Index

Sharekhan
Your guide to the financial jungle

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Torrent Pharmaceuticals

Ugly Duckling

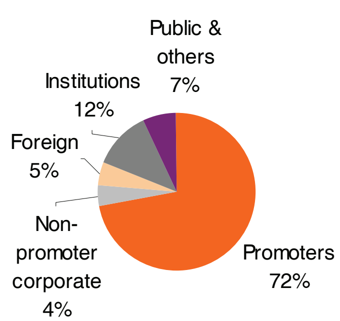
Stock Update

Growth revives

Buy; CMP: Rs678

Company details	
Price target:	Rs760
Market cap:	Rs5,739 cr
52 week high/low:	Rs725/512
NSE volume: (no. of shares)	44,304
BSE code:	500420
NSE code:	TORNTPHARM
Sharekhan code:	TORNTPHARM
Free float: (no. of shares)	2.4 cr

Shareholding pattern



Price chart

Price performance

(%)	1m	3m	6m	12m
Absolute	-1.4	11.5	12.4	14.1
Relative to Sensex	-5.8	0.0	4.7	2.7

Key points

- **Favourable currency and focus on developed markets help to revive growth in FY2012:** Torrent Pharmaceuticals (Torrent Pharma) reported an impressive rise of 22.3% in the net sales to Rs2,594 crore in FY2012. The growth was achieved mainly on a 39% rise in the revenues of the international business because of new product launches and favourable currency movement. The revenue growth was better than that in the previous four years. The operating profit margin (OPM) expanded by 260 basis points to 17%, which was better than the five-year average of 15.7%. The adjusted net profit jumped by an impressive 57.7% year on year (YoY) to Rs391.4 crore, which was the highest in five years.

- **Weaker performance in domestic market; management expects growth to pick up in FY2013:** The company reported a revenue growth of 8% from the domestic formulation business, which accounts for nearly one-third (34%) of its operating income. The growth was weaker because of an industry-wide slowdown in the acute segments, which constitute 38% of the domestic portfolio. However, the growth is expected to pick up in FY2013, as the industry has shown a better growth in the acute segments in the recent months.

- **Strong operating performance helps achieve stronger return ratios:** A healthy rise in the profits, tighter working capital and relatively lower capital expenditure (capex) during the year resulted in stronger cash flows from operations and investments. This, in turn, also helped the return on capital employed (RoCE) to jump to 29.1% in FY2012 from 21.8% in FY2011. The return on equity (RoE) jumped to 35.3% in FY2012 from 26.8% in FY2011. These ratios are comparable with those of the other large-cap companies.

- **Pricing policy and forex are key risks:** The implementation of the new pharmaceutical (pharma) policy in its current draft form, which substantially covers chronic drugs, would hurt the company's domestic business materially. As the company hedges its foreign exchange (forex) exposure through forward

Valuations

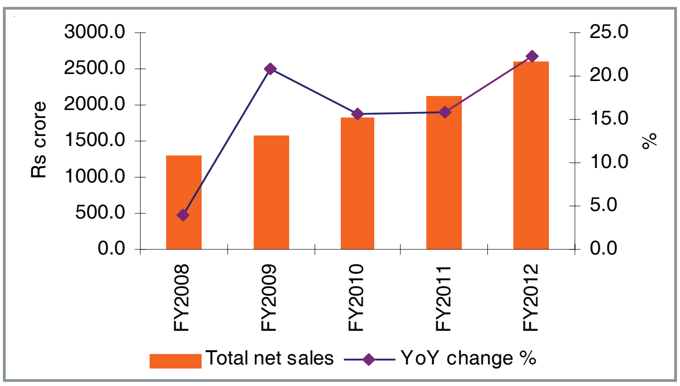
Particulars	FY2010	FY2011	FY2012	FY2013E	FY2014E
Net sales (Rs cr)	1832.9	2122.0	2594.4	3098.9	3544.8
Adjusted net profit (Rs cr)	219.2	248.2	391.4	442.7	554.1
Shares in issue (cr)	8.5	8.5	8.5	8.5	8.5
EPS (Rs)	25.9	29.3	46.3	52.3	65.5
PER (x)	26.1	23.0	14.6	12.9	10.3
EV/EBIDTA (x)	17.0	19.1	12.8	10.2	7.9
Book value (Rs/share)	98.2	120.9	141.1	188.5	247.1
P/BV (x)	6.9	5.6	4.8	3.6	2.7
Mcap/sales (x)	3.1	2.7	2.2	1.8	1.6
RoCE (%)	27.1	21.8	29.1	30.5	32.2
RoNW (%)	29.6	26.8	35.3	31.7	30.1

contracts, a change in the forex rate is a key risk for the company.

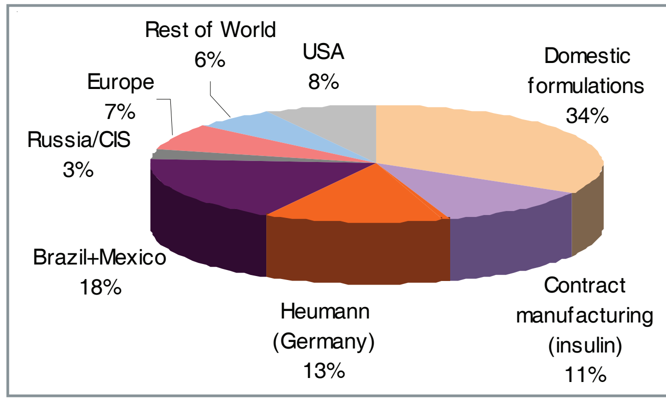
- **We maintain estimates, price target and recommendation:** We maintain our earnings per share (EPS) estimates of Rs52.3 and Rs65.5 for FY2013 and FY2014 respectively. We maintain our price target of Rs760 (implies 13x FY2014E EPS) and Buy rating on the stock.

International market jacks up, revenue growth to recoup in FY2012: Torrent Pharma reported a 22% rise in the net sales to Rs2,594.4 crore during FY2012. The growth was driven by the US and European businesses, which recorded an impressive performance during the year partly due to currency benefits and new product launches. The international market witnessed a 39% year-on-year (Y-o-Y) rise in the net revenue to Rs1,063 crore during the year; this translated into a 26% revenue compounded annual growth rate (CAGR) over the past five years (FY2008-12). However, the domestic branded formulation market, which constitutes 34% of the total revenues, recorded weaker revenues due to an industry-wide slowdown in the acute segments.

Trend in net sales: growth revives



Revenue break-up (FY2012)



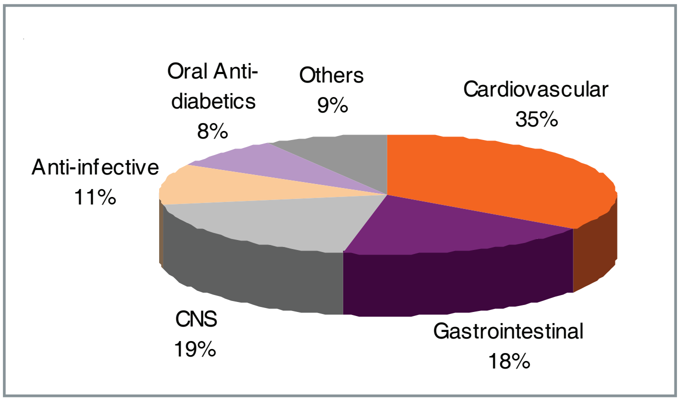
Industry slowdown affected domestic branded business; newer products to support growth: The domestic formulation business registered a moderate growth of 8% to Rs912 crore during FY2012. The growth was slower because of competitive pressures and the overall industry slowdown in the acute therapy segment. The company reported relatively better growth in the chronic space (cardiovascular, central nervous system [CNS] and anti-diabetic), which grew by 13.5% YoY as compared with 10% in FY2011. The revenues from the chronic segments constituted 62% of the total revenues from the domestic formulation market (against 59% in FY2011). The company is ranked 17th in terms of turnover in the domestic market and has six brands in the top 300 brands and 39 brands in leadership position in their respective molecule segments.

