

Reliance Industries (RIL)

Infosys (INFY)

Larsen & Toubro (LT)

Coal India (CIL)

State Bank of India (SBI)

Happy
Diwali

Diwali Picks

Microsec Research

Dear Patrons,

Wishing you A Very Happy Diwali and Prosperous Samvat 2068!

Samvat 2067 that entered with much enthusiasm and high expectations would finally end with record number of negative developments from economic, political, cultural, social (domestic and global). Never in the past memory has the market seen so many events in a single year, most of which were negative. The unravelling of scams related to 2G, CWG, Housing, bribery, Euro Zone credit crisis, US debt ratings down grade by S&P, geopolitical crisis in the Middle East and North African countries which eventually led to regime change in Egypt and Libya and earth quake in Japan, and so on. It was, as a matter of fact, a year of the Cleanse! If at all this leads to the cleaning of the Indian systems by eradicating corruption, the positive side of it all may be seen in the longer term. To make matters worse for the Equity markets, relentless rise in inflation led by food and non-food items, hawkish interest rates stance by RBI and policy paralysis of the government whose functioning were marred due to anti corruptions crusade, all led to sell off in equities. Sensex and Nifty on Monday Oct. 24th 2011 closed down 19 percent from their closing on Muhurat Day of Samvat 2067 at 16939 and 5098 respectively.

Samvat 2068 is likely to be better in terms of fundamentals as most of the negatives of the previous year get corrected this year. Significant changes may be seen in the latter part of Samvat 2068 only. We expect the next three-six months testing times for the market but gradually seeing improvement in fundamentals towards the other half of the SAMVAT 2068. The impact of the hardening policy is likely to bring down manufactured inflation hence giving reasons for the RBI to breathe easy and bring down rates. The Indian consumption boom is likely to be rejuvenated once interest rates come down.

This Diwali, we focus on only large cap companies that has fallen significantly from their peak and whose fundamentals remain strong in the longer term. We expect these companies to beat the index return during Samvat 2068. Our top picks are:

1. Larsen & Toubro
2. Reliance Industries Ltd
3. Infosys Ltd
4. State Bank of India
5. Coal India

With Warm Regards & Happy Investing,

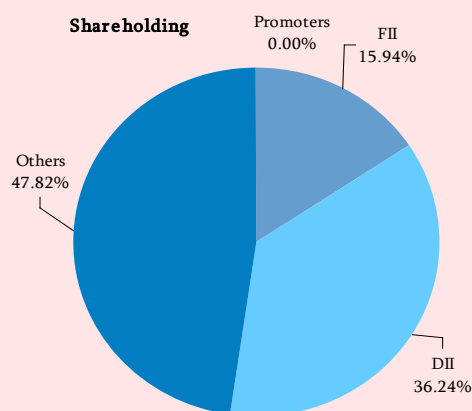
Team Microsec Research

Larsen & Toubro Ltd.

BUY

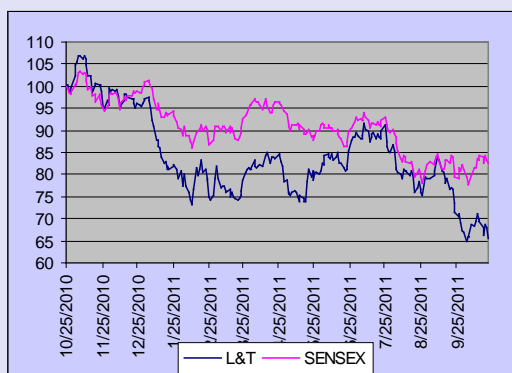
Market Data

Current Market Price (INR)	1,294.00
52 Week High (INR)	2,212.00
52 Week Low (INR)	1,291.00
Market Capitalization (In INR CR)	79,099.50



STOCK SCAN

BSE Code	500510
NSE Code	LT
Bloomberg Ticker	LT IN
Reuters Ticker	LART.BO
Face Value (INR)	2.00
Equity Share Capital (In INR CR)	122.23
Average P/E (3 year)	22.8x
Beta vs Sensex	1.03
Average Daily Volume	1,654,906
Dividend Yield	1.1%
PEG Ratio	NA



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Sector- Engineering

We rate L&T Ltd. a **BUY**. Larsen & Toubro Limited (L&T) is a technology, engineering, construction and manufacturing company. It is one of the largest and most respected companies in India's private sector. It has today emerged as India's leading construction organization. Its key businesses include turnkey projects, construction, engineering, electrical & electronic, financial, IT & engineering and shipbuilding services etc.

