Emkay Research

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Morning meeting notes

16 December 2009

Major indices movements

Major indices	Clsg	1d (%)	3m (%)	6m (%)
BSE Sensex	16,877	(1.3)	1.2	12.8
Nifty	5,033	(1.4)	1.5	11.4
Dow	10,452	(0.5)	6.7	22.9
Nikkei	10,184	1.0	(0.8)	4.4
Hang Seng	21,622	(0.9)	1.0	19.0
Brasil Bovespa	69,311	(0.1)	14.7	35.4
Mexico Bolsa	31,903	(0.3)	7.7	31.7

Turnover

Value Traded (Rs bn)	15 Dec 2009	% Chg	52 Wk Hi	52 Wk Lo
Cash BSE	43.8	6.1	117.8	1.3
Cash NSE	136.3	7.3	401.5	1.7
Total	**180.1**			
Del.(%)	39.9			
F&O	697.2	(5.4)	1371.3	26.0
Total Trade	**877.3**			

Fund Activity

Net Inflows (Rs bn)	Purch	Sales	Net	YTD
14 Dec 2009				
FII's	18.3	(16.6)	1.7	233.4
Domestic Funds	7.5	(8.1)	(0.6)	98.8
15 Dec 2009				
Cash Provisional			(1.3)	
F&O - Index	32.4	(40.9)	(8.5)	(27.6)
F&O - Stock	18.0	(20.2)	(2.3)	(11.6)

Advances/declines BSECash

15 Dec 2009	A	B1	B2	Total
Advance	29	546	119	694
Decline	176	1323	326	1825

Commodity Prices

Commodity	16 Dec 2009	1d (%)	3m (%)	6m (%)
Crude (USD/Bbl)	71.9	(0.0)	1.8	4.2
Copper(usd/t)	6,895	(0.3)	11.1	37.7
Aluminum H.G.(usd/t)	2,234	(1.1)	20.4	38.8
Zinc(usd/t)	2,335	0.0	25.7	48.3

Debt/Forex Mkt	Clsg	1d (%)	3m (%)	6m (%)
Re/USD	46.71	0.0	4.1	2.1
10 yr Gsec Yield	7.55	0.1	4.4	9.7

Home

Contents

News clippings

- **Mahindra & Mahindra (M&M)** has announced two landmark aerospace deals with the simultaneous acquisition of a majority stake in two Australian companies, Aerostaff Australia and Gippsland Aeronautics. The acquisitions of Aerostaff Australia and Gippsland Aeronautics have been made jointly with Kotak Private Equity with a total commitment of about Rs 1.75 billion.
- **Gammon India** has announced that its wholly owned subsidiary, SAE Powerlines S.r.l., Italy, has been awarded a 220kv transmission line turnkey contract in Algeria. The value of the contract is nearly USD 22.5 million (Rs 1,049.06 million).
- **Tata Steel's** European unit Corus had got a 350 million euro ($510 million) contract to supply rail tracks to French operator SNCF.
- India has urged the US Securities Exchange Commission not to impose fine on **Mahindra Satyam**, as imposing a fine would impede the rehabilitation process of the company.
- **J Kumar Infraprojects Ltd.** has raised Rs554.59 mn from a Qualified Institutional Placement (QIP). The duly authorized QIP Committee of the Board of Directors, at its meeting held yesterday, issued and allotted 30,76,785 fully paid-up equity shares at Rs 180.25 apiece.
- Recognising Indian economy's resilience to global financial crisis, rating agency Moody's has upgraded its outlook on Indian government's local currency rating (Ba2) to positive from stable. It also raised the ceiling on banks' foreign currency deposits has been raised to Ba1 from Ba2 to better reflect the robust external position of India.

