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NSE
52 Wk H/L : 4889.05/2252.75
Mcap : Rs51,13,069 cr.
BSE
52 Wk H/L : 16434.77/7697.39

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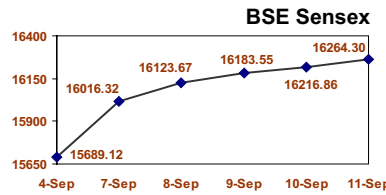
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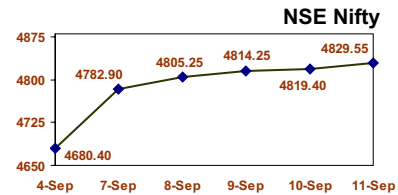
by **S. Gopichand** on behalf of Karvy Stock Broking Limited.

Editor: **S. Gopichand**

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16264.30
↑ 3.67%



4829.55
↑ 3.19%

Buoyant markets...

Positive global cues and strong liquidity buoyed up financial markets worldwide as major indices continued to run up, bringing smiles on the faces of international investors even as they get increasingly nervous about the valuations in the short term. Some of the global cues that gave investors reason for cheer include a rise in Chinese industrial output, a rally in crude prices, and an increase in US auto sales for the first time since August 2007. Both Chinese industrial output and lending grew more than expected in August, facilitating a surge in markets the world over, although market players remain cautious about the perceived “bubble” in China.

The week began on a positive note with news of improving monsoons—as of September 5, the rainfall was 21% lower than the long-period average (LPA). This is a far cry from the grim situation that was prevailing in early July when the rainfall was found to be 46% lower than the LPA. The revival of the monsoon is good news for an agrarian economy like India.

There was also positive news from the G-20 Meet wherein policymakers decided to maintain status quo in regard to the stimulus measures. This will also ensure that the monetary stance remains accommodative until economies see a more sustained economic recovery. The Nifty closed the week at 4830 levels, up 3.2% W/W, while the Sensex gained 3.7% W/W to close at 16260 levels.

Domestic metal stocks witnessed significant buying, with the BSE Metal Index up 7.7% over the week. Banking stocks, which have been underperformers, also saw strong buying last week. Meanwhile, the Oil India IPO managed to get itself over-subscribed by 31 times.

With encouraging global cues and the Nifty managing to sustain above its prolonged resistance of 4750 levels, we expect more upsides this week. Buying may continue in metals, energy and banking stocks while software, FMCG and construction are likely to see selling pressure on rises. The Nifty is likely to trade in a range of 4700-4900 over the week.

KBB weekly recommendations for the week beginning 14th Sep.

Scrip	Action	CMP	Entry	Stop Loss	Target	Time Frame
ICICI Bank	Buy	835.15	828-834	812	888-890	5-6 Days
Wipro	Buy	550.95	547-550	538	575-578	5-6 Days
Sesa Goa	Buy	242.10	Above 245	237	260-262	5-6 Days
Tata Steel	Buy	469.00	457-460	445	495-500	5-6 Days
Vijaya Bank	Buy	45.40	45-46	42	53-55	8-10 Days

Disclaimer: The above recommendations are purely based on technical analysis. Hence, the stop loss should be strictly adhered to.

KBB weekly performance monitor

Scrip	Action	Entry	SL	Target	Shares(#)	P/L	Return	Remark
Cairn	Buy	Above 262	253.00	278-280	1420	-5,396.26	-1.44%	CMP
Hero Honda	Buy	1600-1605	1575.00	1680-1685	-	-	-	NI
IFCI	Buy	57-59	52.00	65-68	6439	-9,980.88	-2.67%	CMP
Rel Capital	Buy	900-904	888.00	940-942	-	-	-	NI
RCOM	Buy	288-292	282.00	310-312	-	-	-	NI

Total -15,377.14

Balance on inception (26-Jan-09)	Balance last week (04-Sep-09)	Balance current week (11-Sep-09)	Abs. returns WoW (%)	Abs. returns since Jan 26, 2009(%)
5,00,000	7,46,956	7,31,579	(2.06)	46.32

TA - Target achieved; SLT - Stop loss triggered; CMP - Closing price as on last trading day; NI - Not initiated; # No. of Shares; SL - Stop Loss; P/L - Profit/Loss

Technical view

Century Textiles

CMP: 484.60

Century Textiles showed a sideways trend in the last one month before registering a low of around 340 levels. Thereon, the stock staged a breakout above 490 levels in the recent session, although the Friday's session witnessed profit-taking. The recent rally has seen the stock cross all its moving averages which is a positive sign in the short term. The 14-day RSI has failed to move past the 68 levels, indicating caution at current levels. However, if the stock price manages to sustain above the 450-480 band, the momentum is expected to come back into the stock, thereby bringing the RSI scale to 60 levels and thereon moving up to 75-80 levels. A sustained move close to this level would again induce profit-taking in the stock. The stock has an immediate resistance placed around the 565 levels beyond which it could move up to 620 levels in the medium term. Investors are advised to assume long positions in the stock in the range of 480-490 levels for an upside target of 560 and 600 in the short term. All long positions in the stock should be protected with a stop loss placed below 450 levels on a closing basis.

