

Investment ideas

January 22, 2010

Infosys Technologies **BUY**
CMP Rs2,576

Stellar performance by Infosys in Q3 FY10

In dollar terms, Infosys revenues grew strong 6.8% qoq in Q3 FY10, materially outperforming its guidance. Company witnessed robust volume growth of 6.1% qoq in IT services segment with pricing strengthening in constant currency basis. OPM improved materially by 90bps qoq to 35.5%, contrary to street expectations of a significant decline. Margin expansion came in despite the sharp rupee appreciation and implementation of salary hikes. Key margin tailwinds were cost control measures, utilization improvement and cross currency movements. We believe Infosys would significantly outperform its Q4 FY10 revenue and earnings guidance which is muted due to the usual management conservatism.

Q3 FY10 IT earnings season has been confidence boosting

We reckon that robust results of Infosys, TCS and Wipro in Q3 FY10 manifest a fast recovering business environment for the Indian IT industry. Following factors inspire our belief 1) robust volume growth has come after four weak quarters 2) pricing stabilizing after a secular decline over the past one year 3) troubled verticals of manufacturing and telecom and discretionary services have shown early signs of revival 4) margin expansion in the face of multiple headwinds imply a permanent elevation of margin range 5) aggressive hiring reflect improving business visibility and confidence.

Its time to think beyond quarters; Infosys best BUY

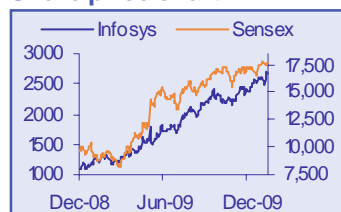
We believe that tide has turned for Indian IT and that its time to hope for strong secular growth over the next few years and not one or two quarters. We have upgraded our FY10, FY11 and FY12 revenue and earnings estimates of Infosys significantly to factor the robust results and improved macro outlook. We upgrade our rating from Market Performer to BUY with a revised target price of Rs3,001, a 16% upside from current levels. We have valued Infosys at 22x FY12 P/E (19x based on cash EPS) implying a PEG of 1.8x. Given the stock's substantial underperformance to peers in the past nine months, we expect Infosys to lead the next leg of rally in IT stocks.

Financials

Y/e 31 Mar (Rs m)	FY09	FY10E	FY11E	FY12E
Revenues	216,930	226,537	259,853	310,211
yoy growth (%)	30.0	4.4	14.7	19.4
Operating profit	71,950	78,885	89,649	103,921
OPM (%)	33.2	34.8	34.5	33.5
Reported PAT	58,800	62,250	68,561	78,031
yoy growth (%)	28.5	4.0	10.1	13.8
EPS (Rs)	102.8	108.8	119.9	136.4
P/E (x)	25.3	23.9	21.7	19.1

Source: Company, India Infoline Research

Share price chart



Source: Company, India Infoline Research

Shareholding pattern

September '09	(%)
Promoters	16.5
FII & MF	44.1
Non promoter corp hold	4.2
Public & others	35.2

ONGC **BUY**
CMP Rs1,115

Higher production from OVL to drive long term growth

Empirically, ONGC's hydrocarbon production has been flattish for the past few years. However, the performance is better when compared to global peers, which are witnessing steep fall in production levels. Going ahead, we expect ONGC to witness strong growth in production rates as it increases exploration in 14 exploratory blocks out of 47 allocated. ONGC Videsh (OVL), a 100% subsidiary, has registered 14.8% CAGR in production over FY05-09. With three more fields commencing production between FY10-13 the production growth momentum is likely to continue.

Q3 FY10 results not as poor as they seem

ONGC's net sales for Q3 FY10 surged 23.7% yoy despite absence of MRPL trading activities primarily on account of 70.5% yoy jump in crude oil realizations (lower under recoveries). Higher realizations for Naphtha and increase in volumes for C2-C3 have provided further fillip. Sales volumes for crude oil and natural gas remained flat at 5.7mn tons and 5.25bcm respectively. OPM expanded 1,950bps yoy and 205bps qoq owing to a substantial fall in overheads as a percentage of sales. However, PAT growth (way below our estimates) was restricted by reversal of interest income from OVL and four fold jump in dry well write-offs. Operationally though the results were better than our expectations.

