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Weekly Review

January 29, 2011

Markets fall substantially

The Indian stock market fell substantially through the truncated week of trading, with the Sensex and the Nifty losing 3.2% of their value each. The highlight of the week was the monetary policy announced by the RBI, in which the central bank increased the repo and reverse repo rates by 25bp each in a bid to curb rising inflation. BSE mid-cap and small-cap indices were even more hit, compared to large-cap indices during the week, falling 4.1% and 4.5%, respectively. On the sectoral front, the BSE realty was the biggest loser, falling 8.6%, followed by the BSE HC index, down 5.3%. The BSE IT index was relatively better than the others, losing 2.5% of its value during the week.

Reality index underperforms the Sensex

The realty index sharply fell by 8.6%, widely underperforming the Sensex, which was down by 3.2% for the week. The top losers in the sector were HDIL (12.0%), DLF (11.6%), Unitech (10.8%), DB realty (9.8%) and Ackruti City (7.8%). The underperformance can be attributed to apprehensions of drying-up of liquidity to the sector; increased cost of raising funds post the land scam and monetary tightening by the RBI; and low affordability hitting demand in key metros.

Inside This Weekly

RBI Monetary Policy Review: In the 3QFY2011 Monetary Policy Review, the RBI hiked repo and reverse repo rates by 25bp each to 6.5% and 5.5%, respectively, in order to contain the runaway inflation. With the tight liquidity situation in mind, the central bank kept the SLR and CRR unchanged.

Alembic - 3QFY2011 Result Update: For 3QFY2011, Alembic posted strong 21.6% yoy growth in revenue at ₹365cr (₹300cr), higher than our estimates of ₹321cr. OPM came in at 15.9%, compared to 10.3% in the comparative quarter. Net profit stood at ₹30.8cr (₹13.5cr), driven by better-than-expected revenue growth and margin expansion during the quarter. **Factoring in the encouraging growth and visibility, we have revised our estimates and recommend Buy on the stock with a revised Target Price of ₹92.**

HDFC Bank - 3QFY2011 Result Update: For 3QFY2011, HDFC Bank reported 19.3% qoq and 32.9% yoy growth in net profit to ₹1,088cr, in line with our estimate of ₹1,091cr. However, operating income surpassed our estimate, which was offset by higher provisioning expenses, which aided in further improving the provision coverage ratio. **We maintain our Buy recommendation on the stock with a Target Price of ₹2,499.**

ONGC - 3QFY2011 Result Update: For 3QFY2011, ONGC's bottom line spiked by 132% yoy to ₹7,083cr (₹3,054cr), which was substantially higher than our estimate of ₹5,475cr on account of lower-than-expected DD&A costs and gas pool receipts. **We recommend Buy on the stock with an SOTP-based Target Price of ₹1,400, translating into an upside of 23.3% from current levels.**

FII activity

As on	Cash (Equity)	Futures	(₹ cr) Net Activity
Jan 21	38	(696)	(658)
Jan 24	195	288	483
Jan 25	428	709	1,137
Jan 27	(1,397)	(1,212)	(2,609)
Net	**(737)**	**(911)**	**(1,648)**

Mutual Fund activity (Equity)

As on	Purchases	Sales	(₹ cr) Net Activity
Jan 20	500	429	71
Jan 21	789	526	263
Jan 24	538	589	(52)
Jan 25	600	907	(308)
Net	**2,426**	**2,451**	**(25)**

Global Indices

Indices	Jan. 21, 11	Jan. 28, 11	Weekly (% chg)	YTD
BSE 30	19,008	18,396	(3.2)	5.3
NSE	5697	5512	(3.2)	6.0
Nasdaq	2,690	2,687	(0.1)	18.4
DOW	11,872	11,824	(0.4)	13.4
Nikkei	10,275	10,360	0.8	(1.8)
HangSeng	23,877	23,617	(1.1)	8.0
Straits Times	3,185	3,230	1.4	11.5
Shanghai Composite	2,716	2,753	1.4	(16.0)
KLSE Composite	1,548	1,522	(1.7)	19.6
Jakarta Composite	3,380	3,488	3.2	37.6
KOSPI Composite	2,070	2,108	1.8	25.3

Sectoral Watch

Indices	Jan. 21, 11	Jan. 28, 11	Weekly (% chg)	YTD
BANKEX	12,349	11,987	(2.9)	19.5
BSE AUTO	9,309	8,842	(5.0)	18.9
BSE IT	6,630	6,466	(2.5)	24.7
BSE PSU	8,792	8,637	(1.8)	(9.4)

RBI Monetary Policy Review

Back on the inflation trail

RBI hikes repo and reverse repo rates by 25bp each

- Hikes repo rate by 25bp to 6.5%
- Hikes reverse repo rate by 25bp to 5.5%
- Keeps cash reserve ratio unchanged at 6.0%
- Additional liquidity support under the LAF window up to 1% of NDTL extended till April 8, 2011

Focus on anchoring inflationary expectations: In April last year, we had set a target of 7% for the repo rate, citing a need for a front-ended increase in policy rates in this upcycle, following the sharp decline in policy rates post the Lehman crisis. While the RBI had continued to increase policy rates regularly up to 6.25% on the repo front, it took a pause in December 2010, as tight liquidity was leading to a naturally tight monetary environment.

However, as of December 2010, the WPI climbed once again to a high level of 8.4%. The contribution of food and textiles to the 8.4% WPI was 47%, while oil's contribution to overall inflation increased to 19%. Contribution of other items (having 55% weightage in the WPI index) increased to 34% in December 2010 due to increased prices of coal, metals, electricity and wood products among others, indicating that inflation is becoming more broad-based. In fact, the RBI itself has hiked its inflation projection by the end of FY2011 to 7%, way above its comfort zone. Moreover, while the RBI expects inflation to start moderating in 1QFY2012, it has noted upside risks to inflation as food inflation has remained at an elevated level for about two years and the prospect of it spilling over to the general inflation process is rapidly becoming a reality.

Therefore, resumption of monetary policy tightening by the RBI to anchor inflation expectations is appropriate at this juncture. Policy and broader interest rates are in any case well below peak levels, leaving ample scope for gradual monetary tightening, without adversely affecting the growth outlook.

Domestic supply-side inflation does not mean policy rates can be left unchanged: Though the problem of inflation seems to be more affected on account of supply-side issues; internationally, central banks have historically raised policy rates in the scenario of rising inflation even if economic growth is not so high. Hence, we believe the RBI will continue its gradual tightening of policy rates going forward, maintaining a hawkish stance.

Macro-fundamentals suggest possible rupee depreciation: The gap between savings and investments is being plugged by the high current account deficit at present. The RBI has expressed its concern over India's high current account deficit, which it expects would touch 3.5% of GDP for FY2011. In fact, combined with the fact that inflation is also likely to be as high as 7% for FY2011, both these macro parameters point towards a rupee depreciation in our view. We believe this could provide the much-needed impetus to export growth, leading to a more sustainable balance of payment situation. At the same time, this should help normalise the liquidity situation to an extent, as one of the missing sources of reserve money creation in this cycle so far has been net accretion in our forex reserves.

Upward bias for broader domestic interest rates: As on December 31, 2010, the yoy growth rate in credit stood at 24.4% compared to 18.0% in May 2010, much above the indicative projection of 20%. We expect credit growth to sustain above 19-20% for FY2011. At the same time, deposit growth has remained flattish at 16.5% yoy compared to 16.1% yoy during the corresponding period last year.

Almost all banks increased their retail fixed deposit rates (in most cases above 100bp) in 3QFY2011, leading to a ~200bp increase in deposit growth post that period. However, the gap between credit and deposit has kept liquidity in the deficit since September 2010. Accordingly, over the course of the year, we expect deposit and lending rates to remain on an upward trajectory.

Banking sector outlook - High CASA banks to outperform: On a relative basis, given the rising interest rates, we prefer banks with a high CASA ratio and lower-duration investment book. Broadly, this combination is available in large banks, viz. ICICI Bank, Axis Bank and SBI. We expect these banks to outperform on account of their strong core competitiveness and likelihood of credit and CASA market share gains, driven by strong capital adequacy and robust branch expansion. Generally, we expect mid-size banks to underperform on the net interest income front from 4QFY2011 and expect stock returns to reflect the same. Taking into account valuations, our top picks are Axis Bank, ICICI Bank and SBI among large-cap banks. Amongst smaller banks, we like Indian Bank, Dena Bank, Federal Bank and Jammu & Kashmir Bank.

Research Analyst - Vaibhav Agrawal/Shrinivas Bhutda

Alembic - Buy

Price - ₹69
Target Price - ₹92

3QFY2011 Result Update

Performance highlights

Y/E March (₹ cr)	3QFY11	2QFY11	% chg qoq	3QFY10	% chg yoy
Net Sales	**365**	**363**	***0.7***	**300**	***21.6***
Other Income	2	2	*10.1*	1	*67.3*
Operating Profit	58	43	*34.2*	31	*87.2*
Interest	8	7	*19.1*	7	*16.8*
Net Profit	**31**	**22**	***41.6***	**14**	***129.1***

Source: Company, Angel Research

Revenue beats estimates, led by domestic segment surprises: Alembic reported strong 21.6% yoy growth in revenues at ₹365cr (₹300cr) higher than our estimate of ₹321cr, driven by the domestic formulation business, which registered 20% yoy growth for the quarter to ₹184cr (₹153.5cr). We expect momentum in the company's domestic formulation business to continue going ahead too as the restructuring exercise is now showing positive results. Overall formulations segment recorded stellar growth of 34% to ₹251cr (₹187.5cr), contributing 67% to total revenues. The API segment recorded single-digit growth of 5% to ₹118cr (₹113cr), contributing 32% to the total revenues of the quarter.

Exports were however, subdued during the quarter with sales coming in at ₹116cr (₹112cr), up by a mere 3.3% impacted by the API segment. API exports de-grew by 37.2% yoy to ₹49cr (₹78cr). However, formulation export sales grew by a healthy 97% to ₹67cr (₹34cr) driven by the regulated markets. The cumulative ANDA filings stand at 32, cumulative DMFs at 43 with 1 ANDA and 4 new DMFs filed during the quarter. Cumulative approvals stand at 14.

Strong EBIDTA margins, above expectations: Alembic reported OPM of 15.9% (10.3%) led by the strong growth in the high-margin formulation business.

Net profit rises 129% driven by revenue growth and margin expansion: Alembic recorded net profit of ₹30.8cr (₹13.5cr) an increase of 129%.

Key developments during the quarter

- The company is awaiting approval of its scheme of re-arrangement from the high court of Gujarat. It however, expects to list Alembic Pharma by March 2011.
- The chronic segment contributes 40% of the domestic portfolio of the company.
- Management indicated the company currently has 2,700 medical representatives (MR's) in the ratio of 70:30 for the acute and chronic segments. It expects to add ~600 MR's next year.
- Alembic has commercialized 7 products in the US market and filed for one during the quarter. During FY2011-12, it expects to launch another 2-3 products in the US.

Outlook and Valuation

To factor in the encouraging growth and visibility post the restructuring exercise undertaken by the company which has started showing results, we have revised our estimates upwards along with the revision of the target price. We have valued Alembic on SOTP basis wherein we have valued Alembic Pharma at ₹62/share, Alembic's 30% stake in Alembic Pharma fetches ₹15/share and the loss-making API business fetches ₹4/share. We have conservatively valued the land asset of 70 acres at ₹500/sq. ft resulting in ₹11/share. **Our revised Target Price works out to ₹92 (₹74) and hence we recommend a Buy.**

Key Financials (Conslidated)

Y/E March (₹ cr)	FY2009	FY2010	FY2011E	FY2012E
Net Sales	**1,116**	**1,138**	**1,329**	**1,513**
% chg	*11.2*	*2.0*	*16.8*	*13.8*
Net Profit	**11**	**40**	**100**	**126**
% chg	*(90.3)*	*265.1*	*152.4*	*26.6*
EPS (₹)	**0.8**	**3.0**	**7.5**	**9.5**
EBITDA Margin (%)	11.2	9.9	14.0	15.0
P/E (x)	87.3	23.3	9.2	7.3
RoE (%)	16.0	11.3	24.6	25.7
RoCE (%)	11.1	7.3	17.6	20.6
P/BV (x)	2.9	2.5	2.1	1.7
EV/Sales (x)	1.3	1.2	1.0	0.8
EV/EBITDA (x)	11.2	13.2	6.9	5.4

Source: Company, Angel Research; Price as on January 28, 2011

Research Analyst - Sarabjit Kour Nangra /Poonam Sanghavi

Bank of India - Accumulate

Price - ₹461
Target Price - ₹500

3QFY2011 Result Update

Performance highlights

Particulars (₹ cr)	3QFY11	2QFY11	% chg qoq	3QFY10	% chg yoy
NII	1,987	1,776	11.9	1,495	32.9
Pre-prov profit	1,389	1,380	0.7	1,130	22.9
PAT	653	617	5.9	405	61.1

Source: Company, Angel Research

For 3QFY2011, Bank of India posted robust net profit growth of 61.1% yoy to ₹653cr, in line with our estimates of ₹669cr. Strong improvement in NIM coupled with lower slippages were the key highlights of the result.

Advances growth below industry; deposits growth higher: For 3QFY2011, the bank's net advances grew by 6.2% qoq and 22.8% yoy, which was lower than industry growth of 9.2% qoq and 24.4% yoy. Deposits registered growth of 4.8% qoq and 22.6% yoy. Domestic gross advances grew by 4.3% qoq and 22.9% yoy and the overseas gross loan book registered strong growth of 13.8% qoq and 22.4% yoy. Demand for domestic loans was primarily driven by corporates (up 47.2% yoy). Amongst corporates, demand was strong from the infrastructure segment (accounting for 13.3% of the domestic loan book), which grew by 54.1% yoy, and the rubber and plastic products segment, which grew by 56.7% yoy. Agricultural advances increased by 16.4% yoy, while the SME segment registered a decline of 9.1% yoy.

NIMs improve qoq due to higher yields and stable cost of funds: CASA deposits increased by 22.2% yoy, driven by strong growth in savings deposits of 26.1% yoy and an 8.2% yoy increase in current account deposits. The domestic CASA ratio declined to 32.3% from 33.2% in 2QFY2011. Global reported NIM improved by 28bp sequentially to 3.09% in 3QFY2011, due to a 31bp and 45bp qoq increase in yield of advances and yield on investments, respectively. The bank had raised its base rate by 100bp (one of the highest amongst peers) to 9% during 3QFY2011. Cost of deposits for the bank declined marginally by 2bp sequentially to 4.97%. Consequently, NII came in better than our estimates, registering healthy 11.9% qoq and 32.9% yoy growth to ₹1,987cr.

For 4QFY2011, management expects to sustain NIM at current levels, with likely pressure from 1HFY2012-when large part of deposits comes up for re-pricing. Further, to sustain or improve NIMs, the bank is planning to focus on the mid-corporate, SME and retail segments, where the yields are relatively higher.

Healthy non-interest income growth due to higher recoveries: Non-interest income grew by 13.4% yoy to ₹648cr due to lower treasury gains (down 12.2% yoy). However, non-interest income excluding treasury grew by healthy 28.6% yoy to ₹462cr on the back of almost doubling of recoveries from written-off accounts to ₹66cr and slightly muted 12.6% yoy growth in fee income.

