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Weekly Review

January 24, 2009

Markets continue downslide on weak global cues, mixed Results

Amidst highly volatile sessions, markets continued their downslide during the week with the benchmark indices, the BSE Sensex and the S&P CNX Nifty finally ending the week with loses of around 7.0% and 5.3% respectively. The ongoing Result season remained the key focus with several bigwigs including Reliance Industries, Bharti Airtel, Hero Honda, Wipro, Ranbaxy, Dr Reddy's, etc. declaring their results during the week. Though the results were mixed with few large companies beating street expectations, it failed to cheer the broader markets. The Inflation data, which came in higher at 5.60% compared to 5.24% in the previous week, also dragged the Indices further into the red.

On Monday, after a positive opening tracking firm Asian markets, the Indian markets traded volatile through the day and finally ended the session with marginal gains of 0.1%. Nevertheless, on Tuesday, the key indices opened weak on concerns that the increasing woes of the global financial markets would deepen the world's economic downturn. Markets were in the red through the day and finally ended 2.5% lower. The power stocks hogged limelight through the session post announcement of the revised Central Electricity Regulatory Commission (CERC) order, which increased the cap on Return on Equity (RoE) of central power utilities from the existing 14% to 15.5-16% range.

Negative global cues continued to weigh heavily during Wednesday's trading session as investor confidence waned on renewed worries that the global economic crisis may last longer than expected. US president Barrack Obama's inaugural speech overnight too failed to lift sentiments as investors' appetite for risky equities waned. Nonetheless, markets bucked the falling trend on Thursday on the back of positive global cues. Moreover, market regulator SEBI's directive asking promoters of listed companies to disclose their pledged shares, if any, with lenders also boosted sentiments. However, caution gripped markets after a strong start as key benchmark indices eased from the day's high weighed down by bellwether Reliance Industries (RIL), which slipped into the red, with street anticipating subdued results. Finally, the key benchmark indices ended in the green logging small gains in what was a highly choppy trading session. On Friday, markets were back on losing streak driven largely by weak global cues. Even a good show by RIL was over-weighed by the weak performance of Banking, Metal and Capital Goods stocks.

BSE Realty Index- Macro-economic concerns continue to haunt

For the week, the BSE Realty Index underperformed the broader markets closing 12.2% lower v/s 7.0% fall in the Sensex. DLF, Indian Bulls Real Estate (IBREL) and Unitech which have maximum weightage in the BSE Realty Index were the major losers. DLF dragged down the index crashing 17.5%. IBREL and Unitech further pulled down the index declining by a substantial 16.1% and 10.5% respectively. Most other companies in the Realty index too fell in line with the larger players barring Akruti City, which was the sole gainer moving up a good 25.5%. This poor performance by the Realty Index was in line with our expectations and we expect the index to be an underperformer until the macro environment improves with the interest rates reverting back to lows of 5-6%, housing prices correcting to affordable levels and the economy bouncing back to higher growth trajectory, among others.

FII activity during the Week — *Rs crore*

As on	Cash (Equity)	Stock Futures	Index Futures	Net Activity
Jan 16	(563)	130	646	213
Jan 19	(440)	(90)	(123)	(652)
Jan 20	(292)	61	15	(217)
Jan 21	(762)	46	(713)	(1,429)
Jan 22	(251)	202	229	180
Net	**(2,309)**	**349**	**54**	**(1,905)**

Mutual Fund activity during the Week — *Rs crore*

As on	Purchase	Sales	Net Activity (Equity)
Jan 16	611	326	285
Jan 19	238	126	112
Jan 20	281	403	(122)
Jan 21	251	505	(254)
Jan 22	351	488	(137)
Net	**1,731**	**1,848**	**(116)**

Note: Stock Prices are as on Report release date; Refer all Detailed Reports on Angel website

Indices	Jan 01, 09	Jan. 16, 09	Jan. 23, 09	Weekly (% chg)	YTD (% chg)
BSE 30	9,647	9,324	8,674	(7.0)	(10.1)
NSE	2,959	2,828	2,679	(5.3)	(9.5)
Nasdaq	1,577	1,529	1,477	(3.4)	(6.3)
DOW	8,776	8,281	8,078	(2.5)	(8.0)
Nikkei	8,860	8,230	7,745	(5.9)	(12.6)
HangSeng	14,388	13,256	12,579	(5.1)	(12.6)
Straits Times	1,762	1,730	1,685	(2.6)	(4.3)
Shanghai Composite	1,821	1,954	1,991	1.9	9.3
KLSE Composite	877	896	873	(2.7)	(0.5)
Jakarta Composite	1,355	1,364	1,316	(3.5)	(2.9)
KOSPI Composite	1,125	1,135	1,093	(3.7)	(2.8)
Sectoral Indices					
BANKEX	5,455	5,038	4,485	(11.0)	(17.8)
BSE AUTO	2,445	2,552	2,371	(7.1)	(3.0)
BSE IT	2,228	2,185	2,069	(5.3)	(7.1)
BSE PSU	5,280	5,086	4,881	(4.0)	(7.6)

CERC Tariff Regulations for FY2009-14

Event Update

CERC Tariff Order for FY2009-14 - Marginally positive for central power utilities

The Central Electricity Regulatory Commission (CERC) has released the Tariff regulations for the central power utilities for FY2009-14. The current Tariff Order has numerous changes compared to the Tariff Order for FY2004-09. The CERC has stated that the regulations have been framed keeping in mind the ongoing slowdown in the economy and is aimed at attracting more investments into the Indian Power Sector. The most important change is the increase in the cap on Return on Equity (RoE) of central power utilities from 14% to 15.5%. We believe enhanced RoE will have a positive impact on central power utilities. Moreover, the changes in the CERC regulations are expected to prompt other public and private power utilities under the purview of various state electricity regulations to seek changes in their respective Tariff structures as well.

Among the stocks under our coverage, NTPC is set to benefit directly from the changes in the regulations. However, it may be noted here that NTPC would benefit only in respect to the projects for which it is yet to sign the power purchase agreements (PPAs). RoE would continue to be 14% for the projects where it has already signed the PPA.

CESC, which falls under the West Bengal Electricity Regulatory Commission (WBERC) ambit and has secured its multi-year Tariff Order for FY2008-11E will not gain from the new CERC order. GIPCL, which is not bound by CERC restrictions too will not be impacted by the new regulations.

Cap on RoE increased to 15.5%

As per the new CERC Tariff Regulations, RoE has been fixed at a base rate of 15.5% raised from the earlier 14%, which is used to determine Pre-tax RoE (Base rate/1-t). The CERC has also fixed the RoE cap at 16% for projects completed on time. However, this increase in RoE is expected to be offset by another new provision wherein power generating companies have been barred from passing on the tax on unscheduled inter-change charges to customers.

Change in Operational norms

- The Normative rate for measuring Operational Efficiency has been increased to 85% plant availability factor (PAF) as against the earlier 80% PLF. *This is expected to result in incentive payment being made on the basis of fixed capacity charges for projects as against an incentive of Rs0.25/unit earlier.*

- As per the new norms, Depreciation has been fixed at 5.28% for first 12 years and 2% thereafter compared to the earlier Depreciation rate of 3.6% through the life of the project. *This change in Depreciation rates has been carried out to compensate for the scrapping of Advance Against Depreciation (AAD) and would hence improve cash flows in the earlier years.*

- The norms of Gross Station Heat Rate (GSHR) have been made slightly stricter for plants having excess of 250MW capacity. The GSHR for 300/330/350MW sets now stands at 2,425Kcal/Kwh as against the earlier 2,450Kcal/KWh. The GSHR for 600MW sets has been fixed at 2,425Kcal/Kwh. *This move has been aimed at improving operating efficiency of plants.*

- Auxilliary consumption (AUX) for units above 500MW has been fixed at 6.5% as against 7.5% earlier. For 200MW units AUX has been fixed at 8.5% as against the earlier 9%. *This move has been aimed at improving operating efficiency of plants.*

- *There have been no significant changes to the norms on working capital although the normative maintenance spares is now fixed at 20% of normative O&M expenses as against the earlier norm of 1% of capital cost.*

Outlook

We believe that the revised CERC Tariff order would positively impact the Utility Sector and improve the implied multiple of the companies in the sector. We believe tightening of the Operating norms will reduce savings from operational efficiencies, though the revised incentive structure which is based on PAF will compensate for the same.

The companies on which we have a Buy recommendation are regulated by the State Electricity Regulatory Commissions (SERCs), which typically use the CERC regulations as guidance for tariff setting in their respective states, and these state utilities will likely approach the SERCs to adopt the changes in regulations in their next Tariff determination process. **In line with this, we maintain a Buy on Lanco Infratech, CESC and GIPCL, while we remain Neutral on NTPC and PTC.**

***Research Analyst* - Girish Solanki / V. Srinivasan**

Bharat Forge - Buy

Price - Rs74
Target Price - Rs113

3QFY2009 Result Update

Performance Highlights

- **Standalone Results:** Bharat Forge (BFL) recorded 18.6% yoy decline in Net Sales (Standalone) during 3QFY2009 largely on the back of 39.3% yoy decline in the domestic market while outside India operation sales grew 6.3% yoy during the quarter. In 3QFY2009, BFL clocked a decline in Operating Margins by 537bp yoy to 19.6% (24.9%). Net Profit at Rs32.6cr (excluding Forex losses of Rs28.2cr), declined 46.2% yoy during 3QFY2009. Including Exceptional items, BFL reported a substantial 92.5% yoy decline in Net Profit to Rs4.4cr.