Upgrade to BUY, considering steep valuation discount to global peers

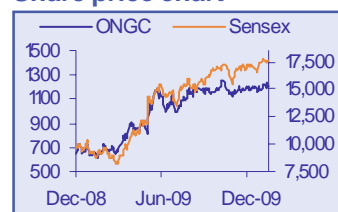
ONGC trades at 57% discount to global peers on the basis of EV/boe of proved reserves. Considering the subsidy overhang, we believe that a discount is warranted. However, with ONGC currently sharing only auto fuel burden we believe the discount should narrow down. We value ONGC at US\$8/boe proved reserves (ONGC + OVL) of 949MTOE. 71% stake in MRPL is valued at Rs40 per share giving a combined target price of Rs1,308. Upgrade from SELL to BUY. Key concern to our call is an adverse change in subsidy sharing pattern.

Financials

Y/e 31 Mar (Rs bn)	FY09	FY10E	FY11E	FY12E
Revenues	1,053	1,175	1,222	1,238
yoy growth (%)	8.8	11.6	4.0	1.3
Operating profit	411	489	514	512
OPM (%)	22.3	41.6	42.1	41.4
Reported PAT	198	220	241	240
yoy growth (%)	(0.4)	11.1	9.5	(0.4)
EPS (Rs)	92.5	102.9	112.8	112.4
P/E (x)	12.1	10.8	9.9	9.9

Source: Company, India Infoline Research

Share price chart



Source: Company, India Infoline Research

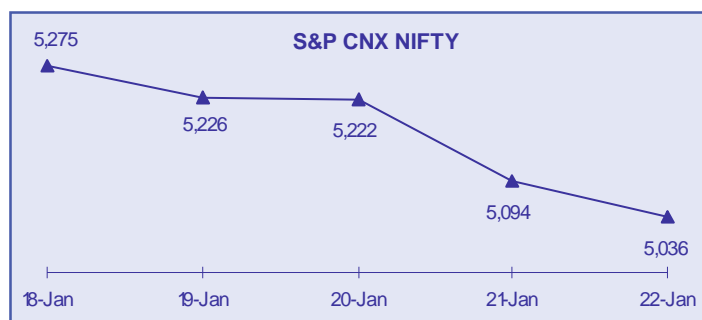
Shareholding pattern

December '09	(%)
Promoters	74.1
FII & MF	12.2
Non promoter corp hold	12.0
Public & others	1.7

