IIFL

INDIA PRIVATE CLIENTS

Diwali Dhamaka

11 attractive stock ideas!

Reliance

M&M • United Phos

REC • Unity Infra

Dr Reddy's

BGR Energy

Petronet • Radico

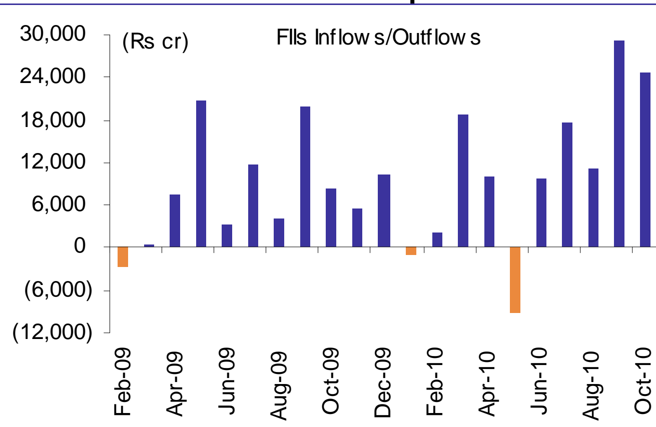
OnMobile • Shoppers

The Diwali season is here again, the festivities are on a higher pitch this time; be it the economy, the stock market or just sentiment. From 17,000 levels last Diwali, the Sensex has swung wildly from a low of 15,330 in November '09 to a high of over 20,850 recently, rallying 18% in the process this Samvat. The big question now is, are we in the midst of a big bull run? It may be pre-mature to jump to any firm conclusion as yet. The direction of equities will hinge on the pace of global recovery and liquidity flows in the medium to long run. For now, developed economies like US and Europe are doing all they can to breathe life into their subdued economies; these include measures like quantitative easing (round II this time), interest rate cuts, fiscal stimulus, tax cuts and healthcare spending. In short anything for growth revival. The catch phrase of the season appears to be 'currency wars' and countries appear to be racing to devalue their currency. The resultant easy money has flowed into emerging markets. While the global recovery will be a gradual one, Indian equities will remain buoyant, at least in the medium term. The continuing high Indian growth trajectory coupled with a healthy liquidity flow augurs well for the Indian stock market.

Liquidity is here to stay

Developed countries will not risk tightening the liquidity screws in a hurry, even if certain data points hint at a recovery. On the contrary, they will use every trick in the book to ensure continuation of easy liquidity. The US Fed may soon restart printing money to buy government bonds. The emerging economies are likely to lose the ongoing currency war; periodic intervention to support exchange rates and tax on capital flows (though large restrictions are unlikely and considered 'draconian') may win them some battles though. In a nutshell, emerging economies will not be able to halt appreciation in their currencies.

Net FII flows into Indian equities



Source: Bloomberg, India Infoline Research

After seeing India and China emerge relatively unscathed from the crippling crisis, the rush to buy assets in these markets has got even stronger. Indian equities have witnessed FII inflow of US$20bn in FY11 so far. A look at FII ownership patterns will reveal that the investment share presently as a percentage of total market capitalisation, is largely constant when compared to the year before. This effectively means there is scope for more participation. We expect net inflows in excess of US$35bn by FIIs and DIIs together in Indian equities in 2010-11. This will also take care of new paper supply in the market. In fact, IPOs like Coal India are bringing in whale investors like pension funds as well as adding to the retail equity base.

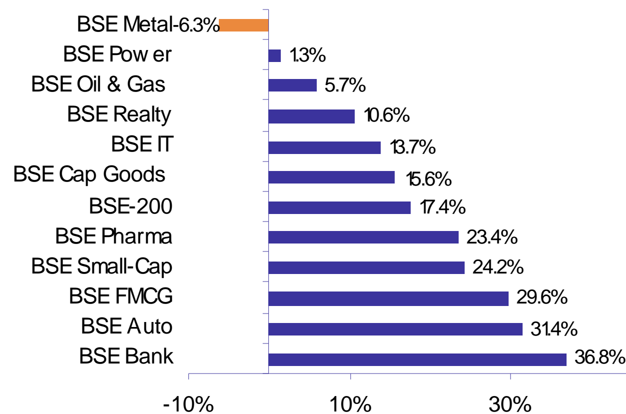
India story remains intact

The Indian economic growth story is well known and projected to grow by 8.5% in 2010-11. Backed by its strong demographic profile, rising income levels with per capita crossing US$1,000, low credit and debt compared to GDP, high savings and investment rate and sub-optimal penetration in many industries, growth momentum is likely to sustain in coming years. We believe that even if earnings were to disappoint for a quarter or two, they will make up over the ensuing 4-6 quarters. Recent monetary policy measures like hike in provisioning for certain category home loans is testimony to the proactive nature of the central bank policy. There are some concerns on the fiscal deficit and inflation front, but the positives clearly outweigh the negatives. The GST implementation (even though delayed), UID project and continued pace of reforms are some of the positive measures to look forward to.

Indian equities in 2010 so far

While the Nifty has moved by 18% ytd, the rally has not been a broad-based one. A number of sectors and stocks have not participated significantly to this rally. Reliance Industries, the stock with the largest market cap and otherwise, a market mover has delivered a negative 2.3% return. Midcaps have seen downgrades leading to ~20% underperformance v/s Nifty in last two months. Stocks driven by investment cycles like capital goods, engineering, construction, utilities and global cyclicals (metals, materials) have mostly witnessed weakness on the bourses. Investors have largely stuck to pro-consumption strategy for a long time.

Sector wise performance



Source: Bloomberg, India Infoline Research

Portfolio summary and rationale

Our Diwali bonanza for investors this year comprises 11 stocks, which is a judicious mix of large and midcaps from a wide range of sectors, playing on vivid themes. The intention is to avoid exposure to a single theme or specific market-cap dependence. Out of the 11 stocks, seven are large cap companies and the balance are from the midcap universe. This was to avoid a situation where gains are limited due to underperformance of large caps or midcaps.

The portfolio includes three stocks that belong to ancillary and allied sectors of the main theme. BGR Energy and REC are chosen as proxy to the power theme. We believe investment in these two stocks is a better way to play the power capex story, rather than investment in power generation companies. Similarly, OnMobile is the preferred option for participating in the telecom space, as compared to investment in telecom operators facing severe price competition.

Six stocks from the list of 11 are yet to fully participate in the market rally in the last three months. They have delivered a return of -8% to 11% as against Nifty return of 13% during the same period.

Consumption, agriculture and infrastructure are the dominant themes in the portfolio. Rising income levels, success of NREGA scheme, 150-200% increase in minimum support prices in 4-5 years, easy availability of credit and pick up in urban hiring are supporting the consumption and agri themes.

