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NSE
52 Wk H/L : 5181.95/2502.90
Mcap : Rs50,24,830 cr.
BSE
52 Wk H/L : 17493.17/8047.17

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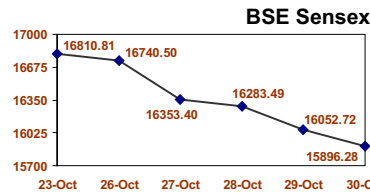
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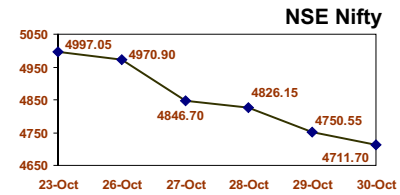
by **S. Gopichand** on behalf of Karvy Stock Broking Limited.

Editor: **S. Gopichand**

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15896.28
↓ 5.44%



4711.70
↓ 5.71%

RBI leaves key rates unchanged...

Markets worldwide corrected sharply last week, with the Sensex and Nifty declining in excess of 5% W/W. A correction is certainly welcome, especially after the sharp run-up in the markets in recent months. Many retail investors who had felt left out can look forward to committing fresh investments at lower levels. While India, Inc Q2FY10 results continue to be largely in-line with expectations, the global cues remain on shaky ground. Despite some encouraging economic data emanating from the US, the high unemployment rate is an indication that any recovery will be a long drawn-out process.

Meanwhile, the RBI left key interest rates unchanged in its Credit Policy review last week. This is a clear signal that achieving a sustainable economic recovery continues to be its top priority even as it raised its March-end inflation target from 5% to 6.5%. However, the RBI has signalled the first phase of "exit" from its easy monetary stance by restoring the SLR from 24% to 25%, although this move will have little impact in the near term as most banks are holding government securities in excess of this limit. With enough liquidity in the system, and with private sector credit demand expected to pick up early next year, the central bank has some leeway to maintain its key rates until a sustained economic recovery is evident. The RBI maintained its GDP growth estimates for FY10 at 6% with an upward bias.

Last week, realty, metals, and banking stocks were the worst hit while defensive sectors like FMCG and pharma outperformed the broader market. Realty majors like DLF and Unitech posted results marginally below expectations and stocks breached crucial supports. Fresh short positions can be assumed in the sector from current levels of the Nifty. Metals and capital goods stocks can be shorted from higher resistance of the Nifty at 4850 levels. Fresh long positions can be assumed in technology, pharmaceuticals, sugar, automobiles, and PSU banks from current levels, or from lower supports of the Nifty at 4600 levels. Overall, the Nifty is likely to trade in a range of 4600-4850 levels this week.

KBB weekly recommendations for the week beginning 03rd Nov.

Scrip	Action	CMP	Entry	Stop Loss	Target	Time Frame
Ambuja Cem	Buy	89.15	Above 90	87	99-100	10-12 Days
Hero Honda	Buy	1565.75	1550-1560	1530	1615-1620	5-6 Days
Rolta	Buy	173.50	Above 175	172	186-188	5-6 Days
Voltas	Buy	158.25	155-158	152	170-172	7-8 Days
DR. Reddy	Buy	1011.40	Above 1015	995	1095-1100	7-8 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
Infosys	Buy	2250-2260	2212.00	2315-2320	64	-2,763.56	-1.91%	SLT
GSPL	Buy	87-90	85.60	98-100	1638	-4,748.99	-3.28%	SLT
Allahabad Bank	Buy	130-132	126.80	143-145	1106	-4,646.48	-3.21%	SLT
DLF	Buy	450-455	444.00	473-475	320	-2,722.37	-1.88%	SLT
Dabur India	Buy	Above 152	148.00	160-161	950	-380.13	-0.26%	CMP

Total -15,261.53

Balance on inception (26-Jan-09)	Balance last week (23-Oct-09)	Balance current week (30-Oct-09)	Abs. returns WoW (%)	Abs. returns since Jan 26, 2009(%)
5,00,000	7,24,632	7,09,370	(2.11)	41.87

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

Dr Reddy's Lab (Rs976)

The company's revenues for the quarter were up by 13.7% Y/Y to Rs18,368 mn. The revenue growth was driven by the US generics business, which grew by 36% to Rs4,285 mn. Moreover, the Indian business clocked a decent growth of 12.7% for the quarter. Strong product introductions as well as the launch of six dermatology products will augur well for the company. In addition, the revenue from the Russia and CIS region grew by 26% to Rs2,347 mn for the quarter. Although the Russian market has de-grown in dollar terms for the five-month period of April-August 2009, during the same period, Dr Reddy's grew by 7%.