Guj NRE Coke

CMP: 66.30

Guj NRE Coke has recovered significantly and registered a new 52-week high in Friday's session. The stock bounced from a low of 16 to a high 63, breaching it last week. The 50-day EMA levels proved to be a vital support for the stock as it bounced back strongly, backed by increasing volumes. The most recent sessions saw increased participation which helped the stock to move above all its moving averages. Historically, the 60 levels have been a stiff resistance for the stock and a breach above it has induced significant momentum. The 50-day EMA, which is placed around 53 levels, would continue to be a critical support for the stock in case of any profit-taking. The stock witnessed a price-volume breakout, further signifying the strength of the movement. The 14-day RSI has just tipped the overbought territory; however, even a sideways movement from hereon will get the RSI back to 60 levels. Investors are advised to assume long positions on the stock in the range of 62-65 levels for a short-term target of 80 and a medium-term target of 100. All long positions in the stock should be protected with a stop loss placed below 53 levels on a closing basis.

OBC

CMP: 223.40

Oriental Bank of Commerce has surged significantly over the last month, backed by significant increase in volumes. The entire banking sector was booming, backed by renewed buying interest as the sector largely underperformed the broader markets. The stock staged a breakout in Monday's session, backed by significant increase in volumes. The recent rally has moved the stock beyond all its moving averages which is a positive sign. It has its 8-day and 21-day EMAs at 206 and 191 levels, respectively, which are the immediate supports in the short term. The 14-day RSI is above the 80 levels which is the lone concern. The RSI movement indicates high caution around these levels; however, considering the positive sentiments prevailing in the sector, the stock can be looked upon for buying on dips. It has immediate resistance around the 250 levels beyond which the stock could move up to 320 levels instantly. Investors are advised to assume long positions in the stock in the range of 215-220 levels and average the same, if available, at 180 levels for an upside target of 320 in the medium term. All long positions in the stock should be protected with a stop loss placed below 160 levels on a closing basis.

- Kalyan C. Reddy

Fundamental view

Bajaj Auto (Rs1275)

After reporting a Y/Y fall for 10 consecutive months, Bajaj Auto Ltd. (BAL) posted positive growth in the motorcycle segment for August 2009. During the month, BAL sold 1,82,441 units compared 1,75,274 motorcycles in August 2008—a Y/Y growth of 4.1%. The successful launch of their new motorcycle 'Discover 100' in July 2009 was the prime reason for BAL's positive growth. The company sold 48,000 units of Discover 100 during August 2009 and management expects to sell 60,000 units each in September and October. Given the impending festival season, BAL expects to sell 5,00,000 motorcycles in September and October. BAL is planning to focus on the Pulsar and Discover 100 brand for its long-term strategy in terms of new models, capacity expansion, and action at the dealers end. Moreover, the management expects to launch a new model in December 2009 to facilitate robust sales volume numbers post the festive season.

In the three-wheeler segment, BAL reported a 23% Y/Y growth. On the export front,

the company reported its highest-ever sales of 75,164 units (two- & three-wheeler). This month, BAL is looking to further increase its exports sales volume.

Due to robust performance of Discover 100, revival in the three-wheeler segment and export market, and new launches slated post the festive season, we are increasing our sales volume estimate for FY10E from 2.24 mn to 2.45 mn and for FY11E from 2.47 mn to 2.73mn. Accordingly, we are increasing our revenues estimates upwards by 8.9% and 9.8% to Rs103,066 mn and Rs115,039 mn for FY10E and FY11E, respectively. Due to

rise in volume estimates, we are increasing our EBITDA margin by 75 bps for FY10E and FY11E to 17.4% and 16.4%, respectively. We are raising our adjusted net profit estimates from Rs10,569 mn to Rs12,082 mn for FY10E and from Rs11,457 mn to Rs13,087 mn for FY11E. Our revised EPS estimates stands at Rs83.5 for FY10E and Rs90.5 for FY11E. Due to better volume growth and higher expected earnings, we are increasing our target price on the stock from Rs950 to Rs1,358 (15x FY11E EPS of Rs90.5) and changing our rating on the stock from 'Underperformer' to 'Market Performer'.

