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Ideas 2 Wealth

Monthly Investment Intelligence

for private circulation only

May 2011

Editor's Desk

Patience and conviction are rare virtues among investors. Yet they are tested more frequently by the random forces that play out in the stock market. Indian stocks have slid by ~13% since January after their record peak late last year. **The problem? Stubborn inflation.** In order to tame inflation RBI has been "the most aggressive" in Asia and hiked interest rates by nine times since March 2010. RBI earlier took mere baby steps by way of a 25 bps hike eight times since March 2010. However in the month of May 2011, RBI hiked the **repo and reverse repo rates each by 50 bps to 7.25% and 6.25%.**

At the same time, the recent hike in petrol prices (the eighth rise in petrol prices since India's government last June) by ₹5 per litre will also hit the common man by increasing cost of living leading to cost push inflation. Diesel and cooking gas prices are also expected to go up soon. Although the direct impact of fuel price hike on headline inflation will be low, the increase will have a bearing on prices of other items with rise in transportation cost. Wage pressures and increased raw materials costs will be denting the corporate earnings. Increasing inflationary pressure are also **worrying FII's, who had been net sellers year to date.** We believe hard interest regime is likely to continue in the medium term.

Market Commentary

The Indian markets showed no resilience in the month of MAY as both the indices registered a decline of ~4%. The markets have been reeling under a series of bad news lately. It started with RBI making a 50 bps rate hike. Furthermore, weak earnings growth shown by telecom major Bharti and disappointing Q4 numbers from SBI aggravated the pain. But towards the end, L&T's better-than expected order inflow,

impressive Q4 numbers from Ashok Leyland, Cairn India, Coal India and Tata Steel more than softened the blow, lifting market spirits.

In the first quarter of the month, bourses registered massive losses of well over 3%. An assortment of cues kept emerging through the tumultuous week, apart from the usual corporate earnings announcements - reports **killing of Osama Bin Laden** in Pakistan, followed by **auto sales** and **cement dispatches** figures, reports of India's manufacturing PMI growing in April at the fastest pace in five months and export data recording a record level surge.

The followed week also saw the bourses settled on an absolutely flat note. The sessions remained characterized by volatility as traders trimmed down their positions and booked profits. Despite the late correction, the frontline indices managed to accumulate around a percent gains as domestic investors cheered the ruling **UPA's win** against the Left Parties in West Bengal, Kerala and Assam.

In the week ended 27th May, the market still failed to negotiate a positive close despite the short covering rally on the **May series F&O expiry day.** FIIs too have dumped shares, pulling down the markets in May as stubborn price pressures and the central bank's aggressive monetary tightening threaten to hurt growth and dent corporate profits.

INSTITUTIONAL ACTIVITY (₹ in crore)			
YTD	BUY	SELL	NET
FII	2,64,055.45	2,77,251.98	(13,196.55)
DII	1,24,606.37	1,09,348.48	16,320.02
Monthly	BUY	SELL	NET
FII	48,098.70	54,058.42	(5,959.73)
DII	24,410.51	19,731.31	4,679.20

* Data upto 27 May 2011

Bank of Baroda

CMP ₹ 838.80: BUY

Started in 1908 with a paid up capital of ₹10 lakhs, Bank of Baroda (BoB), today, has become one of the leading public sector banks in India. BOB business division includes retail banking, rural and agri banking, corporate banking and wealth management. It has a strong presence in both India and abroad.

Strong branch network to enhance growth: BoB has a strong network of 3,400 branches across India & 75 branches internationally. A high proportion of these branches 57% are in the state of Gujarat (22%) and in

BRANCH NETWORK					
Area	Metro	Urban	Semi-Urban	Rural	Total
Branches	752	639	838	1,171	3,400
Share (%)	22.12	18.79	24.65	34.44	100

As on May 2011

Northern India which is known for their entrepreneurial capabilities. Also, over the next 12-15 months, BoB plans to open around 860 branches across India while focusing more on Northern & Gujarat zones. This will further enable the bank to capture the business from emerging and mid-sized corporations. Based on Sep'10 data from RBI, incremental credit growth appears to have shifted from rural and semi urban to metro and urban regions.

