

## What's Inside: India Strategy; BPCL (BUY); IT Services, Events calendar

### Market Front Page

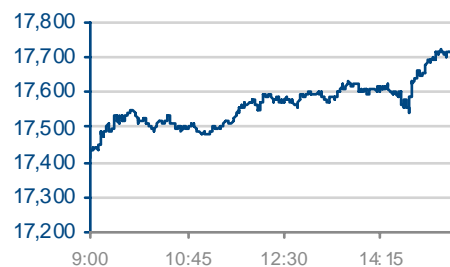
Index Movements	Closing	% Chg	% YTD	ADR/GDR (US\$)	Latest	% Chg	% Prem
Sensex	17,509	(1.1)	0.3	HDFC Bank	143.6	0.4	16.8
Nifty	5,251	(1.2)	1.0	Reliance	45.5	(2.6)	(1.5)
BSE Smallcap	9,081	0.1	8.7	Infosys	59.1	(1.4)	(0.5)
CNX Midcap	8,109	(0.3)	9.1	Satyam	5.1	(1.6)	28.1
Nasdaq	2,101	(0.4)	(7.4)	Wipro	11.9	(0.5)	48.2
DJIA	9,733	(0.4)	(6.7)	ICICI Bank	36.0	(0.5)	(0.5)
IBOV	61,236	0.5	(10.7)	SBI	98.1	(1.8)	1.0
FTSE	4,806	(2.3)	(11.2)	Sterlite	14.0	(1.8)	(0.8)
CAC	3,340	(3.0)	(15.2)	Tata Motors	17.4	1.1	6.1
Turnover	US\$m	% Chg	<b>Commodities</b>				
BSE	927	(8.2)	Latest	%Chg	%YTD		
NSE	2,555	(21.9)	Gold (US\$/ounce)	1,207	0.6	10.0	
Derivatives (NSE)	16,289	(5.6)	Crude (US\$/bl)	73	(3.5)	(8.1)	
FII F&O (US\$m)	Index	Stocks	Aluminium (US\$/MT)	1,926	(2.6)	(13.6)	
Net buying	(192)	(68)	Copper (US\$/MT)	6,330	(2.8)	(14.2)	
Open interest	13,491	6,377	Forex Rates	Closing	% Chg	%YTD	
Chg in open int.	281	64	Rs/US\$	46.7	0.2	0.0	
Equity Flows (US\$m)	Latest	MTD	YTD	Rs/EUR	57.0	0.1	(15.0)
FII (29/6)	(38)	2,099	6,700	Rs/GBP	69.6	(0.5)	(7.3)
DII (1/7)	(1)	(1,032)	2,626	Bond Markets	Closing	bps Chg	
MF (30/6)	19	(120)	(1,761)	10 yr bond	7.5	(3.0)	
				Interbank call	6.0	60.0	

### Corporate Front Page

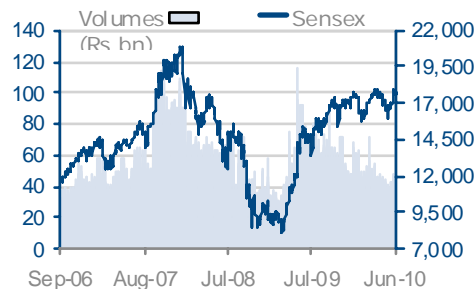
- **ONGC** Board has in-principle approved the cluster development of four marginal fields in the Western offshore. (BL)
- **RCom** today announced acquisition of one of India's largest cable service providers, Digicable, in a cashless all-stock deal. (BS)
- After more than two years, **Tata Motors** has dislodged Korea's Hyundai Motors in India from the second spot in monthly domestic passenger vehicle sales. (BS)
- **Tata Power** to raise Rs14bn via coal SPVs. (FE)
- **HDFC Bank** is now looking for a south-based bank for its next phase of merger. (FE)
- **Raymond's** plan to utilise 125 acres of land at its Thane plant for residential and commercial purposes has met with strong objection from the Maharashtra Government. (BS)
- The **GMR** Group has decided to keep on hold an agreement on distribution of promoters stakes among family members. (ET)
- The Government approves \$5.25 per mmBtu for **ONGC** gas. (ET)
- **Axis Bank** targets 12,000 villages in five years time under financial inclusion plan. (ET)
- **Sterlite Energy**, the flagship company of Vedanta Resources, has ignited the first unit (600 MW) of its 2,400MW power plant at Jharsuguda. (BS)
- The Blackstone Group has secured 12.5% stake for Rs2.8bn in Monnet Power, a 100% subsidiary of **Monnet Ispat and Energy**. (BS)
- BK Birla's daughter, Manjushree Khaitan, to be **Kesoram** vice-chairman. (BS)
- **Kesoram Industries** to invest Rs11.3bn on cement capacity expansion and additional power generation. (BL)
- **MRPL**, a subsidiary of **ONGC**, will revisit its fuel retail business plans as the government has decontrolled petrol prices. (BS)
- **Kinetic** ties-p with Italian company for engineering services for infra projects. (BL)
- **Mangalam Cement** studying Mangalam Timber's merger proposal. (BL)

### Charts Front Page

Sensex intraday



Sensex price volume trend



## Market Front Page

### Top Movers BSE 200

Top Gainers	Price (Rs)	Chg (%)	YTD (%)	Top Losers	Price (Rs)	Chg (%)	YTD (%)
McLeod Russel India Ltd	211	5.0	-19.2	Sterlite Industries India	164	-3.4	-24.0
Jain Irrigation Systems	1115	4.0	27.8	Reliance Communications	192	-3.1	11.5
Engineers India Ltd	322	2.9	29.7	Siemens India Ltd	716	-2.9	22.9
Shriram Transport Finance	593	2.9	21.5	Patel Engineering Ltd	415	-2.8	-7.3
Mphasis Ltd	579	2.7	-20.1	Gujarat NRE Coke Ltd	62	-2.8	-14.6

### Volume spurts

Company	CMP	M.Cap (US\$m)	Vol. (in '000)	10D A.Vol (in '000)	% Chg
Jubilant Organosys Ltd	350.4	1,192	1,342	244	451
Indiabulls Power Ltd	31.8	1,377	5,468	1,897	188
Mphasis Ltd	578.8	2,602	2,372	824	188
Engineers India Ltd	322.0	2,324	938	366	156
NHPC Ltd	32.2	8,472	33,569	13,664	146
NMDC Ltd	265.7	22,563	1,234	555	122
IFCI Ltd	57.8	914	56,356	26,206	115
Adani Power Ltd	126.2	5,891	1,759	897	96
Jain Irrigation Systems Ltd	1,114.9	1,820	366	192	91
Bank of India	357.0	4,016	1,647	868	90

### FII - FII trades

Scrip	30/6/2010			1/7/2010		
	Volume '000	Price	Prem %	Volume '000	Price	Prem %
Maruti	136	1,396	-	101	1,400	0.3
Boi	15	353	0.6	-	-	-
Pnb	31	1,122	7.2	0.570	1,115	10.0
Bob	49	700	0.2	100	723	0.6
Union bank	807	315	1.2	5	319	1.5
Grasim	7	1,810	1.6	13	1,888	2.3
Pantaloon	62	437	6.3	-	-	-

## Corporate Front Page

- **Tata Chemicals** is planning to invest Rs35-40bn to double urea production capacity at its Babrala facility in Uttar Pradesh. (BL)
- **Puravankara Projects** announced a new project, Purva Skywood, in Bangalore that would see development of 1.25mn sqft of residential space spread over 12.5 acres. (BL)
- **Federal Bank** to open 31 new branches in Kerala this week. (BL)
- **Vijaya Bank** has applied to the Government of India for Tier-I capital. (BL)

## Economy Front Page

- Food inflation declined by a significant 4% to 12.9% for the week ended June 19 due to a high base effect and timely arrival of monsoon rains. (BS)
- FDI in DTH raised to 74%. (FE)
- Department of industrial policy & promotion (DIPP) has initiated an exercise to tweak the foreign direct investment policy for wholesale trading. (ET)
- SEBI has made it tougher for non-finance businesses, which has less than five-year of financial services experience, not permitting it to own stake in an asset management company. (ET)
- May export surges to US\$16.1bn, up 35.1% yoy. (BS)
- Maharashtra Government is considering imposition of betterment charge and service tax on developers of residential and commercial complexes adjacent to the mega-infrastructure projects lined up in Mumbai. (BS)
- The Centre's fiscal deficit stood at Rs1lakh crore during April-May 2010, constituting over a fourth of the budget estimate for the entire year. (BS)
- Funds raised by corporate India through syndicated loans and equity issuances have more than trebled to about Rs578bn for the half-year ended June 2010. (BL)
- The European sovereign debt crisis will cause companies and governments in the region to curtail IT spending for 2010, according to Gartner and Forrester. (BL)

## Insider Trading

Company	Name of Acquirer / Seller	Transaction Date	Buy /Sale	Quantity	Price (Rs)	Deal Size (Rs m)	Shares Transaction (%)	Holding after Transaction (%)
Ambuja Cements Ltd	A L Kapur	28/06/2010	Sell	100,000	118.5	12	0.0	0.0
Dabur India Ltd	Sunil Duggal	28/06/2010	Buy	74,586	202.0	15	0.0	0.2
Dabur India Ltd	P D Narang Group	28/06/2010	Buy	74,586	202.0	15	0.0	0.1
Gitanjali Gems	Mehul C Choksi	30/06/2010	Buy	225,000	126.0	28	0.0	43.6
IFL Promoters Ltd	Heena Developers Ltd	--	Sell	444,000	28.0	12	14.8	0.0
Ind-Swift Laboratories Ltd	Ind-Swift Ltd	29/05/2010	Buy	1,465,000	64.6	95	5.0	27.2
JRG Securities Ltd	Regi jacob	31/05/2010	Sell	200,000	35.0	7	0.0	5.9
Kotak Mahindra Bank Ltd	Venkattu Srinivasan	08/06/2010	Sell	15,000	740.0	11	0.0	0.0
Kotak Mahindra Bank Ltd	K V S Manian	07/06/2010	Sell	10,000	754.0	8	0.0	0.0
LKP Finance Ltd	Sayanta Basu	09/06/2010	Buy	301,384	116.4	35	2.3	2.3
LKP Finance Ltd	Mahendra V Doshi	09/06/2010	Sell	100,000	116.4	12	0.0	34.3
Nelcast Ltd	P Deepak	28/06/2010	Buy	239,053	71.0	17	1.4	9.1
Piramal Healthcare Ltd	PHL Holdings Pvt Ltd	--	Buy	4,359,245	482.0	2,101	2.1	37.4
Smartlink Network Systems Ltd	Nitin Kunkolienker	08/06/2010 - 10/06/2010	Sell	159,444	48.5	8	0.5	2.1
Smartlink Network Systems Ltd	Nitin Kunkolienker		Sell	127,197	50.0	6	0.4	0.4

Deal size worth more than Rs5m considered. The exchange does not report transaction prices, so we have assumed them to be closing prices for the respective days. Hence, actual deal sizes may vary from the figures above.