Geography-wise revenue break-up

Particulars	FY2011	FY2012	Y-o-Y growth %	CAGR (FY2008-12)	Key development in FY2012
India	**1059.0**	**1217.8**	**15.0**	**13.5**	
Domestic formulations	841.6	909.1	8.0	11.8	Entered oncology segment.
Contract manufacturing (insulin)	213.9	295.9	38.4	18.7	Entered into out-licencing and supply contracts with 3 global pharma players; supplies to start within 12-18 months.
Others	3.6	12.8	259.6	41.0	
International	**1062.9**	**1478.3**	**39.1**	**26.4**	
Heumann (Germany)	297.0	349	17.5	13.6	Launched 11 new products; 12 new products proposed to be launched in FY13.
Brazil+Mexico	346.0	492.7	42.4	29.1	15 products got approved; 5 product approvals expected in FY13 in Brazil; commenced operations in Mexico with 6 products.
Russia/CIS	58.0	70.2	21.0	4.3	
Europe	125.0	193.1	54.5	32.0	Introduced direct field force in Romania and the UK.
Rest of World	128.0	157.1	22.7	23.8	Entry into the Thai market.
USA	108.9	216.2	98.5	229.2	Received 12 ANDA approvals.
Net operating income	**2,121.9**	**2,696.1**	**27.1**	**19.7**	

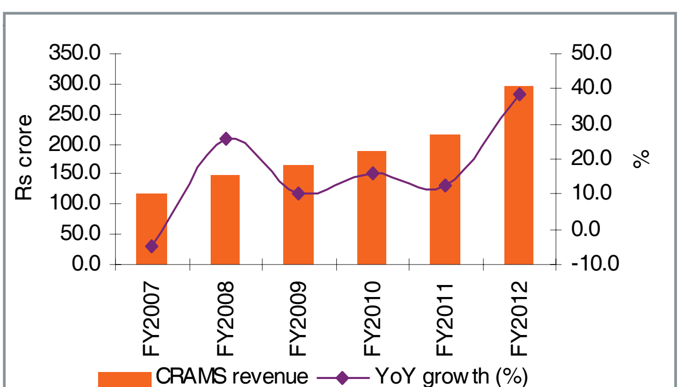
The company aims to expand its market coverage through new products. During the year, the company entered into the oncology (Cytotoxic market) whose size is pegged at around Rs870 crore and which is growing at an annual rate of 17%.

Therapy-wise revenue break-up (domestic formulation)



New product out-licencing and supply contracts with global players to fuel growth in CRAMS space: During the year the revenues from the contract research and manufacturing services (CRAMS) business rose by 38.4% YoY to Rs296 crore. The growth was driven by an increased offtake from the innovator companies (Novo Nordisk for human insulin) and currency benefits. However, during the year the company entered into product out-licencing and supply contracts with three global pharma players to exploit the product portfolio developed for the regulated and semi regulated markets. As part of these agreements, these global pharma companies would source their product requirements and market them worldwide as part of their emerging market strategy. Supplies under these contracts are expected to commence soon with the sales ramping up in 12-18 months.

Revenues from CRAMS business



US business surges on key drug launches; breaks even in recent quarters: The revenues from the US business nearly doubled (a 98.5% Y-o-Y rise) during the year to Rs216.3 crore mainly on account of the launch of new generic products. The company received 12 abbreviated new drug application (ANDA) approvals in FY2012. It now has 37 ANDA approvals and its pipeline consists of 29 pending approvals and 16 products under development. The company plans to launch eight to ten products per year going ahead which should give a significant fillip to its international business. Torrent Pharma is the largest supplier of Citalopram and the second largest supplier of Zolpidem in the US market. During the first five months of FY2013, the company gained the necessary approvals for some key products, like Olenzapine Levetiracetam, Clopidogrel, Escitalopram oxalate (lexapro) and Monekulast tablets (singulair). It is expected to get the approvals for the generic Diovan HCT post-Mylan exclusivity, which expires by the end of FY2013.

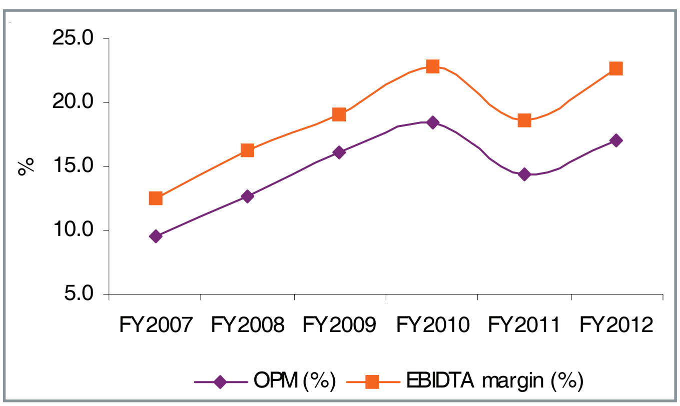
New tender to push growth in Germany: The company reported a revenue growth of 17.5% (a growth of 11% in constant-currency terms) to Rs349 crore from its German subsidiary (Heumann) on the back new tender wins. Heumann was successful in obtaining tender awards announced by various health insurance funds during the year and the same constituted 55% of its total sales. The company launched 11 new products in FY2012 and plans to launch 12 new products in FY2013 with focus on consolidating its current operations.

Strong growth to sustain in Brazil and Mexico: The company recorded a 26% growth in the revenues from the branded formulation business in Brazil in constant-currency terms and the performance is in line with the industry growth in the covered market. However, in real terms the business grew by 34% to Rs477 crore in this market, which constitutes 18% of the total revenues. The company has 15 products under approval and five products are expected to be approved during the coming year. Torrent Pharma has a basket of 32 products with 12 products in the cardiovascular segment, 12 products in the CNS segment and eight products in the oral anti-diabetic segment. It also has a strong pipeline of 41 products in the above segments which would boost its growth in future. Besides, the company commenced operations in the branded generic market with six molecules in the neuro-psychiatry segment of the Mexican market. The company has till now filed for 34 products and registered a total of 13 products, with six in the neuro-psychiatry and seven in the cardiovascular segment. This should help the growth sustain at over 15% levels in the years ahead.

OPM expands by 260 basis points in FY2012: During the year the OPM of the company expanded by 260 basis points to 17% from a low base in FY2011. The margin expansion was achieved mainly on account of a lower other expenditure, which declined to 24.4% of the net sales in FY2012 from 32.6% in FY2011. A lower expenditure on research and development (R&D) and lower miscellaneous expenses resulted in the margin expansion. Meanwhile, the raw material cost jumped to 33.3% of the net sales in FY2012 from 32.8% in FY2011 while the employee cost rose to 20.6% of the net sales in FY2012 from 18.4% in FY2011.

In fact, during the year significant expenses were incurred on account of market development activities in both India and overseas markets. During the year the company launched the oncology division, invested in the gynecology division launched in the previous year and increased marketing efforts in light of the increase in competition.

Operating margins



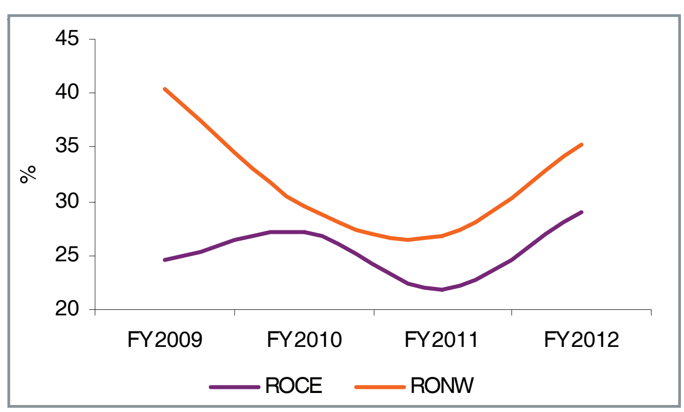
Lower tax in FY2012 helps strengthen profit line; tax rate to rise in years ahead: During FY2012 the effective tax rate stood at 15.5% as compared with 22.6% in FY2011 mainly because the Sikkim-based manufacturing units contributed a significant portion of the total revenues which were not subject to tax in FY2012. However, as the Union Budget 2013 provided for an alternate minimum tax on partnership-based manufacturing units under certain conditions, the effective tax rate is likely to go up in the years ahead.

Exceptional items affect growth in net profit; adjusted profit jumps by 57.7%: During FY2012, the company revised the provisioning method for accounting sales returns. Exceptional items of Rs65 crore—mainly related to the provision made for non-saleable returns due to shelf life expiry—are expected to flow in the following years. As a result, the net profit recorded only a 5% rise to Rs284 crore in FY2012. During the year the company booked a forex loss of Rs21 crore under "other expenditure" as compared with a forex gain of Rs22 crore in FY2011. However, adjusting for the exceptional items and the forex loss, the net profit would jump by 57.7% YoY to Rs391.4 crore.

