OCTOBER 2011 – NEWSLETTER 2ND NOVEMBER, 2011

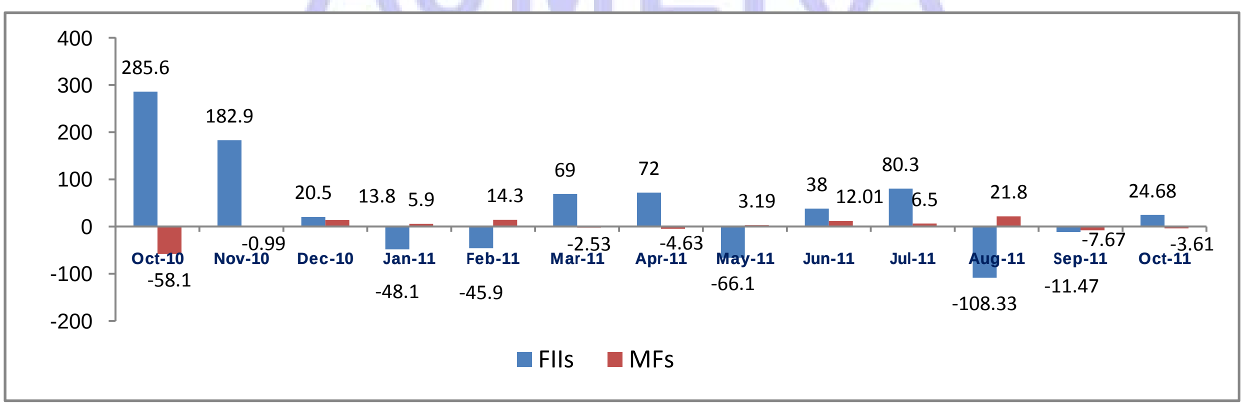
"Domestic bourses cheered in the month of October, 2011"

During the month, there were some visible steps taken by the policy makers in October 2011 to solve the debt crisis faced by the European countries. The following are some of the steps taken:

1) To increase its support for the banking sector, ECB left policy rates unchanged
2) Bank of England injected US$121 billion of new money into Britain's stalled economy.
3) The eurozone's seventeen member states came up with a comprehensive package which includes the following: a) it increases the clout of the European Financial Stability Facility (EFSF) bailout fund; b) European banks accepted a 50% haircut on their portfolios of Greek debt securities. c) Banks will strengthen their equity capital to bring the capital adequacy ratio to 9% by 2012. d) Italy has pledged before its European partners to undergo another round of budget austerity.

Domestically, the economy is reeling under high inflationary pressure. The month witnessed poor food inflation numbers. According to Commerce Ministry, it climbed to 10.60% for the week ending October 8, 2011 from the same period a year earlier. The rise was driven higher vegetable costs which soared 17.6 percent year-on-year while fruit prices were up more than 12 percent. Overall annual inflation, measured monthly in the world's second fastest-growing economy after China, stands at 9.72%. Street expects full impact of the monsoon to be felt in November 2012 and December 2012 which moderate the pressure to some extent. In addition the month witnessed poor August Index of Industrial Production (IIP) 2011 numbers. It grew by 4.1 percent from a year earlier, after increasing by a revised 3.8 percent last month (as per the new index, with 2004-05 as base). On a sequential basis, the numbers were poor. IIP declined by three percent in August, following a 1.7 percent fall registered in the previous month. Mining sector registered de-growth during the month because of the on-going regulatory hurdles. Sectors like, Capital Goods, Consumer Goods and Intermediate Goods were under pressure and recorded growth below 4 percent. FIIs during the month "October – 2011" turned buyers and bought worth Rs. 24.68 bn. On the other hand, Mutual Funds sold worth Rs. 3.61 bn.

