IIFL

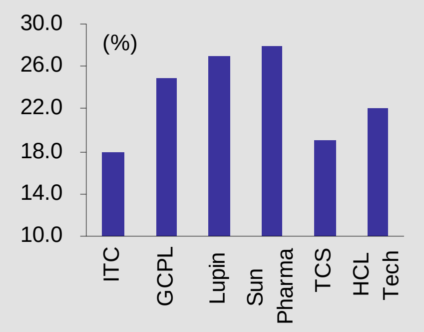
INDIA PRIVATE CLIENTS

diwali dhamaka

Diwali Dhamaka 2011

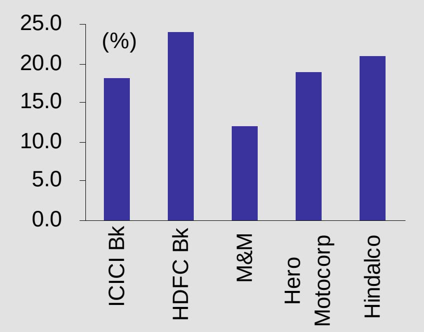
October 24, 2011

Defensives - FY11-13E PAT CAGR



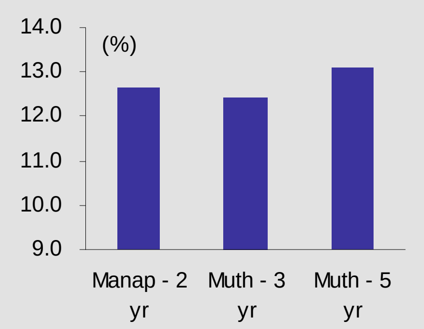
Source: India Infoline Research

Cyclicals - FY11-13E PAT CAGR



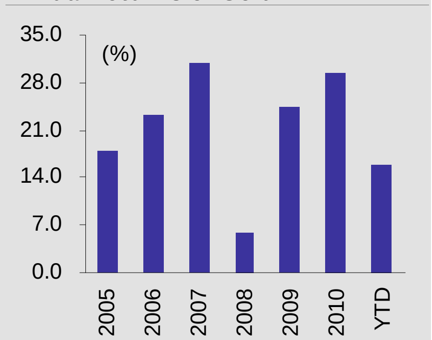
Source: India Infoline Research

YTM of recommended NCDs



Source: India Infoline Research

Annual returns of Gold



Source: Bloomberg, India Infoline Research

The festive season is here and the overall environment remains uncertain. This Diwali, we bring you 11 prime stock ideas (and a couple of alternative assets too), which you can rely on to deliver healthy returns. These recommendations reflect our strategy of sticking to defensives and being selective with respect to cyclicals. It is certainly not the time to be aggressive; instead adopt a pragmatic and balanced investment approach. Safety will continue to assume importance as structural issues both global and domestic are unlikely to get resolved in the near term. We are hinting at Euro Zone debt issues, looming risk of US recession, paralyzed domestic GCF, policy impasse, sticky WPI and the overshooting fiscal deficit. In terms of sectoral mix, we advise keeping equilibrium between defensive sectors FMCG, Pharma, IT and cyclicals Banking, Auto, Metals. We are reasonably confident that investment in the following 11 stocks on a portfolio basis would provide higher return than the broader market over the next year. Though in the near term Nifty could trade in the range of 4,700-5,200, it is likely to gradually move upwards in the medium to long term.

We also recommend investments in debt products especially NCDs as it represents a great opportunity to get oneself locked-in at higher rates and for longer time frame. Amongst the NCDs, we recommend instruments of Muthoot and Manappuram due to their attractive yields and underlying profitability of their business. As we believe that commercial interest rate cycle has peaked, these NCDs may start trading at premium to par value given the high coupons.

On the commodity side, we believe Gold will continue to be a 'Safe Haven' and provide steady return for yet another year. The key factors that would add to the shine of Gold would be heightened risk aversion on deepening of crisis in Europe and US, loose global liquidity and imperative weakening of the US Dollar. As the most economical and convenient way of investing in Gold is through ETFs, we recommend Gold BeEs having the lowest expense ratio and high liquidity.

We expect this holistic investment approach during Diwali to not only give you smart returns but also 'peace of mind'.

Happy Diwali!

Attractive investment avenues

Equity	CMP (Rs)	Tgt (Rs)	Brief Rationale
ITC	204	232	Improved profitability; cigarette business resilient
GCPL	404	486	Emerging-market play; successful acquisition integration
Lupin	467	520	Distinct business model; improving profitability
Sun Phar	487	580	Steady growth ahead; leadership to continue
TCS	1,048	1,180	Consistent performer; strong operational mgmt
HCL Tech	412	500	Strong deal wins; volume led growth to continue
ICICI Bk	870	1,135	Structurally improved profile; attractive valuation
HDFC Bk	487	575	Most robust bank; a 'Safe Heaven' in tough macro
M&M	801	900	Ssangyong to add value; domestic leadership continues
Hero Moto	2,052	2,350	Market leadership to continue; margin expansion
Hindalco	122	185	Novelis earnings resilient; Aluminium volumes to surge
Debt	**CMP (Rs)**	**YTM (%)**	**Brief Rationale**
Manap – 2yr	992	12.7	Attractive yield and strong underlying business
Muth – 3yr	996	12.4	
Muth – 5yr	970	13.1	
Gold BeEs	2,538	-	Best proxy for investment in Gold

*Source: India Infoline Research; *Prices as on Friday 21st October*

IIFL INDIA PRIVATE CLIENTS

Godrej Consumer - BUY

Sector: FMCG	
Sensex:	16,786
CMP (Rs):	404
Target price (Rs):	486
Upside (%):	20.4
52 Week h/l (Rs):	464 / 325
Market cap (Rscr) :	13,068
6m Avg vol ('000Nos):	274
No of o/s shares (mn):	324
FV (Re):	1
Bloomberg code:	GCPL IB
Reuters code:	GOCP.BO
BSE code:	532424
NSE code:	GODREJCP

Prices as on 21 Oct, 2011

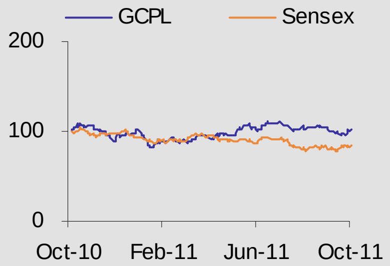
Shareholding pattern

September '11	(%)
Promoters	67.3
Institutions	22.1
Non promoter corp hold	3.1
Public & others	7.5

Performance rel. to sensex

(%)	1m	3m	1yr
GCPL	(2.9)	(0.0)	19.9
HUL	(2.3)	6.6	25.0
ITC	4.6	7.3	35.4
Dabur	(5.8)	(1.6)	12.4

Share price trend



Getting aggressive in innovations

GCPL has become aggressive in innovations across its key markets, resulting in a strong ~23% yoy growth in revenues during Q2 FY12 at ~Rs12bn. The growth was primarily led by a healthy 24% yoy growth in the domestic business, which contributes ~64% to consolidated revenues. Management has charted a rapid growth plan and targets to achieve 26% revenue CAGR over the next 10 years. Around 10% growth is envisaged through the inorganic route. This translates in to an 10x jump in revenues by 2021.

Strong growth momentum across segments

Both domestic and international businesses are witnessing strong revenue growth momentum. The key segments - Home insecticides recorded 29% yoy growth (>2x category growth) while Soaps revenues grew by 32% yoy - ahead of the industry growth of ~10% during Q2 FY12. International business revenue increased by 24% yoy primarily driven by strong 27% yoy growth registered in Indonesia (contributing ~55% to revenues). GCPL has started new product launches in its recently acquired businesses which will further drive growth.

