November 23 – 27

Week that was...

There were widespread losses this week on the Indian Bourses initially prompted by profit booking and then in a big way by a debt default fear on the part of Dubai government. The Sensex ended the week 2.29 percent (389.84 points) lower at 16,632.01 from 17,021.85 the previous week. Similarly the NSE moved down 2.19 percent (110.07) to end at 4941.75 points. The BSE mid cap and the small caps were not spared, falling 2.36% and 2.1 % respectively. FII’s turned out to be net sellers during the week dumping Rs1457.75 crores of stocks.

The markets started the week on a positive note at the news of Reliance Industries’ planned bid to acquire a controlling stake in bankrupt Dutch petrochemicals firm Lyondell Basell Industries. On Tuesday a bout of profit booking set in, followed by a range bound Wednesday. Selling surged on Thursday with the Sensex losing close to 2.21% and 2.08% respectively. Intraday volatility was high as traders rolled over positions in the derivative segment from November 2009 series to December 2009 series ahead of the expiry of the near-month November 2009 contracts. On Friday the markets plunged worldwide following the news on the huge debt on the Dubai Government and the possibility of it defaulting on payments. Indian infrastructure companies with an exposure to the Dubai were the biggest losers.

During the week Tata Steel came out with its results reporting net loss despite positive EBITDA margins. The Net Loss of Rs329cr in 1QFY2010 is expected to reduce sequentially in 2QFY2010 to Rs184cr. Another major announcement that came was, the CBI said that the accounting fraud at Satyam was much larger than originally reported—Rs2809 crore rupees in addition to that reported earlier of 7.100 crore. This sent Satyam plunging 11% on Wednesday.

The wholesale price index for the month of October 2009 decreased 0.2% to 242.2 from 242.7 from the previous month. Build up inflation in the financial year so far was 6.13% compared to 5.99% in the same period of year ago. Food inflation starts at 15.58% etc.

The index of six key industries rose by 3.5% in the month of October on better performance by steel, refined products and electricity. During April-October this year, the core sector index expanded by 4.7%, better than 3.3% in the year ago period.

On the sectoral front, most of the indices recoded losses ranging from 2% to 6%. Real Estate continued to be the biggest looser for the 3rd consecutive week recording weekly losses of 6.35%. The sector has been witnessing huge selling pressure pri-

**Market Update**

<table>
<thead>
<tr>
<th>Market Indices</th>
<th>27th November, 2009</th>
<th>20th November, 2009</th>
<th>% Change</th>
</tr>
</thead>
<tbody>
<tr>
<td>BSE Sensex</td>
<td>16,647.00</td>
<td>17,021.85</td>
<td>-2.20%</td>
</tr>
<tr>
<td>NSE Nifty</td>
<td>4,941.75</td>
<td>5052.45</td>
<td>-2.19%</td>
</tr>
<tr>
<td>BSE Mid Cap</td>
<td>6,315.40</td>
<td>6,465.61</td>
<td>-2.32%</td>
</tr>
<tr>
<td>BSE Small Cap</td>
<td>7,370.52</td>
<td>7,527.32</td>
<td>-2.08%</td>
</tr>
</tbody>
</table>
November 30 – December 04

Week that will be...

A lot would depend on the way global economy will react to the moves of the Dubai government. The Reserve Bank of India governor D Subbarao said an assessment of the impact of Dubai’s debt problems was needed before deciding a response. India’s financial integration with the global economy is deeper than its trade integration, the central bank governor said. Thus, the direction of the market might get decided based on whether the Dubai Sovereign does indeed default on its loan. Moreover investors would also be keeping a close eye on the Q2 GDP numbers that are due on Monday. Prime Minister Economic Advisory Council pegs Q2 GDP growth to be at 6.1% owing to the impact of weak monsoon on Indian Agriculture. The markets would hence watch out these critical indicators in taking a lead.
TATA CONSULTANCY SERVICES LTD.
CMP 670.45

Forecast: Buy

Buy TCS with a Target of Rs 685 and Stop Loss at Rs. 660.

