

29 August 2011

MF Global Cap Goods & Infra
Monthly Chart Book

Cap Goods & Infra Snapshots

| GROWTH SOFTENS

We introduce a monthly chart book where we highlight the key monitorables for the Capital Goods and Infrastructure sectors. Key charts for the month are:

- » **Bank credit to Infrastructure:** Sharp slowdown seen in lending to infrastructure sectors in June '11 at Rs 25bn (-91% YoY). This is primarily on a slowdown in disbursement to power and roads. Lenders have increasingly grown cautious in lending to the power sector as issues on coal availability and SEB losses weigh on sector profitability.
- » **Heavy and Medium Commercial Vehicle sales:** Heavy and medium CV sales remained quite subdued in July, 11 – reflective of the weakness currently being witnessed in the infrastructure and real estate sectors.
- » **Consumer Goods Production:** Clear signs of a slowdown in consumer spending, evident from the sharp deceleration in growth in consumer goods production (1.6% in June '11 vs. 8.6% in June,10) with durable goods showing a paltry 1% growth in production
- » **Repo and reverse repo rates:** Repo rates were raised to 8% in July '11 which is the 11th rise since March '10 - RBI has raised rates aggressively to tame inflation. Our economist expects another 50bps rate hikes in the coming quarters. High interest rates have been a key reason for new projects getting deferred as cost of capital has risen significantly over the past few quarters. SBI PLR stands at 14.8% vs.
- » **New export orders:** India new export orders index at 49 in July '11. This is the first time orders contracted since May '09. With orders beginning to contract, we may see a contraction in export growth as well in the coming months.
- » **Fuel-wise generation:** Electricity production grew at a robust 12.9% in July, led by thermal (+9% YoY) and nuclear (+62% YoY). Higher thermal production on account of increased coal availability while higher nuclear fuel along with commissioning of the new unit at Kaiga plant increased nuclear generation.

Valuation and Picks

We retain our cautious view on the sector on non-availability of coal linkages, land and environmental issues along with macro concerns on higher interest rates and commodity prices. Our top pick in the sector is KEC International on account of its diversified order book and relatively cheap valuations. We retain our SELL rating on ABB India on account of rich valuations. We have a Neutral rating on BGR Energy, BHEL, Crompton Greaves, Jyoti Structures and Thermax.

COMPANIES

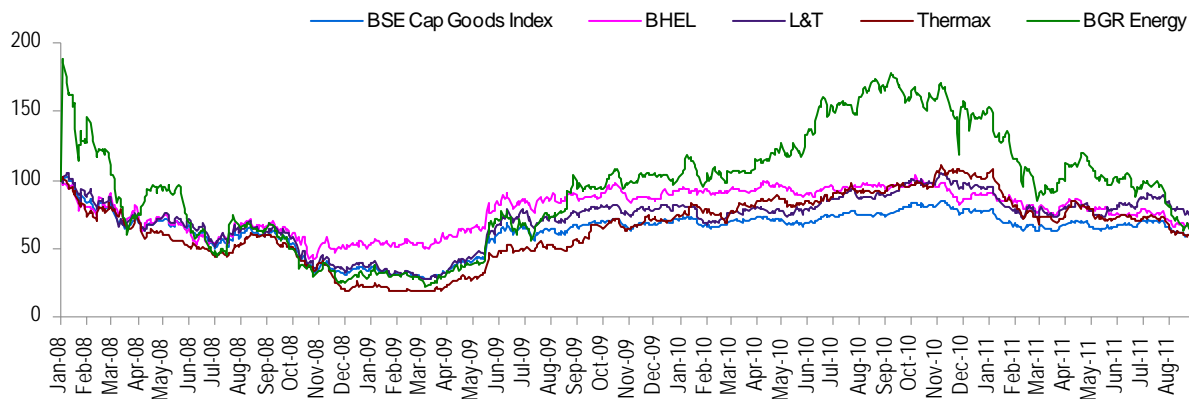
ABB INDIA	CMP Rs 816
Reco	SELL
BGR ENERGY	CMP Rs 298
Reco	NEUTRAL
BHEL	CMP Rs 1,736
Reco	NEUTRAL
CROMPTON GREAVES	CMP Rs 137
Reco	NEUTRAL
JYOTI STRUCTURES	CMP Rs 62
Reco	NEUTRAL
KEC INTERNATIONAL	CMP Rs 62
Reco	BUY
THERMAX	CMP Rs 481
Reco	NEUTRAL

VALUATION TABLE

COMPANY	BBG CODE	PRICE	RATING	EV/EBITDA (X)			P/E (X)			P/B (X)		
				2011	2012E	2013E	2011	2012E	2013E	2011	2012E	2013E
ABB INDIA	ABB IN EQUITY	816	SELL	35.9	20.8	17.1	61.7	34.8	28.7	6.5	5.6	4.8
AREVA T&D	ATD IN EQUITY	206	-	13.6	12.1	9.9	26.3	22.7	17.1	4.9	4.2	3.3
BGR ENERGY	BGRL IN EQUITY	298	NEUTRAL	4.6	4.1	3.9	6.7	6.4	6.6	2.3	2.1	1.9
BHEL	BHEL IN EQUITY	1,736	NEUTRAL	9.1	8.2	7.5	14.0	12.8	11.7	4.2	3.5	2.9
CROMPTON GREAVES	CRG IN EQUITY	137	NEUTRAL	6.7	7.8	6.2	9.5	12.1	10.1	2.7	2.2	1.9
JYOTI STRUCTURES	JYS IN EQUITY	62	NEUTRAL	3.5	3.1	2.8	4.6	4.9	4.6	0.9	0.7	0.6
LARSEN AND TOUBRO	LT IN EQUITY	1,531	-	16.4	14.0	11.1	26.1	22.4	18.1	4.3	3.8	3.3
KEC INTERNATIONAL	KECI IN EQUITY	62	BUY	6.2	5.7	4.6	7.8	7.4	5.8	1.7	1.4	1.2
KALPATARU TRANSMISSION	KPP IN EQUITY	114	-	5.8	3.6	3.1	7.1	7.1	6.0	1.5	0.9	0.8
SIEMENS INDIA	SIEM IN EQUITY	854	-	26.6	18.4	15.5	30.9	30.9	25.5	8.5	7.2	5.9
THERMAX	TMX IN EQUITY	481	NEUTRAL	8.9	8.0	7.2	15.2	13.8	12.5	4.4	3.6	3.0
SECTOR AVERAGE				12.5	9.6	8.1	19.1	15.9	13.3	3.8	3.2	2.7
SECTOR MEDIAN				8.9	8.0	7.2	14.0	12.8	11.7	4.2	3.5	2.9

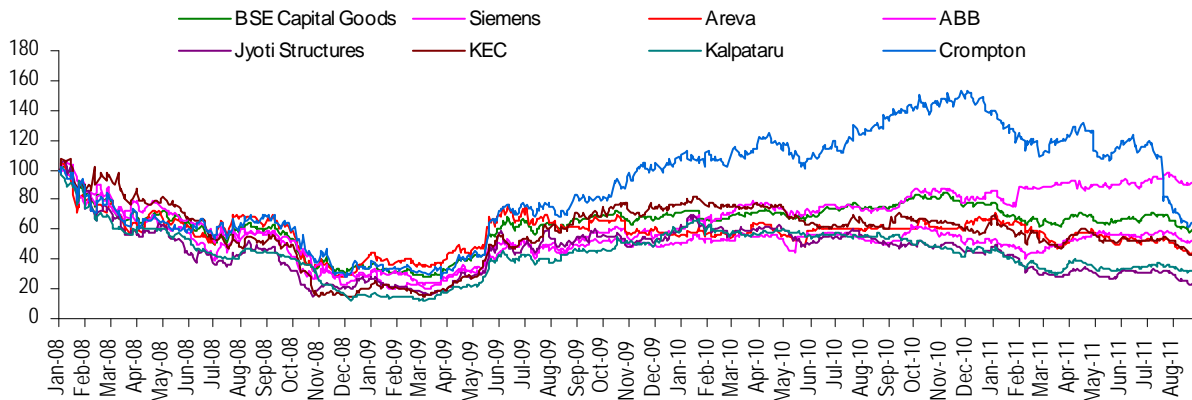
Source: Company, MF Global India Research Estimates

BSE CAPITAL GOODS INDEX VERSUS THE POWER GENERATION PLAYERS—PRICE PERFORMANCE



Source: PGCIL, MF Global India Research

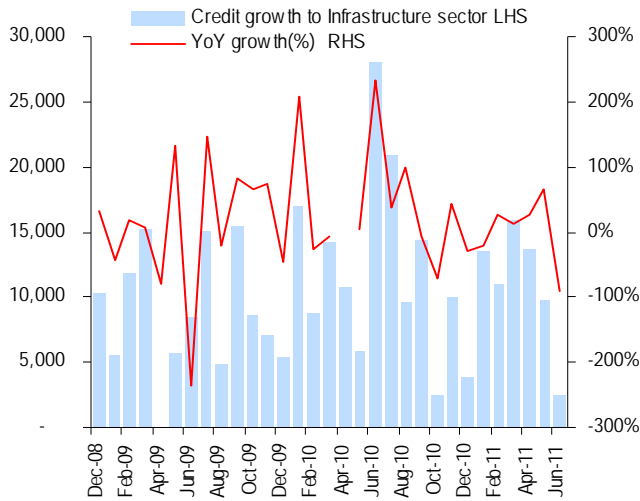
BSE CAPITAL GOODS INDEX VERSUS THE POWER T&D PLAYERS—PRICE PERFORMANCE



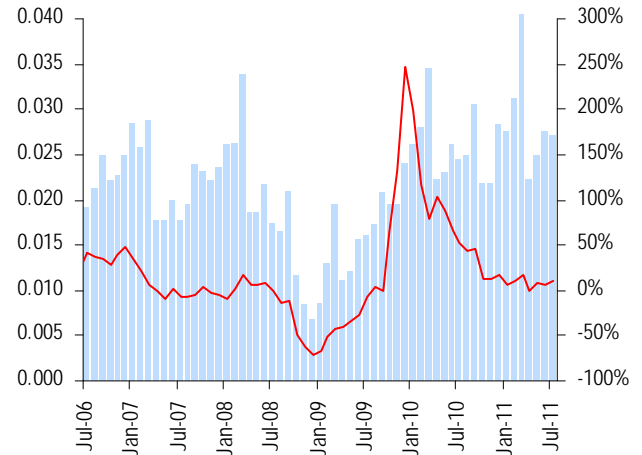
Source: PGCIL, MF Global India Research

Key Charts for the month

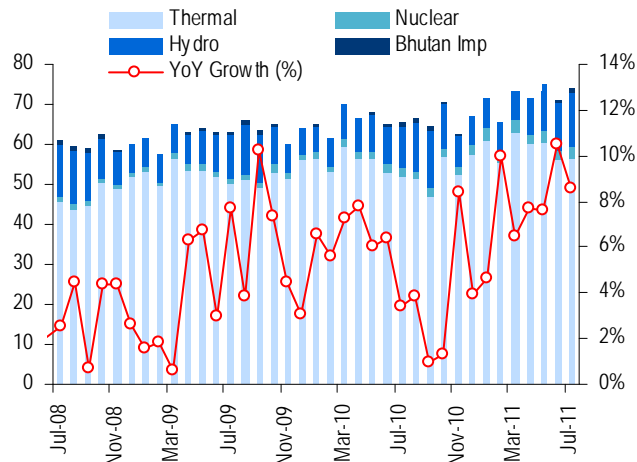
SHARP SLOWDOWN IN CREDIT TO INFRA SECTOR (RS CR)



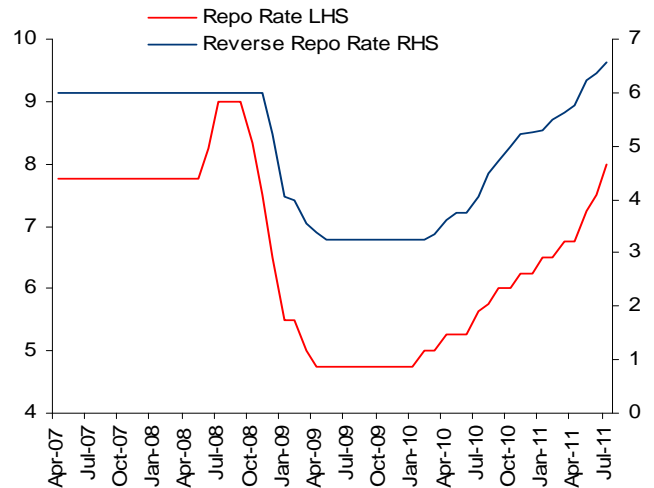
HEAVY AND MEDIUM COMMERCIAL VEHICLE SALES



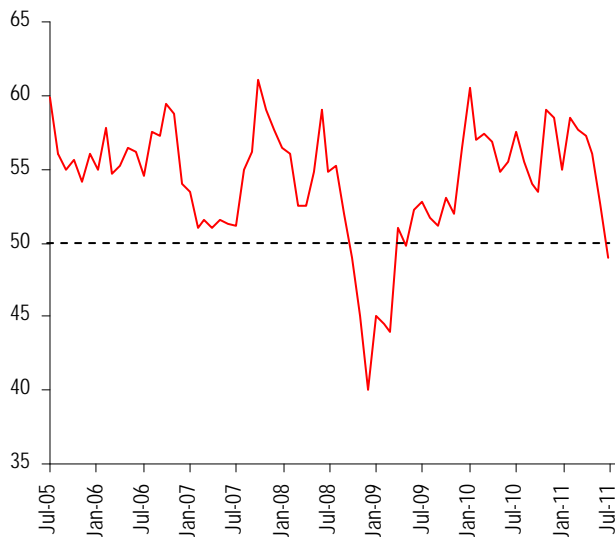
FUEL-WISE GENERATION (BN UNITS) AND YOY GROWTH (%)



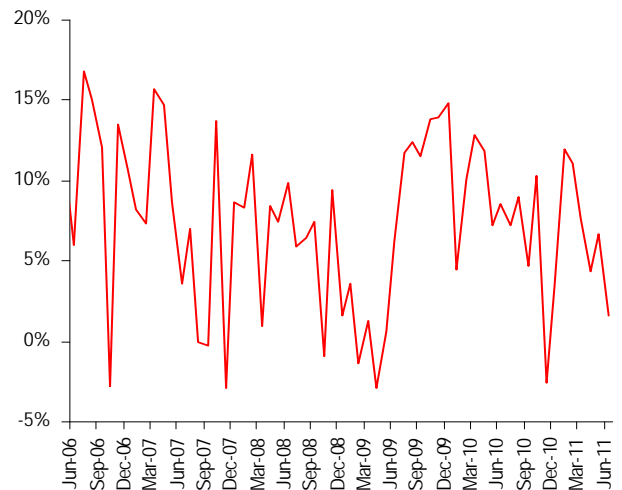
REPO AND REVERSE REPO RATES (%)



INDIA NEW EXPORT ORDERS AT 49 FOR 1ST TIME SINCE MAY, 09



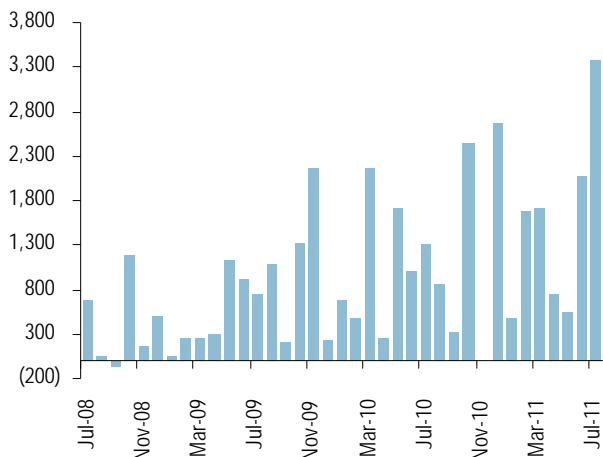
CONSUMER GOODS PRODUCTION - WEAKNESS CONTINUES



Source: Company, MF Global India Research

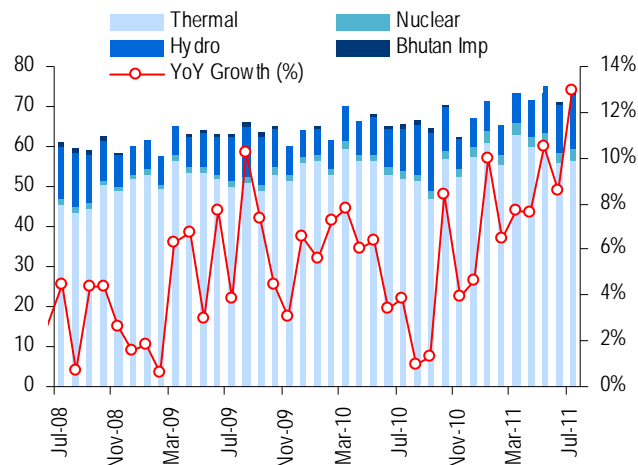
Power Generation Sector

GENERATION CAPACITY ADDITION



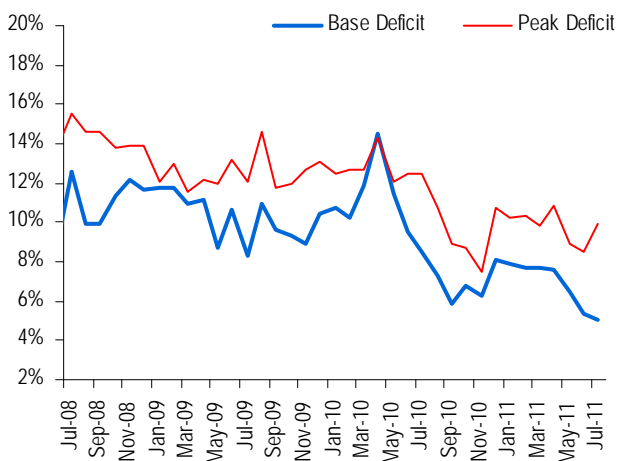
» FY12 capacity addition target is at 17.8GW, while total capacity added till date (Apr-July, 11) stood at 6.8GW. We are expecting ~45GW of capacity addition in the 11th Five Year Plan, which would rise to ~90GW in the 12th Five Year Plan

FUEL-WISE GENERATION (BN UNITS) AND YOY GROWTH (%)



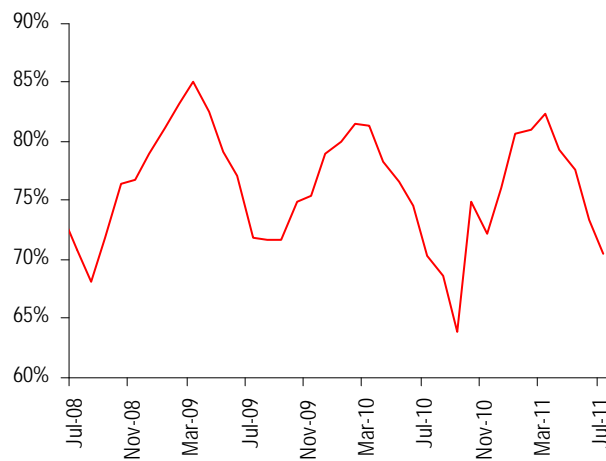
» Electricity generation in July '11 was up a robust 12.9% YoY to 74bn. This was on a sharp growth in nuclear (+62% YoY) and thermal (+9% YoY) generation. Growth in thermal generation was on account of higher availability of coal. FY12 target for growth in electricity generation at 855bn units (+5.7% YoY) as per CEA.

