IndiaInfoline
IT'S ALL ABOUT MONEY, HONEY!

market mantra

February 22, 2010

Global tailwinds to boost start

Raise your sail one foot and you get ten feet of wind.

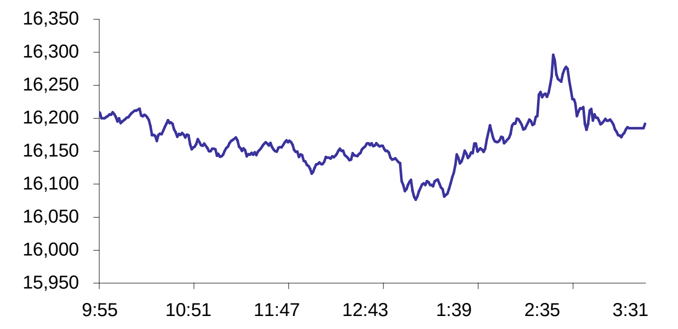
A good start to an action-packed week will at least save you the Monday blues. Asian markets are all smiling with the Nikkei 225 up nearly 3%. The Railway Budget, Economic Survey and Union Budget and F&O expiry will see the bulls and bears have a slug-fest especially later this week. Besides the Q3 GDP figures later this week, the report of the 13th Finance Commission will also be closely watched.

A lot of economic reports are due from the US this week, including numbers on housing and revision in third quarter GDP.

Shree Renuka Sugars would be in action. It has entered into definitive agreements with Grupo Equipav S.A. of Brazil to buy a 50.8% stake in it for Rs15.30bn). Late last year, Shree Renuka had purchased another company in Brazil, Vale Do Ivai, for Rs11.10bn.

While the prudent strategy would be to wait till the budget before committing a large portion of your money, there is always room to enter and exit the usual suspects who spiral around budget time. Exercise extreme caution though.

Sensex intra-day



ADR/GDR	Latest (US$)	Price % chg	% Prem/Disc
Dr. Reddys	24.4	(0.3)	0.7
HDFC Bk	120.8	0.3	10.1
ICICI Bk	36.5	(0.5)	1.4
ITC	5.4	(0.6)	(0.3)
Infosys	56.0	0.3	2.4
Satyam	5.3	0.0	22.5
Ranbaxy	9.4	0.0	(1.4)
Reliance	42.7	(1.8)	0.6
Wipro	21.0	(1.2)	45.8
SBI	84.3	0.4	2.4
Tata Motors	15.4	(1.9)	1.6
Sterlite	16.3	(2.5)	1.1
L&T	32.3	0.0	1.3

Indian market		% change		
	Last close	1 day	3 mth	YTD
Sensex	16,192	(0.8)	(4.9)	(7.3)
Nifty	4,845	(0.9)	(4.1)	(6.8)
BSE 100	2,048	(1.0)	(3.1)	(6.1)
BSE 200	6,458	(1.0)	(2.2)	(5.6)
CNX Midcap	7,212	(1.3)	0.7	(3.0)
BSE Smallcap	8,205	(1.6)	9.0	(1.8)

Developed market		% change		
	Last close	1 day	3 mth	YTD
Dow Jones	10,402	0.1	0.8	(0.2)
Nasdaq	2,244	0.1	4.6	(1.1)
S&P 500	1,109	0.2	1.6	(0.5)
FTSE	5,358	0.6	2.0	(1.0)
CAC	3,770	0.6	1.1	(4.2)
DAX	5,722	0.7	1.0	(4.0)
Hang Seng*	20,361	2.3	(9.3)	(6.9)
Nikkei*	10,444	3.2	10.0	(1.0)
S&P/ASX200*	4,709	1.6	0.5	(3.3)

** Markets are open*

Emerging market		% change		
	Last close	1 day	3 mth	YTD
Shanghai Comp	3,016	(0.1)	(5.4)	(8.0)
Brazil Bovespa	67,597	(0.4)	1.9	(1.4)
Mexico Bolsa	32,172	0.0	4.9	0.2
Kospi*	1,627	2.1	0.4	(3.3)
Micex	1,354	1.1	1.5	(1.2)
Taiwan*	7,582	1.9	(1.1)	(7.4)
Straits*	2,771	0.5	0.3	(4.4)

** Markets are open*

Institutional activity (Rs cr)	Cash	F&O	MTD	YTD
FIIs	(29)	(1,010)	(5,216)	(1,565)
MFs	(132)	-	1,240	(1,486)
FIIs Prov.	18			
MFs Prov.	(397)			

Commodities		% change		
	Last close	1 day	3 mth	YTD
Crude (US$/bbl)	79.8	0.9	4.8	1.4
Gold (US$/oz)	1,119	0.9	(2.0)	2.8
Copper (US$/mt)	7,406	2.3	9.4	0.9
Aluminium (US$/mt)	2,105	1.2	5.4	(4.2)
Zinc (US$/mt)	2,342	2.4	7.1	(7.4)

Advance/Decline stocks (Nos)	A	B	S	Total
Adv	37	480	129	794
Dec	166	1,365	303	2,017
Unch	0	42	10	65
A/D ratio (x)*	0.2	0.4	0.4	0.4

**A/D excluding Unch*

Trade value (Rs cr)		% chg
Cash NSE	11,855	0.1
Cash BSE	3,734	(1.6)
Total Cash	15,589	(0.3)
Delivery (%)	38.4	-
Derivatives	92,723	43.0

Currency		% change		
	Last close	1 day	3 mth	YTD
Rs/US$	46.31	0.1	0.8	0.5
Rs/EUR	62.70	(0.3)	10.9	6.2
US$/GBP	1.55	0.0	(6.8)	(4.3)
US$/EUR	1.36	0.2	(8.8)	(4.8)
Yen/US$	91.69	0.2	(3.0)	1.5

Bond market	Last Close (%)	Bps chg
10yr Gsec	7.88	(0.00)
Call rate	3.30	(0.05)

Corporate snippets

- SBI may not raise deposit rates before May-June. (BL)
- REC FPO subscribed just 0.29 times receiving bids for 34.90mn shares out of the total issue size of 171.73mn shares on opening day. (BS)
- HDFC Bank increases the rates on fixed deposits by up to 150bps across maturities. (BL)
- Reliance MediaWorks has made an open offer to purchase a controlling stake in Fame India. (Mint)
- Bharti Airtel chairman says his company does not need any regulatory approvals in India to acquire African assets of Zain Telecom; hopes the deal would be concluded by the end of April. (TOI)
- Bharti Airtel lines up funds aggregating US$9bn from foreign and local banks for its proposed acquisition of Zain Telecom, as it settles to finance the entire deal through debt in the first phase. (ET)
- S&P and Crisil placed Bharti Airtel's long-term bank facilities and debt programme on 'rating watch with negative implications. (ET)
- Ambuja Cements plans to spend around Rs35bn to expand its capacity to 24mn tons from the current 19mn tons by year-end. (ET)
- Shree Renuka Sugars announces the acquisition of 51% stake in Equipav S.A. Acucar e Alcool, one of the largest sugar and ethanol companies in Brazil, for Rs15bn. (BL)
- Patel Engineering plans to dilute as much as 40% of equity in its power subsidiary, Patel Energy Resources. (BS)
- The Foreign Investment Promotion Board asks United Breweries Holdings to clarify some issues on an application to bring in foreign investment. (BS)
- Nestle India reports 6.7% fall in net profit at Rs1.13bn for Q4 as against Rs1.21bn. (BS)
- Offshore services provider Great Offshore plans to raise funds up to Rs17.5bn by issuing securities. (BL)
- The government is likely to sell its 330mn shares in NMDC next month through a price band of Rs415-430 per share and leave the auction route adopted in the case of NTPC and REC. (BS)
- NMDC is set to pick up a 50% stake in Ferrous Resources' Brazilian operations for US$2.5bn. (ET)
- Kingfisher Airlines, British Airways in talks for code-sharing in India. (ET)
- Videocon's Elcoteq bid take a hit as creditors' eye higher compensation to cede controlling stake. (ET)
- Emami enters F&B business; launches edible oil brand. (FE)
- Apollo Hospitals plans to come up with three more liver transplant clinics across the country. (BS)
- Godrej Industries' real estate arm has lined up Rs20bn of investments for developing five projects over 30mn square feet in Bangalore. (DNA)
- Jaypee Infratech says it was proposing to raise Rs16.5bn through initial public offering and the issue was likely to be launched by next month. (FE)
- Star Aviation, the country's first regional airline to get a licence in 2007 but which is yet to launch service, has initiated sale talks with the GMR group. (TOI)
- United Spirits enters the non-alcoholic drinks category with Romanov Red Energy Drink. (BS)
- Burnpur Cement plans to set up cement plants in Uttar Pradesh, Bihar and in neighboring countries like Nepal, to increase capacity to 10mn tones in the next few years. (ET)
- Coal India plans to file the draft red herring prospectus with SEBI for its initial public offer by June. (BL)

Economy snippets

- A more than three-fold jump in private remittances is expected in 2009-10 as the economy stages a stronger-than-estimated rebound in the second half, the Economic Advisory Council to the Prime Minister has projected. (BL)
- The Reserve Bank of India reduced the ceiling rate on export credit in foreign currency by banks to Libor plus 200bps from Libor plus 350bps. (BS)
- New FDI policy to be unveiled on March 31. (BL)

- India's PC market sales touched ~2mn units in Oct'-Dec' 09, a 25.7% growth over corresponding quarter of previous year. (BL)
- Foreign exchange reserves rose US$485mn to US$279bn for the week ended February 12. (BL)
- Cement dispatches by major manufacturers grew by a healthy 12.6% yoy in January at 18.2mn tonnes. (TOI)
- Communication minister says number portability would be launched in the first week of May; in the first leg, it would be launched in Chennai and Bangalore. (TOI)
- The finance ministry is considering a proposal to rationalise end-use exemptions granted to businesses through various duty reliefs. (BS)
- Iron ore shipment declined 11% in December to 12.37mn tons in December 2009 compared to 13.85mn tones in the corresponding month last year. (BS)

Nifty price / volume

On the weekly chart, doji candlestick is formed, suggesting indecisiveness in the market. On the downside, Nifty is finding support around its 200-DMA, but on pullback 4,930 is acting as a resistance. It is more likely to move between 4,700 (200-DMA) and 5,000 for the short term. For the day, traders can initiate long positions with Friday's low as a stop loss (4,874) for a short-term target of 4,970-5,000.

Support / Resistance levels

	Close	Support	Resistance
Nifty	4,888	4,860	4,950
Sensex	16,192	16,050	16,455

Abnormal change in delivery

Stock	NSEDely (%)	Prev NSEDely (%)	Price % chg
Basf	44.1	13.4	(0.9)
Panaceabio	57.8	18.0	(1.7)
Acc	31.2	10.1	(0.8)
Omaxe	29.5	9.7	(4.0)
Tatasteel	36.0	13.6	(2.8)

HDIL (BUY, CMP Rs315, Target Rs333): The stock has rallied smartly from a low of Rs296 in first week of February 2010 to the present levels. Despite the ongoing volatility in the market, the stock has managed to hold on to the support of its 200-DMA. On the daily charts, it has formed a pattern of a higher bottom. It is considered as the initial sign of a bottoming out process in the short term. The daily RSI is already in strong buy mode, indicating that the prices are set to rally from the current levels. A sustained move past the Rs318 levels will see the stock heading towards the levels of Rs330-335 in the medium term. **We recommend high risk traders to buy the stock between Rs312-318 for a target of Rs333 with a stop loss of Rs307.**

SBI (BUY, CMP Rs1,942, Target Rs2,050): The stock had been in a downtrend after touching a peak of Rs2,313 in January 2009. Since then, the stock has seen the low of Rs1,863 in less than 4 weeks. The sharp correction was accompanied by lower volumes. Since last one week, the stock is consolidating around its 200-DMA, failing to decline sharply below the important moving average. On Friday, it touched a low of Rs1,927, but managed to close around its 200-DMA. **Keeping in mind the above mentioned technical evidences, we suggest traders with high risk appetite to buy the stock between Rs1,927-1,948 with a stop loss of Rs1,900 for a target Rs2,050 and Rs2,070 in the short term.**

Positive breakout

Company name	CMP	10 Days MVG avg	Price % chg	20 Days MVG avg
United Spirits	1,338.1	1,301.1	2.8	1,278.8
Aptech Ltd	172.4	167.6	2.8	169.6
Infrastruct Dev	151.3	147.4	2.7	148.2
Ksb Pumps Ltd	428.1	417.0	2.7	411.7
Godrej Consumer	261.6	254.8	2.6	248.4

Negative breakout

Company name	CMP	10 Days MVG avg	Price % chg	20 Days MVG avg
Crompton Greaves	403.4	415.2	(2.8)	418.9
Nitco Ltd	45.6	46.9	(2.7)	48.0
Rajesh Exports	100.0	102.5	(2.5)	101.0
Gujarat Mineral	146.8	150.3	(2.4)	149.5
Motherson Sumi	125.1	128.1	(2.4)	133.2

Stocks in uptrend

Company	Vol % chg	Delivery %	Price % chg
Gskcons	3,448.0	98.2	0.3
Ushamart	115.9	81.5	1.3
Pidilitind	819.9	81.0	4.6
Drreddy	85.4	80.0	0.4
Dabur	481.6	77.5	0.8

Stocks in downtrend

Company	Vol % chg	Delivery %	Price % chg
Southbank	832.8	95.1	(1.8)
Trent	(8.6)	93.9	(2.1)
Torntpharm	34.6	92.2	(1.0)
Apil	326.4	89.3	(1.0)
Bergepaint	11.0	85.2	(5.8)

Pivot table

Company	CMP (Rs)	Supp 1	Supp 2	Pivot	Res 1	Res 2
ABB	807	792	783	801	816	831
ACC	902	892	880	903	913	923
Ambuja Cem	105	104	102	105	107	109
BHEL	2,351	2,332	2,303	2,360	2,380	2,399
BPCL	583	572	557	586	598	609
Bharti	279	274	269	279	284	288
Cairn	268	265	262	269	272	275
Cipla	316	313	310	316	319	322
DLF	291	286	277	294	299	305
Gail	405	400	397	403	407	412
Grasim	2,682	2,658	2,628	2,688	2,712	2,736
HCL Tech	363	356	349	362	369	377
HDFC Bank	1,694	1,667	1,650	1,683	1,711	1,738
Hero Honda	1,680	1,660	1,642	1,679	1,699	1,719
Hindalco	150	147	144	150	153	156
HUL	241	237	233	241	245	249
HDFC	2,480	2,439	2,409	2,469	2,510	2,551
ICICI Bank	834	821	814	829	841	853
Idea	58	57	56	58	59	60
Infosys	2,532	2,510	2,493	2,527	2,550	2,572
ITC	249	246	244	248	251	253
L&T	1,478	1,450	1,428	1,472	1,501	1,529
M&M	1,002	991	978	1,004	1,015	1,026
Maruti	1,371	1,344	1,325	1,362	1,390	1,417
Nalco	367	363	358	368	372	376
NTPC	202	199	196	202	205	208
ONGC	1,110	1,093	1,083	1,104	1,121	1,137
Powergrid	107	106	106	107	108	109
PNB	885	877	867	886	895	903
Ranbaxy	442	433	425	441	450	460
Rcom	162	160	156	163	165	168
Reliance	983	975	965	985	993	1,001
Reliance Infra	1,003	992	973	1,011	1,022	1,033
Reaince Power	140	139	138	140	141	142
Satyam	100	99	97	100	101	103
Siemens	670	660	654	667	676	686
SBI	1,905	1,886	1,861	1,910	1,930	1,949
SAIL	208	203	199	208	212	216
Sterlite	746	735	722	748	759	771
Sunpharma	1,550	1,523	1,503	1,544	1,570	1,596
Suzlon	71	69	68	70	72	73
Tata Com.	298	294	290	299	302	305
TCS	751	744	737	752	758	764
Tata Motors	700	688	678	699	710	722
Tata Power	1,240	1,229	1,218	1,241	1,252	1,263
Tata Steel	561	554	545	563	570	577
Unitech	70	69	68	70	71	73
Wipro	666	658	651	665	673	680
Zee	250	247	240	253	257	261

A pivot is a level at which the market direction changes for the day. These points can be critical support and resistance levels for that day. Pivot levels are only broad indicators and not necessarily our view on the stock or index.

Top movers

Company	Price (Rs)	Price % chg	% YTD chg
Spicejet Ltd	58.2	5.5	2.5
Pidilite Inds	205.1	4.6	5.1
Sona Koyo Steer	18.2	4.0	9.0
Bharati Shipyard	275.4	3.0	18.7
Shasun Chemicals	39.5	2.9	(5.2)

Top losers

Company	Price (Rs)	Price % chg	% YTD chg
Asian Electron	29.9	(5.8)	(23.4)
Berger Paints	56.7	(5.8)	(5.6)
Jk Cements Ltd	182.0	(5.2)	23.0
Himachal Futuris	14.4	(5.0)	29.3
Gvk Power & Infr	42.0	(4.8)	(9.7)

Volume Toppers

Company	Price (Rs)	Price % chg	Vol % chg
Glaxosmithkline	1,412.5	0.3	2,718.2
Skf India Ltd	340.7	2.1	1,437.1
Himadri Chems	393.3	(0.5)	1,204.3
Zuari Indus Ltd	538.7	2.8	741.1
Indian Bank	168.7	(3.7)	720.6

Sector watch

		Price % chg			
BSE Indices	Last close	1 day	1 week	1 mth	50 DMA
BSE Bankex	9,560	(0.8)	(2.5)	(6.8)	9,895
BSE Realty	3,190	(3.4)	(15.1)	(17.3)	3,925
BSE HC	4,863	0.1	0.1	3.8	4,747
BSE Metals	15,806	(2.5)	(8.7)	(1.8)	15,988
BSE Oil & Gas	9,655	(0.7)	(4.2)	(5.1)	10,174
BSE Auto	6,998	(1.0)	(5.5)	1.1	6,952
BSE IT	5,082	(0.3)	(2.1)	4.9	4,828
BSE Power	2,961	(1.2)	(4.3)	(2.0)	3,063
BSE FMCG	2,753	(0.2)	(0.7)	(3.5)	2,784
BSE PSU	9,223	(0.8)	(5.6)	0.7	9,225
BSE Cap Goods	13,144	(0.6)	(7.7)	(2.1)	13,550
BSE CD	4,079	(1.4)	5.2	17.1	3,679
BSE 200	2,048	(1.0)	(4.0)	(3.1)	2,104
BSE 500	6,458	(1.0)	(4.1)	(2.2)	6,599
BSE Mid Cap	6,432	(1.4)	(5.2)	(0.5)	6,514
BSE Small Cap	8,205	(1.6)	(5.3)	9.0	7,909
CNX 500	4,103	(1.0)	(4.8)	(1.1)	4,168

Note:
Ideas given under the 'Technicals' section are for intraday purpose or up to a period of three trading sessions. Stocks recommended under this heading are not necessarily part of our fundamental buy or sell list.

Bulk deals

Date	Scrip name	Client name	B/S	Qty ('000)	Avg price (Rs)	Deal size (Rs m)
19/2/2010	FEM Care	Deutsche Trustee	B	19.7	801.0	15.8
19/2/2010	FEM Care	Deutsche Trustee	S	19.7	801.0	15.8
19/2/2010	Sunderam Multi	Standard Chartered Bank	S	400.0	42.4	17.0
19/2/2010	Transport Corporation	Blackstone Asia	S	824.0	95.0	78.3

Insider trades

Company name	Acquirer	Transaction date	B/S	Qty ('000)	Avg price (Rs)	Deal size ('000)	Shares transactions (%)	Holding after transaction (%)
CCCL	R Sarabeswar	4/2/2010	B	5.5	83.9	0.5	0.0	4.6
Infomedia 18 Ltd	Rakesh Jhunjhunwala	2/2/2010	S	141.8	35.3	5.0	0.3	1.3
Lupin Ltd	Ashok Kumar Madan	1/2/2010	S	0.9	1572.8	1.4	0.0	0.0

**Closing price on the transaction day is assumed to be average price of the deal*

Nifty call open interest up by 18lacs shares.

- Put open interest down by 8lacs shares.
- Future open interest down by 22,200 shares.
- Nifty Put Call ratio of open interest now stands at 1.06 vs 1.12.
- Nifty Put Call ratio of volume now stands at 0.94 vs 1.08.
- Nifty at a premium of Rs1.
- Major strikes in calls ranging from 4,800 to 5,100 have seen addition of open interest.
- Maximum open interest of Call is at 5,000 strike.
- Major strikes in puts ranging from 4,900 to 5,600 strike have seen unwinding of open interest.
- Maximum open interest of Put is at 4,500 strike.
- Nifty volatility index stands at 32.

Strategies

- **Long Piramal Healthcare Feb** Future @ Rs380 for the target price of Rs395 and stop loss placed at Rs375

  Lot size: 1,500
  Remarks: Net maximum profit of Rs22,500 and net maximum loss Rs15,000.

- **Long Educomp Solutions Feb** Future @ Rs710 for the target price of Rs770 and stop loss placed at Rs700.

  Lot size: 375.
  Remarks: Net maximum profit of Rs22,500 and net maximum loss Rs3,750.