Indicators:
- The stock has been declining but RSI has been steady and increasing towards end of the trading day. This is a positive divergence indicating that stock will rise in the next week making it a BUY.
- The bulls have stepped in at the Rs.660 level to put a halt to the downward trend. The stock could find support at this level.
RANBAXY LABS LTD CMP 444.35

Forecast: Sell
Sell Ranbaxy Labs with a Target of Rs 432 and Stop Loss at Rs. 450.

Indicators:
- The stock of Ranbaxy has been on an upward path but RSI is stable. This indicates negative divergence showing that stock will correct itself in the next week making it a SELL.
- The stock after touching the upper Bollinger band is on its downward path.
- The Negative divergence of the MACD histogram is a bearish sign.
November 23 - 27

Bond Markets

The bond yields for the benchmark 6.90-10 year government paper fell to 7.17%. The benchmark yield fell to its seven week low due to drop in the US yields and profit booking by the traders. The absence of any auction by the central government during the week gave a breather to the Indian debt market. The debt market had risen by 193 basis point this year due to the heavy borrowing by the government. The government has sold Rs. 3.54 trillion of bonds since April this year. The supply at 640 billion rupees is being adequately balanced by the demand in the debt market. The liquidity in the banking system is healthy and banks have deposited around 1 trillion rupees with RBI in reverse repo under its liquidity adjustment facility.

For the week ended 27th Nov MIBOR rates remained unchanged at 3.29%. Due to the ample amount of liquidity in the market the spread between the government paper and the five year AAA rated corporate bond is at 77 bps.

<table>
<thead>
<tr>
<th>Duration</th>
<th>AAA</th>
<th>AA+</th>
<th>AA</th>
</tr>
</thead>
<tbody>
<tr>
<td>1 year</td>
<td>89</td>
<td>109</td>
<td>129</td>
</tr>
<tr>
<td>3 years</td>
<td>79</td>
<td>99</td>
<td>119</td>
</tr>
<tr>
<td>5 years</td>
<td>77</td>
<td>97</td>
<td>117</td>
</tr>
<tr>
<td>10 years</td>
<td>94</td>
<td>114</td>
<td>134</td>
</tr>
</tbody>
</table>

Corporate bond spreads as on 27/11/2009

<table>
<thead>
<tr>
<th>Maturity</th>
<th>20-Nov</th>
<th>27-Nov</th>
<th>% Change</th>
</tr>
</thead>
<tbody>
<tr>
<td>MIBID</td>
<td>3.22</td>
<td>3.23</td>
<td>0.31%</td>
</tr>
<tr>
<td>MIBOR</td>
<td>3.29</td>
<td>3.29</td>
<td>0%</td>
</tr>
</tbody>
</table>

ZCYC Yield Curve

Benchmark GS2019 6.9% Bond

NSE Government Securities Composite Index
Forex Markets

The Indian Rupee started on a strong note as FIIs continued to pump in money into the equities. The dollar resumed its fall against all the major currencies. On Wednesday the Dollar hit a 15-month low after the minutes from US FED showed that the policymakers saw the decline of dollar as orderly. The minutes also highlighted that US interest rates will continue to be close to zero until mid 2010. This led to further dumping of dollars by the traders. However the Rupee changed its direction following the huge sell off in the equities globally owing to the debt problems in Dubai.