Bajaj Auto - Standalone		Y/E March (Rs Mn)	FY07	FY08	FY09	FY10E	FY11E
Reuters/ Bloomberg code	BAJA.BO/BJAUT IN	Net Sales	98,771	89,757	88,435	1,03,066	1,15,039
Market cap. (Rsbn)	184	EBITDA	17,759	12,294	12,385	17,939	18,921
Market cap. (US\$mn)	3,765	Reported Net Profit	12,371	7,558	6,545	10,863	13,087
Shares outstanding (mn)	145	Adjusted Net Profit	12,702	8,240	7,777	12,082	13,087
52-week High/Low (Rs)	1211/262	Adjusted EPS (Rs)	125.5	56.9	53.8	83.5	90.5
		EPS growth (%)	13	(54.6)	(5.6)	55.4	8.3
		EBITDA Margin (%)	18	13.7	14	17.4	16.4
		PER (x)	10.4	24.4	28.2	17	14.1
		EV/EBITDA (x)	4.8	15	15.2	10.2	9.3
Major shareholders (%)		Price/Sales (x)	1.3	2.1	2.1	1.8	1.6
Promoter	49.6	Price/BV (x)	2.3	11.6	10.9	7	5.1
FII's	13.8	Dividend Yield (%)	3.1	1.6	1.7	1.6	1.6
Banks/FI's/MF's	9.9	RoCE (%)	26.3	41.3	35.4	44.8	39.2
Others and Public	26.6	RoE (%)	24.7	51.9	47.5	56.1	42.2

Source: Company & KSBL Research

Market pulse

Bulk Deals

Company	Wt. Avg. Price (Rs.)	Traded Qty	Acquirer/Seller
Buy			
Lakshmi Energy and Foods	129.95	600000	Credit Suisse (Singapore) Ltd A/c
Geodesic Limited	148.44	500000	Indea Long Term Opp Master Fund
Sell			
Prajay Engineers	36.70	268698	ABN AMRO Bank
Federal Bank	229.03	1346520	Morgan Stanley Mauritius Co. Ltd.

Top Gainers (Weekly)

Company	11-Sep	04-Sep	%Change
Hindalco	124.40	105.20	18.25
ICICI Bank	835.15	743.90	12.27
Sterlite	746.20	670.05	11.36
Tata Steel	469.00	430.25	9.01
SBI	1920.50	1762.45	8.97
Tata Motors	550.30	508.30	8.26
Reliance	2140.85	1981.15	8.06
RPL	131.30	122.75	6.97
TCS	560.35	531.90	5.35
Ranbaxy	338.40	321.55	5.24

Top Losers (Weekly)

Company	11-Sep	04-Sep	%Change
HUL	256.10	273.05	-6.21
M&M	821.30	867.45	-5.32
Maruti	1468.60	1546.60	-5.04
Idea Cellular	76.85	80.50	-4.53
Suzlon	95.80	100.15	-4.34
DLF	398.55	414.50	-3.85
Tata Comm	478.05	495.65	-3.55
Hero Honda	1567.35	1610.90	-2.70
ITC	227.10	233.25	-2.64
ACC	773.60	792.75	-2.42

FII Invt (Rs.cr)

MF (Rs.cr)

Date	Purchases	Sales	Purchases	Sales
4-Sep-09	1912.20	1853.30	599.70	593.30
7-Sep-09	2208.30	2265.10	1019.90	680.30
8-Sep-09	2952.80	1902.80	1069.40	1021.60
9-Sep-09	3929.30	2754.80	710.10	951.20
10-Sep-09	3101.40	2854.00	-	-
Total	14104.00	11630.00	3399.10	3246.40

Corporate Actions

Company	Date	Purpose
Electrosteel Castings	15-Sep-09	Issue of Securities
Solar Industries	17-Sep-09	Postal Ballot
Gujarat NRE Coke	19-Sep-09	Bonus
Ballarpur Industries	21-Sep-09	Audited Acc & Dividend

(Compiled by Krishnaveni M)

Alembic (Rs50)

Domestic formulations back on track:

The rewards of restructuring have finally paid off with Alembic reporting a revenue of Rs1,374 mn in Q1 FY10. The company has been ranked the fastest-growing company for the last four months by ORG-MARG. New products, brand building, and increasing prescription base have enhanced the market share of the company from 1.72% last year to 1.87% in March 2009. The company has recorded the highest growth of 40% in prescriptions among gastroenterologists, followed by a 30% growth from orthopaedic surgeons and a 21% growth from consulting physicians. We expect Alembic to clock revenues of Rs7,000 mn for FY10E and Rs8,090 mn for FY11E.

US business to be the fulcrum of export formulations growth:

The company's export formulations segment is expected to grow from Rs720 mn to Rs 1400 mn in FY10E, mainly on the back of seven approved ANDAs and five additional ANDAs expected in the foreseeable future. Alembic has a contract manufacturing as well as a partnership model. With new approvals from the latter model, the scale-up and margins are expected to be better. The company's revenues in the export formulations segment is expected to scale-up from Rs1,200 mn to Rs1,801 mn in FY10E and Rs2,274 mn in FY11E.

API business on track: The domestic API business was facing problems in major part of the year due to fall in Pen G prices to US\$7-8. Efficiencies in production and positive news on the price front could aid margin growth. The company's contract manufacturing services to a US innovator company for macrolides is on track.

