

**IIFL**

INDIA PRIVATE CLIENTS

Weekly Wrap

Investment idea

July 23, 2010

Allied Digital Services

BUY
CMP Rs237

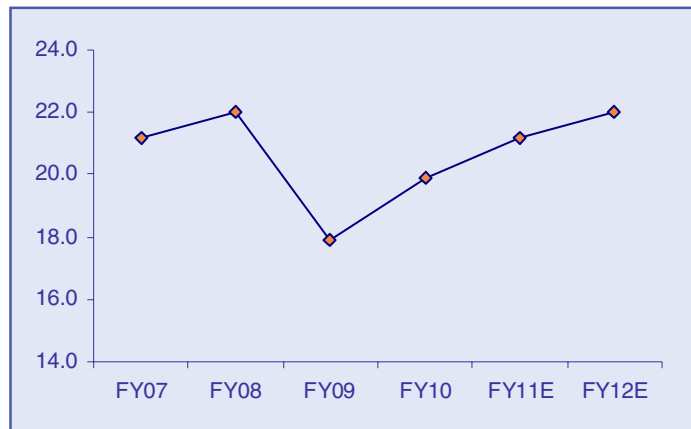
IMS business to drive 29% revenue CAGR over FY10-12

The experience and expertise in system integration (SI), technological depth, wide onsite reach and sizeable remote infrastructure make ADSL a leading IMS player in the domestic market. The company has gained a strong foothold in the US market with the acquisition of EPGS in mid-FY09. After struggling initially, EPGS is now on a sturdy growth path with FY11 revenue expected at US\$55mn, a growth of 28% yoy despite offshoring. Overall IMS revenues of the company are expected to witness FY10-12 CAGR of 38% v/s 16% for SI segment. Resultantly, IMS revenue share would increase from 56% in FY10 to 64% in FY12.

EBIDTA to expand 200bps over FY10-12; to reach 22% in FY12

ADSL's margin improved significantly by 200bps in FY10 driven by implementation of hybrid delivery model in EPGS, cross-selling of value-added services to EPGS clients, revenue mix shift in the domestic business towards high-margin IMS segment and towards RIM within. As per the management, EPGS operating margin has improved to 7% from near 0% when acquired. We expect ADSL's OPM to expand by 100bps each in FY11 and FY12 on further expansion in EPGS OPM (to 17-18% over next two years), continued revenue mix shift towards IMS/RIM and contribution from recently entered Lenovo deal.

Trend in Operating Margin (FY07-FY12E)

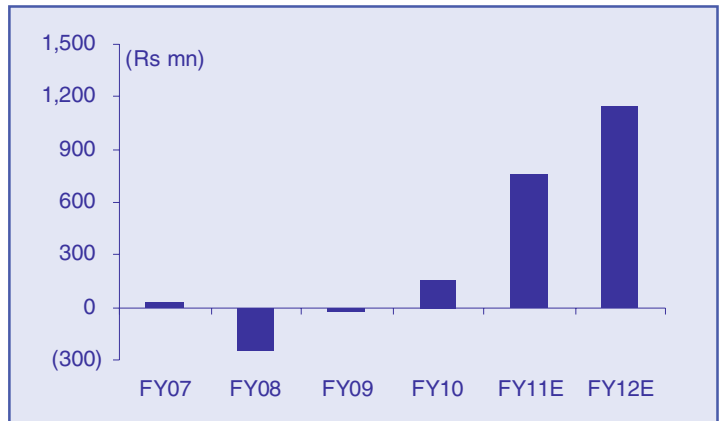


Source: Company, India Infoline Research

To turn FCF positive in FY11; growth without dilution/leverage

We estimate ADSL to have turned CFO positive in FY10 and become FCF positive in FY11. Augmentation in CFO and FCF over FY10-12 would be driven by robust revenue growth, margin expansion, reduction in working capital intensity (due to decline in SI revenue share) and no significant capex (current NOC/SOC utilization is low). This and the robust Cash balance (Rs2.2bn, 20% of m-cap) eliminate the need for equity issuance and balance sheet leverage to fund growth over the next 3-4 years. Another pleasant feature about ADSL is its pure RoE of 20%+ (driven by high RoA) as the company has negligible leverage. The utilization of significant C&E would only improve RoE in the coming years.

