

**IIFL**

INDIA PRIVATE CLIENTS

Weekly Wrap

Investment ideas

July 16, 2010

Amara Raja Batteries **BUY** CMP Rs193

Growth momentum from multi-user industries

Amara Raja Batteries Ltd (ARBL), the second largest player in the automotive batteries OEM market, is well poised to benefit from the continuing uptrend in automobile sales. Growth will be driven by increasing vehicle penetration in the rural areas and entrance of global car giants as India becomes a major auto manufacturing hub. CAGR of 8.4% witnessed in automobile sales over last four years will propel strong growth in revenues for ARBL from the high margin replacement market.

The company enjoys a healthy share of 27% in the organized battery market for industrial applications (mainly telecom and UPS). We expect revenues from telecom segment for the company to realize robust growth in the next two years driven by 1) rural network expansion, 2) dual phone trend, 3) tower battery replacement potential and, 4) 3G network roll out. Demand for inverters and UPS has grown on back of power shortages across the country. The trend is expected to continue with government slipping on its target for power generation capacity additions regularly.

Lead cost under control; annual contracts to lock-in price

The company currently sources its lead (~75% of the raw material cost) from Australia and South Korea. Lead prices in Q3 FY10 and Q4 FY10 were higher than the average lead prices (USD 2,082) for the past one year. This resulted in substantial erosion of margins during Q3FY10 and Q4FY10. However, in Q1 FY11, lead prices have been below the average price of the last one year. Further, we do not expect any significant rise in the price of lead going ahead. This will translate in some respite for margins in the coming quarters. Further, to mitigate the risk of volatile lead price, ARBL plans to enter into annual contracts for 90% of requirement and include price variation clause with suppliers.

Attractively valued at P/E of 7.7x FY11E

Backed up by the robust growth in the automobile volumes and industrial segment, we expect revenues for ARBL to witness a CAGR of 11% over FY10-12E. We expect OPM for the company to expand by 300bps in FY11 and remain flat for FY12. Further, ARBL is expected to witness PAT CAGR of 23.3% over FY10-12E. Assigning P/Ex of 9 for FY11E EPS, we arrive at a target price of Rs220.

Financials

Y/e 31 Mar (Rs m)	FY09	FY10E	FY11E	FY12E
Revenues	13,177	14,688	16,186	18,112
yoy growth (%)	21.6	11.5	10.2	11.9
Operating profit	1,674	2,899	3,684	4,138
OPM (%)	12.7	19.7	22.8	22.8
Reported PAT	805	1,553	2,085	2,360
yoy growth (%)	(14.7)	93.0	34.2	13.2
EPS (Rs)	9.4	18.2	24.4	27.6
P/E (x)	20.0	10.3	7.7	6.8

Source: Company, India Infoline Research

Motherson Sumi Systems **BUY** CMP Rs153

MSSL to gain from continued momentum in auto volumes

With India well poised to achieve a 8%+ GDP growth over the next couple of years, we expect the uptrend in the domestic automobile sales to continue over the medium term. Growth in passenger cars (4-Ws) volumes is expected to be driven by higher rural penetration lead by rising disposable income and higher availability of finance. This will provide tremendous business opportunities for Motherson Sumi Systems Ltd (MSSL), which caters mainly to 4-Ws market. It has tie-ups with most OEM players in the country.

Diversified product portfolio and market presence

MSSL has a diversified product portfolio, which includes wiring harness (market leader in India), rear view mirrors (amongst largest global manufacturers post VisiCorp acquisition), polymer and elastomer processing and machined products. Over the years, the company has focused on increasing its content per car, transforming it into a one-stop shop for OEM manufacturers. With tie-ups with global OEMs for wiring harness and rear view mirrors' business, MSSL has substantially diversified its geographic presence.

VisiCorp acquisition to reap benefits

Acquisition of VisiCorp (global leader in rearview mirrors) has transformed MSSL into a tier-I supplier. Prior to the acquisition, MSSL's presence in the rearview mirror business was limited to India, in a JV with VisiCorp. However, post the acquisition MSSL will have a global footprint and access to superior technology of VisiCorp. It will also provide access of VisiCorp's global customers to MSSL's other segments. With the VisiCorp sale being a distressed one, valuations were reasonable.