- **Consolidated Results:** BFL reported 11.1% yoy decline in Consolidated Net Sales to Rs959.9cr (Rs1,080cr), which was lower than our estimate of Rs1,077cr, owing to weakening global and domestic demand. OPMs declined by 630bp to 10.1% (16.4%). Consolidated Net Profit, excluding Foreign currency losses and Exceptional items of Rs23.6cr, fell 86.2% to Rs10.2cr (Rs73.3cr). The company has recognised total Forex loss of Rs40cr (Rs2.3cr in 3QFY2008) on revaluation of loans consequent to depreciation of the Rupee. Of this, Rs28cr is FCCB debt and Rs12cr forex losses were incurred at Scottish Stampings. BFL also debited Rs6.7cr loss due to VRS at Scottish Stampings. Thus, the company reported Net Loss of Rs36.6cr (Rs71cr Net Profit in 3QFY2008) including Forex loss and Extraordinary for 3QFY2009. BFL's consolidated numbers did not include FAW Bharat Forge and its joint venture in China. Higher Depreciation at Rs68.9cr (Rs54.5cr) reflects the capacity ramp and capex incurred at the Baramati plant.

- **Diversifying market concentration and capacity addition on track:** BFL's Non-Auto facilities at Baramati commenced operations as per schedule with trial productions in 2QFY2009. The company expects to generate around 35-40% of its Revenue from its Non-Auto Business in FY2010 on planned capex of around Rs350cr. BFL is confident of growing its Non-Auto business faster, and it would act as a buffer to the prevailing difficult macro environment for its Auto business.

Outlook and Valuation

A substantial portion of the company's Revenue comes from the CV segment, where recovery looks unlikely in the next couple of quarters. Further, a major portion of the company's consolidated Revenue comes from the US and European markets, which is almost in recessionary mode indicating further stress for the company. The FCCB loans make up a major portion of the company's loan book. Out of a total of Rs730cr in FCCB loans, Rs410cr is due in April 2010. Since the exercise price is way above the current market price, it looks unlikely that it would be converted to equities. Hence, the company may have to raise fresh loans thereby increasing its Interest costs.

On account of these factors, we have revised our FY2009E and FY2010E EPS downwards to Rs8.7 (Rs12.4) and Rs7.6 (Rs13.1), respectively. At Rs74, the stock is trading at 9.7x its FY2010E consolidated EPS and 1x BV, which is substantially lower than its historical valuation. It must be noted that the business mix of the company would improve FY2010 onwards with greater contribution from its non-automotive ventures, which would cushion the impact of the slowdown in the automotive segment. While this is a positive development for the company, considering the current high exposure to the automotive industry which is witnessing a slowdown, we believe that the true value of the company stands overshadowed. Thus, since P/E multiple will not reflect the true picture at the current juncture, and keeping in mind the prospects of the company beyond FY2010, we value the company on its book value. Hence, **we maintain a Buy on the stock with a revised Target Price of Rs113, which values the company at 1.5x FY2010 BV (adjusted for FCCB interest impact).**

Key Financials (Consolidated)

Y/E March (Rs cr)	FY2007	FY2008	FY2009E	FY2010E
Net Sales	**4,149**	**4,598**	**4,602**	**4,667**
% chg	*39.6*	*10.8*	*0.1*	*1.4*
Net Profit	**283.5**	**290.9**	**219.8**	**196.1**
% chg	*(90.5)*	*2.6*	*(24.4)*	*(10.8)*
Adj. Net Profit	**299.4**	**302.4**	**193.6**	**169.1**
OPM (%)	14.6	14.1	13.0	12.4
EPS (Rs)	**10.4**	**13.1**	**9.9**	**8.8**
Adj. EPS (Rs)	**11.0**	**13.6**	**8.7***	**7.6***
P/E (x)	6.7	5.5	8.5	9.7
P/BV (x)	1.4	1.1	1.0	1.0
RoE (%)	19.0	18.8	13.5	10.0
RoCE (%)	12.2	12.5	9.8	8.7
EV/Sales (x)	0.7	0.6	0.6	0.6
EV/EBITDA (x)	5.1	4.8	5.2	5.3

*Source: Company, Angel Research; Price as on Jan.22,2009; *Note: EPS adjusted for FCCB interest after tax*

***Research Analyst* - Vaishali Jajoo/Jaydeep Mavani**

Bharti Airtel - Buy

Price - Rs620
Target Price - Rs781

3QFY2009 Result Update

Performance Highlights

■ **Déjà vu again at Top-line level:** Bharti Airtel recorded an impressive 38.3% yoy growth in Top-line in 3QFY2009 (6.8% qoq). The company's Mobile Services Business remains the major contributor to its Top-line growth. This business recorded an excellent 41.5% yoy growth in Gross Revenues during the quarter to Rs7,939cr. On a sequential basis, Gross Revenues of this segment clocked a strong 9% growth. Bharti's mobile subscriber base grew by a superb 55.3% yoy and by a strong 10.5% qoq to 85.7mn. Net adds over the year crossed 30mn (30.5mn), implying average monthly net additions of over 2.5mn, while over the quarter, net additions crossed 8mn (8.2mn), the second consecutive quarter when the company has achieved this feat. Minutes of usage (MoUs), however, came in lower sequentially at 505 (qoq fall of 4%, yoy growth of 6.5%). Management has attributed this to the phasing out of free MoUs that were unproductive for the company. Consequently, Revenues per Minute (RPMs) rose for the first time by 2.1% qoq to 64 paise. Gross average revenues per user (ARPUs) fell though at a slower rate than anticipated by 9.8% yoy and 1.9% qoq to Rs324 per user per month (Rs360 in 3QFY2008, Rs331 in 2QFY2009).

As regards the other segments, Telemedia Services grew 15.8% yoy (fall of 0.3% qoq), Enterprise Services (Carriers) 56.3% yoy (4.3% qoq) and Enterprise Services (Corporates) 23.9% yoy (fall of 16.4% qoq). The Passive Infrastructure Services Business clocked a 6% qoq growth in Revenues, with a higher tenancy ratio of 1.34x (1.26x in 2QFY2009). However, key metrics including the fall in MoUs in the Mobile Business, ARPU fall in the Telemedia Business and growth deceleration in the Carriers Business have worsened, which is a concern.

■ **Higher Network expansion costs impact Margins:** Bharti recorded a 160bp yoy contraction in EBIDTA Margins during 3QFY2009, while on a sequential basis it fell marginally by 6bp. The main reason for the Margin fall was higher Network Operation Costs, which rose as a percentage of Sales by 362bp yoy. Higher License Fees (higher by 37bp yoy as a percentage of Sales) also pressurised Margins. Sequentially also, these cost items rose as a percentage of Sales.

■ **Lower Margins, higher Interest, Forex losses and higher Taxes reduce Bottom-line growth:** On account of lower Margins, higher Net Interest costs (surged by over 135% yoy), Forex losses of Rs222cr and higher Taxes, Bottom-line for the quarter grew by 25.4% yoy, slower than Top-line growth. Sequentially, Bottom-line grew by 5.5%.

Outlook and Valuation

Going ahead, we expect Bharti to record CAGRs of 30.9% and 22.2% in Top-line and Bottom-line, respectively over FY2008-10E. At Rs620, the stock is trading at 11.8x FY2010E EPS, 6.2x FY2010E EV/EBITDA and an EV/subscriber of US $143.3 on our FY2010E subscriber base. **We maintain a Buy on the stock, with a revised Target Price of Rs781 (Rs990), including Rs633 as the core business value (12x P/E multiple) and Rs148 as the Towerco valuation. We have downgraded the core business P/E multiple from 14x to 12x on account of the intensifying competition in the sector following the launch of RCOM's pan-India GSM cellular operations and pending launch by other operators like Aircel, Tata GSM, Shyam CDMA and newer operators, which could lead to downward pressure on pricing, Margin pressures and continuing regulatory risks.**

Key Financials (US GAAP Consolidated)

Y/E March (Rs cr)	FY2007	FY2008	FY2009E	FY2010E
Net Sales	**18,520**	**27,025**	**37,623**	**46,275**
% chg	*59.4*	*45.9*	*39.2*	*23.0*
Net Profit	**4,257**	**6,701**	**8,563**	**10,011**
% chg	*88.6*	*57.4*	*27.8*	*16.9*
EBITDA Margin (%)	40.2	42.1	40.1	38.4
FDEPS (Rs)	**22.4**	**35.3**	**45.1**	**52.7**
P/E (x)	27.6	17.6	13.7	11.8
EV/EBITDA (x)	16.4	10.7	7.8	6.2
RoE (%)	37.4	37.4	32.5	28.8
RoCE (%)	23.6	22.0	23.5	21.9
Sales/GFA (x)	0.7	0.7	0.7	0.8
ARPUs (Rs/month)	416	366	321	288

Source: Company, Angel Research; Price as on Jan.22,2009

Research Analyst **- Harit Shah**

Dr. Reddy's Laboratories - Buy

Price - Rs445
Target Price - Rs581

3QFY2009 Result Update

Performance Highlights

- **Net Sales up 51% yoy:** For 3QFY2009, DRL registered a yoy growth in Net Sales of 51% to Rs1,805cr (Rs1,199cr) primarily driven by successful launch of authorized generic version of Imitrex (*Sumatriptan Succinate*) in late November 2008 which contributed $73mn to the Revenue. During the quarter US, Europe and Russia & CIS grew by 154.7%, 5.2% and 33.5% yoy respectively while India witnessed a de-growth of 1.7%yoy on account of delay in new launches and a change in supply chain model. In Germany, the company has won 33 contracts across 8 products under the AOK tender however there is lack of clarity on the execution of these contracts as legal challenges persist. With this for 9MFY2009, the company posted Net Sales of Rs4,862cr, registering a growth of 33.3% yoy and is on track to beat its full year guidance of 25% growth in FY2009.

