MAY 2009

MOSt value

Snapshot on Value Investing

MOTILAL OSWAL

From the desk of
Raamdeo Agrawal

> *"History of the stock markets tells us that they will surprise us in the future"*

Dear Investor,

April month turned out to be the biggest monthly gainer in last 5 years at 17%. The absolute Sensex gain was about 1700 points, half of what we lost in October' 08. Markets did not allow successful exits to the investors. This time it seems the entry is going to be painful for market timers. It's tough to successfully time the market every now & then. Portfolio returns in the long run is made up of few of these extraordinary months. Hence, our strategy is to remain broadly invested.

The quarterly results showed quite a bit of resilience. We are seeing stability to modest growth for 2010 earnings. The stability in the earnings combined with high liquidity at reasonable price should give a push to the valuations. Stocks are already trading at about 13.5 times 2010 earnings. Somehow, markets have become very volatile. In the span of 10 months in 2008, we saw the top as well as the bottom of the market. Still lot of skepticism is there about global economy and Indian economy as well. My understanding is - buy into pessimism and sell at the time of euphoria. I still think we are into healthy investing zone of the market at current levels.

PSU banks have declared results, which defied all the prophets of doom. IMF has projected continued outflow of capital from emerging markets. If this broad trend continues, Indian banks will have terrific business opportunity. At current levels of below book pricing for these banks it will prove to be excellent investment opportunity in the long run.

Wishing you very exciting but safe investing future…

Happy investing

Sincerely yours,

Raamdeo Agrawal

market roundup

INDEX

Index	Sensex	Nifty
April- 30	11403	3474
March-31	9708	3021
Change (Pts)	1695	453
Change (%)	17.46	15.00
High	11492	3517
Low	9546	2966

Global Market

Indexas on	Market Level 30th-Apr.-09	Chg. (Pts)	Chg. (%)
Sensex	11403	1695	17.5
Nifty	3474	453	15.0
Hang Sang	15520	1944	14.3
Nasdaq	1717	188	12.3
Nikkei	8828	718	8.9
FTSE 100 Index	4244	318	8.1
Dow	8168	560	7.4

FIIs and MFs fund flows for April 2009 (Rs. Cr)

Particulars	FII's	MF's
Gross Purchase	42,523	11,723
Gross Sales	35,670	10,246
Net Investment	**6853**	**1477**

Major event during the month of April 2009

- Sensex closes at 6-mths high
- RBI cuts REPO and Reverse REPO by 25bps each
- The world is on the verge of the first influenza pandemic since 1968 with swine flu rearing its ugly head in Mexico, the US and seven other countries

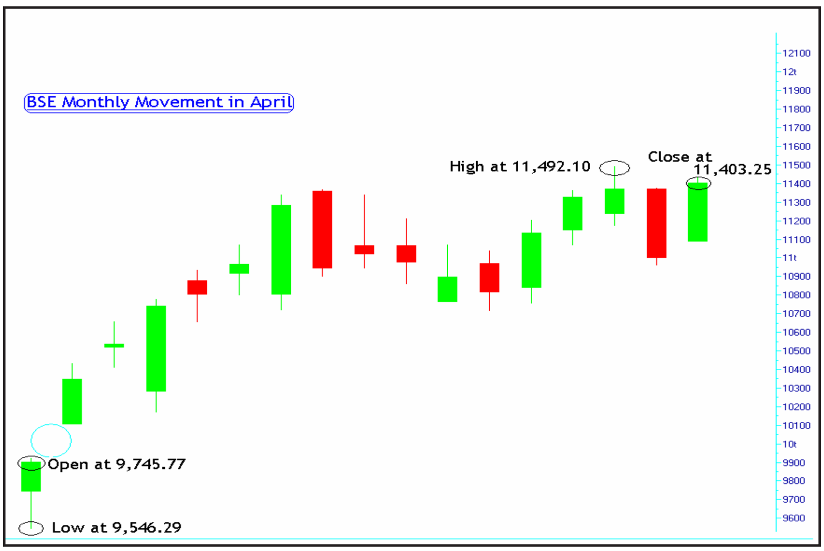
Major event to watch out in the next month