Rollover price target to FY11E: Due to lower margins on account of Pen G and lower secondary sales in domestic formulations, we reduce our FY10 estimates by 25% to Rs 4.4 and incorporate our initial FY11E earnings estimates to Rs7.2. Our EPS estimates include write-offs of Rs177 mn on account of the Dabur acquisition for FY10E and FY11E. The stock is currently quoting at 11.3x FY10E and 7x FY11E. We roll over our price target to FY11E on 8.5x FY 11E and revise our price target by 27% to Rs 61. We maintain our Outperformer rating on the stock.

PVR (Rs132)

PVR is looking at inorganic growth. According to various media reports, PVR is looking to acquire DT Cinemas (the multiplex business of DLF) and is one of the leading suitors. DT cinemas has a total of 26 screens across 5 locations in NCR (national capital region) and one in Chandigarh, primarily located at DLF malls. The two companies are reported to have discussed various options, including a merger or a complete acquisition. According to industry sources, there is a possibility of a no-cash deal, with DLF retaining some stake in the merged entity.

Currently, DLF is aiming at reducing its debt, focusing on its high-margin core business and exiting its non-core assets. Moreover, the last six months have been tough for the multiplex operators with low occupancies and low content wherein some of them witnessed difficulty in meeting their fixed expenses like salaries, property rentals and other maintenance costs. We believe that the above-mentioned factors, along with PVR being the market leader in NCR, will enable the company to get a good deal. We spoke to the management of both companies on this issue, but they refused to comment on the same.

Since the deal is still in the negotiation stage and nothing concrete has been decided, we have not attached any monetary value accruing to PVR. However, if PVR clinches the deal, it will enhance its dominance in north India, especially NCR. PVR currently operates 44 screens in NCR out of its total 108 screens across 26 cities in the country. Post-acquisition (if it happens), PVR will have 70 operational screens in NCR, with total number of screens rising to 134 instantly. This will be a major boost to the expansion plans and the topline of the company at a time when property expansion of various multiplex operators have been delayed due to the slowdown in construction of many retail real estate projects.

We are maintaining our earlier price target of Rs137 on PVR, which is 12x FY11E earnings. However, the stock has run-up since our last update and we change the rating on the stock from 'Outperformer' to 'Market Performer'.

- Equity Research Desk

Mutual fund performance

Equity diversified

Scheme name	NAV	1 Year	2 Year	3 Year
IDFC Premier Equity - A (G)	22.40	18.20	23.60	104.70
Reliance RSF - Equity (G)	24.43	21.90	34.40	85.00
ICICI Pru Infrastructure (G)	26.90	10.90	14.90	77.90
DBS Chola Opportunities (G)	37.73	13.20	15.00	76.60
Sahara Infrastructure-VPO (G)	16.44	33.10	18.30	76.10
Tata Equity P/E Fund (G)	37.44	23.20	16.30	74.30
Baroda Pioneer Growth (G)	45.71	25.90	26.60	73.50
Sundaram S.M.I.L.E Fund -RP (G)	27.88	31.40	29.30	72.40
Reliance Growth Fund - RP (G)	375.56	19.70	17.30	72.40
Sahara Infrastructure-FPO (G)	16.05	32.10	16.60	72.40

ELSS

Scheme name	NAV	1 Year	2 Year	3 Year
Can Robeco Eqty TaxSaver (G)	19.70	40.20	22.90	86.50
Taurus Tax Shield (G)	29.08	19.60	35.40	83.50
Sundaram Tax Saver (G)	38.81	24.00	23.50	72.30
Sahara Taxgain (G)	29.88	32.10	25.00	63.70
Fidelity Tax Advantage (G)	16.05	18.00	7.90	55.00
Principal Personal Tax Saver	80.84	2.60	-11.20	51.50
SBI Magnum Tax Gain (G)	51.44	14.50	0.80	43.80
Franklin India Tax Shield (G)	157.93	16.90	8.00	41.40
HDFC Tax Saver (G)	171.56	20.40	4.90	37.30
Tata Tax Advantage Fund-1(G)	12.78	15.60	8.80	36.10

Balanced

Scheme name	NAV	1 Year	2 Year	3 Year
Principal Child Benefit - CBP	76.51	7.80	11.70	72.60
Birla Sun Life 95 Fund (G)	246.71	29.20	15.00	62.00
Reliance RSF - Balanced (G)	17.53	33.30	30.80	59.00
DSP-BR Balanced Fund (G)	53.26	17.70	18.20	57.70
Tata Balanced Fund (G)	65.52	20.80	11.40	54.00
HDFC Prudence Fund (G)	151.89	24.70	15.90	52.80
FT India Balanced Fund (G)	41.47	15.60	9.80	43.70
SBI Magnum Balanced Fund (G)	43.94	18.20	9.50	43.20
Sundaram Balanced - RP (G)	40.76	16.60	10.20	42.70
Can Robeco Balance (G)	49.12	24.20	16.10	39.80

