

19 July 2010

India Morning Bell



All the latest research and data

Sensex: 17956

Nifty: 5394

- Oil Margins – Vol. 13/10. ▶
- GSM Subscriber Update – Net-adds rise in June, driven by Idea and Uninor. ▶
- Colgate Palmolive – 1QFY11 – Volumes drive profit, despite higher tax; Buy. ▶
- Axis Bank – 1QFY11 – Raise estimates, target price; upgrade to Buy. ▶
- Canara Bank – 1QFY11 – Raise estimates, target price; upgrade to Hold. ▶
- Polaris Software – Healthy deal flow, but marred by weak margin; maintain Buy. ▶
- Derivatives view. The current move can be labeled as a corrective correction (*the uptrend will negate only below 5200 when the series of higher tops and lows will be broken*) with near term support levels of 5300-5350. ▶

Markets

	16 Jul 10	1 Day	YTD
Sensex	17956	0.0%	2.8%
Nifty	5394	0.0%	3.7%
Dow Jones	10098	-2.5%	-3.2%
S & P 500	1065	-2.9%	-4.5%
FTSE	5159	-1.0%	-4.7%
Nikkei*	9408	-2.9%	-10.8%
Hang Seng*	20101	-0.7%	-8.1%

Volumes (US\$m)

	16 Jul 10	1 Day	Avg '10
Cash BSE	921	-0.7%	1,013
Cash NSE	2,870	3.1%	3,033
Derivatives (NSE)	13,350	-21.1%	38,358

Flows (US\$m)

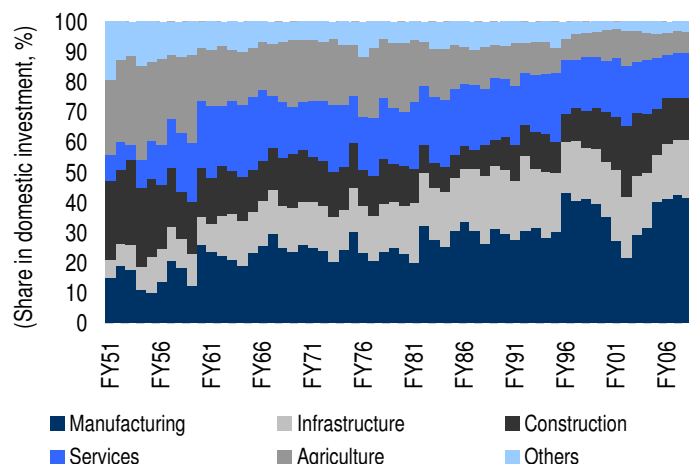
	16 Jul 10**	MTD	YTD
FI – Cash			
Buy	599	5,768	76,286
Sell	455	4,112	67,930
Net	145	1,771	8,471
FI - Derivatives			
Buy	1,260	19,043	267,092
Sell	1,049	17,716	253,619
Net	211	1,327	13,295
DII – Cash			
Buy	294	1,205	18,451
Sell	354	1,480	20,421
Net	-60	-275	-1,972

Others

	16 Jul 10	1 Day	YTD
Oil Brent (US\$/bbl)*	75.3	-0.1%	-8.2%
Gold (US\$/oz)*	1,193.3	0.0%	8.8%
Steel (US\$/MT)	625.0	0.0%	23.8%
Rs/US\$	46.77	0.0%	-0.5%
US\$/Euro*	1.29	0.1%	10.9%
Yen/US\$*	86.69	-0.1%	7.3%
Call Rate	5.70%	25bps	235bps
10-year G-Secs	7.63%	1bps	4bps
EMBI spreads	314bps	2bps	40bps

*@7:30am **Provisional Source: BSE, Bloomberg

Sector-wise share in domestic investment



Source: GOI, Anand Rathi Research

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Market Data

Large Caps (>US\$1bn)

Price Performance

Top 5 Gainers

Company Name	CMP	1 W %	1 Mth%
EDUCOMP SOLUTION	630	15.8	19.3
OPTO CIRCUITS	271	11.3	19.0
GODREJ PROPERTIE	704	9.6	29.7
JET AIRWAYS IND	617	9.5	19.4
AUROBINDO PHARMA	1005	6.7	21.0

Top 5 Losers

Company Name	CMP	1 W %	1 Mth%
NATL FERTILIZERS	117	(5.4)	0.8
RASHTRIYA CHEMS	88	(3.6)	4.9
RELIGARE ENTERPR	411	(3.6)	(2.8)
VOLTAS LTD	200	(3.1)	8.9
JUBILANT ORGANOS	363	(3.1)	3.3

Volume

Volume Spurts

Company Name	CMP	1 W Avg	1 / 4 W%
HMT LTD	75	1,121,983	130.6
JET AIRWAYS IND	617	2,067,909	118.4
EDUCOMP SOLUTION	630	4,267,492	115.9
IL&FS TRANSPORTA	308	426,009	88.7
OPTO CIRCUITS	271	775,886	54.3

Technicals

Above 200 DMA

Company Name	CMP	200D Avg	%
EMAMI LTD	870	586	48.5
MAHINDRA & MAHIN	495	357	38.5
BGR ENERGY SYS	749	549	36.4
FED BANK LTD	357	272	31.1
UNITED BREWERIES	233	180	29.3

