



Economy News

- ▶ Parliament, which was not allowed to function by the Opposition for close to two weeks over the Centre's decision to allow FDI in retail, could resume business on Wednesday. Opposition parties on Tuesday indicated that they would be amenable to a commitment from the government to put the issue on hold till a consensus was hammered out. (ET)
- ▶ Standard & Poor's has warned it may carry out an unprecedented mass downgrade of euro zone countries, including Germany and France, if EU leaders fail to deliver a convincing agreement on how to solve the region's debt crisis in a summit on Friday. (ET)
- ▶ Software industry body Nasscom maintained its growth projection of 16-18% for the sector in this fiscal, notwithstanding concerns over economic uncertainty in global markets. "We at Nasscom expect the industry to grow at 16-18% rate, as forecast earlier," Nasscom President Som Mittal told reporters on the sidelines of Nasscom DSCI Information Security Summit 2011. (ET)

Corporate News

- ▶ Kishore Biyani will seek to put an end to his troubles by exiting the business through two separate transactions worth over Rs 10Bn. **Deccan Chronicle** will buy the stake owned by his flagship firm, **Pantaloan**, in Future Capital Holdings in a surprising and unexpected diversification. The deal, estimated to be worth Rs 6-7Bn, has been concluded and is likely to be announced shortly, people close to the development said. In a separate transaction, Mumbai-based **Industrial Investment Trust (IITL)** has purchased Pantaloan's 26% stake in its insurance joint venture Future Generali Life for Rs 2.5-3Bn. (ET)
- ▶ Software services firm **Zensar** said it has partnered with Internet search giant Google to provide the latter's enterprise solutions suite 'Google Apps' in Asia Pacific (APAC) region to retail and manufacturing firms. (BS)
- ▶ **Axis Bank Ltd** is reducing dependence on large and medium companies as it seeks to cash in on an increase in individual lending opportunities in smaller towns. The bank has set a target of increasing its retail loan portfolio to 30% of total loans, up from 21% at the end of September. (Mint)
- ▶ **Hindalco Industries** will be making an additional investment, equal to the \$5-billion capex under way, to more than double its aluminium production capacity by 2016, D Bhattacharya, managing director, said. He said the pace of the expansion would largely depend on early clearances for captive coal blocks, as smelter projects are not viable without captive power. (BS)
- ▶ **Oil and Natural Gas Corp (ONGC)** has given a no-objection certificate to British oil firm Cairn Energy's sale of a majority stake in its Indian unit to Vedanta Resources, paving the way for conclusion of the \$8.71 billion deal in the next few days. (HT)
- ▶ **Reliance Industries** has asked for a 50% rise in the price of natural gas produced from new discoveries at its KG-D6 block, but the government has ruled out an immediate price revision and asked the company to reassess the economics of the block, industry and government officials said. (ET)

Equity

	5 Dec 11	% Chg		
		1 Day	1 Mth	3 Mths
Indian Indices				
SENSEX Index	16,805	(0.2)	(4.3)	(0.3)
NIFTY Index	5,039	(0.2)	(4.6)	(0.5)
BANKEX Index	10,552	0.0	(6.6)	(4.5)
BSET Index	5,727	0.0	(0.6)	15.0
BSETCG INDEX	10,010	0.8	(9.0)	(18.0)
BSEOIL INDEX	8,400	(0.1)	(6.9)	(2.5)
CNXMcap Index	6,819	(0.0)	(6.8)	(7.8)
BSESMCAP INDEX	6,195	0.1	(11.0)	(13.9)
World Indices				
Dow Jones	12,150	0.4	1.4	9.1
Nasdaq	2,650	(0.2)	(1.4)	7.1
FTSE	5,569	0.0	0.8	8.0
NIKKEI	8,575	(1.4)	(1.4)	(1.4)
HANGSENG	18,942	(1.2)	(2.7)	(4.5)

Value traded (Rs cr)

	5 Dec 11	% Chg - Day
Cash BSE	1,806	(19.8)
Cash NSE	8,149	(20.4)
Derivatives	88,752	(21.8)

Net inflows (Rs cr)

