Economy News

- Food inflation, as measured by the Wholesale Price Index (WPI), declined by a significant 3.98 percentage points to 12.92% for the week ended June 19 due to a high base effect and timely arrival of monsoon rains. The inflation numbers are down from 16.9% during the previous week as the rate of rise in prices of cereals, pulses and poultry showed major deceleration during the week under consideration. However, as the week-on-week figures continued to show an increase of 0.3% in overall prices of food articles. (BS)
- The country's export of goods surged to $16.1 billion in May, which is up 35.1 per cent from $11.9 billion in the same month last year. However, the growth declined a tad from April when merchandise exports reached $17 billion, registering an increase of 36.2 per cent year-on-year. (BS)
- Cement sales remained lacklustre in June even as demand in select regions picked up due to sharp fall in prices. Cement prices have fallen even before the onset of the monsoon. Prices have dropped by Rs 50-80 a bag across regions since April. The southern and central regions, which witnessed the worst fall in demand, saw prices crashing to Rs 225 a 50-kg bag; it was down at Rs 250 a bag in the North and Rs 270 in the East. (BL)

Corporate News

- **Fortis Healthcare** has made a $(Singapore)3.2bn general offer to buy the remaining stake in Singapore-based healthcare firm Parkway Holdings at an offer price of S$3.80 a share in cash. Fortis currently owns 25.3 per cent stake in Parkway. The offer has been made through RHC Healthcare Pte Ltd, an investment vehicle jointly owned by Mr Malvinder Singh, Mr Shivinder Singh and Fortis. While the Singh family owns 51% stake in the venture, Fortis owns 49%. (BL)
- **SpiceJet** may get an expatriate chief executive officer (CEO) after Sanjay Aggarwal quit the post yesterday. The resignation comes after media baron Kalanithi Maran bought a controlling 38% stake in the low-cost airline. "We have shortlisted three to four candidates. Three of them are expats and one is an Indian. Any announcement on the new CEO will not come before two months," said sources close to SpiceJet, who did not want to be identified. (BS)
- The Blackstone Group has secured 12.5% stake for Rs 2.75bn ($60 million) in **Monnet Power Company Limited (MPCL).** Monnet Power, a 100% subsidiary of steel producer Monnet Ispat and Energy (MIEL), is developing a 1,050 mega watt (Mw) coal-fired power plant with pit-head coal mines at Angul in Orissa at an investment of about Rs 50bn. (BS)
- **TVS Motor Co Ltd** has said that, its June two-wheeler sales rose 36% from the same period a year earlier to 156,685 units. The country's largest two-wheeler maker Hero Honda reported a 16.60% jump in its sales in June at 4,26,454 units over 3,65,734 units it sold in the corresponding month last year. (ET)
- **Reliance Communications** has announced the acquisition of one of India's largest cable service providers, Digicable, in a cashless, all-stock deal. Reliance will demerge its direct-to-home (DTH) and IPTV business, now under the Reliance BigTV brand and the domestic retail broadband business of Reliance Communications, into a new entity along with the newly acquired Digicable. The new entity will be called Reliance DigiCom and Digicable will be given a stake in this entity. Sources said Reliance Communications is likely to retain 60% stake in DigiCom. (BS)

Source: ET = Economic Times, BS = Business Standard, FE = Financial Express, BL = Business Line, ToI: Times of India, BSE = Bombay Stock Exchange

Equity

		% Chg		
	1 Jul 10	1 Day	1 Mth	3 Mths
Indian Indices				
SENSEX Index	17,509	(1.1)	4.6	(1.0)
NIFTY Index	5,251	(1.2)	4.6	(0.7)
BANKEX Index	10,643	(1.1)	1.6	(0.6)
BSET Index	5,257	(1.2)	1.9	(1.8)
BSETCG INDEX	14,574	(0.9)	7.4	2.1
BSEOIL INDEX	10,765	(1.0)	7.7	4.9
CNXMcap Index	8,109	(0.3)	5.0	4.3
BSESMCAP INDEX	9,081	0.1	6.5	4.3
World Indices				
Dow Jones	9,733	(0.4)	(5.0)	(10.9)
Nasdaq	2,101	(0.4)	(7.9)	(12.5)
FTSE	4,806	(2.3)	(6.7)	(16.3)
Nikkei	9,192	(2.0)	(3.8)	(18.2)
Hangseng	20,129	(0.6)	2.7	(7.0)

Value traded (Rs cr)

	1 Jul 10	% Chg - Day
Cash BSE	4,318	(8.2)
Cash NSE	11,899	(9.8)
Derivatives	76,036.8	(5.5)

Net inflows (Rs cr)

	30 Jun 10	% Chg	MTD	YTD
FII	(176)	(120)	9,708	30,245
Mutual Fund	(283)	(58)	(575)	(7,740)

FII open interest (Rs cr)

	30 Jun 10	% Chg
FII Index Futures	18,543	6.9
FII Index Options	44,433	6.5
FII Stock Futures	28,613	4.2
FII Stock Options	1,153	34.4

Advances / Declines (BSE)