Below 200 DMA

Company Name	CMP	200D Avg	%
SHREE GLOBAL TRA	246	307	(19.7)
INDIABULLS REAL	168	192	(12.5)
KSK ENERGY VENTU	165	188	(12.2)
EDUCOMP SOLUTION	630	706	(10.8)
FINANCIAL TECHNO	1,341	1,425	(5.9)

Mid Caps (US\$250m-1bn)

Price Performance

Top 5 Gainers

Company Name	CMP	1 W %	1 Mth%
MONEY MATTERS FI	662	24.2	33.5
UTV SOFTWARE COM	464	13.8	14.9
INDIAN METALS	747	13.6	6.1
BF UTILITIES LTD	797	12.1	8.2
GUJARAT FLOURCOH	184	11.9	19.0

Top 5 Losers

Company Name	CMP	1 W %	1 Mth%
INFOTECH ENT	170	(7.9)	(12.6)
MONNET ISPAT & E	465	(6.8)	26.6
APOLLO TYRES LTD	65	(5.9)	(0.3)
WNS HOLDINGS-ADR	450	(5.7)	(9.6)
HONEYWELL AUTOMA	2,842	(5.5)	(2.0)

Volume

Volume Spurts

Company Name	CMP	1 W Avg	1 / 4 W%
BF UTILITIES LTD	797	4,785,402	261.5
BASF INDIA LTD	460	496,355	235.2
ZYDUS WELLNESS	532	488,628	227.1
ACKRUTI CITY LTD	497	267,487	214.7
DALMIA CEMENT	211	171,400	195.9

Technicals

Above 200 DMA

Company Name	CMP	200D Avg	%
MONEY MATTERS FI	662	297	123.2
BANK RAJASTHAN	178	93	90.9
WHIRLPOOL OF IND	293	171	71.5
ZYDUS WELLNESS	532	330	61.0
SHOPPER'S STOP	614	382	60.6

Below 200 DMA

Company Name	CMP	200D Avg	%
WNS HOLDINGS-ADR	450	629	(28.4)
BAJAJ HINDUSTHAN	120	166	(27.7)
ABAN OFFSHORE	862	1,167	(26.2)
PUNJ LLOYD LTD	138	183	(24.8)
BALRAMPUR CHINI	84	109	(23.4)

Small Caps (US\$100m-250m)

Price Performance

Top 5 Gainers

Company Name	CMP	1 W %	1 Mth%
NEWTIME INFRASTR	36	46.3	40.3
DELTA CORP LTD	44	18.9	24.1
SHREE GANESH JEW	134	17.7	15.2
EVERONN EDUCATIO	597	17.5	37.5
SUBHKAM CAP LTD	973	15.7	27.1

Top 5 Losers

Company Name	CMP	1 W %	1 Mth%
VST INDS LTD	540	(10.1)	(10.0)
SANWARIA AGRO	43	(10.1)	(8.7)
SUNDARAM CLAYTON	175	(7.3)	10.9
GEOJIT BNP PARIB	33	(6.9)	(4.1)
RUCHI INFRASTRUC	39	(6.7)	(15.1)

Volume

Volume Spurts

Company Name	CMP	1 W Avg	1 / 4 W%
SURANA INDUSTRIE	299	209,656	220.7
NESCO LTD	1,429	89,020	215.9
MUKAND LTD	67	1,043,633	196.9
KAJARIA CERAMICS	69	1,743,146	184.6
SHREE GANESH JEW	134	1,492,021	152.4

Technicals

Above 200 DMA

Company Name	CMP	200D Avg	%
WELL PACK PAPERS	96	30	215.1
INDIA SECURITIES	39	15	156.3
NEWTIME INFRASTR	36	17	118.7
PI INDUSTRIES	502	245	104.7
OCL IRON AND ST	64	33	93.7

Below 200 DMA

Company Name	CMP	200D Avg	%
GEEKAY FINANCE	22	45	(52.2)
REI SIX TEN RETA	57	100	(42.8)
ASIAN HOTELS NOR	502	718	(30.0)
RUCHI INFRASTRUC	39	53	(26.9)
GEODESIC LTD	85	115	(25.9)

