Angel Securities
Institutional Investment Services

April 1, 2010
4QFY2010 Results Preview

Passing the Baton

Research Team

Table of Contents

Note: Stock Prices as on April 1, 2010.

Strategy

Passing the Baton

We believe that the dynamic market forces currently underway will increasingly lead to the engines of growth shifting from government-driven consumption to risk-capital driven private consumption and investments going ahead. Moreover, concerns regarding our fiscal and current account deficits as well as on inflation are overdone in our view, with several positive developments in the past few months. Software exports are picking up, the government has shown firm commitment to fiscal consolidation, there is increasing availability of domestic and foreign capital and demand-driven inflation is estimated at just 3.6%. We expect GDP growth to continue improving right through FY2011E and FY2012E, clocking an estimated 8.5-9% growth over the period, driving a healthy 21% CAGR in Sensex Earnings over FY2010-12E.

Given these macro developments, we have overweight stance on infrastructure and banking. We are also positive on several Mid-caps (bottom-up ideas) in sectors such as Pharma, Auto Ancilliaries and IT. Overall, with 8%+ GDP growth now looking increasingly achievable over the next two years on account of the resulting strong Earnings growth expected over FY2011-12E, we expect the Sensex to touch 21,000 levels (an upside of 19%) by March 2011.

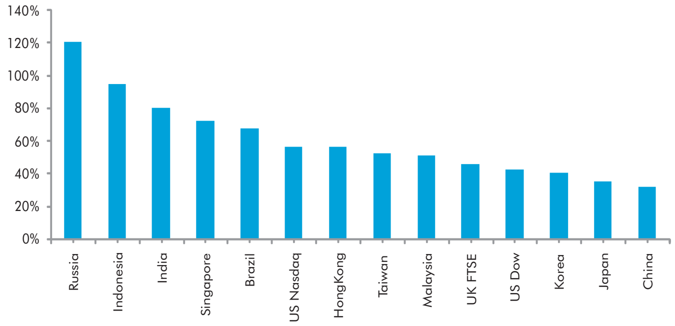
GDP growth engine shifting from the Government back to the Private sector

Right through the global crisis, we held our conviction in India's potential to grow at a rapid run-rate with the powerful combination of demographics and globalisation working in our favour. However, a year back, when the markets were in bad shape, with the Sensex at 9709 levels and the global economy in the throes of the financial crisis, when we reiterated a Strong Buy on the Indian markets, it was not just betting on these strengths, but also on the powerful navigating ability of our democratic and free market economy.

Since then, fiscal and monetary policies have played a key role in effecting a consumption-led revival in our GDP growth rate from lows of 5.1% in FY2009 to an estimated 6.8% already in FY2010. At the same time, the global stabilisation policies have led to a strong return of risk capital to emerging markets like India (a staggering US $40bn of FDI and FII inflows received from March to December 2009 alone).

The markets have been duly receptive and by the end of 4QFY2010 the Sensex became the third best performing index amongst major global indices, registering annual returns of 80.5%, behind only Russia and Indonesia and much better than the 67.8% logged by Brazil and 31.6% by China.

Exhibit 1: Sensex v/s Peers - yoy Returns



Source: BSE, Angel Research. Note: as at the end of 4QFY2010

We believe that the dynamic market forces currently underway will increasingly result in the engines of growth shifting from government-driven consumption to risk-capital driven private consumption and investments going ahead. Industrial production is already showing meaningful acceleration (16.7% by January 2010 itself), capacity ultilisations are approaching pre-crisis levels in the domestic demand-driven sectors (steel at about 96% utilization, cement at 87% to name a few) and profits are getting restored in some of the worst hit sectors (from 5.3% RoE in FY2009 to 27.6% in FY2010E in Auto, 12.1% to 21.5% in Pharma, 8.9% to 16% in Media, 18% to 21% in Infra).

Driven by the improvement in Private sector consumption and investment demand supported by an increase in the availability of capital, we expect GDP growth to continue improving right through FY2011E and FY2012E, clocking an estimated 8.5-9% real growth over the period. Correspondingly, Earnings expectations from Corporate India for FY2011E are increasing, coming off a low base in FY2010E. Overall, we expect the Benchmark Sensex companies to register 21% CAGR in Earnings over the next two years.

Lets look at how the numbers are stacking up.

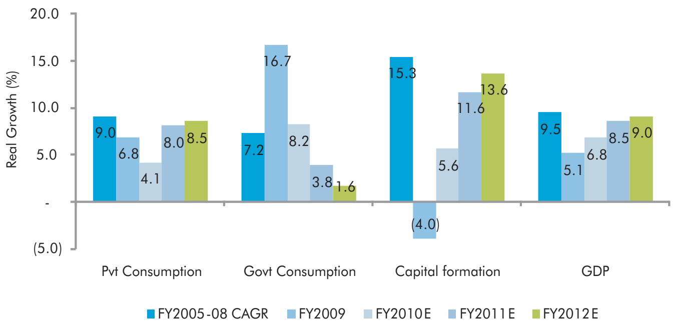
Impressive revival on domestic front

Looking back at the crisis, post clocking an impressive 9.5% CAGR during FY2005-08, the GDP growth rate dipped to 5.1% in FY2009. Since then however, fiscal and monetary policies have played an important role in effecting a consumption-led revival in our GDP growth rate. The government stepped in by aggressively increasing the Central Budget expenditure (from 15% to 17% of GDP) as well as providing tax breaks that resulted in 3% increase in the central deficit alone, taking the overall deficit to 8.5% in FY2009, followed by an even higher 10.5% for FY2010E.

Strategy

As a result, in spite of the fall in Private consumption growth from the 9% average over FY2005-08 to 6.8% in FY2009 and an even sharper reversal in the capital formation trend from 15.3% CAGR to a 4% de-growth over the mentioned period, a 16.7% increase in government expenditure provided the much needed stimulus to the economy and played a key role in restoring consumption demand and business and consumer confidence.

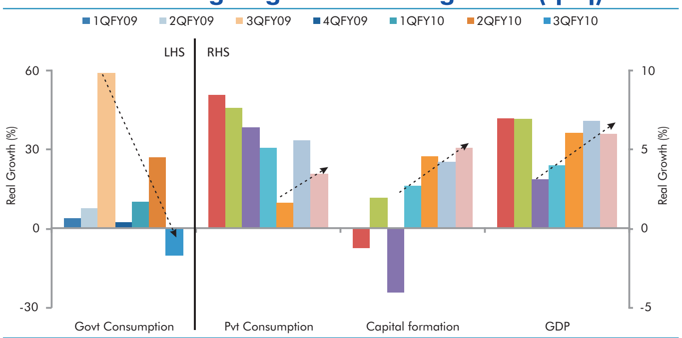
Exhibit 2: Shifting engines of GDP growth (yoy)



Source: CSO, Angel Research

Looking at the quarterly trends, the shifting engines of growth are becoming more evident. Private consumption growth decelerated for four consecutive quarters from a high of 8.4% in 1QFY2009 to 6.4% by 3QFY2009 following the Lehman crisis and was down to a mere 1.7% by 1QFY2010. Morever, there was a sharp plunge in capital formation exacerbated by inventory de-stocking, as external demand took a significant hit, liquidity dried up, risk aversion sky-rocketed and confidence levels plummeted. Capital formation was negative for two out of the five quarters from 1QFY2009 to 1QFY2010, till unprecedented measures taken by major central banks brought back financial stability and confidence started improving.

Exhibit 3: Shifting engines of GDP growth (qoq)



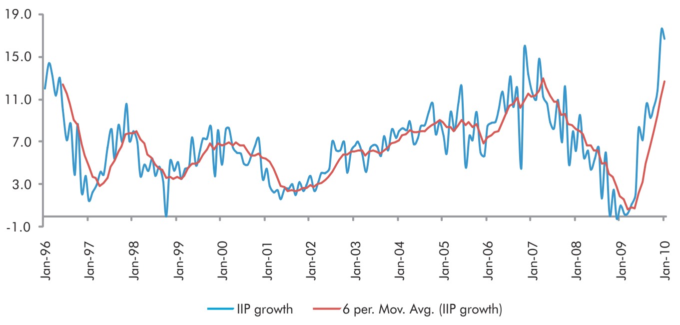
Source: CSO, Angel Research

During this period, the government increased its expenditure dramatically, with bouts of very high stimulus-related increases (a highly responsive 59% jump in 3QFY2009 following the Lehman crisis, 10.2% increase in 1QFY2010 and again 26.9% increase in 2QFY2010). At the same time, huge amount of liquidity was pumped in through monetary softening, which saw almost Rs1.65lakh crore of surplus liquidity at the peak, which helped bring down interes rates by a substantial 300-400bp.

Stratospheric recovery in IIP growth

That the stimulus measures have delivered on their objectives of reviving Private sector demand and bringing the GDP growth trajectory back to pre-crisis levels can be gauged from the latest available growth numbers. Capital formation growth picked up to 5.1% in 3QFY2010, while IIP growth recovered to stratospheric levels of 16.7% in January 2010.

Exhibit 4: IIP growth on recovery path



Source: CSO, Angel Research

Looking at individual sectors, domestic consumption driven sectors continue to show a marked acceleration:

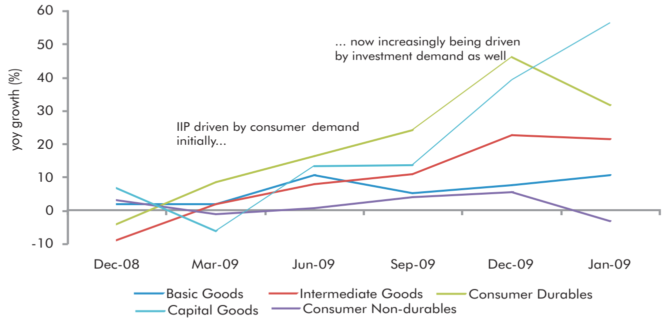
- Passenger and commercial vehicle sales are up 28% YTD
- Cement despatches are up 8.3% yoy
- Steel consumption is up 8.5% yoy
- Order Book growth for infra companies is 25%+ yoy

Even looking at 2-year rolling CAGRs to eliminate the base effect caused by the crisis, revival in industrial production has been impressive. The overall IIP index was up by an annualised 8.6% in January 2010 from January 2008 levels, indicating that the domestic industry has more or less made up for the blip caused by the crisis.

- This growth has been driven by a consistent uptick in the Consumer Durable Segment, up 15.9% on a similar annualised basis (31.6% yoy from January 2009 levels).
- In manufactured goods, basic goods were up 5%, while intermediate goods grew 6% on an annualised basis (10.7% and 21.3% yoy, respectively)
- The Capital Goods Segment registered the highest increase, up 34.6% on an annualised basis (56.2% yoy) and has been showing a consistent upward trend since September 2009

Strategy

Exhibit 5: IIP growth led by Cap Goods and Durables



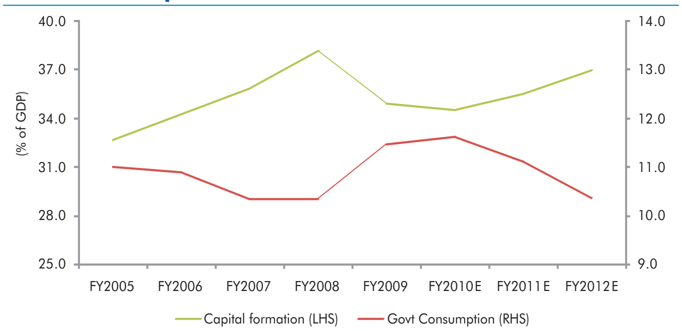
Source: CSO, Angel Research

Strong business prospects for Infrastructure, Capital Goods, Commodities and Banking

We believe that the dynamic market forces currently underway will increasingly lead to the engines of growth shifting from the government-driven consumption to risk-capital driven private consumption and investments. Moreover, with industrial production showing meaningful acceleration (16.7% by January 2010), capacity ultilisations are begining to approach pre-crisis levels in the domestic demand-driven sectors (steel is at about 96% utilisation, cement at 87%, to name a few) and profits are getting restored in some of the worst hit sectors (from 5.3% RoE in FY2009 to 27.6% in FY2010E in Auto, 12.1% to 21.5% in Pharma, 8.9% to 16% in Media, 18% to 21% in Infra).

Corresponding to this improvement in private demand, post the surge in government expenditure in 3QFY2009, in 3QFY2010 there has been a 10.3% reduction. We believe this marks the beginning of a trend of decelerating government expenditure, which is expected to continue over the coming quarters, even as private expenditure continues to ramp up. Driven by the improvement in Private sector consumption and investment demand supported by an increase in the availability of capital, we expect real GDP growth to continue improving right through FY2011E and FY2012E and clock an estimated 8.5-9% growth rate over the period.

Exhibit 6: Capital formation to increase

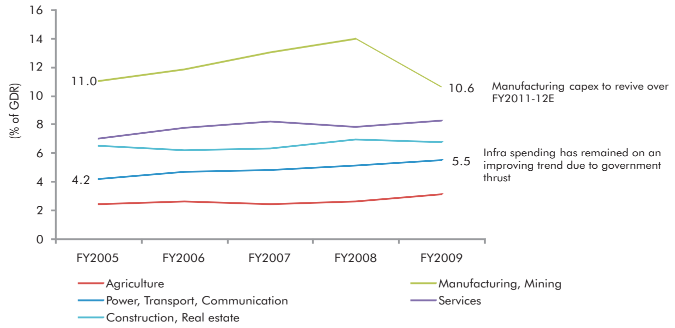


Source: CSO, Angel Research

Infrastructure a key beneficiary

Looking at specific sectors that are likely to benefit from the ongoing domestic demand acceleration, infrastructure capex requirements is already high, which is reflected in the substantial 25%+ yoy growth in the Order Books of the major infrastructure companies. Going forward, actual execution is also expected to accelerate to 17%+ yoy, aided by increasing availability of risk capital, lower commodity prices than pre-crisis period, evident political will and strong pipeline reflected in improving Order Book-to-Sales ratio. Thus, Infrastructure spending is expected to increase from 5.5% of GDP in FY2009 to 9% of GDP by FY2012E.

Exhibit 7: Infra spending strong, Manufacturing to rise



Source: CSO, Angel Research

Growth in Capital Goods to accelerate; Volume growth in commodities to remain healthy

Moreover, we also expect visibility of investment demand, especially from the Manufacturing Sector to increase substantially in FY2011E. Our expectations of increasing manufacturing and capex growth is supported by a bottom-up analysis of all-industry data. All-industry Sales grew at 22% CAGR during FY2003-09 on the back of steady uptick in capital expenditure in turn increasing the Gross Block and Plant & Machinery (P&M). The average P&M turnover was around 2.5x during the mentioned period with a peak rate of around 2.9x in FY2009.

To achieve the estimated Sales growth of 22-24% over FY2010-12E, we expect industry to add P&M worth Rs2,64,000cr in FY2012E compared to the P&M addition of around Rs1,60,000cr in FY2009, implying 18% CAGR over the period. Consequently, an account of the substantial ongoing and anticipated increase in industrial activity, we have a positive outlook on the Capital Goods and Commodities Sectors over the next two years.

Strategy

Exhibit 8: Capex Estimation (Rs cr)

Particulars	2013E	2012E	2011E	2010E	2009	2008	2007	2006	2005	2004	2003
Gross Block	3,301,234	2,721,234	2,281,234	1,911,234	1,565,922	1,269,462	992,474	834,503	706,515	595,294	555,235
Plant and Machinery	1,980,740	1,632,740	1,368,740	1,146,740	937,265	777,194	633,965	546,789	464,244	423,509	393,196
Capital Work in Progress		580,000	440,000	370,000	345,312	235,380	148,600	95,058	71,200	74,772	63,911
Net Sales	5,715,628	4,609,377	3,717,240	3,046,918	2,720,462	2,208,030	1,713,108	1,329,333	1,103,187	898,690	807,378
Sales Growth (%)	24	24	22	12	23	29	29	20	23	11	16
Gross block turnover	1.7	1.7	1.6	1.6	1.7	1.7	1.7	1.6	1.6	1.5	1.5
P&M Turnover	2.9	2.8	2.7	2.7	2.9	2.8	2.7	2.4	2.4	2.1	2.1
Incremental Plant and Machinery		264,000			160,071						
Growth 2009-12 (%)		65									

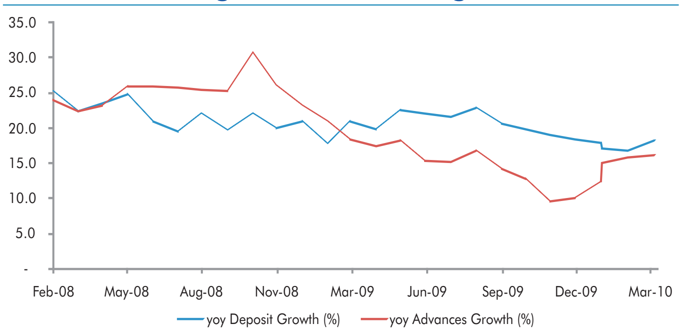
Source: ACE Equity, Angel Research

Strong demand for Credit

In line with the improving GDP and IIP performance, demand for credit from the Private sector is also on an evident upward trajectory (yoy growth rate has already increased to 16%) and is likely to further accelerate to 20%+ levels in FY2011E, especially as the demand for capex increases.

Driven by this recovery in domestic demand, we expect the Banking Sector to also be an outperformer, with Core Earnings growth expected to increase as Credit growth and Fee Income picks up, while NPA losses trend downwards. Given the pace of recovery in Private sector credit demand, liquidity has declined and the lending and deposit rates are likely to start inching up going forward. For the Banking Sector as a whole, in our view, rising interest rates, consistent with the imminent revival in GDP growth, are not a negative and would be outweighed by an acceleration in Core Earnings growth (that said, large banks with a strong CASA ratio and lower duration investment books will be relatively better placed in a rising interest rate environment).

Exhibit 9: Credit growth accelerating



Source: RBI, Angel Research

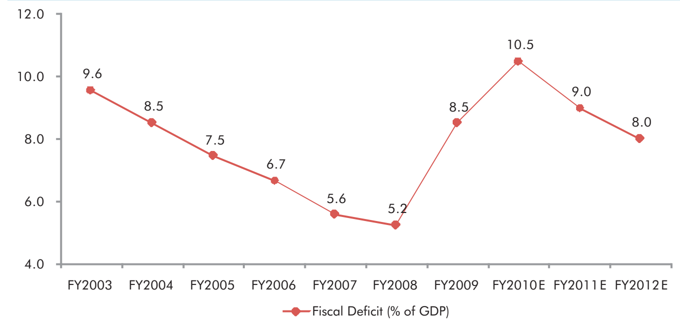
Twin deficits are high and so is inflation, but there are increasing positive trends

Realistic expectations of declining fiscal deficit

One of the biggest positives of the Union Budget 2010-11 was the firm acknowledgement by the government that the fiscal expansion of the past two years had achieved the desired objective and that going forward, the government was committed to fiscal consolidation as a key policy priority. The Centre's Fiscal deficit has been targeted to be reduced from 7% in FY2010 to about 5.6% in FY2011 and to as low as 4.1% by FY2013.

The targeted decline in Fiscal deficit appears realistic, as it is predicted on tax buoyancy from rising corporate profits (Rs45,000cr increase), 3G auctions and other license revenue (Rs50,000cr) and divestments (Rs40,000cr). Moreover, unlike in FY2009 and FY2010, when apart from stimulus measures, one-time items such as Pay Commission wage hikes had led to a 30% and 14% increase in expenditure respectively, in FY2011, the government has budgeted for a restrained (and realistic) 9.8% increase in expenditure. Accordingly, we expect the combined fiscal deficit (Centre and States) to decline from 10.5% of GDP in FY2010E to 9% in FY2011E and 8% in FY2012E.

Exhibit 10: Fiscal Deficit high, but declining



Source: RBI, Angel Research (Excl. off-Budget items)

Strategy

Interest rates to rise and stay well below peak levels

At present, a combination of low deposit rates, insignificant forex reserve accretion due to a burgeoning current account deficit and commencement of monetary tightening measures have precipitated a slowdown in money supply (M3) and deposit growth (down from around 22% in July 2009 to 17.9% in March 2010). Given the pace of recovery in the Private sector credit demand, liquidity has declined and lending and deposit rates are likely to start inching up going forward. In fact, anticipating the resulting tightening of liquidity, several banks have already hiked the deposit rates by around 50bp during the quarter, taking the peak FD rates to 7.0-7.75% for most banks, and several have withdrawn the special rate loan schemes too.

Exhibit 11: Lending rates still low

Source: Bloomberg, Angel Research

Exhibit 12: Retail FD Rates well below peak

Bank	4QFY10	3QFY10	Increase in 4QFY10	3QFY09	yoy Decline by 3QFY10
BOI	7.00	6.50	0.50	9.75	(3.25)
PNB	7.00	7.00	-	9.50	(2.50)
UNBK	7.25	6.75	0.50	9.50	(2.75)
OBC	7.00	7.00	-	10.50	(3.50)
CRPBK	7.00	7.00	-	10.00	(3.00)
IOB	7.25	6.75	0.50	10.00	(3.25)
INDBK	7.00	6.75	0.25	9.75	(3.00)
ICICIBK	7.75	7.50	0.25	10.50	(3.00)
HDFCBK	7.50	7.00	0.50	9.50	(2.50)
AXSB	7.00	7.10	(0.10)	9.75	(2.65)
YESBK	7.50	7.00	0.50	10.75	(3.75)

Source: Company, Angel Research

In hindsight, looking at the accelerating requirement of funds from the Private sector, some of the committed increase in Government expenditure during the past two years may now appear in excess of the levels required to keep interest rates and demand-led inflation in check. However, as discussed earlier, policy measures played a key role in the impressive economic revival and it would be unrealistic to expect a perfectly timed and graduated exit from fiscal expansion to corresponding changes in private sector demand.

That said, interest rates are almost 300-400bp below their peak levels. In FY2011E, even though interest rates may increase at a slightly faster pace, with fiscal consolidation expected to continue over the next two years, further increase in interest rates is expected to be more gradual.

Rising Domestic Savings and Foreign Risk Capital

Moreover, going forward, the availability of domestic capital is also set to rise on the back of an increase in the Gross Savings rates. The Savings rate had dipped in FY2009 by almost 400bp to 32.5% of GDP and remained moderate in FY2010, mainly on account of lower corporate profitability and increase in government deficit spending. This is however set to change in FY2011E, as the decline in fiscal deficit increases the availability of savings for the Private sector, even as Corporate India's own savings bounceback following robust improvement in RoEs. In line with this overall improvement in the Savings rate, we expect financial savings to also increase from an estimated 20% of GDP in FY2009 to 23% by FY2012E, in turn substantially increasing the availability of funds for the Private sector and keeping interest rates in check.

Exhibit 13: Financial savings to increase

(Rs '000 cr)	FY07	FY08	FY09E	FY10E	FY11E	FY12E
Currency	71	86	98	133	120	138
Bank Deposits	503	580	638	651	851	1,013
Equity & MF	144	241	(7)	112	115	174
Life Insurance	156	200	223	250	282	321
NSS, PPF, etc.	109	16	106	108	113	110
Financial Savings	**982**	**1,123**	**1,058**	**1,255**	**1,482**	**1,756**
(% of GDP)	23.8	23.8	19.9	21.1	21.9	22.8

Source: RBI, IRDA, AMFI, Angel Research. Note: Only 35% of Income MF inflows taken in FY2010E on an estimated basis to avoid double-counting Bank deposits reinvested in MFs during the year.

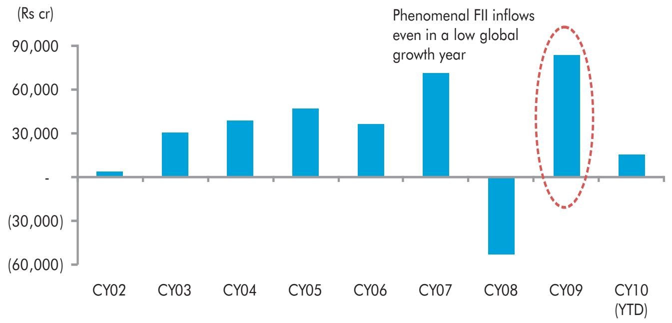
So far, net forex inflows have remained subdued even though capital inflows (FDI and FII inflows) have been very strong (as high as US $40bn in 9MFY2010 alone) mainly because of the burgeoning current account deficit (US $30.3bn during the mentioned period). Going forward, in our view, as equity and debt investments in EMEs like India become increasingly attractive, even as growth remains subdued and liquidity high in the developed economies, capital inflows are expected to further accelerate.

In fact, even during the crisis-ridden year of CY2009, the country received as much as Rs85,000cr of FII inflows. In the first couple of months of this calendar year, India has already received Rs15,000cr by way of FII inflow, and considering the improving global and domestic scenario, this figure is likely to only improve

Strategy

going forward. CY2010 is likely to end with at least Rs1-1.25lakh crore (US $20-25bn) of FII inflows.

Exhibit 14: Return of risk capital



Source: RBI, Angel Research

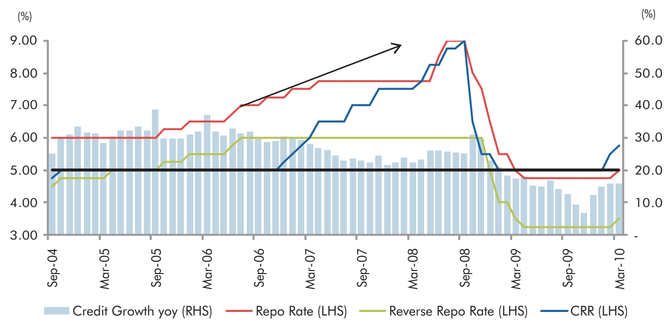
Adequate room to manoeuver Monetary Policy

Looking at the Monetary Policy as well, the RBI's main objective is to control inflation expectations. Nonetheless, at the current juncture with growth just picking up, stifling liquidity is not required. We believe that the RBI has adequate options to modulate liquidity in line with the evolving demand scenario and inflationary pressures.

Going forward, in line with our view that capital inflows could further accelerate, further monetary tightening may be required to modulate liquidity. While this will exert further upward pressure on domestic interest rates, it will still be a favourable outcome, given that capital inflows are largely in the form of risk capital, which the Private sector will increasingly require to fund capital requirements including working capital and capacity addition across sectors.

In fact, in the previous cycle, the strength of credit demand suggested low elasticity to 300-400bp increase in interest rates amidst an environment of robust economic activity and opportunity, buoyed by cheap foreign capital and strong domestic savings. The present situation appears headed in a similar direction.

Exhibit 15: Monetary tightening not a concern

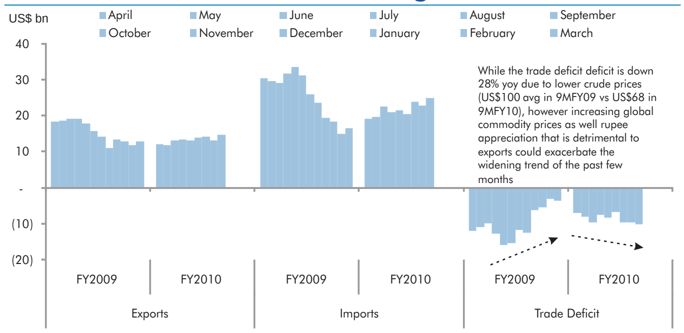


Source: RBI, Bloomberg, Angel Research

Trade deficit is widening

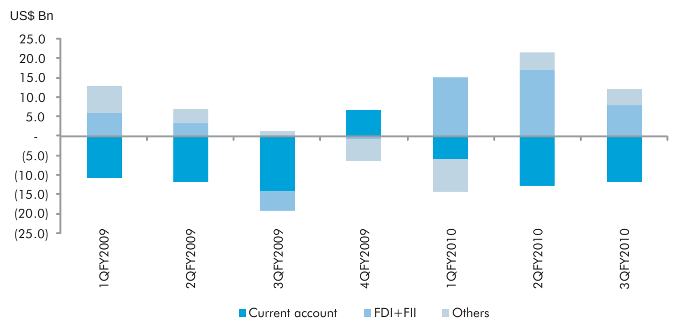
India's trade deficit is once again on an increasing trend, as the revival in domestic demand has also been matched by a rapid increase in imports, further exacerbated by rising commodity prices. As a result, the trade deficit is once again approaching the pre-Lehman levels of US $30-32bn of 1HFY2009, reaching US $25bn in December 2009 even though crude prices are still 70% away from the pre-crisis peak levels. At the same time, merchandise exports are up only 31% from the post-Lehman bottom (v/s 64% higher imports), leading to a high trade deficit of almost 9% of GDP. Service exports and remittances were also still much below the pre-crisis levels, down 16% yoy in aggregate in 3QFY2010. As a result, the overall current account deficit is expected to be about 3.5% of GDP for FY2010E. Thus, due to this large current account deficit, in spite of copious capital inflows, net forex accretion has been insignificant this far in FY2010.

Exhibit 16: Trade deficit widening



Source: RBI, Angel Research

Exhibit 17: Net forex accretion insignificant



Source: RBI, Angel Research

Strategy

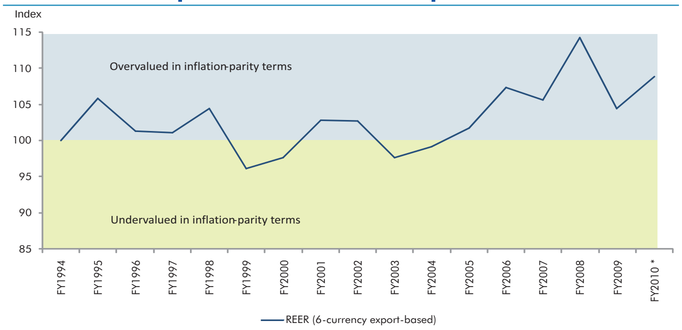
Anticipated increase in capital inflows

However, there are evolving signs of an improvement on the external front. On the capital account front, while FDI and FII inflows have already been copious during 9MFY2010, External Commercial Borrowings (ECBs) also surged in 3QFY2010, rising to US $5.4bn v/s US $0.7bn in 1HFY2010. As mentioned earlier, we expect overall capital inflows to further increase in the coming quarters, given the increasing appetite for risk capital on the one hand and increasing differential between the returns in the Indian markets and developed markets on the other.

Software exports reviving; Rupee may not appreciate much further

On the current account front, Software exports had been down 8% yoy even up to September 2009 and overall Service exports were down by an even higher 39% yoy. But, in 3QFY2010, Software exports showed positive traction, moving up 10% yoy. Further, hiring trends across major IT companies indicates a strong pipeline for Top-line growth in the coming quarters. Moreover, the 6-currency REER that is a good indicator of the Rupee's export competitiveness, stood at a high 108.86 (an index level of 100 indicates that the Rupee has not deviated from inflation parity levels vis-à-vis its major trading partners; a value above 100 indicates over-valuation and vice versa). Given the high current account deficit, it is likely that the RBI may increasingly intervene to moderate the appreciation in the Rupee from these levels, which should further aid exports.

Exhibit 18: Rupee over-valued as per REER Index



Source: RBI, Angel Research. Note: FY2010 data relates to Jan-2010 v/s monthly avg. for other years

Exhibit 19: Positive trend in Balance of Payments

Balance of Payments (Select major items) (US$ Mn)	FY05	FY08	FY05-08 CAGR	FY09	YoY growth
MERCHANDISE	(33,702)	(91,467)	39	(118,650)	30
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INVISIBLES	31,232	75,731	34	89,923	19
- Services	15,426	38,853	36	49,631	28
of which Software Services	16,900	36,942	30	43,486	18
Total Current Account	(2,470)	(15,737)	85	(28,728)	83
Foreign Investment	13,000	43,326	49	3,467	(92)
- Foreign Direct Investment	3,713	15,893	62	17,498	10
- FII inflows, ADR/GDR	9,287	27,433	43	(14,030)	(151)
ECBs	10,909	40,653	55	8,669	(79)
Banking Capital	3,874	11,759	45	(3,245)	(128)
Total Capital Account	28,022	106,585	56	7,246	(93)
Overall Balance of Payments	26,159	92,164	52	(20,080)	(122)

Balance of Payments (Select major items) (US$ Mn)	1HFY09	1HFY10	YoY growth	3QFY09	3QFY10 growth	YoY growth
MERCHANDISE	(64,398)	(58,217)	(10)	(34,049)	(30,726)	(10)
INVISIBLES	48,549	39,599	(18)	22,381	18,696	(16)
- Services	25,110	15,371	(39)	13,851	7,683	(45)
of which Software Services	22,423	20,580	(8)	10,694	12,665	18
Total Current Account	(15,849)	(18,618)	17	(11,668)	(12,030)	3
Foreign Investment	8,349	32,088	284	(5,374)	9,573	(278)
- Foreign Direct Investment	13,867	14,142	2	446	3,918	778
- FII inflows, ADR/GDR	(5,518)	17,946	(425)	(5,820)	5,655	(197)
ECBs	8,941	698	(92)	548	5,437	892
Banking Capital	4,971	1,057	(79)	(4,956)	1,932	(139)
Total Capital Account	11,952	29,568	147	(6,114)	14,727	(341)
Balance of Payments	**(2,499)**	**9,533**	**(481)**	**(17,881)**	**1,767**	**(110)**

Source: RBI, Angel Research

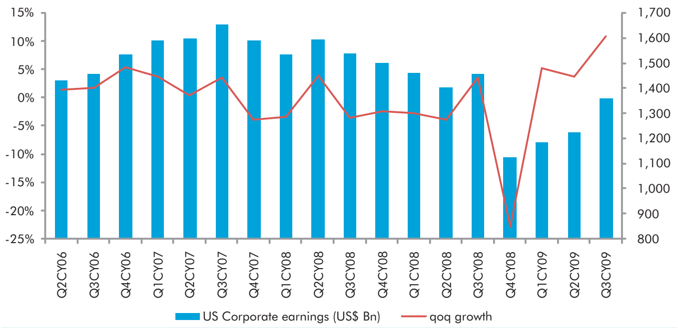
Positive lead indicators emanating from developed economies

US corporate earnings have also rebound sharply, up 21% YTD to reach almost close to pre-Lehman levels of US $1.4tn. Moreover, strong lead indicators of emerging market exports growth such as the JP Morgan Global PMI Index have been showing a sharp improvement in recent months. In fact, the JP Morgan Global Manufacturing PMI recorded a 70-month high in March 2010. According to the survey, production in both the US and China rose at sharper rates than in February 2010, even as there were signs of renewed strength in Europe, and the UK saw output rise at the steepest rate since July 1994.

Strategy

Moreover, the survey indicated that growth in global new export orders was the sharpest since the data was first compiled in January 1998. This further corroborates our view that exports are likely to continue growing at an accelerated pace in the coming quarters.

Exhibit 20: US Corporate Earnings reviving rapidly



Source: BEA, Angel Research

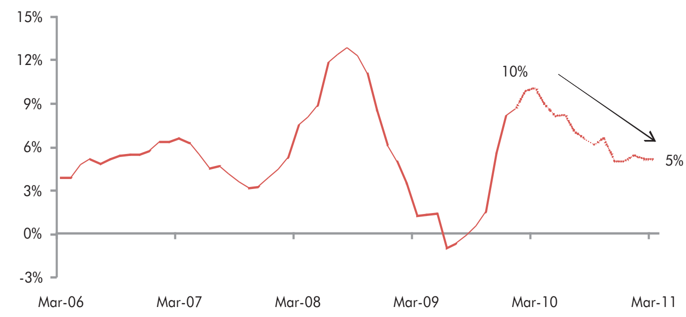
Increase in Non-Food Inflation can also be traced to Food-Inflation

Food inflation continued to be the main cause for the runaway increase in overall WPI inflation to 9.9% yoy in February 2010, apart from the base effect. Price increase in primary food articles remained at elevated levels of 17.8% yoy, while increase in manufactured food products, including sugar, etc. was as high as 20.4%.