We have avoided banking which looks overbought and technology due to adverse currency movement and impact on coming quarters. Cement and metals have been kept aside due to current cyclical downturn. The combined market cap of our portfolio is Rs4,907bn, which is 13% of the Nifty market cap.

We strongly believe infra development is a must for sustained high GDP growth and it is only a matter of time before capex picks up. Though this sector has been an under-perfomer, we are confident that the infra space is at an early revival phase in investment demand. Given liquidity in system, infra will be the next sector that will attract investments.

Stock table

Sr No	Company	Sector	Reco price (Rs)	Target price (Rs)	Exp Returns (%)*
1	BGR Energy	Capital Goods	798	920	15.0
2	Dr. Reddy's	Pharmaceuticals	1,695	1,900	13.4
3	Mahindra & Mahindra	Automobiles	760	835	9.9
4	OnMobile Global	Telecom	326	391	19.9
5	Petronet LNG	Oil & Gas	119	140	17.6
6	Radico Khaitan	Breweries	179	210	17.3
7	Rural Electrification Corp	NBFC	371	418	12.7
8	Reliance Industries	Oil & Gas	1,065	1,176	10.4
9	Shoppers Stop	Retail	697	836	19.9
10	United Phosphorus	Agro Chemical	208	238	14.4
11	Unity Infraprojects	Infrastructure	103	130	26.6

* *Returns expected over 3-6 months horizon*

We admit you require more than just knowledge to prosper – The Blessings of the Goddess of Wealth.

May the Goddess shower her choicest blessings upon you and your loved ones.

Happy Diwali and Happy Investing!

BGR Energy - BUY

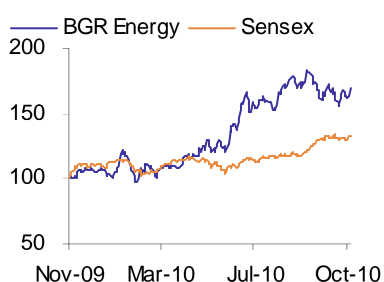
Sector: Capital Goods	
Sensex:	20,466
CMP (Rs):	798
Target Price (Rs):	920
Upside (%)	15.0
52 Week h/l (Rs):	871 / 438
Market cap (Rscr) :	5,759
6m Avg vol ('000Nos):	242
No of o/s shares (mn):	72
FV (Rs):	10
Bloomberg code:	BGRL IB
Reuters code:	BGRE.BO
BSE code:	532930
NSE code:	BGRENERGY

Prices as on 03 Nov, 2010

Shareholding pattern	
September '10	**(%)**
Promoters	81.2
Institutions	9.3
Non promoter corp hold	1.0
Public & others	9.5

Performance rel. to sensex			
(%)	**1m**	**3m**	**1yr**
BGR Energy	3.0	(8.7)	37.9
Seimens	0.4	5.3	35.0
ABB	(7.2)	(5.6)	(16.8)

Share price trend



Major beneficiary of abounding opportunities in power sector

Demand for power continues to outstrip the supply resulting in heavy investments in power generation. This will translate into abounding opportunities for Balance of Payment (BoP) facility players like BGR Energy systems. BoP work generally constitutes an average 40% of the total project cost. With planned thermal capacity at over 75GW for the 12th Five Year Plan alone, this would translate into a potential BoP opportunity of ~Rs1,354bn (i.e. ~Rs271bn of an average annual opportunity).

Climbing the value chain from BoP to BTG

Over the past few years, BGR has continuously scaled up the value chain of its product portfolio from component supplier in the BoP space to the execution of full-fledged EPC contracts. Further, the company has recently forayed into the supercritical BTG (Boiler, Turbine and Generators) manufacturing in a JV with Hitachi. This positions the company in the line of big players like L&T and BHEL which are the only other two companies to set up the manufacturing facility for entire BTG package.

Robust order book at 3.4x FY10 revenues

Current order book of the company stands at Rs105bn, 3.4x FY10 revenues, providing a strong revenue visibility. Management is confident of achieving Rs150bn order book by the end of FY11. The company is present in six business division with power projects, its core business, contributing ~92% of the order backlog. Geographically, ~95% of the order is contributed by domestic market.

Cost advantage versus peers

Over the past few years BGR has scaled up its product portfolio significantly and can now manufacture 40-50% of the components in-house, offering it a cost advantage versus peers.

Valuations to re-rate on strengthened business profile

Considering the robust order book of BGR, we expect revenues for the company to witness 42% CAGR over FY10-12E. Further, margin for the company are expected to stay at around 12% levels for the next two years translating into an EPS of Rs43.3and Rs56.1 for FY11 and FY12 respectively. We expect BGR's valuation to re-rate in the medium term on account of strengthened business profile with company's foray into supercritical BTG manufacturing. Recommend BUY with a target price of Rs920.

Valuation summary (Consolidated)

Y/e 31 Mar (Rs m)	FY09	FY10	FY11E	FY12E
Revenues	19,314	30,779	46,538	61,430
yoy growth (%)	27.3	59.4	51.2	32.0
Operating profit	2,089	3,487	5,724	7,556
OPM (%)	10.8	11.3	12.3	12.3
Reported PAT	1,156	2,015	3,123	4,041
yoy growth (%)	30.6	74.3	55.0	29.4
EPS (Rs)	16.0	28.0	43.3	56.1
P/E (x)	49.6	28.3	18.3	14.1
P/BV (x)	10.2	8.1	6.1	4.6
EV/EBITDA (x)	26.2	15.3	10.2	8.1
Debt/Equity (x)	1.3	1.3	1.2	0.9
ROE (%)	20.5	31.8	37.5	35.9

Source: Company, India Infoline Research

Dr Reddy's - BUY

Sector: Pharmaceuticals	
Sensex:	20,466
CMP (Rs):	1,695
Target Price (Rs):	1,900
Upside (%)	13.4
52 Week h/l (Rs):	1710 / 1015
Market cap (Rscr) :	28,672
6m Avg vol ('000Nos):	519
No of o/s shares (mn):	169
FV (Rs):	5
Bloomberg code:	DRRD IN
Reuters code:	REDY.BO
BSE code:	500124
NSE code:	DRREDDY

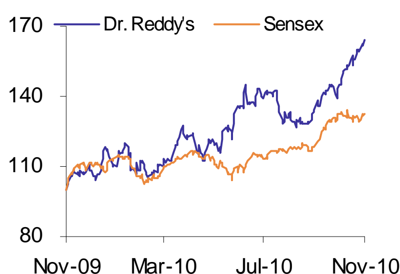
Prices as on 03 Nov, 2010

Shareholding pattern	
September'10	**(%)**
Promoters	25.7
Institutions	42.5
Non promoter corp hold	5.0
Public & others	26.8

Performance rel. to sensex

(%)	1m	3m	1yr
Dr. Reddy	14.0	10.1	30.4
Sun Pharma	10.5	13.3	28.3
Ranbaxy	6.0	21.1	25.0
Cipla	7.0	(6.6)	(13.2)

Share price trend



Best placed to tap the US generics opportunity

The generic business of Dr. Reddy's is set to benefit from market share gains in Prilosec OTC and new product launches. Its US generic pipeline comprises 73 ANDAs (Abbreviated New Drug Applications) pending with USFDA, including 11 tentative approvals. The company has a strong pipeline of low competition products like Arixtra, Accolate, Exelon, Prevacid and Zyprexa. The management has guided on 8-10 product launches in FY11 and its generic product Fondaparinux, if approved, could provide further revenue visibility for FY12E.