1 Jul 10	A	B	S	Total	% total
Advances	62	989	206	1,257	47
Declines	140	959	239	1,338	50
Unchanged	1	86	17	104	4

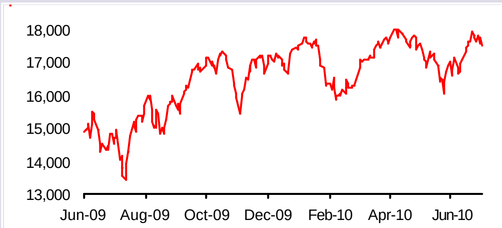
Commodity

		% Chg		
	1 Jul 10	1 Day	1 Mth	3 Mths
Crude (NYMEX) (US$/BBL)	73	0.5	0.6	(13.6)
Gold (US$/OZ)	1,199	(3.5)	(1.4)	7.7
Silver (US$/OZ)	18	(4.5)	(2.2)	0.1

Debt / forex market

	1 Jul 10	1 Day	1 Mth	3 Mths
10 yr G-Sec yield %	7.52	7.55	7.50	NA
Re/US$	46.54	46.45	47.16	44.92

Sensex



MARKET STRATEGY

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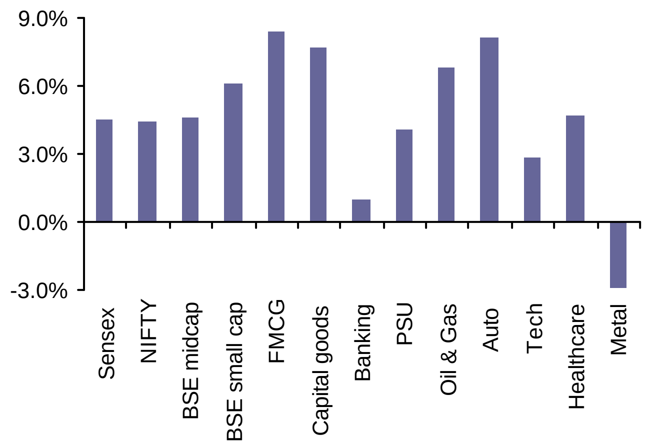
MARKET STRATEGY

Over the past month, although the downtrend in the global markets was arrested, markets remained largely range-bound. The Eurozone debt crisis took a backseat as investors focussed on economic datapoints. The US economic indicators continued to reflect weakness in job market. The housing data was also weak especially on the new homes sales front. Amid this scenario, the Indian markets continued to outperform on robust industrial output numbers and largely on-track monsoons. Expectedly, FIIs have been buyers for the month.

The government's commitment to fiscal reform got a shot in the arm with the EGOM's decision to deregulate petrol prices. Expectations are that even diesel prices could be gradually deregulated. The move comes as a major boost to oil marketing companies and exploration companies. The sector has been a top outperformer in the month. Another noteworthy development was the modified version of the proposed Direct Tax Code.

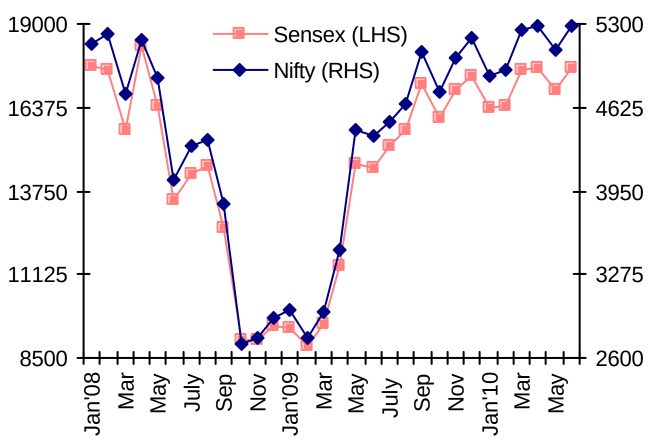
At the current market valuation (17x FY11 consensus earnings), there is moderate upside based on FY11 numbers. But the longer-term picture is positive. One thing is clear, India's resilience through the global slowdown in past two years and the strong comeback indicates that the economy is one of the best structural growth stories in the world. We strongly believe that any market correction would be highly appealing for FIIs with long-term view. We recommend buying into sectors with a strong domestic consumption theme. We recommend select stocks in Infrastructure, autos, capital goods, Financial Services and large IT as our preferred picks. The risk to our moderately bullish call comes from any disruptive event in global economy and monsoons (overall rainfall and distribution).

Market performance - sector wise (June 2010)



Source: Bloomberg

Benchmark indices



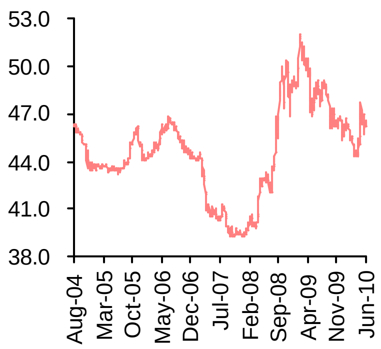
Source: Bloomberg

Economic data from the US indicates persistent weakness in job market

The US markets have been largely directionless on account of mixed set of economic indicators. While the manufacturing sector is on a recovery mode the job market situation has remained weak. The phasing out of home tax credits has resulted in sharp drop in new home sales.

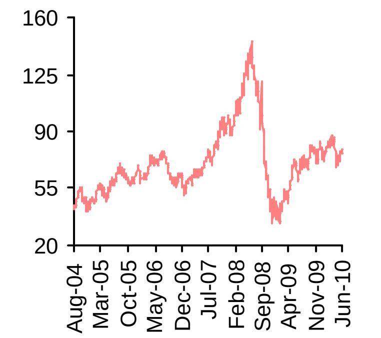
The financial regulatory bill, which sought to limit bank's proprietary trading in derivatives and hedge funds was adopted in a much diluted form. For the large banks, the bill proposes to cap the amount of bank capital that can be invested in hedge funds, private equity and realty at 3%. Furthermore, banks have been given a timeframe of seven years to liquidate their holdings to comply with the rule.

