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Market Outlook

India Research

January 20, 2012

Dealer's Diary

The markets are expected to edge higher following positive opening across most of the Asian bourses. The markets rallied yesterday on the back strong results delivered by the blue-chip companies and positive global cues. Data showing substantial investing by FIIs over the past few days also boosted the sentiments.

Global markets too edged higher yesterday with US markets closing in green. The US markets continued its gains on the back of positive earnings season and jobs data. Also positive developments in Euro zone and the economic and earnings news from the US lifted up the European markets.

After prolonged negativity, the markets seemed to have breathed easy – FIIs have reinforced the faith in the economy and have stepped-up the purchases of domestic equities. In addition, increased efforts from the IMF to rescue the euro zone, as well as hints from China over easing of credit controls to boost slowing growth has boosted sentiments. The earnings seasons has fared well so far with frontline companies posting delivering strong results. As earnings calendar turn hectic in coming days, markets will closely watch for these numbers for cues on the performance of corporate sector.

Markets Today

The trend deciding level for the day is 16,626 / 5,011 levels. If NIFTY trades above this level during the first half-an-hour of trade then we may witness a further rally up to 16,680 – 16,716 / 5,031– 5,043 levels. However, if NIFTY trades below 16,626 / 5,011 levels for the first half-an-hour of trade then it may correct up to 16,590 – 16,536 / 4,998 – 4,979 levels.

Indices	S2	S1	R1	R2
SENSEX	16,536	16,590	16,626	16,680
NIFTY	4,979	4,998	5,011	5,031

News Analysis

- Punj Lloyd Group receives ₹1,300cr social infrastructure project
- 3QFY2012 Result Reviews – HDFC Bank, Hero MotoCorp, Bajaj Auto
- 3QFY2012 Result Previews – RIL, ITC, Wipro, Hindustan Zinc, Axis Bank, JSW Steel, Exide Industries, Syndicate Bank, Bank of Maharashtra, HCC, NIIT

Refer detailed news analysis on the following page

Net Inflows (January 18, 2012)

₹ cr	Purch	Sales	Net	MTD	YTD
FII	3002	2041	961	5396	5396
MFs	461	617	(156)	(740)	(740)

FII Derivatives (January 19, 2012)

₹ cr	Purch	Sales	Net	Open Interest
Index Futures	3,334	2,200	1,133	14,529
Stock Futures	4,697	4,161	536	28,466

Gainers / Losers

Gainers			Losers		
Company	Price (₹)	chg (%)	Company	Price (₹)	chg (%)
Adani Enter	440	10.4	LIC Housing Fin	237	(3.3)
HDIL	82	10.4	Apollo Hosp.	625	(3.0)
Reliance Infra	484	9.6	BHEL	266	(2.7)
Pantaloon Retl.	166	8.4	Coromandel Intl	268	(2.6)
Ashok Leyland	27	8.3	Dish TV India	61	(2.5)

Domestic Indices	Chg (%)	(Pts)	(Close)
BSE Sensex	1.2	192.3	16,644
Nifty	1.3	62.6	5,018
MID CAP	1.4	80.1	5,670
SMALL CAP	1.2	76.5	6,272
BSE HC	1.4	87.0	6,191
BSE PSU	1.5	106.7	7,181
BANKEX	1.9	191.8	10,542
AUTO	1.2	99.5	8,756
METAL	2.8	307.0	11,234
OIL & GAS	1.1	90.1	8,240
BSE IT	(0.3)	(17.5)	5,496
Global Indices	**Chg (%)**	**(Pts)**	**(Close)**
Dow Jones	0.4	45.0	12,624
NASDAQ	0.7	18.6	2,788
FTSE	0.7	38.8	5,741
Nikkei	1.0	89.1	8,640
Hang Seng	1.3	256.0	19,943
Straits Times	0.6	15.8	2,811
Shanghai Com	1.3	29.7	2,296

Indian ADRs	Chg (%)	(Pts)	(Close)
Infosys	(0.2)	(0.1)	$51.7
Wipro	1.0	0.1	$10.5
ICICI Bank	5.2	1.6	$32.9
HDFC Bank	3.5	1.0	$30.4

