



IIFL

INDIA PRIVATE CLIENTS

Weekly Wrap

February 18, 2011

Investment idea

Allied Digital Services

BUY
CMP Rs90

IT survey misconstrued as IT Raid; impact not material

An income tax team, as a part of its routine survey, had visited the official premises of ADSL to check its books of accounts on concern of expenditure manipulation. According to the management, this survey, misconstrued as 'raid', concluded the same day with no prima facie evidence and no documents seized. Company further re-assured of minimal impact of the IT Survey on its financials.

Results materially below expectation; business largely intact

The Q3 FY11 results were undoubtedly disappointing with revenues falling 10.5% and OPM faltering by 540 bps qoq. The revenues were weak due to continued transformation of solutions business. Very low traction from key deals (Lenovo, Microsoft) and seasonally weak quarter kept services flat. Margin was down materially mainly due to Rs75mn one-time bad debts write-off. Our recent interactions with the management suggest that the core business of IMS/MSS is intact with the recent JV with e-Cop being a case in point. Company also indicated of no further write-offs in the foreseeable future. Moreover, growth expectations have now been set right with a more achievable guidance and pragmatic commentary.

Strong selling pressure seems to have abated

Stock exchange data reveals that one of the large FII investors in ADSL has sold its entire stake in the days following the result and the IT investigation. Due to the intense selling, the stock has declined more than 60% in the days following the tax investigation. With company expecting no other large investor to pare stake or exit, it is likely that the selling pressure could significantly abate and the stock may bounce back sharply.

More than commensurate de-rating of valuation makes ADSL a strong value pick

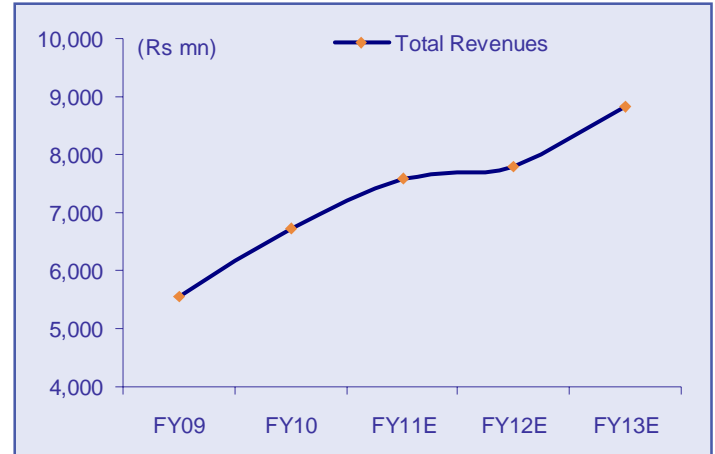
We believe that the company's fundamentals are largely in place with its continued attempts to transform itself into a high value adding services player. Also the company's decision of considering buy-back and appointment of a reputed joint-auditor are likely to restore some credibility. With valuations cheap at 4.3x FY12 P/E (on our substantially reduced estimates) and the current stock price at significant discount to FY11E Book Value (Rs160), we believe that the worst is behind. Recommend BUY with a 6-9 month price target of Rs155 (assigned multiple and target have been adjusted downwards).

Valuation summary

Y/e 31 March (Rs m)	FY10	FY11E	FY12E	FY13E
Revenues	6,730	7,599	7,804	8,828
yoy growth (%)	21.1	12.9	2.7	13.1
Operating profit	1,303	1,499	1,435	1,618
OPM (%)	19.4	19.7	18.4	18.3
Reported PAT	967	1,091	966	1,127
yoy growth (%)	25.8	12.8	(11.4)	16.6
EPS (Rs)	20.8	23.6	20.7	24.1
P/E (x)	4.3	3.8	4.3	3.7

