

Edelweiss Top Picks

CAS Research Desk

November, 2010

Markets - Fundamental View.....	3
Markets - Technical View	4
'Diwali Special' Idea	
Bajaj Holdings & Investments Ltd (BAJHOL)	6
Valuation	7
Top Picks - Fundamental	
Oriental Bank of Commerce (ORIBAN)	8
SHIV-VANI Oil & Gas Exp Ltd (SHIOIL)	9
PTC India Ltd (PTCIND)	10
Top Picks - Technical	
Hanung Toys & Textiles Ltd (HANTOY)	11
Bank of Baroda (BANBAR).....	12
SREI Infrastructure Finance Ltd (SREINF)	13
Performance Tracking	
Fundamental – Performance of October Recommendations.....	14
Technical – Performance of October Recommendations.....	15
Disclaimer.....	16

Indian markets nervous ahead of twin central bank meets – Federal Reserve in the US and RBI at home...

Markets performance in October

October was atypical month for our markets. Interestingly, India underperformed the US markets – Dow and NASDAQ, the European markets – FTSE, CAC and DAX and also the Chinese Shanghai Composite. The Nifty ended close to 0.70% down versus the Dow (up 3%), NASDAQ (up 5.86%), FTSE (2.33%), CAC (3.22%), DAX (5.88%) and Shanghai (up 14.63%). However, YTD we are still among the best performing markets (up 15% since January 2010). We believe that the underperformance was due to funds diverted to the primary markets (Coal India record mobilization) and also the markets facing some resistance near new highs. Global markets meanwhile went up in the run-up to the Federal Reserve's November 3rd meeting where the Fed will announce the much-awaited QE 2.

Key events in November – Fed Meet on November 3rd and RBI Meet on November 2nd

The key events keeping the markets nervous are the twin policy meets in US and India. QE 2 or Quantitative Easing is a monetary policy tool used by central banks when other measures like interest rates, discount rates are close to 0 and have failed to boost the economy. The US in its first Quantitative Easing program brought about a gush of liquidity into global markets when the Fed bought a lot of Treasuries and MBS securities. This liquidity has helped propel the world's real assets like commodities, equities, emerging markets. The size and magnitude of QE 2 would determine if the strong liquidity in world markets continue to chase these assets. The markets have been getting nervous just ahead of the meet as many speculate the size of the easing may not be as per expectations.

Dollar Index continues to slide

The dollar index has fallen to 78 levels since the anticipated new money creation by the Fed would lead to real value of dollar coming off, currency markets are already pricing this in with the dollar getting towards its recent lows.