- **Global Generics segment clocks stupendous growth of 286% yoy:** US was the key growth driver for the Global Generics segment (75% of Sales), which grew 286% during the period. The growth clocked in the US market was aided by launch of authorized version of Imitrex and acquisition of the Shreveport facility. Excluding the launch, US market posted a growth of 80% during the period driven by volume growth in top products. Europe, which contributed 18% of overall Global Generic sales, registered a fall of 2% yoy. Revenue from Betapharm was down on account of pricing pressure and withdrawal of *Olanzapine* from the market. The company also indicated that there can be impairment charges in future on Betapharm acquisition as it has not been successful in wining contracts for any of its Top 10 products under the AOK tender. Other key regions, Russia posted a growth of 33% driven by key brands viz *Omez, Nise, Ketorol* and *Cetrine*. However India segment witnessed a de-growth of 1% on back of delay in launches of new products and a change in supply chain model.

- **Pharmaceutical Services and Active Ingredients (PSAI) segment up 6% yoy:** The segment, which contributed 24% of total Sales, registered a growth of 6% mainly aided by Europe and RoW which posted a yoy growth of 18% and 55% respectively. Other key markets, US and India, posted a decline of 31% and 24% respectively.

- **OPM expands by 453bp, Net Profit rises 155.7%:** The OPM expanded during the quarter to 16.9%. The expansion would have been more prominent if SG&A and other expenses won't have risen by 57% and 115% yoy. The rise in SG&A to Rs 172cr (Rs 109cr) can be attributed to additional cost incurred for specialty business in US and depreciating rupee. The increase in other expenditure to Rs389cr (Rs181cr) was due to provision of Euro15mn for likely settlement with Eli Lilly on *Olanzapine* in the German market. However for 9MFY2009, operating margins declined by 94bp to end the period at 14.9%. The rise in Net profit can be attributed to expansion in OPM. For 9MFY2009, the Net Profits declined marginally by 6.0% to end the period at Rs339cr (Rs360cr).

Outlook and Valuation

For 9MFY2009, the company has achieved 80% of our full year Revenue numbers and 71% of our Net profit numbers. This is primarily due to the launch of Imitrex in US, where it is the only player in the market other than the innovator company. The company intends to have at least one such upside every year for next five years. Currently we are not changing our numbers as competition over Imitrex in the US market is likely to increase in the next quarter and the uncertainty over the AOK tender. On the valuation front, the stock is trading at 15.6x FY2009E and 13.8x FY2010E EPS. **We maintain our Buy on the stock, with a Target Price of Rs581.**

Key Financials (Indian GAAP Consolidated)

Y/E March (Rs cr)	FY2007	FY2008	FY2009E	FY2010E
Net Sales	**6,423**	**4,914**	**6,072**	**6,645**
% chg	*174.6*	*(23.5)*	*23.6*	*9.4*
Net Profit	**965.9**	**438.0**	**480.2**	**540.1**
% chg	*558.3*	*(54.7)*	*9.6*	*12.5*
EPS	**60.9**	**26.1**	**28.6**	**32.2**
EBITDA Margin (%)	24.5	15.6	15.3	14.5
P/E (x)	7.3	17.1	15.6	13.8
RoE (%)	31.8	11.3	10.1	10.0
RoCE (%)	20.5	8.7	10.0	9.2
P/BV (x)	2.0	1.8	1.6	1.4
EV/Sales (x)	1.9	2.2	1.7	1.5
EV/EBITDA (x)	7.6	12.7	11.4	10.1

Source: Company, Angel Research; Price as on Jan.21,2009

Research Analyst **- Sarabjit Kour Nangra / Sushant Dalmia**

ITC - Neutral

Price - Rs171

3QFY2009 Result Update

Performance Highlights

- **Muted Top-line growth, up 11%:** For 3QFY2009, ITC posted muted Top-line growth of 10.9% yoy to Rs3,833cr (Rs3,458cr), which was significantly below our estimate of 18.6% yoy growth to Rs4,101cr. Top-line growth, despite the in-line performance by ITC's Cigarette Division, was impacted by the decline in Revenues posted by its Hotel (due to economic slowdown and Mumbai terror strikes) and Agri businesses (owing to lower soya volumes). The Cigarette Division, for the quarter, registered 10.5% growth in Gross Revenues on the back of better realisation (price hikes) and improved product mix (up-trading to filter cigarettes from non-filters estimated at 70-75%, which is encouraging). In terms of volumes, we estimate ITC registered 3-4% decline for the quarter in line with our expectation.

- **Earnings growth in line, up 8.7%:** ITC posted another disappointing quarter of Earnings growth. It registered subdued Earnings growth of 8.7% yoy to Rs903cr (Rs831cr) in line with our expectation of 9.9% yoy growth to Rs913r. Despite Margin expansion, Earnings growth was muted due to the weak Top-line growth and decline in Other Income by 10.6% yoy to Rs123cr (Rs137cr).

- **Margins surprise positively, expand 60bp:** On the Operating front, ITC delivered a positive surprise registering Margin expansion of 60bp yoy driving an EBITDA growth of 12.8% yoy to Rs1,353cr (Rs1,120cr). Margins expanded despite the sharp drop in profitability of the company's Hotels business and significantly higher losses in the Non-Cigarette FMCG business, largely driven by an 184bp expansion in its core Cigarette business owing to price hikes and better product mix. The Hotels and Paperboard Divisions registered contraction in EBIT Margins by 1,025bp and 301bp, respectively.

Outlook and Valuation

While we remain enthused by the performance of ITC' core Cigarette business in terms of its resilience to poor regulatory environment, evident slow down in its Non-Cigarette FMCG business (partially due to high base) and weakening macro environment for its Hotel business raises issues over ITC's growth drivers in the near term. Hence, we have revised our Top-line estimates for FY2009E and FY2010E downwards by 4.5% and 6.7% respectively, factoring in lower growth in Hotels and Non-Cigarette FMCG businesses. Hence, during FY2008-10E, we expect ITC to report CAGR of 13.1% in Top-line largely driven by steady performance of its core Cigarette Division, Paperboard and Agri-business. Moreover, a deteriorating regulatory environment for cigarettes (smoking ban and pictorial warnings) pose further threat to ITC's core business.

In terms of Earnings, we have revised our estimates downwards for FY2009E and FY2010E marginally by 2.2% and 1% respectively, impacted by the aggravated losses in Non-Cigarette FMCG business and lower Margins in the Hotel business. Hence, during FY2008-10E, we expect ITC to report CAGR of 11.4% in Earnings.

While we remain positive on ITC's strong consumer demand profile, better pricing power, strong cash flows and its ability to channel these flows into new growth opportunities, weak Earnings growth in FY2009 coupled with evident signs of slowdown in its key growth drivers - Non-Cigarette FMCG and Hotel Businesses, have led us to remain Neutral on the stock.

Key Financials

Y/E March (Rs cr)	FY2007	FY2008	FY2009E	FY2010E
Net Sales	**12,164**	**13,948**	**15,663**	**17,845**
% chg	*24.2*	*14.7*	*12.3*	*13.9*
Net Profit	**2,700**	**3,120**	**3,275**	**3,871**
% chg	*18.4*	*15.6*	*4.9*	*18.2*
OPM (%)	32.5	31.5	30.6	31.6
EPS (Rs)	**7.2**	**8.3**	**8.7**	**10.3**
P/E (x)	23.8	20.7	19.7	16.7
P/BV (x)	6.2	5.3	4.9	4.3
RoE (%)	25.9	25.9	24.8	25.7
RoCE (%)	32.3	30.9	30.2	31.7
EV/Sales (x)	5.0	4.4	3.9	3.4
EV/EBITDA (x)	15.3	13.9	12.8	10.8

Source: Company, Angel Research; Price as on Jan. 19, 2009

Research Analyst **- Anand Shah/ Shweta Boob**

Pantaloon Retail - Buy

Price - Rs161
Target Price - Rs239

2QFY2009 Result Update

Performance Highlights

- **Top-line growth disappointing:** PRIL posted a disappointing yoy Net Sales growth of 24.4% to Rs1,525.7cr (Rs1,226.8cr) for 2QFY2009 (June Ending company). The Net Sales growth was flat 1% on qoq basis on account of marginal de-growth in Sales per sq.ft. by 2% on qoq basis. The Net Sales growth trend has been on downside since the past few quarters. The downward trend in growth in Net Sales is in line with the downward trend witnessed in the Same-Store sales growth. The Net Sales grew 31% yoy for 1HFY2009 to Rs3,037cr (Rs2,313cr). We expect PRIL to post a qoq CAGR of more than 17% in the remaining two quarters of FY2009 to end FY2009E with Net Sales of Rs6,894cr

- **Operating Margins expand:** On the Operating front, PRIL reported an increase in Margins by 140bp in 2QFY2009 to 10.4% (9.0%) yoy and sustained the same on qoq basis. Margins improved on account of yoy fall in Employee costs by 140bp in 2QFY2009. Notably, the company's EBITDA Margins have constantly been on upward trend indicating improving operational efficiency and successful implementation of various cost cutting measures. For 1HFY2009, EBITDA margins improved by 140bp to 10.3% (8.9%) on account of savings in operating costs like Employee costs and Other expenditure.

