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Market Outlook

India Research
June 2, 2011

Dealer's Diary

The key benchmark indices surged in morning trade as firm Asian stocks boosted sentiment. The market breadth remained strong; however, volatility surfaced in the mid session, which resulted in a downward descend of indices towards the previous day's baseline. The market moved in a narrow range above the baseline till early afternoon trade and once again climbed upwards with renewed confidence from investors. Buying was witnessed in capital goods, IT and telecom stocks. Indices remained firm and retained their positive zone till the end of the trading session. The Sensex and Nifty closed up with gains of 0.6% each. The mid-cap and small-cap indices closed up by 0.8% and 0.9%, respectively. Among the front liners, RCom, NTPC, L&T, Bharti Airtel and RInfra gained 2–5%, while Tata Motors, Tata Steel, DLF, RIL and Baja Auto lost 0.4–1%. Among mid caps, Sterling Inds., Monsanto India, KS Oils, Tata Investments and Vijaya Bank gained 5–15%, while BEML, Punj Lloyd, Gujarat Pipapav, Marico and Sintex Inds. lost 3–7%.

Markets Today

The trend deciding level for the day is 18587 / 5583 levels. If NIFTY trades above this level during the first half-an-hour of trade then we may witness a further rally up to 18658 – 18708 / 5606 – 5621 levels. However, if NIFTY trades below 18587 / 5583 levels for the first half-an-hour of trade then it may correct up to 18537 – 18465 / 5569 – 5545 levels.

Indices	S2	S1	R1	R2
SENSEX	18,465	18,537	18,658	18,708
NIFTY	5,545	5,569	5,606	5,621

News Analysis

- Cement Numbers – May 2011
- Lupin announces licensing arrangement with NeuClone
- GCPL enters into an agreement to acquire 51% stake in Darling Group
- APL receives final approval for Aricept from USFDA
- Punj Lloyd bags order worth ₹890cr
- Infrastructure Sector – 4QFY2011 Review

Refer detailed news analysis on the following page

Net Inflows (May 31, 2011)

₹ cr	Purch	Sales	Net	MTD	YTD
FII	6,166	4,905	1,261	(5,158)	(1,359)
MFs	726	644	82	435	2,302

FII Derivatives (June 1, 2011)

₹ cr	Purch	Sales	Net	Open Interest
Index Futures	2,661	1,371	1,291	16,526
Stock Futures	1,123	1,250	(127)	29,249

Gainers / Losers

Gainers			Losers		
Company	Price (₹)	*chg (%)*	Company	Price (₹)	*chg (%)*
JP Power	53	*6.6*	BEML	612	*(6.7)*
Vijaya Bank	74	*5.4*	Punj Lloyd	65	*(5.0)*
Reliance Comm.	94	*4.8*	Marico	144	*(3.6)*
Reliance Cap.	525	*4.7*	Sun TV Network	377	*(3.2)*
Tata Global	92	*4.7*	Sintex Ind.	187	*(3.1)*

Domestic Indices	Chg (%)	(Pts)	(Close)
BSE Sensex	0.6%	105.5	18,609
Nifty	0.6%	31.9	5,592
MID CAP	0.8%	56.6	6,967
SMALL CAP	0.9%	71.9	8,308
BSE HC	-0.4%	(22.9)	6,370
BSE PSU	1.0%	82.5	8,665
BANKEX	0.2%	27.3	12,570
AUTO	0.1%	7.1	8,940
METAL	0.2%	34.4	15,446
OIL & GAS	-0.1%	(12.2)	9,582
BSE IT	0.9%	51.9	6,046
Global Indices	**Chg (%)**	**(Pts)**	**(Close)**
Dow Jones	-2.2%	(279.7)	12,290
NASDAQ	-2.3%	(66.1)	2,769
FTSE	-1.0%	(61.4)	5,929
Nikkei	0.3%	25.9	9,720
Hang Seng	-0.2%	(57.7)	23,626
Straits Times	0.4%	12.9	3,173
Shanghai Com	0.0%	0.1	2,744

