Market Outlook

India Research
January 21, 2011

Dealer's Diary

The key benchmark indices edged lower in early trade in Thursday's session on weak Asian stocks. A bout of volatility was witnessed as key benchmark indices trimmed losses in morning trade. The key benchmark indices weakened once again after recovering sharply to hit fresh intraday highs in mid-morning trade, as weak Asian stocks dampened sentiment. The market extended losses in early afternoon trade and hit a fresh intraday low in afternoon trade. Bank stocks led a sharp intraday rebound on the bourses, which turned positive to hit fresh intraday high in mid-afternoon trade. The key benchmark indices closed with small gains in a choppy trade, shrugging off weak global stocks, with the Sensex and Nifty closing up by 0.4% each. The mid-cap index closed up by 0.1%, while the small-cap index closed 0.04% up. Among the front liners, ICICI Bank, Jindal Steel, HDFC Bank, RCOM and TCS gained 1–3%, while ITC, ONGC, Bajaj Auto, RIL and Bharti Airtel lost 1–2%. Among mid caps, Britannia Industries, Sterling International, Mahindra & Mahindra Finance, Orchid and SRF gained 5–9%, while Torrent Pharma, Kirloskar Brothers, HCL Infosystems, Kirloskar Oil Engines and Thermax fell 4–6%.

Markets Today

The trend deciding level for the day is 18,981/5,692 levels. If Nifty trades above this level during the first half-an-hour of trade then we may witness a further rally up to 19,166–19,286/5,749–5,787 levels. However, if Nifty trades below 18,981/5,692 levels for the first half-an-hour of trade then it may correct up to 18,861–18,675/5,654–5,597 levels.

Indices	S2	S1	R1	R2
SENSEX	18,675	18,861	19,166	19,286
NIFTY	5,597	5,654	5,749	5,787

News Analysis

- Punj Lloyd bags orders worth ₹645cr
- KEC International secures orders worth ₹379cr
- McNally Bharat Engineering wins order from Marg
- 3QFY2011 Result Reviews: TVS Motor, KPIT, Indoco
- 3QFY2011 Result Previews: RIL, ITC, Wipro, BHEL, PNB, Bank of India, Tech Mahindra, Corporation Bank, HCC

Refer detailed news analysis on the following page

Net Inflows (January 19, 2011)

₹ cr	Purch	Sales	Net	MTD	YTD
FII	3,179	3,387	(208)	(3,266)	(3,266)
MFs	581	583	(2)	363	363

FII Derivatives (January 20, 2011)

₹ cr	Purch	Sales	Net	Open Interest
Index Futures	2,313	3,127	(814)	12,293
Stock Futures	4,192	3,858	334	34,123

Gainers / Losers

Gainers			Losers		
Company	Price (₹)	chg (%)	Company	Price (₹)	chg (%)
M & M Fin	719	7.5	Thermax	700	(4.0)
Indiabulls Fin	165	5.2	Gail India	453	(3.4)
Cadila Health	830	4.7	Crompton Greav	279	(3.4)
Indian Bank	218	4.2	United Spirits	1,277	(3.3)
Godrej Inds	184	4.2	CESC	315	(2.3)

Domestic Indices	Chg (%)	(Pts)	(Close)
BSE Sensex	0.4%	68.2	19,047
Nifty	0.4%	20.6	5,712
MID CAP	0.1%	9.9	7,176
SMALL CAP	0.0%	3.5	8,905
BSE HC	0.2%	11.4	6,546
BSE PSU	0.3%	23.7	8,766
BANKEX	1.7%	200.6	12,254
AUTO	0.0%	(3.0)	9,299
METAL	0.2%	34.6	16,857
OIL & GAS	-1.5%	(147.2)	9,670
BSE IT	1.1%	75.2	6,717
Global Indices	**Chg (%)**	**(Pts)**	**(Close)**
Dow Jones	0.0%	(2.5)	11,823
NASDAQ	-0.8%	(21.1)	2,704
FTSE	-1.8%	(108.8)	5,868
Nikkei	-1.1%	(119.8)	10,437
Hang Seng	-1.7%	(415.9)	24,004
Straits Times	-1.1%	(36.5)	3,205
Shanghai Com	-2.9%	(80.4)	2,678