Infusion of fresh capital to gear up balance sheet: The government of India had approved an infusion of ₹3,281 crores of capital for BoB at a price of ₹902 per share. Of the same, the government has infused ₹2,461 crores in BoB during April 2011. The CAR of the bank increased to 14.52% with a tier I capital of 9.99% and tier II capital of 4.53%. The increase will help BoB raise additional funds from capital markets without depending on the government.

Strong Operational Performance: Operating Income and PAT is likely to be driven by strong Nil growth. For FY11, BoB clocked a growth of 48% Y-o-Y in Nil on account of growth in advances and a one time income tax refund of ₹253 crores. Net profit increased by 38% to ₹4,242 crores for the year ended 2011, as compared to ₹3,061 crores for the same period last year. Furthermore, fee income growth is expected to improve on the back of strong loan growth and leveraging large branch network and global advantage going forward.

Healthy asset quality to continue: The asset quality of the bank looks healthy with the gross non performing asset (GNPA) and net NPA (NNPA) look stable at 1.4% and net NPAs of 0.3%. The provision coverage ratio (PCR) of the bank stood at a healthy 74.9% for Fy11.

Valuation Summary

Year (₹In crore)	2009	2010	2011	2012E	2013E
Net Interest Income	5,123	5,940	8,802	10,012	12,096
Growth (%)		15.95	48.18	13.75	20.82
PAT	2,227	3,061	4,242	4,783	5,684
Growth (%)		37.45	38.58	12.75	18.84
EPS (₹)	60.90	83.70	107.60	121.40	144.20
P/E	14.90	10.90	8.50	6.91	5.82
Networth	12,880	15,111	20,994	21,543	25,968

We believe BoB has some key advantages which would counterbalance the moderation of credit flow and rising rates, robust liability franchise to compensate the rising rate curve and capital infusion to dispose any concerns. Furthermore, the bank remains among the top performing PSU banks due to its strong operating performance, healthy asset quality and attractive return ratios. Keeping in view, we have valued BoB trading at the 6.91x of the FY12E, translating into a **fair value of ₹1,046**. We maintain our Buy recommendation on the stock.

Tecpro Systems Limited

CMP ₹294: BUY

Tecpro Systems Limited (Tecpro) incorporated in 1990 is in the business of material handling equipments, and is engaged in providing turnkey solutions in **material handling, ash handling**, balance of plant (**BoP**) and engineering, procurement and construction (**EPC**) contracts. In its flagship material handling solutions business, the company designs, engineers, manufactures, sells, commissions and services a range of systems and equipment for the core infrastructure related sectors like power, steel, cement and other industries. The company started operations in the material handling operations in 2001 and so far (upto March 31, 2010), it has executed 1,042 material handling orders with 269 remaining under execution.

The Company's operations are spread across India with its operations head office in Chennai. In addition, through subsidiaries Dubai and Singapore and marketing office in Johannesburg, Tecpro caters to the needs of the Middle East, South-East Asia and the African markets, respectively.

Order inflows hold the key - strong revenue visibility: Tecpro reported a strong order backlog of ₹4,371 crores (as on Mar 2011) providing strong revenue visibility. The company's order inflows for Fy11 stood at ₹4,353 crores. Of the total order backlog, BoP segment contributed 48% while material handling and ash handling segments accounted for 43% and 9% respectively.

Equipped to handle growth – proven execution track record: Since inception in 2001, Tecpro has successfully executed over 1,042 material handling projects in diverse sectors. As of July 31, 2010, the company has received repeat orders from 141 clients for 1,222 orders for material handling and 78 repeat orders from 21 customers for ash handling which instills confidence in company's execution track record and client relationship.

Capitalize on the growth opportunities in the power sector in India: Tecpro is deriving ~80% of its revenue from power sector catering to eminent clients like NTPC, BHEL and Chhattisgarh State Power etc. On the back of continued power demand supply imbalance in the country, the power generation capacity addition is on high on priority, with plans to add about 62,000 MW (revised) in the 11th five-year plan period and about 1,00,000 MW in the 12th plan period. We believe that the company will be able to grab larger pie and capitalize on the growth opportunity in the power sector owing to its ample experience and project execution track record.

Foray into BoP and EPC contracts – the next leg of growth: Over the past 20 years, Tecpro has remarkably scaled up the value chain from being merely a material handling and ash handling solution provider to undertaking EPC contracts, followed by implementation of BoP projects.

