997**	**(7,250)**	**(7,564)**
Inc/(Dec) in share capital	-	1,447	-	-	-
Inc/(Dec) in debt	(2,314)	(10,134)	(706)	(1,273)	(636)
Others	(6,415)	(15,025)	(18,732)	(18,621)	(22,008)
CF from financing activities	**(8,729)**	**(23,713)**	**(19,438)**	**(19,894)**	**(22,644)**
Net cash flow	**(355)**	**4,551**	**10,973**	**364**	**3,151**
Opening balance	1,369	1,014	5,565	16,538	16,902
Closing balance	**1,014**	**5,565**	**16,538**	**16,902**	**20,053**

Growth indicators (%)

Year ended 31 Mar	2010	2011	2012	2013e	2014e
Revenue	35.3	37.6	19.1	9.8	15.7
EBITDA	115.6	22.3	17.3	6.3	22.2
Adj PAT	124.9	44.4	20.0	1.2	21.8
Adj EPS	124.9	44.4	20.0	1.2	21.8

Valuation (x)

Year ended 31 Mar	2010	2011	2012	2013e	2014e
P/E (Adj)	28.0	19.4	16.2	16.0	13.1
P/BV	17.3	10.3	8.4	6.9	5.6
EV/EBITDA	18.8	14.7	12.3	11.3	8.9
EV/Sales	4.1	2.8	2.3	2.1	1.7
Dividend Yield (%)	1.1	2.3	2.6	3.1	3.7

Financial ratios

Year ended 31 Mar	2010	2011	2012	2013e	2014e
RoE (%)	61.8	53.3	51.9	43.2	42.9
RoCE (%)	61.0	70.2	66.3	60.5	60.5
Debt/Equity (x)	0.5	0.1	0.0	0.0	0.0
EBIT/Interest (x)	411	1,804	161	-	-

Source: Company Antique

Hero MotoCorp Limited

Absence of near-term positive catalysts...

Current Reco	:	HOLD
Previous Reco	:	HOLD
CMP	:	INR1,800
Target Price	:	INR1,935
Potential Return	:	7%

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Toying with "bread and butter"

As per some Hero dealers, after the company has dropped the 'Honda' tag from the Splendor Pro & Splendor Plus, conversions have been impacted by ~5% (both these models combined account for around 90% of Splendor and thereby ~35% of total volumes).

This trend is restricted to these two models, as they are the only ones where the parent-brand name (Hero Honda, now Hero) is written on the fuel-tank (in a bigger font), and the sub-brand name (Splendor Pro/Plus) is written below the seat (in a smaller font).

Interestingly, some dealers also cited that in smaller towns, people still commonly refer to Hero bikes as 'Honda ki gaadi' (a Honda bike). We were aware of this phenomenon prevailing much earlier, but assumed that it had diminished substantially over the years.

Sub-brand more important... Honda will take time to develop one!

We highlight that there has been no impact on the Passion and the other models (after the Honda tag has been dropped), as these models continue to the sub-brand tag on the fuel-tank and the parent-brand tag below the seat. This reaffirms the popular belief that the strength of the sub-brand matters much more (and hence Hero can correct this situation with the Splendor if/when they wish).

That's also primarily why we aren't as worried about Honda as the street is. In our view, the mere event of "capacity expansion" affects the market dynamics of commodities, not a brand-centric industry like 2Ws. The street seems to have extrapolated the lone success of the Activa brand as Honda's ability to develop strong sub-brands in the motorcycle space (where they have had quite a poor track record thus far).

Margins can only improve... Royalty savings to exceed R&D spends!

Royalty savings (>300bps at this JPY rate) should more than offset R&D and royalty on new models (combined should not exceed 1.5% of sales).

In the near term, the company will also benefit from an appreciating INR given its high import bill, which stands at ~15% of sales (direct - 5.5% of sales, USD denominated; indirect - 9.5% of sales, JPY denominated).

Still can't ignore the high DCF value... Maintain HOLD!

Given the clear cut margin uptick in FY15 (due to royalty savings), we continue to give weightage to the high DCF value. For that reason alone, we maintain our HOLD reco with a target price of INR1,935 {average of INR1,615 (14x FY14 EPS) and INR2,255 (DCF)}.

Market data

Sector	:	Automobiles
Market Cap (INRbn)	:	359
Market Cap (USDbn)	:	7
O/S Shares	:	200
Free Float (m)	:	90
52-wk HI/LO (INR)	:	2279/1662
Avg Daily Vol ('000)	:	332
Bloomberg	:	HMCL IN

Source: Bloomberg

Returns (%)

	1m	3m	6m	12m
Absolute	(3)	(14)	(13)	(10)
Relative	(4)	(21)	(20)	(17)

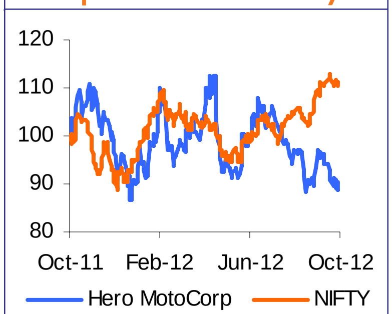
Source: Bloomberg

Shareholding pattern

Promoters	:	52%
FII	:	32%
DII	:	7%
Others	:	9%

Source: Bloomberg

Price performance *vs* Nifty



Source: Bloomberg

Key financials (Standalone)

Year ended 31 Mar (INRm)	2010	2011	2012	2013e	2014e
Revenues	157,582	192,450	233,681	244,401	272,728
EBITDA	26,620	22,833	25,908	24,179	27,435
EBITDA Margin (%)	16.9	11.9	11.1	9.9	10.1
Adjusted PAT	22,318	20,077	23,781	22,803	23,031
Adjusted EPS (INR)	111.8	100.5	119.1	114.2	115.3
P/E (x)	16.1	17.9	15.1	15.8	15.6
EV/EBITDA (x)	11.6	13.9	12.6	13.1	11.1
RoE (%)	64.4	67.9	55.4	42.2	35.9
Dividend Yield (%)	4.4	5.8	2.5	2.8	3.1

Source: Company, Antique

Financials

Profit and loss account (INRm)

Year ended 31 Mar	2010	2011	2012	2013e	2014e
Revenues	157,582	192,450	233,681	244,401	272,728
Expenses	130,962	169,618	207,773	220,221	245,293
EBITDA	**26,620**	**22,833**	**25,908**	**24,179**	**27,435**
Depreciation & amortisation	1,915	2,254	2,803	3,353	3,778
EBIT	**24,705**	**20,579**	**23,105**	**20,827**	**23,657**
Interest expense	(206)	(19)	213	201	189
Other income	3,406	4,249	5,756	6,446	7,091
Extraordinary Items	-	(798)	-	-	-
Profit before tax	**28,317**	**24,048**	**28,647**	**27,072**	**30,558**
Taxes incl deferred taxation	5,999	4,769	4,866	4,270	7,527
Profit after tax	**22,318**	**19,279**	**23,781**	**22,803**	**23,031**
Adjusted PAT	**22,318**	**20,077**	**23,781**	**22,803**	**23,031**
Recurring EPS (INR)	**111.8**	**100.5**	**119.1**	**114.2**	**115.3**

Balance sheet (INRm)

Year ended 31 Mar	2010	2011	2012	2013e	2014e
Share Capital	399	399	399	399	399
Reserves & Surplus	34,251	29,161	42,499	53,619	63,800
Networth	**34,650**	**29,561**	**42,898**	**54,019**	**64,199**
Debt	660	327	-	-	-
Capital Employed	**35,311**	**29,888**	**42,898**	**54,019**	**64,199**
Gross Fixed Assets	27,510	29,866	34,866	41,866	49,866
Accumulated Depreciation	10,922	14,582	17,385	20,738	24,516
Capital work in progress	481	1,251	4,251	9,251	14,251
Net Assets	**17,069**	**16,536**	**21,732**	**30,380**	**39,602**
Investments	39,257	51,288	39,643	52,328	64,887
Current Assets, Loans & Advances	**9,754**	**14,331**	**20,235**	**21,510**	**22,796**
Inventory	4,364	5,249	6,756	8,035	8,966
Debtors	1,084	1,306	2,723	2,678	2,989
Cash & Bank balance	19,072	715	768	1,241	1,778
Loans & advances and others	4,306	7,775	10,756	10,796	10,841
Current Liabilities & Provisions					
Liabilities	38,051	50,637	43,008	44,455	47,279
Provisions	10,264	10,811	10,901	12,614	14,413
Net Current Assets	**(19,488)**	**(46,402)**	**(32,905)**	**(34,318)**	**(37,118)**
Deferred expenses	1,528	17,052	4,472	4,472	4,472
Misc.Expenses	-	25,518	18,900	10,100	1,300
Application of Funds	**35,311**	**29,888**	**42,898**	**54,019**	**64,199**