Russian business adding momentum

Dr. Reddy's revenue growth of 25% in Russia, outperformed the country's market growth of 8% in FY10. Growth was mainly driven by strong contributions from the OTC segment as well as prescription sales. Key brands such as Nise, Cetrine, Keterol, Omez and Ciprolet played a major role. The company recently entered into an agreement with Vitabiotics for exclusive marketing rights for two leading products in pain and weight management space. The estimated market size for Vitabiotics' products is ~US$80mn in Russia.

Well positioned in Indian formulations business

Reddys is well placed in the Indian market with a share of 2.2%. Its domestic formulations business saw a revenue growth of 20% in FY10 to Rs10.2bn on account of volume growth of 16%, while new products led growth of 6%. New product launches constituted 5% of topline in FY10. It had launched 13 new products in Q2 FY11 and expects to continue with this momentum. Domestic formulations segment is expected to witness a CAGR of ~18% in the next two years, driven by new product launches and addition of field force.

Top pick in pharma space

We expect revenue CAGR of 15.4% and earnings CAGR of 41% over FY10-12E on the back strong growth in US and emerging markets like India and Russia. The stock currently trades at a PER of 17.6x FY12E EPS. With due consideration to factors like a) strong generic products pipeline, b) dominant position in emerging markets like India and Russia, we recommend a BUY with a target price of Rs1,900.

Valuation summary

Y/e 31 Mar (Rs m)	FY09	FY10	FY11E	FY12E
Revenues	69,006	70,310	76,779	93,615
Yoy growth (%)	38.2	1.9	9.2	21.9
Operating profit	13,020	14,195	17,575	23,910
OPM (%)	18.9	20.2	22.9	25.5
Pre-exceptional PAT	5,457	8,097	11,164	16,037
Reported PAT	(9,171)	3,514	11,164	16,037
yoy growth (%)	-	-	37.8	43.6
EPS (Rs)	32.4	48.0	66.1	95.0
P/E (x)	52.3	35.3	25.6	17.8
Price/Book (x)	8.1	7.6	6.1	4.7
EV/EBITDA (x)	23.0	20.7	16.5	11.8
Debt/Equity (x)	0.6	0.4	0.3	0.1
RoE (%)	13.6	22.2	26.4	29.9
RoCE (%)	14.8	20.2	25.1	31.3

Source: Company, India Infoline Research

Mahindra & Mahindra - BUY

Sector: Automobiles	
Sensex:	20,466
CMP (Rs):	760
Target price (Rs):	835
Upside (%):	9.9
52 Week h/l (Rs):	772 / 438
Market cap (Rscr) :	45,293
6m Avg vol ('000Nos):	1,949
No of o/s shares (mn):	593
FV (Rs):	5
Bloomberg code:	MM IB
Reuters code:	MAHM.BO
BSE code:	500520
NSE code:	M&M

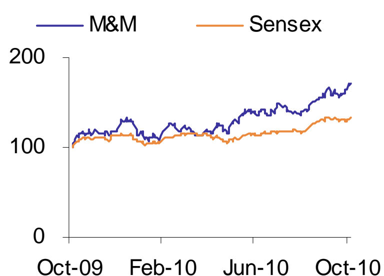
Prices as on 03 Nov, 2010

Shareholding pattern	
September '10	**(%)**
Promoters	25.8
Institutions	48.0
Non promoter corp hold	8.2
Public & others	18.0

Performance rel. to sensex

(%)	1m	3m	1yr
M&M	6.6	3.4	38.4
Maruti	0.9	10.8	(28.7)
Tata Motors	4.2	27.6	80.4
Ashok Ley	(0.2)	(10.9)	31.1

Share price trend



Improving rural consumer sentiment to drive volume growth

With FY11 monsoons being better than normal vis-à-vis a drought last year, strong revival is expected in agriculture growth. This coupled with government initiatives such as higher support prices for crops, interest subvention for farmers and rural employment schemes will shore up rural consumer sentiment. This will translate into higher demand for tractors and UVs, directly benefitting M&M. New launches in both the segments will provide additional traction for the company. Furthermore, entry into M&HCV and LCV sales will also be earnings accretive over the medium term.

Ssangyong acquisition could be beneficial over medium term

Recently, M&M was selected as the preferred bidder for Ssangyong, a leading SUV manufacturer in Korea. We believe, the acquisition at 0.5x CY09 sales would be value accretive for M&M over the medium term. M&M will also see benefits such as 1) Ssangyong being a premium SUV player, M&M could gain from its design and technological capabilities and 2) of M&M's export product profile would widen aiding it to meet its target of increasing its exports from 10% of sales to 20% over the next three years.

Raw material sourcing strategy and stable commodity prices to support operating margins

M&M reported an OPM of 16.4% in Q2 FY11 (much ahead of our and street estimates) despite pressure of higher commodity prices and shortage in component supplies. The resilient performance was owing to better raw material sourcing strategy and benefits of operating leverage. If current level of commodity prices continues, we believe there would be upsides from the current levels in terms of margin performance. Continued volume momentum and sorting out of component shortage issue will provide further benefits of operating leverage.

Best play on rural India theme

We value M&M at Rs835/share, which includes Rs562 for its automotive business (14x P/E for FY12E) and Rs213 for its subsidiaries. Substantial exposure to rural sector and improving product profile will keep earnings momentum intact. We have not factored in any value from its commercial vehicle JV with Navistar.

