

## Dealer's Diary

The key benchmark indices skidded in early trade on weak Asian stocks but came off lows in morning trade. The market weakened again shortly but once again came off lows later. The market slipped in mid-morning trade and extended losses to hit fresh intraday low in early afternoon trade. A sell-off was witnessed in afternoon trade, which dragged the market to fresh intraday lows with the Sensex and Nifty breaching 18,000 and 5,400 marks, respectively. Weakness continued in late trade. The key benchmark indices hit their nine-week lows in late afternoon trade, with a setback in world stocks caused by euro zone debt worries hitting sentiment with the Sensex and Nifty closing down by 1.8% each. The mid-cap and small-cap indices closed down by 1.4% and 1.6%, respectively. Among the front liners, only ITC managed to close in green with 2.3% gain, while BHEL, ICICI Bank, Reliance Infra, Tata Motors and Tata Steel lost 3–7%. Among mid caps, Shree Global Tradefin, KGN Industries, MVL, Eclerx Services and Kwality Dairy gained 3–5%, while Aurobindo Pharma, KS Oils, DB Realty, PTC India and Glodyne Technoserve lost 6–9%.

## Markets Today

The trend deciding level for the day is 18,078/5,405 levels. If NIFTY trades above this level during the first half-an-hour of trade then we may witness a further rally up to 18,185–18,376/5,438–5,489 levels. However, if NIFTY trades below 18,078/5,405 levels for the first half-an-hour of trade then it may correct up to 17,887–17,780/5,354–5,322 levels.

Indices	S2	S1	R1	R2
SENSEX	17,780	17,887	18,185	18,376
NIFTY	5,322	5,354	5,438	5,489

## News Analysis

- Aurobindo Pharma update on USFDA inspection
- Result Review – BHEL, GAIL, Bajaj Electricals, Hotel Leela, GPIL, Siyaram Silk Mills
- Result Preview – Bharat Forge, Ipca, GIPCL

Refer detailed news analysis on the following page

### Net Inflows (May 20, 2011)

₹ cr	Purch	Sales	Net	MTD	YTD
FII	2,240	2,315	(75)	(7,493)	(3,693)
MFs	1,107	881	226	(76)	1,733

### FII Derivatives (May 23, 2011)

₹ cr	Purch	Sales	Net	Open Interest
Index Futures	4,092	4,908	(816)	21,967
Stock Futures	5,872	5,992	(119)	30,494

### Gainers / Losers

Gainers			Losers		
Company	Price (₹)	chg (%)	Company	Price (₹)	chg (%)
Shriram Trans	705	3.1	Aurobindo Phar	176	(9.2)
Divis Lab	744	2.3	PTC India	79	(6.8)
ITC	190	2.3	BHEL	1,936	(6.7)
Titan Inds	4,226	2.1	United Brew-\$	504	(6.3)
Dish TV India	70	2.0	Unitech	32	(5.9)

Domestic Indices	Chg (%)	(Pts)	(Close)
BSE Sensex	-1.8%	(332.8)	17,993
Nifty	-1.8%	(99.8)	5,387
MID CAP	-1.4%	(94.9)	6,661
SMALL CAP	-1.6%	(128.2)	8,057
BSE HC	-2.0%	(121.9)	6,031
BSE PSU	-1.9%	(159.5)	8,252
BANKEKX	-2.9%	(346.0)	11,813
AUTO	-1.9%	(168.8)	8,944
METAL	-2.6%	(396.7)	14,724
OIL & GAS	-1.3%	(117.4)	9,200
BSE IT	-0.8%	(50.9)	6,013
Global Indices	Chg (%)	(Pts)	(Close)
Dow Jones	-1.1%	(130.8)	12,381
NASDAQ	-1.6%	(44.4)	2,759
FTSE	-1.9%	(112.6)	5,836
Nikkei	-1.5%	(146.5)	9,461
Hang Seng	-2.1%	(488.4)	22,711
Straits Times	-1.8%	(58.1)	3,110
Shanghai Com	-2.9%	(83.9)	2,775

Indian ADRs	Chg (%)	(Pts)	(Close)
Infosys	-0.6%	(0.4)	\$62.5
Wipro	-2.0%	(0.3)	\$13.7
ICICI Bank	-1.9%	(0.9)	\$44.9
HDFC Bank	-1.6%	(2.5)	\$154.8

Advances / Declines	BSE	NSE
Advances	801	251
Declines	1,973	1156
Unchanged	124	41

Volumes (₹ cr)	
BSE	2,371
NSE	9,249

## Aurobindo Pharma update on USFDA inspection

With regards to the update on the USFDA action on Unit VI, Aurobindo Pharma (APL) has indicated that it has received the warning letter from USFDA detailing its observations. Also based on a field alert report for packaging and labeling compliance for Unit III, the USFDA has asked for submission of a detailed action plan for improvement in this letter, which is required to be submitted within 15 working days. USFDA has also given the opportunity to APL for a regulatory meeting.

