First Call

January 22, 2009

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Sectoral Movements — % Change

	20-Jan-09	1-d	1-mo	3-mo	1-y
Banking	4,645	(3.9)	(17.5)	(20.5)	(56.1)
IT	2,098	(2.2)	(9.9)	(24.2)	(44.6)
Pharmaceuticals	2,739	(2.6)	(7.5)	(17.1)	(26.0)
Oil	5,642	(3.8)	(12.4)	(16.7)	(49.1)
Power	1,733	(3.9)	(7.0)	(1.1)	(54.8)
Auto	2,443	(1.3)	(4.6)	(21.8)	(47.6)
Metals	4,698	(4.1)	(13.6)	(23.0)	(68.6)
Real Estate	1,641	(3.6)	(35.0)	(37.7)	(84.3)
FMCG	1,980	0.8	(3.6)	1.1	(8.9)
Capital Goods	6,274	(3.0)	(12.8)	(17.1)	(63.3)

India — Change in %

	20-Jan-09	1-d	1-mo	3-mo
Nifty	2,706	(3.2)	(12.1)	(16.3)
Sensex	8,779	(3.5)	(13.1)	(17.8)
CNX 500	2,111	(0.5)	(10.9)	(15.3)

Global Indices

	20-Jan-09	1-d	1-mo	3-mo
DJIA	8,228	3.5	(4.1)	(8.9)
NASDAQ	1,507	4.6	(3.7)	(11.2)
Hang Seng	12,783	1.6	(12.6)	(10.4)
Nikkei 225	7,890	(0.2)	(9.6)	(9.1)

Net Inv (INR Bn)

16-Jan-09	Buy	Sell	Net
FII Cash	7.7	10.6	(2.9)
FII F&O	44.8	51.0	(6.3)
MF Cash	2.8	4.0	(1.2)

Value Traded - India (INR Bn) — Change in %

	20-Jan-09	1-d	1-mo	3-mo
BSE Cash	28.5	3.4	(43.7)	(26.5)
NSE Cash	79.4	12.2	(40.0)	(28.3)
NSE F&O	415.4	18.3		

Forex/Money Market — Change in %

	20-Jan-09	1-d	1-mo	3-mo
INR/USD	49.1	-	(2.2)	0.4
USD/EUR	1.3	0.3	6.9	(1.0)
USD/YEN	1.1	(0.2)	(1.1)	(9.4)
10 Yr G-Sec	6.0	5.0	15.5	(20.4)

Commodities (USD/Mt ton) — Change in %

	20-Jan-09	1-d	1-mo	3-mo
Copper	3,186.5	(3.7)	10.0	(29.2)
Aluminium	1,301.0	(4.7)	(12.1)	(35.5)
*Gold	852.7	(0.2)	0.5	16.7
*Silver	11.3	(0.3)	4.3	18.4
**NYMEX	42	9.1	24.7	(40.4)

**USD/Troy Ounce* ***USD/bbl*

Agri Commodities (INR/QT) — Change in %

	20-Jan-09	1-d	1-mo	3-mo
Sugar	2,168.8	0.1	9.9	15.7
Cotton^	2,214	0.3	0.2	(8.3)

^INR/Maund *^^INR/KG*

Open Interest (INR mn)

Volume	20-Jan-09	19-Jan-09	% Change
Futures	249,895	250,481	(0.2)
Call	136,880	137,139	(0.2)
Put	102,028	105,823	(3.6)
Total	488,803	493,443	(0.9)

Put Call Ratios

Volume	20-Jan-09	19-Jan-09	% Change
PCR	0.90	0.94	(4.8)
WPCR	1.44	1.26	14.1
OI PCR	0.70	0.72	(3.5)
Total OI/ Vol	1.18	1.40	(16.2)

Nifty IVs at 45 - 47% levels.

FII Activity (INR Mn) (20-Jan)*

STOCKS IN THE NEWS

L&T is expected to soon announce a tie-up with a global player in the field of nuclear power (ET)

Jubilant Biosys develops solution to accelerate drug discovery programme (ET)

L&T front-runner for Satyam buy. To present revival plan to Satyam board Chairman Naik meets PMO official. (BS)

Sebi has made it mandatory for promoters to disclose details of shares pledged by them in their listed entities. (BS)

HCC plans IPO for Lavasa project by '10 (BS)

Maharashtra to cancel power contracts awarded to **Maytas Infra** (BL)

Drugs regulator issues warning letters to **Wyeth pharma**, GVK sciences for violating standard procedures for clinical trial (MINT)

SBI, its 11 employees, and two United States and Russian entities, have been accused of involvement in a trans-national foreign exchange fraud. (DNA)

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RESULTS FOR THE DAY

			PAT		
Name of company	**Q3FY09E**	**Q3FY08**	***Y-o-Y %***	**Q8FY09**	***Q-o-Q %***
Zee News Limited	121	128	*(5.3)*	115	*5.6*
Reliance Infrastructure Limited	2,506	2,121	*18.2*	2,188	*14.5*
Bharti Airtel Limited	21,973	17,224	*27.6*	20,463	*7.4*
Marico Limited	470	459	*2.4*	471	*(0.3)*
Kotak Mahindra Bank Limited	1,404	3,637	*(61.4)*	1,559	*(10.0)*
Voltas Ltd.	478	431	*11.1*	619	*(22.7)*
Reliance Industries Ltd	31,223	80,790	*(61.4)*	41,220	*(24.3)*
Gateway Distriparks Limited	129	188	*(31.4)*	234	*(44.9)*
Inox Leisure Limited	54	63	*(14.7)*	33	*64.2*

Sales Traders Commentary

Indian markets opened on a weak note today. Sentiments remained weak and persistent selling across the board pulled the bourses further down. However, in the last half hour selling activity picked up and intense selling pressure was witnessed, especially in power and banking sectors. The only sector which outperformed the index was FMCG where significant buying was witnessed. Weak global cues was another reason which led to today's sell off in counters like Reliance Industries, Wipro, HDFC, ICICI Bank, NTPC, Bharti Airtel, ONGC, BHEL, SBI, and SAIL. Stocks from mid-cap and small-cap indices also ended in the red. Nifty broke the 2700 level and touched the 2706 level, while the Sensex went below 9000 and touched an intra-day low of 8779.17.

Sector specific highlights

Intense selling was witnessed in Educomp (down 22.06%) on account of reports that the company had fudged its accounts. It was alleged that the company manipulated its turnover figures to push share prices higher, thereby raising the question of corporate governance once again.

Banking faced maximum sell off pressure in counters like ICICI Bank (down 7.12%), SBI, and HDFC Bank, which were down 2.5% each.

Oil & gas was another sector which took a huge beating in today's trade ahead of Reliance Industries' quarterly results, which the market is forecasting it to post lower earnings. The stock was down 5.33%, while ONGC was down 1.73%.

However, profit booking was witnessed in the power sector with Torrent Power, Tata Power, Power Grid Corp, Reliance Infrastructure, Suzlon Energy, GVK Power, and NTPC down between 3% and 7.5%.

However, buying interest was seen in FMCG stocks like GlaxoSmithKline Consumer, Nestle, United Spirits, ITC, and Hindustan Lever (up 3.39%).

The overall market breadth remained negative with volumes being much better in today's trading session. However, sentiments continued to remain negative on the back of fear of a weakening economy. On the global front, Asian markets ended weak while European markets were trading lower.

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Market Data

52-week range (INR):	360 / 42
Share in issue (mn):	160.9
M cap (INR bn/USD mn):	14.0 / 284.8
Avg. Daily vol. BSE ('000):	1,946.0

Share Holding Pattern (%)

Promoters	:	40.3
MFs, FIs & Banks	:	2.9
FIIs	:	35.3
Others	:	21.6

Accounting policy & financial statement analysis

- The impact of compliance with global accounting practices will lead to a reduction in Rolta India's (Rolta) basic EPS and PAT for Y/E June 2008 by 17.3% and net worth by 0.9%
- FCCB has not been considered in diluted EPS, which will result in diluted EPS for the Y/E June 2008 to be INR 12.9 as against reported number of INR 14.2
- Sundry debtors outstanding for more than six months were at INR 2.0 bn as at end of Y/E June 2008. The same constitute 16.8% and 10.4% of reported net worth and total assets, respectively. No provision has been made for such debtors.
- Rolta's fixed assets book has increased 65.2% from INR 6.2 bn in Y/E June 2007 to INR 10.2 bn in Y/E June 2008. CWIP and goodwill constitutes 16.9% and 19.6%, respectively, of fixed assets balance as at end of Y/E June 2008. The addition in fixed asset is on account of upgrading existing facilities and of overseas acquisitions.
- Investment increased 188.5% from INR 1.0 bn in Y/E June 2007 to INR 2.8 bn in Y/E June 2008 which is invested in debt mutual fund.
- Investments along with cash and bank balance constitute 45.7% and 28.2% of reported net worth and total assets, respectively.

Profitability analysis

- Rolta's return of averaged equity (ROAE) for Y/E June 2008 stands at 19.8%, while RNOA (return on net operating assets) was at 16.1% (ROE analyser analyses the difference).
- The company's revenue has increased 50.9% from INR 7.2 bn in Y/E June 2007 to INR 10.9 bn in Y/E June 2008. The jump can primarily be attributed to an increased level of business activities and international acquisitions of Broech Corporation (US) and Orion technologies (Canada) during the year.
- Net profit for the year increased 33.6% from INR 1.7 bn in Y/E June 2007 to INR 2.3 bn in Y/E June 2008.
- Profit margin declined from 24.3% in Y/E June 2007 to 21.5% in June 2008. The decrease in net margins was predominantly on account of exchange fluctuation loss on revaluation of FCCB and also due to overseas acquisitions wherein margins were lower than those of the existing business, which runs on the offshore model.
- Employee cost increased 89.4% from INR 1.7 bn in Y/E June 2007 to INR 3.2 bn in Y/E June 2008 due to acquisition and induction of additional technical and administrative personnel at the senior level to broaden the management team.
- Rolta reported a loss of INR 298.9 mn for Y/E June 2008 (i.e., 11.1% of reported PBT) on account of revaluation of foreign currency exposure as at balance sheet date mainly on revaluation of FCCB borrowings. With the INR further depreciating against the USD by 15.9% since June 2008 future profitability of the company will be impacted.

Result Update

AIA ENGINEERING

INR 115

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A healthy quarter but outlook challenging

REDUCE

January 21, 2009

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PAT up 15.7% to INR 469 mn; net revenue up 44.6% Y-o-Y to INR 2.7 bn

AIA Engineering (AIA) reported a PAT of INR 469 mn, up 15.7% Y-o-Y and 5.5% Q-o-Q, in Q3FY09. While revenues for the quarter were in line with our estimates, PAT was higher as EBITDA margins expanded 206bps Q-o-Q to 25.6%. Net revenue, at INR 2.7 bn, grew 44.6% Y-o-Y, but dipped 4.7% sequentially. The sequential dip was due to 11% volume drop, despite 7.3% increase in realisation. As per the management, realisations improved due to change in the product mix. The company sold 23,900 mt during the quarter at an average realisation of INR 114/kg. Exports contributed 55% of total sales. Cement segment, accounting for 65% of domestic sales and 95% of exports, continued to be the primary revenue driver. Utilities and mining accounted for the balance 25% and 10% of domestic revenues, respectively.

EDITDA margin up 206bps Q-o-Q; current order book at INR 4.05 bn

The company's EBITDA margin at 25.6% increased 206bps Q-o-Q, but dipped 225bps Y-o-Y. Current order book stands at INR 4.05 bn (vis-à-vis INR 4.3 bn in Q3FY08), of which 25% i.e., ~INR 1 bn, are OEM orders. Mining accounted for INR 400 mn of the total order book.

Outlook and valuations: Challenging; downgrade to 'REDUCE'

We believe incremental volumes from mining will be difficult in light of the downturn in the sector. Our channel checks indicate that multiple stages are involved in conversion from enquiry to order and incremental capex for switching to a new grinding media at this stage may take time. From our interaction with user industries for AIA's products (cement, metal, equipment manufacturing, and mining companies), we gauge that while existing users are satisfied with the company's products and have quality assurance, a switch by new users may be delayed.

Accordingly, FY10 is likely to witness earnings stress as realisations are expected to correct due to fall in commodity prices, while volume growth will be tough. While we are increasing FY09E PAT by 7.4%, we are reducing FY10E earnings by 26%. We believe FY10E PAT is likely to decline 12% Y-o-Y (base assumption of ~17.5% Y-o-Y realisation decline and 10% y-o-y volume growth). At CMP of INR 115, on our estimated EPS of INR 18.6 FY09E and INR 16.4 FY10E, the stock is trading at P/E of 6.2x and 7.1x for FY09E and FY10E, respectively.

While the company has a strong balance sheet (net cash of ~INR 2.7 bn in FY10E), it is expanding capacity, and is a monopoly player in the domestic market, we believe the user industry outlook remains challenging and accordingly, future earnings could be under stress. Hence, we are downgrading the stock to '**REDUCE**' from **'BUY'.**

Reuters	:	AIAE.BO
Bloomberg	:	AIAE IN

Market Data

52-week range (INR)	:	350 / 104
Share in issue (mn)	:	94.0
M cap (INR bn/USD mn)	:	12.2 / 220.6
Avg. Daily Vol. BSE/NSE ('000)	:	49.5

Share Holding Pattern (%)

Promoters	:	69.6
MFs, FIs & Banks	:	20.2
FIIs	:	4.2
Others	:	6.0

Relative Performance (%)

	Sensex	Stock	Stock over Sensex
1 month	(7.4)	(15.2)	(7.8)
3 months	(8.7)	(41.5)	(32.7)
12 months	(47.0)	(58.7)	(11.6)

Financials

Year to March	Q309	Q308	*% change*	Q209	*% change*	FY08	FY09E	FY10E
Net rev. (INR mn)	2,730	1,888	*44.6*	2,865	*(4.7)*	6,912	10,400	9,464
EBITDA (INR mn)	698	525	*32.9*	673	*3.6*	1,638	2,565	2,275
Net profit (INR mn	469	405	*15.7*	444	*5.5*	1,333	1,755	1,543
Diluted EPS (INR)	5.0	4.3		4.8		14.2	18.6	16.4
Diluted P/E (x)						8.1	6.2	7.1
EV/EBITDA (x)						6.0	3.6	3.6
ROAE (%)						24.2	25.4	18.2

Key highlights

In the conference call organized by the company the management highlighted that the outlook for the mining sector (from which AIA expects a major part of incremental volumes in FY10) had become challenging and sector utilisation had fallen below estimates made a quarter ago. While volume guidance for FY09 was toned down to 100,000-105,000 tonnes, FY10 guidance remained unchanged at 150,000 tonnes. Average realisation is expected to correct to ~INR 80-85/kg in FY10E from Q3FY09 realisation of INR 114/kg because of softening in raw material prices. Current capacity of 170,000 is expected to expand by additional 35,000 by ~Q3FY10.

Table 1: Expansion details

Location	Capacity (MT)	Timeline	Capex (INR mn)
Nagpur (Paramount Centrispun Castings)	5,000	Q3FY09	
Changodhar, Gujarat	20,000	Q3FY10E	
~2kms from Changodhar, Gujarat	10,000	Q3FY10E	600
Bangalore (Welcast Steels)	5,000	Q3FY10E	
Gujarat	100,000	October 2010	1,500
Total	**140,000**		**2,100**

Source: Company, Edelweiss research

Financials snapshot

(INR mn)	Q309	Q308	*Y-o-Y %*	Q209	*Q-o-Q %*	FY08	FY09E	FY10E
Net Sales	2,730	1,888	*44.6*	2,865	*(4.7)*	6,912	10,400	9,464
Raw Materials	1,315	808	*62.8*	1,505	*(12.6)*	3,250	4,891	4,496
Employee Expenses	103	86	*19.6*	99	*3.4*	312	416	379
Other expenditure	614	469	*31.0*	587	*4.6*	1,711	2,528	2,315
Total Expenditure	2,033	1,363	*49.1*	2,191	*(7.3)*	5,273	7,835	7,190
EBITDA	698	525	*32.9*	673	*3.6*	1,638	2,565	2,275
Other Income	28	70	*(60.4)*	21	*34.6*	317	136	177
Depreciation	44	37	*18.8*	57	*(23.5)*	136	198	248
Interest	5	4	*20.7*	4	*32.1*	17	15	15
PBT	677	554	*22.1*	633	*7.0*	1,802	2,488	2,189
Provision for Taxation - Current	205	149	*37.4*	181	*13.3*	460	722	635
PAT	472	405	*16.5*	452	*4.4*	1,342	1,767	1,554
Extra-ordinary Items	2	0		0		0	0	0
Adjusted PAT	470	405	*16.1*	452	*4.1*	1,342	1,767	1,554
Minority interest	2	0		8	*(76.8)*	9	12	12
Net Profit - post minority	469	405	*15.7*	444	*5.5*	1,333	1,755	1,543
Tax rate (%)	30	27		29		26	29	29
Equity Capital (FV INR 2)	189	188		189		188	189	189
EPS (INR)	5.0	4.3	*16.1*	4.8	*4.4*	14.2	18.6	16.4
No. of Shares (mn)	94	94		94		94.0	94.3	94.3
PE (x)						8.1	6.2	7.1
Margins (%)								
R.M. (% of sales)	48.2	42.8		52.5		47.0	47.0	47.5
Emp Exp (% of sales)	3.8	4.6		3.5		4.5	4.0	4.0
Other Exp (% of sales)	22.5	24.8		20.5		24.8	24.3	24.5
OPM (%)	25.6	27.8		23.5		23.7	24.7	24.0
NPM (%)	17.3	21.5		15.8		19.4	17.0	16.4

Company Description

AIA, an ISO 9000 certified company, is a niche player in the value-added, impact abrasion, and corrosion resistant high chrome metallurgy segment with current capacity of 170,000 mtpa. It manufacturers products like grinding media, liners, diaphragms, and vertical mill parts (collectively referred to as mill internals) in high chrome metallurgy. These products find application in crushing and grinding operations in cement, thermal power, and mining plants, where they are used to crush/grind clinker, coal and mineral ore, respectively. High chrome metallurgy offers lower wear rate than the conventionally used parts of manganese steel, nihard iron, hyper steel, and forgings. The company offers complete solutions in grinding to optimise the productivity of grinding mills.

Investment Theme

With the downturn in the user industries, we believe incremental demand for AIA's products is likely to be tough in the medium term. While the company has increased focus on mining, in light of the declining sector fundamentals, we believe fresh capex by the sector may take time.

Hence, we believe earnings could be at stress as realisations are expected to correct with the correction in input prices while corresponding volume growth will be difficult. Accordingly, despite the company having a strong balance sheet (net cash of ~INR 2.7 bn in FY10E) and being a monopoly player in the domestic market, due to cautious user industry outlook, we are underweight on the stock.

Key Risks

Significant volume growth

The company is planning to cater to the global mining industry with its increased capacity. It has received enquiries of 80,000 mt from the mining segment which are in the bid finalisation stages. If these enquiries are converted into orders, volume growth could be higher than our base assumption of ~10% Y-o-Y growth in FY10E and protect earnings decline.

Lower realisation correction than decline in input prices

If the company is able to shift its product mix in favour of higher value products, realisation correction may not be in line with correction in input prices. This is likely to result in margin expansion and hence, support earnings.

Financial Statements (consolidated)

Income statement (INR mn)

Year to March	FY07	FY08	FY09E	FY10E	FY11E
Income from operations	5,230	6,912	10,400	9,464	9,293
Direct costs	3,278	4,359	6,514	5,987	5,879
Employee costs	222	312	416	379	372
Other expenses	486	602	905	824	809
Total operating expenses	3,986	5,273	7,835	7,190	7,060
EBITDA	1,244	1,638	2,565	2,275	2,234
Depreciation and amortisation	83	136	198	248	286
EBIT	1,162	1,503	2,368	2,027	1,948
Interest expense	24	17	15	15	15
Other income	164	317	136	177	215
Profit before tax	1,301	1,802	2,488	2,189	2,148
Provision for tax	346	460	722	635	623
Core profit	956	1,342	1,767	1,554	1,525
Profit after tax	956	1,342	1,767	1,554	1,525
Minority interest	12	9	12	12	12
Profit after minority interest	944	1,333	1,755	1,543	1,513
Consolidated profit	944	1,333	1,755	1,543	1,513
Basic shares outstanding (mn)	94.0	94.0	94.3	94.3	94.3
EPS (INR) Basic	10.0	14.2	18.6	16.4	16.0
Diluted shares (mn)	94.0	94.0	94.3	94.3	94.3
EPS (INR) fully diluted	10.0	14.2	18.6	16.4	16.0
CEPS (INR)	14.6	20.5	28.4	25.7	25.7
Face value	2.0	2.0	2.0	2.0	2.0
Dividend per share (INR)	0.8	1.0	1.2	1.1	1.1
Dividend payout (%)	8.3	6.7	6.7	6.7	6.7

Common size metrics- as % of net revenues

Year to March	FY07	FY08	FY09E	FY10E	FY11E
Operating expenses	76.2	76.3	75.3	76.0	76.0
Depreciation	1.6	2.0	1.9	2.6	3.1
Interest expenditure	0.5	0.2	0.1	0.2	0.2
EBITDA margins	23.8	23.7	24.7	24.0	24.0
Net profit margins	18.3	19.4	17.0	16.4	16.4

Growth metrics (%)

Year to March	FY07	FY08	FY09E	FY10E	FY11E
Revenues	28.5	32.2	50.5	(9.0)	(1.8)
EBITDA	52.6	31.7	56.6	(11.3)	(1.8)
Net profit	75.9	40.4	31.6	(12.0)	(1.9)
EPS	70.4	41.2	31.2	(12.1)	(1.9)

Balance sheet (INR mn)

As on 31st March	FY07	FY08	FY09E	FY10E	FY11E
Equity capital	188	188	189	189	189
Reserves & surplus	4,730	5,912	7,549	8,988	10,425
Shareholders funds	4,918	6,100	7,738	9,177	10,614
Minority interest	82	84	84	84	84
Secured loans	122	119	119	119	119
Unsecured loans	43	17	17	17	17
Borrowings	165	136	136	136	136
Net deferred tax	19	59	59	59	59
Sources of funds	**5,184**	**6,379**	**8,016**	**9,455**	**10,892**
Gross block	1,224	2,340	2,849	3,649	3,849
Less: Depreciation	516	648	845	1,093	1,379
Net block	708	1,693	2,004	2,556	2,470
Capital work-in-progress	607	309	300	500	1,500
Total fixed assets	1,315	2,001	2,304	3,056	3,970
Intangibles	147	149	149	149	149
Investments	1,465	947	1,507	2,500	3,080
Inventories	983	1,360	1,750	1,609	1,575
Sundry debtors	1,422	1,748	2,707	2,463	2,419
Cash and equivalents	449	266	400	369	370
Loans and advances	1,182	1,949	1,949	1,949	1,949
Total current assets	4,036	5,322	6,806	6,390	6,312
Sundry creditors and others	698	628	1,427	1,318	1,298
Provisions	1,081	1,413	1,321	1,321	1,321
Total CL & provisions	1,779	2,041	2,749	2,639	2,619
Net current assets	2,256	3,282	4,057	3,751	3,693
Uses of funds	**5,184**	**6,379**	**8,016**	**9,455**	**10,892**
Book value per share (BV)	52	65	82	97	113

Cash flow statement (INR Mn)

Year to March	FY07	FY08	FY09E	FY10E	FY11E
Net profit	1,289	1,793	2,476	2,177	2,136
Add: Depreciation	83	136	198	248	286
Add: Deferred tax	346	460	722	635	623
Add: Others	(689)	(880)	(1,443)	(1,270)	(1,246)
Gross cash flow	1,029	1,508	1,952	1,790	1,799
Less: Changes in W. C.	218	1,208	641	(275)	(54)
Operating cash flow	811	300	1,311	2,065	1,852
Less: Capex	971	820	500	1,000	1,200
Free cash flow	**(159)**	**(520)**	**811**	**1,065**	**652**

Cash flow metrics

Year to March	FY07	FY08	FY09E	FY10E	FY11E
Operating cash flow	811	300	1,311	2,065	1,852
Financing cash flow	426	340	(677)	(1,101)	(659)
Investing cash flow	(971)	(820)	(500)	(1,000)	(1,200)
NET CASH FLOW	267	(179)	134	(36)	(7)
Capex	(971)	(820)	(500)	(1,000)	(1,200)
Dividend paid	(78)	(89)	(118)	(104)	(102)
Share issuance/(Buyback)	10	-	1	-	-

Profitability & liquidity ratios

Year to March	FY07	FY08	FY09E	FY10E	FY11E
ROAE (%)	24.6	24.2	25.4	18.2	15.3
ROACE (%)	38.3	32.8	39.7	30.1	26.4
Current ratio	2.3	2.6	2.5	2.4	2.4
Inventory (days)	88	98	87	102	99
Debtors (days)	93	84	78	100	96
Payable (days)	62	56	58	84	81
cash conversion cycle (days)	118	126	108	118	113
Fixed assets t/o (x)	9.1	5.8	5.6	4.2	3.7
Average working cap turnover(x)	2.0	1.8	2.0	1.8	1.9
Average capital employed t/o	1.2	1.2	1.4	1.1	0.9
Net Debt/Equity	(0.4)	(0.2)	(0.2)	(0.3)	(0.3)
Debt/Equity	0.0	0.02	0.02	0.01	0.01
Debt/EBITDA	0.1	0.1	0.1	0.1	0.1

Operating ratios (x)

Year to March	FY07	FY08	FY09E	FY10E	FY11E
Total asset turnover	1.2	1.2	1.4	1.1	0.9
Fixed asset turnover	9.1	5.8	5.6	4.2	3.7
Equity turnover	1.4	1.3	1.5	1.1	0.9

Du pont analysis

Year to March	FY07	FY08	FY09E	FY10E	FY11E
NP margin	18.0	19.3	16.9	16.3	16.3
Total assets turnover	1.2	1.2	1.4	1.1	0.9
Leverage multiplier	1.1	1.0	1.0	1.0	1.0
ROAE	24.6	24.2	25.4	18.2	15.3

Valuations parameters

Year to March	FY07	FY08	FY09E	FY10E	FY11E
Diluted EPS (INR)	10.0	14.2	18.6	16.4	16.0
Y-o-Y growth (%)	*70.4*	*41.2*	*31.2*	*(12.1)*	*(1.9)*
CEPS (INR)	14.6	20.5	28.4	25.7	25.7
Diluted PE (x)	11.5	8.1	6.2	7.1	7.2
Price/BV(x)	2.2	1.8	1.4	1.2	1.0
EV/Sales (x)	1.7	1.4	0.9	0.9	0.8
EV/EBITDA (x)	7.3	6.0	3.6	3.6	3.4
Dividend yield (%)	0.0	0.0	0.0	0.0	0.0
Basic EPS (INR)	10.0	14.2	18.6	16.4	16.0
Basic P/E (x)	11.5	8.1	6.2	7.1	7.2

GATI

INR 35

Edelweiss
Ideas create, values protect

Troubled times ahead

REDUCE

January 21, 2009

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Disappointing quarter on account of losses in air express segment

Gati's (June ending) Q2FY09 results were below our expectation because of very high interest burden and higher-than-expected loss in the air freight segment. This division made losses of INR 164 mn in H1FY09 and is likely to continue doing so going forward, proving to be a drag on Gati. Performance of this division would be the key determinant of the company's profitability in future. In its express distribution and coast-to-coast divisions, however, Gati (being the largest express company) has performed decently despite fear of slowdown. The company is expected to account for mark-to-market loss of INR 174.9 mn on outstanding derivative instruments as on December 31, 2008 next quarter. This could dent the company's profitability further.

