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5 STOCKS TO BUY FOR FINANCIAL FREEDOM

Executive Summary

- This Independence Day, Edelweiss is pleased to release its 2012 series of 'Financial Freedom this Independence Day'. This report as you would be aware focuses entirely on the long term big picture – India growth story and how you can make the best of it. We've identified in this report the key sectors and stocks that are set to benefit from the long term growth India is set to witness and tell you your exact action points, 5 stocks you should buy for the next 10 years.

- Over the next 10 years we expect Indian GDP to grow to a size of nominal GDP of INR 205 Trn (USD 4.5 Trn), from the current level of INR 900 bn (USD 1.8 Trn).

- Fundamental factors like young population (median age of 26), growing middle class, rising income levels with stable and growing household savings make India's medium to long- term growth secure.

- These significant changes will manifest in three key investment themes for the next decade - savings, consumption and infrastructure. Further, India's competitiveness on the global scale in the services sector will continue to gain strength over the next decade

- We highlight below the same through stocks, and recommend a 'Buy' on them from a long term perspective

THEMES	STOCKS	WHY
Automobiles	Bajaj Auto	Second largest 2 wheeler manufacturer, set to benefit from increasing two wheeler penetration
Financial Services	ICICI Bank	Banking revenue set to grow 5.3x to ₹ 10.6 Trn, ICICI Bank is a front-runner to capture this opportunity.
Financial Services	Yes Bank	Banking revenue set to grow 5.3x to ₹ 10.6 Trn, Yes Bank would be a high growth player
Agriculture	Coromandel Inl	Set to benefit from agri-revolution
Outsourcing	TCS Ltd	India's largest technology company, set to benefit from India's increasing share in global IT spend

Bajaj Auto (BAJAUT)

Fundamental – BUY

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CMP -₹ 1,690	Sector	Mkt Cap (₹ Cr.)	52W High	52W Low
	Auto	₹ 49,439	₹ 1,843	₹ 1,400

- BAJAJ AUTO LTD (BAJAUT) is the second largest two-wheeler manufacturer in India with a domestic market share of 28%. It offers products in all motorcycle segments — Platina (entry), Discover (executive) and Pulsar (premium). It is also the largest three-wheeler manufacturer in India.
- Bajaj Auto is a diversified play with domestic motorcycle, three wheeler and export portfolio. Two-wheeler penetration in India is currently low compared with comparable countries. In the coming years, penetration is expected to rise driven by growing disposable incomes, favorable demographics, better availability and penetration of financing, and increasing availability of product choices. With BAJAUT being the second largest two-wheeler manufacturer in India is likely to benefit significantly from the same.
- In our recent study – India 2020 report, where we project India's economic size in 2020, we expect total private final consumption expenditure to expand from INR 30 Trn in FY09 to INR 113 expect in FY20. Within that, we expect automobiles market size to increase from INR 878 Bn in FY09 to INR 4.2 Trn in FY20. Within this, two wheelers market is expected to grow at a CAGR of 12% to 1.2 Trn. Drivers of this expansion include key factors like favorable demographics, increasing affordability and improved road connectivity.
- In the near term, revival of exports in key destinations and performance of new launches in domestic market would augur well for volume growth. Further, weak INR has improved the profitability prospects of Bajaj Auto. In the wake of weak monsoon and feared domestic slow-down, it becomes the preferred investment vehicle in the auto space.
- At the CMP of ₹ 1,690, the stock trades at a PE of 15.5x FY13E earnings and 12.0x FY14 earnings. We recommend a 'Buy' on the stock from a long term perspective.

Income Statement (₹ mn)

Year to March	FY12	FY13E	FY14E
Revenues	195,297	215,684	260,153
EBITDA	37,206	39,725	51,624
PBT	41,608	44,037	56,886
Net profit	31,387	31,266	40,389
EPS	108.5	108	139.6
Book Value	209	258	339

Balance Sheet (₹ mn)

Year to March	FY12	FY13E	FY14E
Shareholders' funds	60,411	74,749	98,210
Borrowed funds	1,526	1,526	1,526
Sources of Funds	62,421	76,759	100,221
Net Block	14,817	16,024	17,126
Investments	49,935	67,014	85,696
Net current assets	-2,449	-6,279	-2,485
Uses of Funds	62,421	76,759	100,221

Growth Ratios (%)

Year to March	FY12	FY13E	FY14E
Revenues	18.8	10.4	20.6
EBITDA	15.6	6.8	30
PBT	20	-0.4	29.2
Net profit	20	-0.4	29.2
EPS	20	-0.4	29.2

