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NSE
52 Wk H/L : 5003.05/2252.75
Mcap : Rs52,86,423 cr.

BSE
52 Wk H/L : 16820.02/7697.39

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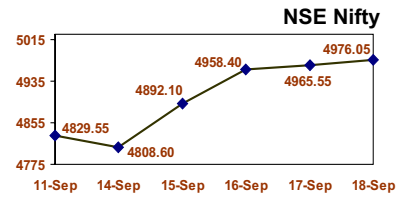
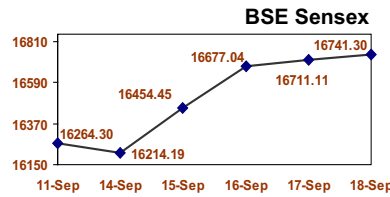
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by **S. Gopichand** on behalf of Karvy Stock Broking Limited.

Editor: **S. Gopichand**

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Markets remain buoyant...

Key stock markets worldwide continued to move northwards, led by a stream of positive economic data released from the US throughout last week. The performance of Indian stock markets was further triggered by the good advance tax numbers that drove stock prices higher on hopes that many of these firms may report better-than-expected second-quarter numbers.

Last week, inflation moved into positive territory for the first time in three months. Meanwhile, recent comments by the RBI Governor indicate that the central bank's accommodative monetary will continue until the economy is on a firm footing despite lurking inflationary fears from spiralling food prices and rainfall deficiency. Both the Sensex and the Nifty rose around 3% over the week. Moreover, the Nifty touched the 5000 level for the first time this year.

The economic data emanating from the US continued to be encouraging last week. One such data was the rise in US household wealth in the second quarter of 2009, raising hopes among global investors of increased spending in the world's largest consuming nation. However, surveys have indicated that restoration of Americans' spending power will take longer considering that many are either trying to save or pay off their existing debts. Meanwhile, the accommodative monetary policy stance globally has ensured a wave of liquidity into superior emerging growth market stories like China, India and Brazil.

Last week, the momentum in the domestic indices was driven by auto and metals stocks. This week, the Nifty is likely to trade in a volatile range of 4850-5100 levels, ahead of the expiry of the September-series derivative contracts. So far, market players expecting a correction have had to contend with rising markets, but investors are advised to remain cautious. Buying is expected in BFSI, construction, cement and automobiles while telecom, energy and metals are likely to witness selling pressure at higher levels.

KBB weekly recommendations for the week beginning 21st Sep.

Scrip	Action	CMP	Entry	Stop Loss	Target	Time Frame
Maruti	Buy	1639.30	1630-1640	1600	1715-1720	5-6 Days
M&M	Buy	885.90	880-885	868	920-925	5-6 Days
Jet Airways	Buy	319.80	310-315	300	360-365	5-6 Days
Welspun	Buy	270.45	265-270	258	288-290	5-6 Days
Bharti Airtel	Buy	442.95	440-443	435	460-462	5-6 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
ICICI Bank	Buy	828-834	812.00	888-890	300	3,056.13	1.23%	CMP
Wipro	Buy	547-550	538.00	575-578	-	-	-	NI
Sesa Goa	Buy	Above 245	237.00	260-262	1012	15,182.01	6.10%	TA
Tata Steel	Buy	457-460	445.00	495-500	-	-	-	NI
Vijaya Bank	Buy	45-46	42.00	53-55	5472	2,462.49	0.99%	CMP
Total						20,700.63		
Balance on inception (26-Jan-09)		Balance last week (11-Sep-09)		Balance current week (18-Sep-09)		Abs. returns WoW (%)		Abs. returns since Jan 26, 2009(%)
	5,00,000	7,31,579		7,52,280		2.83		50.46

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

Fundamental view

Coal will be key to India's power ambitions...

In the 11th Five-Year Plan (FY08 - FY12), the government set an ambitious target to add 78,700 megawatt (MW) of power by FY12. Currently, it is expected that there will be significant slippages (20-50%) in this capacity addition due to problems in financial closures and inadequacies in execution, such as lack of construction machinery, delays in land acquisition, lack of skilled power, etc. Within the target for the 11th Five-Year Plan, there is a plan for addition of 52,850 MW of coal-based thermal power. We have analyzed the coal-based thermal power addition scenario from the perspective of fuel supply and assumed a blue-sky scenario on implementation schedules and financial closures. Based on our calculations, we believe that even if planned capacities are completed on time, a shortage of coal supply will limit the actual power production to 64% of the incremental planned capacity of coal-based power in the 11th Plan. This shortfall will have far-reaching implications on economic growth, merchant power tariffs, and also on end-consumers in the country. Companies with weak linkages will see increasing problems in production and capacity outages, and, therefore, merchant power tariffs would continue to remain high for a sustained period of time.

