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Market Outlook

India Research

January 25, 2012

Dealer's Diary

The markets are expected to open in the green tracking positive cues from the Asian markets however investors would be closely watching developments in the Euro zone.

U.S. stocks ended mostly in the red on Tuesday, as investors awaited progress on Greek debt talks. A game of brinkmanship between European leaders and Greek bondholders drove European markets lower on Tuesday as investors worried that a deal needed to cut Athens' mountain of debt might fall through. Anxiety remains about the European debt crisis and, in particular, Greece's ongoing negotiations with representatives of private-sector creditors to reduce its debt burden. A deal is a key condition for Greece to receive additional bailout funds from the European Union and International Monetary Fund. Without this financial support, Greece may not be able to make a EUR14bn debt payment that's due March 20.

Indian shares rallied on Tuesday as a cut in banks' cash reserve ratio signaled a change in RBI's monetary policy stance. Concerned over weak industrial performance, the central bank today unexpectedly cut the cash reserve ratio for banks by 50 basis points to infuse more liquidity in the banking system.

Markets Today

The trend deciding level for the day is 16,939 / 5,106 levels. If NIFTY trades above this level during the first half-an-hour of trade then we may witness a further rally up to 17,107 – 17,219 / 5,162– 5,197 levels. However, if NIFTY trades below 16,939 / 5,106 levels for the first half-an-hour of trade then it may correct up to 16,827 – 16,658 / 5,071 – 5,015 levels.

Indices	S2	S1	PIVOT	R1	R2
SENSEX	16,658	16,827	16,939	17,107	17,219
NIFTY	5,015	5,071	5,106	5,162	5,197

News Analysis

- RBI Monetary Policy Review
- 3QFY2012 Result Reviews – Cairn India, Lupin, Yes Bank, Ceat
- 3QFY2012 Result Previews – Sesa Goa, Tata Global Beverages, IRB Infra

Refer detailed news analysis on the following page

Net Inflows (January 23, 2012)

₹ cr	Purch	Sales	Net	MTD	YTD
FII	1,565	1,578	(13)	7,078	7,078
MFs	485	642	(157)	(1,220)	(1,220)

FII Derivatives (January 24, 2012)

₹ cr	Purch	Sales	Net	Open Interest
Index Futures	5,050	4,865	185	18,892
Stock Futures	8,661	8,140	521	30,385

Gainers / Losers

Gainers			Losers		
Company	Price (₹)	*chg (%)*	Company	Price (₹)	*chg (%)*
Essar Oil	62	*16.5*	United Spirits	571	*(3.9)*
JSW ENERGY	53	*11.3*	Pidilite Inds	140	*(3.6)*
IVRCL LTD	50	*10.6*	Dish TV India	57	*(2.5)*
Canara Bank	473	*9.6*	United Brew	411	*(2.3)*
IRB Infra	173	*8.1*	Godrej Cons	411	*(1.9)*

Domestic Indices	Chg (%)	(Pts)	(Close)
BSE Sensex	*1.5*	244.0	16,996
Nifty	*1.6*	81.1	5,127
MID CAP	*1.4*	78.7	5,762
SMALL CAP	*0.7*	44.0	6,338
BSE HC	*0.5*	32.4	6,195
BSE PSU	*1.0*	72.7	7,289
BANKEX	*3.2*	351.3	11,286
AUTO	*1.5*	135.9	8,998
METAL	*1.8*	195.8	11,163
OIL & GAS	*1.0*	84.3	8,271
BSE IT	*0.9*	48.6	5,569

Global Indices	*Chg (%)*	(Pts)	(Close)
Dow Jones	*(0.3)*	(33.1)	12,676
NASDAQ	*0.1*	2.5	2,787
FTSE	*(0.5)*	(30.7)	5,752
Nikkei	*0.2*	19.4	8,785
Hang Seng	*0.8*	167.4	20,110
Straits Times	*1.4*	38.2	2,849
Shanghai Com	*1.0*	23.0	2,319

Indian ADRs	*Chg (%)*	(Pts)	(Close)
Infosys	*1.5*	0.8	$53.6
Wipro	*0.8*	0.1	$10.9
ICICI Bank	*2.7*	0.9	$35.6
HDFC Bank	*2.7*	0.8	$31.2

Advances / Declines	BSE	NSE
Advances	1,592	888
Declines	1,206	557
Unchanged	142	75

