

**IIFL**

INDIA PRIVATE CLIENTS

Weekly Wrap

November 19, 2010

Investment Ideas

Rural Electrification Corp

BUY
CMP Rs347

Rs1tn sanctions to drive loan cagr of 26%

Rising demand in the power financing space, limited competition from banks (owing to ALM mismatch) and healthy market share (second largest power lender) have enabled REC to report strong loan growth in the past. Loan book grew at sturdy 30% cagr over FY08-10. With cumulative pending sanctions to the tune of Rs1tn (1.5x FY10 loan book), we expect loan cagr of 26% over FY10-12. This would drive a 24% cagr in balance sheet/net profit.

Increasing pvt sector exposure; share of generation on rise

Loans to state and central entities constituted >90% of the total loan portfolio in FY10. Given the huge demand from private sector in upcoming five year plan, REC has now shifted its focus towards this segment. Loan share to private sector stands at 8% and the management has guided for the same to 15%. Also, with ~Rs9tn of planned capex (43% of total) in XI and XII plan towards generation, REC has increased its exposure towards the segment. Sanctions and disbursement for generation stood at ~50% in H1FY11.

Spreads to remain intact; IFC status a feather in the cap

In wake of rising inflationary pressure, RBI has raised its key rates - repo (+125bps) and reverse repo (+175bps) since Mar' 10. Accordingly, borrowing costs have risen in (up 20bps) H1FY11. However, shift in focus towards private sector and higher proportion of short term loans have safeguarded spreads at >3% level. REC has been accredited with Infra financing status which it plans to leverage through raising of ~Rs10bn in infra bonds. The status also allows REC to take additional lending exposure (up to 5% - single borrower and 10% - group borrowers), in addition to eligibility to raise funds to the tune of US\$500mn via ECB route. Prudent funding mix - ~85% in fixed liabilities, increasing exposure towards generation and private sector, would enable REC to maintain spreads at ~3%.

Supportive valuation with healthy risk-return ratio

REC trades at 2.4x FY12 BV which does not adequately reflect 1) a diversified 26% loan cagr over FY10-12 2) stable spreads coupled with negligible NPL and 3) impressive return ratios (avg RoE/RoA of 22%/2.8%). We expect valuations to re-rate considering above factors and value the stock at 2.7x FY12 book for a target price of Rs418. Foray into banking and increase in FII limit to 35% remain key positives. Slowdown in power capacity addition remains a key concern.

Valuation summary

Y/e 31 Mar (Rs m)	FY09	FY10A	FY11E	FY12E
Total operating income	20,492	28,516	35,541	44,430
yoy growth (%)	37.9	39.2	24.6	25.0
Pre-prov. profit	19,254	26,811	33,449	41,839
Net profit	12,731	20,224	24,973	31,237
yoy growth (%)	32.9	58.8	23.5	25.1
EPS (Rs)	14.8	20.5	25.3	31.6
P/E (x)	22.8	16.5	13.4	10.7
ROE (%)	20.5	23.4	20.8	22.2

Source: Company, India Infoline Research

Dr Reddy's

BUY
CMP Rs1,755

Best placed to tap the US generics opportunity

The generic business of Dr. Reddy's is set to benefit from market share gains in Prilosec OTC and new product launches. Its US generic pipeline comprises 73 ANDAs (Abbreviated New Drug Applications) pending with USFDA, including 11 tentative approvals. The company has a strong pipeline of low competition products like Arixtra, Accolate, Exelon, Prevacid and Zyprexa. The management has guided on 8-10 product launches in FY11 and its generic product Fondaparinux, if approved, could provide further revenue visibility for FY12E.

Russian business adding momentum

Dr. Reddy's revenue growth of 25% in Russia, outperformed the country's market growth of 8% in FY10. Growth was mainly driven by strong contributions from the OTC segment as well as prescription sales. Key brands such as Nise, Cetrine, Keterol, Omez and Ciprolet played a major role. The company recently entered into an agreement with Vitabiotics for exclusive marketing rights for two leading products in pain and weight management space. The estimated market size for Vitabiotics' products is ~US\$80mn in Russia.