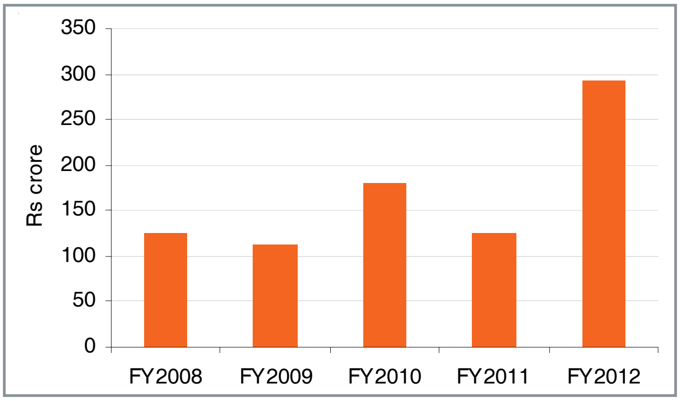
Hedging policy: As a hedging strategy, Torrent Pharma covers nearly 70% of its receivables and 90% of its foreign loan books. By the end of Q4FY2012, it had covered receivables to the tune of $190 million at Rs53.36 per dollar and the loan book to the extent of $60-70 million. Volatile currency movements would determine the marked-to-market provisions for the company and the same could affect the income statement.

Improvement in financial health: During FY2012, the company witnessed a decline in its debt-equity ratio, tighter working capital and lower capex all of which led to a healthy improvement in the net cash flow and return ratios. During the year, the working capital cycle improved to 105 days from 111 days in FY2011 and 122 days in FY2010. In the same year the capex stood at Rs129 crore as compared with Rs266 crore in FY2011 and Rs149 crore in FY2010. Tighter working capital and lower capex helped the company to improve its free cash flow by 133% to Rs293 crore by the end of FY2012. This also caused the debt-equity ratio to decline to 0.49x in FY2012 from 0.56x in FY2011. As on March 31, 2012, the company had debts of Rs582.2 crore and cash of Rs674 crore in hand (net cash of Rs91.8 crore) as compared with net debt of Rs93.3 crore. This, in turn, also helped the RoCE to jump to 29.1% in FY2012 from 21.8% in FY2011 and the RoE to rise to 35.3% in FY2012 from 26.8% in FY2011.

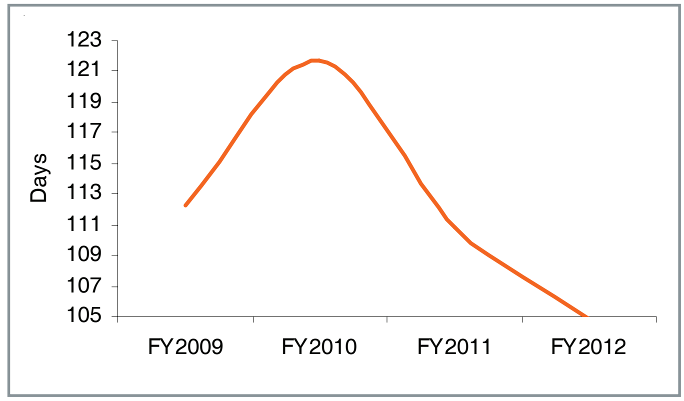
Trend in return ratios



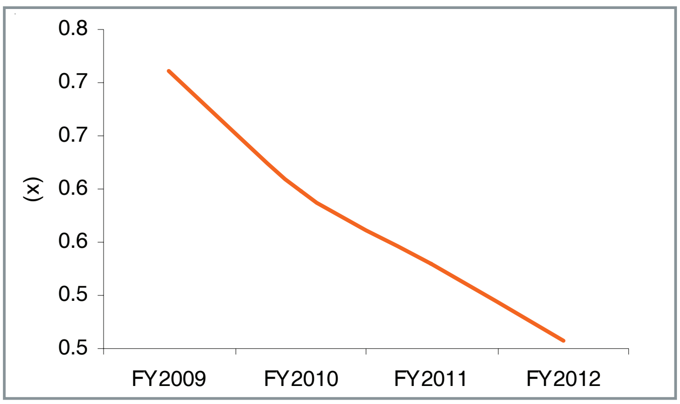
Free cash flows



Average working capital days



Debt/Equity ratio



Outlook

The company's management expects the growth momentum to continue as the domestic market is likely to see a pick-up from a low base on the contribution from the newer therapies (onclology) and the international business will expand at a faster rate on an increased number of drug launches and geographical expansions.

The growth in international market would mainly be driven by the US and European businesses. The company plans to invest Rs800 crore towards setting up formulation and active pharmaceutical ingredient manufacturing units at the Dahez special economic zone, which shall be commissioned in July FY2014 (phase-I). The phase-II of the project is likely to be commissioned during FY2017. However, the management expects a substantial portion of these expenses to be met through internal accruals (Rs500 crore of free cash flow over FY2013-14).

We maintain estimates, price target and recommendation: We maintain our earnings per share (EPS) estimates of Rs52.3 and Rs65.5 for FY2013 and FY2014 respectively. We also maintain our price target of Rs760 (implies 13x FY2014E EPS) and Buy rating on the stock. The stock is currently trading at 10x FY2014 EPS.

Automobiles

Sector Update

Tracking winning bets in a slowdown

We believe that investors would be better off focusing on those automobile companies that are able to hold and protect their market share when the broader industry slows down. These companies would be better off in a medium-to-long run once the demand revives.

We also focus on new disruptive products/segments that, on the one hand, tend to outperform the traditional categories but, on the other hand, reveal the emergence of new leaders in the niche categories or even indicate the formation of future mega categories.

Top sectoral picks: Maruti Suzuki, Mahindra and Mahindra (M&M); top company to avoid: Hero MotoCorp

Passenger cars: Maruti Suzuki (Maruti) is the preferred player because it seems most prepared to ride the diesel car boom with a 1.3-lakh order backlog. The launch of an 800cc car around Diwali and the new CNG-petrol dual variants across products would provide additional growth impetus. We have a target of Rs1,364 on the stock, but recommend Hold on it as the stock faces short-term risks of a poor Q2FY2013 performance, increased wage bill after the lock-out, volatile yen and stress on petrol cars.

Two-wheelers: Honda Motorcycle and Scooter India (HMSI) is experiencing polarised demand in the slow growing domestic motorcycle industry. While the excitement around the *Dream Yuga* was understood, we found the rub-off effect on *Honda Shine* and *Honda Unicorn* in the 125-150cc range as well, thereby taking away significant share from Hero MotoCorp. Bajaj Auto, on the other hand, is faced with the customer downtrading issues. Avoid Hero MotoCorp; We have a Hold reco Bajaj Auto.

MHCV—trucks: Tata Motors underperformed the overall medium and heavy commercial vehicle (MHCV) truck segment in the first four months but recovered sharply in August 2012 across categories, barring the 7.5-12 ton category. The August 2012 performance needs to be monitored because it may turn out to be an aberration. The other key competitors, Ashok Leyland Ltd (ALL) and Volvo-Eicher Commercial Vehicles (VECV), gained ground on the relatively better regional performance and new product introduction. We have Neutral view on Tata Motors and a Hold Recommendation on ALL.

Utility vehicles: We expect M&M to deliver a strong growth in the medium term as *Quanto* and *Rexton* would make it the most entrenched player in the utility vehicles (UV) space. We have a Buy on the stock with a target of Rs849/share.

Top disruptive products aimed to create high growth-niches in recent times

Disruptive products	USPs
Mahindra Quanto	Sub-Rs7-lakh UV
Renault Duster	Sub-Rs8-lakh SUV
Mahindra XUV5OO	Sub-Rs15-lakh luxury SUV
Mahindra Duro DZ	Diesel ungeared scooter
Maruti Ertiga	Entry segment UV
Bajaj Auto KTM Duke	Entry price superbike
Tata Motors Prima	Premium performance trucks

Two-wheelers: HMSI disruptive brand positioning is causing polarised growth; Hero MotoCorp most impacted

Motorcycle segmental analysis: The domestic motorcycles grew by 3.3% year-to-date (YTD)FY2013. The best growing segment is the 110-125cc where the industry grew by 32.8%. However, the largest segment by size, ie the 75-110cc segment, remained flat. The biggest impact was felt in the 125-150cc segment where the industry volumes ex Honda declined by 28.7%. The growth pattern clearly reflected that the customers are downtrading as macro headwinds worsen.