Rupee /US$



Source: Bloomberg

Crude (US$/bl)



Source: Bloomberg

Sensex outperforms the global peers

The Indian markets continued to outperform the global peers. As against flat to negative performance for FTSE and Dow Jones, the Sensex rallied 4% in June. Robust IIP numbers and largely ontrack monsoons were the important drivers.

Following the strong Q4 FY10 GDP, global rating agency Fitch raised India's local currency rating outlook to stable from negative as the rating agency forecast a decline in government debt to GDP ratio to 80% by March 2011 from 83% at the end of March 2010. It also upgraded India's growth forecast to 8.5% in the year to March 2011 from earlier forecast of 7% growth.

Advance tax numbers have been encouraging indicating buoyancy in corporate profitability. As per reports, Reliance Industries (RIL), Tata Motors, BHEL, Tata Steel and Bajaj Auto have reported quantum increase in advance tax.

Sector-wise Auto, FMCG and oil and gas sector stood out. The textile sector got a fillip on China's announcement of gradual revaluation of the Yuan.

Reforms push - Petrol prices deregulated, diesel to follow

The Empowered Group of Ministers (EGOM), which met for the second time during the month deregulated the pricing of petrol and also hiked the prices of petro-products (Petrol by 7.1%, Diesel by 5.2%, Kerosene by 32.2% and LPG by 11.2%). The EGOM decision is seen as a precursor to further deregulation of petro products (gradual deregulation of Diesel price expected). This move is expected to translate into lower under-recoveries for the Oil Marketing Companies (OMCs) which in turn should result in significant potential upside to the earnings of state-owned oil companies. A few weeks earlier, the government had also brought about parity in price of natural gas produced by private and public oil companies. Following the move, oil stocks gave stellar returns for the month.

Modified version of Direct tax code put for discussion

Among the important proposals included in the first version of DTC were significant upward revision in direct tax slabs, phasing out of area based concessions, tax on long-term cap gains and computation of MAT based on gross assets. The modified version of the DTC addresses some concerns of the earlier draft. MAT computation would remain on booked profits, and not assets (+ve for asset-heavy companies viz. Reliance); b. Trading income from foreign institutional investors would now be considered under capital gains as against business income earlier and c. Restoration of EEE (Exempt Exempt Exempt) status for specified investment products.

From market's perspective, the revised code is partly negative as it retains its earlier proposal of taxation under long term capital gains. However, the revised code seeks to provide a cushion to the tax payer by allowing a deduction for calculation of capital gains tax. The final Bill (likely to be tabled in July/Aug) may see some more amendments and will have to be passed by the parliament.

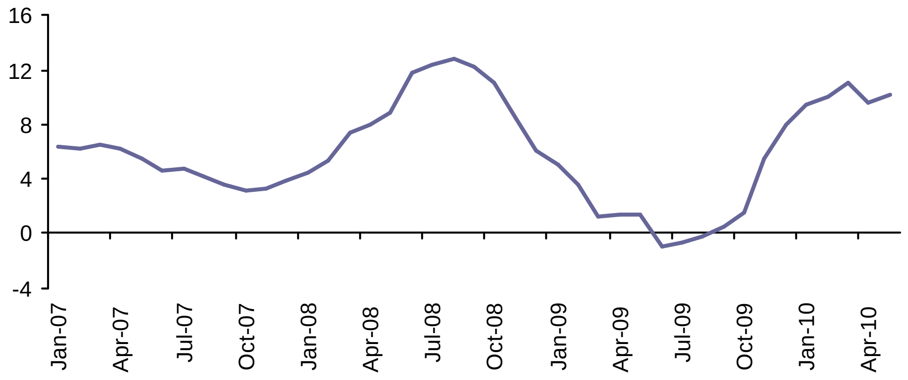
Inflation at elevated levels - Further upwards pressure on recent petro price hike

India's headline inflation shot up to 10.2% in May 2010 as against April 2010 number of 9.6%. The May inflation figure has been mainly driven by higher metal prices even as food prices have corrected (due to softening in sugar prices). Manufactured products inflation has remained high at close to 6% indicating that there are signs of demand-led inflation.

It is expected that the latest round of petro products price hike is likely to put further pressure on WPI. The price hikes may lead to short run inflation upsurge of over 1%. Additionally, inflation would be further fuelled as users of diesel would look to pass on the cost increase.

The RBI has forecast average inflation of 5.5% for FY11, counting on a normal monsoon, which would ease pressure on food prices. The recent fuel price hikes coupled with robust industrial growth has certainly raised the chances of an off-cycle policy action before the monetary policy meeting in 27th July.

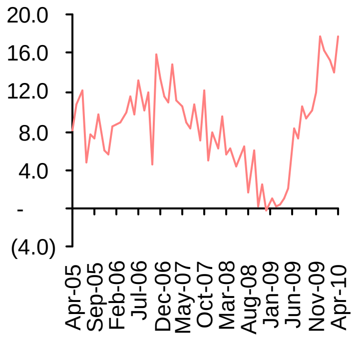
Inflation (%)



Source: Bloomberg

Domestic macros - IIP growth momentum sustained in April...