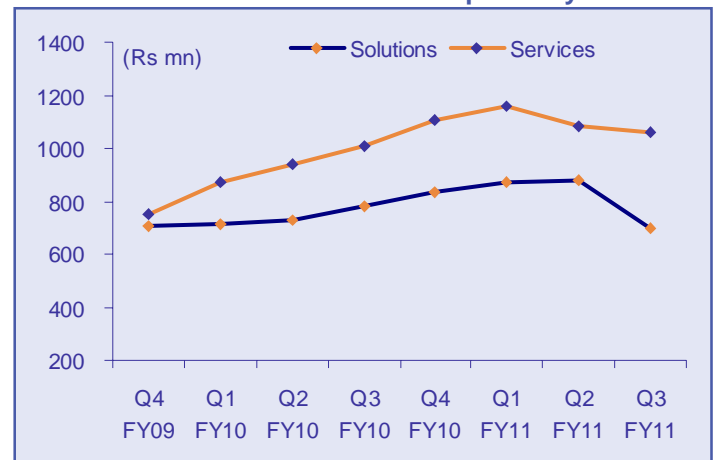
Source: Company, India Infoline Research

Trend in Total Revenues



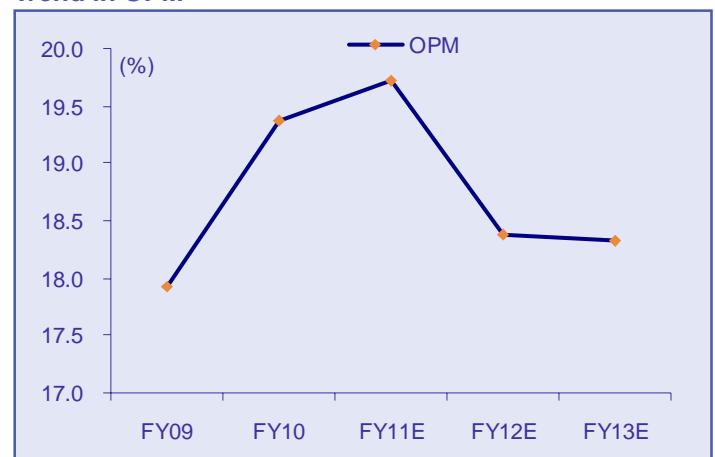
Source: Company, India Infoline Research

Solutions and Services revenues sequentially



Source: Company, India Infoline Research

Trend in OPM

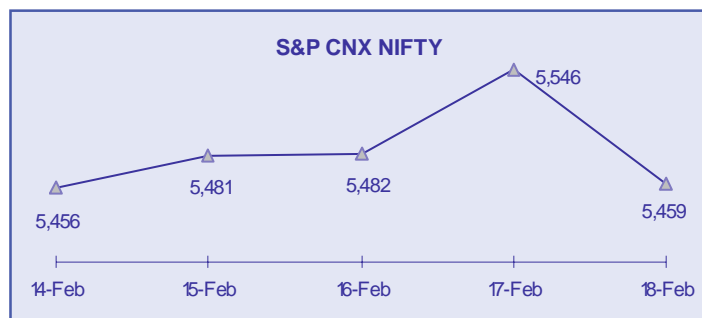


Source: Company, India Infoline Research

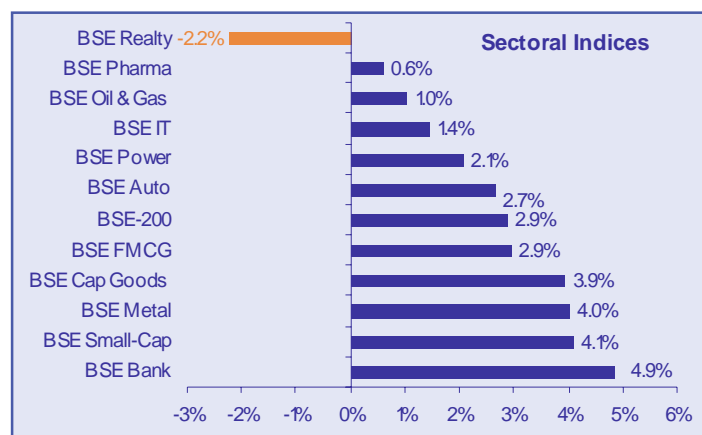
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Market review