Planned addition in eleventh five year plan	In MW
Hydro	15,627
Coal	50,570
Lignite	2,280
Gas	6,843
Total Thermal	59,693
Nuclear	3,380
Total	78,700

Source: Central Electricity Authority (CEA)

The power sector (which consumes ~68% of the domestic coal supply in India) continues to report generation losses due to coal shortages, given that 52% of the current installed capacity is fuelled by coal. Looking at the 11th Five-Year Plan targets for capacity addition in power, the coal demand from the power generation sector is expected to increase significantly by FY11-12. Taking a Plant Load Factor (PLF) of 80% on incremental capacity, we expect the incremental demand for coal to be 254 million tonnes (MT) in the 11th Five-Year Plan. We believe that demand for coal in FY11-12 will far outstrip supply

and expect a shortage in coal supply (after taking imports into account) of ~90 MT in FY11-12, which is approximately 36% of the incremental demand for coal for power generation in the 11th Five-Year Plan. This can have far-reaching implications on the country's power augmentation plans.

Eleventh Five-year plan (FY 2008-FY 2012)	
Incremental coal based power planned	52,850 MW
Assumed plant load factor (PLF)	80.0%
Incremental coal demand	254 MT

Source: CEA, KSBL research estimates

On the coal supply side, the domestic coal production is expected to reach 675 MT in FY12 (last year of the 11th Five-Year Plan). Coal India Limited (CIL) has a production target of 520 MT, Singareni Collieries is expected to produce 55 MT, and the captive mines are expected to achieve a production of ~100 MT. In the last three years (as per the Ministry of Power), 68-70% of the domestically produced coal has been consumed by the power sector with the other major sectors being steel and cement. We expect the power sector to continue consuming a similar proportion of the domestically produced coal, as a similar ramp-up in capacities is expected in the other important consuming sectors. Based on our calculations, the domestically produced coal available to the power generation firms in FY11-12 will be 459 MT.

Coal supply scenario for power for FY2011-12 MT (Mn Tonnes)	
CIL's production target	520
Singareni Collieries	55
Captive and others	100
Expected coal production in FY 2012	675
Allocation for power sector	68%
Total domestic coal supply available for power generation	459

Source: KSBL research estimates

If all planned addition in the coal-based power generation capacity is achieved in the 11th Five-Year Plan, then India's capacity for the same will be 123,971 MW in end-FY12. According to the CEA, the average PLF at the national level has shown steady improvement over the years and was around 77-79% in the last three years. However, many power plants across the country have consistently shown PLFs of 90% and above. Taking an average PLF of 80% in FY12, due to more efficient capacity coming online, the actual generation will be 99,177 MW. The coal required to produce this power will be

~595 MT, assuming that 6,000 tonnes of coal is required to produce 1 MW of power. Therefore, the domestic coal deficit in FY12 is expected to be 136 MT.

According to various government authorities, coal will be imported to fill in any supply gaps. However, we believe that coal imports will be limited to the cargo-handling capacity at Indian ports and rail linkages from ports to plant heads. As per the Ministry of Shipping, the cargo forecast for coal in FY11-12 is 127 MT. Assuming that these ports are able to achieve 90% of the coal cargo forecast in FY11-12 (even though the port-handling facilities are stretched as of now) and 40% of this coal is diverted to power generation, the coal imports for power will be ~46 million tonnes in FY11-12, a CAGR of 41% over coal imports in FY08-09 (16 million tonnes). Consequently, the total supply of coal for power generation in FY11-12 is expected to be 505 MT, implying a shortage of 90 MT.

Coal production in India

Coal India limited (CIL) produces over 80% of the coal produced in India. In fact, the state-owned companies, such as CIL, Singareni Collieries Co. Ltd. (SCCL) (which is the oldest state-owned mining company, jointly managed by the Andhra Pradesh government and the central government) and Neyveli Lignite Corp. (NLC) account for over 90% of the coal produced in India today, implying that coal mining in India is primarily nationalized. Private players are allowed captive production of coal for power generation, steel and cement production and other industrial processes.

Coal imports

Indian coal imports have been on the rise over the last 5-6 years due to consistent shortage in domestic production. Coal imports (excluding coke) showed a CAGR of 22.6% from 22 million tonnes in FY03-04 to 60 million tonnes in FY08-09. Interestingly, non-coking coal imports have shown a CAGR of ~30.6% during the same period. Traditionally, coal imports have comprised mainly coking coal due to the poor quality of domestic coal that contains high ash content. However, since FY05-06, non-coking coal imports, primarily used in power generation, have gained a larger share in the total coal imports of the country, indicating the rising shortage of domestic coal for power generation purposes. Recently, the central government

Market pulse

Bulk Deals

Company	Wt. Avg. Price (Rs.)	Traded Qty	Acquirer/Seller
Buy			
Sundaram Finance	305.00	568000	Reliance MF
Dhunseri Tea & Industries	166.50	120214	Universal Ind. Fund
Prem Explosi	68.46	50000	Wealth Bridge Cap Advisors P Ltd
Spicejet	34.41	3680000	Citigroup Global Markets Mauritius

Top Gainers (Weekly)

