

### Amara Raja Battery

**BUY**  
**CMP ₹220**

#### Growth momentum from multi-user industries

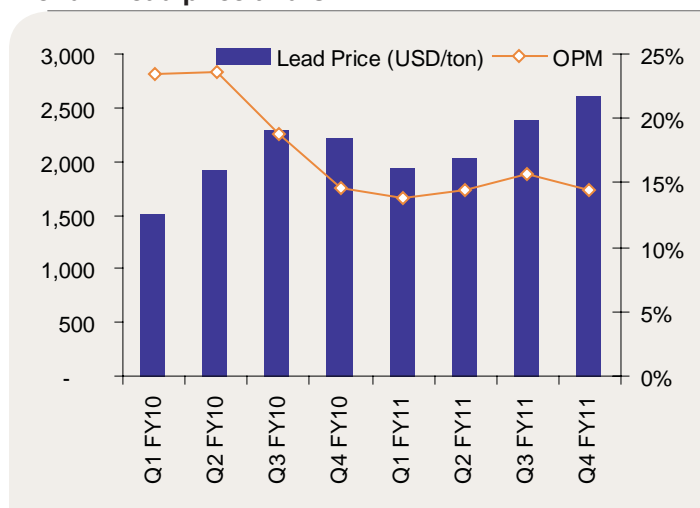
Domestic passenger vehicles sales witnessed 21% CAGR in past three years, while two wheelers reported 18% CAGR during the same period. This will translate into robust growth in demand for battery replacement considering a ~2-2.5 years replacement cycle for passenger vehicles and two wheelers. Amara Raja Batteries Limited (ARBL), which generates chunk of its automotive segment revenues from the high margin replacement market, is set to benefit from this growth opportunity. Further, we expect moderate growth in OEM market driven by increasing vehicle penetration in the rural areas and entrance of global car giants as India becomes a major auto manufacturing hub.

The company enjoys a healthy share of 27% in the organized battery market for industrial applications (mainly telecom and UPS). Demand from telecom towers, which account for 30% of the industrial segment's demand, has curbed in the past few quarters. However, we expect revenues from telecom segment for the company to realize robust growth in the next two years driven by large increase in 3G capex. Additionally, demand for replacement battery from domestic towers should accelerate from FY12 onwards given two-third of tower addition was during FY08-09. 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.

#### Higher share of recycling would limit rise in raw material cost

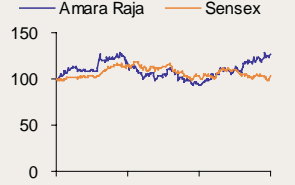
The company currently imports 55% of its lead requirement (~75% of the raw material cost) from Australia and South Korea, ~20% from third party smelters and remaining from domestic lead suppliers. Average lead prices in FY11 (~USD 2,243) were 13% higher than the average lead prices (~USD 1,982) for FY10. This resulted in substantial erosion of margins for FY11. To cushion the impact of volatile lead prices on margin Exide meets ~55% of its lead requirement through sourcing recycled lead from its smelters. Currently ARBL sources 20-25% of its requirement from smelters.

#### Trend in lead price and OPM



Source: Company, India Infoline Research

Sector: Auto components		Shareholding pattern	
BSE code:	500008	<b>March'11</b>	(%)
NSE code:	AMARAJABAT	Promoters	52.1
52 Week h/l (₹):	225 / 142	Institutions	21.8
Market cap (₹cr):	1,879	Non promoter corp hold	3.9
FV (₹):	2	Public & others	22.2

Performance rel. to sensex				Performance rel. to sensex	
(%)	1m	3m	1yr	— Amara Raja — Sensex	
ARBL	6.7	21.9	25.1		
Exide	(2.6)	16.7	17.1		
Bharat Forge	(3.1)	(12.5)	(0.8)		
MSSL	(4.0)	5.2	47.5		
Amtek Auto	(4.0)	9.1	(10.0)		

But the company is in the process of increasing its collection of scrap batteries and is tying up with smelters for sourcing more of its lead requirements through recycled lead. We expect this to translate into better margins in the coming quarters. Further, to mitigate the risk of volatile lead price, the company has built-in clauses in its contracts to pass through any lead-price fluctuations to its OEM customers and large corporate industrial customers.

#### Attractively valued at P/E of 8.9x FY13E

Johnson Controls, the world's largest battery manufacturer, holds 26% stake in AMRJ and provides technical support to it. This would aid the company in developing better products over the longer term. Backed up by the robust growth in the automobile volumes and industrial segment, we expect revenues for ARBL to witness a CAGR of 13% over FY11-13E. We expect OPM for the company to expand by 150bps in FY12 and rise marginally for FY13. Further, ARBL is expected to witness PAT CAGR of 19.5% over FY11-13E. Assigning P/E of 10x for FY13E EPS, we arrive at a target price of ₹247.

#### Valuation summary

Y/e 31 Mar (₹ m)	FY10	FY11	FY12E	FY13E
Revenues	14,652	17,648	19,509	22,435
yoy growth (%)	11.2	20.4	10.5	15.0
Operating profit	2,873	2,583	3,147	3,662
OPM (%)	19.6	14.6	16.1	16.3
Reported PAT	1,670	1,476	1,795	2,107
yoy growth (%)	107.5	(11.6)	21.6	17.4
EPS (₹)	19.6	17.3	21.0	24.7
P/E (x)	11.3	12.7	10.5	8.9
Price/Book (x)	3.5	2.9	2.3	1.9
EV/EBITDA (x)	6.6	7.5	5.8	4.7
Debt/Equity (x)	0.2	0.1	0.1	0.0
RoE (%)	35.2	24.8	24.6	23.2
RoCE (%)	38.3	31.3	32.8	33.0

Source: Company, India Infoline Research

# India Infoline Weekly Wrap

## Market Outlook

Fantastic Friday saved Indian markets the blushes after starting the week on a sour note. Stocks tumbled on Monday amid speculation that India and Mauritius were considering altering a current tax treaty that could spell trouble for FIIs. However, clarification from the North Block helped soothe some of the frayed nerves.

