Angel Broking™
Service Truly Personalized

January 02, 2010

3QFY2010 Results Preview

Research Team

Table of Contents

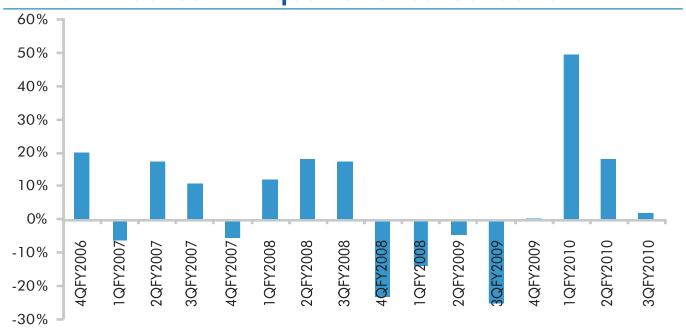
Note: Stock Prices as on December 31, 2009.

Strategy

Markets take a breather; Sensex ends 3QFY2010 almost flat qoq

The Indian stockmarket indices - the Sensex and the Nifty - ended 2009 at the year highs even as it was largely a quarter of broad consolidation. Notably, as expected at the end of 2QFY2010 in our Results Preview Report, aptly titled, "*To pit-stop before another lap…*", the Indian stockmarkets took a breather during 3QFY2010, by ending with qoq gains of only 2%, after having registered superlative returns in the previous two quarters. This restricted performance by the stockmarket came in despite the continued strong liquidity inflows during the quarter. While part of this could be attributed to the diversion of funds into the primary market, the fact that domestic Mutual Funds were net sellers during the quarter also contributed to the same.

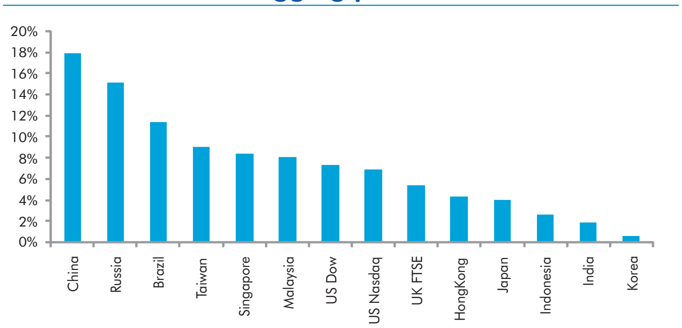
Exhibit 1: Sensex - A quarter of consolidation



Source: Bloomberg, Angel Research

Further, the Sensex returns paled in comparison to its global peers as can be seen in Exhibit 2. While China, which was down 6% in the September 2009 quarter, made a smart comeback topping the quarterly chart with 18% returns, Russia managed 15% returns on the back of firm commodity prices. Brazil continued its gaining streak, up 12% qoq. While the US and the UK markets too managed decent gains as their economies displayed signs of stability, the Sensex ended the quarter with one of the worst relative performance, up 2% qoq in 3QFY2010.

Exhibit 2: Sensex - Lagging peers

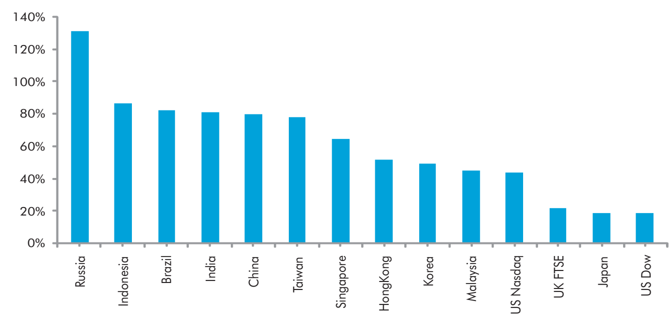


Source: Bloomberg, Angel Research

Thus, with the performance this quarter, the Sensex delivered a handsome 81% return in 2009, which was a tad better than China's 80%, but not good enough to beat the returns generated by its BRIC peers like Russia (131%) and Brazil (83%). Nonetheless, as a group, Emerging Markets have performed exceedingly well in 2009 and have received record inflows.

To put this in perspective, as per Emerging Portfolio Fund Research (EPFR) Global, emerging equity fund inflows have been at over US $80bn in 2009, which is the highest since EPFR started tracking the data in 1997. Also, worth noting is the fact that the world's four biggest emerging market economies, Brazil, Russia, India and China (known collectively as BRIC) accounted for the bulk of this year's investor interest, with about US $60bn of these inflows. Going forward, the trend of high inflows into the emerging economies is expected to broadly continue as Fund Managers look for investment avenues where the growth is and countries like India and China present such opportunities which will attract higher allocations.

Exhibit 3: BRIC markets dominate in 2009



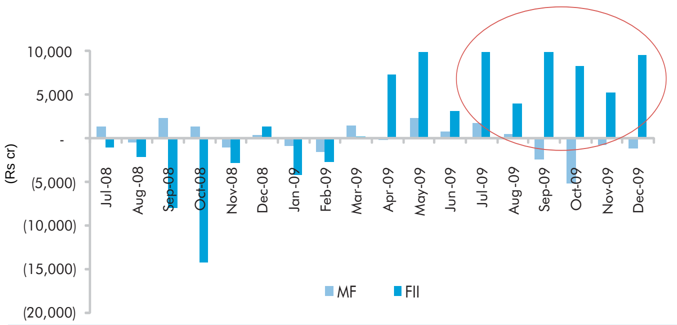
Source: Bloomberg, Angel Research

FII inflows create a new record; MFs on the backfoot

Notably, FIIs had begun 2009 in profit-booking mode having sold Indian equity worth Rs6,700cr (US $1.3bn) in the March 2009 quarter. However, with the global liquidity scenario improving thereafter, leading to the return of risk appetite of global investors, FIIs invested almost Rs67,000cr (US $13.8bn) in 1HFY2010. They topped it up with another Rs23,000cr (US $5bn) investment into Indian equities during 3QFY2010 taking the total cumulative inflows to over Rs83,000cr (US $17.5bn) in calendar 2009, the highest ever in Rupee terms in a single year. However, a significant portion of inflows by FIIs in 2009 have come through qualified institutional placements (QIP) and IPOs combined.

Strategy

Exhibit 4: FII inflows - For the record



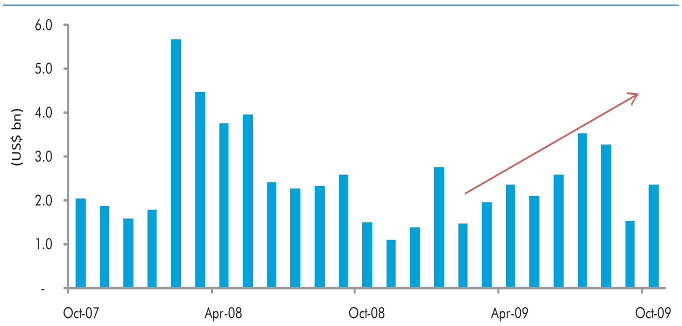
Source: SEBI, Angel Research

As far as the domestic Mutual Funds industry was concerned, while they once again were in the profit-booking mode throughout the quarter with net sales of Rs7,000cr (US $1.5bn), for calendar 2009, they were net sellers to the tune of Rs4,700cr (US $1bn).

FDI - Significant capital yet to come...

In line with the strong inflows trend witnessed on the FII front, FDI inflows into the country also increased by 16.2% yoy at US $8.3bn for 2QFY2010. The momentum was sustained during the month of October 2009 with an FDI inflow of US $2.3bn, up 56% yoy, a growth number partially aided by the low base of the corresponding month last year as liquidity had dried up in the global financial markets post the US credit crisis then.

Exhibit 5: FDI - Destination India



Source: Department of Industrial Policy & Promotion, Angel Research

However, SOS efforts by Governments and Central Banks across the globe ensured, through a mix of fiscal and monetary easing tools, that global liquidity returned to comfortable levels, leading to capital from the developed world once again scouting for avenues for optimal growth.

Thus, considering that growth (or rather high growth) in the current times and for many years to come is expected to be the prerogative of the developing world, and especially the BRIC nations, countries like China and India will continue to remain the front runners in attracting capital inflows in the years to come. In fact, as per UNCTAD's World Investment Report 2009, India ranks 3rd (China 1st) as the preferred locations for FDI inflows!

Exhibit 6: FDI Inflows (% of World)

Country	1980	1990	2000	2006	2007	2008
World	100	100	100	100	100	100
- Developed Economies	86.2	82.9	81.4	70.3	73.2	63.4
- US	31.3	23.3	22.7	16.2	13.7	18.6
- UK	18.7	14.7	8.6	10.7	9.3	5.7
- Developing Economies	13.8	17.1	18.6	29.7	26.8	36.6
- Brazil	3.5	0.5	2.4	1.3	1.7	2.7
- Russian Federation	0.0	0.0	0.2	2.0	2.8	4.1
- China	1.8	4.2	8.4	9.0	7.6	11.0
- India	0.1	0.1	0.3	1.4	1.3	2.4

Source: UNCTAD, Angel Research

Going forward, into 2010 and beyond, we believe that India will continue to witness an improvement across various categories of inflows, be it FDI, FII, ECBs, etc. as considering the growth trajectory the economy has set itself on, it will require investments much above the savings rate, which is sufficient to achieve a GDP growth rate of only about 6%. Thus, if India wants to achieve and sustain higher growth rates of 8-9% per annum, it will require the assistance of foreign capital inflows.

Signs of global economic recovery evident...

The signs of a global economy recovery, including in the US and the UK, are clearly evident even as skeptics continue to write this recovery off as temporary and bet on a double-dip recession, as the effects of the government and monetary stimulus wears off. However, while we acknowledge the fact that the governments across the globe, including in India, will have to plan an exit strategy in 2010 considering the fact that most governments are running high fiscal deficits and there is limited scope for them to maintain the spending momentum for a longer period of time, we believe that by then economies would have already switched into auto-gear and the self-sustaining mode.

Strategy

Exhibit 7: Various Indicators pointing to a recovery

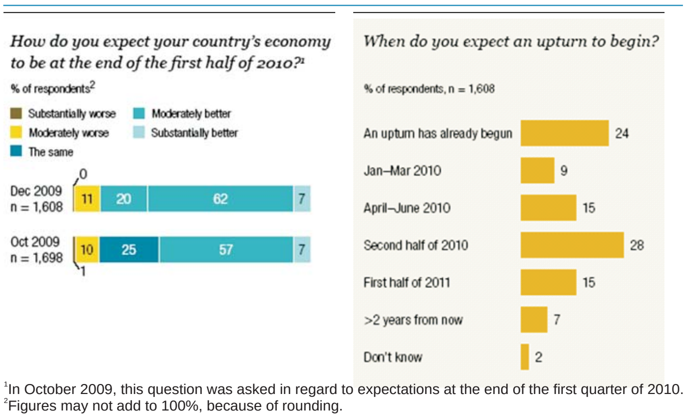
Indicator	US CCI	UK CCI	US BCI	UK BCI	US IP (% yoy)	UK IP (% yoy)
Mar-08	66	(19)	49	16	0.9	0.1
Jun-08	52	(34)	50	(1)	(0.7)	(2.6)
Sep-08	61	(32)	43	(40)	(6.4)	(2.8)
Dec-08	39	(33)	33	(62)	(8.9)	(9.7)
Mar-09	27	(30)	36	(47)	(12.5)	(12.6)
Jun-09	49	(25)	45	(26)	(13.2)	(10.9)
Sep-09	53	(16)	53	9	(5.9)	(10.8)
Nov-09	50	(17)	54	15	(5.1)	(8.4)

Source: Angel Research; Note: CCI = Consumer Confidence Index, BCI = Business Confidence Index, IP = Industrial Prodection

As can be seen in the table above, there has been a sustained recovery in consumer and business confidence in the US and the UK post March 2009. This, along with significant liquidity sloshing in the system, will ensure that the economies do not cripple again. Further, even the de-growth in Industrial Production numbers have started to ease, which is reflected in better-than-expected GDP numbers.

Further, the results of a recent McKinsey Global Survey also threw up some encouraging results.

Exhibit 8: A brighter outlook



[1]In October 2009, this question was asked in regard to expectations at the end of the first quarter of 2010.
[2]Figures may not add to 100%, because of rounding.

Source: McKinsey

As can be seen in the charts above, while 69% of the executives surveyed in December 2009 (vs. 64% in October 2009) were hopeful of a moderately-to-substantially better economy, nearly 76% of the respondents were of the opinion that their economies will witness an upturn in 2010. Further, the survey also revealed that the share of respondents which sought external funds increased to 41% in December 2009 (vs. 32% in October 2009) and more were able to get the funds they sought; all of which indicate the rising hope among executives that funds will be available to them.

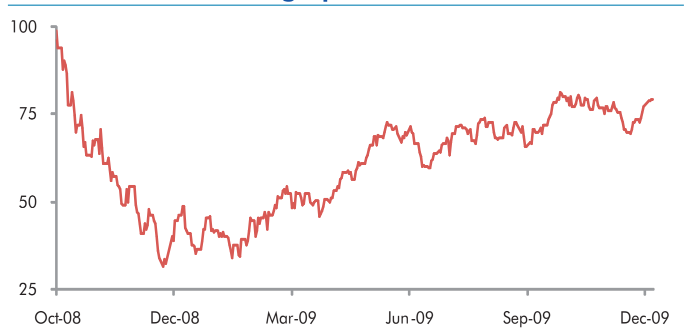
We believe that the global economic recovery will be led by the developing world in the near-to-medium-term as the developed world continues to grapple with high unemployment rates, which will put some pressure on its consumer and investment demand.

Notably, akin to China's GDP growth, which improved from 6.1% yoy in the March 2009 quarter to 8.9% yoy in the September 2009 quarter, the signs of economic improvement are also getting stronger in India with the quarterly GDP having recovered from 5.3% yoy in 3QFY20009 to 7.9% yoy in 2QFY2010. We expect the economy to gain further strength, notwithstanding the short-term impact of deficient monsoons on GDP in 2HFY2010, as low interest rates help kick start another bout of corporate and consumer credit pick-up in the quarters to come.

Oil - Nudging the higher end of the range...

Crude oil oscillated within a tight range during the quarter gone by (US $70-80 per barrel), which was largely within the broad range expected by us of US $60-80 per barrel. However, considering that the range during 3QFY2010 was higher than the range crude oil traded in during 2QFY2010 (US $60-74 per barrel), on the qoq basis crude oil price averaged higher by about 11% and on the point-to-point basis, it was higher by about 12%.

Exhibit 9: Oil - Firming up



Source: Bloomberg, Angel Research

Thus, with the gains this quarter, crude oil price ended 2009 higher by about 78%. While the recovery in crude oil prices could be attributed in part to OPEC's strategy of curtailing oil production by 4.2mn barrels per day in wake of the global slump post the financial crisis, the gains in crude were also a factor of the stability settling in global economies along with the recovery in oil consumption during 3QFY2010 on the back of some improvement in global economic activities.

Strategy

Also supporting crude oil prices was a weak dollar, indicated by Dollar Index, which slid from about 90 levels in March 2009 to sub-75 levels by December 2009 before recovering some ground.

However, in the near-to-medium-term, considering that there continues to remain the possibility to bring additional supplies on-stream to absorb higher demand, we do not expect a substantial increase in global crude oil prices from the current levels. Further, with the US economy stabilizing, there remains limited scope for further weakness of the US currency. Moreover, we believe that crude oil price higher than US $75 per barrel for a prolonged period is sufficient enough to incentivize production from costlier resources such as deepwater fields, which will keep a tab on the rise in crude prices. On the other hand, we also believe that the downside from the current levels is also not significant in the medium-term as OPECs pricing policy pegs oil prices at US$ 60-70 per barrel. Thus, we continue to maintain that oil could continue to trade within the range of US $60-80 per barrel, with a marginally upward bias of upto US $85 per barrel in 2010 in wake of global economic recovery picking up pace.

Metals - The Chinese rescue continues...

On the base metals front, prices managed to build on their previous quarter gains as sustained demand from the largest consumer of base metals in the world, China, continued unabated. Taking advantage of the low metal prices and the resilience displayed by its economy, aptly supported by the near US $600bn stimulus plan announced by its government in November 2008, China continued to import base metals in substantial quantities, which helped push up prices on the qoq basis.

Notably, the Chinese government had been buying base metals not only to take advantage of the low prices but also keeping in view its continued high investments, especially in infrastructure. In fact, recently, the country's Commerce Minister stated China's intentions of increasing imports and reserves of strategic resources in 2010, which spells good times for certain commodities.

Apart from the China factor, end of the de-stocking period and disciplined increase in production have been the other factors supporting the firm metal prices. The continued weakness of the US$ against other currencies also helped push up metal prices further.

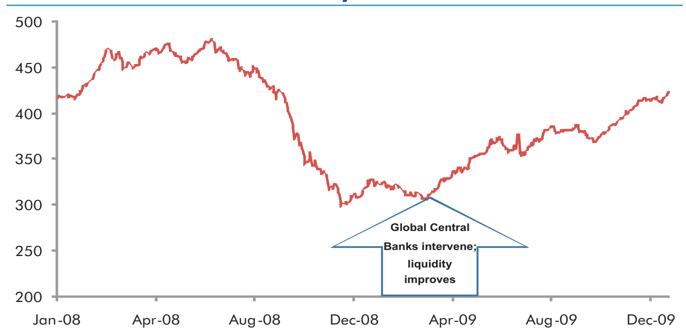
Exhibit 10: Metals - The China effect

Spot US$/tonne	2QFY2010	3QFY2010	*% chg qoq*
Iron Ore	89	116	*30.3*
Zinc	1,943	2,529	*30.1*
Copper	6,148	7,342	*19.4*
Aluminium	1,856	2,197	*18.4*
Tin	15,595	16,869	*8.2*
Lead	2,258	2,402	*6.4*
Alumina	308	305	*(1.0)*
Steel HR	592	564	*(4.8)*

Source: LME, Bloomberg, Angel Research; Note: All are month end prices

However, contrary to the base metal prices, Steel prices have weakened on the qoq basis, despite the strength witnessed in raw material prices like those of Iron Ore (led by demand push). This could largely be attributed to continued high global inventories on account of high steel production by countries, especially China.

Exhibit 11: CRB Commodity Index Trend



Source: Bloomberg, Angel Research

Going forward, while the movement of the US$ could dictate the short-term trend of metal prices, we believe that the high inventory levels across metals would prevent any sharp upmove in metal prices in the medium-term, even as the broad trend would remain rangebound with an upward bias, in-tandem with the global economic recovery.

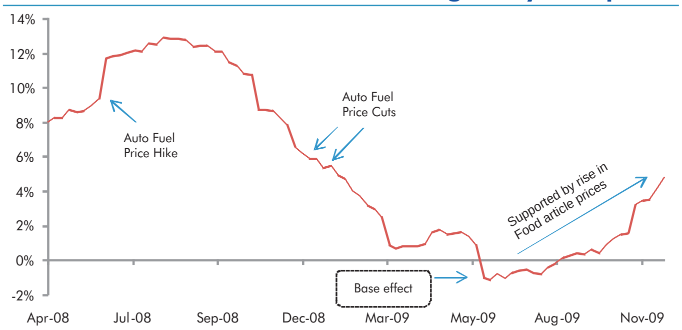
Inflation - Cause for worry?

After a brief deflationary period, most economies across the globe have started to witness inflation creep into their systems. In the case of India, the inflationary pressures have exceeded expectations in recent weeks.

Strategy

Thus, for the week ended November 28, 2009, the headline inflation measured by the Wholesale Price Index (WPI) came in at 4.8% yoy compared to the previous reading of 1.5% yoy in mid-October 2009. Admittedly, this statistic was marginally ahead of our expectation.

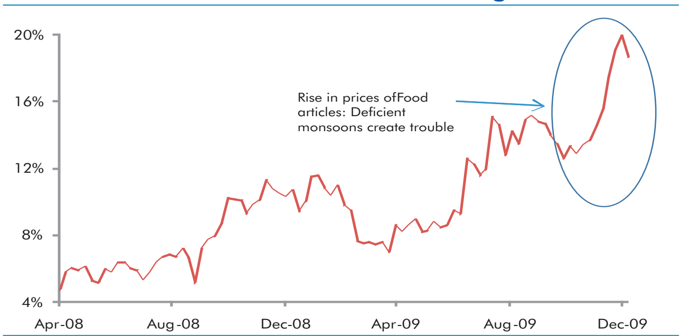
Exhibit 12: India Inflation - Pushed higher by food prices



Source: Office of the Economic Advisor, Angel Research

Further, as can be seen in Exhibit 13, the Food articles index, which has a 15% weightage in the WPI, has witnessed a sharp rise (decade high of 20% yoy as on December 5, 2009 before colling off a bit in the subsequent week) since March 2009 and particularly since August 2009. As stated in our earlier note, this is primarily being driven by supply-side factors as agriculture in the country was severely affected on account of the monsoon failure over several parts of the country that led to drought/ drought-like situation across almost 50% of the country. However, government representatives are hopeful that food inflation will start to taper off in the New Year.

Exhibit 13: Food Inflation Index - Drought effect



Source: Office of the Economic Advisor, Angel Research

Notably, post the recent sharp surge, while inflation is now expected to settle between 7.5-8% by March 2010 against the earlier expectation of 6-7%, we expect the inflation to average out at about 3% against the earlier expectation of 2.5%.

As far as the global inflationary pressures are concerned, as a consequence of the loose monetary policy followed by Central Banks across the globe and the fiscal stimuli provided by various governments, while the world seems to have warded off a prolonged period of recession, however, this has led to inflation creeping back into the system.

Exhibit 14: Global Inflation (%) - Off the Lows

Country	Latest	Low in 2009
India	4.8	(1.1)
China	0.6	(1.8)
Malaysia	(1.6)	(2.4)
Singapore	(0.8)	(0.8)
HongKong	2.2	(1.6)
S. Korea	2.4	1.6
US	1.8	(2.1)
UK	1.5	1.1
Japan	(2.5)	(2.5)

Source: Angel Research

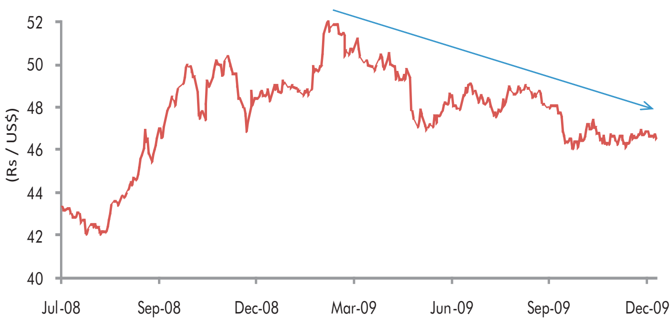
However, the policy makers are less worried about this development at this point in time. This is because; while some of the concerns pertaining to this can be written off considering it to be a statistical impact of a low base of last year, at the same time, the lower-than-potential-strength of the economic recovery at the current juncture will ensure that there is no runaway inflationary pressures in the near-to-medium-term.

Currency - Strong capital inflows lend support

On the currency front, the Indian Rupee too behaved along expected lines as it remained broadly rangebound within the Rs46-47.75/US$ band. Nonetheless, on the qoq basis, the Rupee was stronger as it averaged about 3.5% higher against the US$ at Rs46.7 vs. Rs48.4 in the previous quarter (range of Rs47-49.5/US$) primarily led by a weak dollar and strong capital inflows into the country.

Strategy

Exhibit 15: Currency - India in favour



Source: Bloomberg, Angel Research

Going forward, while higher capital inflows in the form of FDI, FII, etc. coupled with higher exports are inevitable, this will put an upward pressure on the Rupee. However, we remain confident that the RBI will manage the Rupee appreciation in the interest of the economy so as to keep our goods and services competitive in the exports market. Thus, we continue to maintain that the Rupee would trade within the US$45-50 range for the next few quarters.

Interest rates - Not an immediate threat to growth

The global economy has stabilised. Most economies are out of the crisis as their economies have displayed some signs of resumption in growth. Unemployment rates, though at historic highs, seem to have peaked out. Liquidity remains comfortable. Consumer and Business confidence is back. Economic growth prospects for 2010 seem to be far better than those prevalent in 2009. And last but not the least, as a consequence, inflationary pressures and/or expectations of inflationary pressures are already visible across some economies globally.

Notably, while as yet interest rates have continued to remain at multi-year lows as governments want their economies to firmly set themselves on a growth path, the inevitable course of action for Central Banks would be to tighten the Monetary Policy by increasing interest rates to prevent runaway inflationary pressures when the growth engine starts to run at full potential.

In fact, a good case in point here is that of the Australian Central Bank, which has increased its interest rates by 75bps in the past 3 months (25bps each) to 3.75%, even as it remains far lower than the long-term average of about 5-5.5%. Notably, the Australian economy displayed relatively high resilience to the global financial crises of 2008-2009 and has thus been able to recoup faster than its peers. Thus, with the financial/credit markets improving significantly in the country along with the risk of an economic contraction now a passé, the Australian government opted to withdraw gradually the stimulus it provided as the economy switches to the self-sustaining mode.

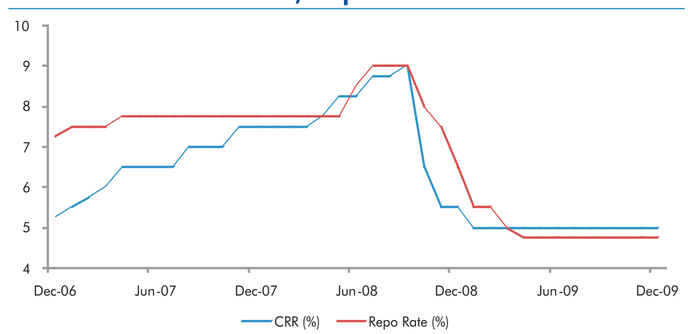
Exhibit 16: Global Interest Rates (%) - Lows sustained

Country	Latest	Peak since 2006	+/- (bps)
HongKong	0.50	6.75	(625)
UK	0.50	5.75	(525)
US	0.25	5.25	(500)
India	4.75	9.00	(425)
Australia	3.75	7.25	(350)
Thailand	1.25	4.75	(350)
S. Korea	2.00	5.25	(325)
Germany	1.00	4.25	(325)
Singapore	0.03	3.00	(297)
China	5.31	7.47	(216)
Malaysia	2.00	3.50	(150)
Japan	0.10	0.50	(40)

Source: Angel Research

Akin to the Australian economy, the Indian economy has also been quite resilient in the face of the global financial turmoil. Further, post the Government and Central Bank intervention, the Indian GDP growth rate has improved from 5.3% yoy in 3QFY2009 to 7.9% yoy in 2QFY2010 and coupled with inflation, which has increased substantially, led by food price inflation, a large section of the market is expecting an interest rate hike soon.

Exhibit 17: India - CRR, Repo Rate Trend



Source: Angel Research

However, in our view, broader interest rates will rise in tandem with the sustained improvement in GDP growth. Currently, credit growth in the country is very low at 10-11% and there is huge amount of liquidity in the banking system, which indicates that lending and deposit rates are unlikely to rise in the near-term, even though the government may give effect to a token 25-50bps CRR hike to suck out some liquidity from the system. However, it must be noted that Inflation led by rise in food prices cannot be controlled by monetary tools, and the government

Strategy

recognizes this correlation. Thus, we believe that as far as the core inflation remains low, the RBI would not increase key policy rates and create hurdles in India's path to 8-9% GDP growth.

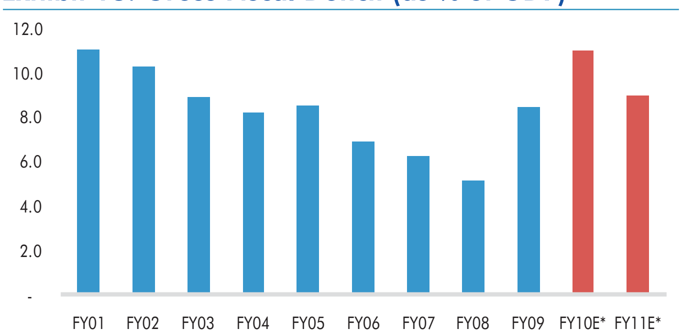
Notably, even the RBI has clearly stated earlier that it does not wish to tighten monetary policy in response to supply-side inflation. Nonetheless, even if tightening begins in early 2010, it must be borne in mind that in the previous cycles, such tightening did not rein in credit growth for almost 2-3 years, simply because the latent demand in India is huge, which holds true just as much even today.

Fiscal Deficit - Drought to put some additional pressure

A failed monsoon couldn't have come at a more inappropriate time for the Indian economy, which is already reeling under the pressure of a high fiscal deficit. While the merits of having created such a situation in the face of a global economic downturn are now well known, a drought for an 'agrarian' economy like India, wherein over 60% of the population resides in rural India with agriculture as the primary source of livelihood, has only increased the challenges for the CEOs of the country, albeit marginally.

A failed monsoon increases the government spend on food imports and relief for farmers. In fact, the government has already indicated of an additional spend of ~Rs7,700cr in order to subsidise food and fertilizers and bolster a National Calamity Contingency Fund to mitigate the impact of calamities like drought. Apart from this, expenditure towards Commonwealth Games and the Metro Projects is expected to lead to additional expenditure of Rs15,000-20,000cr.

Exhibit 18: Gross Fiscal Deficit (as % of GDP)



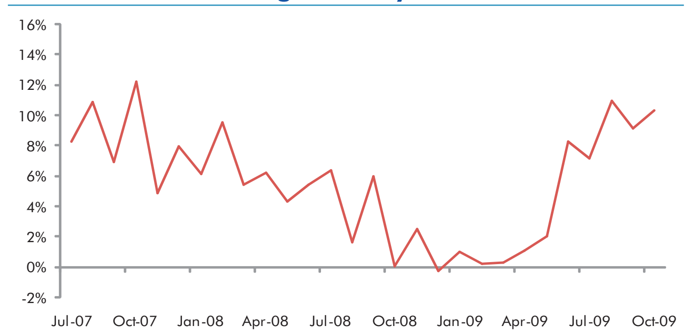
Source: MoF, Angel Research

Thus, after the ~8.5% in FY2009, India's Fiscal Deficit is expected to balloon to about ~11% in FY2010. The government, however, is keen to revert back to its path of fiscal consolidation. It has set for itself a target of about 1-2.5% reduction in central fiscal deficit by FY2012. We believe that this is possible as the economy goes into auto mode, reducing its dependence on stimulus measures which will then gradually be withdrawn. Tax collections will also improve in-line with the improvement in India's GDP, which will also aid government finances. Thus, considering all of the above, we believe that India's Fiscal Deficit will peak out in FY2010 and will reduce to ~9% in FY2011.

IIP - On the path to a reasonably strong recovery

The response to the stimulus packages and the return in consumer and business confidence is clearly reflected in the sharp recovery witnessed in the Index of Industrial Production (IIP) over the past few months. As can be seen in the chart, after recording a growth of -0.2% yoy in the month of December 2008 and improving marginally to 0.3% yoy in March 2009, the IIP has been improving ever since. For April-October 2009, IIP was up an average of 7% yoy. Further, with economic activity expected to gather further momentum in the coming months, along with global stability expected to lend support to Indian exports and a favorable base effect of last year, we expect the IIP growth in the remaining months of FY2010 to be in the 8-10% range, which would push the full year IIP growth to ~7.5% yoy.

Exhibit 19: IIP - Strong recovery



Source: MOSPI, Angel Research

With domestic dynamics favoring a sustained economic recovery and post the substantially better-than-expected 2QFY2010 GDP growth of 7.9% yoy, we now expect India's GDP growth in FY2010 to be at ~7% (6.7% in FY2009 and 7% in 1HFY2010). Notably, going forward, we expect the impact of a weak agricultural output on account of the monsoon failure in the country to take its toll on GDP numbers. However, assuming a normal monsoon next year along with the continued contribution from the manufacturing and services sectors, the GDP would clock a growth of 8-8.5% in FY2011.

Strategy

Sensex earnings - Expecting a statistically strong quarter

After the near flat growth reported during the previous quarter, we expect 3QFY2010 earnings of India Inc. to be statistically robust as it will be aided by the low base effect of 3QFY2009, the quarter when the global financial crisis blows out of proportion with some of the biggest financial names in the world like Lehman Brothers, Fannie Mae and Freddie Mac, Merrill Lynch, etc. face the heat of the sub-prime mortgage crisis. Thus, for 3QFY2010, while we have estimated Net Sales of Sensex companies to increase by about 23% yoy, we have estimated the Net Profit to register a growth of about 20% yoy. Operating Margins are expected to improve by about 50-60bp during the quarter on the yoy basis. Key features of the 3QFY2010 earnings season are expected to be as follows:

- Sectorally, Power, Metals, Cement and Automobiles are expected to deliver robust numbers for 3QFY2010. Further, Oil & Gas is also expected to be a key contributor despite subdued growth expected from Reliance Industries. We also expect BHEL in the Capital Goods space to report a 35%+ yoy growth.
- However, FMCG, Banking, IT and Telecom are expected to be the key underperformers during 3QFY2010, which will keep a check on the Sensex earnings growth. The lone Pharma (Sun Pharma) and Real Estate (DLF) representatives in the Sensex are also expected to report de-growth in earnings in 3QFY2010 on yoy basis.
- Earnings divergence is expected within sectors like Power, Banking, Oil & Gas and Metals.

Notably, post the 2QFY2010 earnings season, our FY2010E and FY2011E Sensex EPS had been downgraded by about 2.5% each primarily on account of the sharp downgrade in earnings of the two telecom majors, Bharti Airtel and Reliance Communication on the back of the intensified competition in the sector, and also Tata Steel on account of the below-than-expected 2Q results, which were hit by higher interest expenses.

