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Market Outlook

India Research
October 27, 2010

Dealer's Diary

The key benchmark indices opened the day's session on a weak note as the benchmark indices witnessed volatile movements across the baseline, following mixed cues from the Asian region. The market recovered from an initial slide caused by weak Asian stocks, but failed to sustain its higher level in the morning trade. The market plunged in the afternoon trade with selling pressure seen across metal, banking and oil & gas stocks. The final hour witnessed a smart recovery as the benchmarks surpassed the baseline; however, the rally did not sustain and the market once again dipped in the negative terrain at the end of the trading session. The Sensex and Nifty lost 0.4% each. BSE mid-cap lost 0.4%, while small-cap closed with a gain of 0.2%. Among the front liners, Maruti Suzuki, ITC, Jaiprakash Associates, Reliance Infra. and DLF gained 0.8–4%. Among the top losers, Tata Steel, Bharti Airtel, HUL, SBI and RCOM lost 2–3%. Among mid caps, Dena Bank, Info Edge, Deccan Chronicle, Raymonds and SKF India gained 4–9%, while United Phosphorous, Mahindra Holiday and Resorts India, Onmobile Global, Zuari Industries and Core Projects lost 4–7%.

Markets Today

The trend deciding level for the day is 20252 / 6094 levels. If NIFTY trades above this level during the first half-an-hour of trade then we may witness a further rally up to 20314 – 20407 / 6114 - 6146 levels. However, if NIFTY trades below 20252 / 6094 levels for the first half-an-hour of trade then it may correct up to 20159 – 20096 / 6062 - 6043 levels.

Indices	S2	S1	R1	R2
SENSEX	20,096	20,159	20,314	20,407
NIFTY	6,043	6,062	6,114	6,146

News Analysis

- OVL along with OIL and IOC to ink deal on developing Iran gas field
- 2QFY2011 Result Reviews: NTPC, Sterlite, UltraTech, JSW Steel, Bosch, Tech Mahindra, United Phosphorus, Marico, Dena Bank, TIL, Jyoti Structures
- 2QFY2011 Result Previews: Asian Paints, Union Bank of India, Dabur, Thermax, GSPL, JK Lakshmi Cement

Refer detailed news analysis on the following page

Net Inflows (October 25, 2010)

₹ cr	Purch	Sales	Net	MTD	YTD
FII	3,080	1,942	1,138	23,568	1,11,890
MFs	846	751	95	(5,018)	(28,046)

FII Derivatives (October 25, 2010)

₹ cr	Purch	Sales	Net	Open Interest
Index Futures	6,837	6,971	(135)	19,838
Stock Futures	7,709	8,561	(853)	45,860

Gainers / Losers

Gainers			Losers		
Company	Price (₹)	*chg (%)*	Company	Price (₹)	*chg (%)*
Dena Bank	138	*8.9*	United Phos.	201	*(7.2)*
Titan Ind.	3,491	*6.2*	IRB Infra	253	*(3.5)*
Deccan Chron.	136	*5.5*	Indiabulls	211	*(3.4)*
Ashok Leyland	79	*4.5*	Petronet LNG	118	*(3.4)*
Godrej Ind.	229	*4.2*	Kotak Bank	492	*(2.0)*

Domestic Indices	Chg (%)	(Pts)	(Close)
BSE Sensex	-0.4%	(81.7)	20,221
Nifty	-0.4%	(23.8)	6,082
MID CAP	-0.4%	(35.8)	8,455
SMALL CAP	0.2%	23.6	10,850
BSE HC	-0.6%	(40.3)	6,506
BSE PSU	-0.8%	(80.9)	10,391
BANKEX	-0.8%	(119.5)	14,059
AUTO	0.9%	84.4	9,934
METAL	-1.2%	(208.3)	17,000
OIL & GAS	-0.3%	(37.4)	11,012
BSE IT	0.0%	(2.8)	6,108
Global Indices	**Chg (%)**	**(Pts)**	**(Close)**
Dow Jones	0.0%	5.4	11,169
NASDAQ	0.3%	6.4	2,497
FTSE	-0.8%	(44.7)	5,707
Nikkei	-0.3%	(23.8)	9,377
Hang Seng	-0.1%	(26.7)	23,601
Straits Times	-0.6%	(19.6)	3,163
Shanghai Com	-0.3%	(9.9)	3,042

