



# KARVY BAZAAR BAATEIN

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**NSE**  
52 Wk H/L : 5110.50/2252.75  
**Mcap** : Rs52,46,348 cr.  
**BSE**  
52 Wk H/L : 17195.61/7697.39

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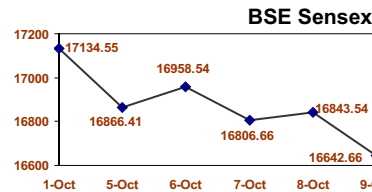
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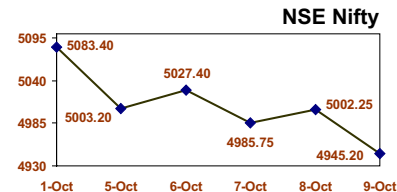
by **S. Gopichand** on behalf of Karvy Stock Broking Limited.

Editor: **S. Gopichand**

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**16642.66**  
↓ **2.87%**



**4945.20**  
↓ **2.72%**

### Caution: Excess liquidity ahead....!

Fueled by liquidity, both equity and commodity markets have witnessed a rally in the last few months. Due to a combination of government stimulus and easy monetary policy globally, liquidity flows have become a regular Niagara into emerging markets like India. There are positives as well as negatives from this huge liquidity inflow—while stocks have risen spectacularly, there has been an increase in commodity prices too.

Even the S&P 500 Index has risen nearly 60% since early March 2009. However, while the worst may be over for the US, the recovery is expected to be “weak”, according to renowned economist, Nouriel Roubini. While credit growth in the US is not expected to return so easily, consumption will take a backseat as savings and debt repayments take precedence. Moreover, any rebound in consumer spending owing to the stimulus will be impacted by the high unemployment rate of nearly 10%.

According to Roubini, as told to a website recently, the US faces a dilemma—revoking the monetary and fiscal stimulus too soon and possibly facing the risk of a double-dip recession; retaining the stimulus, on the other hand, at the cost of an unsustainable fiscal deficit and high inflation, impacting economic growth. It prompted Fed Chairman Ben Bernanke to state last week that the central bank will be prepared to tighten monetary policy when the outlook for the economy has “improved sufficiently.”

Meanwhile, most market experts and economists believe the RBI may have to increase interest rates by March 2010. While the impact of the deficient monsoon will be quite limited on India’s GDP, it is too early yet to estimate the crop damage caused by floods in AP, Karnataka and Maharashtra. The Sensex and the Nifty fell 2.87% and 2.72% W/W, respectively. Metal stocks and defensives like FMCG and pharma were among the top gainers. Telecom and tech, however, proved to be the dampeners.

Despite a stream of positive news, the market continued to trade in a narrow trading range last week. While it may move up from current levels, a sharp correction cannot be ruled out. This week, the Nifty is likely to trade in a range of 4900-5100 levels, with buying expected to continue in FMCG, metals and pharma while automobiles, BFSI and cement might see selling pressure.

### KBB weekly recommendations for the week beginning 12<sup>th</sup> Oct.

Scrip	Action	CMP	Entry	Stop Loss	Target	Time Frame
DCHL	Buy	140.40	135-137	133	150-152	7-8 Days
HDIL	Buy	359.25	350-354	343	380-382	7-8 Days
Bharat Forge	Buy	269.85	260-263	255	285-288	7-8 Days
IDBI	Buy	130.25	128-130	125	140-142	5-6 Days
Divis Labs	Buy	575.85	567-572	560	598-600	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
LICHSGFIN	Buy	735-740	720.00	800-805	-	-	-	NI
Wipro	Buy	605-608	594.00	632-635	419	-5,241.03	-2.06%	SLT
NIIT Ltd	Buy	Above 77	74.00	86-87	-	-	-	NI
Ansal Infra	Buy	85-87	82.00	98-100	2957	-11,827.67	-4.65%	SLT
SRF	Buy	185-188	177.00	205-206	1364	-4,772.29	-1.88%	CMP
Total						-21,841.00		

Balance on inception (26- Jan- 09)	Balance last week (01-Oct-09)	Balance current week (09-Oct-09)	Abs. returns WoW (%)	Abs. returns since Jan 26, 2009(%)
5,00,000	7,62,885	7,41,044	(2.86)	48.21

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

#### Infosys

**CMP: 2177.60**

Infosys has been on an uptrend since the March lows before which it had largely underperformed the broader index. The stock surged significantly in recent sessions, registering an all-time high of 2421 levels, but declined during the last week due to rupee appreciation. Infosys announced its second-quarter results on Friday, which was above market expectations; however, it failed to induce any interest in the stock, which declined by 1.50% on Friday's trade. The stock has its 50-day EMA at 2159.17 levels, which is the immediate support for the short term. The 14-day RSI has breached the 50 levels, indicating weakness in the stock. However, on the RSI scale, the stock may find support around the 35-40 levels and stage a bounce-back. A sustained move close to this level will see fresh buying interest in the stock. Investors are advised to assume long positions in the stock in the range of 2150-2170 levels for an upside target of 2400 and 2500 levels in the

medium-term scenario. All long positions in the stock should be protected with a stop loss below 2100 levels on a closing basis.