- US major announcement (May 2009) – Initial jobless 7th, Unemployment rate 8th, Monthly budget statement 12th, Advance retail sales 13th, Industrial Production 15th, Housing starts 19th, Existing home sales 27th , GDP price Index 29th

Markets post a surprise pre-election increment. The Sensex witnesses one of the biggest monthly rally. The recovery is rather secular this time across all parameters of the economy like cement, auto and metals. Fourth quarterly corporate results have been ahead of our expectation. India growth story regains attention of the world, where the FIIs turn buyers in a big way, to the tune of nearly Rs.7000Crs. in April'09, highest in last few months. April witnesses some of the biggest achievements like commencement of gas production in KG basin and huge bookings received for world's cheapest car by Tata Motors.

On the domestic front monitory measures viz. cut in key interest rates like REPO & Reverse REPO will help sectors like real estate to realign their dear debt obligations. Other economic indicators like bond yield, stable Crude Oil prices and sub 1% inflation are also comforting. Global situation is not looking too grim either with US, China and European economies improving on manufacturing, home sales and consumer confidence.

The count down is on for the results of Union Elections. The consensus seems to be building on a stable government . This will be another turning point to boost the further rally in the market. There is a probable major concern taking shape in form of new disease of Swine flu. The world is on the verge of the first influenza pandemic since 1968 with swine flu rearing its ugly head in Mexico, the US and seven other countries. After over 60% gain in almost a couple of months it would be prudent to take some profit off the table and take the opportunity to restructure the portfolio.



Bank of Baroda

27th April 09 / CMP: Rs.314

YEAR END	NET SALES (RS MN)	PAT (RS MN)	EPS (RS)	EPS GROWTH (%)	P/E (X)	P/BV (X)	CAR (%)	ROE (%)	ROA (%)	P/ABV (X)
3/08A	59,628	14,355	39.3	39.8	8.0	1.2	12.9	15.6	0.9	1.2
3/09E	78,811	22,272	60.9	55.1	5.1	1.0	14.1	20.8	1.1	1.0
3/10E	83,802	20,346	55.7	-8.6	5.6	0.9	12.3	16.4	0.9	0.9
3/11E	94,367	23,836	65.2	17.2	4.8	0.8	12.2	16.9	0.9	0.8

Strong 4Q reinforces conviction:

BoB's PAT grew 172% YoY in 4QFY09 to Rs.7.5bn (v/s our estimate of Rs.4.5bn). Positive surprise came from: (1) NII growth of 43% YoY (v/s our estimate of 38% YoY), (2) strong growth in fees (ex forex) (up 43% YoY and 13% QoQ), and (3) lower than expected provision of Rs.2.1bn(v/s our estimate of Rs.3.2bn). Margins declined 13bp QoQ to 3.17% in 4QFY09; remained stable at 2.9% for FY09. Domestic NIM fell 22bp QoQ to 3.38% in 4QFY09; improved 15bp to 3.21% for FY09. Trading profit (incl forex) was higher at Rs.3.87bn v/s Rs.1.7bn in 4QFY08. Higher investment gains were partly offset by increased NPA provisions during the quarter. Total restructuring of Rs.26.5bn (~1.9% of the loan book); the bank has ~Rs.15bn of pending applications for restructuring. All the restructured accounts were standard accounts and the bank provided ~Rs.690mn for the present value discounting. Loans grew at 35% YoY and 13% QoQ to Rs.1,440bn; deposits grew 27% YoY and 24% QoQ to Rs.1,924bn. Average CASA deposit growth for FY09 was 20%. CASA ratio was strong at 35%.