The market was pretty lackluster after that due to a disappointing monsoon forecast. But stocks rallied on the last two days, sending the Sensex and the Nifty up ~2% on the week. World equities recovered on Friday on hope that Greece could soon be out of the current fiscal mess. A steep drop in crude oil on Thursday came in handy as well.

Next week could be a bit more volatile owing to the F&O expiry. FII figure (prov.) for Friday is pretty upbeat. Much will hinge on whether FIIs persist with their buying. Markets will also analyse the latest auto and cement sales besides data on trade and manufacturing PMI. The indices may remain sideways and rangebound ahead of Q1 earnings. Technically too, the upside appears capped around 5600 while 5400 could be a key support level.

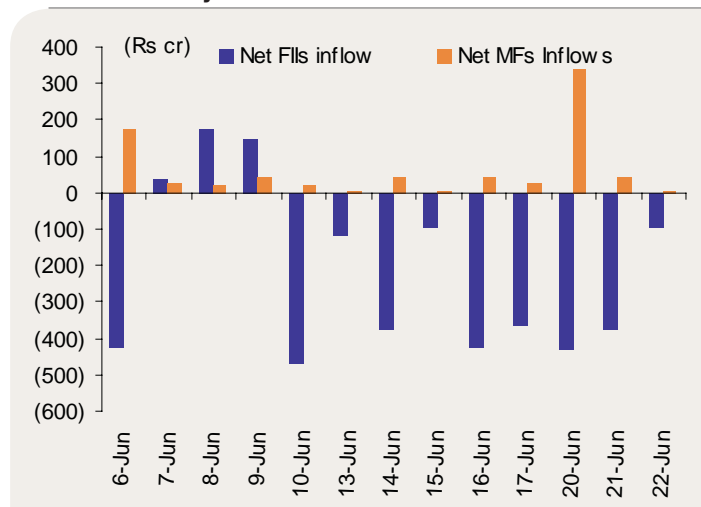
## Technical View

Sharp recovery on Fridays trading led to a formation of 'Hammer Pattern' on candlestick after it closed above key hurdle resistance levels of 5,450. Breakout from descending trendline on daily charts is suggesting a trend reversal, but confirmation is needed in next few trading sessions to see whether the earlier resistance turns into support. The key levels to watch out on the higher side would be 5,517 levels which forms 78.6 % retracement resistance and close above the same would confirm strength in rally.

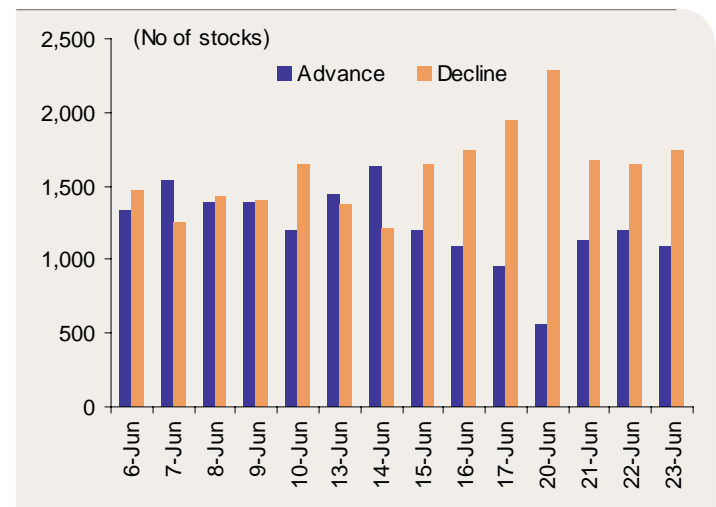
## F&O View

The Bank Nifty saw rollover of ~12% with positive roll cost of 18bps, indicating long rollovers. On the other hand, the Nifty rollover is around 18%. The highest rollover is seen in Power, Capital Goods & Realty. The Nifty June 5400 call, which had witnessed writing at the start of the week, saw huge unwinding on Friday. PCR OI of Nifty rose to 1.27 from 1.07, indicating huge put writing. 5400 will be an interim support for the Nifty till expiry.

