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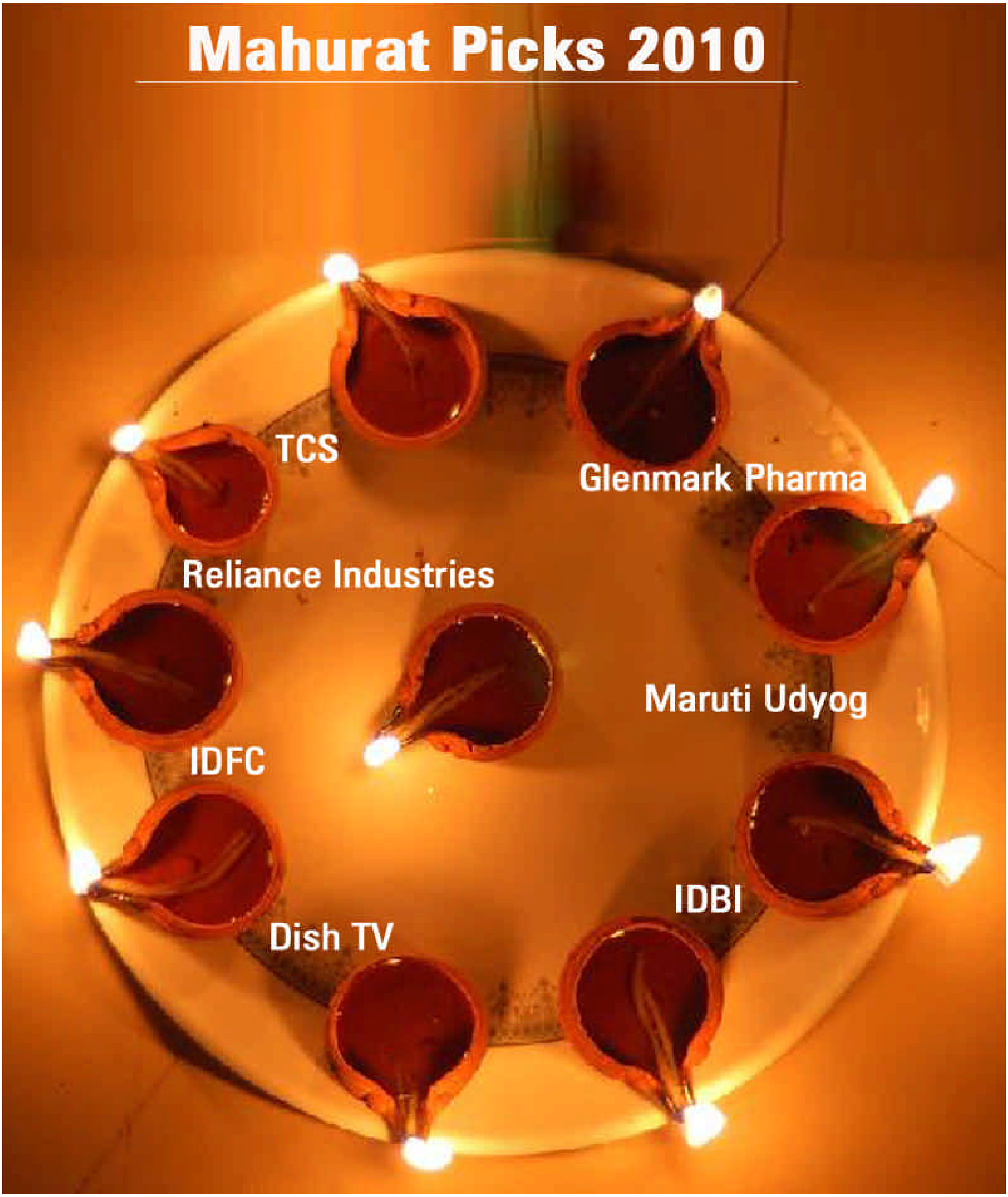
Mahurat Picks 2010



October 29, 2010

Mahurat Picks 2010

With equity indices already flirting with life-time highs, our equity strategy will be to buy on any declines in the markets as we are cautiously optimistic as the velocity of markets is surely surprising and one which is fuelled by liquidity, mainly in terms of FII inflows.

At 20000+ index levels, the broader markets are trading at 18.7x and 16.2x their FY11E and FY12E earnings, respectively. Though the valuations on a FY11E basis have breached the rich valuation zone, our sense is that market expectations have rolled over the valuations on FY12E earnings. As we are writing this, we are in the midst of the Q2FY11 earnings season. Till now, Corporate India has met the expectations of the markets.