Valuation summary

Y/e 31 Mar (Rs m)	FY09	FY10	FY11E	FY12E
Revenues	130,937	186,021	212,501	245,548
yoy growth (%)	13.5	42.1	14.2	15.6
Operating profit	10,926	29,552	32,513	36,341
OPM (%)	8.3	15.9	15.3	14.8
Pre-exceptional PAT	8,265	19,970	23,171	25,836
Reported PAT	8,368	20,878	23,171	25,836
yoy growth (%)	(24.2)	149.5	11.0	11.5
EPS (Rs)	14.8	34.3	39.8	44.4
P/E (x)	51.4	22.2	19.1	17.1
P/BV (x)	8.1	5.7	4.6	3.9
EV/EBITDA (x)	41.1	15.4	14.0	12.1
Debt/Equity (x)	0.8	0.4	0.2	0.0
ROE (%)	17.2	30.5	26.7	24.6

Source: Company, India Infoline Research

OnMobile Global - BUY

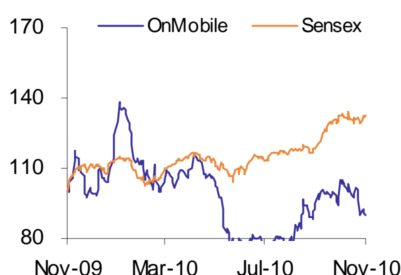
Sector: Telecom	
Sensex:	20,466
CMP (Rs):	326
Target price (Rs):	391
Upside (%):	19.9
52 Week h/l (Rs):	543/257
Market cap (Rscr) :	1,939
6m Avg vol ('000Nos):	499
No of o/s shares (mn):	59
FV (Rs):	10
Bloomberg code:	ONMB IN
Reuters code:	ONMO.BO
BSE code:	532944
NSE code:	ONMOBILE

Prices as on 03 Nov, 2010

Shareholding pattern	
September '10	**(%)**
Promoters	50.1
Institutions	30.0
Non promoter corp hold	6.0
Public & others	13.9

Performance rel. to sensex			
(%)	**1m**	**3m**	**1yr**
OnMobile	(8.5)	0.3	(45.1)

Share price trend



Telefonica deal to ramp up revenues beyond FY11

In June' 09, OnMobile signed an agreement with Telefonica, amongst the world's largest mobile operators, for an exclusive (valid for a period of 5-7 years) and non-exclusive market rights to deploy several of its VAS products. These include RBTs, Music Radio, Soccer Portal etc in Telefonica operated 13 Latin American countries. OnMobile is likely to complete roll out by Mar'-Apr' 11.

As of Q2 FY11, company has gone live in 3 countries including Mexico, the first large-scale deployment. Real impact of Telefonica deal would be felt from FY12 as rapid revenue ramp up occurs from next fiscal.

OPM recovery seen on stable content cost

Content cost, except for one-offs in Q4 FY10, has been contained at about 20% of sales in the past 6 quarters. In our earlier discussion with the company, management has indicated that content cost may not deviate materially from current level, despite the ongoing Telefonica deployment. Also, as revenues kick in from international deals, benefits of operating leverage could help expand OPM by ~280bps over FY10-12.

Controls ~33% of domestic non-SMS VAS market

OnMobile has firmly ensconced itself in the leadership position as the dominant VAS provider to majority of domestic telcos. We reckon OnMobile FY10 domestic revenues accounted for ~33% of the addressable VAS market (ex-P2P SMS & non-aggregator share of revenues) worth Rs10-11bn.

Robust ~49% EPS cagr underpins our BUY

OnMobile is set to report increased traction in revenues driven by leadership in domestic business and upsides from Telefonica and Vodafone deals. It would incur a capex of Rs700-800mn and pay Rs1.7bn in deferred liability to Telefonica in the current fiscal, comfortably supported by Rs1.5bn in operating CFs. We project revenue/EPS cagr of ~24%/49% over FY10-12 coupled with improved OPM and recommend BUY.

Valuation summary

Y/e 31 March (Rs m)	FY09	FY10	FY11E	FY12E
Revenues	4,064	4,544	5,409	6,956
yoy growth (%)	55.2	11.8	19.0	28.6
Operating profit	1,281	831	1,147	1,468
OPM (%)	31.5	18.3	21.2	21.1
Pre-exceptional PAT	852	424	754	954
Reported PAT	852	428	754	954
yoy growth (%)	39.5	(49.8)	76.2	26.5
EPS (Rs)	14.7	7.3	12.9	16.3
P/E (x)	22.1	44.6	25.3	20.0
P/BV (x)	2.7	2.6	2.3	2.1
EV/EBITDA (x)	12.5	20.8	15.4	11.9
ROE (%)	13.0	6.0	9.7	11.1
ROCE (%)	16.9	7.5	10.0	12.8

Source: Company, India Infoline Research

Petronet LNG - BUY

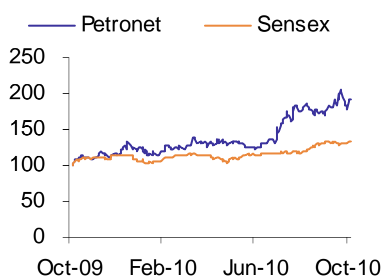
Sector: Oil & Gas	
Sensex:	20,466
CMP (Rs):	119
Target price (Rs):	140
Upside (%):	17.6
52 Week h/l (Rs):	130/62
Market cap (Rscr) :	9,000
6m Avg vol ('000Nos):	3,257
No of o/s shares (mn):	750
FV (Rs):	10
Bloomberg code:	PLNG IB
Reuters code:	PLNG.BO
BSE code:	532522
NSE code:	PETRONET

Prices as on 03 Nov, 2010

Shareholding pattern	
September '10	**(%)**
Promoters	50.0
Institutions	20.0
Non promoter corp hold	2.0
Public & others	28.1

Performance rel. to sensex			
(%)	**1m**	**3m**	**1yr**
Petronet	10.0	10.0	61.6
GAIL	(0.3)	(3.0)	10.0
GSPL	3.0	(5.8)	16.2
Guj Gas	(3.4)	11.5	65.8

Share price trend



Gas demand-supply balance favours Petronet

The demand-supply balance for natural gas in the country is expected to be stretched over the next few years as 1) demand growth is likely to remain strong with newer applications across industries, 2) peak production from RIL's KG-D6 field delayed and 3) no other major gas field going into production in the medium term. This we believe would translate into strong demand for LNG. With Petronet LNG (PLNG) having tied up 7.5mtpa for Dahej and 1.5mtpa for Kochi, it is well poised to gain on the increasing gas deficit.

Expanding capacities at opportune time

PLNG has doubled its re-gasification capacity at the Dahej terminal from 5mtpa in FY08 to 10mtpa in FY10. Furthermore, the effective capacity is likely to increase by 2.5mtpa to 12.5mtpa in FY11. Kochi terminal having an initial capacity of 2.5mtpa is expected to commence operations in FY14E. The capacity can be further scaled up to 5mtpa.

Port and power projects to aid growth

PLNG is currently setting up a solid cargo port through a JV company; Adani Petronet (Dahej) port, where it has a 26% stake. The project is scheduled to be completed by H2 CY10 and involves an investment of US$270mn (PLNG's equity share of US$26mn). The company also plans to set up a 1,200MW gas based power plant at Dahej. The construction of the project is likely to commence in CY11. These projects, we believe, would be earnings and value accretive over the medium term.

Strong earnings visibility

PLNG has long term sale and purchase agreement for 7.5mtpa of LNG with Rasgas of Qatar. On the customer side, it has offtake agreement with GAIL, IOC and BPCL. This provides a strong revenue visibility for PLNG over the longer term. Further, with limited threat to re-gasification margins, earnings visibility is also robust. Over FY10-13E we expect revenue CAGR of 19.1% and PAT CAGR of 21.7%.