Volumes (₹ cr)	
BSE	4,673
NSE	14,226

RBI Monetary Policy Review

Key highlights

- Cuts CRR by 50bp to 5.5% to address the prevailing liquidity concerns in the system
- Holds on to key policy rates (Repo: 8.5%, Reverse Repo 7.5% and MSF at 9.5%; keeps SLR unchanged at 24.0%

CRR cut by 50bp: The Reserve Bank of India (RBI) in its third-quarterly monetary policy review maintained status quo on key policy rates. However, it cut the CRR by 50bp in order to address the prevailing liquidity pressures in the economy. The reduction in CRR by the RBI, which is expected to infuse ~₹32,000cr into the system, comes on the back of open market operations (OMOs) of ₹70,000cr in the last two months to bring down the liquidity deficit, which still stands at ₹1.23lakh cr.

Increasing focus on liquidity and growth: After more than a year of sustained rate hikes and liquidity tightening, inflation is finally showing a marked decline (especially food inflation, which we believe will soon start getting mirrored in manufacturing inflation as well). This has provided the RBI some headroom to address growth concerns (with GDP growth having already slipped to 7%) that are getting exacerbated by high interest rates. As a first step, in our view, the RBI has begun infusing more liquidity through OMOs and now CRR.

Marks softening of policy stance in our view: In our view, this policy signals a marked softening of the RBI's stance. Considering that there are some upside inflation risks from the high fiscal deficit and not wanting to undo the hard work of anchoring inflationary expectations achieved over the past year, the RBI has appropriately maintained a tone of caution. Accordingly, it may consider more decisive signaling through repo rate cuts only from April 2012, provided inflation continues to cool on expected lines. But, in any case, in our view, directionally policy and broader rates now have a downward bias, signaling a key positive for rate-sensitives.

3QFY2012 Result Reviews

Cairn India

Cairn India announced its 3QFY2012 results. The company's top line remained flat yoy to ₹3,097cr (above our expectation of ₹2,917cr). Average crude oil realization increased by 33.0% yoy to US$101.1/bbl. However, positive impact of higher realization was offset by ₹570cr of profit petroleum and royalty payment of ₹630cr. The company's gross production averaged 169,580boepd (-2.7% yoy). OPM contracted by 169bp yoy to 82.2%, resulting in 2.0% yoy decline in operating profit to ₹2,546cr during the quarter. The company recorded an exceptional gain of ₹301cr on account of forex fluctuation during 3QFY2012. Excluding this exceptional gain, adjusted net profit de-grew by 2.5% yoy to ₹1,960cr (in line with our estimate of ₹2,023cr). Also, the company remained optimistic to end the capacity from Mangala and Bhagyam field at 175,000bopd by FY2012E. **The stock is under review currently.**

Lupin

For 3QFY2012, the company posted Net sales of ₹1,792cr, growth of around 22% yoy, driven by a strong exports and domestic formulations. The domestic formulation business grew by 30% yoy. Other key segment US market grew by 24% yoy driven by the branded business, which grew by 34% yoy growth. On the operating front the margins came in at 20.5%, a 85bps gain yoy. However, on account of higher tax out go during the quarter the overall Net Profit growth came in at 4.95% yoy for the period. **We maintain our buy recommendation on the stock.**

Yes Bank

For 3QFY2012, Yes Bank reported 32.9% yoy (8.1% qoq) growth in its net profit to ₹254cr, above our estimates, mostly due to lower provisioning expenses than estimated by us. The bank's NII grew by healthy 32.3% yoy to ₹428cr, while non-interest income grew by 30.8% yoy, leading to operating income growth of 31.8% yoy to ₹639cr. Provisioning expenses for the bank fell by 10.4% yoy to ₹22cr, leading to PAT growth of 32.9% yoy to ₹254cr.

The bank's business gathered pace in 3QFY2012, with advances growing by 4.9% qoq and deposits growing by 6.5% qoq. The bank had raised its saving account rate to 6% (7% for savings deposit above ₹1,00,000) post the deregulation, due to which the bank witnessed strong traction in saving account deposits. Saving account deposits grew by 40% qoq (99.2% yoy) to ₹1,202cr. Current account deposits also rose by healthy 14.5% qoq (37.2% yoy) to ₹4,710cr. Consequently, CASA ratio jumped from 11.0% as of 2QFY2012 to 12.6% as of 3QFY2012. The bank's cost of funds increased by 30bp compared to a 20bp increase in yield on advances, leading to a 10bp qoq compression in reported NIM.

