



KARVY BAZAAR BAATEIN

A Weekly Investment Newsletter From **KARVY**
A Research Product of Karvy The Finapolis

09 Nov 2009 to 15 Nov 2009

Volume 3 : Issue 32

URL: <http://www.karvy.com/market/docs/mktnews.pdf>

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NSE
52 Wk H/L : 5181.95/2502.90
Mcap : Rs51,51,588 cr.
BSE
52 Wk H/L : 17493.17/8047.17

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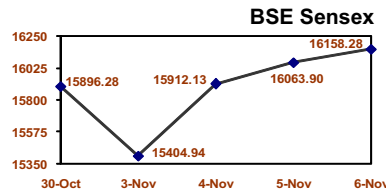
Published from Karvy House, 46, Avenue 4, Street No.1, Banjara Hills, Hyderabad-500034.

Printed at Harshitha Printers, 6-2-985/G, Yusuf Building, Adj. Railway Gate, Khairatabad, Hyderabad- 500 004.

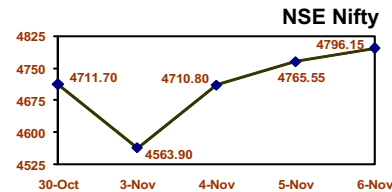
by **S. Gopichand** on behalf of Karvy Stock Broking Limited.

Editor: **S. Gopichand**

RNI Regn. No.APENG/2007/20423



16158.28
↑ 1.65%



4796.15
↑ 1.79%

A buy opportunity...

After recording a high of 5,180 just prior to Diwali, the Nifty entered into a swift correction mode thereafter, dropping nearly 12.5% as it touched its lows in the middle of last week, at 4,540 levels. The markets were extremely volatile, but closed higher on Friday at 4,796, a gain of 5.6% from its recent lows. For the week, the BSE Sensex and the Nifty closed marginally in the green even as FIIs were net sellers for the period.

While economic data emanating from the US remained quite positive last week, triggering a near 3% increase in the Dow Jones Industrial Average (at the time of going to press), the markets in the Asian region traded cautiously for the better part of the week after the Reserve Bank of Australia raised interest rates for the second time in so many months. However, there is a concern among economists that much of the recovery (or signs of it) in the US can be attributed to the government's fiscal stimulus measures. A large part of the impact was expected to be felt in the second and third quarter of the current calendar year. So where does the US government go from here? Surely it cannot afford to initiate an "exit" strategy when the private sector is yet to stand up on its own.

So are we out of the correction yet? Clearly, these are tough times to be a trader, but for the long-term investor this correction is a buying opportunity. The Indian markets present a compelling story comprising strong GDP growth, favourable demographics, stable government, high liquidity and potential earnings upgrades, leaving few market experts in doubt that Indian markets have the potential to touch new highs in the foreseeable future. Meanwhile, India Inc's Q2 results have been largely in-line with expectations, although there were a few extreme disappointments, particularly among large caps.

This week, we expect buying in infrastructure, pharmaceuticals, automobiles, metals, and banking stocks while the cement sector is likely to see selling pressure. Overall, the Nifty is likely to trade in a range of 4600-4900 levels over the week.

KBB weekly recommendations for the week beginning 09th Nov.

Scrip	Action	CMP	Entry	Stop Loss	Target	Time Frame
Bajaj Hind	Buy	213.20	Above 215	208	233-235	5-6 Days
ICICI Bank	Buy	848.55	815-820	795	900-905	5-6 Days
LITL	Buy	515.00	500-505	495	548-550	5-6 Days
Kotak Bank	Buy	763.15	Above 765	750	800-805	7-8 Days
Andhra Bank	Buy	115.85	Above 115	110	125-126	7-8 Days

Disclaimer: The above recommendations are purely based on technical analysis. Hence, the stop loss should be strictly adhered to.

KBB weekly performance monitor

Scrip	Action	Entry	SL	Target	Shares(#)	P/L	Return	Remark
Ambuja Cem	Buy	Above 90	87.00	99-100	-	-	-	NI
Hero Honda	Buy	1550-1560	1530.00	1615-1620	233	-5,825.02	-1.61%	SLT
Rolta	Buy	Above 175	172.00	186-188	-	-	-	NI
Voltas	Buy	155-158	152.00	170-172	2315	-10,418.03	-2.88%	SLT
Dr. Reddy	Buy	Above 1015	995.00	1095-1100	-	-	-	NI
Total						-16,243.05		

Balance on inception (26-Jan-09)	Balance last week (30-Oct-09)	Balance current week (06-Nov-09)	Abs. returns WoW (%)	Abs. returns since Jan 26, 2009(%)
5,00,000	7,09,370	6,93,127	(2.29)	38.63

TA - Target achieved; SLT - Stop loss triggered; CMP - Closing price as on last trading day; NI - Not initiated; # No. of Shares; SL - Stop Loss; P/L - Profit/Loss

Fundamental view

Shree Cements (Rs1540)

Shree Cements (SCL)'s Q2FY10 operational performance is marginally better than our expectations. The net sales grew by 43% Y/Y to Rs8.99 bn due to increase in blended cement realisation by 10.9% to Rs3,452/tonne and cement volume growth of 25.3% to 2.50 mn tonnes (including 0.31 mn tonnes clinker sales). The company reported an EBITDA margin of 45.4%—130-bps higher than our expectation and 1,650-bps higher than Q2FY09—mainly due to the benefit of sharp reduction in operational costs coupled with higher realisation. The EBITDA per tonne has gone up by 72.5% to Rs1,470/tonne in Q2FY10 from Rs852/tonne in Q2FY09. EBITDA has shown a growth of 124.7% to Rs4.08bn in Q2FY10. SCL has reported an adjusted net profit of Rs2.88 bn which is higher than our expectation due to provisions of tax at lower rate.