Concerns have been raised that Non-Food manufacturing products inflation (having 52.2% weightage in the WPI Index) has also risen to 4.3% in February 2010. However, even out of this, a major part relates to crop prices, such as sugarcane, jute and cotton and goods manufactured from the same, such as textiles. Excluding these, as well as crude oil products, inflation in other goods was as low as 3.6% yoy in February 2010.

Going forward, Food inflation which was exacerbated by the bad monsoons last year, is likely to moderate. At the same time, due to the base effect, over the next 6-9 months, overall inflation is likely to once again fall to the manageable 4-5% range. Moreover, while crude is up 1.6x from the bottom; it is 70% away from its pre-crisis peak and from a fundamental perspective, we do not expect crude to rise materially from these levels. Apart from crude, the other major commodity to have seen a sharp jump in spot prices is iron ore. In our view iron ore prices are also unlikely to move beyond current levels from a fundamental demand-supply perspective.

Exhibit 21: Inflationary pressures to decline



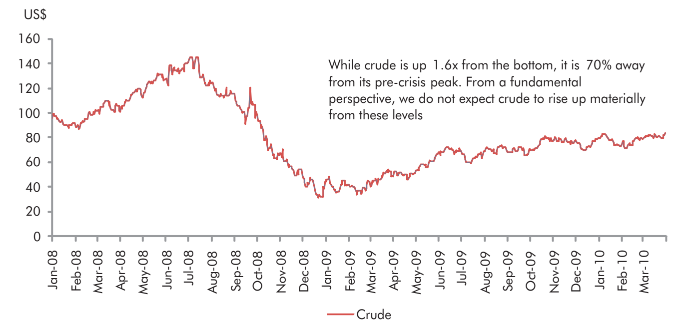
Source: Bloomberg, Angel Research

Exhibit 22: Inflation mainly related to Food

	Inflation yoy (%)	Weightage in WPI Index (%)	% contribution to current WPI
Food & Textiles	16.2	43	70
Oil	16.4	7	12
Others	3.6	50	18
Current WPI	9.9		

Source: Bloomberg, Angel Research; Note: As on Feb 2010

Exhibit 23: Crude prices not expected to rise materially



Source: Bloomberg, Angel Research

Exhibit 24: Global Metal prices

Spot US$/tonne	31-Dec-09	31-Mar-10	qoq chg
Zinc	2,408	2344	(2.7)
Aluminium	2,230	2294	2.9
Iron Ore	106	150	41.5
Copper	6,875	7759	12.9
Lead	2,318	2119	(8.6)
Tin	15,870	18379	15.8
Alumina	305	335	9.8
Steel HR	559	665	19.0

Source: Bloomberg, Angel Research

Strategy

Sensex Earnings - Ending FY2010 on a strong note

India Inc. is expected to end FY2010 with a strong quarter. We expect 4QFY2010 Earnings of India Inc. to register a robust growth, both on a yearly and sequential basis, aided by improvement in the overall economic activity. For 4QFY2010, while we have estimated Net Sales of the Sensex companies to increase by around 35.6% yoy, we have estimated Net Profit to register yoy growth of around 26.4% yoy. Operating Profits are expected to witness a rise of 38.1%, with Margins expected to remain flat at 23.5% levels.Key features of the 4QFY2010 Earnings season are expected to be as follows:

- Sectorally, Metals, Automobiles and Oil & Gas companies are expected to deliver robust numbers for 4QFY2010. Oil & Gas, one of largest components of the Sensex, is expected to witness 45%+ yoy growth. Amongst the pack, the Index heavyweight, Reliance Industries (RIL), is expected to post robust performance, registering 32% yoy and 27% qoq growth on the Net Profit front. The Metals pack is also expected to witness a surge in Earnings driven by improved Realisations. The lone Real Estate representative, DLF, is also expected to deliver a strong surge in Earnings growth in 4QFY2010.

- Power, Telecom, Banking, IT, FMCG and Engineering companies are expected to be key underperformers during 4QFY2010, which will keep a check on the Sensex earnings growth. Telecom, which has been reeling under competitive pressures would continue to post subdued performance, even when compared on qoq basis. The lone Pharma representative in the Sensex, Sun Pharma, is expected to report moderate growth in Earnings in 4QFY2010 on a yoy basis.

- Earnings divergence is expected within sectors like Banking, Engineering, FMCG, IT and Metals.

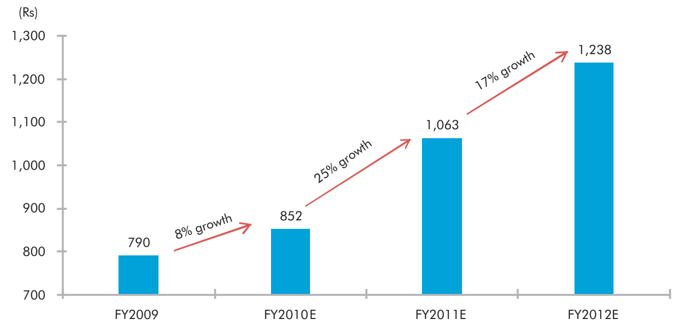
Post the 4QFY2010 preview, our estimate for FY2010E Sensex EPS stands revised to Rs852, an upward revision of 3.9%. The major upgrade has come in from the Auto Sector, where the Earnings of Tata Motors has seen an upward revision on the back of better-than-expected performance of its overseas venture, JLR, which is expected to lead the company to post a Profit for the year v/s expectations of a Loss earlier. Another sector which has seen an Earnings upgrade is Metals, which has witnessed strong rise in product realisations, leading to an Earnings upgrade for the pack. Notably, Hindalco has witnessed a 47% upward revision in Earnings estimates. Sectors that netted off these positives were Banking and the Oil & Gas pack, which witnessed some downward pruning of Earnings estimates.

India Inc. Earnings momentum to accelerate

The Earnings momentum, which has gathered pace would accelerate as we move into FY2011E. For FY2011E, we expect Sensex EPS of Rs1,063, up 24.8% yoy, on account of the expected low base of FY2010 and strong Earnings growth expected from RIL as we build in improvement in Petrochemical Margins and increasing support from higher gas production. Along with Oil & Gas, the Metal pack is also expected to witnesses a strong surge in Earnings.

For FY2012E, we expect a Sensex EPS of Rs1,238, up 16.5% yoy. We expect sectors like Cement, Capital Goods & Engineering, Banking, IT, Power and Real Estate to lead from the front, while others like Auto, FMCG and Oil & Gas are expected to be underperformers. Further, we expect FY2012E to be a relatively stronger year for the Telecom players compared to FY2010E and FY2011E, as the impact of high competition is expected to play out by then and companies will be back on a reasonable growth track, supported by 3G and Wimax spectrums to be auctioned going forward. Thus, with the expected robust growth in EPS in FY2012E, the Sensex Earnings is expected to register a CAGR of 16.4% over FY2009-12E.

Exhibit 25: Sensex EPS Forecast



Source: Angel Research

Exhibit 26: Sensex - 4QFY2010 Earnings Estimate

	Net Sales (Rs cr)			Net Profit (Rs cr)			Weightage	% Contribution
Company	4QFY2010E	4QFY2009	% chg	4QFY2010E	4QFY2009	% chg	(%)	to Sensex growth
RIL	62,232	28,362	119.4	5,109	3,546	44.1	13.3	20.5
Tata Steel	6,976	6,498	7.4	1,456	684	112.9	3.0	14.2
Sterlite	7,180	4,336	65.6	1,422	598	137.7	2.4	9.7
Tata Motors	12,328	6,895	78.8	637	124	415.7	1.7	8.1
ONGC	14,460	13,704	5.5	3,398	2,207	54.0	3.5	6.3
ICICIBK	4,005	3,813	5.0	980	744	31.7	7.9	6.2
BHEL	12,814	10,540	21.6	1,910	1,348	41.7	3.1	5.2
ITC	4,708	3,892	21.0	1,077	809	33.2	5.3	4.9
JP Associates	3,926	2,085	88.4	711	385	84.6	1.3	4.7
HDFCBK	3,310	2,967	11.6	847	631	34.2	5.3	4.5
Maruti Suzuki	8,320	6,308	31.9	706	364	93.9	1.5	4.5
TCS	7,849	7,172	9.4	1,821	1,314	38.6	3.5	4.0
Hindalco	5,684	3,688	54.1	486	269	80.8	1.8	4.0
DLF	2,025	1,122	80.4	764	159	380.5	1.1	4.0
M&M	5,369	3,619	48.3	458	279	63.8	1.7	3.5
Grasim	4,908	4,957	(1.0)	732	569	28.6	1.5	3.2
Hero Honda	4,138	3,412	21.3	522	402	29.7	1.5	1.6
Wipro	7,096	6,528	8.7	1,228	1,010	21.5	1.6	1.1
Sun Pharma	1,322	1,134	16.6	427	395	8.2	1.1	0.3
Reliance Infra	3,528	2,387	47.8	311	296	5.2	1.1	0.3
L&T	12,910	10,605	21.7	1,100	1,098	0.2	6.7	0.0
Infosys	5,919	5,635	5.0	1,613	1,613	0.0	9.7	0.0
Bharti Airtel	9,948	9,825	1.3	2,222	2,239	(0.8)	3.0	(0.2)
HUL	4,280	3,988	7.3	483	502	(3.7)	1.9	(0.2)
HDFC	3,300	3,152	4.7	702	733	(4.2)	5.4	(0.7)
ACC	2,009	2,055	(2.2)	350	405	(13.6)	0.7	(0.8)
SBI	10,663	9,560	11.5	2,655	2,742	(3.2)	4.5	(1.0)
NTPC	11,927	11,446	4.2	1,834	2,113	(13.2)	2.6	(1.5)
Tata Power	1,787	1,310	36.4	266	355	(25.1)	1.7	(1.6)
RCOM	5,166	5,798	(10.9)	940	1,454	(35.4)	0.9	(4.7)
Total	250,088	186,792	33.9	37,167	29,388	26.5	100	100
Sensex #			35.6			26.4		

Source: Angel Research; Note # Sensex Sales and Earnings growth based on free-float weightages

Sensex at Fair valuations; upside mainly from Earnings growth

At current levels of 17693, the Sensex is trading at 16.7x and 14.3x our FY2011E and FY2012E EPS v/s the 5-year average of 16.2x. In P/BV terms, the Sensex is trading at 2.5x and 2.2x our FY2011E and FY2012E BV v/s the 5-year average of 2.7x. With 8%+ GDP growth now looking increasingly achievable over the next two years on account of the resulting strong Earnings growth expected over FY2011-12E, we expect the Sensex to touch 21,000 levels (an upside of 19%) by March 2011, based on Target P/E of 17x FY2012E EPS.

Exhibit 27: 1-year Forward Sensex P/E

Source: Angel Research

Angel Research Model Portfolio

Sectoral Stance

Sector	Sensex Weightage (%)	Angel Model Portfolio Weightage (%)	Stance
Auto & Ancilliaries	6.3	7.0	Overweight
Cement	2.2	-	Underweight
Finance	23.0	25.0	Overweight
FMCG	7.1	6.0	Underweight
Hotels	-	3.0	Overweight
Infra & Cap goods	12.2	18.0	Overweight
IT	14.8	12.0	Underweight
Media	-	2.0	Overweight
Metals	7.3	-	Underweight
Oil & Gas	16.8	14.0	Underweight
Pharma	1.1	6.0	Overweight
Power	4.2	-	Underweight
Real Estate	1.0	3.0	Overweight
Telecom	3.9	4.0	Equalweight

Source: BSE, Angel Research

Banking and Infrastructure key top-down calls

The macro domestic growth story that we have discussed this far corroborates our conviction on the business prospects for the Infrastructure, Capital Goods, Commodities and Banking Sectors. However, given current valuations, the demand-supply situation, competitive dynamics and company-specific developments in the various sectors, in terms of investment recommendations, sector-wise we are overweight on Infrastructure and Banking.

Increasing weightage on Infra due to recent underperformance

We have given high weightage of 15% to Infra companies in our Model Portfolio (above the Sensex weightage of 9%) given the strong top-down outlook on the sector along with attractive valuations following the significant underperformance over the past few quarters, mainly on concerns regarding execution growth. However, we expect execution growth to accelerate to 17%+ yoy, aided by increasing availability of risk capital, evident political will and strong pipeline reflected in increasing Order Book-to-Sales ratio. The Midcaps are more attractive than the Large-caps due to the upside from subsidiary valuations. Hence, IVRCL and Madhucon Projects are our Top Picks in the sector.

Maintain Overweight on Banking

In line with the improving GDP and IIP performance, credit denmand is on an upward trajectory and is likely to further accelerate to 20%+ levels in FY2011E. Accordingly, we expect the Banking Sector to outperform, with core Earnings increasing from growing Credit and Fee Income wioth a simultaneous decline in NPAs. Moreover, relatively, in a rising interest rate environment, large banks with strong CASA are better placed. We prefer SBI, ICICI Bank, Axis Bank and HDFC Bank due to the expected market share gains in Credit on the back of strong Capital Adequacy and in CASA deposits and Fee Income on the back of stronger customer proposition and faster branch expansion.

Limited options necessitate stock-specific approach in the Capital Goods space

Although we are optimistic about the demand for capital goods going forward, in the listed space we believe there are few investment options. We have a Neutral call on BHEL due to concerns regarding market share loss and expensive valuations in the context of the medium-term business opportunity for the company. Accordingly, we prefer a stock-specific approach in the space, with Crompton Greaves, Thermax, Jyoti Structures and BGR Energy being our preferred picks, of which we have included Jyoti Structures in our Model Portfolio.

Interesting Midcap ideas (bottom-up calls) in several sectors

Pharma: We have given higher weightage to non-Sensex Pharma companies in our Model Portfolio due to company-specific positive business prospects:

- Piramal Healthcare - the fourth largest player in the Domestic Formulations Segment
- Lupin - one of the best plays in the Generic space.

Auto: In our view, the Auto Sector is one of the strongest long-term growth stories in India. However, from a near-term perspective, the large-caps have already run up significantly due to the substantial surge in Top-line and Bottom-line in FY2010. On the other hand, there are some interesting stories to play in the Mid-cap Auto Ancilliary space. In this quarter, we have introduced two such stocks in our model portfolio, viz. FAG Bearings and Automotive Axle.

IT: Even in IT space we have introduced two of the smaller Tier 1 players in our Model Portfolio, viz. Mphasis and Tech Mahindra. Tier-I stocks are trading at 20x-22x 1-year forward Earnings that factors in the expected 15% CAGR over FY2010E-12E leaving little room for upside in our view. On the other hand, the Mid-tier stocks such as Tech Mahindra (trading at attractive valuation of 9x FY2012E EPS, excluding Satyam) and Mphasis (sector outperformer) offer strong upsides and continue to remain our Top Picks in the IT space.

Angel Research Model Portfolio

Angel Research Model Portfolio outperformed the Sensex by 4.5% during 4QFY2010 (March 31, 2010 over January 4, 2010), generating returns of 4.7% compared to almost flattish returns on Sensex(-0.2%) during the period.

Key Outperformers: IPCA (up 28%) Cadila Healthcare (up 24%), Axis Bank (up 18%)

Stocks In: FAG Bearing (2% weightage), Automotive Axle (2% weightage), SBI Bank (6% weightage), IVRCL (3% weightage), Dishman Pharma(2% weightage), Piramal Healthcare (2% weightage), Tech Mahindra (3% weightage), Joyti Structures (3% weightage) and Mphasis (2% weightage)

Weightage Increased: NA

Key Underperformers: Reliance Infra (down 15%), Jagran Prakashan (down 14%), Deccan Chronicle (down 10%)

Stocks Out: Bajaj Auto (2% weightage), Subros (2% weightage), Deccan Chronicle (2% weightage), Cadila Healthcare (3% weightage), IPCA (3% weightage) and Wipro (4% weightage)

Weightage Reduced: Axis Bank (reduced from 10% to 7%), HDFC Bank (reduced from 6% to 4%) ITC (reduced from 4% to 3%), Madhucon Projects (reduced from 4% to 3%) and TCS (reduced from 4% to 3%), Lupin (reduced from 3% to 2%)

Sector	Top Buys	Recommended Weightage (%)	Comments
Automobile	M&M	3%	M&M's UV Volume growth continues to surprise positively, with a 39.4% overall growth in FY2010, primarily due to the substantial 9 percentage-points market share gain in the segment to 56%. Further, M&M has performed well above expectations in the Farm Equipment Segment, despite subdued monsoons. Further, new product launches in the M&HCV space would position the company well in line with other major domestic CV players like Ashok Leyland and Tata Motors in the next couple of years, aided by its well-known brand equity and extensive sales network. Increasing global presence with potential upside expected in Exports in FY2011E could result in Earnings upgrade. Potential turnaround of SYSTECH Division could also prove to be another trigger for M&M in FY2011E.
	FAG Bearings	2%	Due to the greater focus on mechanisation of the manufacturing process, the demand for bearings is expected to outperform industrial growth in India. Hence, the Industrial Segment (accounts for 50% of the Indian bearings market) offers high growth opportunity for the industry. This is also supported by the fact that the Bearings Segment has a direct correlation with the Auto Sector growth, which is expected to post around 10% growth per annum over the next 2-3 years. Further, an increase in utiliastion level would result in higher OPM going forward and it could act as a trigger for the stock.
	Automotive Axle	2%	AAL derives its Revenues from the CV Segment. Following the recovery in the overall economic and industrial activity, we estimate the domestic heavy CV Segment to record CAGR of around 13% in Volumes over FY2010-12E. Thus, AAL is expected to be one of the biggest beneficiaries on anticipated higher off-take of the CV Segment. Overall rise in volumes will support higher utilistion levels of existing underutilised installed capacities (capacity levels were down to the extent of 25% in FY2009). Improved utilisation would support higher operating leverage. Thus, higher volume growth and margin expansion poses upside risk to our Earnings estimates and make AAL an attractive pick in the Auto Component space.

Continued...

Angel Research Model Portfolio

Sector	Top Buys	Recommended Weightage (%)	Comments
Banking	Axis Bank ICICI Bank HDFC Bank SBI	7% 8% 4% 6%	We believe that rising interest rates, consistent with the imminent revival in GDP growth, are not a negative for the Banking Sector as it would be outweighed by acceleration in core Earnings growth, as Credit growth and Fee Income picks up, while NPA losses trend downwards. That said, in a rising interest rate environment, large banks such as HDFC Bank and SBI, with a strong CASA ratio and lower duration investment book, are relatively better placed followed by Axis Bank and ICICI Bank that have strength in CASA deposits. We prefer the large private banks as well as SBI in the PSU space, in light of stronger core competitiveness and likelihood of market share gains (including CASA and Fee income market share), on the back of strong Capital Adequacy and Branch expansion. From an allocation perspective, our overweight call on Axis Bank has gone right, with strong outperformance (18.7% qoq returns) and other two private banks (equal weight so far) have also given healthy returns (13.3% qoq returns for HDFC Bank, 6.2% for ICICI Bank v/s 1.3% returns for the Sensex). At this juncture, with their valuations having increased and with SBI having under-performed significantly (-8.4% qoq), we are introducing SBI into the Model Portfolio with 6% weightage. SBI's savings deposits market share has increased by a substantial 300bp to 23.5% during FY2007-9MFY2010 (only PSB to do so) and Fee Income is also the highest amongst the PSU banks, aided by its strong corporate and government business relationships. SBI's core RoEs have improved over the past few years and unlike virtually all other PSBs, actual 9MFY2010 RoEs are below core levels due to low asset yields, providing scope for upside as the CD ratio improves and yields normalise to sectoral averages. Valuations are also attractive at just 1.2x FY2012E ABV v/s 5-year median of 1.6x, providing sufficient margin of safety from asset quality pressures.
FMCG	ITC	3%	Post the steep Excise Duty hike in the Union Budget 2010-11, ITC has already undertaken around 10% weighted average price hike across its portfolio. Hence, we have revised our Volume estimates to 2% (6%) for FY2011E. However, with limited increase in VAT across states, we believe ITC is well poised to deliver positive surprise in cigarettes on both Margins and Volume front. Moreover, Profitability of the company's Agri-business, and pick up in the Paperboard Division and Hotel Business (2HFY2010E) will aid higher growth.
	Godrej Consumer	3%	Steady growth in Soaps, revival in Hair colours and acquisition of 49% in Godrej Sara Lee (GSL) give GCPL a formidable FMCG portfolio to sustain growth. Buyout of the remaining 51% Sara Lee stake in the GSL JV or a larger acquisition in the Hair Colour/Personal care space (Board approval already received for raising funds up to Rs3,000cr), supported by GCPL's strong Balance Sheet, could act as an upside trigger. *Continued...*

Angel Research Model Portfolio

Sector	Top Buys	Recommended Weightage (%)	Comments
Hotels	TAJGVK	3%	The Hotel Industry started witnessing an uptrend from 3QFY2010 and we expect the same to continue going ahead as well. Factors like growth in Foreign Tourist Arrivals and increased tourist activity on the domestic front on the back of improving economic outlook would enable hoteliers to overcome the tough phase witnessed in the recent past. We expect TAJGVK, which has a presence in the business destinations of Hyderabad and Chennai, to gain significantly as business sentiment gathers steam. Signs of improving demand are visible with occupancy rates staying above around 70% levels since 3QFY2010 and Average Room Rates rising in 4QFY2010E.Considering TAJGVK's dominant position in Hyderabad, its diversification strategy and its on-track expansion plans, we believe that it is well-poised to benefit from the uptrend in industry.
Infrastructure and Cap Goods	L&T	6%	Investment in the Infrastructure sector is expected to be much higher going ahead particularly with the government committed towards the same. Thus, we believe that despite the near-term constraints (threat of fiscal blow out would impact government spending), India's medium-to-long-term growth story remains intact. Against this backdrop, L&T, which is amongst the largest E&C companies in India today, is expected to gain from its presence across various verticals and geographies.
	Reliance Infrastructure	3%	We believe that Reliance Infra would be a force to reckon with in the Infra space owing to its strong parentage and huge net worth. Also, given its growth and cheap valuations we believe that the stock to be an Outperformer. It should be noted that we are taking a long term call on the company as we believe that strong earnings momentum would pick post FY2012 as its invesments start yielding returns.
	Madhucon	3%	On a 12-month period, we believe that Madhucon Porjects (MPL) is likely to outperform its Mid-cap peers owing to attractive valuations, diversified portfolio of assets and positive triggers in place, viz. 1) MPL plans to raise money at the subsidiary level, which would unlock value, and 2) We also believe that as its assets start reaching important milestones, it would enhance visibility and markets would start valuing these assets, which are not factored in currently.
	IVRCL	3%	IVRCL has around 22% of its Order Book coming from AP (currently facing a crisis) owing to which the stock has underperformed in the last six months. We have taken a long-term view on IVRCL due to its excellent track record, strong management and compelling valuations, and hence recommend a Buy on the stock.
	Joyti Structures	3%	The government has envisaged an investment in the Transmission Sector of Rs1.4lakhcrore in the Eleventh Plan (an increase of over two times from the investments made in the Tenth Plan) and Rs2.4lakhcrore for the Twelfth Plan. We believe that Jyoti Structures, being among the top-three players in the space, will continue to be a key beneficiary of the same. Besides, the company has a healthy Order Book of Rs4,030cr (1.9x FY2010E Revenues), which provides good Revenue visibility and cushions it from short-term Order fluctuations.

Continued...

Angel Research Model Portfolio

Sector	Top Buys	Recommended Weightage (%)	Comments
Media	Jagran Prakashan	2%	We expect Jagran to post steady growth in Revenues (up-tick post 2HFY2010E) owing to its strong foothold in the Hindi belt (Dainik Jagran is India's No.1 daily), focus on local Advertising and rising Colour inventory. Moreover, possible rate hikes (likely in April 2010) owing to rising inflation and economic recovery carry upside risks to our estimates. We expect high Margins to sustain driven by benign newsprint environment, lower losses in new initiatives and higher Operating leverage.
Oil & Gas	Reliance Industries	4%	We remain positive on RIL on the back of improving fundamentals of refining business coupled with increasing gas production. We believe the risks on account of volatility in external variables such as GRMs and Petrochemical Margins have also subsided to a considerable extent and Margins are set to improve going ahead. We believe that ramp up in the gas production is likely to propel Eearnings growth going ahead. From the long-term perspective, the huge unexplored E&P acreage with the company could result in significant valuation upsides from current levels. Moreover, with successful execution of two mega projects and significant Cash flow generation going ahead, potential M&A action could be expected in turn leading to valuation upsides.
Pharma	Dishman Pharma	2%	Dishman has incurred organic capex of Rs300cr in the last three years towards expansion of existing facilities at its Bavla unit and building the China and HPAPI facilities. Post all these facilities coming on-stream FY2011E onwards, Dishman would strengthen its ties with the Global Innovators leading to stable Revenue flow over the long run. Dishman has also indicated receiving contract manufacturing enquires from the Global Innovators of Euro 200-250mn. Further, Revenues from the Abbott-Solvay contract, which constituted 16% of FY2009 Sales, have also started normalising from 3QFY2010 onwards with up-tick in Eprosartan volumes.
	Piramal Healthcare	2%	PHL, the fourth largest player in the Domestic Formulations Segment, has managed to clock more than 20% growth on the back of increasing penetration in the Tier II/Rural areas and launch of new products. On the CRAMS front, the company is expected to witness pick-up in Volumes given that inventory rationalisation is likely to end by 4QFY2010 and several large global M&A deals were also completed in CY2009. Further, PHL through its Minrad acquisition can now target the less competitive US $1bn market of Inhalation Anesthetic globally.
	Lupin	2%	Lupin is one of the best plays in the generic space given its strong execution capabilities, improving financial performance and diversifying business model. The high-Margin Branded Generic business has been the key differentiator for Lupin in the Indian Pharma space. The company has also cemented its position in this segment by acquiring rights for two products, viz. Allernaze and Antara in the last six months. Further, the company has been among the few Indian players to have built a formidable presence in the second largest pharmaceutical market in the world, Japan, with Kyowa's acquisition in FY2008.

Continued...

Angel Research Model Portfolio

Sector	Top Buys	Recommended Weightage (%)	Comments
Real Estate	Anant Raj	3%	Anant Raj Industries (ARIL) is a prominent and well-diversified Real Estate player in the NCR region. Almost all of ARIL's land bank (872 acres) is exclusively located in the NCR within 50km of Delhi, with approximately 525 acres in Delhi. This land bank has been acquired at an historical average cost of Rs300/sq ft. We expect ARIL's two super premium Residential projects of Hauz Khas and Bhagwandas, located in the heart of Delhi, to drive its near-term operational visibility and help register Rs600cr Profit over the next three years. Further, ARIL has 70% pre-lease commitments at its Manesar IT Park (1.2mn sq ft) coupled with five hotels getting operational by FY2011E, which will improve rental visibility.
Software	Infosys TCS Tech Mahindra Mphasis	4% 3% 3% 2%	We believe that tough times for the Indian IT Sector are over with major clients/outsourcers (BFSI players in developed economies) clocking better Earnings growth in turn boosting the overall deal scenario through revived IT budgets. Improving Operating metrics such as sustained client addition, high utilisation and strong hiring are signaling the comeback of the robust Revenue growth in coming quarters. Amidst the recent slowdown, the companies displayed strong Margin resilience by employing various margin levers such as higher offshore effort mix, cut in SGA spends, no wage hikes and hiring deferment. We expect the companies to continue to display their high level of efficiency/productivity going ahead as well and maintain high Profitability Margins. The high valuation discount of Mid-tier companies of 30-50% over Tier-I players would narrow down in the ensuing quarters. Thus, we expect Mid-tier IT stocks such as Mphasis and Tech Mahindra to outperform their larger peers on the back of robust business growth and economical valuations.
Telecom	Bharti Airtel	4%	We believe that the competitive intensity in the Telecom sector is likely to decrease as the current tariffs are not sustainable for any new player. Going ahead, with the stability in the call charges, strong net additions in subscribers and growing total minutes of usage would result in strong Revenue growth in FY2011/FY12E. In case of Bharti, we believe that the risks associated with the Zain acquisition are already priced in the stock valuation. Hence, any positive news flow in terms of improved financial results of the combined entity going ahead would act as a strong trigger for the stock. Thus, owing to market leadership position, strong opportunities in the African market and improved business dynamics for the Tower Segment, Bharti continues to be our Top Pick in the Telecom Sector.

4QFY2010 Sectoral Outlook

Sector	Trend	Outlook
Automobile	● Most Auto companies reported a sequential spurt in Volumes for 4QFY2010 and FY2010. Consumer discretionary Autos like two-wheelers and cars reacted fast to the improved credit availability. Further, fears of price increase due to the Excise Duty hike, increase in raw material costs and change in the Emission norms resulted in advanced buying and perked up Volumes in 4QFY2010. Thus, most companies are expected to post good growth in 4QFY2010. Uptick in the commodity prices over the last six months could exert pressure on Margins in 4QFY2010 sequentially. ● The substantial volume growth is expected to boost Sales growth of our Auto universe for 4QFY2010 to a high of 53.4% yoy and 20.9% qoq. However, Margins are expected to contract sequentially by 128bp reflecting the higher input costs. All these factors combined would result in 136% yoy (13.6% qoq) growth in Earnings.	● We expect the ongoing economic economic recovery to help the Auto Sector (passenger vehicles (PVs), commercial vehicles (CVs) and two-wheelers) registering good growth in the Domestic market, and a decent growth in the Export markets, over FY2010-12E. We estimate overall Auto Volumes to register a CAGR of around 10% over FY2010-12E aided by the improved economic environment for the sector. Over the longer term, comparatively low penetration levels, a healthy economic environment and favourable demographics supported by higher per-capita income levels are likely to help the Auto companies in sustaining their Top-line growth. ● Among the heavyweights, we prefer Maruti Suzuki, Tata Motors and M&M. We are Neutral on Two-wheelers owing to limited upside and the companies operating at their peak Margin levels.
Auto-Ancillaries	● Auto Ancillaries are expected to report sequential Top-line growth in 4QFY2010 on the back of better domestic volume growth. Margin pressure is expected to reduce owing to improving Operating leverage. ● Broadly, the Sector is expected to deliver positive Earnings growth. Losses posted by few Ancillaries (with exposure in overseas market) during 9MFY2010 are expected to register Profit in 4QFY2010. This would be on the back of the cost restructuring exercise implemented by these companies at their overseas operations during FY2010.	● The Auto Component Industry is expected to be on the path of recovery. Outlook for the industry is good on the domestic front, but slightly cautious on the export front. ● On the domestic front, the industry is back on track aided by a better-than-expected revival in the domestic Auto demand. ● Companies with high Exports exposure are expected to show marginal recovery owing to volume recovery in some of the developed markets. However, Rupee appreciation would impact Export realisation to a certain extent. *Continued...*

Sector	Trend	Outlook
Banking	● Core business growth for banks improved in-line with our expectations in 4QFY2010, with the credit growth rate picking up to a level of 16.1% yoy as on March 12, 2010. At the same time, a combination of low deposit rates, insignificant forex reserve accretion, due to a burgeoning current account deficit as well as the commencement of monetary tightening, precipitated a slowdown in broad money (M3) and deposit growth, as well as a corresponding reduction in liquidity levels. Anticipating this, several banks have already increased deposit rates by about 50bp during the quarter and have withdrawn special rate loan schemes. We expect NIMs to improve by 5-15bp sequentially during 4QFY2010, driven by an improving Credit-Deposit ratio, due to a strong 5-7%+ sequential loan growth as well as a residual downward re-pricing of deposits. ● The Benchmark 10-year GSec yield rose by 25bp to 7.9% during the quarter, with a similar increase even at the lower end. As a majority of the banks' investment portfolios are protected till the level of 7.5%, we expect banks with a high exposure to AFS and a higher level of AFS duration to face moderate MTM losses. Overall, growth in Net Interest income as well as Fee income is expected to be strong during 4QFY2010, even as an absence of treasury gains pulls down the overall Operating income growth. Although asset-quality concerns are receding, slippages from restructured portfolios remain important metrics to monitor in the 4QFY2010 results.	● Rising interest rates, consistent with the imminent revival in GDP growth and rising inflationary expectations, are not a negative for the sector and would be outweighed by an acceleration in core earnings growth, as Credit growth and Fee Income picks up, while NPA losses trend downwards. Banks with a strong CASA ratio and a lower duration investment book are relatively better placed (from ALM standpoint). Banks such as HDFC Bank, PNB, BOB and SBI top this list, followed by other large private banks like Axis Bank and ICICI Bank that at least have strength in CASA deposits. ● Smaller PSU and private banks that have weaker CASA franchises are likely to deliver a weaker core earnings performance. Hence, we reduce our target multiples for banks like Corporation Bank, Indian Bank, Dena Bank, Union Bank and South Indian Bank. ● We upgrade BOI to Accumulate, as we believe that the stock is attractively priced after the recent correction. We have downgraded PNB to Reduce, due to expensive valuations that leave a reduced margin of safety from NIM / asset quality pressures. We prefer the large private banks, in light of their stronger core competitiveness and likelihood of market share gains (including CASA market share), on the back of strong Capital Adequacy and Branch expansion. ICICI Bank, Axis bank and HDFC Bank remain our top picks in the sector.
Capital Goods	● Visibility seems to be gradually improving, with foreign investments in India continuing their momentum, with relatively smooth financial closure of several projects, and with quite a few companies across sectors having successfully tapped the financial markets. ● The top-line of the companies under our coverage universe is expected to post a growth of around 19.0% yoy. On the Operating front, we expect our universe to register an 113bp Margin expansion. Consequently, Net Profit would also increase at a higher pace of around 24.8% yoy for our universe.	● Although the broader economic scenario is definitely showing signs of improvement, we believe that several Capital Goods stocks are already trading at premium valuations, leaving little scope for outperformance. With the backdrop of the rich valuations, we prefer a stock-specific approach, with Crompton Greaves, Thermax, Jyoti Structures and BGR Energy being among our preferred picks. ● The growth would primarily be driven by BHEL, which is expected to continue its strong performance on the back of a healthy Order Book position and Margin expansion. *Continued...*