YTD FY2013 domestic motorcycle segmental and player-wise performance

Segment	Ind size (%)	Ind. grth YoY (%)	Ind. grth (ex HMSI) (%)	Market share (%)				Growth YoY (%)			
				HMCL	BAL	HMSI	TVS	HMCL	BAL	HMSI	TVS
75-110 cc	66.0	1.5	0.0	71.5	18.5	3.7	5.4	1.5	4.8	67.7	-25.7
110-125 cc	18.1	32.8	22.8	32.3	26.7	34.1	1.7	31.6	9.4	57.7	1530.4
125-150 cc	11.3	-18.7	-28.7	12.7	46.2	19.9	0	-50.5	-28.8	87.5	NA
150-200 cc	2.4	10.0	10.0	0.0	46.1	0.0	53.9	NA	31.7	NA	-3.6

Market share analysis YTDFY2013: Hero MotoCorp lost significantly in entry and premium segments

Hero MotoCorp declined the most in the domestic motorcycle segment. The company took the biggest hit in the 75-110cc space—the largest motorcycle category, where its market share declined by 900 basis points to 67.5% in last five months. The loss of Hero MotoCorp was shared by Honda and Bajaj Auto. HMSI's market share increased by 500 basis points to 6.3% while Bajaj Auto's market share improved by 300 basis points to 19.3% since April 2012.

In the 125-150cc premium segment Hero MotoCorp's market share dramatically declined from 19.4% in April 2012 to mere 3% in August 2012. Bajaj Auto also lost 200 basis points in the last five months while HMSI's market share improved by 1,000 basis points to 25% in August 2012.

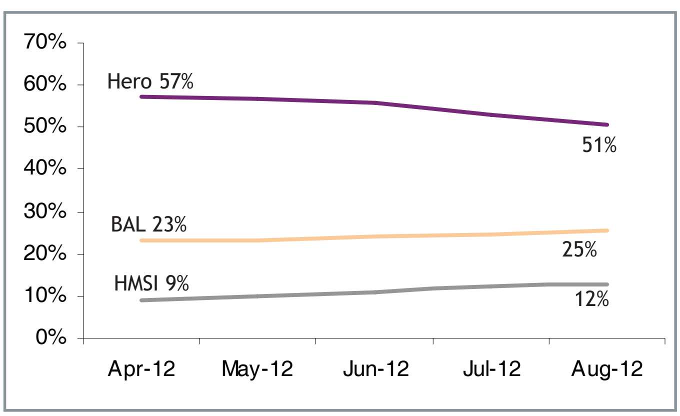
The only saving grace for Hero MotoCorp was in the 110-125cc segment where it gained market share by 180 basis points to 32% YTDFY2013. Bajaj Auto also gained 300 basis points due to the launch of *Discover ST* while HMSI lost a bit.

Outlook: We believe that HMSI is experiencing a polarised demand in the slow growing domestic motorcycle industry. While the excitement around the *Dream Yuga* in the entry segment was understood; we found even the demand spurt for even the existing products in the 125-150cc range, thereby taking away significant share from Hero MotoCorp.

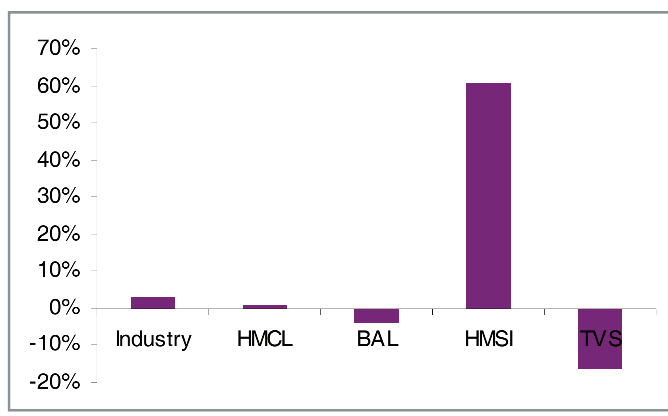
Bajaj Auto, on the other hand, faced with customer downtrading issues as the 125-150cc category is shrinking. Even though the company didn't lose much market share, but it faced the whammy of the segment underperforming where it holds the leadership position.

Stock view: Avoid Hero MotoCorp on heightened competitive intensity with Honda; hold Bajaj Auto as exports are better off even as the domestic market slows.

YTDFY2013 domestic motorcycle market share trend



YTDFY2013 domestic motorcycle growth trend



Commercial vehicles (MHCV trucks): Incumbents losing to new competition

The commercial vehicle (MHCV trucks) segment felt the maximum heat of adverse macro headwinds in YTDFY2013 and saw the overall volume decline of 16% for the industry. Once the high growth sunrise segment, the 16-25-ton segment saw the maximum decline of 23%, partially hit by the lower mining activities following scams.

The other crucial 12-16-ton and over 25-ton segments also saw a sharp deceleration in the volumes. The medium duty truck segment of 7.5-12-ton remained fairly insulated with a marginal decline in the volumes as last mile freight demand remained relatively robust.

YTD FY2013 domestic truck segmental and player-wise performance

Segment	Proportion (%)	Ind. grth YoY (%)	Market share (%) TAMO	ALL	VECV	MNAL	Growth YoY (%) TAMO	ALL	VECV	MNAL
7.5-12 ton	24.6	-4.2	43.6	10.5	38.8	NA	-16.3	78.1	-0.7	NA
12.1-16.2 ton	20.5	-16.0	60.7	31.7	7.2	NA	-16.9	-14.1	-19.8	NA
16.3-25 ton	25.4	-23.6	61.6	23.6	3.3	2.3	-27.2	-14.1	86.1	44.2
Above 25.1 ton	19.8	-17.6	63.7	27.1	5.8	2.2	-29.4	8.1	87.5	15.4

Market share analysis YTDFY2013: TAMO was hit the most but has recovered in recent time

On comparing the average market share of YTDFY2012 as against YTDFY2013 for different players, Tata Motors lost around 500- basis-point market share though it recovered the share in August 2012. Tata Motors took big hit in the 7.5-12-ton segment, where its segmental market share eroded from 50% to 44%. ALL doubled its share to an average of 10.5% while VECV share remained stable 38%.

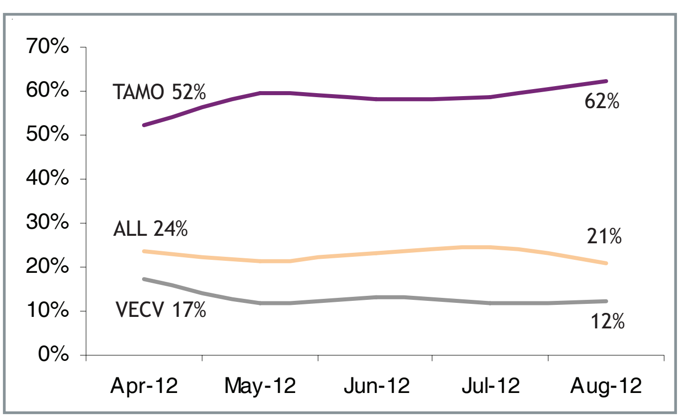
Overall, ALL improved its market share by 300 basis points in the first five months on account of relative outperformance of the southern market. However, they gave away some ground in August 2012. VECV has been the significant gainer that saw its market share improve by 300 basis points on an average in YTDFY2013. Both took away share from Tata Motors in the 16.3-25-ton as well as above 25-ton truck segments.

Outlook: Tata Motors underperformed the overall MHCV truck segment in the first four months but recovered sharply in August 2012 across all the categories barring the 7.5-12-ton category. The other key competitors, like ALL and VECV, gained ground on relatively better regional performance and new product introduction. The sustenance of August 2012 needs to be monitored as one-month outperformance may become an aberration.