Advances / Declines	BSE	NSE
Advances	1,805	994
Declines	1,003	461
Unchanged	123	60

Volumes (₹ cr)	
BSE	2,509
NSE	11,634

Punj Lloyd Group receives ₹1,300cr social infrastructure project

Punj Lloyd Infrastructure Limited, a wholly owned subsidiary of Punj Lloyd Limited, has received a Letter of Award (LOA) from Delhi Police for the development of Police Residential Complex at Dheerpur, Delhi, on design, build, finance, operate and transfer (DBFOT) basis. The project with an estimated cost of ~₹1,300cr primarily entails development, operation and maintenance of the residential zone of over 5,000 units (approx. 40 lakh sq. ft.) along with utility facilities such as sewerage and water treatment. It also includes development and commercial operations of the non-residential infrastructure such as schools, healthcare and convenience shopping, as per the norms laid down in the Delhi Master Plan 2021. The company will be signing a concession agreement with Delhi Police, which is under the aegis of Ministry of Home Affairs (MHA), for 25 years and will be entitled to semi-annual annuities of ₹62.8cr along with construction milestone linked lump sum payments of ₹316cr. **We maintain our Neutral view on the stock on account of various overhangs – uncertainty over receivable claims, stretched working capital, auditor qualifications and increasing leverage on the balance sheet.**

3QFY2012 Result Reviews

HDFC Bank

For 3QFY2012, HDFC Bank reported healthy 31.4% yoy growth in its net profit to ₹1,430cr, in-line with our as well as street estimates. Steady NIM coupled with largely stable asset quality was the key highlight of the results.

Another quarter of steady performance: The bank's net advances growth slowed down to 3.1% qoq, after two quarters of strong growth (7.4% qoq in 2QFY2012 and 9.7% in 1QFY2012). Deposit buildup was also much lower on a sequential basis, growing marginally by 0.8% compared to 9.3% growth in 2QFY2012. Corporate loans for the bank grew at a modest pace of 15.0% yoy; however, retail loan book growth was strong at 29.5% yoy despite the rise in interest rates over the past one year. Yoy growth in retail loans was driven by CVCE, business banking, personal loans and credit card loans. The pace of CASA deposits accretion for the bank was moderate in 3QFY2012, with growth of 14.3% yoy. Other income growth for the bank was healthy at 25.9% yoy, primarily due to pick-up in forex income/derivatives income (68.6% yoy). Fee income growth was also healthy at 19.6% yoy, part of which can be accredited to the seasonality effect (higher bullion sales and credit card fees due to the festive season). The bank witnessed treasury loss of ₹82cr during 3QFY2012 on account of MTM losses on bond investments and MF portfolios. The bank maintained its strong asset quality track record during 3QFY2012 as well. Gross and net NPA ratios remained stable at 1.0% and 0.2%, respectively. NPA provision coverage ratio remained at elevated levels at 80.3%, even without considering the floating provisions.

Outlook and valuation: Over the past five years, HDFC Bank has commanded an average premium to Sensex P/E multiple of ~31%. However, considering the recent outperformance of HDFC Bank's stock price, the premium has expanded to ~35%. Given the current valuations (3.3x FY2013E ABV), we believe that the positives are largely factored in the price and leave a limited upside in the stock price. **Hence, we maintain our Neutral recommendation on the stock.**

Hero MotoCorp

Hero MotoCorp (HMCL) reported in-line net sales growth of 16.9% yoy (3.5% qoq) to ₹6,031cr, driven by volume growth of 11.3% yoy (2.9% qoq) and a 5% yoy (flat qoq) increase in average net realization. HMCL's volume performance was led by a 10.6% (2.6% qoq) and 20.4% yoy (6.4% qoq) increase in motorcycle and scooter sales, respectively. On the operating front, EBITDA margin (adjusted for change in accounting for royalty payments) was largely in-line at 12.3%, reporting an expansion of 115bp yoy (flat qoq), primarily due to a decline in raw-material expenses. Led by stable operating performance, adjusted net profit registered strong 20.5% yoy (1.5% qoq) growth to ₹613cr. We believe at ₹1,901, HMCL is reasonably valued at 14.2x FY2013E earnings (historical multiple - 15x). **Thus, we maintain our Neutral rating on the stock.** We shall come up with a detailed result update post the earnings call with management.

