



# Emkay

## Research Recommendations

November 2008



**Mr. Krishna Kumar Karwa,  
Managing Director**

### From the Managing Director's Desk

**Dear Investors,**

I am not too sure how many of us would like to remember the month of October 2008- probably the worst month in recent memory. While equity was the worst affected asset class, others including commodities, debt, and real estate also suffered extensive price damage. The global financial turmoil saga continued with risk aversion being the watchword. Central Banks across the globe reduced benchmark interest rates and pumped billions of dollars to improve liquidity in global financial systems. Governments guaranteed retail bank deposits. All possible measures / actions were taken to restore confidence in the global financial systems. Despite all these measures, equity indices corrected approximately 30% across most markets, with commodities seeing a similar correction.

The impact of this de-leveraging globally, will be felt for a long time across all asset classes. With economic contraction in the USA, Japan, and Eurozone, global growth is likely to suffer an extensive slowdown, with its resultant negative impact on the growth of BRIC economies.

Reserve Bank of India has been active in improving domestic liquidity to mitigate the negative global cues and has aggressively cut CRR, Repo Rate, SLR and has provided special liquidity windows to mutual funds. However, banks are very fearful to lend in an uncertain economic environment. We are probably about to witness a liquidity trap, where despite improved liquidity, credit may not be available to corporates and individuals alike. The Prime Minister and the Finance Minister have also acknowledged that the global financial crisis will impact India's economic growth in the medium term .

Investors have suffered massive portfolio value erosion and in the current uncertain economic environment, fear is probably at its peak. Investors would do well to remember that falling crude prices are beneficial for the Indian economy. Indians are not as leveraged as their western counterparts. With domestic savings rate as high as 35%, India is a domestic consumption story with its demographic profile and infrastructure spend . **FOR INVESTORS PARKING THEIR SAVINGS IN EQUITY FOR THE LONG-TERM, THIS IS PROBABLY THE BEST TIME WHEN PRICES ARE CHEAP RATHER THAN EXPENSIVE.** Investors would do well to judge their portfolio returns on a compounded basis over a longer time frame, than on an annual return basis. Please remember that quarterlies, half yearly and annual results are good for corporate reporting, but growth is never linear, which can fit into calendar years or quarterlies.

Investors would do well to rely on their own judgement about business valuations and invest in these uncertain times and be prepared for notional losses and willingness to average over a period of time. **RATIONAL INVESTORS NEVER CATCH THE BOTTOMS AND THE TOPS.**

HAPPY INVESTING

**Krishna Kumar Karwa**

## Initiating Coverage

## Stock details

Sector	Pharmaceuticals
Reuters	CADI.BO
Bloomberg	CDH@IN
Equity Capital (Rs mn)	628
Face Value (Rs)	5
No of shares o/s (mn)	126
52 Week H/L (Rs)	350/203
Market Cap (Rs bn/USD mn)	32/647
Daily Avg Vol (No of shares)	32671
Daily Avg Turnover (US\$ mn)	0.2

## Summary table

Rs mn	FY08	FY09E	FY10E
Net sales	22660	26927	31456
Growth (%)	26.9	18.8	16.8
EBIDTA	4557	5060	5841
EBIDTA margin %	20	19	19
Net Profit	2645	3031	3761
EPS	19.4	22.2	27.6
CEPS	26.5	30.1	35.8
ROE%	27	25	26
ROCE%	22	21	23
EV/Sales	1.8	1.5	1.2
EV/EBIDTA	8.7	7.6	6.2
P/E	13.3	11.6	9.4
P/CEPS	12.4	10.3	7.6
P/BV	3.0	2.7	2.2

Source: Company, Emkay Research

## Cadila Healthcare

(CMP Rs 258, Rec Price- Rs 328, FY09E- EPS Rs 22.2, P/E 11.6x, Buy Target Price Rs 339)

Cadila Healthcare has been bogged down by various concerns like loss of revenue due to the generic launch of Pantoprazole, its foray into newer markets impacting profitability and slack domestic growth. We have analyzed the various concerns surrounding the company and are of the view that the management has taken adequate measures to counter these concerns. We believe that the earnings from Hospira JV are likely to moderate the negative impact of the Pantoprazole generic launch. With the US business on high growth path (30% CAGR) and the French and Brazilian operations turning earnings accretive, Cadila's international business is likely to be the key growth driver. We expect the international business to grow at a 28% CAGR during FY08-10E. Cadila's domestic business, with its large size, lends stability to the company's operations and we view it as a cash cow to fund its international expansion. We have valued the company on the basis of RoCE and arrived at a target price of Rs339, which has been further validated by two independent parameters such as EV/ EBIDTA (8x one year forward) as well as PE multiple (12x one year forward). We maintain a "BUY" rating at a target price of Rs339.