Management targets cost synergies of Rs2bn per year by FY15

GCPL is looking at cost synergies of Rs2bn per year by FY15 from the merger of GCPL and GHPL. The savings are expected to come from cost reduction following the merger of sales and marketing functions, benefits of scale in media and raw material buying and operating leverage from higher turnover generated due to distribution synergies. Some of the synergies like cost reduction and scale benefits would fully flow through in FY12.

Earnings to witness ~25% CAGR; recommend Buy

GCPL is transforming itself in to an emerging-market play on high growth categories such as home insecticides, hair extensions and hair colours. Company is actively scouting for acquisitions provided there is a strong strategic and operational fit and the transaction is EVA positive in the first year. GCPL's successful acquisition integration in the past makes us confident of the management's ability to derive synergy benefits. At the current market price of Rs404, the stock is trading at 17.4x FY13E EPS of Rs23.5. We recommend Buy.

Valuation summary

Y/e 31 Mar (Rs m)	FY10	FY11	FY12E	FY13E
Revenues	20,412	36,430	45,984	55,741
yoy growth (%)	46.5	78.5	26.2	21.2
Operating profit	4,073	6,407	8,133	10,110
OPM (%)	20.0	17.6	17.9	18.1
Pre-exceptional PAT	3,396	4,816	5,824	7,496
Reported PAT	3,396	5,147	5,824	7,496
yoy growth (%)	96.0	51.6	13.2	28.7
EPS (Rs)	11.0	14.9	18.0	23.2
P/E (x)	36.7	27.1	22.4	17.4
Price/Book (x)	13.0	7.6	5.9	5.0
EV/EBITDA (x)	30.0	24.1	17.6	13.9
Debt/Equity (x)	-	1.2	1.0	0.8
RoE (%)	35.6	29.8	26.3	28.8

Source: Company, India Infoline Research

HCL Tech - BUY

Sector: Information Technology	
Sensex:	16,786
CMP (Rs):	412
Target price (Rs):	500
Upside (%):	21.3
52 Week h/l (Rs):	526 / 358
Market cap (Rscr) :	28,444
6m Avg vol ('000Nos):	1,056
No of o/s shares (mn):	690
FV (Rs):	2
Bloomberg code:	HCLT IB
Reuters code:	HCLT.BO
BSE code:	532281
NSE code:	HCLTECH

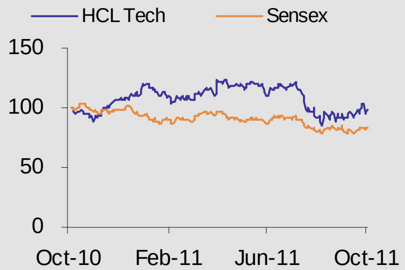
Prices as on 21 Oct, 2011

Shareholding pattern	
September '11	**(%)**
Promoters	64.3
Institutions	27.2
Non promoter corp hold	3.2
Public & others	5.3

Performance rel. to sensex

(%)	1m	3m	1yr
HCL Tech	4.0	(6.9)	16.6
Infosys	13.1	7.0	5.9
TCS	1.8	2.9	17.7
Wipro	0.5	(2.7)	(4.4)

Share price trend



Volume growth to remain in top quartile of the industry

HCLT's strategy of garnering market share in an overall flattish IT outsourcing pie through aggressive deal structuring and subsequent mining has resulted in industry leading volume growth witnessed post last downturn. The deal signings have been strong with HCLT being one of the Top-15 service providers by TCV won in CY11 (YTD) and which provides strong revenue visibility in weakening demand environment. Going forward, consensus expects relatively strong revenue momentum fueled by continued gain in market share as more contracts come for re-bid in H2 CY11. In a scenario of clients freezing near-term IT spending due to global uncertainty, there could be an increase in competitive pressure which can prove to be a material concern. But, we anticipate it not to be entirely a company specific concern and continue expect it to remain in top quartile of volume growth in the industry.

Higher discretionary exposure - a near-term concern

HCLT has strong foothold in the discretionary spend related services comprising ~50% of total revenues. A general concern is that a cautious approach adopted by clients may lead to the curtailment of discretionary spending in order to conserve cash in a deteriorating macro. But, we believe a large proportion of non-discretionary IMS services portfolio (25% of total revenues) will help to keep it in good stead. Also, the overall balanced portfolio of discretionary and non-discretionary services lends equally positive scope to ride a rising demand environment.

Operating Margin to sustain despite moderating demand

HCLT has been successful in recouping margin in recent quarters (including Q1 F6/12). We believe margin may sustain even in a deteriorating spending environment (volume growth may moderate) and SG&A increase (to support the market share gain). Despite these, we estimate a flat OPM for HCL Tech over FY12-13 aided by the tailwinds from utilization improvement, employee pyramid & falling INR.

Stock offers decent return potential at current price

Even after scaling down our revenue and profitability assumptions considering the weakening macro and other concerns, current P/E valuation is at ~18% discount to the 5-year average. Therefore, the stock still offers attractive return potential to long-term investors.

Financial highlights

Y/e 30 Jun (Rs m)	F6/10	F6/11	F6/12E	F6/13E
Revenues	125,650	158,556	201,010	236,877
yoy growth (%)	18.4	26.2	26.8	17.8
Operating profit	25,730	27,191	35,912	40,525
OPM (%)	20.5	17.1	17.9	17.1
Pre-exceptional PAT	13,026	17,768	23,082	26,512
Reported PAT	12,152	16,876	22,282	25,712
yoy growth (%)	1.4	38.9	32.0	15.4
EPS (Rs)	19.0	25.6	33.2	38.2
P/E (x)	21.7	16.1	12.4	10.8
P/BV (x)	4.4	3.6	3.0	2.4
EV/EBITDA (x)	11.3	10.4	7.7	6.5
ROE (%)	23.2	25.5	27.2	25.6
ROCE (%)	18.2	23.0	28.6	27.3

Source: Company, India Infoline Research

HDFC Bank - BUY

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Sector: Banking	
Sensex:	16,786
CMP (Rs):	487
Target price (Rs):	575
Upside (%):	18.1
52 Week h/l (Rs):	520 / 396
Market cap (Rscr) :	115,548
6m Avg vol ('000Nos):	3,785
No of o/s shares (mn):	2,338
FV (Rs):	2
Bloomberg code:	HDFCB IB
Reuters code:	HDBK.BO
BSE code:	500180
NSE code:	HDFCBANK

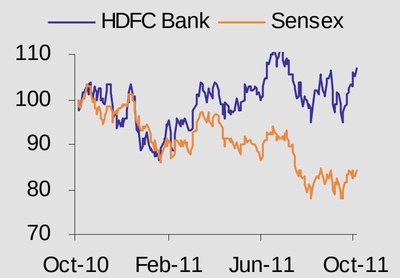
Prices as on 21 Oct, 2011

Shareholding pattern	
June'11	**(%)**
Promoters	23.2
Institutions	40.3
Non promoter corp hold	8.9
Public & others	27.7

Performance rel. to sensex

(%)	1m	3m	1yr
HDFC Bank	2.4	7.2	21.3
ICICI Bank	(0.3)	(8.1)	(6.2)
Axis Bank	1.2	(1.7)	(5.5)
Yes bank	0.3	(5.3)	(8.5)

Share price trend



Bank to deliver industry-best high quality loan growth

HDFC Bank has consistently beaten the system credit growth over the past many years without compromising on asset quality. In H1 FY12, the bank's advances have grown by robust 18% on YTD basis, far ahead of the system credit expansion of 7%. Given its loan profile (50% - Retail and 50% - Corporate, largely working capital), the loan demand served by HDFC Bank is relatively less cyclical. While some conscious moderation would happen in H2 (traditional feature), we estimate full-year loan growth at 24%, one of the highest in the industry.

