The Front Page

May 25, 2009

What's Inside: ITC (BUY); NTPC (SELL); Dr Reddy's Labs (BUY); UltraTech Cement (SELL); The Strategema; Events calendar

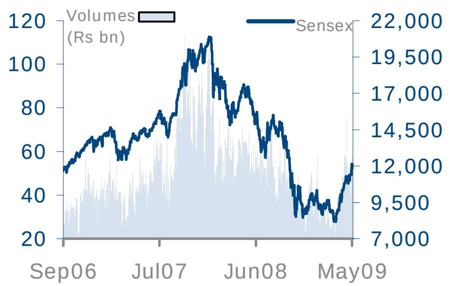
Market Front Page

Index Movements	Closing	% Chg	% YTD
Sensex	13,887	1.1	43.9
Nifty	4,239	0.7	43.2
BSE Smallcap	5,513	3.2	49.7
CNX Midcap	5,084	0.8	36.1
Nasdaq	1,692	(0.2)	7.3
DJIA	8,277	(0.2)	(5.7)
IBOV	50,568	1.0	34.7
FTSE	4,365	0.5	(1.6)
CAC	3,228	0.3	0.3
Turnover		US$m	% Chg
BSE		1,479	(10.6)
NSE		4,314	(16.4)
Derivatives (NSE)		14,442	(4.5)
FII F&O (US$m)		Index	Stocks
Net buying		(77)	(58)
Open interest		10,850	4,891
Chg in open int.		458	96
Equity Flows (US$m)	Latest	MTD	YTD
FII (21/5)	31	3,059	3,081
DII (22/5)	92	(266)	1,659
MF (21/5)	21	(67)	(247)

ADR/GDR (US$)	Latest	% Chg	% Prem
HDFC Bank	91.8	2.2	5.3
Reliance	92.0	4.3	(0.8)
Infosys	31.6	0.2	(2.2)
Satyam	2.2	12.5	(4.9)
Wipro	11.0	0.8	39.9
ICICI Bank	29.5	5.3	(1.1)
SBI	73.6	3.4	0.1
Sterlite	11.0	1.7	1.6
Tata Motors	9.6	0.6	31.0
Commodities	Latest	%Chg	%YTD
Gold (US$/ounce)	957	0.4	8.5
Crude (US$/bl)	61	0.8	36.8
Aluminium (US$/MT)	1,442	(0.6)	(6.4)
Copper (US$/MT)	4,610	3.1	50.2
Forex Rates	Closing	% Chg	%YTD
Rs/US$	47.2	(0.2)	(2.6)
Rs/EUR	65.8	0.4	(3.6)
Rs/GBP	74.9	0.1	7.0
Bond Markets		Closing	bps Chg
10 yr bond		6.5	8.0
Interbank call		3.3	(25.0)

Charts Front Page

Sensex price volume



Sensex intraday

Corporate Front Page

- **Areva T&D** has won an order worth Rs1.1bn from the West Bengal State Electricity Transmission Company.(BL)
- **Cairn India** will begin commercial production of oil from the Rajasthan fields by mid-2009 for which sales talks are going on.(BL)
- **JSL** has shelved its US$1.2bn JV project with Indonesia's PT Antam TBK in the southeast Asian country.(TOI)
- I-T authorities have slapped a tax liability of Rs3-4bn on **DLF** for understatement of income and fund diversion by the company. (BS)
- **Apollo Hospitals** received a notice from the Mumbai Enforcement Directorate seeking explanation on the end-use of the GDR issue. (ET)
- **Bharti Airtel** launches low-cost PC.(FE)
- **Dabur** to foray into premium skin care. (ET)
- **Welspun Power and Steel**, which had signed the agreement to buy Vikram Ispat 11 months ago completes the takeover of the sponge iron business from **Grasim Industries**.(TOI)
- **Satyam** has 10,000 excess staff, says **Tech Mahindra**.(TOI)
- **HDIL** to raise $600m via QIPs.(FE)
- **Crompton Greaves** eyes overseas acquisition.(BL)
- **Tata Group** to invest Rs2k-cr in logistics parks.(FE)
- **Reliance Capital** to offload 26% stake in its life insurance subsidiary.(FE)
- **CESC** to invest Rs80bn in two 1000MW plants.(DNA)
- **Essar Energy** plans to raise a debt of Rs4bn to fund its project to produce gas found on coal beds in its Raniganj block in West Bengal. (BS)
- **Parsvnath Developers** to raise upto Rs25bn through issuance of securities, including Qualified Institutional Placements. (BS)
- **Reliance Infrastructure** to raise up to Rs43bn through issuance of 42.9mn equity shares to its promoters. (BS)
- **GMR Infrastructure** plans to raise US$1bn to fund the next phase of its growth.(DNA)

Market Front Page

Top Movers BSE 200

Top Gainers	Price (Rs)	Chg (%)	YTD (%)	Top Losers	Price (Rs)	Chg (%)	YTD (%)
NIIT Ltd	48	23.0	81.8	Federal Bank Ltd	229	-8.3	41.1
New Delhi Televisio	150	16.9	16.2	Cummins India Lt	259	-7.4	16.9
Tech Mahindra Ltd	475	13.9	91.8	Tata Chemicals Lt	226	-7.1	36.5
Karnataka Bank Ltc	140	13.6	77.9	Apollo Hospitals E	520	-5.5	14.9
Deccan Chronicle H	80	12.7	83.9	GAIL India Ltd	286	-5.4	38.8

Volume spurts

Company	CMP	M.Cap	Vol. (in '000)	10D A.Vol (in '000)	% Chg
Biocon Ltd	176	744	5,068	819	519
Cummins India Ltd	259	1,087	1,222	260	371
BF Utilities Ltd	691	551	64	18	261
Tech Mahindra Ltd	475	1,225	4,546	1,332	241
NIIT Ltd	48	169	43,449	12,847	238
Federal Bank Ltd	229	828	4,693	1,562	200
JAI Corp Ltd	217	821	1,013	362	180
New Delhi Television Ltd	150	200	2,958	1,072	176
Glenmark Pharmaceuticals	222	1,180	5,374	2,199	144
Moser Baer India Ltd	90	322	10,297	4,362	136

FII - FII trades

Scrip	21/5/2009			22/5/2009		
	Volume '000	Price	Prem %	Volume '000	Price	Prem %
Grasim	36	2,267	2.0	198	2,184	2.2
Karur vysya banl	-	-	-	243	298	0.8

Corporate Front Page

- **Era Infra** bagged an Rs810mn contract from the Central Public Works Department for development of flats in New Delhi. (BS)
- **Matrix Laboratories** has assigned its right to purchase 1% equity in Astrix Laboratories to Mylan Luxembourg, another subsidiary of Mylan. (BS)
- **Reliance Retail** to add 1mn sq. ft of space; will invest Rs5bn.(Mint)
- **Ranbaxy Laboratories** Chairman, CEO and MD Malvinder Mohan Singh stepped down, within a year of its acquisition by Japanese giant Daiichi Sankyo.(DNA)
- **BHEL** cancels all its overseas acquisitions plans.(Mint)
- **Tata** Housing Development Company has partnered with Micro Housing Finance Corporation to provide easy housing finance to the lower income group. (BS)
- **Unitech** sells more than a quarter of its launched projects in the first two months of the financial year. (BS)
- **Aurobindo Pharma** expands its partnership with Pfizer Inc for supply agreements of solid dosage and sterile products for a number of emerging markets. (BS)
- **IOC** plans to set up 40 retail outlets and 25 Kisan Seva Kendras in Orissa in 2009-10. (BS)
- **ONGC** approaches the Directorate General of Hydrocarbons seeking permission to retain the Ambe field block, located off the Gujarat coast. (BS)
- **ONGC** to help fix price of Cairn's crude from Barmer oilfield. (ET)
- **Reliance Industries** and **Essar Oil** may not buy crude oil that **Cairn India** will start pumping from Rajasthan in the next few weeks. (ET)
- Jharkhand government grants a prospecting licence to **Tata Steel** for the Ankua iron ore mines. (ET)
- **Sobha Developers** to hive off non-realty businesses.(DNA)

Economy Front Page

- Foreign exchange reserves fell by US$1.7bn to US$254bn for the week ended 15 May.(BL)
- Government announce portfolios for six of its Council of Ministers; Pranab Mukherjee retains finance portfolio.(BL)
- RBI Governor has cautioned the new government that another fiscal stimulus package would exert pressure on the rising fiscal deficit.(BL)
- DoT and the Ministry of Defence have finally signed the Memorandum of Understanding for vacating spectrum.(BL)
- Government may extend duty-free white sugar import till Oct' 09.(FE)
- Petroleum ministry proposes a reduction in the customs duty on denatured alcohol and molasses. (BS)
- Commerce Ministry has proposed a US$5bn trade finance facility to augment resources for the export sector.(BL)
- Commerce ministry officials recommend removing the export ban on all agricultural commodities as surplus production keeps domestic prices under check. (BS)
- Government to consider deregulating petrol and diesel prices, as also increasing rates of natural gas sold by state firms. (BS)
- Finance ministry plans softening of FBT.(FE)
- The outstanding credit-deposit ratio of scheduled commercial banks has dropped below 70%-the first time in almost three years.(BL)
- The new UPA government plans to cap profits of crude oil producers such as ONGC, Oil India, RIL and Cairn India. (ET)
- Civil aviation ministry has revived a proposal to allow foreign carriers to invest in domestic airlines by putting it on its new list of reforms. (ET)

Results Front Page

Rs m	Revenues	%YoY	PAT	%YoY
HDIL	3,579	(63.3)	619	(91.3)
Edelweiss	1,834	(54.8)	409	(50.4)
JK Cement	4,331	11.6	598	0.0

Insider Trading

Company	Name of Acquirer / Seller	Transaction Date	Buy /Sale	Quantity	Price (Rs)	Deal Size (Rs m)	Shares Transaction (%)	Holding after Transaction (%)
Educomp Solutions Ltd	Abhinav Dhar	20/05/2009	Buy	4,200	2,558.3	11	0.0	0.0

Deal size worth more than Rs5m considered. The exchange does not report transaction prices, so we have assumed them to be closing prices for the respective days. Hence, actual deal sizes may vary from the figures above.