Emkay Research

15 December, 2009

BUY

Price	Target Price
Rs 160	Rs 230

Sensex	17,098

Price Performance

(%)	1M	3M	6M	12M
Absolute	22	15	38	86
Rel. to Sensex	20	10	20	5

Source: Bloomberg

Stock Details

Sector	Logistics
Reuters	ARTC.BO
Bloomberg	ARST@IN
Equity Capital (Rs mn)	118
Face Value (Rs)	2
No of shares o/s (mn)	59
52 Week H/L (Rs)	171/43
Market Cap (Rs bn/USD mn)	9/193
Daily Avg Vol (No of shares)	60789
Daily Avg Turnover (US$ mn)	0.2

Shareholding Pattern (%)

	Sep'09	Jun'09	Mar'09
Promoters	40.9	47.1	45.6
FII/NRI	35.0	29.9	34.7
Institutions	1.5	1.5	1.5
Private Corp	7.8	7.8	5.6
Public	14.8	13.8	12.6

Source: Capitaline

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Arshiya International

Initiating Coverage

Log on to it

Arshiya International Limited (AIL) is on its way to becoming a full fledged logistics services provider by setting up its FTWZs at JNPT, Khurja & Nagpur and ramping up its railway haulage services. After firmly establishing itself as a preferred player in the highly unorganized freight forwarding business, we believe its FTWZ foray will provide it a clear first mover advantage. The company is also aggressively expanding its railway haulage segment, with 30 rakes expected to be operational by March 2011. We believe AIL has been in an investment phase for the last two years. With Phase I, where the Mumbai and Khurja FTWZs will start operations from March and July 2010 respectively, we expect AIL to enter into a high growth phase from FY10 onwards. We expect the company's revenue and net profit to grow at 23% and 29% CAGR over FY09-11E respectively. The stock trades at 17x FY10E and 8x FY11E earnings. Given its strong growth phase over the next few years and higher return ratios of the new ventures, we believe its valuations are un-demanding. We are initiating coverage on the stock with a BUY rating and a target price of Rs.230.

Pioneers of FTWZ (free trade warehousing zones) in India

AIL's FTWZ, the first one which will be operational by April 2010, will be the first FTWZ to be set up in India. Following Mumbai, Khurja FTWZ will be operational from July 2010. The company has already received tremendous response from its clients and has pre-booked its' first phase of available warehousing space for its Mumbai & Delhi FTWZ. We believe its FTWZ's locational advantage will lead to successful implementation of this business model. Post the Phase I of both the above mentioned FTWZ, the company expects to start operations of its Nagpur FTWZ by H2FY11.

Railway haulage - Aggressive expansion

AIL started its railway haulage services in Q4FY09. Though a late entrant in the segment, the company is now looking at aggressively expanding its rakes capacity, which shall drive growth for the segment. From 6 rakes that are operational currently, AIL expects to add another 6 rakes by March 2010 and 18 rakes by March 2011.

Logistics solutions to be driven by supply chain management

AIL has created a strong franchise in the highly unorganized freight forwarding segment in the country. The company expanded its services gamut by providing supply chain management to international companies in 2007. From 2008 onwards, the company started providing services to their clients. From 10 clients in the segment, the company expects to add another 5 major clients in FY10E.

Valuations un-demanding, Recommend BUY with target price of Rs.230

We believe that AIL is in a sweet spot and expect it to move into a high growth phase from FY10-11 onwards. With its FTWZ becoming operational and railway segment contributing meaningfully from FY11E, we expect significant improvement in the return ratios as well. We expect the company to report revenue and net profit CAGR of 23% and 29% from FY09-11E respectively. The stock trades at 17xFY10E earnings and 8xFY11E earnings, which is un-demanding. We are initiating coverage on the stock with a BUY and a target price of Rs.230 (12xFY11E earnings).