<table>
<thead>
<tr>
<th>Rupee(INR)</th>
<th>27th Nov</th>
<th>20th Nov</th>
<th>% Change</th>
</tr>
</thead>
<tbody>
<tr>
<td>US $ (USD)</td>
<td>46.8100</td>
<td>46.5800</td>
<td>0.49%</td>
</tr>
<tr>
<td>Euro (EUR)</td>
<td>69.8300</td>
<td>69.5400</td>
<td>0.42%</td>
</tr>
<tr>
<td>Pound (GBP)</td>
<td>76.7286</td>
<td>77.5650</td>
<td>-1.08%</td>
</tr>
<tr>
<td>Yen (JPY, 100 Yen)</td>
<td>54.3800</td>
<td>52.4900</td>
<td>3.60%</td>
</tr>
</tbody>
</table>

FII Flows INR Crores

<table>
<thead>
<tr>
<th>Trade Date</th>
<th>Buy</th>
<th>Sell</th>
<th>Net</th>
</tr>
</thead>
<tbody>
<tr>
<td>23/11/09</td>
<td>1951</td>
<td>2019</td>
<td>-68</td>
</tr>
<tr>
<td>24/11/09</td>
<td>2343</td>
<td>2040</td>
<td>303</td>
</tr>
<tr>
<td>25/11/09</td>
<td>2,041.10</td>
<td>2,372.75</td>
<td>-331.65</td>
</tr>
<tr>
<td>26/11/09</td>
<td>2,857.74</td>
<td>2,927.94</td>
<td>-70.20</td>
</tr>
<tr>
<td>27/11/09</td>
<td>1,449.17</td>
<td>2,506.35</td>
<td>-1,057.18</td>
</tr>
</tbody>
</table>

The Currency pair USD/INR ended the week at Rs. 46.635 to the Dollar, which is marginally above the Rs.46.6 resistance level. Having tested this level twice in the last month, the currency pair has finally peaked above this level, momentarily touching Rs.47.1 on the last trading day. The last close price is closer to the upper bollinger band and above the short term moving average indicating that currency pair might fall further, limited by support at Rs.46.0. The Bollinger bands are narrower than normal indicating decreased volatility in the last few trading days. As big moves are followed by periods of subdued volatility, this counter should be watched closely as the next week could be critical.
Corporate speak:

**Reliance Capital**

Reliance capital plans to acquire a controlling equity stake in Mumbai based Quant Capital group. Reliance Equity International, a wholly owned subsidiary of Reliance Capital, and Quant Capital will integrate its operations to achieve business synergies and optimize its cost structure.

Quant Capital focuses primarily on complex financial equity products and caters to institutional derivatives segment. The company’s FII clientele is an added advantage.

**Suzlon Energy**

The Tulsi Tanti promoted group Suzlon Energy, announced that German based wind turbine maker, RE Power System has won one of the biggest projects in North America. The company has been guaranteed a minimum purchase of 748 MW and has also granted an option to purchase additional 206MW of power.

The company Australian subsidiary got its second order from Infigen Energy, to deliver 20 units of Suzlon’s S88 – 2.1 MW wind turbine generators (WTGs) that will be installed in one of the wind farms of Infigen.

**Hindalco Industries**

Hindalco Industries, the flagship company of Aditya Birla Group announced that it has fixed Rs130.90 as the issue price for qualified institutional placement (QIP) of its equity shares. The Company proposes to issue 213,147,391 equity shares with a face value of Re. 1 each to raise net proceeds of Rs27488 million.

**Reliance Communication**

After taking a lead last month to unveil the most affordable tariff plan in the country, SIMPLY RELIANCE, Reliance Communication started a new tariff war in the SMS segment. The company has introduced 2 new plans – One paisa per SMS with a monthly rental of Rs11 and unlimited SMS with a daily rental of Rs1. The plan is applicable to all its existing prepaid customers.

**Jindal Steel & Power**

Jindal Steel and Power announced that the company will be setting up a 1600 MW of hydro power plant on its tributary of Subansiri River in Arunachal Pradesh.

The company has also received Survey License from Ministry of Energy, Nepal for setting up 220 MW Chirpaur Seti hydro electricity project in Nepal.

