

9 March 2011

MF Global Morning Report

YAP

| Your Attention Please

FROM THE MF GLOBAL SALES DESK

US equities advanced primarily due to an upbeat profit forecast from BoA and a pullback in oil prices. The fact that the market have held up so well in the face of one of the sharpest crude oil spikes in recent years seems to be an indication to the underlying strength in equities. Most Asian indices closed in the green on the back of some easing in crude oil prices. European indices also opened in the green. Brent crude was down nearly 2% trading at US\$113/bbl after Kuwait's oil minister said OPEC was in discussions to increase production. US crude futures for April delivery fell 42 cents to settle at US\$105/ bbl. Gold dropped below US\$1,430/ oz.

Back home, markets recovered over 1% on buying by funds in fundamentally strong stocks amid easing political worries and falling crude oil prices. IT, metal and banking stocks gained the most. Sentiments improved following reports that DMK leaders are making efforts to find a way out of the crisis over seat-sharing issue with the Congress in Tamil Nadu. Fears of further rise in inflation were also capped as crude oil prices declined in the international markets. With uncertainties on rising crude still looming, markets would continue to trade in a range. Stay stock specific.

BSE 30 VALUATIONS

	Index Value	MCap (\$bn)	EPS (INR)			P/E (x)		
			FY11e	FY12e	FY13e	FY11e	FY12e	FY13e
BSE-30 Index	18440	620	1126	1335	1564	16.4	13.8	11.8
Ex Financials	--	505	1152	1354	1569	16.0	13.6	11.8
Ex Oil&Gas	--	382	1368	1590	1834	13.5	11.6	10.1

Note: Index valuation not adjusted for free float.

INDIAN ADR

	Price US\$	1D Chg %	Volume	Prem/Disc %
Infosys	68.9	3.14	1,195,907	-0.28
Dr Reddy	35.5	0.48	278,340	-0.04
MTNL	1.9	6.04	43,209	3.72
Wipro	13.6	3.03	392,734	36.37
HDFC Bank	159.3	2.72	215,771	8.47
ICICI Bank	45.9	2.30	1,865,254	1.30
VSNL	9.4	1.96	40,288	0.53
Sterlite	14.9	1.99	668,761	297.24

CORPORATE / INDUSTRY NEWS

- Govt stake in Andhra Bank to go up to 58%.
- Jubilant Life: To set up new plant in Gujarat.
- Hero Group to buy Honda's stake in jv for Rs. 740/share.
- Bharti Airtel: Bags 6 lac 3G subscribers.
- Branded garment cos to get Cenvat credit.
- No royalty relief likely for Cairn-Vedanta deal.
- M&M: Inks strtegic pact with Cisco.

Source: SEBI, Bloomberg, MF Global India Research Estimates

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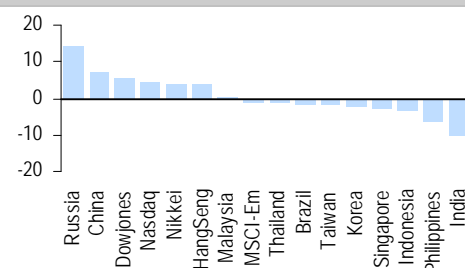
PERFORMANCE TREND

	Latest	1d %	1m %	Ytd %
Indices				
BSE 30	18,440	1.19	3.7	-10.1
Nifty	5,521	1.06	3.9	-10.0
CNX Midcap	7,632	1.05	1.7	-13.8
Nasdaq	2,766	0.73	-1.1	4.3
Nikkei	10,633	1.03	0.1	4.0
DJIA	12,214	1.03	-0.2	5.5
Commodities				
Crude (\$/barrel)	104	-0.5	20.5	14.3
Gold (\$/troy oz)	1,428	0.0	4.6	0.4
Copper (cents/lb)	431	-0.4	-4.7	-3.0
Aluminium (\$/Ton)	2,561	1.5	0.6	4.1
Zinc (US\$/metric ton)	2,366	1.0	-5.0	-3.2
Rubber (JPY/kg)	2,090	0.9	-5.6	0.5
Currencies				
Rs/US\$	45.1	-0.1	0.5	-0.8
US\$/EUR	1.4	-0.1	1.2	3.8
US\$/JPY	82.8	-0.2	-0.6	-0.6
Bond				
10 year	8.0	0.3	-2.6	0.6