Unit III contributes approximately US\$140mn to the total sales of the company. Even in the worst-case scenario, the stock would be fairly valued at these levels. APL is requesting USFDA for the meeting date and is in the process of submitting a detailed action plan. Although this move is towards the much-awaited clarity needed on the USFDA ban, there is still nothing concrete that can be inferred from the same. In terms of developments for Unit III, we believe packaging compliance issues have a high probability of getting resolved. **Hence, we currently maintain our estimates and recommend Buy on the stock with a target price of ₹278.**

## Result Review

### BHEL

BHEL announced its 4QFY2011 results. The company reported 31.8% yoy growth in its top line to ₹18,380cr. For FY2011, the company's total income grew by 26.6% yoy to ₹42,495cr (₹33,573cr). The numbers were posted in accordance with the new accounting policy introduced in 3QFY2011. EBITDA margin for the quarter was impressive at 23.4%. On a yoy basis, the margin expanded by around 276bp mainly aided by lower raw-material costs. Led by robust growth and sharp margin expansion, PAT for the quarter grew by 46.5% to ₹2,798cr (₹1,910cr), which was in line with our estimate of ₹2,880 (based on the provisional figures provided in the previous month). For FY2011, PAT posted growth of 39.4% yoy to ₹6,011cr (₹4,311cr). At the CMP of ₹1,945, the stock is trading at 13.7x and 12.3x its FY2012E and FY2013E earnings, respectively. **Currently, we remain Neutral on the stock.** We will revise our estimates and release a detailed result review shortly.

### GAIL

GAIL's 4QFY2011 reported numbers were below our expectation on the bottom-line front as the government increased upstream subsidy-sharing burden. Subsidy burden during the quarter stood at ₹902cr, which was much higher than our expectation of ₹715cr. However, operationally the company reported a decent performance during the quarter. The company's top line grew by robust 36.4% yoy to ₹8,894cr (₹6,522cr) during the quarter, against our expectation of ₹7,547cr, primarily on the back of good yoy performance in the natural gas transmission, natural gas trading and petrochemical segments. The natural gas transmission segment registered top-line growth of 23.4% yoy, whereas gas transmission volumes grew by 4.9% yoy to 120mmscmd (115mmscmd) during the quarter on the back of higher spot volumes transmitted despite lower KG D6 gas production. Similarly, the NG trading segment also reported robust top-line growth of 53.4% yoy. The petrochemical segment also fared well with robust sales volumes registered during the quarter. However, the company's margin contracted by 588bp yoy to 14.3% (20.2%), mainly on account of higher subsidy burden and staff cost, which led to a 3.4% yoy decline in operating profit to ₹1,272cr (₹1,317cr). Thus, PAT during the quarter also declined by 14% yoy to ₹783cr (₹911cr), aided by a substantial dip in other income. We have valued GAIL on an SOTP basis. **We maintain our Buy recommendation on the stock with a target price of ₹539.**

## Bajaj Electricals

For 4QFY2011, Bajaj Electricals reported strong top-line growth of 24.9% yoy to ₹980cr (₹784cr), which was in line with our expectations. However, on the operating margin front, the company faced margin pressures on account of a sharp increase in raw-material costs and, hence, OPM came in at 10.4%, vis-à-vis our expectations of 11.9%. Growth was backed by a surge in sales in the engineering and projects (E&P) and the consumer durables segments. The outstanding order book in the E&P segment at the end of the year stood at ₹750cr. We have revised our margin estimates for FY2012 and FY2013 downwards by 51bp and 41bp, respectively. At the current valuation, the stock is factoring in most of the growth expected to come over the next few years. **We recommend Neutral on the stock.**

## Hotel Leela

Hotel Leela reported strong top-line growth of 29.8% yoy to ₹172cr (₹133cr) in 4QFY2011, which was in line with our expectations. The company posted below-expectation margins on account of a sharp increase in other expenses. On the other hand, interest and depreciation costs were also below our expectations. PAT grew by 20.6% yoy to ₹11cr (₹9cr). **The stock is currently under review and we may revise our numbers post the management call.**

## Godawari Power & Ispat

For 4QFY2011, Godawari Power & Ispat (GPIL) reported strong set of numbers. Net sales grew by 40.2% yoy to ₹329cr on account of higher realisation and increased sales volumes. During the quarter, pellet sales volume was substantially higher at 49,561 tonnes vs. 8,473 tonnes in 4QFY2010. Billet sales volume increased by 68.4% yoy to 39,097 tonnes and that of ferro alloy were up 98.8% yoy to 2,322 tonnes. Average realisation for pellets, sponge iron, billets and HB wire grew by 42.2%, 26.4%, 19.0% and 18.2% yoy, respectively. EBITDA margin expanded by 228bp yoy to 22.0% as rise in prices of finished products outpaced rise in prices of raw materials. Thus, EBITDA grew by 56.4% yoy to ₹72cr. Interest expenses increased by 127% yoy to ₹23cr, owing to which net profit increased by only 37.3% yoy to ₹31cr. GPIL remains well poised to sustain strong profitability on account of increasing pellet sales from FY2012. **We continue to maintain our Buy rating on GPIL, while we keep our target price under review.**