Key Financials (Rs.mn)

YE-Mar	Net Sales	EBITDA (Core)	(%)	APAT	AEPS (Rs)	EV/ EBITDA	P/BV	ROE (%)	P/E
FY08	4012	517	12.9	457	8	13.2	1.8	9	20.0
FY09	5030	739	14.7	655	11	13.6	1.6	11	14.3
FY10E	5828	896	15.4	567	10	14.0	1.5	9	16.6
FY11E	7693	1803	23.4	1143	19	8.3	1.2	15	8.2

Source: Company, Emkay Research

Emkay Research

Tyre Sector

Pricing discipline - The differentiator

- Capacity additions - a necessity
- Pricing discipline - to remain intact
- Rising raw material price risk - factored in valuations

Reco	Company	CMP (Rs)*	TP (Rs)
BUY	Apollo Tyres Ltd.	49	60
BUY	JK Tyre & Industries Ltd.	150	192

** CMP as on 14th Dec-2009*

December 2009

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Synopsis

We expect a re-rating of the tyre sector over the next few quarters, as concerns on the earnings front are put to rest. The current valuations of tyre companies indicate expectations of a sharp earnings decline (atleast 40%) in FY11E due to concerns on rising raw material prices (rubber prices only 7% below its previous peak) and capacity additions (affecting pricing power). The markets seem to be factoring in a repeat of the FY03-05 period, where profitability was significantly affected due to the above factors. EBIDTA margins declined by 410 bps to 6% and net profits declined by a CAGR of 22% during FY03-05.

While we share concerns on the rising raw material prices, we believe that pricing discipline will be the biggest differentiator. The industry has shown good pricing discipline since FY06. It should be noted that during FY06-FY08, the EBIDTA margins expanded by 500 bps to 11% and net profits increased at a 77% CAGR. This was despite a sharper increase (1.1x) in the rubber and oil prices during FY06-FY08 vis-à-vis FY03-FY05. Even in FY09, when there was a drop in volumes, (resulting in lower capacity utilization), pricing witnessed an uptrend.

We do not expect the ambitious capex plans during FY09-FY13 (gross block to increase by ~58%) to adversely impact tyre pricing as the expansion is more of a necessity than an option. Capacity addition during FY09-FY13 is mirroring long term growth trends. More importantly, capacity additions will happen in a phased manner and can be curtailed if the situation so warrants.

We consider 1HFY10 profitability as abnormal and hence, are factoring in a drop in earnings of 15% to 25% for domestic business in FY11. Barring a further spike in rubber prices, we believe that earnings would surprise positively.

While all the tyre companies will benefit from pricing discipline, we expect Apollo Tyres (ATL) and JK Tyre (JKT) to outperform as the contribution from their recent international acquisitions become more visible in FY11 and FY12. We are initiating coverage on ATL (BUY) and JKT (BUY). We like ATL for its thirst for market leadership with a clear focus on profitability. We like JKT purely from a valuation view.

Pricing discipline - the biggest differentiator

The most important structural change (as compared to FY03-05 period) that lends support to our case is the almost 100% utilization in the truck and bus bias (TBB) tyre segment, which accounts for around 60% of the industry revenues. We have already witnessed pricing discipline in the industry since FY07, which has enabled the players to improve margins despite continuous increase in commodity prices.

Capacity additions - a necessity due to higher utilization levels

Our analysis of the tyre industry and its utilization indicates that the concerns with respect to excess capacity are overdone. Considering the long term growth rate of the Indian passenger car tyre (PC) and truck and bus tyre (T&B) segment of ~12.5% and ~5% respectively, the expansion is necessary. During FY09-FY13, PCR and T&B will add capacity at 12.6% and 7.4% CAGR respectively.

These are planned capacities - coming up in a phased manner

The recent wave of greenfield expansion, which will eventually add 29% to the current capacity, is likely to come up in a phased manner with intermediate review of capacity additions. We believe that the expansion will be curtailed if the situation so warrants, considering the gap between minimum economic size of the plant and the current expansion plans announced by the players.

Only radial capacity additions in T&B segment - is it a concern?