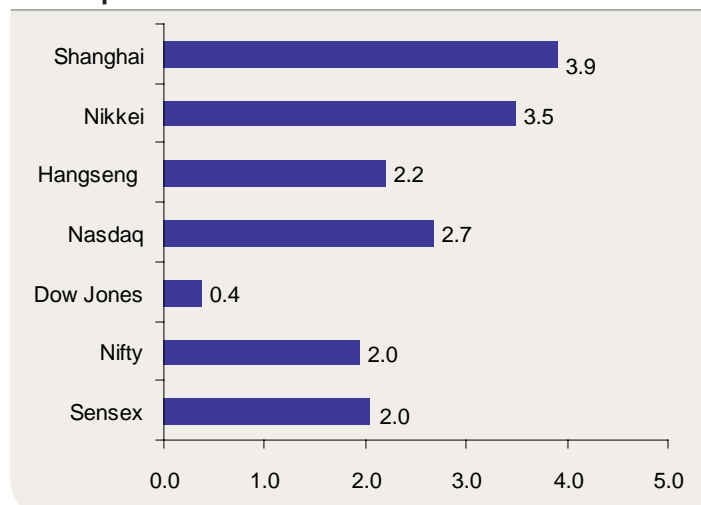
## FIIs/MFs activity



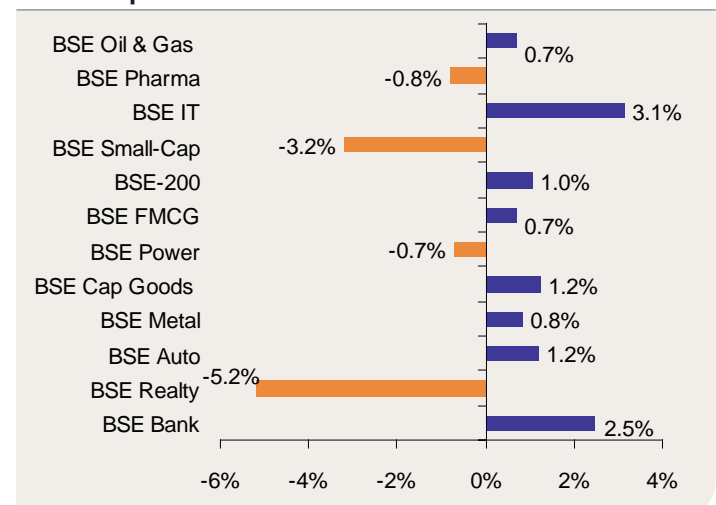
## Advance/Decline



## Global performance



## Sectoral performance



# India Infoline Weekly Wrap

## Technical Check

### Nifty 50 & CNX 500 top 10 gainers

NSE Nifty			CNX 500		
Company	CMP (₹)	% Chg	Company	CMP (₹)	% Chg
Hero Honda Motor	1,865	7.7	Godfrey Phillips	2,721	2.0
Mahindra & Mahin	674	4.6	Orissa Minerals	54,923	14.5
Housing Dev Fin	668	4.6	Jain Irrigation	157	11.2
Axis Bank Ltd	1,272	4.1	Bhushan Steel	460	9.2
Idfc Ltd	124	3.9	Hero Honda	1,865	7.7
Ambuja Cements	133	3.8	Essel Propack	45	7.5
Wipro Ltd	424	3.8	NB Ventures	215	6.6
Larsen & Toubro	1,739	3.5	Videocon Industr	188	5.7
Bajaj Auto Ltd	1,388	3.4	Sun Tv Network	363	5.6
State Bank Ind	2,286	3.3	Yes Bank Ltd	299	5.6

### Nifty 50 & CNX 500 top 10 Losers

NSE Nifty			CNX 500		
Company	CMP (₹)	% Chg	Company	CMP (₹)	% Chg
Reliance Infra	531	(8.6)	Gtl Ltd	110	(67.5)
Cairn India	310	(4.6)	Gtl Infrastructu	16	(45.6)
Maruti Suzuki	1,120	(3.9)	Lanco Infratech	23	(22.8)
Dlf Ltd	216	(3.6)	Ks Oils Ltd	19	(20.5)
Dr Reddy's	1,500	(3.5)	Shree Ashtavina	4	(18.2)
JP Assoc	79	(2.6)	SKumars Nation	53	(18.0)
RPower	113	(2.4)	India Cements	69	(16.9)
Tata Motors	966	(1.5)	First Leasing Co	85	(14.1)
RComm	94	(1.5)	Surya Roshni	77	(12.7)
Rel Cap	541	(0.9)	Gammon Infra	14	(12.3)

### Technically strong

Company	CMP (₹)	10 days Moving Average (₹)	Total Traded Qty (lacs)	10 days Average Traded Qty (lacs)
Sterlite Indus	160	159	5.2	4.4
OBC	331	329	1.1	0.3
Colgate Palmolive	917	908	0.1	0.1
Reliance Capital	540	534	2.9	2.6
Ranbaxy Labs	536	530	0.7	0.6

### Technically weak

Company	CMP (₹)	10 days Moving Average (₹)	Total Traded Qty (lacs)	10 days Average Traded Qty (lacs)
Hindustan Zinc	131	132	1.0	0.9
GE Shipping	274	276	0.6	0.2
Reliance Power	112	113	5.9	5.1
Bajaj Hindusthan	65	66	1.8	1.6
Jaiprakash Assoc	79	80	14.2	13.5

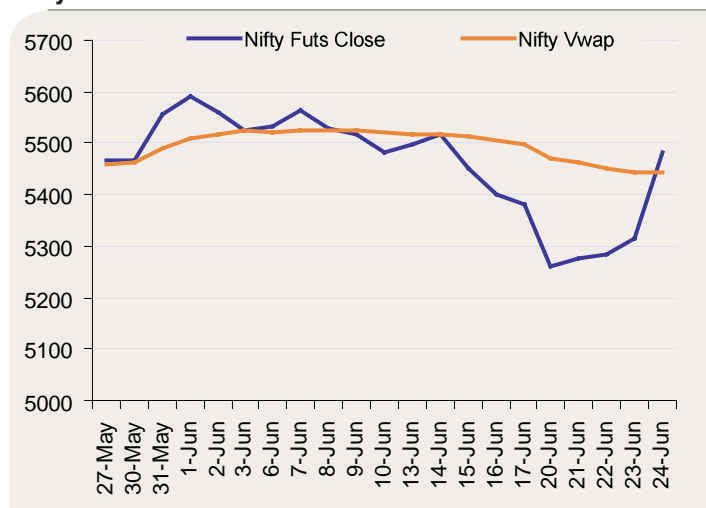
### Bulk deals

Date	Institution	Scrip name	B/S	Qty (lacs)	Price
20-Jun	DCHL	DCHL	B	27.8	62.7
22-Jun	Citigroup Glo	Globus Spirits Ltd	S	2.0	136.0
22-Jun	Lotus Global	Ansal Properties	B	18.1	39.0
23-Jun	Deutsche Sec	Orchid Chemicals	S	4.5	248.0
-	-	-	-	-	-