Valuation summary

Y/e 31 Mar (Rs m)	FY09	FY10	FY11E	FY12E
Revenues	84,287	106,029	122,594	147,334
yoy growth (%)	28.6	25.8	15.6	20.2
Operating profit	9,013	8,465	10,973	13,439
OPM (%)	10.7	8.0	9.0	9.1
Pre-exceptional PAT	5,184	4,045	4,831	5,922
Reported PAT	5,184	4,045	4,831	5,922
yoy growth (%)	9.2	(22.0)	19.4	22.6
EPS (Rs)	6.9	5.4	6.4	7.9
P/E (x)	17.1	21.9	18.3	14.9
P/BV (x)	4.5	4.0	3.5	3.0
EV/EBITDA (x)	11.6	13.0	9.9	8.5
Debt/Equity (x)	1.2	1.1	1.2	1.1
ROE (%)	26.1	18.1	19.0	20.0
ROCE (%)	19.3	15.5	16.5	17.4

Source: Company, India Infoline Research

Radico Khaitan - BUY

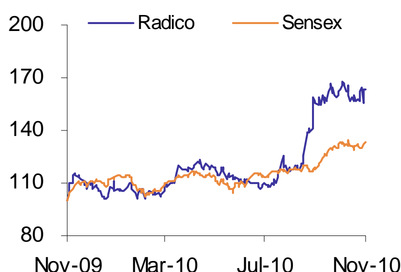
Sector: Breweries	
Sensex:	20,466
CMP (Rs):	179
Target price (Rs)	210
Upside (%)	17.3
52 Week h/l (Rs):	185/103
Market cap (Rscr) :	2,354
6m Avg vol ('000Nos):	394
No of o/s shares (mn):	132
FV (Rs):	2
Bloomberg code:	RDCK IN
Reuters code:	RADC.BO
BSE code:	532497
NSE code:	RADICO

Prices as on 03 Nov, 2010

Shareholding pattern	
September '10	**(%)**
Promoters	37.7
Institutions	44.1
Non promoter corp hold	8.0
Public & others	10.2

Performance rel. to sensex			
(%)	**1m**	**3m**	**1yr**
Radico	0.5	27.2	29.7
United Spirits	(7.0)	(9.1)	14.5

Share price trend



Mainline brands to sport ~15% volume cagr

Mainline brands (70%+ of total volumes) reported a strong 16.7% yoy growth in Q2 FY11, led by ~47% surge in sales of Magic Moments vodka. Overall volume growth stood at a respectable 13.8%-largely in line with the IMFL industry average. We expect volumes to pick up in H2 driven by new launches and sustained marketing spends.

Mainline brands would sport a ~15% cagr over FY10-12 which in turn should lead to 14% compounded growth in total volumes to ~19mn cases. Additionally, premiumization of portfolio (faster growth in top-end brands) would impart impetus to revenues

Revival of 8PM whisky, brand launches key positives

Radico has successfully managed to revive its flagship brand 8PM whisky (24% of volumes) in the previous fiscal, after two consecutive years of decline. It has also launched 2 new whisky brands – 'After Dark' and 'Eagles Dare' in June' 10, in addition to 'Morpheus' brandy in May' 09. 'Magic Moments', the fastest selling vodka in all segments, grew at a blistering ~48% yoy in Q1. We expect these brands along with the new launches to drive our forecast volume growth over next two years.

Molasses cost to ease on improved sugar supplies

Domestic sugar output is pegged at 24.5mn tonnes in the current crushing season, up 30% from last year. Accordingly, molasses price which currently hovers at about Rs4,400/MT, is likely to decline in Q3 and Q4. This would help lower spirits cost/case and help expand OPM. However, marketing costs are likely to remain above FY10 levels which would restrict margin gain to approx 140bps over next two years.

Low leverage, improved return ratios support our BUY

Radico had raised Rs3.4bn via QIP in Mar' 10 which it has utilized to repay debt and lower gross D/E to 0.69x-the lowest since at least FY05. This leaves ample room to raise funds for any sustained marketing/capex requirements. We project revenue cagr of 15% over FY10-12, driven by robust volume growth and increased premiumization. OPM would expand on the back of lower spirits costs while savings in interest expense would drive a 57% EPS cagr. The stock is expected to narrow the EV/EBIDTA discount with United Spirits, which underpins our BUY.

Valuation summary

Y/e 31 March (Rs m)	FY09	FY10	FY11E	FY12E
Revenues	6,960	8,356	9,988	11,067
yoy growth (%)	(14.0)	20.0	19.5	10.8
Operating profit	456	1,302	1,578	1,881
OPM (%)	6.6	15.6	15.8	17.0
Pre-exceptional PAT	(154)	381	800	1,025
Reported PAT	65	415	800	1,025
yoy growth (%)	(80.2)	535.5	92.6	28.2
EPS (Rs)	0.6	3.2	6.1	7.8
P/E (x)	280.6	56.8	29.5	23.0
P/BV (x)	8.0	4.0	3.6	3.2
EV/EBITDA (x)	54.2	21.3	17.4	14.3
Debt/Equity (x)	3.0	0.8	0.7	0.6
ROE (%)	(6.6)	9.3	12.8	14.6
ROCE (%)	4.0	10.5	12.1	13.9

Source: Company, India Infoline Research

Rural Electrification Corp - BUY

Sector: NBFC	
Sensex:	20,466
CMP (Rs):	371
Target price (Rs):	418
Upside (%):	12.7
52 Week h/l (Rs):	414 / 192
Market cap (Rscr) :	36,388
6m Avg vol ('000Nos):	1,880
No of o/s shares (mn):	987
FV (Rs):	10
Bloomberg code:	RECL IB
Reuters code:	RURL.BO
BSE code:	532955
NSE code:	RECLTD

Prices as on 03 Nov, 2010

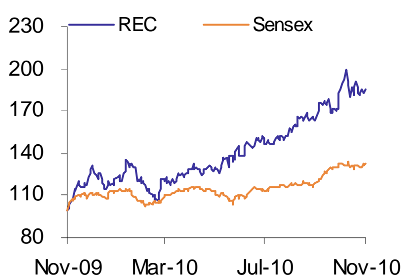
Shareholding pattern

September '10	(%)
Promoters	66.8
Institutions	25.5
Non promoter corp hold	4.3
Public & others	3.4

Performance rel. to sensex

(%)	1m	3m	1yr
REC	1.6	5.4	54.9
PFC	4.2	(0.4)	45.2
IDFC	0.1	(1.2)	8.4
SREI Infra	42.3	44.3	78.3

Share price trend



Rs1tn sanctions to drive loan cagr of 26%

Rising demand in the power financing space, limited competition from banks (owing to ALM mismatch) and healthy market share (second largest power lender) have enabled REC to report strong loan growth in the past. Loan book grew at sturdy 30% cagr over FY08-10. With cumulative pending sanctions to the tune of Rs1tn (1.5x FY10 loan book), we expect loan cagr of 26% over FY10-12. This would drive a 24% cagr in balance sheet/net profit.