Sector	Trend	Outlook
Cement	● During the quarter, we expect all other companies in our universe to report margin expansion on a qoq basis, due to improved realisations. However, the margins are expected to remain lower yoy, on account of the fall in realisations and higher input costs. ● Average coal prices during 4QFY2010 were up by 30% at US $95/tonne. The increase in coal prices is expected to result in an increase in power and fuel costs.	● Strong demand emanating from the Commonwealth-related spending has enabled north-based manufacturers to fare well in terms of capacity utilisation and dispatch growth, while infrastructure spending has helped the Central and Eastern regions. ● Currently, the capacity utilisation continues to remain higher, as the new capacities that came on stream were not fully stabilized. However, going ahead, after the stabilisation of new capacities, we expect falling capacity utilisation levels and, consequent, estimate a negative impact on pricing and margins. Moreover, input costs are hardening and may squeeze the margins, going ahead. ● We are Neutral on ACC, Ambuja, Grasim, Ultratech and India Cements, as they are fairly priced. We continue to remain Positive on Madras Cements and JK Lakshmi Cement, due to their attractive valuations (based on the EV/Tonne and EV/EBITDA multiples).
FMCG	● For 4QFY2010, we expect our FMCG universe to post a robust Top-line growth of 16% yoy, driven largely by Volume growth and improvement in the Product-mix. Earnings for the quarter are expected to grow at a strong pace of 21% yoy, aided by Margin expansion, due to lower input costs (yoy) and the rationalisation of ad spends (except HUL and Nestle). ● Asian Paints, GCPL and ITC are expected to report the strongest Earnings growth during the quarter. HUL, the segment leader, is expected to report a drop in recurring Earnings by 4%, owing to weak Revenue traction, drop in Margins (price cuts and sustained Ad-spends). We expect ITC to post a 2% increase in Cigarette Volumes, despite price hikes (affected only in March), owing to gains from stocking up of inventory. ITC's Earnings are expected to grow by a strong 33% yoy, aided by Top-line growth (up-tick in Hotel Revenue) and Margin expansion.	● We remain bullish on the overall prospects of the Indian FMCG Sector due to low penetration in most FMCG categories. However, going ahead, we expect the Top-line growth to slow down owing to lower value growth (price hikes take a backseat and focus shifts to volume growth. Moreover, higher input costs and rise in competitive intensity is likely to keep Margin expansion under check. ● We maintain our stance of Equal-weight on the FMCG sector, as we believe that both earnings upgrades and P/E re-ratings are likely to take a breather from the current levels. Hence, we continue to emphasise selective stock picking. We rate ITC, GCPL, Dabur and Nestle as our Top Picks in the Sector.
Infrastructure	● The last quarter (4QFY2010) is traditionally a robust quarter for infra companies from an execution point of view. Hence, we expect the companies in our universe to post a good performance on the Top-line front on the back of a robust Order Book position, easing liquidity conditions and relentless stress on infrastructure development. On the Margins front too, we expect good overall performance. Owing to robust Top-line and strong Margins performance, we expect most of the companies to report strong growth in Bottom-line.	● Jaiprakash Associates is expected to post a very good set of numbers, primarily on account of growth in the Cement and C&EPC Segments. We also expect IRB Infra to report good 4QFY2010 performance. We expect Punj Lloyd to post good performance on the Bottom-line front, primarily on account of the extra-ordinary income from sale of stake in Pipavav Shipyard. Overall, we expect our coverage universe to register good *Continued...*

Sector	Trend	Outlook
Infrastructure		performance on the Bottom-line front for 4QFY2010. ● In the Infra Sector, our Top Picks are IVRCL Infra and Madhucon Projects due to their good long-term prospects and relatively cheap valuations.
Logistics	● For 4QFY2010, we expect our universe of stocks to report robust growth on a yoy basis on a low base and improving economy. Moreover, the Domestic Segment will continue to do well in 4QFY2010 on the back of strong consumption. We expect our coverage universe to report robust 17.4% yoy growth in Revenues and 32.1% yoy growth in PAT for 4QFY2010. Operating Margins will improve for rail operators owing to lower empties and higher contribution from Exim segment.	● The container traffic data released for FY2010 YTD (April-February 2010) by the Indian Port Association (IPA) registered a moderate increase of 2.8% yoy. Going ahead, we expect trade to remain stable on the back of improving economy. We expect the country's overall container volumes to clock 12-15% yoy growth at the 12 major ports in FY2011E. ● We prefer companies that provide a decent blend of growth opportunities and quoting at attractive valuations. We continue to maintain our Neutral stance on the logistic sector. We rate GDL as our Top Picks in the sector on account of being present at strategic locations, its ongoing expansion plans and break-even in the Rail business at the PAT level.
Metals	● For the quarter 1QFY2011, coking coal contracts were signed at US $200/tonne, higher by 55% yoy. Recently, Japanese steel mills have accepted iron ore price increase of around 83% for the period Apr-June'10. For 4QFY2010, steel companies under our coverage are expected to report strong yoy growth in Top-line on the back of higher realisations. We expect Top-line of the steel companies under coverage to increase by ~7-50% yoy, while margins are likely to expand by 600-2,300bp yoy on higher realisations and lower input costs. ● Base metal prices like copper, aluminium and zinc increased by 3-10% on a sequential basis, while lead was down by around 3%. However, on a yoy basis, prices were up by 50-110%, with copper and zinc leading the pack. We expect Base Metal companies to register a Top-line growth of 23-81% yoy owing to higher LME prices. Further, we expect margins to expand by 700-1,700bp, mainly on account of higher realisations.	● With the shift towards quarterly based pricing for raw materials like iron ore and coking coal, we expect volatility in steel prices to increase. In our view, 1QFY11E is likely to witness further steel price hikes on account of the raw material push. We recommend an Accumulate on Tata Steel and JSW Steel. In the Mid cap space, we prefer Electrosteel Castings and GPIL. ● With the global economy on the path to recovery, we expect base metal prices to increase in FY2011E as compared to last year. We continue to maintain a Buy on Sterlite and an Accumulate on Hindalco and Hindustan Zinc. *Continued...*

Sector	Trend	Outlook
Oil & Gas	● Average crude oil prices during the quarter were higher by 3.6%. The benchmark Singapore Refining Margins are expected to average at around US $4.5/bbl during the quarter. The increase could be attributed to the rise in product cracks of petrol, diesel and SKO during the quarter. ● Petrochemical Margins strengthened during the quarter following the increase in Cracker Margins and integrated PE Margins. However, Margins of the PP Segment were subdued during the quarter. ● We expect auto fuel and cooking fuel under-recoveries to stand at Rs5,836cr and Rs10,852cr respectively, during the quarter. The increase in under-recoveries is largely due to the rise in product cracks of subsidised products during the quarter. ● We expect RIL to report good set of numbers on the back of strong GRMs of US $8.5/bbl during the quarter coupled with increase in average gas production. We expect ONGC to register Net Realisation of US $56.6/bbl (up US $13.2/bbl yoy, while decline of US $8.2/bbl qoq). We expect IGL to maintain its strong growth in Volumes driven by higher conversion of CNG vehicles during the trailing one year. GSPL is likely to report Bottom-line growth of 7.4% qoq largely on account of increase in Volume flow during the quarter.	● Going ahead, fate of the OMCs and Upstream Government Oil companies is likely to be dependent on Policy action regarding the subsidy sharing mechanism. Given lack of clarity over the same, we expect these stocks to underperform the other players in the Oil and Gas space. ● Over the last couple of quarters, the gas companies have outperformed the oil companies; we expect the trend to continue going ahead. We maintain our bullish view on the gas companies, viz. GSPL, Petronet LNG and Gujarat Gas. These companies are the key beneficiaries of the increasing gas demand in the country.
Pharmaceutical	● The Indian Pharmaceutical Sector is expected to post strong growth on the Sales front. We expect our coverage universe to register 11.3% yoy growth in Top-line even though the Rupee appreciated by 8% yoy against the US Dollar, on an average, during the quarter. Sun Pharma and Lupin are expected to post a robust growth on the Top-line front mainly driven by limited competition product launches in the US. Cadila Healthcare will post strong performance owing to the robust show in the US and the Contract Manufacturing Segment. PHL will post good numbers on a robust Domestic business. ● We expect most companies in our coverage to witness expansion in OPM, while Net Profit will register strong growth on a low base. We expect 4QFY2010 to be one of the good quarters for the Pharma companies under our coverage on both the Top-line and Bottom-line fronts given the product launches in the US and expansion in OPM.	● During the last 6 months, the BSE HC Index rallied 21.0% outperforming the market by 19.0%. Going ahead, we recommend a bottom-up approach. In Generics, we prefer companies with a strong, niche and visible product pipeline and recommend Dr Reddy's, Lupin. We continue to favour the CRAMS Segment, though the Segment is witnessing near-term hiccups on account of inventory rationalisation and multiple mega global pharma mergers in CY2009. However, most of the CRAMS companies are now witnessing an up-tick in order enquiries from the Global Innovators indicating an improvement in the global scenario. In this Segment, we recommend PHL and Dishman Pharma. Among the Small caps, we recommend Indoco Remedies. *Continued...*

Sector	Trend	Outlook
Power	● The power generation companies under our coverage (NTPC, GIPCL and CESC) are expected to report decent Top-line growth for 4QFY2010, to the tune of 5.1 % yoy. Net profit is expected to decline by 9.9% in 4QFY2010 on account of the decline in the net profits of NTPC. The Topline growth will be facilitated by the increase in power generated, higher tariffs and improved PLF in gas-based plants. ● The global prices of coal have risen substantially during the quarter. The average prices of the New Castle Mccloskey 6,700kc coal stood at around US $ 95/tonne as against US $ 77/tonne recorded in 3QFY2010. The increase in coal prices, which is a pass through is not expected to affect players with regulated business model.	● India's power generation capacity was 156.7GW, as of January 2010, while the peak power deficit was at 12.2%. To meet this requirement, India needs to add massive capacities. ● We expect higher growth of thermal generation on the back of increased generation of gas-based projects, due to gas availability from the KG Basin (D-6), better performance of thermal plants and a higher import of coal. ● Going ahead, we believe that the Top-line of the companies under our coverage would primarily come from capacity additions. With progressive reforms happening in the industry, backed by strong demand growth and an assured Revenue stream on the back of PPAs, players with sound execution capabilities are expected witness strong growth. ● In the power sector, our top Picks are CESC and PTC, due to their strong earnings visibility and relatively cheap valuations.
Retail	● The retail industry seems to have now recovered from the weakness witnessed during the major part of FY2010. During 4QFY2010, consumer sentiment remained buoyant, providing enough confidence to retail players to chalk out future strategic plans. This is the second consecutive quarter where consumer sentiment has been upbeat. ● During 4QFY2010, seasonal sales, coupled with the improving economic outlook, wooed consumers, enabling retailers to witness significant improvement in footfalls. Retailers during 4QFY2010 have also witnessed increased sales of their full-priced goods, thereby giving confidence of robust recovery happening in the industry. We expect SSS (Same Store Sales) growth to be robust for retailers during 4QFY2010. On the Value Retailing and Lifestyle Retailing front, growth is expected to be in double digits in 4QFY2010. ● We expect the Retail stocks under our coverage to report a Top-line growth of 23.1% yoy. We estimate PRIL to lead our universe, with a 30.1% yoy growth in its Top-line. ● We estimate the OPM of our Retail Universe to increase by 70bp to 9.4% in 4QFY2010E from 8.7% in 4QFY2009, on the back of cost-rationalisation measures taken earlier and increased footfalls during the quarter. We estimate Net Profit Margins (NPM) to improve by 160bp to 2.9% in 4QFY2010E from 1.3% in 3QFY2009.	● With economic growth now firmly on track, coupled with the revived consumer sentiment and expectations of inflation tapering down in the coming months, we foresee good times ahead for the retail industry. Sensing this change, several retailers have started chalking out expansion plans, which further bolsters our belief. We expect the growth trend to continue and to strengthen, going ahead, thereby keeping the long-term growth prospects intact for the Organised Retail Segment in India. ● The Value Retailing segment is likely to lead the growth over the next few years, as more and more consumers are expected to go for value-for-money-goods. However, we expect the Lifestyle Retailing segment growth to pick-up on the back of a revival in consumer confidence. ● Among the retail stocks under our coverage, we expect PRIL to outperform the pack. *Continued...*

Sector	Trend	Outlook
Software	● We expect Top-4 companies to report a sequential growth of 3.5-5% in their revenue in dollar terms, led by a stabilisation in major client accounts and sustained new business growth. However, the growth in Rupee terms is likely to be around 1-3% on account of the sharp appreciation of the Rupee against all leading currencies, such as the USD (1.6%), the Euro (7.7%) and the GBP (5.9%). The currency impact for Tech Mahindra is likely to be higher (~5%) on account of its higher exposure of 79% in the European market. ● All the companies went for strong headcount additions in the 3QFY2010 and have expectedly continued their campus hiring plans in 4QFY2010, which, along-with salary hikes, would result in some uptick in the staff costs. The impact of the increase in the salary costs would be set-off to a certain extent due to a favorable effort-mix and efficiency gains (improving utilisation). Operating profit margins are likely to decline by 50bp to 70bp for 4QFY2010. ● Profit after tax is likely to grow by 0.8% to 2% for our coverage universe, as the growth in revenue would be diluted by lower profitability and a higher tax rate. The effective tax rate would be higher due to a higher proportion of other income in the quarter.	● We maintain our positive stance on the sector, supported by a favorable trend in the various lead indicators. A strong recovery in US corporate earnings, robust hiring by companies, a rebound in the volume growth and sustained traction in the new verticals (Healthcare, Retail & Logistics) all bode well for the demand revival in the IT sector. ● On the valuation front, Tier-I stocks (Infy, TCS, Wipro) have been trading at their historical average of 20x-22x one-year forward earnings and incorporate an implicit growth of a 15% CAGR over FY2010E-12E, and does not offer a significant upside. ● However, we continue to believe that mid-tier stocks such as Tech Mahindra (attractive valuation of 9x on FY2012E, excluding Satyam) and Mphasis (sector outperformer) offer strong upside and continue to remain our top picks.
Telecom	● The difficult period witnessed by the Indian Telecom industry in 3QFY2010 continued to prevail during 4QFY10, although its severity was lower. The sector continued to witness a strong growth in its subscriber base, despite high competition and regulatory challenges. ● We expect the major telecom companies under our coverage, Bharti Airtel and Idea, to report top-line growth of 1.8% qoq and 6.4% qoq, respectively, on account of strong subscriber additions qoq, which are expected to be ~8.7mn and 6.7mn, respectively, taking their total base to 127mn and 59mn, respectively, as on 4QFY2010E. However, RCom is expected to witness de-growth of 2.2% qoq during 4QFY2010E, despite of ~8.4mn subscriber additions, taking its total subscriber base to 102mn. This is mainly due to a comparatively higher fall in monthly ARPUs than Bharti Airtel and Idea. ● We expect on an average 103bp qoq fall in EBITDA Margins in 4QFY2010E. This is mainly on the back of higher network expansion costs, subscriber acquisition costs and a decline in tariffs (revenues per minute). We expect the Bottom-line of the telcos to decline on an average by 10% qoq. We expect Bharti to grow its Bottom-line by 0.6% yoy. However, RCOM and Idea Cellular are expected to show a 15% qoq decline each in the bottom-line, mainly due to margin pressures.	● We believe that the ongoing price war is unlikely to persist, as even the current tariff rates are not feasible for newer players, considering the large capex involved, marketing spend and regulatory/tax structure. Bharti and RCom, with a high RPM and EBIDTA per minute, are better placed and are relatively immune to such tariff wars. We believe that the players with a low-cost integrated model (own tower infrastructure) and a high subscriber base would benefit in the long term; thus, we continue to remain positive on Bharti and RCom. ● The most awaited 3G & BWA auction was delayed further, while even the MNP implementation did not take place as per the schedule. The quarter marked a key event happening, viz. the acquisition of Zain Telecom (Africa) by Bharti Airtel, which is expected to be consummated soon. Although the deal appears expensive on various parameters (EV/EBIDTA and EV/Subscriber), we believe that the right way to look at the deal would be in terms of the opportunities it holds and the overall value of the combined entity, as it offers considerable synergies to Bharti.

Automobile

Volume growth continued on low base and advanced buying in 4QFY2010: For 4QFY2010, we expect the Auto companies to report a sequential spurt in Revenue growth on high Volumes and stable Pricing during the last couple of quarters. The substantial growth in Volumes is expected to boost Sales growth of our universe of stocks for 4QFY2010 to a high 53.4% yoy and 20.9% qoq. Going ahead, success of new launches, rising income levels and easy availability of finance both in the Two and Four-wheeler Segments, will determine the sales fortunes of the Auto players.

OPM pressures to increase sequentially: Input costs have spiraled in the last four months following the spurt in steel, rubber and aluminum prices. The cycle has reversed in the recent past, following upturn in commodity prices. Thus, Margins of our Auto universe is expected to contract sequentially by 128bp to reflect higher input costs. All these factors combined would result in 136% yoy and 13.5% qoq Earnings growth. Players are expected to register yoy increase in Net Profit in 4QY2010 on better Operating leverage and higher Volume growth.

Interest rate, fuel price and commodity price trend: Industry trend suggests that there is a negative correlation between auto finance rates and auto volume growth. Auto finance rates had moved down by 200-250bp in FY2010, which also supported the robust growth during the period. The Auto Finance Industry witnessed a good recovery in FY2010 after recouping almost the 25% decline in disbursements in FY2009. Swift revival in underling vehicle sales volume, conducive finance environment, increase in finance penetration and Loan-to-Value (LTV) ratio have been the key factors responsible for the industry growth. However, recent change in the trend of Monetary measures is expected to increase the cost of borrowing for the consumers over the next 6-8 months. Further, the government announced Petrol and Diesel price hikes by Rs2.67/litre and Rs2.58/litre YTD in 2010. This has a direct impact on the ownership cost, freight operators' profitability and could moderately impact auto volume growth in the medium term.

Union Budget 2010-11 better than expected : 2010 has started on a positive note for the Indian Automobile Sector, with volumes improving every month. Overall recovery in the Indian Auto Sector continues on sustained improvement in demand aided by improving macro-economic factors such as liquidity, lower interest rates and consumer confidence. The recent Union Budget 2010-11 also came in better than expected for the Automobile Sector, with the government keen on increasing its tax base and the Budget hiking Excise Duty by 2% to 10% (from 8% earlier). The industry was however, expecting a duty hike of 4%. Moreover, measures like thrust on rural, infrastructure and road development would also aid the Auto Sector in clocking consumption-based growth in volumes.

Auto Index - 2.8% outperformance in 4QFY2010: The Auto Index registered a 3.2% jump during 4QFY2010 versus marginal 0.4% rise in the Sensex, outperforming it by 2.8%. Sentiment for Auto stocks had turned positive in FY2010 on easing concerns over lower volume growth following the various stimuli announced by the government and the RBI to arrest the declining volumes of the industry. The positive upturn in volume continued in 4QFY2010 on the back of positive consumer sentiment and partially due to advancement of buying at dealers' desk in anticipation of roll back of Excise duty in the Union Budget. Further, expected increase in price owing to change in Emission norms from 1 April 2010 and higher input cost, also boosted volume growth during the quarter. Four-wheeler stocks like Maruti Suzuki, M&M and Tata Motors underperformed the Auto Index by 12.4%, 2.3% and 7.8%, respectively in 4QFY2010 post a substantial outperformance in 9MFY2010. Pressure of interest rate hike is reflected on these stocks. Two-wheeler stocks (which are less depending on finance now) however, rallied in 4QFY2010, where in Hero Honda (HH) and Bajaj Auto (BAL) outperformed by 10% and 11% respectively. In 4QFY2010, Tyre stocks registered superior performance on the bourses with Apollo Tyres and MRF moving up by 45.4% and 12.9% qoq.

Exhibit 1: BSE Sensex v/s Auto Index

Source: Company; Angel Research

Commercial Vehicles - Low base supports very high growth: CV sales have a direct correlation with the country's GDP and IIP growth, which were caught in a cyclical downturn over FY2008-09. With GDP estimated to register CAGR of 7.5% over FY2009-12E, we expect demand for CVs to remain buoyant. CV volumes have seen a good recovery every quarter in FY2010 and registered 27.6% yoy growth YTD. We believe that further pick-up in domestic industrial activities would support positive growth in CV demand going forward. The JNNURM scheme has also started benefiting the CV Sector though full impact of the scheme is expected to be seen over the next 6-8 months.

Automobile

Thus, CV sales are estimated to record around 13% CAGR over the next two years.

Exhibit 2: TML - Quarterly Volumes

Segment	4QFY10	4QFY09	% chg	FY10	FY09	% chg
Tata Motors	209,778	134,818	55.6	642,407	498,147	29.0
M&HCV	57,182	28,992	97.2	167,598	123,011	36.2
LCV	70,004	44,367	57.8	233,652	168,495	38.7
Total CV	127,186	73,359	73.4	401,250	291,506	37.6
Utility Vehicles	11,606	11,578	0.2	34,124	39,981	(14.6)
Cars	70,986	49,881	42.3	207,033	166,660	24.2
Total PV	82,592	61,459	34.4	241,157	206,641	16.7
Exports (Inc Above)	10,340	4,344	138.0	33,862	33,410	1.4

Source: Company; Angel Research

As most of the catalysts were in favour of CV industry in 4QFY2010, Tata Motors recorded a substantial 73.4% yoy growth in CV volumes, aided by 97.2% yoy and 57.8% yoy growth in M&HCV and LCV recpectively ib 4QFY2010.

Passenger Vehicles - New launches gaining speed: YTD FY2010, PV Sales volume grew a substantial 27.6% yoy aided by an increase in Exportd and recovery in domestic demand. This was supported by a rebound in Consumer sentiment post the FY2009 economic downturn, and was reflected in the improving volumes of the domestic PV market. An impressive volume growth, low penetration and low-cost manufacturing base have been attracting attention of the global Auto majors towards India. All these factors have accelerated their plans for India and have started launching products for the Indian market. During 4QFY2010, Volkswagen and Ford launched the *Polo* and *Figo* respectively, in the dominant A2 segment thereby escalating competition for market leader, Maruti Suzuki.

Exhibit 3: Maruti, M&M - Quarterly volumes

Segment	4QFY10	4QFY09	% chg	FY10	FY09	% chg
Maruti Suzuki	287,422	236,638	21.5	1,018,347	792,167	28.6
Total P. Cars	244,285	209,370	16.7	866,858	714,655	21.3
MUV	1,097	2,115	(48.1)	3,932	7,489	(47.5)
Domestic	245,382	211,485	16.0	870,790	722,144	20.6
Exports	42,040	25,153	67.1	147,557	70,023	110.7
M&M	127,242	92,741	37.2	462,644	348,983	32.6
Domestic Auto	79,868	62,662	27.5	281,068	220,775	27.3
Exports	3,775	1,052	258.8	10,361	8,500	21.9
Domestic Tractor	41,065	28,303	45.1	162,542	113,302	43.5
Exports	2,534	724	250.0	8,673	6,406	35.4

Source: Company; Angel Research

Maruti witnessed strong growth FY2010. The company recorded a robust 21.5% yoy and 28.6% yoy increase in volume during 4QFY2010 and FY2010, respectively.

Two-wheelers - Momentum continues: This Segment also registered a substantial 23% yoy growth YTD FY2010, aided by a 23% growth in the dominant Motorcycle Segment. HH reported a good 23.6% yoy growth in the domestic market in FY2010, indicating strength of its market reach and better performance by the Rural Segment. At the same time, backed by a series of new launches and low base BAL recorded 89.8% yoy and 30.8% yoy jump in two-wheelers volume in 4QFY2010 and FY2010 respectively. We believe that though the substantial ownership base of Two-wheelers results in reduced headroom for higher growth and increases dependence on Replacement demand to sustain volumes, rural markets will register better growth on demand arising from the relevant rural population. This is expected to help Two-wheeler companies maintain their growth momentum and register around 9% CAGR in Volumes over the next few years.

Exhibit 4: BAL, HH, TVS - Quarterly volumes

Segment	4QFY10	4QFY09	% chg	FY10	FY09	% chg
Bajaj Auto	808,929	440,223	83.8	2,852,634	2,194,108	30.0
Motorcycles	712,390	373,661	90.7	2,506,847	1,907,810	31.4
Scooters	258	1,735	(85.1)	4,851	11,772	(58.8)
Total 2 Wheelers	712,648	375,396	89.8	2,511,698	1,919,582	30.8
Three Wheelers	96,281	64,827	48.5	340,936	274,526	24.2
Exports (Inc Above)	214,471	151,639	41.4	891,098	772,519	15.3
Hero Honda	1,186,536	997,855	18.9	4,600,130	3,722,000	23.6
TVS Motor	412,858	323,018	27.8	1,522,024	1,329,707	14.5
Motorcycles	182,212	149,403	22.0	640,960	635,905	0.8
Scooters	81,030	59,851	35.4	309,501	255,364	21.2
Mopeds	149,616	113,764	31.5	571,563	438,438	30.4

Source:Company, Angel Research

Auto-Ancillaries - To track the Auto Sector: This Sector, which depends on the OEMs for growth, was stuck in the midst of sluggish growth in the domestic market, and a recession-hit global Export market in FY2009. However, revival of domestic Auto volumes in FY2010 supported recovery of the players during the period. The growth of the Indian Auto Component Industry is directly linked to growth of the Auto Sector, and has more than 65% of its domestic sales to the OEMs. Thus, recovery of Auto sales volume in FY2010 would help the OEM Segment to clock 12.6% CAGR over FY2009-12E. Further, an overall increase in vehicle population (recorded 10% CAGR over FY2000-10E) is expected to support consistent growth in Replacement demand of Auto parts and register 7% CAGR over FY2009-12E. The shift in focus of the Indian Auto Component Industry to exports has been apparent from the rise in its share in the overall turnover to 20% in FY2009 (11% in FY1999). Europe and USA contribute around 66% of Export Revenues of the Sector. Economic slowdown has been adversely impacting vehicle sales in these markets in the last two years.

Automobile

However, with these markets now showing signs of revival, Export volumes are expected to recover in FY2011-12E.

At the end of FY2009, the Auto Component players were finding it difficult to make future projections, as two of their key markets, the OEM and Replacement Segments, had been hit by poor demand and instability in final product prices, which were trending downwards. However, the industry is now recovering on better-than-expected revival in the domestic market, and marginal improvement in exports. Companies in the sub-segment of the Auto Components Sector (Tyres, Bearings and Batteries), with larger share of revenues from the Replacement and Domestic markets, have been less affected than those that supply exclusively to the overseas market. Broadly, the Sector is expected to deliver good yoy Earnings performance in 4QFY2010 on improved Volumes and better Operating leverage.

Outlook: Going ahead, we expect this economic recovery to help the Auto Sector, which includes passenger vehicles (PVs), commercial vehicles (CVs) and two-wheelers, in registering good growth in the Domestic market, and a decent growth in the Export markets, over FY2010-12E. We estimate overall Auto Volumes to register a CAGR of around 10% over FY2010-12E aided by the improved economic environment for the sector. Over the longer term, comparatively low penetration levels, a healthy economic environment and favourable demographics supported by higher per-capita income levels are likely to help the Auto companies in sustaining their Top-line growth.

Core business performance of the Auto companies has been improving in FY2010 and visibility has been restored, with a substantial 24% yoy growth seen YTD FY2010. Thus, while this quarter's performance is likely to be robust on a yoy basis, we also expect Auto companies to report a sequential spurt in Revenues on better Volumes. Most stocks have been positive in the last one year due to better visibility for the Sector. We remain positive on the long-term prospects of the Indian Auto Sector. We prefer stocks where strong and improving fundamentals could deliver positive Earnings surprises.

Among the heavyweights, we prefer Maruti Suzuki, Tata Motors and M&M. Among the Ancillary stocks, we maintain a Buy on Motherson Sumi, Fag Bearings and Subros, which are available at attractive valuations. In Tyres, we recommend a Buy on Apollo Tyres and JK Tyre, owing to the apparent structural shift the industry is going through.

Exhibit 5: Quarterly Estimates - Automobile

Rs cr

Company	CMP	Net Sales		OPM (%)		Net Profit		EPS (Rs)		EPS (Rs)			P/E (x)			Target	Recos
	(Rs)	4QFY10E	% chg	4QFY10E	chg bp	4QFY10E	% chg	4QFY10E	% chg	FY10E	FY11E	FY12E	FY10E	FY11E	FY12E	(Rs)	
Ashok Leyland	57	2,975	144.2	11.0	157	178.8	235.3	1.3	235.3	2.8	3.5	4.2	20.1	16.3	13.6	-	Neutral
Bajaj Auto@	1,999	3,219	80.1	20.0	481	425.3	226.6	29.4	226.6	110.8	120.3	135.2	18.1	16.6	14.8	2,164	Accumulate
Hero Honda	1,948	4,138	21.3	15.5	(54)	521.6	29.7	26.1	29.7	107.8	113.4	123.5	18.1	17.2	15.8	-	Neutral
Maruti	1,391	8,320	31.9	13.5	460	705.9	93.9	24.4	93.9	88.8	98.1	109.8	15.7	14.2	12.7	1,756	Buy
M&M @	534	5,369	48.3	14.4	289	477.7	70.9	8.3	61.1	34.4	35.7	37.4	15.5	14.9	14.3	656	Buy
Tata Motors @*	776	12,328	78.8	12.2	324	663.4	437.2	10.2	323.9	22.7	55.7	69.5	34.1	13.9	11.2	938	Buy
TVS Motors	83	1,255	36.0	6.0	264	34.8	138.2	1.5	138.2	4.3	5.5	7.4	19.5	15.1	11.2	89	Accumulate

Source: Company, Angel Research; Note: Price as on Apri 1, 2010, Note: @Adjusted for extraordinary items; FY2010-12E EPS on Consolidated basis*

Exhibit 6: Quarterly Estimates - Auto Ancillary

Rs cr

Company	CMP	Net Sales		OPM (%)		Net Profit		EPS (Rs)		EPS (Rs)			P/E (x)			Target	Recos
	(Rs)	4QFY10E	% chg	4QFY10E	chg bp	4QFY10E	% chg	4QFY10E	% chg	FY10E	FY11E	FY12E	FY10E	FY11E	FY12E	(Rs)	
Auto Axle ^	398	150	166.9	12.0	(34)	8.8	-	5.8	-	6.4	23.6	30.6	62.2	16.9	13.0	459	Buy
Bharat Forge @	257	554	95.4	23.0	840	42.1	(31.1)	1.9	(31.1)	(0.5)	10.3	15.5	-	25.0	16.5	-	Neutral
Bosch India#	4,796	1,493	50.5	17.4	723	173.2	250.7	54.7	250.7	188	227	259	25.5	21.1	18.5	5,187	Accumulate
Exide Inds	123	958	20.0	23.9	713	139.5	104.5	1.6	92.5	6.4	7.1	7.9	19.3	17.4	15.6	132	Accumulate
FAG bearing#	522	236	29.1	15.9	(353)	22.9	64.5	13.8	64.5	46.4	45.7	52.2	11.3	11.4	10.0	626	Buy
Motherson Sumi*@	128	1,825	120.8	9.1	(160)	53.1	(30.9)	1.4	(33.7)	4.0	7.7	9.5	31.7	16.6	13.4	162	Buy
Subros	44	253	17.4	9.6	248	7.8	893.8	1.3	893.8	4.4	5.4	6.2	10.1	8.1	7.1	62	Buy
Apollo Tyres@	72	1,445	30.1	12.1	196	86.9	88.0	1.7	88.0	9.7	9.0	11.0	7.5	8.0	6.6	93	Buy
Ceat	151	796	26.1	5.1	(394)	19.1	(57.5)	5.6	(57.5)	48.7	36.9	44.2	3.1	4.1	3.4	199	Buy
JK Tyres@	198	1,103	29.1	11.0	260	50.4	269.2	12.3	269.2	59.1	45.5	53.5	3.3	4.3	3.7	267	Buy

*Source: Company, Angel Research, Price as on Apri 1, 2010, Note: * Consolidated Results; # December Year end; ^ September Year end; @ FY2010-12E EPS on Consolidated basis and adjusted for FCCB interest after tax; We end coverage on the Amtek Group companies*

Analyst - Vaishali Jajoo / Shreya Gaunekar

Banking

4QFY2010 - Marked by tighter liquidity and rising interest rates

Core business growth for banks improved in-line with our expectations in 4QFY2010, with the credit growth rate picking up to a level of 16.1% yoy as on March 12, 2010. At the same time, a combination of low deposit rates, insignificant forex reserve accretion due to a burgeoning current account deficit as well as commencement of monetary tightening precipitated a slowdown in broad money (M3) and deposit growth as well as a corresponding reduction in liquidity levels. Anticipating this, several banks have already increased deposit rates by about 50bp during the quarter and withdrawn special rate loan schemes. We expect NIMs to improve by 5-15bp sequentially during 4QFY2010, driven by an improving Credit Deposit ratio due to a strong 5-7%+ sequential loan growth as well as residual downward re-pricing of deposits.

The Benchmark 10-year GSec yield rose by 25bp to 7.9% during the quarter, with similar increase even at the lower end. As a majority of the banks' investment portfolios are protected till the level of 7.5%, we expect banks with a high exposure to AFS and a higher level of AFS duration to face moderate MTM losses. Overall, growth in Net Interest income as well as Fee income is expected to be strong during 4QFY2010, even as absence of treasury gains pulls down overall Operating income growth. Although asset quality concerns are receding, slippages from restructured portfolios remain important metrics to monitor in the 4QFY2010 results.

Market Returns

With the RBI signaling a rising interest rate environment, changing relative expectations on the NIM and asset quality front drove stock performance during the quarter. The BSE Bankex rose 4% sequentially, outperforming the Sensex by a marginal 300bp. While most large caps gave impressive returns on expectations of superior NIM performance, some of the midcaps that gave good returns, include OBC and Corp Bank, on the back of their healthy NII and Fee income growth trends. Stocks such as BOI, IOB, Indian Bank and Yes Bank underperformed the Bankex, on asset quality / NIM concerns.

Exhibit 1: 4QFY2010 Stock Performance

	% Returns - QoQ	% Returns - YoY	3QFY2010 Recommendation
OBC	29.3	194.1	Buy
Axis Bank	18.7	183.2	Buy
South Ind Bk	17.9	242.5	Buy
Union Bank	14.8	105.8	Accumulate
Corp Bank	14.3	167.0	Buy
HDFC Bank	14.1	100.3	Buy
Federal Bank	12.3	91.9	-
PNB	11.9	147.0	Neutral
ICICI Bank	8.8	186.5	Buy
Bankex	6.8	138.5	-
Sensex	1.3	82.2	-
Indian Bank	0.9	112.3	Accumulate
Yes Bank	(3.4)	417.0	Neutral
Dena Bank	(4.5)	145.5	Buy
BOI	(10.0)	57.5	Neutral
IOB	(16.9)	102.6	Neutral

Source: BSE, Angel Research

Key Developments

Sharp pick-up seen in Credit Demand; liquidity reducing

As per the data available for the fortnight ended March 12, 2009, during the last two fortnights, total credit increased by Rs73,200cr, compared to Rs42,800cr recorded during the sequentially preceding two fortnights, indicating a sharp pick-up since February. Our credit growth target of 15% yoy by the year-end looks achievable, with a manageable Rs60,000cr needing to be disbursed during the last fortnight to achieve the same.

Demand for credit from the private sector is on an evident upward trajectory and is likely to further accelerate to 20%+ levels in FY2011E, especially as the demand for capex increases. Our analysis indicates that to maintain asset-turnover ratios even at historical peak levels of 2.9x, about Rs7 lakh cr of capex spending on plant and machinery alone will be required by the Indian corporates over FY2010-12E to achieve the estimated sales growth of 22-24%.

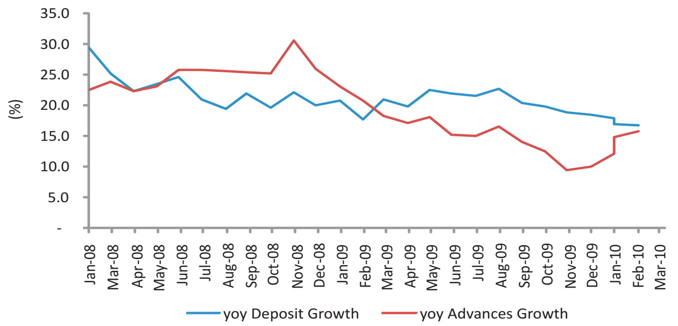
At the same time, a combination of low deposit rates, insignificant forex reserve accretion (due to a burgeoning current account deficit), as well as the commencement of monetary tightening have precipitated a slowdown in broad money (M3)

Banking

and deposit growth (down from about 22% in July 2009 to 17.9%), and a corresponding reduction in liquidity levels (LAF balances have almost dried-up over the last couple of weeks).

