



## Index

- ♦ Stock Update >> [IL&FS Transportation Networks](#)
- ♦ Viewpoint >> [HSIL](#)

For Private Circulation only

## IL&FS Transportation Networks

Emerging Star

Stock Update

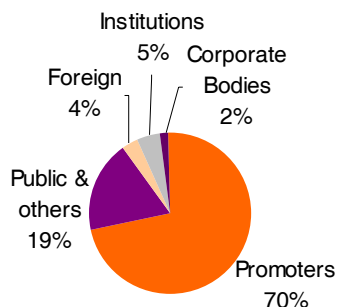
Expected easing of competitive intensity is favourable

Buy; CMP: Rs167

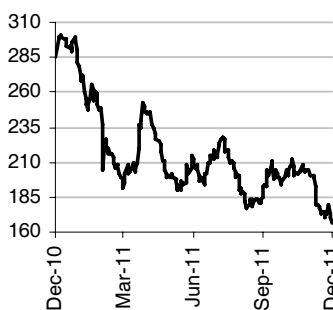
### Company details

Price target:	Rs330
Market cap:	Rs3,242 cr
52 week high/low:	Rs306/165
NSE volume: (No of shares)	68,311
BSE code:	533177
NSE code:	IL&FSTRANS
Sharekhan code:	IL&FSTRANS
Free float: (No of shares)	5.59 cr

### Shareholding pattern



### Price chart



### Price performance

(%)	1m	3m	6m	12m
Absolute	-17.2	-8.1	-19.9	-42.2
Relative to Sensex	-11.8	-4.4	-11.4	-31.9

We recently met the management of IL&FS Transportation Network Ltd (ITNL). The key takeaways from the meeting are presented below.

- Preferred bidder for Chongqing Expressway group:** The company has emerged as the preferred bidder for acquiring a 49% equity stake in Chongqing Yuhe Expressway Co (Chongqing Yuhe) in China. Chongqing Yuhe operates 58 kilometre of Yu He Expressway in Chongqing, located in southwest China, with the toll concession rights till 2032. The road project has been operational for the last nine years. The expressway is significant because it connects to a major industrial belt in the Chongqing region, thereby allowing the Chinese company to enjoy consistent traffic flow throughout the year and offering a decent growth prospect. Further, the Chongqing municipality has assured an annuity based payment on a certain part of the road the stretch beyond which will be tolled. However, the contours of the deal would be known by the end of this month after the signing of the agreement by both the parties.
- About Chongqing (southwest China):** Chongqing is the biggest city in China and is the only major metropolitan area of the country. Further, Chongqing is one of the only four cities in China to have the status of "municipality". The population of the city is estimated at 31,442,300 (2007 data) potentially making Chongqing the largest city in the world. It endorses a Chongqing Shuangqiao Industrial Park that was established in March 2003.
- Management expects bidding to moderate with financial closure getting difficult:** The management of ITNL reiterated that some moderation was observed in the bidding activity for the nine projects that opened in the last two weeks. The difference between the lowest bid and the second lowest bid

### Valuation

Particulars	FY09	FY10	FY11	FY12E	FY13E
Net sales (Rs cr)	1,198.2	2,407.9	4,048.2	5,353.3	6,214.6
% Y-o-Y growth	231.4	101.0	68.1	32.2	16.1
EBITDA (Rs cr)	166.1	799.2	1,154.3	1,475.9	1,783.6
Margins %	13.9	33.2	28.5	27.6	28.7
Adj. net profit (Rs cr)	0.7	344.3	432.3	478.1	525.9
% Y-o-Y growth	-99.3	52,066.5	25.6	10.6	10.0
Shares in issue (cr)	17.1	19.4	19.4	19.4	19.4
EPS (Rs )	0.0	17.7	22.3	24.6	27.1
% Y-o-Y growth	-99.3	45,929.8	25.6	10.6	10.0
PER (x)	4,334.7	9.4	7.5	6.8	6.2
Book value (Rs)	51.7	85.9	115.3	161.6	184.5
P/BV (Rs)	3.2	1.9	1.4	1.0	0.9
RoCE (%)	7.0	19.9	17.6	14.4	11.9
RoNW (%)	0.1	27.0	22.1	17.8	15.6