BSE/ NSE - Bulk Deals

Company	Name of Acquirer / Seller	Transaction Date	Buy /Sale	Quantity	Price (Rs)	Deal Size (Rs m)
D S Kulkarni Dev Ltd	BNP Paribas Arbitrage	22/05/2009	Sell	172,498	49.7	9
Everonn Systems India Ltd	Indea Absolute Return Fund	22/05/2009	Buy	77,000	296.2	23
Glory Poly	Mavi Business Venture Ltd	22/05/2009	Sell	107,557	26.1	3
Karur Vysya-PMS	Indea Capital Pte Ltd A/C Indea Absolute Return Fund	22/05/2009	Buy	243,000	297.5	72
Karur Vysya-PMS	Indea Capital Pte Ltd A/C Indea Absolute Return Fund	22/05/2009	Sell	243,000	297.5	72
NIIT Ltd	Templeton Mutual A/C Francklin Bluechip Fund	22/05/2009	Buy	1,600,000	46.5	74
Nippo Batteries	Daiwa Securities SMBC Co Ltd	22/05/2009	Sell	26,811	315.4	8
PSL Ltd	KMUK A/C Sanstone Capital India Master Fund Ltd	22/05/2009	Sell	245,914	120.3	30

ITC - BUY

ITC IN	Rs183	FMCG	25 May 2009	Quarter results

Improving cigarette business performance

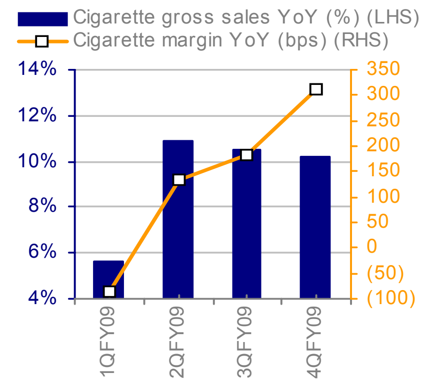
ITC's 4QFY09 net profit growth was in line with our expectation at 10% YoY, as lower other income (down 46% YoY) and a marginal decline in sales was offset by a 590bps expansion in EBITDA margin. The key highlight of the quarter's results was the cigarette business, which registered net sales growth of 16% YoY, on a 6-8% increase in prices and an improvement in sales mix. Cigarette volumes declined 3.5%YoY, which on a strong base, indicates an improved underlying volume trend. Another highlight was the fall in FMCG losses, which after peaking at Rs1.27bn in 3QFY09 declined to Rs1.1bn in 4QFY09. Management projected a 20% drop in FMCG losses in FY10, which in our view bodes well for overall business profitability. On the other hand, there is no let-up in pressure on hotels and agri business. The 590bps improvement in EBITDA margin was on account of higher cigarette EBIT margin and lower sales in the agri business in which margins are typically very low. Incorporating FY09 results and lower estimates for the hotels and agri business, we lower our earnings estimates for FY10-11 by 5-10%. Our new SOTP-based target price is Rs222. We reiterate BUY.

Cigarettes business posts another strong quarter: Cigarette net sales grew 16% YoY. Underlying cigarette volume decline of 3.5% YoY (though in line with a similar decline in 3Q) indicates an improving trend, in our view. Cigarette volume growth in the year-ago quarter was robust at c2% as the company sold out inventory of non-filter cigarettes after the budget announcement of 140-390% increases in excise tax on non-filter cigarettes. Cigarette EBIT margins expanded by 310bps YOY, on an improved product mix and benefits of price hikes.

Other FMCG losses have peaked out, management guides to 20% lower losses in FY10: After peaking in 3Q (at Rs1.27bn), other FMCG losses have come down to 1Q levels, at Rs1.1bn. Management's target is to bring losses down to Rs4bn (from Rs5bn posted in FY09), implying continued focus on profitability.

Poor performance in hotels and agri pull down revenues: Hotel revenues declined 29% YoY and EBIT margin declined by 1,260bps in 4Q, as the economic slowdown and travel advisories issued after the Mumbai terror strikes hit the tourist and business traveller arrivals. Agri revenues declined by 51% YoY as product rationalisation continued, coupled with poor soya exports.

Cigarette performance improving



Source: IIFL Research

Financial summary

Y/e 31 Mar	FY08A	FY09ii	FY10ii	FY11ii	FY12ii
Revenues (Rs m)	139,475	153,881	179,327	206,749	236,344
EBITDA Margins (%)	31.6	31.6	31.1	31.9	32.1
Pre-Exceptional PAT (Rs m)	31,201	32,635	38,083	45,218	52,269
Reported PAT (Rs m)	31,201	32,635	38,083	45,218	52,269
EPS (Rs)	8.3	8.7	10.1	12.0	13.9
Growth (%)	15.6%	4.6%	16.7%	18.7%	15.6%
PER (x)	**22.1**	**21.1**	**18.1**	**15.2**	**13.2**
ROE (%)	25.9	23.8	24.7	25.9	26.4
Debt/Equity (x)	0.0	0.0	0.0	0.0	0.0
EV/EBITDA (x)	**15.5**	**14.0**	**12.1**	**10.2**	**8.8**
Price/Book (x)	5.7	5.0	4.5	3.9	3.5

Price as at close of business on 22 May 2009

12-mth Target price (Rs) 222 (21%)

Market cap (US$ m)	**14,655**
52Wk High/Low (Rs)	231/132
Diluted o/s shares (m)	3762
Daily volume (US$ m)	22.8
Dividend yield FY09ii (%)	2.4
Free float (%)	68.0

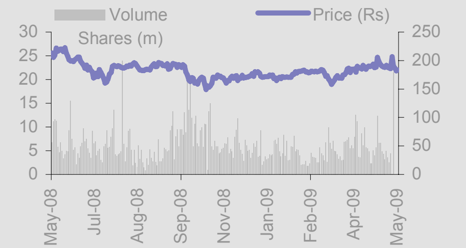
Shareholding pattern (%)

Foreign Corporate	32.0
FIIs	13.9
Domestic MFs/Insurance cos	37.8
Others	16.3

Price performance (%)

	1M	3M	1Y
ITC	-3.6	1.9	-17.8
Rel. to Sensex	-32.0	-55.2	0.0
Godfrey Phillips	38.1	49.2	-21.0
VST	32.7	60.7	0.1
HUL	-3.6	-6.9	-1.2

Stock movement



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In-line results

ITC's 4QFY09 PAT grew by 10% YoY, in line with our estimate of 9.6% YoY growth. However, net sales declined by 1% YoY, as against our expectation of 9.2% growth. The main cause of the variance from our expectation was the 51% decline in the low-margin agri business, where the company rationalised soya exports due to their low-margin profile.

Figure 1: 4QFY09 results- broadly in line with our estimates

Rs m	4QFY08	3QFY09	4QFY09	% YoY	% QoQ
Gross sales	60,097	59,172	59,536	-0.9	0.6
Excise duty	-20,753	-20,838	-20,617	-0.7	-1.1
Excise %	34.5	35.2	34.6	10bps	-59bps
Net sales	39,344	38,333	38,918	-1.1	1.5
Expenditure	-28,898	-24,806	-26,291	-9.0	6.0
EBITDA	10,446	13,527	12,627	20.9	-6.7
EBITDA (%)	26.6	35.3	32.4	590bps	-284bps
Interest	-27	-5	-137	406.7	2940.0
Depreciation	-1,215	-1,442	-1,451	19.4	0.6
Other income	1,638	1,229	879	-46.4	-28.5
PBT	10,842	13,310	11,918	9.9	-10.5
Tax	-3,485	-4,277	-3,828	9.8	-10.5
Tax rate (%)	32.1	32.1	32.1	-3bps	-2bps
PAT	7,356	9,032	8,090	10.0	-10.4
Net profit margin	18.7	23.6	20.8	209bps	-278bps
Exceptionals	0	0	0	NM	NM
Net profit post exceptionals	7,356	9,032	8,090	10.0	-10.4

Source: Company, IIFL Research

Figure 2: Raw-material costs declined largely due to lower agri sales

Cost Details	4QFY08	3QFY09	4QFY09	% YoY	% QoQ
Raw Materials	18,445	15,171	15,777	-14.5%	4.0%
% of Sales	46.9	39.6	40.5	-634bps	96bps
Staff Cost	1,911	2,130	2,222	16.3%	4.3%
% of Sales	4.9	5.6	5.7	85bps	15bps
Other Expenditure	8,542	7,506	8,293	-2.9%	10.5%
% of Sales	21.7	19.6	21.3	-40bps	173bps