RBI Policy Meet

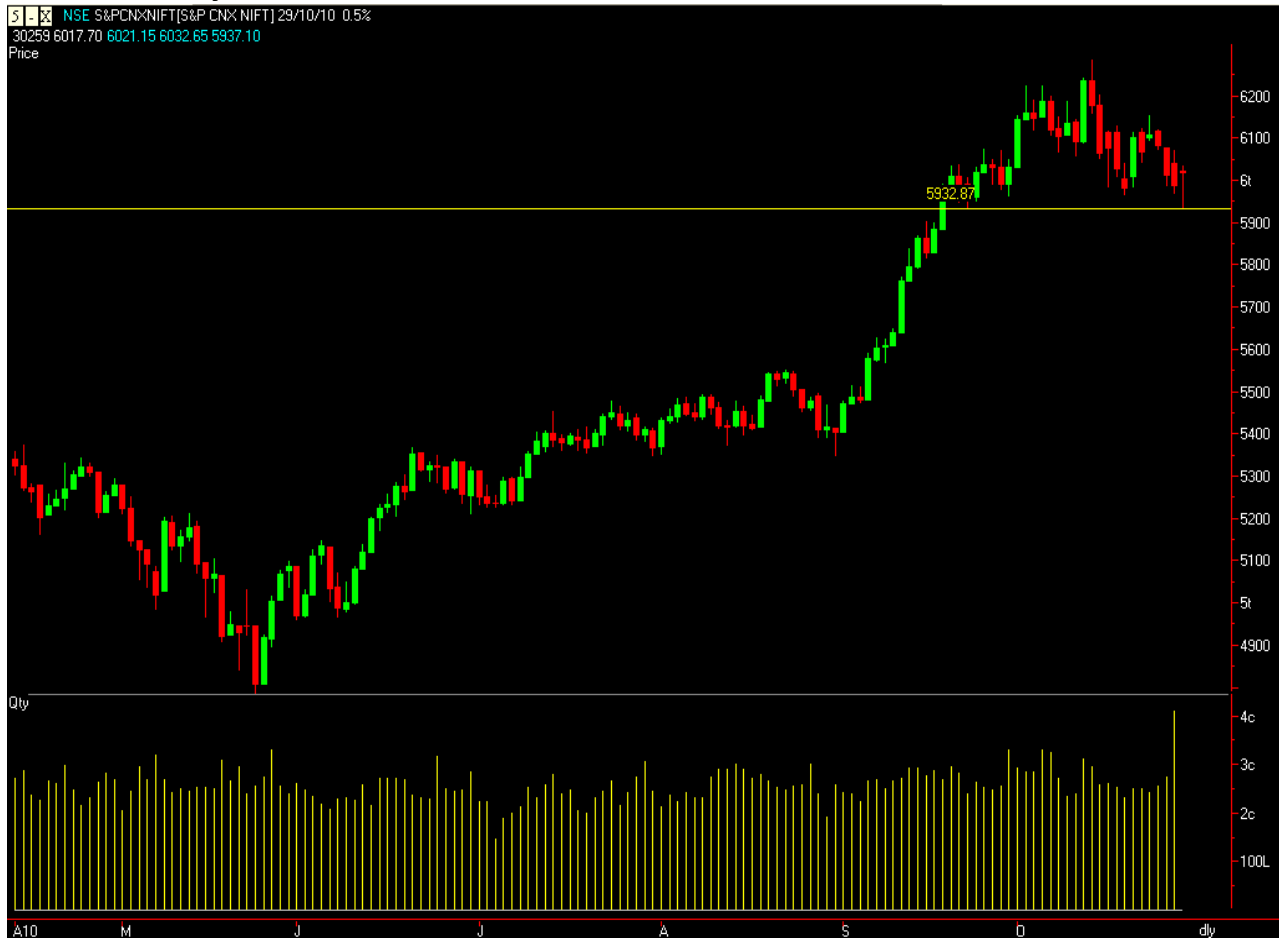
At home, the RBI meets on 2nd November for its policy meet. We expect policy rates to be unchanged since inflation pressures are seen easing off in the days to come and rates are now in the 'normal' range. Also, if rates rise the interest rate differential between US and India would only widen leading to further appreciation of the rupee, which RBI is concerned of. Hence, we believe rates would remain unchanged.

So, what to expect in November from Indian markets?

We believe that the central bank actions, especially the Fed's would greatly influence the markets in the short term. Any negative surprises on this front could cause a correction in global markets. So the stance should be to let go this uncertain period and be light on positions till this twin event risk is through.

Indices	Nifty	Dow Jones	BSE IT Sector
Closing Price	6017	11114	5993
Trend	↔	↔	↓

S&P CNX Nifty



As expected last month Nifty continued its northbound journey and tested our first target of 6250 and further made high of 6284. From then on markets witnessed profit booking and Nifty corrected 100% retracement level of its rally from 5963 to 6284. Thereafter, Nifty took support at 5963 and bounced backed and made a high of 6151 which is 61.80% retracement level of the recent rally from, 5966 to 6151. Finally closed at 6018 marginally down by 20 bps on m-o-m basis. Going forward we expect **Nifty to trade in range of 5930 – 6162** and can witness movement on breach of either side. Downside Nifty has **strong support at 5900**, thus we hold on to our view that one should continue holding their long positions with a strict stop-loss of 5900 on the closing basis.

Dow Jones Industrial Average (DJIA)



Dow Jones continued its upside journey and made a high of 11247, which was near to our first mentioned of 11258, Finally this index closed at 11114 with a gain of 3.02% on m-o-m basis. This index continued making “**Higher Top and Higher Bottom**” on daily chart indicating uptrend to continue. Going forward Dow Jones has resistance at 11258 which is also its 52 week’s high. Thus one can expect rally in Dow Jones only if it breaches this level on closing basis. If it starts trading above this level then we will see further upside till 11750.