#### HUL

**CMP: 286.90**

HUL registered a 52-week high in August but declined sharply in the following month, consolidating on the back of above-average volumes. The FMCG sector outperformed the broader markets and participated in the rally. The recent rally has prompted the stock to move beyond all its moving averages. The 14-day RSI is now in the overbought territory, but the move still appears to be northwards in the near term. On the RSI scale, the stock could move to 80 and 85 levels. It has immediate resistance around the 315 levels beyond which the stock could move up to 350 levels in the short term. Investors are advised to assume long positions in the stock in the range of 280-285 levels for an upside target of 300 and 350 in the short term. All long positions in the stock should be protected with a stop loss below 265 levels on a closing basis.

#### ITC

**CMP: 249.65**

ITC underperformed the broader index in the earlier months, moving sideways until August. The stock found support around its 200-day EMA levels and then surged to register an all-time high of 253 levels. In recent sessions, the stock declined sharply and found support around its 50-day EMA, before staging a bounce-back towards its all-time highs. The surge was on the back of increasing volumes, indicating interest in the stock. The 14-day RSI is close to 70 levels and the move may remain sideways until it stages a strong break-out. On the RSI scale, the stock could move to 78-80 levels. The stock has immediate resistance at 253 levels beyond which it could move up to 280 and 300 levels in the short term. Investors are advised to assume long positions in the stock above 255 levels for an upside target of 280 and 300 in the short-term scenario. All long positions in the stock should be protected with a stop loss below 235 levels on a closing basis.

- Kalyan C. Reddy

### IPO

#### Indiabulls Power Ltd (IPO) (Rs40-45)

Bid Issue Opens – 12/10/2009

Bid Issue Closes – 15/10/2009

The issue will constitute 16.98% of the fully diluted post-issue paid-up capital of the company assuming that the green shoe option is not exercised, and 19.04% assuming that the green shoe option is exercised in full.

#### Public issue of equity shares

Issue		3,39,800,000
Comprising		
<b>Fresh issue</b>		<b>3,39,800,000</b>
Offer for sale		---
Of which:		
<b>Employee reservation portion</b>	<b>0%</b>	<b>---</b>
<b>Net issue</b>		<b>339,800,000</b>
<b>Reserved for QIBs</b>	<b>60%</b>	<b>203,880,000</b>
<b>Reserved for non-institutions</b>	<b>10%</b>	<b>33,980,000</b>
<b>Reserved for retail</b>	<b>30%</b>	<b>101,940,000</b>

#### Shareholding pattern: Pre-and post-issue

	Pre-issue (%)		Post-issue (%)	
	Equity shares	Equity shares (green shoe not exercised)	Equity shares (green shoe exercised)	Equity shares (green shoe exercised)
Promoter Group	71.43%	59.23%	57.76%	
Public	28.57%	40.77%	42.24%	
<b>Total</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>	
<b>No of shares</b>	<b>1,659,000,000</b>	<b>2,000,780,000</b>	<b>2,051,680,000</b>	

#### Purpose of the issue

The company proposes to utilize a portion of the net proceeds of the issue to part finance the construction and development of Amravati Power Project Phase – I and Nasik

Power Project (the "Identified Projects"). The following table sets forth the total expenditure expected to be incurred on the Identified Projects and amounts proposed to be financed from the net proceeds of the issue.

Name of the project	Total est. expenditure (Rs mn)	Amount from net proceeds (Rs mn)	Balance amount (Rs mn)
Amravati Power Project Phase – I	68,880	7,750	61,130
Nasik Power Project	60,480	6,600	53,880
<b>Total</b>	<b>1,29,360</b>	<b>14,350</b>	<b>1,15,010</b>

#### Indiabulls Power: Financials

Consolidated	FY09	Q1 FY10
Operating income	0	0
Other income	1,413.35	220.31
Total expenditure	290.03	29.76
EBITDA	NA	NA
EBITDA margin (%)*	NA	NA
PBT	1,123.32	190.55
PAT	830.6	125.24
Net worth	23,899.94	23,351.07
Debt/Equity	0	0
EPS (Rs)	0.42	0.06
Book value (post-issue ex-green shoe option)	11.95	11.67

\* The company does not generate operating revenues hence EBITDA details are not available.

#### Key positives

- ✓ Strong portfolio of power generation projects
- ✓ The company has entered into long-term power off-take arrangements for the Amravati Phase - I Power Project and the Bhaiyathan Power Project
- ✓ Association with the Indiabulls Group
- ✓ Strategic partnership with key

shareholders

- ✓ Experienced management team with a track record of project execution

#### Key concerns

*The company has no prior experience in power or mining*

**Management view:** Given the strong management background and its rich pedigree, as proven in the company's financial services and real estate businesses, it is safe to assume that management can handle the operational hiccups and pursue growth and value creation.

*Inability to raise the required funds from the primary market may hamper power project operations, impacting earnings*

**Management view:** Besides the revival of liquidity in most parts of the world, the response to some of the recent power company IPOs has been quite strong as the power sector is expected to lead the next rally. There is a lot of interest to invest in power as it is a major agenda for the government.

*Significant indebtedness will have important consequences for the company*

**Management view:** Being a power-deficit country, India will have unattended power demand. This is expected to continue for the coming few years until the country attains power sufficiency. Debt will enable the company to leverage on rising opportunities and thus improve its ROCE.

