

Dealer's Diary

The key benchmark indices opened Monday's session on a positive note but reversed initial gains to hit their lowest level in more than four months, tracking weak Asian stocks. The market regained strength after moving between the positive and negative terrains in mid-morning trade. It pared gains in early afternoon trade, but volatility ruled the roost as the key benchmark indices regained the positive terrain after slipping into the red for a brief period in mid-afternoon trade. The market ended marginally higher amid a highly volatile trade, coming off its four-month lows, though the sustained bout of selling pressure witnessed on the rise indicated that the underlying sentiments remain wounded following the radical rise in inflation with the Sensex ending merely 0.1% higher and the Nifty ending flat. The mid-cap as well as small-cap indices each closed 1.4% down. Among the front liners, HDFC, Infosys, Cipla, TCS and Bajaj Auto gained 1.5–3%, while Reliance Infrastructure, Jaiprakash Associates, Reliance Communications, Sterlite Industries and DLF lost 3–8%. Among mid caps, Gitanjali Gems, BOC India, Shree Asthavinayak, Sanwaria Agro Oils and Core Projects and Technologies gained 2–8%, while Jindal Poly Films, Jindal South West Holdings, Glenmark Pharma, Man Infraconstruction and Sterlite Technologies fell 5–8%.

Markets Today

The trend deciding level for the day is 18894/5658 levels. If Nifty trades above this level during the first half-an-hour of trade then we may witness a further rally up to 19008-19133/5693-5730 levels. However, if Nifty trades below 18894/5658 levels for the first half-an-hour of trade then it may correct up to 18768-18654/5621-5586 levels.

Indices	S2	S1	R1	R2
SENSEX	18,654	18,768	19,008	19,133
NIFTY	5,586	5,621	5,693	5,730

News Analysis

- JK Tyre & Industries to hike product prices by 2-4%
- 3QFY2011 Result Reviews: TCS, L&T, Axis Bank
- 3QFY2011 Result Previews: GAIL, Cadila Healthcare, Exide Industries, Petronet LNG

Refer detailed news analysis on the following page

Net Inflows (January 14, 2011)

₹ cr	Purch	Sales	Net	MTD	YTD
FII	2018	2713	(695)	(3181)	(3181)
MFs	414	506	(92)	418	418

FII Derivatives (January 17, 2011)

₹ cr	Purch	Sales	Net	Open Interest
Index Futures	2,279	1,673	606	12,595
Stock Futures	2,649	2,309	340	33,273

Gainers / Losers

Gainers			Losers		
Company	Price (₹)	chg (%)	Company	Price (₹)	chg (%)
Oracle Finance	2,300	5.0	Reliance Infra	736	(7.8)
Bank of India	435	4.3	Glenmark Pharm	325	(6.5)
HDFC	662	3.2	Reliance Capital	574	(6.5)
Shriram Trans	746	3.1	Reliance Power	138	(6.1)
Axis Bank	1,228	2.2	Hindustan Const	41	(5.6)

Domestic Indices	Chg (%)	(Pts)	(Close)
BSE Sensex	0.1%	21.8	18,882
Nifty	0.0%	0.2	5,655
MID CAP	-1.4%	(100.6)	7,123
SMALL CAP	-1.4%	(125.7)	8,868
BSE HC	-0.6%	(38.0)	6,446
BSE PSU	-0.4%	(38.0)	8,698
BANKEX	0.2%	27.5	11,878
AUTO	-0.1%	(7.4)	9,252
METAL	-1.3%	(216.3)	16,155
OIL & GAS	-0.3%	(34.3)	9,944
BSE IT	1.7%	111.1	6,550
Global Indices	Chg (%)	(Pts)	(Close)
Dow Jones	0.5%	55.5	11,787
NASDAQ	0.7%	20.0	2,755
FTSE	-0.3%	(16.4)	5,986
Nikkei	0.0%	3.8	10,503
Hang Seng	-0.5%	(126.3)	24,157
Straits Times	-0.2%	(7.3)	3,239
Shanghai Com	-3.0%	(84.7)	2,707

Indian ADRs	Chg (%)	(Pts)	(Close)
Infosys	-1.6%	(1.1)	\$70.7
Wipro	2.5%	0.4	\$15.0
ICICI Bank	-1.2%	(0.6)	\$45.1
HDFC Bank	-2.9%	(4.4)	\$150.1

Advances / Declines	BSE	NSE
Advances	862	311
Declines	1,986	1,100
Unchanged	149	30

