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Weekly Review

November 20, 2010

Markets continue to fall on global cues

Markets continued to fall during the week, with the Sensex and Nifty ending down by 2.8% and 3.0%, respectively. The week was marked by fresh developments in the 2G spectrum allocation scam, which weighed heavily on investors' sentiments. On the global front, there were concerns on China tightening its monetary policy further to curb inflation and resurgent sovereign-debt crisis, leading to a fall in global indices. BSE mid-cap and small-cap indices fell even more compared to large-cap indices, with the BSE mid-cap and small-cap indices falling 4.2% and 6.2%, respectively. BSE realty index was the biggest loser yet again, down 9.3%, followed by the BSE oil and gas index, which fell by 4.7%. BSE healthcare sector was relatively strong this week as well, down only 0.1%.

Realty index down by 9.3%

The realty index fell 9.3%, widely underperforming the Sensex that fell by 2.8% during the turbulent week. The top losers were Unitech (-16.6%), Mahindra Lifespace (-10.3%), Ansal Props. (-9.6%), Anant Raj Inds. (-8.7%) and Peninsula (-6.3%). Monetary tightening by China to tackle inflation post the recent US $600bn stimulus increased fears of slowdown in commodities' demand and led to a sell-off in equity markets globally. Weak 2QFY2011results by several realty players dampened hopes of revival in the sector. Unitech was hit by the 2G spectrum sale scam, which as per CAG unduly favoured some of the realty majors.

Inside This Weekly

Axis Bank – Event Update: Axis Bank has entered into an all-share deal worth ₹2,067cr with Enam Securities, for acquiring the IB and equity broking businesses of the latter. In our view, the acquisition is a good strategic fit for the bank, enabling it to fill the gap in its portfolio and provide a more complete offering to its clients, thereby further bolstering its already strong fee income. **We recommend Buy on the stock with a revised Target Price of ₹1,679 (₹1,705).**

Mahindra Satyam – 1Q-2QFY2011 Result Update: Mahindra Satyam reported a 0.4% qoq decline in revenue to ₹1,242cr in 2QFY2011. EBITDA margin fell by 381bp qoq to 5.9% in 2QFY2011. The stock is currently trading at 1.6x EV/Sales as compared to Tech Mahindra, which is trading at just 1.15x EV/Sales (standalone basis). When we value Tech Mahindra on a standalone basis at 12x FY2012E EPS of ₹55.1 and add the value of its stake in Satyam with holding discount of 15%, Tech Mahindra still looks attractive as it gives a target price of ₹952. **Hence, we recommend a switch from Mahindra Satyam to Tech Mahindra.**

Ranbaxy – 3QCY2010 Result Update: For 3QCY2010, Ranbaxy reported higher-than-expected revenue and OPM, driven by strong market share of Valacyclovir in the US, while net profit was primarily buoyed by forex gains. The company remains confident on monetising its FTFs (including near-term *Aricept*). **We maintain Neutral on the stock.**

FII activity

(₹ crore)

As on	Cash (Equity)	Futures	Net Activity
Nov 12	(683)	(2,010)	(2,693)
Nov 15	526	(532)	(5)
Nov 16	(17)	687	670
Nov 17	(219)	(577)	(796)
Net	**(392)**	**(2,431)**	**(2,824)**

Mutual Fund activity (Equity)

(₹ crore)

As on	Purchases	Sales	Net Activity
Nov 11	468	693	(224)
Nov 12	447	630	(183)
Nov 15	552	629	(77)
Net	**1,467**	**1,952**	**(485)**

Global Indices

Indices	Nov 12, 10	Nov. 19, 10	Weekly (% chg)	YTD
BSE 30	20,157	19,585	(2.8)	12.1
NSE	6072	5890	(3.0)	13.3
Nasdaq	2,518	2,518	(0.0)	11.0
DOW	11,193	11,204	0.1	7.4
Nikkei	9,725	10,022	3.1	(5.0)
HangSeng	24,223	23,606	(2.5)	7.9
Straits Times	3,252	3,197	(1.7)	10.3
Shanghai Composite	2,985	2,889	(3.2)	(11.9)
KLSE Composite	1,500	1,506	0.4	18.3
Jakarta Composite	3,666	3,725	1.6	47.0
KOSPI Composite	1,913	1,941	1.5	15.3

Sectoral Watch

Indices	Nov. 12, 10	Nov. 19, 10	Weekly (% chg)	YTD
BANKEX	14,165	13,705	(3.2)	36.6
BSE AUTO	10,126	9,941	(1.8)	33.7
BSE IT	6,047	5,890	(2.6)	13.6
BSE PSU	10,024	9,648	(3.8)	1.2

Axis Bank - Buy

Price - ₹1,427
Target Price - ₹1,679

Event Update

Acquires ENAM's IB and broking business

Axis Bank has entered into an all-share deal worth ₹2,067cr with Enam Securities, following which the investment banking and equity broking business of the latter will be merged with the bank's wholly owned subsidiary. Enam will however, retain its AMC and PMS business. Shareholders of Enam Securities will own 3.3% equity stake in Axis Bank post the deal.

Good strategic fit for the bank: Axis Bank is a dominant player in placement and syndication of debt issues and was ranked first in the Bloomberg Underwriters' league table for Debt Arrangers for the period Jan-Sep 2010. With this deal it takes over one of the top-three domestic firms in the primary equity issuance space. Enam bagged the third place with a market share of 9.3% in the Indian domestic equity and rights issuances as per the Bloomberg league table for FY2010. In our view, the acquisition is a good strategic fit for Axis Bank enabling it to fill the gap in its portfolio and provide a more complete offering to its clients. The deal will also help the bank in further bolstering its already strong fee income.

Valuations expensive but justified: For FY2010, total income of the businesses being acquired from Enam Securities stood at ₹242cr, with PBT of ₹92cr. Similarly, for FY2011 till October 20, 2010, total income stood at ₹182cr, with PBT of ₹77cr. On an annualised basis, FY2011 PBT works out to ~₹132cr and PAT at ~₹88cr, implying valuations of 23.4x FY2011E earnings, which is at ~39% premium to the listed brokerages, on 1HFY2011 annualised PAT basis. However, this should be seen in the context that such deals are usually executed at a large premium on account of the synergies involved. In any case the acquisition size is just ~3.3% of the market capitalization of Axis Bank and is unlikely to materially impact the valuations either way.

Highlights of the deal

- Enam's promoter, Vallabh Bhansali will get a position on the board of the bank, while Manish Chokani will become the CEO of the new subsidiary.
- The deal involves a non-compete agreement in the businesses, which are transferred for a period of five years and the right to use the Enam brand name to the bank for a period of two years.
- The AMC, general insurance, PMS and life insurance distribution will remain with Enam, where it will be free to compete with Axis Bank.
- The deal will need approval of the shareholders, regulators and the High Courts of Gujarat and Mumbai and is expected to be completed in 4-6 months.

Outlook and Valuation

We remain positive on the bank and believe that it deserves premium valuations owing to its attractive CASA franchise, multiple sources of sustainable fee income, strong growth outlook and A-list management. At the CMP, the stock is trading at 2.7x FY2012E ABV of ₹524.7. **We recommend a Buy on the stock, with a revised Target Price of ₹1,679(₹1,705), after conservatively adjusting for the estimated goodwill arising from the acquisition.**

Key Financials

Y/E March (₹ cr)	FY2009	FY2010	FY2011E	FY2012E
NII	**3,686**	**5,004**	**6,491**	**8,174**
% chg	*42.6*	*35.8*	*29.7*	*25.9*
Net Profit	**1,815**	**2,515**	**3,158**	**4,327**
% chg	*69.5*	*38.5*	*25.6*	*37.0*
NIM (%)	3.0	3.1	3.3	3.3
EPS (₹)	**50.6**	**62.1**	**77.9**	**103.3**
P/E (x)	28.2	23.0	18.3	13.8
P/ABV (x)	5.1	3.6	3.1	2.7
RoA (%)	1.4	1.5	1.5	1.7
RoE (%)	19.1	19.2	18.3	21.4

Source: Company, Angel Research; Price as on November 18, 2010

Research Analyst - Vaibhav Agrawal/Shrinivas Bhutda/Vasant Lohiya

Allcargo Global Logistics - Buy

Price - ₹166
Target Price - ₹217

3QCY2010 Result Update

Performance Highlights

Y/E Dec (₹ cr)	3QCY10	3QFY09	% yoy	2QCY10	% qoq
Revenues	**704**	**498**	***41.4***	**639**	***10.1***
EBIDTA	78	58	*34.6*	67	*17.2*
OPM margin (%)	11.1	11.7	*(56)bp*	10.4	*68bp*
PAT	**57**	**36**	***56.6***	**38**	***49.7***

Source: Company, Angel Research

Allcargo Global Logistics' (AGL) consolidated 3QCY2011 results were significantly above our expectations, on account of strong performance across segments. During the quarter, the company re-assessed useful life of its cranes, which resulted in lower depreciation thereby boosting profit by ₹11cr to ₹57cr. ECU line continued its strong performance and registered yoy revenue and profit growth of 27% and 77% respectively, thereby emphasising our call of sustainable recovery in margins. On the bourses, the stock has grossly underperformed since the last one year owing to subdued performance by ECU Line; however the subsidiary has been gaining traction since the last two quarters.

