

Dealer's Diary

The domestic markets are expected to open flat tracking mixed cues from the global markets. Asian shares were trading lower on increased loss forecasts by Asian companies as Europe's debt crisis weighed on global sales.

The US markets remained subdued even as the weekly jobless claims report showed that claims fell by more than anticipated in the week ended January 28th as investors preferred to wait for the more definite monthly employment report from the Labor Department due to be released today.

Meanwhile Indian markets continued their good performance on Thursday also. The key thing about the recent rally is the higher volumes being registered, indicating positive investor sentiment and renewed investor appetite.

Markets Today

The trend deciding level for the day is 17,415/5,262 levels. If NIFTY trades above this level during the first half-an-hour of trade then we may witness a further rally up to 17,521 – 17,611/5,298 – 5,326 levels. However, if NIFTY trades below 17,415/5,262 levels for the first half-an-hour of trade then it may correct up to 17,325 – 17,219/5,234 – 5,198 levels.

| Indices | S2 | S1 | PIVOT | R1 | R2 |
|---------|--------|--------|--------|--------|--------|
| SENSEX | 17,219 | 17,325 | 17,415 | 17,521 | 17,611 |
| NIFTY | 5,198 | 5,234 | 5,262 | 5,298 | 5,326 |

News Analysis

- 2G case verdict: 122 licenses cancelled, auction to follow
- Banks unlikely to see a major impact of 2G license cancellation on their books
- AL, BJAUT monthly sales numbers - January 2012
- Cement dispatches - January 2012
- 3QFY2012 - Result Reviews – Corporation Bank, Andhra Bank, Thermax, Hexaware, Greenply Industries
- 3QFY2012 - Result Previews – Madras Cements

Refer detailed news analysis on the following page

Net Inflows (February 01, 2012)

| cr | Purch | Sales | Net | MTD | YTD |
|-----|-------|-------|-------|-------|---------|
| FII | 5,227 | 3,135 | 2,093 | 2,093 | 13,173 |
| MFs | 950 | 766 | 185 | 185 | (1,670) |

FII Derivatives (February 02, 2012)

| cr | Purch | Sales | Net | Open Interest |
|---------------|-------|-------|-----|---------------|
| Index Futures | 2,074 | 1,745 | 329 | 11,825 |
| Stock Futures | 2,830 | 2,234 | 597 | 26,975 |

Gainers / Losers

| Company | Gainers | | Losers | |
|-------------------|-----------|---------|----------------|-------------------|
| | Price (₹) | chg (%) | Company | Price (₹) chg (%) |
| Sintex Industries | 92 | 7.9 | Unitech | 25 (7.0) |
| Engineers India | 255 | 7.2 | Ashok Leyland | 27 (6.0) |
| Bharti Airtel | 386 | 6.9 | Sun TV Network | 302 (5.6) |
| Andhra Bank | 109 | 6.5 | IDFC | 131 (4.7) |
| Educomp Solutions | 234 | 6.4 | ING Vysya Bank | 325 (3.8) |

| Domestic Indices | Chg (%) | (Pts) | (Close) |
|------------------|---------|--------|---------|
| BSE Sensex | 0.8 | 131.3 | 17,432 |
| Nifty | 0.7 | 34.2 | 5,270 |
| MID CAP | 0.6 | 32.6 | 5,970 |
| SMALL CAP | 0.5 | 35.4 | 6,609 |
| BSE HC | (0.6) | (39.0) | 6,305 |
| BSE PSU | 0.8 | 59.4 | 7,405 |
| BANKEX | 0.5 | 52.5 | 11,480 |
| AUTO | 0.2 | 20.0 | 9,449 |
| METAL | 1.4 | 166.2 | 12,006 |
| OIL & GAS | 0.4 | 31.1 | 8,592 |
| BSE IT | 1.5 | 88.5 | 5,860 |

| Global Indices | Chg (%) | (Pts) | (Close) |
|----------------|---------|--------|---------|
| Dow Jones | (0.1) | (11.1) | 12,705 |
| NASDAQ | 0.4 | 11.4 | 2,860 |
| FTSE | 0.1 | 5.4 | 5,796 |
| Nikkei | 0.8 | 67.0 | 8,877 |
| Hang Seng | 2.0 | 406.1 | 20,739 |
| Straits Times | (0.1) | (3.7) | 2,901 |
| Shanghai Com | 2.0 | 44.5 | 2,313 |