MIP

Scheme name	NAV	1 Year	2 Year	3 Year
Reliance MIP (G)	18.76	27.00	33.80	43.10
HDFC MIP - LTP (G)	19.67	22.50	24.10	40.60
Birla SL Monthly Income-A (G)	32.48	18.10	19.10	35.80
Birla SL MIP II-Wealth 25 (G)	15.97	18.10	11.00	24.40
UTI MIS - Advantage Plan (G)	18.02	17.90	20.90	36.20
HSBC MIP - Savings Plan (G)	17.33	17.70	20.30	38.60
Birla Sun Life MIP-A (G)	23.65	17.10	14.20	29.10
ICICI Pru MIP (G)	23.22	15.20	17.20	28.40
HSBC MIP - Regular Plan (G)	15.67	15.00	18.90	32.50
Principal MIP - MIP Plus (G)	17.23	14.70	25.30	41.90

Debt (long-term)

Scheme name	NAV	1 year	2 year	3 year
ICICI Pru Gilt Inv Plan - PF	17.87	29.50	44.60	57.00
Birla Sun Life GSec - LTF (G)	24.97	23.20	23.10	29.40
JM G-Sec Fund (RP) (G)	28.92	22.50	34.20	39.10
ICICI Pru Gilt (IP) (G)	30.92	21.50	31.80	43.60
ICICI Pru Income (G)	29.33	21.40	30.60	39.60
DSP-BR Govt. Securities (G)	30.82	18.90	28.80	35.00
ICICI Pru Gilt (TP) (G)	23.60	17.50	26.10	34.30
DWS Premier Bond - RP (G)	14.85	16.80	20.10	24.80
Escorts Gilt Fund (G)	19.79	16.80	31.00	36.40
Templeton (I) G-Sec - LTP (G)	22.10	16.80	30.30	37.80

Debt (short-term)

Scheme name	NAV	3 mnts	6 mnts	1 year
ICICI Pru Income Opp. - RP (G)	12.42	1.00	8.10	23.70
Can Robeco Income (G)	19.11	1.20	6.50	19.30
Fortis Flexi Debt Fund -RP (G)	15.50	1.30	8.50	17.90
ING Gilt - Regular (G)	15.53	-0.40	7.30	17.70
Kotak Bond (Regular) (G)	25.40	0.20	5.30	16.50
Kotak Bond (Deposit) (G)	23.67	0.20	5.40	16.40
IDFC Dynamic Bond - RP A (G)	17.89	-0.70	5.60	15.90
JM Short Term Plan (G)	17.46	1.00	3.10	15.40
ICICI Pru Short Term Plan (G)	18.43	1.00	4.10	15.00
Sahara Income Fund (G)	17.19	2.10	4.80	14.20

Source: moneycontrol.com; Note: All NAV as of September 10, 2009, all returns are expressed in percentage terms.

(Compiled by Amit Chopra)

Commodities review

Precious metals review

Bullion: Last week, although gold prices touched a high of US\$1,008 per troy ounce on September 8, 2009—its highest level since March 2008. The W/W gain on bullion was 0.9%. The weakness in the US dollar against major currencies caused the rally in gold prices. The dollar index declined to 76.68 levels, the lowest level since October last year. The US dollar is depreciating on concerns regarding the widening trade deficit and the resultant borrowings. The holdings of the SPDR Gold Trust remained unchanged for the week and currently stand at 1,077.63 metric tonne (MT).

Despite touching the weekly low of US\$982 due to profit-booking, gold prices have been well-supported from a weakening dollar, demand from China and inflation concerns. The US government intends to carry out huge borrowings to finance its widening trade deficit and spur the economy. This will further depreciate the dollar and provide momentum to gold prices.

Energy review

Crude oil: Crude oil opened on a mild note last week and traded around US\$68 per barrel. It had been trading at this level since the beginning of the month. However, prices rose as the week progressed when the dollar index fell to the lowest level this year. The gain was also attributed to OPEC's decision to keep its output unchanged at 24.845 million barrels a day. The decision was in line with market expectations which resulted in a surge

in prices to the tune of US\$3 on Tuesday. The OPEC kept the output level unchanged in all three meetings this year. According to a Bloomberg survey, the OPEC members pumped 26.055 million barrels a day in August which indicates a quota compliance of around 71%. The group, which supplies around 40% of the world's oil, took a decision between September and December last year to cut its output by 4.2 million barrels a day. Meanwhile, according to the DOE, crude oil inventories fell by 5.906 million barrels while gasoline and distillate inventories rose by 2.608 million barrels and 1.993 million barrels, respectively. The total products supplied over the last four-week period averaged 19.5 million barrels per day, up 2% compared to the same period last year. According to the IEA, the world's oil consumption is likely to rise 1.3% next year, to 85.7 million barrels a day, due to Chinese demand and stronger-than-expected oil use in the US. The NYMEX crude oil traded in the range of US\$67.5-72.5 per barrel last week.