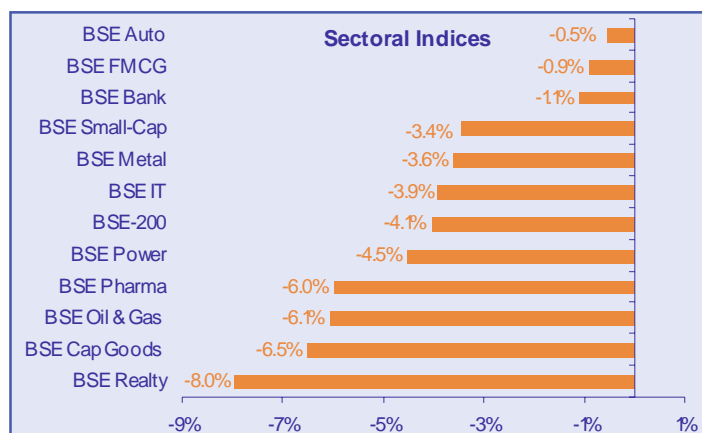
India Infoline Weekly Wrap

Market review

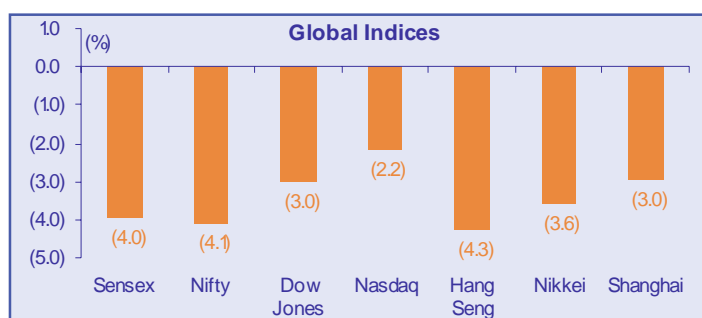
Disappointing earnings by companies like L&T, monetary tightening concerns in China and US President's proposal to put new restrictions on big banks weighed heavily on Dalal Street. The key indices had largely been consolidating after last year's stupendous rebound. So, a correction was long overdue. Finally, the BSE Sensex closed the week lower by 4% and NSE Nifty lost 4.1%.



Realty stocks plunged as investors turned jittery ahead of the RBI policy meet. Capital Goods space came under pressure after L&T reported drop in Q3 sales and pruned its FY10 topline guidance. Public sector OMCs declined after the Government gave them less than expected cash subsidy and said it has no plans to raise fuel prices now.



World markets were dragged down by fears of further tightening in China after its Q4 GDP surpassed all estimates. Commodity prices and related stocks fell on concerns about overheating in China. Banking shares fell after the Obama government proposed strict new rules for Wall Street firms.



*As per previous close

FII & MF activity

Date	(Rs cr)	
	FII Net Investment	MF Net Investment
14-Jan	(136)	(422)
15-Jan	(889)	(158)
18-Jan	295	55
19-Jan	(452)	(263)
20-Jan	(32)	(394)
Total 2010	6,280	(2,414)

BSE Sensex & BSE 200 Top Five Gainers

BSE Sensex			BSE 200		
Company	CMP (Rs)	% Chg	Company	CMP (Rs)	% Chg
Maruti	1,444	2.2	Jai Corp	270	18.2
Bharti Airtel	322	1.5	NMDC	533	11.3
Hero Honda	1,649	1.5	Indusind Bank	151	6.7
HUL	258	0.6	Idea	62	4.2
BHEL	2,380	0.4	Bajaj Auto	1,793	3.9

BSE Sensex & BSE 200 Top Five Losers

BSE Sensex			BSE 200		
Company	CMP (Rs)	% Chg	Company	CMP (Rs)	% Chg
L&T	1,472	(10.9)	Punj Lloyd	186	(15.0)
JP Associates	147	(10.5)	IVRCL Infra	335	(12.8)
Ranbaxy	466	(9.5)	Ultratech Cem	913	(11.9)
Tata Power	1,334	(8.4)	TV18	83	(11.9)
Dr Reddy's	1,127	(8.3)	Aban	1,330	(11.8)

Bulk deals

Date	Institution	Scrip name	B/S	Qty (lacs)	Price
20-Jan	Copthall Mau	Sakthi Sugars	S	3.0	92
20-Jan	Merrill Lynch	S.Kumars	B	13.8	48
20-Jan	Morgan Stanley	Subex Lyd	S	3.7	82
21-Jan	Reliance MF	Karnataka Bank	S	32.0	138