PARTICULARS (₹in cr)	FY 08	FY 09	FY 10	FY 11	FY 12E
Revenue	509.80	838.16	1,484.96	1,967.30	2,714.87
yoy growth (%)		64.41	77.17	32.48	38.00
PAT	40.87	55.37	108.91	132.47	170.88
yoy growth (%)		35.49	96.70	21.63	29.00
EPS		20.34	25.02	28.05	36.18

Valuation Summary

We believe that Tecpro's presence in a significant part of value chain in power infrastructure, foray into BoP and EPC of thermal power plants, strong management team, sustainable demand and proven execution track record makes it a good investment opportunity. Using DCF and relative valuation methodologies, we arrive at a weighted average **target price of ₹ 384**, representing upside potential of 29% for the next 12-24 month horizon.

Crude Oil prices continues on bumpy ride; Near US \$100/barrel

Crude oil prices have slid from their May highs near US \$115 but have consolidated in a range between US \$95 and US \$104.50.



After months of steadily rising prices, the crude oil market turned bearish in May 2011 with the **West Texas Intermediate (WTI) crude oil futures prices** plunging nearly 12% from their multiyear high at US \$ 115/barrel (May 02) to US \$100.13/barrel (quoted on 30 May), owing to weak economic data from United States and China and the ongoing debt crisis in the euro zone region.

Last month, the continued unrest in the producing countries had been the major key driver of the oil rally. This May, there are far too many factors weighing on market sentiment - from OPEC decisions and geostrategic tensions to the value of the US dollar and deepening Europe's debt crisis.

This huge turnaround has brought the crude prices well below the US \$100/barrel mark. As per the latest release by the **US Energy Information**

Administration, crude supplies are higher than the year-earlier level and above the upper limit of the average for this time of the year. This has led to demand concerns against a backdrop of persistently slow job growth. Meanwhile, the **Paris-based International Energy Agency (IEA)**, the energy-monitoring body of 28 industrialized countries, had trimmed its 2011 world oil demand forecast by 190,000 barrels a day, citing the impact of persistent high prices.

However, the third major energy consultative body, the **Organization of the Petroleum Exporting Countries (OPEC)**-the cartel that supplies around 40% of world's crude, forecasted marginally stronger global oil demand in 2011. In its latest monthly report, OPEC said it expects world oil demand to grow by 1.4 million barrels per day in 2011, reflecting an upward revision of 20,000 barrels a day over the previous assessment.

The organization maintained that oil supplies will remain balanced despite the political crisis in the North African and Arab countries; and expects **crude oil to trade in the US \$100 - US \$110/barrel range in the near future**, supported by the continued tightening of world oil markets.

METAL WATCH		
METAL	30-MAY	% CHANGE
Gold/10 grams	22,500.00	0.09
Silver/1 Kg	56,755.00	(14.45)
Zinc / Kg	101.45	3.05
Aluminium / kg	117.45	(4.40)
Copper /Kg	417.25	2.38
Nickle / kg	1,045.40	(11.38)
Platinum/ Gram	2,616.50	(1.69)
Lead / Kg	114.95	2.45

AGRI WATCH		
AGRI PRODUCTS	30 MAY	% CHANGE
Soyabean/100 Kgs	2,342.00	(0.85)
Sugar S/100 Kgs	2,600.00	(3.35)
Rubber/100 Kgs	21,810.00	(7.34)
Wheat/100 Kgs	1,230.00	1.06
Refsoyoil/10 Kgs	651.00	6.01
Mustard Oil/10 Kgs	634.30	11.99

CURRENCY INVESTING		
CURRENCY PAIR	30-MAY	% CHANGE
USD/INR	45.10	1.81
Euro/INR	64.35	(1.86)
Euro/USD	1.43	(3.45)
USD/JPY	80.85	(0.48)

COMMODITIES INDEX		
COMMODITIES INDEX	30-MAY	% CHANGE
MCXSCOMDEX	3,493.99	(4.67)
MCXSMETAL	4,548.63	(3.80)
MCXSENERGY	3,199.07	(8.57)
MCXSAGRI	2,750.22	2.38

Infrastructure Sector

India's economic growth averaged 3-4% for most of the period since its independence in 1947 and till the time economic liberalization was embarked upon in early 1990s after which the economy grew at a much faster pace. During the first four decades post-independence investment in infrastructure sector was largely limited to Railways, Roads and Power and even this did not meet the quantum and quality required for fast pace economic growth of the country.