### Market pulse

#### Bulk Deals

Company	Wt. Avg. Price (Rs.)	Traded Qty	Acquirer/Seller
<b>Buy</b>			
NIIT Technologies	130.99	400,000	Morgan Stanley
Wire and Wireless	20.61	1,600,000	DSP Blackrock MF
INDIA CO VEN	54.95	194500	Dabur Invest Corp.
<b>Sell</b>			
3i Infotech	93.89	1,800,000	Swiss Finance Corp. (Mauritius)
Relta India	198.09	863,900	Copthall Mauritius Investment
W S Ind (I)	52.00	600,000	LIC OF India Ltd
OM MET Infra	31.90	1745993	Macquarie Bank
UNITED BREW	141.00	5000000	Deutsche Securities Mauritius

#### Top Gainers (Weekly)

Company	09-Oct	01-Oct	%Change
HUL	286.90	265.40	8.10
Cipla	293.20	272.50	7.60
ITC	249.65	232.55	7.35
Rel Infra	1293.60	1207.00	7.17
GAIL	382.30	362.10	5.58
Tata Steel	532.55	510.80	4.26
BHEL	2429.30	2350.80	3.34
ONGC	1220.35	1182.20	3.23
SAIL	174.00	169.00	2.96
Siemens	572.70	559.10	2.43

#### Top Losers (Weekly)

Company	09-Oct	01-Oct	%Change
RCom	248.85	318.50	-21.87
Bharti Airtel	343.30	435.10	-21.10
Idea Cellular	62.45	73.80	-15.38
HCL Tech	297.20	336.40	-11.65
Grasim	2398.15	2691.65	-10.90
TCS	561.75	629.85	-10.81
Maruti	1480.30	1655.95	-10.61
Wipro	551.60	608.05	-9.28
Suzlon	85.50	92.25	-7.32
Infosys	2177.60	2336.75	-6.81

#### FII Invt (Rs.cr)

#### MF (Rs.cr)

Date	Purchases	Sales	Purchases	Sales
5-Oct-09	4632.50	3260.40	476.10	1382.80
6-Oct-09	3709.60	3947.10	714.10	1435.40
7-Oct-09	4178.30	4146.90	885.40	821.40
8-Oct-09	4071.70	3298.50		
9-Oct-09	4000.60	4362.50		
<b>Total</b>	<b>20592.70</b>	<b>19015.40</b>	<b>2075.60</b>	<b>3639.60</b>

#### Corporate Actions

Company	Date	Purpose
Parsvnath Developers	14-Oct-09	Unaudited Results
Motilal Oswal	14-Oct-09	Unaudited Results
HDFC Bank	14-Oct-09	Unaudited Results
IndusInd Bank	14-Oct-09	Unaudited Results
TCS	16-Oct-09	Audited Results

(Compiled by Krishnaveni M)

### Sector update

#### Telecom tariff cuts likely to hurt revenue growth in medium-term

The Indian telecom industry witnessed several price wars in recent times. With the launch of Tata Teleservices (TTSL)'s GSM-based services (Tata DoCoMo) in July 2009, the telco announced a "seconds-based tariff" pricing on calls. In other words, customers would be charged for the number of seconds used against the prevailing minute-based pulse system, where operators charge users on a one-minute basis. For example, even if a user talks for 61 seconds, he will be charged for 2 minutes under the existing system, costing Rs1.20, assuming average cost per call of 60 paise per minute. However, under TTSL's plan, the user would just pay 61 paise for 61 seconds, resulting in savings of nearly 50%. The company launched these tariff plans with a view to gain subscriber traction against established incumbents like Bharti Airtel, Vodafone-Essar and Idea Cellular.

Moreover, TTSL—under the CDMA-based Tata Indicom—has launched a tariff plan of Re1 per call, irrespective of the call duration,

#### Rupee appreciation to impact short-term performance of IT majors

The Indian rupee recently saw strong appreciation against the US dollar. The currency strengthened to Rs46.66 / dollar from nearly Rs49 / dollar in September 2009, implying a near 5% rise in barely over a month's time. Moreover, it has risen by over 10% from its lows of Rs52 / dollar in March 2009. We believe this will negatively impact the near-term financial performance of IT majors, even as 2QFY10 is likely to see decent performance on stronger deal flows, with global economic recovery coming to the fore and favourable results in key vendor consolidation exercises like British Petroleum (BP) and Telstra. The IT stocks have surged on the bourses and comfortably outperformed the Sensex over the past three months on expectations that the economic recovery and stronger deal flows will lead to earnings upgrades. It may be noted that the BSE IT Index surged by as much as 39% in the September quarter, considerably outperforming the Sensex, which gained 18% during the period.

Off late, apart from the rupee-dollar, the cross-currency movements have been in favour of IT companies, as the US dollar depreciated against the euro, the pound and the Australian dollar, thus increasing the

thereby raising the stakes further. Moreover, Reliance Communications (RCom) raised the pitch by introducing a new plan last week, wherein customers can make all calls at just 50 paise per minute. These developments have intensified the price battle, making a tariff war all the more likely. Above all, TRAI has stepped in and announced that a seconds-based tariff may be made mandatory for all operators, even though it has so far been following a policy of forbearance with respect to telecom tariffs.

