

## FROM THE RESEARCH DESK

### Steel Authority of India Limited

On a sticky wicket

### Sun TV Networks Limited

Results in line

### Mcleod Russel India Limited

Potent brew

## Global News

- The Standard & Poor's 500 Index added 1.9 percent to close at 1,261.15, resuming gains after turning lower following data on service industries that trailed estimates and the ECB president's prediction that Europe may enter a "mild recession."
- Japanese stocks rose for the first time in four days after the European Central Bank unexpectedly lowered interest rates and Greece signaled it won't hold a referendum on a bailout package. The Nikkei 225 Stock Average rose 1.4 percent to 8,758.15 as of 10:38 a.m. in Tokyo. The broader Topix Index advanced 1.5 percent to 749.26, with more than three shares rising for each that fell.

## Sector & Corporate News

- **Petrol:** State-owned oil companies have increased the prices of petrol by INR1.82 per litre from Friday to offset the fall in rupee that has made imports of crude costlier.
- **FII:** The Reserve Bank of India allowed foreign institutional investors (FIIs) to invest up to USD25bn, up from existing limit of USD5bn, in bonds and debentures of Indian infrastructure companies.
- **ONGC:** Is likely to see a 75% jump in natural gas production in the next five years when the state-owned company will bring its Krishna Godavari basin gas finds into production.
- **Dhanlaxmi Bank:** Has proposed to infuse fresh capital within the next 2-3 months.
- **Vedanta Group:** Group's firm Sesa Goa will acquire 100% stake in Goa Energy from Videocon Industries and other shareholders for INR537.2m.
- **ARSS Infrastructure Projects:** Has revoked 6.23% of its shares, worth around INR300m, from IFCI.
- **TBEA (India) Pvt Ltd:** Is to invest USD400m in two phases for manufacture of transformers in Gujarat.

## Market Snapshot

Global Indices	Closing	% Chg	% YTD
Dow Jones	12,044	1.8	4.0
NASDAQ	2,698	2.2	1.7
FTSE	5,546	1.1	(6.0)
CAC	3,195	2.7	(16.0)
DAX	6,133	2.8	(11.3)
Russia	1,549	0.5	(12.5)
Bovespa	58,196	1.5	(16.0)
Nikkei	8,770	0.9	(13.1)
Hang Seng	19,243	(2.5)	(16.5)
Shanghai Composite	2,508	0.2	(10.7)

Indian Indices	Closing	% Chg	% YTD
Sensex	17,482	0.1	(14.8)
Nifty	5,266	0.1	(14.2)
MSCI India	430	0.2	(23.1)
CNX Midcap	7,249	0.4	(18.2)
BSE Smallcap	6,932	(0.0)	(28.3)

Flows (USDm)	Last	MTD
FII	39	145
Locals	(10)	(90)

Provisional flows	(USDm)
FIIs	3
Locals	0

Volumes	USDbn	% Chg
Cash (NSE + BSE)	2.5	7.0
F&O (net)	21.2	4.5

FII F&O	Stock Fut	Index Fut
Net (\$ mn)	(13)	(88)
Open Int (%)	1.1	(2.4)

ADR/GDR Gainers	Last	% Chg
MTNL	1.3	3.3
Patni	13.7	1.9
Reliance	36.5	1.8
Wipro	10.3	1.5
TCL	7.9	1.4

ADR/GDR Losers	Last	% Chg
ICICI Bank	35.9	(0.6)
Ranbaxy	10.5	(0.6)

## Sectoral indices

	Closing	% Chg	% MTD	% YTD
BSE Auto	9,212	(0.4)	(2.8)	(10.0)
BSE Bank	11,233	(0.1)	(1.9)	(16.0)
BSE Cap Goods	10,890	0.7	(0.7)	(29.4)
BSE Cons dur	6,511	(0.6)	(1.3)	2.4
BSE FMCG	4,173	(0.2)	(0.6)	13.3
BSE IT	5,732	(0.7)	(1.7)	(16.0)
BSE Health	6,138	(0.0)	0.0	(8.9)
BSE Metal	11,652	(0.3)	(2.1)	(33.8)
BSE Oil	9,055	1.1	0.7	(14.6)
BSE Power	2,220	1.6	0.7	(25.7)
BSE PSU	7,558	0.6	0.0	(20.1)
BSE Realty	1,909	1.6	(0.5)	(33.2)
BSE TECK	3,490	(0.0)	(1.0)	(13.8)

## Nifty Outperformers

	Price	% Chg	% MTD	% YTD
DLF Ltd	246	4.3	1.4	(15.9)
Bharat Heavy Electricals	329	4.3	3.6	(29.2)
Tata Power Co Ltd	105	3.3	4.9	(22.8)
Bharti Airtel Ltd	393	2.3	0.4	9.6
Jaiprakash Associates Ltd	78	2.1	1.0	(26.1)
ACC Ltd	1,210	2.1	1.3	13.3
Gail India Ltd	428	2.1	1.1	(16.6)

## Nifty Underperformers

	Price	% Chg	% MTD	% YTD
Steel Authority Of India	109	(3.2)	(2.7)	(40.2)
Infrastructure Dev Finance	129	(2.4)	(2.5)	(29.2)
Hindustan Unilever Ltd	382	(2.0)	1.7	22.2
Tata Motors Ltd	189	(1.8)	(4.9)	(27.9)
Sterlite Industries India Lt	121	(1.7)	(5.0)	(35.2)
Tata Steel Ltd	462	(1.3)	(4.4)	(32.1)
Infosys Ltd	2,802	(1.1)	(2.6)	(18.6)

## Bulk Deals

Date	Security Name	Client Name	Buy/Sell	Qty	Price
03-Nov-11	ECE Industries Limited	Ece Industries Ltd	BUY	403300	138.06
03-Nov-11	McDowell Holdings Limited	Sbi Mutual Fund - Gifts Plan B	BUY	317624	53.00
03-Nov-11	Orchid Chemicals Ltd.	R Vijayalakshmi	BUY	801044	182.88
03-Nov-11	McDowell Holdings Limited	Sbi Mutual Fund - Mef (Mms-90)	SELL	317624	53.00
03-Nov-11	R Systems	Ge Capital Mauritius Equity Investment	SELL	230000	110.00

## Delivery Spike

Company	Volume	Spike (%)	Chg (%)
DLF	1,379,069	371	4.33
BHEL	3,912,177	237	4.26
SBI	735,712	194	1.33
Dr Reddy	201,237	134	0.10
Hind Unilever	5,320,020	129	(2.00)
JP Associate	3,338,854	128	2.09
Infosys	717,404	119	(1.14)
ACC	266,855	112	2.08
Hindalco	3,570,699	99	(0.29)

## Derivatives Update

## Long Buildup

Company	Last	% Chg	% Chg OI	OI (in 000)
PFC	166	5.2	0.2	8,891
DLF	244	4.1	6.3	23,931
IDEA	97	3.5	23.4	12,212
IBREALEST	75	3.1	0.6	22,562

## Short Buildup

Company	Last	% Chg	% Chg OI	OI (in 000)
SAIL	110	(3.2)	6.1	9,522
MCLEODRUSS	241	(2.7)	1.7	5,599
IDFC	130	(2.4)	5.5	23,252
STER	122	(1.7)	4.4	26,996

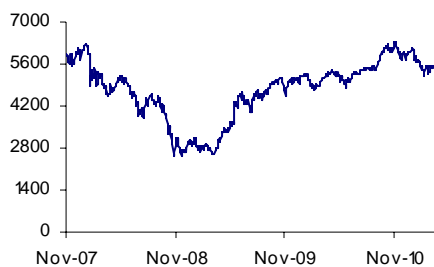
## Short Covering

Company	Last	% Chg	% Chg OI	OI (in 000)
ORCHIDCHEM	185	5.5	(2.8)	6,387
JSWSTEEL	673	5.2	(1.0)	8,356
BHEL	330	4.0	(7.4)	11,458
TATAPOWER	106	3.4	(0.7)	11,937

