www.phillipcapital.in

16TH – 31ST Dec 2014 . Vol 1 Issue 12 . For Private Circulation Only

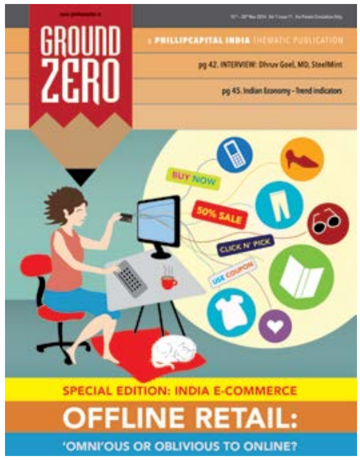
GROUND ZERO

a PHILLIPCAPITAL INDIA THEMATIC PUBLICATION

PhillipCapital

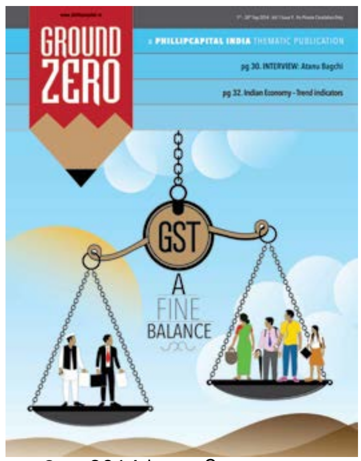
VOL 1 . ISSUE 12 . 16TH - 31ST DEC 2014

GROUND ZERO - PREVIOUS ISSUES



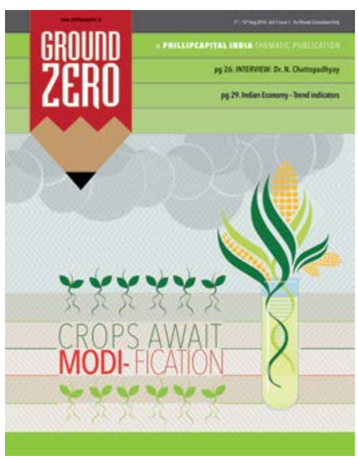
15th Nov 2014 Issue 11

1st Oct 2014 Issue 10

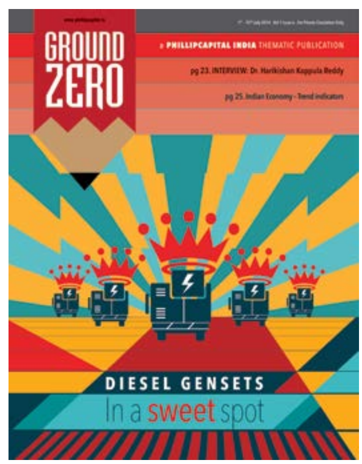


1st Sep 2014 Issue 9

16th Aug 2014 Issue 8



1st Aug 2014 Issue 7



1st July 2014 Issue 6

LETTER FROM THE MANAGING DIRECTOR

Demand for Commercial Vehicles is a lead indicator of the various phases of the economic cycle. The Indian commercial vehicle market has witnessed a sharp decline in volumes in the last couple of years which coincided with the downturn in the overall economy. Decline in freight traffic has resulted in elongation of replacement cycle, drop in profitability of truck owners, and a general crowding effect in the entire value chain.

The new government, with an inspiring agenda of development, has renewed investor interest in the segment. Core to the development agenda will be kick starting the investment cycle, which will mean step up of investment in infrastructure projects, sorting out the manufacturing and mining problems and re-starting the stalled projects.

Logically then, demand for commercial vehicles should pick up very sharply and the ensuing growth to take the CV cycle to new peaks. This expectation is also reflected in the stock price movements of listed CV players. Our cover story penned by automobile sector analysts Dhawal Doshi and Priyaranjan delves deep into understanding the demand cycle of commercial vehicles. The view from the ground, however, is not very encouraging as fleet owners are still grappling with myriad issues like financing, labour availability, and of course profitability.

Also read in this issue a freewheeling interaction with Reliance Cement Director & Chief Marketing Officer Mr. Atul Desai as he discusses the opportunities and challenges for the cement sector. And lastly, this is the time to look back at one of the most eventful years in recent history and then look forward to new year filled with lots of hopes and aspirations.

Wishing everybody Merry Christmas and a Happy New Year.

Best Wishes

Vineet

CONTENTS

CV: ROAD TO RECOVERY
BUMPS BEFORE BOUNCE

Can we expect domestic heavy CV volume reach earlier growth trajectory given sharp run-up in stock prices of the listed CV players? Although demand drivers of volume uptick like aging fleet, 50% volume decline from the peak are in place, but slow economic execution cycle, system under-utilisation and structural changes in the industry may keep growth uptick gradual rather than sharp shoot-up over the next 12-months. Apart from external economic factors, internal issues too are restricting major volume uptick such as low truck owners' profitability and shortage of drivers/cleaners. Both these internal issues are pointing towards change in fleet structure of the Indian trucking industry since proportion of higher tonnage vehicles are moving up sharply leading to tonnage capacity growth ahead of volume growth. In the current edition of the Ground Zero we have tried to peep into demand outlook with both external and internal factors impacting it.

BY DHAWAL DOSHI & PRIYA RANJAN

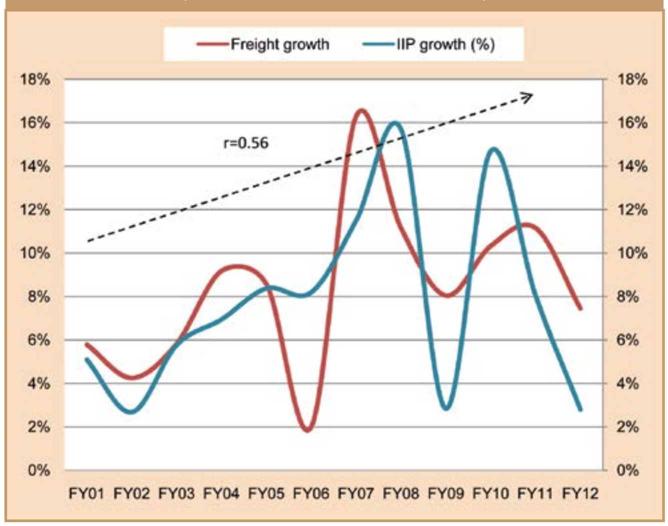
Road to recovery will get elongated

Contrary to current expectation, a meaningful CV demand recovery is still 12 to 18 months away. Goods truck utilisations are still below the comfort levels that will drive fleet addition. While there is strong government intent for boosting infrastructure, on-ground checks suggest that not many are beyond the drawing board stage yet. This, along with overcapacity in the system, specially in mining, will push a meaningful recovery in commercial vehicles further.

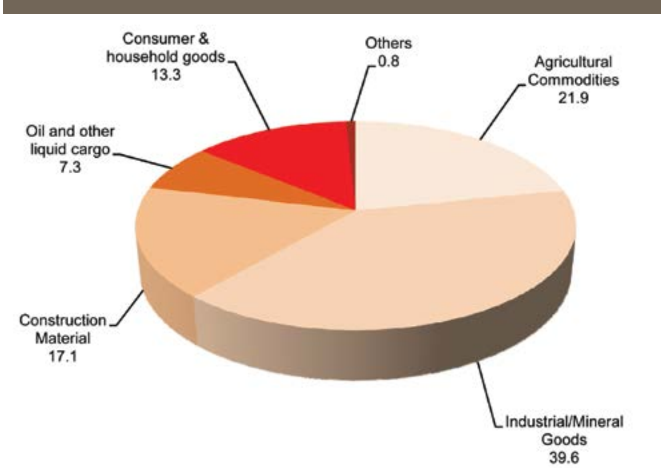
Commercial vehicle growth is dependent on freight demand from a number of sectors such as consumer, industrial goods, cement, textile, mining, construction, perishable agri products, liquid tankers, and external trade demand. Freight can be broadly classified into a few segments — a) goods transport (haulage and tractor-trailer), b) oil and other liquid cargo (tankers), c) mining (tippers and dumpers), and d) construction and infrastructure trucks (tippers, dumpers, and concrete mixers).

Road freight transport has a 0.56 correlation with the IIP growth rate in India. IIP growth is expected to pick up pace from H2FY16 —so a major uptick in freight demand is still about a year away.

Road freight volume growth and IIP growth trends (correlation coefficient of 0.56)



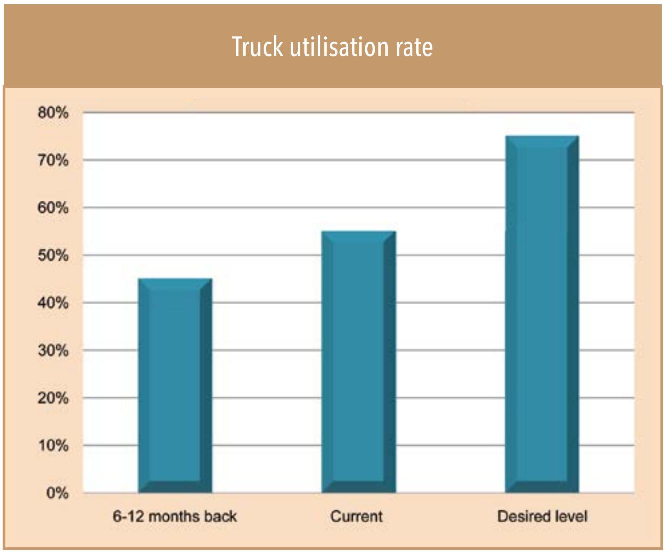
Road freight volume by commodity



Freight volumes showing marginal recovery - Still miles to traverse

Freight volume trends and transporters' capacity utilisation are the lead indicators of CV demand since goods transporters (individual and fleet owners) are the predominant users of the commercial vehicle industry. Since the last two years, freight operators are under severe pressure on several fronts — low vehicle utilisation, pricing, cost pressure, and driver availability — largely because of weak economic environment, fuel and labour inflation, cut throat competition and low demand.

There are signs of a partial uptick in freight movement in pockets such as large port hubs depend-



ent on export/import growth and in the consumer goods industry led by growth in e-retail. Although overall truck utilisation levels have started trending up in the last 6-12 months —to 50-60% currently from 40-50% earlier—they are still much below the comfort zone of >75%, which is a level that can spur incremental demand. The current utilisation levels will only keep replacement-led demand alive. Return freight availability is still a major issue for freight operators, thus retarding overall truck turnaround time and utilisation. "Return bhada milne mein time lag raha hai, truck ko thode din wait karna padta hai return bhade ke liye (return freight is an issue and the truck has to wait for a while before it gets a return journey)," said a fleet operator. All these factors say that a recovery is yet to fructify and is still at least 6-12 months away.

SEGMENTAL OUTLOOK

LPG-tanker fleet size to keep shrinking: Liquid tankers constitute roughly 7% of total freight load in India with LPG tankers making up for a significant chunk of liquid tankers. However, the LPG tanker market is shrinking fast because of low utilisation and a gradual rampup of pipeline infrastructure. As gas pipelines improve, demand for LPG transportation through the road network will dry up. Other products (milk, water, and non-LPG petroleum) will drive the demand for liquid tankers, albeit with a lower share in the overall freight pie.

Nammakal survey reveals that a gradual extinction of LPG tankers is a distinct possibility

Nammakal is one of the largest LPG-fleet-tanker markets in India, with about 4,500 vehicles. The Nammakal LPG tanker Operator Association believes that over the next 10 years, the LPG tanker market will almost vanish from the region. The operators here plan to reduce their fleet by 20% over the next two years because of low utilisations

Idle trucks waiting for freight

LPG tankers in Nammakal: Sitting idle and waiting for scrappage

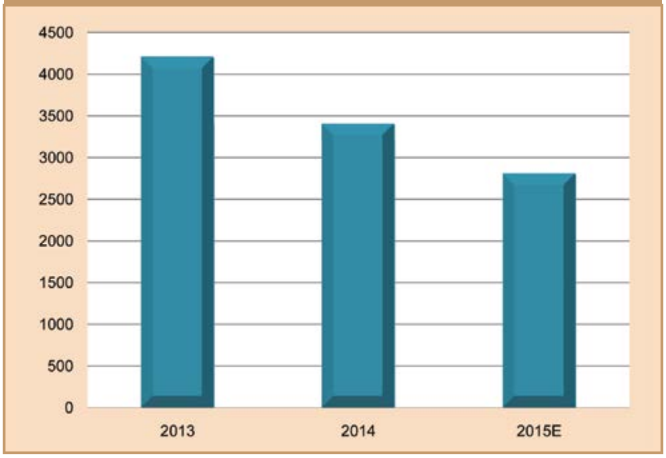
K. Ammaiappan said, "Gradually all LPG transportation will shift to pipelines and the tankers market will cease to exist in 5-10 years. Converting LPG tankers for a different use is also not feasible and scrapping a hazardous-materials tanker is a costly affair".

– Nammakal LPG Tanker Operator Association Treasurer: Mr K. Ammaiappan

LPG pipelines (executed and proposed): Nemesis for LPG tanker markets in South and East India

Consortium	Route	Distance	Carriage capacity	Completion/Expected completion
GAIL	Jamnagar-Loni LPG Pipeline	1200Km	2.5MT	May-01
GAIL	Vizag-Secunderabad LPG	600Km	1.33MT	Jun-03
IOCL	IOCL Panipat-Nabha-Jalandhar LPG Pipeline	275Km	0.7MT	Apr-09
HPCL-BPCL	Uran-Chakan-Shikrapur LPG Pipeline	145Km	1MT	Oct-15
BPCL_IOCL	Kochi Coimbatore Erode Salem LPG Pipeline Project	360Km	1.5MT	Dec-15
HPCL	MANGALORE HASSAN MYSORE SOLLUR LPG PIPELINE	400Km	3.1MT	Mar-16
IOCL	Paradip-Haldia-Durgapur LPG Pipeline	700Km	0.5MT	30Months after statuary approval
IOCL	Ennore-Trichy-Madurai LPG Pipeline	615Km	0.9MT	30Months after statuary approval

Nammakal LPG tanker market (no of LPG trucks)



(running 2,500km/month) — to achieve its goals of increasing this utilisation to 4,000km/month (to remain viable), it will have to reduce its fleet.

Significant LPG pipeline addition in the southern and eastern regions of India will shrink the LPG tanker market considerably over the next few years. Likewise, the Uran-Shikarpura LPG pipeline will also decrease the LPG tanker market in the Western region. A greater emphasis on city gas distribution in western states such as Maharashtra and Gujarat will have a domino effect. Thus, the LPG tanker truck market will gradually become extinct across India starting with the Southern and Western markets.

Tippers market: Return of buoyancy in mining to be slow and gradual

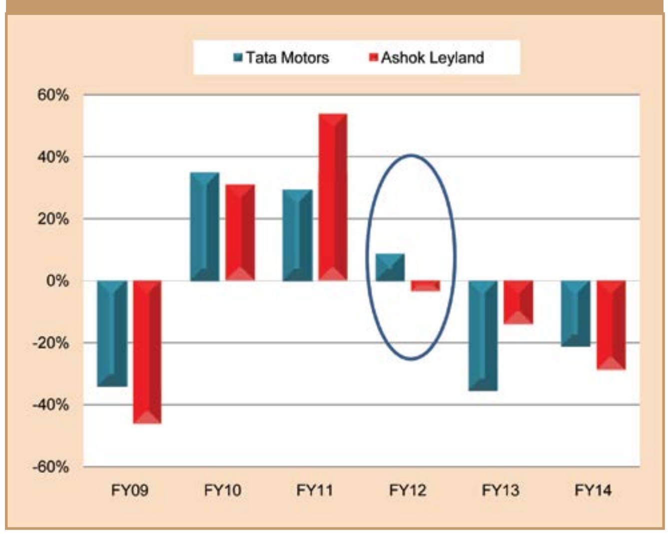
The tipper segment was a key driver in the earlier growth cycle of 2004-2013 due to an increase in mining. For the tipper segment to revive, a meaningful resumption in mining is a basic prerequisite as mining bans/restrictions in various states have led to overcapacity. Operators, dealers, and companies point out that sales have almost halved from 60,000-65,000 annual tipper sales in 2010-11.

India's current iron ore production has come down by about 40% from its peak, led by mining bans in Karnataka and Goa and various restrictions imposed in Orissa and Jharkhand. This has had a significant impact on the revenues of various OEMs. The mining ban in Karnataka impacted Ashok Leyland's domestic volumes during FY12 vs. Tata Motors,' given the former's strong presence in these regions. Ashok Leyland's domestic volumes fell by 3.5% while Tata Motors' grew 8.7%.

An improvement in output largely depends on various regulatory approvals from the government, including mining approvals. This is further explained in the following excerpts from Mr Dhruv Goel's interview (MD SteelMint) published in the November Ground Zero issue (Click here to view) where he talks about the iron mining situation in various states.

Iron Ore production (mn tonnes)

Domestic volume growth



What is the current iron-ore mining situation in various states?

The iron ore situation in India has been going from bad to worse because various restrictions are being imposed and there are delays in getting approvals to start mining. In FY15, iron ore output and availability will see a sharp drop across major states except Chhattisgarh. Although Karnataka will see its output increase from 18mn tonnes in FY14 to around 20-21mn tonnes in FY15 this is a bit misleading —10mn tonnes of dumps (that is 5mn tonnes of usable iron ore) were auctioned in FY14, which is why FY15 will see a drop in iron ore availability.

For Karnataka, in FY16, iron ore output should move up to 24-25mn tonnes because some mines may get approvals to start operations. Mineral Enterprises is waiting for final approval — this will see a 3mn-tonne of mine opening up. Sesa Sterlite is waiting for MoEF's clearance and lease renewals after which it will be able to re-start its iron ore mine—this is expected to take around 6 months.

Orissa will see a sharp fall in its output in FY15 if there are further delays in opening up the 18 mines that are shut because they haven't got lease renewals yet. Orissa iron ore output should fall by at least 15-20mn tonnes in FY15 (it was 72mn tonnes in FY14). In the first half of FY15, output was 22mn tonnes, which is a year on year fall of 25-30%.

We haven't seen any further progress in the process of renewing the leases of these 18 mines after CEC submitted its report to the Supreme Court. Orissa's government has requested a 3-month extension to the Supreme Court's deadline of 16th November 2014 for taking a final call on renewing the leases. The state is trying to partly compensate for the drop in output by increasing the mining done by Orissa Mining (Orissa Mining Corporation). OMC plans to increase its iron ore production from 1.8mn tonnes in FY14 to 3.3mn tonnes in FY15 and 4mn tonnes in FY16. Its eventual plan is to increase the capacity to 18mn tonnes by FY20.

The situation is similarly bad in Jharkhand where large iron ore mines have been shut for want of lease renewals. This issue will probably find some kind of solution only after state elections.