We believe that these latest developments are likely to hurt industry revenues in the medium term. However, we do not believe the current industry structure of 14-15 players is sustainable and expect a consolidation to occur at some point. Consequently, we believe that it is an 'either-or' situation for the incumbent operators, who will either have to respond to the latest round of tariff cuts (leading to lower ARPUs) or face a reduction in usage (lower MoUs) and network utilisation. Both scenarios will lead to slower revenue growth and margin pressure. Hence, we are negative on the Indian telecom industry and do not believe that there is any scope of a multiple re-rating for telecom stocks, implying likely underperformance for the sector.

value of these billings in US dollar terms to a certain extent. Going forward, it is likely that this tailwind, which has been favourable over the past two quarters, could dissipate, leading to a 'double-whammy' of sorts—with no further favourable cross-currency swings, apart from the rupee appreciation.

Consequently, due to the steep rally in stock prices, which led to these stocks getting overheated, and the recent rise of the rupee, a correction was witnessed in stocks, such as Infosys, TCS and Wipro. We believe the recent appreciation of the rupee is likely to put pressure on the near-term earnings, particularly the 3QFY10 financial performance of IT stocks. We expect 2QFY10 to be a strong quarter for Indian IT companies. This is likely to be an indication of further economic recovery and the next few quarters could see growth, which we believe is the most critical factor for these companies to sustain their premium valuations.

We expect these companies to be able to manage the appreciation of the rupee to an extent that it is gradual, and not sudden and volatile. We further expect a recovery in the core business to more than compensate for this headwind. We are positive on the Indian IT sector and believe that a correction in these stocks is a good opportunity to add them to the portfolio.

- Equity Research Desk



### Sensex at 17,000: Now what?

The stock markets have rallied spectacularly this year, with both the benchmark Indian indices, the BSE Sensex and the NSE Nifty, gaining nearly 100% from its March 9 lows. While the BSE Sensex is poised at 17,000 levels, the NSE Nifty has been trading sustainably above 5,000 levels. Clearly, India remains one of the best-performing markets in the world today.

In fact, nine months ago, few could have imagined such a sharp recovery in the global markets. The year 2008 was “unforgettable” for all the wrong reasons, whereby investor confidence hit rock bottom. Triggered by the sub-prime and credit crisis in the US, the global stock markets fell like ninepins all over the place, leaving investors speechless at the sheer scale of value destruction in such a short span of time. A catastrophic year, to say the least, the significant loss of investor confidence and the severe liquidity crisis that followed saw the global economy hurtling towards a recession in the last quarter of 2008.

In such a scenario, the sheer speed and robustness of the rally this year has taken investors completely by surprise, with many of them probably feeling cheated out of the opportunity from participating in the rally. The rally itself can be attributed to a stream of factors—encouraging economic data emanating from the US, better-than-expected corporate results in the US and India, unexpected election results, besides strong liquidity flows into the Indian bourses.

The initial part of the rally, from 8,000 to 12,000, was largely marked by investor inertia, given the aftershocks of the market mayhem last year. The market move from 12,000 to 14,000, driven by the May 16 election results, left investors completely in the lurch given the swiftness of the rally. Since then, many investors have been waiting in the wings for that elusive “dip” to happen, but the market has stubbornly continued on its northward journey. Now that the Sensex is hovering around 17,000 levels, we have tried to take a look at both the short-term and long-term view.

#### Equity markets in the near-term

The sharp run-up in the markets has put investors in a quandary, particularly those who were waiting in the wings for the market to come down so that they could buy on dips. However, that “dip” remained elusive as the stock markets continued on its northward journey in September. Therefore, with the Nifty at 5,000 levels, what’s next?

While the downside for the index will be limited, in our view, the immediate trigger for the market will be the second-quarter results. The earnings outlook for the quarter remains robust—due to the exceptionally low base last year, corporates are expected to deliver strong growth. Moreover, with global interest rates at historic lows, money will continue to flood assets in key emerging markets like India, although this can lead to inflationary hiccups in the long-term. The resultant euphoria is bound to drive markets as investors continue to build up revival expectations. At some point, markets will enter a complacency zone and potential adverse news will be ignored. Hence, as long as liquidity remains strong, our medium-term (6-9 months) outlook is expected to be bullish. Investors, therefore, could adopt an aggressive strategy for the short-time period.

#### Impact of rainfall deficiency on economic growth

Since the second week of August, there has been a significant monsoon revival across the country, which has led to some stability in the markets. From a grim scenario of 54% lower than the LPA in

June, the situation has gradually improved to 22% (September 23) of the LPA. There were serious concerns raised in July about India’s GDP growth, besides rising inflationary concerns as agri-commodity prices skyrocketed.

So now with the monsoon revival, what will be the overall economic impact, particularly in an economy where rural consumption accounts for more than half the domestic demand? Monsoons have a significant role to play in our economy, with more than two-thirds of the people living in the villages and 60% of the farm land depending on annual rains. However, there are reasons to believe that the farming fraternity will react rather differently today than it did in 2003, particularly considering the high foodgrain reserves, huge government waivers, social welfare programs, and higher minimum support prices (MSPs), besides the benefit of bountiful monsoon over the last six years. Moreover, by promoting early sowing of the Rabi crop, the government can ensure greater area under cultivation for staples like wheat. Overall, we believe the impact of deficient rainfall on GDP growth will be limited. The monsoon revival was one of the reasons for the stock market rise in August.