BASE AND PEAK DEFICIT



» Significant fall in base and peak deficit from early FY11. Base deficit stood at 5% in July '11, while peak deficit was at 9.9%. CEA expects base deficit at 10.3% and peak deficit at 12.9% in FY12. We expect the base and peak deficit to continue to fall into FY15 as significant generation capacities come on stream.

ALL INDIA PLF (%)

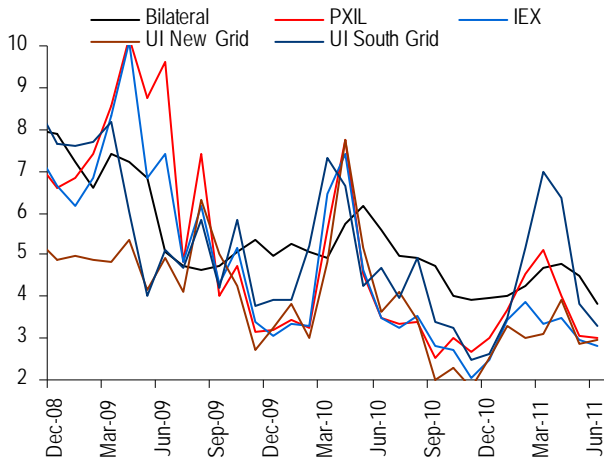


» Significant drop in PLF in July '11 on fall in generation from Central and State Sector utilities (primarily NTPC)

Source: Company, MF Global India Research

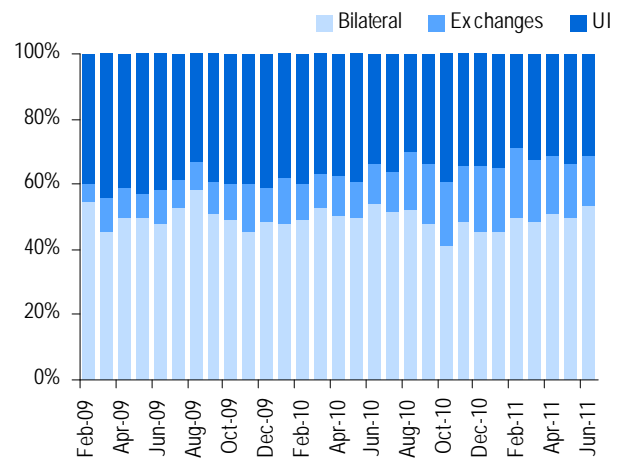
Short-Term Power Markets

SHORT-TERM ELECTRICITY PRICES (RS/KWH)



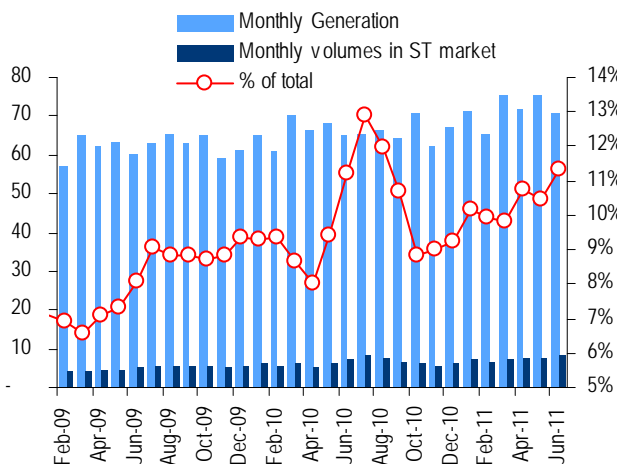
» Short-term electricity prices have continued to dip further (*Bilateral prices down to Rs 3.82 in June, 11 vs. Rs 4.5 in May, 11*) as SEBs “back off” from buying power in the short-term markets. Prices in the South Grid have also come off (after spiking in early 2011 on account of elections in the Southern states)

SHORT-TERM VOLUMES BY TYPE – BILATERAL, UI, EXCHANGES (%)



» Bilateral transaction continues to be the highest contributors to short-term volume at 53% in June '11, followed by UI at 31%. We note that volumes in the UI market have fallen 14% from ~45% in Jan '08.

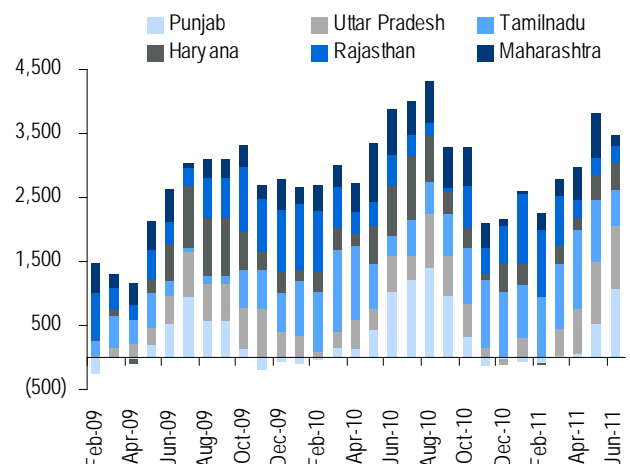
SHORT-TERM ELECTRICITY VOLUMES (BN UNITS)



» Short-term electricity volumes continue to rise, standing at 8bn in June, 11 and now account for 11% of total electricity generation in the country. We expect the short-term market to rise to ~15% of total electricity generated by FY15E.

Source: Company, MF Global India Research

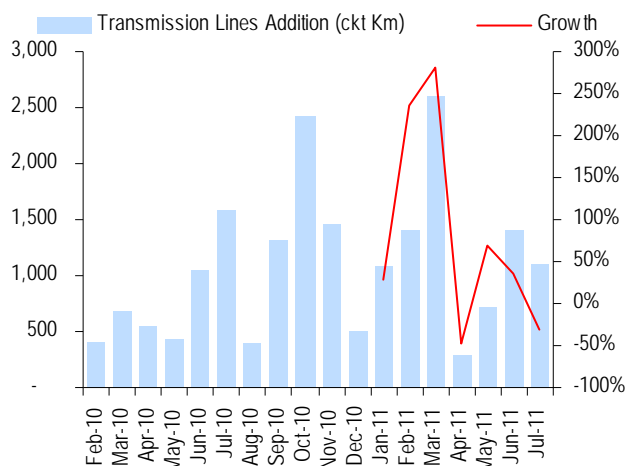
NET SHORT-TERM VOLUMES BY TOP BUYERS (MN UNITS)



» Punjab, Uttar Pradesh, Tamil Nadu, Haryana and Rajasthan account for 85% of net electricity volumes in the short-term market. These states are also the ones with the highest annual losses (partly explained by the high short-term prices)

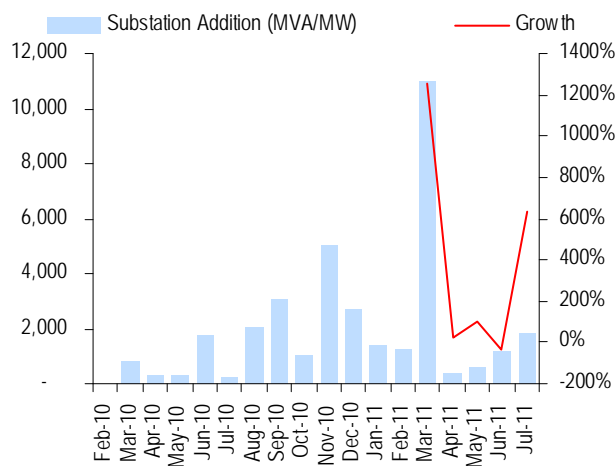
Transmission Sector

TRANSMISSION LINES ADDITION (CKT KMS) AND GROWTH (YOY %)



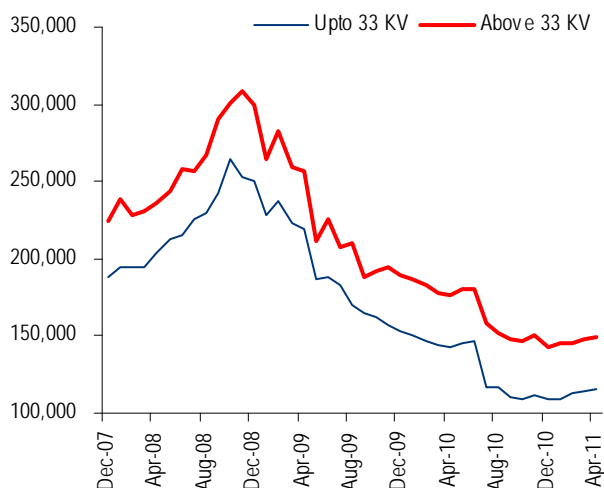
» Transmission line addition in July '11 stood at 1,100kms (-30% YoY) and 2,428kms in Q1FY12 (+20% YOY). FY12 target for transmission line addition is at 19,792kms (+31% YoY), which implies 21% of the target has been achieved. We note that the last year of the **plan typically has a surge in capacity addition.**

SUBSTATION ADDITION (MVA) AND GROWTH (YOY %)



» Substation addition in July '11 stood at 1,840MVA (+636% YoY) and 2,140MVA in Q1FY12 (-8% YOY). FY12 target for substation addition is at 27,280MVA (-14% YoY), which implies 15% of the target has been achieved till Q1FY12.

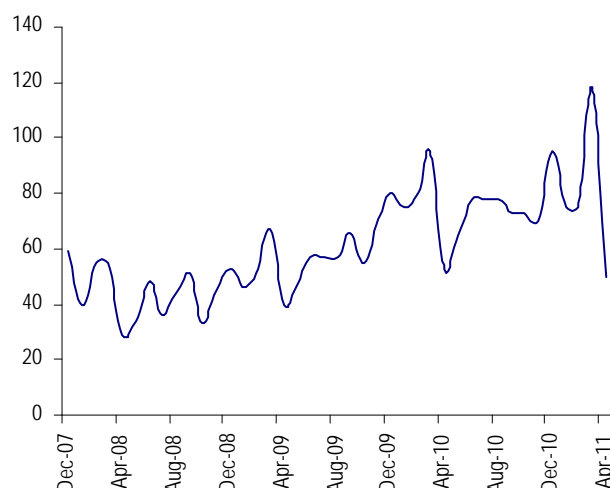
CRGO STEEL PRICES (RS/MT)



» CRGO steel prices have stabilized over the last few quarters. Prices in April '11 at Rs 149, 000/MT were flat MoM. There are very few players globally who are capable of making CRGO steel—all of India's CRGO steel is imported

Source: Company, MF Global India Research

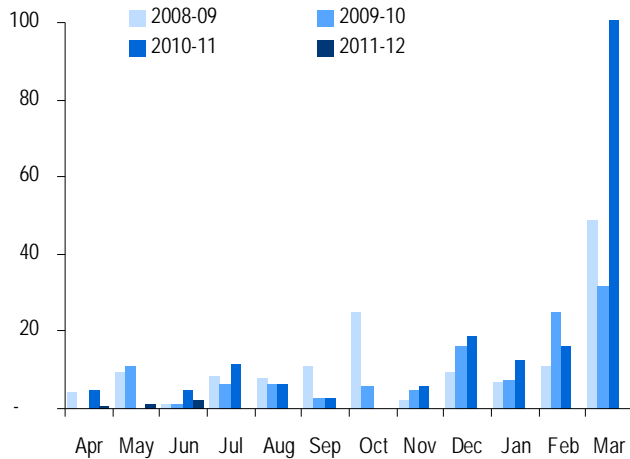
TRANSMISSION LINE TOWERS PRODUCTION (000' MT)



» Transmission line tower production was flat on a YoY basis at 50, 000 MT in April, 11. April is seasonally a weak month post a strong Q4

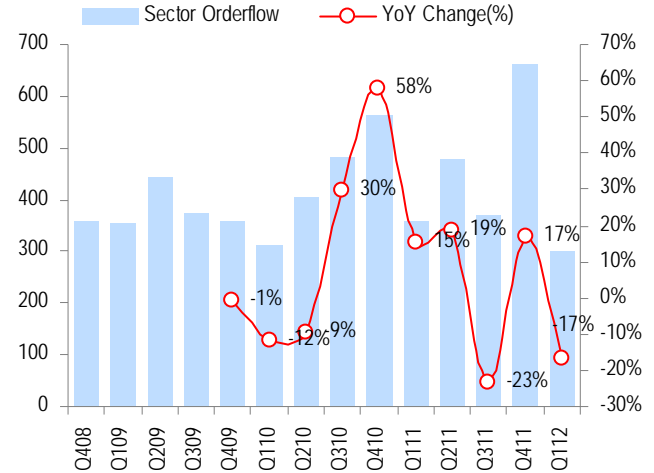
Sector Order Flows and Order book

PGCIL MONTHLY ORDERS (RS BN)



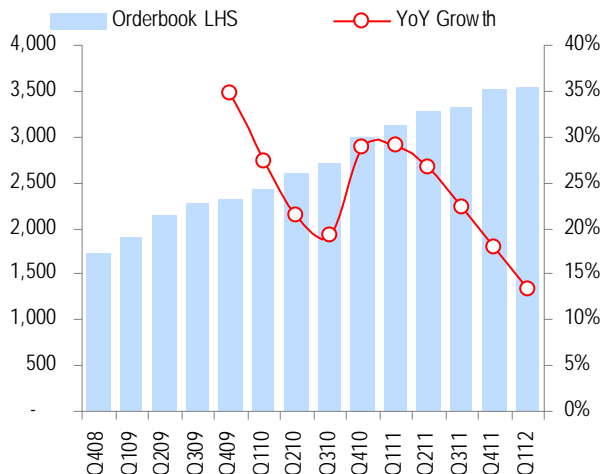
» Orders from PGCIL have remained muted in Q1FY12 at Rs 3.5bn (-64% YoY). We expect a pick-up from Q3-Q4FY12 and expect a ~15% jump in full-year orders to Rs 150bn (excluding HVDC orders).

CAPITAL GOODS ORDER INFLOW (RS BN) AND YOY GROWTH (%)



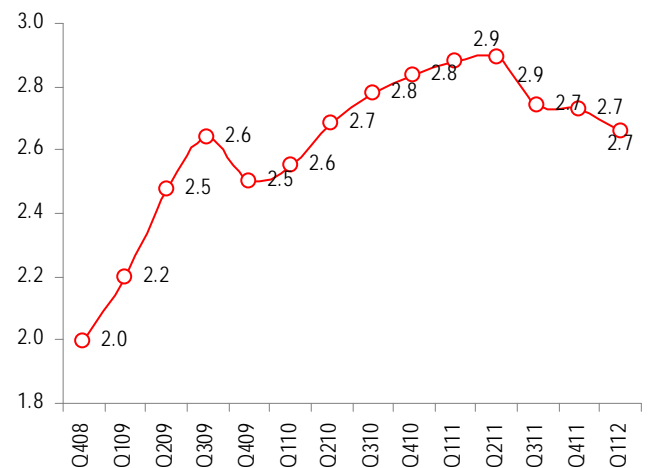
» Sector-wide orders were down 17% YoY as orders fell across most companies in the sector. Worst hit were companies in the power generation space where lack of coal, delays in environment clearance has led to a standstill in new equipment ordering.

SECTOR ORDERBOOK (RS BN)



» Sector order book flattens as order flows dry up and execution continues to remain robust

SECTOR BOOK-TO-BILL

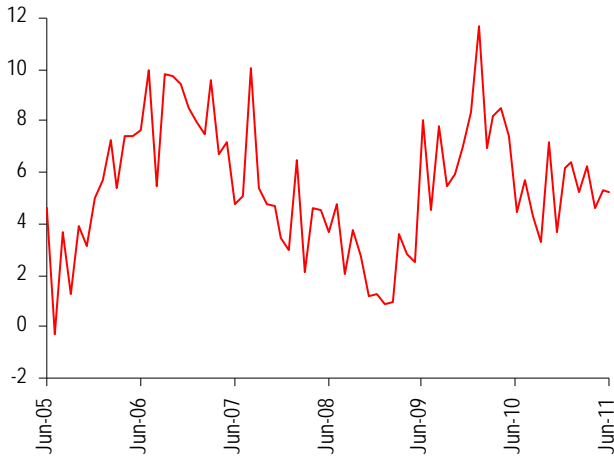


» Sector book-to-bill continues its downtrend and now stands at 2.7x (12-month trailing sales).

Source: Company, MF Global India Research

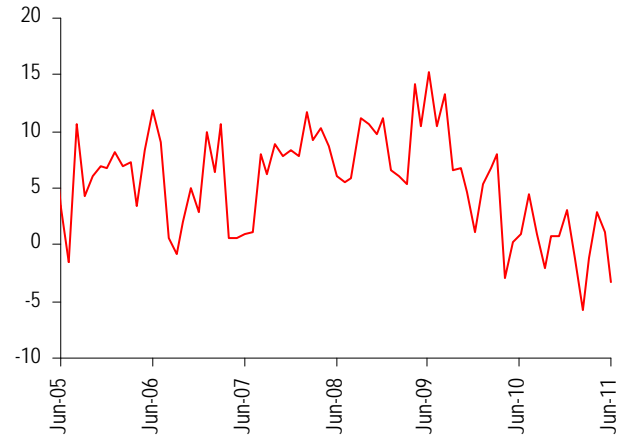
Core Sector Production

OVERALL CORE SECTOR GROWTH (YOY %)



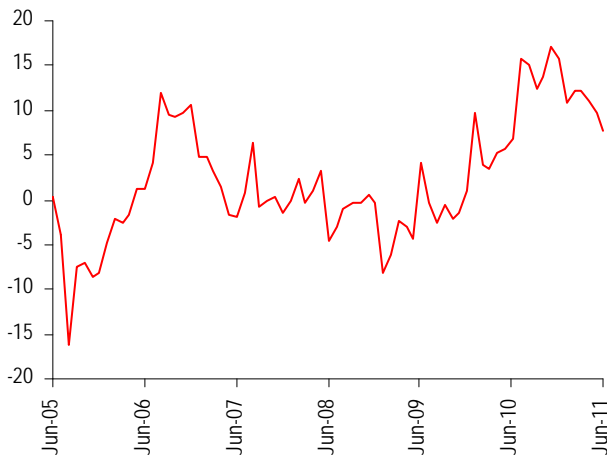
» Core sector growth slows to 5.2% in June, 11 on negative growth in coal, natural gas and fertilisers. Strong growth seen in electricity and steel production

COAL PRODUCTION GROWTH (YOY %)



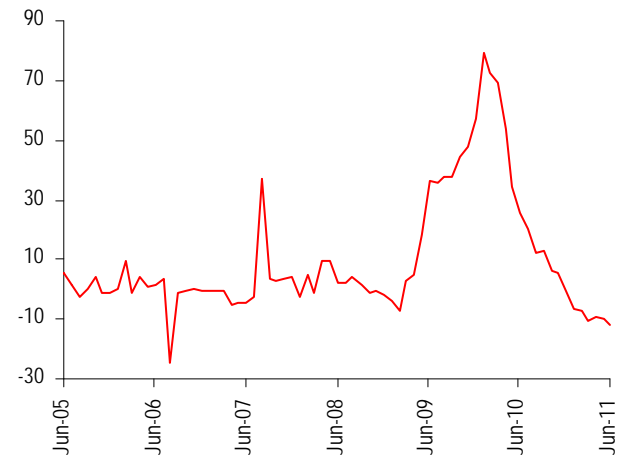
» Coal production down 3% yoy in June'11 on early **onset of monsoon along with heavy rains in the eastern portion** of India. In Q1FY12, Coal India produced 96.3mn ton against the target of 98mn ton. Coal India has, however, maintained its FY12 guidance of 452m tonnes to be produced (+5% YoY).