Y-o-Y revenue growth at 8% for XPS and 129% for shipping division

Gati's revenues increased 16.7% Y-o-Y and 1.7% Q-o-Q, to INR 1.5 bn, as expected. On a segmental basis, revenues in the XPS division increased 8% Y-o-Y, but declined 4.1% Q-o-Q, to INR 1,338 mn – the lowest over the past few years. Revenues in the coast-to-coast segment increased 129% Y-o-Y and 29% Q-o-Q, to INR 237 mn, on purchase of a new ship (Gati Majestic, 10,736 DWT containerised vessel); the new vessel contributed INR 53 mn to revenues this quarter.

Operating margins improve; interest burden dents net profit

EBITDA for the company declined 1.1% Y-o-Y, but increased 6% Q-o-Q, to INR 100.3 mn. The decline in EBITDA Y-o-Y was on account of air freight business that incurred a loss of 164.2 mn in H1FY09. Margins for the quarter were at 6.4% compared with 6% last quarter. EBIT margins in the XPS division improved to 6.6% from 4%, Q-o-Q, on account of hike in freight rate; this, in our view, compensated for muted volume growth. Margins in the coast-to-coast segment improved to 21.2% from 20.4%, Q-o-Q. Net profit declined 97% Y-o-Y and 66.7% Q-o-Q, to INR 1.4 mn, mainly on account of high interest burden that increased 91.4% Q-o-Q. Moreover, Gati incurred additional INR 600 mn debt in Q2FY09 to purchase another vessel.

Outlook and valuations: Lowering estimates; downgrade to 'REDUCE'

On account of lower capacity utilization in the air freight business and muted volume growth in the mainstay express distribution division, we have revised down our FY10 estimates by 16%. We have also introduced our FY11E estimates, assuming discontinuation of the air freight business and 18.1% growth rate for the express distribution division. The stock is currently trading at P/E of 11.3x and 8.8x FY10E and FY11E, respectively. In the past, Gati, being the market leader, has always commanded a premium valuation. However, in light of muted growth in air and surface express segments, we believe the case for premium valuation does not exist. Hence, we downgrade our recommendation on the stock to **'REDUCE'** from '**ACCUMULATE**'

Reuters	:	GATI.BO
Bloomberg	:	GTIC IN

Market Data

52-week range (INR)	:	170 / 26
Share in issue (mn)	:	84.7
M cap (INR bn/USD mn)	:	3.0 / 60.6
Avg. Daily Vol. BSE/NSE ('000)	:	117.0

Share Holding Pattern (%)

Promoters	:	48.9
MFs, FIs & Banks	:	1.7
FIIs	:	6.8
Others	:	42.6

Relative Performance (%)

	Sensex	Stock	Stock over Sensex
1 month	(9.9)	(14.6)	(4.7)
3 months	(14.8)	(1.4)	13.4
12 months	(48.3)	(75.2)	(26.9)

Financials (consolidated)

Year to June	Q109	Q108	*% change*	Q408	*% change*	FY08	FY09E
Revenues (INR mn)	1,584	1,171	*35.3*	1,541	2.8	7,219	9,252
EBITDA (INR mn)	95	137	*(30.9)*	121	*(22.1)*	486	595
Net profit (INR mn)	4.2	65.4	*(93.6)*	85.8	*(95.1)*	195.9	61.8
EPS (INR)	1.0	0.9	17.7	0.4	166.5	4.1	0.7
P/E (x)						8.5	47.9
EV/EBITDA (x)						10.2	10.1
ROAE (%)						15.3	2.1

Key highlights

- The company's new venture, air express, incurred loss of INR 164 mn in H1FY09; the division is likely to make more losses in the coming quarters.
- Revenues for the company increased 16.7% Y-o-Y and 1.7% Q-o-Q, to INR 1,570 mn, in line with our expectation.
- On a segmental basis, revenues in the XPS division increased 8% Y-o-Y, but declined 4.1% Q-o-Q, to INR 1,338 mn.
- Revenues in the coast-to-coast segment increased 129% Y-o-Y and 29% Q-o-Q, to INR 237 mn, due to purchase of a new ship (Gati Majestic, 10,736 DWT containerized vessel).
- The company has taken a debt of INR 600 mn for the purchase of the ship, taking its total debt to INR 2,850 mn.
- EBITDA margins for the quarter were at 6.4% as against 6% in the previous quarter.
- Net margins for the company were disappointing on account of higher interest expense (on purchase of Gati Majestic in the quarter, financed through debt of INR 600 mn).
- The company is expected to account for the mark-to-market loss of INR 174.9 mn on outstanding derivative instruments as on December 31, 2008 in the next quarter.

Financial snapshot (consolidated) **(INR mn)**

Year to June	Q109	Q108	*% change*	Q408	*% change*	FY08	FY09E	FY10E
Net sales	1,584	1,171	*35.3*	1,541	*2.8*	7,219	9,252	11,279
Total expenditure	1,489	1,034	*44.1*	1,420	*4.9*	6,733	8,656	10,410
Direct cost	-	-		-		1,131	6,509	7,567
Employee expenses	186	164	*12.8*	198	*(6.4)*	759	1,059	1,483
Other expenditure	1,304	869	*50.0*	1,222	*6.7*	4,843	1,088	1,360
EBITDA	95	137	*(30.9)*	121	*(22.1)*	486	595	869
Other income	-	4	*(100.0)*	218	*(100.0)*	240	-	-
Depreciation	40	31	*29.9*	51	*(21.1)*	184	227	224
EBIT	54	110	*(50.6)*	289	*(81.2)*	542	369	645
Interest	45	18	*145.1*	27	*67.7*	113	286	294
PBT	9	91	*(90.0)*	262	*(96.5)*	428	82	351
Provision for taxation - Current	5	26	*(81.2)*	25	*(80.4)*	82	21	88
Extra-ordinary items	-	-	*NA*	(151)	*NA* -	151	-	-
Adjusted PAT	4.2	65.4	*(93.6)*	85.8	*(95.1)*	195.9	61.8	262.9
Tax rate (%)	*53.8*	*28.4*		*9.6*		*19.1*	*25.0*	*25.0*
% of sales								
R.M. (% of sales)	-	-		-		15.7	70.4	67.1
Emp exp (% of sales)	11.7	14.0		12.9		10.5	11.4	13.1
Other exp (% of sales)	82.3	74.3		79.3		67.1	11.8	12.1
OPM (%)	6.0	11.7		7.9		6.7	6.4	7.7
NPM (%)	0.3	5.6		5.6		2.7	0.7	2.3

Company Description

Incorporated in 1995, Gati has evolved as a leader in the fast-growing express cargo distribution business. It provides services across the entire value chain, from traditional point-to-point transportation to end-to-end integrated logistics and supply chain management. It operates in three different business segments viz., logistics, coast-to-coast, and fuel stations. Logistics is the company's mainstay, contributing 71% to revenues.

Investment Theme

The express industry in India is expected to see a slowdown in the coming few quarters, driven by slowdown in global economic growth. Gati, being one of the leading players in the Indian organised express industry, is expected to feel the pinch of these trends in the short term. The company has also diversified into other mode of transportation and it currently operates five self-owned container vessels with capacities of 4811 MT, 6084 MT, and 6779 MT, 8000 MT, 10,736 MT.

Key Risks

Key risks to our investment theme include: (a) significant improvement in the road logistics business specially express logistics driven by higher outsourcing (b) higher than expected demand for warehousing driven by changes in tax structure.

Financial Statements

Income statement (INR mn)

Year to June	FY07	FY08	FY09E	FY10E	FY11E
Income from operations	5,680	7,219	9,252	11,279	13,317
Direct costs	4,056	5,245	6,509	7,567	8,633
Employee costs	607	759	1,059	1,483	2,002
Other expenses	583	729	1,088	1,360	1,700
Total operating expenses	5,246	6,733	8,656	10,410	12,334
EBITDA	434	486	595	869	983
Depreciation and amortisation	112	184	227	224	234
EBIT	322	302	369	645	749
Interest expense	59	113	286	294	305
Other income	42	240	-	-	-
Profit before tax	305	428	82	351	444
Provision for tax	90	82	21	88	107
Core profit	214	347	62	263	338
Extraordinary items	-	(151)	(175)	-	-
Profit after tax	214	196	(113)	263	338
Profit after minority interest	214	196	(113)	263	338
Equity shares outstanding (mn)	72	85	85	85	85
EPS (INR) basic	2.96	4.10	0.73	3.11	3.99
Diluted shares (mn)	84.66	84.66	84.66	84.66	84.66
EPS (INR) fully diluted	2.53	4.10	0.73	3.11	3.99
DPS	0.66	1.06	-	-	-
Dividend payout (%)	27.0	55.1	-	-	-

Common size metrics- as % of net revenues

Year to June	FY07	FY08	FY09E	FY10E	FY11E
Operating expenses	92.4	93.3	93.6	92.3	92.6
Depreciation	2.0	2.6	2.5	2.0	1.8
Interest expenditure	1.0	1.6	3.1	2.6	2.3
EBITDA margins	7.6	6.7	6.4	7.7	7.4
Net profit margins	3.8	4.8	0.7	2.3	2.5

Growth metrics (%)

Year to June	FY07	FY08	FY09E	FY10E	FY11E
Revenues	24.5	27.1	28.2	21.9	18.1
EBITDA	12.0	12.0	22.6	45.9	13.2
Net profit	6.8	61.8	(82.2)	325.2	28.4
EPS	6.8	61.8	(82.2)	325.2	28.4

Balance sheet (INR mn)

As on 30th June	FY07	FY08	FY09E	FY10E	FY11E
Equity capital	145	169	169	169	169
Reserves & surplus	1,602	2,805	2,867	3,130	3,467
Shareholders funds	1,747	2,974	3,036	3,299	3,637
Secured loans	679	1,224	2,224	2,224	2,424
Unsecured loans	1,223	1,138	1,138	1,138	1,138
Borrowings	1,902	2,362	3,362	3,362	3,562
Net deferred tax	61	75	0	0	0
Sources of funds	**3,709**	**5,429**	**6,398**	**6,661**	**7,198**
Gross block	2,013	3,244	3,744	3,794	3,994
Depreciation	471	685	912	1,136	1,370
Net block	1,542	2,558	2,832	2,658	2,624
Capital work in progress	719	630	630	787	787
Total fixed assets	2,261	3,188	3,461	3,445	3,411
Investments	205	204	204	204	204
Inventories	22	35	36	44	52
Sundry debtors	759	1,212	1,394	1,700	2,007
Cash and equivalents	482	164	101	281	351
Loans and advances	328	1,388	1,527	1,680	1,680
Total current assets	1,591	2,799	3,058	3,704	4,089
Sundry creditors and others	244	536	227	276	0
Provisions	124	386	98	415	505
Total CL & provisions	368	922	324	692	505
Net current assets	1,223	1,877	2,733	3,013	3,584
Others	20	160	0	0	0
Uses of funds	**3,709**	**5,429**	**6,398**	**6,661**	**7,198**
Book value per share (BV) (INR)	24	33	36	39	43

Cash flow statement (INR mn)

Year to June	FY07	FY08	FY09E	FY10E	FY11E
Net profit	214	196	(113)	263	338
Add: Depreciation	112	184	227	224	234
Add: Deferred tax	2	14	(75)	-	-
Add: Others	(26)	155	175	0	0
Gross cash flow	303	550	214	487	572
Less:Changes in working capital	125	972	920	99	502
Opertaing cash flow	177	(422)	(706)	388	70
Less: Capex	648	1,229	500	50	200
Free cash flow	**(471)**	**(1,651)**	**(1,206)**	**338**	**(130)**

Cash flow metrics

Year to June	FY07	FY08	FY09E	FY10E	FY11E
Operating cash flow	177	(422)	(706)	388	70
Financing cash flow	1,149	1,408	1,000	-	200
Investing cash flow	648	1,229	500	50	200
NET CASH FLOW	1,974	2,215	794	438	470
Capex	(648)	(1229)	(500)	(50)	(200)
Dividend paid	(58)	(108)	0	0	0
Share issuance/(Buyback)	24	1056	0	0	0

Ratios

Year to June	FY07	FY08	FY09E	FY10E	FY11E
ROAE (%)	12.9	15.3	2.1	8.3	9.7
ROACE (%)	11.3	6.9	6.5	10.2	11.1
Inventory (days)	2	2	2	2	2
Debtors (days)	42	50	51	50	51
Debt/Equity (x)	1.1	0.8	1.1	1.0	1.0
Interest cover (x)	5.5	2.7	1.3	2.2	2.5
Payable (days)	19	27	21	12	6
Cash conversion cycle	25	25	32	40	47
Current ratio	4.3	3.0	9.4	5.4	8.1
Debt/EBITDA	4.4	4.9	5.6	3.9	3.6
Adjusted debt/Equity	0.8	0.4	0.4	0.4	0.3

Operating ratios

Year to June	FY07	FY08	FY09E	FY10E	FY11E
Total asset turnover(x)	1.9	1.6	1.6	1.7	1.9
Fixed assets turnover (x)	4.4	3.5	3.4	4.1	5.0
Equity turnover(x)	3.4	3.1	3.1	3.6	3.8

Du pont analysis

Year to June	FY07	FY08	FY09E	FY10E	FY11E
NP margin (%)	3.8	4.8	0.7	2.3	2.5
Total assets turnover	1.9	1.6	1.6	1.7	1.9
Leverage multiplier	1.8	2.0	2.0	2.1	2.0
ROAE (%)	12.9	15.3	2.1	8.3	9.7

Valuation parameters

Year to June	FY07	FY08	FY09E	FY10E	FY11E
Diluted EPS (INR)	2.5	4.1	0.7	3.1	4.0
Y-o-Y growth (%)	*6.8*	*61.8*	*(82.2)*	*325.2*	*28.4*
CEPS (INR)	4.5	6.4	2.5	5.8	6.8
Diluted PE (x)	*13.8*	*8.5*	*47.9*	*11.3*	*8.8*
Price/BV(x)	1.5	1.1	1.0	0.9	0.8
EV/Sales (x)	0.7	0.7	0.7	0.5	0.4
EV/EBITDA (x)	8.6	10.2	10.1	6.7	6.1
Basic EPS (INR)	3.0	4.1	0.7	3.1	4.0
Basic PE (x)	11.8	8.5	47.9	11.3	8.8
Dividend yield (%)	1.9	3.0	-	-	-

India Equity Research | IT

Result Update

GEOMETRIC

INR 19

Edelweiss
Ideas create, values protect

Intensifying headwinds

SELL

January 21, 2009

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Revenues in line with estimates; significant forex loss adversely affects PAT

Geometric reported revenues of INR 1.63 bn, in line with our expectation of INR 1.60 bn; revenues were up 6.9% Q-o-Q and 31.6% Y-o-Y, aided by favourable INR-USD equation. Net profit, at INR 18 mn, was however significantly lower than estimates on account of forex loss of INR 189 mn. Operating profit margins (EBITDA) showed a strong uptick of 620bps, driven by rupee benefit of 400bps and 120bps improvement in productivity (better utilisation and stricter cost management). Going forward, we see margins reverting to 13-15% level as the benefit of rupee depreciation goes away.

Huge exposure to manufacturing mars visibility; new order closure slow

Greater exposure to manufacturing (almost 48% of revenues), particularly automotive (~33%), continues to affect the volume growth and visibility. New order closure (USD 5.4 mn), along with new client addition (7), has been quite slow compared with the previous two quarters, caused by: (1) delay in finalizing client budget; (2) prolonged sales cycle; (3) delayed decision making. All these translate into lower revenue visibility.

Forex hedge position continues to dampen profitability

Geometric's hedge position, covering twelve-month forward cash flows, continues to impact its profits to a large extent. Further, the company has let its forward contracts be open even when it has been running out of money for a long time. This fiscal, the company has recorded a massive INR 225mn of foreign exchange loss including this quarter's loss of INR 190mnin its profit and loss statement. In addition, Geometric has INR 570 mn of MTM loss parked in its balance sheet, to be routed through P/L; as and when it matures and is delivered, impacting profits further, if the exchange rate is stable. Current hedge position of the company stands at USD 60 mn at an average rate of INR 42.5.

Outlook and valuations: Headwinds remain; maintain 'SELL'

We believe the company's near-term growth prospects remain bleak, as reflected in moderate new wins and significant customer drop out. Another concern for Geometric remains in the form of lower annuity revenues and higher project-based revenues. The company derives only 45-50% of revenues from annuity-based contracts, which exposes it to a greater risk of de-growth next fiscal compared with peers**.** Though the stock at current prices factors in the above mentioned concerns, we would wait for the macro situation to improve or at least show signs of improvement, before highlighting value in the stock. At a CMP of INR 19, the stock is trading at a P/E of 3.7x and 3.4x and EV/EBITDA of 2.0x and 2.2x on our FY09E and FY10E earnings, respectively. We maintain our **'SELL'** recommendation on the stock.

Financials

Year to March	Q309	Q209	*Growth %*	Q308	*Growth %*	FY08	FY09E
Revenue (INR mn)	1,631	1,526	*6.9*	1,240	*31.6*	4,858	6,143
Gross profit (INR mn)	670	553	*21.2*	455	*47.2*	1,709	2,289
EBITDA (INR mn)	324	208	*55.7*	161	*100.4*	557	918
Net profit (INR mn)	18	33	*(46.6)*	68	*(74.1)*	321	324
Diluted EPS (INR)	0.3	0.5	*(46.6)*	1.1	*(74.1)*	5.1	5.2
Diluted P/E (x)						3.7	3.7
EV/EBITDA (x)						3.1	2.0
Market cap/Rev. (x)						0.2	0.2

Reuters	:	GEOM.BO
Bloomberg	:	GEO IN

Market Data		
52-week range (INR)	:	76 / 18
Share in issue (mn)	:	62.1
M cap (INR bn/USD mn)	:	1.2 / 24.0
Avg. Daily Vol. BSE ('000)	:	253.8

Share Holding Pattern (%)		
Promoters	:	35.2
MFs, FIs & Banks	:	8.3
FIIs	:	12.7
Others	:	43.8

Relative Performance (%)

	Sensex	Stock	Stock over Sensex
1 month	(7.4)	(16.7)	(9.3)
3 months	(8.7)	(32.1)	(23.3)
12 months	(47.0)	(72.2)	(25.2)

Key highlights

- Revenues were at INR 1.63 bn, up 6.9% Q-o-Q, particularly aided by INR depreciation; in USD terms, it declined 3.9%.
- Revenues from services segments declined 4.9%, while for product segments it grew 11.3%, Q-o-Q.
- **Gross profits** stood at INR 670 mn, up 21.2% Q-o-Q and 47.2% Y-o-Y. Gross profit margin improved ~490bps, to 41.1% from 36.2%, due forex benefit and partly due to better productivity and cost curtailments.
- **Profitability improves:** Operating profit margin (EBITDA margin) increased 620bps Q-o-Q, to 19.8%, on account of: 1) favourable INR-USD (48.95 vs. 44.04 Q2FY09); 2) shift in mix towards offshore (58.7% vs. 55.7% in Q1FY09); and 3) savings in SG&A costs (at 21.3% of revenues vs. 22.6% in Q2FY09).
- Net profit stood at INR 18 mn, down 46.7% Q-o-Q (including extraordinary items), largely on account of forex loss of INR 189.3 mn (including provision of INR 21.97 mn for future losses).
- **Hedge position:** Geometric's forex cover currently stands at USD 60.0 mn, down from USD 79.5 mn in Q2.
- **New client addition** was 7, with aggregate value of new order at USD 5.4 mn. The total active client count now stands at 123.
- **Employee addition** remained flat with dip of 1 employee in the total employee base of 3,181.
- **Attrition** increased during the quarter to 17.1% from 18.7%.
- Utilisation, including trainees, improved 140bps Q-o-Q to 85.7%. Also, excluding trainees, it increased to 87.7% from 84.5% in the previous quarter.
- Net cash and equivalents position for the company remains negative to the tune of ~INR 440 mn.
- Debtor days have shot up to 85 from 68 in the previous quarter.

Financials snapshot (INR mn)

Year to March	Q309	Q209	*Growth %*	Q308	*Growth %*	FY08	FY09E	FY10E
Total revenues	1,631	1,526	*6.9*	1,240	*31.6*	4,858	6,143	6,450
Direct cost	960	973	*(1.3)*	784	*22.5*	3,150	3,854	4,190
Gross profit	670	553	*21.2*	455	*47.2*	1,709	2,289	2,261
SG & A expenses	347	345	*0.4*	294	*18.0*	1,152	1,371	1,516
EBITDA	324	208	*55.7*	161	*100.4*	557	918	745
Depreciation & ammortization	70	60	*17.3*	69	*1.3*	261	264	300
EBIT	253	148	*71.2*	92	*175.0*	296	654	445
Other income	(179)	(28)	*546.0*	26	*(791.4)*	203	(188)	90
Interest	11	12	*(0.6)*	17	*(30.7)*	57	43	41
PBT	63	109	*(41.8)*	101	*(37.6)*	442	423	494
Tax	15	36	*(58.0)*	19	*(21.9)*	66	86	79
Adjusted net profit	48	73	*(33.8)*	82	*(41.3)*	376	337	415
Minority interest	30	40	*(24.7)*	14	*112.6*	55	137	60
Extraordinary items	(1)	0		0		0	124	0
Reported net profit	18	33	*(46.6)*	68	*(74.1)*	321	324	355
Diluted EPS	0.3	0.5	*(46.6)*	1.1	*(74.1)*	5.1	5.2	5.7
as % of net revenues								
Gross profit	41.1	36.2		36.7		35.2	37.3	35.0
SG & A expenses	21.3	22.6		23.7		23.7	22.3	23.5
EBITDA	19.8	13.6		13.0		11.5	14.9	11.5
Reported net profit	1.1	2.2		5.5		6.6	5.3	5.5
Tax rate	23.9	33.1		19.1		14.8	20.2	16.0

Company Description

Geometric caters to the fast-growing engineering services and product lifecycle management (PLM) segments. It is a CMMI level-5 company with over 20 years of experience in CAD/CAM/CAE, PDM, and MPM. Partnerships with major PLM vendors such as Dassault Systèmes, UGS PLM Solutions, and MatrixOne, offer it the unique advantage of providing cost-effective services on leading PLM platforms. Geometric offers services based on SolidWorks, CA TIA, ENOVIA, DELMIA, eMatrix, Teamcenter Enterprise Metaphase), Windchill, and other leading CAD/CAM/CAE/PDM software platforms. TekSoft, a subsidiary, is a leading developer and supplier of innovative, automated CAD/CAM software solutions for the manufacturing industry. The company employs more than 3,247 people and its revenues for the past twelve months stood at INR 5.4 bn (USD 130 mn).