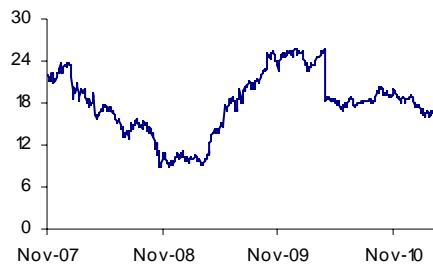
## Profit Booking

Company	Last	% Chg	% Chg OI	OI (in 000)
WIPRO	373	(0.8)	(3.3)	3,592
UNITECH	29	(0.7)	(3.9)	45,816
ABGSHIP	425	(0.6)	(0.3)	3,143
CAIRN	301	(0.5)	(0.6)	13,874

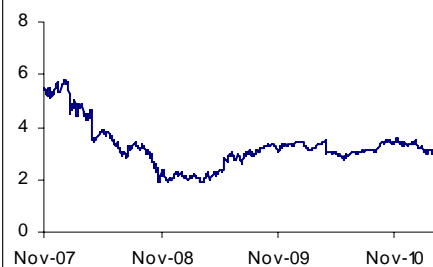
**Nifty**



**Nifty P/E**

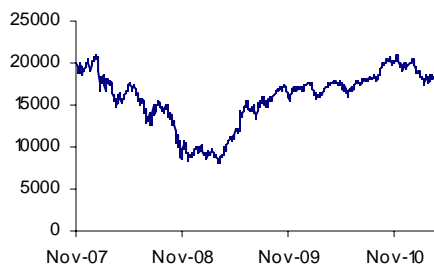


**Nifty P/B**

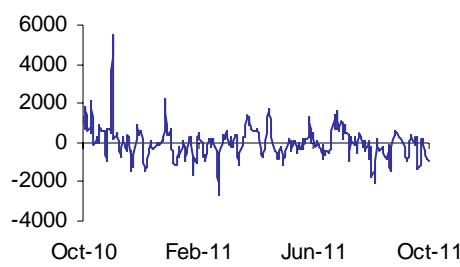


Source: Bloomberg

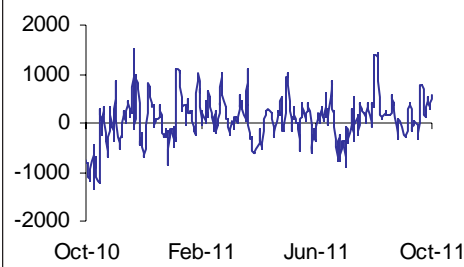
**Sensex**



**FII Provisional Flows (INRcr)**



**DII Provisional Flows (INRcr)**



Source: Bloomberg

**Economy, Money & Banking**

Forex Rate	Last	% Chg	% MTD	% YTD
INR~USD	49.1	0.1	(0.9)	(9.0)
INR~EUR	67.8	(0.0)	0.7	(11.8)
INR~GBP	78.7	0.1	(0.3)	(11.4)

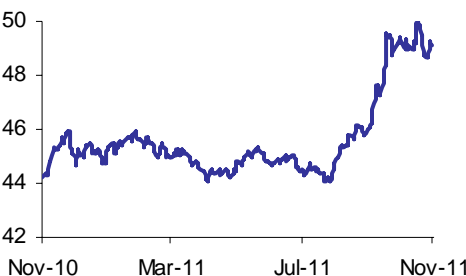
  

Bond Market	Last	Chg (bps)	MTD (bps)	YTD (bps)
10 Year Bond	8.9	(2)	2	97
Interbank call	8.5	(2)	(12)	298

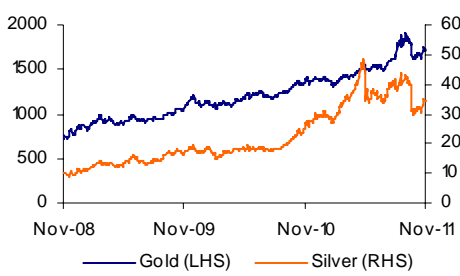
**Commodities Update**

Commodities	Last	% Chg	% MTD	% YTD
Gold (\$/Ounce)	1,759	(0.3)	2.6	23.8
Crude Oil (\$/Bl)	94	(0.4)	0.5	(0.9)
Aluminium (\$/t)	2,125	0.9	(3.3)	(13.7)
Copper (\$/t)	7,902	0.4	(1.0)	(18.1)
Zinc (\$/t)	1,962	2.2	(1.1)	(19.7)
Lead (\$/t)	2,015	0.5	(2.3)	(21.4)
Nickel (\$/t)	18,402	(0.8)	(5.9)	(25.5)

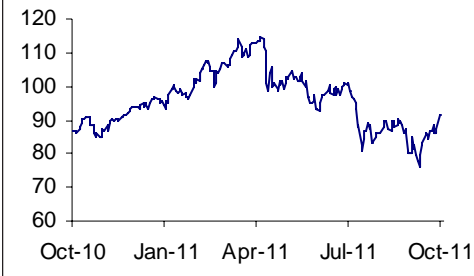
**INR/USD**



**Gold and silver prices**

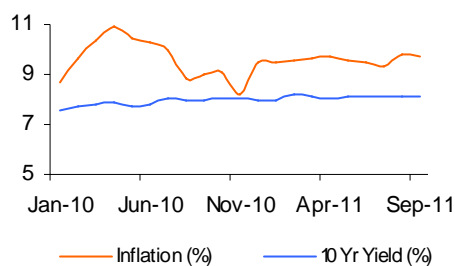


**Crude prices**

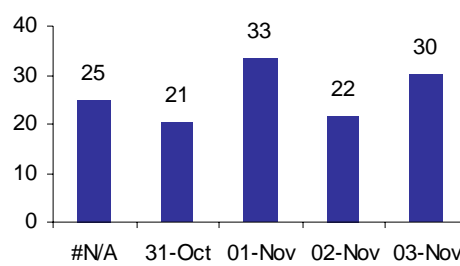


Source: Bloomberg

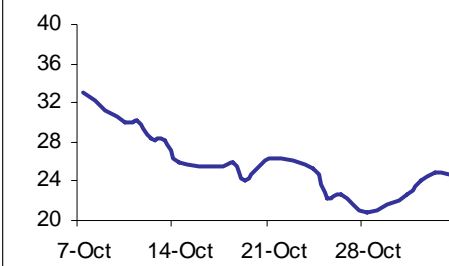
**Inflation vs 10 year yield**



**Nifty premium/discount**



**NSE volatility index (%)**



Source: Bloomberg

Current Reco	:	HOLD
Previous Reco	:	HOLD
CMP	:	INR109
Target Price	:	INR108
Potential Return	:	0%

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**Market data**

Sector	:	Metals
Market Cap (INRbn)	:	451
Market Cap (USDbn)	:	9
O/S Shares	:	4,130
Free Float (m)	:	391
52-wk HI/LO (INR)	:	202/98
Avg Daily Vol ('000)	:	2,391
Bloomberg	:	SAIL IN
Reuters	:	SAIL.BO

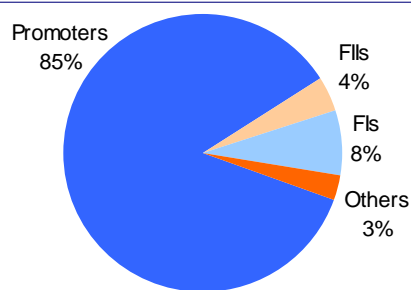
Source: Bloomberg

**Returns (%)**

	<b>1 m</b>	<b>3 m</b>	<b>6 m</b>	<b>12 m</b>
Absolute	9	(10)	(30)	(44)
Relative	0	(7)	(26)	(34)

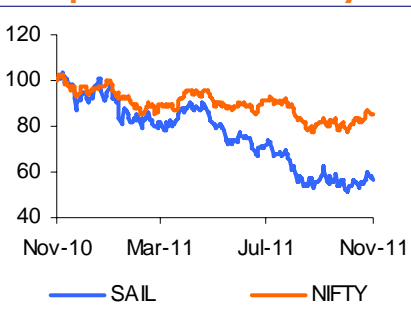
Source: Bloomberg

**Shareholding pattern**



Source: BSE

**Price performance vs Nifty**



Source: Bloomberg

**2QFY12 RESULTS REVIEW**

# Steel Authority of India Limited

## On a sticky wicket

**Results highlights**

**Mixed results**

Revenues were slightly below our expectations at INR109.8bn (+2% YoY/falt QoQ) as realisations declined by 5% QoQ which appears to be product mix change as Indian steel prices were stable sequentially. Steel sales volume at 2.85mt (-10%YoY/+4%QoQ) continues to be as expected with non captive players facing utilisation dips. EBITDA stood higher than our estimates with costs declining sequentially by USD6/tn as BSL coke problem seems to be solved. However, EBITDA of USD103/tn still doesn't provide strong comfort with elevated overheads (IISCO continues to be problem with RSP/DSP seem to have witnessed monsoon disruption). Further, increasing net interest expenses by 5% YoY and MTM forex loss of INR5.09bn led to 55% YoY drop in PAT to INR4.9bn.