Tier-I status to justify premium valuations

We expect MSSL to report revenue CAGR of 14% during FY010-12E driven by robust growth across all domestic segments and strong recovery in international operations. Although, VisiCorp acquisition will keep margins under pressure in the near term, we believe synergies would improve profitability over the medium term. We expect a PAT CAGR of 34% during FY10-12E. Considering its tier-I status, we believe its cheaply valued at 13x FY12E EPS.

Financials

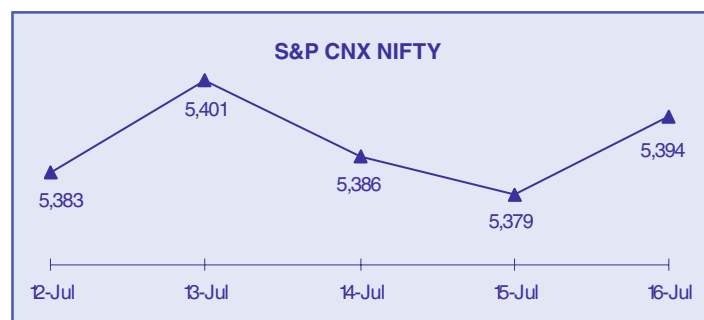
Y/e 31 Mar (Rs m)	FY09	FY10E	FY11E	FY12E
Revenues	25,956	69,240	74,726	89,532
yoy growth (%)	28.0	166.8	7.9	19.8
Operating profit	2,395	6,950	8,856	11,978
OPM (%)	9.2	10.0	11.9	13.4
Reported PAT	1,763	2,423	3,022	4,357
yoy growth (%)	(0.9)	37.5	24.7	44.2
EPS (Rs)	5.0	7.4	7.8	11.2
P/E (x)	29.5	19.8	18.7	13.0

Source: Company, India Infoline Research

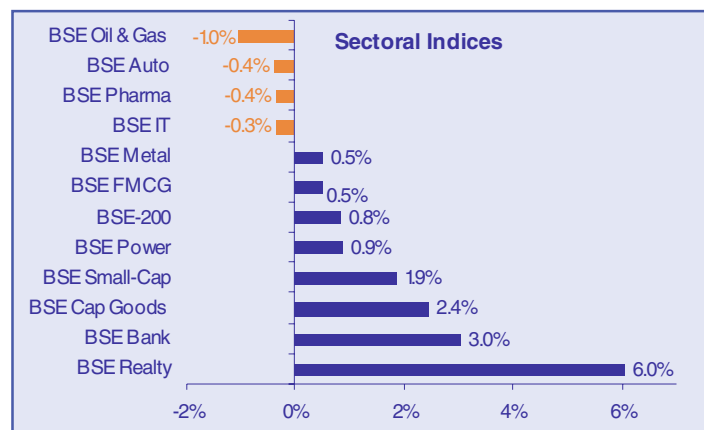
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Market review

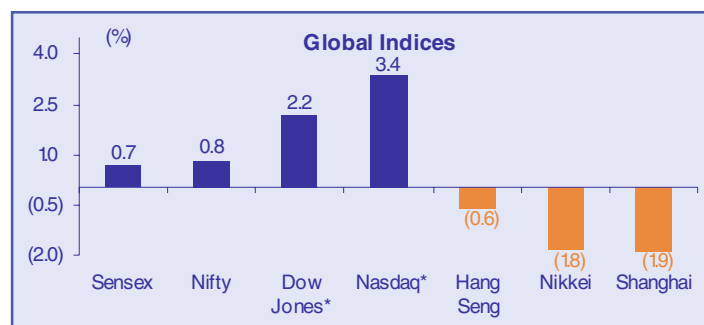
After showing promise of scaling past resistance zones, the key indices faltered in the face of weaker than estimated IIP data and less than forecast Infosys results. Lack of momentum in the broader indices and mixed global cues restricted gains for the indices. Finally, the NSE Nifty added 0.8% for the week and the BSE Sensex rose 0.7%.



