Consolidation Before The Next Move

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Market has moved up by 8% in last few days…

1. Is it right time to buy?

-Whether we have changed the trend to an upward direction…

2. Is it right time to sell?

- Whether market will still show a new low…

Point to be noted

- **Inflation and Interest rate**
- **Industrial Production**
- **Depreciating Rupee**
- **Corporate Profitability**
- **Crude Oil Prices**
- **Government Policy**
- **International Scene**
  - **Europe**
  - **China**
- **Valuations**
- **Few Mid Cap Ideas**

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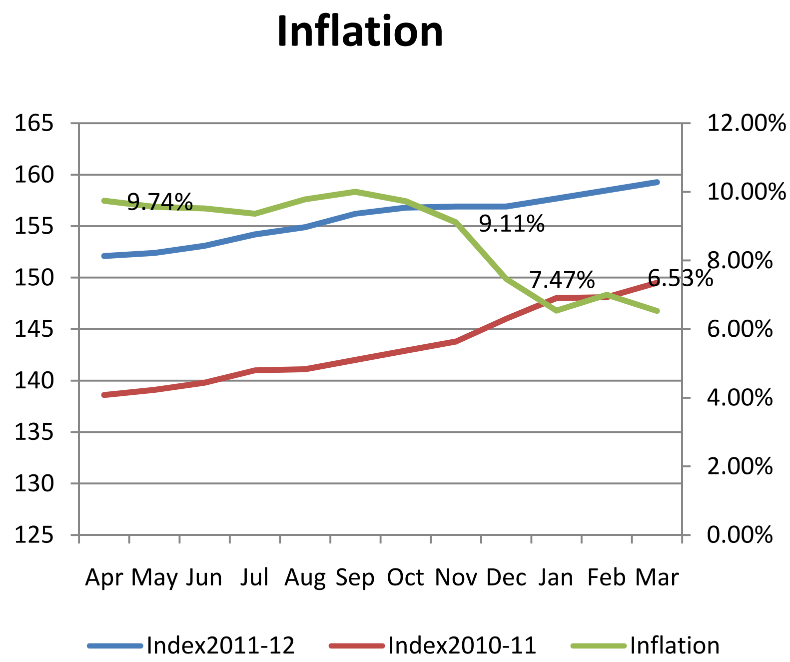
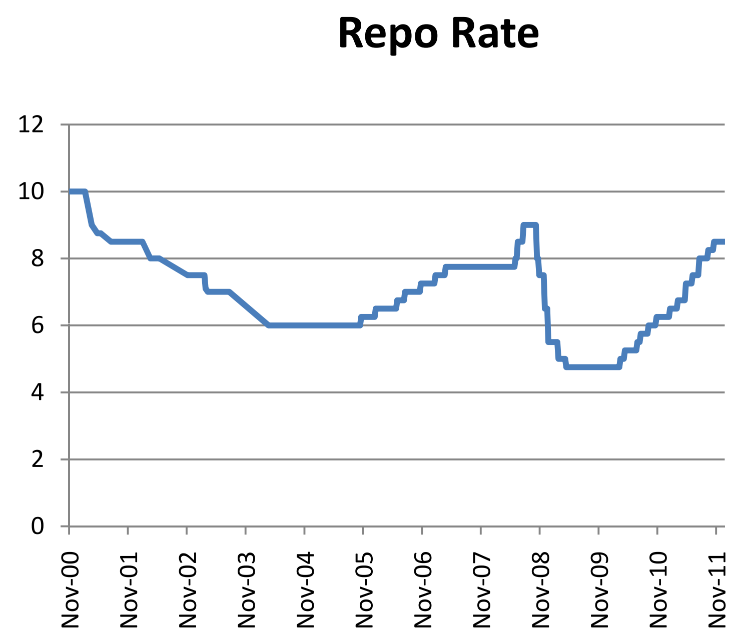
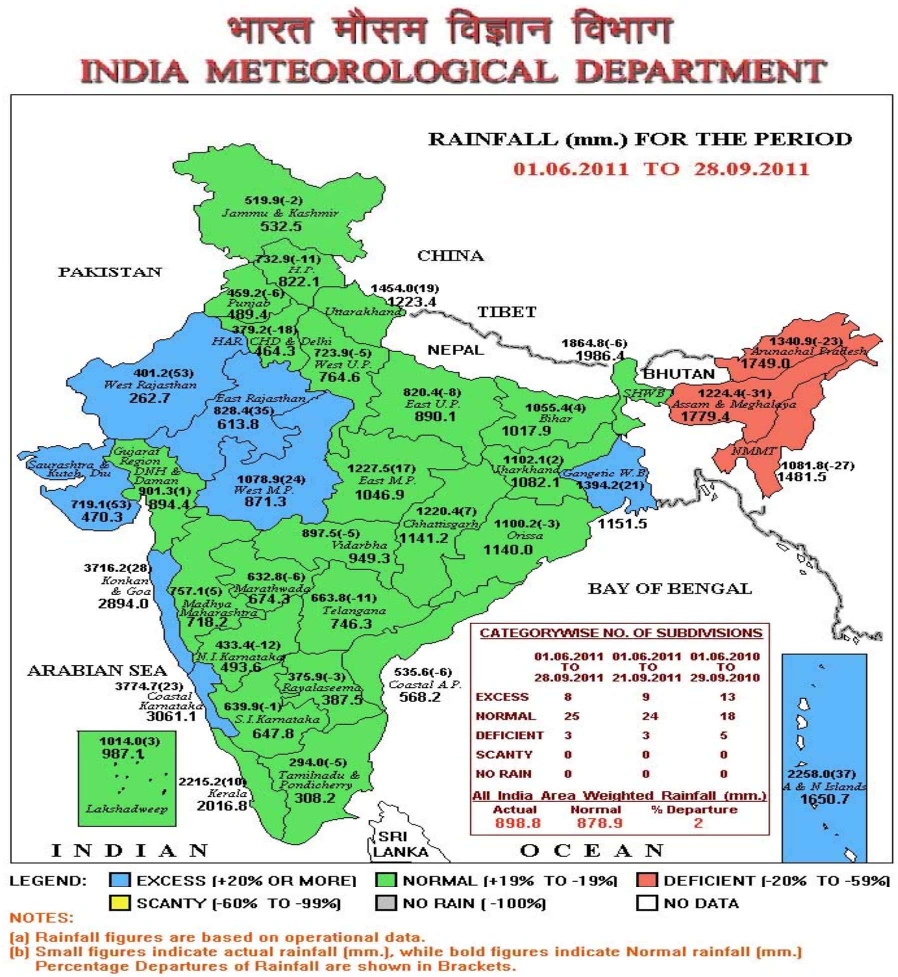
Inflation Started Declining…
Should be followed by a decline in interest rates