Dr Reddy's gross margins have declined from 49.3% to 47.5% for the quarter. Gross margins are lower due to a one-time inventory provision to the tune of €6 mn in Betapharm on account of non-moving stocks, and US\$4 mn in the US for inventory valuation adjustments of Sumatriptan stocks lying with the company. The company's operating margins have moved up from 10.9% to 13.9% for the quarter, mainly due to savings in SG&A expenses. The profit for the quarter moved up by 106% to Rs2,173 mn. The growth in profit includes a forex gain of Rs244 mn for the quarter against a forex loss of Rs296 mn in the corresponding quarter of the previous year.

Dr Reddy's is all set to launch Prilosec OTC in the US market, which could give the company a revenue upside of US\$35 mn for the year. Moreover, the Nateglanide launch will provide the company with some upside in this two-player generics market.

In addition, although Arixtra's launch is expected in Q4FY10, we have factored the same for next year. We upgrade our FY10E EPS by 7.8% to Rs51.1 and FY11E by 12.8% to Rs64.9, mainly on the back of better traction in formulation exports and lower SG&A and R&D expenses. Currently, the stock is quoting at 19.1x FY10E and 15.0x FY11E earnings. We upgrade our price target by 7.1% to Rs1,200 based on 18.5x FY11E. The Betapharm impairment risk does remain which is expected in Q3FY10. We maintain an 'Outperformer' rating on the stock.

Bharat Heavy Electricals (Rs2,385)

Bharat Heavy Electricals (BHEL)'s revenues increased by 23.6% Y/Y (Q/Q increase of 18.6%) to Rs67.27 bn for Q2FY10 due to capacity addition and a strong order book. The outstanding order book increased from Rs1,240 bn in Q1FY10 to Rs1,258 bn in Q2FY10. The revenue was 1% lower than our estimates of Rs67.86 bn.

The operating margins increased from 14.9% in Q2FY09 to 18.3% in Q2FY10, mainly due to a 204-bps decline in raw material cost as percentage of sales to 56.4%. The lower increase in other expenditure by 12.9% Y/Y to Rs6.33 bn improved margins by 89 bps. However, the operating margins were lower than our estimates of 20.8%. The operating profit increased by 51.6% Y/Y to Rs12.3 bn. The depreciation cost rose by 25.6% Y/Y to Rs934.1 bn. The company has almost zero debt on its balance sheet, and interest cost is expected to remain negligible. The other income, mainly from surplus cash ~Rs 100 bn, declined marginally by 4.1% to Rs19.68 bn. Overall, the net profit increased

by 39.5% Y/Y to Rs8.59 bn, translating into an EPS of 17.5 during the quarter compared to the estimated Rs20.34.

At the current price of Rs2,385, the stock is trading at 27.8x FY10E and 20.8x FY11E earnings. In EV/EBIDTA terms, it is trading at 17.2x FY10E and 12.4x FY11E. We have used an average of P/E and DCF method to value BHEL. We maintain our valuation at Rs2,653 per share (average of Rs2,763 based on 25x FY11E and DCF value per share of Rs2,543 per share). We maintain a 'Marketperformer' rating on the stock.

Maruti Suzuki India (Rs1,519)

Maruti Suzuki India (MSIL) reported strong 2QFY10 results which were broadly in line with our estimates. On a Y/Y basis, MSIL's sales grew by 46.6% due to strong volume growth of 30% and a 13% increase in realisation. The sales for the quarter stood at Rs70,807 (in line with our estimates of Rs69,628 mn) against sales of Rs48,303 mn reported during the same period last year. The volumes increased due to robust demand in the domestic market and scrappage incentives provided in the export markets. The realisation improved on account of better product mix.

Due to higher sales and improved EBITDA margin, the company reported an EBITDA of Rs7,942 mn, a growth of 125.4% over 2QFY09 EBITDA of Rs3,524 mn. Due to slightly higher sales (1% higher than our estimate) and lower employee expenses, EBITDA was 7.8% higher than our estimates of Rs7,370 mn. The fall in raw material prices over the past one year and improved product mix led to an increase in EBITDA margin from 7.3% during 2QFY09 to 11.2% during 2QFY10.