Bajaj Auto

Bajaj Auto (BJAUT) reported strong 21.2% yoy (down 3.9% qoq) growth in net sales to ₹5,063cr, driven largely by strong exports performance. While export volumes witnessed robust 28.4% yoy (down 10.1% qoq) growth, export realization grew by strong 17.6% yoy (9.8% qoq), led by price increases and favorable currency movement. As a result, exports revenue jumped by 51.1% yoy (down 1.3% qoq). Domestic performance, however, was muted as volume and realization posted moderate growth of 6.8% (down 6.2% qoq) and 1.2% yoy, respectively, leading to domestic revenue growth of 8.1% yoy (down 5.5% mom). EBITDA margin surprised positively as it touched 21%, primarily on account of easing of raw-material prices and favorable currency movement on the exports front. Led by strong operating performance and lower tax rate, net profit registered strong 19.2% yoy (9.6% qoq) growth to ₹795cr. During 3QFY2012, BJAUT reported mark-to-market (MTM) loss of ₹59cr relating to hedging contracts, which restricted the bottom-line growth. At the CMP, the stock is trading at 12.5x FY2013 earnings. **Post the recent correction in the stock price, we recommend Buy on the stock with a target price of ₹1,755.**

3QFY2012 Result Previews

Reliance Industries

Reliance Industries Ltd. (RIL) is scheduled to announce its 3QFY2012 results. We expect the company's top line to increase by 31.0% yoy to ₹78,364cr during the quarter, largely on account of higher refining and petrochemical product prices. However, we expect the company's operating margin to decline by 559bp yoy to 10.3% on account of lower production from KG D6 basin. PAT is expected to decrease by 12.0% yoy to ₹4,519cr. **We maintain our Buy view on the stock with a target price of ₹1,006.**

ITC

ITC is expected to announce its 3QFY2012 results. For the quarter, we expect ITC to report a 17.8% yoy growth in its Top-line to ₹6,427cr, impacted by a steady growth in its Hotels Segment, Paperboards & Packaging and Cigarettes. ITC's Earnings for the quarter are expected to grow by 18.3% yoy to ₹1,642.9cr, driven largely by Top-line. **We recommend Neutral on the stock.**

Wipro

Wipro is slated to announce its 3QFY2012 results. We expect the company's IT services segment to post revenue of US$1,497mn, up merely 1.7% qoq. Volume growth is expected to be 2.7% qoq. At the consolidated level, we expect the company to record revenue of ₹9,829cr, up 8.1% qoq. The company is expected to record a 145bp qoq expansion in its EBIT margin to 21.4% in the IT services segment; at a consolidated level, Wipro is expected to record a 155bp qoq increase in EBIT margin to 17.9%. PAT is expected to come in at ₹1,487cr. **We maintain our Neutral view on the stock.**

Hindustan Zinc

Hindustan Zinc is slated to announce its 3QFY2012 results. The company's top line is expected to decline by 1.1% yoy growth to ₹2,574cr on account of higher realization, partially offset by sales volume growth. However, EBITDA margin is expected to contract by 583bp to 51.0% on account of rise in costs. The company's bottom line is expected to grow by 0.1% yoy to ₹1,288cr. **We maintain our Buy view on the stock with a target price of ₹142.**

Axis Bank

Axis Bank is slated to announce its 3QFY2012 results. We expect the bank to report healthy NII growth of 22.7% yoy to ₹2,126cr. NIM on a sequential basis is likely to remain flat with an upward bias. Non-interest income is expected to increase by a relatively moderate 13.4% yoy to ₹1,302cr. Pre-provision profit of the bank is expected to register growth of 16.8% yoy. However, owing to higher provisioning burden (increase of 39.7% yoy), net profit is expected to go up by relatively lower 13.5% yoy to ₹1,012cr.