Source: Bloomberg

16 July 2010

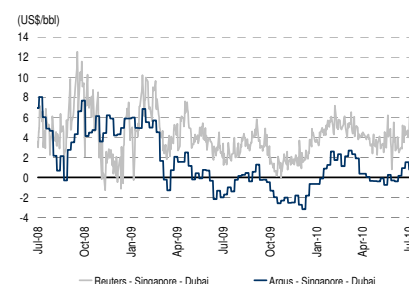
Oil Margins – Vol. 13/10

Crude, gas prices fall; refining margins rise a tad

- Refining margins slightly up.** For 1-15 Jul fortnight, refining margins averaged US\$4.4/bbl, up US\$0.2 from the previous fortnight. Although having recently risen, margins continue to be lower than 3QFY10 average of US\$5/bbl, albeit above 4QFY10 average of US\$3.7/bbl. We expect refining margins to slightly rise in FY11 to US\$4/bbl from FY10 average of US\$3.5/bbl.
- Auto-fuel losses drop on falling crude & product prices.** Based on average international gasoil and gasoline prices for 1-15 Jul, auto-fuel under-recoveries for 16-30 Jul would be Rs2.1/litre compared with Rs2.8/litre the previous fortnight. The drop in losses was due to decline in international crude & product prices aided by hike in domestic fuel prices.
- Natural gas (Henry Hub) prices down.** For 1-15 Jul, natural gas averaged US\$4.5/m Btu, down from US\$4.8 the previous fortnight. Prices continue to witness downward pressure owing to high inventory despite above-normal temperature in the US. We expect prices to be low, as supplies continue rising amidst a lower demand.
- Light-Heavy spread mix; product margins fall.** For the 1-15 July fortnight, gasoline margins averaged US\$5.9/bbl, lower than the US\$7.1/bbl of previous fortnight; other product spreads were also down. However, the Light-Heavy spread does not show a clear trend.
- Crude break-even prices lower as rupee weakens.** We estimate breakeven crude prices at US\$68.3/bbl for auto fuels and US\$32.8/bbl for cooking fuels. Rupee depreciation has further lowered break-even price levels of crude.

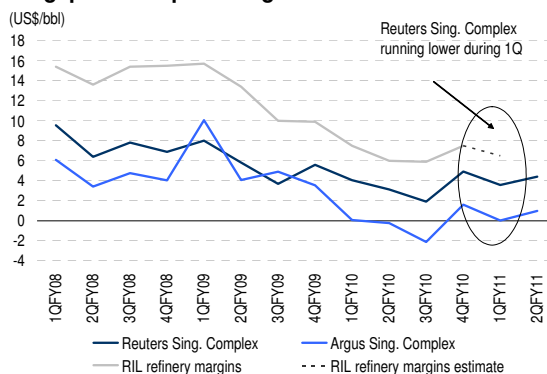
Brent-Dubai Diff: US\$1.6/bbl
 Reuters Ref Margin: US\$4.4/bbl
 Gasoil-Brent Diff: US\$8.0/bbl
 Auto-fuel Under-recovery: Rs2.1/ltr

Refining margins strengthen



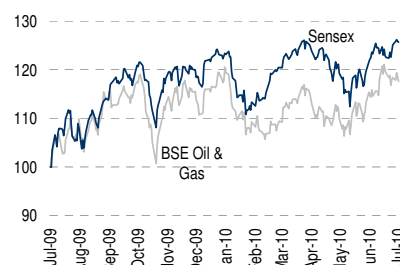
Source : Argus, Reuters *(Premium)/Discount

RIL GRMs vs Singapore Complex margins



Source: Argus, Reuters

Relative performance



Source : Bloomberg

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16 June 2010

GSM Subscriber Update

Net-adds rise in June, driven by Idea and Uninor

- **Idea, Uninor drive the higher net-adds in Jun '10.** GSM SIM-card net additions (ex GSM data of RCom and TTSL) rose to 12.3m in Jun '10 versus 10.6m in May '10. While net adds of Idea and Uninor rose 0.7m mom and 1m mom respectively, those of other leading telcos (Bharti, Vodafone, Aircel, BSNL) largely remained steady. Overall GSM net-adds had been falling since their Mar '10 peak, possibly driven by tighter subscriber recognition norms and self-restraint on subscriber acquisition (acquisition costs, growing scarcity of number resources) by telcos.
- **Idea registers strong growth.** Idea's net-adds for Jun stood at 2.16m, ~50% higher than those in May; it recorded peak net-adds (2.55m) in Nov. Thereafter, its net-adds have been subdued, declining to 1.44m in May. We believe the volatility in net-adds is driven more by change in subscriber recognition/churn policy than by any significant underlying business factors. Uninor posted net-adds of 1.06m in Jun '10 versus negative net-adds in May '10.
- **Steady net-adds by other major telcos.** Bharti's net-adds stood at 3m in Jun, largely unchanged since the past three months. At this run rate, Bharti is likely to exceed our end-FY11 sub-base estimate (157m) by 4.5%. Net-adds of other major telcos – Vodafone, Aircel and BSNL – were largely steady at 2.7m, 1.6m and 1.1m respectively.
- **New entrants.** Videocon, which commenced operations in Mar '10, posted 0.55m net-adds in Jun '10 versus 0.71m in May '10. Etisalat's operations appear to be in the trial stage as the company registered only ~8,000 net-adds in Jun.

GSM subscriber data for Jun-10: Total subs and growth

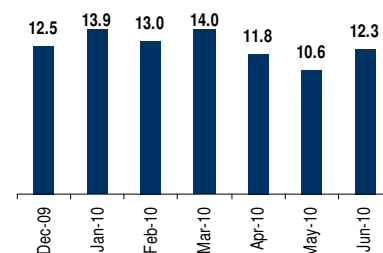
Total subs ('000)	Jun '10	May '10	MoM (%)	Jun '09	YoY (%)
Bharti	136,620	133,620	2.2	102,368	33
VOD-Essar	109,061	106,347	2.6	76,450	43
BSNL	66,888	65,791	1.7	49,074	36
Idea	68,887	66,727	3.2	47,089	46
Aircel	41,635	40,080	3.9	21,799	91
MTNL	4,902	4,858	0.9	4,297	14
Loop Mobile	2,927	2,912	0.5	2,306	27
Uninor	6,069	5,013	21.1		
S Tel	1,327	1,233	7.6		
Etisalat	18	10	79.8		
Videocon	1,942	1,395	39.3		
Total	440,275	427,985	2.9	303,382	45.1