Further, subsequently, post the 3QFY2010 preview, our estimate for FY2010E Sensex EPS has witnessed a further downgrade of 2% to Rs820 now. The key reason for the downgrade has been Reliance Industries as we have downgraded its earnings on account of weaker refining and petrochemical margins. Refining margins have been running weak during the 9MFY2010 and are likely to remain low for next couple of quarters before witnessing a recovery. Similarly, on the petrochemical front, Polypropylene margins have witnessed a significant contraction. Consequently, adjusting for the lower margins in commodity business, Reliance's EPS stands downgraded.

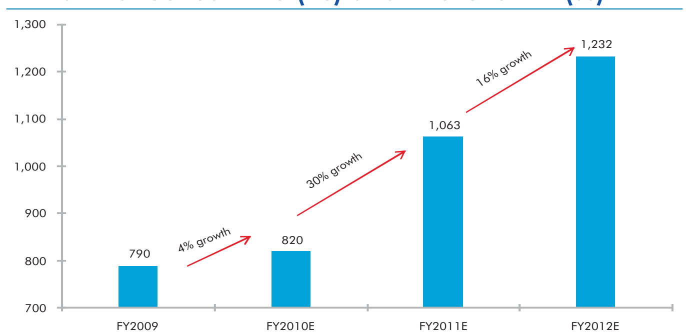
Further, continued pressure on operating margins and high interest costs have also led us to lower our earnings estimate for Tata Steel, even as Hindalco's full year estimates stand upgraded on account of expected better product realizations. Contrary to this, the Auto pack continued its outperformance leading to further upgrades; netting off some of the negatives.

India Inc. earnings - No signs of a slowdown...

Our FY2011E EPS stands at Rs1,063, up 30% yoy, on account of the expected low base of FY2010 and strong earnings growth expected from Reliance Industries as we build in improvement in petrochemical margins along with increasing support from higher gas production. Also, with global economies expected to gain further strength, we have upgraded our earnings estimates for the Metals pack by about 10-20%.

We also introduce our FY2012 estimates and expect a Sensex EPS of Rs1,232, up 16% yoy. We expect sectors like Cement, Capital Goods & Engineering, Banking, IT and Real Estate to lead from the front while some others like Auto, FMCG and Oil & Gas are expected to be the underperformers. Further, we expect FY2012 to be a relatively stronger year for Telecom players compared to FY2010 and FY2011, as the impact of high competition is expected to have played out by then and companies will be back on a reasonable growth track inevitably supported by 3G and Wimax spectrums to be auctioned going forward.

Exhibit 20: Sensex EPS (Rs) and EPS Growth (%)



Source: Angel Research

Thus, with the expected robust growth in EPS in FY2012, the Sensex earnings is expected to register a CAGR of 16% over FY2009-12E.

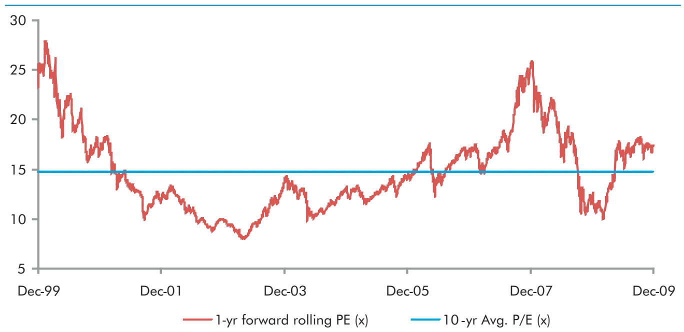
Strategy

India Market Strategy - Scaling peaks...one at a time!

The Indian stockmarkets ended 2009 at calendar year highs despite increasing concerns pertaining to the near-term headwinds that have started to blow - chiefly among them being the withdrawal of stimulus by the government and the increase in interest rates in wake of rising inflation. However, as stated earlier, even as the government plans a gradual stimulus withdrawal FY2011 onwards, we believe that by then the Indian economy would have already switched into auto-gear. Further, while tightening of Monetary Policy is inevitable 2010 onwards, it must be borne in mind that in the previous cycles, such tightening did not rein in credit growth for almost 2-3 years.

Further, some positives that we see going forward that are expected to support Indian equities are; 1) Continued strong liquidity as global central banks, including the Federal Reserve, have indicated of an extended period of loose monetary policy, which will keep the risk-appetite of investors elevated in the backdrop of an improving global economic scenario, 2) Pick up in reform measures considering a strong stable government at the centre, 3) The low interest rate lever starts playing out as it kick starts another round of consumption led growth, and 4) Resumption of corporate capex cycle as capacity utilization starts to improve across most industries.

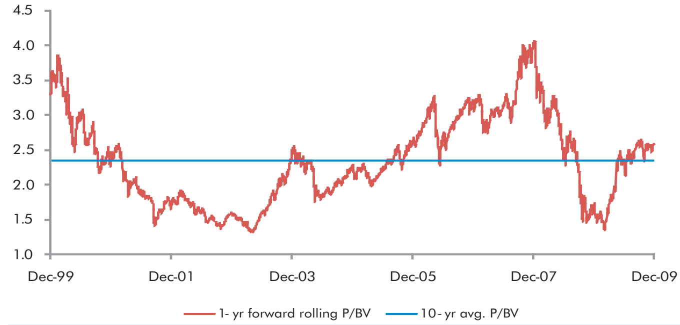
Exhibit 21: Sensex P/E Chart



Source: Angel Research

At the current levels of 17,465, the Sensex trades at 16.3x and 13.8x our FY2011E and FY2012E EPS, which on near-term basis is at a marginal premium to the long-term (15-year) 1-yr forward average P/E of 16x. However, if one considers the last 5-years and the last 3-years 1-yr forward average P/E for the Sensex, the same works out to 16.1x and 17.4x respectively.

Exhibit 22: Sensex P/BV Chart



Source: Angel Research

Further, the Sensex trades at 2.5x and 2.2x our FY2011E and FY2012E BV, whereas the long-term (15-year) 1-yr forward average P/BV of the Sensex is 2.5x. However, if one considers the last 5-years and the last 3-years 1-yr forward average P/BV for the Sensex, the multiple arrived at are 2.7x and 2.8x respectively.

Thus, taking cognizance of the factors in favour of Indian equities and considering the two valuation parameters discussed above, we have arrived at a target of 21,000 (an upside of 20% in 15-months) on FY2012E basis for the Sensex at which level it would trade at 17x P/E and 2.6x P/BV. While one should remain watchful of the ongoing recovery in the global economies, we remain confident of the inherent fundamentals of the Indian economy, a testimony to which was the recent global financial crisis which India and India Inc. managed in a commendable manner. This very fact gives us the confidence that over the next few years the Indian stockmarkets would continue to scale (new) peaks...one at a time!

Angel Research Model Portfolio

Angel Research Model Portfolio outperformed the Sensex by 4.1% during 3QFY2010 (December 31, 2009 over October 1, 2009), generating returns of 6% compared to Sensex returns of 2% during the period. *Notably, this was the third consecutive quarter of outperformance by the Angel Research Model Portfolio after having outperformed the Sensex by 14.2% and 8.9% in 1QFY2010 and 2QFY2010 respectively.*

Key Outperformers: Tata Motors (up 37%), Jagran Prakashan (up 32%), Madhucon Projects, Lupin, IPCA, Deccan Chronicle (up 31% each), Cadila Healthcare (up 28%)

Stocks In: M&M (3% weightage), Taj GVK (3% weightage), and Anant Raj (3% weightage)

Weightage Increased: NA

Key Underperformers: Reliance Communication (down 46%), Bharti Airtel (down 25%), ICICI Bank, Reliance Infra. (down 5% each), Axis Bank (down 2%)

Stocks Out: Tata Motors (2% weightage), Reliance Communication (3% weightage)

Weightage Reduced: Infosys, TCS, Wipro (reduced from 5% to 4% each), Bharti Airtel (reduced from 5% to 4%)

Sector	Top Buys	Recommended Weightage (%)	Comments
Automobile	M&M	3%	With improved financing and credit availability, M&M's core automotive and farm equipment business has performed well in recent quarters and we believe that a fear of significant decline in Tractor volume is overdone. Further, increasing global presence with potential upside expected in Export sales in FY2011, can be a key trigger to upgrade Earnings estimates. We also believe that M&M has the potential to outperform, owing to its multi-coherent model, core business strength and potential investments in its subsidiaries and JVs. Potential turnaround of SYSTECH division in FY2011 would be another key trigger to watch out for in FY2011.
	Bajaj Auto	2%	Bajaj Auto is perched to win back some of its lost market share over the next couple of years with multiple new launches in the fast growing Executive segment. Further, we believe that, risk-reward is in favour of Bajaj Auto, owing to increasing visibility of export volumes in recent months. We expect its valuation multiple to expand on improved growth and earnings visibility.
	Subros	2%	The Subros Management is sanguine about clocking better-than-expected Volume growth, on the back of new launches by its prime customers, such as Maruti and Tata Motors, its foray into manufacturing air-conditioning units for the Commercial Vehicle (CV) Segment, and potential business opportunities from International players, who are setting up manufacturing hubs in India. In FY2008 and FY2009, the company had registered a dismal performance, following a major dip in volumes and supplemented by unutilised capacities. Going ahead, we expect the company to regain its momentum on the back of its improving core business fundamentals and the Auto industry having witnessed a turnaround.

Continued...

Angel Research Model Portfolio

Sector	Top Buys	Recommended Weightage (%)	Comments
Banking	Axis Bank ICICI Bank HDFC Bank	10% 8% 6%	Concerns over Asset quality and slowing Credit growth, that were a major overhang over both the Private and PSU Bank stocks, are now receding as the GDP growth outlook continues to improve. We maintain our view that Monetary softening, strong Domestic Savings and low Interest rates will help revive domestic demand from late FY2010E / early FY2011E and stimulus packages and bank bailouts will continue to stabilise developed economies over a similar timeframe. With capital markets reviving and equity issuances on the rise, aided further by internal generation, leverage levels should also decline over the next 9-12 months, even as domestic demand picks up. We retain our preference for Private Banks for several reasons. One, they are very well-positioned for the impending revival in GDP growth in terms of large capital adequacy and substantial network expansion - already done in the last couple of years and not fully leveraged as well as planned going forward. With their overall superior customer proposition, in our view, they are once again set to gain marketshare in key areas, viz., low-cost deposits as well as fee income. Moreover, on an average (apart from Axis Bank), the other private banks are exposed to lower interest rate risks than the PSU Banks (which also carry the risk of government interference). Thirdly, in terms of valuations as well, they are trading closer to mid-cycle valuations, while the PSU Banks appear relatively expensive at present. Moreover, PSU Bank valuations look even more stretched taking into account the potential risk to their book values from the huge amount of restructuring that has been done by them in the last two quarters.
FMCG	ITC	4%	A better regulatory environment (no Excise hike this Budget), higher Earnings growth and steady Cigarette Volumes (factoring in a 5% volume growth for FY2010E) indicate that the worst is over for ITC. Moreover, Profitability of its Agri-business, and pick up in the Paperboard Division and Hotel Business (2HFY2010E) will aid higher growth over FY09-11E. Lower earnings sensitivity to the monsoon, vis-à-vis peers (ITC outperforms in deficient monsoon years), and modest valuations make ITC our Top-pick in the FMCG space.
	Godrej Consumer	3%	Steady growth in soaps, revival in Hair colours and the acquisition of 49% in Godrej Sara Lee (GSL) give GCPL a formidable FMCG portfolio to sustain growth. A Buyout of the remaining 51% Sara Lee stake in the GSL JV or a larger acquisition in the Hair Colour/ Personal care space, supported by GCPL's strong balance sheet, can act as an upside trigger. Moreover, the fall in Palm Oil prices and GCPL's forward cover till December 2009 should aid a significant Margin expansion during FY2010E.

Continued...

Angel Research Model Portfolio

Sector	Top Buys	Recommended Weightage (%)	Comments
Hotels	Taj GVK	3%	We expect the hotel industry to witness an uptrend from 2HFY2010E considering the visible signs of economic revival coupled with delays happening on the supply side (~26% under supply over earlier industry estimates till CY2013). We expect business destinations like Hyderabad and Chennai where TajGVK has a presence, to significantly benefit as business sentiment gathers steam. Signs of improving demand are visible with occupancy rates climbing up above ~70% in 3QFY2010 (~65% in 2QFY2010) and expected to scale up further in coming quarters. This would consequently be followed by increase in Average Room Rates (ARR's). Considering TajGVK's dominant position in Hyderabad, its diversification strategy and its on-track expansion plans, we believe that it is ideally poised to benefit from the uptrend in the industry.
Infrastructure	L&T	6%	Over the next few years, we expect the infrastructure sector to lend substantial boost to economic growth. Investment in the sector is expected to be much higher going ahead and the government is committed towards this. Thus, we believe that despite the near-term constraints (the treat of fiscal blow out would impact government spending). India's medium-to-long-term growth story remains intact. In this backdrop, Larsen & Toubro, which is amongst the largest E&C companies in India today, is expected to gain from its presence across various verticals and geographies. It is one of the major beneficiaries of current infrastructure capex in India.
	Reliance Infrastructure	3%	We believe that Reliance Infra would be a force to reckon with in the infra space owing to its rich parentage and huge net worth. Also, given its growth and cheap valuations we believe that the stock will be an outperformer.
	Madhucon	4%	We believe that MPL is likely to outperform its mid cap peers owing to its attractive valuations, diversified portfolio of assets and positive triggers in place: 1) MPL is planning 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 the markets would start valuing these assets, which are not factored in currently.
Media	Deccan Chronicle	2%	Significant correction in newsprint prices coupled with higher profitability in the IPL venture (due to revised media rights) are expected to drive strong Earnings growth for Deccan Chronicle Holdings (DCHL). Moreover, fading Balance sheet concerns (Debt and receivable days both stand reduced), rising Profitability in IPL (possibility of un-locking) and successful foray into the Bangalore print market warrant a re-rating. Moreover, if one was to remove Rs43 per share value (ascribed to IPL based on floor price of US$225mn), the core Print business is trading at extremely attractive valuations. We remain optimistic on IPL's moneymaking prospects and reiterate that any news flow on the stake sale front will trigger a re-rating of the DCHL stock. *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, India's No.1 daily), focus on local advertising and rising colour inventory. Moreover, possible rate hikes (likely in March 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. 3QFY2010 will register sharp Gross Margin expansion due to low base.
Oil & Gas	Reliance Ind.	14%	We remain positive on RIL despite the recent subdued performance of refining and petrochemical segment and underperformance of the stock. However, we believe risks on account of volatility in external variables such GRMs and petrochemical margins have also subsided to a considerable extent and margins are bound to improve going ahead. We believe ramp-up in the gas production is likely to propel the earnings growth going ahead. From the long term perspective, the huge unexplored E&P acreage with the company could result in significant valuation upsides from the current levels. Moreover, with successful execution of two mega projects and significant cash flow generation going ahead, the potential M&A action could be expected, which could in turn lead to valuation upsides.
Pharma	Cadila Healthcare	3%	Cadila Healthcare is poised to achieve robust growth after consolidating its business across the key geographies. Cadila's business in the US, RoW region and Consumer division is likely to witness strong growth on back of new launches, economy of scale and vertical consolidations leading to Operating Margin expansion. Further, the traction on the CRAMs segment (on Hospira JV) has emerged as a key catalyst for the company."
	IPCA	3%	Ipca Laboratories (Ipca), a market leader in Anti-Malarials and Rheumatoid Arthritis Segment, has grown at steady pace in the past primarily driven by its Domestic Formulations Segment. Going forward, we expect the next leg of growth for the company to come from the Export Segment as it leverages its API capabilities to create a sturdy business in the Regulated and Emerging Formulations market. In US Ipca has filed for 14 ANDAs of which 9 have been approved having a market size of US $1000mn.
	Lupin	3%	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 last 6 months. Further, the company has been among the few Indian companies which 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% and 30% pre-lease commitments at its Manesar IT Park and Kirti Nagar mall respectively, coupled with five hotels getting operational by FY2011E which will improve rental visibility.
Software	Infosys TCS Wipro	4% 4% 4%	We believe the long-term IT off-shoring story remains intact, given that it is an irreversible trend and that it is increasingly assuming greater strategic value for global corporations. Initiatives like platform-based BPO and SaaS are likely to drive non-linear growth in future for Indian IT companies. The recent recovery in the global economy is expected to lead to resumption to a higher growth path, particularly FY2011 onwards. Attrition rates have stabilised for the sector, which is a positive. Considering the long-term opportunities available for Indian IT players plus the fact that these companies are focusing on expansion of their service lines to include higher value services like consulting and package implementation, we remain positive on the IT sector.
Telecom	Bharti Airtel	4%	There remains strong potential for mobile companies to increase mobile tele-density (43% currently), which will aid robust volume growth in terms of minutes of usage. With the Indian economy expected to grow at a healthy rate, there is strong growth potential in the Enterprise space also, apart from ILD and NLD services. We believe the current valuations of Bharti Airtel largely capture the intensifying competition, ARPU and margin pressures, and regulatory risks. Thus, considering its good scale, a solid execution track record and proven management capabilities Bharti Airtel remains our top pick in the sector.

3QFY2010 Sectoral Outlook

Sector	Key Expectations	Comments
Automobile	● The macro-economic scenario appeared optimistic in 9MFY2010 with Volumes registering a gradual up move across the Automobile Sector during the period. We had anticipated Volumes to improve sequentially from 1QFY2010 aided by an easing Monitory Policy and favourable business economy. Further, owing to a positive economic scenario and improving consumer sentiment, we retain our positive outlook on the Sector. ● Most Auto companies reported a sequential spurt in Volumes for 3QFY2010. Consumer discretionary Autos like two-wheelers and cars reacted fast to improving credit availability. Overall, most companies are expected to post good growth in 3QFY2010. ● Commodity prices fell significantly from their peak in FY2009, full benefits of which was realised in 2QFY2010. However, recent uptick in the commodity prices could exert pressure on Margins in 3QFY2010 sequentially.	● Most domestic Auto majors are likely to register a better yoy performance. Post streamlining inventory levels and reduced input costs, Operating Profit is also expected to improve. ● Tata Motors, Maruti and M&M could deliver better numbers on improved Volumes in 3QFY2010.
Auto-Ancillaries	● 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, momentum is expected to continue since recovery in the Passenger car, Two-wheeler and Light Commercial Vehicle Segments seems to be sustainable, aided by dropping Interest rates and better availability of finance. ● The yoy depreciation in the Rupee is expected to improve realisations of companies with high Exports exposure. However, these companies are expected to post slack exports volume following the decline in demand from most of the developed countries due to the overall global economic slowdown.	● Auto Ancillaries are expected to report sequential Top-line growth in 3QFY2010 on the back of better domestic volume growth. ● Margin pressure is expected to reduce sequentially owing to improving operating leverage. ● Broadly, the Sector is expected to deliver mixed Earnings owing to exaggerated Losses by Ancillary companies with exposure in overseas market.

Continued...

3QFY2010 Sectoral Outlook

Sector	Key Expectations	Comments
Banking	● Core business growth of banks remained well below expectations in 3QFY2010 as well, with Credit growth rate remaining low at 11.3% yoy as on December 18, 2009. Most banks held on to their PLRs during 3QFY2010, with managements indicating a bottoming of Interest rates. Deposit rates fell further during the quarter, with peak FD rates falling to 6.5-7.0% for most banks. Overall, we expect NII growth to remain moderate in 3QFY2010, with expectations of revival 4QFY2010 onwards. ● During the quarter, 10-year Gsec yields registered an increase of 43bp in 3QFY2010 to end at 7.59%, as the Debt market started to reflect expectations of tightening by the RBI on the back of rising inflation concerns. Overall, 3QFY2010 is expected to be a relatively modest quarter in terms of Treasury performance compared to the huge Profits registered in 1QFY2010 and 2QFY2010, as the rise in yields did not trigger large MTM losses, unrealised gains reduced and there were few opportunities to book Profits. Overall, Profitability is expected to be moderate in 3QFY2010. Asset quality concerns, though receding, remain important metrics to monitor in the 3QFY2010 results, especially the slippages from restructured portfolio.	● We retain our preference for Private Banks for several reasons. One, they are very well positioned for the impending revival in GDP growth in terms of large capital adequacy and substantial network expansion - already done in the last couple of years and not fully leveraged as well as planned going forward. With their overall superior customer proposition, in our view, the Private Banks are once again set to gain market share in key areas, viz., low-cost deposits and fee income. Other than Axis Bank (which is exposed to ALM risk on account of its large corporate bond book), the Private Banks are exposed to lower interest rate risks than the PSU Banks (which also carry the risk of government interference). Thirdly, in terms of valuations, the Private Banks are trading closer to mid-cycle valuations, while the PSU Banks appear relatively expensive at present. Moreover, PSU Bank valuations look even more stretched on adjusting their book values for the substantial restructuring that has been done by them in the last two quarters. Axis Bank continues to be our Top Pick in the Banking Sector, as it offers a good combination of high growth and Earnings quality, A-list management and reasonable valuations.
Capital Goods	● Visibility seems to be gradually improving, with foreign investments in the country continuing their momentum, with financial closure now happening of projects stalled for several quarters, and with quite a few companies across sectors having successfully tapped the domestic and global financial markets. ● Cumulative IIP growth for the period of April-October 2009-10 stands at 7.1% (4.3%), while the cumulative growth for Capital Goods components in the mentioned period registered a growth of 6.3% (9.7%). ● 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 a 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 some signs of improvement, with the backdrop of the rich valuations, we prefer a very stock-specific approach. ● Macro indicators are gradually exhibiting a positive move. ● 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...

3QFY2010 Sectoral Outlook

Sector	Key Expectations	Comments
Cement	● During the quarter, we expect all other companies in our universe except India Cements to report margin expansion yoy. However, the margins are expected to drop substantially qoq, on account of the fall in realisations. ● Strong demand emanating from the Commonwealth-related spending has enabled north-based manufacturers to fare well in terms of capacity utilisation and dispatch growth.	● Average coal prices during 3QFY2010 were lower yoy by 55%, at US $76/tonne. Sequentially as well, prices have declined. We believe that the correction in coal prices would be margin-accretive for cement companies in the quarter under review. ● Region-wise, the northern and eastern markets will continue to fare better than the other major regions, both in terms of dispatches and pricing. Maharashtra in the western region, and all the frontline states like Andhra Pradesh, Tamil Nadu and Karnataka in the southern region, are witnessing low demand or a fall therein, which is a cause for concern.
FMCG	● For 3QFY2010, we expect our FMCG universe to post modest Top-line growth of 16% yoy driven largely by Volume growth and improvement in Product mix. Earnings for the quarter are expected to grow at a strong pace of 24% yoy aided by Margin expansion for most companies (low base effect as 3QFY2009 was the worst quarter in terms of input cost pressure).	● GCPL, Marico and Nestle are expected to report the strongest Earnings growth during the quarter. HUL, the segment leader, is expected to report muted Earnings growth owing to weak Revenue traction and flattish Margins (high Ad-spends). We expect ITC to post 4-5% increase in Cigarette Volumes. ITC's Earnings are expected to grow by 19% yoy aided by Top-line growth (up-tick in Hotel Revenue) and Margin expansion. ● Since most FMCG stocks have rallied during the quarter and reached peak valuations, we prefer a selective approach of stock-picking. We rate ITC, Nestle, GCPL and Asian Paints as our Top Picks in the Sector.
Infrastructure	● For 3QFY2010, traditionally a good quarter for infra companies from an execution point of view, we expect companies in our universe to post a mixed outcome on the Top-line front, on the back of a robust Order Book position and unfavorable developments in AP. On the Margins front, we expect some improvement due to lower commodity prices and benign interest rates. Owing to this and the low base of last year, we expect Bottom-line growth to be robust for most of the companies.	● 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 expect Punj Lloyd to post subdued Earnings during the quarter, mainly due to losses on the subsidiary levels. ● During this quarter, we are recommending IVRCL Infra and Madhucon projects as our Top picks, on the back of relatively cheap valuations and considering the long-term prospects for these companies. *Continued...*

3QFY2010 Sectoral Outlook

Sector	Key Expectations	Comments
Logistics	● The container traffic data released for FY2010 YTD (April-November 09) by the Indian Port Association (IPA) indicated a 4.6% yoy decline. The JNPT port, which handles around 60% of the country's container volumes, registered a 5.7% yoy fall in Volumes, while the Chennai port, which handles around 17% of the country's container volumes, witnessed a 4.3% yoy fall for FY2010 YTD. However, the container traffic is stabilising at current levels, in absolute terms, after bottoming out in January and February 2009. Going ahead, we expect trade to revive on the back of an improving economy and low base. Nonetheless, we believe that the high base effect and lacklustre Exports during 1HFY2010 will result in flat to moderate growth in Exim volumes for FY2010. We expect 12-15% yoy growth in overall country's container volumes at 12 major ports in FY2011.	● For 3QFY2010, we expect our universe of stocks to report subdued growth on a yoy basis, on account of the high base effect and change in product mix. However, we expect companies to report modest Volume growth on the back of improving visibility in trade. Operating Margins are expected to improve sequentially on account of lower empties and improvement in ground rent. We believe that the Domestic Segment will continue to do well in 3QFY2010 following the strong domestic consumption. We expect Concor and AGL to register 0.3%, and 20.4% yoy (on account of better ECU Line Margins) increase in PAT, while GDL is expected to report 21.1% yoy decline in PAT due to the change in product mix. ● In the ensuing quarters, we expect our universe of stocks to register robust growth on a low base and increasing trade.
Metals	● Steel companies under our coverage are expected to post strong top-line growth yoy, boosted by higher sales volumes during 3QFY2010. We expect the top-line of the steel companies under our coverage to increase by 5-40% yoy. On the margins front, we expect the companies to post a sharp increase due to lower raw material costs and higher sales volume. ● We expect Base Metal players like Hindalco, Nalco Sterlite and Hindustan Zinc to register a top-line growth of 20-90% owing to higher LME prices yoy. We expect Margins of Nalco and Hindalco to decline by 500-700bp. However, we expect Hindustan Zinc and Sterlite to post a sharp increase of 3,447bp and 1,232bp, respectively, on account of higher lead and zinc prices.	● International steel prices declined by 17% yoy. Production cuts announced by steel majors last year are no longer visible on account of increase in apparent steel demand. During the quarter, domestic steel firms reduced prices. But in the last week of December, steel companies increased prices by Rs2,000/ tonne, on account of strong domestic demand. We foresee 4Q2010E to witness further price hikes, in anticipation of rising raw material prices. ● Prices of base metals like Copper, Aluminium, Zinc and Lead sequentially moved up by more than 10-25% during the December quarter. However, on a yoy basis, prices were up by 9%-85%, with zinc and lead leading the price increase. *Continued...*

3QFY2010 Sectoral Outlook

Sector	Key Expectations	Comments
Oil & Gas	● Average crude oil prices during the quarter were higher by 11.4%. However, GRMs were subdued during the quarter with the benchmark Singapore Margins averaging at around US $2.5/bbl. However, increase in crude oil prices during the quarter, could result in inventory gains by Refining companies. ● We expect the increase in oil prices to improve realisations of Upstream companies, and companies such as Cairn and ONGC are likely to benefit on account of the same. ● Petrochemical Margins weakened during the quarter following reduction in PE, PP and PVC Margins during the quarter. ● On the Under-recoveries front, while the Subsidy on the auto fuels saw a marginal increase during the quarter, However Under-recoveries on the cooking fuel saw a significant increase. OMCs are likely to report weak set of numbers on account of non-issuance of oil bonds during the quarter.	● RIL is likely to report GRMs of US $5.5/bbl during the quarter. Similarly, Petrochemical Margins are likely to decline substantially on qoq basis. However, increased production of gas and crude oil from the KG basin is likely to protect significant reduction in Profitability during the quarter. ● Upstream major, ONGC, is expected to report increase in Net Realisations yoy on account of the increase in crude oil prices. We expect ONGC to register Net Realisation of US $60.7/bbl (up US $26.9/bbl yoy). ● We expect IGL to maintain its strong growth in Volumes driven by higher conversion of CNG vehicles during the trailing one year. In spite of the same, Bottom-line growth is expected to be largely flat on qoq basis. ● GSPL is likely to report Bottom-line growth of 13.7% qoq largely on account of increase in Volume flow during the quarter.
Pharmaceutical	● The Indian Pharmaceutical Sector is expected to post strong growth on the Sales front. We expect our coverage universe to register 7.0% yoy growth in Top-line despite the Rupee appreciating by 4% yoy against the US Dollar on an average during the quarter. Ranbaxy and Orchid Chemicals are likely to benefit from the FTF launches of generic version *Valtrex* and Tazo+Pip, while Lupin will gain from the contribution from the recently acquired Antara brand in the US. Cadila Healthcare will post strong performance owing to its robust show in the US and the Contract Manufacturing Segment. Piramal Healthcare (PHL) will post positive numbers on a robust Domestic business. ● We expect most companies in our coverage to witness expansion in Operating Margins (OPM), while Net Profit will witness strong growth on account of low base - 3QFY2009 was impacted by forex losses on foreign denominated debts.	● On the Top-line front, we expect large caps Lupin and among the mid-caps, Cadila Healthcare and PHL, to post a robust growth. We expect OPMs to improve for Cipla, Ranbaxy, Lupin, Cadila Healthcare and PHL. ● During the quarter, the BSE HC Index rallied 13.9%. 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 and Cadila Healthcare. In CRAMS segment, we recommend PHL, which provides investors' exposure to the strategic CRAMS and robust Domestic Formulations Segments. Among the Small-caps, we recommend Ipca Laboratories on the back of strong growth expected on the Exports front and steady Domestic business. *Continued...*

3QFY2010 Sectoral Outlook

Sector	Key Expectations	Comments
Power	● The power generation companies under our coverage, NTPC, GIPCL and CESC are expected to report strong Top-line growth for 3QFY2010, to the tune of 6.5% yoy. Net profit is expected to grow by 11.7% in 3QFY2010. ● Global coal prices having come down significantly, from a peak of US $180 per tonne in July 2008 to US $76 per tonne in December 2009. Thus, we expect thermal power generation to grow at a faster pace.	● 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 import of coal. ● We expect CESC to register a 30.5% yoy growth in its standalone Top-line to Rs995cr. The company commenced operations at its new 250MW plant at Budge Budge during the quarter.
Retail	● For 3QFY2010, we estimate consumer spending to speed up in Value Retailing as well as in the Lifestyle Retailing Segment, on the back of upbeat consumer sentiment due to the festive season and overall economic revival. We expect the Value Retailing format to register a double digit growth in 3QFY2010 and to continue to lead the revival being witnessed in the Indian Retail Sector. On the Lifestyle retailing front, due to stable economic conditions and a pick-up in consumer confidence, we expect it to witness a higher single digit growth in 3QFY2010, thereby maintaining its sequential trend. ● We expect our universe of stocks to post a Top-line growth of 19.1% on a yoy basis. We estimate the retail major, Pantaloon Retail (PRIL), to lead the universe, with a 24.4% yoy growth in its Top-line. ● We estimate the OPM of our Retail Universe to increase by 110bp to 8.6% in 3QFY2010 from 7.5% in 3QFY2009, on the back of cost-rationalisation measures and higher sales per sq ft due to increased footfalls. We estimate Net Profit Margins (NPM) to improve by 90bp to 2.7% in 3QFY2010E from 1.8% in 3QFY2009.	● With the economic recovery gathering steam, coupled with the revived consumer sentiment amidst the festive season during the quarter under review, footfalls have shown an upward trend, resulting in an increment in the SSS and the Sales Per Square Feet (SPSF) of the Retailers. We expect the 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 to go for value-for-money-goods. However, we expect the Lifestyle Retailing segment growth to pick-up on the back of stable economic conditions. 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. *Continued...*

3QFY2010 Sectoral Outlook

Sector	Key Expectations	Comments
Software	● Top-line for all the IT Services companies, over the quarter, is estimated to grow by 2.2% qoq in Rupee terms (a growth of 4.3% yoy). ● We believe that our Top-four software companies would see some pressure on their EBIDTA Margins during 3QFY2010 and 4QFY2010 on account of salary hikes, increase in manpower intake and SG&A expenses. We expect Infosys to record a 245bp qoq decline in Margins, TCS a marginal 62bp qoq decline, Wipro a 38bp qoq fall and HCL Tech a 58bp qoq dip in EBIDTA Margins in 3QFY2010. ● However, going forward, we expect Margins to stabilise with the companies expected to witness strong operational performances backed by a positive demand environment, non-linear initiatives and improved pricing to some extent. ● We expect the Top-tier IT companies to report 4.1% qoq decline in Net Profit for 3QFY2010 (1.4% yoy decline). This is expected on the back of Margin pressure expected to be witnessed at the EBIDTA level. Among the companies, we expect Infosys and TCS to record a 4.4% and 5.5% qoq decline respectively, and Wipro and HCL Tech to record a 2.3% and 1.8% qoq decline respectively, in their Bottom-lines.	● During the quarter, the IT Industry witnessed strong deal flow post the biggest British Petroleum's (BP) deal worth US $2bn sub-contracted to TCS, Infosys and Wipro in 2QFY2010. IT leader, Infosys, acquired McCamish Systems, a BPO solution provider based in the US, during the quarter by making an upfront consideration of US $38mn. ● TCS signed a deal with City Council of Cardiff, Britain to work as a strategic IT partner for a period of15 years. IBM and BT Global were other contenders for this deal. The contract value is close to £150mn (around Rs1,160cr). ● Wipro won the 10-year Delhi International Airport's (DIAL) IT outsourcing deal from amongst five other bidders including Infosys, TCS, IBM and HP. ● We remain positive on the Indian IT Sector and maintain Infosys and TCS as our Top-picks in the sector.
Telecom	● We expect the major telecom companies under our coverage - Bharti Airtel, RCOM and Idea Cellular combined together - to report subdued top-line growth to the tune of 3% yoy and 1.4% qoq during 3QFY2010. ● We expect a combined 102bp yoy fall in EBITDA Margins in 3QFY2010 (16bp qoq fall). This is expected 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 de-grow by a combined 19.4% yoy. We expect Bharti to grow its Bottom-line by 6.1% yoy (de-growth of 1.4% qoq). RCOM is expected to show a 58.7% yoy de-growth in the bottom-line (de-growth of 21.3% qoq), with a lower top-line, margin pressures, higher depreciation charges and an increase in the tax outgo. Idea Cellular, on the other hand, is expected to record 16.9% yoy and qoq de-growth in the bottom-line due to a lower top-line and margin pressures.	● With net additions of 16.6mn subscribers, the total wireless subscriber base grew to 488.4mn in October 2009. There is strong government support for encouraging growth in the Indian Telecom sector, which will be realised, to some extent, with the upcoming 3G and Wimax spectrum auctions. We believe that there still exists a strong opportunity for growth in the subscriber base over the next two-three years, both in urban and rural regions, through various telecom services like broadband and VAS (Value-Added Service) on handsets, in addition to mobile services. ● However, a lack of regulations has resulted in the current chaos faced by the industry on the tariff front. More telecom players in each circle have resulted in stiff competition and raised the question of survival. This has put a lot of pressure on the margins of TSPs, which are expected to bleed for some more time, unless the TRAI or DOT intervenes to resolve the issues (specially spectrum-related) and encourage healthy competition. In the current scenario, we expect Bharti Airtel to perform better than its peers on account of a strong balance sheet position, which enables it to face the challenges in a better way, as the industry is capital intensive in nature, and TSPs will have to cough up more on the infrastructure and technology fronts to maintain their business viability.