Trend in FII and MF activity in equity (Rs. bn)



Source: SEBI, Money control website

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Monthly indices

Index	31st Oct, 2011	30th Sep, 2011	% change
Dow Jones	11,955	10,913	9.5
FTSE	5,544	5,197	6.7
Hang Seng	19,475.59	18,011	8.1
Nikkei	8,920.8	8,701	2.5
Nifty	5,326.6	4,943.25	7.7
Sensex	17,705.01	16,453.76	7.6
BSE –Midcap	6,297.9	6,129.5	2.8
BSE-500	6,763.2	6,385.76	5.9

Source: Ajcon Research,

Ajcon's view

October 2011 was magnificent for domestic bourses, both SENSEX and Nifty recorded impressive gains of over 7%. However, the gains could moderate in the upcoming months on account of domestic inflationary pressure. Globally too, we believe the problems are not yet over and markets will take a cue on policy actions both in US and Europe. At this point of time, we believe domestic bourses would take a cue from global developments especially from the European countries with a positive bias on account Greek PM winning cabinet support for a referendum on the Eurozone bailout deal. According to press reports, the referendum, which has taken most by surprise, may be held in December, 2011. On account of prevailing concerns like risk of US recession, Euro zone debt issue, domestic inflationary pressures, high interest rate regime, poor IIP numbers, delay in policy actions by the government, we believe investors should remain stock specific and cautiously invest in blue chip companies. Investment in the same is likely to move upwards in the medium to long term on account of strong fundamentals and mouth watering cheap valuations.

With due consideration to interest rate cycle close to peaking out, we also believe that rate sensitive cyclicals will stand to benefit. Accordingly, we recommend to increasing exposure in leading PSU and Private sector banks. Investors with 9-12 months horizon can invest in companies like State Bank of India, ICICI Bank, Larsen and Toubro, BHEL and Maruti. In the midcap space, we prefer stocks which provide higher margin of safety on the valuation front, strong revenue visibility and healthy cashflow. We prefer companies like Eros International Media, Jubilant Lifescience, REC, PFC and DB Corp.

In this newsletter, we have touched upon blue chip companies which would provide good upsides in the current uncertain environment. Please find a brief study on it below:

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State Bank of India — *2nd November, 2011*

NSE/BSE Code	**SBIN/500112**
Promoter's holding (%)	**59.4**
FV	**Rs. 10**
Equity Capital (Rs in mn)	**6,350**
Market Capitalization (Rs in bn)	**1,220**
52 week high/low	**Rs. 3,515 (8th November, 2010)/Rs. 1,708.5 (5th Oct, 2011)**
CMP	**Rs. 1,921**
Target Price	**Not rated**

Street has been cautious on SBI for the past six months, on account of the following challenges: 1) asset quality woes with higher slippage run-rate and 2) reduction in Tier 1 making rights issue critical for the bank. Uncertainty on both counts coupled with the latest rating downgrade by Moody's has led to 15% underperformance in the stock over the past six months. The bank's Q1FY12 Tier I CRAR stands at 7.6% and total CRAR is at11.6%, which is below RBI's comfort level of 8% and 12%, respectively. The current economic slowdown has led to an increase in delinquencies pushing its GNPA ratio to 3.52%, which is a 33% YoY jump to Rs. 277.7billion in the last four quarters. In Q1FY12, on a QoQ basis, the rise in GNPA was 10% on an absolute basis due to slowdown and rising interest rates. We believe the expected increase in NPAs and no clarity from the government on capital infusion have resulted in the downgrade from Moody's rating. This resulted into excessive stock price hammering on the announcement.

We believe excessive price destruction gives an opportunity to entry for investors at attractive valuation. The stock is currently trading at P/BV of 1.4x consolidated book (FY13E) offering favorable risk reward to accumulate. We maintain BUY recommendation on the stock.

FINANCIAL SUMMARY

Particulars	FY10	FY11	FY12E	FY13E
Net Revenues	386,396	483,510	568,259	613,585
Net Revenue Growth (%)	15.1	25.1	17.5	8
Net Profit	91,660	82,645	115,166	138,691
EPS	144.4	130.2	181.4	218.4
Growth (%)	0.5	(9.8)	39.3	20.4
P/E (x)	13	15	11	9
Book Value (BV)	*1,039*	*1,023*	*1,156*	*1,317*
Price/BV (x)	1.85	1.88	1.66	1.46
GNPA (%)	*3.1*	*3.3*	*3.8*	*4*
NNPA (%)	1.7	1.6	1.7	1.7
RoE (%)	14.8	12.6	16.6	17.7

Source: Ajcon Research, Street estimates

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ICICI Bank

2nd November, 2011

NSE/BSE Code	ICICIBANK/532174
FV	Rs.10
Equity Capital (Rs in mn)	11,520
Market Capitalization (Rs in bn)	1,025
52 week high/low	1277/762
CMP	890
Target Price	Not rated

