

India Research
 October 14, 2010

Dealer's Diary

Markets edged higher in early trade tracking firm Asian stocks. After a bout of volatility, the markets surged in morning trade and extended gains in mid-morning trade. Markets continued their upward march to hit fresh intraday high in afternoon trade as European stocks edged higher in opening trade. Buying further intensified as foreign funds turned buyers across the board on hopes that the US Federal Reserve may pump more money back into the US economy. Markets further extended gains in late trade, with the Sensex and Nifty closing with gains of 2.4% and 2.3%, respectively. BSE mid-cap and small-cap indices underperformed the key benchmark indices, closing with gains of 1.0% and 1.1%, respectively. Among the front liners, HDFC, TCS, Wipro, L&T and Jaiprakash Associates gained 4–5%, while NTPC lost 1.3%. Among mid caps, Apollo Hospitals, MVL, Infotech Enterprises, Vijaya Bank, State Bank of Bikaner and Jaipur gained 5–10%, while Jagran Prakashan, IPCA Labs, Info Edge India, Man Infra and Shree Global Trading lost 2–3%.

Markets Today

The trend deciding level for the day is 20535/ 6188 levels. If NIFTY trades above this level during the first half-an-hour of trade then we may witness a further rally up to 20857–21027/6286-6338 levels. However, if NIFTY trades below 20535/6188 levels for the first half-an-hour of trade then it may correct up to 20365-20042/6136-6037 levels

Indices	S2	S1	R1	R2
SENSEX	20,042	20,365	20,857	21,027
NIFTY	6,037	6,136	6,286	6,338

News Analysis

- ITNL – Initiating Coverage
- EEC bags order worth ₹21 cr
- Result Previews: Axis Bank, Infotech Enterprises, Rallis India

Refer detailed news analysis on the following page.

Net Inflows (October 12, 2010)

₹ cr	Purch	Sales	Net	MTD	YTD
FII	3,093	2,392	701	11,458	99,780
MFs	421	758	(337)	(2,909)	(25,938)

FII Derivatives (October 13, 2010)

₹ cr	Purch	Sales	Net	Open Interest
Index Futures	2,170	2,372	(202)	17,153
Stock Futures	1,430	2,434	(1,004)	44,960

Gainers / Losers

Gainers			Losers		
Company	Price (₹)	chg (%)	Company	Price (₹)	chg (%)
Apollo Hosp	572	10.3	Exide Inds	167	(3.1)
Vijaya Bank	101	7.7	Mundra Port	172	(2.6)
Petronet LNG	119	5.3	Shriram Trns	765	(2.1)
Neyveli Lignite	177	5.0	Dabur India	103	(2.1)
Oracle Fin	2,455	4.6	Jain Irrigation	1,142	(1.4)

Domestic Indices	Chg (%)	(Pts)	(Close)
BSE Sensex	2.4%	484.5	20,688
Nifty	2.3%	143.0	6,234
MID CAP	1.0%	82.9	8,437
SMALL CAP	1.1%	112.6	10,762
BSE HC	1.0%	65.4	6,401
BSE PSU	1.2%	124.3	10,592
BANKEX	2.2%	313.2	14,479
AUTO	1.4%	137.6	10,016
METAL	1.4%	245.5	17,659
OIL & GAS	1.6%	169.7	11,017
BSE IT	3.1%	190.7	6,249

Global Indices	Chg (%)	(Pts)	(Close)
Dow Jones	0.7%	75.7	11,096
NASDAQ	1.0%	23.3	2,441
FTSE	1.5%	85.8	5,747
Nikkei	0.2%	14.9	9,404
Hang Seng	1.5%	336.0	23,458
Straits Times	1.7%	52.8	3,202
Shanghai Com	0.7%	20.0	2,861

Indian ADRs	Chg (%)	(Pts)	(Close)
Infosys	3.3%	2.3	\$71.2
Wipro	2.7%	0.4	\$16.2
Satyam	1.9%	0.1	\$3.8
ICICI Bank	2.3%	1.2	\$52.6
HDFC Bank	2.2%	4.0	\$188.5

Advances / Declines	BSE	NSE
Advances	1,933	970
Declines	1,093	410
Unchanged	82	45

Volumes (₹ cr)	
BSE	6,586
NSE	19,538

ITNL – Initiating Coverage

IL&FS Transportation Networks (ITNL), an established surface transportation player, is a pure play on the emerging opportunities in the road segment.

Market leader with diversified presence: ITNL has the highest coverage among peers with ~7,500 lane km (22 projects) with a project capitalisation of ~₹14,673cr (adjusted for its share), which we believe gives it an edge in bidding for new projects in terms of technical capability and experience. Moreover, these projects are geographically spread out and bifurcated into toll and annuity, which cushions its revenue due to limited exposure to any one region or project.

ITNL in sweet spot to capitalise on emerging opportunities: ITNL is well poised to leverage on the growing opportunities in the road segment owing to its: 1) strong parentage; 2) experienced management; 3) unique business model; and 4) favourable developments at NHAI.