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## Monthly Technical Perspective

### Nifty Monthly Chart



Indices	30-09-08	31-10-08	%Change
Nifty	3921	2885	-26.42
Sensex	12860	9788	-23.89
Bank Nifty	5803	4521	-22.09
CNX IT	3107	2686	-13.55
Junior	6043	4291	-28.99

Indices	Support	Resistance	200 EDMA	View
Nifty	2252	3254	4328	Bullish
Sensex	7697	10750	14496	Bullish
Bank Nifty	3799	5478	6404	-
CNX IT	2125	2920	7323	Bullish
Junior	3603	4923	2815	Bullish

#### Nifty

Continuing its southbound journey, Nifty broke its support of 3715 and fell sharply and on 7th October it tested our immediate term target of 3547 and made a low of 3198. Thereafter Nifty took support and retraced 50% of the recent fall from 4000 to 3198 and made a high of 3648 on 14th of October. But again on higher levels selling pressure was witnessed and again Bears took the lead and nifty further fell sharply and on 16th October it broke its previous low of 3198 and continued its southbound journey and on 27th October it tested our first short-term target of 2600 and further fell sharply and then again tested our second mentioned target of 2300 and made a low of 2252. Finally Nifty closed at 2885 with a loss of 26.42% on m-o-m basis. After making a low of 2252, on 27th October, Nifty had took support at upper band of the 8 years old "Channel" and that it recovered smartly and on daily chart it had formed "Hammer" pattern and "Stochastic" oscillator had given buy signal, more over on 28th October "RSI" had also given buy signal. Thus all these factors indicated a "Trend Reversal" for short-term. However on the weekly chart it had formed "Piercing" pattern and "Stochastic" oscillator had given buy signal. Thus we still believe that in the coming days Bulls will continue to be in the market and Nifty can test our mentioned level of 3168 and 3451 which are 38.20% and 50% retracement level of the entire fall from 4649 to 2252. For immediate term now Nifty is having support at 2252 levels.

#### Sensex

Continuing its southbound journey, Sensex broke its support of 12153 and fell sharply and on 7th October it tested our immediate term target of 11726 and made a low of 10239. Thereafter Sensex took support

and retraced 50% of the recent fall from 13203 to 10239 and made a high of 11870 on 14th of October. But again on higher levels selling pressure was witnessed and again Bears took the lead and Sensex further fell sharply and on 16th October it broke its previous low of 10239 and continued its southbound journey and on 27th October it tested our short-term target of 8300 and further fell sharply and made a low of 7697. Finally Sensex closed at 9788 with a loss of 23.89% on m-o-m basis. After making a low of 7697 on 27th October, Sensex had took support at upper band of the 8 years old "Channel" and that it recovered smartly and on daily chart it had formed "Hammer" pattern and "Stochastic" oscillator had given buy signal, more over on 28th October "RSI" had also given buy signal. Thus all these factors indicated a "Trend Reversal" for short-term. However on the weekly chart it had formed "Piercing" pattern and "Stochastic" oscillator had given buy signal. Thus we still believe that in the coming days Bulls will continue to be in the market and Sensex can test our mentioned level of 10708 and 11638 which are 38.20% and 50% retracement level of the entire fall from 15579 to 7697. However for immediate term Sensex is having support at 7697 levels.

#### Bank Nifty

Last month the Bank Nifty opened on a positive note and made a high of 6040, but thereafter it could not sustain on higher levels and started its southbound journey and on 7th October it tested our mentioned target of 5129 and made a low of 4662. Thereafter it took support and retraced 61.80% of the recent fall from 6040 to 4662 and on 14th October it made a high of 5799. However again on higher levels selling pressure was witnessed and Bank Nifty again started its downside journey and 24th October this index again broke its previous low of 4662 and fell sharply and on 27th October it made a low of 3799. Finally this index closed at 4521 with a loss of 22.09% on m-o-m basis. Now if this index starts trading above 4621, then we may witness further recovery and then it can test 4928 and 5276, which are 38.20% and 50% retracement level of the entire fall from 6754 to 3799. However in the immediate term this index has support at 3799.