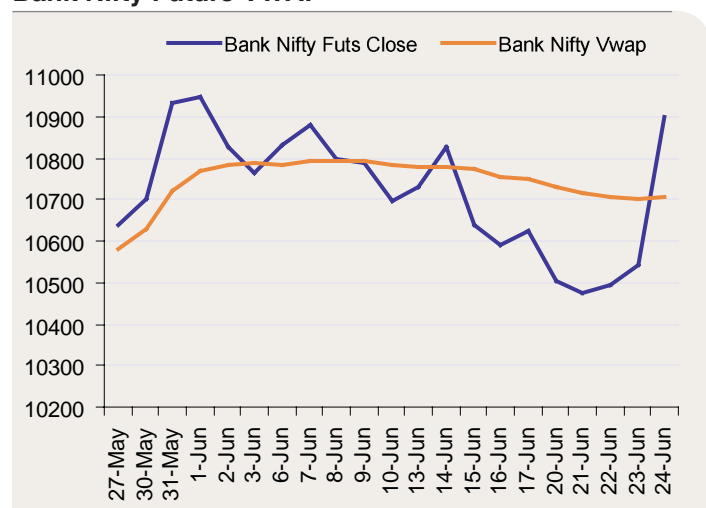
### Book closure and record date

Company	Date	Purpose
Ashok Leyland	29-Jun-2011	Dividend
Bajaj Auto	29-Jun-2011	Dividend
Dabur India	29-Jun-2011	Final Dividend
Finolex Inds	29-Jun-2011	Dividend
KPIT Cummins	29-Jun-2011	Dividend
Wipro	29-Jun-2011	Final Dividend

### Nifty Future VWAP



### Bank Nifty Future VWAP



# India Infoline Weekly Wrap

## Commodity Corner

### Base metals

MCX Base metals complex witnessed mixed trends this week, with the upside in Copper and Aluminium prices restrained, while the rest of the pack moving on a positive note. On the global economic front, macro indicators across the globe continue to portray depressed economic sentiment and stagnating/declining industrial activity. Copper prices continue to struggle, failing to initiate an upside impetus. Poor readings on Chinese demand front has prominently capped the upside. China's imports of refined copper dropped 6.9% in May, as compared with previous month figures. Imports in May 2011 have declined by stupendous 47%, as compared with yoy basis. Moreover, WBMS reported global copper market in a surplus of 116,900 tonnes during first 4 months of 2011.

Aluminium prices continued to be restricted, weighed down by hefty global surplus and comfortable LME inventory levels. Lead prices have top performed, bucking the bearish trend in the complex. Lead is underpinned to a large extent by the clampdown on smelting capacity in China by the government authorities. Moreover, dramatic jump in LME Lead cancelled warrants from 0.5% last week of the total stocks to 11% this week has also augmented the buying sentiment. Nickel & Zinc prices although have witnessed positive move this week, further upside is restricted on account of demand concerns and easing supply. **On the price outlook, we reiterate our bearish view on Copper and advocate a "Buy" on Lead.**

*Note: This market commentary is written at 12:00 PM IST*

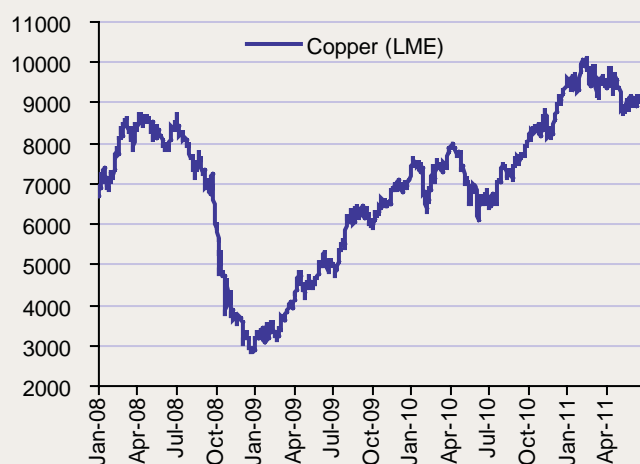
### MCX prices

Base Metals	High	Low	Close	Chg (%)
Copper	411	399	407	0.1
Nickel	1,005	964	1,001	2.5
Zinc	101	97	101	2.8
Aluminium	114	111	113	(0.7)
Lead	115	108	115	5.2

Precious Metals	High	Low	Close	Chg (%)
Gold	22,794	22,352	22,385	(0.9)
Silver	54,739	52,187	52,558	(2.0)

### LME Copper



### Precious metals

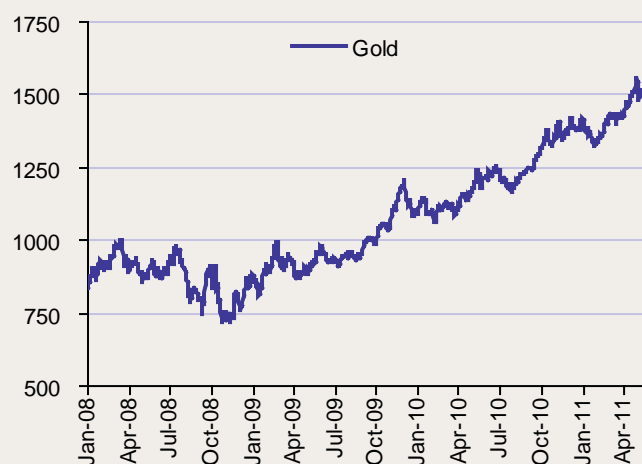
Gold prices traded moderately lower this week, failing to trigger a significant movement on the upside. Stronger US dollar kept a constant check on the upside in the precious metals complex. The greenback persisted with its upside, as the "Dollar smile theory" held true, with the market participants preferring a safe haven currency over the other traded currencies. Economic indicators across Europe and Asia conveyed gloomy scenario, which benefitted the US Dollar against major currencies. US Dollar index was last quoted at 75.28, as compared with previous week close of 74.98. Silver continue to flounder on account of waning investment appetite for the metal. The metal is 2% lower on the week.