In 4QFY2010 (till March 12), deposit mobilisation was Rs1,92,200cr (Rs90,700cr in 3QFY2010 and Rs2,60,500cr in 4QFY2009). While the absolute growth in deposits continues to outpace absolute loan growth, the gap has narrowed over the past few months, resulting in an improved Credit-Deposit ratio at 71% (from a level of 69% during October-November 2009). The Investment to Deposit ratio declined to 31.6% in 4QFY2010 from 32.3% in 3QFY2010. Excess liquidity in the money markets also showed signs of sharp changes, indicated by a reduction in LAF balances by the end of March to Rs5,000cr (from Rs42,000cr at the end of December 2009).

Exhibit 2: Credit and Deposit Growth Trend



Source: RBI, Bloomberg, Angel Research

Lending and Deposit rates to go up

Most banks held on to their PLRs during 4QFY2010. However, anticipating the above mentioned tightening of liquidity, several banks have already increased deposit rates by about 50bp during the quarter, taking the peak FD rates to 7.0-7.75% for most banks, and several have also withdrawn special rate loan schemes. Private banks have increased lending rates on home loans and auto loans by 25 to 75bp from March onwards. Among PSU Banks, Union Bank, Bank of India and Punjab National Bank have already discontinued their special home loan schemes from March 1.

We expect NIMs to improve by 5-15bp sequentially during 4QFY2010, driven by an improving Credit Deposit ratio due to a strong 5-7%+ sequential loan growth and the residual downward re-pricing of deposits. In the medium term, banks with a larger component of retail deposits, especially CASA deposits, are expected to deliver improving NIMs and higher Net Interest Income growth. This mainly includes the large Private and PSU banks such as HDFC Bank, Axis Bank, ICICI Bank and SBI. On the other hand, banks reliant on wholesale funding are expected to increasingly witness pressure on their NIMs. These include mainly the mid-caps like Yes Bank, IOB, Indian Bank and OBC.

Exhibit 3: Deposit rates (%)

	PLRs			*Peak Retail FD Rates*		
Bank	**4QFY10**	**3QFY10**	**qoq chg**	**4QFY09**	**3QFY10**	**qoq chg**
BOI	12.00	12.00	-	7.00	6.50	0.50
PNB	11.00	11.00	-	7.00	7.00	-
UNBK	11.75	11.75	-	7.25	6.75	0.50
OBC	12.00	12.00	-	7.00	7.00	-
CRPBK	12.00	12.00	-	7.00	7.00	-
IOB	12.00	12.00	-	7.25	6.75	0.50
INDBK	12.00	12.00	-	7.00	6.75	0.25
ICICIBK	15.75	15.75	-	7.75	7.50	0.25
HDFCBK	15.75	15.75	-	7.50	7.00	0.50
AXSB	15.25	14.75	0.50	7.00	7.10	(0.10)
YESBK	17.00	16.50	0.50	7.50	7.00	0.50

Source: Company, Angel Research

Rising Interest rate risk; reducing credit risk

During the quarter, the 10-year GSec yield rose by 25bp to 7.9% (touched a high of 8%), on the back of reducing liquidity and increasing credit demand. The 3-year GSec yield also increased by 30bp during the quarter (to 6.7%). As a majority of the banks' investment portfolios are protected till the level of 7.5%, we expect banks with a high exposure to AFS and a higher level of AFS duration to face moderate MTM losses. Banks exposed to higher Interest rate risks include Indian Bank and Union Bank of India, as well as Axis Bank on its corporate bond book.

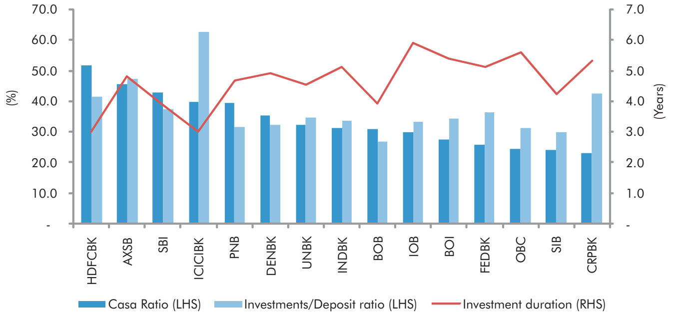
On the asset-quality front, the risk aversion of banks is clearly reducing, as the economic outlook continues to improve, reflected by an improving Credit Deposit ratio and the narrowing spread between GSec and AAA corporate bond yields. Although asset-quality concerns are receding, slippages from restructured portfolios remain important metrics to monitor in the 4QFY2010 results.

Exhibit 4: 3-Year Gsec Vs Corporate Bond Spread

Source: Company, Angel Research

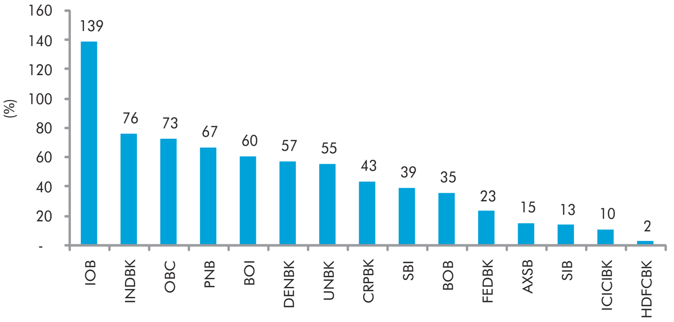
Banking

Exhibit 5: Prefer High CASA, Low Investment duration



Source: Company, Angel Research

Exhibit 6: Restructuring to Networth (%) - 9MFY2010



Source: Company, Angel Research

Outlook

For the Banking Sector as a whole, in our view, rising interest rates, consistent with the imminent revival in GDP growth and rising inflationary expectations, are not a negative and would be outweighed by an acceleration in core earnings growth, as Credit growth and Fee Income picks up, while NPA losses trend downwards (for private banks to begin with, and for PSU banks 3-4 quarters hence). That said, in a rising interest rate environment, banks with a strong CASA ratio and a lower duration investment book are relatively better placed (from an ALM standpoint). Banks such as HDFC Bank, PNB, BOB and SBI top this list, followed by other large private banks like Axis Bank and ICICI Bank that at least have strength in CASA deposits. On the other hand, smaller PSU and private banks that have weaker CASA franchises are likely to deliver a weaker core earnings performance. Accordingly, we have reduced our target multiples and changed the respective ratings for banks like Corporation Bank, Indian Bank, Dena Bank, Union Bank and South Indian Bank. **We have upgraded BOI to Accumulate** as we believe that the stock is attractively priced post the recent correction in the stock. **We have downgraded PNB to Reduce**, due to expensive valuations that leave reduced margin of safety from NIM / asset quality pressures. We prefer the large private banks, in light of their stronger core competitiveness and likelihood of market share gains (including CASA market share), on the back of strong Capital Adequacy and Branch expansion. **ICICI Bank, Axis bank and HDFC Bank remain our top picks in the sector.**

Exhibit 7: Quarterly Estimates

Rs cr

Company	CMP	Operating Income		Net Profit		EPS (Rs)			Adj BVPS (Rs)			P/E (x)			P/ABV (x)			Target	Reco
	(Rs)	4QFY10E	% chg	4QFY10E	% chg	FY10E	FY11E	FY12E	FY10E	FY11E	FY12E	FY10E	FY11E	FY12E	FY10E	FY11E	FY12E	(Rs)	
Axis Bank	1,174	2,445	30.2	664	14.2	60.2	72.4	95.1	392.6	446.5	517.3	19.5	16.2	12.3	3.0	2.6	2.3	1,448	Buy
HDFC Bank	1,939	3,310	11.6	847	34.2	65.5	87.7	116.6	458.0	526.8	620.2	29.6	22.1	16.6	4.2	3.7	3.1	2,171	Buy
ICICI Bank	953	4,005	5.1	980	31.7	35.9	47.1	62.7	444.5	474.6	514.1	26.5	20.2	15.2	2.1	2.0	1.9	1,160	Buy
Yes Bank	258	410	67.2	139	73.5	14.1	16.4	18.7	95.9	112.3	131.0	18.3	15.8	13.8	2.7	2.3	2.0	-	Neutral
Federal Bank	265	501	6.3	193	69.1	31.6	34.9	45.3	278.2	305.5	341.6	8.4	7.6	5.8	1.0	0.9	0.8	342	Buy
SIB	176	224	16.3	76	50.7	24.0	26.7	33.2	129.7	151.1	179.4	7.3	6.6	5.3	1.4	1.2	1.0	-	Neutral
Bank of India	346	2,092	(5.7)	416	(48.7)	32.9	40.6	49.7	241.3	278.6	320.9	10.5	8.5	7.0	1.4	1.2	1.1	369	Accu.
Corp Bank	480	868	(5.8)	268	2.7	78.5	87.7	95.9	396.1	463.3	536.4	6.1	5.5	5.0	1.2	1.0	0.9	510	Accu.
Indian Bank	176	1,135	18.3	391	(0.9)	34.9	37.5	40.9	154.8	184.1	215.5	5.0	4.7	4.3	1.1	1.0	0.8	194	Accu.
Dena Bank	79	434	14.6	110	(0.7)	16.8	20.4	22.3	82.3	100.6	119.5	4.7	3.9	3.6	1.0	0.8	0.7	95	Buy
IOB	92	1,077	(18.8)	157	(51.4)	15.0	13.6	13.4	102.8	114.2	125.5	6.1	6.8	6.9	0.9	0.8	0.7	-	Neutral
OBC	323	1,008	25.8	365	86.4	47.2	42.0	44.4	285.3	319.5	355.7	6.8	7.7	7.3	1.1	1.0	0.9	-	Neutral
PNB	1,015	3,041	10.1	962	11.2	117.7	129.6	148.3	510.0	612.0	728.2	8.6	7.8	6.8	2.0	1.7	1.4	874	Reduce
Union Bank	303	1,518	2.2	502	7.9	39.3	41.5	47.2	170.2	202.2	238.9	7.7	7.3	6.4	1.8	1.5	1.3	-	Neutral

Source: Company, Angel Research; Note: Price as on April 1 , 2010

Analyst - Vaibhav Agrawal / Amit Rane

Capital Goods

Capital Goods Index - Flattish Performance

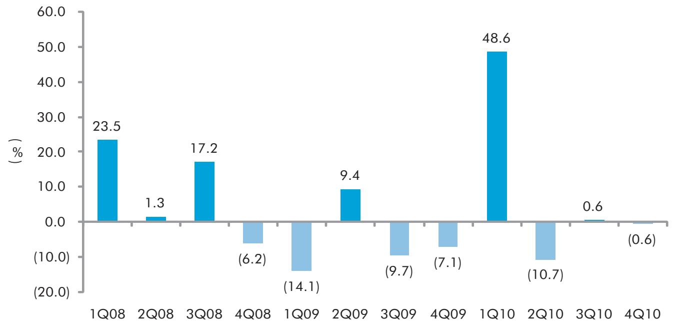
During 4QFY2010, the BSE Capital Goods (CG) Index had a muted quarter, consolidating its position and ending flattish, with a minor loss of 0.2% in absolute terms, underperforming the benchmark BSE Sensex by 0.6%. Notably, during 1QFY2010, the CG index had a phenomenal run-up after the election results, primarily driven by the huge set of expectations emanating from the political stability emerging in the country. However, as most of the stocks had run way ahead of their fundamentals, and were commanding premium valuations, the under-performance during 2QFY2010 and the muted performance during the last couple of quarters were along expected lines.

Exhibit 1: Sensex v/s Capital Goods Stocks (4QFY2010)

	Abs. Returns (%)	Relative to Sensex (%)
BSE Sensex	0.4	0.0
BSE Capital Goods Index	(0.2)	(0.6)
ABB	8.2	7.8
Areva T&D	13.1	12.7
BHEL	(0.9)	(1.2)
Crompton Greaves	7.3	6.9
Jyoti Structures	(6.0)	(6.4)
KEC International	(0.4)	(0.8)
Thermax	12.0	11.6

Source: C-line, Angel Research

Exhibit 2: Capital Goods Index: Relative Returns to the Sensex



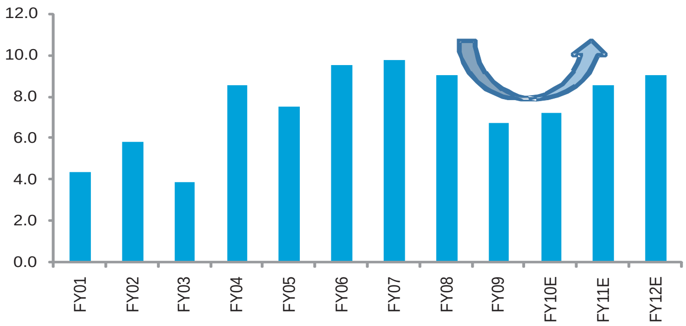
Source: C-line, Angel Research

On a stock-specific basis, most of the capital goods stocks had a mixed trend during the quarter. Areva T&D India was the major gainer, up 13.1% in absolute terms and outperforming the Sensex by 12.7%. The news that the Areva T&D global is up for sale and whether this would invite an open offer for the Indian entity continues to drive speculation in the stock. Thermax also continues to outperform (gaining 12.0% in absolute terms and outperforming the broader benchmark indices by 11.6%), on the back of a strategic tie-up with Babcock & Wilcox to form a JV to manufacture supercritical boilers for the Indian power sector.

Macro Indicators showing strength

After registering a strong GDP growth of more than 9% for three consecutive years, the Indian economy shifted to a relatively lower growth trajectory for the year FY2009 (owing to the global meltdown), recording a modest 6.7% growth. Nonetheless, the GDP growth for the current year has been pegged at around 7.2%, on the back of a lower-than-expected slide in agricultural output and a healthy recovery in industrial performance. Moreover, the economy is expected to pick up steam during the ensuing years, with economic growth expected to rebound to 9.0% levels by FY2012E. We believe that the government's focus on infrastructure spending, coupled with an increase in investment demand by corporate India, along with improved consumption, would provide a fillip to industrial production.

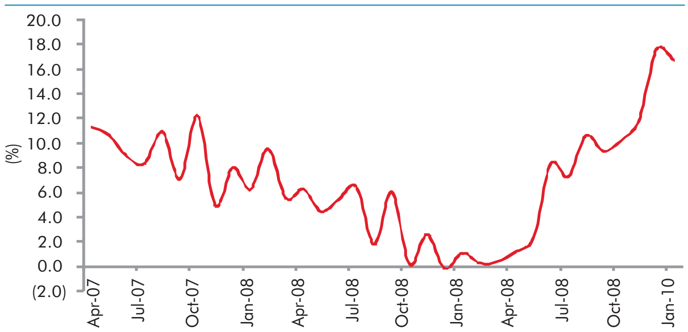
Exhibit 3: GDP Growth to bounce back



Source: CMIE, Angel Research

The Index of Industrial Production (IIP) is also showing strength, based partly on the actual economic recovery and partly due to the low base effect. The latest IIP growth for January 2010 came in at 16.7% (1.0%). For the current fiscal as well, the cumulative IIP growth for the period of April to January 2009-10 stood at 9.6% (3.3%). The Capital Goods component for January 2010 also witnessed a sharp spike in growth at 56.2% (15.9%). For the current fiscal, the cumulative growth for Capital Goods components during the period of April to January 2009-10 registered a growth of 15.6% (8.9%).

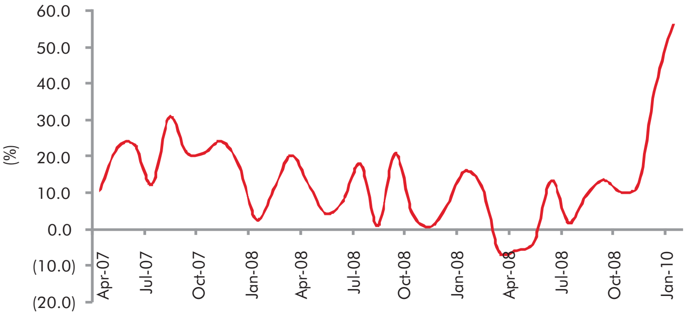
Exhibit 4: IIP Growth



Source: Bloomberg, Angel Research

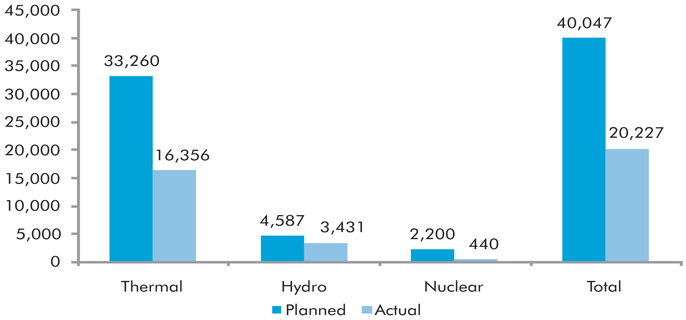
Capital Goods

Exhibit 5: CG Component Growth



Source: Bloomberg, Angel Research

Exhibit 7: Capacity addition (MW)-11th Plan (till Feb '10)

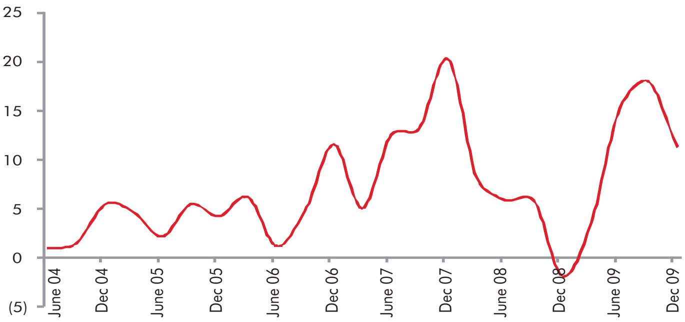


Source: CEA, Angel Research

Liquidity continues

The visibility also seems to be gradually improving, with foreign investments in India continuing their momentum, with relatively smooth financial closure of several projects, and with quite a few companies across sectors having successfully tapped the financial markets.

Exhibit 6: Foreign Investments into India (US $bn)



Source: CMIE, Angel Research

Power sector hurdled with Capacity addition delays

Most of the companies under our coverage in the Capital Goods space have their fortunes directly linked to the pace of Power sector growth in the country. Although Power Sector capex is relatively resilient (with a majority of the projects being planned by the Central and State sector utilities), a major cause of concern for companies is a delay in capacity addition. Historically, India has a poor track record in this regard, with only 50-60% of the total planned capacity added during several of the previous Five-Year Plans. As per Central Electricity Authority (CEA) data, we are faring no better even for the current Plan Period, with the execution rate being quite slow, and with around 49% of the projects already running behind schedule.

Key Developments

ABB: During the quarter, ABB won an order worth US $22mn from Haryana Vidyut Prasaran Nigam Ltd (HVPNL) to provide four turnkey substations for the regional grid. The project is scheduled for completion by the end of 2011.

Areva T&D: During the quarter, Areva T&D India won several major orders, with a combined worth of over Rs980cr, including a Rs400cr contract by the state utility Uttar Pradesh Power Transmission Corporation to build a 765 kV extra high-voltage substation at the Anpara "D" thermal power plant.

BHEL: BHEL continued to secure private sector orders, including an order worth Rs5,778cr for setting up 10 sets of 270MW thermal units in Maharashtra. Notably, the order has been placed by Elena Power & Infrastructure, a company of the Indiabulls group. Besides, the company also won the largest single value captive power plant (376MW) order worth Rs3,348cr, for setting up a plant at the upcoming Paradip refinery project of the Indian Oil Corporation in Orissa.

During the quarter, BHEL signed a MoU with Toshiba Corporation, Japan, to explore the possibility of forming a JV company to address the transmission and distribution business in India (and in other mutually agreed countries).

Crompton Greaves: In continuation with its strategy of inorganic growth, during the quarter, Crompton Greaves entered into an arrangement for the acquisition of Power Technology Solutions, which is a high-voltage electrical engineering company based in the United Kingdom. The approximate Enterprise Value of this acquisition is 30 million pounds. Additionally, the comapny, along with its partner company ZTR of Ukraine, bagged a contract worth Rs600cr for the erection and commissioning of 765kV shunt reactors from PGCIL.

Capital Goods

Jyoti Structures: During the quarter, the board of directors of the company approved the amalgamation of JSL Structures, a 100%, wholly-owned subsidiary. Moreover, the board also agreed to the offer and issue non-convertible debentures with detachable warrants aggregating to an amount not exceeding Rs125cr.

Thermax: In its process of transforming to the next level, Thermax entered into a strategic tie-up with Babcock & Wilcox Power Generation Group, Inc. (B&W PGG), to form JV to manufacture and supply supercritical boilers for the Indian power sector. Thermax is expected to invest around Rs178cr as equity investment for a 51% stake in the same.

During the quarter, the company also settled an outstanding legal dispute with Purolite International, regarding its ion exchange resin business in the US. As per this out-of-court settlement, Thermax will pay Purolite four installments of US $9.5mn each, spread over the calendar year, and both the parties will now be joint co-owners, in perpetuity, of the information and technology in dispute.

4QFY2010 Expectations

The top-line of the companies under our coverage universe is expected to post a growth of 21.8% yoy. This would primarily be driven by BHEL, which is expected to witness a strong revenue growth of 26.8%, on the back of strong execution of the healthy order book. Thermax is, however, expected to post a muted performance during the quarter.

On the operating front, we expect our universe to register a 301bp margin expansion to 17.4%. Again, BHEL would be the key driver, as the company is expected to witness a 491bp margin expansion to 21.0%, owing majorly to the lower raw material cost, along with benefits on the employee cost front. Areva T&D would witness a fall in its margins, owing to the changing nature of its product-mix, coupled with increased competitive pressures in the market.

Consequently, the net profit would also increase at a higher pace of around 29.9% yoy for our entire universe. BHEL is expected to witness a strong increase in net profit of 40.0% yoy. KEC International is expected to post a stupendous 173.3% yoy growth in its reported net profit, after accounting for the tax benefits due to the RPG Cables merger; while Thermax is expected to post a sharp dip in reported profit, due to the payout to Purolite International on account of the settlement of the legal dispute.

Outlook

The scenario for the Indian Economy in general and that for the Capital Goods Industry in particular has undoubtedly improved to an extent, after the political stability in the country along with the easing liquidity situation and the offshoots of recovery in the global economy. However, we believe that several Capital Goods stocks are already trading at premium valuations, leaving little scope for outperformance. Besides, although the capital goods companies catering to the Power Sector will continue to enjoy a degree of comfort, owing to the government's thrust on this core sector, the sector has its own set of issues, with around 49% of the planned power projects for the Eleventh Plan already running behind schedule. **With the backdrop of the rich valuations, we prefer a stock-specific approach, with Crompton Greaves, Thermax, Jyoti Structures and BGR Energy being among our preferred picks.**

Exhibit 8: Quarterly Estimates — Rs cr

Company	CMP	Net Sales		OPM (%)		Net Profit		EPS #(Rs)		EPS #(Rs)			P/E (x)			Target	Recos
	(Rs)	4QFY10E	% chg	4QFY10E	chg bp	4QFY10E	% chg	4QFY10E	% chg	FY10E	FY11E	FY12E	FY10E	FY11E	FY12E	(Rs)	
ABB*	828	1,593	14.4	9.2	7	96	22.1	4.5	22.1	16.7	26.0	32.4	49.5	31.8	25.5	-	Neutral
Areva T&D*	309	988	16.9	12.0	(88)	59	14.8	2.5	14.8	8.0	10.4	13.3	38.7	29.6	23.2	-	Neutral
BHEL	2,419	13,367	26.8	21.0	491	1,886	40.0	38.5	40.0	87.6	108.5	128.9	27.6	22.3	18.8	-	Neutral
Crompton Gr.	274	2,846	15.7	12.6	(78)	214	10.2	3.3	10.2	12.0	13.5	15.3	22.9	20.2	17.8	307	Buy
Jyoti Structures	169	642	36.5	11.2	80	32	52.4	3.9	52.4	12.0	14.2	16.9	14.1	11.9	10.0	220	Buy
KEC Intl.	576	1,342	18.3	10.3	67	131	173.3	25.5	173.3	50.2	44.9	52.0	11.5	12.8	11.1	728	Buy
Thermax	701	888	(6.3)	13.4	(64)	(36)	(139.0)	(3.0)	(139.0)	10.3	30.3	37.7	68.0	23.1	18.6	754	Buy

*Source: Company; Angel Research; Note: Price as on April 1, 2010; * Y/E December, #Reported*

Analyst - Puneet Bambha

Cement

Indian cement companies have reported strong sales volume during 4QFY2010. The additional capacities that have come on stream have enabled most of the cement manufacturers to increase the total cement production. During January-February 2010, the All-India cement despatches grew by an impressive 8.3% yoy to 35mn tonnes, on account of strong demand and a substantial increase in capacity. All regions, apart from the Southern region, recorded a healthy growth in despatches. The Central region reported strong growth in despatches, due to an increase in demand arising out of infrastructure activities. The Northern region followed suit, aided by healthy demand arising from the upcoming Commonwealth Games and other infrastructure-related construction activities. The Western region witnessed robust growth on account of an increased demand from the Housing space. However, the Southern region remained a laggard, due to a slowdown in construction activities due to the political uncertainity in Andhra Pradesh.

All-India Cement Prices rise during the quarter

Cement prices increased across the country during the quarter, with a variety of factors supporting the price rise. The major factor that caused the price rise was the increase in the excise duty on cement in the Union Budget and the hike in the prices of fuel, which led to a hike in the input costs. The Budget increased the Excise duty from 8% to 10% for Cement prices above Rs190 per bag, while increasing the duty from Rs230/ tonne to Rs290/tonne for cement sold at less than Rs190 per bag. The increase in excise duty on cement is likely to have an impact of Rs3 per bag for cement sold below Rs190 and a minimum Rs3.75 for cement sold above Rs190. The budget also imposed a clean energy cess of Rs50 per tonne on imported and domestic coal, thereby pushing up the input costs further. On account of a short-term demand-supply mismatch, cement manufacturers have managed to increase their prices by over and above the rise in input costs. After the Budget, cement companies have increased the prices by Rs10-12/bag, depending on the region, to pass on the increase in input costs.

Demand-side factors also contributed to the rise in prices. The prices were up in the Northern region due to healthy demand from the infrastructure segment and construction activities related to the Commonwealth Games. The prices rebounded in the Southern region as well due to the improvement in the political scenario of Andhra Pradesh and the commencement of government-sponsored infrastructure activities. Robust demand from infrastructure projects resulted in a price rise in the Eastern and Central regions as well.

Exhibit 1: Average Cement Prices (Rs/bag)

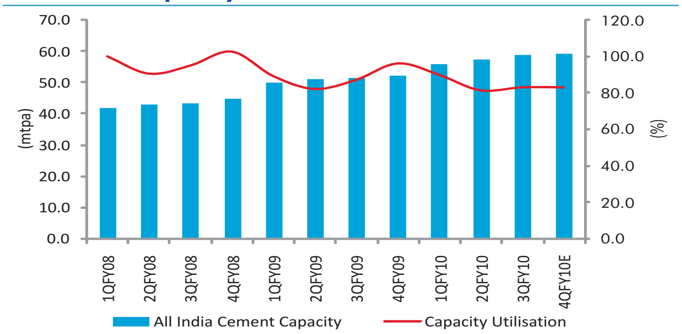
Market	4QFY2010E	4QFY2009	% yoy	3QFY2010	% qoq
Mumbai	255	251	1.6	235	8.5
Delhi	233	230	1.3	220	5.9
Chennai	250	276	(9.4)	210	19.0
Kolkata	270	245	10.2	240	12.5
Average Price	**252**	**251**	**0.6**	**226**	**11**

Source: CMA, Angel Research

All-India Capacity Utilisation at 84%

All-India capacity utilisation during January-February 2010 remained robust at 84%, despite the huge capacity additions, mainly due to healthy demand. The Central region clocked the highest utilisation rate of 114% during the same period. The Northern and Western regions also clocked healthy utilisation rates of 98% and 89%, respectively. However, the utlisation rates remained low in the Southern Region at 70% due to overcapacity and modest demand.

Exhibit 2: Capacity Utilisation Trend

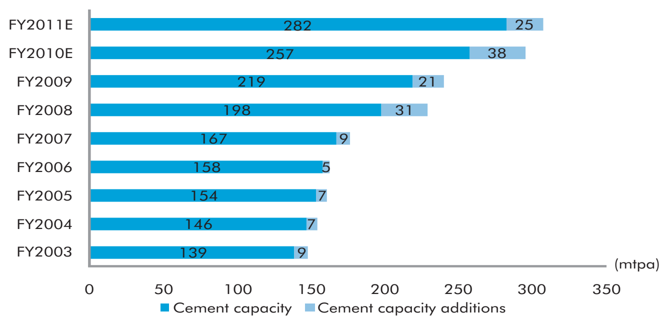


Source: CMA, Angel Research

Huge Capacity additions to lower Capacity Utilisation

India's total cement capacity stood at around 219.2mtpa at the end of FY2009. We expect the industry to add around 38mn tonnes of capacity during FY2010E, resulting in an overall capacity of 257mtpa at the year end. The huge capacity addition is expected to result in an oversupply situation and exert pressure on prices post June 2010, with the stabilisation of the plants coinciding with the end of the peak construction period.

Exhibit 3: Cement Capacity Additions



Source: CMA, Industry, Angel Research

Cement

Performance on the bourses

During 4QFY2010, all the Cement stocks under our coverage delivered positive returns and outperformed the broader markets. Ultratech was the biggest gainer with returns of 26.4%. Ambuja Cements and Grasim Industries too delivered impressive returns of 15.4% and 13.6% respectively.

Exhibit 4: Sensex v/s Cement stocks (4QFY2010)

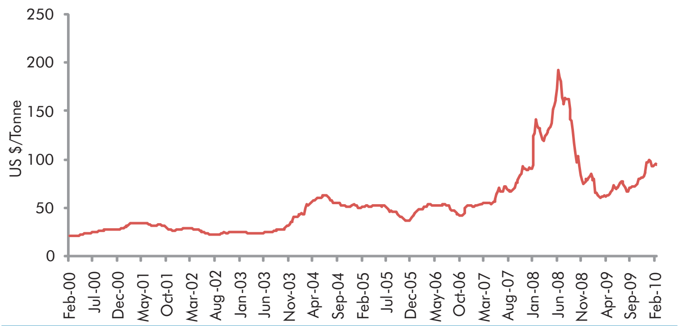
	Abs. Returns (%)	Relative to Sensex (%)
Sensex	0.4	-
ACC	9.1	8.7
Ambuja	15.4	15.0
Grasim	13.6	13.2
Ultratech	26.4	26.0
India Cements	6.9	6.5
Madras Cements	8.9	8.5
JK Lakshmi	2.6	2.3

Source: BSE, Angel Research

Coal prices surge

Cement manufacturers use coal for power generation and in the kiln for cement production. Since Power forms a major portion of the overall costs involved in cement manufacturing, the price of coal (the primary raw material in power generation) has a major effect on the profitability of cement manufacturers. The coal prices were up by close to 30% during 4QFY2010. The average prices of the New Castle Mccloskey coal stood at around US $95/tonne during 4QFY2010 (as against US $73/tonne witnessed in 3QFY2010); coal prices were higher even on a sequential basis. The increase in coal prices is a negative for cement manufacturers, as it would result in margin erosion.

Exhibit 5: Global Thermal Coal Prices



Source: Bloomberg, Angel Research

Major developments during the quarter

Ambuja Cements

Capacity Addition: A new 1.5mtpa grinding unit of Ambuja Cements Ltd (Ambuja) came into operation at Nalagarh in Himachal Pradesh. The plant has been set up at an investment of Rs300cr. The Nalagarh unit will use the clinker produced at Rauri unit, which is 95km from the Nalagarh Plant. It will use a fully-automated production process, with the help of German technology. This unit allows easy access to all important markets of the state, and the neighbouring states of Punjab and Haryana. The cement will be made available in specially designed 50 kg bags that are tamper-proof and seepage proof. With the addition of this capacity, Ambuja's overall cement capacity has touched 25mtpa.

India Cements

QIP Issue: India Cements has raised US $65mn via the QIP route, which we believe is primarily for the redemption of the US $75mn of FCCBs due in May 2011. The conversion price of the FCCBs is at Rs350, which is far above the company's current market price. Thus, the FCCBs are unlikely to be converted into equity. Further, a portion of the funds raised is also expected to be used for capital expenditure plans. The company, which is currently setting up a 1.5mn tonne plant in Rajasthan through its subsidiary Indo-Zinc, is also in the process of setting up two 50MW power projects. The QIP has been made at a price of Rs120, and resulting in an equity dilution of close to 9%.

IPL auction: India Cements acquired its Indian Premier League (IPL) franchisee, Chennai Super Kings, for US $91mn in 2008 for a 10-year period. During the quarter, the governing board of the IPL completed the auction for inducting two more new teams into the league. The two franchisees for Pune and Kochi were auctioned for US $370mn and US $333mn, well above the fixed base price of US $250mn. The huge price at which the new teams have been auctioned is expected to push up the valuations of the existing franchisees (such as India Cement).

JK Lakshmi Cement

Fund raising: JK Lakshmi Cement announced its plans to raise Rs600cr through a combination of External Commercial Borrowings (ECBs) and rupee term loans, to part finance its Rs1,550cr greenfield projects in the Northern and Eastern parts of the country. Currently, the company has a capacity of 5.3mtpa, and is targeting to raise this capacity to 8mtpa in five years. The company is expected to use these funds to part finance the building of a 2.7mtpa capacity at Chhattisgarh, which is expected to be commissioned by 2013E.

Cement

Margins to show yoy decline in 4QFY2010

We expect the Operating Margins (OPM) of the cement players to decline substantially on a yoy basis during the quarter, largely due to the increase in the cost of power and raw materials (such as limestone and gypsum). Freight and forwarding costs, which form a substantial portion of the overall operating costs, are also set to increase, due to a hike in fuel costs and increase in lead distance, thereby resulting in margin erosion.

South-based players are expected to witness the highest decline in margins due to the double whammy of a fall in realisations and increase in the input costs. India Cements is set to witness the highest decline in the OPM, of 792bp. However, Grasim is expected to report a 458bp yoy increase in the OPM, on account of robust operating performance from the company's VSF Business.

Exhibit 6: Margins to improve in 4QFY2010E

	4QFY10E (%)	4QFY09 (%)	yoy (bp)	3QFY10 (%)	qoq (bp)
ACC ^	26.1	31.5	*(542)*	22.4	*370*
Ambuja ^	24.9	28.4	*(351)*	24.5	*40*
Grasim	29.2	24.6	*458*	28.9	*30*
Ultratech	24.5	28.7	*(413)*	23.2	*130*
India Cements	15.8	23.7	*(792)*	14.7	*110*
Madras Cements	18.8	26.3	*(749)*	17.7	*110*
JK Lakshmi	27.2	30.7	*(348)*	25.2	*200*

Source: Companies, Angel Research; Note: ^ Year ending December

Cement Sector Outlook

We believe that the recovery in the Residential Real Estate market, and low-cost housing and affordable projects would improve cement demand, going ahead. With the Cement industry expected to add around 76mn tonnes during FY2010-12E, concerns about oversupply continue to persist.

Despite this, we expect prices to remain firm on account of the demand arising from the Commonwealth Games, infrastructure spending and the recovery in the urban housing segment. However, the rise in prices is expected to be a short-term trend, as the new capacity addition over the last few months is expected to exert pressure, going ahead. We believe that Central, East and North-based players will perform better as compared to South-based players, on account of relatively balanced demand-supply dynamics and higher capacity utilisation. Currently, the capacity utilisation continues to remain higher, as the new capacities that came on stream were not fully stabilized. However, going ahead, after the stabilisation of new capacities, we expect falling capacity utilisation levels and, consequent, estimate a negative impact on pricing and margins. Moreover, input costs are hardening and may squeeze the margins, going ahead.