Per share data

Year ended 31 Mar	2010	2011	2012	2013e	2014e
No. of shares (m)	199.7	199.7	199.7	199.7	199.7
BVPS (INR)	173.5	148.0	214.8	270.5	321.5
CEPS (INR)	121.3	111.8	133.1	131.0	134.2
DPS (INR)	80.0	105.0	45.0	50.0	55.0

Margins (%)

Year ended 31 Mar	2010	2011	2012	2013e	2014e
EBITDA	16.9	11.9	11.1	9.9	10.1
EBIT	15.7	10.7	9.9	8.5	8.7
PAT	14.2	10.4	10.2	9.3	8.4

Source: Company, Antique

Key assumptions

Year ended 31 Mar	2010	2011	2012	2013e	2014e
Total Domestic	4,502	5,269	6,069	6,111	6,632
Total Export	98	133	166	207	270
Total Motorcycles	4,386	5,041	5,780	5,812	6,312
Total Scooters	214	361	456	507	590
Total Volumes	**4,600**	**5,402**	**6,235**	**6,319**	**6,902**
Growth (%)					
Total Volumes	23.6	17.4	15.4	1.3	9.2

Cash flow statement (INRm)

Year ended 31 Mar	2010	2011	2012	2013e	2014e
EBIT	**24,705**	**20,579**	**23,105**	**20,827**	**23,657**
Depreciation & amortisation	1,915	2,254	2,803	3,353	3,778
Interest expense	(206)	(19)	213	201	189
(Inc)/Dec in working capital	(25,971)	(8,557)	13,444	(1,886)	(3,337)
Tax paid	5,916	(10,756)	17,447	4,270	7,527
CF from operating activities	**46,882**	**42,164**	**(5,195)**	**21,595**	**23,055**
Capital expenditure	1,623	3,126	8,000	12,000	13,000
Inc/(Dec) in investments	5,570	12,030	(11,645)	12,686	12,559
Income from investments	3,406	4,249	5,756	6,446	7,091
CF from investing activities	**(3,787)**	**(10,908)**	**9,400**	**(18,239)**	**(18,468)**
Inc/(Dec) in share capital	-	-	-	-	-
Inc/(Dec) in debt	(125)	(333)	(327)	-	-
Dividends paid	(25,676)	(24,369)	(10,444)	(11,682)	(12,851)
CF from financing activities	**(25,800)**	**(24,702)**	**(10,771)**	**(11,682)**	**(12,851)**
Net cash flow	**16,876**	**(18,357)**	**53**	**473**	**537**
Opening balance	2,196	19,072	715	768	1,241
Closing balance	**19,072**	**715**	**768**	**1,241**	**1,778**

Growth indicators (%)

Year ended 31 Mar	2010	2011	2012	2013e	2014e
Revenue	27.9	22.1	21.4	4.6	11.6
EBITDA	58.0	(14.2)	13.5	(6.7)	13.5
PAT	74.1	(10.0)	18.4	(4.1)	1.0
EPS	74.1	(10.0)	18.4	(4.1)	1.0

Valuation (x)

Year ended 31 Mar	2010	2011	2012	2013e	2014e
P/E	16.1	17.9	15.1	15.8	15.6
Cash P/E	14.8	16.1	13.5	13.7	13.4
P/BV	10.4	12.2	8.4	6.7	5.6
EV/EBITDA	11.6	13.9	12.6	13.1	11.1
EV/Sales	2.0	1.7	1.4	1.3	1.1
Dividend Yield (%)	4.4	5.8	2.5	2.8	3.1

Financial ratios

Year ended 31 Mar	2010	2011	2012	2013e	2014e
RoE	64.4	67.9	55.4	42.2	35.9
RoCE	80.7	83.1	67.3	50.5	47.9
Debt/Equity (x)	0.0	0.0	-	-	-
EBIT/Interest (x)	(119.8)	(1,112.4)	108.5	103.8	125.1

Source: Company Antique

Current Reco	:	BUY
Previous Reco	:	BUY
CMP	:	INR2,220
Target Price	:	INR2,575
Potential Return	:	16%

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Market data

Sector	:	Automobiles
Market Cap (INRbn)	:	60
Market Cap (USDbn)	:	1
O/S Shares	:	27
Free Float (m)	:	10
52-wk HI/LO (INR)	:	2400/1360
Avg Daily Vol ('000)	:	10
Bloomberg	:	EIM IN

Source: Bloomberg

Returns (%)

	1m	3m	6m	12m
Absolute	(2)	14	2	35
Relative	(3)	5	(5)	24

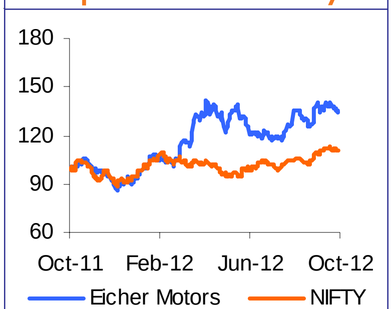
Source: Bloomberg

Shareholding pattern

Promoters	:	55%
FII	:	8%
DII	:	16%
Others	:	21%

Source: Bloomberg

Price performance *vs* Nifty



Source: Bloomberg

Eicher Motors Limited

In a league of its own!

Royal Enfield - The cash cow!

Royal Enfield (one of the few "cult" brands in India) is the biggest beneficiary of an emerging leisure biking trend in the country. The loyalists swear by the brand and this brand loyalty is now becoming infectious (evident from the ~6 month waiting period, despite a 2x ramp-up in production). Based on current demand/supply, Eicher should sell as many Royal Enfields as they can make, for at least the next 2 years. Also, there are enough levers to improve margins, as and when the company decides to capitalize on its strong pricing power. We continue to let these margin levers be an upside risk to our estimates.

Fortunately, this division has high economic interest for an Eicher shareholder - Enfield accounts for only ~15% of consol revenues, but since its profits aren't shared with Volvo, it accounts for ~50% of consol PAT, and >70% of steady-state consol FCF (function of 2W businesses being relatively asset light).

Volvo~Eicher alliance (VECV) - A great marriage!

VECV has multiple synergies for both partners. For Volvo, it gives them a strong foot-print in India (high priority market for any OEM). For Eicher, Volvo's support is bearing fruits in Eicher's re-entry into the relatively HD segment (>12T). Efforts here are channeled towards reducing overall cost of ownership (focus on fuel efficiency, superior technology, easier access to spares, in a bid to ultimately improve resale).

The management expects their HD truck market share to increase from the current 4% to 15% in CY15e. While there are surely some low hanging fruits (in terms of untapped geographies/segments), this target seems a little too aggressive to us, and hence, we have not assumed it in our volume estimates.

Engine division - Entering the big league!

The engine business (5-8 litres/Euro 3-6 compliant) makes VECV a part of Volvo's global supply chain and provides Eicher a huge technological leap on their own CVs.

More importantly, of the ~ INR15bn cash hoard (~25% of market cap), INR5bn gets deployed into a high RoCE business like engines (reckon >40% on full operations).

Bike will tow the truck... BUY!

We acknowledge the near-term cycle headwinds for VECV and reiterate our BUY recommendation backed by our high conviction on Royal Enfield.

Our SOTP based target price of INR2,575, values Royal Enfield at INR1,114 (10x CY13e EV/EBITDA), VECV at INR1,237 (7x CY13e EV/EBITDA) and the engine business at INR224 (NPV).