## BSE/ NSE - Bulk Deals

Company	Name of Acquirer / Seller	Transaction Date	Buy /Sale	Quantity	Price (Rs)	Deal Size (Rs m)
Insecticides (India) Limi	Goldman Sachs Investments Mauritius I Ltd	1/7/2010	Sell	71,575	242.1	17
Jocil Limited	Orange Mauritius Investments Limited	1/7/2010	Buy	35,000	289.8	10
Jocil Limited	Icici Bank Ltd A/C Icici Treasury	1/7/2010	Sell	35,000	289.7	10
Kirloskar Oil	Nalanda India Fund Limited	1/7/2010	Sell	55,088	400.0	22
Kirloskar Oil Engines Ltd	Nalanda India Fund Limited	1/7/2010	Sell	99,689	400.0	40
Parab Drugs	Indea Long Term Opportunities Master Fund	1/7/2010	Buy	350,000	68.5	24
Parabolic Drugs Ltd	Indea Long Term Opportunities Master Fund	1/7/2010	Buy	650,000	69.5	45
Parabolic Drugs Ltd	Icici Bank Ltd. (Trading)	1/7/2010	Sell	477,840	67.5	32
Parabolic Drugs Ltd	Indea Long Term Opportunities Master Fund	1/7/2010	Sell	291,711	67.2	20
Redington (India) Limited	Redington Mauritius Limited	1/7/2010	Sell	400,000	358.3	143
Redington India	Ussl As Trustee Of Universities Superannuation Scheme	1/7/2010	Buy	1,300,000	355.0	462
Redington India	Payash Securities Pvt Ltd	1/7/2010	Buy	700,000	355.0	249
Redington India	Morgan Stanley Mutual Fund A/C Morgan Stanley Growth Fund	1/7/2010	Buy	455,000	355.0	162
Redington India	Idfc Small Andmidcap Equity Sme Fund	1/7/2010	Buy	550,000	355.0	195
Redington India	Blackstone Asia Advisors L.L.C. A/C The India Fund Inc	1/7/2010	Buy	523,000	355.0	186
Redington India	Morganstanley Invst Mgmt Inc A/Cmorganstanleyindia Invst Fund Inc	1/7/2010	Buy	640,000	355.0	227
Redington India	Goldman Sachs Investment (Mauritius) 1 Limited A/C. Short Term	1/7/2010	Buy	1,963,000	355.0	697
Redington India	Redington Mauritius Limited	1/7/2010	Sell	10,600,000	355.2	3,765
Shakti Pumps	Melchior Indian Opportunities Fund Limited	1/7/2010	Sell	92,330	200.8	19

# India Strategy

## In the Twilight Zone - II

With the global economy in a twilight zone, with little clarity on whether dawn or dusk lies ahead, we believe investors are likely to play safe yet again in 2H2010, holding on to sectors and stocks with high growth visibility, good corporate governance and high free cash flow generation. Valuation-based sell calls for stocks and sectors with strong underlying growth may not work. Through the first half of 2010, the growth outlook for the Indian economy has improved, the reforms process has gathered further pace, and the Government's fiscal position has improved. As such, our portfolio strategy would be to remain overweight on domestic cyclicals—consumption proxies, industrials, healthcare and software. Our top 5 large-cap BUYs for 2010—Axis Bank, Dr Reddy's, Hero Honda, ITC, and Infosys—remain unchanged, despite their large outperformance in 1H2010.

- Market leadership – the shift:** Even as key indices have remained almost flat in 1H2010, sectors with high growth visibility, especially domestic consumption cyclicals, have outperformed by a big margin. We believe the new market leaders that emerged in 1H2010 will remain leaders in 2H as well, given the strong growth visibility and earnings upgrade momentum. In a market bereft of value, we believe that portfolio construction should be driven by growth focus. The risk of the valuation gap shrinking between the new leaders and the rest is low, in our view.
- Indian economy – the upswing:** With the turnaround in investment cycle, consumption growth momentum remaining intact, we believe India is well-positioned to report real GDP growth of 8.5-9.0% in FY11. Based on current trends, FY12 growth will likely be higher. We do not think calibrated policy rate hikes (we expect a 100bps rise in reverse repo rates by March 2011) represent a risk to our forecast growth expectations. Macro tailwinds are strong enough for well-positioned domestic cyclicals to continue delivering strong growth.
- Roller-coaster ride for the market:** The trend of headline indices moving in a narrow range with bouts of large volatility will likely continue in 2H2010. The tailwind of falling price of risk is behind us, an added reason why valuation expansion may be driven only by delivery of growth expectations. Given our portfolio stance of a large underweight on global cyclicals, a major recovery in global growth cycle will be the key risk to our view.
- Top BUYs, dark horses:** Our top BUYs, listed in our January 2010 note, dovetailed on our strategy of buying into high-quality, growth companies, delivered a simple average return of 22% in 1H2010. Our dark-horse picks, based partly on a potential further decline in price of risk, did not work (down 8%). We are removing Bharti and DLF from the dark horses and replacing them with BPCL and Tata Motors.

### Ytd Performance of Top Buys

Stock	Ytd return
Axis Bank	27%
Dr Reddys	27%
Hero Honda	24%
ITC	26%
Infosys	8%
Average Ytd return	22%
Nifty	2%

Source: Bloomberg, IIFL Research

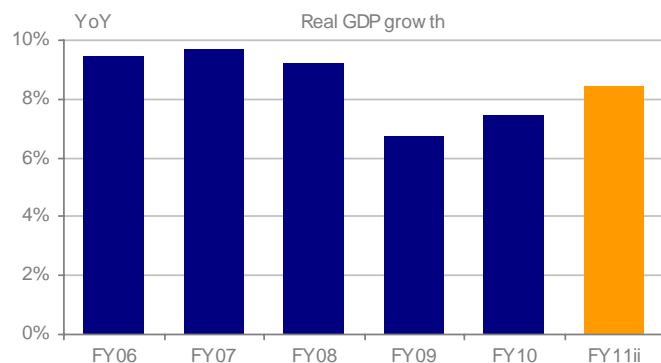
### Ytd Performance of Dark Horses

Stock	Ytd return
Bharti*	-20%
DLF*	-20%
HCL Tech	-1%
Jaiprakash	-12%
Mahindra	16%
Average Ytd return	-8%
Nifty	2%

Source: Bloomberg, IIFL Research

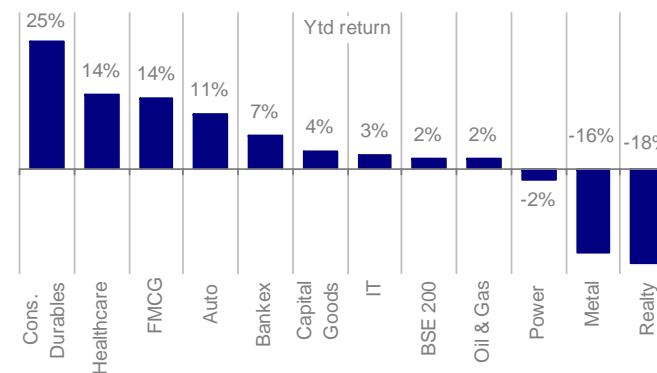
**\* We are replacing Bharti and DLF with BPCL and Tata Motors as our dark horses for 2H CY10**

### Economic growth will accelerate in FY11



Source: CMIE, IIFL Research.

### Ytd sectoral returns have seen big divergence



Source: Bloomberg, IIFL Research.

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In our note *In the Twilight Zone* (4 January 2010), we had laid down our 2010 investment strategy and hypothesised that:

- the domestic growth cycle was on a strong wicket, but the global growth cycle will need to be supportive enough for sustenance of valuations at current levels;
- markets would be in a roller-coaster ride, given periodic swings in investors' mood between belief and disbelief in the underlying trends in the global growth cycle;
- tailwinds from falling price of risk were well behind us, and earnings growth will be the key driver for markets' performance;
- earnings growth momentum and real GDP growth momentum will remain supportive, especially in domestic cyclicals, led by acceleration in consumption spend; and
- portfolio construction should be driven by a growth focus, overweighting sectors with high growth visibility—consumption cyclicals, software, pharma, and banks.

This strategy seems to have played out reasonably well in the last six months. As we argue below, we see no reason to change our top-down view as yet.

We would first like to highlight a few discernible trends.

- Even amidst all the haze around global growth, the Indian economy seems to have gotten into a stronger growth phase with potential FY12 growth upgrades, and the fiscal position has gotten better.
- Market leadership seems to have decisively swung to stocks and sectors with high growth and earnings visibility, better corporate governance, low gearing and capital re-investment needs, and high free-cashflow generation.
- Valuations of the new market leaders have now broken out of past trading bands, supported by continuing earnings upgrade momentum, with little market-cap bias.
- The price of risk, albeit volatile, is still low (relative to long-term historical averages) but not at all reflective of the risk aversion that investors seem to be displaying in their choice of sectors/stocks;

there is total investor apathy for stocks / sectors perceived to have higher risk. FII inflows too at US\$6.5bn (2010 YTD), have been relatively sober (vs US\$17.6bn in 2009), but markedly more volatile.

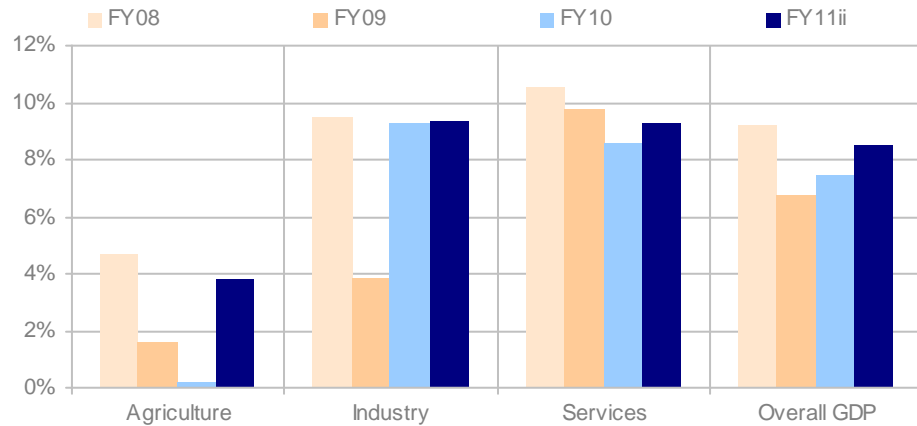
### **India – on a strong wicket in a world of “unknowns”**

The view on global growth has seldom been more polarised than it is now, with extremely divergent opinions, from double-dip to strong recovery. Some experts are advocating adoption of an even stronger dose of Keynesian medicine and printing more money to reduce chances of a recession, while others believe that fiscal austerity is the only way to steer clear of a number of sovereign debt bombs. Trying to prognosticate on where global growth is headed, how policymakers will act / react and whether the world economy will wither or blossom is an exercise in futility. Assigning very high probability to either of the extremes is fraught with too many risks. We would be better off staying vigilant and taking things as they come, altering portfolio construction and bias as new realities surface—and by focusing on things that are predictable with a greater degree of certainty, enabling better management of risk.

One thing is more certain: India's GDP growth momentum is on a strong wicket, with continued acceleration in consumption spend and a perceptible turnaround in the investment cycle (our hypothesis earlier this year of a much slower recovery in the investment cycle has been proved wrong). We believe that real growth in FY11 will be higher by 50-100bps than our January 2010 forecast of 8% and the underlying growth trends give us confidence that FY12 growth will likely be higher. Our bullish view on consumption, detailed in our note released on 4 January 2010, remains unimpaired.

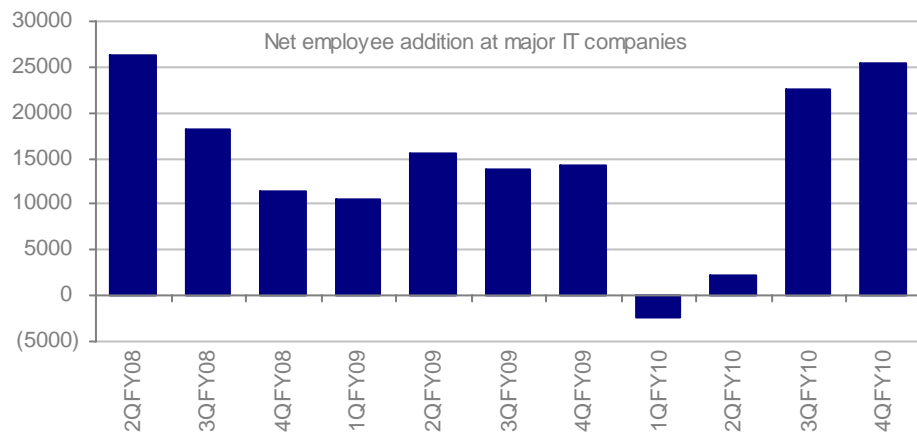
Incrementally, the government's fiscal position is getting better and the reforms momentum has gained momentum. The recent hike in gas and petroleum-product prices (5-33%), deregulation of pricing controls on petrol, the urgency with which 3G and BWA auctions were pushed through, and the commitment to achieve the disinvestment target is illustrative of Government of India's renewed commitment to the reforms process (our 30 June note *The Big Picture: Upswing* has a more detailed update on the economy).