| Indian ADRs | Chg (%) | (Pts) | (Close) |
|-------------|---------|-------|---------|
| Infosys | 0.1 | 0.0 | \$55.5 |
| Wipro | 2.1 | 0.2 | \$11.2 |
| ICICI Bank | 1.4 | 0.5 | \$37.2 |
| HDFC Bank | 2.6 | 0.8 | \$32.4 |

| Advances / Declines | BSE | NSE |
|---------------------|-------|-----|
| Advances | 1,573 | 825 |
| Declines | 1,295 | 670 |
| Unchanged | 126 | 69 |

| Volumes (cr) | |
|--------------|--------|
| BSE | 3,679 |
| NSE | 18,566 |

2G case verdict: 122 licenses cancelled, auction to follow

The Supreme Court today, in its judgment for the 2G case, cancelled 122 licenses given to telecom firms since January 2008. The cancelled licenses include 9 of Idea Cellular, 3 of Tata Teleservices, 9 of Swan Telecom, 21 of Loop Telecom, 21 of Videocon and 22 of Uninor. Telecom firms can operate the licences for four months at market rate payment. Moreover, Unitech Wireless and Swan Telecom have been fined `5cr. Within two months, the TRAI will recommend fresh guidelines on the grant of new licenses and the government will make its decision after one month post the submission of recommendations.

Of the companies under our coverage, for Bharti Airtel and Reliance Communication none of the licenses were canceled as all licenses to them were issued before 2008. For Idea, the licenses have been cancelled for the following circles – Punjab, Karnataka, Tamil Nadu and Chennai, West Bengal, Orissa, Kolkata, Assam, North East and Jammu & Kashmir. These circles contribute ~10% to Idea's overall revenue as of now and are EBITDA negative with margin at ~ negative 31%. Subscriber base from these circles is 17% of Idea's total subscriber base. Idea paid `685cr in January 2008 to acquire licenses in these circles and then invested ~`970cr in the next couple of years to establish network in these circles. These investments done by the company are at a risk now due to the judgment passed. However, we believe if the government conducts an auction of the spectrum, Idea could emerge as one of the potential winners, given its huge subscriber base (~106mn) and better cash flow generation as against all the other players in the industry (ex. Bharti Airtel).

For other telecom players, licenses cancelled are as follows:

| Company Name | Circles in which licenses are cancelled |
|-------------------|---|
| Uninor | Pan India (all 22 circles) |
| Loop Mobile | All circles except Mumbai |
| Siestema Shyam | All circles except Rajasthan |
| Tata Teleservices | Assam, North East and J&K |
| Etisalat DB | MP, AP, Delhi, Gujarat, Haryana, Karnataka, Kerala, Bihar, Delhi, Mumbai, Maharashtra, Punjab, TN, UP (E), UP (W) |
| S-Tel | Assam, North East, Bihar, Orissa, HP and J&K |
| Videocon | All licenses except Punjab |

We believe this move will increase consolidation in the highly competitive telecom industry and the total number of players operating in the industry can come down to 9-10 from 14 currently. Also, Bharti and Vodafone appear to be the marginal beneficiaries due to the potential for rationalization in competition and further pricing stability. Operators such as Idea and Tata Teleservices may also benefit from this, but they will have to incur additional charges (from re-bidding at market prices) if they intend to maintain their pan-India presence. **We remain Neutral on the telecom sector.**

Banks unlikely to see a major impact of 2G license cancellation on their books

The Supreme Court has cancelled 122 licenses for mobile networks issued during A. Raja's tenure as Telecom minister and has asked TRAI to make fresh recommendations on allotment of the licenses within four months.

According to SBI's management the bank's funded exposure to the affected companies' stands at ~`1,100cr, which is only a minor 0.14% of the overall loan book. Also, all loans are not expected to turn into NPAs as all the affected companies are likely to rebid for the licenses within four months. Also, according to the management, the non-funded exposure for the bank in form of guarantees to the affected companies, which are to the tune of `3,400cr, are likely to stand cancelled as these guarantees were issued for the licenses.