Source: COAI

June subscriber net-adds: 12.3m

Subscriber growth yoy: 45.1%

GSM monthly subscriber additions (m)



Source: COAI

GSM net additions in Jun-10

Net adds ('000)	Jun '10	May '10	MoM (%)
Bharti	3,001	3,000	0.0
VOD-Essar	2,713	2,591	4.7
BSNL	1,097	1,046	4.9
Idea	2,160	1,439	50.1
Aircel	1,555	1,610	(3.4)
MTNL	44	40	10.2
Loop Mobile	15	17	(12.0)
Uninor	1,056	(9)	
S Tel	93	121	(22.8)
Etisalat	8	5	57.3
Videocon	548	705	(22.3)
Total	12,290	10,566	16.3

Source: COAI

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16 July 2010

Colgate Palmolive

1QFY11 – Volumes drive profit, despite higher tax; Buy

Rating: **Buy**
Target Price: Rs1,020
Share Price: Rs845

- **Healthy performance; maintain Buy.** Colgate reported net profit growth of 19% with strong volume growth of 13%. As it continues to gain market share and improve margins without taking price hikes, we expect it to maintain strong earnings growth momentum over FY10-12. Reiterate Buy.
- **Market share gains across segments.** Colgate reported revenue growth of 13%, mainly led by healthy volumes. It increased market share yoy, in toothpaste and toothbrush by 160bps and 320bps respectively. However, it lost market share of 60bps in toothpowder. The company posted strong volume growth of 14% and 19% in toothpaste and toothbrush respectively.
- **EBITDA margin highest since past 25 quarters.** With lower raw material costs, EBITDA margin expanded 380bps to 26.3%, the highest in the past 25 quarters. Further, the company increased the ad spend-to-sales 70bps. Despite tax rate increasing 450bps to 22.3%, net profit shot up 19% yoy.
- **Expect strong earnings momentum ahead.** Colgate continued gaining market share across segments, in line with expectations. It has been able to expand margin without increasing prices for almost six consecutive quarters. With lower competitive pressure, we expect it to continue gaining market share and expand margin.
- **Valuation.** We retain Buy, with target price of Rs1,020 based on FY12e PE of 25x. The target PE is at 50% premium to the Nifty as against 10-year average premium of 42%.

Quarterly results

Year end 31 Mar	1QFY10	1QFY11	% yoy	FY09	FY10	% yoy
Sales (Rsm)	4,680	5,288	13.0	16,952	19,625	15.8
EBITDA (Rsm)	1,052	1,390	32.2	2,897	4,369	50.8
EBITDA margin (%)	22.5	26.3	382bps	17.1	22.3	517bps
Interest (Rsm)	5	3	(24.4)	15	15	(2.2)
Depreciation (Rsm)	56	79	41.0	279	307	10.1
Other income (Rsm)	260	263	1.2	935	957	2.4
PBT (Rsm)	1,251	1,570	25.5	3,538	5,004	41.4
Tax (Rsm)	223	350	57.2	603	648	7.4
Tax rate (%)	17.8	22.3	449bps	17.0	12.9	(410)bps
PAT (Rsm)	1,028	1,220	18.7	2,935	4,356	48.4

Source: Company, Anand Rathi Research

Key data

Key data	CLGT IN / COLG.BO
52-week high/low	Rs868/Rs568
Sensex/Nifty	17956/5382
3-m average volume	US\$2.3m
Market cap	Rs115bn/US\$2.5bn
Shares outstanding	136m
Free float	49.0%
Promoters	51.0%
Foreign Institutions	16.0%
Domestic Institutions	7.7%
Public	25.3%

Financials

Year end 31 Mar	FY11e	FY12e
Sales (Rsm)	23,077	26,864
Net profit (Rsm)	4,756	5,544
EPS (Rs)	35.0	40.8
Growth (%)	9.6	16.6
PE (x)	24.2	20.7
PBV (x)	28.3	22.3
RoE (%)	132.3	120.3
RoCE (%)	135.0	124.7
Dividend yield (%)	2.8	3.3
Net gearing (%)	(162.0)	(166.7)