On the sectoral front, we like financials, pharmaceuticals, media, automobiles, oil & gas, capital goods and infrastructure. On the other hand, we would like to avoid metals, real estate and cement.

The BSE Sensex has breached the fair value of the Sensex, which we pegged at 19760 levels. However, we still believe there may be further room for the markets to head higher if the earnings from Q3FY11 and Q4FY11 surprises on the upside. Hence, there will be a revision in earnings and re-rating of the broader market multiples.

Locally, we will watch how fast inflationary concerns recede, going ahead. This is because if they do not then definitely we will see action from the RBI and reduction in earnings estimates for corporates. The pace of economic reforms from the government will be a key ingredient to attract capital flows into the country. Also, a key trigger would be the pace of inflows that are directed towards Indian markets as we believe that given the economic environment (low global interest rates) liquidity pursuing Indian markets would be significant.

More importantly, flows of economic data from the developed world will keep the markets volatile. Whether the US will enter into a second recession will be a key trigger for all asset classes across the globe. Also, the likely impact of the US getting into or avoiding a recession will determine the influx or exodus of global liquidity that is highly crucial for a market like India.

Having said that, during this Mahurat trading, we are recommending seven stocks that mainly come from the large cap (three stocks) and midcap (four stocks) universe.

Exhibit 1:

Company	Idirect Code	Sector	Target Price
Dish TV	DISHTV	Media	Rs 70
IDBI Bank	IDBI	Financials	Rs 206
IDFC	IDFC	Financials	Rs 240
Glenmark Pharma	GLEPHA	Pharmaceuticals	Rs 413
Maruti Suzuki	MARUTI	Automobiles	Rs 1783
Reliance Industries	RELIND	Oil & Gas	Rs 1260
TCS	TCS	Technology	Rs 1210

Source: ICICI Direct.com Research

Dish TV (DISHTV)

Growth on track...

Rating matrix

CMP	:	**Rs 56**
Target	:	Rs. 70
Target Period	:	12 months
Potential Upside	:	25 %

Key Financials

(Rs Crore)	FY09	FY10E	FY11E	FY12E
Net Sales	738.1	1084.8	1339.7	1782.2
EBITDA	-123.3	86.2	202.1	399.2
Net Profit	-480.7	-261.3	-189.1	-10.3
EPS (Rs)	-7.0	-2.5	-1.8	-0.1

Valuation summary

	FY09	FY10E	FY11E	FY12E
PE (x)	NA	NA	NA	NA
EV/Sales (x)	7.0	5.7	4.5	3.4
EV/EBITDA (x)	-41.7	71.7	29.8	15.1
P/BV (x)	11.7	4.1	3.3	3.3
RoNW (%)	NA	-17.2	-9.8	-0.5
RoCE (%)	NA	-9.0	-5.3	0.7

Stock data

Market Capitalization	Rs 6300.7 Crore
Debt-Cons. (FY09)	Rs 1149.2 Crore
Cash & Invst.-Cons. (FY09)	Rs 80.5 Crore
EV	Rs 5140.9 Crore
52 week H/L	54 / 31
Equity capital	Rs 106.3 Crore
Face value	Rs 1
MF Holding (%)	6.1
FII Holding (%)	8.1

Technical check

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- **Strong subscriber addition**

Dish TV is the market leader in the DTH industry with a healthy market share of 31%. It has a total subscriber base of 8.3 million at the end of Q2FY11. The subscriber base for the company has grown at 31.9% CAGR (FY07-10) to 6.9 million subscribers. In the recent past, the DTH industry has grown at a faster than expected pace, adding about 5.3 million subscribers in H1FY11. Given the festive season in Q3 and the Cricket World Cup to follow in Q4, we expect even stronger traction in subscriber growth. Dish TV being the industry leader and with 26.6% share in new additions in H1FY11, would gain immensely from this subscriber outburst. Dish TV is expected to add 2.9 million and 3.0 million subscribers in FY11E and FY12E, respectively.

- **Funding in place for growth**

Dish TV has raised sufficient funds in the last fiscal to take care of future expansion needs. The company has raised Rs 1140-crore through a rights issue in October last year. The company also diluted 11% equity to US-based Apollo management in the form of GDRs for Rs 475 crore. Altogether, the company has raised ~ Rs 1615 crore in the past year. We believe the company is well funded for growth in the next two years. Furthermore, the management has taken board approval to raise $200 million.