Asset quality improves due to lower slippages and one-off upgradation: During 3QFY2011, asset quality improved considerably with slippages coming down to ₹477cr compared to average quarterly slippages of ~₹720cr in 1HFY2011. Annualised slippage ratio for the quarter fell to 1.1% from 1.7% for 1HFY2011 and 2.9% for FY2010. Construction, engineering and gems and jewellery were the major contributors to slippages from the corporate segment. Improvement in asset quality was partly aided by large upgradations of ₹611cr, bulk of which were one-offs. Consequently, gross and net NPA ratios improved to 2.4% (2.6% in 2QFY2011) and 0.9% (1.1% in 2QFY2011), respectively. Provision coverage ratio including technical write-offs improved to 74.5% from 70.0% in 2QFY2011.

Outlook and valuation

The bank's RoEs are expected to improve over the coming quarters on the back of declining NPA provisions (as witnessed in 3QFY2011). At ₹461, the stock is trading at 1.4x FY2012E ABV. **We maintain our Accumulate recommendation on the stock with a Target Price of ₹500.**

Key Financials

Y/E March (₹ cr)	FY2009	FY2010	FY2011E	FY2012E
NII	5,499	5,756	7,550	8,140
% chg	30.0	4.7	31.2	7.8
Net Profit	3,007	1,741	2,805	3,241
% chg	49.7	(42.1)	61.1	15.6
NIM (%)	2.8	2.4	2.6	2.4
EPS (₹)	57.2	33.1	53.3	61.6
P/E (x)	8.1	13.9	8.7	7.5
P/ABV (x)	2.1	2.1	1.6	1.4
RoA (%)	1.5	0.7	0.9	0.9
RoE (%)	29.2	14.2	20.2	19.9

Source: Company, Angel Research; Price as on January 21, 2011

Research Analyst - Vaibhav Agrawal/Shrinivas Bhutda

Bajaj Electricals - Accumulate

Price - ₹217
Target Price - ₹248

3QFY2011 Result Update

Performance highlights

Y/E March (₹ cr)	3QFY11	2QFY11	% chg qoq	3QFY10	% chg yoy
Net Sales	**690**	**588**	***17.3***	**592**	***16.4***
EBITDA	71	45	*59.0*	61	*16.5*
EBITDA margin (%)	10.3	7.6		10.3	
PAT	**40**	**23**	***73.1***	**34**	***18.7***

Source: Company, Angel Research

For 3QFY2011, Bajaj Electricals (BEL) posted top-line growth of 16.4% at ₹690cr (₹592cr), which was above our estimate of ₹666cr. OPM at 10.3% (10.3%) came below our estimate of 11.8%. Net profit increased by 18.7% yoy to ₹40.5cr (₹34.1cr) and came in below our estimate, owing to suppressed OPM and higher interest costs. During the quarter, interest cost rose to ₹9.3cr. For FY2011 and FY2012, on account higher sales, we have revised upwards our top-line estimates from ₹2,686cr and ₹3,241cr to ₹2,733cr to ₹3,285cr and margin estimates lower from 10.2% and 10.6% to 10.0% and 10.4%, respectively. We are rolling over to FY2013 numbers.

Top-line remains robust on impressive consumer durables performance: Sales for the quarter were again driven by a strong 33.9% yoy growth in the Consumer Durables business. Lighting division also performed well with 17.1% yoy growth, while the E&P business sales came in flat. OPM was below expectations at 10.3%, as the E&P division recorded a 249bp yoy decline in margins to 9.4% (11.9%), although it was a remarkable improvement from 3.1% that it posted in 2QFY2011. Going ahead, margins are expected to hover at these levels.

Segment-wise performance: The lighting segment reported a growth of 17.1% yoy to ₹168cr (₹144cr). EBIT margins for the quarter improved by 32bp to 4.4% (4.0%).

The consumer durables segment continued to perform well recording 33.9% yoy growth in top-line to ₹332cr (₹248cr). The segment is witnessing robust demand in both the appliances as well as fans business units (BUs). The company continues to focus on network expansion, marketing and product innovation to drive its growth in this segment. The segment reported strong EBIT margins at 13.0% (12.4%), increasing by 58bp.

The E&P division, though, reported flat sales of ₹189cr (₹189cr). Margins for this segment fell 249bps to 9.4% (11.9%). Going ahead, this division is expected to perform better, as orders for its Transmission Line Towers (TLT) business start coming in.

Management con-call - Key takeaways

- The E&P business order book currently stands at ₹1,050cr. Of this, the lighting projects business is ₹121cr, rural electrification ₹320cr, high mast and street light ₹120cr and the transmission line towers ~₹515cr.
- Recently, BEL received 12 orders worth ₹75cr in packages and is well placed in tenders worth ₹350cr. The company is expecting substantial order inflow in February or March 2011.
- Over the last nine months, the company hiked prices by ~5.0% across its product portfolio.

Outlook and Valuation

We maintain our positive stance on the company given the strong growth in the consumer durables segment and the improving prospects of the E&P division. We expect sales to post a CAGR of 20.9% over FY2010-13 to ₹3,935cr. However, we have revised downwards our OPM estimates for FY2011 and FY2012 to 10.0% and 10.4% respectively, while we estimate OPM of 10.4% for FY2013. We expect PAT to register CAGR of 27.0% to ₹245cr over FY2010-13. At ₹217, the stock is trading at 10.8x FY2012E and 8.9x FY2013E EPS. **We recommend an Accumulate on the stock, with a Target Price of ₹248.**

Key Financials

Y/E March (₹ cr)	FY2010	FY2011E	FY2012E	FY2013E
Net Sales	**2,227**	**2,733**	**3,285**	**3,935**
% chg	*26.1*	*22.7*	*20.2*	*19.8*
Net Profit	**112**	**157**	**201**	**245**
% chg	*22.4*	*40.9*	*28.2*	*21.8*
EBITDA (%)	10.5	10.0	10.4	10.4
EPS (₹)	**11.7**	**15.7**	**20.1**	**24.5**
P/E (x)	18.6	13.8	10.8	8.9
P/BV (x)	4.3	3.5	2.8	2.2
RoE (%)	31.7	28.5	29.3	28.4
RoCE (%)	40.4	36.2	37.5	37.8
EV/Sales (x)	1.0	0.8	0.7	0.5
EV/EBITDA (x)	9.5	8.0	6.3	5.2

Source: Company, Angel Research; Price as on January 28, 2011

Research Analyst - Jai Sharda

CEAT - Buy

Price - ₹117
Target Price - ₹163

3QFY2011 Result Update

Performance highlights

Y/E March (₹ cr)	3QFY11	3QFY10	% chg yoy	2QFY11	% chg qoq
Net sales	**895**	**715**	**25.2**	**843**	**6.3**
EBITDA	41	48	*(14.4)*	44	*(5.5)*
EBITDA margin (%)	4.6	6.8	*(215)bp*	5.2	*(57)bp*
Reported PAT	**5**	**24**	***(79.1)***	**15**	***(67.2)***

Source: Company, Angel Research

For 3QFY2011, Ceat reported a substantial 79.1% yoy fall in net profits, owing to a sharp contraction in operating margins. While the top line reported strong 25.2% yoy growth, following robust OEM volumes, EBITDA margins continued to get impacted by soaring raw-material costs, especially that of natural rubber. We revise our earnings estimates marginally downwards to account for the high rubber prices, which will substantially affect operating margins.

Top line up 25.2%: Ceat reported turnover of ₹895cr (₹715cr) for 3QFY2011, up 25.2% yoy, aided by 77.5% yoy growth in OEs and about 16.5% yoy growth in replacement sales. The domestic market, following recovery in the industrial cycle, registered 24.2% yoy growth in 3QFY2011. Exports recorded 40.2% yoy and 24.5% qoq growth post weak performance in FY2010.

OPM at 4.6% : Ceat reported operating profit of ₹41.5cr (₹48.5cr) for 3QFY2011, a decline of 14.4% yoy and 5.5% qoq, primarily due to the spurt in rubber prices, which resulted in a substantial 726bp yoy increase in raw-material cost at 70.4% (63.2%) of sales in 3QFY2011. However, 70bp, 382bp and 56bp yoy reduction in staff cost, purchase of traded goods and other expenditure, respectively, prevented further erosion in margins. OPM for the quarter stood at 4.6% (6.8%).

Net profit dips 79.1% yoy; NPM at 0.6%: Ceat posted a 79.1% yoy and 67.2% qoq decrease in net profit to ₹5cr (₹24cr) during the quarter, primarily on account of operating margin contraction. Further, higher interest and depreciation expense during the quarter led to a decline in net profit. As a result, net profit margin contracted by 280bp yoy to 0.6% (3.4%). However, adjusting for one-time costs towards voluntary retirement compensation (₹7.8cr), net profit was down 47% yoy.

Outlook and valuation

The tyre industry, during FY2010, benefited largely from the substantial decline in raw-material prices and spike in replacement demand. Going ahead, OEM and replacement demand would continue on overall better auto industry volume growth. However, the recent run up in raw-material prices is expected to exert pressure on OPMs and, hence, we revise our earnings estimates marginally downwards. We estimate the company to report EPS of ₹14.6 in FY2011E and ₹34 in FY2012E.

At ₹117, Ceat is trading at 8.0x FY2011E and 3.4x FY2012E earnings. **On account of the recent fall in the stock price, valuations have turned attractive and we recommend Buy on the stock with a Target Price of ₹163. At our target price, the stock would trade at 4.8x, 5.2x and 0.7x FY2012E EPS, EV/ EBITDA and P/BV, respectively.**

Key downside risk to our call: Rise in input costs, increasing competitive intensity with major players diversifying globally and lower-than-anticipated growth in tyre offtake pose downside risks to our estimates.

Key Financials

Y/E March (₹ cr)	FY2009	FY2010	FY2011E	FY2012E
Net sales	**2,518**	**2,805**	**3,393**	**3,864**
% chg	*8.2*	*11.4*	*21.0*	*13.9*
Net profit	**(16.1)**	**164.9**	**49.9**	**116.4**
% chg	-	-	*(69.8)*	*133.5*
EBITDA (%)	0.9	10.6	4.0	6.0
EPS (₹)	**(4.7)**	**48.2**	**14.6**	**34.0**
P/E (x)	-	2.5	8.0	3.4
P/BV (x)	0.8	0.6	0.6	0.5
RoE (%)	6.5	13.0	16.4	11.7
RoCE (%)	(0.2)	21.9	7.1	13.0
EV/Sales (x)	0.3	0.3	0.3	0.3
EV/EBITDA (x)	34.1	2.9	7.6	4.5

Source: Company, Angel Research; Price as on January 27, 2011

Research Analyst - Vaishali Jajoo/Yaresh Kothari

Grasim Industries - Accumulate

Price - ₹2,360
Target Price - ₹2,521

3QFY2011 Result Update

Performance highlights

Y/E March (₹ cr)	3QFY11	2QFY11	% chg qoq	3QFY10	% chg yoy
Net revenue	**5,461**	**4,503**	***21.3***	**4,845**	***12.7***
Operating profit	1,197	786	*52.4*	1,439	*(16.8)*
OPM (%)	21.9	17.4	*447bp*	29.7	*(778)bp*
Rep. net profit *	**502**	**323**	***55..2***	**580**	***(13.5)***

*Source: Company, Angel Research; Note: *After minority interest*

Grasim's VSF business continued its impressive performance in 3QFY2011, posting operating profit of ₹389cr, which albeit fell by a marginal 4% yoy. The cement business (represented by subsidiary UltraTech) also reported better performance on a sequential basis, posting operating profit of ₹773cr (up 72.4% qoq). Grasim's consolidated bottom line declined by 13.5% yoy to ₹502cr due to drop in the profits of the cement business.

Segmental performance

VSF business posts good results once again: Net sales of the VSF business grew by 17% yoy, aided largely by 12% growth in realisation to ₹123/kg. Realisations improved due to cotton shortage globally and the general revival of the textile industry. The increase in spot pulp prices also resulted in higher VSF prices in China. Sales volumes rose by 4% yoy to 84,621MT. However, operating profit of the division declined by 4% yoy to ₹389cr due to a steep increase in spot pulp prices. Higher pulp prices, however, resulted in a better performance of the company's pulp joint venture, which posted operating profit of ₹42cr in 3QFY2011 as against ₹6cr in 3QFY2010.

Cement business suffers from fall in realisation: Revenue of the company's cement business rose by 8.5% yoy to ₹3,949cr, aided by the merger of Dubai-based Star Cement w.e.f. 3QFY2011. Star Cement reported net revenue of ₹191cr. Cement sales volume increased by ~10% to 10.08mn tonnes, primarily on account of 0.92mn tonnes of dispatches made by Star Cement. For 3QFY2011, domestic net realisation per tonne fell by 2% yoy. However, realisations were higher by ~12% on a qoq basis.

Chemical business posts impressive results: Net revenue of the chemical business rose by 22% yoy to ₹148cr during 3QFY2011 due to a 9% increase in sales volume to 67,136 tonnes. This division, which posted its highest-ever sales volume during the quarter, reported capacity utilisation of 104%. Realisations also improved by 10% yoy to ₹18,125/tonne, aided by improvement in caustic prices in international markets. The division's operating profits rose by 11% yoy to ₹31cr. OPM dropped by 200bp yoy to 21.3% due to higher energy costs.

Outlook and valuation

We expect Grasim's top line to register a moderate CAGR of 3.4%, primarily due to subdued realisation in its cement business. VSF demand is likely to remain stable in the medium term on the back of improved demand, fallowing the fast recovery in the textile sector in emerging markets coupled with the decline in global cotton production. Demand is also expected to be boosted by use of VSF in various allied applications such as non woven. However, higher input prices (pulp and sulphur) are expected to exert pressure on margins.

At ₹2,360, the stock trades at a P/E of 9.4x and an EV/EBITDA of 5.0x on FY2012E estimates. We have valued the company's 60.3% stake in UltraTech at an average EV/tonne of US $110, and provided a 20% holding company discount, to arrive at a value of ₹1,515/share. We have valued the VSF business at 5.5x EV/EBITDA on FY2012E estimates. **We upgrade the stock to Accumulate from Neutral with a Target Price of ₹2,521.**

Key Financials (Consolidated)

Y/E March (₹ cr)	FY2009	FY2010	FY2011E	FY2012E
Net sales	**18,297**	**19,933**	**19,954**	**21,313**
% chg	*7.8*	*8.9*	*0.1*	*6.8*
Net profit	**2,185**	**2,758**	**1,935**	**2,304**
% chg	**(6.0)**	**26.2**	**(29.8)**	**19.1**
FDEPS (₹)	**238**	**338**	**211**	**251**
OPM (%)	23.7	29.0	24.6	25.9
P/E(x)	9.9	7.0	11.2	9.4
P/BV(x)	1.9	1.7	1.3	1.2
RoE (%)	21.1	22.9	13.3	13.5
RoCE (%)	18.3	21.5	14.1	14.6
EV/Sales (x)	1.5	1.4	1.3	1.3
EV/EBITDA (x)	6.3	4.7	5.5	5.0

Source: Company, Angel Research; Price as on January 27, 2011

Research Analyst - Rupesh Sankhe/V Srinivasan

Gateway Distriparks - Buy

Price - ₹108
Target Price -₹123

3QFY2011 Result Update

Performance highlights

Y/E Mar (₹ cr)	3QFY11	3QFY10	% yoy	2QFY11	% qoq
Net sales	**158**	**128**	***23.0***	**138**	***14.0***
EBITDA	44.4	36.3	*22.4*	35.5	*25.1*
OPM (%)	28.1	28.3	*(13)bp*	25.6	*250bp*
PAT	**28.0**	**20.0**	***40.0***	**20.5**	***36.7***

Source: Company, Angel Research

GDL reported strong revenue growth of 23.0% yoy to ₹158cr against our estimates of ₹142cr led by better performance across segments. Revenue growth was driven by healthy volumes across segments, normalcy of operations at Punjab Conware and breakeven of the rail segment at PAT level. Higher share of exim revenue in the rail segment improved OPM by 250bp qoq (flat yoy). Fuelled by higher other income, PAT grew by 36.7% qoq (40.0% yoy) to ₹28cr v/s our estimates of ₹21cr.

