

Dhampur Sugar Mills BUY CMP Rs110

Cyclical upturn sustainable over the next 12 months

Sugar sector has been in the midst of the strongest cyclical upturn in the past 15 years and we believe the momentum may be sustainable at least for the next 12 months. With sugar supply of ~16mn tonnes in the current crushing season and imports worth 5.5mn tonnes, the Sep' 10 inventories would be equivalent to just 2.3 months worth of consumption, thereby supporting cyclical uptrend.

Sugar refining, robust realization to drive 27% PAT CAGR

Dhampur Sugar Mills (DSM) would process about 0.2mn tonnes of raw sugar imported in the previous year. This could offset any potential drop in sugar production arising from a tight cane supply scenario. We expect ex-factory sugar realization to improve at least 20-25% yoy while a 30% hike in power tariffs (to ~Rs4/unit) would drive PAT CAGR of 27% over F9/09-11 period.

Improved D/E, attractive valuation underpin our BUY

Lack of capex spending in the next one year implies that company is expected to pare down debt; gross D/E is projected to halve to ~0.8x in F9/11 from current ~1.5x. Stock currently trades at an attractive valuation of ~6.3x F9/10 EPS. BUY for a TP of Rs141.

Sugar demand-supply balance

Mn cases	FY08	FY09	FY10E	FY11E
Opening Stock	10.8	11.2	6.0	4.3
Production	26.3	14.7	15.5	21.7
Imports	-	2.0	5.5	3.0
Total supply	37.1	27.9	27.0	29.0
Domestic demand	21.0	21.9	22.7	23.1
Exports	4.9	-	-	-
Total demand	25.9	21.9	22.7	23.1
Closing stock	11.2	6.0	4.3	5.9

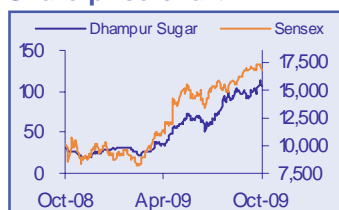
Source: Company, India Infoline Research

Financials

Y/e 30 Sep (Rs m)	FY08	FY09	FY10E	FY11E
Revenues	6,679	8,920	11,614	10,336
yoy growth (%)	12.3	33.6	30.2	(11.0)
Operating profit	1,138	2,055	2,265	2,119
OPM (%)	17.0	23.0	19.5	20.5
Reported PAT	36	570	935	920
yoy growth (%)	-	1,487.0	64.0	(1.5)
EPS (Rs)	0.7	10.8	17.7	17.4
P/E (x)	162.8	10.3	6.3	6.3

Source: Company, India Infoline Research

Share price chart



Source: Company, India Infoline Research

Shareholding pattern

Jun-09	(%)
Promoter	42.6
FII & MF	15.3
Non promoter corp hold	12.0
Public & others	30.1

3i Infotech BUY CMP Rs95

One of the most diversified plays in the mid-cap IT space

Over the years, 3i Infotech have evolved to a geographically diverse company offering IT products, IT services and Transaction Services. Presently, the revenues are almost evenly spread across its three business segments. The diversified business model enabled 3i infotech to sustain its revenue and operating profitability over the past four quarters when the operating environment was extremely challenging. With 12-month order book of Rs14.5bn, equivalent to 0.6x FY09 sales, company has healthy revenue visibility.

High dependence on BFSI sector has turned into a positive

In Q1 FY10, 3i Infotech derived 70.2% revenues from the BFSI sector. Post the financial crisis, IT spends of the BFSI vertical, the largest consumer of IT products and software services globally, witnessed rationalization. However, over the past couple of quarters there has been marked revival in demand from this industry. Due to higher dependence on BFSI than peers, 3i infotech represents the most leveraged bet on sustained recovery in this sector.

Balance sheet improvement to continue

One of the main investment concerns for 3i infotech was its highly leveraged balance sheet with outstanding debt of Rs21.5bn (including FCCBs) as at Q1 FY10-end. To retire a portion of its high cost debt, company has raised ~Rs3.2bn via QIP route recently. Post repayment, the D/E of the company would improve significantly from 2x to 1.3x. It would also lead to interest savings of Rs350-400mn pa. Further, company has bought back FCCBs worth Rs2.4bn in the past two quarters at ~50 discount.