WPI-based inflation rose at a lower-than-anticipated pace of 10.55% in June versus 10.16% in May, triggering relief rally in rate-sensitive sectors such as Real Estate and Banks. Capital Goods stocks advanced, shrugging off the slowest growth in IIP in May.



US markets rose after Intel and Alcoa announced stellar numbers but the excitement was countered by the reduction in GDP growth outlook by Fed. China's latest GDP data as well as a number of other key economic reports for June indicated that the nation's rapid expansion is beginning to moderate as it withdrawn some of the crisis-fighting stimulus measures. Data released in the EU and the UK was rather mixed.



*As per previous close

FII & MF activity

Date	FII	MF
	Net Investment	Net Investment
08-Jul	1,191	(21)
09-Jul	3,466	1
12-Jul	1,116	(137)
13-Jul	804	(177)
14-Jul	647	(117)
Total 2010	37,967	(8,666)

BSE Sensex & BSE 200 Top Five Gainers

BSE Sensex			BSE 200		
Company	CMP (Rs)	% Chg	Company	CMP (Rs)	% Chg
DLF	320	8.0	Educomp	630	15.8
Tata Motors	832	8.0	BF Utilities	795	11.8
TCS	834	7.6	Opto Circuits	270	10.8
JP Asso	131	4.2	Unitech	82	9.1
SBI	2,449	3.4	NIIT LTd	72	8.1

BSE Sensex & BSE 200 Top Five Losers

BSE Sensex			BSE 200		
Company	CMP (Rs)	% Chg	Company	CMP (Rs)	% Chg
M&M	604	(5.4)	HPCL	448	(8.3)
Maruti	1,374	(3.5)	BPCL	661	(7.1)
Infosys	2,777	(3.4)	GAIL	442	(6.3)
Bharti Airtel	298	(3.3)	Patel Eng	408	(5.7)
R Comm	187	(3.2)	IOC	378	(5.7)

Bulk deals

Date	Institution	Scrip name	B/S	Qty (lacs)	Price
12-Jul	Macquarie Bk	Orchid Chem	B	3.6	175
13-Jul	Goldman Sachs	Insecticides (I)	S	1.1	215
13-Jul	Morgan Stanley	Vakrangee Soft	S	2.5	210
14-Jul	T Rowe Price	BF Utilities	S	3.6	742
14-Jul	ICICI Bank	Jocil Ltd	S	1.3	359

Book closures and record dates

Company	Date	Purpose
NESCO	20-Jul-10	Bonus
Emami	21-Jul-10	Stock Split
Zensar Tech	21-Jul-10	Dividend, Bonus

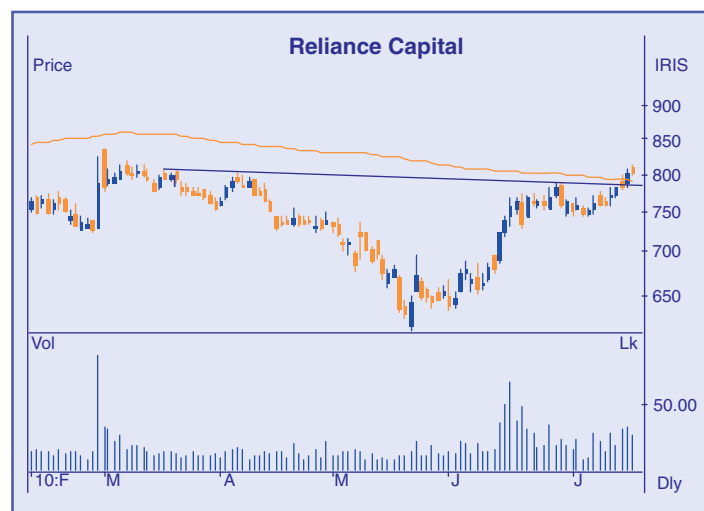
Insider Trades

Company	Name	B/S	Qty ('000)
Jubilant Org	Arabinda Ray	S	1.0
ISMT Ltd	A K Jain	S	6.8
Aarti Drugs	Priti P. Patil	B	4.2