The last three five year plans (beginning 1997) have witnessed a substantial increase in focus and investments in the infrastructure sectors, but still is far from adequate. **India's infrastructure build out during the 11th 5-Year Plan (2007 – 2012) envisaged investments of close to US \$ 500 billion, with US \$ 430 billion of this in the core sector of transport and utility sector.** India's Planning Commission states that investment in the country's infrastructure sector has doubled over the last five years, from 4% of GDP to 8%.

Twelfth Five Year Plan: The Planning Commission's preliminary assessment of the investment in infrastructure during the 12th 5-Year Plan estimates the projected investment requirement would be of the order of ₹410 trillion (about US \$ 1 trillion). The projections as highlighted in the Table suggest that the economy will enter the Twelfth Plan in a much stronger position as far as infrastructure is concerned than existed at the start of the Eleventh Plan. Investment in infrastructure will be around 8.37% of GDP in the base year of the Twelfth Plan. If GDP in the Twelfth Plan period grows at a rate above 9%, it should be possible to increase the rate of investment in infrastructure to around 10.70% in the terminal year 2017, of the Twelfth Plan period as indicated in Table.

Projected Investment in Infrastructure during Twelfth Five Year Plan							
Year	Base Year (2011 -12)	2012 - 13	2013 - 14	2014 - 15	2015 - 16	2016 - 17	Total 12th Plan
GDP at market prices (₹ billion)	63,142.65	68,825.49	75,019.78	81,771.56	89,131.00	97,152.80	4,11,900.64
Rate of growth of GDP (%)	9.00	9.00	9.00	9.00	9.00	9.00	9.00
Infrastructure GCF as % of GDP	8.37	9.00	9.50	9.90	10.30	10.70	9.95
Infrastructure GCF (₹ billion)	5,283.16	6,194.29	7,126.88	8,095.38	9,180.49	10,395.95	40,992.40
Infrastructure GCF (US\$ billion) @ ₹ 40/\$	132.08	154.86	178.17	202.38	229.51	259.88	1,024.81

Source: Planning Commission

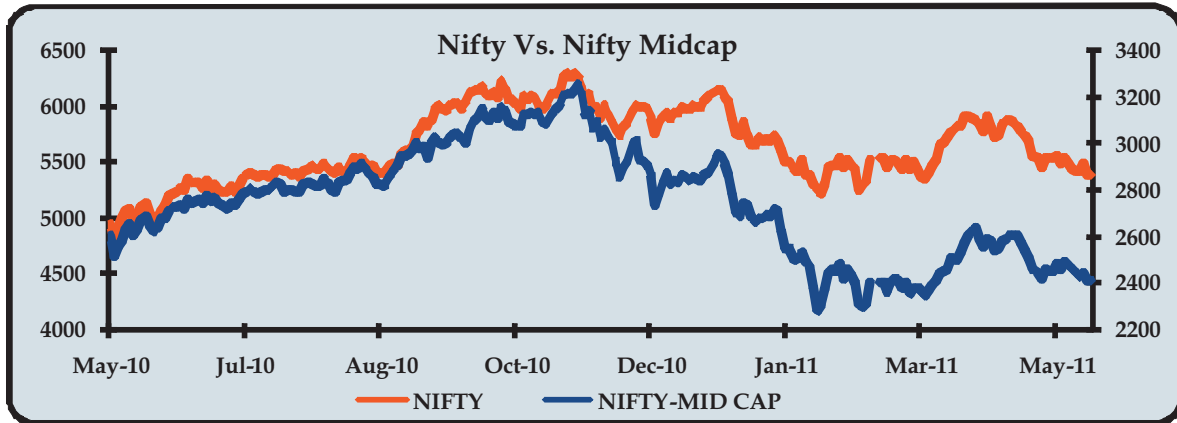
*GCF: Gross Capital Formation

Out of the proposed investment, it is projected that at least 50% would have to come from **private sector** against about 36% anticipated during the 11th Plan. This would imply that public sector investment in infrastructure would increase from ₹13,112.93 billion (US \$ 291.39 billion) in the Eleventh Plan to around ₹20,496.20 billion (US \$ 455.47 billion) in the Twelfth Plan at 2006-07 prices. This represents an annual increase of about 9.34% in real terms.