Indian ADRs	Chg (%)	(Pts)	(Close)
Infosys	-0.5%	(0.3)	$67.2
Wipro	1.6%	0.2	$14.6
ICICI Bank	-0.7%	(0.4)	$51.1
HDFC Bank	0.7%	1.2	$173.0

Advances / Declines	BSE	NSE
Advances	1,373	559
Declines	1,625	815
Unchanged	95	47

Volumes (₹ cr)	
BSE	4,959
NSE	15,818

 Sebi Registration No: INB 010996539

OVL along with OIL and IOC to ink deal on developing Iran gas field

ONGC's overseas subsidiary, ONGC Videsh Ltd. (OVL) along with its partners, Indian Oil and Oil India, is soon likely to sign a contract to develop Farzad-B gas field off the coast of Iran at an estimated investment of over US $5bn.

The three firms had in August/September submitted a revised Master Development Plan (MDP) for producing natural gas from the massive discovery. OVL, the lead partner in the joint venture, had submitted an MDP for the gas discovery in the Farsi offshore block in April last year. The discovery, which was subsequently named the Farzad-B gas field, has in-place reserves of up to 21.68trn cubic feet (TCF), of which recoverable reserves may be 12.8TCF. OVL holds 40% interest in the Farsi offshore block, located in the eastern part of the Persian Gulf, off the coast of Iran. OIL holds 20% interest in Farsi, while the remaining 40% is held by IOC.

The Indian consortium wants to liquefy the gas and ship it back home in the form of liquefied natural gas (LNG). OVL, IOC and OIL have a service contract for the Farsi block, under which they will be reimbursed for the entire US $90mn investment they made during the exploration phase, as well as get an additional 35%. If the consortia get the developmental rights, they will be paid a 15% return on developmental expenditure.

Given the fact that it is a developmental service contract, the profit potential from the same is likely to be limited. Therefore, the upsides will be contingent on the execution skills of the companies involved. **We currently have a Neutral view on ONGC.**

Result Reviews – 2QFY2011

NTPC

NTPC's 2QFY2011 top line grew by 20.5% yoy to ₹13,350cr. Growth was primarily aided by volume growth on account of capacity addition and due to higher tariffs. The OPM declined by 748bp yoy to 25.3% on account of higher fuel costs. Net profit declined by 2% yoy to ₹2,107cr. During the quarter, the company had an extra-ordinary income of ₹1,763cr due to the write back of depreciation and advance against depreciation (AAD) recognised as prior period sale, which boosted its bottom line. However, the company also made a one-off provision amounting to ₹1,263cr with respect to sundry debtors. **We maintain an Accumulate rating on the stock with a target price of Rs230.**

Sterlite

For 2QFY2011, Sterlite reported net revenue of ₹6,029cr, in line with our estimate of ₹5,863cr. Top-line growth was flat yoy as the positive impact of higher zinc and lead sales was negated by lower copper production. Copper production during the quarter was impacted due to planned maintenance shutdown. On the operating front, raw-material cost as a percentage of net sales declined to 46% as compared to 53.6% in 2QFY2010. Consequently, EBITDA margin expanded by 272bp yoy to 24.4%, which led to EBITDA growing by 11.5% to ₹1,474cr. Exceptional expenses of ₹21cr during the quarter were on account of voluntary retirement scheme at HZL. Other income grew by 46.5% yoy to ₹633cr during the quarter, thereby increasing net profit by 5.1% yoy to ₹1,008cr, lower than our estimate of ₹1,065cr. **We maintain our Accumulate rating on the stock with a Target Price of ₹196.**

UltraTech

UltraTech (ULTC) posted its 2QFY2011results, which for the first time reflect the company's financials post the Samruddhi merger. Thus, the company's results are not strictly comparable with the earlier quarters both on a yoy as well as qoq basis. The company's top line increased by 109% on a yoy basis to ₹3,245cr, in line with our estimates of a 112% yoy increase. However, on a like-to-like basis, despatches were up by 5.3% yoy to 9.1mn tonnes, although it fell by 7.6% qoq. Realisations were down by 13.7% yoy to ₹3,533/tonne. The decline in realisations was arrested to an extent due to the company's pan-India presence post the Samruddhi merger, as the company's exposure to the southern region reduced from 35% pre-merger to 30% post merger. Further, the company has got a foothold in the northern and central regions, where it had no presence prior to the merger. These two regions are expected to contribute around 25% to ULTC's overall sales post merger. The company's operating profit was down by 10.2% yoy to ₹438cr, impacted by fall in realisation, increased power costs due to higher prices of imported coal and increased freight costs and other expenses. On the bottom-line front, the company's net profit was down by 53.9% yoy to ₹116cr. **We remain Neutral on the stock.**