Nifty snapshot

	Current	Previous	% Chg
Near month price	4,846	4,887	(0.8)
Near month Pre/Disc	1.1	(0.9)	(210.5)
Mid month price	4,841	4,884	(0.9)
Mid month Pre/Disc	(3.8)	(3.6)	8.5
OI* ('000)	31,872	31,894	(0.1)
Volume ('000)	33,955	21,362	59.0
PCR (OI)	1.0	1.1	(4.0)
PCR (Vol)	0.9	1.1	(13.1)
Roll-over (%)	22.3	16.9	31.9

FII derivative data

(Rs cr)	Buy	Sell	Net	Contracts	OI % chg
Index Futures	1,615	2,218	(603)	4,783	1
Index Option	3,345	3,523	(178)	(965)	(0)
Stock Futures	3,280	3,508	(229)	26,835	3
Stock Options	6	7	(1)	47	0

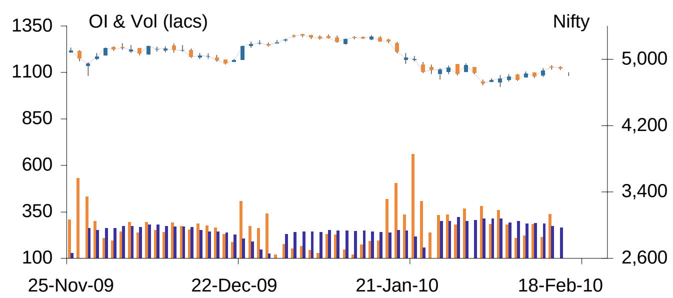
Institutional activity

(Rs cr)	Cash	F&O	MTD	YTD
FII's	(28.9)	(1,010)	(5,216)	(1,565)
MF's	(132.2)	-	1,240	(1,486)
FIIs Prov.	17.9			
MFs Prov.	(397.1)			

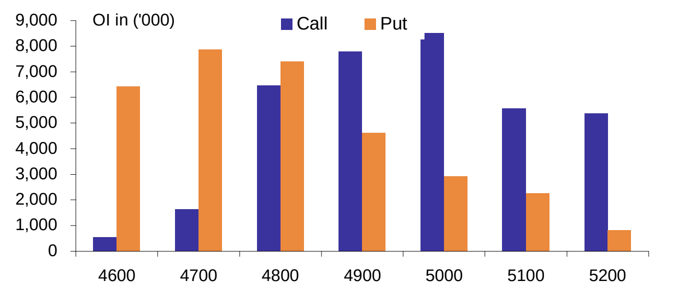
Overall market

	19-Feb-10	18-Feb-10	17-Feb-10	Value % chg
Index Future (Rs cr)	18,575	12,117	15,818	**53.3**
Stock Future (Rs cr)	19,810	18,246	18,029	**8.6**
Index Options (Rs cr)	51,785	38,812	48,701	**33.4**
Stock Options (Rs cr)	2,552	1,863	2,576	**37.0**
Index Future (Cont '000)	797	505	665	**57.8**
Stock Future (Cont '000)	631	540	526	**16.7**
Index Options (Cont '000)	2,119	1,311	1,980	**61.6**
Stock Options (Cont '000)	79	66	74	**18.8**
PCR (OI)	0.9	1.1	1.1	**(13.1)**
PCR (VOI)	0.4	0.3	0.3	21.3

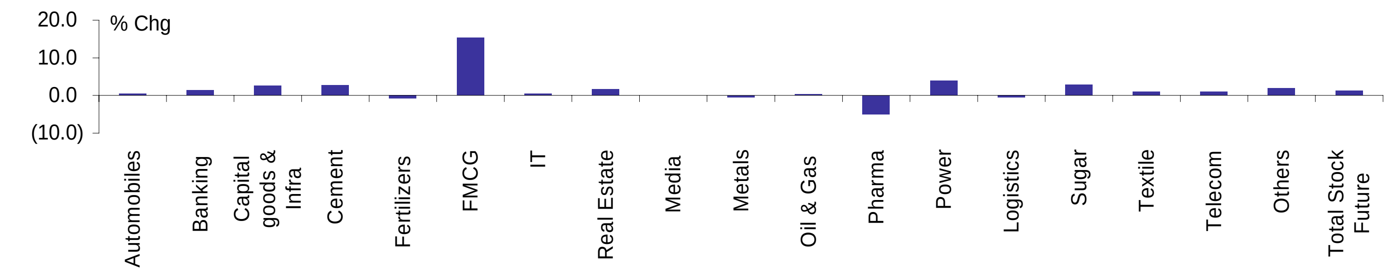
Nifty open interest chart



Nifty strikes open interest



Sector-wise OI



Futures open interest gainers

Scrip	OI ('000)	% change	CMP (Rs)	% change	Volume ('000)	% change	Prem/Disc (Rs)
Hindunilvr	17,115.0	28.2	239.3	(1.0)	9,211.0	479.3	1.7
Recltd	8,100.3	20.5	213.3	0.2	1,409.9	(65.9)	1.3
Gvkpil	22,049.5	16.1	42.1	(4.8)	8,293.5	268.4	(0.1)
Ibrealest	16,311.1	15.9	155.3	(6.2)	8,186.1	(15.1)	(0.3)
Voltas	1,933.2	13.1	153.0	(3.8)	909.9	77.4	(0.3)
Hcc	6,988.8	12.8	131.7	(4.4)	3,336.9	59.1	(0.4)
Aban	2,523.2	10.0	1,192.2	(3.9)	3,256.4	18.8	(0.2)
Chamblfert	10,505.3	9.7	68.3	(4.7)	29,538.9	73.1	(0.1)
Tatapower	2,093.6	9.0	1,238.4	(1.0)	556.2	9.7	2.0
Idfc	16,776.7	8.4	151.3	(2.2)	9,363.3	(55.9)	0.0
Punjlloyd	13,465.5	8.2	173.8	(4.1)	4,014.0	(2.6)	(0.5)

Futures open interest losers

Scrip	OI ('000)	% change	CMP (Rs)	% change	Volume ('000)	% change	Prem/Disc (Rs)
Bankbaroda	2,258.9	(13.5)	570.0	(2.9)	2,596.3	124.8	0.1
Cumminsind	128.3	(10.6)	472.3	(0.6)	79.8	(40.0)	0.9
Uniphos	820.4	(9.1)	155.8	(1.3)	301.0	(54.1)	0.2
Mll	11,142.6	(1.3)	54.9	(1.2)	1,862.0	(12.4)	(0.1)
Grasim	732.9	(7.7)	2,688.8	(0.8)	248.0	(15.9)	(6.9)
Ongc	1,731.6	(7.6)	1,108.4	0.5	846.7	60.9	1.5
Petronet	4,840.0	(7.0)	72.3	(0.8)	1,315.6	6.0	(0.0)
Jindalsaw	12,940.0	(6.1)	197.3	(3.3)	20,255.0	22.5	0.0
Siemens	1,453.6	(5.7)	669.7	(1.3)	830.2	(37.2)	(0.1)
Bel	149.0	(5.4)	2,057.2	(0.8)	67.9	(49.7)	(3.3)
Canbk	950.4	(5.4)	379.8	0.2	496.8	33.0	0.4

Most active stock calls

Scrip	Strike	OI ('000)	% change	CMP(Rs)	Volume ('000)
Tatasteel	580	1,152.9	19.1	3.9	2,163.0
Tatasteel	560	698.3	24.2	9.8	1,728.0
Reliance	1000	430.8	65.4	9.2	2,325.0
Hindalco	150	1,973.6	11.1	2.5	1,189.0
Unitech	70	3,388.5	34.5	2.0	1,851.0
Reliance	1020	1,308.6	3.0	4.8	1,850.0
Unitech	75	6,304.5	(3.6)	0.6	1,480.0
Hindalco	155	1,569.0	6.7	1.1	790.0
Ifci	50	6,138.5	16.8	0.8	980.0
Reliance	1050	1,146.6	0.9	1.8	1,082.0

Most active stock puts

Scrip	Strike	OI ('000)	% change	CMP(Rs)	Volume ('000)
Tatasteel	560	317.1	(36.0)	10.5	1,373.0
Hindalco	145	1,892.7	57.8	1.1	985.0
Hindalco	150	759.9	(20.3)	2.9	571.0
Tatasteel	540	690.7	4.3	4.0	740.0
Hindalco	140	1,787.1	14.9	0.6	488.0
Unitech	70	2,223.0	(5.2)	1.6	659.0
Tatasteel	580	415.6	(12.1)	24.0	443.0
Reliance	990	417.6	(2.8)	15.1	591.0
Icicibank	800	904.1	0.1	3.9	554.0
Dlf	300	472.0	(14.7)	11.2	581.0

Most active Nifty calls

Strike	OI ('000)	% change	CMP(Rs)	Volume('000)
4900	6,492.7	13.0	32.9	18,568.3
4800	4,969.0	20.2	82.9	14,963.7
5000	6,748.9	0.5	9.7	9,326.6
5100	4,164.9	1.6	3.2	3,461.7
5000	1,750.2	7.8	92.0	1,233.7
5200	4,532.6	(4.1)	2.0	1,195.3
4700	1,044.4	(10.1)	160.0	1,129.1
4900	1,301.9	16.4	136.5	888.8
4800	1,498.3	13.4	189.0	627.6
5300	3,617.7	(7.5)	0.9	587.3

Most active Nifty puts

Strike	OI ('000)	% change	CMP(Rs)	Volume('000)
4800	5631.0	(5.1)	36.5	17745.9
4900	3147.5	(21.1)	81.4	9377.6
4700	5738.3	(3.1)	16.0	8304.3
4600	5329.3	(7.3)	6.5	4812.9
4500	4630.5	4.5	2.7	2004.4
5000	2168.0	(18.7)	158.1	1359.3
4800	1773.2	21.6	148.0	1389.7
4700	2135.6	18.7	113.0	1147.5
4600	1101.4	17.5	86.0	965.5
4500	3141.5	9.4	63.0	916.6

Note:
Ideas given under the 'Derivatives' section are positional trades for the stated F&O expiry. Stocks recommended under this heading are not necessarily part of our fundamental buy or sell list.

Fund focus

ICICI Prudential Dynamic Plan — Invest

Fund manager	Sankaran Naren	Min investment	Rs5,000
Latest NAV	Rs89.8	Entry load	Nil
NAV 52 high/low	Rs94/44	Exit load	1% <1 year
Latest AUM	Rs1,890cr	Latest dividend (under dividend option)	12% (19-Feb-10)
Type	Open-ended	Benchmark	S&P Nifty
Class	Equity-diversified	Asset allocation	Equity (83%), Debt (0%), Cash (17%)
Options	Growth & dividend	Expense ratio	1.9%

Top recommended funds

(Absolute returns (in %) are based on previous close)

Equity – Diversified	Assets (Rs Cr)	NAV (Rs)	1wk	1mth	3mth	6mth	1yr	2yr	3yr	5yr
DSP-BR Top 100 Equity - RP (G)	2,449	86.0	0.9	(6.5)	(2.6)	12.2	74.9	12.4	46.9	219.6
ICICI Prudential Dynamic Plan (G)	1,890	89.8	0.3	(3.8)	4.0	20.6	90.9	14.6	33.6	238.8
UTI Opportunities Fund (G)	1,200	22.6	0.8	(6.8)	(3.0)	14.6	92.5	12.5	58.6	--
Equity – Thematic										
ICICI Pru FMCG Fund (G)	68	21.1	(1.2)	1.3	4.7	23.7	76.6	42.4	51.7	117.9
Reliance Banking Fund (G)	1,018	71.8	0.7	(6.8)	(7.5)	17.3	110.0	14.1	89.8	195.4
Religare PSU Equity Fund (G)	234	9.8	0.6	(5.8)	(2.5)	--	--	--	--	--
Equity – Tax saving										
Birla SL Tax Relief (D)	1,239	119.5	0.5	(4.5)	6.5	26.4	129.8	13.7	32.8	157.6
HDFC Tax Saver (G)	2,125	191.5	0.4	(5.3)	0.6	21.3	112.6	12.2	31.6	189.3
ICICI Prudential Tax Plan (G)	1,051	119.5	0.5	(4.5)	6.5	26.4	129.8	13.7	32.8	157.6
Balanced										
HDFC MIP - LTP (G)	4,207	20.6	0.1	(1.2)	0.2	6.8	33.7	24.7	38.3	84.0
Reliance MIP (G)	3,051	19.8	0.1	(1.2)	0.2	7.6	28.3	36.4	42.4	86.2
SBI Magnum Balanced Fund (G)	507	45.9	0.3	(5.5)	(0.2)	10.0	69.7	2.3	28.9	151.4
Debt – Money market										
HDFC Cash Mgmt Fund – SP (G)	4,790	19.2	0.1	0.3	1.0	2.2	5.0	14.3	23.7	39.7
LIC MF Income Plus Fund (G)	10,000	12.3	0.1	0.4	1.2	2.5	5.4	15.8	--	--
Reliance Liquid Fund TP (G)	626	22.0	0.1	0.3	0.9	2.1	4.8	14.0	22.7	37.2
Debt – Floating rate										
HDFC Float Rate Inc-LTP (G)	766	15.8	0.1	0.4	1.2	3.4	7.7	18.4	28.1	43.4
LIC MF Floating Rate (G)	3,102	15.0	0.1	0.4	1.3	2.6	5.8	16.4	26.7	44.3
UTI Floating Rate –STP-RP (G)	711	1,493.6	0.1	0.3	1.1	2.2	5.3	15.7	23.1	39.2

NFO Update

Fund name	Open date	Close date	Type#	Class
Religare Gold Exchange Traded Fund	28-Jan	23-Feb	OE	ETF
Hang Seng BeES	25-Jan	24-Feb	OE	ETF
Birla SL Cap Protn Oriented - Sr.I	04-Feb	05-Mar	OE	Balanced

#OE: Open Ended, CE: Close Ended

Recent actions

- HDFC Mutual Fund declares dividend under HDFC Growth Fund (27.5%) and HDFC Capital Builder Fund (22.5%). The record date is February 25, 2010.
- Principal Service Industries declares 15% dividend. Record date has been fixed as on 22 February 2010.
- UTI Capital Protection Oriented 3Year Plan declares dividend. The record date is February 22, 2010.
- Tata Fixed Income Portfolio Scheme B2 declares dividend. Record date has been fixed as February 25, 2010.
- Kotak Quarterly Interval Plan Series 7 declares dividend. The record date has been fixed as February 25, 2010.
- UTI Monthly Interval Fund Series 1 declares dividend. Record date has been fixed as February 25, 2010.

Power Financing – Electrifying India

REC - BUY

CMP: Rs215 | Target: Rs303
M-Cap: Rs212bn* | Promoter hold: 67%*

Investment positives

- Sanctions in place, to translate into loan CAGR of 27% over FY09-11E
- Earnings CAGR of 24% over FY09-11E
- Healthy return ratios post equity dilution via FPO
- Significant improvement in asset quality

*Post equity dilution

PFC- BUY

CMP: Rs235 | Target: Rs299
M-Cap: Rs269bn | Promoter hold: 89%

Investment positives

- Significant exposure towards generation segment
- Strong 32% CAGR in sanctions over FY05-09
- To translate into 22% CAGR in loans over FY09-11E
- Asset quality remains the best, return ratios to improve

The increasing demand-supply mismatch and low per capita consumption of energy necessitate higher generation of power. Government of India, over the past few years, has thereby championed substantial power capacity addition. Accordingly, the XIth Five Year Plan (2007-12) targets energy capacity addition of 78.7GW and further ~100GW each in subsequent two Five Year Plans. Total investment outlay in the current plan is estimated at Rs10.3tn - Rs4.1tn (~40%) towards generation, Rs4.3tn (~41%) on T&D and balance towards R&M, etc. With combined 38% market share in power financing business, we expect REC and PFC to be the key beneficiaries of this gargantuan financing opportunity. Assuming a 3:1 debt/equity mix for these projects, it implies a funding opportunity of ~Rs3tn for the two companies in the current plan period.

Sanctions in place provides strong growth visibility

REC and PFC in cumulative have witnessed 29% CAGR in sanctions over FY05-09. Disbursements have however witnessed lower growth of 23% largely due to economic slowdown and delay in capex plans in the past couple of years. However, with improvement in economic activity and pick-up in public investments, we expect significant drawdown on unutilized sanctions in the medium term. Further, shift in loan portfolio towards generation segment (in case of REC) and increasing proportion of disbursements towards private sector is likely to sustain NPA near zero levels, while supporting healthy NIM.

Sector valuations attractive; initiate with BUY on REC and PFC

Given strong growth visibility, limited competition, steady performance and healthy returns ratio, we initiate coverage on the sector with BUY. We expect REC to deliver higher return ratios (despite capital dilution) owing to its superior 24% net profit CAGR over FY09-11E. Valuations are set to re-rate significantly from current levels of 1.4x FY12E P/BV to 2x over the next 12 months. Our 1-year price target for REC is Rs303. So, we recommend subscribing the ongoing FPO. With pick-up in power financing activity and private investment capex gathering momentum we expect valuations for PFC to re-rate. After trading in a broad range of 1.4x-2.6x 1-yr fwd BV, we expect company's valuations to improve. We assign a FY12 P/BV multiple of 1.8x and arrive at 1-yr target price of Rs299 for PFC.

Financial summary

	REC			PFC		
Y/e 31 Mar (Rs m)	FY10E	FY11E	FY12E	FY10E	FY11E	FY12E
Total oper. income	25,268	31,317	39,605	30,490	36,632	45,992
yoy growth (%)	24.5	23.9	26.5	22.2	20.1	25.5
Oper. profit (pre-prov)	23,952	29,840	37,928	26,534	31,884	40,086
Net profit	17,611	21,235	27,041	21,057	24,802	31,015
yoy growth (%)	27.2	20.6	27.3	6.9	17.8	25.1
EPS (Rs)	17.8	21.5	27.4	18.3	21.6	27.0
BVPS (Rs)	114.4	130.0	151.7	117.9	139.2	166.2
P/E (x)	12.1	10.0	7.9	12.8	10.9	8.7
P/BV (x)	1.9	1.7	1.4	2.0	1.7	1.4
ROE (%)	19.1	17.6	19.4	16.8	16.8	17.7
ROA (%)	2.8	2.7	2.8	2.8	2.7	2.8

Source: Companies, India Infoline Research

Power for all by 2012

Power for all by 2012 programme

Energy generation requirement of 1,038BU

While energy availability in India has increased by 32.7% in the past 5-years, the increasing demand for energy across all segments has resulted in significant demand-supply mismatch. Over the last 5-years, gross power generation has increased by mere 5.8% p.a. as against a GDP growth of ~9% p.a. The National Electricity Policy, has thereby envisaged a **"Power for all by 2012"** programme which aims to meet the energy generation requirement of 1,038 BU and a peak load of 1,52,746 MW by end of the XIth Five Year Plan.

Various measures undertaken to restructure the power sector and improve commercial viability

The GoI has undertaken various measures in past few years to restructure the power sector and improve its commercial and financial viability and thereby attract private investments. The most significant reform package included the introduction of the Electricity Act, which has been designed to modify the legal framework governing the electricity sector and also address the systemic deficiencies in the Indian Power sector. It has also undertaken a number of initiatives over the years for rural electrification, including RGGVY, a comprehensive programme with the aim to further strengthen the pace of rural electrification.

National Electricity policy has targeted for electricity capacity addition of 78,700MW in XIth Five Year Plan

As against the actual capacity addition of 21,180MW during the Xth Five Year Plan, the National Electricity policy has targeted for 78.7GW of electricity capacity addition in the XIth Five Year Plan (2007-12). Of this, over 47% is attributable to central sector, state sector accounts for 34% and balance 19% by private sector. The working group has targeted electricity capacity addition of ~100GW each in XIIth and XIIIth Five Year Plan.

Targeted capacity addition – XIth Five Year Plan

(in MW)	Hydro	Thermal	Nuclear	Total outlay	(%) of total
Central sector	8,654	24,840	3,380	36,874	**46.9**
State sector	3,482	23,301	-	26,783	**34.0**
Private sector	3,491	11,552	-	15,043	**19.1**
Total	**15,627**	**59,693**	**3,380**	**78,700**	**100.0**

Source: Central Electricity Authority, India Infoline research.

Capacity addition targeted at ~100GW in XIIth and XIIIth Five Year plan

...Capacity addition in coming period

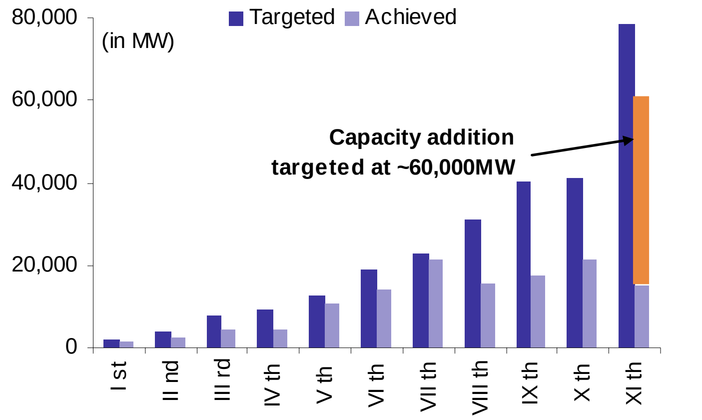
(in MW)	Hydro	Thermal	Nuclear	Total
XI th Plan	15,627	59,693	3,380	**78,700**
XII th Plan	20,000	76,500	3,400	**100,000**
XIIIth Plan	24,500	64,000	11,500	**100,000**

Source: Central Electricity Authority, India Infoline research.

Expect total capacity addition of ~60,000MW in current plan

Traditionally, there has been a huge gap between targeted capacity addition and capacity actually added. During the current plan, with 20% (~15GW) of targeted addition having already commissioned and further ~65GW of capacity addition already under construction, we expect a total capacity addition of ~60,000MW during the current plan.

Trend in capacity addition targeted and achieved



Source: Central Electricity Authority, India Infoline research

Total investment outlay pegged at Rs10.3tn

... towards generation segment at Rs4.1tn.

Investment pegged at Rs10.3tn under XIth Five Year Plan

The significant electricity capacity addition implies hefty investments in the power sector. The Government of India (GoI) has envisaged for a total investment outlay of Rs10.3tn during the current year plan. Of this, spending towards spending towards generation segment has been pegged at Rs4.1tn (40%) and transmission and distribution accounting for another 41%.

... and higher ~Rs11th in XIIth Five year plan

The XIIth Five Year plan aims at electricity capacity addition of ~100GW with a total investment of ~Rs11tn.

Segment wise planned expenditure

(Rs bn)	Generation	Transmission	Distribution	R&M etc	Total Outlay
XIth Plan	**4,109**	**1,400**	**2,870**	**1,937**	**10,316**
- Central	*2,021*	*750*	*NA*	*NA*	*NA*
- State	*1,238*	*650*	*NA*	*NA*	*NA*
- Private	*850*	*-*	*NA*	*NA*	*NA*
XIIth Plan	**4,951**	**2,400**	**3,710**		**11,000**
- Central	*NA*	*1,400*	*NA*		*NA*
- State	*NA*	*1,000*	*NA*		*NA*
- Private	*NA*		*NA*		*NA*

Source: Central Electricity Authority, India Infoline research

79% of total outlay parked towards government entities

Of the total investment of Rs10.3tn, over 79% of the fund has been parked towards meeting the financing needs of state and central entities.

REC and PFC to be key-beneficiary of the capex plan

Higher leverage of 3:1 translates into funding opportunity of Rs7.7tn.

... translates into huge funding opportunity

Given a huge capex of Rs10.3tn as articulated in XIth Five Year Plan, we expect PFC and REC to be the key beneficiaries due to their material presence in power financing business. Over the years, these companies have increased their market share due to competitive funding costs, minimal regulatory hindrance and low operating cost. A long gestation funding period (typically 10-15years) commands higher leverage (debt:equity) of 3:1, which translates into a funding opportunity of Rs7.7tn.

Power deficit have remained at high levels

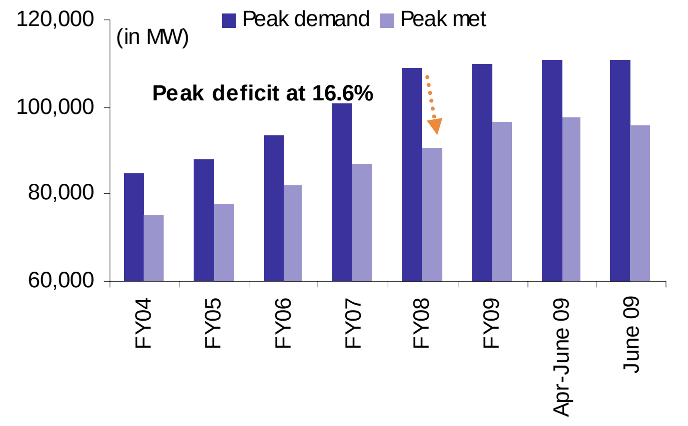
The Indian power industry has historically been characterized by energy shortages. This is on account of un-viability of the distribution segment reflected in very high transmission and distribution losses, including pilferage and also uneconomic tariff for some categories of consumers.

Peak power deficit have remained high at 13.8%

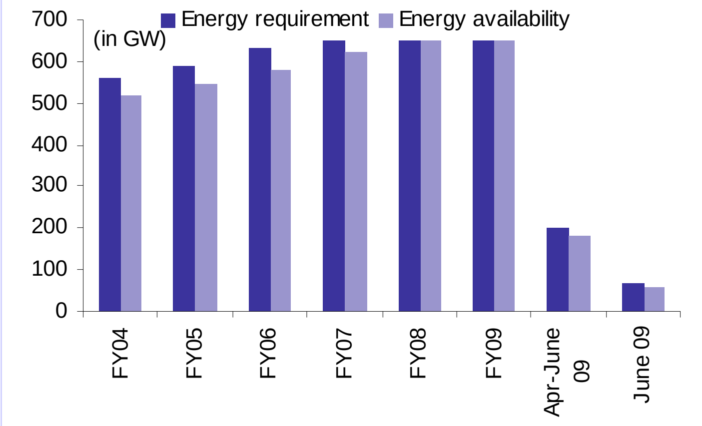
Energy deficit moderated to 9.5%

According to the data released by the Central Electricity Authority (CEA), the peak energy deficit had reached a high of 13.8% as at June 2009, as against 12% as at FY09. The energy deficit, however, has moderated to 9.5%. The rising demand for energy and lack of adequate investments towards generation as also transmission & distribution (T&D) infrastructure has widened the demand-supply gap.

Trend in peak demand and met



… energy requirement and availability



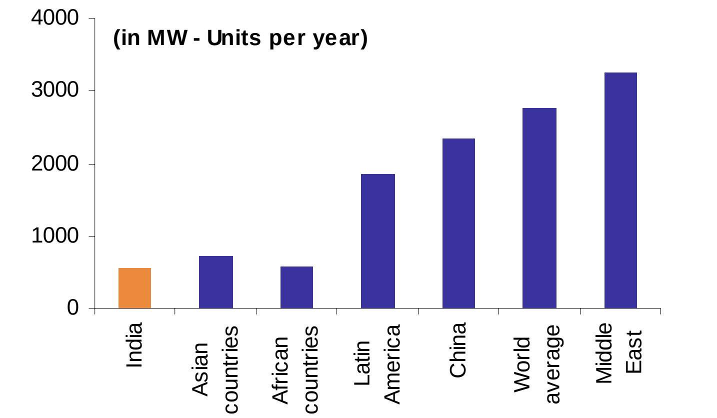
Source: CEA, India Infoline Research

… per capita consumption too remains low

Per capita energy consumption has remained low in India

While energy deficit has remained high, the per capita energy consumption in India too has remained low. According to data from Key World Energy Statistics (2009), India's per capita electricity consumption was 543 units per year, as compared to a world average of 2,752 units per year and yearly per capita consumption of 3,252 units in Middle Eastern countries, 1,838 units in Latin America countries, 2,346 units in China, 705 units in Asian countries and 578 units in African countries.