We are Neutral on ACC, Ambuja, Grasim, Ultratech and India Cements as they are fairly priced, and continue to remain Positive on Madras Cements and JK Lakshmi Cements, due to their attractive valuations on EV/tonne basis.

Exhibit 7: EV/Tonne analysis

Company	Installed Capacity (mtpa) FY10	EV/Tonne (US $) FY10E	FY11E	FY12E
ACC ^	26.0	113.7	108.9	109.3
Ambuja ^	23.5	139.5	130.5	127.0
Grasim	25.7	135.5	131.7	129.3
Ultratech	23.1	149.4	128.6	109.4
India Cements	14.0	84.5	87.5	80.0
Madras Cements	11.0	90.1	78.7	66.3
JK Lakshmi Cement	5.4	57.0	65.0	61.0

Source: Companies, Angel Research; Note: ^ Year ending December

Exhibit 8: Quarterly Estimates **Rs cr**

Company	CMP (Rs)	Net Sales 4QFY10E	% chg	OPM (%) 4QFY10E	chg bp	Net Profit 4QFY10E	% chg	EPS (Rs) 4QFY10E	% chg	EPS (Rs) FY10E	FY11E	FY12E	P/E (x) FY10E	FY11E	FY12E	Target (Rs)	Recos
ACC ^	949	2,009	*(2.2)*	26.1	*(542)*	349.5	*(13.6)*	18.6	*(13.6)*	85.5	66.1	73.4	11.1	14.4	12.9	-	Neutral
Ambuja ^	118	2,007	*8.6*	24.9	*(351)*	307.1	*(8.1)*	2.0	*(8.2)*	8.0	6.2	6.9	14.8	19.1	17.1	-	Neutral
Grasim	2,829	4,908	*(1.0)*	29.2	*458*	731.7	*28.6*	79.8	*28.6*	360.8	262.9	324.9	7.8	10.8	8.7	-	Neutral
Ultratech	1,144	1,830	*(1.6)*	24.5	*(413)*	240.1	*(22.4)*	19.3	*(22.4)*	88.7	79.6	104.0	12.9	14.4	11.0	-	Neutral
India Cements	134	933	*5.0*	15.8	*(792)*	47.2	*(49.7)*	1.5	*(53.7)*	12.7	9.4	11.5	10.5	14.3	11.6	-	Neutral
Madras Cements	121	690	*7.4*	18.8	*(749)*	31.2	*(57.4)*	1.3	*(57.4)*	14.9	13.3	16.1	8.1	9.1	7.5	141	Buy
J K Lakshmi	74	395	*8.4*	27.2	*(348)*	57.8	*(44.4)*	4.7	*(44.4)*	18.7	13.0	16.3	3.9	5.7	4.5	88	Buy

Source: Company, Angel Research; Note: Price as on April1, 2010; Note: ^ Year ending December

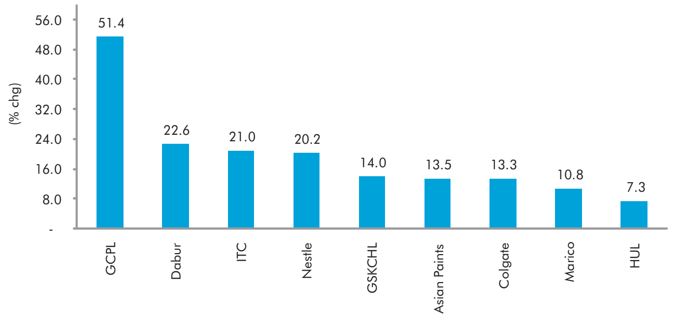
Analyst - Rupesh Sankhe / V Srinivasan

FMCG

For 4QFY2010, we expect our FMCG universe to post a steady revenue growth of 16%, largely led by companies like GCPL (consolidation effect of Sara Lee), Dabur (new product launches) and ITC (gains from stocking up of inventory in cigarettes ahead of price hikes). We expect HUL and Marico to emerge as key laggards in terms of revenue growth, as we model in lower value growth due to price cuts affected in their core categories.

After the Union Budget, some companies (ITC, GCPL) have been forced to pass on the excise duty hikes to the end customers; however, for most companies the focus continues to be on volume growth. Better reach (significant investments in distribution infrastructure), strong support from higher Ad spends and support from rural markets (higher MSPs, NREGS and rising food prices to drive rural incomes) will be the key drivers aiding a modest volume growth for our FMCG universe.

Exhibit 1: Revenue Growth yoy (4QFY2010E)



Source: Company; Angel Research; Note: Nestle, GSKCHL figures - 1QCY2010E

Input costs exhibit mixed trends

For 4QFY2010, prices of the agri-commodities in general registered a decline. Prices of Barley, Soyabean oil, Groundnut oil and Copra declined between 1-6%, while Sugar and Milk prices declined by about 40% and 12% respectively. Tea prices, which peaked out last year due to drought conditions in India and Bangladesh, are expected to ease out this year due to improving weather conditions. However, Coffee prices have risen by about 20% this quarter and are expected to remain firm in the coming quarters.

Rising crude oil prices (by about 4% this quarter) have increased the transportation cost for all companies in our FMCG universe. HDPE has surged by about 9% this quarter, while LAB, Soda Ash and Caustic Soda prices have declined 0-8%.

Budget Blues; ITC takes the brunt

The Union Budget 2010-11 continued with its thrust on Rural Development. The Government continued with its efforts in increasing the disposable income in the hands of the people, by effecting a reduction in indirect taxes and by expanding public expenditure on programs like the NREGS and Bharat Nirman, and on Rural Infrastructure.

For the sector per se, however, the budget was a bundle of woes. Postponement of the GST to next year and increase in the MAT rate to 18% (15%), along with a partial withdrawal of the stimulus package, with a roll-back in excise duty cut (hiked 2%) is negative for select FMCG companies in our universe. The hike in the excise duty between 10-18% for filter cigarettes exceeding 60mm length (negative for ITC), was significantly higher than our expectations. Moreover, the hike in customs duty on diesel and petrol, coupled with a 5% increase in the import duty on crude, will negatively impact the transportation and packaging costs, thus affecting the entire FMCG sector. Crude derived inputs might also see a price increase.

It's raining price cuts for HUL and P&G...

After P&G's launch of *Tide Naturals* (cheaper variant of *Tide*) in December 2009, HUL finally reacted in late January by introducing a fresh round of price cuts (10-30%) in *Rin* and *Surf Excel* (either via direct price cuts or via grammage increases). In retaliation to HUL's price cuts and the comparative ads (*Rin* v/s *Tide*) broadcast by HUL, P&G finally struck back, taking a 20% indirect price cut (via a 25% grammage hike) in *Tide Naturals*. Media reports suggest that the company is also increasing the pack size of its mother brand, *Tide*, by a similar percentage. The grammage increases equate to a price cut of almost 20% in both *Tide* and *Tide Naturals*, which will now retail at Rs56/kg (Rs70/kg) and Rs40/kg (Rs50/kg), respectively.

The price war in 2004 took almost a year to get over, when P&G finally announced 4-5% price hikes in February 2005 in *Ariel* and *Tide*, which saw HUL following suit. However, that was not before the damage was done to HUL's Margins and Profitability. Hence, we believe that the 2010 price war, though lower in quantum, has just started and is likely to significantly impact HUL's Earnings.

...while the Budget forces others to take Price hike

Forced by the excise roll-back in Budget, GCPL has decided to hike prices in the range of 8-10% in baby diapers and 2-5% in other FMCG categories, which include soaps. CavinKare is also looking at taking price increases on product packs of above Rs10. Britannia is hiking prices in the range of 2-10%, due to an increase in input costs. Emami has also increased prices of its products between 3-7%, due to the increase in the input costs (as a result of the excise duty hike, coupled with the surge in the transportation cost). ITC Foods is also planning to take price hikes for its impacted brands soon.

FMCG

ITC, which had increased prices of its flagship brand *Gold Flake Kings* by 7% prior to the Union budget, hiked rates by 8-20% across its portfolio to combat higher excise rates introduced in the Budget.

Acquisitions and Innovations at the forefront

FMCG majors are increasingly focusing on expanding their global footprint by acquiring companies in niche segments to fill gaps in their product portfolio. The companies are also increasingly spending on Research and Development.

Among the most prominent deals completed this quarter was Godrej Consumer's (GCPL) acquisition of *Tura*, an African personal care brand from Tura Group, owned by the Jatania family of Lornamead fame (recently sold *Yardley* rights to Wipro for select markets). GCPL is expected to institute a cross-functional team, with members from *Rapidol, Kinky, Tura* and its Indian management team to leverage synergies. Another important acquisition, though on a small scale, was Marico acquiring the Malaysian hair styling brand, *Code 10*, from Colgate-Palmolive. With a deal size of about Rs25cr and a market share of about 10%, this brand has the potential to grow even further in that market.

Moreover, FMCG majors like ITC and Dabur are investing heavily on R&D to launch new innovative products. Dabur is staging a comeback to the pharmaceutical discovery research arena (Ayurvedic Research), with the setting up of Althea Life Sciences in the suburbs of Gurgaon. The group has research contracts with over 20 clients, foreign and Indian, and these are being executed by Dabur Research Foundation (DRF), the group's 30-year-old entity. ITC has recently launched gel bathing bars under *Fiama Di Wills* brand, a breakthrough made through its unique patented freezing technology.

New product launches gain momentum

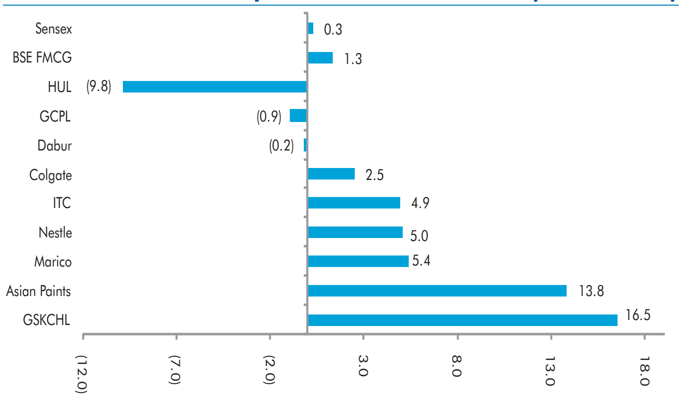
Keeping abreast with our expectations, most FMCG companies maintained their momentum in launching new products. Nestle led the pack in new product launches. The company launched *Maggi Masala-ae-Magic* (a taste enhancer), *Maggi Rasile Chow* (a two-minute noodle for the rural and semi-urban class) in its processed food segment, the premium *Nescafé Cappucino* in chocolate and vanilla flavors and *Nescafé Iced coffee* in its beverages segment, and *Milkybar crispy* and *Munch Guru*, for 'lighter eating' in its coated wafer segment. HUL ranked a close second, with launches of new variants under its iconic brands *Lux* and *Brooke Bond*. The company launched *Brooke Bond Sehatmand* in the states of Uttar Pradesh, Madhya Pradesh, Bihar, Jharkhand and Chattisgarh for the health conscious customer segment, and a new variant of *Lux- Lux Purple Lotus cream*. P&G is soon launching toothpaste under its global brand *Crest*, directly competing with Colgate-Palmolive India, Dabur India and HUL in the oral care segment.

The competition in the instant noodle segment intensified, with GSK Consumer launching *Horlicks Foodles* and HUL launching *Knorr Noodles* (already present in Pakistan), competing with Nestle's *Maggi*. ITC may soon follow suit with its launch of *Sunfeast* noodles. Dabur launched a new variant of *Hajmola- Hajmola Kaccha Aam* and is currently test marketing products for its 'ready-to-eat' portfolio under its *Hommade* brand. Godrej Consumer launched two hair color variants of *Renew - Renew Wine Red* and *Renew Plum Crazy*. Marico extended its good-for-heart equity, *Saffola*, to functional foods, with the launch of *Saffola Arise*.

HUL underperforms, Midcaps shine

The BSE FMCG Index posted a marginal 1% outperformance vis-à-vis the Sensex, in-line with our expectations. HUL was the sole underperformer, owing to the intensifying competitive scenario (P&G getting aggressive) and concerns over its impact on profitability. On the other hand, GSK Consumer emerged as the biggest outperformer this quarter supported by new product launches. Additionally, Asian Paints posted yet another quarter of steady gains, owing to steady demand conditions for Paints and a benign input cost environment.

Exhibit 2: Relative outperformance to Sensex (4QFY2010)



Source: Company, Angel Research

FMCG

Quarter of robust Earnings, except for HUL

For 4QFY2010, we expect our FMCG universe to post a modest Top-line growth of 16% yoy, driven largely by Volume growth and improvement in the Product-mix. Earnings for the quarter are expected to grow at a strong pace of 21% yoy, aided by Margin expansion for most companies, due to lower input costs (yoy basis) and rationalisation of ad spends (except HUL and Nestle).

Asian Paints, GCPL and ITC are expected to report the strongest Earnings growth during the quarter. HUL, the segment leader, is expected to report a drop in recurring Earnings by 4%, owing to weak Revenue traction and a drop in Margins (price cuts and sustained Ad-spends). We expect ITC to post 2% increase in Cigarette Volumes, despite price hikes (affected only in March), owing to gains from stocking up of inventory. ITC's Earnings are expected to grow by a strong 33% yoy, aided by Top-line growth (up-tick in Hotel Revenue) and Margin expansion.

Valuations appear rich; Stay Selective

Most FMCG companies have witnessed a sharp rally in the recent past, and are currently trading at rich valuations that are being driven by a steady Earnings growth, significant Margin expansion, and a sustained volume growth. In terms of their One-Year Forward P/Es, most companies are trading in line with their five-year averages, but at a 20-30% discount to their peak valuations (in FY2007). While the long-term consumption story for the FMCG industry remains intact, any further re-rating from the current valuations seems less likely.

We maintain our stance of Equal-weight on the FMCG sector, as we believe that both earnings upgrades and P/E re-ratings are likely to take a breather from the current levels. However, a strong defensive appeal and a steady Earnings growth are likely to cap the downside as well. Hence, we continue to emphasise selective stock picking, and prefer a set of companies with a leadership position in their product categories, a diverse product portfolio and with stronger pricing power.

Among the heavyweights, we prefer ITC (strong resilience to pricing actions in cigarettes, other segments to see up-tick) to HUL (poor competitive environment). In Midcaps, we rate GCPL (steady Earnings growth, news-flow from acquisitions), Dabur (new product launches and benign input costs) and Nestle (strong urban portfolio, low competition and support from parent) as our Top-picks.

Exhibit 3: Quarterly Estimates

Rs cr

Company	CMP	Net Sales		OPM (%)		Net Profit		EPS (Rs)		EPS (Rs)			P/E (x)			Target	Recos
	(Rs)	4QFY10E	% chg	4QFY10E	chg bp	4QFY10E	% chg	4QFY10E	% chg	FY10E	FY11E	FY12E	FY10E	FY11E	FY12E	(Rs)	
Asian Paints^	2,025	1,617	13.5	16.6	403	156.3	54.6	16.3	54.6	77.0	84.3	95.9	26.3	24.0	21.1	2,080	Accumulate
Colgate Palmolive	677	516	13.3	19.8	199	98.0	19.7	7.2	19.7	29.6	33.1	37.6	22.9	20.5	18.0	752	Accumulate
Dabur India^	158	897	22.6	17.9	19	121.5	16.5	1.4	16.5	5.7	6.8	7.8	27.6	23.4	20.4	181	Buy
GCPL^	261	519	51.4	19.0	(30)	81.3	36.9	2.6	14.2	10.6	12.6	14.3	24.7	20.6	18.2	310	Buy
GSK Consumer*	1,502	615	14.0	24.5	245	102.7	22.4	24.4	22.4	55.3	67.2	80.0	27.1	22.3	18.8	1,478	Neutral
HUL	231	4,280	7.3	13.2	(62)	483.3	(3.7)	2.2	(3.7)	9.9	10.2	11.7	23.4	22.6	19.7	224	Neutral
ITC	264	4,708	21.0	33.9	146	1,077.5	33.2	2.8	33.2	10.9	12.1	13.4	24.3	21.8	19.8	300	Buy
Marico^	109	622	10.8	14.5	144	64.1	7.8	1.1	7.8	4.0	4.8	5.3	27.1	22.8	20.6	112	Accumulate
Nestle*	2,712	1,522	20.2	22.4	(207)	234.0	18.6	24.3	18.6	67.9	86.0	101.4	39.9	31.5	26.7	2,925	Accumulate

*Source: Company, Angel Research; Note: Price as on April 1 , 2010; Note: * December year ending. ^ Consolidated*

Analyst: Anand Shah / Chitrangda Kapur

Infrastructure

Execution Concerns to recede

Over the past two quarters, we have been voicing our concerns on the execution front partially on account of delay in receivables (thereby increasing working capital cycle) and not so good liquidity conditions. This concern has been true to a large extent (except for JP Associates due to the high growth registered by its Cement dispatch volumes) as reflected in the subdued yoy Top-line growth posted by most infrastructure companies despite having strong Order Books. On the positive side, in line with our estimates this subdued growth was accompanied by improving Operating Margin on the back of cooling commodity prices.

How long will Top-line underperformance last?

Our analysis of Order Book and Execution growth in the sector reveals that Order Book growth always leads growth in Execution. Thereafter, post a lag of few years Execution outpaces Order Book growth. In line with this, since the last three consecutive years rapid growth in Order Book has seen relatively slower Execution growth resulting in subdued Top-line growth. However, at the current juncture, we believe that Top-line growth is at inflexion point as Execution growth is poised to pickup though not outpace Order Book growth.

Exhibit 1: Execution to catch up

Source: Angel Research, Note: Universe consists of L&T, IVRCL, HCC, Gammon India, Simplex Infra, NCC and Patel Engg.

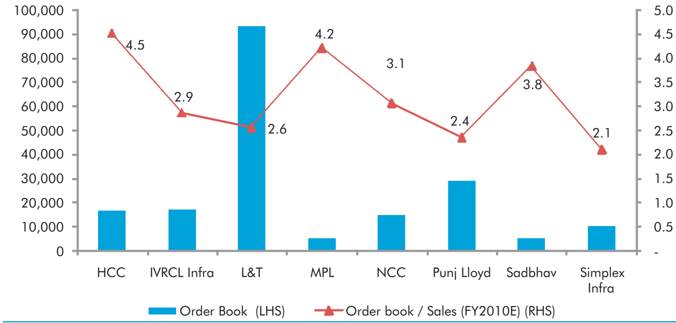
IVRCL

- Bagged Orders worth Rs3,600cr during the quarter.
- IVRCL's Order Book stands at Rs17,500cr or 2.8x FY2010E Revenues.

Nagarjuna Constructions

- Bagged five Orders during the quarter totaling to Rs583cr. The Orders pertain to construction related work.
- NCC's Order Book stands at around Rs15,000cr or 3.2x FY2010E Revenues.

Exhibit 2: Order Book, Order Book /Sales Ratio



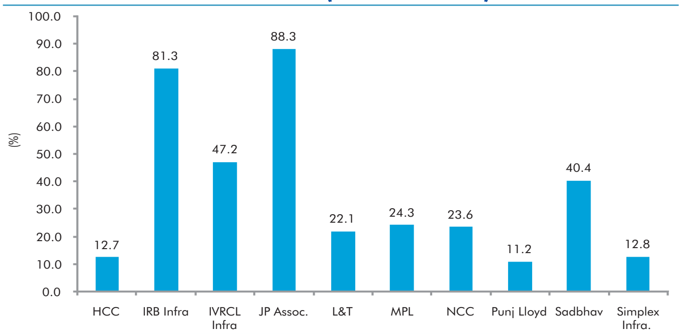
Source: Company; Angel Research

Revenue Outlook

The last quarter is one of the strongest quarter for construction companies and we expect the trend in 4QFY2010 also. More so the execution concerns having peaked out we expect companies in our coverage universe to post a strong set of Numbers

With vital components (for infrastructure development) in place, viz. Capital, Commodity prices, political will and strong pipeline, we expect the Order Book-to-Sales ratio to lend a fillip to Top-line growth of the companies over the ensuing years. This is against the background of players vying for increasing proportion of the infrastructure opportunity pie. Accordingly, we expect companies under our coverage to post a robust Top-line growth for 4QFY2010 on the back of strong Order Book and increased visibility particularly with the UPA government back in power. Earnings growth is also expected to be better for the quarter.

Exhibit 3: Revenue Trend (4QFY2010E)



Source: Company; Angel Research

Infrastructure

Description

Major Events during the quarter

Union Budget - Relentless stress on infrastructure development

The Union Budget 2010-11 continued to lay stress on physical infrastructure development, citing it as one of the key catalysts in maintaining and pump priming the economic growth rate. The Finance Minister (FM) provided 46% (Rs1,73,552cr) of the total Plan allocation for infrastructure development in line with the yearly targets. Allocation for Road Transport was raised by over 13% to Rs19,894cr, whereas allocation for improving Railway infrastructure was increased by 6.0%. IIFCL, a government established Infra Finance Company, has been authorised to refinance bank lending to infrastructure projects, which is expected to more than double over FY2011E. The take-out financing scheme announced in last year's Budget is expected to initially finance projects worth Rs25,000cr over the next three years. The FM also announced tax deductions on investments on long-term Infrastructure bonds of Rs20,000 pa. (under the new Section 80CCF), besides the existing limit of Rs1lakh under Section 80C, thereby improving liquidity for the Infra Sector.

Tying loose ends

NHAI's new bidding norms to expedite road development process

The National Highway Authority of India (NHAI), in its bid to improve operational efficiencies in road development, has tweaked the bidding norms of the segment. In line with this, the NHAI has barred highway contractors and developers from bidding for new projects, if financial closure is not achieved for three or more projects. This move, we believe, will prevent the highway contractors and developers from biting off more than they can chew. Further, such a move will also make in-ways for new players, reduce the cycle time and competition to enhance share in the road infrastructure development projects will intensify.

Exhibit 4: Vying for greater share...

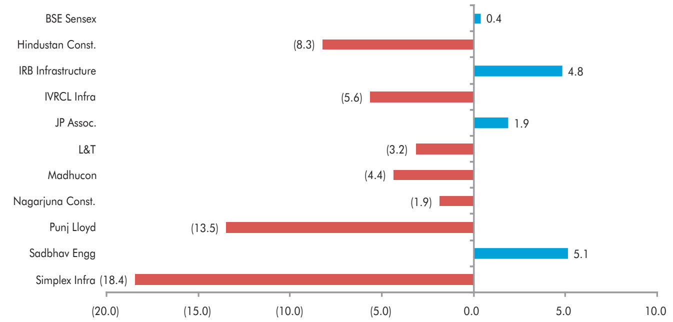
Company	Total Projects	Projects pending Financial Closure
Coverage Companies		
IRB Infrastructure	16	Nil
L&T	14	1
HCC	6	3
IVRCL	5	2
NCC	5	Nil
Patel Engineering	2	Nil
JP Associates	2	1
Madhucon	4	Nil
Sadbhav Engineering	6	2
Non-Coverage Companies		
GVK	1	0
Gayatri Projects	5	0
Era Infra	5	2
GMR Infra	8	2

Source: Angel Research

Sensex v/s Infrastructure stocks

On the bourses, Infrastructure stocks over 4QFY2010 have underperformed the benchmark BSE Sensex partially on account of rich valuations that the stocks traded at and partially due to execution worries going ahead. During 4QFY2010, stocks under our coverage universe yielded average returns of -4.3% as against the BSE Sensex returns of 0.4%.

Exhibit 5: Relative outperformance to Sensex



Source: C-line, Angel Research

Infrastructure

Outlook

In light of the pivotal role that the Infrastructure Sector plays in enabling future growth, we believe that the government will continue to focus on infrastructure development in the country as was witnessed in the recent Budget. Moreover, in the long run, with the economy on a roll (India has averaged 8-9% growth in the last 4-5 years), we expect the Infrastructure Sector to attract more funds not only from the domestic space, but also from the international arena. Other factors including political intent, liquidity position, commodity and crude prices, structural and procedural reforms at various government body levels (like NHAI) are also well-placed to roll out the Indian infrastructure growth story ahead. Over the next few quarters, we expect healthy Order Backlogs of the companies in our universe to translate into Earnings growth.

We do not rule out the possibility of moderate monetary tightening by the Reserve Bank of India (RBI) going ahead resulting in slight hardening of Interest rates. However, this is unlikely to have a material impact on Earnings as a number of avenues to avail finances at competitive rates have now opened up, especially for the infrastructure players.

Valuation

4QFY2010 had seen majority of the infrastructure stocks trading at single digit one-year forward P/E multiples. This was primarily on account of the then prevailing lacklustre macro-economic conditions, owing to which availability of capital was scarce. It may be noted here that capital is vital for transforming robust Order Book to Sales. Thus, in the corresponding period of last year, the intrinsic requirement (Order Book) was in place, while the enabling factors (especially. Capital and Political will) were not very apparent.

At current levels, the stocks in our universe on a one-year forward P/E basis are trading at higher levels on a yoy basis. This we believe reflects in the role, improving liquidity conditions plays in a capital intensive sector, like infrastructure. However the infrastructure stocks have under performed the broader indices on account of execution worries. We expect execution concerns to wane, thereby leading to further re-rating of stocks in our coverage universe. Besides, the Infra Sector still offers tremendous 'Infusion-Dilution Opportunity', which will lead to companies trading at 2.0-2.5x P/BV over the longer run owing to higher growth opportunities.

We prefer companies that provide a decent blend of growth opportunities and attractive valuations. In fact, we prefer Mid-caps to Large-caps as there still exist some headroom for factoring in Subsidiary valuations.

Overall, we remain Bullish on the Infrastructure Sector. **IVRCL Infra and Madhucon Projects remain our Top Picks in the Sector.**

Exhibit 6: Quarterly Estimates

Rs cr

Company	CMP	Net Sales		OPM (%)		Net Profit		EPS (Rs)		EPS (Rs)			P/E (x)			Target	Recos
	(Rs)	4QFY10E	*% chg*	4QFY10E	*chg bp*	4QFY10E	*% chg*	4QFY10E	*% chg*	FY10E	FY11E	FY12E	FY10E	FY11E	FY12E	(Rs)	
HCC	135	1,104	*12.7*	14.6	*(73.8)*	54.5	*6.1*	1.8	*6.1*	3.1	4.4	4.9	44.1	30.6	27.5	-	Neutral
IRB Infra	261	582	*81.3*	42.4	*483.4*	83.7	*92.2*	2.5	*90.7*	10.0	13.8	15.3	26.2	18.9	17.1	274	Acc.
IVRCL Infra	167	2,444	*47.2*	8.8	*78.6*	108.9	*36.3*	3.9	*31.2*	8.6	11.6	12.9	19.5	14.4	13.0	240	Buy
Jaiprakash Asso	154	3,926	*88.3*	35.1	*126.8*	711.4	*84.6*	3.3	*84.6*	5.8	9.8	11.5	26.3	15.7	13.4	194	Buy
MPL	169	405	*24.3*	11.6	*417.6*	20.0	*155.1*	2.7	*155.1*	7.5	10.7	11.7	22.6	15.7	14.4	214	Buy
NCC	167	1,355	*23.6*	10.1	*263.5*	57.4	*50.2*	2.2	*50.2*	7.2	9.7	10.9	23.3	17.2	15.3	186	Buy
Punj Lloyd	178	3,576	*11.2*	6.2	-	332.2	-	10.0	-	7.0	14.7	17.6	25.2	12.1	10.1	261	Buy
Sadbhav Engg	1,292	559.7	*40.4*	11.0	*196.1*	32.9	*13.3*	26.3	*13.3*	58.2	70.3	79.7	22.2	18.4	16.2	-	Neutral
Simplex Infra	445	1,564	*12.8*	9.4	*141.4*	54.0	*80.8*	10.9	*80.8*	32.4	37.2	46.1	13.7	12.0	9.7	575	Buy
L&T	1,650	12,910	*22.1*	13.5	*(150.8)*	1100	*0.2*	18.1	*0.2*	45.6	55.6	69.2	36.2	29.7	23.8	1,761	Acc.

Source: Company, Angel Research; Note: Price as on April 1, 2010, Note: Target Prices are based on SOTP

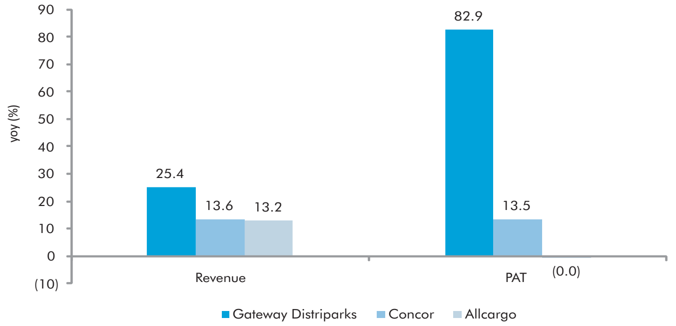
Analyst: Shailesh Kanani / Aniruddha Mate

Logistics

For 4QFY2010, we expect our universe of stocks to report robust growth on a yoy basis on a low base and improving economy. Moreover, the Domestic Segment will continue to do well in 4QFY2010 on the back of strong consumption. We expect our coverage universe to report robust 17.4% yoy growth in Revenues and 32.1% yoy growth in PAT for 4QFY2010.

Among our universe of stocks, Concor is expected to report yoy improvement in Operating Margins on lower empties and better ground rent. However, we expect Gateway Distriparks (GDL) and Allcargo (AGL) to register a decline in OPM yoy owing to the change in product mix in favour of Rail in case of GDL, and increasing freight rate for the MTO Segment in case of AGL.

Exhibit1: 4QFY2010 Revenue, PAT estimates



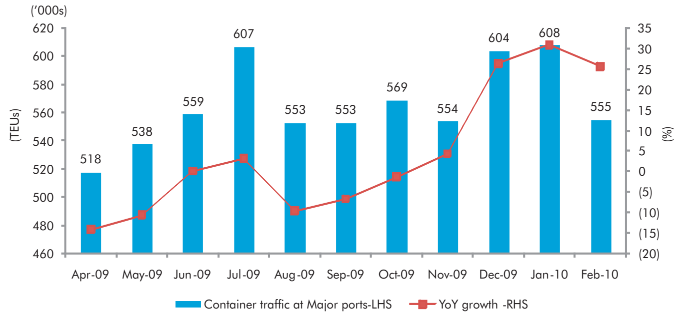
Source: Company, Angel Research

Improving Exim visibility

The container traffic data released for FY2010 YTD (April-February 2010) by the Indian Port Association (IPA) registered a moderate increase of 2.8% yoy. The JNPT port, which handles around 60% of the country's container volumes, registered a moderate 1.6% yoy increase in Volumes. The Chennai port, which handles around 17% of the country's container volumes, also recorded a moderate 4.7% yoy increase in Volumes for FY2010 YTD. The container traffic is stabilising at current levels in absolute terms after bottoming out in January and February 2009. Consequently, on yoy basis container traffic at major ports in 4QFY2010 witnessed substantial increase in Volumes on a low base.

Going ahead, we expect trade to revive on the back of improving economy. Among the companies, we estimate Concor to post around 18.0% yoy increase in Exim volumes, while GDL is expected clock 30.0% yoy rise in CFS volumes for 4QFY2010. We expect the country's overall container volumes to clock 12-15% yoy growth at the 12 major ports in FY2011E.

Exhibit 2: Container Traffic - Signs of improvement



Source: IPA, Angel Research

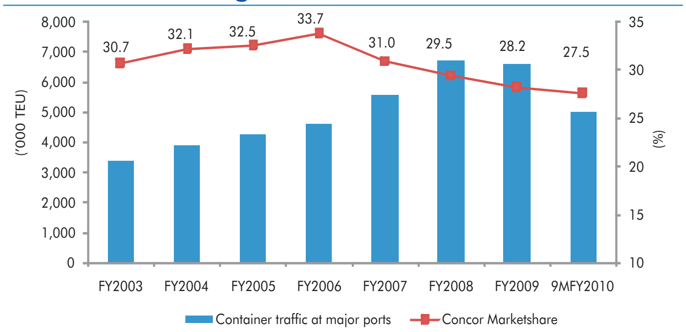
Key Developments

Maintaining Exim market share key indicator of Concor's performance

Behemoth Concor has a mammoth infrastructure including 225 rakes and 59 terminals built over 20 years. Over FY2010-12E, Concor plans to augment its infrastructure with the addition of another 40-45 rakes and 6 terminals. Concor is also the preferred transporter via Rail among the shipping lines on account of being the lowest-cost service provider in the Segment and due to the strategic location of its container depots. However, during FY2006-10 YTD, Concor lost out to the Road Segment and Private players conceding market share by 620bp to 27.5% from its peak of 33.7%.

Concor has been impacted by higher IR tariffs and opening up of Rail containerisation to the Private players in FY2007. We expect Concor to witness further erosion in market share to around 25% over the next four-five years due to higher haulage charges, which would render it uncompetitive in the FEU Segment, while the Private players would gradually increase their presence.

Exhibit 3: Declining Exim market share



Source: IPA, Angel Research

Logistics

Increase in MAT rate to impact Sector

The Union Budget FY2010-11 increased the MAT rate from 15% to 18%. This is expected to impact companies like Concor, GDL and AGL, which are under the purview of MAT as they claim 80IA benefits on Income earned from CFS and ICD. Moreover, timely phase out of CST will facilitate VAT, in turn boosting outsourcing to third party logistics. The Budget has also extended tax incentives for investment in cold chain, which we believe is a positive for companies like Concor and GDL to set up these facilities.

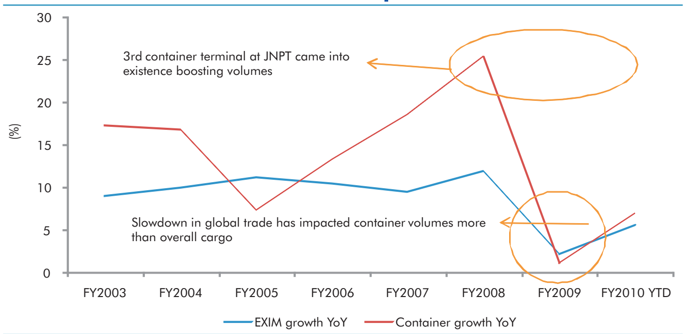
Delay in capacity expansion at JNPT

To tackle the expected growth in container traffic and faster turnaround time, JNPT had planned to extend its third Container berth by 330 meters thereby expanding its capacity by around 9.60 million tonnes (ie. 0.8 million TEUs) per annum. This was expected to come up by end of FY2010, which is delayed on account of pending clearance from the relevant authority. As per the recent information on the JNPT web site, the additional capacity is now expected to come up by 2HFY2011. We believe this would marginally impact container volume growth in FY2011E as JNPT accounts for 60% of the total container traffic in India.

Container traffic outperforming overall cargo

Container traffic increased from 3.4mn TEU in FY2003 to 6.6mn TEU in FY2009, registering a CAGR of 12% during the period. Meanwhile, cargo at major ports posted 9% CAGR in the mentioned period. As a result, the share of Container traffic in the current decade increased from 11.5% to 17.6% in FY2009, following an increase in private participation in handling container terminals and customer preference in transporting cargo in containerised form, as it reduces handling costs. However, in FY2009, the slowdown in global trade impacted containerisation more than overall cargo. The trend has however, reversed in 2HFY2010 and container traffic is expected to outperform overall cargo going ahead.