A resumption in mining may not lead to an immediate pick up in demand for tippers

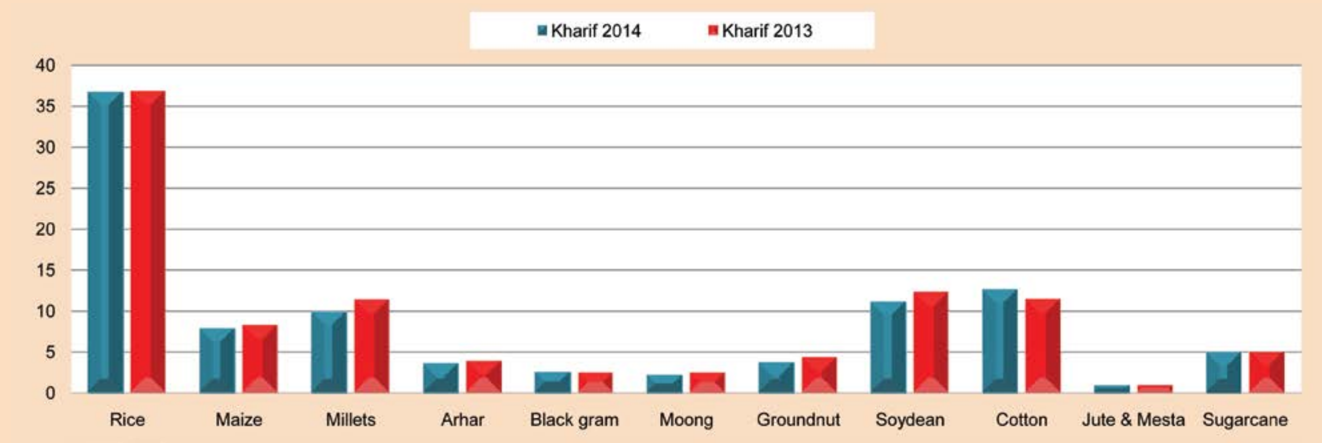
Even if the mining activity were to pick up from FY16, surplus tipper capacities in most mining areas will curb demand initially, says a small truck operator in Barbil, Orissa (hub for iron ore trading). He said, "Hamne toh saari truck bech di aur bhaade ki truck se kaam chala rahe hai (I have sold my entire fleet and currently operate only a hired fleet). Agar mining shuru ho gayi, toh din ke 5000-tonne iron ore transport karne ki existing capacity hai (overcapacity in Barbil is about 5,000 tonnes per day)."This implies that about 2mn tonnes of incremental iron ore per annum can be transported without any fresh demand for trucks. While this is the situation in Barbil, other regions will also have a similar situation and hence demand from the mining segment is a while away (except for a material ramp up in iron ore production, which is subject to regulatory approvals).

Agri-crop– seasonal uptick, but nothing much to cheer about

As northern India is the food bowl of the country, agri-crop production trends are a key driver for truck demand in the region. Agriculture produce, particularly food grains and perishables, are a key backbone of truck demand in the 9-to-16-tonne segment. There will not be a major pickup in agriculture-led demand in the near-term due to a marginal shortfall in the current kharif crop acreage (4% lower than FY14) and moderate monsoon.

Indian agriculture is still highly dependent on monsoons; major rain-deficient years have seen a significant drop in food grain production and in the current year, government agencies are estimating a 4% drop in total production for 2014-15. This will have a negative impact on agriculture-led freight

Kharif cereal, pulses, oilseeds, cash crops, (acreage in mn ha)



demand over the next 6 months.

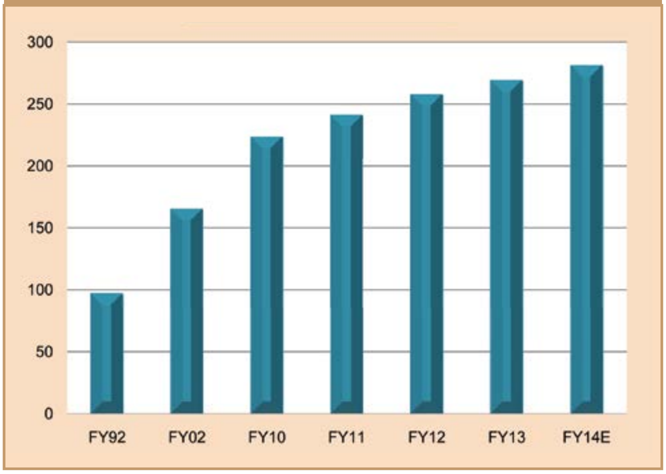
Few freight operators say that there are some signs of good volume uptick in agriculture products in the Northern region. However, this could be more seasonal/operator specific and may not be sustainable because of a fall in crop-production volume. Thus, a meaningful pick up in agriculture (grains)-led transportation demand is unlikely to happen because of the lower production outlook of current kharif crops.

Horticulture products transport to emerge as a big driver for refrigerated trucks

Demand for refrigerated trucks is likely to improve significantly in the medium term due to the government's focus on horticulture products wastage minimisation, which varies between 15-30% across various crops — this will enable it to overcome seasonal inflation. A move towards less-water-consuming horticulture crops to adjust to the vagaries of rainfall bodes well for the agriculture produce market.

India is significantly short of its required cold-storage capacity. In the interim, the refrigerated trucks market needs to be scaled up significantly from current levels to bridge the shortfall in cold chains and to curtail wastage. As horticulture production is rising at a much faster pace than cereal production, the refrigerated truck market has huge poten-

Horticulture production (all India)



Impact of monsoon deficit on foodgrain production

South-West Monsoon Season (for Deficient rainfall years)	Actual	Normal	Departure (%)	Food grain production % chng yoy
1st June -30th Sept-2002	737.3	912.5	-19	-18%
1st June -09th Sept-2009	622.5	778.0	-20	-7%
1st June -12th Sept-2012	732.1	795.0	-8	-4%
1st June – 10th Sept-2014	699.0	781.5	-11	-4% (Expected)

tial (current total fleet size is less than 10,000 trucks). However, the growth in these trucks depends on government incentives/push and is subject to APMC Act amendments (designed to widen the horticulture produce market). Thus, an immediate surge in the volume from this segment is highly unlikely.

In the near term, overall demand from agriculture freight should be only moderate. It will continue to be characterised by more dependence on the rabi crop rather than kharif (which is likely to be below last year's levels).

Infra sector demand pickup – states like AP, Telangana, UP,and Bihar to be the key focus areas

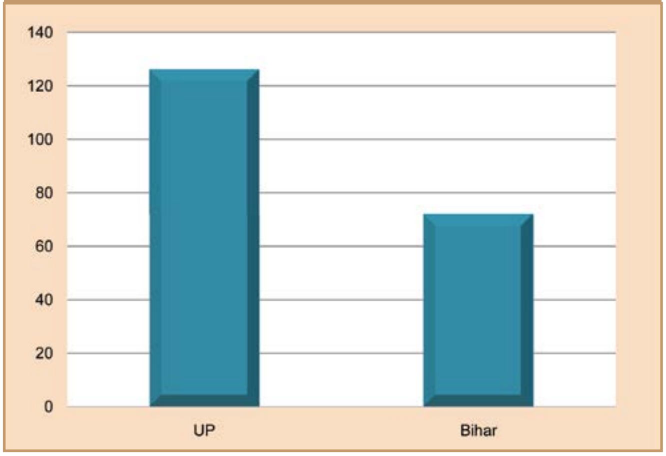
A pick up in infrastructure-related construction can lead to a massive demand surge in M&HCV sales. Demand from infrastructure is one of the key drivers for dumpers and tippers as they are used to supply construction material and remove debris. Infrastructure contributes to about 17% of the gross road freight carried in India. Given the scope for large construction-material demand due to India's relatively underdeveloped infrastructure, this segment is the backbone of demand growth for the M&HCV industry.

Financiers and stakeholders suggest that states such as AP, Telangana, Bihar, and UP are likely to be the key drivers of the infra push in the next few years. "Our focus will be on financing trucks in AP and Telangana, which will see a strong pick up in infrastructure activities. Similarly, Bihar and UP will also be in focus because of development potential in those regions," says a large CV financer.

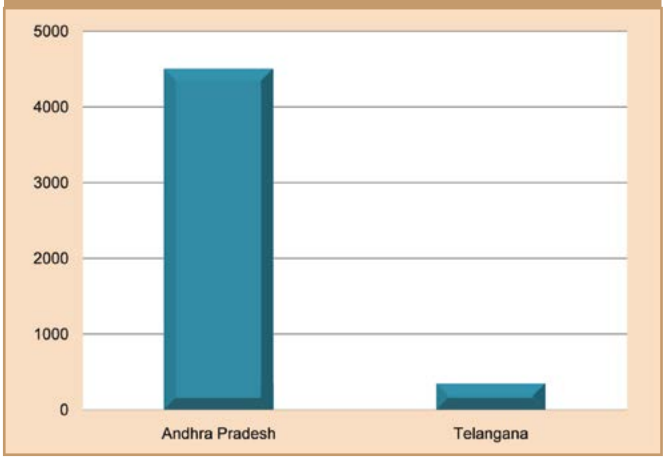
- The new state capital for Andhra Pradesh will be Vijayawada, which will lead to many construction and infrastructure development activities in the region. AP has announced projects worth Rs4.5tn over the next 7-8 years. Likewise, Telangana has also identified Rs350bn worth of projects in its state water grid and roads (to be executed over the next 3-4 years).
- Similarly, in UP and Bihar, many road and highways projects are currently under execution or inadvance stages of finalisation —this is likely to provide a significant infra push in these states.

However, it will be a while before the demand from these states takes off, mainly due to delays from the government's administrative machinery. This was highlighted in the Ground Zero issue in October 2014, which featured the outlook on cement demand (Click here to view the document). Excerpts from the note:

Ongoing/new road infra projects (UP and Bihar)



Major projects announced in bifurcated states (Rs bn)



> Creation of Telangana raises hopes for south demand: South India is a bottleneck for the fundamentals of the cement sector, especially Andhra Pradesh (including Telangana). With capacity at nearly 80mn tonnes in AP, the issue of excess capacity is almost too huge to address. Utilisations continue to remain between 45% and 55% in AP. With Telangana splitting up from Andhra Pradesh, expectations about demand revival in south India are high — based around the creation of new state capitals and support infrastructure in new

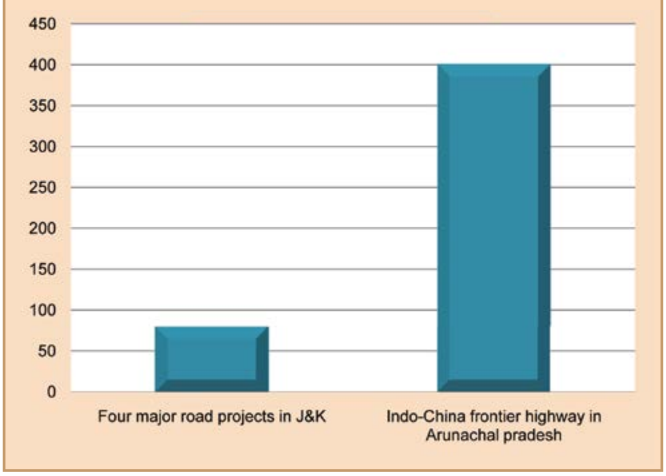
states. Empirical evidence suggests that when states split up, demand revival follows — for example, the split of Chhattisgarh from Madhya Pradesh, Jharkhand from Bihar, Uttarakhand from Uttar Pradesh, all caused a spurt in demand.

It remains to be seen if this will work for Telangana from Andhra Pradesh. Interactions with distributors, channel partners, end consumers, state authorities, corporate authorities (including the marketing and sales departments of various cement companies), housing builders, and contractors were not very encouraging for the near term. Most people believe that a lot has been said and talked about but when it comes to execution, things are at a standstill. Politicians in ministries are either settling down or negotiating for portfolios. Sources do not see a revival possibility for the next 6-9 months, but remain very positive and confident of a significant demand revival in AP and Telangana over next 12-18 months. Housing demand in the current state capital of Hyderabad has come to a complete standstill after it was decided that the new state capital for Andhra Pradesh will be Vijayawada, which is now the preferred investment destination. However, Hyderabad could attract investments over the next 12-18 months.

One more area from where demand can come in is through the central government's major push for infrastructure in the border states of North East and J&K. The tough terrain in these locations will need high-powered and high-capacity trucks. So far, the government has announced road projects worth Rs500bn in both J&K and along the China border. However, work on these projects will be slow due to the rough terrain, many construction bottlenecks, and weather restrictionsfor most part of the year.

Based on the state and border infrastructure projects, significant truck demand should emerge from the infrastructure space in the next few years (unlike in the past few years). Anecdotal evidence suggests that trucks used in the construction segment have a lower shelf life of 4-5 years due to the tougher usage in the segment. The velocity of demand from these states and projects depends on the execution speed — it is likely to be gradual rather than sharp (as anticipated by the market) because execution challenges remain high.

Border infrastructure project announced by the government of India (Rs bn)



Early signs of freight turnaround, but leap to high-tonnage vehicles will restrict volume growth

While it is not very farfetched to expect a major uptick in freight movement based on economic buoyancy, ground checks reveal that there is no major shift in the situation yet despite early signs of green shoots in a few sector and freight routes. Freight operators and truck owners are still wary of adding vehicles (due to system overcapacities and because they are approaching upcoming growth with caution rather than over optimism), but they are positive about the new government's intent. Most hope for a recovery in 12 months.

Another impediment to high-volume growth will be a shift towards higher tonnage vehicles (highly visible now) due to better operating economics, driver shortage, and improving highway infrastructure. The Secretary of the Namakkal Trailer Association says, "Drivers, too, are forcing truck owner to shift to higher tonnage or multi-axle vehicles as they don't want to drive 6-tyre trucks and want to drive trucks with better earnings and superior cabins etc." This opens the possibility of movement towards higher tonnage vehicle since tonnage growth will be high with moderate volume pick up .

Conclusion: Contrary to current expectation, a meaningful truck-demand recovery is still 12 to 18 months away.

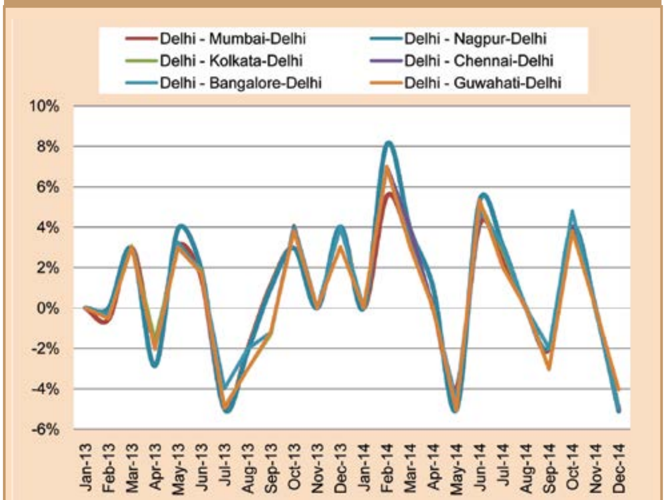
Still constrained with stretched balance sheets

While recent diesel price cuts have given some relief, truck operators are already facing client pressure to reduce freight rates further; therefore, the recent rise in spreads may not sustain. Most operators have highly stressed profitability (barely able to service debts and meet costs), thereby affecting new vehicle demand.

Freight rate spreads are moving in a positive direction, but are they sustainable?

Due to overcapacity in the system and the resultant competition, freight rentals are facing severe pressure for the last two years. Operators have been unable to commensurately increase rentals despite repeated increase in diesel costs, higher operating expenditure (driver/cleaner costs), increasing toll check points/rates across national highways, and higher repair/maintenance costs. The recent drop in diesel prices (which operators passed on only in a small way) has improved the freight-rental-to-operating-costs ratio compared with what it was for the last 6-9 months. It remains to be seen if the current spread improvement is sustainable — fleet operators say that they are already facing client pressure to reduce rentals, based on perceived diesel-price-cut benefits. "Clients ke mail aane shuru ho gaye hai. Bol rahe hai bhav ghatau (clients have started mailing asking for a rate cut)", says a fleet operator. This is already visible in the 4.5% drop in truck rentals since the beginning of December.

Freight rate changes on key routes (MoM)



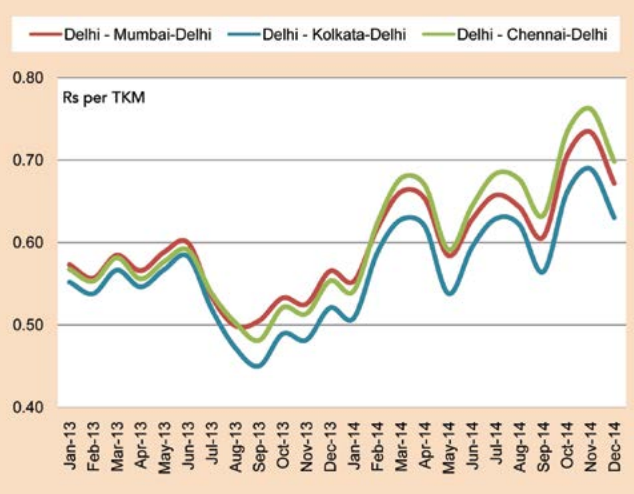
Diesel prices cut – only a short-term respite and non-sustainable at current utilisation levels

Although the recent Rs 6.8 (11%) cut in diesel prices improved the gross margins of truck operators, a 4-5% cut in December freight rates partially shaved of the gains. With low industry utilisation levels and pressure from major clients, further freight rate cuts are quite likely. When diesel prices had run up 15%, operators could hike their freight rates by only 10%. "Profitability tabhi hi badhegi jab hum rate maintain kare aur diesel price cut ka fayda ho (profitability will improve only when we are able to maintain freight rates and enjoy the benefits of diesel price cuts)," says a fleet operator.

Truck owners' profitability continues to be stressed

Truck owners' profitability has been under stress primarily due to low utilisation, cost inflation, and competition-led low-pricing environment. Although the recent reduction in diesel prices has

Gross spreads (freight rates minus diesel cost) on key routes



provided partial relief to truck owners in the form of an improvement in gross margin, their spreads are still much below desired levels.

Truck owners say that the trucks they purchased 3-4 years ago are yet to make cash profit. This scenario is unlikely to improve until utilisation, turnaround time, and pricing improves, given that the operators are already down to 3-4% margins. These kind of low margins leave little room for a truck owner with 3-4 year old trucks to service debt and interest costs. This in turn is leading to low appetite for new truck purchases and a slowdown in replacement vehicles. Another consequence of low profitability is that fleet operators have taken to hiring or leasing vehicles rather than owning or adding trucks to their fleets — >75% vehicles (prevalent norm) of large-fleet operators are now running on this hire-and-lease model rather than the previously favoured own-and-operate model. Thus, truck owners' capability to service debt becomes important for a meaningful recovery.

Cost structures: Beneficial to own higher-tonnage vehicles

Truck owners are operating at very thin margins of 3-4%. In this scenario, operators are finding higher-tonnage vehicle more attractive due to their better scale and operating metrics, which increases profitability.

Lender apprehensions on new truck financing due to low operator profitability

Since truck owners facing low profitability are unable to make regular loan paybacks, lenders are becoming increasingly reluctant to finance new vehicles, particularly to customers who lack an operating history. CIBIL's rating of truck owners based on their existing loans also constrains financing by lenders such as scheduled banks. However, NBFCs are more lenient about loan disbursals compared with scheduled banks based on old relationship and higher interest rates. A Mumbai-based CV dealer says, "Recently we had to forgo a number of orders due to the bank's reluctance to loan to small truck owners". The reluctance of large financiers (such as banks) in financing CV purchases is further aggravating truck owners' profitability — when banks and NBFCs refuse loans they tend to rely on local financiers, who charge exorbitant rates.