Increased investments in infrastructure space to create demand: The estimated infrastructure investments in India over US \$ 500 billion will create demand for Power equipment, Construction equipment, Material Handling equipment, Electronic and IT systems, Environment technologies, Transport equipment, EPC contracts, Infrastructure companies in India, Financial services, Real estate, Education and training, Design and Planning services, Infrastructure consultants, Advisory and professional services and provide opportunities for investors, contractors, O&M contractors, developers of infrastructure projects, foreign players.

Market Indicators

Nifty and Nifty Midcap - 52 week Rolling



Sectoral Indices

BSE SECTOR	30 MAY	% CHANGE		
		1 MONTH	3 MONTH	YTD
CD	6,462.98	2.91	12.83	0.13
FMCG	3,773.20	0.93	7.41	2.17
HC	6,275.93	0.29	6.45	-7.21
CG	12,924.77	-0.95	0.05	-16.52
IT	5,964.32	-3.05	-4.59	-12.51
TECK	3,601.71	-3.11	-1.52	-11.06
REALITY	2,124.33	-3.66	2.88	-26.00
OIL & GAS	9,480.52	-3.98	-2.16	-10.55
BANKEK	12,281.64	-4.08	-0.60	-8.72
METAL	15,146.44	-5.46	-5.24	-15.66
POWER	2,516.11	-5.70	-2.62	-16.26
PSU	8,449.66	-5.76	-2.07	-11.21
AUTO	8,846.69	-6.51	1.47	-13.42

Global Indices

GLOBAL INDICES			
WORLD MARKET INDICES	30 MAY	02 MAY	% CHANGE
SENSEX	18,232.60	18,998.02	-4.03
NIFTY	5,473.10	5,701.30	-4.00
DOW JONES*	4,311.93	4,393.86	-1.86
NASDAQ*	2,796.86	2,864.08	-2.35
HANG SENG	23,184.32	23,720.81	-2.26
NIKKEI	9,504.97	10,004.20	-4.99
SHANGHAI COMP	2,706.12	2,911.51	-7.05

* As per previous close

Nifty Top 5 Movers

COMPANY	30 MAY	% CHANGE	
		1 MONTH	3 MONTH
Ranbaxy Laboratories Ltd.	536.60	17.26	18.77
Hero Honda Motors Ltd.	1,836.55	7.40	23.11
Cipla Ltd.	329.50	6.46	7.71
Hindustan Unilever Ltd.	302.80	6.17	5.34
DLF Ltd.	231.45	3.88	4.25

Nifty Top 5 Laggards

COMPANY	30 MAY	% CHANGE	
		1 MONTH	3 MONTH
State Bank of India	2,237.30	(20.23)	(17.30)
Ambuja Cements Ltd.	133.90	(15.36)	9.98
Reliance Infrastructure Ltd	555.65	(15.81)	(10.21)
Tata Motors Ltd.	1,077.35	(12.90)	(5.65)
Mahindra & Mahindra	663.05	(12.34)	(0.19)

Birla Sun Life Frontline Equity Fund

Launched on 30 August 2002, Frontline Equity Fund of Birla Sun Life Mutual Fund is as an open end diversified equity fund with a bias for large cap stock but not exclusively focused on them. The Scheme intends to take advantage of select mid cap opportunities from time to time. The Fund has adopted an investment strategy wherein it endeavors to optimize diversification by having sectoral weightage in line with the BSE 200 index.

For the last five and half years, the Fund is being managed by Mr Mahesh Patil since 17 November 2005. He is 41 years old qualified as B.E.(Electrical), MMS(JBIMS) and CFA (ICFAI), having over 20 years of experience in fund management, equity research and corporate finance. Prior to joining Birla AMC, he has worked with Reliance Infocom Ltd in Business Strategy. In addition to Frontline Equity Fund, he is managing 4 more funds in Birla SL Mutual Fund viz. the Infrastructure Fund, Equity Fund, International Equity Fund and Top 100 Fund.

PERFORMANCE RECORD

The Frontline Equity Fund has consistently outperformed its benchmark BSE 200 over the last 1-year, 3-year, 5-year periods as also since inception by a wide margin. An investment of ₹1,00,000 made at the of inception during NFO is now worth ₹ 8,58,400 generating a compounded annual growth of 27.85%. (NAV date: 30-05-2011).