Net sales driven by robust volume growth and higher realization: SCL reported net sales growth of 43% to Rs8.99 bn due to increase in blended cement realization by 10.9% and rise in cement volumes by 25.3%. The blended cement realization rose 10.9% to Rs3,452/tonne in Q2FY10 from Rs3,112/tonne in Q2FY09. Sales volume increased by 25.3% to 2.50 mn tonnes, including clinker sales of 0.32 mn tonnes. The company has sold around 64 mn units of power at an average rate of Rs6.8, and this has also driven the topline.

EBITDA/tonne growth at 72.5%: SCL reported EBITDA margin of 45.4%, which is 130-bps higher than our expectations and 1,650-bps higher than Q2FY09, mainly due to 8.3% decline in operational cost and realisation growth of 10.9%. The power & fuel cost per tonne fell by 25.7% to Rs598/tonne due to a sharp decline in pet coke prices. The EBITDA

per tonne shot up by 72.5% to Rs1,470/tonne in Q2FY10 from Rs852/tonne in Q2FY09. EBITDA increased by 124.7% to Rs4.08 bn in Q2FY10. The company reported adjusted net profit of Rs2.88 bn which is higher than our expectations due to provision of lower tax rate.

Capex plan: SCL is in the process of adding grinding units at Surat Nagar and Rourkee of 1.5 mn tonnes each which will be completed by Q4FY10. The company is adding 143 MW of captive power plant, of which, 93 MW would be commissioned in FY10, and the remaining in FY11. SCL also plans to put up two 150-MW thermal power plants at an investment of Rs12 bn. Both these plants would be commissioned by March 2011 and September 2011, respectively.

Valuation: We have revised our earning estimates upward due to higher realisation, higher merchant power sales, and lower tax rate. At the current market price of Rs1,540, the company is trading at a P/E multiple of 6.9x, an EV/EBITDA multiple of 3x and EV/tonne of US\$95/tonne on FY11E earnings. We have valued SCL on EV/EBITDA of 3.5x and rate the company as an 'Outperformer' with a revised price target of Rs1,790.

Opto Circuits India (Rs188)

Opto Circuits' consolidated Q2FY10 results were above our expectations. The net sales increased by 18% Y/Y and 11% Q/Q, to Rs2,557 mn, against our estimate of Rs2,465 mn. The revenue growth continues to be driven by increasing volumes of sensors, stents and patient-monitoring systems. During the quarter, the non-invasive segment grew by 26.4% Y/Y, to Rs2,029 mn. On the other hand, the invasive segment dipped by 7.4% Y/Y, to Rs474 mn. The patient monitoring device and sensors were the major growth contributors in the non-invasive segment. On a consolidated basis, the revenue

contribution from invasive, non-invasive and other segments was 18.6%, 79.4% and 2%, respectively.

The EBITDA margin jumped by 206 bps Q/Q, from 33.4% in Q1FY10 to 35.5% in Q2FY10—above our expectation of 31.5%. The expansion in EBITDA margins Q/Q was due to economies of scale and profit from inventory revaluation. At the same time, the EBITDA margin (Y/Y) surged by 368 bps from 31.8% in Q2FY09. The increase in EBITDA margin (Y/Y) was due to decrease in administration & marketing expenses and profit from inventory revaluation. EBITDA improved 31.5% Y/Y and 18% Q/Q, to Rs907.7 mn against our expectation of Rs776 mn. The interest cost declined by 17% Y/Y and 22.6% Q/Q, to Rs104 mn, against our expectations of Rs123 mn. The depreciation cost grew by 184% Y/Y and 57.3% Q/Q, to Rs69.5 mn, against our expectation of Rs49.3 mn. Accordingly, the net profit grew by 18% Y/Y and by 13% Q/Q, to Rs669 mn, against our expectation of Rs637 mn.

Valuation: We maintain our consolidated net sales estimates for FY10 and FY11 at Rs11,134 mn and Rs13,979 mn, respectively. During H1FY10, Opto Circuits reported an EBITDA margin of 34.5% which is above our estimates of 29% for FY10. Hence, we increased our EBITDA margin estimates for FY10 and FY11 from 29% and 30% to 33% and 32%, respectively. Going forward, we believe that the company will continue to perform better on the EBITDA margin level due to economies of scale and improvement in the EBITDA margin of Criticare Systems, a wholly owned subsidiary of Opto Circuits.

We have reduced our other income estimates from Rs193 mn and Rs226 mn to Rs137 mn and Rs149 mn for FY10 and FY11, respectively. On the other hand, we have increased our depreciation cost estimates from Rs209 mn and Rs224 mn to Rs279 mn and Rs312 mn, respectively, for the same period. In addition, we have increased our tax estimates from Rs110 mn and Rs297 mn to Rs302 mn and Rs401 mn for FY10 and FY11, respectively. Consequently, we have increased our net profit estimates for FY10 by 4.5% to Rs2,908 mn and maintain our net profit estimates for FY11 at Rs3,522 mn. The stock is currently trading at a P/E of 11.7x FY10E diluted EPS of Rs16 and 10x FY11E diluted EPS of Rs18.7. We maintain our target price of Rs244 on 13x FY11E earnings and upgrade our rating on the stock from 'Marketperformer' to 'Buy' due to the fall in the share price.

Shree Cement In		Rs mn	FY07	FY08	FY09	FY10E	FY11E
Reuters/Bloomberg Code	SHCM.BO/ SRCM@IN	Net Sales	13,680	21,091	27,150	38,026	39,018
Market Cap. (Rs mn)	53,789	EBITDA	5,915	8,624	9,508	16,571	14,700
Market cap. (US\$m)	1,098	Net Profit	1,770	2,604	5,780	9,112	7,806
Shares Outstanding (mn)	34.84	EPS (Rs)	50.8	74.7	165.9	261.6	224.1
52-week High/Low (Rs)	1779/330	EPS Growth (%)	64.9	47.1	122.0	57.7	(14.3)
		EBITDA margin (%)	43.2	41.7	35.0	43.6	37.7
		PER (x)	30.4	20.7	9.3	5.9	6.9
Major Share Holders (%)		P/BV (x)	11.8	8.0	4.4	2.6	1.9
Promoter/Majority	65.6	Price/sales (x)	3.9	2.6	2.0	1.4	1.4
FII's	15.4	EV/EBITDA (x)	9.9	6.5	5.8	3.0	3.0
Banks/Fis/MFs	8.8	Dividend Yield (%)	0.4	0.5	0.6	0.9	1.0
Others	5.2	ROCE (%)	41.3	43.4	35.3	48.5	36.8
Public	5.0	ROE (%)	38.9	38.7	47.8	44.1	28.0
		EV/Ton(\$)	334.6	214.3	150.6	116.8	95.0

Source: Company & KSBL Research.