Strong growth witnessed across segments: GDL reported strong revenue growth of 23.0% yoy (14.0% qoq) to ₹158cr for 3QFY2011, led by better capacity utilisation across segments. Revenue from the CFS segment increased by 24.9% yoy (23.1% qoq) to ₹66cr, while that from the rail segment grew by 20.1% yoy (8.3% qoq). Cold-chain business reported revenue growth of 33.1% yoy (7.3% qoq) to ₹11.4cr on account of low base and improving utilisation. Consolidated OPM improved by 250bp qoq (flat yoy) to 28.1%, owing to healthy realisation in the CFS segment and a higher share of exim revenue in the rail segment. Noticeably, the rail segment has turned profitable at the PAT level for the first time with a profit of ₹0.28cr v/s loss of ₹4.5cr in 2QFY2011 and ₹5.2cr in 3QFY2010. Other income jumped by 187.5% yoy to ₹2.3cr. Consequently, PAT grew by 40.0% yoy and 36.7% qoq to ₹28cr.

CFS segment witnessed healthy traction: During the quarter, Mumbai CFS revenue grew by 19.7% yoy (up 23.7% qoq) to ₹52cr, aided by the Punjab Conware CFS returning to ~80% capacity utilisation after the complete shut down due to the fire accident in February 2010 and improving exim volumes at JNPT. For 3QFY2011, consolidated CFS volumes grew by 12.1% yoy (3.8% qoq) to 86,640 TEUs. Further, CFS realisation grew by 11.5% yoy (18.6% qoq) to ₹7,620/TEU, owing to new customer additions and better capacity utilisation. Consequently, overall CFS revenue reported 23.1% yoy and 24.9% qoq growth to ₹66cr.

Rail business profitable at PAT level: In the rail segment, GDL reported volume growth of 20.2% yoy (9.3% qoq) to 34,494 TEUs, led by addition of new rakes and improving capacity utilisation. For 3QFY2011, the share of exim volumes stood at 65%. Management intends to increase its exim contribution to 90% in ensuing quarters.

During the quarter, GDL received the much-awaited funds infusion of ₹300cr from Blackstone Group in 2QFY2011 and has begun deploying the same towards retirement of debt. This resulted in lower interest and depreciation cost (down 21% qoq and 8% yoy) for the rail segment. Consequently, GDL reported ₹0.28cr of profit in 3QFY2011 against loss of ₹4.5cr in 2QFY2011 and ₹5.2cr in 3QFY2010. Management has guided that the recent hike of 4-5% in haulage charges is a complete pass-through; however, it has resulted in loss of 400 containers per month to road transportation.

Outlook and valuation

We have upgraded our FY2011E and FY2012E estimates by ~8%. The breakeven of the rail business at the PAT level and the ability to combat intense completion at JNPT CFS on sustainable basis will act as a positive catalyst for the stock's performance. At the CMP, the stock is trading at a PE of 10.7x and P/BV of 1.7x on FY2012 estimates. **We maintain Buy on the stock with a Target Price of ₹123.**

Key Financials (Consolidated)

Y/E March (₹ cr)	FY2009	FY2010	FY2011E	FY2012E
Net sales	**452**	**517**	**581**	**716**
% chg	*66.6*	*14.3*	*12.5*	*23.2*
Net profit	**79.6**	**79.1**	**87.8**	**109.2**
% chg	*8.2*	*(0.5)*	*11.0*	*24.3*
EBITDA (%)	32.6	24.2	26.4	28.1
EPS (₹)	**7.4**	**7.3**	**8.1**	**10.1**
P/E (x)	14.6	14.7	13.2	10.7
P/BV (x)	2.3	2.1	1.9	1.7
RoE (%)	12.5	12.3	12.8	14.6
RoCE (%)	12.1	10.6	11.5	12.9
EV/Sales (x)	2.9	2.5	1.9	1.5
EV/EBITDA (x)	8.9	10.3	7.4	5.3

Source: Company, Angel Research; Price as on January 29, 2011

Research Analyst - Param Desai/Mihir Salot

HDFC Bank - Buy

Price - ₹2,052
Target Price - ₹2,499

3QFY2011 Result Update

Performance highlights

Particulars (₹ cr)	3QFY11	2QFY11	% chg (qoq)	3QFY10	% chg (yoy)
NII	**2,777**	**2,526**	**9.9**	**2,224**	**24.9**
Pre-Prov Profit	2,073	1,807	14.7	1,624	27.7
PAT	**1,088**	**912**	**19.3**	**819**	**32.9**

Source: Company, Angel Research

For 3QFY2011, HDFC Bank reported 19.3% qoq and 32.9% yoy growth in net profit to ₹1,088cr, in line with our estimate of ₹1,091cr. However, operating income surpassed our estimate, which was offset by higher provisioning expenses, which aided in further improving the provision coverage ratio.

Strong business growth with profitability: Gross advances registered strong growth of 32.7% yoy compared to industry's credit growth of 24.4%. While on a sequential basis, growth momentum was muted with growth of 1.3% qoq (mainly on account of repayment of one-off loans taken by telecom companies for 3G licenses of ~₹6,000-7,000cr, given in 1QFY2011). Adjusted for the repayment, growth for the quarter would have been ~5%.

Deposits increased by a healthy 24.2% yoy. On a qoq basis, deposits de-grew by 1.6% which was likely on account of lower IPO floats. Bank's CASA growth moderated during 3QFY2011, with the CASA deposits growing by 21.4% yoy compared to 37.4% yoy growth in 1QFY2011 and 31.1% yoy growth in 2QFY2011. Saving account deposits increased 30.7% yoy, while current account deposits grew by 8.3% yoy. The bank continued to maintain a strong CASA ratio in excess of 50% (50.5%).

Reported NIM for 3QFY2011 was sequentially stable at 4.2%. Consequently, net interest income registered a healthy growth of 9.9% qoq and 24.9% yoy to ₹2,777cr.

Strong capital adequacy, branch expansion to drive credit and CASA market share gains, respectively: The bank's total capital adequacy remained strong at 16.3%, with tier-1 constituting 74.2% of the total CAR. The bank's capital adequacy will be further bolstered in 4QFY2011 on account of FY2011 profit getting included in computation of tier-I. On the back of this strong CAR, we expect the bank to increase its credit market share over FY2011-12. Accordingly, we expect the bank to record credit growth of 32% for FY2011 and 30% for FY2012 compared to 27.3% growth in FY2010.

Cost-to-income ratio improves on the back of higher income: During 3QFY2011, the bank's cost-to-income ratio improved to 46.9% from 48.2% in 2QFY2011 on the back of the 12% qoq increase in operating income compared to 9% qoq increase in operating expenses. Operating expenses moved up 26.1% yoy on account of the 25.3% yoy rise in employee expenses and 26.5% increase in other operating expenses. During the quarter, other operating expenses increased by 14.2% qoq to ₹1,107cr mainly on account of opex cost of ~80-90 branches, which are to be opened in 4QFY2011 and were included in the run rate. Going forward, management expects the higher run rate to continue. Accordingly, we have increased our other opex cost estimates by 2.0% each for FY2011 and FY2012.

Outlook and Valuation

We believe HDFC bank is among the most competitive banks in the sector, with an A-list management at the helm of affairs that has one of the best track records in the sector. At ₹2,052, the stock is trading at 3.3x FY2012E P/ABV of ₹625. We believe the bank is well positioned for high qualitative growth, with the CASA and cost-to-income ratio returning to pre-CBoP levels. HDFC Bank has commanded 32.9% premium to the Sensex in terms of its one-year forward P/E multiple over the last five years. We expect the premium to be around its historical average on account of the robust growth and RoE prospects over the next two years. Hence we have assigned a multiple of 4.0x FY2012E P/ABV to arrive at a Target Price of ₹2,499. **We maintain our Buy recommendation on the stock.**

Key Financials

Y/E March (₹ cr)	FY2009	FY2010	FY2011E	FY2012E
NII	**7,421**	**8,387**	**10,548**	**13,438**
% chg	*42.0*	*13.0*	*25.8*	*27.4*
Net Profit	**2,245**	**2,949**	**3,928**	**5,279**
% chg	*41.2*	*31.3*	*33.2*	*34.4*
NIM (%)	4.9	4.3	4.4	4.4
EPS (₹)	**52.8**	**64.4**	**85.8**	**115.3**
P/E (x)	38.9	31.9	23.9	17.8
P/ABV (x)	5.8	4.4	3.8	3.3
RoA (%)	1.4	1.5	1.6	1.7
RoE (%)	16.9	16.1	17.1	19.9

Source: Company, Angel Research; Price as on January 27, 2011

Research Analyst - Vaibhav Agrawal/Shrinivas Bhutda

HUL - Neutral

Price - ₹271

3QFY2011 Result Update

Performance highlights

(₹ cr)	3QFY11	3QFY10	% chg yoy	Angel Est.	% Diff
Revenue	**5,027.0**	**4,504.3**	***11.6***	**5,023.4**	***0.1***
EBITDA	624.3	718.5	*(13.1)*	786.2	*(20.6)*
OPM (%)	12.4	16.0	*(353bp)*	15.7	*(323bp)*
PAT	**573.2**	**604.6**	***(5.2)***	**698.8**	***(18.0)***

Source: Company, Angel Research

In-line revenue aided by double-digit volume growth: For 3QFY2011, HUL posted top-line growth of 11.6% yoy to ₹5,027cr (₹4,504cr) largely driven by consistent double-digit volume growth of 13% (recall the company posted 14% volume growth in 2QFY2011, which came at the back of price hike). Overall FMCG sales grew 11.5% yoy aided by 11.6% yoy growth in HPC and 11.3% yoy growth in foods business. In HPC, the S&D segment posted a growth of 5.8% yoy despite price hikes and intense competition in the detergents category. In detergents, Rin delivered impressive growth, while Lifebuoy recorded strong growth post the re-launch. The PP segment registered 20.2% yoy growth, the seventh consecutive quarter of double-digit volume-led growth. In the foods business, all segments performed well and contributed to growth (beverages grew 9.3% yoy, processed foods 18.6% yoy and ice creams 30.9% yoy).

Recurring earnings declines ~5% yoy despite 65% jump in other income: In terms of earnings, HUL posted a 5.2% yoy decline to ₹573cr (₹604cr) on a recurring basis, despite the ~65% yoy jump in other income, impacted by margin contraction, increase in depreciation expense by 25% yoy to ₹56cr (₹45cr) and 52bp yoy increase in tax rate. However, on a reported basis, HUL posted a decline of ~2% yoy in earnings to ₹638cr (₹649cr) aided by the ₹20cr exceptional gain this quarter (on account of profit on sale of property and long-term investments).

OPM dips 353bp due to higher overheads and input cost inflation: At the operating level, HUL posted yet another quarter of weak performance, as gross margins contracted by 202bp yoy on account of raw material price inflation, increase in ad-spend (up 73bp yoy) and other expenses (up 89bp yoy). Higher new launches and re-launches (launched Ponds Gold radiance, re-launched Dove, Red Label and Lifebuoy) resulted in advertising expenses increasing sequentially by 97bp. Hence, OPM for the quarter contracted by 353bp yoy to 12.4% (16%) resulting in 13% yoy decline in EBITDA to ₹624cr (₹718cr).

In terms of categories, the S&D segment witnessed margin contraction of 572bp yoy impacted by the escalation in input costs, personal products registered a margin contraction of 313bp yoy and processed foods margins contracted by 657bp yoy. However, beverages and ice creams registered margin expansion of 200bp and 897bp yoy, respectively.

Outlook and Valuation

Sustained double-digit volume growth for four consecutive quarters (albeit on a low base) and steady performance of PP and foods businesses were the key positive takeaways from the 3QFY2011 results. Hence, we have marginally revised our top-line estimates upwards by 0-2%. At ₹271, the stock is trading at 21.1x FY2012E earnings. **We upgrade the stock from Reduce to Neutral, with a Fair Value of ₹282 based on 23.0x FY2012E revised EPS of ₹12.3.**

Key Financials

Y/E March (₹ cr)	FY2009#	FY2010	FY2011E	FY2012E
Net Sales	**20,239**	**17,524**	**19,345**	**21,974**
% chg	*48.0*	*(13.4)*	*10.4*	*13.6*
Net Profit (Adj)	**2,501**	**2,103**	**2,127**	**2,680**
% chg	*47.2*	*(15.9)*	*1.2*	*26.0*
OPM (%)	13.1	14.5	12.1	13.8
EPS (₹)	**11.5**	**9.6**	**9.7**	**12.3**
P/E (x)	23.6	26.8	26.4	21.1
P/BV (x)	28.7	22.9	19.5	15.6
RoE (%)	142.9	90.5	75.8	78.6
RoCE (%)	110.4	101.3	76.0	79.0
EV/Sales (x)	2.8	3.2	2.9	2.5
EV/EBITDA (x)	21.6	21.9	23.7	18.0

Source: Company, Angel Research; #Note: FY2009 Results are for 15 months, Price as on January 27, 2011

Research Analyst - Chitrangda Kapur/Sreekanth P.V.S

ICICI Bank - Buy

Price - ₹1,084
Target Price - ₹1,312

3QFY2011 Result Update

Performance highlights

Particulars (₹ cr)	3QFY11	2QFY11	% chg qoq	3QFY10	% chg (yoy)
NII	2,312	2,204	4.9	2,058	12.3
Pre-prov. profit	2,343	2,212	5.9	2,369	(1.1)
PAT	1,437	1,236	16.2	1,101	30.5

Source: Company, Angel Research

For 3QFY2011, ICICI Bank's standalone net profit grew by healthy 16.2% qoq and 30.5% yoy to ₹1,437cr, above our estimates, mainly on account of lower provisioning expenses. The key positive of the results was healthy traction in loan book and a substantial reduction in NPA provisioning burden.