	2 Dec 11	% Chg	MTD	YTD
FII	712	(21.3)	1,617	(1,983)
Mutual Fund	163	(166.9)	(80)	5,326

FII open interest (Rs cr)

	2 Dec 11	% Chg
FII Index Futures	13,748	4.7
FII Index Options	46,100	2.5
FII Stock Futures	25,771	(0.9)
FII Stock Options	669	1.0

Advances / Declines (BSE)

	5 Dec 11	A	B	S	Total	% total
Advances	107	1,056	189	1,352	48	
Declines	94	1,102	139	1,335	47	
Unchanged	2	121	29	152	5	

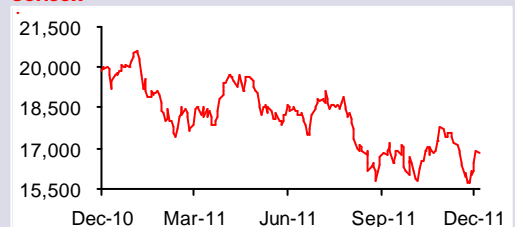
Commodity

	5 Dec 11	% Chg		
		1 Day	1 Mth	3 Mths
Crude (NYMEX) (US\$/BBL)	101.4	0.1	6.1	13.5
Gold (US\$/OZ)	1,725.0	(0.5)	(3.1)	(5.2)
Silver (US\$/OZ)	32.5	0.2	(6.2)	(21.8)

Debt / forex market

	5 Dec 11	1 Day	1 Mth	3 Mths
10 yr G-Sec yield %	8.60	8.60	9.00	8.41
Re/US\$	51.3	51.2	49.1	46.0

Sensex



COMPANY UPDATE

Arun Agarwal
 arun.agarwal@kotak.com
 +91 22 6621 6143

ASHOK LEYLAND (ALL)

PRICE: Rs.27
 TARGET PRICE: Rs.28

RECOMMENDATION: REDUCE
 FY13E P/E: 9.5x

- ❑ Company's YTD volume growth stands higher by 1% as against our full year assumption of flat growth for the company. November 2011 volume growth rate of 53% was an aberration in our view, as base increases going ahead and we expect the overall volume growth to remain flat for the balance part of FY12.
- ❑ Volume decline for the company in 1HFY12 happened on account of drop in multi-axle vehicle sales and lower pick up from fleet operators where the company has strong presence.
- ❑ While volumes in 2HFY12 is expected to be better than 1HFY12, but the reasons for the same in our view will be absence of one off factors rather than any fundamental improvement in demand scenario.
- ❑ Interest rates remain high and freight rates in key pockets (for ALL) continue to show weakness, thereby limiting scope for recovery in the near to medium term.
- ❑ Going forward, we see the freight rates which reflect the industrial activity in the economy to remain suppressed.
- ❑ While current valuations are not expensive, we see limited re-rating triggers in the near term. Due to weak macro indicators we continue with our REDUCE rating on the stock with an unchanged price target of Rs28.

Summary table

(Rs mn)	FY11	FY12E	FY13E
Sales	111,177	122,735	138,610
Growth (%)	53	10	13
EBITDA	12,176	12,905	15,480
EBITDA margin (%)	11.0	10.5	11.2
PBT	8,018	7,415	9,284
Net profit	6,313	5,932	7,427
EPS (Rs)	2.4	2.2	2.8
Growth (%)	49.0	(6.0)	25.2
CEPS (Rs)	3.4	3.5	4.2
Book value (Rs/share)	15	16	18
Dividend per share (Rs)	1.0	0.8	0.8
ROE (%)	16.6	14.3	16.2
ROCE (%)	14.7	12.9	14.5
Net cash (debt)	(23,887)	(29,763)	(29,926)
NW Capital (Days)	17	13	11
P/E (x)	11.2	11.9	9.5
P/BV (x)	1.8	1.6	1.5
EV/Sales (x)	0.8	0.8	0.7
EV/EBITDA (x)	7.8	7.8	6.5