Valuations

Year to March	FY12	FY13E	FY14E
Diluted PE (x)	15.5	15.6	12.0
Price/BV (x)	8.0	3.6	3
EV/Sales (x)	2.2	1.9	1.5
EV/EBITDA (x)	11.5	10.1	7.3
ROE (%)	57.3	46.3	46.7

ICICI Bank Ltd (ICIBAN)

Fundamental – BUY

Edelweiss Research

CMP - ₹ 955	Sector	Mkt Cap (₹ Cr.)	52W High	52W Low
	Banks	₹ 1,09,404	₹ 999	₹ 641

- We believe that the current stage of economic growth in India, where savings and capital formation are at ~34% of GDP, offers serious opportunities in financial intermediation. Core to our hypothesis is our belief that, over the next ten years nominal GDP (excluding agriculture) is expected to grow at ~13%, and revenues from the financial services sector (which would lead this growth) are expected to grow at 22% to ₹ 266.4 trillion by FY20E .

- ICICI Bank is the largest private sector bank in India in terms of asset size, with a balance sheet of ₹ 4.7 tn as of March 2012. It has a network of over 2750 branches and extension counters across the country. The bank holds near market leadership in almost all its businesses including mortgages, auto loans, commercial vehicle loans, life insurance, general insurance, and asset management. The bank earns substantial fee income from transaction and retail banking activities.

- In FY13, we expect the bank to grow its domestic book in line with the system; overall loan book growth is likely to settle at ~18-20%. Higher share from high-margin domestic business, coupled with further traction on CASA could boost margin in FY12 and settle at 2.8%. Moreover, ICIBAN is adequately capitalised with CAR at 18.5%, it has one of the highest capital adequacy ratios in the sector that can be deployed to ramp up business as the economic scenario improves.

- ICICI bank's asset quality continues to improve with GNPA/NNPA coming lower to 3.54%/0.7% in Q1FY13. Restructuring book (1.6% of loans) declined QoQ, given the sell down of the KFA loan. Incrementally, management stated that there is no major restructuring pipeline and expects asset quality to remain stable in FY13E.

- ICICI Bank is on track in growth phase with a leaner and robust business model (40% CASA to stay). Led by 17% CAGR in earnings on back of 18% loan growth and 2.8% margin, we expect core ROA/core RoE to come in at 1.6-1.7%/15%. Adjusting for sub of INR 170, the stock trades at 1.5xFY13E core book. As ICICI Bank delivers consistent earnings we expect the current valuation discount with HDFC Bank to come off.

Income Statement (₹ mn)

Year to March	FY12	FY13E	FY14E
Net Revenues	182,369	219,925	251,414
Operating Exp	78,504	90,374	104,411
Preprovision Profit	1,03,865	129,551	1,47,003
Net profit	64,653	77,789	88,820
EPS	56.1	67.5	77.0
Book Value	524	573	631

Balance Sheet (₹ mn)

Year to March	FY12	FY13E	FY14E
Shareholders' funds	604,052	660,333	727,646
Borrowed funds	1022002	1091723	1256397
Sources of Funds	4740746	5284920	6060631
Loans	2537277	2918241	3418524
Other assets	199429	231338	272978
Uses of Funds	4740746	5284920	6060631

Growth Metrics %	FY12	FY13E	FY14E
NII Growth	19.0	24.0	14.7
Fees Growth	4.1	11.6	14.4
Net profit	25.5	20.3	14.2
EPS	25.4	20.3	14.2

Valuations	FY12	FY13E	FY14E
Diluted PE (x)	16.9	14.0	12.3
Price/ABV (x)	2.0	2.3	1.9
ROAE (%)	19.3	20.4	21.2
ROA (%)	1.6	1.8	1.7

TCS Ltd (TATCON)

Fundamental – BUY

Edelweiss Research

CMP - ₹ 1,266	Sector	Mkt Cap (₹ Cr.)	52W High	52W Low
	IT	₹ 2,47,840	₹ 1,295	₹ 902

- TCS is India's largest and one of its oldest IT companies. It commenced operations in 1968 and provides a comprehensive range of IT services to industries such as banking and financial services, insurance, manufacturing, telecommunications, retail, and transportation. With a presence in 42 countries, TCS is positioned to deliver its services seamlessly. TCS has a large diversified client base (1003 active clients), TCS' employee force stands at 238,583 (including subsidiaries) and its revenues for the last twelve months (TTM) stood at INR489bn (USD10.1bn).