Key financials (Consolidated)

Year ended 31st Dec (INRm)	2009	2010	2011	2012e	2013e
Revenues	29,549	44,213	57,160	70,648	86,535
EBITDA	1,607	3,811	5,935	6,831	9,036
EBITDA Margin (%)	5.4	8.6	10.4	9.7	10.4
Adj PAT (after minority int)	834	1,889	3,088	3,905	5,138
Adjusted EPS (INR)	31.2	70.1	114.4	144.7	190.4
P/E (x)	71.1	31.7	19.4	15.3	11.7
EV/EBITDA (pro-rated) (x)	48.2	21.5	13.5	10.7	7.6
ROE (%)	7.8	15.3	20.6	21.8	23.6

Source: Company, Antique

Financials

Profit and loss account (INRm)

Year ended 31st Dec	2009	2010	2011	2012e	2013e
Revenues	29,549	44,213	57,160	70,648	86,535
Expenses	27,942	40,402	51,225	63,817	77,498
EBITDA	**1,607**	**3,811**	**5,935**	**6,831**	**9,036**
Depreciation & amortisation	539	573	640	768	936
EBIT	**1,068**	**3,238**	**5,296**	**6,063**	**8,100**
Interest expense (net)	87	95	77	57	62
Other income	892	1,034	1,383	1,634	1,873
Exceptional Items	-	-	-	-	-
PBT	**1,873**	**4,177**	**6,602**	**7,639**	**9,911**
Taxes incl deferred taxation	578	1,108	1,628	1,832	2,358
PAT	**1,295**	**3,069**	**4,974**	**5,806**	**7,552**
Minority Interest	(461)	(1,179)	(1,886)	(1,901)	(2,414)
Adj PAT (after minority interest)	**834**	**1,889**	**3,088**	**3,905**	**5,138**
Adj EPS (INR)	**31.2**	**70.1**	**114.4**	**144.7**	**190.4**

Balance sheet (INRm)

Year ended 31st Dec	2009	2010	2011	2012e	2013e
Share Capital	267	269	270	270	270
Reserves & Surplus	10,424	12,052	14,661	17,629	21,492
Networth	**10,690**	**12,321**	**14,931**	**17,899**	**21,762**
Debt	1,264	956	504	546	591
Other Liabilities	5,747	6,774	8,377	10,278	12,692
Capital Employed	**17,701**	**20,052**	**23,812**	**28,722**	**35,046**
Gross Fixed Assets	7,437	8,113	10,213	12,313	15,063
Accumulated Depreciation	3,802	4,269	4,909	5,677	6,613
Capital work in progress	122	669	3,937	7,037	8,537
Net Assets	**3,758**	**4,513**	**9,241**	**13,673**	**16,987**
Investments	2,941	4,586	5,126	5,650	6,338
Current Assets, Loans & Advances					
Inventory	2,190	3,265	4,280	5,334	6,518
Debtors	2,325	2,609	3,434	4,210	5,046
Cash & Bank balance	11,707	12,457	11,723	12,251	15,419
Loans & advances and others	1,900	2,169	3,814	4,265	4,773
Current Liabilities & Provisions					
Liabilities	6,016	7,942	11,846	14,206	17,222
Provisions	962	1,391	1,497	1,705	1,930
Net Current Assets	**11,144**	**11,168**	**9,907**	**10,150**	**12,605**
Deferred tax (assets)/liabilities	142	249	645	750	884
Misc.Expenses	-	35	182	-	-
Application of Funds	**17,701**	**20,052**	**23,812**	**28,722**	**35,046**

Per share data

Year ended 31st Dec	2009	2010	2011	2012e	2013e
No. of shares (m)	26.7	26.9	27.0	27.0	27.0
BVPS (INR)	400.5	457.4	553.2	663.2	806.3
CEPS (INR)	51.4	91.4	138.1	173.1	225.1
DPS (INR)	6.9	11.0	16.0	29.7	40.4

Margins (%)

Year ended 31st Dec	2009	2010	2011	2012e	2013e
EBITDA	5.4	8.6	10.4	9.7	10.4
EBIT	3.6	7.3	9.3	8.6	9.4
PAT	2.8	4.3	5.4	5.5	5.9

Source: Company, Antique

Key assumptions

Year ended 31st Dec	2009	2010	2011	2012e	2013e
Motorcycles	51,955	52,274	74,641	111,318	150,070
YoY Growth (%)	**59.5**	**0.6**	**42.8**	**49.1**	**34.8**
Bus - MHCV	1,839	2,539	3,684	4,592	5,249
Bus - LCV	2,072	2,782	3,266	4,381	4,999
Truck - MHCV	16,686	27,068	33,613	37,273	42,408
Truck - LCV	3,667	5,792	7,774	7,850	8,948
Volvo	1,469	1,672	1,368	1,396	1,534
Total CVs	25,733	39,853	49,705	55,491	63,139
YoY Growth (%)	**56.8**	**54.9**	**24.7**	**11.6**	**13.8**
Total Volumes	77,688	92,127	124,346	166,810	213,209
YoY Growth (%)	**58.6**	**18.6**	**35.0**	**34.1**	**27.8**

Cash flow statement (INRm)

Year ended 31st Dec	2009	2010	2011	2012e	2013e
EBIT	**1,068**	**3,238**	**5,296**	**6,063**	**8,100**
Depreciation & amortisation	539	573	640	768	936
Interest expense	87	95	77	57	62
(Inc)/Dec in working capital	(2,224)	(726)	(527)	(286)	(712)
Tax paid	578	1,108	1,628	1,832	2,358
CF from operating activities	**3,166**	**3,334**	**4,757**	**5,227**	**7,328**
Capital expenditure	259	1,222	5,368	5,200	4,250
Inc/(Dec) in investments	2,879	1,645	540	523	689
Income from investments	892	1,034	1,383	1,634	1,873
CF from investing activities	**(2,246)**	**(1,833)**	**(4,525)**	**(4,090)**	**(3,066)**
Inc/(Dec) in share capital	(154)	143	1	-	-
Inc/(Dec) in debt	(392)	(307)	(453)	42	46
Others	109	2,656	4,212	4,869	6,278
CF from financing activities	**(438)**	**2,491**	**3,760**	**4,911**	**6,323**
Net cash flow	**(612)**	**750**	**(734)**	**529**	**3,167**
Opening balance	12,318	11,707	12,457	11,723	12,251
Closing balance	**11,707**	**12,457**	**11,723**	**12,251**	**15,419**

Growth indicators (%)

Year ended 31st Dec	2009	2010	2011	2012e	2013e
Revenue	71.0	49.6	29.3	23.6	22.5
EBITDA	1397.6	137.2	55.7	15.1	32.3
PAT	92.4	137.0	62.1	16.7	30.1
EPS	277.5	124.4	63.1	26.5	31.6
Adj PAT	258.7	126.5	63.4	26.5	31.6

Valuation (x)

Year ended 31st Dec	2009	2010	2011	2012e	2013e
P/E	71.1	31.7	19.4	15.3	11.7
P/B	5.5	4.9	4.0	3.3	2.8
EV/EBITDA (pro-rated)	48.2	21.5	13.5	10.7	7.6
EV/Sales (pro-rated)	2.9	1.9	1.4	1.1	0.8
Dividend Yield (%)	0.3	0.5	0.7	1.3	1.8

Financial ratios

Year ended 31st Dec	2009	2010	2011	2012e	2013e
RoE	7.8	15.3	20.7	21.8	23.6
RoCE	11.1	22.0	33.6	35.5	37.6
Debt/Equity (x)	0.1	0.1	0.0	0.0	0.0
Interest Coverage (x)	12.3	34.1	69.0	105.5	130.3

Source: Company Antique

Current Reco	:	HOLD
Previous Reco	:	HOLD
CMP	:	INR24
Target Price	:	INR26
Potential Return	:	7%

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Ashok Leyland Limited

Waiting for RoE expansion...

The only pure CV play...

As we reach the seemingly fag-end of the deteriorating macro, Ashok Leyland (with its predominantly heavy CV portfolio) appears to be nearing its positive cycle. Long term demand drivers for the CV segment remain intact. There are multiple volume triggers - A) A more stringent implementation of the overloading ban, which will result in the need for addition of capacities. B) Gradual uptick in replacement demand - currently, around 50% of the trucks population is estimated to be over 10 years old; and 30% of the truck population is estimated to be over 15 years old. C) The development of newer highways, which will boost the demand for higher horsepower trucks as it will enable higher turnaround time.