CRUDE OIL PRODUCTION (YOY %)



» Crude oil production grew 8% YoY in June '11. Our FY12 oil production growth estimate is for 39.7mmt(+5.2% YoY)

NATURAL GAS PRODUCTION (YOY %)

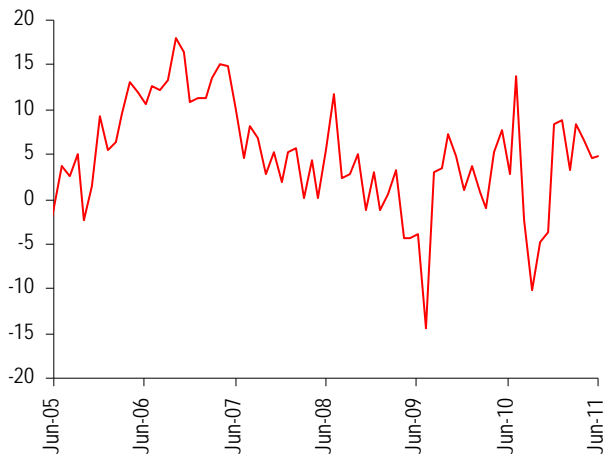


» Natural gas production dips as expected production from the Reliance KG D6 basin fails to materialise. Production in June '11 down 12%. Our FY12 natural gas production growth estimate of 140mmscmd (-2.4 YoY %)

Source: Company, MF Global India Research

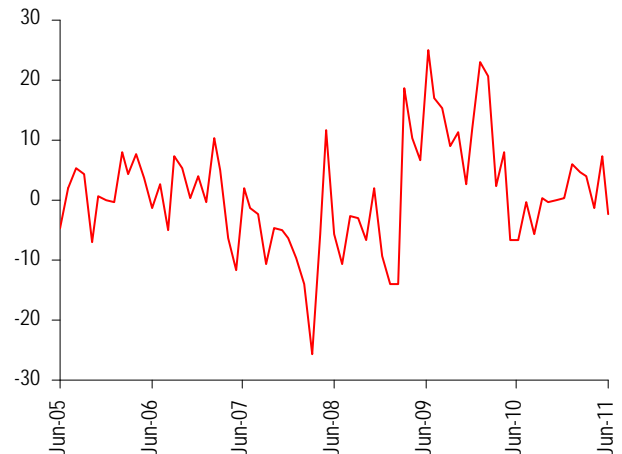
Core Sector Production

REFINERY PRODUCTION GROWTH (YOY %)



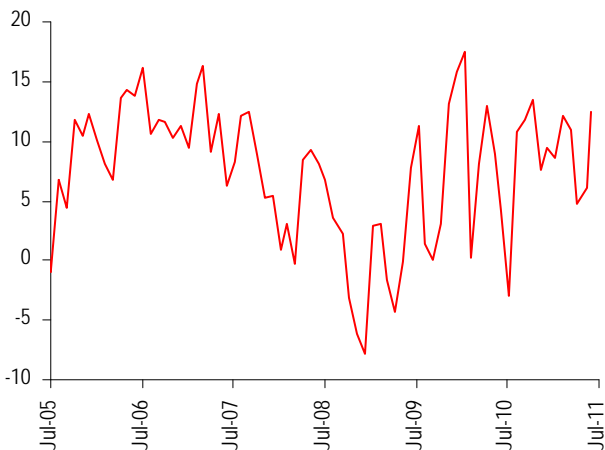
» Refinery production grew 4.7% in June '11. Our FY12 refinery production growth estimate stands at 173mt (+5% YoY)

FERTILISER PRODUCTION GROWTH (YOY %)



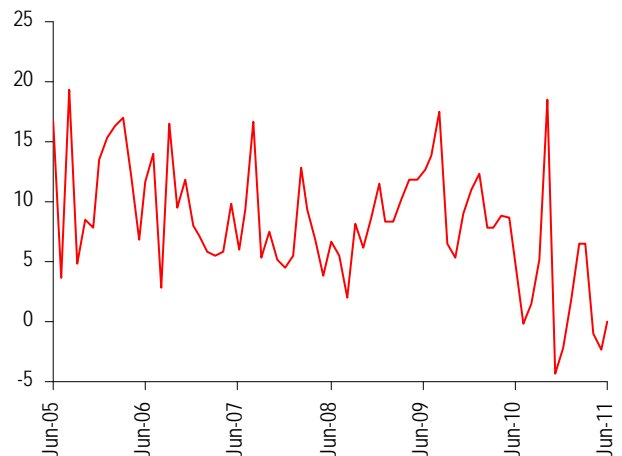
» Fertilizer production fell 2.4% in June, 2011, primarily on lower availability of key raw materials

STEEL PRODUCTION GROWTH (YOY %)



» Steel production grew 7.2% in July '11. Our FY12 steel production growth estimate stands at 71mn tonnes (+7.1% YoY)—down from 75mn tonnes on account of the ban in iron ore mining from the Bellary mines.

CEMENT PRODUCTION GROWTH (YOY %)

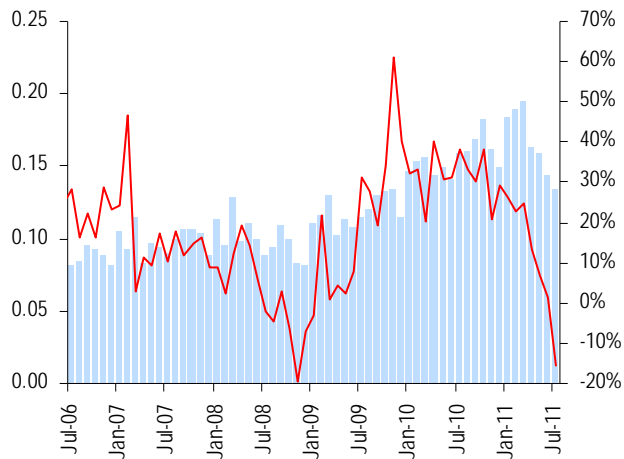


» Cement production continues to be quite weak — primarily driven by weakness in infrastructure and real estate spending. Cement production grew by 0.9% in June '11.

Source: Company, MF Global India Research

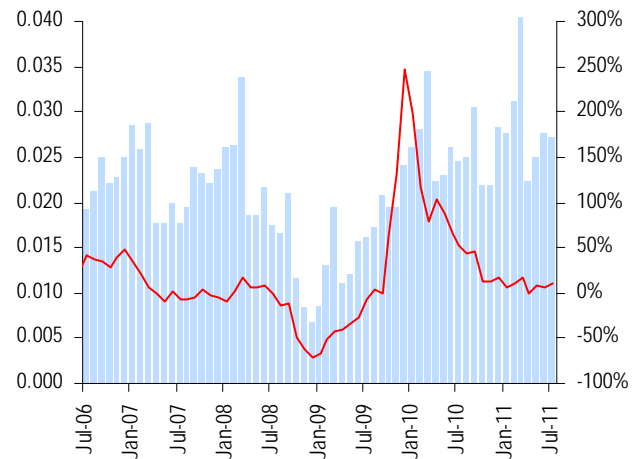
Automobile Sales—Proxy for domestic consumption and infrastructure spending

DOMESTIC PASSENGER CAR SALES (MN) AND GROWTH (YOY %)



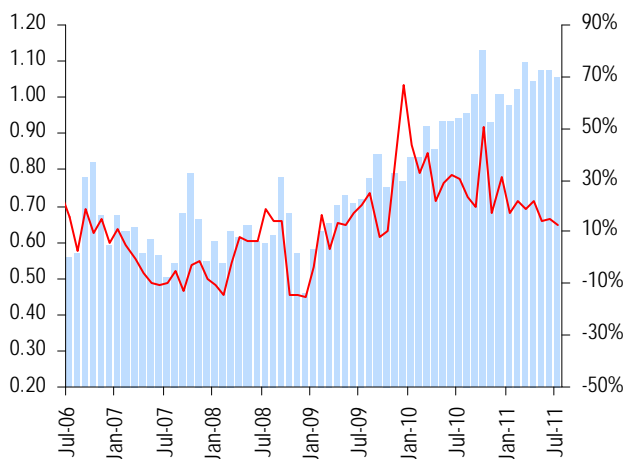
» Domestic passenger vehicle sales were at 133,747 units in July—down 16% YoY as rising interest rates, higher fuel costs and inflation eat into passenger car demand. SIAM expects an 8%-10% rise in demand for FY12.

HEAVY & MEDIUM CV SALES (MN) AND GROWTH (YOY %)



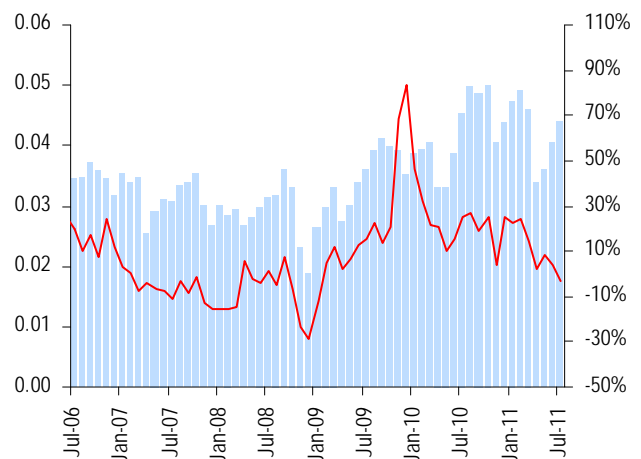
» Heavy and medium commercial vehicle sales at +10% YoY in July (Goods - +7% YoY) remain subdued—rising interest rate, higher fuel costs and lower infrastructure spending eat into demand.

TWO-WHEELER SALES (MN) AND GROWTH (YOY %)



» Two-wheeler sales are seeing a slowing down in growth with July sales up 13% to 1,056,906 units.

THREE-WHEELER SALES (MN) AND GROWTH (YOY %)

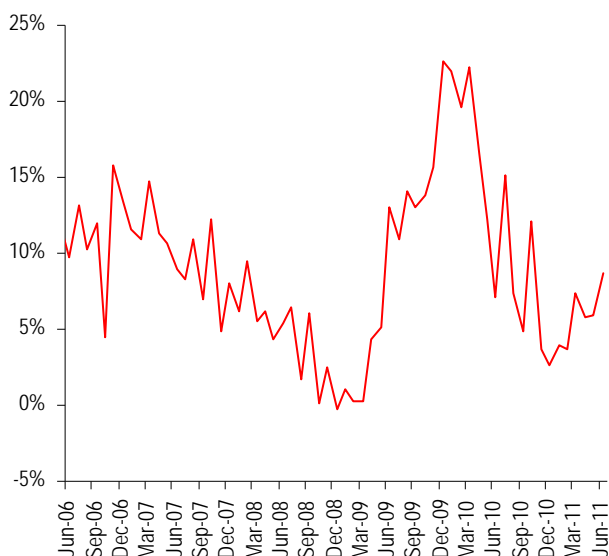


» Three-wheeler sales are seeing a slowing down in sales with July sales down 3% to 43,949 units.

Source: Company, MF Global India Research

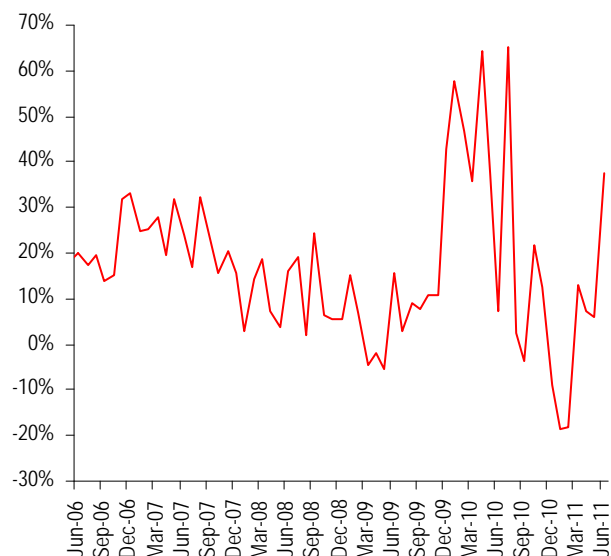
India Industrial Production

INDEX OF INDUSTRIAL PRODUCTION (YOY% GROWTH)



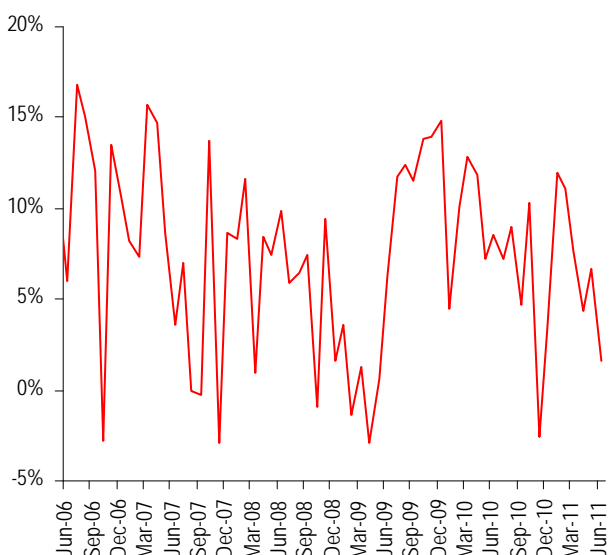
» IIP for June, 2011 was up 8.8% as against consensus estimates of 6%. This was primarily led by strong growth in the capital goods sector. Ex. Cap goods, IIP grew 4.5%. Our FY12 IIP estimate stands at 7%, as per our economist.

CAPITAL GOODS PRODUCTION (YOY% GROWTH)



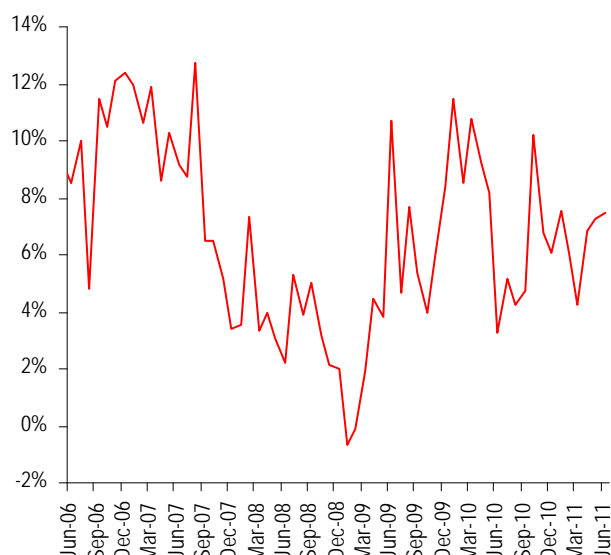
» Capital Goods production grew a robust 38% in June, 11. However, capital goods data has been extremely volatile over the last few quarters, making the data difficult to predict.

CONSUMER GOODS PRODUCTION (YOY% GROWTH)



» Clear signs of a slow down in consumer spending are evident from the sharp decline in growth in consumer goods production. Consumer goods grew 1.6% in June, 11 with durable goods showing a paltry 1% growth in production.

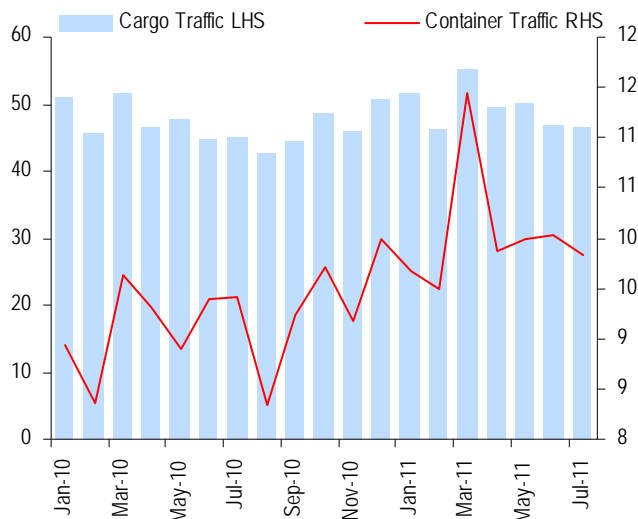
BASIC GOODS PRODUCTION (YOY% GROWTH)



» Basic goods production stood at 7.5% in June '11, helped by the robust growth in electricity production

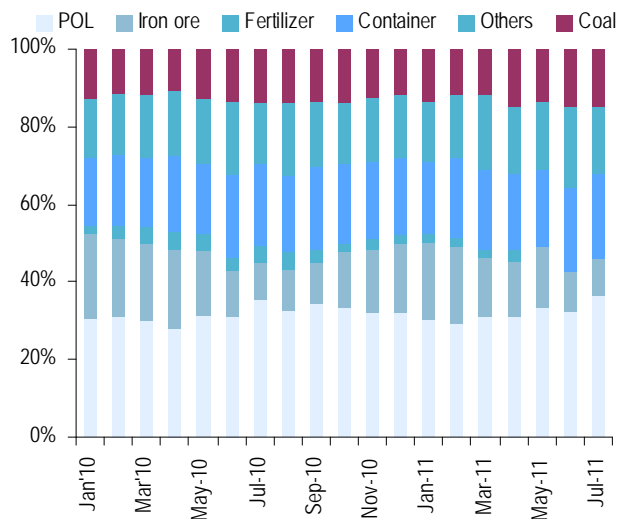
Traffic Growth: Ports

CARGO & CONTAINER TRAFFIC (MN TONS)