The stock is currently trading at attractive valuations of 1.6x FY2013E ABV – more than 50% discount to HDFC Bank, despite similar earnings quality, profitability and growth expectations over FY2011-13. **Hence, we maintain our Buy recommendation on the stock with a target price of ₹1,216.**

JSW Steel

JSW Steel is slated to announce its 3QFY2012 results. On a consolidated basis, net revenue is expected to grow by 48.2% yoy to ₹8,843cr mainly on account of increased volumes as well as realizations. Operating margin is expected to expand by 209bp yoy to 15.8% on account of higher revenue. However, net profit is expected to decrease by 4.4% yoy to ₹279cr on account of higher interest expenses. **Given the recent rise in the stock price, we recommend Neutral on the stock.**

Exide Industries

Exide Industries (EXID) is slated to announce its 3QFY2012 results. We expect the top line to grow by healthy 15% yoy to ₹1,211cr, largely due to a slight uptick in replacement demand. On the operating front, EBITDA margin is expected to decline by 566bp yoy to 9.6% due to raw-material cost pressures and price cuts carried out in September 2011 to counter competitive pressures. Hence, the bottom line is expected to post a 42% yoy decline to ₹72cr. **The stock rating is under review.**

Syndicate Bank

Syndicate Bank is scheduled to announce its 3QFY2012 results. We expect the bank to report reasonable NII growth of 15.5% yoy. However, NIM of the bank is expected to compress albeit marginally on a sequential basis. Pre-provision profit of the bank is expected to register healthy 25.3% yoy growth, primarily on account of a muted 5.6% yoy rise in operating expenses vis-à-vis 15.9% rise in operating income. Provisioning expenses are expected to remain flat on a yoy basis at ₹428cr, leading to a robust 62.9% yoy rise in PBT. However, net profit growth is expected to be relatively lower at 23.2% as the effective tax rate is expected to normalize from the low 10% witnessed in 2QFY2011.

At the CMP, the stock is trading at attractive valuations, in our view, of 0.6x FY2013E ABV. **We maintain our Buy recommendation on the stock with a target price of ₹102.**

Bank of Maharashtra

Bank of Maharashtra is slated to declare its 3QFY2012 results. We expect the bank to report reasonably healthy growth 24.5% yoy in its NII. NIM of the bank is expected to hold up well on a sequential basis and improve by ~30bp on a yoy basis. Other income growth is likely to remain healthy at 26.3% yoy to ₹140cr. On account of slower rise operating expenses (6.7% yoy) as compared to operating income (22.3% yoy), pre-provision profit of the bank is expected to register healthy 39.4% yoy growth. Provisioning expenses are expected to increase by 25.3% yoy to ₹214cr. However, net profit growth is expected to be strong at 61.4% yoy at ₹146cr.

At the CMP, the stock is trading at attractive valuations, in our view, of 0.7x FY2013E ABV. Hence, **we maintain our Buy recommendation on the stock with a target price of ₹52.**

HCC

For Hindustan Construction Company (HCC), we project a 2.0% yoy decline in revenue for 3QFY2012 to ₹982.4cr due to the slowdown of execution on account of drying up of orders for HCC in the last few quarters and slow-moving order book. On the EBITDA front, we expect a marginal dip of 66bp yoy to 11.9%. Hence, on the bottom-line front, we expect loss of ₹25.5cr in 3QFY2012 vs. profit of ₹7.9cr in 3QFY2011. **Owing to the uncertainties surrounding Lavasa project and other concerns like subdued order inflow, deteriorating working capital situation and high interest cost, we continue to maintain our Neutral view on the stock.**

NIIT

NIIT is expected to announce its 3QFY2012 results. We expect the company's revenue to come in at ₹226cr, down 24.8% yoy due to divestment of Element K business (part of and corporate learning solution (CLS) business). Revenue for the individual learning solution (ILS) and school learning solution (SLS) segments is expected to grow by 16.6% and 15.0% yoy to ₹123cr and ₹41cr, respectively. EBITDA margin is expected to improve by 270bp yoy 15.0%. PAT is expected to come in at ₹18cr. **We maintain our Buy recommendation on the stock with an SOTP target price of ₹55.**