**Demand continue to be subdued but cost pressure to ease**

Steel prices will continue to remain sluggish given the uncertainties in the global economy. The steel cycle is yet to bottom out with uncertainty regarding stocking and demand will continue in the near term. But raw material prices have started to soften and Asian steel price decline will be mitigated.

**Capex delays getting factored in**

SAIL's massive ~USD15bn expansion cum modernisation program to reach 20mtpa finished steel capacity from 13mtpa has been facing delays and cost runs. The expectations have majorly factored in no volume growth scenario in FY13e and major benefits will flow FY14e onwards only. On the contrary, we are witnessing signs of urgency in the ministry and the management is expected to expedite the expansion. Parts of the projects like sinter plants and coke ovens are getting commissioned in phases and development pace will visibly accelerate.

**Valuation and outlook**

The steel cycle continues to face uncertainty on demand and cost fronts and has increased earnings volatility for the steel players. SAIL is better placed in the environment with superior balance sheet and low expectations on performance. Our current target price is INR108 at 6.2x EV/EBITDA with a HOLD rating. We will review our estimates and target price with further details from the management.

**Financials**

P&L (INRm)	2QFY12	2QFY11	Chg YoY (%)	1QFY12	Chg QoQ (%)
Revenues	109,796	108,062	2	109,260	0
Expenditure	96,525	91,114	6	96,146	0
EBITDA	13,271	16,948	(22)	13,114	1
EBITDA margin (%)	12	16	(360)	12	8
Depreciation	3,938	3,688	7	3,742	5
EBIT	9,334	13,260	(30)	9,373	(0)
Other income	565	429	32	133	325
Finance expenses	(2,337)	(2,235)	5	(2,788)	(16)
Exceptional items	5,088	-	na	-	na
Profit before tax	7,148	15,923	(55)	12,293	(42)
Tax expenses	2,203	5,023	(56)	3,913	(44)
PAT	4,946	10,900	(55)	8,381	(41)
EPS (INR)	1.2	2.6	(55)	2.0	(41)

Source: Company, Antique

**Standard P&L**

<b>INRm</b>	<b>2QFY12</b>	<b>2QFY11</b>	<b>Chg YoY (%)</b>	<b>1QFY12</b>	<b>Chg QoQ (%)</b>
<b>Revenues</b>	<b>109,796</b>	<b>108,062</b>	<b>2</b>	<b>109,260</b>	<b>0</b>
(Inc)/dec in stocks	(4,548)	2,865	(259)	(2,799)	62
Raw material consumed	56,085	48,794	15	52,290	7
Purchase of traded goods	19	12	67	9	109
Raw material expenses	51,556	51,671	(0)	49,499	4
Employee expenses	19,808	17,004	16	22,512	(12)
Consumption of stores & spares	6,521	6,076	7	6,178	6
Power & Fuel	11,237	8,766	28	10,171	10
Other expenditure	9,579	9,145	5	10,423	(8)
Finished products internally consumed	(2,176)	(1,548)	41	(2,636)	(17)
<b>Expenditure</b>	<b>96,525</b>	<b>91,114</b>	<b>6</b>	<b>96,146</b>	<b>0</b>
<b>EBITDA</b>	<b>13,271</b>	<b>16,948</b>	<b>(22)</b>	<b>13,114</b>	<b>1</b>
EBITDA margin (%)	12	16	(360)	12	8
Depreciation	3,938	3,688	7	3,742	5
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Tax expenses	2,203	5,023	(56)	3,913	(44)
<b>PAT</b>	<b>4,946</b>	<b>10,900</b>	<b>(55)</b>	<b>8,381</b>	<b>(41)</b>
EPS	1.2	2.6	(55)	2.0	(41)

Source: Company, Antique

**Particulars**

	<b>2QFY12</b>	<b>2QFY11</b>	<b>Chg YoY (%)</b>	<b>1QFY12</b>	<b>Chg QoQ (%)</b>
Sales(kt)	2,850	3,170	(10)	2,750	4
Realisation - USD/t	843	733	15	888	(5)

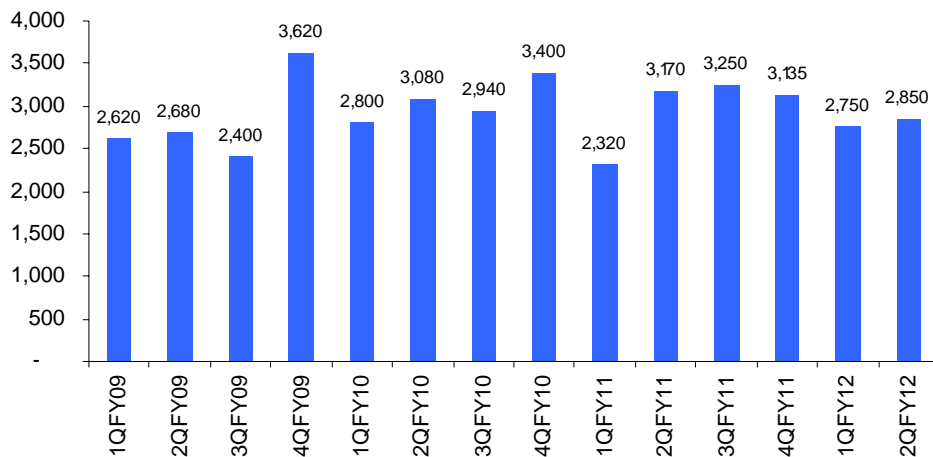
Source: Company, Antique

**Balance sheet**

<b>INRm</b>	<b>2QFY10</b>	<b>4QFY10</b>	<b>2QFY11</b>	<b>4QFY11</b>	<b>2QFY12</b>
Share Capital	41,304	41,304	41,304	41,304	41,305
Reserves & Surplus	270,049	291,863	314,530	334,916	344,311
Loan Funds	117,940	165,113	134,157	201,622	235,188
Deferred Tax Liability (Net)	12,451	14,149	15,281	15,063	15,186
<b>Total</b>	<b>441,744</b>	<b>512,429</b>	<b>505,272</b>	<b>592,905</b>	<b>635,990</b>
Fixed Assets	225,037	285,684	320,541	374,058	414,244
Investments	6,570	6,688	6,706	6,841	6,637
<b>Current Assets</b>					
Inventories	93,829	90,275	124,260	112,940	130,168
Sundry Debtors	27,585	34,939	31,444	41,713	45,262
Cash & Bank Balances	223,954	224,364	145,025	174,784	156,845
Other Current assets	6,995	7,803	4,383	4,912	11,586
Loans & Advances	24,937	34,161	38,088	46,454	52,163
<b>Less:</b>					
Current Liabilities	85,798	109,184	105,881	115,554	125,423
Provisions	81,463	62,302	59,293	53,243	55,493
<b>Net Current Assets</b>	<b>210,038</b>	<b>220,056</b>	<b>178,026</b>	<b>212,006</b>	<b>215,109</b>
<b>Total</b>	<b>441,644</b>	<b>512,429</b>	<b>505,272</b>	<b>592,905</b>	<b>635,990</b>

