

Top Research Picks

- ➔ **The Great India Roadtrip: Telangana trip takeaways**
- ➔ **Tata Consultancy Services: Valuations full, limited room for upgrades – cut to SELL**
- ➔ **Maruti Suzuki: Currency headwinds, capacity crunch to take a toll**

28 March 2016



28 March 2016

Religare presents

THE GREAT INDIA ROADTRIP



Telangana trip takeaways

On our three-day roadtrip to Telangana (Hyderabad, Nizamabad and Zaheerabad) over 18-20 Mar'16, we met dealers of construction materials, fertilizers, two wheelers, passenger cars and tractors, visited agricultural markets and rice mills, and interacted with transporters and policymakers. The objective was to get a first-hand account of economic forces at the ground level. Key takeaways:

- Poor rainfall in the last two years has not hurt demand as adversely as one would imagine, particularly in semi-urban areas.
- The state govt. 43% pay hike early last year has boosted consumption demand especially for passenger cars and two-wheelers.
- To attract investments, a very good industrial policy has been put in place, along with a pro-active approach of the govt.
- Telangana has huge growth potential given the large growth disparity across its districts.
- Technology playing a big role in the transformation of the role of state.



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[Click here](#) for the full report.

Key takeaways



- While poor rainfall has hurt agricultural output, demand from semi-urban/rural areas has not been hit as adversely as one would imagine, due to the following: (1) There is far lower dependence of the state on agriculture than the national average; of the two districts we visited near Hyderabad, one has large predominance of cash crops (e.g. turmeric) and crops where there is no govt. procurement to impact prices; the other (Medak) is highly industrialised. (2) Higher crop prices have cushioned farm incomes to some extent. This is reflected in the high sales growth numbers shared by auto and construction material dealers, which highlight strong demand for premium products. Maruti *Swift* and *Dzire* are the new entry-level cars in Hyderabad, while *Glamour* is the best-selling bike for the Hero dealer in Zaheerabad (50% of his total sales). Berger's premium segment products are much more in demand than the ordinary category.
- The state government had hiked salaries of employees by 43% in the FY16 budget. Our channel check indicates that this has led to an increase in car purchases as well as mid-range 2-wheelers by govt. employees over the last 6-8 months, thereby validating our hypothesis of a positive boost from state pay commission hikes. This is very relevant since the central government and some state governments are set to hike salaries in FY17.
- The govt. has enacted a very good industrial policy, having the advantage of late arrival on the learning curve and lessons from other states. While implementation challenges can be countered by strong political will, a family-based ruling party (that usually results in crony capitalism and diminishing returns in due course of time) could emerge as a potential headwind.
- Telangana has huge growth potential given the large economic disparity across its districts. Only two districts – Hyderabad and Medak – have received the attention of policymakers in the past. The remaining eight districts are far behind.
- The state plays an important role in the growth and development process. But that role is increasingly diminishing. Technology is playing a big role in the transformation. TS-iPASS has made life much easier for many new industrial entrants to the state. Micromax could start production in less than four months from the day it applied for setting up plant.
- Given the low soil moisture levels and a drop in reservoir levels, a good rainfall next fiscal is critical. The state govt. has designated irrigation as a focus area and allocated ~Rs 1tn for irrigation projects over the next 4-5 years – the success of this strategy will be key to rainproof the state over the long term.



23 March 2016

SELL

TP: INR 2,300.00

▼ 7.0%

Tata Consultancy Services

TCS IN

Valuations full, limited room for upgrades – cut to SELL

We downgrade TCS to SELL as we believe (1) US\$ revenue growth will continue to moderate (to an 8% CAGR over FY15-FY18E vs. 16% in FY12-FY15), (2) margin upside is limited and thus there is no room for upgrades, and (3) valuations at 17x FY18E P/E are full. The outlook for tech spending remains mixed and we believe TCS' high BFSI (well-penetrated vertical) exposure will be a drag on growth over the medium term. We retain our below-street estimates but cut our rating from HOLD to SELL and our TP from Rs 2,450 to Rs 2,300.