- **Strong margins could lead to early profitability**

The company has been improving its efficiency and is delivering healthy EBITDA margins QoQ. Dish TV has contracted for the programming cost with the broadcasters on a fixed basis rather than on a per subscriber basis, leading to huge cost saving. This cost alone accounted for ~60% of the total cost and is expected to reduce to 53% by FY12E. Healthy subscriber addition and strong EBITDA margin could lead to earlier than expected profitability for the company.

Valuation

Given the healthy subscriber addition in the industry and high share of Dish TV in net adds at 26.6% in H1FY11, we have revised our subscriber estimates for both the industry and the company for FY11E and FY12E. However, we have also tapered down our ARPU estimates in light of lost collections in the quarter. Assuming revenue CAGR of 26.6% over FY11E–FY20E and terminal growth of 4.5% thereon, we have arrived at a target price of Rs 70/share. The stock is currently trading at Rs 56. Our target price implies an upside potential of 25%.

Technical outlook

- The stock has broken out of symmetrical Triangle pattern above Rs.47 early August'09. Then it rallied up to Rs. 60 levels and now is consolidating for the past eight weeks.
- Measuring implication of the price pattern projects targets of Rs. 72-74 levels over the medium term
- Although the share price pulling back to the breakout area may not be ruled out, it could be considered as a buying opportunity

IDBI Bank (IDBI)

Rating matrix

CMP	:	Rs 180
Target	:	Rs 206
Target Period	:	12 months
Potential Upside	:	15%

Key Financials

(Rs Crore)	FY09	FY10	FY11E	FY12E
NII	1239	2267	4117	5481
PPP	1378	2727	3906	4771
PAT	859	1031	1477	1905

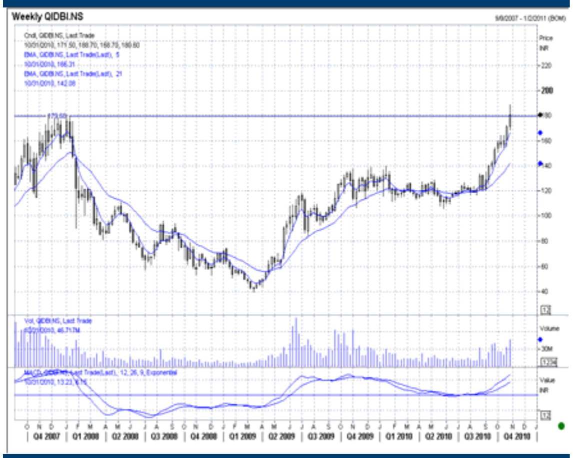
Valuation summary

	FY09	FY10	FY11E	FY12E
Net Profit (R cr)	858.5	1031.1	1477.0	1905.3
EPS (R)	7.8	8.8	15.0	19.4
Growth (%)	0.0	12.9	71.4	29.0
P/E (x)	23.3	20.6	12.0	9.3
ABV (Rs)	62.3	67.3	92.8	108.6
Price / Book (x)	2.4	2.1	1.6	1.4
PABV (x)	2.9	2.7	1.9	1.7
GNPA (%)	1.4	1.5	1.9	2.1
NNPA (%)	0.8	0.8	1.0	0.9
RoNA (%)	0.6	0.5	0.6	0.7
RoE (%)	12.1	13.2	14.2	14.2

Stock data

Market Capitalisation	Rs 13048 crore
GNPA (Q2FY11)	Rs 2471crore
NNPA (Q2FY11)	Rs 1549 crore
NIM (Q2FY11)	2.30%
52 week H/L	Rs 185 /105
Equity capital	Rs 725 crore
Face value	Rs.10
DII Holding (%)	14.9
FII Holding (%)	5.3

Technical Check



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Change in trajectory...

IDBI Bank is one of the large public sector banks with 720 branches spread across India. The bank is repositioning itself as "*Not just for big boys*" but a bank that provides" *Banking for all*". Our recent interaction with the management gives us confidence on much improved operating matrices (FY12E onwards) after a short period of strategic consolidation (in FY11E). We expect a shift in trajectory for CASA, NIM, RoA and RoE. This would command a higher valuation multiple.