- **Bottom-line growth flat at 6% yoy:** PRIL posted flat yoy Net Profit growth of 6% in 2QFY2009 to Rs33.5cr (Rs31.7cr) on account of yoy increase in Interest costs and Depreciation by 70bp and 50bp respectively that contributed to the 40bp decrease in Net Margins to 2.2% (2.6%). For 1HFY2009, Net Profit grew a mere 14% yoy to Rs69.7cr (Rs61.3cr), while Net Profit Margin fell to 2.3% (2.7%) on account of increase in Interest costs and Depreciation by 85% and 80%, respectively.

Outlook and Valuation

We are bullish on the long-term growth prospects of the Retail sector though we expect the Organised Retail segment to witness temporary slowdown in FY2009E in wake of the global financial crisis, especially in Lifestyle Retailing.

PRIL is a prime player in the Indian Retail Industry. Despite the current slowdown in the economy, we are positive on PRIL as we believe it has the right strategy in place driven by good management to expand and grow at a faster rate once the situation improves. We believe that the current slowdown has hit all the Retail players, including PRIL and impact of the same would be witnessed on the Bottom-line too. In wake of the current scenario, we believe that PRIL would be able to meet our FY2009E Net Sales estimates but would fall short of our FY2010 estimates by around 9%. Hence, we are lowering our FY2010E Net Sales estimates to Rs8,492cr. We have also pruned our PAT estimates FY2009 and FY2010 by 14% and 19% to Rs155cr and Rs218cr respectively, on account of the 200bp increase in Interest costs and Depreciation taking cues from the half-yearly performance.

At Rs161, the stock is trading at 13.0x FY2010E Earnings and 1.8x FY2010E P/BV. We have valued PRIL (Standalone) at Rs173. We have valued PRIL's stake in FCH, HSRIL and Future Bazaar at Rs33, Rs13 and Rs20, respectively. PRIL continues to be our Top Pick in the Retail Sector. **We maintain a Buy on the stock with SOTP Target Price of Rs239, translating into an upside of 48% from current levels.**

Key Financials

Y/E June (Rs. cr)	FY2007	FY2008	FY2009E	FY2010E
Net Sales	**3,237**	**5,049**	**6,894**	**8,492**
% chg	*84.1*	*56.0*	*36.5*	*23.2*
Net Profit	**119.9**	**126.0**	**154.6**	**217.8**
% chg	*89.4*	*5.1*	*22.7*	*40.9*
EBITDA Margin (%)	6.7	9.1	9.3	9.8
EPS (Rs)	**7.7**	**7.9**	**8.8**	**12.4**
P/E (x)	20.8	20.4	18.2	13.0
P/BV (x)	3.0	2.0	2.1	1.8
RoE (%)	14.8	8.6	8.2	10.7
RoCE (%)	9.9	11.5	11.1	12.1
EV / Sales (x)	1.2	0.9	0.7	0.7
EV/EBITDA	17.2	10.1	8.2	7.0

Source: Company, Angel Research; Price as on Jan. 23, 2009

Research Analyst **- Raghav Sehgal**

Ranbaxy Laboratories - Buy

Price - Rs188
Target Price - Rs277

4QCY2008 Result Update

Performance Highlights

■ **Net Sales rise 7%:** For 4QCY2008, Ranbaxy registering a yoy growth of 7% in Net Sales Rs1,905cr (Rs1,785cr), which was below our expectations. Emerging markets, which accounted for 54% of Total Sales grew yoy 7% and contributed Rs1,023cr. Growth of Emerging markets was led by Asia, CIS and Middle East markets. Developed markets, which contributed 39% of Total Sales grew 4% yoy to Rs749cr. With this, for CY2008 the company posted Net Sales of Rs7,221cr registering a yoy growth of 9%. Ranbaxy has not provided any guidance for CY2009 on account of lack of clarity on the US front and volatile currency movements.

■ **Core Operating Margins expands by 70bp:** During the quarter, the company core Operating Margins (excluding realised forex gain/losses) expanded by 70bp to 12.6% (11.9%) on account of lower growth in Cost of sales of 5% to Rs1,017cr (Rs965cr) and decline in R&D expenses by 9% to Rs126cr (Rs138cr). For CY2008, the company reported core Operating Margins of 12.7% (11.0%).

■ **Net Profit plunges into the red:** For 4QCY2008, the company reported a Net Loss of Rs680cr on account of MTM forex losses on Dollar denominated Debts and huge long-term hedge positions. The company recorded translational forex losses amounting to Rs192cr and adopted AS-30 during the quarter resulting in non-cash charge of Rs780cr on its long-term derivatives contract. For CY2008, the company reported a Net Loss of Rs914cr on account of non-cash exceptional items and write down in inventory in the US.

Developed Markets

For 4QCY2008, North American region comprising of US and Canada posted 14% growth to Rs508cr. The US market grew 8% yoy to Rs441cr. Ranbaxy launched two authorised generics, viz. *Omeprazole* and *Feloipine* in the US market, which provided the upside. The company indicated that no fresh developments have taken place on the import alert imposed by USFDA on two of its manufacturing facilities. The Canada market grew 88% yoy to Rs67cr on account of new product launches. In the EU, the company registered de-growth of 13% yoy to Rs362cr on account of volatile currency movement and difficult market conditions as Romania and UK witnessed de-growth of 11% and 13% to Rs111cr and 41cr, respectively.

For CY2008, the North American region grew 11% yoy to Rs1,928cr while Europe de-grew 5% to Rs1,428cr.

Emerging Markets

During 4QCY2008, growth in the Emerging markets was led by Asia, Middle East and CIS nations. Sales in the CIS region during 4QCY2008 grew by 19% yoy to Rs146cr which was backed by strong traction in Russia and Ukraine. The Asia-Pacific region clocked 15% yoy growth to Rs117cr. In India, sales during the quarter, stood at Rs374cr, up 9% yoy.

Outlook and Valuation

We are maintaining our CY2009 Sales estimates but we are reducing our core Operating Margin estimate from 14.6% to 13.0% bringing in line with the current year numbers following which we are pruning our CY2009 core EPS estimate to Rs.11.1 from Rs13.6 earlier. **However, we maintain a Buy on the stock with a 15-month revised SOTP Target Price of Rs277 (Rs316), wherein the Core business is valued at Rs178 giving it a fair P/E of 16x CY2009E Core Earnings of Rs11.1, Rs24 for Non-Core Income and Rs75 NPV is ascribed to the FTF opportunities available to the company.**

Key Financials (Consolidated)

Y/E Dec (Rs cr)	CY2006	CY2007	CY2008E	CY2009E
Net Sales	**6,012.6**	**6,641.3**	**7,221.8**	**8,125.4**
% chg	**17.9**	**10.5**	**8.7**	**12.5**
Reported PAT	*510.9*	*786.6*	*(914.6)*	*689.8*
% chg	*95.2*	*54.0*	*(216.3)*	-
***Adj Net Profit**	**467.2**	**525.1**	**149.0**	**624.1**
% chg	*78.5*	*12.4*	*(71.6)*	*318.8*
Reported EPS	13.7	21.1	-	16.1
Adjusted EPS	**12.5**	**14.1**	**3.5**	**14.5**
EBITDA Margin (%)	12.4	11.0	12.7	13.0
P/E (x)	15.0	13.3	54.1	12.9
RoE (%)	18.4	18.5	3.0	8.8
RoCE (%)	9.9	7.3	7.7	7.2
P/BV (x)	2.6	2.2	1.1	1.0
EV/Sales (x)	1.8	1.6	1.1	1.0
EV/EBITDA (x)	14.1	14.0	8.7	7.7

*Source: Company, Angel Research; Price as on Jan.23,2009; Note: *Adjusted Net profit excludes unrealized forex gain/losses and includes interest cost on FCCBs*

Research Analyst **- Sarabjit Nangra / Sushant Dalmia**

Reliance Industries - Buy

Price - Rs1,153
Target Price - Rs1,440

3QFY2009 Result Update

Performance Highlights

- **Lower crude, Product prices lead to Net Sales decline:** Reliance Industries (RIL) delivered decent set of numbers for 3QFY2009, which exceeded our expectations. RIL's Net Sales declined 8.8% yoy, while Net Profit (excluding Exceptional items) fell 9.8% yoy. RIL reported a decline in Net Sales to Rs31,563cr (Rs34,590cr) primarily on the back of lower crude oil prices during the quarter. Segment-wise, the Refining and Petrochemical segments' Gross Sales fell 16.9% and 0.7% to Rs21,740cr and Rs12,623cr respectively, during the quarter. Crude processing during the quarter was 7.87mn tonnes (7.60mn tonnes), which was higher by 3.6% yoy.