- ➔ **Growth rates moderating:** While TCS continues to execute very well despite the challenges of its size and a mixed global macro environment, we note that it has seen a sharp moderation in US\$ revenue growth from 15-16% YoY during FY12-FY15 to ~8% YoY in FY16E. Weakness in the insurance vertical has contributed to the drop in growth. We expect growth for the industry and TCS to be in the range of 8-9% over the next three years.
- ➔ **Limited room for margin expansion:** TCS already has industry-leading EBIT margins at 26.6% (FY16E). We believe that commoditisation of traditional service lines, more aggressive competition (nearly all players earn margins less than TCS) and slowing growth will put downward pressure on margins. While INR weakness will be a near-term tailwind, over the medium term it will offset margin pressures at best.
- ➔ **Little scope for earnings upgrade:** We are building in an 8% US\$ revenue CAGR (FY15-FY18) for TCS vs. 16% delivered over FY12-FY15. We see limited room for earnings upgrades considering the soft tech spend environment and margin headwinds.
- ➔ **Downgrade to SELL:** Given the sharp drop in growth, we think current multiples of 19x/17x FY17E/FY18E fairly reflect the business and risks remain on the downside. We retain our below-street estimates but downgrade TCS to SELL with a Mar'17 TP of Rs 2,300 (from Rs 2,450) post a cut in target P/E to 16x (from 17x) given slower growth.

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PRICE CLOSE (22 Mar 16)

INR 2,473.10

MARKET CAP

INR 4,873.1 bln

USD 73.0 bln

SHARES O/S

1,957.2 mln

FREE FLOAT

23.5%

3M AVG DAILY VOLUME/VALUE

1.0 mln / USD 36.7 mln

52 WK HIGH

INR 2,770.00

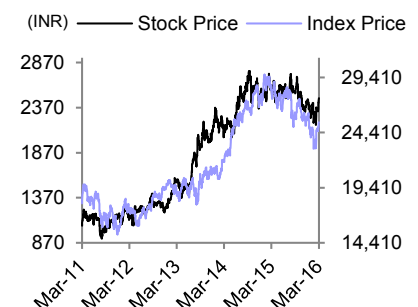
52 WK LOW

INR 2,115.00

Financial Highlights

Y/E 31 Mar	FY14A	FY15A	FY16E	FY17E	FY18E
Revenue (INR mln)	818,094	946,484	1,083,673	1,187,875	1,290,844
EBITDA (INR mln)	246,659	240,682	301,318	331,157	361,208
Adjusted net profit (INR mln)	191,087	196,483	238,976	260,048	287,338
Adjusted EPS (INR)	97.6	100.3	121.3	131.2	144.9
Adjusted EPS growth (%)	37.0	2.8	20.9	8.2	10.5
DPS (INR)	16.0	79.0	57.7	57.8	58.4
ROIC (%)	52.6	46.1	54.2	55.7	57.6
Adjusted ROAE (%)	39.7	34.8	37.4	32.7	27.9
Adjusted P/E (x)	25.3	24.7	20.4	18.9	17.1
EV/EBITDA (x)	19.2	19.2	15.4	13.7	12.1
P/BV (x)	8.8	8.4	7.0	5.5	4.2

Source: Company, Bloomberg, RCML Research



SELL

TP: INR 2,300.00

▼ 7.0%

Tata Consultancy Services

TCS IN



Company Update

INDIA

INFORMATION TECHNOLOGY

Per Share Data

Y/E 31 Mar (INR)	FY14A	FY15A	FY16E	FY17E	FY18E
Reported EPS	97.6	100.3	121.3	131.2	144.9
Adjusted EPS	97.6	100.3	121.3	131.2	144.9
DPS	16.0	79.0	57.7	57.8	58.4
BVPS	282.5	293.4	355.4	447.8	592.7

Valuation Ratios

Y/E 31 Mar (x)	FY14A	FY15A	FY16E	FY17E	FY18E
EV/Sales	5.8	4.9	4.3	3.8	3.4
EV/EBITDA	19.2	19.2	15.4	13.7	12.1
Adjusted P/E	25.3	24.7	20.4	18.9	17.1
P/BV	8.8	8.4	7.0	5.5	4.2