The bank continued to maintain a healthy asset quality in 3QFY2012, with gross NPA ratio of 0.2% and net NPA ratio of 0.04%. Provision coverage ratio also stood elevated at 80.0%. At the CMP, the stock is trading at valuations of 2.0x FY2013E ABV. We recommend an Accumulate rating on the stock with a target price of ₹338.

Ceat

Ceat reported weak 3QFY2012 results on the bottom-line front on account of production loss led by strike at Nashik plant coupled with higher depreciation and interest expense on a yoy basis due to commissioning of Halol plant. Net sales grew by strong 19% yoy, led by growth in the OEM and exports segments. On a sequential basis, however, the top line declined by 4.7% due to strike at Nashik plant, which lasted for 23 days, resulting in a volume decline (tonnage basis) of

8%. EBITDA margin improved by 102bp yoy to 5.6%; on a qoq basis, margins came in flat as the benefits of the decline in raw-material prices were offset by higher other expenditure. Net profit witnessed a 52.3% yoy (57.4% qoq) decline to ₹2cr, primarily led by higher depreciation and interest expense.

Going ahead, we expect Ceat to report improvement in its operating performance as utilization levels at the Halol plant improve. Additionally, price hikes (~10% in 1HFY2012) and stable raw-material prices (declined 21% from peak in domestic markets) are expected to result in margin expansion in FY2013. **We maintain our Buy recommendation on Ceat with a target price of ₹125.**

3QFY2012 Result Previews

Sesa Goa

Sesa Goa is slated to announce its 3QFY2012 result. We expect the company's top line to decrease by 29.4% yoy to ₹1,775cr on account of a decline in sales volumes. EBITDA margin is expected to contract by 669bp to 48.0% due to a decline in iron ore prices and higher export duty. Further, the bottom line is expected to decline by 47.5% yoy to ₹562cr due to a sharp decline in other income. **We recommend Accumulate on the stock with a target price of ₹208.**

TGBL

Tata Global Beverages (TGBL) is expected to announce its 3QFY2012 results. For the quarter, we expect the company to post modest 8.3% yoy growth in its top line to ₹1,735cr, aided by a mix of value and volume growth. Earnings for the quarter are expected to register a 10.5% yoy decline to ₹65cr on account of high raw-material cost. Also, we estimate the company's operating margin to contract by 200bp yoy to 9.9%. **We maintain our Accumulate rating on the stock with a target price of ₹102.**

IRB Infra

IRB Infra (IRB) is expected to post a poor set of numbers on a quarterly basis. We expect a 15.3% yoy decline and 14.2% yoy growth in C&EPC (₹395.1cr) and BOT (₹244.3cr) revenue, respectively, leading to overall top-line decline of 4.4% to ₹639.5cr. Dip in the E&C segment would be due to completion of Surat Dahisar and Kolhapur road projects and remaining under-construction projects being at a nascent stage. We expect higher EBITDA margin at 45.9%, a jump of 205bp yoy, due to higher share of the high-margin BOT segment. Depreciation is expected to be higher at ₹74.4cr, owing to completion of the Surat Dahisar project. We project net profit before tax and after tax (post minority interest) at ₹109.3cr and ₹81.5cr, respectively, after factoring a blended tax rate of 23.2% for the quarter.

Our valuation of ₹182/share for the consolidated business uses NPV/EV/EBITDA based valuation for BOT assets and the E&C arm, respectively. We factor in CoE of 14% and a traffic growth rate of 5/6/7% for its BOT assets. Owing to the recent run up in the share price, we recommend Accumulate on the stock.

Quarterly Bloomberg Brokers' Consensus Estimates

Bank of Baroda Ltd (25/01/2012)

Particulars (₹ cr)	3Q FY12E	3Q FY11	y-o-y (%)	2Q FY12	q-o-q (%)
Net profit	1,197	1,069	12	1,166	3

Rural Electrification Ltd (25/01/2012)

Particulars (₹ cr)	3Q FY12E	3Q FY11	y-o-y (%)	2Q FY12	q-o-q (%)
Net profit	721	664	9	623	16

Sesa Goa Ltd - Consolidated (25/01/2012)

Particulars (₹ cr)	3Q FY12E	3Q FY11	y-o-y (%)	2Q FY12	q-o-q (%)
Net sales	1,965	2,237	(12)	784	151
EBITDA	884	1,231	(28)	260	240
EBITDA margin (%)	45.0	55.0		33.2	
Net profit	644	1,065	(40)	1	50224