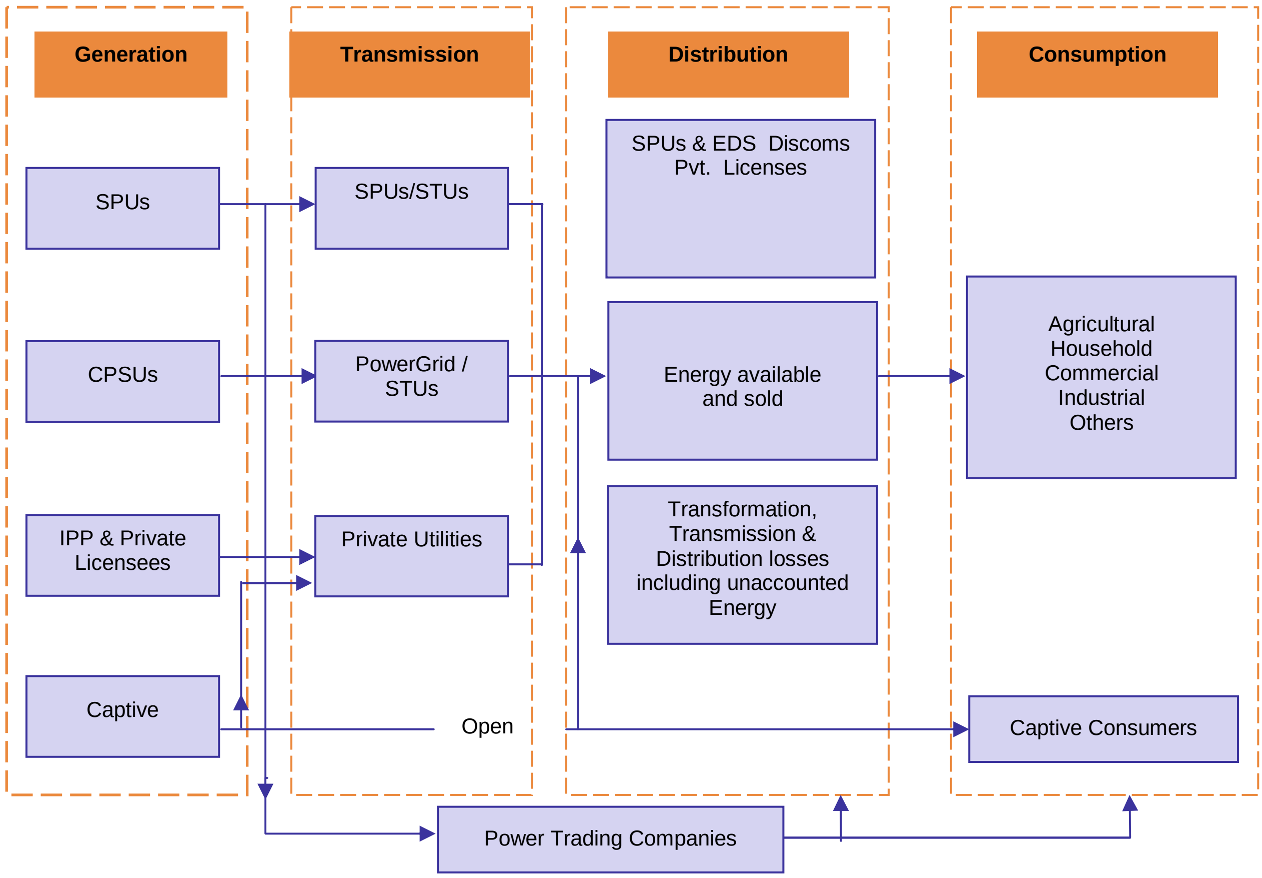
Per capita energy consumption remains low



Source: Key World Energy Statisitics, India Infoline Research

The three key components of the power industry include Generation, Transmission and Distribution a brief of which is given below

Structure of the Indian Power sector



Source: REC RHP, India Infoline research

Generation segment:

As against the targeted energy generation requirement of 1,038 BU by end of XIth Five Year Plan, India had a generation capacity of 723.79BU, up mere 2.7% as at end of the financial year 2008-09. While growth was witnessed across Thermal (up 5.57%), and Hydro segment (up 8.4%), Nuclear segment witnessed 12.3% decline during FY08-09.

PFC with over 84% of loan book towards generation segment and high 86% concentration towards government entities

REC has 38% of exposure towards generation segment

Power for all by 2012 – envisages for significant expansion of regional transmission network

Until 1991, the private sector was refrained from investment in the power sector business. The Electricity Act opened the gates for private sector involvement for sector development. The XIth Five Year Plan has outlined for a total capital investment of Rs4.1tn towards the generation segment. Of this, over 79% of the capex is towards government entities (state and central). PFC with over 84% of loan book towards generation segment and high concentration towards government entities (86% of total loans) is expected to be the key beneficiary of the planned capex. REC too has started increasing its exposure towards generation segment. Over 94% of its loan is towards government entities with exposure towards generation segment remaining at 38%.

Transmission segment:

The **'Power for all by 2012'** programme has envisaged for significant expansion of the regional transmission network and inter-regional capacity to transmit power.

Planned capex of Rs1.4tn towards the segment, with 54% towards central sector

Investment towards transmission system development and related schemes during the current plan period is pegged at Rs1.4tn. Of this, over 54% of the capex is planned for central sector.

Distribution segment:

Power distribution is critical link between generation, transmission and the end user of the power

Power distribution is a critical link between generation, transmission and the end user of the Power. However, lack of adequate investment in the T&D segment and poor financial health of bulk power purchasers - State Electricity Board (SEB) and State Power Utility (SPU) have all attributed for increasing losses in the T&D segment which has been witnessing minimal growth and maintenance in last few years.

With a view to strengthen the Sub-Transmission and Distribution network and reducing the AT&C losses, the GoI in 2001, launched the Accelerated Power Development & Reform Programme (APDRP).

Planned outlay of Rs2.8tn towards the segment

The plan has outlined a total fund requirement for sub-transmission and distribution system development at Rs2.8tn. (inclusive of APDRP and RGGVY schemes)

Various government schemes

Restructured accelerated power development and reform programme (R-APRDP)

R-APDRP with focus on establishment of base line data, fixation of accountability, reduction of AT&C losses

During the XIth Five Year Plan, GoI restructured the existing APDRP scheme and introduced R-APDRP with focus on establishment of base line data, fixation of accountability, reduction of AT&C losses through strengthening & up-gradation of Sub Transmission and Distribution network and adoption of Information Technology.

The reduction in AT&C loss to 15% level by the end of 11th plan is expected to improve the financial health of the power sector in the State. PFC is the nodal agency for the implementation of R-APDRP scheme and the improvement in performance of state entities is likely to prove beneficial to both REC and PFC.

Rajiv Gandhi Grameen Vidyutikaran Yojana (RGGVY)

RGGVY aimed at strengthening the pace of rural electrification and with the initial objective to electrify all villages

The GoI in April 2005 launched the scheme 'Rajiv Gandhi Grameen Vidyutikaran Yojana (RGGVY) – Scheme of Rural Electricity Infrastructure and Household Electrification', for the attainment of the National Common Minimum Programme (NCMP) goal of providing access to electricity to all households in 5-years. The programme aimed at strengthening the pace of rural electrification and with the initial objective to electrify all villages and provide access to electricity to all rural households. REC is the nodal agency for implementation of the programme and is entitled to 1% of amounts disbursed under the scheme.

Ultra Mega Power Projects (UMPP)

UMPP targeted at large capacity addition of 4,000MW each

With a view to meet the targeted capacity addition and bridge the power deficit, the GoI has initiated the concept of Ultra Mega Power Projects (UMPP). It has appointed PFC as the nodal agency for the implementation of the project and has as envisaged a hefty capacity addition of 4,000MW each. PFC has indentified 14 UMPPs and the fee income generated through this business will be booked in wholly-owned subsidiary, PFC consulting.

PFC and REC well placed for brisk growth

Cumulative market share of 38%

… translates into funding opportunity of ~Rs3tn over the plan period

According to CEA estimates, PFC (22%) and REC (16%) combined enjoy ~38% of market share in power financing business. Given a total investment outlay of Rs10.3tn, assuming a 3:1 debt/equity mix, the funding opportunity stands at ~Rs3tn for the two companies in the current plan period.

Huge sanctions in place, disbursements to gather momentum

PFC has witnessed robust 32% CAGR in sanctions over FY05-09. Against this, disbursements CAGR have been lower at 22%. REC too witnessed strong 26% CAGR in loan sanctions over FY05-09 while the disbursements CAGR have been lower at 23%. While the global downturn during 2008-09 resulted in slowdown in lending, the improving economic environment would lead to a pick-up in disbursement growth.

Favorable exposure norms vis-à-vis banks

Favorable exposure norms

… no reserve requirement

NBFCs' lending norms allow them to take exposure of up to 100% of their net worth in the case of government entities (state/central). This however is lower at 15% of networth in case of single private company and upto 25% for a single group. Banks, on other hand have RBI regulations limiting their exposure to ~20% of their total book. Further, unlike banks, NBFC are not required to set aside any reserve requirements (5.75% CRR and 25% SLR).

Low operating cost and better asset quality

Operating cost has remained lowest

NPA have remained at near zero levels

With minimal branch network, operating cost for PFC and REC remains negligible. Cost-to-income ratio in case of REC has remained low at 4-8% for past few years. In case of PFC, it is higher at 12-20%, albeit significantly lower than banks. A host of recovery mechanism including escrow account has enabled both REC and PFC to report substantial improvement in asset quality. NPA have remained at near zero levels for past few quarters.

High sovereign rating

Exposed to interest rate risk

… will impact interest spreads in coming period

High sovereign rating enable to borrow at competitive rates

Being wholesale funded, REC and PFC are exposed to interest rate risk. While REC is permitted to raises funds through issue of tax free bonds (54EC bonds), PFC pre-dominantly has resorted to raising funds via domestic bond issuance. The current benign interest rate regime has enabled these companies to report improvement in interest spreads. However, given the rising interest rate scenario in coming period, we expect moderation in spreads. The high sovereign ratings due to strong GoI holding, however has enabled these companies to borrow at relatively competitive rates.

Key financial ratios

	REC			PFC		
	FY10E	FY11E	FY12E	FY10E	FY11E	FY12E
EPS (Rs)	17.8	21.5	27.4	18.3	21.6	27.0
BVPS (Rs)	114.4	130.0	151.7	117.9	139.2	166.2
P/E (x)	12.1	10.0	7.9	12.8	10.9	8.7
P/BV (x)	1.9	1.7	1.4	2.0	1.7	1.4
ROE (%)	19.1	17.6	19.4	16.8	16.8	17.7
ROA (%)	2.8	2.7	2.8	2.8	2.7	2.8
NIM (%)	4.0	3.9	3.9	4.0	3.9	3.9
Avg yield on loans (%)	10.5	10.7	10.9	10.9	11.0	11.1
Avg cost of funds (%)	7.6	8.1	8.3	8.6	8.8	8.9

Source: Companies, India Infoline Research

Rural Electrification Corp - BUY

CMP Rs215, Target Rs303

Sector: NBFC	
Sensex:	16,192
CMP (Rs):	215
Target price (Rs):	303
Upside (%):	41.1
52 Week h/l (Rs):	275 / 76
Market cap (Rscr) :	18,371
6m Avg vol ('000Nos):	1,367
No of o/s shares (mn):	859
FV (Rs):	10
Bloomberg code:	RECL IB
Reuters code:	RURL.BO
BSE code:	532955
NSE code:	RECLTD

Prices as on 19 Feb, 2010

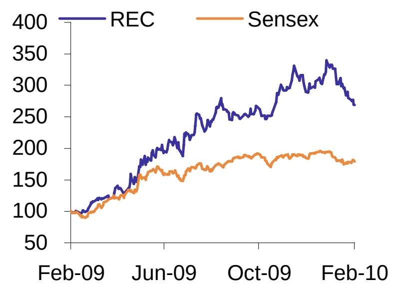
Shareholding pattern

December '09	(%)
Promoters	81.8
Institutions	12.4
Non promoter corp hold	2.3
Public & others	3.6

Performance rel. to sensex

(%)	1m	3m	1yr
REC	(11.8)	(3.5)	101.2
PFC	(4.9)	(2.9)	(8.9)
IDFC	1.6	(8.6)	97.4
SREI	(20.6)	(12.9)	1.9

Share price trend



Rural Electrification Corporation (REC) with core focus on developing power infrastructure in rural areas has diversified its loan portfolio to include power and power related financing projects. With ~16% market share in power financing business, we expect the company to be a key beneficiary of the capex plan as envisaged in the current Five Year plan. REC has witnessed sturdy ~26% CAGR in sanctions over FY05-09; a large amount of these would materialize with improving economic environment. This in-turn would translate into 24% CAGR in net profit and 25% CAGR in balance sheet over FY09-11E. Asset quality has been contained at near zero levels. While the recent equity infusion is likely to dilute RoE in FY11, we expect it to improve thereafter. Recommend subscribe in the ongoing FPO.

Huge sanctions in place, share of private segment on rise

REC has witnessed healthy ~Rs1.5tn of cumulative sanctions over FY07-H1 FY10. Disbursements however have remained low at ~Rs0.5tn, largely due to economic slowdown and delay in capex plans. However, with improving economic environment and rebound in risk-appetite, given the huge power financing opportunity, we expect large amount of these sanctions to materialize in coming period. Minimal risk of defaults, better project feasibility and efficient disclosure norms has made the private sector attractive. REC has thereby increased its exposure towards the sector to ~7% of total loan book (H1 FY10). The management expects to increase its exposure to ~15% of total loan book in next 2-3years.

Significant improvement in asset quality

Over 57% of RECs' loan book is secured by charge on assets with another 38% guaranteed by state government, albeit unsecured. While exposure to government entities (state and central sector) combined have remained high at 94% of total loan portfolio, effective recovery mechanism and introduction of escrow mechanism has enabled REC to report significant improvement in its asset quality.

Changing business mix warrant significant re-rating

The stock has underperformed peers in the past one month. Given strong growth visibility, limited competition, steady performance and healthy returns ratio, we expect REC's valuations to re-rate significantly from current levels of 1.4x FY12E P/BV to 2.0x over the next 12 months. Our 1-year price target is 303.

Valuation summary

Y/e 31 Mar (Rs m)	FY09	FY10E	FY11E	FY12E
Total operating income	20,303	25,268	31,317	39,605
yoy growth (%)	36.7	24.5	23.9	26.5
Operating profit (pre-provisions)	19,089	23,952	29,840	37,928
Net profit	13,760	17,611	21,235	27,041
yoy growth (%)	44.5	27.2	20.6	27.3
EPS (Rs)	16.0	17.8	21.5	27.4
BVPS (Rs)	83.8	114.4	130.0	151.7
P/E (x)	13.4	12.1	10.0	7.9
P/BV (x)	2.6	1.9	1.7	1.4
ROE (%)	20.6	19.1	17.6	19.4
ROA (%)	2.8	2.8	2.7	2.8

Source: Company, India Infoline Research

Core focus at financing power and power related projects

Financing across the entire power sector gamut

… including financing towards power linked projects

Rural Electrification Corporation (REC) was established in 1969 for the purpose of developing the power infrastructure in rural areas. Over the years, the company has increased its financing gamut to include all power segments viz generation, transmission and distribution business. Further, since September 2009, the company has extended its financing activities to include power linked projects such as coal and other mining activities, fuel supply arrangement for power sector and other power-related infrastructure.

… to translate into huge financing opportunity

Huge demand-supply mismatch has warranted for higher energy addition

Total capital outlay of ~Rs21tn over 10-years

Over 16+% market share in power financing business

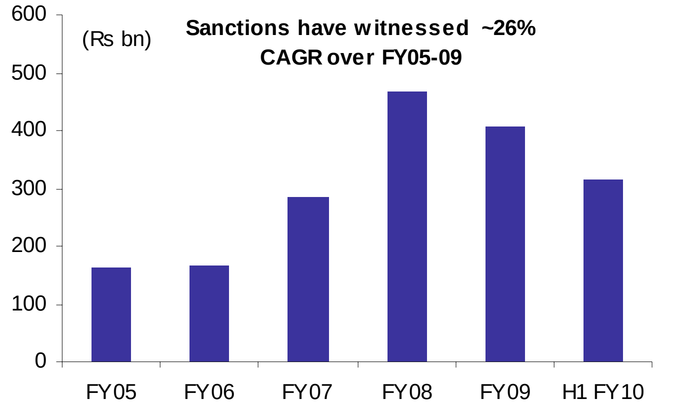
With huge demand-supply mismatch, the National Electricity Policy has been articulating for higher energy capacity addition during the Five-Year plans. The policy has targeted for energy capacity addition of 78,700MW in XIth Five Year Plan and a higher 100GW in XIIth Five Year Plan. Government has thereby embarked a total investment of ~Rs21tn (Rs10.3tn in XIth and Rs11tn in XIIth plans) in coming years. With ~16%+ market share in the power financing business, we expect REC to be one of the key beneficiaries of this hefty capex programme.

Huge sanctions in place

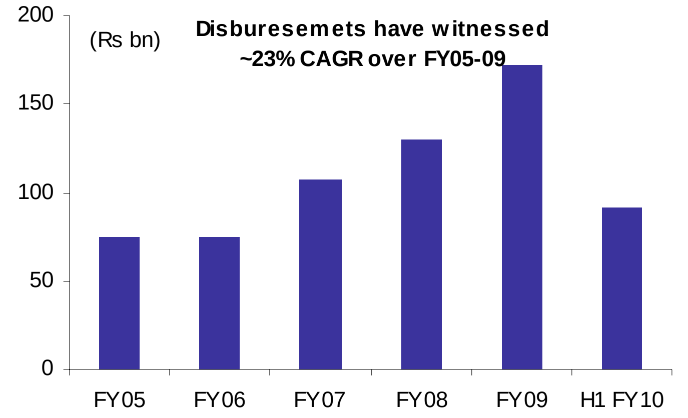
Huge sanctions in pipeline, disbursement however remain tepid

REC has witnessed huge sanctions over the past few years. As against the cumulative sanctions of ~Rs1.5tn (between FY07 – H1 FY10), the company has witnessed tepid disbursements of mere Rs500bn. While this was largely on account of economic slowdown, with improving economic environment and huge power financing opportunity, we expect large amount of these sanctions to materialize in coming years.

Trend in loans sanctions



… and in loans disbursed



Source: Company, India Infoline Research

Gradual shift in loan portfolio towards generation segment

T&D segment has long gestation period of 4-5years

Gradual shift in loan portfolio towards generation segment

Generation constitutes 38% of total loans

Traditionally, REC had a large amount of its loan portfolio towards the T&D segment. Despite low gestation period of 1.5-2-years, this segment had been witnessing huge losses, thereby resulting in higher NPL. In 2001, the company thereby revised its mandate to include financing towards generation segment (which until then was catered by PFC). While the gestation period for a generation segment is relatively higher at 4-5-years, the flexibility in financing and measures undertaken to avoid slippages have made the segment attractive. As a result, share of loans towards generation segment increased to ~38% by the end of H1 FY10.

... and towards private sector

Private sector investment has gradually started gaining momentum

.. and characterized by minimum risk of default, better project feasibility and efficient disclosure norms

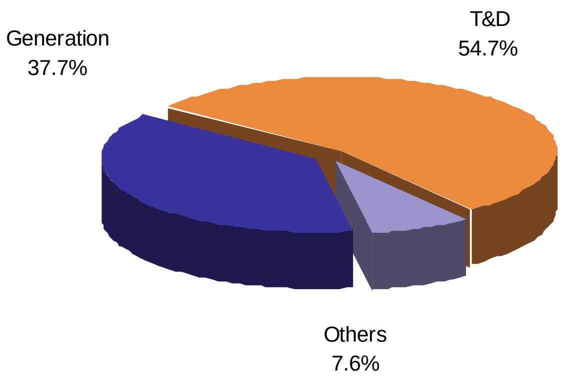
7% of loan book towards the private sector

The Electricity Act has opened the gates for private investment in the power sector. Over the years, this segment has emerged strongly across the value chain especially the generation segment. With minimal risk of defaults, better project feasibility and efficient disclosure norms REC has started increasing its exposure towards the private sector. As against ~4% of loan portfolio at end-FY09, the exposure currently stands at ~7% (end-H1 FY10). Further, the management expects to increase its exposure towards private sector to around 15% of total loan portfolio in next 2-3 years.

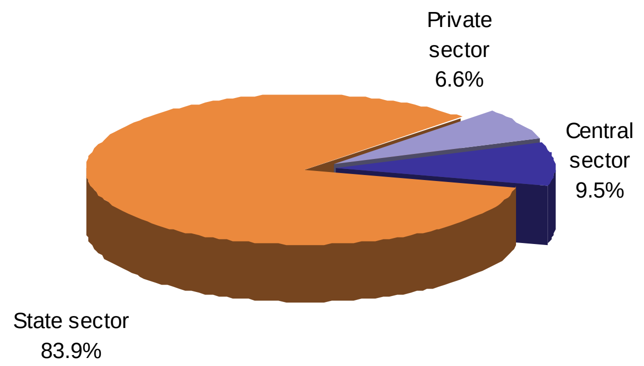
Lending to state sector has declined to 84% of total loan assets

Lending towards State sector has declined from 89% of total loan portfolio to current 84% (H1 FY10). We expect further contraction as the company rapidly increases its exposure towards Central and private sector.

Loan book exposure (H1-FY10)



... largely skewed towards government sector



Source: Company, India Infoline Research

57% of total loan portfolio is secured by charge on asset

Escrow mechanism has proved beneficial

~73% of the state sector borrowers had an escrow mechanism

While ~57% of the loan portfolio is secured by a charge on asset, another 38% of the loan portfolio is guaranteed by state government, albeit unsecured. With improving health of SEBs/SPUs, we expect minimal slippages in coming period. Further, the escrow mechanism introduced in October 2005 has started to prove beneficial to the company. This mechanism provides that certain predetermined amounts from the payments received by SEB/SPU from their respective customers are deposited in an escrow account. This deposited amount is then made available to REC in case of non-payment by the SEB/SPU. As at H1 FY10, ~73% the state sector borrowers had an escrow mechanism in place. Further, ~65% of the loan portfolio is towards escrow mechanism, while the balance 35% is guaranteed by the Government.

Maximum exposure of 7.6% of total loans to individual borrower

REC has a well-balanced loan portfolio with lending to highest individual borrower remaining at 7.6% of total portfolio. Borrower Group-wise lending remains high at 12.7% of total loan portfolio.

Individual-wise borrowing restricted at 7.6% … borrower-wise remains at 12.7% of total loans

Borrower	(%)	Borrower Group-wise	(%)
Punjab State Electricity Board	7.6	Andhra Pradesh	12.7
Tamil Nadu State Electricity Board	7.5	Rajasthan	12.5
Andhra Pradesh Power Gen. Corp Ltd.	5.4	Maharashtra	11.9
Maharashtra State Electricity Dist. Co. Ltd.	4.6	Tamil Nadu	9.7
Ajmer Vidyut Vitran Nigam Ltd.	4.1	Punjab	7.6
Maharashtra State Power Gen. Corp. Ltd.	3.9	Uttar Pradesh	6.5
Maharashtra State Electricity Trans. Corp. Ltd.	3.3	West Bengal	6.0
Jaipur Vidyut Vitran Nigam Ltd.	3.1	Haryana	5.4
Andhra Pradesh Transmission Company	2.9	Chhattisgarh	4.4
Jodhpur Vidyut Vitran Nigam Ltd.	2.6	Uttaranchal	3.3
Total	**45.0**	**Total**	**79.9**

Source: Company, India Infoline Research

Generation segment has been witnessing sharp surge

Increasing proportion of sanctions towards generation segment

61% of loans sanctioned during H1 FY10 towards generation segment

Being primarily engaged in providing financing towards T&D segment, REC has gradually shifted its focus towards a steadier generation segment. As against the cumulative sanction of ~Rs1.5tn during FY07–H1 FY10, over 53% (Rs785bn) of sanction has been towards generation segment. Further, ~61% of the loans sanctioned during H1 FY10 were towards the generation segment.

Generation segment witnessed 44% CAGR in sanctions over FT07-09.