Automobile

Volume growth continues; Margin pressure kicks in

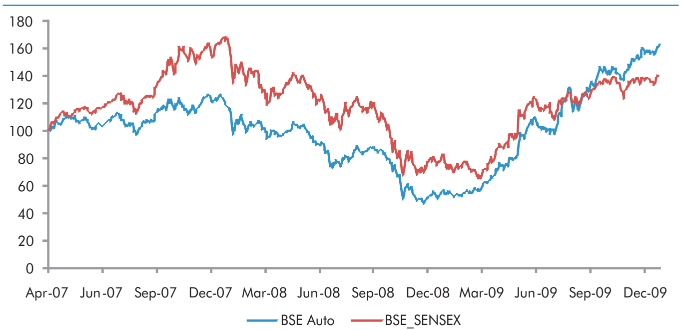
FY2010 started on a positive note for the Indian Automobile Sector, with volumes improving qoq. This resulted in fresh buying and a sharp upturn in most Auto stocks on the bourses in the last two quarters. The overall recovery in the Indian Auto Sector continues due to sustained improvement in demand aided by the green shoots that continue to bloom in the domestic markets. This is due to improving macro-economic factors such as expanding liquidity, lower interest rates and rising consumer confidence. As a result, most Auto stocks have seen a sharp run up in recent times. Going ahead, we expect the continuing economic recovery to help the Auto Sector, which includes the Passenger Vehicle (PV), Commercial Vehicle (CVs) and Two-wheeler Segments, register good growth in the domestic market and decent growth in Export over FY2009-11E.

We estimate overall Auto Volumes to register yoy growth of around 12.9% and 9.5% in FY2010E and FY2011E, respectively. The growth in FY2010E would largely come on a low base. This, however, should gradually pick up in FY2011E aided by an 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.

Interest rate and Commodity price trend: Finance has started returning to the Auto Sector, and to a larger extent in PVs, due to larger ticket size and lower defaults. Banks and financial institutions have reduced their interest rates by almost 350-400bp in the last six to eight months. CV disbursements are also improving, albeit at a slower pace. After a sharp fall in 3QFY2009, financiers have been cautious in lending to first-time users (who have the highest delinquency levels and contribute to 60-65% of the total lending). Financiers are optimistic that truck demand will recover by 4QFY2010, as freight volumes in the economy start improving. However, the Two-wheeler Auto Finance market could continue to lag behind, owing to the rising proportion of sales from the rural markets, which are less dependent on finance as compared to the urban markets. Another variable impacting the Margins of Auto companies is the movement of commodity prices, such as steel, aluminum, rubber and fuel. This proved to be a major headwind during FY2009, resulting in several percentage points being shaven-off from the Earnings growth of Auto companies. However, these commodities moved southward during 2HFY2009. Thus, average prices of inputs, which declined by 12-14% in 1HFY2010E, helped manufacturers to post an improvement in Margins. However, the recent upturn in most of commodity prices is again raising an alarm and expected to exert pressure on the Margins of most of Auto companies in 2HFY2010E.

Auto Index - Impressive outperformance in 3QFY2010: The Auto Index registered a 14% jump during 3QFY2010 versus the 2% rise in the Sensex, outperforming it by an impressive 12%. 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 3QFY2010 and further boosted the stock prices of most Auto and Auto-Component companies. The Valuation gap, however, started catching up in 2QFY2010, which continued in 3QFY2010. This was evident from the stock price of M&M and Tata Motors, which registered a significant 22.7% and 34% jump respectively, during 3QFY2010. However, front-runner stocks like Maruti Suzuki and Hero Honda underperformed the Auto Index by 22.1% and 11.1%, respectively. In 3QFY2010, Ancillary stocks like Exide and Bosch also registered superior performance on the bourses.

Exhibit 1: BSE Sensex v/s Auto Index



Source: Company; Angel Research

Commercial Vehicles: Recovery on board: In FY2009, the M&HCV space was a major disappointment and continued to decline, with transporters deferring purchases and freight rates declining, indicating concerns over sustainability of freight demand. However, Volumes resumed a sequential recovery in 4QFY2009, and continued this recovery in 9MFY2010. Tata Motors' CV Segment registered a substantial 80.8% yoy and 3.2% qoq growth in Volumes during 3QFY2010. We believe that CVs have a higher sensitivity to the economic and industrial slowdown. Thus, we expect the M&HCV Segment to register good recovery in 2HFY2010E aided by the better IIP growth clocked in the last few months.

Automobile

Exhibit 2: TML Quarterly Volumes

Segment	3QFY10	3QFY09	% chg	9MFY10	9MFY09	% chg
Tata Motors	161,212	97,644	65.1	434,702	363,329	19.6
M&HCV	40,744	19,803	105.7	107,752	93,992	14.6
LCV	58,201	34,928	66.6	163,424	124,099	31.7
Total CV	98,945	54,731	80.8	271,176	218,091	24.3
Utility Vehicles	6,938	6,271	10.6	22,911	28,403	(19.3)
Cars	55,329	36,642	51.0	140,615	116,835	20.4
Total PV	62,267	42,913	45.1	163,526	145,238	12.6
Exports (Inc Above)	9,301	7,026	32.4	22,523	29,066	(22.5)

Source: Company; Angel Research

Passenger Vehicles - Better-than-expected recovery: PV Sales volumes registered good recovery in the last two to three quarters largely aided by an increase in Export volumes and gradual recovery in domestic demand. This was supported by a rebound in Consumer sentiment after 3QFY2009, and was reflected in the improving volumes of the domestic PV market. Given its low penetration, the PV Segment has the potential to record double-digit growth over the next five years. The significant Export volume and favourable business economy in the domestic market will further help in sustaining growth levels in FY2010. Maruti witnessed strong growth in 3QFY2010. The company recorded a robust 48.8% and 31.6% yoy increase in volume during 3QFY2010 and 9MFY2010, respectively.

Exhibit 3: Maruti, M&M - Quarterly volumes

Segment	3QFY10	3QFY09	% chg	9MFY10	9MFY09	% chg
Maruti Suzuki	258,204	173,494	48.8	731,121	555,529	31.6
Total P. Cars	220,489	157,230	40.2	624,832	505,285	23.7
MUV	921	1,630	(43.5)	3,076	5,374	(42.8)
Domestic	221,410	158,860	39.4	627,908	510,659	23.0
Exports	36,794	14,634	151.4	103,213	44,870	130.0
M&M	116,061	71,077	63.3	335,402	253,052	32.5
Domestic Auto	68,679	41,142	66.9	201,200	158,113	27.3
Exports	3,579	1,320	171.1	6,586	7,448	(11.6)
Domestic Tractor	40,917	27,266	50.1	121,477	81,809	48.5
Exports	2,886	1,349	113.9	6,139	5,682	8.0

Source: Company; Angel Research

Two-wheelers - Indicating strength of market reach: In FY2009, the Two-wheeler Segment registered 2.6% yoy growth, albeit on a low base. The growth story continued, with the top three Two-wheeler manufacturers estimated to have registered 39.5% yoy growth in 3QFY2010, aided by robust growth in the Motorcycle Segment. Hero Honda reported the best numbers among its peers in FY2009 and 1HFY2010, indicating strength of its market reach and better performance by the Rural Segment. We believe that although the substantial ownership base of Two-wheelers results in reduced headroom for higher growth rates and increases the dependence on Replacement demand to sustain volumes, the rural markets will register better growth on account of the new demand arising from the relevant rural population. This is expected to help Two-wheeler companies in maintaining their growth momentum and register 8% CAGR in Volumes over the next few years.

Exhibit 4: BAL, HH, TVS - Quarterly volumes

Segment	3QFY10	3QFY09	% chg	9MFY10	9MFY09	% chg
Bajaj Auto*	827,464	493,750	67.6	2,061,951	1,753,885	17.6
Motorcycles	732,071	414,041	76.8	1,814,537	1,534,149	18.3
Scooters	801	3,072	(73.9)	4,334	10,037	(56.8)
Total 2 Wheelers	732,872	417,113	75.7	1,818,871	1,544,186	17.8
Three Wheelers	94,592	76,637	23.4	243,080	209,699	15.9
Exports (Inc Above)	262,533	215,233	22.0	665,258	620,880	7.1
Hero Honda	1,111,372	857,806	29.6	3,413,594	2,724,145	25.3
TVS Motor	371,596	304,788	21.9	1,109,166	1,006,689	10.2
Motorcycles	151,127	144,550	4.5	458,748	486,502	(5.7)
Scooters	74,982	55,426	35.3	228,471	195,513	16.9
Mopeds	145,487	104,812	38.8	421,947	324,674	30.0

*Source: Company; Angel Research; Note: *Bajaj Auto December 2009 sales volume estimated*

Auto-Ancillaries - To track the Auto Sector: The Auto Component 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. The domestic market, which accounts for over 80% of the Rs90,000cr Indian Auto Component Sector, experienced one of its worst phases during the year due to the dip in Auto sales. At the same time, Exports, which acted as a cushion for cyclical changes in domestic demand (account for almost 20% of the total Auto Component Industry), have been dismal due to the global financial crisis. The US $18bn Auto Ancillary Sector saw its FY2009 Revenue go up by $1bn, but the slide has become significant from their peak of a 27.2% CAGR over FY2003-08. Exports also nose-dived from their 35% CAGR over FY2003-08 to 6.1% yoy growth in FY2009. For the first time in a decade, the Sector clocked single-digit growth in Revenues and registered a fall in Earnings. Global outsourcing from the large traditional markets like the US and Europe, has taken a stiff beating and seen reduction of up to 35% in many cases.

Overall, FY2010 would be a year of recovery for the Sector and is expected to give some respite after the substantial reduction in Volumes post the 3QFY2009 downturn. We also believe that, going forward the Sector would gradually show an uptick in Volumes both on the Domestic and Export fronts.

Volume growth continued on low base and festive season buying: We believe that, 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

Automobile

fortunes of the Auto players. Against this backdrop, we expect the Auto companies to report a sequential spurt in Revenue growth, on better volumes and stable pricing during the last couple of quarters.

OPM pressures to increase sequentially: Input costs have spiraled in the last four months following a spurt in steel, rubber and aluminum prices. The cycle has taken a reverse turn in the recent past, following the upturn in commodity prices. This is expected to exert pressure on Margins, starting from 3QFY2010. Players however, are expected to register yoy increase in their Net Profit in 3QY2010 on better operating leverage, followed by higher volumes (on low base) during the quarter.

Auto Components Segment: At the end of FY2009, companies were finding it difficult to make future projections, as their two key markets, 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 on the path of recovery, aided by a better-than-expected revival in the domestic market, though exports remain discouraging. Companies in the sub-segment of the Auto Components Sector, such as Tyres, Bearings and Batteries, with a larger share of revenues from the Replacement and Domestic market, have been less affected than those that supply exclusively to the OEMs. Broadly, the Sector is expected to deliver a good yoy Earnings performance in 3QFY2010, aided by improved volumes and better operating leverage.

Outlook: Core business performance of Auto companies has changed for the better: Visibility has been restored, with substantial yoy growth also being witnessed in the last three quarters. Consequently, 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 their Revenues, due to better Volumes. Most of the stocks have shown a positive move in the one year, thanks to the better growth visibility for the Sector. We remain positive on the overall, long-term prospects of the Indian Auto Sector. We prefer stocks where strong and improving business fundamentals could continue to deliver positive Earnings surprises.

Among the heavyweights, we prefer M&M, Maruti Suzuki and Bajaj Auto. However, most of the Auto stocks have registered a sharp run up in the last six months, and we advise investors Accumulate the stocks at lower levels. Among the Ancillary stocks, we prefer Subros, FAG Bearing and Motherson Sumi, which are available at attractive valuations.

Exhibit 5: Quarterly Estimates - Automobile

Rs cr

Company	CMP	Net Sales		OPM (%)		Net Profit		EPS (Rs)		EPS (Rs)			P/E (x)			Target	Recos
	(Rs)	3QFY10E	% chg	3QFY10E	chg bp	3QFY10E	% chg	3QFY10E	% chg	FY10E	FY11E	FY12E	FY10E	FY11E	FY12E	(Rs)	
Ashok Leyland	50	1,949	94.6	10.5	219	101.2	436.5	0.76	436.5	2.6	3.4	3.9	18.9	14.8	12.8	54	Accumulate
Bajaj Auto@	1,762	3,360	67.6	19.4	482	420.6	156.1	29.1	156.1	103.6	115.7	127.7	17.0	15.2	13.8	1,915	Accumulate
Hero Honda	1,716	3,798	32.2	16.3	178	476.3	58.5	23.8	58.5	102.3	109.6	119.0	16.8	15.7	14.4	1,904	Accumulate
Maruti	1,560	7,172	58.9	12.0	562	539.5	152.6	18.7	152.6	82.4	97.4	110.2	18.9	16.0	14.2	1,873	Buy
M&M @	1,081	4,397	75.0	11.5	876	311.5	886.1	11.4	-	57.4	60.4	64.3	18.8	17.9	16.8	1,211	Accumulate
Tata Motors @*	793	8,320	75.2	11.4	979	408.0	-	7.9	-	(1.2)	42.2	61.2	-	18.8	12.9	859	Accumulate
TVS Motor	65	1,078	26.4	5.6	224	23.3	-	1.0	-	3.9	5.3	6.8	16.4	12.2	9.6	78	Buy

Source: Company, Angel Research; Note: Price as on December 31, 2009 , 2010, Note: @Adjusted for extraordinary items; FY 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)	3QFY10E	% chg	3QFY10E	chg bp	3QFY10E	% chg	3QFY10E	% chg	FY10E	FY11E	FY12E	FY10E	FY11E	FY12E	(Rs)	
Auto. Axle ^	420	110	120.6	16.0	878	8.0	1,193.9	5.3	1,193.9	6.4	21.4	28.7	65.7	19.7	14.6	-	Neutral
Bharat Forge @	472	479	9.7	24.2	469	37.2	755.0	1.7	755.0	(1.2)	8.8	14.7	-	53.8	32.2	-	Neutral
Bosch#	4,626	1,420	45.7	19.0	222	179.0	90.0	56.5	92.3	193	222	273	23.9	20.8	16.9	4,920	Accumulate
Exide Indus.	116	961	22.0	21.7	719	121.8	116.8	1.5	116.8	6.2	6.8	7.4	18.8	17.1	15.5	124	Accumulate
FAG bearing#	611	220	21.5	12.8	(433)	17.6	(17.3)	10.6	(17.3)	39.4	53.9	61.9	15.5	11.3	9.9	743	Buy
Motherson Sumi*	131	1,614	195.4	7.2	(135)	36.4	43.4	1.0	43.4	2.5	7.3	9.0	53.3	17.9	14.6	153	Buy
Rico Auto*	29	249	19.6	10.9	279	4.1	-	0.3	-	1.0	3.1	3.8	28.8	9.4	7.7	-	Neutral
Sona Koyo	17	211	40.2	10.3	1,650	5.2	-	0.3	-	0.7	1.5	1.9	22.4	11.3	8.9	19	Accumulate
Subros	45	229	68.6	10.0	91	6.8	712.3	1.1	712.3	3.6	5.0	5.7	12.3	8.9	7.8	57	Buy

*Source: Company, Angel Research, Price as on December 31, 2009, Note: * Consolidated Results; # December Year end; ^ September Year end; @ FY2010E and FY2011E 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

3QFY2010 - Marked by comfortable liquidity, rising expectations of tightening

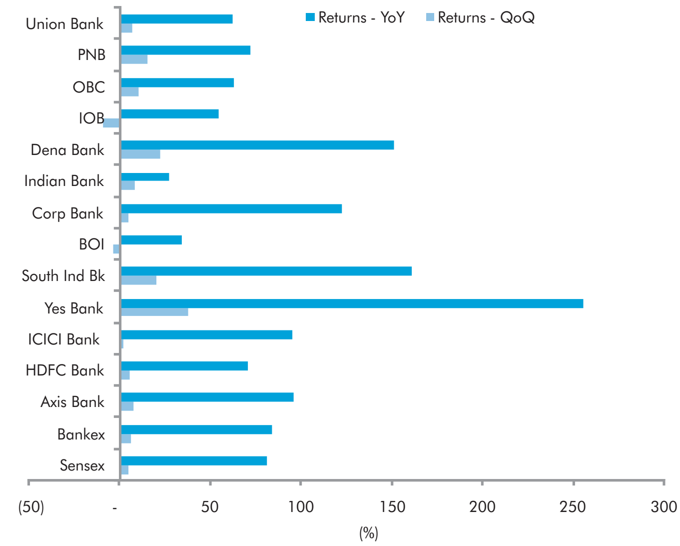
Core business growth for banks remained well below expectations in 3QFY2010 as well, with the Credit growth rate remaining low at 10.5% yoy at the end of November 2009. Banks continued to cut deposit rates further, while leaving the lending rates largely unchanged sequentially. Bulk deposit rates remained very low and money market liquidity remained excessive for a large part of the quarter. Towards end of the quarter however, there were signs of moderating deposit growth with an improvement in capital market conditions and unattractive deposit rates. But, due to lack of credit demand, the credit deposit ratio remained stable at 69%. Overall, growth in Net Interest Income (NII) is likely to be muted sequentially, with improvement expected only in 4QFY2010 as credit growth picks up, with the high base effect of last year disappearing gradually.

During the quarter, 10-year Gsec yields registered an increase of 43bp in 3QFY2010 to end at 7.59%, as the debt market started to reflect expectations of tightening by the RBI on the back of rising inflations concerns. Overall, 3QFY2010 is likely to be a relatively modest quarter in terms of Treasury performance compared to the huge profits registered in 1QFY2010 and 2QFY2010, as the rise in yields was not enough to trigger large MTM losses, unrealised gains reduced and there were few opportunities to book profits. In 3QFY2010, overall Profitability is expected to be moderate. Asset quality concerns, though receding, remains an important metric to monitor in the 3QFY2010 results, especially the slippages from the restructured portfolio.

Market Returns

Due to rising concerns of monetary tightening by RBI, banking stocks were largely subdued during the quarter. Accordingly, BSE Bankex rose 6% sequentially outperforming the Sensex by very marginal1%. Apart from PNB, all other large caps in our coverage from both the private as well as the PSU bank space gave moderate returns between 2 to 8%. Within our coverage universe, Yes Bank gave highest returns of 38% sequentially, followed by South Indian Bank and Punjab National Bank which increased by 20% and 15%, respectively. ICICI Bank underperformed Bankex on sequential basis, though outperforming by 11% on yoy basis.

Exhibit 1: Market returns (3QFY2010)



Source: BSE, Angel Research

Key Developments

Credit growth dips further

As per the data available for the week ended December 18, 2009, in the preceding three months, Total Credit increased by Rs68,138cr compared to Rs1,15,945cr recorded during 2QFY2010. In fact, in 3QFY2009, Bank credit increased by Rs1,16,530cr mainly driven by the liquidity shortage post the Lehman crisis, which led to substitution of short-term credit with domestic bank credit. As a result of this high base, yoy growth in credit in 3QFY2010 dipped to 11.3%.

While Deposit growth remained much above Credit growth, it started to show signs of moderation towards end November 2009 following an improvement in capital market conditions and unattractive deposit rates. Moreover, with banks continuing to cut FD rates (in most cases by at least 25-50bp) and capital market activity reviving, Deposits increased by Rs61,764cr as against the substantial Rs1,48,356cr in 2QFY2010, a yoy growth of 17.8%, though lower than the 20% yoy growth recorded in 2QFY2010.

The Investment to Deposit ratio declined to 32.1% in 3QFY2010 from 33.3% in 2QFY2010. Excess liquidity in the money markets also showed signs of sharp changes, indicated by a reduction in LAF balances by the end of December to Rs42,500cr from Rs1,18,500cr at the beginning of December 2009.

Banking

Exhibit 2: Credit and Deposit Growth Trend

Source: RBI, Bloomberg, Angel Research

Deposit rates on further downslide

Most banks held on to their PLRs during 3QFY2010, with managements indicating a bottoming of interest rates. Deposit rates fell further during the quarter, with peak FD rates falling to 6.5-7.0% for most banks. On an average, PLRs were down by 100bp and retail FD rates by 300bp from peak levels about a year ago.

Most banks expect NIMs to stabilise in 2HFY2010 as Deposits increasingly re-price lower, especially Bulk deposits contracted at peak rates during September-October 2008. Overall, we expect NII growth to remain moderate in 3QFY2010, with expectation of revival 4QFY2010 onwards. In the near term, banks with a larger component of wholesale deposits are expected to benefit more from the sharp downward re-pricing of the same. These include mainly the Mid-cap Banks like Yes Bank, OBC and Corporation Bank.

Exhibit 3: PLRs (%)

Bank	3QFY2010	2QFY2010	chg qoq	3QFY2009	chg yoy
BOI	12.00	12.00	-	13.25	(1.25)
PNB	11.00	11.00	-	12.50	(1.50)
UNBK	11.75	11.75	-	12.50	(0.75)
OBC	12.00	12.00	-	13.25	(1.25)
CRPBK	12.00	12.00	-	13.25	(1.25)
IOB	12.00	12.00	-	13.25	(1.25)
INDBK	12.00	12.00	-	13.25	(1.25)
ICICIBK	15.75	15.75	-	17.25	(1.50)
HDFCBK	15.75	15.75	-	16.25	(0.50)
AXSB	14.75	14.75	-	15.75	(1.00)
YESBK	16.50	16.50	-	16.50	-

Source: Company, Angel Research

Exhibit 4: Deposit rates (%)

Bank	3QFY2010	2QFY2010	chg qoq	3QFY2009	chg yoy
BOI	6.50	6.50	-	9.75	(3.25)
PNB	7.00	7.50	(0.50)	9.50	(2.50)
UNBK	6.75	6.75	-	9.50	(2.75)
OBC	7.00	7.75	(0.75)	10.50	(3.50)
CRPBK	7.00	7.25	(0.25)	10.00	(3.00)
IOB	6.75	7.25	(0.50)	10.00	(3.25)
INDBK	6.75	7.25	(0.50)	9.75	(3.00)
ICICIBK	7.50	7.75	(0.25)	10.50	(3.00)
HDFCBK	7.00	7.00	-	9.50	(2.50)
AXSB	7.10	7.30	(0.20)	9.75	(2.65)
YESBK	7.00	7.25	(0.25)	10.75	(3.75)

Source: Company, Angel Research

Rising Gsec yields

During the quarter, Gsec yields started to move up sharply across maturities, rising by 43bp at the long end of the yield curve (10-year benchmark Gsec) and at the short end of the yield curve (1 to 3 years) declined by 9bp during the quarter, as banks became increasingly reluctant to increase their AFS exposure.

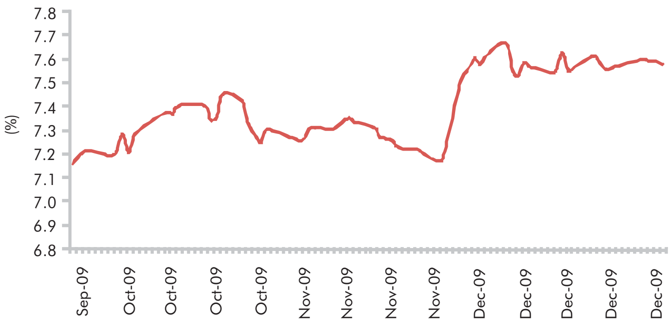
In our view, the increase in longer maturity yields is consistent with an overall improving outlook on GDP growth, and consequently, credit growth with a lag, going forward. At the short end, the rise in yields was more than expected, but this was partly due to short-term technicalities such as the increase in supply of paper from the government at the short end, with longer maturity Gsec issuances by the Central Government largely complete. The RBI's committed Open Market Operations (OMO) limit not getting fully used also did not help matters. Overall, 3QFY2010 is expected to be a modest quarter in terms of Treasury performance, as the rise in yields was not yet enough to trigger large MTM losses, unrealised gains reduced and there were few opportunities to book profits.

Eventually, Interest rates are set to increase consistent with the imminent revival in GDP and inflationary expectations. However, for the Sector as a whole, rising Interest rates consistent with GDP growth and corresponding MTM losses would not be a negative as it would be outweighed by improving Credit growth, Fee Income and lower NPA losses. Rising Interest rates affect individual banks relatively. So, banks which have locked in more of their funds than the Sector average at low yields for a longer duration will experience lower profitability in terms of relatively higher MTM losses and pressure on NIMs. PSU Banks have especially been receiving large amount of deposits in the last

Banking

few quarters and have parked a big chunk of this in Gsecs. Banks exposed to more Interest rate risks include Indian Bank and Union Bank of India, as well as Axis Bank on its corporate bond book.

Exhibit 5: 10-year G-Sec yield



Source: Bloomberg, Angel Research

Exhibit 6: Investment Mix as on Sep 2009

	Investments (Rs cr)	HTM %	AFS %	Non-SLR %	AFS Duration
BOI	59,564	66	24	10	4.5
INDBK	29,504	44	32	24	3.5
IOB	34,000	65	20	15	2.2
OBC	32,275	70	23	6	2.9
PNB	70,267	75	19	6	2.6
AXISBK	52,072	20	34	47	3.2
UNBK	54,015	49	31	20	2.6

Source:Company, Angel Research

Outlook

We retain our preference for Private Banks for several reasons. One, they are very well-positioned for the impending revival in GDP growth in terms of large capital adequacy and substantial network expansion - already done in the last couple of years and not fully leveraged as well as planned going forward. With their overall superior customer proposition, in our view, the Private Banks are once again set to gain market share in key areas, viz., low-cost deposits and fee income. Other than Axis Bank (which is exposed to ALM risk on account of its large corporate bond book), the Private Banks are exposed to lower interest rate risks than the PSU Banks (which also carry the risk of government interference). Thirdly, in terms of valuations, the Private Banks are trading closer to thier mid-cycle valuations, while the PSU Banks appear relatively expensive at present. Moreover, PSU Bank valuations look even more stretched on adjusting their book values for the substantial restructuring that has been done by them in the last two quarters. Axis Bank continues to be our Top Pick in the Banking Sector, as it offers a good combination of high growth and Earnings quality, A-list management and reasonable valuations.

Exhibit 7: Risk of slippages from Restructured Portfolio

Bank	(%) Restructured Assets/NW
SBI	41
PNB	75
CANBK	54
BOB	36
BOI	65
CNTBK	116
UNBK	62
IOB	140
OBC	82
INDBK	94
CRPBK	49
ICICIBK	10
HDFCBK	2
AXSBK	23

Source:Company, Angel Research

Exhibit 8: Quarterly Estimates

Rs cr

Company	CMP	Operating Income		Net Profit		EPS (Rs)			Adj BVPS (Rs)			P/E (x)			P/ABV (x)			Target	Reco
	(Rs)	3QFY10E	% chg	3QFY10E	% chg	FY10E	FY11E	FY12E	FY10E	FY11E	FY12E	FY10E	FY11E	FY12E	FY10E	FY11E	FY12E	(Rs)	
Axis Bank	989	2,216	*33.4*	588	*(13.0)*	59.4	71.8	95.3	391.8	445.8	517.9	16.7	13.8	10.4	2.5	2.2	1.9	1,450	Buy
HDFC Bank	1,700	3,181	*9.0*	806	*30*	64.6	83.3	112.1	458.6	521.9	607.6	26.3	20.4	15.2	3.7	3.3	2.8	2,127	Buy
ICICI Bank	876	4,109	*(8.8)*	1,107	*(13)*	34.0	43.1	58.7	443.3	471.4	509.2	25.7	20.3	14.9	2.0	1.9	1.7	1,149	Buy
Yes Bank	267	343	*9.3*	124	*17*	13.9	15.5	17.7	89.1	104.6	122.3	19.2	17.2	15.1	3.0	2.6	2.2	-	Neutral
SIB	149	214	*10.9*	66	*22*	24.1	27.4	33.9	130.5	152.5	181.0	6.2	5.4	4.4	1.1	1.0	0.8	199	Buy
Bank of India	385	2,110	*(18.0)*	599	*(31)*	44.3	49.6	60.7	249.5	293.6	345.3	8.7	7.8	6.3	1.5	1.3	1.1	-	Neutral
Corp Bank	420	780	*2.6*	258	*1*	77.4	83.7	92.0	400.6	465.0	535.3	5.4	5.0	4.6	1.0	0.9	0.8	535	Buy
Indian Bank	174	1,030	*2.3*	343	*(2)*	32.3	34.0	36.6	152.6	178.8	207.0	5.4	5.1	4.8	1.1	1.0	0.8	207	Accum.
Dena Bank	83	397	*(19.0)*	121	*(13.7)*	16.0	18.7	22.4	81.6	98.1	117.1	5.2	4.4	3.7	1.0	0.8	0.7	104	Buy
IOB	111	1,105	*(19.5)*	257	*(34)*	20.1	20.6	20.7	115.7	132.4	149.2	5.5	5.4	5.4	1.0	0.8	0.7	-	Neutral
OBC	250	845	*(4.3)*	276	*9*	44.0	45.0	47.2	286.8	323.8	362.6	5.7	5.6	5.3	0.9	0.8	0.7	326	Buy
PNB	907	2,835	*(2.7)*	968	*(4)*	117.5	133.5	152.1	509.7	614.6	733.3	7.7	6.8	6.0	1.8	1.5	1.2	-	Neutral
Union Bank	264	1,386	*(8.8)*	446	*(34)*	36.6	41.2	48.7	168.0	199.9	237.5	7.2	6.4	5.4	1.6	1.3	1.1	309	Accum.

Source: Company, Angel Research; Note: Price as on December 31 , 2010

Analyst - Vaibhav Agrawal / Amit Rane

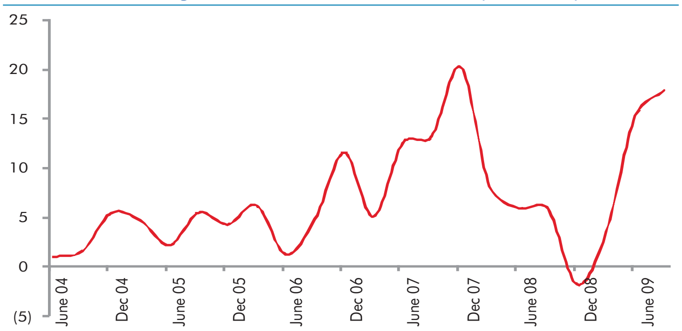
Capital Goods

Liquidity continues...

The all-round rally ushered in the Indian stock markets in the last couple of quarters, after the strong election mandate coupled with the offshoots of recovery in the global economy, took a slight breather during the current quarter, with the equity markets consolidating their position. The risk appetite across the investor class continues to sustain, with strong liquidity chasing stocks.

Consequently, in line with the broader market trend, Capital Goods stocks also continue to garner selective buying interest, in anticipation of healthy order inflows. This is primarily on the back of the government's thrust on the Power Generation, Transmission and Distribution (T&D) Sectors, along with the broader Infrastructure development in the country. The visibility also seems to be gradually improving, with foreign investments in India continuing their momentum, with financial closure now happening of projects stalled for several quarters, and with quite a few companies across sectors having successfully tapped the domestic and global financial markets.

Exhibit 1: Foreign Investments into India (US $bn)



Source: CMIE, Angel Research

...short-term earnings to be impacted

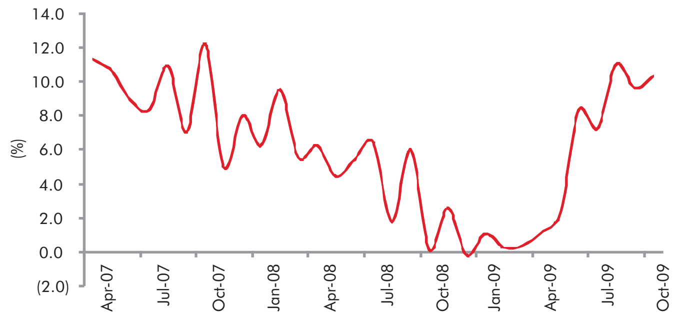
Although the broader economic scenario has definitely improved, we believe that it will take a while for things to pick up dramatically. Most of the companies will witness short-term growth challenges, with the effects of the macro-economic slowdown bound to adversely impact their FY2010E Earnings.

Macro Indicators

After the strong GDP growth of more than 9% registered by India for three consecutive years, the country shifted to a relatively lower growth trajectory for the year FY2009 (owing to the global meltdown), recording a modest 6.7% growth. Though FY2010 is also expected to post more of a muted growth, we expect the GDP growth to gain momentum in the ensuing years.