Negligible risks to NIM sustenance above 4%

With near 50% CASA and lower 12-15% wholesale funding exposure, HDFC Bank has the best liability franchise in the industry. This along with strong pricing power in both the retail and corporate segments has enabled the bank to maintain NIM around 4% over the past three years despite heightened interest rate volatility, extreme liquidity conditions and credit growth moderation. In the medium term, management expects NIM to move in the band of 3.9-4.3% with both, the funding cost (retail TDs getting re-priced and increased mobilization of bulk TDs) and assets yields (lagged re-pricing for bank) expected to increase.

Asset quality and RoA remains sanguine

Affirming bank's superior credit origination and monitoring standards, the GNPL ratio has consistently improved in the past 10 quarters. Additionally, bank's conservative provisioning practice has reduced NPL risk (NNPL/Networth) to insignificant 1.3% and strengthened balance sheet (significant floating provisions made in H1 FY12). HDFC Bank also has the lowest proportion of restructured assets (0.4% of advances). With margins and asset quality expected to be resilient, we are confident about the bank sustaining RoA near 1.6%. HDFC Bank's capital adequacy is robust with Tier-1 capital at 11%+, sufficient to support loan growth over next two years.

'Safe Haven' in deteriorating sector dynamics

In the backdrop of undermining macro dynamics (decelerating credit growth and increasing asset quality risks), we consider HDFC Bank as a 'Safe Haven' due to its high quality loan portfolio, negligible NPL risk/restructured assets, enviable RoA and robust capitalization. Valuation is likely to re-rate further driven by investors' increasing risk averseness within the sector.

Valuation summary

Y/e 31 March (Rs m)	FY10	FY11	FY12E	FY13E
Total operating income	123,695	148,783	175,546	218,193
yoy growth (%)	15.5	20.3	18.0	24.3
Operating profit (pre-prov.)	64,297	77,254	91,141	111,843
Net profit	29,492	39,270	50,275	60,503
yoy growth (%)	31.4	33.2	28.0	20.3
EPS (Rs)	12.9	16.9	21.6	26.0
Adj.BVPS (Rs)	92.3	107.8	124.5	143.8
P/E (x)	37.8	28.8	22.5	18.7
P/BV (x)	5.3	4.5	3.9	3.4
ROE (%)	16.1	16.7	18.4	19.1
ROA (%)	1.5	1.6	1.6	1.6
CAR (%)	17.4	16.2	16.2	14.9

Source: Company, India Infoline Research

Hero Motocorp - BUY

Sector: Automobiles

Sensex:	16,786
CMP (Rs):	2,052
Target price (Rs):	2,350
Upside (%):	14.5
52 Week h/l (Rs):	2,232 / 1,378
Market cap (Rscr) :	40,978
6m Avg vol ('000Nos):	544
No of o/s shares (mn):	200
FV (Rs):	2
Bloomberg code:	HMCL IB
Reuters code:	HROM.BO
BSE code:	500182
NSE code:	HEROMOTOCO

Prices as on 21 Oct, 2011

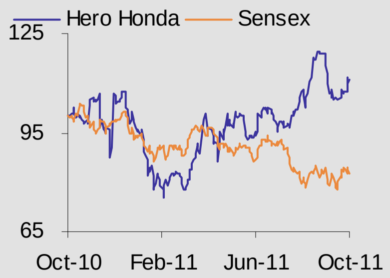
Shareholding pattern

September '11	(%)
Promoters	52.2
Institutions	39.0
Non promoter corp hold	1.6
Public & others	7.2

Performance rel. to sensex

(%)	1m	3m	1yr
Hero Honda	(2.4)	25.5	33.4
Bajaj Auto	3.9	24.3	29.3
TVS Motors	7.5	42.2	5.8

Share price trend



Market leadership to continue

We expect Hero Motocorp to maintain its market leadership position backed by its strong brand image in rural India. This is backed by our expectation of a faster growth of two wheeler penetration in rural India compared to urban India. With Hero Group parting ways with its erstwhile partner Honda, concerns were raised over sustainability of the brand image. With more than six months passing through since the separation, Hero Motocorp has maintained its leadership position. We expect this to continue and estimate a 12% CAGR in volumes during FY11-FY14 (in-line with the industry).

Concern over R&D capability overdone

At the time of split-up, markets had raised concerns over Hero Motocorp's capability to develop its own R&D base over a period of three years. We are not too worried considering that other two incumbent players Bajaj Auto and TVS Motors have developed technology on their own. Further, the industry is characterized by low model churns and lesser new innovations.

Margins to recover from current levels

Hero Motocorp's OPM during Q1 FY12 was at 11.3%, one of the worst levels in the past five years. This was owing to sharp increase in raw material costs and advertisement costs. With new branding exercise and increased expenses towards building R&D capabilities, markets were concerned with further downsides to margins. Nevertheless, we believe, margins will improve from current levels as 1) sourcing from new low cost vendors, 2) operating leverage as volumes increase, 3) fixed royalty getting distributed over higher volumes and 4) weakness in commodity prices. This was reflected in Q2 FY12 financials where the company reported 90 bps sequential improvement in OPM.

Valuations inexpensive considering earnings growth and dividend policy

Stock currently trades at a P/E of 14.3x based on FY13E earnings of Rs143.1. Considering a strong earnings CAGR of 20% during FY11-13E and a dividend yield of 4%, we find the valuations attractive. We maintain our BUY rating with a revised 9-month price target of Rs2,350.

Valuation summary

Y/e 31 March (Rs m)	FY10	FY11	FY12E	FY13E
Revenues	157,582	192,450	222,623	251,688
yoy growth (%)	27.9	22.1	15.7	13.1
Operating profit	26,620	22,832	27,275	32,909
OPM (%)	16.9	11.9	12.3	13.1
Pre-exceptional PAT	22,318	20,077	23,811	28,570
Reported PAT	22,318	19,279	23,811	28,570
yoy growth (%)	70.7	(13.6)	23.5	20.0
EPS (Rs)	111.8	100.5	119.2	143.1
P/E (x)	18.3	20.4	17.2	14.3
P/BV (x)	11.8	13.8	11.7	11.0
EV/EBITDA (x)	14.7	18.6	14.9	12.1
Debt/Equity (x)	0.0	0.0	0.0	0.0
ROE (%)	61.4	62.5	73.8	79.3
ROCE (%)	72.9	71.8	81.7	88.3

Source: Company, India Infoline Research

Hindalco Industries - BUY

Sector: Metals & Mining

Sensex:	16,786
CMP (Rs):	122
Target price (Rs):	185
Upside (%):	52.1
52 Week h/l (Rs):	252 / 120
Market cap (Rscr) :	23,290
6m Avg vol ('000Nos):	8,055
No of o/s shares (mn):	1,915
FV (Re):	1
Bloomberg code:	HNDL IB
Reuters code:	HALC.BO
BSE code:	500440
NSE code:	HINDALCO

Prices as on 21 Oct, 2011

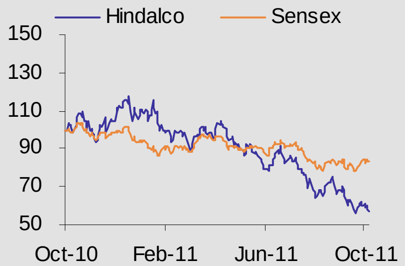
Shareholding pattern

September '11	(%)
Promoters	32.1
Institutions	42.3
Non promoter corp hold	6.3
Public & others	19.3

Performance rel. to sensex

(%)	1m	3m	1yr
Hindalco	(15.1)	(22.0)	(26.3)
HZL	(7.7)	(4.4)	14.1
Sterlite	(12.6)	(22.0)	(16.9)
NALCO	(4.4)	(15.6)	(22.7)

Share price trend



Volume CAGR at 14% over FY11-13E

Hindalco has embarked upon an ambitious Rs450bn expansion plan to raise its domestic aluminium capacity 3.6x and alumina 3x by FY16. The projects are running with delay of 6-9 months compared to their original schedule and we expect further slippages of 3-6 months. We expect the Mahan smelter to contribute 0.1mn tons in FY13 against the management guidance of 0.2mn tons. We expect volume CAGR of 14% over FY11-13 as expansions are back ended.