FUNDAMENTALS

Market pulse

Bulk Deals

Company	Wt. Avg. Price (Rs.)	Traded Qty	Acquirer/Seller
Buy			
Thinksoft	219.04	115685	Matrix Equitrade
Ispat Industries	19.04	8046225	Jaypee Capital Services
Sell			
ICSA (India)	156.27	380000	Lloyd George Investment Mgmt (Bermuda) Ltd A/c
Aban Offshore	1205.82	265923	C D Integrated Services

Top Gainers (Weekly)

Company	06-Nov	30-Oct	%Change
Bharti Airtel	320.05	292.85	9.29
Jaiprakash Associates	228.25	210.20	8.59
ICICI Bank	848.55	790.80	7.30
IDFC	157.70	147.45	6.95
GAIL India	370.55	348.25	6.40
Ranbaxy Laboratories	414.40	390.40	6.15
Tata Steel	499.80	471.55	5.99
Unitech	87.15	82.25	5.96
M&M	972.70	921.95	5.50
Reliance Capital	783.90	746.90	4.95

Top Losers (Weekly)

Company	06-Nov	30-Oct	%Change
Ambuja Cements	83.80	89.15	-6.00
Tata Power	1271.05	1338.85	-5.06
ACC	717.85	750.65	-4.37
HUL	272.60	283.50	-3.84
ABB	743.85	769.55	-3.34
Idea Cellular	50.50	52.05	-2.98
ITC	248.85	254.80	-2.34
Hero Honda	1529.40	1565.75	-2.32
Wipro	598.45	605.90	-1.23
TCS	622.15	628.30	-0.98

FII Invt (Rs.cr)

MF (Rs.cr)

Date	Purchases	Sales	Purchases	Sales
30-Oct-09	3418.90	5013.50	1336.20	1221.40
3-Nov-09	4072.50	3336.80	879.80	911.10
4-Nov-09	2188.10	2488.90	958.00	571.70
5-Nov-09	3395.20	3381.40	635.50	601.20
Total	13074.70	14220.60	3809.50	3305.40

Corporate Actions

Company	Date	Purpose
Dhampur Sugar	9-Nov-09	Audited Results/Dividend
Nissan Copper	9-Nov-09	Investment
Agro Dutch Ind.	13-Nov-09	Unaudited Results

(Compiled by Krishnaveni M)

Pennar Industries (Rs24)

Although Pennar Industries Ltd (PIL) reported a better-than-expected net profit in Q2FY10, the net sales were lower than our estimates. Net sales grew 6% Y/Y driven by volumes, while it declined marginally by 0.1% Q/Q, to Rs1,810 mn, as the ~2% volume growth offset the 2% fall in realization. However, it reported EBITDA that was 5% higher than our expectations, due to margin improvement. The EBITDA for Q2FY10 is Rs251 mn, registering a growth of 35% Y/Y and 3% Q/Q. The EBITDA margin expanded by more than 300 bps Y/Y and 37 bps Q/Q, primarily attributed to lower raw material costs.

Cost structure (% of sales)	Q2 FY09	Q1 FY10	Q2 FY10	H1 FY09	H1 FY10
Net raw material	73.46	69.86	68.07	73.92	68.96
Staff Cost	2.97	3.20	3.36	2.90	3.28
Manfg & Other Exp	12.75	13.42	14.68	12.76	14.05
EBITDA Margin (%)	10.83	13.52	13.89	10.42	13.71

Due to lower interest costs and higher depreciation, PBT grew by 57% Y/Y and 7% Q/Q, to Rs199 mn. With effective tax rate of 39%, the net profit rose 20% Y/Y and 11% Q/Q. We believe PIL's consistent efforts to improve the product mix towards value-added products is leading to margin improvement. The company is aggressively increasing its railways business, which earns significantly higher margin than the rest of the businesses.

Segmental performance: Sales growth in Q2FY10 was mainly driven by value-added products, which rose in volume terms, both in Y/Y and Q/Q basis. While realizations

Segmental -Break Up

	Q2 FY09	Q1 FY10	Q2 FY10	(YoY)%	(QoQ)%	H1 FY09	H1 FY10	(YoY)%
Value added Revenue	1,171	1,290	1,319	12.6	2.3	2,271	2,610	14.9
Realisation (Rs/ton)	74,922	71,834	65,436	(12.7)	(8.9)	70,869	68,451	(3.4)
Volume (ton)	15,635	17,962	20,164	29.0	12.3	32,044	38,126	19.0
CRSS Revenue	544	522	490	(9.8)	(6.1)	1,211	1,012	(16.4)
Realisation (Rs/ton)	62,656	42,224	45,005	(28.2)	6.6	56,752	43,527	(23.3)
Volume (ton)	8,676	12,357	10,891	25.5	(11.9)	21,330	23,248	9.0
Total Sales (Rs mn)	1,715	1,812	1,810	5.5	(0.1)	3,481	3,622	4.0