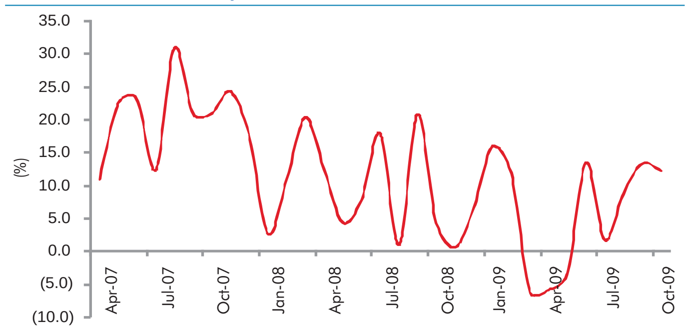
The Index of Industrial Production (IIP) is also showing some strength, based partly on the actual economic recovery and partly coupled with the low base effect. The latest IIP growth for October 2009 came in at 10.3% (0.1%). For the current fiscal as well, the cumulative IIP growth for the period of April to October 2009-10 stands at 7.1% (4.3%). The Capital Goods component for October 2009 also witnessed growth at 12.2% (4.2%). For the current fiscal, the cumulative growth for Capital Goods components during the period of April to October 2009-10 registered a growth of 6.3% (9.7%).

Exhibit 2: IIP Growth



Source: Bloomberg, Angel Research

Exhibit 3: CG Component Growth



Source: Bloomberg, Angel Research

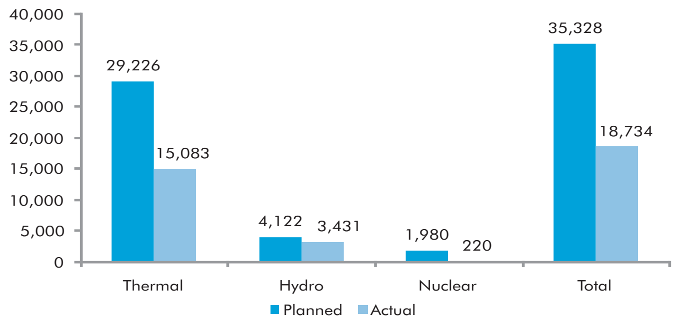
Power sector hurdled with Capacity addition delays

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 capacity addition delay. 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 dismal and with around 47% of the projects already running behind schedule.

Capital Goods

This will adversely impact the growth prospects for all players involved in the entire power value-chain, albeit to varying extents.

Exhibit 4: Capacity addition (MW)-11th Plan (till Nov '09)



Source: CEA, Angel Research

Capital Goods Index - Flattish Performance

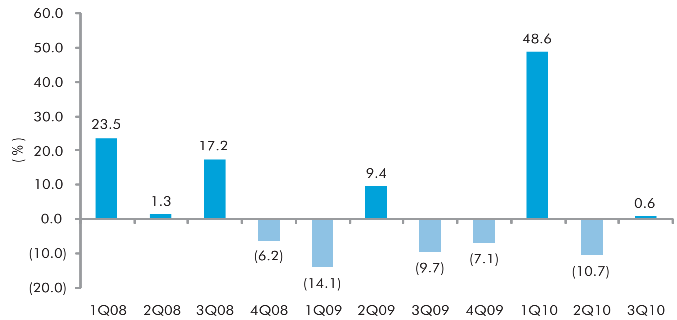
During 3QFY2010, the BSE Capital Goods (CG) Index had a muted quarter, consolidating its position and gaining only 2.6% in absolute terms, outperforming the benchmark BSE Sensex by a meager 0.6%. Notably, during 1QFY2010, the CG index had a phenomenal run-up after the election results, primarily driven by the huge set of expectations emanating from the political stability emerging in the country. However, as most of the stocks had run-up way ahead of their fundamentals and were commanding premium valuations, the under-performance during 2QFY2010 and muted performance during the current quarter were along expected lines.

Exhibit 5: Sensex v/s Capital Goods Stocks (3QFY2010)

	Abs. Returns (%)	Relative to Sensex (%)
BSE Sensex	2.0	0.0
BSE Capital Goods Index	2.6	0.6
ABB	(2.2)	(4.2)
Areva T&D	(14.6)	(16.6)
BHEL	3.5	1.5
Crompton Greaves	35.8	33.8
Jyoti Structures	11.0	9.0
Thermax	11.3	9.4

Source: C-line, Angel Research

Exhibit 6: CG 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 loser, down by 14.6% in absolute terms and underperforming the Sensex by 16.6%. The news of Areva T&D being up for sale continues to be a major overhang on the stock, especially after the news that the consortium of Alstom/ Schneider plans to break the company into two divisions, one catering to high-voltage and the other catering to low-voltage products.

On a positive front, Thermax continues to outperform, gaining 11.3% in absolute terms and outperforming the broader benchmark indices by 9.4%. However, Crompton Greaves was the star performer during the quarter, gaining 35.8% in absolute terms and exhibiting a strong outperformance to the Sensex. The strong quarterly results of the company with better-than-expected margins, coupled with an unjustifiably huge valuation gap with its peers (ABB, Areva T&D, etc.) were the key reasons behind this.

Key Developments

ABB: During the quarter, ABB won an order worth Rs506cr from the Bangalore Metro Rail Corporation (BMRCL) for the design and commissioning of four sub-stations, as part of the first phase of the Bangalore Mass Rapid Transport System.

Areva T&D: In the context of the bidding process started earlier for the global sale of the T&D business of Areva, the parent company received three binding offers from Alstom/Schneider, General Electric and Toshiba/INCJ. The executive board has begun exclusive negotiations with the Alstom/Schneider consortium, which offered £2.3bn in equity value, i.e. £4.1bn in enterprise value. However, we understand that the final deal would still take some time to come into effect, and whether or not the open offer would be triggered for Areva's Indian operations would depend on the structure of the final deal.

Capital Goods

During the quarter, Areva T&D signed an EPC alliance agreement worth approximately Rs900cr with the Maharashtra State Electricity Transmission Co (MSETCL), for the turnkey design and construction of 220KV and 132KV substations.

BHEL: During the quarter, continuing with its strategy of tie-ups with various state electricity boards to secure orders for supercritical sets, the company entered into a JV with the Madhya Pradesh Power Generation Company (MPPGCL) to build, own and operate a 2x800 MW supercritical thermal power plant at Khandwa in Madhya Pradesh.

During the quarter, BHEL secured several major orders from the private sector, including an order worth Rs5,600cr for setting up the 3x660MW power project from the Prayagraj Power Generation Company (owned by Jaiprakash Associates). Besides this, the company also entered into an contract worth Rs5,040cr from Jindal Power for setting up 4x600MW thermal power plant in Chhattisgarh.

Jyoti Structures: Jyoti Structures entered into an agreement with Areva T&D for its turnkey design and construction contracts of 220KV and 132KV substations with MSETCL. The Jyoti Structures' portion of the contract for the supply and execution of transmission lines, to be executed over a period of three years, is worth approximately Rs833cr.

Thermax: Thermax obtained a Rs478cr order for constructing and commissioning a turnkey captive power plant (2x60MW) for a ferro alloy unit of a leading conglomerate in Orissa.

3QFY2010 Expectations

The top-line of the companies under our coverage universe is expected to post a growth of around 19.0% yoy. This would primarily be driven by BHEL, which is expected to witness a strong revenue growth of 30.2%, on the back of a healthy order book. Thermax and ABB are however expected to post a muted performance during the quarter.

On the operating front, we expect our universe to register a 113bp margin expansion to 15.5%. Again, BHEL would be the key driver, as the company is expected to witness a 194bp margin expansion to 18.9%, majorly owing to the lower employee cost. Areva T&D would witness a fall in its margins, owing to the changing nature of its product-mix, coupled with increasing competitive pressures in the market, while Crompton Greaves is expected to continue to post better margins than its peers.

Consequently, the net profit would also increase at a higher pace of around 24.8% yoy for our entire universe. While BHEL and Crompton Greaves are expected to witness a strong increase in net profit of 35.8% and 39.2% yoy, respectively, we estimate ABB and Thermax to witness a de-growth in the profits during the current quarter.

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 problems, with around 47% of the planned power projects for the Eleventh Plan already running behind schedule. **With the backdrop of the rich valuations, we prefer a very stock-specific approach and broadly remain Neutral on the Capital Goods Sector, with Crompton Greaves, Thermax, and Jyoti Structures being among our preferred picks.**

Exhibit 7: Quarterly Estimates

Rs cr

Company	CMP	Net Sales		OPM (%)		Net Profit		EPS (Rs)		EPS (Rs)			P/E (x)			Target	Recos
	(Rs)	3QFY10E	% chg	3QFY10E	chg bp	3QFY10E	% chg	3QFY10E	% chg	FY10E	FY11E	FY12E	FY10E	FY11E	FY12E	(Rs)	
ABB*	767	2,136	(1.4)	11.7	(65)	159	(17.5)	7.5	(17.5)	19.1	25.4	30.8	40.2	30.2	24.9	-	Neutral
Areva T&D*	269	1,161	23.7	11.0	(366)	66	19.6	2.8	19.6	7.9	10.2	12.5	33.9	26.4	21.5	-	Neutral
BHEL	2,406	7,842	30.2	18.9	194	1,073	35.8	21.9	35.8	88.1	108.6	130.3	27.3	22.2	18.5	-	Neutral
Crompton G.	426	2,404	11.8	12.0	154	172	39.2	4.7	39.2	19.9	22.6	26.3	21.4	18.8	16.2	525	Buy
Jyoti Structures	173	541	25.7	11.0	(34)	24	34.5	3.0	34.5	12.0	14.9	17.3	14.4	11.6	10.0	224	Buy
Thermax	608	791	0.4	12.5	29	68	(5.5)	5.7	(5.5)	20.9	30.1	36.1	29.1	20.2	16.8	723	Buy

*Source: Company; Angel Research; Note: Price as on December 31, 2009; * Y/E December*

Analyst - Puneet Bambha

Cement

The cement sector in India, over the past few quarters, has been a large beneficiary of the government's stimulus package to boost the economy. Cement consumption remained robust in 3QFY2010 on account of the upturn in construction activities, due to higher spending on infrastructure projects by the government and the incremental demand coming from rural and semi-urban areas. The all-India cement dispatch during October and November 2009 stood at a healthy 24.7mn tonnes, up by 9.9% yoy.

All-India Cement Prices show decline

On account of the huge capacity addition, cement prices declined by 2.7% during 3QFY2010 on an yoy basis. The cement prices rose in the southern and western regions in December due to distribution constraints on the back of a shortage in availability of rail wagons. Further, the improvement in the political scenario in Andhra Pradesh resulted in a rebound in the prices in the state, which bottomed out at close to Rs140-145 and also helped in arresting the price fall in other parts of the region. The prices in the northern region were ruling higher in December, on account of demand arising from the Commonwealth Games. 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.

Exhibit 1: Average Cement Prices (Rs/bag)

Market	3QFY2010E	3QFY2009	% yoy	2QFY2010	% qoq
Mumbai	237	253	*(6.3)*	257	*(7.8)*
Delhi	218	223	*(2.2)*	232	*(6.0)*
Chennai	250	273	*(8.4)*	240	*4.2*
Kolkata	255	238	*7.1*	275	*(7.3)*
Average Price	240	247	*(2.7)*	251	*(4.4)*

Source: CMA, Angel Research

All-India Capacity Utilisation at 79.5%

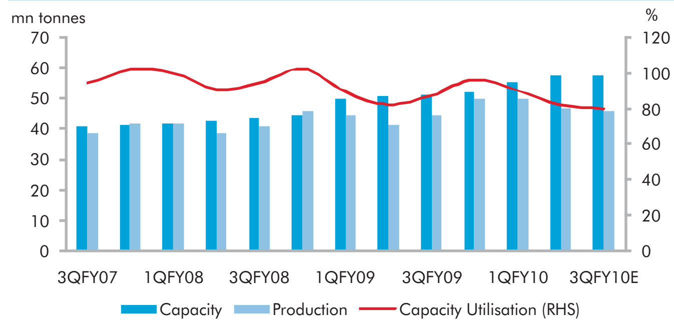
All-India capacity utilisation during October-November 2009 remained robust at 79.5%, despite the huge capacity additions, mainly due to higher production yoy. Cement production during the period was up by 9.6% yoy at 30.7mn tonnes. However, we expect capacity utilisation to decline to 78% in FY2010 (from 89% in FY2009), due to capacity addition of almost 38mn tonnes during the year.

Exhibit 2: All-India Cement Scenario (mn tonnes)

Market	Oct-Nov09	Oct-Nov08	% yoy	2QFY2010
Capacity	38.6	34.3	12.5	57.7
Production	30.7	28.0	9.6	47.1
Cap. Utilisation (%)	79.5	81.7		81.6

Source: CMA, Angel Research

Exhibit 3: Capacity Utilisation Trend

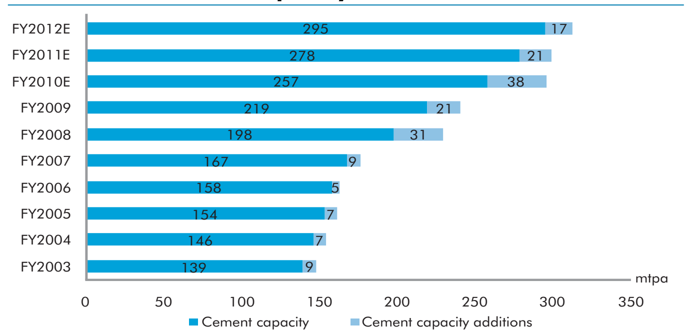


Source: CMA, Angel Research

Huge Capacity additions to lower Capacity Utilisation

All the major players have announced large capacity addition plans in India, to capitalise on the booming Real Estate and Infrastructure Sectors. Total cement capacity in India stood at around 219.2mtpa at the end of FY2009, an increase of 21mtpa yoy. Additionally, the capacity is expected to have been augmented by 30mn tonnes in 9MFY2010. We expect these additional capacities to fully ramp-up over the next 3-4 months, which would eventually exert pressure on cement prices. Overall, we expect the industry to add around 76mn tonnes of capacity through FY2010-12E. Such huge capacity additions would eventually result in an oversupply situation in the market, while demand is not expected to keep pace with the supply.

Exhibit 4: Cement Capacity Additions



Source: CMA, Industry, Angel Research

Performance on the bourses

During 3QFY2010, the Cement stocks under our coverage gained on an absolute basis and outperformed the broader markets, buoyed by a good set of dispatch numbers for the

Cement

quarter. Besides, the higher growth rates came on a low base, as there was a significant decline in demand from the Construction Sector during 3QFY2009, on account of the economic slowdown. Ultratech was the biggest gainer in the quarter amongst the cement stocks under our coverage. The stock with 14.7% absolute gains, outperformed the sensex by 12.7%. Grasim Industries was the top loser in the cement pack and declined by 10.5% during the quarter.

Exhibit 5: Sensex v/s Cement stocks (3QFY2010)

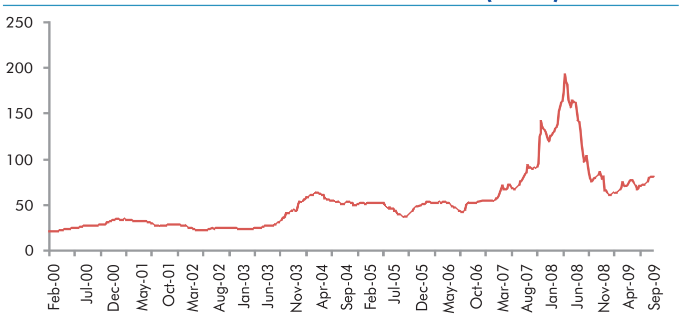
Cement majors	Abs. Returns (%)	Relative to Sensex (%)
Sensex	2.0	-
ACC	6.4	4.4
Ambuja	4.1	2.1
Grasim	(10.5)	(12.5)
Ultratech	14.7	12.7
India Cements	(8.3)	(10.3)
Madras Cements	(7.5)	(9.5)
JK Lakshmi	0.3	(1.7)

Source: BSE, Angel Research

Coal prices stabilise

Power forms a major portion of the overall costs involved in cement manufacturing. Thus, the price of coal (the primary raw material in power generation) has a major effect on the profitability of cement manufacturers. Global coal prices, after skyrocketing in 1HFY2009, peaked out in July 2008 and since then have collapsed by around 65%. Average coal prices during 3QFY2010 were lower by 55%, at US $76/tonne. Sequentially, as well, prices are expected to remain stable. We believe that the correction in coal prices would be margin-accretive for cement companies in the quarter under review. The cement manufacturers use coal to not only generate power, but also in the kiln for cement production.

Exhibit 6: Global Thermal Coal Prices (US $)



Source: Bloomberg, Angel Research

Major developments during the quarter

In October 2009, Grasim Industries (Grasim) transferred its cement business to its subsidiary, Samruddhi Cements. Post this merger, Samruddhi became the 65% subsidiary of Grasim Industries (Grasim), while the shareholders of Grasim directly hold the remaining 35%.

Ultratech Cement (Ultratech), another subsidiary of Grasim, approved the merger of Samruddhi Cement (Samruddhi) with itself. According to the merger plan, the shareholders of Samruddhi will get four shares of Ultratech of a face value of Rs10 each for every seven shares of a face value of Rs5 each. The merged entity will be India's largest Cement and RMC Company, and among the top ten grey cement companies in the world. The merged company will also be the world's seventh-largest white cement company. After the merger of Samruddhi, Ultratech will have a cement capacity of 48.8mtpa.

During the quarter, ACC inaugurated a new 1.6mn tonnes Greenfield grinding plant at Thondebhavi in Karnataka. The plant, which has been set up at a cost of Rs360cr, will produce fly-ash based Portland Pozzolana cement, and will have its own railway siding. The clinker will be received by rail from ACC`s modern cement plants at Wadi in Gulbarga district.

India Cements acquired its Indian Premier League (IPL) franchisee, Chennai Super Kings, for US $91mn in 2008, for a 10-year period. In the recent governing council meeting of the IPL, held on December 17, 2009, it was decided to hold the auctions for the two new franchises on January 19, 2010, with a base price of US $225mn each. Also, the base price of US $225mn is 4.5x the base price of US $50mn, fixed in the first IPL franchisee auction held in February 2008. In fact, the new base price is more than double the value of the costliest team currently, Mukesh Ambani's, *Mumbai Indians*. Thus, we believe that this move is certainly positive for India Cements, which might consider diluting some of its stake, going ahead.

Margins, Bottom-line to improve yoy in 3QFY2010

Over the past few quarters, cement companies have delivered a healthy financial performance, boosted by impressive dispatches and consumption numbers. This came on the back of the significantly huge capacity additions that took place in the mentioned period, coupled with the pick- up in demand, owing to higher consumption from semi-urban and rural areas, and higher infrastructure spending by the government. Apart from higher Sales and Realisations, cement players have benefitted from the easing of cost pressures, as prices of raw materials like coal and fly ash have declined significantly yoy.

Cement

During the quarter, we expect all other companies under our universe except India Cements to report margin expansion yoy. However, the margins are expected to drop substantially qoq, on account of the fall in realisations.

Exhibit 7: Margins to improve in 3QFY2010E

Market	3QFY2010E	3QFY2009	*bp yoy*	2QFY2010	*bp qoq*
ACC ^	32.3	21.8	*1050*	35.1	*(280)*
Ambuja ^	24.9	23.5	*140*	28.1	*(320)*
Grasim	28.4	20.9	750	32.6	*(420)*
India Cements	19.9	23.9	(400)	30.3	*(1,040)*
JK Lakshmi	30.9	26.3	460	33.1	*(220)*
Madras Cements	30.1	26.0	410	39.9	*(980)*
Ultratech	30.8	26.4	440	30.5	*30*

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. On the supply front, with oversupply concerns expected to persist over FY2010-12E, we expect the Cement industry to add around 76mn tonnes during FY2010-12E. We also expect cement consumption to register an 8% yoy growth to 192mn tonnes (178mn tonnes) in FY2010E.

In FY2011E, we estimate cement consumption to increase by 8-9% yoy. Strong demand emanating from the Commonwealth-related spending has enabled north-based manufacturers to fare well in terms of capacity utilisation and dispatch growth. Region-wise, the northern and eastern markets will continue to fare better than the other major regions, both in terms of dispatches and pricing. Maharashtra in the western region, and all the frontline states like Andhra Pradesh, Tamil Nadu and Karnataka in the southern region, are witnessing low demand or a fall therein, which is a cause for concern. Most of the capacities that are being expanded are in the southern regions; thus, the industry is witnessing aggressive inter-regional stock movement, which pressurises the pricing power and profitability in other regions as well. **Hence, we maintain our Neutral view on the Sector.**

Exhibit 8: Quarterly Estimates **Rs cr**

Company	CMP	Net Sales		OPM (%)		Net Profit		EPS (Rs)		EPS (Rs)			P/E (x)			Target	Recos
	(Rs)	3QFY10E	*% chg*	3QFY10E	*chg bp*	3QFY10E	*% chg*	3QFY10E	*% chg*	FY10E	FY11E	FY12E	FY10E	FY11E	FY12E	(Rs)	
ACC ^	871	1,978	*4.9*	32.3	*832*	375	*27.6*	20.0	*27.9*	87.9	75.1	93.9	9.9	11.6	9.3	-	Neutral
Ambuja Cements ^	104	1,732	*7.7*	24.9	*41*	296.5	*19.2*	1.9	*21.7*	8.0	7.6	10.6	13.0	13.7	9.8	-	Neutral
Grasim	2,478	5,005	*9.1*	28.4	*1,080*	659.0	*43.6*	71.9	*43.6*	309.0	269.0	321.0	8.0	9.2	7.7	-	Neutral
India Cements	123	875	*16.2*	19.9	*(405)*	54.1	*(12.5)*	1.9	*(12.6)*	18.9	18.4	22.4	6.5	6.7	5.5	152	Buy
J K Lakshmi	70	331	*11.2*	30.9	*499*	51.6	*(7.9)*	4.2	*(7.9)*	45.4	30.1	28.4	1.5	2.3	2.5	88	Buy
Madras Cements	112	670	*9.9*	30.1	*415*	80.4	*28.0*	3.4	*29.9*	20.8	22.4	30.7	5.4	5.0	3.6	148	Buy
Ultratech Cement	915	1,647	*1.0*	30.8	*30*	289.9	*21.8*	15.4	*21.8*	97.8	81.7	107.0	9.4	11.2	8.6	1,096	Buy

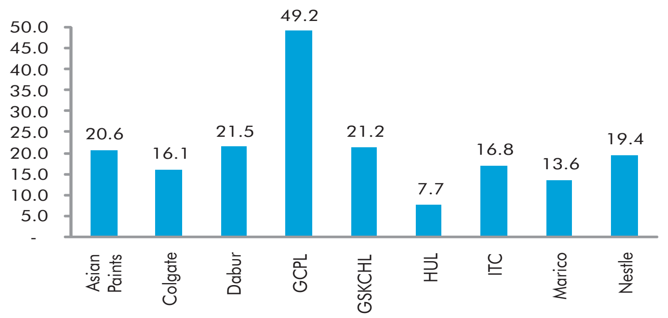
Source: Company, Angel Research; Note: Price as on December 31, 2009; Note: ^Year ending December

Analyst - Rupesh Sankhe / V Srinivasan

FMCG

For 3QFY2010, we expect our FMCG universe to post a modest Revenue growth of 16% (low base effect) largely driven by Volume growth and Inorganic growth. Better reach (significant investments in distribution infrastructure) 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. The downside risks to our estimates include: 1) Cut down in consumer spending due to rising food inflation, and 2) Down-trading to a cheaper brand.

Exhibit 1: Revenue Growth (% yoy, 3QFY2010E)



Source: Company; Angel Research; Note: Nestle, GSKCHL figures are for 4QCY2009E

Gross Margins expansion to peak out

We believe 3QFY2010 will be the last quarter of significant Gross Margin expansion owing to low base effect (3QFY2009 was the worst hit from rising input costs) as several commodities have started inching up.

Over the past few months, prices of input costs for FMCG companies have risen by almost 30-40% on an average from their bottoms. For instance, prices of commodities like palm oil and most other agri commodities like sugar, milk and tea have spiked sharply. However, crude and crude oil derivatives like LAB and HDPE are below their peaks. Going ahead too, agri-commodities, particularly those sourced domestically, are expected to remain firm. While on the one hand prices of wheat, barley, copra and safflower continue to remain benign, prices of sugar, tea and milk are expected to further rise in the coming quarters, largely due to the poor monsoon in India.

We believe companies like ITC and Marico are best placed to benefit from a benign input cost environment whereas rising food inflation (Nestle and GSKCHL) and higher Palm oil prices (HUL and GCPL) carry downside risks to our estimates.

Expanding footprint to drive growth

FMCG majors are increasingly focusing on expanding their global footprint by acquiring companies in niche segments to fill gaps in their product portfolio. Amongst the most prominent deals that was completed in 3QFY2010 was Wipro's acquisition of Yardley from the Lornamead Group in Asia, Australia and North-West Africa for US $45mn. Wipro will launch its newly acquired products in India by 2010. Another major acquisition that was being chased by several FMCG companies (Godrej Consumer, Marico and Emami) was that of UK's leading skincare brand *Simple*, at a whopping estimated price of £250mn (Rs1,925cr). Post acquisition of 49% stake in Godrej - Sara Lee JV -, Godrej Consumer (GCPL) is looking at acquiring the remaining 51% stake from Sara Lee in its bid to re-align its portfolio globally. GCPL recently also announced its decision to raise Rs3,000cr via debt and equity largely to fund such acquisitions (including Sara Lee). Emami is reportedly in talks with Godrej Hershey's for the latter's beverage brands, *Jumpin* and *XS*. If the deal fructifies, it will give Emami entry into a new segment, viz. the Beverage market. Similarly, Nestle's acquisition of the health and nutrition business of Speciality Foods will mark formal entry by the company in the Specialised Health Nutrition space.

Moreover, FMCG majors like ITC, Dabur and GCPL are expanding manufacturing facilities and Personal care Product portfolio to drive volumes. ITC is in the process of setting up a new manufacturing capacity in Manpura, Himachal Pradesh. Like ITC, Dabur is also expanding its manufacturing capacity by setting up new plants in Himachal Pradesh and Uttaranchal. GCPL, on the other hand, is investing heavily in R&D to launch new innovative products.

New launches picking pace

Keeping pace with our expectations, FMCG companies continued their momentum in launching New products and re-launching existing products with new formulation. Category-wise, we expect the Personal care, Skin care, Homecare and Processed Foods Segments to drive growth for the FMCG Sector.

Post significant re-launches last quarter, HUL launched two new variants of *Axe* and re-lauched its brands *Sunsilk* and *Lux* during the current quarter. The company also launched four new green teas under its *Lipton* brand.

FMCG

P&G launched *Tide Naturals* and *Olay* fairness cream heating up the competition with its major competitor, HUL, in both the Detergent and Skin care market. Colgate launched *Colgate Plax* mouthwash and *Colgate Total 12 Clear Mint*, a brand extension to *Colgate Total*. Marico launched new flavours of *Parachute Advanced Starz* shampoo for kids and also plans to enter the market with low Glycemic Index (GI) rice under the *Saffola* brand. Marico is currently prototyping two variants of cooling oils in Bihar and Andhra Pradesh and a product under the *Revive* umbrella called *Revive Blue Plus*, which has properties of Blue and a stiffener. Nestle launched *Maggi Pazzta* in two flavours in competition to ITC's *Sunfeast Pasta*. Nestle has also revamped its soup portfolio with new formulation, *Masala Noodle Soup* in a convenient cup packaging. Godrej Sara Lee launched 'natural' variant of mosquito repellent, *Goodknight natural repellent* in the Homecare Segment and *Godrej Protekt* and *Godrej No.1* moisturizing soap in the Personal care Segment. GSK has launched *Horlicks Pro Height*, a specialized protein formulation for children and *Asha*, a sub-brand of *Horlicks* for Rs85 for 500g pouch pack. Tata Tea is testing its non-carbonated tea beverage *T!ON* in Chennai.

Higher Ad-spends and discounts to support Volumes

In a bid to garner higher market share and sustained growth, FMCG companies are wooing customers with attractive discounts and innovative packaging. We expect most FMCG companies to continue re-investing Margin gains into higher Advertising spends in the ensuing quarters to support Volume growth.

HUL led the FMCG pack this quarter in terms of promotions, giving discounts across segments from Skin care to Homecare. The company is selling combi packs of *Pears* soap, *Close up* and dish washing bar, *Vim*, giving the consumer a discount in the range of 9-25%. Moreover, there is a price discount of Rs2 on *Surf Excel Bar* and a free *Lux* soap bar with *Vaseline* body lotion and *Ponds* cold cream. Colgate on the other hand is promoting its *Colgate Total 12 Clear Mint* and *Colgate Sensitive* brands by distributing free samples via mail. The company is also giving special offer on its *Max Fresh* brand and flagship brand, *Colgate Strong Teeth*. Dabur has tied with Heinz and is distributing 100g *Glucon D* SKU as a freebie with 400g *Complan Kesar-Badam*.

GST rollout in April, 2010? - A Mixed bag

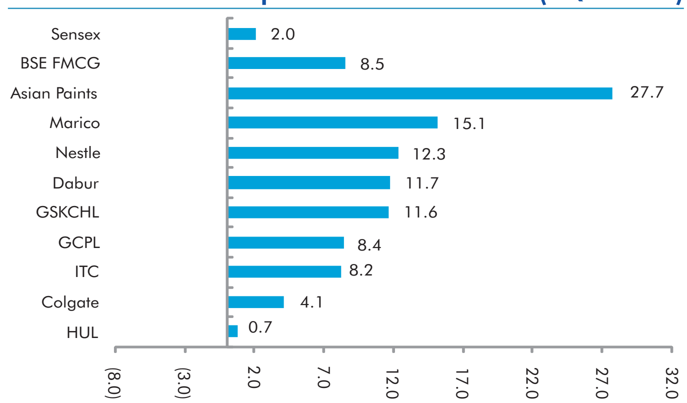
The FMCG industry is expecting implementation of Goods & Services Tax (GST) by April1, 2010. However, we expect a delay in the rollout (as indicated by recent media reports). Nonetheless, we believe the implementation of GST will be positive for the Sector as a whole. FMCG companies will benefit from the uniform, simplified and single point taxation across product categories, which will weed out waste from the system. This is also positive for the end consumers as dealers will pass on the benefits of reduced tax incidence by slashing the prices of the goods over time thereby boosting Volumes for FMCG companies. The combined GST rate is currently being discussed and is expected to be in the range of 14-16%.

A mirroring effect to the positive GST rollout will be the Excise duty rollback in the states of Himachal Pradesh and Uttarakhand. The Excise exemption in these two states is under review. Amongst our FMCG universe, HUL, Marico, Nestle, Godrej Consumer, Colgate and Dabur, which have factories and depots in either of these states, might see an impact on their Bottom-line.

Modest outperformance, HUL the only laggard

Post weak performance in 2QFY2010, the FMCG Sector posted modest outperformance of 6.4% vis-à-vis the Sensex driven largely by Midcaps and heavyweight ITC. HUL continued its underperformance owing to concerns over its marketshare losses, significant jump in Ad-spends and intensifying competitive scenario (P&G is getting aggressive). However, GCPL, ITC, Marico and Nestle (our Top Picks in 2QFY2010) emerged as outperformers with Marico delivering the maximum returns. Asian Paints emerged as the biggest outperformer during the quarter owing to strong Earnings growth, steady Volume growth and improving visibility in the Paints Sector.

Exhibit 2: Relative outperformance to Sensex (3QFY2010)



Source: Company, Angel Research

FMCG

Midcaps to outperform heavyweights

For 3QFY2010, we expect our FMCG universe to post modest Top-line growth of 16% yoy driven largely by Volume growth and improvement in Product mix. Earnings for the quarter are expected to grow at a strong pace of 24% yoy aided by Margin expansion in case of most companies (low base effect as 3QFY2009 was the worst quarter in terms of input cost pressure). Sector leader, HUL, is expected to report muted Earnings growth owing to weak Revenue traction and flattish Margins (high Ad-spends). We expect ITC to post 4-5% increase in Cigarette Volumes. ITC is expected to post Earnings growth of 19% yoy aided by Top-line growth (up-tick in Hotel Revenue) and Margin expansion. We believe Midcaps GCPL, Marico and Nestle are expected to report the strongest Earnings growth during the quarter driven by steady volume growth, benign input cost environment and new product launches.

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 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 current valuations seems less likely, owing to the concern over a weak monsoon.

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

Among the heavyweights, we recommend a Buy on ITC (with the worst behind us and Earnings to revive). In Midcaps, we recommend a Buy on GCPL (significant Margin expansion, additional 51% stake acquisition in Sara Lee and marketshare gains), and on Nestle (strong portfolio and new launches). We recommend an Accumulate on Marico (post recent outperformance) due to its innovative Product pipeline, benign Input cost environment and strong growth in international markets.