India Infoline Weekly Wrap

Technical ideas

Reliance Capital BUY CMP Rs806



On the daily chart, the stock has broken out from an inverted Head & Shoulders formation with the neckline placed at Rs791. We believe consolidation above this level could lead to a strong rally in the counter. In fact, a detailed study of the daily chart suggests that the stock has given a breakout past its 3-month resistance line. In the same period, the stock made several attempts to break past the resistance, forming whipsaws at the resistance line. However this week, a successful close above its 200-DMA and neckline is likely to ignite buying momentum.

The intermediate trend continues to remain strong and a breakout from the above mentioned pattern will provide a decent upside ranging from 5-7%. We advise buying the stock between Rs800-810 with stop loss of Rs786 for a target of Rs850 and Rs860.

Maharashtra Seamless BUY CMP Rs398



After making a decent run up from intermediate lows of Rs325 to Rs405, stock has been consolidating in the tight range Rs364-400 without interrupting its long term uptrend.

Such a consolidation to be viewed as positive signal and paves way for smart upmove ranging from 10-15% from current levels. On a line chart stock has already been holding above its breakout levels of Rs394 for couple of days and we expect buying momentum to resume hence forth.

Internal structure of symmetrical triangle also suggest Five legs of triangles have been through and resemblance of such triangle to a running triangle based on Elliot Wave principle, next leg of upmove should take prices towards Rs452. **We advise buying stock above Rs400 with stop loss of Rs388 for target of Rs438.**

Positive open interest build-up

Company	Price % chg	OI % chg	Vol % chg
PFC	4.1	80.5	407.2
Zee	3.0	25.2	344.9
TCS	6.1	18.9	198.4
Auro Pharma	3.3	17.9	168.5
REC Ltd	1.7	12.2	1.8

Negative open interest build-up

Company	Price % chg	OI % chg	Vol % chg
Dena Bank	(0.2)	12.5	1.8
Hindalco	(0.2)	5.2	(39.0)
Reliance	(0.6)	4.9	(6.0)
Cummins India	(0.7)	4.7	(22.0)
GT Offshore	(1.4)	12.0	322.7

Technically strong

Company	CMP (Rs)	10 days Moving Average (Rs)	Total Traded Qty (lacs)	10 days Average Traded Qty (lacs)
IFCI	61	58	483.1	255.0
SRF	251	240	8.1	2.3
Union Bank	327	314	15.0	4.6
Kotak Bank	783	760	14.3	5.9
Arvind Mills	36	34	27.3	11.0

Technically weak

Company	CMP (Rs)	10 days Moving Average (Rs)	Total Traded Qty (lacs)	10 days Average Traded Qty (lacs)
IOC	378	393	19.9	25.3
Raymond	227	236	1.0	3.9
RNRL	45	47	66.1	258.3
Voltas	200	204	5.4	9.5
Chennai Petro	258	263	1.7	4.6

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Mutual fund round-up

India Infoline picks

Mutual Funds	Assets	NAV	Absolute return (%) as on July 16, 2010							
	(Rs Cr)	(Rs)	1wk	1mth	3mth	6mth	1yr	2yr	3yr	5yr
Birla SL Tax Relief (G)	1,413	11.6	1.2	4.1	3.4	5.1	41.5	59.1	--	--
HDFC Top 200 (G)	8,020	197.4	0.3	3.8	7.1	7.7	36.9	80.4	57.9	236.7
ICICI Pru Dynamic Plan (G)	2,282	100.6	(0.1)	1.9	4.6	7.3	43.9	61.3	38.9	207.6
Reliance Growth Fund (G)	7,495	466.3	0.4	2.8	3.9	5.3	44.7	60.9	42.8	221.0
Reliance RSF - Balanced (G)	563	21.5	1.0	3.0	2.7	9.0	33.9	75.4	70.1	113.4