Company	18-Sep	11-Sep	%Change
SBI	2147.80	1920.50	11.84
Maruti	1639.30	1468.60	11.62
Hindalco	138.25	124.40	11.13
Tata Steel	517.85	469.00	10.42
ACC	845.35	773.60	9.27
Tata Motors	599.90	550.30	9.01
HCL Tech	339.05	312.90	8.36
PNB	765.35	706.50	8.33
M&M	885.90	821.30	7.87
DLF	428.60	398.55	7.54

Top Losers (Weekly)

Company	18-Sep	11-Sep	%Change
BPCL	543.70	559.50	-2.82
Cipla	259.05	265.10	-2.28
Reliance	2102.55	2140.85	-1.79
ONGC	1163.65	1176.75	-1.11
Sun Pharma	1196.60	1207.65	-0.92
RPL	130.55	131.30	-0.57
Power Grid	107.85	108.20	-0.32
Idea Cellular	76.75	76.85	-0.13
ITC	226.90	227.10	-0.09
Gail	351.20	350.15	0.30

FII Invt (Rs.cr)

MF (Rs.cr)

Date	Purchases	Sales	Purchases	Sales
11-Sep-09	2998.50	2423.60	519.90	952.00
14-Sep-09	2660.80	2330.20	599.60	796.70
15-Sep-09	1863.10	1601.00	822.60	724.50
16-Sep-09	2911.20	2025.10	1025.20	1015.30
17-Sep-09	3608.90	2435.00	1093.80	992.10
Total	14042.50	10814.90	4061.10	4480.60

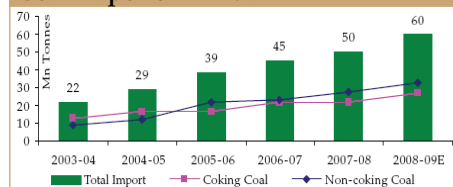
Corporate Actions

Company	Date	Purpose
Gwalior Chemical	23-Sep-09	Dividend/Buyback
Pantaloan	26-Sep-09	Audited Financial Results/Dividend/Others
Eastern Sug & Inds	29-Sep-09	Notice of Board Meeting
C&C Constructions	30-Sep-09	Audited financial results Dividend
Ballarpur Industries	21-Sep-09	Audited Accounts and Dividend

(Compiled by Krishnaveni M)

increased its coal import target for FY09-10 to meet the growing requirements of the power generating companies in the country. In fact, CIL plans to import 4 MT of non-coking coal in FY09-10 for the first time since its inception and has set up an import cell for the same.

Coal Imports in India



Source: Ministry of Coal, GOI * excluding coke imports

Conclusion

We believe that coal-based thermal power will continue to be the mainstay of power generation in India, and, therefore, the country will remain heavily dependent on coal supply to achieve its projected power generation targets and meet the rising demand. Based on our analysis, we believe that India will face a shortage of coal supply for use in power generation and hence the addition in actual power generation will be limited to the availability of coal, assuming a blue-sky scenario for the execution of power projects and financial closure. We estimate that the incremental coal-based power production in the 11th Five Year Plan will be capped at 33,682 MW, implying a shortage of 36% on the planned incremental coal-based power of 52,850 MW. We believe that this shortfall will have far-reaching implications on end-consumers, merchant power tariffs and economic growth of India. Companies with strong coal linkages and high proportion of merchant power sales (as percentage of production) will stand to benefit due to sustained periods of high merchant power tariffs. As far as the domestic supply scene is concerned, we believe that coal shortage due to weak infrastructure linkages will add to the overall shortage but we have not included that in our estimates. On the imports front, we expect coal imports to rise in the next few years due to the supply shortfall of domestic coal and increase in coal blending at the thermal power stations. This will be made possible through the acquisition and collaboration with foreign coal mines in countries like Australia, Indonesia and Mozambique. However, we believe that coal imports will be limited to the cargo handling capacity at the Indian ports. Consequently, we estimate a shortage in coal supply of 90 MT in FY12.

Bajaj Hindusthan (Rs175)

Volume growth through raw sugar imports

We are revising our rating on Bajaj Hindusthan from Outperformer to BUY considering ~40% increase in volume growth from the recent contract (August 31, 2009) for raw sugar imports. The company has contracted to import raw sugar to the tune of 0.4 MMT in addition to 0.3 MMT contracted earlier on July 28, 2009 for refining during sugar season 2010 (October 2009 to September 2010). The average cost of raw sugar imported is ~US\$400 per MT free-on-board (fob) which translates into Rs22.8 per kg at Indian ports (Kandla). Sugar mills need multi-feed boilers or stand-alone refinery to convert raw sugar into white sugar during the off-season. Bajaj Hindusthan is in the process of making arrangements to modify its bagasse-fired boilers at three of its units to "bagasse/coal-fired boilers" by March 2010 to meet its additional power requirements in the off-season. The company is expected to produce 0.7 MMT of sugar from cane in sugar season 2010 compared to 0.64 MMT in the previous year. Consequently, including processing and refining of raw sugar, its sugar production during the forthcoming sugar season 2009-2010 is expected to be around 1.4 MMT.