Book closures and record dates

Company	Date	Purpose
Infra Infote	30-Jan-10	Bonus issue

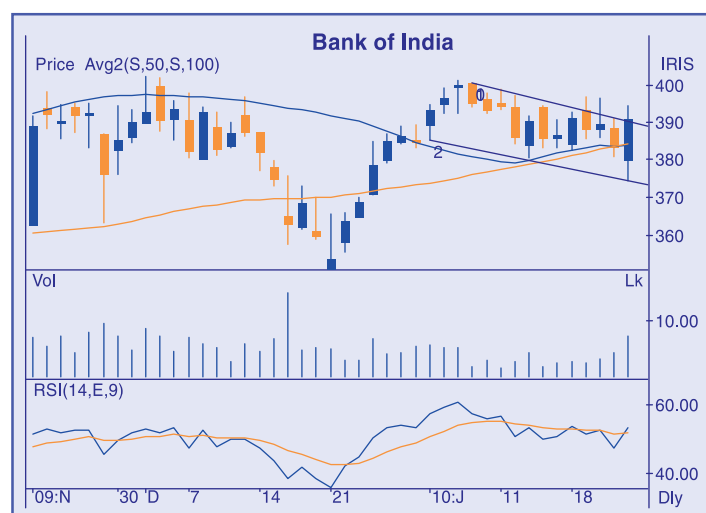
Insider trades

Company	Name	B/S	Qty ('000)
Glenmark Pharma	Glenn Saldanha	B	4.0
Tata Elxsi	Sharad Shah	B	60.3
Hilton Metal	Yuvraj Malhotra	S	22.2

India Infoline Weekly Wrap

Technical ideas

Bank of India BUY CMP Rs391



Bank of India was restricted to a downward sloping channel from first week of January 2010 until a breakout in Friday's session (as shown in the chart) moving against its banking peers.

This week, the stock arrested its downward slide which began from last week of January 2010 and gave a close above its crucial moving averages. The stock recorded a low of Rs372 this week, before closing around week's high on impressive volumes. In fact, current week volumes have been the highest in 2010.

A move above Rs397 with surge in volumes could see the stock touching the levels of Rs425 and above in the medium term. The short term oscillators are showing upward movement.

Keeping in mind, the above-mentioned technical evidences, we recommend traders to buy the stock between the levels of Rs386-396 with a stop loss of Rs378 for a target of Rs425 and Rs435.

Q3 FY10 Result snapshot

Companies	Revenue	YoY grth	PAT	YoY grth
Ultratech Cem	16,693	2.0	1,960	(17.8)
ITC	45,319	18.2	11,441	26.7
Reliance Ind.	568,560	80.1	40,080	14.5
Bharti Airtel	103,049	6.6	22,369	13.2
TCS	58,834	0.1	15,543	28.3
GAIL (India) Ltd	62,057	(0.3)	8,600	20.6
Sterlite Tech	8,673	35.1	737	134.4
JP Associates	29,638	56.9	1,030	(88.2)
Zee Entertainment	5,309	(3.0)	1,464	74.0
Jindal Saw	13,735	(11.0)	1,678	99.0
Tata Power	15,665	(12.0)	1,419	40.0
MRPL	93,187	24.0	2,595	191.0
HDFC	27,056	(7.3)	6,712	22.7
Wipro	6,963	5.0	1,217	21.2
TVS Motor	10,895	25.4	235	-
Yes Bank	2,109	69.5	1,259	19.0
Dr reddy's Lab	17,114	(5.6)	(2,331)	-
HDIL	4,089	30.3	1,628	115.1
JSW Steel	47,960	46.7	4,218	-
Gayatri Projects	3,392	32.3	153	44.3
ONGC	155,061	22.9	30,535	23.4
L&T	81,222	(6.2)	7,588	(50.1)
BHEL	71,003	17.9	10,726	35.7
ICICI Bank	60,896	(22.3)	11,009	(13.5)
Idea	31,358	14.9	1,701	(22.5)
Welspun Gujarat	16,400	12.6	1,670	271.1
Kotak Bank	11,847	5.1	3,314	153.2
Shree Cement	8,660	30.3	1,674	35.1
JSW Energy	7,041	72.6	2,371	54.1
Radico Khaitan	2,378	34.2	115	-
Ibolls Real Estate	374	(3.9)	28	(75.6)