#### Impact of inflation on the markets

The inflation for week-ended September 12, 2009 was at 0.37%, and higher than 0.12% for the week earlier. The Street expectations cite inflation at around 8-9% by March 2010 on the back of higher commodity and food prices. Moreover, given the huge fund inflow from outside the country, liquidity-driven inflation will also be a cause for concern for the RBI. A rise in inflation would also hamper corporate margins and borrowing costs, leading to a profitability squeeze. However, for the time being, economic growth remains on top of their agenda, and the central bank continues to maintain an accommodative stance in regard to monetary policy. But many analysts and fund managers expect the RBI to raise interest rates by March next year, which, in turn, will adversely impact stock markets.

#### Equity markets in the long-term

The long term market outlook appears positive, although in a slower 15-20% CAGR range. That is because the current rich valuations already factor in a lot of the good news. As commodity prices start to increase steadily, the input costs for major raw materials used by companies will also rise. This will lead to a contraction in margins. In the medium to long term, the markets are expected to rationalize. Moreover, there are the inflationary fears that one will have to contend with in the medium-term, led by rising commodity and food prices and easy global liquidity.

The long-term will belong to the mid-cap and small-cap stocks rather than the large caps. The large caps may see a run-up in prices in view of the good results season. Thereafter, any extra funds raised by institutions will be parked in promising mid-cap stories, preferably sector-specific stocks like power.

On the valuations front, the domestic indices are trading at P/E multiples of around 18-22 times historical earnings. These valuations look stiff on a historical basis, but we have seen in the past that persistent liquidity can keep markets over their long-term trendlines for significant periods of time. Meanwhile, given the recent large-sized IPOs, a considerable amount of liquidity can be sucked out of the markets, and this could prove to be a near-term risk.

- Tejas C. Jani and Satyan Nair

## Commodities

### Base metals

Base metals prices gained last week due to weak US dollar (-1.00%), stronger euro (+1.04%), steady crude oil (1.87%), and firm global equity markets globally. Nickel turned out to be the top performer, gaining close to 12.79%, despite accumulating 588 tonnes of inventory. Zinc was not far behind, gaining 10.85%, along with decrease in inventory by 1,850 tonnes. Moreover, lead, copper and aluminium gained 8.04%, 7.67% and 5.88%, respectively. The officials of the G-7 countries refrained from adopting any measures to prevent dollar depreciation. In addition, the US President, Barack Obama, increased the US marketable debt to infuse liquidity. However, it could result in further currency depreciation and raise inflationary concerns. The depreciating dollar is prompting investors to channelize their money, as an inflationary hedge, into avenues like precious and base metals.

In regard to economic data releases, the US Personal Income for August 2009 increased 0.2%. In addition, although US

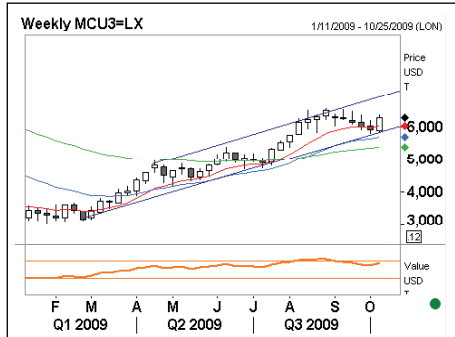
Construction Spending rose 0.8% M/M in August, it declined 11.6% Y/Y, to US\$941.9 billion.

On the industrial side, Vale began a partial restart of its Sudbury, Ontario, operations last week, as signs emerged that workers were becoming frustrated with the 2-1/2 month strike at the site. Vale's Sudbury operations produced 85,300 tonnes of contained nickel last year. The Chinese-owned Minerals and Metals Group (MMG) has shut down a pipeline, which transports zinc concentrate from its Australian Century mine to a port, following a spill. Meanwhile, Chilean workers at the Spence copper mine will extend contract negotiations with the owner, BHP Billiton, until early next year in the hopes of securing a deal to avert strike action.

This week, we expect metals to trade sideways with a negative bias, as the international study group suggests that market imbalance persists despite rising demand. However, the downside is limited due to a weaker dollar. Moreover, technically, the market has reached an overbought zone, indicating that a correction is due.

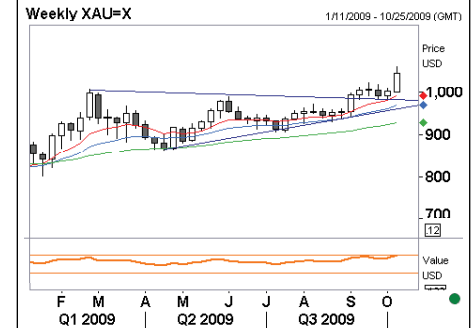
fell on concerns that Arab countries would replace the dollar as a medium of exchange for their oil trades. The declining dollar raised the demand for gold as an alternate asset class, helping the yellow metal to touch an all-time-high of US\$1,062.7 an ounce on October 8, 2009, and breaking the previous high of US\$1,034 in March 2008. Moreover, gold prices gained as the SPDR Gold Trust increased its holdings by nearly 13 metric tonnes to 1,100.5 metric tonnes. Meanwhile, the stronger rupee pared the gains on the MCX platform, and, therefore, the yellow metal failed to show an overall gain of even 1%, at the time of writing this report.