Favourable industry dynamics: We expect NHAI to award ~33,500km over FY2011–15, in line with its set target of constructing 20km/day. The expressways and mega highway projects also offer opportunity to the tune of ₹62,600cr.

We expect ITNL to post a 59% CAGR in consolidated top line over FY2010–12, owing to its recent order winning spree and bidding pipeline. However, given the increasing share of low-margin C&EPC in consolidated top line, we expect EBITDA margins to normalise to 19.8% in FY2012 from 33.1% in FY2010. During the mentioned period, we estimate the company's bottom line to log a 21% CAGR. We have valued ITNL on an SOTP basis, wherein we have assigned 7.5x EV/EBITDA to its standalone business and its investments have been valued on DCF/Mcap/BV basis. Our Target Price works out to ₹358, implying an upside of 13.4% from current levels. On a relative basis, we prefer ITNL over IRB on account of cheaper valuation and diversified portfolio. **We Initiate Coverage on ITNL with an Accumulate recommendation.**

EEC bags order worth ₹21cr

Elecon Engineering (EEC) has bagged order worth ₹21cr from Wonder Cement, Rajasthan. The order consists of supply of stackers, reclaimers and auxiliaries to the cement plant. Total order book at the end of August 2010 stood at ₹1,567cr, while new order till the end of August 2010 stood at ₹782cr (₹499cr for MHE and ₹283cr for gears).

We believe an improving economic scenario (indicated by the revival in IIP), continued government focus on infrastructure spends and pick-up in private capex augur well for companies providing MHE solutions for the core sectors of the economy. The government's strong focus on the power sector, through 'Power for all by 2012', is expected to result in an expansion of the sector's generation capacity, leading to higher opportunities for MHE players, while the mining and port sectors would throw up combined opportunities worth around ₹7,000cr.

We estimate EEC's adjusted PAT to post a 22% CAGR over FY2010–12E, led by stronger order inflow and a reduction in interest outflow due to deleveraging of the balance sheet on account of better working capital management. We expect RoCE and RoE to improve from 13% and 22% in FY2010 to 19% and 23% in FY2012E, respectively.

At ₹100, the stock is available at 9.4x FY2012E earnings and 6.1x FY2012E EV/EBITDA. **We recommend Accumulate on the stock with a Target Price of ₹107.**

Results Previews – 2QFY2011

Axis Bank

Axis Bank is slated to announce its 2QFY2011 results. We expect the bank to report healthy NII growth of 37.9% yoy to ₹1,585cr. However, NIMs are likely to remain flattish on a sequential basis. Non-interest income is expected to decline by 13.7% yoy. The bank is expected to register MTM losses on account of sharper increase in the yield curve at the shorter end and its relatively higher exposure in the AFS category at 32.7% as of 1QFY2011. The bank's pre-provision profit is expected to register moderate growth of 6.2% yoy. However, net profit is expected to increase by 32.8% on a yoy basis to ₹706cr on account of lower provisioning expenses.

At the CMP, the stock is trading at valuations of 2.9x FY2012E ABV, almost 24% discount to HDFC Bank despite similar earnings quality, profitability and growth expectations over FY2010–12E. **We have an Accumulate rating on the stock with a Target Price of ₹1,703.**

Infotech Enterprises

Infotech Enterprises is set to announce its 2QFY2011E results. We expect the company to report revenue of US \$60.9mn, up 9.9% qoq. We expect growth to be strong on the back of continued growth momentum in the EMI vertical, effect of consolidation of Wellsco acquisition leading to strong growth in the UTG vertical and cross-currency benefit of 1.7%. The company's EBITDA margins are expected to expand by 150bp qoq with absorption of wage hike given in the last quarter, cross-currency benefit and strong utilisation in the EMI vertical. Also, PAT is expected to be strong at ₹36.4cr with 29.4% growth. Currently, **the stock is under review.**

Rallis India

Rallis India is slated to announce its 2QFY2011 results. We expect total revenue to grow by 27% to ₹407cr, backed by strong monsoons. Total PAT for the quarter is likely to increase by 30% to ₹59cr. **We currently have a Neutral rating on the stock.**

Economic and Political News

- Indirect tax mop-up jumps 44% in 1HFY2011
- FDI inflows down 60% to US \$1.33bn in August 2010
- New land policy for top 13 state ports by October

Corporate News

- Mahindra Satyam bags Kentucky project
- Royal Orchid Hotels to raise ₹150cr
- Atlanta bags ₹163cr order
- I-T department raids Welspun Group's premises

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

Events for the day	
Axis Bank	Results
Infotech Enterprises	Results
LIC Housing Finance	Results
Mastek	Results

Research Team Tel: 022-4040 3800

 E-mail: research@angeltrade.com

 Website: www.angeltrade.com

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Ratings (Returns) :

 Buy (> 15%)
 Reduce (-5% to -15%)

 Accumulate (5% to 15%)
 Sell (< -15%)

Neutral (-5 to 5%)

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

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