**Figure 1: FY11 GDP growth should accelerate, driven by turnaround in Agri growth**



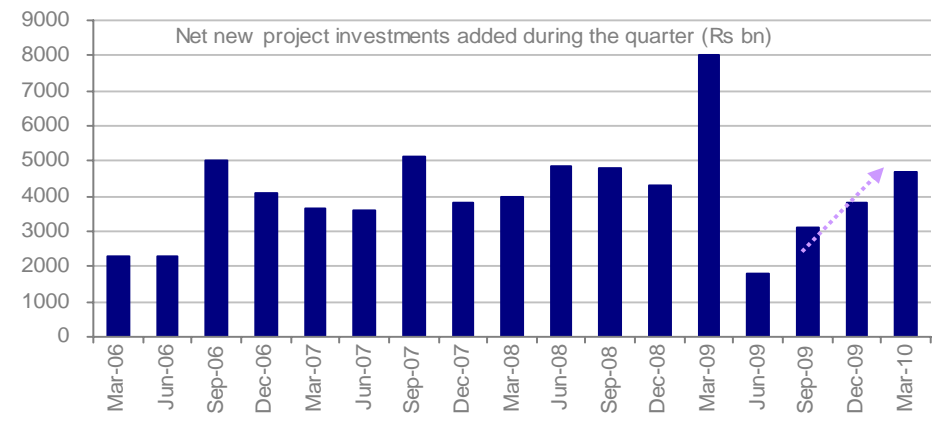
Source: CMIE, IIFL Research

**Figure 2: Companies are back in hiring mode**



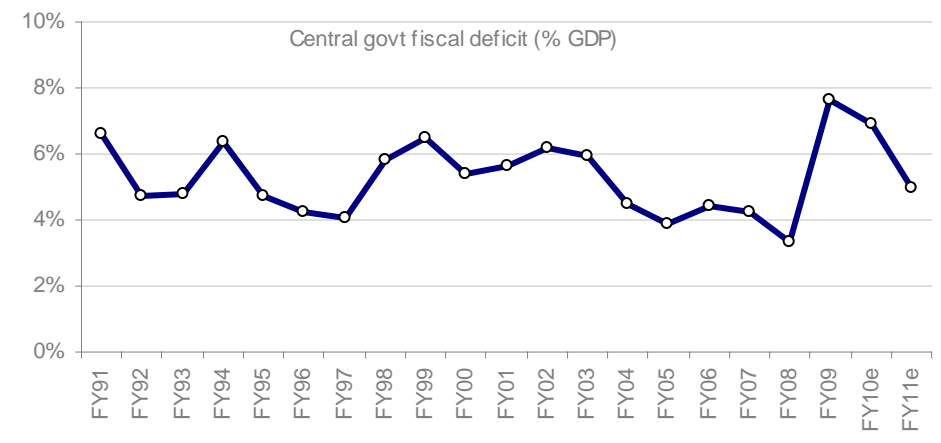
Source: Company, IIFL Research

**Figure 3: New project announcements are back**



Source: CMIE, IIFL Research

**Figure 4: FY11 Fiscal position is getting better**



Source: Budget documents, CMIE, IIFL Research

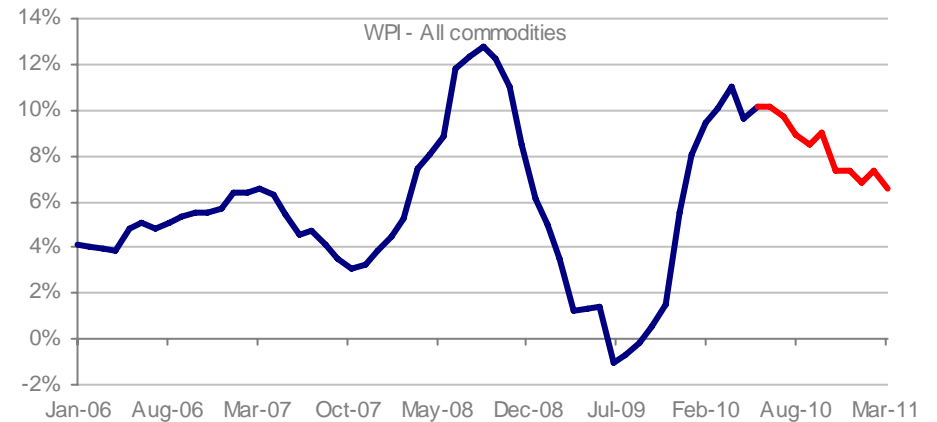
**Growth sustenance - not at risk**

The new debate seems to be less on how strong India's growth prospects are, and more on whether the Indian economy is overheating. The sharp upswing in property prices in select cities, high consumer price inflation, supply-side tightness and high capacity utilisation in a few industries, rising loan-to-deposit ratios (LDRs) are, without doubt, irritants to sustainability of growth. While RBI has enough maneuverability on the monetary policy side to manage demand-side pressures, especially in view of the improvement in the government's fiscal position, and a calibrated normalisation of the interest-rate cycle with further rate hikes will continue (we expect 50bps hike in reverse repo rates in the 27 July policy announcement, 100bps hike in reverse repo by March 2011), we remain sanguine that India will achieve 8.5-9.0% real growth in FY11 and FY12.

There is little doubt that India will be in a sweet spot in a slowing world, given its large energy import dependence; softening commodity prices should also help lower producer price inflation. In our view, WPI inflation has already peaked and we expect it decelerate to 7% (from 10% currently) by December 2010 with some support from a normal monsoon. From an external perspective, what can prove us wrong would be a sharp reversal in price of risk, as capital outflows can widen the savings-investment gap, thus constraining the ability to fund higher growth.

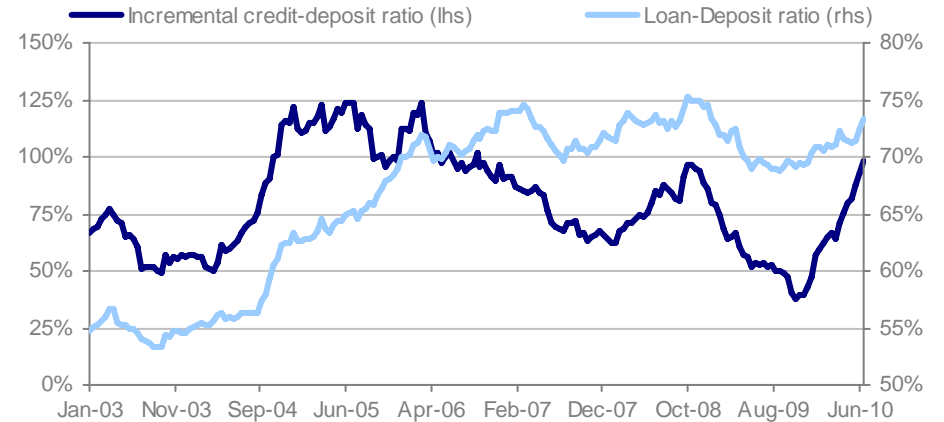
Sequential momentum of consumer inflation has decelerated, with CPI Index remaining unchanged for four months. Consequently, consumer inflation, which has remained stubbornly high, has started to decelerate. In YoY terms, inflation in CPI (Industrial workers) has decelerated from over 16% in January to below 14% in May. Similarly, Rural CPI inflation has decelerated from over 17% in January to under 14% in May. We expect CPI inflation to continue to decelerate further, to single-digit rates before the end of this year—assuming a normal monsoon.

**Figure 5: WPI Inflation will decelerate gradually to ~6.5% by March 2011**



Source: Bloomberg, IIFL Research. Note: Red line denotes IIFL projection till March 2011

**Figure 6: Loan-Deposit ratio is rising, Incremental LDR is already ~100%**

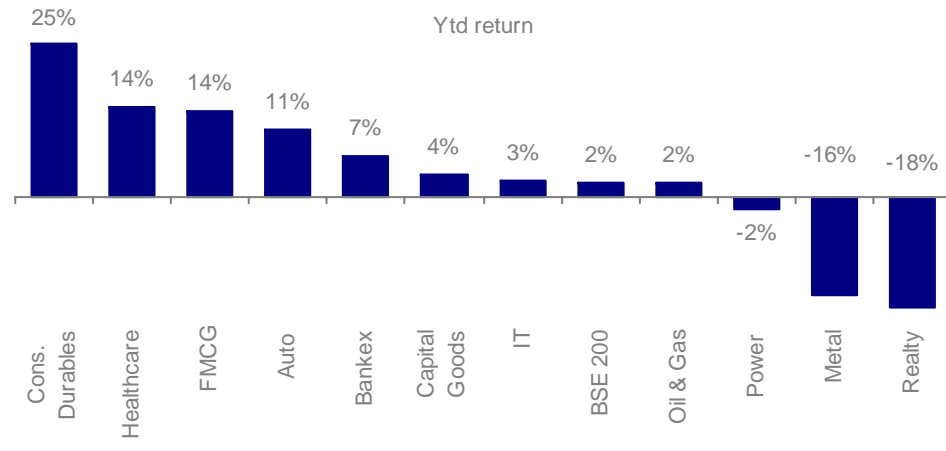


Source: RBI, IIFL Research

**Market leadership – the shift**

While key indices (Sensex, Nifty, BSE-200) were almost flat (up 0-2%) during January-June 2010, performance of individual sectors or even stocks within sectors have been vastly divergent. Figure 7 details the performance of various sector indices.

**Figure 7: Ytd 2010 sectoral returns**



Source: Bloomberg, IIFL Research. Note: Returns based on BSE Sector indices

The following trends are clearly noticeable.

1. In general, sectors linked to the domestic economic cycle have outperformed those that are linked to the global cycle.
2. All stocks of companies with high growth visibility, high free cash generation, low gearing and low capital re-investment needs, high ROE, better corporate governance, a non-dilutive growth profile have generally done well.
3. Valuations of companies that have outperformed (as per 2 above), have seen further re-rating, and the gap with the rest of the market has concomitantly widened. In quite a few cases, such stocks and sectors have never traded at valuation multiples at which they are currently trading.

Our belief is that all the above trends will continue in 2HCY10 as well. With continuing global uncertainty, investors would continue to chase companies that can deliver expected growth with minimal risk, even if they have to pay a higher multiple. Valuation-based sell calls may not work in this market, as long as growth delivery is not at risk. The key benchmark indices will most likely continue to move in a +/-10% range in the next six months, but the valuation gap between the “haves” (those that satisfy criteria laid down in (2) above) and the “have-nots” is unlikely to shrink any time soon, in our view. Investor psychology is likely to change only if conviction in a sustained turnaround in global growth cycle returns.

History suggests that when market leadership changes, the new leaders do not peak out till they reach bubble valuations. If we look back, TMT sectors during 1998-2000 and real estate and investment cyclicals during 2005-07 did not peak out until their valuations moved to levels significantly higher than their historical bands. While it is hazardous to start believing in new bubbles, the fact that history repeats itself remains and one that cannot be ignored. The positive momentum in revenue and earnings growth in these sectors/stocks will help valuation justification in the interim. Most new market leaders have already moved out of their historical valuation range, but the peak typically coincides with an extreme sharp spike led by euphoria. Maybe we deviate from history this time, but that can possibly happen only if growth visibility in other sectors gets much better and capital flows tilt away to sectors and stocks that are today perceived to carry a higher risk.

**Portfolio Strategy: focus on growth visibility**

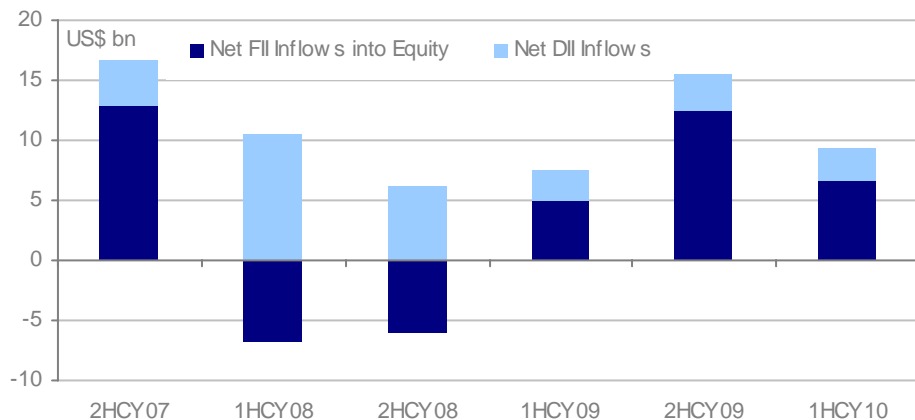
In the above backdrop, we retain our “growth” bias by overweighting sectors that have high growth visibility—Consumer Discretionary, Consumer Staples, Healthcare and Software. We are also reversing our underweight stance on Industrials in line with our change in view, from negative to positive, on the investment cycle. That some of these sectors are consensus overweights does worry us a bit, but that in isolation should not inhibit outperformance, as long as growth delivery is intact. Energy (with positive bias towards oil PSUs) and Banks are near neutral weights, while all other sectors are underweights.

