

**IIFL**

INDIA PRIVATE CLIENTS

# Weekly Wrap

## Investment ideas

August 06, 2010

### Andhra Bank

**BUY**  
**CMP Rs143**

#### Shifting focus to high yielding segments of SME and retail

Andhra Bank has outpaced the system loan growth registering a healthy 26% CAGR in loans over FY07-10. Lending primarily to large corporates, the bank has in recent quarters, shifted its focus towards high yielding segments of SME and retail portfolio. The share of lending towards these segments together has increased to 31% of total loans (SME – 15.3% and retail – 15.4%). With a view to augment further growth, it has set-up MSME care centres at its head office and all zonal offices. On the retail front, the focus is primarily on secured lending – home loan, gold loans and other retail credit. Healthy loan mix and conscious efforts towards shedding high cost deposits have enabled the bank to report significant improvement in margins. NIM for the bank improved 18bps yoy to 3.2% as at end FY10 (3.7% as at end Q1 FY11).

#### Establishing a pan-India presence

Unlike its larger peers (BOB, BOI, PNB, SBI), which enjoys a pan-India presence, Andhra Bank has heavy concentration in South India, particularly Andhra Pradesh. Of the total 1,557 branches, ~76% of the branches are in South India (86% of which are located in the state of AP). This concentrated penetration had hindered balance sheet growth. With a view to widen the reach, the bank has planned to open new branches in North and West India. Of the total 125 branches added during FY10, ~58% were added in West (18%), central (18%) and North India (22%). Further, impetus has been given towards garnering CASA deposits, which have remained near 30% mark for past several quarters. The bank added 1.64mn new CASA accounts during FY10.

#### Comfortable asset quality, room to raise further capital

Increasing exposure towards SME and retail portfolio has resulted in rising NPA and higher credit cost. GNPL and NNPL, however remain comfortable at 1.01% and 0.30% respectively. PCR remains comfortable at 86%. During FY10, bank restructured loans to the tune of 2.5% of total loans. Capital adequacy remains comfortable with CAR at 13.3% and Tier I CAR at 7.8%. The bank has headroom to raise further capital to the tune of Rs40bn via both Tier I and Tier II route.

#### Best in class returns ratio; attractive valuations - BUY

Return ratios remain healthy with average RoE at 26% and RoA at 1.3% over FY10-12E. We have factored in 23% CAGR in loans translating into 21% CAGR in balance sheet and 22% CAGR in net profit over FY10-12E. We assign a multiple of 1.25x FY12 PB to arrive at a target price of Rs168. BUY

#### Financials

Y/e 31 Mar (Rs m)	FY09	FY10	FY11E	FY12E
Total operating income	19,660	23,923	31,594	37,843
Net profit	6,530	10,459	12,497	15,484
yoy growth (%)	13	60	19	24
EPS (Rs)	13.5	21.6	25.8	31.9
BVPS (Rs)	75.2	90.9	109.7	134.6
P/BV (x)	2.0	1.6	1.3	1.1
ROE (%)	18.9	26.0	25.7	26.1
CAR (%)	13.2	13.9	13.1	12.4

Source: Company, India Infoline Research

### Omnitech Infosolutions

**BUY**  
**CMP Rs223**

#### Robust revenue growth to continue; revenue mix to improve

Omnitech Infosolutions is a technology service provider specializing in Business Availability Services (BAS – IMS & Application Management) and Business Continuity Services (BCS – Disaster Recovery, etc). Revenues from these services are estimated to witness a CAGR of 32% and 41% respectively over FY10-12 and drive the overall company growth. Within BAS and BCS, we see Remote Infra Management (RIM) services, Disaster Recovery and Workplace Recovery services to record robust growth making the revenue mix sweeter in terms of profitability. Management also targets to increase the international revenue share from 20% currently to 50% by 2013. Company has guided for a strong revenue growth of 30-35% for FY11. The Q1 FY11 performance (7.7% qoq growth) instills confidence that Omnitech would comfortably achieve its guidance.

#### Superior margin; to remain resilient going ahead

With the current bouquet of services, Omnitech earns one of the best margins (32%) amongst mid and small IT services companies. Even factoring intensifying competition and resulting pricing pressure, the margin is likely to sustain near current levels aided by increasing revenue contribution from IMS (margin at 43%) and BCP services (margin at 44%) and also due to higher share of international clients. We expect Omnitech margin to be resilient in the medium term improving by ~50-100bps over FY10-12E.