Source: Company, IIFL Research

Figure 3: Hotels and agri businesses continue to be under pressure

Segmental revenues (Rs m)	4QFY08	3QFY09	4QFY09	% YoY	% QoQ
Cigarettes - Gross	35,830	39,015	39,493	10.2	1.2
Cigarette - Net	17,302	19,935	20,115	16.3	0.9
Other FMCG	7,384	7,223	8,388	13.6	16.1
Hotels	3,393	2,705	2,413	-28.9	-10.8
Agri business	10,781	6,212	5,259	-51.2	-15.3
Paperboard, Paper & Packaging	6,197	6,699	7,470	20.6	11.5

Source: Company, IIFL Research

Figure 4: Cigarettes profitability improved on price hikes and better product mix

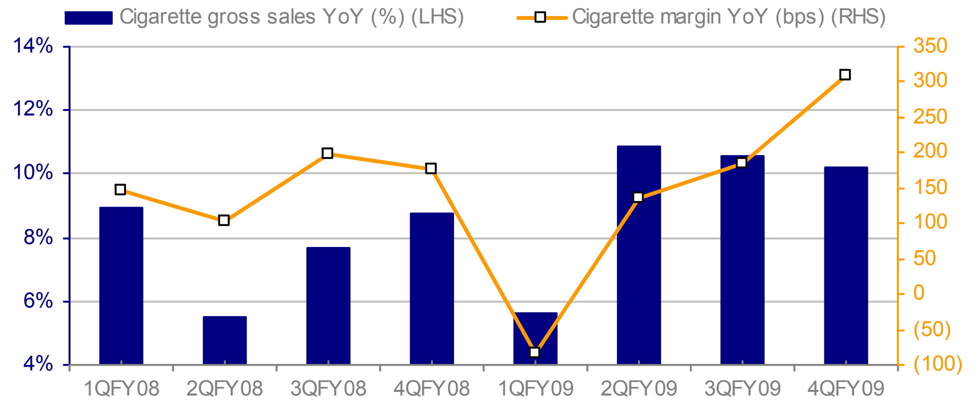
Segmental EBIT margin (%)	4QFY08	3QFY09	4QFY09	YoY	QoQ
Cigarettes	24.3	29.1	27.4	310bps	-169bps
Other FMCG	-16.0	-17.6	-14.0	198bps	360bps
Hotels	42.1	33.7	29.5	-1262bps	-420bps
Agri business	3.4	8.1	10.1	666bps	201bps
Paperboard, Paper & Packaging	19.8	16.6	20.3	53bps	376bps
Total	22.9	21.3	23.0	3bps	168bps

Source: Company, IIFL Research

Cigarettes: Sales and margins continue to look up

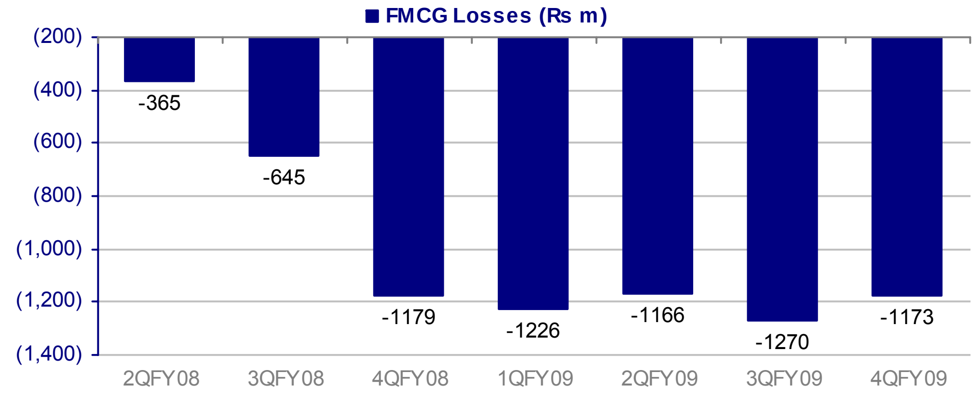
ITC's cigarette business consolidated on its strong recovery post the discontinuation of non-filter cigarettes in 1QFY09. Gross sales grew 10.2% YoY, while net sales grew 16.3%. Underlying cigarette volume decline of 3.5% (though in line with a similar decline in 3Q) implies an improving trend, in our view. Cigarettes volume growth in the year-ago quarter was robust at c2% YoY, as the company pushed out inventory of non-filter cigarettes post the budget announcement of a 140-390% hike in excise tax on non-filter cigarettes. Cigarette EBIT margin expanded 310bps YoY, thanks to price hikes taken over the past year and the improvement in mix as non-filter cigarettes were discontinued this year. The company has taken further price hikes in April in 'Gold Flake Filter Kings' (contributes c5% in volumes and 6-7% in value) by 10%, which will help the company expand cigarette margins over the quarters ahead. FY10 volume growth in cigarettes will depend largely on the excise duty hike that the government eventually imposes in the upcoming budget. We are building in a c5% hike in cigarette excise rate and 4% growth in ITC's volumes in FY10.

Figure 5: Cigarette gross sales and margins are seeing a strengthening trend



Source: Company, IIFL Research

Figure 6: Other FMCG losses seem to have peaked in 3QFY09

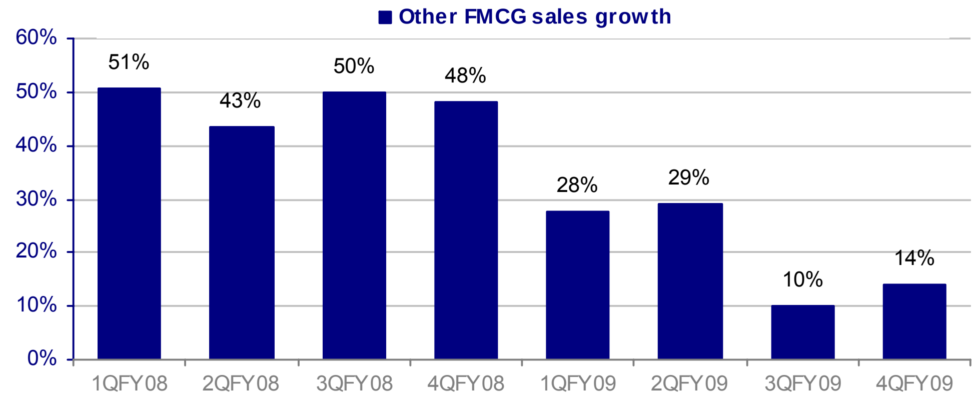


Source: Company, IIFL Research

Other FMCG losses come off, sales growth sluggish

Losses in the other FMCG business appear to have peaked in 3Q at Rs1.27bn; in 4QFY09, the business registered a loss of Rs1.1bn, as the company continued its focus on improving profitability. Management aims to contain losses at Rs4bn—20% lower than the Rs5bn loss posted in FY09. Sales growth, however, has remained sluggish at 14%, much lower than the 40-60% growth seen during FY08, as the company continued its focus on profitability in its core foods business comprising biscuits and branded staples. The slowdown in discretionary apparels has also been hit by the economic slowdown.

Figure 7: Other FMCG sales growth is clearly moderating

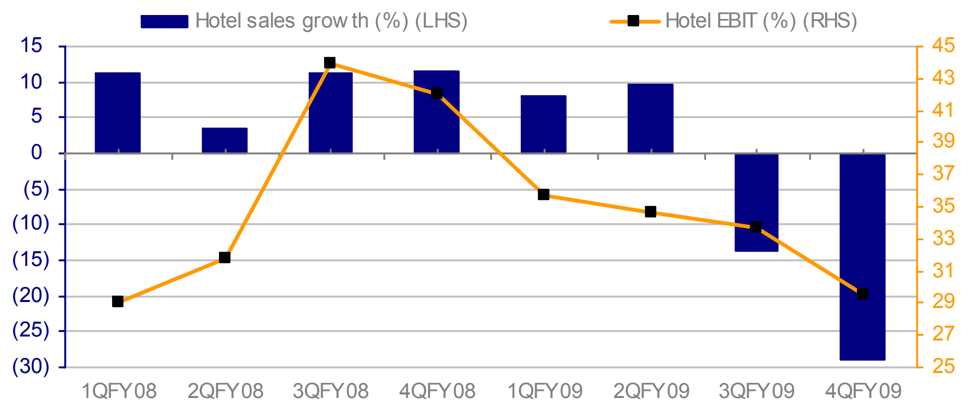


Source: Company, IIFL Research

Hotels business continues to be hurt by the economic slowdown

Hotels revenues declined 29% YoY as ARRs and occupancies remained under pressure due to the impact of the economic slowdown. EBIT margins also continued to decline and were down over 1260bps YoY. The negative travel advisory given by many countries after the Mumbai terror attacks had a major impact in March quarter. The outlook on hotels remains grim, as there is unlikely to be any uptick in tourism and businesses continue to reduce spends on travel. The June quarter is also likely to be a tough one for the company, because of an unfavourable base (1QFY08 had recorded high sales, with ITC being the official host for the Indian Premier League cricket tournament).