We have increased our sugar production estimates by 29.2% from 1.05 MMT to 1.36 MMT and the sugar sales quantity by 27.6% from 0.98 MMT to 1.25 MMT in FY10. The company is currently getting ex-factory realization of Rs31 per kg for free sugar compared to our earlier estimate of Rs25.7 per kg. The sugar sale from imported raw sugar is exempted from the 10% levy sugar (sold at Rs13.5 per kg) obligation that is expected to improve the average realization of the company. We have revised average realization estimates from Rs24.5 per kg to Rs29.5 per kg. We now expect Bajaj Hindusthan to report revenue of Rs40.9 bn (earlier Rs28 bn) and profit of Rs3.69 bn (earlier Rs3.07 bn) in FY10 on account of higher volume and realization. We maintain our valuation based on average of 2x FY10E BV (i.e., Rs264 per share) and 11x FY10E earnings (i.e., Rs230 per share) to Rs228 per share (previous Rs246 per share). We are revising our rating from Outperformer to BUY.

- Equity Research Desk

Mutual fund performance

Equity diversified

Scheme name	NAV	1 Year	2 Year	3 Year
IDFC Premier Equity - A (G)	22.94	29.80	24.30	105.10
Reliance RSF - Equity (G)	25.08	35.30	34.40	81.50
Sahara Infrastructure-VPO (G)	16.82	46.00	19.40	74.50
Tata Equity P/E Fund (G)	38.54	34.70	17.80	74.20
Baroda Pioneer Growth (G)	47.30	40.10	29.80	74.00
ICICI Pru Infrastructure (G)	27.38	19.90	14.00	73.30
DBS Chola Opportunities (G)	38.79	29.40	16.60	73.20
Sahara Growth Fund (G)	74.56	33.90	28.40	71.90
Reliance Growth Fund - RP (G)	387.75	31.50	18.60	71.10
Sundaram S.M.I.L.E Fund -RP (G)	28.73	44.40	29.60	71.00

Balanced

Scheme name	NAV	1 Year	2 Year	3 Year
Principal Child Benefit - CBP	78.20	18.10	12.50	72.60
Reliance RSF - Balanced (G)	17.86	43.30	31.30	61.50
Birla Sun Life 95 Fund (G)	253.21	42.40	16.20	60.60
DSP-BR Balanced Fund (G)	54.44	26.10	18.70	56.30
HDFC Prudence Fund (G)	156.55	33.90	19.50	54.00
Tata Balanced Fund (G)	66.87	30.50	13.60	52.50
Sundaram Balanced - RP (G)	42.23	25.50	12.90	44.40
SBI Magnum Balanced Fund (G)	45.13	28.10	11.80	43.60
FT India Balanced Fund (G)	42.14	22.20	10.10	42.90
UTI Mahila Unit Scheme (G)	36.42	16.60	22.60	39.10

Debt (long-term)

Scheme name	NAV	1 year	2 year	3 year
Birla Sun Life GSec - LTF (G)	25.24	22.90	24.30	30.60
JM G-Sec Fund (RP) (G)	29.20	22.40	35.70	40.70
ICICI Pru Gilt (IP) (G)	31.33	21.30	33.40	46.20
DSP-BR Govt. Securities (G)	31.18	20.40	30.00	36.90
Templeton (I) G-Sec - LTP (G)	22.50	18.00	32.60	40.50
Escorts Gilt Fund (G)	19.86	17.00	31.30	36.70
DWS Premier Bond - RP (G)	14.98	16.70	21.00	25.90
IDFC GSec - PF- RP A (G)	14.59	16.50	26.30	35.30
Reliance Income Fund (G)	30.20	16.30	25.30	33.40
HDFC Income Fund (G)	20.92	16.00	21.30	27.10

ELSS

Scheme name	NAV	1 Year	2 Year	3 Year
Taurus Tax Shield (G)	29.91	36.20	32.40	85.10
Can Robeco Eqty TaxSaver (G)	20.13	50.10	25.40	83.40
Sundaram Tax Saver (G)	40.37	37.10	26.70	72.80
Sahara Taxgain (G)	30.75	44.70	26.80	61.80
Fidelity Tax Advantage (G)	16.56	29.40	10.10	52.60
Principal Personal Tax Saver	83.24	16.60	-10.40	52.40
SBI Magnum Tax Gain (G)	52.97	27.10	2.60	42.80
Franklin India Tax Shield (G)	161.00	26.70	8.50	38.30
HDFC Tax Saver (G)	176.13	29.80	6.90	37.00
Kotak Tax Saver (G)	15.68	21.10	-7.80	33.90