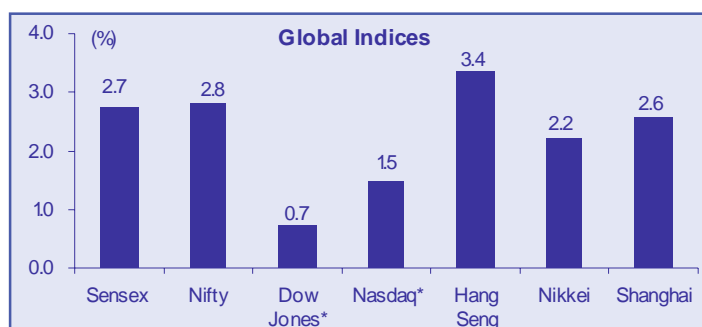
Although the Indian indices closed the week with healthy gains after a three-week drubbing, doubts still persist after Friday's swift decline in the afternoon trades. Earlier in the week, the BSE Sensex gained ~1,000 points, aided by a steep drop in food inflation and bargain buying. Also, the Government seems to be hinting at a JPC probe into the 2G scam. There might be some reform-oriented moves in the Budget as well.



Real Estate stocks were under pressure amid fears that hardening interest rates and rising prices will deter fresh purchases. Metal stocks advanced on the back of gains in international prices on the LME. Banking stocks made a strong comeback this week on improving credit demand and hike in lending rates.



Global equity markets remained upbeat following an end to the civil unrest in Egypt coupled with a drop in oil prices and generally healthy corporate earnings. The US Fed upped the GDP forecast for 2011. Meanwhile, China's consumer price inflation increased less than expected but the central bank still announced another 50 bps hike in the reserve requirement ratio for banks. Also, China surpassed Japan as the world's no. 2 economy.



*As per previous close

FII & MF activity

Date	(Rs cr)	
	FII Net Investment	MF Net Investment
10-Feb	(846)	79
11-Feb	(434)	254
14-Feb	228	191
15-Feb	-	(236)
16-Feb	176	-
Total 2011	(4,549)	642

BSE Sensex & BSE 200 Top Five Gainers

BSE Sensex			BSE 200		
Company	CMP (Rs)	% Chg	Company	CMP (Rs)	% Chg
Jindal Steel	679	9.8	Tanla Solutions	20	30.3
Tata Steel	638	7.2	United Spirits	1,191	19.0
SBI	2,755	6.6	Bombay Dyeing	350	17.7
Tata Power	1,264	5.7	Tech Mahindra	659	15.2
HDFC Bank	2,173	5.4	Ivrcil Infra	75	12.3

BSE Sensex & BSE 200 Top Five Losers

BSE Sensex			BSE 200		
Company	CMP (Rs)	% Chg	Company	CMP (Rs)	% Chg
DLF	233	(6.0)	Jubilant Life	169	(17.1)
Rcom	93	(4.1)	DCHL	71	(14.9)
ONGC	268	(3.4)	Patel Eng	185	(7.3)
M&M	651	(2.6)	Shree Renuka	78	(7.3)
Reliance Infra	606	(1.6)	Sintex Indus	152	(5.8)

Bulk deals

Date	Institution	Scrip name	B/S	Qty (lacs)	Price
15-Feb	Goldman Sachs	XL Energy	S	1.2	16.0
16-Feb	Merrill Lynch	Adhunik Metaliks	B	9.0	93.0
16-Feb	Macquarie Bk	Hexaware Tech	S	11.1	111.9

Book closures and record dates

Company	Date	Purpose
Indo Rama Syn	23-Feb-2011	Interim Dividend
Hexaware Tech	24-Feb-2011	Dividend, Bonus
Natco Pharma	24-Feb-2011	Interim Dividend
Pratibha Inds	24-Feb-2011	Interim Dividend