Investment Theme

Geometric has a unique position among India-based engineering firms, with its strengths in extended PLM solutions. It has, with its USD 25 mn acquisition of Modern Engineering (now Geometric Engineering), added high-end engineering services, which is currently, due to the difficult macro environment, facing pressures. We believe, it will take Geometric two-three quarters to get the revenue momentum, along with improvement in profitability. Over a longer period, we believe that Geometric is poised to change its positioning from a mere offshore IT-services player to a global PLM and engineering solutions and services provider, with specific initiatives underway.

Key Risks

- Project execution delays
- Availability of skilled manpower
- Currency fluctuations

Financial Statements

Income statement (INR mn)

Year to March	FY07	FY08	FY09E	FY10E	FY11E
Revenues	3,831	4,858	6,143	6,450	6,966
Direct costs	2,347	3,150	3,854	4,190	4,419
Gross profit	1,484	1,709	2,289	2,261	2,547
Selling & marketing expenses	138	0	0	452	488
Gen. and adm. exp	696	1,426	1,371	1,064	1,254
Operating expenditure	834	1,426	1,371	1,516	1,742
EBITDA	650	557	918	745	805
Depreciation	203	261	264	300	320
EBIT	447	296	654	445	485
Total other income	92	203	(188)	90	80
Net interest	31	57	43	41	30
Profit before tax	507	442	423	494	535
Tax	(68)	(66)	(86)	(79)	(112)
Profit after tax	439	376	337	415	423
Other items	(64)	(55)	(137)	(60)	(90)
Reported PAT	374	321	324	355	333
Shares outstanding (mn)	61	62	62	62	62
EPS(INR) basic	6.2	5.2	5.2	5.7	5.4
Diluted shares (mn)	62	63	63	63	64
EPS (INR) diluted	6.1	5.1	5.2	5.7	5.2
CEPS (INR)	9.5	9.5	9.5	10.5	10.5
Dividend (%)	51.8	65.0	60.0	60.0	60.0
Dividend pay out (%)	19.0	29.2	26.8	24.4	26.0

Common size metrics - as % of revenues

Year to March	FY07	FY08	FY09E	FY10E	FY11E
Direct costs	61.3	64.8	62.7	65.0	63.4
Gross profit	38.7	35.2	37.3	35.0	36.6
SG&A exp.	21.8	29.4	22.3	23.5	25.0
EBITDA margin	17.0	11.5	14.9	11.5	11.6
EBIT margin	11.7	6.1	10.6	6.9	7.0
PAT margin	9.8	6.6	5.3	5.5	4.8

Growth metrics (%)

Year to March	FY07	FY08	FY09E	FY10E	FY11E
Revenues	71.5	26.8	26.4	5.0	8.0
EBITDA	33.2	(14.3)	64.8	(18.9)	8.1
EBIT	32.6	(33.8)	120.8	(32.0)	9.1
Net income	45.2	(14.1)	0.7	9.8	(6.3)
EPS	35.6	(15.1)	(0.3)	9.8	(6.3)

Balance sheet **(INR mn)**

Year to March	FY07	FY08	FY09E	FY10E	FY11E
Equity share capital	124	125	125	125	125
Share premium account	633	641	641	641	641
Reserves	1,480	1,703	1,830	2,098	2,344
Total shareholders funds	2,237	2,468	2,596	2,864	3,110
Borrowings	919	794	750	600	400
Deferred tax liability	44	41	36	36	36
Minority interest	78	66	203	263	353
Sources of fund	**3,278**	**3,369**	**3,585**	**3,763**	**3,899**
Gross fixed assets	2,976	3,048	3,448	3,948	4,448
Depreciation	772	853	1,117	1,417	1,737
Net fixed assets	2,204	2,195	2,330	2,530	2,710
Capital WIP	5	1	0	0	0
Investments	120	179	140	80	50
Cash & bank balances	147	234	55	120	120
Debtors	747	787	1,094	1,096	1,145
Loans & advances	690	613	739	883	1,057
Total current assets	1,583	1,635	1,887	2,099	2,322
Sundry creditors	548	554	665	812	1,014
Provisions	87	86	108	135	168
Total current liabilities	635	640	773	946	1,183
Working capital	949	994	1,114	1,153	1,139
Application of funds	**3,278**	**3,369**	**3,585**	**3,763**	**3,899**
Book value per share (BV) (INR)	37	40	42	46	50

Cash flow statement **(INR mn)**

Year to March	FY07	FY08	FY09E	FY10E	FY10E
Cash flow from operations	675	609	654	756	773
Cash for working capital	(619)	36	(300)	27	13
Net operating cashflow(A)	57	645	354	783	786
Net purchase of fixed assets	(200)	(125)	(399)	(500)	(500)
Net purchase of investments	94	(58)	39	60	30
Others	(1,097)	(72)	0	0	0
Cash flow from investments(B)	(1,203)	(256)	(360)	(440)	(470)
Dividends	(127)	(130)	(87)	(87)	(87)
Proceeds from issue of equity	516	9	0	0	0
Proceeds from LTB/STB	882	(125)	(44)	(150)	(200)
Interest paid & other items	(35)	(57)	(43)	(41)	(30)
Cash flow from financing (C)	1,236	(302)	(173)	(277)	(317)
Change in cash(A+B+C) + (D)	**90**	**87**	**(180)**	**65**	**(1)**

Ratios

Year to March	FY07	FY08	FY09E	FY10E	FY11E
ROAE (%)	20.5	13.7	12.8	13.0	11.1
ROACE (%)	15.6	10.8	10.1	10.4	9.2
Debtor days	71	59	65	62	60
Fixed asset T/0	2.4	2.2	2.7	2.7	2.7

Valuation parameters

Year to March	FY07	FY08	FY09E	FY10E	FY11E
Diluted EPS (INR)	6.1	5.1	5.2	5.7	5.2
Y-o-Y growth (%)	*34.2*	*(15.5)*	*0.7*	*9.8*	*(7.8)*
BVPS (INR)	36.8	40.1	41.8	46.1	50.1
Diluted P/E (x)	3.1	3.7	3.7	3.4	3.6
Pr/CF (x)	2.0	2.0	2.0	1.8	1.8
P/BV (x)	0.5	0.5	0.5	0.4	0.4
EV/EBITDA (x)	3.0	3.1	2.0	2.2	1.8
EV/Revenues (x)	0.5	0.4	0.3	0.3	0.2
Market cap/Revenues (x)	0.3	0.2	0.2	0.2	0.2

LIC HOUSING FINANCE

INR 238

Earnings quality deteriorates

ACCUMULATE

January 20, 2009

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Disbursements and sanctions skewed towards project developers space

LIC Housing Finance's (LICHF) Q3FY09 operating performance was ahead of our expectations driven by margin expansion, strong asset growth, and reduction in NPAs. However, weak real estate sentiments in anticipation of correction in property prices and decline in lending rates impacted disbursements in the residential segment and growth in sanctions and disbursements were skewed towards the project developers space in the quarter. Disbursement growth in the residential segment decelerated from 35% in H1FY09 to 11% in Q3FY09; however, overall disbursements grew 18% Y-o-Y to INR 19.4 bn led by 61% Y-o-Y growth in loans to project developers. We expect the loan book to grow by 20% CAGR over FY08-11E.

Hike in lending rates and shift in loan mix aid margin expansion

The increase in lending rates by 50bps each in August, September, and November, and incremental growth from high yielding project developer segment helped LICHF expand net interest margins 30bps sequentially to 3.2%. The outlook on margins will be positive in the near term due to shift in favor of the high yielding corporate developer space and sharp correction in wholesale funding cost.

NPAs dip but incremental exposure to developers raises red flags

LICHF's gross NPAs (in absolute terms) declined by INR 200 mn to INR 4.3 bn (1.7% of advances) and net NPA declined INR 230 mn to INR 1.9 bn (0.7% of advances). We remain wary of the project developer book built in the past two-three quarters and will watch this space closely for incremental slippages. We are building in higher slippages for H2FY10 and FY11 and expect gross NPAs to rise to 2.4% by FY11E.

Outlook and valuations: Earnings quality deteriorates; downgrade to 'ACCUMULATE'

Despite strong operating performance Q-o-Q with steady margins and 20% plus growth in assets, we believe LICHF is steadily increasing risk in the loan book by higher exposure to project developers. Though the outlook on spreads, growth, and earnings will be positive in the near term, given its increasing lending to the high yielding corporate developer space, we believe quality of earnings is likely to be diluted. We are revising our earnings estimate marginally upwards by 2% for FY09 and lowering it by 2% for FY10 considering higher slippages. The stock currently trades at 1.0x FY09E adjusted book and 4x FY09E earnings. The stock has outperformed the Bankex and Sensex by 30% in the past one year, due to cheap valuations and improving fundamentals; however deteriorating quality of earnings would put pressure on future stock performance, in our view. We are, therefore, downgrading the stock from **'BUY'** to **'ACCUMULATE'**.

Reuters	:	LICH.BO
Bloomberg	:	LICHF IN

Market Data

52-week range (INR)	:	378 / 151
Share in issue (mn)	:	84.9
M cap (INR bn/USD mn)	:	20.2 / 412.6
Avg. Daily Vol. BSE/NSE ('000)	:	1,389.1

Share Holding Pattern (%)

Promoters	:	40.8
MFs, FIs & Banks	:	14.3
FIIs	:	26.7
Others	:	18.2

Relative Performance (%)

	Sensex	Stock	Stock over Sensex
1 month	(7.4)	13.9	21.3
3 months	(8.7)	6.9	15.6
12 months	(47.0)	(15.5)	31.6

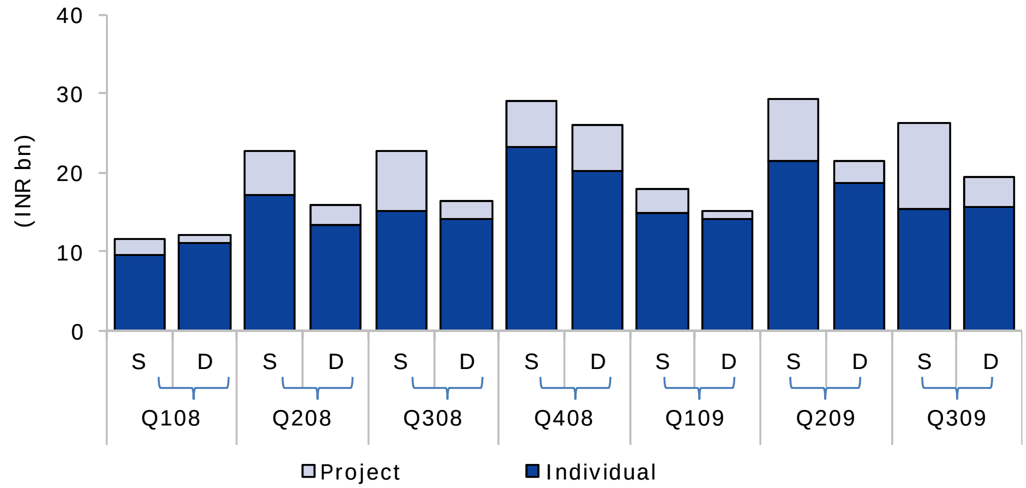
Financials

Year to March	Q309	Q308	*Growth (%)*	Q209	*Growth (%)*	FY08	FY09E
Net int. inc. (INR mn)	1,999	1,409	*41.8*	1,711	*16.8*	5,644	7,251
Net profit (INR mn)	1,343	1,060	*26.7*	1,351	*(0.5)*	3,872	4,906
Diluted EPS (INR)	15.8	12.5	*26.7*	15.9	*(0.6)*	45.6	57.7
Price/ Book (x)						1.1	0.9
Price/ Earnings (x)						5.2	4.1

Disbursements and sanctions skewed towards project developers space

LICHF's overall disbursements in Q3FY09 grew 18% Y-o-Y to INR 19.4 bn. However, disbursement growth in the residential segment was merely 11%, while that in the project developers space reported 61% growth. Consequently, the proportion of project developer finance in loan book increased to 7.2% in the quarter from 6.4% in Q2FY09. The company sanctioned loans worth INR 10.8 bn in Q3FY09 in the project developer space, taking the sanctions year-to-date in this space to INR 21.9 bn (45% growth Y-o-Y); sanctions in the residential segment grew 23% Y-o-Y in 9mFY09 to INR 51.7 bn. We believe growth in the individual loan segment will remain weak in the near term due to weak real estate sentiments and intense competition from PSU banks in terms of lower lending rates. However, disbursements in the corporate developers space will boost growth. We expect the company's loan book to grow by 20% CAGR over FY08-11E.

Chart 1: Sanctions (S) and disbursements (D) over past few quarters

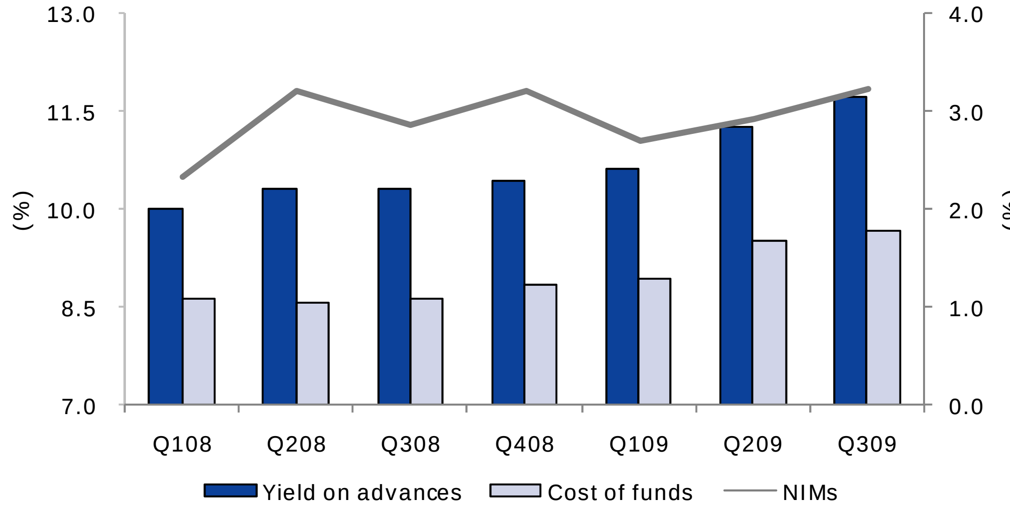


Source: Company

Hike in lending rates and shift in loan mix aid margin expansion

The increase in lending rates by 50bps each in August, September, and November and incremental growth from the high yielding project developer segment helped LICHF expand its net interest margins by 30bps sequentially to 3.2%. The company continued to incrementally rely on bonds/debentures (55% of borrowings) as its main source of funding and it even availed funds from the National Housing Bank during the quarter. Dependence on bank borrowings reduced from 43% in Q4FY08 to 29% in Q3FY09. Thus, cost of funds increased marginally by 20bps to 9.7% despite a tight liquidity environment in Q3FY09, which was more than offset by the 40bps increase in lending rate to 11.7%. The outlook on margins will be positive in the near term due to shift in favor of the high yielding corporate developer space and sharp correction in wholesale funding cost.

Chart 2: Movement in margins

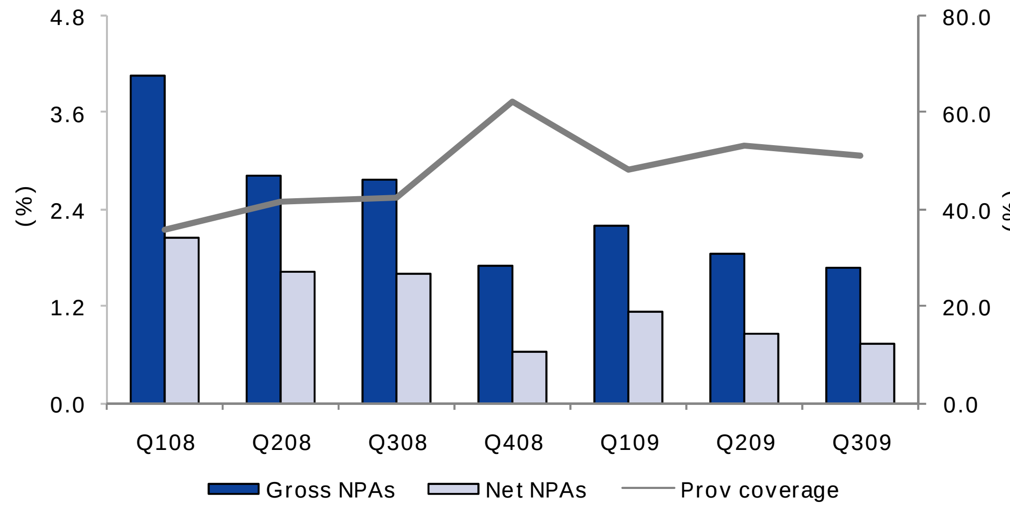


Source: Company

NPAs decline but incremental exposure to developers raises red flags

LICHF's asset quality improved further with gross NPA (in absolute terms) declining by INR 200 mn to INR 4.3 bn (1.7% of advances), and net NPA declined INR 230 mn to INR 1.9 bn (0.7% of advances). Incremental provisions made for impaired assets were relatively low at INR 30 mn for the quarter (LLP at 6bps annualised). We remain wary of the project developer book built in the past two-three quarters and will watch this space closely for incremental slippages. We are building in higher slippages for H2FY10 and FY11 and expect gross NPAs to rise to 2.4% by FY11E.

Chart 3: Asset quality improves



Source: Company

Financials snapshot (INR mn)

Year to March	Q309	Q308	Growth (%)	Q209	Growth (%)	FY08	FY09E	FY10E
Interest income	7,343	5,225	*40.6*	6,662	*10.2*	20,587	27,427	31,850
Interest expenses	5,345	3,815	*40.1*	4,951	*8.0*	14,943	20,176	23,207
Net interest income	1,999	1,409	*41.8*	1,711	*16.8*	5,644	7,251	8,643
Non-interest income	323	292	*10.8*	416	*(22.3)*	1,546	1,394	1,519
Total revenue	2,322	1,701	*36.5*	2,127	*9.1*	7,190	8,645	10,162
Operating expenses	492	350	*40.5*	346	*42.4*	1,467	1,583	1,707
Operating profit	1,830	1,351	*35.5*	1,782	*2.7*	5,723	7,061	8,455
Provisions	7	17	*(56.7)*	-64	*(111.6)*	400	461	893
Profit before tax	1,822	1,334	*36.7*	1,846	*(1.3)*	5,323	6,601	7,562
Provision for tax	479	273	*75.3*	495	*(3.2)*	1,451	1,695	2,031
Profit after tax	1,343	1,060	*26.7*	1,351	*(0.5)*	3,872	4,906	5,532
EPS (INR)	15.8	12.5	*26.7*	15.9	*(0.6)*	45.6	57.7	57.0
Ratios (%)								
NII / GII	27.2	27.0		25.7		27.4	26.4	27.1
Cost - income	21.2	20.6		16.2		20.4	18.3	16.8
Tax rate	26.3	20.5		26.8		27.3	25.7	26.9
Balance sheet data								
Loan book (INR mn)	253,350	201,640	*25.6*	241,330	*5.0*	219,364	268,806	322,592
Disbursements (INR mn)	19,440	16,520	*17.7*	21,590	*(10.0)*	70,715	83,443	96,794
Ratios (%)								
Gross NPA	1.7	2.8		1.9		1.7	1.8	2.1
Net NPA	0.7	1.6		0.9		0.6	0.9	1.2

** Assuming 14% equity dilution in FY10*

Company Description

LICHF is the fourth-largest mortgage finance company in India. It provides loans for homes, construction activities, and corporate housing schemes. Almost 94% of the company's loans are to retail customers and the balance 6% to large ticket commercial sector companies. It is fourth in terms of market share (including banks), with 6-7% market share in home loan disbursements in FY08. The company has loan outstanding of INR 253 bn as at December 31, 2008. It has 115 offices and 100 camps across the country. The company has a marketing network of over 6,000 direct sales agents, home loan agents, and associates. LIC India is its majority shareholder with 41% equity holding, followed by FIIs at 33%.

Investment Theme

Internal restructuring and intense pricing war resulted in LICHF's disbursals growing a paltry 9% (below industry average of 36%) over FY04-06. Post internal restructuring, defying the concerns of slowdown in mortgages, and expectations of margin compression, LICHF reported robust disbursals in FY07-08. We expect the company to grow its disbursement at higher-than-historical growth rates. With the change in competitive landscape in favour of HFCs, we expect LICHF to gain market share and report margin improvement. Historically, asset quality for LICHF has not been highly impressive; however, with adoption of better and strict risk management process and concerted efforts on NPA recoveries, the company has reported significant improvement in its net NPAs. LICHF also holds 39% stake in LIC Mutual Fund.

Key Risks

Loss of market share to commercial banks and HFCs and pressure on spread due to inability to raise lending rates amidst stiff competition.

Real estate lending is becoming more challenging due to a high interest-rate background and weak property prices.

Deterioration of asset quality can increase NPA provisioning and affect profitability.

Financial Statements

Income statement (INR mn)

Year to March	FY07	FY08	FY09E	FY10E	FY11E
Interest income	15,054	20,587	27,427	31,850	36,915
Interest expended	11,079	14,943	20,177	23,208	26,696
Net interest income	3,976	5,644	7,250	8,642	10,219
Non interest income	817	1,248	1,155	1,268	1,412
- Fee & forex income	583	655	751	871	993
- Investment profits	29	24	24	24	24
- Misc. income	205	568	380	372	395
Income from operations	4,792	6,892	8,405	9,910	11,631
Other income	177	299	239	251	264
Net revenues	4,970	7,190	8,644	10,161	11,895
Operating expenses	1,244	1,467	1,583	1,707	1,840
- Employee exp	267	345	372	400	430
- Depreciation /amortisation	38	37	39	41	42
- Other opex	939	1,085	1,172	1,266	1,367
Preprovision profit	3,725	5,723	7,060	8,454	10,055
Provisions	188	400	461	893	1,236
PBT	3,538	5,323	6,600	7,561	8,819
Taxes	746	1,451	1,694	2,030	2,417
PAT	2,792	3,872	4,905	5,531	6,402
Basic number of shares (mn)	85	85	85	97	97
Basic EPS (INR)	32.9	45.6	57.7	57.0	66.0
Diluted number of shares (mn)	85	85	85	97	97
Diluted EPS (INR)	32.9	45.6	57.7	57.0	66.0
DPS (INR)	8.0	10.0	10.0	10.0	11.2
Dividend pay out (%)	28.0	25.7	20.3	20.3	19.9

Growth metrics (%)

Year to March	FY07	FY08	FY09E	FY10E	FY11E
Net interest income	17.0	42.0	28.5	19.2	18.2
Net revenues growth	15.3	44.7	20.2	17.5	17.1
Opex growth	18.1	17.9	7.9	7.8	7.8
PPP growth	14.5	53.6	23.4	19.7	18.9
Provisions growth	(70.6)	113.3	15.1	93.8	38.5
PAT growth	33.8	38.7	26.7	12.8	15.8

Operating ratios (%)

Year to March	FY07	FY08	FY09E	FY10E	FY11E
Yield on assets	9.2	10.3	11.2	10.8	10.5
Yield on advances	9.3	10.3	11.2	10.8	10.5
Cost of funds	7.4	8.1	8.9	8.6	8.3
Spread	1.9	2.2	2.3	2.2	2.2
Net interest margins	2.4	2.8	3.0	2.9	2.9
Cost-income	25.0	20.4	18.3	16.8	15.5
Tax rate	21.1	27.3	25.7	26.9	27.4

Balance sheet (INR mn)

As on 31st March	FY07	FY08	FY09E	FY10E	FY11E
LIABILITIES					
Equity capital	850	850	850	970	970
Share premium	2,533	2,533	2,533	4,933	4,933
Reserves & surplus	12,056	14,934	18,845	23,254	28,383
Net worth	15,438	18,317	22,228	29,157	34,286
Total deposits	-	157	1,110	2,777	4,944
Secured Loans	146,770	191,134	231,794	274,673	324,635
Unsecured Loans	16,557	12,153	15,011	17,480	20,335
Total liabilities	**178,764**	**221,761**	**270,142**	**324,088**	**384,200**
ASSETS					
Loans	175,635	219,364	268,806	322,592	381,323
Investments	2,061	7,746	6,119	5,423	4,576
Current assets	9,074	5,214	6,623	8,507	7,151
Current liabilities	9,076	11,792	12,724	13,853	10,315
Net current assets	(2)	(6,578)	(6,101)	(5,347)	(3,164)
Fixed assets (net block)	236	300	288	267	168
Other assets	834	929	1,030	1,152	1,297
Total assets	**178,764**	**221,761**	**270,142**	**324,088**	**384,200**
Balance sheet ratios (%)					
Loan growth	19.6	24.9	22.5	20.0	18.2
EA growth	18.3	24.1	21.9	20.0	18.6
Gross NPA ratio	2.6	1.7	1.8	2.1	2.4
Net NPA ratio	1.3	0.6	0.9	1.2	1.5
Provision coverage	51.2	62.2	51.8	43.3	38.2

Sanctions and disbursements (INR mn)

Year to March	FY07	FY08	FY09E	FY10E	FY11E
Sanctions (INR mn)	61,050	86,179	101,691	117,962	134,476
Disbursements (INR mn)	51,210	70,715	83,443	96,794	110,346
Disbursements to sanction ratio (%)	83.9	82.1	82.1	82.1	82.1
Disbursements growth (%)	4.6	38.1	18.0	16.0	14.0
Sanctions growth (%)	19.4	41.2	18.0	16.0	14.0

RoE decomposition (%)

Year to March	FY07	FY08	FY09E	FY10E	FY11E
Net interest income/assets	2.4	2.8	3.0	2.9	2.9
Non interest income/assets	0.6	0.8	0.6	0.5	0.5
Investment gains/assets	0.0	0.0	0.0	0.0	0.0
Net revenues/assets	3.0	3.6	3.5	3.4	3.4
Operating expense/assets	0.8	0.7	0.6	0.6	0.5
Provisions/assets	0.1	0.2	0.2	0.3	0.4
Taxes/assets	0.5	0.7	0.7	0.7	0.7
Total costs/assets	1.3	1.7	1.5	1.6	1.6
ROA	1.7	1.9	2.0	1.9	1.8
Equity/assets	8.8	8.5	8.3	8.7	9.0
ROAE	19.3	22.9	24.2	21.5	20.2

Valuation metrics

Year to March	FY07	FY08	FY09E	FY10E	FY11E
Diluted EPS (INR)	32.9	45.6	57.7	57.0	66.0
EPS growth (%)	*33.8*	*38.7*	*26.6*	*(1.2)*	*15.8*
Book value per share (INR)	181.6	215.5	261.5	300.6	353.5
Adjusted book value per share (INR)	163.4	203.9	242.3	273.1	312.0
Diluted P/E (x)	7.2	5.2	4.1	4.2	3.6
Price/ BV (x)	1.3	1.1	0.9	0.8	0.7
Price/ Adj. BV (x)	1.5	1.2	1.0	0.9	0.8
Dividend yield (%)	3.4	4.2	4.2	4.2	4.7

RELIANCE CAPITAL

INR 418

Edelweiss
Ideas create, values protect

Tough environment

UNDER REVIEW

January 20, 2009

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Earnings supported by income from investments and Reliance Money

Reliance Capital reported 17% growth (Y-o-Y as well as Q-o-Q) in consolidated revenues (net of interest expenses), to INR 12 bn, in Q3FY09. PAT, however, grew 12% Y-o-Y, to INR 1.3 bn (43% decline Q-o-Q). Investment income (including interest, dividend and profit on sale) accounted for 75% of the company's pretax profits, while asset management and Reliance Money accounted for 12% and 9% respectively of profits.