Financial Ratios

Y/E 31 Mar	FY14A	FY15A	FY16E	FY17E	FY18E
Profitability & Return Ratios (%)					
EBITDA margin	30.2	25.4	27.8	27.9	28.0
EBIT margin	29.1	24.1	26.6	26.7	26.8
Adjusted profit margin	23.4	20.8	22.1	21.9	22.3
Adjusted ROAE	39.7	34.8	37.4	32.7	27.9
ROCE	36.9	30.3	33.9	30.1	25.0
YoY Growth (%)					
Revenue	29.9	15.7	14.5	9.6	8.7
EBITDA	39.6	(2.4)	25.2	9.9	9.1
Adjusted EPS	37.0	2.8	20.9	8.2	10.5
Invested capital	15.5	5.4	8.8	4.4	4.3
Working Capital & Liquidity Ratios					
Receivables (days)	72	75	74	75	75
Inventory (days)	31	27	25	25	25
Payables (days)	0	0	0	0	0
Current ratio (x)	4.2	3.4	4.3	5.2	6.6
Quick ratio (x)	1.9	1.5	2.2	3.1	4.4
Turnover & Leverage Ratios (x)					
Gross asset turnover	5.9	5.7	5.8	6.0	6.1
Total asset turnover	1.4	1.3	1.3	1.2	1.1
Net interest coverage ratio	0.0	0.0	0.0	0.0	0.0
Adjusted debt/equity	(0.4)	(0.4)	(0.4)	(0.5)	(0.6)

DuPont Analysis

Y/E 31 Mar (%)	FY14A	FY15A	FY16E	FY17E	FY18E
Tax burden (Net income/PBT)	75.3	75.8	76.0	76.2	75.2
Interest burden (PBT/EBIT)	106.6	113.8	109.2	107.7	110.5
EBIT margin (EBIT/Revenue)	29.1	24.1	26.6	26.7	26.8
Asset turnover (Revenue/Avg TA)	135.2	131.6	133.7	122.7	106.1
Leverage (Avg TA/Avg equities)	125.6	127.5	126.7	121.7	117.9
Adjusted ROAE	39.7	34.8	37.4	32.7	27.9

SELL

TP: INR 2,300.00

▼ 7.0%

Tata Consultancy Services

TCS IN



Company Update

INDIA

INFORMATION TECHNOLOGY

Income Statement

YE 31 Mar (INR mln)	FY14A	FY15A	FY16E	FY17E	FY18E
Total revenue	818,094	946,484	1,083,673	1,187,875	1,290,844
EBITDA	246,659	240,682	301,318	331,157	361,208
EBIT	238,079	227,964	287,934	316,875	345,993
Net interest income/(expenses)	12,986	15,246	17,282	22,367	34,186
Other income/(expenses)	2,823	16,150	9,160	2,000	2,000
Exceptional items	0	0	0	0	0
EBT	253,888	259,360	314,377	341,242	382,178
Income taxes	(60,712)	(60,829)	(74,319)	(81,898)	(95,545)
Extraordinary items	0	0	0	0	0
Min. int./Inc. from associates	(2,089)	(2,048)	(1,082)	704	704
Reported net profit	191,087	196,483	238,976	260,048	287,338
Adjustments	0	0	0	0	0
Adjusted net profit	191,087	196,483	238,976	260,048	287,338

Balance Sheet

YE 31 Mar (INR mln)	FY14A	FY15A	FY16E	FY17E	FY18E
Accounts payables	0	0	0	0	0
Other current liabilities	109,056	144,281	141,473	153,400	166,390
Provisions	0	0	0	0	0
Debt funds	2,969	3,576	1,781	1,781	1,781
Other liabilities	16,845	17,776	20,335	20,335	20,335
Equity capital	1,959	1,959	1,970	1,970	1,970
Reserves & surplus	551,393	572,810	702,575	885,690	1,173,028
Shareholders' fund	553,352	574,769	704,545	887,661	1,174,998
Total liabilities and equities	689,125	749,537	870,967	1,066,009	1,366,337
Cash and cash eq.	211,090	216,512	306,662	471,281	739,790
Accounts receivables	182,304	204,399	235,386	255,230	276,843
Inventories	40,056	38,270	41,862	45,391	49,234
Other current assets	28,495	36,996	32,899	35,672	38,693
Investments	0	0	0	0	0
Net fixed assets	103,644	115,715	116,528	114,805	112,147
CWIP	0	0	0	0	0
Intangible assets	0	0	0	0	0
Deferred tax assets, net	0	0	0	0	0
Other assets	123,536	137,645	137,630	143,630	149,630
Total assets	689,125	749,538	870,967	1,066,009	1,366,337