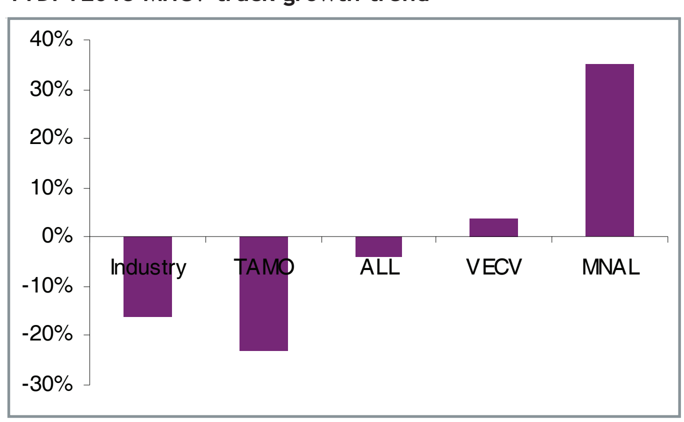
Overall, macro environment remain challenging with the recent diesel price hike of 12%. The sentiments have been hit at truck operators' level that passed on only a fraction of diesel price hike to the customers. The freight demand remain weak but expectations of a revival are building up as we approach the festive season.

Stock view: Neutral view on Tata Motors as the demand for Jaguar Land Rover is expected to remain stable following global stimulus, but the domestic market share is at risk as competition bunches up in the higher tonnage segment. We have a Hold on ALL on expectations of flat growth, but the stock's attractive valuations may limit the downside.

YTDFY2013 MHCV truck domestic market share trend



YTDFY2013 MHCV truck growth trend



Passenger cars: Maruti pulls down industry to a flat growth following strike at the Manesar plant

Passenger car growth of the top four segments (comprising 97.5% of industry size) in YTDFY2013 remained flat. The entry segment comprising *Tata Nano* alone declined the most in YTDFY2013. The largest compact car segment grew in mid single digits, whereby Maruti outperformed the traditional rivals Hyundai and Tata Motors on the domestic turf. The super compact segment grew the most led by *Maruti Swift* while the mid-sized segment's growth was led by Hyundai.

YTD FY2013 domestic car segmental and player-wise performance

Segment	Proportion (%)	Ind. grth YoY (%)	Market share (%)				Growth YoY (%)			
			Maruti	Hyundai	Tata Motors	Toyota	Maruti	Hyundai	Tata Motors	Toyota
Micro+Mini (upto 3600 mm)	31.3	-13.6	62.2	21.8	14.6	NA	-26.2	49.3	29.1	NA
Compact (3600-4000 mm)	42.9	5.8	29.5	22.4	15.7	3.4	17.3	-17.0	3.8	81.5
Super Compact (4000-4250 mm)	11.8	30.4	69.6	1.5	NA	21.8	70.8	-71.2	NA	-3.0
Mid Size (4250-4500 mm)	11.5	14.8	3.0	32.3	4.6	NA	-73.5	44.2	-42.5	NA

Market share analysis YTDFY2013: Maruti's share nosedived due to strike at the Manesar plant

Maruti's market share remained stable at 43% levels in the first four months of FY2013 but nosedived to 27% in August 2012 following the strike at the Manesar plant. The entry segment *Alto* lost ground to *Hyundai EON*. Maruti lost 800 basis points share in the mini car segment to an average of 73% in YTDFY2013. Hyundai, on the other hand, gained 1,100-basis-point share in the mini segment to 25.6%.

In the most important compact car segment by size, Maruti pushed its market share by 1,000-basis-point if the strike effect months are excluded from both the periods. This is on account of the effect of the sub-four meter *Dzire*. Hyundai underperformed significantly as its flagship product *i10* lost momentum.

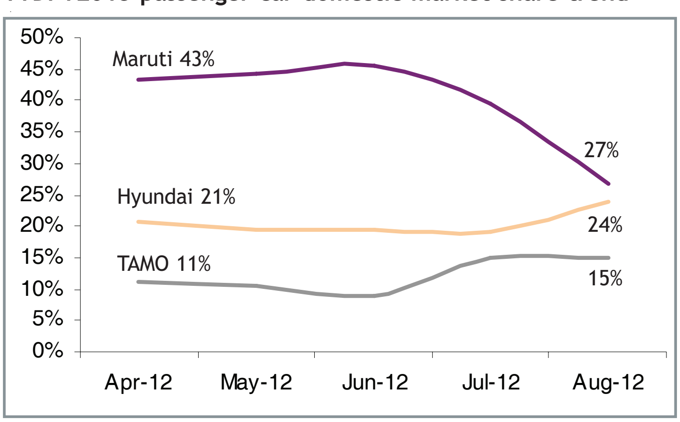
The mid-segment passenger cars of over four meters length were dominated by Hyundai which is riding on the success of its fluidic avatars.

Outlook: We believe that the market is strongly skewed towards few products. While the diesel cars are a preferred choice, not all diesel cars are witnessing the buoyancy. While the *Swift* platform has a waiting period of 1 lakh cars, the *Indica* diesel continues to show a lacklustre growth.

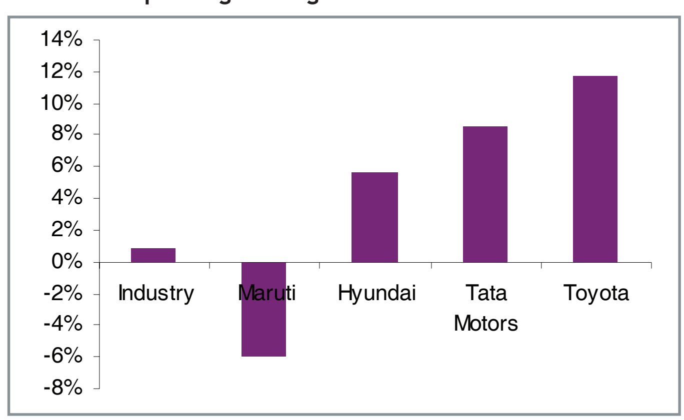
Overall, a sharp deceleration is witnessed in the petrol cars. A large chunk of these cars is being sold as a dual fuel options with CNG retrofitted kits. The industry growth expectations remain in mid single digits, with a skewed demand towards the diesel segment. All the manufacturers are luring the customers with attractive festive discounts.

Stock view: Maruti is the preferred player as it seems the most prepared to ride the diesel car boom. The company plans to launch an entry segment 800cc car around Diwali and new CNG-petrol variants across products. We believe that Maruti can outperform other original equipment manufacturers (OEMs) given the very low inventory and the 1.3 lakh order bookings for the new *Swift* platform.

YTDFY2013 passenger car domestic market share trend



YTDFY2013 passenger car growth trend



Utility vehicles witnessing a mega growth trend; benefiting for structural changes

A spate of new innovative launches, large customer base of compact cars and sedan buyers waiting to upgrade to UV led to a whopping 53.6% YTD FY2013 growth. The upto 4,400 mm under 15 lakh category more than doubled volumes led by the runaway success of *Maruti Suzuki Ertiga* and *Renault Duster*. Both the products have created new niches for themselves with a waiting period of 3-4 months.

The 4,401-4,700 mm under 15 lakh category also witnessed a strong growth of 35.2% year over year. The segment also witnessed a huge consumer interest for new launches led by the *Mahindra XUV 500* and the refreshed *Toyota Innova*.

YTD FY2013 domestic utility vehicles segmental and player-wise performance

Segment	Proportion (%)	Ind. grth YoY (%)	Market share (%) Mahindra	Toyota	Maruti	Tata Motors	Growth YoY (%) Mahindra	Toyota	Maruti	Tata Motors
upto 4400 mm, < 15 lakh	44.9	107.8	45.0	NA	35.6	14.6	21.8	NA	870.2	99.0
4401-4700mm, < 15 lakh	49.6	35.2	55.6	32.3	NA	4.8	44.3	64.3	NA	-31.1
Above 4700 mm, < 15 lakh	1.0	-18.6	NA	NA	NA	13.8	NA	NA	NA	-77.5

Market share analysis YTDFY2013: Maruti firmly establishes itself in the UV segment; Mahindra and Tata Motors impacted

M&M lost the maximum market share in the upto 4,400 mm category, where its share declined from 76.8% to 45.6%. Maruti Suzuki with *Ertiga* created a segment for itself, causing maximum damage to M&M which had a dominant share. Maruti's market share stood at 35.7% as against a mid-single digit share in YTDFY2012.