#### CNX IT

After making a high of 3218, the CNX IT index could not sustained on higher levels and on 6th October it broke the support of 2902 and further fell sharply and on 10th October it tested our mentioned target of 2679 and made a low of 2336. Thereafter it took support and retraced 61.80% of the recent fall from 3218 to 2336 and made a high of 2920. Again on higher levels selling pressure was witnessed and this index on 27th October broke its previous low of 2336 and further fell sharply and made a low of 2125. Thereafter it took support and recovered some of its losses. Finally this index closed at 2686 with a loss of 13.55 % on m-o-m basis. This index is looking strong and on weekly chart "Stochastic" oscillator had given buy signal, thus now this index can test 3098 levels which is 50% retracement level of the entire fall from 4071 to 2125. However downside this index is having support at 2125.

#### Junior

As expected Nifty Junior broke the mentioned support of 5633 and made a tested our mentioned target of 4799 on 10th October and made a low of 4633. Thereafter it took support and retraced almost 50% of the recent fall from 6203 to 4633, and made a high of 5346, but again on higher levels selling pressure was witnessed and this index started its southbound journey and on 27th October it fell sharply and made a low of 3603. Thereafter it took support and recovered some of its losses and finally this index closed at 4291 with a loss of 28.99% on m-o-m basis. On the Weekly chart this index had formed "Hammer" pattern, and "Stochastic" oscillator had given buy signal, thus in the coming days we will witness an upside in this index and it can test 5172 and 5657, which are 38.20% and 50% retracement level of the entire fall from 7711 to 3603. However downside this index is having support at 3603.

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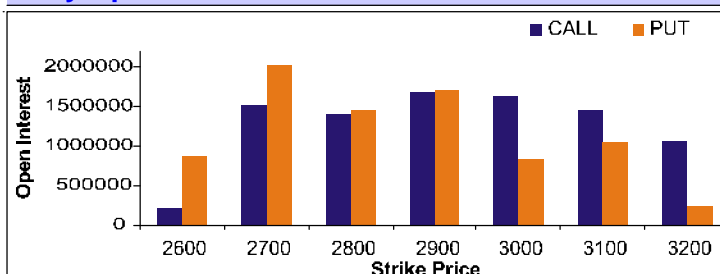
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## Monthly Derivatives Round Up

	30.09.08	31.10.08	Change	%Chg
<b>Indices' Snapshot</b>				
Nifty	3921.20	2885.60	-1035.60	-26.41
Sensex	12860.43	9788.06	-3072.37	-23.89
Bank Nifty	5803.55	4521.70	-1281.85	-22.09
Nifty Midcap 50	1972.35	1254.85	-717.50	-36.38
CNX IT	3107.05	2686.95	-420.10	-13.52
Junior	6043.15	4291.30	-1751.85	-28.99
<b>Futures LTP</b>				
Nifty	3932	2900	-1032.00	-26.25
Bank Nifty	5794.95	4560	-1234.95	-21.31
CNX 100	3906	3770	-136.00	-3.48
CNX IT	3105	2670	-435.00	-14.01
Junior	5800	4250	-1550.00	-26.72
<b>Cost of Carry (% annualized)</b>				
Nifty	2.61	-2.44	-5.05	
Bank Nifty	-8.67	5.73	14.40	
CNX 100	64.94	511.07	446.13	
CNX IT	3.50	-11.42	-14.92	
Junior	-50.68	-17.05	33.63	
<b>Open Interest (OI - No of Shares)</b>				
Nifty	28687250	29755750	1068500	3.72
Bank Nifty	413175	345800	-67375	-16.31
CNX 100	0	50	50	-
CNX IT	42000	4350	-37650	-89.64
Junior	200	375	175	87.50
<b>Nifty Put Call Ratio (PCR - OI)</b>				
Call OI	32831250	25742850	-7088400	-21.59
Put OI	30485400	27435150	-3050250	-10.01
PCR - OI	0.93	1.07	0.14	15.05

Highest OI		Lowest OI	
Stocks	Rs. Crs.	Stocks	Rs. Crs.
RELIANCE	1507.59	ASIANPAINT	0.00
INFOSYSTCH	883.04	CONCOR	0.00
ICICIBANK	873.43	NAUKRI	0.00
LT	767.74	PIRHEALTH	0.00
SBIN	745.96	THERMAX	0.00
NTPC	722.47	REDINGTON	0.03
AXISBANK	526.42	VOLTAMP	0.05
ONGC	524.67	HCL-INSYS	0.06
BHARTIARTL	523.13	J&KBANK	0.09
HINDUNILVR	497.86	ABGSHIP	0.11

### Nifty Options OI Distribution



### Market Outlook:

Nifty opened negative and thereafter it continued trading with a strong negative bias throughout the month. It opened at 3921.85 and made a high of 4000.50. Later on it corrected sharply and made a low of 2252.75, and then it took support at lower levels and bounced back sharply to close the month at 2885.60 with a loss of 1035.60 (26.41%).