**Figure 8: IIFL Recommended sector stance**

	Nifty weight	IIFL weight	Rationale
Consumer Discretionary	4.2	9.0	Topline growth momentum remains strong, consensus earnings to see more upgrades
Consumer Staples	6.9	9.0	High growth visibility, low risk to earnings
Energy	16.3	16.0	Recent deregulation is a big structural positive for PSUs; we would underweight Reliance
Financials	26.2	26.0	A good proxy on the economy, but risk-reward across large caps is very mixed
Health Care	2.5	4.0	Select stocks like Dr Reddy's and Sun are well positioned to capitalise on the generics opportunity
Industrials	12.9	14.0	Outside EPC chain, there is limited value relative to growth
IT Services	13.1	16.0	High revenue growth visibility, margins to expand
Materials	8.4	3.0	Large volatility in earnings and margins likely; markets pricing in positive surprises, earnings upgrades
Telecom	3.3	2.0	Oversold sector but still strong competitive pressures
Utilities	6.3	1.0	Too richly valued relative to growth
Nifty	100.0	100.0	

Source: Bloomberg, IIFL Research

**Figure 9: Institutional activity was much lower in 1HCY10 vs 2HCY09**



Source: Bloomberg, IIFL Research. Note: DII data pertains only to secondary market transactions while FII data pertains to primary and secondary market transactions

**Our top BUYs and Dark Horses – Mixed performance**

Our basket of top 5 BUYs, recommended as per our 4<sup>th</sup> Jan 2010 note, for the year 2010 – Axis, Dr Reddys, Hero Honda, ITC and Infosys (changed from Wipro in mid-Feb) – have done reasonably well with an simple average absolute return of 22% (outperforming Nifty by 20%) during Jan-June 2010. Despite their strong outperformance, we retain all the five as our top large cap BUYs for 2H 2010 as well.

In contrast, our dark horses—Bharti, DLF, HCLT, Jaiprakash, M&M—turned out to be truly dark! This basket is down 8% YTD. While the worsening of the competitive environment and acquisition of Zain were key drags on Bharti, DLF and Jaiprakash declined despite reflation of real-estate prices, because of continued risk aversion. We are taking out Bharti and DLF out of our dark horses list and replacing them with Tata Motors and BPCL.

In the mid-cap space, the names that we like are Ashok Leyland, Crompton, Emami, Exide, LIC Housing, Patel Engineering and Pidilite. A detailed valuation table is given in Figure 10.

Figure 10: IIFL Top Buys and Dark horses valuation summary

	Mkt Cap (US\$ mn)	Price (Rs)	Avg daily vol (US\$ mn)	PE Ratio		Price to Book		RoE (%)	FY10-13 EPS (%)	Price perf (%)	
				FY11ii	FY12ii	FY11ii	FY12ii	FY11ii	Cagr	Ytd	1mth
<b>Large cap Buys</b>											
Axis Bank	10,801	1,236.0	51.9	15.2	11.7	2.7	2.3	19.0	30.4	24.7	4.3
Dr Reddys	5,298	1,455.5	15.1	22.0	16.5	4.9	3.8	24.3	28.5	26.8	3.4
Hero Honda	8,737	2,037.9	21.7	15.9	13.6	8.0	5.7	59.8	15.1	23.7	6.1
ITC	24,818	302.5	22.6	24.2	20.7	7.2	6.6	31.6	18.0	23.1	9.1
Infosys	33,997	2,761.0	67.1	21.4	16.9	5.7	4.7	29.1	23.0	6.3	5.3
<b>Mid cap Buys</b>											
Ashok Leyland	1,817	63.7	10.0	14.8	12.4	2.0	1.7	14.0	28.4	28.1	6.4
Crompton	3,538	257.0	7.9	19.1	17.4	5.1	4.0	29.9	10.9	5.1	6.6
Emami	1,273	784.0	1.8	25.8	20.7	6.6	5.5	27.9	28.4	60.0	21.9
Exide	2,399	131.4	3.4	18.0	15.7	4.0	3.3	24.8	13.3	13.8	8.3
LIC Housing	2,023	993.4	20.6	10.6	9.4	2.3	1.9	23.6	20.0	23.5	7.9
Patel Engineering	629	420.0	1.4	14.6	12.4	1.7	1.5	12.3	10.6	(5.1)	17.1
Pidilite	1,417	129.5	0.5	18.8	15.4	5.4	4.5	34.1	24.2	32.7	18.0
<b>Dark Horses</b>											
BPCL	5,171	667.9	17.6	13.2	10.6	1.5	1.4	11.9	15.6	5.1	15.8
HCL Tech	5,251	361.4	13.6	14.3	11.3	2.8	2.3	21.2	33.5	(2.7)	(1.1)
Jaiprakash	5,788	127.0	34.9	23.1	19.4	2.9	2.6	13.4	13.9	(13.4)	8.4
M & M	7,708	622.7	27.5	17.6	15.3	3.8	3.2	23.7	10.4	14.9	10.1
Tata Motors	9,088	773.4	96.1	8.6	6.3	3.0	2.1	34.7	47.4	(2.4)	6.6

Source: Bloomberg, IIFL Research

## 'Reform' tailwind has some way to play out

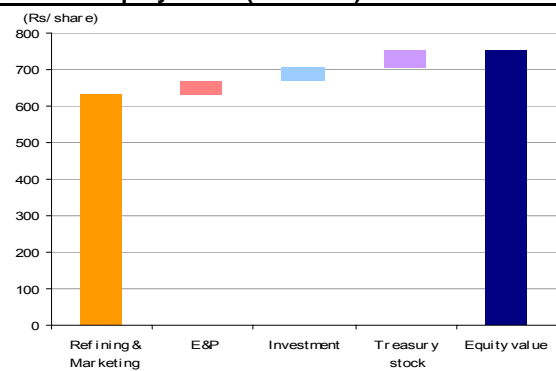
Deregulation of auto-fuel prices in FY11 and Government of India's (GoI) announced intention to shoulder the cooking-fuel subsidy burden clears the uncertainty surrounding earnings of oil marketing companies (OMCs). Our base-case estimate of BPCL's FY12 EPS is Rs62.9/share, assuming complete deregulation of diesel prices and continued share of 10% of under-recoveries on cooking fuels. If GoI decides to spare OMCs from bearing any subsidies from FY12, BPCL's FY12ii EPS works out to Rs79.5. In our opinion, deregulation will pave the way for an improvement in marketing margins over FY11-12. Certainty on earnings and marketing margin expansion make a strong case for valuation re-rating of OMCs. Furthermore, certainty on reserves in the gas block in Mozambique could provide upside to valuation of BPCL's upstream operations. At 10x core FY12ii EPS, our target price is Rs750/share. We initiate coverage with BUY.

**Petro-product reforms improve EPS visibility, boost FY12ii EPS by 50%:** With the government intent on deregulating diesel price in FY11, we incorporate the same in our base case. Our estimate of BPCL's FY12 EPS is Rs62.9. Uncertainty on BPCL's earnings reduces significantly with GoI's announced intention of bearing the under-recovery burden on cooking fuel.

**Marketing margins set to expand; upstream upside from reserve notification in Mozambique:** We believe private fuel retailers will take a while to catch up with PSU OMCs and build in expansion in marketing margin of petrol over FY11-12ii. Estimation of reserves at the frontier gas discovery at Rovuma basin in Mozambique could provide upside to BPCL's upstream valuation estimate of Rs41/share.

**Reform tailwind has some way to play out; we initiate with BUY:** BPCL is at the cusp of a sharp valuation re-rating, given the certainty around its earnings and likely improvement in marketing margins on deregulated products. We value BPCL's core refining and marketing business at 10x FY12ii EPS, at 10% discount to regional refining peers. Our sum-of-parts valuation for BPCL is Rs750/share.

### SOTP of equity value (Rs/share)



### Financial Summary

Y/e 31 Mar	FY08A	FY09A	FY10ii	FY11i	FY12ii
Revenues (Rs m)	1,112,431	1,365,571	1,238,167	1,434,865	1,653,599
EBITDA Margins (%)	3.2	2.5	2.4	2.9	3.1
Pre-Exceptional PAT (Rs m)	17,696	6,338	16,324	18,316	22,752
Reported PAT (Rs m)	17,696	6,338	16,324	18,316	22,752
EPS (Rs)	48.9	17.5	45.1	50.7	62.9
Growth (%)	-17.5	-64.2	157.6	12.2	24.2
<b>PER (x)</b>	<b>13.5</b>	<b>37.6</b>	<b>14.6</b>	<b>13.0</b>	<b>10.5</b>
ROE (%)	13.7	4.9	11.6	11.9	13.4
Debt/Equity (x)	1.1	1.8	1.8	1.3	1.4
<b>EV/EBITDA (x)</b>	<b>10.7</b>	<b>13.8</b>	<b>16.3</b>	<b>10.4</b>	<b>9.0</b>
Price/Book (x)	1.8	1.8	1.7	1.6	1.4

Source: Company, IIFL Research. Price as at close of business on 01 July 2010

12-mth Target price (Rs) 750 (14%)

Market cap (US\$ m) 5,314

52Wk High/Low (Rs) 678/416

Diluted o/s shares (m) 362

Daily volume (US\$ m) 18.2

Dividend yield FY09 (%) 2.1

Free float (%) 55.0

#### Shareholding pattern (%)

Promoter 54.9

FII's 8.0

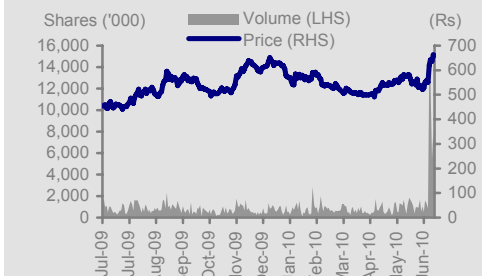
DII's 20.4

Others 16.7

#### Price performance (%)

	1M	3M	1Y
BPCL	14.6	29.1	45.2
Rel. to Sensex	9.0	30.2	25.6
HPCL	29.5	48.6	50.8
IOC	12.0	34.0	47.6
ESSAR	16.0	0.0	-10.4

#### Stock movement



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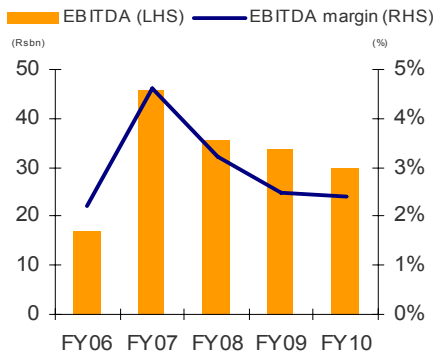
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## Company snapshot

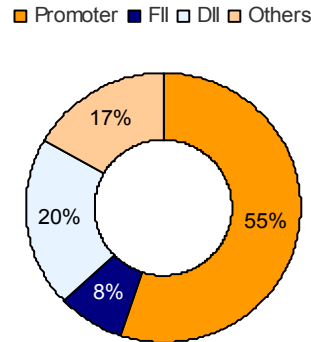
### Description

Bharat Petroleum Corporation Limited (BPCL) started as an oil-refining and marketing company and has now diversified into E&P. Regulated fuel prices and uncertainty regarding subsidy-sharing mechanism has always been a drag on the company's margins, in spite of sales growing at 7% CAGR from FY06 to FY10.