Truck operator profitability (Rs)

BOM-Delhi route	9T		16T
Freight Rental	36000	Freight Rental	56000
Diesel costs @55%	19800	Diesel costs @50%	29120
Toll Tax @15%	5400	Toll Tax @13%	7280
Tyre costs @10%	3600	Tyre costs @10%	5600
Maintenance costs @7%	2520	Maintenance costs @7%	3920
Driver and sweeper costs @ 10%	3600	Driver and sweeper costs@13%	7280
Total Costs	34920	Total Costs	53200
Profitability	**1080**	**Profitability**	**2800**
Profitability margin (%)	**3**	**Profitability margin (%)**	**5**

Dampener to growth; to increase cost and change fleet ownership pattern for freight operators

'Driver dila do yaar (please get me a driver)' seems to be a common refrain from truck fleet operators. A scarcity of drivers is a major constraint that fleet operators across the regions are facing. This shortage is not only increasing the costs (higher salaries), but is also forcing operators to reinvent their business model by coming up with innovative compensation structures and changing the mix of their fleet. The problem is so severe that in the future (when growth picks up) driver shortages could actually spoil the party.

Factors leading to shortage of drivers

Improving education standards, rise in organised retail, and minimum age of employment are some of the factors driving the shortage. Improvement in overall education, higher aspirations, and expectations of a better standard of living are driving people to employment options that are considered more attractive than being a truck driver. As seen from the table, literacy rates have moved up to 73% in 2011 from 65% in 2001. The jump has been even sharper in rural areas, from where drivers were traditionally sourced. Literacy rate in rural areas have moved up from to 69% in 2011 from 59% in 2001.

Ad in Tamil saying drivers required

Literacy rates in India

Total	Unit	Subgroup	2001	2011
Literacy rate (age 7+)	Per cent	Persons	64.84	72.99
Literacy rate (age 7+)	Per cent	Males	75.26	80.89
Literacy rate (age 7+)	Per cent	Females	53.67	64.64

Rural	Unit	Subgroup	2001	2011
Literacy rate (age 7+)	Per cent	Persons	58.74	67.77
Literacy rate (age 7+)	Per cent	Males	70.7	77.15
Literacy rate (age 7+)	Per cent	Females	46.13	57.93

Urban	Unit	Subgroup	2001	2011
Literacy rate (age 7+)	Per cent	Persons	79.92	84.11
Literacy rate (age 7+)	Per cent	Males	86.27	88.76
Literacy rate (age 7+)	Per cent	Females	72.86	79.11

In 2007, the Ministry of Road Transport made it mandatory for drivers carrying hazardous material to be educated up to the 10th grade and for drivers carrying other cargo to have a minimum qualification of 8th grade — this created more problems for the sector. A driver from Rajkot says, "Saheb license nahin milta hai (getting a license has become a herculean task)". With that kind of education, people have other (easier) employment options (such as office peons, courier boys). Increasing penetration of organised retail has further accentuated the problem — people prefer to work in a retail chain than being a truck driver.

Despite the fact that this profession pays well, people are reluctant to take it up. A fleet operator plying hired vehicles across India highlighted this (the reluctance to become truck drivers) as a reason for a good number of second-hand vehicles being up for sale, but without takers — in this industry, cleaners eventually graduate to becoming truck drivers, and truck drivers eventually become small truck owners and more often than not, they start by buying second-hand trucks.

Monthly gross earnings (before trip expenses of Rs 5,000-10,000) for a driver could range between Rs 30,000-40,000 vs. Rs 10,000-15,000 for a job in organised retail.

The main reason behind the reluctance to become a truck driver is the quality of life and compromised family time. The Treasurer of the South India Bulk LPG Tanker-Owner Association says, "People prefer driving tankers despite lower income as they are able to visit the family every week unlike trailer drivers who come home after 20-30 days." The current generation is wary of taking up driving trucks as a profession because of the hardships and the risks involved. Older truck drivers are reluctant to let their children enter into this profession due to several occupational hazards, one of which is the increasing rate of HIV prevalence among truckers. According to the surveillance report of HIV among different risk groups in 2010-11, the prevalence among truckers is 2.59%, which is 10 times higher than national prevalence among the adult population of India (0.27%) (Source: MOU signed in June 2014 between Ministry of Road Transport & Highways and Department of AIDS Control).

Flouting of norms to mitigate the shortages

In the past, 'cleaners' were hired (who are assistants to the truck driver and even take over in patches when the driver tires out) with the understanding that they would eventually graduate to becoming a full-fledged truck driver. This practice is facing issues with the mandated age norms — many states are against hiring people below 18 years of age and have issued notifications after CY12 revising the minimum age limit to 18 years (from the earlier 14 years). The constitution of India still has a minimum age limit of 14 years, except for some industries.

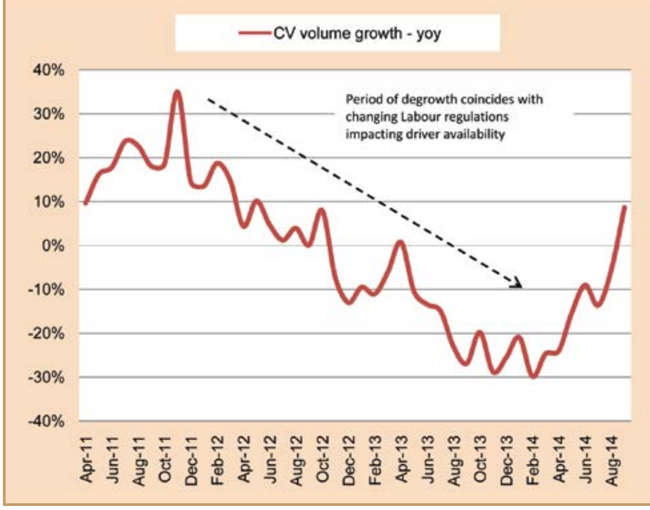
While truckers still follow the practice, the prevalence has come down, leading to availability issues. This, along with higher compensation,is leading to many freight carriers flouting norms and making do with a single-driver for an interstate journey vs. the national permit requirement of two drivers per vehicle. A government crackdown on this will further aggravate the situation. Operators are running the vehicles with one driver because quality of commercial vehicles has improved over the years. New global entrants gain an edge over the domestic CV players, given superior technology. However, lower capacities for the global majors and higher product offerings by incumbents will limit the impact.

While the availability of drivers due to changing regulations has been an issue for a few years now, the impact was not felt severely because it coincided with a fall in the CV industry. CV volumes peaked towards the end of FY12 and started declining from FY13. However, this (driver shortage) can play spoilsport to the CV volume growth when the economy improves.

Driver shortages is a well-acknowledged problem

OEM manufacturers are aware of this problem for a while now. Mr Ravindra Pisharody, Executive Director (Commercial Vehicles) at Tata Motors

Domestic CV volume growth



New truck launches to cater to growing needs of driver comfort

	Time of Launch	Additional features for Drivers
Ashok Leyland		
U Truck	Apr-11	AC Cabin, Factory-built twin sleeper cabin with coil suspension
Boss Truck (ICV)	Sep-13	Adjustable seats, factory-fitted music system, mobile phone charger, large storage space and Quarter-vent. Boss equipped with Tilt-able & Telescopic Steering, Blower (optional), Suspended Cabin, Hydraulic Cabin Lift
Captain Truck	Jan-14	Option of air-conditioned cabin. Also included is a provision for telemetry systems. Driver gets a suspended seat & rake, adjustable steering column / reach.
Tata Motors		
Prima Range	Oct-11	Air-conditioned non sleeper cabin that includes pneumatically adjustable seats and an adjustable steering wheel for enhanced driver comfort. Double sleeper bunks.
Prima LX Range	Sep-12	Optional AC cabin, 4 point suspension for reduced vibration and double sleeper bunks to provide maximum comfort to the driver
Ultra Range	May-14	AC Cabin (optional), Ergonomic seats, Switch control at Steering, tiltable & telescopics steering column, mobile charging points, cable shift gear box, to reduce driver fatigue
Eicher Volvo		
Pro Series Truck	Oct-13	Air conditioning, stereo, cruise control, tilt and telescopic steering, height adjustable driver seat.
Bharat Benz		
Truck initial Launch	Sep-12	Optional AC cabin, 2-way adjustable seats, Ergonomically placed gear shift, Intelligent digital instrument clusters
ICV Launch	Mar-13	Optional AC cabin, 2-way adjustable seats, tiltable & telescopics steering, Ergonomically placed gear shift, Intelligent digital instrument clusters
Heavy Duty Trucks (40 - 49 tonner)	Jan-14	AC cabin (optional), 2-way adjustable seats, Ergonomically designed cabin with sleeper cab, fully sealed cabin to reduce noise for driver, tiltable & telescopics steering, Ergonomically placed gear shift, Intelligent digital instrument clusters, Anti roll bar for driver safety.

Captain Truck interiors

said in a media report in February 2011 that driver shortages could slow growth in commercial vehicle sales to 20%from 25%.

CV manufacturers have taken various initiatives to address the problem, ranging from introducing various driver-friendly trucks with better driving conditions to undertaking various driver-training programmes. They launched many truck ranges keeping in mind driver comfort.

Driver training institutes – is it really helping?

Ashok Leyland has opened or is in the process of opening 8 driver-training institutes at Nam-makal, Burari, Kaithal, Chindwara, Bhubaneswar, Rajsamand, Bangalore and Dharwad. Tata Motors

Ashok Leyland Driver training institute

Ashok Leyland driver-training programmes

Type of Training	Duration
Training for Beginners in Heavy Vehicle Driving	3 Months
One month - Heavy Vehicle Driving (for HTV License holder or Heavy LLR)	1 Month
Refresher course for Experienced Drivers	5 Days
Training for Trainers	1 Month & 5 Days
Tractor - Trailer Training	5 Days
Safe Transportation of Hazardous Goods (Every week on Wednesday)	3 Days
Fuel Saving Techniques	2 & 3 Days
Refresher course for " Safe transportation of Hazardous Goods" (Every week on Monday, Tuesday, & Wednesday)	1 Day

has also set up or is in the process of setting up such institutes in Punjab, Maharashtra, Gujarat, Tamil Nadu, Himachal Pradesh, Haryana, Assam, Nagaland, Bangaladesh and SriLanka. Volvo trains 2 drivers for every truck sold in India in addition to training drivers on a standalone basis.

A manager at one of the oldest driver-training institutes put a very different spin on the intent of CV manufacturers in setting up such institutes in India. His view is that this is only a CSR activity for companies and not really designed to benefit anybody. However, to be fair to corporates running such programs, low enrolments are because of the reluctance on the part of the drivers, who prefer the traditional route of becoming a cleaner and then graduating to becoming a driver.

Training charges per driver are significantly lower than the training costs. CV companies charge Rs 4,000-5,000 (for the three-month course where a driver is trained one hour daily), while the total training cost is actually Rs 30,000-40,000. Driver enrolments continue to be significantly lower despite the low charges. A fleet operator said, "Driver training institute koi kaam nahi aata. Waha log hi nahin jaate (training institutes are of no use, drivers don't go there)."

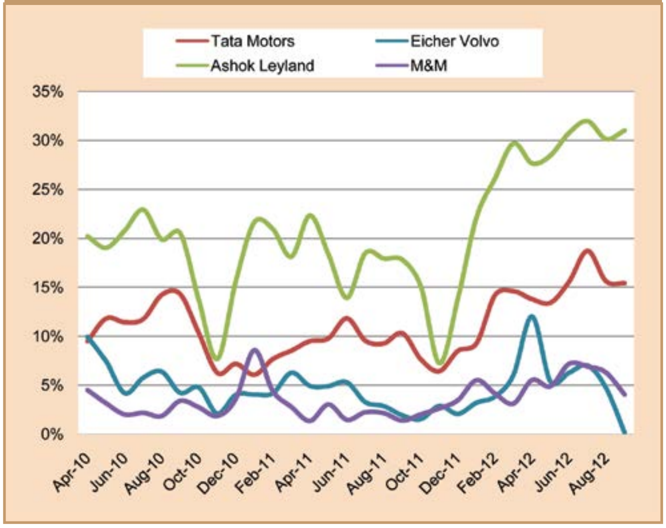
As a result of low enrolments in company-run or privately-run driver-training institutes, the quality of drivers on road in India is quite poor. Most drivers are only dimly aware of even basic traffic rules and are sometimes completely unaware of safety procedures. A person involved in enrolling drivers into company-run training institutes had an interesting anecdote, "A company had once conducted a one-day workshop for drivers hired by a very large cement company. Of the 100 drivers attending the workshop, not even a single driver would have passed the license test had the norms been followed to the letter."

Driver shortages escalating costs for operators and changing fleet mix

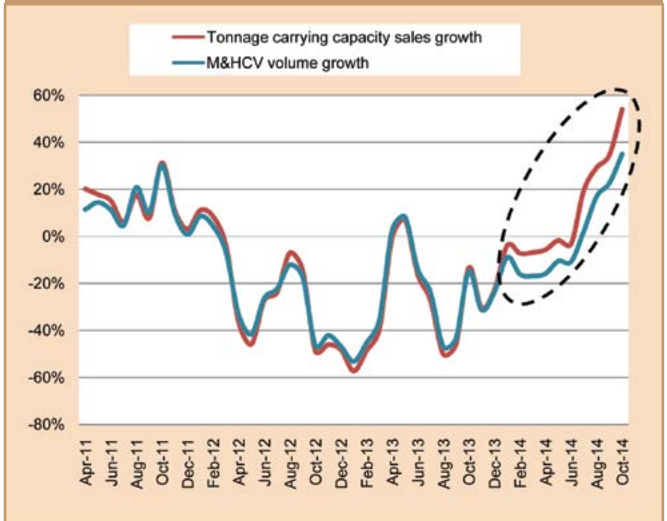
Driver shortages are leading to costs increases for fleet operators, as they are demanding higher salaries among other things. Traditionally, the drivers were happy to only discuss the salary before taking on an assignment — with the acute shortage, drivers are now in a position to discuss the type of vehicle and distance travelled. They do not want to drive second-hand vehicles and prefer new vehicles that provide more comforts and facilities. Fleet operators have had to change compensation structures — from fixed salary to a variable structure — to incentivise drivers. Namakkal Trailer Owner Association said that they are currently offering 13.5% of the total freight received to drivers. A driver in Gujarat said he is being paid on a per kilometre basis.

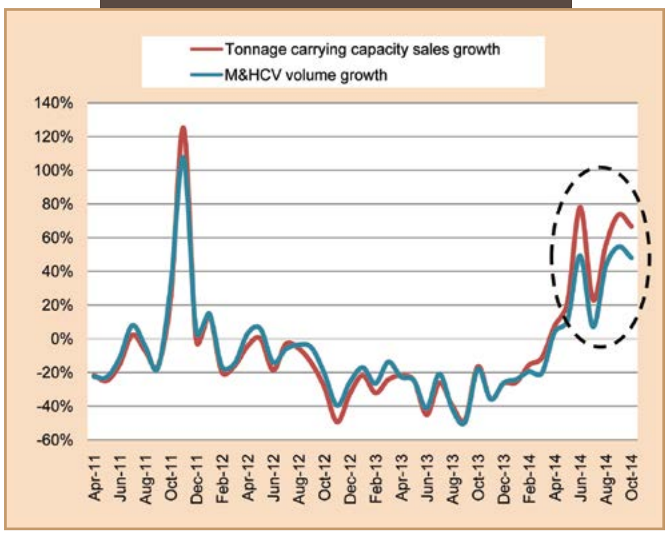
Through variable compensation structures, fleet operators are incentivising drivers to take on more long-distance journeys (vs. shorter distance freight) to maximise their earnings. This, along with the drivers' increasingly strong and vociferous preferences for types of vehicle and distance trav-

Share of > 25 tonner vehicles in total volumes sold in the goods segment



Tonnage-capacity sales growth and actual M&HVC volume growth





elled, will further evolve and harden the existing hub-and-spoke model; higher tonnage vehicles will be used for longer distances and LCVs will be used for local distribution. While this trend is already in place, it will emerge more sharply over the longer term. Once GST is introduced, this kind of a model will make even more sense; current logistics have to be planned considering various state tax structures.

OEMs revenue mix – new trends emerging; likely to change even further

Driver preferences and the hub-and-spoke model will see the share of high-power higher-tonnage vehicles increase over the next few years. While this trend has already started emerging over the past couple of years since driver shortages became acute, the trend is likely to get more prevalent as driver availability deteriorates further. All major OEM producers have seen the share of 25-tonne-and-above vehicles (in terms of total volumes) increase over the last 2 years, while the share of below-25-tonne vehicles in the M&HCV category have either reduced or stayed flat.

Tonnage sold will increase; volume growth will lag

Higher demand for 25-tonne-and-above vehicles will lead to superior growth for tonnage capacity sold; however, actual volume growth will lag.

Category-wise volume analysis for OEM's M&HCV sales shows this trend emerging strongly in the past 6 months.

Conclusion: Driver availability issues will be a major impediment to CV industry growth going ahead as freight volumes pick up. This will also see a shift in product mix for various OEMs with higher-tonnage vehicles grabbing a larger share of incremental growth.

Getting cautiously optimistic. Turning around, but growth to take a while

CV financers have started becoming cautiously optimistic about India's CV cycle, but believe that a material growth in CV sales is still a while away. While none of them was sanguine about demand in the short term, they were quite optimistic over a 2-3-year period, based on improving profitability for fleet owners after diesel price cuts and an expectation of uptick in freight rates. While the CV financers' portfolios continue to be stressed, there are early signs of stability after the diesel price cuts in the past few months, which have led to improving cash flows for small fleet owners. In a 6-stage cycle, financers are currently at stage 4 — therefore it will be a while before there is a strong pick up in CV demand.

Truck repossession trends: Selective and not very fruitful in the current environment

CV financers said that vehicle repossession has seen a significant slowdown in the past 2-3 months. While this by itself is a positive signal, digging deeper reveals a different picture. The slowdown in repossession is actually because of losses on vehicle repossession and the inability of financers to resell the vehicles. Since profitability has recently improved for smaller truck operators, financers are not resorting to repossession. They hope that with improving profitability they will be able to recover their loans over a period — therefore, they would wait rather than incurring losses on repossession. Financers are resorting to

The 6 stages of the CV cycle

Stage 1: Strong CV demand leading to strong loan book growth

Stage 2: Weak economy leading to lower profitability for fleet owners

Stage 3: Repayment issues leading to NPA and vehicle repossession

Stage 4: Improving profitability for fleet owners leading to loan restructuring and no further repossession to avoid repossession losses

Stage 5: NPA peaking out; regular payments leading to intent of increasing exposure

Stage 6: Strong CV demand leading to strong loan-book growth

No takers: Eicher trucks lying idle for more than a year after repossession

repossessing vehicles only in the case of intentional default.