This week, we expect bullion prices to carry on with its current momentum due to weaker dollar. The market sentiment is not supportive for the US dollar amid widening trade deficits and rising US borrowing. The inflation is also likely to creep in and this will further erode the value of the currency. In such a scenario, gold is expected to emerge as the principal gainer. In India, the ongoing festive season will spur demand for this precious metal, resulting in higher gold prices.



### Bullion review

Bullion prices are headed for a second straight weekly gain due to continuous decline in the US dollar. During the week, gold prices touched a high and low of US\$1,062.7 and US\$1,001.6, respectively. The volatility in prices was largely due to a string of economic data and the decline in the dollar index, which lost nearly 1%. The US dollar



- Commodities Research Desk

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### MFs: Retail investor's best friend

#### Introduction to diversified equity funds

If your strengths do not lie in stock-picking, then mutual funds are the way to go for taking exposure in equities. Many retail investors, without knowledge of stock markets, have ended up soaking their money into “hot tips” and burning their fingers badly in the process. A “hot tip” can not only be misleading, but your so-called “well-wishers” who recommended the stock seldom tell you when to “sell” it after you have bought it. The result—when markets suddenly tank, as it did last year, you are left holding a lemon! Therefore, by buying equity diversified funds, you are effectively leaving the stock-picking skills (and the subsequent selling) in the hands of a professional fund manager.

India was not left out in the stock market mayhem in 2008. During the period, diversified equity mutual funds, too, witnessed substantial erosion in their NAVs (net asset values), reflecting what was a cataclysmic year for equity markets. However, as the stock markets rallied post-March 2009, equity funds performed spectacularly, with average return over the last six months ranging from 60-80%.

#### Developing a mutual fund portfolio

Here are a few points to remember while developing a mutual fund portfolio.

- ✓ To begin with, ensure that the funds in your portfolio have a well-established track record of at least three years.
- ✓ Given that there are more than 200 diversified equity schemes, don't put your money into a fund just because it happens to be in the Top-5 or Top-10 today. There is a very strong possibility that it may not be in that list next year.
- ✓ Instead, shortlist funds that have performed consistently over time. Look out for funds that have been consistently in the top quartile (or 25%), i.e., among the Top-50.
- ✓ Your portfolio should not contain more than 10-12 mutual fund schemes.
- ✓ Ensure that you don't end up repeating the same type of funds in your portfolio. For instance, rather than having four mid-cap funds, you can build a portfolio comprising two large-cap and two mid-cap funds.
- ✓ If you are willing to take more risk, you can look out for promising sector funds to invest in, and two such sector funds today are power and banking.
- ✓ Look out for interesting themes for the future. For instance, you can consider gold ETFs or investing in a fund that has exposure to Latin America or China.
- ✓ Last but not least, ELSS (equity-linked savings schemes) or tax-savings funds should be an integral part of your portfolio, giving you benefits under Section 80C up to a maximum of Rs1,00,000 per year and with a lock-in period of three years.

While the worst may be over for the developed countries, equity markets are expected to remain volatile until there is a greater degree of certainty in the global arena. However, the near-term triggers for the Index include the second-quarter results and the continuous liquidity flow into the markets. Given the volatility in the markets, a good way to take exposure to equity markets is to invest in diversi-

fied equity schemes with excellent track records through a systematic investment plan (SIP).

#### SIP: An introduction

An SIP is a disciplined way of investing a pre-determined amount at regular intervals according to a predetermined schedule created by you. It is a time-tested discipline that makes it easy to invest automatically. For instance, if you avail of a monthly SIP of Rs2,000 in a particular mutual fund scheme, then that amount will be automatically debited from your account on a pre-determined date that month. In other words, an SIP allows you to “pay yourself first” at the beginning of the month.

Investing regularly eliminates the need to time the financial markets. This is unlike a lumpsum investment, which can become quite an emotional ride in a highly volatile market. What SIPs provide is an automatic timing mechanism like rupee cost averaging (RCA) that obviates the need to time your investments. Thus, it is an effective investment strategy that helps small investors to smoothen out the swings in the market and, particularly, eliminates the need to decide when to buy or sell in the market (or an equity fund).

#### Rupee cost averaging (RCA): A cost-averaging investment mode

The SIP is based on the RCA mechanism, which involves investing a fixed amount at regular intervals, regardless of the NAV or market movement. With RCA, you automatically end up buying fewer units in a rising market (higher NAVs) and more units in a falling market (lower NAVs), which is in line with our natural desire to buy low and sell high. RCA (through SIP) works well in a volatile market. Entering into a long-term SIP will ensure that the ups and downs (read volatility) of the stock market get smoothened over time. The automatic market-timing mechanism sets in, ensuring that more units are purchased at lower NAVs and lesser units at higher NAVs, thus reducing your average cost per unit of a mutual fund scheme.