Investment Highlights

Company is likely to benefit once the infrastructure cycle starts to kick in: L&T will be benefited once the Indian economy looks to revamp its creaking infrastructure by building new airports, power plants and roads and expand its industrial capacity. Its total order book at end-September stood at 1.42 trillion rupees which shows the potential it has, to build the Indian infrastructure.

Stock corrected by ~40% from its 52 week High provides good opportunities for the long term investors to accumulate the shares: L&T is a quality blue-chip company whose consolidated total income grew by 18% whereas normalized PAT increased by 14% in FY11. Also in the recent quarter Sept 2011, its Net Sales jumped by 21% and PAT jumped by 15%. The negative surprise came in the form of reduction of order intake guidance from 15% to 5% which we feel will improve in FY13E.

Attractive Valuation . L&T Stock has traded at a 3 year consolidated P/E of 22.8 as per Bloomberg. At the CMP of INR1294, the stock is available at 16x its consolidated FY12E EPS of INR80.1 and 13.9x its FY13E EPS of INR93.

Exhibit 1. L&T – Consolidated financials			Figures in INR Crore		
Particulars	FY2009A	FY2010A	FY2011A	FY2012E	FY2013E
Net Sales	40,187.10	43,513.50	51,552.00	62,802.60	72,924.10
Growth (%)	3610.72%	8.28%	18.47%	21.82%	16.12%
EBITDA	5,024.40	6,440.00	7,758.00	8,914.90	10,220.30
EBITDA Margins (%)	12.50%	14.80%	15.05%	14.20%	14.01%
Net Profit (Adjusted Ex EO)	3,000.00	3,723.00	4,241.00	4,892.90	5,689.00
Net Profit Margins (%)	7.47%	8.56%	8.23%	7.79%	7.80%
Net Profit Growth (%)		24.10%	13.91%	15.37%	16.27%
EPS	51.20	61.80	69.70	80.19	93.00
BVPS	238.80	348.50	411.40	442.00	507.12
P/E	25.27	20.94	18.57	16.14	13.91
P/BV	5.42	3.71	3.15	2.93	2.55
RoE (Ex EO)	24.3%	21.8%	18.4%	18.6%	18.5%
EV/EBITDA	10.63	16.19	15.51	11.41	9.90

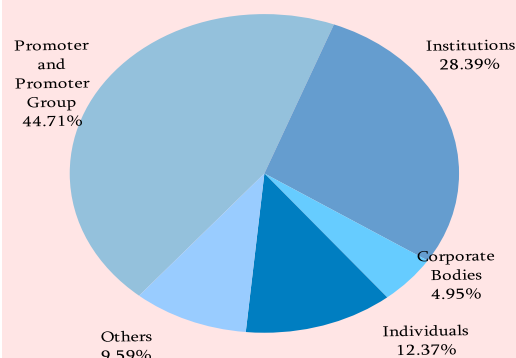
Source: Company, Bloomberg, Microsec Research

BUY

Market Data

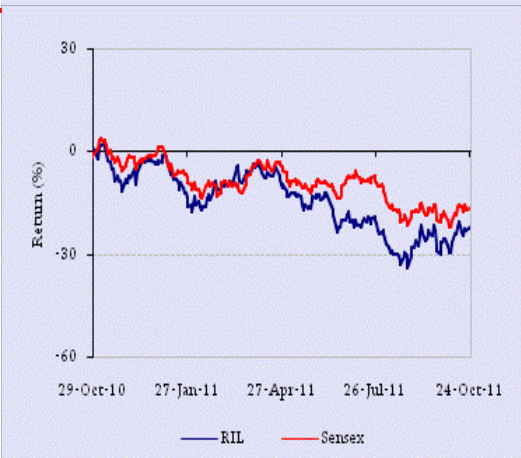
Current Market Price (INR)	846.25
52 Week High (INR)	1,187.00
52 Week Low (INR)	713.55
Market Capitalization (In INR Mn)	2,770,961.85

Shareholding



STOCK SCAN

BSE Code	500325
NSE Code	RELIANCE
Bloomberg Ticker	RIL IB
Reuters Ticker	RELI.BO
Face Value (INR)	10.00
Equity Share Capital (In INR Mn)	32,744.00
Average P/E	14.2x
Beta vs Sensex	1.01
Average Daily Volume	693,452
Dividend Yield	0.95%
PEG Ratio	0.93



Analyst : Gargi Deb
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Reliance Industries Ltd

Sector- Integrated Oil & Gas

We rate Reliance Industries a **BUY**. The company is in the business of petrochemicals, refining, oil & gas, textile, retail business, SEZ development, telecom and broadband business. RIL has acquired 95% stake in Infotel Broad band Service Ltd.