- **Refining Margins surprise; Petrochemical disappoints:** During the quarter, RIL reported stronger-than-expected GRMs of US $10.0/bbl (US $15.4/bbl) as against our expectation of US $9.0/bbl. Benchmark complex Singapore Margins, during the quarter, stood at US $3.6/bbl. Thus, RIL managed to earn a spread of US $6.4/bbl, which was marginally lower than its previous performances. Though Petrochemical Margins improved qoq, the same were lower than our expectation at 13.1% (14.0%). On the core business, blended EBIT Margins stood at 11.7% (12.0%).

- **Interest Expense increases, Other Income surges:** During 3QFY2009, increase in Gross Debt and 23% yoy Rupee depreciation resulted in Interest cost increasing by 91.3% to Rs484cr (Rs253cr). Other Income during the quarter increased significantly to Rs663cr (Rs241cr) owing to the Interest earned on money raised through warrant conversion by promoters. Depreciation increased by 8.6% to Rs1,317cr (Rs1,213cr).

- **PAT above expectation:** Reported PAT (incl. RPL stake sale) decreased by 56.7% yoy to Rs3,501cr (Rs8,079cr). However, PAT (excl. RPL stake sale) during the quarter stood at Rs3,501cr (Rs3,882cr) registering de-growth of 9.8% yoy, which exceeded our expectation of Rs3,079cr. PAT came in higher than our estimates due to the higher-than-expected Other Income.

Outlook and Valuation

The current quarter has been a challenging one for RIL. Crude and product prices saw a significant correction during the quarter, which raised fears of likely substantial inventory losses. However, effective hedging strategies of the company both on crude and product ensured minimum damages. This reflects strong management capability to resiliently manage the tough business environment. We believe Singapore Refining Margins would remain subdued going forward in the range of US $3.5-4.0/bbl. However, owing to strong heavy and light crude differential in the Asian markets coupled with superior refining slate and relative strength in middle distillate cracks, RIL is likely to maintain its GRMs in range of US $8.5-9.0/bbl.

The Petrochemical segment witnessed demand collapse during October to mid of November 2008, raising concerns over future profitability of the segment. However, the scenario has changed since then and Margins have shown improvement. We expect the Petrochemical segment to report better performance in 4QFY2009 on the back of better Operating performance. We maintain that integrated nature of RIL's operations would mitigate the Margin compression in the Petrochemical segment.

Going forward, we believe growth in RIL's Profitability would continue following commencement of gas production in the KG basin and commercial production at RPL's refinery. Moreover, changing Earnings and Profit mix in favour of E&P segment will also reduce the business risks. Based on our FY2010E EPS of Rs130.9 and Target P/E multiple of 11x, we ascribe Fair Value of Rs1,440 to the RIL stock. **We maintain a Buy on RIL.**

Key Financials (Consolidated)

Y/E March (Rs cr)	FY2007	FY2008	FY2009E	FY2010E
Net Sales	**1,13,770**	**1,37,147**	**1,63,459**	**2,06,045**
% chg	*37.0*	*20.5*	*19.2*	*26.1*
Net Profit	**12,075**	**19,521**	**16,128**	**20,605**
% chg	*28.5*	*61.7*	*(17.4)*	*27.8*
EPS (Rs)	**76.7**	**124.0**	**102.5**	**130.9**
EBITDA Margin (%)	17.7	16.9	14.6	15.9
P/E (x)	13.3	8.6	11.3	8.8
RoE (%)	25.4	16.1	16.1	16.7
RoCE (%)	15.4	12.9	12.9	14.6
P/BV (x)	2.4	2.0	1.6	1.4
EV/ Sales (x)	1.7	1.6	1.3	1.0
EV/ EBITDA	9.6	9.2	8.8	6.0

Source: Company, Angel Research; Price as on Jan.23,2009

***Research Analyst* - Deepak Pareek / Amit Vora**

Reliance Communications - Buy

Price - Rs160
Target Price - Rs227

3QFY2009 Result Update

Performance Highlights

■ **Wireless ARPUs get hammered yet again; Top-line growth disappointing:** Reliance Communications (RCOM) recorded a disappointing 18.8% yoy growth in Top-line in 3QFY2009. Sequentially, Top-line growth came in at just 2.5%. The disappointing Top-line performance was on account of the poor performance recorded by the key Wireless Business Unit. This business grew by a mere 11.5% yoy and by 1.8% qoq. This was the case even as the mobile subscriber base grew by an impressive 49.8% yoy and by 10% qoq to 61.3mn. Quarterly net adds crossed 5mn for the second consecutive quarter (5.3mn). Yet again, as has been the case in the previous two quarters for RCOM, the chief culprit was the significant fall in average revenues per user (ARPUs), which declined by a substantial 26.6% yoy and by 7.4% qoq to Rs251 per user per month (gross) v/s Rs341 in 3QFY2008 and Rs271 in 2QFY2009.

As regards the other business segments, the Global Business grew by 26.2% yoy (fall of 0.8% qoq) aided by a 39% yoy growth in total minutes of usage (MoUs, 6.9% qoq). However, it should be noted that 2QFY2009 Revenues included Rs91cr received from an arbitration case against Tata Communications. Excluding this, Global Revenues grew by nearly 5% qoq. The Broadband Business clocked a 43.3% yoy growth during 3QFY2009 powered by a 48.2% yoy increase in Access Lines, which crossed 1.3mn. Sequentially too, the growth was impressive at 8.6%, with Access Lines growing by 6%.

■ **Margins fall on higher Network, SG&A costs:** RCOM recorded a 372bp yoy contraction in EBITDA Margins in 3QFY2009 mainly due to higher Network Operations Costs, which rose by 917bp yoy, as a percentage of Sales. Higher SG&A costs also led to the Margin fall, which was mitigated owing to lower Access Charges & Licence Fees (15.3% of Sales v/s 23.4% in 3QFY2008). Sequentially also, Margins dipped by 127bp due again to higher Network expenses. Segment-wise, Wireless Margins fell by 232bp yoy, while sequentially, they were lower by 122bp. However, Global Margins were robust, being largely stable yoy and expanding by 438bp qoq, while Broadband Margins fell by 650bp yoy and by 664bp qoq.

■ **Lower Margins, higher Depreciation, Taxes impact Bottom-line growth:** Owing to lower Margins, higher Depreciation and Taxes paid, RCOM's Bottom-line grew by just 2.7% yoy. In fact, Profit before Tax fell nearly 5% yoy. On a qoq basis, Bottom-line fell 7.9%.

Outlook and Valuation

Going forward, we expect RCOM to post a 19.7% CAGR in Top-line over FY2008-10E, while Bottom-line is expected to record a CAGR de-growth of 1.6% over the period. At Rs160, the stock is trading at a P/E of 6.6x FY2010E EPS, EV/EBITDA of 6.1x FY2010E EBITDA and at an EV/subscriber of US $93.8 on our FY2010 subscriber estimates.

Even as we maintain a Buy on the stock, with a revised Target Price of Rs227 (Rs451), including Rs194 as the core business value (8x P/E multiple) and Rs33 as the Towerco value, we expect stock price performance to remain muted in the short-term. We have downgraded the multiple given to the core business from 10x to 8x on account of the significantly worsening operating metrics being reported each quarter, further ARPU and margin pressures in the medium-term leading to value erosion in spite of higher probable subscriber adds on account of the GSM launch, intensifying competition, ever-present regulatory risks and the disappointing 1.6% CAGR fall expected in Earnings over FY2008-10E. The core business multiple accorded is at a 33% discount to the multiple we have accorded Bharti Airtel (12x).

Key Financials (Consolidated)

Y/E March (Rs cr)	FY2007	FY2008	FY2009E	FY2010E
Net Sales	**14,262**	**18,827**	**22,530**	**26,990**
% chg	*34.2*	*32.0*	*19.7*	*19.8*
EBITDA Margin (%)	38.7	42.3	40.0	37.0
Net Profit	**3,168**	**5,401**	**5,898**	**5,227**
% chg	*613.0*	*70.5*	*9.2*	*(11.4)*
FDEPS (Rs)	**14.7**	**25.0**	**27.3**	**24.2**
P/E (x)	10.9	6.4	5.9	6.6
EV/EBITDA (x)	7.9	7.3	6.5	6.1
RoE (%)	18.3	20.8	18.6	14.2
RoCE (%)	8.0	12.2	8.6	8.6
Sales/GFA (x)	0.4	0.4	0.3	0.3
ARPUs (Rs/month)	371	344	258	219

Source: Company, Angel Research; Price as on Jan.23,2009

Research Analyst **- Harit Shah**

Ultratech Cement - Neutral

Price - Rs381

3QFY2009 Result Update

Performance Highlights

- **Top-line growth above estimates:** Ultratech Cement (ULTC) posted a yoy Top-line growth of 18.2% to Rs1,631cr (Rs1,380cr) for 3QFY2009, which was above our expectations. Top-line growth came primarily driven by higher cement sales volumes, increase in average realisation for cement and the RMC Division clocking higher Revenues. Cement sales volumes grew by 5.8% yoy to 4.6mn tonnes during the quarter from 4.3mn tonnes in 3QFY2008. Volume growth was mainly driven by higher sales in the domestic market, which grew 14.4% yoy during the quarter. However, clinker exports declined by a substantial 31% yoy. Average cement realisation for ULTC grew 10.9% yoy to Rs3,350/tonne (Rs3,021/tonne). Revenues of the RMC Division increased by a substantial 60% yoy to Rs100cr.