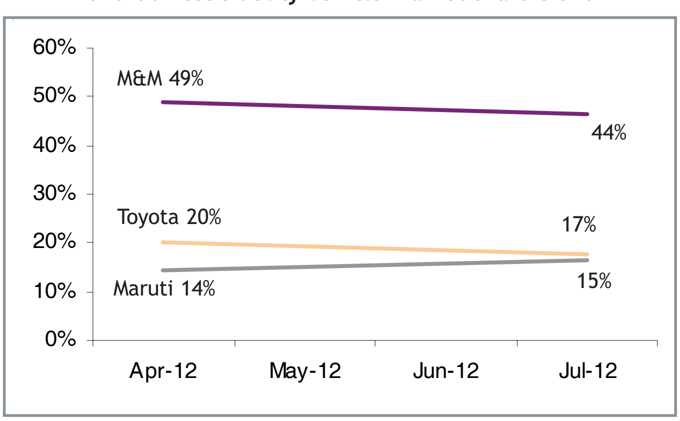
However, M&M gained a 350-basis-points market share and maintained it's leadership position in the 4,401-4,700 mm category with the success of *XUV5OO*. Toyota also gained a significant market share of 650-basis-points with the help of the refreshed *Innova*. Tata Motors bore the maximum brunt as ageing product profile took a toll, leading to its market share halving to 4.7%.

Outlook: M&M lost 650-basis-points market share in YTDFY2013, primarily due to *Maruti Ertiga*, but we are not overly worried as the segment itself is exploding. With the launch of *Quanto*, M&M is all set to regain its market share. We expect *Quanto* to create a new low-priced diesel UV segment and would be a volume driver for M&M.

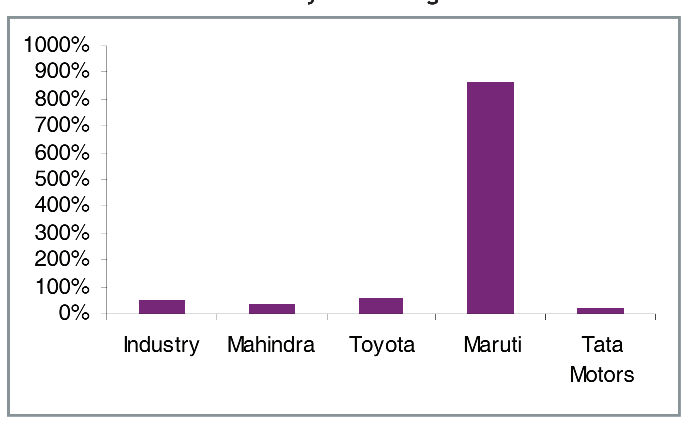
The entry UV/MPV segment is set to expand with six new launches planned over the next one year. Huge fuel differential and aggressive pricing by the players are likely to skew the demand towards utility vehicles. While M&M would get the benefit of being present in all segments (including compact SUV), Maruti would see competition as players replicate success of *Ertiga*.

Stock picks: We expect M&M to deliver a strong growth in medium term as *Quanto* and *Rexton* would make it the most entrenched player in the UV space. We have a Buy on M&M with a target of Rs849/share. We also expect Maruti to outperform other OEM peers but have a Hold on the stock with a target of Rs1,364/share.

YTDFY2013 domestic utility vehicle market share trend



YTDFY2013 domestic utility vehicles growth trend



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

Mutual Gains

Mutual Fund

Sharekhan's top equity mutual fund picks

Top rated equity mutual funds

Data as on September 17, 2012

Scheme Name	Star rating	NAV (Rs)	6 mths' returns %	Annually compounded returns (%) 1 yr	3 yrs	5 yrs	Since inception
Large-cap funds							
Principal Large Cap Fund	★★★★★	22.8	10.9	14.1	**11.2**	-	24.5
Tata Pure Equity Fund	★★★★★	17.2	5.7	11.7	**10.9**	-	13.4
UTI Wealth Builder Fund - Series II	★★★★	219.5	3.1	8.3	**9.0**	7.8	24.9
Franklin India Bluechip	★★★★	102.5	7.9	12.2	**8.4**	7.3	24.2
ICICI Prudential Focused Bluechip Equity Fund - Ret	★★★★	89.4	8.0	10.9	**6.9**	8.1	24.3
Indices							
BSE Sensex		18,542.3	6.1	9.4	**3.5**	3.6	
Mid-cap funds							
SBI Magnum Sector Funds Umbrella - Emerg Buss Fund	★★★★★	51.6	18.4	16.5	**22.0**	7.9	22.7
HDFC Mid-Cap Opportunities Fund	★★★★	17.0	5.1	9.7	**16.4**	10.4	10.6
IDFC Sterling Equity Fund	★★★★★	19.8	9.6	9.9	**14.8**	-	16.2
Franklin India Prima Fund	★★★★	281.5	6.0	9.7	**9.7**	3.5	19.4
Reliance Long Term Equity Fund	★★★★	15.5	9.6	7.1	**8.6**	4.8	7.9
Indices							
BSE MID CAP		6,316.0	-0.7	-1.2	**0.9**	-1.8	
Multi-cap funds							
Reliance Equity Opportunities Fund	★★★★★	40.1	10.6	18.3	**16.9**	11.1	20.4
Tata Dividend Yield Fund	★★★★★	34.9	2.3	9.0	**13.5**	10.4	17.3
Mirae Asset India Opportunities Fund - Reg	★★★★★	17.3	6.8	12.5	**11.5**	-	13.0
UTI Opportunities Fund	★★★★★	30.0	5.4	12.6	**10.2**	12.0	16.6
BNP Paribas Equity Fund	★★★★★	36.2	6.5	11.1	**6.2**	2.3	17.5
Indices							
BSE 500		7,016.6	3.5	6.3	**3.1**	2.8	
Tax saving funds							
Reliance Equity Linked Saving Fund - Series I	★★★★★	15.8	12.5	20.0	**11.9**	-	10.8
Reliance Tax Saver (ELSS) Fund	★★★★	22.3	5.6	13.0	**11.2**	6.4	12.2
Franklin India Taxshield	★★★★★	221.6	5.2	9.7	**11.2**	8.5	25.9
Canara Robeco Equity Taxsaver	★★★★	27.5	7.0	10.3	**10.9**	-	32.2
BNP Paribas Tax Advantage Plan	★★★★★	15.3	7.5	11.7	**8.2**	-0.5	6.5
Indices							
CNX500		4,383.1	3.7	6.7	**2.9**	2.9	
Thematic funds							
Birla Sun Life India GenNext Fund - Growth	★★★★★	27.9	13.7	15.0	**14.6**	8.6	15.5
UTI India Lifestyle Fund - Growth	★★★★★	13.0	9.4	10.6	**12.4**	5.0	5.2
Canara Robeco FORCE Fund - Ret - Growth	★★★★	14.1	8.5	11.1	**11.7**	-	12.1
Fidelity India Special Situations Fund - Growth	★★★★★	19.6	8.7	15.3	**9.9**	6.2	11.3
Reliance Media & Entet Fund - Growth	★★★★	31.0	9.6	22.6	**9.6**	0.5	15.3
Indices							
S&P Nifty		5,610.0	5.5	10.3	**4.1**	4.5	
Balanced funds							
HDFC Balanced Fund	★★★★	60.5	4.0	8.7	**14.7**	12.9	16.1
HDFC Prudence Fund	★★★	220.3	2.8	6.7	**12.1**	11.1	19.7
Tata Balanced Fund	★★★★★	92.1	9.0	13.9	**11.2**	9.5	16.1
ICICI Prudential Balanced	★★★★	51.2	5.8	10.6	**11.0**	6.5	13.5
Canara Robeco Balance	★★★★	66.5	7.1	10.5	**10.1**	9.6	10.3
Indices							
Crisil Balanced Fund Index			5.0	9.9	**5.3**	6.4	13.2

Note: Returns < 1 year - absolute, > 1 year - CAGR (compounded annualised growth rate)

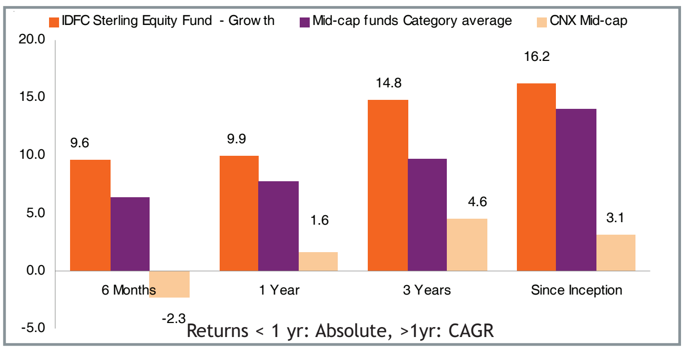
IDFC Sterling Equity Fund

Data as on September 17, 2012

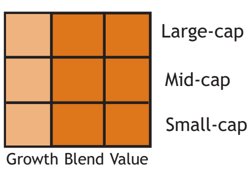
Fact sheet

IDFC Sterling Equity Fund is benchmarked against the CNX Mid-cap Index and within that index stocks are selected actively. The portfolio is biased towards the companies that are financially sound, have a proven business model, tend to lead the market and are consolidating. The current portfolio is overweight on the businesses that are low on financial risk and have some comfort on valuations.