Indian ADRs	Chg (%)	(Pts)	(Close)
Infosys	-0.1%	(0.1)	$61.7
Wipro	-0.5%	(0.1)	$13.8
ICICI Bank	-1.3%	(0.6)	$46.4
HDFC Bank	-1.1%	(1.8)	$161.1

Advances / Declines	BSE	NSE
Advances	1,782	921
Declines	1,046	475
Unchanged	127	72

Volumes (₹ cr)	
BSE	2,712
NSE	9,995

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Cement Numbers – May 2011

ACC and Ambuja Cements reported their cement dispatches numbers for May 2011. ACC posted a 13.7% yoy increase in dispatches to 1.99mn tonnes, aided by capacity addition. On mom basis, dispatches for the month declined by ~3%. Ambuja Cements' dispatches fell by 6.9% yoy to 1.76mt in May 2011. On mom basis as well, dispatches declined by 5.4%. On the pricing front, cement prices corrected by ₹10–35/bag from March 2011 levels in most parts of the country, although prices remained steady in the southern and western regions. We expect cement prices to correct further with the onset of the monsoons. **We remain Neutral on ACC and Ambuja Cements.**

Lupin announces licensing arrangement with NeuClone

Lupin has announced the strategic licensing agreement with NeuClone for its cell line technology. Under the agreement, NeuClone will provide an exclusive mammalian CHO cell line, which will express a specific recombinant protein of interest in oncology, to its partner. Further, the research staff working at Lupin's biological research centre could work with NeuClone's team as a part of the overall technology transfer arrangements under the agreement. The multi-billion dollar opportunity due to blockbuster biologics going off patent in the next 5–8 years is aggressively being pursued by Lupin. The exclusive agreement is a positive development and is a part of Lupin's strategy to capitalise on the technology to address the biologicals market. The stock is currently trading at 20.8x and 15.7x its FY2012E and FY2013E earnings, respectively. **We maintain our estimates and recommend Buy on the stock with a target price of ₹593.**

GCPL enters into an agreement for the right to acquire 51% stake in Darling Group

Godrej Consumer Products (GCPL) has entered into an agreement for the right to acquire 51% stake in Darling Group Holdings, one of the largest players in the hair care category in Africa with brands such as *Darling* and *Amigos*; both these brands are market leaders in countries in which they are present. Darling Group Holdings manufactures and distributes a full range of hair extension products in Africa and operates in 14 countries in sub-Saharan African region.

Nature of the deal: Financial details of Darling Group and the deal size have not been disclosed by the company. As per GCPL's management, the deal is going to be EPS accretive from the first year itself and going forward the company plans to acquire 100% stake in Darling Group. While Darling Group's current management team will continue to manage the business, GCPL will institute a cross-functional team with members from current Darling Group's management team and its team to leverage synergies.

Our take on the deal: We have not factored the deal in our numbers due to lack of details, particularly deal size and financial details of the company. We believe the acquisition is in line with GCPL's global 3x3 strategy – presence in three continents – Asia, Africa and Latin America through three core categories – home care, personal wash and hair care.

Outlook and valuation: We have modeled in a 12.3% CAGR in domestic revenue and a 21% CAGR in international revenue. We expect the company's operating margin to sustain at ~20% going ahead, supported by higher revenue contribution from the home care division and cross-pollination, resulting in synergistic benefits in terms of cost rationalisation. Hence, we expect GCPL to post a 13% CAGR in earnings during the period (post ~5% dilution from the recent QIP). **At the CMP of ₹418, the stock is trading at 20.6x FY2013E earnings of ₹20.3. We maintain our Accumulate rating on the stock with a target price of ₹447.**