On a Y/Y basis, other income (including other operating income) fell by 10.6% from Rs2,594 mn to Rs2,320 mn and was lower than our estimate of Rs2,656 mn owing to forex MTM loss against forex MTM gain of Rs600 mn reported during 2QFY09. MSIL reported a net profit of Rs5,700 mn against 2QFY09 net profit of Rs2,961 mn, which was 2% higher than our estimate of Rs5,583 mn. We continue to rate the stock as an 'Underperformer' with a price target of Rs1,358.

DRL (Consolidated)	Rs Mn	FY07	FY08	FY09	FY10E	FY11E
Reuters/ Bloomberg Code	REDDY. Net sales BO/ DRRD.IN	65,095	50,006	69,441	71,290	80,848
Market Cap(Rs bn)	163.96 EBITDA	11,157	3,251	(2,580)	12,002	15,096
Market Cap(US\$ mn)	3415.84 Net Profit	9,327	4,678	(5,168)	8,590	10,925
Shares Outstanding(mn)	167.82 EPS(Rs)	55.6	27.8	(30.7)	51.1	64.96
52-week High/Low(Rs)	1,018/357 EPS growth (%)	422.5	(49.9)	(210.5)	(266.2)	27.2
	EBITDA margin(%)	16.0	6.5	(3.7)	16.8	18.7
Major Shareholders (%)	PER(x)	17.6	35.1	(31.8)	19.1	15.0
Promoters	26.40 EV/EBITDA (x)	14.7	52.2	(66.1)	13.8	10.9
FII's/NRI's/ADRs	22.16 P/S (x)	2.6	3.3	2.4	2.3	2.0
Banks/FI's/MFs	20.18 RoCE(x)	17.9	6.8	(4.5)	18.5	20.5
Public	31.27 RoE(%)	29.2	10.6	(11.6)	18.7	19.9

Source: Company & KSBL Research.

Market pulse

Bulk Deals

Company	Wt. Avg. Price (Rs.)	Traded Qty	Acquirer/Seller
Buy			
Magma Fincorp	155.00	323785	Merrill Lynch Capital Markets
Indiab Power	39.67	10016441	Transglobal Securities
Sell			
Mindtree	590.03	600000	Walden Software Investments Ltd Fdi
Thinksoft Global Ser	135.42	75000	Emerging India Focus Funds

Top Gainers (Weekly)

Company	30-Oct	23-Oct	%Change
Tata Motors	567.25	529.30	7.17
Ranbaxy	390.40	372.45	4.82
Wipro	605.90	588.80	2.90
Sun Pharma	1378.65	1350.55	2.08
Grasim Industries	2184.10	2150.55	1.56
HUL	283.50	280.65	1.02
Cipla	287.10	285.10	0.70

Top Losers (Weekly)

Company	30-Oct	23-Oct	%Change
RCom	175.85	229.65	-23.43
Suzlon	66.85	84.25	-20.65
DLF	370.25	454.55	-18.55
Tata Comm	391.45	470.20	-16.75
Unitech	82.25	98.50	-16.50
Reliance Capital	746.90	873.85	-14.53
Reliance Infra	1056.35	1231.10	-14.19
Hindalco	121.85	141.45	-13.86
RPower	138.45	159.00	-12.92
ICICI Bank	790.80	903.70	-12.49

FII Invt (Rs.cr)

MF (Rs.cr)

Date	Purchases	Sales	Purchases	Sales
26-Oct-09	2148.00	1957.00	618.00	1091.00
27-Oct-09	4990.00	3649.00	913.00	1550.00
28-Oct-09	3036.00	3008.00	1290.00	852.00
29-Oct-09	3419.00	5014.00	1758.00	1301.00
Total	13593.00	13628.00	4579.00	4794.00

Corporate Actions

Company	Date	Purpose
Greaves Cotton	3-Nov-09	Interim Dividend
Four Soft	6-Nov-09	Employee Stock Option Scheme
Dhampur Sugar	9-Nov-09	Audited Results/Dividend

(Compiled by Krishnaveni M)

ITC (Rs260)

The Q2FY10 results for ITC were in line with our expectations in term of net sales and above our expectations in terms of net profit. Net sales increased by 5% Q/Q and 12.5% Y/Y, to Rs43,452.8 mn against our expectations of Rs43,255 mn. The net sales growth was primarily driven by cigarettes, FMCG (others), agri and paper & packaging businesses which grew by 2.5%, 14%, 9% and 12.5% Q/Q and 21%, 14%, 19% and 13% Y/Y, respectively.