Pennar Industries	Rsmn	FY07#	FY08	FY09	FY10E	FY11E	
Reuters/ Bloomberg Code	PENN.BO/ PSL@IN	Net Sales	3,355	5,602	6,533	7,595	8,972
Market Cap. (RsMn)	3,035	EBITDA	351.5	657.4	755.0	1,002	1,225
Market cap. (US\$m)	64.6	Net Profit-adjusted	148.7	308.1	380.9	469.7	601.1
Shares Outstanding (mn)	126.5	EPS (Rs) adjusted	1.2	2.4	3.0	3.7	4.8
52-week High/Low (Rs)	31.8/15.5	EPS Growth (%)	NA	101.1	23.6	23.3	28.0
		EBITDA margin (%)	10.5	11.7	11.6	13.2	13.7
		PER (x)	19.8	9.9	8.0	6.5	5.0
Major Share Holders (%)		P/BV (x)	2.8	1.6	1.5	1.2	1.0
Promoter	36.1	Price/sales (x)	0.9	0.5	0.5	0.4	0.3
Public	14.8	EV/EBITDA (x)	13.7	6.3	5.6	4.2	3.4
FII	36.0	Dividend Yield (%)	0.0	0.0	4.2	4.2	4.2
FIs/Banks/MF	0.1	ROCE (%)	12.5	21.6	22.5	26.0	27.1
Others	12.9	ROE (%)	14.9	20.9	19.8	21.1	21.6

Source: Company & KSBL Research. # FY07 results for 8 months

for both segments have slipped Y/Y, this has been more than offset by the rise in volumes. On a sequential basis, volumes from value-added products surged in contrast to a decline in the CRSS segment. On the other hand, realizations have come down by 9% for value-added products while realizations in the CRSS segment moved up by 7% Q/Q. In H1FY10, sales from the value-added segment grew 15% while the CRSS segment declined by 16%; effectively recording a 4% growth Y/Y, to Rs3,621 mn.

Update on development at the manufacturing unit: To cater to the expanding market for railway coaches, the company is putting up additional buildings and manufacturing facilities at its Chennai plant. PIL is also installing an automated rotary compressor shell manufacturing facility at its Isnapur plant, Andhra Pradesh, which is the first of its kind in India.

Valuation: We are positive on this stock considering its consistent margin improvement on account of increasing contribution of value-added products like railways and engineering. Moreover, we expect PIL to exhibit earnings CAGR of 26% in the next two years (FY09-11E) on sales CAGR of 17% owing to margin improvement. Further, the company has started distributing dividend of Rs1/share in FY09, which translates into a 4% dividend yield. Currently, the stock is trading at 8x FY09E, 7x FY10E and 5x FY11E earnings. Given the backdrop, we value PIL at Rs33, based on 7x FY11E earnings. We continue to rate this stock as a BUY.

Bank of India (Rs349)

In Q2FY10, Bank of India reported marginal growth of 3.4% Y/Y in net interest income to Rs14.1 bn compared to our estimates of Rs14.3 bn. The lower NII was mainly due to lesser volume growth in credit and deposits compared to our expectations and a larger decline of 53 bps (on Y/Y basis) in fund yield against merely 11-bps drift (on Y/Y basis) in the cost of funds. Sequentially, however, the bank managed to reduce its cost of funds by 14 bps and kept its yield on funds at 7.66%. The net interest margin declined by 63 bps Y/Y to 2.57%, although it improved from the Q1FY10 level of 2.42%.

BoI's total bulk deposits contributed almost 23.8% of the total deposits, and more than half (Rs180 bn) of the high-cost (more than 9.0%) bulk deposits would come for repricing in October-December 2009, leading to a further drift in the cost of funds. BoI's total non-fund based income increased by 4.1% Y/Y, to Rs6.76 bn, on the back of moderate growth in fee income and 8.4 times jump in treasury income to Rs1.5 bn. Operating profit declined marginally by 0.7% Y/Y to Rs12.1 bn (against our estimate of Rs13.4 bn) due to one-off charges on account of employee benefits (AS-15) provisions of Rs1.06 bn compared to Rs704 mn in Q2FY09 and lesser fee income. The bank's net profit fell 58% Y/Y to Rs3.2 bn due to much higher bad-debt provisions of Rs4.7 bn compared to Rs800 mn in Q2FY09.

During the quarter, the bank had slippages in standard assets worth Rs20 bn (compared to Rs8.2 bn in Q2FY09) and slippages in restructured standard assets to Rs7.2 bn (from Rs784 mn in Q1FY10). Due to higher slippages, we increased our credit cost estimates for FY10 and FY11 to 0.71% and 0.65% from the previous estimates of 0.62% and 0.615%, respectively. We scale down our earnings estimates for FY10 and FY11 by 13.5% and 9.4%, respectively, and reduce our target price by 14.4% to Rs490. On the positive side, the bank reported improvement in cost of funds and margins sequentially; on the negative side, the bank reported decline in CXB income and further deterioration of asset quality. We maintain our BUY rating on the stock with a revised target price of Rs490.

Moderate growth in business: In Q2FY10, the total global business grew by 19% Y/Y on the back of 16% Y/Y growth in net advances, to Rs1,502 bn, and 21% Y/Y growth in deposits,

to Rs1,987 bn. Growth in advances mainly came from corporate, agriculture and SME segments; the retail book declined by 23% Y/Y due to re-classification of some loans. The domestic and foreign deposits grew by 20% Y/Y and 6.9% Y/Y, respectively; in the domestic market, savings deposits grew by 18% Y/Y and current deposits increased by 25% Y/Y; sequentially, savings deposits grew 6.1% but current deposits de-grew 5.9%. Domestic CASA deposits' share declined by 27 bps to 32.1% in Q2FY10 from 32.4% in Q2FY09, but marginally improved from Q1FY10 level of 30.9%.

Margin improving sequentially: In Q2FY10, the bank reported flat growth of 3.4% Y/Y in NII to Rs14.1 bn, mainly due to moderate growth in advances book and higher decrease in yield of funds compared to the cost of funds on a yearly basis. During the quarter, the bank's YoA decreased by 82 bps and CoD increased by 20 bps Y/Y. The cost of funds decreased by 11 bps but yield on funds fell by 53 bps to 7.66%. On a yearly basis, the credit-deposit came down to 75.6% from 78.7% in Q2FY09 and 75.8% in Q1FY10 while incremental C-D ratio reduced to 61% from 97% in Q2FY09 and 70% in Q1FY10. BoI's margin was impacted by both value (yield and cost of funds) and volume terms; net interest margin declined by 63 bps Y/Y but improved sequentially by 15 bps.