ECU Line drives profitability: AGL reported 41.4% yoy (10.1% qoq) jump in revenues to ₹704cr on the back of strong performance across segments and marked improvement in ECU Line's business. The Indian MTO and CFS business grew 44.8% yoy and 25.9% respectively, on strong volumes owing to improving Exim visibility. Overall, OPM stood at 11.1% (up 50bp qoq and flat yoy), while ECU Line recorded OPM of 6.2% (up 110bp yoy and 80bp qoq). Consequently, consolidated operating profit grew 34.6% yoy to ₹78cr. During 3QCY2010, AGL reassessed estimated useful life of its cranes due to which depreciation expense declined by a sharp 76.9% yoy to ₹3.1cr. Interest cost also fell by 36.1% yoy to ₹5.0cr. Consequently, PAT surged 56.6% yoy to ₹57cr in 3QCY2010.

Equipment leasing margins improve on lower depreciation: AGL reported 59.6% yoy growth in equipment leasing (TFSPL) revenues on account of addition of new cranes. EBIT margins surged 1,585bp yoy and 1,512bp qoq during the quarter due to the change in useful life of cranes, which resulted in lower depreciation. We expect project cargo to register 25% CAGR in revenues over CY2009-12. Overall, we expect both these high-margin segments to contribute 15% to consolidated revenues from current levels of 5% in CY2012E.

Outlook and Valuation

We believe that AGL is well positioned in the container segment through its MTO and CFS divisions. Moreover, with the ECU Line acquisition, AGL has the opportunity to scale up its operations globally as well as enhance profit. We believe that going ahead the stock's performance will depend on continued improvement in ECU Line's operational efficiency. We have upgraded our CY2010E and CY2011E earnings estimates by 16.1% and 13.3% respectively, and introduced CY2012E numbers. We expect the company to register 29.7% CAGR in profit over CY2009-12E. At the CMP of ₹166, the stock is trading at 7.6x CY2012E EPS of ₹21.7. **We maintain a Buy on the stock, with a revised Target Price of ₹217/share (₹195) based on10.0x CY2012E EPS.**

Key Financials (Consolidated)

Y/E Dec (₹ cr)	CY2008	CY2009	CY2010E	CY2011E	CY2012E
Net Sales	**2,314**	**2,061**	**2,613**	**2,989**	**3,477**
% chg	*43.4*	*(10.9)*	*26.8*	*14.4*	*16.3*
Net Profit	**107.7**	**129.9**	**174.5**	**222.5**	**283.2**
% chg	*49.4*	*20.7*	*34.3*	*27.5*	*27.3*
FDEPS (₹)	**8.2**	**9.9**	**13.4**	**17.0**	**21.7**
EBITDA Margin (%)	9.5	10.6	10.6	11.9	12.7
P/E (x)	20.1	16.7	12.4	9.7	7.6
RoE (%)	23.1	18.0	16.8	17.5	18.8
RoCE (%)	22.3	15.2	16.7	18.2	21.0
P/BV (x)	3.5	2.2	1.7	1.5	1.2
EV/Sales (x)	1.0	1.1	0.9	0.7	0.6
EV/EBITDA (x)	10.9	10.4	8.5	6.1	4.6

Source: Company, Angel Research; Price as on November 16, 2010

Research Analyst - Param Desai/Mihir Salot

HDIL - Buy

Price - ₹242
Target Price - ₹302

2QFY2011 Result Update

Performance Highlights

Y/E March (₹ cr)	2QFY11	1QFY11	% qoq	2QFY10	% yoy
Revenue	**373**	**451**	***(17.4)***	**354**	***5.4***
EBIDTA	237	267	*(11.3)*	180	*32.0*
OPM margin (%)	63.7	59.3	*436bp*	50.8	*1,285bp*
PAT	**214**	**234**	***(8.8)***	**149**	***43.9***

Source: Company, Angel Research

HDIL's 2QFY2011 results were marginally above expectations due to steady TDR volumes and sale of high-margin FSI in Vasai and Virar. Further, the company entered into MoU for sale of FSI worth ₹650cr, which would be booked over the next three quarters. Management has guided that the TDR prices and volumes would sustain at current levels, since the govt. is yet to issue an official notification regarding increase of FSI. It outlined an aggressive strategy for new residential launches (~27ms f), which would improve its cash flow going forward. Further, its recent QIP issue is expected to expedite execution of phase II of the airport project.

Sale of high-margin FSI, TDR drives profitability: Revenues increased 5.4% yoy (down 17.4% qoq) to ₹373cr (est.₹434cr) on account of TDR sale of 1msf from MIAL project and an avg realisation of ₹3,000/sf (₹2,950/sf in 1QFY2011). HDIL also sold 1msf of FSI in Vasai/Virar for a total consideration of ₹70cr. EBITDA margin came in at 63.7%, up by 436bp qoq and 1,285bp yoy owing to the lower costs associated with the FSI sale. Consequently, operating profit stood at ₹237cr, up 11.3% qoq and 32.0% yoy. Tax rate for 2QFY2011 stood at 14.3% (20.8%). Hence, PAT grew 43.9% yoy (fell 8.8% qoq) to ₹214cr.

Aggressive new launches in FY2011E-12E: HDIL has de-leveraged its business model by launching various projects through the conventional route since March 2009, thereby reducing its dependence on the TDR market. To-date, it has registered cumulative sales bookings of ₹5,000cr on 7msf launched. Some of the company's recent projects have met with success on account of being launched at 10-20% discount to the prevailing market prices. Management would be adopting the same strategy for its forthcoming launches as well. HDIL proposes to launch new projects (Siddharth Nagar-Goregaon, Ekta Nagar-Kandivali, Pant Nagar- Ghatkopar, Kochi, Palghar) constituting another 27msf in next one year.

QIP expedites MIAL project - phase II and new acquisitions: HDIL successfully raised equity of US $250mn through its QIP at ₹268.18/sh. The issue proceeds would be utilised to part-finance phase II of the MIAL project and new project acquisitions. In 2QFY2011, company added 13msf (Novinon property) through new projects and intends to re-develop Motilal Nagar (Goregaon), which would augment land bank by another 15msf.

Post the QIP, the company's net debt-to-equity stands at 0.32x, with unpaid land cost of ₹300cr to be cleared over the next two years. Majority of HDIL's repayment obligation starts from FY12.

Outlook and Valuation

HDIL is the largest listed slum rehabilitation developer in the most resilient market of Mumbai, which contributes a substantial 71% to our GNAV. Smooth execution of the ongoing ₹200bn MIAL project, sustainable TDR prices and successful new launches will provide strong visibility for HDIL. We maintain our TDR price assumption of ₹2,500/sf for the company's MIAL project. Further, HDIL seeks to deleverage its balance sheet on the back of the expected high revenue inflow from the MIAL project, successful new launches and the recent QIP issue. At the CMP of ₹242, the stock is trading at a 40% discount to our one year forward NAV of ₹402. **We maintain Buy on the stock with a Target Price of ₹302 (25% discount to our NAV).**

Key Financials (Consolidated)

Y/E March (₹ cr)	FY2009	FY2010	FY2011E	FY2012E
Net Sales	**1,750**	**1,523**	**1,888**	**3,210**
% chg	*(26.9)*	*(13.0)*	*24.0*	*70.0*
Net Profit	**786**	**568**	**922**	**1,367**
% chg	*(44.3)*	*(27.8)*	*62.3*	*48.3*
EBITDA (%)	45.8	53.2	57.8	54.1
EPS (₹)	**17.8**	**12.9**	**20.9**	**31.0**
P/E (x)	13.6	18.8	11.6	7.8
P/BV (x)	1.5	1.4	1.1	0.9
RoE (%)	19.5	9.9	11.2	13.2
RoCE (%)	10.4	7.5	9.0	12.3
EV/Sales (x)	7.5	8.1	6.1	3.4
EV/EBITDA (x)	16.3	15.2	10.6	6.2

Source: Company, Angel Research; Price as on November 15, 2010

Research Analyst - Param Desai/Mihir Salot

IVRCL Infrastructure - Buy

Price - ₹135
Target Price - ₹195

2QFY2011 Result Update

Performance Highlights

Y/E March (₹ cr)	2QFY11	2QFY10	% chg (yoy)	1QFY11	% chg (qoq)
Revenue	**1,075.0**	**1,256.5**	***(14.4)***	**1,106.4**	***(2.8)***
EBITDA	95.4	124.1	*(23.1)*	100.8	*(5.4)*
PAT	***23.3***	***47.9***	***(51.3)***	***28.1***	***(17.0)***

Source: Company, Angel Research

IVRCL Infrastructure (IVRCL) reported disappointing set of numbers for the second quarter, which was below our and street estimates. The disappointment on the top-line and EBIDTAM front led to the higher-than-expected de-growth on the bottom-line front. Nonetheless, given the robust order book and undemanding valuations, we maintain a Buy on the stock.

Top-line, operating margins below estimates: On the top-line front, the company posted 14.4% de-growth to ₹1,075cr (₹1,257cr) as against our expectation of de-growth of 7.6% mainly due to loss of revenue because of monsoons (~₹300cr). Management has lowered its top-line guidance of ₹6,700-7,100cr to ₹6,500cr (our earlier estimate), which still implies growth run rate of ~47% for the next half. However, we believe that it would be an uphill task for the company to achieve the same. We have pruned our estimates and also expect the company to lower its guidance going ahead.