That said, in a weak CV cycle, the unaffordable investment phase (where we have very less cash-flow visibility) makes us maintain our cautious view on the company.

Rising contribution of Dost to offset Pantnagar benefits!

The contribution of Dost would increase from 7% in FY12 to ~30% in FY14 of total volumes, on which the company earns marketing margins (reckon 5-7%).

Hence, while there are favourable tailwinds on a macro level, the company's margins/realisations are structurally on a downtrend, which would offset the benefit of rising contribution of Pantnagar volumes.

Digression from core competencies could keep RoEs suppressed...

While the company's JV with Nissan has kicked-off with a decent product launch in the SCV segment (Dost), we are concerned about their foray into the small car space through this JV. The other JVs - with ALTEAMS and John Deere (construction equipment) are other instances where the company is digressing from its core competencies, which we believe would keep the blended ROEs suppressed.

HOLD... Prefer VECV in the CV space!

While the company has gained (or re-gained) ~400bps market share due to a recovery in Southern markets, the high debt to service the high capex/investment phase (on which we have less cash-flow visibility) is a tad uncomforting.

For the stock, the only support remains the high dividend yield (~4%) and hopes of an improving macro. We maintain HOLD with a target price of INR26 (11x FY14e EPS). We continue to prefer Eicher Motors in the space owing to its much superior return ratios/fixed asset turns and a relatively cleaner business structure.

Market data

Sector	:	Automobiles
Market Cap (INRbn)	:	62
Market Cap (USDbn)	:	1
O/S Shares	:	2,661
Free Float (m)	:	1,334
52-wk HI/LO (INR)	:	34/19
Avg Daily Vol ('000)	:	2,419
Bloomberg	:	AL IN

Source: Bloomberg

Returns (%)

	1m	3m	6m	12m
Absolute	7	(2)	(20)	(5)
Relative	6	(10)	(26)	(12)

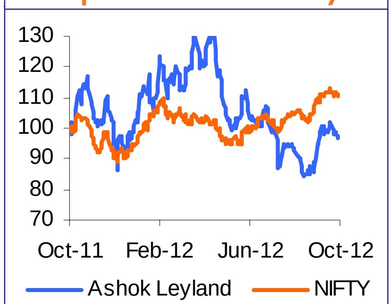
Source: Bloomberg

Shareholding pattern

Promoters	:	39%
FII	:	15%
DII	:	14%
Others	:	32%

Source: Bloomberg

Price performance *vs* Nifty



Source: Bloomberg

Key financials (Standalone)

Year ended 31 Mar (INRm)	2010	2011	2012	2013e	2014e
Revenues	72,447	111,771	128,800	138,577	162,549
EBITDA	7,628	12,137	12,941	11,631	14,613
EBITDA Margin (%)	10.5	10.9	10.0	8.4	9.0
Adjusted PAT	4,237	6,313	5,902	4,036	6,187
Adjusted EPS (INR)	1.6	2.4	2.2	1.5	2.3
P/E (x)	15.0	10.1	10.8	15.8	10.3
RoE (%)	11.5	15.9	14.0	9.4	13.4
EV/EBITDA (x)	10.6	7.2	7.2	8.6	6.9
Dividend Yield (%)	3.1	4.2	4.2	4.2	4.2

Source: Company, Antique

Financials

Profit and loss account (INRm)

Year ended 31 Mar	2010	2011	2012	2013e	2014e
Revenues	72,447	111,771	128,800	138,577	162,549
Expenses	64,819	99,634	115,859	126,946	147,936
EBITDA	**7,628**	**12,137**	**12,941**	**11,631**	**14,613**
Depreciation & amortisation	2,041	2,674	3,528	3,774	4,013
EBIT	**5,587**	**9,463**	**9,412**	**7,857**	**10,599**
Interest expense	811	1,889	2,690	3,414	3,659
Other income	704	445	404	464	510
Extraordinary Items	(33)	-	16	-	-
Profit before tax	**5,448**	**8,018**	**7,142**	**4,907**	**7,450**
Taxes incl deferred taxation	1,211	1,705	1,240	871	1,263
Profit after tax	**4,237**	**6,313**	**5,902**	**4,036**	**6,187**
Adjusted profit after tax	**4,237**	**6,313**	**5,902**	**4,036**	**6,187**
EPS (INR)	**1.60**	**2.37**	**2.21**	**1.52**	**2.33**

Balance sheet (INRm)

Year ended 31 Mar	2010	2011	2012	2013e	2014e
Share Capital	1,330	1,330	2,661	2,661	2,661
Reserves & Surplus	35,357	38,299	39,421	40,344	43,418
Networth	**36,688**	**39,630**	**42,082**	**43,005**	**46,079**
Debt	22,039	25,683	30,271	37,839	37,082
Capital Employed	**58,726**	**65,312**	**72,353**	**80,844**	**83,161**
Gross Fixed Assets	60,186	66,919	73,419	77,919	82,919
Accumulated Depreciation	17,691	20,581	24,109	27,883	31,896
Capital work in progress	5,615	3,580	5,307	5,307	5,307
Net Assets	**48,110**	**49,918**	**54,617**	**55,343**	**56,330**
Investments	3,262	12,300	15,419	20,816	21,857
Current Assets, Loans & Advances					
Inventory	16,382	22,089	22,306	24,678	27,611
Debtors	10,221	11,852	12,302	13,288	15,587
Cash & Bank balance	5,189	1,795	326	1,526	819
Loans & advances and others	9,605	7,936	14,187	15,606	17,166
Current Liabilities & Provisions					
Liabilities	25,921	30,379	36,097	39,174	44,372
Provisions	3,687	4,903	4,969	5,466	6,013
Net Current Assets	**11,789**	**8,390**	**8,055**	**10,458**	**10,798**
Deferred tax (assets)/liabilities	4,611	5,338	5,803	5,838	5,888
Misc.Expenses	176	43	65	65	65
Application of Funds	**58,726**	**65,312**	**72,353**	**80,844**	**83,161**

Per share data

Year ended 31 Mar	2010	2011	2012	2013e	2014e
No. of shares (m)	2,661	2,661	2,661	2,661	2,661
BVPS (INR)	13.8	14.9	15.8	16.2	17.3
CEPS (INR)	2.4	3.4	3.5	2.9	3.8
DPS (INR)	0.7	1.0	1.0	1.0	1.0

Margins (%)

Year ended 31 Mar	2010	2011	2012	2013e	2014e
EBITDA	10.5	10.9	10.0	8.4	9.0
EBIT	7.7	8.5	7.3	5.7	6.5
PAT	5.8	5.6	4.6	2.9	3.8

Source: Company, Antique

Key assumptions

Year ended 31 Mar	2010	2011	2012	2013e	2014e
MHCV (Passengers) - Total	18,481	25,226	25,845	28,950	31,704
MHCV (Goods) - Total	44,345	68,009	67,408	65,770	75,635
LCVs - Total	1,100	871	962	1,039	1,143
Exports	5,979	10,306	12,909	15,413	17,683
Dost	-	-	7,593	32,000	45,000
Total Volumes (incl-Dost)	63,926	94,106	101,808	127,759	153,482
Growth (%)					
MHCV (Passengers) - Total	(8)	36	2	12	10
MHCV (Goods) - Total	34	53	(1)	(2)	15
LCVs - Total	(20)	(21)	10	8	10
Exports	(12)	72	25	19	15
Total Volumes (incl-Dost)	17	47	8	25	20

Cash flow statement (INRm)

Year ended 31 Mar	2010	2011	2012	2013e	2014e
EBIT	**5,587**	**9,463**	**9,412**	**7,857**	**10,599**
Depreciation & amortisation	2,041	2,674	3,528	3,774	4,013
Interest expense	811	1,889	2,690	3,414	3,659
(Inc)/Dec in working capital	(2,806)	(6)	1,135	1,202	1,048
Tax paid	-	1,112	775	837	1,213
CF from operating activities	**9,623**	**9,142**	**8,340**	**6,179**	**8,693**
Capital expenditure	6,285	4,698	8,228	4,500	5,000
Inc/(Dec) in investments	626	9,038	3,119	5,397	1,041
Income from investments	704	445	404	464	510
CF from investing activities	**(6,207)**	**(13,291)**	**(10,943)**	**(9,433)**	**(5,530)**
Inc/(Dec) in share capital	-	-	1,330	-	-
Inc/(Dec) in debt	2,457	3,644	4,589	7,568	(757)
Others	(2,288)	(3,371)	(4,780)	(3,113)	(3,113)
CF from financing activities	**169**	**273**	**1,139**	**4,455**	**(3,870)**
Net cash flow	**4,308**	**(3,394)**	**(1,470)**	**1,201**	**(707)**
Opening balance	881	5,189	1,795	326	1,526
Closing balance	**5,189**	**1,795**	**326**	**1,526**	**819**