Rising coal costs to cap standalone margin expansion

Hindalco's standalone business is impacted by rising raw material and power costs. We expect the pressure to rise further following the price hikes by Coal India (70% of coal supply). Pressure on margins would further accentuate as the company would be required to buy e-auction or imported coal as the allotted mine for Mahan is MoEF's 'No-Go' zone and tapering linkages would be hard to come by. As a result, we expect the impact of strong aluminium prices to be offset by rising input costs, and margins to be capped over FY11-13E.

Novelis margins to climb further

Novelis has benefited from strong demand across various product categories and increasing margins, given capacity constraints in the rolled products market. Margins have expanded as the company managed to reduce energy consumption and earn better conversion premium for its products on the back of an improving product mix. Over the next two years, debottlenecking activities would drive 4-5% volume growth for Novelis. We expect adjusted EBIDTA/ton to increase from US$346/ton in FY11 to US$362/ton in FY12 and US$383/ton in FY13. We also believe that Novelis would be able to meet its FY12 EBIDTA guidance of US$1.15-1.2bn.

Novelis to drive earnings

Hindalco has corrected sharply over the last three months on account of 1) delay in capacity expansion plan 2) rising interest costs 3) high coal costs 4) weak commodity prices. We believe that most of the negatives are priced in. We expect the company to witness an EBIDTA CAGR of 14.7% over FY11-13 led by higher contribution from Novelis. Earnings from Novelis would be resilient enough to withstand any global shocks and would provide downside support to the stock price. We recommend a BUY on the stock based on our sum-of-the-parts (SOTP) fair value of Rs185.

Valuation summary

Y/e 31 Mar (Rs m)	FY10	FY11	FY12E	FY13E
Revenues	607,079	720,779	776,837	821,944
yoy growth (%)	(8.0)	18.7	7.8	5.8
Operating profit	97,458	80,017	96,952	105,305
OPM (%)	16.1	11.1	12.5	12.8
Pre-exceptional PAT	38,225	24,564	35,083	36,184
Reported PAT	39,255	24,564	35,083	36,184
yoy growth (%)	-	(37.4)	42.8	3.1
EPS (Rs)	20.0	12.8	18.3	18.9
P/E (x)	6.1	9.5	6.7	6.5
Price/Book (x)	1.1	0.8	0.7	0.7
EV/EBITDA (x)	4.6	6.1	5.6	5.5
Debt/Equity (x)	1.1	1.0	1.0	1.0
RoE (%)	20.4	9.7	11.5	10.7
RoCE (%)	14.7	10.0	10.9	10.5

Source: Company, India Infoline Research

ICICI Bank - BUY

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Sector: Banking	
Sensex:	16,786
CMP (Rs):	870
Target price (Rs):	1,135
Upside (%):	30.5
52 Week h/l (Rs):	1,277 / 762
Market cap (Rscr) :	102,485
6m Avg vol ('000Nos):	3,942
No of o/s shares (mn):	1,152
FV (Rs):	10
Bloomberg code:	ICICIBC IB
Reuters code:	ICBK.BO
BSE code:	532174
NSE code:	ICICIBANK

Prices as on 21 Oct, 2011

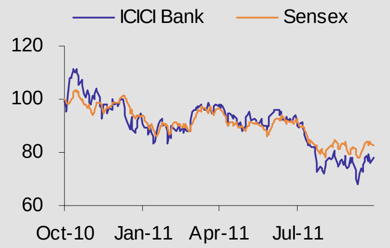
Shareholding pattern

June'11	(%)
Promoters	-
Institutions	63.4
Non promoter corp hold	4.2
Public & others	32.4

Performance rel. to sensex

(%)	1m	3m	1yr
ICICI Bank	(0.3)	(8.1)	(6.2)
YES Bank	0.3	(5.3)	(8.5)
HDFC Bank	2.4	7.2	21.3
Axis Bank	1.2	(1.7)	(5.5)

Share price trend



On firm growth trajectory after a successful transformation

Over FY08-11, ICICI Bank underwent a substantial transformation elevating its profitability matrix significantly. From per-dominantly being a retail bank with material exposure to unsecured credit, the loan book profile has become more diversified and robust. The share of retail segment in the bank's advances has declined sharply by 20ppt+ over the past three years. The liability franchise has structurally improved with the share of CASA deposits increasing by 15ppt+ in the aforesaid period. After contracting balance sheet during FY08-10, the bank starting expanding from FY11 with 20% loan growth. The momentum has continued in Q1 FY12 and we expect ICICI Bank to grow at least in-line with the system in FY12 and FY13.

NIM would remain resilient in the longer term

In spite of higher reliance on wholesale funding and material spike in deposit rates over the past few months, ICICI Bank's NIM stood resilient at 2.6% in Q1 FY12. Timely and commensurate lending rate hikes supported margin. Bank's quarterly NIMs have been steady in the range of 2.5-2.7% over the past two years aided by structural improvement in CASA ratio. We expect bank's NIM to gradually improve from current levels with beneficial re-pricing of wholesale deposits, stable CASA and reasonably strong pricing power. On July 1st, bank raised its Base Rate by 25bps without taking any deposit rate hike.

Asset quality has been stable; capital position is robust

ICICI Bank's asset quality has been sanguine over the past four quarters with absolute GNPLs being flattish and GNPL ratio declining by 60bps. Slippages continue to be modest in Q1 FY12 (0.5% of advances) and outstanding restructured assets remained benign (0.9% of book). The net NPL ratio has come-off significantly in the past two years driven by conservative loan-loss provisioning (PCR at 77%). We don't foresee any significant deterioration in asset quality in the near term. ICICI Bank's capital adequacy stands robust with Tier-1 ratio at 13.4% and overall CAR at 20%. Bank is well-capitalized for longer term.

RoE to improve; valuation would re-rate

RoA has structurally improved by 25-30bps over the past four quarters aided by robust NIMs and lower credit cost on the back of asset quality improvement. We estimate RoA to remain at credible 1.4% in FY12 and FY13 while RoE is likely to improve by 250bps driven by higher financial leverage. Quarterly performance would remain strong in the medium term with dilution of profitability matrix unlikely. With current valuation at steep discount to peers, we expect strong re-rating in medium term.