EBITDA margin jumped 303 basis points Q/Q from 33.6% in Q1FY10 to 36.6% in Q2FY10 against our expectation of 33%. EBITDA margin (Y/Y) surged by 513 basis points from 31.5% in Q2FY09. The EBITDA margin expansion—Q/Q and Y/Y—was primarily due to steady volume growth coupled with better realization-per-stick of cigarette, moderation of losses from other FMCG businesses, improved profitability in the paper & packaging business (driven by better product mix), lower input costs and profitability improvement in the agri business (driven by continuing strong performance of the leaf tobacco portfolio). EBITDA increased by 14.6% Q/Q and 30.8% Y/Y to Rs15,901 mn against our expectation of Rs14,276 mn. Accordingly, the net profit grew 15% Q/Q and 25.8% Y/Y to Rs10,099 mn against our expectation of Rs9,232 mn. The bottom-line of the company improved due to better product mix, investments in brand-building in personal care and branded foods businesses, and cost management across the segment.

We maintain our net sales and net profit estimates for FY10 and FY11 of Rs175,723.5 mn and Rs207,733 mn and Rs37,778.5 mn and Rs45,217.8 mn respectively. The stock is currently trading at 26x FY10E EPS of Rs10.0 and 21.7x FY11E EPS of Rs12. Hence, we maintain our Market Performer rating with price target of Rs284.

Segmental performance

FMCG-Cigarette: The net sales for the cigarette business improved 2.5% Q/Q and 21% Y/Y, to Rs21,997 mn in Q2FY10. EBIT improved by 11% Q/Q and 21.4% Y/Y, to Rs12,516.7 mn. ITC's cigarette business continues to do well due to its portfolio of brands and strong marketing presence through two million+ outlets. During Q2FY10, cigarette volumes grew by approximately 8% Y/Y despite pictorial warnings on cigarette packs.

Moving forward, we expect cigarette volumes to increase 6% in FY10 and 7% in FY11. Its product quality, resilience of its brands and superiority of its competitive strategies are helping the company perform well in the cigarette business.

FMCG-Others: The net sales of FMCG-others business increased 14% Q/Q and 14% Y/Y, to Rs8,633 mn in Q2FY10. Loss at the EBIT level in Q2FY10 decreased from Rs1,165.5 mn in Q2FY09 and Rs997.7 mn in Q1FY10 to Rs850mn. During Q2FY10, the company added another unique variant to the range of personal care products. It launched transparent gel bathing bars, developed on the basis of insightful research. It is a first-of-its-kind, crafted through a patented technology. Moving ahead, we expect that new launches across segments and intensive advertisement & promotional activity would help the company to maintain growth momentum in the FMCG business.

Hotels: The net sales of the hotel business rose by 0.7% Q/Q and fell 25% Y/Y, to Rs1,862.8 mn in Q2FY10. EBIT increased 3% Q/Q and decreased 54% Y/Y, to Rs315.6 mn. The decrease in corporate travel, both domestic and international, continued to impact the hotels business. De-growth in occupancies and average room rates persisted during the quarter. In the last couple of weeks of Q2FY10, occupancy rates have shown improvement, providing early recovery signals in the business. We expect that recovery in the hotel business to gain momentum in H2FY10.

Agri Business: The net sales of agri business rose 9% Q/Q and 19% Y/Y, to Rs10,282.8 mn in Q2FY10. EBIT improved by 74% Q/Q and 128% Y/Y, to Rs1,740.8 mn. The improvement in net sales and profitability was primarily driven by continuing strong performance of the leaf tobacco portfolio. The company maintained its position as the leading exporter of leaf tobacco, leveraging the growing demand for Indian tobaccos.

Paperboards, Paper & Packaging: The net sales of the paper & packaging business increased 12.5% Q/Q and 13% Y/Y, to Rs7,904 mn in Q2FY10. EBIT improved 46% Q/Q and 52% Y/Y, to Rs1,862 mn. The better profitability was driven by improved product mix, lower input costs and significant value capture in the pulp mill operations. Sales of value-added paperboards and paper continued to register strong growth during the quarter, further enriching the product mix.

FUNDAMENTALS

Bank of Baroda (BOB) (Rs513)

BOB's results, although impressive, were slightly higher than our expectations. BOB for 2QFY10 reported net profit of Rs6,341 mn, a growth of 60% Y/Y and 4% higher than our estimate of Rs6,096 mn. Growth in net interest income and treasury profits and the absence of investment depreciation were the main earnings drivers. We retain our Underperformer rating as we believe that interest rates would harden hereon and it is unlikely that the bank can significantly outperform our FY10 and FY11 estimates.