Exhibit 3: Quarterly Estimates

Rs cr

Company	CMP	Net Sales		OPM (%)		Net Profit		EPS (Rs)		EPS (Rs)			P/E (x)			Target	Recos
	(Rs)	3QFY10E	*% chg*	3QFY10E	*chg bp*	3QFY10E	*% chg*	3QFY10E	*% chg*	FY10E	FY11E	FY12E	FY10E	FY11E	FY12E	(Rs)	
Asian Paints^	1,795	1,593	20.6	15.5	722	153.9	160.7	16.0	160.7	79.2	80.9	92.4	22.7	22.2	19.4	1,965	Accumulate
Colgate	659	487	*16.1*	19.4	*161*	90.6	*16.6*	6.7	*16.6*	28.1	30.1	34.2	23.5	21.9	19.3	700	Accumulate
Dabur India^	159	946	*21.5*	19.5	*294*	146.3	*34.9*	1.7	*34.9*	5.8	6.9	7.9	27.3	23.2	20.1	181	Accumulate
GCPL^	264	511	*49.2*	18.0	*388*	74.2	*85.2*	2.4	*55.1*	10.3	12.2	14.1	25.6	21.5	18.7	310	Buy
GSKCHL*	1,290	404	*21.2*	12.4	*29*	43.5	*33.6*	10.3	*33.6*	57.0	67.8	79.3	22.6	19.0	16.3	1,413	Accumulate
HUL	265	4,639	*7.7*	16.3	*16*	653.3	*6.1*	3.0	*6.1*	10.1	11.5	13.0	26.1	23.0	20.4	294	Accumulate
ITC	251	4,479	*16.8*	35.5	*21*	1,074.9	*19.0*	2.8	*19.0*	10.7	12.5	13.9	23.4	20.1	18.1	300	Buy
Marico^	103	707	*13.6*	13.8	*104*	66.3	*30.3*	1.1	*30.3*	3.9	4.6	5.2	26.4	22.4	19.8	112	Accumulate
Nestle*	2,548	1,301	*19.4*	20.5	*98*	181.6	*50.0*	18.8	*50.0*	74.5	90.3	107.7	34.2	28.2	23.7	2,969	Buy

*Source: Company, Angel Research; Note: Price as on December 31 , 2009; Note: * December year ending. ^ Consolidated*

Analyst: Anand Shah / Chitrangda Kapur

Infrastructure

Infrastructure development - the undisputed route to economic growth

Infrastructure has been the top priority of the UPA government's agenda ever since it got re-elected in May 2009. This was partly on account of the stimulus effect that the infrastructure sector could provide to the economy, and also because of the cascading effect that investments in infrastructure development have on overall economic growth. This positive effect was not only discounted in the infrastructure stock prices, which ran up after the election outcome, but has also been documented by a World Bank report. The World Bank report says that every rupee spent on roads *(read: infrastructure)* creates seven rupees in economic benefits. The rapid economic growth experienced by the Indian economy over the past few years has only made the deficiencies in infrastructure starker. This led to stress on infrastructure development and higher allocation which is substantiated by infrastructure companies bagging orders.

From Realisation → Planning → Implementation

We believe that we are almost through the phase of realisation '*of lack of infrastructure and the strangling effect it has on the economic growth of a country like India*'. This is pertinent at least in the case of the Roads, Irrigation and Power segments, and is corroborated by the aggressive targets set by the NHAI and the massive plans setup by various, recently-listed companies for power generation. In segments like roads, irrigation and power, the planning phase is on track, leading to execution plans being aggressively chalked out. However, it is quite evident that in spite of aggressive planning and orders been awarded it is the implementation rate that will finally decide the outcome. For a majority of the infrastructure segments, prior work-related experience *(technical criteria)* and substantial net-worth (financial criteria) serve as pre-qualification norms. While the latter can be built by accessing the capital markets, the former is built only over a number of years. Such a threshold has a direct bearing on the timely execution of projects. Thus, such a entry barrier for new entrants getting created at the implementation stage leads to substantial bargaining power for established players.

Major Events during the quarter

BKC recommendations sanctioned - gear shifts, on road to highway development

The Prime Minister had constituted a committee chaired by Mr. B.K.Chaturvedi (Member of the Planning Commission), to discuss the ramping up of the NHDP. The objective of the committee was to resolve procedural impediments to the NHDP program, to take a holistic look at the financing need and to arrive at a financing plan that balances the needs of the road sector with other priority areas of the Government. The recommendations of the B.K.Chaturvedi Committee (Part-I) were sanctioned, which is bound to expedite the process of road infrastructure development. The sanctioned recommendations bring about amendments in key areas of road projects awarding activity, such as: 1) *Parallel mode of award activity as against sequential earlier, 2) Approving of projects with single bids, 3) Increase of Cross-holding clause limit from 5% earlier to 25%, 4) Revision to the maximum holding that the lead member should have during construction and providing an exit route once project is operational, and 5) Revision to the Technical clause criteria.* We believe that this event would act as a catalyst in expediting award activity.

The Telangana State formation - a spoilsport?

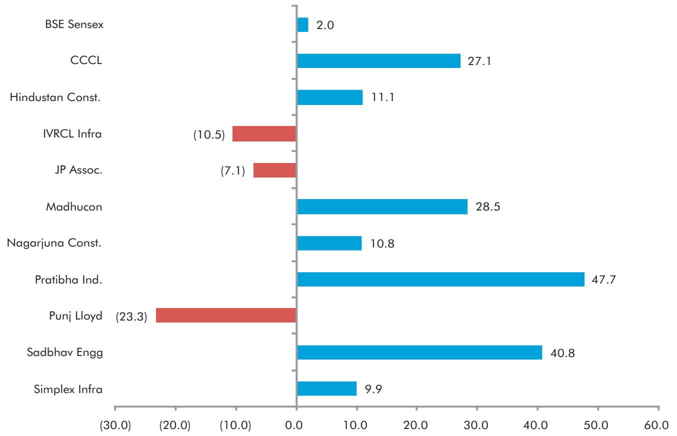
The city of Hyderabad is located amidst Telangana, and happens to be the most developed part of the region. It derives a major proportion of its finances from the NRI remittances and the business class of coastal Andhra Pradesh. A possible formation of the State of Telangana can have a severe repercussion in the form of a loss of this revenue stream. This apprehension (relating to the loss of a strong revenue stream) can lead to people getting out of their investments, leading to a pressure on the Hyderabad real estate market. In light of these unexpected developments that are shaping up, we continue to remain cautious on companies having a relatively higher concentration in the state of AP, in the near to medium term, but continue to maintain our positive outlook from a relatively longer term perspective.

Sensex v/s Infrastructure stocks

On the bourses, 3QFY2010 saw Midcap infrastructure stocks out performing the Large cap infrastructure stocks. This out performance has primarily been on account of relatively cheap valuations. Overall, there was an outperformance on a sectoral basis (our coverage universe yielded average return of 13.5% over the quarter vis-à-vis the BSE Sensex registering a return of 2.0%). MPL was one of the prime gainers, registering gains of 29%, and our Top-pick.

Infrastructure

Exhibit 1: Relative outperformance to Sensex



Source: C-Line, Angel Research

Robust Order Book position - Lead indicator of the Top-line growth

IVRCL

- Bagged orders worth Rs2,222cr. Largest order bagged is worth Rs1,125cr and is related to the development of a crude product terminal. This order has been bagged in a JV, and IVRCL holds a 37.5% stake in the consortium

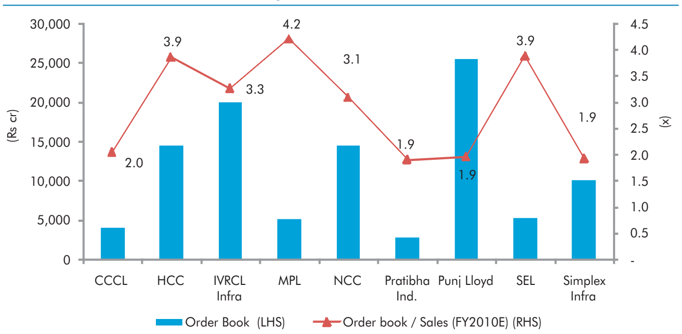
- IVRCL's Order book stands at Rs20,000cr or 3.2x FY2010E Revenues.

Nagarjuna Constructions

- Bagged five orders totaling to Rs722cr. The orders are related to construction-related works, and are geographically dispersed.

- NCC's Order book stands at around Rs15,000cr or 3.2x FY2010E Revenues.

Exhibit 2: Order Book, Order Book /Sales Ratio

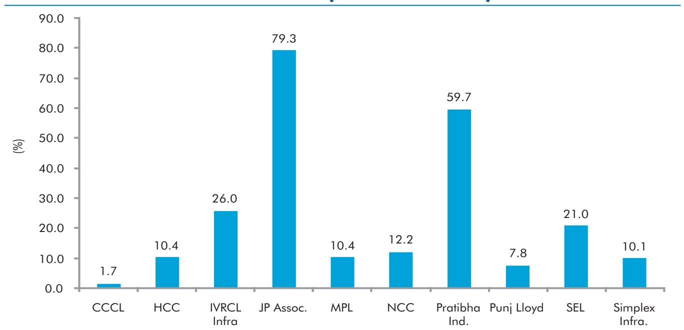


Source: Company; Angel Research

Earnings Outlook

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 the Top-line growth of the companies over the ensuing years. This is against the backdrop of players vying for an increasing proportion of the infrastructure opportunity pie. Accordingly, we expect companies under our coverage to post a mixed set of Top-line growth for 3QFY2010, due to a strong Order Book and increased visibility, particularly with the UPA government back in power. Earnings growth would, however, be a function of the project mix.

Exhibit 3: Revenue Trend (3QFY2010E)



Source: Company; Angel Research

Outlook

In light of the pivotal role that the Infrastructure Sector plays in enabling growth going ahead, we believe that the government will have to continue focusing on infrastructure development in the country. Moreover, in the long-term, with the economy on a roll (India has averaged 8-9% growth over 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 the political intent, liquidity position, commodity and crude prices, and structural and procedural reforms at various government body levels (like NHAI), are also well positioned for the Indian infrastructure growth story to pan out.

Over the next few quarters, we expect the 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, resulting in a slight hardening of Interest rates. However, this is unlikely to have a material impact on Earnings, as a number of avenues of availing finance at competitive rates have now opened up, especially for infrastructure companies.

Infrastructure

Valuation

A year earlier, most of the infrastructure companies were trading at a single-digit, one-year forward P/E. This was primarily on account of the then prevailing macro-economic conditions, making the much-required capital scarce (as that happens to be a vital factor in transforming a robust Order Book to Sales). Thus, the intrinsic factors *(Order Book)* were in place, whereas the enabling factors *(esp. Capital and Political will)* faced a dearth. The re-elected UPA government and, hence, the re-affirmation of a continued stress on infrastructure development, provided the much needed trigger for the entire sector getting re-rated. As of date, a majority of the infrastructure companies trade at a double digit, one-year forward P/E. This P/E re-rating highlights the critical role that infrastructure development plays, especially in a country like India, once the enabling factors fall in place.

The Infra Sector still offers a tremendous 'Infusion Dilution Opportunity', one which will lead to companies trading at 2.0-2.5x P/BV in the longer run, owing to higher growth opportunities. This becomes even more prominent in the wake of the aggressive road development targets being set by the NHAI, as road development happens to be a capital-intensive segment and bread and butter for most of the companies in our coverage universe.

However, due to the sharp rally in these stocks, we recommend selective stock-picking. We prefer companies that provide a decent blend of growth opportunities and attractive valuations. Also, we prefer mid-caps to the large-caps, as there is still some headroom for factoring in subsidiary valuations, which are dependent on a further improvement in the liquidity conditions and on the overall macro-economic scenario.

Overall, we remain bullish on the Infrastructure Sector. **We recommend IVRCL Infra and Madhucon Projects as our Top Picks in the sector.**

Exhibit 4: Quarterly Estimates **Rs cr**

Company	CMP	Net Sales		OPM (%)		Net Profit		EPS (Rs)		EPS (Rs)			P/E (x)			Target	Recos
	(Rs)	3QFY10E	*% chg*	3QFY10E	*chg bp*	3QFY10E	*% chg*	3QFY10E	*% chg*	FY10E	FY11E	FY12E	FY10E	FY11E	FY12E	(Rs)	
CCCL^	415	439	*1.7*	8.6	*319*	18.7	*43.5*	5.1	*43.5*	25.7	34.0	38.3	16.2	12.2	10.9	459	Accumulate
HCC	146	905	*10.4*	13.1	*16*	24.5	*5.6*	0.8	*5.6*	3.4	5.0	5.7	43.6	29.5	25.6	-	Neutral
IVRCL Infra	351	1,519	*26.0*	10.3	*134*	72.6	*56.0*	5.2	*56.0*	19.8	23.0	25.9	17.7	15.3	13.5	468	Buy
Jaiprakash Assoc.	147	2,370	*79.3*	27.3	*(85)*	229.1	*38.4*	1.1	*38.4*	4.9	6.8	8.5	29.8	21.5	17.2	-	Neutral
MPL	172	251	*10.4*	11.3	*99*	11.6	*(16.1)*	1.6	*(16.1)*	7.5	10.7	11.7	23.0	16.0	14.7	214	Buy
NCC	166	1,152	*12.2*	8.1	*(62)*	36.6	*1.0*	1.4	*1.0*	7.2	9.7	10.9	23.1	17.1	15.2	186	Accumulate
Pratibha Ind.	306	261	*59.7*	12.2	*(229)*	12.6	*21.7*	7.6	*21.7*	32.4	41.8	49.6	9.5	7.3	6.2	-	Neutral
Punj Lloyd	205	3,363	*7.8*	8.4	-	63.0	-	1.9	-	10.6	15.6	19.5	19.3	13.2	10.5	308	Buy
SEL	1,226	335	*21.0*	11.1	*78*	16.0	*11.7*	12.8	*11.7*	57.9	63.9	71.5	21.2	19.2	17.2	-	Neutral
Simplex Infra	554	1,397	*10.1*	10.1	*115*	51.2	*102.7*	10.4	*102.7*	32.4	37.2	46.1	17.1	14.9	12.0	645	Buy

Source: Company, Angel Research; Note: Price as on December 31, 2009, Note: Target Prices are based on SOTP, ^ standalone numbers

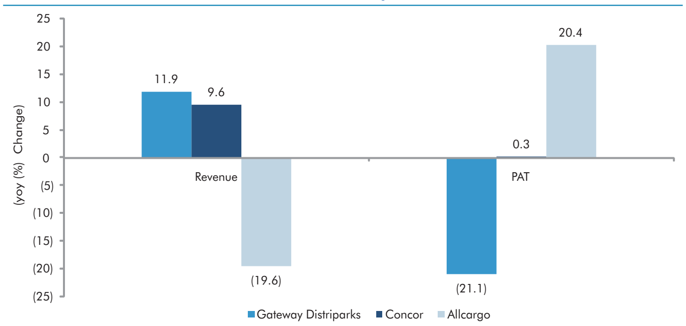
Analyst: Shailesh Kanani / Aniruddha Mate

Logistics

For 3QFY2010, we expect our universe of stocks to report subdued growth on a yoy basis, on account of the high base effect and change in Product mix. However, we expect companies to report modest Volume growth on the back of improving visibility in trade. Operating Margins are expected to improve sequentially on account of lower empties and improvement in ground rent. We believe that the Domestic Segment will continue to do well in 3QFY2010 following the strong domestic consumption. We expect Concor and AGL to register 0.3% and 20.4% yoy (on account of better ECU Line Margins) increase in PAT, while Gateway Distriparks (GDL) is expected to report 21.1% yoy decline in PAT due to the change in Product mix .

In the ensuing quarters, we expect our universe of stocks to register robust growth on a low base and increasing trade.

Exhibit 1: 3QFY2010 Revenue, PAT estimates

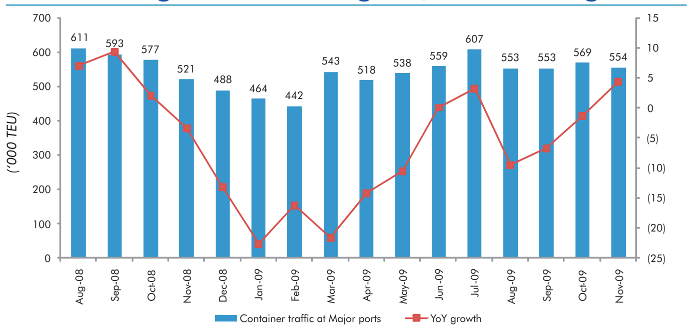


Source: Company, Angel Research

Improving Exim visibility

The container traffic data released for FY2010 YTD (April-November 09) by the Indian Port Association (IPA) indicated a 4.6% yoy decline. The JNPT port, which handles around 60% of the country's container volumes, registered a 5.7% yoy fall in Volumes, while the Chennai port, which handles around 17% of the country's container volumes, witnessed a 4.3% yoy fall for FY2010 YTD. However, the container traffic is stabilising at current levels, in absolute terms, after bottoming out in January and February 2009. Going ahead, we expect trade to revive on the back of an improving economy and low base. Nonetheless, we believe that the high base effect and lacklustre Exports during 1HFY2010 will result in flat to moderate growth in Exim volumes for FY2010. Company-wise, we estimate Concor to post around 4.0% yoy increase in Exim volumes, while GDL is expected clock 6.8% yoy increase in CFS volumes in 3QFY2010. We expect 12-15% yoy growth in overall country's container volumes at 12 major ports in FY2011.

Exhibit 2: Signs of bottoming out, albeit on high base



Source: IPA, Angel Research

Key Developments

Domestic Segment facing pricing pressure

The Domestic Segment will continue to do well driven by strong revival in the Indian economy. Indian Railways (IR), which had extended the 10% rebate in domestic haulage charges to the rail operators in November 2008, withdrew the sop, effective from July 2009. As a result, we expect realisations to improve from 2QFY2010, as the operators had indicated passing on the same (which was not the case for Concor). In the near term, the private players are focusing on the Domestic Segment instead of Exim owing to which Margins will be under pressure for the entire industry. We expect the trend to continue in 3QFY2010 as well.

Gateway for Blackstone

GDL raised Rs300cr through its subsidiary, Gateway Rail Freight (GRFL), in which it holds 95% stake. As per the deal, GDL proposes to issue Compulsorily Convertible Preference Shares (CCPS) to Blackstone, valuing GRFL at Rs600-800cr. Five years hence, on conversion, Blackstone will acquire 37.3% to 49.9% stake in GRFL based on the Operating performance of the Rail Segment. We are enthused with the deal as it would largely meet the company's capex requirements. However, the quantum of dilution is high as against the earlier indication by management. The funds would be utilised entirely for further expansion (Rs215cr) and paying GDL Rs85cr for transferring its Garhi land to GRFL. We believe that the company would have been better off partially utilising the funds to retire its high-cost debt. Post funds inflow from Blackstone, GRFL's Net Worth would stand enhanced at Rs460cr. We have assumed Blackstone's stake in GRFL at 37.3% and have valued GDL's stake at 1.5x P/BV on FY2012E basis. This would fetch GDL Rs35/share for its stake in GRFL.

Logistics

Blackstone converted warrants in AGL

Blackstone converted the warrants in AGL at a revised price of Rs934/share, instead of the earlier Rs1,284/share. In CY2008, to fund its capex requirements, AGL had issued 1,081,081, 6%, fully-and-compulsorily convertible debentures (FCCDs), 1,513,514 warrants and 1,000 equity shares to Blackstone, which will result in 10.4% dilution. As per the agreement, the warrants would be converted depending on AGL's Operating performance in CY2008. Owing to subdued market conditions, Blackstone had to convert the warrants at the lower price band in spite of the AGL meeting held to discuss its Operating performance criteria. We believe that AGL is still adequately funded to meet its capex requirements over CY2008-10E on the back of its healthy Balance Sheet and comfortable Debt to Equity of 0.6x (pre-Warrant conversion).

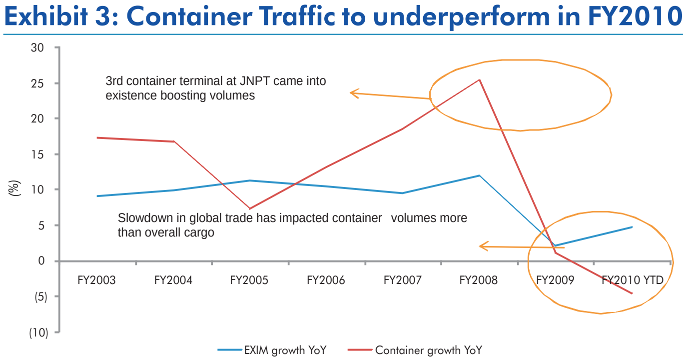
Delay in capacity expansion at JNPT

In view of the expected growth in container traffic and faster turnaround time, JNPT had planned to extend its third Container berth by 330 meters, which will expand its capacity by about 9.60 million tonnes (0.8 million TEUs) per annum. This was expected to come up by end of FY2011E, but has been delayed pending clearance from relevant authorities. As per the recent information available on JNPT's web site, the additional capacity is expected to come up by 2HFY2011E. We believe this would marginally impact container volume growth at JNPT in FY2011.

Slowdown in economy impacted Container traffic more than overall Exim

Container traffic increased from 3.4mn TEU in FY2003 to 6.6mn TEU in FY2009, registering a CAGR of 12% during the period, whereas the Cargo at major ports posted 9% CAGR in the mentioned period. As a result, 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 and FY2010 YTD, the slowdown in global trade impacted containerisation more than overall cargo.

Exhibit 3: Container Traffic to underperform in FY2010

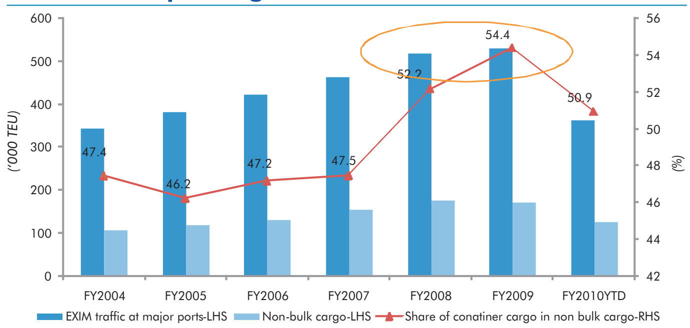


Source: IPA, Angel Research

Bullish on Container Industry due to 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. Previously, 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 trend towards containerisation has registered substantial improvement in the last two years, increasing by 500-700bp despite the slowdown in trade in FY2009. This can be attributed to the 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 4: Improving level of Containerisation



Source: IPA, Angel Research

Dedicated freight corridor gets funding approval

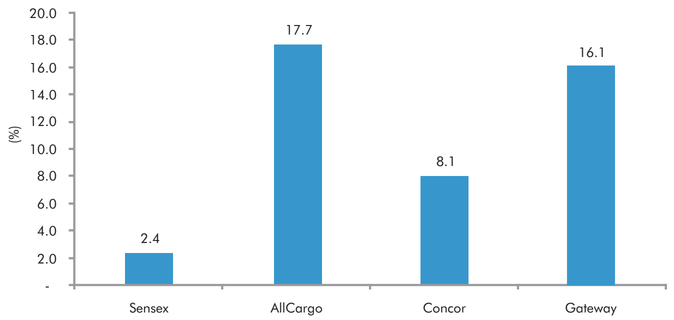
Despite Railways being a cheaper mode of transportation as compared to Roadways, Railways' market share in freight declined from 65% to 33% in 2007. This was mainly due to capacity and efficiency constraints in the Freight Segment, which led to a significant shift from Railways to Road. The Railway Budget 2006-07 envisaged 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, will be implemented in two phases. As per recent media reports, the Cabinet has approved Rs17,700cr conditional loan from Japan to help build the project. The Japanese overseas development assistance will be a soft loan, with the interest component at a mere 0.2% per annum, long repayment period of over 30 years and moratorium of 10 years. The project take-off will increase the Rail market share in the longer term thereby benefiting Rail container operators.

Logistics

Sensex v/s Logistic stocks

During 3QFY2010, GDL and Concor outperformed the Sensex by 14% and 6%, respectively. GDL's outperformance was largely driven by stake sale in its Rail business to Blackstone. Overall, Logistics stocks have outperformed the Sensex on account of improving economy thereby boosting trade. We expect Exports to register better growth in FY2011E.

Exhibit 5: Outperforming the Sensex in 3QFY10



Source: Bloomberg, Angel Research

Outlook

We believe that sustained growth in the Indian economy, with GDP growth expected at 6-8% over the next few years, as well as India's emergence as a global outsourcing hub will facilitate container trade in the country. In the current decade, container traffic registered 12% CAGR compared to 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 attractive valuations. We are now rolling our Target Price on FY2012E EPS. Based on this, we recommend a Neutral view on Concor and AGL. However, we expect GDL to register 19.2% EPS CAGR over FY2009-12E 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 6: Quarterly Estimates

Rs cr

Company	CMP	Net Sales		OPM (%)		Net Profit		EPS (Rs)		EPS (Rs)			P/E (x)			Target	Recos
	(Rs)	3QFY10E	*% chg*	3QFY10E	chg bp	3QFY10E	*% chg*	3QFY10E	*% chg*	FY10E	FY11E	FY12E	FY10E	FY11E	FY12E	(Rs)	
Allcargo*	199	513	*(19.6)*	11.2	*23*	32.5	*20.4*	13.0	*20.4*	11.4	12.1	14.7	17.5	16.4	13.5	-	Neutral
Concor	1,309	927	*9.6*	27.5	*(137)*	206.9	*0.2*	15.9	*0.3*	64.8	73.5	83.3	20.2	17.8	15.7	-	Neutral
Gateway Dist.	138	136	*11.9*	26.5	*(1,003)*	18.4	*(21.1)*	1.7	*(21.1)*	7.1	10.2	12.5	19.4	13.5	11.0	160	Buy

Source: Company, Angel Research; Note: * Calendar Year Closing

Analyst: Param Desai / Mihir Salot

Metals

Metals - on an upward spiral

Metal stocks continued to be on a roll, with underlying demand improving across the globe. The stimulus packages of various countries and huge expenditure on infrastructure development, especially in Asian economies, are currently seen driving the metal market. On the other hand, China buying, speculative activity and improved macro data triggered a major upside in base metal prices. Thus, during 3QFY2010, the BSE Metals Index outperformed the Sensex by rising 21% and posted a return of 23% in absolute terms.

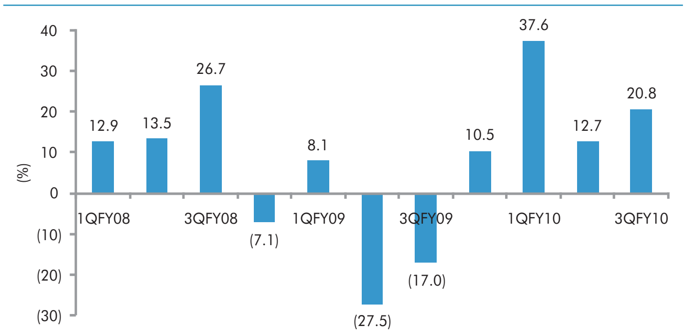
On the Indian bourses, Tata Steel, JSW Steel, SAIL, Sterlite, Hindustan Zinc, Hindalco, Nalco and Sesa Goa outperformed the broader markets, with gains of 11-55% in absolute terms.

Exhibit 1: Sensex v/s Metal stocks (3QFY2010)

Metal Majors	Abs. Returns (%)	Relative to Sensex (%)
Sensex	2.0	-
BSE Metals	22.7	20.8
SAIL	41.4	39.5
Tata Steel	21.2	19.3
JSW Steel	21.7	19.7
Hindalco	24.6	22.7
Nalco	20.1	18.1
Sterlite Ind	11.3	9.3
Hindustan Zinc	46.4	44.4
Sesa Goa	54.6	52.6

Source: Bloomberg, Angel Research

Exhibit 2: Metal Index - Relative Returns to Sensex

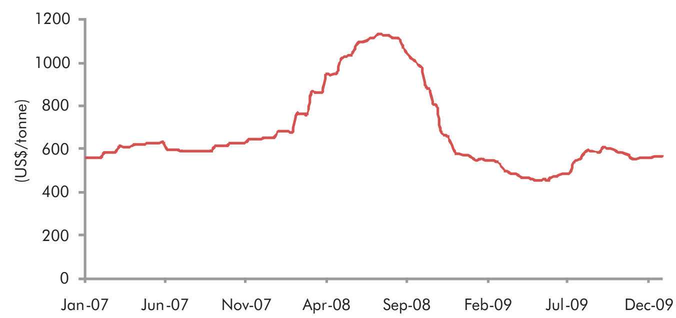


Source: Bloomberg, Angel Research

Ferrous Sector: Prices slashed to counter cheap imports, but the subsequent strong demand lifts prices

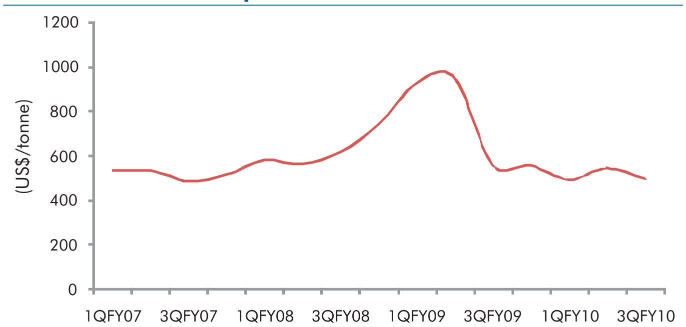
Following the price cuts in October, the international steel players further lowered their prices for November deliveries, before increasing it in the last week. In the last three months, world crude steel production showed a positive growth consistently since September 2008. Crude steel production for the month of October and November was higher by 14% and 22% yoy, to 113.4mn tonnes 107.5mn tonnes, respectively. The average world export HRC prices declined by 17% yoy to US $561/ tonne (US $678/tonne) and 1.7% qoq (US $571/tonne). Average China export FOB HRC prices were lower by 11% yoy and 8% qoq to US $495/tonne. In order to keep the domestic prices in line with the international prices, India steel companies slashed prices across product categories by Rs1,250/tonne to Rs1,500/tonne in November.

Exhibit 3: Average World Export HRC Prices



Source: Bloomberg, Angel Research

Exhibit 4: China Export FOB HRC Prices

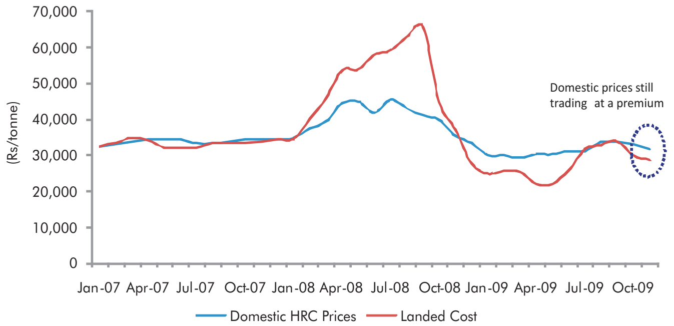


Source: Bloomberg, Angel Research

Another factor keeping the prices under check was the threat of imports from China and the CIS region. The landed cost of steel fell steeply by 10.5% qoq and 20% yoy to Rs28,663/tonne. However, the average domestic HR prices declined by 1.3% qoq to Rs32,250/tonne (Rs32,667/tonne) and 11% yoy (Rs36,067/tonne). Thus, domestic prices are still trading at a premium of 10% to the landed cost, even with a 4-6% price cut across product categories. Further, steel companies have hiked prices of long and flat products by up to Rs2,000/tonne a few days ago on the back of improvement in demand and rising raw material prices.

Metals

Exhibit 5: Domestic HRC Prices

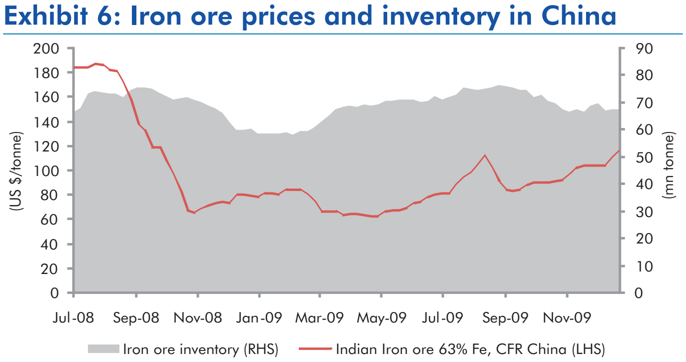


Source: Bloomberg, Angel Research

With the economic activity picking up, steel consumption in the country has risen faster than the production in the first eight months, led mainly by demand from the housing, infrastructure and automobile sectors. According to the provisional data released by the JPC, domestic steel production has grown by 3% yoy to 38.57mn tonnes (37.45mn tonnes) in the Apr-Nov period, whereas consumption has shown a growth of 8.1% yoy to 35.97mn tonnes (33.27 mn tonnes). Even though fears of oversupply kept the steel prices under pressure in the international and domestic markets, a strong domestic demand resulted in a higher sales volume. Also, the demand for long products has improved after the monsoon season. Another reason for the surge in volumes in 3QFY10 was a lower base effect, as demand dropped significantly in the last year owing to the economic downturn. Most steel companies had cut production last year due to the steep fall in demand.

On the raw material front, average iron ore prices for 63% Fe grade have increased by 27% yoy to US $100/tonne (US $78.5/tonne) CFR China, and 8% sequentially (US $92/tonne). The main reason for the increase in prices was the ongoing litigation against illegal mining activities in Orissa & Goa, the talks of a proposed merger between BHP Billiton - Rio Tinto and the increase in imports by China. China's October and November iron ore imports increased by 49% yoy and 57% yoy to 45.5 mn tonnes and 51.1 mn tonnes, respectively.

Exhibit 6: Iron ore prices and inventory in China



Source: Bloomberg, Angel Research

Ferrous Sector Outlook - Prices bottomed-out

According to the World Steel Organisation, global 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. Global steel demand is likely to fall 8.6% yoy in CY2009E (better than the 14% decline forecast in April); excluding China, demand would fall by 24% yoy. In India, which has been relatively resilient to the global crisis, the demand is expected to grow by 8.9% and 12.1% yoy in CY2009E and CY2010E, respectively. We expect steel prices to increase by 5-10% for the period of Jan-March 2010, as steel demand is expected to remain robust and inventory buildup is likely to take place in anticipation of higher raw material prices (cost-push).

Raw material negotiations are slated to start in January next year and indications are that the increase in new contract prices could be between 10-50%. Last year, iron ore contract prices were sealed with a 33% price cut at US $61/tonne. Currently, spot iron prices in China are trading at US $116/tonne (CFR China), an increase of 47% YTD. Coking coal prices have increased to ~US $180/tonne. Last year, coking coal contract prices were fixed at US $129/tonne. However, the major Indian companies are unlikely to be impacted significantly, as they possess a high level of raw material integration, and as domestic demand is expected to remain robust.