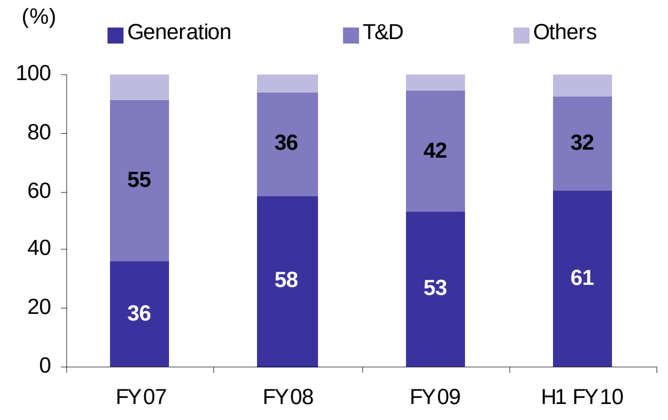
The huge surge in sanctions towards generation segment is evident from the fact that the company witnessed 44.7% CAGR in sanctions towards generation segment over FY07-09 as against mere 3.5% CAGR in T&D segment and 19.3% CAGR in total sanctions book.

… private capex too has gathered momentum

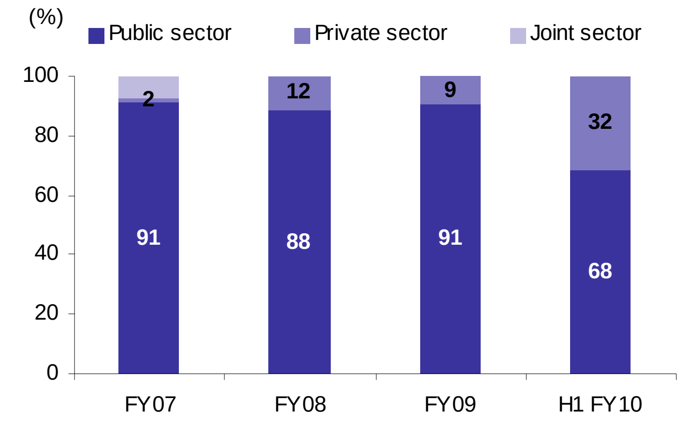
Sanctions towards private sector constituted over 32% of total sanctions

With increasing interest towards the power segment, private capex too has started gaining momentum. This is clearly evident from the fact that sanctions towards private sector constituted ~32% of total sanctions as at H1 FY10. This is relatively higher as compared with mere ~2% as at end FY07.

Gradual shift in sanctions towards generation segment



… private sector sanctions too have gathered momentum



Source: Company, India Infoline Research

Disbursements towards generation segment and private sector have remained low

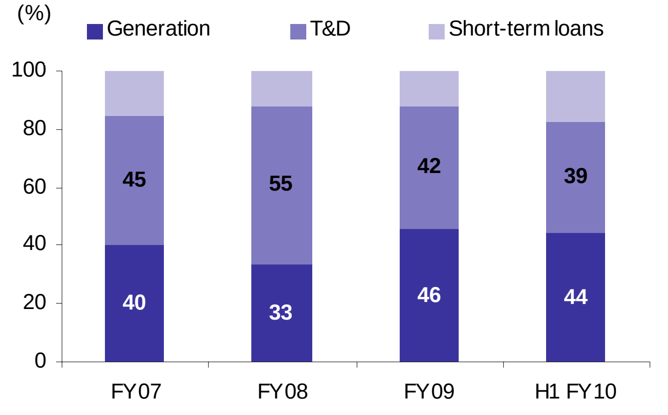
… expected to pick-up in coming period

Disbursements, however remain discouraging

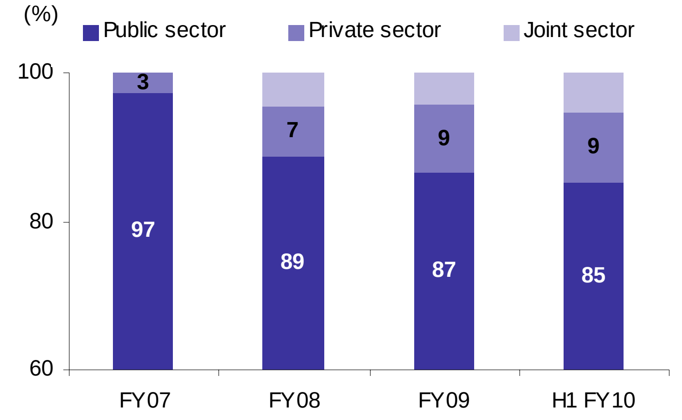
Despite huge sanctions in place, disbursements have remained tepid. The company has disbursed Rs500bn of loans (1/3rd of total loans sanctions) during FY07–H1 FY10. Further, unlike huge sanctions towards generation segment and private sector, disbursements towards the generation segment (~41% of cumulative disbursement) and private sector (9% of total disbursements) have remained low. With huge financing opportunity as envisaged in the Five Year plans, we expect a gradual pick-up in disbursements.

However, generation segment constituted ~44% of total disbursements as at H1 FY10. Private sector share in total loans disbursed too increased to ~9%.

Disbursements have remained low



…. Albeit increasing towards private sector



Source: Company, India Infoline Research

Borrowings through 54EC bonds constituted major source of funding

…. Enabled the company to borrow at relatively lower interest cost

… gradually declined to mere 22% of total borrowings

Borrowing profile has now skewed towards taxable bonds

Beginning 2001, REC was entitled to issue tax free bonds qualifying under sec 54EC of the Income Tax Act, 1961. According to the act, an individual investor was permitted to offset the capital gains arising during the year through investment in these bonds. Being tax free in nature, REC issued these bonds at relatively lower cost, thereby reducing its cost of funds. Borrowings through 54EC window accounted for ~46% of total borrowings as at end FY07. However, in January 2007, GoI reduced the limit that the individual investor can utilize to offset capital gains to Rs5mn, which gradually reduced down the demand for these bonds. Currently, 54EC bonds constitute mere 22% of the total borrowing portfolio as at end H1 FY10. The management has guided for further reduction in this source of funding in coming periods.

Various incentives

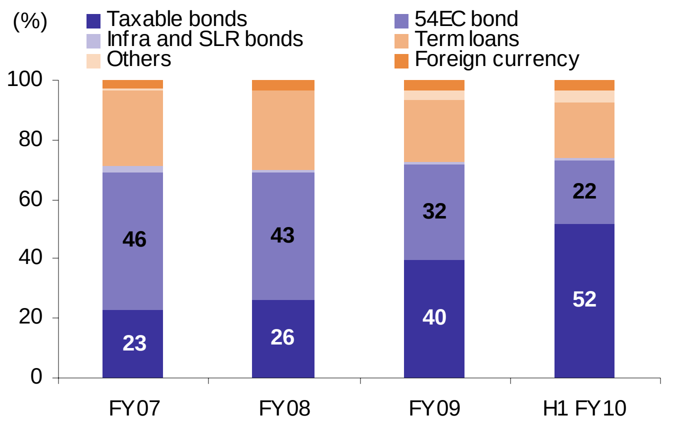
REC has historically been able to maintain its interest cost at relatively lower levels as compared to other financing companies. This is largely on account of various incentives (viz equity financing, Loans from GoI and tax concession) received from the Government of India.

Strong GoI holding provide high sovereign rating

Foreign currency borrowings constitute mere 3% of total borrowings

Further, the strong GoI holding entitles REC with highest possible credit rating. These high ratings by various domestic and international credit rating agencies have enabled the company to borrow at a relatively lower cost in spite of volatility in interest rates. Foreign currency borrowing constituted mere 3% of total borrowings as at H1 FY10, which are properly hedged.

Declining share of 54EC bonds



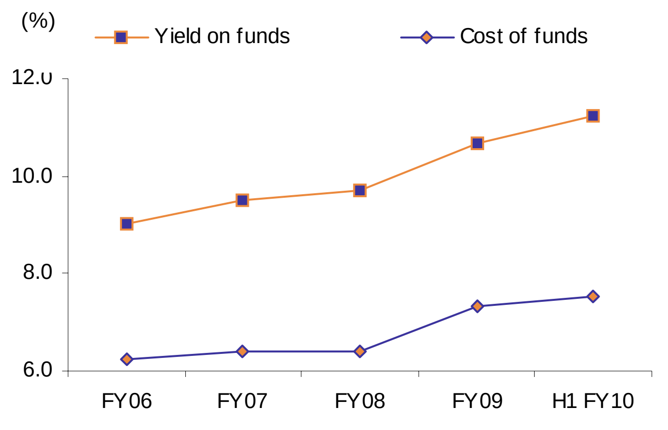
Source: Company, India Infoline Research

... Interest spread however have remained healthy

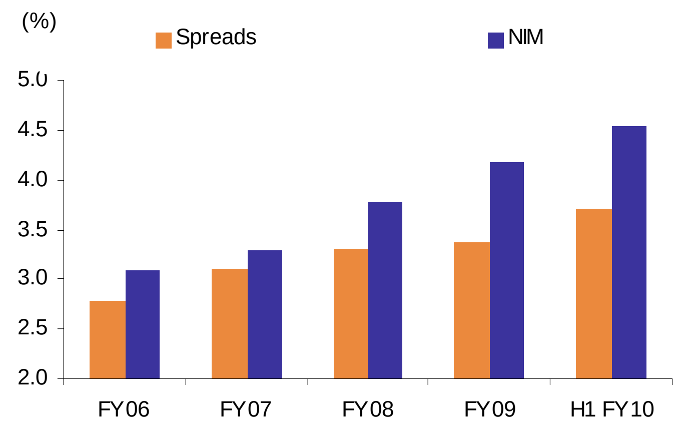
Shift in loan portfolio towards generation segment and private sector to enable maintain interest spread

Despite shift in borrowing mix towards taxable bonds, REC has been able to maintain healthy spreads. Spreads for the company have been improving in past few quarters due to gradual shift in loan portfolio towards generation segment. Also, increasing proportion of lending towards private sector has enabled the company to increase its yield on funds. REC reported 35bps improvement in its interest spreads to 3.7% during H1 FY10. This was on the back of over 50bps increase in yields on funds. The management has guided for a steady interest spread at 3.0% levels in coming few years. NIM to have remained at elevated levels and we expect it to remain at 4-4.5% in next 2-years.

Trend in yield on funds and cost of funds



... trend in spreads and NIM



Source: Company, India Infoline Research

Minimal impact of interest rates hardening in coming period

Favorable ALM mismatch

While the current soft interest rate regime has enabled REC to borrow at relatively lower cost, with hardening interest rates in coming period we see minimal impact on the profitability. The company has been able to maintain a favorable ALM mismatch.

94% of assets are long term loans with reset clause of 3-10years.

Average asset tenure is 7-years with liabilities tenure at 5-years.

Over 94% of its assets are towards long term loans with reset clause of 3-10 years. Liabilities on other hand have a shorter duration. The average asset tenure is at 7-years as against average liabilities tenure of 5-5.5years. Over Rs100bn of assets are due for re-pricing in next year. This, however, is relatively higher as compared to ~Rs50bn of liabilities due for re-pricing in next year.

Significant improvement in asset quality

NPA levels have been bought down to 0.04% from a peak of 11% as at FY04

… on back of restructuring, wavier of interest, bilateral settlement through issue of bonds and Escrow mechanism.

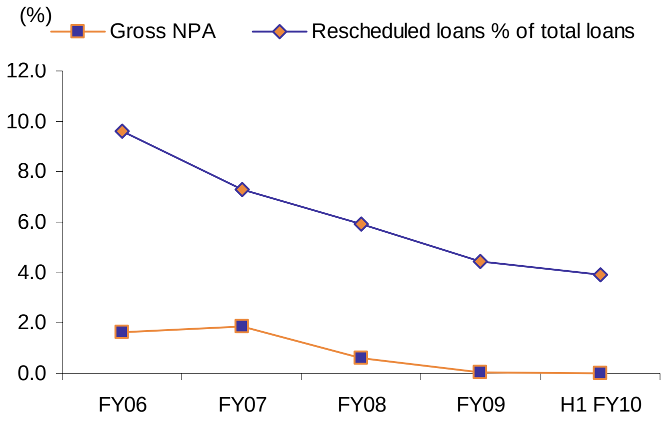
99% of loan portfolio is towards standard asset

The poor financial health of SEBs/SPUs had resulted in huge slippages during FY04-05. However, REC has been able to bring down NPA levels from a peak of 11% as at FY04 to current 0.04%. A host of measures including restructuring of loans, waiver of interest, bilateral settlement through issue of bonds by SEB and introduction of Escrow mechanism has enabled REC to report significant improvement in its asset quality. Over 99% of its loan portfolio is towards standard assets. Further, the stringent provisioning norms have resulted in minimal accretion in NPL over the last few quarters.

No fresh restructuring in last 4-5years

Rescheduled loans constituted mere 4% of total loan assets, with no fresh restructuring in last 4-5years.

Problem loans (GNPA + Rescheduled loans) constitute mere 4% of total loan assets



Source: Company, India Infoline Research

Stringent exposure norms

Internal exposure limit provides for exposure upto 25% of net worth

With a view to mitigate the concentration risk, REC has developed an internal exposure limit. The internal norms provide for exposure of 25% of REC networth towards single project and 50% for group. Lending towards generation segment is extended upto 100% REC networth and higher 250% for integrated projects.

Nodal agency for government schemes

Nodal agency for implementation of RGGVY scheme

REC has been appointed as a nodal agency for the implementation of Rajiv Gandhi Grameen Vidyutikaran Yojana (RGGVY). This scheme aims at electrifying all villages and rural households in India and has envisaged a total spending of ~Rs160bn during XIth Plan. Until H1 FY10, REC had achieved over 70% of the total planned target and disbursed ~Rs14bn of loans. In addition, the Accelerated Power Development Reform Programme (APDRP) and revised R-APDRP programme jointly mandated by REC (with PFC) aims at reducing AT&C losses.

REC earns 1% as fee income towards amounts disbursed

... acting as source of fee income

REC is entitled to 1% of amounts disbursed under the government schemes (RGGVY and APDRP) as fee income. We expect fee income shore to remain healthy and witness 18% CAGR over FY09-11E.

Sanctions and disbursed under RGGVY and APDRP scheme

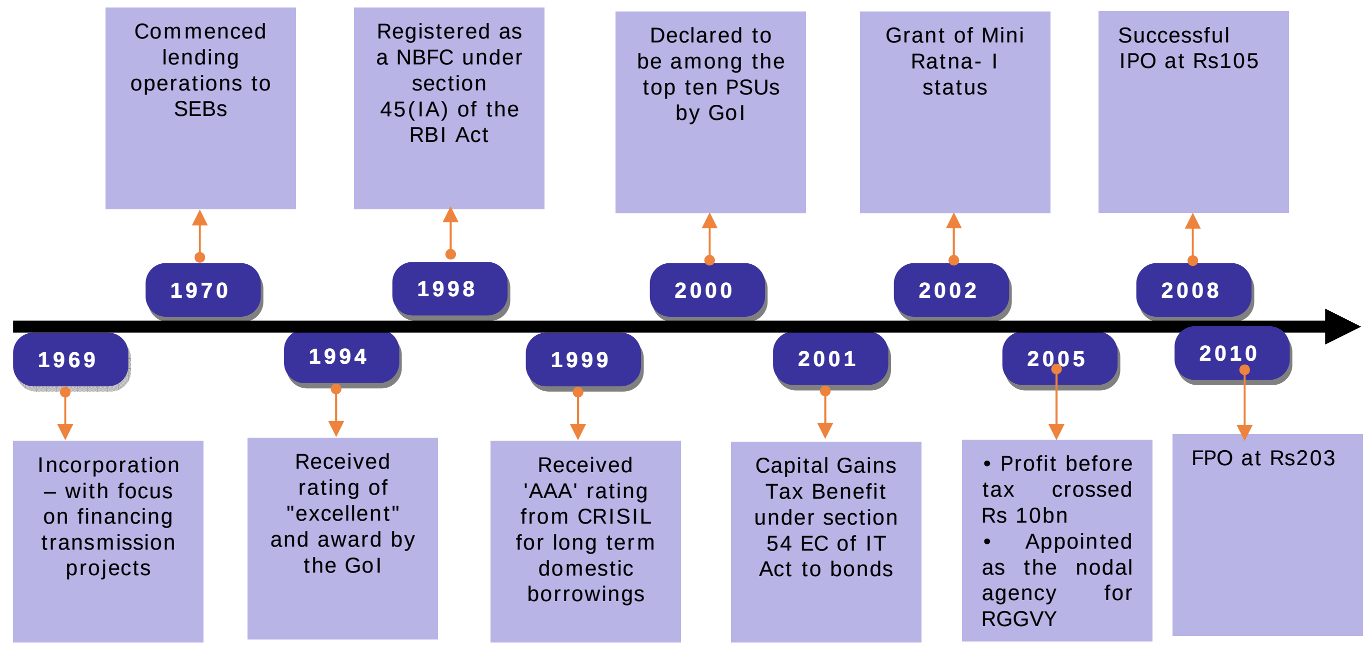
(Rs bn)	FY07	FY08	FY09	H1 FY10
RGGVY				
Sanctions	4.8	15.6	0.9	0.2
Disbursements	3.6	4.0	5.8	1.1
APDRP				
Sanctions	1.6	1.8	1.6	0.0
Disbursements	5.3	2.1	0.7	0.3

Source: Company, India Infoline Research

... reversal of DTL during the current year

Considering the opinions given by the various authorities and also the practice followed by the other similarly placed institutions (like PFC) REC, has refrained from creating a deferred tax liability as per AS 22 of ICAI. Further, the company has also reversed Rs9.6bn of reserves created in earlier years by transfer to Reserve and Surplus.

Key achievements



Source: Company

FPO details

Issue details

Issue Details	
Issue opens	19-Feb-10
Issue closes	23-Feb-10
Floor Price (Rs)	203
Face value (Rs)	10
Issue size ('000 nos)	171,732
Offer for sale	42,933
Employee reservation	350
Fresh Issue	128,449
Issue size (Rs m)*	26,146
Issue Type	Alternate book building
Minimum bid	30
Industry	NBFC

*Source: Company, India Infoline Research. *amount received by REC*

Share reservation

Categories	(%)
QIB	50
Non institutional	15
Retail	35

Source: Company, India Infoline Research

Shareholding pattern

Shareholding pattern (%)	Pre-issue	Post-issue
Government of India	81.8	66.8
Institutions	12.6	
Non-institutions	2.2	33.2
Others	3.4	
Total	**100.0**	**100.0**

Source: Company, India Infoline Research

Capital raising would augment strong balance sheet growth

Balance sheet to witness 23% CAGR over FY09-11E

REC has witnessed strong surge in sanctions for the past few years. We expect that the current capital infusion would enable the company to convert the sanctions into disbursements. While the current capital raising would result in equity dilution to the extent of 17.6% in FY11E, the balance sheet is expected to witness 23% CAGR over FY09-11E and a stronger 27% CAGR in loans over FY09-11E. Further, REC has also received line-of-credit from Asian Development Bank to the extent of US$225m.

Returns ratio still remain attractive

24% CAGR in net profit

Despite the capital dilution, returns ratio for the company is expected to remain attractive. We expect REC to report 24% CAGR in net profit over FY09-11E, translating into average RoE of 19% and RoA at ~2.9% levels.

Changing business mix signals significant re-rating

Shift in loan portfolio towards generation segment

Rural Electrification Corporation has diversified its product portfolio to include financing towards power and power linked projects of coal and other mining activities, fuel supply arrangement for power sector and other power-related infrastructure. Predominately being largely exposed to T&D segment, the corporation has gradually started increasing its exposure towards generation segment which now constitutes over 38% of total loan portfolio.

With over 57% of loan portfolio secured by charge on asset and another 38% guaranteed by state government, albeit not secured, we expect minimal slippages in coming period. Further, the escrow mechanism has ensured regular re-payments irrespective of the health of SEBs. Over ~94% of the loan book is towards government sector (including state and central).

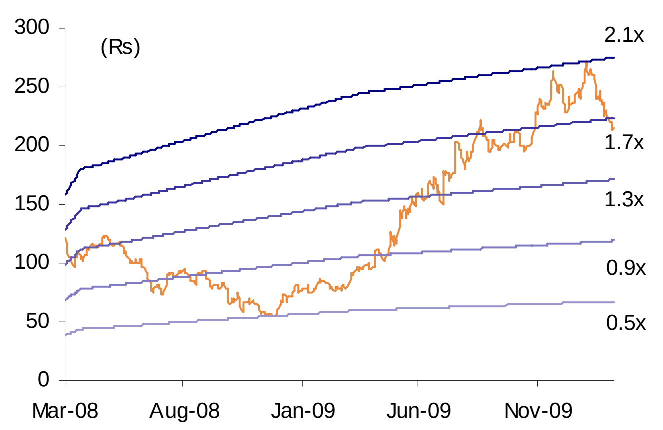
Expect 27% CAGR in loans and 24% CAGR in net profit over FY09-11E

With huge power capex plan as articulated in the current Five Year plan, we expect REC to witness 27% loan CAGR and 24% net profit CAGR over FY09-11E. While the recent equity infusion (~Rs26bn) is likely to dilute RoE in FY11, we expect it to improve thereafter.

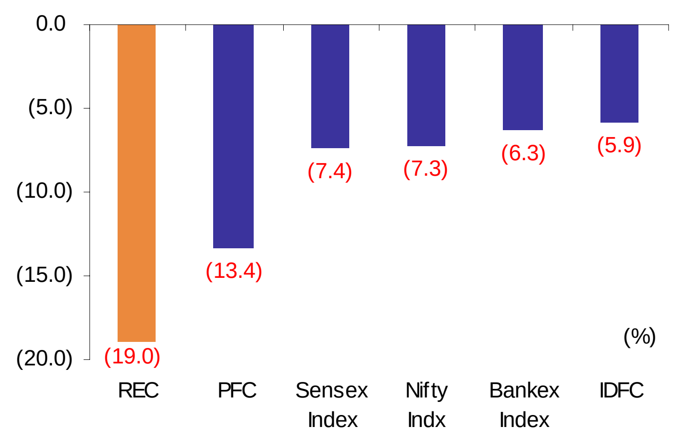
Strong visibility, limited competition, steady performance and healthy return ratio

The stock has under-performed its peers and Bankex in the past one month. Given strong growth visibility, limited competition, steady performance and healthy returns ratio, we expect REC's valuations to re-rate significantly from current levels of 1.4x FY12E P/BV to 2.0x over the next 12 months. Our 1-year price target is 303. We recommend subscribing in the company's ongoing FPO.