IIP growth (%)



Source: Bloomberg

April IIP (Index of Industrial Production) rose 17.6%; higher than the revised 13.9% number in March. On a MoM seasonally adjusted basis, growth was up 3.1% v/s -0.9% in the previous month. Mining, Manufacturing and Electricity sectors for the month of April 2010 grew at rates of 11.4%, 19.4% and 6.0% as compared to April 2009. The revised annual growth in the three sectors during FY10 over FY09 have been 9.8%, 10.9% and 6.0% respectively, which moved the overall growth in the General Index to 10.4% in FY10. As per use-based classification, the sectoral growth rates in April 2010 over April 2009 are 8.8% in Basic goods, 72.8% in Capital goods and 10.8% in Intermediate goods. The Consumer durables and Consumer non-durables have recorded growth of 37.0% and 6.6% respectively, with the overall growth in Consumer goods being 14.5%.

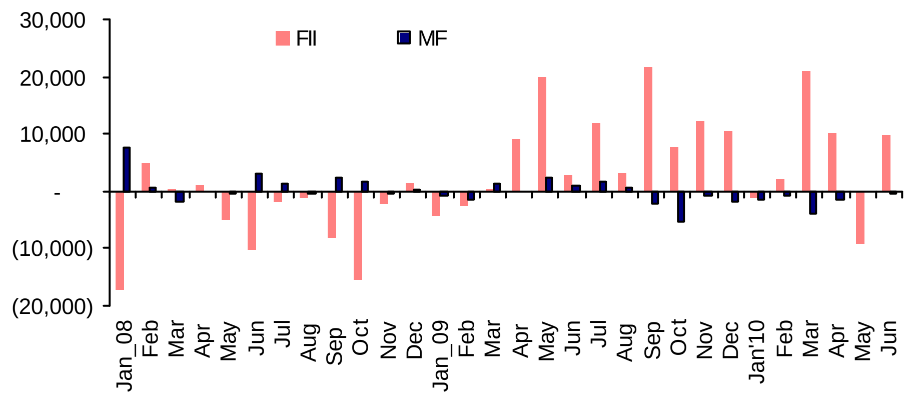
In our view, continued high IIP growth along with high inflation is likely to facilitate RBI's focus on managing price stability. We expect RBI to continue with its tightening policy stance and increase rates over the course of year albeit in baby-steps.

Monsoon activity - slow to start with

As per the IMD, the cumulative seasonal rainfall for the country as a whole during this year's monsoon has so far upto 24 June been 11% below the Long Period Average (LPA). Out of 36 meteorological subdivisions, the rainfall has been excess over 09, normal over 11 and deficient /scanty over 16 sub-divisions. In next few days, monsoon activity is expected to spread to other areas of the country as well.

While the monsoons have been below normal to start with, the IMD has maintained that it expects monsoons to be close to 102% of long-period average. The monsoon winds bring 75 to 90 percent of the rainfall in most parts of India, and are vital for cane, rice and oilseeds crops as 60 percent of cultivated areas depend entirely on the rains for irrigation. Last year, the government's forecast of a normal monsoon proved wrong and the country grappled instead with a drought caused by its driest monsoon in 37 years. Normal monsoons are critical from an inflation management point of view as well, because it would serve to contain the supply-side pressures created inadequate agri-output.

FII & Mutual Fund investment (Rs Cr)



Source: Bloomberg

Recommendation

From hereon, the markets would be focused on the quarterly numbers, developments on the monsoon front and of course global events. In the past ten month or so, markets have been largely range bound and have been consolidating between 16500-17600 levels. At this level, we believe valuation is not demanding and the Sensex can deliver good returns in the medium term. The recent commitment shown by the Government on reforms (fuel price deregulation) is clearly commendable and should send a positive signal to investors. On the fiscal front, the huge proceeds from 3G and BWA auctions should help contain fiscal deficit.

At the current market valuation (17x FY11 consensus earnings), there is moderate upside based on FY11 numbers. But the longer-term picture is positive. One thing is clear, India's resilience through the global slowdown in past two years and the strong comeback indicates that the economy is one of the best structural growth stories in the world. We strongly believe that any market correction would be highly appealing for FIIs with long-term view. We recommend buying into sectors with a strong domestic consumption theme. We recommend select stocks in Infrastructure, autos, capital goods, Financial Services and large IT as our preferred picks.

The risk to our moderately bullish call comes from any disruptive event in global economy and monsoons (overall rainfall and distribution).

Preferred picks

Sector	Stocks
Automobile	Bajaj Auto, Maruti Suzuki, TVS Motor
Banking	ICICI Bank, Andhra Bank, BoB, Union Bank, Axis Bank
Construction	Unity Infraprojects, IVRCL, Jaiprakash Associates, J Kumar Infraprojects, Sunil Hi Tech
Engineering	Voltamp, Blue Star, L&T
Information Technology	Infosys, NIIT Tech, Patni, Infotech Ent.
Logistics	Gati, Mundra Port, GDL
Media	HT Media, Zee Entertainment, UTV
NBFCs	Shriram Transport Finance, India Infoline
Oil & Gas	GSPL
Other Midcaps	JBF, Time Techno, Piramal Glass

Source: Kotak Securities - Private Client Research

INITIATING COVERAGE

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GREAVES COTTON LTD.