During the quarter, lower realisation will weigh on the top-line, but the companies under our coverage are expected to register an average growth of ~20% in their top-line due to a strong volume growth. We expect the volume growth to be in the range of 25-100% and the realisation to be lower by 10-25%. The margins of steel companies are likely to expand by around 35-740bp yoy. Due to an increase in iron ore realisation during the quarter, Sesa Goa's margins are likely to expand by ~845bp yoy. **On the whole, with underlying demand improving across the globe and a limited downside to steel prices, we remain positive on the ferrous pack, with a Buy rating on Tata Steel and JSW Steel, and a Neutral rating on SAIL.**

Non-Ferrous Sector: Prices continue to firm up in 3QFY2010

Base metal prices continued their strength in 3QFY2010, as China's strong appetite, speculative buying by traders and improved macro data triggered a major upside in the prices. Average LME prices for copper, aluminium, alumina, zinc and lead increased by 14%, 11%, 13%, 26%, 19%, respectively, on a qoq basis. Although inventory levels were high, base metal prices showed a positive growth on a yearly basis for the first time in 2009, primarily due to a lower base effect. Notably,

Metals

average LME prices for copper, aluminium, alumina, zinc and lead increased by 69%, 9%, 10%, 85%, 82%, respectively, on a yearly basis.

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

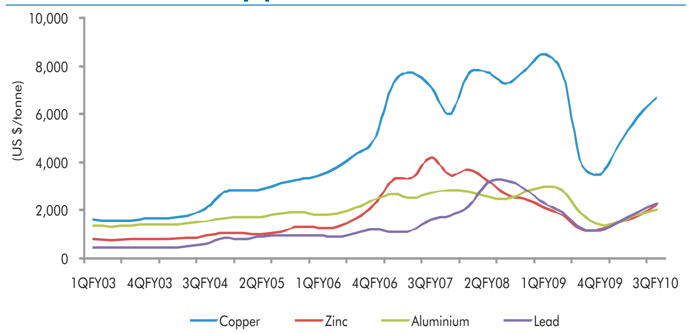
	3QFY10	3QFY09	yoy %	2QFY10	qoq %
Copper	6,650	3,943	*68.6*	5,848	*13.7*
Aluminium	2,002	1,837	*9.0*	1,806	*10.9*
Alumina	306	279	*9.6*	270	*13.3*
Zinc	2,212	1,199	*84.5*	1,755	*26.0*
Lead	2,285	1,257	*81.8*	1,921	*18.9*

Source: Bloomberg, Angel Research

Non-Ferrous Sector Outlook - Not much steam left in the near-term

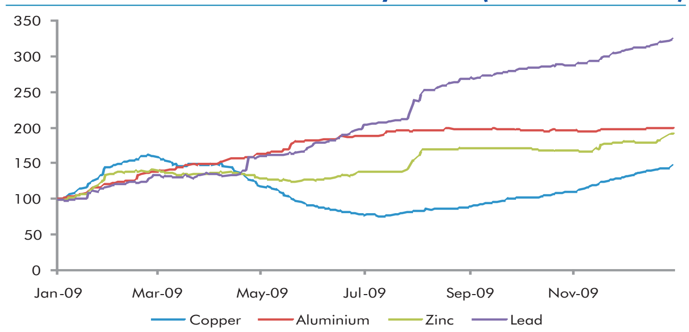
In the wake of the recent rally in base metal prices, there could be some correction in the near-term on account of rising inventory levels. On an YTD basis, inventory in the LME warehouse for copper, aluminium, zinc and lead has increased by 48%, 99%, 93% and 225%, respectively. Additionally, prices are likely to face some headwinds if the Federal Reserve raises interest rates sooner than later, which will have a material impact on dollar movement and, consequently, on base metal prices. Despite the recovery in base metal prices, there aren't many mines restarting or expansions currently being planned for 2010. 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 or floods, will make headlines and may move the prices upwards. In the long term, we expect prices to continue their recovery in 2010E as the global economic mends.

Exhibit 8: Quarterly price trend



Source: Bloomberg, Angel Research

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



Source: Bloomberg, Angel Research

We expect non-ferrous companies to register a positive growth in the top-line, owing to a surge in LME prices on a yoy and qoq basis. Further, margins of Sterlite and Hindustan Zinc are likely to expand by nearly 1,200-3,450bp yoy, whereas margins of Hindalco and Nalco are likely to decline by 500-720bp yoy. **On account of high inventory levels and with interest rates likely to go up, we expect base metal prices to be under pressure in the-near term. Sterlite and Hindustan Zinc remain our top picks 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)	3QFY10E	% chg	3QFY10E	chg bp	3QFY10E	% chg	3QFY10E	% chg	FY10E	FY11E	FY12E	FY10E	FY11E	FY12E	(Rs)	
Godawari Power	207	176	*(25.7)*	18.0	*1,892*	11.9	*-*	4.4	*-*	20.3	56.9	63.8	10.2	3.6	3.2	252	Buy
Hindalco*	161	5,619	*37.7*	13.2	*(499)*	448.7	*(17.6)*	2.6	*(21.7)*	12.1	13.7	15.1	13.3	11.8	10.6	-	Neutral
Hind. Zinc	1,213	2,002	*87.2*	63.0	*3,447*	1,082.2	*193.4*	25.6	*193.4*	85.8	117.9	161.0	14.1	10.3	7.5	1,389	Accumulate
JSW Steel	1,013	4,453	*36.2*	21.2	*734*	282.9	*-*	15.1	*-*	49.6	78.1	109.0	20.4	13.0	9.3	1,360	Buy
Nalco	418	1,190	*17.1*	17.0	*(713)*	205.1	*(6.5)*	3.2	*(6.5)*	11.8	15.6	18.6	35.5	26.8	22.4	260	Sell
SAIL	241	9,725	*7.4*	15.3	*317*	1,137.3	*34.9*	2.8	*34.9*	14.1	15.8	16.9	17.1	15.3	14.2	-	Neutral
Sesa Goa	410	1,846	*35.7*	49.6	*843*	749.8	*59.3*	8.8	*48.0*	22.7	30.7	35.2	18.1	13.4	11.6	344	Sell
Sterlite Inds	861	6,651	*49.6*	23.0	*1,232*	1,149.7	*123.8*	13.7	*85.2*	57.1	63.3	71.6	15.1	13.6	12.0	974	Accumulate
Tata Steel*	618	5,485	*14.2*	31.1	*36*	810	*73.8*	9.4	*65.6*	(9.4)	57.7	58.2	(65.8)	10.7	10.6	750	Buy

*Source: Company, Angel Research; Note: Price as on December 31 , 2009; Full year EPS calculations based on fully diluted equity; * FY2010, FY2011 & FY2012 numbers are consolidated and Quarterly estimates are standalone nos*

Analyst: Paresh Jain

Oil & Gas

Mixed trend continues

Crude prices were firm in the range of US $70-80/bbl during the quarter. After a prolonged period of weakness, the natural gas prices witnessed a reversal in trend and strengthened during the quarter. Petrochemical Margins further weakened during the quarter on account of increasing capacities. Refining Margins also continued to slide on weak product cracks.

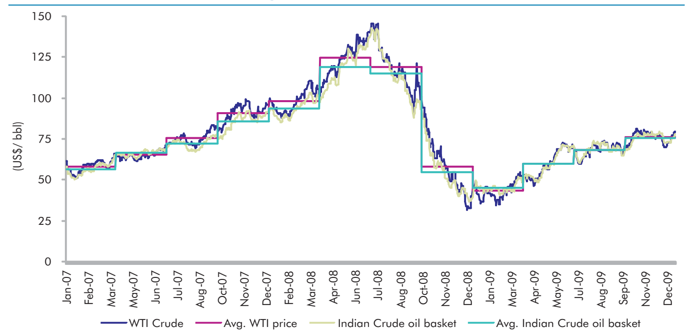
Crude continues uptrend; Natural Gas reverses downtrend

During the quarter, crude prices remained firm in the range of US $70-80/bbl. However, on an average, crude prices increased by 11.4% during the quarter. On a month-on-month basis, crude price was firm in October and November, while in the first fortnight of December, oil prices witnessed some softening falling continuously for 9 trading days (the longest slide since 2001) on investor doubts about a recovery in the US crude demand and strengthening of Dollar. This led to price falling even below the psychological US $70/bbl mark. Softening of prices was supported by the OPEC easing its curb, with its adherence to the quota on production cut being lower. However, towards the latter part of second fortnight of December, an improvement in the crude prices was seen on account of inventory draws and an extended cold snap in the US triggered an end-of-year rally in energy futures.

On the fundamental side, as per IEA (December outlook), OECD industry stocks fell by 36mnbbl in October 2009 to 2,735mnbbl, but were still 2.5% higher than 2008 levels. Thus, end-October demand cover fell to 59.4 days, but was 2.5 days higher than a year ago. With this, IEA has virtually unchanged demand estimates for 2009 at 84.9mnbpd, but has revised demand estimates upwards by 130kbpd to 86.3mnbpd for 2010.

The Indian basket of crude averaged at US $75.4/bbl during 3QFY2010 as against the 2QFY2010 average of US $68.3/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 $65-75/bbl in the visible future.

Exhibit 1: WTI Crude, Indian Basket of Crude Oil

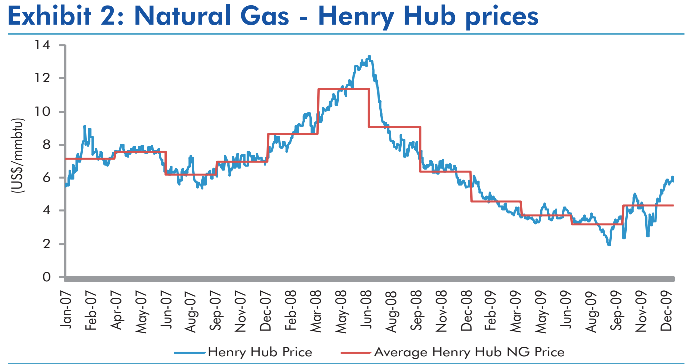


Source: Bloomberg, Angel Research

On the natural gas front, after witnessing weakness in the last two quarters, Henry Hub natural gas prices gained during the quarter. Prices rose to an average of US $4.3/mmbtu as against the 2QFY2010 average price of US $3.1/mmbtu, thereby registering an average gain of 36.3%. However, prices have been very volatile throughout the quarter. From the low of US $2.3/mmbtu hit during the beginning of October 2009, prices hit a high of US $5.7/mmbtu in December.

Spot LNG prices, which had fallen from highs of above US $22/mmbtu in mid-2008 to around US $4/mmbtu this summer (as decline in industrial demand in the large consumer nations like Japan and Korea left the market with oversupply) had seen an uptick in prices this winter season. Towards late November, deals which were happening around US $8/mmbtu (due to winter season) levels saw Ex-ship deliveries for December at lower prices around US $7-7.50/mmbtu. The 2010 price picture seems to replicating the 2009 scenario, but with different drivers. While 2009 saw a collapse in demand pushing prices lower, the ensuing year will see supply pressuring prices. Any uptick in demand in Asia Pacific is likely to be easily met by the increase in LNG supplies. Thus, we expect Spot LNG prices to be subdued going ahead.

Exhibit 2: Natural Gas - Henry Hub prices



Source: Bloomberg, Angel Research

Oil & Gas

Petchem, Refining Margins under pressure

Petrochemical Margins declined during the quarter following weakness in Cracker Margins, PE Margins (both integrated and non-integrated) and PP Margins. Margins, however witnessed an improvement towards the latter part of the quarter.

On the Refining front, Margins have been hitting lows and remained subdued on qoq basis. Margins have not yet shown firmness with strength in crude prices. During the quarter, US West Coast and Gulf Coast Refining Margins collapsed from US $4.89/bbl and US $4.16/bbl to US $1.38/bbl and US $1.65/bbl, respectively. Benchmark simple Singapore Margins ended deep in the red ranging from US $-0.02/mmbtu to US $-1.82/mmbtu. We expect the Singapore benchmark Margins to average at US $2.5/bbl during the quarter. On the Product front, spreads in gasoline and diesel continued to be weak during the quarter. The spreads on Naphtha and Fuel oil languished in negative territory during the quarter. The spread between light and heavy crude remained negative during the quarter exerting further pressure on Margins.

Key developments

RIL puts non-binding bid for Lyondellbasell, but no further development

In November, RIL submitted a non-binding bid to buy a controlling interest in Lyondell post its emergence from Chapter 11 bankruptcy. The offer was preliminary and subject to customary conditions including conduct of due diligence, documentation and receipt of sufficient creditor support. However, LyondellBasell has filed an amended reorganisation plan with a US court, proposing a US $2.8bn Rights issue to simplify its corporate structure and exit bankruptcy protection. RIL's proposal is said to be around US $12bn. Lyondell will be evaluating both plans concurrently and we await more clarity to emerge on all fronts - price, value, synergies, etc.

IOC-Adani quotes zero tariff for CNG rights for Ghaziabad

The IOC-Adani Energy combine has bagged rights to retail CNG to automobiles and piped gas to industries in Ghaziabad by quoting zero pipeline tariffs for 25 years, making a mockery of the entire exercise. Previously, they had also quoted zero pipeline tariffs for 25 years in Chandigarh and seven years in Allahabad. Gujarat's GSPC Gas came second among the six bidders. Others in the fray included HPCL, GAIL Gas, IGL and Siti Energy. However, PNGRB cannot issue a licence because of a Delhi High Court order restraining it from doing so. It is said that PNGRB had asked the companies to quote only the tariff that they will charge for transporting gas within the perimeters of a city and left the final selling price of the fuel for the companies to decide. The 'zero' tariff will be recouped by companies through the CNG charges levied on users - household or industries - as they deem fit. But, the regulations do not specify the extra capacity the operators would have to create in the system for usage by others (after 5 years of marketing exclusivity). Hence, third parties can be turned down on the pretext of no capacity. So, it is believed that if the retail prices are not regulated and regulations create monopolies, the consumer interest is bound to get compromised.

Uniform natural gas price possible in India?

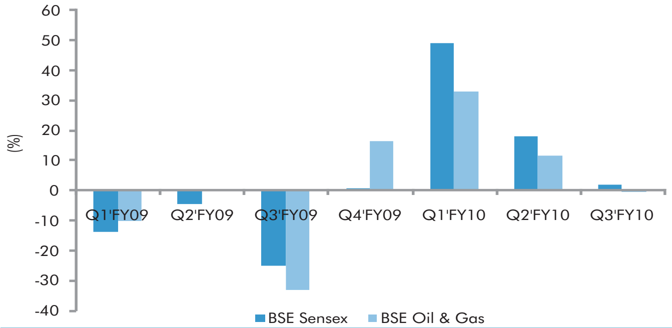
The government has appointed the Spanish speciality consultancy firm, Mercados Energy Markets International, to examine possibility of a uniform domestic price of natural gas (now sold at rates ranging from US $1 to 5.73 per mmbtu depending on source). It aims to bring about uniformity in the rates with a view to put all customers at par. Currently, the government fixes the price of gas produced from fields given on nomination to state-run ONGC and Oil India, while others pricing is determined in line with the production sharing contracts. Under consideration is pooling or averaging out all prices of domestic natural gas and imported LNG to have a uniform price through the country. The report is expected to be available by the first week of January 2010. However, implementing a Uniform Gas Pricing Policy will not be easy as customers who have tied-up cheaper gas are bound to protest. Bulk of the highly subsidised gas from ONGC goes to fertiliser and power plants. Since both are subsidised by the government, any move to increase the price (as a result of pooling) may lead to rise in government subsidies, and thus face opposition. Currently, ONGC sells 48.52mmscmd of gas at the APM price of US $1.8 per mmbtu. The move, if implemented, is likely to increase marketability of R-LNG in the country.

BSE Oil & Gas Index - Underperformance to Sensex continues

On the bourses, the Oil & Gas Index underperformed the benchmark Sensex by 2.0% during 3QFY2010. However, GAIL (gained 15.1%) and BPCL (10.3%) outperformed both the Oil & Gas Index and Sensex. GAIL gained on account of its aggressive pipeline capex plans and benefitting from the increase in flow of KG-D6 gas, whereas BPCL's gain was driven primarily by news about the oil discovery in Brazil. Cairn gained 7.5%, with crude on an average gaining 11.4% during the quarter. RIL was down 1.0% on weaker Refining Margins and RNRL lost whopping 21.1% on the long-drawn court battle. Thus, underperformance by RIL (has weightage of 60.1% in the Oil & Gas Index) capped gains in the Index.

Oil & Gas

Exhibit 3: Relative Performance to Sensex



Source: Bloomberg, Angel Research

Outlook

ONGC is likely to report good 3QFY2010 performance on account of relatively lower subsidy burden with upstream companies having to pay subsidy only on auto fuels. In spite of higher crude oil prices, the auto fuel subsidy burden is likely to be flattish during 3QFY2010 on account of appreciation of the Rupee and weak product cracks. We expect ONGC's gross crude realisation at US $75.2/bbl and subsidy of US $14.5/bbl, resulting in net realisation of US $60.7/bbl.

Cairn India will see first sales numbers from its much talked Rajasthan fields during the quarter. We anticipate average oil production at the Mangala field at 12,500bpd. However, production from its mature fields, viz. Ravva and Cambay is likely to decline yoy to 14,800bpd during the quarter.

RIL is likely to report flattish performance on a qoq basis primarily on account of increase in gas production during the quarter even though RIL's Refining Margins is likely to slide down to US $5.5/bbl. Similarly, on the Petrochemical front, RIL's performance is likely to be weak on account of subdued PP Margins.

In 3QFY2010, OMCs (IOC, HPCL and BPCL) reported negative Marketing Margins on transport fuels translating into subsidy burden of Rs4,000cr on auto fuels. On the Refining side, weakness in middle distillates crack is likely to drag down Refining Margins of the OMCs as the product slate of Indian PSU refineries is tilted higher towards middle distillates. On the Profitability front, the performance is likely to be weak on account of non-disbursement of oil bonds during the quarter.

GSPL is expected to witness improvement in 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 34.7mmscmd of gas during the quarter

Gujarat Gas's growth is no longer constrained by Volumes, as LNG prices have been subdued. We expect the company to report Volume of 3.12mmscmd , registering growth of 14.8% yoy and 2.1% qoq during the quarter. Gross Spread is expected to be marginally higher sequentially at Rs3.6/scm (Rs3.5/scm).

Expansion of the Dahej terminal at the beginning of the quarter is likely to result in Volume growth for Petronet LNG yoy. However, on account of termination of the contract with RGPPL, Volumes would see a decline on a qoq basis. We expect Volumes to stand at 98TBTUs for the quarter.

GAIL's performance on the Top-line front during the quarter is likely to be driven by increased transmission of KG gas volumes. On the Bottom-line front, the company is likely to report stellar performance on a low base.

IGL is likely to continue to post strong Volume growth driven by increased conversion of CNG vehicles witnessed during the trailing one year. CNG volumes during the quarter are estimated to have registered an increase of 17.2% yoy.

Overall, 3QFY2010 is likely to be good 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)	3QFY10E	% chg	3QFY10E	chg bp	3QFY10E	% chg	3QFY10E	% chg	FY10E	FY11E	FY12E	FY10E	FY11E	FY12E	(Rs)	
Cairn India	281	643	205.0	74.2	2,916	229	(3.1)	1.2	(3.1)	5.2	25.2	40.1	53.9	11.2	7.0	263	Reduce
GAIL	413	6,430	10.6	21.0	1,638	765	201.9	6.0	201.9	23.7	26.4	28.4	17.5	15.7	14.6	463	Accumulate
GSPL	97	285	142.4	94.3	776	125	355.0	2.2	355.0	7.8	7.7	8.4	12.3	12.6	11.5	121	Buy
Gujarat Gas *	234	398	20.2	19.2	496	47	47.1	3.7	47.1	13.6	16.8	20.4	17.3	14.0	11.5	266	Accumulate
IGL	199	279	27.3	37.8	662	57	47.9	4.0	47.9	16.5	15.7	13.7	12.1	12.7	14.6	175	Reduce
ONGC ^	1,178	15,138	20.7	60.6	1,986	5,021	102.9	23.5	102.9	99.5	105.0	112.0	11.8	11.2	10.5	-	Neutral
Petronet LNG	72	2,769	12.0	8.2	74	98	(6.4)	1.3	(6.4)	6.5	8.3	7.7	11.1	8.6	9.3	89	Buy
RIL ^	1,089	48,298	53.0	14.7	(234)	3,739	6.8	11.4	6.8	50.5	81.3	87.3	21.6	13.4	12.5	1,260	Buy

*Source: Company, Angel Research; Note: Price as on December 31, 2009; Note: * - Calender year, ^ - standalone numbers for quarter and consolidated numbers for full year, RIL's EPS does not include gain from Treasury stock sale; For Cairn, 3QFY2010 performance is compared to 4QCY2008 (ie. 4QFY2009).*

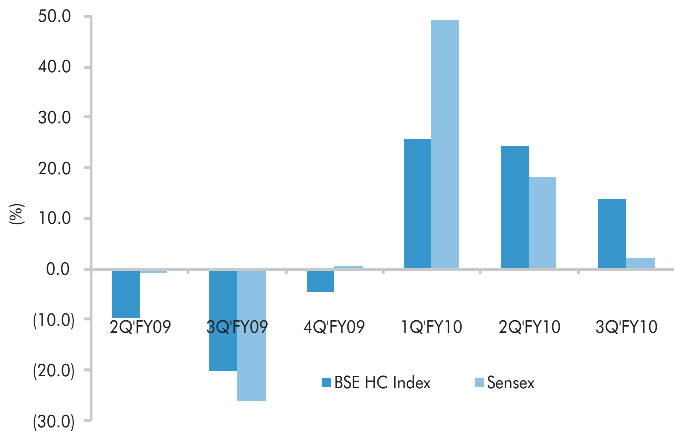
Analyst: Deepak Pareek / Amit Vora

Pharmaceutical

Pharma Sector excels broader market

During 3QFY2010, the BSE Healthcare Index (BSE HC Index) surged 13.9% outperforming the Sensex by 12.0%. This wide out-performance was led by the defensive nature of the Sector and positive news flow in some counters.

Exhibit 1: BSE HC Index v/s Sensex



Source: C-Line, Angel Research

In our coverage universe, among the Large-caps, Lupin was an out-performer gaining 31.1% during the quarter following its Antara brand acquisition in the US in 2QFY2010 and relatively cheap valuations compared to peers. Further, Ranbaxy gained 28.4% on the back of launch of generic version of *Valtrex* in the six-month exclusivity period, which re-installed confidence that the company would be able to protect its FTF status on *Lipitor*, *Flomax* and *Nexium* in spite of the ongoing US FDA issues. Cipla spiked 20.0% during 3QFY2010 with media reporting that the company could enter into long-term supply contracts with the Global Innovators.

Among the Mid-caps, Cadila Healthcare reported strong growth in the US geography and on the CRAMS front during 1HFY2010, which resulted in the stock spurting 25.3% on the bourses. The company is expected to extend its robust performance in the US in 3QFY2010 as well. During the quarter, Ipca Labs gained 31.0% on account of strong 2QFY2010 and reiteration of its robust guidance of 20% growth in Top-line and OPM of 20% for FY2010.

In the Small-caps space, Indoco Remedies was up 57.2% during the quarter.

Key Developments

A mixed quarter for Ranbaxy: On the positive front, Ranbaxy launched 500mg and 1gm tablets of the generic version of the blockbuster drug *Valtrex* (Valaciclovir), in the US. *Valtrex* is an Anti-viral drug of GlaxoSmithKline Pharma with annual sales of US $1.6bn in the US. Ranbaxy will enjoy six-month exclusivity on the product as it has FTF status for the generic version of the drug. We expect *Valtrex* to contribute US $200mn to the company's Top-line and US $80mn to its Bottom-line during the exclusivity period, translating into NPV of Rs9/share. The company has launched the drug from its Ohm facility in the US, which could however result in lower Operating Margins. Overall, the launch is a positive, as the company has been able to protect its FTF status (unlike *Imitrex*).

Towards end of the quarter, the US FDA issued a warning letter to one of Ranbaxy's three plants in Ohm Labs (a liquid manufacturing plant at Gloversville, NY) for non-compliance of cGMP. The company has hired a consulting firm to address the issue. As per the management, the plant accounted for less than 10% of its US Sales (2-3% of its Total Sales) and most of its FTFs have been filed from its other two plants at Ohm Labs, which did not have material deviations. Though the financial impact of this event is likely to be minimal, it seems that the company's ongoing issues with the US FDA are far from over and could affect sentiment.

Sun Pharma-Taro saga continues: Sun Pharma, which holds 36% in Taro Pharma (Taro), failed to oust the existing Board of Directors of Taro in the company's AGM in spite of most of the Minority shareholders voting against the re-election. The current management of Taro was saved due to the skewed voting structure where 41% of the voting rights vests with the promoter (Levitt) family, which currently holds a mere 12%. However, on the positive front, Minority shareholders representing almost 78% of minority votes and not affiliated with the Levitts or Sun, voted against the continued service of the Levitt slate of directors. A similar number voted against the Board's indemnification proposals. The Minority shareholders did manage to pass a resolution against the election of two external directors. Minority shareholders' vehement disapproval of the existing management implies strong support for Sun Pharma. However, takeover of Taro would depend on the outcome of the decision of the Israeli Supreme Court.

Orchid sells injectable business to Hospira: Orchid Chemicals sold its high-Margin (OPM of 30-35%) generic injectable finished dosage form Pharmaceutical business to the US-based drug maker, Hospira, for US $400mn. The deal has been valued at 4x Price/Sales, 11x Price/EBITDA of the company's injectable business and at 20% premium to the company's market cap. As per management, the injectable business contributed US $90-100mn to its Top-line (including partial potential of

Pharmaceutical

Tazo+Pip of US $30mn, but excluding Revenue potential from Penems) and US $30-35mn in OPM. Orchid has also signed a 10-year exclusive agreement with Hospira wherein it will supply API to the sold generic injectable pharmaceuticals business. On the positive front, Orchid has retained Revenues to the tune of US $60-70mn arising from the six-month exclusivity period on Tazo+Pip.

Orchid will utilise the sale proceeds to repay debt to the tune of Rs1,400cr and retain the balance Rs340cr (tax of Rs100cr) as cash to tap future growth opportunities. Orchid's debt levels have been on the higher side with Net Debt/ Equity of 4x (Debt of Rs2,615cr) and Interest coverage of 1.2x as on FY2009. The company expects the Revenue shortfall to be partially met by the long-term API contract entered with Hospira. The deal is expected to close by end 4QFY2010E subject to the required approvals.

3QFY2010 Expectations

The Indian Pharmaceutical Sector is expected to post strong growth on the Sales front. We expect our coverage universe to register 7.0% yoy growth in Top-line despite the Rupee appreciating by 4% yoy against the US Dollar on an average during the quarter. Ranbaxy and Orchid Chemicals are likely to benefit from the FTF launches of generic version *Valtrex* and Tazo+Pip, while Lupin will gain from the contribution from the recently acquired Antara brand in the US. Cadila Healthcare will post strong performance owing to its robust show in the US and the Contract Manufacturing Segment. Piramal Healthcare (PHL) will post positive numbers on a robust Domestic business. We expect most companies in our coverage to witness expansion in Operating Margins (OPM), while Net Profit will witness strong growth on account of low base - 3QFY2009 was impacted by forex losses on foreign denominated debts. We expect 3QFY2010 to be one of the good quarters for the Pharma companies on both the Top-line and Bottom-line fronts given the FTF launches and OPM expansions.

Indian Large-caps, Lupin and Ranbaxy, to out-perform

For 3QFY2010E, among the Large-caps in our coverage universe, we expect Lupin to record robust 25.8% growth in Top-line to Rs1,210.0cr on the back of strong growth likely to be registered in it's US geography as the company has started selling Antara, which it acquired towards end 2QFY2010 and the Domestic markets. On the Operating front, we expect OPMs to expand to 16.5%, while Net Profit will post 40.4% yoy growth to Rs164.6cr.

Though we estimate Ranbaxy to post de-growth on the Sales front of 5.3% to Rs1,803.4cr on a high base, *Valtrex* is expected to contribute US $50mn to Top-line and US $20mn to Operating Profit. We expect the company to report OPM of 10% during the quarter on account of exclusivity and lower realized losses on the foreign exchange front due to the Rupee appreciation. The company is likely to post Net Profit of Rs408.7cr for 4QCY2009 as against Loss of Rs679.8cr reported in 4QCY2008 driven by MTM losses on forward covers.

DRL is expected to post de-growth on the Sales front by 6.2% to Rs1,692.3cr as 3QFY2009 was buoyed by launch of generic version of *Imitrex*. Excluding the one-off, DRL's Recurring Sales is expected to grow by 16%. Further, DRL launched Omeprazole during the quarter with limited competition, and meaningful contribution from the product is expected over the next few quarters. However, we believe that the company will continue to face competition in Germany. On the OPM front, Margins are expected to contract by 201bp to 14.9%, while Net Profit is estimated to grow in lower single digits to Rs167.1cr driven by lower Interest and Depreciation costs.

Cipla is expected to post subdued Sales growth of 2.3% to Rs1,292.9cr. The company's Exports are likely to remain flat to Rs700.7cr, while the Domestic business would register 7.0% growth to Rs618.5cr during the quarter under review. However, OPM is expected to expand by 187bp to 22.5% on the back of lower Raw Material cost and Other expenses. As a result, Net Profit is likely to increase by 12.3% to Rs251.4cr. As per media reports, Cipla is in talks with the Global Innovators for long-term supply contract.

Sun Pharma is expected to post strong growth on the Top-line front and register Sales of Rs1,024.0cr for 3QFY2010. We expect the company's OPM to contract by 16.7% to 28.3%, while Bottom-line is expected to de-grow by 29.9% to Rs286.5cr.

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

Cadila is expected to post a strong 17.2% growth in Top-line on robust Exports. The company's Exports are expected to surge 22.5% to Rs427.3cr during the quarter driven by its US market and the Contract Manufacturing Segment. We expect the company's OPM to expand to 18.5%. Net Profit is expected to increase by a strong 91.7% to Rs116.0cr driven by Top-line growth and lower financial costs.

In case of PHL, we estimate the company to clock 17.9% yoy growth in Top-line to Rs976.8cr on continuous strong traction in its Domestic Formulation business and increasing contribution

Pharmaceutical

from the Inhalation Anaesthetic Segment post completion of the Minrad acquisition in March 2009. However, we expect PHL's CRAMS Segment to clock subdued growth for the quarter. We expect Margins to expand 21.0% on the back of the restructuring exercise undertaken in the CRAMS Segment. We expect Net Profit to register significant 119.4% growth to Rs131.3cr albeit on a low base.

We estimate Ipca Laboratories to grow its Top-line by 21.0% to Rs376.1cr during 3QFY2010E. Exports are expected to increase 20.0% due to the higher penetration in the US and Semi-Regulated markets. We expect the company's Domestic Formulation business to grow at a notch higher than overall Industry growth. OPMs are expected to decline marginally on account of lower Gross Margins. However, Net Profit is expected to increase by 115.9% to Rs50.1cr on a low base.

Outlook and Valuation

During the quarter, the BSE HC Index rallied 13.9%. 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 and Cadila Healthcare.** We continue to favour CRAMS, though the Segment is witnessing near-term hiccups on account of inventory rationalization and multiple mega global pharma mergers in CY2009. However, going forward, the space is set to record secular growth over the longer term, which provides the players with immense opportunity as the Innovators are faced with tough challenges, while the Indian players are offering cost reduction benefits. **In this Segment, we recommend PHL, which provides investors' exposure to the strategic CRAMS and robust Domestic Formulations Segments. Among the Small-caps, we recommend Ipca Laboratories on the back of strong growth expected on the Exports front and steady Domestic business.**

Exhibit 2: Quarterly Estimates

Rs cr

Company	CMP	Net Sales		OPM (%)		Net Profit		EPS (Rs)		EPS (Rs)			P/E (x)			Target	Recos
	(Rs)	3QFY10E	% chg	3QFY10E	chg bp	3QFY10E	% chg	3QFY10E	% chg	FY10E	FY11E	FY12E	FY10E	FY11E	FY12E	(Rs)	
Alembic	47	269	(4.4)	11.1	71	9.4	350.5	0.7	350.5	3.7	5.4	6.4	12.6	8.7	7.3	52	Accumulate
Aventis#	1,695	268	(0.5)	19.2	197	39.5	(12.8)	17.2	(12.8)	74.3	87.5	94.3	22.8	19.4	18.0	-	Neutral
Cadila HC.	649	863	17.2	18.5	90	116.0	91.7	8.5	91.7	34.8	41.1	51.9	18.7	15.8	12.5	778	Buy
Cipla	336	1,293	2.3	22.5	187	251.4	12.3	3.2	12.3	13.1	14.6	17.1	25.7	23.1	19.6	-	Neutral
Dr. Reddys	1,144	1,692	(6.2)	14.9	(201)	167.1	5.0	9.9	5.0	48.7	54.4	74.2	23.5	21.0	15.4	1,313	Buy
Glaxo #	1,610	423	14.7	36.4	800	145.0	(30.4)	17.1	(30.4)	65.0	69.1	79.5	24.8	23.3	20.2	-	Neutral
Indoco Remedies	371	89	13.8	13.6	676	9.1	1,340.1	7.4	1,340.1	41.8	46.4	54.1	8.9	8.0	6.9	433	Buy
Ipca Lab.	1,047	376	21.0	21.5	(63)	50.1	115.9	20.1	115.9	79.8	95.0	113.3	13.1	11.0	9.2	1,360	Buy
Lupin	1,490	1,210	25.8	16.5	49	164.6	40.4	19.1	33.5	76.5	86.0	103.5	19.5	17.3	14.4	1,863	Buy
Orchid Chem*	184	432	46.4	30.5	231	34.1	-	4.8	-	8.9	11.6	14.2	20.6	15.8	13.0	142	Sell
Piramal HC	372	977	17.9	21.0	222	131.3	119.4	6.3	119.4	22.5	26.5	30.5	16.6	14.0	12.2	457	Buy
Ranbaxy Lab#	517	1,803	(5.3)	10.0	2,059	408.7	-	11.0	-	12.3	16.7	30.9	42.1	31.0	16.7	442	Reduce
Sun Pharma.	1,507	1,024	11.5	28.3	(1,676)	286.5	(29.9)	13.8	(29.9)	59.0	73.2	82.0	25.5	20.6	18.4	-	Neutral

Source: Company, Angel Research, Price as on December 31 , 2009; Note: Our numbers include MTM on Foreign Debt. # 4QCY2009 , The quaterly numbers are Standalone Financials*

Analyst: Sarabjit Kour Nangra / Sushant Dalmia

Power

Power sector growth has always been positively correlated with the country's GDP growth. Hence, the continuous upswing in industrial activity over the past few months is expected to augur well for the sector. The sector, which remained largely unaffected during the downturn due to its business model based on regulated returns, thereby capping its downside, is well poised to ride the economic growth on account of the huge growth expected in the demand for power. Apart from the demand arising from the industrial front, consumer demand is also expected to pick up, with the Ministry of Power (MoP)'s ambitious target of achieving a per capita consumption of 1,000 units by 2012. Additionally, the sector is also set to witness major changes, due to large scale capacity addition by private sector players.