Similarly, ₹1,03,000 invested through SIP of ₹.1,000 per month over the 103 months is worth around ₹3,12,000. Under dividend option, the Fund has paid dividend 11 times since inception totaling ₹30 per unit.

Performance (%) as on May 30, 2011

Schemes/Index	1 Month	3 Months	6 Months	1 Year	3 Years	5 Years	Since Inception
BSL Frontline EF	-3.89	3.62	-6.73	8.83	10.65	17.53	27.85
BSE 200	-4.14	3.65	-7.59	6.10	3.59	11.18	22.70

RATING

The Fund is ranked as No 2 among 40 schemes or consistent CPR performance in 2 years ended 31 March 2011. Value Research has assigned 4-star rating for 3 and 5 years periods ending 30 April 2011.

PORTFOLIO

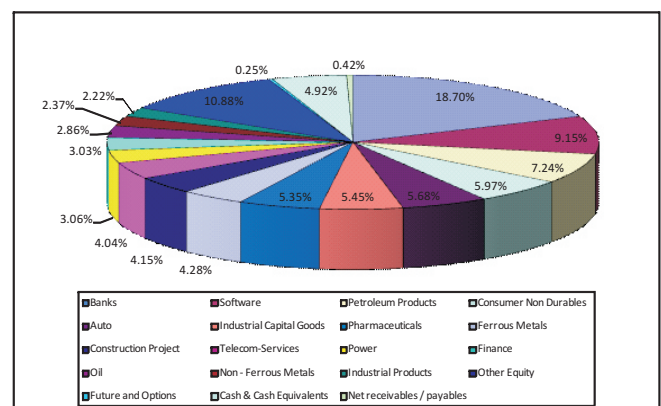
Top 10 Holdings	% to Net Assets
Reliance Industries Ltd.	5.91%
ICICI Bank Ltd.	5.65%
ITC Ltd.	4.23%
Bharti Airtel Ltd.	4.04%
Infosys Technologies Ltd.	3.69%
Tata Consultancy Services Ltd.	3.64%
Larsen & Toubro Ltd.	3.44%
Oil & Natural Gas Corporation Ltd.	2.86%
Tata Steel Ltd.	2.72%
Mahindra & Mahindra Ltd.	2.56%

With an AUM of ₹ 2742 crore as on 29 April 2011, the equity portfolio is evenly spread into 57 stock across 15 sectors. Top 3 holdings account for 15.79% of the AUM comprising of Reliance Industries, ICICI Bank and ITC while Top 10 holdings account for 38.72% of the AUM. The Fund is fully invested with 95% into equity and remaining 5% into cash and cash equivalent to meet any contingencies. The expense ratio is kept low at 1.86% and the portfolio turnover ratio is 44%.

The fund has maximum exposure to

banking sector (18.7%), followed by software (8.7%) and petroleum products (7.3%) and lowest in construction (4.2%) and telecom (4%) – broadly in line with benchmark BSE 200. However, it is slightly under weight on consumer durables, software and petro products where as it is over weight on capital goods, telecom, consumer non-durables and pharma in comparison to BSE 200

SECTOR ALLOCATION



Stocks to Watch

SCRIP	CMP (₹)	RECOMMENDATION
BHARTI AIRTEL	371.45	HOLD
GAIL	443.00	HOLD
AXIS BANK	1,245.25	BUY
NTPC	167.75	BUY
TCS	1,151.95	BUY
SRF	303.10	BUY
BAJAJ HOLDINGS	762.45	BUY
EID PARRY	207.70	BUY
BGR ENERGY	481.60	BUY

Prices as per 30 May 2011

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Branches & Associates

Delhi		Haryana	Uttar Pradesh
Barakhamba Road	Paschim Vihar	Hissar	Agra
East Patel Nagar	Pitam Pura - I	Mahender Garh	Aligarh - Marriss Rd
Hauz Kazi	Pitam Pura - II	Rohtak	Aligarh - Massodabad
Inder Puri - I	Pushp Vihar	Sonepat	Meerut
Inder Puri - II	Rohini		Varanasi
Janak Puri	Shahdara	Punjab	
Kalkaji	Shatri Nagar	Amritsar	Uttaranchal
karol Bagh	Sheikh Sarai	Barnala	Dehradun
Najafgarh	Sidharth Extension		Kotdwar
Naya Bazar	Vikas Puri	Mumbai	
		Borivali	

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