MOSt 3x3

MOTILAL OSWAL

23rd October 2010

Large Cap	CMP
Bharti Airtel	Rs.333
BHEL(*)	Rs.2,534
SBI(*)	Rs.3,201

1 TRADING PICK FROM 3	CMP
NIL	--

Mid Cap	CMP
Cummins India(*)	Rs.741
ING Vysya	Rs.413
PTC	Rs.137

1 TRADING PICK FROM 3	CMP
NIL	--

MOSt Mutual

Fidelity Equity Fund *(Large Cap)*

ICICI Pru Discovery Fund *(Mid Cap)*

IDFC Small & Mid Cap Equity Fund *(Multi Cap)*

MOSt Options Strategy

Strategy: Nifty Bull Call Ladder (*) *(Moderately Bullish)*

Strategy: IDEA Long Call(*) *(Bullish)*

Strategy: Power Grid Bull Spread(*) *(Moderately Bullish)*

(*): New -entry CMP: Current Market Price MBP: Maximum Buying Price

" Since Largre & Mid Cap shares are available at reasonable valuation , we have not recommended any stock from Small Cap segment.

Bharti Airtel

CMP (Rs.)	333
MBP (Rs.)	345
Face Value	5
Equity Shares (Mn)	3797
52-Week Range (H/L)	376 / 230
M.Cap. (Rs b)	1,265.7

	FY10	FY11E	FY12E
EPS (Rs)	23.7	18.3	22.7
PE(x)	14.1	18.2	14.7

- Bharti Airtel Limited is India's largest integrated and the first private telecom services provider with a footprint in all the 23 telecom circles.

Recent Developments:

- **US$10b free cash by FY14:** Bharti has been impacted by competitive pressures in the domestic market and uncertainty on Africa acquisition and 3G spectrum payouts. However, with peak coverage capex and 3G payments through, Bharti's India business is poised to generate substantial free cash. While the acquired Africa business would remain in an investment mode, we expect it to be self-sustaining. Bharti is set to enter a period of sustained high FCF - we expect >US$10b cumulative free cash generation by FY14 and estimate FCF of Rs28/share in FY12 and Rs37/share in FY13 from India and South Asia.
- **Domestic business bouncing back:** While Bharti has been impacted by high competition, it has been able to defend domestic revenue market share as well as win back subscribers. While risk of another price war remains, we expect pricing pressure to be relatively benign. Bharti would be soon launching 3G services; incremental 3G revenue is likely to contribute ~5% to mobile segment by FY13. We estimate mobile revenue CAGR of 14% over FY10-12 v/s 7% growth in FY10
- **Turnaround in Africa business would be key:** Bharti would soon launch Airtel brand, finalize outsourcing arrangements (IT outsourcing deal with IBM announced recently) and complete integration process for Africa business. While there is low risk of negative surprises, the extent of improvement in cost structure and market elasticity will determine the achievement of US$5b revenue/US$2b EBITDA target set out for FY13 (we model US$4.4b revenue/US$1.6b EBITDA).

Valuation & View

- We are upgrading our SOTP-based target price to Rs430 - Rs488/share for India & SA business. We maintain Buy.

BHEL

CMP (Rs.)	2,534
MBP (Rs.)	2,585
Face Value	10
Equity Shares (Mn)	489.5
52-Week Range (H/L)	2,695 / 2,105
M.Cap. (Rs b)	1,240.3

	FY10	FY11E	FY12E
EPS (Rs)	95.7	119.3	146.7
PE(x)	26.5	21.2	17.3

- BHEL is India's dominant producer of power and industrial machinery and a leading EPC company, established in the late 1950s as the government's wholly-owned subsidiary. Post divestment, the government currently has an equity stake of 67.7%.
- It has an annual installed capacity of 6,000MW. It has formed a tie-up with Alstom and an alliance with Siemens to the manufacture of super-critical 800MW boilers and turbines.