Strong NII growth, led by loan growth and YoY expansion in margins:

NII grew 43% YoY (flat QoQ) to Rs.14.7bn, backed by 35% YoY growth in loans. Global NIM for 4QFY09 declined 13bp QoQ but improved 44bp on a YoY basis. Domestic margins remained flat YoY but declined 22bp QoQ in 4QFY09. In FY09, the bank demonstrated its ability to improve its margins. Domestic margins increased 15bp QoQ to 3.21% and global margins remained flat at 2.91% (largely due to fall in spreads in the international business). Yield on loans (domestic) improved by 40bp YoY to 10.9% in 4QFY09 and cost of deposits (domestic) increased by 39bp YoY to 6.3%.

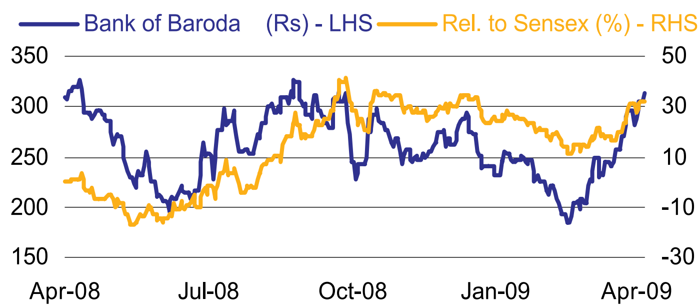
Robust balance sheet growth:

Loans grew 35% YoY and 13% QoQ to Rs.1,440bn. Domestic loans grew 29% YoY and 11% QoQ to Rs.1,093bn; their share in total loans decreased to 76% from 77% in 9MFY09 and 81% in FY08. The strong growth in loans was driven by: (1) growth in international loan book (up 56% YoY, aided by currency fluctuation, adjusted for which loans grew 20% YoY) and (2) strong growth in large corporate loans in domestic business (up ~31% YoY). The growth in retail loans was modest at 16% YoY.

Outlook and view:

We like the management's focus on (a) core deposit growth, (b) margin stability, (c) fee growth and (d) NPA management. Execution on each of these parameters has been good. The management is targeting RoA of 1% and RoE of 17% with NIMs at ~3%, fee income growth of 25%+ and cost-to-income ratio at 45% or below. We have increased our earnings estimate by 10% for FY10 and by 15% for FY11. We expect BoB to report EPS of Rs.56 in FY09 and Rs.66 in FY10 and FY11. BV would be Rs.361 in FY10 and Rs.411 in FY11. RoA would be ~0.9%+ and RoE at 16-17% over the next two years. The stock trades at 0.9x FY10E ABV and 0.8x FY11E ABV. BoB is our preferred bets among state-owned banks. Maintain Buy.

STOCK PERFORMANCE (1 YEAR)



GlaxoSmithKline Consumer

27th April 09 / CMP: Rs.800

YEAR END	NET SALES (RS MN)	PAT (RS MN)	EPS (RS)	EPS GROWTH (%)	P/E (X)	P/BV (X)	ROE (%)	ROCE (%)	EV/ SALES	EV/ EBITDA
12/07A	12,778	1,620	38.5	27.6	20.8	5.2	25.1	38.5	2.3	13.3
12/08A	15,431	1,883	44.8	16.3	17.9	4.4	24.8	38.4	1.9	12.2
12/09E	19,700	2,482	59.0	31.7	13.6	3.7	27.3	42.4	1.4	8.8
12/10E	22,793	2,974	70.7	19.8	11.3	3.1	27.4	41.9	1.3	7.2

We attended the conference call of GSK Consumer. Following are the key takeaways:

GSK has posted fifth consecutive quarter of double digit volume growth. 20% volume growth in 1QCY09 was contributed by domestic volume growth (13.5%), higher exports (4%), and new launches/pipeline filling (2.5%). Horlicks volumes were up 21% YoY, Boost volumes grew 8% YoY and the biscuits portfolio grew 27% YoY. Input cost pressures sustained in 1QCY09, as prices of malt, liquid milk and powder milk were up 14%, 20% and 10% YoY, respectively. Wheat prices, however, increased by just 2% YoY. During the quarter, the company launched three new products marking its entry to new categories – Horlicks Nutribar (~Rs.500mn snack bar category), Horlicks Chilled Dood (Rs.2.5bn chilled milk category) and ActiGrow (nutrition drink for 2-10 year olds). More launches are likely in the coming quarters.GSK Consumer has posted better than expected results for 1QCY09. Net sales grew 31% YoY to Rs.5.4bn as against our estimate of Rs.4.7bn. Gross margin declined 220bp on account of higher input cost; EBITDA margin, however, expanded 230bp due to lower ad-spend (230bp) and other expenditure (200bp). Adj PAT grew 48% YoY to Rs.839mn v/s our estimate of Rs.652mn.