#### Under-recovery hits EBITDA



#### Shareholding pattern as on March 2010

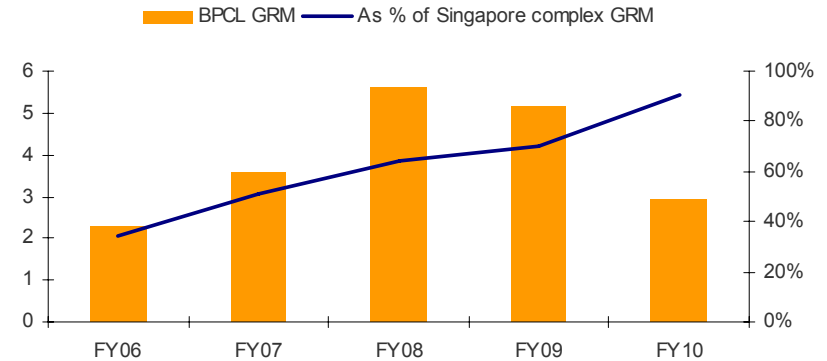


### Management

Name	Designation	Remarks / management description
Ashok Sinha	Chairman & Managing Director	Managing Director of company since March, 2005

The company has three refineries operating at Mumbai, Kochi and Numaligarh (subsidiary company of BPCL) and an upcoming refinery at Bina (in joint venture with Oman Oil Refinery). It has undertaken major upgradation and expansion projects at its Mumbai and Kochi refinery and will be capable of meeting its demand to Euro III/IV fuel from its own refineries (including capacity at Bina). Its upcoming Bina refinery has higher complexity of 9.5 when compared with Mumbai and Kochi refineries, whose complexity indexes average 5-6.

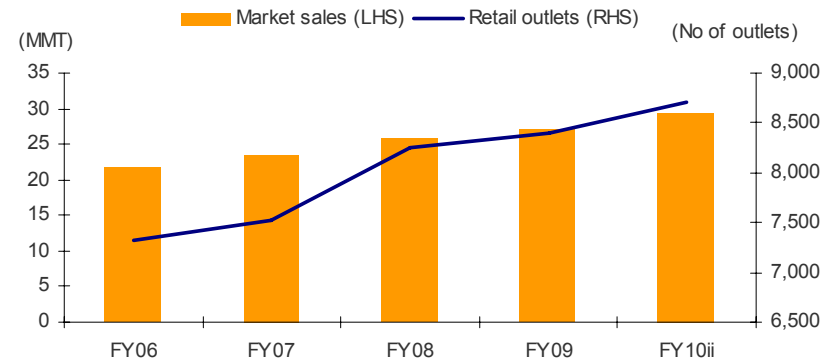
### BPCL's GRM has been improving as company focuses on upgradation



Source: IIFL Research

Company sells products through retail outlets as well as direct sales (industrial sales). It has 8700 retail outlets and sales output per retail outlet is c20% higher when compared with PSU average. The company is aggressively pursuing marketing programmes and tie-ups with auto companies to increase its product sales

### BPCL's has increased its retail outlets and sales steadily



Source: IIFL Research

The company has built a sizeable international and domestic footprint in E&P. The first breakthrough for the company came after its partner, in blocks in Campos and Mozambique Basin, Andarko, announced significant discoveries in 2HFY10.

## Reform tailwinds boost EPS growth

### Petro-product reforms boost FY12ii earnings by 50%

GoI's decision to fully deregulate petrol prices with immediate effect, deregulate diesel price in phases, and raise prices of LPG by c12% and kerosene by c33% provides a major boost to BPCL's core earnings. With the Petroleum Secretary clarifying that OMCs will be compensated for marketing losses incurred in YTD FY11 and the likelihood of a good monsoon boosting prospects for deregulation of diesel prices in 2HCY10, we see BPCL's earnings on a strong wicket, barring a crude price rally to c\$100/bbl.

**Figure 1: EGoM approved price hike in petro products**

	Price increase	% increase
Petrol (Rs/l)	3.5	7.3
Diesel (Rs/l)	2	5
LPG (Rs/cylinder)	35	11.9
Kerosene (Rs/l)	3	32.6

Source: Govt of India, IIFL Research. EGoM: Empowered Group of Ministers

**Figure 1: Under-recovery burden decreases by 28% average over FY11ii and FY12ii**

(Rs bn)	Before reforms		After reforms	
	FY11ii	FY12ii	FY11ii	FY12ii
LPG	218	269	203	235
SKO	182	194	167	165
Diesel	213	326	137	210
MS	86	122	22	0
Total	699	910	529	610

Source: IIFL Research

The increases already effected will reduce total under-recoveries by Rs170bn, or by 24% from the earlier estimate of Rs700bn in FY11ii, assuming crude price of US\$75/bbl. The measures implemented so far would improve BPCL's EBITDA by Rs6.7bn in FY12ii, or 17% (assuming continued under-recoveries in diesel at the current level).

**Figure 2: Price hikes implemented till date increase FY12ii EPS by 30%**

	Before reforms	After reforms	% change
FY12ii EBITDA (Rsm)	40,517	47,276	17%
FY12ii EPS (Rs)	41.7	54.2	30%

Source: IIFL Research

Our discussions with BPCL management indicate that diesel price will be fully deregulated in FY11. Hence, our base case for BPCL assumes full deregulation of diesel price by end-FY11ii. This wipes out the subsidy burden on auto fuels in FY12ii. We have assumed that OMCs will foot 10% of the total subsidy bill on cooking fuels from FY12ii onwards. This increases BPCL's EPS by Rs8.7 (16%) for FY12ii to Rs62.9.

**Figure 3: Our base case- FY12ii EPS improves 16% on complete diesel de-regulation**

	Without diesel de-regulation	With diesel de-regulation	% change
FY12ii EPS	54.2	62.9	16%

Source: IIFL Research

With subsidies on cooking fuels to be shared between GoI and upstream companies (barring sharp increase in crude price) and subsidies on auto fuels being eliminated in FY12ii, we expect BPCL to generate operating cash flows of Rs34.5bn in FY12ii, with our crude price assumption of US\$80/bbl. The company could use these cash flows to substantially reduce debt in the years ahead.

### 26% further upside to FY12ii EPS if OMCs are spared from bearing any subsidy burden post diesel price deregulation

Assuming GoI also deregulates diesel price in FY11, as announced, total subsidy burden for auto fuels in FY12ii will be Rs400bn at crude-oil price of US\$80/bbl and Rs/US\$ exchange rate at 46. If GoI decides to spare OMCs from bearing any part of this cooking-fuel subsidy, this will add 26% to BPCL's FY12ii EPS, taking it to Rs79.5.

**Figure 4: FY12ii EPS has 26% upside if OMCs do not bear any burden**

(Rs)	Base case	Zero subsidy burden	% change
FY12ii EPS	62.9	79.5	26%

Source: IIFL Research

**Private-sector competition in fuel retailing likely to escalate, but we expect marketing margins to improve**

Private-sector players such as RIL and Essar will re-enter auto-fuel retailing with linking up of domestic prices to international prices. While Essar is the more active among the two as of date, RIL has an extensive network of retail outlets along the key highways. Peak market share that private players accounted for was c10% in 2004, but this was not accompanied by sharp undercutting of marketing margins.

With petrol and diesel demand increasing at 8-9% annually, the industry's volumes are likely to increase by c20m tonnes over FY11-13ii. The increasing pie can easily accommodate the private-sector players.

While private-sector players could offer discounts to gain market share to start with, in our opinion, current marketing margins in the range of Rs1,400-1,500/Kl for petrol and diesel should sustain and trend upwards, once competition has stabilised. In the past, deregulation in petro-product pricing has been accompanied by expansion in marketing margins, a pattern we expect to be repeated this time too.

**Figure 5: Marketing margins have expanded ahead of cost inflation**

(Rs/Kl)	CY2001	CY2010
Marketing margin- Petrol	400	1,400-1,500
Marketing margin- Diesel	370	1,400-1,500

Source: Company, IIFL Research

We believe private players will find it difficult to penetrate tier I cities, as real estate is very expensive, and hence focus more on highway routes and lower-tier cities. Hence, PSU OMCs should be able to improve marketing margins on petrol, save a few pockets where private players may be stronger. We are building in Rs100/Kl increase in marketing margin for petrol in FY11ii, followed by Rs300/Kl in FY12ii.

**Refining margins likely to sustain on demand from emerging economies**

We expect global refining margins to sustain their recent rally, owing to the following factors:

1. demand for oil products to increase on the back of growth in emerging economies; and
2. rationalisation of surplus refining capacity, coupled with delays in addition of new capacity.

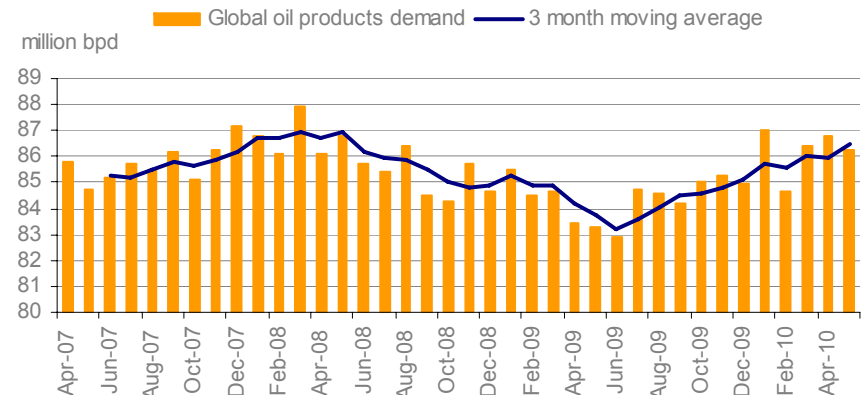
**Emerging economies driving world demand for oil products**

OECD oil demand contracted by 4mmbpd over 2006-2009 to 45.5mmbpd. In the same period, non-OECD oil demand expanded by 3.8mmbpd to 39.5mmbpd.

Even as IMF has revised the OECD economic growth outlook from 0% to 2.1% for 2010, oil demand in OECD is expected to remain flat YoY (after declining by 2.1mmbbl in 2009). A shift to cleaner and more-efficient fuels in power generation, transportation and aviation are seen as tempering the revival in demand for oil products in OECD nations.

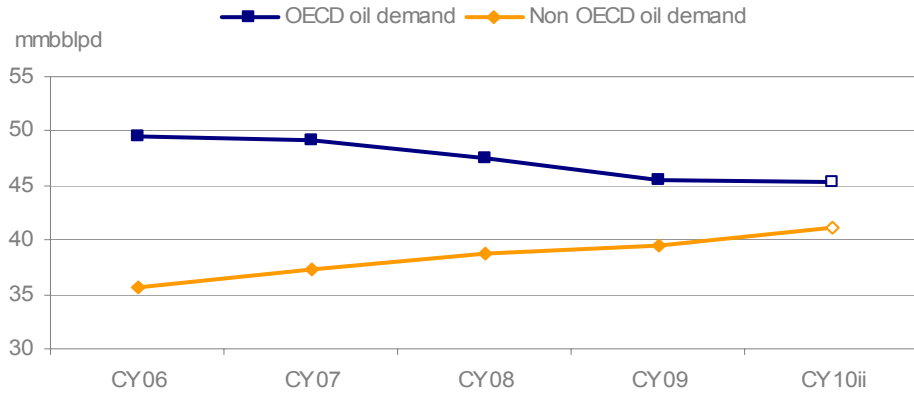
Non-OECD nations present a contrasting picture. Non-OECD oil demand is expected to increase by 1.6mmbpd (+4.1%) in 2010 to 40.9mmbpd. This follows a weaker 0.8mmbpd increase in 2009. Growth in non-OECD demand is driven by China, India and the Middle East, which have contributed c60% of the increase in demand. Thus, emerging market economies registering high-single-digit GDP growth rates are helping oil product demand recover faster than earlier anticipated.