Figure 8: Hotels – revenue and profitability growth continue to slide

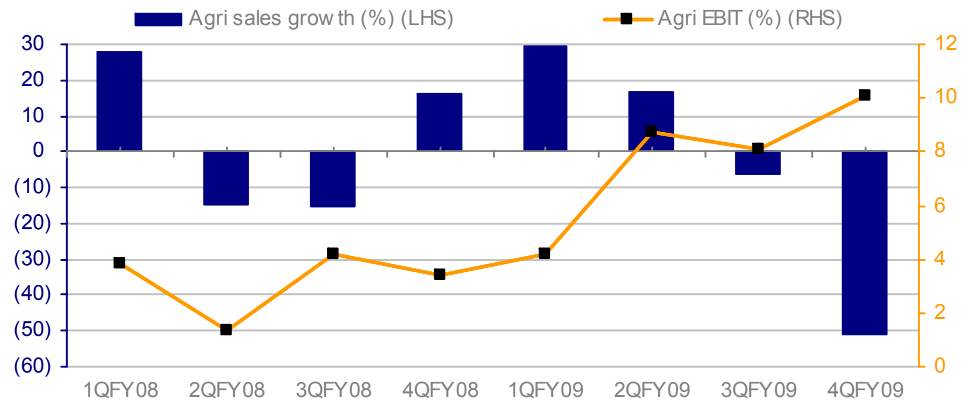


Source: Company, IIFL Research

Agri-sales hit by portfolio rationalisation

Agri sales declined by 51% YoY, as the company rationalised soya and other low-margin agri exports, in view of increasing policy interventions and high volatility in prices. However, EBIT grew by 43% YoY, with margins tripling from 3.4% to 10.1%, reaching the highest level in the last 17 quarters.

Figure 9: Agri sales were down sharply, though margins expanded

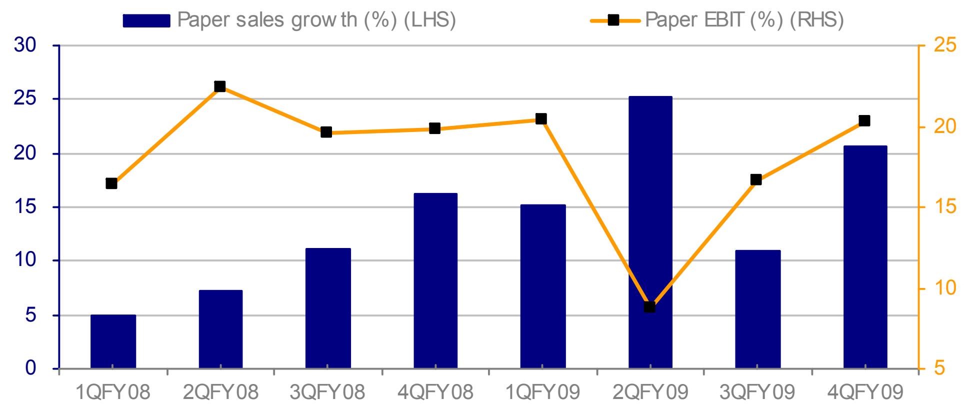


Source: Company, IIFL Research

Paperboards and packaging

Sales saw a pick-up in growth, up 20% YoY. Margins expanded by 53bps YoY and 376bps QoQ, reflecting the production ramp-up at the new pulp and paperboard facilities, which started operations three quarters ago.

Figure 10: Paper growth strong, margins improve on new production ramp up



Source: Company, IIFL Research

We revise earnings estimates, target price

We revise our estimates as we incorporate FY09 details and build in lower estimates for the hotels and agri business. We lower our FY10ii and FY11ii EPS estimates by 5% and 10% respectively. Our new SOTP-based target price is Rs222 and we maintain BUY.

Figure 11: ITC's sum-of-the-parts valuation details

Business	Valuation method	Value / Share (Rs)
Cigarettes	P/E	171
Other FMCG	Mcap/Sales	20
Hotels	P/E	19
Agri	P/E	3
Paper	P/E	9
Total		**222**

Source: IIFL Research

Financial summary

Revenue growth will be driven by the cigarette business, which should see a return to volume growth in FY10ii

Management has earmarked Rs60bn of capex to be equally split between consumer, paper and the hotels business over FY09-11

Income statement summary (Rs m)

Y/e 31 Mar	FY08A	FY09ii	FY10ii	FY11ii	FY12ii
Revenue	139,475	153,881	179,327	206,749	236,344
EBITDA	44,039	48,585	55,725	65,940	75,764
EBIT	**39,655**	**43,091**	**49,208**	**58,333**	**67,068**
Net Interest expense	-46	-183	-54	-54	-54
Other Income	6,109	5,348	6,685	8,022	9,627
Profit before tax	**45,718**	**48,256**	**55,840**	**66,302**	**76,641**
Taxes	-14,517	-15,622	-17,757	-21,084	-24,372
Net profit	**31,201**	**32,635**	**38,083**	**45,218**	**52,269**

Cashflow summary (Rs m)

Y/e 31 Mar	FY08A	FY09ii	FY10ii	FY11ii	FY12ii
Profit before tax	45,718	48,256	55,840	66,302	76,641
Depr. & amortization	4,385	5,494	6,517	7,606	8,696
Tax paid	-13,795	-15,622	-17,757	-21,084	-24,372
Working capital Δ	-5,217	-3,481	-3,158	-3,291	-4,082
Operating cashflow	31,091	34,648	41,442	49,533	56,884
Capital expenditure	-21,232	-19,799	-20,000	-20,000	-6,381
Free cash flow	**9,859**	**14,849**	**21,442**	**29,533**	**50,502**
Equity raised	6	0	0	0	0
Investments	1,332	6,000	3,000	-2,000	-2,000
Debt financing/disposal	136	0	0	0	0
Dividends paid	-15,432	-15,836	-21,058	-25,004	-28,903
Other items	430	0	0	0	0
Net change in cash	**-3,669**	**5,012**	**3,383**	**2,529**	**19,599**

Source: Company data, IIFL Research

Fixed assets increase due to capex in the hotel, paper and consumer business

Balance sheet summary (Rs m)

Y/e 31 Mar	FY08A	FY09ii	FY10ii	FY11ii	FY12ii
Cash & equivalents	7,163	12,176	15,559	18,088	37,687
Sundry debtors	7,369	10,118	11,300	12,462	14,245
Inventories - trade	40,505	43,600	50,809	58,579	66,964
Other current assets	15,155	16,927	19,726	22,742	25,998
Fixed assets	**72,957**	**87,262**	**100,745**	**113,139**	**110,824**
Intangible assets	0	0	0	0	0
Other term assets	29,346	23,346	20,346	22,346	24,346
Total assets	**172,495**	**193,427**	**218,484**	**247,355**	**280,064**
Short-term debt	2,089	2,089	2,089	2,089	2,089
Sundry creditors	27,870	30,761	35,867	41,370	47,309
Other current liabs	16,453	17,696	20,623	23,776	27,180
Long-term debt/CBs	56	56	56	56	56
Other long-term liabs	5,451	5,451	5,451	5,451	5,451
Net worth	**120,577**	**137,375**	**154,400**	**174,614**	**197,980**
Total liabs & equity	**172,495**	**193,427**	**218,484**	**247,355**	**280,064**

We build in a dip in margins in FY10 as hotels margins take a hit

Ratio analysis

Y/e 31 Mar	FY08A	FY09ii	FY10ii	FY11ii	FY12ii
Revenue growth (%)	14.7	10.3	16.5	15.3	14.3
Op Ebitda growth (%)	11.3	10.3	14.7	18.3	14.9
Op Ebit growth (%)	10.4	8.7	14.2	18.5	15.0
Op Ebitda margin (%)	31.6	31.6	31.1	31.9	32.1
Op Ebit margin (%)	28.4	28.0	27.4	28.2	28.4
Net profit margin (%)	22.4	21.2	21.2	21.9	22.1
Dividend payout (%)	49.5	48.5	55.3	55.3	55.3
Tax rate (%)	31.8	32.4	31.8	31.8	31.8
Net debt/equity (%)	-4.2	-7.3	-8.7	-9.1	-18.0
Net debt/op Ebitda (x)	-0.1	-0.2	-0.2	-0.2	-0.5
Return on equity (%)	25.9	23.8	24.7	25.9	26.4

Source: Company data, IIFL Research

Quick Take

NTPC – SELL

Utilities

25 May 2009

Extraordinaries boost profitability

- **Audited results in line with provisional numbers after adjusting for one-time tax refund of ~Rs3.8bn on other income**
- **Continued strong operating performance, with ~21% core RoE**
- **Fall in tax rate in FY09 does not affect profitability, as tax is a pass-through item. But were the current tax rate to continue going forward, our FY10ii earnings estimate would carry a ~5% upside risk**
- **The company is hosting a conference call on 25 May to discuss the operating performance in detail.**

- **Tax writebacks boost FY09 profitability:** NTPC's audited FY09 PAT was 5% above the provisional numbers, primarily on account of tax write-backs of ~Rs3.8bn pertaining to other income. Adjusting for these tax refunds, NTPC's FY09 PAT grew 5% YoY—in line with our estimate—as no major capacity was added during the year. For 4QFY09, PAT after adjusting for the tax refund works out to Rs17.3bn—up almost 30% YoY, as other income grew 40% YoY.

- **Tax rate falls by 1,080bps during the year:** NTPC's tax rate for FY09, adjusted for the one-time tax write-backs, fell to 16% from 27% a year ago. While tax remains a pass-through item and hence does not affect profitability in the current year, a lower tax rate going forward would enhance future profitability as new tariff regulations applicable from FY10 allow NTPC to retain tax benefits. Should FY10 tax rate stay at 16%, our PAT estimate would carry a ~5% upside risk.

- **Operating performance remains strong:** NTPC's generation during FY09 was 207BU, up 3% YoY. Its coal plants operated at 100% PLF in March 2009, the highest ever in the company's history, as PLF for the year averaged 91.14%. Overall plant availability was also strong at 92.47%. Accordingly, core RoE for the business remained strong at ~21%.