Fund this week: ICICI Pru Dynamic Fund

Fund snapshot		Asset allocation (%)	
Fund Manager	Sankaran Naren	Equity	77.4
Latest NAV	Rs100.6	Debt	0.0
NAV 52 high/low	Rs101/66	Cash/call	22.6
Latest AUM (cr)	Rs2,282	Top 5 holdings (%)	
Type	Open-ended	Reliance Inds.	7.8
Class	Equity - diversified	ICICI Bank	4.4
Options	Growth & dividend	Infosys Tech	4.2
Min investment	Rs5,000	BHEL	4.2
Benchmark	S&P Nifty	TCS	4.2
No. of stocks	55	Top 3 sectors (%)	
No. of sectors	24	IT - Software	13.9
Expense ratio	1.9%	Pharma	7.7
Exit load	1%	Bank - Private	7.5

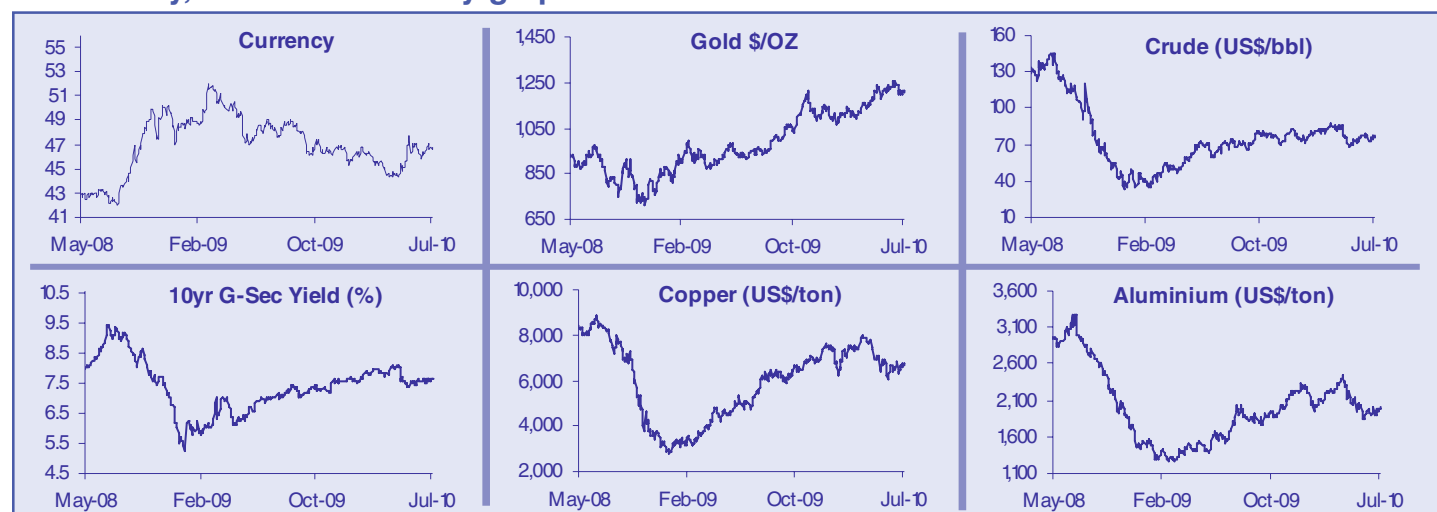
NFO update

Fund Name	Close	Type	Class
Most Shares M 50	19-Jul	OE	ETF
HDFC Gold ETF	23-Jul	OE	Gold - ETF
Canara Robeco Large Cap+ Fund	27-Jul	OE	Equity - Div

Dividend update

Mutual Fund	Dividend %	Record date	Class
Kotak Quarterly Interval Sr 2	100.0	21-Jul	Debt - Inv
Kotak Quarterly Interval Sr 5	100.0	21-Jul	Debt - Inv
-	-	-	-

Commodity, debt and currency graphs



* As per previous close

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