Cash Flow Statement

YE 31 Mar (INR mln)	FY14A	FY15A	FY16E	FY17E	FY18E
Net income + Depreciation	199,667	209,201	252,359	274,330	302,553
Interest expenses	0	0	0	0	0
Non-cash adjustments	0	0	0	0	0
Changes in working capital	7,508	6,415	(33,289)	(14,220)	(15,487)
Other operating cash flows	2,089	2,048	1,082	(704)	(704)
Cash flow from operations	209,264	217,665	220,152	259,406	286,362
Capital expenditures	(30,280)	(24,789)	(14,197)	(12,558)	(12,558)
Change in investments	0	(1)	(499)	(2,000)	(2,000)
Other investing cash flows	(35,366)	(14,109)	515	(4,000)	(4,000)
Cash flow from investing	(65,646)	(38,899)	(14,181)	(18,558)	(18,558)
Equities issued	(10,446)	6,904	6,542	0	0
Debt raised/repaid	646	607	(1,795)	0	0
Interest expenses	0	0	0	0	0
Dividends paid	(36,848)	(181,971)	(115,741)	(76,933)	0
Other financing cash flows	1,321	1,114	(4,825)	704	704
Cash flow from financing	(45,328)	(173,345)	(115,819)	(76,229)	704
Changes in cash and cash eq	98,290	5,420	90,152	164,619	268,508
Closing cash and cash eq	211,090	216,511	306,664	471,281	739,790

23 March 2016
BUY
TP: INR 4,100.00
▲ 10.8%

Maruti Suzuki

MSIL IN

Currency headwinds, capacity crunch to take a toll

MSIL has delivered strong volume growth and market share gains over the last two years supported by new launches. Capacity constraints, however, could cap volume growth at an 11% CAGR (vs. 13% expected previously) over the next two years. Adverse yen movement would hit margins as well. We maintain BUY but cut earnings by 10% each for FY17 and FY18 to factor in the lower volumes and margins. Post-earnings revision, our Mar'17 TP reduces to Rs 4,100 (from Rs 4,700) set at 18x one-year forward earnings.

- ➔ **New launches filling in portfolio gaps:** MSIL has benefitted the most from a recovery in passenger vehicle volumes. After an industry-wide decline of 2.4% over FY12-FY14, MSIL's domestic volumes are likely to grow at ~11% over FY14-FY16E with market share expanding to 47% from 38% in FY12. Recent and upcoming launches have been targeted towards filling gaps in its product portfolio.
- ➔ **Capacity crunch to hit volume growth:** We expect MSIL to hit a capacity roadblock in FY17 despite efforts at debottlenecking its stated manufacturing capacity of 1.55mn units. The Gujarat plant is expected to add 0.25mn units of capacity only in FY18. Production constraints would limit volume growth to an 11% CAGR over FY16-FY18 even after considering new model launches in the pipeline.
- ➔ **Adverse currency movement to hit margins in FY17:** The yen has appreciated by ~8% against the rupee in the last three months. With ~21% of cost including royalty denominate in the Japanese yen, MSIL will incur a hit on margins in FY17. We accordingly cut our margin estimates to 15%/15.1% for FY17/FY18 from 15.7%/15.5%.
- ➔ **Earnings cut; maintain BUY:** We cut our earnings estimate by 10% for FY17 and FY18 to factor in lower volume growth and margins. Our Mar'17 TP thus stands revised to Rs 4,100 (from Rs 4,700 earlier) set at 18x one-year forward earnings.