According to IDBI's management, the bank does not have a large exposure to the affected companies, while Central bank of India has exposure to only a couple of affected entities.

AL, BJAUT monthly sales numbers - January 2012

Ashok Leyland (AL)

AL reported better better-than-expected 33.6% yoy growth (13.3% mom) in total volumes to 10,300 units, driven largely by *Dost* sales, which reported 1,100 units during the month. Excluding *Dost*, volumes jumped 19.6% yoy (1.5% mom).

Bajaj Auto (BJAUT)

BJAUT posted marginally lower-than-expected 7.7% yoy (up 10.5% mom) growth in total volumes to 337,875 units for January 2012, largely due to modest 6.8% yoy growth in the motorcycle segment. Sequentially volumes improved by 11.7% during the month. Exports momentum also witnessed moderation as exports volumes grew by 13% yoy (down 2.3% mom). Three-wheeler volumes, on the other hand, posted healthy 14.4% yoy (3.4% mom) growth to 43,436 units.

Cement Dispatches – January 2012

ACC's cement dispatches for January 2012 stood at 2.23mn tonnes, up by healthy 8.8% yoy. Even on mom basis, dispatches were up by 6.7%. Ambuja Cements' dispatches stood at 1.92mn tonnes, up by modest 4.1% yoy. However, on mom basis, dispatches were flat. UltraTech cement dispatches stood at 3.72mn tonnes, up by strong 11.3% yoy. Higher cement dispatches growth of ACC and UltraTech over Ambuja Cements hints at demand scenario improvement in South India. **We continue to remain Neutral on ACC and Ambuja Cements.**

3QFY2012 - Result Reviews

Corporation Bank

For 3QFY2012, Corporation Bank registered a moderate set of results, with net profit growing by 5.2% yoy to ₹402cr. Net interest income of the bank grew by muted 2.3% yoy to ₹862cr. Non interest income growth, however, was robust at 67.0% yoy. Operating expenses of the bank increased by 29.1% yoy to ₹826cr, while provisioning expenses increased by 20.6% yoy to ₹301cr, leading to moderate PAT growth of 5.5% yoy.

The bank's asset quality deteriorated during 3QFY2012, with both gross and net NPA levels increasing by 15.7% and 18.8% sequentially, respectively. As of 3QFY2012, gross NPA ratio stands at 1.35% (1.32% in 2QFY2012), while net NPA ratio stands at 0.96% (0.91% in 2QFY2012). Provisioning coverage ratio deteriorated by 186bp during 3QFY2012 to 62.9%. **We recommend Accumulate on the stock with a target price of ₹450.**

Andhra Bank

For 3QFY2012, Andhra Bank posted a poor set of numbers with net profit declining by 8.4% yoy to ₹303cr, which was dot in line with our estimates. Net interest income of the bank grew by healthy 17.1% yoy to ₹984cr, while growth in non interest income was also healthy at 18.4% yoy to ₹235cr. Relative lower operating expenses growth of 9.6% yoy resulted in PPP growing by healthy 22.5% yoy. However, provisioning expenses of the bank grew substantially by 80.2% yoy to ₹309cr, which resulted in net profit declining by 8.4% yoy.

The bank's asset quality remained under pressure with gross NPA ratio standing at 2.4% and net NPA ratio standing at 1.2%. Considering the recent turmoil in asset quality and hefty power exposure (~20% of loan book), **we remain Neutral on the stock.**

Thermax

Thermax announced its 3QFY2012 results, which were broadly in-line with our (below street) estimates. The top line posted muted growth of 2.3% yoy ₹1,269cr (₹1,241cr), which was 5.4% higher than our estimates. The silent growth was along expected lines, mainly on account of high base created in 3QFY2011. Segment wise, the energy segment posted flat growth to ₹993.1cr, while the environment segment grew by 2.8% yoy to ₹302.4cr. On the operating front, EBITDA margin contracted by 114bp yoy to 10.7%, in-line with our estimates. Muted growth and margin compression led to a PAT decline of 4.9% yoy to 95.3cr (₹100.2cr), slightly higher than our (below street) estimates of ₹89.4cr.