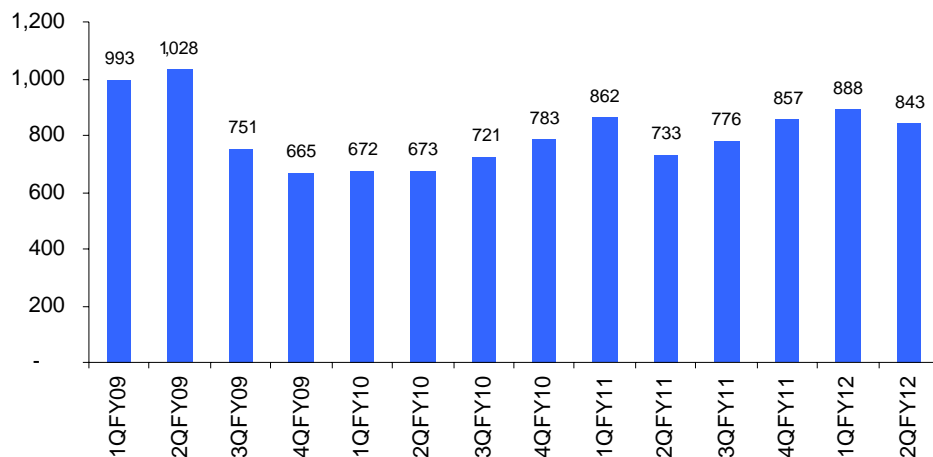
Source: Company, Antique

### Sales volume (kt)



Source: Company, Antique

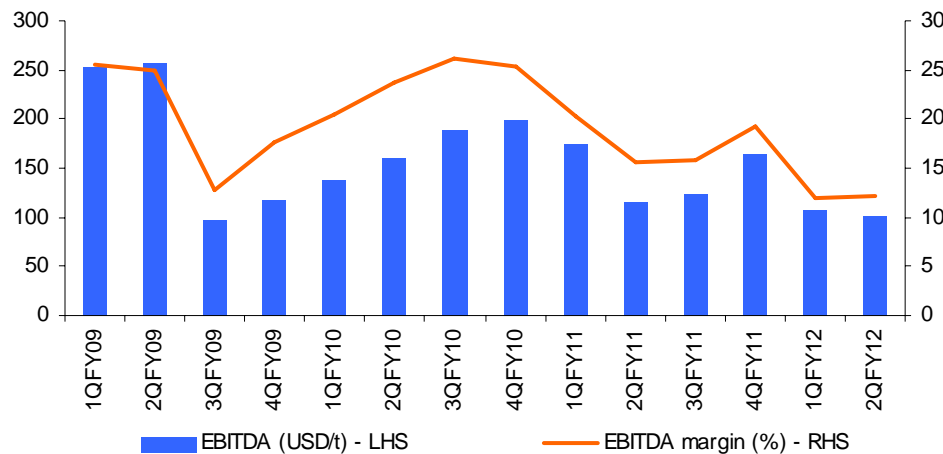
### Realisation (USD/t)



Source: Company, Antique

**Realisation improved by 15% YoY but down 5% QoQ to USD843/t**

### EBITDA: Flat margins sequentially



Source: Company, Antique

## Financials

### Profit and loss account (INRbn)

Year ended 31st March	FY10	FY11	FY12e	FY13e
Revenues	415	434	477	527
Expenses	315	357	410	439
<b>EBITDA</b>	<b>100</b>	<b>77</b>	<b>67</b>	<b>89</b>
Depreciation & amortisation	13	15	17	20
<b>EBIT</b>	<b>86</b>	<b>62</b>	<b>50</b>	<b>69</b>
Interest expense	4	5	6	8
Other income	19	14	13	11
<b>Profit before tax</b>	<b>101</b>	<b>72</b>	<b>57</b>	<b>71</b>
Taxes incl deferred taxation	34	23	19	24
Profit after tax	68	49	38	48
<b>Adjusted profit after tax</b>	<b>68</b>	<b>49</b>	<b>38</b>	<b>48</b>
<b>Recurring EPS (INR)</b>	<b>16.4</b>	<b>11.8</b>	<b>9.2</b>	<b>11.6</b>

### Balance sheet (INRbn)

Year ended 31st March	FY10	FY11	FY12e	FY13e
Share Capital	41	41	41	41
Reserves & Surplus	292	321	343	375
<b>Networth</b>	<b>333</b>	<b>362</b>	<b>385</b>	<b>416</b>
Debt	165	202	202	202
<b>Capital Employed</b>	<b>498</b>	<b>564</b>	<b>586</b>	<b>618</b>
Gross Fixed Assets	354	389	439	559
Accumulated Depreciation	218	233	249	269
<b>Net Assets</b>	<b>136</b>	<b>156</b>	<b>190</b>	<b>290</b>
Capital work in progress	150	218	293	253
Investments	7	7	7	7
<b>Current Assets, Loans &amp; Advances</b>				
Inventory	90	113	118	126
Debtors	35	42	46	51
Cash & Bank balance	224	160	115	89
Loans & advances and others	33	46	46	46
<b>Current Liabilities &amp; Provisions</b>				
Creditors	109	116	135	144
Other liabilities & provisions	62	53	84	90
<b>Net Current Assets</b>	<b>219</b>	<b>198</b>	<b>111</b>	<b>83</b>
Deferred tax assets/(liabilities)	(14)	(15)	(15)	(15)
<b>Application of Funds</b>	<b>498</b>	<b>564</b>	<b>586</b>	<b>618</b>

### Per share data

Year ended 31st March	FY10	FY11	FY12e	FY13e
No. of shares (m)	4,130	4,130	4,130	4,130
BVPS (INR)	81	88	93	101
CEPS (INR)	20	15	13	16
DPS (INR)	3.3	3.3	3.3	3.3

### Margins (%)

Year ended 31st March	FY10	FY11	FY12e	FY13e
EBITDA	24	18	14	17
EBIT	21	14	11	13
PAT	16	11	8	9

Source: Company, Antique

### Cash flow statement (INRbn)

Year ended 31st March	FY10	FY11	FY12e	FY13e
Profit before tax & extraordinary items	101	72	57	71
Depreciation & amortisation	13	15	17	20
Interest expense	4	5	6	8
(Inc)/Dec in working capital	15	(45)	41	2
Tax paid	37	23	19	24
<b>Cash flow from operating activities</b>	<b>48</b>	<b>9</b>	<b>89</b>	<b>67</b>
Capital expenditure	(102)	(103)	(125)	(80)
Inc/(Dec) in investments	(0)	-	-	-
Income from investments	21	14	13	11
<b>Cash flow from investing activities</b>	<b>(80)</b>	<b>(89)</b>	<b>(113)</b>	<b>(70)</b>
Inc/(Dec) in share capital	-	-	-	-
Inc/(Dec) in debt	89	37	-	-
Dividends & Interest paid	(13)	(18)	(20)	(22)
<b>Cash flow from financing activities</b>	<b>74</b>	<b>16</b>	<b>(22)</b>	<b>(24)</b>
<b>Net cash flow</b>	<b>42</b>	<b>(64)</b>	<b>(45)</b>	<b>(26)</b>
Opening balance	183	224	160	115
<b>Closing balance</b>	<b>224</b>	<b>160</b>	<b>115</b>	<b>89</b>

### Growth indicators (%)

Year ended 31st March	FY10	FY11	FY12e	FY13e
Revenue (%)	(6)	5	10	11
EBITDA (%)	10	(23)	(13)	33
PAT (%)	9	(28)	(22)	25
EPS (%)	9	(28)	(22)	25

### Valuation (x)

Year ended 31st March	FY10	FY11	FY12e	FY13e
PE (x)	6.7	9.2	11.8	9.5
P/BV (x)	1.4	1.2	1.2	1.1
EV/EBITDA (x)	3.9	6.3	7.9	6.3
EV/Sales (x)	0.9	1.1	1.1	1.1
Dividend Yield (%)	3.0	3.0	3.0	3.0

### Financial ratios

Year ended 31st March	FY10	FY11	FY12e	FY13e
RoE (%)	20	13	10	11
RoCE (%)	17	11	9	11
Debt/Equity (x)	0.5	0.6	0.5	0.5
EBIT/Interest (x)	22	13	8	9

Source: Company Antique

<b>Current Reco</b>	: BUY
<b>Previous Reco</b>	: BUY
<b>CMP</b>	: INR275
<b>Target Price</b>	: INR454
<b>Potential Return</b>	: 65%

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**Market data**

Sector	:	Media
Market Cap (INRbn)	:	108
Market Cap (USDbn)	:	2
O/S Shares	:	394
Free Float (m)	:	76
52-wk HI/LO (INR)	:	557/214
Avg Daily Vol ('000)	:	559
Bloomberg	:	SUNTV IN
Reuters	:	SUTV.BO