Financial Highlights

Y/E 31 Mar	FY14A	FY15A	FY16E	FY17E	FY18E
Revenue (INR mln)	437,918	499,706	580,755	668,267	759,082
EBITDA (INR mln)	51,871	67,129	91,608	100,173	114,594
Adjusted net profit (INR mln)	27,830	37,112	48,023	55,518	67,706
Adjusted EPS (INR)	92.1	122.9	159.0	183.8	224.1
Adjusted EPS growth (%)	16.3	33.4	29.4	15.6	22.0
DPS (INR)	12.0	25.0	25.0	25.0	25.0
ROIC (%)	19.4	27.7	35.6	33.7	38.6
Adjusted ROAE (%)	14.1	16.6	18.7	18.5	19.2
Adjusted P/E (x)	40.2	30.1	23.3	20.1	16.5
EV/EBITDA (x)	20.7	15.3	10.8	9.9	8.3
P/BV (x)	5.3	4.7	4.0	3.5	2.9

Source: Company, Bloomberg, RCML Research



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PRICE CLOSE (22 Mar 16)

INR 3,699.55

MARKET CAP

INR 1,117.6 bln
USD 16.8 bln

SHARES O/S

302.1 mln

FREE FLOAT

43.8%

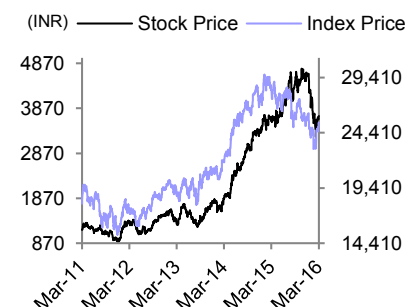
3M AVG DAILY VOLUME/VALUE

0.9 mln / USD 51.6 mln

52 WK HIGH

INR 4,790.00

52 WK LOW

INR 3,193.25


BUY

TP: INR 4,100.00

▲ 10.8%

Maruti Suzuki

MSIL IN



Company Update

INDIA

AUTOMOBILES

Per Share Data

Y/E 31 Mar (INR)	FY14A	FY15A	FY16E	FY17E	FY18E
Reported EPS	92.1	122.9	159.0	183.8	224.1
Adjusted EPS	92.1	122.9	159.0	183.8	224.1
DPS	12.0	25.0	25.0	25.0	25.0
BVPS	694.5	784.7	914.6	1,069.4	1,264.4

Valuation Ratios

Y/E 31 Mar (x)	FY14A	FY15A	FY16E	FY17E	FY18E
EV/Sales	2.4	2.1	1.7	1.5	1.3
EV/EBITDA	20.7	15.3	10.8	9.9	8.3
Adjusted P/E	40.2	30.1	23.3	20.1	16.5
P/BV	5.3	4.7	4.0	3.5	2.9

Financial Ratios

Y/E 31 Mar	FY14A	FY15A	FY16E	FY17E	FY18E
Profitability & Return Ratios (%)					
EBITDA margin	11.8	13.4	15.8	15.0	15.1
EBIT margin	7.1	8.5	11.0	10.4	10.6
Adjusted profit margin	6.4	7.4	8.3	8.3	8.9
Adjusted ROAE	14.1	16.6	18.7	18.5	19.2
ROCE	11.1	13.9	17.8	16.9	17.1
YoY Growth (%)					
Revenue	0.5	14.1	16.2	15.1	13.6
EBITDA	22.6	29.4	36.5	9.3	14.4
Adjusted EPS	16.3	33.4	29.4	15.6	22.0
Invested capital	(0.5)	(8.2)	32.1	5.0	2.8
Working Capital & Liquidity Ratios					
Receivables (days)	12	8	11	11	11
Inventory (days)	21	22	22	19	19
Payables (days)	43	44	37	30	31
Current ratio (x)	0.8	0.7	1.1	1.1	1.1
Quick ratio (x)	0.1	0.0	0.0	0.0	0.0
Turnover & Leverage Ratios (x)					
Gross asset turnover	2.2	2.1	2.1	2.2	2.2
Total asset turnover	1.6	1.6	1.7	1.8	1.7
Net interest coverage ratio	17.6	20.6	75.2	97.4	112.7
Adjusted debt/equity	0.1	0.0	0.0	0.0	0.0

DuPont Analysis

Y/E 31 Mar (%)	FY14A	FY15A	FY16E	FY17E	FY18E
Tax burden (Net income/PBT)	76.1	76.2	72.0	73.0	75.0
Interest burden (PBT/EBIT)	117.9	114.7	104.1	109.0	111.8
EBIT margin (EBIT/Revenue)	7.1	8.5	11.0	10.4	10.6
Asset turnover (Revenue/Avg TA)	155.6	158.4	170.1	175.9	171.9
Leverage (Avg TA/Avg equities)	142.3	141.2	133.0	126.8	125.3
Adjusted ROAE	14.1	16.6	18.7	18.5	19.2