Advances show traction, deposits growth a bit muted: During 3QFY2011, the bank's advances increased by healthy 6.4% qoq, which was the highest in the past 14 quarters. Sequential growth in advances was led by the corporates (14.4%), rural (12.5%) and SME (11.8%), while the personal loans and other retail loans segments continued to witness declines. The retail segment's contribution to the advances book came down to 38% as of 3QFY2011 from 45% as of 3QFY2010; while, at the same time, contribution of the corporate segment rose to 26% from 18%. Sequential deposits growth was a bit muted, with deposits declining by 2.4% qoq and rising by 10.2% yoy. CASA deposits showed healthy traction, growing at 23.0% yoy on the back of a 26.5% yoy increase in savings account deposits and 16.5% yoy growth in current account deposits. Current account deposits declined by ~9% due to lower floats from primary offerings as compared to 2QFY2011. The CASA ratio improved to 44.2% in 3QFY2011 from 39.6% in 3QFY2010. Reported NIM was flat sequentially as well as on a yoy basis at 2.6%. Both, domestic and overseas NIMs remained stable at ~3% and ~0.85%, respectively.

Non-interest income growth muted: During 3QFY2011, non-interest income increased by 10.8% qoq and by a sluggish 4.5% yoy to ₹1,749cr. The slow yoy growth in non-interest income can be attributed to the higher base in 3QFY2010, which included profit of ~₹203cr on account of transfer of merchant acquiring operations to the new entity. Core fee income grew by 14.3% yoy to ₹1,625cr.

Asset quality improving: The bank's asset quality showed further improvement during 3QFY2011, with gross NPAs increasing just marginally by 0.4% qoq. Net NPAs declined sharply from the peak of ₹4,608cr in 1QFY2010 to ₹2,873cr in 3QFY2011. Sequentially, the gross NPA ratio improved to 4.8% as of 3QFY2011 from 5.0% as of 2QFY2011, while net NPA ratio declined to 1.2% from 1.6% as of 2QFY2011. The provision coverage ratio (as per the RBI's guidelines) improved to 71.8% in 3QFY2011 from 69.0% in 2QFY2011.

Valuations attractive

We have a positive view on ICICI Bank, given its market-leading businesses across the financial services spectrum. Moreover, we believe the bank is decisively executing a strategy of consolidation, which has resulted in an improved deposit and loan mix, and should drive improved operating metrics over the medium term. The bank's strategies of the last 18 months have yielded a substantial improvement in the ratio of branches to net worth; this is expected to ensure a far more favourable deposit mix going forward. Moreover, a lower risk balance sheet is expected to drive down NPA provisioning costs, which we believe will enable RoE of 15.8% by FY2012E (with further upside from financial leverage).

At ₹1,084, the bank's core banking business (after adjusting ₹204/share towards value of the subsidiaries) is trading at 2.4x FY2012E ABV of ₹369.3 (including subsidiaries, the stock is trading at 2.2x FY2012E ABV of ₹504.1). We value the bank's subsidiaries at ₹204/share and the core bank at ₹1,108/share (3.0x FY2012E ABV). **We maintain Buy on the stock with a Target Price of ₹1,312.**

Key Financials

Y/E March (₹ cr)	FY2009	FY2010	FY2011E	FY2012E
NII	9,092	8,114	8,889	11,144
% chg	*10.9*	*(10.8)*	*9.5*	*25.4*
Net profit	3,423	4,025	5,218	6,993
% chg	*(17.7)*	*17.6*	*29.6*	*34.0*
NIM (%)	2.6	2.4	2.6	2.8
EPS (₹)	30.7	36.1	45.3	60.7
P/E (x)	35.2	30.0	23.9	17.8
P/ABV (x)	2.5	2.4	2.3	2.2
RoA (%)	0.9	1.0	1.3	1.5
RoE (%)	9.2	9.7	12.3	15.8

Source: Company, Angel Research; Price as on January 24, 2011

Research Analyst - Vaibhav Agrawal/Shrinivas Bhutda

IRB Infrastructure - Buy

Price - ₹202
Target Price - ₹264

3QFY2011 Result Update

Performance highlights

Y/E March (₹ cr)	3QFY11	3QFY10	2QFY11	% chg yoy	% chg qoq
Net Sales	**668.8**	**433.1**	**490.3**	***54.4***	***36.4***
Op. Profit	293.6	227.1	236.4	*29.2*	*24.2*
Net Profit	**133.0**	**91.4**	**99.1**	***45.5***	***34.2***

Source: Company, Angel Research

Top-line below our estimates: For 3QFY2011, IRB reported robust top-line growth of 54.4% to ₹668.8cr though below our expectation of ₹775.1cr primarily due to the lower-than-expected growth in the C&EPC segment. The segment reported top-line of ₹466.5cr as against our expectation of ₹572.2cr. Major contribution for C&EPC revenue came from Surat Dahisar project at ~₹300cr, while Jaipur Deoli and Amritsar Pathankot started contributing albeit marginally at ₹86cr with remaining projects sharing the rest. Construction work on the Talegaon Amravati project has started. The Goa Karnataka project is still at mobilisation stage, which we believe would start contributing in the ensuing quarters.

IRB continued to post above-industry EBITDA margins: IRB continued to surprise on the margin front posting EBITDA margins of 43.9% for 3QFY2011 as against our expectation of 37.8%. The company surprised by posting EBITDA margin of 24.9% in the construction segment for the quarter, a yoy jump of 340bp, and 490bp higher than our expectation which was mainly on account of better material management and escalations in place to take care of increasing raw material prices. However, we believe these margins are unsustainable (acknowledged by the management) and expect them to normalise at ~20% levels going ahead. In the BOT segment, IRB reported EBITDA margin of 88.4% v/s our expectation of 85.3%.

Overall bottom-line came at ₹133.0cr, which was in line with our estimate in spite of the lower-than-expected top-line growth mainly on account of the following: 1) higher-than-expected EBITDA margins in both the segments, 2) higher share of BOT revenues leading to rise in blended EBITDA margins, and 3) lower tax provision at ~17.5% mainly on account of the MAT benefit availed as against our expectation of 20%. Adjusted for the MAT credit, bottom-line stood at ₹118.4cr.

Revision in estimates: For FY2011, we were penciling in top-line of ~₹2,000cr from the C&EPC segment marginally above management's guidance of ₹1,800-1,900cr. However, given the below expectation performance this quarter, we have pruned our estimates downwards to ₹1,622.4cr. Further, to factor in the company's stellar performance on the margins front, we have revised upwards our margin estimate by 300bp for FY2011. For FY2012, increase in interest cost has led to 3.1% pruning of bottom-line.

Outlook and Valuation

The recent lull in the awarding activity has negatively impacted performance of the infra sector on the bourses. The IRB stock has been dogged by unwarranted concerns. However, given its leadership position in the Indian road BOT space and strong execution with minimal outsourcing along with the recent correction in the stock price, provides an attractive opportunity to enter the stock at current levels.

We have valued IRB on SOTP basis wherein we have valued the road BOT SPVs on NPV basis (FY2012E) and accorded 10% growth premium fetching ₹133.8/share, the construction segment has been valued at 8x FY2012E EV/EBITDA (₹125.3/share) and the other investments have been valued at 1.5x FY2010 P/BV (₹4.6/share). **We maintain a Buy on the stock with the Target Price of ₹264.**

Key Financials (Consolidated)

Y/E March (₹ cr)	FY2009	FY2010	FY2011E	FY2012E
Net Sales	**992**	**1,705**	**2,460**	**3,707**
% chg	*35.4*	*71.9*	*44.3*	*50.7*
Adj.Net Profit	**175.8**	**385.4**	**472.7**	**510.5**
% chg	*54.4*	*119.2*	*22.7*	*8.0*
EBITDA (%)	44.1	46.9	45.2	40.5
FDEPS (₹)	**5.3**	**11.6**	**14.2**	**15.4**
P/E (x)	38.2	17.4	14.2	13.1
P/BV (x)	3.9	3.3	2.8	2.3
RoE (%)	10.5	20.4	21.1	19.2
RoCE (%)	8.1	13.2	14.8	13.7
EV/Sales (x)	8.9	5.3	4.4	3.4
EV/EBITDA (x)	20.1	11.4	9.7	8.4

Source: Company, Angel Research; Price as on January 28, 2011

Research Analyst -Shailesh Kanani/Nitin Arora

JSW Steel - Buy

Price - ₹898
Target Price - ₹1,047

3QFY2011 Result Update

Performance highlights

Particulars (₹ cr)	3QFY11 (S)	3QFY10 (S)	% chg yoy	3QFY11 (C)	3QFY10 (C)	yoy (%)
Net revenue	**5,808**	**4,588**	***26.6***	**6,003**	**4,796**	***25.2***
EBITDA	1,036	1,118	*(7.3)*	1,054	1,079	*(2.3)*
EBITDA margin (%)	17.8	24.4	*(652bp)*	17.6	22.5	*(493bp)*
Reported PAT	**382**	**514**	***(25.7)***	**292**	**430**	***(32.1)***

Source: Company, Angel Research

Result highlights

Consolidated net revenue grew by 25.2% yoy to ₹6,003cr, aided by higher sales volumes and improved product mix. The company reported the highest-ever crude steel production of 1.64mn tonnes in 3QFY2011. The company's saleable steel sales increased by 14.0% yoy to 1.59mn tonnes in 3QFY2011.

Despite an increase in top line, EBITDA margin contracted by 493bp yoy to 17.6% on account of rising prices of key inputs, iron ore and coking coal. Consequently, EBITDA/tonne declined by 15.5% yoy to US $142 in 3QFY2011.

Outlook

Spot iron ore prices have continued to rise…: Higher crude steel production has led to an increase in international spot iron ore prices to over US $180/tonne. However, growth in production of iron ore in China has remained flat during the past quarter. Due to crackdown on illegal mining by the government, India's iron ore prices have increased as well.

…while coking coal prices have spurted recently: The flooding in Australia during December 2010-January 2011 has severely hit mining operations in Queensland, which accounts for ~50% of the world's coking coal trade, which has resulted in spurt in spot prices of coking coal since then. The rise in spot prices is likely to result in higher contract prices for 1QFY2012.

…resulting in rise in steel prices recently: The steep rise in iron ore and coking coal prices has resulted in higher steel prices across the globe.

However, steel production continues to rise globally, while there is lack of clarity on demand in western economies. We believe the rise in prices of key inputs will be more than offset by the increase in steel prices during FY2012. Hence, we expect profitability of companies with low levels of integration such as JSW Steel to decline in the coming few quarters.

Valuation

JSW Steel is expanding its capacity by 3.2mn tonnes from the current level of 7.8mn tonnes, thus taking its total capacity to 11mn tonnes by FY2011. Furthermore, JSW Steel will become India's largest steel company with total capacity of 14.3mn tonnes on successful completion of Ispat Industries' acquisition. We expect the company to reap benefits of economies of scale on account of large-scale production, which should slightly destroy per unit cost of production. Also, the commissioning of the beneficiation plant by March 2011 is expected to lower iron ore cost for the company by US $10-30/tonne. However, rise in prices of key inputs (particularly coking coal) is likely to result in profitability decline during FY2012. At ₹898, the stock is trading at 7.5x FY2011E and 5.9x FY2012E EV/EBITDA.

Given the recent decline in the stock price, we upgrade the stock to Buy from Accumulate with a revised Target Price of ₹1,047 (earlier ₹1,310), valuing the stock at 6.5x FY2012E EV/EBITDA.

We have increased our estimates for FY2012E to factor in higher realisations. However, we have lowered our EBITDA margin estimates for FY2012E to account for higher iron ore and coking coal costs.

Key Financials (Consolidated)

Y/E March (₹ cr)	FY2009	FY2010	FY2011E	FY2012E
Net sales	**15,886**	**18,897**	**22,349**	**30,499**
% chg	*28.7*	*19.0*	*18.3*	*36.5*
Adj. net profit	**804**	**1,321**	**1,454**	**1,970**
% chg	*5.1*	*7.0*	*6.5*	*6.5*
Adj. EPS (₹)	**38.2**	**63.8**	**56.9**	**77.1**
OPM (%)	18.8	21.5	21.9	20.3
P/E (x)	23.7	14.2	15.9	11.7
P/BV (x)	2.2	1.9	1.2	1.1
RoE (%)	10.7	16.1	10.4	9.8
RoCE (%)	8.6	10.7	10.3	10.9
EV/Sales (x)	2.1	1.7	1.6	1.2
EV/EBIDTA	11.0	8.0	7.5	5.9

Source: Company, Angel Research; Price as on January 28, 2011

Research Analyst - Bhavesh Chauhan/Pooja Jain

Marico - Reduce

Price - ₹128
Target Price -₹119

3QFY2011 Result Update

Performance highlights

(₹ cr)	3QFY11	3QFY10	% yoy	Angel Est.	% Diff
Revenue	**817.7**	**669.6**	**22.1**	**814.5**	**0.4**
EBITDA	99.7	98.8	0.9	112.8	(11.6)
OPM (%)	12.2	14.8	(257bp)	13.9	(166bp)
PAT	**69.5**	**62.2**	**11.8**	**78.9**	**(11.8)**

Source: Company, Angel Research

Parachute volume low at ~5%, *Saffola* manages double-digit growth: Marico reported top-line growth of 22.1% yoy to ₹817.7cr (₹669.6cr) in line with our estimates and driven by both volume and value growth. While overall volume growth stood at ~15%, with core brands Parachute (rigids) and Saffola posting volume growth of 5% and 13% respectively, for the quarter, value growth was a function of the price hike of ~5% and ~8% taken in close succession recently. Marico has this far taken a weighted average price hike of ~24% (including the recent 7-8% price hike taken in Parachute, which would reflect in 4Q).

OPM down by 257bp yoy as gross margins contract by 515bp yoy: Marico witnessed yoy contraction in gross margin by 257bp as the copra, rice bran oil, safflower oil and HDPE prices inched higher by 62%, 25%, 3% and 4%, respectively. Management was able to maintain operating profit at last year levels, by reducing other operating costs, which saw ad-spend (down 163bp yoy), other expenses (down 67bp yoy) decline. While Kaya's ad-spends are being kept low, with a change in the strategy to focus on press and digital media instead of television advertising, other expenses are being reined through lower provisioning for excise duty at ~75% to ₹9.6cr (~100% done in 3QFY2010 to ₹11cr).

Earnings impacted by significant margin contraction: In terms of earnings, Marico posted a growth of 11.8% yoy to ₹69.5cr (₹62.2), below our estimates and largely aided by a 283bp decline in the tax rate due to production at manufacturing facilities situated in tax free zones along with higher other income, which rose 22% yoy. Management has guided for an effective tax rate of ~16% in FY2011 and ~20% in FY2012.

Growth in core brands muted on account of steep price hikes: Parachute coconut oil in rigid packs recorded volume growth of ~5% yoy on a high base (discounts and offers running in 3QFY2010). The volume growth came in low, impacted by price hikes of ~5% and ~8% taken in close succession takrecently resulting in a cumulative ~24% weighted average price hike taken this far.

The Saffola franchise registered volume growth of 13% yoy and overall value growth of ~24% yoy, aided partially by increase in prices in select SKUs. In terms of input costs, while safflower oil price witnessed a spike of ~25%, rice bran oil prices trended lower by ~3% during the quarter. Management maintained its guidance for Saffola Oats and Saffola Arise, expecting a cumulative growth in revenue to ~₹40-45cr in FY2011.