JSW Steel

For 2QFY2011, on a standalone basis, JSW Steel's net revenue came in at ₹5,713cr on account of higher sales volume and improved product mix. While sales volume grew by 8.9% yoy and 32.9% qoq to 1.58mn tonnes, realisation increased by 16.8% yoy to ₹36,089/tonne, but was down by 6.7% qoq. During the quarter, semis as a percentage of total sales declined to 5.5% as compared to 27.9% in 2QFY2010. The company's EBITDA margin contracted by 907bp yoy to 17.4% due to higher raw-material cost. Consequently, EBITDA declined by 16.5% yoy to ₹992cr. EBITDA/tonne for the quarter stood at US $135 as against US $169 in 2QFY2010. During the quarter, interest expenses declined by 13.2% yoy to ₹199cr as the company prepaid debt of ₹2,330cr. Hence, lower interest cost restricted the fall in net profit, which declined by 1.4% yoy to ₹445cr.

On a consolidated basis, the company's net revenue came in at ₹5,908cr, registering growth of 26.5% yoy. EBITDA margin declined by 617bp yoy to 17.3%. However, net profit increased by 15.6% yoy to ₹373cr, aided by lower interest expenses. During the quarter, plate and pipe sales volumes were down by 40% yoy and 33% yoy, respectively. Thus, net revenue of US operations declined by 12.3% yoy to US $36.4mn. However, EBITDA came in at US $0.85mn as against a loss of US $21.0mn. **The stock is currently under review and we will be releasing a detailed note shortly.**

Bosch – 3QCY2010

For 3QCY2011, Bosch reported 31.9% yoy top-line growth to ₹1,711cr, which was marginally below our expectation of ₹1,739cr. Growth was largely aided by the substantial jump in the auto segment's revenue, which increased by ~32% yoy in 3QCY2010. The non-auto business also recorded decent growth of ~36% yoy for the quarter. EBITDA margin came in 211bp above our estimate at 19.8%, a jump of 98bp qoq and 8bp yoy. Raw-material cost for the quarter, however, increased by almost 425bp yoy, largely due to the surge in commodity prices. Nonetheless, about 226bp and 228bp yoy decline in other expenditure and staff cost (on improved operating leverage), respectively, supported margin expansion in 3QCY2010. Thus, net profit grew by 21.2% yoy to ₹236cr (₹195cr in 3QCY2010) and beat our estimate of ₹205cr. **We maintain Accumulate rating on the stock with a target price of ₹6,766.**

Tech Mahindra

Tech Mahindra posted better-than-expected 2QFY2011 numbers. The company reported revenue at ₹1,533.9cr with qoq growth of 35% due to inclusion of one-time pass through revenue due to the procurement of hardware and software sales for a managed services contract. The revenue excluding this one-off came in at ₹1,234.8cr (v/s our expectation of ₹1,239cr) with qoq growth of 9%, driven by 4.5% volume growth and rest due to better exchange realisation on the back of in-the-money hedges. EBITDA margin stood at 21.7% (excluding the one-off item) expanding by 298bp qoq on the back of a 200bp increase due to favourable hedging and rest due to strong constant currency growth of 9.5% qoq in non-BT countering the negative impact of offshore wage hike. EBITDA margin, including the one-off revenue, stood at 18.4%. The recurring PAT stood at ₹187.4cr (v/s our estimate of ₹175cr). Reported PAT came in lower at ₹150cr due to prior period adjustments of ₹36.7cr made on a proportionate basis (42.7% stake in Satyam) for losses reported by Mahindra Satyam for FY2010.