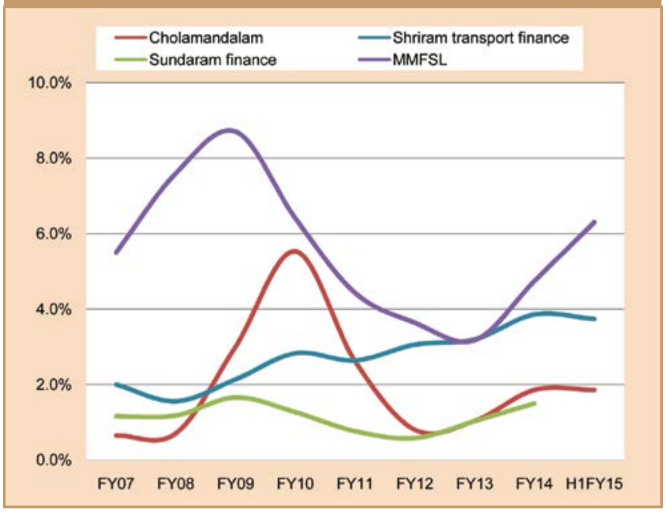
A subdued second-hand vehicles market with low prices and rising inventory is making it incrementally difficult to repossess vehicles. This case is more prominent for vehicles that are upto two-years old. 25-30% depreciation in value during initial years leads to a significant hit on the books of these financers. One financer said that out of the 2,000 vehicles a month that he was repossessing, he could sell only 1,700, therefore, he stopped repossessing vehicles 3 months ago. His current inventory is at around 8,500 vehicles.

To circumvent the NPA norms and avoid repossession, financiers are currently allowing their customers to miss an EMI in a quarter or once in six months in cases where repayment miss is more due to economic factors rather than intentional.

Discounts impacting second-hand prices, accentuating financiers' problem

Increasing discounts offered by OEMs to boost sales have significantly impacted the second-hand vehicle prices. This has further accentuated the problems for financers who had to take a haircut on the loans provided while selling repossessed vehicles. Discounts offered by OEMs have seen the prices for second-hand vehicles trade at significantly lower levels. The current offer for a 3-year-old 25-tonne vehicle is around Rs 900,000, 25% lower than the historical normal of Rs 1.2mn. Current low prices will become the new norm,

Gross NPA (%) for various NBFCs involved in CV financing



given that discounts are here to stay.

NPAs nearing peak; should stabilise soon

Banks and NBFCs engaged in CV financing indicate that they have a 5-10% NPA level in the segment. These levels are close to peak, given the improving operating environment for small truck owners. However, the new provisioning norms introduced for NBFCs could see NPAs move up further in the short term.

Nevertheless, NPA levels should peak in the coming 6 months for various institutions before stabilising and eventually starting a downward trend. Willingness to lend aggressively to the sector will help propel CV numbers; however, this will happen only over the next 12-18 months.

Duopoly: Here to stay but how long?

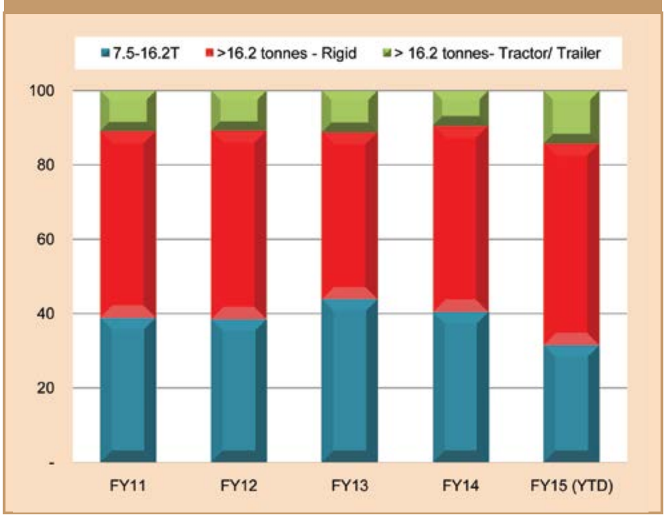
Indian heavy commercial vehicle industry has been a virtual duopoly since long and is likely to remain so over 4-5 years due to wider product portfolio straddling all the key segments. Although onslaught from Bharat Benz and Volvo-Eicher have increased in recent past, they still operate in niche segments with gradual approach to enter new segments. Also, customer decision to switch brands with lack of operating history in local conditions also becomes a deterrent.

Shift to higher tonnage vehicles – Unlikely to alter market share dramatically

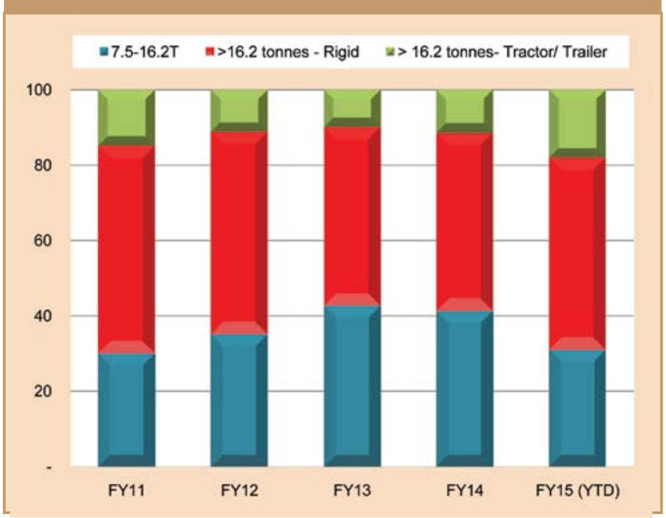
A shift towards higher-tonnage tractor-trailer and multi-axle vehicles is a given. The superior operating economics of these larger vehicles, acute driver shortage and increasing driver demands, and improving highways networks will drive this growth. Tata Motors and Ashok Leyland are well-entrenched across all segments with a higher volume share in the >16T haulage and rigid segment. A shift towards higher-tonnage vehicle may negatively affect Eicher Volvo, given its higher share in the <16T segment and miniscule presence in higher-tonnage rigid and haulage vehicles.

In terms of product mix, AL and TAMO have an almost similar mix with marginal shift across different periods depending on the growth in their key regional strongholds. Decline in mining in southern states impacted Ashok Leyland's volume share in the rigid segment in FY12-13. Similarly, superior growth in southern haulage markets tends to improve Ashok Leyland'smarket share in high-tonnage tractors/trailers— as seen so far in FY15 (YTDFY15 18% share in M&HCV volume vs. 11.5% in FY14).

Tata Motors: Product mix



Ashok Leyland: Product mix

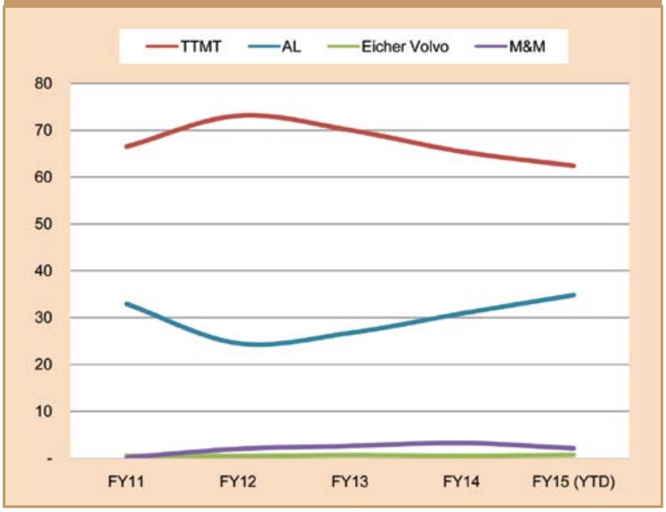


Long-haulage tractor/trailer market: Tractor/trailer is the fastest-growing market in M&HCVs, with YTDFY15 yoy growth of 110%. While Tata Motors is the market leader in the >16T segment with 63% market share, Ashok Leyland follows with 35% share. Other players such as M&M and Eicher Volvo are still very marginal players, with little prospect of any major near-term improvement due to their lack of portfolio and because their existing customer base is in the smaller M&HCVs segment.

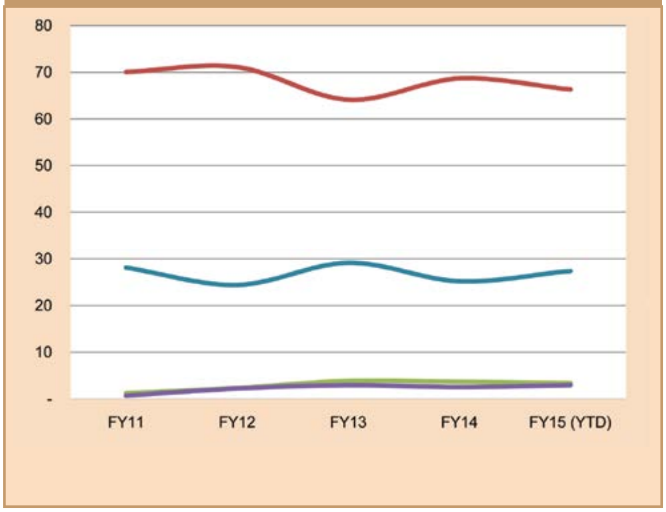
Although Tata Motors' has partially lost market share (from a peak of 70%) in the last couple of years due to soft Northern and Western markets, their share is unlikely to change meaningfully further. Very high growth in the segment provides opportunities for all the players and will not impact incumbents meaningfully despite marginal decline in market share. Thus, both incumbents tend to benefit from the market shift to tractors/trailers from 16T haulage

Construction and mining segment: The high-tonnage rigid vehicle segment will be a key beneficiary of construction and mining sector revival. Even in this segment, Tata Motors' has dominant

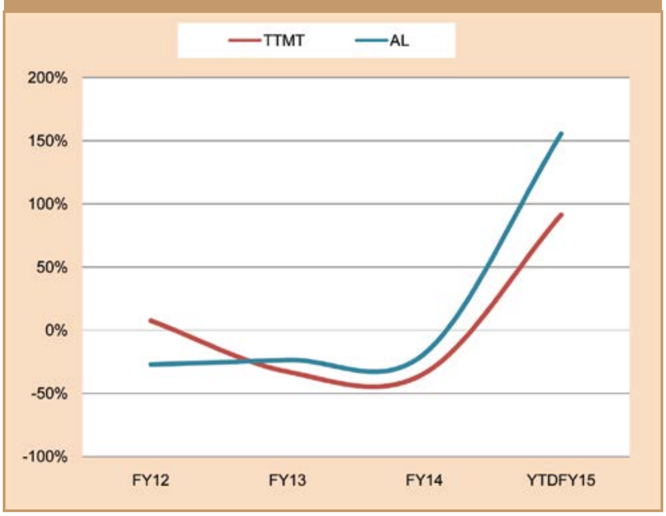
Tractor-trailer market share trends



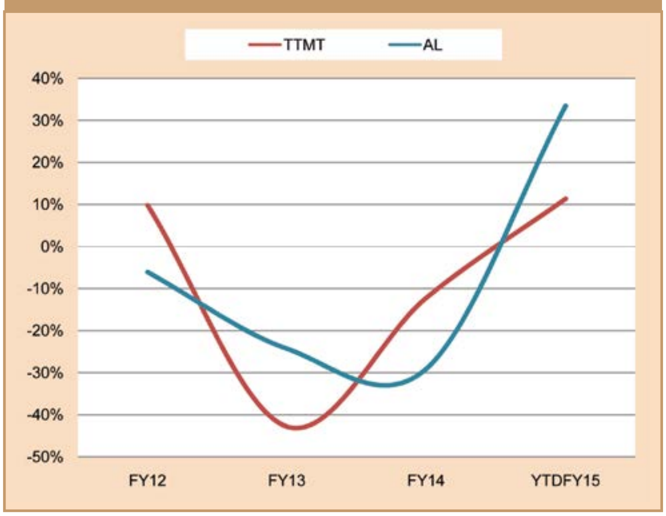
Rigid-vehicle market share



Tractor-trailer market growth rate



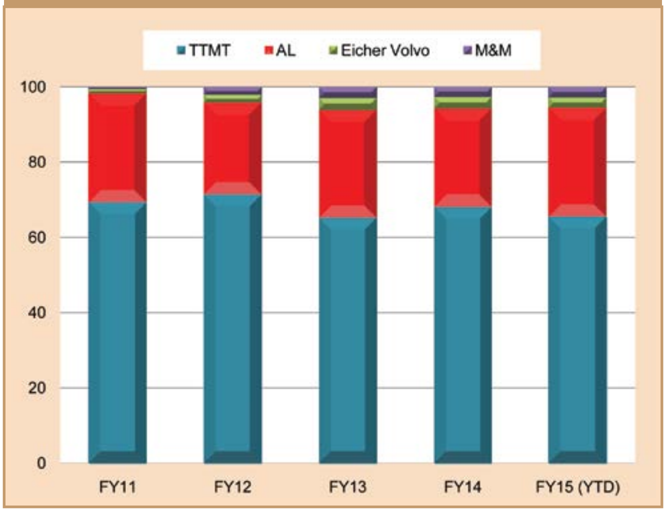
Rigid-vehicle growth



market share of around 66% and Ashok Leyland is #2 with 27%. Ashok Leyland's share could rise if iron ore mining resumes substantially, given its strong presence in the Southern markets.

Given that both incumbents have a broadly similar product mix in terms of vehicle tonnage, with marginal variation due to regional mix, both Tata Motors and Ashok Leyland will benefit equally over a period. The impact of Bharat Benz in the higher tonnage segment is yet to be felt because it has only entered recently and without a wide product portfolio. Therefore, a new winner is unlikely to emerge in high-tonnage vehicles, at least in the next 2-3 years.

>16T market share



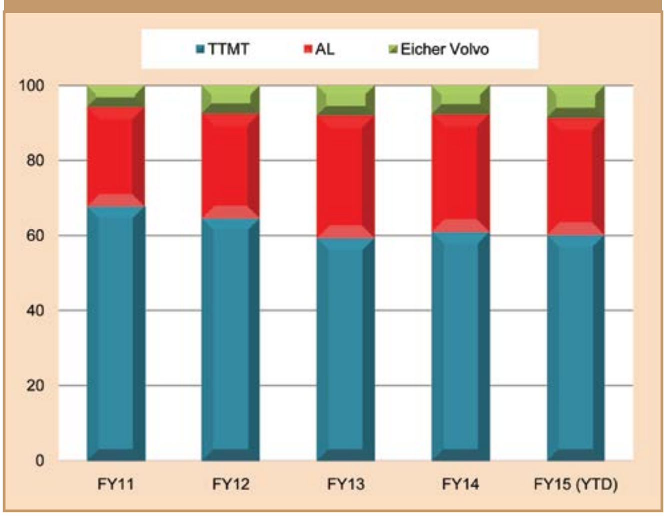
Discounts here to stay. Bharat Benz could emerge as a threat in the long term

The competitive landscape of the Indian truck manufacturing industry is undergoing a shift with Bharat Benz (Daimler) (BB) and Volvo Eicher (VECV) emerging as challengers of the virtual duopoly that Tata Motors and Ashok Leyland have over the market. Although truckers and freight operators were cautious on Volvo Eicher's outlook, most stakeholders' identified Bharat Benz as a potential game changer for the industry due to its superior trucks with better operating economics and higher driver comfort. Bharat Benz's impactis clear from discount trends — it is able to sell its vehicles without major discounts/benefits, even as the two large players continue offering deep discounts. However, given BB's limited production (about 1000 units/month), limited product range (early focus on successful 9-12T segment), and its gradual go-to-market approach, industry market share is unlikely to alter in a big way in the short run.

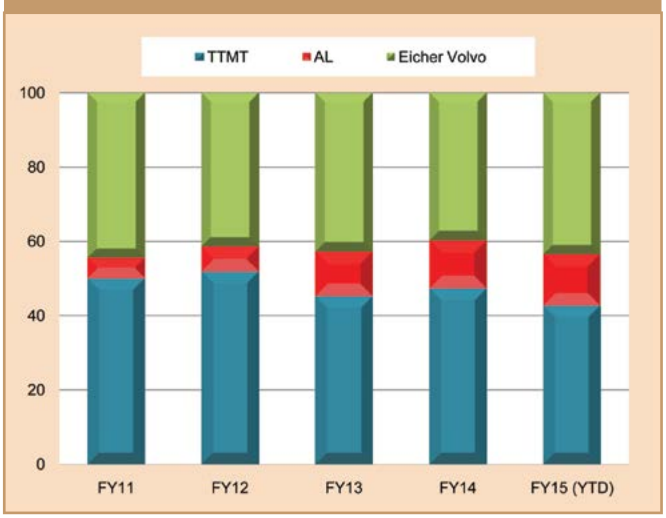
Why is Bharat Benz a real threat to the incumbents?

CV industry participants across the value chain are almost unanimously positive about Bharat Benz trucks in India. So far, Benz has been more successful in Southern states like Kerala and is eating into the share of incumbents such as

>12-16T market share



>7.5-12T market share



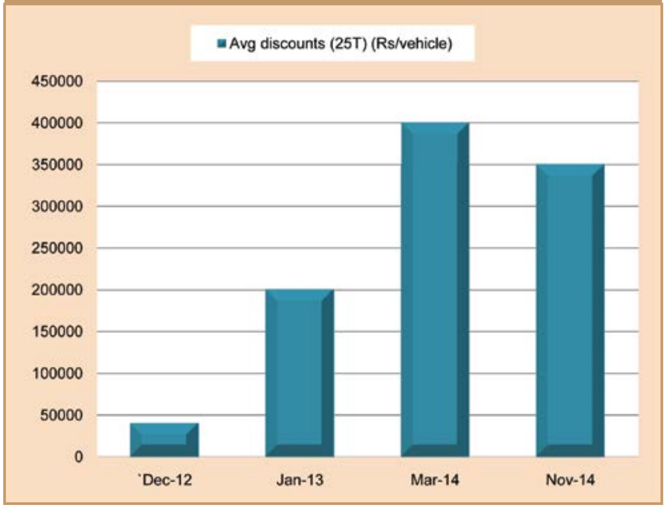
Ashok Leyland. Three key factors going in favour of Bharat Benz in the Southern market are — a) better education levels of truck owners, thus, more focused on operating economics rather than upfront discounts, b) better service networks, and c) focus on driver comfort due to higher shortage in southern states. BB offers significantly better dealer remuneration vs. incumbents and its products consistently receive positive feedback from customers — this has led to few dealers shifting to Bharat Benz.

So far, Bharat Benz has restricted its production to align itself with current market demand and to sort out its supply-chain issues. However, it is planning to double its volume with more product launches from January 2015, which can dent the share of incumbents. Benz is unlikely to alter markets in the nearterm; however, in the longer term (3-4 years) it will dent larger players' market share as it ramps up its product offerings and production and with the positive vibes its productsare generating .

Discounts – a new norm but marginally off from peaks

"Discount ke bina gadi nahin bikti (if you take away discounts, nobody is going to buy the trucks)," says a CV dealer. Due to emergence of a new strong player (Bharat Benz) and the aggressive discounting strategy adopted by Volvo Eicher and M&M, discounts may not reduce meaningfully from the current levels of Rs250,000-300,000. Discounts on Volvo Eicher and M&M products are 20-25% more than the ones on Tata Motors and Ashok Leyland trucks. OEMs face the dilemma of defending market share while selling vehicles in a tough economic environment — this is further compounding discount levels for both the large incumbents, despite their efforts to curb them. Few dealers pointed out that OEMs increase discounts at the end of the month to achieve volume targets. "Mahine ke shuru mein discount kam karte hain par mahine ke aant me discount fir wohin pahoonch jata hai (OEMs reduce discounts at the beginning of the month but by the end the month, it is back to the original levels)", says a dealer. A 50% drop from peak volumes has improved

Discounts trends



customers' bargaining power in an environment where leaders are trying to defend their market share.