BSE IT Sector Index



BSE IT index had been forming “**Lower Top and Lower Bottom**” on its daily chart. It had generated “**Head & Shoulder (Top)**” pattern breakdown on its daily chart indicating further weakness in coming days. While trending downward it had also breached its 20 DEMA and continues to trade below that. Beside this, it had formed “**Bearish Engulfing**” pattern on weekly chart which is considered as bearish sign.

CMP - ₹ 875	Sector	Target	Mkt Cap (₹ Cr.)	52W High	52W Low
	Finance	₹ 1182	₹ 9,359	₹ 912	₹ 463

- Bajaj Holdings & Investments Ltd (BAJHOL) a primary investment holding company was demerged from Bajaj Auto Ltd (BAJAUT) in 2008. All the businesses and all properties, assets, investments and liabilities of Bajaj Auto & Bajaj Finserve (BAJFIN), other than the manufacturing undertaking and the strategic business undertaking, now remain with BAJHOL. Post-demerger, BAJHOL holds more than 30% shares each in Bajaj Auto and Bajaj Finserve.
- Bajaj Holdings & Investments holds majority stakes in Bajaj Auto (31.49%), Bajaj Finserve (35.61%), Bajaj Electricals (BAJELE) (16.92%), Maharashtra Scooters (MAHSCO) (24.00%), Force Motors (FORMOT) (19.56%), ICICI Bank (ICIBAN) (1.82%) and in many other equities as of March 2010. The current market value of all the equity investments is valued at ₹ 19,798 crores. Moreover, the company has unquoted investments in debentures, bonds, government securities and mutual funds worth ₹ 2,276.8 crores.
- The long term prospects of the major investee companies look very encouraging due to their dominant position in their sectors, mainly
 - Bajaj Auto – amongst the top 5 automobile players in India.
 - Bajaj Finserv's growing business in finance, insurance and also a likely candidate for a banking license.
 - ICICI Bank – India's largest private bank.
- Holding companies generally trade at a discount of 20% to their NAVs. Peer holding companies like Tata Investment trade at 11% discount, JSW Holdings at 3.6% discount to NAV. However, BAJHOL is trading at a significant discount of greater than 55%.
- The value of total investments (both equity & debt) at current market price stands at ₹ 22,075 crores which translates into per share value of ₹ 2,082. At current market price of ₹ 865, the stock trades at a discount of more than 57% to its NAV. We believe that the discount of such magnitude is not justified. We have valued the strategic stakes of the company at a 50% discount and other minority stakes at 20% (refer table below on page 2). This implies a per share valuation of ₹ 1,182, an upside of 37% from CMP of ₹ 865.
- Taking all these factors into account, good management, strong balance sheet, good dividend yield of 3.5% and attractive valuations, we believe the current discount of 57% to NAV should narrow down in the near future, hence we recommend a Buy with a target price of ₹ 1,182.

Valuation Summary	
Current Enterprise Value (₹ Cr.)	9,172
Target Enterprise Value (₹ Cr.)	12,532
CMP (₹)	875
Target Price (₹)	1,182
Upside (%)	37%

Major Holdings	Stake (%)	CMP (₹)*	Mkt Value (₹ Cr)	Target Value (₹ Cr)	Target Discount (%)
Bajaj Auto Ltd	31.49%	1,486	13,538	6,769	50%
Bajaj Fin serve Ltd	35.61%	483	2,491	1,245	50%
Bajaj Hindustan Ltd	7.39%	128	167	84	50%
Bajaj Electricals Ltd	16.92%	325	537	268	50%
Mah Scooters Ltd	24.00%	411	113	56	50%
Force Motors Ltd	19.59%	968	248	124	50%
ICICI Bank Ltd	1.82%	1,132	2,297	1,838	20%
Other Equity Investments			408	326	20%
Total Equity Investments			19,798	10,710	20%
Other Unquoted Investments			2,277	1,821	20%
Total Investment Value			22,075	12,532	-43%