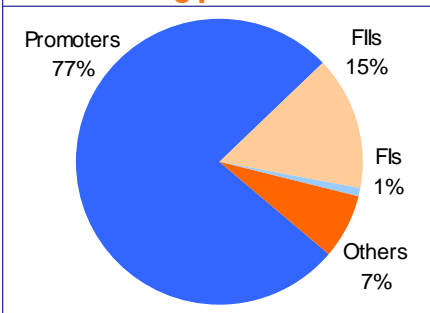
Source: Bloomberg

**Returns (%)**

	<b>1 m</b>	<b>3 m</b>	<b>6 m</b>	<b>12 m</b>
Absolute	22	(11)	(35)	(48)
Relative	12	(8)	(31)	(39)

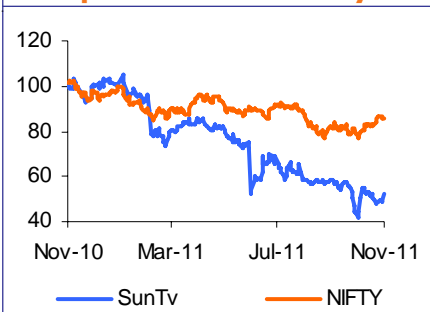
Source: Bloomberg

**Shareholding pattern**



Source: BSE

**Price performance vs Nifty**



Source: Bloomberg

**2QFY12 RESULTS REVIEW**

# Sun TV Networks Limited

## Results in line

### Results highlights

Sun TV reported 2QFY12 revenues at INR4,513m (+6% YoY). However, other revenues were lower, as there was no movie released during the quarter, which led to QoQ revenue decline of 1%. EBITDA during the quarter grew by 10% YoY to INR3,654m on account of YoY decline in total expenditure by 7%. High depreciation charge of INR1,176m lowered PAT growth to 8% YoY (INR1,801m) during the quarter.

#### EBITDA growth led by lower cost

Amidst the current slowdown in advertisement revenue, Sun TV is better positioned and gained a revenue growth of 6% YoY to INR4,513m (In line with our estimates of INR4,616m). EBITDA however increased by 10% to INR3,654m due to decline in total expenditure. Total expenditure decreased by 7% YoY to INR858m. EBITDA margin increased by 275bps to 81% during the quarter.

#### High depreciation expenses lowered PAT growth to 8%

Depreciation charges increased by 30% YoY to INR1,176m. Increase in depreciation lowered PAT growth to 8% YoY (INR1,801m).

#### Second Interim dividend declared

The company declared second interim dividend of INR3.75, in addition to the interim dividend of INR2.5 declared during August 2011.

#### Working capital increased due to high debtors

The high sundry debtors of INR4,995m coupled with higher loans and advances and lower provision led to increase in working capital by INR3,868m during 1HFY12. We were surprised to see that the company has also raised a debt of INR1,725m in spite of having a net cash of INR4,672m.

### Valuation and outlook

We await management discussion on the business situation from the political viewpoint in Tamil Nadu. We believe fundamentals of the business continue to be strong with cost-efficient operations. The market leadership and viewership share remains great as ever. We will keep a watch on the cable subscription revenue and will fine tune our numbers post concall today. The stock is trading at FY13e PE of 12.1x, a significant discount to the historical average of 25x PE. We reiterate a BUY with a target price of INR454 based on FY13e P/E of 20x.

### Quarterly financials

Standalone P&L (INRm)	2QFY12	2QFY11	Chg YoY(%)	1QFY12	Chg QoQ(%)
Net sales	4,513	4,248	6	4,540	(1)
Cost of revenues	225	250	(10)	242	(7)
Staff cost	414	407	2	440	(6)
Other expenditure	219	268	(18)	199	10
Total expenses	858	925	(7)	881	(3)
EBITDA	3,654	3,323	10	3,659	(0)
EBITDA margin (%)	81.0	78.2	275	80.6	38
Depreciation	1,176	908	30	1,061	11
Total tax	856	830	3	892	(4)
PAT	1,801	1,674	8	1,876	(4)

Source: Company, Antique



**Balance sheet**

<b>INRm</b>	<b>FY10</b>	<b>1HFY11</b>	<b>FY11</b>	<b>1HFY12</b>
Equity share capital	1,970	1,970	1,970	1,970
Reserves & surplus	18,180	21,564	21,887	24,419
Shareholders funds	20,150	23,534	23,857	26,390
Debt				1,725
Deferred tax liability (Net)	339	303	410	379
Capital employed	20,489	23,837	24,267	28,494
Fixed assets (Net)	9,664	10,660	9,987	10,139
Investments	5,066	5,881	5,412	5,028
Non-current assets	300	176	137	175
<b>Current assets, loans and advances</b>				
Inventories	3	3	8	3
Sundry debtors	3,002	3,498	3,881	4,995
Cash and bank balances	4,242	4,308	5,844	6,397
Other current assets	1,399	1,650	1,647	1,656
Loans and advances	1,130	1,240	1,558	2,387
<b>Less: Current liabilities and provisions</b>				
Current liabilities	1,550	3,560	2,471	2,021
Provisions	2,767	18	1,735	264
Net current assets	5,459	7,120	8,731	13,152
Total assets	20,489	23,837	24,267	28,494

Source: Company, Antiqua

## Financials

### Profit and loss account (INRm)

Year ended 31st Mar	2009	2010	2011	2012e	2013e
Revenues	10,394	14,528	20,135	21,066	23,320
Expenses	3,026	3,620	4,356	5,202	5,931
<b>EBITDA</b>	<b>7,368</b>	<b>10,909</b>	<b>15,779</b>	<b>15,864</b>	<b>17,389</b>
Depreciation & amortisation	(2,205)	(3,209)	(4,805)	(4,660)	(4,860)
<b>EBIT</b>	<b>5,163</b>	<b>7,700</b>	<b>10,974</b>	<b>11,204</b>	<b>12,529</b>
Interest expense	(138)	(49)	(23)	(0)	(0)
Other income	668	350	487	693	791
<b>Profit before tax</b>	<b>5,693</b>	<b>8,000</b>	<b>11,439</b>	<b>11,897</b>	<b>13,321</b>
Taxes incl deferred taxation	(2,293)	(2,991)	(3,831)	(3,926)	(4,396)
Profit after tax	3,400	5,009	7,608	7,971	8,925
<b>Adjusted profit after tax</b>	<b>3,683</b>	<b>5,199</b>	<b>7,698</b>	<b>8,033</b>	<b>8,940</b>
<b>Recurring EPS (INR)</b>	<b>9.4</b>	<b>13.2</b>	<b>19.5</b>	<b>20.4</b>	<b>22.7</b>

### Balance sheet (INRm)

Year ended 31st Mar	2009	2010	2011	2012e	2013e
Share Capital	1,970	1,970	1,970	1,970	1,970
Reserves & Surplus	15,046	16,886	20,566	24,398	28,662
<b>Networth</b>	<b>17,017</b>	<b>18,856</b>	<b>22,537</b>	<b>26,369</b>	<b>30,633</b>
Debt	716	1	1	1	1
<b>Capital Employed</b>	<b>18,379</b>	<b>20,445</b>	<b>24,198</b>	<b>28,002</b>	<b>32,286</b>
Gross Fixed Assets	14,914	18,881	26,429	30,979	35,529
Accumulated Depreciation	(6,768)	(9,904)	(14,502)	(19,162)	(24,022)
<b>Net Assets</b>	<b>8,146</b>	<b>8,978</b>	<b>11,927</b>	<b>11,817</b>	<b>11,507</b>
Capital work in progress	1,572	3,149	205	205	205
Investments	1,805	2,280	2,717	2,717	2,717
<b>Current Assets, Loans &amp; Advances</b>					
Inventory	1	27	14	15	16
Debtors	2,412	3,292	4,300	4,499	4,981
Cash & Bank balance	3,654	4,367	6,030	10,550	12,835
Loans & advances and others	3,335	3,179	3,971	3,971	3,971
<b>Current Liabilities &amp; Provisions</b>					
Creditors	1,720	1,839	2,737	3,159	3,196
Other liabilities & provisions	468	2,768	1,735	2,118	254
<b>Net Current Assets</b>	<b>7,214</b>	<b>6,258</b>	<b>9,844</b>	<b>13,758</b>	<b>18,352</b>
Deferred tax assets/(liabilities)+ NCA	261	339	410	410	410
Minority Interest and Misc expenses	386	371	315	288	308
<b>Application of Funds</b>	<b>18,378</b>	<b>20,445</b>	<b>24,198</b>	<b>28,002</b>	<b>32,286</b>