Flat non-fund based income: During the quarter, commission, exchange & brokerage (CXB) and foreign exchange gains increased by 3.7% Y/Y, to Rs3.8 bn, although the core fee income declined by 6.1% Y/Y, to Rs2.5 bn. A sharp 8.4-fold rise in treasury income to Rs1.5 bn led to flat non-fund income.

Asset quality worsens: In the quarter, the bank's gross NPA and net NPA jumped by 98% and 164% Y/Y, to Rs39.2 bn and Rs16 bn, respectively, due to sharp increase in slippages of standard assets from Rs8.2 bn in Q2FY09 to Rs20 bn in Q2FY10, apart from slippages from restructured standard assets from Rs784 mn in Q1FY10 to Rs7.2 bn in Q2FY10. In percentage terms, GNPA moved up to 2.61% from 1.63% in Q1FY10 and 1.53% in Q2FY09. Increase in gross NPAs led to further decline in provision coverage ratios to 59% from 68.4% in Q1FY10. If the RBI does not permit banks to include write-offs to calculate the mandated provision coverage ratio level of 70%, then the bank would have to make an additional provision of Rs4.2 bn.

Due to higher slippages, we increase our credit cost estimates for FY10 and FY11 to 0.71% and 0.65% from the previous estimates of 0.62% and 0.615%, respectively. We scale down our earnings for FY10E and FY11E by 13.5% and 9.4%, respectively, and reduce our target price by 14.4% to Rs490. At the current price, the stock quotes at 1.3x FY11E adjusted book value; our target price indicates 1.81x FY11E ABV. We maintain our BUY rating on the stock.

Indoco (Rs244)

Revenues in Q2FY10 reported a 21.2% Y/Y improvement, to Rs961.3 mn. The domestic formulations business reported a strong 25.3% Y/Y rise to Rs644.8 mn due to higher sales of its anti-infective products (22.3% Y/Y) and respiratory and anti-allergy products (+29.4% Y/Y) in Q2FY10. The export formulations business reported a growth (10.5% Y/Y to Rs260.4 mn) on the back of higher sales to regulated markets partially offset by declining sales to emerging markets due to liquidity crunch and slowdown faced in these countries. The OPM was 13.7% in Q2FY10 compared to 8.3% in Q2FY09. Net profits for the quarter increased 326.3% to Rs92.50 mn in Q2FY10.

Although Indoco reported growth in Q2FY10, we downgrade our revenues by 6.6% in FY10 to Rs4,043 mn and introduce FY11 revenues of Rs4,802 mn. We downgrade our FY10E EPS by 23.5% to Rs34.4 and expect FY11E EPS at Rs 44.5. The stock is currently quoting at 7.1x FY10E and 5.5x FY11E. We roll over our price target to FY11E and set a price target of Rs312 based on 7x FY11E. We maintain our BUY rating on the stock.

Highlights: Tighter credit control measures has led to improved liquidity situation and brought down the interest burden from Rs14.6 mn in Q2FY09 to Rs6.6 mn in Q2FY10. The domestic debtor days are 85 days and the company plans to reduce the same to 75 days by 31 March 2010.

Management is positive about signing 2-3 deals by December 9 which also includes development of advanced dosage form for MNCs. Indoco will receive an upfront payment when the deal is signed and, subsequently, milestone payments for the same. The company believes these deals would have an EBITDA in excess of 20%.

Indoco plans to file ANDAs for ophthalmic products in the US market from December 2009. The market size for ophthalmic products in the US is US\$14 bn.

Punjab National Bank (Rs836)

In Q2FY10, Punjab National Bank (PNB) reported strong growth in net interest income (NII) of 22.4% Y/Y, to Rs20.9 bn, higher than our expectation of Rs20.3 bn. The better performance was due to larger drift in cost of funds (of 39 bps) compared to 36 bps decline in yield on funds. PNB's margin improved by 29 bps Q/Q but remained subdued on a yearly basis. On a sequential basis, although yield on advances increased by 12 bps to 10.79%, the cost of deposits declined by 30 bps to 5.64%, leading to improvement in margin. The bank's credit-deposit ratio increased to 71% from 70% in Q2FY09, but this was less compared to the Q1FY10 level of 72%. In the quarter, core fee income reported a robust growth of 24% Y/Y to Rs3.8 bn and treasury income doubled to Rs1.5 bn. Strong NII and non-fund based income reflected in 17% Y/Y growth in operating profit to Rs16.1 bn. PNB provided less for bad debts of Rs565 mn (0.15% of

average gross advances) in the quarter against Rs1.99 bn (0.67% of average gross advances) in Q2FY09 and Rs1.47 bn (0.42% of average gross advances) in Q1FY10. On the asset-quality front, gross and net NPAs declined by 8.9% Y/Y and 57% Y/Y, respectively, due to lesser fresh slippages. PNB's bottom-line grew 31% Y/Y to Rs9.3 bn. We maintain our BUY rating on the stock with a target price of Rs1,092 at 2.0x FY11E adjusted book value.

Strong growth in total business: The bank's total business grew by 24.5% Y/Y to Rs3,943 bn on the back of a 24% growth in deposits and 25.4% growth in advances. The growth in advances mainly came from SMEs and agriculture segments, which grew 64% and 20.5% Y/Y, respectively. The disbursement to large corporates also increased by 25.6% Y/Y. During the quarter, PNB's current and savings deposits grew by 23% and 23% Y/Y, to Rs191 bn and Rs698 bn respectively. The bank's term

and CASA deposits grew by 25% Y/Y and 22.7% Y/Y, respectively.

Margin gaining strength: PNB's net interest margin improved by 30 bps to 3.64% from 3.35% in Q1FY10 although it remains lesser compared to the Q2FY09 level of 3.78%. Strong volume growth in advances, improvement in yield on funds compared to cost of funds, and higher credit-deposit ratio of 71% against 70% led to improvement in the bank's margin sequentially.