In terms of outlook, we believe that Gold prices remain supported, as gloomy economic backdrop will facilitate investors to look for a safe investment avenue. Moreover, US Federal Reserve has maintained interest rates close to zero percent, which will augment the investment demand for the metal. We restate going long at dips as the yellow metal seems to be the most preferred amongst the commodity complex.

### Weekly inventory update

	Tons	Abs Chg.	Chg (%)
Copper (LME)	474,025	3,200	0.7
Nickel (LME)	109,614	(1,782)	(1.6)
Zinc (LME)	868,125	(125)	(0.0)
Aluminium (LME)	4,555,550	(46,875)	(1.0)
Lead (LME)	321,775	(149,050)	(46.3)
Tin (LME)	474,025	151,325	31.9
-	-	-	-
-	-	-	-
-	-	-	-

### COMEX Gold



# India Infoline Weekly Wrap

## Mutual Fund Round-up

### India Infoline picks

Mutual Funds	Assets (₹ Cr)	NAV (₹)	Absolute return (%) as on June 24, 2011							
			1wk	1mth	3mth	6mth	1yr	2yr	3yr	5yr
HDFC Top 200 Fund (G)	10,645	205.5	(1.6)	(0.1)	(0.7)	(8.6)	5.0	44.3	65.8	139.3
ICICI Prudential Dynamic - (G)	3,005	105.5	(1.9)	(1.1)	(1.2)	(5.7)	3.8	51.6	52.8	119.5
IDFC Small & Midcap Fund (G)	1,100	18.2	(3.3)	(1.0)	3.0	(5.9)	2.2	59.4	87.0	N.A
Fidelity Tax Advantage (G)	1,263	21.5	(2.0)	(0.5)	(1.7)	(8.5)	3.3	57.5	57.5	126.3
HDFC Prudence Fund (G)	6,200	214.4	(1.6)	0.7	2.4	(3.1)	8.0	58.8	79.0	135.5
Reliance equity opportunities(G)	2,838	35.8	(3.2)	(0.5)	3.8	(7.0)	5.8	76.1	75.7	114.5
IDFC Premier equity fund	2,239	31.9	(3.1)	(1.9)	2.2	(9.1)	4.0	63.9	62.8	212.2

### Funds this week: HDFC Top 200 Fund

Fund snapshot		Asset allocation (%)	
Fund Manager	Prashant Jain	Equity	92.0
Latest NAV	₹202.3	Debt	2.5
NAV 52 high/low	₹236/176	Cash/call	5.5
Latest AUM (cr)	₹10,645	Top 5 holdings (%)	
Type	Open-ended	Reliance Industries Ltd.	6.8
Class	Equity - Diversified	Infosys Technologies Ltd.	5.9
Options	Growth & dividend	ICICI Bank Ltd.	5.1
Min investment	₹5000	L&T	4.0
Benchmark	BSE 200	ITC	4.5
No. of stocks	66	Top 3 sectors (%)	
No. of sectors	30	Bank	22.7
Expense ratio	1.8%	Oil & Gas	14.5
Exit load	1% before 1 year	Software	10.7

### Reliance equity opportunity fund

Fund snapshot		Asset allocation (%)	
Fund Manager	Viral Belawala	Equity	93.3
Latest NAV	₹34.7	Debt	-
NAV 52 high/low	₹39.8/31.8	Cash/call	6.7
Latest AUM (cr)	₹2,838	Top 5 holdings (%)	
Type	Open-ended	Aventis Pharma Ltd.	5.0
Class	Equity - Diversified	Infosys Technologies Ltd.	5.0
Options	Growth, Dividend & Bonus	Divi'S Laboratories Ltd.	4.4
Min investment	₹5000	ICICI Bank Ltd.	3.8
Benchmark	BSE 100	HDFC Bank	3.5
No. of stocks	34	Top 3 sectors (%)	
No. of sectors	21	Software	15.7
Expense ratio	1.85%	Auto	9.9
Exit load	1% before 1 year	Banks	9.5

### NFO update

Fund Name	Close	Type	Class
Axis Fixed Term Plan-series 14 (368 days)	28-Jun	CE	Debt - FMP
ICICI Pru Fixed Maturity Plan-series 58-2year plan A	30-Jun	CE	Debt - FMP
JPMorgan India Fixed maturity Plan-series 3(370days)	27-Jun	CE	Debt - FMP

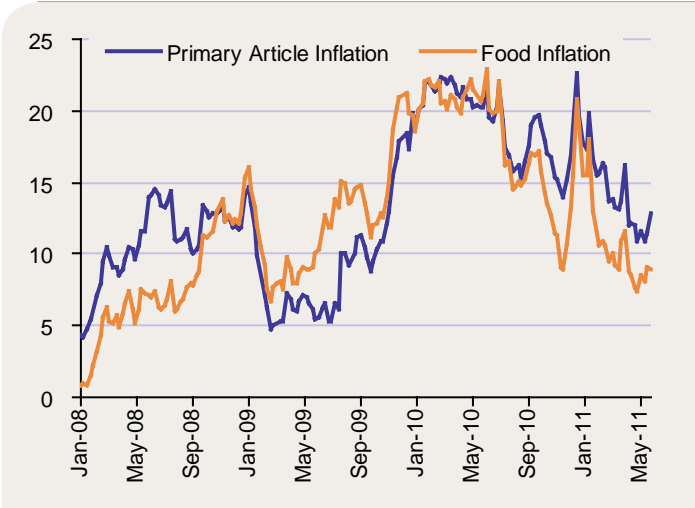
### Dividend update

Mutual Fund	Dividend %	Record date	Class
BHARTI AXA Equity Fund	5.0	27-Jun	Equity fund
HDFC medium term opportunities Fund	1.8	28-Jun	Debt fund
L&T Monthly Income Plan(qrtly dividend opt)	1.8	28-Jun	Debt fund