New CMD laying the roadmap: primary focus on CASA accretion

New CMD Mr Malla is pushing the competition to accumulate more CASA deposits by announcing zero charges CASA accounts. CASA was just 13% in Q1FY11. The management has laid down a target of 20% for FY11E. We believe CASA will be at 18.5% and 22% for FY11E and FY12E, respectively, (higher than our previous estimate of 14% and 15%, respectively) also supported by aggressive branch addition plans for FY11E at 270+. We expect 17% CAGR in both advances and deposits over FY10-12E to Rs 188822 crore and Rs 228517 crore. This would lead to an improvement in NIM to 1.8-1.9% by FY11E and above 2% for FY12E.

Return matrix to improve - Valuation multiple gets re -rated

The bank delivered RoA of 0.5% and RoE of 12% in FY09 and remained flat in FY10. Now, after strategic development, it is likely to shift to a higher path where we see RoA of 0.7% and RoE of 14% (after considering dilution of 53% in FY11). This would lead to a re rating of the valuation multiple to the core business of the bank. On the other hand, the investment portfolio of the bank (listed and unlisted) requires a closer look. Overall, we are positive on the outlook of the bank.

Valuation

The bank is in a phase of consolidation and the operating matrix is expected to show a positive improvement. We are valuing the core business of the bank at 1.5x FY12E ABV and ascribing Rs 40 to its investment book. Hence, we have a fair value target of Rs 206.

Technical outlook

- The stock is in strong uptrend and continues to form higher top higher bottom on the daily chart
- On the weekly chart the stock gave a strong volume led breakout above the sideways consolidation range in late September 2010 and has ventured into unchartered territory above the previous all time highs of Rs.181 levels recorded in November 2007
- Short term and near term moving averages are acting as cushion on every corrective decline and indicate strength in the current uptrend. The MACD oscillator is trending up and is placed in positive territory on weekly charts indicating strength

IDFC (IDFC)

Best bet on infrastructure finance...

IDFC is a specialised financial intermediary with existing businesses in project finance, principal investments, asset management (for third party funds), investment banking, etc. The company has a strong management and has put up a consistent performance with 19% CAGR in PAT during FY08-10. We expect advances to grow at 26% CAGR to Rs 39,652 crore and PAT at 20% CAGR to Rs 1534.8 crore over FY10-12E.

- **Adequately capitalised with healthy RoA**

  The bank has consistently delivered RoA above 3% during the last five quarters. However, RoE is expected to be in the 15-16% range due to higher CAR of 19.6%. Leverage continues to be low at 5.3x as on Q1FY11 giving cushion for future growth.

- **Asset quality remains upbeat**

  Asset quality continues to remain upbeat at 0.15% NNPA and 0.27% GNPA. We expect delinquencies to remain low for next few years.

- **Consistently strong business growth and fee-based income**

  We expect NII to grow at 23% CAGR over FY10-12E due to asset growth. NIM has remained stable at 3.6% though we believe the same will come under slight pressure with rising rates. However, infrastructure status, on the other hand, should help guard against a sharp rise in cost of funds. Proportion of non-interest income has been hovering around 44-47% of total income. We believe that with the loan book building up, this proportion will decline to 41% by FY12E. The AUM size stands at $6.9 billion generating hefty fee-based income protecting bottomline. Income from the investment book also remains a 30% contributor to non-interest income.

Valuation

Lower RoEs of 15% and strong ROA of over 3% will continue as the company builds up its asset book. We expect IDFC to grow its balance sheet by 19% CAGR over FY10-12E. Asset quality continues to remain upbeat at 0.27% GNPA. We have valued IDFC's standalone business at Rs 205 (2.5x FY12E ABV) while on an SOTP basis, we have revised our target upwards to Rs 240 (includes AUM valuation, NSE stake).

Technical Outlook

- Stock has witnessed steady but sustained up trend since it's March'09 lows around Rs. 45 and now appears consolidating near its 2008 high around Rs. 230. A close look at chart points towards a peculiar tendency of the stock wherein it rallies towards resistances, then consolidates and breaks out
- As per Dow Theory, stock is in clear bull trend as it displays ascending peaks and troughs on weekly and month charts. A sustainable move from hereon above Rs. 230 would augur extremely well for the stock
- Interestingly during this up surge stock has been consistently taking support on its 13 week EMA (currently at Rs. 170) during every correction.
- Weekly MACD has been steadily rising underlining strength and supporting bullish count.