*As on 26OCT2010

(₹ cr.)	Peer Comparison			Balance Sheet (Standalone)			
	Bajaj Holdings	Tata Investments	JSW Holdings	Year to March (₹ Cr.)	FY08	FY09	FY10
Investment Value	22,075	3,075	2,436.62	Shareholders' funds	3,129	3,206.15	3,879
Enterprise Value	9,172	2,720	2,350	Borrowed funds	0	0	0
Shares O/S (Cr)	10.60	4.82	1.11	Sources of Funds	3,129	3,206	3,879
NAV per share	2,081.8	637.5	2,195.2	Total fixed assets	30	29	30
EV/NAV	0.42	0.88	0.96	Investments	3,229	3,151	4,018
Discount to NAV	-57.7%	-11.5%	-3.6%	Net current assets	-131	25	-170
				Uses of Funds	3,129	3,206	3,879

CMP - ₹ 494	Sector	Target	Mkt Cap (₹ Cr.)	52W High	52W Low
	Banking	₹ 560	₹ 12,429	₹ 551	₹ 224

- Oriental Bank of Commerce is a mid-sized PSU bank, with the 11th largest branch network and 10th largest asset book among Indian Banks. Historically, the bank had a strong presence in northern and western India and the merger of Global Trust Bank (then roughly 15% of the size of OBC) provided it the southern presence. The bank has over 1,300 branches across India, all of which are under core banking solution.
- We believe that the current stage of economic growth in India, where savings and capital formation are at ~34% of GDP, offers serious opportunities in financial intermediation. Core to our hypothesis is our belief that, over the next ten years nominal GDP (excluding agriculture) is expected to grow at ~13%, and revenues from the financial services sector (which would lead this growth) are expected to grow at 22% to ₹ 266.4 trillion by FY20E.
- The bank's 1QFY11 exhibited strong core operating performance. The margins continued to surprise positively. Though, the margins are believed to have peaked at current level. Delinquencies were much below expectations, and the bank surprised on asset quality too. The current performance has improved the bank's RoEs to 17.5% over the next two years on the back of 23% CAGR in loan book; we expect 25% CAGR in earnings over FY10-12.
- The stock is trading at 1.3x FY12E book and 6.9x earnings. We continue to like improvement in metrics, though sustainability of NIMs will be a key monitorable.
- We believe ORIBAN is a 'BUY' at Current Market Price of ₹ 494.

Income Statement (₹ Mn)

Year to March	FY10	FY11E	FY12E
Interest income	102,571	118,753	145,375
Net revenue	41,075	49,060	55,452
Operating expense	16,860	19,667	22,129
Profit before tax	16,039	19,562	26,625
EPS (₹)	45.3	52.3	71.2
Book Value (₹)	292.2	333.9	394.4
Dividend per share	9.1	9.1	9.1

Balance Sheet (₹ Mn)

Year to March	FY10	FY11E	FY12E
Net worth	73,205	83,644	98,816
Others	1,291,931	1,535,728	1,881,125
Total Liabilities	1,365,136	1,619,372	1,979,941
Loans	834,893	1,026,918	1,263,110
Gilts	328,823	382,368	458,166
Others	201,420	210,086	258,665
Total assets	1,365,136	1,619,372	1,979,941

Growth Ratios (%)

Year to March	FY10	FY11E	FY12E
NII growth	45.6	37	12.4
Net profit	27.4	15.5	36.1
EPS	27.4	15.5	36.1

Valuation Parameters (%)

Year to March	FY10	FY11E	FY12E
Diluted PE (x)	10.8	9.4	6.9
Price/ Adj. BV (x)	1.8	1.6	1.3
Dividend yield (%)	1.8	1.8	1.8

CMP - ₹ 427	Sector	Target	Mkt Cap (₹ Cr.)	52W High	52W Low
	Energy	₹ 525	₹ 2,000	₹ 496	₹ 424

