



Economy News

- ▶ A day after the unit hit a new life-time low of 61.19 against the dollar, the Securities and Exchange Board of India has decided to restrict speculative trading in the currency. The Reserve Bank of India barred banks from taking proprietary positions in currency derivatives. (BL)
- ▶ The International Monetary Fund (IMF) has lowered India's growth forecast for 2013-14 to 5.6% from the 5.8% it projected in April, holding that the risks of a longer downturn in emerging market economies had increased because of domestic capacity constraints, slowing credit growth and weak external demand. (Mint)
- ▶ To boost economic growth and provide many more jobs through manufacturing, a Prime Minister-headed committee has set a target of raising annual steel production capacity to 300 million tonnes by 2025 and to increase textile exports by 30 per cent this year. (BS)

Corporate News

- ▶ Spooked by the move to shift key operations of **Jet Airways** to Abu Dhabi, the government will insist that the airline promises to adhere to all Indian laws, rules and regulations, if it wants approval for selling a 24% stake to Etihad (ET)
- ▶ Concerned by the highly-leveraged acquisition of Cooper Tire, institutional investors of **Apollo Tyres** are in dialogue with the management seeking a rethink on the \$2.5-billion all-cash deal. The investors believe that the company is "over-paying" for synergies that will be difficult to achieve. (ET)
- ▶ Minority shareholders of soap maker **Nirma** are in for a rude shock as promoters Karshanbhai Patel and family have decided to buy them out at a sharp discount to last year's exit price (ET)
- ▶ **Jindal Steel and Power (JSPL)** is in talks with UK-based steel trader Stemcor to buy its Odisha-based unit, Brahmani River Pellets (BRPL), a source said. (BL)
- ▶ **MTN Group Ltd.**, Africa's largest wireless carrier, and Reliance Communications Ltd. of India have put talks to link up on hold, according to three people with knowledge of the situation. (Mint)
- ▶ **Shriram Transport Finance Company (STFC)** is set to offer investors an effective yield of 9.65-11.15 per cent for secured non convertible debentures (NCDs) of maturity tenure of three and five years. The non-banking finance company plans to raise Rs 3.75 bn with a greenshoe option (over-subscription) of Rs 3.75 bn. The issue will open on July 16 and close on July 29. (BS)
- ▶ Malaysia's Petronas is in talks to sell 10% of its Canadian shale gas assets to **Indian Oil Corp. Ltd. (IOC)**, people with direct knowledge of the matter said, mirroring a deal it signed earlier this year with a Japanese company. (Mint)
- ▶ **Ultratech Cement** has initiated steps to set up a Rs 25 bn greenfield cement plant in Tamil Nadu, according to reliable sources. The Aditya Birla Group company plans to set up a 5.5-million-tonne-a-year cement plant with 4.5-mt clinker production, 75 MW captive power plant (with additional power from diesel generating sets of about 18 MW) and a waste heat recovery facility of about 15 MW. (BL)
- ▶ **Infosys Technologies** global sales head Basab Pradhan has resigned from the company in the first top-level departure after the return of NR Narayana Murthy, who was recalled as executive chairman in June. (ET)

Equity

	9 Jul 13	% Chg		
		1 Day	1 Mth	3 Mths
Indian Indices				
SENSEX Index	19,439	0.6	(0.0)	5.6
NIFTY Index	5,859	0.8	(0.3)	5.4
BANKEX Index	13,062	1.3	(5.5)	2.4
BSET Index	6,280	0.5	1.3	(5.7)
BSETCG INDEX	9,269	1.5	(0.0)	4.2
BSEOIL INDEX	8,747	0.0	2.9	4.8
CNXMcap Index	7,419	0.8	(3.7)	(0.2)
BSESMCAP INDEX	5,712	0.7	(3.4)	(2.5)
World Indices				
Dow Jones	15,300	0.5	0.4	3.4
Nasdaq	3,504	0.6	0.9	6.3
FTSE	6,513	1.0	1.8	2.0
NIKKEI	14,473	2.6	7.2	9.0
HANGSENG	20,683	0.5	(4.1)	(5.9)

Value traded (Rs cr)

	9 Jul 13	% Chg - Day
Cash BSE	1,704	12.7
Cash NSE	9,226	2.6
Derivatives	89,290	(24.2)

Net inflows (Rs cr)