Growth indicators (%)

Year ended 31 Mar	2010	2011	2012	2013e	2014e
Revenue	21	54	15	8	17
EBITDA	63	59	7	(10)	26
PAT	123	49	(7)	(32)	53
EPS	110	48	(7)	(31)	53

Valuation (x)

Year ended 31 Mar	2010	2011	2012	2013e	2014e
P/E	15.0	10.1	10.8	15.8	10.3
P/BV	1.7	1.6	1.5	1.5	1.4
EV/EBITDA	10.6	7.2	7.2	8.6	6.9
EV/Sales	1.1	0.8	0.7	0.7	0.6
Dividend Yield (%)	3.1	4.2	4.2	4.2	4.2

Financial ratios

Year ended 31 Mar	2010	2011	2012	2013e	2014e
RoE (%)	11.5	15.9	14.0	9.4	13.4
RoCE (%)	11.8	16.0	14.6	11.0	14.3
Debt/Equity (x)	0.6	0.6	0.7	0.9	0.8
EBIT/Interest (x)	6.9	5.0	3.5	2.3	2.9

Source: Company Antique

Current Reco	:	HOLD
Previous Reco	:	HOLD
CMP	:	INR8,790
Target Price	:	INR9,502
Potential Return	:	8%

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Market data

Sector	:	Automobiles
Market Cap (INRbn)	:	276
Market Cap (USDbn)	:	5
O/S Shares	:	31
Free Float (m)	:	9
52-wk HI/LO (INR)	:	9400/6425
Avg Daily Vol ('000)	:	9
Bloomberg	:	BOS IN

Source: Bloomberg

Returns (%)

	1m	3m	6m	12m
Absolute	4	(0)	3	24
Relative	3	(8)	(5)	14

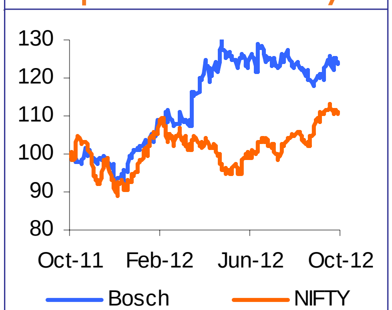
Source: Bloomberg

Shareholding pattern

Promoters	:	71%
FII	:	6%
DII	:	13%
Others	:	10%

Source: Bloomberg

Price performance *vs* Nifty



Source: Bloomberg

Bosch Limited

Keeping head above water...

Business getting less cyclical and more profitable!

The company shies away from disclosing segment-wise details, but with buoyancy in the more profitable CRDi segment, we estimate that Bosch's dependence on CVs is on the decline - we estimate - from 53% of total revenues in CY07e to ~32% currently. Also, based on our analysis, ~1/3rd of CV segment sales is to the aftermarket. This not only makes the business less cyclical, but also more profitable.

Post the next emission norm change (2014), most CVs will become eligible for CRDi as well, which is another long-term margin catalyst. In the interim, an appreciating INR would bode well for margins given that net imports are 20% of sales.

Indian cars would continue to dieselize...

Diesel cars have bucked the trend ever since petrol prices were de-controlled. Notwithstanding an absurd tax on diesel vehicles that could pop-up in the future (unlikely, in our view), we expect this buoyancy in diesel cars to continue.

We aren't extrapolating this huge petrol~diesel disparity over a longer period, but we remain structurally positive on dieselization of the Indian car industry going ahead simply due to the inherent economics of a diesel vehicle (~25% more fuel efficient than its petrol counterpart).

Near monopoly in fuel injection systems (FIS) to keep margins firm

Besides this structural uptrend in margins, Bosch's almost monopolistic position in fuel injection equipment gives it strong pricing power (stark contrast to other ancillaries!). Being a highly consolidated industry, with few players having the required technology, the fuel injection industry has very high entry barriers.

While new players can enter when new models are being introduced, the probability of OEMs moving towards new entrants for such critical engine equipment is low. OEMs involve the FIS player right from the R&D stage (much before the commercial production begins) and once a FIS system is developed for a vehicle, the OEM generally sticks to that player/system for the entire lifecycle of the model.

Structurally strong, but cyclically weak... HOLD!

We recommend a HOLD on account of near-term cyclical headwinds in CVs coupled with the rich valuations. However, we remain convinced about the structural positives in Bosch's business model and we'd advise using the expected weakness in the stock (due to cyclical headwinds) as a buying opportunity.

Key financials (Standalone)

Year ended 31st Dec (INRm)	2009	2010	2011	2012e	2013e
Revenues	48,224	66,991	80,179	90,051	107,591
EBITDA	6,399	10,704	13,705	14,733	18,616
EBITDA Margin (%)	13.3	16.0	17.1	16.4	17.3
Adjusted PAT	5,907	8,589	11,226	11,901	14,918
Adjusted EPS (INR)	188.1	273.5	357.5	379.0	475.1
P/E (x)	46.7	32.1	24.6	23.2	18.5
RoE (%)	21.0	23.7	23.7	20.8	21.5
EV/EBITDA (x)	40.2	23.7	18.8	17.0	13.2
Dividend Yield (%)	0.3	0.5	1.5	0.6	0.8

Source: Company, Antique

Financials

Profit and loss account (INRm)

Year ended 31st Dec.	2009	2010	2011	2012e	2013e
Revenues	48,224	66,991	80,179	90,051	107,591
Expenses	41,825	56,287	66,474	75,318	88,976
EBITDA	**6,399**	**10,704**	**13,705**	**14,733**	**18,616**
Depreciation & amortisation	3,036	2,540	2,578	3,103	3,366
EBIT	**3,362**	**8,165**	**11,127**	**11,629**	**15,250**
Interest expense	(1,306)	(1,144)	(1,843)	1	1
Other income	3,266	2,719	2,770	4,844	5,328
Profit before tax	**7,934**	**12,028**	**15,740**	**16,471**	**20,577**
Taxes incl deferred taxation	2,028	3,439	4,514	4,571	5,659
Profit after tax	**5,907**	**8,589**	**11,226**	**11,901**	**14,918**
Adjusted profit after tax	**5,907**	**8,589**	**11,226**	**11,901**	**14,918**
Adjusted EPS (INR)	**188.1**	**273.5**	**357.5**	**379.0**	**475.1**

Balance sheet (INRm)

Year ended 31st Dec.	2009	2010	2011	2012e	2013e
Share Capital	314	314	314	314	314
Reserves & Surplus	33,538	40,666	46,970	56,782	69,083
Networth	**33,852**	**40,980**	**47,284**	**57,096**	**69,397**
Debt	2,843	2,764	3,071	3,217	3,373
Capital Employed	**36,695**	**43,744**	**50,356**	**60,313**	**72,770**
Gross Fixed Assets	28,712	30,238	35,238	40,238	45,238
Accumulated Depreciation	23,579	25,878	28,456	31,560	34,926
Capital work in progress	997	2,242	3,826	3,826	4,826
Net Assets	**6,129**	**6,602**	**10,608**	**12,504**	**15,138**
Investments	14,176	16,073	16,064	18,473	21,244
Current Assets, Loans & Advances					
Inventory	5,512	8,093	11,831	12,829	15,328
Debtors	5,833	7,210	9,492	10,362	12,380
Cash & Bank balance	10,678	13,259	9,514	14,239	18,446
Loans & advances and others	5,556	8,960	11,525	12,924	14,492
Current Liabilities & Provisions					
Liabilities	8,545	13,371	15,271	16,965	19,534
Provisions	4,658	5,263	5,683	6,535	7,515
Net Current Assets	**14,376**	**18,887**	**21,409**	**26,854**	**33,597**
Deferred tax (assets)/liabilities	(2,014)	(2,182)	(2,276)	(2,482)	(2,791)
Misc.Expenses	-	-	-	-	-
Application of Funds	**36,695**	**43,744**	**50,356**	**60,313**	**72,770**