- SHIV-VANI OIL & GAS has evolved from an shot-hole drilling services provider into an integrated onshore oilfield service provider and now dominates the Indian upstream onshore services space (especially sub-segments like onshore seismic and drilling). Among domestic service providers, SHIOIL owns the largest fleet of both onshore seismic (10 crews) and drilling (40 rigs) assets.
- SHIOIL is expected to be a key beneficiary in the Indian onshore services space, as industry activity is buoyed by better hydrocarbon prices, pending NELP commitments and capex outlay by ONGC and Oil India. Also, Crude oil (hovering ~USD 78/bbl) and natural gas prices (USD 4.6/mmbtu) have gradually inched up, improving viability of exploratory and development drilling.
- SHIOIL has a robust order book of ₹ 32.0 bn (2.5x FY10 revenues) as on April 2010, ensuring revenue visibility for ~2-3 years. This could result in favorable earnings traction, with EPS expected to grow 36.6% to ₹ 59.9/share in FY11E respectively. With its recently expanded seismic and drilling asset base, SHIOIL requires limited capital expenditure to execute its current order book. The company has a tender book of ₹ ~30 bn, which could support order book accretion in future.

We are positive on SHIOIL's long term outlook, given good revenue visibility, likelihood of impressive order book accretion, and attractive valuations. Hence, we recommend Buy on SHIOIL with a medium term target of ₹ 525.

Income Statement (₹ Cr)

Year to March	FY10	FY11E	FY12E
Revenues	1,252	1,545	1,616.1
EBITDA	559.3	663.8	678.2
PBT	261.2	344.6	377.8
Net profit	202.7	277.6	283.3
EPS	44	60	61
Book Value	281	345	407
Dividend per share	0	2	3

Balance Sheet (₹ Cr)

Year to March	FY10	FY11E	FY12E
Shareholders' funds	1,304	1,601	1,887
Borrowed funds	2,267	2,050	1,746
Sources of Funds	3,571	3,651	3,633
Total fixed assets	2,763	2,679	2,599
Investments	2	2	2
Net current assets	806	970	1032
Uses of Funds	3,571	3,651	3,633

Growth Ratios (%)

Year to March	FY10	FY11E	FY12E
Revenues	43.7	23.4	4.6
EBITDA	58.8	18.7	2.2
PBT	5.2	31.9	9.6
Net profit	5.5	36.6	2
EPS	-0.1	36.6	2

Valuation Parameters (%)

Year to March	FY10	FY11E	FY12E
Diluted PE (x)	10.7	7.8	7.7
Price/BV (x)	1.7	1.4	1.2
EV/Sales (x)	3.3	2.5	2.2
EV/EBITDA (x)	7.5	5.9	5.2
ROE	18.6%	19.1%	16.2%

CMP - ₹ 135	Sector	Target	Mkt Cap (₹ Cr.)	52W High	52W Low
	Trading	₹ 180	₹ 4,003	₹ 140	₹ 97

- PTC India Ltd has evolved from a pure play power trading company into a diversified and integrated entity with businesses ranging from power trading, coal trading, power project development and project financing. The company has signed long term PPA's, with equity stakes in multiple projects.
- PTC India's (PTC) current 18 bn kWh power trading volume in FY10 is expected to catapult 150% by FY13E and triple by FY15E to 57 bn kWh. This growth is expected solely from long-term PPA-based trades, where margins are higher. This ensures PAT of INR 2.67 bn in FY13E (233% growth over FY10).
- The management has indicated that it plans to list PTC Financial Services in FY11 as some of the original investors were offered exit option by January 2011. Recent media reports highlight a valuation of INR 19 bn at 3.2x FY10 book value, translating into INR 49/share for PTC. We have valued the same at 0.8x FY10 book value INR 12 / share, for our sum of the parts (SOTP). We believe the listing of PFS would provide a valuation re-rating trigger for PTC.
- CERC has recently revised margin structures for Power Purchase Agreements (PPAs) wherein cap on short term PPA tariffs has been increased from 3 paise to 5 paise and cap on long term PPAs has been abolished. This, we believe provides a long term structural fillip for PTC India's profitability and business.
- We believe PTC India should be accumulated at CMP of ₹135 for a medium term target of ₹180.