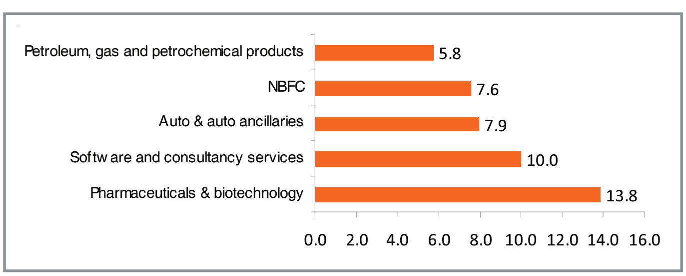
Scheme's performance



Style box analysis



Top 5 sectors



Key features

• Fund category	Midcap funds
• Launch date	7-Mar-08
• Minimum investment	Rs5,000
• Load structure	Entry load is nil / if redeemed between 0 year to 1 year; exit load is 1%
• Fund manager	Kenneth Andrade
• Latest NAV (Gr.)	Rs19.8
• Latest NAV (Div.)	Rs13.3
• Expense ratio	2.02 (Mar-12)
• AUM (June 2012)	Rs1,116.15 crore
• Benchmark index	CNX Mid-cap

Holding by market cap

Particular	%
BSE Sensex	-
BSE Mid-cap	47.3
BSE Small-cap	6.7
CNX Mid-cap	25.8
Top 5 holdings	18.5
Top 10 holdings	39.8

Top 10 stock holdings (total no. of scrips: 34)

Company name	% of net assets
Strides Arcolab	5.1
Apollo Tyres	4.1
Castrol India	4.1
Mahindra & Mahindra Financial Services	4.1
Nestle India	3.9
Hexaware Technologies	3.8
Vardhman Textiles	3.7
LIC Housing Finance	3.6
Wockhardt	3.6
Bajaj Finance	3.5

Scheme analysis

With about four years of experience, the fund has been a consistent outperformer in comparison with both the benchmark index, CNX Mid-cap Index, and the category average. Despite the volatility and uncertainties in the market, the fund performed much better than its peers, giving returns of 9.9% over one year as against that of 1.6% and 7.8% given by the benchmark index and the category average respectively in the same period. Over a period of three years, the fund has grown at a 14.8% compounded annual growth rate while the CNX Mid-cap Index and the category average have grown at just 9.8% and 4.6% respectively. In the recent months, the fund has garnered positive returns of 9.6%, much higher than the losses posted by the benchmark index and the 6.4% returns from the mid-cap category average.

The fund has about 34 stocks in its portfolio currently. Nearly 87% of its net assets are exposed to equity while the balance is exposed to other money-market instruments. The top ten stocks form about 39.8% of the portfolio. The fund has invested nearly 13.8% of its funds in the pharmaceutical sector followed by the software and consultancy services, and automobile sectors with 10% and 7.9% allocations respectively.

Fund ranking procedure

We have identified the best equity-oriented schemes available in the market today based on the following five parameters: the past performance as indicated by the one-year, two-year and three-year returns, the Sharpe ratio and the Information ratio.

The Sharpe ratio indicates risk-adjusted returns, ie the returns earned in excess of the risk-free rate for each unit of the risk taken. The Sharpe ratio is also indicative of the consistency of the returns as it takes into account the volatility in the returns as measured by the standard deviation.

The Information ratio is one of the most important tools in active fund management. It is the ratio of active return (the return over the index return) to active risk annualised. A higher Information ratio indicates a better fund manager.

We have selected the schemes based upon their ranking using the above five parameters and then calculated the maximum value of each of the five parameters. Thereafter, we have calculated the percentage under-performance or over-performance of each scheme (relative performance) based on each of the five parameters vis-a-vis the maximum value among them.

For our final selection of schemes, we have generated a total score for each scheme giving 60% weightage each to the relative performance as indicated by the one-year, two-year and three-year returns; 20% weightage to the relative performance as indicated by the Sharpe ratio; and the remaining 20% to the relative performance as indicated by the Information ratio of the scheme.

Sharekhan mutual fund ranking scale

Stars	Description
★★★★★	For top 10 percentile of the eligible schemes
★★★★	Next 22.5 percentile of the eligible schemes
★★★	Next 35 percentile of the eligible schemes
★★	Next 22.5 percentile of the eligible schemes
★	Bottom 10 percentile of the eligible schemes

Every individual has a different investment requirement, which depends on his financial goals and risk-taking capacities. We at Sharekhan first understand the individual's investment objectives and risk-taking capacity, and then recommend a suitable portfolio. So, we suggest that you get in touch with our Mutual Fund Advisor before investing in the best funds.

Disclaimer: Mutual fund investments are subject to market risk. Please read the offer document carefully before investing. Past performance may or may not be sustained in the future.

Mutual Gains

Mutual Fund

Sharekhan's top SIP fund picks

Why SIP?

- **Disciplined investing**

  Being disciplined is a key to investing success. Through a systematic investment plan (SIP) you can choose to invest fixed amounts in a mutual fund scheme which could be as low as Rs500 at regular intervals (like every month) for a chosen period of time (say for a year). The amount you invest every month or every quarter will be used to purchase units of a SIP of a mutual fund scheme. Small amounts set aside every month towards well performing SIP mutual fund schemes can make an investor achieve his financial goals in future.

- **Invest in instruments that beat Inflation**

  Equity investing can help you combat rising inflation that diminishes the value of your savings.

- **SIP over a longer period can reduce the cost per unit**

  Example (see table below): An investment of Rs24,000 in a mutual fund resulted in a value of Rs25,200 after 12 months; whereas a SIP mutual fund investment of Rs2,000 per month grew to Rs27,095 after the same period.

- **Fewer efforts to opt for SIP**

  The procedure to invest through SIP is easy. All you need to do is give post-dated cheques or opt for an auto debit of a specific amount towards SIP from your bank account. SIP plans are completely flexible. One can even start a SIP just by placing an order by logging into Sharekhan's online mutual fund page. One can invest for a minimum of six months or for a long tenure. Also, there is an option of choosing the investment interval which could be monthly or quarterly.

Illustrative example

Month	Price per unit (Rs)	One-time investment		SIP	
		Amount invested (Rs)	Units purchased	Amount invested (Rs)	Units purchased
Jan-10	20	24,000	1,200	2,000	100.0
Feb-10	18	--		2,000	111.1
Mar-10	14	--		2,000	142.9
Apr-10	22	--		2,000	90.9
May-10	26	--		2,000	76.9
Jun-10	20	--		2,000	100.0
Jul-10	18	--		2,000	111.1
Aug-10	17	--		2,000	117.7
Sep-10	15	--		2,000	133.3
Oct-10	18	--		2,000	111.1
Nov-10	20	--		2,000	100.0
Dec-10	21	--		2,000	95.2
Total investment (Rs)			**24,000**		**24,000**
Average price (Rs)			20		19
Total units purchased			1,200		1,290
Value of investment after 12 months (Rs)			**25,200**		**27,095**

*NAV as on the 1st of every month. These are assumed NAVs in a volatile market.