Quarterly Bloomberg Brokers' Consensus Estimates

Axis Bank Ltd - (20/01/2012)

Particulars (₹ cr)	3QFY12E	3QFY11	y-o-y (%)	2QFY12	q-o-q (%)
Net profit	1,014	891	14	920	10

Exide Industries Ltd - (20/01/2012)

Particulars (₹ cr)	3QFY12E	3QFY11	y-o-y (%)	2QFY12	q-o-q (%)
Net sales	1,209	1,049	15	1,175	3
EBITDA	144	160	(10)	90	59
EBITDA margin (%)	11.9	15.3		7.7	
Net profit	92	124	(26)	51	80

ITC Ltd - (20/01/2012)

Particulars (₹ cr)	3QFY12E	3QFY11	y-o-y (%)	2QFY12	q-o-q (%)
Net sales	6,393	5,453	17	5,974	7
EBITDA	2,332	2,029	15	2,219	5
EBITDA margin (%)	36.5	37.2		37.1	
Net profit	1,630	1,389	17	1,514	8

JSW Steel Ltd - Consolidated (20/01/2012)

Particulars (₹ cr)	3QFY12E	3QFY11	y-o-y (%)	2QFY12	q-o-q (%)
Net sales	7,960	5,965	33	8,134	(2)
EBITDA	1,132	1,016	11	1,394	(19)
EBITDA margin (%)	14.2	17.0		17.1	
Net profit	194	292	(33)	(669)	(129)

Reliance Industries Ltd (20/01/2012)

Particulars (₹ cr)	3QFY12E	3QFY11	y-o-y (%)	2QFY12	q-o-q (%)
Net sales	82,712	59,789	38	78,569	5
EBITDA	7,962	9,545	(17)	9,844	(19)
EBITDA margin (%)	9.6	16.0		12.5	
Net profit	4,782	5,136	(7)	5,703	(16)

United Spirits Ltd (20/01/2012)

Particulars (₹ cr)	3QFY12E	3QFY11	y-o-y (%)	2QFY12	q-o-q (%)
Net sales	2,109	1,960	8	1,791	18
EBITDA	315	285	10	332	(5)
EBITDA margin (%)	14.9	14.6		18.5	
Net profit	119	130	(9)	148	(20)

Wipro Ltd - Consolidated (20/01/2012)

Particulars (₹ cr)	3QFY12E	3QFY11	y-o-y (%)	2QFY12	q-o-q (%)
Net sales	9,736	6,623	47	9,095	7
EBITDA	1,873	1,476	27	1,740	8
EBITDA margin (%)	19.2	22.3		19.1	
Net profit	1,470	1,224	20	1,301	13

Hindustan Zinc Ltd - (20/01/2012)

Particulars (₹ cr)	3QFY12E	3QFY11	y-o-y (%)	2QFY12	q-o-q (%)
Net sales	2,653	2,601	2	2,593	2
EBITDA	1,379	1,507	(8)	1,465	(6)
EBITDA margin (%)	52.0	57.9		56.5	
Net profit	1,300	1,290	1	1,345	(3)

Asian Paints Ltd - Consolidated (21/01/2012)

Particulars (₹ cr)	3QFY12E	3QFY11	y-o-y (%)	2QFY12	q-o-q (%)
Net sales	2,525	2,100	20	2,251	12
EBITDA	377	345	9	323	17
EBITDA margin (%)	14.9	16.4		14.3	
Net profit	241	220	9	209	15

Ultratech Cement Ltd - Consolidated (21/01/2012)

Particulars (₹ cr)	3QFY12E	3QFY11	y-o-y (%)	2QFY12	q-o-q (%)
Net sales	4,475	3,715	20	3,910	14
EBITDA	929	733	27	652	42
EBITDA margin (%)	20.7	19.7		16.7	
Net profit	469	319	47	279	68

Federal Bank Ltd - (23/01/2012)

Particulars (₹ cr)	3QFY12E	3QFY11	y-o-y (%)	2QFY12	q-o-q (%)
Net profit	186	143	30	191	(3)