- **Margins disappoint:** On the Operating front, ULTC reported a decline in Margins by 750bp to 26.4% (33.9%) mainly due to the increase in input costs like coal, freight etc. Power and Fuel, which increased by a considerable 63% yoy. Coal, which is a major input for power and clinker manufacturing, witnessed a yoy increase in prices during the quarter. There was a shortfall in coal supplies as well against existing linkages, which forced the company to rely more on imported and open-market purchases, resulting in higher costs.

- **Bottom-line in-line, de-grow 14.7%:** Despite reasonable Top-line growth, ULTC's Net Profit de-grew by 14.7% yoy to Rs238cr (Rs279cr). This was mainly on account of Margin erosion by 750bp. Higher Interest and Depreciation costs also added to the sluggish Bottomline growth. Interest costs were higher by 93% yoy to Rs35.9cr while Depreciation charges increased by 38% yoy. However, the company's effective tax rate of 28.8% during the quarter was lower on a yoy basis, providing some cushion to Bottomline.

Realisations higher yoy, flattish qoq, Volumes up

ULTC's average price realisation increased by 10.9% yoy to Rs3,350/tonne (Rs3,021/tone) during the quarter. Cement prices which were strong in the Southern markets, where ULTC has a strong presence, helped the company achieve better realisations during the quarter. However, realisations were almost flat on qoq basis. Cement sales volumes increased by 5.8% yoy to 4.6mn tonnes (4.3mn tonnes). We believe that realisations would be under pressure once incremental capacity starts becoming operational and demand slackens owing to the slowdown in Housing and Real Estate sectors, led by slowdown in economy.

Outlook and Valuation

We expect the domestic Cement industry to witness substantial bunching up of capacities in FY2009E and FY2010E, as 86.5mn tonnes capacity is expected to come on-stream during these years. However, even after assuming 20% of the announced capacity addition plans fail to materialise on time due to delay in equipment procurement, land acquisitions, fund raising plans, etc. such huge capacity addition (69.2mn tonnes) is bound to create an oversupply situation and exert pressure on cement prices.

We believe that benefits of sharp correction in the coal prices and lower fuel prices will be completely eaten up by fall in realisations going forward. We are revising our EPS estimates upward for FY2009E by 5.5% to factor in for higher-than-estimated Profit for 3QFY2009. However, we downgrade Earning by 5% for FY2010E to factor in lower volumes and realisations. At Rs381, ULTC is trading at an EV/EBIDTA of 4.3x and 4.7x FY2009E and FY2010E EBIDTA and EV/tonne of US $68/tonne and US $65/tonne on FY2009E and FY2010E capacities, respectively. We believe that in view of an imminent downturn in the cement cycle, ULTC should trade at a 45% discount to the prevailing replacement costs, as suggested by its historical valuations in a down cycle. **Hence, we believe that the stock is fairly valued and remain Neutral on the stock.**

Key Financials

Y/E March (Rs cr)	FY2007	FY2008	FY2009E	FY2010E
Net Sales	**4,911**	**5,509**	**6,300**	**6,265**
% chg	*48.8*	*12.2*	*14.4*	*(0.6)*
Net Profit	**782**	**1,008**	**908**	**722**
% chg	*240.5*	*28.8*	*(9.9)*	*(20.5)*
OPM (%)	28.9	31.2	26.4	23.5
FDEPS (Rs)	**62.8**	**80.9**	**72.9**	**58.0**
P/E (x)	6.1	4.7	5.2	6.6
P/BV (x)	2.7	1.8	1.3	1.1
RoE (%)	55.8	45.2	29.1	18.6
RoCE (%)	24.1	23.8	16.9	11.2
EV/Sales (x)	1.3	1.2	1.1	1.1
EV/tonne (US $/t)	86	83	68	65
EV/EBIDTA (x)	4.4	3.7	4.3	4.7

Source: Company, Angel Research; Price as on Jan.19,2009

***Research Analyst* - Pawan Burde**

Wipro - Buy

Price - Rs220
Target Price - Rs281

3QFY2009 Result Update

Performance Highlights

■ **Currency depreciation drives Top-line; pricing falls, volumes sluggish:** In 3QFY2009, Wipro recorded a disappointing 1% qoq growth in Top-line. The key IT Services Business clocked a decent 6.9% qoq growth in Revenues, which was primarily driven by Rupee depreciation. The realised Rupee rate for Wipro rose by 7.9% qoq to Rs46.17 (Rs42.80 in 2QFY2009). Volume growth was sluggish, with onsite volumes growing by just 1.4% qoq while offshore volumes grew 2.7% qoq. However, pricing during the quarter fell, with onsite rates falling by 3.9% qoq and offshore rates by 1.6% qoq. This was primarily on account of the cross-currency headwinds seen during the quarter, with currencies like the British Pound and Euro depreciating significantly against the US Dollar, leading to their value in US Dollar terms eroding. Thus, in Dollar terms, IT Services Revenues fell by 0.9% qoq. In constant currency terms, however, Revenues rose by 3.5% qoq.

Segment-wise, Wipro's combined IT Services business clocked a 6.9% qoq growth, with pure IT Services and BPO Services both clocking similar growth rates. The IT Products Business fell by 16.5% qoq albeit after a seasonally strong quarter. Wipro Consumer Care & Lighting (CC&L) Revenues were flat, while the 'Others' segment de-grew 22.3% qoq. On a yoy basis, overall Revenues grew 25.2%, with combined IT Services growing 30.6% (IT Services 30.8%, BPO Services 27.6%), IT Products 24.6% and CC&L 21.2%, while 'Others' de-grew 38.5%.

■ **Margins fall on salary hikes to BPO staff, provision made for receivables from Nortel:** During 3QFY2009, Wipro recorded a 53bp qoq contraction in EBITDA Margins mainly due to the salary hikes given to its BPO employees. Wipro also made a provision for receivables from Nortel, which recently filed for bankruptcy. This had an impact of 60bp on Margins. Excluding this, Margins rose by 10bp qoq. Rupee depreciation, higher utilisation, a higher offshore proportion of Revenues and a higher proportion of fixed price contracts mitigated the impact of the above-mentioned headwinds. On a yoy basis, EBITDA Margins fell by a marginal 12bp.

■ **Higher Other Income boosts Bottom-line:** Wipro, in spite of the Margin contraction, recorded a 2.6% qoq rise in Bottom-line in 3QFY2009, which was achieved mainly on account of higher Other Income (up 60.7% qoq). On a yoy basis, Bottom-line grew 17.6%.

Outlook and Valuation

Over FY2008-10E, we expect Wipro to record 20.8% and 12% CAGRs in Top-line and Bottom-line, respectively. At Rs220, the stock is trading at 7.8x FY2010E EPS. Although valuations seem reasonable with relatively low downside risk, the business outlook remains challenging, as reflected by the company's disappointing 4QFY2009 guidance. We believe the outlook will not improve significantly in the near-term. Looking forward to FY2010, this fiscal could witness even more difficult times for Indian IT vendors. **While Infosys continues to be our preferred pick in the IT Sector, on account of the recent under-performance of the Wipro stock, we maintain a Buy with a Target Price of Rs281, implying a P/E of 10x FY2010E EPS (13x earlier). However, stock price upsides in the near term could remain capped.**

Key Financials (Consolidated)

Y/E March (Rs cr)	FY2007	FY2008	FY2009E	FY2010E
Net Sales	**14,998**	**19,980**	**25,911**	**29,148**
% chg	*41.5*	*33.2*	*29.7*	*12.5*
Net Profit	**2,942**	**3,283**	**3,898**	**4,117**
% chg	*42.3*	*11.6*	*18.8*	*5.6*
EBITDA Margin (%)	22.9	20.0	20.2	19.5
EPS (Rs)	**20.1**	**22.4**	**26.6**	**28.1**
P/E (x)	10.9	9.8	8.3	7.8
P/BV (x)	3.4	2.8	2.3	1.9
RoE (%)	36.3	30.8	30.1	26.5
RoACE (%)	33.2	24.0	26.6	25.9
EV/Sales (x)	2.0	1.6	1.2	0.9
EV/EBITDA (x)	8.9	8.2	5.8	4.8

Source: Company, Angel Research; Price as on Jan. 21, 2009

Research Analyst **- Harit Shah**

Markets in a firm bear grip - A new 52 week low in sight

Sensex (8674) / Nifty (2678)

We have been mentioning of a short to intermediate trend being positive from November third week and the indices have rallied from around 8900 / 2700 to 10470 / 3150 levels. We felt that the prices had the strength to go up to 11650 / 3450 levels and the way it broke 10188 / 3100 levels in the first week of January with high volumes was a clear evidence based on which we felt that the higher targets will be reached. All along, we have been maintaining that the long-term trend based on the monthly charts was bearish and selling could be witnessed at higher levels and the October lows could be tested / broken. We had specifically mentioned of a sell off at higher levels in our report dated 3rd Jan 09. However, the Satyam fiasco seems to have terminated the short-term up move a little prematurely and now we are on the way to test the previous bottoms.