Operating Cashflow trend(FY07-FY12E)

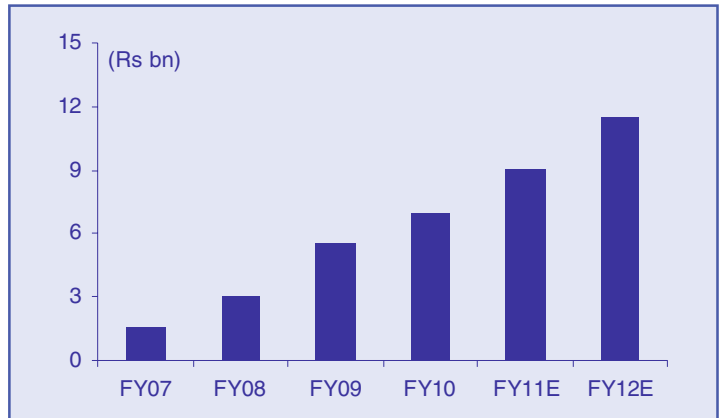


Source: Company, India Infoline Research

Robust 34% earnings CAGR; valuations cheap at 5.6x FY12 P/E

A strong revenue growth of 29% over FY10-12 and material margin expansion (200bps) would drive robust 34% earnings CAGR for ADSL. Given the strong earnings growth, significant improvement in cash flows and a robust/liquid balance sheet, we believe that current valuation of ADSL at 7.5/5.6x FY11/12 P/E is extremely attractive. Further, concerns with respect to EPGS growth/profitability may lessen considerably over the next couple of quarters through demonstrated performance. We see significant valuation re-rating to 7.5-8x FY12 P/E over the next 6 months.

Revenue Growth trend FY09-FY12E



Source: India Infoline Research

Financials

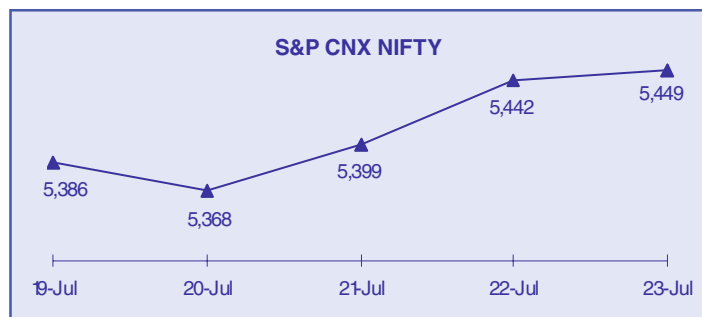
Y/e 31 Mar (Rs m)	FY09	FY10E	FY11E	FY12E
Revenues	5,557	6,980	9,059	11,550
yoy growth (%)	86.9	25.6	29.8	27.5
Operating profit	996	1,387	1,919	2,544
OPM (%)	17.9	19.9	21.2	22.0
Reported PAT	774	1,060	1,417	1,893
yoy growth (%)	75.7	36.9	33.7	33.5
EPS (Rs)	20.6	22.8	30.4	40.6
P/E (x)	11.1	10.0	7.5	5.6