However a bull run starts when interest rates start increasing

Monsoon 3% Above Normal And Wide Spread



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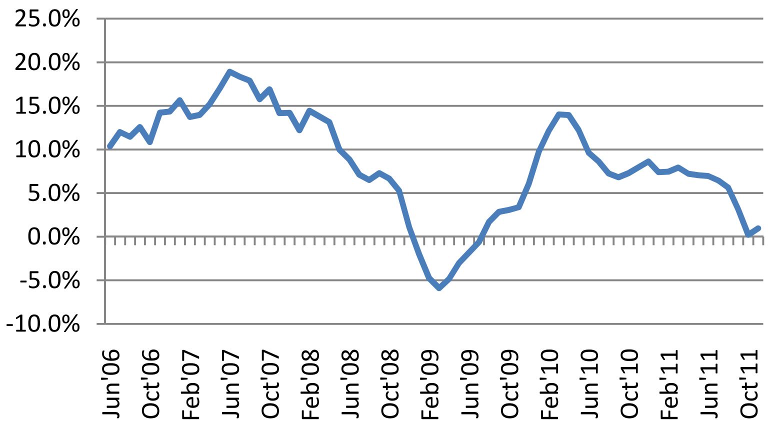
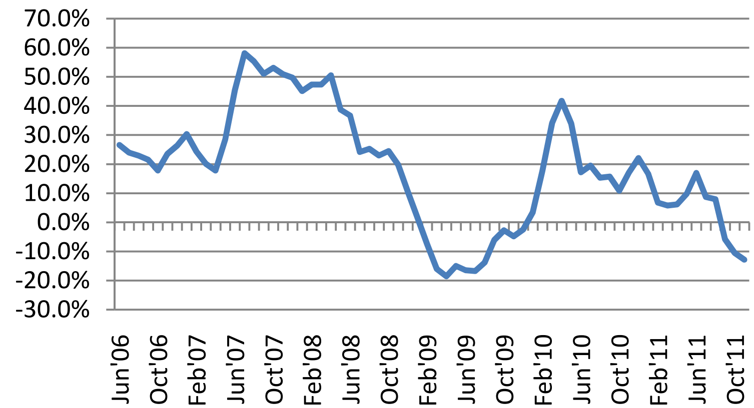
Next Month IIP Numbers May Be Negative Again