Operating margins also declined by 100bp to 8.9% (9.9%) v/s our expectation of 9.3%. Margins were lower in spite of higher other operating income; adjusted for the same margins would have come in at a dismal 7.2%. However, management has guided for EBITDAM of 9.5-9.7% for FY2011. We have penciled in margins of 9.3-9.4% for FY2011-12.

Leading to dismal performance on bottom-line front: The below-par performance on the top-line and operating fronts led to a staggering 51.3% de-growth in earnings v/s our estimate of 32.8% de-growth.

Order Book analysis

During the quarter, the company bagged orders worth ~₹5,600cr taking the order inflow tally to-date for FY2011 to ₹9,600cr. The company has been witnessing strong order inflow along with receiving international orders. As on November 2010, order book stood at ₹23,600cr and diversified across six segments in turn lending high revenue visibility.

Outlook and Valuation

We have valued IVRCL on SOTP basis. Its core construction business has been valued at a P/E of 14x FY2012E EPS of ₹10.1 (₹141/share), whereas its stake in subsidiaries IVR Prime (₹41/share) and Hindustan Dorr-Oliver (₹13/share) has been valued on a Mcap basis post assigning a 30% holding company discount. At the CMP of ₹135, the stock is trading at attractive valuations of a P/E of 13.4x FY2012E EPS and 1.6x FY2012E P/BV on standalone basis and adjusting for its subsidiaries at P/E of 8.1x FY2012E EPS and 1.0x FY2012E P/BV. Therefore, on the back of the company's excellent execution track record, robust order book-to-sales ratio and attractive valuations, **we maintain a Buy on the stock, with a revised Target Price of ₹195 (₹216).**

Key Financials (Standalone)

Y/E March (₹ cr)	FY2009	FY2010	FY2011E	FY2012E
Net Sales	**4,882**	**5,492**	**5,974**	**7,668**
% chg	*33.4*	*12.5*	*8.8*	*28.4*
Adj. Net Profit	**225.6**	**211.3**	**209.6**	**272.4**
% chg	*7.1*	*(6.3)*	*(0.8)*	*30.0*
FDEPS (₹)	**8.4**	**7.8**	**7.8**	**10.1**
EBITDA Margin (%)	8.6	9.7	9.3	9.4
P/E (x)	16.2	17.3	17.5	13.4
RoAE (%)	13.2	11.5	10.8	12.6
RoACE (%)	12.7	14.2	12.8	13.3
P/BV (x)	2.0	2.0	1.8	1.6
EV/Sales (x)	1.0	0.9	0.9	0.8
EV/EBITDA (x)	11.8	9.6	9.8	9.0

Source: Company, Angel Research; Price as on November 15, 2010

Research Analyst - Shailesh Kanani/Nitin Arora

IL&FS Transportation Networks - Accumulate

Price - ₹314
Target Price - ₹358

2QFY2011 Result Update

Performance Highlights

Y/E March (₹ cr)	2QFY11	1QFY11	% chg (qoq)
Net sales	**883.3**	**776.1**	***13.8***
Op. profit	261.5	261.5	*0.0*
Net profit	**107.5**	**104.6**	***2.7***

Source: Company, Angel Research

For 2QFY2011, IL&FS Transportation Networks (ITNL) posted mixed numbers on a qoq basis, with moderate top-line growth; normalised EBITDA margins, as expected; and flat earnings. Outstanding order book for the company currently stands at ₹11,960cr (6.6x FY2011E revenue), which lends decent revenue visibility. Owing to the robust order book, diversified portfolio and favourable industry dynamics, we believe ITNL is well placed to leverage on the upcoming opportunities in the road sector. Hence, we maintain Accumulate on the stock.

Top line indicates healthy growth: ITNL reported decent top-line growth of 13.8% on a qoq basis to ₹883.3cr (₹776.1cr). The company has achieved financial closure for its Chenani Nashri and Jorbat Shillong projects. Warora-Chandrapur and Narketapalli Addanki projects are expected by January 2011. These projects will contribute to ITNL's revenue in FY2012 and, hence, we expect it to continue with its growth momentum.

Margins under pressure as expected; trend to continue: Operating margins stood, as expected, at 29.6% compared to 33.7% in 1QFY2011, given the increasing share of the low-margin C&EPC segment in the company's consolidated top line. Going ahead as well, we expect the trend to continue, given the increasing proportion of the C&EPC segment's revenue.

On the earnings front, net profit increased marginally on a qoq basis to ₹107.5cr (₹104.6cr) due to lower EBITDA margins despite decent top-line growth.

Order book

ITNL's outstanding order book currently stands at ₹11,960cr (6.6x FY2011E revenue), which lends decent revenue visibility over the next few years. Order book does not include the order worth ₹1,500cr from Udampur-to-Ramban project.

During the quarter, ITNL did not receive any order, primarily due to a slowdown in award activity by NHAI. However, post the second quarter, the company has bagged the MP border project and is L1 in the Udampur-to-Ramban project. Going ahead as well, management is hopeful of bagging more orders in 2HFY2011 due to the expected pick-up in awarding of contracts by NHAI.

Outlook and valuation

There has been a strong focus on re-vitalising the road sector, particularly since the re-election of the UPA government in May 2009. Further, improvement in liquidity scenario and the emergence of a more realistic risk-sharing system have positively contributed to the sector. Hence, we are optimistic on the road segment, despite a lull in awarding activity in the recent months. We have valued ITNL on an SOTP basis - by assigning 7.5x EV/EBITDA to its standalone business and have valued its investments on DCF/Mcap/BV basis - and have arrived at a target price of ₹358, which implies an upside of 13.9% from current levels. **Hence, we maintain Accumulate on the stock.**

Key Financials (Consolidated)

Y/E March (₹ cr)	FY2009	FY2010	FY2011E	FY2012E
Net sales	**1,225**	**2,403**	**3,480**	**6,071**
% chg	*238.9*	*96.1*	*44.8*	*74.5*
Adj. net profit	**26.2**	**344.4**	**424.3**	**502.8**
% chg	*(71.9)*	*1,212.8*	*23.2*	*18.5*
FDEPS (₹)	**1.4**	**17.7**	**21.8**	**25.9**
EBITDA margin (%)	15.8	33.1	26.7	19.8
P/E (x)	232.8	17.7	14.4	12.1
RoAE (%)	2.8	26.2	22.5	22.1
RoACE (%)	5.6	17.9	12.6	9.6
P/BV (x)	6.6	3.6	3.0	2.4
EV/Sales (x)	6.4	3.7	3.3	2.9
EV/EBITDA (x)	40.4	11.2	12.4	14.5

Source: Company, Angel Research; Price as on November 15, 2010

Research Analyst - Shailesh Kanani/Nitin Arora

JK Lakshmi Cement - Buy

Price - ₹60
Target Price - ₹92

2QFY2011 Result Update

Performance Highlights

Y/E March (₹ cr)	2QFY11	1QFY11	% chg (qoq)	2QFY10	% chg (yoy)
Net revenue	**266**	**324**	***(17.8)***	**345**	***(23.0)***
Operating profit	28	56	*(50.8)*	114	*(75.7)*
OPM (%)	10.4	17.4	*(698bp)*	33.1	*(2,314bp)*
Net profit	**6**	**17**	***(65.7)***	**47**	***(87.8)***

Source: Company, Angel Research

For 2QFY2011, JK Lakshmi (JKLC) posted a 2,314bp yoy decline in OPM to 10.4% due to a fall in realisations and a steep 62% yoy increase in per tonne power and fuel costs, due to higher coal prices. Going ahead, we expect JKLC to face relatively less pricing pressure post the recent price hike and the pick-up in demand post monsoons. JKLC is currently trading at US $39/tonne based on FY2012E capacity, at a valuation lower than its peers and well below its replacement cost.

PAT down by 87.8% yoy due to lower realisations, higher power cost: JKLC's 2QFY2011 top line fell by 23.0% yoy to ₹266cr. The decline was due to a 13.7% drop in despatches to 0.82mn tonnes coupled with lower realisations, due to low demand in the northern and western regions, the company's major markets. The operating profit fell by 75.7% yoy to ₹28cr primarily due to lower realisations and a substantial increase in power costs. On the bottom-line front, net profit declined by 87.8% yoy to ₹6cr.

Operational highlights

In 2QFY2011, JKLC's per tonne cement realisations declined by 10.8% yoy to ₹3,244. Despatches during the quarter also fell by 13.7% yoy to 0.82mn tonnes, as the northern and western regions, the company's primary markets, experienced low demand due to above-normal rains. The northern region witnessed lower demand due to the end of commonwealth games-related construction. Power and fuel costs per tonne increased by 62.2% yoy to ₹1,164. Operating profit per tonne stood at ₹338 during the quarter, down 71.9% yoy.

Activity concentration in the northern region to protect margins: JKLC derives more than 50% of its revenue from the northern region. Although, this region is currently facing low demand, the long-term demand outlook for the northern region is good due to huge infrastructure and real estate projects that are likely to come up in the region. Further, the region is not expected to witness major capacity addition over the next two years. Thus, we expect players in the region to regain pricing power, with the improvement in demand situation. Hence, we expect JKLC to gain out of the positive demand-supply dynamics in the region.