Exhibit 4: Container Traffic outperformed in FY2010

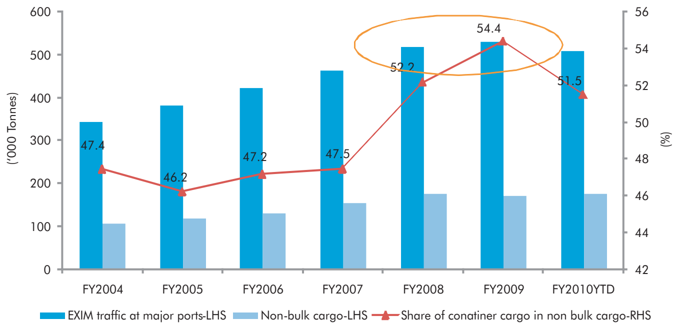


Source: IPA, Angel Research

Bullish on Container Industry on low penetration and customer preference

Non-bulk cargo, which constitutes around 35% of the total cargo at the major ports, has the potential to be transported in containerised form. Earlier, only basic goods were suitable for shipment in containers, but now most items can be shipped in a container. It is estimated that 75-80% of the total non-bulk cargo can be containerised. Currently, the containerisation level in India is at around 51%, compared to 80% globally, which indicates that there still exists room for growth driven by an improvement in infrastructure. Notably, the share of containerisation traffic registered substantial improvement in the last two years, increasing by 500-700bp despite the slowdown in trade in FY2009. This can be attributed to customers' preference for containerisation, as it reduces the handling costs. We expect the share of containerisation to increase to 62-65% over the next five years.

Exhibit 5: Improving levels of Containerisation



Source: IPA, Angel Research

Dedicated freight corridor gets funding approval

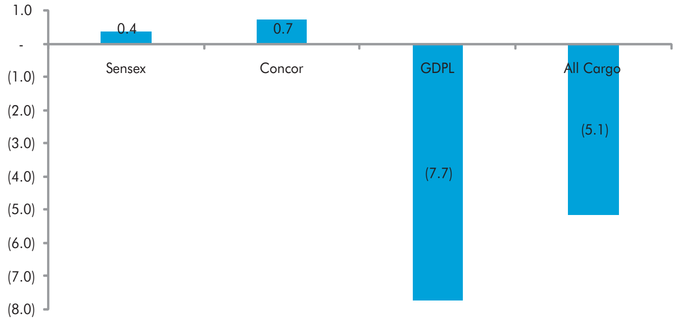
Despite Railways being a cheaper mode of transportation compared to Roadways, Railways' market share in freight has declined from 65% in to 33% in 2007. This was mainly due to capacity and efficiency constraints, which led to a significant shift from Railways to Road. The Railway Budget 2006-07 had envisaged the construction of a dedicated multi-modal, high axle-load freight corridor with computerised control on the Western and Eastern routes. The project, entailing an investment of Rs22,000cr and to be implemented in two phases. As per recent media reports, the Cabinet has now approved Rs17,700cr conditional loan from Japan to help build the corridor. The Japanese overseas development assistance will be a soft loan, with an interest rate of mere 0.2% per annum, with a long repayment period of over 30 years and a moratorium of 10 years. The project take-off will increase the Rail market share over the longer term and benefit the Rail container operators.

Logistics

Sensex v/s Logistic stocks

During 4QFY2010, Concor performed in line with the Sensex. Going forward, we believe Concor's Exim market share will determine its stock performance. The GDL stock underperformed the Sensex by 8.1% in 4QFY2010. We believe that the GDL stock is currently in consolidation mode having out-performed the Sensex during 9MFY2010. Going forward, we believe that the GDL's stock performance will be largely determined by turnaround in its Rail Segment.

Exhibit 6: Underperforming the Sensex in 4QFY2010



Source: Bloomberg, Angel Research

Outlook

We believe that sustained growth of the Indian economy, with GDP growth expected at 6-8% over the next few years, as well as emergence of India as a global outsourcing hub will facilitate Container trade in the country. In the current decade, container traffic registered 12% CAGR compared to the 9% CAGR posted by the total traffic at major ports. We expect this trend to continue and Container traffic to register 11% CAGR over the next five years driven by the addition of new container terminals and increased containerisation.

The improving trade visibility has seen re-rating of the Sector and resulted in a rally in the stocks. We prefer companies that provide a decent blend of growth opportunities and quoting at attractive valuations. We are rolling over our Target Price on FY2012E EPS. Accordingly, **we recommend Neutral rating on Concor and AGL. However, we expect GDL to register 21.1% EPS CAGR over FY2010-12E on account of being present at strategic locations, its ongoing expansion plans and break-even in the Rail business at the PAT level. Hence, we recommend a Buy on GDL, with a Target Price of Rs160.**

Exhibit 7: Quarterly Estimates — Rs cr

Company	CMP	Net Sales		OPM (%)		Net Profit		EPS (Rs)		EPS (Rs)			P/E (x)			Target	Recos
	(Rs)	4QFY10E	% chg	4QFY10E	chg bp	4QFY10E	% chg	4QFY10E	% chg	FY10E	FY11E	FY12E	FY10E	FY11E	FY12E	(Rs)	
Allcargo*	188	544	13.2	10.5	(109)	27.4	0.0	11.0	0.0	11.1	11.7	14.2	16.9	16.1	13.2	-	Neutral
Concor	1,339	955	13.6	28.7	193	213.1	13.5	16.4	13.5	63.4	72.4	82.0	21.1	18.5	16.3	-	Neutral
Gateway Dist.	126	156	25.4	26.1	(103)	23.9	82.9	2.2	82.9	7.1	10.2	12.5	17.7	12.3	10.1	160	Buy

Source: Company, Angel Research; Note: Price as on April 1, 2010; * Calendar Year Closing

Analyst: Param Desai / Mihir Salot

Metals

Metals - Rally in metal prices continues

The Jan-Mar 2010 quarter was marked by high activity in the metal space, with prices inching upwards on account of: a) strong domestic demand, b) excise duty hike on steel products, c) substantial increase in raw material prices and d) supply constraints. We expect companies under coverage to record strong performance for 4QFY2010E due to the robust pricing scenario.

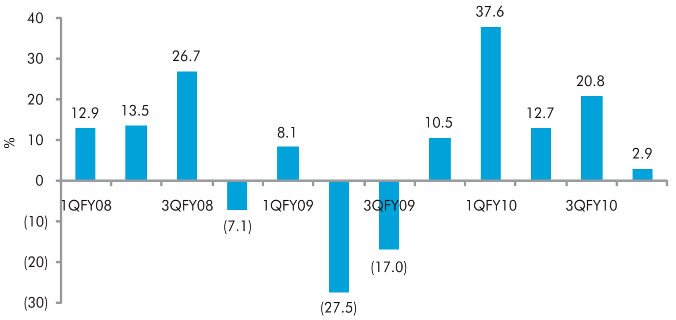
During 4QFY2010, the BSE Metals Index outperformed the Sensex by 2.9% and posted 3.3% returns in absolute terms. Among the stocks, Tata Steel, JSW Steel, SAIL, Hindalco and Sesa Goa outperformed the broader markets registering gains in the range of 2-22% in absolute terms, while Hindustan Zinc, Sterlite, Nalco and NMDC underperformed the broader indices, with losses in the region of 0-31% in absolute terms. NMDC came out with a Follow on Public offer (FPO) of 33cr share priced at Rs300/share. During the quarter, the stock underperformed on account of expensive valuations.

Exhibit 1: Sensex v/s Metal stocks (4QFY2010)

Metal Majors	Abs. Returns (%)	Relative to Sensex (%)
Sensex	0.4	-
BSE Metals	3.3	2.9
SAIL	4.5	4.1
Tata Steel	2.3	2.0
JSW Steel	21.9	21.5
Hindalco	12.7	12.3
Nalco	(2.5)	(2.9)
NMDC	(30.5)	(30.9)
Sterlite Ind	(1.6)	(1.9)
Hindustan Zinc	(0.5)	(0.8)
Sesa Goa	14.5	14.2

Source: Bloomberg, Angel Research

Exhibit 2: Metal Index - Relative Returns to Sensex

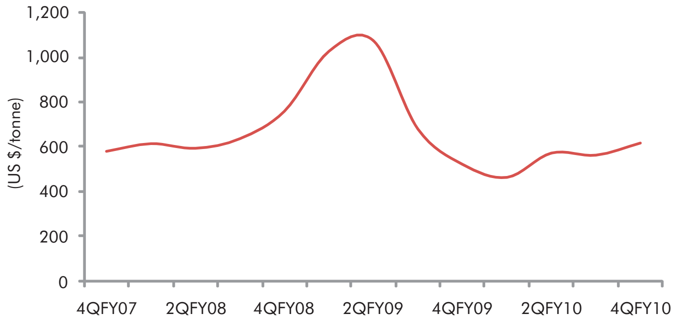


Source: Bloomberg, Angel Research

Ferrous Sector: Steel companies bracing for higher raw material prices

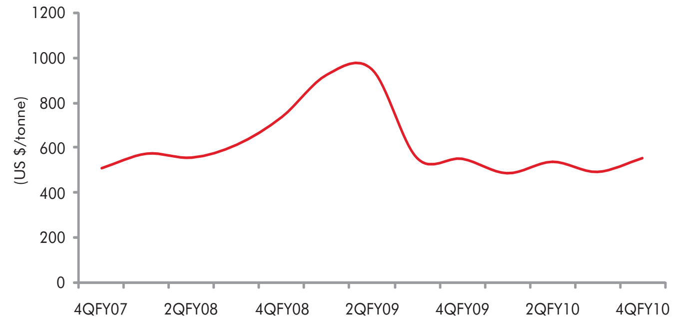
4QFY2010 witnessed a series of price hikes due to strong demand and cost push. During Jan-Feb'10, the Indian steel companies hiked prices by up to Rs2,500/tonne primarily driven by robust domestic demand. Later in Mar'10, the government increased excise duty by 2% to 10%, which further drove prices higher by around Rs1,000/tonne. Globally, the average world export HRC prices increased by 18.2% yoy to US $616/tonne (US $521/tonne) and 9.7% qoq (US $561/tonne). The average China export FOB HRC prices were higher by 12.3% qoq, but were flat on a yearly basis at US $556/tonne.

Exhibit 3: Average World Export HRC Prices



Source: Bloomberg, Angel Research

Exhibit 4: China Export FOB HRC Prices

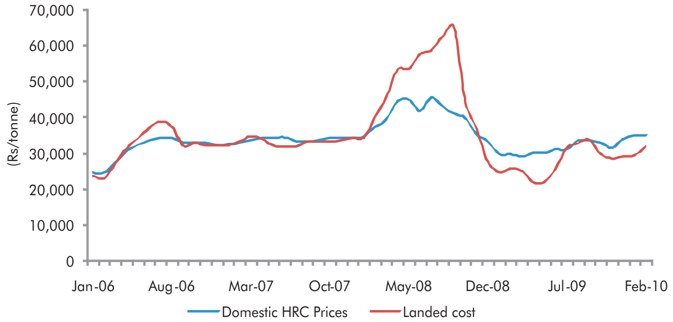


Source: Bloomberg, Angel Research

While the landed cost of steel increased by 22.1% yoy and 5.4% qoq to Rs30,853/tonne, the average domestic HRC price grew by 18.7% yoy and 6.6% qoq to Rs35,000/tonne. The domestic prices are continuing to trade at a premium of 9.1% to the landed cost.

Metals

Exhibit 5: Domestic HRC Prices



Source: Crisil, Angel Research

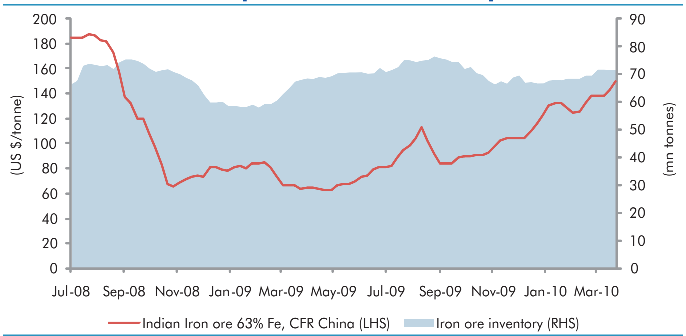
Strong domestic demand - On the back of steady rise in demand from auto, construction and white goods industries, Indian steel consumption during Apr'09-Feb'10 rose by 8.5% yoy to 51.2mn tonnes (47.2mn tonnes), while production grew by 4.5% yoy to 54.4mn tonnes (52.0mn tonnes) during the mentioned period.

Cost push and shift towards new pricing mechanism - The expected increase in raw material costs was the key reason for the steel majors across the globe to undertake price hikes. FY2011 has marked a shift from the traditional annual contracts to quarterly contracts. The new policy would permit the miners to revisit their pricing every quarter and make revisions to their contract prices, in line with spot market trends. We believe the new pricing system would lead to volatility in raw material costs for the steel players and aid miners to capitalize from the fluctuation in the spot market.

In the first week of Mar'10, benchmark coking coal contracts were settled at US $200/tonne (US $129/tonne), higher by 55% yoy. Recently Japanese steel players have accepted a hike of 83% yoy in benchmark iron ore contracts at US $110/tonne.

Average iron ore prices for 63% Fe grade (CFR China) increased substantially by 75.3% yoy to US $134/tonne (US $76.2/tonne) and 34% sequentially. The main reasons for the appreciation in iron ore prices included: a) higher steel production post restart of idle blast furnaces, b) ongoing litigation against illegal mining activities in Orissa and Goa, and c) increase in freight rates.

Exhibit 6: Iron ore prices and inventory in China



Source: Bloomberg, Angel Research

To some extent, part of the cost increase has been passed on and with the recently concluded iron ore contract settlements, we believe steel companies are likely to increase prices further by Rs2,000- 3,000/tonne.

Ferrous Sector Outlook

According to World Steel, steel demand has bottomed-out and is expected to grow by 9.2% yoy in CY2010E as demand rebounds in the US, Europe and Japan. In India, which has been relatively resilient to the global crisis, demand is expected to grow by 12.1% yoy in CY2010E. We expect steel prices to remain at higher levels for the period Apr-Jun 2010 on the back of higher raw material costs and robust demand scenario. Consequently, integrated players like SAIL and Tata Steel (Indian operations) are likely to witness significant margin expansion. Iron ore players like NMDC and Sesa Goa are likely to benefit from the strong pricing environment.

During the quarter, higher realisations are likely to boost top-line of the companies under our coverage. We expect top-line to grow by nearly ~7-50%. Margins of the steel companies are likely to expand by around 600-2300bp yoy. While NMDC's top-line is likely to register 17.6% yoy growth only as its exposure to spot market is limited, Sesa Goa is expected to benefit from the surge in spot iron ore prices and register 62.3% rise in top-line. As a result, we estimate NMDC and Sesa Goa margins to expand by 80-1123bp yoy during 4QFY2010. **We remain positive on the Ferrous pack, with a Buy on Godawari Power and Electrosteel Castings and an Accumulate on Tata Steel and JSW Steel.**

Non-Ferrous Sector

Base metal prices recorded strong growth on a yearly basis, primarily due to low base and supply constraints due to the earthquake in Chile, which drove copper prices higher. During the quarter, inventory levels of copper, zinc and lead at the LME warehouse increased by 2.4%, 11.1% and 20.0% respectively, while aluminium inventory fell 0.6%. Notably, average LME prices of copper, aluminium, alumina, zinc and lead increased by 109.4%, 58.7%, 72.0%, 93.0%, 89.6%, respectively, on a yearly basis. On a sequential basis, average LME prices of copper, aluminium, alumina and zinc grew by 9.0%, 8.2%, 6.9% and 3.2% respectively, while lead was down 3.2%.

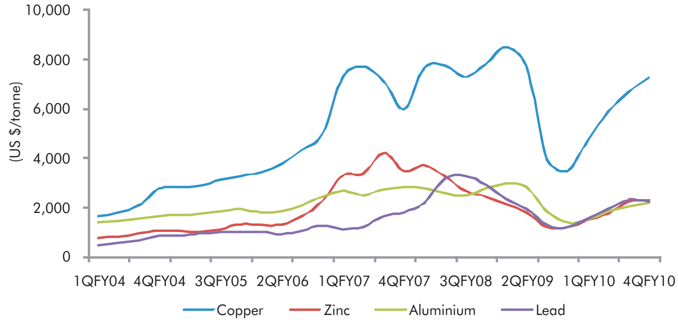
Metals

Exhibit 7: Average Base Metal Prices (US $/tonne)

	4QFY10	4QFY09	*yoy %*	3QFY10	*qoq %*
Copper	7,245	3,460	*109.4*	6,650	*9.0*
Aluminium	2,167	1,366	*58.7*	2,002	*8.2*
Alumina	327	190	*72.0*	306	*6.9*
Zinc	2,283	1,183	*93.0*	2,212	*3.2*
Lead	2,211	1,166	*89.6*	2,285	*(3.2)*

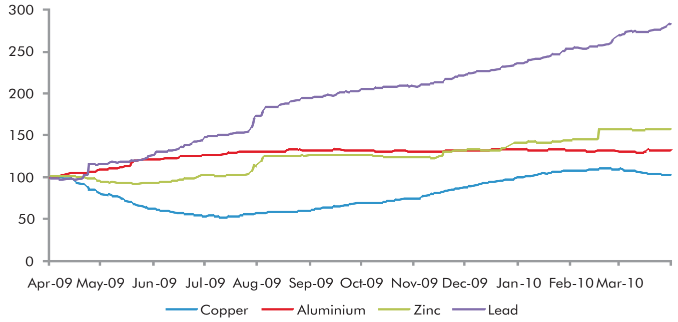
Source: Bloomberg, Angel Research

Exhibit 8: Quarterly price trend



Source: Bloomberg, Angel Research

Exhibit 9: Base metal inventory levels (Indexed to 100)



Source: Bloomberg, Angel Research

Non-Ferrous Sector Outlook

In the wake of the continued rally in base metal prices, we believe there is not much headroom left for the metal prices to move upwards from current levels as high inventory levels are likely to offset positive impact of the economic recovery. Additionally, base metal prices are likely to face some headwinds in case of any aggressive tightening of monetary policies in the Asian economies, as it will have a material impact on liquidity conditions and consequently, on the base metal prices. Despite the recovery in base metal prices, there haven't been many mines that have restarted or expansions being planned for 2010E. With mine supply expected to increase marginally next year and the market likely to be in a narrow surplus for some commodities, any supply disruption, such as mine strikes, earthquakes or floods, could result in prices moving upwards. In 2010E, we expect prices to continue their recovery as the global economic recovery mends its way ahead.

We expect non-ferrous companies to register positive growth in top-line, owing to surge in the LME prices both on yoy and qoq basis. We expect top-line to grow by nearly 23-81%. Further, we estimate margins of Sterlite, Hindalco, Nalco and Hindustan Zinc to expand by nearly 700-1,700bp yoy. **We maintain a Buy on Sterlite and an Accumulate on Hindalco in the Sector.**

Exhibit 10: Quarterly Estimates

Rs cr

Company	CMP	Net Sales		OPM (%)		Net Profit		EPS (Rs)		EPS (Rs)			P/E (x)			Target	Recos
	(Rs)	4QFY10E	*% chg*	4QFY10E	*chg bp*	4QFY10E	*% chg*	4QFY10E	*% chg*	FY10E	FY11E	FY12E	FY10E	FY11E	FY12E	(Rs)	
Godawari Power	261	237	20.7	24.0	1,395	25.0	125.2	9.3	125.2	20.3	56.9	63.8	12.8	4.6	4.1	307	Buy
Hindalco*	184	5,684	54.1	15.6	707	486.4	81.0	2.5	60.8	15.8	20.8	22.6	11.6	8.8	8.1	207	Accumulate
Hind. Zinc	1,242	2,334	81.1	62.0	1,690	1,235.1	124.0	29.2	124.0	95.6	118.9	162.0	13.0	10.4	7.7	1,399	Accumulate
JSW Steel*	1,252	5,262	49.5	26.6	2,282	548.1	-	27.2	-	68.9	97.2	122.7	18.2	12.9	10.2	1,360	Accumulate
Nalco	405	1,342	23.3	23.4	1,459	210.8	152.1	3.3	152.1	10.1	15.6	18.6	40.0	26.0	21.7	260	Sell
NMDC	295	2,276	17.6	81.5	1,123	1,395.1	61.3	3.5	36.6	9.6	18.1	21.7	30.8	16.3	13.6	247	Sell
SAIL	252	12,603	7.4	22.9	670	2,037.0	37.0	4.9	38.5	16.2	17.9	18.0	15.5	14.1	14.0	-	Neutral
Sesa Goa	473	2,343	62.3	53.0	81	1,005.0	83.5	11.9	70.5	28.6	48.5	55.2	16.5	9.7	8.6	-	Neutral
Sterlite Inds	856	7,180	65.6	29.2	1,150	1,421.9	137.7	16.9	100.6	49.9	67.8	76.1	17.2	12.6	11.2	980	Buy
Tata Steel*	652	6,976	7.4	39.3	1,705	1,457	113.0	16.4	97.4	(4.4)	61.2	57.5	-	10.7	11.3	697	Accumulate

*Source: Company, Angel Research; Note: Price as on April 1 , 2010; Full year EPS calculations based on fully diluted equity; * FY2010, FY2011 & FY2012 numbers are consolidated and Quarterly estimates are standalone nos*

Analyst: Paresh Jain/Pooja Jain

Oil & Gas

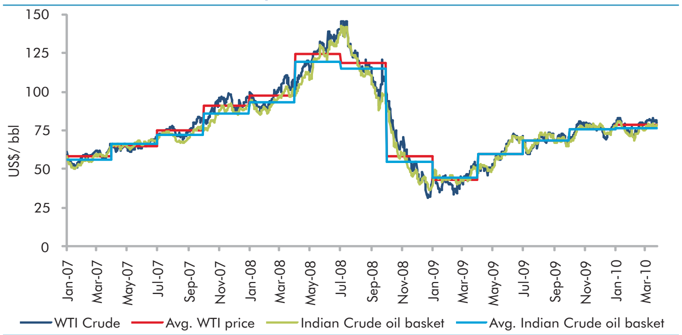
Mixed trend continues

During 4QFY2010 crude prices were firm in the range of US $71-83/bbl. The natural gas prices, which had started showing signs of strengthening in the earlier part of the quarter, ruled weak in the latter part of 4QFY2010. Petrochemical Margins stabilised during the quarter after being weak in the previous quarter. Refining Margins have started strengthening on improving product cracks.

Crude firm in a narrow range

Crude prices remained firm in the range of US $71-83/bbl during the quarter. However, on an average, crude prices increased by 3.6% during 4QFY2010. On a month-on-month basis, crude prices were at the lower end of the range towards latter half of January extending into the first half of February. However, thereafter crude prices have been hovering around US $80/bbl levels. The recent run up in the crude price has come on the back of the decline in the US Dollar Index. Sentiment also turned positive with the OPEC meet (held on March 17) to decide the production quota. However, OPEC left the production quota unchanged. The cartel also expressed concerns over the possibility of oversupply affecting recovery in demand in 2010.

Exhibit 1: WTI Crude, Indian Basket of Crude Oil



Source: Bloomberg, Angel Research

On the fundamentals side, as per the IEA (March Outlook), the OECD industry stocks increased by 34mnbbl in January 2010 to 2,703mnbbl, up 0.1% over 2009 levels. Thus, end-January demand cover rose to 59.2 days, 0.1 days lower than in the previous year. Global oil supply also rose by 0.9mnbpd to 86.6mnbpd in February, with OPEC crude posting its first yearly growth since October 2008. OPEC crude production hit a 14-month high of 29.2mnbpd in February, with Iraq accounting for half of the 200kbpd increase. Non-OPEC output for 2009 has been revised up by 0.1mnbpd to 51.5mnbpd, implying annual growth of 750kbpd, the strongest since 2004.

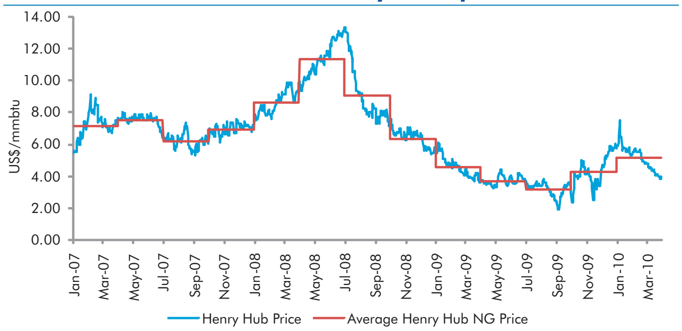
IEA has however, revised global oil demand upwards by 70kbpd for both 2009 and 2010 on higher-than-expected non-OECD data, which largely offset persistently weak OECD readings. Demand is now estimated at 85mnbpd in 2009 (-1.4% or -1.2 mnbpd year-on-year (yoy)), and is expected to rise to 86.6mnbpd in 2010 (+1.8% or +1.6 mnbpd versus 2009).

The Indian basket of crude averaged at US $76.3/bbl during 4QFY2010 as against the 3QFY2010 average of US $75.4/bbl. We maintain our stance of subdued oil prices in the near term and expect crude to consolidate at current levels especially on account of the inventory overhang in the OECD countries and increasing NGL output by OPEC. Thus, we expect crude prices to hover at around US $75-85/bbl in the visible future.

Natural Gas slides

On the natural gas front, after witnessing weakness in the first two quarters of FY2010, Henry Hub natural gas prices gained during 3QFY2010. In 4QFY2010 after the initial firm start, prices started weakening from the second fortnight of February 2010 and touched a low of US $3.8/mmbtu towards end of March. Average natural gas prices were however higher on a sequential basis (on account of firm prices in the first half of the quarter) at US $5.1/mmbtu as against the 3QFY2010 average of US $4.3/mmbtu, thereby registering an average gain of 19.3%. Thus, prices ruled volatile throughout the quarter from the FY2010 high of US $7.5/mmbtu hit towards the beginning of January 2010, currently ruling at US $3.9/mmbtu.

Exhibit 2: Natural Gas - Henry Hub prices



Source: Bloomberg, Angel Research

In line with our expectation Spot LNG prices corrected during the quarter primarily due to end of the winter season. Spot prices for March delivery were seen slipping with Spring approaching in the Northern hemisphere. March cargoes priced off British NBP futures were sold for US $5.0-5.5/mmbtu. Prices for January and February were seen at around US $7.5-8.0/mmbtu. Chinese LNG imports during January stood at near record highs, almost quadrupling from the last January imports. Notably, in spite of the uptick in demand, the market is expected to remain amply supplied in 2010 as new production in Russia, Yemen, Indonesia and Qatar comes online. Thus, we expect Spot LNG prices to be subdued going ahead.

Oil & Gas

Petchem, Refining Margins show recovery

Petrochemical Margins were mixed during the quarter following strength in Cracker Margins and integrated PE Margins. However non-integrated PE margins declined during the quarter and PP Margins were subdued.

Refining Margins, which have been hitting lows and remained subdued in the previous quarter, have started improving. During the quarter, US West Coast and Gulf Coast Refining Margins rose from US $1.68/bbl and US $1.75/bbl to US $2.81/bbl and US $3.28/bbl, respectively. We expect Singapore benchmark Margins to average at US $4.5/bbl during 4QFY2010. On the product front, Crack spreads strengthened mainly for gasoline and gasoil, while naphtha cracks ballooned in the USGC. Consequently, by the end of February, Upgrading margins strengthened and turned positive at $0.68/bbl in the USGC, $1.80/bbl in Singapore and $4.92/bbl in Europe. By early March, gasoline cracks surged above $10/bbl on the US Gulf Coast on growing expectations of a strong summer gasoline demand season. Naphtha crack spreads flirted near 12month highs in Asia and Europe, with stronger petrochemical demand from Japan, China and South Korea helping to lift values. The spread between light and heavy crude remained unchanged on a sequential basis.

Key developments

RIL loses bid for Lyondellbasell and Canadian firm

RIL's final revised bid for Lyondellbasell to around US $15bn from the earlier offer of US $13.5bn hit the wall, with the unsecured creditors of the Dutch firm supporting the re-organisation plans of the management as Lyondellbasell offered an additional US $150mn towards their claim. As per the agreement, the claim amount increased to US $450mn from US $300mn to be distributed to the holders of general unsecured claims. In a second setback to RIL's global acquisition plans in less than a month, the company lost out on its US $2bn takeover bid of the Calgary-based Value Creation. RIL lost the deal to British energy major BP Canada, which has taken controlling stake in Value Creation for around US $1.2bn. The debt-ridden Value Creation has substantial reserves of oil-rich sand deposits covering around 430 square miles.

Cairn India - Reserve, Production boost

Cairn India (CIL) has augmented its discovered resource base in the Rajasthan basin to 4.0bn boe from the earlier estimates of 3.7bn boe. Core MBA formation estimates remained unchanged at 2.1bn boe. However, estimates of the Rajasthan small fields and other Rajasthan fields (prominent being Barmer Hill formation) have been hiked from 1.7bn boe to 1.9-2.0bn boe. CIL has also raised potential resource base of the Rajasthan block to 6.5bn boe on account of the increase in gross un-risked reserve estimate to 2.5bn boe. We believe the earlier gross un-risked reserve estimate would have been around 0.44bn boe. According to management, CIL's enhanced resource base provides a vision to up the plateau production rate to 240,000bpd (175,000bpd currently). The production rate from the Mangala fields has been increased to 150,000bpd from 125,000bpd earlier. The raise is largely on account of better-than-expected well deliverability and better reservoir quality.

Union Budget hikes Customs and Excise duties, dashes hopes of de-regulation of Auto fuel prices

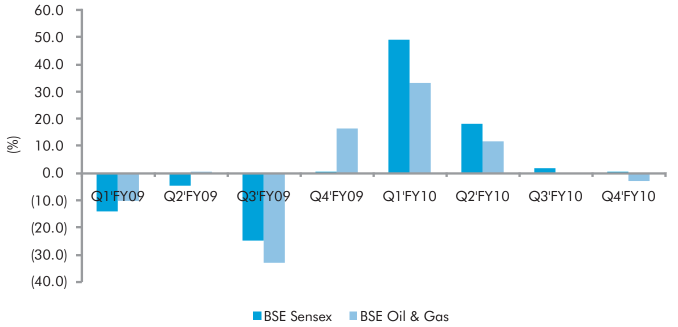
The Union Budget 2010-11 was a non-event for the Oil and Gas Sector. The Budget made no mention of deregulation of Auto fuel prices. However, Customs Duty on crude was increased from 0% to 5% and Auto fuels was hiked from 2.5% to 7.5%. Customs Duty on other petroleum products (except LPG, Petcoke and Naphtha) was hiked to 10%. Similarly, Excise Duty on petrol and diesel was raised by Rs1/litre. However, with OMCs passing through the increased tax, the impact on them is neutral. The increase in Customs Duty in fact would benefit ONGC and CIL due to increase in import parity crude prices. We believe that with the hike in duties, chances of potential deregulation have further reduced. The Budget also raised the MAT rate from 15% to 18%, which would impact RIL and CIL who would have to pay higher taxes. However, the tax surcharge has been reduced from 10% to 7.5%, which is a positive for the full tax paying companies and companies with high dividend payout.

BSE Oil & Gas Index - Underperformance to Sensex continues

On the bourses, the Oil & Gas Index underperformed the benchmark Sensex by 3.3% during 4QFY2010. OMCs' under-recoveries are mounting owing to the firm crude prices and with no roadmap on de-regulation of Auto fuels mentioned in the Budget has only increased woes for the OMCs and ONGC. On account of the same, HPCL, BPCL and IOC lost ground by 18.5%, 18.3% and 3.1% respectively, whereas ONGC lost 6.7%. On the other hand, bellwether RIL (has weightage of 61% in the Oil & Gas Index) lost 1.4% (had fallen 11.5% towards end february from the beginning of quarter) with major gains coming towards the latter part of the quarter on hopes of better quarterly results due to improving Refining Margins. Thus, recovery in RIL helped stem the loss in the Oil & Gas Index. CIL, which gained 8.5%, was the only stock from the Oil & Gas space to outperform both the BSE Sensex as well as the Oil & Gas Index. The counter gained following 3.6% qoq increase in average crude price and substantial increase in its resource potential in its key Rajasthan block and other blocks to 6.5bn boe.

Oil & Gas

Exhibit 3: Relative Performance to Sensex



Source: Bloomberg, Angel Research

Outlook

ONGC's performance for the quarter as well as for year is likely to be dependent on the subsidy sharing mechanism. During 9MFY2010, upstream companies paid subsidy only on auto fuels. However, going ahead, given the gap between oil bonds issues and cooking fuel subsidy, upstream companies might be asked to share the subsidy on the cooking fuel as well. Pending clarity, we have assumed upstream companies bearing subsidy only on auto fuels. For 4QFY2010, ONGC is likely to report average crude realisation of US $78.9/bbl at the gross level; we expect the company to bear subsidy of US $22.3/bbl leading to net realisation of US $56.6/bbl.

For CIL, we anticipate average oil production at the Mangala field during the quarter at 20,000bpd. However, production from its mature fields, viz. Ravva and Cambay is likely to continue to see a natural decline yoy.

RIL is likely to report strong performance during the quarter primarily on account of the increase in gas production and better Refining Margins. We expect RIL to report average Refining Margins of US $8.5/bbl for the quarter. On the Petrochemical front, performance is likely to be flat on qoq basis on account of subdued PP Margins.

In 4QFY2010, OMCs reported negative Marketing Margins on transport fuels, translating into subsidy burden of around Rs5,836cr on auto fuels and Rs10,832cr on the cooking fuel. On the Profitability front, the performance is likely to be determined based on the Policy action.

Profitability of GSPL is expected to improve due to higher Volumes during the quarter owing to gas flows from the KG basin and higher LNG imports by Petronet LNG. We expect the company to transport 38mmscmd of Volumes during the quarter

Gujarat Gas Volumes will continue to be supported by LNG on account of subdued LNG prices. We expect the company to report Volume of 3.05mmscmd for the quarter, registering a growth of 20.9% yoy and 2.4% qoq. Gross Spread is expected to be marginally higher sequentially at Rs4.1/scm (Rs4.0/scm) on 1.6% appreciation in the Rupee and full impact of the CNG price hike effected in the last fortnight of the previous quarter.

Expansion of the Dahej terminal is likely to result in Volume growth for Petronet LNG on a yoy basis. We expect Volumes during the quarter to stand at 123TBTUs.

GAIL's performance during the quarter is likely to be driven by increased transmission of KG gas volumes and improved performance in the petrochemical segment. However, performance of the LPG & Liquid Hydrocarbon Segment is likely to be weak. Thus, GAIL's overall performance is likely to be strong for the quarter.

IGL is likely to continue to post strong Volume growth driven by higher conversion of CNG vehicles witnessed during the trailing one year. CNG Volumes during the quarter are estimated to have increased 15.8% yoy. We also expect Operating Margins to improve during the quarter.

Overall, 4QFY2010 is expected to be mixed for our universe of stocks.