	8 Jul 13	% Chg	MTD	YTD
FII	(240)	1,249.4	782	72,090
Mutual Fund	(39)	62.9	(489)	(12,666)

FII open interest (Rs cr)

	8 Jul 13	% Chg
FII Index Futures	10,616	4.7
FII Index Options	47,783	4.9
FII Stock Futures	27,402	2.4
FII Stock Options	1,803	11.1

Advances / Declines (BSE)

	9 Jul 13	A	B	T	Total	% total
Advances	151	975	168	1,294	53	
Declines	50	820	139	1,009	41	
Unchanged	2	99	28	129	5	

Commodity

	9 Jul 13	% Chg		
		1 Day	1 Mth	3 Mths
Crude (NYMEX) (US\$/BBL)	104.4	0.8	9.0	10.3
Gold (US\$/OZ)	1,248.9	1.0	(10.1)	(20.1)
Silver (US\$/OZ)	19.2	0.7	(13.2)	(30.9)

Debt / forex market

	9 Jul 13	1 Day	1 Mth	3 Mths
10 yr G-Sec yield %	N/A	N/A	7.4	N/A
Re/US\$	60.3	60.6	58.1	54.6

Sensex



ANNUAL REPORT UPDATE

Ruchir Khare
ruchir.khare@kotak.com
+91 22 6621 6448

ELGI EQUIPMENT LTD (EEL)

PRICE: Rs.78
TARGET PRICE: Rs.94

RECOMMENDATION: BUY
FY14E P/E: 17.4x

- ❑ Domestic demand for compressors remained muted in FY13 due to slow-down in industrial Capex. Water well segment has started to pick-up through Q4FY13. International subsidiaries especially Belair France, China and Brazil continue to post losses.
- ❑ With EEL's acquisitions of Rotair (Italy) and Patton's (USA), management is confident of gaining market share in Europe, USA and Latin America.
- ❑ We remain positive on company's strong brand franchise in domestic markets and increasing geographical diversification. We maintain 'BUY' recommendation on company's stock with DCF based revised price target of Rs 94 (Rs 97 earlier).

Summary table

(Rs mn)	FY12	FY13	FY14E
Sales	9,897	11,410	13,678
Growth (%)	4.8	15.3	20.2
EBITDA	1,083	994	1,319
EBITDA margin (%)	10.9	8.7	9.6
PBT	1091	930	1063
Net profit	741	601	712
EPS (Rs)	4.7	3.8	4.5
Growth (%)	(16.8)	(18.8)	18.5
CEPS (Rs)	5.5	4.9	5.8
BV (Rs/share)	25.0	27.4	30.7
DPS (Rs)	1.0	1.0	1.0
ROE (%)	20.2	14.5	15.5
ROCE (%)	23.0	13.8	12.7
Net cash (debt)	1,392	(2,278)	(1,202)
NW Capital (Days)	42.9	74.3	63.6
EV/Sales (x)	1.1	1.0	0.8
EV/EBITDA (x)	10.2	11.1	8.4
P/E (x)	16.7	20.6	17.4
P/Cash Earnings (x)	14.2	15.8	13.5
P/BV (x)	3.1	2.9	2.5

Source: Company, Kotak Securities - Private Client Research

Domestic revenue growth remained muted due to slowdown in industrial capex, higher employee expense and acquisition related cost led to marginal drop in operating margin in FY13

Domestic revenue stood at Rs 8.1 bn vis-à-vis Rs 7.9 bn in FY13. Revenue from compressor BU stood close to Rs 6.7 bn and Automotive BU stood at Rs 1.4 bn. Demand from construction and mining remained relatively strong Water well segment picked up towards the end of FY13. From historical perspective, water-well segment has been an important driver for the domestic compressor demand in India. Over the last few years, company has successfully increased market share in other segments such as mining, construction, cement, power, transport etc. After sales business and oil free compressors (launched in FY12) observed traction in FY13.

In FY13, EEL reported 120 bps fall in standalone operating margin YoY at 12.1% due to 1) 25% YoY increase in employee expense at Rs 934 mn and 2) acquisition related consultancy charges at Rs 207 mn. We believe that in order to increase distribution reach, company is likely to offer higher discount and commission. Commission and discount expense stood at Rs 125 mn in FY13 registering a 15% YoY growth.