The T&B segment will be witnessing a capacity addition of ~6 mn tyres during FY09-FY13 in the truck and bus radial (TBR) tyre segment. If all the planned capacities are commissioned as per schedule, then TBR would account for 28% of T&B capacity by 2013. An analysis of trends in radialization in some of the other countries indicates that the demand for TBR in India is at an inflection point. Strong focus of the government on road development as well as ban on overloading (since November 2005) are the two most important structural changes that can ensure that India replicates the radialization witnessed in other countries.

Exports - can regain momentum

We expect exports to act as another support factor for ensuring higher capacity utilization levels. The share of exports (tyres sold) after reaching 8.5% in FY05 has declined to 7% in FY09 due to capacity constraints.

Pressure on account of raw material prices - already factored in valuations

Current valuations of ATL and JKT at PER of 6.5x and 2.8x our FY10 estimates are factoring in a sharp drop in earnings in FY11 due to the risk of continued uptrend in rubber prices (rubber is only 7% below its peak). Historically, rubber prices have corrected after such a sharp run up in the prices. Any correction in the prices presents potential upsides.

Rising raw material price does not necessarily mean pressure on profitability

Since FY06, rising raw material prices have not affected the margins significantly, except for the FY09 period. We attribute this to the strong volumes as well as pricing discipline since FY06. Infact, margins have witnessed an upward trend despite rising raw material prices. During FY06-FY08 period, the EBIDTA margins expanded by 500 bps to 11% and net profits increased at a 77% CAGR. This was despite a sharper increase (1.1x) in the rubber and oil prices during FY06-FY08 vis-à-vis FY03-FY05.

Initiate coverage on ATL and JKT

We are initiating coverage on ATL and JKT with a BUY rating. While all the tyre companies will benefit from pricing discipline, we expect Apollo Tyres (ATL) and JK Tyre (JKT) to outperform as the contribution from their recent international acquisitions become visible in FY11 and FY12

Indices

Indices	Today's close	% chg
Sensex	16,877	-1.29
Nifty	5,033	-1.42
S&P CNX 500	4,173	-1.42
BSE 500	6,603	-1.42
BSE Mid-Cap	6,428	-1.56
BSE Small-Cap	7,819	-1.42
BSE Auto	7,115	-1.93
BSE Health	4,946	0.11
BSE FMCG	2,802	-0.19
BSE IT	4,953	-0.08
BSE PSU	9,197	-1.79
BSE Bankex	9,696	-2.95
BSE Oil & Gas	10,213	-1.57
BSE Metal	16,192	-0.55
BSE Cons Dur	3,462	-1.29
BSE Cap Good	13,792	-1.56
BSE Realty	3,875	-1.20
BSE Power	3,014	-1.51

Levels to watch

	Sensex	Nifty
21 EDMA	21 EDMA	17031
55 EDMA	55 EDMA	16698
Swing High	17200	5129
Swing Low	16835	5018

Trend Tracker

	Up/ Down	Sensex/ Nifty	Sensex/ Nifty
		Target	Reversal
Near Term	↓	16,800/4,993	17,500/5,200
Short Term	↓	16,800/4,700	17,500/5,200
Mid Term	↓	14,000/4,350	17,500/5,200

Nifty Intraday levels to watch

	Support	Resistance
Nifty	4,967/5,000	5,088/5,114

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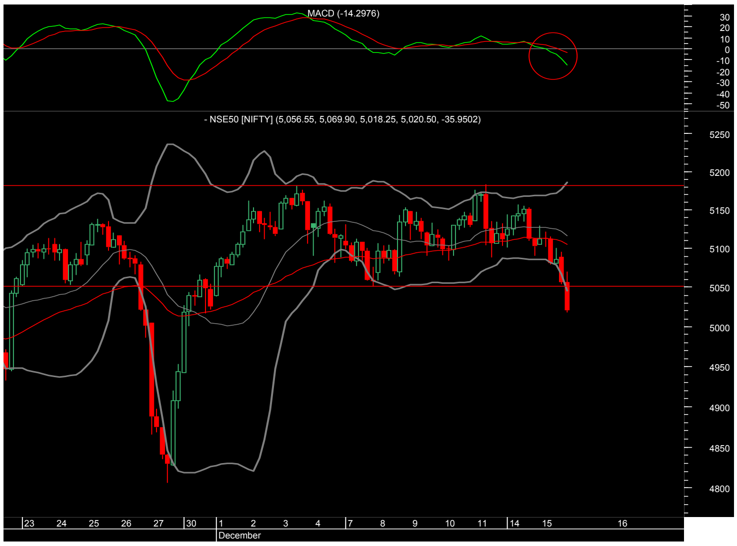
Sell on rise