Indian ADRs	Chg (%)	(Pts)	(Close)
Infosys	-0.3%	(0.2)	$70.7
Wipro	-0.7%	(0.1)	$15.0
ICICI Bank	0.5%	0.2	$45.3
HDFC Bank	0.1%	0.2	$150.5

Advances / Declines	BSE	NSE
Advances	1,332	666
Declines	1,416	710
Unchanged	196	59

Volumes (₹ cr)	
BSE	3,347
NSE	13,347

Sebi Registration No: INB 010996539

Punj Lloyd bags orders worth ₹645

Punj Lloyd has bagged three orders (two international and one domestic) aggregating to ₹645cr. The first order worth ₹323cr from petroleum company Occidental Mukhaizna, Oman involves EPC of a new water treatment plant. The second order for ₹271cr is from an Indonesian oil company Pertamina for the construction of three well head platforms and laying of offshore gas pipeline. The third contract from GAIL worth ₹51cr is for laying a 112km long pipeline. This is positive for the company as the order inflow for 2QFY2011 was disappointing at ₹1,030cr and this order further enhances the revenue visibility, taking the outstanding order book to ₹29,171cr (3.2x FY2011E revenue).

The stock has been down (~50%) over the last 12 months, which we believe has brought it to trough valuations given the company's scale of operations and the opportunities that lie ahead. Against this backdrop, we expect the stock to outperform over the medium to long term. **Hence, we maintain Buy on the stock with a Target Price of ₹153.**

KEC International secures orders worth ₹379cr

KEC International has bagged orders totaling to ₹379cr in the transmission as well as BoP segments. Valued at ₹339cr, the scope of the two orders received from PGCIL include the supply and construction of single and double circuit 765kV lines for projects in Orissa and MP, respectively. These projects are part of PGCIL's plan for inter-regional system strengthening and the evacuation of power from the various integrated power plants coming up in the region. The company has also marked its entry in the BoP segment by securing an order worth ₹40cr from NMDC, Chattisgarh, for the construction and commissioning of 132/33/6.6/0.433kV power supply system, which includes civil and structural works on turn-key basis. The total contract period is nine months. Post the above order inflows, KEC International's order accretion in the last one month aggregates to ₹2,000cr. **We maintain our Buy view on the stock with a Target Price of ₹130.**

McNally Bharat Engineering wins order from Marg

McNally Bharat Engineering has bagged an order worth ₹108cr from Marg for conveyor system for coal handling at its Karaikkal Port. The order is to be completed over a period of 10 months. The company's current order book position stands at ₹3,900cr, which is 3.5x FY2010E consolidated revenue. **At the CMP, the stock is trading at 13.3x and 8.6x its estimated earnings of FY2011 and FY2012. We maintain our Buy rating on the stock with a Target Price of ₹368.**

3QFY2011 Result Reviews

TVS Motor

For 3QFY2011, TVS Motor (TVS) reported 51.1% yoy growth in its top line to ₹1,647cr, which was above our expectation of ₹1,570cr and largely aided by a ~39.9% yoy jump in volumes. Net average realisation for the quarter increased by ~7.6% yoy to ₹30,785 (₹28,602 in 3QFY2010), largely due to a richer product mix and higher motorcycle and three-wheeler volumes during the quarter. EBITDA margin came in 85bp below our estimate at 6.1%, a fall of 40bp qoq and 12bp yoy. Raw-material cost for the quarter increased by almost 318bp yoy and 91bp qoq. However, about 200bp yoy savings on other expenditure helped TVS to restrict the further fall at the EBITDA level. Net profit grew by 136.9% yoy to ₹55.8cr (₹23.5cr in 3QFY2010), as against our estimate of ₹51.6cr, largely aided by improved operating performance on a yoy basis, higher other income and lower interest cost for 3QFY2011. At ₹62, the stock is trading at reasonable valuations of 13.6x FY2011E and 11x FY2012E earnings. **Owing to the recent decline in the stock price, we recommend Accumulate on the stock with a Target Price ₹71.**

