Market Outlook

India Research
February 14, 2011

Dealer's Diary

The key benchmark indices ended in the green, after three days of consecutive fall, on account of bargain hunting after the recent steep losses. Intraday volatility was high throughout the day. The market opened on a flat note but declined soon after to form a fresh intraday low in mid-morning trade. The market trimmed losses but soon hit a fresh eight-month low in early afternoon trade. The market came off the day's low in afternoon trade and extended gains in mid-afternoon trade as banking and auto shares recovered. The market surged to hit fresh intraday high in late trade. The Sensex ended the day up by 1.5% and the Nifty closed higher by 1.6%. The mid-cap and small-cap indices ended higher by 2.9% each. Among the front liners, Jaiprakash Associates, Reliance Infra, ICICI Bank, L&T and HDFC gained 4–7%, while Hindalco Industries, Tata Power, Bharti Airtel, Hindustan Unilever and Tata Steel lost 1–2%. Among mid caps, Gitanjali Gems, JM Financial, Sobha Developers, Shoppers Stop and UTV Software gained 11–19%, while KGN Industries, Bombay Dyeing, Parsvnath Developers, AIA Engineering and Shiv Vani Oil lost 4–5%.

Markets Today

The trend deciding level for the day is 17,592/5,269 levels. If NIFTY trades above this level during the first half-an-hour of trade then we may witness a further rally up to 17,889–18,049/5,360-5,411 levels. However, if NIFTY trades below 17,592/5,269 levels for the first half-an-hour of trade then it may correct up to 17,432–17,135/5,219-5,127 levels.

Indices	S2	S1	R1	R2
SENSEX	17,135	17,432	17,889	18,049
NIFTY	5,127	5,219	5,360	5,411

News Analysis

- Mahindra & Mahindra to acquire 38% stake in EPC Industries
- Result Reviews: Tata Motors, Hindalco Industries, HDIL, Great Eastern Shipping Company, Apollo Tyres, Dishman Pharma
- Result Previews: Glaxosmithkline Pharma

Refer detailed news analysis on the following page

Net Inflows (February 10, 2011)

₹ cr	Purch	Sales	Net	MTD	YTD
FII	3,046	3,892	(846)	(1,247)	(7,677)
MFs	677	600	77	197	1,061

FII Derivatives (February 11, 2011)

₹ cr	Purch	Sales	Net	Open Interest
Index Futures	3,657	2,427	1,230	15,051
Stock Futures	2,505	2,424	81	28,920

Gainers / Losers

Gainers			Losers		
Company	Price (₹)	*chg (%)*	Company	Price (₹)	*chg (%)*
Essar Ship Ports	86	9.2	Bombay Dyeing	297	*(4.5)*
GVK Power	28	9.0	Unitech	35	*(2.9)*
NCC	98	9.0	National Alum	393	*(2.9)*
JP HYDROPOW	40	8.9	Hindalco Inds	211	*(2.3)*
MRF	6,056	8.9	Idea Cellular	64	*(2.1)*

Domestic Indices	Chg (%)	(Pts)	(Close)
BSE Sensex	1.5%	265.6	17,729
Nifty	1.6%	84.2	5,310
MID CAP	2.9%	183.7	6,476
SMALL CAP	2.9%	223.1	7,809
BSE HC	1.2%	72.5	5,916
BSE PSU	1.5%	123.6	8,346
BANKEX	3.5%	400.6	11,843
AUTO	2.6%	211.9	8,491
METAL	0.3%	39.6	15,278
OIL & GAS	1.1%	96.1	9,235
BSE IT	-0.1%	(7.6)	6,140
Global Indices	**Chg (%)**	**(Pts)**	**(Close)**
Dow Jones	0.4%	44.0	12,273
NASDAQ	0.7%	19.0	2,809
FTSE	0.7%	42.9	6,063
Nikkei	-0.1%	(12.2)	10,606
Hang Seng	0.5%	120.3	22,829
Straits Times	-0.8%	(26.1)	3,077
Shanghai Com	0.3%	9.2	2,827

Indian ADRs	Chg (%)	(Pts)	(Close)
Infosys	-0.3%	(0.2)	$67.1
Wipro	1.3%	0.2	$12.7
ICICI Bank	5.8%	2.5	$45.3
HDFC Bank	4.0%	5.7	$148.2