Source: Company, India Infoline Research

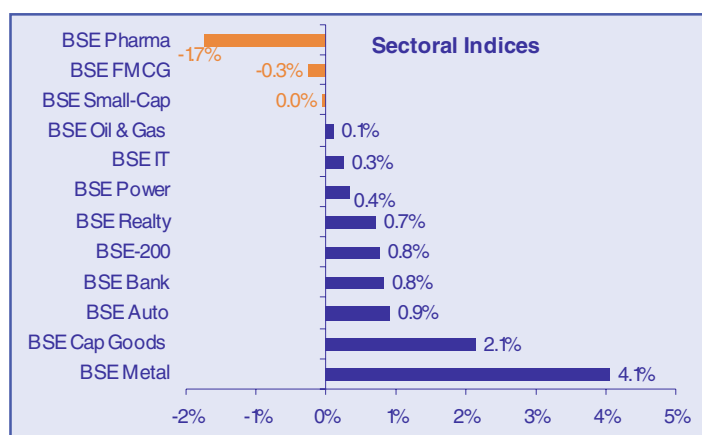
India Infoline Weekly Wrap

Market review

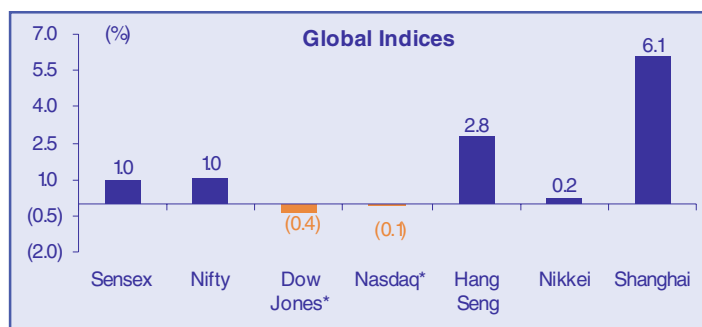
The Indian markets extended their north-bound journey for a third straight week with the benchmark indices hitting new intermediate highs. The NSE Nifty could not breach 5500 as traders continued to be cautious amid the ongoing results season and nervousness linked to the global situation. The upcoming F&O expiry coupled with the RBI policy review and rich valuations also prompted investors to take a pause this week. The BSE Sensex and the NSE Nifty gained about 1% each ending at 18,130 and 5,444 respectively.



After several weeks of consolidation, Metals stock were abuzz on news that China is aiming to slash number of steel makers in the country by about 75%. Capital Goods stocks were among the other top gainers of the week while the Pharma sector witnessed some profit booking.



Global markets were volatile, as investors mulled a slew of results and a string of economic reports. Results were mostly positive though a few did miss estimates. Economic data in the US was mixed, but several reports pointed to a surprise rebound in the debt-strapped Europe. In the middle of the week, sentiment was hit by Fed chairman's cautious outlook on the US economy. Ireland was downgraded by Moody's while Hungary was put on ratings watch. Results from the stress tests of European banks were still awaited.



*As per previous close

FII & MF activity

Date	FII	MF
	Net Investment	Net Investment
15-Jul	561	(743)
16-Jul	760	(176)
19-Jul	204	(172)
20-Jul	372	(147)
21-Jul	319	(201)
Total 2010	40,183	(10,106)

BSE Sensex & BSE 200 Top Five Gainers

BSE Sensex			BSE 200		
Company	CMP (Rs)	% Chg	Company	CMP (Rs)	% Chg
Hindalco Inds	158	5.3	United Breweries	285	27.6
Tata Steel	536	5.3	Bf Utilities	951	19.6
Bharti Airtel	314	5.1	Alstom Projects	705	10.7
M&M	628	4.0	MMTC	30,013	9.6
L&T	1,938	3.6	JSW Steel Ltd	1,195	8.5

BSE Sensex & BSE 200 Top Five Losers

BSE Sensex			BSE 200		
Company	CMP (Rs)	% Chg	Company	CMP (Rs)	% Chg
Dr Reddy's Labs	1,365	(7.6)	Dr Reddy's Labs	1,365	(7.7)
Hindustan Lever	262	(1.6)	NIIT Ltd	66	(7.5)
Hero Honda	1,951	(1.5)	IRB Infra	260	(6.1)
JP Associates	129	(1.4)	Renuka Sugars	66	(5.4)
Reliance Energy	1,137	(1.3)	Zee Ent	298	(4.9)

Bulk deals

Date	Institution	Scrip name	B/S	Qty (lacs)	Price
19-Jul	Carlson Fund	Everonn	S	4.0	566
19-Jul	Morgan Stanley	IFCI	S	74.0	60.7
19-Jul	Kotak Mah	Kale Consultant	S	0.79	130.6

Book closures and record dates

Company	Date	Purpose
MMTC	29-Jul-10	Stock Split
NMDC	29-Jul-10	Dividend
TCS	29-Jul-10	Dividend

Insider Trades

Company	Name	B/S	Qty ('000)
HDFC Bank	Ganesh Sankaran	S	0.4
Astral Poly	Hiranand A. Savlani	S	13.7
Aarti Drugs	Priti P. Patil	B	10.0

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Technical ideas

Indian Bank BUY CMP Rs246



Indian Bank broke out of “Flag” pattern yesterday after prices successfully managed to close above the resistance levels of Rs245 for second consecutive day with good volumes.