Investment Highlights

BP-RIL deal a big catalyst: Any positive guidance on revival of gas production schedule from KG-D6 block is likely to be biggest trigger. RIL has sought the Indian Government's permission to develop smaller areas to counter a drop (current 45 mmscmd) from its main KG-D6 block off the east coast. Reliance and BP are planning to develop discoveries known as the R-Series and other satellite fields in the KG-D6 block.

Suitable deployment of huge cash reserves and strong balance sheet: Acquisition of a sizeable petrochemical/refining or O&G company abroad (US/EU) which offers the company to grow business inorganically and even creating a larger foot print in global E&P segment.

GRM run rate seems sustainable: Refining business remains the largest segment for the company and contributed about 45 percent to overall profits. In Q2FY12 company reported GRM of \$10.1/bbl (tough higher on YoY basis) which was below estimate. Going forward demand from China, India and Africa are expected to remain strong and the company is likely to optimize its product line up to maximize the GRM which is likely to be more than \$10.1/bbl for H2FY12.

Declining ROE, a short term phenomenon: Historically RIL is known for its forward and backward integration which has created a size which is unmatched in Indian corporate history. Major reasons to shed RIL from portfolios have been in anticipation of its declining ROE. We strongly believe that the company is poised to adopt strategies that may arrest the declining trend in its ROE and match its previous trend. In anticipation of this, we expect Buying to sustain in RIL.

Exhibit 2. RIL – Historical Financials and Projections

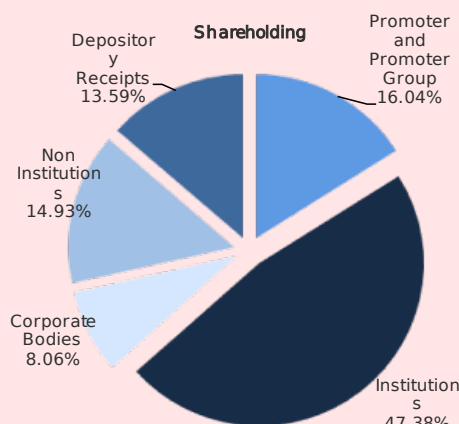
Particulars (In INR Mn)	FY2009A	FY2010A	FY2011A	FY2012E	FY2013E
Revenue	1,512,240.00	2,037,397.20	2,658,106.00	3,051,819.97	3,001,853.54
Growth (%)	10.26%	34.73%	30.47%	14.81%	-1.64%
EBITDA	242,169.10	303,332.80	380,722.60	392,058.32	411,975.12
EBITDA Margins (%)	16.01%	14.89%	14.32%	12.85%	13.72%
Net Profit	149,713.00	245,029.10	192,936.80	227,775.00	245,753.35
Net Profit Margins (%)	9.90%	12.03%	7.26%	7.46%	8.19%
Net Profit Growth (%)	-23.49%	63.67%	-21.26%	18.06%	7.89%
EPS	54.11	82.29	64.75	69.56	75.05
BVPS	771.35	432.91	473.20	554.39	621.46
P/E	14.08	13.06	16.18	12.17	11.28
P/BV	0.99	2.48	2.21	1.53	1.36
RoE	14.48%	18.69%	13.08%	13.54%	12.77%
EV/EBITDA	7.07	13.00	10.18	8.20	7.80

Source: Company, Bloomberg, Microsec Research

BUY

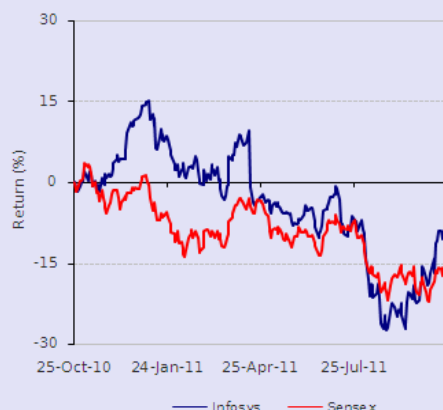
Market Data

Current Market Price (₹)	2,767.70
52 Week High (₹)	3,493.95
52 Week Low (₹)	2,169.00
Market Capitalization (In ₹ Crs.)	158,922.19