Recent Developments:

- Draft Cabinet note circulated by Power Ministry recommends imposing import duty of 5%, CVD of 10% and SAD of 4%, implying effective import duty of around 20%, on power equipment imported under all categories. Presently, imported power equipment for projects of over 1000MW is exempt from all duties under the Mega Power Policy. Domestic manufacturers will also have to pay CVD and SAD. The difference in duties on imported and domestic equipments will be 6-7%.
- The Power Ministry also recommends doing away with 15% price preference to domestic manufacturers. BHEL has never used this preference in many years. BHEL stands to benefit from these recommendations, as the price difference between BHEL and Chinese sets will substantially reduce. This will encourage domestic power generators to source equipment from local manufacturers like BHEL & L&T.
- BHEL'S Order backlog at the end of 1QFY11 was Rs1,480b, a book-to-bill ratio of 4.4x TTM, providing the best revenue visibility in our engineering universe. We expect earnings and revenue CAGR of 22% and 24% respectively with margin expansion of 160bp at 22.1% over FY10-12.
- After capacity expansion to 20GW by 2012, BHEL's capacity will be at par with its Chineseand Korean counterparts, giving BHEL muscle to compete, execute and deliver on time.
- Our EPS estimates for BHEL are Rs119 for FY11 and Rs147 for FY12. Our price target is Rs2,934, an upside of 19% from current levels. Maintain Buy.

SBI

CMP (Rs.)	3,201
MBP (Rs.)	3,265
Face Value	10
Equity Shares (Mn)	634.8
52-Week Range (H/L)	3,322 / 1,863
M.Cap. (Rs b)	2,032.3

	FY10	FY11E	FY12E
EPS	184.8	236.2	296.7
P/E	17.3	13.6	10.8
ABV	1127	1312	1561
P/BV	2.8	2.4	2.1

- State Bank of India (SBI) is the largest commercial bank in India, with a balance sheet size of over Rs7t. The bank, along with associate banks, has a network of over 14,000 branches across India and controls over 18% of the banking business.
- The government owns 57% of the bank, with FIIs owning 20% (maximum permissible is 20%).Over the last couple of years, SBI has been focusing on drawing significant synergies through an internal consolidation of its associate banks.

Recent Developments:

- SBI posted an unexpected 32% drop in reported quarterly profit in 4QFY10, hit by a jump in bad loan provisions. Key highlights are:
- Reported NII grew by 39% YoY and 6.4% QoQ. The NII stood at Rs. 67.2 bn against expectation of Rs. 64.6 bn.
- Other income declined 5% YoY but was up 34% QoQ.
- Operating Expenses were way above expectations at Rs. 60.4 bn (Rs. 48.7 bn expected) basically due to higher provisioning for employee cost.
- Gross NPAs of the bank rose to 3.1% at end-March from 2.9% in the year ago period. The provision coverage ratio stands at 59%. Provisions for bad loans jumped 69% to Rs.2187 crore (USD 485 million).
- The bank expects credit growth of 21-22% in this fiscal year, up from 17% last year.
- RBI has mandated a provision coverage ratio of 70% for all the banks by Sep 30, 2010 and SBI is seeking an extension of the deadline by two quarters.

Valuation and view:

- SBI would command valuation premium for its size and for being proxy to growth in financial service space in Indian economy. We assume consolidated RoE of 16-18% over FY09-12.

Cummins India

CMP (Rs.)	741
MBP (Rs.)	775
Face Value	2
Equity Shares (Mn)	198
52-Week Range (H/L)	792 / 358
M.Cap. (Rs b)	146.6

	FY10	FY11E	FY12E
EPS (Rs)	22.4	30.8	42.0
PE(x)	33.1	24.1	17.6

- Cummins India (CIL), the largest engine manufacturer in India, is likely to post accelerated growth over the next two years, led by improving demand in the domestic market and strong rebound in exports on the back of increased outsourcing by its parent. Better product mix, healthy pricing environment, stable commodity prices, and continuous costcutting initiatives will keep margins strong

Domestic business to grow at 26% CAGR over FY10-12:

- After sluggish demand in FY09 and 1HFY10, the domestic engine market has shown impressive recovery. With growing power shortage, diesel engine demand for powergeneration applications will continue to be strong. We expect robust demand pull from the industry segment as well, particularly from construction and mining.