MIP

Scheme name	NAV	1 Year	2 Year	3 Year
Reliance MIP (G)	19.01	30.60	34.90	44.30
HDFC MIP - LTP (G)	19.87	25.30	25.30	40.80
Birla SL MIP II-Wealth 25 (G)	16.12	22.10	11.40	24.50
HSBC MIP - Savings Plan (G)	17.59	20.20	21.60	39.60
UTI MIS - Advantage Plan (G)	18.18	19.90	21.40	36.30
Principal MIP - MIP Plus (G)	17.44	17.90	25.70	42.70
ICICI Pru MIP (G)	23.44	17.40	18.20	28.80
HDFC MIP - STP (G)	15.49	14.40	15.50	23.40
FT India MIP (G)	25.58	13.90	15.00	28.60
Tata MIP Plus Fund (G)	14.38	13.80	13.10	24.50

Debt (short-term)

Scheme name	NAV	3 mnts	6 mnts	1 year
ICICI Pru Income Opp. - RP (G)	12.60	1.50	9.30	25.30
Can Robeco Income (G)	19.13	1.20	5.60	19.30
ING Gilt - Regular (G)	15.61	-0.60	5.00	18.10
Fortis Flexi Debt Fund -RP (G)	15.52	1.20	7.00	17.70
Kotak Bond (Regular) (G)	25.46	-0.10	3.50	16.80
IDFC Dynamic Bond - RP A (G)	17.99	-0.30	2.90	16.20
JM Short Term Plan (G)	17.49	1.10	3.20	15.20
Sahara Income Fund (G)	17.21	2.00	4.50	14.20
HSBC Flexi Debt Fund - RP (G)	12.18	1.00	4.20	14.00
HDFC Short Term Plan (G)	17.34	1.10	4.20	13.90

Source: moneycontrol.com; Note: All NAV as of September 17, 2009, all returns are expressed in percentage terms.

(Compiled by Amit Chopra)

Commodities review

Economic indicators	Actual	Previous
Euro-zone industrial production	-0.3%	-0.2%
Zew survey	59.6	54.9
Producer Price Index	1.7%	-0.9%
Retail sales	2.7%	-0.2%
Industrial production	0.8%	1.0%
Building permits	5,79,000	5,64,000
Housing starts	5,98,000	5,89,000
Initial jobless claims	5,45,000	5,57,000

Precious metals review

Bullion: Gold prices staged a strong rally last week due to inflationary concerns and the depreciating dollar. Although economic releases during the week were better than expected, inflationary concerns remained. Rising inflation in both the US and the Euro-zone prompted investors to invest in the yellow metal. Moreover, the dollar fell for the third consecutive week by 0.30%. During the week, gold prices traded in the range of US\$992.70-1,024.70 levels. Furthermore, supply threats due to possible strike at Ghana's largest gold mine also supported the price surge. Overall, gold continued its rally for the fifth consecutive week with a weekly gain of 0.78%.

This week, we expect bullion prices to trade sideways with negative bias as we expect profit-booking to take place in the commodity. Technical factors indicate that gold is likely to trade in the range of US\$998-1,030. However, economic events will provide further direction to bullion prices.

Base metals review

Base metals prices gained last week—after consolidating in the penultimate week—due to fresh buying in the backdrop of a stream of better-than-expected economic data releases. The dollar index fell by 0.41% last week to 76.25 levels and the crude oil price gained 4.5%. Moreover, statements by the US Federal Reserve that recession will end soon boosted base metals prices. However, the rally was restricted in the second half of the week due to profit-booking, following reports of stockpiling in the LME and SHFE. Furthermore, reports of slower imports by China in the coming months added to the bearish sentiment.

On the LME, lead was the top performer, gaining by 10.22% as against a loss of 8.24% in the penultimate week. Among other metals, aluminum, zinc, nickel and copper gained 6.56%, 5.01%, 3.69% and 2.16%, respectively. The World Bureau of Metal Statistics released its production and consumption figures for Jan-July. The report indicated surplus in the market, a sharp contrast against the deficit witnessed in the same period last year. Chinese imports of unwrought copper and semi-finished copper products in August fell by 20% to 3,25,098 tonnes from 4,06,612 tonnes in July. This week, the US New and Existing Home Sales are likely to increase while Durable Goods Orders is likely to fall. Furthermore, the Fed, in its scheduled FOMC meet, is expected to keep key interest rates unchanged at 0.25%. We expect base metals to trade sideways with a positive bias due to mixed data expectations and a subdued dollar.

Energy review

Crude oil: Crude oil futures prices fell early last week on speculation that the rally witnessed earlier may have outpaced the recovery in the global economy. However, prices recovered from the second trading day onwards due to a stream of better-than-expected economic data and optimism regarding the end of the US recession. According to the DOE inventory data, crude oil inventories fell by 4.73 million barrels while gasoline and distillate inventories rose by 5,47,000 and 2.24 million barrels, respectively. The decline in oil inventories was steep compared to market expectations. Moreover, prices gained as the dollar declined to its lowest level in almost a year even as US equities continued to rise. The total products supplied over the last four-week period averaged 19.5 million barrels per day, up by 3.7%, compared to the same period last year. During the week, NYMEX crude oil traded in the range of US\$68.02-73.16 per barrel.