### Per share data

Year ended 31st Mar	2009	2010	2011	2012e	2013e
No. of shares (m)	394	394	394	394	394
BVPS (INR)	43.2	47.8	57.2	66.9	77.7
CEPS (INR)	14.9	21.3	31.7	32.2	35.0
DPS (INR)	2.5	7.5	8.8	9.2	10.2

### Margins (%)

Year ended 31st Mar	2009	2010	2011	2012e	2013e
EBITDA	70.9	75.1	78.4	75.3	74.6
EBIT	49.7	53.0	54.5	53.2	53.7
PAT	35.4	35.8	38.2	38.1	38.3

Source: Company, Antique

### Key Assumptions

Year ended 31st Mar	2009	2010	2011	2012e	2013e
Advertising revenue	6,057	8,450	10,532	11,751	13,161
Advertising revenue growth rates(%)	27.4	39.5	24.6	11.6	12.0
Subscription revenue	2,151	3,431	5,157	5,982	6,594
Subscription revenue growth rates(%)	(6.2)	59.5	50.3	16.0	10.2

### Cash flow statement (INRm)

Year ended 31st Mar	2009	2010	2011	2012e	2013e
<b>EBIT</b>	<b>5,163</b>	<b>7,700</b>	<b>10,974</b>	<b>11,204</b>	<b>12,529</b>
Depreciation & amortisation	2,205	3,209	4,805	4,660	4,860
Interest expense	(138)	(49)	(23)	(0)	(0)
(Inc)/Dec in working capital	413	(892)	(965)	222	(446)
Tax paid	(2,293)	(2,991)	(3,831)	(3,926)	(4,396)
Others	525	494	5,546	728	826
<b>CF from operating activities</b>	<b>5,875</b>	<b>7,471</b>	<b>16,507</b>	<b>12,888</b>	<b>13,374</b>
Capital expenditure	(7,085)	(5,825)	(4,809)	(4,550)	(4,550)
Inc/(Dec) in investments	-	(466)	(402)	-	-
Income from investments	484	361	420	-	-
<b>CF from investing activities</b>	<b>(3,715)</b>	<b>(6,545)</b>	<b>(5,917)</b>	<b>(4,550)</b>	<b>(4,550)</b>
Inc/(Dec) in share capital	62	1,066	56	-	-
Inc/(Dec) in debt	(306)	(752)	(16)	(0)	(0)
Dividends paid	(1,844)	(1,153)	(5,055)	(3,818)	(6,539)
<b>CF from financing activities</b>	<b>(2,088)</b>	<b>(838)</b>	<b>(5,015)</b>	<b>(3,818)</b>	<b>(6,539)</b>
<b>Net cash flow</b>	<b>72</b>	<b>88</b>	<b>5,575</b>	<b>4,520</b>	<b>2,285</b>
Opening balance	3,581	362	455	6,030	10,550
<b>Closing balance</b>	<b>3,654</b>	<b>4,367</b>	<b>6,030</b>	<b>10,550</b>	<b>12,835</b>

### Growth indicators (%)

Year ended 31st Mar	2009	2010	2011	2012e	2013e
Revenue	19.5	39.8	38.6	4.6	10.7
EBITDA	23	48	45	1	10
PAT	13	41	48	4	11
EPS	13	41	48	4	11

### Valuation (x)

Year ended 31st Mar	2009	2010	2011	2012e	2013e
PE	29.4	20.8	14.1	13.5	12.1
P/BV	6.4	5.7	4.8	4.1	3.5
EV/EBITDA	14.4	9.6	6.5	6.2	5.5
EV/Sales	10.2	7.2	5.1	4.7	4.1
Dividend Yield (%)	0.9	2.7	3.2	3.3	3.7
EV/EBIT	20.5	13.6	9.4	8.8	7.6

### Financial ratios

Year ended 31st Mar	2009	2010	2011	2012e	2013e
RoE	22	28	34	30	29
RoCE	28	38	45	40	39
Debt/Equity (x)	0.0	0.0	0.0	0.0	0.0
EBIT/Interest (x)	37.4	155.9	487.7	66,691.0	74,579.9

Source: Company Antique

<b>Current Reco</b>	: BUY
<b>Previous Reco</b>	: BUY
<b>CMP</b>	: INR239
<b>Target Price</b>	: INR291
<b>Potential Return</b>	: 22%

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**Market data**

Sector	:	Tea & Coffee
Market Cap (INRm)	:	26,176
Market Cap (USDm)	:	533
O/S Shares	:	109
Free Float (m)	:	51
52-wk HI/LO (INR)	:	296/191
Avg Daily Vol	:	244,763
Bloomberg	:	MCLR IN
Reuters	:	MCLE.BO

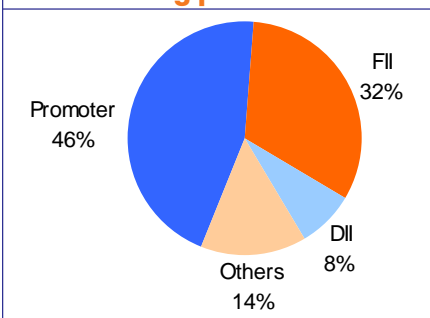
Source: Bloomberg

**Returns (%)**

	<b>1m</b>	<b>3m</b>	<b>6m</b>	<b>12m</b>
Absolute	5	(9)	(9)	3
Relative	(3)	(7)	(4)	21

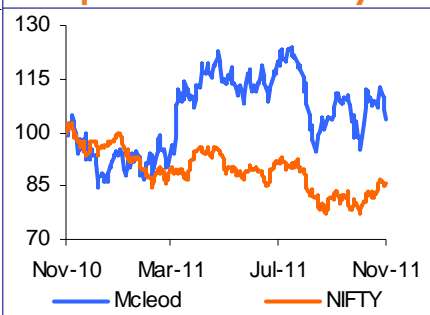
Source: Bloomberg

**Shareholding pattern**



Source: BSE

**Price performance vs Nifty**



Source: Bloomberg

2QFY12 RESULTS REVIEW

# Mcleod Russel India Limited

## Potent brew

### Results highlights

#### Higher despatches, robust prices drive revenues

Mcleod Russel India Ltd. (MRIL) registered a revenue growth of 12% on the back of 10% growth in despatches to 26.2m kgs and 2% improvement in realisations to INR159/kg. As a result, revenues rose by 12% to INR4.2bn, in line with our expectations of INR4.3bn.

Domestic volumes and prices were higher YoY due to lower output on the back of inclement weather in northern India. On the exports front, MRIL's exports rose ~11% YoY to 10m kgs as international stocks, especially in tea producing countries like Kenya and other African countries, ran low as adverse climatic conditions resulted in lower production.

#### Operating leverage drives EBIDTA and PAT growth, in line with estimates

With the exception of power and fuel, all operating expenses from MRIL declined on a YoY basis. This, coupled with improvements in despatches and realisations, resulted in a 12% improvement in MRIL's EBIDTA to INR2.4bn, matching our estimates for the quarter. As a result, PAT rose by 11% YoY to INR2.3bn.

#### Global prices may rise as African output languishes

While Indian output is expected to be flat to marginally higher (995-1,000m kgs) in CY11, a shortfall in the African crop is widely expected to push up global prices as stocks of tea in the region get drawn down. In the backdrop of a depreciated INR, the outlook for export revenues is extremely buoyant.

#### Valuation and outlook

At the CMP of INR239, the stock is trading at a PE of 10.5x and EV/EBITDA of 7.4x discounting its FY13e earnings. With tea prices and demand maintaining their current trends, the industry is in a structurally upward position. Our valuations provide us a target price of INR291 after factoring in improvements such as: 8% volumes growth, 4% realisation growth and a drop in debt for FY13e. This reflects an upside of 22% from the current levels and we maintain our BUY recommendation.