Advances / Declines	BSE	NSE
Advances	2,083	1,173
Declines	762	234
Unchanged	104	32

Volumes (₹ cr)	
BSE	3,445
NSE	13,777

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Mahindra & Mahindra to acquire 38% stake in EPC Industries

The board of Mahindra and Mahindra (M&M) has approved the acquisition of 38% stake in EPC Industries (EPC), one of India's top five companies in the micro-irrigation space for ₹43.53cr. This acquisition will help M&M foray into the fast-growing micro-irrigation space. Noticeably, this is a related diversification strategy as M&M already has a major presence in the farm equipment sector through manufacturing of tractors. The acquisition will help synergise the distribution strength of M&M with the industry expertise that EPC possesses.

As part of the deal, M&M would subscribe to 65,58,065 fully paid-up equity shares of face value of ₹10 each of EPC, on a preferential basis, at a price of ₹66.10/share. Further, in compliance with SEBI guidelines, M&M will launch an open offer on April 6, 2011, to buy an additional 20% stake in EPC at ₹66.55. The open offer closes on April 25, 2011. On the completion of the preferential allotment and the open offer, M&M would be acquiring the management and control of EPC and would be classified as its promoter.

EPC is one of the pioneering companies in the micro-irrigation sector. The company currently operates in more than 12 states and sells drip irrigation systems, sprinkler irrigation systems and industrial pipes. During FY2010, EPC reported turnover of ₹75cr with net profit of ₹0.95cr.

We believe the acquisition will not have a material impact on the financials of M&M and, therefore, we have not accounted for it in our valuation. **We maintain our Buy rating on the stock with an SOTP Target Price of ₹794.**

Result Reviews – 3QFY2011

Tata Motors

Tata Motors (TML) reported impressive results for yet another quarter of FY2011, beating street's as well as our expectations.

On a consolidated basis, the company reported strong 21.7% yoy and 10.1% qoq growth in net sales to ₹31,685cr (v/s ₹28,870cr est.), led by robust performance of JLR and better-than-expected performance at the standalone level. Total volumes in the domestic markets grew by 17.4% yoy, while JLR volumes jumped by 11.3% yoy. On the operating front, margin improved by a substantial 276bp yoy and 26bp qoq to 14.2% (v/s 12.8% est.) on the back of improved operational performance at JLR. Further, favourable currency movement and restructuring efforts at JLR helped margin expansion at the consolidated level. As a result, net profit for the quarter grew significantly by 272.9% yoy to ₹2,425cr (v/s ₹1,920cr est.)

On a standalone basis, TML reported 28.3% yoy growth in its top line to ₹11,520cr, ahead of our estimates of ₹10,922cr, aided by 17.4% yoy growth in volumes and ~9.3% yoy growth in average net realisation. On a qoq basis, however, the top line remained flat as volumes registered a decline of 5.8%. Volume growth was restricted on account of supply constraints due to emission norm changes. Realisation improved on account of better product mix (higher share of commercial vehicles) and price increases carried out during the quarter. Operating margins stood at 10.1% (v/s 9.2% est.), posting a decline of 243bp yoy due to a 372bp increase in raw-material cost and a 90bp increase in other expenses. As a result, net profit registered a marginal 2.5% yoy increase to ₹410cr, better than our estimates of ₹350cr.

On the JLR front, stellar performance continued with better-than-expected results during the quarter. Net sales registered robust 35.6% yoy (18.4% qoq) growth, primarily due to an 11.3% yoy (14.5% qoq) increase in volumes and an impressive ~21.8% yoy (3.3% qoq) jump in average net realisation. Volume growth at the retail level was particularly strong in

China (up 72%), Russia (up 24%) and North America (up 16%). On the operating front, JLR recorded a substantial 762bp jump in operating margins to 17.4%, owing to improved operating leverage, favourable currency movement and cost-cutting measures initiated by the company. Hence, profit after tax witnessed 75.2% yoy and 15.5% qoq growth during 3QFY2011.