BUY

TP: INR 4,100.00

▲ 10.8%

Maruti Suzuki

MSIL IN



Company Update

INDIA

AUTOMOBILES

Income Statement

YE 31 Mar (INR mln)	FY14A	FY15A	FY16E	FY17E	FY18E
Total revenue	437,918	499,706	580,755	668,267	759,082
EBITDA	51,871	67,129	91,608	100,173	114,594
EBIT	31,027	42,426	64,066	69,751	80,743
Net interest income/(expenses)	(1,759)	(2,060)	(852)	(716)	(716)
Other income/(expenses)	7,317	8,316	3,485	7,017	10,248
Exceptional items	0	0	0	0	0
EBT	36,585	48,682	66,698	76,052	90,274
Income taxes	(8,755)	(11,570)	(18,675)	(20,534)	(22,569)
Extraordinary items	0	0	0	0	0
Min. int./Inc. from associates	0	0	0	0	0
Reported net profit	27,830	37,112	48,023	55,518	67,706
Adjustments	0	0	0	0	0
Adjusted net profit	27,830	37,112	48,023	55,518	67,706

Balance Sheet

Y/E 31 Mar (INR mln)	FY14A	FY15A	FY16E	FY17E	FY18E
Accounts payables	48,975	55,614	43,585	50,783	57,730
Other current liabilities	13,382	18,658	11,615	13,365	15,182
Provisions	8,757	16,530	17,753	17,753	17,753
Debt funds	16,851	1,802	1,802	1,802	1,802
Other liabilities	2,386	1,054	1,054	1,054	1,054
Equity capital	1,510	1,510	1,510	1,510	1,510
Reserves & surplus	208,270	235,532	274,779	321,522	380,452
Shareholders' fund	209,780	237,042	276,289	323,032	381,962
Total liabilities and equities	300,131	330,700	352,098	407,789	475,483
Cash and cash eq.	6,297	183	3,531	2,893	2,507
Accounts receivables	14,137	10,698	17,502	20,140	22,876
Inventories	17,059	26,150	21,793	25,391	28,865
Other current assets	32,674	28,477	36,588	42,101	47,822
Investments	101,179	128,140	128,176	168,176	223,176
Net fixed assets	106,077	119,670	127,128	131,706	132,855
CWIP	26,214	18,828	18,828	18,828	18,828
Intangible assets	1,827	2,923	2,923	2,923	2,923
Deferred tax assets, net	(5,866)	(4,810)	(4,810)	(4,810)	(4,810)
Other assets	533	441	441	441	441
Total assets	300,131	330,700	352,098	407,789	475,483

Cash Flow Statement

Y/E 31 Mar (INR mln)	FY14A	FY15A	FY16E	FY17E	FY18E
Net income + Depreciation	48,674	61,815	75,565	85,939	101,557
Interest expenses	(510)	974	(2,632)	(6,301)	(9,531)
Non-cash adjustments	0	0	0	0	0
Changes in working capital	7,531	8,356	(29,629)	(2,801)	(3,168)
Other operating cash flows	(6,690)	(7,039)	(540)	0	0
Cash flow from operations	49,005	64,106	42,763	76,837	88,858
Capital expenditures	(34,984)	(32,468)	(35,000)	(35,000)	(35,000)
Change in investments	(16,436)	(14,589)	(36)	(40,000)	(55,000)
Other investing cash flows	2,491	(3,542)	4,025	7,017	10,248
Cash flow from investing	(48,929)	(50,599)	(31,011)	(67,983)	(79,752)
Equities issued	0	0	0	0	0
Debt raised/repaid	3,784	(13,282)	0	0	0
Interest expenses	(1,615)	(2,098)	(852)	(716)	(716)
Dividends paid	(2,828)	(4,241)	(7,552)	(8,775)	(8,775)
Other financing cash flows	(870)	0	0	0	0
Cash flow from financing	(1,529)	(19,621)	(8,404)	(9,492)	(9,492)
Changes in cash and cash eq	(1,453)	(6,114)	3,348	(638)	(386)
Closing cash and cash eq	6,297	183	3,531	2,893	2,507

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