Reliance Life: Disclosed NBAP margins; premium growth decelerates

Reliance Life disclosed new business achieved profit (NBAP) margin for the first time, at 18.8%, for 9mFY09. Annualised premium equivalent (APE) growth decelerated in Q3FY09 to 28% from 143% in H1FY09. As agents with low productivity were discontinued, the number of agents this quarter decreased to 142,843 from 211,293 in Q2FY09.

Reliance Consumer Finance: Disbursements on hold; gross NPAs rise to 1.9%

Reliance Consumer Finance had put on hold disbursements during Q3FY09 amidst tight liquidity, high cost of borrowings and increased risk perception. With marginal disbursements during the quarter, outstanding loan portfolio declined to INR 89 bn for Q3FY09 from INR 95 bn for Q2FY09. Additionally, gross NPAs increased to 1.9% in Q3FY09 from 0.9% in Q2FY09. The company has received a license to set up a separate housing finance and consumer finance subsidiary, and will shift the mortgage book of INR 31 bn into this business and the balance of INR 58 bn to its consumer finance subsidiary.

Reliance Money: Distribution and money exchange business aid growth

Reliance Money reported revenues of INR 1.02 bn, up 10% Q-o-Q and 60% Y-o-Y. This was aided primarily by growth in other income that comprises money exchange and gold coin distribution businesses. Reliance Money's average daily trading volume remained stable Q-o-Q at INR 22 bn (compared with 18% Q-o-Q decline in industry-wide daily trading volume). It reported net profit of INR 220 mn in Q3FY09 compared with profit of INR 192 mn in Q2FY09. Contribution from Reliance Equities, an institutional stock broking subsidiary, to the top line and bottom line was marginal.

Outlook and valuations: Under review

The company's growth momentum is relatively better in the broking business; in general insurance, it is cautiously growing focus on profitability. We will be revising our consumer financing business estimates considering cautious approach in disbursements and sharp rise in NPAs. We will also relook at our investment income assumptions, considering no unrealised gains available on investments in the books. Life insurance growth has decelerated during the quarter, in line with industry trend; nevertheless, it continues to be the key valuation driver for the company. We are in the process of revising our consolidated earning estimates (likely downwards) and, till then, keep our **'ACCUMULATE'** recommendation under review.

Reuters	:	RLCP.BO
Bloomberg	:	RCFT IN

Market Data

52-week range (INR)	:	2,301 / 392
Share in issue (mn)	:	245.6
M cap (INR bn/USD mn)	:	102.6 / 2,090.8
Avg. Daily Vol. BSE ('000)	:	6,830.9

Share Holding Pattern (%)

Promoters	:	53.5
MFs, FIs & Banks	:	3.5
FIIs	:	24.1
Others	:	18.9

Relative Performance (%)

	Sensex	Stock	Stock over Sensex
1 month	(7.4)	(15.4)	(8.0)
3 months	(8.7)	(35.0)	(26.3)
12 months	(47.0)	(77.4)	(30.4)

Business highlights

Reliance MF: AUMs decline

- Reliance MF's AUMs declined ~11% Q-o-Q, to INR 702 bn (compared to 20% Q-o-Q decline in industry-wide AUMs during the same period), due to redemptions in debt funds and correction in broader indices.
- Reliance MF was one of the four fund managers managing Employee Provident Fund. Reliance PMS will manage USD 5 bn (INR 244 bn) in this scheme. Excluding this, the PMS portfolio has declined from INR 33 bn in Q2FY09 to INR 29 bn in Q3FY09 mainly due to decline in its discretionary book (decline from INR 20 bn in Q2FY09 to INR 16 bn).
- Offshore AUMs increased by USD 77 mn, to USD 244 mn (including un-drawn amount of USD 92 mn), with the launch of two new funds, taking the total number of funds to five.
- Revenues from asset management during Q3FY09 were flat Q-o-Q, at INR 1.1 bn. The company reported profit (before tax) of INR 196 mn during the quarter.

Table 1: Asset management - Key metrics

(INR mn)	Q309	Q308	*Growth (%)*	Q2FY09	*Growth (%)*	9MFY09	9MFY08	*Growth (%)*
Income	915	1,231	*(25.7)*	1,173	*(22.0)*	3,352	2,698	*24.2*
PBT	339	282	*20.2*	423	*(19.9)*	1,276	851	*50.1*
PAT	257	189	*36.0*	335	*(23.4)*	920	564	*63.0*
AUM - MF (INR bn)	702	789	*(11.0)*	791	*(11.2)*			
% market share								
AUM - PMS (INR bn)	273	33	*727.3*	63	*333.3*			
AUM - offshore fund (USD mn)	244	282	*(13.5)*	167	*46.1*			

Source: Company

Reliance Money: Distribution and money exchange business aid growth

- Reliance Money reported revenues of INR 1.02 bn, up 10% Q-o-Q and 60% Y-o-Y. This was aided primarily by growth in other income, comprising money exchange and gold coin distribution businesses. The expansion in distribution network cooled off, with addition of just ~73 branches in Q3FY09 (as against addition of 300 branches in Q2FY09). Total outlets stand at 10,125, across ~5,165 locations. It also added ~21,000 new broking accounts during the quarter, taking the total to ~1 mn.
- Broking contributed 48% to top line, with distribution of financial products contributing 20% and other services (money transfer, currency changing, and precious metal retailing) contributing the balance. In partnership with Western Union Money Transfer, the number of money transfer/currency changing transactions per month has crossed the 200,000-mark.
- Reliance Money's average daily trading volume remained stable Q-o-Q, at INR 22 bn (compared with 18% Q-o-Q decline in industry-wide daily trading volume).
- It reported net profit of INR 220 mn in Q3FY09 compared with profit of INR 192 mn in Q2FY09.

Table 2: Reliance Money - Financials

(INR mn)	Q309	Q308	*Growth (%)*	Q2FY09	*Growth (%)*	9MFY09	9MFY08	*Growth (%)*	FY08
Income statement									
Total income	1,022	640	*59.6*	932	*9.7*	2,735	1,178	*132.1*	2,385
- Broking income	491	227	*115.9*	484	*1.4*	1,383	431	*220.5*	1,112
- Distribution income	206	176	*16.8*	248	*(16.9)*	726	329	*120.6*	1,062
Total expenditure	728	592	*22.9*	700	*4.0*	2,098	1,308		2,384
PBT	294	48		232	*26.9*	637	(130)		1
PAT	220	48		192		473	(130)		1

Source: Company

Reliance Consumer Finance: Disbursements on hold; net NPAs at 0.7%

- Reliance Consumer Finance had put on hold disbursements during Q3FY09 amidst tight liquidity, high cost of borrowings and increased risk perception. With marginal disbursements during the quarter, outstanding loan portfolio declined to INR 89 bn for Q3FY09 from INR 95 bn for Q2FY09, with ~20% decline in SME loans (~16% of loan book); the other portfolios (barring mortgage that was flat sequentially) like auto, CV and personal loans declined 6-7% Q-o-Q.
- Amidst tight liquidity, incremental cost of borrowings went up 300-400bps, to 14-15%, and average funding cost went up from 8.5% to 11.4%, while blended yields improved marginally to ~14.5%. Net interest income (NII) however grew 19% Q-o-Q, to INR 1.2 bn from INR 1 bn in Q2FY09, due to equity infusion in this business division.
- Gross NPAs increased to 1.9% in Q3FY09 from 0.9% in Q2FY09. With provision coverage of 70%, net NPA was close to 0.6% of loan book compared with 0.3% in the previous quarter. It reported flat sequential PBT of INR 146 mn.
- The company has received a license to set up a separate housing finance and consumer finance subsidiary, and will shift the mortgage book of INR 31 bn into this business and the balance of INR 58 bn to its consumer finance subsidiary.

Table 3: Reliance consumer finance - Key metrics **(INR mn)**

	Q309	Q308	*Growth (%)*	Q2FY09	*Growth (%)*	9MFY09	9MFY08	*Growth (%)*
Net interest income	1,194	593	*101.2*	1,005	*18.7*	3,601	833	*332.5*
Operating expenses	623	481	*29.6*	753	*(17.3)*	2,118	824	*157.1*
provisions	475	4		303	*56.8*	965	4	
PBT	146	265	*(44.8)*	143	*1.9*	897	353	*154.2*

Source: Company

Reliance Life: Reported NBAP margins in line with those of other insurers

- Reliance Life reported NBAP margin for the first time. New business profit for 9mFY09 stood at INR 4.1 bn and NBAP margin at 18.81%.
- Economic assumptions, validated by external agency, Watson Wyatt, are in line with those disclosed by other private insurers.

Table 4: Assumptions for NBAP margin calculation

	Max NYL	ICICI Pru	Bajaj Allianz	Reliance
Economic assumptions				
Cash/Money/TB (%)	6.5	7.0	5.0	5.0
G Secs (%)	8.0	8.0	8.0	7.5
Corporate Bonds (%)	9.0	8.7	8.5	8.5
Equities (%)	13.0	13.3	12.0	12.0
Inflation (%)	6.0	5.5	5.0	5.5
Risk discount rate (%)	13.0	13.3	13.3	12.5
Tax rate (%)	14.2	14.2	14.2	14.2
NBP Margin (%)				
FY07		20.1	21.9	
FY08	20.4	19.2	20.0	
H1FY09		18.9	18.7	
Q3FY09				18.8
Embedded Value (INR mn)				
FY07	6,880	NA	NA	NA
FY08	13,459	NA	NA	NA

Source: Company

- Management has disclosed non-economic assumptions (related to persistency) for margin calculations; persistency over period of five years has been assumed at 51%. The management mentioned that it has assumed long term operating expense ratio at ~20%.
- In Q3FY09, Reliance Life recorded annualised premium equivalent (APE) of INR 7.6 bn recording a 28% growth Y-o-Y; new business premium (NBP) growth stood at 12.8%. In the first eight months of FY09, APE market share of Reliance Life stood at 9.7% amongst private insurers and 4.3% in the industry.
- Single premium, as a percentage of new business premium, increased from 2.6% in Q3FY08 to 8.8% in Q3FY09, but decreased Q-o-Q from 21% in Q2FY09; conservation ratio, a proxy for persistency, stood at 53.7%.
- As agents with low productivity were discontinued, the number of agents this quarter decreased to 142,843 from 211,293 in Q2FY09.
- It reported accounting loss of INR 7.72 bn in 9mFY09 in life insurance business; accumulated losses at end of FY08 stood at INR 13 bn.
- The company infused additional capital of INR 3.26 bn in the life insurance business during the quarter (over INR 3.6 bn invested in Q2FY09), taking the total capital infused to INR 25.3 bn.
- It mobilises 67% of premium through agency force, 16% through channel development associates and 15% through third-party distributors/corporate brokers and 3% through other channels.
- Policyholder AUM increased from INR 28.5 (~93% in equity) in Q3FY08 to INR 44.9 bn in Q3FY09 (~91% in equity).

Table 5: Life insurance - Key metrics

	Q3FY09	Q3FY08	*Growth (%)*	9MFY09	9MFY08	*Growth (%)*	FY08
APE (INR mn)	7,639	5,954	*28.3*	19,817	10,970	*80.6*	19,347
NBP (INR mn)	8,298	7,355	*12.8*	23,029	13,895	*65.7*	27,511
SP/NBP (%)	8.8	2.6		15.0	23.0		33
Total premium (INR mn)	11,498	8,674	*32.6*	30,828	16,509	*86.7*	32,133
Premium per policy (INR)	13,552	22,188	*(38.9)*	16,267	20,905	*(22.2)*	21,801
Average policy tenure (Years)	14	9	*51.1*	13	9	*45.1*	10
Branches (Nos)	1,145	736		1,145	736		744
Agents (Nos)	142,843	157,080		142,843	157,080		184,194
Policyholder AUM (INR mn)	44,950	28,558	*57.4*	44,950	28,558	*57.4*	35,545
% Policyholder AUM in equity	56.2	69.3		56.2	69.3		61.8
Shareholders' AUM (INR mn)	4,411	1,947	*126.6*	4,411	1,947	*126.6*	2,222
Capital infused (INR mn)	3,260	2,600	*25.4*	10,110	5,800	*74.3*	8,500

Source: Company

General Insurance: Focus on improving bottom line

- The company continued to focus on improving the combined ratio in general insurance business through better expense management and underwriting, which resulted in decline in pace of growth. Gross written premium in Q3FY09 declined 11.9% Y-o-Y to INR 5.1 bn and its market share amongst private insurers declined to 15.5% as on November 30, 2008 from 17.3% at the end of FY08.
- Retention ratio increased to 83% in Q3FY09 from 43% in Q3FY08.
- Losses declined from INR 540 mn in Q3FY08 to 121 mn in Q3FY09 due to improvement in combined ratio from 131% in Q3FY08 to 114% in Q3FY09.

Table 6: General insurance – Key metrics

INR mn	Q3FY09	Q3FY08	*Growth (%)*	9MFY09	9MFY08	*Growth (%)*	FY08
Gross written premium	5,090	5,780	*(11.9)*	14,952	15,245	*(1.9)*	19,464
Net written premium	4,223	2,483	*70.1*	10,347	6,200	*66.9*	9,600
Retention ratio (%)	83.0	43.0		69.2	40.7		49.3
Underwriting profit	(286)	(651)	*(56.1)*	(564)	(1,071)	*(47.3)*	(2,061)
PBT	(121)	(540)	*(77.6)*	(205)	(735)	*(72.1)*	(1,628)
Combined ratio (%)	114	131		112	123		129
Networth	5,015	3,971	*26.3*	5,015	3,971	*26.3*	4,939
Capital infusion	-	1,530		-	2,130		4,000
Branches (Nos)	200	200		200	200		200

Source: Company

Financial snapshot (INR mn)

Year to March	Q309	Q308	*Growth (%)*	Q209	*Growth (%)*	FY08
Total income	15,733	11,556	*36.2*	13,225	*19.0*	49,191
Interest expended	3,725	1,342	*177.6*	2,921	*27.6*	4,138
Operating expenses	10,329	8,649	*19.4*	7,298	*41.5*	32,449
- Staff cost	1,378	956	*44.2*	1,387	*(0.7)*	4,090
- Claims incurred	3,350	1,875	*78.7*	1,856	*80.5*	7,507
- Other expenses	5,601	5,818	*(3.7)*	4,055	*38.1*	20,852
Operating profit	1,679	1,565	*7.3*	3,007	*(44.2)*	12,604
Depreciation	153	94	*63.3*	130	*18.0*	412
PBT	1,526	1,472	*3.7*	2,877	*(47.0)*	12,192
Tax	183	311	*(41.1)*	562	*(67.4)*	2,089
PAT	1,343	1,161	*15.7*	2,315	*(42.0)*	10,103
Less: Minority interest	20	0	*NA*	23	*(13.7)*	62
Share of profit of associates	(7)	21	*(134.4)*	0	*NA*	50
Net profit	1,315	1,181	*11.3*	2,291	*(42.6)*	10,091
Diluted EPS (INR)	5.5	4.9	*12.1*	9.3	*(41.6)*	41.1
Ratios (%)						
Cost - income	89.3	86.5		77.3		74.4
Tax rate	12.0	21.1		19.5		17.1
Operating profit margin	10.7	13.5		22.7		25.6
Net profit margin	8.4	10.2		17.3		20.5

Company Description

Reliance Capital has been actively pursuing growth opportunities in the Indian financial services sector, post the demerger and reorganisation of the Reliance Group, to become a leading financial powerhouse. It has undergone significant strategy changes in the past one year, with focus shifting to fast-growing segments in the financial services space, viz., asset management and insurance business, from leasing and infrastructure financing. Reliance Capital is the leader in its existing businesses—the largest mutual fund (in terms of AUMs of INR 702 bn), and the third-largest general insurer (in terms of gross written premium of INR 19.5 bn in FY08). Currently, it is aggressively investing in growing its life insurance business by expanding its distribution franchise and increasing its agent force. The company has also forayed into retail broking under the brand Reliance Money (acquired ~1 mn broking accounts over 12-18 months) and retail financing under Reliance Consumer Finance (outstanding loan book of INR 89 bn over past 15 months). It also also commenced operations in asset reconstruction and institutional broking business.

Investment Theme

We expect Reliance Capital to become a leading financial powerhouse offering a plethora of products including mutual funds, life insurance, general insurance, retail broking, and consumer financing. We believe it is a pure play on fast-growing segments of the Indian financial services space. We expect sustained growth in the company’s asset management business and hyper growth in life insurance, broking, and general insurance businesses. Our confidence in Reliance Capital is underpinned by ADAG’s execution capabilities, competitive skills, and its ability to create new markets.

Key Risks

Execution failure is the key business risk, as its value-driving businesses are either at a nascent stage (life insurance and retail broking) or are yet-to-be launched (consumer financing).

We have assigned 100% value to its life insurance and broking business in our valuation estimates based on our discussions with the management. Though Reliance Capital has 100% economic interest, technically it holds only 16% in Reliance Life.

Growth in asset management, life insurance, and broking businesses is highly dependant on the conditions in capital markets. Sustained non-conducive market conditions may hamper our growth assumptions and consequently impact valuations negatively.

Intense competitive pressures in any business segment may affect the expected market share and/margins.

WIPRO

INR 220

Edelweiss
Ideas create, values protect

A decent quarter but Q409 revenue guidance hurts ACCUMULATE

January 21, 2009

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Wipro's Q3FY09 performance does not change our view that in a difficult sector, which we rate as Market Underweight, we continue to prefer TCS and Infosys. Performance of Wipro's IT-services for the quarter at INR 50.5 bn met our expectations, but EBIT margins for the IT-services business at 20.1% were below expectations (partly because Wipro has written off the receivables of Nortel).

- Decent revenue performance in Q3FY09, but Q4FY09 guidance at USD 1,045 mn unexciting
- Fixed price at 36% of IT-services revenues is at an all-time high
- Revenue growth in FY10 in IT services likely to be negative-to-flat on an organic basis
- Technology exposure hurting
- Hiring numbers disappoint again
- Levers for cost management in FY10 less potent in the face of tighter hiring and improved utilization
- Accumulated comprehensive loss in balance sheet shoots up to INR 15.7 bn
- Margin management is still a matter of concern

Revision in estimates to account for the weak Q4FY09 outlook (INR mn)

	FY09		FY10	
	Now	Earlier	Now	Earlier
Revenue	253,262	265,411	280,330	303,782
EBITDA	49,624	51,685	52,305	55,301
EBITDA margin (%)	19.6	19.5	18.7	18.2
PAT	35,527	38,036	37,105	41,677
PAT margin (%)	14.0	14.3	13.2	13.7
Reported EPS (INR)	24.3	26.0	25.0	28.2

Source: Company, Edelweiss research

Outlook and valuations: Technology exposure Achilles' heel; maintain 'ACCUMULATE'

Wipro's guidance for Q4FY09 is weak, which is reflected in a flat revenue outlook in FY10 on an organic basis. The company, while less vulnerable than TCS and Infosys in financial services, is much more vulnerable on account of its technology exposure. **Valuations at 9.0x FY09E and 8.8x FY10E may be close to bottoming out. We maintain our ACCUMULATE recommendation on the stock, but continue to prefer TCS and Infosys. On the basis of results of the Big 3 so far, we continue to rate the sector as Market Underperformer.**

Financials

Year to March	Q309	Q209	*Growth %*	Q308	*Growth %*	FY08	FY09E
Revenue (INR mn)	65,387	64,094	*2.0*	52,361	*24.9*	197,428	253,262
Gross profit (INR mn)	19,434	18,871	*3.0*	15,241	*27.5*	58,597	75,399
EBITDA (INR mn)	12,366	12,536	*(1.4)*	10,359	*19.4*	39,506	49,624
EBIT (INR mn)	10,318	10,372	*(0.5)*	8,730	*18.2*	33,589	41,426
Net profit (INR mn)	8,979	8,224	*9.2*	8,261	*8.7*	32,241	35,527
Diluted EPS (INR)	6.2	5.6	*9.0*	5.7	*8.3*	22.2	24.3
Diluted P/E (x)						9.9	9.0
EV/EBITDA (x)						7.9	6.0
Market cap / Rev. (x)						1.6	1.3

Reuters	:	WIPR.BO
Bloomberg	:	WPRO IN

Market Data

52-week range (INR)	:	537 / 181
Share in issue (mn)	:	1,454.6
M cap (INR bn/USD mn)	:	320.0/6,517.5
Avg. Daily Vol. BSE ('000)	:	1,586.7

Share Holding Pattern (%)

Promoters	:	79.3
MFs, FIs & Banks	:	1.8
FIIs	:	5.8
Others	:	13.1

Relative Performance (%)

	Sensex	Stock	Stock over Sensex
1 month	(9.9)	(7.6)	2.3
3 months	(14.8)	(23.1)	(8.3)
12 months	(48.3)	(48.2)	0.1

Decent revenue performance in Q3FY09, but Q4FY09 guidance at USD 1,045 mn unexciting

Wipro's Q3FY09 IT services revenues grew 3.5% on constant currency against the guidance of 3%. This is creditable considering the sequential growth peers (Infosys and TCS) have reported on a constant currency basis. Reported revenues for IT-Services stood at USD 1,100 mn (against a guidance of USD 1,121 mn). On a constant currency basis, Wipro's IT-Services stood at USD 1,126 mn (a marginal USD 5 mn above guidance). Also, the acquisition of Citi Technology Services (about USD 20 mn per quarter) will be integrated effective January 1, 2009. So, excluding that, guidance for the next quarter at USD 1,025 mn is disappointing, hinting at a significant sequential decline of 7%. Also, we note Wipro's habit of outperforming its quarterly guidance only modestly. Hence, any major positive surprise is unlikely on this front.

FY10 revenue growth in IT services likely to be negative-to-flat on an organic basis

Annualising Wipro's Q4FY09 revenues and extrapolating it through FY10, the company's IT services revenues work out to USD 4.1 bn on an organic basis (down about 5% from IT services revenues in FY09). We believe the Big 3 are entering FY10 with a flat revenue outlook. We model the highest growth rate for Infosys in FY10 at 4.5%.