STOCK SCAN

BSE Code	500209
NSE Code	INFOSYSTCH
Bloomberg Ticker	INFO IB Equity
Face Value (₹)	5.00
Diluted EPS FY11 (₹)	119.63
Current P/E (on FY2011 EPS)	23.1x
Average P/E	25.0x
Beta vs Sensex	0.98
PEG Ratio	1.13
Average Daily Volmes	144,320



Analyst

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Sector- Information Technology

We rate Infosys Limited (INFY) a **'BUY'**. Our rating underpins the continued demand for offshoring services by global players, INFY's strong brand image and its healthy cash reserves of over INR18,000 Crores. Furthermore, a sharp depreciation in INR against USD is likely to help INFY report improved performance in INR terms. However, the ongoing debt crisis in Europe, and slowdown worries in the developed world impede our optimism a bit.

Investment Highlights

Steady demand for outsourcing services to keep on driving demand. The urge to cut costs and remain flexible in different business scenarios is expected to keep driving the offshoring demand in upcoming years as well. INFY being one of the largest players in the Indian software industry is expected to benefit through this trend.

Strong brand value bodes well. Based on generic brand-earnings-multiple model, the company's brand value stood at \$8.87 Bn at the end of the year. This is ~1.47 times of INFY's FY2011 revenues and more than 25% of its market capitalization. The company's strong brand is expected to help it retaining existing customers and maintain margins in the upcoming quarters.

Healthy cash position adds value. INFY's management continues to reward shareholders with regular dividend payouts, which add on to their returns periodically. The company has a policy to distribute 30% of its earnings as dividends. Furthermore, INFY's healthy cash position is expected to support its earnings growth and keep its cost structure immune to the hawkish interest rates.

Strong Q2 FY2012 results, depreciation in INR enhance optimism. INFY posted strong 8.2% sequential increase in top line whereas its bottom line swelled 10.7% q-o-q to INR1,906 Crores in Q2 FY2012. Apart from impressive volume growth, depreciation of INR against USD fueled this growth. The beaten down home currency, in our view, is expected to provide a significant drive to the company's performance in near term.

INFY – Financials at a glance (all data in INR Crores unless specified)

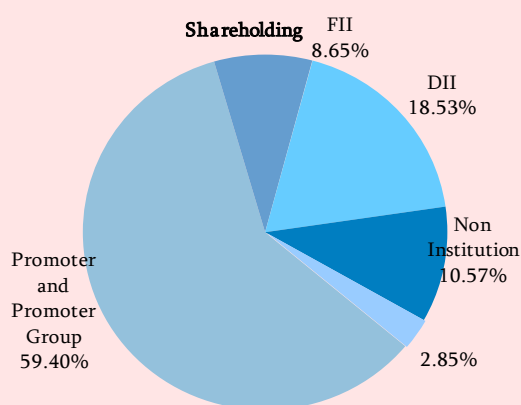
Particulars	FY2009A	FY2010A	FY2011A	FY2012E	FY2013E
Net Sales	21,693.00	22,742.00	27,501.00	33,276.21	39,432.31
Growth (%)	29.96%	4.84%	20.93%	21.00%	18.50%
EBITDA	7,195.00	7,861.00	8,968.00	9,817.15	11,041.84
EBITDA Margins (%)	33.17%	34.57%	32.61%	29.50%	28.00%
Net Profit	5,988.00	6,266.00	6,835.00	7,755.73	8,723.42
Net Profit Margins (%)	27.60%	27.55%	24.85%	23.31%	22.12%
Net Profit Growth (%)	28.53%	4.64%	9.08%	13.47%	12.48%
EPS	104.42	109.72	119.63	135.74	152.68
BVPS	318.31	403.58	454.63	537.94	632.37
P/E	18.06	20.44	26.81	20.39	18.13
P/BV	4.15	6.51	7.16	5.14	4.38
EV/EBITDA	9.16	17.17	19.05	14.22	12.64
RoE (Closing)	32.8%	27.2%	26.3%	25.2%	24.1%