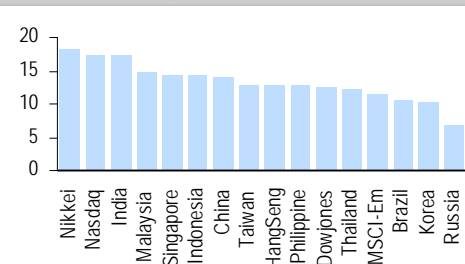
NET INSTITUTIONAL INVESTMENTS (US\$ MN)

	Latest	1d	Mtd	Cytd
FII's	1	139	306	-1,908
MF's	-62	-1	37	479

YTD RETURNS: GLOBAL MARKETS



ESTIMATED P/E, X: GLOBAL MARKETS



BHEL (BHEL IN) CHINESE EQUIPMENT HITS ANOTHER ROAD BLOCK IN INDIA

ANKUR SHARMA

In yet another setback for Chinese power equipment manufacturers, power equipment supplied by Shanghai Electric was found to take excess time during trial runs leading to a loss of INR110cr for Haryana Power Generation Corporation Limited (HPGCL). This was made public by the Comptroller and Auditor General of India (CAG) in its audit report where it pulled up the state owned HPGCL for not recovering a loss of INR110cr from Reliance Energy who had been awarded the EPC of the plant. Reliance Energy had sourced the power equipment from Shanghai Electric. The CAG has blamed the loss on faulty design of the power equipment.

- Due to prolonged time spent during trial runs of the Rajiv Gandhi Thermal Power Plant at Hissar, HPGCL incurred a loss of INR110cr on additional fuel costs.
- There were delays in synchronization of the plant with Unit 1 being delayed by 73 days and Unit II being delayed by 138 days. Delays were also faced in commissioning of Unit 1. This led to a total loss of generation of 3,790m units.
- The CAG report has blamed the faulty design of the power equipment leading to the delays in commissioning.

This is yet another instance of utilities facing trouble with equipment sourced from Chinese equipment manufacturers. Earlier, West Bengal Power Development Corporation Limited (WBPDC) and Lanco Infratech also faced trouble with equipment sourced from Chinese manufacturers. Maintain our positive bias on BHEL.

JUBILANT LIFESCIENCES (JOL IN) TO COMMERCIALIZE NEW PYRIDINE FACILITY IN Q4 FY12, ESTIMATES ADDITIONAL ANNUAL REVENUE OF US\$ 90MN

ALOK DALAL

News

- Jubilant Life Sciences (Jubilant) would be setting up a manufacturing plant for "2,3,5,6-Tetra Chloro Pyridine" (also commercially known as Symtet/TCP) of 24,000 TPA capacity and Chlorinated Pyridine derivatives of 5,000 TPA in an SEZ at Bharuch.
- Symtet is used in the manufacturing of Chlorpyrifos, one of the world's largest and safest, low cost Insecticide, having a growth of ~ 7% globally. This facility is expected to be operational from Q4 FY12 and will make Jubilant the largest producer of Symtet globally, catering to more than 40% of the worldwide demand.
- The Company is in the process of firming up long term arrangements with its customers. It expects to achieve additional annual revenue of ~ US\$ 90mn from this facility.

Impact

- The cost of setting up this facility is part of the annual capex guidance of Rs 3.5-4bn for Jubilant.
- Generally a facility of this nature takes 3-4 years to gain scale and therefore the US\$ 90mn revenue target will only be achieved over a period of time
- We therefore do not see our FY12/ FY13 numbers see a material change
- The stock is trading at 11.1x FY11, 9.9x FY12 and 8.0x FY13 estimates. We maintain our Neutral rating on the stock.

GOVERNMENT TO WITHDRAW 7 YR IT HOLIDAY FOR NELP BLOCKS AWARDED FROM FY11-12

GAURI ANAND

News

- Government has decided to withdraw the benefit of seven year income tax holiday for oil exploration blocks from FY11-12 onwards. There are about 34 blocks (7 deep water & 2 shallow water) on offer in the ninth auction of NELP rounds (auction getting over later this month).

Analysis

- The operator of an oil field recovers its costs from the sale of crude produced and then shares the remaining profit with the government at a ratio discovered through competitive bidding. This shared profit is called profit petroleum. The government awards blocks to investors that offer the most attractive terms on cost recovery and profit sharing.
- As companies wouldn't be eligible for tax breaks, they may offer to give a lesser share of their profits to the government, to maintain their required returns. We don't see this as a limiting factor for getting a favourable response to the auction. More so in the backdrop of BP's commitment to invest US\$ 20 bn in E&P and gas distribution businesses in India over a period of time.