Per share data

Year ended 31st Dec.	2009	2010	2011	2012e	2013e
No. of shares (m)	31.4	31.4	31.4	31.4	31.4
BVPS (INR)	1,078.1	1,305.2	1,505.9	1,818.4	2,210.2
CEPS (INR)	284.8	354.4	439.6	477.9	582.3
DPS (INR)	30.0	40.0	135.0	56.9	71.3

Margins (%)

Year ended 31st Dec.	2009	2010	2011e	2012	2013e
EBITDA	13.3	16.0	17.1	16.4	17.3
EBIT	7.0	12.2	13.9	12.9	14.2
PAT	12.2	12.8	14.0	13.2	13.9

Source: Company, Antique

Key assumptions

Year ended 31st Dec.	2009	2010	2011	2012e	2013e
Volumes (in millions):					
Fuel Injection Equipment	2.7	3.7	4.4	4.7	5.6
Auto Electricals	1.4	1.5	1.7	1.8	2.1
Injector & Nozzles	16.3	21.5	25.8	28.4	33.5

Cash flow statement (INRm)

Year ended 31st Dec.	2009	2010	2011	2012e	2013e
EBIT	**3,362**	**8,165**	**11,127**	**11,629**	**15,250**
Depreciation & amortisation	3,036	2,540	2,578	3,103	3,366
Interest expense	(1,306)	(1,144)	(1,843)	1	1
(Inc)/Dec in working capital	(1,072)	1,930	6,266	721	2,536
Tax paid	2,344	3,607	4,608	4,777	5,967
CF from operating activities	**6,432**	**6,311**	**4,674**	**9,234**	**10,112**
Capital expenditure	752	2,772	6,584	5,000	6,000
Inc/(Dec) in investments	5,511	1,897	(9)	2,410	2,771
Income from investments	3,266	2,719	2,770	4,844	5,328
CF from investing activities	**(2,996)**	**(1,950)**	**(3,804)**	**(2,566)**	**(3,443)**
Inc/(Dec) in share capital	(6)	-	-	-	-
Inc/(Dec) in debt	199	(79)	308	145	157
Others	(3,003)	(1,461)	(4,922)	(2,089)	(2,618)
CF from financing activities	**(2,809)**	**(1,540)**	**(4,614)**	**(1,943)**	**(2,462)**
Net cash flow	**(30)**	**2,581**	**(3,744)**	**4,724**	**4,207**
Opening balance	10,708	10,678	13,259	9,514	14,239
Closing balance	**10,678**	**13,259**	**9,514**	**14,239**	**18,446**

Growth indicators (%)

Year ended 31st Dec.	2009	2010	2011	2012e	2013e
Revenue	4.4	38.9	19.7	12.3	19.5
EBITDA	(12.5)	67.3	28.0	7.5	26.4
PAT	(6.8)	45.4	30.7	6.0	25.4
EPS	(5.0)	45.4	30.7	6.0	25.4

Valuation (x)

Year ended 31st Dec.	2009	2010	2011	2012e	2013e
P/E	46.7	32.1	24.6	23.2	18.5
P/BV	8.2	6.7	5.8	4.8	4.0
EV/EBITDA	40.2	23.7	18.8	17.0	13.2
EV/Sales	5.3	3.8	3.2	2.8	2.3
Dividend Yield (%)	0.3	0.5	1.5	0.6	0.8

Financial ratios

Year ended 31st Dec.	2009	2010	2011	2012e	2013e
RoE	17.4	21.0	23.7	20.8	21.5
RoCE	18.6	26.2	29.9	29.2	30.3
Debt/Equity (x)	0.1	0.1	0.1	0.1	0.0
EBIT/Interest (x)	(2.6)	(7.1)	(6.0)	8,491.1	22,269.3

Source: Company Antique

Current Reco	: HOLD
Previous Reco	: HOLD
CMP	: INR148
Target Price	: INR146
Potential Return	: -1%

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Market data

Sector	:	Automobiles
Market Cap (INRbn)	:	133
Market Cap (USDbn)	:	3
O/S Shares	:	850
Free Float (m)	:	419
52-wk HI/LO (INR)	:	158/99
Avg Daily Vol ('000)	:	1,130
Bloomberg	:	EXID IN

Source: Bloomberg

Returns (%)

	1m	3m	6m	12m
Absolute	8	15	16	17
Relative	8	6	7	8

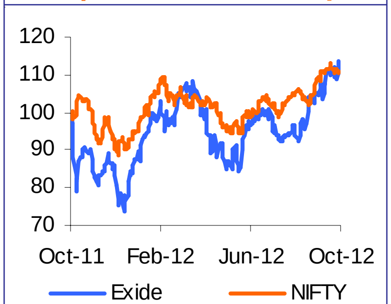
Source: Bloomberg

Shareholding pattern

Promoters	:	46%
FII	:	18%
DII	:	14%
Others	:	23%

Source: Bloomberg

Price performance *vs* Nifty



Source: Bloomberg

Exide Industries Limited

Operating metrics improving, but priced-in!

Operating metrics finally improve...

The much-expected improvement in operating metrics seems to be well underway with an improvement in the replacement:OEM ratio in autos (1.25x currently). This has been on the back of continuous in-roads into the 2W replacement segment, coupled with lower off-take from OEMs overall. Furthermore, the industrial segment (especially UPS/inverters) remains buoyant.

That said, recent growth has been driven by a delayed monsoon (summer being the best time for inverter sales) coupled with a low base - last year same period, inverter sales had fallen by 26% YoY due to an early monsoon coupled with fewer power cuts at the time.

Marginal scope for incremental product mix improvement

Exide's performance over the last year wasn't the fairy tale it was supposed to be. With the lull in OEM sales and capacities coming on stream, the sales mix was expected to improve towards the more profitable replacement segment and the resultant margin swing was expected to be huge. Exide seems to have finally gotten its act together with the much-awaited improvement in the replacement/OEM mix. The management expects the performance to continue improving from here on as it further improves its product mix and exhaust its high cost lead inventory, built over the last 2 quarters.

However, we see less room for any meaningful product mix improvement as OEM off-take could witness an uptick in volumes going ahead. We are only hopeful that replacement would keep pace as the buoyancy in OEM volumes in FY10/11, will translate into strong replacement sales in FY14/15.

Astronomical replacement margins at risk...

Recent market share volatility in the replacement market, coupled with limited pricing power raises questions about the premium that Exide has always commanded for its "brand".

Competition in the aftermarkets is on the rise, which coupled with the limited entry barriers in the battery business, makes us cautious on the company's astronomical margins in the replacement segment.

Bull-case target provides less upside... HOLD!

While the company seems to be entering a strong auto replacement cycle and the improvement in operating metrics is also underway, core battery business trading at a P/E of ~15x our fairly optimistic FY14e estimates seems to capture most of the positives. We maintain HOLD with a target price of INR146 (15x FY14e EPS + INR9 for the company's stake in ING).