Prices are expected to trade lower this week as the end of the driving season signifies a fall in gasoline demand. Hence, refineries will shut down for maintenance in September and October, before the demand for heating oil begins in the winter season. However, economic indicators to be released during the week and an expected downtrend in the dollar should have a positive impact on prices.

Base metals review

The base metals complex was in a consolidation phase last week, amid lack of economic data releases and falling equity markets. The price

movement was guided more by technical reasons than fundamental ones. Although metal prices fell as they were in an overbought zone, the downside remained limited due to a dwindling dollar. Lead lost 8.24% last week after rising more than 20% in the previous 10 sessions. Concerns regarding increase in China's refined lead surplus in 2010 impacted the prices, despite a wave of smelter shutdowns following lead poisoning incidents. Among other metals, copper and aluminum gained 0.30% and 0.22%, respectively, while nickel and zinc lost 2.27% and 0.26%, respectively. According to the LME inventory report, copper added 9,375 tonnes while aluminum shed 13,750 tonnes. Investors feel that the lack of demand from the major consuming nations is keeping the inventory levels high despite a recent recovery in metal prices. This week, a host of economic data releases from both the US and the Euro-Zone are expected to be better than previous levels. Metals prices are likely to trade sideways with negative bias as investors are cautious due to the recent fall. However, a subdued dollar would be a limiting factor for the prices.



- Commodities Research Desk

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Direct Taxes Code

The Direct Taxes Code (DTC) Bill, 2009, was released on August 12, 2009 and, if enacted, the DTC will come into force from April 1, 2011. The DTC appears to broadly retain the scheme of the existing Income Tax Law (ITL), but, under a modified structure which intends to bring simplicity, flexibility and stability to the taxation system and also strives to reduce the scope for ambiguity and litigation.

Taxation of companies

- Companies will be taxed at a flat rate of 25% as against the current tax rate of 30% (excluding surcharge and cess).
- The DTC seeks to significantly alter the basis for levy of MAT on companies. Under the ITL, MAT is payable at the rate of 15% (excluding surcharge and cess) on the 'book profit' of the company, subject to specified adjustments if the normal tax liability of the company is lower than MAT. The MAT liability will now be based on the 'gross assets' of the company instead of the 'book profit'. The MAT will be computed on the value of 'gross assets' at 0.25% in the case of banking companies and at 2% in the case of all other companies. No tax credit will be allowed in respect of such MAT liability.

Scope of total income

- The DTC seeks to modify the test for determining the residence of a company by providing that the existence of partial control and management would result in residence in India.
- The principles relating to source of income are also proposed to be modified to cover income arising from indirect transfer of capital asset situated in India, as deemed to accrue or arise in India and also to clarify that rendering of services in India is not essential for taxing service income.
- The DTC seeks to replace the present dual concept of 'previous year' and 'assessment year' with the unified concept of 'financial year'.

Computation of total income

- The DTC seeks to classify incomes into two categories, viz., 'special sources' and 'ordinary sources'. The special sources (specified in a separate Schedule) generally reflect items like royalty, fees for technical services (FTS), investment income, etc. All other sources of income will be ordinary sources. Special sources would be subject to tax on the gross amount.
- The total income of the taxpayer for a financial year will be the aggregate of 'Total income from ordinary sources' and 'Total income from special sources'.

Computation of income from employment

- The DTC proposes to introduce Exempt-Exempt-Taxation (EET) method of taxation of contribution made towards certain retirement benefits. Under this, contributions and annual accumulations into the fund are not taxed, but withdrawal from the fund is taxed.

Computation of income from house property

- The deductions with respect to property taxes, standard deduction towards repairs and maintenance (reduced from 30% of annual value allowed under the ITL to 20% of gross rent under the DTC) and interest expenditure will be allowed from the gross rent. However,

no deduction for interest expenditure will be permitted with respect to self-occupied property.

Computation of income from business

An important change proposed by the DTC under this head of income is that every business will constitute a separate source of income, necessitating separate computation of income for each business.

Computation of capital gains

- The present distinction between short-term investment and long-term investment asset, on the basis of its holding period, will be eliminated, except that, for assets transferred after a year of holding, the indexation benefit will be available in the computation of capital gains.
- Like business losses, capital losses will also be allowed to be carried forward for an indefinite period.
- The Securities Transaction Tax (STT) will be abolished and, consequently, exemption presently enjoyed on long-term capital gains derived from transfer from equity shares and units of equity-oriented mutual funds will no longer be available.
- The base date for determining cost of acquisition under the ITL, i.e., April 1, 1981 will be shifted to April 1, 2000. As a result, appreciation in value of the asset until April 1, 2000 will not be liable to tax.

Tax incentives

- The DTC seeks to replace profit-based tax holiday incentives with investment-based incentives. The taxpayer will be allowed to recover all capital and revenue expenditure (except land, goodwill and financial instrument). The period consumed in recovering all capital and revenue expenditure will be the period of tax holiday.