PRICE: RS.336 **RECOMMENDATION: BUY**
TARGET PRICE: RS.421 **FY11E P/E: 12x**

Greaves Cotton is one of the largest makers of light diesel engines in the world. Over the years, the company's focus on R&D has resulted in an efficient product which is gaining acceptance with OEMs. GCL has been made the sole supplier of engines to Tata Motors' 4W LCV "Penguin", which is in the launch phase. The company's prime client, Piaggio (PVPL), has been a focused player in light transportation and has seen its 3W volumes grow 29% in 9M FY10. We believe higher demand from rural sector and increasing preference of light vehicles for intra-city transportation should drive growth in the 3-4W (sub 1 ton) auto segment. The company's infrastructure equipment division is expected to turnaround in FY11. We feel GCL is an ideal stock to play the development of light cargo transportation in the country. Valuations at 12x is not demanding. BUY

Key Investment Rationale

- **Three wheelers - Growth driven by need for low cost transportation.** Passenger segment 3W continues to generate bulk of the volumes for GCL's automotive engines division. Given that three wheelers are the cheapest mode of transportation for passengers as well as goods, we see steady demand for this product from the urban as well as the rural areas. In the urban landscape, the emergence of "Hub and Spoke" model is resulting in LCVs being used for intra-city transportation.

- **Addition of new OEMs and variants to give impetus to growth**. Diversifying from Piaggio, GCL has been making inroads into other OEMs including Tata Motors and M&M. It has been made the sole supplier of engines for Tata Motors' new 4W LCV model in the 0.5 ton segment named "Penguin". In addition to this, Piaggio is also sourcing engines from GCL for its 4W "Ape Truk Plus" which has been selectively launched in September 2009. The 4W segment has been gaining market share over 3W in the cargo segment. We believe these two models can generate significant volumes in the coming years. Simultaneously, we see the overall LCV cargo market expanding due to the availability of superior models.

- **Infrastructure equipment segment to turnaround in FY11**. The infrastructure equipment segment bore the brunt of credit crisis in 2008 and posted a sharp decline of 59% in revenues in FY09. Segment margins turned negative due to lower volumes and higher material costs. However, due to the expansion in infrastructure sector and renewed thrust on road building (targeting a quantum rise in road building to 20km/per day), we see demand responding positively. Profitability has been improving sequentially and we expect this division to turnaround in FY11 and contribute meaningfully to the profits in FY12 onwards.

- **Significant margin expansion in FY10 on soft material prices**. GCL reported 500 bps expansion in EBITDA margins in 9M FY10 on the back of higher volumes coupled with softer material prices. Margin expansion was despite the Infrastructure equipment business continuing to report losses. Going ahead, we expect to see some benefits of softer material prices in FY10 to partially reverse as material prices have inched up in recent months. However, the impact on overall margins would be partially cushioned by improving profitability in Infrastructure equipment segment. Thus we have built in minor reduction in EBITDA margins in FY11.

- **High Return ratios**. Owing to the high asset turnover coupled with attractive net profit margins, we see GCL generating a high ROE of 26% in FY10. The company is practically debt-free and likely to end with decent cash surplus by FY10E of Rs 22 per share. Capex needs are not very demanding and can be financed through internal accruals.

Stock details

BSE code	:	501455
Market cap (Rs bn)	:	16749
Free float (%)	:	48.6
52-wk Hi/Lo (Rs)	:	465/236
Avg. daily volume	:	50000
Shares o/s (mn)	:	48.83

Summary table - Year end June

(Rs mn)	FY10E	FY11E	FY12E
Sales	13,313	15,343	18,155
Growth (%)	25.1	16.4	18.3
EBITDA	2,099	2,342	2,723
EBITDA margin (%)	15.8	15.3	15.0
Net profit	1,165	1,368	1,640
Net cash (debt)	660	1,296	2,250
EPS (Rs)	23.8	28.0	33.6
Growth (%)	198.0	17.5	19.8
CEPS	29.5	34.2	40.2
DPS (Rs)	4.0	5.0	5.5
ROE (%)	25.7	24.9	24.6
ROCE (%)	35.7	34.6	34.2
EV/Sales (x)	1.1	0.9	0.7
EV/EBITDA (x)	7.5	6.5	5.2
P/E (x)	14.1	12.0	10.0
P/Cash Earnings	11.4	9.8	8.3
P/BV (x)	3.7	3.0	2.4

FY09-10	Q4	Q1	Q2	Q3
Net Sales	2,619	2,988	3,425	3,579
EPS (Rs)	2.5	4.9	6.7	6.9

Source: Company & Kotak Securities - Private Client Research

Valuations

Greaves is currently trading at a P/E of 14.1x and 12.0x FY10 and FY11x earnings respectively. On a EV/EBITDA basis, the stock is trading at 6.5x. Our DCF based target price for the stock works out to Rs 421.

Risks and Concerns

- **Steep increase in material prices may lead to margin erosion as** GCL's business is material intensive accounting for 69% of revenues.
- **OEMs like Piaggio sourcing engines from captive units.** Piaggio is building an engine manufacturing facility in India, which should become operational in 2010. This unit has the capability to make 1000-1200 cc diesel engines for new generation minitrucks for the African and Asian markets. While this risk has been an overhang on the stock, the GCL management has clarified that this engine unit would mainly cater to the two-wheeler segment which Piaggio is planning to reenter.
- We believe there is understanding between GCL and Piaggio on continuation of the sourcing agreement. GCL has an excellent relationship with Piaggio and has firm agreement for long-term procurement of engines. In the past, GCL has not let down Piaggio on meeting supply commitments.