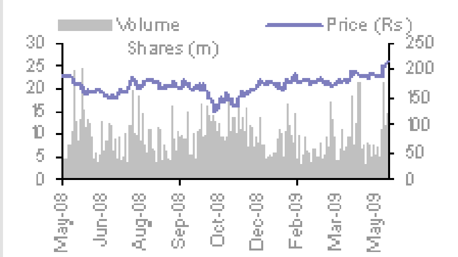
- **Capacity addition remains lacklustre:** During the year, NTPC added only 1GW capacity, as against the planned 2.5GW. However, commercial capacity addition was strong at 2GW. In FY10, NTPC's target is to commission 3.3GW capacity, up from 2.8GW target indicated during the 3Q result conference call. Please note that in its latest review as of end April 2009, CEA has indicated that only ~12.7GW of the 17.9GW capacity under construction is feasible to be added by FY12.

CMP	**Rs217**
12-mth Target price (Rs)	***175 (-19%)***
Market cap (US$ m)	**37,893**
Bloomberg	**NATP IN**
52Wk High/Low (Rs)	225/113
Diluted o/s shares (m)	8245
Daily volume (US$ m)	32.0
Dividend yield FY09ii (%)	2.0
Free float (%)	72.1
Shareholding pattern (%)	
Promoters	89.5
FII	3.6
Domestic MF/Insurance	3.4
Others	3.5

Price performance (%)

	1M	3M	1Y
NTPC	12.9	21.9	22.5
Rel. to Sensex	-9.7	-34.1	39.1
Reliance Infra	57.4	128.9	-13.1
Tata Power	22.1	41.5	-27.5
CESC	41.9	73.3	-29.7

Stock movement



Financial summary (standalone)

Y/e 31 Mar	FY07A	FY08A	FY09ii	FY10ii	FY11ii
Revenues (Rs m)	323,290	369,769	419,237	506,718	578,948
EBITDA Margins (%)	30%	31%	25%	27%	26%
Pre-Exceptional PAT (Rs m)	65,620	75,688	82,013	87,982	88,905
Reported PAT (Rs m)	68,647	74,148	82,013	87,982	88,905
EPS (Rs)	8.0	9.2	9.9	10.7	10.8
Growth (%)	8.2	15.3	8.4	7.3	1.0
PER (x)	**27.2**	**23.6**	**21.8**	**20.3**	**20.1**
ROE (%)	14.1	14.0	14.3	14.1	13.2
Debt/Equity (x)	0.5	0.5	0.5	0.5	0.6
EV/EBITDA (x)	**19.4**	**16.8**	**18.4**	**14.2**	**13.5**
Price/Book (x)	3.7	3.4	3.1	2.9	2.7

Source: IIFL Research; Price as of 22 May 2009

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Figure 1: Tax refunds of ~Rs3.8bn boost FY09 profitability

(Rs m)	4QFY08	4QFY09	% YoY	FY08	FY09	% YoY
Generation (BU)	50.7	56.8	12%	200.3	206.9	3%
Net Sales	**107,436**	**114,458**	**7%**	**370,501**	**419,237**	**13%**
Material costs	67,999	80,158	18%	220,202	271,107	23%
Employee costs	3,966	6,203	56%	18,960	24,631	30%
Other Overheads	7,249	5,898	-19%	19,100	19,521	2%
EBIDTA	**28,222**	**22,199**	**-21%**	**112,239**	**103,978**	**-7%**
EBIDTA Margin	26%	19%		30%	25%	
Depreciation	6,071	7,264	20%	21,385	23,645	11%
Interest	8,074	5,671	-30%	17,980	20,229	13%
Other income	7,439	10,357	39%	29,676	33,490	13%
PBT	**21,516**	**19,621**	-9%	**102,549**	**93,595**	-9%
Tax	8,121	(1,512)		28,401	11,582	-59%
Reported PAT	**13,395**	**21,134**	58%	**74,148**	**82,013**	11%
Rep. PAT Margin	**12%**	**18%**		**20%**	**20%**	

Source: Company, IIFL Research

Figure 2: Generation continues to account for almost 100% of the revenues…

(Rs m)	4QFY08	3QFY09	4QFY09
Generation	107,112	112,438	114,049
Others	324	332	409
Total revenue	**107,436**	**112,771**	**114,458**

Source: Company, IIFL Research

Figure 3: … and for almost the entire PBIT

(Rs. m)	4QFY08	3QFY09	4QFY09
Generation	22,000	27,184	15,967
Others	78	120	152
Total	22,078	27,304	16,120
Unallowed Interest costs	6,148	3,448	3,198
Unalloc expenses (net)	(5,586)	(6,077)	(6,700)
Total PBIT	**21,516**	**29,933**	**19,621**

Source: Company, IIFL Research

Figure 4: ~3.3GW capacity adds in FY10 as Kahalgaon now likely to be added in FY10

(MW)	Planned capacity addition by FY10
Sipat-I	1,320
Kahalgaon Stage-II	500
Korba-III	500
NCTPP-II, Dadri	980
Total	**3,300**

Source: Company, IIFL Research

Figure 5: ~30% of the capacity under construction faces the risk of time overruns

(MW)	Capacity	Cap addn by FY12	Feasible capacity adds as per CEA	Comment
Kahalgaon-II, Unit – VII	500	500	500	
Sipat-I	1,980	1,980	1,980	
Barh-I	1,980	1,980	1,320	Equipment supplies under dispute
Korba-III	500	500	500	
NCTPP-II, Dadri	980	980	980	
Farakka-III	500	500	500	
Koldam	800	800	800	
Loharinag Pala	600	600	600	
Tapovan Vishnugad	520	520	520	
Simhadri-II	1,000	1,000	1,000	
Indira Gandhi STPP at Jhajjar (JV)	1,500	1,500	1,500	
Vallur-I (JV)	1,000	1,000	1,000	
Nabinagar (JV)	1,000	1,000	750	
Bongaigaon	750	750	750	
Mauda	1,000	1,000		
Barh-II	1,320	1,320		
Rihand-III	1,000	1,000		500MW new addition to the XI Plan target
Vindhyachal-IV	1,000	1,000		New addition to the XI Plan target
Total	**17,930**	**17,930**	**12,700**	

Source: Company, IIFL Research, CEA as of end April-2009

Dr Reddy's Labs - BUY

Pharmaceuticals | **25 May 2008**

Firm resolve to perform

Dr Reddy's Labs held its analyst meet with all major business heads presenting their business plans and reaffirming the firm's resolve to perform "as a whole". The key take-aways include:

- **Targeting US$3bn sustainable annual revenue by FY13**
- **Targeting 25% ROCE by FY13**
- **US generics business to be the key growth driver**
- **Domestic and other emerging markets to support growth**
- **Germany and Pharma services and API businesses will continue to perform well, though growth rates may remain low**

We maintain BUY with a price target of Rs755.

- **20% revenue CAGR; margin expansion:** Dr Reddy's management target of US$3bn revenue in FY13 implies about 20% revenue CAGR over FY09-13. This would include the benefit of one-time exclusivities, as the company plans to manage its one-off items in such a way as to ensure growth year after year. The company also projected margin expansion from control of operating expenses, taking ROCE to 25% from the current low-teen rates. We continue to believe that Dr Reddy's has the best potential for margin expansion from operating leverage in the Indian Pharma space.

- **Improvements from FY10 onwards:** The near-term guidance is also robust: the company projects 10% revenue growth in FY10 on top of the high revenue base in FY09, due to Imitrex authorised-generic opportunity. The guidance also implied better overall profitability, with ROCE moving up to mid to high teens in FY10.

- **US – key growth driver; other markets to sustain:** The company said the US generics market will be its key growth driver. In this market, regular growth from new product launches will be supplemented by unique opportunities including para IV exclusivities, authorised generics and niche products. Domestic and other emerging markets will strongly support growth; the domestic market will come out of current stagnancy by 2QFY10. Germany and the Pharma Service & API business will also do well, though at lower growth rates.

- **We maintain BUY rating:** We believe that Dr Reddy's currently presents the best earnings growth visibility in the pharma space. We maintain our BUY rating and our price target of Rs755 is 15x FY11ii core earnings plus cash and other value per share.

CMP	**Rs661**
12-mth Target price (Rs)	***755 (14%)***
Market cap (US$ m)	**2,363**
Bloomberg	**DRRD IN**

52Wk High/Low (Rs)	740/355
Diluted o/s shares (m)	168
Daily volume (US$ m)	4.7
Dividend yield FY09ii (%)	1.0
Free float (%)	73.6

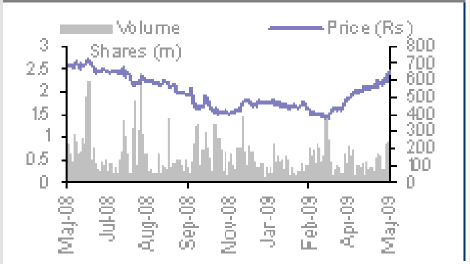
Shareholding pattern (%)

Promoters	26.4
FII	22.2
Domestic MF/Insurance	20.2
Others	31.3

Price performance (%)

	1M	3M	1Y
Dr Reddy's	19.2	63.9	-3.8
Rel. to Sensex	-3.4	7.9	12.8
Ranbaxy	25.2	6.3	-55.7
Sun Pharma	7.9	26.2	-2.9
Cipla	-7.2	19.2	9.3