Valuation summary

Y/e 31 Mar (Rs m)	FY10	FY11	FY12E	FY13E
Total operating income	155,920	156,648	175,594	211,962
Yoy growth (%)	(2.4)	0.5	12.1	20.7
Operating profit (pre-provisions)	97,322	90,476	96,187	117,468
Net profit	40,250	51,514	59,390	71,601
yoy growth (%)	7.1	28.0	15.3	20.6
EPS (Rs)	36.1	44.7	51.6	62.2
Adj. BVPS (Rs)	425.4	453.9	486.4	522.3
P/E (x)	24.7	19.9	17.3	14.3
P/BV (x)	2.1	2.0	1.8	1.7
ROE (%)	8.0	9.7	10.4	11.7
ROA (%)	1.1	1.3	1.4	1.4
CAR (%)	19.4	19.5	16.0	14.3

Source: Company, India Infoline Research

ITC - BUY

Sector: FMCG	
Sensex:	16,786
CMP (Rs):	204
Target price (Rs):	232
Upside (%):	13.9
52 Week h/l (Rs):	211 / 149
Market cap (Rscr) :	158,298
6m Avg vol ('000Nos):	7,784
No of o/s shares (mn):	7,773
FV (Re):	1
Bloomberg code:	ITC IB
Reuters code:	ITC.BO
BSE code:	500875
NSE code:	ITC

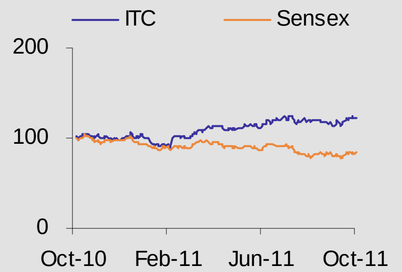
Prices as on 21 Oct, 2011

Shareholding pattern	
September '11	**(%)**
Promoters	-
Institutions	50.5
Non promoter corp hold	6.2
Public & others	43.3

Performance rel. to sensex

(%)	1m	3m	1yr
ITC	4.6	7.3	35.4
HUL	(2.3)	6.6	25.0
Britannia	(2.4)	0.7	20.3
GCPL	(2.9)	(0.0)	19.9

Share price trend



Strong resilience in cigarette volumes

ITC's core cigarette business continues to display resilience with strong 7.5% volume growth despite ~6% price hikes during Q2 FY12. Cigarette EBIT margin witnessed a sharp 120bps expansion as the price hikes taken were much higher than the ~3% required to pass on the increase in state VAT impact. We expect further price hikes going ahead, which would ensure healthy margin expansion. With firm consumer demand and strong brand portfolio, we believe ITC is well-positioned to grow cigarette volumes at 6-8% in FY12 (on a weak base of FY11).

Other-FMCG segment to break even by FY13

With the improving profitability in the foods segment (key factor in narrowing FMCG losses) driven by higher margins in biscuits and staples segment, the other-FMCG segment is becoming a stronger business. Personal care segment is also gaining significant market share in the key categories. The other-FMCG division continues to record 20%+ growth and the company expects this segment to break even at EBIT level by FY13. Personal care segment could however take another 4-5 years to achieve break even.

Lower tobacco prices to drive cigarette margins

We believe ITC's cigarette EBIT margins in FY12 will benefit from the ~10% decline in domestic tobacco prices as against a 20-40% increase in the past two years. ITC has already procured a large portion of the tobacco for the FY12 cigarette production at ~5-10% yoy lower prices. The lower input cost scenario coupled with over 5% price hikes will drive profitability in FY12.

Margins to expand; earnings to witness ~18% CAGR

ITC remains one of our top picks in the sector given the strong resilience in its core cigarette business. We believe the earnings growth outlook for ITC is improving, especially in the core cigarette segment, which is witnessing a revival in volume growth coupled with improved profitability across all the non-cigarettes segments. We expect ITC to register ~18% CAGR in net profit over FY11-13. At the current market price of Rs204, the stock is trading at 22.8x FY13E EPS of Rs8.9.

Valuation summary

Y/e 31 Mar (Rs m)	FY10	FY11	FY12E	FY13E
Revenues	181,532	211,676	248,605	287,533
yoy growth (%)	16.3	16.6	17.4	15.7
Operating profit	60,740	71,534	85,558	100,277
OPM (%)	33.5	33.8	34.4	34.9
Pre-exceptional PAT	40,610	49,876	59,308	69,179
Reported PAT	40,610	49,876	59,308	69,179
yoy growth (%)	24.4	22.8	18.9	16.6
EPS (Rs)	5.3	6.4	7.7	8.9
P/E (x)	38.4	31.6	26.6	22.8
Price/Book (x)	11.1	9.9	9.2	8.6
EV/EBITDA (x)	25.5	21.8	18.1	15.4
Debt/Equity (x)	0.0	0.0	0.0	0.0
RoE (%)	29.2	33.2	35.8	38.8
RoCE (%)	40.9	46.0	49.7	54.0

Source: Company, India Infoline Research
** adjusted for bonus*

IIFL INDIA PRIVATE CLIENTS

Lupin Pharma - BUY

Sector: Pharmaceuticals	
Sensex:	16,786
CMP (Rs):	467
Target price (Rs):	520
Upside (%):	11.4
52 Week h/l (Rs):	520 / 363
Market cap (Rscr) :	20,832
6m Avg vol ('000Nos):	1,016
No of o/s shares (mn):	447
FV (Rs):	2
Bloomberg code:	LPC IN
Reuters code:	LUPN.BO
BSE code:	500257
NSE code:	LUPIN

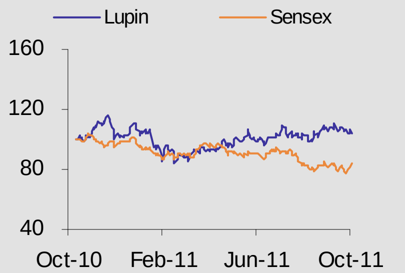
Prices as on 21 Oct, 2011

Shareholding pattern	
June '11	**(%)**
Promoters	47.0
Institutions	42.8
Non promoter corp hold	1.0
Public & others	9.2

Performance rel. to sensex

(%)	1m	3m	1yr
Lupin	(2.8)	13.1	22.2
Dr Reddy	1.5	8.1	11.4
Sun Pharma	2.1	5.8	31.7
Ranbaxy	2.9	2.1	(0.2)

Share price trend



Strong and distinct business model

Lupin has a strong and distinct business model in US along with its sustainable business at domestic front. Lupin is the only Indian company having healthy performance in branded business in US along with generics sales. The company's focus is to continuously evolve its business model to become more profitable. In past 6 years, Lupin has moved up in the value chain (pure API player to formulation player) and expanded its reach to various geographies to create healthy margins and return ratios.

US growth momentum to continue

Lupin is the 5th largest generic player in the US in terms of prescriptions and the only Asian generic company in the top 10 list. Growth in the US market would continue led by stabilized branded sales and growing generic portfolio with new niche product launches. Lupin has recently received approval of its first oral contraceptive (OC) product (Fortamet) and launched at risk. It has also launched AG of Femcon in the same category. The OC market is niche in nature and it is currently worth ~US$4.5bn. Lupin has filed 23OCs in this category and targets ~US$125mn of revenue by FY14.

Japan, a huge generic opportunity to be grabbed

Japan, the second the largest pharma market, is witnessing a prototype shift. The Japanese government is geared up to reduce healthcare costs and after the current natural catastrophe we expect government efforts to strengthen. Lupin is at advantageous position owing to its acquisition of Kyowa, which is among the top 10 generic companies in Japan (ranked 7th and growing at 23%).

Domestic business to augment growth

Lupin is fifth-largest pharmaceutical company in India with market share of around 3.5%. Lupin recently partnered with Eli-Lilly to promote Eli Lilly's insulin products in Indian and Nepal. The move will complete Lupin's diabetes portfolio and would strengthen the growth in India (India has the largest diabetic pool).