Source: Company, Kotak Securities - Private Client Research

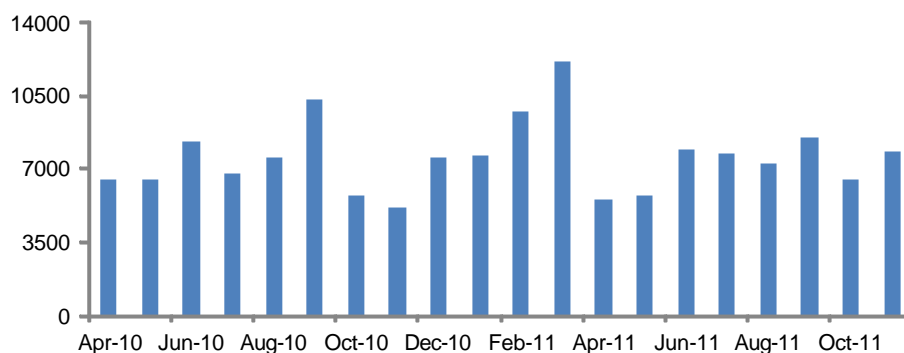
Volume growth expected to remain flat in FY12

- We expect ALL's sales volume growth to remain flat in FY12 at ~94,000 units.
- Our expectations are below management's revised guidance of ~100,000 units. At the start of the year company had guided for volumes of 108,000 units in FY12. But deteriorating macro factor and certain one-off factors impacting 1HFY12 performance led the management cut down on their volume guidance.
- ALL witnessed drop in volumes in their key segments leading to loss of market share in 1HFY12.
- Volume decline for the company in 1HFY12 happened on account of drop in multi-axle vehicle sales and lower pick up from fleet operators where the company has strong presence. Freight rates haven't moved up in-line with the recent cost pressures thereby suggesting that transporter profitability seems to be under pressure.
- While the management expects to regain its lost market share in 2HFY12, we believe getting back the lost market share will take some time for the company as factors supporting demand for company's products continues to remain weak.
- Interest rates remain high and freight rates in key pockets (for ALL) continue to show weakness, thereby limiting scope for recovery in the near to medium term. Both IIP and the GDP numbers are displaying the negative sentiment current prevailing in the economy.
- Given that the environment for the M&HCV continues to remain subdued, we do not expect any major recovery in the fortunes of the M&HCV sector in the near to medium term. We therefore believe that the company could miss their modest volume growth guidance of 5-6%. For FY13, we have factored in a 10% volume growth for the company.

November volume growth of 53% comes on lower base

- ALL reported volumes of 7,878 units in November 2011 as compared to 5,137 units reported during November 2010, translating into a YoY growth rate of 53%. Last year, the company had a very poor November sales and therefore the growth actually came on a very poor last year's base.

ALL's monthly volumes (units)

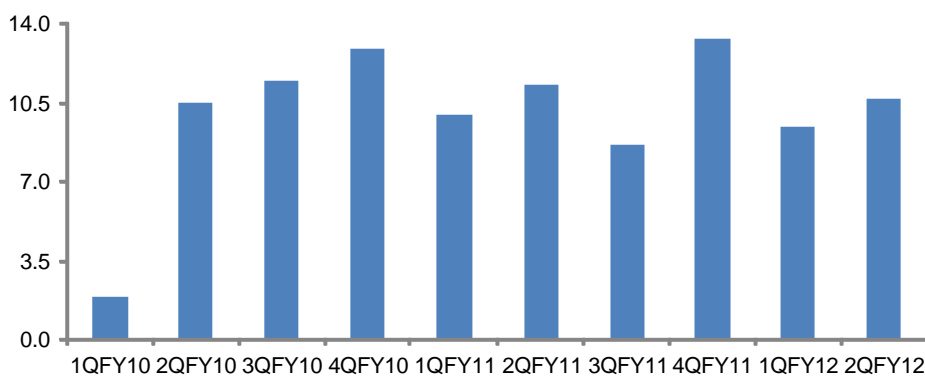


Source: Company

- Sequentially, volumes grew by 22% for ALL. Company's volumes in October 2011 were impacted on couple of counts 1. Production loss at their Pantnagar facility due to communal violence and 2. Strike at Bosch led to supply shortage in fuel injection pump. We believe that November 2011 sales were bolstered to certain extent by the above mentioned reasons.
- Company's YTD volume growth stands higher by 1% as against our full year flat growth rate assumption for the company. As base increases going ahead, we expect the volume growth to remain flat for the balance part of FY12.