Stock movement



Valuation matrix

Y/e 31 Mar	FY08A	FY09A	FY10ii	FY11ii	FY12ii
Revenues (Rs m)	50,006	69,441	73,448	80,387	90,239
EBITDA Margins (%)	16.9%	24.1%	20.1%	18.8%	18.9%
Pre-Exceptional PAT (Rs m)	6,937	9,824	8,077	8,518	11,375
Reported PAT (Rs m)	3,836	-5,168	8,077	8,518	11,375
EPS (Rs)	22.7	-30.5	47.6	50.1	66.8
Growth (%)		-234.3	-255.9	5.3	33.3
PER (x)	**29.1**	**-21.7**	**13.9**	**13.2**	**9.9**
ROE (%)	8.2	-12.6	16.8	15.4	17.4
Debt/Equity (x)	0.4	0.4	0.3	0.2	0.2
EV/EBITDA (x)	**14.1**	**7.3**	**8.0**	**7.5**	**6.3**
Price/Book (x)	2.4	2.7	2.3	2.0	1.7

Source: Company reports, IIFL Research

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UltraTech Cement- SELL

UTCEM IN	Rs661	Cement	25 May 2009	Company Update

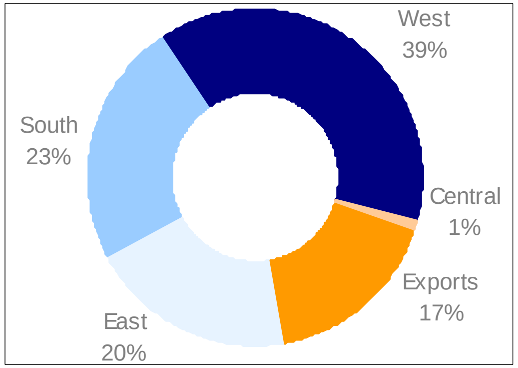
Risky markets, rich valuations

We expect sharp erosion in cement realisation from 3QFY10 in the southern and western regions, due to: i) likely decline in capacity utilisation with new capacities coming in; and ii) waning pricing discipline, with four new players entering in the next six months. The western and southern regions accounted for 62% of UCL's volume sales in FY09 and the proportion is likely to increase further in FY10 and FY11 as volume increases will come primarily from expansion in Andhra Pradesh. We believe that efficiency gains from expansion of captive power plants will not offset the realisation losses. In our view, the stock's P/BV of 1.7x FY11ii does not price in the challenges in UCL's key markets going forward. (In contrast, the stock was trading at a P/BV of 0.8x when we had upgraded our recommendation to ADD in December 2008). We downgrade UCL from ADD to SELL with a target of Rs526.

Four new players in next 6 months—not a good omen for continuation of pricing discipline: In the next six months, 9mtpa capacity from four new producers (Murli Industries in Maharashtra, JK Cement in Karnataka, Jaypee cement in Gujarat and Bharti Cement in Andhra Pradesh) will start production. In addition, the existing producers are increasing capacity by 26mtpa in FY10. All taken, capacity in these two region will increase by 35% in FY10. We expect total demand growth in the two regions at 8m tonnes each in FY10 and FY11. With incremental capacity likely to be sharply higher than incremental demand and new players vying for volumes, erosion in pricing discipline is imminent in these two regions. We expect UCL's realisation to drop 5% in FY10 and 10% in FY11.

62% of FY09 sales from high-price-risk west and south markets: UCL's sales in the western and southern regions account for 62% of its total volumes; the eastern region and exports account for the rest. Export realisations have declined sharply in the past few months as demand has eased. We expect the pricing pressure to continue in the export markets with more capacities expected to commence production in 2009. UCL is not present in the northern markets and the central region accounts for barely 1% of its volumes. With its capacity addition in Andhra Pradesh, volume share of the southern and western regions is set to rise further. We expect the sharp erosion in cement prices in these two regions to impact UCL severely.

Market mix of UltraTech Cement



Source: Industry

Financial summary

Y/e 31 Mar	FY08A	FY09A/ii	FY10ii	FY11ii	FY12ii
Revenues (Rs m)	55,092	63,831	66,856	68,193	73,512
EBIDTA	17,201	17,064	17,605	13,267	13,094
EBITDA Margins (%)	31.2	26.7	26.3	19.5	17.8
Reported PAT (Rs m)	10,076	9,770	9,293	6,508	6,247
EPS (Rs)	80.9	78.5	74.6	52.3	50.1
Growth (%)	28.8	-3.0	-4.9	-30.0	-4.1
PER (x)	8.6	8.8	9.3	13.3	13.8
ROE (%)	45.2	31.0	23.1	13.7	11.8
EV/EBITDA (x)	6.2	6.1	5.2	6.7	6.2
Price/Book (x)	3.2	2.4	1.9	1.7	1.5
EV/ton	124	100	77	75	66

Price as at close of business on 21 May 2009

12-mth Target price (Rs) 526 (-20%)

Market cap (US$ m)	**1,745**
52Wk High/Low (Rs)	706/245
Diluted o/s shares (m)	124
Daily volume (US$ m)	1.2
Dividend yield FY09ii (%)	0.8
Free float (%)	45.2

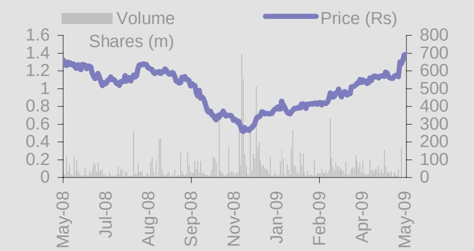
Shareholding pattern (%)

Promoters	54.8
FIIs	2.3
Domestic MFs/Insurance cos	8.9
Others	34.0

Price performance (%)

	1M	3M	1Y
UltraTech Cement	22.0	66.0	1.5
Rel. to Sensex	-5.8	9.6	19.7
ACC	16.0	35.4	10.2
Ambuja Cements	14.0	32.7	-13.1
Grasim Inds	35.1	59.6	-6.7

Stock movement



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Improvement in efficiencies not enough to offset price erosion: UCL has increased its captive power plant capacity from 25% of its total requirement in FY08 to 80% of late. We expect these plants to stabilise in the quarters ahead, and full benefits from these expansions will be evident from the second half of FY10. Cost of coal has also dropped sharply; we expect per-tonne power & fuel cost to decline 22% from FY09 levels. However, we do not expect these savings to offset the fall in realisation for UCL.

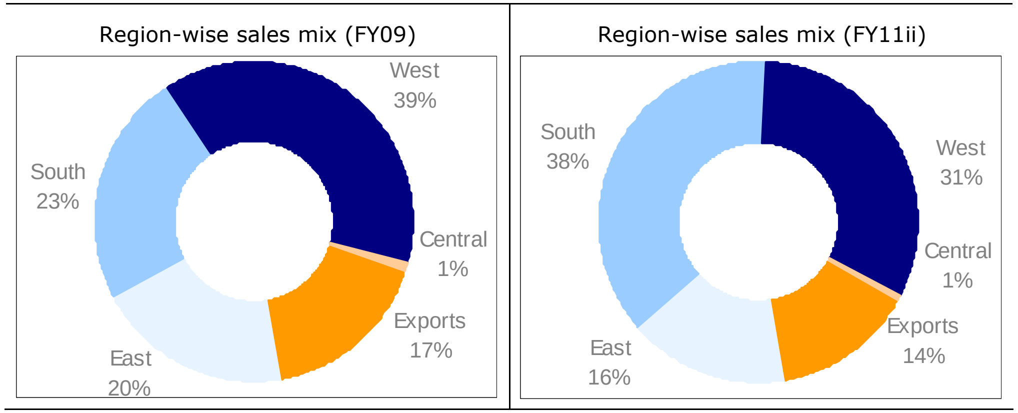
UCL is currently trading at 1.7x FY11ii P/BV; concerns not priced in—we recommend SELL: We believe a sharp decline in cement prices in UCL's key markets will lead to severe pressure on profits from 4QFY10. We expect ROE to decline from 31% in FY09 to 13.7% in FY11. We believe the stock's current valuation of FY11ii P/BV of 1.7x does not price in these concerns. We had upgraded the stock in December 2008 when it was at 0.8x P/BV on account of cheap valuations. We now downgrade it from ADD to SELL to factor in the rich valuation, with a target price of Rs525.

Figure 1: Peer valuation – Grasim with a better market mix is trading at a lower valuation

Company	EV/EBIDTA (x)		PER (x)		P/B (x)	
	FY10ii	FY11ii	FY10ii	FY11ii	FY10ii	FY11ii
Grasim Industries	4.7	4.4	9.9	10.6	1.6	1.4
UltraTech Cement	5.2	6.7	9.3	13.3	1.9	1.7

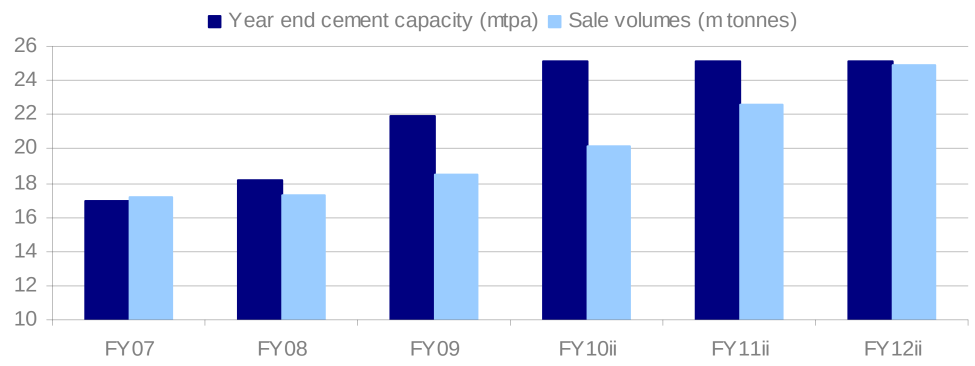
Source: IIFL Research

Figure 2: UCL's volume sales by region—sales from the west and south markets to increase from current 62% in FY09 to 69% in FY11