Outlook and Valuation

We expect 4QFY2011 to be a better quarter aided by the recent price hikes in Parachute, improving profitability in the international business, better performance by Kaya and lower tax rate. However, headwinds of down-trading and margin pressures due to raw material inflation are likely to persist. At ₹128, the stock is trading at 24.7x FY2012E earnings i.e. at 7-8% premium to its historical valuations). **Hence, we downgrade the stock from Accumulate to Reduce, with a Target Price of ₹119 (₹136) based on 23.0x revised FY2012E EPS of ₹5.2 (₹5.7).**

Key Financials (Consolidated)

Y/E March (₹ cr)	FY2009	FY2010	FY2011E	FY2012E
Net Sales	**2,388**	**2,661**	**3,065**	**3,510**
% chg	*25.4*	*11.4*	*15.2*	*14.5*
Net Profit (Adj)	**203.8**	**241.5**	**246.1**	**317.1**
% chg	*28.6*	*18.5*	*1.9*	*28.8*
EBITDA (%)	12.7	14.1	11.7	13.0
EPS (₹)	**3.3**	**3.9**	**4.0**	**5.2**
P/E (x)	38.5	32.5	31.8	24.7
P/BV (x)	17.1	11.9	9.3	7.1
RoE (%)	53.0	43.6	32.8	32.6
RoCE (%)	35.7	32.5	25.7	29.5
EV/Sales (x)	3.3	3.0	2.6	2.3
EV/EBITDA (x)	26.5	21.6	22.2	17.1

Source: Company, Angel Research; Price as on January 27, 2011

Research Analyst - Chitrangda Kapur/Sreekanth P.V.S

ONGC - Buy

Price - ₹1,136
Target Price - ₹1,400

3QFY2011 Result Update

Performance highlights

Y/E March (₹ cr)	3QFY11	2QFY11	% chg qoq	3QFY10	% chg yoy
Total OI.	**20,804**	**18,430**	***12.9***	**15,506**	***34.2***
EBITDA	13,532	11,322	*19.5*	9,335	*45.0*
EBITDA Margin (%)	65.0	61.4	3.6	60.2	4.8
Adj. PAT	**7,083**	**5,389**	***31.4***	**3,054**	***132.0***

Source: Company, Angel Research

For 3QFY2011, ONGC's bottom-line spiked 132% yoy to ₹7,083cr (₹3,054cr), which was substantially higher than our estimate of ₹5,475cr on account of lower-than-expected DD&A costs and gas pool receipts.

Operating performance (ex gas pool) in line; DD&A below expectation: ONGC's performance was boosted by receipts of ₹1,898cr from the gas pool account, which was not captured in our estimate and thus bottom-line was much higher than our expectation. Ignoring the gas pool receipts, ONGC's top-line and bottom-line performance was marginally higher than our expectation. Operating income (ex-gas pool receipts) during the quarter increased by 21.9% yoy to ₹18,906cr (₹15,506cr) on account of the higher crude oil sales and realisations. Crude oil sales volume increased to 5.88MMT (5.67MMT) on account of higher production from Cairn's Rajasthan field. Gross realisations and net realisations, which stood at

US $89.1/bbl and US $64.8/bbl respectively, during the quarter, were in line with our estimates. During the quarter, the company shared a subsidy burden of ₹4,222cr (₹3,497cr). EBITDA stood at ₹13,532cr (₹9,335cr), a substantial rise of 45% yoy. However, even after adjusting for the gas pool receipts, EBITDA registered robust growth of 24.6% yoy to ₹11,634cr (₹9,335cr) and marginally higher than our expectation of ₹11,278cr. Depreciation, depletion and amortisation cost (DD&A) cost was substantially lower by 22.1% yoy to ₹3,641cr (₹4,676cr), which was lower than our estimates, on account of lower dry wells written off during the quarter. Other income came in substantially higher at ₹669cr as against loss of ₹30cr in 3QFY2010 as then there was reversal of interest income of ₹440cr on the loans given to OVL. Thus, on account of better operating performance and gas pool receipts, net profit for the quarter spiked 132% yoy to ₹7,083cr (₹3,054cr).

Outlook and Valuation

We expect crude oil price to stabilise within the range of $80-85/bl. We expect net realisation to stay buoyant ($60/bl) on account of reforms undertaken by oil ministry in the recent past.

Incremental production from the marginal fields is expected to more than offset any decline in production from the ageing fields. OVL is also expected to report jump in volumes by 2013 at ~12mn tonnes on the back incremental productions from Myanmar, Sakhalin-1 and Venezuela coming on stream.

Deregulation of diesel and resolution of royalty issue with Cairn could be significantly earnings accretive for ONGC. Higher gas price from extant fields and mark-to-market prices from incremental production could accrete earnings further.

Significant discoveries in high potential Cambay, KG basin and Mahanadi fields (under appraisal) could further boost valuations.

We believe the risk-reward ratio is now favourable with limited downside from current levels. Moreover, the chances of the stock being re-rated have strengthened on the back of higher volumes and net realisation. At ₹1,136, the stock is trading at 8.8x FY2012E EPS of ₹128.8. **We recommend a Buy on the stock, with a SOTP-based Target Price of ₹1,400, translating into an upside of 23.3% from current levels.**

Key Financials (Consolidated)

Y/E March (₹ cr)	FY2009	FY2010	FY2011E	FY2012E
Net Sales	**104,588**	**101,755**	**123,878**	**127,742**
% chg	*8.1*	*(2.7)*	*21.7*	*3.1*
Net Profit	**19,795**	**19,404**	**26,215**	**27,552**
% chg	*(0.4)*	*(2.0)*	*35.1*	*5.1*
OPM (%)	41.3	44.2	44.9	46.1
EPS (₹)	**92.5**	**90.7**	**122.6**	**128.8**
P/E (x)	12.3	12.5	9.3	8.8
P/BV (x)	2.7	2.4	2.1	1.8
RoE (%)	23.4	20.2	24.0	21.7
RoCE (%)	24.5	20.0	25.3	24.3
EV/Sales (x)	2.2	2.2	1.8	1.7
EV/EBITDA (x)	5.2	5.0	4.1	3.7

Source: Company, Angel Research; Price as on January 28, 2011

Research Analyst - Vinay Nair/Amit Vora

Punjab National Bank - Accumulate

Price - ₹1,115
Target Price - ₹1,259

3QFY2011 Result Update

Performance highlights

Particulars (₹ cr)	3QFY11	2QFY11	% chg (qoq)	3QFY10	% chg (yoy)
NII	3,203	2,977	7.6	2,329	37.5
Pre-prov. profit	2,350	2,100	11.9	1,818	29.2
PAT	1,090	1,075	1.4	1,011	7.8

Source: Company, Angel Research

For 3QFY2011, PNB posted moderate net profit growth of 1.4% qoq and 7.8% yoy to ₹1,090cr, in line with our estimates of ₹1,100cr. However, the bank reported higher provisioning expenses, over 30% above estimates, which were offset by higher non-interest income.

Strong business growth: During the quarter, advances grew sequentially by 6.0% (29.8% yoy) to ₹221,252cr, while deposits grew sequentially by 5.7% to ₹288,873cr (23.5% yoy). On a yoy basis, saving deposits increased by 23.7% to ₹89,860cr, while current deposits rose by 15.5% to ₹22,945cr. Overall CASA deposits increased to ₹112,806cr in 3QFY2011 from ₹92,492cr in 3QFY2010, recording growth of 22%. However, sequentially, CASA deposits only grew by 1.6% as compared to the 8.4% increase in term deposits. Consequently, the CASA ratio dropped to 39.1% from 40.6% in 2QFY2011.

The bank saw robust 76.5% yoy growth in overseas gross advances to ₹10,817cr (4.8% of overall gross advances) from ₹6,973cr (3.7% of overall gross advances), partly due to concentrated efforts on overseas expansion and partly due to a small base effect. The bank increased its exposure to the infrastructure sector to ₹33,787cr (up 49.7% yoy and comprising 15.3% of overall advances) from ₹22,567cr (10.8% of overall advances) in 3QFY2010.

NIMs high, but likely to come down going forward: During the quarter, the yield on funds increased by 10bp sequentially to 8.25%, aided by the 100bp increase in base rate, which was higher-than-peer average of ~70bp, while the cost of funds increased by 15bp sequentially to 4.54%. Reported NIMs expanded by 7bp sequentially to 4.13%. Consequently, NII increased by 7.6% sequentially (a healthy 37.5% increase yoy) to ₹3,203cr.

The bank has continuously maintained high reported NIMs at ~4% over the last year. However, going forward, with rising cost of funds, we expect calculated FY2012E NIMs to moderate by ~25bp to 3.5% from 3.8% in FY2011E.

Asset quality pressures persist: PNB's gross NPAs increased, in absolute terms, by 12.8% qoq to ₹4,541cr and net NPAs rose by 10.5% qoq to ₹1,575cr. Gross slippages for the quarter stood at ₹977cr (₹911cr in 2QFY2011), indicating an annualised slippage ratio of 2.1% (2.0% in 2QFY2011). Gross NPA ratio deteriorated to 2.0% (as against 1.9% in 2QFY2011). Net NPA ratio remained stable at 0.7%. The bank's provision coverage ratio including technical write-offs stood at 77.2%.

Operating costs rise due to employee benefit provisions: Operating expenses increased by substantial 7.3% qoq and 37.7% yoy, driven by the 46.9% yoy increase in employee costs and 19.0% yoy increase in other operating expenses. The cost-to-income ratio stood at 42.1% (43.2% in 2QFY2011 and 40.6% in 3QFY2010). The increase in employee expenses was attributable to provisions (₹360cr) made on account of gratuity (₹125cr) and second pension option (₹235cr) during the quarter. Management indicated that the total second option pension provision liability is expected to be ~₹3,600cr as against earlier estimates of ₹2,500cr. We have accordingly raised our operating expense estimates for FY2012 from ₹7,014cr to ₹7,427cr.

Outlook and valuation

Post the recent correction in the stock, it is trading at 1.5x FY2012E ABV of ₹741 v/s its five-year range of 1.1-1.6x and median of 1.4x. **We recommend an Accumulate rating on the stock with a Target Price of ₹1,259 (earlier ₹1,341), valuing it at a multiple at 1.7x FY2012E ABV.**

Key Financials

Y/E March (₹ cr)	FY2009	FY2010	FY2011E	FY2012E
NII	7,031	8,523	12,081	13,401
% chg	27.0	21.2	41.7	10.9
Net profit	3,091	3,905	4,320	4,712
% chg	50.9	26.4	10.6	9.1
NIM (%)	3.3	3.2	3.8	3.5
EPS (₹)	98.0	123.9	137.0	149.4
P/E (x)	11.4	9.0	8.1	7.5
P/ABV (x)	2.7	2.2	1.8	1.5
RoA (%)	1.4	1.4	1.3	1.2
RoE (%)	25.8	26.6	24.1	21.9

Source: Company, Angel Research; Price as on January 21, 2011

Research Analyst - Vaibhav Agrawal/Shrinivas Bhutda

Sesa Goa - Accumulate

Price - ₹330
Target Price - ₹356

3QFY2011 Result Update

Performance highlights

Particulars (₹ cr)	3QFY11	3QFY10	% chg (yoy)	2QFY11	% chg (qoq)
Net sales	**2,250**	**1,889**	***19.1***	**918**	***145.0***
EBITDA	1,231	1,036	*18.8*	340	*262.2*
EBITDA margin (%)	54.7	54.8	*(15bp)*	37.0	*1769bp*
Net profit	**1,065**	**828**	***28.7***	**385**	***177***

Source: Company, Angel Research

Volume growth impacted again: During the quarter, production was lower on account of extended monsoons and restricted road timings in Goa. Iron ore sales volume from Goa decreased by 18% yoy to 4.2mn tonnes. Moreover, we believe the state-wide ban on export of iron ore from Karnataka hit the company's operations in Karnataka. Iron ore sales volume from Karnataka and Orissa were down 26% yoy and 32% yoy, respectively. Hence, overall sales volumes of iron ore and pig iron declined by 20.8% yoy and 11.1% yoy to 5.4mn tonnes and 0.6mn tonnes, respectively.

However, on the positive side, average iron ore realisations increased by 58.8% yoy to US $87/tonne. Average pig iron realisation also increased by 27.7% yoy to ₹25,303/tonne. Thus, revenue grew by 19.1% yoy to ₹2,250cr during 3QFY2011.

EBITDA margin flat qoq: In 3QFY2011, EBITDA margin stood flat at 54.7% qoq, as the positive impact of higher realisations was offset by increased royalty rates and higher freight cost per tonne. Royalty cost for the quarter increased to ₹233/tonne. Freight cost in Goa increased by US $1.2/tonne qoq. Other income decreased by 4.3% yoy to ₹127cr. Lower tax rate at 19.4% in 3QFY2011 v/s 25.9% in 3QFY2010 led to a 28.7% yoy increase in the bottom line to ₹1,065cr.

Outlook and valuation

We expect iron ore sales volume growth to remain muted in FY2012E for Sesa Goa. Nevertheless, spot iron ore prices have risen steeply during the past three months on the back of improved demand from China. Hence, going forward, we believe rising costs will be more than offset by rising iron ore prices. However, lumpiness in iron ore demand, huge swings in iron ore prices, threat of the Indian government raising export duty on iron ore fines, logistical issues in Goa and stricter regulations imposed by the government are the key concerns for Sesa Goa in the near-to-medium term. Nevertheless, we believe the current price levels discount these negatives. A key catalyst for the stock could be lifting of iron ore export ban by the Karnataka government (the current ban is applicable until January 2011).

Sesa Goa is currently trading at 4.4x FY2011E and 2.9x FY2012E EV/EBITDA. On a P/BV basis, the stock is trading at 2.2x FY2011E and 1.8x FY2012E estimates. Although we have lowered our sales volume estimates for FY2012E, we have raised our iron ore price assumptions. Hence, overall, our revenue and profitability estimates for FY2012E are revised upwards. **We now value Sesa Goa at 3.5x EV/EBITDA multiple and raise our target price to ₹356 per share. Thus, we upgrade the stock from Neutral to Accumulate.**

However, the downside risk to our estimates exists in case the government increases export tax on iron ore fines to 20% from the current 5%.

Key Financials (Consolidated)

Y/E March (₹ cr)	FY2009	FY2010	FY2011E	FY2012E
Net sales	**4,918**	**5,798**	**7,985**	**9,513**
% chg	*30.6*	*17.9*	*37.7*	*19.1*
Net profit	**1,988**	**2,629**	**3,809**	**4,005**
% chg	*28.4*	*32.2*	*44.9*	*5.1*
FDEPS (₹)	**25.3**	**29.6**	**42.8**	**45.0**
OPM (%)	51.3	53.7	53.3	57.0
P/E (x)	13.1	11.2	7.7	7.3
P/BV (x)	5.5	3.5	2.2	1.8
RoE (%)	51.9	41.6	36.1	26.7
RoCE (%)	63.9	41.7	36.0	35.2
EV/Sales (x)	4.4	4.0	2.4	1.7
EV/EBITDA (x)	8.6	7.4	4.4	2.9

Source: Company, Angel Research; Price as on January 24, 2011

Research Analyst - Bhavesh Chauhan/Pooja Jain

State Bank of India - Buy

Price - ₹2,693
Target Price - ₹3,490

3QFY2011 Result Update

Performance highlights

Particulars (₹ cr)	3QFY11	2QFY11	% chg (qoq)	3QFY10	% chg (yoy)
NII	9,050	8,115	11.5	6,316	43.3
Pre-Prov Profit	6,764	6,357	6.4	4,618	46.5
PAT	2,828	2,501	13.1	2,479	14.1

Source: Company, Angel Research

For 3QFY2011, SBI's standalone net profit posted growth of 13.1% qoq and 14.1% yoy to ₹2,828cr, slightly below our estimate of ₹2,911cr on account of higher effective tax rate. Sequential NIM expansion coupled with lower slippages was the key highlight of the results.