Market-wide (Stock Futures and Index Futures) rollovers for the October series were same at 67 % as compared to 67 % rollovers for the last month. Nifty too witnessed same rollover activity in the October series at 60 % as compared to 60 % for the previous expiry.

On the day of expiry, almost all sectors other than FMCG and Pharma witnessed lackluster rollover activity as compared with rollovers for the last series. However defensive sectors like Pharma(73%) and FMCG(74%) showed significantly better rollover activity as compared to the last month series

The PCR (OI) of Nifty month over month increased from 0.93 to 1.07. Now Nifty appears to have immediate support at 2700 levels on an end of the day basis.

The Implied Volatility increased sharply from 40 -41% to 70 -71% before making a high of 105% on the 27th of October, at these levels too IV is very high and hence we may see high amount of volatility in the days to come.

CoC for this month Nifty Futures stood at 2.44% Negative from 2.61% positive for the last month.

### Sectors to Focus:

#### Pharma and FMCG:

We witnessed good rollover activity in both Pharma and FMCG Sector. The rollovers in both these sectors were distinctly better than the rollover activity witnessed for the last month series. Also we witnessed long OI build up in a few stocks.

#### Metals:

Metal Sector witnessed less rollover activity as compared to rollovers for the previous series. Last month we witnessed short build up in a lot of Metal stocks. Comparatively less rollovers in the sector is also an indication that a lot of short position is not been carried forward and has expired in the market. Also we did witness fresh OI build up in a few stocks. Hence these individual stocks can show out performance in the coming days.

### Stocks to Focus

- Pharma and FMCG:** Pharma sector witnessed good rollover activity (73%) as compared to (68%) last time over. Also Long open interest build up was seen in Strides Acrolab. And amongst FMCG stocks good rollover were seen at (74%) as compared with (63%) for the last series. In FMCG
- Metals:** Rollover activity in Metals was less (71%) in comparison to rollover activity for the last month series (75%). However we did witness Long oi build up in a few stocks like JSW Steel and Hindalco.
- IT, Telecom and Media:** IT and Telecom and Media sector witnessed rollovers to the extent of (77%) which was same as the rollovers for the last month series (77%). Stocks to witness good rollovers were GTL. Also Fresh Long OI was seen in stocks like Tata Comm, Educomp and ZEE. Hence we expect these stocks to out perform the market in the coming days.
- Cement Construction and Realty:** Cement Construction and Realty stocks witnessed low rollover activity (76%) this month as compared with the last month series (80%). In this sector short covering was witnessed in a few stocks like HCC, HDIL, Parswanath and Punj Llyod.
- Banking and Finance:** Banking and Finance stocks witnessed good rollover activity (81%) this month as compared to the last month series getting rolled at (80%). Short covering was witnessed in SBI, Bank of India and LIC Hsg Fin.
- Auto:** We saw comparatively low rollover activity in Auto Stocks (78%) as compared to last series rollovers (85%). Also Fresh long OI build up was seen in a few stocks like Ashok Leyland and M&M. Hence we expect both the stocks to show further upside move.
- Oil and Gas:** Oil and Gas sector witnessed not so good rollover activity (71%). But we witnessed long Open interest build up in a few stocks like Essar Oil, Hind Oil Exploration, RPL, and GT Offshore. Hence we expect these stocks to outperform the market.

**Sameer Shetye - Associate Derivative Analyst**

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**TOP 30 Emkay Picks**

Company	* CMP (Rs)	EPS FY09E (Rs)	P/E (x)	Target Price(Rs)
Axis Bank	563	38.8	14.5	900
Balmer Lawrie	241	62.5	3.9	560
Bank of Baroda	242	38.3	6.3	310
BEL (Bharat Electronics)	606	107.5	5.6	1,215
Deccan Chronicle	43	15.1	2.8	225
Godawari Power & Ispat	76	55.0	1.4	418
HDFC Bank	1,024	45.4	22.5	1,500
ICICI Bank	399	40.0	10.0	1,100
Idea Cellular	43	4.9	8.7	156
Infosys	1,382	102.3	13.5	1,836
IRB Infrastructure	94	7.6	12.4	218
JP Associates	72	6.5	11.1	409
Jubilant Organosys	164	22.9	7.2	469
L&T	805	107.1	7.5	3,034
Maruti	564	62.2	9.1	775
ONGC	670	123.1	5.4	-
Piramal Life Sciences	66	-36.0	--	270
Punj Lloyd	175	15.2	11.5	414
Ratnamani Metals	247	119.4	2.1	1,075
Reliance Industries	1,371	120.4	11.4	-
Siemens	262	22.0	11.9	-
Sintex Industries	147	20.5	7.2	860
Sterlite Technologies	282	20.8	13.6	301
Sunil Hitech	69	15.0	4.6	280
Tata Steel	210	108.3	1.9	1,083
TCS	537	62.4	8.6	1,034
Venus Remedies	218	58.2	3.7	674