Business reorganization

- The DTC recognizes that business reorganizations should ordinarily be tax neutral.
- Similar provisions in the ITL for ensuring tax neutrality of business reorganizations, in the form of amalgamation, demerger, and corporatization of firms / proprietary concerns, to continue in the DTC.
- The successor entity will be entitled to the benefit of accumulated losses of the predecessors upon fulfillment of certain conditions.

Anti-abuse provisions

Transfer pricing

- The Central government will be empowered to formulate a scheme to introduce Advance Pricing Agreement (APA) with taxpayers, in relation to International Transactions (ITS).
- Under the DTC, a taxpayer will need to report specified ITS directly to the Transfer Pricing Officer (TPO) as against the current practice of reporting to the Assessing Officer (AO). The TPO will determine Arm's Length Price based on which the AO will assess the income of the taxpayer.
- The DTC also proposes to widen the scope of the definition of 'associated enterprises' by fixing the threshold at 10% holding as against 26% under the ITL.

SPECIAL FEATURE

General anti-avoidance rule (GAAR)

- The DTC proposes to introduce GAAR to serve as a deterrent against tax evasion and avoidance and to dissuade taxpayers from violating tax equity, by use of legal constructions or transactions.
- Commissioner of Income Tax (CIT) will be empowered to invoke GAAR and to declare an arrangement as an impermissible avoidance arrangement if it is entered into for obtaining a tax benefit like round-tripping, transaction through an intermediary, self-canceling transactions, etc.
- The onus will be on the taxpayer to prove that obtaining a tax benefit was not the main purpose of the avoidance arrangement.

Status	Rates as per ITL	Rates proposed by the DTC
Domestic Co.	30%	25%
Foreign Co.	40%	25%
Branch profit tax	Not applicable	15%
Firm	30%	30%
Wealth tax	1% for net wealth in excess of Rs3 million	0.25% for net wealth in excess of Rs500 million (no threshold for private discretionary trusts)
Individuals	Up to Rs1.6 L* - NIL	Up to Rs1.6 L* - NIL
	Rs1.6 - Rs3 L - 10%	Rs1.6 - Rs10 L - 10%
	Rs3 - Rs5 L - 20%	Rs10L - Rs25L - 20%
	Above Rs5 L - 30%	Above Rs25 L - 30%
* Rs1.9 L for women taxpayers and Rs2.4 L for senior citizens.		

Relief from double taxation

- Similar to the ITL, the Central government will be empowered to enter into a tax treaty for relief from double taxation and for exchange of information.
- Neither the DTC nor the tax treaty will have a preferential status and in case of a conflict between the two, the latter in point of time shall prevail.

Penalties

- The DTC proposes to elaborate, define and explain circumstances in which penalties can be levied. The basic condition for levy of penalty would be willful under-reporting of the tax base.
- Failure to file tax return by the due date and assessment of the tax base at an amount higher than the amount disclosed in the tax return, i.e., variances shall be presumed to be willful under-reporting of the tax base.

Tax on net wealth

- The DTC seeks to provide for levy of wealth tax on high net-worth entities, viz., individuals, Hindu Undivided Families and private discretionary trusts. Companies are proposed to be excluded from the scope of taxable entities. As against the present threshold limit of INR 3 million, the DTC seeks to increase the threshold to INR 500 million. Further, the rate of wealth tax would be reduced from the current rate of 1% to 0.25% on the net wealth exceeding the threshold.

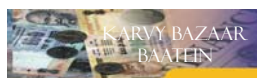
- Karan Bhalla

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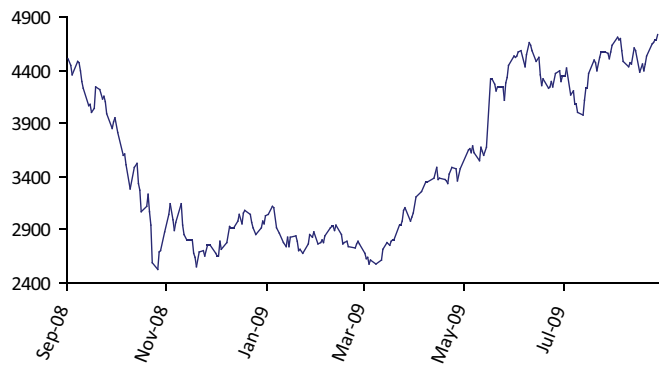
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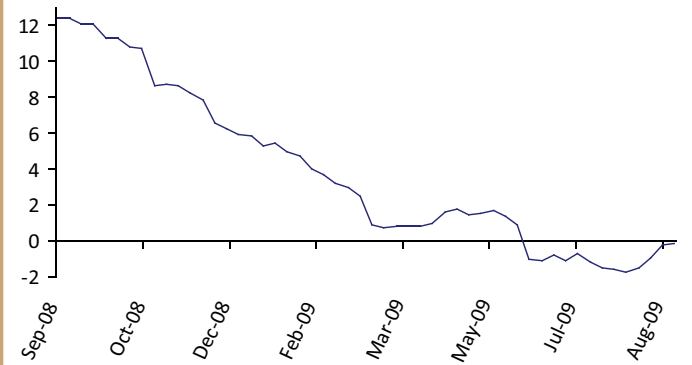