Exports to grow 3x by FY12; parent raises guidance:

- CIL is among Cummins Inc's leading manufacturing bases, and meets its global requirement for several key products and components. Buoyed by strong recovery inAmerican and Asian markets, its exports have grown sharply since 4QFY10. We expect exports to reach Rs15b by FY12. Cummins Inc has also raised its sales guidance for CY10 to US$13b, which augurs well for CIL.

Superior product mix, cost-cutting boost margins; more surprises likely:

- The company has maintained strong margin momentum, posting 21.3% (up 290bp YoY) in 1QFY11. We believe that better product mix, healthy pricing environment, stable commodity prices and continuous cost-cutting initiatives will keep margins strong, going forward.

Valuation & View:

- CIL has exhibited strong 26% earnings CAGR over the last four years, despite uncertain business environment globally. We expect the company to post a robust 37% earnings CAGR over FY10-12. We believe that the stock will command higher valuations due to long-term growth potential and possible upside to earnings expectations.

ING Vysya

CMP (Rs.)	413
MBP (Rs.)	415
Face Value	10
Equity Shares (Mn)	120.4
52-Week Range (H/L)	428 / 235
M.Cap. (Rs b)	49.4

	FY10	FY11E	FY12E
EPS	18.5	26.3	34.5
P/E	22.3	15.7	12.0
ABV	173	200	230
P/BV	2.4	2.1	1.8

- ING Vysya Bank (IVB, earlier known as Vysya Bank) is one of India's oldest private sector banks with operating history of 80 years. As of June 2010, it had branch network of 495 and customer base of 2 million.

Key Investment Arguments:

- ING Vysya Bank (IVB) is turning around rapidly with RoA improving from -0.3% in FY05 to 0.7% in FY10 and further to 1% by FY12E. As legacy issues subside, we believe IVB is all set to accelerate loan growth and improve market share.

Operating leverage to boost RoA:

- IVB's focus on raising branch and employee productivity is leading to improvement in cost to core income (C/I) ratio and RoA. Productivity has improved in the last 3-4 years, but remains lower than peers

Fall in credit cost to drive earnings growth:

In FY10, credit cost rose to 1.3% (vs FY04-09 average of 0.6%), led by

1. Higher slippages from unsecured personal loans,
2. Conservative restructuring policy, and
3. Improving coverage ratio. We expect credit cost to fall to 1% in FY11 and 0.8% in FY12 on the back of lower unsecured personal loans and improved economic scenario.

Valuation & View:

- Over FY10-13, we expect core operating profits CAGR of 26% and EPS CAGR of 33% on the back of (1) strong loan growth, (2) stable margins, (3) operating leverage, and (4) lower credit cost. RoA is expected to improve from 0.7% in FY10 to ~1% by FY13 and RoE from 11.6% in FY10 to ~17% by FY13. High growth coupled with improving return ratios will lead to re-rating. We initiate coverage with a Buy rating and a target price of Rs475 (2x P/BV FY12).

PTC

CMP (Rs.)	137
MBP (Rs.)	145
Face Value	10
Equity Shares (Mn)	294.5
52-Week Range (H/L)	130 / 86
M.Cap. (Rs b)	40.4

	FY10	FY11E	FY12E
EPS (Rs)	3.9	5.9	11.2
PE(x)	35.1	23.4	12.3

- PTC India Ltd. is the pioneer in power trading in India, and over the years has become a Power Solutions company. It was set up in April 1999 with a mandate to catalyze the development of large power projects by acting as a single buyer for PPAs with independent power producers on one hand and by entering multi-partite PPAs with users and SEBs under long-term arrangements on the other. The GoI has identified PTC as its nodal agency for trading power with neighboring countries. For FY10 PTC India has market share of 44% in ST Volumes.