We Initiate coverage with BUY recommendation on Greaves Cotton with a price target of Rs.421

COMPANY UPDATE

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INFRASTRUCTURE DEVELOPMENT FINANCE CO. (IDFC)

PRICE: RS.182 **RECOMMENDATION: ACCUMULATE**
TARGET PRICE: RS.195 **FY11E P/E: 19.1X; P/BV: 3.0X**

- **Indian economy witnessed a steady pick up in infrastructure investment; higher thrust on public private partnership likely to continue**
- **Strong traction in infrastructure financing business; NBFC-IFC status will aid margins preservation in rising interest rate scenario**
- **Preferential placement of share to stimulate the robust growth in infrastructure financing business; fee based income expected to remain steady**
- **Stock has performed well since our earlier recommendation at Rs 166; recommend investors to hold their existing positions, while they can continue to accumulate the stock at every decline. Revising our price target to Rs.195**

Summary table

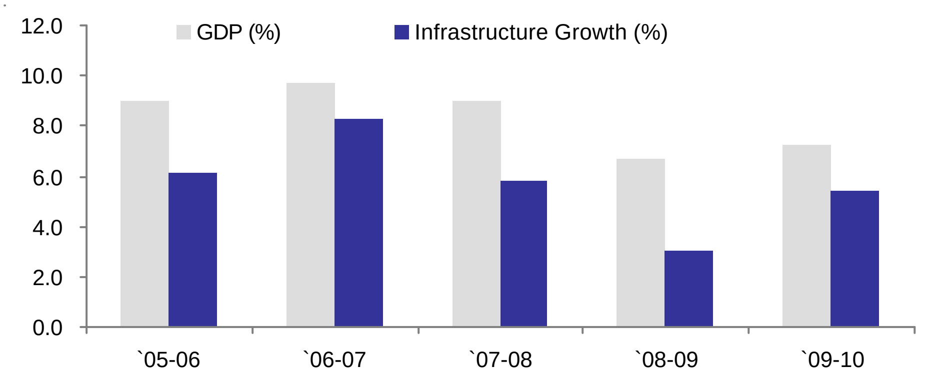
(Rs mn)	FY10	FY11E	FY12E
NII	10,178	11,882	14,055
Non-Int Income	10,889	12,257	13,687
Total Income	21,067	24,139	27,742
Optg Profit	15,585	17,945	20,751
PAT	10,623	12,415	14,271
Gross NPA (%)	0.31	0.33	0.29
Net NPA (%)	0.17	0.15	0.13
NIMs (%)	3.6	3.5	3.2
RoA (%)	3.2	2.9	13.0
RoE (%)	16.1	16.6	16.7
Divi. Payout Ratio (%)	18.4	18.3	20.6
EPS (Rs)	8.2	9.5	10.9
BV (Rs)	53.9	61.4	69.8
Adj. BV (Rs)	53.6	61.0	69.3
P/E (x)	22.3	19.1	16.6
P/ABV (x)	3.4	3.0	2.6

Source: Company, Kotak Securities - Private Client Research

Indian economy expected to witnessed a steady pick up in infrastructure investment; higher thrust on public private partnership likely to continue

- Some reports on eleventh five year plan progress suggest that the government has indicated slippages across segments (power, transportation, telecom etc) following the global financial turmoil which impacted financial closure of large scale infrastructure projects. The actual achievement in terms of project execution is expected to be to the tune of $300 bn, which is close to 60% of the planned investment. Going forward, the GOI has envisaged an investment of $1trillion during the twelfth five year plan, (double of what it had planned) as compared to $500bn during eleventh five year plan.
- Given the strong investment in infrastructure development in India during the Eleventh and Twelfth five year plan as the Government is targeting a higher Gross capital formation to GDP ratio; we opine that domestic infrastructure financiers like IDFC will remain in a sweet spot going forward.

GDP / Infrastructure growth (%)



Source: Company

Strong traction in infrastructure financing business; NBFC-IFC status will aid margins preservation in rising interest rate scenario

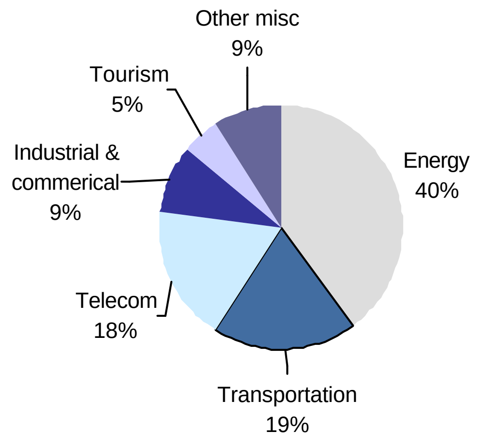
- In the wake of government's impetus on infrastructure development and increase in capital expenditure on enhancement of roads, power generation and transmission & distribution, telecom infrastructure etc, new RBI guideline pertaining to IFCs will materially benefit domestic infrastructure financing companies. IDFC's infrastructure loan book is largely concentrated towards power (40%), transportation (roads - 19%), and telecom (19%).