#### Growth to be self-funded; balance sheet to remain healthy

With headroom for significant utilization improvement of Remote IMS facility (NOC) and Disaster Recovery Centers (DRCs; in Mahape and Hyderabad), revenue scalability would not be an issue for next couple of years. However, company may invest heavily in H2 FY12 towards building capacity to serve growth beyond FY12. Capex is estimated to be Rs1bn over FY10-12 and which would be mainly funded by internal accruals. So the risk of equity dilution and leverage is minimal.

#### Valuation cheap at 4.6x FY12 P/E despite strong earnings CAGR

We expect Omnitech to deliver 28% earnings CAGR over FY10-12 on the back of 31% revenue CAGR and marginal improvement in margin. At 4.6x FY12 P/E, valuation is at more than 50% discount to the median for mid-cap IT companies. We expect a significant re-rating of the stock in the near term.

#### Financials

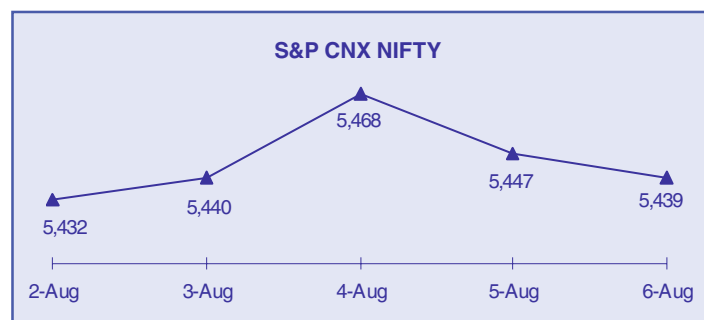
Y/e 31 Mar (Rs m)	FY09	FY10E	FY11E	FY12E
Revenues	1,717	2,165	2,972	3,568
yoy growth (%)	30.1	26.1	37.3	20.0
Operating profit	514	693	974	1,176
OPM (%)	29.9	32.0	32.8	32.9
Reported PAT	331	394	540	624
yoy growth (%)	30.0	18.8	37.0	15.6
EPS (Rs)	25.2	28.4	38.9	45.0
P/E (x)	8.2	7.3	5.3	4.6

Source: Company, India Infoline Research

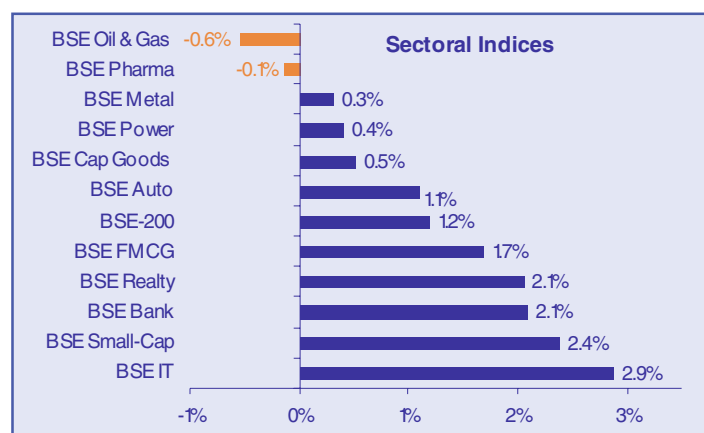
# India Infoline Weekly Wrap

## Market review

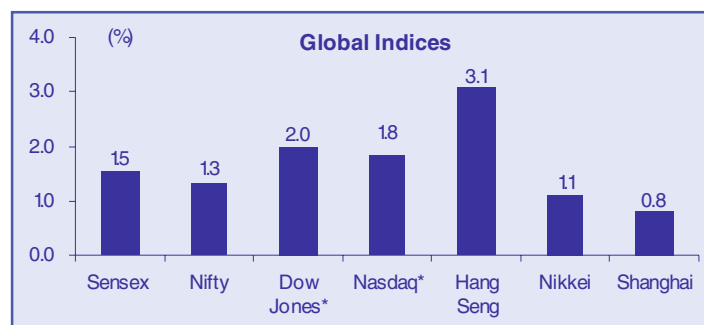
Indian indices inched higher but the NSE Nifty failed to cross the psychological barrier of 5500 as trading activity was restricted in a narrow band of 5,430-5,480. Trading volume were disappointing throughout the week. Mixed earnings and rich valuations kept investors away from the markets. The broader market saw a lot of action. Finally, the Nifty added 1.3% to close the week at 5,439.



IT stocks advanced after positive results and revised guidance from US headquartered Cognizant Technology and following a recovery in US markets. Despite the recent rate hike by the RBI, rate sensitive sectors like Banking and Auto advanced amid optimism about India's economic growth.



Equity markets across the globe extended their upmove. US stocks gained as investors welcomed a better-than-anticipated reading on the service sector and improvement in private sector job addition. European stocks and the euro gained following encouraging bank earnings and positive economic data. The dollar came under some pressure amid talk that the Fed may consider a fresh round of stimulus.