As “Flag” structure is characterized with a continuation pattern, the breakout from consolidation zone is likely to pave way for smart upmove ranging from 7-8%. Since last three trading session, the stock has been worshipping higher top and higher bottom structure despite volatile movements in overall markets.

Prior to “Flag” consolidation, there was breakout from larger triangle above Rs231 and its projected target of Rs262 is yet to be met. We can conclude that “Flag” pattern is decisively poised in the mid of price projection of larger triangle giving decent cushion for upside. On the oscillator front, RSI holding above the 50 mark corroborates that the uptrend is intact. **Hence we advise buying stock in the range of Rs249-252 with stop loss of Rs244 for Target of Rs265.**

Positive open interest build-up

Company	Price % chg	OI % chg	Vol % chg
Alstom Project	8.7	30.3	306.6
Allahabad Bank	3.7	19.3	355.2
Idea	4.3	9.9	93.0
Syndicate Bank	2.2	9.3	177.8
Axis Bank	1.6	8.9	(14.5)

Technically strong

Company	CMP (Rs)	10 days Moving Average (Rs)	Total Traded Qty (lacs)	10 days Average Traded Qty (lacs)
Bharti Airtel	314	300	126.0	119.2
Tata Steel	536	512	89.6	89.3
EIH Ltd	128	125	2.9	3.4
State Bank	2,497	2,437	18.6	13.5
Petronet LNG	85	83	23.0	19.5

East India Hotels BUY CMP Rs129



EIH Hotel has given breakout from the ‘Falling Wedge’ pattern on weekly chart as prices closed above Rs124 with sporadically high volumes this week. Daily chart depicts formation of Inverted Head and Shoulder pattern with neckline persisting at its 200-DMA at Rs123.

Such back to back confirmation on short term and medium term chart supports our buying argument at current levels and provides better risk-reward ratio. Daily MACD crossing above the reference line to ignite buying momentum with RSI comfortably placed above recent peak of 61 confirming the uptrend.

Though stock rallied this week hitting an intermediate peak of Rs134, at present the stock is placed near the 50% retracement support of Rs126. We expect this support area to provide as a solid base for bounce back and the stock is expected to rally towards levels of Rs142 in the coming week. **We advise buying stock in the range of Rs126-129 with stop loss of Rs122 for a target of Rs142.**

Negative open interest build-up

Company	Price % chg	OI % chg	Vol % chg
Sun TV	(1.9)	8.9	(3.6)
ONGC	(1.4)	8.3	1.3
ABB	(1.4)	8.3	(39.7)
JP Associate	(2.1)	7.8	49.1
PTC	(2.0)	7.4	(5.0)

Technically weak

Company	CMP (Rs)	10 days Moving Average (Rs)	Total Traded Qty (lacs)	10 days Average Traded Qty (lacs)
PNB	1,051	1,060	9.4	5.3
Gujrat Narm	116	117	1.4	1.3
IDBI Bank	122	123	37.7	33.0
Cipla	326	331	7.5	6.9
Bajaj Hind	116	118	24.9	22.6

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Mutual fund round-up

India Infoline picks

Mutual Funds	Assets	NAV	Absolute return (%) as on July 22, 2010							
	(Rs Cr)	(Rs)	1wk	1mth	3mth	6mth	1yr	2yr	3yr	5yr
HDFC Top 200 (G)	8,020	200.0	0.8	3.9	7.1	14.6	31.2	56.2	56.0	232.1
ICICI Pru Dynamic Plan (G)	2,282	101.5	0.6	1.7	5.2	10.6	38.3	45.6	38.1	203.2
Reliance Growth Fund (G)	7,495	471.7	0.4	2.8	3.3	11.3	38.1	47.1	43.2	214.1
HDFC Tax Saver (G)	2,588	225.9	0.8	4.5	7.8	15.7	45.7	61.3	37.8	158.6
Reliance RSF - Balanced (G)	563	21.8	0.8	3.7	3.7	14.3	30.9	64.7	67.1	116.9