The results were better than our expectations even after excluding the one-off impact. On the back of better operational matrix now and strong growth in non-BT account, we will be revising our EPS estimates upwards for FY2012 from ₹53.2 (pre-results). **We maintain our Buy recommendation on the stock with an SOTP Target Price of ₹942.**

United Phosphorus

United Phosphorus (UPL) declared its 2QFY2011 results. Total revenue for the quarter increased by 8.6% to ₹1,257cr, while total PAT came in at ₹115cr. Overall, results were slightly below our estimate; however, we maintain our estimates. At the current price of ₹201, the stock is quoting at attractive valuation of 11.4x its FY2012E EPS. **We recommend Accumulate on the stock with a Target Price of ₹228.**

Marico

Marico posted mix set of numbers for the quarter. While overall volume growth stood strong at 15%, price cuts in core brands continued to drag overall top-line growth (unfavourable base). In terms of profitability, while earnings grew at a modest 15% yoy, albeit boosted by higher other income and lower tax rate, operating profit grew only 4.5% yoy impacted due to a 270bp gross margin contraction because of rising input costs. Other key takeaways were – 1) Kaya grew 28% yoy (including Derma Rx) and 2% yoy (excluding Derma Rx), with declining sequential losses in standalone Kaya, 2) international business continued its steady momentum with 23% growth in constant currency terms (18% adjusted for rupee appreciation) and 3) management guided for a further 7–8% price hike in *Parachute* (~5% already implemented in August).

We highlight that other expenses include provisioning of ₹8.2cr (₹12.4cr) for excise duty on CNO packs up to 200ml and ₹4.4cr sales tax refund adjusted for which EBITDA grew 15.6% and OPM expanded 33bp yoy to 12.3%.

Going forward, we expect Marico's core brands, *Parachute* and *Saffola* to deliver sustainable volume growth of 6–8% and 14–15%, respectively, during FY2010–12E. In terms of profitability, we believe 2HFY2011E to be significantly better than 1HFY2011, aided by the recent price hikes in *Parachute*, improving profitability in international business and 3) lower tax rate. However, the stock is currently trading at premium valuation, leaving little room for an upside. **Hence, we recommend Neutral on the stock.**

Dena Bank

Dena Bank announced its 2QFY2011 results, registering healthy net profit growth of 28.9% yoy to ₹161cr, considerably above our estimates of ₹138cr on account of better-than-estimated operating income, likely on account of re-pricing benefits. Advances declined by 4.4% qoq but increased by 21.0% yoy, while deposits increased by a marginal 0.4% qoq and by 18.2% yoy. Calculated NIMs improved substantially by 69bp to 3.25%. This resulted in robust NII growth of 93.5% yoy. On the asset quality front, the bank faced moderate pressure, with gross NPAs increasing by 3.1% qoq to ₹826cr and provisioning expenses increasing to 0.5%. However, net NPAs decreased by 4.2% qoq to ₹538cr. The provision coverage ratio stood at 75.4%, including technical write-offs. We may further revise our estimates post interaction with management. At the CMP, the stock is trading at 1.2x FY2012E ABV, which is lower than our revised target multiple of 1.25x FY2012E ABV. **Hence, we maintain an Accumulate recommendation on the stock with a Target Price of ₹144.**

TIL

TIL reported its 2QFY11 results. Total sales came in at ₹352cr, 75% yoy growth. EBITDA margin came in at 8.2%, which was same as 2QFY2010. Total PAT for the quarter came in at ₹14cr v/s ₹7cr in 2QFY2010, 100% yoy growth. We believe TIL is well placed to capitalise on the burgeoning infra and industrial capex. Overall, we estimate the company to register CAGR of 31% in revenue and of 24% in profit over FY2010–12. **We maintain our Buy recommendation on the stock with a Target Price of ₹823.**

Jyoti Structures

Jyoti Structures announced its 2QFY2011 results, which were in line with our estimates. Top line grew by 15% yoy to ₹542cr (₹472cr). EBITDA margin for the quarter remained flat at 11.6% (11.5%) and, consequently, EBITDA growth of 17% yoy to ₹63cr (₹54cr) was largely a reflection of revenue growth. Coupled with decent top-line growth and steady margins, PAT grew by 19% yoy to ₹25cr (₹21cr). We will revise our estimates post the conference call. **Currently, we recommend Buy on the stock with a Target Price of ₹215.**

Result Previews – 2QFY2011

Asian Paints

Asian Paints (APL) is expected to announce its 2QFY2011 results. For the quarter, we expect APL to report 15.0% yoy growth in consolidated top line to ₹1,981cr, driven by robust volume growth and strong pricing power. We expect APL's bottom line to register robust growth of 23.1% yoy to ₹253.21cr, aided by margin contraction of 55bp yoy to 19.6% on the back of higher input costs. **We continue to maintain Accumulate on the stock with a Target Price of ₹2,974.**