APL receives final approval for *Aricept* from USFDA

Aurobindo Pharma Ltd. (APL) has received the final approval for Donepezil hydrochloride tablets (5mg and 10mg) from the USFDA. Donepezil hydrochloride tablets are the generic equivalents to *Aricept* tablets of Eisai Medical Research, Inc. These are indicated for the treatment of mild, moderate and severe dementia of the Alzheimer's type and fall under the CNS therapeutic segment. The product has a market size of ~US$2.5bn for the 12 months ending September 2010 according to IMS data, and APL expects to launch the product soon. The stock is currently trading at 11.4x and 9.2x its FY2012E and FY2013E earnings, respectively. **We maintain our Buy view on the stock with a target price of ₹278.**

Punj Lloyd bags order worth ₹890cr

Punj Lloyd has bagged a contract worth ₹890cr by Abu Dhabi Company for onshore oil operations for carrying out engineering, procurement and construction for tie-in works at South East, Abu Dhabi. With this order, the total outstanding order book of Punj Lloyd stands at ~₹23,695cr (2.9x FY2011 revenue). **Owing to the uncertainty over receivable claims and overhangs on the stock because of lack of clarity on various issues (execution, margin and Libyan projects) and slowdown in order inflow, we maintain our Neutral view on the stock.**

Infrastructure Sector – 4QFY2011 Review

Earnings marred by margin pressure and higher interest costs: For 4QFY2011, slippage on the earnings front (barring SEL, L&T, JAL and MPL) was due to 1) margin pressure (average dip of 170bp qoq for 10 companies considered for the analysis in this report) on account of high commodity prices and 2) spiraling interest cost. This resulted in disappointing earnings despite decent top-line growth.

Sector facing numerous headwinds: The construction sector is currently blemished by concerns: **1) Interest rates – No respite in sight:** During the quarter, the RBI increased the repo rate by 50bp from 6.75% to 7.25%, with a similar increase in reverse repo rate from 5.75% to 6.25%. This steep increase in interest rates, aiming to kill inflation, would come at the cost of growth and is very well acknowledge by the RBI. We believe this was not the last round of hikes given inflation is expected to remain high and another steep hike is on the cards in the next RBI policy in June 2011; **2) Margins under pressure**: The increase in commodity prices – cement (20%), steel (10%) and bitumen (15%) – in the last 3–4 months has resulted in lower EBITDA margin across the sector. Further, the impact of this has aggravated with increasing share of captive orders (fixed price orders) in the order book of all companies along with increasing competitive pressures; and **3) Order awarding takes a backseat:** There has been a considerable slowdown in order awarding activity across the infra sector on account of various factors (environment clearance, lack of stable leadership in various PSUs, state elections and land issues, among others). The only silver lining has been pick-up of awarding activity in the last couple of months from NHAI's end, although it is leading to intense competition and creating doubts over the profitability of these projects.

Valuations – Factor in macro headwinds faced by the sector, but remain selective: On account of cheaper valuations post the correction in construction stocks and taking into account the FY2013E earnings growth outlook, we remain positive on companies having 1) less dependence on capital markets for raising equity for funding projects (L&T and Sadbhav); 2) strong order book position (IVRCL and Sadbhav); 3) superior return rations (L&T and Sadbhav); 4) comfortable leverage position (L&T, NCC and Sadbhav); and 5) inexpensive valuations (IVRCL and NCC). **We maintain L&T, IVRCL and Sadbhav as our top picks.**

Economic and Political News

- Fiscal deficit pruned to 4.7% of GDP in FY2011
- Bank credit up 22.5%, deposits rise 16.9% in 12 months
- April infrastructure growth falls to 5.2%
- India's April exports up 34% to US23.8bn: Government
- Government mulls fixed tenure for infrastructure project heads

Corporate News

- Tata Motors' May sales up 10% to 62,296 units
- Bharti Airtel inks US$400mn network deal with Huawei
- Coromandel to pick up 73% in Sabero for ₹450cr
- JSW Energy's US$418mn CIC Energy deal called off
- Petronet signs LNG deal with Russia's Gazprom

Source: Economic Times, Business Standard, Business Line, Financial Express, Mint

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Ratings (Returns) :	Buy (> 15%) Reduce (-5% to -15%)	Accumulate (5% to 15%) Sell (< -15%)	Neutral (-5 to 5%)

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