**Figure 6: Global oil product demand is reviving**



Source: Bloomberg, IIFL Research

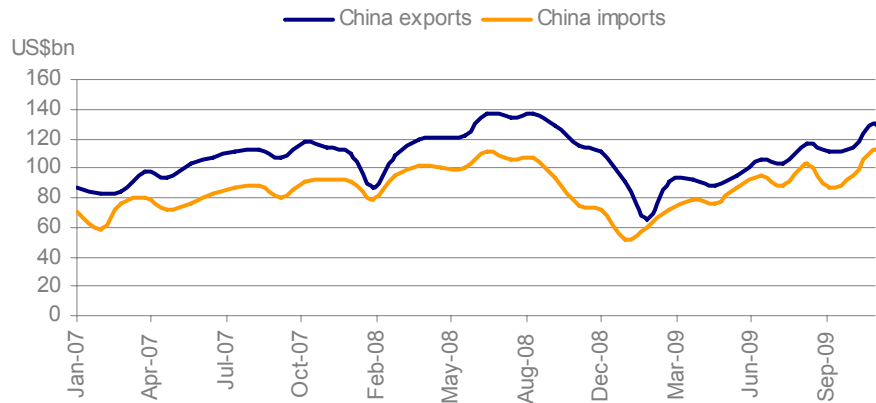
**Figure 7: Non-OECD demand is driving growth in oil demand**



Source: IEA, IIFL Research

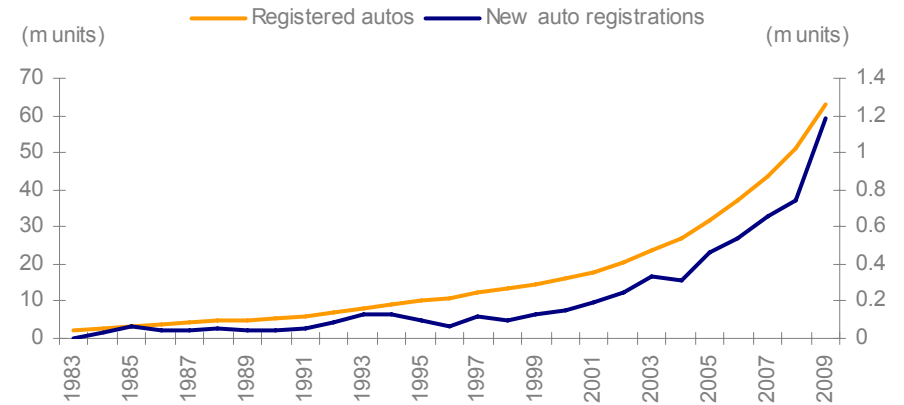
Chinese petroleum product demand is growing at c12.5% YoY—lower than the c20% YoY growth rate it had seen till February 2010. Naphtha, gas-oil and gasoline have led the growth. Demand for naphtha is likely to remain buoyant on commissioning of three new crackers with total capacity of 3mtpa in 2HCY10. The increase in demand for transportation fuel is a result of growing exports and strong domestic consumption.

**Figure 8: China's exports have been rising steadily**



Source: General Administration of Customs (China), IIFL Research

**Figure 9: New auto registrations in China on a steep incline**



Source: China's Ministry of Transport, IIFL Research

**Surplus refining capacity being rationalised, new capacity additions getting delayed**

Crude distillation capacity increased by 2.1mmbpd over 2008-09, while global demand contracted by 1.6mmbpd over the same period. Refinery margins contracted sharply as OECD refinery utilisation fell to 78% in 4QCY09—the lowest since 1995.

A significant amount of complex and highly-competitive refining capacity is being brought online in non-OECD countries. Asia and Middle East have led complex refinery additions, with 1.6mmbpd in 2009. About 2.44mmbpd of refining capacity could be added over 2010-11, putting further pressure on utilisation rates.

**Figure 10: Upcoming refining capacity additions**

Country	Refinery	Operating company	Capacity (bpd)	Target year
China	Tianjin	Sinopec	200,000	Feb-10
China	Ningbo	Sinopec	240,000	Mar-10
China	Dagang	PetroChina/Rosneft/Shell	200,000	Mar-10
India	Haldia	CALS	100,000	Mar-10
China	Liaoning	CNPC	200,000	Jun-10
China	Quanzhou	Sinopec	100,000	Jul-10
Pakistan	Karachi	Indus	93,000	Oct-10
Japan	Niigata	Japan consortium GTL plant	500	Nov-10
South Korea	Sosan	S-Oil	480,000	Jan-11
China	Guangdong	KPC/Petrochina/Sinopec	325,000	Mar-11
Vietnam	Vung Ro	Technostar/Telloil	60,000	Jun-11
Bangladesh		Hi-Tech / Cosmopolitan	300,000	Jun-11
Malaysia	Perak	Gulf Petroleum	150,000	Jun-11
<b>Total refining capacity addition</b>			<b>2,448,500</b>	

Source: Reuters, IIFL Research

However, complex refining capacity additions in recent times have accelerated closure of simple refineries. China alone has total teapot refining capacity of c2.9mmbpd. A total of 1.56mmbpd of global refining capacity has been idled since 2009. We expect the trend in closure of lower complexity capacity in US, Europe and North East Asia to continue, given recent announcements from some of the refining majors. This will lead to lower net capacity additions than what headline numbers suggest.

**Figure 11: Refinery closures since CY09**

Refinery	Region	Capacity (kbpd)
Delaware	US	210
Bakersfield	US	65
Eagle Point	US	150
Bloomfield	US	19
Montreal	Canada	130
Aruba	Latin America	235
Gonfreville	Europe	91
Dunkirk	Europe	160
Bilbao	Europe	90
Teesside	Europe	110

Refinery	Region	Capacity (kbpd)
Mizushima	Japan	110
Yokkaichi	Japan	85
Toyama	Japan	57
Qianguo	China	50
<b>Total capacity closure</b>		<b>1562</b>

Source: ICIS, IIFL Research

**Figure 12: Western refiners are cutting their refining portfolio to cut losses**

Company	Refining capacity rationalisation
Shell	To reduce its global capacity of c.0.55mmbpd by 15%
Total	To reduce its global capacity of c.0.5mmbpd by 15%
Chevron	To rationalise refining capacity (no target announced)

Source: Industry sources, IIFL Research

Additionally, new refining capacity additions have been delayed, owing to poor refining economics. For instance, of the scheduled capacity addition of 0.74mmbpd expected in China in 2009, only 0.34mmbpd has been completed. Similarly, of the scheduled 0.94mmbpd of refining capacity addition in China in 2010, IEA expects c0.5mmbpd to be completed. We expect refining majors to delay capacity additions over 2010-12, waiting for refining economics to improve.

We do not expect spare refining capacity to increase significantly from end-2009 levels, given: 1) pick-up in non-OECD demand; 2) rationalisation of existing refining capacity; and 3) delays in commissioning of new refining capacity.

## Volume growth and GRM upside in core business

### BORL will improve BPCL's GRM 19% in FY12ii

BPCL expects to commence commercial production at its new refinery at Bina in September 2010. The 6mtpa capacity is jointly owned by BPCL (50%) with Oman Oil Company (50%). The project involved total investment of Rs114bn, funded by equity of Rs44bn and debt of Rs70bn.

The project includes a 934km crude oil pipeline from Vadinar in Gujarat to Bina and a 257km product pipeline from Bina to Kota in Rajasthan to

connect to the Mumbai-Delhi product pipeline for evacuation of petrol, diesel, kerosene and ATF. The pipelines can handle up to 15mtpa, thus allowing the flexibility for capacity expansion at the refinery in the future (there is adequate land available for expansion at the site). While mechanical completion has been achieved, commissioning has been delayed, owing to delays in setting up of captive power plant by BHEL.

BPCL will retain marketing rights over 100% of BORL production. It will charge product pipeline tariff of US\$2.3/bbl, which will accrete to its GRM. BPCL expects this 9.5 Nelson Complexity refinery designed for heavy Arab crude to achieve GRM of US\$8-9/bbl. Hence, BORL will increment BPCL’s overall GRM by 19% post stabilisation in FY12ii.

**Capacity augmentation and upgradation to boost volume and margin**

BPCL has almost completed augmenting capacity at its Kochi refinery by 2mtpa to 9.5mtpa. It is simultaneously upgrading the refinery to produce petrol and diesel that conform to Euro III/IV standards at a total cost of Rs40bn.

It has also undertaken process optimisation at its refineries in Kochi with help from Shell Global Solutions International and Mumbai, with help from McKinsey & Co; this has helped improve GRM across the two refineries by US\$0.5/bbl. Management guided that further improvements are under implementation that will boost GRM by another US\$0.5/bbl by FY12. These put together will help the refineries at Mumbai and Kochi to achieve GRM premium of US\$1/bbl over Singapore Complex by FY12ii.

With the commissioning of the BORL refinery at Bina, BPCL will be self-sufficient in Euro III/IV-compliant fuel production. Though marketing margin premiums on Euro III/IV-compliant petrol (Rs0.25/litre) and diesel (Rs0.03/litre) are low currently, management expects these premiums to widen with the deregulation of petrol and diesel prices.

**Figure 13: BPCL will be self-sufficient in Euro III/IV fuels with Bina commissioning**

million tonnes	Demand at BPCL outlets	BPCL production
Petrol	1.25	0.95 BPCL, 0.4 BORL
Diesel	3	2.4 BPCL, 2.8 BORL

Source: Company, IIFL Research

Commissioning of the BORL refinery at Bina along with capacity expansion at Kochi will add 5mtpa of processing capacity to BPCL, or c25% of its present refining capacity.

**Gas as fuel in refineries will boost GRM when adequately available**

BPCL has requisitioned for 2.5mmcmd of gas from RIL’s KG-D6 production to be used as fuel at its refineries in Mumbai and Kochi. It has been allocated only 0.37mmcmd in 4QFY10. Management expects US\$1/bbl accretion in GRM from availability of requisite amount of gas for its refineries.

**Pipeline infrastructure creation margin-accretive**

BPCL, in its latest 5-year internal plan, has decided to focus extensively on infrastructure creation to boost consumption of petroleum products in the country. It aims to double its own pipeline capacity from the current 30mtpa currently to 60mtpa over the next five years.

The company is extending its 292km Kochi-Karur pipeline to Coimbatore and intends to extend it further up to Bangalore. Product pipelines allow the company to charge 75% of rail freight from users and contribute cRs4bn in marketing margins per annum.

Pipeline margins will be augmented from commissioning of refinery at Bina, where the company will charge US\$2.3/bbl for product deliveries. The product pipeline at Bina will contribute a margin of Rs2.5bn per annum from FY12ii.

**Process improvements drive up capital efficiency**

In early CY2009, BPCL internally undertook to cut operating costs and improve productivity in its fuel-retailing business. It identified 1,200 retail outlets that were running losses and improved asset velocity to move them to profitability. It also reduced excess cylinders in circulation in its domestic LPG business to cut operating costs. These measures together yielded working-capital reduction of Rs9bn per annum from FY08 levels and improved capital efficiency.

## Upstream: Significant discoveries in Brazil and Mozambique

BPCL entered the upstream business in 2006, with a view to attain 5% supply security in 5-6 years. It has participating interest in 25 blocks—nine in India, 16 in Brazil, Africa, Europe and Australia.

It has made significant discoveries at block BM-C-30 in deepwater Campos Basin in Brazil and in frontier deepwater Rovuma basin in Mozambique. Anadarko is the operator in both fields. Both Brazil and Mozambique have investor-friendly fiscal regimes and have actively sought private participation in upstream exploration and development.

Anadarko confirmed that the first drill stem test well in Brazil, Wahoo 1, encountered 195ft of net oil pay. This was followed by Wahoo 2 that encountered more than 90ft of net oil pay in the block. It has indicated that the estimated gross resource potential of Wahoo field is in excess of 300mmbbls of oil. This translates to 37.5mmbbl net to BPCL (12.5% economic stake). Given the early stage in the block's life-cycle, we see likely upside to reserve estimates as the drilling programme encompasses larger area in the block.

Anadarko discovered gas in the first wildcat exploration well Windjammer in the Rovuma basin with net natural gas pay of 555ft. Anadarko plans to drill two to four additional wells in the Rovuma basin in 2010. BPCL has 11.75% working interest in the block. While it is too early to arrive at resource estimates, we see more clarity emerging by end-FY11ii.

Given the early stage of the block lifecycle at both Camps Basin in Brazil and Rovuma Basin in Mozambique, we have valued BPCL's upstream business at 1x book value of investment (Rs15bn). We envisage upside to our valuation estimate of BPCL's upstream business as Anadarko extends the drilling programmes at Brazil and Mozambique.