## Siyaram Silk Mills

For 4QFY2011, Siyaram Silk Mills reported a 30.2% yoy increase in net sales to ₹245cr, above our estimates of ₹225cr, largely on account of higher realisation and volumes. The company ended FY2011 with a 30.2% yoy increase in net sales to ₹859cr, coming slightly above our expectation of ₹839cr. EBITDA increased by 21.4% yoy in 4QFY2011 to ₹32cr on the back of higher revenue during the quarter. However, the margin declined by 94bp to 13% due to higher other expenditure, which increased by 471bp to 19.6% (14.9%). This increase in other expenses was partially offset by a 300bp yoy decrease in raw-material prices to 37% (40%). For FY2011, EBITDA increased by 54.8% yoy to ₹109cr on the back of higher revenue and expansion in EBITDA margin, which increased by 202bp to 12.7% because of lower raw-material cost, which declined by 150bp to 39% (40.5%). For 4QFY2011, the company witnessed a 22.6% increase in PAT to ₹187cr on the back of higher revenue and margin expansion during the quarter. For FY2011, Siyaram Silk Mills witnessed a substantial increase of 71.2% yoy in PAT to ₹58cr due to higher revenue and EBITDA margin.

Siyaram Silk Mills is in a strong expansion mode. The company plans to add 286 looms (479 current looms) in a phased manner over FY2011–13 in the fabric segment and will be adding 400 machines in its readymade garment (RMG) segment by September 2011. Moreover, timely capacity expansion will help the company to take full advantage of the growing demand in India, which will drive its revenue at a 16% CAGR over FY2011–13E.

The stock is currently trading at reasonable valuation of 5.2x FY2013E earnings (as against its historical median of 6x one-year forward EPS). **We continue to maintain an Accumulate rating on the stock with a target price of ₹414**, valuing the stock at 6x FY2013E earnings. We may revise our numbers post interaction with the management.

## Result Previews

### Bharat Forge

Bharat Forge is slated to announce its 4QFY2011 results. On a consolidated front, we expect the company to deliver 39% yoy growth in revenue to ₹1,285cr for the quarter. On the operating front, the company is expected to post a marginal 18bp yoy dip in operating profit margin to 17.3%. However, net profit is expected to increase by 27% yoy to ₹71cr. **The stock rating is under review.**

### Ipca Labs

Ipca Labs (Ipca) is scheduled to announce its 4QFY2011 results. We estimate Ipca's top line to grow by 25.4% yoy to ₹457.7cr for 4QFY2011. The company is expected to post strong growth on the export and domestic fronts, reporting growth of 15.2% and 25.8% yoy, respectively. OPM is expected to increase by 113bp yoy to 18.9%, led by gross margin expanding to 59%. Overall, net profit is expected to increase by 11.9% yoy to ₹41.7cr. **We currently have a Buy rating on the stock with a target price of ₹356.**

### GIPCL

GIPCL is set to announce its 4QFY2011 results. We expect the company to register a 26.7% yoy increase in its net sales to ₹322, primarily due to higher volumes. Commissioning of Unit 3 and 4 in Surat is expected to aid the company's yoy volume growth. OPM is expected to expand by 262bp yoy to 27.0%, while the bottom line is likely to decline by 41.8% yoy to ₹21cr for 4QFY2011 due to higher depreciation and interest costs. **We maintain our Buy view on the stock with a target price of ₹107.**

## Economic and Political News

- EGoM may meet this week to decide on diesel, LPG rates
- Government to soon finalise disinvestment roadmap to raise ₹40,000cr in FY2012
- Kanimozhi moves Delhi High Court seeking bail
- Lok Pal panel agrees to speed up bill drafting process

## Corporate News

- Gujarat NRE's arm to hike production to 2.5mn tonne by FY2012 vs. current 1.5mn tonne
- Jubilant Lifesciences repays ₹900cr for outstanding FCCBs
- Satyam sees NYSE relisting at an appropriate time, once it closes the chapter of the massive accounting fraud
- Sesa Goa says yet to get SFIO investigation report

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

Events for the day	
Apollo Hospital	Results
Bharat Forge	Results
Blue Star	Results
Bombay Dyeing	Results
Chennai Petroleum	Results
Dhampur Sugar Mills	Results
DLF	Results
GIPCL	Results
Indian Hotels	Results
IPCA Lab	Results
JK Tyre	Results
Orbit Corp	Results
Power Grid	Results
Praj Industries	Results
REC	Results
Tata Global Beverages	Results

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<b>Ratings (Returns) :</b>	Buy (> 15%) Reduce (-5% to -15%)	Accumulate (5% to 15%) Sell (< -15%)	Neutral (-5 to 5%)
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