We maintain our positive stance on the company, considering its impressive operating performance especially on the JLR front. As a result, we have revised our earnings estimates for JLR upwards by ~10%. At ₹1,145, the stock is trading at 8.8x and 8.3x FY2011E and FY2012E consolidated earnings, respectively. **Valuing the company on SOTP basis, we maintain our Buy recommendation with a revised Target Price of ₹1,384 (₹1,458).** We have valued the domestic core business at ₹406/share, implying P/E of 13x FY2012E. Our embedded value of the subsidiaries and investments in TML's books (including JLR) works out to ₹978/share. We have valued JLR at 7x FY2012E earnings, in line with its peers.

Hindalco Industries

Hindalco's standalone net sales increased by 12.0% yoy to ₹5,918cr, mainly driven by increased aluminium prices. Novelis's (100% subsidiary of Hindalco) net sales increased by 21.2% yoy to US $2,560mn, mainly driven by increased shipments. However, Hindalco's standalone EBITDA declined by 1.0% yoy to ₹740cr on account of higher raw-material costs. Raw-material costs as a percentage of sales increased to 67.4% in 3QFY2011, compared to 65.5% in 3QFY2010. Novelis's EBITDA increased by 4.7% yoy to US $225mn. Novelis's adjusted EBITDA/tonne increased by 8.9% yoy to US $317 in 3QFY2011.

Hindalco's net profit increased by 7.8% yoy to ₹460cr, as the decline in EBITDA was offset by lower interest costs and tax expenses. Novelis reported loss of US $46mn in net profit in 3QFY2011 compared to net profit of US $66mn in 3QFY2010, on account of forex losses (exceptional item) of US $74mn in 3QFY2011. **We recommend Buy on the stock with a Target Price of ₹249.**

HDIL

For 3QFY2011, HDIL reported above-expectation results on account of steady TDR volumes and sale of high-margin FSI. Revenue increased by 11.4% yoy and 22.2% qoq to ₹455cr (v/s our estimate of ₹420cr) on account of TDR sale of 1mn sq. ft. from the MIAL project and average realisation of ₹3,100/sq. ft. (₹3,000/sq. ft. in 2QFY2011). Further, the company received ~₹140cr from sale of FSI in Vasai/Virar. EBITDA margin came in at 58.5%, up by 1,236bp yoy (down 512bp qoq), owing to lower costs associated with FSI sale. Consequently, operating profit stood at ₹267cr, up 12.4% qoq and 41.2% yoy. Tax rate for 3QFY2011 stood at 6.0% (16.6%). During the quarter, HDIL booked expense of ₹4.5cr (net of insurance claims and salvage) on account of damage done by fire at one of the company's towers. PAT for the quarter grew by 54.8% yoy and 17.8 qoq to ₹252cr.

During the quarter, net debt-to-equity increased from 0.32x to 0.4x on account of higher investments (new land acquisitions adding another ~40mn sq. ft.). Management has outlined aggressive residential launches entailing ~27mn sq. ft. and expects the delay (eligibility of slum dwellers) in the ₹200bn MIAL project to be sorted out over the next two quarters. This would improve the company's cash flow and reduce dependence on TDR sales going forward. **At ₹137, HDIL is trading at 60% discount to our one-year forward NAV of ₹347 and at 0.5x FY2012E P/BV. We maintain Buy on HDIL with a Target Price of ₹243 (30% discount to our NAV).**

Great Eastern Shipping Company

GE Shipping (Gesco) reported a subdued performance for 3QFY2011 on account of lower tonnage and a decline in average time charter yields (TCYs). The company's revenue declined by 21.3% yoy and 11.9% qoq as TCYs weakened for two of its major asset classes, viz. dry bulk carriers (4% yoy) and product tankers (19%), while that for the crude carriers remained flat. OPM also fell sharply by 469bp qoq but increased by 817bp yoy on a lower base of 3QFY2010. Gesco reported gain of ₹55cr from the sale of vessels vis-à-vis nil in 3QFY2010 and ₹26cr in 2QFY2011. The company also reported marginal forex gains vis-à-vis loss of ₹37cr in 3QFY2010 and ₹32cr in 2QFY2011. However, interest cost increased by 46.8% qoq (down 3.9% yoy), while other income declined by 44.2% yoy (63.0% qoq). Further, its tax rate increased by 833bp qoq to 13.7%. Consequently, reported PAT declined by 30.3% qoq but increased by 24.5% yoy to ₹117cr on account of base effect.