Advances grow in line with industry, deposits growth lags: During 3QFY2011, the bank's net advances grew by 6.7% qoq and 21.3% yoy, underpinned by strong growth in large corporate segment loans which grew by 28.2% yoy and retail loans led by auto (52.2% yoy), education (27.2% yoy) and home (22.5% yoy) as well as SME loans (20.6% yoy). The bank's loan book continues to be well diversified with no segment accounting for more than 21% of the total loan book. During the quarter, deposits grew to 14.0% yoy, driven by healthy CASA deposits growth of 27.7% yoy and retail term deposits grew by 5.3% yoy. The bank continued to shed high-cost bulk deposits by 3.2% yoy. Current deposits increased by 19.1% yoy, while savings deposits rose by 29.9% yoy. CASA ratio improved further by 40bp qoq to 48.2% from 47.8% in 2QFY2011.

NIM continues to improve sharply: The bank's reported NIM has been witnessing an upward trend since hitting a low of 2.30% in 1QFY2010, from which level it has improved by 131bp to 3.61% in 3QFY2011. Even on a sequential basis, NIM expanded by a healthy 18bp on account of the 8bp increase in yield on advances and 5bp decline in cost of deposits. NIM improved owing to the improvement in CASA deposits, which grew by 27.7% yoy driven by strong 29.9% growth in savings account deposits and shedding of bulk deposits. As a result, NII increased by a healthy 11.5% qoq and 43.3% yoy to ₹9,050cr in 3QFY2011.

Muted non-interest income: Non-interest income declined by 17.3% qoq and 1.5% yoy on account of the 49.6% yoy decline in profit on sale of investments. Non-interest income excluding profit on sale of investments grew by 5.6% yoy. Fee income adjusting for ATM interchange fees for 9MFY2010 (which was accounted for in 3QFY2010 itself) increased by 21.3% yoy.

Lower slippages, higher restructuring: During 3QFY2011, the bank's asset quality showed signs of stabilisation with slippages falling to ₹3,153cr compared to average quarterly slippages of ~₹4,250cr during 1HFY2011. Annualised slippage ratio fell to 2.0% from 2.6% in 1QFY2011 and 2.8% in 2QFY2011. Even Net NPA growth was marginal at 0.8%. The bank restructured advances of ₹2,080cr during 3QFY2011 which were higher than the restructuring of ₹1,021cr in 1HFY2011.

The bank did not make provisions for teaser loans based on its view that its home loans were not falling within the definition of teaser loans. The amount of such a provision is estimated in the range of ~₹400-600cr. In case the RBI does not uphold this view, the bank's bottom-line estimates would have a corresponding downside.

Outlook and valuation

Due to strong CASA market share gains and high fee income, SBI's core RoEs have improved over the past few years and, unlike most other PSBs, actual FY2010 RoEs are below core levels due to low asset yields, providing scope for upside as yields normalise to sectoral averages. At ₹2,693, the stock is trading at 2.0x FY2012E ABV (without adjusting value of subsidiaries). We believe going forward, SBI has ample levers to deliver healthy operating income growth even in the rising interest rate environment as well as manage its provisioning requirements. **We maintain a Buy on the stock, with a Target Price of ₹3,490.**

Key Financials

Y/E March (₹ cr)	FY2009	FY2010	FY2011E	FY2012E
NII	20,873	23,671	32,502	39,015
% chg	22.6	13.4	37.3	20.0
Net profit	9,121	9,166	10,498	15,298
% chg	35.5	0.5	14.5	45.7
NIM (%)	2.6	2.5	3.0	3.1
EPS (₹)	143.7	144.4	165.3	240.9
P/E (x)	18.7	18.7	16.3	11.2
P/ABV (x)	3.3	2.9	2.4	2.0
RoA (%)	1.1	0.9	0.9	1.1
RoE (%)	18.2	15.7	16.0	20.4

Source: Company, Angel Research; Price as on January 24, 2011

Research Analyst - Vaibhav Agrawal/Shrinivas Bhutda

Sterlite Industries - Buy

Price - ₹169
Target Price - ₹206

3QFY2011 Result Update

Performance highlights

Particulars (₹ cr)	3QFY11	3QFY10	% chg (yoy)	2QFY11	% chg (qoq)
Net sales	**8,294**	**6,669**	***24.4***	**5,925**	***40.0***
EBITDA	1,941	1,749	*10.9*	1,452	*33.7*
EBITDA margin (%)	23.4	26.2	*(283)bp*	24.5	*(111)bp*
Net profit	**1,101**	**687**	***60.3***	**1,008**	***9.2***

Source: Company, Angel Research

3QFY2011 result highlights

Sterlite's 3QFY2011 revenue increased by 24.4% yoy to ₹8,294cr, well above our estimates of ₹7,143cr. Net sales were above our expectations on account of higher-than-expected realisation on zinc, aluminum and lead sales. EBITDA increased by 10.9% yoy to ₹1,941cr. The zinc business's cost of production, excluding royalty, increased by 5.0% yoy to ₹35,500/tonne. The aluminum business's cost of production increased by 3.2% yoy to ₹80,528/tonne. Consequently, EBITDA margin decreased by 283bp yoy in 3QFY2011. EBIT of the zinc and lead businesses increased by 9.4% yoy to ₹1,430cr, which contributed 81.4% to Sterlite's consolidated EBIT. EBIT of the copper and aluminum businesses increased by 38.1% yoy and 121.5% yoy to ₹194cr and ₹119cr, respectively. Sterlite's net profit increased by 60.3% yoy to ₹1,101cr.

Segmental performance

Copper segment affected by lower production: During 3QFY2011, copper cathode production at the Tuticorin smelter decreased by 7.0% yoy to 78,990 tonnes due to a temporary shutdown following the

High Court order issued at the end of September 2010. Cost of production decreased to 1.24 USc/lb in 3QFY2011 compared to 10.37 USc/lb in 3QFY2010 mainly on account of improved sulphuric acid realisation and improved operational efficiency. Consequently, EBIT increased by 37.5% yoy to ₹194cr in 3QFY2011.

Strong performance from the aluminium segment: Balco's aluminium production remained flat yoy at 65,000 tonnes during 3QFY2011. Balco plant 1 CPP continued to sell surplus power during the quarter. Balco's EBITDA increased by 41.0% yoy to ₹158cr. However, cost of production increased to ₹80,528/tonne in 3QFY2011 compared to ₹77,964/tonne during 3QFY2010 mainly due to increased cost of alumina, coal and carbon.

The increase in costs was more than offset by rise in realisations, leading to a 300bp yoy improvement in EBIT margin.

Zinc-lead segment aided by higher volumes and prices: During 3QFY2011, Hindustan Zinc's mined zinc production was higher by 11.3% yoy and 8.5% qoq to 222,249 tonnes. On a sequential basis, zinc and lead realisations grew impressively by 14.2% and 17.5% to US $2,473/tonne and US $2,659/tonne, respectively, during the quarter. Average silver realisation increased by 46.4% yoy and 34.2% qoq to ₹39,398. Thus, net revenue increased by 17.4% yoy and 20.3% qoq to ₹2,163cr.

EBIT increased by 9.4% yoy to ₹1,430cr, led by higher realisations. However, EBIT margin contracted by 588bp yoy during the quarter mainly on account of higher stripping costs.

Outlook and valuation

Sterlite is currently trading at 6.8x and 5.0x FY2011E and FY2012E EV/EBITDA, respectively. We have revised our FY2011E and FY2012E estimates to factor in higher prices at LME. **Given the recent decline in the stock price and slight upward revision in our target price, we upgrade the stock to Buy from Accumulate with an SOTP-based Target Price of ₹206.**

Key Financials (Consolidated)

Y/E March (₹ cr)	FY2009	FY2010	FY2011E	FY2012E
Net sales	**21,144**	**24,410**	**30,166**	**35,663**
% chg	*(14.4)*	*15.4*	*23.6*	*18.2*
Net profit	**3,540**	**3,744**	**4,526**	**5,896**
% chg	*(19.5)*	*5.8*	*20.9*	*30.3*
FDEPS (₹)	**12.3**	**11.9**	**13.5**	**17.5**
OPM (%)	22.2	24.9	24.4	26.5
P/E(x)	14.5	15.1	12.6	9.6
P/BV(x)	1.9	1.5	1.3	1.2
RoE(%)	14.4	11.3	10.9	12.8
RoCE(%)	10.7	10.9	10.3	12.4
EV/Sales (x)	2.5	2.2	1.6	1.3
EV/EBITDA (x)	11.0	8.8	6.8	5.0

Source: Company, Angel Research; Price as on January 27, 2011

Research Analyst - Bhavesh Chauhan/Pooja Jain

United Phosphorus - Buy

Price - ₹155
Target Price - ₹198

3QFY2011 Result Update

Performance highlights

Particulars (₹ cr)	3QFY11	3QFY10	% chg	2QFY11	% Diff.
Total Revenue	**1,222**	**1,150**	**6.3**	**1,257**	**(2.8)**
EBITDA	221	194	*14.1*	233	*(4.8)*
EBITDA %	18	17	-	20.0	-
PAT	**84**	**64**	**31.4**	**115**	**(26.6)**

Source: Company, Angel Research

Lower-than-expected top-line growth: For 3QFY2011, UPL recorded a lower-than-expected mere 6.3% yoy growth in total revenues to 1,222cr, on the back of poor performance in the North American, Europe and India markets. While North America and Europe witnessed 4% and 24% decline in revenues respectively, India registered a mere 6% growth. Overall, volumes grew by 14% yoy owing to the robust 36% yoy growth witnessed in the Rest of the World. Revenue growth was also impacted by unfavourable exchange movement by 5% and the 3% erosion in the prices of products.

Higher other expense restricts improvement in OPM: Despite the poor performance on the top-line front, UPL recorded a strong 400bp improvement in gross margins though the same did not percolate down fully to the EBITDA level, as other expenses increased by 17% yoy during the quarter. EBITDA margins for the quarter improved by 123bp to 18.1% (16.9%).

Earnings growth in line with estimate: Net profit for the quarter came in at ₹84cr (₹64cr), a yoy increase of 31% mainly on account of improved OPM and higher other income of ₹26cr (₹8cr). Adjusted PAT stood at ₹114cr (₹47cr).

Conference call - Key takeaways

- For FY2011, management lowered its revenue guidance from 8-10% (organic) and 15% on inorganic basis to overall 5%, with EBITDA margin of 20-21%
- Most of the geographies witnessed strong volume growth except Europe, which recorded 20% yoy decline in volumes.
- Benefits of restructuring at Cerexagri, the Spain plant were visible in the current quarter. However, benefits of restructuring at Rotterdam would be visible in 4QFY2011 and FY2012.
- Strong balance sheet with net cash of ~₹2,000cr at the end of 3QFY2011.

Outlook and Valuation

Over the last few years, the global agriculture sector has been rejuvenating/reviving on the back of rising food prices. Food security is also top priority for most governments, while reducing food loss is one of the easiest ways to boost food inventory. Hence, we believe that the agrichemical companies would continue to do well in wake of heightened food security risks and strong demand is likely to be witnessed across the world. Overall, we expect the global agrichemical industry to perform well from hereon. However, generics are expected to register healthy growth on account of: a) increasing penetration and wresting market share from innovators, and b) patent expiries worth US $3-4bn (2007) during 2009-14.

We estimate UPL to post 6.2% and 13.4% CAGR in sales and PAT respectively, over FY2010-12. Post the recent correction, the stock is trading at attractive valuations of 10.1x FY2012E EPS. **Hence, we maintain a Buy on the stock, with a Target Price of ₹198.**

Key Financials (Consolidated)

Y/E March (₹ cr)	FY2009	FY2010	FY2011E	FY2012E
Total Revenue	**4,931**	**5,408**	**5,508**	**6,103**
% chg	*35.4*	*9.7*	*1.8*	*10.8*
Adj Profit	**440**	**549**	**553**	**706**
% chg	*12.9*	*24.7*	*0.7*	*27.7*
EBITDA (%)	19.7	17.9	18.8	19.6
EPS (₹)	**10.0**	**12.5**	**12.0**	**15.3**
P/E (x)	15.5	12.4	12.9	10.1
P/BV (x)	2.5	2.3	2.0	1.7
RoE (%)	17.9	19.4	16.6	17.9
RoCE (%)	17.1	14.1	14.7	18.3
EV/Sales (x)	1.7	1.4	1.4	1.2
EV/EBITDA (x)	8.8	7.7	7.6	6.3

Source: Company, Angel Research; Price as on January 25, 2011

Research Analyst - Sageraj Bariya

Bears on a rampage - Markets may slide further

Sensex (18396) / Nifty (5512)

In our previous Weekly report, we had mentioned that prices are hovering above the 200-day SMA, which is at 18674 / 5600 level .Further, in view of the lower-top lower-bottom formation, we had mentioned that the narrow range body formation on the Weekly chart seems like a breather to the ongoing downtrend. Any close below 18674 / 5600 levels, would intensify the selling pressure and the indices may test 18500 - 17800 / 5550 - 5340 levels in the next couple of weeks. The week opened on a positive note but was unable to sustain the gains, which dragged down the indices to test fresh lows of 18235 / 5459. Both the Sensex and Nifty closed with a net loss of 3.2% vis-à-vis the previous week.

Pattern Formation

- On the **Daily chart**, the prices have breached the 200-day SMA, which suggests further weakness going ahead.

Future Outlook

The coming week is likely to roll out with negative sentiment. On the Daily chart, the indices have closed well below the 200-days SMA, which indicates weakness going forward. Heavyweight large-cap stocks are also forming a bearish pattern and many stocks are trading near to their 52-weeks lows, which suggests that stocks may witness further price correction. The indices on the downside are now likely to test multiple support levels of 17820 / 5350 or even may test 17373 / 5200 level in the coming weeks. On the up-side, a pull back could be expected from current levels up to 18920 - 19076 / 5672 - 5721 levels where again selling pressure may emerge as the trend is down.