Union Bank of India

Union Bank of India is scheduled to announce its 2QFY2011 results. We expect the bank to post robust growth of 60.1% in NII on a yoy basis to ₹1,382cr. The pre-provision profit of the bank is expected to go up by healthy 29.8% on a yoy basis to ₹1,052cr. Net profit is expected to increase by 23.5% on a yoy basis to ₹624cr. At the CMP, the stock is trading at valuations of 1.66x FY2012E ABV. **We have a Neutral rating on the stock.**

Dabur

Dabur is slated to announce its 2QFY2011numbers. For the quarter, we expect Dabur to post robust growth of 20.2% yoy in its consolidated top line to ₹1,019.5cr, driven by steady growth in its core brands and new product launches. The bottom line is expected to register modest growth of 14.3% yoy to ₹159.4cr, aided by top-line growth and margin contraction of 82bp to 21.1%. **We maintain a Neutral view on the stock.**

Thermax

Thermax is scheduled to announce its 2QFY2011 results. The company's net sales are expected to increase by 35% yoy to ₹918cr. OPM is expected to expand by 36bp to 12%. Net profit is also expected to increase by 38% yoy to ₹75cr. The stock is currently trading at 26.5x FY2011E and 21x FY2012E earnings. **We will revise our estimates post the conference call.**

GSPL

GSPL is likely to announce its 2QFY2011 results. The company is likely to report a 10.1% yoy decline in bottom line to ₹98.9cr (₹110.1cr) despite higher volumes, as we expect tariff adjustment, which is happening over the last few quarters, to adversely impact profitability. We expect volumes to increase by 15.9% yoy to 36mmscmd (31.1mmscmd) during the quarter, whereas realisations are expected to decrease by 15.8% yoy to ₹750/'000scm (₹891/'000scm). With this, the top line is expected to decline by 2.5% yoy to ₹248cr (₹255cr). OPM is expected to decline by 222bp yoy to 93.7% (95.9%) and operating profit is expected to decline by 4.8% yoy to ₹233cr (₹244cr). **We maintain a Neutral view on GSPL.**

JK Lakshmi Cement

JK Lakshmi Cement (JKLC) is expected to announce its 2QFY2011 results. We expect the company to report a 27% yoy decline in its top line to ₹251cr both on account of a decline in despatches (down 19% yoy) and realisations. The operating margin is expected to decline by 2,043bp yoy to 12.7% because of lower realisations and higher power costs. The company's bottom line is expected to decline by 98% yoy to ₹1cr. **We maintain Buy on the stock with a Target Price of ₹92.**

Economic and Political News

- No plan to put any cap on FII: Mukherjee
- Govt. plans to bring urea under NBS
- Mobile number portability from November 1

Corporate News

- SC cancels bail to Ramalinga Raju in Satyam case
- Arcelor Mittal looks to set up plant in JV with Uttam Galva
- Power Fin. Corp. to raise US $260 mn foreign loans-head

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

Events for the day	
3M India	Results
Abhishek Inds	Results
Aditya Birla Chemicals	Results
Asian Paints	Results
Astrazeneca Pharma.	Results
Bajaj Elect	Results
Bata India	Results
Bharat Bijlee	Results
Carborundum Universal	Results
Cummins India	Results
Dabur India	Results
Elecon Engineering	Results
Everest Kanto	Results
Everonn Education	Results
Excel Crop	Results
Fedders Lloyd	Results
Gabriel India	Results
Glenmark Pharmaceuticals	Results
Godrej Inds	Results
Gujarat State Petronet	Results
HCL Infosystems	Results
Hindustan Copper	Results
Hindustan Organic chemicals	Results
HT Media	Results
India Infoline	Results
Indian Hotels	Results
JK Lakshmi Cement	Results
Karur Vysya Bank	Results
Kirloskar Pneumatic	Results
Max India	Results
Patni Computer	Results
Phillips Carbon	Results
Piramal Glass	Results
Prism Cement	Results
Shriram Transport	Results
Thermax	Results
Torrent Power	Results
Trent	Results
Union Bank	Results
Usha Martin	Results

Research Team Tel: 022-4040 3800 E-mail: research@angeltrade.com Website: www.angeltrade.com

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Ratings (Returns) :	Buy (> 15%) Reduce (-5% to -15%)	Accumulate (5% to 15%) Sell (< -15%)	Neutral (-5 to 5%)

Address: Acme Plaza, 'A' Wing, 3rd Floor, M.V. Road, Opp. Sangam Cinema, Andheri (E), Mumbai - 400 059.
Tel : (022) 3952 4568 / 4040 3800

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