Technology exposure hurting

One specific problem facing Wipro currently is its high exposure to telecom (especially the equipment vendor segment) and semi-conductors. In addition to Nortel, Wipro works with Nokia, Ericsson, Cisco, Motorola—all troubled in the view of weakening consumer spends (mobiles) and cutback in IT capex of corporates. Wipro (IT services) has a 30% revenue exposure to technology, telecom, and the service provider segments, two-thirds of which or 20% of revenues are more vulnerable (barring the service provider segment). To reiterate, these segments are more vulnerable in view of the drastic and bleak picture of consumer spend in the US as well as corporates' reluctance to spend on capex equipment (Cisco) and instead make do with optimising the use of existing networks.

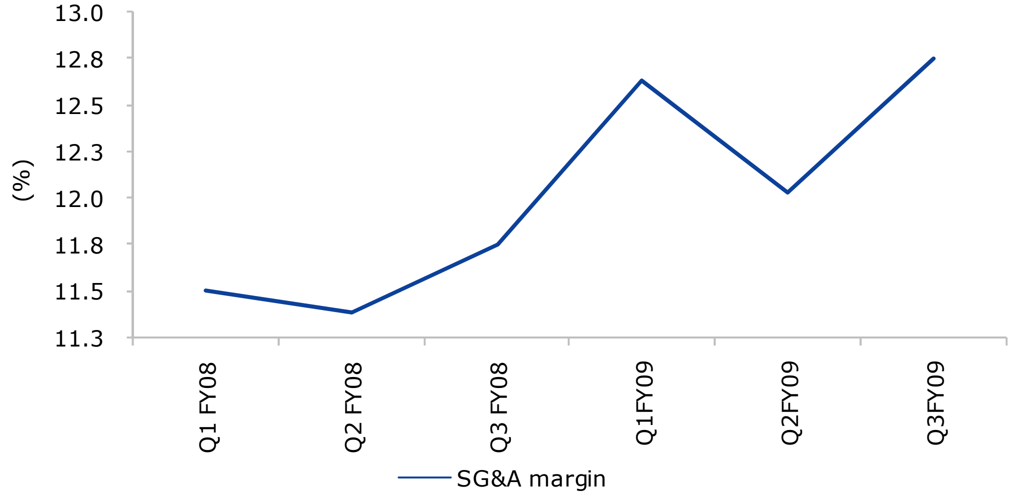
Hiring numbers disappoint again

Reduction in headcount in IT services by 1,092 in Q3FY09 continues to point to Wipro's low confidence in volume growth in the current environment. Year-to-date for the nine-month period ended December 2008, reduction in headcount in IT services is 1,465 (about 1.5% of headcount). Infosys has upped its gross hiring target for FY09 to 27,000 from 25,000 and has already handed out 20,000 offers for campus recruits to join them in CY09 for FY10. TCS is also confident on this front. Wipro believes that it can do just-in-time hiring of freshers. This is good if the environment in FY10 continues to be tepid, but if turns around, the company could be in a bind by not having the resources to capitalise quickly on a turnaround, for a couple of quarters at least, when that happens. That is both good and bad for as long as the environment is soft, Wipro will not have to carry the cost of bench unlike Infosys/TCS (about 30-35bps for every percent drop in utilisation, so not having a 5% bench protects Wipro's margins by about 150-175bps).

Levers for cost management in FY10 less potent in the face of tighter hiring and improved utilization

Wipro, unlike Infosys and TCS, has not tightened its SG&A spend. **Indian IT majors are engaged in cost cutting so that they can realistically manage in the current environment. They are entering FY10 with very few levers available for costs except the variable pay of employees.**

Chart 1: SG&A of IT-services as % of revenues has not moderated in Q3FY09



Source: Company, Edelweiss research

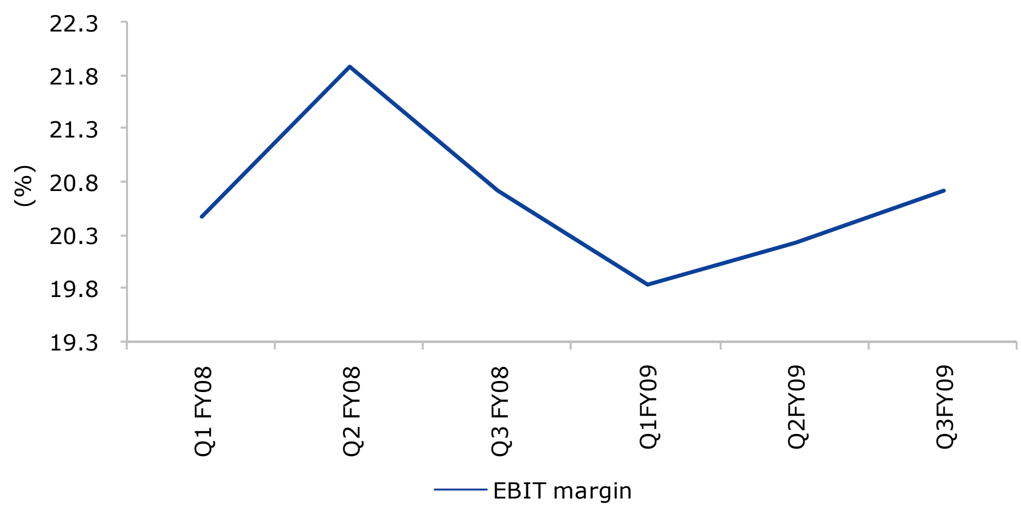
Accumulated comprehensive loss in balance sheet shoots up to INR 15.7 bn

The company has postponed some of the hedging-related losses that mature in the quarter by extending them to future quarters. This postponement and the INR depreciation has pushed up the accumulated comprehensive loss in the balance sheet to INR 15.7 bn (up by over INR 2 bn from Q2FY09 levels). This could have severe implications for profitability if the INR continues to remain weak relative to the USD.

Margin management is still a matter of concern

EBIT margins of Wipro's IT services on a Y-o-Y basis were flat (for Infosys and TCS, they were up 200 bps and 60 bps, respectively). Over this period, the company broadly maintained pricing, increased utilisation, improved its mega account management process, sharply controlled hiring besides having the benefit of INR depreciation versus the USD. All these favorable factors have failed to improve EBIT margins. We believe this highlights the continuing difficulties the company faces in its margin management model. Add to this concern the likelihood of pricing pressures, we could see Wipro struggling to maintain margins within a narrow band in FY10. **The company continues to be vulnerable on margin management.**

Chart 2: EBIT margins for IT-services remain flat y-o-y despite margin tailwinds that have sustained so far



Source: Company, Edelweiss research

Deferred cancellation losses, related to roll-over hedging, amount to INR 5.48 bn in Q3FY09

Wipro is repricing some of its long-term hedging contracts at more favourable rates by paying the differential between the newly revised contracted rate and the earlier contracted rate to the bank(s). This is recognised as a cash outflow in the cash flow statement (INR 5.48 bn). This means that when such hedging contracts mature, the company gets the newly revised contracted rate. This has no bearing on the other comprehensive loss in the balance sheet (arising from forward hedging) and on P&L when the hedging contract matures. By rolling over hedges and repricing them, the company does not change the earlier impact of such hedging on the balance sheet and P&L. Such a move only evens the cash flows.

Key Highlights

- Total revenues were INR 65.4 bn, up 24.9% Y-o-Y and 2.0% Q-o-Q; net profits stood at INR 8.9 bn, up 9.2% Q-o-Q and 8.7% Y-o-Y.
- BPO revenues were at USD 93.5 mn, down ~1% Q-o-Q and up 10% Y-o-Y. We believe that muted revenues in this division in this quarter is a quarterly phenomenon. The company specifically highlighted that its order book is building quite nicely in BPO.
- Overall, company EBITDA margins (at 18.9%) declined 70bps, mainly due to one-time provision for doubtful receivables from Nortel (48 bps) and offshore salary hikes.

IT services business

- Revenues of global IT-services stood at INR 50.6 bn (USD 1.04 bn), representing a sequential increase of 6.8% in INR and ~1% decline in USD. On a constant currency basis, sequential growth stood at 3.5%.
- **Guidance:** IT-services' revenue guidance (inclusive of Citigroup Information technology operational and solutions CITOS revenues) for Q3FY09 is USD 1,045 mn, implying decline of 5% Q-o-Q, excluding CITOS revenues decline is 7% sequentially.
- EBIT, at INR 10.1 bn, grew 26.6% over the previous year; EBIT margin stood at 20.1% (down 10bps Q-o-Q). EBIT margin on a y-o-y basis went down 60 bps.
- Retail and transportation has seen revenue growth of 5.1% Q-o-Q, the only verticals recording positive growth in this quarter. Technology and energy & utility verticals declined 4.3% and 3.3%, Q-o-Q, respectively.
- **Client addition:** The company added 31 clients, despite reporting a decline in total active client count (to 882 from 906 in the previous quarter). This means that about 55 clients have either dropped out or not billed with Wipro in Q3FY09. Clients contributing revenues of USD 1 mn plus increased to 436 from 426, Q-o-Q; clients contributing revenues of over USD 20 mn increased from 50 to 52.
- **Fixed price projects** have been gradually increasing over the past eight quarters and now stand at 36.0%, up 440bps Q-o-Q and 750bps Y-o-Y. This is an all-time high for the period in which we have the data.
- Blended pricing has increased 120bps on constant currency basis; this increase was due to improved productivity, which absorbed the impact of lower working days during the quarter.
- **Hedge position:** Total hedge position stood at USD 1.8 bn, hedged at INR 39–49, almost all of this is in forwards. This is a matter of concern as losses parked in the balance sheet will reflect in the P&L in the coming three-four quarters, if INR stays near the current level.
- The company has recorded reduction of 587 employees this quarter, taking total headcount to 96,965.
- Utilisation for India/ Middle East IT services and BPO has improved 150bps and 200bps, to 80.6% and 68.8%, respectively.

- Voluntary attrition for global IT-services (at 11.9%) went up 90bps, while involuntary attrition (quarterly) dropped marginally by 50bps, to 2%. Total annualized attrition stood at 19.9%.

IT products business

- Revenues, at INR 8.1 bn (12% of total revenues), declined 12% Q-o-Q; it increased 25% over Q3FY08. EBIT was up 200bps Q-o-Q, to 4.2%.
- EBIT stands at INR 341 mn versus INR 201 mn a quarter ago.

Customer care and lighting (CC&L) business

- Revenues were flat, at INR 4.9 bn, and comprised ~7% of total revenues; they were up ~20% Y-o-Y.
- EBIT for CC&L was up 6% Q-o-Q, to INR 551 mn, largely on account of muted EBIT in the last quarter (Q2FY09). Operating margins (EBIT, as a percentage of revenues) stood at 11.3% (up 60bps Q-o-Q).

Outlook and valuations: Technology exposure Achilles' heel; maintain 'ACCUMULATE'

Wipro's guidance for Q4FY09 is weak, which is reflected in a flat revenue outlook in FY10 on an organic basis. The company, while less vulnerable than TCS and Infosys in financial services, is much more vulnerable on account of its technology exposure. **Valuations at 9.0x FY09E and 8.8x FY10E may be close to bottoming out. We maintain our ACCUMULATE recommendation on the stock, but continue to prefer TCS and Infosys. On the basis of results of the Big 3 so far, we continue to rate the sector as Market Underperformer.**

Financials snapshot (INR mn)

Year to March	Q309	Q209	*Growth %*	Q308	*Growth %*	FY08	FY09E	FY10E
Global IT	46,055	43,117	*6.8*	35,973	*28.0*	136,187	173,081	183,300
India and AsiaPac IT	12,554	13,549	*(7.3)*	9,207	*36.4*	34,528	50,307	59,554
Consumer care & lighting	4,862	4,831	*0.6*	4,050	*20.0*	14,639	19,544	22,476
Others	1,916	2,597	*(26.2)*	3,131	*(38.8)*	12,074	10,330	15,000
Revenues	65,387	64,094	*2.0*	52,361	*24.9*	197,428	253,262	280,330
Global IT	31,495	29,507	*6.7*	24,941	*26.3*	93,455	117,364	125,956
India and AsiaPac IT	9,627	10,562	*(8.9)*	7,123	*35.1*	26,583	39,494	47,418
Consumer care & lighting	2,778	2,752	*0.9*	2,472	*12.4*	8,681	11,248	13,485
Others	2,053	2,402	*(14.5)*	2,584	*(20.5)*	10,112	9,756	13,500
Total direct cost	45,953	45,223	*1.6*	37,120	*23.8*	138,831	177,863	200,359
Gross profit	19,434	18,871	*3.0*	15,241	*27.5*	58,597	75,399	79,971
SG&A	8,754	8,004	*9.4*	5,995	*46.0*	23,347	32,465	35,041
Amortization	362	495	*(26.9)*	220	*64.5*	616	1,384	1,450
EBITDA	12,366	12,536	*(1.4)*	10,359	*19.4*	39,506	49,624	52,305
Depreciation	1,686	1,669	*1.0*	1,409	*19.7*	5,301	6,814	8,000
EBIT	10,318	10,372	*(0.5)*	8,730	*18.2*	33,589	41,426	42,855
Other income	(223)	(671)	*(66.8)*	455	*(149.0)*	2,167	(734)	250
Foreign exc. gain / (loss)	150	(321)	*(146.7)*	169	*(11.2)*	125	-	-
Earnings bef. tax & min. int.	10,245	9,380	*9.2*	9,354	*9.5*	35,881	40,692	43,105
Tax	1,364	1,240	*10.0*	1,074	*27.0*	3,873	5,542	6,250
Adj. net income	8,881	8,140	*9.1*	8,280	*7.3*	32,008	35,150	36,855
Minority interest	(16)	(22)	*(27.3)*	(5)		(24)	-	-
Equity in earnings of affi.	114	106	*7.5*	(14)	*(914.3)*	257	377	250
Reported net income	8,979	8,224	*9.2*	8,261	*8.7*	32,241	35,527	37,105
Diluted EPS (INR)	6.2	5.6	*9.0*	5.7	*8.3*	22.2	24.3	25.0
% of revenue								
Gross profit	29.7	29.4		29.1		29.7	29.8	28.5
SG&A	13.4	12.5		11.4		11.8	12.8	12.5
EBITDA	18.9	19.6		19.8		20.0	19.6	18.7
EBIT	15.8	16.2		16.7		17.0	16.4	15.3
Reported net profit	13.7	12.8		15.8		16.3	14.0	13.2
Tax rate	13.3	13.2		11.5		10.8	13.6	14.5

Company Description

Wipro is a leading Indian company with business interests in export of IT & BPO services, domestic hardware, consumer lighting, and consumer care. It has the widest range of services, including systems integration, IT-enabled services, package implementation, software application development & maintenance, and R&D services. Wipro is the first P CMM Level 5 and SEI CMM Level 5-certified IT services company in the world. It has more than 882 clients spanning the BFSI, manufacturing, retail, utilities, and telecom verticals. Its IT services has over 96,965 employees and the BPO operation ~21,575. The company's revenues for the past twelve months stood at INR 245 bn (USD 5.74 bn).

Investment Theme

Early investments in new service lines such as BPO, infrastructure management, and testing highlight the company's endeavor to be looked upon as a one-stop end-to-end integrated solutions provider. The successful transition in the BPO from voice to non-voice business is a good example of this focus. Being the leader in infrastructure-management and testing services too opens up good opportunities for the company, which along with its peers is in pursuit of multiple mega off-shoring deals in the industry.

Key Risks

Key risks to our investment theme include (a) sustained economic slowdown in the US and Europe; (b) maintaining margins while pursuing large deals and (c) pricing pressures in a tougher environment affecting margins.

Financial Statements

Income statement (INR mn)

Year to March	FY06	FY07	FY08	FY09E	FY10E
Revenues	106,107	149,431	197,428	253,262	280,330
Cost of revenues	71,647	102,200	138,831	177,863	200,359
Gross profit	34,460	47,231	58,597	75,399	79,971
S&M expenses	3,663	5,242	8,506	11,115	11,623
G&A expenses	5,441	7,907	10,585	14,661	16,043
Total SG&A expenses	9,104	13,149	19,091	25,776	27,666
EBITDA	25,356	34,082	39,506	49,624	52,305
Depreciation & Amortization	3,165	4,200	5,917	8,198	9,450
EBIT	22,191	29,882	33,589	41,426	42,855
Other income	1,345	2,888	2,167	(734)	250
Foreign exchange gain/(loss)	(288)	(236)	125	-	-
Profit before tax	23,248	32,535	35,881	40,692	43,105
Tax	3,264	3,723	3,873	5,542	6,250
Core profit	19,984	28,812	32,008	35,150	36,855
Profit after tax	19,984	28,851	32,008	35,150	36,855
Minority int. and others - paid/(recd.)	(287)	(318)	(233)	(377)	(250)
Net profit after minority interest	20,270	29,169	32,241	35,527	37,105
Shares outstanding (mn)	1,407	1,433	1,451	1,457	1,482
EPS (INR) basic	14.4	20.3	22.23	24.4	25.0
Diluted shares (mn)	1,423	1,450	1,455	1,462	1,487
EPS (INR) diluted	14.2	20.1	22.2	24.3	25.0
CEPS (INR)	16.7	23.3	26.3	30.0	31.4
Dividend per share	3.0	6.1	5.0	6.0	6.9
Dividend (%)	150.0	298.0	250.0	300.0	350.0
Dividend pay out (%)	23.8	34.2	26.5	28.9	32.4

Common size metrics - as % of revenues

Year to March	FY06	FY07	FY08	FY09E	FY10E
Cost of revenues	67.5	68.4	70.3	70.2	71.5
Gross margin	32.5	31.6	29.7	29.8	28.5
G&A expenses	5.1	5.3	5.4	5.8	5.7
S&M expenses	3.5	3.5	4.3	4.4	4.1
SG&A expenses	8.6	8.8	9.7	10.2	9.9
EBITDA margin	23.9	22.8	20.0	19.6	18.7
EBIT margin	20.9	20.0	17.0	16.4	15.3
Net profit margins	18.8	19.3	16.2	13.9	13.1

Growth metrics (%)

Year to March	FY06	FY07	FY08	FY09E	FY10E
Revenues	30.4	40.8	32.1	28.3	10.7
EBITDA	24.0	34.4	15.9	25.6	5.4
EBIT	24.1	34.7	12.4	23.3	3.5
PBT	24.6	39.9	10.3	13.4	5.9
Net profit	28.0	43.9	10.5	10.2	4.4
Diluted EPS	25.0	41.1	10.3	9.7	2.7

Balance sheet (INR mn)

As on 31st March	FY06	FY07	FY08	FY09E	FY10E
Equity share capital	2,852	2,918	2,923	2,930	2,937
Share premium account	16,521	24,508	26,441	28,877	31,313
Reserves	59,392	74,042	99,990	125,018	149,838
Total shareholders funds	78,764	101,468	129,354	156,825	184,088
Borrowings	1,100	4,551	47,767	50,191	52,461
Minority interest	(0)	(0)	114	114	114
Sources of funds	**79,864**	**106,019**	**177,235**	**207,130**	**236,663**
Goodwill and Other Intangible Asset	8,335	15,369	51,423	51,287	51,210
Gross fixed assets	24,816	32,856	47,837	56,867	65,467
Less: Accumulated depreciation	13,287	16,504	21,559	28,373	36,373
Net fixed assets	11,529	16,352	26,278	28,494	29,094
Capital WIP	6,249	10,189	13,544	15,169	16,990
Investments	31,372	34,010	16,506	21,077	27,497
Deferred tax asset	224	(33)	(1,308)	(34)	(34)
Cash & bank balances	8,858	19,650	39,270	49,024	70,012
Debtors	20,593	28,083	38,908	45,101	49,922
Unbilled revenue	4,336	5,096	8,305	13,288	16,743
Inventories	2,065	4,150	7,172	11,352	8,619
Loans and advances	6,707	12,755	22,306	26,321	31,059
Total current assets	42,559	69,734	115,961	145,087	176,355
Sundry creditors	15,172	19,845	26,352	31,622	37,947
Other liabilities	5,231	19,756	18,817	22,328	26,502
Total current liabilities	20,402	39,601	45,169	53,951	64,449
Working capital	22,156	30,133	70,792	91,136	111,906
Application of funds	**79,864**	**106,019**	**177,235**	**207,130**	**236,663**
Book value per share (BV) (INR)	56	71	89	108	124

Free cash flow

Year to March	FY06	FY07	FY08	FY09E	FY10E
Net profit	20,270	29,169	32,241	35,527	37,105
Depreciation	3,165	4,200	5,917	8,198	9,450
Others	(435)	969	(803)	(377)	(250)
Gross cash flow	23,000	34,338	37,355	43,348	46,305
Less:Changes in working capital	3,453	4,177	12,760	10,590	(218)
Operating cash flow	19,547	30,161	24,595	32,758	46,522
Less: Capex	10,150	19,043	47,463	11,903	11,793
Free cash flow	**9,397**	**11,118**	**(22,868)**	**20,855**	**34,729**

Cash flow statement (INR mn)

Year to March	FY06	FY07	FY08	FY09E	FY10E
Cash flow from operations	23,000	34,338	37,355	43,348	46,305
Cash for working capital	(3,453)	(4,177)	(12,760)	(10,590)	218
Operating cashflow (A)	19,547	30,161	24,595	32,758	46,522
Net purchase of fixed assets	(10,150)	(19,043)	(47,463)	(11,903)	(11,793)
Net purchase of investments	(6,019)	(1,684)	18,329	(4,303)	(6,098)
Others	(486)	(650)	629	257	200
Investments cashflow (B)	(16,654)	(21,377)	(28,505)	(15,949)	(17,691)
Dividends	(3,998)	(16,046)	(5,325)	(8,790)	(10,280)
Proceeds from issue of equity	4,767	8,894	747	2,436	2,436
Proceeds from LTB/STB	(464)	1,972	35,376	(701)	-
Financing cash flow (C)	305	(5,180)	30,798	(7,055)	(7,844)
Exchange Rate Differences (D)	(10)	(50)	(30)	-	-
Change in cash (A+B+C) + (D)	**3,187**	**3,554**	**26,858**	**9,754**	**20,988**

Ratios

Year to March	FY06	FY07	FY08	FY09E	FY10E
ROAE (%)	29.9	32.3	27.9	24.8	21.8
ROACE (%)	53.7	49.6	28.9	23.9	21.7
Debtors (days)	61	59	62	61	62
Payable (days)	45	43	43	42	45
Cash conversion cycle	16	17	19	19	17
Current ratio	2.1	1.8	2.6	2.7	2.7
Debt/EBITDA	0.0	0.1	1.2	1.0	1.0
Fixed assets turnover (x)	9.6	10.7	9.3	9.2	9.7
Total asset turnover(x)	1.5	1.6	1.4	1.3	1.3
Equity turnover(x)	1.6	1.7	1.7	1.8	1.6
Debt/Equity (x)	0.0	0.0	0.4	0.3	0.3
Adjusted debt/Equity	0.0	0.0	0.4	0.3	0.3

Valuation parameters

Year to March	FY06	FY07	FY08	FY09E	FY10E
Diluted EPS (INR)	14.2	20.1	22.2	24.3	25.0
Y-o-Y growth (%)	*25.0*	*41.1*	*10.3*	*9.7*	*2.7*
CEPS (INR)	16.7	23.3	26.3	30.0	31.4
Diluted P/E (x)	15.4	10.9	9.9	9.0	8.8
Price/BV(x)	3.9	3.1	2.5	2.0	1.8
EV/Revenues (x)	2.5	1.8	1.6	1.2	1.0
EV/EBITDA (x)	10.6	7.8	7.9	7.3	5.4
EV/EBITDA (x)+1 yr forward	7.9	6.7	6.3	5.7	
Dividend yield (%)	1.4	2.8	2.3	2.7	3.2

MEDIA AND ENTERTAINMENT

Edelweiss
Ideas create, values protect

Channel checks: Ad-agencies' outlook on ad-spends

January 21, 2009

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Channel checks: Outlook on ad-spends cautious; not pessimistic

Our interaction with media planners leads us to believe that the outlook on advertising expenditure across media categories is benign over the medium term. Post September 2008, industries such as real estate, automobiles, and BFSI, significantly reduced their ad-expenditure. With FY09 nearing end, most contracts are being re-negotiated, which may have an impact on the prevailing ad-rates. In television, the overall supply of inventory significantly went up in 2008 as new channels commenced operations, further reducing the bargaining power of broadcasters. In the face of a fragmented television space, print has emerged as a more expensive medium for advertising. This could translate into losses for newspapers, making cheaper alternatives such as internet and television more preferable. However, since 1999, the ratio of total ad-spends growth to nominal GDP growth has touched a low of 1.0x, which surely does not indicate a pessimistic scenario.

Outlook over the next 12 months - cautious

Over the next year, we expect the overall advertisement expenditure to grow 8-10%. Television is likely to grow 9-11%, whereas print at 6-8%. Internet and radio are expected to grow at 35% and 20%, respectively, but from a low base. In the current scenario, television emerges as a safer bet for advertisers because of its reach and impact. Broadcasters who own leading channels in various genres are expected to attract the lion's share of overall ad-spends.