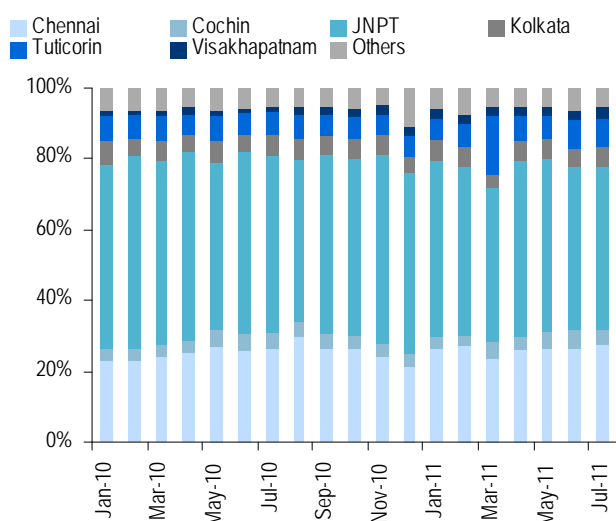
» Cargo traffic was at 46.5mn tonnes (+3% YoY) in July, 2011, while container traffic stood at 9.8mn tonnes (+5% YoY). Primary driver for cargo traffic has been higher POL and coal imports. FY11 cargo traffic stood at 570mn tonnes (+2% YoY) and container traffic stood at 114mn tonnes (+13% YoY)

SHARE OF COMMODITIES IN PORT TRAFFIC (%)



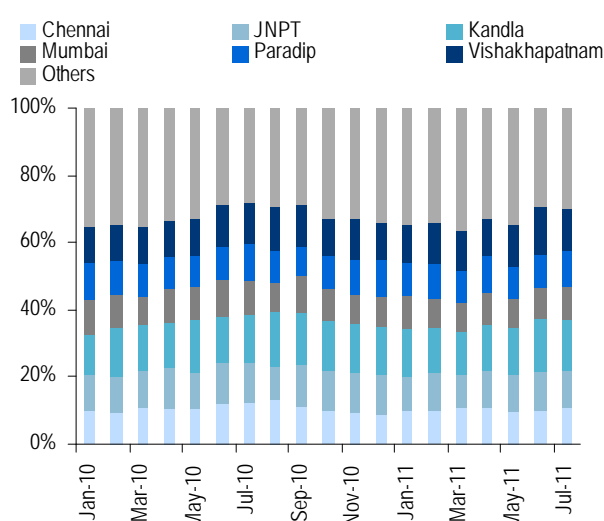
» Highest contributor to growth in traffic was Coal (+9% YoY) and POL (+3% YoY). Overall imports in FY11 were at 570mn tonnes with POL imports at 180mn tonnes (30%) and coal imports at 73mn tonnes (13%)

CONTAINER TRAFFIC MARKET SHARE OF MAJOR PORTS



» Within containers, JNPT maintains its leading market share (46%) in July '11 as well. Chennai is at a distant 2nd place with a 28% share

CARGO TRAFFIC MARKET SHARE OF MAJOR PORTS

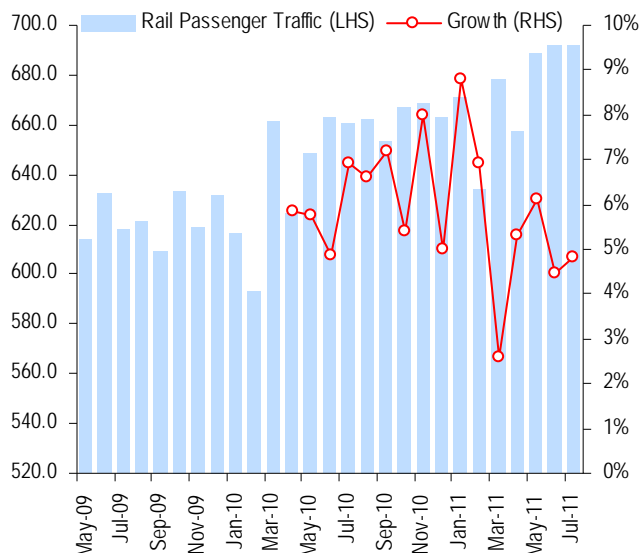


» Within overall cargo traffic, Kandla port has the highest market share (15%), followed by Vishakhapatnam at 12% share

Source: Company, MF Global India Research

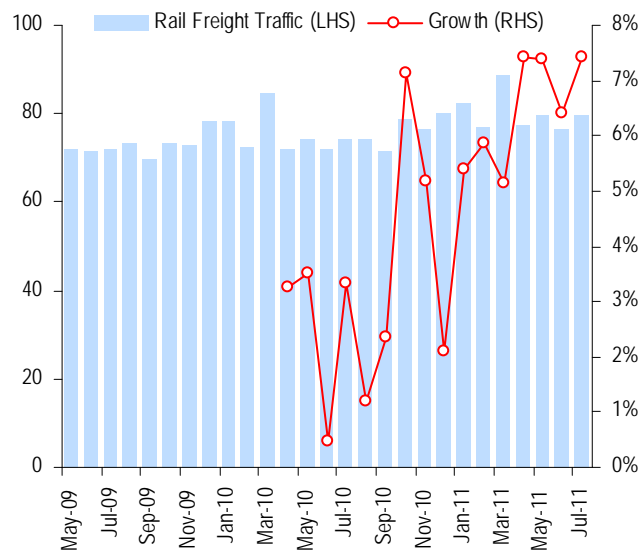
Traffic Growth—Railways and Airports

RAILWAY PASSENGER TRAFFIC (MN) AND YOY GROWTH (%)



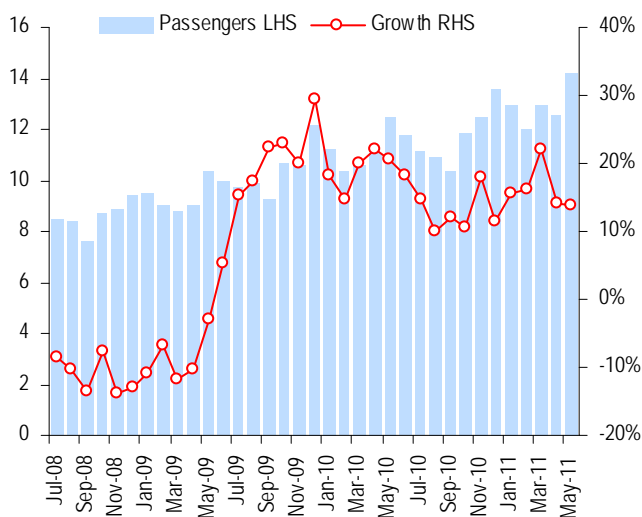
» Railways passenger traffic at 692mn (+4.4% YoY) in June '11. Railways carried freight of 7.9bn tonnes in FY11

RAILWAY FREIGHT TRAFFIC (MN TONS) AND YOY GROWTH (%)



» Railways freight traffic at 80mn (+7.4% YoY) in July '11, aided by a higher coal off take. Railways carried freight of 922mn tonnes in FY11

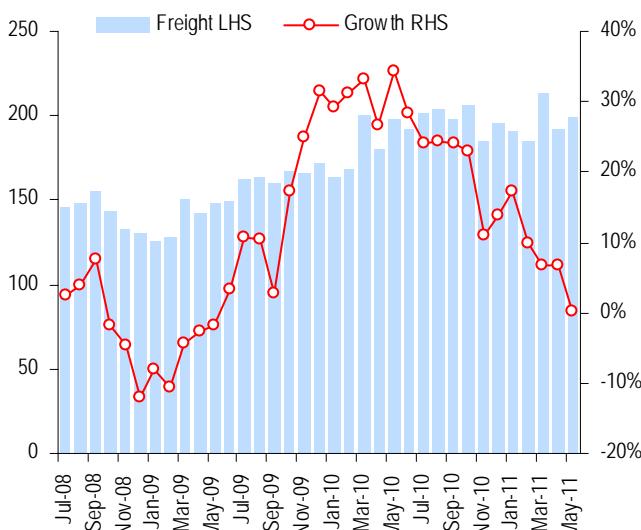
AIRPORT PASSENGER TRAFFIC ('000) AND YOY GROWTH (%)



» Passenger traffic growth remains robust at 14.2mn (+14% YoY) in May '11. We would expect a slowdown in the coming quarters on account of the overall deterioration in the macro environment and slowing economic growth

Source: Company, MF Global India Research

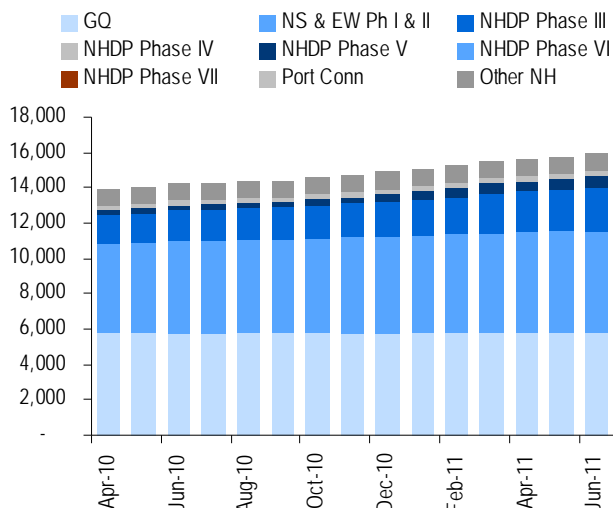
AIRPORT FREIGHT TRAFFIC ('000 TONS) AND YOY GROWTH (%)



» Freight traffic at 199,000 tonnes in May '11 remained flat over the last year

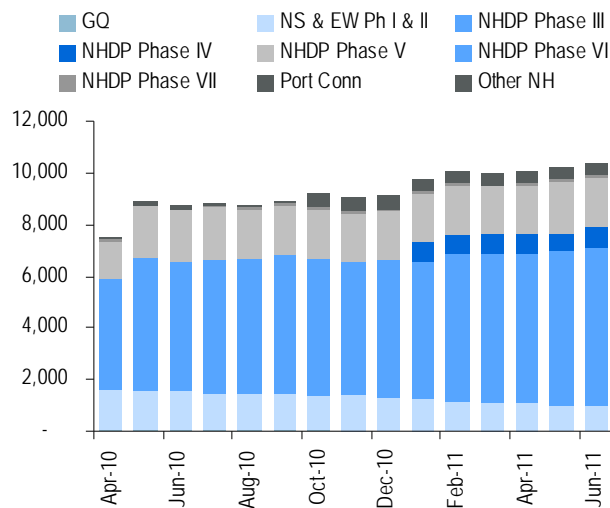
Road Sector

NHAI – ROADS 2/4/6/8 LANED (KMS)



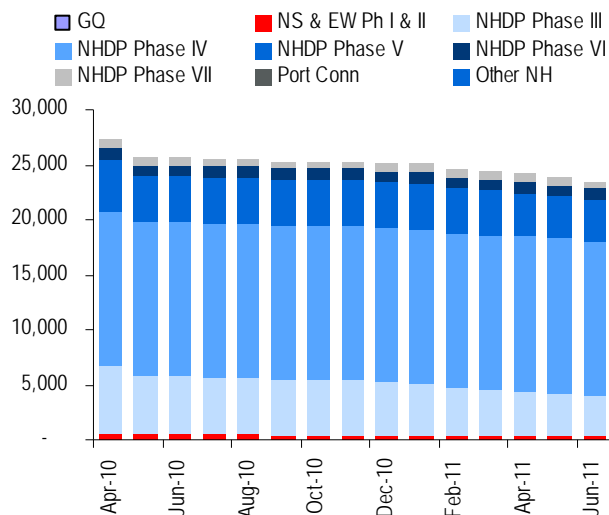
» Pace of execution looks to be picking up—149kms of roads were executed (+14% YoY) in June '11. In FY11, total roads built stood at 1,780kms (-26% in FY11).

NHAI – ROADS UNDER CONSTRUCTION/IMPLEMENTATION



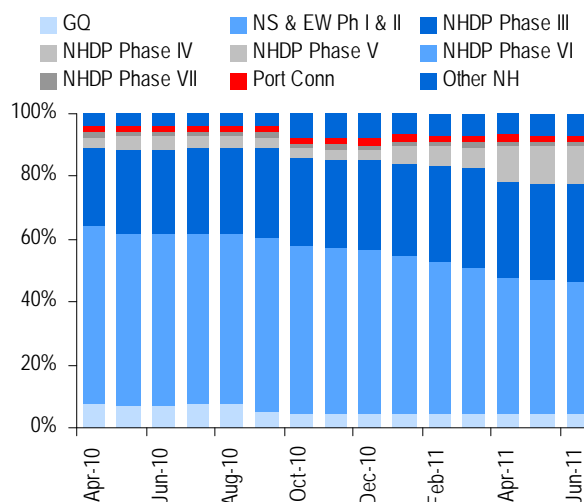
» Roads under construction have crossed the 10,000kms mark and stood at 10,386kms in Jun '11. NHAI has set an ambitious target of awarding 7,993kms (Rs 647bn) of orders this year

NHAI - ROADS TO BE AWARDED (KMS)



» A large part of the road orders to be awarded in the next two years will be from Phase IV— two laning of intercity connecting roads

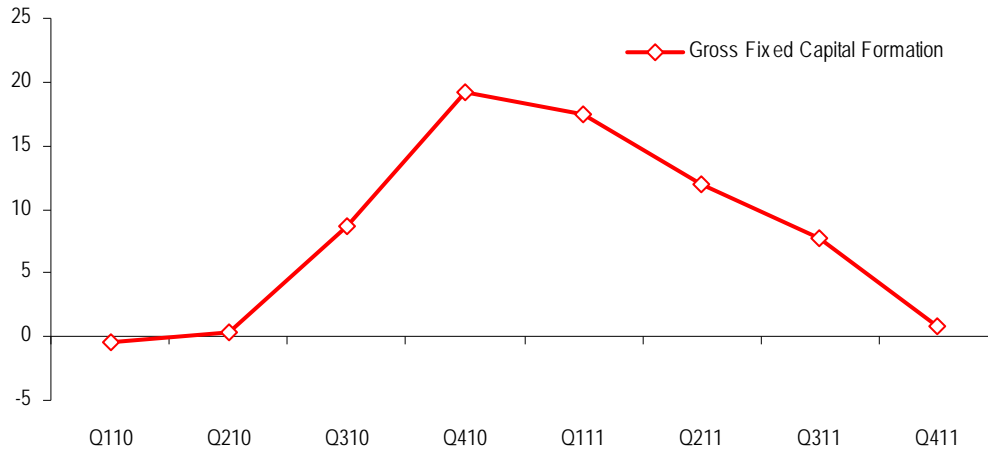
ROADS AWARDED: COST OF CONTRACTS BREAK-UP



Source: Company, MF Global India Research

Investments

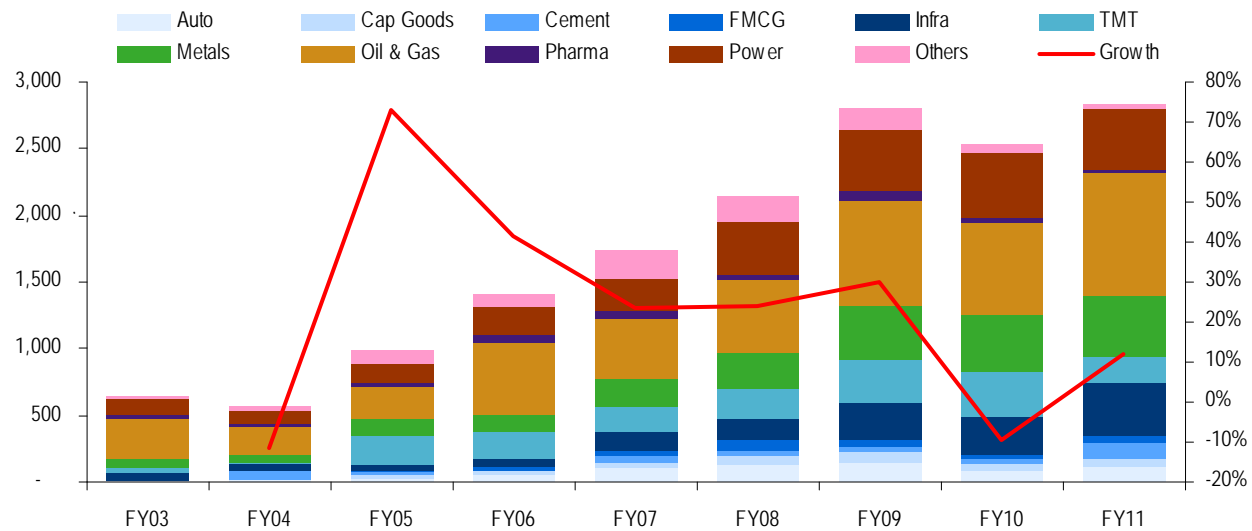
QUARTERLY GROSS FIXED CAPITAL FORMATION (YOY GROWTH %)



Source: Company, MF Global India Research

» Sharp slowdown seen in gross fixed capital formation over the last two quarters, signaling a sharp slow down in investments.

INDUSTRIAL & INFRASTRUCTURE CAPEX (RS BN) AND YOY GROWTH (%)

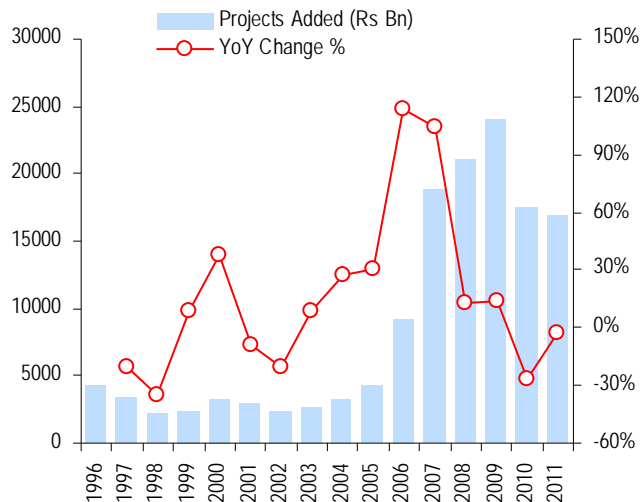


Source: Company, MF Global India Research

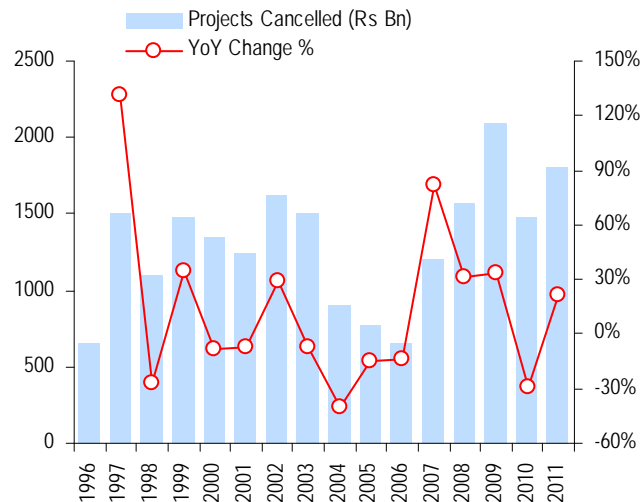
» Post the downturn in 2009, industrial capex recovery has been extremely anemic; moreover, companies have grown cautious on expansion plans on account of the uncertain macro environment and future growth. Infrastructure capex (including power) has also been hit on rising interest rates, lack of coal, land and environmental clearances. Our bottom-up analysis of BSE-200 companies shows ~10% growth in capex in FY11 (post a de-growth in FY10). We expect muted growth in capex in FY12-FY13 on subdued spending from Oil & Gas and Metal sectors.