Source: Company Data, Microsec Research, Bloomberg

BUY

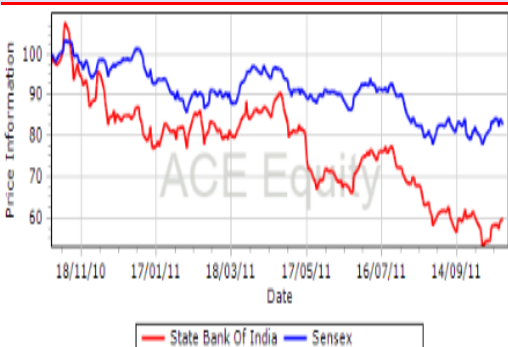
Market Data

Current Market Price (INR)	1,907.55
52 Week High (INR)	3,515.00
52 Week Low (INR)	1,708.55
Market Capitalization (In INR Mn)	1,211,103.50



STOCK SCAN

BSE Code	500112
NSE Code	SBIN
Bloomberg Ticker	SBIN IN
Reuters Ticker	SBI.BO
Face Value (INR)	10.00
Equity Share Capital (In INR Mn)	6,349.00
Average P/E	17.4x
Beta vs Sensex	1.16
Average Daily Volume	2,231
Dividend Yield	17.8%
PEG Ratio	NA



Analyst : Sanjeev Jain
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State Bank of India

Sector- Banking

We rate State Bank of India (SBI) a **BUY**. State Bank of India (SBI) is the largest Indian banking and financial services company (by turnover and total assets) with its headquarters in Mumbai. Presently, SBI provides a range of banking product through its vast network of branches in India and overseas, including products aimed at non-resident Indians (NRI). The State Bank group, with over 16000+ branches, has the largest banking branches in India. SBI has 14 local Head Office and 57 Zonal Offices that are located at important cities throughout the country. It has also around 157 branches overseas. With a high asset base and deposits, SBI is a regional banking behemoth and is among the largest financial institutions in the world. It has a market share among Indian commercial banks of about 20% in deposits and loans.

Investment Highlights

High Net Interest Margin: Despite a rise in cost of credit, SBI maintains its NIM margin. For Q2FY11 the NIM was 3.62% backed by growth in Net Interest Income. Net Interest Margin for September is 3.5% and it is expected that SBI can maintain its NIM 3.5% throughout the current financial year.

Robust Growth in Business: In Q1FY12 the bank's total growth in business was INR2,59,100 crore, supported by its high customer base and low interest on credit as against any other bank of India. It is expected that the bank's total structure of business can enhance after infusing the additional capital in the system by the government.

Support by the Government: The government has announced to support SBI by infusing the adequate amount of capital to maintain its 8% Capital Adequacy Ratio. This can help bank to improve its credit growth, which is hovering 16% as well as it can help bank to enhance the size of the balance sheet.

Awards to Share holder: From last 9 year, SBI has maintained to give return on Equity more than 15%. For FY10-11 the ROE has slept slightly to 13.42% due to the weakness in Global Economy and consecutive hike in interest rate. SBI has given 17.83% dividend for FY10-11 as against 16.23% corresponding last year.

Exhibit 3. State Bank of India – Historical Financials and Projections

Particulars	FY2009A	FY2010A	FY2011A
Total Income	1,130,931.00	1,338,518.00	1,478,439.20
Growth (%)		18.40%	10.50%
Net Interest Income	290,405.50	334,432.20	455,500.00
Growth (%)		15.20%	36.20%
Net Profit	111,730.30	120,136.20	111,799.40
Net Profit Growth (%)		7.52%	-6.94%
EPS	1,172.56	184.82	168.27
P/E	11.47	10.71	11.77
Net Interest Margin	2.33	2.40	2.88
ROE(%)	16.70%	15.50%	13.40%
NNPA(%)	1.8%	1.7%	1.6%
NAV/Share	1,140.22	1,309.46	1,314.51

Source: Company, Bloomberg, Microsec Research

Coal India Ltd. (CIL)