Tata Global Beverages Ltd - Consolidated (25/01/2012)

Particulars (₹ cr)	3Q FY12E	3Q FY11	y-o-y (%)	2Q FY12	q-o-q (%)
Net sales	1,787	1,602	12	1,612	11
EBITDA	130	184	(29)	135	(4)
EBITDA margin (%)	7.3	11.5		8.4	
Net profit	96	72	34	77	25

Union Bank of India Ltd (25/01/2012)

Particulars (₹ cr)	3Q FY12E	3Q FY11	y-o-y (%)	2Q FY12	q-o-q (%)
Net profit	539	580	(7)	353	53

Bank of India Ltd (27/01/2012)

Particulars (₹ cr)	3Q FY12E	3Q FY11	y-o-y (%)	2Q FY12	q-o-q (%)
Net profit	608	653	(7)	491	24

Canara Bank Ltd (27/01/2012)

Particulars (₹ cr)	3Q FY12E	3Q FY11	y-o-y (%)	2Q FY12	q-o-q (%)
Net profit	958	1,106	(13)	852	12

NTPC Ltd (27/01/2012)

Particulars (₹ cr)	3Q FY12E	3Q FY11	y-o-y (%)	2Q FY12	q-o-q (%)
Net sales	16,103	13,421	20	15,378	5
EBITDA	3,494	4,225	(17)	3,560	(2)
EBITDA margin (%)	21.7	31.5		23.2	
Net profit	2,308	2,371	(3)	2,424	(5)

NHPC Ltd (27/01/2012)

Particulars (₹ cr)	3Q FY12E	3Q FY11	y-o-y (%)	2Q FY12	q-o-q (%)
Net sales	912	709	29	1,831	(50)
EBITDA	454	460	(1)	1,451	(69)
EBITDA margin (%)	49.8	64.9		79.3	
Net profit	329	301	9	966	(66)

Divi's Laboratories Ltd (28/01/2012)

Particulars (₹ cr)	3Q FY12E	3Q FY11	y-o-y (%)	2Q FY12	q-o-q (%)
Net sales	393	310	27	354	11
EBITDA	152	123	23	138	10
EBITDA margin (%)	38.6	39.8		39.0	
Net profit	119	102	17	106	12

Glenmark Pharma Ltd - Consolidated (30/01/2012)

Particulars (₹ cr)	3Q FY12E	3Q FY11	y-o-y (%)	2Q FY12	q-o-q (%)
Net sales	964	751	28	1,055	(9)
EBITDA	183	174	5	226	(19)
EBITDA margin (%)	19.0	23.2		21.4	
Net profit	119	110	9	56	113

United Phosphorus Ltd - Consolidated (30/01/2012)

Particulars (₹ cr)	3Q FY12E	3Q FY11	y-o-y (%)	2Q FY12	q-o-q (%)
Net sales	1,658	1,189	39	1,721	(4)
EBITDA	321	221	45	325	(1)
EBITDA margin (%)	19.3	18.6		18.9	
Net profit	136	84	62	57	138

LIC Housing Finance Ltd - (30/01/2012)

Particulars (₹ cr)	3Q FY12E	3Q FY11	y-o-y (%)	2Q FY12	q-o-q (%)
Net profit	256	213	20	98	160

Economic and Political News

- RBI asks government to deregulate diesel prices
- Inflation may moderate below 7% by March
- No concern on Indian banks' bad loans currently: RBI deputy

Corporate News

- Reliance Ind's US$2.1bn share buyback to open on February 1
- TCS gets green signal for Indore SEZ
- RCom cuts off Etisalat over payments

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

Results Calendar

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
28/01/2012	J & K Bank, Divi's Lab., Bhushan Steel, IOB
30/01/2012	LIC Housing Fin., Indian Bank, Oriental Bank, Glenmark Pharma., Allahabad Bank, United Phosphorus, Indiabulls Fin., Sadbhav Engg., Anant Raj, Taj GVK, PVR
31/02/2012	ICICI Bank, NMDC, Punjab Natl.Bank, Siemens, Titan Inds., Dabur India, Crompton Greaves, IDBI Bank, Central Bank, Jagran Prakashan, TVS Motor, Ipca labs, United Bank, PTC India, KEC International

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