Operating margins expected to remain healthy

ALL's EBITDA margin (%)



Source: Company

- Despite pressure on volumes, the company has been able to keep their operating margins in line with their guidance.
- Going ahead into 2HFY12, we expect margins to remain healthy on account of improved volumes over 1HFY12 and knocking out off one times expenses witnessed in 1HFY12. Further the company took ~1% price hike across models and the same should give further substance to our view.

Outlook and Valuations

- Going forward, we see the freight rates which reflect the industrial activity in the economy to remain suppressed. Our belief stems from the fact that the full impact of rising interest rates on the industrial activity have just started to come in as was visible from the latest GDP data. GDP expectations for 2HFY12 are not bright thereby indicating no major recovery in the industrial activity in the near term.
- While we expect no major market share loss for ALL in 2HFY12, but regaining the lost market share will take some time for the company.
- While volumes in 2HFY12 is expected to be better than 1HFY12, but the reasons for the same in our view will be absence of one off factors rather than any fundamental improvement in demand scenario.
- At the CMP of Rs26.5, the stock trades at 11.9x and 9.5x it's expected FY12 and FY13 earnings respectively. We have valued the stock at 10x (discount to long term one year forward multiple of 11x on account of weak demand scenario) its FY13 expected EPS of Rs2.8.
- While current valuations are not expensive, we see limited re-rating triggers in the near term. Due to weak macro indicators we continue with our **REDUCE** rating on the stock with a price target of Rs28.

We continue to maintain REDUCE rating on Ashok Leyland with a price target of Rs.28