- Given the gigantic opportunities in the infrastructure financing space, IDFC is looking forward to a robust growth in its infrastructure financing business. IDFC will benefit from the NBFC-IFC (infrastructure financing company) categorization. The IFC status increases Banks exposure to infrastructure finance companies to 20% of its capital funds (from 15% earlier). This move by RBI will enhance the borrowing limit of IFCs from banks and reduce dependence on short term sources including insurance companies and mutual funds.

- In addition to this, exposure limit for IFCs towards lending to infrastructure projects has been raised to 25% of owned funds from 15% for a single borrower and from 35% to 40% for a single group of borrowers. The credit rating linked risk weights for banks, where a loan granted to an AAA rated NBFC would be 20% as compared to 100% earlier. This we believe will be advantageous for companies with superior credit ratings. This is beneficial for IDFC materially, as it would make fund availability at competitive rates and thus aid net interest margin preservation during rising interest rate scenario.

- Future growth outlook for IDFC remains positive as we expect the company to benefit from the significant investment envisaged by the government for infrastructure development in India under the Eleventh five year plan. We expect a strong CAGR of 30% over FY10-12 in IDFC infrastructure loan book to Rs.423bn. Given the capital intensive nature of the power generation segment, energy will continue to form material part of its loan book, followed by transportation (mega highways and expressways) and telecom (3G and BWA).

Loan Book Break-up



Source: Company

Preferential placement of share to stimulate the robust growth in infrastructure financing business; fee based income expected to remain steady

- Given the significant investment envisaged for infrastructure development under the eleventh and twelfth five year plan; private players are participating in development of larger size of projects. As the scale of operation expands with UMPPs and Mega highway projects; larger private players are keen to participate in India infrastructure growth story. Such large scale of projects offers immense opportunity for domestic infrastructure financing companies. We opine that IDFC will remain in sweet spot- being a leading specialised financing institution.
- Fully capitalized after raising $575bn, we opine that IDFC is geared up for a strong leap in its infrastructure financing business. The preferential placement of share will help augment its balance sheet and boost its capability to finance significantly larger projects.
- IDFC has guided for a 3-fold growth in its infrastructure financing business over FY11-13. We expect a CAGR of 30% over FY10-12 to Rs.423bn. Being a leading infrastructure financing company with an NBFC-IFC status, IDFC holds superior pricing power - we opine that this will lead to healthy net interest margins of 3.3-3.4% going forward.
- IDFC's non-fund based income comprises of income from principal investment, asset management fee, investment banking fee and infrastructure loan related fee. On the back of improved capital market related business and healthy growth in its AUM, we expect healthy growth in IDFC's fee based income going forward. We also opine that, despite equity dilution, a steady growth in its fee based income, which contributes close to 50% of the total revenue, will aid improvement in ROE.

Stock has performed well since our earlier recommendation at Rs 166; recommend investors to hold their existing positions, while they can continue to accumulate the stock at every decline. Revising our price target to Rs.195

We recommend ACCUMULATE on IDFC with a price target of Rs.195

- Given the strong growth in infrastructure financing business coupled with healthy growth in fee income, IDFC earnings growth outlook appears bright. Increase in equity leverage to 7x from 5x coupled with a steady RoA of 2.75%, will lead to improvement in RoE to around 19%. We have marginally tweaked our estimates following a positive earnings growth outlook. We expect IDFC's net profit growth of 17% yoy for FY11 to Rs 12.5bn and 15% yoy to Rs.14.3bn in FY12. We expect an EPS of Rs.9.6 and Rs.11 for FY11 and FY12 respectively. Our working does not factor any equity dilution following the recent QIP.
- Our valuations are based on SOTP methodology; valuing the core business on dividend discount model- at Rs.130, and its asset management businesses and other investment and subsidiaries at Rs.65, this leads to a fair value for the stock at Rs.195. Striping of the value of its subsidiaries and investments, at our price target, the stock will trade at 1.9x P/ABV.