Key investment arguments

- Change in business mix towards long-term contracts extends volume and margin visibility and PTC to benefit from CERC regulation of no cap on long term volume.
- Addressable market of PTC to rise due to open access to intra-state transmission, easing of inter-state grid constraints, commissioning of new merchant power plants, etc
- PTC Financial Services (PFS) and PTC Energy (PEL) witnessing business traction. PFS has book size of Rs15.1b as on Q1FY11 and sanctioned debt and equity of Rs19.5b and Rs5b respectively.

Recent development

- PTC Ashmore fund launched and expected to close with fund size of USD300m by Q3FY11.
- PTC has got in-principle approval from board for IPO in current financial year

Valuation and view:

- PTC has cash and cash equivalent of Rs11b, and has investment of Rs7b into subsidiaries/project SPVs (PFS Rs4.5b, PEL Rs410m, Athena Rs690m, Teesta Energy Rs1.25b, Krishna Godavari Rs195m).We expect PTC to report net profit of Rs1.24b in FY11E (up 32%) and Rs1.64b in FY12E (up 33%). We maintain Buy.

MOSt Mutual

Fidelity Equity Fund *(Large Cap)*

ICICI Pru Discovery Fund *(Mid Cap)*

IDFC Small & Mid Cap Equity Fund *(Multi Cap)*

MOSt 3x3

MOTILAL OSWAL

Fidelity Equity Fund (Large-Cap)

23rd October 2010

At a Glance

Latest NAV (Gr):	Rs. 38.29 (Oct 21, 10)
Latest NAV (Div):	Rs. 24.23 (Oct 21, 10)
Fund Category:	Equity Diversified
Type:	Open Ended
Exit Load (%):	1% (< 365 days)
Inception Date:	16-May-05
Net Assets (Rs. Cr.):	3153.33 (31-Aug-10)

Fund Manager

Sandeep Kothari (Since July 2006)

Portfolio Attributes

Top 5 Holdings	23.66%
No. of Stocks	60
Exposure to Sensex	47.54%
Exposure to Nifty	59.06%
Portfolio PE Trailing	24.29
Expense Ratio	1.86% (30-Jun-10)

Dividends Declared

2-Mar-10	10%
13-Mar-08	25%
30-Apr-07	25%

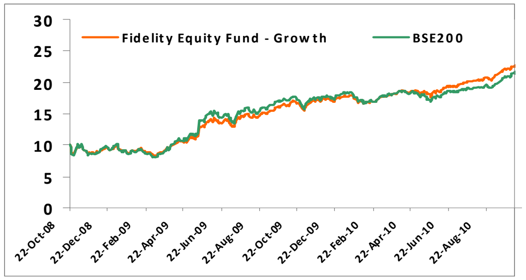
Scheme Objective

It aims to generate long-term capital growth from a diversified portfolio of predominantly equity and equity-related securities by following the 'bottom-up' approach. Fidelity Equity has no size bias, no sector bias, no trend bias and no recent performance bias. It aims to spread investments across 60 - 80 stocks.

Scheme Analysis

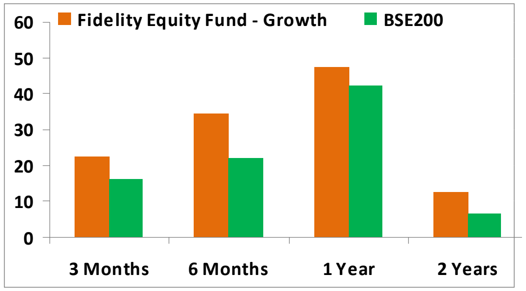
Fidelity Equity Fund is positioned with no sector bias, no market-cap bias and no style bias. Despite being labelled as aggressive fund, it has major exposures in Large Cap stocks. Some of top-holding stocks are Reliance Industries (6.62%), Infosys (4.55%), HDFC Bank (4.65%), ITC (4.23%) and L&T (3.61%). The Fund is highly bullish on Banking stocks with 17.83% exposure followed by 11.07% and 7.69% in Petroleum and Software respectively. Its 3-year and 5-year annualised return are 12.66% and 25.3% against the category average of 6.60% and 20.42% respectively.