1-year forward P/BV



1month performance – REC vis-à-vis peers



Source: Bloomberg, Company, India Infoline Research

Financials

Income statement

Y/e 31 Mar (Rs m)	FY09	FY10E	FY11E	FY12E
Interest inc	47,549	60,964	78,624	101,719
Interest exp	(28,874)	(37,566)	(49,739)	(65,276)
Net int inc	**18,676**	**23,398**	**28,885**	**36,443**
Non-int inc	1,627	1,871	2,432	3,162
Total op inc	**20,303**	**25,268**	**31,317**	**39,605**
Total op exp.	(1,214)	(1,316)	(1,477)	(1,677)
Op profit (pre-prov)	**19,089**	**23,952**	**29,840**	**37,928**
Total provisions	(34)	(118)	(149)	(189)
Profit before tax	**19,055**	**23,834**	**29,691**	**37,739**
Taxes	(5,295)	(6,223)	(8,456)	(10,698)
Net profit	**13,760**	**17,611**	**21,235**	**27,041**

Balance sheet

Y/e 31 Mar (Rs m)	FY09	FY10E	FY11E	FY12E
Total cash & equ.	18,860	21,085	12,808	9,406
Investments	10,049	12,360	14,832	17,798
Loan assets	513,814	647,406	822,206	1,044,201
Int-earn assets	**542,724**	**680,851**	**849,846**	**1,071,406**
Fixed assets	809	892	1,057	1,285
Other assets	16,491	14,275	16,732	20,079
Total assets	**560,024**	**696,017**	**867,635**	**1,092,770**
Net worth	**71,927**	**112,957**	**128,333**	**149,785**
Secured borrow	376,137	451,364	577,746	739,514
Unsecured borrow	73,223	87,868	111,153	144,498
Int-bearing liabs	**449,360**	**539,231**	**688,898**	**884,013**
Non-int-bear liabs	38,737	43,829	50,403	58,972
Total liabilities	**488,097**	**583,061**	**739,302**	**942,985**
Equity + Total liabil.	**560,024**	**696,017**	**867,635**	**1,092,770**

Key ratios

Y/e 31 Mar	FY09	FY10E	FY11E	FY12E
Growth matrix (%)				
Net interest income	31.0	24.3	24.2	16.1
Total op income	32.2	15.1	22.5	16.5
Op profit (pre-provision)	42.1	15.5	25.1	14.2
Net profit	55.1	23.7	13.0	14.8
Loan assets	22.5	30.7	26.0	27.0
Borrowings	31.1	20.0	27.8	28.3
Total assets	30.3	24.3	24.7	25.9
Profitability Ratios (%)				
NIM	4.1	4.0	3.9	3.9
Non-int inc/Total inc	8.0	7.4	7.8	8.0
Return on Avg Equity	20.6	19.1	17.6	19.4
Return on Avg Assets	2.8	2.8	2.7	2.8
Per share ratios (Rs)				
EPS	16.0	17.8	21.5	27.4
BVPS	84	114	130	152
DPS	4.5	5.0	6.0	6.0
Other key ratios (%)				
Credit/Borrowings	114.3	120.1	119.4	118.1
Cost/Income	6.0	5.2	4.7	4.2
CAR	13.3	16.8	15.0	13.8
Gross NPLs/Loans	0.1	0.2	0.2	0.2
Net NPLs/Net loans	0.1	0.1	0.1	0.1

Power Finance Corporation - BUY

CMP Rs235, Target Rs299

Sector: NBFC	
Sensex:	16,192
CMP (Rs):	235
Target price (Rs):	299
Upside (%):	27.3
52 Week h/l (Rs):	285 / 125
Market cap (Rscr) :	26,978
6m Avg vol ('000Nos):	800
No of o/s shares (mn):	1,148
FV (Rs):	10
Bloomberg code:	POWF IB
Reuters code:	PWFC.BO
BSE code:	532810
NSE code:	PFC

Prices as on 19 Feb, 2010

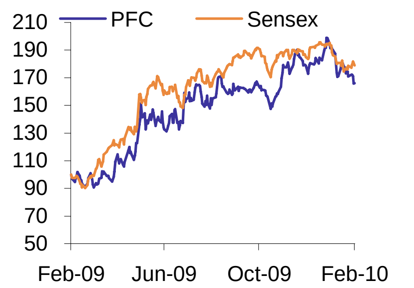
Shareholding pattern

December '09	(%)
Promoters	89.8
Institutions	7.1
Non promoter corp hold	1.4
Public & others	1.7

Performance rel. to sensex

(%)	1m	3m	1yr
PFC	(4.9)	(2.9)	(8.9)
REC	(11.8)	(3.5)	101.2
IDFC	1.6	(8.6)	97.4
SREI	(20.6)	(12.9)	1.9

Share price trend



Power Finance Corporation (PFC) with prominent market share (20%+) in power financing business is expected to be the key beneficiary of the hefty capex plan as articulated in the XIth Five Year Plan. The company has witnessed robust 32% CAGR in sanctions over FY05-FY09. With an improving investment appetite, we expect PFC to capitalise on the growth opportunity. Predominant exposure towards generation segment, increasing proportion of disbursement towards private sector and near zero levels of NPA would drive a sturdy 21% CAGR in balance sheet and 22% CAGR in loan book over FY09-11E. Recommend BUY.

Impetus towards power generation

The XIth Five Year Plan has articulated for a capacity addition of 78,700MW entailing capital investment of Rs10.3tn over the plan period. Investment towards generation segment is pegged at Rs4.1tn. PFC has a predominant towards generation segment at 84% of its loan book, 86% of which is state and central government entities. High generation exposure translates into a huge growth opportunity for the company.

Interest spreads to narrow down in coming period

The benign interest rate regime in the past one year enabled PFC to report 50bps yoy improvement in spreads during Q3 FY10. With rising interest rates, PFC, being 100% wholesale funded, is likely to witness moderation in interest spreads in coming period. The high sovereign rating, however, is likely to enable the company to borrow at competitive rates thereby maintaining healthy NIM. Further, the Navratna accredited PFC is also a nodal agency for various government schemes, which acts as a solid source of fee income.

Valuation points towards re-rating

The stock has underperformed its peers and Bankex in the past 1-3 months. With pick-up in power financing activity from revival in private and public investments, we expect material re-rating in PFC's valuations over next 1-year. The stock has historically traded in a broad range of 1.4x-2.6x 1-yr fwd BV. With improving return ratios (RoE and RoA), we expect valuations to attain a higher range. We assign a FY12 P/BV multiple of 1.8x and arrive at 1-year price target of Rs299. Recommend BUY.

Valuation summary

Y/e 31 Mar (Rs m)	FY09	FY10E	FY11E	FY12E
Total operating income	24,943	30,490	36,632	45,992
yoy growth (%)	28.2	22.2	20.1	25.5
Operating profit (pre-provision)	19,927	26,534	31,884	40,086
Net profit	19,700	21,057	24,802	31,015
yoy growth (%)	63.2	6.9	17.8	25.1
EPS (Rs)	17.2	18.3	21.6	27.0
BVPS (Rs)	100.3	117.9	139.2	166.2
P/E (x)	13.7	12.8	10.9	8.7
P/BV (x)	2.3	2.0	1.7	1.4
ROE (%)	18.9	16.8	16.8	17.7
ROA (%)	3.2	2.8	2.7	2.8
Dividend yield (%)	1.7	1.9	2.1	2.6

Source: Company, India Infoline Research

Rich presence in power financing business

Dominant market share at 20%+

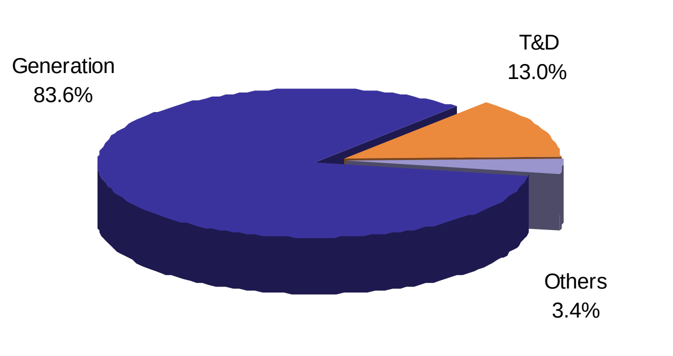
84% loan book is towards generation segment

86% of exposure is towards government entities (Central and state)

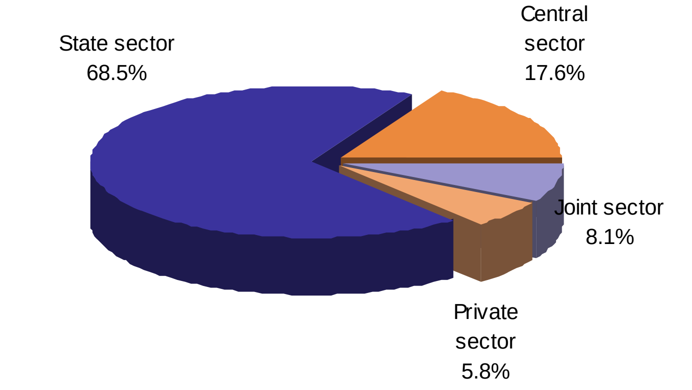
Rich presence with dominant market share at 20%+

Power Finance Corporation (PFC) has gained rich presence in power financing business over last 20 years. With dominant market share of ~20%+, we expect the company to be one of the key beneficiaries of the huge capex plan articulated in the XIth Five Year Plan. The plan envisages for energy capacity addition at 78,700MW with a total investment of Rs10.3tn. Of this, investment towards generation segment is pegged at Rs4.1tn. PFC, predominantly has a huge exposure towards generation segment. Over 84% of its loan book is towards the generation segment with 86% exposure towards state and central government. While exposure towards private sector has remained low at 6%, with huge sanctions in place particularly towards the private sector, we expect gradual shift in loan portfolio.

Large exposure towards generation segment



... and towards government entities



Source: Company, India Infoline Research

32% CAGR in sanctions over FY05-09

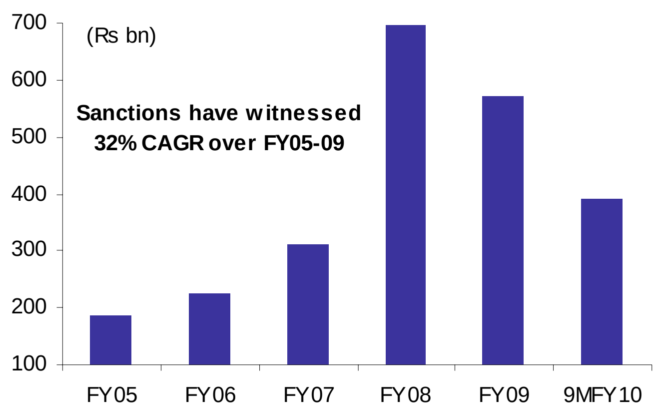
Disbursements reported 22% CAGR

Loan book to witness 22% CAGR over FY09-11E

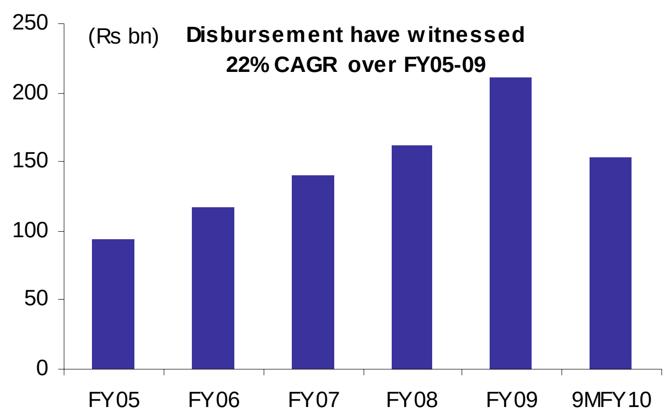
Sanctions have remained healthy

PFC has witnessed strong 32.4% CAGR in sanctions over FY05-09. This is relatively higher as compared with 22.3% CAGR in disbursements during the said period. With impetus given towards energy generation and huge capex plans as articulated in the XIth Five Year Plan, we expect the company to capitalise on this growth opportunity. Further with pre-dominant exposure towards generation segment (XIth Five Year Plan has envisaged a capex plan of Rs4.1tn), we expect 22% CAGR in loan book over FY09-11E.

Trend in sanctions



... and in disbursements



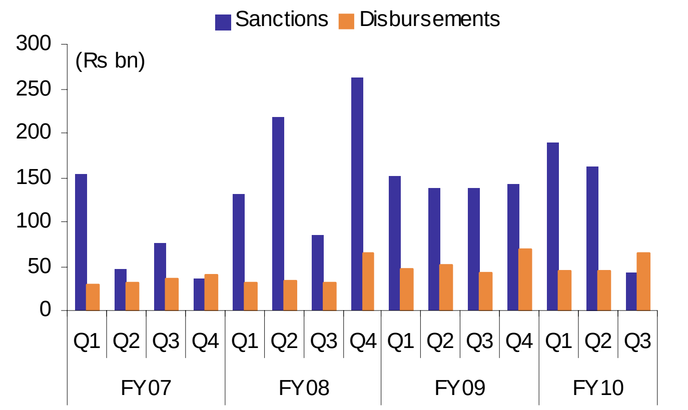
Source: Company, India Infoline Research

... disbursements, however yet to gather pace

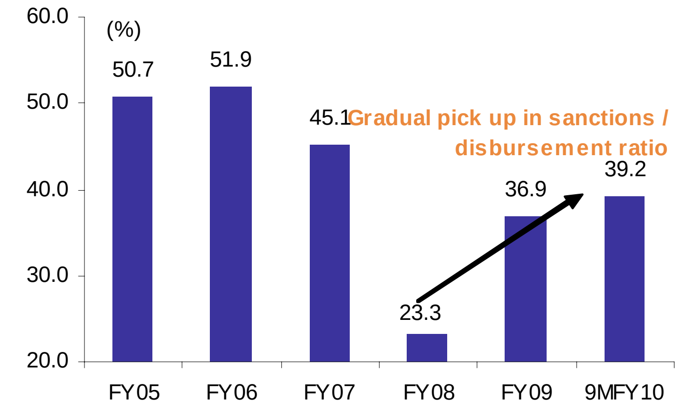
Expect gradual pick-up in disbursements

As against a cumulative sanction of Rs2.3tn over FY05-9m FY10, disbursements, however, have remained low at R878bn or 36% of the cumulative sanctions. While global downturn during 2008-09 resulted in significant moderation in disbursements, with improving economic environment, we expect gradual pick-up in coming period.

Incremental sanctions and disbursements



Trend in sanctions/disbursements ratio



Source: Company, India Infoline Research

Increasing concentration towards private sector

Sanctions towards private sector has increased to 28% as at 9m FY10

Over the past few quarters, PFC has started increasing its exposure towards private sector. With strong emergence of private investment across the value chain, especially generation segment, we expect the company to benefit in the coming period. As against mere 9% of loans sanctions towards private sector as at Q1 FY08, the exposure to this segment has gradually increased to 28% as at 9m FY10.

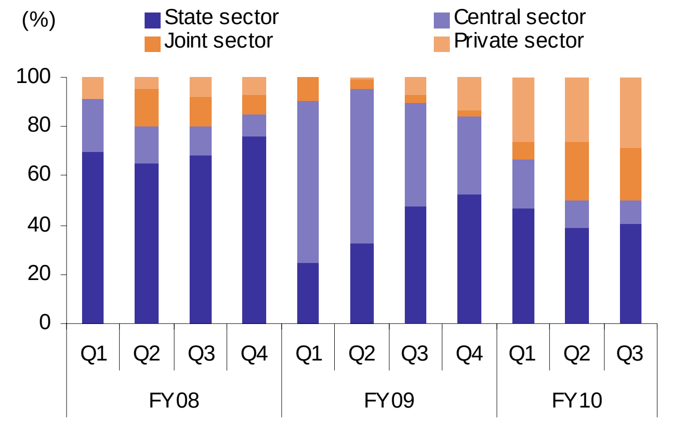
.... Has in-turn helped maintain healthy Spreads

The increasing proportion of lending towards private sector has enabled PFC to lend at higher rate as compared with lending towards government sector. This in turn has enabled the company to maintain healthy spreads irrespective of divergent movement in cost-of-funds.

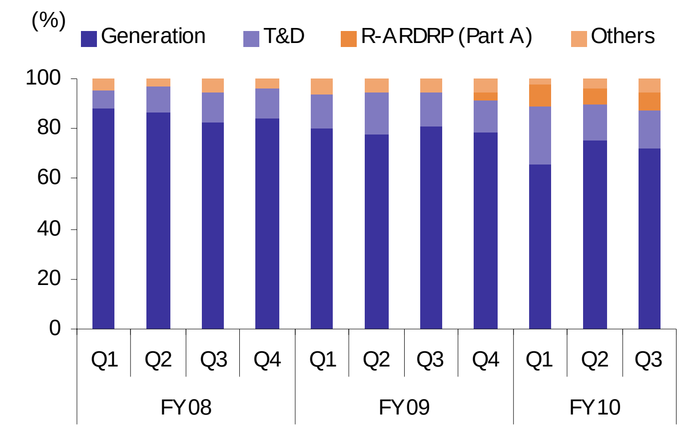
Sanctions towards generation segment have declined to 72% of total

While the company was pre-dominantly engaged in lending towards generation segment, the share of sanctions towards this segment has declined to 72% as against 88% as at Q1 FY08. This however is relatively higher as compared with 61% in case of REC. (H1 FY10).

Increasing exposure towards private sector



albeit declining share in generation segment



Source: Company, India Infoline Research

Disbursements, albeit have remained concentrated towards government entities

Disbursements towards private sector have remained muted

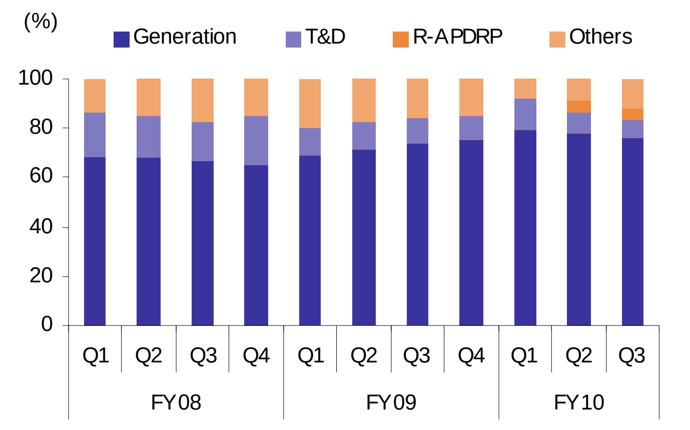
While disbursements have remained low over the past few quarters, with improving risk-appetite we expect disbursements to gradually pick-up in coming period. Lending towards private sector which had attained the peak of 9% as at Q1 FY08 has moderated to ~4% levels as at 9m-FY10. We expect huge disbursements towards private sector (especially towards UMPP) in coming period with uptick in capex plans.

According to the MoU between PFC and the Government of India, it has targeted for a disbursement of Rs230bn in FY10. Of this, PFC has already disbursed Rs154bn of loans until 9M FY10. We expect the company to meet its targeted plan.

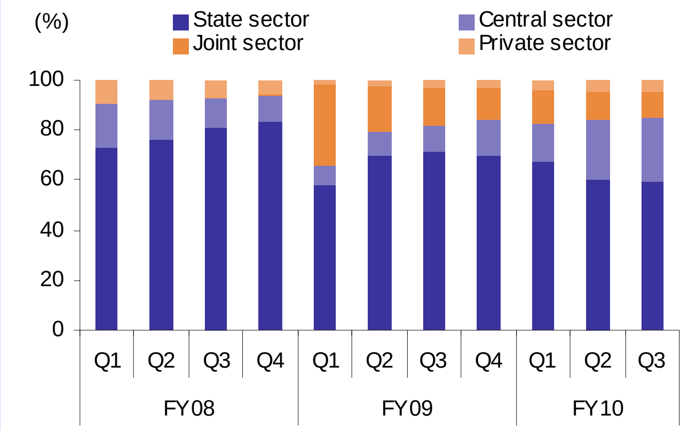
Lending to generation segment constituted 76% of total loans

Lending to generation segment constituted 76% of total loans disbursed as at 9m FY10.

Disbursement skewed towards generation segment



Private sector investment yet to gather pace



Source: Company, India Infoline Research

Prudent lending and exposure norms

Provisioning norms prohibit exposure upto 80% of project cost for government project

...and upto 50% for private project

PFC has been following prudent exposure norms. Lending towards government backed projects is restricted upto 80% of project cost. In case of private sector this is tad lower at 50% of project cost. Further, the internal norms enable it to take exposure upto 100% of its networth towards government entities and upto 150% of its networth by a special board approval. In case of private sector, exposure is restricted at 15% of networth for a single company and 25% for the group.

Funding largely through bonds

High sovereign rating enable borrow at competitive rates

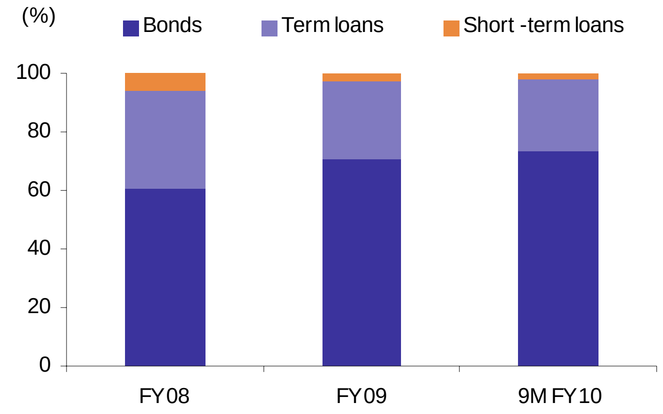
Domestic bonds constitute over 73% of total borrowings

Foreign currency borrowings constitute mere 5% of total borrowings

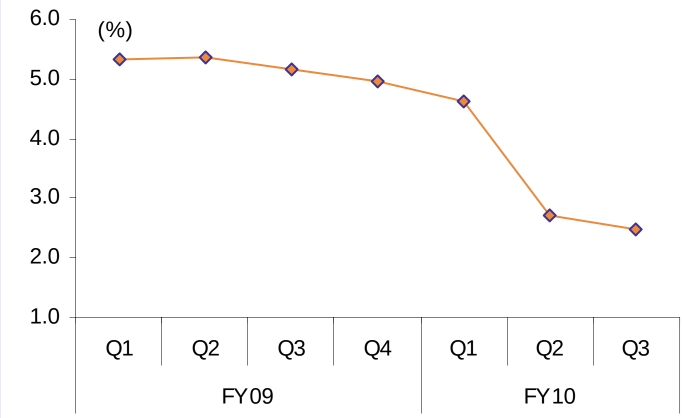
… 52% of which is hedged

Unlike REC, which is permitted to raise funds through issue of tax-free window (issue of 54EC bonds), PFC traditionally has being resorting to raising funds via bond issuance and term loans including short term loans. Despite tight liquidity conditions, the company raised over Rs215bn of bonds during FY09. Over the years, borrowings through domestic bonds window have increased from 61% as at FY08 to 73% (9mFY10). The high sovereign ratings have enabled PFC to issue bonds at relatively lower rates. Foreign currency borrowings constituted mere 5% (2.5% as at 9m FY10) of total borrowings. With over 52% of the book being hedged, (plain vanilla forward rate agreement), over 48% of the book is exposed to currency risk. PFC plans to raise US$300m in Q4 FY10. Further, line of credit with Asian Development Bank, KfW and MoU with EX-IM bank of United States act as a major source of fund.

Borrowings largely via domestic bonds



Foreign currency borrowing minimal at 5%

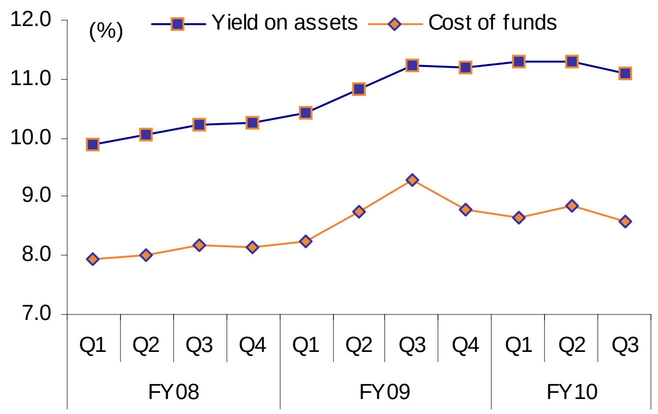


Source: Company, India Infoline Research

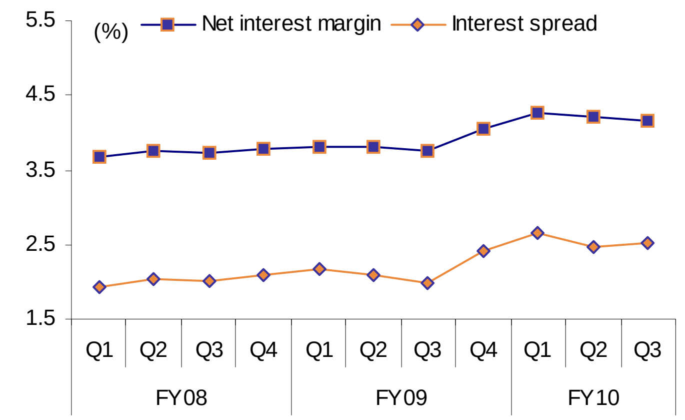
… will impact interest spreads in coming period

The current benign interest rate regime enabled PFC to report 50bps YoY improvement in spreads during Q3 FY10. Being 100% wholesale funded with rising interest scenario, PFC is likely to witness moderation in interest spreads in coming period. We expect spreads to widen by 23bps to 2.35% during FY10E and gradually decline by 20-25bps over FY10-12E.NIMs too are expected to remain in a narrow range of 3.9-4.0% levels over FY10-12E. ALM mismatch has remained favorable with over 77% of the liability being fixed in nature as against 87% of the asset which have a periodic reset clause of 3-10 years.

Trend in yield on assets and cost of funds



… spreads to widen during FY10E



Source: Company, India Infoline Research

Asset quality remains the best amongst the sector

86% of loan book is towards government entities

Recovery rate has remained high at 96-98% for last 10-year

PFC has been able to content its NPA at zero levels. This is condemnable given significant exposure towards SEBs/SPUs (86% of loan book is towards state and central government). A host of measures viz escrow mechanism, primary security have enabled the company to maintain healthy asset quality. The recovery rate has remained at elevated levels of 96-98% for the past 10 years.