Rating matrix

CMP	:	**Rs 200**
Target	:	Rs 240
Target Period	:	12 months
Potential Upside	:	20%

Key Financials

(Rs Crore)	FY09	FY10	FY11E	FY12E
NII	922	1117	1327	1678
PPP	1287	1558	1791	2203
PAT	856	1062	1249	1535

Valuation summary

	FY09	FY10	FY11E	FY12E
EPS (Rs)	6.5	8.2	8.5	10.5
Growth (%)	13.9	24.7	4.7	22.8
P/E (x)	27.5	22	21.1	17.1
ABV	47.4	53.7	72.6	80.3
P / ABV (x)	3.8	3.4	2.5	2.2
ROA (%)	2.8	3.2	3.2	3.3
NNPA (%)	0.2	0.2	0.1	0.1

Stock data

Market Capitalisation	Rs 29484 crore
GNPA (Q1FY11)	Rs 79.7 crore
NNPA (Q1FY11)	Rs 42.8 crore
NIM (Q1FY11)	3.60%
52 week H/L	215/139
Equity capital	Rs Crore
Face value	Rs. 10
DII Holding (%)	36.3
FII Holding (%)	51.3

Technical Check

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Rating matrix

CMP	:	**Rs 338**
Target	:	Rs 413
Target Period	:	12 months
Potential Upside	:	22 %

Key Financials

(Rs Crore)	FY09	FY10	FY11E	FY12E
Net Sales	2093.0	2484.9	2986.7	3454.4
EBITDA	455.0	619.6	852.2	938.4
Net Profit	191.7	328.5	491.4	588.1

Valuation summary

	FY09	FY10	FY11E	FY12E
EPS (Rs)	7.7	12.2	18.2	21.7
PE (x)	42.4	26.7	17.8	14.9
Target PE (x)	54.0	33.9	22.7	19.0
EV to EBITDA (x)	24.4	17.4	12.9	10.9
Price to book (x)	5.3	3.8	3.8	3.2
RoNW (%)	19.4	13.9	20.7	20.6
RoCE (%)	16.4	14.6	18.8	20.1

Stock data

Market Capitalisation (Rs Cr)	9058.4
Debt (FY10), (Rs Cr)	1869.4
Cash (FY10), (Rs Cr)	107.4
EV (Rs Cr)	10820.4
52 week H/L	340/210
Equity capital (Rs Cr)	27.0
Face value (Rs)	1.0
MF Holding (%)	6.4
FI Holding (%)	29..9

Technical Check

Analyst's name

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Glenmark Pharma (GLEPHA)

Time to Re-rate…

With a slew of good performances after a prolonged difficult patch attributable to some R&D failures, the company has come a long way. On account of receding pressure on the balance sheet, continuance of the generic business under its fold and new product launches, we expect A drastic improvement in the financials.

- **Domestic formulations, the real backbone**

  Glenmark's domestic formulations business is growing at a CAGR of ~20% since FY07. We expect the momentum to continue during FY10-12E as well on account of a strong presence in dermatology, cardiac, respiratory, anti-infectives and foray into oncology. New product launches and increased field force will also strengthen the growth prospects. This business accounts for ~30% of topline.

- **Good traction seen in the US generic business**

  We expect the US generics business (accounts for ~30% of sales) to grow at a CAGR of ~20% between FY10 and FY12E on account of a good filing run-rate, monetisation of these filings on account of product launches (including at-risk launches) and marketing tie-ups. It has filed ~110 ANDAs and received ~70 approvals. At-risk launch of anti-hypertensive Tarka is already fetching US$4-5 million per quarter. The company plans to launch at least six products in the US in the current fiscal.

- **Other geographies to join bandwagon, R&D outcome yet to factor**

  Glenmark plans to grow in Lat-Am markets such as Mexico, Venezuela and Peru. It has also short-listed countries such as Russia, Ukraine and Vietnam as the next big markets for growth. On the R&D front, we are waiting for clear visibility to factor any milestone from GRC-15300 and likely upfront payment for upcoming GRC-17536.

Valuation

Glenmark is currently trading at ~18x FY11E EPS of Rs 18.17 and ~15x FY12E EPS of Rs 21.75. As discussed earlier, the scrip is still trading at a 25-30% discount to its peers and also at a discount to a forward P/E of 1x. We believe this gap will be plugged-in in due course. We have valued Glenmark at Rs 413, which is 19x FY12E EPS of Rs 21.75.