NAV Movement



Style Box Analysis

Comparative Performance



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MOTILAL OSWAL

ICICI Pru Discovery Fund (Mid-Cap)

23rd October 2010

At a Glance

Latest NAV (Gr)	Rs. 52.11 (Oct 21, 10)
Latest NAV (Div)	Rs. 22.58 (Oct 21, 10)
Fund Category	Equity Diversified
Entry Load (%)	Nil
Exit Load (%)	1% (< 365 days)
Inception Date	14-Aug-04
Net Assets (Rs. Cr.)	1495.52 (30-Sep-10)

Fund Manager

S Naren (Since Oct 2005)

Portfolio Attributes

Top 5 Holdings	23.64%
No. of Stocks	65
Exposure to Sensex	15.37%
Exposure to Nifty	19.42%
Portfolio PE Trailing	14.08
Expense Ratio	1.96% (31-Aug-10)

Dividends Declared

28-Jun-10	10.00%
18-Dec-09	15.00%
19-Jun-09	12.00%

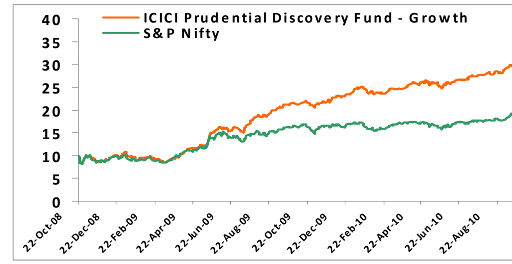
Scheme Objective

An open ended fund which aims to invest in a well-diversified portfolio of value stocks (those having attractive valuations in relation to earnings or book value or current and/or future dividends).

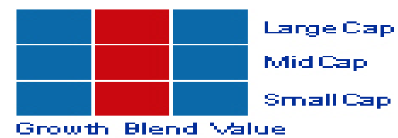
Scheme Analysis

Its value-based approach sometimes acts as a dampener in bull run but provides an excellent downside protection. It has provi-ded excellent returns in the recent upside. In 2-year category, it has delivered 71.83% against the category avera-ge of 50.67%. In other categories too, it has bitten its bench-mark. The Fund Manager is bullish on Banks, Pharma, Metals & Telecom. Recently it upped its exposure in Telecom stocks. The top 10 holdings comprise of 41.47% of total net assets. The favorite stocks are Bharti Airtel (6.08%), Great Eastern Shipping (5.42%) and Standard Chartered Bank (4.52%).

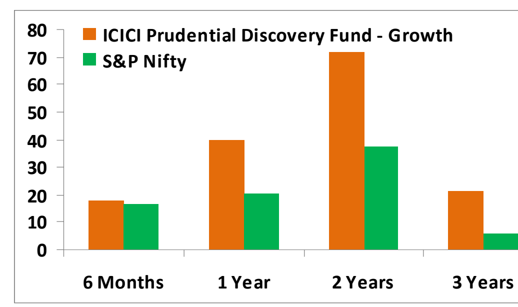
NAV Movement



Style Box Analysis



Comparative Performance



MOSt 3x3

MOTILAL OSWAL

IDFC Small & Mid Cap Equity Fund (Multi-Cap)

23rd October 2010

At a Glance

Latest NAV (Gr)	Rs. 20.24 (Oct 21, 10)
Latest NAV (Div)	Rs. 16.70 (Oct 21, 10)
Fund Category	Equity Diversified
Entry Load (%)	Nil
Exit Load (%)	1% (< 365 days)
Inception Date	7-Mar-08
Net Assets (Rs. Cr.)	1012.27 (30-Sep-10)

Fund Manager

Kenneth Andrade (Since Jan 2008)

Portfolio Attributes

Top 5 Holdings	18.52%
No. of Stocks	42
Exposure to BSE 200	25.48%
Exposure to CNX 500	39.51%
Portfolio PE Trailing	21.08
Expense Ratio	1.41% (31-Mar-10)