Key financials (Standalone)

Year ended 31 Mar (INRm)	2010	2011	2012	2013e	2014e
Revenues	37,940	45,473	51,070	62,953	76,739
EBITDA	8,894	8,786	6,839	8,905	11,570
EBITDA Margin (%)	23.4	19.3	13.4	14.1	15.1
Adjusted PAT	5,371	6,194	4,612	5,912	7,754
Adjusted EPS (INR)	6.3	7.3	5.4	7.0	9.1
Core P/E (x)	22.0	19.1	25.6	20.0	15.2
EV/EBITDA (x)	13.8	13.8	17.6	13.5	10.3
RoE (%)	24.2	22.6	15.1	16.7	18.4
Div Yield (%)	0.7	1.0	0.7	0.7	0.7

Source: Company, Antique

Financials

Profit and loss account (INRm)

Year ended 31 Mar	2010	2011	2012	2013e	2014e
Revenues	37,940	45,473	51,070	62,953	76,739
Expenses	29,046	36,688	44,232	54,048	65,169
EBITDA	**8,894**	**8,786**	**6,839**	**8,905**	**11,570**
Depreciation & amortisation	807	835	1,007	1,179	1,331
EBIT	**8,088**	**7,951**	**5,832**	**7,726**	**10,239**
Interest expense	103	60	53	53	51
Other income	121	1,041	673	773	890
Extraordinary Items	-	469	-	-	-
Profit before tax	8,106	9,402	6,452	8,446	11,077
Taxes incl deferred taxation	2,735	2,738	1,840	2,534	3,323
Profit after tax	**5,371**	**6,664**	**4,612**	**5,912**	**7,754**
Adjusted profit after tax	**5,371**	**6,194**	**4,612**	**5,912**	**7,754**
Adjusted EPS (INR)	**6.3**	**7.3**	**5.4**	**7.0**	**9.1**

Balance sheet (INRm)

Year ended 31 Mar	2010	2011	2012	2013e	2014e
Share Capital	850	850	850	850	850
Reserves & Surplus	21,348	26,575	29,723	34,641	41,401
Networth	**22,198**	**27,425**	**30,573**	**35,491**	**42,251**
Debt	900	22	41	21	10
Capital Employed	**23,098**	**27,446**	**30,615**	**35,512**	**42,261**
Gross Fixed Assets	13,365	15,612	17,532	20,032	22,532
Accumulated Depreciation	6,598	7,253	8,260	9,439	10,770
Capital work in progress	378	660	660	660	660
Net Assets	**7,144**	**9,018**	**9,932**	**11,253**	**12,422**
Investments	13,354	13,780	15,546	17,101	20,521
Current Assets, Loans & Advances					
Inventory	6,068	8,590	9,681	12,073	14,717
Debtors	2,546	3,665	4,023	5,174	6,307
Cash & Bank balance	29	148	577	368	525
Loans & advances and others	476	885	1,185	1,303	1,433
Current Liabilities & Provisions					
Liabilities	4,943	6,603	7,858	9,080	10,732
Provisions	985	1,362	1,646	1,728	1,815
Net Current Assets	**3,190**	**5,323**	**5,962**	**8,110**	**10,436**
Deferred tax (assets)/liabilities	590	675	825	952	1,118
Misc.Expenses	-	-	-	-	-
Application of Funds	**23,098**	**27,446**	**30,615**	**35,512**	**42,261**

Per share data

Year ended 31 Mar	2010	2011	2012	2013e	2014e
No. of shares (m)	850.0	850.0	850.0	850.0	850.0
BVPS (INR)	26.1	32.3	36.0	41.8	49.7
CEPS (INR)	7.3	8.8	6.6	8.3	10.7
DPS (INR)	1.0	1.5	1.0	1.0	1.0

Margins (%)

Year ended 31 Mar	2010	2011	2012	2013e	2014e
EBITDA	23.4	19.3	13.4	14.1	15.1
EBIT	21.3	17.5	11.4	12.3	13.3
PAT	14.2	13.6	9.0	9.4	10.1

Source: Company, Antique

Key assumptions

Year ended 31 Mar	2010e	2011e	2012e	2013e	2014e
Estimated revenue break-up (INRm):					
AUTO:					
4W OEM	6,947	9,613	10,816	12,032	14,113
4W Replacement	12,462	15,247	16,804	22,500	29,835
2W OEM	4,630	6,523	7,929	8,820	9,896
2W Replacement	3,491	3,392	4,123	5,733	7,602
INDUSTRIAL:					
UPS & Inverter	9,785	11,360	11,928	15,506	18,607
Telecom	3,558	3,098	3,098	3,098	3,098
Infrastructure	4,448	6,196	7,495	8,995	10,344

Cash flow statement (INRm)

Year ended 31 Mar	2010	2011	2012	2013e	2014e
EBIT	**8,088**	**7,951**	**5,832**	**7,726**	**10,239**
Depreciation & amortisation	807	835	1,007	1,179	1,331
Interest expense	103	60	53	53	51
(Inc)/Dec in working capital	945	2,015	209	2,357	2,169
Tax paid	2,557	2,653	1,690	2,407	3,157
CF from operating activities	**5,289**	**4,058**	**4,887**	**4,088**	**6,192**
Capital expenditure	1,002	2,529	1,921	2,500	2,500
Inc/(Dec) in investments	6,672	426	1,767	1,555	3,420
Income from investments	121	1,041	673	773	890
CF from investing activities	**(7,553)**	**(1,914)**	**(3,015)**	**(3,281)**	**(5,031)**
Inc/(Dec) in share capital	50	-	-	-	-
Inc/(Dec) in debt	(2,272)	(878)	20	(21)	(10)
Others	4,273	(1,437)	(1,463)	(995)	(994)
CF from financing activities	**2,051**	**(2,315)**	**(1,443)**	**(1,015)**	**(1,005)**
Net cash flow	**(308)**	**119**	**429**	**(209)**	**157**
Opening balance	337	29	148	577	368
Closing balance	**29**	**148**	**577**	**368**	**525**

Growth indicators (%)

Year ended 31 Mar	2010	2011	2012	2013e	2014e
Revenue	11.8	19.9	12.3	20.8	21.9
EBITDA	63.3	(1.2)	(22.2)	46.5	32.2
PAT	88.9	24.1	(30.8)	44.9	33.2
EPS	77.7	15.3	(25.5)	44.9	33.2

Valuation (x)

Year ended 31 Mar	2010	2011	2012	2013e	2014e
PE	24.8	21.5	28.9	20.0	15.0
Core Battery PE	23.4	20.3	27.3	18.8	14.1
P/BV	6.0	4.9	4.4	3.7	3.0
EV/EBITDA	14.7	14.7	18.8	12.7	9.5
EV/Sales	3.4	2.8	2.5	2.1	1.7
Dividend Yield (%)	0.6	1.0	0.6	0.6	0.6

Financial ratios

Year ended 31 Mar	2010	2011	2012	2013e	2014e
RoE	24.2	22.6	15.1	18.4	20.2
RoCE	36.1	33.6	21.7	27.0	29.4
Debt/Equity (x)	0.0	0.0	0.0	0.0	0.0
EBIT/Interest (x)	78.6	131.9	110.0	152.7	193.3

Source: Company Antique

ANTIQUE

Current Reco	:	HOLD
Previous Reco	:	HOLD
CMP	:	INR66
Target Price	:	INR66
Potential Return	:	0%

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Market data

Sector	:	Automobiles
Market Cap (INRbn)	:	7
Market Cap (USDbn)	:	0
O/S Shares	:	106
Free Float (m)	:	84
52-wk HI/LO (INR)	:	93/55
Avg Daily Vol ('000)	:	1,419
Bloomberg	:	ESC IN

Source: Bloomberg

Returns (%)

	1m	3m	6m	12m
Absolute	12	3	(10)	(15)
Relative	11	(5)	(17)	(22)

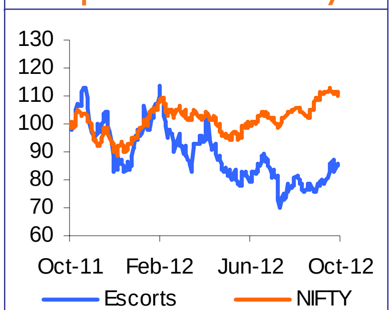
Source: Bloomberg

Shareholding pattern

Promoters	:	33%
FII	:	14%
DII	:	10%
Others	:	43%

Source: Bloomberg

Price performance *vs* Nifty



Source: Bloomberg

Escorts Limited

Reaching for low-hanging fruits!

Recent growth on low base

In 3QFY12 (Sep year-end), revenues were up 17% YoY (8% QoQ), on the back of an 18% YoY (10% QoQ) growth in tractor segment revenues (~90% of segment revenues).

Despite a tough quarter for the tractor industry (M&M's tractor volumes fell 1% YoY, industry volumes up 2.3% YoY), Escorts' tractor volumes were up 14% YoY; 8% QoQ primarily on the back of a low base (last year same quarter, their tractor volumes had fallen 21% YoY).

Tractor margins improve; Auto Anc division finally breaks even

EBITDA margins stood at 6.5% (up 221bps YoY; 97bps QoQ) aided by an expansion in tractor division EBIT margins (at 8.6% - up 267bps YoY; 90bps QoQ). Furthermore, the auto ancillary division finally broke-even with an EBIT loss of just INR0.4m for the quarter (vs. an EBIT loss of INR48.8m YoY; INR28.7m QoQ).