Source: Company, Anand Rathi Research

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Axis Bank

1QFY11 – Raise estimates, target price; upgrade to Buy

Rating: Buy

Target Price: Rs1,623

Share Price: Rs1,345

- **Raise target price and estimates.** We upgrade Axis Bank to Buy from Sell and raise FY11e EPS by 4.8% owing to healthy 1QFY11 performance. We value the stock at FY12e BV of 3.0x (at FY11e BV of 2.4x earlier) owing to improved RoE, and increase our target price to Rs1,623 from Rs1,085.
- **Net profit up 32%.** Robust net interest income growth and lower NPA provisions aided net profit growth. While NII and fees rose 44.8% and 18.6% yoy respectively, NPA provisions slid 9.5%.
- **Business growth strong, margin declines.** Advances grew 39.1% yoy (4.1% qoq), largely owing to demand from telecom firms. Deposit growth was also stronger than the system (33.8% yoy, 4.4% qoq). Reported NIM, though up 37bp yoy, declined 38bp qoq to 3.7%. Despite our expectation of rising liability costs in FY11, strong loan growth is likely to help Axis Bank register NIMs of 3.4% in FY11e and 3.5% in FY12e.
- **Healthy NPA coverage and asset quality.** Total re-structured assets at Rs21.5bn (1.8% of loans) seem to have peaked. In 1QFY11, Rs300m in loans was re-structured; management expects 25% of re-structured loans to turn into NPAs. Hence, credit costs are likely to remain high in FY11, though lower than estimated earlier. However, the bank has adequate NPA coverage (76.6%) and healthy asset quality (net NPAs at 0.35%).
- **Valuation.** At our target price of Rs1,623, the stock would trade at 3.5x FY11e and 3x FY12e BV. Upgrade to Buy from Sell.

Key data	AXSB IN / AXBK.BO
52-week high/low	Rs1,349/705
Sensex/Nifty	17910/5379
3-m average volume	US\$49.8m
Market cap	Rs548bn/US\$11.7bn
Shares outstanding	407.2m
Free float	62.3%
Promoters	37.7%
Foreign Institutions	44.0%
Domestic Institutions	6.5%
Public	11.7%

Quarterly results

Year end 31 Mar	1QFY09	1QFY10	% yoy	FY09	FY10	% yoy
Net interest income (Rsm)	10,456	15,138	44.8	36,862	50,045	35.8
Non-interest income (Rsm)	9,586	10,008	4.4	28,969	39,458	36.2
Operating expenses (Rsm)	8,278	10,645	28.6	28,582	37,097	29.8
Cost-Income (%)	41.3	42.3	103	43.4	41.4	(197)
Pre-provisioning profit (Rsm)	11,764	14,501	23.3	37,249	52,406	40.7
Provisions(Rsm)	3,153	3,330	5.6	9,397	13,892	47.8
PBT (Rsm)	8,611	11,171	29.7	27,852	38,514	38.3
Tax (Rsm)	2,990	3,752	25.5	9,698	13,368	37.8
PAT (Rsm)	5,620	7,419	32.0	18,154	25,145	38.5
EPS (Rs)	15.5	18.0	15.8	50.6	62.1	22.7

Source: Company, Anand Rathi Research

Financials

Year end 31 Mar	FY11e	FY12e
Net interest income (Rsm)	67,363	90,448
Net profit (Rsm)	31,432	42,109
EPS (Rs)	77.1	103.4
Growth (%)	24.3	34.0
PE (x)	17.4	13.0
PABV (x)	3.0	2.5
RoE (%)	18.0	20.6
RoA (%)	1.5	1.6
Dividend yield (%)	1.1	1.5
Net NPA (%)	0.3	0.2

Source: Anand Rathi Research

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Canara Bank

1QFY11 – Raise estimates, target price; upgrade to Hold

Rating: **Hold**

Target Price: Rs550

Share Price: Rs479

- **Raise target price and estimates.** We upgrade Canara Bank to Hold from Sell, and raise FY11e and FY12e EPS 13.2% and 10.4% respectively, owing to a healthy 1QFY11 performance. We value the stock at 12-month forward ABV of 1.5x (FY11 ABV of 1.2x earlier) on account of improved RoE; we raise our target price to Rs550 from Rs379.
- **Net profit up 82.5%.** Robust net interest income growth (33.8% yoy) and lower provisions (34.5% yoy decline) aided net profit growth. Trading gains stood at Rs2.24bn, up 695% yoy.
- **Business growth decent, but limited scope for NIM expansion.** Robust growth in credit (23.5% yoy) and deposits (23.3% yoy) was complemented by NIM expansion of 31bp yoy to 3.1%. However, CASA share, at 29% of deposits, is the lowest among peers. As the bank is dependent on wholesale funding, margins can come under pressure in a rising interest rate environment. We see little scope for margin expansion and expect a flat (~2.5%) NIM over FY10-12.
- **Improving coverage and asset quality, but high credit costs.** Gross NPAs declined 1.6% qoq, with NPA coverage (including technical write-offs) at 78%. In FY10, investment depreciation write-backs compensated for high NPA provisions. Credit costs of 87bps in FY11 & 76bps in FY12 are likely to limit profitability.
- **Valuation.** At our target price, Canara would trade at FY11e PBV of 1.3x and FY12e BV of 1.1x.