**Figure 14: International E&P footprint of BPCL**

Block name	Company	Country	PI (%)	BPCL PI (%)
<b>Sergipe &amp; Alagoas Basin</b>				
SEAL-M-349	IBV (Brazil) Petroleo Ltda.	Brazil	40%	20%
SEAL-M-426	IBV (Brazil) Petroleo Ltda.	Brazil	40%	20%
SEAL-M-497	IBV (Brazil) Petroleo Ltda.	Brazil	40%	20%
SEAL-M-569	IBV (Brazil) Petroleo Ltda.	Brazil	40%	20%
<b>Espirito Santo Basin</b>				
ES-24-588	IBV (Brazil) Petroleo Ltda.	Brazil	30%	15%
ES-24-661	IBV (Brazil) Petroleo Ltda.	Brazil	30%	15%
ES-24-663	IBV (Brazil) Petroleo Ltda.	Brazil	30%	15%
<b>Campos Basin</b>				
C-M-30-101	IBV (Brazil) Petroleo Ltda.	Brazil	25%	13%
<b>Portiguar Basin</b>				
POT-16-663	IBV (Brazil) Petroleo Ltda.	Brazil	20%	10%
POT-16-760	IBV (Brazil) Petroleo Ltda.	Brazil	20%	10%
Mozambique Rovuma Basin	BPRL Ventures Mozambique	Mozambique	25%	13%
<b>Other international blocks</b>				
Block No 56	BPRL	Oman	13%	13%
WA/388/P	BPRL	Australia	14%	14%
AC/P32	BPRL	Australia	20%	20%
48/1b & 2c - North Sea	BPRL	U.K.	25%	25%
JPDA 06-103	BPR JPDA	Australia/Timor	25%	25%

Source: Company, IIFL Research

**Figure 15: BPCL's domestic footprint is concentrated on east coast**

Domestic blocks	Subsidiary	PI	Operator
<b>NELP IV</b>			
KG/DWN/2002/1	BPRL	10%	ONGC
MN/DWN/2002/1	BPRL	10%	ONGC
CY/ONN/2002/2	BPRL	40%	ONGC
<b>NELP-VI</b>			
KG/DWN/2004/2	BPRL	10%	ONGC
KG/DWN/2004/5	BPRL	10%	ONGC
CY/ONN/2004/1	BPRL	20%	ONGC
CY/ONN/2004/2	BPRL	20%	ONGC
RJ/ONN/2004/1	BPRL	11%	GSPC
<b>NELP VII</b>			
RJ/ONN/2005/1	BPRL	25%	HOEC

Source: Company, IIFL Research

### We recommend BUY

Government's intention of deregulating auto fuels completely, along with its stated intention of bearing the entire cooking-fuel under-recovery removes most of the uncertainty surrounding earnings of OMCs. Complete deregulation of diesel prices in FY11ii and possible removal of share of subsidy burden on OMCs could result in BPCL's best-case FY12ii EPS increasing to Rs79.5. At our base-case assumption of OMCs continuing to bear 10% of cooking fuel subsidies from FY12ii onwards, our estimate of BPCL's FY12ii EPS is Rs62.9.

We believe the improved earnings predictability in BPCL's core refining and marketing business along with the likely improvement in auto-fuel marketing margins over FY11-12ii create a strong case for re-rating of the stock. We value BPCL's core refining and marketing business at 10x FY12ii EPS, at 10% discount to global refining peers to factor in regulatory intervention risks on: (i) further deregulation of diesel price; and (iii) instances where crude price nears US\$100/bbl. BPCL's upstream E&P business is likely to see incremental value addition from establishment of resource estimates at the frontier discovery in Rovuma Basin in Mozambique.

Our sum-of-the-parts valuation for BPCL works out to Rs752/share including its E&P business, investments (20% discount to current market price) and treasury stock (20% discount to current market price). We initiate coverage with BUY and a target price of Rs750.

**Figure 16: Regional peers of company have P/E of 11x**

Company	P/E (x)
Sinopec	9.8
CNPC	13.5
S K Energy	9.3
Caltex Australia	9.7
Cosmo oil	15.1
S-Oil	11.6
Thai Oil PCL	8.2
HPCL	11.7
IOC	11.1
<b>Mean</b>	<b>11.1</b>

Source: Bloomberg, IIFL Research

**Figure 17: SOTP valuation of equity value**

Valuation summary	Rs/share	Comment
Refining & Marketing	629	Valued using P/E multiple of 10x which is at 10% discount to regional peers
E&P	41	BV of investment
Investments	34	Investment in Petronet & Indraprastha Gas valued @20% discount to CMP
Treasury stock	47	Valued @20% discount to CMP
<b>Equity value</b>	<b>752</b>	

Source: IIFL Research

## Financial summary

### Income statement summary (Rs m)

Y/e 31 Mar	FY08A	FY09A	FY10ii	FY11ii	FY12ii
Revenue	1,112,431	1,365,571	1,238,167	1,434,865	1,653,599
EBITDA	35,704	33,733	29,761	42,160	52,004
EBIT	22,783	21,116	15,316	24,295	31,153
Interest expense	-7,149	-24,043	-11,247	-10,703	-10,703
Others items	14,566	14,273	23,652	14,797	13,841
Profit before tax	30,201	11,346	27,721	28,389	34,292
Tax expense	-11,075	-4,104	-10,522	-9,445	-10,851
Minorities and others	-1,430	-904	-876	-628	-688
<b>Net profit</b>	<b>17,696</b>	<b>6,338</b>	<b>16,324</b>	<b>18,316</b>	<b>22,752</b>

### Cashflow summary (Rs m)

Y/e 31 Mar	FY08A	FY09A	FY10ii	FY11ii	FY12ii
Profit before tax	28,867	11,431	27,721	28,389	34,292
Depreciation & Amortization	12,921	12,617	14,446	17,865	20,852
Tax paid	-8,228	-5,786	-10,522	-9,445	-10,851
Working capital Δ	-21,793	24,457	-6,140	-4,917	-16,210
Other operating items	1,561	27,460	3,438	6,394	6,394
Operating Cash-flow	13,329	70,179	28,943	38,287	34,477
Capital expenditure	-33,450	-44,851	-47,415	-50,000	-50,000
Free cash flow	-20,121	25,328	-18,471	-11,713	-15,523
Investments	-23,274	-87,825	7,838	70,002	0
Debt financing/disposal	14,105	22,157	19,641	0	0
Dividends paid	-5,285	-2,398	-4,897	-5,495	-6,826
Other items	-23	-14,393	-3,405	-6,394	-6,394
Net change in Cash & cash equivalents	-34,599	-57,131	705	46,399	-28,744

Source: Company data, IIFL Research

### Balance sheet summary (Rs m)

Y/e 31 Mar	FY08A	FY09A	FY10ii	FY11ii	FY12ii
Cash & cash equivalents	15,889	13,486	14,190	60,590	31,846
Sundry debtors	16,679	15,059	18,847	21,733	24,482
Trade Inventories	115,250	78,706	76,238	90,022	118,426
Other current assets	67,371	60,841	60,808	60,808	60,808
Fixed assets	167,968	204,789	237,758	269,892	299,041
Intangible assets		3,855	3,855	3,855	3,855
Investments	92,810	164,000	156,162	86,161	86,161
<b>Total assets</b>	<b>475,968</b>	<b>540,734</b>	<b>567,858</b>	<b>593,060</b>	<b>624,617</b>
Other current liabilities	159,527	140,960	136,139	147,892	162,835
Long-term debt/Convertibles	160,658	242,392	262,032	262,032	262,032
Other long-term liabilities	18,108	15,257	15,257	15,257	15,257
Minorities/other equity	8,606	9,015	9,891	10,519	11,207
Networth	129,069	133,112	144,539	157,360	173,286
<b>Total liabilities &amp; equity</b>	<b>475,968</b>	<b>540,734</b>	<b>567,858</b>	<b>593,060</b>	<b>624,617</b>

### Ratio analysis

Y/e 31 Mar	FY08A	FY09A	FY10ii	FY11ii	FY12ii
Sales growth (%)	13.0	22.8	-9.3	15.9	16.4
Core EBITDA growth (%)	-21.6	-5.5	-11.8	41.7	22.9
Core EBIT growth (%)	-34.0	-7.3	-27.5	58.6	27.4
Core EBITDA margin (%)	3.2	2.5	2.4	2.9	3.1
Core EBIT margin (%)	2.0	1.5	1.2	1.7	1.9
Net profit margin (%)	1.6	0.5	1.3	1.3	1.4
Dividend payout (%)	29.9	37.8	30.0	30.0	30.0
Tax rate (%)	36.7	36.2	38.0	33.3	31.6
Net Debt/Equity (%)	112.2	172.0	171.5	128.0	132.8
Return on Equity (%)	13.7	4.9	11.6	11.9	13.4
Return on Assets (%)	5.3	4.2	3.3	4.8	5.8

Source: Company data, IIFL Research

For the larger vendors 1QFY11 would be a test of delivering on the high expectations for FY11, and for the mid-smaller ones, of sustaining the profitability of their business models. We expect the larger vendors to pass and many smaller vendors to fail. On the back of continuing demand momentum for IT services and a pick-up in verticals such as manufacturing and high-tech, we expect the larger vendors to report 4-5% QoQ US\$ revenue growth—on track for 20-23% (US\$, YoY) revenue growth in FY11. Despite the headwinds, primarily due to wage hikes, we expect the top three Indian vendors to restrict the EBITDA margin fall to 100-150bps QoQ. Smaller vendors, on the other hand, would likely report margin falls by 250+bps QoQ. Also, we expect their revenue growth to continue to lag as the environment is still dominated by cost-rationalisation/multi-services deals in which the large vendors have an advantage. Infosys and HCL Tech remain our top picks.

**Growth unbound:** Our interactions with management indicate continued improvement in momentum beyond BFSI. This broad-based growth, we reckon, would reflect in robust revenue growth of 4-5% QoQ US\$ (or 5.5-6.5% volume growth) in 1QFY11. Attrition has remained high and even increased at some firms during 1QFY11, but we expect it to moderate after the current round of salary hikes. Concerns over clients in Europe too are largely unfounded for now, as Indian IT firms have not witnessed any instances of cut-downs. We believe that as cost pressures increase in Europe, as already seen with clients in the UK, Indian vendors are likely to benefit from higher offshoring.

**Another 'beat and raise' guidance?** Except during FY09, when Infosys missed its initial yearly, it raised its guidance by ~5-10% every year over the past five years. Given the pick-up in demand momentum and a conservative 3.6% implied COGR, we think Infosys is set for a 'beat and raise' year for its guidance. While we expect it to beat its 1QFY11 guidance by ~3pps, we expect it to maintain a cautious stance due to uncertainty over Europe and not increase the FY11 revenue guidance by more than 1%. EPS guidance, on the other hand, could be revised upwards by as much as ~5%, on the back of a cheaper rupee.

**Advantage larger vendors:** We expect revenue growth of smaller vendors to continue to lag that of the larger vendors in 1QFY11. In addition, the rising salaries, increasing attrition and an uptick in hiring would affect them adversely, and is likely to reflect in a structural margin fall of 250+bps in 1QFY11. Moreover, the ongoing vendor consolidation is a key risk for smaller vendors.