Provisioning norms too have remained stringent. Being NBFC, PFC is exempt from RBI prudential norms for NPA recognition. The internal norms however consider 180-days for recognizing NPA. Also, NPA are recognized on a loan wise basis for state entities as against the standard norm of identifying NPA borrower-wise. We expect minimal accretion to NPL in coming period.

... returns ratios, however, have witnessed wild swings

Net profit (excluding extra-ordinary item grew 23% yoy)

Expect 14% CAGR in net profit over FY09-11E

RoE to remain at steady levels of 17-18%

PFC reported healthy 63% yoy growth in its net profit during FY09. However, excluding extra-ordinary item towards reversal of earlier year's deferred tax liability of Rs4.8bn, net profit grew by 23% yoy. While we expect PFC to report modest 7% yoy growth in its net profit during FY10E (due to high base effect of FY09), the net profit is set to witness 14% CAGR over FY09-11E. RoE has remained in the wide range of 14-19% during FY07-09. Going forward, with adequate capital, visible growth and near zero NPA, we expect RoE to remain at steady levels of 17-18% over FY10-12E. RoA is expected to remain at 2.8% levels on back of 21% CAGR in total assets.

Adequate capital for a brisk growth

Minimum CAR at 12%

Strong GoI holding provides adequate cushion towards additional capital

According to RBI regulations, PFC (and also REC) is required to maintain minimum capital adequacy at 12%. PFC, however, is well capitalised with CAR at 17.6% (9m FY10). Post equity dilution in February 2007, PFC has been resorting to traditional source of funding viz borrowings (via bonds, term loans) for capital requirement. Further, the planned capital infusion of US$300m is likely to support balance growth in coming period. The strong GoI holding at 90% provide adequate cushion towards additional capital.

Nodal agency for host of government schemes

Nodal agency for implementation of UMPP project

With a view to meet the targeted capacity addition and bridge the power deficit, the GoI has initiated the concept of Ultra Mega Power projects (UMPP). It has appointed PFC as the nodal agency for the implementation of the project and has targeted for a capacity addition of 4,000MW for each UMPP. Accordingly, PFC incorporated 11 wholly owned subsidiaries, of which 9 were to facilitate the development and construction of large capacity power projects based on international competitive bidding. Further, two subsidiaries were formed for the development of large transmission projects.

Located 14UMPP's

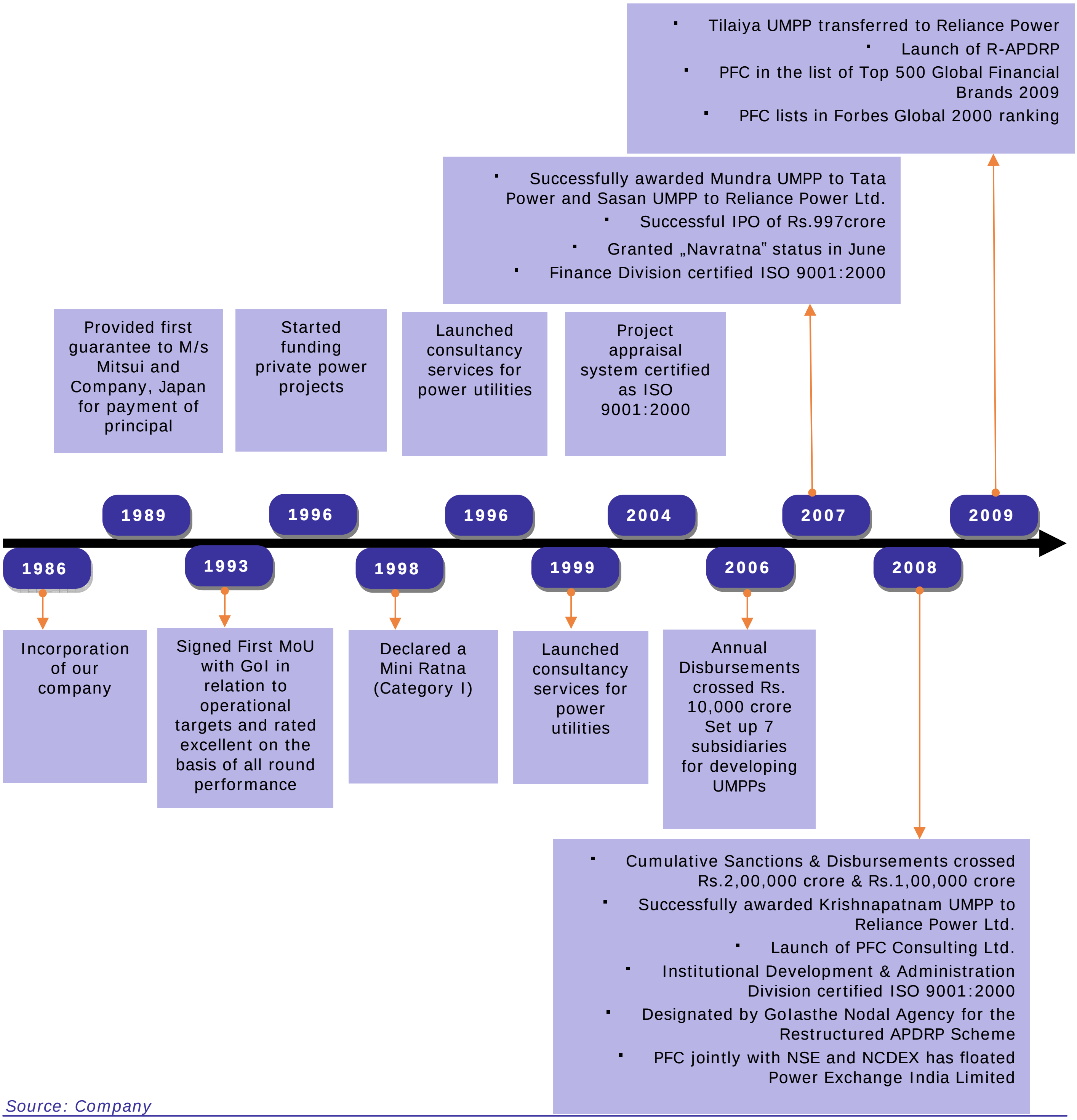
PFC has located 14 such UMPPs – Sasan, (Madhya Pradesh) Mundra (Gujarat), Akaltara (Chhattisgarh), Munge (Karnataka/Maharashtra) Krishnapatnam (Andhra Pradesh), Tilaiya (Jharkhand), Cheyyur (Tamil Nadu), Bedabahal (Orissa), 2 additional UMPPs in Orissa, 2nd UMPPs in Andhra Pradesh, Tamil Nadu and Gujarat.

PFC has already handed letter of intent for 4 UMPP's and further three more are expected to be transferred in another 6-months. The fee income generated through this business will be booked in wholly-owned subsidiary, PFC consulting, set up in March 2008 to promote, organize and carry on consultancy in power sector.

Nodal agency for R-APDRP in addition to existing to APDRP and RGGVY

PFC has also been appointed as a nodal agency for implementation of R-APDRP scheme in addition to existing APDPR scheme, RGGVY scheme (in consortium with REC). The R-APDRP scheme introduced in 11th Five Year Plan has placed focuses on actual, demonstrable performance in terms of sustained loss reduction.

Key achievements



Source: Company

Plans to foray into new business ventures

New business ventures…

With huge equity funding requirement, PFC plans to foray into equity financing business of power projects. It also intends to provide equity syndication services and further expands its business-mix in the areas of financing of development/expansion of fuel supply sources and its distribution and equipment manufacturing.

Valuation points towards re-rating

Improving risk-appetite to prove beneficial

22% CAGR in loan over FY09-11E

With improving risk-appetite, we expect PFC to capitalise on the growth opportunity. The impetus given towards energy generation and huge capex plan embarked in XIth Five Year Plan is likely to prove beneficial for PFC which has a dominant market share in power financing business. We expect the company to witness sturdy 22% CAGR in loan book over FY09-11E.

21% CAGR in balance sheet over FY09-11E

Hefty 32% CAGR in sanctions over FY05-FY09 provides strong growth visibility in coming years. With dominant exposure towards generation segment, increasing proportion of disbursement towards private sector, zero levels of NPA, we expect PFC to report 21% CAGR in balance sheet over FY09-11E.

Interest spreads to narrow down to 2.2-2.3% over FY10-12E.

High sovereign rating to enable borrow at competitive rate

While interest spreads grew 50bps yoy (Q3 FY10), with rising interest rates in coming period, spreads are likely to narrow down to 2.2-2.35% over FY10-12E. The high sovereign ratings, however is likely to enable PFC to borrow at a relatively competitive rate thereby maintaining healthy NIM.

Nodal agency for various government schemes

Further, the Navratna accredited PFC is also a nodal agency for various government schemes, thereby acting as solid source of fee income in coming period.

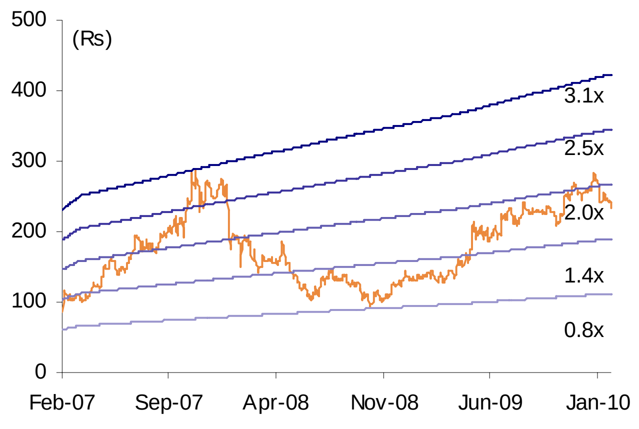
The stock has under-performed its peers and Bankex in the past 1-3 months. We expect significant re-rating in next 1-year with pick-up in power financing activity and private investment capex.

Traded in a broad range of 1.4x-2.6x 1-year forward BV.

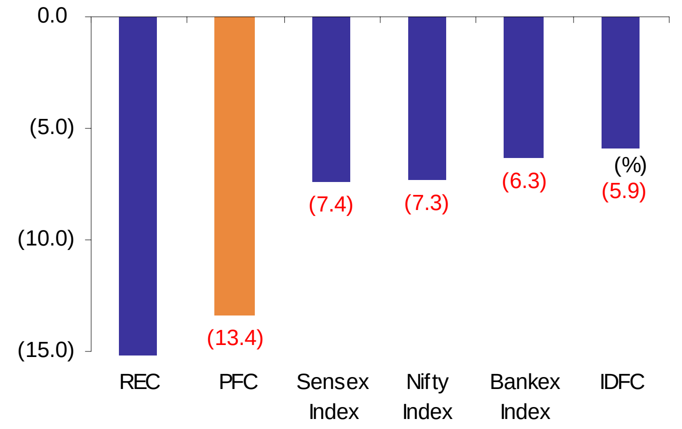
Assign 1.8x FY12P/B.

The stock has historically traded in a broad range of 1.4x-2.6x 1-yr fwd BV. With improving returns ratios (RoE and RoA), we expect the valuations to re-rate. We assign a FY12 P/BV multiple of 1.8x and arrive at a price target of Rs299. Recommend BUY.

1-year forward PB



PFC vis-à-vis peers… 1month performance



Source: Bloomberg, Company, India Infoline Research

Financials

Income statement

Y/e 31 Mar (Rs m)	FY09	FY10E	FY11E	FY12E
Interest inc	63,388	77,250	95,252	119,718
Interest exp	(40,893)	(49,057)	(61,576)	(77,530)
Net int inc	**22,495**	**28,193**	**33,676**	**42,188**
Non-int inc	2,448	2,297	2,957	3,804
Total op inc	**24,943**	**30,490**	**36,632**	**45,992**
Total op exp.	(5,016)	(3,956)	(4,749)	(5,905)
Op profit (pre-prov)	**19,927**	**26,534**	**31,884**	**40,086**
Total prov.	(29)	(213)	(87)	(324)
Profit before tax	**19,898**	**26,322**	**31,797**	**39,763**
Taxes	(198)	(5,264)	(6,995)	(8,748)
Net profit	**19,700**	**21,057**	**24,802**	**31,015**

Balance sheet

Y/e 31 Mar (Rs m)	FY09	FY10E	FY11E	FY12E
Total cash & equ.	3,922	3,751	3,528	2,825
Investments	359	394	446	513
Loan assets	644,290	773,148	958,703	1,198,379
Int-earn. assets	**648,571**	**777,293**	**962,677**	**1,201,717**
Fixed assets	752	796	861	932
Other assets	32,765	36,710	34,103	34,480
Total assets	**682,088**	**814,799**	**997,642**	**1,237,128**
Net worth	**115,080**	**135,357**	**159,804**	**190,714**
Sec. borrow. (bonds)	354,792	425,626	527,627	664,649
Unsec. borrow.	166,810	200,312	245,893	304,088
Int-bear liabs	**521,602**	**625,938**	**773,520**	**968,737**
Non-int-bear liabs	45,406	53,504	64,319	77,677
Total liabilities	**567,007**	**679,442**	**837,838**	**1,046,414**
Equity + Total liabi.	**682,088**	**814,799**	**997,642**	**1,237,128**

Key ratios

Y/e 31 Mar	FY09	FY10E	FY11E	FY12E
Growth matrix (%)				
Net interest income	32.2	25.3	19.4	25.3
Total op income	28.2	22.2	20.1	25.5
Op profit (pre-prov)	10.8	33.2	20.2	25.7
Net profit	63.2	6.9	17.8	25.1
Loan assets	24.9	20.0	24.0	25.0
Borrowings	28.3	20.0	23.6	25.2
Total assets	24.7	19.5	22.4	24.0
Profitability Ratios (%)				
NIM	3.9	4.0	3.9	3.9
Non-int inc/Total inc	9.8	7.5	8.1	8.3
Return on Avg Equity	18.9	16.8	16.8	17.7
Return on Avg Assets	3.2	2.8	2.7	2.8
Per share ratios (Rs)				
EPS	17.2	18.3	21.6	27.0
BVPS	100.3	117.9	139.2	166.2
DPS	4.0	4.5	5.0	6.0
Other key ratios (%)				
Credit/Borrowings	114.3	120.1	119.4	118.1
Cost/Income	6.0	5.2	4.7	4.2
CAR	13.3	16.8	15.0	13.8
Gross NPLs/Loans	0.02	0.04	0.04	0.06
Net NPLs/Net loans	0.01	0.00	0.00	0.00

Nestle India Ltd – BUY

CMP Rs2,642, Target Rs2,915

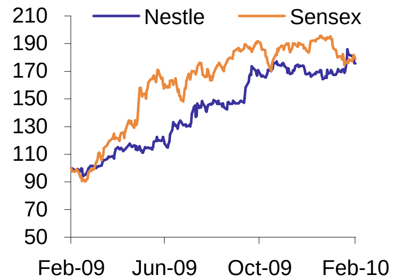
Sector: FMCG	
Sensex:	16,192
CMP (Rs):	2,642
Target price (Rs):	2,915
Upside (%):	10.3
52 Week h/l (Rs):	3,025 / 1,409
Market cap (Rscr) :	25,476
6m Avg vol ('000Nos):	37
No of o/s shares (mn):	96
FV (Rs):	10
Bloomberg code:	NEST IB
Reuters code:	NEST.BO
BSE code:	500790
NSE code:	NESTLEIND

Prices as on 19 Feb, 2010

Shareholding pattern	
December '09	**(%)**
Promoters	61.9
Institutions	19.8
Non promoter corp hold	1.7
Public & others	16.7

Performance rel. to sensex			
(%)	**1m**	**3m**	**1yr**
Nestle	10.2	3.5	(1.5)
HUL	1.8	(9.0)	(82.0)
GSK Cons	8.9	5.3	51.2
ITC	6.6	0.2	(41.7)

Share price trend



- Nestle surpassed our revenue expectations by recording 24% yoy growth at Rs13.5bn, led by strong 25.3% yoy growth in domestic sales and a modest 8.5% yoy increase in exports
- Sharp rise in raw material and staff cost pulled down operating margins by 480bps to 14.7%. As a result, net profit declined by 6.7% yoy to Rs1.1bn
- We expect Nestle to witness 19.1% CAGR in revenues and 24.5% in net profit over CY09-11. Maintain BUY with a target price of Rs2,915

Result table

(Rs m)	Q4 CY09	Q4 CY08	% yoy	Q3 CY/09	% qoq
Net domestic sales	12,612	10,066	25.3	12,172	3.6
Exports	906	835	8.5	851	6.4
Net sales	**13,518**	**10,901**	**24.0**	**13,022**	**3.8**
Material cost	(6,522)	(5,145)	26.8	(6,223)	4.8
Personnel cost	(1,376)	(836)	64.6	(974)	41.2
Other overheads	(3,639)	(2,797)	30.1	(3,183)	14.3
Operating profit	**1,981**	**2,123**	**(6.7)**	**2,642**	**(25.0)**
OPM (%)	***14.7***	***19.5***	***(482) bps***	***20.3***	***(563) bps***
Depreciation	(335)	(260)	28.7	(302)	10.8
Interest	(5)	(2)	188.2	(2)	172.2
Other income	106	129	(18.2)	88	20.0
PBT	**1,747**	**1,991**	**(12.2)**	**2,427**	**(28.0)**
Tax	(442)	(614)	(27.9)	(659)	(32.9)
Eff. tax rate (%)	***25.3***	***30.8***	-	***27.2***	-
Prov. for contin.	(176)	(166)	5.8	60	(393.0)
Reported PAT	**1,129**	**1,211**	**(6.7)**	**1,828**	**(38.2)**
PAT margin (%)	***8.4***	***11.1***	***(275) bps***	***14.0***	***(568) bps***
Ann. EPS (Rs)	46.8	50.2	(6.7)	75.8	(38.2)

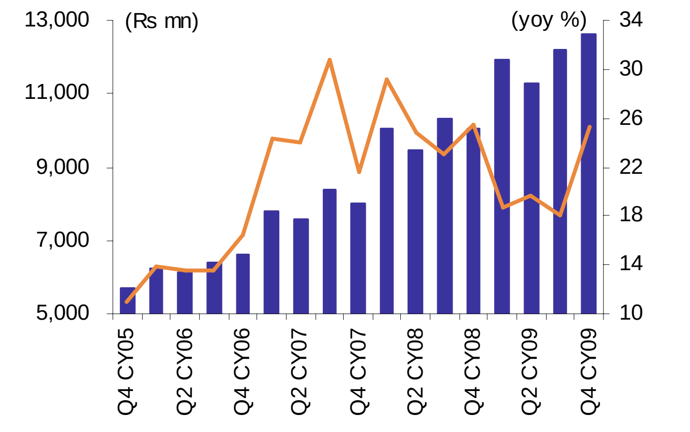
Source: Company, India Infoline Research

Strong 25% growth in domestic sales drives revenue

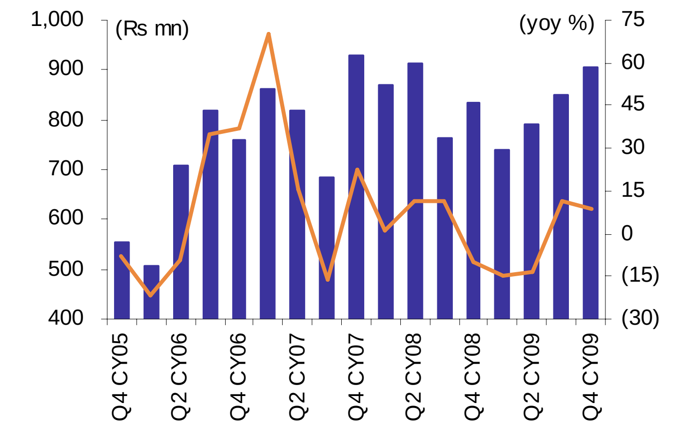
Nestle recorded 24% yoy revenue growth at Rs13.5bn during Q4 CY09 – above our expectations of Rs12.9bn. Domestic sales witnessed a strong 25.3% yoy growth (on a low base) driven by good volume growth coupled with better realisations. Nestle has registered a double-digit yoy growth in domestic sales for the 19th consecutive quarter. Nestle continues to use its brand innovation and renovation strategy for driving consumer demand. Over the past one year, Nestle has successfully introduced innovative products like Maggi Pazzta, Bhuna Masala, Soup in a Cup, Cuppa Noodles, Maggi Rasile Chow and Maggi Masala-ae-Magic.

Exports registered a modest 8.5% yoy growth (including the impact of rupee depreciation) largely on account of lower sales to Russia and Bangladesh. To overcome its over dependence on coffee exports to select geographies, Nestle entered new markets and expanded its export basket of products (Milk and Nutrition products and Prepared Dishes). With the company's entry into new markets and increasing exports of non-coffee products, we expect exports growth to be back on track going forward.

Trend in domestic sales



Trend in exports



Source: Company, India Infoline Research

Sharp rise in input and staff cost pulled down operating margins

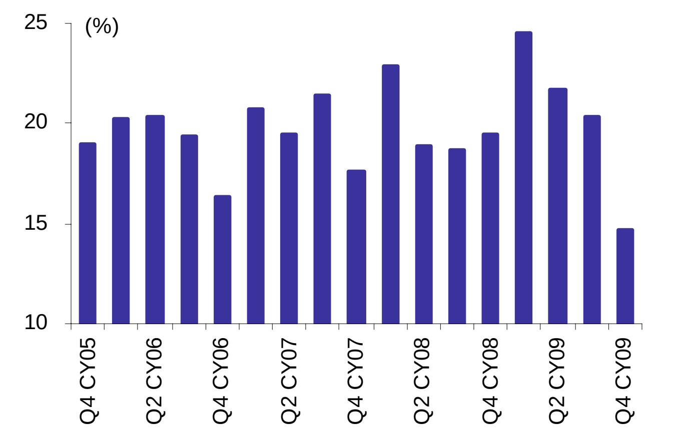
Operating margins for the quarter witnessed a 480bps decline at 14.7%, impacted by a sharp rise in raw material and staff cost. Staff cost for the quarter increased by ~250bps mainly due to one-off actuarial losses arising from revision of underlying assumptions for retirement benefits. The company also spent heavily on brand building and new product launches resulting in higher overhead cost. The key input prices like – milk solids and sugar touched record high levels, thereby resulting in higher raw material cost. We believe, Nestle with its strong pricing power and stringent cost-optimisation initiatives will be able to mitigate the higher raw material price impact and maintain operating margins going forward.

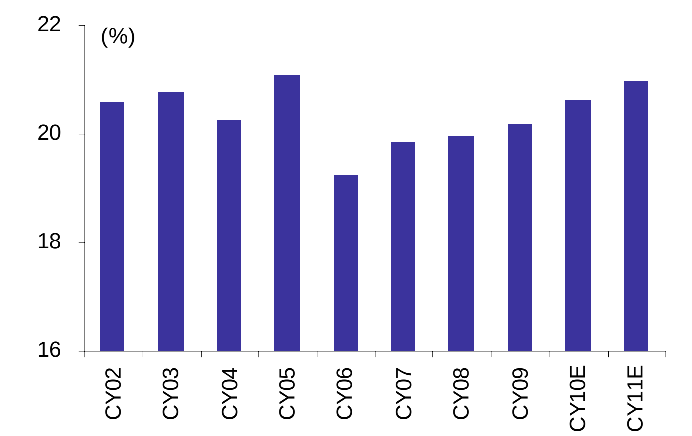
Cost analysis

As a % of net sales	Q4 CY09	Q4 CY08	bps yoy	Q3 CY09	bps qoq
Material cost	48.2	47.2	105	47.8	46
Personnel cost	10.2	7.7	251	7.5	270
Other overheads	26.9	25.7	126	24.4	248
Total costs	**85.3**	**80.5**	**482**	**79.7**	**563**

Source: Company, India Infoline Research

Trend in operating margins





Source: Company, India Infoline Research

Sharp rise in operating costs drags down net profit

Due to sharp rise in operating costs and lower other income, Nestle reported a 12.2% yoy decline in pre-tax profit at Rs1.7bn. Net profit (post provision for contingencies of Rs176mn) declined by 6.7% yoy to Rs1.1bn – below our expectations. The decline could have been even higher but for the lower effective tax rate (25.3% against 30.8% during Q4 CY08 – as a result of higher share of production from the Pantnagar facility).

Revenue estimates revised upwards

Given the healthy growth momentum in the domestic business and expected revival in growth in exports, we have revised our revenue estimates for CY10E and CY11E upwards by 2.6% and 3.3% respectively. However, due to firm input price scenario, we have tweaked our operating margin and net profit estimates for both the years.