Bulk deals

Trade details of bulk deals

Date	Scrip name	Name of client	Buy/ Sell	Quantity of shares	Avg. price (Rs)
1-Jul	ACI Infocom	Sanjay Agarwal HUF	B	100,000	27.4
1-Jul	ACI Infocom	Divya Alok Gupta	S	150,000	27.4
1-Jul	Ajel Info	Arikatla Srinivasa Reddy	S	200,000	26.4
1-Jul	Anil Products	Surya Corporation	B	50,004	167.1
1-Jul	Balaji Dist	Globe Capital Market Limited	B	479,125	44.5
1-Jul	Balaji Dist	Mahesh Chimanlal Dalal	S	401,769	44.2
1-Jul	Comfort Intech	Ravish Tammansa Katwa	S	1,000,000	15.0
1-Jul	Fenoplast	Saroja Gaddam	B	100,000	43.1
1-Jul	Fenoplast	Roofings Srinu Rao	S	99,765	43.1
1-Jul	Filatex Fash	Manjulaben Amarshibhai Morbia	B	50,000	10.1
1-Jul	Filatex Fash	Nailesh Swarupchand Mehta	B	121,230	10.0
1-Jul	Filatex Fash	Sunil Shankar Padekar	B	45,000	10.1
1-Jul	Filatex Fash	Sagar Tex Creation Private Limited	S	202,000	10.0
1-Jul	IFL Promoters	Balwantsingh Bisht	B	22,000	22.6
1-Jul	IFL Promoters	Kapil Gupta	B	55,810	22.4
1-Jul	Jaihind Syn	Farhan Shaikh	B	28,045	16.0
1-Jul	Jaihind Syn	Zuber Zalil Khan	S	44,000	15.8
1-Jul	Jaihind Syn	Durgaprasad B Pathak	S	30,000	16.0
1-Jul	Jamna Auto	Aarken Advisors Private Limited	S	190,000	89.7
1-Jul	Kay Power	Bampsl Securities Ltd	B	95,158	15.9
1-Jul	Kirloskar Oil	Nalanda India Fund Limited	S	55,088	400.0
1-Jul	Mahalaxmi Rub	Rajesh Sanghvi	B	50,000	181.0
1-Jul	Mahalaxmi Rub	Ratna Rahulkumar Parekh	S	55,000	180.0
1-Jul	Mahalaxmi Rub	Amita Anand Parekh	S	60,000	181.0
1-Jul	Master	Ganesh Khajaam Barkar	B	34,455	42.6
1-Jul	Master	Bala Rama Venkata Siva Naga S	S	45,000	42.4
1-Jul	Master	Neha Investments Private Limited	S	32,925	42.7
1-Jul	Moldtkpack	Navneet Sharma	B	50,000	58.6
1-Jul	Moldtkpack	Navinchandra Manilal Sheth	B	43,106	57.8
1-Jul	Neo Corp	Bdr Securities Pvt Ltd	B	193,325	54.5
1-Jul	Neo Corp	Preeti Paresh Bhagat	S	193,325	54.5
1-Jul	Oregon Comm	Krunal Gopaldas Rana	B	15,000	394.8
1-Jul	Parab Drugs	Indea Long Term Opp Master Fund	B	350,000	68.5
1-Jul	Priyadarshini Sp	Pradeep Kumar Aggarwal	B	76,927	51.3
1-Jul	Rama Phosph	Tradelink Exim Indiaprivate Limited	B	35,797	40.5
1-Jul	Ranklin Sol	Manikyala Raovura	B	27,689	108.3
1-Jul	Ranklin Sol	Bala Rama Venkata Siva Naga S	S	36,754	107.2
1-Jul	Redington Ind	Ussl As Trustee Of Universities Superannuation Scheme	B	1,300,000	355.0
1-Jul	Redington Ind	Payash Securities Pvt Ltd	B	700,000	355.0
1-Jul	Redington Ind	Morgan Stanley Mutual Fund A/C Morgan Stanley Growth Fund	B	455,000	355.0
1-Jul	Redington Ind	IDFC Small Andmidcap Eqty Sme Fund	B	550,000	355.0
1-Jul	Redington Ind	Blackstone Asia Advisors L.L.C. A/C The India Fund Inc	B	523,000	355.0
1-Jul	Redington Ind	Morganstanley Invst Mgmt Inc A/C Morganstanleyindia Invst Fund Inc	B	640,000	355.0
1-Jul	Redington Ind	Goldman Sachs Investment (Mau) 1 Ltd A/C. Short Term	B	1,963,000	355.0
1-Jul	Redington Ind	Redington Mauritius Limited	S	10,600,000	355.2
1-Jul	Ritesh Prop	Godwin Securities Private Limited	B	59,000	17.3
1-Jul	Rotam Comm	Sandeepkumar Ramanlal Shah	S	5,822	51.2

Trade details of bulk deals

Date	Scrip name	Name of client	Buy/ Sell	Quantity of shares	Avg. price (Rs)
1-Jul	Samyak Intl	Manisha Jhawar	B	19,356	18.4
1-Jul	Samyak Intl	Rameshsingh Bhati	S	30,000	18.2
1-Jul	Samyak Intl	Suhans Capital Market Private Ltd	S	25,000	18.0
1-Jul	Sark Sys	Bimal Barui	B	100,000	32.1
1-Jul	Sark Sys	Shriram Tibrewala	B	56,810	32.6
1-Jul	Sark Sys	Elcon Investment	S	48,415	32.1
1-Jul	Sark Sys	Satellite Exim Private Limited	S	70,000	32.1
1-Jul	Shakti Metdor	Mechno Sales Agencies (P) Ltd.	B	18,210	230.9
1-Jul	Shakti Pumps	Kinjal Girish Shah	B	31,000	203.0
1-Jul	Shakti Pumps	Anand Finstock Services Ltd	S	31,626	206.5
1-Jul	Shakti Pumps	Melchior Indian Opportunities Fund	S	92,330	200.8
1-Jul	Sky Inds	Jimeet Dilipkumar Shah	B	20,000	122.5
1-Jul	Sky Inds	Kamal Pantilal Nanavaty	B	20,000	125.1
1-Jul	Vijayeswari Tex	HSBC Investdirect Ltd	S	128,291	22.8

Source: BSE

Gainers & Losers

Nifty Gainers & Losers

	Price (Rs)	chg (%)	Index points	Volume (mn)
Gainers				
Hindustan Unilever	273	1.9	1.8	2.6
IDFC	182	1.7	1.1	11.9
Bharti Airtel	265	0.9	1.0	7.5
Losers				
Reliance Ind	1,076	(1.3)	(7.9)	3.0
ICICI Bank	841	(2.4)	(7.8)	3.3
Infosys Tech	2,767	(0.9)	(4.0)	0.7

Source: Bloomberg

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