Gesco has shelved the plans of raising ₹150cr–200cr through an IPO of its offshore subsidiary – Greatship (India) Ltd. – due to prevalent market conditions. We believe the listing would have unlocked significant value as the offshore sector commands premium over the shipping business on account of revenue visibility. Gesco has guided that revenue visibility for the balance part of FY2011 is around ₹207cr. Geopolitical tensions, natural calamities, demand curtailment by monetary tightening and vessel over-supply have kept TCYs extremely subdued across asset classes. We are likely to downgrade our FY2011 and FY2012 estimates post the conference call today. **We maintain our Buy recommendation on Gesco; our target price is under review.**

Apollo Tyres

Apollo Tyres reported a strong set of results for 3QFY2011 with reported numbers coming in better than our expectations. Standalone top line registered better-than-expected 8.2% yoy growth to ₹1,432cr (₹1,323cr) in 3QFY2011. On the operating front, the company reported EBITDA margin of 10.4% (15.5%) a fall of 509bp yoy. The margin declined mainly due to a significant increase in the cost of natural rubber during the quarter. As a result, operating profit declined by 27% yoy; however, it was ahead of our estimates by 18.3%. Net profit for the quarter dipped by 47% yoy on account of margin contraction at the operating level. Further, higher interest cost impacted the bottom line to a certain extent.

On the consolidated front, revenue increased by 3.2% yoy to ₹2,369cr (₹2,296cr), with better-than-expected performance in the domestic markets. Revenue at South African operations increased by 2.6% yoy, while European operations witnessed a yoy decline of 4.7% in revenue. Operating margin at the consolidated level stood at 11.5% in 3QFY2011 as against 16.7% in 3QFY2010 and 9.5% in 2QFY2011. As a result, operating and net profit dipped by 29% and 36% yoy, respectively.

At ₹51, the stock is trading 9x and 6.8x FY2011E and FY2012E consolidated earnings, respectively. **Due to better-than-expected performance during 3QFY2011, we maintain our Buy rating on the stock; however, the target price is under review.**

Dishman Pharma

Dishman reported its 3QFY2011 results. Net sales came in at ₹232cr (₹222cr), lower than our estimates of ₹291cr. CRAMS revenue came in at ₹158cr (₹161cr), down by 2%; while marketable molecule sales came in at ₹73.6cr (₹61.6cr), an increase of 20%. Gross margin reported a drop to 63.9% (73.4%), lower than our estimates of 72.1%. This was mainly due to increased raw-material cost to ₹83.5cr (₹41.7cr), up 100% during the quarter. Dishman reported OPM of 10.9% (23.1%), lower than our estimates of 23.1%. Net profit came in at ₹1.7cr (₹33.1cr), down 94.7%, lower than our estimates of ₹36.7cr. **The stock is currently under review.**

Result Previews – 3QFY2011

Glaxosmithkline Pharma

Glaxosmithkline Pharma (Glaxo) is scheduled to announce its 4QCY2010E results. We expect Glaxo to post net sales at ₹511cr, an increase of 15%. OPM is expected to contract by 118bp yoy to 30%. Net profit is expected to increase by 15.3% yoy to ₹119.7cr. **We currently have a Neutral recommendation on the stock.**

Economic and Political News

- FDI in December 2010 up 30.6% to US $2bn; April–December dips by 23%
- Government mulls sops to encourage hybrid car manufacturing in India
- IPO guidelines for life insurers to be out in 10 days: IRDA
- Government proposes to keep new Company Bill flexible

Corporate News

- Hero Honda to form JVs with part makers
- Bajaj Auto will focus on bikes, not scooters : Rajiv Bajaj
- Nitesh Estates launches ₹100cr luxury residential project

Source: Economic Times, Business Standard, Business Line, Financial Express, Mint

Events for the day	
CRISIL	Results
Deccan Chron	Results
Glaxosmithkl Phar	Results
Gujarat Alk	Results
Gujarat Inds	Results
Himachal Futur	Results
Indo Rama Syn	Results
Ispat Inds	Results
Jubilant Life	Results
Parsvnath Dev	Results
Reliance Comm	Results
Reliance Infra	Results
Reliance Media	Results
Reliance Power	Results
Satyam Comp	Results
Sterling Bio	Results
Tata Power	Results
Unitech	Results
Videocon Inds	Results

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DISCLAIMER

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

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