Income Statement (₹ Cr)

Year to March	FY11E	FY12E	FY13E
Revenues	9,187	8,471	12,059
EBITDA	76	78	345
PBT	132	127	381
Net profit	92	89	267
EPS (₹)	3	3	9
Book Value (₹)	73	74	80
Dividend per share	1	1	3.6

Balance Sheet (₹ Cr)

Year to March	FY11E	FY12E	FY13E
Shareholders' funds	2,141	2,194	2,354
Borrowed funds	0	0	0
Sources of Funds	2,141	2,195	2,355
Total fixed assets	43	39	35
Investments	1,299	1,299	1,299
Net current assets	798	855	1,019
Uses of Funds	2,141	2,195	2,355

Growth Ratios (%)

Year to March	FY11E	FY12E	FY13E
Revenues	18	-8	42
EBITDA	46	2	341
PBT	12	-4	199
Net profit	15	-4	199
EPS	15	-4	199

Valuation Parameters (%)

Year to March	FY11E	FY12E	FY13E
Diluted PE (x)	38.4	41.0	13.5
Price/BV (x)	1.7	1.6	1.5
EV/Sales (x)	0.2	0.2	0.1
EV/EBITDA (x)	20.4	19.5	4.0
ROE	4.4%	4.1%	11.7%

CMP – ₹ 362	Time Horizon	Target	Stop Loss	52W High	52W Low
	1 Month	₹ 400	₹ 339	₹ 388	₹ 103



Stock had bounced back multiple times from its 20 DEMA indicating immediate support for the stock in medium term. Further, rising trend line support for the stock is placed at ₹ 353. Oscillators on daily and weekly charts trading in neutral mode but with positive bias.

Buying is recommended at CMP of ₹ 362 with target of ₹ 400 and stop loss of ₹ 339 (closing basis)

Technical – BUY

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CMP – ₹ 1014	Time Horizon	Target	Stop Loss	52W High	52W Low
	1 Month	₹ 1100	₹ 967	₹ 1049	₹ 467



Stock had generated **“flag pattern”** breakout on its daily chart along with good volumes. Oscillator on daily and weekly charts continued its uptrend indicating positive momentum to continue in the counter. Oscillator on daily and weekly chart continued its uptrend.

Buying is recommended at CMP of ₹ 1014 with target of ₹ 1100 and stop loss of ₹ 967 (closing basis)

CMP – ₹ 132	Time Horizon	Target	Stop Loss	52W High	52W Low
	1 Month	₹ 160	₹ 122	₹ 136	₹ 60



Stock had been in continues uptrend since March 2010 which is depicted by “**Higher top and Higher bottom**” on its monthly daily chart. It had broken out its key resistance of 126.50 along with huge volume. Oscillator on weekly and daily chart continued its uptrend indicating upside momentum to continue in the counter.

Buying is recommended at CMP of ₹ 132 with target of ₹ 160 and stop loss of ₹ 122.

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Recommendations	Reco. Price	CMP	Returns	View	View
PTC India Ltd (PTCIND)	124	135.4	9.2%	Add	The stock has been moving as per expectation. The buzz around company's plan to come up with IPO for its financial subsidiary-PTC Financial Services has been playing out as expected. Can add positions for target of ₹ 180.
Shiv-Vani Oil & Gas Exp Ltd (SHIOIL)	462	436	-5.6%	Add	Though the stock has not moved as per expectation, we believe the underlying positives for the stock remains intact: positive outlook on crude prices; and increase in Capex by the upstream oil companies. Can add positions for target of ₹ 525.
Infotech Enterprises Ltd (INFENT)	165	160.7	-2.6%	Hold	We advise investors to hold on to the stock. The company's reported its Q2FY11 results on October 14, 2010. Though the revenue surpassed our expectation, flat margin disappointed. Key reason weighing on margin was salary hike give to employees. Though the stock could remain muted on weak margin performance, our outlook on margin and growth remain positive. Hold on to existing positions for target price of ₹ 200.

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Recommendations	Type	Reco. Price	Target	SL	Exit Price	Returns (%)	Remarks
Aptech Ltd	Buy	170	206	159.5	159.5	-6.2%	SL Hit
Karnataka Bank	Buy	186.2	220	178	178	-4.4%	SL Hit
ABG Shipyard Ltd	Buy	293.7	330	272	315.75	7.5%	Booked Profits at 320.9

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