Fund this week: ICICI Pru Dynamic Fund

Fund snapshot		Asset allocation (%)	
Fund Manager	Sankaran Naren	Equity	77.4
Latest NAV	Rs101.5	Debt	0.0
NAV 52 high/low	Rs101/66	Cash/call	22.6
Latest AUM (cr)	Rs2,282	Top 5 holdings (%)	
Type	Open-ended	Reliance Inds.	7.8
Class	Equity - diversified	ICICI Bank	4.4
Options	Growth & dividend	Infosys Tech	4.2
Min investment	Rs5,000	BHEL	4.2
Benchmark	S&P Nifty	TCS	4.2
No. of stocks	55	Top 3 sectors (%)	
No. of sectors	24	IT - Software	13.9
Expense ratio	1.9%	Pharma	7.7
Exit load	1%	Bank - Private	7.5

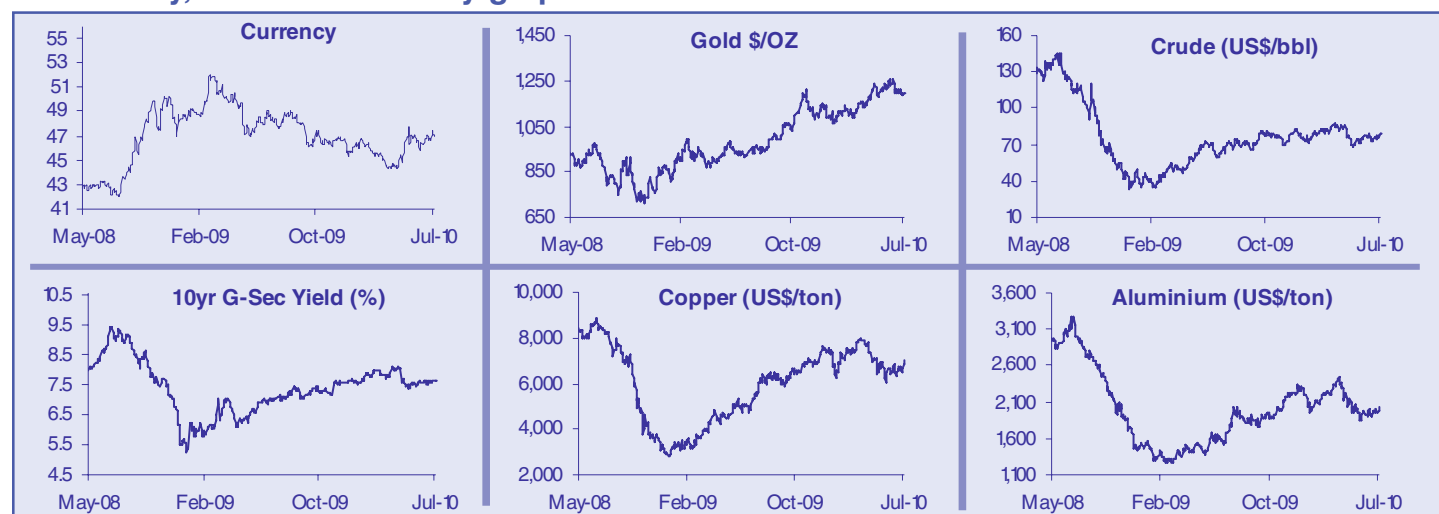
NFO update

Fund Name	Close	Type	Class
HDFC Gold ETF	23-Jul	OE	Gold - ETF
ICICI Pru Gold ETF	27-Jul	OE	Gold - ETF
Canara Robeco Large Cap+ Fund	27-Jul	OE	Equity - Div

Dividend update

Mutual Fund	Dividend %	Record date	Class
ICICI Pru Qrtly Intrvl II Plan A	100.0	26-Jul	Debt - Invnt
UTI CRTS	4.9	27-Jul	Hybrid
UTI Dividend Yield	5.0	27-Jul	Equity

Commodity, debt and currency graphs



* As per previous close

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