Refineries are preparing to close for maintenance in September and October before demand picks up in winter. This may result in further inventory pile-ups as there will be a drop in refinery inputs. This comes on top of the driving season which ended on September 7. However, there are positive indications for the economy this week in the form of data releases. Prices are expected to trade near the US\$70 mark with a positive bias.

- Commodities Research Desk



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Introduction to financial planning

Introduction

Few people in India today really understand the importance of financial planning. While for many, financial planning begins and ends with collecting ULIPs (unit-linked insurance plans) and endowment plans without any rhyme or reason, there are others who simply associate financial planning with tax savings.

Financial planning is not just about having good stock-picking skills, or identifying the right mutual fund schemes, or arming yourself with dozens of ULIPs. It is a holistic approach to managing your overall asset portfolio by taking care of every aspect of your life, including risk management, goal-setting and achievement, asset allocation, and retirement planning. The following are some of the aspects of financial planning:

Effective risk management: A sound financial plan begins by identifying and covering all the potential risks that you are exposed to. These include life insurance, medical insurance, mortgage insurance, home and household insurance, automobile insurance, among others. Once these risks are appropriately covered, you will be emboldened to take on bigger risks in life. Clearly, this is one of the most important aspects in the financial planning process, and every sound financial planner should begin by ensuring appropriate coverage for you. Any failure to take necessary steps in this regard will raise your future risk-taking ability.

✓ If you are a 25-year-old bachelor with dependent parents, then your life insurance needs will differ from that of a 40-year-old with dependent parents, wife and kids.

✓ Similarly, if you fail to cover your dependent parents for medical insurance, then one major surgery is probably enough to blow a big hole in your pocket—something that you can ill-afford if you are serious about accumulating long-term wealth.

✓ If you have a 20-year home loan, then taking out a mortgage redemption plan will ensure that the responsibility of paying the EMI does not fall on your dependents in the event of your untimely death.

In a nutshell, coverage of one's risks helps to preserve wealth and is one of the most crucial aspects of financial planning. Not having a financial plan in place could lead to unnecessary stress and hardship when one of life's nasty surprises come visiting you. The result—you (or your dependents) may end up running from pillar-to-post borrowing money, and in the process, having your financial goals derailed.

Goal-setting and achievement: The importance of financial planning is often underestimated. Planning ahead is about creating realistic financial goals that will facilitate financial independence in your life. A good financial planner should help you to articulate your short-term and long-term financial goals in life.

So how does one go about achieving one's financial goals? Well, to begin with, financial planners analyze your profile thoroughly based on your age, current income, monthly savings, current net-worth, number of dependents, and your short-term and long-term financial goals. Planners then do a post-mortem of your existing monthly savings and investments and tweak it accordingly so that you are on the right path to achieve your financial goals in a timely and convenient manner.

Short-term goals like buying a car or taking an international vacation can be planned ahead through investments ranging from conservative fixed deposits that ensure wealth preservation to systematic investment plans in an equity or balanced mutual fund. The shorter the time

horizon, the more conservative should be the portfolio mix to ensure capital preservation.

Long-term goals like your child's higher education abroad should be planned ahead carefully for two reasons. One, because the amount involved is huge—an MBA education abroad costs nearly Rs20 lakhs today, but 20 years later, when your child is ready to enrol for an MBA, assuming inflation at 5% per annum, the value of the course will skyrocket to more than Rs50 lakhs. Long-term financial planning helps you to beat inflation and meet your financial goals comfortably.

Planning ahead ensures that you pay all your bills on time and maintain your credit rating in good standing.

Clearly, goal-based financial planning is the need of the hour in India. Unlike the developed countries, the concept of financial planning and wealth management is still at a nascent stage in the country. Given the lack of a well-defined and committed financial planning, the process of wealth management has been, at best, an ad hoc, haphazard process. Today, you can effectively use asset allocation to build long-term wealth and achieve your financial goals.

Appropriate asset allocation: A sound financial plan should take into consideration investment across asset classes, including stocks, bonds, fixed deposits, gold, real estate, among others. As each asset class behaves and moves differently, the right asset allocation mix will help you to benefit from effective portfolio diversification. In fact, even among stocks, there should be meaningful allocation across sub-asset classes, such as large-cap, mid-cap or small-cap stocks or mutual funds, and the risks that each of these entail should be properly understood. Asset allocation is typically pre-defined and differs for every individual depending on his overall risk profile, age, current income and networth, time horizon, financial goals, number of dependents, among others.

✓ A 30-year-old can have a greater proportion of stocks and equity funds in his portfolio compared to a portfolio of a 50-year-old. A high concentration of equity helps in long-term wealth maximization, especially if age is on your side.

✓ If you have a low tolerance for risk, then a high equity-based portfolio may not be the right thing even for a 35-year-old. On the other hand, if you are a 55-year-old with a high risk tolerance, you can still take aggressive bets on equity, although you need to ensure that you don't violate your predefined asset allocation limits.