Power IPOs

This quarter witnessed two big-ticket Initial Public Offers (IPOs) from the power sector: from Indiabulls Power and from JSW Energy. These two IPOs raised in excess of Rs4,500cr from the primary market.

CERC notification on green power tariff

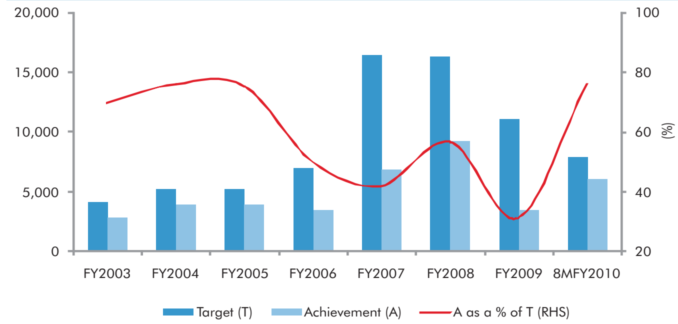
During the quarter, CERC notified the tariff regulations for green power. The new tariff policy was framed to promote investments into renewable energy, so that the goals stipulated in the National Action Plan on Climate Change (NAPCC) are met. The NAPCC stipulates that the minimum renewable power purchase be set at 5% of the total purchases in CY2010, and should increase by 1% each year thereafter for 10 years. The regulation has provided the normative capital costs for each type of renewable technology. The tariff period for all projects (excluding solar power and small hydro projects below 5MW) has been set at 13 years. Solar power and small hydro projects will have tariff periods of 25 and 35 years, respectively.

The tariff policy has been framed with a view to give a preferential tariff to projects based on a renewable tariff, in times of debt repayment. The preference has been given in respect of the Return on Equity (RoE), a shorter loan repayment period and a higher normative interest on loan. The levellised tariff model has been adopted in order to avoid front loading of tariff, while ensuring an adequate IRR at the same time.

Capacity addition: Status Check

A total of 18,734MW of capacity has been added since the beginning of the Eleventh Plan till date. The capacity addition during 8MFY2010 is at 6,017MW, as against the planned 7,932MW. The total installed Power Generation capacity in India stood at 155,859MW as of November 30, 2009.

Exhibit 1: Generation Capacity Addition



Source: CEA, Angel Research

The capacity addition of Transmission lines (500KV HVDC lines) also lagged during 8MFY2010, with the actual capacity added at 228 circuit km (ckm), as against the targeted 250ckm. The total addition to other categories of Transmission lines was 6,637ckm, as against the targeted 9,499ckm. During 8MFY2010, 8,595MW of sub-station capacity of 220kv was added, as against the targeted 7,815MW. The Total addition to 400kv sub-station capacity stood at 2,835MW, as against a target of 5,985MW.

Operational Highlights

India's total power generation rose 6.1% during 8MFY2010 to 503.3BU (474.4BU), primarily owing to a 8.9% yoy increase in Thermal power generation to 412.7BU (378.8.7BU). However, the Hydro power generation declined by 7.7% to 78.7BU (85.3BU), due to lesser water inflows on account of the poor rainfall during 2QFY2010. The PLF for 8MFY2010 stood at 75.8%, in comparison to the targeted 76.4%.

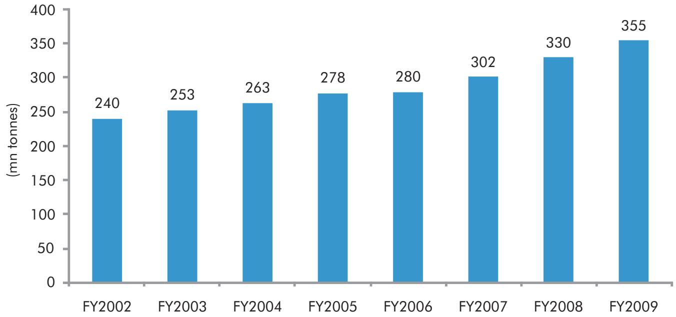
Exhibit 2: Energy Generation (Bn Units)

	Nov-09	Nov-08	*chg (%)*	8MFY10	8MFY09	*chg (%)*
Thermal	50.9	48.9	*4.1*	412.7	378.8	*8.9*
Hydro	6.8	7.8	*(12.8)*	78.7	85.3	*(7.7)*
Nuclear	1.4	1.3	*7.7*	11.9	10.3	*15.5*
Total	**59.1**	**58.0**	***1.9***	**503.3**	**474.4**	***6.1***

Source: CEA, Angel Research

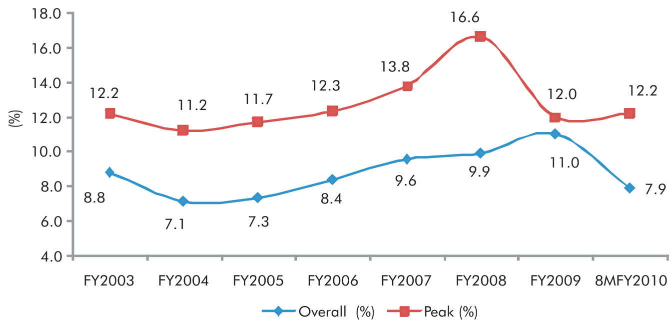
Power

Exhibit 3: All-India coal consumption for power generation



Source: CEA, Angel Research

Exhibit 4: Power Deficit Scenario



Source: CEA, Angel Research

Key Developments

NTPC

During the quarter, NTPC signed a Memorandum of Understanding with the Government of Madhya Pradesh and the Madhya Pradesh Power Trading Company for setting up a 4x660MW coal-based thermal power project in Narsingpur District, Madhya Pradesh by NTPC (as a regional project of NTPC), subject to the establishment of its techno-commercial viability.

NTPC formed a Joint Venture Company under the name "Energy Efficiency Services Ltd" in association with Power Finance Corporation (PFC), Powergrid Corporation of India (PGCIL) and Rural Electrification Corporation (REC) to carry on and promote the business of Energy Efficiency and climate change, including the manufacture and supply of energy efficiency services and products. NTPC, PFC, PGCIL and REC shall equally hold shares in the equity share capital of the Company.

CESC

During the quarter, CESC received a new order from the West Bengal Electricity Regulatory Commission, whereby the commission increased the tariff charged by the company by 48 paise per unit, to recover the rise in fuel prices and the consequent rise in the power purchase cost. The increased tariff has been implemented from the billing month of November 2009.

In December 2009, CESC was awarded a hydro power project by the Himachal Pradesh government. The 140MW project is located at Lara-Sumta in Himachal Pradesh. The company won the order under the competitive-bidding process.

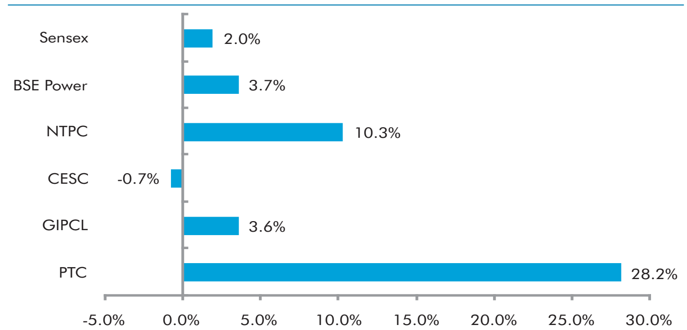
GIPCL

During the quarter, the company commenced operations at the first unit of the 2*125MW Surat power plant.

Performance of Power stocks during 3QFY2010

Out of all the power stocks under our coverage, PTC was the top performer during the quarter, with a gain of 28.2%.. NTPC gained 10.3%, as against the 2% gains made by the Sensex during the quarter. The BSE Power index recorded quarterly gains of 3.7%.

Exhibit 5: Performance on the Bourses



Source: BSE, Angel Research

Expected Financial Performance in 3QFY2010

We expect NTPC's Sales to grow by 4.7% yoy to Rs11,800cr. The Company's generation during the quarter is expected to be up by 4% qoq on account of incremental capacity and higher PLF of gas based plants. Its EBITDA is likely to grow by 11.3%yoy to Rs3,571cr, due to a substantial yoy decline in the staff cost during the quarter, which shot up in 3QFY2009 on account of pay commission arrears, which was an one-off expense. We estimate NTPC to post a 9.5% growth in Net Profit to Rs2,465cr.

Power

We expect GIPCL to register a 27.3% yoy decline in Revenues in 3QFY2010, primarily due to a substantial decline in the fuel price, which is a pass-on. We expect the company to sell 894 Million Units (MU) of power during the quarter, a decline of 3.9% on account of the shutdown of the plant due to maintenance. The realisation per unit is expected to be at Rs2.6 per unit, down by 19% yoy. The company's OPMs are expected to expand by a whopping 1,121bp to 22.1%. We expect GIPCL to post a 115.6% growth in its Bottom-line to Rs16.9cr.

We expect CESC to register a 30.5% yoy growth in its standalone Top-line to Rs995cr. The increase in the Top-line is expected to be on account of the higher tariff of Rs4.57/unit charged by the company in 3QFY2010 (Rs3.91/unit in 3QFY2009). The company commenced operations at its new 250MW plant at Budge Budge during the quarter. The company's OPMs are expected to expand by 26bp to 21.5%. We also expect CESC to witness a 115.6% yoy growth in its Bottom-line to Rs112.9cr.

We expect PTC to record a 25.1% yoy growth in its standalone Top-line to Rs2,648cr. We expect the company to trade 6,790MU of power during the quarter, resulting in a 79% increase yoy. The increase in volumes is on account of the commissioning of the 450MW Baglihar Hydro power Plant. We have assumed an average realisation of Rs3.9/unit. We expect PTC to post a 27.3% growth in Net Profit to Rs30.2cr.

Industry Outlook

The all-India requirement for power was 63,944MU, as against an availability of 58,908MU, which resulted in a shortage of 5,036MU, or a 7.9% deficit, in November 2009. To meet this requirement, India needs to add massive capacities in the near-term. The government's initiatives, such as the extension of the terminal date for tax benefits u/s 80 IB (4)(iv) of the IT Act for a further period of one year (up to March 31, 2011) for undertakings set up for power-generation units, transmission and distribution lines, and the renovation and modernisation of existing T&D lines, will help speed up capacity addition. We also expect further improvements in the PLF of gas / liquid-based power stations, considering the likely increase in the natural gas from the Krishna Godavari D6 basin to power plants. Moreover, with global coal prices having come down significantly, from a peak of US $180 per tonne in July 2008 to US $76 per tonne in December 2009, we expect thermal power generation to grow at a faster pace.

The modified mega power policy aims to encourage the setting up of mega power plants, to take advantage of economies of scale, to improve their viability and to simplify the procedure for the grant of a mega certificate. The easing of conditions for the extension of a mega power project status, such as mandatory interstate power sale and the de-linking of distribution reforms, are to augur greater private participation in the power sector.

With progressive reforms happening in the power sector and an assured revenue stream on the back of PPAs, industry players with strong execution abilities are set to see strong growth in the long-term. Hence, the outlook remains positive for the industry.

Exhibit 6: Quarterly Estimates

Rs cr

Company	CMP	Net Sales		OPM (%)		Net Profit		EPS (Rs)		EPS (Rs)			P/E (x)			Target	Recos
	(Rs)	3QFY10E	% chg	3QFY10E	chg bp	3QFY10E	% chg	3QFY10E	% chg	FY10E	FY11E	FY12E	FY10E	FY11E	FY12E	(Rs)	
CESC	387	995	*30.5*	21.5	*26*	112.9	*15.2*	9.0	***15.2***	30.2	37.3	50.9	12.8	10.4	7.6	460	Buy
GIPCL	118	232	*(27.3)*	22.1	*1,121*	16.9	*115.6*	1.1	***115.6***	5.3	6.7	9.0	22.1	17.7	13.1	135	Accumulate
NTPC*	236	11,800	*4.7*	30.3	*182*	2465	*9.5*	3.0	***9.5***	9.5	9.8	13.4	24.8	24.1	17.6	-	Neutral
PTC	113	2,648	*25.1*	0.7	*54*	30.2	*27.3*	1.0	***27.3***	3.6	4.0	5.0	31.2	28.3	22.8	125	Accumulate

*Source: Company, Angel Research; Note: Price as on December 31 , 2009; *: Consolidated numbers*

Analyst - Rupesh Sankhe / V. Srinivasan

Retail

Retail consumption trends remained upbeat in both rural and urban households in 3QFY2010. The festive season kicked off with Diwali, which this year was celebrated about a fortnight or so earlier than usual, bringing cheer back to the faces of harried retailers. Compared to the boom year of 2007, which had seen a large number of serious and non-serious players entering the sector, the second half of the year 2008 turned out to be quite tough. Due to the global financial meltdown, which also resulted in a loss of jobs and evaporation of retail credit in India, many retailers were forced to shut down a few or all of the shops, in the face of falling footfalls and declining purchases. The retailers were, therefore, cautious this festive season in projecting growth and expected around a 15-20% growth. However, they were pleasantly surprised to see growth happening above their expectations in certain areas. Consumers were upbeat in their spending, not only in apparel and fashion items, but consumer durables and home improvement products as well. These categories were incidentally the most affected last year, as there was a decline of business in the home retail category. With the economic revival gathering steam, we expect the retailers to foresee better times in the future.

We believe that the Organised Retail Sector is currently at an inflexion point, and is ready to take the next leap of growth at a steady and stable pace. We maintain that the segment has a tremendous growth potential, and accordingly we expect it to capture a 10% share of the overall Retail Sector, over the next 4-5 years.

Value Retailing to strengthen further, Lifestyle Retailing to maintain its growth trajectory

On the Value Retailing front, growth is expected to be robust in 3QFY2010, 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 3QFY2010. We expect the Value Retailing Segment to continue to lead the revival being witnessed in the Indian Retail Sector. Hence, the major players in the Value Retailing Segment, including 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 has resulted in consumers opening up their wallets for purchasing lifestyle goods. We expect Lifestyle retailing to witness a higher single digit growth in 3QFY2010, thereby maintaining its sequential growth trend.

Cost-rationalisation measures to continue inspite of Rising Sales

Several players in the industry took strategic measures over the past few months for better cost management, including the re-negotiation of rentals, store rationalisation and manpower resizing, to combat the slowdown and to stay afloat. The economic downturn has helped put retailers in a position to negotiate better rentals and in financial structuring, and to ask for and get a minimum guarantee or revenue-sharing, rather than pure rental arrangements with mall owners. With consumer sentiment reviving, there has been a substantial improvement in footfalls, thereby enabling the retailers to witness higher sales. Despite rising sales, retailers have continued working on cost-rationalisation measures. For instance, Future Group (Pantaloon Retail) has decided to focus on growing smaller formats through consolidated large formats. This helps the company in increasing the average billing size per store. Future Group is also moving towards larger warehouses at the back-end. It has shut 20 smaller warehouses to consolidate into bigger ones, spread over 200,000 sq ft. It is also partnering with vendors in the garments and general merchandise segments, to reduce inventory holding and distribution points. The company is also in talks with transport operators to configure trucks and revisit logistics to keep costs in check. Another retail player, Spencer Retail, aims to squeeze out Rs140cr from savings in FY2010E. Spencer's Retail is also realigning its logistics and supply chain strategies to bring down expenditure. We believe that the continuation of the cost-rationalisation strategies, coupled with an increase in footfalls, would enable retailers to foresee better margins in the coming quarters.

Pantaloon Retail - Restructuring on the cards

Pantaloon Retail (PRIL) is restructuring its entire business into retail and non-retail ventures. It is dividing its businesses into three parts, namely, retail, financial services and other support businesses. The motive behind such a move is to unlock shareholder value in non-retail businesses and to consolidate Pantaloon Retail as a pure retail play. Consequently, the company is planning to undergo the following restructuring process:

1. It is planning to unlock value and consolidate its investments in the financial services business of the company, which includes holdings in Future Capital Holdings and in the insurance joint venture companies. Pantaloon Future Ventures is also expected to be classified under financial services by the company. PRIL plans to create a holding company for the financial services business and would hold a 26% stake in the

Retail

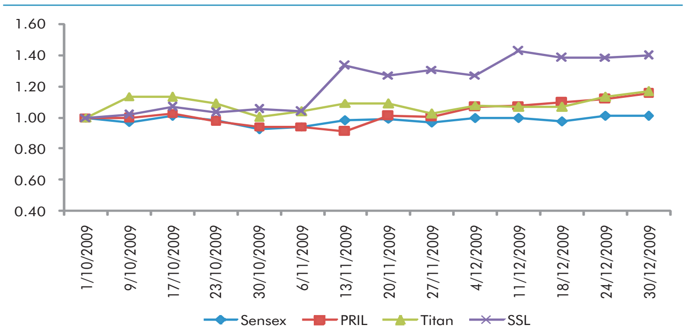
holding company. The remaining 74% stake is expected to be distributed in the proportion of the current shareholding pattern.

2. It plans to transfer its investments in Future Brands and its assets held by non-retail businesses held through wholly-owned subsidiaries, namely, Future Knowledge Services and Future Learning and Development to PFH Entertainment. The company has a few other subsidiaries like Future Mall Management and CIG Infrastructure with the potential for further value unlocking. It also plans to hive-off its value retail business, which includes Big Bazaar, Food Bazaar and other related formats, into a wholly-owned subsidiary. The restructuring is likely to complete in 4QFY2010.

Retail stocks outperform the Sensex in 3QFY2010

All the Retail Sector stocks outperformed the Sensex in 3QFY2010 with Shoppers Stop (SSL) emerging as a clear winner. SSL, Titan and PRIL outperformed the benchmark BSE Sensex by 38.8%, 15.5% and 14.2%, respectively.

Exhibit 1: Retail Stocks vis-à-vis Sensex

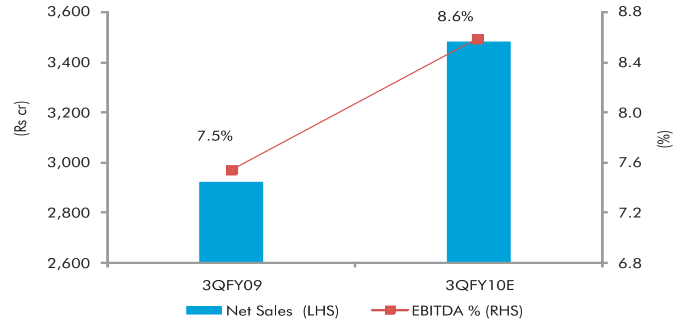


Source: Bloomberg, Angel Research

3QFY2010 Preview

Factors like the upbeat festive season during the quarter, leading to increased footfalls and, consequently, sales per sq ft, coupled with ongoing cost-rationalisation measures, are likely to benefit retail players in 3QFY2010. We expect value retailing to strengthen further, while Lifestyle Retailing is likely to maintain its growth trajectory. We expect the Retail stocks under our coverage to report a Top-line growth of 19.1% yoy. We estimate PRIL to lead our universe, with a 24.4% yoy growth in its Top-line.

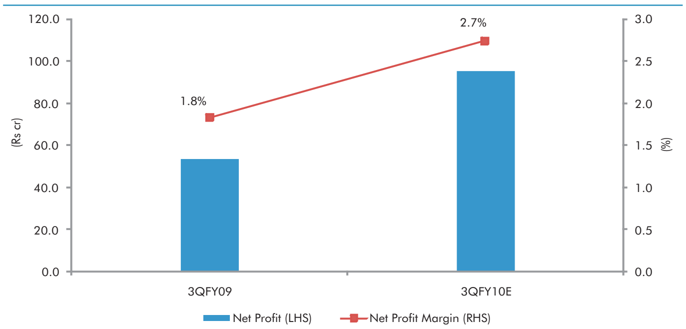
Exhibit 2: Retail Universe Sales and EBITDA estimates



Source: Bloomberg, Angel Research

On the Operating Margin front, we expect PRIL, Titan, and SSL to show a yoy improvement of 69bp, 130bp and 80bp, respectively. We expect the improvement in the top-line and margins to percolate to the bottom-line, thereby improving their Net Profit Margins by 90bp yoy.

Exhibit 3: Retail Universe Net Profit estimates



Source: Bloomberg, Angel Research

Outlook and Valuation

With the economic recovery gathering steam, coupled with the revived consumer sentiment, amidst the festive season during the quarter under review, footfalls have shown an upward trend, resulting in an increment in the SSS and the Sales Per Square Feet (SPSF) of the Retailers. We expect the 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 to go for value-for-money-goods. However, we expect the Lifestyle Retailing segment growth to pick-up on the back of stable economic conditions. 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

Retail

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. Apart from cost-rationalisation measures, the company's restructuring initiative would enable it to enhance focus on different segments and also provide a good opportunity of value unlocking. At Rs381, the stock is trading at 18.7x its FY2012E Earnings and at 2.1x FY2012E P/BV. Our sum-of-the-parts Target for PRIL is Rs469, wherein we have valued its stake in FCH, HSRIL and Future Bazaar at Rs31, Rs12 and Rs18, respectively. **PRIL continues to be our Top Pick in the Retail Sector, and we recommend a Buy on the stock.**

Titan has a stable and niche business model. In the jewellery segment, Titan witnessed a dip in volumes earlier, as demand went down due to higher gold prices. However, the falling rate of decline in volumes indicates that consumers may be adjusting to the high prices and do not expect gold prices to correct significantly. The company's watch segment is performing well, and the other segments are expected to perform well, as there has been a revival in the demand for lifestyle category goods. At Rs1,422, the stock is trading at 21.3x its FY2012E Earnings and at 5.6x FY2012E P/BV. **We remain Neutral on the stock, due to its rich valuations.**

We expect Shoppers Stop's performance to improve in coming quarters on back of pick-up in consumer demand for lifestyle retailing. At Rs385, the stock is trading at 22.4x its FY2012E Earnings and at 4.6x 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)	3QFY10E	*% chg*	3QFY10E	*chg bp*	3QFY10E	*% chg*	3QFY10E	*% chg*	FY10E	FY11E	FY12E	FY10E	FY11E	FY12E	(Rs)	
Pantaloon*	381	1,899	*24.4*	11.0	*69*	53.0	*57.9*	2.6	*34.2*	11.6	15.6	20.4	32.9	24.4	18.7	*469*	**Buy**
Titan	1,422	1,182	*15.4*	5.4	*134*	32.9	*69.0*	7.4	*69.0*	42.4	51.0	66.7	33.5	27.9	21.3	-	**Neutral**
Shoppers Stop	385	399	*7.4*	6.5	*81*	9.6	-	2.8	-	7.7	11.9	17.2	50.1	32.4	22.4	-	**Neutral**

*Source: Company, Angel Research; Note: Price as on December 31 , 2009, Note: * Year Ending in June; Estimates are 2QFY2010 for PRIL, 18 months Target Price*

Analyst - Viraj Nadkarni

Software

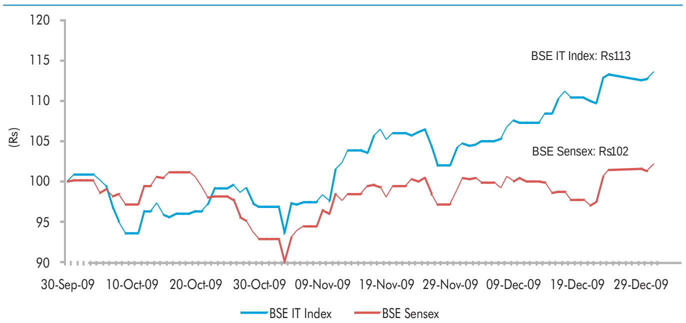
BSE IT Index - Momentum begins as global economy data indicates signs of recovery

During 3QFY2010, the Indian equity markets remained volatile and range-bound with the benchmark BSE Sensex registering subdued returns of a mere 2%. However, the Advance Tax payments increased 24% yoy for 3QFY2010 yoy as last year operations were impacted by the global slump. This indicates that the Indian economy's growth trajectory has begun to stabilise and that the Union government is on target to meet Revenue projections.

The BSE IT Index recorded gains of 13.5% during 3QFY2010 following the outstanding gains of 39% in 2QFY2010. We believe that this performance by the BSE IT Index overall was in anticipation of the various business initiatives taken by the IT companies to deliver operational excellence and restore strong growth trajectory going ahead following improvement in the demand environment.

During the quarter, the IT Industry witnessed strong deal flow post the biggest British Petroleum's (BP) deal worth US $2bn sub-contracted to TCS, Infosys and Wipro in 2QFY2010. We believe the current favourable global economic scenario would offer more such opportunities for the Indian IT vendors in the coming quarters. Though the clients' IT budget spend for CY2010 is expected to be flattish as known from certain IT industry sources, the same are eagerly awaited as they would give a definite sense on the global IT spending going forward.

Exhibit 1: BSE Sensex v/s BSE IT Index



Source: Bloomberg, Angel Research

Key M&As and Deals signed during the quarter

IT leader, Infosys, acquired McCamish Systems a BPO solution provider based in the US during the quarter by making an upfront payment of US $38mn and an additional US $20mn payable on McCamish achieving certain financial targets in the future. This acquisition adds to Infosys's platform capability in the Life Insurance space. Currently, the BPO contributes around 6% to Infosys' Revenues and McCamish is expected to contribute 30% to Infosys's BPO Revenues over the next three years. Going ahead, Infosys expects to enter into large deals in the BPO space ranging in size of US $100-200mn (along with McCamish offerings).

TCS signed a deal with City Council of Cardiff, Britain to work as a strategic IT partner for a period of15 years. IBM and BT Global were other contenders for this deal. The contract value is close to £150mn (around Rs1,160cr). The Council requires TCS to bring their global technical expertise and private sector commercial know-how to support a major change in the way the Council's technology infrastructure supports its day-to- day operations for facilitating improved service delivery to the citizens and communities of Cardiff. For TCS, this deal strengthens its position in the UK and marks its entry into the lucrative government sector there.

Wipro won the 10-year Delhi International Airport's (DIAL) IT outsourcing deal from amongst five other bidders including Infosys, TCS, IBM and HP. Though management has not revealed the exact deal size, the same is expected to be valued upwards of US $100mn and will reflect in its Balance Sheet post FY2010. The deal will be a joint venture between Wipro and DIAL where Wipro will hold 74% stake and DIAL 26%.

New EU Tax Regime - Marginal impact on Indian IT Industry

Another highlight of the quarter was the new Value Added Tax (VAT) regime, which is expected to be enforced in the European Countries (EU) from January 2010. As per the new regime instead of charging VAT at the point of origination of services it will now be charged at the point of delivery of services to bring in procedural efficiency in the EU. Thus, no additional tax is expected to be paid by the Indian IT vendors, but only the point of levying of the tax is expected to be changed with the onus on the consumers or end clients of these services. Thus, we believe that impact of the expected changes in the tax regime will be marginal on the Indian IT Industry.

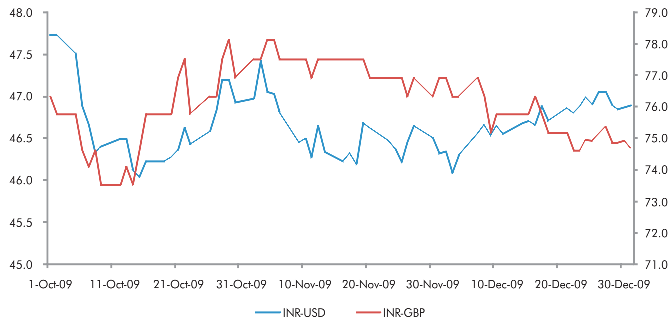
Currency movements - Dollar weakens; favourable cross-currency mix mitigates the effect

During the quarter, the Indian Rupee witnessed sequential appreciation of 3.6% against the US Dollar and 4% against GBP, while against the Euro the Rupee appreciated 0.7%. The Euro and Australian Dollar continued to appreciate and increased by 2.9% and 8.1% respectively against the US Dollar for the second consequent quarter, thereby resulting in favourable cross-currency movements. However, the GBP depreciated by 0.5% against the US Dollar. Thus, though the

Software

Rupee appreciation v/s the US Dollar will have a negative impact of 3.6% on the Revenues of Indian IT companies, the favourable cross-currency movements will mitigate the same to some extent.

Exhibit 2: Rupee v/s Dollar and GBP



Source: Bloomberg, Angel Research

3QFY2010E - Strong momentum.... but with cautious optimism

We expect 3QFY2010 to be a modest quarter for software services companies compared to 2QFY2010 with volume backed growth. The earlier postponed salary hikes, strong manpower intake plans post recovery from recession (when the companies had resorted to layoffs), increase in SG&A expenses and flattish pricing are expected to impact the Bottom-lines during the quarter.

Volume backed Sales growth aided by favourable cross currency movements

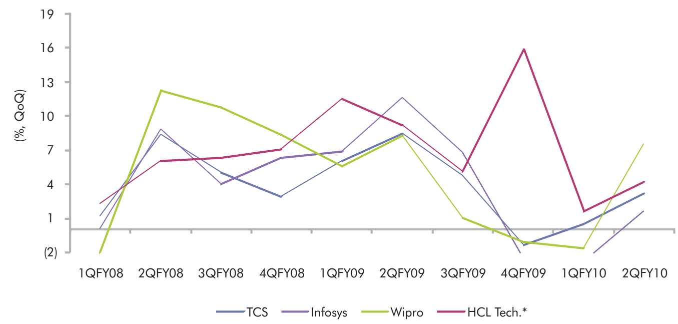
For 3QFY2010, we expect the top-tier companies (excluding Satyam and including HCL Technologies) to report 3-6% sequential increase in Volumes, along with stable billing rates. On an average, we expect the Top-line to grow by 1.9% qoq (a growth of 5.5% yoy) for TCS, Infosys, Wipro and HCL Technologies combined, this quarter. If we consider only IT Services for all the companies, the Top-line over the quarter is estimated to grow by 2.2% qoq in Rupee terms (a growth of 4.3% yoy). The US Dollar traded weak against all currencies. However, favourable cross-currency movements will have a positive impact of 4-5% on sequential Dollar Revenues.

Exhibit 3: Dollar v/s Rupee growth of top-tier IT companies*

Particulars	2QFY09	1QFY10	2QFY10E	% chg qoq	% chg yoy
Dollar revenues (mn)**	4,154	3,963	4,085	3.1	(1.7)
Rupee revenues (cr)**	18,341	19,066	19,765	3.7	7.8
Realised Rupee rate	44.16	48.11	48.38	0.6	9.6

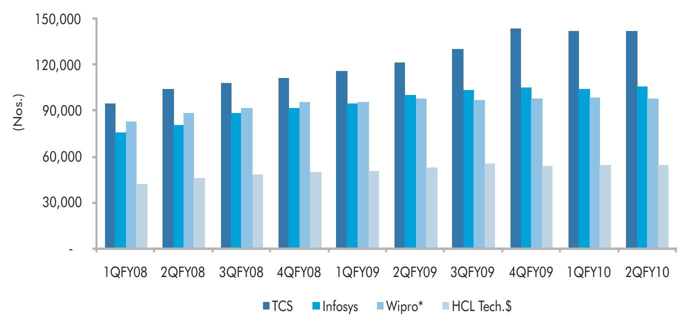
*Source: Company, Angel Research; * Companies include Infosys, TCS, Wipro and HCL Technologies; ** For Wipro, only combined IT Services and Products Revenues are included.*

Exhibit 4: Sales growth - Quarterly trends



Source: Companies, Angel Research; Note: HCL Tech has June-ending fiscal year

Exhibit 5: Employee base



*Source: Companies, Angel Research; * For Wipro, from 1QFY2008, the employee base in the Middle East & AsiaPac Business (Wipro Infotech) is also taken, apart from the employee bases in the IT and BPO businesses; $ HCL Tech has a June-ending fiscal year*

Short-term Margin pressure for improved long-term performance

During 2QFY2010, most IT companies witnessed strong EBIDTA Margin expansions as they chose to held back their annual salary revisions and manpower intake plans in order to cut costs and remain efficient at the EBIDTA level than to make business investments for achieving overall operational excellence as during the recession the IT industry and global economy on the whole was faced by lots of uncertainties. However, the global economy showed strong signs of recovery during 3QFY2010 resulting in improved demand for IT products and services in the global business environment. This has given hope to most of the software companies to continue with their respective business plans that would strengthen their operations in the long run in terms of investments in technology across services and verticals, increase in manpower intake and higher spend on Selling and General Administration (SG&A) expenses to remain competitive.