Outlook and valuation

We expect JKLC to post a modest 2.3% CAGR in top line over FY2010-12E, aided by a 6% CAGR in despatches over the period. We expect realisations to improve going ahead, aided by better demand post the cessation of monsoons. JKLC is currently trading at US $39/tonne on FY2012E capacity, at ~50% below its replacement cost. Even on relative terms, the company is trading at a huge ~50% discount to the valuation of other mid-cap players. We have valued JKLC at an average target EV/EBITDA of 5.5x and EV/tonne of US $55 on FY2012E estimates to arrive at a fair value of ₹92 (implying 53% upside from current levels), which is still at a discount to its replacement cost. **Hence, we maintain Buy on the stock with a Target Price of ₹92.**

Key Financials

Y/E March (₹ cr)	FY2009	FY2010	FY2011E	FY2012E
Net sales	**1,225**	**1,491**	**1,409**	**1,561**
% chg	*10.6*	*21.7*	*(5.5)*	*10.7*
Net profit	**179**	**241**	**82**	**107**
% chg	*(20.2)*	*35.0*	*(66.1)*	*30.6*
FDEPS (₹)	**29.2**	**19.7**	**6.7**	**8.7**
OPM (%)	25.4	28.5	18.2	19.7
P/E (x)	4.1	3.0	9.0	6.9
P/BV (x)	0.9	0.8	0.6	0.6
RoE (%)	24.2	26.0	7.4	8.7
RoCE (%)	16.6	19.1	7.4	8.1
EV/Sales (x)	0.9	0.5	0.6	0.6
EV/Tonne (US $)	50	36	35	39
Installed cap. (mtpa)	5	5.4	5.4	5.4
EV/EBITDA (x)	3.6	1.8	3.3	3.0

Source: Company, Angel Research; Price as on November 15, 2010

Research Analyst - Rupesh Sankhe/V Srinivasan

McNally Bharat Engineering - Buy

Price - ₹239
Target Price - ₹368

2QFY2011 Result Update

Performance Highlights

Parameters (₹ cr)	2QFY11	2QFY10	*% chg yoy*	1QFY11	*% diff*
Sales	**402**	**308**	***31x***	**284**	***42***
EBITDA	22	17	*29*	16	*40*
EBITDA margin (%)	5.4	5.5		5.5	
PAT	**10**	**4**	***128***	**6**	***57***

Source: Company, Angel Research

McNally Bharat Engineering (MBE) posted strong set of numbers for 2QFY2011 on standalone basis. The company's consolidated order book stood at ₹4,518cr (2.5x FY2010 consolidated revenues) at the end of 2QFY2011 led by the power sector, which lends high revenue visibility.

Strong execution-led growth: For 2QFY2011, MBE posted yoy sales growth of 31%. EBITDA grew 29% yoy, which was restricted due to the marginal decline in EBITDA margin, which came in at 5.4% (5.5%). Bottom-line surged 128% primarily on the back of the 10x jump in other income to ₹4cr during the quarter. Subsidiary, McNally Sayaji (MSE) posted disappointing performance for the quarter clocking mere 1% yoy growth in sales, while PAT declined by a substantial 39% to ₹7cr.

Robust execution persists: MBE's standalone revenues grew 31% for the quarter to ₹402cr on the back of strong order booking. Going ahead, order booking is likely to gather momentum in 2HFY2011 and surpass 1HFY2011.

Strong order inflow: MBE's (standalone) order book has increased from ₹2,200cr in 4QFY2009 to ₹4,006cr in 2QFY2011 (2.7x FY2010 standalone revenues), registering a yoy growth of 37%. On a consolidated basis, we estimate the company's order book to be ₹4,518 at the end of 2QFY2011 (2.5x FY2010 consolidated revenues). Currently, the company has bid for orders worth ₹9,000cr.

Subsidiaries performance

MSE, a key contributor to MBE's overall profit, posted lacklustre numbers for the quarter. Total sales grew by a mere 1% to ₹114cr due to lower volume growth, while EBITDA margin declined by 500bp to 15% on account of higher contribution from low-margin business. Lower EBITDA margin resulted in PAT falling 39% to ₹7cr. The company has an order book of ₹277cr (0.9x FY2010 revenues), which grew 12% qoq.

MSE is changing its business model by shifting focus from existing model of selling product to the high-growth segment of manufacturing products for which designs are provided by customers. Overall, management has guided for sales turnover of ₹340cr in FY2011 and ₹400cr in FY2012.

The CMT unit posted total income of ₹111cr with EBITDA margin of 13.7% and PBT of ₹13cr for 2QFY2011. The unit had an order book of ₹235cr at the end of quarter, down 34% from the 1QFY2011 order book position of ₹355cr. Management targets to achieve revenues of ₹280cr in FY2011 and ₹375-400cr in FY2012.

Outlook and Valuation

We believe that an improving economic scenario, the government focus on infrastructure spend and pick-up in private capex augurs well for EPC companies like MBE. Hence, over FY2010-12, we estimate the company to register a CAGR of 32% and 25% in sales and profit, respectively. However, we have revised our sales and EBITDA margin estimates downwards to factor in MSE's poor 2QFY2011performance. At ₹239, the stock is available at attractive valuations of 9.1x FY2012E earnings and 4.8x FY2012E EV/EBITDA. **Hence, we maintain a Buy on the stock, with a revised Target Price of ₹368 (₹406).**

Key Financials (Consolidated)

Y/E March (₹ cr)	FY2009	FY2010	FY2011E	FY2012E
Net Sales	**1,115**	**1,806**	**2,398**	**3,124**
% chg	*101.0*	*61.9*	*32.8*	*30.3*
Net Profit	**39.7**	**52.1**	**52.6**	**81.7**
% chg	*91.1*	*31.3*	*1.0*	*55.3*
EBITDA (%)	9.8	8.5	7.4	8.1
EPS (₹)	**12.8**	**16.8**	**16.9**	**26.3**
P/E (x)	18.7	14.3	14.1	9.1
P/BV (x)	3.6	2.8	2.4	1.9
RoE (%)	21.7	22.1	18.4	23.6
RoCE (%)	29.4	22.7	21.5	25.1
EV/Sales (x)	0.8	0.5	0.4	0.4
EV/EBITDA (x)	8.5	6.7	5.9	4.8

Source: Company, Angel Research; Price as on November 16, 2010

Research Analyst - Sageraj Bariya

Patel Engineering - Buy

Price - ₹370
Target Price - ₹565

2QFY2011 Result Update

Performance Highlights

Y/E March (₹ cr)	2QFY11	2QFY10	% chg (yoy)	1QFY11	% chg (qoq)
Net Sales	**765.9**	**608.0**	**26.0**	**702.3**	**9.1**
Operating Profit	116.1	113.6	2.2	118.5	(2.1)
Net Profit	**43.6**	**40.7**	**7.2**	**40.1**	**8.8**

Source: Company, Angel Research

Top-line surprises: Patel Engineering Limited (PEL) posted top-line growth of 26.0%, which was much better than peers, aided by real estate revenues and better execution in the US subsidiary. On the order book front, the company disappointed with order inflow at a mere ₹400cr qoq to ₹8,400cr in 2QFY2011 (2.3x FY2011E revenues). However, management has indicated that captive orders would ensure robust order inflow for the year. Also, the strong L1 status (₹2,100cr) would provide the necessary fillip.

Operating margins lower owing to change in sales mix: Operating margins came in at 15.2% yoy (18.7%), which was below our estimates mainly on account of lower contribution from the hydro segment. Management has guided 20% growth in top - and bottom-line for FY2011. Earnings came in at ₹43.6cr, a yoy jump of mere 7.2% mainly on account of subdued operating margins and higher other income in 2QFY2010. The contribution of the high-margin real estate contribution to overall margin is not known, but we believe it would have positively impacted PAT margins which came in 5.7%.

Project updates: PEL has invested equity to the tune of ₹250cr in its power ventures, which we have valued at 1x. Land for the first phase (1,050MW plant in Nagapatnam district, Tamil Nadu) has been acquired and coal linkages are also in place from the Mahanadi coal fields. Management expects financial closure by December 2010 and construction work is likely to start in 2QFY2012. Further, regarding bringing in a strategic partner, management clarified that it would happen only in CY2011 when the construction work starts gaining visibility and the venture attracts right valuations.

In real estate, the company has mentioned that the progress is satisfactory with bookings of nearly 1,100 apartments for Smondoville-1 out of the total 1,123 apartments, which also implies that the project does not require cash and would be self funded. During 2QFY2011, PEL booked ₹54cr from real estate from its Smondoville Bangalore project, as against our expectation from 2HFY2011. Over the next couple of years, this project is expected to generate revenues of ₹240cr and ₹240cr from Phase I and II. The Jogeshwari tower project work has commenced; total project cost is ₹200cr with expected lease revenue of more than ₹100cr pa @ ₹125/sq ft.