Exhibit 4: Quarterly Estimates

Rs cr

Company	CMP	Net Sales		OPM (%)		Net Profit		EPS (Rs)		EPS (Rs)			P/E (x)			Target	Recos
	(Rs)	4QFY10E	% chg	4QFY10E	chg bp	4QFY10E	% chg	4QFY10E	% chg	FY10E	FY11E	FY12E	FY10E	FY11E	FY12E	(Rs)	
Cairn India	309	658	262.0	74.4	2,672	219	1,072.7	1.2	1,072.7	5.4	22.9	45.8	57.2	13.5	6.7	-	Neutral
GAIL	409	6,728	10.2	14.4	(124)	713	13.1	5.6	13.1	23.2	26.7	28.4	17.6	15.3	14.4	459	Accumulate
GSPL	90	284	115.3	94.4	883	124	256.6	2.2	256.4	7.6	7.7	8.4	11.7	11.7	10.6	121	Buy
Gujarat Gas *	284	397	29.4	20.9	260	50	38.3	3.9	38.3	13.6	16.8	20.4	20.9	16.9	13.9	306	Accumulate
IGL	217	292	28.6	36.6	476	61	51.3	4.4	51.3	16.5	15.7	15.3	13.2	13.8	14.2	190	Reduce
Petronet LNG	79	3,414	28.6	8.8	(406)	135	(34.0)	1.8	(34.0)	5.9	8.3	7.6	13.4	9.6	10.4	88	Accumulate
ONGC ^	1,085	14,460	5.5	59.8	1,760	3,398	54.0	15.9	54.0	91.6	102.5	107.1	11.8	10.6	10.1	-	Neutral
RIL ^	1,094	62,232	119.4	15.8	(343)	5,109	31.9	15.5	31.9	50.3	76.8	87.3	21.7	14.2	12.5	1,260	Buy

*Source: Company, Angel Research; Note: Price as on April 1, 2010; Note: * Calender year, ^ standalone numbers for quarter and consolidated numbers for full year; RILs EPS does not include gain from Treasury stock sale.*

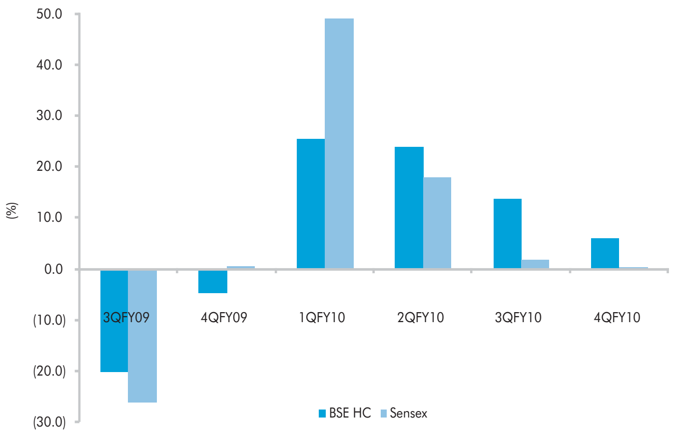
Analyst: Deepak Pareek / Amit Vora

Pharmaceutical

Pharma Sector continues to outperform

During 4QFY2010, the BSE Healthcare Index (BSE HC Index) surged 6.2% outperforming the Sensex by 5.8%, marking the third consecutive quarter of out-performance. Approval and launch of key products in the US during the quarter led the outperformance of the Indian Pharma companies on the bourses.

Exhibit 1: BSE HC Index v/s Sensex



Source: C-Line, Angel Research

Mid-caps outshines Large-caps: In our coverage universe, among the Mid-caps, with Cadila Healthcare reporting strong growth in the US geography and on the Consumer Division front during 9MFY2010 resulted in the stock spurting 27.1% on the bourses. We believe the company will extend its robust performance in 4QFY2010 as well. During the quarter, Ipca Labs gained 28.9% on account of strong 3QFY2010 and reiteration of the robust guidance of 20% growth in Top-line and OPM of 20% for FY2010.

Among the large-caps, Sun Pharma has been outperformer gaining 18.8% following launch of the generic version of *Eloxatin* in the US market, which is expected to be limited competition opportunity for the company for the next two-three years. DRL also gained 11.6% during the quarter on the back of one of its most visible Para IV/Limited competition pipeline in the next 12-18 months and approval of *Allegra* D-24. Lupin gained 9.0% during 4QFY2010 owing to launch of generic version of *Lotrel* in the US in February 2010, which is likely to provide upside in the near term. However, Ranbaxy lost ground by 8.0% during the quarter basically due to its tepid CY2010 guidance and partial loss of *Flomax* exclusivity.

Key Developments

US Healthcare Bill approved: The US Senate has approved the Healthcare Bill, which entails expanding the insurance coverage to citizens either employed with smaller companies or unemployed. It is estimated that around 3.2cr US citizens would now receive additional healthcare access. This would further increase the generic penetration and in turn benefit the Indian companies. The Bill also provides the road map on data exclusivity protection for biologic drugs. The Bill grants 12 years of data protection, while allowing the first biogeneric company 18 months of exclusivity. Though the period of data protection is longer than expected, setting up of the regulatory pathway is important as biologic drugs are facing patent expiries.

Ranbaxy fails to launch *Flomax*: The US FDA rejected Ranbaxy's ANDA to sell the generic version of *Flomax*, which is used to treat enlarged prostate glands. Ranbaxy was to launch the generic version of *Flomax* on March 2, 2010 in the US, eight weeks before the drug's patent expires following an out-of-court settlement in 2007. *Flomax* recorded sales of around $2 bn in the US last year. However, the company has partly monetised the opportunity by entering into an agreement with Impax allowing the latter to launch the drug.

Further, during the quarter, parent Daiichi announced its second mid-term plan. Regards Ranbaxy, Daiichi expects the US FDA issue pertaining to import alert and AIP to get resolved by CY2012. It aims to increase Ranbaxy's Total Revenues from US $1.65bn to US $3bn in CY2012, implying a Revenue CAGR of 23% over CY2009-12E. However, excluding the one-off, the company's base business is expected to register 11% growth, which is in line with our estimates.

Sun Pharma launches *Eloxatin* in US: Sun Pharma launched the generic version of *Eloxatin* in the US market post the settlement with the Innovator in October 2009. *Eloxatin*, one of the leading products of Sanofi-Aventis, is used to treat colon cancer and recorded Sales of US $1.4bn in CY2008 in the US. Launch of the generic version of *Eloxatin* is a positive and likely to provide a boost to the company's US Sales in the near term as only three players (Teva, Hospira and Sandoz) are present in the market with one or two more players likely to enter in the next 2-3 years. We expect the company's Revenue potential to be US $21mn, US $63mn and US $52.5mn in FY2010E, FY2011E and FY2012E respectively, thereby contributing Rs3.2, Rs9.8 and Rs7.4 to the EPS of the respective years.

Pharmaceutical

DRL gets USFDA approval for Allegra-24: DRL received the US FDA approval for the generic version of *Allegra-D24*, which is in line with our expectation. *Allegra D-24* is used to treat seasonal allergy symptoms, and has a market size of US $200mn in the US. DRL is the exclusive FTF holder of the drug and could either launch at risk or settle with the Innovator, Sanofi-Aventis. We expect the product to be limited competition opportunity for DRL for the next two-three years, contributing an NPV of Rs20/share (EPS of Rs9.5 in FY2011E, Rs9.2 in FY2012E and Rs1.5 in FY2013E) if the company launches at-risk.

Lupin launches *Lotrel*: Lupin launched the generic version of Lotrel in the US market. *Lotrel* is used to treat hypertension and has market size of US $1.1bn. The current approval is for four dosage strengths, which command 70% of the total product sales. We expect the product to be a limited competition opportunity for Lupin in the near term and contribute around US $11mn in 4QFY2010 as only two players, viz. Teva and Sandoz along with Lupin are present in the market. DRL and Cobalt are expected to launch the generic version in the next 3-6 months.

Piramal Healthcare buys *i-pill* from Cipla: PHL acquired the 'i-pill' brand in the Emergency Contraceptive Segment (ECP) from Cipla for a consideration of Rs95cr (valuing it at 3x LTM sales). The acquisition strengthens PHL's OTC portfolio, which contributed 6% to 9MFY2010 Sales comprising strong brands such as *Lacto Calamine, Supractiv Complete, Saridon* and *Polycrol* antacid. The ECP Segment has a market size of Rs100cr and has more than doubled in the last one year. The 'i-pill' recorded Sales of Rs30.9cr in the last twelve months, registering a strong growth of 35%. However, we do not expect the 'i-pill' acquisition to have a material impact on our estimates as it is likely to contribute only around 1% to the consolidated Sales and marginally to the EPS in FY2011E and FY2012E estimates.

Indoco Remedies enters into contract with Watson and Aspen Pharma: During the quarter, Indoco Remedies entered into contracts with Watson and Aspen for supply of Ophthalmic products to the US and Emerging markets respectively. Under the terms of contract, Indoco will offer products for registration and would commence supply of the products post the regulatory approvals. Overall, the deals are positive as it would result in milestone payments from 1QFY2011E onwards and steady Revenue flow from FY2012-13E onwards. We expect the contracts to result in Revenue flow to the tune of US$30-40mn (35-47% of FY2010 Revenue) from FY2013 onwards.

4QFY2010 - Product launches and OPM expansion to drive growth

The Indian Pharmaceutical Sector is expected to post strong growth on the Sales front. We expect our coverage universe to register 11.3% yoy growth in Top-line even though the Rupee has appreciated by 8% yoy against the US Dollar, on an average, during the quarter. Sun Pharma and Lupin are expected to post a strong growth on the Top-line front mainly driven by limited competition product launches in the US. Cadila Healthcare will post strong performance owing to the robust show in the US and the Contract Manufacturing Segment. PHL will post strong numbers on a robust Domestic business. We expect most companies in our coverage to witness expansion in OPM, while Net Profit will witness strong growth on low base. We expect 4QFY2010 to be one of the good quarters for the Pharma companies under our coverage on both the Top-line and Bottom-line front given the product launches in the US and OPM expansions.

Indian large caps - Sun Pharma and Lupin to out perform

Among the large caps in our coverage universe, during 4QFY2010, we expect Sun Pharma to post strong growth on the Top-line front driven by the launch of the generic version of *Eloxatin*. We expect the company to post 16.6% growth to Rs1,322cr for the quarter. The company's OPM is expected to expand to 35.7%. However, Net Profit is expected to rise by a mere 8.2% to Rs427.2cr on account of lower Other Income.

Lupin to record robust 17.3% growth in Top-line to Rs1,223cr during 4QFY2010 on the back of strong growth likely to be registered in it's US geography as the company has started selling generic version of *Lotrel* and traction on the Domestic markets. On the Operating front, we expect OPMs to remain flat at 18.0%. We expect Net Profit to register 8.1% growth to Rs169.2cr on higher tax charges.

Ranbaxy is expected to post 12.4% growth in Top-line to Rs1,748cr driven by *Valtrex* exclusivity. We expect *Valtrex* to contribute US $90mn to Top-line and US $54mn to Operating Profit. The company is expected to report OPM of 19.5%. We also expect the company to clock Other Income of US $10mn owing to the agreement entered into with Impax for the launch of *Flomax*. Ranbaxy is expected to report Net Profit of Rs272.2cr driven by Top-line growth and MTM gains on forex hedges.

DRL is expected to post a de-growth on the Sales front by 8.2% to Rs1,769cr as 4QFY2009 was boosted by launch of the generic version of *Imitrex*. Excluding the one-off, DRL's Recurring Sales

Pharmaceutical

is expected to grow by a healthy 13%. DRL has received the USFDA approval for *Allegra-D24* for which it is the exclusive FTF holder and could either launch as risk or settle with the Innovator. On the OPM front, Margins are expected to come at 17.5%, with Net Profit of Rs235.5cr.

Cipla is expected to post Sales growth of 7.1% for the quarter to Rs1,322cr mainly driven by its Domestic Formulation Segment. During the quarter, the company will book one-time income from sale of the 'i-pill' brand to Piramal Healthcare. On the Operating front, OPM is expected to expand by 284bp to 20.5% on the back of lower Raw Material cost sand Other expenses. Net Profit is expected to rise by 62.8% to Rs412cr driven by OPM expansion and one-time income from sale of 'i-pill' brand.

Among the Mid-caps, Cadila and PHL are expected to be outperformers

Cadila is expected to post a strong 28.3% growth in Top-line on the back of robust growth in Export Formulations and Consumer Division. We expect the company's OPM to expand by 165bp to 19.9% following change in product mix. Net Profit is expected to increase by a strong 93.3% to Rs112.1cr albeit on a low base driven by Top-line growth and OPM expansion.

We estimate PHL to clock 16.9% yoy growth in Top-line to Rs994.2cr on continuous strong traction in its Domestic Formulation business and increasing contribution from the Inhalation Anaesthetic Segment. However, we expect PHL's CRAMS Segment to clock subdued growth for the quarter. We expect Margins to stand at 20.5% on the back of pressure on the CRAMS Segment. We expect Net Profit to clock 19.3% yoy growth to Rs137.0cr mainly driven by Top-line growth.

We estimate Ipca Laboratories to grow its Top-line by 16.4% to Rs369.0cr during 4QFY2010. The company is expected to post strong growth both on the Export and Domestic fronts. OPMs are expected to expand by 568bp to 22.5%, while Net Profit is expected to come at Rs46.6cr albeit on a low base.

Outlook and Valuation

During the last 6 months, the BSE HC Index rallied 21.0% outperforming the market by 19.0%. Going ahead, we recommend a bottom-up approach. **In Generics, we prefer companies with a strong, niche and visible product pipeline and recommend Dr Reddy's, Lupin.** We continue to favour the CRAMS Segment, though the Segment is witnessing near-term hiccups on account of inventory rationalisation and multiple mega global pharma mergers in CY2009. However, most of the CRAMS companies are now witnessing an up-tick in order enquiries from the Global Innovators indicating an improvement in the global scenario. **In this Segment, we recommend PHL and Dishman Pharma. Among the Small caps, we recommend Indoco Remedies.**

Exhibit 2: Quarterly Estimates

Rs cr

Company	CMP	Net Sales		OPM (%)		Net Profit		EPS (Rs)		EPS (Rs)			P/E (x)			Target	Recos
	(Rs)	4QFY10E	% chg	4QFY10E	chg bp	4QFY10E	% chg	4QFY10E	% chg	FY10E	FY11E	FY12E	FY10E	FY11E	FY12E	(Rs)	
Alembic	50	283	10.7	11.0	545	13.7	-	1.0	-	4.0	5.5	6.5	12.6	9.1	7.7	52	Accumulate
Aventis #	1,819	247	8.0	16.0	(104)	38.9	(3.9)	16.9	(3.9)	68.0	87.5	94.3	26.8	20.8	19.3	-	Neutral
Cadila HC	829	902	28.3	19.9	165	112.1	93.3	8.2	93.3	36.5	41.1	51.9	22.7	20.2	16.0	-	Neutral
Cipla	339	1,322	7.1	20.5	284	412.0	62.8	5.3	62.8	15.2	15.1	17.2	22.3	22.4	19.8	360	Accumulate
Dishman Pharma	216	303	3.8	22.0	(640)	24.6	(67.7)	3.1	(67.7)	14.9	19.7	23.9	14.5	11.0	9.0	311	Buy
Dr. Reddys	1,265	1,769	(8.2)	17.5	(668)	235.5	-	14.0	-	28.6	58.3	74.2	44.2	21.6	17.0	1,313	Accumulate
Glaxo #	1,763	514	12.5	34.3	13	132.8	(7.3)	15.7	(7.3)	65.0	69.1	79.5	27.1	25.5	22.2	-	Neutral
Indoco Remedies	409	90	5.9	14.2	632	6.1	56.5	5.0	56.5	32.5	40.5	54.2	12.6	10.1	7.6	487	Buy
Ipca Lab.	273	369	16.4	22.5	568	46.6	490.3	3.7	492.6	17.5	19.3	23.5	15.6	14.2	11.6	-	Neutral
Lupin	1,616	1,223	17.3	18.0	5	169.2	8.1	19.6	3.3	71.0	86.1	103.5	22.8	18.8	15.6	1,863	Buy
Orchid Chem*	157	408	69.9	19.8	2,299	1,251.8	-	177.8	-	169.3	11.6	14.2	0.9	13.5	11.1	142	Reduce
Piramal HC	423	994	16.9	20.5	(46)	137.0	19.3	6.6	19.3	22.2	26.8	30.5	19.1	15.8	13.9	457	Accumulate
Ranbaxy Lab #	476	1,748	12.4	19.5	2,624	272.2	-	7.3		7.1	10.0	24.3	67.5	47.8	19.6	445	Reduce
Sun Pharma	1,801	1,322	16.6	35.7	271	427.2	8.2	20.6	8.2	66.9	73.2	82.0	26.9	24.6	22.0	-	Neutral

Source: Company, Angel Research, Price as on April 1 , 2010; Note: Our numbers include MTM on Foreign Debt. # 1QCY10 , The quaterly numbers are Standalone Financials*

Analyst: Sarabjit Kour Nangra / Sushant Dalmia

Power

The end of 4QFY2010 will mark the completion of 60% of the Eleventh Plan period. A number of ambitious proposals had been set for the Plan Period, towards which moderate progress has been made until now. A majority of the capacity addition during the plan period is expected to be back-ended. The CEA expects to add 62,488MW of power generation capacity during the plan period (as against the targeted 78,700MW). Similarly, the government's ambitious target of per capita consumption of 1,000kwh by FY2012E appears to be a far cry.

The most encouraging feature of the Eleventh Plan is the increasing participation of the private sector players in the capacity addition. Out of the total capacity addition targeted during the Eleventh Plan, close to 20% is expected to be added by private players.

Primary Market Activity

NTPC came out with its FPO, with an issue size of 41.2cr equity shares. The company raised close to Rs9,000cr through this issue, which had a lukewarm response. After this issue, the government's stake in the company came down from 89.5% to 84.5%.

CERC notification on Power trading

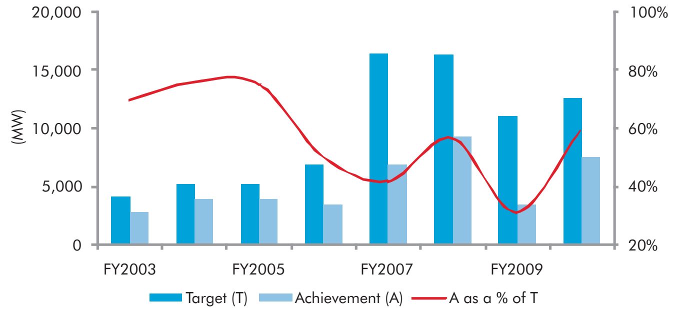
During the quarter, the Central Electricity Regulatory Commission (CERC) issued new regulations, fixing the trading margin for inter-state trading in electricity. As per the new regulations, the Trading margin shall not exceed 4 paise per unit if the sale price of electricity is less than or equal to Rs3 per unit. The ceiling of the trading margin shall be 7 paise per unit in case the sale price of electricity exceeds Rs3 per unit. The earlier (4 paise/unit cap) pricing regime was not adequate to cover the operational and market risks borne by the trading companies in the face of strong competitive pressures, especially in the short-term buy and short-term sell agreements. Hence, this regulation will help the growth of the power trading industry.

Capacity addition: Status Check

Generation

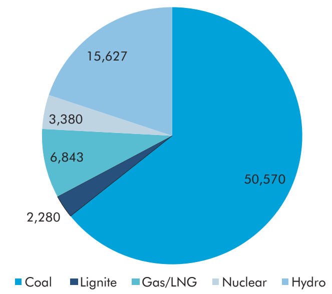
Of the total capacity planned for addition during April 2007 - February 2010, only 50% has been added till date. In all, a total of 20,227MW of capacity has been added since the beginning of the Eleventh Plan till date. The capacity addition during 11MFY2010 is at 7,510MW, as against the planned 12,651MW. The total installed Power Generation capacity in India stood at 1,57,229MW as of February 28, 2010.

Exhibit 1: Generation Capacity Addition: Tgt v/s Achvmt.



Source: CEA, Angel Research

Exhibit 2: Fuel-wise Planned capacity addition (MW)



Source: CEA, Angel Research

Transmission

During 11MFY2010, the capacity addition to 500kv HVDC Transmission lines was in line with the Plan, at 275 circuit km (ckm), as against the targeted 250ckm. The total addition to other categories of Transmission lines was at 10,997ckm, as against the targeted 14,800ckm. The total addition to 400kv sub-station capacity stood at 4,280MW, as against a target of 10,395MW. Further, a total of 10,765MW was added under the 220kv category as against the targeted 12,215MW.

Operational Highlights

India's total power generation rose by 6.6% during 11MFY2010 to 695.5BU (652.7BU). The increase in generation was primarily on account of an 8.8% yoy increase in thermal power generation to 580.3BU (533.4BU). However, hydro power generation declined by 7.0% to 98.5BU (105.6BU) during 11MFY2010, due to lesser water inflows on account of the poor rainfall during the monsoon. The plant load factor (PLF) for 11MFY2010 stood at 77%, which was in line with the target.

Exhibit 3: Energy Generation (Bn Units)

	Feb- 10	Feb-09	chg (%)	11MFY10	11MFY09	chg (%)
Thermal	53.0	49.5	7.1	580.3	533.4	8.8
Hydro	6.4	6.6	(3.0)	98.5	106.0	(7.0)
Nuclear	1.7	0.9	84.6	16.7	13.3	25.1
Total	**61.1**	**57.0**	**7.2**	**695.5**	**652.7**	**6.6**

Source: CEA, Angel Research

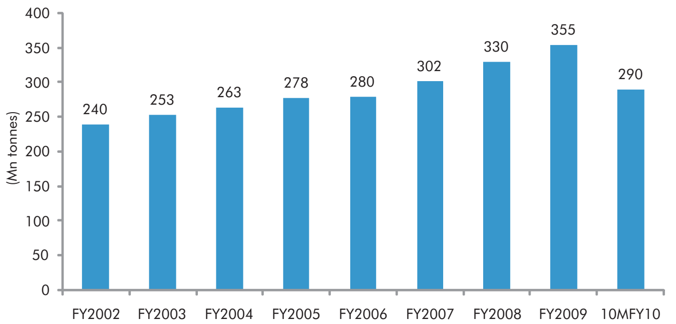
Power

Coal Scenario

Coal-based plants account for 52% of India's total power generation capacity. Thus, the availability of coal plays a critical role in the overall power generation in the country. During FY2002-09, India's coal consumption for power generation has grown at a CAGR of 6%, from 240mn tonnes to 355mn tonnes. India's import of coal has also increased over the years. A number of power generating companies have acquired coal mines abroad for achieving fuel security.

Coal availability has improved considerably in the recent quarters. As of February 28, 2010, 24 coal-based stations out of the 78 monitored by the Central Electricity Authority (CEA) had critical coal stocks for less than 7 days (as against 41 at the end of January, 2009).

Exhibit 4: All-India coal consumption for power generation



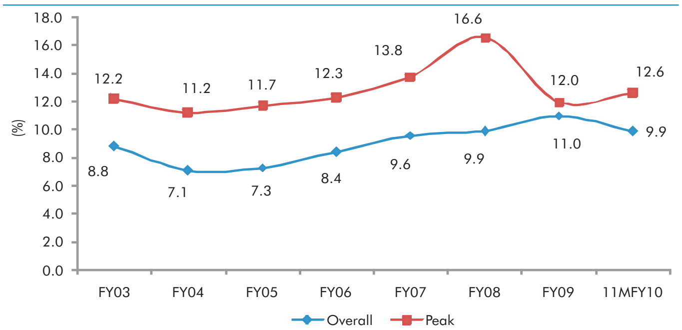
Source: CEA, Angel Research

The global prices of coal have risen substantially during the quarter. The average prices of the New Castle Mccloskey 6,700kc coal stood at around US $95/tonne (as against US $77/tonne recorded in 3QFY2010).

Power Deficit Situation

India, despite being one of the lowest per capita consumers of power, at 704kwh, still faces a substantial power deficit. The deficit can be largely attributed to power plants not being commissioned on time.

Exhibit 5: India: Power Deficit Scenario



Source: CEA, Angel Research

Key Developments

NTPC

During the quarter, NTPC commissioned the Coal Based 490MW Unit 5 of the National Capital Thermal Power Project at Dadri. With the commissioning of this unit, the total installed capacity of the Company has touched 31,134MW.

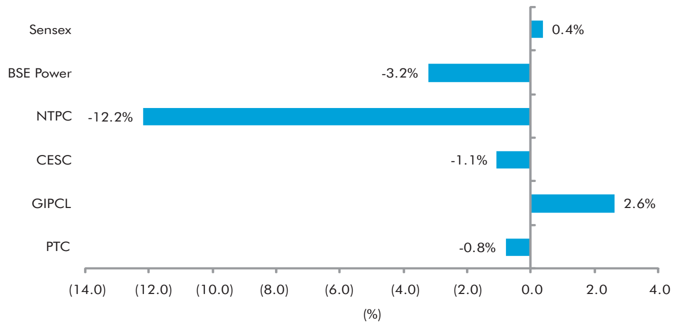
CESC

CESC commenced operations at the 250MW third unit of the Budge Budge plant. With the commissioning of this plant, the company's total power generation capacity increased to 1,225MW.

Performance of Power stocks during 4QFY2010

GIPCL was the top performer during the quarter, with a gain of 2.6%. However, the other companies under our coverage delivered negative returns during the quarter. NTPC was the top loser with 12.2% decline, as against 0.4% gain made by the Sensex during the quarter.

Exhibit 6: Performance on the Bourses



Source: BSE, Angel Research

Expected Financial Performance in 4QFY2010

We expect NTPC's net sales to grow by 4.2% yoy to Rs11,927cr, aided by a 5.0% growth in volumes. The operating profit of the company is expected to grow by 23.3% to Rs2,737cr, primarily due to a decline in fuel costs. However, we estimate the company's net profit to de-grow by 13.2% to Rs1,834cr, due to a higher tax expense.

We expect GIPCL to register a 9.8% yoy decline in Revenues in 4QFY2010, primarily due to a substantial decline in the fuel price, which is a pass-on. We expect the company to sell 1,170 Million Units (MU) of power during the quarter, up by 3.5% on yoy basis. The company's OPMs are expected to expand by 479bp to 27.3%. We expect GIPCL to post a growth of 14.6% in its Bottom-line to Rs33.6cr.

Power

We expect CESC to register an 18.5% yoy growth in its standalone Top-line to Rs878cr. The growth in the Top-line is expected to be aided by a higher tariff of Rs4.57/unit charged by the company in 4QFY2010 (Rs3.91/unit in 4QFY2009). The company's OPMs are expected to expand by 104bp to 21.6%. On the Bottom-line front, we expect CESC to record an 18.3% yoy growth in its Net Profit to Rs111cr.

We expect PTC to record a 57.8% yoy growth in its standalone Top-line to Rs1,862cr. We expect the company to trade 4,900MU of power during the quarter, resulting in an increase of 124% yoy. We have assumed an average realisation of Rs3.8/unit. We expect the company to post a 6.6% growth in net profit to Rs16.5cr.

Outlook

The delay in capacity addition has been primarily due to issues in land acquisition and a delay in the placement of orders. Going ahead, we expect capacity addition to gather steam over the last two years of the Plan Period. However, on a positive note, there has been a considerable improvement in the fuel availability situation. While the inventory of coal has been comfortable in most of the coal-based plants, the availability of gas from KG-D6 has improved the PLF of gas-based plants as well. The overall outlook continues to remain positive for the sector, on account of its huge growth potential.

We maintain a Buy on CESC and PTC, and an Accumulate on NTPC. We downgrade GIPCL to Accumulate from a Buy.

Exhibit 7: Quarterly Estimates

Rs cr

Company	CMP	Net Sales		OPM (%)		Net Profit		EPS (Rs)		EPS (Rs)			P/E (x)			Target	Recos
	(Rs)	4QFY10E	% chg	4QFY10E	chg bp	4QFY10E	% chg	4QFY10E	% chg	FY10E	FY11E	FY12E	FY10E	FY11E	FY12E	(Rs)	
CESC	387	878	18.5	21.6	104	111	18.3	8.9	18.3	35.3	38.3	50.1	11.0	10.1	7.7	460	Buy
GIPCL	122	255	(9.8)	27.3	479	34	14.6	2.2	14.6	6.9	7.6	10.7	17.7	16.0	11.4	135	Accumulate
NTPC*	208	11,927	4.2	22.9	355	1,834	(13.2)	2.2	(13.2)	10.4	12.1	14.4	20.1	17.2	14.4	230	Accumulate
PTC	111	1,862	57.8	0.6	25	17	6.6	0.6	(17.5)	3.3	5.1	6.5	33.8	21.9	16.9	136	Buy

*Source: Company, Angel Research; Note: Price as on April 1 , 2010; *Consolidated numbers*

Analyst - Rupesh Sankhe / V. Srinivasan

Retail

Seasonal sales, coupled with the improving economy, spurts footfalls in 4QFY2010

The retail industry seems to have now recovered from the weakness witnessed during the major part of FY2010. During 4QFY2010, consumer sentiment remained buoyant, providing enough confidence to retail players to chalk out future strategic plans. This is the second consecutive quarter where consumer sentiment has been upbeat. During 4QFY2010, seasonal sales, coupled with the improving economic outlook, wooed consumers, enabling retailers to witness significant improvement in footfalls. It has become a norm in the industry to have a sale in January-February and July-August, every year. It acts as a win-win situation for both the consumers and the retailers, as consumers get to buy at cheaper prices, and retailers get to liquidate the stock lying on the shelves and to prepare for the introduction of new products. The return of buoyant sentiment can be gauged from the fact that Future Group's hypermarket chain, Big Bazaar, managed to rake in Rs243cr at its four-day shopping festival built around the Republic Day. That was 27% higher than last year's Republic Day event and 14% higher than Future Group's internal target. HomeTown, the group's largest home retail store in the Vikhroli area of Mumbai, did a business of Rs3cr in the first week of its opening in January this year, almost double its target. Other major retailers like the Raheja-owned Shoppers Stop, Tata's Trent and RPG's Spencer's Retail also witnessed increased footfalls due to improved consumer sentiment. Retailers during 4QFY2010 have also witnessed increased sales of their full-priced goods, thereby giving confidence of robust recovery happening in the industry. We expect SSS (Same Store Sales) growth to be robust for retailers during 4QFY2010.

Value and Lifestyle Retailing: On a roll

On the Value Retailing front, growth is expected to be robust in 4QFY2010, despite soaring food prices. Value retail formats such as Big Bazaar, Food Bazaar, More and D'Mart tried to cushion the impact of inflation on demand, by stepping up bargains and discount offers across product categories that have been hit hard by spiraling prices. We expect the Value Retailing format to register a double digit growth in 4QFY2010. Hence, the major players in the Value Retailing Segment, including Pantaloon Retail (PRIL), Reliance Retail, Spencer's and More, stand to benefit from this ongoing trend.

On the Lifestyle retailing front, stable economic conditions and a pick-up in consumer confidence have resulted in consumers opening up their wallets for purchasing lifestyle goods. We expect Lifestyle retailing to witness a lower double digit growth in 4QFY2010.

Retailers back on the expansion track, albeit cautiously

Buoyed by increasing consumer spending and low rentals that remain one-fourth lower than the peak levels of 2007, retailers are once again scaling-up their operations in the metros. Retail consumption trends remained upbeat in both rural and urban households in 4QFY2010. All the top retailers, such as Pantaloon, Shoppers Stop, More and Reliance Retail have chalked out expansion plans. It is estimated that by December 2010, approximately 2.5cr sq. ft. of new retail space will be developed countrywide, mainly in big cities and lucrative Tier-II cities, which is 50% more than what was developed in the last year. The last couple of quarters have seen some increase in rentals, but they are still 25-30% lower than the peak rates during the boom period of 2007-08. Also, companies are bullish, with improved salaries and job opportunities in sectors such as IT, pharmaceuticals, finance and manufacturing in big cities, fuelling fresh demand for retail space in the metros. According to Knight Frank India, the K Raheja Group, Oberoi and Runwal Group in Mumbai, Prestige and Sobha Developers in Bangalore, and DLF, Ansal and Emaar MGF in the National Capital Region (NCR) in Delhi are some of the companies involved in developing retail space. Although their expansion plans seem to be on track, retailers are not as overly aggressive as in the past. They are proceeding with caution in selecting locations and entering into property deals, apart from focusing on aspects like a better product-mix and the positioning of malls.

Increased thrust on Private labels

Large retailers are increasingly taking FMCG companies head on, with entry into newer categories, aggressive marketing and brand push, in a bid to push margins and profits. For instance Star Bazaar, the Tata group's hypermarket, has several racks reserved for its private labels in noodles, breakfast cereals and other processed foods, just next to those from FMCG majors. Star has also launched 50-odd private labels from its franchisee partner, UK's Tesco, in its stores, mostly in the health and beauty category. Kishore Biyani's Future group, which has nearly 300 'private brands' in 65 categories, plans to launch 10-12 more product lines in the next year in areas such as personal care and toiletries, the stronghold of companies like Hindustan Unilever and Procter & Gamble, among others. Private labels in food and groceries carry margins of 25-35%, while national and regional brands give margins of 10-12%. The strategy is most helpful for retailers who are at a nascent stage, as private labels can be a key factor in boosting profitability. Retailers have also adopted differential pricing in their products to be able to be attractive to buyers. For example, half of Future's private labels sell at 15-20% less than national brands, and the

Retail

remaining half is sold at 5-6% less. Additionally, large retailers save 15-20% in distribution costs and 3-4% on marketing, compared to FMCG companies. Although the world's biggest retailers (Wal-Mart and Tesco) derive half of their revenues from private labels, most Indian retailers are trying to have a share of 30-40% in the next four-five years, from the 5-25% at present. Although the trend of introducing private label products is picking up speed, the scope is likely to be restricted to categories where brand preference is not high. We foresee this trend to increase going ahead, which may result in a change of strategy for both retailers and FMCG players.

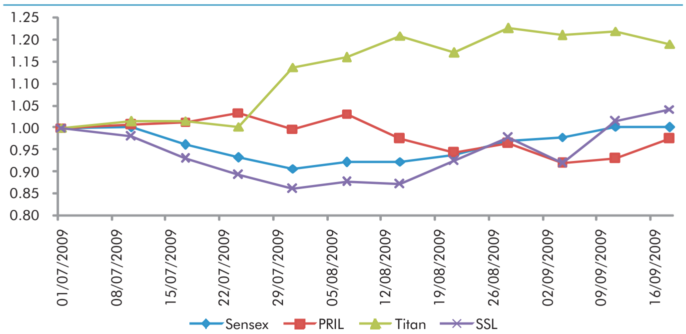
Union Budget 2010: Industry an indirect beneficiary

The Union Budget 2010 did not have any specific measures aimed at the retail industry - there was no mention of either Foreign Direct Investment (FDI), or industry status for retail, despite the recommendation by the Economic Survey to allow FDI in multi-format retail. However, the proposals like abolition of Fringe Benefit Tax (FBT), hike in the personal income tax ceiling and huge increases in the outlay for infrastructure will bring indirect benefits to the sector, by raising consumer spending.

Mixed performance of Retail stocks in comparison to the Sensex

Retail Sector stocks (excluding PRIL) outperformed the Sensex in 4QFY2010. Titan emerged as a clear winner, by outperforming the the benchmark BSE Sensex by 19%, while Shoppers Stop outperformed the Sense by 4%. However, PRIL underperformed by around 1.9% during 4QFY2010.

Exhibit 1: Performance of Retail Stocks vis-à-vis Sensex

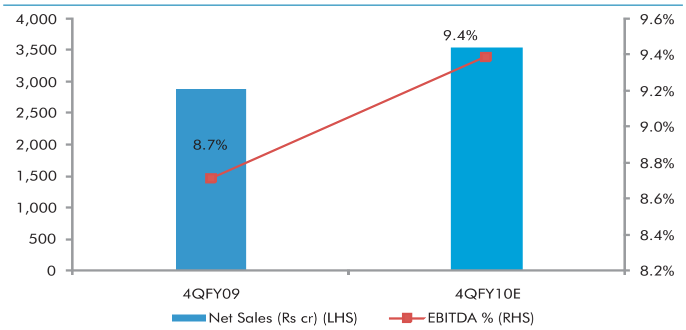


Source: Bloomberg, Angel Research

4QFY2010 Preview

During 4QFY2010, consumer sentiment was upbeat as the economic outlook seems stable, thereby providing much needed security in the minds of people. Additionally, the seasonal sales during the months of January-February have resulted in increased footfalls and, consequently, translated into higher sales per sq. ft. We expect value retailing to strengthen further, while Lifestyle Retailing is likely to extend its growth trajectory as the upbeat consumer sentiment should translate into higher demand for lifestyle goods. We expect the Retail stocks under our coverage to report a Top-line growth of 23.1% yoy. We estimate PRIL to lead our universe, with a 30.1% yoy growth in its Top-line.