\*As per previous close

## FII & MF activity

Date	FII	MF
	Net Investment	Net Investment
29-Jul	4,438	(636)
30-Jul	1,040	(173)
02-Aug	864	35
03-Aug	677	(27)
04-Aug	742	(128)
<b>Total 2010</b>	<b>50,185</b>	<b>(12,652)</b>

## BSE Sensex & BSE 200 Top Five Gainers

BSE Sensex			BSE 200		
Company	CMP (Rs)	% Chg	Company	CMP (Rs)	% Chg
Tata Motors	894	5.6	R Com	173	(3.3)
Bharti Airtel	323	5.4	M&M	649	(1.9)
Wipro	433	5.0	HDFC Bank	2,091	(1.7)
ICICI Bank	950	5.0	Dr Reddy Labs	1,339	(1.2)
SBI	2,619	4.7	Tata Steel	532	(1.0)

## BSE Sensex & BSE 200 Top Five Losers

BSE Sensex			BSE 200		
Company	CMP (Rs)	% Chg	Company	CMP (Rs)	% Chg
Jai Corp	291	22.5	MMTC	1,576	(9.5)
Edelweiss	590	21.3	Nestle	2,766	(8.3)
MLL	52	12.7	BF Utilities	935	(5.8)
Petronet	102	12.5	IFCI	59	(5.6)
Dish TV	50	12.3	Punj Lloyd	120	(5.2)

## Bulk deals

Date	Institution	Scrip name	B/S	Qty (lacs)	Price
2-Aug	Tata Trustee	Eveready Indus	S	4.0	69.8
2-Aug	Sundaram BNP	Shasun Drug	B	2.5	77.8
5-Aug	Credit Suisse	Vivimed Labs	S	0.9	208.2

## Book closures and record dates

Company	Date	Purpose
Tata Motors	10-Aug-10	Dividend
Edelweiss Cap	10-Aug-10	Bonus, Stock Split
HCC	10-Aug-10	Bonus

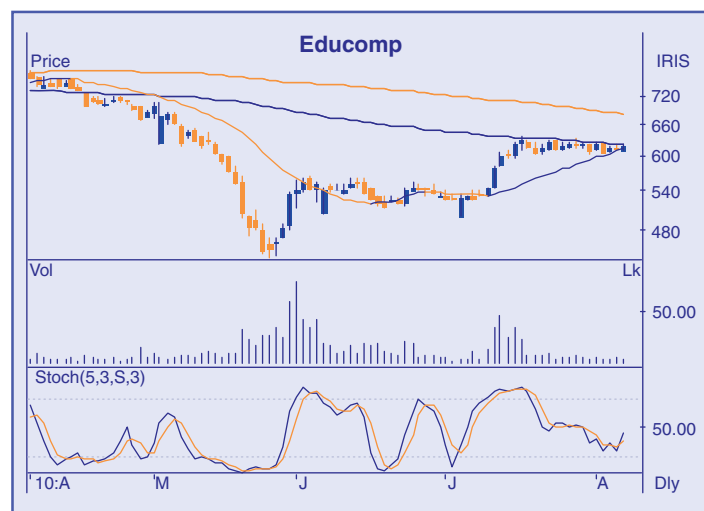
## Insider Trades

Company	Name	B/S	Qty ('000)
Gujarat Gas	Sugata Sirca	B	10.0
HDFC	Srinivasa Rangan	S	4.0
Eicher Motors	A.K. Birla	S	1.0
Dewan Housing	Aruna Wadhawan	B	2047.7

# India Infoline Weekly Wrap

## Technical ideas

### Educomp BUY CMP Rs617



The stock has been moving sideways and in a narrow range between Rs602-Rs630 for three weeks after rallying sharply from Rs440 to Rs630. As of now, the stock is trading above its 20-DMA, which earmarks inherent strength in the counter.

100-DMA has proved as a hurdle for the stock in the near term. Several times, over last few weeks, it has failed to break past the critical moving average (as seen in the chart). However, after today's close above Rs610, Stochastics signaled a positive crossover. Any move above Rs622 with heavy volumes would confirm the breakout on the upside and the stock would attempt its 200-DMA, placed at Rs680. Recent price activity suggest a steady accumulation phase.

sBased on above technical observations, we recommend traders to buy the stock above Rs622 with stop loss of Rs600 for a target of Rs670 and Rs680.