Marginal and gradual price hikes to mitigate discounts impact

To reduce the impact of discounts, OEMs are adopting a strategy of small price hikes while keeping discounts even. Although this may not be the most prudent strategy, companies will continue to do this until demand recovers substantially. This is because if the leading players reduce discounts directly, marginal players such as M&M and Volvo Eicher may take advantage to gain share in the short term.

Will it really work for India? And when?

Cash for Clunkers (CFC) is a strategy used by various countries to boost ailing economies by scrapping old vehicles and replacing them with new efficient ones. While this costs the exchequer, it serves two purposes — first, it gives a short-term boost to the economy (with higher vehicle sales boosting employment) and second, it helps nations cut down on their pollution levels with the use of more fuel efficient cars. Developed countries such as the US, Europe, and Japan have implemented this during their downturn to give a short-term boost to their economies while countries such as India and China (which did it partially earlier) are contemplating implementing it. India will implement CFC to boost the ailing CV industry while China plans to implement it to keep a check on its pollution levels.

In China, about 10% of vehicles should be replaced under CFC; however, these account for 50% of pollution. The vehicles that will be cleared off Chinese roads include gasoline cars that fall below National-1 emission standard, diesel vehicles below the National-3 emission standards, and older vehicles that fail to meet the current national motor vehicle emission standards. China estimates that more than 5mn cars will be scrapped if the CFC scheme is rolled out.

CFC for India – when will it see the light of the day?

SIAM has raised a demand that a CFC-like scheme should be rolled out in India as and when the industry faces demand issues; however, actual work on the scheme started only last year when the commerce ministry proposed that the cash-for-clunkers scheme will replace 15-year-old commercial vehicles. SIAM's proposal included

CFC schemes implemented by various countries

Country	Time frame	Incentive
Germany	CY2009	2500 euros
Greece	CY2009	500 to 2200 euros depending on type of vehicle
Italy	CY2009	800 to 1500 euros
Japan	April 2009 to March 2010	125000 to 250000 yen for scrapping 13 years and above car. 50000 to 100000 yen for scrapping less than 13 years car
Korea	May - Dec 2009	Tax subsidies
Luxembourg	Jan - Dec 2009	1500 to 1750 euros
Netherlands	Aug 2009 to Jan 2011	750 - 1750 euros
Portugal	Aug to Dec 2009	1250 - 1500 euros
Slovak Republic	CY2009	1500 euros
Spain	Dec 2008 to July 2010	Interest free loans upto 10000 euros for 5 years
	May 2009 to May 2010	500 euros from government and 1000 euros from manufacturer
Sweden	CY 2009	10000 SEK
UK	May 2009 to March 2010	1000 euros from government and 1000 euros from manufacturer
US	July - Aug 2009	$3500 - 4500
China	June 2009 - May 2010	CNY 3000 to 6000 (only for large cars)

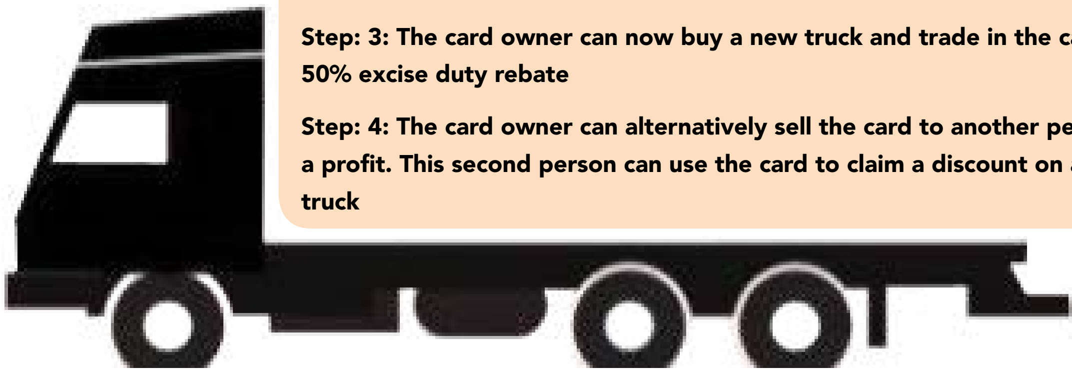
How the scrappage scheme would work

Step: 1: A truckover 15 years old is sold to a dealer for scrappage; dealer sells scrap truck to MSTC at a profit

Step: 2: The dealer pays Rs1-1.5 lakh to the original owner for scrap metal, and a stamped card indicating that an old truck has been returned

Step: 3: The card owner can now buy a new truck and trade in the card for a 50% excise duty rebate

Step: 4: The card owner can alternatively sell the card to another person for a profit. This second person can use the card to claim a discount on a new truck



CFC for cars produced before 1996 and a regular scrappage policy for commercial vehicles and 2 wheelers.

Department of Industrial Policy & Promotion (DIPP), a part of the Commerce Ministry, proposed a CFC scheme for commercial vehicles seeking to scrap 15-year-old vehicles in return of a benefit of Rs 100,000 per vehicle. They estimated the total cost to the exchequer at Rs 10bn, implying that about 100,000 old vehicles will be scrapped.

A committee headed by Mr Nitin Gokaran, CEO of the National Automotive Testing and R&D Infrastructure Project, recently submitted its report on CFC for commercial vehicles to the Ministry of Heavy Industries, which in turn will forward it to the Ministry of Finance for final approval. The report says that any truck that is more than 15 years old will be sold to MSTC for amounts ranging between Rs 100,000and Rs 150,000. The seller will get a card certifying the sale of the truck, which can be used to get a 50% excise-duty rebate on the purchase of a new truck. The truck owner can also sell the card to some other person to cash in on the benefit.

Fleet operators apprehensive about the success of the policy

"Yeh cash for clunkers kya hota hai (what is this cash for clunkers)," said a few fleet operators while discussing the possibility of such a scheme in India. Most of them were doubtful about its success. They believe the incentives from the scheme are not good enough for a truck owner to sell their trucks and buy new ones, especially if the existing truck is in good running condition. The price realised in the second-hand market is also higher than the incentives in the CFC scheme. "Main truck kyun bechu agar woh chal rahi hai toh. Truck scrap karne ke baad nayi truck ke liye loan bhi toh lean padega (why should iscrap a running truck? Also,I will have to take a loan for the new truck after scrapping the old one)," said a fleet operator. Why would an owner burden himself with the cost of a new vehicle and interest servicing if he has a serviceable vehicle in his fleet? The scheme will only attract vehicles that are poorly maintained, believe fleet operators and vehicle dealers. Unless scrappage is mandatory, the scheme may not get the desired results.

A dealer explained, "If a 15-year-old 16-tonne truck is maintained and in good working condition, it can be sold for around Rs 300,000-400,000, whereas the benefit from the scheme is much lower than this."

While it is difficult to ascertain the impact of the scheme and when it will be implemented,- such a scheme could accelerate growth for the CV industry in the short term.

Appendix: Summary of freight transporter interaction

Parameters	Freight Trasnsporter #1	Freight Trasnsporter #2	Freight Trasnsporter #3	Freight Trasnsporter #4	Freight Trasnsporter #5	Freight Trasnsporter #6	Nammakkal Trailor Association	Nammakkal South India LPG Tanker Association
Turnover	Rs 200crs	"Rs200cr - transportation Rs100cr - Warehousig"	Rs150cr	NA	NA	Rs 775crs	NA	NA
Fleet Size	400 owned plus 400 attached vehicles	150 owned plus 800 attached vehicles. Operating ~1500 vehicles (incl hired). 95 branches across India with 400 corporate customers.	250 Owned vehicle and 100 attached and 100 hired	Used to own over 12 vehicles.	450 owned vehicle and identical hired/ leased vehicles	2500 running vehicles. 80 owned vehicles. 20% attached vehicles and balance on hire	2500 vehicles	3500 vehicles. Down from 4200 vehicles last year
Industry catering	Textile, Tyres, steel, cloths/parcel	Auto, Engineering, Retail	Auto, Pharma, chemical, steel	Mining	Tipper for crushing, logistics applications, Tankers for milk and alcohol etc.	Apparel, Consumer goods, E-commerce	Logistics	LPG
Major Clients	Bombay Dyeing, Raymond, Skumars, Balkrishna Industries, CEAT, etc	Reliance retail, Ashok Leyland, Perishables, White goods, Croma, Reliance retail, Tyres, spare parts, DG sets, Cummins, Kirloskar	No comments	Iron Ore miners	No comments	No comments	NA	Oil marketing companies (IOC, BPCL, HPCL)
Type of vehicles	150 M&HCV (16tn), 130-140 LCV and rest Pick-ups	7t and 16t	16t, 11t, 25t, 35t, 40t and 409 LCV.	Tippers	21T-31T	Entire range	31-35T trailers	21T-31T tankers
Regions covered	Rajasthan, Punjab, MP, Gujarat, Maharashtra, Karnataka, AP, Tamil Nadu, Kerala. Covers all major areas except East & Chhattisgarh	All across India	West to East and Eastern UP	Orissa		Nationwide presence	All over India originating from South India	South and Western India

Parameters	Freight Trasnsporter #1	Freight Trasnsporter #2	Freight Trasnsporter #3	Freight Trasnsporter #4	Freight Trasnsporter #5	Freight Trasnsporter #6	Nammakkal Trailor Association	Nammakkal South India LPG Tanker Association
Fleet Utilisation	100%. Earlier faced issues in getting the return journey freight	10 day round trip, Not responsible for return trip of contract vehicle.	There are times when trucks are sitting idle. Round trip utilisation is a big issue.	Weak utilisation	Partial improvement in payload.	No major improvement	12,000-18,000 Km/ months	2500km per months (need to improve it to 4000km/month)
Average fleet age	5-6 yrs. Then it becomes maintenance heavy & hence sold	5Yrs. Normally replaces between 6-10 years.	4.-5 years. Replaces after 8 years.	NA	NA	NA	NA	NA
Yearly Addition	20-25 addition as replacement	No addition this year	No addition in last 1.5 yrs	Sold all the trucks	NA	20 - 25 trucks		
Fleet addition intent	Will wait for 4-5 months to get a sense of new business opportunities	No addition in near-term	Does not look at buying this fiscal. May look next fiscal if things improve.	Does not look at buying as tippers worth carrying 5,000 T iron ore are lying idle in the region.	NA	No major increase in fleet expected	Addition intent, but utilisation needs to improve	20% fleet reduction for the next two years
Major fleet ownship/ Make	Tata Motors, Ashok Leyland and Bharat Benz	Tata Motors	Predominantly Tata trucks, only 10 leyland trucks in fleet	Tata Motors	Tata Motors/ Bharat Benz	Tata Motors/ Ashok Leyland / Bharat Benz	Ashok Leyland	Ashok Leyland
Addition to the make	Daimler because of fuel efficiency and lower running costs. Also ease of drive for Drivers	Can add vehicle but refraining due to low ROI due to low freight rate. Will add Tata Motors due to service network etc.	Can add Tata because of better discount, resale value and better service network. Can only consider Daimler if they give commensurate discounts as it reduces my capex costs.	NA	NA	NA	Higher trailer than lorry	No addition

Parameters	Freight Trasnsporter #1	Freight Trasnsporter #2	Freight Trasnsporter #3	Freight Trasnsporter #4	Freight Trasnsporter #5	Freight Trasnsporter #6	Nammakkal Trailor Association	Nammakkal South India LPG Tanker Association
2nd hand vehicle	Does not look at buying	Does not look at buying and a lot of vehicle is on market for sale.	Does not look at buying 2nd hand vehicle.	Does not look at buying.	Does not look at buying. Pricing of 2nd hand vehicle is still very low.	Does not look at buying.	Not picking up	No taker for 2nd hand LPG tankers
Freight rate movement	Seasonal and firm in festive season. Expect some benefit of diesel price cut to be passed on to customers	Low freight rate.	Wait and watch mode for freight rate after Rs6 reduction on diesel price.		Payload has increased recently, but too early to say change in trends. Operator profitability has improved in last couple of months. Shortage of vehicles for transport of coils (Steel) in the trailer segment.	No major hikes seen. Diesel cut not yet fully passed on	Partial improvement (but, cut after recent diesel price corretion)	Tender based
Business Outlook	6 months atleast for the pick up in volumes	Bsiness is better compared to 3-4 years. Bullish view in 3-4 years.	Volatile market and has seen no real improvement.	Will remain week and current truck capacity in the region is enough to carry more than double the volume from the current levels.	Too early to say major pick up in demand.	5% growth expected in freight volumes	No major pick up seen in near term.	LPG tankers will become extinct in the next 8 - 10 years.
Cash for Clunkers	No idea about this. Not confident of government announcing such a scheme as it could be a dampner to government revenues	No Idea. Scrappage rate will be important for decision.	No Idea. But if it will help reduce my capex, we may consider.	No Idea.	NA	NA	NA	NA

Atul Desai, *Whole-time Director & Chief Marketing Officer at Reliance Cement*

An interview to understand the long term growth plans and business strategy of Reliance Cement

BY VAIBHAV AGARWAL

Ground Zero spoke to Mr. Atul Desai, the Whole-time Director and Chief Marketing Officer (CMO) at Reliance Cement (RCC). He joined the Company in 2013 and leads the marketing, logistics, and sales operations, product management, partnership marketing, customer service, and customer retention. As a part of the marketing operations, he also takes care of RCC's media and industry relations, advertising, interactive programmes, communications, and market and customer research.

Mr. Desai brings has been in the industry for over 30 years. He started his career as a Graduate Engineer Trainee with Gujarat State Fertilizers and Chemicals Limited and subsequently served other leading companies including Star Cement and Ambuja Cement as Head of Operations & Marketing.

Mr. Desai is a B.E. (Chemical) from Gujarat University and holds an MBA (Marketing) from South Gujarat University. He has also undergone a Senior Executive Programme at London Business School and Senior Leadership Programme at IMD Luccane, Switzerland.

What is Reliance Cement's take on the industry dynamics in the near, medium, and long term?

Cement is a very attractive business opportunity mainly because it supports infrastructure and housing, and in both these areas, our country has a huge deficit. We are very bullish on the cement sector, both medium term and long term. In the next couple of quarters, we expect 7-9% yoy growth and once the projects take off and the investment cycle starts (next year), cement consumption growth should be double digit (10-11%). As far as industry dynamics are concerned, in our region in central India, no additional capacity is coming up and we are very optimistic about growth in this region. Low base of cement consumption and high deficit of housing and infrastructure will be key factors that will drive the growth. Forthcoming elections in Bihar and Uttar Pradesh will also provide momentum for higher cement demand in our regions, driven by pre-election demand.

What is the current scale of operations of Reliance Cement and what are the plans for the future?

As of now, we have a 5.5-million-tonnes-per-annum cement capacity and we also have a marketing arrangement with a cement grinding facility of 300,000 tonnes per annum in Durgapur. In total, we have 5.8 million tonnes of grinding capacity. We have plans to expand our capacities further in Maharashtra (site at Vani) and at our existing site at Madhya Pradesh. Reliance Cement will also explore expansion opportunities in other states such as Karnataka, Rajasthan, and Himachal Pradesh. It will add another 10 million tonnes of capacity and will eventually have a total capacity of 16 million tonnes in the next three years, as per the current roadmap.

Does Reliance Cement have plans to go global?

We are exploring this and if we find any attractive opportunity in the global space, we will go for it. We will explore all opportunities, including bidding for assets of Holcim and Lafarge, which may go for sale in the global space (or even in India). We are already exporting cement to Nepal and we are currently experimenting in this territory. With positive outcomes of this experiment, we may explore an opportunity of permanently entering into this territory.

Are there any plans to look out for any partner (local or global) in order to define the future growth roadmap of the company?

It all depends on the right option. If the options are favourable to the company, we will evaluate it, but the key will be the management control, and we will not part with that. We have an open mind about this, but we will not depend on any external management control. We are in the cement business for the long term, and we have no plans to divest or sell or exit. We believe it is a natural extension and backward integration of our existing business lines such as infrastructure and power.

Given Reliance Cement's huge capacity set up, what are the plans for ramping up capacity utilisation?

As of now, we have one kiln of 10,000TPD and we are running our capacity at about 40%, but by end of March 2015, we intend to reach utilisation of 80-85%, which is in line with the industry standards of other capacities in our operating regions. We have 4 grinding facilities – Integrated plant in Maihar (2.8mn tn p.a.) – Satna, Madhya Pradesh; Kundanganj in Raebareli (2.2mn tn p.a.) – Uttar Pradesh; Butibori near Nagpur (0.5mn tn p.a.) – Maharashtra and in Durgapur (0.3mn tn p.a.) in West Bengal. All these facilities are completely operational. We are selling all makes of cement – PPC (85%), OPC (10%) and PSC (5%) and this mix will remain the same. The Durgapur grinding facility is a dedicated PSC facility. In fact, we entered the West Bengal market with the intention of extending the product line to PSC from this facility. In Bihar and few other Eastern States, PSC is a preferred product. Notably, West Bengal is the most lucrative market of East India. We get slag from Durgapur Steel Plant and slag is freely available these days. Prices of slag have come off from Rs 1,050/tonne to touch Rs 575/tonne. New facilities of Tata Steel, which are expected to commence operations shortly, will further increase the availability of slag.

How does Reliance Cement position itself amongst peers?

We have only one brand 'Reliance Cement' for all our product varieties – OPC, PPC and PSC, across all markets. On the quality front, Reliance Cement is well appreciated, accepted, and well positioned in the market place. We have clearly positioned ourselves on "perfection on quality" and "perfection on services" and our strategy is to give the best quality at the right price. We want to grow, we do not believe in selling cement at distress prices, and we will always sell our products at a premium. In all our markets, we are amongst the first two on the pricing front and we are very well established as a premium brand. We are selling our cement in Madhya Pradesh, Uttar Pradesh, Bihar, Jharkhand, West Bengal and Maharashtra.

Will Reliance Cement define itself as a volume-oriented player or a margin-conscious player in the long run?

Reliance Cement will definitely be a margin-conscious player but at the same time, we will definitely focus on capacity utilisation. The difference in the existing strategies of cement majors is driven by capacity additions. Players who have added aggressive capacity will have to be driven by utilisation while players who have not added capacities will remain margin-oriented and conscious of profitability. Reliance Cement has now completed its phase-1 capex and will remain margin conscious. Having said that, it is a bottom-line centric company and hence for us absolute EBITDA will matter more than the margins. We may compromise partially on margins for gaining absolute EBITDA with better volumes.

What is Reliance Cement's current and target trade : non-trade mix?

Our current trade and non-trade mix is 95:5 — we aim for 90:10 in the longer run. We will be a trade-centric company because we are in Madhya Pradesh, Uttar Pradesh, and Bihar, where the trade segment is larger than non-trade. Peers have a different market mix and hence their mix will differ.

What is Reliance Cement's current distribution chain?

Across the six states, we have 2,100 dealers / channel partners and more 5,000 counters from where we sell our product. On the logistic front, though we may not set up terminals, we are working on setting up for packing plants and blending units near Gondavali (near Shasun) and this will be a very strong logistic advantage. This is a reverse-logistic advantage and will help save freight cost. Fly ash, on which the freight cost is around Rs800-1000/tonne currently, will come off significantly. Shasun is at a distance of around 180kms and because of empty reverse load, the freight costs are high currently and we will be able to derive freight benefits with this proposed blending unit. We also have railway connectivity at Gondavali. Railway connectivity is also functional at Maihar and it will be functional at Kundanganj in a couple of months. At Butibori we have rail connectivity at the power plant, which is next door. At Durgapur railway connectivity is not required as this is a very small facility, and moreover, a marketing arrangement.