#### Quarterly financials

INRm	2QFY12	2QFY11	Chg (%)	1QFY12	Chg (%)
Revenue	7,008	5,878	19.2	5,443	28.8
Expense	6,483	5,432	19.3	5,141	26.1
EBITDA	525	446	17.9	302	74.2
Other income	7	15	0.0	7	6.0
Depreciation	29	23	24.8	31	(4.9)
PBT	375	361	3.7	171	119.3
Tax	125	128	(2.2)	60	106.8
Reported PAT	250	234	7.0	111	126.1

Source: Company, Antique

**MRIL: Operating metrics (INR/kg)**

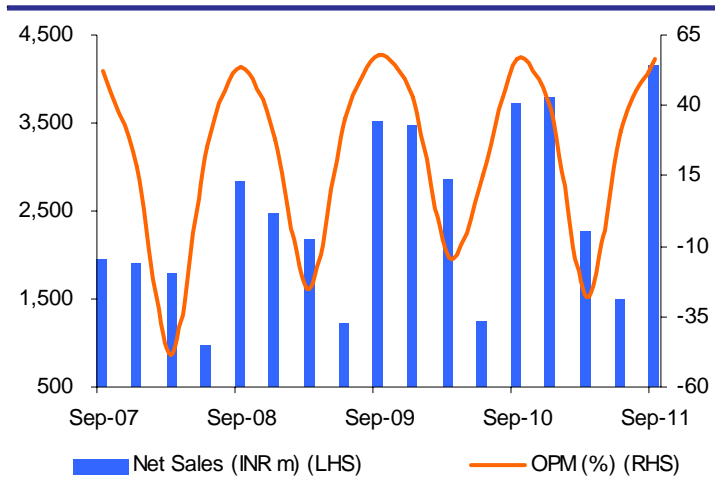
INRm	2QFY12	2QFY11	% Chg	1QFY112	% Chg
Realisations	158.9	155.9	1.9	154.9	2.5
Raw Material	(21.1)	(19.8)	6.4	(91.4)	(76.9)
Op & Manuf. Exp.	19.8	20.4	(2.6)	48.7	(59.3)
Power & Fuel Cost	17.6	15.4	14.5	29.2	(39.6)
Employee Cost	45.0	45.2	(0.3)	111.8	(59.7)
S,G& AExpenses	7.3	6.8	8.3	8.8	(16.7)
<b>Operating Profit</b>	<b>90.1</b>	<b>88.0</b>	<b>2.4</b>	<b>47.8</b>	<b>88.6</b>

Source: Company, Antique

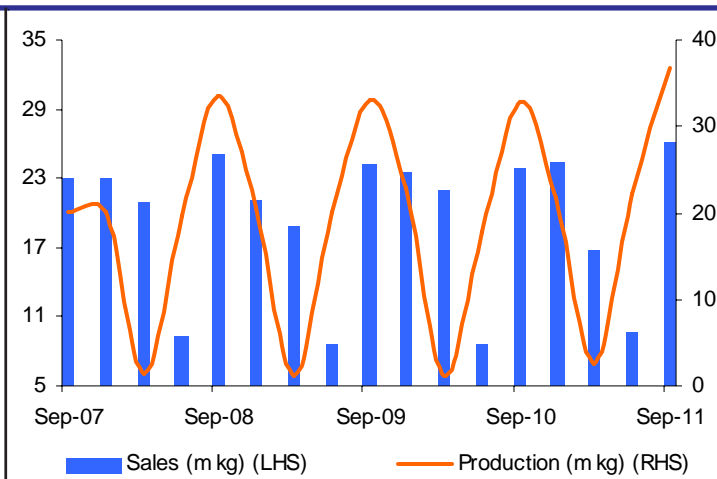
**Other key highlights**

- Performance of subsidiaries (For 9M ending Sep'11)
  - **Phu Ben Tea Company, Vietnam:** Production stood at 3.6m kgs for the period, with average realisations at USD1.8/kg. Revenues for the entity stood at USD6m, while EBIDTA at USD0.9m.
  - **Mcleod Russel Uganda Ltd, Uganda:** Production stood at 11.8m kgs for the period with average realisations of ~USD2/kg. Its revenues stood at USD21m, while EBIDTA at USD8m.
  - **Gisovu Tea Company, Rwanda:** Mcleod recently acquired stake in this subsidiary. It registered a production of 1.3m kgs in 9M ended Sep'11 and has shown a stellar operational performance with average realisations of USD3.5/kg, turnover of USD3.5m and EBIDTA of USD2.2m.
- On the balance sheet front, MRIL has maintained its operational working capital cycle. While net operational current assets have risen by INR1.2bn (15% YoY), this corresponds to the 14% jump in revenues for 1HFY12. However, Loans and Advances have risen by INR2.5bn, which we believe is on account of the overseas subsidiaries, based out of Africa. This amount has been met entirely through internal accruals, thereby negating any untoward increase in borrowings.

**MRIL: Revenue & OPM trend**

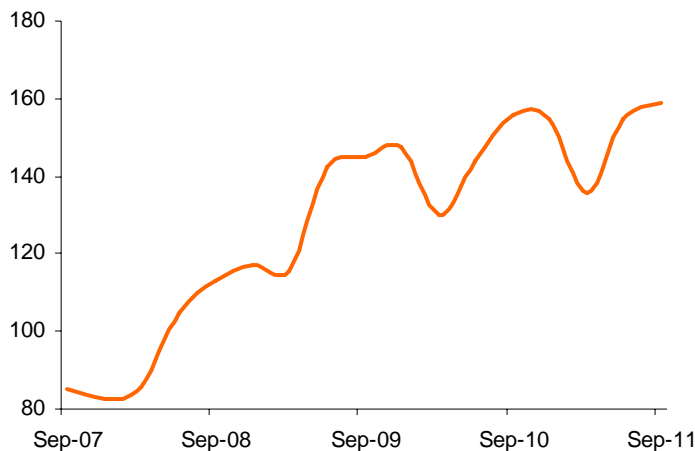


**MRIL: Production & Sales trend**

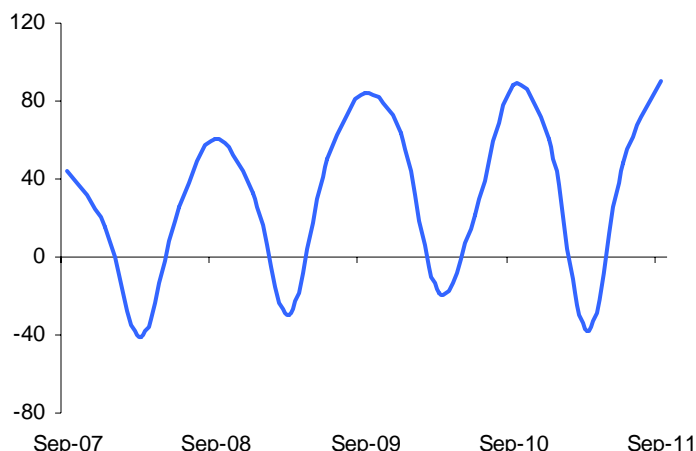


Source: Company, Antique

**MRIL: Realisation trend (INR/kg)**



**MRIL: Operational profitability trend (INR/kg)**



Source: Company, Antique

### Valuation and outlook

- We retain our belief that MRIL is in the best position to ride out the current upcycle that the tea industry has entered. Our reading of the global tea industry points to weakness in global and domestic tea supplies. With stable growth in consumption (~2-3% globally), prices of tea are expected to be on a steady uptrend, unless the Kenyan crop is significantly above expectations. A large component of exports (~40%) and a weak INR add an interesting angle to revenue and profitability estimates for FY12e. While we have sidestepped the option value of favourable currency movements, we believe that there exists significant upside potential to our earnings estimates, if the current currency scenario persists.
- We have maintained our revenue and profitability estimates for MRIL (stand-alone), while we are increasing our estimates for investment in subsidiary operations. Subsequently, due to reduction in the cash float for the Indian operations, we have lowered our FY12e EBIDTA multiple for the company from 9x to 8x.

#### MRIL: Valuation (FY12)

EBIDTA Multiple		Earnings Multiple	
EBIDTA (INRm)	3,773	EPS (INR)	24
<b>EBIDTA multiple (x)</b>	<b>8</b>	<b>P/E multiple (x)</b>	<b>13</b>
EV (INRm)	30,188		
Net Debt (INRm)	910		
Equity Value (INR m)	29,277		
<b>Value/sh (INR) - (A)</b>	<b>267</b>	<b>Value/sh (INR) - (B)</b>	<b>315</b>
<b>Average (A+B): Value /sh (INR)</b>	<b>291</b>		

Source: Antique

- We maintain our BUY rating on the company with a price target of INR291 with a 6-month investment outlook, which reflects an upside potential of 22% from current levels.