Increasing pvt sector exposure; share of generation on rise

Loans to state and central entities constituted >90% of the total loan portfolio in FY10. Given the huge demand from private sector in upcoming five year plan, REC has now shifted its focus towards this segment. Loan share to private sector stands at 8% and the management has guided for the same to 15%. Also, with ~Rs9tn of planned capex (43% of total) in XI and XII plan towards generation, REC has increased its exposure towards the segment. Sanctions and disbursement for generation stood at ~50% in H1FY11.

Spreads to remain intact; IFC status a feather in the cap

In wake of rising inflationary pressure, RBI has raised its key rates - repo (+125bps) and reverse repo (+175bps) since Mar' 10. Accordingly, borrowing costs have risen in (up 20bps) H1FY11. However, shift in focus towards private sector and higher proportion of short term loans have safeguarded spreads at >3% level. REC has been accredited with Infra financing status which it plans to leverage through raising of ~Rs10bn in infra bonds. The status also allows REC to take additional lending exposure (up to 5% - single borrower and 10% - group borrowers), in addition to eligibility to raise funds to the tune of US$500mn via ECB route. Prudent funding mix - ~85% in fixed liabilities, increasing exposure towards generation and private sector, would enable REC to maintain spreads at ~3%.

Supportive valuation with healthy risk-return ratio

REC trades at 2.4x FY12 BV which does not adequately reflect 1) a diversified 26% loan cagr over FY10-12 2) stable spreads coupled with negligible NPL and 3) impressive return ratios (avg RoE/RoA of 22%/2.8%). We expect valuations to re-rate considering above factors and value the stock at 2.7x FY12 book for a target price of Rs418. Foray into banking and increase in FII limit to 35% remain key positives. Slowdown in power capacity addition remains a key concern.

Valuation summary

Y/e 31 Mar (Rs m)	FY09	FY10A	FY11E	FY12E
Total operating income	20,492	28,516	35,541	44,430
yoy growth (%)	37.9	39.2	24.6	25.0
Operating profit (pre-provisions)	19,254	26,811	33,449	41,839
Net profit	12,731	20,224	24,973	31,237
yoy growth (%)	32.9	58.8	23.5	25.1
EPS (Rs)	14.8	20.5	25.3	31.6
BVPS (Rs)	72.1	112.5	130.4	154.9
P/E (x)	24.8	17.9	14.5	11.6
P/BV (x)	5.1	3.3	2.8	2.4
ROE (%)	20.5	23.4	20.8	22.2
ROA (%)	2.6	3.3	3.2	3.2
CAR (%)	11.7	16.3	15.1	14.3

Source: Company, India Infoline Research

Reliance Industries - BUY

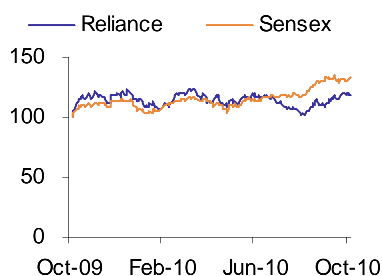
Sector: Oil & Gas	
Sensex:	20,466
CMP (Rs):	1,065
Target price (Rs):	1,176
Upside (%):	10.4
52 Week h/l (Rs):	1187/ 841
Market cap (Rscr) :	353,564
6m Avg vol ('000Nos):	5,625
No of o/s shares (mn):	3,272
FV (Rs):	10
Bloomberg code:	RIL IB
Reuters code:	RELI.BO
BSE code:	500325
NSE code:	RELIANCE

Prices as on 03 Nov, 2010

Shareholding pattern	
September '10	**(%)**
Promoters	44.7
Institutions	27.1
Non promoter corp hold	5.1
Public & others	23.1

Performance rel. to sensex			
(%)	1m	3m	1yr
Reliance	7.0	(8.3)	(15.5)
ONGC	(5.3)	(7.2)	(12.3)
Cairn	(3.1)	(17.4)	(7.0)
Essar Oil	19.0	8.5	(6.2)

Share price trend



Steep underperformance v/s broader markets unwarranted

YTD Reliance Industries Ltd (RIL) has underperformed Sensex by 18% and Nifty by 19.2%, steepest underperformance since 2004. Over a three year period, the underperformance is higher at 25% when compared with both indices and 8% with BSE Oil and Gas index. Key reasons for this underperformance are 1) declining GRMs and petchem spreads and 2) delay in ramp up of KG-D6 production. For the former we expect a gradual recovery and a busy exploration season along with focus on shale gas and other fields should take care of the latter.

Cyclical pressure on refining and petchem margins priced in

Downtrend in refining and petrochemical margins have resulted in earnings downgrade for major players including RIL. However, these have adequately been factored in through a steep underperformance vis-à-vis broader markets. Going ahead, we believe refining margins have limited downside from the current levels due to 1) strong demand from emerging economies in Asia, 2) delays in new capacities and 3) closure of unviable refineries. Petrochemical segment, although, will continue to reel under some pressure, RIL's integrated nature will allow it to deliver a better performance.

E&P segment – shale gas and new discoveries to be looked at

So far a majority of the value for RIL's E&P business was ascribed to KG-D6 basin. Although, it still continues to be the highest value generator, we believe, the focus would now shift to new discoveries and its venture into shale gas acreages in US. Going ahead, RIL has a busy exploration calendar in its key blocks including D-3, D-4, D-9 and NEC-25. Announcement of reserve estimates related to these blocks or new discoveries will only improve sentiment.

New ventures would drive news flow in the medium term

During its AGM in June 2010, RIL had announced its intent to enter into power and telecom sector. In the telecom space, it acquired Infotel which was the largest winner for broadband licenses. RIL has plans to bid for Ultra Mega Power Plants (UMPP) projects. Furthermore, the company recently acquired a 14.2% stake in EIH Hotels for a sum of Rs10bn. With cash and cash equivalents of ~Rs293bn and a net debt/equity ratio of 0.3x, we believe RIL's inorganic initiatives will gain further momentum.