All-India Projects analysis

PROJECTS ADDED (RS BN)



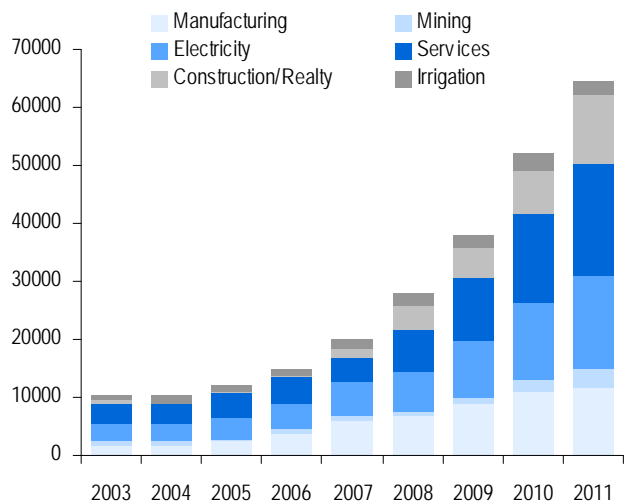
PROJECTS SHELVED (RS BN)



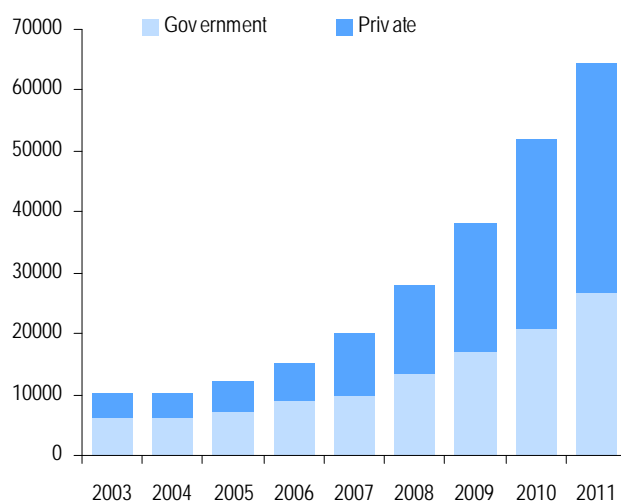
» After a sharp fall in project additions in 2010 (-27% YoY), 2011 has seen a further fall of 3%. Clearly, the investment climate in the country remains non-conducive to incremental capacity expansion

» A sharp rise is being seen in projects getting shelved in 2011 (+22% YoY)– higher interest rates are to be blamed for this situation

PROJECTS UNDER IMPLEMENTATION–BY SECTOR (RS BN)



PROJECTS UNDER IMPLEMENTATION–BY OWNERSHIP (RS BN)



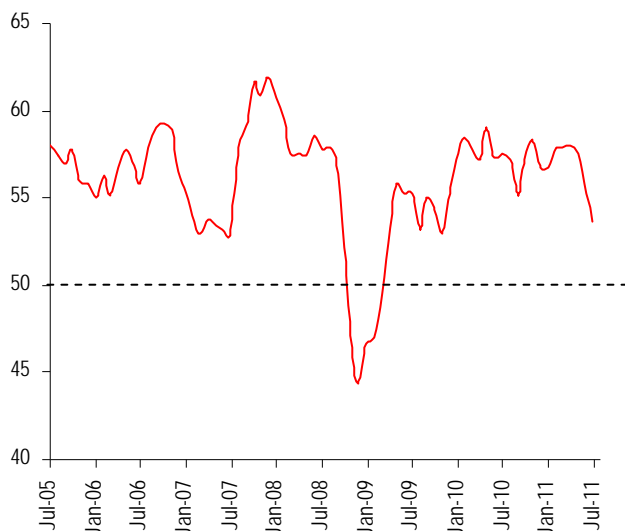
» While the share of electricity has remained stable, the share of construction has risen to 18% from 3% in 2003

» The sharp rise in the share of the private sector in projects under implementation is at 63% in FY11 from 40% in 2003

Source: CMIE, MF Global India Research

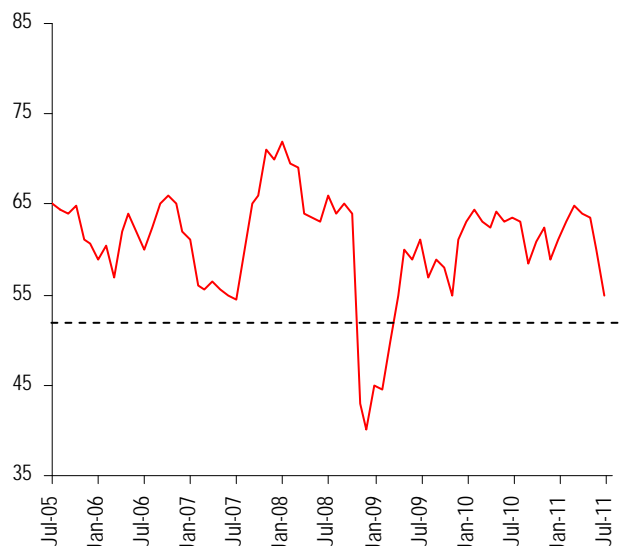
India PMI–Manufacturing

OVERALL PMI (OUTPUT)



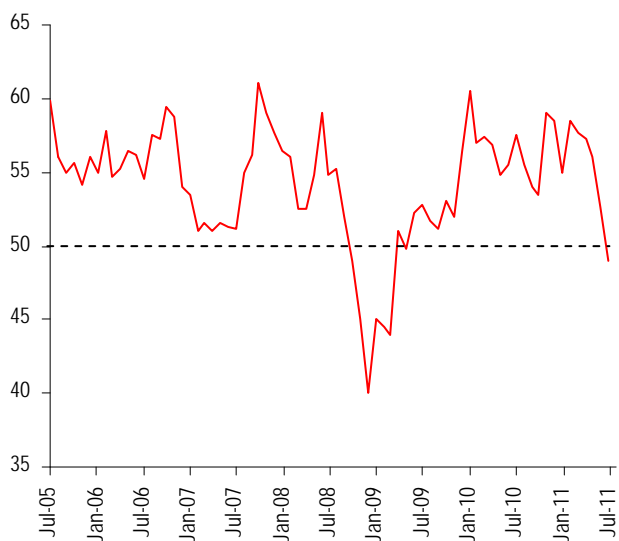
» PMI continues to trend lower at 53.6 in July '11 (down from 55.3 in June '11), signaling a slowdown in growth in manufacturing activity and was the weakest in the last 20 months. This was primarily on a slowdown in new order growth. However, expansion in manufacturing has continued for successive months since April, 2009.

ORDERS INDEX



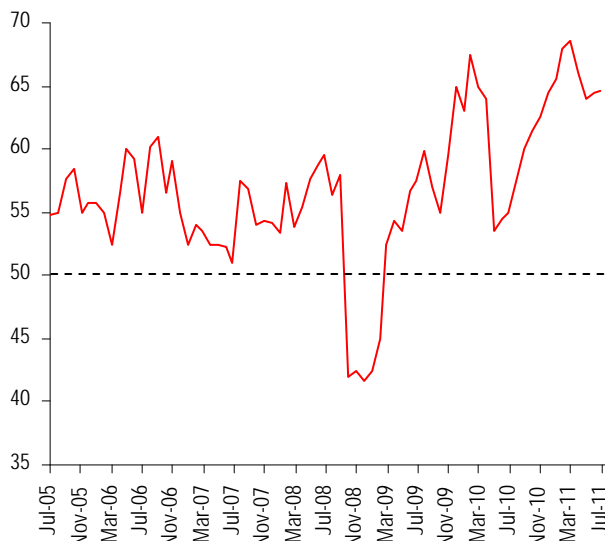
» July has continued to see a rise in orders; however, the pace of growth has slowed substantially for the 4th month in a row and is the lowest in the last 28 months. Orders Index stood at 55 in July '11.

NEW EXPORTS ORDER INDEX



» New export orders have contracted for the first time since May, 2009. Exports index stood at 49 in July '11

INPUT PRICES INDEX

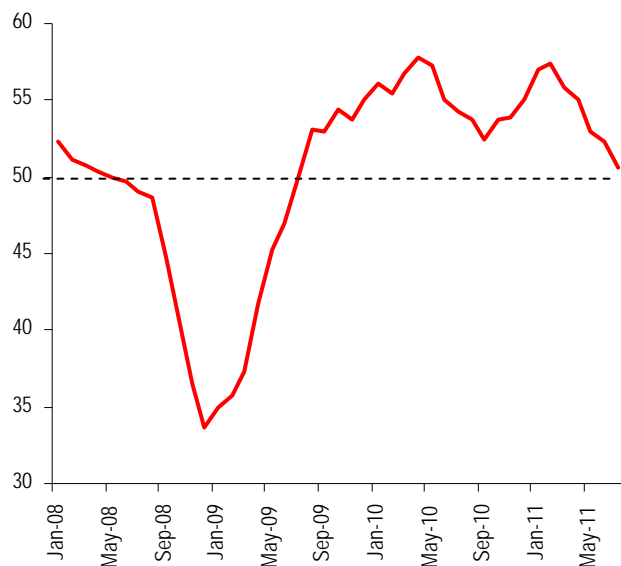


» Input prices have seen a significant increase in July '11, driven by higher raw material prices. The rate of increase in input prices was higher than in June '11. Input prices index stood at 65 in July '11

Source: Company, MF Global India Research

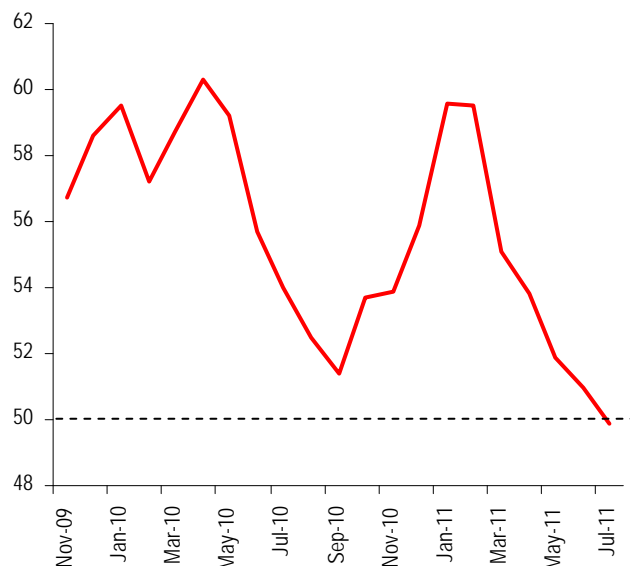
Global and China PMI

GLOBAL PMI: MANUFACTURING (>50 IS EXPANSION)



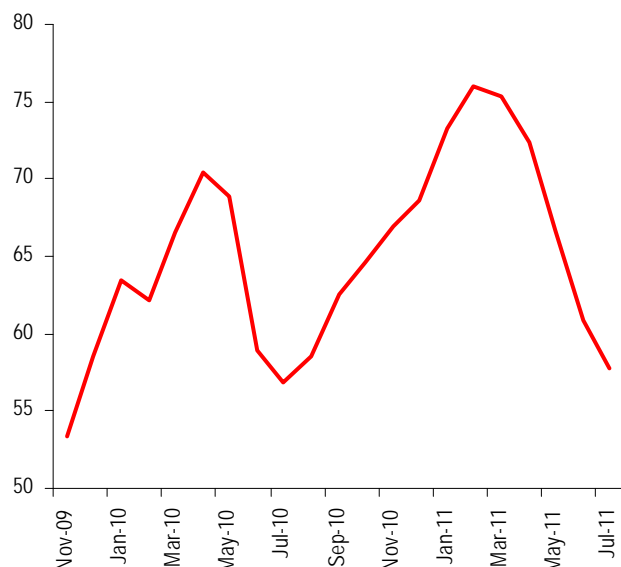
» Global PMI at 50.6 continues its downtrend in July '11. This is the 26th month in a row when manufacturing output has expanded. Output expansion was the slowest in US, hit a 20-month low in India and is the weakest in the Euro zone and UK

GLOBAL NEW ORDERS INDEX (>50 IS EXPANSION)



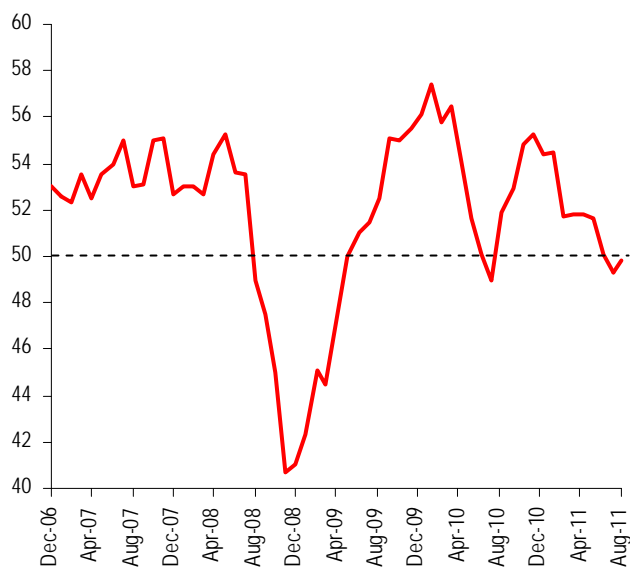
» New orders posted a decline and are now below the 50 mark. New orders fell in US, Euro zone and UK. Pace of increase fell to a standstill in China and the weakest was in India in the last 28 months

GLOBAL INPUT PRICES INDEX (>50 IS EXPANSION)



» There has been a further easing of input prices in July '11 and this month saw the least rise in a year

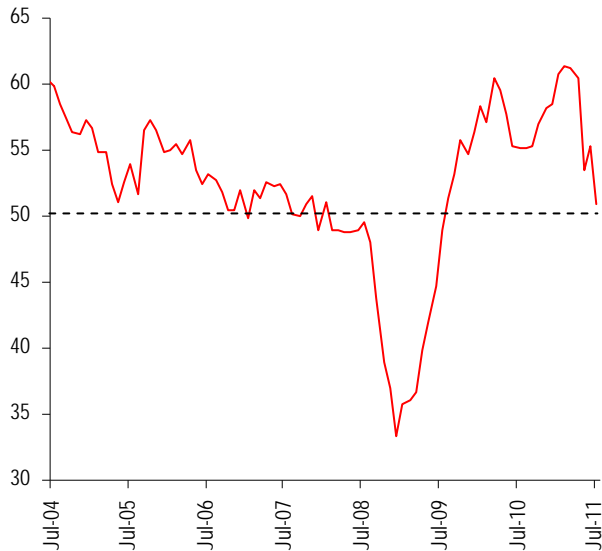
CHINA PMI MANUFACTURING (>50 IS EXPANSION)



» China's headline PMI has increased to 49.8 in August, 2011, but remains below the crucial 50 mark. This indicates that manufacturing output contracted for the 2nd month in a row in China

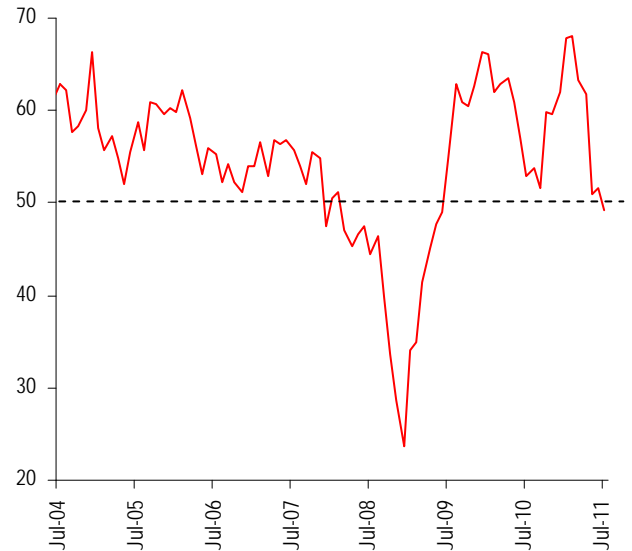
US PMI

OVERALL PMI (MANUFACTURING)



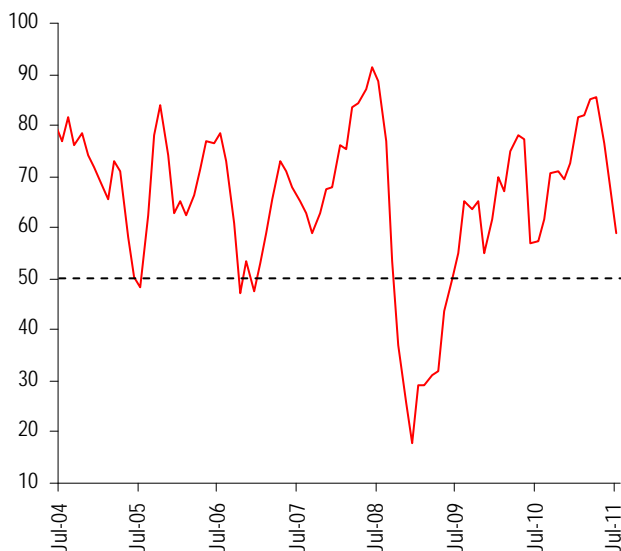
» Overall manufacturing activity in the US increased for the 24th month in a row—PMI at 50.9. It, however, fell from 55.3 in June '11, primarily on a contraction in new orders and inventories

NEW ORDERS INDEX (DIPPED BELOW 50)



» New order index at 49.2 fell below the 50 mark from 51.6% in June '11. This is the first time orders have contracted since June 2009.