What is the unique factor that distinguishes Reliance Cement from its competitors?

We have launched our product in a Laminated Polypropylene (LPP) bag for the trade segment, which is tamper proof, moisture proof, and which is a preference of customers as well due to no loss of weight in the bag. We are the only company to sell our entire trade sales in LPP bags (around 90%). Peers do not sell the entire quantity in LPP bag (less than 10%). LPP is always considered a premium packaging product.

What is Reliance Cement's take on the existing competition in its home market?

After a long time, a large group has entered cement. Every peer looks at us as a serious and level-play competitor. Competition is observing our every step very seriously. Comparison of market shares to understand our say in various states will not make much relevance at this point of time as we are in the launch phase in most states.

Do you believe or expect more new players to enter domestically and globally?

The international scenario is not very comfortable for global players to do M&A in India, and we believe they will focus in the near to medium term to stabilize their existing global operations. We do not believe any major new competitors will enter the cement business in India, both global and domestic. India is the second-largest consumer of cement across the globe and all companies would like to be part of it, but the Indian market has peculiarities — there are large numbers of players and very severe competition. Globally, the competition within countries is not necessarily this severe. Interestingly, in India, even if new global majors come, the competition will remain regional as most multi-regional players are holding good balance sheets and are unlikely to enter into deals. Moreover, most cement plants in India are cost efficient as compared to global standards and cost is strictly in control and hence local players may not look at foreign partners to gain on technology and move on the better edge of the cost curve. The cement industry in India is a highly channel-centric business vs. B2C business models in many other countries. In developed countries, most sales happen directly to consumers or RMX plants in the form of bulk cement sales. Brand building is not necessarily very important for cement sales in many of the developed global countries. In India, the importance of channel, distribution chain, and network is very important. Hence, we remain quite sure that no "game changer" move will be seen in the Indian cement industry.

What is Reliance Cement's take on consolidation in the industry?

Consolidation is definitely on the cards. The leading cement major of India may benefit from few assets within the family while global majors Holcim and Lafarge have already announced concrete plans of a merger. This will provide more pricing power to the industry and more discipline is likely amongst the players.

Will Reliance Cement be open for opportunities in M&A?

We are open to evaluate proposals. Reliance Cement remains ambitious on growth opportunities.

Will Reliance Cement be going public in the future?

At an appropriate time, a decision will be taken on this.

Does Reliance Cement have a risk of any mine de-allocation / suspension of mining operations?

As of now, we do not have any risk on this. Our coal requirements also remain limited to the extent of kiln operations, as we do not have a power plant. Madhya Pradesh has surplus power and we get power at about Rs 5/unit.

How is Reliance Cement operating in the current scenario? What kind of margins is the company aiming at EBITDA levels?

We are currently making an EBITDA of Rs 550-600/tonne and we target an EBITDA of Rs 900-1000/tonne as we scale up of our operations.

Is Reliance Cement likely to redefine efficiencies and operating margins of cement manufacturers (as expected earlier)?

We are planning for a waste heat recovery plant in the next phase. The selection of equipment and designing is over. This will be an 8-9MW capacity plant. At other sites, we may plan WHR plants along with the cement plant. We will have 30,000TPD of clinker capacities (10,000TPD*3). We will have more grinding stations and look forward to developing hub-and-spoke models with our capacity expansions. We will also explore opportunities in the PSC segment in West Bengal. We will definitely have cost leadership in the industry because we have a state-of-the-art and modern-technology plant. We are aiming at power consumption of 60-65 units per tonne of cement with full-scale operations. We also have captive fly ash at most sites, which will help to keep our costs on the better side vs. industry.

Indian Economy – Trend Indicators

Monthly Economic Indicators

Growth Rates (%)	Sep-13	Oct-13	Nov-13	Dec-13	Jan-14	Feb-14	Mar-14	Apr-14	May-14	Jun-14	Jul-14	Aug-14	Sep-14	Oct-14
IIP	2.7	-1.2	-1.3	0.1	1.1	-2.0	-0.5	3.7	5.6	4.3	0.4	0.5	2.5	-
PMI	49.6	49.6	51.3	50.7	51.4	52.5	51.3	51.3	51.4	51.5	52.2	50.6	51.0	51.6
Core sector	9.0	-0.6	1.7	2.1	1.6	4.5	2.5	4.2	2.3	7.3	2.7	5.8	1.9	-
WPI	7.0	7.2	7.5	6.4	5.1	5.0	6.0	5.5	6.2	5.7	5.4	3.9	2.4	1.8
CPI	9.8	10.2	11.2	9.9	8.8	8.0	8.3	8.6	8.3	7.5	8.0	7.7	6.5	5.5
Money Supply	12.5	13.0	14.5	14.9	14.5	14.5	13.5	13.9	13.2	12.2	12.7	13.0	12.7	12.0
Deposit	14.1	14.4	16.1	15.8	15.7	15.9	14.6	15.1	13.8	12.2	12.7	13.2	13.0	12.4
Credit	17.8	16.6	15.5	14.5	14.7	14.4	14.3	14.1	12.8	13.1	13.1	10.6	9.4	10.8
Exports	13.0	13.5	5.9	3.5	3.8	-3.7	-3.2	5.3	12.4	10.2	7.3	2.4	2.7	-
Imports	-18.5	-14.5	-16.4	-15.2	-18.1	-17.1	-2.1	-15.0	-11.4	8.3	4.3	2.1	26.0	-
Trade deficit (USD Bn)	-6.1	-10.6	-9.2	-10.1	-9.9	-8.1	-10.5	-10.1	-11.2	-11.8	-12.2	-10.8	-14.2	-
Net FDI (USD Bn)	4.5	1.8	2.4	1.9	0.4	-0.1	2.1	2.0	4.8	2.4	3.6	2.5	3.6	-
FII (USD Bn)	0.2	-0.4	0.0	2.9	2.6	1.5	5.4	-0.1	7.7	4.8	5.4	2.1	2.4	-
ECB (USD Bn)	3.3	1.9	2.2	4.6	1.8	4.3	3.6	3.2	1.5	1.9	3.7	0.5	3.2	-
NRI Deposits (USD Bn)	5.9	4.5	14.6	2.0	0.7	0.7	2.5	1.4	1.1	0.0	0.0	0.0	0.0	0.0
Dollar-Rupee	63.8	61.6	62.6	61.9	62.1	62.2	61.0	60.4	59.3	60.2	60.1	60.9	61.8	61.4
FOREX Reserves (USD Bn)	276.3	283.0	291.3	295.7	292.2	294.4	303.7	309.9	312.4	315.8	320.6	318.6	314.2	315.9

Quarterly Economic Indicators

Balance of Payment (USD Bn)	Q1FY13	Q2FY13	Q3FY13	Q4FY13	Q1FY14	Q2FY14	Q3FY14	Q4FY14	Q1FY15
Exports	75.0	72.6	74.2	84.8	73.9	81.2	79.8	83.7	81.7
Imports	118.9	120.4	132.6	130.4	124.4	114.5	112.9	114.3	116.4
Trade deficit	(43.8)	(47.8)	(58.4)	(45.6)	(50.5)	(33.3)	(33.2)	(30.7)	(34.6)
Net Invisibles	26.8	26.7	26.6	27.5	28.7	28.1	29.1	29.3	26.8
CAD	(17.1)	(21.1)	(31.8)	(18.2)	(21.8)	(5.2)	(4.1)	(1.3)	(7.9)
CAD (% of GDP)	4.0	5.1	6.5	3.5	4.9	1.2	0.8	0.3	1.7
Capital Account	16.5	20.7	31.5	20.5	20.6	(4.8)	23.8	9.2	19.8
BoP	0.5	(0.2)	0.8	2.7	(0.3)	(10.4)	19.1	7.1	11.2

GDP and its Components (YoY, %)	Q1FY13	Q2FY13	Q3FY13	Q4FY13	Q1FY14	Q2FY14	Q3FY14	Q4FY14	Q1FY15
Agriculture & allied activities	1.8	1.8	0.8	1.6	4.0	5.0	3.7	6.3	3.8
Industry	(0.6)	0.1	2.0	2.0	(0.9)	1.8	(0.9)	(0.5)	4.0
Mining & Quarrying	(1.1)	(0.1)	(2.0)	(4.8)	(3.9)	-	(1.2)	(0.4)	2.1
Manufacturing	(1.1)	(0.0)	2.5	3.0	(1.2)	1.3	(1.5)	(1.4)	3.5
Electricity, Gas & Water Supply	4.2	1.3	2.6	0.9	3.8	7.8	5.0	7.2	10.2
Services	6.7	6.5	6.1	5.8	6.5	6.1	6.4	5.8	6.6
Construction	2.8	(1.9)	1.0	2.4	1.1	4.4	0.6	0.7	4.8
Trade, Hotel, Transport and Communications	4.0	5.6	5.9	4.8	1.6	3.6	2.9	3.9	2.8
Finance, Insurance, Real Estate & Business Services	11.7	10.6	10.2	11.2	12.9	12.1	14.1	12.4	10.4
Community, Social & Personal Services	7.6	7.4	4.0	2.8	10.6	3.6	5.7	3.3	9.1
GDP at FC	4.5	4.6	4.4	4.4	4.7	5.2	4.6	4.6	5.7

Annual Economic Indicators and Forecasts

Indicators	Units	FY6	FY7	FY8	FY9	FY10	FY11	FY12	FY13	FY14E	FY15E
Real GDP growth	%	9.5	9.6	9.3	6.7	8.6	8.9	6.7	4.5	4.7	5.4
Agriculture	%	5.1	4.2	5.8	0.1	0.8	8.6	5	1.4	4.7	1.6
Industry	%	8.5	12.9	9.2	4.1	10.2	8.3	6.7	0.9	(0.1)	2.8
Services	%	11.1	10.1	10.3	9.4	10	9.2	7.1	6.2	6.0	7.0
Real GDP	Rs Bn	32,531	35,644	38,966	41,587	45,161	49,185	52,475	54,821	57,418	60,691
Real GDP	US$ Bn	733	787	967	908	953	1,079	1,096	1,008	950	1,012
Nominal GDP	Rs Bn	36,925	42,937	49,864	56,301	64,778	77,841	90,097	101,133	113,551	127,643
Nominal GDP	US$ Bn	832	948	1,237	1,229	1,367	1,707	1,881	1,859	1,878	2,127
Population	Mn	1,106	1,122	1,138	1,154	1,170	1,186	1,202	1,219	1,236	1,254
Per Capita Income	US$	753	845	1,087	1,065	1,168	1,439	1,565	1,525	1,519	1,697
WPI (Average)	%	4.5	6.6	4.7	8.1	3.8	9.6	8.7	7.4	6.0	4.0
CPI (Average)	%	4.2	6.8	6.4	9	12.4	10.4	8.3	10.2	9.5	7.0
Money Supply	%	15.5	20	22.1	20.5	19.2	16.2	15.8	13.6	13.5	14.0
CRR	%	5	6	7.5	5	5.75	6	4.75	4.0	4.0	4.0
Repo rate	%	6.5	7.5	7.75	5	5	6.75	8.5	7.5	8.0	8.0
Reverse repo rate	%	5.5	6	6	3.5	3.5	5.75	7.5	6.5	7.0	7.0
Bank Deposit growth	%	24	23.8	22.4	19.9	17.2	15.9	13.5	14.4	14.6	15.0
Bank Credit growth	%	37	28.1	22.3	17.5	16.9	21.5	17.0	15.0	14.3	16.0
Centre Fiscal Deficit	Rs Bn	1,464	1,426	1,437	3,370	4,140	3,736	5,160	5,209	5,245	5,312
Centre Fiscal Deficit	% of GDP	4	3.3	2.9	6	6.4	4.8	5.7	5.2	4.6	4.1
Gross Central Govt Borrowings	Rs Bn	1,310	1,460	1,681	2,730	4,510	4,370	5,098	5,580	5,639	5,970
Net Central Govt Borrowings	Rs Bn	954	1,104	1,318	2,336	3,984	3,254	4,362	4,674	4,689	4,573
State Fiscal Deficit	% of GDP	2.4	1.8	1.5	2.4	2.9	2.1	2.3	2.2	2.5	2.5
Consolidted Fiscal Deficit	% of GDP	6.4	5.1	4.4	8.4	9.3	6.9	8.1	7.4	7.1	6.6
Exports	US$ Bn	105.2	128.9	166.2	189.0	182.4	251.1	309.8	306.6	318.6	331.4
YoY Growth	%	23.4	22.6	28.9	13.7	-3.5	37.6	23.4	-1.0	3.9	4.0
Imports	US$ Bn	157.1	190.7	257.6	308.5	300.6	381.1	499.5	502.2	466.2	482.0
YoY Growth	%	32.1	21.4	35.1	19.7	-2.5	26.7	31.1	0.5	-7.2	3.4
Trade Balance	US$ Bn	-51.9	-61.8	-91.5	-119.5	-118.2	-129.9	-189.8	-195.6	-147.6	-150.6
Net Invisibles	US$ Bn	42.0	52.2	75.7	91.6	80.0	84.6	111.6	107.5	115.2	114.9
Current Account Deficit	US$ Bn	-9.9	-9.6	-15.7	-27.9	-38.2	-45.3	-78.2	-88.2	-32.4	-35.7
CAD (% of GDP)	%	-1.2	-1.0	-1.3	-2.3	-2.8	-2.6	-4.2	-4.7	-1.7	-1.7
Capital Account Balance	US$ Bn	25.5	45.2	106.6	7.8	51.6	62.0	67.8	89.3	48.8	59.5
Dollar-Rupee (Average)		44.4	45.3	40.3	45.8	47.4	45.6	47.9	54.4	60.5	60.0

Source: RBI, CSO, CGA, Ministry of Agriculture, Ministry of commerce, Bloomberg, PhillipCapital India Research

PhillipCapital India Coverage Universe: **Valuation Summary**

		CMP	Mkt Cap	Net Sales (Rs mn)		EBIDTA (Rs mn)		PAT (Rs mn)		EPS (Rs)		EPS Growth (%)		P/E (x)		P/B (x)		EV/EBITDA (x)		ROE (%)		ROCE (%)	
Name of company	Sector	Rs	Rs mn	FY14E	FY15E	FY14E	FY15E	FY14E	FY15E	FY14E	FY15E	FY14E	FY15E	FY14E	FY15E	FY14E	FY15E	FY14E	FY15E	FY14E	FY15E	FY14E	FY15E
Chambal Fertilisers	Agri Inputs	62	25,844	89,840	87,436	7,036	7,824	3,328	3,257	8.0	7.8	46.9	-2.1	7.8	7.9	1.2	1.1	8.8	7.2	16.6	14.7	5.7	5.9
Coromandel Fert Ltd	Agri Inputs	330	94,311	100,586	109,967	7,757	9,349	3,694	5,134	12.9	18.0	-15.4	39.0	25.5	18.4	4.1	3.4	13.7	12.3	16.2	18.6	14.9	18.7
Tata Chemicals Ltd	Agri Inputs	406	103,342	157,353	153,438	18,094	20,867	3,882	6,961	15.2	27.3	-55.3	79.3	26.6	14.8	1.9	2.2	9.5	8.0	7.0	15.1	14.3	7.2
Deepak Fertilisers	Agri Inputs	156	13,773	39,204	32,744	5,636	4,882	2,519	2,309	28.6	26.2	95.1	-8.3	5.5	6.0	0.9	0.9	3.7	4.0	18.4	15.0	13.1	10.9
Kaveri Seeds	Agri Inputs	918	63,274	10,112	12,210	2,213	3,241	2,092	3,049	30.4	44.5	64.5	46.2	30.2	20.6	12.3	8.3	28.6	19.1	40.6	40.3	46.5	46.7
PI Industries	Agri Inputs	445	60,776	15,955	18,928	2,892	3,480	1,884	2,337	13.8	17.2	92.6	24.0	32.1	25.9	8.9	6.9	21.2	17.3	27.6	26.6	25.3	25.5
Rallis India	Agri Inputs	230	44,767	17,466	19,423	2,613	3,140	1,519	1,813	7.8	9.3	23.2	19.3	29.5	24.7	6.2	5.3	17.3	14.3	21.2	21.5	20.0	20.5
United Phosphorus	Agri Inputs	347	148,511	105,800	121,145	20,196	20,948	10,145	12,153	23.7	28.4	29.4	19.8	14.6	12.2	2.8	2.3	8.3	7.9	19.7	20.3	13.1	14.5
Bajaj Auto	Automobiles	2600	752,354	197,176	218,108	41,057	44,476	32,433	34,364	112.1	118.8	6.6	6.0	23.2	21.9	7.8	6.6	18.2	16.8	33.8	30.3	35.4	31.5
Bharat Forge	Automobiles	818	190,414	66,435	69,505	10,271	12,329	4,179	6,060	17.9	26.0	83.4	45.0	45.6	31.4	7.3	6.3	20.2	16.5	16.1	19.9	10.8	14.2
Hero MotoCorp	Automobiles	3095	618,033	251,249	291,252	35,401	39,735	23,475	27,120	117.6	135.8	7.0	15.5	26.3	22.8	11.0	9.4	17.4	15.5	41.9	41.3	44.3	45.6
Ashok Leyland	Automobiles	46	131,764	95,404	107,936	1,664	6,582	(4,764)	(417)	-1.8	-0.2	-431.2	-91.2	-25.9	-295.4	2.7	2.8	107.2	26.7	-10.6	-0.9	-1.9	2.2
Mah & Mah	Automobiles	1304	809,718	395,934	433,653	47,680	52,264	36,459	37,608	59.4	61.3	8.5	3.2	22.0	21.3	4.7	4.0	17.2	15.8	21.6	19.0	16.2	16.3
Maruti Suzuki	Automobiles	3334	1,007,135	426,448	502,634	50,959	62,821	27,830	35,840	92.1	118.6	16.3	28.8	36.2	28.1	4.8	4.2	20.0	15.9	13.3	15.0	13.0	14.6
Apollo Tyres	Automobiles	221	112,316	133,127	137,896	17,762	18,561	9,526	9,973	18.9	19.8	64.8	4.7	11.7	11.2	2.5	2.1	7.4	6.6	24.5	20.6	16.7	15.9
Tata Motors	Automobiles	533	1,597,928	2,306,771	2,742,017	374,029	433,713	139,910	180,577	43.9	56.6	41.4	29.1	12.2	9.4	3.2	2.4	4.8	4.2	26.1	25.3	16.7	16.2
ABB India	Cap Goods	1167	247,223	76,316	79,450	4,036	5,733	1,899	3,452	9.0	16.3	-28.0	81.8	130.2	71.6	9.2	8.6	62.0	43.7	7.1	12.0	7.6	11.0
BHEL	Cap Goods	256	626,463	383,888	341,574	47,064	40,737	36,534	31,809	14.9	13.0	-44.8	-12.9	17.1	19.7	1.9	1.8	11.4	11.2	11.1	9.0	8.6	7.0
Alstom T&D	Cap Goods	371	94,916	35,171	43,610	3,102	4,720	1,142	2,261	4.5	8.8	-9.0	98.0	83.1	42.0	7.6	6.7	31.8	20.9	9.1	15.9	10.9	15.1
Crompton Greaves	Cap Goods	188	117,703	134,806	144,370	6,820	7,360	2,443	3,448	3.9	5.5	195.7	41.1	48.2	34.1	3.2	3.0	19.3	16.5	6.7	8.9	5.3	6.7
Engineers India	Cap Goods	264	88,783	18,236	16,234	3,766	2,246	4,789	3,686	14.2	10.9	-23.8	-23.0	18.5	24.1	3.6	3.4	18.9	31.3	19.5	14.2	20.4	14.6
KEC International	Cap Goods	111	28,473	79,018	83,453	4,933	6,117	849	2,069	3.3	8.0	30.3	143.6	33.5	13.8	2.4	2.1	9.1	6.9	7.1	15.3	8.2	11.0
Larsen & Toubro	Cap Goods	1636	1,518,217	565,990	621,239	66,671	70,459	49,047	48,210	52.9	51.8	18.7	-2.2	30.9	31.6	4.5	4.1	23.6	22.1	14.6	12.9	12.6	11.0
Siemens	Cap Goods	873	310,893	111,452	112,300	4,831	6,718	4,313	4,478	12.1	12.6	-18.8	3.8	72.1	69.4	7.7	7.3	63.1	45.2	10.7	10.5	7.8	8.1
Cummins India	Cap Goods	729	202,093	38,991	44,643	6,192	7,576	6,000	7,305	21.6	26.4	-9.5	21.7	33.7	27.7	7.9	7.0	32.5	26.4	23.4	25.2	20.2	22.6
Thermax	Cap Goods	900	107,276	50,999	56,347	4,373	4,371	2,544	2,591	21.3	21.7	-20.5	1.9	42.2	41.4	5.3	4.8	25.2	24.9	12.5	11.7	10.1	9.2
VA Tech Wabag	Cap Goods	1605	43,004	22,301	26,971	1,800	2,556	1,083	1,490	40.7	56.0	19.6	37.6	39.4	28.7	5.1	4.5	22.7	16.1	12.9	15.6	11.7	13.7
Voltas	Cap Goods	252	83,499	52,660	54,852	2,656	3,656	2,243	2,721	6.8	8.2	15.0	21.3	37.2	30.7	4.6	4.2	31.4	22.8	12.3	13.6	11.9	13.5
ACC	Cement	1503	282,181	109,084	124,747	13,690	19,901	10,947	11,876	58.2	63.2	-21.5	8.5	25.8	23.8	3.6	3.4	18.8	13.9	14.0	14.3	11.7	11.4
Ambuja Cement	Cement	226	350,656	91,180	231,471	15,689	43,739	12,538	21,587	8.1	10.9	-20.6	34.3	27.9	20.8	3.7	2.4	19.8	7.6	13.3	11.5	11.8	15.7
India Cement	Cement	111	34,097	50,848	57,302	5,914	7,517	(646)	754	-2.1	2.5	-131.0	-216.7	-52.8	45.2	0.9	0.9	11.0	8.2	-1.7	2.0	2.3	4.0
Mangalam Cement	Cement	276	7,367	6,997	10,689	582	1,496	418	651	15.7	24.4	-46.0	55.7	17.6	11.3	1.5	1.3	19.4	7.7	8.2	11.7	5.0	8.3
Shree Cement	Cement	8845	308,135	61,817	73,661	14,288	19,555	7,102	10,178	203.9	292.1	-29.3	43.3	43.4	30.3	6.9	5.7	21.1	15.3	15.8	18.7	14.8	17.8
Ultratech Cement	Cement	2547	698,891	214,437	268,219	38,264	56,545	22,060	33,943	80.4	123.8	-17.6	53.9	31.7	20.6	4.1	3.5	18.9	12.8	12.8	16.9	9.0	13.1
OCL India	Cement	310	17,642	19,366	22,057	2,992	3,536	1,075	1,359	18.9	23.9	-32.6	26.4	16.4	13.0	1.5	1.4	7.4	6.0	9.4	10.9	8.8	9.2
JK Lakshmi Cement	Cement	377	44,362	20,566	22,994	3,018	4,318	1,123	2,091	9.5	17.8	-41.3	86.2	39.5	21.2	3.4	3.1	18.0	13.2	8.6	14.4	6.1	9.6
HeidelbergCement	Cement	89	20,237	13,648	17,256	864	2,598	(407)	591	-1.8	2.6	-232.1	-245.0	-49.7	34.3	2.4	2.3	37.1	12.1	-4.9	6.6	1.3	5.4