Key data	CBK IN / CNBK.BO
52-week high/low	Rs484/252
Sensex/Nifty	17956/5394
3-m average volume	US\$7.1m
Market cap	Rs196bn/US\$4.2bn
Shares outstanding	410m
Free float	26.8%
Promoters	73.2%
Foreign Institutions	11.0%
Domestic Institutions	10.3%
Public	5.5%

Quarterly results

Year end 31 Mar	1QFY10	1QFY11	% yoy	FY09	FY10	% yoy
Net interest income (Rsm)	12,915	17,278	33.8	47,178	56,805	20.4
Non-interest income (Rsm)	4,736	7,340	55.0	23,112	28,579	23.7
Operating expenses (Rsm)	7,237	9,785	35.2	30,653	31,775	3.7
Cost-Income (%)	41.0	39.7	(126)bps	43.6	37.2	(639)bps
Pre-provisioning profit (Rsm)	10,413	14,833	42.4	39,638	53,609	35.2
Provisions (Rsm)	3,360	2,200	(34.5)	13,914	15,394	10.6
PBT (Rsm)	7,053	12,634	79.1	25,724	38,215	48.6
Tax (Rsm)	1,500	2,500	66.7	5,000	8,000	60.0
PAT (Rsm)	5,553	10,134	82.5	20,724	30,215	45.8
EPS (Rs)	13.5	24.7	82.5	33.4	64.9	94.1

Source: Company, Anand Rath Research

Financials

Year end 31 Mar	FY11e	FY12e
Net interest income (Rsm)	69,141	83,610
Net profit (Rsm)	31,663	39,508
EPS (Rs)	77.2	96.4
Growth (%)	4.8	24.8
PE (x)	6.2	5.0
PABV (x)	1.5	1.2
RoE (%)	19.8	20.8
RoA (%)	1.1	1.2
Dividend yield (%)	2.2	2.8
Net NPA (%)	1.2	0.9

Source: Anand Rath Research

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16 July 2010

Polaris Software

Healthy deal flow, but marred by weak margin; maintain Buy

Rating: Buy

Target Price: Rs235

Share Price: Rs193

- Deal flow strong, though margin a big disappointment.** Polaris Software's order book remains healthy, with 23 new deals won in the quarter, of which 16 were in the products business. PAT was in line with our estimate, aided by other income and forex gain. However, EBITDA margin dropped a whopping 320bp qoq in 1QFY11, on account of significant wage hikes. We reduce our target price to Rs235 (from Rs250); maintain Buy.
- Key points.** Polaris' overall revenue grew 2.7% qoq (rupee) and 3.3% (US dollar) in 1QFY11. Revenue from product business stood at 23%. Consolidated net profit increased 1.9% qoq. Geographically, America grew 1.5%, while India and Europe were down 1.5% and 0.5% respectively.
- FY11 guidance maintained.** Management has maintained FY11 EPS guidance of Rs20.2-20.5, which is a growth of 31-33%.
- Strong balance sheet and cash flow to aid business.** Polaris has cash and liquid assets of Rs5.2bn (Rs53/share). With low capex, we expect liquidity to improve further, helping inorganic growth. Debtor days have risen to 47 from 45 earlier.
- Valuation.** Our revised target price of Rs235 comprises Rs200 (at target FY11e PE of 12x on core EPS of Rs16.5) and Rs35 (valuing the cash above the average peer cash holding). Our target PE is at 40% discount to the average of large-cap IT stocks (FY11e PE of 19.5x).

Key data	POL IN / POLS.BO
52-week high/low	Rs215/ Rs88
Sensex/Nifty	17909/5379
3-m average volume	US\$3.9m
Market cap	Rs19.1bn/US\$410m
Shares outstanding	98.9m
Free float	70.92%
Promoters	29.08%
Foreign Institutions	10.96%
Domestic Institutions	28.02%
Public	31.94%

Quarterly results

Year-end 31 Mar	1QFY10	1QFY11	% yoy	FY09	FY10	% yoy
Sales (Rsm)	3,255	3,606	10.8	13,779	13,538	(1.8)
EBITDA (Rsm)	552	482	(12.7)	2,335	2,172	(7.0)
EBITDA margin (%)	17.0	13.4	(360)bps	16.9	16.0	(90.3)
Interest (Rsm)	2	2	37.6	7	9	23.9
Depreciation (Rsm)	84	78	(7.5)	505	350	(30.7)
Other income(Rsm)	(90)	142	NM	(316)	(73)	NM
PBT (Rsm)	376	544	44.6	1,507	1,740	15.5
Tax (Rsm)	58	79	36.2	209	255	22.4
Tax rate (%)	15.3	14.4	(89)bps	13.8	14.7	83
PAT (Rsm)	318	466	46.4	1,307	1,480	13.2

Source: Company, Anand Rathi Research

Financials

Year-end 31 Mar	FY11e	FY12e
Sales (Rsm)	15,253	17,519
Net profit (Rsm)	1,923	2,195
EPS (Rs)	19.2	22.0
Growth (%)	28.3	14.2
PE (x)	10.0	8.8
PBV (x)	1.9	1.6
RoE (%)	20.4	20.1
RoCE (%)	23.9	25.8
Dividend yield (%)	2.4	3.1
Net gearing (%)	(53.5)	(60.4)

Source: Anand Rathi Research

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18 July 2010

Derivatives

- Index.** Trading was reminiscent of Thursday held within a 26pt range as spot managed a close just below 5400.
- Nifty Futures.** Participation was thin at 13.5m share (down 27%). Futures saw carry-forward of +1.1m share in OI. Premiums were static in both series.
- Nifty Options.** Major additions occurred in the O-T-M July 5300PE (+0.6m share) and the A-T-M 5400PE (+0.4m share), while call additions occurred at 5400CE-5600CE (+0.3m share a piece). Implied volatilities remained in-line with thursday. Significant OI is seen in the July 5400-5500CEs (7.8m & 10.2m share respectively) and the 5200-5300PEs (8.3m & 8.8m share respectively).
- Institutional Activity.** FIIs remained net buyers of Rs.6.8bn, while DFIs were net sellers of Rs2.8bn in the provisional cash segment. FIIs index future activity saw fresh shorts (-0.2m share) outstripping fresh long (-0.1m share).
- Index View.** The current move can be labeled as a corrective correction (the uptrend will negate only below 5200 when the series of higher tops and lows will be broken) with near term support levels of 5300-5350. Also, on the flipside the upsides for the July contract could well remain capped at 5500.