3MMA IIP

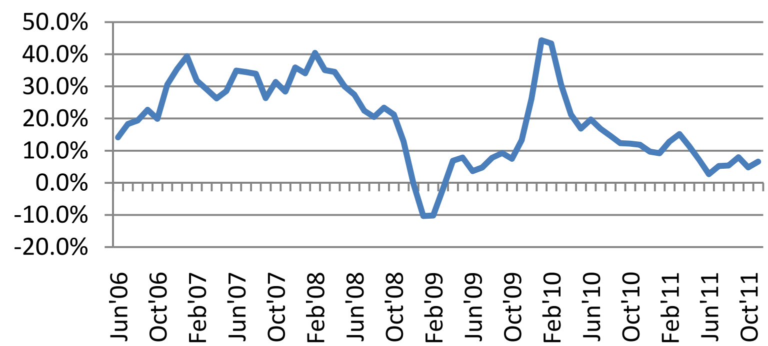


Capital Goods



Month	Index	Month	Index	Inflation
Aug'10	156.1	Aug'11	161.7	3.6%
Sep'10	160.3	Sep'11	163.5	2.0%
Oct'10	166.6	Oct'11	158.7	-4.7%
Nov'10	158.0	Nov'11	167.4	5.9%
Dec'10	175.6	Dec'11		

Consumer Durable



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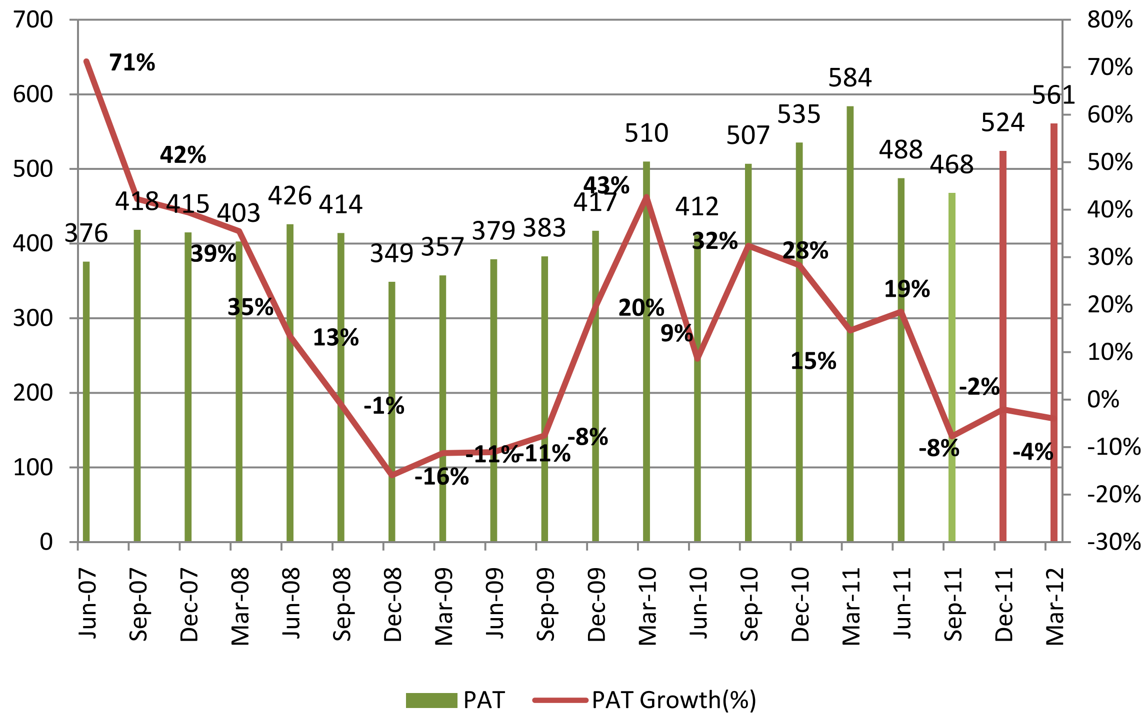
Depreciating Rupee