Well positioned in Indian formulations business

Reddys is well placed in the Indian market with a share of 2.2%. Its domestic formulations business saw a revenue growth of 20% in FY10 to Rs10.2bn on account of volume growth of 16%, while new products led growth of 6%. New product launches constituted 5% of topline in FY10. It had launched 13 new products in Q2 FY11 and expects to continue with this momentum. Domestic formulations segment is expected to witness a CAGR of ~18% in the next two years, driven by new product launches and addition of field force.

Top pick in pharma space

We expect revenue CAGR of 15.4% and earnings CAGR of 41% over FY10-12E on the back strong growth in US and emerging markets like India and Russia. The stock currently trades at a PER of 18.5x FY12E EPS. With due consideration to factors like a) strong generic products pipeline, b) dominant position in emerging markets like India and Russia, we recommend a BUY with a target price of Rs1,900.

Valuation summary

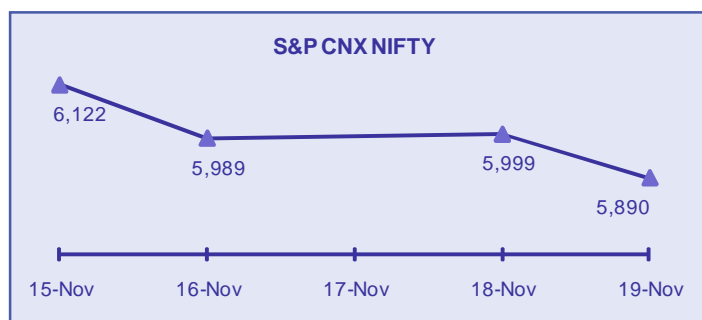
Y/e 31 Mar (Rs m)	FY09	FY10	FY11E	FY12E
Revenues	69,006	70,310	76,779	93,615
Yoy growth (%)	38.2	1.9	9.2	21.9
OPM (%)	18.9	20.2	22.9	25.5
Pre-exceptional PAT	5,457	8,097	11,164	16,037
Reported PAT	(9,171)	3,514	11,164	16,037
yoy growth (%)	-	-	37.8	43.6
EPS (Rs)	32.4	48.0	66.1	95.0
P/E (x)	54.2	36.6	26.5	18.5

Source: Company, India Infoline Research

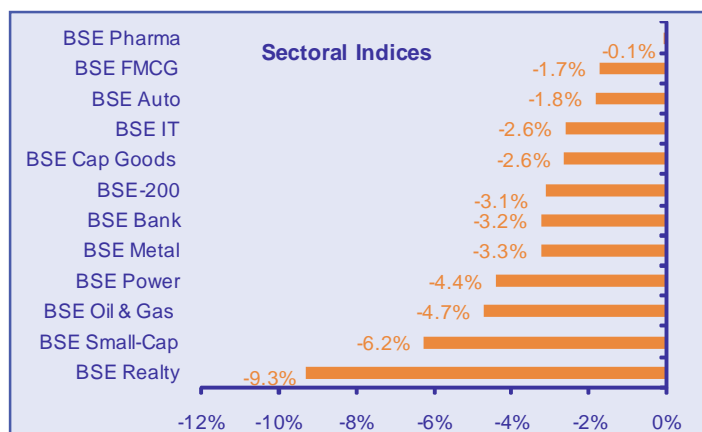
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Market review