Colors established as No. 2 GEC; *Aaj Tak* maintains leadership

Colors has successfully established itself as the No. 2 player in Hindi general entertainment category (GEC) in a small time frame, and poses tough competition for *Zee TV.* In the coming year, Colors is poised to generate strong advertisement and subscription revenue traction because of its robust performance since launch. However, *Zee TV* still has 14 shows in the top 100 compared with 10 shows of *Colors.* Moreover, ZEEL offers a stronger bouquet of channels with a 33% market share in the Hindi movies genre and a consistently performing sports channel, *Ten Sports*. TV Today is also expected to report better performance, since *Aaj Tak* has maintained its leadership position in the Hindi news genre.

Lackluster Q3FY09 results expected

We expect to see signs of ad-revenue slowdown in Hindi GECs, indicating challenging times in future. ZEEL's flagship channel, *Zee TV,* conceding its spot to *Colors* would also affect the company's bargaining power with advertisers. Moreover, TV-18 is expected to report a weak set of numbers due to a significant slowdown in ad-revenues fuelled by reduced spending from industries such as banking and financial services, autos and real estate. TV Today is also expected to be impacted by the slowdown, but the festive season and continued leadership of Aaj Tak would enable it to report decent revenues. The company's profit margins may however dampen due to high carriage fees and employee costs. Zee News is expected to report robust revenues growth, but margins may dampen on cost incurred for launching Zee Tamil.

Top picks

Zee News and Zee Entertainment Enterprises

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POWER

New CERC norms positive

January 20, 2009

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New CERC norms unveiled; overall positive

CERC has released new norms applicable to power utilities for the FY10-14E period. Key changes are increase in RoE from 14.0% to 15.5% and incentives based on plant availability (rather than actual generation earlier) beyond the threshold level of 85% (earlier 80%). In addition, operating norms have been tightened and depreciation rates have been increased to ~5.3% with advance against depreciation being scrapped.

Tariffs will not change under new norms

Our analysis of a sample 500 MW power plant shows that tariffs will not change under the old and new norms. However, the onus now lies on the generating companies to maintain/enhance their efficiencies so as to meet tighter norms of depreciation, station heat rate and operating expenses.

Impact on NTPC (neutral) and PGCIL (positive)

We expect net impact on NTPC to be neutral as the increase in regulated RoE is likely to be offset by reduction in incentives due to tightening of operating norms.

In case of Power Grid Corporation of India (PGCIL), since there is no significant deviation from the existing transmission norms, the company is poised to benefit by higher RoE. We expect the accretion to earnings to the extent of ~ 10%.

Thought process of regulator while framing new norms

We believe that the new norms have been relaxed (compared with draft norms) to attract investments in the power sector over the medium term. At the same time, to ensure efficiency in the system, operating norms have been tightened.

By allowing additional 0.5% RoE for generating and transmission assets to be commissioned post April 1, 2009, the regulator is encouraging speedy execution of capex from power companies.

Key concerns

We believe that with competitive bidding being applicable for government entities also from 2011 and capacity addition being back ended, RoEs going forward would be under pressure. Linking efficiency gains to fixed costs which are escalable could be contested in future.

REVIEW AND OUTLOOK

Edelweiss
Ideas create, values protect

January 21, 2009

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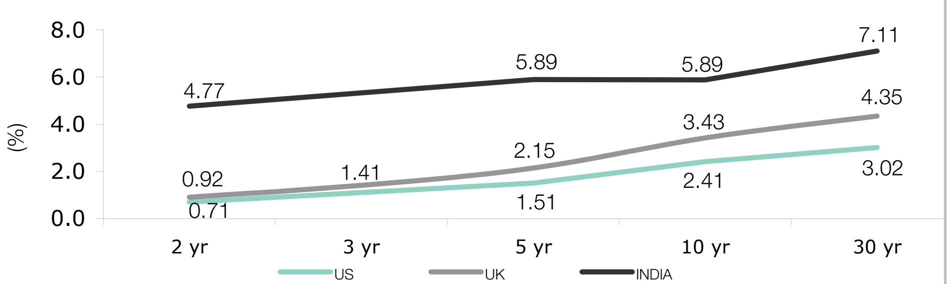
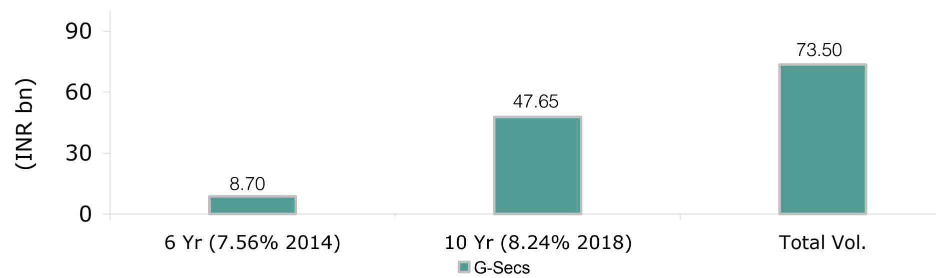
Rate cut expectations diminish on PM's economic advisory statements

- Sovereign yields distinctly hardened 20bps at market close today on stronger anticipation of absence of any rate cuts in Tuesday's monetary policy review. The 10-year benchmark yield, which opened 4bps gap-down, indicated a more severe volatility throughout the day; it traveled 30bps (high of 5.92%) with the conclusive trading sessions reporting a singular upside, and closed at 5.89%.
- The NDS-OM platform witnessed weak investor participation and some profit booking prior to the policy and the fanning of speculation of no rate action by the RBI as the PM's economic advisory panel suggested no further rate action for the policy. Total volumes were still lower at INR 73.50 bn, snapping below the INR 100 bn mark after a gap of 18 days.
- Liquidity in the system, as indicated by the overnight rates and net LAF borrowings, enhanced further since yesterday; the average overnight rate closed 4bps lower at 4.05%, while the total volumes picked up to INR 756.35 bn. Net borrowings under the LAF stood at (544.55) bn i.e. excess cash of same amount.
- Non-SLR market activity remained subdued with long-term rates hardening in response to higher sovereign yields. Power Finance Corporation's 10-year paper yield rose 13bps to close at 8.98%; its 5-year counterpart performed likewise to close at 8.80%. EPFOs emerged as formidable buyers in the bonds segment.

Yield curve



Volume (NDS-OM)



Source: RBI and NSE

Yield Curve	20-Jan	21-Jan	Change*
Govt. Bonds			
7.56%2014	5.76%	5.97%	22
8.24% 2018	5.68%	5.89%	20
7.95% 2032	6.95%	7.09%	14
6.83% 2039	6.92%	7.11%	19
C D			
1 mth	4.50%	5.00%	50
3 mth	6.00%	6.00%	0
1 yr	7.25%	7.25%	0
Corp. Bond	-		
5 yrs	8.70%	8.80%	10
10 yrs	8.85%	8.98%	13
C P			
3 mth	8.50%	8.50%	0
6 mth	9.00%	9.00%	0
12 mth	9.50%	9.50%	0

** Changes are in basis point*

Money Market	WAR 21-Jan	Volume (INR bn)
CBLO	3.87%	394.61
Call	4.21%	137.62
Repo	4.26%	224.12

LAF	Bids Accepted Amt. (INR bn)	Number
Reverse repo (4%)	544.55	37
Repo (5.5%)	0.00	0

Highlights for the day

- Primary issuances under the CD segment sustained all volumes in the 6-months maturity (much like yesterday). Mutual funds were the dominant investors in view of SEBI's guidelines to limit all liquid fund investments in less than 182-day maturity.
- Public banks maintained investor interest in the government bond segment, purchasing stock worth INR 9.82 bn while foreign and private banks, Mutual Funds and Primary dealers together reporting offsetting sales of INR 11.3 bn.

	Events & Updates	Expected	Actual	Previous
19-Jan	Interest payment inflows	-	INR 0.110 bn	-
20-Jan	Interest payment inflows	-	INR 0.176 bn	-
	UK, Consumer price index (YoY) in Dec	2.60%	3.10%	4.10%
	Eurozone Zew Survey (Econ. Sentiment), Jan	-46.00	-30.80%	-46.10
21-Jan	Interest payment inflows	-	INR 2.133 bn	-
	US, MBA Mortgage Applications as on Jan 17	-	-	15.80%
	91 day T-bill auction - INR 80 bn	-	4.6663%	4.5802%
	182 day T-bill - INR 15 bn	-	4.5533%	4.6372%
22-Jan	US, Housing starts in December	605,000	-	625,000
	Annual Inflation for week ended Jan 10	5.05%	-	5.24%
	US, Initial jobless claims as on Jan 18	543,000.00	-	524,000.00
	US, House Price index MoM as in November	-1.2%	-	-1.1%
	10-year SDL auction for 8 states; INR 65.51 bn (Payment on January 23)	-	-	-
23-Jan	Interest payment inflows	-	INR 76.33 bn	-
	UK GDP for Q4CY08 (YoY)	-1.4%	-	0.3%
	China's Industrial Production (YoY) in Dec	4.2%	-	5.4%
	China's Real GDP YoY for Q4CY08	9.2%	-	13.0%
24-Jan	Interest payment inflows	-	INR 0.557 bn	-

Participant	Date	Net Flow*	Month till date
FII	19-Jan	(2.11)	-
	20-Jan	(1.79)	17.66
Mutual Funds	19-Jan	9.58	-
	20-Jan	(1.88)	117.24

*Flows in Debt segment (INR bn)

Corporate bond spread (bps)			
Tenor	AAA	AA+	AA
1 yr	228	346	362
5 yrs	282	357	372
10 yrs	301	382	398

*AA+ and AA spread as per Bloomberg pricing

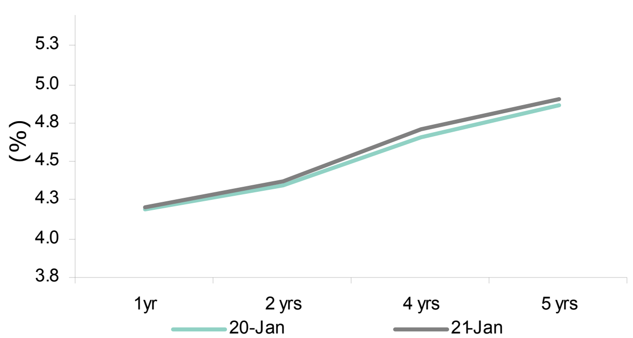
Market activity in corporate debt	20-Jan	21-Jan
CD Primary	18.40	5.00
CD Secondary	5.50	5.10
CP Total	0.20	0.10
Corporate Bonds	19.64	17.27
Total	43.74	27.47

*CD - Certificate of Deposits, *CP - Commercial Papers

Cash Reserve Ratio (5.5%)	
For fortnight ended	30-Jan
Actual CRR maintained *	
17-Jan	111%
18-Jan	111%

* For Scheduled Commercial Banks Source: Edelweiss research

Swap rate movement (OIS)



Source: CCIL

Others	20-Jan	21-Jan
Crude (USD/Barrel)	34.33	41.21
INR/USD	49.21	49.11
JPY/USD	90.27	89.92
USD/EUR	1.2967	1.2947
Sensex	9100.55	8779.17
Nifty	2796.6	2706.15
MIBOR (o/n)	4.26%	4.25%
LIBOR (1mth)	0.35%	0.36%

* Figures are as on 17:30 hrs IST

RESULT UPDATE

Hindustan Zinc - (HZ IN, CMP INR 332, Buy)

Hindustan Zinc Q3FY09 results were significantly below our estimates due to higher than estimated input costs and lower by-product realizations. We believe costs of coal and consumables will take a quarter's lag to reduce. Management has guided for cost reduction of USD 110/tonne starting from Q4FY09 and further 5% reduction in FY10. We are more conservative and will be assuming reduction of only USD 72/tonne going forward.
The company net revenues declined 36.5% Y-o-Y at INR 10.7 bn and net profit was down 56% Y-o-Y at INR 3.7 bn. The zinc and lead production of 151,735 tonnes (up 46% Y-o-Y and 24% Q-o-Q) and 14,804 tonnes (up 2% Y-o-Y and 14% Q-o-Q) respectively and positive impact of rupee depreciation (24% Y-o-Y) partly offset 55% and 62% Y-o-Y decline in zinc and lead LME price respectively.

Other key points

- EBITDA decreased by 71.5% Y-o-Y to INR 3.05 bn. Cost of production for the quarter was USD 780/tonne as compared to USD 670/tonne in H1FY09. The company expects costs to go back to USD 670/tonne in Q4FY09 after full benefit of reduction in input costs and further 5% reduction in FY10.EBITDA margin dropped to 28.5% as against 63.6% in Q3FY08 due to the above mentioned decline in LME prices and high input costs.
- As in the past, the company sold almost all its production and hence does not carry any significant inventory.
- Unlike last two quarters, the company did not have any concentrate sales during Q3FY09 quarter.
- The Q-o-Q increase in employee costs of INR 200 mn is due to bonus payments and increase commensurate to the Q-o-Q increase in production.
- Export volumes increased to 75 kt (45% of total volumes) as compared to 37 kt (27% of total volumes) in Q2FY09.
- Sulphuric acid realizations were down Q-o-Q from INR 8,000/tonne to INR 500/tonne.
- Net profit was down 56% to INR 3.7 bn.
- The current cash on books is INR 93.2 bn, marginally up from INR 92.0 bn at the end of Q2FY09. Led by the high cash level, other income at INR 2.36 bn was up 30.7% Q-o-Q. The Q-o-Q increase in other income could be due to higher average cash level in Q3FY09 over that in Q2FY09 and/or due to better yields.
- The 210 ktpa zinc and 100 ktpa lead smelter capacity expansion plan is on track and is expected to be completed by June 2010. The mine expansion project is also on schedule.
- Implicit recovery of zinc metal improves on both Y-o-Y and Q-o-Q basis. We believe this could possibly be due to higher proportion of production from the Rampura Agucha mine, which has the highest yield among the various mines of HZL. However, we do not have management inputs on this at this stage.

Production (MT)	Q3FY09	Q3FY08	Q2FY09
Zinc mined metal	170,780	135,891	166,998
Refined Zinc	151,735	104,093	122,000
Implicit recovery (%)	88.8	76.6	73.1
Lead mined metal	20,904	19,037	21,048
Refined lead	14,804	14,526	13,000
Implicit recovery	70.8	76.3	61.8

- Management has guided to operate at full capacity in FY10. We, however, have factored in lower production.

	FY09		FY10	
(MT)	Management guidance	Our Estimate	Management guidance	Our Estimate
Zinc	565,000	550,000	669,000	600,000
Lead	65,000	60,000	85,000	78,000

Valuation

As per our current estimates, the stock trades at EV/EBITDA of 1.7x FY09E and 2.5x FY10E. We have a 'BUY' recommendation on the stock. We believe this is a one-off quarter of negative surprise on costs and the same should get normalized in Q4FY09. However, as mentioned above, we are assuming lesser reduction in costs than that guided by the management.

The FY09 and FY10 estimates provided below are quick workings based on revised price and cost estimates. We may refine the same in our final PDF version of the result update.

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Financials snapshot (INR mn)

Year to March	Q309	Q308	%change	Q209	%change	FY08	FY09E	FY10E
Net revenues	10,692	16,840	*(36.5)*	17,905	*(40.3)*	78,780	54,367	46,360
Dec/(inc) in stock	(269)	129	*NA*	106	*NA*	590	0	0
Mining & mfg expenses	5,318	3,262	*63.0*	5,162	*3.0*	12,920	16,415	15,879
Mining royalty	767	1,057	*(27.4)*	1,018	*(24.6)*	5,110	3,604	3,003
Employee expenses	1,065	923	*15.4*	865	*23.1*	3,080	3,760	3,986
Admin, selling & other exp	760	756	*0.5*	933	*(18.5)*	3,280	3,606	3,777
Total expenditure	7,641	6,127	*24.7*	8,084	*(5.5)*	24,980	27,385	26,644
EBITDA	3,051	10,713	*(71.5)*	9,821	*(68.9)*	53,800	26,981	19,716
Interest	44	63	*(31.0)*	71	*(38.9)*	240	240	220
Depreciation	712	547	*30.2*	704	*1.1*	2,220	2,850	2,946
Other income	2,363	1,595	*48.1*	1,807	*30.7*	8,510	8,089	7,382
PBT	4,658	11,698	*(60.2)*	10,853	*(57.1)*	59,850	31,980	23,931
Tax	969	3,357	*(71.1)*	1,257	*(22.9)*	15,890	5,795	4,547
Current taxes	789	3,015	*(73.8)*	1,035	*(23.8)*	14,670	4,995	3,747
Deferred taxes	181	342	*(47.1)*	223	*(18.7)*	1,220	800	800
Adjusted net profit	3,688	8,341	*(55.8)*	9,595	*(61.6)*	43,960	26,185	19,384
Reported net profit	3,688	8,341	*(55.8)*	9,595	*(61.6)*	43,960	26,185	19,384
Equity capital (FV INR 10)	4,225	4,225		4,225		4,225	4,225	4,225
No. of shares (mn)	423	423		423		423	423	423
EPS (INR)	8.7	19.7	*(55.8)*	22.7	*(61.6)*	104.0	62.0	45.9
as % of net revenues								
Mining & mfg expenses	47.2	20.1		29.4		17.1	30.2	34.3
Mining royalty	7.2	6.3		5.7		6.5	6.6	6.5
Employee expenses	10.0	5.5		4.8		3.9	6.9	8.6
Admin, selling & ot. exp	7.1	4.5		5.2		4.2	6.6	8.1
EBITDA	28.5	63.6		54.8		68.3	49.6	42.5
Reported net profit	34.5	49.5		53.6		55.8	48.2	41.8
Tax rate	20.8	28.7		11.6		26.5	18.1	19.0

Pantaloon Retail - Q2FY09result review- Lower footfalls and high interest costs hurt

Pantaloon Retail (PF, INR 162)

Pantaloon Retail India's (PRIL) Q2FY09 (June ending) result fell below our revenue expectations by 15% and profit estimates by 17%. Standalone revenues at INR 15.2 bn grew 24.4% Y-o-Y, and 1% Q-o-Q. EBITDA margins stood at 10.3% as against 8.9% last year. Sequentially the margins improved marginally. Net profit grew 6%, Y-o-Y, to INR 335 mn, and PAT margins correspondingly stood at 2.2%The company's space addition fell behind due to developer delays with an addition of only 0.3 mn sq ft as against 0.7 in Q1FY09. Total standalone space stands at 9mn sq ft.

Key Highlights

- The revenue growth of 24.4% Y-o-Y has disappointed and is mainly on account of slowdown in categories like electronics, high value lifestyle products, furniture and other non essentials. Additionally as most of PRIL's stores are based in malls, lower footfalls in malls also has directly hit the revenue growth. With the footfalls shrinking and efforts to offer best and lowest prices revenue per sq ft is under pressure.
  - The sales growth in the festive months of Oct and Nov at 37% and same store sales for the same period at between 10-14% though healthy and ahead of peers are lower than the previous year performance. Additionally sales in December grew only 15% with same store sales surprising declining even in value retail by 3%.
- EBITDA margins improve by 140 bps on account of conscious cost control measures undertaken. The company has rationalized employees and the senior management has taken a pay cut in the quarter. This has resulted in the 6% decline in employee costs. The other operating expenses have increased at 22% against the 24% revenue growth. We believe that this margin expansion is sustainable as the company enjoys economies of scale and benefits of softening of almost all input costs.
- Interest costs swell; impact net margin expansion: Despite the EBITDA improvement, the net profit grew by only 6% on account of a 77.5% increase in interest expenses. The company has debt to the tune of INR 28bn as of Dec 2008. The average rate of interest on the same is around 11% and the company has started seeing softening of rates in the last month. However given that equity infusion from conversion of warrants (convertible at INR 500) seems unlikely, the interest burden is expected to continue.

Valuation- We have downgraded our FY09 and FY10 numbers to account for slower same store sales growth, scaling down of expansion plans and higher debt burden. We have also taken into account the margin improvement in our numbers. The slowdown in consumer spend in non essentials and the non availability of equity capital for growth are the key reasons we attribute to the downgrade in the company numbers. The company has scaled down its expansion plans to focus only on the most profitable markets and conserve scarce capital. This coupled with the pressure on same store sales will temper the revenue growth. We however expect the operating metrics and working capital management to improve.

	Old		Revised		% change	
	FY09	**FY10**	**FY09**	**FY10**	***FY09***	***FY10***
Space estimates	11.6	15.6	10.0	12.5	*(13.4)*	*(20.0)*
Revenue	71,511	99,779	66,900	80,540	*(6.4)*	*(19.3)*
EBITDA	6,253	9,073	6,427	7,708	*2.8*	*(15.0)*
PAT	1,517	2,151	1,383	1,647	*(8.9)*	*(23.5)*
EPS	9	13	8	9	*(11.1)*	*(25.3)*
Debt	26,913	45,088	28,050	33,837	*4.2*	*(25.0)*

Space in mn sq ft, EPS in INR, rest in INR Mn

As highlighted earlier, we believe that domestic organized retail space is likely to face growth trouble with concerns over consumer spend. We believe that by virtue of being the largest retailer with presence in the most attractive catchments through a variety of formats (dominated by value retail) PRIL will be better placed than other retailers and in the long run and will be the best bet in the retail space. However in the medium term we do not see any positive triggers for the stock with concerns of capital constraints and falling footfalls looming.

Our SOTP value for the company stands at INR 280. (Retail business including Home Solutions –valued at INR 260 per share using DCF @ 15% WACC, and 55% stake in future capital valued at CMP less 30% holding company discount.) In view of the near term negatives we *downgrade our recommendation to Accumulate*. The stock is trading at an earnings multiple 16.7x FY09E and 14.1x FY10E earnings, adjusting for the value of subsidiaries and an EV/ EBITDA of 7.6x FY09 and 6.3x FY10E.

Year to June	**Q209**	**Q208**	***% change***	**Q109**	***% change***	**FY09E**	**FY10E**
Net revenues	15,257	12,268	24.4	15,112	1.0	66,900	80,540
Raw material costs	10,960	10,115	8.4	12,909	(15.1)	46,763	56,579
(Increase)/ Decrease in stock	(289)	(1,572)	(81.6)	(2,300)	(87.5)	0	0
Raw material costs	10,672	8,543	24.9	10,609	0.6	46,763	56,579
Employee costs	656	700	(6.3)	692	(5.2)	3,600	4,209
Other expense	2,356	1,928	22.2	2,263	4.1	10,110	12,044
Total operating expenditure	13,684	11,171	22.5	13,563	0.9	60,474	72,832
EBITDA	1,573	1,096	43.5	1,549	1.6	6,427	7,708
Depreciation	325	204	59.1	319	1.7	1,221	1,506
EBIT	1,249	892	40.0	1,230	1.5	5,206	6,202
Other income	15	13	15.2	12	31.0	45	45
PBIT	1,264	905	39.6	1,241	1.8	5,251	6,247
Interest	742	418	77.5	684	8.5	3,123	3,713
PBT	522	488	7.1	557	(6.3)	2,128	2,533
Tax	187	171	9.2	196	(4.6)	745	887
Core PAT	335	317	5.9	362	(7.3)	1,383	1,647
PAT	335	317	5.9	362	(7.3)	1,383	1,647
EPS	2	2	(8.8)	2	(15.7)	8	9
No. of shares (mn)	175	151	16.2	159	10.0	175	175
PE (x)						17	14
% of revenue							
Raw material costs.	69.9	69.6		70.2		69.9	70.3
Employee costs.	4.3	5.7		4.6		5.4	5.2
Other expenses	15.4	15.7		15.0		15.1	15.0
Total operating expenditure	89.7	91.1		89.8		90.4	90.4
EBITDA.	10.3	8.9		10.2		9.6	9.6
PBT	3.4	4.0		3.7		3.2	3.1
Core profit	2.2	2.6		2.4		2.1	2.0

Zee Entertainment Enterprises - (ZEEL IN, INR 110, UNDER REVIEW)

Ad revenues growth disappoint

Zee Entertainment Enterprises (ZEEL) reported INR 2,684 mn of ad revenues in Q3FY09, up 1.7% Y-o-Y and down 5.9% Q-o-Q, lower than our expectation. In the top-50 category of the general entertainment channel (GEC) space, ZEEL (on an average) had 15 programmes in a week. Average GRP per week for the quarter, however, declined to 201 from 219 in Q2FY09. Stiff competition from *Colors* has pushed *Zee TV* to the No. 3 position from No. 2 earlier in Hindi GEC genre.

Mix of domestic and international subscriptions drove Y-o-Y growth

ZEEL's subscription revenues grew 16.6% Y-o-Y and 1.4% Q-o-Q, to INR 2,274 mn, which was lower than our expectations. Domestic subscription revenues grew 28.4% Y-o-Y, to INR 1,127 mn. The company conducted a deactivation drive, in which it removed non-paying MSOs, which impacted revenues. However, ZEEL expects them to be reactivated again in Q4FY09. International subscription revenues grew 7.0%, to INR 1,147 mn, hampered by loss of subscribers for *Ten Sports.* We expect the sports channel to report stronger performance in Q4FY09, since it recently bagged the Sri Lanka v/s Pakistan cricket tournament rights.