Data as on September 17, 2012

SIP investment (monthly Rs1,000)*		1 year		3 years		5 years	
Total amount invested (Rs)		12,000		36,000		60,000	
Funds would have grown to →	**NAV**	**Present value (Rs)**	**Compounded annualised return (%)**	**Present value (Rs)**	**Compounded annualised return (%)**	**Present value (Rs)**	**Compounded annualised return (%)**
Large-cap funds							
Birla Sun Life Top 100 Fund	23.6	13,232.1	11.2	39,512.2	**3.2**	76,710.5	5.1
Tata Pure Equity Fund	102.5	13,234.6	11.2	39,243.5	**3.0**	77,084.1	5.2
SBI Magnum Bluechip Fund	15.2	13,587.9	14.5	39,228.6	**3.0**	74,079.1	4.4
Franklin India Bluechip	219.5	12,856.4	7.8	38,982.7	**2.8**	78,591.1	5.6
Birla Sun Life Frontline Equity Fund - Plan A	89.4	13,228.3	11.2	38,793.6	**2.6**	77,806.6	5.4
BSE Sensex	**18,542.3**	**13,153.9**	**10.0**	**37,861.5**	**1.7**	**70,887.3**	**3.4**
Multi-cap funds							
Reliance Equity Opportunities Fund	40.1	13,633.2	14.9	42,680.6	**6.0**	93,754.6	9.5
UTI Opportunities Fund	30.0	13,046.1	9.5	41,166.0	**4.7**	85,529.8	7.5
Tata Dividend Yield Fund	34.9	12,821.5	7.5	40,020.8	**3.7**	84,966.3	7.3
BNP Paribas Equity Fund	36.2	13,003.4	9.1	39,631.2	**3.4**	72,391.4	3.9
Tata Ethical Fund	68.8	13,134.9	10.3	39,552.4	**3.3**	79,199.1	5.8
BSE 500	**7,016.6**	**12,968.8**	**8.4**	**36,706.5**	**0.7**	**69,589.7**	**3.0**
Mid-cap funds							
SBI Magnum Sector Funds Umbrella - Emerg Buss Fund	51.6	13,795.6	16.4	46,425.1	**9.1**	99,551.2	10.8
HDFC Mid-Cap Opportunities Fund	17.0	13,090.2	9.9	41,488.5	**5.0**	90,439.1	8.7
Franklin India Prima Fund	281.5	13,086.8	9.9	38,728.1	**2.5**	79,279.3	5.8
DSP BlackRock Small and Midcap Fund	17.6	12,950.6	8.6	38,384.1	**2.2**	83,786.1	7.0
Reliance Long Term Equity Fund	15.5	13,206.8	11.0	38,233.0	**2.1**	75,496.1	4.8
BSE Midcap	**631.6**	**12,642.8**	**5.6**	**34,377.5**	**-1.5**	**65,606.4**	**1.8**
Tax saving funds							
BNP Paribas Tax Advantage Plan	15.3	13,125.6	10.2	40,229.6	**3.9**	74,464.5	4.5
Reliance Tax Saver (ELSS) Fund	22.3	13,295.3	11.8	40,178.3	3.8	81,478.5	6.4
Franklin India Taxshield	221.6	12,948.6	8.6	40,140.9	3.8	80,937.0	6.3
ICICI Prudential Taxplan	145.5	13,288.8	11.7	39,716.5	3.4	83,716.8	7.0
Religare Tax Plan	18.1	13,058.2	9.2	39,212.4	2.9	80,153.7	6.1
S&P Nifty	**5,610.0**	**13,177.3**	**10.3**	**38,141.3**	**2.0**	**71,336.2**	**3.6**

(*invested on 2nd day of every month)

We will be showing compounded annualised returns for three years and five years from now on.

Birla Top 100 Fund

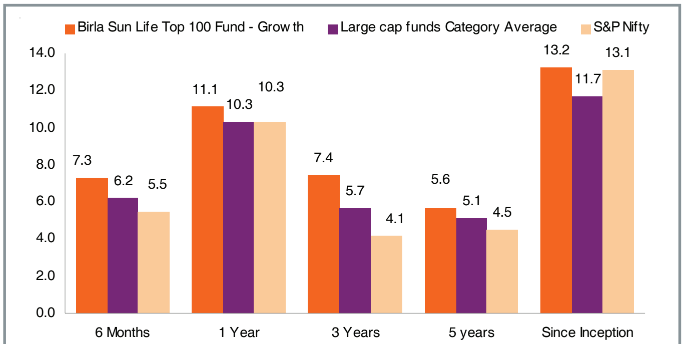
Fact sheet

Birla Top 100 Fund seeks to provide a medium- to long-term capital appreciation by investing predominantly in a diversified portfolio of equity and equity-related securities of top 100 companies as measured by market capitalisation.

Key features

• Fund category	Large cap fund
• Launch date	24-Oct-05
• Minimum investment	Rs5,000
• Load structure	Entry load is nil / if redeemed between 0 year to 1 year; exit load is 1%
• Fund manager	Mahesh Patil
• Latest NAV (Gr.)	Rs23.6
• Latest NAV (Div.)	Rs13.4
• Expense ratio	2.34 (Mar-2012)
• AUM	Rs282.8 crore (30-Jun-2012)
• Benchmark index	S&P Nifty

Scheme performance

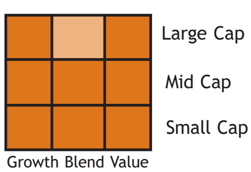


Returns (point to point) < 1 yr: Absolute, >1yr: CAGR

Holding by market cap

Particular	%
BSE Sensex	48.8
BSE Midcap	11.3
BSE Small cap	0.9
S&P Nifty	60.5
Top 5 holdings	21.8
Top 10 holdings	35.6

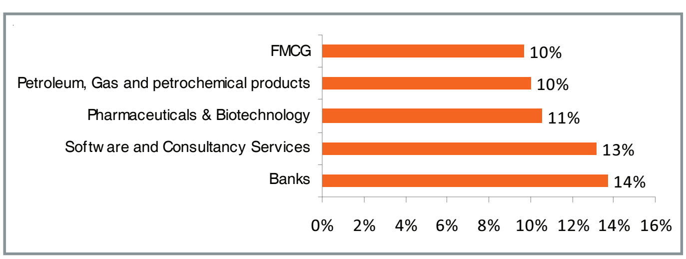
Style box analysis



Top 10 stock holdings (total no. of scrips: 56)

Company name	% of net assets
ITC	5.7
ICICI Bank	4.8
Larsen & Toubro	4.1
Reliance Industries	4.1
Tata Consultancy Services	3.1
Hindustan Unilever	3.0
Housing Development Finance Corporation	2.8
HCL Technologies	2.7
Infosys	2.7
Cadila Healthcare	2.6

Top 5 sectors



Scheme analysis

Birla Top 100 Fund has consistently shown a better performance since its inception in October 2005, giving a return of 13.2% compounded annual growth rate (CAGR). It has also beaten the category average and the benchmark index (S&P Nifty), which have given 11.7% and 13% returns respectively over the same period. Even over a tenure of five years, the fund has given superior returns of nearly 5.6% to the investors, outperforming both the category peers and the benchmark index, which managed to post 5.1% and 4.5% respectively in the same period. Given the current turbulent market conditions (over the last six months) when the category average and the benchmark index have given ~6% returns each, the fund has done well to outperform with returns of 7.3%. Over a three-year period, the fund has grown at a CAGR of 7.4%, outperforming both the category average and the benchmark, which have grown at 5.7% and 4.1% respectively.

The portfolio is actively managed and well diversified with over 56 stocks wherein the top ten stocks form 36% of the portfolio. The fund has invested 14% of its funds in the banking sector, 13% in the software service sector followed by 11% allocation in the pharmaceutical sector and 10% each in the petroleum and FMCG sectors.

Evergreen

GlaxoSmithKline Consumer Healthcare
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
Oil India
Piramal Enterprises (Piramal Healthcare)
PTC India
Punj Lloyd
Sintex Industries
State Bank of India
Tata Global Beverages (Tata Tea)
Wipro

Cannonball

Allahabad Bank
Andhra Bank
IDBI Bank
Madras Cements
Shree Cement

Emerging Star

Axis Bank (UTI Bank)
CMC
Cadila Healthcare
Eros International Media
Gateway Distriparks
Greaves Cotton
IL&FS Transportation Networks
IRB Infrastructure Developers
Kalpataru Power Transmission
Max India
Opto Circuits India
Relaxo Footwears
Thermax
Yes Bank
Zydus Wellness

Ugly Duckling

AGC Networks
Ashok Leyland
Bajaj Corp
CESC
Deepak Fertilisers & Petrochemicals Corporation
Dishman Pharmaceuticals & Chemicals
Federal Bank
Gayatri Projects
India Cements
Ipca Laboratories
Jaiprakash Associates
Kewal Kiran Clothing
Mcleod Russel India
NIIT Technologies
Orbit Corporation
Polaris Financial Technology
Pratibha Industries
Provogue India
Punjab National Bank
Ratnamani Metals and Tubes
Raymond
Selan Exploration Technology
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

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