MARKET DATA

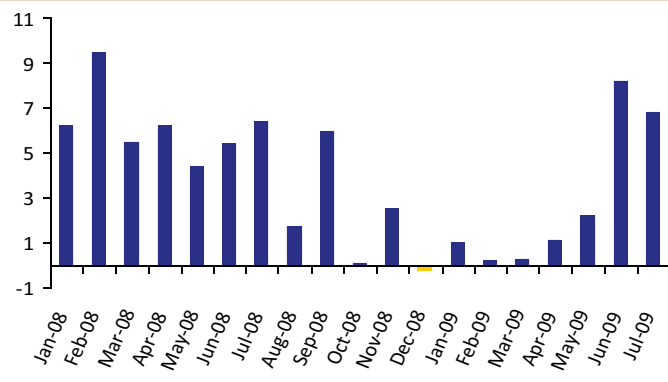
Nifty movement



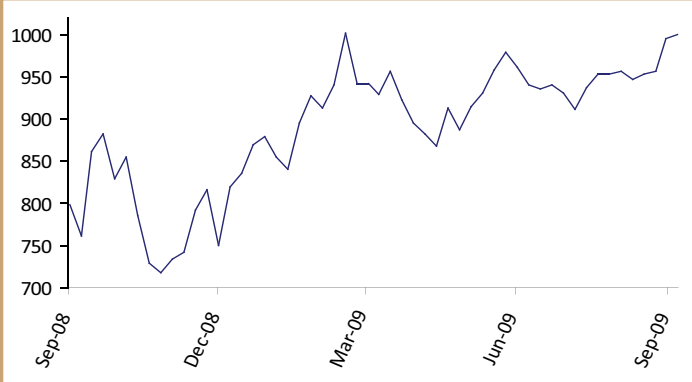
Inflation is at -0.12%



Index of Industrial Production (%)



Gold (US\$/oz)



Global indices: Weekly performance

	Close (Sep 11)	Close (Sep 04)	Weekly (%)	6M (%)	12M (%)	PE Ratio
ASIA						
Hang Seng	21161.42	20318.62	4.15	77.37	9.14	22.41
STI	2681.03	2622.69	2.22	78.08	5.50	20.82
S. Korea	1651.70	1608.90	2.66	46.49	14.44	31.67
Nikkei 225	10444.33	10187.11	2.52	41.60	-13.70	-
AMERICA (closing as on Sep 10)						
Dow Jones	9627.48	9441.27	1.97	38.92	-15.80	13.83
S&P 500	1044.14	1016.40	2.73	44.75	-16.41	19.28
NASDAQ	2084.02	2018.78	3.23	51.94	-7.71	33.41
Brazil Bovespa	58535.79	56652.28	3.32	50.85	14.17	24.47
EUROPE (closing as on Sep 10)						
FTSE-100	4987.68	4851.70	2.80	36.01	-5.54	76.08
DAX 30	5594.77	5384.43	3.91	43.85	-8.88	48.03
CAC 40	3705.87	3598.76	2.98	39.80	-12.02	14.69

Source: Bloomberg

Domestic indices: Weekly performance

	Close (Sep 11)	Close (Sep 04)	Weekly (%)	6M (%)	12M (%)	PE Ratio
Sensex	16264.30	15689.12	3.67	99.31	13.54	19.58
Nifty	4829.55	4680.40	3.19	87.69	12.57	19.72
BSE 500	6206.13	6045.02	2.67	108.05	12.04	19.60
BSE Auto	6030.39	6079.27	-0.80	132.01	52.23	42.26
BSE Bankex	8911.44	8345.34	6.78	145.28	23.59	14.16
BSE Capital Goods	13271.55	12989.09	2.17	143.36	11.14	32.60
BSE Consumer Durables	3374.24	3289.82	2.57	129.30	-6.85	11.36
BSE FMCG	2511.95	2589.17	-2.98	39.35	13.59	24.56
BSE Healthcare	3932.34	3860.39	1.86	56.12	-5.98	43.23
BSE IT	4368.73	4272.54	2.25	115.71	9.48	20.68
BSE Oil & Gas	10235.43	9782.17	4.63	81.68	9.59	17.61
BSE Metal	13458.91	12496.06	7.71	203.19	22.45	14.94
BSE Realty	4246.78	4297.49	-1.18	225.77	-12.90	19.75
BSE PSU	8575.35	8310.21	3.19	83.41	27.22	16.21
BSE Power	2962.95	2933.41	1.01	83.45	15.00	29.89
BSE Tech	3152.30	3086.80	2.12	92.74	3.51	20.17

(Compiled by Amit Chopra)

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