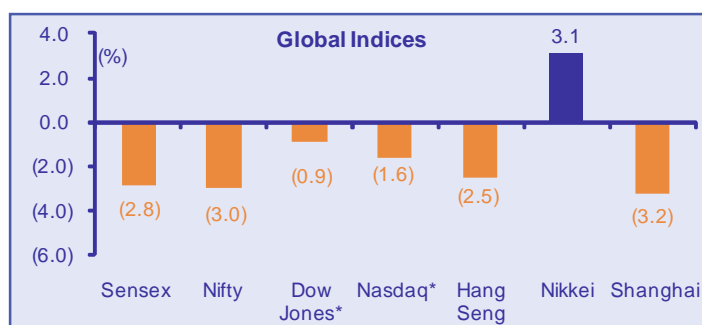
Sentiment in the Indian market was affected by the recent sell off by the FIIs and partly by the ongoing political tension over a few big scams, including the row over 2G spectrum allocation. The selling in India came despite food inflation falling sharply in the latest reporting week. Finally, the Sensex and Nifty declined by 3% each.



The Real Estate and Banking sector indices fell sharply as investors locked in gains after the recent rally. Fears over monetary tightening by the Chinese government and curbs on the real estate firms dominated the headlines.



Globally, Ireland appeared to be drifting towards an imminent bailout, helping the euro recover against the dollar from a six-week low. Fed chief Ben Bernanke joined the war of words against China's currency policy while defending his QE2 gambit. Meanwhile, the OECD pruned its GDP growth forecast for the advanced economies and warned of the worsening global imbalances. After the close of trade on Friday, China's central bank hiked the reserve ratio for banks by 50 bps.



*As per previous close

FII & MF activity

Date	FII	MF
	Net Investment	Net Investment
10-Nov	108	(99)
11-Nov	111	(225)
12-Nov	(683)	(183)
15-Nov	526	(77)
16-Nov	(17)	(99)
Total 2010	129,186	(28,356)

BSE Sensex & BSE 200 Top Five Gainers

BSE Sensex			BSE 200		
Company	CMP (Rs)	% Chg	Company	CMP (Rs)	% Chg
Hero Honda	1,946	7.4	Educomp Sol.	606	18.2
Bharti Airtel	329	3.6	Hero Honda	1,946	7.1
Cipla	342	3.0	Idea Cellular	74	6.4
-	-	-	Lupin	492	5.0
-	-	-	Lanco Infra.	64	4.1

BSE Sensex & BSE 200 Top Five Losers

BSE Sensex			BSE 200		
Company	CMP (Rs)	% Chg	Company	CMP (Rs)	% Chg
Reliance Comm.	148	(15.8)	Indiabulls Fin.	187	(17.1)
DLF	308	(11.2)	Unitech	68	(16.6)
Reliance Infra.	945	(11.0)	Videocon Ind	216	(14.2)
JP Ass	121	(10.3)	Ispat Ind	18	(12.3)
Hindalco Inds	213	(9.1)	Reliance Cap.	691	(11.9)

Bulk deals

Date	Institution	Scrip name	B/S	Qty (lacs)	Price
15-Nov	Credit Suisse	Gravita India	S	100,000.0	1.0
16-Nov	Stan Chatered	Gravita India	S	18,924.0	0.2
16-Nov	Macquarie Bank	Praj Industries	S	944,000.0	9.4
18-Nov	Orange Mauritius	Sah Petroleums	B	265,000.0	2.7

Book closures and record dates

Company	Date	Purpose
Gateway Distr	22-Nov-2010	Interim Dividend
Shri Lakshmi	23-Nov-2010	Dividend
Kesoram Inds	24-Nov-2010	Interim Dividend
Sun Pharma	25-Nov-2010	Stock Split