Significant re-rating awaits 3i Infotech

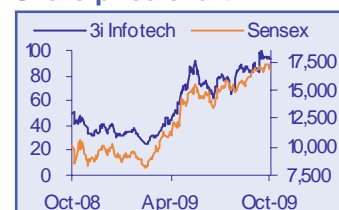
3i infotech has been trading at material discount to median mid-cap IT valuations over the past two years due to concerns regarding its highly leveraged balance sheet and dominant BFSI exposure. With substantial reduction in these risks, the valuations are likely to converge towards the median.

Financials

Y/e 31 Mar (Rs m)	FY08	FY09	FY10E	FY11E
Revenues	12,053	22,856	26,399	29,356
yoy growth (%)	83.9	89.6	15.5	11.2
Operating profit	2,549	4,344	5,070	5,491
OPM (%)	21.1	19.0	19.2	18.7
Pre-exceptional PAT	1,766	2,820	2,635	2,775
yoy growth (%)	89.8	59.7	(6.6)	5.3
EPS (Rs)	9.8	15.0	13.2	13.5
P/E (x)	9.6	6.3	7.1	7.0

Source: Company, India Infoline Research

Share price chart



Source: Company, India Infoline Research

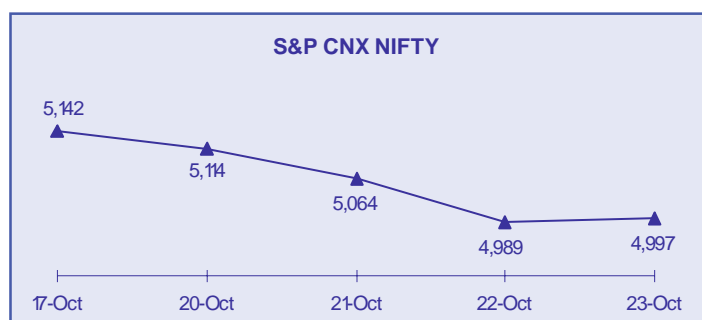
Shareholding pattern

Jun-09	(%)
Promoter	39.5
FII & MF	24.7
Non promoter corp hold	9.6
Public & others	26.2

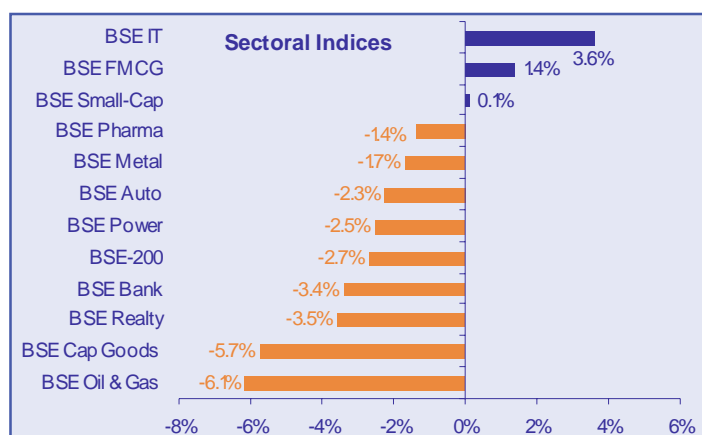
India Infoline Weekly Wrap

Market review

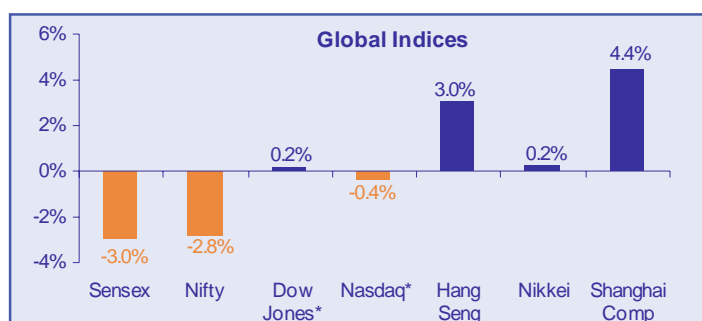
Key indices closed lower over the week, hurt by subdued cues from the global equities. Some profit taking was also seen after a seven-month rally. Quarterly numbers from India Inc. also failed to cheer the sentiments on Dalal Street. Finally, the BSE benchmark Sensex closed the week down by 3% and NSE Nifty closed lower by 2.8%.



Selling pressure in RIL and ONGC dragged the oil and gas index lower. Despite decent quarterly numbers from L&T and BHEL, capital goods stocks were unable to hold on to their gains. Realty and banking stocks were among the other notable losers.