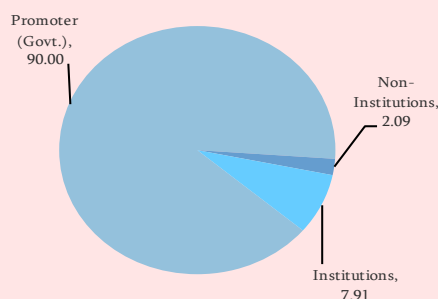
Sector- Mining

BUY

Market Data

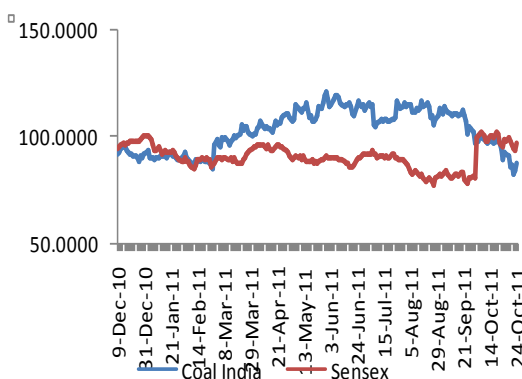
Current Market Price (INR)	329.25
52 Week High (INR)	422.30
52 Week Low (INR)	287.45
Market Capitalization (In INR Bn)	2,101.77

Shareholding Pattern



STOCK SCAN

BSE Code	533278
NSE Code	COALINDIA
Bloomberg Ticker	COAL IN
Reuters Ticker	COAL.BO
Face Value (INR)	10.00
Equity Share Capital (In INR Mn)	63,163.00
Average P/E	23.6x
Beta vs Sensex	0.53
Average Daily Volume (Mn)	4
Dividend Yield	1.1%



Analyst : Anik Das
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We rate Coal India Ltd. a **BUY**. Coal India Limited (CIL) is a state owned coal mining company, incorporated in November 1975 with the government taking over private coal mines. In India, coal demand is expected to grow at CAGR of 8% till 2014. However, supply is expected to grow at CAGR of 6% till 2014. Given the current deficit in the market with insufficient supply to meet the domestic demand, the gap is expected to grow at CAGR of 16% to 120mn tons in FY14E from 59mn tons in 2010. We expect CIL's production to grow at CAGR of 5% to 495mn tones in FY14E from 431mn tones in FY11.

Investment Highlights

CIL cater 80% domestic market with near monopoly position: Coal India captures 80% domestic market in India and with its more production and offtake plans in the coming years is likely to enhance more market share. Coal India operates 17 coal beneficiation facilities having capacity of 39.4mn tons till Nov'10 and the company expects to develop 20 more beneficiation facilities comprising of 14 non coking coal facilities and 6 coking coal facilities with the capacity of 111.10mtpa as the management has planned to raise the level of washed coal to 40% of total production by 2017 from the current 3%.

Strong Balance sheet with low leverage and significant cash reserves: CIL's has strong cash reserves of Rs45862.28Crores in FY11 and we expect it to grow at CAGR of 7.7% to Rs 53295.82Crores in FY13E.

Undervalued Stock. At CMP of Rs 337.25, the stock is trading at EV/EBITDA of 12x on FY13E EPS Rs23. Achieving the official sales target of 454 mt requires Rs175 rakes/ day (Q1FY12: 167rakes/day). CIL has guided for rake availability of 190-200 /day in H2FY12 based on discussions with Indian Railways, which could help FY12 volume ramp up. Considering marginal changes in sales volume, overburden adjustments, yield on cash balance and tax rate, we have maintained our **"BUY"** recommendation for the stock.

Exhibit 1. COAL INDIA- Historical Financials and Projections [INR Millions]

Particulars	FY2008	FY2009	FY2010	FY2011E	FY2012E	FY 2013E
Net Sales	346,084	408,108	538,471	619,431	700,617	791,697
Growth (%)	9.7%	17.9%	31.9%	15.0%	13.1%	13.0%
EBITDA	99,204	75,805	154,484	182,780	211,493	254,258
EBITDA Margin (%)	28.7%	18.6%	28.7%	29.5%	30.2%	32.1%
Net Profit	52,433	20,787	96,224	108,674	129,006	156,977
Net Profit Margin (%)	15.2%	5.1%	17.9%	17.5%	18.4%	19.8%
Net Profit Growth (%)	-8.2%	-60.4%	362.9%	12.9%	18.7%	21.7%
Diluted EPS (INR)	7.47	3.29	15.23	17.21	20.42	24.85
P/E	NA	NA	NA	22.7	18.4	15.1
BVPS	27.23	30.09	40.84	52.75	76.56	101.12
P/BV	NA	NA	NA	6.6	4.91	3.72
EV/EBITDA	NA	NA	NA	13.2	11.40	9.48
RoE	25.65	22.44	42.95	36.77	26.68	24.58

Source: Company, Microsec Research

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accountable... answerable, always



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