#### Funds with good track records

Fund category	Scheme name
<b>Diversified Equity Funds</b>	Birla Sun Life Frontline Equity; Birla Sun Life Mid Cap; DSP BlackRock Equity; DSP BlackRock Top 100; Fidelity Equity; HDFC Equity; HDFC Top 200; IDFC Premier Equity; IDFC Imperial Equity; Kotak 30; Kotak Opportunities; SBI Magnum Contra; Principal Large Cap; Quantum Long Term Equity; Reliance Growth; Reliance Regular Savings Equity; Sundaram BNP Paribas CAPEX; Sundaram BNP Paribas Select Midcap; Tata Pure Equity; UTI Dividend Yield; UTI Opportunities
<b>ELSS (Tax Savings)</b>	Canara Robeco Equity Tax Saver; HDFC Taxsaver; Fidelity Tax Advantage; SBI Magnum Taxgain; Sahara Taxgain; Sundaram BNP Paribas Taxsaver;
<b>Technology Funds</b>	DSP BlackRock Technology
<b>Pharma Funds</b>	Franklin Pharma; Reliance Pharma
<b>Banking Funds</b>	Reliance Banking
<b>FMCG Funds</b>	SBI Magnum FMCG; Franklin FMCG
<b>Infrastructure Fund</b>	DSP BlackRock T.I.G.E.R.; ICICI Prudential Infrastructure; Sahara Infrastructure; Tata Infrastructure; UTI Infrastructure; Reliance Diversified Power; Tata Life Sciences & Technology; Reliance Media & Entertainment; UTI Transportation and Logistics

- Satyan Nair

## MUTUAL FUNDS

### Equity diversified

Scheme name	NAV	1 Year	2 Year	3 Year
IDFC Premier Equity - A (G)	23.63	71.30	20.30	105.60
Reliance RSF - Equity (G)	25.69	76.80	24.60	77.50
Sahara Infrastructure-VPO (G)	17.14	81.20	9.30	72.10
Baroda Pioneer Growth (G)	47.53	73.70	12.50	70.40
HDFC Top 200 Fund (G)	172.45	75.60	19.00	70.40
DSP-BR Top 100 Equity - RP (G)	85.96	56.40	9.90	69.30
Sundaram S.M.I.L.L.E Fund -RP (G)	29.53	90.30	15.60	68.80
Sahara Growth Fund (G)	75.55	56.00	15.00	68.80
Tata Equity P/E Fund (G)	38.86	71.50	7.60	68.30
ICICI Pru Infrastructure (G)	27.60	53.40	0.80	66.80

### ELSS

Scheme name	NAV	1 Year	2 Year	3 Year
Can Robeco Eqty TaxSaver (G)	20.48	86.90	14.40	79.70
Taurus Tax Shield (G)	30.53	78.60	23.90	79.30
Sundaram Tax Saver (G)	40.83	56.20	12.10	67.20
Sahara Taxgain (G)	31.25	78.10	17.40	58.50
Fidelity Tax Advantage (G)	17.03	62.10	2.90	52.70
Principal Personal Tax Saver	84.19	55.10	-12.60	42.40
SBI Magnum Tax Gain (G)	53.85	61.90	-6.30	37.70
Birla SL Tax Relief 96 (D)	81.21	74.20	-12.00	37.10
Franklin India Tax Shield (G)	164.41	56.50	-2.40	37.10
Kotak Tax Saver (G)	15.91	57.30	-14.50	30.80

### Equity - Tech

Scheme name	NAV	1 Year	2 Year	3 Year
Franklin Infotech Fund (G)	45.59	72.40	-6.70	--
ICICI Pru Tech. Fund (G)	11.96	62.10	-18.10	6.50
DSP-BR Technology.Com -RP (G)	27.06	60.70	-10.50	47.50
SBI Magnum IT Fund	16.52	45.70	-27.30	-10.40
Birla SL New Millennium (G)	16.75	45.40	-22.30	2.30

### Equity - Banking

Scheme name	NAV	3 mth	6 mth	1 Year
Sahara Bkg & Fin. Services (G)	23.04	129.50	--	--
Reliance Banking Fund (G)	73.59	79.30	37.70	106.40
UTI Banking Sector (G)	32.34	77.90	14.80	81.10
ICICI Pru Bkg & Fin Serv-RP(G)	14.19	66.20	--	--
Religare Banking Fund -RP (G)	15.11	63.40	--	--

Source: moneycontrol.com; Note: All NAV as of October 08, 2009, all returns are expressed in percentage terms.

(Compiled by Amit Chopra)

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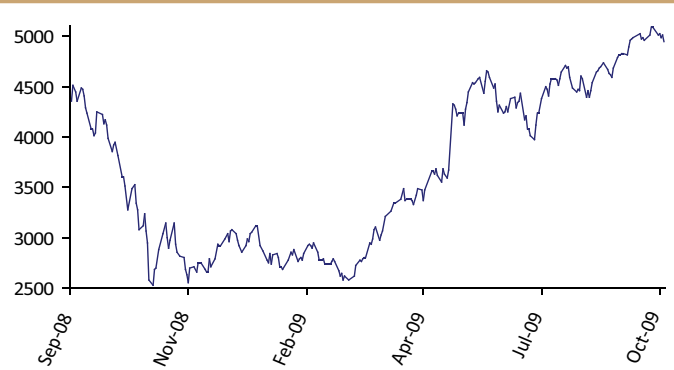
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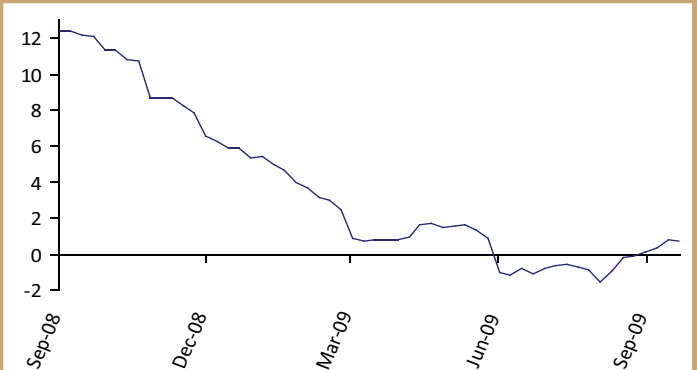