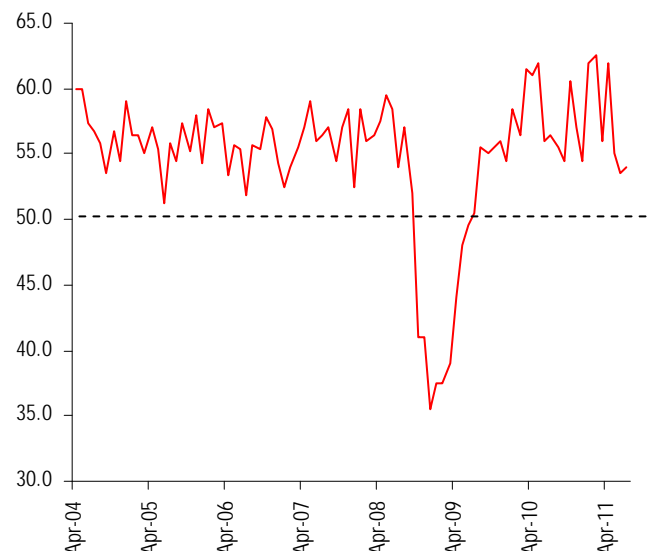
INPUT PRICES



» The input prices index at 59 in July '11 fell a steep 9 points from 68 in June '11. 10 of the 18 manufacturing industries have seen a rise in input prices

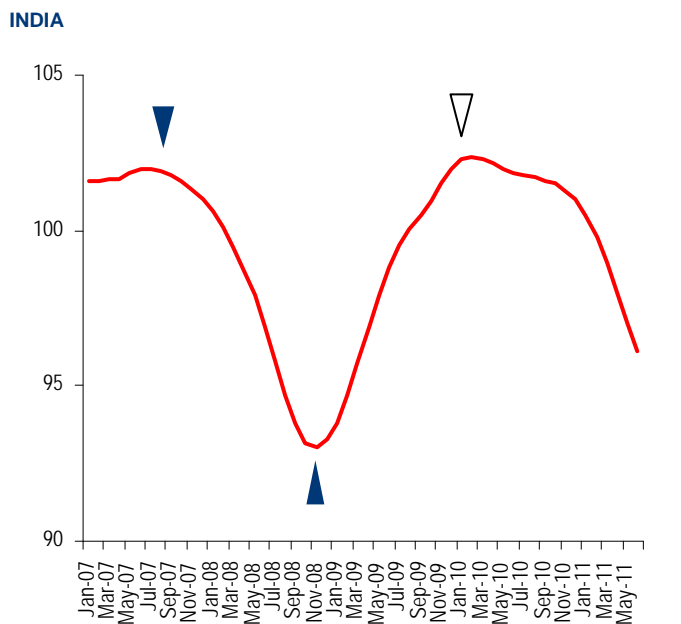
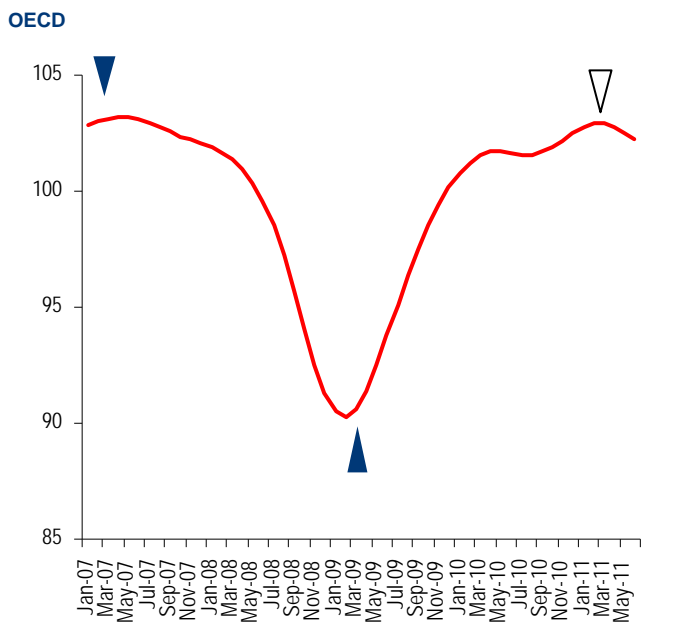
Source: Company, MF Global India Research

NEW EXPORTS ORDER INDEX



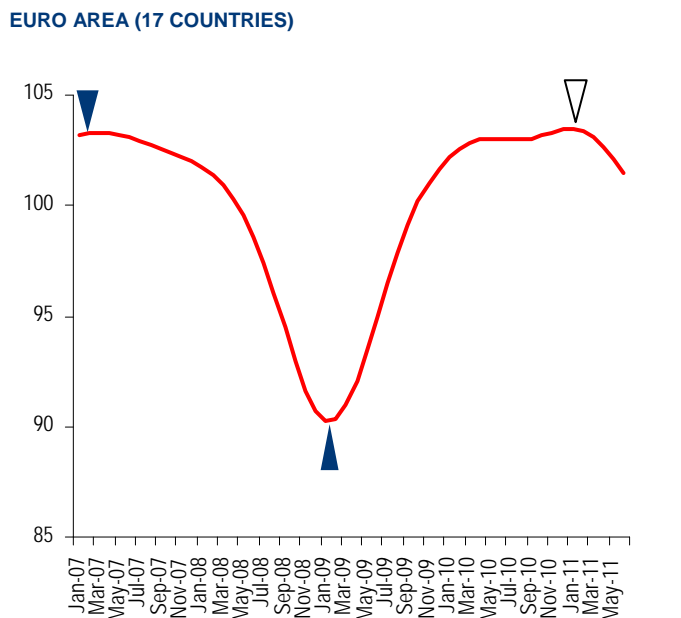
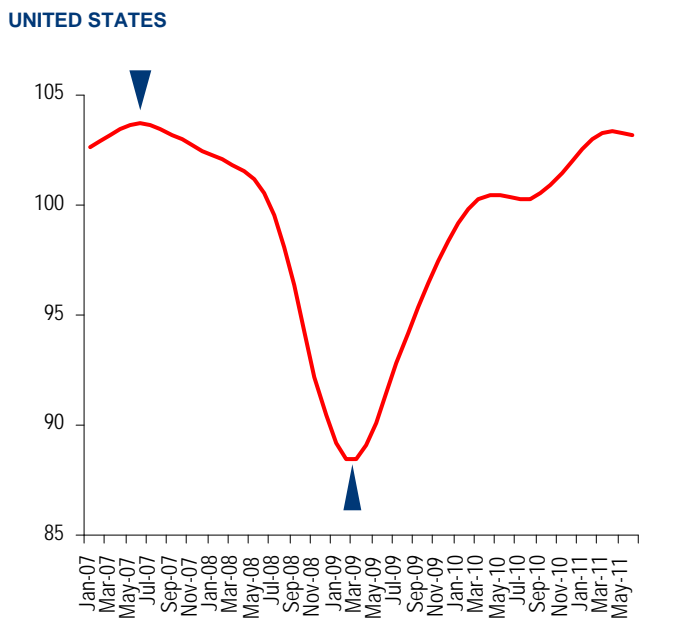
» New export orders at 54 in July '11 were around the same levels in June '11

OECD Composite leading indicators (CLI)—points towards a slowdown in growth globally



» Possible peak in the OECD economic growth as shown by the CLI

» Slowdown in India continues



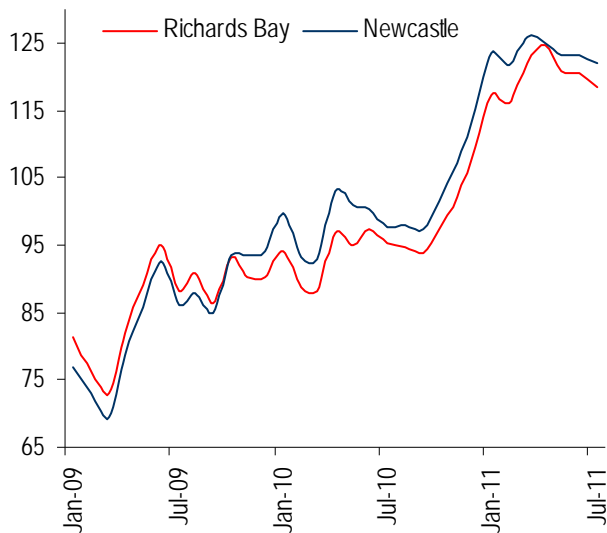
» Possible peak in the US economic growth as shown by the CLI

» Slowdown in Euro continues

Source: Company, MF Global India Research

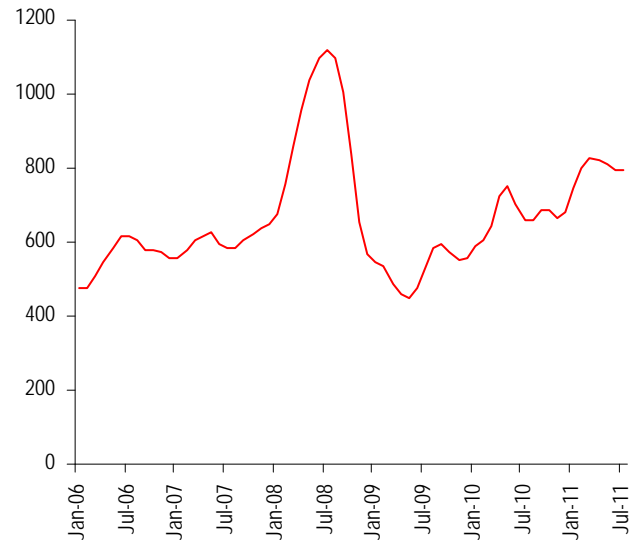
Key raw material prices

COAL PRICES (RICHARDS BAY AND NEWCASTLE) - \$/TON



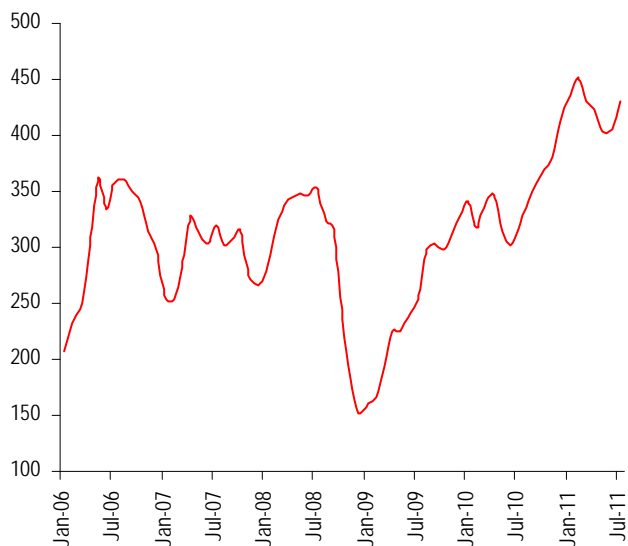
» Coal prices have continued to soften marginally into July – down ~2% for Newcastle and Richards Bay.

STEEL- HRC \$/TONNE



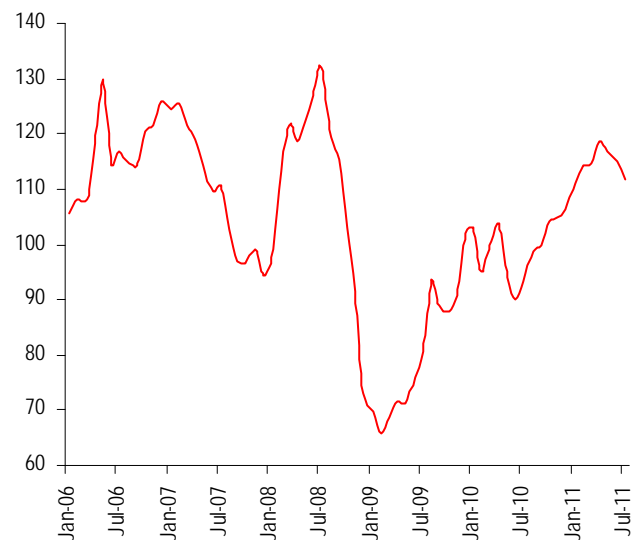
» HRC prices at Rs 794/tonne in Jul '11 have remained stable over the past few months. Sharp rise in iron ore prices have led to a sharp rise in steel prices over the past few quarters

COPPER (RS/KG)-KEY INDICATOR OF INDUSTRIAL ACTIVITY



» Copper prices have come off recent highs, but remains at elevated levels. Copper at Rs 400/kg in Aug '11 remains near its historically high levels

ALUMINIUM (RS/KG)

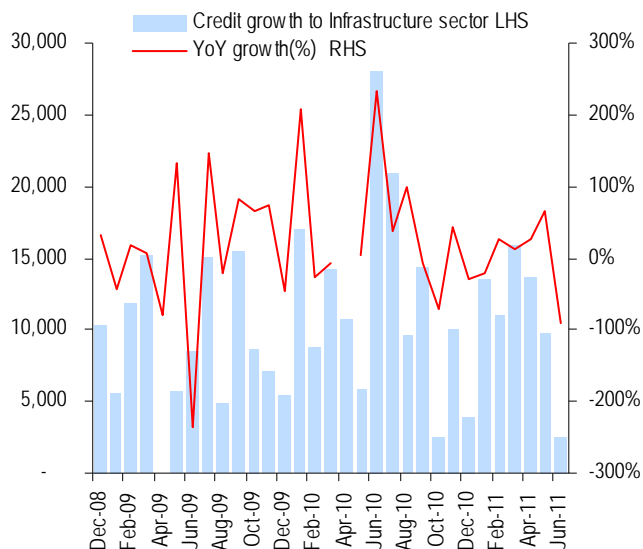


» Aluminum prices have continued their downward move into July '11 at Rs112/kg and further down to Rs105/kg in Aug '11

Source: Company, MF Global India Research

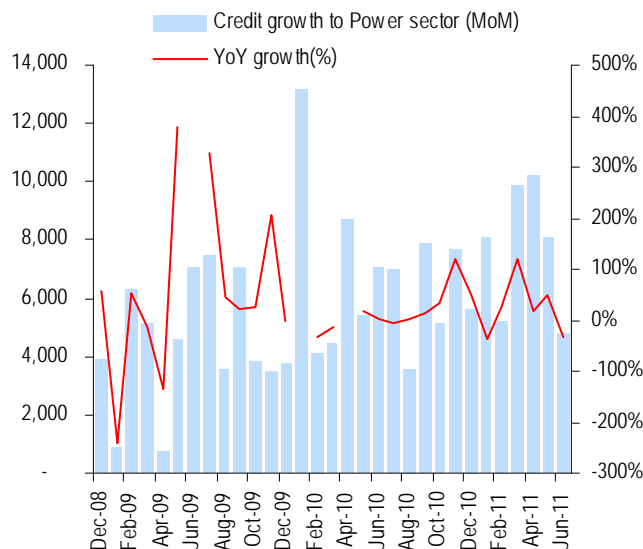
Bank credit to the infrastructure sector

CREDIT FLOW TO INFRA (RS CR) & GROWTH (YOY %)



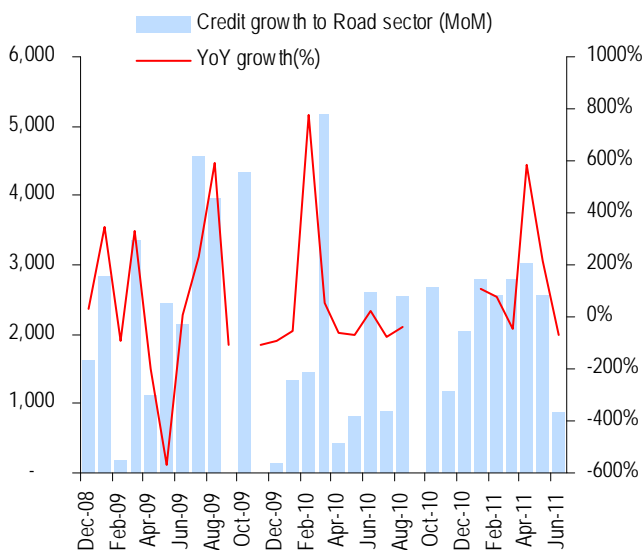
» Sharp slowdown seen in lending to infrastructure sectors in July '11 at Rs 2, 500crore (-91% YoY). This is primarily on a slowdown in disbursement to the power and roads sector, while overall credit deployed in the telecom sector showed negative growth on repayment of loans

CREDIT FLOW TO POWER (RS CR) AND GROWTH (YOY %)



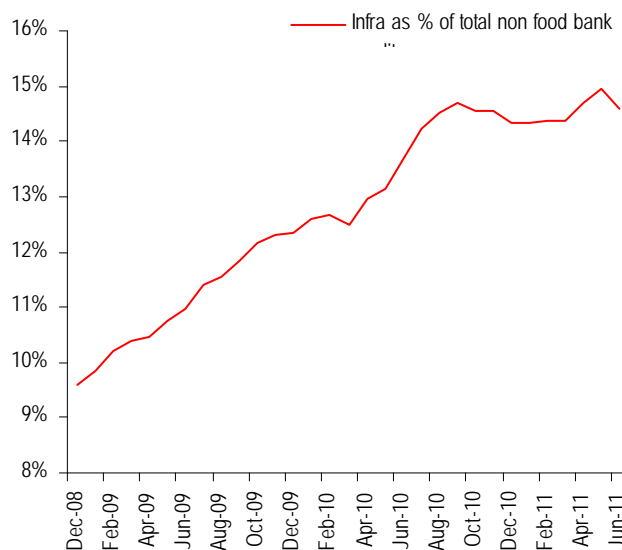
» Credit flow to the power sector at Rs 4, 795crore (-32% YoY) in June '11 was sharply lower compared to the Rs 8, 131crore in May '11. Banks have increasingly become wary of lending to the power sector on account of problems facing the sector—the lack of coal, SEB losses and environmental clearances topping the list

CREDIT FLOW TO ROADS (RS CR) AND GROWTH (YOY %)



» Credit flow to the roads sector at Rs 870crore (-66% YoY) in June '11 was sharply lower compared to the Rs 2, 564crore in May '11.