Downgrade of Wells Fargo triggered sell off in most of the US banks but better than expected earnings from AT&T and 3M helped Dow Jones recover its losses. UK Q3 GDP shrank 0.4% yoy as against an expectation of 0.2% growth. In Asia, indices advanced as Kia Motor Corp reported record profit and Wesfarmers Ltd said sales rose, boosting speculation the global economic recovery is gathering pace.



*As per previous close

FII & MF activity

(Rs cr)

Date	FII	MF
	Net Investment	Net Investment
14-Oct	1,583	(14)
15-Oct	963	(500)
16-Oct	1,197	(184)
20-Oct	1,770	(318)
21-Oct	(392)	(558)
Total 2009	68,433	(1,276)

BSE Sensex & BSE 200 Top Five Gainers

BSE Sensex			BSE 200		
Company	CMP (Rs)	% Chg	Company	CMP (Rs)	% Chg
TCS	640	5.1	Kirloskar Oil Eng	140	10.8
Hindalco	141	4.8	Kirloskar Bro	238	10.7
ITC	260	3.9	SRF	207	8.2
Infosys	2,260	3.0	HCL Tech	326	8.1
Wipro	589	2.6	HCL Info	180	7.9

BSE Sensex & BSE 200 Top Five Losers

BSE Sensex			BSE 200		
Company	CMP (Rs)	% Chg	Company	CMP (Rs)	% Chg
Grasim Inds	2,150	(10.0)	Jai Corp	194	(10.0)
JP Associates	237	(8.6)	Nagarjuna Const	159	(9.4)
Tata Motors	529	(8.2)	Dish TV	41	(9.0)
Reliance Inds	2,047	(8.0)	JP Associates	237	(8.6)
L&T	1,571	(7.1)	Cent Textile	491	(8.4)

Bulk deals

Date	Institution	Scrip name	B/S	Qty (lacs)	Price
21-Oct	Swiss Finance	Cranes Soft	S	17.2	39
21-Oct	Fidelity Invst	ICSA India	B	2.5	220
21-Oct	Rel Cap. Trustee	PVR Ltd	B	8.5	135
21-Oct	Goldman Sachs	Relta India	S	14.6	197
22-Oct	Galleon	Shriram EPC	S	9.5	223

Book closures and record dates

Company	Date	Purpose
Gammon Infra	26-Oct-09	Stock split
Educomp Solution	27-Oct-09	Stock split
IOC	29-Oct-09	Bonus

Insider trades

Company	Name	B/S	Qty ('000)
Bhagwati Banquets	Narendra Somani	B	6.0
Aptech	Pramod Khera	B	10.0
Ashtavinayak	Dhilin Mehta	B	84.0

India Infoline Weekly Wrap

Nifty view

Uptrend broken, downside limited



Nifty conclusively broke below its 20-DMA and a short-term trend line (as shown in the chart) for the first time since March 2009 on Thursday. A fall in excess of 3% this week has not damaged the broader bullish trend of Nifty but has certainly reduced the Diwali glitter.

In the past few trading sessions, Nifty has struggled to make any meaningful progress above 5,180 levels, signalling overbought conditions in the market. Also, with many individual pivotal stocks trading at fresh 2009 highs, some profit taking was always expected.

The succession of higher tops on the Nifty on a weekly basis have been broken. However, a trend reversal will only be confirmed once it falls below 4,950. In such a scenario, the next reliable support for Nifty is around its 50-DMA, i.e. 4,820.

Outlook: The short-term trend may have reversed after an uptrend, which began from 2,539 on 6th March. **We expect Nifty to hold on to its key support zone at 4,950 and if that is broken, the downside target would be 4,820. However, if the support holds, a re-test of 5,100 is possible.**

Trading activity may turn stock specific in the next few weeks as Q2 results are declared. On a cautious note, once the above mentioned

support is broken, traders are advised to move out from the sectors which led the rally. As seen during the past year, sectors that see the sharpest rally are the most vulnerable.