✓ Time horizon also plays an important role in the asset allocation process. The greater your time horizon, the more risks you can afford to take, and higher will be the potential return over the long term.

Asset allocation should not only be pre-defined, but it also must change from time to time. For instance, you can define an asset allocation for yourself that changes every five years (see Table 1). As and when you cross a particular threshold age, you should change your asset allocation mix accordingly.

No pre-defined asset allocation is complete without *portfolio rebalancing*.

Table 1: A pre-defined asset allocation mix

Age	Portfolio features	Equity (%)	Debt (%)	Gold (%)
30 years	Aggressive	75	20	5
35 years	Aggressive	70	20	10
40 years	Moderately Aggressive	65	20	15
45 years	Moderately Aggressive	60	20	20
50 years	Moderately Conservative	50	30	20
55 years	Moderately Conservative	40	35	25
60 years	Conservative	30	40	30

SPECIAL FEATURE

This is a periodic procedure that allows you to rebalance your portfolio to the original pre-determined asset allocation mix. For instance, you are 50 years old with a pre-defined asset allocation of 50 : 30 : 20 into equity, debt and gold, respectively. Say, one year later, the stock market rises by 50%, whereas the returns on debt and gold remain stable. Accordingly, your asset allocation changes to 60 : 24 : 16. In such a scenario, you need to sell some of your stocks and buy more debt and gold to bring your investments back to the original mix. In other words, by selling (buying) stocks at higher (lower) levels, portfolio rebalancing helps you to buy low and sell high.

Retirement planning: Today, with life expectations going up, people must factor for nearly one-third of their lives to be spent post-retirement. That means you need to build a substantial nest egg to ensure that you can continue living with the same standards that you did just prior to retirement. In other words, by investing for the long term, you can let your money work for you to help you achieve your retirement goals. Today, a financial planner should be able to guide you through the range of retirement products available in the market, including ULIPs, endowment plans, unit-linked pension plans, including the New Pension System (NPS) recently announced by the Government of India.

Importance of financial planning

Financial planning is important for the following reasons:

- ✓ Through risk management, it ensures appropriate coverage that could vary depending on whether you are single and working (with or without dependents), newly married (with single or both spouses

working), married with kids (dependent or financially independent children), or in the post-retirement phase. Risk coverage ensures that your financial goals are not derailed and your wealth is preserved over the long-term.

- ✓ Through goal-setting and the right asset allocation mix, you can ensure that your short-term and long-term financial goals are met.
- ✓ There are many who believe that financial planning is only for the wealthy and that those with limited income cannot indulge in financial planning because they don't have anything to plan with. However, the real truth is that those with limited income need financial planning more than those with high disposable incomes.
- ✓ You may be earning a high income, but you may end up spending it all and some more. Similarly, you may earn limited income, but while you may be a careful spender, much of your earnings may be consumed towards debt servicing and living expenses. Financial planning ensures that you make the most out of your limited (or abundant) resources.

Conclusion

In a nutshell, financial planning helps you to deal with the impact of inflation, thus facilitating long-term goal achievement and retirement planning. Financial planning also allows you to maintain and upgrade your lifestyle, whether it is wealth preservation through appropriate risk coverage or wealth accumulation through the right asset allocation mix or comprehensive wealth management through a holistic approach towards determining the right risk-reward ratio on your overall portfolio.

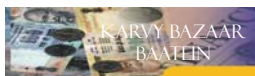
- Satyan Nair

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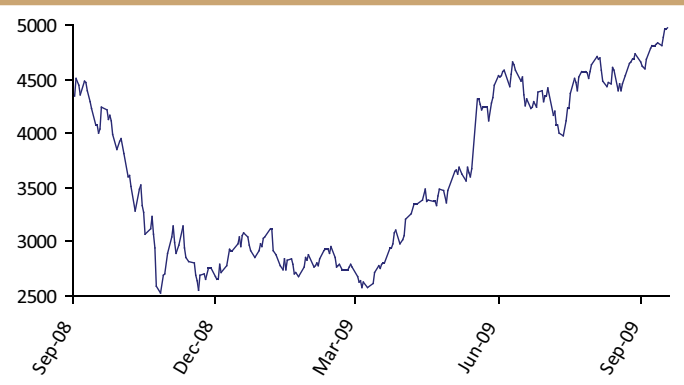
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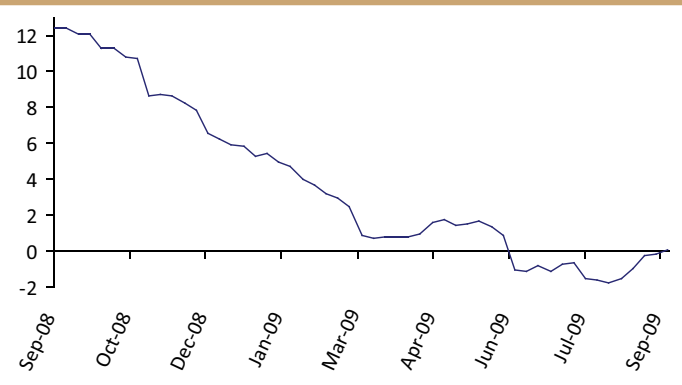