Working capital

(Rs mn)	FY12	FY13
Net Working capital (non cash)	1094.6	1593.2
Net Working capital (non cash) in days	50.3	71.2
Current Assets		
Inventory	926.9	993.0
Sundry Debtors	1192.6	1495.0
Other current assets	21.4	4.2
Loans and advances	698.4	995.5
Other current Assets	21.4	4.2
Cash	1093.0	237.0
Current liabilities		
Sundry creditors	982.0	1092.0
Other current liabilities	209.6	225.1
provisions	574.3	581.6

Source: Company

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Consolidated revenues grew by 15% YoY at Rs 12 bn in FY13 mainly on back of inorganic initiatives with respect to Rotair and Pattons acquisitions. Consolidated EBITDA margin stood at 8.7% in FY13. We highlight that the reported consolidated financials of EEL are not comparable.

In FY13, EEL reported increase in standalone working capital at 71 days vis-à-vis 51 days in last year. Increase in working capital is mainly attributed to increase in receivables at 66 days in FY13 against 55 days in FY12. Also short term loans & advances increased to Rs 995 mn driven by loans to subsidiaries in that stood at Rs 249 mn in FY13 vis-à-vis Rs 40 mn in FY12. EEL maintained inventory levels at 44 days and payables increased to 83 days in FY13.

International business continues to remain under pressure; all overseas subsidiaries de-grew except Middle East that reported meaningful growth

EEL's subsidiary in Middle East has posted robust growth of over 50% at Rs 40 mn in FY13. However, majority of EEL's overseas subsidiaries reported sluggish performance in FY13.

In FY13, Belair France reported a loss of Rs 60 mn and EEL's Chinese subsidiary reported a loss of Rs 94 mn vis-à-vis Rs 87 mn in FY12. Company's Brazil subsidiary reported an operating loss of Rs 41 mn in FY13. Management has stated that the international subsidiaries mainly Belair in France and Chinese subsidiaries are likely to add to profits meaningfully only after two years. We believe that since management has taken aggressive steps towards these acquisitions, timely reconciliation of overseas business is crucial for company's future growth.

Subsidiaries performance

(Rs mn)	FY11	FY12	FY13
ATS Elgi			
Sales	1146	1320	1467
PBT	130	169	178
PAT	83	118	123
Elgi Belair (France)			
Sales	407	499	451
PBT	(4)	(87)	(94)
PAT	(4)	(87)	(94)
Elgi Equipments Zhejiang (China)			
Sales	71	118	147
PBT	(23)	(33)	(40)
PAT	(22)	(32)	(40)
Elgi Compressors Trading (Shanghai)			
Sales	93	150	112
PBT	(3)	(27)	(61)
PAT	(3)	(27)	(61)
Elgi Gulf			
Sales	76	145	253
PBT	13	27	40
PAT	13	27	40
Elgi Compressors Do Brazil			
Sales	-	0	68
PBT	-	(3)	(41)
PAT	-	(3)	(41)
Elgi Australia Pty			
Sales	-	11	41
PBT	-	(9)	(23)
PAT	-	(6)	(23)
			... cont

Subsidiaries performance

(Rs mn)	FY11	FY12	FY13
Rotair Spa Italy			
Sales	-	-	649
PBT	-	-	26
PAT	-	-	20
Pattons Inc USA			
Sales	-	-	480
PBT	-	-	73
PAT	-	-	52
Pattons Medical LLC			
Sales	-	-	151
PBT	-	-	(16)
PAT	-	-	(10)
Elgi Compressors USA Inc			
Sales	-	-	5
PBT	-	-	(41)
PAT	-	-	(29)

Source: Company, Kotak Securities - Private Client Research

Performance at Patton's and Rotair that were acquired in FY13 had been satisfactory in FY13. In FY13, Patton's clocked revenue of Rs 480 mn with 15% operating margin (12% on constant currency basis). Patton's has discontinued dealing in Quincy products and have stated building market for Elgi compressors exclusively. Management believes that the acceptance in the US market have been encouraging and expects a payback period of 4-5 years. Company has also been contemplating launching oil free compressors in US market in 2HFY14. For Rotair Italy, revenues stood at Rs 649 mn with PBT of Rs 26 mn.

With acquisitions of Rotair and Patton's Inc. EEL has concluded its inorganic growth initiative; company does not aspire for major acquisitions in near to medium term

In FY13, EEL has acquired two companies-1) Patton's Inc in USA and 2) Rotair Spa in Italy.