KPIT Cummins

KPIT Cummins reported its 3QFY2011 results. The USD revenue came in at US $60.4mn (v/s our expectation of US $54.2mn, a whopping 19.0% qoq increase on the back of strong growth in all the three major SBUs, IES, Auto and SAP of 34.8%, 17.7% and 8.2% qoq, respectively. In INR terms, revenue came in at ₹273.7cr (v/s or expectation of ₹243cr), up 16.5% qoq. However, the operational performance was disappointing as EBITDA margins declined by 142bp qoq to 14.1% from 15.5% in 2QFY2011 due to an increase in employee costs and SG&A expenses. PAT stood at ₹25cr (v/s our expectation of ₹27cr), up 5.8% qoq. The company substantially revised its USD revenue growth guidance for FY2011 to 38-40% yoy from 25% yoy earlier and PAT growth for FY2011 to 8–10% yoy from 5% yoy earlier. **We continue to be positive on the stock and will be releasing a detailed result update shortly.**

Indoco

For 3QFY2011, Indoco Remedies (Indoco) reported net sales of ₹114.3cr (₹95.7cr), lower than our estimates of ₹121.7cr, mainly on account of lower sales in the domestic formulation front, which grew only by 11.1% during the quarter. However, exports posted higher-than-expected growth of 35.0% during the period, led by strong growth in the regulated and semi-regulated markets, which grew by 28.3% and 69.3%, respectively. Amongst the key developments during the quarter, in the regulated market, Indoco signed a deal in the derma space with US-based Zumanta. Also, during the quarter, Indoco signed new product development deals with Aspen, extending its reach to Europe and Australia. On the operating front, gross margin dropped to 55.4% (56.6%), majorly due to lower contribution from the high-margin domestic formulation segment. The domestic formulation segment contributed 64.7% to sales in 3QFY2011 vis-à-vis 69.6% in 3QFY2010. Consequently, OPM for the quarter came in at 11.6% (12.9%). Overall, net profit increased by 14.1% to ₹8.8cr (₹7.7cr), lower than our estimate of ₹12.4cr. **The stock is currently trading at 11.6x FY2011E and 8.4x FY2012E earnings. We maintain our Accumulate rating on the stock with a Target Price of ₹541.**

3QFY2011 Result Previews

Reliance Industries

Reliance Industries Ltd. (RIL) is scheduled to announce its results today. We expect the company's top line to increase by 20.2% yoy to ₹68,347cr (₹56,856cr) during the quarter, largely on account of increased refining and petchem product prices. OPM is expected to expand by 120bp yoy to 15% (13.8%) on account of higher refining and petrochemical margins. Higher top-line growth and OPM expansion will result in operating profits increasing by 30.7% yoy to ₹10,252cr (₹7,844cr). PAT is also expected to increase at a healthy rate of 38.1% yoy to ₹5,535cr (₹4,008cr). We expect the company to report GRM of US $9.3/bbl for the quarter v/s US $7.9/bbl in 2QFY2011. The spurt in GRMs could be attributed to higher middle distillates crack and wider heavy-light crude oil spread. Petchem margins are expected to improve due to better polymer cracks over naphtha and higher polyester prices on account of tighter cotton markets globally. Higher petchem and refining margins are expected to offset the dip in natural gas production (55mmscmd v/s 60mmscmd) qoq from KG-D6. **We maintain our positive outlook on the stock; however, the target price is currently under review.**

ITC

ITC is expected to announce its 3QFY2011 results. For the quarter, we expect ITC to report 19.0% yoy growth in its top line to ₹5,388cr, impacted by strong growth in its hotels, paperboards and packaging and cigarettes segments. The company's earnings for the quarter are expected to grow by 20.6% yoy to ₹1,341.2cr, largely driven by the top line. **We maintain our Neutral view on the stock.**

Wipro

Wipro is set to announce its 3QFY2011 results today. We expect the company's IT services segment to post revenue of US $1,350mn, up 6.0% qoq on the back of 4.9% volume growth and cross-currency benefit of 1.1%. At the consolidated level, we expect Wipro to record revenue of ₹7,972cr, up 3.1% qoq. The company is expected to post a 110bp qoq expansion in EBIT margins for the IT services segment on the back of better utilisations qoq; however, at a consolidated level, Wipro is expected to record only an 81bp qoq expansion to 19.0% on account of good growth in the IT products segment, which is a thin-margin business. PAT is expected to come in at ₹1,348cr, up 4.9% qoq. At the CMP of ₹478, the stock is trading at 19.7x FY2012E EPS of ₹24.3. **We maintain Accumulate on the stock with a Target Price of ₹515.**