Volumes (₹ cr)

BSE	3,052
NSE	11,361

JK Tyre & Industries to hike product prices by 2–4%

JK Tyre & Industries has decided to hike product prices by 2–4% in an attempt to offset the effect of rising input costs, especially natural rubber. The price hike comes on expected lines as prices of natural rubber are at an all-time high. Domestic prices of RSS-4 rubber in Kottayam on January 17, 2011, stood at ₹225/kg. Rubber prices increased by ~65% yoy in 3QFY2011; while on a qoq basis, prices grew by ~10% in 3QFY2011. We expect rising raw-material costs to pose a major challenge to the company to maintain its operating margins. At the CMP of ₹122, the stock is trading at attractive valuation of 3x its FY2012E earnings. **We maintain Buy on the stock with a Target Price of ₹202.**

3QFY2011 Result Reviews

TCS

TCS reported decent set of 3QFY2011 numbers. The company reported revenue of US \$2,144 mn (v/s our expectation of US \$2,158mn) with 7% qoq growth on the back of modest volume growth of 5.7% qoq (v/s our expectation of 7%), led by growth in mature markets as well as a 1.18% qoq pricing uptick. In INR terms, revenue came in at ₹9,663cr (v/s our expectation of ₹9,680cr), up 4.1% qoq. EBITDA margin expanded by 15bp qoq to historic high of 30.2% (v/s our expectation of 29.7%). PAT stood tall at ₹2,370cr, registering whopping 10.6% qoq growth (v/s our estimate of ₹2,197cr) on the back of strong net income of ₹181.8cr as against ₹33.7cr in 2QFY2011. The company remains our top pick amongst Tier-I IT companies because of its diversified portfolio on all fronts service wise, industry exposure wise as well as geography wise. At the CMP of ₹1,138, the stock is trading at 23.6x FY2012E EPS of ₹48.3. **We remain positive on the stock and will be revising our estimates post the conference call.**

L&T

L&T reported better-than-expected numbers for the third quarter. On the top-line front, the company reported healthy growth of 40% yoy to ₹11,322cr (₹8,071cr), above our estimates of ₹10,202cr, mainly on account of a pick-up in the E&C segment, which recorded 45% top-line growth to ₹9,831cr. On the EBITDA front, the company faced margin pressure and reported lower margins of 10.8% against our expectation of 11.3%. The performance was below our expectations mainly on account of higher commodity prices along with higher staff cost. In line with this, we have factored in margin pressure going ahead. Adjusting for exceptional items (₹35.3cr – gains on divestment of part-stake in subsidiary and associate company and dividend from subsidiary), the company reported bottom line of ₹797cr against our estimate of ₹720cr. Order inflow for the quarter was disappointing at ₹13,366cr, taking the outstanding order book to ₹1,14,882cr.

Given the recent correction of ~20% in the stock price, we believe at current levels it offers good opportunity for long-term investors as order inflow disappointment is not a long-term issue as per our analysis, even though the company might miss the inflow guidance of 25% for the year, but it has a healthy order book to provide revenue visibility for the next few years. Further, management commentary indicates delays rather than cancellation of orders and is expecting to do well in the coming quarters. **Hence, we recommend Buy on the stock (the target price is under review and would be given with the quarterly note, which will be released soon).**

Axis Bank

Axis Bank registered net profit growth of 35.9% yoy to ₹891cr in 3QFY2011, better than our estimate of ₹837cr mainly on account of better-than-estimated NIMs and trading gains. Strong sequential growth in retail and large corporate assets as well as fees, together with declining slippages and higher provision coverage were the key positives from the results.

Advances registered strong growth of 11.7% qoq and 45.7% yoy, while deposits declined marginally by 0.7% qoq but registered strong yoy growth of 36.9%. CASA ratio improved to 42.3% from 41.5% as of 2QFY2011. Reported NIM surprised on the upside with a 13bp sequential expansion to 3.81%. Improvement in NIM was partly aided by improvement in CD ratio to 79.3% from 70.5% as of 2QFY2011. Cost of funds increased marginally by 4bp qoq to 4.79%. Consequently, net interest income grew by healthy 28.5% yoy and 7.3% qoq to ₹1,733cr. Non-interest income registered growth of 16.2% yoy to ₹1,178cr, despite the 20.6% yoy decline in treasury income, on the back of healthy (21.0% yoy) growth in fee income. Fee income from large and mid-corporate credit group and retail business witnessed strong traction with growth of 37% yoy and 21% yoy, respectively.