Technical Outlook

- The stock has seen a long sideways consolidation in the broad range of Rs.300-210 levels since August 2009 till date. A look at the long term monthly price chart shows that the said consolidation has occurred in a well defined "Ascending Triangle Pattern"
- Recent price action has seen the stock registering a strong volume led break-out past the said triangle pattern above Rs.300 on a monthly closing basis. The break-out from more than a year long consolidation price pattern would propel the stock into a medium term uptrend
- MACD oscillator which is a measure of strength in the trend, has ventured into positive territory above the trigger line and supports the bullish argument

Maruti Suzuki India Ltd. (MARUTI)

Market leader continues to shine brighter…

Rating matrix

CMP	:	**Rs 1551**
Target	:	Rs 1783
Target Period	:	12 months
Potential Upside	:	15%

Key Financials

(Rs Crore)	FY09	FY10	FY11E	FY12E
Net Sales	20358.3	28958.5	35754.5	43900.0
EBITDA	1951.8	3927.5	3675.7	4994.5
Net Profit	1218.7	2497.6	2359.0	3217.5
EPS	42.2	86.4	81.6	111.3

Valuation summary

	FY09	FY10	FY11E	FY12E
PE (x)	36.1	17.6	18.9	13.7
Target PE (x)	41.9	20.4	21.8	15.8
EV/EBITDA (x)	21.9	11.4	12.3	8.9
P/BV (x)	4.7	3.7	3.1	2.6
RoNW (%)	13.7	23.6	18.0	20.7
RoCE (%)	18.4	31.7	23.8	27.8

Stock data

Mcap	Rs 43600
Debt (FY10)	Rs 821.4 crore
Cash (FY10)	Rs 98.2 crore
EV	Rs 42359.9
52 week H/L	Rs 1740 / 764
Equity cap	Rs 144.5 crore
Face value		5
MF Holding	17.7%
FII Holding	21,1%

Technical Check

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- **First mover poised to tap into burgeoning demand**

  Auto industry has witnessed unprecedented demand in FY10-11 with the overall PV segment growing at 26% YTD. Maruti Suzuki (MSIL) has been smart in understanding the systemic nature of the huge demand and has initiated the process of expanding its existing capacities by 0.5 million units to 1.75 million units by FY12. It has been able to stave off stiff competition in the A2 segment (comprises~ 78% YTD of PV market) and improved its market share by 6.4% to 52.6% through its portfolio enriching exercise.

- **Margins to improve, going forward**

  With most models already undergoing a facelift in view of newer emission norms, a majority of product related costs are behind us. We have factored in lower upgrade cost in H2FY11E and FY12E. The average realisation has improved marginally in this fiscal. We expect that with exports gaining traction post the festive season, realisations could improve further. We have factored in a 2.6% CAGR in realisation over FY10-12E. Higher realisation coupled with declining cost would aid expansion in margins for MSIL.

- **Stronger value chain networks provide edge**

  To cater to increasing demand from smaller towns and cities, MSIL is targeting to expand its dealer and service network in 700 newer cities totalling 2,000 cities with 1,500 newer service centres reaching a mammoth 4200 by FY12-13E. This would be a critical lever to increase sales with strongest reach and reliable quality.

Valuation

With most product related costs behind us, margins are expected to expand, going forward. At the CMP of Rs 1551, the stock is trading at 13.0x FY12E consolidated EPS of Rs 118.9. We have valued the standalone entity at 15x FY12E EPS of Rs 112.6 to arrive at a value of Rs 1689 per share. Contribution from subsidiaries and associates is valued at Rs 46 and Rs 48 per share, respectively.

Technical Outlook

- Maruti staged a fabulous rally from lows of Dec'08 before it entered a corrective phase from highs of Rs 1737 (Oct'09). After 10 months of correction, stock has emerged clean of down trend line on month chart above Rs. 1370 mark indicating beginning of fresh up trend
- On monthly Candlestick chart, formation in stock formed `Bullish Harami' reversal pattern in Aug'10, followed by `Bullish Engulfing line' pattern. These bullish formations are made near 38.2% retracement of previous rally, therefore gaining more weightage
- 14 month RSI which is a measure of the strength has made good base just above 50 mark over past four months and then gave a positive cross over. This supports the bullish statement further
- Stock therefore throws good investment opportunity for long term players. Change of view would be warranted only below 1200 levels

Rating matrix

CMP	:	**Rs 1096**
Target	:	Rs 1260
Target Period	:	12 months
Potential Upside	:	15 %