Strong growth in net interest income:

BOB posted a commendable 23% Y/Y growth in net interest income on the back of a 20% Y/Y growth in gross credit to Rs1,505 bn. Although net interest margin reduced to 2.63% from 2.77% in 2QFY09, it improved from 2.37% in 1QFY10. The sequential improvement is due to the re-pricing of deposits at lower rates.

Strong contribution from treasury: Due to the soft interest rate regime and volatile foreign exchange rates, the bank was able to report strong profits on foreign exchange and domestic treasury.

NPAs flat but sequential growth in restructured standard loans: While gross NPAs grew by 0.1% Y/Y, to Rs19.6 bn, and net NPAs declined by 25% Y/Y, to Rs4.1 bn., restructured standard loans sequentially increased by 7%, to Rs44.5 bn. The bank has a coverage ratio of 79%, but including the restructured standard loans, the modified coverage ratio was 24%.

Maintaining estimates and recommendation: The credit policy has sent a signal to the markets that inflation is the wider concern and that the days of a soft interest rate regime are numbered. Furthermore, credit growth in the economy has remained muted. It is, therefore, difficult for BOB to significantly exceed our profit estimates for FY10, especially given that in 2HFY09, the bank booked substantial treasury profits. We, therefore, maintain our price target and recommendation despite BOB's strong 2QFY10 performance.

Cadila (Rs560)

Net revenues for the quarter improved 27.6% Y/Y, to Rs9,458 mn. The domestic formulations business reported a 10% Y/Y increase to Rs.3,935 mn, driven by 14 new

Bank of Baroda		(Rs mn)	FY08	FY09	FY10E	FY11E
Bloomberg/Reuters Code	BOB IN/BOB.BO	Total Income	59,628	78,812	88,519	102,930
Market Cap (Rsbn)	182	Profit before provisions	30,285	43,051	50,932	63,061
Market Cap (US\$m)	3,869	NIM (%)	2.5	2.6	2.6	2.6
52-week range (Rs)	542/170	Net Profit	14,355	22,272	27,979	35,074
Shares in issue (mn)	365.5	EPS (Rs)	39.3	60.9	76.5	96
FII limit (%)	20	EPS Growth (%)	39.8	55.2	25.6	25.4
		PE (x)	12.7	8.2	6.5	5.2
Major Shareholder (%)		Price/Book Value (x)	2.09	1.69	1.36	1.1
Government of India	53.4	Price/ABV (x)	2.08	1.9	1.64	1.27
Banks/FIs/MFs	3.8	Dividend Yield (%)	1.6	1.8	2	2.2
Institutions	17	Cost-to-income (%)	49.2	45.4	42.5	38.7
Public	8.9	ROA (%)	0.75	0.99	1.03	1.1
FII's/NRIs/OCBs	16.9	ROE (%)	16.7	22.8	23.1	23.4
		Tier-1 Capital (%)	7.6	7	7.2	7.4

Source: Company & KSBL Research.

product launches during Q2FY10. The export formulations business was primarily driven by strong growth in the US market (+101% Y/Y), the Brazilian business (+15% Y/Y) and the French business (+14% Y/Y). Revenues from the Hospira venture, which were absent during Q2FY09, further added to growth in Q2FY10. The exports API business reported 44% growth in Q2FY10, to Rs831 mn, while Nycomed clocked revenues of Rs208 mn, a de-growth of 35%. In Q2FY10, operating margins were at 22.2%, higher than 20.1% in Q2FY09, mainly due to higher other operating income. Profits for the quarter were higher by 39% to Rs1,319 mn for the quarter.

We raise our FY10E revenues by 3.24% to Rs35,776 mn and our FY11E by 3.22% to Rs42,315 mn on the back of greater traction in US generics, Hospira venture, and API exports and higher other operating income. We increase our FY10E EPS by 13.7% to Rs33 and our FY11E by 11.4% to Rs41.9. The stock is currently quoting at 16.7x FY10E and 13.1x FY11E. We raise our price target by 8.3% to Rs650 based on 15.5x FY11E and upgrade the stock to Outperformer.