Outlook and Valuation

PEL has exposure to the high-margin hydropower and irrigation segments owing to which it clocks higher margins than peers. The company has substantial L1 orders (₹2,100cr) pending for the last 3-4 quarters, and we believe that post conversion of the same would be one of the triggers for the stock. PEL has also ventured into the power and real estate businesses, which we believe would be other catalysts for the stock going ahead. **Hence, we maintain a Buy on the stock, with a SOTP Target Price of ₹565, based on a Target P/E of 14x FY2012E EPS of ₹32.7 and valuing the company's investments in real estate, power and road at ₹108/share.**

Key Financials (Consolidated)

Y/E March (₹ cr)	FY2009	FY2010	FY2011E	FY2012E
Net Sales (incl op. income)	**2,460**	**3,191**	**3,693**	**4,297**
% chg	*32.6*	*29.7*	*15.7*	*16.3*
Adj. Net Profit	**139.2**	**198.2**	**215.0**	**228.5**
% chg	*(8.1)*	*42.4*	*8.5*	*6.3*
FDEPS (₹)	**19.9**	**28.4**	**30.8**	**32.7**
EBITDA Margin (%)	15.8	15.9	16.1	15.8
P/E (x)	18.6	13.0	12.0	11.3
RoAE (%)	14.9	16.7	14.8	13.8
RoACE (%)	11.0	12.5	12.3	11.9
P/BV (x)	2.5	1.9	1.7	1.5
EV/Sales (x)	1.6	1.4	1.3	1.3
EV/EBITDA (x)	10.4	8.8	8.1	8.2

Source: Company, Angel Research; Price as on November 15, 2010

Research Analyst - Shailesh Kanani/Nitin Arora

Mahindra Satyam - Not Rated

Price - ₹84

Result Update 1QFY2011& 2QFY2011

Performance Highlights

Mahindra Satyam reported its 1QFY2011 and 2QFY2011 numbers, which were below the market's expectations. The company reported a 0.4% qoq decline in revenue to ₹1,242cr in 2QFY2011 from ₹1,248cr in 1QFY2011. EBITDA margin declined by 381bp qoq to 5.9% in 2QFY2011 from 9.7% in 1QFY2011 due to wage hike in 2QFY2011 (3% onsite and 15% offshore). During the quarter, Mahindra Satyam added 346 employees, taking the total headcount to 28,068. Further, the company plans to hire 5,000 entry-level graduates in the next year. Utilisation during the quarter stood at 71%, as compared to peers that reported utilisation excluding trainees above 80%, as still majority of Mahindra Satyam's middle-level employees are underutilised.

Operating metric highlights: Mahindra Satyam is witnessing good traction in service industries, such as manufacturing, telecom, media and entertainment. The financial services segment has just started picking up, while the healthcare and life sciences segment remains weak. Among service lines, enterprise solutions, engineering services and infrastructure management services have shown good strength. During the quarter, the attrition rate stood at 25% (annualised basis). Total active client base stood at 217 (active clients are clients who contribute more than US $250,000 per year to revenue).

Margin recovery on the cards: Mahindra Satyam is currently focusing on improving its revenue and strengthening its business, which would eventually lead to improvement in margins. Going forward, the margins levers for the company can be a) increasing utilisation levels (currently at 71%) with more business from existing clients and addition of new clients and b) benefitting from SG&A synergies by reducing SG&A costs (currently 21% of sales) and rental expenses by shifting employees to company-owned facilities.

Switch to Tech Mahindra: The operational performance of Mahindra Satyam came in below the market's expectations, which will taper-off the full-year operational performance expected in FY2011. Mahindra Satyam is currently trading at 1.6x EV/Sales, which is on a higher side as compared to Tech Mahindra, which is trading at just 1.15x EV/Sales on a standalone basis. Also, when we value Tech Mahindra on a standalone basis at 12x FY2012E EPS of ₹55.1 and add the value of its stake in Satyam with holding discount of 15% to its market cap, Tech Mahindra still looks attractive on risk-reward basis as it gives a target price of ₹952, providing a 31% upside from current levels. **Hence, we recommend a switch from Mahindra Satyam to Tech Mahindra.**

Valuation of Tech Mahindra (SOTP basis)

(₹ cr)	FY2012E
Fully diluted EPS for Tech Mahindra	55.1
Target P/E (x) for Tech Mahindra	12
Target Mcap for Tech Mahindra (ex- Satyam)	8,148
Market value of stake in Mahindra Satyam	4,164
Holding discount to Mahindra Satyam's stake	15%
Target Mcap of stake in Mahindra Satyam	3540
Target Mcap for Tech Mahindra (incl. Satyam)	11,687
Target price (incl. value of stake in Satyam) (₹)	952

Source: Company, Angel Research; Price as on November 15, 2010

Profit and Loss statement (Consolidated)

(₹ cr)	2QFY2011	1QFY2011	% chg (qoq)	FY2010
Inc. from operations	**1,242.4**	**1,248.0**	**(0.4)**	**5,481.0**
Employee cost	913.6	867.7	5.3	3,981.1
as % to sales	73.5	69.5		72.6
Oper & Adminiexp	255.3	258.9	(1.4)	1,043.0
EBITDA	73.5	121.4	(39.5)	456.9
as % to sales	5.9	9.7	(381)bp	8.3
Depreciation	42.9	59.4	(27.8)	214.4
EBIT	30.6	62.0	(50.6)	242.5
Interest charges	2.5	2.5	0.0	32.9
Other income	31.3	73.2	(57.2)	105.6
PBT	59.4	132.7	(55.2)	315.2
Exceptional item	8.4	7.9	6.3	416.9
Tax	27.0	26.4	2.3	22.2
PAT	**24.0**	**98.4**	**(75.6)**	**(123.9)**
Minority interest	0.7	0.9	(22.2)	0.7
Adj. PAT	**23.3**	**97.5**	**(76.1)**	**(124.6)**
Diluted EPS (₹)	0.20	0.83	(76.1)	(1.1)

Source: Company, Angel Research; Price as on November 15, 2010

Research Analyst - Srishti Anand/Ankita Somani

Ranbaxy - Neutral

Price - ₹567

3QCY2010 Result Update

Performance Highlights

Y/E Dec (₹ cr)	3QCY10	2QCY10	% chg (qoq)	3QCY09	% chg (yoy)
Net Sales	**1,884**	**2,099**	***(10.2)***	**1,716**	***9.8***
Other Income	144	397	*(63.7)*	186	*(22.4)*
Operating profit	88	365	*(76.0)*	43.8	*100.1*
Forex loss/ (gain)	(235)	349	*(167)*	(8)	*0*
Net Profit	**308**	**326**	***(5.5)***	**115**	***168.8***

Source: Company, Angel Research

For 3QCY2010, Ranbaxy reported higher-than-expected revenues and OPM driven by strong market share of Valacyclovir in the US, while net profit was primarily buoyed by forex gains. The company remains confident on monetising it's FTFs (including near term *Aricept*). However, the company disappointed due to the lack of clarity on the time-line resolution of the USFDA and DOJ issues (pending more than two years) and would continue to be an overhang on the stock. We maintain Neutral on the stock.

Revenues beat estimates driven by Valacyclovir: Ranbaxy reported net sales of ₹1,884cr, up 9.8% driven primarily by the higher-than-expected sales of Valacyclovir in the US. The North America region grew by a stellar 70% yoy to ₹491cr as Valacyclovir, even post exclusivity, continued to have a strong market share of 36%. India sales came in at ₹493cr, up 18% yoy as project Viraat has started showing results. The CIS region grew 11% to ₹121cr during the quarter. However, Europe sales declined 5% to ₹277cr on the back of loss in one of its key customers. However, growth in Romania remained strong at 20%. Further, Africa de-grew 6% to ₹164cr and RoW registered de-growth of 12% to ₹233cr on the back of restructuring across key geographies.

OPM marred by inventory provision: Ranbaxy reported OPM of 4.7%, which was however marred by inventory provision; adjusting for the same OPM came higher than our estimates at 7.3% driven by strong market share in Valacyclovir. The company reported gross margins of 58.6% for the quarter.

Net profit buoyed by forex gain: Ranbaxy reported net profit of ₹308cr, which more than doubled yoy primarily due to the forex gain; for the quarter forex gains from FCCBs and derivative contract came in at ₹259cr. Depreciation cost however, increased 51% yoy to ₹99cr during the quarter.

Concall takeaways

- The company backtracked on the time-line of the composite resolution of the USFDA and DOJ issues, which was expected by end of CY2010.
- Despite the lack of clarity on the time-line of resolution of the USFDA issue, the company remains confident of monetising the FTF opportunity (including near-term *Aricept*). During the quarter the company also began ANDA (7 filed) filings from the Ohm facility.

Outlook and Valuation

The stock is trading at 3.3x CY2011E and 2.8x CY2012E EV/Sales (ex-FTF). Given lack of clarity on resolution of the USFDA and DOJ issues (pending for more than two years), we continue to value the stock at a discount to its peers and historic average. **We recommend Neutral on the stock, with a Fair Value of ₹578, valuing the base business at 2.2x CY2012E EV/Sales (₹449/share), while the Para IVs fetch ₹129/share.**

Key Financials (Consolidated)

Y E Dec (₹ cr)	CY2009	CY2010E	CY2011E	CY2012E
Net Sales	**7,329**	**8,162**	**9,913**	**11,593**
% chg	*1.5*	*11.4*	*21.4*	*17.0*
Reported Profit	**296**	**1,602**	**1,182**	**1,816**
% chg	*-*	*-*	*(26.2)*	*53.6*
EPS (₹)	**7.1**	**38.1**	**28.1**	**43.2**
EBITDA Margin (%)	6.1	16.0	19.0	23.0
P/E (x)	80.4	14.9	20.2	13.1
RoE (%)	3.3	31.2	19.8	25.6
RoCE (%)	2.4	12.5	18.4	27.6
P/BV (x)	5.5	4.3	3.7	3.1
EV/Sales (x)	3.6	3.0	2.5	1.9
EV/EBITDA (x)	59.0	18.9	13.1	8.4

Source: Company, Angel Research; Price as on November 16, 2010

Research Analyst - Sarabjit Kour Nangra /Sushant Dalmia, CFA

Opportunity to buy on Dips

Sensex (19585) / Nifty (5890)

In our previous Weekly report, we had mentioned that any close below the upward Gap area of 20080 to 20267 / 6032 to 6084 levels formed on the Daily chart, would see the indices re-test the prior swing lows of 19769 / 5932 or may even test lower levels of 19464 - 19076 / 5845 -5726. The week opened on a positive note and witnessed a mild recovery, which was however short lived and heavy selling pressure dragged down the Sensex and the Nifty to end with net loss of 2.8% and 3.0% vis-à-vis the previous week.