Non-fund based income stable: During the quarter, PNB's core fee income grew by 24% Y/Y to Rs3.8 bn while treasury income doubled to Rs1.5 bn.

One-off items included in operating expenses: During the quarter, PNB provided for wage revisions of Rs1.0 bn and made provisions of Rs110 mn for other long-term employee benefits. The total operating profit increased by 17.4% Y/Y, to Rs16.1 bn.

Improvement in asset quality: During the quarter, PNB's gross and net NPAs declined by 8.9% Y/Y and 57% Y/Y, respectively, due to lesser fresh slippages of Rs8.6 bn compared to Rs9.44 bn in Q2FY09. In percentage terms, GNPA and NNPA drifted down to 1.58% (from 1.8% in Q1FY10) and 0.14% (from 0.19% in Q1FY10). The provisions coverage ratio increased to 91% from 89.6% in Q1FY10 and 81% in Q2FY09.

Overall, the quarterly results were in-line with expectations; we maintain our BUY rating on the stock with a target price of Rs1,092 at 2.0x FY11E adjusted book value. At the current price, the stock trades at 1.52x FY11E adjusted book value.

Punjab National Bank		(Rs mn)	FY07	FY08	FY09	FY10E	FY11E
Bloomberg/Reuters Code	PNB IN/PNBK.BO	Total Net Income	69,436	75,317	99,505	108,623	129,121
Market Cap (Rs bn)	264	Profit before provisions	36,174	40,062	57,443	61,123	73,946
Market Cap (USD bn)	5.5	NIM (%)	3.5	3.2	3.3	3.1	3.0
52-week range (Rs)	899/286	Net Profit	15,401	20,488	30,912	28,326	32,885
Shares in issue (mn)	315	EPS (Rs)	49	65	98	90	104
FII limit (%)	20	EPS Growth (%)	7	33	51	(8)	16
		P/E (x)	17.1	12.9	8.5	9.3	8.0
		Price/Book Value (x)	2.6	2.4	2.0	1.7	1.5
Major Shareholder (%)		Price/Adjusted Book Value (x)	2.7	2.6	2.0	1.8	1.5
Promoters	57.8	Dividend Yield (%)	1.7	1.6	2.4	2.4	2.6
Banks/FIs/MFs	18.1	Cost-to-income (%)	47.9	46.8	42.3	43.7	42.7
Pvt. Corp. Bodies	0.9	ROA (%)	1.0	1.1	1.4	1.0	1.0
Public	4.1	ROE (%)	16.0	19.6	25.8	20.0	19.9
FIIIs/NRIIs/OCBs	19.1	Tier-1 Capital (%)	8.9	8.5	8.0	7.6	7.3

Source: Company & KSBL Research.

- Equity Research Desk

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Q2FY10: Hits and misses

Company		QE Sep09A	QE Sep09E	Variance (%)	QE Sep08A	YoY (%)
Airlines						
Jet Airways	Net Sales	2,325	2,429	(4.3)	3,121	(25.5)
	Net Profit	(407)	(436)	(6.7)	(579)	(29.7)
	OPM (%)	1.90			11.20	
Automobiles						
Maruti Suzuki	Net Sales	7,203	7,091	1.6	4,994	44.2
	Net Profit	570	597	(4.5)	296	92.5
	OPM (%)	12.72			10.30	
Mahindra & Mahindra	Net Sales	4,558	4,493	1.4	3,138	45.2
	Net Profit	703	434	62.0	226	211.1
	OPM (%)	20.22			5.90	
Banks						
Allahabad Bank	NII	603	640	(5.7)	494	22.3
	Net Profit	334	206	61.9	42	700.4
	Net NPA (%)	0.35			0.75	
HDFC Bank	NII	1,956	2,042	(4.2)	1,866	4.8
	Net Profit	688	659	4.4	528	30.2
	Net NPA (%)	0.50			0.60	
Yes Bank	NII	160	175	(8.5)	123	30.5
	Net Profit	112	95	17.1	64	75.5
	Net NPA (%)	0.08			0.15	
Power						
NTPC	Net Sales	10,783	11,332	(4.8)	9,661	11.6
	Net Profit	2,152	1,969	9.3	2,110	2.0
	OPM (%)	29.80			26.40	
Cement						
ACC	Net Sales	1,969	1,953	0.9	1,791	10.0
	Net Profit	435	381	14.2	283	53.5
	OPM (%)	35.16			24.00	
UltraTech Cement	Net Sales	1,540	1,586	(2.9)	1,396	10.3
	Net Profit	251	282	(10.8)	164	52.9
	OPM (%)	-			-	
Realty						
DLF	Net Sales	1,751	1,751	(0.0)	3,744	(53.2)
	Net Profit	440	485	(9.3)	1,935	(77.3)
	OPM (%)	52.18			59.20	
HDIL	Net Sales	354	390	(9.3)	478	(25.9)
	Net Profit	149	150	(0.8)	266	(44.1)
	OPM (%)	50.80			56.60	
Information Technology						
Infosys	Net Sales	5,585	5,344	4.5	5,418	3.1
	Net Profit	1,540	1,399	10.1	1,432	7.5
	OPM (%)	34.58			33.91	
TCS	Net Sales	7,435	7,328	1.5	69,534	(89.3)
	Net Profit	1,642	1,511	8.7	1,271	29.2
	OPM (%)	29.11			28.09	
Tech Mahindra	Net Sales	1,142	1,101	3.7	1,165	(2.0)
	Net Profit	169	143	18.6	303	(44.0)
	OPM (%)	25.60			33.78	