Note: For banks, EBITDA is pre-provision profit

PhillipCapital India Coverage Universe: **Valuation Summary**

		CMP	Mkt Cap	Net Sales (Rs mn)		EBIDTA (Rs mn)		PAT (Rs mn)		EPS (Rs)		EPS Growth (%)		P/E (x)		P/B (x)		EV/EBITDA (x)		ROE (%)		ROCE (%)	
Name of company	**Sector**	**Rs**	**Rs mn**	**FY14E**	**FY15E**	**FY14E**	**FY15E**	**FY14E**	**FY15E**	**FY14E**	**FY15E**	**FY14E**	**FY15E**	**FY14E**	**FY15E**	**FY14E**	**FY15E**	**FY14E**	**FY15E**	**FY14E**	**FY15E**	**FY14E**	**FY15E**
JK Cement	Cement	589	41,177	27,815	38,437	3,384	6,831	749	2,111	10.7	30.2	-67.5	181.6	55.0	19.5	2.4	2.2	19.1	9.9	4.3	11.1	4.2	7.7
Dalmia Bharat Ltd	Cement	423	34,343	28,670	35,227	3,263	5,524	(84)	225	-1.0	2.8	-104.3	-367.1	-407.9	152.7	1.1	1.1	21.3	14.2	-0.3	0.7	2.4	4.0
Andhra Bank	Financials	83	49,115	37,373	43,330	37,373	43,330	4,356	8,459	7.4	14.3	-67.9	94.2	11.3	5.8	0.6	0.5	NM	NM	5.1	9.4	0.3	0.5
Bank of Baroda	Financials	927	398,218	119,653	142,328	119,653	142,328	45,411	55,498	105.4	128.9	-2.2	22.2	8.8	7.2	1.1	1.0	NM	NM	13.8	15.0	0.8	0.8
Bank of India	Financials	284	182,210	106,289	128,652	106,289	128,652	30,691	37,211	47.7	57.9	3.6	21.2	5.9	4.9	0.7	0.6	NM	NM	12.6	13.6	0.6	0.6
Canara Bank	Financials	402	185,195	89,444	108,973	89,444	108,973	24,382	38,125	52.9	82.7	-18.5	56.4	7.6	4.9	0.8	0.7	NM	NM	10.0	14.4	0.5	0.7
Corporation bank	Financials	339	56,864	38,502	43,359	38,502	43,359	7,290	12,466	43.5	74.4	-53.6	71.0	7.8	4.6	0.6	0.5	NM	NM	7.4	11.9	0.4	0.5
HDFC Bank	Financials	910	2,197,395	184,234	222,367	184,234	222,367	85,364	101,908	35.9	42.8	26.9	19.4	25.4	21.3	5.1	4.3	NM	NM	21.6	21.8	2.0	2.0
ICICI Bank	Financials	1609	1,861,796	164,756	194,794	164,756	194,794	98,105	112,400	84.9	97.1	17.7	14.3	18.9	16.6	2.5	2.3	NM	NM	14.0	14.6	1.7	1.8
IOB	Financials	58	71,959	55,768	64,783	55,768	64,783	6,017	6,907	5.1	4.9	-16.5	-4.1	11.4	11.8	0.5	0.5	NM	NM	4.6	4.6	0.2	0.2
Oriental Bank	Financials	284	85,082	51,271	57,669	51,271	57,669	11,394	16,435	38.0	52.3	-16.5	37.7	7.5	5.4	0.7	0.6	NM	NM	9.2	12.0	0.5	0.7
PNB	Financials	931	337,160	161,460	185,043	161,460	185,043	33,426	47,217	92.3	130.4	-31.3	41.3	10.1	7.1	1.0	0.9	NM	NM	10.2	12.9	0.6	0.8
SBI	Financials	2693	2,010,521	675,834	758,227	675,834	758,227	141,738	171,548	189.7	229.6	-27.6	21.0	14.2	11.7	1.3	1.2	NM	NM	10.1	10.8	0.6	0.7
Union Bank	Financials	225	143,336	78,793	93,265	78,793	93,265	16,962	23,974	26.9	35.0	-25.6	29.9	8.4	6.4	0.8	0.8	NM	NM	10.4	12.9	0.5	0.6
HDFC	Financials	1099	1,725,403	70,030	81,419	75,402	87,013	54,402	62,753	34.9	40.2	11.2	15.4	31.5	27.3	6.3	5.6	NM	NM	20.5	21.1	2.7	2.7
Indian Bank	Financials	169	78,745	43,604	51,425	43,604	51,425	11,589	13,209	24.9	28.4	-32.2	14.0	6.8	6.0	0.7	0.6	NM	NM	10.5	11.0	0.7	0.7
Dev Credit Bank	Financials	91	25,534	3,684	4,310	3,684	4,310	1,505	1,730	6.0	6.9	47.3	15.0	15.1	13.1	2.1	1.8	NM	NM	14.7	14.6	1.2	1.2
AXIS Bank	Financials	439	1,036,377	119,516	134,633	119,516	134,633	62,177	74,366	26.5	31.5	19.6	19.0	16.6	13.9	2.7	2.3	NM	NM	17.4	17.9	1.7	1.8
Indusind Bank	Financials	715	377,566	28,907	34,150	28,907	34,150	14,080	17,580	26.8	33.4	32.0	24.9	26.7	21.4	4.3	3.7	NM	NM	17.5	18.7	1.8	1.8
Shriram TranS. Fin	Financials	942	213,826	33,759	41,418	28,621	32,264	12,642	14,893	55.7	65.7	-7.1	17.9	16.9	14.3	2.6	2.2	NM	NM	16.3	16.7	2.7	2.8
LIC Housing Finance	Financials	360	181,679	18,989	22,433	18,470	21,630	13,172	15,644	26.1	31.0	28.7	18.8	13.8	11.6	2.4	2.1	NM	NM	18.8	19.1	1.5	1.5
Hindustan Unilever	FMCG	731	1,581,803	274,083	301,232	50,963	55,860	36,983	38,703	17.1	17.9	10.5	4.7	42.7	40.8	48.2	33.2	30.6	27.8	112.9	81.3	125.1	96.9
Marico Industries	FMCG	320	206,488	46,767	56,735	7,467	8,635	4,866	5,518	7.5	8.6	35.0	13.4	42.4	37.4	15.2	11.6	28.0	23.9	35.8	30.9	20.1	24.8
Jubilant Foodworks	FMCG	1273	83,444	17,235	21,971	2,551	2,781	1,258	1,289	19.2	19.7	-7.1	2.5	66.2	64.6	14.8	12.0	32.6	30.1	22.3	18.6	23.4	19.1
Godrej Consumer	FMCG	965	328,493	75,826	86,588	11,765	13,426	7,815	8,849	23.0	26.0	5.1	13.2	42.0	37.1	8.7	7.5	29.3	25.5	20.7	20.2	14.9	16.9
ITC	FMCG	357	2,847,912	328,826	367,047	124,548	139,193	87,850	94,407	11.1	11.9	17.4	7.5	32.2	29.9	10.8	9.3	22.6	20.0	33.5	31.1	27.7	26.2
Nestle	FMCG	6180	595,849	90,619	102,688	19,804	21,701	11,171	12,201	115.9	126.5	4.6	9.2	53.3	48.8	26.3	22.1	30.2	27.4	49.4	45.3	37.0	35.2
Colgate	FMCG	1703	231,630	35,449	40,023	6,640	7,982	4,920	5,509	36.2	40.5	-0.9	12.0	47.1	42.0	37.8	35.5	34.5	28.8	80.4	84.4	98.0	84.4
Glaxo Smithkline	FMCG	5475	230,254	35,640	41,250	5,271	6,586	5,165	6,289	122.8	149.5	18.3	21.8	44.6	36.6	14.3	12.4	40.6	32.3	32.1	33.9	34.6	36.2
Agro Tech Foods	FMCG	626	15,255	7,622	8,083	676	706	429	440	17.6	18.1	2.8	2.6	35.6	34.7	5.4	4.8	22.7	21.5	15.2	13.8	16.1	14.5
Dabur	FMCG	221	388,683	70,732	80,697	12,003	13,703	9,233	10,395	5.3	6.0	19.8	12.6	41.8	37.1	13.8	11.3	32.7	28.3	32.9	30.4	25.6	24.8
Emami	FMCG	813	184,434	18,208	22,031	4,413	5,205	4,095	4,509	18.0	19.9	30.3	10.1	45.0	40.9	19.1	14.8	41.2	34.6	42.4	36.2	40.4	36.5
Britannia	FMCG	1529	183,367	68,293	79,363	5,448	6,698	3,962	4,669	33.1	39.0	52.2	17.8	46.2	39.2	22.9	16.0	33.8	27.2	49.6	40.7	41.1	38.0
Bajaj Corp	FMCG	285	42,067	6,707	7,553	1,834	1,949	1,770	1,902	12.0	12.9	5.8	7.5	23.8	22.1	8.0	8.1	22.2	21.1	33.8	36.8	30.1	27.5
Zydus Wellness	FMCG	630	24,612	4,246	4,898	1,057	1,208	1,101	1,232	28.2	31.5	13.4	11.8	22.4	20.0	7.4	5.8	20.8	17.5	32.9	29.2	37.2	32.7
Asian Paints	FMCG	656	629,282	125,816	147,204	19,979	24,587	12,267	14,977	12.8	15.6	10.1	22.1	51.3	42.0	15.6	12.6	31.2	25.4	30.4	30.1	30.5	31.4
Balrampur Chini	FMCG	55	13,532	31,031	33,081	2,677	3,261	374	773	1.5	3.2	-76.8	106.7	36.1	17.5	1.0	1.0	9.3	7.8	2.9	5.7	4.4	6.1

Note: For banks, EBITDA is pre-provision profit

PhillipCapital India Coverage Universe: **Valuation Summary**

		CMP	Mkt Cap	Net Sales (Rs mn)		EBIDTA (Rs mn)		PAT (Rs mn)		EPS (Rs)		EPS Growth (%)		P/E (x)		P/B (x)		EV/EBITDA (x)		ROE (%)		ROCE (%)	
Name of company	Sector	Rs	Rs mn	FY14E	FY15E	FY14E	FY15E	FY14E	FY15E	FY14E	FY15E	FY14E	FY15E	FY14E	FY15E	FY14E	FY15E	FY14E	FY15E	FY14E	FY15E	FY14E	FY15E
Tilaknagar	FMCG	36	4,434	8,242	8,597	1,699	1,788	588	582	4.8	4.7	-4.4	-1.1	7.5	7.6	0.7	0.7	6.6	6.9	9.8	9.1	10.5	9.5
Radico Khaitan	FMCG	90	12,033	14,188	16,122	2,217	2,612	957	1,204	7.2	9.1	23.8	25.8	12.6	10.0	1.5	1.3	8.9	7.7	11.8	13.1	11.0	11.9
Berger Paints	FMCG	398	137,963	38,697	45,885	4,341	5,482	2,582	3,170	7.5	9.1	18.2	22.7	53.4	43.5	12.4	10.3	32.7	25.8	23.3	23.7	20.3	20.0
GMR Infrastructure	Infrastructure	22	94,203	87,095	97,535	25,654	37,581	(11,512)	(4,364)	-3.0	-1.1	152.5	-62.1	-7.3	-19.3	1.0	1.1	19.8	12.0	-13.1	-5.2	3.6	2.5
GVK Power	Infrastructure	12	18,208	28,209	23,865	9,461	13,157	(3,687)	(7,893)	-2.3	-5.0	9.7	114.1	-4.9	-2.3	0.7	0.8	23.8	17.6	-13.3	-36.1	0.7	0.3
IRB Infrastructure	Infrastructure	253	84,138	37,319	41,699	17,537	23,604	4,591	5,831	13.8	17.5	-17.5	27.0	18.3	14.4	2.4	2.0	10.2	8.5	12.9	14.0	7.0	4.5
Adani Ports & SEZ	Infrastructure	283	585,825	43,458	43,259	28,006	31,001	22,527	22,748	10.9	11.0	23.3	1.0	26.0	25.8	6.3	5.2	24.0	20.0	24.1	20.4	13.8	12.5
NCC	Infrastructure	54	29,937	61,173	68,512	4,049	5,138	405	715	1.6	2.8	-35.3	76.5	34.1	19.3	0.5	0.5	13.3	10.0	1.6	2.8	7.0	6.7
Ashoka Buildcon	Infrastructure	139	22,008	17,949	21,815	3,945	5,174	1,084	1,062	6.9	6.7	-62.0	-2.0	20.2	20.7	1.8	1.6	13.7	12.8	8.7	8.0	3.2	3.6
HCL Technologies	IT Services	1610	1,128,936	329,180	363,108	86,660	89,666	63,700	71,852	90.1	101.8	58.4	12.9	17.9	15.8	5.7	4.7	13.2	12.7	31.7	29.6	32.8	29.7
Infosys	IT Services	4027	2,312,363	535,468	602,183	146,569	163,389	118,789	131,753	207.9	230.6	11.6	10.9	19.4	17.5	4.3	3.7	13.6	11.9	22.2	21.5	23.5	22.9
TCS	IT Services	2589	5,070,167	955,387	1,124,987	276,306	324,176	217,671	262,857	111.1	134.2	13.9	20.8	23.3	19.3	9.2	7.3	18.3	15.6	39.4	38.0	37.9	40.4
Tech Mahindra	IT Services	2509	590,973	188,313	218,077	41,836	48,255	26,821	32,303	112.9	135.7	26.4	20.2	22.2	18.5	5.7	4.4	13.3	11.4	25.8	23.9	30.7	26.2
Wipro	IT Services	564	1,391,986	434,269	476,274	99,942	110,582	77,966	88,971	31.7	36.1	27.0	14.1	17.8	15.6	4.0	3.5	13.4	12.0	22.7	22.2	23.7	22.8
Persistent Systems	IT Services	1300	51,994	16,692	18,825	4,303	4,677	2,493	3,114	62.3	77.9	32.9	24.9	20.9	16.7	4.3	3.6	11.9	10.9	20.4	21.4	19.4	21.1
KPIT Technologies	IT Services	165	32,216	26,940	29,219	4,233	4,248	2,391	2,738	12.8	14.7	18.5	14.8	12.9	11.2	2.4	2.0	8.2	7.7	18.8	18.0	17.3	15.6
NIIT Technologies	IT Services	388	23,595	23,050	23,745	3,516	3,503	2,307	2,159	38.2	35.6	7.1	-6.9	10.1	10.9	1.8	1.6	6.2	6.2	17.4	14.6	17.7	14.5
Zee Entertainment	Media	345	330,971	44,217	47,118	12,043	12,854	8,938	7,792	9.3	8.1	24.2	-12.8	37.0	42.5	8.5	7.0	27.0	25.3	22.9	16.4	23.1	19.8
HT Media	Media	113	26,289	22,007	23,979	3,125	3,444	1,607	1,962	6.9	8.4	-3.7	22.7	16.4	13.4	1.5	1.3	9.4	7.9	8.8	9.7	14.0	11.3
Sun TV Network	Media	326	128,314	22,236	24,386	11,244	12,054	7,480	7,908	19.0	20.1	5.4	5.7	17.2	16.2	4.1	3.8	11.0	10.1	24.2	23.2	24.5	23.4
Jagran Prakashan	Media	127	41,665	17,027	18,641	3,826	4,507	2,363	2,638	7.5	8.3	-8.4	11.7	17.1	15.3	4.2	3.1	12.0	9.4	24.6	20.2	17.2	15.8
Den Networks	Media	167	29,813	10,507	17,950	2,685	5,351	227	1,301	1.6	8.9	-68.2	472.7	107.9	18.8	1.4	1.3	8.5	5.6	1.3	6.8	5.4	8.9
Dish TV	Media	57	60,809	25,090	28,762	6,240	6,904	(1,576)	(266)	-1.5	-0.2	138.8	-83.1	-38.6	-228.8	-19.5	-17.9	11.8	10.4	50.4	7.8	-5.1	7.3
Hathway Cable	Media	308	49,630	15,832	22,938	3,015	5,243	(1,293)	799	-8.8	5.2	-645.1	-159.8	-35.1	58.7	4.7	3.5	20.5	11.6	-13.5	6.0	-2.3	4.9
Hindalco Inds	Metals	163	336,785	872,279	1,002,075	82,863	111,100	25,710	27,052	12.5	13.1	-21.2	5.2	13.1	12.4	0.8	0.8	11.1	8.2	6.3	6.3	3.7	4.6
NALCO	Metals	59	152,057	66,488	75,523	9,342	13,656	6,917	10,383	2.7	4.0	16.7	50.1	22.0	14.6	1.3	1.2	11.9	7.9	5.7	8.2	4.8	7.6
Hindustan Zinc	Metals	172	726,121	134,590	140,442	69,615	71,828	69,663	71,227	16.5	16.9	0.7	2.2	10.4	10.2	1.9	1.7	6.8	6.0	18.6	16.8	18.6	16.7
Tata Steel	Metals	491	476,381	1,486,136	1,500,889	164,110	171,520	36,225	34,796	37.3	35.8	990.3	-3.9	13.2	13.7	1.2	1.1	7.3	6.8	8.9	7.8	6.3	6.8
JSW Steel	Metals	1258	304,135	512,196	529,925	91,655	110,157	21,647	30,915	89.6	127.9	43.4	42.8	14.0	9.8	1.4	1.3	7.1	6.0	10.2	12.9	4.6	8.4
SAIL	Metals	83	344,654	463,345	511,913	43,534	59,861	19,639	19,884	4.8	4.8	-16.7	1.2	17.6	17.3	0.8	0.8	12.9	10.3	4.6	4.5	4.6	3.8
Sesa Sterlite	Metals	257	760,735	661,524	824,314	203,597	278,912	72,624	78,753	24.5	26.6	-7.5	8.4	10.5	9.7	1.0	1.0	7.3	5.1	9.9	9.9	14.5	9.4
Jindal Steel & Power	Metals	161	146,979	200,040	283,720	54,568	89,167	19,104	23,997	20.9	26.2	-32.9	25.6	7.7	6.1	0.7	0.6	9.2	5.7	8.4	9.7	4.4	5.7
Jindal Saw	Metals	78	21,545	65,531	70,919	6,474	7,751	1,572	2,222	5.7	8.0	-13.4	41.4	13.7	9.7	0.6	0.5	11.3	9.9	4.1	5.6	3.6	4.1
ONGC	Oil & Gas	404	3,458,557	1,732,345	1,885,087	549,854	634,577	265,049	292,863	31.0	34.2	9.4	10.5	13.0	11.8	2.0	1.8	6.7	5.6	15.4	15.3	11.2	10.6
Petronet LNG	Oil & Gas	199	149,325	377,476	439,670	14,984	16,821	7,119	7,438	9.5	9.9	-38.1	4.5	21.0	20.1	3.0	2.7	11.3	10.3	14.3	13.5	10.5	10.3
Cairn India	Oil & Gas	284	533,010	188,927	181,491	142,095	130,605	118,238	107,476	62.2	56.5	2.4	-9.1	4.6	5.0	0.9	0.8	3.6	3.6	20.6	16.5	21.8	16.1
GAIL	Oil & Gas	515	652,695	572,451	585,034	67,012	72,358	43,753	42,599	32.5	33.6	7.4	3.5	15.9	15.3	2.4	2.2	10.9	10.1	15.2	14.2	11.7	10.6