Dividends Declared

29-Apr-10	16%
29-Sep-10	11%
-	-

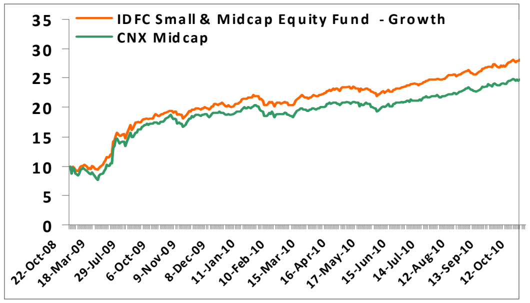
Scheme Objective

Scheme Objective: It aims to generate capital appreciation by investing in small and midcap stocks of CNX Midcap Index whose market capitalisation shall be lower than the market capitalisation of the highest components of CNX Mid Cap. The scheme may also invest in stock other than mid cap stocks.

Scheme Analysis

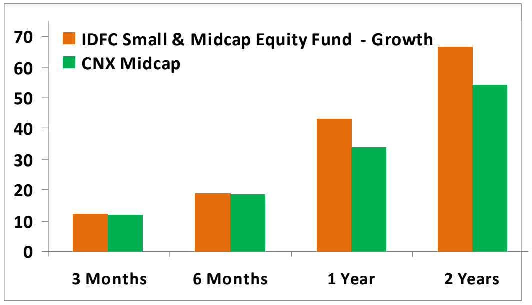
The fund philosophy is to capture the potential of the small & mid cap companies in the country. With markets buoyant the portfolio shifts have been reasonably aggressive in tune with the changing valuations. The strategy is expected to remain invested in smaller companies with low business risk and extreme valuation comfort. The fund has high allocation to Auto & Auto Ancillaries (7.76%), Banks (9.33%), Power (3.37%) and Textiles (3.41%). It has beaten the category average in all intervals by a huge margin. Its 2-yr return stands at 64.27% vs 50.67% (Category Avg).

NAV Movement



Style Box Analysis

Comparative Performance



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OPTIONS STRATEGY

23rd October 2010

MOSt Options Strategy

Strategy: Nifty Bull Call Ladder (*) *(Moderately Bullish)*

Strategy: IDEA Long Call(*) *(Bullish)*

Strategy: Power Grid Bull Spread(*) *(Moderately Bullish)*

MOSt 3x3

MOTILAL OSWAL

OPTIONS STRATEGY

23rd October 2010

Strategy: Nifty Bull Call Ladder

View : Moderately Bullish

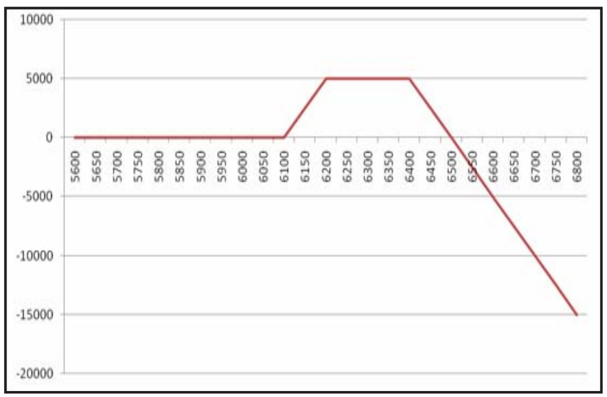
Rationale : 1. On the higher side 6200 - 6400 call being the heaviest may halt the rise.

2.Nifty option implied volatility around 20% indicates no great risk on downside.

2.On the downside there is no risk of loss in case of any correction.