Valuation summary

Y/e 31 Mar	FY09	FY10	FY11E	FY12E
Revenues	1,512,240	2,037,397	2,470,722	2,729,426
yoy growth (%)	10.3	34.7	21.3	10.5
Operating profit	234,222	308,939	381,771	443,737
OPM (%)	15.5	15.2	15.5	16.3
Pre-exceptional PAT	149,687	158,976	206,506	251,399
Reported PAT	149,687	245,031	206,506	251,399
yoy growth (%)	(23.3)	63.7	(15.7)	21.7
EPS (Rs)	51.8	82.3	63.2	76.9
P/E (x)	20.8	13.1	17.0	14.0
P/BV (x)	2.6	2.3	2.2	1.9
EV/EBITDA (x)	16.0	12.0	9.5	8.1
Debt/Equity (x)	0.6	0.5	0.4	0.3
ROE (%)	14.5	12.1	13.7	14.7
ROCE (%)	11.8	11.0	12.9	14.4

Source: Company, India Infoline Research

Shoppers Stop - BUY

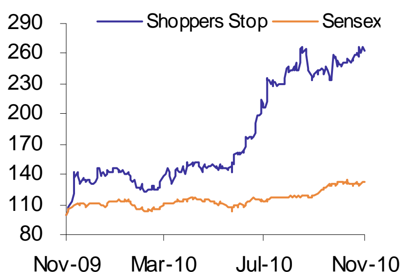
Sector: Retail	
Sensex:	20,466
CMP (Rs):	697
Target Price (Rs):	836
Upside (%)	19.9
52 Week h/l (Rs):	768/261
Market cap (Rscr) :	2,859
6m Avg vol ('000Nos):	126
No of o/s shares (mn):	41
FV (Rs):	10
Bloomberg code:	SHOP IN
Reuters code:	SHOP.BO
BSE code:	532638
NSE code:	SHOPERSTOP

Prices as on 03 Nov, 2010

Shareholding pattern	
September '10	**(%)**
Promoters	68.6
Institutions	15.8
Non prom corp hold	7.3
Public & others	8.3

Performance rel. to sensex			
(%)	**1m**	**3m**	**1yr**
Shoppers Stop	3.3	(5.0)	128.2
Pantaloon Retail	(6.0)	(9.7)	26.6
Trent	(4.5)	1.4	27.1
Provogue	9.1	7.7	1.1

Share price trend



Gross Floor Area (GFA) to be doubled, Hypercity aiding in growth momentum

Shoppers Stop (SSL) has targeted towns across India for setting up new stores in order to rapidly scale up the retail business. Over FY06-FY10, the company's GFA has doubled and it plans to further double it from 2mn sq.ft presently to 3.9mn sq.ft by FY14. The company raised its stake in Hypercity from 19% to 51% in Q1FY11, which has eight stores across India in major cities like Amritsar, Bengaluru, Bhopal, Jaipur, Navi Mumbai and Hyderabad, spread over an area of 0.9mn sq.ft. Three out of eight stores have already witnessed positive EBITDA. SSL plans to increase the number of Hypercity stores from eight to 26 with size varying from 50,000-85,000 sq.ft. Hypercity would act as a key revenue driver and is expected to account 24% of SSL revenues in FY11E, which would bring SSL's standalone contribution in consolidated sales down to 76% in FY11E from 97% in FY10.

Rationalization of costs to improve margins

The company has embarked on several cost restructuring initiatives to improve overall profitability. Lease rental costs, which accounted for 9.2% of total fixed costs, are on an increasing trend for the last few years. To reduce the pressure of fixed payouts, it has strategically entered into revenue sharing agreements for 12 out of 30 new planned stores. It has also reduced its capex costs on new stores from Rs1,600-1,800 per sq.ft to Rs1,200–1,400. However, service tax on rents would put pressure on margins, which would be neutralized with the likely introduction of GST by FY12E.

Funding requirements for expansion in place

In Q2FY11, SSL successfully raised Rs2.2bn via QIP and conversion of warrants. The company has adequate funds to execute its expansion plans.

Key player in retail space, strong earnings CAGR

With due consideration to factors like a) improvement in consumer sentiments on account of festive season, b) earnings CAGR of 58% over FY10-12E, c) adequate funding for expansion in place, d) likely improvement of OPMs over FY10-12E and e) scalability of Hypercity's hypermarket business, we recommend a 'BUY'. We assign a PEG multiple of 0.65x on account of its expected earnings CAGR of 58% to arrive at a target price of Rs805.

Valuation summary

Y/e 31 Mar (Rs m)	FY09	FY10	FY11E	FY12E
Revenues	13,006	14,490	19,125	23,332
yoy growth (%)	-	11.4	32.0	22.0
Operating profit	173	1,062	1,530	1,913
OPM (%)	1.3	7.3	8.0	8.2
Pre-exceptional PAT	(819)	360	651	901
Reported PAT	(819)	360	651	901
yoy growth (%)	-	-	80.9	38.5
EPS (Rs)	(23.5)	10.3	15.9	22.0
P/E (x)	-	67.6	43.8	31.6
Price/Book (x)	11.1	9.7	5.2	4.5
EV/EBITDA (x)	154.5	24.9	18.9	15.0
Debt/Equity (x)	1.2	0.9	0.3	0.2
RoE (%)	-	15.3	16.4	15.2
RoCE (%)	-	15.7	18.9	19.8

Source: Company, India Infoline Research

United Phosphorus Ltd - BUY

Sector: Agro Chemical	
Sensex:	20,466
CMP (Rs):	208
Target price (Rs):	238
Upside (%):	14.4
52 Week h/l (Rs):	220 / 133
Market cap (Rscr) :	9,175
6m Avg vol ('000Nos):	2,090
No of o/s shares (mn):	440
FV (Rs):	2
Bloomberg code:	UNTP IB
Reuters code:	UNPO. BO
BSE code:	512070
NSE code:	UNIPHOS

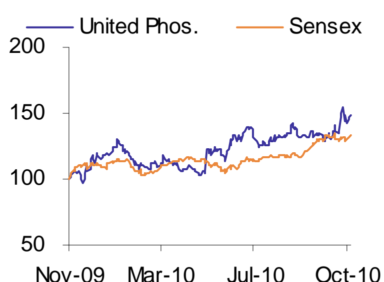
Prices as on 03 Nov, 2010

Shareholding pattern	
Promoters	27.8
Institutions	52.8
Non promoter corp hold	9.9
Public & others	9.4
Promoters	27.8

Performance rel. to sensex

(%)	1m	3m	1yr
United Pho	13.2	(0.6)	13.8
Tata Chem	(1.5)	(1.3)	24.2
Meghmani	1.6	9.0	8.3
Rallis	0.2	(0.8)	115.4

Share price trend



To benefit from rise in prices of soft commodities

Since July, soft commodity prices have rallied significantly with wheat prices up 36%, corn up 51% and palm oil up 33%. Further, weather patterns in Latin and North America have improved and have became conducive for additional sowing. We believe the rally in soft commodities supported by favorable weather conditions will translate into higher farm incomes. This would improve demand for agri-inputs in developed markets. Since United Phosphorous (UPL) derives ~65% of its revenues from exports, H2 FY11 is likely to witness a robust 22% rise in revenues.

FY11 guidance intact despite subdued Q2; Good growth in H2

Q2 revenues grew 9.6% yoy primarily on back of robust domestic sales (up 45% yoy). Despite a healthy 13% volume growth, adverse currency movements and 2% decline in export revenues led to a subdued topline. Lower raw material costs aided a 150bps margin expansion. Despite a subdued topline, management retained its FY11 guidance of 10-15% growth in consolidated sales coupled with ~200bps improvement in OPM.