Company		QE Sep09A	QE Sep09E	Variance (%)	QE Sep08A	YoY (%)
Engineering						
L&T	Net Sales	7,866	8,951	(12.1)	7,682	2.4
	Net Profit	580	585	(0.8)	460	26.0
	OPM (%)	10.00			8.80	
BHEL	Net Sales	6,625	6,671	(0.7)	5,343	24.0
	Net Profit	858	752	14.0	616	39.3
	OPM (%)	18.59			13.30	
FMCG						
ITC	Net Sales	4,345	4,190	3.7	3,863	12.5
	Net Profit	1,010	930	8.6	803	25.8
	OPM (%)	36.59			31.46	
Marico	Net Sales	692	697	(0.7)	603	14.7
	Net Profit	62	59	5.9	47	32.4
	OPM (%)	13.72			12.25	
Metals						
JSW Steel	Net Sales	4,579	4,218	8.6	4,309	6.3
	Net Profit	452	323	39.8	317	42.2
	OPM (%)	25.48			26.22	
SAIL	Net Sales	10,039	10,648	(5.7)	12,239	(18.0)
	Net Profit	1,663	1,670	(0.4)	2,010	(17.3)
	OPM (%)	27.50			24.60	
Oil & Gas						
ONGC	Net Sales	15,081	15,240	(1.0)	17,407	(13.4)
	Net Profit	5,090	4,962	2.6	4,808	5.8
	OPM (%)	58.20			48.86	
Reliance	Net Sales	46,848	49,190	(4.8)	44,787	4.6
	Net Profit	3,852	4,081	(5.6)	4,122	(6.6)
	OPM (%)	15.40			14.45	
BPCL	Net Sales	27,071	28,800	(6.0)	37,826	(28.4)
	Net Profit	(159)	798	(119.9)	(2,625)	(93.9)
	OPM (%)	19.80			8.91	
Pharmaceuticals						
Biocon	Net Sales	580	520	11.5	442	31.2
	Net Profit	74	60	23.7	25	196.8
	OPM (%)	19.48			18.68	
Dr Reddy's Labs	Net Sales	1,814	1,731	4.8	1,504	20.6
	Net Profit	240	154	55.7	87	176.8
	OPM (%)	17.38			13.42	
Ranbaxy	Net Sales	1,721	1,831	(6.0)	1,888	(8.9)
	Net Profit	186	59	215.4	(353)	(152.7)
	OPM (%)	21.22			(41.33)	
Telecom						
Bharti Airtel	Net Sales	10,355	10,218	1.3	8,924	16.0
	Net Profit	2,254	2,401	(6.1)	1,668	35.1
	OPM (%)	40.77			40.28	
Idea Cellular	Net Sales	2,974	3,065	(3.0)	2,299	29.3
	Net Profit	220	263	(16.3)	144	52.8
	OPM (%)	27.22			26.20	

Source: India Earnings, NSE, BSE, Company website; NII - Net interest income or Interest earned - Interest expended; Net NPA (%) - Net Non-performing Assets; OPM (%) - Operating profit margin or Earnings before interest depreciation taxes and amortisation (EBITDA) margin.
(Compiled by- Karvy Equity Research Desk)

Mutual fund performance

Equity diversified

Scheme name	NAV	1 Year	2 Year	3 Year
IDFC Premier Equity - A (G)	23.66	81.70	4.70	97.40
Reliance RSF - Equity (G)	25.05	81.80	9.70	66.20
Tata Equity P/E Fund (G)	39.32	90.30	-4.10	61.60
UTI Dividend Yield Fund (G)	24.78	68.50	2.50	59.70
Sundaram S.M.I.L.E Fund (G)	29.05	97.40	0.50	59.10
HDFC Top 200 Fund (G)	168.75	81.50	7.00	58.10
Baroda Pioneer Growth (G)	45.94	80.00	3.50	56.80
UTI Opportunities Fund (G)	21.96	83.20	-0.80	55.10
DSP-BR Top 100 Equity - RP (G)	83.89	64.30	-2.70	55.00
Birla SL Dividend Yield (G)	64.76	85.30	22.90	53.70

ELSS

Scheme name	NAV	1 Year	2 Year	3 Year
Taurus Tax Shield (G)	28.62	74.60	7.80	67.70
CanRobeco Eqty TaxSaver (G)	19.96	87.60	-0.90	58.10
Sundaram Tax Saver (G)	39.07	59.10	-4.80	51.40
Sahara Taxgain (G)	29.96	75.00	1.20	49.90
Fidelity Tax Advantage (G)	16.69	69.70	-6.00	42.10
Religare India Tax Plan (G)	13.78	75.30	-1.60	37.80
Franklin India Tax Shield (G)	162.58	61.70	-10.00	29.90
Tata Tax Advantage Fund-1(G)	13.06	61.90	-8.70	28.60
Principal Personal Tax Saver	82.20	62.70	-23.10	27.70
HDFC Tax Saver (G)	180.29	76.60	-7.80	27.00

Equity (FMCG)

Scheme name	NAV	1 Year	2 Year	3 Year
Franklin FMCG Fund (G)	48.73	60.20	23.20	35.10
SBI Magnum FMCG Fund	19.28	60.40	22.00	28.70
ICICI Pru FMCG Fund (G)	49.58	59.80	1.80	26.70

Equity (Pharma)

Scheme name	NAV	1 Year	2 Year	3 Year
Reliance Pharma Fund (G)	36.63	99.40	43.20	79.50
Franklin Pharma Fund (G)	42.57	93.70	54.10	50.40
UTI Pharma & Health (G)	27.45	49.80	24.50	25.50

Equity (Tech)

Scheme name	NAV	1 Year	2 Year	3 Year
DSP-BR Technology.Com -RP (G)	27.14	77.50	-10.80	35.20
Franklin Infotech Fund (G)	46.84	76.90	3.40	-4.70
Birla SL New Millennium (G)	16.60	57.00	-20.40	-6.20

Equity (Banking)

Scheme name	NAV	1 Year	2 Year	3 Year
Reliance Banking Fund (G)	72.62	79.80	22.50	102.70
UTI Banking Sector (G)	31.35	69.90	-3.00	64.90
Sahara Bkg & Fin. Services (G)	22.48	115.00	--	--

Source: moneycontrol.com; Note: All NAV as of November 05, 2009, all returns are expressed in percentage terms.