has come down but the gap between the lowest and the highest bid remains large. Further, against the expectations of the National Highways Authority of India (NHAI) that certain projects would require grants, it ended up getting high premiums. However, the ITNL management expects the difficulty in achieving financial closure over the next two to three months to bring in rationality in the bidding process. A majority of the projects awarded so far in this fiscal have not been able to achieve financial closure and doing the same looks difficult as banks have turned very cautious. The consequences of this will be felt once the six-month deadline for achieving financial closure is crossed.

- ♦ **Looking at distressed assets but valuation not supportive:** Since May'2010 the company has not been able to bag any major build-own-transfer project excluding one or two small state projects. This is a cause for concern. However, the company's management is not willing to bid aggressively. It believes that the bidding activity would moderate in the next two to three months when the already awarded projects would fail to meet their deadline for achieving financial closure. That should give ITNL an opportunity to bag some projects. Moreover, the company is also looking at acquiring distressed assets or assets that have been put on sale by developers to mobilise funds for newer projects. However, the

valuation is a big concern due to the large difference between the seller's and buyer's expectations. The developers are expecting a valuation of 1.5-2x price/book value, which is a significant premium in the current market scenario. This is the reason why we have not seen many deals happening even though many developers are trying to raise funds.

- ♦ **Expected moderation favourable; Maintain Buy:** In view of ITNL's leadership in the road vertical, its strong relationship with state governments, its relatively diversified and derisked business portfolio, and strong parentage we remain positive on the company for two key reasons: 1) Given its strong parentage and scale of operations, the company stands to gain from the expected consolidation in the sector; 2) Order inflow is likely to improve on the back of expected moderation in competitive intensity as smaller players are unable to achieve financial closure. On the flip side, the FY2013/14 estimates are at risk if the company is unable to bag decent projects over the next 3-6 months. Currently, its order book stands at Rs8,900 crore, that is 3.5x its FY2011 construction revenues to be executed over the next two to three years. At the current market price the stock is trading at 6.8x and 6.2x its FY2012E and FY2013E earnings. Hence we maintain our Buy rating on the stock with a price target of Rs330.

"Sharekhan Limited, its analyst or dependant(s) of the analyst might be holding or having a position in the companies mentioned in the article."

# HSIL

## Viewpoint

### Challenging environment ahead

CMP: Rs142

We recently interacted with the management of HSIL to get an update on the company's ongoing capacity expansion programme and its outlook on the industry.

#### About company

HSIL operates in two key business segments, namely sanitary ware and container glass division. Each business segment contributes 50% revenue. The company sells sanitary ware under the *Hindware* brand and manufactures glass under the *AGI* brand. While it is the number one player in the sanitary ware market with a 40% market share, it is the second largest player in the container glass space with a 17% market share (70% market share in southern India, the biggest market for container glass). It operates through its five facilities including the facility for manufacturing faucets recently acquired from Havells India. Over the next three to four years, HSIL is targeting a healthy growth in its revenue through the commissioning of its new capacities in sanitary ware and container glass.

#### ◆ Demand for sanitary ware growing at healthy pace

The size of the Indian sanitary ware market is estimated at Rs17 billion with the organised segment accounting for about 60% share. The organised segment is growing at over 12% per annum and we expect the growth to sustain driven by the increased demand for new houses and the burgeoning young earners with a rising disposable income. Being the largest domestic player in the sanitary ware business HSIL is likely to benefit the most from this incremental demand. However, the slowdown in the property market in recent times has affected the overall volume growth of this industry.

#### ◆ Demand for container glass is improving in domestic as well as international market

The container glass industry has not yet attained its full growth potential in India. It is growing at the rate of 8-10% annually, but it is capable of a much better performance by increasing the scale of business, acquiring advanced technologies and deepening consumer connect. The company finds great opportunity in this segment in both the domestic and the international market. Currently, the company exports 10% of its output to Africa and South East Asia. It also plans to cater to the Middle East, Africa and Australia.