Inorganic growth possibilities with surplus cash, low leverage

As of Sep' 10, UPL had an estimated cash to the tune of ~Rs20bn (22% of Mcap, Rs45/share) which leaves enough room for greenfield expansion as well as acquisitions. Over the past decade, it has acquired 17 companies, transforming itself in to the 12th largest agrochemical and 3rd largest generic agrochemical player globally. Recently, the company has acquired non-mixture Mancozeb (Manzate brand) from DuPont to strengthen its Mancozeb business in North and South America. A lean balance sheet with FY10 gross D/E at 0.3x also lends support for inorganic initiatives.

Big opportunity; attractive valuations

We expect UPL to benefit from 1) Rise in soft commodity prices 2) Jump in domestic agri-demand (due to stellar monsoon season) and 3) Stability in raw-material prices. Further, products related to agri-inputs, which generate ~US$4bn in annual sales, will go off-patent globally by 2014. This creates opportunity for generic players like UPL given its strong distribution network, lean balance sheet and successful acquisitions track record. We value the stock at 13x FY12 EPS and recommend BUY with a target price of Rs238.

Valuation summary

Y/e 31 Mar (Rs m)	FY09	FY10	FY11E	FY12E
Revenues	49,317	54,603	62,100	69,950
yoy growth (%)	-	10.7	13.7	12.6
Operating profit	9,469	9,992	12,358	14,060
OPM (%)	19.2	18.3	19.9	20.1
Pre-exceptional PAT	4,659	5,530	7,345	7,922
Reported PAT	4,559	5,263	7,345	7,922
yoy growth (%)	-	15.4	39.6	7.9
EPS (Rs)	10.6	12.6	16.7	18.0
P/E (x)	19.4	16.3	12.4	11.5
Price/Book (x)	3.2	2.9	2.4	2.0
EV/EBITDA (x)	11.7	10.3	8.9	7.8
Debt/Equity (x)	0.6	0.3	0.4	0.3
RoE (%)	17.1	17.6	19.6	17.0

Source: Company, India Infoline Research

Unity Infraprojects Ltd - BUY

Sector: Infrastructure	
Sensex:	20,466
CMP (Rs):	103
Target price (Rs):	130
Upside (%):	26.6
52 Week h/l (Rs):	138 / 81
Market cap (Rscr) :	767
6m Avg vol ('000Nos):	151
No of o/s shares (mn):	74
FV (Rs):	2
Bloomberg code:	UIP IB
Reuters code:	UTIL.BO
BSE code:	532746
NSE code:	UNITY

Prices as on 03 Nov, 2010

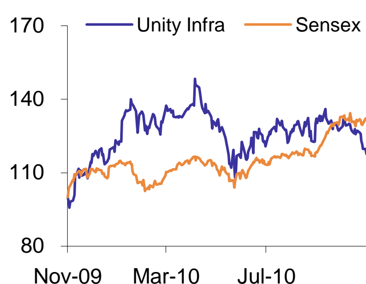
Shareholding pattern

September '10	(%)
Promoters	62.7
Institutions	17.8
Non promoter corp hold	9.5
Public & others	10.0

Performance rel. to sensex

(%)	1m	3m	1yr
Unity Infra	(7.7)	(18.9)	(15.3)
IVRCL	(4.3)	(26.1)	(41.6)
NCC	(4.5)	(26.1)	(30.2)
Ahluwalia	(18.7)	(35.4)	(19.9)

Share price trend



Order Book at 2.5x revenues; H2 FY11 order inflow to be robust

Unity's order book stands at Rs38.5bn currently, ~2.5x TTM revenues, providing strong revenue visibility in the medium term. Order inflow has been muted in the first half (Rs7bn) but company expects significant order wins (Rs15bn) in H2 FY11 taking the full-year figure to Rs22bn. Presently, Unity is L1 in Rs3.5-5bn worth of projects and the bidding run-rate has substantially improved (Rs20-30bn per month). With enhanced networth post QIP (~Rs730mn) in December 2010, company pre-qualifies to bid for larger projects. Management expects FY11-ending order book at near Rs40bn.

Revenues to witness FY10-12 CAGR of 25% on execution pick-up

Execution growth after decelerating sharply in FY10 (to 16.5%) is expected to improve materially in FY11 (to 24%) and FY12 (to 26%) and the execution rate would also improve to 34% in FY12 as against 29% in FY10. Acceleration in execution would drive a brisk 25% CAGR in revenues over FY10-12. In Q1 FY11, Unity's displayed satisfactory execution with revenues growing 22% yoy. Management expects revenues to grow by 25% in FY11.

NPM to improve on marginal OPM expansion and reduction in working capital intensity; no equity dilution to fund growth

Unity has been historically earning above industry operating margin in the range of 12-14%. The higher profitability has been driven by a) selective bidding approach (target 15-16% OPM) b) price escalation cover for 90+% projects c) on/before time project completion and d) savings in equipment hiring cost due to strong machinery bank. Going ahead, OPM could marginally improve driven by a shift in revenue mix towards Water & Irrigation segment. This coupled with reduction in working capital cycle should drive an improvement in net margin. The estimated strong revenue growth would be mainly funded by debt/cash profits and we do not foresee any need for equity dilution. Balance sheet leverage (net of cash) is expected to remain comfortable at <1x.

Valuations extremely attractive at 5.5x FY12E P/E

Unity's current valuation at 5.5x FY12E EPS is extremely attractive. We only value the stand-alone EPC business and have not assigned any value to the company's investment (~Rs2bn) in URDL, real estate subsidiary. Therefore, any successful land developments by URDL represent an upside risk to our price target.

Valuation summary

Y/e 31 March (Rs m)	FY09	FY10	FY11E	FY12E
Revenues	11,308	14,768	18,312	23,073
yoy growth (%)	33.1	30.6	24.0	26.0
Operating profit	1,428	1,913	2,409	3,081
OPM (%)	12.6	13.0	13.2	13.4
Reported PAT	697	851	1,057	1,393
yoy growth (%)	16.0	22.2	24.2	31.8
EPS (Rs)	10.4	11.5	14.3	18.8
P/E (x)	9.9	9.0	7.3	5.5
P/BV (x)	1.7	1.4	1.2	1.0
EV/EBITDA (x)	7.4	6.8	5.8	4.9
Net Debt/Equity (x)	0.9	0.9	0.9	1.0
ROE (%)	18.0	17.3	17.2	19.2
ROCE (%)	18.6	17.3	17.3	18.9

Source: Company, India Infoline Research

Recommendation parameters for fundamental reports:

Buy – Absolute return of over +10%

Market Performer – Absolute return between -10% to +10%

Sell – Absolute return below -10%

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