(Compiled by Amit Chopra)

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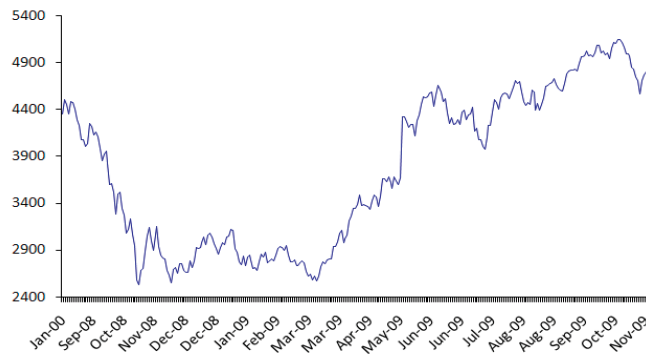
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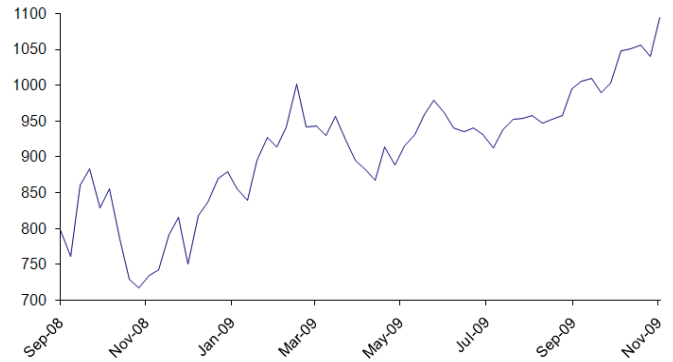


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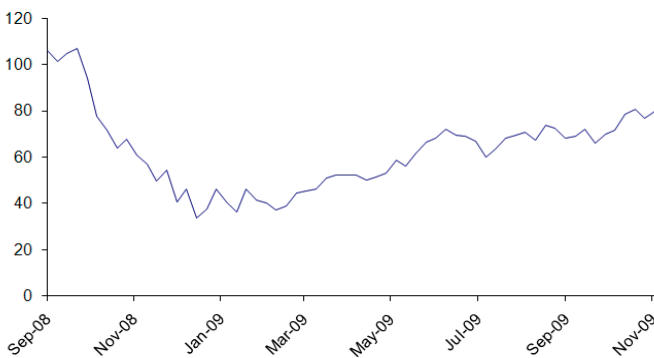
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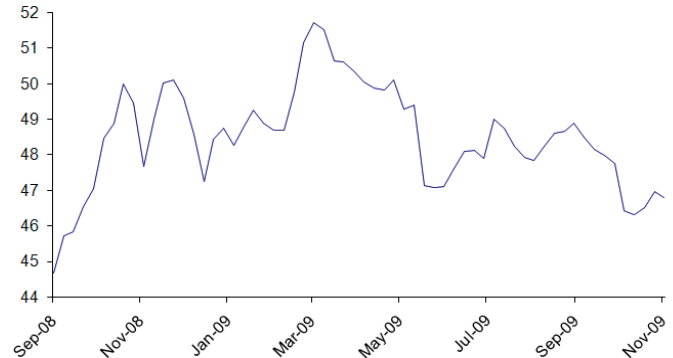
Gold (US\$/oz)



Crude oil (US\$/bbl)



Currency (US\$/INR)



Global indices: Weekly performance

	Close (Nov 06)	Close (Oct 30)	Weekly (%)	6M (%)	12M (%)	PE Ratio
ASIA						
Hang Seng	21829.72	21752.87	0.35	29.67	58.30	22.88
STI	2658.21	2651.13	0.27	21.99	46.12	19.13
S. Korea	1572.46	1580.69	-0.52	12.85	43.97	33.99
Nikkei 225	9789.35	10034.74	-2.45	9.04	10.00	-
AMERICA (closing as on Nov 05)						
Dow Jones	10005.96	9712.73	3.02	17.55	15.07	15.62
S&P 500	1066.63	1036.19	2.94	16.00	17.88	21.87
NASDAQ	2105.32	2045.11	2.94	19.68	30.87	36.76
Brazil Bovespa	64815.72	61545.50	5.31	25.86	78.25	25.72
EUROPE (closing as on Nov 05)						
FTSE-100	5125.64	5044.55	1.61	16.66	20.05	129.53
DAX 30	5480.92	5414.96	51.22	12.0	13.61	48.19
CAC 40	3708.73	3607.69	2.80	12.63	9.18	14.51

Source: Bloomberg

Domestic indices: Weekly performance

	Close (Nov 06)	Close (Oct 30)	Weekly (%)	6M (%)	12M (%)	PE Ratio
Sensex	16158.28	15896.28	1.65	35.18	65.99	19.59
Nifty	4796.15	4711.70	1.79	32.31	65.80	19.93
BSE 500	6294.50	6142.43	2.48	45.26	74.33	19.72
BSE Auto	6518.39	6307.20	3.35	79.27	146.14	42.67
BSE Bankex	9690.49	9336.16	3.80	59.03	78.08	14.46
BSE Capital Goods	12985.81	12873.48	0.87	52.38	71.05	33.07
BSE Consumer Durables	3390.17	3348.21	1.25	83.86	63.91	11.30
BSE FMCG	2764.94	2808.97	-1.57	30.51	43.57	29.30
BSE Healthcare	4520.42	4377.20	3.27	45.77	54.74	35.88
BSE IT	4453.45	4425.52	0.63	59.99	70.12	20.34
BSE Oil & Gas	9629.82	9434.43	2.07	14.54	65.55	18.02
BSE Metal	14507.50	13940.17	4.07	92.53	190.53	15.93
BSE Realty	3993.68	3827.13	4.35	70.80	75.11	21.61
BSE PSU	8794.80	8400.20	4.70	45.07	82.44	17.03
BSE Power	2948.35	2914.62	1.16	33.53	73.21	30.28
BSE Tech	2914.06	2855.37	2.06	29.83	42.73	19.06

(Compiled by Amit Chopra)

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