**Sun Pharma**

Sun Pharma has got a tentative approval from the US Food and Drug Administration (USFDA) for its generic drug product Strattera used in the treatment of mental disorders. These capsules are available in seven strengths -10 mg, 18 mg, 25 mg, 40 mg, 60 mg, 80 mg and 100 mg.
Dubai Debt Fiasco

It was a Black Wednesday for Dubai when emirates which have the world’s tallest building became victim of another financial crisis when it declared to the world that it owes debt of $80 billion. The Dubai World conglomerate which has vast businesses ranging from realty, infrastructure to logistics and economic zones, not only in their region, but also across a clutch of countries, including India expressed delay in debt repayment of $59 billion (or 74% of the total debt) for six months. This act shook investor confidence sending negative waves across the global markets.

While the government is confident that the crisis, which pulled down the stock markets across the globe, should not have any major impact on factors like employment and exports, Reserve Bank said that developments and the extent of the problem need to be studied. Indians make up 40% of the UAE’s population, and Indians in Dubai account for 10-12% of the annual remittances to India and the fact Dubai’s Indian workforce is dominated by Malayalees cannot be neglected. How the remittances to India (mostly in Kerala) will be affected still needs to be seen but another positive side is that labour movements towards Saudi Arabia, Abu Dhabi and Qatar whose economies are doing well have increased. And also ministry of overseas Indian affairs (MOIA) which looks after the Indian immigrants is geared up to provide a safety net to Indian workforce in that region. In India, policymakers did not appear too concerned about the impact of Dubai’s troubles on the economy and the benchmark Sensex of the Bombay Stock Exchange pared early losses to close 1.2% lower.

The entities most likely to be hit from Dubai crisis are European banks having exposure to the Middle East namely HSBC and Standard Chartered. This was backed by HSBC Holdings falling 7.6% and Standard Chartered Bank crashing 7.5%. Also Regional banks have ¼ of their assets in real estates and if it continues then banks can be in trouble.

British banks have loans outstanding to the United Arab Emirates in Europe, constituting $49.5 billion of a total of $87.3 billion extended by the continent’s lenders to the Gulf country as of June 2009 as per research reports from Royal Bank of Scotland Group.

It is likely that Dubai government will step in to write-off the debt by making use of unused medium term notes possessed by them. It is news now that oil rich Abu Dhabi will aid debt laden Dubai on a case by case basis choosing from commercial or semi government entities. Dubai is a hot property market and this real estate bubble which was fuelled by excessive credit is Phase 2 of credit crisis or something which can be bailed out by Dubai government remains to be seen as the next week unfolds.
Quant Box

Quantitative View on Infosys & Reliance
Negative Outlook

Quantitative View on TATA Power & RPower
Neutral outlook

Where the weekly returns are plotted for:
1. Mar—May
2. Jun—Aug
3. Sep—Nov
Risk Yield Matrix

Below is a Risk Yield Matrix that is a scatter plot of the standard deviation of weekly returns on the X axis and the yield of weekly returns on the Y axis. This allows us to classify the stocks into four quadrants:

- **Defenders** — Low Risk & Low Yield
- **Under Performers** — High Risk & Low Yield
- **Out Performers** — Low Risk and High Yield
- **And finally**
  - **the Aggressors** — High Risk and High Yield

By tracking the location of stocks on the matrix and identifying trends we can use quants to pick the right stocks.
Last Weeks Forecast

Score Card

- Buy call given on Quintegra touched a high of Rs9, but failed to meet our target. At the close of the week the stock gave a return on 1.07%

- Sell call given on Reliance Power met our target and gave a return of 5.4%

<table>
<thead>
<tr>
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<tbody>
<tr>
<td>Nifty</td>
</tr>
<tr>
<td>Recommendation 1 : Quintegra</td>
</tr>
<tr>
<td>Recommendation 2 : Reliance Power</td>
</tr>
<tr>
<td>-2.19%</td>
</tr>
<tr>
<td>1.78%</td>
</tr>
<tr>
<td>5.4%</td>
</tr>
</tbody>
</table>

IMPORTANT DISCLOSURES

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