- ➢Various RBI actions resulted in the reversal of the Rupee trend
- ➢Depreciated rupee has created an opportunity for higher exports and capital inflows at the same time discouraged imports
- ➢Fundamentals do not suggest sharp appreciation of the Rupee

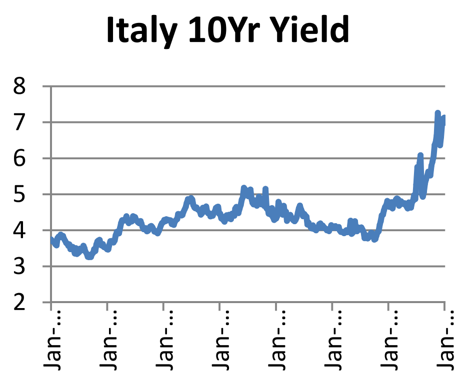
Corporate Profitability Declining

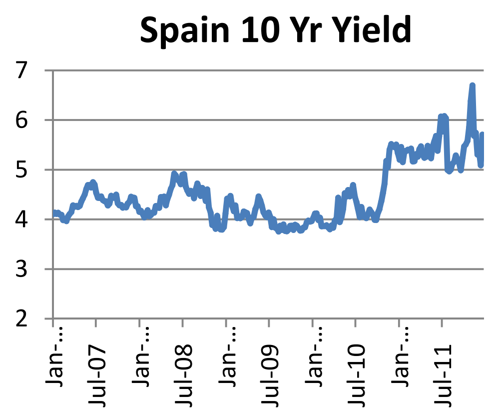


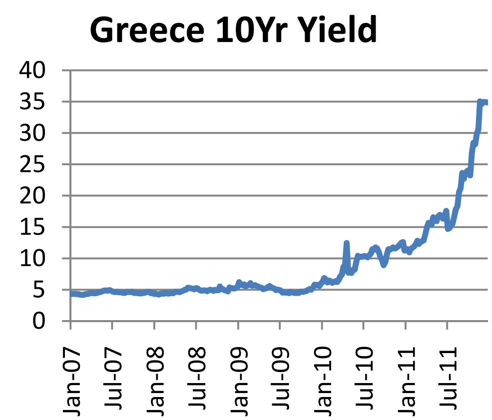
March quarter aggregate PAT of NIFTY stocks expected to decline on year-on-year basis

Sovereign Debt Crisis In Europe – Likely To Resolve

- Recently ECB extended €489 bn funds to European Banks
- Negotiations on restructuring of Greek government debt is going on
- Negotiations on a new European treaty to reinforce budget discipline in the eurozone is also on
- 17 countries – slow decision making
- Italy 10 year bond yield still at higher level
- Austerity steps will restrict growth