Patton's Inc

EEL, through its subsidiary Elgi Compressors USA Inc. has acquired 100% stake in Patton's Inc. Headquartered in Charlotte, North Carolina, Patton's is primarily involved in the distribution, service and rentals of Industrial and medical compressors. It has major presence in Southeastern United States. Till recently, company has been a primary dealer of Quincy product range which is a subsidiary of Atlas Copco. Being in after sales and service business, Patton's enjoys healthy operating margins.

EEL management believes that leveraging on Patton's strong reputation and exhaustive reach it can promote its existing range of Elgi compressors that are technologically compliant and comparable with Quincy products.

Rotair S.p.A

EEL has also acquired 100% stake in Italy based Rotair S.p.A engaged in the design, manufacturing and distribution of compressors for construction and industrial sectors. Management expects acquisition to add to company's current product offerings and enable entry into new markets.

With presence in over 60 countries across, Rotair is present in Portable compressors, Hydraulic brakes and mini transportation segment. Rotair derives more than 60% of its revenues from the portable compressors segment. Rotair has robust distribution network and we believe that this is likely to strengthen EEL's presence in the European region by adding new geographies. EEL is also likely to benefit by adding portable compressors in its product portfolio.

We believe that both the acquisitions are likely to be value accretive over FY13-14E. However meaningful contribution should flow in the long run and in view of recovery in the European region.

Company has been constantly focusing on expanding its operations in overseas geographies. It has been one of the leading players in Indian compressor market (30% market share in India) and aims to gain market share and secure second position globally (after Atlas Copco with 35% market share globally) in the medium term. Management believes that with its current portfolio and technology base, it can capture substantial market to emerge as one of the leading global players.

Other Highlights

- ELGI ATS grew by 11% YoY in FY13 with revenues at Rs 1.4 bn and PBT at Rs 178 mn. Management believes that FY14 would likely remain challenging for the subsidiary due to sluggish passenger cars industry outlook.
- Investment in Chinese subsidiary Elgi Equipment Zhejiang reported increased to Rs 165 mn vis-à-vis Rs 79.5 mn in FY12.
- Investment in Belair, France increased to Rs 230 mn vis-à-vis Rs 116 mn in FY12.
- Standalone short term borrowings stood at Rs 198 mn at the end of FY13 against nil last year. Long term borrowings of the company stands at Rs 2.2 bn (implying net D/E of 0.6) against nil last year mainly on account of funding of Patton's and Rotair acquisitions.

Valuation and recommendation

At current price of Rs.78, stock is trading at 17.4x P/E and 8.4x EV/EBITDA multiples on FY14E earnings.

We remain positive on company's strong brand franchise in domestic market and consistently increasing geographical diversification. We maintain '**BUY**' recommendation on company's stock with DCF based revised price target of Rs 94 (Rs 97 earlier).

We maintain BUY recommendation on Elgi Equipment with a price target of Rs.94

Bulk deals

Trade details of bulk deals

Date	Scrip name	Name of client	Buy/ Sell	Quantity of shares	Avg. price (Rs)
09-Jul	Aagam Cap	Rajesh Kumar Gupta	B	28,350	99.0
09-Jul	Aagam Cap	S R Jute Traders Pvt Ltd	S	45,000	99.0
09-Jul	Abhinav Cap	Lakshana Amit Sharma	S	108,791	30.0
09-Jul	Abhinav Cap	Kamalaksha Rama Naik	S	200,784	30.0
09-Jul	Abhinav Cap	Mehrangarh Financial Advisors	B	309,575	30.0
09-Jul	Adinath Bio	Pranali Commodities Pvt Ltd	S	6,000,000	0.2
09-Jul	Adinath Bio	Aadesh Commodities Pvt Ltd	B	4,900,073	0.2
09-Jul	Arrow Coated	Jigisha Shilpan Patel	B	600,000	9.2
09-Jul	Arrow Coated	Shilpan P Patel HUF	S	600,000	9.2
09-Jul	Bil Energy Sys	Syncom Formulations (India) Ltd	B	730,000	6.5
09-Jul	Compact Disc	Mamta Sharma	B	75,000	11.7
09-Jul	Compact Disc	Pariscope Pictures Pvt Ltd	S	110,757	11.7
09-Jul	Croitre Inds	Invictus Stock Research Pvt Ltd	B	160,622	6.0
09-Jul	Cupid Trades	Firoz Hanifbhai Memon	B	7,938	125.0
09-Jul	Cupid Trades	Ritu Raj Kalu Singh Ji Chauhan	S	10,000	125.0
09-Jul	Cupid Trades	Pradip Shudhakarbhair Birewar	S	8,000	125.0
09-Jul	India Steel	Advent Advisory Services Pvt Ltd	S	1,500,000	3.7
09-Jul	India Steel	Siddhartha Khatwani	B	1,500,000	3.7
09-Jul	Micro Tech-\$	Ashamangal Vanijya Pvt Ltd	S	180,306	4.8
09-Jul	Pratibha Inds	Ajit Bhagwan Kulkarni	B	600,000	28.0
09-Jul	Pratibha Inds	Vinayak Bhagwan Kulkarni	S	600,000	28.0
09-Jul	Shreychem	Sandip Laxmanbhai Bhamani	B	103,364	5.7
09-Jul	Shreychem	Devrajbhai Becharbhai Rangani	B	85,341	5.7
09-Jul	Shreychem	Togadiya Hareshbhai Madhabhai	S	128,364	5.7
09-Jul	Surya Indl	Mahendra Sampat Pawar	B	30,000	31.3
09-Jul	Surya Indl	Sameer D Shah (HUF)	S	30,000	31.3
09-Jul	Valuemart Info	Rinku Deshpande	B	329,550	4.1
09-Jul	Vguard Inds	Massachusetts Institute of Tech Scm	B	607,656	480.0
09-Jul	Vguard Inds	IIFL Inc A/C Steadview Cap Mauritius	S	607,377	480.0