Railway division disappointed with an EBIT margin of 2.1% (down 829bps YoY; 426bps QoQ), but margins for this division are normally quite erratic on a quarterly basis. Based on this improvement in tractor margins and break-even in the Auto Anc division, PAT at INR269m (up 103% YoY; 48% QoQ), beat our estimate of INR150m (consensus 184m).

Multiple margin levers ahead... But it might test your patience!

For most segments (tractors/auto ancs and construction equipment), there are some low-hanging fruits in terms of further margin improvement. Escorts' tractor margins at ~8% remain a staggering ~800bps lower than those of M&M's and hence there is enough headroom for catch-up once utilisation levels increase

Also, the construction equipment division has historically been a 7-8% margin business and scale up to that level remains an additional margin kicker. Hence, multiple margin levers remain. However, we must warn that we have been waiting for these levers to pan out for several quarters now and have continuously been disappointed.

HOLD on wishful thinking...

With headwinds in the tractor industry coupled with Escorts' relatively higher vulnerability to competitive pressures, we remain cautious on the stock.

Valuations have always been cheap {currently at an FY13 (Sep year-ending) P/E of 5.3x, EV/EBITDA of 3.0x, EV/Sales of 0.1x}, as they reflect of the poor return ratios (5-7%) and even poorer track record. Maintain HOLD on some wishful think and a presumption that earnings can't get much worse from here.

Key financials (Consolidated)

Year ended 30th Sept (INRm)	2009	2010	2011	2012e	2013e
Revenues	26,617	33,783	41,234	44,400	49,173
EBITDA	2,224	2,450	2,035	2,256	2,801
EBITDA Margin (%)	8.4	7.3	4.9	5.1	5.7
Adjusted PAT	645	1,266	1,349	981	1,352
Adjusted EPS (INR)	7.1	12.4	13.2	9.6	13.2
PE (X)	9.3	5.3	5.0	6.9	5.0
ROE (%)	4.5	7.5	7.5	5.2	6.8
EV/EBITDA (x)	4.0	3.5	4.2	4.0	3.2
Dividend Yield (%)	1.5	2.4	2.7	1.8	2.3

Source: Company, Antique

Financials

Profit and loss account (INRm)

Year ended 30th Sept	2009	2010	2011	2012e	2013e
Revenues	26,617	33,783	41,234	44,400	49,173
Expenses	24,392	31,333	39,199	42,144	46,372
EBITDA	**2,224**	**2,450**	**2,035**	**2,256**	**2,801**
Depreciation & amortisation	595	532	487	541	559
EBIT	**1,629**	**1,918**	**1,549**	**1,716**	**2,242**
Interest expense (net)	717	181	372	775	836
Other Income	23	19	19	371	408
Exceptional Items	(359)	57	(99)	12	-
Profit before tax	**576**	**1,813**	**1,097**	**1,323**	**1,813**
Taxes incl deferred taxation	290	490	(153)	330	461
Profit after tax	**286**	**1,323**	**1,251**	**993**	**1,352**
Adjusted profit after tax	**645**	**1,266**	**1,349**	**981**	**1,352**
Adjusted EPS (INR)	**7.1**	**12.4**	**13.2**	**9.6**	**13.2**

Balance sheet (INRm)

Year ended 30th Sept	2009	2010	2011	2012e	2013e
Share Capital	907	1,023	1,023	1,023	1,023
Reserves & Surplus	13,446	15,939	16,916	17,771	18,943
Networth	**14,353**	**16,962**	**17,939**	**18,794**	**19,966**
Debt	4,020	4,053	4,893	5,554	5,674
Other Liabilities	401	84	91	91	91
Capital Employed	**18,773**	**21,099**	**22,923**	**24,439**	**25,731**
Gross Fixed Assets	21,949	22,937	23,339	23,989	24,639
Accumulated Depreciation	6,352	6,855	7,342	7,882	8,441
Capital work in progress	123	203	766	766	766
Net Assets	15,720	16,285	16,763	16,872	16,963
Investments	1,169	1,177	1,187	1,736	2,367
Current Assets, Loans & Advances					
Inventory	3,292	4,365	4,991	5,911	6,643
Debtors	4,261	4,501	5,403	6,180	6,965
Cash & Bank balance	1,964	2,117	3,191	3,298	3,414
Loans & advances and others	2,198	3,037	3,369	3,841	4,381
Current Liabilities & Provisions					
Liabilities	8,818	9,108	11,344	12,652	14,156
Provisions	1,370	1,338	790	869	955
Net Current Assets	**1,527**	**3,575**	**4,820**	**5,709**	**6,293**
Deferred tax (assets)/liabilities	(302)	(40)	(132)	(122)	(108)
Misc.Expenses	57	21	21	-	-
Application of Funds	**18,773**	**21,099**	**22,923**	**24,439**	**25,731**

Per share data

Year ended 30th Sept	2009	2010	2011	2012e	2013e
No. of shares (m)	90.7	102.3	102.3	102.3	102.3
BVPS (INR)	158.2	165.8	175.3	183.7	195.2
CEPS (INR)	13.7	17.6	17.9	14.9	18.7
DPS (INR)	1.0	1.6	1.8	1.2	1.5

Margins (%)

Year ended 30th Sept	2009	2010	2011	2012e	2013e
EBITDA	8.4	7.3	4.9	5.1	5.7
EBIT	6.1	5.7	3.8	3.9	4.6
PAT	2.4	3.7	3.3	2.2	2.7

Source: Company, Antique

Key assumptions

Year ended 30th Sept	2009	2010	2011	2012e	2013e
Tractor Volumes (In Nos)	45,627	60,106	63,710	63,710	66,896
YoY Growth (%)	(2.8)	31.7	6.0	0.0	5.0%

Cash flow statement (INRm)

Year ended 30th Sept	2009	2010	2011	2012e	2013e
EBIT	**1,629**	**1,918**	**1,549**	**1,716**	**2,242**
Depreciation & amortisation	595	532	487	541	559
Interest expense	717	181	372	775	836
(Inc)/Dec in working capital	(4,502)	1,895	171	782	467
Tax paid	290	490	(153)	330	461
CF from operating activities	**5,720**	**(116)**	**1,646**	**369**	**1,036**
Capital expenditure	5,724	1,069	964	650	650
Inc/(Dec) in investments	(1,315)	8	10	549	631
Income from investments	23	19	19	371	408
CF from investing activities	**(4,386)**	**(1,058)**	**(955)**	**(828)**	**(873)**
Inc/(Dec) in share capital	-	116	-	-	-
Inc/(Dec) in debt	(4,382)	34	840	661	119
Others	4,624	853	(266)	(139)	(180)
CF from financing activities	**242**	**1,002**	**574**	**522**	**(60)**
Net cash flow	540	153	1,074	107	116
Opening balance	1,423	1,964	2,117	3,191	3,298
Closing balance	**1,964**	**2,117**	**3,191**	**3,298**	**3,414**

Growth indicators (%)

Year ended 30th Sept	2009	2010	2011	2012e	2013e
Revenue	(3.8)	26.9	22.1	7.7	10.7
EBITDA	65.0	10.1	(16.9)	10.9	24.1
PAT	(176.1)	362.6	(5.5)	(20.6)	36.2
EPS	(581.8)	74.0	6.5	(27.3)	37.8
Adj PAT	(581.8)	96.1	6.6	(27.3)	37.8

Valuation (x)

Year ended 30th Sept	2009	2010	2011	2012e	2013e
P/E	9.3	5.3	5.0	6.9	5.0
P/BV	0.4	0.4	0.4	0.4	0.3
EV/EBITDA	4.0	3.5	4.2	4.0	3.2
EV/Sales	0.3	0.3	0.2	0.2	0.2
Dividend Yield (%)	1.5	2.4	2.7	1.8	2.3

Financial ratios

Year ended 30th Sept	2009	2010	2011	2012e	2013e
RoE (%)	4.5	7.5	7.5	5.2	6.8
RoCE (%)	8.7	9.2	7.0	7.2	9.0
Debt/Equity (x)	0.3	0.2	0.3	0.3	0.3
Interest Coverage (x)	2.3	10.6	4.2	2.2	2.7

Source: Company Antique

Notes

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