#### ◆ Capacity expansion to support volume growth in sanitary ware and container glass

To increase its market share in both business segments (ie sanitary ware and container glass) the company is expanding its production capacities. Presently its sanitary ware production capacity stands at 35,000 tonne. As per the expansion plan, the company is increasing the sanitary ware production capacity at its Bibinagar plant by 7 lakh pieces and at its Bahadurgarh plant by 3 lakh pieces. This will take the overall sanitary ware production capacity of the company to 45,000 tonne by the end of FY2013 as compared with 35,000 tonne currently. Its container glass production capacity stands at 16,431 lakh pieces. In order to increase its market share in this segment the company is setting up new projects in Gujarat and Rajasthan, and expanding the capacity at its Bhongir plant by 475 tonne per day, taking the total container glass capacity to around 25,100 lakh pieces. The capital expenditure (capex) on the capacity addition is estimated at Rs650 crore and the project will be funded through a mix of internal accruals and debt. The debt-to-equity ratio of the company is comfortable at 0.6x on FY2011.

#### ◆ Achieved revenue CAGR of 47% in FY2007-11, management expects to maintain 25% revenue growth going ahead

With the support of volume growth and increase in the average realisation, the company's revenue during FY2007-11 grew at a compounded annual growth rate (CAGR) of 47.2%. In addition to the strong revenue growth the company has witnessed a consistent improvement in its operating profit margin (OPM). Hence the net profit grew at a CAGR of 73.2% during FY2007-11. Going ahead, the management expects to maintain the revenue growth at 25%. However, looking at the current scenario in the real estate market, achieving a 25% revenue growth could be a challenging task for the company.

#### Key risks

1. A longer than expected slowdown in the real estate market will affect the demand for building products

while sharp volatility in prices of soda ash can affect the margins in the container glass division.

- Moreover, in order to fund the huge capex of Rs650 crore it could see an increase in its debt-to-equity ratio, which presently stands at 0.6x. This will increase the interest burden on the earnings of the company.
- The return on equity (RoE), which stands at 15%, could fall to around 10% in the coming two years.

### Outlook and valuation

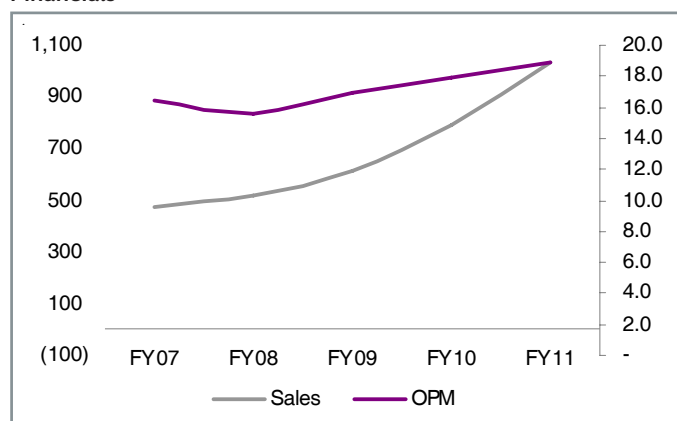
The company has a strong financial track record in terms of earnings. It is also operationally efficient. With the new

capacities coming on stream in the next two years the company is well placed to capture the incremental demand in both the sanitary ware and container glass markets. The company's management is confident of achieving a 25% growth in its revenue in the coming years. However, a longer than expected slowdown in the real estate market (which is the key consumer of its sanitary ware) and an increase in the price of soda ash could adversely affect the performance of the company. At the current market price the stock is trading at price-to-earnings ratio of 10.7x, discounting its FY2011 earnings per share. On a comparative basis, the stock's valuation is in line with that of its peers despite its lower return ratios.