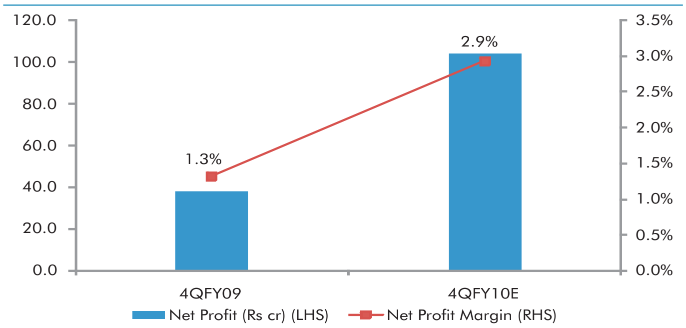
Exhibit 2: Retail Universe Sales and EBITDA estimates



Source: Bloomberg, Angel Research

On the Operating Margin front, we expect PRIL, Titan, and SSL to show a yoy improvement of around 15bp, 6bp and 350bp, respectively. We expect the improvement in the top-line and margins to percolate to the bottom-line, thereby improving their Net Profit Margins by ~160bp yoy.

Exhibit 3: Retail Universe Net Profit estimates



Source: Bloomberg, Angel Research

Outlook and Valuation

With economic growth now firmly on track, coupled with the revived consumer sentiment and expectations of inflation tapering down in the coming months, we foresee good times ahead for the retail industry. Sensing this change, several retailers have started chalking out expansion plans, which further bolsters our belief. We expect the growth trend to continue and to strengthen, going ahead, thereby keeping the long-term growth prospects intact for the Organised Retail Segment in India. We believe that Organised Retail will post a CAGR of 31% over the next five years.

The Value Retailing segment is likely to lead the growth over the next few years, as more and more consumers are expected

Retail

to go for value-for-money-goods. However, we expect the Lifestyle Retailing segment growth to pick-up on the back of a revival in consumer confidence. Our view is further bolstered by SSL's indication of robust SSS growth of ~20% expected during the quarter. We expect players like PRIL, who are straddled across price and product points, to benefit both in the short and in the long term. The Indian Retail Sector remains one of the fastest growing sectors in India and we remain positive on its growth prospects.

PRIL continues to be our preferred pick

PRIL's presence across price points and categories helps the company to be in a better position than its peers. Additionally, the company's restructuring initiative would enable it to enhance focus on different segments and also provide a good opportunity of value unlocking. At Rs392, the stock is trading at 19.2x its FY2012E Earnings and at 2.2x FY2012E P/BV. Our SOTP Target for PRIL (Standalone) is Rs469, wherein we have valued its stake in FCH (Future Capital Holdings), HSRIL (Home Solutions Retail) and Future Bazaar at Rs31, Rs12 and Rs18, respectively. **PRIL continues to be our Top Pick in the Retail Sector. We recommend a Buy on the stock, with a 15-month price target of Rs469.**

Titan has a stable and niche business model in the jewellery segment. The falling rate of decline in volumes witnessed during the previous quarter indicates that consumers may be adjusting to the high prices and do not expect gold prices to correct significantly. A continuance of this trend could bode well for the company. Moreover, the company's watch segment is performing well and Titan has recently intensified its brand campaigning for its eyeware division. We expect these segments to perform well, as there has been a revival in the demand for lifestyle category goods. At Rs1,872, the stock is trading at 25.2x its FY2012E Earnings and at 8.3x FY2012E P/BV. **We remain Neutral on the stock, due to its rich valuations.**

We expect Shoppers Stop's performance to improve in the coming quarters, on the back of a pick-up in consumer demand for lifestyle retailing. At Rs393, the stock is trading at 21.3x its FY2012E Earnings and at 3.9x FY2012E P/BV. **Considering the recent run-up in the price, we maintain our Neutral view on the stock.**

Exhibit 4: Quarterly Estimates

Rs cr

Company	CMP	Net Sales		OPM (%)		Net Profit		EPS (Rs)		EPS (Rs)			P/E (x)			Target	Recos
	(Rs)	4QFY10E	% chg	4QFY10E	chg bp	4QFY10E	% chg	4QFY10E	% chg	FY10E	FY11E	FY12E	FY10E	FY11E	FY12E	(Rs)	
Pantaloon*	392	2137	30.2	10.7	15	65.3	89.9	3.2	61.4	11.6	15.6	20.4	33.9	25.1	19.2	469	Buy
Titan	1872	1027	16.5	8.4	6	32.0	14.9	7.2	14.9	52.0	62.9	74.2	36.0	29.8	25.2	-	Neutral
Shoppers Stop	393	376	6.4	4.7	354	6.4	-	1.8	-	8.5	13.9	18.4	46.3	28.3	21.3	-	Neutral

*Source: Company, Angel Research; Note: Price as on April 1, 2010, Note: * Year Ending in June; Estimates are 3QFY2010 for PRIL, 15 months Target Price, Figures on standalone basis*

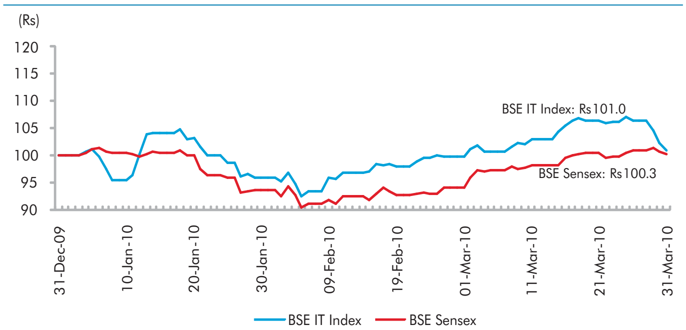
Analyst - Viraj Nadkarni

Software

BSE IT Index: Outperformance extends as the global economy show signs of recovery

During the quarter, the Indian equity markets remained range-bound, with the benchmark BSE Sensex witnessing subdued returns of 0.3%. The BSE IT Index maintained its momentum, and extended its gains by 1% during 4QFY2010, after clocking strong gains of 13.5% in the last quarter (3QFY2010). Strong deal wins by Tier-I IT players in the e-governance space is acting as an incremental market opportunity, as the Indian government has specifically marked allocation in this space in the Union Budget 2010-11, along with its plans to implement the proposals of the Unique Identification Authority of India (UIDAI) for 2010-11. Thus, we believe that strong domestic demand and recovering global opportunities (with an improved global environment) have helped in the restoration of investor confidence in the sector, which is likely to flourish in the coming period.

Exhibit 1: BSE Sensex and BSE IT Index



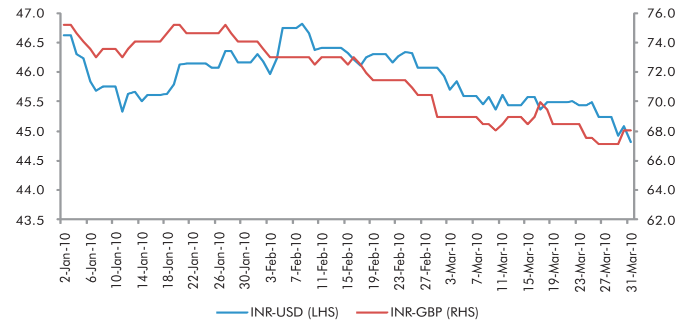
Source: Bloomberg, Angel Research

Currency movements

Dollar weakens further and Rupee appreciates across all major currencies

During the quarter, the Indian Rupee witnessed a sequential appreciation of 1.6% against the US Dollar, 7.7% against the Euro and 5.9% against the GBP. This Rupee appreciation against the major currencies will result in lower realisations in Rupee terms, which will mute the growth in the reported currencies. In the previous quarter, overall realisations were decent as the impact of Dollar depreciation was subdued by favorable cross-currency gains, but 4QFY2010 marked a decline in average realisations by 1.6% to Rs45.7 per USD (as against Average realization of Rs46.5 per USD in 3QFY2010). This may result in lower-than-guided sales for most of the companies.

Exhibit 2: Rupee against Dollar and GBP

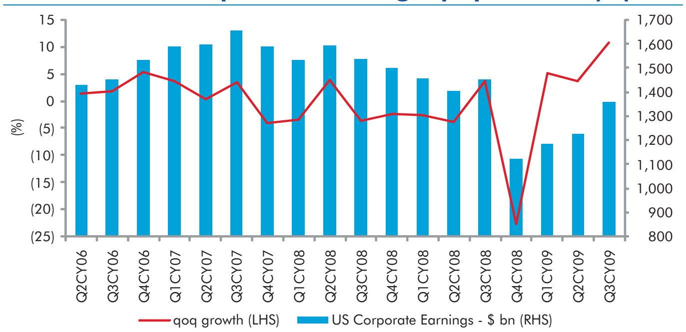


Source: Bloomberg, Angel Research

Green Shoots in the Global Economy

We believe there are visible green shoots in the global economy, as indicated by better corporate earnings, in the last few quarters, in developed economies. The guidance by the management and analysts' forecasts are also turning moderately positive for the coming quarters. We believe that strong qoq growth in corporate earnings in the US is a strong signal, as this could lead to an uptick in discretionary IT spending and an increasing number of transformational deals. The GDP forecasts for emerging economies suggest a revival from 2HCY2010E, which would restore the growth in the overall IT spends. IT spends were deferred/slashed in the downturn and would ramp-up in the coming quarters, as large outsourcers (clients) are doing budget negotiations in the current quarter.

Exhibit 3: US Corporate earnings qoq Growth (%)



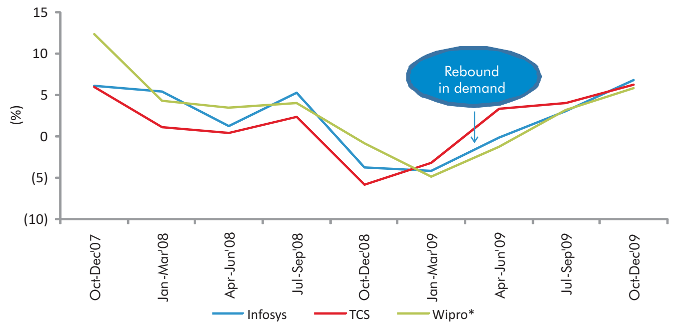
Source: Angel Research, BEA

Management Confidence is back as companies witnessed strong growth in dollar terms in 3QFY2010, led by a strong traction in volumes. Pricing has been low on account of re-nogotiations in the past and due to increased offshoring (resulted in the lower blended realisations). We have been projecting strong growth for the top-tier players (CQGR of ~4% over FY2010E-12E), induced by volume traction, with a muted growth assumption for pricing. However, we believe that the revival in the demand would lead pricing back to the pre-crisis levels. The current levels of pricing are lower by 8-15% for our IT coverage universe.

Software

We are building strong growth for Indian IT players from 4QFY2010E onwards, based on our expectation of an imminent rebound in top-line growth.

Exhibit 4: Quarterly Revenue growth trend in US $ terms



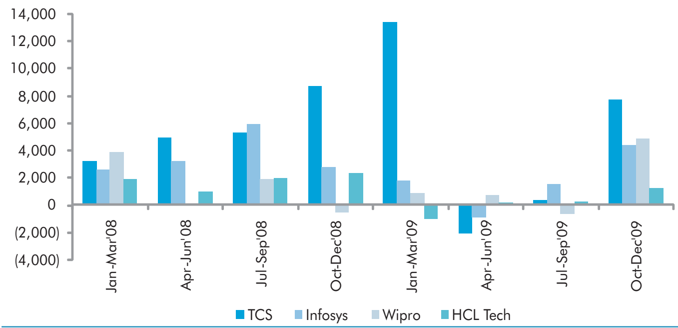
Source: Angel Research; Note: Wipro's $ revenue growth of Combined IT Services exhibited*

The quarterly growth trend was subdued during 1QFY2009-1QFY2010, and bottomed out in 2QFY2010, which further enforces our belief in demand revival. The top four players registered an average quarterly growth of 1.4% during the period, whereas the average revenue growth in dollar term in 3QFY2010 has been over 5%, which indicates a recovery in demand. The revival has been led by sustained new business growth in newer verticals such as Healthcare, Retail and Logistics, and recovery in the core verticals such as BFSI and Technology. Indian IT players have been able to regularly add new clients throughout the downturn, which would now boost their next stage of growth. The Infosys guidance for FY2011E (in its upcoming result announcement) would be a crucial factor in determining the future expectations.

Hiring is back

With clients finalising their annual budgets and with the deal market getting active, companies have sped their hiring process in view of the increased business visibility. The top-tier companies were net negative or marginal hirers in 1HFY2010, but have added an incremental 2-4% net headcount on their respective employee bases, which is a strong positive, as, till date, the sales growth for Indian companies is largely linear in nature. TCS, Infosys, Wipro and HCL have net added 7,692 (5.3%), 4,429 (4.2%), 4,855 (4.9%) and 1,245 (2.3%) employees in 3QFY2010, which is the highest headcount addition in the last five quarters. (Note: the figure in the bracket indicates additional growth over the average base on a TTM basis). The hiring spree continued in Q4FY10, and will result in an uptick in employee costs in the coming quarter, which would impact the operating margins by 50-150bp.

Exhibit 5: Quarterly Net employee additions trend

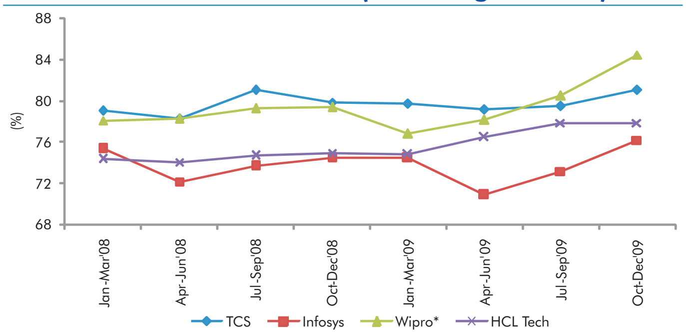


Source: Angel Research

Utilisations back to their optimum levels

The top-tier IT companies have displayed a strong margin resilience, which was helped by maintaining the utilisation levels (excluding trainee) over 70%. However, utilisation has shown marked improvement as the companies pressed on for higher productivity and efficiency in the downturn. The utilisation levels have now reached the pre-crises highs of 75%+ for Top-4 players, which is healthy sign. We expect the utilisation level to reach the 80% level as the demand picks up.

Exhibit 6: Utilization Trends (excluding trainees)



Source: Angel Research; Note: Wipro's Utilization trend of Combined IT Services exhibited*

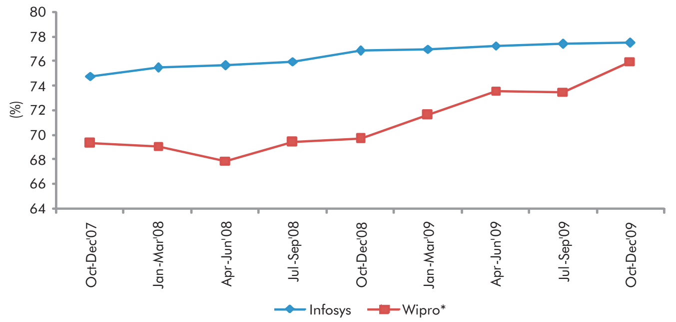
Strong Margin Resilience supported by increased efficiency and effort-mix levers

During the first three quarters of FY2010, Tier-I IT companies witnessed strong EBIDTA margin expansions, as they deployed various margin levers to maintain their profitability. The companies curtailed unnecessary SG&A spends, stalled wage hikes and opted for fixed price contracts to imbibe operational excellence. Apart from these factors, the increased offshore effort mix helped the companies in covering-up the pricing pressures. The companies bargained for increased offshoring in order to help their clients in budget rationalisation. This is a win-win situation, as moving work offshore results in a lower pricing/ budget to the client, but compensates the vendors with higher margins in the offshoring efforts (operating costs in India are

Software

much lower, and cover up for a drop in the pricing realisations). The effort mix for Tier-I players is similar to that for large players and has been witnessing a fundamental shift from the past several quarters. The increased level of the offshore effort mix indicates improved client confidence and maturity level. The effort-mix for Infosys and Wipro has been favorably skewed by 270bp and 650bp, respectively, over the last 10 quarters.

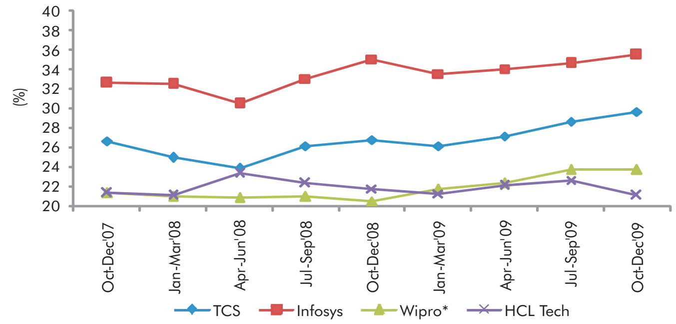
Exhibit 7: Quarterly trend in Offshore Effort



Source: Angel Research; Note: Wipro's offshore effort mix of Combined IT Services exhibited*

During the current year, the margins of Infosys expanded by 170bp, while that for Wipro and TCS expanded by 230bp and 280bp, respectively. Although the top-four companies have shown strong margin resilience, we believe that profitability will go down by 150-200bp in 4QFY2010, on account of the full effect of onsite/lateral hiring, salary hike, overall increased manpower count and renewed focus on S&M efforts.

Exhibit 8: Quarterly trend in EBIDTA Margins



Source: Angel Research; Note: Wipro's EBIDTA margins of Combined IT Services exhibited*

IT Sector: Poised to maintain strong growth

With the global economy witnessing recovery and the renewed demand generated in the domestic IT services segment, we believe that the Indian IT sector will continue to post strong numbers in the coming years. The current demand improvement has largely been from the US market and would further gear-up as the business from Europe starts coming in (traditionally, Europe lags behind by two quarters to the US in a recovery period). The top-line would register a strong growth in dollar terms, at a CAGR of 20%+ during FY10-12, but the growth in reported currency would be lower on account of the rupee appreciation. The net profit is likely to go down on account of wage inflation, expanded SG&A costs and a higher tax rate, which would result in a lower CQGR of 12%-15% during FY10-12.

On the valuation front, Tier-I stocks (Infy, TCS, Wipro) have been trading at their historical average of 20x-22x one-year forward earnings and incorporate an implicit growth of a 15% CAGR over FY2010E-12E, and does not offer a significant upside. However, we continue to believe that mid-tier stocks such as Tech Mahindra (attractive valuation of 9x on FY2012E, excluding Satyam) and Mphasis (sector outperformer) offer strong upside and continue to remain our best sectoral picks. **We remain positive on the Indian IT sector, and maintain Infosys, Mphasis and Tech Mahindra as our top picks.**

Exhibit 9: Quarterly Estimates

Rs cr

Company	CMP	Net Sales		OPM (%)		Net Profit		EPS (Rs)		EPS (Rs)			P/E (x)			Target	Recos
	(Rs)	4QFY10E	*% chg*	4QFY10E	*chg bp*	4QFY10E	*% chg*	4QFY10E	*% chg*	FY10E	FY11E	FY12E	FY10E	FY11E	FY12E	(Rs)	
Infosys	2,671	5,919	*3.1*	34.8	*(0.8)*	1,613	*2.0*	28.2	*1.9*	108.0	120.1	141.1	24.7	22.2	18.9	3,100	Buy
TCS	808	7,849	*2.6*	29.2	*(0.5)*	1,821	*1.3*	9.3	*1.2*	34.7	39.2	45.1	23.3	20.6	17.9	900	Accumulate
Wipro	721	7,096	*1.9*	21.4	*(0.4)*	1,228	*0.8*	8.4	*0.8*	31.8	34.8	39.9	22.7	20.7	18.1	760	Accumulate
HCL Tech*	358	3,068	*1.1*	20.9	*(0.2)*	301	*1.2*	4.4	*1.2*	18.3	24.0	27.7	19.6	14.9	12.9	388	Accumulate
Tech Mahindra	859	1,165	*(1.9)*	21.9	*(1.8)*	177	*2.4*	13.6	*2.3*	53.2	60.7	67.8	16.2	14.2	12.7	1,168	Buy

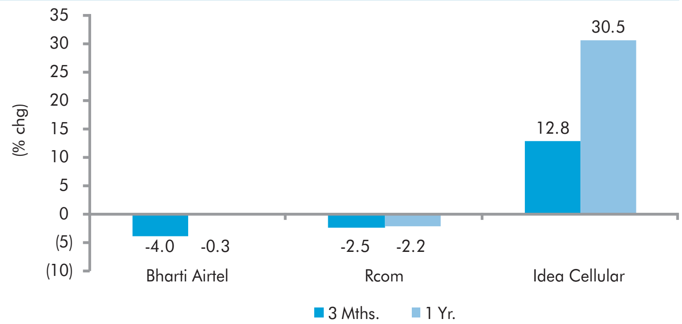
*Source: Company, Angel Research; Note: Price as on April 1 , 2010; * June ending and 3QFY2010 estimates, % chg is qoq*

Analyst - Rahul Jain / Vibha Salvi

Telecom

A difficult beginning witnessed by the Indian Telecom industry in 3QFY2010 continued to prevail during 4QFY10, although the severity of the same was comparatively lesser. Stocks gained on an average of 2.1% during the quarter vis-à-vis 30% dip witnessed in 3QFY10. BSE Sensex gained 0.3% over the same period. The sector continued to witness strong growth in its subscriber base with falling ARPUs despite high competition and regulatory challenges. The most awaited 3G & BWA auction was delayed further, while even the MNP implementation didn't take place as per the schedule. A key event during the quarter was the acquisition of Zain Telecom (Africa) by Bharti Airtel, which is expected to consummate soon.

Exhibit 1: QoQ and YoY stock return

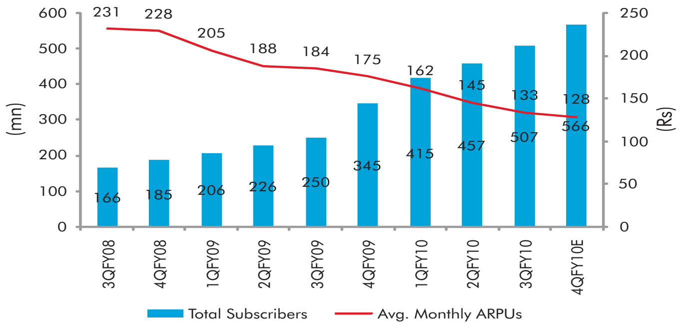


Source: BSE and Angel Research

Subscriber growth robust as call charges drop to new lows

The growth in subscriber addition continues its strong run-rate as the new players take the price wars to a new level, with aspirations of client addition and incremental market share. The industry witnessed strong net addition of 19.9mn and 11.2mn subscribers in the months of January 2010 and February 2010, respectively. Although subscriber growth is robust, we believe that a large part of it is coming from multiple SIM ownership, which would not translate into incremental revenue growth for the operators. In 4QFY2010, new entrants such as MTS and Uninor extended the price wars by unveiling Rs0.30 per minute plans, which has resulted in numerous instances of multiple number ownership and churn rates. The new subscriber addition growth has been propelled by new circle rollouts by players, lower call rate offerings and the increased availability of dual SIM phones.

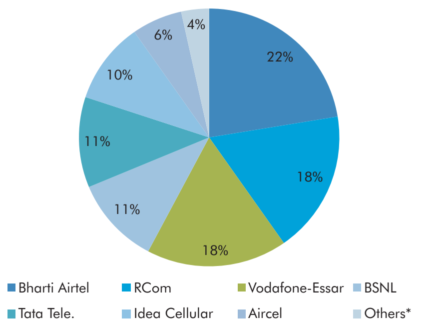
Exhibit 2: Declining ARPU leading to Subscriber growth



Source: COAI, AUSPI and Angel Research

The Blended ARPU (Average Revenue Per User) of the industry is going down quarter after quarter, and the low call charges are helping the strong subscriber growth. We believe that the ARPU will go further down as the operators with sub-paise per second billing are hurting the RPM (Revenue Per Minute) average for the industry. Also, the MoU (Minutes Of Usage) / subscriber would go down in the short-term on account of the growth in multiple card ownership. However, the declining ARPU trend would neutralise in 12-18 months, once we reach the 750mn+ subscriber count, where we would see a normalisation in the net new additions in subscribers.

Exhibit 3: Market Share Analysis



Source: COAI, AUSPI and Angel Research; Note: Includes Spice Com., MTNL, BPL Mobile, Sistema-Shyam, HFCL Infotel, Uninor and S-Tel; Data as on Feb'10*

Bharti Airtel maintained its leadership position, with a subscriber market share of 22.4% (GSM+CDMA combined) as on February 2010. The top 3 positions were maintained, but Tata Tele services scaled up to topple BSNL for the fifth position, registering the largest market share increase of 240bp YTD (April-February 2010), helped by its new network rollouts in multiple circles, and aggressive pricing and marketing for its GSM launch under the 'DoCoMo' brand. New entrants Uninor and Sistema marked their entry by cornering a 0.6% share each, eating a respectable portion of the incremental subscriber addition. Going forward, the leaders are likely to see a decline in their market shares, as the number of participants per circle would double from the 5-6 currently to 10-14 in the next few months.

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Exhibit 4: New Entrants gaining Market Share

	Subscriber Market Share (%)				
Companies	As on 31-Mar'09	As on 31-Dec'09	As on 28-Feb'10	*Chg bps qoq*	*Chg bps yoy*
Bharti Airtel	24.0	22.6	22.4	*(0.2)*	*(24.2)*
RCom	18.5	17.9	17.9	*0.0*	*(18.5)*
Vodafone-Essar	17.6	17.4	17.5	*0.1*	*(17.5)*
BSNL	13.3	12.0	11.0	*(1.0)*	*(14.3)*
Tata Tele.	9.0	10.9	11.4	*0.4*	*(8.5)*
Idea Cellular	9.9	10.0	10.2	*0.2*	*(9.7)*
Aircel	4.7	5.9	6.3	*0.4*	*(4.4)*
Spice Comm.	1.1	1.0	1.0	*(0.0)*	*(1.1)*
MTNL	1.1	0.9	0.8	*(0.1)*	*(1.2)*
BPL Mobile	0.6	0.5	0.2	*(0.3)*	*(0.9)*
Sistema-Shyam	0.2	0.6	0.6	*0.1*	*(0.1)*
HFCL Infotel	0.1	0.1	0.1	*(0.0)*	*(0.1)*
Uninor	0.0	0.2	0.6	*0.4*	*0.4*
S-Tel	0.0	0.0	0.1	*0.1*	*0.1*
Total	**100.0**	**100.0**	**100.0**	-	-

Source: Angel Research

ZAIN = GAIN: Opportunities justify Valuation

The Zain board has approved Bharti's US $10.7bn offer to acquire its African business (excluding Sudan and Morocco) and has also agreed to compensate in case issues related to minority shareholders crop up in the coming years. With this, Bharti Airtel would gain 42mn subscribers from Zain, and the combined entity, with a subscriber base of 170mn, is expected to become the world's seventh-largest telecom company. At a deal value of US $10.7bn, valuations for Zain's African assets are pegged at an EV/EBIDTA of 11.6x (as against Bharti's valuation of 7.6x). Also, on EV/Subscriber basis, Bharti is paying US $255.4 per subscriber, as against its own valuation of US $214 per subscriber. Although the deal appears expensive on various parameters (EV/EBIDTA and EV/Subscriber), we believe that the right way to look at the deal would be in terms of the opportunities it holds and the overall value of the combined entity, as it offers considerable synergies to Bharti. Although the Zain deal has been valued higher than that of its closest peer, MTN, we believe it would still be value accretive for Bharti owing to financial leverage from the Leveraged Buy-Out structuring.

The biggest argument favouring the deal is that Africa is the only underpenetrated market in the world, and is likely to evolve multi-fold over the coming years. We also believe that it would be able to deploy its trademark 'Minute Factory' model, which would result in strong market share accretion for Bharti-Zain.

Exhibit 5: Bharti and Zain Tele (Africa) - Financials

	Bharti Airtel		Zain Telecom (Africa)		Merged
Particulars	9MFY10	FY10E	9MCY09	CY09E	FY10E
Revenues (Rs cr)	29,559	39,507	13,346	17,568	57,075
EBIDTA (Rs cr)	12,205	16,137	4,253	5,622	21,759
EBIDTA margins (%)	41.3	40.8	31.9	32.0	38.1
Net Profit (Rs cr)	7,047	9,269	(545)	(645)	8,624
Subcriber Base (in mn)	118.9	127.0	41.9	43.0	170.0
ARPU (Rs)	254.8	245.7	400.6	395.7	283.6

Source: Company and Angel Research; Note: Zain Telecom (Africa) financials are converted at INR-US $ rate of 48.9

Strong Opportunities to Emerge

- **Low Penetration:** Most of the markets where Zain operates are countries with a large population and low tele-density (33%), which highlight considerable scope in terms of new subscriber additions.
- **High ARPU:** Zain's ARPU is 63% higher than Bharti's ARPU of Rs250 per subscriber, as tariff rates in Africa are 10 times higher than that of Bharti. The Total MoU per subscriber for the combined Zain operations is one-fifth of Bharti's MoU of 446.
- **Market Leadership:** Zain has maintained its strong leadership in most of its operating markets, with a sizeable market share of over 25% in the 15 countries under consideration. Zain is ranked either first or second in over 14 of its 15 markets, which would help Bharti to further consolidate its positioning. The entry of Bharti is expected to result in large market share dislocations, as and when it introduces aggressive pricing strategies to corner a larger subscriber pie.

Exhibit 6: Zain (Africa) - region-wise data metrics

Particulars	Subscribers (mn)	Penetration (%)	EBIDTA margin (%)	ARPUs ($)	Mobile Mkt.Share (%)
Burkina Faso	1.4	23.0	41.8	7.0	51
Chad	1.2	19.0	43.6	10.0	70
Congo Brazzaville	1.4	75.0	27.9	12.0	53
DRC	3.6	14.0	20.9	8.0	45
Gabon	0.9	123.0	41.7	25.0	62
Ghana	1.2	61.0	(84.0)	3.0	9
Kenya	2.2	48.0	11.9	4.0	17
Madagascar	1.4	23.0	21.1	5.0	38
Malawai	1.7	17.0	42.0	8.0	72
Niger	1.4	16.0	46.9	10.0	67
Nigeria	14.9	45.0	33.6	7.0	25
Sierra Leone	0.6	39.0	6.1	7.0	46
Tanzania	4.8	33.0	38.2	5.0	39
Uganda	2.2	35.0	11.8	4.0	37
Zambia	2.9	33.0	45.5	8.0	70

Source: Company Data as on 9MCY09 and Angel Research

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In a nutshell, we believe that the Bharti-Zain deal would impact the cash flow generation in the short run and would drag the overall profitability of the company. But, we believe that the company would be able to integrate Zain's business in the coming years, as the lower profitability would be re-aligned to more respectable levels. We should appreciate the fact that Bharti has been able to generate 40%+ EBIDTA Margins at less than a rupee call charges. As price tariffs are much higher (approximately 10 times higher) in the African market, the company would employ its low cost model to deliver favourable returns in the coming period. It may also expand its reach in other African markets, which may add more dimensions to this inorganic foray.

Exhibit 7: Valuations as on FY2010E

	Bharti Airtel	Zain Telecom (Africa)	Merged
EV/EBIDTA	7.6	11.6	8.7
EV/Sales	3.1	3.7	3.3
EV/Subscriber (US$)	214.4	309.2	235.6
P/E	12.9	-	13.7

Source: Company and Angel Research

Regulatory Issues continue to drag Telecom Growth

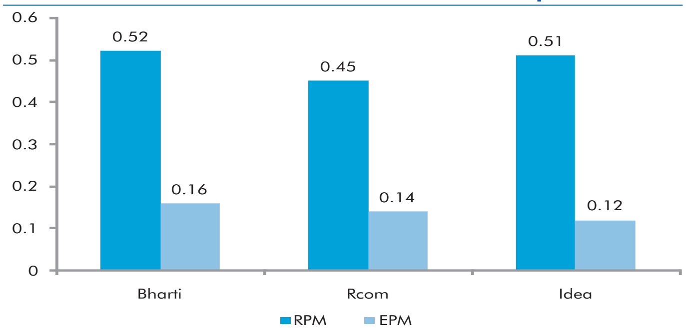
The worries of the telecom industry stretched further in 4QFY2010, as the competition intensifies and the Government continues to play spoilsport in fresh developmental aspects. The long delay in 3G spectrum allocation is likely to stretch further, as auctions are unlikely to happen according to the prescribed schedule in April 2010. The latest development is of the Central Vigilance Commission (CVC) demanding policy changes in the bidding process, as it believes that the current policy favours existing license holders, with new players having to pay a separate Rs16.51bn to obtain a unified access service license over and above their bid amount. The delay in the 3G auctions is acting as a hindrance, as the TSPs (Telecom Service Providers) are expecting it to form a new revenue stream through data VAS (Value-Added Services).

Total Minutes likely to grow; Competition Intensity to pacify

The total MoU has been growing at a robust pace and has clocked a 48% CAGR in the last four years. The MoU growth is likely to continue, led by strong subscription growth (current penetration at just 47% as against 88% in the US), and growth in the MoU per subscriber (just 452 as against 772 for the US). We expect total MoU to grow by over 20% over FY2010E-14E.

We believe that the ongoing price war is unlikely to persist, as even the current tariff rates are not feasible for newer players, considering the large capex involved, marketing spend and regulatory/tax structure. We believe that new players would not make any significant impact, as their growth is discount-driven (multiple cards) and would not result in any major churning. Once the recovery process (end of the 'free minutes' era) begins, the minute usage is likely to return back to the primary incumbent TSP. Bharti and RCom, with a high RPM and EBIDTA per minute are better placed and are relatively immune to such tariff wars. We believe that the players with a low-cost integrated model (own tower infrastructure) and a high subscriber base would benefit in the long term; **thus, we continue to remain positive on Bharti Airtel and RCom.**

Exhibit 8: 4QFY2010 - Revenue & EBIDTA per minute



Source: Company and Angel Research

Exhibit 9: Quarterly Estimates

Rs cr

Company	CMP (Rs)	Net Sales 4QFY10E	Net Sales % chg	OPM (%) 4QFY10E	OPM chg bp	Net Profit 4QFY10E	Net Profit % chg	EPS (Rs) 4QFY10E	EPS % chg	EPS (Rs) FY10E	EPS FY11E	EPS FY12E	P/E (x) FY10E	P/E FY11E	P/E FY12E	Target (Rs)	Recos
Bharti Airtel	302	9,948	*1.3*	39.5	*(1.2)*	2,221.9	*(0.8)*	5.9	*(0.7)*	24.4	24.3	26.3	12.4	12.4	11.5	406	Buy
RCOM	171	5,166	*(10.9)*	33.4	*(2.1)*	939.8	*(35.4)*	4.6	*(31.9)*	20.5	17.4	18.3	8.3	9.9	9.3	197	Buy
Idea Cellular	65	3,352	*14.6*	23.8	*(3.5)*	143.8	*(47.6)*	0.5	*(47.3)*	2.6	2.3	2.9	25.1	28.3	22.3	52	Sell

Source: Company, Angel Research; Note: Price as on April 1 , 2010, % chg yoy

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