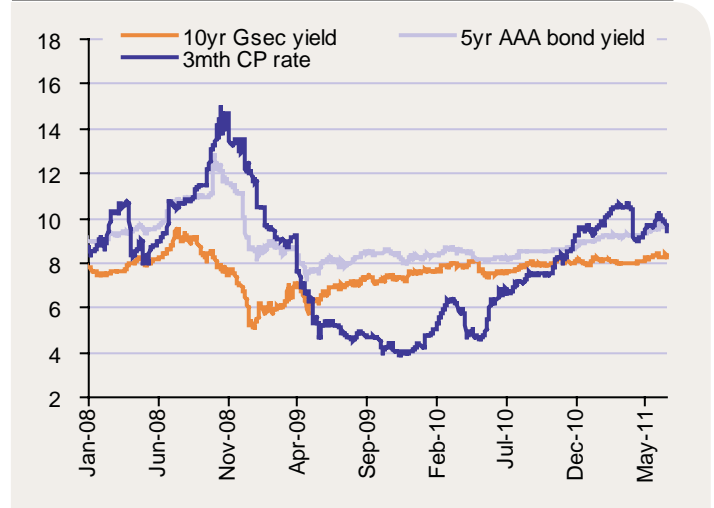
# India Infoline Weekly Wrap

## Chartbook

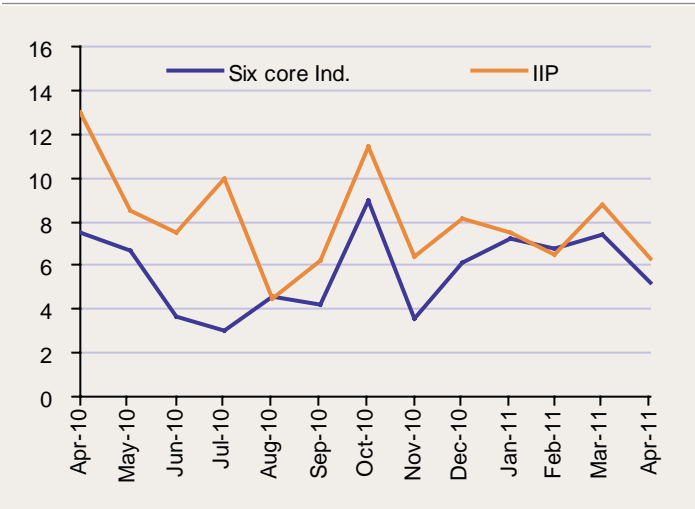
### Weekly Inflation



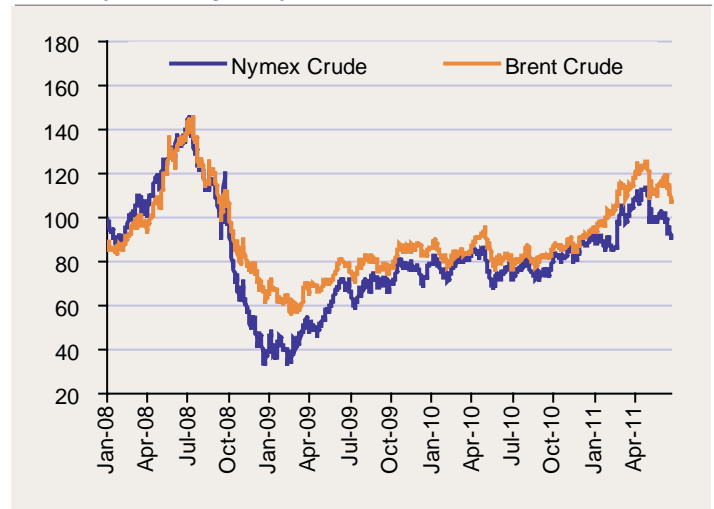
### Interest Rate



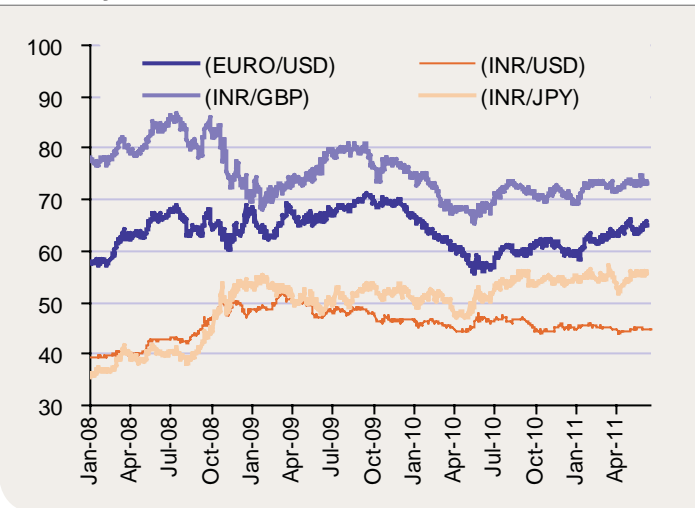
### IIP and Six core Industries



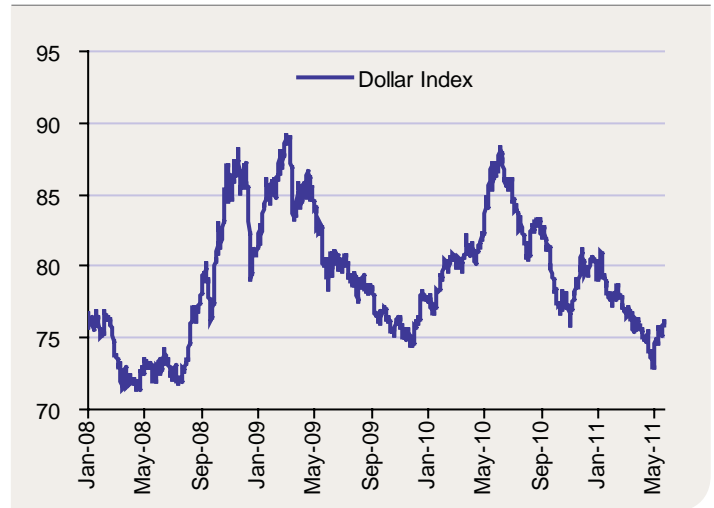
### Crude (Brent/ Nymex)