INFRA AS % OF TOTAL NON-FOOD CREDIT BY BANKS

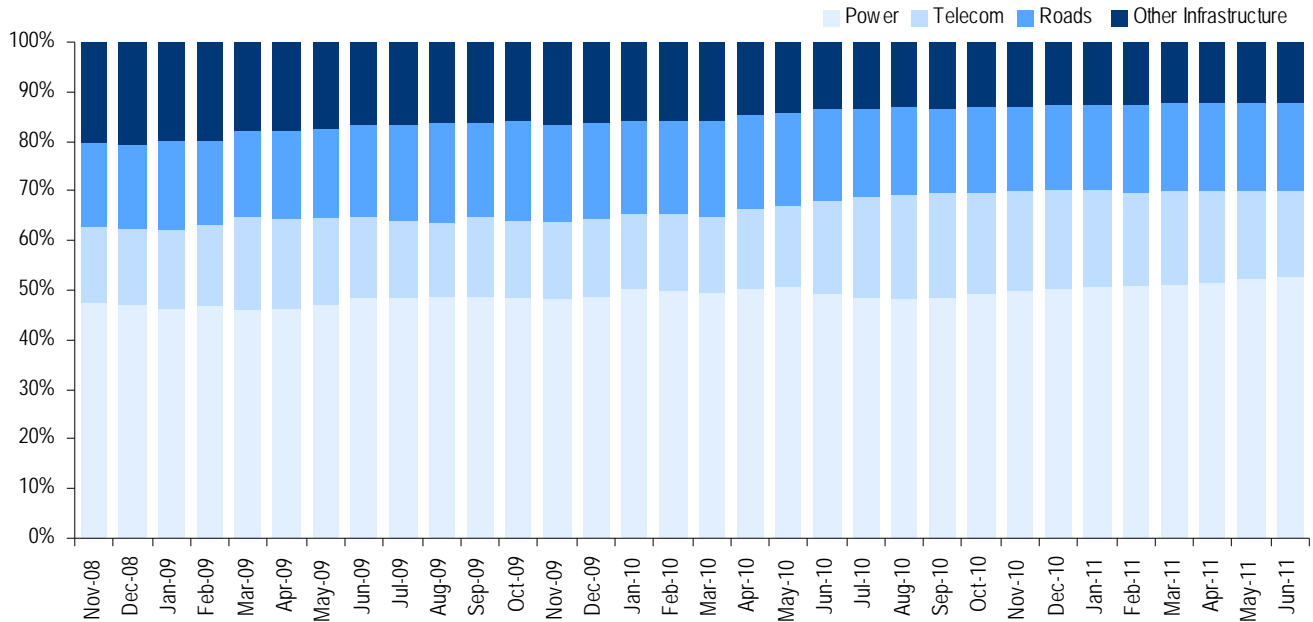


» Credit to infrastructure accounts for **~15% of overall credit deployment** from the banking sector. This has risen sharply from ~9.5% in Q4FY08 as bank lending to infrastructure increased, primarily for power projects

Source: MF Global India Research

Deployment of bank credit to infrastructure

DEPLOYMENT OF BANK CREDIT TO INFRA BY SEGMENT

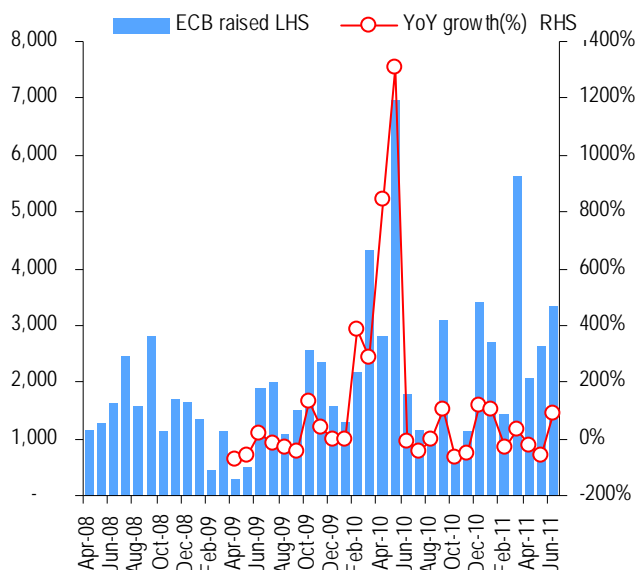


Source: Company, MF Global India Research

- » Sectoral break-up of infrastructure credit over the last few years shows deployment to the power sector has continued at a robust pace. The power sector now accounts for 52% of the credit deployed in the infrastructure sector (up from 48% in Nov 2008). Media reports have cited banks reaching their exposure limits on lending to infrastructure. Lenders have become cautious towards lending to the power sector on lack of fuel/coal. SEB losses and environmental concerns.

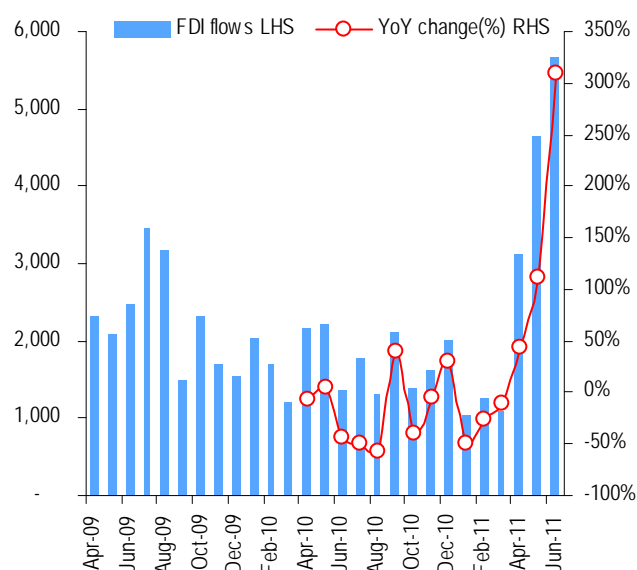
Capital Raising—Domestic and Abroad

EXTERNAL COMMERCIAL BORROWINGS (\$BN) AND GROWTH



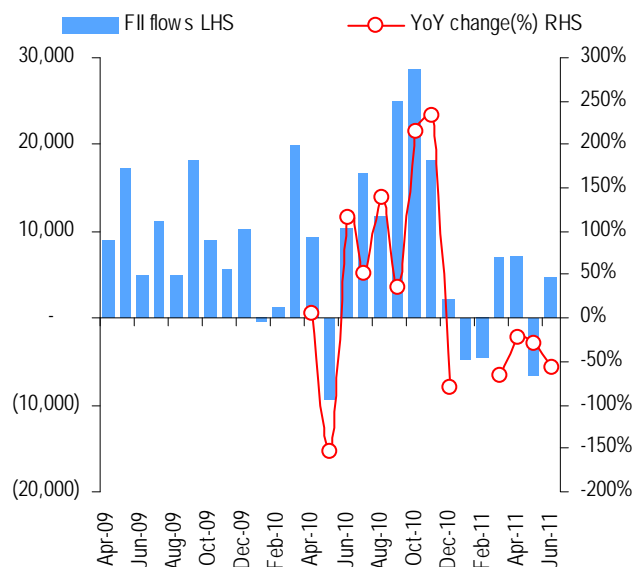
» External commercial borrowing have seen a sharp rise to US\$ 3.4bn (+86% YoY) as companies took advantage of the lower interest rates abroad to raise cheap capital. Telecom and power companies have raised the highest monies via ECBs

FOREIGN DIRECT INVESTMENT AND GROWTH (YOY %)



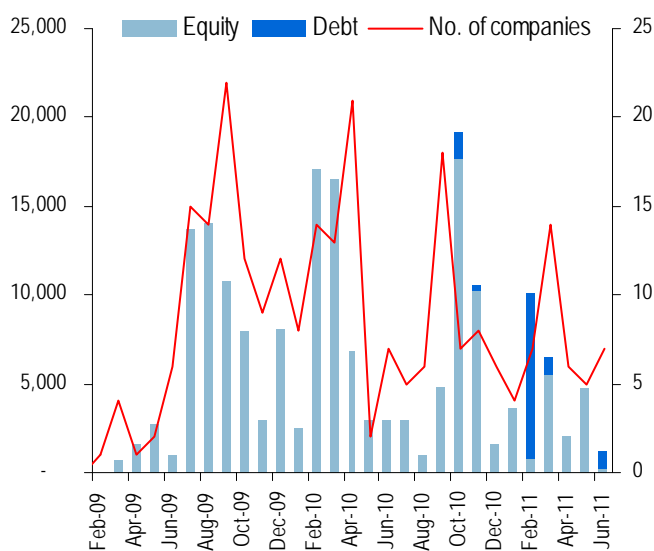
» FDI flows have surged to US\$ 5.6bn in June '10 (+310% YoY) as investments in the manufacturing and services sectors surged. This is the third straight month that has seen a sharp rise in investments

FII INFLOWS (RS CR) AND GROWTH (YOY %)



» FII flows into equities continue to remain extremely weak in June '11 at Rs 4, 600crore (-56% YoY). YTD till July '11 FII flows stood at Rs 5,171crore

CAPITAL RAISED (RS CR) FROM PRIMARY MARKETS

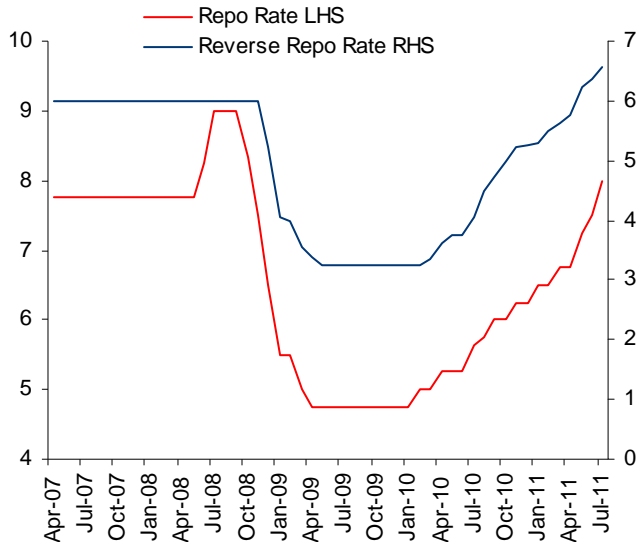


» Equity raised from the primary markets has completely dried up with only Rs 195crore being raised in June '11. A clear shift is taking place in the debt market where Rs 1, 000crore was raised

Source: Bloomberg, MF Global India Research

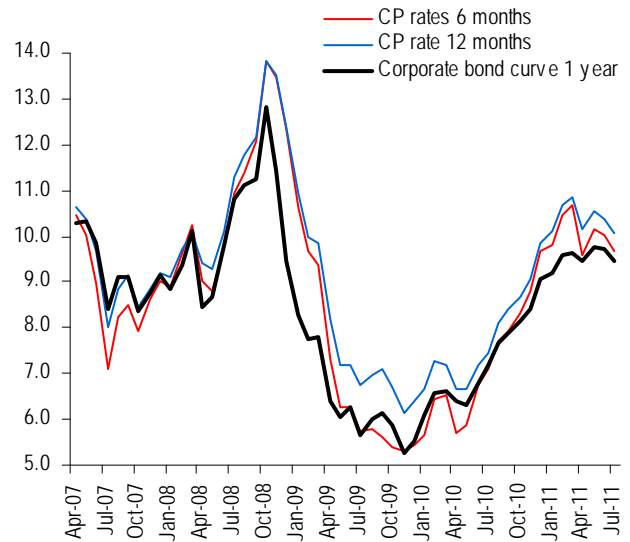
Domestic interest rate scenario

REPO RATE AND REVERSE REPO RATE (%)



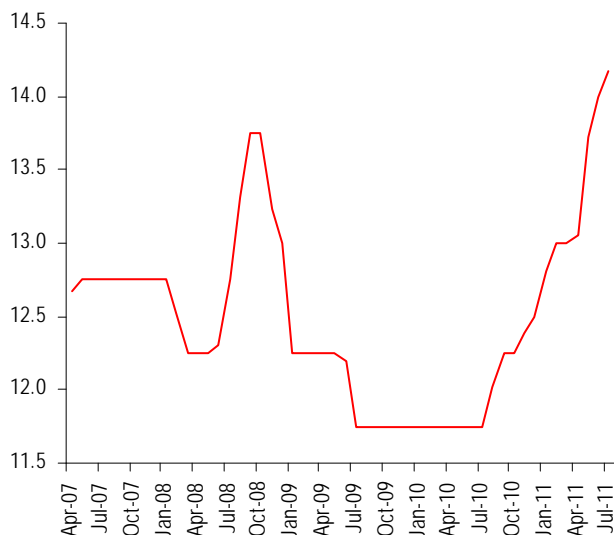
» Repo rates at 8% in July '11 have been raised 11 times since March '10 as the RBI raised rates aggressively to tame inflation. Our economist expects another 50bps rate hikes in the coming quarters

CORPORATE PAPER AND BOND RATES (%)



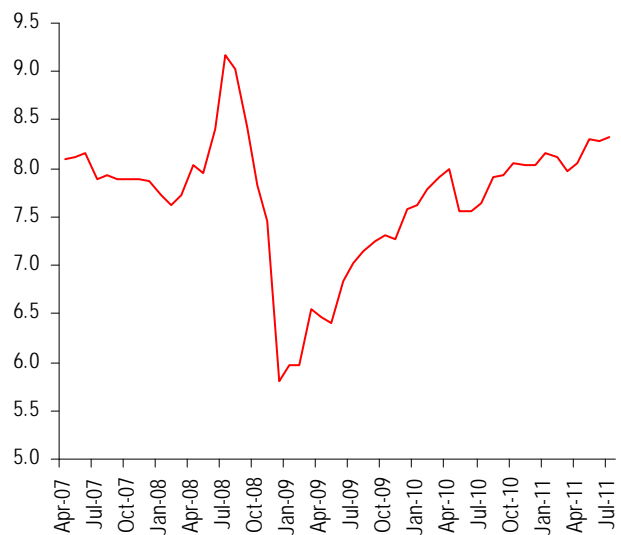
» Corporate paper rates continue to hover at ~10% after peaking at ~11% in Mar '11. There is an increasing trend amongst companies to borrow money via CP as the rate on offer is below the bank's base and PLR rates

SBI PRIME LENDING RATE (%)



» In Aug '11, SBI has revised up its BPLR by 50bps to 14.8%. Rise in the PLR has a direct impact on borrowing costs for companies who have to pay higher interest expenses on their borrowings

INDIA 10-YR BOND YIELD (%)

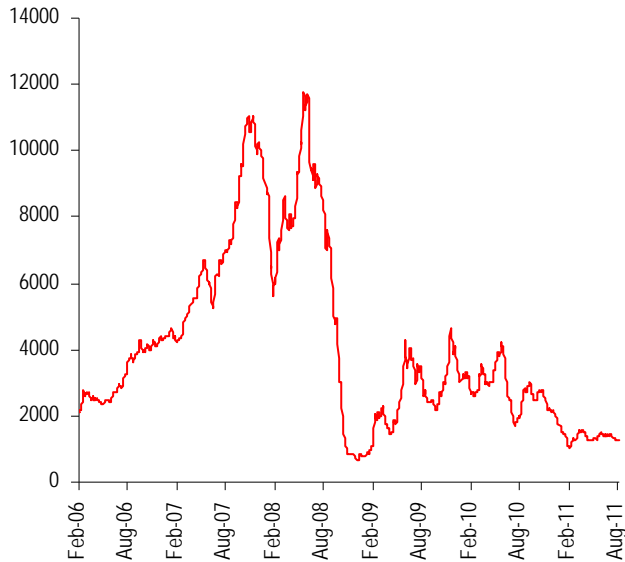


» 10-year bond yields continue to rise in July '11 as the RBI continues with its efforts to control inflation via raising interest rates. 10-year bond yields are now at 8.3%

Source: MF Global India Research

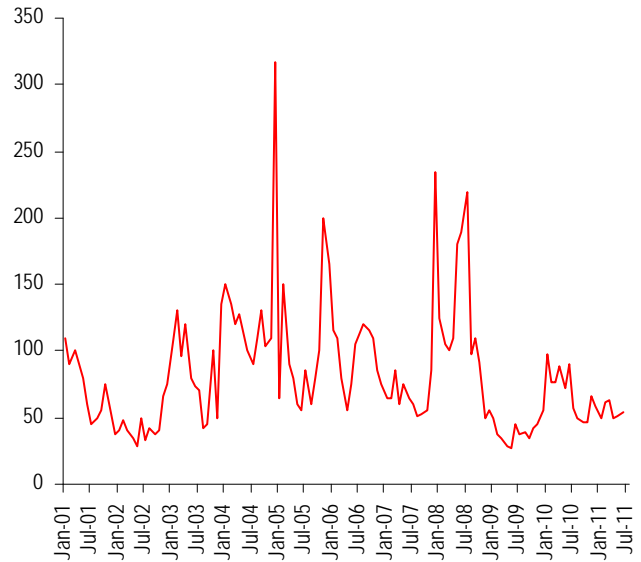
Freight Rates and commodity prices

BALTIC DRY INDEX



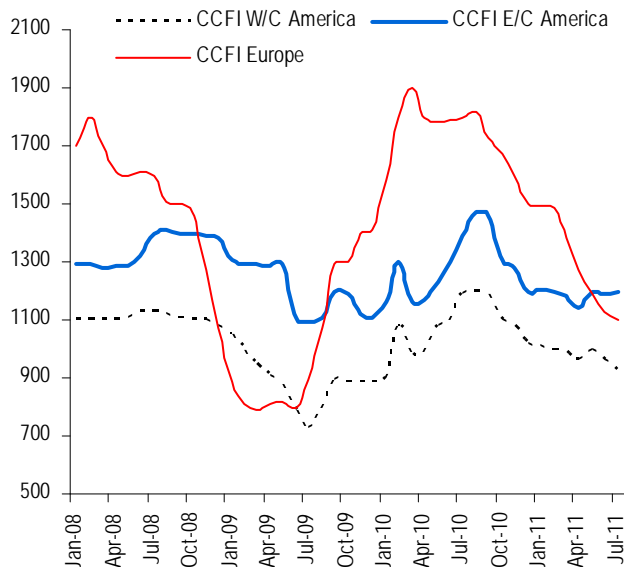
» The BDI continues to languish at 1,257 (down 90% from its May 2008 highs). The BDI is a leading indicator of economic activity as it reflects the cost of moving bulk cargo by sea and so demand for such commodities. However, some of the weakness in the BDI is also because of an oversupply of bulk carriers

VLCC INDEX



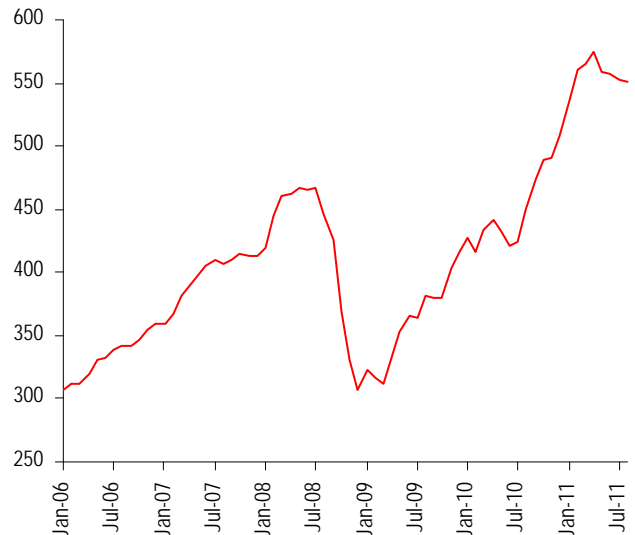
» VLCC rates continue to languish at low levels as increased deliveries, combined with lower demand from emerging economies, dents global oil demand

CHINA CONTAINERISED FREIGHT INDEX (CCFI)



» Weakness in container freight continues, especially for exports to Europe. With the US and Europe expected to see a significant slowdown in growth, we expect freight rates to follow suit

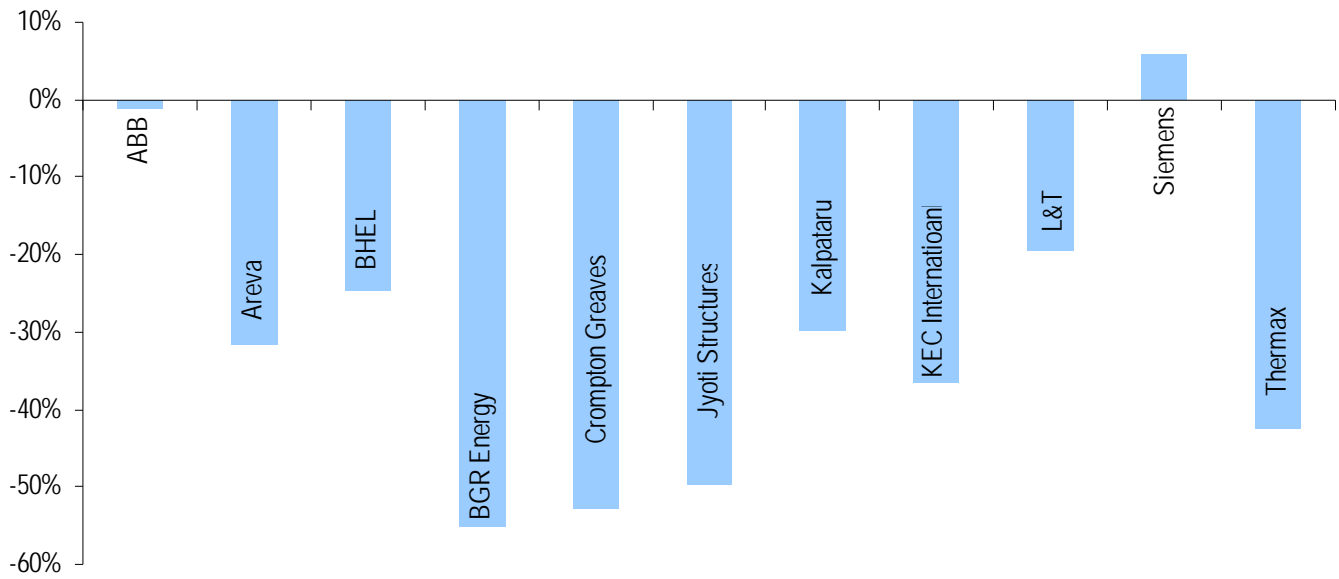
CRB COMMODITY INDEX



» The CRB commodity index has dropped 4% in July, 11 as commodities prices reacted negatively to slowing economic growth in the Euro zone and US.