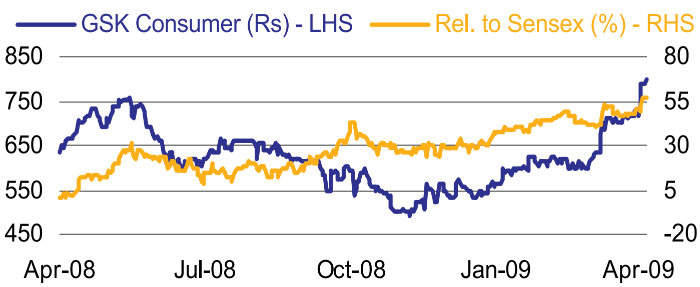
New product launches show aggressive growth strategy:

GSK launched three new products during the quarter, marking its entry to new categories – Horlicks Nutribar (~Rs.500mn snack bar category), Horlicks Chilled Dood (Rs.2.5bn chilled milk category) and ActiGrow (nutrition drink for 2-10 year olds). This is on the back of the launch of Women's Horlicks, Actibase and Boost Bites in CY08. We believe that the strategy of targeting varied consumers (women, mothers, and 2-10 year olds) could lead to significant expansion in market size for health drinks. The company has launched nutribar, women's health drink and ready-to-drink (RTD) under the Horlicks brand to capitalize on its flagship brand. The recent aggressiveness displayed by the company is a positive step towards diversifying the product portfolio beyond the traditional growth driver – malted foods.GSK is planning a number of new products under the platform of health and wellness. The management is considering the launch of a new Horlicks variant targeting the value for money segment in malted foods, which can significantly expand the market and accelerate the growth rate for the company.

Outlook and view:

Domestic volume growth of 13.5% is a definite change from the 7-8% growth recorded during CY05-07, signaling benefits from targeting a wider consumer set and strong export growth. The company has entered into new categories like nutribar and RTD flavored milk. Success of new launches could lead to diversification of sales mix, which could re-rate the stock. The company has given a guidance of capex of Rs.0.6bn for CY09 and Rs.2.4bn for CY10. We are revising our CY09 EPS estimate by 10% to Rs.59 and CY10 EPS estimate by 13% to Rs.70.7. The stock is trading at 13.6x CY09E and 11.3x CY10E EPS. Maintain Buy with a target price of Rs.919.

STOCK PERFORMANCE (1 YEAR)



select the portfolio that best suits your risk profile

Scrip	MBP*	Wtg.*	%	First Reco. Date	First Reco. Price
AGGRESSIVE - High Risk, High Returns					
M&M	430	H	13	Apr-09	420
IVRCL	120	L	7	Nov-06	-
ICICI Bank	340	H	13	May-08	-
SBI	1100	H	13	Jan-06	613
Infosys	Book Profit	L	7	Jun-07	1920
L&T	Book Profit	L	7	Jan-09	-
Tata Steel	210	L	7	Jan-06	512
IOC	400	M	10	Dec-04	375
Lupin	750	L	7	Aug-08	-
Rcom	180	M	9	Mar-06	390
Bombay Rayon	100	L	7	Sep-08	-
Investment %			**100**		

Our Aggressive Portfolio works on the principle of 'no pain no gain'. The target returns are high at 30%+. Portfolio includes commodity, cyclical and small-cap stocks.