Pattern Formation

- On the **Daily chart**, the prices have moved closer towards the upward sloping trendline joining the two previous significant lows of 25th May 2010 (15960 / 4787) and 31st Aug 2010 (17820 / 5349) which may probably act as a support for the indices *(Refer Exhibit No.1)*.
- Also, on the **Daily chart**, the prices are near the Fibonacci retracement levels of 19464 - 19076 / 5843 - 5726 (50% and 61.8% of the move which started from 17819 - 21108 / 5348 - 6339) which are likely to act a support for the markets *(Refer Exhibit No.1)*.

Exhibit 1: Sensex Daily chart

Source: Falcon

Future Outlook

With the F&O derivative expiry in the coming week, we are likely to witness volatile sessions. On the Daily chart, the upward sloping trendline joining the two significant lows of 25th May2010 (15960 / 4787) and 31st Aug 2010 (17820 / 5349) is the immediate support for the indices. The value of the trendline is round about 19465 / 5843. However, a breach of this trendline could drag the indices lower to test 19076 / 5726 levels. As the intermediate Weekly trend is up there is high probability that near the support levels buying is likely to emerge. On the upside, 19982 - 20056 / 6013 - 6076 may act as resistance for the week.

Traders are advised to start accumulating quality large- and mid-cap counters in the range of 19464 - 19076 / 5845 - 5726 levels.

Weekly Pivot Levels For Nifty 50 Stocks

SCRIPS	R2	R1	PIVOT	S1	S2
SENSEX	20699	20142	19823	19267	18948
NIFTY	6246	6068	5966	5788	5686
BANK NIFTY	13114	12589	12301	11775	11488
A.C.C.	1103	1061	1038	996	973
ABB LTD.	887	861	845	820	804
AMBUJACEM	161	154	149	141	137
AXISBANK	1595	1490	1430	1325	1265
BHARAT PETRO	762	738	721	696	679
BHARTIARTL	362	345	325	309	289
BHEL	2478	2365	2298	2186	2118
CAIRN	342	327	318	303	294
CIPLA	373	358	342	327	311
DLF	341	324	314	297	286
GAIL	517	504	491	477	464
HCL TECHNOLO	424	400	384	361	344
HDFC BANK	2465	2384	2338	2257	2211
HERO HONDA	2062	2003	1902	1843	1742
HINDALCO	234	223	215	204	196
HINDUNILVR	310	305	300	294	290
HOUS DEV FIN	735	715	703	684	672
ICICI BANK	1278	1213	1176	1112	1074
IDEA	82	78	72	68	62
IDFC	203	194	188	179	174
INFOSYS TECH	3088	3026	2983	2921	2878
ITC	180	175	172	167	164
JINDL STL&PO	707	677	658	628	609
JPASSOCIAT	134	127	123	116	112
KOTAK BANK	506	484	471	448	435
LT	2141	2095	2045	1999	1950
MAH & MAH	825	789	768	732	711
MARUTI	1496	1451	1414	1368	1331
NTPC	197	190	187	181	177
ONGC CORP.	1358	1311	1281	1234	1204
PNB	1364	1325	1300	1261	1236
POWERGRID	105	104	102	100	98
RANBAXY LAB.	592	574	562	544	532
RCOM	182	165	155	138	128
REL.CAPITAL	819	753	717	651	615
RELIANCE	1098	1047	1017	966	936
RELINFRA	1094	1020	978	904	863
RPOWER	191	179	173	161	155
SIEMENS	865	828	802	765	739
STATE BANK	3271	3131	3048	2908	2825
STEEL AUTHOR	201	194	189	182	176
STER	190	183	177	170	164
SUN PHARMA.	2409	2312	2257	2160	2105
SUZLON	57	54	53	50	49
TATA POWER	1434	1373	1336	1276	1239
TATAMOTORS	1299	1244	1210	1155	1121
TATASTEEL	641	624	609	591	577
TCS	1108	1062	1034	988	960
UNITECH LTD	88	78	72	62	56
WIPRO	452	426	412	387	372

Technical Research Team

Option buying may increase Implied Volatility from here on

Nifty spot has closed at **5890** this week, against a close of **6072** last week. The Put-Call Ratio has decreased from **1.13** to **1.00** levels and the annualized Cost of Carry (CoC) is negative **0.15**%. The Open Interest of Nifty Futures has increased by **6.59**%.

Put-Call Ratio Analysis

Over the week, huge build up was witnessed in the 5900 and 6000 call options and unwinding in the 6000 and above put options. However, build was observed in the 5800 and 5900 puts and these strikes have almost same open interest, which is highest amongst put options. FIIs' data is suggesting that they are buying at-the-money and out-of-money call options.

Open Interest Analysis

Total open interest of the market is ₹1,74,146cr against ₹1,71,445cr last week and the stock futures open interest has decreased from ₹50,066cr to ₹46,897cr. Week-on-week mainly long unwinding was observed in most of the stocks. Few large caps named SBIN, HINDALCO, HDFCBANK, STER and RPOWER where open interest has reduced significantly. Stocks where open interest has increased are AXISBANK, TITAN, SCI, RELMEDIA and TATAMTRDVR.

Futures Annual Volatility Analysis

Historical volatility of Nifty has increased from 21.79% to 24.98%. IV of at-the-money options has decreased from 20.00% to 18.50%. IV of the call option was 18.10% and put's IV was 18.90%. Some liquid counters where HV has increased significantly are ROLTA, VIDEOIND, RELINFRA, SYNDIBANK and CIPLA. Stocks where HV has decreased significantly are MCDOWELL-N, RENUKA, HDFC, MUNDRAPORT and HINDUNILVR.

Cost-of-Carry Analysis

The Nifty November future turned in to a discount of 0.15 points from a premium of 19.90 points last week and the December future's premium reduced to 30.55 points from 53.05 points. Few liquid stocks where Cost-of-Carry is positive are MTNL, WELCORP, FORTIS, GRASIM and AMBUJACEM. Stocks where Cost-of-Carry turned from positive to negative are TATAGLOBAL, TATACHEM, DCHL, JINDALSAW and GAIL.

Derivative Strategy

Scrip : SUZLON | **CMP : ₹ 51.70/-** | **Lot Size : 4000** | **Expiry Date (F&O) :** 25th Nov, 2010

View: Mildly Bullish | **Strategy: Long Call**

Buy/Sell	Qty	Scrip	Strike Price	Series	Option Type	Rate (₹.)
Buy	4000	SUZLON	52.50	Nov.	Call	0.75

BEP: ₹ 53.25/-

Max. Risk: ₹ 3,000.00/-
If SUZLON closes on or below Rs.52.50 on expiry.

Max. Profit: Unlimited
If SUZLON continues to trade above BEP.

NOTE: Profit can be booked before expiry if SUZLON moves in the favorable direction.

Expected Payoff

Closing Price	Expected Profit/Loss
₹48.00	(₹0.75)
₹50.00	(₹0.75)
₹52.00	(₹0.75)
₹54.00	₹0.75
₹56.00	₹2.75
₹58.00	₹4.75

Pramerica Equity Fund - NFO Analysis

Fund Features

NFO Date: - 19th Nov to 3rd Dec 2010

Scheme Objective	To achieve long term capital appreciation by investing in an actively managed diversified portfolio consisting of equity and equity related securities including derivatives, debt and money market Instruments.		
Type of Fund	An Open Ended Equity Scheme		
Entry Loads	NIL		
Exit Loads	1%, If the Units are Redeemed / Switched-out within 365 days of allotment NIL, If the Units are Redeemed / Switched-out after 365 days of allotment		
Asset Allocation	**Instruments**	**% of Net Assets**	**Risk Profile**
	Equity & Equity Related Instruments	65% - 100%	Medium to High
	Debt & Money Market Instruments	0%- 35%	Low to Medium

Key Factors

- **Large Caps**

  Large Caps are regarded as a proxy of the India Growth Story. Yet, many of the Indian large caps are still quite small as compared to their counterparts in other emerging markets. With growing economy and increasing globalization, Indian large caps have enough room for growth. As of 30th June, 2010 more than 70% of the FII investments in India have been into large caps. Large Cap stocks account for more than 75% of BSE's market capitalization.

- **Sector Rotation**

  The key to making money consistently is picking the right sectors. Right sector selection decides whether you make or lose big money. Historically, Indian equity markets have supported the relevance of sector selection.