Attractive valuation coupled with favorable risk-reward

Lupin has a strong balance sheet with a superior earning profile. Given its differentiated business & improving profitability, valuations appear attractive. We estimate 19%/27% CAGR over FY11-13E. Recommend Buy.

Valuation summary

Y/e 31 Mar (Rs m)	FY10	FY11	FY12E	FY13E
Revenues	48,376	58,069	67,858	81,493
yoy growth (%)	25.6	20.0	16.9	20.1
Operating profit	9,507	11,659	14,191	18,997
OPM (%)	19.7	20.1	20.9	23.3
Pre-exceptional PAT	6,816	8,626	10,186	13,855
Reported PAT	6,816	8,626	10,186	13,855
yoy growth (%)	35.9	26.6	18.1	36.0
EPS (Rs)	15.2	19.2	22.6	30.6
P/E (x)	30.7	24.3	20.7	15.3
Price/Book (x)	8.1	6.3	5.0	3.9
EV/EBITDA (x)	22.9	18.7	15.3	11.4
Debt/Equity (x)	0.4	0.2	0.1	0.0
RoE (%)	26.5	26.3	24.6	25.9

Source: Company, India Infoline Research

Mahindra & Mahindra - BUY

Sector: Automobiles

Sensex:	16,786
CMP (Rs):	801
Target price (Rs):	900
Upside (%):	12.3
52 Week h/l (Rs):	825 / 584
Market cap (Rscr) :	49,186
6m Avg vol ('000Nos):	1,942
No of o/s shares (mn):	614
FV (Rs):	5
Bloomberg code:	MM IB
Reuters code:	MAHM.BO
BSE code:	500520
NSE code:	M&M

Prices as on 21 Oct, 2011

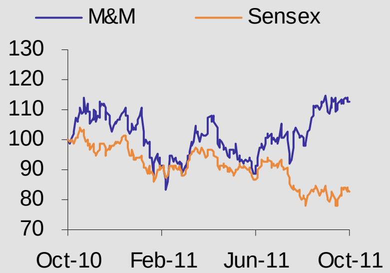
Shareholding pattern

September '11	(%)
Promoters	25.2
Institutions	47.0
Non promoter corp hold	9.4
Public & others	18.4

Performance rel. to sensex

(%)	1m	3m	1yr
M&M	(0.0)	22.8	30.2
Maruti	(1.2)	3.9	(11.3)
Tata Motors	9.6	(0.1)	(6.2)
Ashok Ley	(6.2)	5.5	(17.7)

Share price trend



Strong demand for tractors to continue

Following a 19% CAGR during FY03-07, tractor volumes in India went through a sedate phase during FY08 and FY09 with volumes remaining flat at 0.35mn tractors per annum. However, in FY10 and FY11 the volume growth jumped to 27% and 25% respectively. The factors that caused this change were 1) farm loan waiver scheme worth Rs653bn benefiting about 36mn farmers, 2) raising of MSP for crops, 3) RBI asking banks to increase lending to rural areas, 4) employment guarantee scheme, 5) increasing non-agriculture usage of tractors. The effect of these factors will continue to last over the next couple of years causing the demand to grow in the range of 13-15%. M&M with ~43% market share would be a major beneficiary.

Leadership position in UVs to be maintained

M&M is by far the leading player in the Indian UV industry with a 53% market share. With the next two largest players accounting for 33% of the market share, the competition is limited at price points where M&M operates. With substantial portion of demand for UVs arising from rural areas and M&M's strong brand recall, UV volume growth would remain strong for the company.

Ssangyong performance to improve going ahead

During Q2 CY11, Ssanyong sold 30,772 vehciles, highest since Q2 CY07. This trend is expected to continue considering M&M's expertise in the UV markets. Financial performance in Q2 CY11, however, was plagued by higher wage costs and price hikes given to vendors. Given M&M's track record of cutting costs and expectations of continued volume momentum, we expect Ssangyong to report improved operating performance in the medium term.

Re-rating on the cards

M&M has historically been trading at a substantial discount to its domestic peers owing to cyclicality of tractor business, exposure to multiple business streams and losses at few of its subsidiaries. With expected improvement in subsidiary performance and strong growth in automotive and tractor volumes, a re-rating cannot be ruled out.

Valuation summary

Y/e 31 March (Rs m)	FY10	FY11	FY12E	FY13E
Revenues	186,021	234,937	275,339	321,055
yoy growth (%)	42.1	26.3	17.2	16.6
Operating profit	29,552	34,562	37,997	43,984
OPM (%)	15.9	14.7	13.8	13.7
Pre-exceptional PAT	19,970	25,446	27,648	31,746
Reported PAT	20,878	26,621	27,648	31,746
yoy growth (%)	149.5	27.5	3.9	14.8
EPS (Rs)	34.3	38.8	42.2	48.5
P/E (x)	23.4	20.7	19.0	16.6
P/BV (x)	6.0	5.1	4.3	3.6
EV/EBITDA (x)	16.2	15.7	14.2	11.7
Debt/Equity (x)	0.4	0.2	0.1	0.0
ROE (%)	30.5	28.1	24.5	23.6
ROCE (%)	27.5	27.9	26.8	28.2

Source: Company, India Infoline Research

Sun Pharma - BUY

Sector: Pharmaceuticals

Sensex:	16,786
CMP (Rs):	487
Target price (Rs):	580
Upside (%):	19.1
52 Week h/l (Rs):	540 / 393
Market cap (Rscr) :	50,203
6m Avg vol ('000Nos):	1,040
No of o/s shares (mn):	1,030
FV (Re):	1
Bloomberg code:	SUNP IN
Reuters code:	SUN.BO
BSE code:	524715
NSE code:	SUNPHARMA

Prices as on 21 Oct, 2011

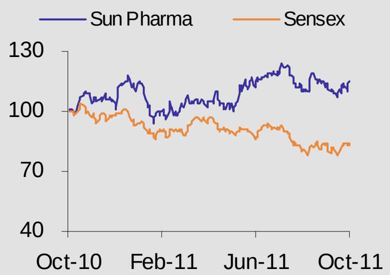
Shareholding pattern

June '11	(%)
Promoters	63.7
Institutions	25.6
Non promoter corp hold	5.0
Public & others	5.7

Performance rel. to sensex

(%)	1m	3m	1yr
Sun Pharma	2.3	6.0	31.7
Cipla	2.8	0.1	(0.3)
Ranbaxy	2.9	1.9	(0.0)
Dr Reddy	1.5	8.1	11.4

Share price trend



Pre-eminent play in pharma space

Sun Pharma has one of the fastest growing and most resilient businesses model among the Indian generics players. After strengthening its presence in India and US, Sun Pharma has started generating significant revenues in other geographies as well (International market constituted 60% of FY11 sales). The company has consistently delivered growth and has proven its expertise in driving operational efficiencies to extract margins that are significantly higher than competitors (~34% v/s industry margin of ~22%)

One of the best franchisees in domestic market

Company's domestic business comprises mainly high margin and high growth therapeutic areas like CVs, neurology and diabetology (chronic segment). Industry surveys indicate high level of brand recognition for Sun Pharma's products among doctors. The company's prudent brand building strategy is evident from its top 10 selling brands that constitute 15% of domestic sales. Sun Pharma's 2,700-strong field force has ensured wide market reach and largest market share (~4.4%) in highly fragmented domestic pharma market. Brand franchise of drugs in chronic segments, once established, is durable. Hence, we expect the leadership to continue.