#### 1QFY11 estimates

	Revenue (Rs m)	Revenue (US\$)	EBITDA	EBITDA margin	PAT
Infosys	4.5%	5.0%	1.2%	-106 bps	-4.8%
<i>Infosys guidance</i>		3.4%			-11.5%
Wipro - Consolidated IT services	3.9%	3.8%	0.0%	-102 bps	
<i>Wipro - Consolidated IT services guidance</i>		4.2%			
Wipro	1.7%		2.8%	23 bps	-5.7%
TCS	4.0%	4.5%	0.6%	-98 bps	-11.4%
TCS - International business	4.2%	4.7%			
HCL Tech	7.1%	3.5%	-1.1%	-151 bps	-21.4%

Source: IIFL Research

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Figure 1: 1QFY11 result preview commentary

<b>Infosys</b>	<ul style="list-style-type: none"> <li>We expect Infosys to beat its guidance with a ~6% constant-currency revenue growth (QoQ) against a guidance of 3.4% QoQ in 1QFY11.</li> <li>Infosys's second round of salary hikes has been a margin headwind in 1QFY11. However, we reckon the better volume growth and higher utilisations would restrict the margin fall at ~100bps.</li> </ul>
<b>Wipro</b>	<ul style="list-style-type: none"> <li>A sharper recovery in Wipro's key high-tech vertical, we believe, could mean a positive surprise for 1QFY11. As such, we expect Wipro to marginally beat its guidance (constant currency) and report ~4% QoQ US\$ revenue growth in 1QFY11.</li> <li>Wipro had given salary hikes effective from 1<sup>st</sup> February 2010. As such, the full effect of salary hikes would be seen in 1QFY11 numbers. A pick-up in hiring has also likely been a margin headwind during 1QFY11. On balance, we see EBITDA margins falling by ~100bps during 1QFY11.</li> </ul>
<b>TCS</b>	<ul style="list-style-type: none"> <li>Business momentum continues to be strong, and European clients have so far given no reason to worry. As such, we expect TCS to report a robust 4.5% QoQ US\$ revenue growth for 1QFY11.</li> <li>TCS gave salary hikes during 1QFY11, and promotions are due in 1QFY11. We expect the company to report an EBITDA margin fall of ~100bps QoQ for 1QFY11.</li> <li>Forex hedges at TCS had fallen from a high of US\$3bn to ~US\$0.2bn during 4QFY10. However, management had taken additional hedges during 1QFY11, and given the depreciation of the rupee vs the dollar, we expect it to report a forex loss of ~Rs1,500m.</li> </ul>
<b>HCL Tech</b>	<ul style="list-style-type: none"> <li>Despite the drag due to its BPO (we expect it to report a US\$ revenue fall of ~15% QoQ in this business), we expect HCL Tech to report revenue growth of ~3.5% US\$ QoQ in 4QFY10. Infrastructure services are likely to continue to lead growth. Also, we expect its EAS business to show signs of pick up during the quarter.</li> <li>A customer summit and higher use of subcontractors during the quarter (due to ramp-ups in the EAS business) would likely mean a hit of ~200bps on the EBITDA margin.</li> <li>During 4QFY10, the company repaid US\$40m of its debt.</li> </ul>

<b>Tech Mahindra</b>	<ul style="list-style-type: none"> <li>• Tech Mahindra bore the brunt of the depreciating GBP, which we reckon would knock off ~300bps off Tech Mahindra's 1QFY11 US\$ revenue growth. Also, the absence of one-time project from BT during 1QFY11 would lead to a further 3% fall in revenues. Net, we see US\$ revenues declining by ~5% QoQ during 1QFY11 for Tech Mahindra.</li> <li>• While reduction in the usage of subcontractors provides a structural margin lever, a pick-up in hiring and the depreciation in GBP will be the key margin headwinds for 1QFY11. As such, we see a 250bps fall in margins.</li> </ul>
<b>Patni</b>	<ul style="list-style-type: none"> <li>• On likely supply constraints, we expect Patni to report another quarter of weak revenue growth (0% QoQ US\$). However, hiring has been strong during 2QCY10 and we expect the 3QCY10 guidance to be robust at ~3% revenue growth (US\$ QoQ).</li> <li>• Salary hikes have been given during the quarter, which would impact margins by ~200bps.</li> </ul>
<b>Infotech Enterprises</b>	<ul style="list-style-type: none"> <li>• After delays during 4QFY10, Infotech's projects ramped up in 1QFY11.</li> <li>• Primarily on account of salary hikes, we see margins falling by ~250bps QoQ in 1QFY11.</li> </ul>
<b>Mindtree</b>	<ul style="list-style-type: none"> <li>• Growth in its manufacturing vertical was better than expected. Also, spending has picked up strongly with clients in the high-tech industry. As such, we expect Mindtree to report the best revenue growth numbers among mid-smaller vendors for 1QFY11.</li> <li>• Lower exposure to the European geography and lower employee utilisation lessen the margin headwinds for MindTree. However, salary hikes and investments in the mobile handset business could reflect in EBITDA margins dropping by ~700bps.</li> </ul>
<b>Hexaware</b>	<ul style="list-style-type: none"> <li>• Hexaware had delays in clients spending at certain projects during 1QCY10, which led to a revenue loss of ~US\$5m. Going forward, we see minimal headwinds, and expect Hexaware to report revenue growth (7% US\$ QoQ in 2QCY10) in line with its guidance.</li> <li>• Margins, however, would be adversely affected, owing to steep salary hikes and a pick-up in hiring. Net, we expect the company to report an almost flat EBITDA margin for 2QCY10.</li> </ul>
<b>KPIT</b>	<ul style="list-style-type: none"> <li>• Rampdowns at Cummins have almost ended, and the company's foray into electric hybrid solutions adds a credible non-linear revenue stream.</li> <li>• Management gave salary hikes during the quarter, and this would likely show up as margin headwind of ~250bps QoQ.</li> </ul>

Figure 2: 1QFY11 earnings estimates

	Revenue (Rs m)	QoQ	Revenue (US\$ m)	QoQ	EBITDA (Rs m)	QoQ	EBITDA margins	QoQ	PAT (Rs m)	QoQ
Infosys	62,117	4.5%	1,296	5.0%	20,472	1.2%	33.0%	-106 bps	15,388	-4.8%
TCS	80,465	4.0%	1,686	4.5%	23,257	0.6%	28.9%	-98 bps	17,114	-11.4%
Wipro - Combined IT services	52,629	3.9%	1,166	3.8%	14,432	0.0%	27.4%	-102 bps		
Wipro	70,990	1.7%			15,780	2.8%	22.2%	23 bps	11,658	-5.7%
HCL Tech	32,950	7.1%	685	3.5%	6,009	-1.1%	18.2%	-151 bps	2,528	-21.4%
Infotech enterprises	2,514	3.0%	53	3.5%	478	-9.2%	19.0%	-256 bps	296	-42.3%
Tech Mahindra	10,699	-5.6%	247	-5.0%	1,819	-20.5%	17.0%	-318 bps	1,125	-50.4%
KPIT Cummins	2,010	2.0%	43	3.2%	342	-11.5%	17.0%	-260 bps	148	-28.7%
Mindtree	3,521	2.2%	75	3.5%	387	-38.8%	11.0%	-737 bps	75	-86.3%
Hexaware	2,375	7.0%	49	7.0%	214	16.8%	9.0%	76 bps	141	20.8%
Patni	8,004	3.3%	172	0.0%	1,478	-7.3%	18.5%	-212 bps	1,313	-12.3%

Source: IIFL Research

# Events calendar



Monday	Tuesday	Wednesday	Thursday	Friday	Saturday
<b>JUNE – 2010</b>					
<b>21</b>	<b>22</b>	<b>23</b>	<b>24</b>	<b>25</b>	<b>26</b>
<b>28</b>	<b>29</b>	<b>30</b>			
		May CPI IW- 1.18%			
<b>JULY – 2010</b>					
<b>1</b>	<b>2</b>	<b>3</b>			
Pfizer – 12 Jul Exide Inds – 13 Jul Infosys – 13 Jul HDFC – 14 Jul Infotech Ent – 14 Jul Axis Bank – 15 Jul Colgate – 15 Jul Godrej Properties – 17 Jul	Bajaj FinServe – 21 Jul Bajaj Auto – 22 Jul Bajaj Holding – 22 Jul Dabur India – 26 Jul Cairn India – 27 Jul India Cements – 2 Aug		May Exports– 35.10% May Imports– 38.50%		
<b>5</b>	<b>6</b>	<b>7</b>	<b>8</b>	<b>9</b>	<b>10</b>
			Patel Engg		

Black: Quarterly results, Blue: Economic data, Red: India Holiday.

	Jul-Sep 10	Oct-Dec 10	Jan-Mar 11
<b>Economics / Politics</b>	<ul style="list-style-type: none"> <li>RBI's Monetary Policy meeting <b>on 27<sup>th</sup> July, 2010</b></li> <li>1QFY11 Quarterly GDP</li> </ul>	<ul style="list-style-type: none"> <li>RBI's Monetary Policy meeting (<b>end Oct</b>)</li> <li>2QFY11 Quarterly GDP</li> </ul>	<ul style="list-style-type: none"> <li>RBI's Monetary Policy meeting (<b>end Jan</b>)</li> <li>3QFY11 Quarterly GDP</li> </ul>
<b>Cement</b>	<ul style="list-style-type: none"> <li><b>India Cements</b> 1.5mtpa plant in Rajasthan to start (<b>Sep</b>)</li> <li><b>JP Associates</b> 2<sup>nd</sup> phase addition in Gujarat to start (<b>Aug</b>)</li> </ul>	<ul style="list-style-type: none"> <li><b>Bharathi Cement</b> 2mtpa (2nd unit) in Cuddapah to start (<b>Dec</b>)</li> <li><b>Ambuja Cements</b> 1.5mtpa unit in Bhatapara to start (<b>Dec</b>)</li> <li><b>Shree cements</b> 1.5mtpa plant in Ras to start (<b>Nov</b>)</li> <li><b>ACC</b> Wadi clinker unit to support 3mtpa cement to start (<b>Oct</b>)</li> <li><b>Prism Cements</b> 3mtpa plant to start (<b>Dec</b>)</li> </ul>	<ul style="list-style-type: none"> <li><b>Chettinad Cement</b> 2mtpa expansion at Karikali, TN (<b>Mar</b>)</li> <li><b>Jaiprakash Associate's</b> 3.5mtpa expansion at Nalgonda, AP (<b>Mar</b>)</li> <li><b>Jaiprakash Associate's</b> 3mtpa expansion at Dalla, UP (<b>Mar</b>)</li> </ul>
<b>Media</b>	<ul style="list-style-type: none"> <li><b>Sun TV</b> – To release its high budget movie – “Indhiran”</li> </ul>		
<b>Metals</b>	<ul style="list-style-type: none"> <li><b>Sterlite:</b> 1st phase of 2400MW will commence operation</li> </ul>	<ul style="list-style-type: none"> <li><b>Sterlite:</b> 2nd phase of 2400MW will commence operation</li> </ul>	
<b>Oil &amp; Gas</b>		<ul style="list-style-type: none"> <li>FPO of <b>IOC</b> (<b>Dec</b>)</li> </ul>	
<b>Pharma</b>	<ul style="list-style-type: none"> <li><b>Sun Pharma:</b> Israeli Supreme court decision on Taro acquisition agreement</li> <li><b>Sun Pharma:</b> District court verdict on Protonix patent validity</li> <li><b>Dr Reddy's:</b> Potential USFDA approval for fondaparinux</li> </ul>	<ul style="list-style-type: none"> <li><b>Ranbaxy:</b> Launch of generic Aricept in US</li> <li><b>Sun Pharma:</b> resolution of Caraco manufacturing quality issues in US</li> <li><b>Biocon:</b> data from oral insulin study in India</li> </ul>	

	Jul-Sep 10	Oct-Dec 10	Jan-Mar 11
<b>Real Estate</b>	<ul style="list-style-type: none"> <li>• <b>Peninsula land</b> – QIP fund raising</li> <li>• <b>Anantraj</b> - QIP fund raising</li> </ul>	<ul style="list-style-type: none"> <li>• Listing of Unitech Infrastructure on completion of restructuring of <b>Unitech's</b> non-core assets.</li> </ul>	
<b>Telecom</b>	<ul style="list-style-type: none"> <li>• DoT to revert on TRAI 2G recommendations</li> <li>• BWA spectrum allocation expected</li> </ul>	<ul style="list-style-type: none"> <li>• MNP to be implemented</li> <li>• Indus to complete court process for tower transfer</li> <li>• <b>RCOM GTLI</b> tower deal to be implemented</li> <li>• 3G spectrum allocation expected</li> </ul>	<ul style="list-style-type: none"> <li>• 3G services will be rolled out</li> </ul>
<b>Utilities</b>	<ul style="list-style-type: none"> <li>• <b>JSPL</b> - Second 135 MW unit of 540MW plant at Chhattisgarh (<b>Jul / Aug</b>)</li> <li>• <b>KSK</b> – Unit III &amp; IV (135MW each) at Wardha Warora</li> </ul>		



## Key to our recommendation structure

**BUY** - Absolute - Stock expected to give a positive return of over 20% over a 1-year horizon.

**SELL** - Absolute - Stock expected to fall by more than 10% over a 1-year horizon.

In addition, **Add** and **Reduce** recommendations are based on expected returns relative to a hurdle rate. Investment horizon for **Add** and **Reduce** recommendations is up to a year. We assume the current hurdle rate at 10%, this being the average return on a debt instrument available for investment.

**Add** - Stock expected to give a return of 0-10% over the hurdle rate, ie a positive return of 10%+.

**Reduce** - Stock expected to return less than the hurdle rate, ie return of less than 10%.

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