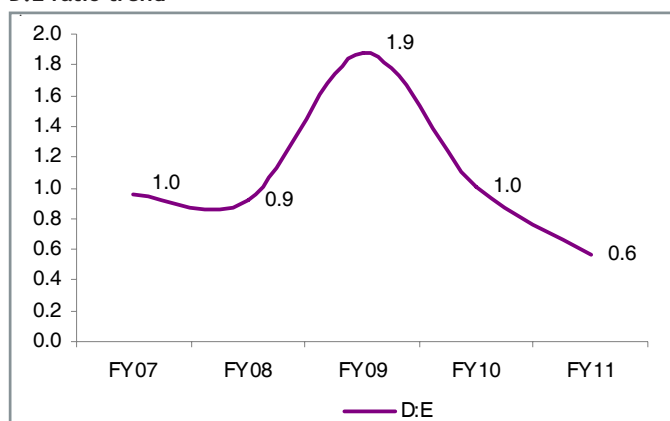
### Peer comparison

Company	CMP	M.Cap	EPS (Rs)	FY2011		
				PE (x)	RoE (%)	RoCE (%)
HSIL	142	938	13.3	10.7	15.0	10.0
CERA	181	229	27.8	6.5	26.5	33.4
Kajaria Ceramics	103	753	8.24	12.5	29.5	25.6

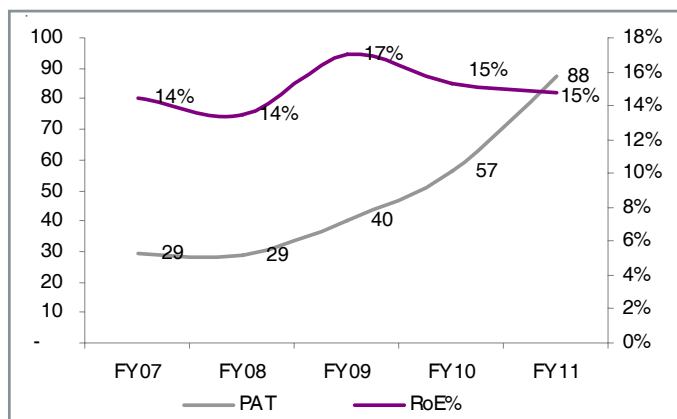
### Financials



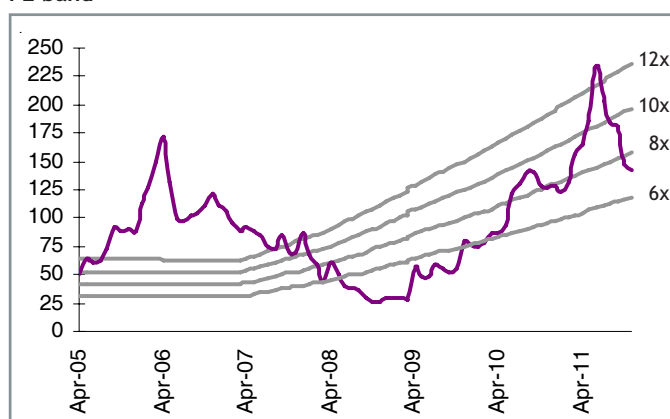
### D:E ratio trend



### PAT and RoE%



### PE band



"Sharekhan Limited, its analyst or dependant(s) of the analyst might be holding or having a position in the companies mentioned in the article."

## Sharekhan Stock Idea

### Evergreen

Housing Development Finance Corporation  
HDFC Bank  
Infosys  
Larsen & Toubro  
Reliance Industries  
Tata Consultancy Services

### Apple Green

Aditya Birla Nuvo  
Apollo Tyres  
Bajaj Auto  
Bajaj FinServ  
Bajaj Holdings & Investment  
Bank of Baroda  
Bank of India  
Bharat Electronics  
Bharat Heavy Electricals  
Bharti Airtel  
Corporation Bank  
Crompton Greaves  
Divi's Laboratories  
GAIL India  
Glenmark Pharmaceuticals  
Godrej Consumer Products  
Grasim Industries  
HCL Technologies  
Hindustan Unilever  
ICICI Bank  
Indian Hotels Company  
ITC  
Mahindra & Mahindra  
Marico  
Maruti Suzuki India  
Lupin  
Piramal Healthcare (Nicholas Piramal India)  
PTC India  
Punjab Lloyd  
Sintex Industries  
State Bank of India  
Tata Global Beverages (Tata Tea)  
Wipro