Gail Ltd - (23/01/2012)

Particulars (₹ cr)	3QFY12E	3QFY11	y-o-y (%)	2QFY12	q-o-q (%)
Net sales	9,804	8,365	17	9,699	1
EBITDA	1,597	1,333	20	1,676	(5)
EBITDA margin (%)	16.3	15.9		17.3	
Net profit	995	968	3	1,094	(9)

Idea Ltd - Consolidated (23/01/2012)

Particulars (₹ cr)	3QFY12E	3QFY11	y-o-y (%)	2QFY12	q-o-q (%)
Net sales	4,909	3,953	24	4,608	7
EBITDA	1,292	948	36	1,187	9
EBITDA margin (%)	26.3	24.0		25.8	
Net profit	163	243	(33)	106	54

Kotak Mahindra Bank - (23/01/2012)

Particulars (₹ cr)	3QFY12E	3QFY11	y-o-y (%)	2QFY12	q-o-q (%)
Net profit	421	384	10	433	(3)

Larsen & Toubro (23/01/2012)

Particulars (₹ cr)	3QFY12E	3QFY11	y-o-y (%)	2QFY12	q-o-q (%)
Net sales	13,434	11,322	19	11,245	19
EBITDA	1,392	1,238	12	1,174	19
EBITDA margin (%)	10.4	10.9		10.4	
Net profit	909	841	8	798	14

Maruti Suzuki India Ltd - Consolidated (23/01/2012)

Particulars (₹ cr)	3QFY12E	3QFY11	y-o-y (%)	2QFY12	q-o-q (%)
Net sales	7,544	9,326	(19)	7,537	0
EBITDA	433	902	(52)	494	(12)
EBITDA margin (%)	5.7	9.7		6.6	
Net profit	228	565	(60)	240	(5)

Sterlite Industries Ltd - (23/01/2012)

Particulars (₹ cr)	3QFY12E	3QFY11	y-o-y (%)	2QFY12	q-o-q (%)
Net sales	9,342	8,294	13	10,134	(8)
EBITDA	2,287	1,979	16	2,482	(8)
EBITDA margin (%)	24.5	23.9		24.5	
Net profit	1,156	1,101	5	998	16

Cairn India Ltd - (23/01/2012)

Particulars (₹ cr)	3QFY12E	3QFY11	y-o-y (%)	2QFY12	q-o-q (%)
Net sales	3,082	3,096	(0)	2,652	16
EBITDA	2,543	2,542	0	2,065	23
EBITDA margin (%)	82.5	82.1		77.9	
Net profit	2,061	2,010	3	763	170

Economic and Political News

- MoEF denies forest nod to RPower's Sasan coal bloc
- Telecom Min mulls auction of spectrum beyond 4.4 MHz
- Food inflation dips to -0.42% for week ended Jan 7

Corporate News

- Cairn commences crude production from Bhagyam oilfield
- MP government to allot 130 acres of land for Infosys SEZ
- Starbucks-Tata Coffee shops expected by month-end

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

Results Calendar

20/01/2012	Reliance Industries, ITC, Wipro, Hind. Zinc, Axis Bank, JSW Steel , United Spirits, Exide Industries, Syndicate Bank, Rallis, HT Media, Bank of Maharashtra, Hind. Const., NIIT
21/01/2012	UltraTech Cement, Asian Paints, Zee Entertainment, Patel Engg., Sarda Energy
22/01/2012	Persistent
23/01/2012	Larsen & Toubro, GAIL, Sterlite Inds, Kotak Mah. Bank, Idea Cellular, Maruti, Colgate, Federal Bank, D B Corp, LMW, KPIT Cummins, Electrosteel Castings
24/01/2012	Cairn India, Grasim Inds, Indraprasth Gas, Godawari Ispat, CEAT
25/01/2012	Bank of Baroda, Sesa Goa, Rural Elec.Corp., Union Bank, IRB Infra, Tata Global, Tata Comm, Vijaya Bank
27/01/2012	NTPC, BHEL, NHPC, Canara Bank, Bank of India, Petronet LNG, Blue Star, Jyoti Structures

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