US business to flourish with Taro in bag

After a two-year legal tussle, Sun Pharma has acquired majority control of Taro Pharma in the US. Recently the company announced its intention to take full control of Taro. Acquisition has strengthened the portfolio of the company in US market. However, in the short term, it would act as a dampener to the margins (though in Q1FY12 Taro reported better than expected margin; 35% v/s expected 27%). Sun pharma as a whole has ANDAs for 151 products pending for approval (including 19 tentative approvals)

Steady growth ahead; recommend BUY

Sun Pharma has a one of the best franchises in the domestic market. The long term driver for the company includes its JV with Merck for EMs and taking full control of Taro in US. Sun Pharma and Merck's JV for EMs excluding India will generate revenues after FY14. We expect 24%/26% revenue/PAT CAGR respectively over FY11-FY13E. Strong balance sheet (cash balance of Rs21bn) coupled with superior return ratios makes Sun Pharma as one of the best bet in pharma space.

Valuation summary

Y/e 31 Mar (Rs m)	FY10	FY11	FY12E	FY13E
Revenues	40,074	57,214	74,121	87,650
yoy growth (%)	(6.2)	42.8	28.0	19.7
Operating profit	13,628	19,672	24,900	28,925
OPM (%)	34.0	34.4	34.0	33.0
Reported PAT	13,511	18,161	23,228	26,954
yoy growth (%)	(25.7)	34.4	27.9	16.0
EPS (Rs)	13.0	17.5	22.4	26.0
P/E (x)	37.3	27.8	21.7	18.7
Price/Book (x)	6.4	5.3	4.4	3.7
EV/EBITDA (x)	36.8	24.7	19.4	16.6
Debt/Equity (x)	0.0	0.0	0.0	0.0
RoE (%)	18.2	21.0	22.2	21.3

Source: Company, India Infoline Research

IIFL INDIA PRIVATE CLIENTS

Tata Consultancy Services - BUY

Sector: Information Technology	
Sensex:	16,786
CMP (Rs):	1,048
Target price (Rs):	1,180
Upside (%):	12.6
52 Week h/l (Rs):	1,247 / 903
Market cap (Rscr) :	205,166
6m Avg vol ('000Nos):	1,969
No of o/s shares (mn):	1,957
FV (Re):	1
Bloomberg code:	TCS IB
Reuters code:	TCS.BO
BSE code:	500209
NSE code:	TCS

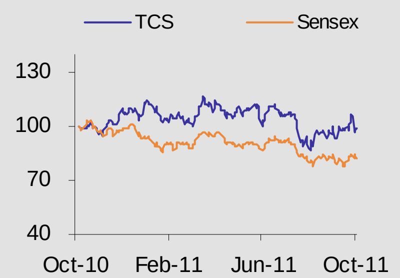
Prices as on 21 Oct, 2011

Shareholding pattern	
September '11	**(%)**
Promoters	74.1
Institutions	20.9
Non promoter corp hold	0.4
Public & others	4.6

Performance rel. to sensex

(%)	1m	3m	1yr
TCS	1.8	2.9	17.7
Infosys	13.1	7.0	5.9
Wipro	0.5	(2.7)	(4.4)
HCL Tech	4.0	(6.9)	16.6

Share price trend



TCS has been a consistent outperformer

Over the past six quarters, TCS has consistently out-performed industry and comparable peers both on volume growth and margin fronts. Multiple large deal wins (~10 each in last four quarters) and guided strong employee addition imply that robust revenue traction would continue in the medium term. The key edge for TCS has been its strong go-to-market and commendable execution (sharpened post the proactive restructuring in CY08). Further, stability of top management vis-à-vis peers provides better execution comfort.

Discretionary exposure relatively less; well-diversified service mix to sustain growth

TCS's end-to-end services approach and one of the highest exposures to emerging markets has stood in good stead. Sustained broad-based growth through FY11 and H1 FY12 validates the same. This facet gains more prominence in the current scenario of increasing growth challenges in the developed markets. Lower discretionary exposure also bodes well as clients can possibly delay decision making in an uncertain environment. BFSI, the largest vertical also remains stable as commented by the management with the risk/compliance related spend (non-discretionary) expected to continue.

Margin management strong; expect it to remain range bound

TCS with its commendable execution and supply side management delivered higher margin than Infosys for the first time in recent quarter. Admirable SG&A management, better FPP execution and structural up-tick in utilization have helped protect/improve its margin. Higher traction in transformation projects, platform BPO, SMB related services along with levers such as SG&A leverage, improving employee pyramid and moderation of wage hikes/variables payouts (due to lowered growth expectation) are expected to keep margin range bound.

Relative out-performance to continue; Recent up-move validates the same; maintain BUY

With minimal hiccups on multiple counts – supply side, organization structure, industry/geographic exposure, TCS should continue to capitalize and maintain industry-leading growth. Management commentary has been re-assuring as yet with no material impact expected from the ongoing macro weakness. On the back of sustained outperformance, TCS has earned the reputation of 'Safe Haven' within the sector. We find the steep fall post results largely unwarranted. Valuations remain attractive Maintain BUY.

Valuation summary

Y/e 31 Mar (Rs m)	FY10	FY11	FY12E	FY13E
Revenues	300,288	373,245	482,537	569,362
yoy growth (%)	8.0	24.3	29.3	18.0
Operating profit	86,798	112,093	140,849	163,504
OPM (%)	28.9	30.0	29.2	28.7
Reported PAT	68,728	86,800	104,513	122,445
yoy growth (%)	68,728	86,800	104,513	122,445
EPS (Rs)	35.1	44.3	53.4	62.6
P/E (x)	29.7	23.5	19.6	16.7
Price/Book (x)	11.1	8.3	6.3	5.0
EV/EBITDA (x)	23.0	17.6	13.6	11.3
RoE (%)	40.3	40.6	37.0	33.8
RoCE (%)	46.1	49.9	47.9	44.0

Source: Company, India Infoline Research

Non Convertible Debentures (NCDs)

We recommend investing an equal amount in Muthoot and Manappuram NCD issues in the secondary market. ***Our fundamental equity analyst also has a buy recommendation on both the company stocks.***

Debt market scenario: The debt market has been on a one way ride primarily on the back of steep hike in the benchmark rates over the last 18 months. The economy seems to be grappling with daunting inflation figures, which have failed to subside despite the multifold increase in the benchmark rate. In addition, there is a looming danger that the Central Government may yet again miss its fiscal deficit target of 4.6% of GDP. The Government recently announced a hike in borrowings for the second half by Rs530bn. That again does not seem to be the end of the road - with no confidence emerging from the recently published figures of food inflation, Government disinvestment receipts and the overall revenue collections.

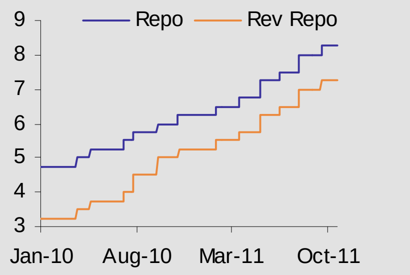
Term structure predicament: The supply side bottlenecks continue to linger much to the discomfort of the Government. As long as these are not addressed properly, the hiking of the policy rates will be seen as more of a stopgap solution. The benchmark rates have been hovering at their peak levels for a while, and but for a 25bps further hike in a matter of next couple of months, the yield curve is due for flattening followed by an inversion. In fact, the yield curve has already inverted in the 1-5year tenure and it's a matter of time before it extends to the shorter tenures as well.