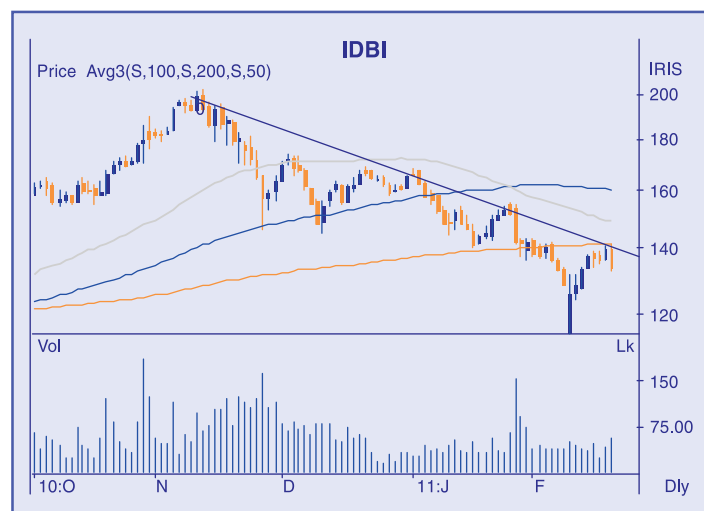
Insider Trades

Company	Name	B/S	Qty ('000)
HDFC Bank	Navin Puri	S	2.7
OFSS	Joseph John	S	2.0
Patel Eng	Sonal Patel	B	2.0
Garware Off	Ashok Garware	B	10.0

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Technical ideas

IDBI **SELL**
CMP Rs133



The stock has seen a significant rally from the low of Rs115 last week to the levels of Rs139. The recent pullback has been on low volumes, creating doubts over the strength in the recovery. Infact, this week, the stock stalled around its 200-DMA and 20-DMA, which is acting as a stiff resistance.

Also, the moving averages coincide with the downward sloping trendline from second week of November 2011. Inability for the stock to close above this trendline over several attempts suggest weakness.

If it is unable to hold on to Rs135 levels, it could retrace all the way to the levels of Rs125 and below. **We recommend traders to sell IDBI February Futures below Rs133 with stop loss of Rs138 for target of Rs123.**

Positive open interest build-up

Company	Price % chg	OI % chg	Vol % chg
HUL	1.5	10.5	249.1
Dr Reddy	0.3	7.6	60.2
Jindal Steel	1.3	3.0	143.5
Maruti	-	18.6	279.0
Glaxo	0.1	0.7	357.1

Technically strong

Company	CMP (Rs)	10 days Moving Average (Rs)	Total Traded Qty (lacs)	10 days Average Traded Qty (lacs)
Bombay Dyeing	351	346	8.4	7.8
Sesa Goa	311	308	27.4	27.1
Biocon	336	333	5.4	5.1
IFCI	51	51	193.7	187.0
SRF	305	304	1.6	1.5

Shipping Corporation of India **BUY**
CMP Rs108



After hitting peak of Rs202 in the month of October 2010, stock went through steep correction of 47% without any attempt for a pullback. However recent price behavior suggest formation of 'falling wedge' on the daily chart which is considered as bullish signal.

The breakout from the pattern has already happened Rs112 levels and another attempt to retest the support levels could be on cards in today's trading session before heading towards its near term target of Rs120. **We advise buying SCI in the range of Rs108-110 with stop loss of Rs104 for target of Rs118.**

Negative open interest build-up

Company	Price % chg	OI % chg	Vol % chg
IDBI	(4.6)	8.5	43.0
ITC	(1.4)	21.4	116.3
HDFC Bank	(0.5)	14.8	24.2
Ranbaxy	(1.7)	12.2	82.7
Axis Bank	(1.7)	12.0	27.2

Technically weak

Company	CMP (Rs)	10 days Moving Average (Rs)	Total Traded Qty (lacs)	10 days Average Traded Qty (lacs)
HCL Info	103	104	2.6	2.5
Ranbaxy	505	508	7.2	6.5
Orchid Chem	282	289	41.6	39.8
TCS	1,090	1,110	22.4	19.3
Chambal Fert	72	72	41.5	37.6

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Mutual fund round-up

India Infoline picks

Mutual Funds	Assets	NAV	Absolute return (%) as on February 18, 2011							
	(Rs Cr)	(Rs)	1wk	1mth	3mth	6mth	1yr	2yr	3yr	5yr
ICICI Prudential Dynamic - (G)	2,785	105.4	4.5	(1.1)	(4.1)	3.2	16.3	120.6	32.8	134.1
Reliance Equity Opportunities – (G)	2,861	34.0	5.5	(3.9)	(11.2)	(5.4)	18.4	169.1	33.0	118.5
HDFC Top 200 (G)	9,409	204.3	5.0	(2.2)	(9.9)	(0.1)	17.8	138.3	36.0	140.3
Fidelity Tax Advantage (G)	1,296	21.2	5.1	(3.6)	(9.9)	(1.4)	19.0	126.8	27.0	111.9
HDFC Prudence Fund (G)	5,789	205.3	4.3	(1.9)	(7.6)	(1.1)	18.2	137.1	43.6	132.8