The asset quality improved during the quarter, with slippages coming down to ₹334cr compared to ₹421cr in 1QFY2011 and ₹446cr in 2QFY2011. Gross NPAs increased by 8.8% sequentially to ₹1,483cr on account of lower write offs. However, due to higher provisioning, net NPAs declined to ₹386cr from ₹409cr in 2QFY2011. The provision coverage ratio including technical write-offs improved to 82.7% from 80.2% in 2QFY2011.

Post the recent sharp correction, the stock is trading at attractive valuations of 2.3x FY2012 ABV. We remain positive on the bank, owing to its attractive CASA franchise, multiple sources of sustainable fee income, strong growth outlook and A-list management. **We maintain Buy on the stock with a Target Price of ₹1,688.**

3QFY2011 Result Previews

GAIL

GAIL is expected to announce its 3QFY2011 results. The company's performance on a qoq basis is likely to be driven by higher transmission tariff and petchem margins, which to an extent will be offset by higher subsidy burden, leaving the bottom line flatter on a qoq basis. Transmission volumes during the quarter are likely to stay flat on account of lower gas production from KG D6. On the top-line front, we expect the company to report top-line growth of 33.7% yoy to ₹8,276cr (₹6,188cr). Margin is expected to contract by 112bp yoy to 19.4% (20.5%). On the bottom-line front, we expect GAIL to report growth of 8.1% yoy to ₹930cr (₹860cr). **We maintain Accumulate on GAIL with a Target Price of ₹534.**

Cadila Healthcare

Cadila Healthcare (Cadila) is scheduled to announce its 3QFY2011 results today. We expect the company to post strong 18.4% growth in net sales to ₹1,143cr on the back of robust growth on the export and domestic formulation fronts, where the company is expected to grow at 19.4% and 18.2% yoy, respectively. On the OPM front, we expect the company's OPM to expand by 82bp yoy to 19.9% on the back of a favourable product mix. Net profit is expected to increase by 33.6% yoy to ₹173cr, driven by top-line growth and OPM expansion. **We currently have a Neutral recommendation on the stock and would review it post the result and management interaction.**

Exide Industries

Exide Industries is slated to announce its 3QFY2011 results. We expect the company's top line to grow by healthy 27.2% yoy to ₹1,160cr backed by robust demand from the automobile and industrial battery segments. On the operating front, EBITDA margin is expected to decline by 292bp yoy to 21% due to an increase in average lead prices during the quarter on a yoy basis. However, the bottom line is expected to post 15.4% yoy growth to ₹150.6cr. **The stock is under review.**

Petronet LNG

Petronet LNG is likely to announce its 3QFY2011 results. The company's top line during the quarter is expected to increase by 50.4% yoy to ₹3,376cr on account of commissioning of additional 2.5mtpa of gas supplies from Qatar in January 2010. We even expect the company to witness volume growth on a qoq basis to 106.6TBTUs (99.8TBTUs), with the company importing spot LNG cargoes due to lower production from KG D6. Operating profit during the quarter is expected to increase by 36.8%, driven by an increase in re-gasification margins and marketing losses incurred in 3QFY2010. The bottom line during the quarter is also likely to increase by 64.3% yoy to ₹137cr (₹83cr). **We maintain our Neutral rating on the stock.**

Economic and Political News

- April-December indirect tax kitty up 43% at ₹2.37lakh cr
- Hike FDI cap in insurance to 49% says CII
- Inflation likely at 6.5% this fiscal end, says Chawla

Corporate News

- JSW Steel to spend ₹3,800cr on Ispat
- Tata Steel may use share sale proceeds in Riversdale project
- Tea Board to venture into APAC markets via Singapore

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

Events for the day	
Bajaj Finserv	Results
Cadila Health	Results
Container Corp	Results
Development Credit Bank	Results
Exide Industries	Results
Gail India	Results
HT Media	Results
Indiabulls Power	Results
Indiabulls Real Estate	Results
ING Vysya Bank	Results
Mastek	Results
NIIT Tech	Results
Opto Circuits	Results
Petronet LNG	Results
Tata Elxsi	Results

Research Team Tel: 022-4040 3800

 E-mail: research@angeltrade.com

 Website: www.angelbroking.com

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

**Address: Acme Plaza, 'A' Wing, 3rd Floor, M.V. Road, Opp. Sangam Cinema, Andheri (E), Mumbai - 400 059.
Tel : (022) 3952 4568 / 4040 3800**

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