Futures Open Interest

Rs629bn

Index Highlights

Nifty	16 July 10	15 July 10
Spot	5393.9	5381.6
Near Fut.	5398.3	5386.8
Mid Fut.	5404.6	5390.7
Near Basis	+4.4	+2.9
Mid Basis	+10.7	+8.0
Near OI (m sh)	33.0	32.2
Mid OI (m sh)	2.8	2.5

Sentiment Indicators

Particulars	16 July 10	15 July 10
PCR OI	1.4	1.4
PCR Vol.	1.2	1.3
Historical Volt.	18.5	19.0
IV Call	15.1	15.8
IV Put	19.1	19.6

Nifty Open Interest Gainers

Symbol	Price (%)	Fut OI (%)
TCS	+6.6	18.9
ABB	+0.3	9.3
Kotak Bank	+3.0	8.6
IDFC	+2.3	7.3
Axis Bank	+0.5	6.5

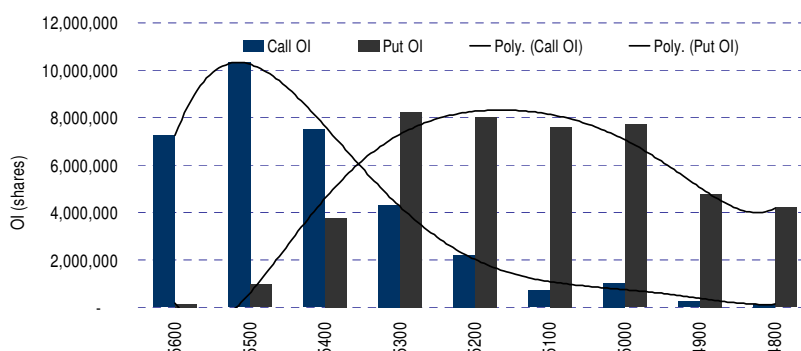
Nifty Open Interest Losers

Symbol	Price (%)	Fut OI (%)
HCL Tech	+4.4	10.9
ONGC	+1.8	2.9
JP Ass	+1.0	2.3
Rel Cap	+0.7	1.8
BPCL	+0.7	1.0

FII F&O Net Activity (Rs bn)

Symbol	16 July 10	15 July 10
Ind. Futures	-0.7	-4.6
Ind. Options	6.6	13.9
Stk. Futures	4.2	-1.8
Stk. Options	-0.3	-0.3
Net (Rs bn)	+9.9	+7.3