Fund this week: ICICI Prudential Dynamic Plan

Fund snapshot		Asset allocation (%)	
Fund Manager	Sankaran Naren	Equity	80.7
Latest NAV	Rs105.4	Debt	0.0
NAV 52 high/low	Rs113/87	Cash/call	19.3
Latest AUM (cr)	Rs2,785	Top 5 holdings (%)	
Type	Open-ended	Reliance Inds	6.8
Class	Equity - Diversified	BHEL	4.2
Options	Growth & dividend	Infosys Ltd	4.1
Min investment	Rs5000	Cadila Healthcare	3.7
Benchmark	S&P CNX Nifty	Bharti Airtel	3.7
No. of stocks	59	Top 3 sectors (%)	
No. of sectors	30	Bank - Private	11.3
Expense ratio	1.8%	Pharma	9.2
Exit load	1% before 1 year	Bank - Public	3.8

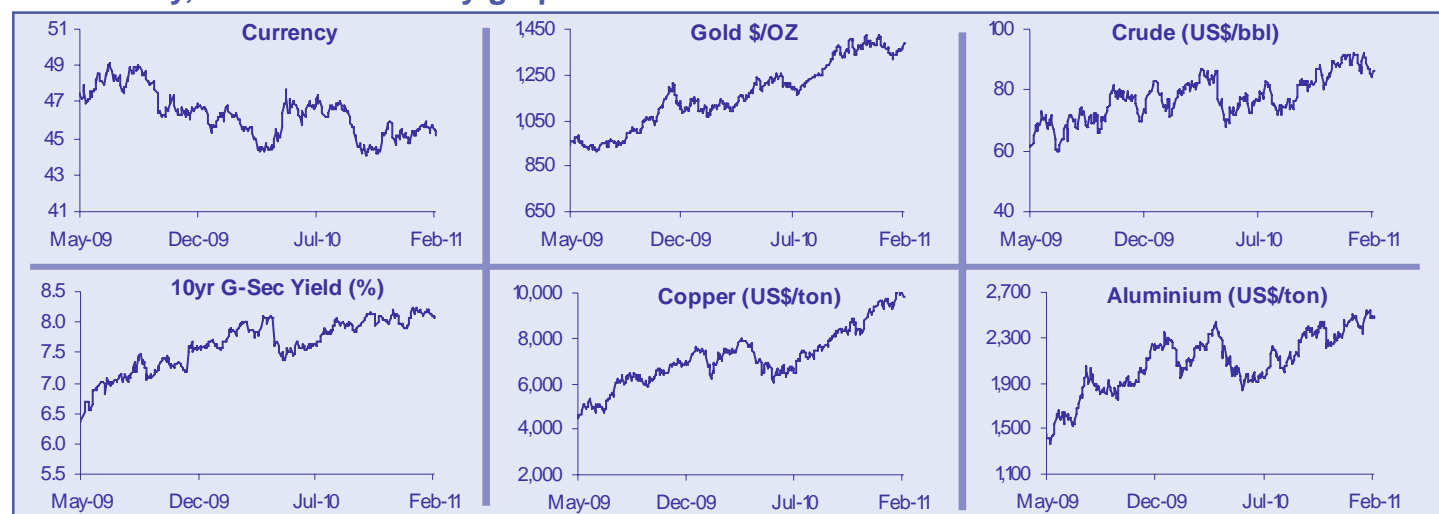
NFO update

Fund Name	Close	Type	Class
TATA FMP Series 31 Scheme A	21-Feb	CE	Debt – FMP
ICICI Pru FMP Sr 55 - 1 Yr Plan C	22-Feb	CE	Debt – FMP
Kotak QIP Series 7	22-Feb	CE	Debt – FMP

Dividend update

Mutual Fund	Dividend %	Record date	Class
UTI Equity Tax Savings Plan	10.0	21-Feb	Equity - Tax
UTI Monthly Interval Plan I	100.0	22-Feb	Debt - FMP
Kotak Qtrly Interval Plan Sr 7	100.0	22-Feb	Debt - FMP

Commodity, debt and currency graphs



* As per previous close

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