### Currency Movements



### Dollar Index

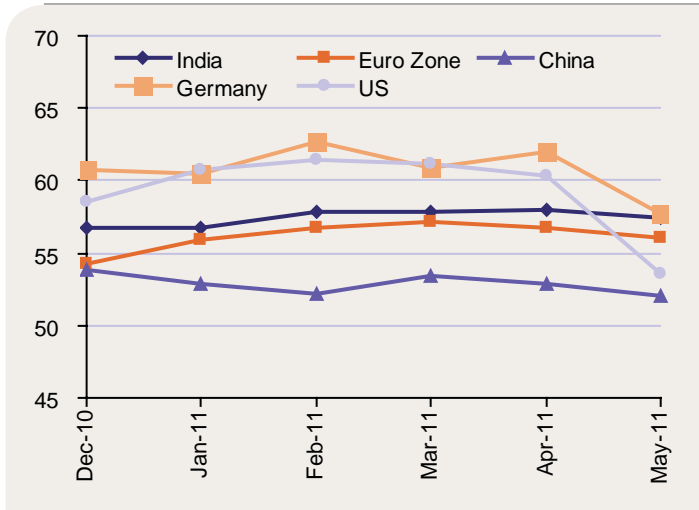


Source: Bloomberg

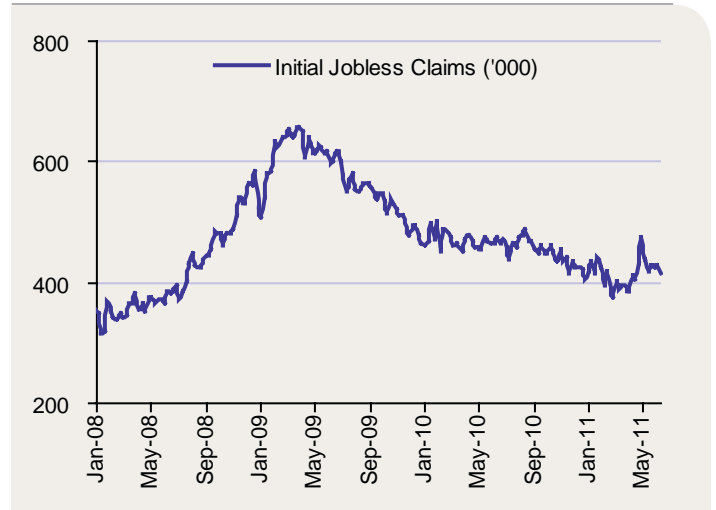
# India Infoline Weekly Wrap

## Chartbook...

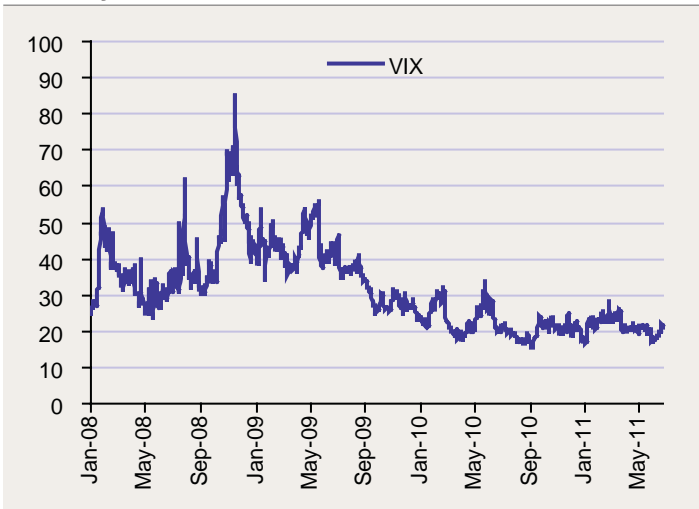
PMI



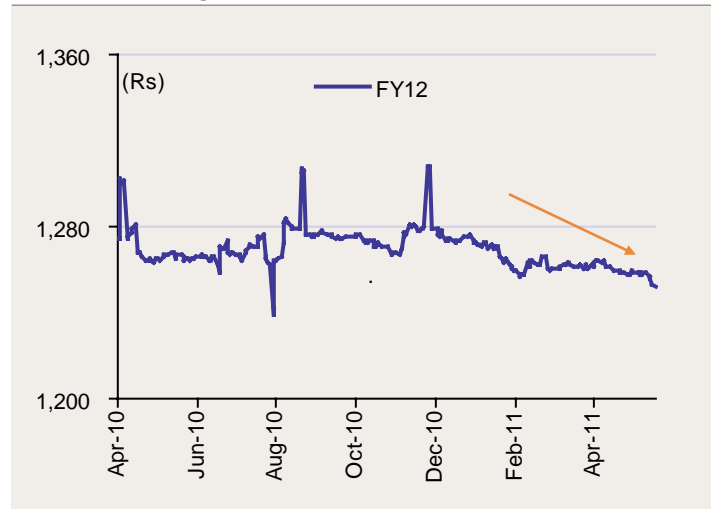
US Initial Jobless Claims



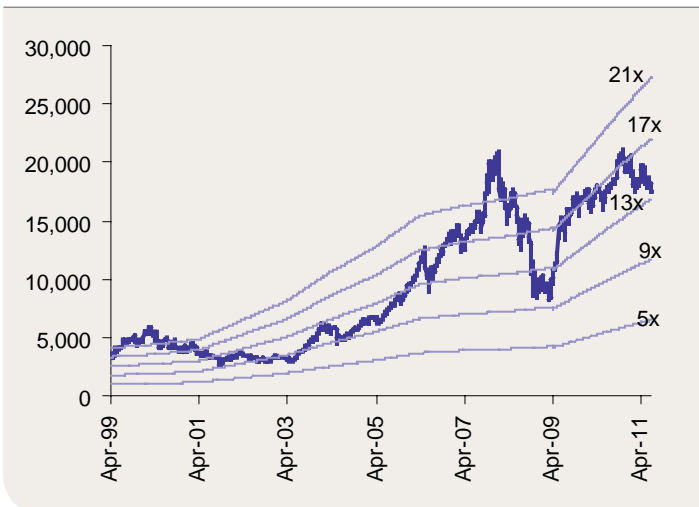
Volatility Index



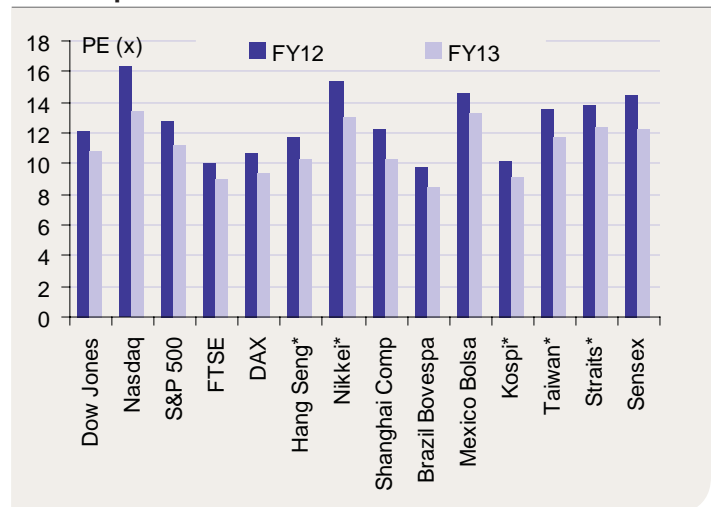
Sensex Earning Estimates



Sensex PE Band



PE Comparison



Source: Bloomberg



# India Infoline Weekly Wrap

## News Recap

### Finally, Govt looks like biting the bullet on fuel prices

The much-awaited meeting of a high-powered Government panel on fuel prices was postponed to 7:30 pm on Friday. The EGoM on fuel prices was earlier scheduled to meet at 1:00 pm. Shares of IOC, ONGC, HPCL, BPCL, Gail India and Oil India gained in a rising market on hope that the Centre will finally take the bold step of aligning the local fuel prices with the international market.

The EGoM could lead to an increase in diesel and LPG prices. Both were last revised in June last year by ₹ 2 and ₹ 35, respectively. The increase in diesel and LPG prices will help OMCs cut their losses on the sale of these fuels.

The panel could also contemplate tweaking some duties to mitigate the impact of any fuel price hike on OMCs and consumers.

### India has resumed talks with Mauritius on DTAA: FM

The Indian Government has resumed talks with Mauritius on the double taxation avoidance agreement (DTAA) but nothing has been finalised as yet, Finance Minister Pranab Mukherjee said in New Delhi. Indian stocks had tumbled on Monday amid media speculation that the two countries could alter the current tax treaty to tax capital gains on investments routed through Mauritius. The Government has been under pressure to renegotiate the DTAA with Mauritius as it leads to substantial revenue loss.