- Tata Consultancy Services (TCS) has outperformed both Infosys and Wipro over the past few years in revenue growth, led by BFSI, retail, manufacturing and telecom verticals. We expect it to continue to outperform (ex-CTSH) industry over the next couple of years due to its past investments in sales and marketing and scale advantage, despite limited margin levers. We expect it to grow at ~14.5% and 15.5% in FY13E and FY14E, respectively.

- TCS has multiple margin levers at its disposal, which we believe, will sustain its margins, shielding it from continued pressures on account of wage increases across the industry. End-to-end full services offerings, traction in emerging markets, ability to roll up large acquisitions, improving sales and marketing prowess and willingness to take multiple big bets (different go-to-market models) are among the key rationales for TCS to sustain its long term hi-growth trajectory.

- At the CMP of ₹ 1,266, the stock trades at a PE of 18.5x FY13E and 17x FY14E earnings, The company continued to post an all round performance in terms of growth and margins in an uncertain environment. Based on its positive commentary on all verticals and markets, we believe that the stock, though expensive, will trade with an upward bias.

Income Statement (₹ Mn)

Year to March	FY12	FY13E	FY14E
Revenues	488,940	625,547	673,700
EBITDA	144,179	181,030	192,502
PBT	139,184	178,715	195,804
Net profit	107,496	135,823	148,811
EPS	54.4	68.6	75.1
Book Value	166.2	216.2	271.5

Valuations

Year to March	FY12	FY13E	FY14E
Shareholders' funds	325,233	423,107	531,384
Borrowed funds	13,306	14,636	17,564
Sources of Funds	343,815	444,571	557,638
Net Block	64,548	82,868	110,741
Investments	43,763	56,892	79,649
Net current assets	162,061	222,896	274,996
Uses of Funds	343,815	444,571	557,638

Growth Ratios (%)

Year to March	FY12	FY13E	FY14E
Revenues	31	27.9	7.7
EBITDA	28.7	25.6	6.3
PBT	29	25.3	6.5
Net profit	21.7	26.4	9.6
EPS	22.1	26.2	9.4

Valuations

Year to March	FY12	FY13E	FY14E
Diluted PE (x)	22.7	18.0	16.5
Price/BV (x)	7.4	5.7	4.6
EV/Sales (x)	4.9	3.7	3.4
EV/EBITDA (x)	16.5	12.8	11.7
ROE (%)	36.7	35.9	30.8

Yes Bank Ltd (YESBAN)

Fundamental – BUY

Edelweiss Research

CMP - ₹ 363	Sector	Mkt Cap (₹ Cr.)	52W High	52W Low
	Banks	₹ 12,843	₹ 388	₹ 230

- YES BANK is a private Indian bank promoted by Rana Kapoor and Ashok Kapur with financial support from Rabobank Nederland, and global institutional private equity investors –AIF Capital, and ChrysCapital. It has balance sheet of ~INR 782 bn. It has branch network of 381 at the end of Q1FY13 and a CASA ratio of 16.3%. Corporate lending forms 60% of its book, commercial 20% and retail 16%.

- YES BANK is one of the few private sector banks with product depth, sustainable competitive edge, and strong growth. Given the underlying credit demand and small asset book, the loan book is expected to grow at more than 24% for the next two years.

- The bank's high proportion of fee income enables high return on assets (of 1.5 %+) and indicates its potential of generating higher than presently reported RoE (21 %+), once the capital ratios normalise. Considering the bank's strong fundamentals reflected in its product width, adept management, and technological prowess, we find it to be the perfect acquisition candidate for a foreign player, once the regulations ease.

- The bank has best in class asset quality gross NPA ratio at 0.3% and net NPA ratio of 0.1%, among the lowest in the industry. Outstanding restructured assets stand at a mere 0.5% of advances. As per the management, restructuring pipeline is not likely to add big numbers to the existing pool going forward. We are confident of the management's execution capability to guide through the current cyclical slowdown since it came out relatively unscathed during the previous financial crisis.

- We expect Yes Bank to grow well above the system, even if at a slower pace, with a well entrenched fee income platform, superior CASA and lower credit costs, delivering superior earnings (~27% CAGR over FY12-14E) and attractive RoA/RoE of 1.6%/24% by FY14E. The stock is trading at 2.1x FY13E ABV.