Changes in estimates

(Rs mn)	CY10E			CY11E		
	New	Old	Change (%)	New	Old	Change (%)
Net sales	61,015	59,470	2.6	72,765	70,423	3.3
EBITDA	12,569	12,964	(3.0)	15,281	15,493	(1.4)
OPM (%)	20.6	21.8	(1.2)	21.0	22.0	(1.0)
PAT	8,245	8,517	(3.2)	10,149	10,337	(1.8)
EPS	85.5	88.3	(3.2)	105.3	107.2	(1.8)

Source: Company, India Infoline Research

Maintain BUY

We believe Nestle is one of the best plays on the healthy growth potential in the Indian food-processing sector. The increased focus at the bottom of the pyramid through launching SKUs at <Rs10 price points has helped Nestle in increasing customer base and product penetration, especially in the smaller towns and rural areas. The management has been making attempts to widen the export basket of products and we expect the exports growth to be back on track in the near future. The company may also look at launching products from its global portfolio. To meet the rising consumer demand, Nestle is expected to either set up new plants or increase the capacity at its Pantnagar plant for increasing its current production capacity by ~20-30%. With the increasing share of prepared dishes and cooking aids from the Pantnagar plant, excise and tax burden are expected to come down.

We expect Nestle to witness 19.1% CAGR in revenues and 24.5% in net profit over CY09-11. The strong pricing power and robust brand portfolio will help Nestle in maintaining operating margins despite firm raw material prices. The management is bullish on maintaining a strong revenue growth momentum in the domestic business. At the current market price of Rs2,642, the stock is trading at 25.1x CY11E EPS of Rs105.3. We maintain BUY with a price target of Rs2,915.

Financial summary

Y/e 31 Dec (Rs m)	CY08	CY09	CY10E	CY11E
Revenues	43,242	51,294	61,015	72,765
yoy growth (%)	23.4	18.6	19.0	19.3
Operating profit	8,637	10,345	12,569	15,281
OPM (%)	20.0	20.2	20.6	21.0
Pre-exceptional PAT	5,341	6,550	8,245	10,149
Reported PAT	5,341	6,550	8,245	10,149
yoy growth (%)	29.1	22.6	25.9	23.1
EPS (Rs)	55.4	67.9	85.5	105.3
P/E (x)	47.7	38.9	30.9	25.1
Price/Book (x)	53.8	42.0	32.7	25.7
EV/EBITDA (x)	29.3	24.4	20.0	16.4
Debt/Equity (x)	0.0	0.0	0.0	0.0
RoE (%)	119.8	121.4	119.1	114.6
RoCE (%)	167.5	164.7	161.7	156.9

Source: Company, India Infoline Research

MF Thermometer

Given below is the summary of performance of the mutual fund industry in India. The analysis has been based on different criteria like time period, size of corpus and scheme category. A snapshot of the report is shown below. The detailed excel sheet is mailed separately.

Mutual Funds Thermometer as on February 19, 2010

Key observations

- During the fortnight, volatility subsisted in equity market across the globe as a result of which NAVs of equity diversified funds also ended on a mixed note. The advance: decline ratio stood at 146:44. Only 45 equity diversified funds were able to outperform the benchmark S&P Nifty, which was up by 0.8% on a fortnightly basis. Mid-cap funds continued to maintain a foothold in the top quartile. Among the large corpuses, HDFC Mid-Cap Opportunities Fund (+1.6%), SBI Magnum Global '94 Fund (+1.5%) and Reliance Growth Fund (+1.4%) were the fortnightly gainers, with an average exposure of 53% of their total corpus to mid-cap companies. JM Basic Fund continues to be an underperformer. Its NAV declined by 1.7% on a fortnightly basis.
- After a gap of a fortnight, Informational Technology (IT) Funds made a comeback and positioned themselves in the top quartile under the sectoral category. The top three gainers belonged to IT category namely Franklin Infotech, Birla Sun Life New Millennium and ICICI Prudential Technology. Their NAVs appreciated by 3.1%, 2.4% and 2.1% respectively. JM Telecom was the dragger in the sectoral fund category. Its NAV declined the most by 4% due to heavy sell-off in Bharti Airtel, which constitutes 48% of the total corpus. Bharti fell following an acquisition announcement of the African operations of Kuwait-based Zain.
- During the fortnight, the benchmark 10-year bond yields hardened and held near 16-month highs over concerns of higher government borrowing for the next fiscal. Mirroring the yields performance, long-dated bond funds' NAVs ended in negative region. However, the short and medium term dated bond funds ended on a positive note. Among the large corpuses, SBI SHD-Short Term, Religare Credit Opp-Reg and UTI Short Term Income were the gainers among the income fund category. Under the gilt fund category, Templeton India G-Sec-Treasury, UTI G-Sec-Invest and UTI G-Sec-STP were the major gainers on a fortnightly basis.
- Among Fund of Funds category, funds investing in gold mining companies have significantly outperformed the category on a fortnightly basis. AIG World Gold and DSPBR World Gold were two major gainers in the category. They delivered returns of 9.7% and 8.9% respectively.
- On a fortnightly basis, all ETFs NAV ended in green. Banking ETF topped the chart by delivering an average return of 1.3%. Gold ETFs' NAV continued to remain soft on a fortnightly basis. It delivered an average return of 0.5%. Public Sector Undertaking (PSU)-oriented funds continued to underperform under the ETF category. Kotak PSU Bank ETF and PSU Bank BeES NAVs were up a tad by 0.1%.

Mutual Fund Thermometer as on February 19, 2010

	Fortnightly returns (%)			Monthly returns (%)			Yearly returns (%)		
	Average	Min	Max	Average	Min	Max	Average	Min	Max
Equity - Diversified Funds	0.4	(1.7)	2.4	(6.7)	(12.1)	(0.8)	94.1	(19.3)	160.7
Sector Funds	0.3	(3.9)	3.1	(6.7)	(13.6)	1.0	90.5	22.4	155.8
Index Funds	0.7	0.1	1.4	(7.2)	(7.9)	(5.2)	72.9	36.8	85.1
ELSS Funds	0.5	(1.2)	2.3	(7.0)	(22.2)	(2.0)	80.6	37.2	128.4
Arbitrage Funds	0.0	(0.1)	0.7	0.2	(3.1)	0.6	7.3	3.2	51.4
Balanced Funds	0.1	(1.6)	2.1	(3.6)	(8.1)	(0.4)	45.1	6.8	102.4
Income Funds	(0.0)	(0.5)	0.3	0.1	(1.4)	0.9	5.1	(2.2)	11.2
Money Market Funds	0.1	(0.0)	0.2	0.3	0.0	0.5	4.4	0.1	7.8
Gilt Funds	(0.2)	(0.9)	0.2	(0.2)	(1.2)	0.3	1.1	(4.3)	5.1
Exchange Traded Funds	0.7	0.1	1.3	(5.0)	(7.9)	(1.5)	65.0	5.7	145.0
Fund of Funds	1.1	(0.5)	9.7	(3.6)	(8.0)	0.8	40.8	(3.1)	85.8

Note: Closing NAV of February 18, 2010 used for analysis

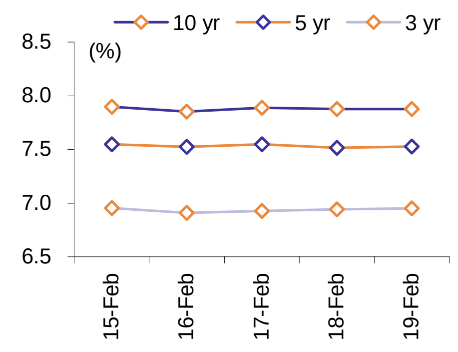
Debt Market - week ended February 19, 2010

- The 10-year G-Sec bond yield closed at 7.89%, after holding near 16-month highs. Yields hardened by 2bps on a weekly basis over concerns of higher government borrowing in the next fiscal. However, 5-year bonds yield softened by 10bps.
- Food inflation rose for the fourth consecutive week. It stood at 17.97% for the week ended Feb 6 on account of higher prices of pulses and potatoes. It rose by ~38% on a yearly basis.
- RBI reduced the ceiling rate on export credit in foreign currency by banks to LIBOR +200bps from LIBOR +350bps with immediate effect.
- India's holding of US Treasury securities at the end of Dec'09 stood at US$29.6bn vis-à-vis US$31.6bn at the end of Nov'09.
- State Governments announced the sale of 10-year SDLs for an aggregate amount of Rs.37.3bn as on Feb 23, 2010.
- US Fed Reserve increases the primary credit rate from 0.5% to 0.75%, effective from Feb 19, 2010.
- Russia's central bank cut its benchmark interest rate - repurchase rate to 7.5% from 7.75% and refinancing rate by 25bps to 8.5% with effective from February 24.

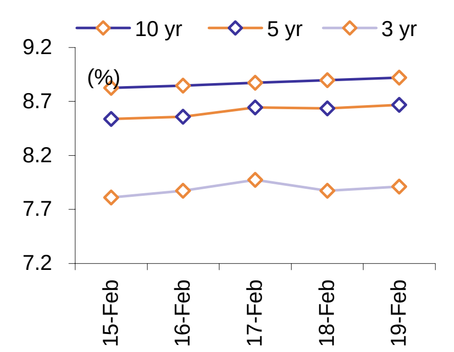
Government bonds		Change over (bps)			
G-Sec Yields	Current (%)	1 Week	1 Month	3 Months	1 Year
1 Year	4.82	3	20	29	6
2 Year	5.90	3	25	20	82
5 Year	7.34	(10)	36	29	143
10Year	7.89	2	35	66	185
15 Year	8.22	2	26	27	114
Corporate bonds		**Change over (bps)**			
AAA Yields	Current (%)	1 Week	1 Month	3 Months	1 Year
1 Year	6.90	(7)	(7)	41	(142)
2 Year	7.58	(21)	(1)	3	(77)
5 Year	8.65	17	30	57	(25)
10Year	8.88	11	21	28	(11)
15 Year	9.15	(59)	(20)	(59)	(122)
Short-term instruments					
Yields	Current (%)	1 Week	1 Month	3 Months	1 Year
Treasury Bills		Before			
T-Bills – 91 D	4.13	4.09	3.93	3.28	4.75
T-Bills – 182 D	4.55	-	4.2	4.72	
T-Bills – 364 D	-	4.88	-	4.45	-
Certificates of Deposit		**Change over (bps)**			
CD – 3 month	5.35	5	95	190	(15)
CD – 6 month	5.85	20	65	140	(5)
CD – 1 year	6.60	30	55	115	(35)
Commercial Papers		**Change over (bps)**			
CP – 3 month	6.00	125	125	200	(307)
CP – 6 month	6.50	85	85	125	(295)
CP – 1 year	7.28	53	53	120	(245)
Money market		**Change over (bps)**			
	Current (%)	1 Week	1 Month	3 Months	1 Year
Call rate	3.29	5	3	-	(90)
Repo rate	3.12	(57)	235	-	(86)
CBLO rate	3.09	(24)	226	7	15
Volume	Current	Before			
	(Rs bn)	1 Week	1 Month	3 Months	1 Year
G-Sec	431	346	692	775	358
Corp bonds#	77	81	65	70	74
Money Mkt*	5,341	4,198	4,679	4,715	3,678

*Note: * includes CBLO, Call and Rep # corporate bonds traded at BSE, NSE and FIMMDA*

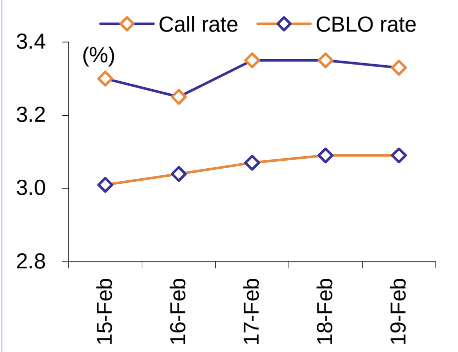
G-Sec yields



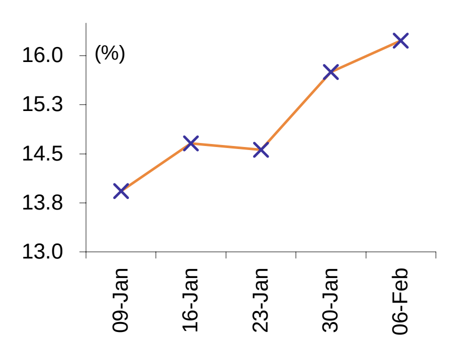
AAA bond yields



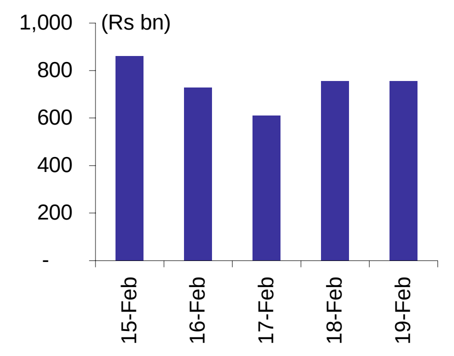
Money market yields



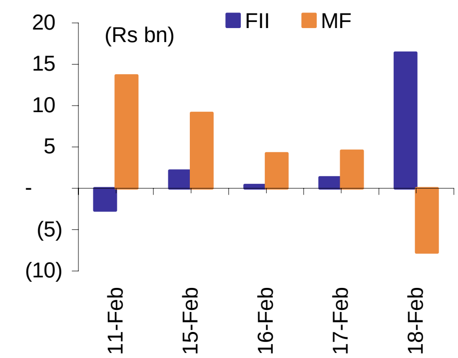
Primary articles inflation



G-Sec volume



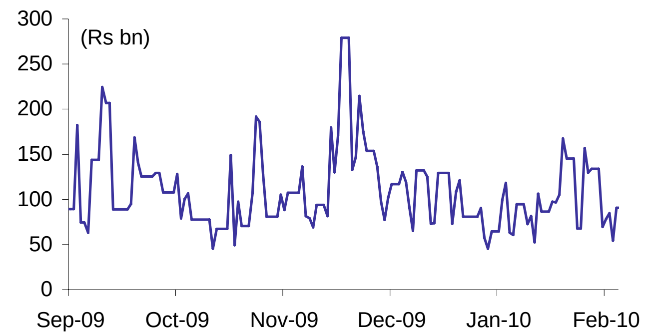
FII / MF trend



Source: CCIL, Bloomberg, India Infoline Research

G-Sec round-up

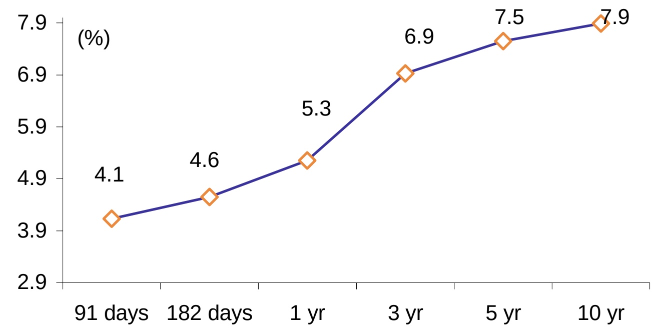
G-sec volume



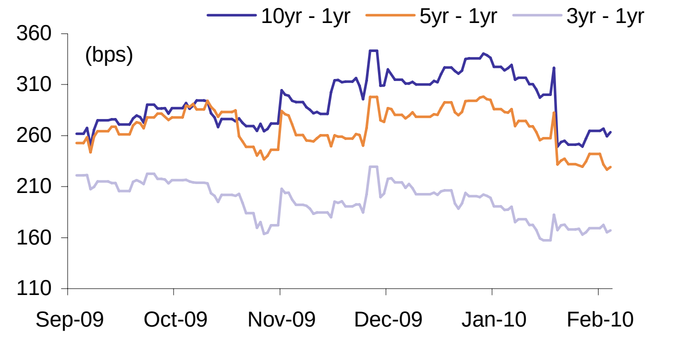
Top five traded G-Sec

G-Sec	Vol (Rs bn) Total	Vol (Rs bn) Avg	No of Trades Total	No of Trades Avg
6.35% G.S 2020	213	43	3,021	604
7.02% G.S 2016	66	13	820	164
8.24% G.S 2027	14	3	326	65
6.49% G.S 2015	12	2	150	30
6.90% G.S 2019	11	2	150	30

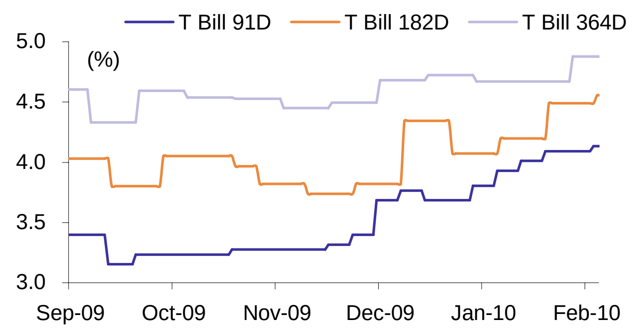
G-Sec yield curve



G-Sec yield spreads



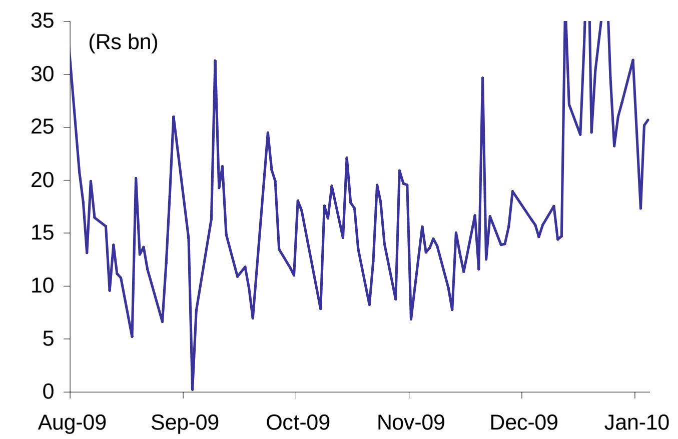
T-Bills yields



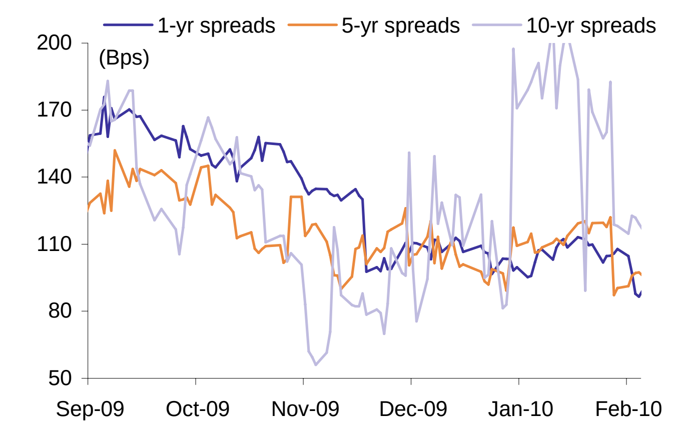
Source: India Infoline Research, RBI, Bloomberg

Corporate Bonds round-up

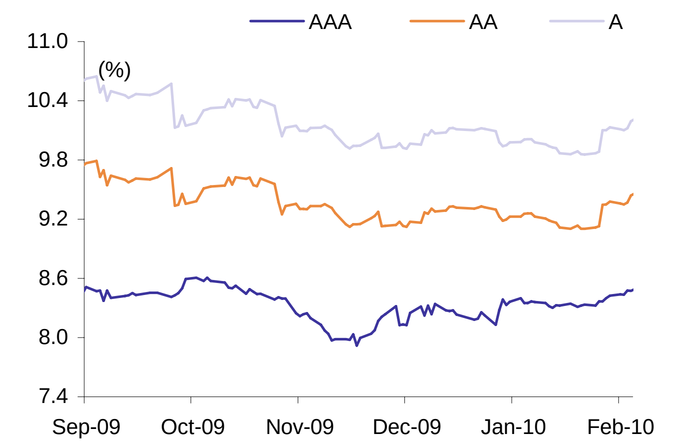
Corporate Bond volume



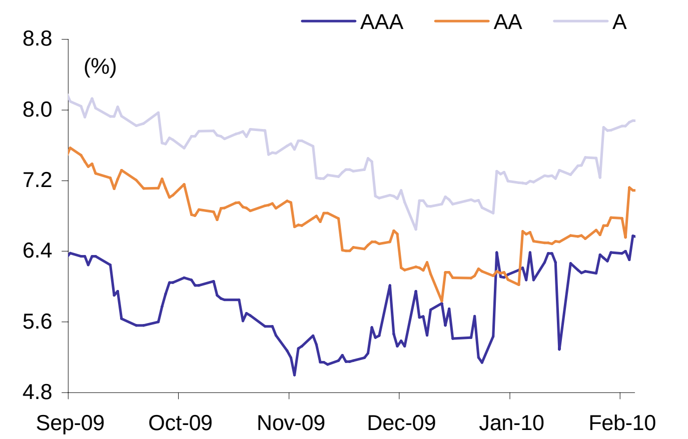
AAA bond spreads over G-Sec



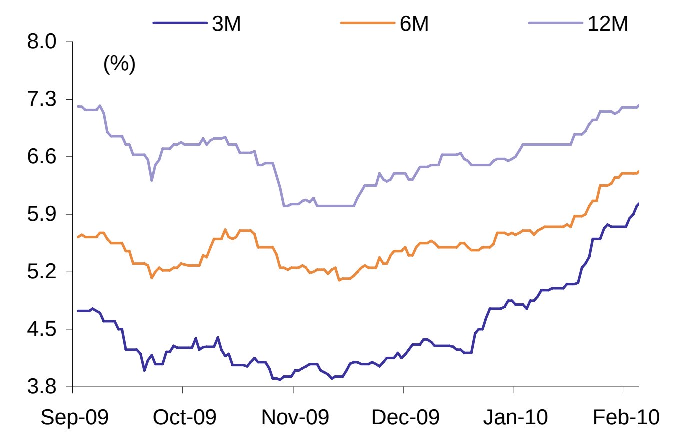
Corporate Bond – 5 yr



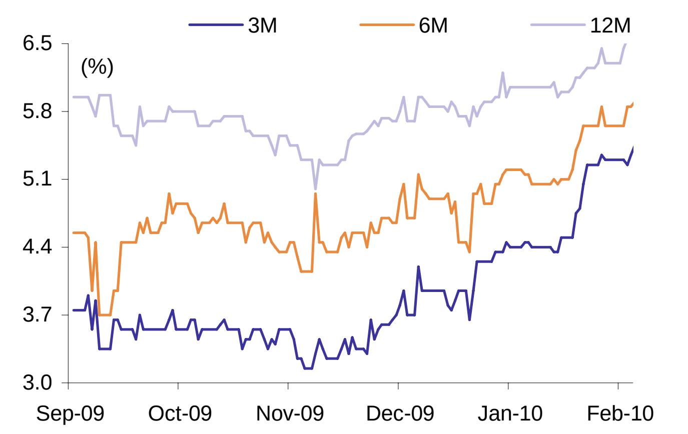
Corporate Bond – 1 yr



Commercial Papers



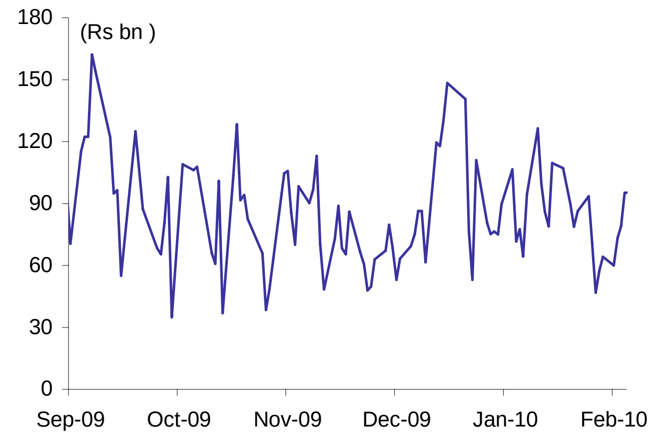
Certificate of Deposits



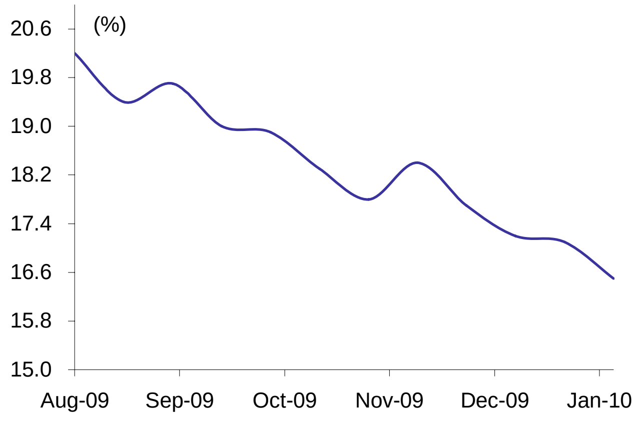
Source: India Infoline Research, Bloomberg