### Monsoon likely to be below normal: IMD

Rainfall over the country as a whole for the 2011 southwest monsoon season (June to September) is most likely to be below normal (90-96% of LPA), the Indian Meteorological Department (IMD) said. Quantitatively, monsoon season rainfall for the country as a whole is likely to be 95% of the long period average (LPA) with a model error of  $\pm 4\%$ , the weather bureau said in its second stage forecast. The LPA of the season rainfall over the country as a whole for the period 1951-2000 is 89 cm.

## Event Calender

### Period : 27<sup>th</sup> June - 1<sup>st</sup> July

#### US

- ⊕ Consumer Confidence (28Jun)
- ⊕ Initial Jobless Claims (30 Jun)
- ⊕ Construction Spending MoM (01 Jul)

#### India

- ⊕ Food Articles WPI YoY (30 Jun)
- ⊕ Primary Articles WPI YoY (30 Jun)
- ⊕ May Exports YoY% (01 Jul)
- ⊕ May Imports YoY% (01 Jul)

#### China

- ⊕ Industrial Profits YTD YoY (27Jun)
- ⊕ Leading Index (25-28 Jun)
- ⊕ PMI Manufacturing (01 Jul)

#### Euro Zone

- ⊕ Euro-Zone Consumer confidence (29 Jun)
- ⊕ Euro-Zone Economic Confidence (29 Jun)
- ⊕ Euro-Zone unemployment rate (01 Jul)

### Period : 4<sup>th</sup> - 8<sup>th</sup> July

#### US

- ⊕ May factory orders (05 Jul)
- ⊕ Mortgage Applications (06 Jul)
- ⊕ Initial jobless claims (07 Jul)

#### India

- ⊕ Food Articles WPI YoY (07 Jul)
- ⊕ Primary Articles WPI YoY (07 Jul)
- ⊕ Fuel Power Light WPI YoY (07 Jul)

#### China

- ⊕ Q2 Business Climate Index (08 Jul)
- ⊕ Q2 Entrepreneur Confidence Index (08 Jul)

#### Euro Zone

- ⊕ Sentix investor confidence (04 Jul)
- ⊕ Euro-Zone retail sales yoy (05 Jul)
- ⊕ Euro-Zone GDP QoQ (06 Jul)
- ⊕ ECB meet (07 Jul)

IIFL, IIFL Centre, Kamala City, Senapati Bapat Marg, Lower Parel (W), Mumbai 400 013

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