Source: Advanced Get

Pattern Formation:

- On the weekly charts, we are witnessing a pattern resembling a triangular breakdown. The projected target of the above pattern is around 7200 - 7000 / 2150 - 2100 levels and this could come as early as next 3 - 4 weeks.
- As mentioned earlier the 13-day EMA cutting the 34-day EMA from above on the monthly charts. We are now witnessing the effect of that in terms of the fall which is likely to catch momentum in the coming weeks.
- On the weekly charts, RSI and the RSI smoothened which are momentum indicators are about to give a negative crossover which clearly indicates further weakness in coming trading sessions ahead.

Source: Advanced Get

Future Outlook:

The coming week being a truncated week along with the F&O expiry is expected to witness somewhat of a sideways move, though with negative bias. Any up move is an opportunity for traders to build short positions with a stop loss of 9430 / 2870 levels. Long term investors can think of investing around to 7200 - 7000 / 2150 - 2100 levels as we think that some where around these levels a long-term bottom is likely to be formed.

Technical Research Team

Monthly Income Plans (MIPs)

Monthly Income Plan is a category of Debt Fund .MIP is launched with the objective -to provide investors with a monthly income. The difference between a debt fund and an MIP is that a debt fund is fully invested in debt securities, whereas an MIP has the flexibility of investing in equity - up to 20 per cent.

Features

Objective	Regular Income & Capital Protection
Risk	Low
Investment Portfolio	Not More than 20% equity & balance in Debt
Who should invest	Moderate/Conservative investors
Investment horizon	More than 1 Year
Tax Implications (01/04/2008)	Dividend-Tax Free. Short term Capital Gain-33.99 % Long Term Capital Gain-11.33% (22.66 % with Indexation)

Asset Allocation-(MIP)

Debt Portion: - up to 80%

- Safety
- Regular Income
- Potential High returns in falling Interest Rate

Equity Portion: - up to 20%

- Additional boost to returns
- Benefit from attractive valuations
- Upside market Participation

Suitable for

- MIPs' target segment includes retired people or those nearing retirement.
- The offering could be a good solution for those who want to invest in safer assets and still want some 'equity icing'.
- Those who prefer to have low-risk investment and still want to participate in an upside should consider investing into an MIP.

Salient Features of MIP

- These funds were launched with the objective of providing regular income to the investor.
- The regular income objective could be achieved by investing at least 80% of the assets in good quality debt paper, Fixed-income instruments and the rest in equities.

In Current Market Scenario

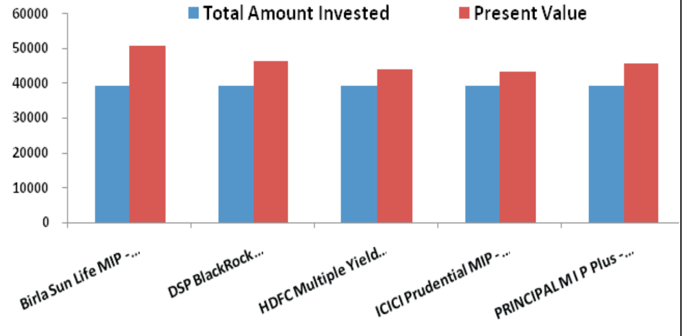
- **Debt Side:** In a falling interest rate environment, MIPs could deliver good returns going forward.
- **Equity Side:** When equities are available at attractive prices, risk averse investors can take the route of MIPs to participate in equities.

SIP Analysis of Top MIP Schemes

The Graph Indicates

SIP in top MIP Schemes, started in a Bear phase & held for a long period has created wealth for the investor.

SIP period considered: Oct 2004 to December 2007



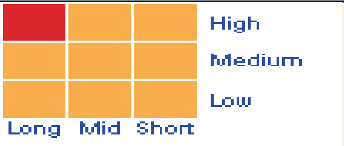
Our Pick in MIP Category

Birla Sun Life MIP II - Savings 5 (G)

Fund Objective
Scheme aims at long term capital appreciation by investing in a judicious mix of high quality fixed income securities and small portion in equity.

Investment Information		Fund House Details	
Scheme	Open Ended	**AMC Name:**	Birla Sunlife Asset
Launch Date	12-Apr-2004	**Address:**	Ahura Centre, Tower A, 2nd Floor,Mahakali Caves Road, MIDC,Andheri (East) Mumbai 400 093.
Fund Manager	A. Balasubramanian		
BenchMark	Crisil MIP Blended Index		
Max.Entry Load (%)	0		
Max.Exit Load (%)	0	**Website:**	www.birlasunlife.com

Style Box



5-Years History

Financial Year	**2008-2009**	**2007-2008**	**2006-2007**	**2005-2006**	**2004-2005***
NAV in Rs.(as on 31st March)	15.18	12.81	11.64	10.93	10.37
Net Assets (Rs. crores)	1656.03	6.30	5.92	9.16	16.90
Returns (%)	18.48	10.04	6.55	5.33	3.63
CNX NIFTY Returns (%)	-40.99	23.89	12.31	64.56	11.87
Category Rank	1/(17)	8/(17)	6/(17)	13/(15)	10/(12)
*Returns Since Inception Date					

Fund Details

AUM As On (31-Dec-2008) Rs.Cr		27.64
NAV as on (20-Jan-2009) Rs.		15.18
Min Investment (Rs.)	**Lump sum**	5000.00
	SIP	5000.00
NAV (52 Week High) {02-Jan-2009}		16.38
(52 Week Low) {23-Jan-2008}		12.59

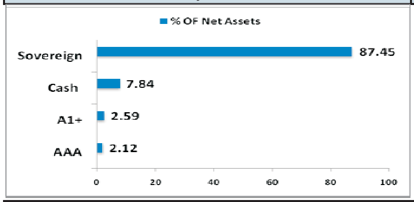
Quarterly Performance - Last 5 years

Financial Year	**Q1**	**Q2**	**Q3**	**Q4**
2008-2009	02.19	07.34	14.43	NA
2007-2008	02.44	02.51	02.34	02.29
2006-2007	01.04	02.64	01.49	01.23
2005-2006	01.06	01.80	01.07	01.12
2004-2005	NA	01.32	01.90	00.51

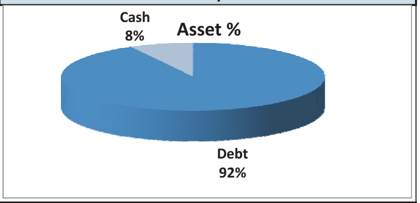
Top 10 Sector wise Holdings

Company Name	**% of Net Assets**
8.24% GOI (2018)	44.07
7.95% GOI (2032)	43.38
Power Finance Corporation Ltd	2.12
Cash	7.84
TATA Capital Ltd	2.59
Total	100.00

Credit Quality of Instruments



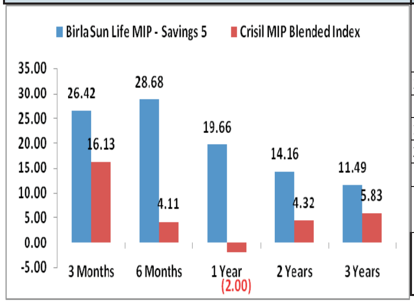
Asset Composition



SIP - Invested Rs. 5,000 Every Month

Period	**Total Investment (Rs.)**	**Scheme(Rs.)**	**BenchMark(Rs)**
1 Year	60,000	66,624	42762.62
3 Years	180000	223,792	122735.87
5 Years	300,000	NA	NA
10 Years	600,000	NA	NA

Fund Performance Vs Benchmark Performance



Scheme Performance (As On 01/21/2009)

Period	**Returns[%]**	**Crisil MIP Blended Index**	**Rank**
3 Months	7.54	-13.55	4/(17)
6 Months	15.32	-32.77	1/(17)
1 Year	20.56	-46.22	1/(17)
3 Years	11.78	-1.21	1/(17)
5 Years	NA	8.91	7/(7)
Since Inception	NA	9.82	11/(12)

*Returns less than 1 year absolute & more than 1 year CAGR

Volatility Measures

Avg Maturity-Yrs	14.55	Std Dev	0.29
Beta	0.31	Sharpe	0.07

* Key Ratios are on 5 years daily rolling basis

Fund Analysis

--The fund has outperformed its benchmark Crisil MIP Blended Index.
--Average Maturity is high (14.55 yrs) which will benefit it in falling interest rate scenario.
--High risk adjusted returns indicated by a positive Sharpe ratio.
The fund Manager is deploying right strategy in current interest rate scenario which is indicated by,
--Investment in highest credit quality papers (G-sec,AAA, A1+) .
--Major exposure in Government Securities , indicating safety of the fund.

Medium-term trend of Nifty is downward, however avoid short at current levels

Nifty spot has closed at **2679** this week against a close of **2828** last week. The Put-Call Ratio is at **0.77** levels against as **0.93** levels last week and the annualized Cost of Carry (CoC) is negative **52.80**%. The Open Interest in Nifty Futures has increased by **20.05**%.

Put Call Ratio Analysis

PCR-OI has reduced from **0.93** to **0.77** levels week-over-week mainly due to unwinding in put options. We believed participant who had written the put options were covering their positions. **2600** put option has highest OI. We don't expect market to go significantly below **2600** levels. Any move below **2600** levels can use to cover short. **3000** call option and 2500 put option of February contract has highest OI. Stocks which are active in options of February contract are **RELIANCE, RELINFRA, UNITECH, RPL, SBIN** and **NTPC**.