Money Market round-up

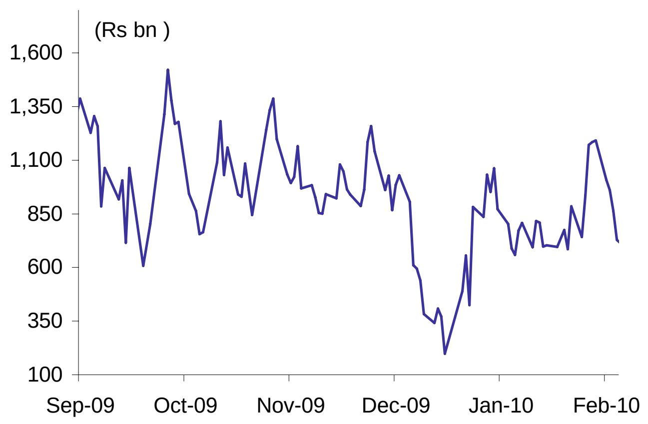
Call volume



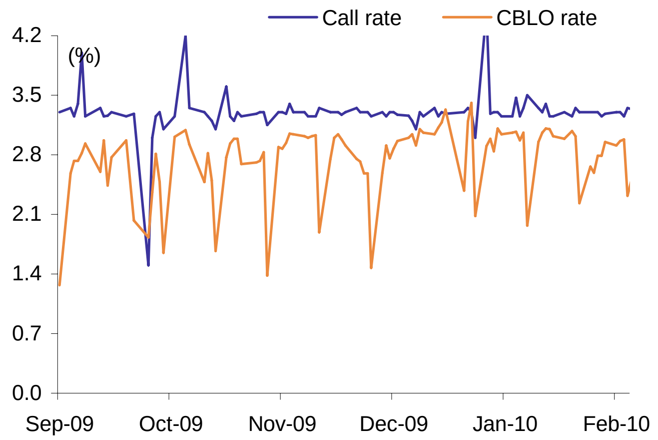
Money Supply (M3) growth



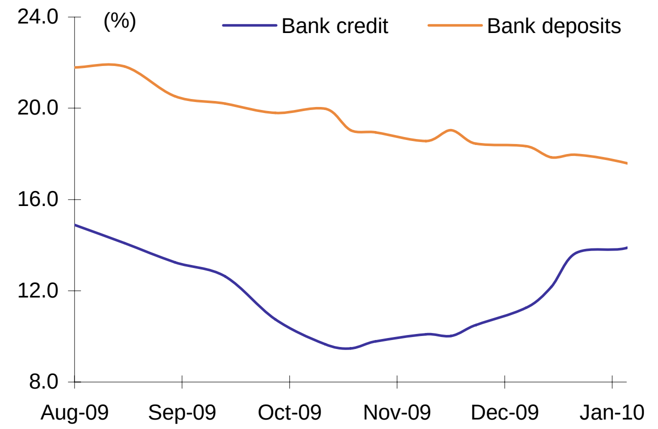
LAF outstanding



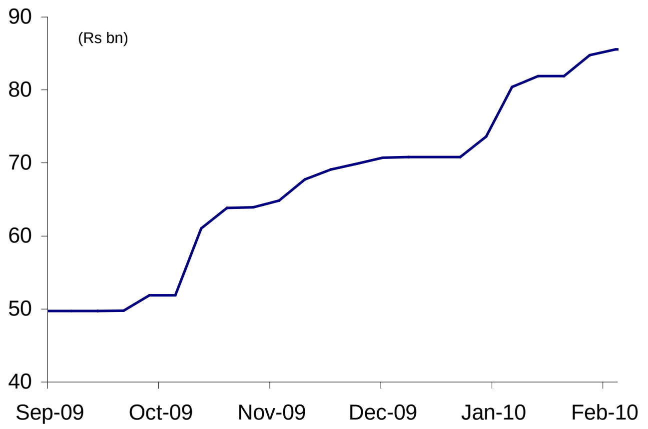
Call and CBLO rates



Credit and Deposits growth



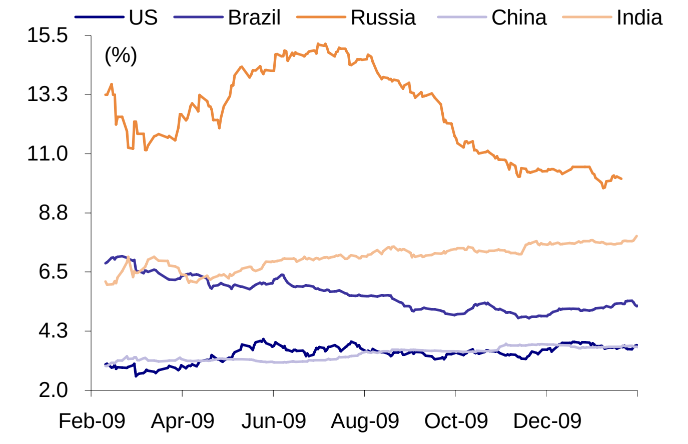
OMO outstanding



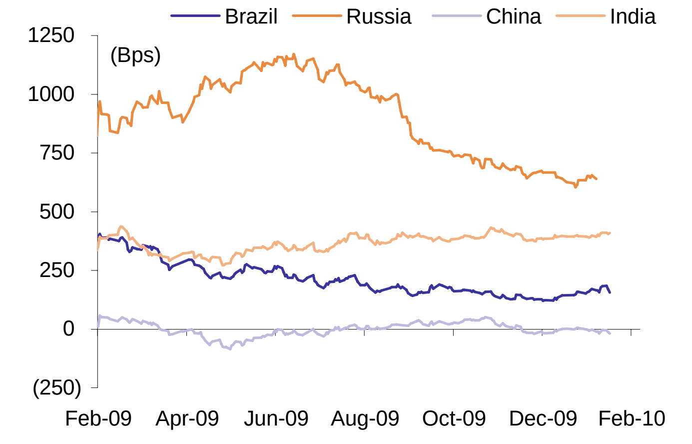
Source: India Infoline Research, Bloomberg

Global round-up

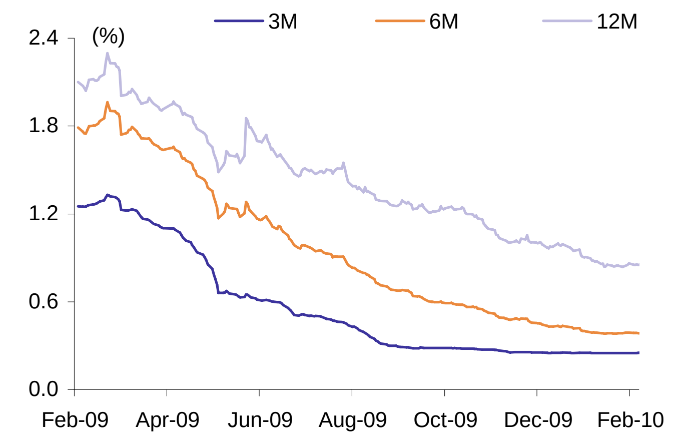
G-Sec 10 Year



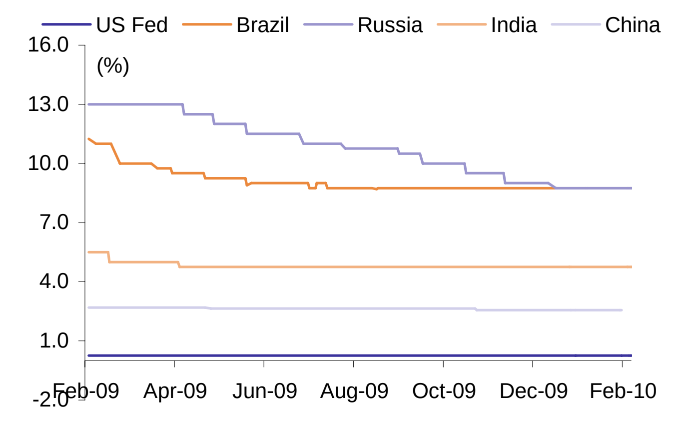
BRIC yield spreads over US



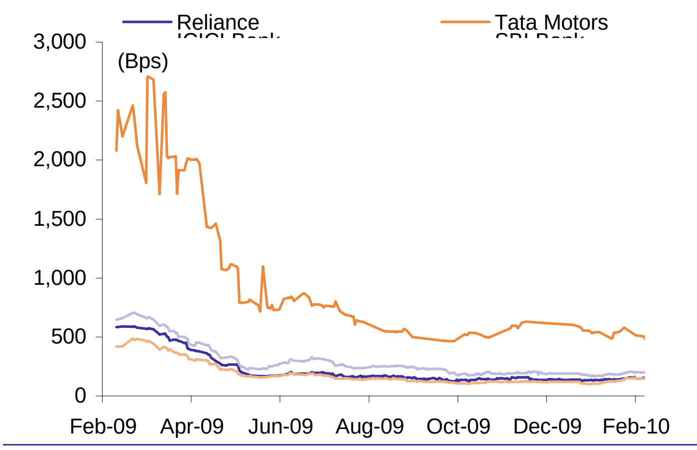
LIBOR



Bank rate



Credit Default Swap (CDS) – 5 Year

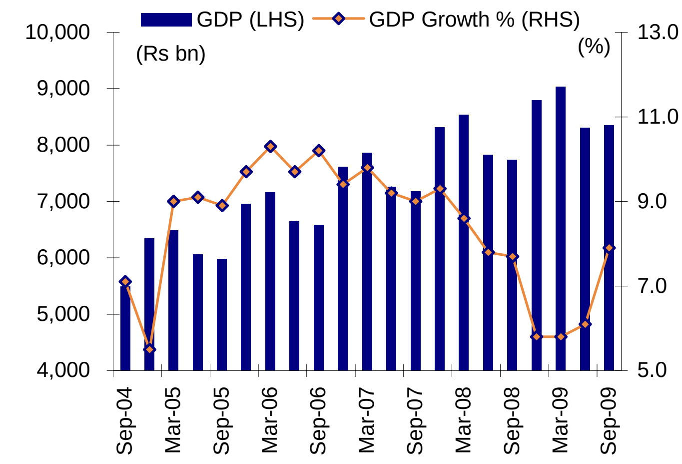


US Treasury Yield

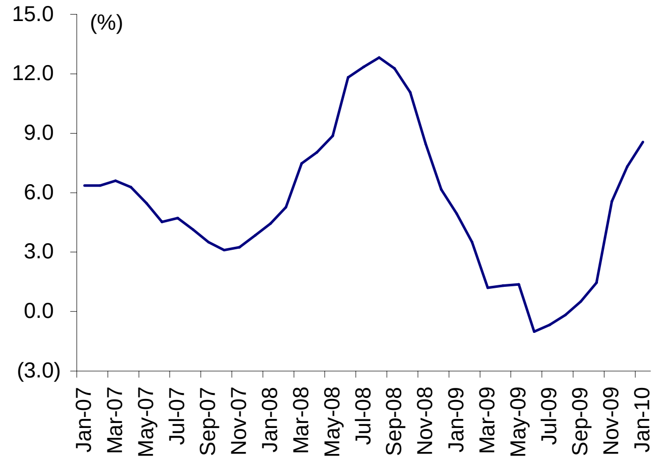
US Treasury Yield	Current (%)	Change over (Bps) 1 Week	1 Month	3 Months	1 Year
3-Months	0.11	1	5	9	(16)
1-Year	0.39	4	9	12	(25)
5-Year	2.48	13	11	28	67
10-Year	3.78	9	16	42	100
30-Year	4.71	5	21	41	115

Source: India Infoline Research, Bloomberg

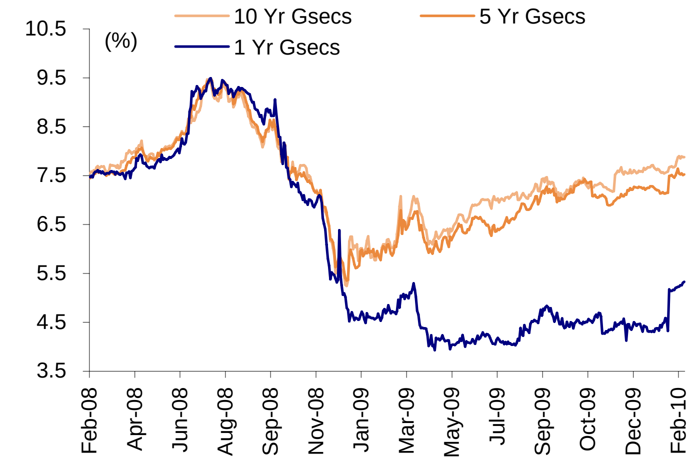
Quarterly GDP growth



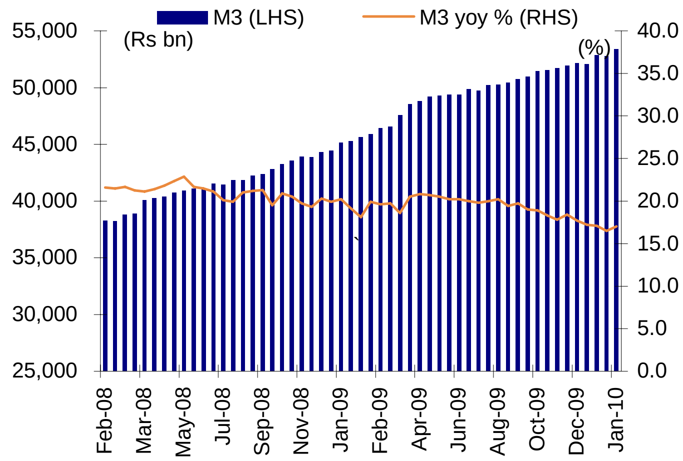
Inflation



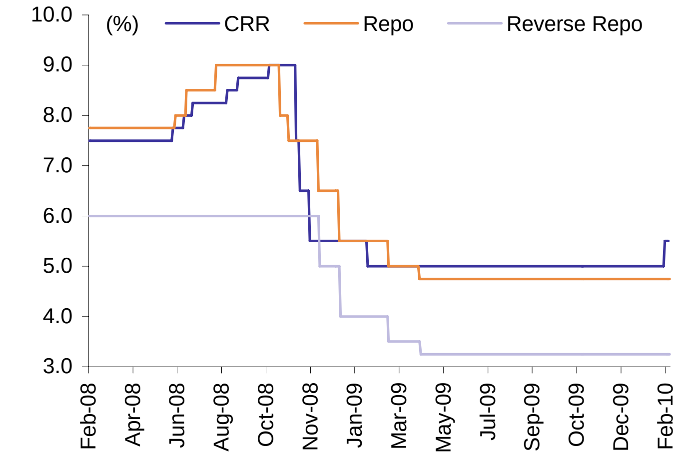
G-Secs yield



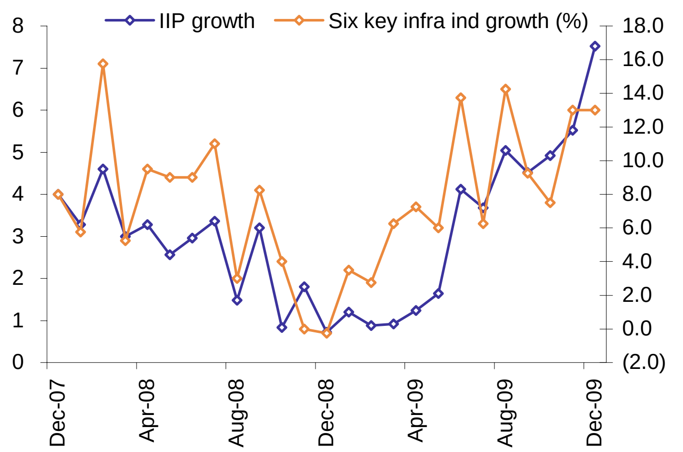
M3 growth



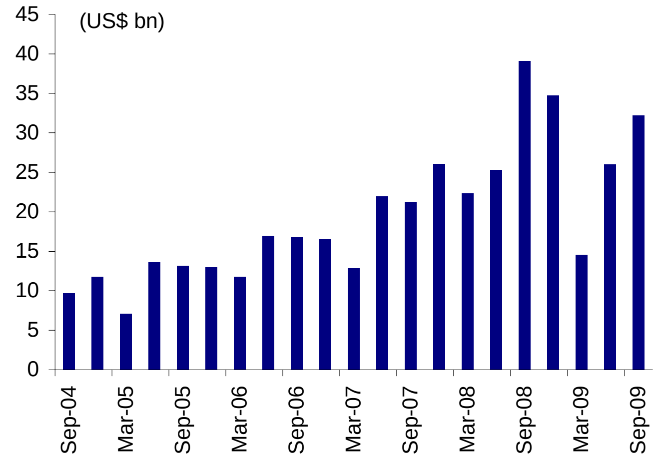
CRR, Repo



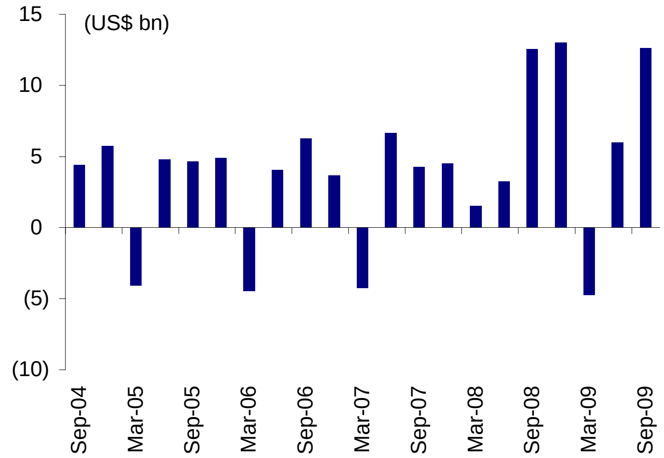
IIP and Six key infra industry growth



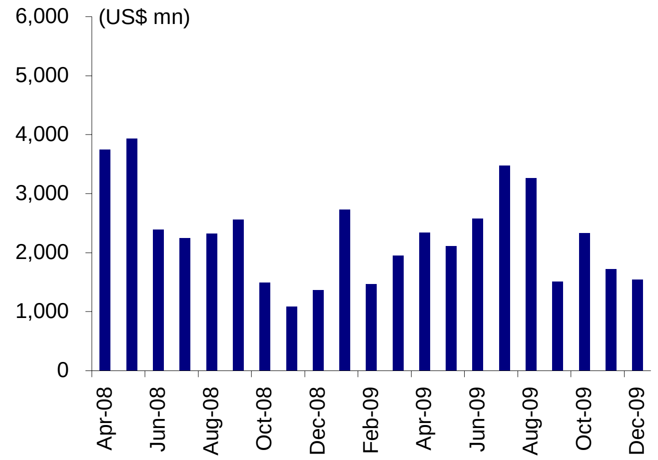
Trade deficit



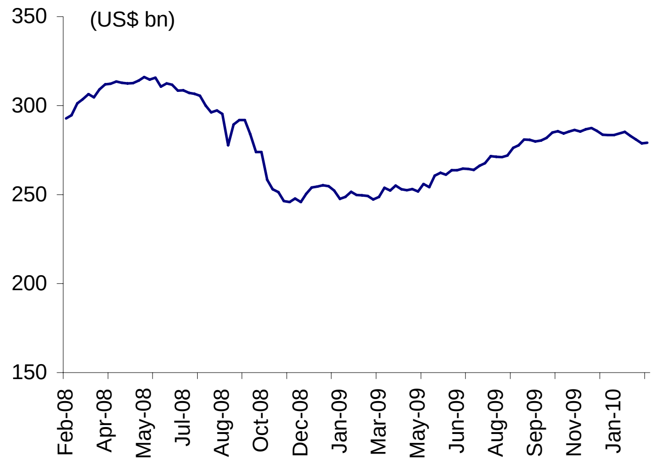
Current account deficit



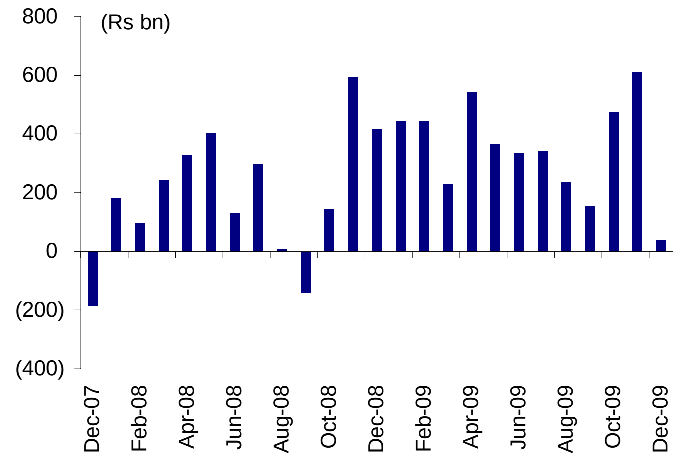
FDI



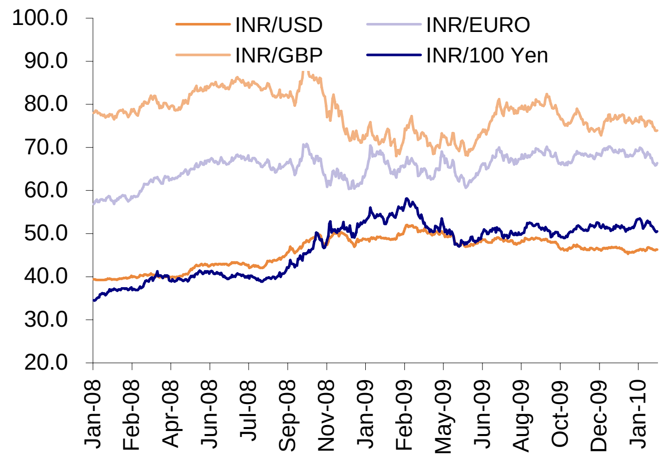
RBI forex reserves



Fiscal deficit



Currency movement



Monday	Tuesday	Wednesday	Thursday	Friday	Saturday
February 01	February 02	February 03	February 04	February 05	February 06
- India Exports YoY% 9.3% vs 18.2% - India Imports Yoy% 27.2% vs -2.6% - US ISM Manufac 58.4 vs 55.9	- US pending home sales mom 1% VS -16%	- US Consumer confidence 49 VS -48 - Total vehicle sales 10.8mn vs 11.2mn	- US nonfarm productivity 6.2% vs 8.1% - Initial jobless claims 480k vs 470k - Factory orders 1% vs 1.1% - ACC (CY09), Ambuja Cem	- US change in nonfarm payrolls -20k vs -85k - Unemployment rate 9.7% vs 10%	- US consumer credit -$1.7bn vs -$17.5bn
February 08	February 09	February 10	February 11	February 12	February 13
	- US Wholesale inventories -0.8% vs 1.5%	- US Consumer confidence -48 vs -49 - Trade balance -$40.2bn vs -$36.4bn	- US advance retail sales 0.5% vs -0.3% - Business inventories -0.2% 0.4% - Patni Computers	- India IIP YoY 16.8% vs 11.7% - Areva T&D	
February 15	February 16	February 17	February 18	February 19	February 20
- Monthly wholesale prices YoY% 8.56% vs 7.31% - Glaxo Pharma	- US empire manufacturing 24.91 vs 15.92 - Tata Steel (consol)	- US housing starts 591k vs 557k - Building permits 621k vs 653k - US IIP 0.9% vs 0.6% - Hexaware (CY09)	- US PPI EX Food & Energy mom 0.3% vs 0.0 - Leading indicators 0.3% vs 1.1% - Castrol	- Nestle (CY09)	
February 22	February 23	February 24	February 25	February 26	February 27
	- US consumer confidence	- Railway Budget - US new home sales	- US durable goods - Ranbaxy (CY09), Tata Power (consol)	- Union Budget 2010-2011 - India Qtrly GDP yoy% - US GDP qoq - Existing home sale - ABB (CY09), Tata Motors (consol)	

Orange: AGM/dividend (D), Black: Results, Blue: Economic data, Budget dates likely and yet to be confirmed

Recommendation parameters for fundamental reports:

Buy – Absolute return of over +10%

Market Performer – Absolute return between -10% to +10%

Sell – Absolute return below -10%

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