Thermax trails its fortune towards industrial capex, especially in sectors such as metals, cement and oil and gas, which form its mainstream arena, for offering products and solutions in captive power and heating solutions. However, the tough macro climate prevailing since quite some time has paused additional investments in major industrial sectors, thereby halting new order disbursements. Likewise, the company has not reported any major order wins during the quarter.

However, with easing of inflationary pressures, the stock has rallied ~25% in the past few days, factoring in the possibility of softening of interest rates from the RBI and, hence, an uptick in industrial investments, post which Thermax will be best placed to gain from the revival. At the CMP, the stock is fairly valued at 14.6x and 15.5x FY2012E and FY2013E EPS, respectively. **We would like to hear management's commentary on the company's future outlook and get more details over the quarterly numbers post which we will revise our estimates and recommendation. We maintain our Neutral rating on the stock.**

Hexaware

Hexaware reported its 4QCY2011 results, which outperformed street as well as expectations on all the fronts. USD revenue came in at US\$84.1mn, up 6.7% qoq, majorly led by 4.8% and 1.3% qoq volume and pricing growth. In INR terms, revenue came in at `432cr, up 18.0% qoq. EBITDA and EBIT margins expanded by 427bp and 455bp qoq to 23.0% and 21.6%, respectively, largely aided by INR depreciation. PAT stood higher at `88cr, up 36.3% qoq. Hexaware has been outperforming in the mid-cap space since six quarters by growing at a scorching 8.1% CQGR over 1QCY2010–4QCY2012. Management has guided for at least 20% yoy revenue growth for CY2012 to US\$370mn, which is highest in the industry. This seems easily achievable by the company given the revenue visibility on account of six large deals signed in the past few quarters. **We continue to be positive on the stock and maintain our Accumulate rating. The target price is currently under review.**

Greenply Industries

Greenply Industries (GIL) announced strong 3QFY2012 numbers. Net sales increased by 32.1% yoy to `419cr (`414cr). The plywood segment registered 21.4 % yoy growth to `243cr, while the laminate segment managed an 11.8% yoy increase to `160. The MDF segment registered strong yoy growth of 373% to `67cr on the back of higher utilization and realization during the quarter. EBITDA increased by 53.8% yoy to `43cr, largely due to margin expansion. EBITDA margin increased by 146bp yoy to 10.4%, mainly due to a decline in raw-material cost, which declined to 52.5% of net sales in 3QFY2012 vs. 57.3% of net sales in 3QFY2011. This decline was partially offset by forex loss of `6cr vs. forex gain of `0.4cr in 3QFY2011. PAT increased by 96.0% yoy to `14cr, while margin increased by 110bp yoy to 3.4%. **We will be coming out with a detailed report post management interaction. We continue to maintain our Buy view on the stock with a target price of `284.**

3QFY2012 - Result Previews

Madras Cements

Madras Cements is expected to announce its 3QFY2012 results. We expect the company's top line to grow by 22.6% yoy to ₹710cr on account of 10.4% yoy growth in dispatches and higher realization growth (10.2% yoy). The company's operating margin is expected to improve only by 81bp yoy to 27% as cost pressures are expected to erode the entire realization growth. The company's net profit is expected to grow by 38.9% yoy to ₹60cr. **We maintain our Neutral view on the stock.**

Quarterly Bloomberg Brokers' Consensus Estimates

Power Finance Corporation Ltd - (03/02/2012)

| Particulars (₹ cr) | 3Q FY12E | 3Q FY11 | y-o-y (%) | 2Q FY12 | q-o-q (%) |
|--------------------|----------|---------|-----------|---------|-----------|
| Net profit | 718 | 659 | 9 | 419 | 71 |

Dr. Reddy Laboratories Ltd - (03/02/2012)

| Particulars (₹ cr) | 3Q FY12E | 3Q FY11 | y-o-y (%) | 2Q FY12 | q-o-q (%) |
|--------------------|----------|---------|-----------|---------|-----------|
| Net sales | 2,480 | 1,899 | 31 | 2,268 | 9 |
| Net profit | 393 | 273 | 44 | 308 | 28 |