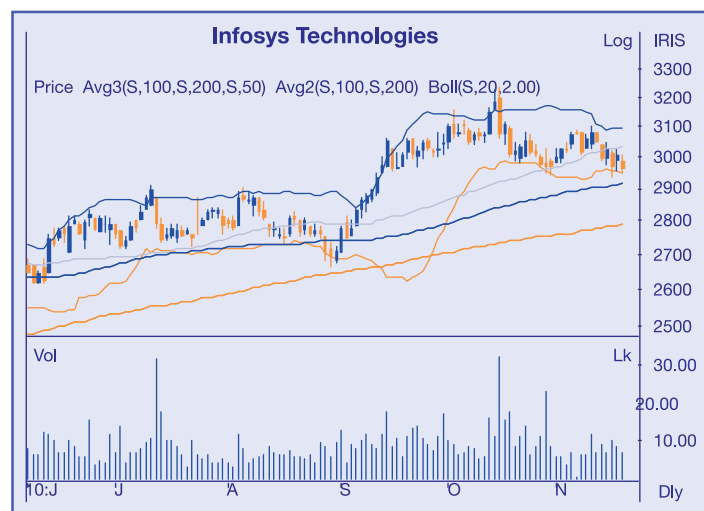
Insider Trades

Company	Name	B/S	Qty ('000)
SKS Micro Fin	A Gopi Krishna	S	0.8
Lupin	Naresh Gupta	S	2.0
Biocon	Sandeep Rao	S	6.4

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Technical ideas

Infosys Technologies **BUY** CMP Rs2,966

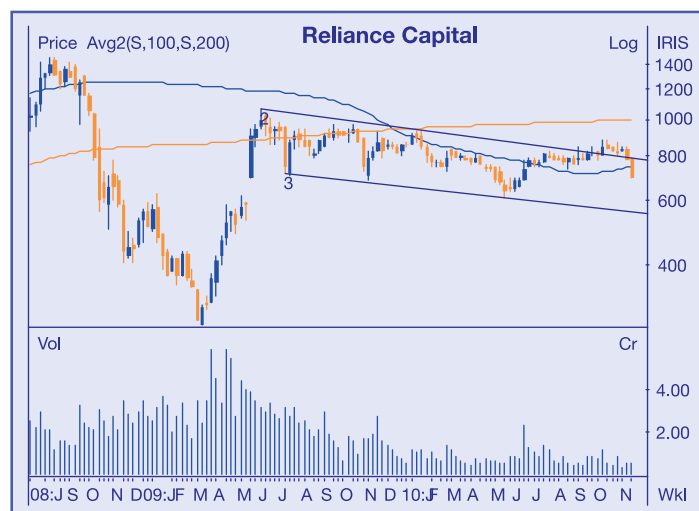


Infosys Technologies on the daily chart has displayed significant resilience near the support of Bollinger band despite weakness in the broader markets. As stock has already corrected almost 8% from the intermediate peak of Rs3,249, a pullback remains on the card with upper resistance of Bollinger band coming at levels of Rs3,092.

The volumes have also surpassed Tuesdays declining shares on yesterday which hints short term reversal from the downtrend. Also the low appearing on Thursdays trading session has been holding through out the week which should act as major stop loss for long position.

We advise buying stock in the range of Rs 2,950-2,970 with stop loss of Rs2,930 for Target of Rs3,030.

Reliance Capital **SELL** CMP Rs691



On the weekly chart, the stock seems to have appeared on an interesting juncture. Formation of Multiple tops has made it difficult for the stock to continue its momentum, which began from low of Rs611 since third week of May 2010.

As seen in the chart, the stock has been moving in a channel, wherein, upper trendline was acting as a resistance since June 2009. Last month, it broke out from the upper trendline, but the upmove turned into a whipsaw.

Inability for the stock to close above the upper trendline this week seriously dampened any hopes of an upward breakout. Moreover, it also broke below its 100-Weekly Moving Average, confirming the downtrend in the near term. The daily MACD has generated a crossover sell signal, suggesting build-up of momentum on the downside. Further, the daily RSI is showing a downtrend. We recommend traders to sell the stock at current levels and up to Rs700 with a stop loss of Rs715 for a target of Rs640.