Exhibit 1: Sensex Daily chart

Source: Falcon

Weekly Pivot Levels For Nifty 50 Stocks

SCRIPS	R2	R1	PIVOT	S1	S2
SENSEX	19,763	19,079	18,657	17,974	17,552
NIFTY	5,933	5,723	5,591	5,381	5,249
BANK NIFTY	11,548	11,063	10,772	10,287	9,996
A.C.C.	1,070	1,031	1,008	969	946
ABB LTD.	771	739	719	687	668
AMBUJACEM	138	133	130	125	122
AXISBANK	1,382	1,318	1,281	1,216	1,179
BHARAT PETRO	677	655	623	601	569
BHARTIARTL	349	338	330	320	312
BHEL	2,380	2,266	2,199	2,085	2,017
CAIRN	349	338	331	319	312
CIPLA	370	352	339	321	307
DLF	277	249	233	206	190
GAIL	501	478	462	438	422
HCL TECHNOLO	525	509	498	482	471
HDFC BANK	2,224	2,139	2,090	2,005	1,956
HERO HONDA	1,854	1,756	1,696	1,598	1,538
HINDALCO	248	236	227	215	206
HINDUNILVR	317	294	281	258	245
HOUS DEV FIN	699	672	656	629	612
ICICI BANK	1,133	1,076	1,035	977	936
IDEA	75	73	70	68	65
IDFC	165	157	152	143	138
INFOSYS TECH	3,369	3,268	3,205	3,104	3,040
ITC	173	171	168	166	163
JINDL STL&PO	731	698	676	643	621
JPASSOCIAT	96	92	89	85	82
KOTAK BANK	440	410	392	362	344
LT	1,740	1,674	1,634	1,567	1,527
MAH & MAH	846	772	725	650	603
MARUTI	1,336	1,283	1,251	1,198	1,166
NTPC	201	197	193	188	185
ONGC CORP.	1,171	1,152	1,131	1,111	1,090
PNB	1,186	1,140	1,114	1,068	1,042
POWERGRID	103	100	96	93	90
RANBAXY LAB.	612	574	534	495	455
RCOM	142	134	128	120	115
REL.CAPITAL	614	575	551	512	489
RELIANCE	1,031	972	937	878	843
RELINFRA	767	746	725	704	683
RPOWER	148	142	139	134	130
SIEMENS	805	766	729	690	652
STATE BANK	2,796	2,708	2,649	2,561	2,502
STEEL AUTHOR	175	166	161	153	147
STER	192	180	171	158	149
SUN PHARMA.	515	482	459	426	402
SUZLON	55	53	51	48	46
TATA POWER	1,357	1,310	1,281	1,234	1,206
TATAMOTORS	1,235	1,193	1,157	1,115	1,080
TATASTEEL	682	660	642	620	603
TCS	1,244	1,212	1,189	1,158	1,134
UNITECH LTD	63	57	53	47	43
WIPRO	462	450	442	429	421

Technical Research Team

Heavy buildup seen in 5400 and 5500 puts

Nifty spot has closed at **5512** this week, against a close of **5696** last week. The Put-Call Ratio has increased from **0.89** to **1.31** levels and the annualized Cost of Carry (CoC) is positive **5.98**%. The Open Interest of Nifty Futures decreased by **17.84**% due to expiry.

Put-Call Ratio Analysis

The Nifty PCR OI is at 1.31 levels. In new series, the buildup in call options is scattered from 5700 to 6000 strike, though the 5800 call has highest open interest as of now. On the put front, 5400 and 5500 strike has more or less same open interest, although 5400 put has highest positions. Option data is suggesting strong support in the market around 5400 levels. We also observed that below 5400 strike, open interest in puts is very less. Selective large-cap stocks can be bought around support levels.

Open Interest Analysis

Total open interest of the market is ₹1,11,738cr against ₹1,57,069cr last week and the stock futures open interest decreased from ₹38,885cr to ₹31,377cr. In new series, Nifty and Banknifty rollover was almost same in percentage terms but the open interest has reduced significantly. Few large cap stocks where rollover is high in both terms open interest and percentage are LT, TATAPOWER, GAIL, ONGC and HDFCBANK. These stocks have significant short positions and mainly shorts have been rolled over.

Futures Annual Volatility Analysis

Historical volatility of Nifty has decreased from 23.08% to 22.74%. IV of at-the-money options increased from 19.75% to 21.50% for February expiry. Few liquid counters where HV has increased significantly are GTLINFRA, HINDUNILVR, SREINFRA, M&M and LUPIN. Stocks where HV has decreased significantly are ITC, PATNI, INDIACEM, PETRONET and CUMMINSIND.

Cost-of-Carry Analysis

The Nifty February futures closed at a premium of 24.40 points against a premium of 32.10 points last week and the March futures closed at a premium of 41.45 points. Few liquid stocks where Cost-of-Carry is positive are MLL, GTLINFRA, PANTALOONR, STER and CENTRALBK. Stocks where Cost-of-Carry is negative are NATIONALUM, TATASTEEL, ACC, TATAMOTORS and NTPC.

Derivative Strategy

Scrip : HINDALCO **CMP : ₹223.55/-** **Lot Size : 2000** **Expiry Date (F&O) :** 24th Feb, 2011

View: Mildly Bearish **Strategy: Bear Put Spread**

Buy/Sell	Qty	Scrip	Strike Price	Series	Option Type	Rate (₹)
Buy	2000	HINDALCO	220	Feb	Put	7.00
Sell	2000	HINDALCO	200	Feb	Put	2.00

BEP: ₹215.00/-

Max. Risk: ₹10,000.00/-
If HINDALCO closes on or above Rs220.00 on expiry.

Max. Profit: ₹30,000.00/-
If HINDALCO closes on or below Rs200 on expiry.

Note: Profit can be booked before expiry if HINDALCO moves in the favourable direction and time value decays.

Expected Payoff

Closing Price	Expected Profit/Loss
₹193.00	₹15.00
₹200.00	₹15.00
₹207.00	₹8.00
₹214.00	₹1.00
₹221.00	(₹5.00)
₹228.00	(₹5.00)

Equity Mid-cap Mutual Funds

What is Mid-cap Mutual Funds?

- Mid-cap mutual funds invests in multiple mid-cap stocks or equities.
- Mid-cap stocks are a specific kind of stock that represents a company within a certain range of market capitalization.
- Mid-cap funds is a great way to do what's called **"growth investing,"** where the investor is betting that good companies will **"break out"** into larger markets and attain higher earnings over time.

What is the Mid-cap Opportunity?

Capitalization	Number of Companies	Share of Market Capitalization
Large Caps	Approx 110	76%
Mid Caps	**Approx 410**	**16%**
Small Caps	>7000	7%

- The Mid Cap universe consists of mid-life cycle, high growth, financially established companies.
  - √ Combination of higher growth & flexibility of smaller companies, with
  - √ Established track record, financial performance & better liquidity

Valuations Well Off Peak

Date	P/E	BSE Mid-Cap Index	Valuations Discount to 2007
31-Dec-07	27	9789	
31-Dec-10	18	7803	33%

Date	P/E	BSE Sensex	Valuations Discount to 2007
31-Dec-07	24	20287	
31-Dec-10	19	20509	21%

Features of Midcap Mutual Funds

- Mid-cap funds are a special type of mutual fund wherein, the corpus accumulated is invested in small or medium sized companies.
- In the absence of any standardized definition or definite classification of small or medium sized company, each mutual fund classifies small and medium sized companies according to its own policies.
- Mid-cap funds bear high risk factors and thus offer high returns in case of positive movements of the indexes.
- Opportunity of investment in Mid-cap funds is high due to low identification factor in the market.
- Mid-Cap Funds tend to grow in size as more investors gets involved. The net effect is that, huge amount of money is invested against few stocks.
- Experts are of the opinion that investments in Mid-Cap Funds should follow investment patterns of sectoral funds and one should not focus only on these funds alone.
- Further, investment in Mid-Cap Funds should have long term perspective.
- With the rise of large caps the heavy weight investors like the mutual funds and Foreign Institutional Investors are increasingly investing in mid cap funds.
- However investment in Mid-cap funds should be undertaken with caution since these tend to be volatile because of the high risk involved.

Today's Mid-Caps are the Large Caps of tomorrow

Start-up Phase
- Emerging companies
- High growth phase
- But prone to higher risks
- Business not yet well established

Small Caps

→

Growth Phase
- Superior growth profile
- Established track record
- Maintains flexibility
- Lower risk compared to smaller companies

Mid Caps

→

Mature Phase
- Stable growth
- Established business models
- Reduced flexibility
- Lower risk compared to Mid Cap companies

Large Caps

Axis Midcap Fund - NFO Analysis

Fund Features

NFO Date: - 31th Jan to 14th Feb 2011

Scheme Objective	To achieve long term capital appreciation by investing predominantly in equity & equity related instruments of mid size companies. The focus of the fund would be to invest in relatively larger companies within this category.		
Type of Fund	An Open Ended Equity Scheme		
Bench Mark Index	BSE Mid-Cap Index		
Min Investment	Rs.5000 & in multiples of Re. 1 thereafter		
Entry Loads	NIL		
Exit Loads	1% If redeemed or switched out on or before completion of 12 months from the date of allotment of units.		
Fund Manager	Mr. Pankaj Murarka		
Asset Allocation	**Instruments**	**Asset Allocation (% of Net Assets)**	**Risk Profile**
	Mid Cap Equities	80% - 100%	High
	Other Equities & Fixed Income	0% - 20%	Low to Medium
Allocation within Mid Caps	Larger Mid Caps	75% - 100%	High
	Smaller Mid Caps	0% - 25%	High

Risk Management by Axis Midcap Fund

- Mid Caps tend to be higher on the risk-reward scale than Large Cap companies
- There is a need to manage the higher risks from Mid Cap investing
- Solution: Larger Mid Caps
  - √ Best of both worlds" mix of characteristics of Large and Mid Cap companies
  - √ Flexibility and ability to respond to market opportunities leads to higher growth ability compared to Large Caps
  - √ While their established track records, experienced management teams, market share, name recognition reduces risk relative to smaller companies

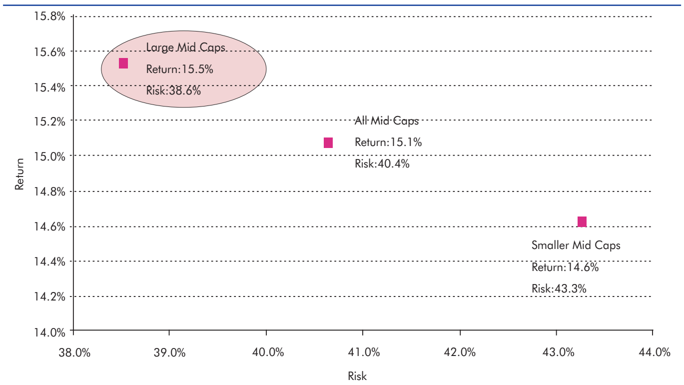
Suitability Matrix of Axis Midcap Fund

Why should you buy Axis Midcap Fund?	For a bigger home, better holidays, bigger cars, etc.
Who should buy?	Those who are willing to take more risk for more return
For how long should you invest?	At least 5 years. Usually , the longer one remains invested, the better it is

Axis Midcap Fund - Best of Both Worlds

Mid & Small Size Companies	Larger Mid Caps	Large Companies
Flexible Innovative Better Growth Potential		Proven Management Established Track Records Liquidity Less Risky

Larger Mid Caps - Higher returns with lower risk



Note: **Past performance may or may not be sustained in the future.** This is historical data for the period 31 Dec 2005 to 31 Dec 2010. Returns are compounded annualised. Risk in the above chart stands for standard deviation. Performance and risk relate to equal-weighted performance of BSE Mid Cap constituents. Larger Mid Caps are those companies with a market cap greater than or equal to the median stock of the BSE Mid Cap Index. Smaller Mid caps are those companies with a market cap below the median of the BSE Mid Cap Index. Market Cap based classification has been done on annual basis.
Source of data: Bloomberg.

Currencies Weekly Performance Snapshot

The currency segment traded within a wide range last week, but mostly ended on a flat note towards the end of the week. The US Dollar declined in the initial part of the week after weekly jobless claims increased sharply. But, on the last trading day, the currency gained sharply on the back of political concerns in Egypt, as investors preferred safer investments like the greenback. The US Dollar Index (DX) - a gauge against a basket of six currencies closed at 78.15 on Friday, up more than 0.5% on an intra-day basis. But, on a weekly basis, the index ended on a flat note. Advance GDP figures of the US released on Friday indicated that the US economy grew by 3.2% in the fourth quarter as against 2.6% in the third quarter. But, the growth in GDP was slightly lower than the market expectations of 3.5%.

Exhibit 1: Currencies Performance

Currency Pair	WTD %	MTD %
NSEINR/$ Feb'11 Futures	-0.1	-0.8
NSEINR/Euro Feb'11 Futures	-1.6	-4.3
NSEINR/GBP Feb'11 Futures	0.03	-4.0
NSEINR/JPY Feb'11 Futures	0.2	-0.06

Source: Reuters

RBI raises repo and reverse repo rate by 25 basis points: The Reserve Bank of India (RBI) raised repo rate as well as reverse repo rate by 25 basis points in its monetary policy review on December 25th. The new effective repo rate now stands at 6.50 percent whereas the reverse repo rate at 5.50 percent. The Cash Reserve Ratio (CRR) ratio as well as the Statutory Liquidity Ratio (SLR) was left unchanged at 6.0 percent and 24.0 percent respectively.

High inflation rates in India have made the central bank to constantly raise interest rates and this has led to concern of decreasing profit margins for businesses. On the back of this coupled with improving economic scenario in the developed economies, foreign funds have been moving funds to the developed markets. In the domestic markets, FII's have been net sellers of around $617.4 million in the first month of 2011(Till 27th Jan 2011). Indian equities comprising the Sensex and Nifty have declined around 10% since the start of 2011. Nifty touched a four-month low of 5,459 on Friday and lost more than 3% w-o-w. The Indian Rupee continued to depreciate against its US counterpart. The domestic currency touched an eight-week low of 45.94 and closed at 45.90 at the end of the week.

Exhibit 2: Indian Rupee Weekly Price Chart

Source: Telequote

Standard and Poor's (S&P) cuts Japan's long-term credit ratings: The S&P announced a cut in Japan's long-term sovereign debt ratings on account of the country's mounting debt. The latest cut in ratings was for the first time since the year 2002. The ratings were cut by one notch to AA minus from the previous of AA plus. The Yen declined more than 1% on Thursday after this news, but reversed losses on Friday after political concerns in Egypt attracted demand for the low-yielding currency. The Bank of Japan (BOJ) left interest rates unchanged near zero levels as expected, in its monetary policy review last week. But, the central bank's governor, Masaaki Shirakawa raised Japan's growth forecasts for the coming quarters.

Fundamental and Technical Outlook: A major focus in this week would be the ongoing political concerns in Egypt. If these issues escalate further, we may see some more gains in the US dollar. Apart from that, unemployment rate of the US is scheduled to be released in the later part of the week and the Fed chairman Ben Bernanke is also scheduled to speak on Macroeconomic Policies and Economic Outlook. In the domestic markets, we expect the Indian Rupee to depreciate further on the back of FII outflows. Moreover, month-end dollar demand by importers will also exert pressure on the Rupee. There is also host of data to be released from the Euro zone front in this week. If the data comes favorable, we may see slight gains in the Euro. But, sharp gains may be capped if the dollar strengthens on political concerns in Egypt.