Source: BSE

Gainers & Losers

Nifty Gainers & Losers

	Price (Rs)	chg (%)	Index points	Volume (mn)
Gainers				
HDFC Bank	670	1.5	5.6	1.8
Infosys Ltd	2,498	1.2	4.5	1.1
Sun Pharma	1,080	3.6	4.3	1.1
Losers				
Hindustan Unilever	605	(0.8)	(1.5)	1.1
M&M	938	(1.0)	(1.4)	1.1
ONGC	302	(0.6)	(0.9)	3.5

Source: Bloomberg

Fundamental Research Team

Dipen Shah

IT
dipen.shah@kotak.com
+91 22 6621 6301

Sanjeev Zarbade

Capital Goods, Engineering
sanjeev.zarbade@kotak.com
+91 22 6621 6305

Teena Virmani

Construction, Cement
teena.virmani@kotak.com
+91 22 6621 6302

Saurabh Agrawal

Metals, Mining
agrawal.saurabh@kotak.com
+91 22 6621 6309

Saday Sinha

Banking, NBFC, Economy
saday.sinha@kotak.com
+91 22 6621 6312

Arun Agarwal

Auto & Auto Ancillary
arun.agarwal@kotak.com
+91 22 6621 6143

Ruchir Khare

Capital Goods, Engineering
ruchir.khare@kotak.com
+91 22 6621 6448

Ritwik Rai

FMCG, Media
ritwik.rai@kotak.com
+91 22 6621 6310

Sumit Pokharna

Oil and Gas
sumit.pokharna@kotak.com
+91 22 6621 6313

Amit Agarwal

Logistics, Transportation
agarwal.amit@kotak.com
+91 22 6621 6222

Jayesh Kumar

Economy
kumar.jayesh@kotak.com
+91 22 6652 9172

K. Kathirvelu

Production
k.kathirvelu@kotak.com
+91 22 6621 6311

Technical Research Team

Shrikant Chouhan

shrikant.chouhan@kotak.com
+91 22 6621 6360

Amol Athawale

amol.athawale@kotak.com
+91 20 6620 3350

Premshankar Ladha

premshankar.ladha@kotak.com
+91 22 6621 6261

Derivatives Research Team

Sahaj Agrawal

sahaj.agrawal@kotak.com
+91 79 6607 2231

Rahul Sharma

sharma.rahul@kotak.com
+91 22 6621 6198

Malay Gandhi

malay.gandhi@kotak.com
+91 22 6621 6350

Prashanth Lal

prashanth.lalu@kotak.com
+91 22 6621 6110

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Registered Office: Kotak Securities Limited, Bakhtawar, 1st floor, 229 Nariman Point, Mumbai 400021 India.

Correspondence address: Infinity IT Park, Bldg. No 21, Opp Film City Road, A K Vaidya Marg, Malad (East), Mumbai 400097.

Tel No : 66056825.

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