We believe ICICI Bank is a good bet in the private sector space, considering the underperformance of Public Sector Banks in Q2FY12. ICICI Bank is India's second largest private sector bank in market capitalization as well as overall in terms of assets. ICICI Bank has total assets of about Rs 415,215 crore as on Quarter ended June 2011, a network of 2,539 branches (as on 20 October 2011) largest among private sector banks and about 6,810 ATMs in India and presence in 19 countries. ICICI has subsidiary companies in the areas of personal banking, investment banking, life and general insurance, venture capital and asset management. With a strong customer focus, the ICICI Group Companies have maintained and enhanced their leadership position in their respective sectors. The bank's asset quality has been robust with absolute GNPAs being flattish. From being a retail bank having significant exposure to unsecured credit, the bank today boasts of having diversified loan book mix. Over the period FY08-11, the bank has improved its profitability. In addition, Q2FY12 results were as per street expectations. Its NII stood at Rs.25.1 bn which was above analyst estimates. PAT was at Rs.15 bn driven by lower provisions were too above street estimates. In Q2FY12, as compared to PSBs its asset quality remained stable with just 1.2% increase in GNPA, while NNPA witnessed a decline of 2.9% on qoq basis. The stock currently trades at 17x/14x FY12E/FY13E.

Financial summary

Particulars	FY10	FY11	FY12E	FY13E
Total operating income	155,920	156,648	175,594	211,962
YoY Growth (%)	(2.4)	0.5	12.1	20.7
Net Profit	40,250	51,514	59,930	71,601
YoY Growth (%)	7.1	28.0	15.3	20.6
EPS (Rs.)	36.1	44.7	51.6	62.2
Adj. BVPS	425.4	453.9	486.4	522.3
P/E	*25*	*20*	*17*	*14*
P/BV	2.09	1.96	1.83	1.70
ROE (%)	*8*	*9.7*	*10.4*	*11.5*
ROA (%)	1.1	1.3	1.4	1.4
CAR (%)	19.4	19.5	16	14.3

Source: Ajcon Research, Street estimates

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Bharat Heavy Electricals Ltd. (BHEL) — *2nd November, 2011*

NSE/BSE Code	/500103
Promoter's holding (%)	67.72
FV	2
Equity Capital (Rs in mn)	4,895.2
Market Capitalization (Rs in bn)	781
52 week high/low	2,551 (5th Nov, 2010)/310.5 (5th Oct, 2011)
CMP	319
Target Price	Not Rated

We believe BHEL presents a good opportunity for investors for a decent upside as the stock is available attractive valuations. We believe although the competition in the supercritical power equipment space is likely to intensify with more players entering the sector; however BHEL's strong order book (3.6x in Q1FY2012) minimizes the need for any aggressive bidding. Street remains positive about its recent initiatives in the power transmission & distribution sector and overseas power equipment market, which would help the company in diversifying its business profile and geographies. Nonetheless, the concerns over the competition and the slow industrial capital expenditure cycle along with the hangover of the follow-on public offer have deepened over the last few months. These concerns are reflected in the stock's underperformance with respect to the broad market indices. BHEL'S one year forward price/earnings (P/E) multiple has fallen from over 20x (enjoyed till FY2010) to 11x on FY13E EPS.

Street expects a compounded annual growth rate (CAGR) of 15.7% in the top line and 9.9% in the bottom line over FY2011-13. Korean power equipment supplier Doosan and BGR Energy Systems (BGR) have emerged as the lowest bidder (L1) for the supply of supercritical boilers and turbine-generators (TG) respectively for the 7,200MW (9x 800MW) National Thermal Power Corporation (NTPC) power projects. Both the companies are likely to get five units of order in the respective categories. In these projects, BHEL is likely to get Rs65.2 bn worth of orders due to favorable NTPC tendering specifications, provided it matches the L1 quotations.

Financial summary (Rs. mn)

Particulars	FY10	FY11	FY12E	FY13E
Revenues	328,610	415,661	487,478	556,140
Revenue Growth (%)	25.4	26.5	17.3	14.1
PAT	43,121	60,112	64,440	72,638
PAT (%)	13.1	14.5	13.2	13.1
EPS (Rs.)	*17.6*	*24.5*	*26.3*	*29.6*
P/E(x)	18	13	12	11

Source: Ajcon Research, Street estimates

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