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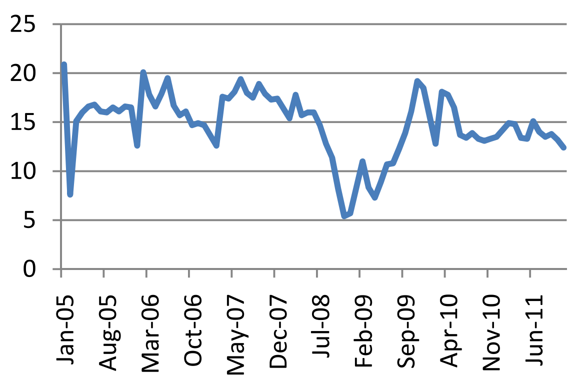
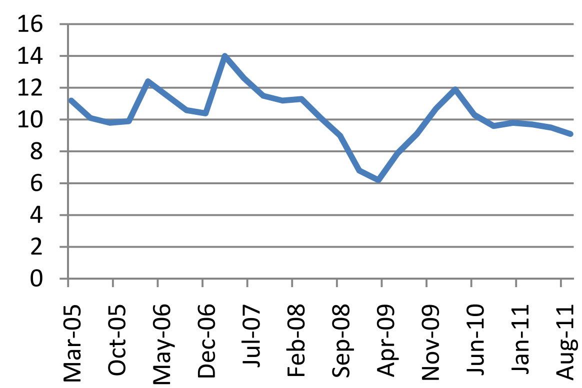
Lower Growth In China

- More of similar problems like India
- Still industrial production growth is high
- Inflation started coming down
- Central bank started reducing reserve ratio

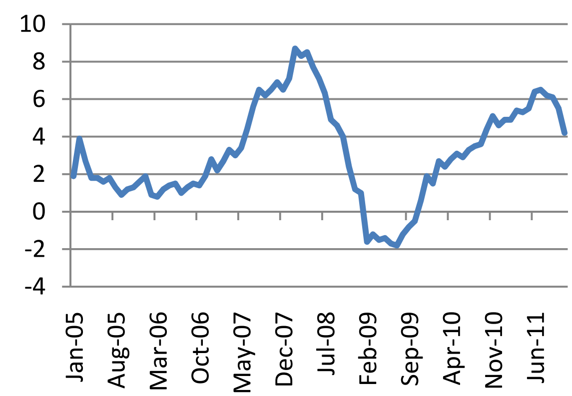
China IIP



China GDP



China Inflation



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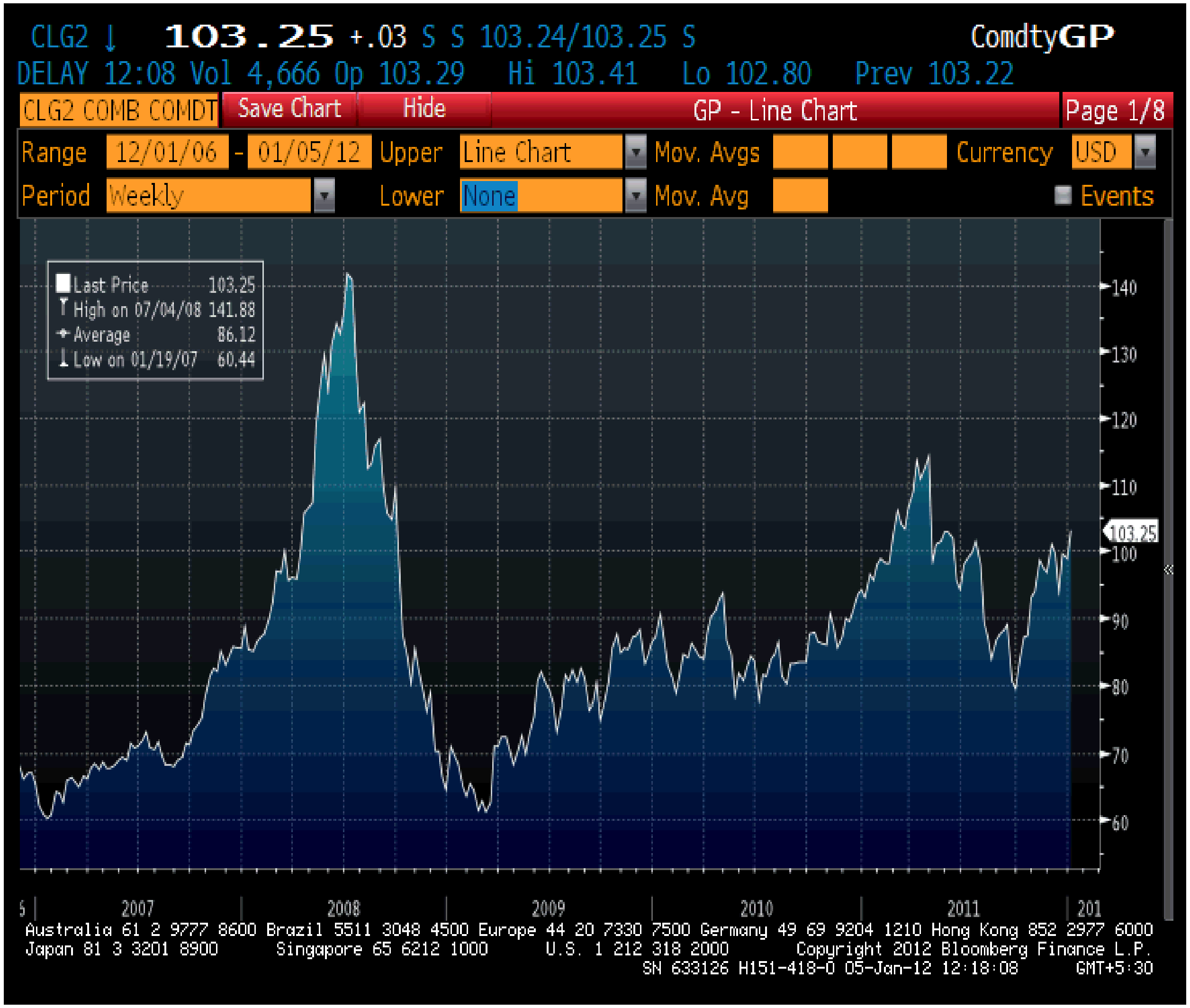
Oil Continues To Remain A Problem