EBITDA margin declines to 22% compared with 30.3% in Q3FY08

The company's EBITDA margin declined more than we expected, to 22%. Programming cost, as a percentage of revenues, for the quarter was 49.2% vis-à-vis 45.7% in Q2FY09 due to start-up costs for *Zee Next* and *Zee Entertainment Studios* and costs incurred for ICL for which revenues were passed on to Essel Sports. Also, SG&A expenses were higher, largely due to higher placement costs and marketing costs for new programs. ZEEL's sports business incurred an EBITA profit of INR 185 mn as against INR 59 mn in Q3FY08. The company's personnel costs declined Q-o-Q, as the company wrote back provisions made in Q2FY09. Operating losses in *Zee next* were INR 81 mn during Q3FY09. The company's production business reported an operating loss of INR 103 mn on a revenue base of INR 36 mn during the quarter.

Net margin declines to 14.9% compared with 21.9% in Q3FY08

PAT for the quarter declined 28.3% Y-o-Y and 17.8% Q-o-Q, to INR 814 mn. PAT margin declined 698bps Y-o-Y, to 14.9%. Net profit after extraordinary and minority interest declined 24.8% Y-o-Y and 53.7% Q-o-Q, to INR 825 mn. Interest expenses were INR 386 mn in the quarter, including losses of INR 116 mn from forex derivatives transaction. It also included losses of INR 147 mn incurred by the company towards an outflow to its overseas subsidiary Taj TV Mauritius.

Outlook and valuations: 'UNDER REVIEW'

Based on the disappointing performance reported by the company and a sharp reduction in management's guidance for the current year, we believe that medium-term outlook to remain challenging for the entire broadcasting space, leading to slower traction in ad-revenues. We will be reducing our estimates and our recommendation on the stock currently is **'UNDER REVIEW'**.

Financial snapshot **(INR mn)**

Year to March	Q309	Q308	% change	Q209	% change	FY08	FY09E
Revenues	5,456	5,182	*5.3*	5,717	*(4.6)*	18,354	21,910
Advertisement	2,684	2,638	*1.7*	2,851	*(5.9)*	9,307	10,602
Subscription	2,274	1,950	*16.6*	2,244	*1.4*	7,436	9,119
Others	497	594	*(16.3)*	621	*(20.0)*	1,611	2,190
Total revenues	5,456	5,182	*5.3*	5,717	*(4.6)*	18,354	21,910
Transmission & programming	2,684	2,549	*5.3*	2,613	*2.7*	7,818	10,063
Employee costs	382	312	*22.7*	513	*(25.5)*	1,438	2,036
Selling & Adm expenses	1,190	753	*58.0*	1,102	*7.9*	3,675	4,313
Total expenditure	4,256	3,613	*17.8*	4,229	*0.6*	12,931	16,412
EBITDA	1,200	1,569	*(23.5)*	1,488	*(19.3)*	5,423	5,498
Interest expenditure	386	167	*130.8*	223	*72.9*	516	1,073
Depreciation	84	47	*79.3*	65	*28.3*	232	291
Other income	401	238	*68.9*	280	*43.5*	1,138	1,229
Profit before tax	1,132	1,592	*(28.9)*	1,479	*(23.5)*	5,813	5,364
Provision for taxation	318	458	*(30.5)*	489	*(35.0)*	1,627	1,609
Adjusted net profit	814	1,135	*(28.3)*	990	*(17.8)*	4,186	3,755
Extraordinary items	25	-		792		(26)	1,391
Minority interest	15	38		(1)	*1,436.4*	328	129
Reported net profit	825	1,097	*(24.8)*	1,783	*(53.7)*	3,833	5,017
Equity capital (FV INR 1)	434	434		434		434	435
No. of shares (mn)	434	434		434		434	435
EPS (INR)	1.9	2.5		4.1		8.9	8.3
P/E (x)						12.4	13.2
EV/EBITDA (x)						9.0	8.7
Market cap / Revenues (x)						2.6	2.2
As % of net revenues							
Transmission & programming	49.2	49.2		45.7		42.6	45.9
Employee costs	7.0	6.0		9.0		7.8	9.3
Selling & Adm expenses	21.8	14.5		19.3		20.0	19.7
EBITDA	22.0	30.3		26.0		29.5	25.1
Net profit	14.9	21.9		17.3		22.8	17.1

Financials include Zee Next

Indian Bank - (INBK IN, INR 125, NOT RATED)

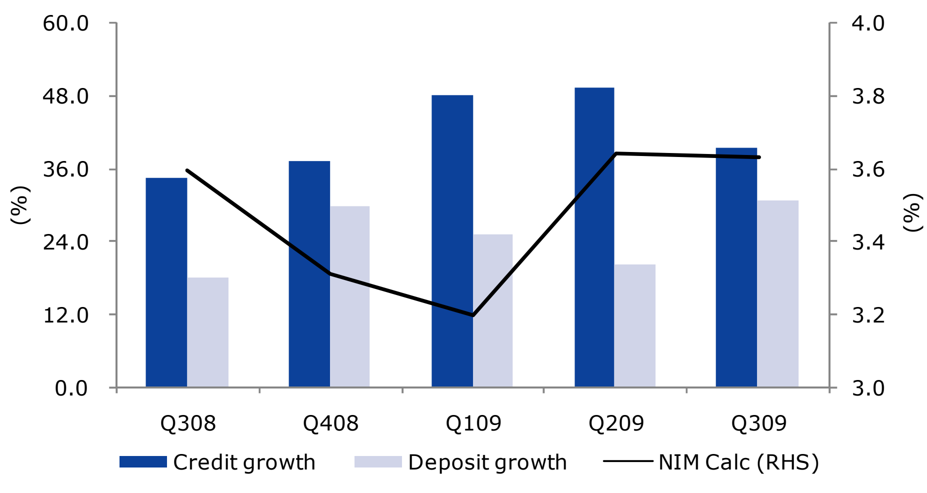
Indian Bank reported a strong quarter driven by balance sheet growth, stable margins and treasury gains. Net profit grew by 14% Y-o-Y and 24% Q-o-Q to INR 3.5 bn while net interest income grew by INR 28% Y-o-Y and 6% Q-o-Q to INR 7.2 bn. Non-interest income declined by 4% Y-o-Y but grew by 35% sequentially mainly due to higher treasury gains. Recoveries from written off accounts was lower for the quarter at INR 732 mn compared to H1FY09 recoveries of INR 2.5 bn. Asset quality (gross and net NPA declined sequentially) and provision coverage (83%) saw further improvement from the previous quarter.

Business growth continues to be robust with advances growth of 39%

In-line with the past few quarters, advances growth continues to higher than system growth at 39% Y-o-Y and 5% sequentially to INR 504 bn. Incremental advances was mainly in the corporate and commercial segment (50% of advances) which grew by 44% Y-o-Y and 7% sequentially to INR 258 bn. Agriculture, retail and SME which contribute to 15%, 18% and 10% respectively to the loan book grew by 29-30% Y-o-Y and 2-3% sequentially.

Deposits grew by 31% Y-o-Y and 8% Q-o-Q to INR 697 bn. CASA ratio for the quarter declined by 200 bps to 31% mainly due to decline in current account balances. Incremental growth was seen in term deposits while the bank reduce its dependence on bulk deposits by 83 bps sequentially to 9.5%.

Chart 1: Credit and deposit growth continues to remain strong well above industry growth: NIMs stable for the quarter



NIMs (calc) maintained sequentially at 3.6%; PLR still remains comparatively higher

NIMs for the quarter was stable at 3.6%. Yield on advances declined 15 bps sequentially to 11.1% while cost of funds was flat sequentially at 6.3%. CD ratio declined for the quarter by 200 bps to 72%. Unlike some of the other PSU's who have already cut their lending rates twice to 12.25-12.5%, Indian Bank has revised it downwards only once to 13.25% while the bank has already reduced its deposit rates by 25-150 bps across maturities, which we believe will help maintain margins.

Treasury gains boost non-interest income; recoveries for bad debts relatively muted

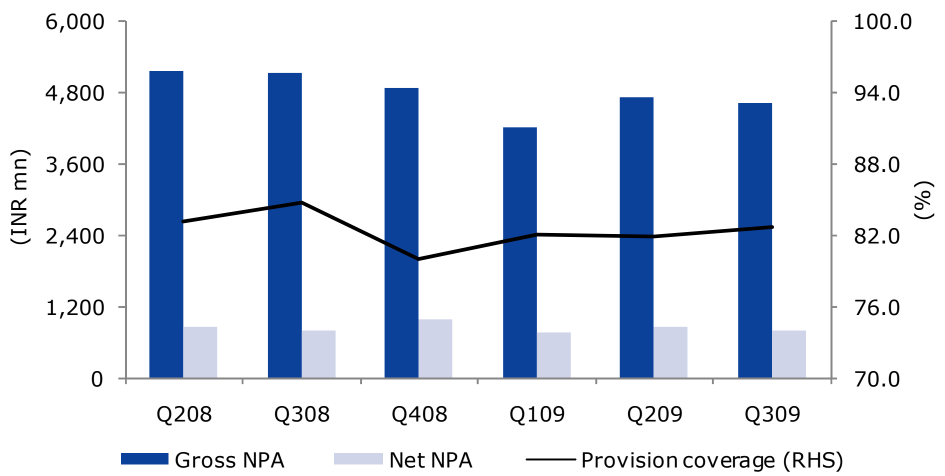
Non-interest income declined by 4% Y-o-Y but grew by 35% Y-o-Y to INR 2.9 bn aided by treasury gains. The bank booked INR 1.1 bn as treasury gains for the quarter. Recovery from bad debts was lower for the quarter at INR 302 mn compared to INR 1.2 bn in Q3FY08 and INR 623 mn in Q2FY09. Excluding treasury income and recovery of bad debts, income was flat sequentially at INR 1.5 bn.

Asset quality improves further; coverage improves to 83%

Asset quality saw further improvement with gross NPA declining by 79 mn sequentially to INR 4.6 bn while net NPA declined by 50 mn to INR 803 mn. Recoveries from NPA was fairly low for the quarter at INR 732 mn while the first two quarters of FY09 saw recoveries of INR 1.1 bn and INR 1.4 bn respectively. Given the rise in provisions (awaiting clarifications on break-up of provisions) and reduction in net NPA, we estimate that the bank has utilised the strong treasury income partly to increase provision coverage, which increased for the quarter by 100 bps to 83%, one of the highest in the industry.

Tier 1 capital is fairly comfortable at 10.6% for the quarter while the overall capital adequacy is comfortable at 12.7%. The stock is currently trading at 1.2x for FY08 adjusted book and at 5.3x FY08 earnings. Historically the strong recoveries has helped the bank sustain RoAs of 1.5-1.65% with RoE in the range of ~27. We do not have a rating on the stock.

Chart 2: Movement of Gross NPA and net NPA while provision coverage has increased



Financials snapshot (INR mn)

Year to March	Q309	Q308	Growth (%)	Q209	Growth (%)	FY08
Interest on advances	13,635	9,663	*41.1*	12,984	*5.0*	35,027
Interest on investments	4,006	4,039	*(0.8)*	3,834	*4.5*	16,028
Interest on other resources	199	52	*284.3*	63	*215.5*	453
Interest income	17,840	13,754	*29.7*	16,882	*5.7*	51,508
Interest expenses	10,644	8,137	*30.8*	10,063	*5.8*	31,591
Net interest income	**7,196**	**5,617**	***28.1***	**6,818**	***5.5***	**19,917**
Other income	**2,873**	**3,006**	***(4.4)***	**2,128**	***35.0***	**11,096**
Fee income	1,778	2,405	*(26.1)*	2,098	*(15.2)*	8,684
Operating expenses	3,833	3,991	*(4.0)*	3,618	*5.9*	14,003
Staff expense	2,787	2,743	*1.6*	2,475	*12.6*	9,674
Other opex	1,046	1,247	*(16.1)*	1,143	*(8.5)*	4,329
Pre prov Op profit (PPP)	**5,142**	**4,031**	***27.5***	**5,298**	***(2.9)***	**14,598**
Investment gains	1,095	601	*82.3*	30	*3,514.9*	2,412
Provisions	1,410	1,057	*33.4*	1,089	*29.4*	4,660
Profit before tax	4,827	3,575	*35.0*	4,239	*13.9*	12,350
Provision for tax	1,320	500	*164.0*	1,409	*(6.3)*	2,262
Profit after tax	**3,507**	**3,075**	***14.0***	**2,829**	***24.0***	**10,087**
EPS (INR)	7.9	6.9	*14.5*	6.4	*24.7*	23
Ratios						
NII / GII	40.3	40.8		40.4		38.7
Cost - income	38.1	46.3		40.4		45.2
Provisions / PPOP	27.4	26.2		20.6		31.9
Tax rate	27.3	14.0		33.3		18.3
Net Interest Margin (calc)	3.6	3.6	*0.03*	3.6	*(0.01)*	3.2
Yield on advances (calc)	11.1	11.3	*(0.22)*	11.2	*(0.15)*	10.2
Cost of funds (calc)	6.3	6.1	*0.26*	6.3	*(0.01)*	5.1
Balance sheet data						
Advances (INR bn)	505	363	*39.1*	481	*4.9*	398
Deposits (INR bn)	697	533	*30.7*	646	*7.8*	610
Credit deposit ratio	72	68		74		
Gross NPA	4,625	5,105		4,704		4,869
Gross NPA (%)	0.92	1.39		0.98		1.16
Net NPA	803	778		853		976
Net NPA (%)	0.16	0.21		0.18		0.24
Provision coverage	83	85		82		80
Capital adequacy (%)	12.7	13.5		11.3		14.1

Financials

Year to March	Q309	Q308	Growth %	Q209	Growth %	FY08
Net int. inc. (INR mn)	7,196	5,617	*28.1*	6,818	*5.5*	19,917
Net profit (INR mn)	3,507	3,075	*14.0*	2,829	*24.0*	10,087
B/V per share (INR)						106.9
Diluted EPS (INR)	7.9	6.9	*14.5*	6.4	*24.7*	23.5
Price/ adj Book (x)						1.2
Price/ PPOP (x)						3.7
Diluted P/E (x)						5.3

Housing Development Finance Corp - Q3FY09 results - broadly in line - maintain BUY

(HDFC IN, INR 1373, BUY)
Mkt cap: INR 390.6 bn (USD 8.2 bn)

Housing Development Finance Corp (HDFC) reported 15% growth in profits in Q3FY09 to INR 5.4 bn after adjusting for profit on sale of investments and exceptional items (in Q3FY08, the company has booked profit of INR 1.2 bn on sale of stake in HDFC Standard Life and INR 1 bn from sale of partial stake in Computer Age Management Services (CAMS)). New approvals during the quarter were weak as company slowed on sanctions to developers segment while approvals to individual loan grew at ~20% Y-o-Y. Net interest income grew by 18% Y-o-Y to INR 7.85 bn as 24% growth in loan book was offset by 20bps decline in margins (calc) to 3.4%. Slight decline in interest spreads was due to translation loss on outstanding FCCB (INR 497 mn).

- Dividend income of INR 330 mn includes dividend from its property fund received in Q3FY09.
- Charged INR 497 mn against interest cost on mark to market of FCCBs in Q3FY09 due to depreciation in INR against USD (reflecting conservative accounting policy).

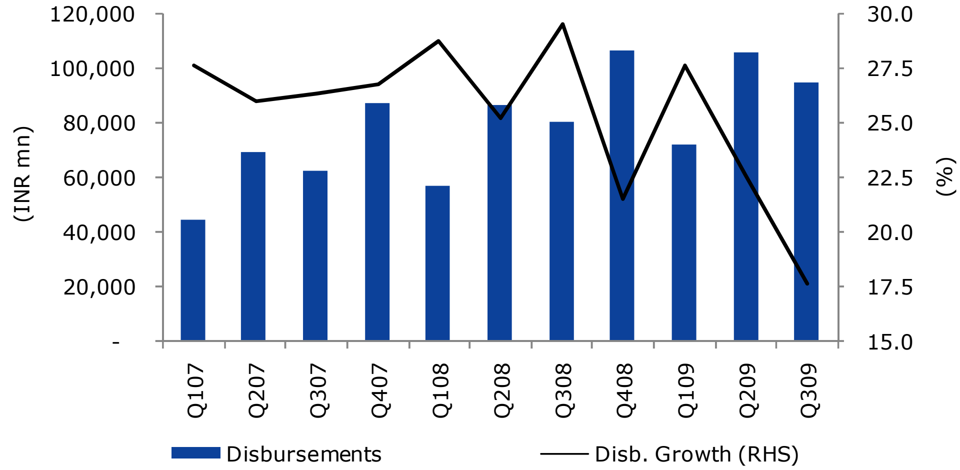
Disbursement growth decelerates amidst weak real estate sentiments

As anticipated, disbursement growth in Q3FY09 decelerated to 18%, relative to 25% growth in disbursements in H1FY09. However the growth is relatively better compared to its peers and its market share has improved significantly. Lending to individual and corporate bodies grew at more or less similar pace of 18%. In 9mFY09, growth in individual loans was 28% Y-o-Y.

Sensing the higher risks associated with the corporate developer segment, amidst falling real estate prices and a tight liquidity scenario, HDFC is following cautious approach in this space. While approvals declined by 8% Y-o-Y and 32% Q-o-Q in Q3FY09, approval in individual segment grew by 20% implying sharper decline in sanctions in corporate developers space.

The company, however, is witnessing more enquiries in the month of January and it believes demand to rise with decline in property prices and cut in lending rates. We are building in 18% growth in disbursements for HDFC over FY10-11E, compared to a CAGR of 27% over FY04-08.

HDFC's disbursement growth decelerates in Q3FY09



Segment-wise loan book (INR mn)

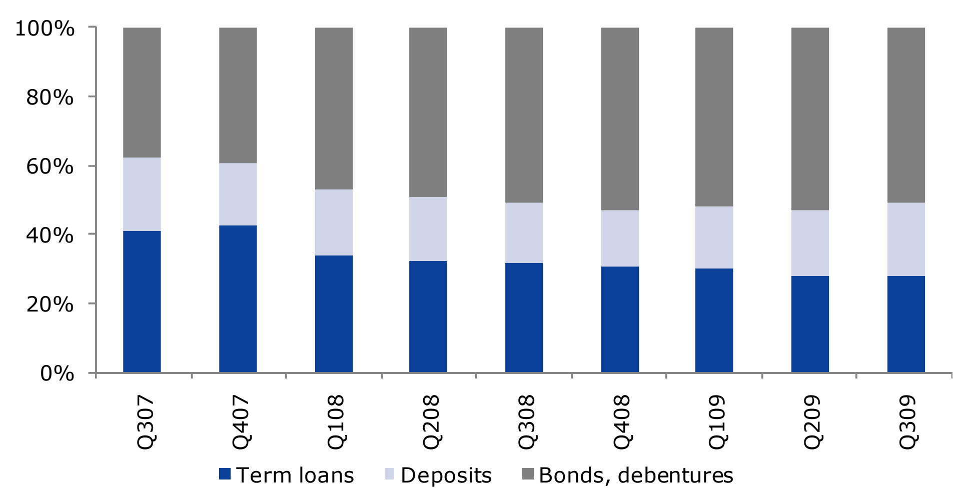
	Q3FY09	Q3FY08	*Growth (%)*	Q2FY09	*Growth (%)*
Mortgage loan assets	828,957	669,759	*23.8*	811,919	*2.1*
- Individual	558,986	446,259	*25.3*	547,276	*2.1*
- Corporates	250,350	206,597	*21.2*	245,093	*2.1*
- Others	19,621	16,904	*16.1*	19,550	*0.4*

Source: Company

Tight liquidity environment and FCCB translation loss pressurize spreads

Tight liquidity environment in Q3FY09, sharp rise in corporate spreads to 4-5% and translation loss on outstanding FCCBs resulted in 92bps rise in funding cost (calc) to 10.3%. The company is, however, increasingly relying on deposits as a source of funding (constituting 55-60% of incremental borrowings). The full impact of hike in lending rates in July and August by 50bps and 75bps was felt in Q3FY09 and yield on advances (calc) improved to 13.1. However interest spreads (calc) declined by 13bps to 1.95%.

	Q3FY09	Q3FY08	*change (bps)*	Q2FY09	*change (bps)*
Yield on home loans	13.1	11.4	*163*	11.9	*114*
Yield on assets	12.3	10.7	*152*	11.5	*79*
Cost of funds	10.3	8.3	*199*	9.4	*92*
Spreads	2.0	2.4	*(47)*	2.1	*(13)*



Post cut in lending rates by PSU banks and sharp correction in corporate spreads, HDFC has also lowered its lending rates by 50bps for loans upto INR 2 mn and loans above INR 3 mn and by 150bps for loans between INR 2-3 mn.

Asset quality maintained; gross NPL at 1%

HDFC's asset quality remained robust in Q3FY09 as well. Non-performing loans (NPL; 90 dpd) declined 11bps Y-o-Y to 1.01% in Q2FY09 (compared to 1.04% in Q1FY09). The company has consistently maintained its NPL at the 1%-level across business cycles. However we would watch this space closely considering weak real estate sentiments.

Valuations

We believe disbursement growth in individual segment will remain weak in the near term due to weak real estate sentiments, however should be better than Q3FY09. Moreover, HDFC is following cautious approach in lending to commercial developers as the space is getting more risky. We are lowering our disbursement growth estimates to 18% over FY10-11E.

Considering weak capital markets and tough funding environment, we are not keeping subscription by HDCF to warrants of HDFC Bank in FY10E in our base case. Consequently, we are not considering any significant investment gain to be booked in FY09 and FY10E (as against our assumption of INR 2 bn for FY09E and INR 9 bn for FY10E). Revision in core earnings estimate is to the tune of 2% for FY09 and 5% for FY10E, while we are revising EPS downwards by 12% and 18% for FY09E and FY10E respectively.

The stock currently trades at 2.0x FY10E book and 10x FY10E earnings, after adjusting for value of investments in subsidiaries/associates of INR 515 per share. We maintain our **'BUY'** recommendation on the stock.

Financials snapshot (INR mn)

Year to March	Q309	Q308	Growth (%)	Q209	Growth (%)
Interest income	28,280	19,815	*42.7*	25,034	*13.0*
Interest exp	20,427	13,160	*55.2*	17,573	*16.2*
Net interest income	7,853	6,656	*18.0*	7,461	*5.2*
Dividend income	333	59	*464.2*	492	*(32.4)*
Others	543	1,629	*(66.7)*	625	*(13.1)*
Net income from ops	8,729	8,344	*4.6*	8,578	*1.8*
Other income	92	44	*109.8*	55	*67.0*
Net revenues	8,821	8,388	*5.2*	8,633	*2.2*
Depreciation	45	44	*2.9*	43	*6.1*
Other expenses	960	741	*29.6*	991	*(3.1)*
Profit before tax before extraordinary item	7,815	7,602	*2.8*	7,600	*2.8*
Exceptional Items - Profit on Sale of Investments - Subsidiaries and Associates	0	1,209		0	
Profit before tax	7,815	8,812	*(11.3)*	7,600	*2.8*
Provision for taxes	2,348	2,323	*1.1*	2,258	*4.0*
Reported net profit	5,468	6,489	*(15.7)*	5,342	*2.3*
Diluted EPS	18.9	22.3	*(15.4)*	18.4	*2.7*
NII/GII	27.8	33.6		29.8	
Cost/income	11.4	9.4		12.0	
Tax rate	30.0	26.4		29.7	
Balance sheet data					
Disbursements	94,230	80,100	*17.6*	105,840	*(11.0)*
Borrowings	816,306	635,218	*28.5*	767,528	*6.4*
Mortgage assets	828,957	669,759	*23.8*	811,919	*2.1*
Individual loans	558,986	446,259	*25.3*	547,276	*2.1*
Individual loans (%)	*67.4*	*66.6*		*67.4*	
Corporate bodies	250,350	206,597	*21.2*	245,093	*2.1*
Others	19,621	16,904	*16.1*	19,550	*0.4*

YES Bank - Q3FY09 numbers; Mixed bag; Maintain Buy

Strong headline numbers buoyed by non interest income growth; asset quality slips

YES bank reported PAT of INR 1 bn in Q3FY09 well ahead of our estimate of INR 650 mn mainly driven by higher than expected growth in non interest income. Non-interest income contributed 61% to total revenues as against around 40% proportion maintained in first half. The key surprise came from treasury profits and forex based fee income, which were particularly strong in this quarter. The negative surprise was the increase in gross NPA which has increased by nearly INR 260 mn to INR 484 mn (0.44%). However with high loan loss provisioning of 1.23%, Net NPA declined to INR 163 mn.