Bulk deals

Trade details of bulk deals

Date	Scrip name	Name of client	Buy/ Sell	Quantity of shares	Avg. price (Rs)
5-Dec	Autoline Inds	Jainam Investments	B	67,076	109.3
5-Dec	Bedmutha Inds	Nitin Babaji Palande	B	136,376	44.9
5-Dec	Birla Pacific Med	Variety Trade Link Pvt Ltd	B	800,000	10.0
5-Dec	Birla Pacific Med	Tripurari Properties Pvt Ltd	B	671,500	10.3
5-Dec	Birla Pacific Med	Jalan Cement Works Ltd	S	800,000	10.0
5-Dec	Birla Pacific Med	V P Patel	S	651,855	10.3
5-Dec	Byke	Anil Anant Mahadik	B	95,739	145.1
5-Dec	Clarus Finance	Variety Trade Link Pvt Ltd	B	175,000	42.4
5-Dec	Clarus Finance	Shree Thirumalai Marketing & Inv	B	200,000	42.3
5-Dec	Clarus Finance	Swift Tie Up Pvt Ltd	S	100,000	42.4
5-Dec	Dhvanil Chem	Shaileshbhai Devrajbhai Bodar	B	38,500	27.2
5-Dec	Dhvanil Chem	Narshibhai Bhagwanbhai Savaliya	B	38,500	27.2
5-Dec	Dhvanil Chem	Pravin B Singh	B	35,000	27.0
5-Dec	Dhvanil Chem	Ganesh Bhagoji Khaire	S	35,000	27.1
5-Dec	Excel Info	Arcadia Share & Stock Brokers	B	300,053	10.1
5-Dec	Fineotex Chem	North Eastern Publishing & Adv Co	B	59,939	102.5
5-Dec	Gflfin	Kirti Kantilal Mehta	B	50,000	15.8
5-Dec	Gflfin	Namdeo Shantaram Gole	B	70,000	15.8
5-Dec	Gflfin	Amit Sampathraj Shah	B	30,000	15.8
5-Dec	Gflfin	Sanjay Maganlal Mehta	B	33,000	15.8
5-Dec	Gflfin	Falcon Complex Pvt Ltd	S	47,242	15.8
5-Dec	Gflfin	Suryalata Trexim Pvt Ltd	S	76,000	15.8
5-Dec	Gflfin	Sks Fincap Pvt Ltd	S	55,285	15.8
5-Dec	Indowind Ener	Subuthi Investments Pvt Ltd	B	1,000,000	8.0
5-Dec	Indowind Ener	Indus Finance Corporation Ltd	S	1,000,000	8.0
5-Dec	Kanchan Intl	Ganesh Anant Ghadge	B	27,200	73.4
5-Dec	Karma Ind	Bakul Chandrakant Chitalia	B	180,949	56.3
5-Dec	Krishna Deep	Shree Thirumalai Marketing & Inv	S	30,000	147.0
5-Dec	Kwality Cred	Ghewarchandashokkumarsurana	B	17,500	20.2
5-Dec	Kwality Cred	Ajit Kumar Surana & Sons (Huf)	B	17,500	20.1
5-Dec	Kwality Cred	Miatru Agro Marketing Pvt Ltd	S	50,000	20.1
5-Dec	Maharaja Shr-\$	Lakshmi Niwas Bangur	B	250,000	601.0
5-Dec	Maharaja Shr-\$	Digvijay Investments Limited	B	1,820,000	597.3
5-Dec	Maharaja Shr-\$	Alka Devi Bangur	S	563,000	605.0
5-Dec	Maharaja Shr-\$	Yogesh Bangur	S	498,000	601.0
5-Dec	Maharaja Shr-\$	Shreeyash Bangur	S	499,000	604.9
5-Dec	Maharaja Shr-\$	Lakshmi Niwas Bangur (Huf)	S	518,000	580.0
5-Dec	Nikki Global	Ganga Jamuna Financial Advisor	B	24,000	347.6
5-Dec	Pasupati Fin	Prakash Sunderdas Alwani	B	30,000	20.0
5-Dec	Pasupati Fin	Vipul Mohanlal Joshi	S	25,000	20.0
5-Dec	Pasupati Fin	Vipul Mohan Joshi	S	30,000	19.9
5-Dec	Prakash Constro	Mahesh Meetal	S	100,000	228.0
5-Dec	Rajeswari Found	G Ramamurthy	S	49,000	18.0
5-Dec	Ranklin Sol-\$	Satya Narayana Vara Prasad Gar	S	28,000	14.0
5-Dec	Regency Trust	Mehta Manisha Rajnikant	S	77,415	50.3
5-Dec	Rockon Fin	Ascron Consultant Pvt Ltd	B	900,000	5.7
5-Dec	Rockon Fin	Axiom Capital Advisors Pvt Ltd	S	900,000	5.7
5-Dec	Temptation Fd	Keshav Kumar Saraf	B	350,000	7.0
5-Dec	Temptation Fd	Divya Drishti Merchants Pvt.Ltd	S	350,000	7.0
5-Dec	Tricomfru	Nilesh Chandulal Panchamia	B	97,000	60.2
5-Dec	Tricomfru	Pentacle Tradeline Pvt Ltd	B	55,000	60.3
5-Dec	Tricomfru	Khantilal Ramanlal Shah	S	49,303	60.3

Source: BSE

Gainers & Losers

Nifty Gainers & Losers

	Price (Rs)	chg (%)	Index points	Volume (mn)
Gainers				
Axis Bank	1,032	2.6	2.2	2.5
SBI	1,911	1.3	2.1	2.9
BHEL	289	2.2	1.6	3.4
Losers				
ITC	204	(1.1)	(4.1)	3.9
ICICI Bank	780	(1.0)	(3.1)	4.7
Reliance Ind	807	(0.7)	(2.9)	3.2

Source: Bloomberg

Fundamental Research Team

Dipen ShahIT, Media
dipen.shah@kotak.com
+91 22 6621 6301**Sanjeev Zarbade**Capital Goods, Engineering
sanjeev.zarbade@kotak.com
+91 22 6621 6305**Teena Virmani**Construction, Cement, Mid Cap
teena.virmani@kotak.com
+91 22 6621 6302**Saurabh Agrawal**Metals, Mining
agrawal.saurabh@kotak.com
+91 22 6621 6309**Saday Sinha**Banking, NBFC, Economy
saday.sinha@kotak.com
+91 22 6621 6312**Arun Agarwal**Automobiles
arun.agarwal@kotak.com
+91 22 6621 6143**Ruchir Khare**Capital Goods, Engineering
ruchir.khare@kotak.com
+91 22 6621 6448**Ritwik Rai**FMCG, Media
ritwik.rai@kotak.com
+91 22 6621 6310**Sumit Pokharna**Oil and Gas
sumit.pokharna@kotak.com
+91 22 6621 6313**Amit Agarwal**Logistics, Transportation
agarwal.amit@kotak.com
+91 22 6621 6222**Jayesh Kumar**Economy
kumar.jayesh@kotak.com
+91 22 6652 9172**K. Kathirvelu**Production
k.kathirvelu@kotak.com
+91 22 6621 6311