Opportunity set: The present scenario in conjunction with the not so rosy outlook for equity owing to global headwinds augers well for the investors in the fixed income space. The asset class provides plethora of options to cater to diverse set of investors based on their appetite and investment ideology. The moderate risk-taking investors have the flexibility and the jurisdiction of exercising their options in the NCD (Non convertible debenture)/FMP (fixed Maturity plan) space where they have the opportunity to lock-in at the peak of the yield curve. The risk takers also have their plate full in terms of the diverse set of opportunities being offered by the income/bond mutual funds which are poised to offer lucrative returns with reversal in rate cycle.

Recommended NCDs

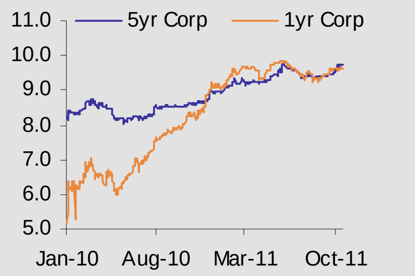
	Manappuram	Muthoot	Muthoot
Face Value (Rs)	1000	1000	1000
Annual Coupon Rate (%)	12.20%	12.25%	12.25%
Years to Maturity	2	3	5
Interest Payment Frequency	2	1	1
Price of the Bond (Rs)	993	996	971
Credit Rating	AA-(Care)	AA-(Crisil)	AA-(Crisil)
Listed at	BSE	NSE	NSE
Code	MFL NCD3	Muthoot Fin N4	Muthoot Fin N6
YTM (%)	12.61%	12.42%	13.08%

Benchmark rates trend



Source: India Infoline Research

Corporate bond yield trend



Source: India Infoline Research

Muthoot Financials

	FY11	FY12E	FY13E
Income (Rs)	12,832	20,898	28,713
Yoy (%)	108.4	62.9	37.4
Op. profit (Rs)	7,936	13,059	18,286
Net profit (Rs)	4,942	8,162	11,636
Yoy (%)	117.1	65.2	42.6
EPS (Rs)	15.4	22.0	31.3
BV (Rs)	40.5	77.6	104.2
ROE (%)	51.5	38.4	34.1
ROA (%)	3.9	3.9	4.1
CAR (%)	15.8	17.1	17.0

Source: India Infoline Research

Manappuram Financials

	FY11	FY12E	FY13E
Income (Rs)	8,496	14,614	19,576
yoy (%)	148.9	72.0	34.0
Op. profit (Rs)	4,373	8,217	10,858
Net profit (Rs)	2,827	5,244	7,067
Yoy (%)	136.1	85.5	34.8
EPS (Rs)	3.4	6.3	8.5
BV (Rs)	23.0	28.2	35.2
ROE (%)	22.3	24.5	26.7
ROA (%)	4.8	4.7	4.4
CAR (%)	30.5	21.5	19.9

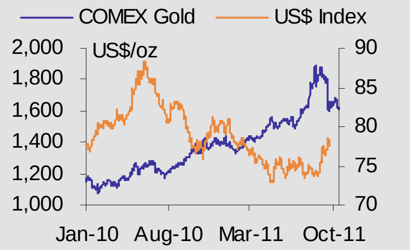
Source: India Infoline Research

IIFL INDIA PRIVATE CLIENTS

Goldman Sachs Gold BeES	
CMP (Rs)	2,538
52 Week h/l (Rs):	2,778 / 1,883
6m Avg vol ('000Nos):	162
FV (Rs):	100
Bloomberg code:	GBEES IB
Reuters code:	GBES.BO
BSE code:	590095
NSE code:	GOLDBEES
Pricing (Per Unit)	1 gram of gold
Minimum Lot (Exchange)	One unit/share
Type of fund	Non-Equity ETF
Investment	Physical Gold
Fund inception	March 8,2007

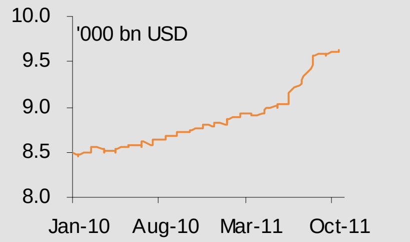
Prices as on 21 Oct, 2011

Gold v/s US dollar index



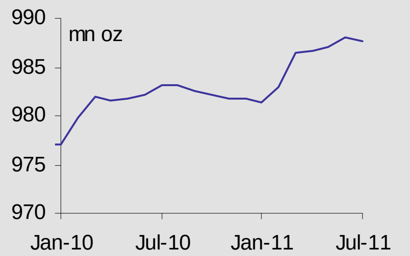
Source: India Infoline Research Team

US Money Supply (M2)



Source: India Infoline Research Team

IMF Gold Reserves



Source: India Infoline Research Team

Current Scenario

Gold prices witnessed extreme volatility during the past few weeks, influenced by the uncertainty over the European debt crisis. In this respect, the yellow metal has made recent highs of US$1,923.7/ounce and lows of US$1,535/ounce. Massive selling pressure was witnessed in September, with prices registering monthly losses of 11%. US Federal Reserve's decision to twist the yield curve on government bonds also dented gold prices, as the endeavor to swap shorter-maturity government securities for longer-dated ones failed to encourage the markets, effectuating a broad based sell-off in all the asset classes (including equities and commodities).

The yellow metal was also adversely impacted by hike in CME margins on the precious metals and a stronger US dollar. CME Group has hiked the margin requirements on gold trading, with the minimum cash deposit for gold futures increased by 21% to US$11,475 per 100-ounce contract. Meanwhile, greenback witnessed impressive strength, as doubts over consensus for the increment in the European bailout fund and Greece's ability to qualify for its next aid package had compelled market participants to diversify their funds from various assert classes to safe-haven US dollar. However, monetary-policy officials from the major economies are scheduled to meet this month, where they would devise a comprehensive plan to avert Europe's debt contagion. In this respect, speculation is rife that the European officials may garner as much as 940bn euros (US$1.3 trillion), as a measure to boost the European Financial Stability Facility (EFSF) rescue fund.

Outlook

We believe that gold price levels are turning attractive, as the downside in the yellow metal is constrained around support levels of US$1,580/ounce. The fact that we are at the outset of the festive and wedding season in India justifies the optimistic stance on gold prices. Moreover, prevailing loose monetary policies on the both sides of the Atlantic (Europe and US) also underpins the long term bullish price projections.

On investment front, we advocate investors to accumulate physical gold, considering medium-long term horizon. In terms of gold related financial products, **one can buy Gold Exchange Traded Fund, as this instrument is a true reflection of the physical prices. In this respect, Goldman Sachs Gold BeES is regarded as the most prominent ETF, as it denotes sufficient liquidity and at the same time provides returns, which has a high correlation with the movement of domestic gold prices.** Gold BeEs is listed on the National Stock Exchange.

In the year 2011 itself, we have received two reputed awards for being the Best Broker in India.

'Best Equity Broker of the Year' – Bloomberg UTV, 2011

IIFL was awarded the 'Best Equity Broker of the Year' at the recently held Bloomberg UTV Financial Leadership Award, 2011. The award presented by the Hon'ble Finance Minister of India, Shri Pranab Mukherjee. The Bloomberg UTV Financial Leadership Awards acknowledge the extraordinary contribution of India's financial leaders and visionaries from January 2010 to January 2011.

'Best Broker in India' – Finance Asia, 2011

IIFL has been awarded the 'Best Broker in India' by Finance Asia. The award is the result of Finance Asia's annual quest for the best financial services firms across Asia, which culminated in the Country Awards 2011

Other awards

Recommendation parameters for fundamental reports:

Buy – Absolute return of over +10%

Market Performer – Absolute return between -10% to +10%

Sell – Absolute return below -10%

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