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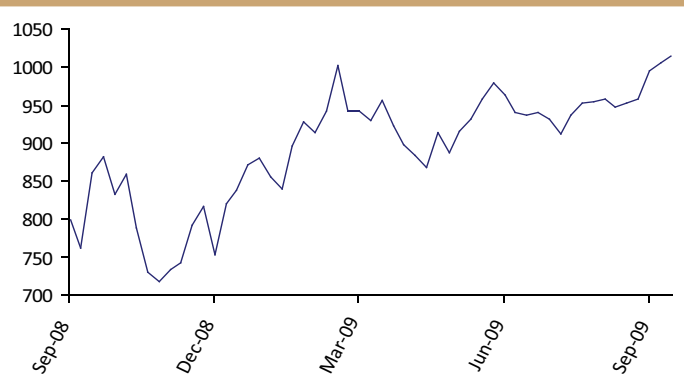
Nifty movement



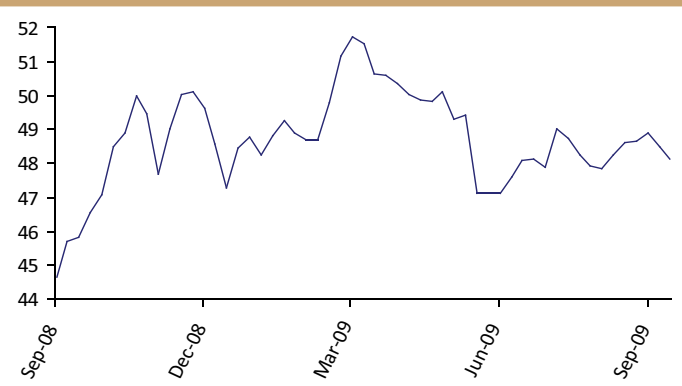
Inflation is at 0.12%



Gold (US\$/oz)



Currency (US\$/INR)



Global indices: Weekly performance

	Close (Sep 18)	Close (Sep 11)	Weekly (%)	6M (%)	12M (%)	PE Ratio
ASIA						
Hang Seng	21623.45	21161.42	2.18	64.85	22.63	23.13
STI	2647.91	2681.03	-1.24	68.02	9.45	20.55
S. Korea	1699.71	1651.70	2.91	45.28	22.07	32.58
Nikkei 225	10370.54	10444.33	-0.71	30.08	-9.74	-
AMERICA (closing as on Sep 17)						
Dow Jones	9783.92	9605.41	1.86	30.69	-11.21	14.06
S&P 500	1065.49	1042.73	2.18	34.13	-11.69	19.69
NASDAQ	2126.75	2080.90	2.20	42.62	-3.29	34.19
Brazil Bovespa	60236.03	58366.38	3.20	50.06	24.40	25.14
EUROPE (closing as on Sep 17)						
FTSE-100	5163.95	5011.47	3.04	35.90	5.96	75.97
DAX 30	5731.14	5624.02	1.90	43.45	-2.23	48.92
CAC 40	3835.27	3734.89	2.69	38.96	-3.08	15.03

Source: Bloomberg

Domestic indices: Weekly performance

	Close (Sep 18)	Close (Sep 11)	Weekly (%)	6M (%)	12M (%)	PE Ratio
Sensex	16741.30	16264.30	2.93	86.50	25.73	20.01
Nifty	4976.05	4829.55	3.03	78.05	23.23	20.25
BSE 500	6416.69	6206.13	3.39	96.83	25.83	20.07
BSE Auto	6603.10	6030.39	9.50	128.44	69.05	46.32
BSE Bankex	9324.10	8911.44	4.63	126.81	37.73	14.80
BSE Capital Goods	13594.11	13271.55	2.43	123.43	20.85	33.69
BSE Consumer Durables	3481.73	3374.24	3.19	127.35	10.12	11.69
BSE FMCG	2535.59	2511.95	0.94	31.78	19.75	24.77
BSE Healthcare	4023.54	3932.34	2.32	54.86	5.48	41.66
BSE IT	4555.92	4368.73	4.28	108.53	32.54	21.57
BSE Oil & Gas	10126.25	10235.43	-1.07	60.52	12.85	17.43
BSE Metal	14514.59	13458.91	7.84	182.02	49.79	15.59
BSE Realty	4473.21	4246.78	5.33	182.39	17.31	20.89
BSE PSU	8742.90	8575.35	1.95	75.89	37.72	16.55
BSE Power	3046.28	2962.95	2.81	75.55	26.63	30.90
BSE Teck	3278.59	3152.30	4.01	89.36	20.74	21.31

(Compiled by Amit Chopra)

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