Sectoral performance since March 2009

Index	23-Oct-09	06-Mar-09	% Change
BSE Bank	10,231	3,737	173.8
BSE Realty	4,523	1,347	235.8
BSE Auto	6,467	2,597	149.0
BSE Metal	15,421	4,525	240.8
BSE Cap Goods	13,447	5,561	141.8
BSE Power	3,138	1,637	91.7
BSE FMCG	2,825	1,854	52.3
BSE-200	2,090	982	112.8
BSE Small-Cap	7,674	2,912	163.5
BSE IT	4,528	2,072	118.5
BSE Pharma	4,402	2,545	73.0
BSE Oil & Gas	10,007	5,724	74.8

Source: Bloomberg, India Infoline Research

Positive open interest build-up

Company	Price % chg	OI % chg	Vol (lacs)
Jindal Saw	1.9	659.0	21.5
Tata Tea	1.5	496.8	2.4
Biocon	0.4	342.1	12.2
Bombay Rayon	0.7	339.1	13.5
Auro Pharma	2.3	320.4	3.4

Negative open interest build-up

Company	Price % chg	OI % chg	Vol (lacs)
AB Nuvo	(0.8)	521.1	4.8
Indian Bank	(0.3)	398.2	17.0
JSW Steel	(2.0)	306.6	51.4
Oracle Fin.	(0.4)	243.8	1.1
Alstom Project	(0.8)	237.6	1.4

Technically strong

Company	CMP (Rs)	10 days Moving Average (Rs)	Total Traded Qty (lacs)	10 days Average Traded Qty (lacs)
GSPL	89	84	115.5	48.7
ITC	260	252	95.0	41.2
Union Bank	266	261	25.5	11.8
Raymond	206	197	7.3	3.5
Dr Reddy's	960	948	13.5	5.0

Technically weak

Company	CMP (Rs)	10 days Moving Average (Rs)	Total Traded Qty (lacs)	10 days Average Traded Qty (lacs)
Gammon India	231	237	1.8	16.0
Titan	1,361	1,406	0.4	1.7
Voltas	154	162	8.3	29.3
Patel Eng	464	481	1.1	3.5
CESC	385	389	1.1	3.3

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Mutual fund round-up

India Infoline picks

Mutual Funds	Assets (Rs Cr)	NAV (Rs)	Absolute return (%) as on October 22, 2009							
			1 wk	1mth	3mth	6mth	1yr	2yr	3yr	5yr
Birla SL Frontline Equity Fund (G)	1,219	74.7	(2.9)	2.0	14.4	59.0	81.5	7.8	64.0	273.3
Birla SL Tax Relief (D)	1,034	82.9	(2.2)	3.0	18.2	71.1	90.9	(12.2)	37.9	191.7
DSP-BR Top 100 Equity – RP (G)	2,098	86.4	(2.4)	2.3	13.3	51.1	64.6	8.5	68.5	284.3
HDFC Equity Fund (G)	4,836	215.3	(3.1)	5.1	18.0	72.8	88.9	12.6	57.6	297.3
ICICI Prudential Tax Plan (G)	943	109.8	0.2	4.7	20.3	69.7	89.9	5.2	20.5	226.9

Fund this week: Birla Sun Life Frontline Equity Fund

Fund snapshot		Asset allocation (%)	
Fund Manager	Mahesh Patil	Equity	92.8
Latest NAV	Rs74.7	Debt	0.0
NAV 52 high/low	Rs77/36	Cash/call	7.2
Latest AUM (cr)	Rs1,219.0	Top 5 holdings (%)	
Type	Open-ended	Reliance Inds Ltd.	5.1
Class	Equity - diversified	Infosys Tech Ltd.	4.2
Options	Growth & dividend	Bharti Airtel Ltd	3.9
Min investment	Rs5,000	ONGC Ltd.	3.6
Entry load	Nil	ICICI Bank Ltd.	2.9
Exit load	1%<Rs5cr<1yr	Top 3 sectors (%)	
Benchmark	BSE 200	Banks	13.9
No. of stocks	61	Oil & Gas, Petroleum & Refinery	13.5
Expense ratio	2.3%	Software & Consultancy Services	9.8

NFO update

Fund Name	Close	Type	Class
Religare PSU Equity Fund	14-Oct	OE	Equity - thematic
Franklin Templeton Sr XII Plan B	28-Oct	CE	Debt - FMP
ICICI Pru FMP Sr49-3yr-B	5-Nov	CE	Debt - FMP

Dividend update

Mutual Fund	Dividend %	Record date	Class
Fortis Dividend Yield	10.0	27-Oct	Equity -Div
Franklin (I) Opportunities	5.0	28-Oct	Equity -Div
FT (I) Life Stage FOF - 40's	15.0	28-Oct	Equity -FOF

Commodity, debt and currency graphs



* As per previous close

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