BHEL

BHEL is scheduled to announce its 3QFY2011 results. The top line is expected to grow by 30% yoy to ₹9,398cr. On the operating front, we expect margins to contract by 360bp yoy to around 18%. Net profit is expected to increase by 5.8% yoy to ₹1,135cr. **Currently, we remain Neutral on the stock and will revisit our estimates post the conference call.**

PNB

Punjab National Bank (PNB) is scheduled to announce its 3QFY2011 results. We expect the bank to report healthy NII growth of 30.9% yoy (2.4% qoq). Non-interest income is expected to remain flat. The operating profit of the bank is expected to register growth of 23.4% yoy. Net profit growth is expected to be moderate at around 8.8% on a yoy basis to ₹1,100cr. At the CMP, the stock is trading at 1.5x FY2012E ABV. We have a Buy rating on the stock with a Target Price of ₹1,341.

Bank of India

Bank of India is slated to announce its 3QFY2011 results. We expect the bank to report healthy NII growth of 23.1% yoy to ₹1,840cr. Non-interest income is expected grow marginally by 3.5% yoy. The cost-to-income ratio is expected to decline sequentially by ~75bp to 40.8% from 41.6%. Growth in pre-provision profit is expected to be healthy at 27.4% yoy. Net profit is expected to increase by robust 65.0% yoy to ₹669cr, primarily on account of lower provisioning expenses. At the CMP, the stock is trading at valuations of 1.3x FY2012E ABV. We have an Accumulate rating on the stock with a Target Price of ₹483.

Tech Mahindra

Tech Mahindra is set to report its 3QFY2011 results today. We expect the company to record 4.5% qoq growth in USD revenue to US $276.7mn v/s US $264.7mn (excluding US $63.8mn of one-time pass through revenue from a managed services contract for the procurement of hardware and software as part of a multi-year deal) in 2QFY2011. This is on the back of strong volume growth of 7% qoq in non-BT account, flat revenue from BT and a cross-currency benefit of 1% qoq. EBITDA margins are expected to dip by 77bp qoq to 21% v/s 21.8% (excl. impact of pass through revenue) in 2QFY2011 on the back of onshore wage hike taken in 3QFY2011. PAT, excl. earnings from Mahindra Satyam, is expected to settle at ₹169.2cr. **We maintain Buy on the stock with an SOTP-based Target Price of ₹855.**

Corporation Bank

Corporation Bank is slated to announce its 3QFY2011 results. We expect calculated NIM to compress by ~10bp qoq on account of high bulk deposit percentage of ~42.3% and a low CASA base of ~25.0%. Consequently, NII is expected to decline marginally by 0.3% sequentially to ₹713cr. Non-interest income is expected to remain flattish at ₹249cr. On a yoy basis, pre-provision profit is expected to increase marginally by 3.1%, while provisioning expenses are expected to decline by 27.3%, resulting in net profit growth of 6.2% to ₹324cr. At the CMP, the stock is trading at 1.0x FY2012E ABV of ₹542. **We maintain our Buy rating on the stock with a Target Price of ₹705.**

HCC

HCC is expected to announce its third quarter results. We project modest ~10.1% yoy growth in revenue to ₹994.1cr, impacted by the AP crisis and high exposure to longer gestation period orders. We project stable EBITDA margins at 12.6% and net profit growth of 19.2% to ₹17.6cr for the quarter, primarily due to the low base effect. **Due to the uncertainties surrounding the *Lavasa* project, the stock is under review. We will come out with a rating and detailed note post the result and interaction with management**

Economic and Political News

- Budget session of Parliament to start on February 21
- Commerce Ministry eyes US $250bn FDI in five years
- PM launches mobile number portability

Corporate News

- FMCG firms set to raise prices
- Incentives to export of IT, other services withdrawn
- Posco to build a ferrochrome JV with India's IMFA

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

Events for the day	
Bank of India	Results
Bank of Maharashtra	Results
BHEL	Results
Corporation Bank	Results
Dish TV India	Results
Edelweiss Cap	Results
HCC	Results
IFCI	Results
ITC	Results
Mahindra & Mahindra Finance	Results
NIIT Ltd	Results
PNB	Results
Polaris Software	Results
Raymond	Results
RIL	Results
Tech Mahindra	Results
Wipro	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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