Positive open interest build-up

Company	Price % chg	OI % chg	Vol % chg
-	-	-	-
-	-	-	-
-	-	-	-
-	-	-	-
-	-	-	-

Negative open interest build-up

Company	Price % chg	OI % chg	Vol % chg
SCI	(7.4)	16.6	109.6
ORCHIDCHEM	(2.9)	15.1	178.8
ASHOKLEY	(2.2)	12.9	0.8
SUNPHARMA	(3.7)	12.4	24.7
TATAPOWER	(1.5)	7.9	41.6

Technically strong

Company	CMP (Rs)	10 days Moving Average (Rs)	Total Traded Qty (lacs)	10 days Average Traded Qty (lacs)
Areva T&D	294	293	16.4	2.8
DR Reddy	1,771	1,751	6.8	3.8
Bata India	362	355	10.4	7.3
Bharti Airtel	328	322	176.3	86.0
Wockhardt	396	387	29.4	35.7

Technically weak

Company	CMP (Rs)	10 days Moving Average (Rs)	Total Traded Qty (lacs)	10 days Average Traded Qty (lacs)
Bank of Baroda	936	1,005	5.1	3.6
Wipro	401	430	12.8	9.8
Indusind Bank	265	284	30.7	27.5
Tata Comm	286	307	2.4	2.4
Sterling Bio	103	110	4.9	4.5

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Mutual fund round-up

India Infoline picks

Mutual Funds	Assets	NAV	Absolute return (%) as on November 18, 2010							
	(Rs Cr)	(Rs)	1wk	1mth	3mth	6mth	1yr	2yr	3yr	5yr
HDFC Top 200 (G)	9,358	226.7	(0.7)	1.2	9.0	26.5	29.0	169.1	39.0	217.9
Reliance Equity Opportunities - (G)	2,694	38.3	(1.0)	(0.6)	5.3	23.9	44.0	199.9	28.4	196.7
IDFC Small & Midcap Equity -(G)	1,012	20.0	(2.2)	0.3	4.9	21.2	39.9	195.4	--	--
ICICI Pru Tax Plan (G)	1,337	149.1	(1.8)	(0.8)	7.8	20.6	33.4	187.4	28.0	122.3
HDFC Prudence Fund (G)	5,655	222.2	(0.9)	1.1	6.3	19.8	31.7	157.0	42.7	179.2

Fund this week: Reliance Equity Opportunities Fund

Fund snapshot		Asset allocation (%)	
Fund Manager	Sailesh Raj Bhan	Equity	91.1
Latest NAV	Rs38.3	Debt	0.0
NAV 52 high/low	Rs39/23	Cash/call	9.0
Latest AUM (cr)	Rs2,694	Top 5 holdings (%)	
Type	Open-ended	Trent Ltd	4.5
Class	Equity - Diversified	Aventis Pharma Ltd.	4.3
Options	Growth & dividend	Divi'S Laboratories Ltd.	3.9
Min investment	Rs5,000	TCS Ltd	3.7
Benchmark	BSE100	Info Edge Ltd	3.6
No. of stocks	37	Top 3 sectors (%)	
No. of sectors	24	IT - Software	13.6
Expense ratio	1.9%	Pharma	11.7
Exit load	1.0%	Bank - Public	3.6

NFO update

Fund Name	Close	Type	Class
HDFC FMP 370D Nov 10 Sr17	22-Nov	CE	Debt - FMP
ICICI Pru Regular Savings Fund	29-Nov	OE	Debt - LT
Fidelity Short Term Income Fund	30-Nov	OE	Debt - ST

Dividend update

Mutual Fund	Dividend %	Record date	Class
BSL Int Income Qtlly Series I	1.6	23-Nov	Debt
UTI Qtlly Int Fund Sr III	100.0	24-Nov	Hybrid
Tata Fixed Inc Portf Sch C3	100.0	24-Nov	Debt

Commodity, debt and currency graphs



* As per previous close

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

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