INTELENET WINS 5-YEAR OUTSOURCING DEAL FROM TATA TELESERVICES

VIHANG NAIK, CFA

- Intelenet Global Services has signed a five-year outsourcing partnership with Tata Teleservices
- The contract involves providing pan-India account payable services for all the 22 circles of Tata Teleservices from its existing delivery centres.
- Intelenet will provide a spectrum of services, covering back-office processes and customer support functions, within the Finance & Accounting (F&A) BPO domain.
- This partnership makes Intelenet the first player to offer F&A processes in the telecom vertical.
- A company press release stated that Intelenet witnessed a 25% growth in the F&A services sector last year
- Intelenet is one of the largest players in the domestic BPO market providing services like customer management, outbound sales and analytics in the BFSI, Telecom, Travel and Government sectors.
- The company operates out of 30 delivery centres across the globe.

CASH EQUITIES AND DERIVATIVES FLOWS AND VOLUMES

	90d mov median	21-Feb-11	22-Feb-11	23-Feb-11	24-Feb-11	25-Feb-11	28-Feb-11	1-Mar-11	3-Mar-11	4-Mar-11	7-Mar-11
Net Inflows (US\$ mn)											
FII Csh equities	0.4	-8.7	20.5	-2.9	-495.9	-116.7	-15.3	103.5	62.5	139.0	0.6
MF Cash equities	3.9	-37.6	44.8	69.4	33.9	-13.3	67.7	91.7	8.9	-0.9	-62.3
FII Futures a& Option	34.9	-19.3	-102.0	19.9	-230.9	113.9	113.2	180.5	31.5	53.9	-92.3
Total (cash+F&O)	39.2	-65.6	-36.7	86.4	-692.8	-16.0	165.6	375.8	102.9	192.0	-154.0
Cash Equities Volumes (US\$ mn)											
FII Cash equities	1,373	1,245	1,471	2,129	1,363	1,665	1,183	1,474	1,060	841	0
MF Cash Equities	265	147	228	254	510	259	397	339	230	229	185
Others Cash Equities*	2,281	1,625	1,762	966	2,966	1,822	2,982	1,884	2,898	2,238	2,465
Total Cash equities	3,920	3,017	3,461	3,349	4,839	3,746	4,562	3,696	4,187	3,307	2,650
FII vol as % of total vol	35.0	41.3	42.5	63.6	28.2	44.5	25.9	39.9	25.3	25.4	0.0
MF vol as % of total vol	6.8	4.9	6.6	7.6	10.5	6.9	8.7	9.2	5.5	6.9	7.0
Others vol as % of total vol*	58.2	53.9	50.9	28.9	61.3	48.6	65.4	51.0	69.2	67.7	93.0
Cash equities % of India Mcap	0.26	0.21	0.24	0.24	0.35	0.27	0.33	0.25	0.29	0.23	0.19
Derivatives Volumes (USDm)											
Total F&O	27,552	36,236	42,087	37,476	61,345	23,601	41,095	29,159	33,376	23,317	26,029
F&O % of India Mcap	1.83	2.50	2.95	2.63	4.46	1.70	2.94	2.01	2.31	1.61	1.82
F&O vol times cash equity vol	7.0	12.0	12.2	11.2	12.7	6.3	9.0	7.9	8.0	7.1	9.8
FII Open Interest	22,694	24,507	24,103	23,902	16,781	17,601	18,042	19,233	19,426	19,429	19,400
Total Open Interest	29,291	32,215	32,242	31,830	17,972	19,449	20,928	22,873	23,709	24,328	23,975
Total OI % of India Mcap	1.90	2.22	2.26	2.23	1.31	1.40	1.50	1.58	1.64	1.68	1.67

*Others include Retail segment and institutions other than FIIs and Domestic MFs

Source: SEBI, BSE, NSE and MF Global India Research

Rating Rationale

BUY and SELL recommendations are used to draw attention to stocks, which we believe are under-priced or over-priced by circa 15%, that is, price differential of +/- 15% between our price target and the market price. Stocks which do not achieve this price differential are NEUTRAL. Price targets are established in the context of a flat market.

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