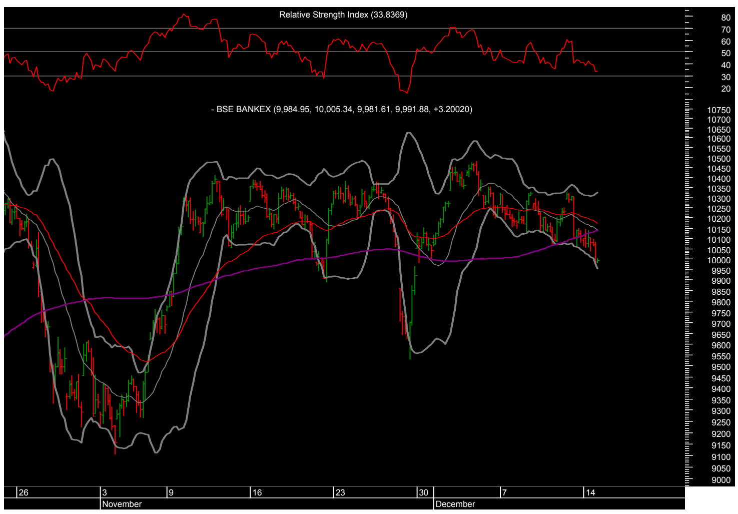
After a feeble start, Nifty kept on making lower lows all through the day. Moreover, in the late afternoon session the fall gained the pace and we witnessed a sharp fall in Nifty. Finally, Nifty ended the day on a negative note with a loss of 72 points. Today, Nifty broke an important swing low of 5051, which is a sign of caution and from hereon any pull up for the retest of the moving average should be used for initiating fresh shorts. On upside 5088 and 5114 are the key resistance levels, where Nifty is expected to witness selling pressure.



Sectoral Speak

BSE Bankex

The index has broken 55-DEMA and now it's on the verge of breaking a key support placed at 9530, below which the fall is expected to accelerate. Currently the index closed at 9696 with a loss of 3%. On the daily chart the momentum cycle is still in the falling mode and is about to breach the neutral line. Thus now in the coming days we will see further downside in this index, once we get a lower top lower bottom confirmation on the break of 9530. However on upside the index has resistance at 10150, which is the 21-DEMA.



Technical Recommendations

EPT Calls

Date	Stocks	Action	Reco. Price	Stop-loss	Target	Current price	Comment
25.11.09	Sail	Sell	198.60	216.60	174/151	203.40	Stopped Out
03.1.09	Nifty Dec	Sell	5,130.00	5,280.00	4,600/4,350	5,126.00	
04.12.09	Unitech	Sell	87.20	96.50	76/77	89.40	
07.12.09	Hindalco	Sell	142.70	151.10	134/125	141.90	
07.12.09	Mah&Mah	Sell	1032.00	1116.10	900/780	1026.30	
08.12.09	LITL	Sell	581.00	611.60	551/521	583.75	

EMT Calls

Date	Stocks	Action	Reco. Price	Stop-loss	Target	Current price	Comment
07.12.09	HDIL	Sell	337.00	358.60	316/300	345.70	
15.12.09	5000 put (Dec)	Buy	86.75	150	121.6	99.85	

Home

Home

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