Scrip	MBP*	Wtg.*	%	First Reco. Date	First Reco. Price
MODERATE - MEDIUM Risk, MEDIUM Returns					
Hero Honda	830	M	10	Oct-07	730
IVRCL	120	M	10	Nov-06	-
SBI	1100	M	10	Jan-06	613
Bank of Baroda	360	M	10	Apr-09	327
Infosys	Book Profit	L	7	Jun-07	1920
HUL	Book Profit	L	7	Dec-04	130
Tata Steel	210	L	7	Jan-06	512
IOC	400	M	9	Dec-04	375
Glaxo	950	M	10	Mar-04	800
Bharti	680	M	10	Aug-04	48
BEL	900	M	10	Sep-06	1141
Investment %			**100**		

Some moderation is achieved in this portfolio by investing in large and growth stocks available at value. The aim is to generate 20%+ annualized returns with less risk.

Scrip	MBP*	Wtg.*	%	First Reco. Date	First Reco. Price
DEFENSIVE - LOW Risk, LOW Returns					
Hero Honda	830	H	13	Oct-07	730
HDFC Bank	860	M	10	Nov-08	-
Canara Bank	200	M	10	Dec-08	-
Infosys	Book Profit	L	7	Jun-07	1920
HUL	Book Profit	L	7	Dec-04	130
Asian paints	Book Profit	L	7	Jan-09	-
BPCL	400	M	10	Mar-09	365
Glaxo	950	L	7	Mar-04	800
Bharti	680	M	10	Aug-04	48
Blue Star	160	M	10	Jan-09	-
BEL	900	M	9	Sep-06	1141
Investment %			**100**		

Some moderation is achieved in this portfolio by investing in large and growth stocks available at value. The aim is to generate 20%+ annualized returns with less risk.

MBP : Maximum Buying Price. One should not buy the stock if Price is above MBP.*
Wtg. : Weightage refers to the size of the position recommended. H-High, M-Medium, L-Low.*

After a phenomenal rally Sensex sits on a monthly gain of 1700 points (17%). Increments in our market was more domestically induced by stellar set of numbers by India Inc for 4Q FY09. As foreigners bought into India, the global markets too were in a patronizing mode to the rally.

In our Model portfolios, Hero Honda touched a new high backed by better than expected 4QFY09 operating performance with EBITDA margin of 15.8% (estimate 15.5%), EBITDA of Rs.5.4bn (estimate Rs.5.2bn) and PAT of Rs.4bn (estimate Rs.3.85bn). Higher volumes, increasing contribution from Haridwar and raw material cost savings were key drivers of robust operating performance. The company reported Apr-09 domestic volumes of 370,575 units, up 29.5% YoY (v/s 353,342 units in Mar-09). This is the first time in last 4 years that April month volumes have surpassed the March month volumes.

Looking at increments in the markets it is prudent to book profit in few stocks which posted sharper gains and sit in cash to that extent. We booked profit in Infosys from the IT sector at Rs.1,509. In the FMCG sector, we booked profit in Asian Paints and HUL at Rs.888 and Rs.235 respectively. In the capital goods, we booked profit in L&T at Rs.879 after the recent rally. We exited Indian Bank and added Bank of Baroda (BoB) on account of relatively better Q4 results. Bank of Baroda posted Q4 NII growth of 43%, declined NPAs (slippage at 1%) and restructured 2% of its loans. BoB remains our top pick among the banking sector.

Sector	Allocation (%) Agg.	Mod.	Def.
Automobiles	13	10	13
Banking	26	20	20
IT	7	7	7
FMCG	0	7	14
Oil & Gas	0	0	10
Pharma	7	10	7
Telecom	9	10	10
Others	0	0	10
Engineering	7	10	9
Infrastructure	7	10	0
Metal	7	7	0
OMC	10	9	0
Textile	7	0	0
Total	**100**	**100**	**100**

Additions or deletions of stocks are being communicated through our morning conference calls, Most Market Action emails or on AWACS during market hours.