Premium Inflow : ₹ 100 (per spread)

Margin : ₹32,000.00 (Approx)



Strategy

BUY/SELL	SCRIP	SERIES	OPTION	STRIKE PRICE	RECO PRICE
BUY	NIFTY	NOV	CE	6100	₹ 155 - 159
SELL	NIFTY	NOV	CE	6200	₹ 114 - 118
SELL	NIFTY	NOV	CE	6400	₹ 40 - 44

Pay Off on Expiry

BREAK EVEN POINT	MAXIMUM PROFIT	MAXIMUM LOSS
6502	₹ 5,100 Between 6200 - 6400	Unlimited Above 6502

MOSt 3x3

Motilal Oswal

OPTIONS STRATEGY

23rd October 2010

Strategy: IDEA Long Call

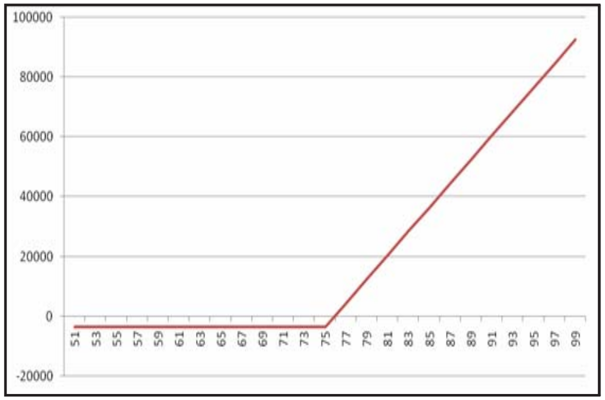
View : Bullish

Rationale : 1.Long build up in futures in last week.

2.Exits in Calls creating head-room.

Premium Outflow : ₹ 3,600 (per call)

Margin : N.A.



Strategy

BUY/SELL	SCRIP	SERIES	OPTION	STRIKE PRICE	RECO PRICE
BUY	IDEA	OCT	CA	75	₹ 0.7 - 1.1

Pay Off on Expiry

BREAK EVEN POINT	MAXIMUM PROFIT	MAXIMUM LOSS
75.9	Unlimited above 75.9	₹ 3,600 below 75

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OPTIONS STRATEGY

23rd October 2010

Strategy: Power Grid Bull Spread

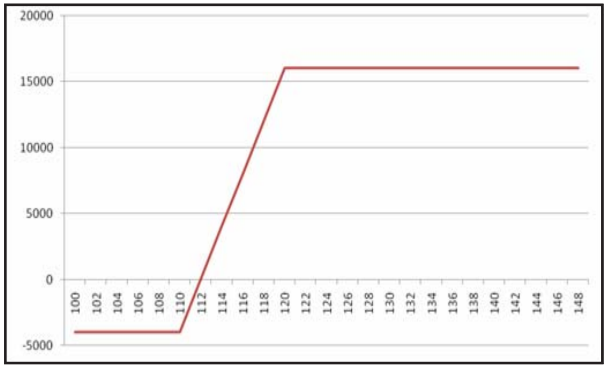
View : Moderately Bullish

Rationale : 1.Long build up in futures thru out the week.

2.Buying in ATM calls.

Premium Outflow : ₹ 4,000 (Per Spread)

Margin : ₹ 31,000 (Approx.)



Strategy

BUY/SELL	SCRIP	SERIES	OPTION	STRIKE PRICE	RECO PRICE
BUY	POWER GRID	NOV	CA	110	₹ 2.5 - 3.5
SELL	POWER GRID	NOV	CA	120	₹ 0.5 - 1.5

Pay Off on Expiry

BREAK EVEN POINT	MAXIMUM PROFIT	MAXIMUM LOSS
112	₹ 16,000 Above 120	₹ 4,000 Below 110

DISCLAIMER

23rd October 2010

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Disclosure of Interest Statement:

The MOSt group and its Directors own shares in the following companies : Bharti Airtel, Birla Corporation, GSK Pharma, Hero Honda, IOC, Marico, Nestle India, Oriental Bank, Siemens, South Indian Bank, State Bank, Tata Steel.

MOSt has broking relationships with a few of the companies covered in this report.

MOSt is engaged in providing investment-banking services in the following companies covered in this report: Alok Industries and Sintex Industris.

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Motilal Oswal Securities Ltd.

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