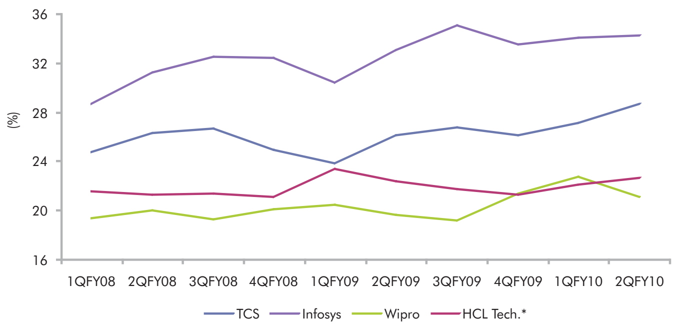
Thus, we believe that our Top-four software companies would see some pressure on their EBIDTA Margins during 3QFY10 and 4QFY10 on account of salary hikes, increase in manpower intake and SG&A expenses. We expect Infosys to record a 245bp

Software

qoq decline in Margins, TCS a marginal 62bp qoq decline, Wipro a 38bp qoq fall and HCL Tech a 58bp qoq dip in EBIDTA Margins in 3QFY2010.

However going forward, we expect Margins to stabilise with the companies expected to witness strong operational performances backed by a positive demand environment, non-linear initiatives and improved pricing to some extent.

Exhibit 6: EBITDA Margins - Quarterly trends

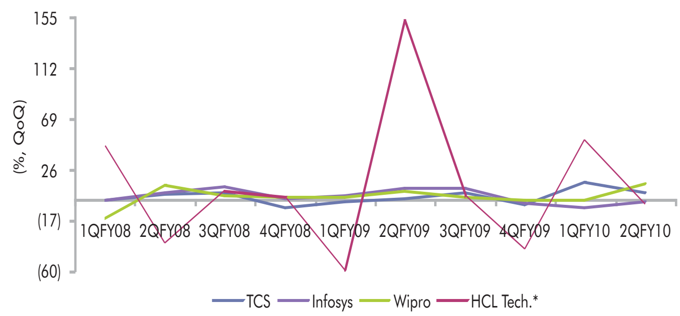


*Source: Companies, Angel Research; * HCL Technologies has a June-ending fiscal year*

Margin pressure to impact Net Profit

We expect the Top-tier IT companies to report 4.1% qoq decline in Net Profit for 3QFY2010 (1.4% yoy decline). This is expected to be led by the Margin pressure expected to be witnessed at the EBIDTA level. Among the companies, we expect Infosys and TCS to record a 4.4% and 5.5% qoq decline respectively, and Wipro and HCL Tech to record a 2.3% and 1.8% qoq decline respectively, in their Bottom-lines.

Exhibit 7: PAT - Quarterly trends



*Source: Companies, Angel Research; *HCL Technologies has a June-ending fiscal year*

Indian IT Sector geared for strong performance

With the global economy witnessing recovery and resulting in improved demand for IT Products and Services, we expect Infosys and most other IT firms to upgrade their Revenue and EPS guidance for FY2010E backed by the improved global business environment. While FY2009 for the IT Industry was a bad year impacted by global recession and FY2010 to be a year of recovery, we expect growth to be back on track during FY2011-12E, but not as strong as one witnessed during FY2006-08. **We remain positive on the Indian IT Sector and maintain Infosys and TCS as our Top-picks in the sector.**

Exhibit 8: Quarterly Estimates

Rs cr

Company	CMP	Net Sales		OPM (%)		Net Profit		EPS (Rs)		EPS (Rs)			P/E (x)			Target	Recos
	(Rs)	3QFY10E	% chg	3QFY10E	chg bp	3QFY10E	% chg	3QFY10E	% chg	FY10E	FY11E	FY12E	FY10E	FY11E	FY12E	(Rs)	
Infosys	2,605	5,698	2.5	31.9	(245)	1,446.4	(4.4)	25.2	(5.9)	104.7	117.3	137.2	24.9	22.2	19.0	3,020	Accumulate
TCS	750	7,529	1.3	28.1	(62)	1,534.9	(5.5)	7.8	(5.5)	31.8	35.4	41.5	23.6	21.2	18.1	830	Accumulate
Wipro	679	7,051	2.3	20.8	(38)	1,134.9	(2.3)	7.7	(2.4)	31.2	33.5	38.4	21.8	20.3	17.7	730	Accumulate
HCL Tech.*	371	3,071	1.3	22.1	(58)	313.9	(1.8)	4.6	(1.7)	22.7	24.3	29.7	16.4	15.3	12.5	416	Accumulate

*Source: Company, Angel Research; Note: Price as on December 31 , 2009; Note: * June ending and 2QFY2010 estimates*

Analyst - Hitesh Agrawal / Vibha Salvi

Telecom

Loose regulations and tariff wars push Telecom into unexpected terrain

3QFY2010 marked a difficult beginning for the Indian Telecom industry, as most of the stocks bled badly from their highs made in the last quarter. Each stock lost an average of 20-40% during the quarter. The entire basket of Telecom stocks lost its sheen by 17% over the previous quarter, vis-à-vis the 2% gain witnessed by the BSE Sensex over the same period. The sudden fall in the basket of telecom stocks during 3QFY2010 (vis-à-vis a gain of 5.8% during 2QFY2010) was completely unexpected and stoked negative sentiments in investors. Moreover, the continuous delay by the TRAI and the DOT on solving regulatory issues has worsened the current state of affairs for the Indian Telecom Sector. Idea Cellular and Bharti Airtel lost around 22.8% and 21.4%, respectively, RCOM and Tata Communications lost 43.9% and 30.7%, respectively, while MTNL and Tata Teleservices lost 19.4% and 25.9%, respectively, over the quarter. However, Tulip Telecom was the only positive mover during the quarter, and gained 3% qoq.

With net additions of 16.6mn subscribers, the total telecom subscriber base reached 525.6mn in October 2009. The wireless subscriber base grew to 488.4mn; however, the fixed wireline subscriber base decreased by 0.05mn to reach 37.3mn at the end of October 2009.

Key Sectoral Developments

Tussle between DOT and Defence Ministry delays the 3G auction once again

The Department of Telecommunications (DOT) has delayed the 3G (third-generation) auction process for the third time. The auction is now expected to take place by February-end, 2010 instead of January 14, 2010, which had earlier been postponed from December 7, 2009.

As per the TRAI, the money raised from the auction of 3G airwaves is now expected to be at least Rs30,000cr, against the earlier target of Rs25,000cr, as the base price from the five operators is expected to fetch around Rs20,000cr for 3G, and over Rs5,000cr through the auction of Wi-Max (wireless broadband) spectrum. The reserve price for 3G spectrum expected to be Rs3,500cr, and Rs1,750cr for Wi-Max licenses.

The government had earlier decided to auction four slots (to accommodate a total of four operators) of 5MHz 3G spectrum each for GSM players in all circles in the country, with the Defense Ministry vacating 25Mhz of 3G spectrum available with it. However, DOT is the custodian of this 25Mhz 3G spectrum, which was mainly allotted for commercial use, and now wants to utilise the same for boosting the growth of the Indian Telecom sector. However, since only 15Mhz 3G spectrum is currently available with the DOT, it has raised the contention that the Defense Ministry on holding back the 3G auction process, due to its inability to vacate the rest of the 10Mhz 3G spectrum till June 2010.

To guard against a further delay in the auction process, DOT had suggested, in its note to the empowered group of ministers (eGoM), that only three slots be auctioned as of now, except for the fourth slot allotment in the North-East, West Bengal, and Rajasthan circles, which could be done as and when the Defense Ministry is able to vacate the spectrum available with it.

However, in the recent meeting held on December 31, 2009, the eGoM intervened that the Defense forces have agreed to vacate spectrum and that mock auctions are expected to take place on February 11 and 12, 2009, for which the DOT would soon come up with detailed timelines.

The 3G auction is expected to be crucial for the Indian government, as it would help it manage its current year fiscal deficit. Moreover, every six months of delay in the auction process translates into a loss of revenue to the tune of ~$1bn for the country's economy. Thus, we need to wait and watch as to whether the auction takes place successfully in FY2010 itself.

MNP implementation delayed further

TRAI has fixed the charges with respect to Mobile Number Portability (MNP) implementation during the quarter. The Per Port Transaction charge payable by the Recipient Operator to the MNP service provider shall be Rs19. MNP service was to be introduced by December 31, 2009 in the metros and by March 2010 in the rest of the country; however, this is expected to be delayed by about two to three months, as some of the operators are not yet ready as per the TRAI. Syniverse and MNP Interconnection are the two MNP operators selected to implement the MNP services in India.

Bharti Airtel eyeing Bangladesh, and South-Asian markets for M&A opportunities

After the disconnect on the MTN deal, Bharti Airtel was once again in the news during the quarter, with a new M&A opportunity. The rumour-mills ran overtime about Bharti Airtel buying a 70% stake in Bangladesh's mobile phone operator, Warid Telecom, an Abu Dhabi Group company for, ~$900mn, in its quest for becoming a dominant player in the SAARC region (Bharti already has operations in Sri Lanka). Warid has a smaller subscriber base of 2.98mn as on October 2009, vis-à-vis 113mn of Bharti Airtel, and it could be a buyout opportunity

Telecom

for Indian Telecom players. Bharti Airtel has refuted any such M&A event, particularly with Warid Telecom. However, Bharti has expressed an interest in the SAARC (South Asian Association for Regional Cooperation) region for future M&A opportunities, expanding its business globally from a strategic point of view. It plans to invest in Bangladesh specifically, for providing telecom services between India and Bangladesh at an affordable cost. Now, with these plans on the table, one needs to wait and watch whether the Warid Telecom and Bharti Airtel deal takes-off.

New launches and events during the quarter

RCOM slashed the SMS rates for its GSM as well as CDMA subscribers; with a monthly rental of Rs11, every SMS to any network will be charged 1paise.

Idea Cellular entered the Assam market with the launch of its GSM mobile services in October 2009. The company now has operations in 19 circles (out of the total 23 telecom circles).

Unitech Wireless and Norway-based Telenor have launched GSM services in seven telecom circles, which include Tamil Nadu, Kerala, Karnataka, Andhra Pradesh, Bihar and Jharkhand, and in the UP (E) and UP (W) circles.

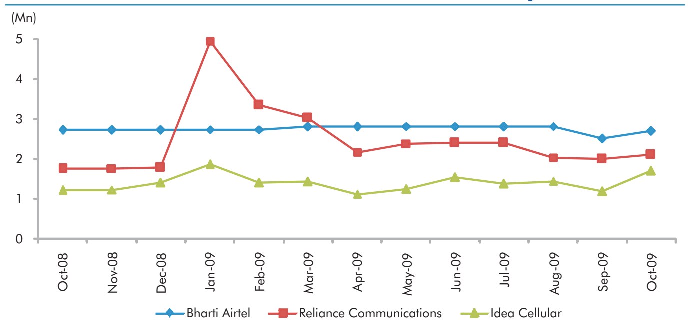
Subscriber additions continued to drive Top-line growth

We expect the major telecom companies under our coverage - Bharti Airtel, RCOM and Idea Cellular - to report subdued top-line growth to the tune of 3% yoy and 1.4% qoq during 3QFY2010. We expect Bharti Airtel, the market leader, to report a 3.4% yoy and 1.2% qoq increase in Net Revenues. This is expected to be driven by the Mobile Services Business, which continued to witness consistent subscriber additions, despite the tariff wars during the quarter. Thus, we expect the total subscribers of Bharti Airtel to grow by 38.7% yoy and 7.5% qoq, and to touch 119mn. This implies quarterly net adds of 8.3mn. As regards ARPUs this quarter, we expect a 5% qoq and nearly a 25.7% yoy contraction to Rs241 per user per month. We expect the other business segments of the company to clock growth rates of 3-7% qoq.

RCOM, on the other hand, is expected to clock 2.7% qoq growth, but 0.5% yoy de-growth in Net Revenues. The key Wireless Business is estimated to grow by 1.1% qoq (de-growth of 8.1% yoy), despite a strong 51.7% yoy growth (8.1% qoq) in the mobile subscriber base of the company, which is expected to hit 93.1mn. This implies quarterly net adds of 6.9mn. We expect ARPUs to fall by 39.8% yoy (6.5% qoq). As regards the other business segments of the company, we expect the Global Business to grow by 42.4% yoy (5.5% qoq) and the Broadband Business to grow by 21.4% yoy (3.1% qoq).

Idea Cellular, is expected to record 8.5% yoy growth and 0.3% qoq de-growth in its 3QFY2010 Top-line. Compared to Bharti and RCOM, we expect Idea to a witness strong growth of 56.6% yoy and 14.4% qoq in its subscriber base, which is expected to touch 53.6mn, excluding Spice (including Spice, the subscriber base is expected to stand at 58.9mn), at the end of quarter, implying quarterly net additions of 6.8mn. However, we estimate ARPUs to fall by 3% qoq and 22.9% yoy, and to hit Rs209 per user per month.

Exhibit 1: Bharti, RCOM and Idea monthly net-adds

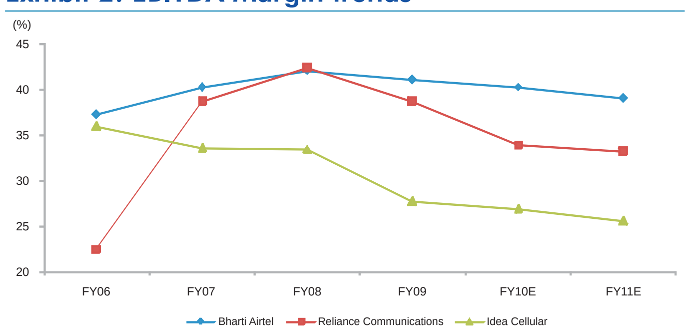


Source: Cellular Operators' Association of India (COAI), Association of Unified Telecom Service Providers (AUSPI), Companies, Angel Research

Margins continue to fall on network expansion costs and falling ARPUs

We expect a combined 102bp yoy fall in EBITDA Margins in 3QFY2010 (16bp qoq fall). This is expected mainly on the back of higher network expansion costs, subscriber acquisition costs and a decline in tariffs (revenues per minute). EBITDA (in absolute terms) is expected to grow by 5.9% yoy and by 0.8% qoq for Bharti, to decline by 13.2% yoy and grow by 4% qoq for RCOM, and grow by 9.2% yoy and decline by 5.9% qoq for Idea Cellular.

Exhibit 2: EBITDA Margin trends



Source: Companies, Angel Research

Telecom

Subdued top-line and margin pressure to impact the bottom-line

We expect the Bottom-line of the telcos under our coverage to de-grow by a combined 19.4% yoy, as against a 2.9% yoy growth in the Top-line. We expect Bharti to grow its Bottom-line by 6.1% yoy (de-growth of 1.4% qoq). RCOM is expected to show a 58.7% yoy de-growth in the bottom-line (de-growth of 21.3% qoq), with a lower top-line, margin pressures, higher depreciation charges and an increase in the tax outgo. Idea Cellular, on the other hand, is expected to record 16.7% yoy and qoq de-growth in the bottom-line due to a lower top-line and margin pressures.

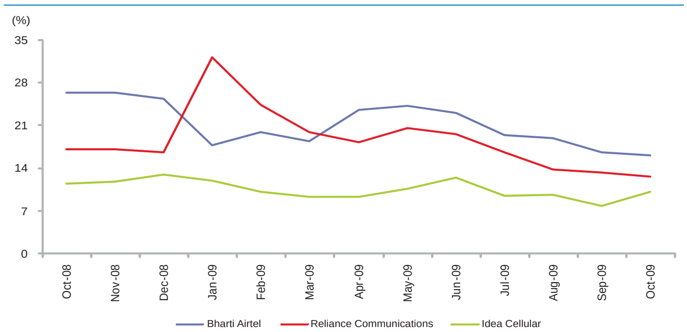
Bharti Airtel - still a good bet

There is strong government support for encouraging growth in the Indian Telecom sector, which will be realised, to some extent, with the upcoming 3G and Wimax spectrum auctions. Moreover The Indian wireless subscriber base stands at 488mn as on October 2009, and we believe that there still exists a strong opportunity for growth in the subscriber base over the next two-three years, both in urban and rural regions, through various telecom services like broadband and VAS (Value-Added Service) on handsets, in addition to mobile services.

However, a lack of regulations has resulted in the current chaos faced by the industry on the tariff front. More telecom players in each circle have resulted in stiff competition and raised the question of survival. This has put a lot of pressure on the margins of TSPs, which are expected to bleed for some more time, unless the TRAI or DOT intervenes to resolve the issues and encourage healthy competition. In the current scenario, we expect Bharti Airtel to perform better than its peers on account of a strong balance sheet position, which enables it to face the challenges in a better way, as the industry is capital intensive in nature and TSPs will have to cough up more on the infrastructure and technology fronts to maintain their business viability.

Hence, though we believe that there is still a strong growth opportunity for the Indian Telecom Sector, the same has been surrounded by multiple loopholes in regulations, which need to be resolved first for the smoother progression of the industry, going forward.

Exhibit 3: Incremental market-share trends



Source: COAI, AUSPI, Companies, Angel Research

Exhibit 4: Quarterly Estimates

Rs cr

Company	CMP	Net Sales		OPM (%)		Net Profit		EPS (Rs)		EPS (Rs)			P/E (x)			Target	Recos
	(Rs)	3QFY10E	*% chg*	3QFY10E	*chg bp*	3QFY10E	*% chg*	3QFY10E	*% chg*	FY10E	FY11E	FY12E	FY10E	FY11E	FY12E	(Rs)	
Bharti Airtel	325	9,960	*3.4*	41.9	98	2,291.3	*6.1*	6.0	*6.1*	22.3	23.2	25.6	14.6	14.0	12.7	388	Accumulate
Idea Cellular	59	2,964	*8.5*	26.1	56	182.9	*(16.7)*	0.6	*(16.9)*	3.1	2.7	3.2	19.0	21.8	18.4	-	Neutral
RCOM	175	5,645	*(0.5)*	33.4	*(492)*	582.8	*(58.7)*	2.8	*(56.5)*	16.8	15.4	19.9	10.4	11.4	8.8	-	Neutral

Source: Company, Angel Research; Note: Price as on December 31 , 2009

Analyst - Hitesh Agrawal / Vibha Salvi

Fund Management & Investment Advisory	(☎ 022 - 3952 4568)	
P. Phani Sekhar	Fund Manager - (PMS)	phani.sekhar@angeltrade.com
Siddarth Bhamre	Head - Derivatives	siddarth.bhamre@angeltrade.com
Devang Mehta	AVP - Investment Advisory	devang.mehta@angeltrade.com
Research Team	(☎ 022 - 3952 4568)	
Hitesh Agrawal	Head - Research	hitesh.agrawal@angeltrade.com
Sarabjit Kour Nangra	VP-Research, Pharmaceutical	sarabjit@angeltrade.com
Vaibhav Agrawal	VP-Research, Banking	vaibhav.agrawal@angeltrade.com
Vaishali Jajoo	Automobile	vaishali.jajoo@angeltrade.com
Shailesh Kanani	Infrastructure, Real Estate	shailesh.kanani@angeltrade.com
Anand Shah	FMCG , Media	anand.shah@angeltrade.com
Deepak Pareek	Oil & Gas	deepak.pareek@angeltrade.com
Puneet Bambha	Capital Goods, Engineering	puneet.bambha@angeltrade.com
Sushant Dalmia	Pharmaceutical	sushant.dalmia@angeltrade.com
Rupesh Sankhe	Cement, Power	rupeshd.sankhe@angeltrade.com
Param Desai	Real Estate, Logistics, Shipping	paramv.desai@angeltrade.com
Sageraj Bariya	Fertiliser, Mid-cap	sageraj.bariya@angeltrade.com
Viraj Nadkarni	Retail, Hotels, Mid-cap	virajm.nadkarni@angeltrade.com
Paresh Jain	Metals & Mining	pareshn.jain@angeltrade.com
Amit Rane	Banking	amitn.rane@angeltrade.com
Jai Sharda	Mid-cap	jai.sharda@angeltrade.com
Amit Vora	Research Associate (Oil & Gas)	amit.vora@angeltrade.com
V Srinivasan	Research Associate (Cement, Power)	v.srinivasan@angeltrade.com
Aniruddha Mate	Research Associate (Infra, Real Estate)	aniruddha.mate@angeltrade.com
Shreya Gaunekar	Research Associate (Automobile)	shreyap.gaunekar@angeltrade.com
Mihir Salot	Research Associate (Logistics, Shipping)	mihirr.salot@angeltrade.com
Chitrangda Kapur	Research Associate (FMCG, Media)	chitrangdar.kapur@angeltrade.com
Vibha Salvi	Research Associate (IT, Telecom)	vibhas.salvi@angeltrade.com
Jaya Agrawal	Jr. Derivative Analyst	Jaya.agarwal@angeltrade.com
Amit Bagaria	PMS	amit.bagaria@angeltrade.com
Shardul Kulkarni	Head - Technicals	shardul.kulkarni@angeltrade.com
Ajit Joshi	AVP Technical Advisory Services	ajit.joshi@angeltrade.com
Brijesh Ail	Manager - Technical Advisory Services	brijesh@angeltrade.com
Vaishnavi Jagtap	Sr. Technical Analyst	vaishnavi.jagtap@angeltrade.com
Milan Sanghvi	Sr. Technical Analyst	milan.sanghvi@angeltrade.com
Mileen Vasudeo	Technical Analyst	vasudeo.kamalakant@angeltrade.com
Krunal Dayma	Technical Analyst	krunal.dayma@angeltrade.com
Sanket Padhye	AVP Mutual Fund	sanket.padhye@angeltrade.com
Pramod Rathod	Research Associate (MF)	pramod.rathod@angeltrade.com
Poonam Jangid	Research Associate (MF)	poonam.jangid@angeltrade.com
Commodities Research Team		
Amar Singh	Research Head (Commodities)	amar.singh@angeltrade.com
Samson P	Sr. Technical Analyst	samsonp@angeltrade.com
Anuj Gupta	Sr. Technical Analyst	anuj.gupta@angeltrade.com
Girish Patki	Sr. Technical Analyst	girish.patki@angeltrade.com
Abhishek Chauhan	Technical Analyst	abhishek .chauhan@angeltrade.com
Commodities Research Team (Fundamentals)		
Badruddin	Sr. Research Analyst (Agri)	badruddin@angeltrade.com
Reena Walia Nair	Sr. Research Analyst (Base Metals, Energy, Currencies)	reena.walia@angeltrade.com
Vedika Narvekar	Research Analyst (Agri)	vedika.narvekar @angeltrade.com
Nalini Rao	Research Analyst (Agri)	nalini.rao@angeltrade.com
Bharathi Shetty	Research Editor	bharathi.shetty@angeltrade.com
Dharmil Adhyaru	Assistant Research Editor	dharmil.adhyaru@angeltrade.com
Bharat Patil	Production	bharat.patil@angeltrade.com
Dilip Patel	Production	dilipm.patel@angeltrade.com

Research & Investment Advisory: Acme Plaza, 3rd Floor 'A' wing, M.V. Road, Opp Sangam Cinema, Andheri (E), Mumbai - 400 059

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

Corporate & Marketing Office	:	612, Acme Plaza, M.V. Road, Opp Sangam Cinema, Andheri (E), Mumbai - 400 059	Tel : (022) 3941 3940 / 4000 3600
NRI Helpdesk	:	e-mail : nri@angeltrade.com	Tel : (022) 4000 3622 / 4026 2700
Investment Advisory Helpdesk	:	e-mail : advisory@angeltrade.com	Tel : (022) 3958 4000
Commodities	:	e-mail : commodities@angeltrade.com	Tel : (022) 3081 7400
PMS	:	e-mail : pmshelpdesk@angeltrade.com	Tel : (022) 3953 2800
Feedback	:	e-mail : feedback@angeltrade.com	Tel : (022) 2835 5000

Regional Offices:

Ahmedabad - Tel: (079) 3941 3940	**Indore -** Tel: (0731) 3941 394	**Mumbai (Goregaon)** Tel: (022) 2879 0411-15	**Rajkot -** Tel :(0281) 3941 394
Bengaluru - Tel: (080) 3941 3940	**Jaipur -** Tel: (0141) 3941 394	**Mumbai (Powai) -** Tel: (022)3952 6500	**Surat -** Tel: (0261) 3941 394
Chennai - Tel: (044) 3941 3940	**Kanpur -** Tel: (0512) 3941 394	**Nagpur -** Tel: (0712) 3941 394	**Visakhapatnam -** Tel : (0891) 3941 394
Cochin - Tel: (0484) 3941 394	**Kolkata -** Tel: (033) 3941 3940	**Nashik -** Tel: (0253) 3011 500 / 1 / 11	
Coimbatore - Tel: (0422) 3941 394	**Lucknow -** Tel: (0522) 3941 394	**New Delhi -** Tel: (011) 3941 3940	
Hyderabad - Tel: (040) 3941 3940	**Ludhiana -** Tel: (0161) 3941 394	**Pune -** Tel: (020) 3941 3940	

Sub - Broker Marketing:

Andheri (E) - Acme - Tel: (022) 3941 3940 / 4000 3600

Branch Offices:

Andheri (Lokhandwala) **-** Tel: (022) 2639 2626	**Ahmedabad (Shahibaug)** -Tel: (079)3091 6800 / 01	**Jalgaon -** Tel: (0257) 2234 832	**Pune (Kothrud)** Tel: (020) 4104 5400
Andheri (W) - Tel: (022) 2635 2345 / 6668 0021	**Ahmedabad (C. G Road)** - PCG Tel: (079)39829934	**Jamnagar(Indraprashta) -** Tel: (0288) 3941 394	**Rajamundhry -** Tel: (0883) 3941 394
Bandra (W) - Tel: (022) 2655 5560 / 70	**Ajmer -** Tel: (0145) 3941 394	**Jamnagar (Cross Word) -** Tel: (0288) 2751 118	**Rajkot (Ardella)** Tel.: (0281) 2926 568
Bandra (W) - Tel: (022) 6643 2694 - 99	**Alwar -** Tel: (0144) 3941 394 / 99833 60006	**Jamnagar (Moti Khawdi) -** Tel: (0288) 2846 026	**Rajkot (University Rd.) -** Tel: (0281) 2331 418
Borivali (W) - Tel: (022) 3952 4787	**Ambala -** Tel: (0171) 4091 400	**Jamnagar(Madhav Plaza) -** Tel: (0288) 2665 708	**Rajkot - (Bhakti Nagar)** Tel: (0281) 2361 935
Borivali (Punjabi Lane) - Tel: (022) 3951 5700	**Amreli -** Tel: (02792) 228 800/231039-42	**Jodhpur -** Tel: (0291) 3941 394 / 99280 24321	**Rajkot - (Indira circle)** Tel : 99258 84848
Chembur (Swastik) - Tel: (022) 6703 0210 / 11 /12	**Amritsar -** Tel: (0183) 3941 394	**Junagadh -** Tel : (0285) 3941 3940	**Rajkot (Orbit Plaza) -** Tel: (0281) 3983 485
Chembur - (Basant) - Tel:(022) 022) 6156 1111 / 01	**Anand -** Tel : (02692) 398 400 / 3	**Keshod -** Tel: (02871) 234 027 / 233 967	**Rajkot (Pedak Rd) -** Tel: (0281) 3985 100
Fort - Tel: (022) 3958 1887	**Ankleshwar -** Tel: (02646) 398 200	**Kolhapur -** Tel: (0231) 6632 000	**Rajkot (Ring Road)-** Mobile: 99245 99393
Ghatkopar (E) - Tel: (022) 3955 8400/2510 1525	**Baroda -** Tel: (0265) 6635 100 / 2226 103	**Kolkata (N. S. Rd) -** Tel: (033) 3982 5050	**Rajkot (Star Chambers) -** Tel : (0281)3981 200
Kalbadevi - Tel: (022) 2243 5599 / 2242 5599	**Baroda (Akota) -** Tel: (0265) 2355 258 / 6499 286	**Kolkata (P. A. Shah Rd) -** Tel: (033) 3001 5100	**Rajkot - (Star Chambers)** - Tel : (0281) 2225 401-3
Kandivali (W) - Tel: (022) 2867 3800/2867 7032	**Baroda (Manjalpur) -** Tel: (0265) 6454280-3	**Kota** - Tel : (0744) 3941 394	**Rajkot - PCG -** Tel: (0281) 2490 847
Kandivali - Tel: (022) 4245 1300	**Bengaluru -** Tel: (080) 4072 0800 - 29	**Madurai** Tel: (0452) 3941 394	**Salem -** Tel: (0427) 3941 394
Mahim - Tel: (022) 2444 6425 / 2444 9031	**Bhavnagar -** Tel: (0278) 3941 394	**Mangalore -** Tel: (0824) 3982 140	**Secunderabad -** Tel : (040) 3093 2600
Malad (E) - Tel: (022) 2880 4440	**Bhavnagar (Shastrinagar)-** Mobile: 92275 32302	**Mansarovar -** Tel:(0141) 3057 700/99836 74600	**Surat (Mahidharpura) -** Tel: (0261) 3092 900
Malad (Natraj Market) - Tel:(022) 28803453 / 24	**Bhilwara -** (01482) 398 350	**Meerut -** Tel:(0121) 4015 400	**Surat - (Parle Point) -** Tel : (0261) 3091 400
Masjid Bander - Tel: (022) 2345 5130 /1 / 8 / 42 /28	**Bhopal -** Tel :(0755) 3941 394	**Mehsana -** Tel: (02762) 645 291 / 92	**Surat (Ring Road) -** Tel : (0261) 3071 600
Mulund (W) - Tel: (022) 2562 2282	**Bikaner -** Tel: (0151) 3941 394 / 98281 03988	**Mysore -** Tel: (0821) 4004 200 - 30	**Surendranagar -** Tel : (02752) 223305
Nerul - Tel: (022) 2771 9012 - 17	**Chandigarh -** Tel: (0172) 3092 700	**Nadiad -** Tel : (0268) - 2527 230 / 34	**Tirupur -** Tel : (0421) 4302 800
Powai (E) - Tel: (022) 3952 5887	**Deesa -** Mobile: 97250 01160	**Nagaur -** Tel: (01582) 244 648	**Udaipur -** Tel : (0294) 3941 394
Sion - Tel: (022) 3952 7891	**Dehradun -** (0135): 3058 500	**Nashik - (K C Complex)** Tel: (0253) 3941 394	**Valsad -** Tel : (02632) 645 344 / 45
Thane (W) - Tel: (022) 2539 0786 / 0650 / 1	**Erode -** Tel: (0424) 3982 600	**New Delhi (Bhikaji Cama) -** Tel: (011) 41659711	**Vapi -** Tel: (0260) 3941 394
Vashi - Tel: (022) 2765 4749 / 2251	**Faridabad -** Tel: (0129) 3984 000	**New Delhi (Lawrence Rd.) -** Tel: (011) 3262 8699 / 8799	**Varachha -** (0261) 3091 500
Vile Parle (W) - Tel: (022) 2610 2894 / 95	**Gajuwaka -** Tel: (0891) 3987 100 - 30	**New Delhi (Pitampura) -** Tel: (011) 4751 8100	**Varanasi -** Tel: (0542) 2221 129, 3058 066
Wadala - Tel: (022) 2414 0607 / 08	**Gandhinagar -** Tel: (079) 4010 1010 - 31	**New Delhi (Nehru Place) -** Tel: (011) 3982 0900	**Vijayawada -** Tel :(0866) 3984 600
Agra - Tel: (0562) 4037200	**Gandhidham -** Tel: (02836) 237 135	**New Delhi (Preet Vihar) -** Tel: (011) 4310 6400	**Warangal -** Tel: (0870) 3982 200
Ahmeda. (Bapu Nagar) - Tel : (079) 3091 6900 - 02	**Gondal -** Tel: (02825) 398 200	**Noida -** Tel : (0120) 4639 900 / 1 / 9	
Ahmedabad (C. G. Road) - Tel: (079) 4021 4023	**Ghaziabad -** Tel: (0120) 3980 800	**Palanpur -** Tel: (02742) 308 060 - 63	
Ahmeda. (Gurukul) - Tel: (079) 3011 0800 / 01	**Gurgaon -** Tel: (0124) 3050 700	**Patan -** Tel: (02766) 222 306	
Ahmedabad (Kalupur) - Tel: (079) 3041 4000 / 01	**Himatnagar -** Tel: (02772) 241 008 / 241 346	**Porbandar -** Tel : (0286) 3941 394	
Ahmedabad (Maninagar) - Tel: (079) 3981 7430 / 1	**Hyderabad -** A S Rao Nagar Tel: (040) 4222 2070-5	**Porbandar (Kuber Life Style)** - Mob.-98242 53737	
Ahmedabad (Odhav) Tel: (079) 2289 2869/98989 95031	**Hubli -** Tel: (0836) 4267 500 - 22	**Pune - (Pentagon)** Tel : (020) 3093 4400 / 3052 3217	
Ahmeda. (Ramdevnagar) - Tel : (079) 4024 3842 / 43	**Indore -** Tel: (0731) 3049 400	**Pune (Aundh) - Tel: (020) 4104 1900**	
Ahmedabad (Sabarmati) - Tel : (079) 3091 6100 / 01	**Indore -** Tel: (0731) 4238 600	**Pune (Camp) -** Tel: (020) 3092 1800	
Ahmedabad (Satellite) - Tel: (079) 4000 1000	**Jaipur - (Rajapark)** Tel: (0141) 3057 900 / 99833 40004	**Pune - (kalyani Nagar)** Tel: (020) 6620 6591 / 6620 6595	

Central Support & Registered Office:G-1, Akruti Trade Centre, Road No. 7, MIDC Marol, Andheri (E), Mumbai - 400 093 Tel : 2835 8800 / 3083 7700

Angel Broking Ltd: BSE Sebi Regn No : INB 010996539 / CDSL Regn No: IN - DP - CDSL - 234 - 2004 / PMS Regn Code: PM/INP000001546 Angel Securities Ltd:BSE: INB010994639/INF010994639 NSE: INB230994635/INF230994635 Membership numbers: BSE 028/NSE:09946
Angel Capital & Debt Market Ltd: INB 231279838 / NSE FNO: INF 231279838 / NSE Member code -12798 Angel Commodities Broking (P) Ltd: MCX Member ID: 12685 / FMC Regn No: MCX / TCM / CORP / 0037 NCDEX : Member ID 00220 / FMC Regn No: NCDEX / TCM / CORP / 0302