Income Statement (₹ mn)

Year to March	FY12	FY12E	FY13E
Net Revenues	24742	32329	40638
Operating Exp	9325	12205	15414
Preprovision Profit	15471	20124	25225
Net profit	9783	12627	15687
EPS	27.7	35.8	44.4
Book Value	132.5	164	203.5

Balance Sheet (₹ mn)

Year to March	FY12	FY13E	FY14E
Shareholders' funds	46766	57763	71820
Borrowed funds	93432	113473	178473
Sources of Funds	736621	866888	1081625
Loans	379886	455864	560712
Other assets	41535	11435	14382
Uses of Funds	736621	866888	1081625
Shareholders' funds	46766	57763	71820

Growth Ratios (%)

Year to March	FY12	FY13E	FY14E
NII Growth	29.6	31.2	26.9
Fees Growth	21.2	32.1	24.0
Net profit	34.5	29.1	24.2
EPS	32.3	29.1	24.2

Valuations

Year to March	FY12	FY13E	FY14E
Diluted PE (x)	13.1	10.1	8.2
Price/ABV (x)	2.8	2.2	1.8
ROAE (%)	23.1	24.2	24.2
ROA (%)	1.6	1.6	1.6

Coromandel International Limited (COAIND)

Fundamental – BUY

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CMP - ₹ 250	Sector	Mkt Cap (₹ Cr.)	52W High	52W Low
	Fertilizer	₹ 7,057	₹ 343	₹ 234

- Coromandel, incorporated in 1961, is owned by the Murugappa Chettiar Group. The company manufactures and markets fertilisers and pesticides. It is the second largest phosphatic fertiliser player in India (after IFFCO).

- Coromandel, the largest private sector phosphatic fertiliser manufacturer in India, is poised to be the biggest beneficiary in the complex fertiliser space in India with the implementation of the nutrient based subsidy (NBS) scheme. NBS will benefit the company in the long term by means reduction in working capital and lesser volatility in earnings, on the back of its raw material linkages, scale of operations and operational efficiencies.

- Moreover, the company is planning to expand its fertiliser capacity from the current 3.3 mn MT p.a. to ~4 mn MT in during FY13, at a capital outlay of INR 3,300 mn, which will further consolidate its leadership position in the complex fertiliser space. The strategic partnerships of Coromandel with leading companies across the globe for raw materials, coupled with its high efficiency plants, have enabled it to be a cost leader in domestic complex fertilisers.

- Coromandel is also targeting an improvement in the non-subsidy business substantially over the next four years, contributing as high as 50% to EBITDA (from the current 30%). Specialty nutrients are likely to lead the charge in this division on the back of a strong growth in municipal compost and water soluble fertilisers in India.

- Outlook a: We believe the stock is attractively priced at INR 250 (P/E of 8.1 FY13), given its revenue growth of 21% (FY10-13), EBITDA growth of 24% (FY10-13), ROE of 31%, debt free and sustainable cash of INR 600 crores. The stock is available at 12.1x and 10.1x consolidated P/E and at 8.1x and 6.5x consolidated EV/EBITDA of FY12E and FY13E, respectively. At the CMP of `247, the stock trades at a PE of 8.1x FY12E earnings and 12.64x FY13 earnings.

Income Statement (₹ mn)

Year to March	FY12	FY12E	FY13E
Revenues	97,412	99,616	116,173
EBITDA	9,472	11,466	13,811
PBT	8,844	10,365	12,917
Net profit	6,110	7,631	9,042
EPS	21.8	26.9	31.8
Book Value	84.9	107.5	126.3

Balance Sheet (₹ mn)

Year to March	FY12	FY13E	FY14E
Shareholders' funds	24,003	30,368	35,682
Borrowed funds	29,774	20,082	14,082
Sources of Funds	54,610	52,436	51,799
Net Block	9,489	13,618	14,233
Investments	1,495	1,495	1,495
Net current assets	34,889	31,353	30,602
Uses of Funds	54,610	52,436	51,799

Growth Ratios (%)

Year to March	FY12	FY13E	FY14E
Revenues	32.9	2.3	16.6
EBITDA	20.7	21	20.5
PBT	18.9	24.9	18.5
Net profit	19.4	23.6	18.2
EPS	19.4	23.6	18.2

Valuations

Year to March	FY12	FY13E	FY14E
Diluted PE (x)	11.5	9.3	7.9
Price/BV (x)	2.9	2.3	2
EV/Sales (x)	0.9	0.8	0.6
EV/EBITDA (x)	9.4	6.9	5.5
ROE (%)	28.2	28	27.2

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