Note: For banks, EBITDA is pre-provision profit

PhillipCapital India Coverage Universe: **Valuation Summary**

		CMP	Mkt Cap	Net Sales (Rs mn)		EBIDTA (Rs mn)		PAT (Rs mn)		EPS (Rs)		EPS Growth (%)		P/E (x)		P/B (x)		EV/EBITDA (x)		ROE (%)		ROCE (%)	
Name of company	Sector	Rs	Rs mn	FY14E	FY15E	FY14E	FY15E	FY14E	FY15E	FY14E	FY15E	FY14E	FY15E	FY14E	FY15E	FY14E	FY15E	FY14E	FY15E	FY14E	FY15E	FY14E	FY15E
Indraprastha Gas	Oil & Gas	397	55,545	39,174	46,089	7,776	8,397	3,603	4,052	25.7	28.9	1.7	12.5	15.4	13.7	3.2	2.7	7.4	6.5	22.1	21.4	16.0	15.8
Gujarat State Pet	Oil & Gas	98	55,151	10,473	10,129	9,255	8,833	4,187	4,070	7.4	7.2	-22.2	-2.8	13.2	13.5	1.7	1.5	6.9	6.9	12.7	11.2	10.0	9.3
Oil India	Oil & Gas	631	379,287	96,127	106,104	42,638	49,997	29,813	31,801	49.6	52.9	-16.9	6.7	12.7	11.9	1.8	1.7	8.5	7.2	14.4	14.0	10.7	10.1
HSIL Ltd	Other	375	24,767	18,582	21,805	2,533	3,259	340	878	5.1	13.3	-41.8	158.5	72.9	28.2	2.4	2.3	13.8	10.4	3.3	8.1	1.7	4.0
Greenply Industries	Other	1030	24,860	21,595	24,308	2,773	3,257	1,145	1,352	47.4	56.0	0.3	18.1	21.7	18.4	4.3	3.5	11.4	9.6	19.6	19.0	12.3	12.7
Transformers & Rec	Other	161	2,316	6,659	7,216	330	432	132	192	10.2	14.9	178.9	45.3	15.8	10.9	0.6	0.6	10.4	8.0	3.8	5.3	4.4	5.6
Kajaria Ceramics	Other	608	45,932	18,400	22,051	2,807	3,462	1,243	1,588	16.4	21.0	15.7	27.8	37.0	28.9	8.7	7.3	17.0	14.0	23.5	25.3	26.5	28.2
Havells Ltd	Other	285	178,166	47,197	55,179	6,500	7,421	4,787	4,978	38.4	39.9	28.9	4.0	7.4	7.2	1.7	1.5	26.7	23.1	22.5	20.7	22.7	20.5
Aurobindo Pharma	Pharma	962	280,258	80,998	118,519	21,328	23,111	13,922	14,016	47.8	48.2	221.9	0.7	20.1	20.0	7.5	5.4	14.8	13.5	31.2	27.0	23.8	22.6
Biocon	Pharma	449	89,790	28,513	31,907	7,111	7,648	4,324	4,899	21.6	24.5	24.1	13.3	20.8	18.3	3.0	2.7	12.7	11.7	13.7	14.6	11.8	12.6
Cadila Healthcare	Pharma	1408	288,296	71,151	82,638	12,360	15,662	7,897	10,072	38.6	49.2	14.9	27.5	36.5	28.6	8.4	6.8	25.1	19.7	24.4	23.7	14.4	16.2
Divi's Laboratories	Pharma	1861	247,019	25,321	30,054	10,145	12,112	7,344	9,058	55.4	68.3	22.3	23.3	33.6	27.2	8.3	6.9	24.4	20.3	26.1	25.4	0.0	0.0
Dr Reddy's Labs.	Pharma	3115	530,482	132,170	153,231	32,630	35,396	21,512	22,055	126.5	129.7	27.2	2.5	24.6	24.0	5.8	4.6	17.4	15.6	23.7	19.2	14.8	12.9
Glenmark Pharma	Pharma	716	194,277	59,839	70,372	13,101	15,485	7,236	8,656	26.7	31.9	15.4	19.6	26.8	22.4	6.4	5.1	16.7	13.6	23.8	22.6	10.8	14.4
Ipca Laboratories	Pharma	740	93,366	31,994	35,196	8,106	8,544	5,274	5,336	42.1	42.6	34.1	1.2	17.6	17.4	4.7	3.8	12.1	11.6	26.9	21.7	19.7	18.9
Lupin	Pharma	1358	609,731	110,866	128,978	30,028	35,880	18,364	22,054	41.0	49.2	38.1	20.1	33.2	27.6	8.8	6.9	20.3	16.7	26.5	25.0	36.4	34.2
Sun Pharma	Pharma	837	1,733,825	160,372	179,198	72,285	76,001	53,526	52,590	25.8	25.4	47.3	-1.7	32.4	33.0	9.2	7.4	23.3	22.0	30.6	22.6	27.7	20.1
Phoenix Mills	Real Estate	383	55,499	14,485	17,219	6,783	8,306	1,200	2,087	8.3	14.4	41.5	73.9	46.2	26.6	2.6	2.6	13.1	10.4	7.0	11.0	8.6	8.1
DLF	Real Estate	124	220,870	82,980	79,399	24,854	24,413	9,980	5,281	5.8	3.1	30.3	-47.1	21.2	40.1	0.7	0.7	14.6	15.8	3.4	1.8	5.5	3.8
Unitech Ltd	Real Estate	21	53,599	29,333	32,505	1,662	3,968	696	3,377	0.3	1.3	-66.8	385.3	77.1	15.9	0.5	0.5	67.4	28.1	0.6	2.8	1.1	2.0
Oberoi Realty	Real Estate	247	81,123	7,985	12,710	4,348	6,710	3,112	4,195	9.5	12.8	-38.4	34.8	26.1	19.3	1.8	1.8	17.7	13.1	7.1	9.1	7.1	10.2
Future Retail	Retail	116	28,508	116,051	105,209	10,674	9,995	(1)	380	0.0	1.5	-100.2			77.4	0.8	0.8	7.6	8.2	0.0	1.1	4.6	4.3
Shoppers Stop	Retail	545	45,361	37,709	44,506	1,334	1,833	(75)	75	-0.9	0.9	-28.5	-200.0	-603.9	604.2	9.2	9.1	38.6	28.4	-1.5	1.5	-0.7	2.1
Raymond Ltd	Retail	467	28,653	45,480	53,017	4,800	5,673	1,430	1,648	23.3	26.8	147.9	15.2	20.0	17.4	2.0	1.8	8.8	7.6	9.8	10.1	7.0	8.3
Bata India	Retail	1285	82,579	20,319	23,395	2,887	3,673	1,677	2,217	26.1	34.5	-2.5	32.1	49.2	37.3	9.8	8.4	27.7	21.1	20.0	22.5	20.6	23.4
Titan Company	Retail	396	351,208	109,274	125,396	10,443	12,163	7,346	8,433	8.3	9.5	1.4	14.8	47.8	41.6	13.9	11.1	33.5	28.3	32.7	29.6	31.0	26.8
Trent	Retail	1335	44,352	23,713	25,129	94	1,238	243	718	7.3	21.6	5.9	195.7	182.6	61.8	4.5	3.7	499.5	34.9	2.5	5.9	2.0	5.1
Bharti Airtel	Telecom	402	1,605,756	858,635	952,570	277,770	319,557	27,188	52,004	6.8	13.0	101.9	91.3	59.1	30.9	2.7	2.4	8.3	7.5	4.5	7.6	5.0	6.1
Reliance Comm	Telecom	104	249,240	218,800	230,333	72,850	81,473	11,370	13,534	5.5	6.6	52.4	19.0	18.8	15.8	0.8	0.8	8.9	7.4	4.2	4.8	4.3	4.2
Bharti Infratel	Telecom	290	548,227	65,790	73,300	44,046	49,148	15,224	17,738	8.1	9.4	52.2	16.5	36.0	30.9	3.0	3.0	13.2	10.9	8.4	9.6	7.3	7.7
Idea Cellular	Telecom	164	588,627	265,189	310,381	83,336	101,534	18,513	25,054	5.6	7.0	83.1	24.6	29.3	23.5	3.3	2.6	9.4	8.5	11.2	11.1	7.1	6.8
OnMobile Global	Telecom	36	4,056	8,970	10,361	1,569	2,207	241	626	2.0	5.1	-52.1	159.9	17.9	6.9	0.4	0.4	1.4	0.6	2.4	5.8	2.6	5.8
Tata Communication	Telecom	397	113,231	196,659	213,551	30,880	32,762	352	2,491	1.2	8.7	-104.8	607.7	321.7	45.5	14.2	12.8	6.3	5.7	4.4	28.2	3.4	5.1
Concor	Logistics	1350	263,264	49,846	58,489	11,019	13,416	9,848	11,569	50.5	59.3	4.8	17.5	26.7	22.8	3.8	3.3	21.6	17.6	14.1	14.7	13.8	14.6

Note: For banks, EBITDA is pre-provision profit

Disclosures and Disclaimers

PhillipCapital (India) Pvt. Ltd. has three independent equity research groups: Institutional Equities, Institutional Equity Derivatives and Private Client Group. This report has been prepared by Institutional Equities Group. The views and opinions expressed in this document may or may not match or may be contrary at times with the views, estimates, rating, target price of the other equity research groups of PhillipCapital (India) Pvt. Ltd.

This report is issued by PhillipCapital (India) Pvt. Ltd. which is regulated by SEBI. PhillipCapital (India) Pvt. Ltd. is a subsidiary of Phillip (Mauritius) Pvt. Ltd. References to "PCIPL" in this report shall mean PhillipCapital (India) Pvt. Ltd unless otherwise stated. This report is prepared and distributed by PCIPL for information purposes only and neither the information contained herein nor any opinion expressed should be construed or deemed to be construed as solicitation or as offering advice for the purposes of the purchase or sale of any security, investment or derivatives. The information and opinions contained in the Report were considered by PCIPL to be valid when published. The report also contains information provided to PCIPL by third parties. The source of such information will usually be disclosed in the report. Whilst PCIPL has taken all reasonable steps to ensure that this information is correct, PCIPL does not offer any warranty as to the accuracy or completeness of such information. Any person placing reliance on the report to undertake trading does so entirely at his or her own risk and PCIPL does not accept any liability as a result. Securities and Derivatives markets may be subject to rapid and unexpected price movements and past performance is not necessarily an indication to future performance.

This report does not have regard to the specific investment objectives, financial situation and the particular needs of any specific person who may receive this report. Investors must undertake independent analysis with their own legal, tax and financial advisors and reach their own regarding the appropriateness of investing in any securities or investment strategies discussed or recommended in this report and should understand that statements regarding future prospects may not be realized. In no circumstances it be used or considered as an offer to sell or a solicitation of any offer to buy or sell the Securities mentioned in it. The information contained in the research reports may have been taken from trade and statistical services and other sources, which we believe are reliable. PhillipCapital (India) Pvt. Ltd. or any of its group/associate/affiliate companies do not guarantee that such information is accurate or complete and it should not be relied upon as such. Any opinions expressed reflect judgments at this date and are subject to change without notice

Important: These disclosures and disclaimers must be read in conjunction with the research report of which it forms part. Receipt and use of the research report is subject to all aspects of these disclosures and disclaimers. Additional information about the issuers and securities discussed in this research report is available on request.

Certifications: The research analyst(s) who prepared this research report hereby certifies that the views expressed in this research report accurately reflect the research analyst's personal views about all of the subject issuers and/or securities, that the analyst have no known conflict of interest and no part of the research analyst's compensation was, is or will be, directly or indirectly, related to the specific views or recommendations contained in this research report. The Research Analyst certifies that he /she or his / her family members does not own the stock(s) covered in this research report.

Independence: PhillipCapital (India) Pvt. Ltd. has not had an investment banking relationship with, and has not received any compensation for investment banking services from, the subject issuers in the past twelve (12) months, and PhillipCapital (India) Pvt. Ltd does not anticipate receiving or intend to seek compensation for investment banking services from the subject issuers in the next three (3) months. PhillipCapital (India) Pvt. Ltd is not a market maker in the securities mentioned in this research report, although it or its affiliates may hold either long or short positions in such securities. PhillipCapital (India) Pvt. Ltd does not hold more than 1% of the shares of the company(ies) covered in this report.

Suitability and Risks: This research report is for informational purposes only and is not tailored to the specific investment objectives, financial situation or particular requirements of any individual recipient hereof. Certain securities may give rise to substantial risks and may not be suitable for certain investors. Each investor must make its own determination as to the appropriateness of any securities referred to in this research report based upon the legal, tax and accounting considerations applicable to such investor and its own investment objectives or strategy, its financial situation and its investing experience. The value of any security may be positively or adversely affected by changes in foreign exchange or interest rates, as well as by other financial, economic or political factors. Past performance is not necessarily indicative of future performance or results.

Sources, Completeness and Accuracy: The material herein is based upon information obtained from sources that PCIPL and the research analyst believe to be reliable, but neither PCIPL nor the research analyst represents or guarantees that the information contained herein is accurate or complete and it should not be relied upon as such. Opinions expressed herein are current opinions as of the date appearing on this material and are subject to change without notice. Furthermore, PCIPL is under no obligation to update or keep the information current.

Caution: Risk of loss in trading in can be substantial. You should carefully consider whether trading is appropriate for you in light of your experience, objectives, financial resources and other relevant circumstances.

For U.S. persons only: This research report is a product of PhillipCapital (India) Pvt Ltd. which is the employer of the research analyst(s) who has prepared the research report. The research analyst(s) preparing the research report is/are resident outside the United States (U.S.) and are not associated persons of any U.S. regulated broker-dealer and therefore the analyst(s) is/are not subject to supervision by a U.S. broker-dealer, and is/are not required to satisfy the regulatory licensing requirements of FINRA or required to otherwise comply with U.S. rules or regulations regarding, among other things, communications with a subject company, public appearances and trading securities held by a research analyst account.

This report is intended for distribution by PhillipCapital (India) Pvt Ltd. only to "Major Institutional Investors" as defined by Rule 15a-6(b)(4) of the U.S. Securities andExchange Act, 1934 (the Exchange Act) and interpretations thereof by U.S. Securities and Exchange Commission (SEC) in reliance on Rule 15a 6(a)(2). If the recipient of this report is not a Major Institutional Investor as specified above, then it should not act upon this report and return the same to the sender. Further, this report may not be copied, duplicated and/or transmitted onward to any U.S. person, which is not the Major Institutional Investor.

In reliance on the exemption from registration provided by Rule 15a-6 of the Exchange Act and interpretations thereof by the SEC in order to conduct certain business with Major Institutional Investors, PhillipCapital (India) Pvt Ltd. has entered into an agreement with a U.S. registered broker-dealer, Marco Polo Securities Inc. ("Marco Polo").Transactions in securities discussed in this research report should be effected through Marco Polo or another U.S. registered broker dealer