### Cannonball

Allahabad Bank  
Andhra Bank  
IDBI Bank  
Madras Cements  
Phillips Carbon Black  
Shree Cement

### Emerging Star

Axis Bank (UTI Bank)  
Cadila Healthcare  
Eros International Media  
Greaves Cotton  
IL&FS Transportation Networks  
IRB Infrastructure Developers  
Max India  
Opto Circuits India  
Thermax  
Yes Bank  
Zyduz Wellness

### Ugly Duckling

Ashok Leyland  
Bajaj Corp  
CESC  
Deepak Fertilisers & Petrochemicals Corporation  
Federal Bank  
Gayatri Projects  
Genus Power Infrastructures  
India Cements  
Ipca Laboratories  
ISMT  
Jaiprakash Associates  
Kewal Kiran Clothing  
NIIT Technologies  
Orbit Corporation  
Polaris Software Lab  
Pratibha Industries  
Provogue India  
Punjab National Bank  
Ratnamani Metals and Tubes  
Raymond  
Selan Exploration Technology  
Shiv-Vani Oil & Gas Exploration Services  
Subros  
Sun Pharmaceutical Industries  
Torrent Pharmaceuticals  
UltraTech Cement  
Union Bank of India  
United Phosphorus  
V-Guard Industries

### Vulture's Pick

Mahindra Lifespace Developers  
Orient Paper and Industries  
Tata Chemicals  
Unity Infraprojects

To know more about our [products and services](#) [click here](#).



Attend a **FREE Power Trading Workshop**

[Click here to know more](#)

#### Disclaimer

"This document has been prepared by Sharekhan Ltd. (SHAREKHAN) This Document is subject to changes without prior notice and is intended only for the person or entity to which it is addressed to and may contain confidential and/or privileged material and is not for any type of circulation. Any review, retransmission, or any other use is prohibited. Kindly note that this document does not constitute an offer or solicitation for the purchase or sale of any financial instrument or as an official confirmation of any transaction.

Though disseminated to all the customers simultaneously, not all customers may receive this report at the same time. SHAREKHAN will not treat recipients as customers by virtue of their receiving this report.

The information contained herein is from publicly available data or other sources believed to be reliable. While we would endeavour to update the information herein on reasonable basis, SHAREKHAN, its subsidiaries and associated companies, their directors and employees ("SHAREKHAN and affiliates") are under no obligation to update or keep the information current. Also, there may be regulatory, compliance, or other reasons that may prevent SHAREKHAN and affiliates from doing so. We do not represent that information contained herein is accurate or complete and it should not be relied upon as such. This document is prepared for assistance only and is not intended to be and must not alone be taken as the basis for an investment decision. The user assumes the entire risk of any use made of this information. Each recipient of this document should make such investigations as it deems necessary to arrive at an independent evaluation of an investment in the securities of companies referred to in this document (including the merits and risks involved), and should consult its own advisors to determine the merits and risks of such an investment. The investment discussed or views expressed may not be suitable for all investors. We do not undertake to advise you as to any change of our views. Affiliates of Sharekhan may have issued other reports that are inconsistent with and reach different conclusion from the information presented in this report.

This report is not directed or intended for distribution to, or use by, any person or entity who is a citizen or resident of or located in any locality, state, country or other jurisdiction, where such distribution, publication, availability or use would be contrary to law, regulation or which would subject SHAREKHAN and affiliates to any registration or licensing requirement within such jurisdiction. The securities described herein may or may not be eligible for sale in all jurisdictions or to certain category of investors. Persons in whose possession this document may come are required to inform themselves of and to observe such restriction.

SHAREKHAN & affiliates may have used the information set forth herein before publication and may have positions in, may from time to time purchase or sell or may be materially interested in any of the securities mentioned or related securities. SHAREKHAN may from time to time solicit from, or perform investment banking, or other services for, any company mentioned herein. Without limiting any of the foregoing, in no event shall SHAREKHAN, any of its affiliates or any third party involved in, or related to, computing or compiling the information have any liability for any damages of any kind. Any comments or statements made herein are those of the analyst and do not necessarily reflect those of SHAREKHAN."