Nifty Option O.I. Distribution



Source: BSE, Anand Rathi Research

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Quarterly Results Monitor

Company Name	Result Date	Est. PAT (Rsm)	YoY (% chg)	QoQ (% chg)	Act. PAT (Rsm)	Act/ Est (% chg)	Company Name	Result Date	Est. PAT (Rsm)	YoY (% chg)	QoQ (% chg)	Act. PAT (Rsm)	Act/ Est (% chg)
IndusInd Bank	7-Jul-10	1,171	35.4	19.6	1,186	1.2	G A I L (India)		8,284	26.3	(9.1)		
Infosys Techn	13-Jul-10	15,730	3.0	0.9	14,880	(5.4)	GMR Infrastructure		126	(43.9)	(82.7)		
HDFC	14-Jul-10	7,135	26.3	(23.0)	6,946	(2.6)	Godrej consumer		852	22.2	(7.2)		
Infotech Enterp	14-Jul-10	374	(19.1)	(27.1)	329	(12.1)	Grasim Industries		5,926	(31.6)	(1.7)		
South Indian Bank	14-Jul-10	677	12.6	75.3	584	(13.7)	GSK Consumer		641	16.2	(33.3)		
Axis Bank	15-Jul-10	6,650	18.3	(13.1)	7,419	11.6	HDIL		1,568	45.9	(11.8)		
Polaris Software	15-Jul-10	467	46.8	2.2	466	(0.3)	Hindustan Constr		287	(7.8)	(27.3)		
TCS	15-Jul-10	18,129	19.2	(6.1)	18,442	1.7	Hindustan Unilever		5,115	(4.7)	21.3		
Canara Bank	17-Jul-10	6,499	17.0	29.2	10,134	55.9	HSIL		121	400.4	(61.0)		
Crompton Greaves	19-Jul-10	1,735	8.2	(35.8)			I T C		9,305	5.9	(9.5)		
H D F C Bank	19-Jul-10	8,078	33.3	(3.4)			Idea Cellular		1,786	(39.9)	15.4		
Birla Corp.	21-Jul-10	1,111	(28.5)	(19.2)			IDFC		3,277	20.3	43.7		
TVS Motor	21-Jul-10	467	153.4	(13.0)			India Cements		310	(78.5)	(19.2)		
A C C	22-Jul-10	3,554	(26.8)	(12.3)			IVRCL Infra		448	27.6	(47.5)		
Ambuja Cements	22-Jul-10	4,140	27.5	(6.4)			J Kumar Infra		161	30.0	(22.5)		
Bajaj Auto	22-Jul-10	5,823	87.6	3.4			Jaiprakash Associ		2,269	4.0	(7.6)		
IDBI Bank	22-Jul-10	2,384	38.8	(25.1)			Larsen & Toubro		6,603	16.0	(51.0)		
P N B	22-Jul-10	10,367	24.6	(8.7)			Marico		696	16.0	20.1		
Areva T&D	23-Jul-10	595	13.4	1614.8			N T P C		23,929	9.1	18.6		
BHEL	23-Jul-10	5,972	26.9	(68.7)			NCC		474	24.0	(23.8)		
HPCL	23-Jul-10	4,080	(37.1)	(46.1)			Nestle		1,814	9.3	(10.1)		
Wipro Ltd.	23-Jul-10	12,119	19.9	(0.1)			Nitin Fire		174	76.7	12.2		
IOC	24-Jul-10	12,905	(65.0)	(76.8)			OIL India		6,892	(6.8)	59.9		
Maruti Suzuki India	24-Jul-10	6,867	17.7	4.6			ONGC		36,276	(25.2)	8.8		
Tech Mahindra	26-Jul-10	1,913	36.5	(15.7)			Orient Paper & Inds.		337	0.6	(38.6)		
Union Bank	26-Jul-10	4,739	7.2	(20.1)			Patni		1,341	(2.0)	(10.4)		
Ashok Leyland	27-Jul-10	1,324	(451.7)	(40.6)			Petronet LNG		1,074	4.0	10.4		
Cairn India	27-Jul-10	6,668	1366.4	171.9			Power Grid		4,883	(10.7)	(21.8)		
Allied digital	28-Jul-10	320	40.7	3.2			Pratibha		201	43.6	(4.1)		
M & M	28-Jul-10	5,097	27.2	(11.0)			Reliance Capital		1,159	(23.3)	73.4		
Sun Pharma	28-Jul-10	3,931	165.2	3.6			Reliance Comm		3,929	(59.8)	(20.6)		
Bank of Baroda	29-Jul-10	7,666	11.9	(15.4)			Reliance Industries		46,487	27.9	(1.3)		
Elgi Equipments	29-Jul-10	149	52.3	39.0			Reliance Power		728	(72.3)	(21.2)		
H C L Techn	29-Jul-10	3,288	(0.5)	(4.4)			Rohta India		691	(9.4)	3.0		
Hero Honda	29-Jul-10	5,715	14.3	(4.6)			Sanghvi Movers		257	12.6	3.3		
UltraTech Cement	29-Jul-10	2,349	(43.8)	2.8			Shree Cement		1,483	(49.1)	(307.7)		
A B B	30-Jul-10	1,418	69.7	96.5			Siemens		2,057	22.5	13.6		
BPCL	30-Jul-10	4,217	(31.3)	(16.5)			Simplex Infra		374	45.9	(18.5)		
I C I C I Bank	31-Jul-10	10,118	15.2	0.6			State Bank Of India		24,472	5.0	31.1		
Ranbaxy Lab	12-Aug-10	1,818	(73.8)	(35.3)			Suzlon Energy		459	(110.3)	(124.3)		
Mphasis	25-Aug-10	2,649	15.5	(0.9)			Tata Motors		3,817	90.8	(17.0)		
Aban Offshore		1,482	79.2	731.7			Tata Power Co.		4,811	(12.9)	4.0		
Ackruti City		748	646.6	38.1			Tulip Telecom		777	61.5	1.8		
Asian Paints		2,144	19.1	0.3			Unitech		1,782	12.9	(0.7)		
Bank of India		5,952	1.9	39.1			Welspun Gujarat		1,700	51.9	2.0		
BGR Energy		265	30.8	(75.6)			Yes Bank		1,485	48.4	6.0		
Bharti Airtel		18,529	(26.4)	(9.8)									
C B I		2,998	12.4	74.6									
Cipla		2,833	17.2	(3.2)									
Colgate		1,149	11.8	0.4									
Core Projects		511	26.6	26.6									
D L F		3,836	(3.1)	(25.3)									
Dabur		1,140	25.2	(14.3)									
Emami		153	666.7	(68.5)									
Era Constructions		709	34.2	14.0									
Everest Kanto		88	(65.3)	(69.5)									

Source: Anand Rathi Research, *Bloomberg estimates

Appendix 1

Analyst Certification

The views expressed in this research report accurately reflect the personal views of the analyst(s) about the subject securities or issuers and no part of the compensation of the research analyst(s) was, is, or will be directly or indirectly related to the specific recommendations or views expressed by the research analyst(s) in this report.

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	Buy	Hold	Sell
Large Caps (>US\$1bn)	>20%	5-20%	<5%
Mid/Small Caps (<US\$1bn)	>30%	10-30%	<10%

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	Buy	Hold	Sell
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% who are investment banking clients	8%	0%	0%

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