Key Financials

(Rs bn)	FY10	FY11E	FY12E	FY13E
Revenues	2037.4	1900.8	2060.6	2147.7
EBITDA	308.9	402.2	455.9	517.6
Net Profit	245.0	220.8	250.2	293.7

Valuation summary

	FY10	FY11E	FY12E	FY13E
EPS (Rs)	74.9	67.5	76.5	89.8
PE (x)	14.5	16.0	14.2	12.1
Target PE (x)	16.6	18.4	16.3	13.9
EV to EBITDA (x)	11.9	8.9	7.4	6.0
Price to book (x)	2.7	2.3	2.0	1.8
RoNW (%)	13.2	15.5	15.2	15.5
RoCE (%)	9.2	12.0	12.4	13.3

Stock data

Market Cap.	Rs 3,54,249 Crore
Debt (FY10)	Rs 64,606 Crore
Cash (FY10)	Rs 13,891 Crore
EV	Rs 404964 Crore
52 week H/L	1,184 / 841
Equity capital	Rs 3271 Crore
Face value	Rs 10
MF Holding (%)	2.0
FII Holding (%)	16.8

Technical Check

Analyst's name

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Reliance Industries (RELIND)

Time to accumulate...

Reliance Industries is India's largest private sector company operating in three key business segments: petrochemicals, refining and oil & gas exploration and production (E&P) business. It has crude refining capacity of 60 MTPA in Jamnagar and is India's largest private petrochemicals player. Reliance has made India's largest gas discovery in the KG-D6 field and is currently producing 60 mmscmd of natural gas. The stock has underperformed the Sensex by 17.5% in the past year due to delayed KG-D6 production ramp up, unrelated ventures in telecom and hotels. However, at the CMP of Rs 1083, we believe triggers like positive news flow on the E&P front, marginal improvement in the refining business, etc would provide upsides to the stock, going forward.

- **New discoveries in E&P business may provide positive upside**

  Reliance Industries has a busy exploration and drilling schedule in the Krishna Godavari (KG) fields over the next 12-18 months. We believe drilling of over 12 exploratory/appraisal wells in prospective areas like KG D3, MN - D4 and NEC fields could provide positive news flow on discovery side for the company. Also, Reliance venture in the shale gas business via three acquisitions would start contribution to the profitability from FY13E.

- **Improvement in Singapore GRMs in last quarter**

  The Singapore gross refining margins have improved from \$3.8 per barrel in Q1FY11 to \$4.1 per barrel in Q2FY11 mainly on account of higher diesel spreads. Also, increase in heavy-light crude oil differential would benefit complex refiners like Reliance. We expect the Singapore GRMs to remain stable around current levels in the next few quarters.

Valuation

Reliance is trading at 14.2x and 12.1x FY12E and FY13E EPS, respectively. New discoveries in the east coast of India, development of shale gas blocks, marginal improvement in the refining business and successful diversification in new business could provide upsides to the stock, going forward.

Technical Outlook

- The stock has witnessed a relatively muted performance in the current rally vis-à-vis the sector as well as the broader indices
- An important technical observation to be made on the long term charts is that the share price movement since late May 2009 till date appears to have occurred in a well defined "Symmetrical Triangle" pattern as highlighted in the adjoining monthly candlestick chart
- A sustained close above 1100 levels would result in a break-out from the said pattern and the stock may see significant outperformance in the coming months. Measuring implication of the price pattern projects potential upsides to the tune of Rs.350-400 over the medium term.

Rating matrix

CMP	:	**Rs 1052**
Target	:	Rs. 1210
Target Period	:	12 months
Potential Upside	:	15 %

Key Financials

(Rs Crore)	FY10	FY11E	FY12E	FY13E
Net Sales	30028	36937	43156	49592
EBITDA	8679	10747	12177	14651
EBITDA margin(%)	29	29	28	30
Net Profit	6873	8319	9395	11161
EPS (Rs)	35	43	48	57