Adani Power Ltd - (06/02/2012)

| Particulars (₹ cr) | 3Q FY12E | 3Q FY11 | y-o-y (%) | 2Q FY12 | q-o-q (%) |
|--------------------|----------|---------|-----------|---------|-----------|
| Net sales | 1,098 | 503 | 118 | 1,072 | 2 |
| EBITDA | 526 | 273 | 93 | 519 | 1 |
| EBITDA margin (%) | 47.9 | 54.3 | | 48.4 | |
| Net profit | 211 | 109 | 94 | 177 | 19 |

Adani Ports & SEZ Ltd - (06/02/2012)

| Particulars (₹ cr) | 3Q FY12E | 3Q FY11 | y-o-y (%) | 2Q FY12 | q-o-q (%) |
|--------------------|----------|---------|-----------|---------|-----------|
| Net sales | 643 | 421 | 53 | 588 | 9 |
| EBITDA | 440 | 310 | 42 | 411 | 7 |
| EBITDA margin (%) | 68.4 | 73.6 | | 69.9 | |
| Net profit | 303 | 228 | 33 | 273 | 11 |

Hindustan Unilever Ltd - (06/02/2012)

| Particulars (₹ cr) | 3Q FY12E | 3Q FY11 | y-o-y (%) | 2Q FY12 | q-o-q (%) |
|--------------------|----------|---------|-----------|---------|-----------|
| Net sales | 5,879 | 5,027 | 17 | 5,522 | 6 |
| EBITDA | 857 | 725 | 18 | 827 | 4 |
| EBITDA margin (%) | 14.6 | 14.4 | | 15.0 | |
| Net profit | 700 | 638 | 10 | 689 | 2 |

Mahindra & Mahindra Ltd - (07/02/2012)

| Particulars (₹ cr) | 3Q FY12E | 3Q FY11 | y-o-y (%) | 2Q FY12 | q-o-q (%) |
|--------------------|----------|---------|-----------|---------|-----------|
| Net sales | 7,985 | 6,074 | 31 | 7,307 | 9 |
| EBITDA | 998 | 924 | 8 | 874 | 14 |
| EBITDA margin (%) | 12.5 | 15.2 | | 12.0 | |
| Net profit | 687 | 735 | (7) | 737 | (7) |

GMR Infra Ltd - Consolidated (07/02/2012)

| Particulars (₹ cr) | 3Q FY12E | 3Q FY11 | y-o-y (%) | 2Q FY12 | q-o-q (%) |
|--------------------|----------|---------|-----------|---------|-----------|
| Net sales | 1,814 | 1,359 | 33 | 1,812 | 0 |
| EBITDA | 513 | 381 | 34 | 501 | 2 |
| EBITDA margin (%) | 28.3 | 28.1 | | 27.7 | |
| Net profit | (63) | (22) | 184 | (63) | 1 |

Economic and Political News

- Mines Bill may be passed in the Budget session
- Global food prices to ease in 2012: World Bank
- Finance Ministry working on implications of 2G judgment on banks
- Finance Ministry to discuss power gear duty on February 6, 2012
- Panel of Ministers to meet again to finalize ONGC public issue

Corporate News

- Reliance Industries secures US\$400mn loan guarantee from Italian SACE
- NTPC in talks with GAIL for sourcing gas supplies
- Coal India proposes ₹5,684cr dividend to the government for FY2012

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

Results Calendar

| | |
|------------|--|
| 03/02/2012 | Dr Reddy's, Power Fin.Corp., Madras Cements, Prakash Industries, Subros |
| 06/02/2012 | HUL, Mundra Port, Adani Power, Nalco, GlaxoSmith Con, MOIL, Dena Bank, BGR Energy, India Cements, Nagarjuna Const., GIPCL |
| 07/02/2012 | M&M, Cadila Healthcare, GMR Infra., ITNL, SpiceJet, J K Lakshmi Cements |
| 08/02/2012 | ONGC, Bharti Airtel, Power Grid Corp., Bharat Forge, Orchid Chemicals, Alembic Pharma |
| 09/02/2012 | Adani Enterp., Tata Steel, Hindalco, Ambuja Cements, ACC, HPCL, Cummins India, Tech Mahindra, GSPL, Page Industries, Apollo Tyres, FAG Bearings, Dishman Pharma, JK Tyre |
| 09/02/2012 | Tata Power Co., BPCL, IDFC, Shriram Trans., JSW Steel, Sun TV Network, Britannia, Aurobindo Pharma |

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