Futures Annual Volatility Analysis

Nifty futures annual volatility decreased week-over-week from **60.02**% to **54.55**%. Implied volatility decreased from **44**% to **35**% due to expiry. However February contract's IV is at **47**%. At the money Call option's IV is **35**% and put option's IV is at **36**%. Put options IV is higher than call option IV due to buying of put options but it is noticed that IV is with in the range. Counters where HV's have increased are **POWERGRID, POLARIS, ZEEL, CANBK** and **CIPLA**. Stocks where HV's has declined are **ITC, RPOWER, JSL, HEROHONDA** and **STERLINBIO**.

Open Interest Analysis

Nifty futures OI increased by **20.05**%. Roll over of Nifty futures is **39**%. FIIs were continuously forming short position in Index futures. Stocks which have decent rollover are **TATAMOTOR, BHEL, LT, POWERGRID** and **HINDALCO** but discount has increased in these counters. Thus it could be rollover on short side. Long rollover has been witnessed in **HINDUNILVR, SUZLON** and **RPOWER**.

Cost of Carry Analysis

Nifty January future is trading at discount of **23.25** points while February future is at discount of **30.00** points. This discount is mainly dues to formation of short positions. Counters where cost of carry is positive are **NAGARFERT, ANSALINFRA, HINDOILEXP, IVRCLINFRA** and **KSOILS**. Stocks where CoC is negative are **NATIONALUM, DLF, NTPC, POWERGRID** and **UNITECH**.

Derivative Strategy

Scrip : TATA STEEL | **CMP : Rs. 166/-** | **Lot Size : 382** | **Exercise Day (F&O) :** 29th January, 2009

View: Mildly Bullish | **Strategy: Long Call**

Buy/Sell	Qty	Scrip	Strike Price	Series	Option Type	Market Price(Rs.)
BUY	382	TATASTEEL	170	January	CALL	3.00

BEP: Rs. 173/-

Max. Risk: Rs. 1146/-
If TATA STEEL closes below Rs.170.

Max. Profit: Unlimited
If TATA STEEL continue to trade above Rs. 173/-

NOTE: Profit can be booked before expiry if TATA STEEL moves in favorable direction.

Expected Payoff

Closing Price	Expected Profit/Loss
Rs. 160.00	(Rs. 3.00)
Rs. 165.00	(Rs. 3.00)
Rs. 170.00	(Rs. 3.00)
Rs. 175.00	Rs. 2.00
Rs. 180.00	Rs. 7.00

Soybean

Market Commentary:

NCDEX Feb Soybean Futures surged approximately 35% in a month (from December 24th, 2008 to January 23rd, 2009) as prices moved from Rs 1817/quintal to Rs 2445/ quintal. According to Indore based Industry Soybean Processors Association (SOPA), soybean production estimates is about 90 lakh tonnes as compared to previous estimates of 108 lakh tonnes this year. Also, soy meal exports for the month of December 08 stood at 6,55,882 metric tonnes, up 17.80% as compared to 5,56,775 metric tonnes during the same period last year. However, soy meal export in the 9 month period from April 2008 to Dec 2008 stood at 30,56,334 metric tonnes, up 54.26% as compared to 19,81,225 metric tonnes during the same period last year.

International Market:

Brazil is likely to harvest 57.70 million metric tonnes of soybeans in the 2008-09 crops. However, it was 60 million in 2007-08. This year it is expected to decline by 3.83% as compared to the previous year. Lower production estimates of Argentina's soybean crop to 45 million tonnes from 46 million tonnes as per earlier estimates, owing to dry weather. According to the USDA's report, US Soybean production estimates as in Jan 2008-09 at 80.536 million tonnes vs 72.859 million tonnes in 2007-08 and world's soybean production estimates at 233.201 million tonnes vs 220.887 million tonnes in 2007-08.

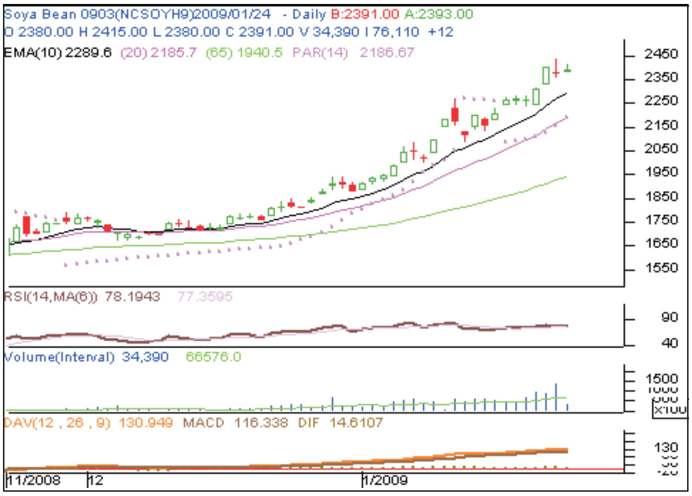
Outlook:

In the coming week, we expect March Soybean futures to trade lower on profit booking after sharp rally during this month on account of lower production estimates of Brazil & Argentina's soybean crop this year as compared to last year owing to dry weather. However, global production of soybean for 2008-09 is still higher as compared to last year. March Soybean has a strong support 2260/2085 and resistance 2480/2550.

Technical Indicators:

Prices closed above its 10 Day & 20 Day EMA, indicating an uptrend. 14-Days RSI is at 78.23 in overbought zone, while Daily MACD-Histogram is in positive territory.

NCDEX - March, 2009 Contract



Source: Telequote India

Particulars	Mar '09 Contract (Rs/ quintal)
Resistance-2	2550.00
Resistance-1	2480.00
Close	**2391.00**
Support-1	2260.00
Support-2	2085.00

Prices at Major Mandis

Centers	Prices (Rs/ quintal)
Soybean	
Indore	2440-2450
Kota	2430-2440

***Sr. Research Analyst (Commodities)* - Badruddin**

BULLION

MCX FEBRUARY GOLD

Last week, Gold prices opened the week at 13152 initially moved lower and as expected found good support at 13002 levels. Later prices rallied sharply higher breaking all the resistances made a high of 14169 and finally ended the week with a huge gain of Rs.870 to close at 14038.

TREND : BULLISH

TRADING LEVELS:

This week market is expected to find very good Support at 13980- 13950 levels. And strong support is seen at 13800-13770 levels.

Trading below 13770 would lead to lower prices initially towards 13670 then 13556 and then finally towards the major support at 13400.

Resistance is observed in the range of 14290-14310. And strong resistance is seen at 14430-14450.

Trading above 14450 would lead to higher prices initially towards 14600 then 14750 and then finally towards 14900.

<u>Recommendation</u>: Buy in the range of 13805-13780 with strict stop-loss below 13600 Targeting 14280 then 14400.

MCX MARCH SILVER

Last week, Silver prices opened the week at 18268 initially moved lower and as expected found very good support at 18051 levels. Later prices rallied sharply higher made a high of 19380 and finally ended the week with a huge gain of Rs.884 to close at 19201.

TREND : BULLISH

TRADING LEVELS:

This week market is expected to find good support at 19130-19060 levels. And Strong support is seen at 18960-18900 levels.

Trading below 18900 would lead to lower prices initially towards 18750 then 18540 and then finally towards 18400 levels.

Resistance is observed in the range of 19470-19500. Strong resistance is seen at 19600-19650.

Trading above 19650 would lead to higher prices initially towards 19950 then 20040 and then finally towards 20247.

<u>Recommendation</u>: Neutral

MCX FEBRUARY COPPER

Last week, Copper prices opened the week at 166.50 initially moved higher and as expected found good resistance at 169.50 levels. Later prices fell sharply lower towards breaking all the supports but finally found good support at 150.85 recovered towards 160.0 levels and finally ended the week with a loss of Rs.6.80 to close at 159.30.

TREND: NEUTRAL-BULLISH

TRADING LEVELS:

This week market is expected to find good support in the range of 156.50-154.0 levels. And strong support is seen at 149.50-148.30

Trading below 148.0 would lead to lower prices initially towards 144.50 then 142.0 and then finally towards 138.0.

Resistance is observed in the range of 162.0-164.0 levels and then Strong resistance is seen at 168.0-170.0

Trading Above 170.0 would lead to higher prices initially towards 174.60 then 179.80 and then finally towards 184.0 levels.

<u>Recommendation</u>: Buy in the range of 157.0-155.0 with strict stop-loss below 148.0 Targeting 168.0 then 174.0.

MCX FEBRUARY CRUDE

Last week, Crude price opened the week at 2070 initially moved sharply lower and as expected found strong support at 1933 levels. Later prices recovered sharply higher made a high of 2265 and finally ended the week with a gain of Rs.160 to close at 2238.

TREND : BULLISH

TRADING LEVELS:

This week market is expected to find good support in the range of 2200-2170 levels. And strong support is seen at 2090-2060 levels.

Trading below 2050 would lead to lower prices initially towards 2010 then 1970 and then finally towards 1900.

Resistance is observed in the range of 2300-2325 levels. And strong resistance is seen at 2395-2410.

Trading above 2410 would lead to higher prices initially towards 2450 then 2520 and then finally towards 2600.

<u>Recommendation</u> : Buy in the range of 2175-2160 with strict stop-loss below 2050 Targeting 2320 then 2410.

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Ratings (Returns) :	**Buy (Upside > 15%)**	**Accumulate (Upside upto 15%)**	**Neutral (5 to -5%)**
	Reduce (Downside upto 15%)	**Sell (Downside > 15%)**	

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