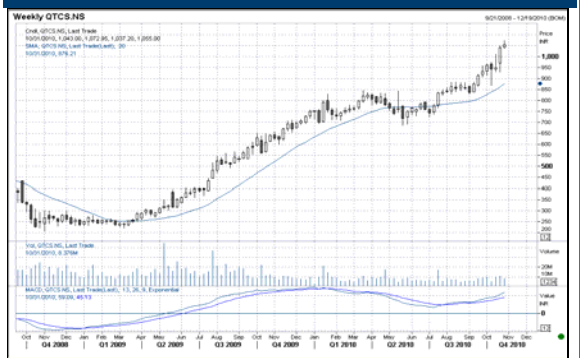
Valuation summary

	FY10	FY11E	FY12E	FY13E
PE (x)	29.9	24.7	21.9	18.4
Target PE (x)	30.1	24.8	22.0	21.0
EV to EBITDA (x)	22.9	18.5	16.3	13.6
Price to book (x)	11.2	8.5	6.7	5.4
RoNW (%)	37.4	34.5	30.7	30.7
RoCE (%)	42.2	40.4	36.2	36.2

Stock data

Market Capitalisation	Rs 205506 crore
Debt (Q2FY11)	Rs 352 crore
Cash (Q2FY11)	Rs 6959 crore
EV	Rs 198899 crore
52 week H/L	Rs 1073/601
Equity capital	Rs 195.7 crore
Face value	Rs 1
FII Holding (%)	12.44
DII Holding (%)	8.13

Technical check



Analyst's name

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Tata Consultancy Services (TCS)

Reinvigorated under CEO "Chandra"...

- **CEO N Chandrasekaran "Chandra" confident than ever before**

TCS' CEO N Chandrasekaran better known as "Chandra" sounds confident than ever before. An old hand in TCS, Chandra has great sales instincts and was the chief architect of creating multiple business units focused on domains and markets. Ramadorai, the previous CEO retired at an age of 65 years, hence we believe Chandra, at just 47 years of age, has a long stint with TCS ahead of him

- **Relative out performance continues**

TCS reported strong Q2FY11 numbers which beat our as well as consensus estimates. Q2FY11 revenues grew 13% QoQ and 25% YoY to Rs 9286 crore, while EBIT margins improved 86 bps QoQ. After almost five quarters of relative out-performance compared to Infosys, we believe, the P/E discount rationale would subside. Subsequently, we are introducing FY13E EPS estimate of Rs 57

- **EBITDA margins transitioning towards segment leader**

Infosys continues to be the best margin franchise among Tier I IT vendors. However, Q2FY11 EBITDA margins for TCS improved 70bps QoQ despite headwinds from promotion (166 bps) and a >100% variable pay-out, as revenue productivity (95 bps), SG&A (54 bps) and F/X (103 bps) created margin tailwinds. However, margin improvement was helped in part by lower rental cost & write-back of doubtful debts provision

Valuation

We expect TCS to report broad based value growth and have modeled US dollar revenue growth of 19% CAGR during FY10-FY13E period. Consequently, we value the stock at 21x our FY13E EPS estimate of Rs 57 and upgrade TCS to BUY from ADD.

Technical Outlook

- Stock is in strong up trend and potentially in third wave of a larger impulse. In Dow theory parlance, stock is making consistent higher peaks and troughs on weekly charts indicating medium to long term up trend
- Current rally (3rd wave) which started around Rs. 670 levels would achieve price equality to 1st impulse around Rs. 1245 levels.
- MACD oscillator is trending up and is placed in positive territory on weekly charts indicating strength
- Declines from current levels therefore offer an opportunity to go long in TCS from long term perspective. Change of view would be warranted only if stock close below 825 levels on weekly basis

Performance of Mahurat Pick 2009

Company	Inititaing Price (Rs)	Target Price (Rs)	CMP as on 29th Oct 2010 (Rs)	Target Status	Retuns on Target Price	High Price achieved during the period (Rs)	Reurns from High price after initiation
Adhunik Metaliks	116.0	149.0	106.6			136.5	18%
Bharati Airtel	351.0	455.0	325.7			376.95	7%
Dena Bank	68.0	86.0	136.7	Yes	26.5%	144.35	112%
Dishman Pharma	232.0	325.0	185.5			275	19%
Dhampur Sugar	97.0	126.0	72.8	Yes	29.9%	158.3	63%
Indian Hotels	80.0	103.0	100.1	Yes	28.8%	118	48%
GVK Power	67.5	82.5	61.4	Yes	22.2%	84.8	26%
JK Lakshmi Cement	44.0	54.0	42.6	Yes	22.7%	54.25	23%
NTPC	210.0	245.0	195.3			241.35	15%
Shiv Vani Oil	355.0	456.0	427.4	Yes	28.5%	496	40%
South Indian Bank	13.2	17.2	27.6	Yes	30.3%	29.45	123%

** Initiaing price as on 14th October 2010*

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