Business growth selective amidst tight liquidity

YES Bank's loan book declined 5% Q-o-Q, to INR 109 bn (27% growth Y-o-Y), as the bank stepped down on lending, given the weak environment and tight liquidity in the month of October. Loan mix for the bank changed in favor of large corporate (61% of loan book) which grew 13% Q-o-Q, to INR 67 bn, while the mid corporate loan book declined 24% Q-o-Q, to INR 41 bn. Similarly deposit declined 6% Q-o-Q with 23% decline in bulk deposits (20% of overall deposits) while CASA proportion improved to 9.2%. We expect loan growth will witness a slowdown and are building in 25% growth in advances in FY10. In line with our expectations margins (calc.) declined ~20 bps Q-o-Q mainly due to higher cost of funds.

NPAs increase albeit of a small base; Net NPA stable at 0.15%

Gross NPAs spiked sharply from 0.2% in Q2FY09 to 0.4% in Q3FY09. In absolute terms, NPAs increased INR 260 mn; with adequate provisioning, net NPAs have, however, remained flat at 0.15% Q-o-Q, though these NPAs are of a small base. Provisions for NPA amounted to INR 280mn while bank made general provisioning of INR 130 mn while it wrote back provisions on investment depreciation to the tune of INR 208 mn. We expect NPAs will witness an uptick for the bank with seasoning of the credit book and deteriorating environment and are build in higher slippages and are increasing our loan loss provisioning estimate.

Outlook and valuations: Valuations at 1.0 FY10E adj. book; Maintain BUY

We are revising our earnings upwards by 27% for FY09E while maintaining our FY10E estimates. We note that this quarterly profit could be an aberration due to high contribution of trading profits and may not be sustainable going forward; therefore we expect earnings to normalize in next quarter. We are building in high provisioning cost in FY10 factoring in higher slippages. We are building in deceleration in fee income from FY09 levels, we expect it to grow at a CAGR of 15% over FY09-11E, with fees from core-banking activities like transactional banking leading growth. Bond gains sitting in high duration HTM book will offer some respite while margins outlook is positive given the sharp decline in wholesale funding costs.

We believe at 1.0xFY10E adjusted book the stock is pricing in asset quality risk and is factoring in an adverse macro environment. We expect the bank to post RoEs of 18- 19%. We maintain **'BUY'**.

Non-interest income growth led by trading gains and financial market segment

Trading gains for the quarter amounted to INR 600 mn for Q3FY09; adjusting for which revenues from financial markets amounted to INR 890 mn (which is treble that of Q2FY09) primarily contributed by strong forex and debt capital market activities. Distribution income grew strongly by 48% Q-o-Q while financial advisory income declined 43% Q-o-Q due to subdued market condition. Transactional banking income slipped during the quarter due to subdued business activities in this quarter. We expect fee income growth will come under pressure and are factoring in 15% CAGR over FY09-11E.

Other details

- Bank has slowed its pace of expansion and opened 9 branches during the quarter. Total no of branches stand at 109.
- Cost to income ratio (CI) improved to 41% in Q3FY09 in spite of making higher staff expense provisioning due to strong top line growth. We expect CI ratio will normalize to 44% in FY10.

Financials snapshot **(INR mn)**

Year to March	Q309	Q308	Growth (%)	Q209	Growth (%)	FY08	FY09E	FY10E
Interest on advances	4,040	2,551	*58.3*	3,706	*9.0*	9,304	15,135	17,988
Interest on investments	1,294	920	*40.7*	1,055	*22.7*	3,668	4,740	5,148
Interest on other resources	23	21	*8.1*	60	*(62.0)*	136	138	157
Interest income	5,327	3,448	*54.5*	4,897	*8.8*	13,108	20,013	23,293
Interest expenses	4,123	2,533	*62.7*	3,671	*12.3*	9,741	15,138	17,323
Net interest income	1,204	914	*31.7*	1,226	*(1.8)*	3,367	4,875	5,969
Other income	1,935	984	*96.6*	803	*141.0*	3,609	5,117	5,830
Fee income	1,335	884	*51.0*	803	*66.3*	3,018	4,367	5,080
Operating expenses	1,295	889	*45.7*	1,049	*23.5*	3,677	4,514	5,139
Staff expense	736	527	*39.7*	568	*29.7*	2,024	2,447	2,716
Other opex	559	362	*54.4*	481	*16.1*	1,653	2,067	2,423
Pre prov profit (PPP)	1,244	909	*36.7*	980	*26.9*	2,708	4,728	5,910
Investment gains	600	100	*500.0*	0	*NA*	591	750	750
Provisions	204	157	*30.0*	7	*2,818.6*	234	897	1,351
Profit before tax	1,639	852	*92.4*	973	*68.5*	3,065	4,581	5,310
Provision for tax	581	310	*87.7*	337	*72.8*	1,065	1,512	1,752
Profit after tax	1,058	542	*95.0*	636	*66.3*	2,000	3,069	3,557
EPS (INR)	3.6	1.9	*86.4*	2.1	*70.3*	6.8	10.4	12.0
Ratios								
NII / GII	22.6	26.5		25.0		25.7	24.4	25.6
Cost - income	41.3	46.8		51.7		52.7	45.2	43.6
Provisions / PPOP	16.4	17.3		0.7		8.7	19.0	22.9
Tax rate	35.5	36.4		34.6		34.7	33.0	33.0
Balance sheet data								
Advances (INR bn)	109.4	86.0	*27.2*	115.2	*(5.0)*	94.3	122.6	153.2
Deposits (INR bn)	135.4	111.3	*21.7*	143.4	*(5.6)*	132.7	154.2	186.1
Net NPA(%)	0.2	0.0		0.2		0.1	0.1	0.2
Capital adequacy (%)	14.6	14.2		14.3		13.6	11.4	11.2

SECTOR UPDATE

Steel - Steel prices moderate further in both US and Europe: SBB

The latest reference prices released by "The Steel Index" show that steel prices have moderated in both Europe and the US. In Northern Europe, CR coil and plate price have dipped sharply as compared to the last week. In Southern Europe, prices are relatively stable except coated products' that dropped almost 7% as compared to the last week. In the USA, all sheet/plate prices are down 2-3%. Rebar price is down both in Northern and Southern Europe. Rebar-Scrap spread in US and Europe is down slightly to USD 365/tonne and USD 328/tonne respectively.

European flats

- HR coil ex-works reference price in Northern Europe is down more than 3% at USD 643/tonne. CR coil price is down 7% to USD 727/tonne. Coated products' price is however, stable at USD 784/tonne as compared to the last week. Average HR coil price in Q1CY09 is down 15% Y-o-Y and about 18% Q-o-Q.
- In Southern Europe, HR and CR coil prices are down 1% each at USD 586/tonne and USD 693/tonne respectively. Coated products' price is, however, down almost 7% to USD 726/tonne as compared to the last week. Average HR coil price in Q1CY09 is down nearly 27% Y-o-Y and 14% Q-o-Q.
- Plate price in Northern Europe is down almost 10% at USD 910/tonne while in Southern Europe it is down just 2% to USD 759/tonne. In Q1CY09, North European plate price is down almost 9% Y-o-Y and Q-o-Q. In Southern Europe, it is down almost 23% Y-o-Y and 16% Q-o-Q.

Price snapshot

(USD/tonne)

	20-Jan	*% change (last week)*	*% change (Dec-avg)*	*% change (Nov-avg)*	*% change (Oct-avg)*	13-Jan	Dec-08 (avg)	*% change m-o-m*	Nov-08 (avg)	*% change m-o-m*	Oct-08 (avg)
North Europe											
HRC	643	*(3.4)*	*(6.7)*	*(22.2)*	*(29.6)*	666	690	*(16.6)*	827	*(9.4)*	913
CRC	727	*(7.1)*	*(10.3)*	*(21.6)*	*(30.1)*	783	810	*(12.6)*	928	*(10.8)*	1,040
HDG/ Coated	784	*0.0*	*(7.4)*	*(18.8)*	*(26.3)*	784	847	*(12.3)*	966	*(9.2)*	1,064
Rebars	581	*(3.5)*	*(1.4)*	*5.3*	*(16.7)*	602	590	*6.8*	552	*(20.8)*	697
Plates	910	*(9.5)*	*(10.7)*	*(14.2)*	*(20.9)*	1,005	1,019	*(3.9)*	1,060	*(7.9)*	1,151
South Europe											
HRC	586	*(1.1)*	*(3.6)*	*(8.4)*	*(26.8)*	593	609	*(4.9)*	640	*(20.2)*	802
CRC	693	*(1.1)*	*(0.9)*	*(4.0)*	*(21.0)*	700	699	*(3.2)*	722	*(17.7)*	876
HDG/ Coated	726	*(6.5)*	*(0.3)*	*(2.3)*	*(25.7)*	776	728	*(2.0)*	743	*(24.0)*	977
Rebars	555	*(4.3)*	*(3.2)*	*7.0*	*(8.0)*	579	573	*10.5*	518	*(14.0)*	603
Plates	759	*(2.2)*	*(7.4)*	*(17.5)*	*(29.1)*	776	819	*(10.9)*	919	*(14.1)*	1,070
US											
HRC	586	*(2.2)*	*(3.7)*	*(28.0)*	*(40.8)*	600	609	*(25.2)*	815	*(17.8)*	991
CRC	681	*(3.0)*	*(5.0)*	*(25.6)*	*(38.7)*	702	717	*(21.7)*	915	*(17.6)*	1,111
HDG/ Coated	774	*(2.4)*	*(8.1)*	*(18.7)*	*(32.7)*	793	843	*(11.5)*	952	*(17.2)*	1,151
Plates	992	*(2.3)*	*(13.4)*	*(25.7)*	*(32.8)*	1,015	1,146	*(14.2)*	1,336	*(9.5)*	1,476

Source: Steel Business Briefing

European rebars

- Rebar price is down almost 4% to USD 581/tonne in Northern Europe. In Southern Europe, the same is down more than 4% as compared to last week at USD 555/tonne. In Q1CY09 North European rebar price is down 21% Y-o-Y and almost 2% Q-o-Q. In Southern Europe, Q1CY09 price is down 24% Y-o-Y but up 4% Q-o-Q.

Q1CY09 price comparison: Y-o-Y and Q-o-Q

(USD/tonne)

	Q1CY09 *QTD*	*% chg Y-o-Y*	*% chg Q-o-Q*	Q1CY08	Q4CY08
North Europe					
HRC	667	*(15.3)*	*(17.6)*	788	810
CRC	778	*(13.2)*	*(15.8)*	896	923
HDG/ Coated	803	*(14.2)*	*(16.1)*	936	957
Rebars	600	*(21.4)*	*(1.6)*	764	610
Plates	980	*(8.8)*	*(8.8)*	1,075	1,075
South Europe					
HRC	590	*(26.9)*	*(13.8)*	807	684
CRC	693	*(22.3)*	*(9.2)*	892	764
HDG/ Coated	740	*(18.8)*	*(9.2)*	912	814
Rebars	580	*(23.5)*	*3.5*	758	560
Plates	786	*(23.4)*	*(15.9)*	1,027	935
US					
HRC	590	*(13.8)*	*(27.0)*	684	807
CRC	694	*(10.1)*	*(24.2)*	772	916
HDG/ Coated	790	*(6.7)*	*(19.8)*	847	985
Plates	1,010	*18.3*	*(24.0)*	854	1,328

Source: Steel Business Briefing

US prices

- HR Coil price is down 2% as compared to the last week to USD 586/tonne. CR coil price is also down 3% as compared to last week at USD 681/tonne. HDG/coated products' price is down over 2% to USD 774/tonne. In Q1CY09, HR coil price is down almost 14% Y-o-Y and 27% Q-o-Q.
- US plate price is also down 2% at USD 992/tonne as compared to the last week. QTD plate price is up 18% Y-o-Y but down 24% Q-o-Q.

Current level of HR coil prices in Europe is almost at par with our estimates for CY09, but down almost 6% as compared to our CY09 estimates in the US

(USD/tonne)

	Current	CY09E	*% diff*
Europe	615	618	*(0.5)*
US	586	620	*(5.5)*

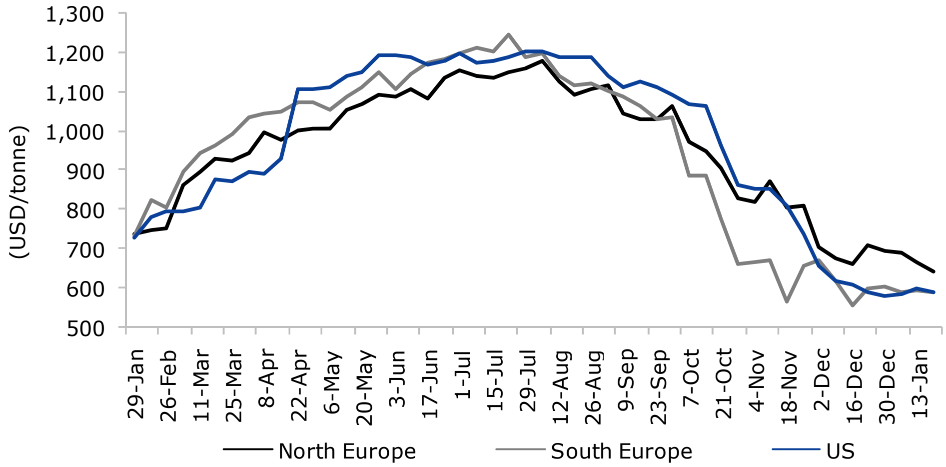
Source: Steel Business Briefing, Edelweiss estimates

In Q1CY09 thus far, average HR coil price is 1% above our estimates in Europe, but down about 6% in the US.

	Q1CY09 (QTD)	Q1CY09E	% diff	CY09E	% diff
					(USD/tonne)
Europe	628	622	*1.1*	618	*1.7*
US	590	624	*(5.5)*	620	*(4.9)*

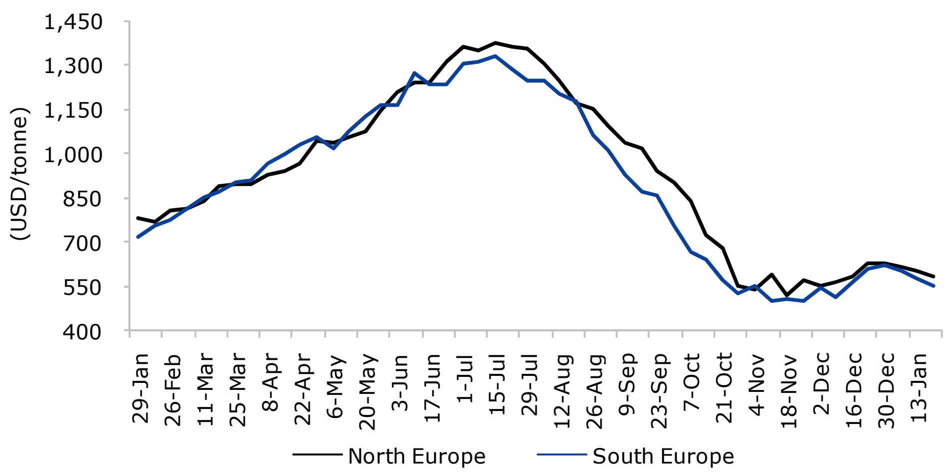
Source: Steel Business Briefing, Edelweiss estimates

Price movement (YTD): HR coils



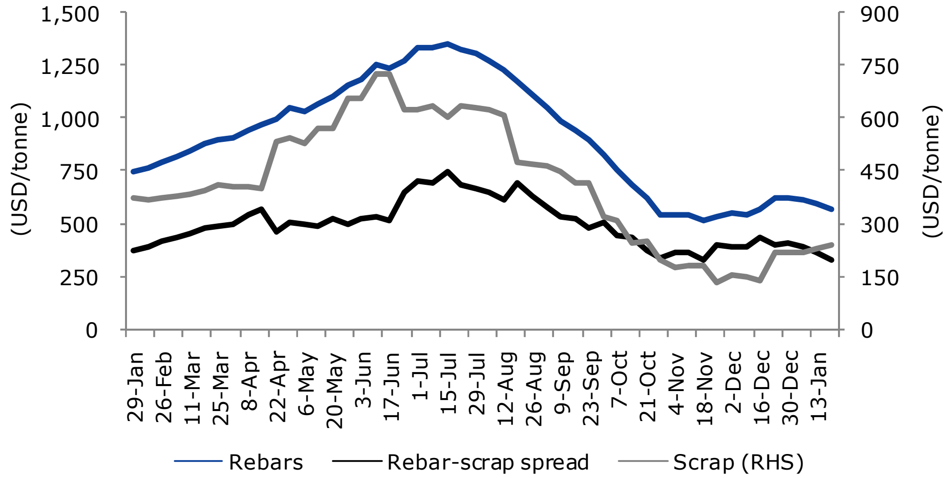
Source: Steel Business Briefing

Price movement (YTD): Rebars



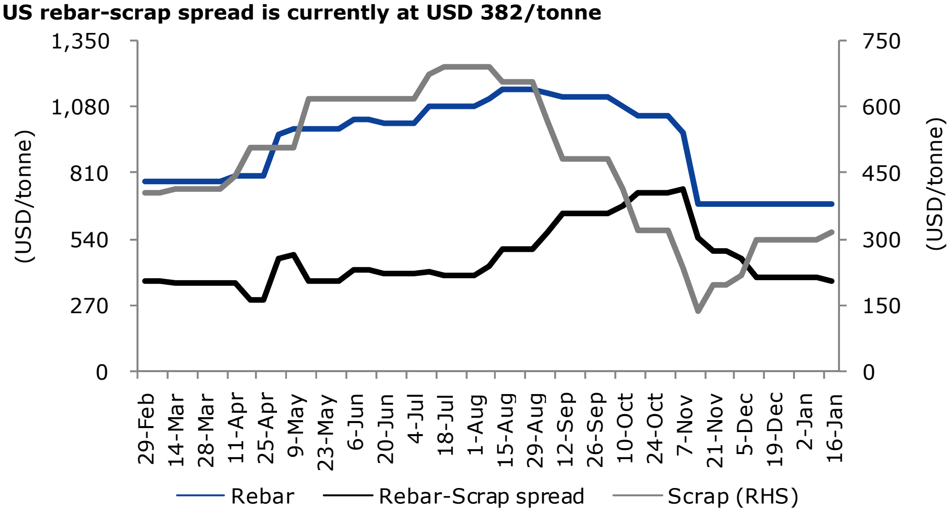
Source: Steel Business Briefing

European rebar-scrap spread is at USD 360/tonne



Source: Steel Business Briefing

US rebar-scrap spread is currently at USD 382/tonne



Source: Steel Business Briefing

INSIDER TRADES & BULK DEALS

Insider Trades

Company Name	Acquirer/Seller	B/S	Qty Traded	Kind of Deal
Maytas Infra	IFCI	acquired	10,250,000	39,834
Bhagyashree Leasing & Finance	Vimalkumar K. Jain	acquired	442,000	39,706
Bhagyashree Leasing & Finance	Kewalkumar K. Jain	acquired	432,000	39,706
Bhagyashree Leasing & Finance	Ranjana I. Jain	acquired	327,000	39,699
Indian Overseas Bank	Life Insurance Corporation of India	acquired	200,000	39,827
Bhagyashree Leasing & Finance	Rajas V. Jain	acquired	100,000	39,706
Fiem Industries	Seema Jain	acquired	51,050	39,832
Bhagyashree Leasing & Finance	Manish V. Jain	acquired	46,000	39,699
Jai Balaji Industries	Jai Salasar Balaji Industries	acquired	45,500	39,826
Cyber Media (India)	Anuradha Gupta	acquired	26,159	
Shree Rama Multi-Tech	Mr. Sharad Champaklal Jariwala	acquired	25,003	39,826
Banco Products (India)	Mehul K Patel	acquired	19,284	39,829
Subex	Sudeesh Yezhuvath	acquired	16,900	39,825
Saraswati Industrial Syndicate	Mr.Aditya Puri	acquired	15,928	39,826
Essar Oil	Essar Investment	sold	67,000,000	39,829
Pyramid Saimira Theatre	Mr. Nirmal Kotecha	sold	4,381,450	39,820
Provogue (India)	FMR LLC	sold	749,100	39,826
Akruti City	Mahipatray V. Shah	sold	400000	39829
D S Kulkarni Developers	Anuradha Ramchandra Purandare	sold	352636	39828
Mundra Port & Special Economic Zone	Malay Ramesh Mahadevia	sold	105096	39829

Bulk Deals

Date	Company Name	Acquirer/Seller	B/S	Qty Traded	Price
21-Jan-09	Automobile Corporation Of Goa	Za Capital Llp Ac Zaimf Mauritius Limited	Sell	68,122	101.0
21-Jan-09	Automobile Corporation Of Goa	Barclays Capital Mauritius Limited	Sell	85,986	100.3
21-Jan-09	Avery India	Pat Financial Consultants	Buy	141,942	78.2
21-Jan-09	Chemcel Bio-Tech	Amar Premchand Walmiki	Buy	340,491	6.2
21-Jan-09	Lotus Chocolate Company	Aditya Pai	Buy	160,232	17.4
21-Jan-09	Lotus Chocolate Company	Aman Pai	Buy	160,000	17.3
21-Jan-09	Lotus Chocolate Company	Ashwini Pai	Buy	160,000	17.1
21-Jan-09	Lotus Chocolate Company	Abhijeet Pai	Buy	160,000	17.1
21-Jan-09	Lotus Chocolate Company	V Shivaram Kamath	Sell	258,065	17.1
21-Jan-09	Lotus Chocolate Company	V Shashidhar Kamath	Sell	365,253	17.2
21-Jan-09	SMIFS Capital Markets	Sudha Commercial Co. .	Buy	140,500	26.0
21-Jan-09	Tide Water Oil Co (I)	Madanlal Limited	Buy	7,000	3,000.0
21-Jan-09	Tide Water Oil Co (I)	Arion Commercial	Sell	7,163	3,000.2

TECHNICAL UPDATES

Edelweiss Technical Reflection (ETR)

The post opening range-bound movement continued as the indices traded within a very narrow intra-day range yesterday after opening deep in the red. The market breadth was lower as compared to Monday's trading session whereas the volumes once again remained on the lower side. The Nifty though did well to close above 2770 which in an important support. The overall trend remains bearish even though the Nifty has strong support near 2720. On a break below 2720, the Nifty is likely to move towards 2550. A pullback in the very near term though can not be ruled out.

The nearest support for the Nifty is at 2770 followed by 2720 and 2630. A bounce back on the Nifty on the other hand is likely to take the Nifty to 2860 (intraday chart resistance)/ 2930 (50% retracement resistance).

Nifty Index

Bloomberg Code	NIFTY Index
Spot Price	2,797
Resistance 1	2,860
Resistance 2	2,930
Support 1	2,770
Support 2	2,720

Indicator	Outlook	Points*
Candlestick	Positive	1
Stochastic	Positive	1
Moving Avg	Negative	(1)
RSI	Neutral	0
ADX	Neutral	0
MACD	Neutral	0
Aggregate	**Positive**	**1**

** Points Range:- 1 to 1*

EYE CATCHERS

Futures Snapshot

Top OI Rises

Scrip	% OI Chg	OI	% Price Chg	% Future Vol Chg
Divi's Lab	59	321	(13.9)	389
India Infoline	39	2,351	0.5	561
Yes Bank	38	1,117	(4.5)	2,000
McDowell & Co	37	766	0.3	(52)
HDFC Bank	34	3,948	(2.5)	7
Biocon	30	269	1.0	7,300

Top OI Falls

Scrip	% OI Chg	OI	% Price Chg	% Future Vol Chg
Power Finance Corp	(20)	332	(3.8)	(34)
Allahabad Bank	(11)	2,200	0.5	85
Bank of Baroda	(11)	1,866	(0.7)	(39)
RNRL	(10)	20,644	(5.5)	17

Top % Delivery with Price Rise

Scrip	Delivery	% Price change	Volume	Delivery (D-1)
Amtek Auto Ltd	93.9	1.73	178,575	84.9
Birla Corp Ltd	87.7	0.40	5,942	70.3
Crompton Greaves Ltd	79.5	1.36	1,520,478	87.3
Colgate-Palmolive/India	79.0	1.25	178,806	87.7
GlaxoSmithKline Pharmaceuticals Ltd	74.4	1.15	39,026	94.0
Allahabad Bank	67.7	0.47	1,384,741	59.5
ITC Ltd	67.2	0.35	7,053,110	59.5
National Aluminium Co Ltd	64.7	1.78	397,022	22.8

Top % Delivery with Price Fall

Scrip	Delivery	% Price change	Volume	Delivery (D-1)
IBN 18	99.2	(3.49)	1,129,077	29.3
Motor Industries Co Ltd	96.8	(0.74)	33,968	91.6
GTL Ltd	94.9	(1.06)	488,633	90.6
AIA Engineering Limited	93.9	(8.72)	259,015	24.3
Chennai Petroleum Corp Ltd	93.8	(0.84)	517,560	84.5
Orchid Chemicals & Pharmaceuticals Ltd	87.0	(2.74)	759,087	46.1
Jindal Saw Ltd	78.9	(0.73)	32,074	69.5
Maharashtra Seamless Ltd	76.9	(3.28)	29,882	77.2

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