Source: Industry, IIFL Research

Figure 3: Capacity and sales volume trend—UCL is adding 4.9mtpa capacity in high-price-risk south markets in FY09/FY10



Source: Company, IIFL Research

Figure 4: Cement scenario in southern region

	FY07A	FY08A	FY09A	FY10ii	FY11ii	FY12ii
Effective cement capacity (mtpa)	51	54	65	83	102	107
Production (m tonnes)	50	54	60	64	70	77
Capacity Utilisation (%)	97	100	92	78	68	72
Demand including net transfer (m tonnes)	50	54	60	64	70	77
Despatch growth (%)	12	8	10	8	8	10
Possible production (m tonnes)	51	53	61	75	94	98
Surplus/(Deficit) over demand (m tonnes)	1	-1	1	10	25	21

Source: CMA, Industry, IIFL Research

Figure 5: Cement scenario in western region

	FY07	FY08	FY09	FY10ii	FY11ii	FY12ii
Effective cement capacity (mtpa)	29	29	32	34	35	38
Production (m tonnes)	27	29	28	30	32	36
Capacity Utilisation (%)	95	99	90	88	91	94
Demand including net transfer (m tonnes)	27	29	28	30	32	36
Despatch growth (%)	10	5	-1	7	6	11
Possible production (m tonnes)	29	29	31	34	35	38
Surplus/(Deficit) over demand (m tonnes)	1	0	3	4	3	2

Source: CMA, Industry, IIFL Research

Financial summary

Sharp PAT decline in FY11 with decline in cement prices in key markets

Income statement summary (Rs m)

Y/e 31 Mar	FY08A	FY09A	FY10ii	FY11ii	FY12ii
Revenue	55,092	63,831	66,856	68,193	73,512
EBIDTA	17,201	17,064	17,605	13,267	13,094
EBIT	15,827	14,870	14,636	10,385	10,412
Interest Expense	-757	-1,255	-1,360	-1,088	-1,088
Depreciation	-2,372	-3,230	-3,769	-3,882	-3,882
PBT	15,070	13,615	13,276	9,297	9,323
Taxes	-4,994	-3,844	-3,983	-2,789	-3,077
Net Profit	10,076	9,770	9,293	6,508	6,247

Cashflow summary (Rs m)

Y/e 31 Mar	FY08A	FY09A/ii	FY10ii	FY11ii	FY12ii
EBIT	15,827	14,870	14,636	10,385	10,412
Depr & Amortisation	2,372	3,230	3,769	3,882	3,882
Working capital Δ	1,908	236	1,439	856	1,608
Other operating items	-795	0	0	0	0
Operating Cash flow	19,312	18,335	19,844	15,123	15,901
Net Interest/ Tax/ Others	-5,303	-3,294	-5,343	-3,877	-4,165
Capital Expenditure	-14,866	-9,730	-1,710	-8,150	-3,000
Free Cash Flow	-856	5,311	12,791	3,095	8,736
Debt financing/disposal	1,667	5,200	-6,000	-3,000	-3,000
Dividends paid	-890	-722	-722	-722	-722
Other items	191	0	0	0	0
Net Change in cash	111	9,789	6,069	-627	5,014

Source: Company data, IIFL Research

Balance sheet summary (Rs m)

Y/e 31 Mar	FY08A	FY09A/ii	FY10ii	FY11ii	FY12ii
Cash & Cash equivalents	1,007	10,796	16,865	16,239	21,253
Sundry Debtors	2,166	2,349	2,491	2,637	2
Inventories - trade	6,098	7,526	7,926	8,839	9,723
Other current assets	3,768	3,768	3,768	3,768	3,768
Fixed assets	47,836	54,336	52,277	56,545	55,663
Other term assets	1,709	1,709	1,709	1,709	1,709
Total assets	62,584	80,485	85,036	89,736	92,118
Short term debt	1,256	402	1,626	1,814	-1
Sundry Creditors	11,530	14,231	14,987	16,714	18,385
Long term debt	17,405	22,605	16,605	13,605	10,605
Other long term liabilities	5,424	7,229	7,229	7,229	7,229
Networth	26,970	36,018	44,589	50,375	55,900
Total liability and equity	62,584	80,485	85,036	89,736	92,118

Ratio analysis

Y/e 31 Mar	FY08A	FY09A/ii	FY10ii	FY11ii	FY12ii
Revenue growth (%)	12.2	15.9	4.7	2.0	7.8
Op EBIDTA growth (%)	21.3	-0.8	3.2	-24.6	-1.3
Op EBIT growth (%)	26.3	-6.0	-1.6	-29.0	0.3
Op EBIDTA margin (%)	31.2	26.7	26.3	19.5	17.8
Op EBIT margin (%)	28.7	23.3	21.9	15.2	14.2
Net Profit margin (%)	18.3	15.3	13.9	9.5	8.5
Dividend payout (%)	6.2	7.4	6.7	9.6	0.0
Tax rate (%)	33.1	28.2	30.0	30.0	33.0
Net Debt/Equity (%)	54.5	28.0	-4.4	-8.6	-22.1
Return on Equity (%)	45.2	31.0	23.1	13.7	11.8
Return on Assets (%)	21.8	16.7	15.6	10.7	9.9

Source: Company data, IIFL Research

Return ratios to decline sharply from FY10

Inflation Trade Propping EM Assets

The US market's retreat, last week, also coincided with a broad-based dollar decline. Concerns over UK/US sovereign ratings outlook took toll on US treasuries and the dollar. Dollar ended the week at near 2009 lows against major global currencies like the Euro. Interestingly, Asian equities managed to hold up, as did the Asian currencies. Money was flowing into EM Asian markets – long-only, as well as hedgies betting on the global inflation trade, and extending the two-month old recovery rally in equities.

It appears, Asian equities may outperform US equities in the near term. One could argue that what we are seeing is a speculative dollar unwinding, with expectations of global inflation comeback. We have seen this kind of futile market gyrations, at least twice since Nov 2008. However, similar moves in the past one year did not support the Emerging Market equity assets as we are seeing it this time.

A Week of Weak US Data

US equities gave up early gains to end last week broadly flat. Economic data and Fed's outlook dampened market sentiment. Both housing starts and building permits in US fell to record lows. Apr housing starts fell -12.8% MoM to an annualized rate of 458k units, vs. consensus of 520k while Apr housing permits dropped -3.3% MoM to an annualized rate of 494k against consensus of 530k. Meanwhile, initial unemployment claims for the week ended May 16 at 631k came well above the consensus of 625k, which the prior week's number was upwardly revised to 643k from 637k. The four-week moving average of cumulative continuing claims at 6.48mn highlights the fragile US labour market.

This week we have a slew of month-end US economic data, including housing, durable goods orders and data on US manufacturing. Hopefully, we will see some fresh bottoming out signs in the US housing sector.

Strategema is an ancient Greek word, meaning war strategies or schemes to outwit opponents. Today's video game generation is more familiar with "Strategema" as a game central to the episode "Peak Performance" of Star Trek: The Next Generation.

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When will the "Green Shoots" Blossom?

The "Green Shoots" were indeed at work, lifting global market sentiment since March. US Corporate earnings for 1Q2009 have been better than expected. Real economic data has also been encouraging. However, with US unemployment at 8.9%, and rising, and with the US housing sector inventory (and shadow inventory) likely to top 2yrs demand in most regions - a V-shaped real economic recovery may appear less convincing to most. The "Green Shoots" are unlikely to Blossom in haste.

US equities have seen considerable volatility even after the Lehman collapse, on Sep 15, 2008. Today, the Dow is essentially at the same level as it was in Oct 2008, however we have seen a 25%+ swing in the index with a bottom on Mar 09, 2009. The recovery and the consolidation (and even the sideways move) in US equities have brought some semblance of stability in global asset markets – it is undoubtedly positive for Asian equities.

Figure 1: Indian ADRs

EquityRV

Loading complete. 14 securities loaded.