Source: MF Global India Research

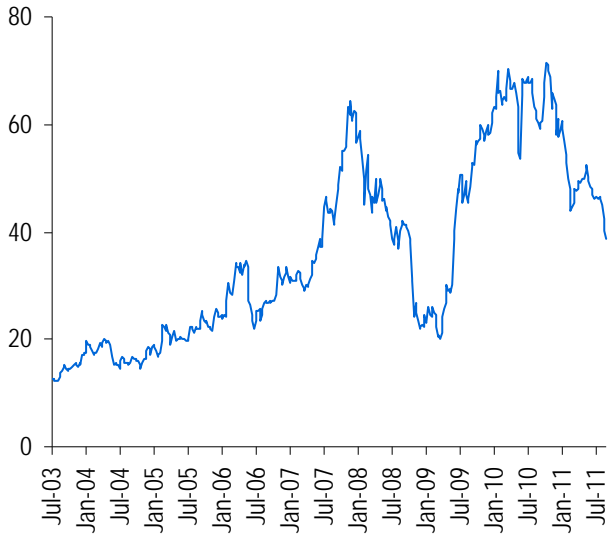
Valuations: YTD (Jan–July '11) returns vs. generation/T&D companies



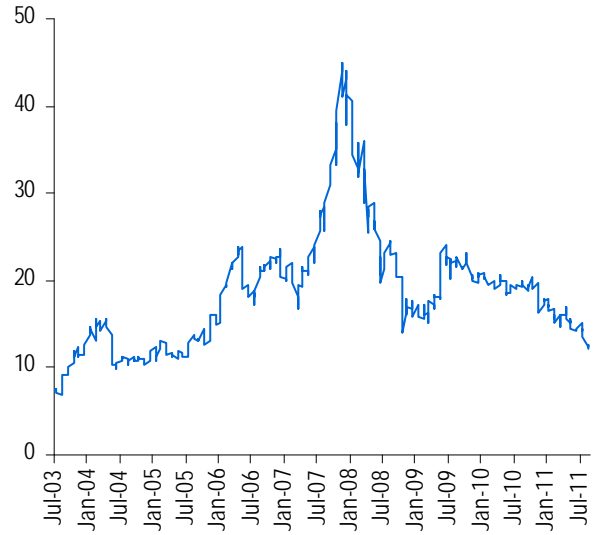
Source: MF Global India Research

Valuations: Forward PE

ABB INDIA



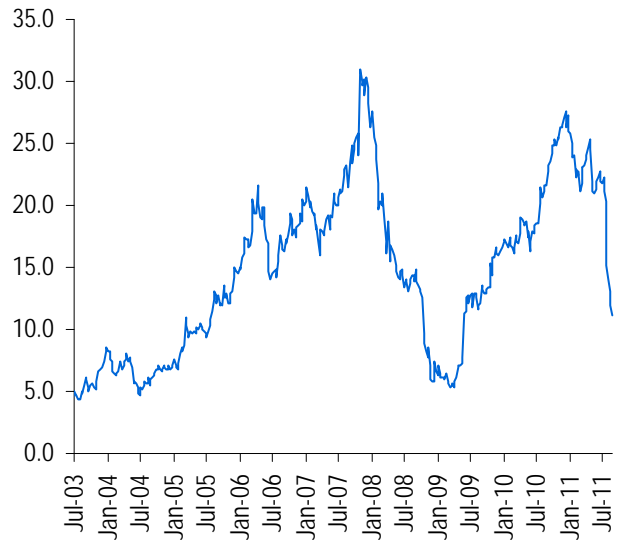
BHEL



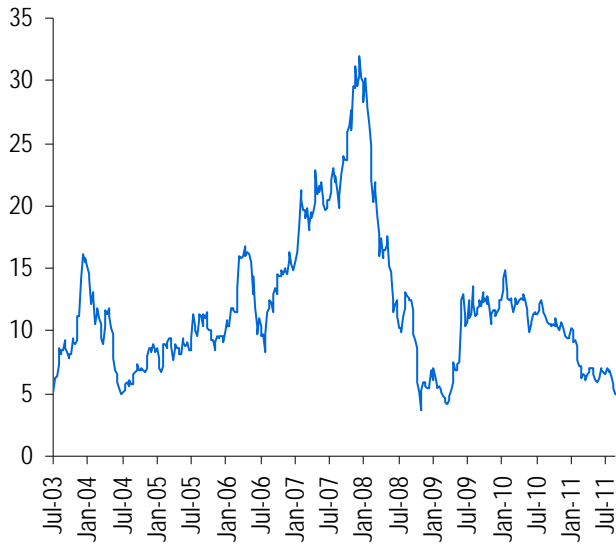
BGR ENERGY



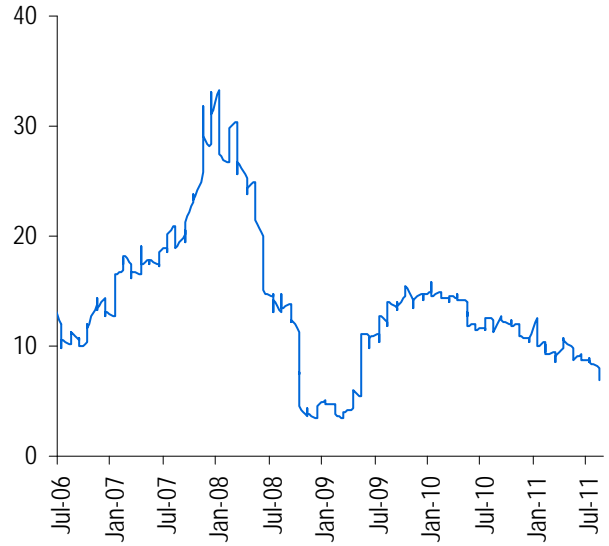
CROMPTON GREAVES



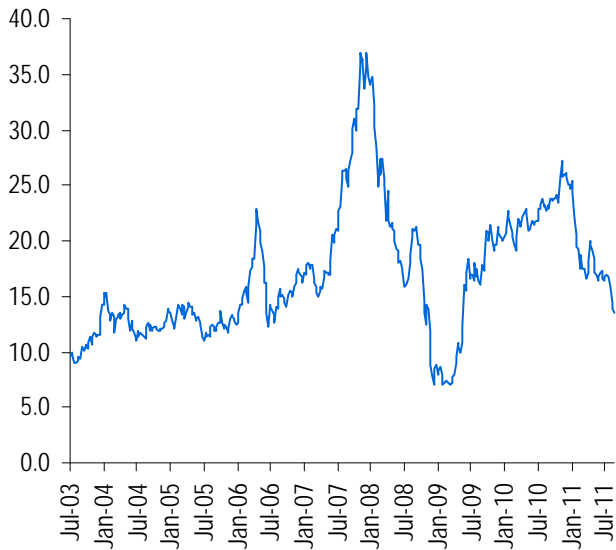
JYOTI STRUCTURES



KEC INTERNATIONAL



THERMAX



VINEET BHATNAGAR	MANAGING DIRECTOR	91-22-2300 2999	VBHATNAGAR@MFGLOBAL.COM
SAJID KHALID	HEAD – INSTITUTIONAL EQUITIES	91-22-6667 9972	SAKHALID@MFGLOBAL.COM
JIGNESH SHAH	HEAD – EQUITY DERIVATIVES	91-22-6667 9735	JSHAH@MFGLOBAL.COM

EQUITY RESEARCH

MANISH AGARWALLA	VP - BANKING	91-22-6667 9962	MAGARWALLA@MFGLOBAL.COM
AARTHISUNDARI JAYAKUMAR	PHARMACEUTICALS	91-22-6667 9950	AJAYAKUMAR@MFGLOBAL.COM
ABHISHEK RANGANATHAN, CFA	RETAIL, REAL ESTATE	91-22-6667 9952	ABHISHEKR@MFGLOBAL.COM
ANJALI VERMA	ECONOMIST	91-22-6667 9969	ANVERMA@MFGLOBAL.COM
ANKUR SHARMA	ENGINEERING, CAPITAL GOODS	91-22-6667 9759	ASHARMA@MFGLOBAL.COM
DEEPAK JAIN	AUTOMOBILES & AUTO ANCILLARIES	91-22-6667 9758	DJAIN@MFGLOBAL.COM
DHAWAL DOSHI	METALS, POWER	91-22-6667 9769	DDOSHI@MFGLOBAL.COM
DIPEESH SOHANI	REAL ESTATE, MIDCAP	91-22-6667 9756	DSOHANI@MFGLOBAL.COM
ENNETTE FERNANDES	FMCG	91-22-6667 9764	EFERNANDES@MFGLOBAL.COM
GAURI ANAND	OIL & GAS, FERTILISER	91-22-6667 9943	GANAND@MFGLOBAL.COM
KAPIL BAGARIA	MIDCAP, SUGAR	91-22-6667 9965	KBAGARIA@MFGLOBAL.COM
NAVEEN KULKARNI, CFA, FRM	TELECOM, FMCG, MEDIA	91-22-6667 9947	NKULKARNI@MFGLOBAL.COM
SACHIT MOTWANI	BANKING	91-22-6667 9953	SMOTWANI@MFGLOBAL.COM
VAIBHAV AGARWAL	CEMENT	91-22-6667 9967	VAGARWAL@MFGLOBAL.COM
VIBHOR SINGHAL	INFRASTRUCTURE	91-22-6667 9949	VSINGHAL@MFGLOBAL.COM
VIHANG NAIK, CFA	IT SERVICES, MIDCAP	91-22-6667 9768	VNAIK@MFGLOBAL.COM
VIVEKANAND SUBBARAMAN	TELECOM, MEDIA	91-22-6667 9766	VSUBBARAMAN@MFGLOBAL.COM
DHARMESH SHAH	RESEARCH ASSOCIATE	91-22-6667 9974	DHSHAH@MFGLOBAL.COM
JISHAR THOOMBATH	RESEARCH ASSOCIATE	91-22-6667 9986	JTHOOMBATH@MFGLOBAL.COM
NEHA GARG	RESEARCH ASSOCIATE	91-22-6667 9996	NGARG@MFGLOBAL.COM
SAURABH RATHI	RESEARCH ASSOCIATE	91-22-6667 9951	SRATHI@MFGLOBAL.COM
VARUN VIJAYAN	RESEARCH ASSOCIATE	91-22-6667 9992	VVIJAYAN@MFGLOBAL.COM
GANESH DEORUKHKAR	PRODUCTION	91-22-6667 9966	GDEORUKHKAR@MFGLOBAL.COM
ROSHNI KALLOOR	RESEARCH COMPLIANCE OFFICER	91-22-6667 9762	RKALLOOR@MFGLOBAL.COM

TECHNICAL & QUANT RESEARCH

NEPPOLIAN PILLAI	CHIEF TECHNICAL STRATEGIST	91-22-6667 9989	PNEPPOLIAN@MFGLOBAL.COM
SHIKHA KHURANA	QUANT ANALYST	91-22-6667 9948	SKHURANA@MFGLOBAL.COM

INSTITUTIONAL CASH EQUITY SALES

SUDHIR PADIYAR	VP - EQUITY SALES (ASIAPAC)	91-22-6667 9991	SPADIYAR@MFGLOBAL.COM
KINSHUK TIWARI	EQUITY SALES	91-22-6667 9946	KTIWARI@MFGLOBAL.COM
PAWAN KAKUMANU	EQUITY SALES	91-22-6667 9934	PKAKUMANU@MFGLOBAL.COM
SHIV CHANANI	EQUITY SALES	91-22-6667 9944	SCHANANI@MFGLOBAL.COM
SHUBHANGI AGRAWAL	EQUITY SALES	91-22-6667 9964	SAGRAWAL@MFGLOBAL.COM
ROSIE FERNS	SR. EXEC. – EQUITIES SALES SUPPORT	91-22-6667 9971	RFERNS@MFGLOBAL.COM

INSTITUTIONAL CASH EQUITY SALES TRADING

SUNIL KAMATH	VP - SALES TRADER	91-22-6667 9747	SKAMATH@MFGLOBAL.COM
CHETAN SAVLA	SALES TRADER	91-22-6667 9749	CSAVLA@MFGLOBAL.COM
RAJESH ASHAR	SALES TRADER	91-22-6667 9746	RASHAR@MFGLOBAL.COM

INSTITUTIONAL CASH EQUITY DEALING

MAYUR SHAH	DEALER	91-22-6677 9945	MASHAH@MFGLOBAL.COM
GURUDATT UCHIL	DEALER	91-22-6667 9750	GUCHIL@MFGLOBAL.COM

Rating Rationale

BUY and SELL recommendations are used to draw attention to stocks, which we believe are under-priced or over-priced by circa 15%, that is, price differential of +/- 15% between our price target and the market price. Stocks which do not achieve this price differential are NEUTRAL. Price targets are established in the context of a flat market.

Disclosures and Disclaimers

MF Global Sify Securities India Pvt. Ltd. has three independent equity research groups: Institutional Equities, Institutional Equities Derivatives and Private Client Group. This report has been prepared by Institutional Equities Research. The views and opinions expressed in this document may or may not match or may be contrary at times with the views, estimates, rating, target price of the other equity research groups of MF Global Sify Securities India Pvt. Ltd.

This report is issued by MF Global Sify Securities India Pvt. Limited which is regulated by SEBI. MF Global Sify Securities India Pvt. Ltd. is a subsidiary of MF Global Overseas Ltd. References to "MFGSSIPL" or "Firm" in this report shall mean MF Global Sify Securities India Pvt. Limited unless otherwise stated. This report is prepared and distributed by MFGSSIPL for information purposes only and neither the information contained herein nor any opinion expressed should be construed or deemed to be construed as solicitation or as offering advice for the purposes of the purchase or sale of any security, investment or derivatives. The information and opinions contained in the Report were considered by MFGSSIPL to be valid when published. The report also contains information provided to MFGSSIPL by third parties. The source of such information will usually be disclosed in the report. Whilst MFGSSIPL has taken all reasonable steps to ensure that this information is correct, MFGSSIPL does not offer any warranty as to the accuracy or completeness of such information. Any person placing reliance on the report to undertake trading does so entirely at his or her own risk and MFGSSIPL does not accept any liability as a result. Securities and Derivatives markets may be subject to rapid and unexpected price movements and past performance is not necessarily a guide to future performance.

This report does not have regard to the specific investment objectives, financial situation and the particular needs of any specific person who may receive this report. Investors must undertake independent analysis with their own legal, tax and financial advisors and reach their own regarding the appropriateness of investing in any securities or investment strategies discussed or recommended in this report and should understand that statements regarding future prospects may not be realized. In no circumstances it be used or considered as an offer to sell or a solicitation of any offer to buy or sell the Securities mentioned in it. The information contained in the research reports may have been taken from trade and statistical services and other sources, which we believe are reliable. MF Global Sify Securities India Pvt. Ltd. or any of its group companies do not guarantee that such information is accurate or complete and it should not be relied upon as such. Any opinions expressed reflect judgments at this date and are subject to change without notice.

Important: These disclosures and disclaimers must be read in conjunction with the research report of which it forms part. Receipt and use of the research report is subject to all aspects of these disclosures and disclaimers. Additional information about the issuers and securities discussed in this research report is available on request.

Certifications: The research analyst(s) who prepared this research report hereby certifies that the views expressed in this research report accurately reflect the research analyst's personal views about all of the subject issuers and/or securities, that the analyst have no known conflict of interest and no part of the research analyst's compensation was, is or will be, directly or indirectly, related to the specific views or recommendations contained in this research report. The Research Analyst certifies that he /she or his / her family members does not own the stock(s) covered in this research report.

Independence: MF Global Sify Securities India P. Ltd. has not had an investment banking relationship with, and has not received any compensation for investment banking services from, the subject issuers in the past twelve (12) months, and the Firm does not anticipate receiving or intend to seek compensation for investment banking services from the subject issuers in the next three (3) months. The Firm is not a market maker in the securities mentioned in this research report, although it or its affiliates may hold either long or short positions in such securities. The Firm does not hold more than 1% of the shares of the company(ies) covered in this report.

Suitability and Risks: This research report is for informational purposes only and is not tailored to the specific investment objectives, financial situation or particular requirements of any individual recipient hereof. Certain securities may give rise to substantial risks and may not be suitable for certain investors. Each investor must make its own determination as to the appropriateness of any securities referred to in this research report based upon the legal, tax and accounting considerations applicable to such investor and its own investment objectives or strategy, its financial situation and its investing experience. The value of any security may be positively or adversely affected by changes in foreign exchange or interest rates, as well as by other financial, economic or political factors. Past performance is not necessarily indicative of future performance or results.

Sources, Completeness and Accuracy: The material herein is based upon information obtained from sources that the Firm and the research analyst believe to be reliable, but neither the Firm nor the research analyst represents or guarantees that the information contained herein is accurate or complete and it should not be relied upon as such. Opinions expressed herein are current opinions as of the date appearing on this material and are subject to change without notice.

Furthermore, the Firm is under no obligation to update or keep the information current.

Copyright: The copyright in this research report belongs exclusively to the Firm. All rights are reserved. Any unauthorized use or disclosure is prohibited. No reprinting or reproduction, in whole or in part, is permitted without the Firm's prior consent, except that a recipient may reprint it for internal circulation only and only if it is reprinted in its entirety.

Caution: Risk of loss in trading in can be substantial. You should carefully consider whether trading is appropriate for you in light of your experience, objectives, financial resources and other relevant circumstances.

MF Global Sify Securities India Pvt. Limited, 2nd Floor, C-Block, Modern Centre, Mahalaxmi, Mumbai-400 011

**MF Global Sify Securities
India Pvt. Limited**
2nd Floor, C-Block, Modern Centre
Mahalaxmi, Mumbai
400 011

mfglobal.com