### Positive open interest build-up

Company	Price % chg	OI % chg	Vol % chg
Petronet	2.0	20.8	(3.4)
Powergrid	0.4	3.8	38.8
Sun TV	0.5	38.4	11.8
Opto Circuit	0.4	20.2	(30.9)
Tulip	0.3	19.0	83.3

### Technically strong

Company	CMP (Rs)	10 days Moving Average (Rs)	Total Traded Qty (lacs)	10 days Average Traded Qty (lacs)
GNFC	120	115	13.9	2.0
CESC	400	393	2.9	2.4
Arvind	37	35	24.0	20.5
IndusInd Bank	206	207	7.3	7.1
Indiabulls Fin	162	161	22.1	21.9

### Mphasis BUY CMP Rs620



Mphasis broke out from falling wedge pattern on Thursday's trading session as soon as prices crossed above the resistance of Rs618 and later managed to close above those levels despite sharp volatility in the markets. Thursday's up move in the stock was supported by spurt in volumes which almost tripled than that of its 10-day average.

Positive crossover in RSI supports buying argument providing better risk reward ratio above Rs624.50. The breakout was also confirmed on weekly chart as long term falling resistance drawn from intermediate peak of Rs780 was surpassed with formation of higher top and higher bottom on weekly candlestick chart.

On the upside, immediate resistance is seen at Rs624 which corresponds to its 100-DMA and above which, the stock is likely to see sharp upside ranging from 8-10%.

We advise buying stock above Rs624.50 with stop loss of Rs605 for Target of Rs665.

### Negative open interest build-up

Company	Price % chg	OI % chg	Vol % chg
Patel Eng	(1.0)	5.2	(88.6)
Ashok Leyland	(2.1)	4.8	57.6
Reliance	(0.8)	4.1	6.4
Oriental Bank	(1.9)	3.9	99.1
Patni	(2.1)	3.7	26.6

### Technically weak

Company	CMP (Rs)	10 days Moving Average (Rs)	Total Traded Qty (lacs)	10 days Average Traded Qty (lacs)
Union Bank	318	321	5.0	10.4
ABB	801	815	3.1	5.7
Punj Lloyd	120	128	35.4	48.9
GDL	106	109	3.1	4.1
Patni Comp	453	482	5.9	7.5

# India Infoline Weekly Wrap

## Mutual fund round-up

### India Infoline picks

Mutual Funds	Assets	NAV	Absolute return (%) as on August 05, 2010							
	(Rs Cr)	(Rs)	1wk	1mth	3mth	6mth	1yr	2yr	3yr	5yr
Birla SL Frontline Equity -A (G)	2,315	85.9	1.4	4.0	7.1	14.4	27.4	47.8	46.9	202.3
HDFC Top 200 Fund (G)	8,307	202.2	1.4	4.1	9.7	18.9	31.0	54.8	63.2	228.0
ICICI Pru Dynamic Plan (G)	2,292	102.7	1.5	3.3	7.6	15.2	35.7	42.5	43.8	196.9
IDFC Small&Midcap Equity (G)	746	18.5	2.0	6.2	10.0	23.6	57.7	97.8	--	--
Reliance Growth Fund (G)	7,495	475.2	2.0	3.6	6.2	16.2	34.8	44.9	51.6	203.7

### Fund this week: ICICI Pru Dynamic Fund

Fund snapshot		Asset allocation (%)	
Fund Manager	S Naren	Equity	82.0
Latest NAV	Rs102.7	Debt	0.0
NAV 52 high/low	Rs103/74	Cash/call	18.0
Latest AUM (cr)	Rs2,292	Top 5 holdings (%)	
Type	Open-ended	Reliance	6.7
Class	Equity - Diversified	Infosys	5.5
Options	Growth & dividend	TCS	4.3
Min investment	Rs5,000	Bharti Airtel	4.0
Benchmark	S&P Nifty	Cadila Health	3.8
No. of stocks	44	Top 3 sectors (%)	
No. of sectors	22	Banking/Finance	15.0
Expense ratio	1.9%	Technology	13.9
Exit load	1%	Oil & Gas	11.5

### NFO update

Fund Name	Close	Type	Class
IDFC Cap Prot Orntd Fund - Sr.III	11-Aug	OE	Hybrid
HDFC FMP - 370Days - Aug 2010	12-Aug	CE	Debt - FMP
ICICI Pru FMP - Sr 53 - 3Yrs A	24-Aug	CE	Debt - FMP

### Dividend update

Mutual Fund	Dividend %	Record date	Class
Kotak Quarterly Intv PI Sr 6	100.0	10-Aug	Debt - Invnt
UTI Quarterly Intv Fund Sr V	100.0	10-Aug	Debt - Invnt
-	-	-	-

## Commodity, debt and currency graphs



\* As per previous close

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