UTILITIES : Accelerated Execution

28th April '09

COMPARATIVE VALUATIONS

COMPANY	EPS (RS/SH)		EPS GR. (%)		ROE (%)		P/BV (X)		P/E (X)		EV/EBITDA (X)	
	FY09	FY10	FY09	FY10	FY09	FY10	FY09	FY10	FY09	FY10	FY09	FY10
NTPC	9.7	10.4	7.4	7.5	14.5	14.3	2.7	2.4	19.3	17.9	11.6	8.4
RELIANCE INFRA	44.3	44.9	52.3	1.3	10.2	9.1	1.5	1.4	14.9	14.7	23.3	23.4
TATA POWER	57.6	73.9	90.4	28.3	8.2	9.6	2.3	2.1	14.6	11.3	17.1	11.5
CESC	29.3	26.1	11.1	-11.0	12.8	10.3	1.1	1.0	8.0	9.0	5.3	6.3

Source: MOSL

Budgeted FY10 capex spending by power sector CPSUs at Rs.521bn, up 29%:

Central Public Sector Undertakings (CPSUs) in the power sector have budgeted capex at Rs.521bn for FY10, up 29%. Large contributors to the spending include NTPC (Rs.177bn, up 30.3%), Powergrid (Rs.115bn, up 43.2%), Damodar Valley Corporation (Rs.83bn, up 25.7%) and National Hydro Power Corporation (Rs.47bn, up 6.4%). As in FY09, these four CPSUs cumulatively constitute 81% of the targeted capex budget for FY10.

NTPC's standalone capex budget up 30%, consolidated capex budget up 61%:

NTPC's planned capex for FY10 stands at Rs.177bn (including investment in SPVs/project JVs of Rs.11.8bn), up 30%. In FY09, NTPC incurred capex of Rs.127bn, which represents 93% target achievement. On a consolidated basis, including capex in JVs and project SPVs,NTPC's planned capex for FY10 is Rs.245bn v/s actual spending of Rs.152bn in FY09, up 61% YoY. This represents a meaningful addition, and indicates that project spending at the ground level has gained momentum. We expect NTPC's capacity addition at 11.5GW in FY11-12 v/s 3.7GW in FY08-10. Given the significant ramp-up in terms of capex, we expect CWIP to increase to 34% of capital employed in FY10, up from 28% in FY09. Of the budgeted capex in FY10, Rs.131bn is towards Eleventh Plan projects, up 24% YoY, and Rs.14b (v/s Rs.2bn in FY09) is towards Twelth Plan projects.

Powergrid's planned capex for FY10 up 43%:

Powergrid plans to incur capex of Rs.115bn in FY10, up 43.2% YoY – the highest increase amongst all CPSUs. Also, the share of Powergrid in total capex planned by power sector CPSUs for FY10 is 22.1% v/s 19.9% in FY09. Powergrid incurred capex of Rs.80.9bn (v/s annual plan of Rs.80bn) in FY09, achieving 100% of its target. In FY09, Powergrid's board approved investments in transmission projects with estimated cost of Rs.384bn, an increase of 15x over Rs.25bn investment approval in FY08. Portions of these projects have already been awarded in 4QFY09, and we expect accelerated pace of order awards in FY10.

CPSUs comfortably positioned for funding, given that 27% of budgeted FY10 capex is to be met through internal accruals:

Total budgeted capex spending of Rs.521bn in FY10 is proposed to be funded as: internal generation – Rs.118bn (27% of total), domestic borrowing – Rs.186bn (42% of total), ECB – Rs.57bn (14% of total); the balance would be met through budgetary support, etc. For NTPC, 36% of the funding for the capex budgeted for FY10 will be through internal accruals, with domestic borrowings at 45% and ECB at 19%. For Powergrid, FY10 capex would be funded as: domestic borrowing – 60%, ECB – 19%, and internal accruals – 21%.

Power equipment manufacturers (generation, T&D, etc) to be beneficiaries of project execution:

The meaningful 29% increase in budgeted capex during FY10 by power sector CPSUs indicates increased execution. This is positive for both power generation equipment manufacturers – BHEL (Neutral) and T&D equipment manufacturers – ABB (Neutral), Crompton (Neutral), Siemens (Neutral) and Areva (Not Rated).

For further details : Call your **Relationship Manager** or

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