RDY US Equity | 95) Customize | 96) Outp | Relative Valuation

Peers: Custom Peers

Theme: Custom Theme | Add Column | 93) Fields

Name	Last Px	Chg Pct 1D	Chg Pct 5D	Ret YTD Pct	Chg Pct 1Yr	olume:D-	Avg Vol 5D	Avg Vol 30D	Mkt Cap	Rev - 1 Yr Gr:Y	EPS - 1 Yr Gr:Y	ROE:LF
Average	19.23	5.14	20.97%	41.21%	-30.79%	1.66M	2.42M	1.56M	6.56B	15.79%	-7.86%	19.16%
DR REDDY'S-ADR	13.43	+2.91%	16.08%	37.04%	-16.11%	792.13k	545.55k	261.04k	2.26B	38.18%	N.A.	10.32%
1) REDIFF.COM INDIA	4.1499	+19.94%	66.66%	106.46%	-45.75%	275.31k	287.23k	105.35k	121.31M	12.46%	-29.82%	N.A.
2) SIFY TECHNOL-ADR	1.912	+21.22%	48.21%	25.79%	-61.45%	807.25k	566.35k	169.09k	81.67M	-18.96%	N.A.	0.58%
3) MAHANAGAR-ADR	3.84	+0.00%	32.41%	10.98%	-21.15%	74.15k	184.60k	87.64k	1.21B	-3.50%	-16.99%	4.82%
4) TATA MOTORS-ADR	9.61	+0.63%	26.45%	115.96%	-36.69%	1.40M	4.05M	2.05M	4.32B	9.15%	-0.34%	26.40%
5) ICICI BANK-ADR	29.50	+5.32%	26.12%	53.25%	-25.16%	4.47M	10.24M	5.20M	16.42B	7.07%	-0.19%	9.89%
6) TATA COMMUNI-AD	25.12	+1.54%	20.02%	17.55%	9.12%	60.13k	142.74k	115.73k	3.58B	-4.04%	-93.18%	0.02%
7) SATYAM COMP-ADR	2.16	+12.50%	19.34%	-76.11%	-91.36%	8.36M	3.83M	2.28M	1.05B	30.66%	17.67%	25.98%
8) STERLITE IND-ADR	10.95	+1.67%	19.28%	98.37%	-48.57%	843.59k	2.48M	1.48M	7.76B	-14.41%	-47.03%	39.43%
9) HDFC BANK-ADR	91.81	+2.22%	16.36%	28.62%	-7.74%	412.18k	893.93k	600.28k	13.02B	58.10%	14.03%	17.72%
10) PATNI COMPUT-AD	9.32	+3.33%	5.19%	58.23%	-27.07%	23.75k	79.50k	57.83k	596.96M	15.83%	-7.39%	19.08%
11) WIPRO LTD-ADR	10.96	+0.83%	2.53%	34.81%	-14.84%	242.82k	893.15k	686.01k	16.05B	28.63%	18.51%	30.80%
12) INFOSYS TECH-ADR	31.60	+0.22%	-1.31%	28.61%	-25.93%	1.41M	4.03M	3.09M	18.10B	29.96%	28.28%	37.37%
13) COGNIZANT TECH-A	24.81	-0.36%	-3.69%	37.38%	-18.39%	4.10M	5.59M	5.73M	7.25B	31.88%	22.13%	26.64%

Split Screen | Stats | Min | Median | Max | ☒ Avg | Std Dev | Grouping: None | Zoom

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Japan 81 3 3201 8900 Singapore 65 6212 1000 U.S. 1 212 318 2000 Copyright 2009 Bloomberg Finance L.P.
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Source: Bloomberg, we include Cognizant for comparative relevance

Events calendar – May 2009

Monday	Tuesday	Wednesday	Thursday	Friday	Saturday
				1	**2**
HPCL – 2 Jun NALCO – 3 Jun GMR Infra – 4 Jun Power Fin – 4 Jun				Mar Exports ↓ **33%** Mar Imports ↓ **34%**	Kesoram
4	**5**	**6**	**7**	**8**	**9**
Century Text, HDFC, IOB			Birla Corp, Jaiprakash Hydro, JSW Steel, Union Bank **Elections** WPI for 25 Apr ↑ 0.70%	GE Shipping, Peninsula Land	SBI, Hindustan Unilever (**10 May**) Sintex Inds
11	**12**	**13**	**14**	**15**	**16**
Motilal Oswal, Tata Tele	Asian Paints, Kotak Mah Bank, MRPL IIP for Mar ↓ **2.3%**	Lupin **Elections**	Voltamp March CPI-RL ↓ **9.69%** March CPI-IW ↓ **8.03%** WPI for 2 May ↓ **0.48%**	Ashok Leyland, Bharat Bijlee, Everest Kanto, Jyoti Structure Northgate Tech, Torrent Pharma, Zuari Inds	Balkrishna Inds, Torrent Power **Election - counting**
18	**19**	**20**	**21**	**22**	**23**
Dr Reddy's Lab, Essar Oil, Punj Llyod, Sobha Dev	Grasim, Thermax	Bajaj FinServ, Bharat Forge, Crompton Greaves, Excel Corp, Mphasis, Mundra Port,	Bajaj Auto, Gammon Infra WPI for 9 May ↑ **0.61%**	CESC, Edelweiss Capital, Federal Bank, ITC, NTPC, Redington	GNFC, HDIL
25	**26**	**27**	**28**	**29**	**30**
Dishman, Jet Airways, Karnataka Bank	NIIT Tech, Tata Comm	BHEL, Britannia, Cairn India, EMCO, Jindal Steel, NIIT Ltd	Karur Vysya, L & T, Mahindra & Mahindra, Nagarjuna Const, SAIL, Tata Power WPI for 16 May	Bank of India, BPCL, Colgate, IOC, IVRCL Infra, Lanco Infra, Madras Cement, Tata Motors, Voltas, Welspun Gujarat	Kalpataru Power, Sun Pharma

Black: Quarterly results, Blue: Economic data, Red: India Holiday, **Brown: Election**

IIFL

Events

	Apr-Jun 09	Jul-Sep 09	Oct-Dec 09	Jan-Mar 10	Apr-Jun 10
Economics / Politics	• RBI's Monetary policy meeting (end April) • Swearing in of new cabinet of ministers (22nd May)	• Revised Budget for 2009-10 (July) • RBI's Monetary policy meeting (end July)	• RBI's Monetary policy meeting (end October)		
Auto	• **Tata Motors** – Repayment of the US$3bn bridge loan taken for the JLR acquisition (Jun-09)		• **Tata Motor's** Nano plant at Sanand to start operations	• **M&M's** Chakan plant with a capacity of 320,000 vehicles to start operations.	
Cement	• **JK Cement** 3.5 mtpa Karnataka plant to start • **Orient Cement** 1.6 mtpa Devapur, AP plant to start • **OCL's** 2.0 mtpa Orissa plant to start • **Murli Industries** 2.5mtpa Chandrapur plant to start • **JP Associates** 1.2 mtpa Gujarat plant to start	• **Lafarge's** 1.3 mtpa Sonadih plant to start • **Dalmia Cements** 2.3 mtpa Ariyalur plant to start • **Ambuja Cement's** 1.5 mtpa Dadri plant to start • **ACC's** 1.2 mtpa Bargarh plant to start • **Grasim's** 4.4 mtpa Kotputli expansion to commence prod. • **Raghuram Cement** AP 2 mtpa plant to start	• **JP Associates** 3.0 mtpa HP plant to start • **NCL Industries** 1.5 mtpa AP plant to start • **Andhra Cement** 1 mtpa AP plant to start • **Ambuja Cement** 1.5 mtpa Panipat plant to start • **ACC** 3 mtpa Wadi, Kar plant to start • **Zuari Cements** 2.4 AP mtpa plant to start		

Events

	Apr-Jun 09	Jul-Sep 09	Oct-Dec 09	Jan-Mar 10	Apr-Jun 10
Infrastructure			• **BHEL** Capacity goes up from 10 GW to 15 GW		
Metals	• **Sterlite**: Bauxite mining at Niyamgiri will start		• **Sterlite**: First phase of 2,400MW power plant will commence operation	• **JSW Steel**: Commissioning of 3.5mntpa hot strip mill	
Pharma	• **Glenmark:** Data from phase II study of melogliptin in diabetes mellitus • **Glaxo Pharma:** Launch of an in-licensed anti-fungal product in the domestic market • **Sun Pharma:** FDA clearance of Caraco facility in Detroit; Potential deal on Taro acquisition		• **Max Healthcare:** Opening of 270 bed Max Balaji tertiary care centre, Pratapganj, New Delhi • **Ranbaxy:** Launch of generic Valaciclovir under exclusivity in US • **Dr Reddy's:** Approval of generic OTC Omeprazole by USFDA	• **Dr Reddy's:** Potential USFDA approval for fondaparinux	
Real Estate	• **DLF** –To acquire stake in DAL. • **DLF** to sell wind energy business • **Unitech**- To raise funds via stake sale in hotel & office projects. • **Puravankara** Projects – Capital raising by its subsidiary Provident Housing & Infrastructure Ltd to fund its mass housing project • **Sobha** – Right issue upto Rs3.5bn • **HDIL**: Will seek board approval for QIP				

Events

	Apr-Jun 09	Jul-Sep 09	Oct-Dec 09	Jan-Mar 10	Apr-Jun 10
Telecom	• **Idea Spice** merger expected to receive court approval, and get completed • **RCOM** expected to explain retention plans for subscribers gained in 4QFY09 • **3G** spectrum auctions likely to be schedule by this quarter	• **Indus Towers** expected to receive towers from Bharti, Vodafone and Idea and thus merger of tower subsidiaries into Indus completed			
Utilities	• **NTPC**'s Kahalgaon-II Ph II Unit 7 (500MW) to commission	• **CESC** Budge Budge (250MW) unit operational • **Suzlon** to start production from new facilities	• **NTPC**'s Sipat-I Unit 1 (660MW) to commission		
Others	• **Arshiya International** – Capital raising to fund its FTWZ & Rail business		• **EKC's** Kandla SEZ plant to manufacture 300,000 steel plate cylinders for exports to Europe to start operations.		

Key to our recommendation structure

BUY - Absolute - Stock expected to give a positive return of over 20% over a 1-year horizon.
SELL - Absolute - Stock expected to fall by more than 10% over a 1-year horizon.

In addition, **Add** and **Reduce** recommendations are based on expected returns relative to a hurdle rate. Investment horizon for **Add** and **Reduce** recommendations is up to a year. We assume the current hurdle rate at 10%, this being the average return on a debt instrument available for investment.

Add - Stock expected to give a return of 0-10% over the hurdle rate, ie a positive return of 10%+.
Reduce - Stock expected to return less than the hurdle rate, ie return of less than 10%.