- **Special Situations**

  The icing on the cake comes from identifying companies which have great value-unlocking potential

Key Highlights

- Invests predominantly in large caps
- Based on following approaches
  - Sector Rotation (Identifying right sectors)
  - Special Situation (Identifying hidden values)

Ideal for

- Investors looking for diversification.
- Investment Horizon - Long Term
- Risk Appetite - Low to Medium

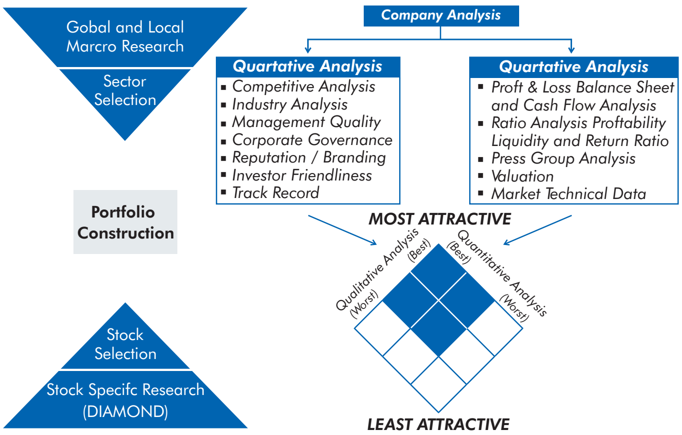
Pramerica Equity Fund

- A Diversified Equity Fund with Large Cap bias.
- Investment Approach
  - **Sector Rotation** (identifying the right sector)

    A top down-strategy that involves identifying sectors, which, backed by favorable economic environment, are likely to outperform the markets.
  - **Special Situation** (identifying hidden values)

    A bottom-up strategy that involves identifying companies which have great value-unlocking potential.

Investment Philosophy



Disclaimer: Angel Broking Ltd is not responsible for any error or inaccuracy or any losses suffered on account of information contained in this report. Data source is from Pramerica Mutual Fund NFO Note. Mutual Fund investments are subjected to market risk. Please read the Statement of Additional Information and Scheme Information document carefully before investing.

Pramerica Dynamic Fund - NFO Analysis

Fund Features **NFO Date: - 19th Nov to 3rd Dec 2010**

Scheme Objective	To achieve long term capital appreciation by investing in an actively managed diversified portfolio consisting of equity and equity related securities including derivatives, debt and money market Instruments.		
Type of Fund	An Open Ended dynamic Asset Scheme		
Entry Loads	NIL		
Exit Loads	1%, If the Units are Redeemed / Switched-out within 365 days of allotment NIL, If the Units are Redeemed / Switched-out after 365 days of allotment		
Asset Allocation	**Instruments**	**% of Net Assets**	**Risk Profile**
	Equity & Equity Related Instruments	30% - 100%	Medium to High
	Debt & Money Market Instruments	0% - 70%	Low to Medium

Pramerica Dynamic Fund, powered by 'Pramerica DART'

- Pramerica Dynamic Fund is a dynamic asset scheme, powered by Pramerica Dynamic Asset Rebalancing Tool or 'Pramerica DART', a proprietary tool developed by Pramerica Mutual Fund to suggest an optimum asset allocation mix between debt and equity.
- Pramerica DART works on the theory of mean reversion. The theory of mean reversion suggests that prices and returns will eventually move back towards the long-term average, in other words - what goes up, will eventually come down!
- The allocation of funds between will depend on the market situation, eg. When the markets are looking expensive, Pramerica Dynamic Fund will book profits and when the markets are cheap, it will buy more equities.

How does Pramerica DART work?

- Pramerica DART takes into account various factors that have an impact on the market. These factors can be grouped under 3 key categories - factors that are based on a company's fundamentals, factors that affect market volatility & factors related to monetary liquidity.
- Every day the model churns out the optimum asset allocation split, called the Pramerica DART Score which tells us how much of equity should be held in the portfolio. This can range from 100% to 30% in equity depending on how expensive or cheap the market is looking.
- Within this equity, the Fund Manager decides which stocks to buy.
- Pramerica DART aims at reducing volatility and delivering equity comparable returns. The simple premise on which this has been built is - Buy more equity when it's going cheap and sell when it's expensive.

Salient Features

- The asset allocation between debt and equity shall be based on Pramerica DART (Dynamic Asset Reallocation Tool)
- Equity exposure to move between 100% to 30%

Pramerica DART

- Proprietary multi-factor model that works on the philosophy of mean reversionl
- 3 Factor Model
  - Fundamentals
  - Liquidity
  - Volatility
- A tool that aims to
  - Reduce volatility
  - Deliver Equity comparable returns

Benefits of Pramerica DART

- Reduces Value at Risk (VaR) for investors
- Reduces Volatility
- Delivers Higher Sharpe Ratio (i.e. higher returns with lesser volatility)

Key Highlights

- Allocates assets dynamically between equity and debt (powered by Pramerica DART)
- Aims to optimize the upside while minimizing the downside risk
- Suitable avenue for those who want equity comparable returns with controlled volatility

Ideal for

- Investors looking for diversification.
- Investment Horizon - Long Term
- Risk Appetite - Low to Medium

Currencies Weekly Performance Snapshot

The currency segment traded on a volatile note in the last week. The US dollar which started the week on a strong note, pared gains in the later part after the Euro gained on hopes of Ireland receiving a bailout. Ireland has indicated that it may seek bailout, boosting optimism that the country's debt problems would not spill over into the other European debt markets and threaten their stability. However, there exist various contentious issues which Ireland is to agree upon, such as Ireland's corporation tax, which currently stands at a low of 12.5 percent, which the EU members want the country to increase as it is seen as giving Ireland an unfair advantage. The Euro gained in the last three sessions of the week after touching a low of 1.3458 on Wednesday. However, w-o-w, it declined slightly to close at 1.3666 on Friday. The European Union Statistics said that Greece's debt levels and budget deficit were much higher than previously estimated. Greece's 2009 budget deficit reached 15.4% of GDP as against previous estimate of 13.6%. The British pound depreciated around 0.9% against the dollar after data indicated that the country's Rightmove Housing Price Index (HPI) declined by 3.2% in November, as against increase of 3.1% in the prior month. The latest drop in the index was the sharpest drop since December 2007. UK's HPI index has declined in five out of the last six months, depicting the poor state of the housing sector in the country.

Exhibit 1: Currencies Performance

Currency	19th Nov	12th Nov	Chg	% Chg
DX	78.49	78.14	+0.35	0.4
Euro	1.3666	1.3697	(0.0031)	(0.2)
INR	45.29	44.83	0.46	1.0
JPY	83.51	82.41	1.1	1.3
GBP	1.5985	1.6134	(0.0149)	(0.9)

Source: Telequote

The currencies also took cues from China's decision to increase reserve requirement ratio of banks on Friday. The country raised reserve requirements for fifth time in this year to tame the rising inflation which currently rose to 4.4% in October. On the US front, economic data released last week was fairly positive with retail sales increasing 1.2% in October from the previous rise of 0.7% in September. Unemployment claims also came in less than forecasts at 439,000 as against expectations of 442,000 in the last week. The Japanese Yen declined more than 1% against the dollar after the Japanese economy reported GDP growth of 0.9% in the third quarter, against 0.4% in the second quarter.

India's Inflation eases slightly

India's WPI inflation in the month of October stood at 8.58% as against the previous 8.62% in September. Moreover, food inflation rose by 10.3% in the last week, from 12.3% in the earlier one, shrinking for a fifth consecutive week. Fuel inflation also eased slightly, increasing to 10.57% in the last week, from 10.67% in the earlier one.

Exhibit 2: Spot Rupee Weekly Price Chart

Source: Telequote

Fundbamental and Technical Outlook

In the coming week, there is a host of economic data to be released from the US as well as the Euro zone. But, markets will continue to keep a close watch on developments on the Ireland front. The country is also expected to reveal its budget this week that would depict plans to save around 15 bn Euros in the next fiscal year. We expect the dollar to strengthen on the back of uncertainty regarding Euro zone debt crisis. Concerns over Greece have re-emerged will act as a negative trigger to the Euro. The Rupee is expected to depreciate further in this week, taking cues from dollar movement in the overseas market and uncertainty in the global markets. FII inflows in India are also slowing down in the current month. FII inflows in November 2010 stand at 17,095.20cr (till 16th Nov) as against 28,562.90cr in October, 2010. This factor would also exert pressure on the domestic currency.

Exhibit 3: Technical Levels

Currency	Support	Resistance
DX	77.03	80.19
Euro	1.3314	1.3927
INR	44.11	46.16
JPY	81.77	84.65
GBP	1.5681	1.6305

Source: Telequote

Research Analyst (Commodity) - Reena Walia Nair/Naser Parkar

Commodities Update

Exhibit 1: Commodities Weekly Performance

	20th Nov. 2010	13th Nov. 2010	% Change
Non Agri- Commodities (MCX)			
Top Gainers			
Silver	41530	39411	5.2
Top Losers			
Zinc	99.40	107.55	(11.5)
Lead	104.30	112.1	(9.1)
Crude Oil	3734.0	3830	(4.4)
Agri Commodities (NCDEX)			
Top Gainers			
Jeera	14755	13743	7.36
Turmeric	13260	12456	6.45
Guar seed	2474	2410	2.66
Top Losers			
Soybean	2258	2305	(2.04)
RM seed	572.5	579.45	(1.20)

International Perspective

Base metal prices witnessed sharp declines, both on the LME as well as on the MCX in the last week taking cues from China's move to raise reserve requirement ratio, strength in the US dollar in the initial part of the week and choppy equities. Crude oil prices also suffered losses, slipping more than 4% w-o-w. However, the bullion pack managed to pare major losses in the later part of the week after US dollar declined against the Euro on hopes of Ireland's bailout. The bullion pack had declined in the initial part of the week after the Chicago Mercantile Group (CME) said that it would raise margin requirements for precious metals from Nov 17th. Initial margins on gold would be increased to $6075 for 100 ounces, whereas in case of silver, initial margin will be hiked by 11.5percent to $9788 for 5000 oz. Apart from the initial margins, maintenance margins on precious metals too will be raised.