Positive open interest build-up

Company	Price % chg	OI % chg	Vol (lacs)
HCL Tech	2.2	20.4	21.3
BHEL	3.5	16.0	117.4
Bank Of India	2.2	8.7	19.5
HUL	0.4	5.5	41.7
ITC	1.6	4.9	125.3

Negative open interest build-up

Company	Price % chg	OI % chg	Vol (lacs)
GAIL	(2.7)	19.8	22.2
Sun TV	(2.6)	21.3	(16.2)
Punjilloyd	(7.0)	29.9	37.9
HDFC	(1.5)	10.7	92.8
Union Bank	(0.3)	8.8	103.1

Technically strong

Company	CMP (Rs)	10 days Moving Average (Rs)	Total Traded Qty (lacs)	10 days Average Traded Qty (lacs)
Raymond	250	234	25.6	12.1
Spicejet Ltd	59	54	240.6	26.0
IGL	203	201	9.7	4.9
Arvind Ltd	41	41	68.4	53.6
HCL Tech	383	370	20.7	17.3

Technically weak

Company	CMP (Rs)	10 days Moving Average (Rs)	Total Traded Qty (lacs)	10 days Average Traded Qty (lacs)
Anant Raj Inds	144	149	6.1	12.0
Amtek Auto	178	183	6.3	13.5
HDFC Bank	1,677	1,720	11.3	13.9
Marico	101	103	1.5	3.7
Bharat Forge	283	290	6.9	10.3

India Infoline Weekly Wrap

Mutual fund round-up

India Infoline picks

Mutual Funds	Assets (Rs Cr)	NAV (Rs)	Absolute return (%) as on January 21, 2010							
			1wk	1mth	3mth	6mth	1yr	2yr	3yr	5yr
DSP-BR Equity Fund - RP (G)	1,688	14.6	(3.0)	2.9	7.6	30.5	98.9	24.9	--	--
Fidelity Special Situations(G)	1,133	16.2	(1.9)	3.9	7.2	24.7	111.7	8.1	21.2	--
HDFC Prudence Fund (G)	3,418	175.5	(1.9)	2.8	7.4	26.3	101.9	24.8	50.0	221.6
ICICI Prudential Dynamic Plan (G)	1,822	92.2	(1.4)	3.7	9.8	27.1	95.4	23.1	35.4	281.4
ICICI Prudential Tax Plan (G)	1,011	123.0	(1.7)	4.7	12.1	36.9	135.1	19.1	28.3	197.8

Fund this week: ICICI Prudential Tax Plan

Fund snapshot		Asset allocation (%)	
Fund Manager	Sankaran Naren	Equity	91.6
Latest NAV	Rs123	Debt	0.0
NAV 52 high/low	Rs124/48	Cash/call	8.4
Latest AUM (cr)	Rs1,011	Top 5 holdings (%)	
Type	Open-ended	Cadila Healthcare Ltd.	5.4
Class	Equity - diversified	Infosys Technologies Ltd.	5.0
Options	Growth & dividend	Bharti Airtel Ltd.	4.8
Min investment	Rs500	Zuari Industries Ltd.	4.5
Entry load	Nil	Reliance Industries Ltd.	4.2
Exit load	Nil	Top 3 sectors (%)	
Benchmark	S&P Nifty	IT - Software	12.2
No. of stocks	59	Pharmaceuticals	10.4
Expense ratio	2.0%	Bank - Private	7.5

NFO update

Fund Name	Close	Type	Class
IDFC Asset Allocation Fund	25-Jan	OE	FOF
Fidelity Global Real Asset Fund	29-Jan	OE	FOF
-	-	-	-

Dividend update

Mutual Fund	Dividend %	Record date	Class
Bharti AXA Tax Advantage	30.0	25-Jan	Eq - ELSS
JP Morgan India Tax Adv	14.0	25-Jan	Eq - ELSS
Escorts Opportunities Fund	9.8	28-Jan	Eq - Div

Commodity, debt and currency graphs



* As per previous close

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