Demand-Supply do not justify crude oil prices moving up from here

However, Geo-political tension emerged on account of Iran can take the prices further higher

Current oil prices are impacting fiscal situation

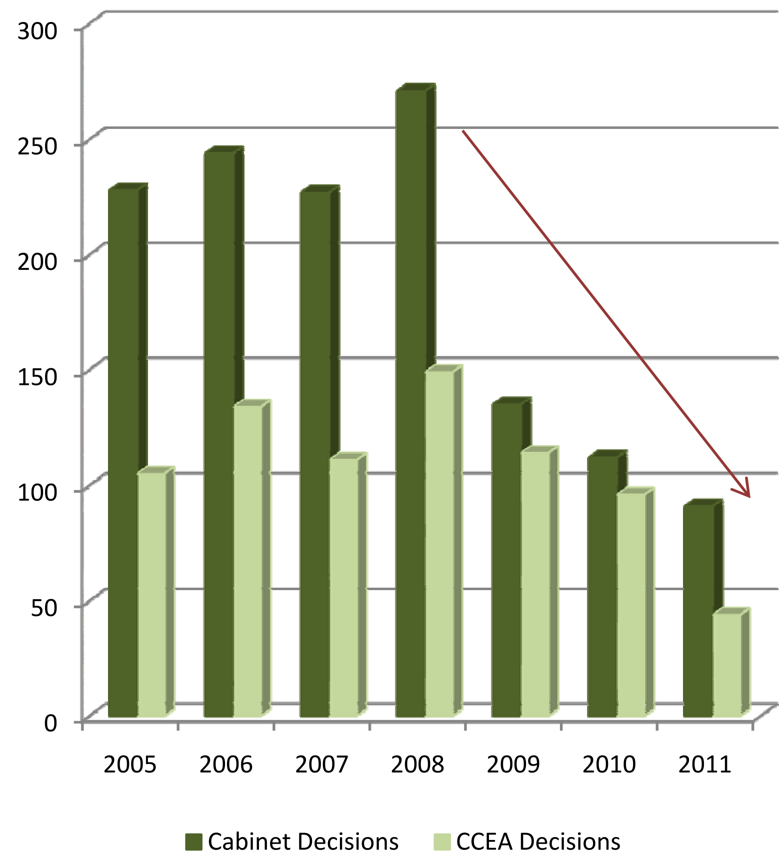
Inactive Government

Policy action and decision making has slowed down substantially

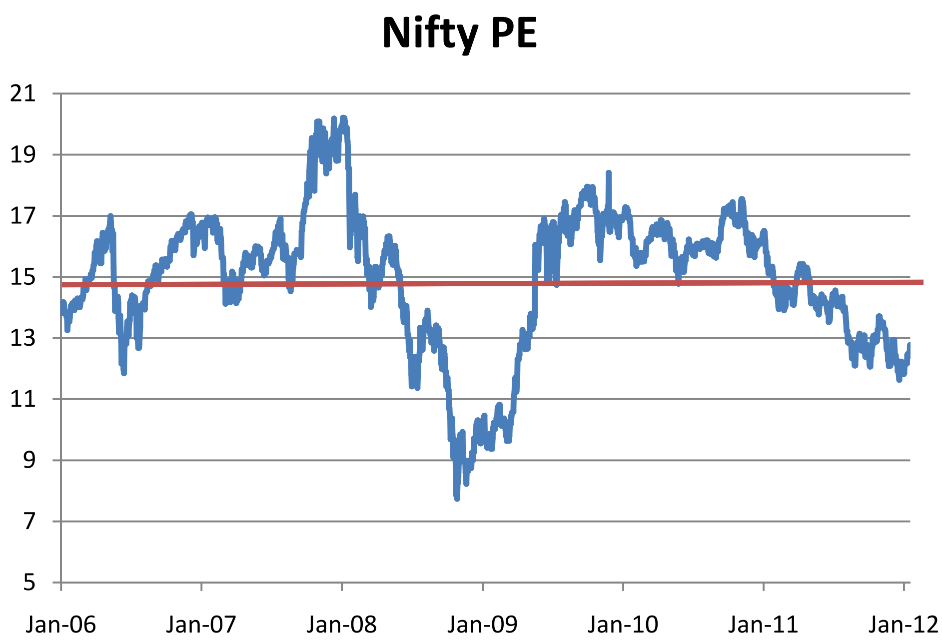
Post Election in the 5 states, government may have more leverage to take decisions

Buy back / sale of shares by promoter can help government to complete disinvestment target

Expectation from budget is low – however can surprise



Current Valuations Below Average



12 M Rolling PE is 12.8x
Last 6 years average PE multiple is 15x

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2008-09 Decline Was Extraordinary… may not repeat

2005-2012

1991-1998

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Conclusion

- **We do not expect market to make a new low**
- **However, market is not likely to see run away either from current levels**
- **We may see consolidation between 4700 – 5100 levels on the Nifty in the next three months**
- **Valuation are reasonable**
- **Time to reshuffle existing portfolio and accumulate fresh quality large cap and mid cap stocks.**
- **Good investments are typically made in challenging times**

Development Credit Bank

CMP: Rs 40 **Target: Rs 65**

Investment Rationale

- **Turnaround story:** From loss making to profit, owing to strong and experienced Management
- **Shift towards retail and SME business**
- **Focus on retail liabilities than wholesale liabilities**
- **Improving cost efficiency**
- **Improvement in NPA ratios**
- **Capital raising plans**
- **Return ratios to improve on the back of profitability**

We expect the improvement efforts of the bank to drive the banks growth and DCB's operational restructuring to drive traction on fee income streams and improve cost efficiency. Given that, we expect provisions to decline going forward. We believe that Bank's net profit to grow at a CAGR of 80.5% over FY11-FY13E.

Year	NII (Rs.crs)	Growth %	Profit before prov (Rs. crs)	Margin %	PAT (Rs. crs)	EPS (Rs)	P/E (x)	Adj BVPS	P/ABV (x)	ROE %
FY 10A	142	-28.2%	48	8.5%	(78)	(3.92)	(10.45)	23.5	1.74	-14.5%
FY 11A	189	33.6%	86	13.3%	21	1.07	38.41	26.9	1.53	3.9%
FY 12E	235	24.0%	92	11.3%	56	2.82	14.54	29.2	1.40	9.5%
FY 13E	269	14.8%	118	13.0%	70	3.48	11.78	34.7	1.18	9.1%