After much speculation, China finally raised its reserve requirement ratio for banks by 50 basis points on Friday. Since the country announced on November 11 that its inflation rose to 4.4% in October, there were concerns that the country would resort to further monetary tightening to control inflation. The country has raised reserve requirement ratio for a fifth time in this year and also raised interest rate in the previous month. This factor weighed heavily on the commodity prices especially on the base metals and crude oil as the country is the major driver of these commodity prices.

Agri Perspective

Spices complex lead the gainers list during the last week by surging more than 6%. Jeera gained a whooping 7.36% due to unseasonal rains in major growing belts. Rains will delay the sowing of Jeera and thereby the harvesting which would lead to tightening supplies in the medium term. Jeera carryover stocks are lower which is also helping the prices to remain firm. Lower stocks amidst hoardings by the farmers led turmeric prices to remain at premium in the previous week. Prices at the spot again hit Rs.15,000 mark. Guar complex erased early losses and settled in green during the week end on projections of higher export demand. Guar seed output which was earlier revised at 125 lakh bags may decline further due to unseasonal rains in the growing areas. Edible Oil Complex witnessed selling pressure and ended the week negatively due to weakness in Global markets. Higher imports of edible oil also kept prices under pressure. Tightening of Chinese monetary policy led International Soybean prices to remain under pressure during the last week.

Exhibit 2: Major Economic Data Releases this week

Date	Country	Indicator	Forecast	Previous
Nov 23	US	Prelim GDP q/q	2.3%	2.0%
Nov 23	US	Existing Home Sales	4.51M	4.53M
Nov 24	US	FOMC Meeting Minutes	-	-
Nov 24	US	New Home Sales	312K	302K
Nov 24	US	Personal Spending m/m	0.4%	-0.1%
Nov 24	US	Core Durable Goods Orders m/m	0.8%	-0.4%

Outlook

In the coming week, we expect the commodity prices to remain under pressure as uncertainty regards to Ireland's bailout package persists. This will lead to strength in the US dollar, thus exerting pressure on the dollar-denominated commodities. However, the exception would be the bullion pack, which is expected to gain on safe-haven demand. However, we do not expect a sharp rise in the bullion prices as they have already made spectacular gains in this year. Base metal prices as well as crude oil prices would witness a downside on Chinese steps to control inflation as this will also affect the overall growth of the world's fastest growing economy, thus reducing the demand for the commodities.

Among Agri commodities, Jeera prices may continue to trade northward due to price supportive fundamentals. However, technical corrections cannot be ruled out and thus buying on corrections is advisable. Edible Oil complex may witness further correction tracking weakness in the international markets. Unfavorable climatic conditions may, to some extent, damage the standing Kharif crops like Pulses and Cotton which may provide support to these commodities in the coming week.

Research Analyst (Commodity) - Nalini Rao/ Naser Parkar

Black Pepper

Black Pepper, the ancient spice of India, has again became hot since past few weeks after trading bearish in the month of September and in the beginning of October 2010. Prices in futures have surged by 21.8 percent from the lows of Rs.18,506/qtl made in the month of October. Lower Pepper carryover stocks and production in 2011 in major producing nations such as Vietnam, India, Indonesia and Brazil is helping pepper prices to remain firm. According to 38th session of International Pepper Community (IPC) held in Kochi in the month of November, Global Pepper production is expected to dip by 2% and is projected at 3,09,952 tonnes in 2011 as compared to 3,16,380 tonnes in 2010. Carryover stocks are expected to decline marginally to 94,582 tonnes in 2011 as compared to 95,442 tonnes in 2010.

Major pepper producers	Production 2011 (P)	Production 2010	Exports 2011 (P)	Exports 2010
Vietnam	1,20,000	1,10,000	1,00,000	95,613
India	48,000	45,000	19,000	9,100
Brazil	32,000	35,000	30,000	12,121
Indonesia	37,000	30,000	23,000	44,000

Source: IPC, peppertradeboard, and spot market traders. Note: Figures in tonnes.

Global Pepper exports are expected to decline in 2010 due to lower carryover stocks and reduced production. Exports from India have declined sharply. Imports of Pepper by U.S.A during January to August 2010 were 46,477 tonnes compared to 42,355 tonnes in same period previous year. Indonesia stood as the major supplier to United States shipping over 13,168 tonnes followed by Vietnam 9,465 tonnes, Brazil 8,317 tonnes and India a small amount of 2,677 tonnes. India, since past two years, is not able to export much to U.S and also in the global markets due to lower quotes offered by its major competitors particularly Vietnam and Indonesia.

Pepper production in India in 2011 is expected to increase and projected at around 48-50 thousand tonnes according to market sources. Carryover stocks in the month of January 2011 are projected at 6-7 thousand tonnes. Pepper crop in India is in the berry form at present. There are reports of heavy rains in Kerala. This might cause berries to fall from the creepers. Clear figures of Pepper production would be known only by mid of December. Pepper in India is harvested in the month of January. Fresh arrivals of pepper in the domestic market will commence from mid of January and gain momentum in the month of February.

Price Trend

Pepper prices are again trading at premium at the spot as well as futures. Prices at the benchmark spot market at Kochi surged by 4.53 percent since the beginning of the month due to price supportive fundamentals. Prices are expected to rule firm in the coming days due to lower carryover stocks and expectation of fresh orders from the overseas and domestic buyers. Pepper prices in the international market of all the origins have risen by around 8-10 percent since the beginning of this month. Prices in the international market of all the major origins are currently quoting around $5,000-$5,100/tonne. This will also help domestic prices to remain intact.

Black Pepper December Contract

Source: Telequote

Outlook

Pepper prices in the short term (till mid of December), are expected to remain firm due to lower global availability and demand from the domestic ahead of winter season. Prices in the medium to long term (December end onwards) will take cues from the Pepper production of Vietnam in 2011 and price parity of major origin in the international market.

Technically, Black Pepper December contract have strong support at Rs.21,370/qtl and thereafter at Rs.20,384/qtl. Resistance can be seen initially at Rs.23,400/qtl and thereafter at Rs.24,340/qtl. Prices are trading near resistance level, so technical correction might be witnessed. Buying at support levels is advisable.

Sr. Research Analyst (Commodity) - Nalini Rao

Commodity Technical Report

MCX December Gold

Last week, Gold prices opened the week at Rs.20,122 per 10 grams, then moved sharply higher and as expected found resistance at 20282 levels. Later prices fell sharply towards 19,819 levels and Gold prices finally closed the week at Rs.20,102 down by Rs 32 as compared with previous week's close of Rs.20,134.

Trend : SIDEWAYS (MCX GOLD Weekly Chart)

Source: Telequote

Key Levels For Week :

S1 - 19,850 **R1 - 20,320**

S2 - 19,600 **R2 - 20,520**

Recommended Strategy: Neutral

MCX December Silver

Last week, Silver prices opened at Rs.39,275 per kg initially surged and found good resistance at 39970 levels and then fell sharply and as expected found very good support at 38338 levels. Later Silver rallied sharply breached both the resistances and made a high of 41700 levels and silver finally ended the week at 41470 with a huge gain of Rs.2059 as compared with previous week's close of Rs.39,411.

Trend : SIDEWAYS (MCX SILVER Weekly Chart)

Source: Telequote

Key Levels For Week :

S1 - 40,540 **R1 - 41,930**

S2 - 39,500 **R2 - 42,750**

Recommended Strategy: Sell MCX Silver December in the range of 41950-42000 with strict stop-loss above 42800 Targeting initially 40600 and then 40000.

MCX November Copper

Last week, Copper prices opened at Rs.389.65 initially moved sharply higher and as expected found good resistance at 392.90 levels. Later prices fell sharply and found support at 367.70 levels and copper prices finally closed the week at Rs.384.30 with a loss of Rs.5.3 as compared with previous week's close of Rs.389.60.

Trend : SIDEWAYS (MCX COPPER Weekly Chart)

Source: Telequote

Key Levels For Week :

S1 - 377.60 **R1 - 389**

S2 - 366 **R2 - 407**

Recommended Strategy: Sell MCX Copper November in the range of 388-390 with strict stop-loss above 399.50 Targeting initially 377 and then 368.

MCX December Crude

Last week, Crude prices opened the week at Rs.3898 levels initially made a high of 3928 and then fell sharply lower throughout the week, but finally found strong support at 3722 levels. Later prices recovered towards 3795 levels and crude finally ended the week at Rs.3753 with a loss of Rs.133 as compared with previous week's close of Rs.3886.

Trend : DOWN (MCX CRUDEOIL Weekly Chart)

Source: Telequote

Key Levels For Week :

S1 - 3655 **R1 - 3817**

S2 - 3560 **R2 - 3930**

Recommended Strategy: Sell in the range of 3810-3820 with strict stop-loss above 3900 Targeting initially 3670 then 3580.

Sr. Technical Analyst (Commodities) - Samson Pasam

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