## MARKET DATA

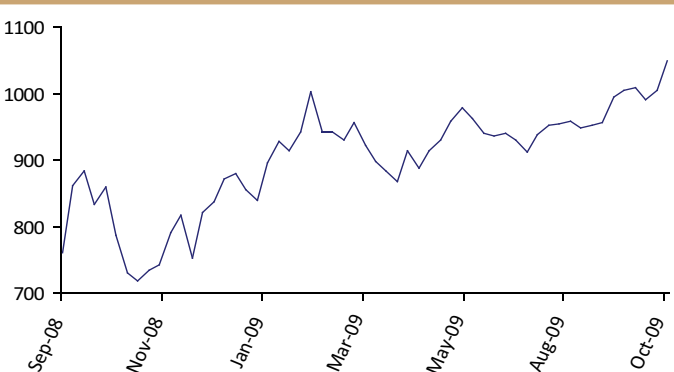
### Nifty movement



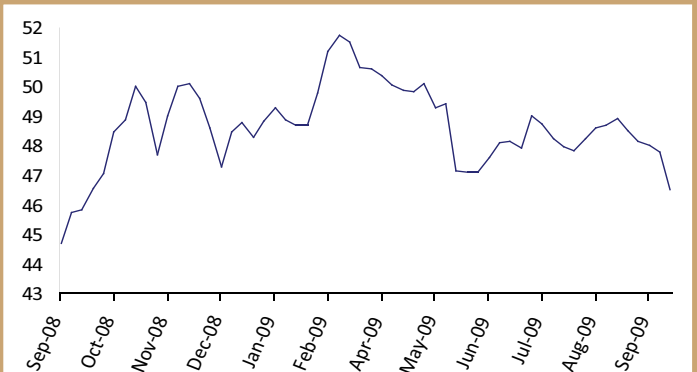
### Inflation is at 0.7%



### Gold (US\$/oz)



### Currency (US\$/INR)



### Global indices: Weekly performance

	Close (Oct 09)	Close (Oct 02)	Weekly (%)	6M (%)	12M (%)	PE Ratio
<b>ASIA</b>						
Hang Seng	21499.44	20375.49	5.52	44.28	34.85	23.06
STI	2652.51	2604.53	1.84	45.06	26.15	20.55
S. Korea	1646.79	-	-	25.10	27.18	35.70
Nikkei 225	10016.39	9731.87	2.92	12.34	9.38	-
<b>AMERICA</b> (closing as on Oct 08)						
Dow Jones	9786.87	9487.67	3.15	21.07	14.08	14.11
S&P 500	1065.48	1025.21	3.93	24.39	17.10	20.13
NASDAQ	2123.93	2048.11	3.70	28.53	29.10	35.76
Brazil Bovespa	63759.87	61171.99	4.23	40.01	71.95	22.14
<b>EUROPE</b> (closing as on Oct 08)						
FTSE-100	5154.64	4988.70	3.33	29.33	19.43	89.76
DAX 30	5716.54	5467.90	4.55	27.11	16.81	45.99
CAC 40	3806.81	3649.90	4.30	27.76	10.37	14.65

Source: Bloomberg

### Domestic indices: Weekly performance

	Close (Oct 09)	Close (Oct 01)*	Weekly (%)	6M (%)	12M (%)	PE Ratio
Sensex	16642.66	17134.55	-2.87	54.04	46.91	20.58
Nifty	4945.20	5083.40	-2.72	47.97	40.74	20.68
BSE 500	6436.07	6556.29	-1.83	63.71	51.35	20.65
BSE Auto	6450.01	6603.19	-2.32	95.77	87.36	45.25
BSE Bankex	9771.71	9931.79	-1.61	93.68	69.29	15.51
BSE Capital Goods	13687.81	13730.74	-0.31	85.70	55.66	33.92
BSE Consumer Durables	3670.87	3475.98	5.61	88.20	54.23	12.32
BSE FMCG	2751.98	2592.49	6.15	34.23	41.32	29.66
BSE Healthcare	4399.66	4347.21	1.21	49.94	31.55	37.60
BSE IT	4276.81	4611.23	-7.25	71.12	58.33	19.99
BSE Oil & Gas	10264.48	10387.67	-1.19	28.66	31.66	19.16
BSE Metal	14511.67	14202.60	2.18	113.36	101.29	15.51
BSE Realty	4389.93	4507.64	-2.61	115.05	54.34	20.49
BSE PSU	8888.27	8932.12	-0.49	56.03	53.37	17.28
BSE Power	3082.39	3063.15	0.63	52.12	51.54	31.68
BSE Teck	2952.77	3308.11	-10.74	45.37	30.38	19.31

\*Indian markets were closed on Oct 2<sup>nd</sup>

(Compiled by Amit Chopra)

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