## Financials

### Profit and loss account (INRm)

Year ended 31 Mar	2009	2010	2011	2012e	2013e
<b>Revenues</b>	<b>8,289</b>	<b>10,768</b>	<b>10,731</b>	<b>12,225</b>	<b>12,656</b>
Expenses	6,494	7,482	7,916	8,751	9,412
<b>Operating Profit</b>	<b>1,794</b>	<b>3,286</b>	<b>2,816</b>	<b>3,473</b>	<b>3,244</b>
Other income	273	347	459	300	300
EBIDT	2,067	3,633	3,275	3,773	3,544
Depreciation	260	271	275	316	329
Interest expense	766	253	183	143	84
<b>Profit before tax</b>	<b>1,041</b>	<b>3,109</b>	<b>2,816</b>	<b>3,314</b>	<b>3,131</b>
Taxes incl deferred taxation	153	706	493	663	626
<b>Profit after tax</b>	<b>888</b>	<b>2,403</b>	<b>2,322</b>	<b>2,651</b>	<b>2,504</b>
<b>Diluted EPS (INR)</b>	<b>8.1</b>	<b>22.0</b>	<b>21.2</b>	<b>24.2</b>	<b>22.9</b>

### Balance sheet (INRm)

Year ended 31 Mar	2009	2010	2011	2012e	2013e
Share Capital	547	547	547	547	547
Reserves & Surplus	11,175	13,023	14,666	16,677	18,541
<b>Networth</b>	<b>11,722</b>	<b>13,571</b>	<b>15,213</b>	<b>17,224</b>	<b>19,088</b>
Debt	4,154	2,799	2,088	1,088	788
Deferred Tax Liability	525	575	635	635	635
<b>Capital Employed</b>	<b>16,401</b>	<b>16,945</b>	<b>17,936</b>	<b>18,947</b>	<b>20,512</b>
Gross Fixed Assets	18,218	18,593	18,933	19,175	19,325
Accumulated Depreciation	3,870	4,153	4,404	4,720	5,049
<b>Net Assets</b>	<b>14,347</b>	<b>14,440</b>	<b>14,529</b>	<b>14,455</b>	<b>14,276</b>
Capital work in progress	138	120	148	100	100
Investments	2,051	2,595	2,604	3,603	4,603
<b>Current Assets, Loans &amp; Advances</b>					
Inventory	639	529	704	851	915
Debtors	255	163	130	170	176
Cash & Bank balance	306	219	128	178	942
Loans & advances and others	1,315	1,839	2,484	2,484	2,484
<b>Current Liabilities &amp; Provisions</b>					
Creditors	1,165	1,127	1,113	1,215	1,307
Other liabilities & provisions	1,485	1,833	1,677	1,677	1,677
<b>Net Current Assets</b>	<b>(135)</b>	<b>(210)</b>	<b>655</b>	<b>789</b>	<b>1,532</b>
<b>Application of Funds</b>	<b>16,401</b>	<b>16,945</b>	<b>17,936</b>	<b>18,947</b>	<b>20,512</b>

### Per share data

Year ended 31 Mar	2009	2010	2011	2012e	2013e
No. of shares (m)	109	109	109	109	109
BVPS (INR)	107.1	124.0	139.0	157.4	174.4
CEPS (INR)	10.5	24.4	23.7	27.1	25.9
DPS (INR)	2.0	4.0	5.0	5.0	5.0

### Margins (%)

Year ended 31 Mar	2009	2010	2011	2012e	2013e
EBITDA	21.6	30.5	26.2	28.4	25.6
EBIT	21.8	31.2	27.9	28.3	25.4
PAT	10.7	22.3	21.6	21.7	19.8

Source: Company, Antique

### Cash flow statement (INRm)

Year ended 31 Mar	2009	2010	2011	2012e	2013e
<b>PBT</b>	<b>1,041</b>	<b>3,109</b>	<b>2,816</b>	<b>3,314</b>	<b>3,131</b>
Depreciation & amortisation	260	271	275	316	329
Interest expense	784	253	183	143	84
Misc expense	(56)	(22)	(115)	-	-
Other Adjustments	10	10	(17)	-	-
(Inc)/Dec in working capital	88	(236)	(728)	(84)	22
Tax paid	(111)	(519)	(630)	(663)	(626)
<b>CF from operating activities</b>	<b>2,017</b>	<b>2,866</b>	<b>1,785</b>	<b>3,026</b>	<b>2,939</b>
Capital expenditure	(418)	(483)	(459)	(194)	(150)
(Purchase) / Sale of Inv	(111)	(506)	(7)	(1,000)	(1,000)
Income from investments	(18)	(81)	31	300	300
<b>CF from investing activities</b>	<b>(547)</b>	<b>(1,070)</b>	<b>(435)</b>	<b>(894)</b>	<b>(850)</b>
Inc/(Dec) in share capital	-	0	-	-	-
Inc/(Dec) in debt	(568)	(1,271)	(702)	(1,000)	(300)
Dividends & Interest paid	(643)	(612)	(739)	(783)	(725)
<b>CF from financing activities</b>	<b>(1,211)</b>	<b>(1,883)</b>	<b>(1,440)</b>	<b>(1,783)</b>	<b>(1,025)</b>
<b>Net cash flow</b>	<b>258</b>	<b>(87)</b>	<b>(91)</b>	<b>349</b>	<b>1,065</b>
Opening balance	48	306	219	128	178
<b>Closing balance</b>	<b>306</b>	<b>219</b>	<b>128</b>	<b>478</b>	<b>1,242</b>

### Growth indicators (%)

Year ended 31 Mar	2009	2010	2011	2012e	2013e
Revenue	26.5	29.9	(0.3)	13.9	3.5
EBITDA	178.8	83.1	(14.3)	23.4	(6.6)
PAT	88.0	170.7	(3.4)	14.2	(5.5)
EPS	86.1	170.7	(3.4)	14.2	(5.5)

### Valuation (x)

Year ended 31 Mar	2009	2010	2011	2012e	2013e
PE	29.5	10.9	11.3	9.9	10.5
P/BV	2.2	1.9	1.7	1.5	1.4
EV/EBITDA	14.5	7.9	8.6	7.2	7.4
EV/Sales	3.6	2.7	2.6	2.2	2.1
Dividend Yield (%)	0.8	1.7	2.1	2.1	2.1

### Financial ratios

Year ended 31 Mar	2009	2010	2011	2012e	2013e
RoE (%)	7.8	19.0	16.1	16.3	13.8
RoCE (%)	11.1	20.2	17.2	18.7	16.3
Debt/Equity (x)	0.4	0.2	0.1	0.1	0.0
EBIT/Interest (x)	2.4	13.3	16.3	24.2	38.1

Source: Company Antique









Events Calendar

November 2011

Monday	Tuesday	Wednesday	Thursday	Friday	Saturday	Sun
				<b>4 Nov</b> ONGC Marico	<b>5 Nov</b>	<b>6 Nov</b>
<b>7 Nov</b> Prakash Industries United Spirits	<b>8 Nov</b> ABB Opto Circuits Bosch Bank of India Monnet Ispat	<b>9 Nov</b> Power Finance Corp Indian Oil Corp CESC Oil India	<b>10 Nov</b> Hindalco Industries Tata Steel Britannia Ind Cummins India Shree Cements	<b>11 Nov</b> UTV Software Comm Lanco Infra Mundra Port & SEZ Adani Power REI Agro	<b>12 Nov</b> Coal India Rural Electrification Co	<b>13Nov</b> LICHF
<b>14 Nov</b> Mahindra & Mahindra Tata Motors BGR Energy Gujarat State Petronet	<b>15 Nov</b> Tata Power Company	<b>16 Nov</b>	<b>17 Nov</b>	<b>18 Nov</b>	<b>19 Nov</b>	<b>20Nov</b>
<b>21 Nov</b>	<b>22 Nov</b>	<b>23 Nov</b>	<b>24 Nov</b>	<b>25 Nov</b>	<b>26 Nov</b>	<b>27Nov</b>
<b>28 Nov</b>	<b>29 Nov</b>	<b>30 Nov</b>				

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Analyst ownership in stock

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