Exhibit 3: Technical Levels

Currency	Support	Resistance
USD/INR(Feb'11)	45.78/45.57	46.25/46.45
Euro/INR(Feb'11)	62.41/61.77	63.38/63.72
GBP/INR(Feb'11)	72.32/71.72	73.65/74.38
JPY/INR(Feb'11)	55.18/54.82	55.82/56.10

Source: Telequote

Research Analyst (Commodity) - Reena Walia Nair/Naser Parkar

Commodities Update

Exhibit 1: Commodities Weekly Performance

	29th Jan. 2011	21st Jan. 2011	% Change
Non Agri- Commodities (MCX)			
Top Gainers			
Aluminium	112.80	109.55	3.0
Nickel	1223.0	1193.30	2.5
Lead	115.55	112.90	2.3
Silver	43258	42596	1.6
Top Losers			
Natural Gas	200.9	217.1	(7.5)
Agri Commodities (NCDEX)			
Top Gainers			
Kapas	902.9	819.5	10.2
Guar gum	7630	7410	2.9
Castor Seed	4730	4683	1
Top Losers			
Coriander	4630	5215	(11.22)
Jeera	14870	15714	(5.37)

International Perspective: Commodity prices gained on the MCX last week with natural gas being the exception. In the base metals pack, all the metal prices traded higher with aluminium being the top performer of the week. The US GDP data indicated pick up in the economic expansion in the fourth quarter, helping base metal prices to move in the northwards direction. The US Dollar Index (DX) depreciated in the initial part of the week, and this factor also helped prices to rise in the international markets. On the MCX, depreciation of the Indian Rupee further supported rise in prices. Spot Rupee depreciated around 0.6% last week, to close at 45.90 on Friday.

On a weekly basis, **crude oil prices** gained around 0.3% on the Nymex. Oil prices had suffered sharply in the first four sessions, but rebounded sharply on political concerns in Egypt. This led to concern that the Suez Canal, which carries oil from the middle-east to the western countries may be shut down. Crude oil prices rallied almost 5% on the Nymex on Friday and around 3.5% on the MCX on the same day.

Similarly in the precious metals pack, **Spot Gold** prices declined 0.5% w-o-w, but posted its biggest intra-day gains on Friday in the last eight weeks. Prices gained almost 2% on both the Comex as well as on the MCX on Friday as Egyptian concerns escalated, inviting safe-haven demand for the yellow metal. Spot Silver prices gained more than 1.5% in both the international as well as on the domestic platform last week. **Spot silver** prices gained around 4% on Friday whereas on the MCX, the March silver futures contract gained around 3% on the same day.

Agri Perspective: Kapas headed the gainers list surging 10.2% the previous week owing to firm international markets. Cues of lower global supplies amidst improved Chinese demand helped prices to touch new highs in the domestic futures. Prices hit new historical highs of Rs. 925 per 20kgs.Increased demand from the **Guargum** manufacturers amidst rising export enquiries led guargum futures to strengthen around 3%. According to market sources, since the first week of January, there has been an increase in overseas enquiries, especially from the US and China, which has prompted local stockiest and processors to increase buying of guar seed. **Castor seed** continued to trade firm posting gains of around 1% owing to better demand from the overseas buyers. **Jeera** which rose in the last week witnessed long liquidation in this week and on reports of fresh arrivals in the domestic mandis. Profit booking at higher levels led Coriander to trade bearish and ended 11.22% down the previous week.

Exhibit 2: Major Economic Data Releases this week

Date	Country	Indicator	Forecast	Previous
Feb 1	China	Manufacturing PMI	54.1	53.9
	US	ISM Manufacturing PMI	57.6	58.5
Feb 2	US	ADP Non-Farm Employment Change	151K	297K
Feb 3	US	Unemployment Claims	-	454K
	US	ISM Non-Manufacturing PMI	57.2	57.1
	US	Fed Chairman Bernanke Speaks	-	-
Feb 4	US	Non-Farm Employment Change	121K	103K
	US	Unemployment Rate	9.5%	9.4%

Outlook: In this week, the Chinese markets will remain closed from February 2nd to February 8th on account of Lunar New Year holiday. Commodity prices will be driven by economic updates from the US and other major economies. But, base metal prices may not witness sharp gains from the current levels on the absence of the major driver of metal prices. Crude oil prices would take cues from the developments from Egypt. If issues in the country escalate further, prices may soar in the coming week on supply concerns. Gold prices are also expected to take upside support on the back of safe-haven demand.

Among Agri commodities Spices are expected to trade weak in the coming week owing to dull domestic and overseas demand. Fresh arrivals in the domestic mandi of all the major spices particularly jeera, pepper and turmeric might also pressurize prices. Output concerns of Chana in M.P. are still providing support to the prices. Prices may bounce from support levels tracking above fundamentals.

Research Analyst (Commodity) - Nalini Rao/ Pallavi Munankar

Sugar

Sugar futures have declined by more than 8.5% since its relisting on the Indian exchanges on 27th of December, 2010. Peak crushing season, uncertainty over exports under Open General License (OGL) and higher Indian Sugar output estimates were the major factors that attributed to this sharp fall in prices. Despite of firm International markets, Sugar prices at NCDEX fell from its high of Rs. 3049 per qtl to its recent low of Rs. 2595 per qtl in the time span of 1 month.

Unseasonal rains during October and November had delayed Sugarcane crushing in the domestic markets. However, in the month of December and January the supplies have increased significantly as crushing is on in full swing. Secondly, Indian Government has allocated 1.7 million tonnes of non levy quota for the month of January. However, it will be difficult for mills to sell allocated quota for January. Some carry forward will remain there for February from this month's quota. Thus, huge stocks of non levy quota also pressurized the prices. Thirdly, after the two consecutive years of lower production, Indian Sugar output is expected to rise 30% in the year 2010-11 (Oct-Sep). Thus, if the Indian government undertakes any negative step with respect to exports under OGL, then the Indian Sugar prices will remain stable despite higher quotes in the International markets.

Global Sugar: Price trend and Outlook: In the International markets, London White Sugar futures and the ICE Raw Sugar are trading near its 30 years high around $ 814.40 per pound and 754.22 per pound (34 cents per pound) respectively due to declining stock to use ratio. Delay in decision with regards to Indian exports also supported the international Sugar markets in the past few weeks. Overall, we expect world Sugar prices to remain bullish in the first quarter of 2011 on supportive fundamentals which are (1) Flooding in Australia, the world's third largest sugar exporter, may cut its sugar output by 21% this year to a 9-yr low of 3.58 MMT, and may reduce the country's sugar output for next 2 to 3 years due to the loss of sugarcane plants, (2) The European Union may allow additional import quotas to boost supplies, and Russia may reduce its import tax on Raw Sugar in March, two months earlier than planned. (3) Uncertainty over Indian exports (4) ISO's forecast for a 1.7% rise in global sugar demand this year that will cut the stock to use ratio to a 20-yr low of 32% (5) ISO's cut in its 2010-11 global sugar surplus estimate to 1.3 MMT from a November estimate of 2.0 MMT.

Taking into consideration the fundamentals, we can say that International Sugar prices may rise till the first quarter of 2011. However, as the Brazil's next crop comes into the market (April onwards) prices will start declining.

Domestic Sugar Scenario: Due to lower production during the last 2 years, Indian farmers earned good returns and this induced them to sow more Sugar cane in 2010. Area under Sugarcane increased to 50.80 lakh hectares in 2010-11 as against 42.02 lakh hectares in 2009-10. Thus, Domestic sugar production is estimated at 24.5-25 million tonnes in the current year, 30% higher than that in the previous year. As of January 17, production across the country was reportedly 8.4 million tonnes.

India is normally a net sugar exporter, but had to import in the previous two seasons due to fall in output, prompting the government to ban unrestricted export of the commodity since February 2009. This season with forecasts of higher output, the government has permitted exports under Open General License (OGL) to the extent of 5 lakh tones. However, owing to the high food prices prevailing in the country the exports were kept on hold in an attempt by the government to keep prices in check.

Source: Telequote

Outlook: Sugar prices are expected to recover marginally in the coming days tracking the global markets. Ongoing crushing may put some pressure on the prices. However, any significant decline in the prices due to crushing may be treated as a good buying opportunity for the short term (2-3 weeks). In the medium to long term domestic Sugar price movement would be dependent on the permissible sugar exports from the country. Domestic sugar could gain if exports are allowed given the high sugar prices prevailing in the global markets. In the coming week, Sugar February 2011 contract shall find strong support at Rs.2730/Rs.2670 and resistance may be seen at Rs.2852/ Rs.2900.

Sr. Research Analyst (Commodity) - Vedika Narvekar

Commodity Technical Report

MCX APRIL GOLD

Last week, Gold prices opened the week at Rs.20,393 per 10 grams, initially moved higher but found resistance at 20410 levels. Later prices fell sharply lower and made a low of 19766 levels and Gold prices finally closed the week at Rs.20,168 down by Rs.171 as compared with previous week's close of Rs.20,339.

Trend : SIDEWAYS (MCX GOLD Weekly Chart)

Source: Telequote

Key Levels For Week :

S1 - 19,900 **R1 - 20,420**

S2 - 19,630 **R2 - 20,680**

Recommended Strategy: Neutral

MCX March Silver

Last week, Silver prices opened the week at Rs.42,820 per kg initially moved higher and as expected found resistance just below the expected levels at 43244 levels. Later prices fell sharply lower breaking the initial support but found strong support at 41280 levels recovered sharply towards 43300 levels and silver finally ended the week at 42999 with a gain of Rs.299 as compared with previous week's close of Rs.42,708.

Trend : SIDEWAYS (MCX SILVER Weekly Chart)

Source: Telequote

Key Levels For Week :

S1 - 41,850 **R1 - 43,800**

S2 - 40,650 **R2 - 44,500**

Recommended Strategy: Buy MCX Silver March in the range of 42300-42200 with strict stop-loss below 41500 Targeting initially 43700 and then 44000.

MCX February Copper

Last week, Copper prices opened the week at Rs.438.30 initially fell sharply lower, but found good support at 427.30 levels. Later prices recovered sharply and made a high of 446 levels and copper prices finally closed the week at Rs.441.55 with a loss of Rs.3.7 as compared with previous week's close of Rs.437.85.

Trend : SIDEWAYS (MCX COPPER Weekly Chart)

Source: Telequote

Key Levels For Week :

S1 - 430.80 **R1 - 449.30**

S2 - 419.60 **R2 - 457**

Recommended Strategy: Buy MCX Copper Feb in the range of 438.50-437.50 with strict stop-loss below 429 Targeting initially 449 and then 455.

MCX February Crude

Last week, Crude prices opened at Rs.4097 levels initially fell sharply lower breaking both the supports, but finally found support at 3924 levels. Later prices surged sharply towards 4137 and Crude finally ended the week at Rs.4117 with a gain of Rs.18 as compared with previous week's close of Rs.4099.

Trend : SIDEWAYS (MCX CRUDEOIL Weekly Chart)

Source: Telequote

Key Levels For Week :

S1 - 4000 **R1 - 4185**

S2 - 3870 **R2 - 4255**

Recommended Strategy: Neutral

Sr. Research Analyst (Commodity) - Samson Pasam

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Ratings (Returns) :	Buy (> 15%) Reduce (-5% to -15%)	Accumulate (5% to 15%) Sell (< -15%)	Neutral (-5 to 5%)

6th Floor, Ackruti Star, Central Road, MIDC, Andheri (E), Mumbai - 400 093. Tel: (022) 39357800

Research Team

Fundamental:

Sarabjit Kour Nangra	VP-Research, Pharmaceutical	sarabjit@angelbroking.com
Vaibhav Agrawal	VP-Research, Banking	vaibhav.agrawal@angelbroking.com
Vaishali Jajoo	Automobile	vaishali.jajoo@angelbroking.com
Shailesh Kanani	Infrastructure, Real Estate	shailesh.kanani@angelbroking.com
Rupesh Sankhe	Cement, Power	rupeshd.sankhe@angelbroking.com
Param Desai	Real Estate, Logistics, Shipping	paramv.desai@aangelbroking.com
Sageraj Bariya	Fertiliser, Mid-cap	sageraj.bariya@angelbroking.com
John Perinchery	Capital Goods	john.perinchery@angelbroking.com
Srishti Anand	IT	srishti.anand@angelbroking.com
Vinay Nair	Oil & Gas	vinay.nair@angelbroking.com
Bhavesh Chauhan	Metals & Mining	bhaveshu.chauhan@angelbroking.com
Jai Sharda	Mid-cap	jai.sharda@angelbroking.com
Sharan Lillaney	Mid-cap	sharanb.lillaney@angelbroking.com
Naitik Mody	Mid-cap, Telecom	naitiky.mody@angelbroking.com
Chitrangda Kapur	FMCG, Media	chitrangdar.kapur@angelbroking.com
Amit Vora	Research Associate (Oil & Gas)	amit.vora@angelbroking.com
V Srinivasan	Research Associate (Cement, Power)	v.srinivasan@angelbroking.com
Mihir Salot	Research Associate (Logistics, Shipping)	mihirr.salot@angelbroking.com
Pooja Jain	Research Associate (Metals & Mining)	pooja.j@angelbroking.com
Yaresh Kothari	Research Associate (Automobile)	yareshb.kothari@angelbroking.com
Shrinivas Bhutda	Research Associate (Banking)	shrinivas.bhutda@angelbroking.com
Sreekanth P.V.S	Research Associate (FMCG, Media)	sreekanth.s@angelbroking.com
Hemang Thaker	Research Associate (Capital Goods)	hemang.thaker@angelbroking.com
Nitin Arora	Research Associate (Infra, Real Estate)	nitin.arora@angelbroking.com
Ankita Somani	Research Associate (IT)	ankita.somani@angelbroking.com
Varun Varma	Research Associate (Banking)	varun.varma@angelbroking.com
Vasant Lohiya	Research Associate (Banking)	vasant.lohiya@angelbroking.com

Technicals:

Shardul Kulkarni	Sr. Technical Analyst	shardul.kulkarni@angelbroking.com
Mileen Vasudeo	Technical Analyst	vasudeo.kamalakant@angelbroking.com

Derivatives:

Siddarth Bhamre	Head - Derivatives	siddarth.bhamre@angelbroking.com
Jaya Agarwal	Derivative Analyst	jaya.agarwal@angelbroking.com

Institutional Sales Team:

Mayuresh Joshi	VP - Institutional Sales	mayuresh.joshi@angelbroking.com
Abhimanyu Sofat	AVP - Institutional Sales	abhimanyu.sofat@angelbroking.com
Pranav Modi	Sr. Manager	pranavs.modi@angelbroking.com
Ganesh Iyer	Sr. Manager	ganeshb.Iyer@angelbroking.com
Jay Harsora	Manager	jayr.harsora@angelbroking.com
Meenakshi Chavan	Dealer	meenakshis.chavan@angelbroking.com
Gaurang Tisani	Dealer	gaurangp.tisani@angelbroking.com

Production Team:

Bharathi Shetty	Research Editor	bharathi.shetty@angelbroking.com
Simran Kaur	Research Editor	simran.kaur@angelbroking.com
Bharat Patil	Production	bharat.patil@angelbroking.com
Dilip Patel	Production	dilipm.patel@angelbroking.com