**New Entrants**

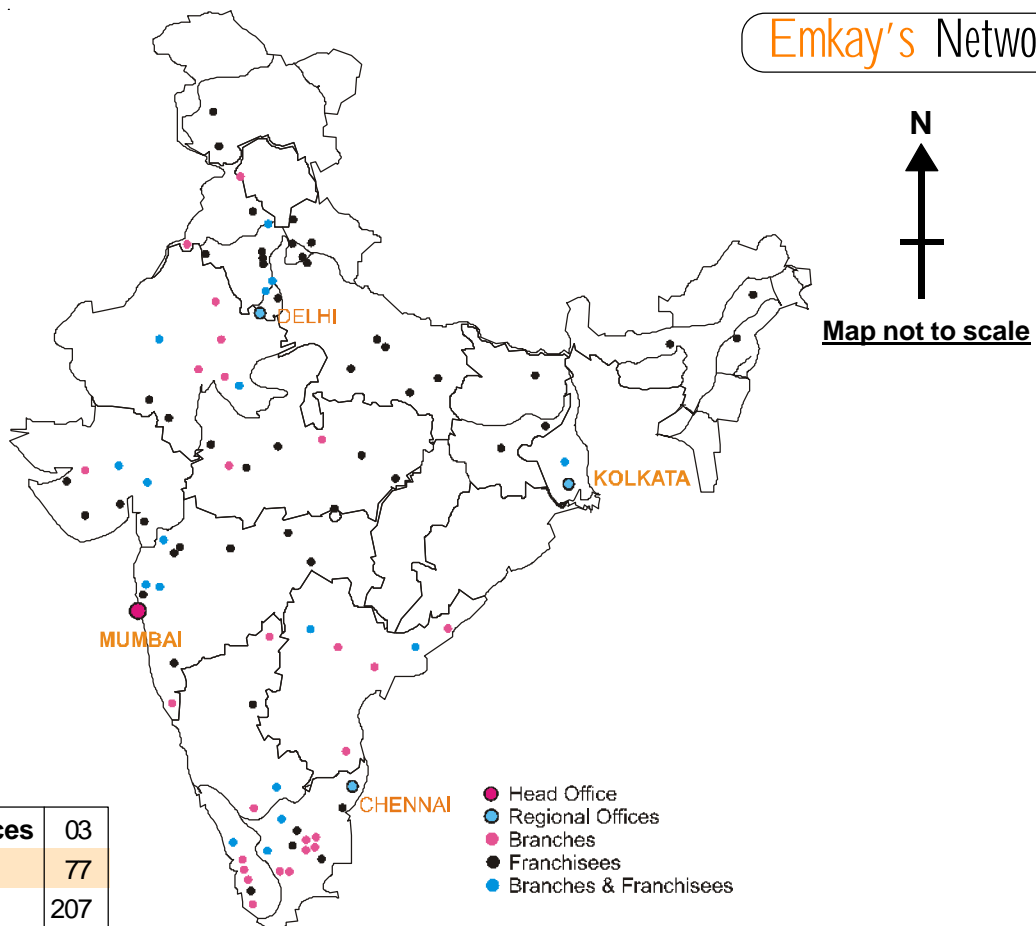
Company	* CMP (Rs)	EPS FY09E (Rs)	P/E (x)	Target Price(Rs)
Hero Honda	748	60.6	12.3	1028
IOC	338	50.0	6.7	-
SBI	1,110	157.1	7.1	1,700

**Book Profit/ Exit**

Company	* CMP (Rs)	EPS FY09E (Rs)	P/E (x)	Target Price(Rs)
GMR Infrastructure	50	2.4	21.0	358
Hindustan Construction	41	4.3	9.6	125
India Glycol	76	86.2	0.9	334

CMP as on 31 October 08

## Emkay's Network



Total Regional Offices	03
Total Branches	77
Total Franchisees	207

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