Technical Research Team

Shrikant Chouhanshrikant.chouhan@kotak.com
+91 22 6621 6360**Amol Athawale**amol.athawale@kotak.com
+91 20 6620 3350**Premshankar Ladha**premshankar.ladha@kotak.com
+91 22 6621 6261

Derivatives Research Team

Sahaj Agrawalsahaj.agrawal@kotak.com
+91 22 6621 6343**Rahul Sharma**sharma.rahul@kotak.com
+91 22 6621 6198**Malay Gandhi**malay.gandhi@kotak.com
+91 22 6621 6350**Prashanth Lalu**prashanth.lalu@kotak.com
+91 22 6621 6110

Disclaimer

This document is not for public distribution and has been furnished to you solely for your information and must not be reproduced or redistributed to any other person. Persons into whose possession this document may come are required to observe these restrictions.

This material is for the personal information of the authorized recipient, and we are not soliciting any action based upon it. This report is not to be construed as an offer to sell or the solicitation of an offer to buy any security in any jurisdiction where such an offer or solicitation would be illegal. It is for the general information of clients of Kotak Securities Ltd. It does not constitute a personal recommendation or take into account the particular investment objectives, financial situations, or needs of individual clients.

We have reviewed the report, and in so far as it includes current or historical information, it is believed to be reliable though its accuracy or completeness cannot be guaranteed. Neither Kotak Securities Limited, nor any person connected with it, accepts any liability arising from the use of this document. The recipients of this material should rely on their own investigations and take their own professional advice. Price and value of the investments referred to in this material may go up or down. Past performance is not a guide for future performance. Transactions involving futures, options and other derivatives involve substantial risk and are not suitable for all investors. Reports based on technical analysis centers on studying charts of a stock's price movement and trading volume, as opposed to focusing on a company's fundamentals.

Opinions expressed are our current opinions as of the date appearing on this material only. While we endeavor to update on a reasonable basis the information discussed in this material, there may be regulatory, compliance, or other reasons that prevent us from doing so. Prospective investors and others are cautioned that any forward-looking statements are not predictions and may be subject to change without notice. Our proprietary trading and investment businesses may make investment decisions that are inconsistent with the recommendations expressed herein. Kotak Securities has two independent equity research groups: Institutional Equities and Private Client Group. This report has been prepared by the Private Client Group. The views and opinions expressed in this document may or may not match or may be contrary with the views, estimates, ratings, and target price of the Institutional Equity Research Group of Kotak Securities Limited.

Kotak Securities Limited is also a Portfolio Manager. Portfolio Management Team (PMS) takes its investment decisions independent of the PCG research and accordingly PMS may have positions contrary to the PCG research recommendation.

We and our affiliates, officers, directors, and employees world wide may: (a) from time to time, have long or short positions in, and buy or sell the securities thereof, of company (ies) mentioned herein or (b) be engaged in any other transaction involving such securities and earn brokerage or other compensation or act as a market maker in the financial instruments of the company (ies) discussed herein or act as advisor or lender or borrower to such company (ies) or have other potential conflict of interest with respect to any recommendation and related information and opinions.

Kotak Securities Limited generally prohibits its analysts from maintaining financial interest in the securities or derivatives of any of the companies that the analysts cover. The analyst for this report certifies that all of the views expressed in this report accurately reflect his or her personal views about the subject company or companies and its or their securities, and no part of his or her compensation was, is or will be, directly or indirectly related to specific recommendations or views expressed in this report.

No part of this material may be duplicated in any form and/or redistributed without Kotak Securities' prior written consent.