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Ajanta Pharma Ltd

CMP: Rs 322 **Target Price: Rs 385**

Investment Rationale

- **New Therapeutic Segments:**
  - Targeting new therapeutic segments - Gastroenterology, Orthopedic, Respiratory and Nephrology
  - Expanding its field force by more than 40% from current 2100 to 3000 in 1HFY12.
- **Entry in world's largest market:**
  - Targeting world's largest generic market (market size of ~$34 bn) – US for its next phase of growth.
- **Consistent growth:** Sales CAGR of 15.5% in last five years with bottom-line CAGR of 28.1% during the same period
- **Strong Financials:**
  - Major capex done. Nothing required for next two years
  - Comfortable debt to equity ratio
  - Improving return ratio

We recommend "HOLD" on Ajanta Pharma Limited with a target price of Rs. 385 indicating a potential upside of 11% from current levels.

Year Consolidated	Net Sales (Rs cr)	Growth (%)	EBITDA (Rs cr)	Margin (%)	PAT (Rs cr)	Margin (%)	EPS (Rs)	PE (x)	ROE (%)
FY10A	409.1	17.1%	78.6	19.2%	34.0	8.3%	28.8	11.2	19.9
FY11A	504.9	23.4%	96.3	19.1%	50.7	10.0%	43.0	7.5	24.5
FY12E	600.8	19.0%	118.4	19.7%	64.9	10.8%	55.0	5.9	25.3
FY13E	733.0	22.0%	150.3	20.5%	80.4	11.0%	68.2	4.7	25.3

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PI Industries Ltd

CMP: Rs 475 **Target: Rs 646**

Investment Rationale

- **Custom synthesis:** Key differentiator for the company.
  - Similar to CRAMs business however stage and scope is different
    - PII follows a non-compete model, it is difficult to replace PII
    - Currently, CSM contributes around 36% of FY11 sales
    - Strong order book of $325mn
    - Expanding facility
- **Agri Input Business:**
  - Focus only on patented, licensed products
  - Huge scope of growth in industry

For FY11-13, we expect PI Industries to grow at 30% and expect PAT to grow at 48%. We expect EBITDA margins to improve from 9.1% in FY07 to 18.6% in FY13 due to increase in contribution by custom synthesis business and change in product mix in agri-input business.

Year Consolidated	Net Sales (Rs cr)	Growth (%)	EBITDA (Rs cr)	Margin (%)	Adj.PAT (Rs cr)	Margin (%)	EPS (Rs)	PE (x)	ROE (%)
FY10A	542.5	17.2%	87.2	16.1%	41.9	7.7%	16.7	28.4	33.7%
FY11A	720.2	32.8%	124.1	17.2%	65.1	9.0%	26.0	18.3	35.4%
FY12E	942.1	30.8%	171.5	18.2%	97.0	10.3%	38.7	12.3	36.1%
FY13E	1224.7	30.0%	227.8	18.6%	134.9	11.0%	53.8	8.8	35.2%

Tecpro Systems Ltd

CMP: Rs 174 **Target: Rs 284**

Investment Rationale

•**Huge Opportunity across the Industry** - According to CRISIL, Investment worth of Rs. 9.5 trillion is expected in core sectors like steel, power, port etc. during 2011-2014. MHE (Material Handling Equipment) segment will account for ~Rs. 46,800 cr.

•**Strong Order Book provides revenue visibility** – Order book at the end of Q2FY12 stood at Rs. 4,437 cr, 2.25x of FY11 sales. On the back of strong order book expect topline to grow by 35% & 25% in FY12E & FY13E respectively.

• **Transforming into bigger league of BoP** – Leveraging on its capabilities of coal handling & ash handling, Tecpro has entered into the BoP-EPC space.

Year	Sales	EBITDA	EBITDA (%)	PAT	PAT (%)	EPS	P/E	P/BV
FY11A	1968	300	15.2	136	6.9	28.9	6.0	1.3
FY12E	2657	381	14.3	159	6.0	31.5	5.5	1.1
FY13E	3321	465	14.0	198	6.0	39.2	4.4	0.9

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Thank You

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