Cadila		Rs Mn	FY07	FY08	FY09	FY10E	FY11E
Reuters/ Bloomberg Code	CADI.BO/ CDH@IN	Net sales	18,288	23,213	29,275	35,776	42,315
Market Cap(Rs bn)	75.0	EBITDA	3,521	4,566	6,058	7,771	9,237
Market Cap(US\$ mn)	1563	Net Profit	2,079	2,582	3,184	4,496	5,711
Shares Outstanding(mn)	136.40	EPS(Rs)	16.6	20.6	23.3	33.0	41.9
52-week High/Low(Rs)	574/222	EPS growth (%)	28.8	24.2	13.5	41.2	27.0
		EBITDA margin(%)	19.3	19.7	20.7	21.7	21.8
Major Shareholders (%)		PER(x)	33.2	26.8	23.6	16.7	13.1
Promoters	74.79	EV/EBITDA (x)	22.3	18.1	14.1	10.7	8.7
FII's	3.12	P/S (x)	3.7	2.9	2.6	2.1	1.8
Banks/Fis/MFs	14.40	RoCE(x)	20.6	21.0	20.5	23.3	24.4
Public	7.70	RoE(%)	27.8	26.8	27.9	31.8	30.6

Source: Company & KSBL Research.

Highlights

- ✓ Cadila currently has 27 products in the US market and plans to file 12-15 ANDAs every year. It plans to launch six products in the US market in FY11.
- ✓ In the domestic formulations space, the company is expected to increase its revenues by 13-14% in FY10. However, we maintain our 12% growth for FY10E and FY11E.
- ✓ Cadila currently has two products in the Hospira JV which it intends to increase to five by year-end.
- ✓ In the French market, Cadila intends to launch four new products in 3QFY10. Clopidogrel is a key product which is expected to be launched.
- ✓ Zydus Novaltech plans to file its first transdermal ANDA product in FY11. It plans to file at least 7 ANDAs which are complex and niche in nature next year.
- ✓ In the Japanese market, the company currently sells methyl dopa. It has 20 out-licensed products for the Japanese market in the near term.

Commodities review

Bullion

Gold prices opened on a negative note last week. Prices lost 1.29% on Monday, and continued to decline for another two days. However, it made a spectacular comeback, gaining 1.61% on Thursday—the biggest since October 6. The weakness in bullion prices was mainly due to strengthening dollar, weak equity markets, and declining gold demand from ETFs.

The dollar was supported by strong economic data from the US. The Durable Goods Orders rose by 1% for September after declining 2.40% in the previous month. In addition, various confidence measures in the Euro-zone indicated showed better economic outlook. The most sought-after release of the week was the US GDP data, which expanded 3.50%, indicating that the world's largest economy has come out of the recession. This was propelled by stimulus-driven personal consumption data, which rose a staggering 3.40% for the third quarter after declining 0.90% in the previous quarter. Moreover, both Initial Jobless Claims and Continuous Claims fell by 1,000 and 1,26,000, respectively, and the positive sentiment arising from these data helped gold to recover in the later part of the week.

Meanwhile, the SPDR Gold Trust reduced its gold holdings by 3.66 metric tonnes, causing gold prices to decline during the week. Bullion prices also took cues from the equity markets and moved in tandem with

it. The global equity markets, represented by the MSCI World Index, declined nearly 2% during the week. At the time of writing this report, gold prices were trading at US\$1,048/oz, ameliorating its losses to 0.80%. Moreover, crude oil, which had risen by 1.59%, provided the much-needed cushion for bullion.

The Indian gold futures prices traded lower due to weak international prices. However, MCX gold futures showed a lower decline than its COMEX counterparts due to rupee depreciation. The Indian currency has, so far, slid more than 1%, thereby supporting the falling domestic gold prices. However, at the time of writing this report, December gold futures were down marginally by 0.10%.

Gold prices are expected to trade sideways with positive bias for the week. Positive sentiments this week may continue to drive markets higher. Moreover, a couple of economic releases are expected to come in positive, prompting equity markets to perform well. Gold, in such a case, will continue to take cues from the equity markets.

Base metals

Although base metals opened positive last week, it ended on a subdued note, as the dollar index gained about 0.60% and crude oil prices fell 0.84%. Copper and lead earned 0.21% while others declined. On the inventory front, aluminium shed 15,650 tonnes, while copper added 4,325 tonnes. The extensive rise in Durable Goods Orders

in September 2009 by 1.0%, to US\$165.7 billion, indicates a recovery in demand for industrial metals. However, that was negated by New Home Sales, which fell sharply by 3.6% as against the expected 2.6%. A better-than-expected growth posted by US GDP—3.5% against a decline of 0.7% in the previous quarter—boosted trade in the later part of the week. The International Lead and Zinc study groups stated that the global lead and zinc market was in surplus by 57,000 and 327,000 tonnes, respectively, in the first eight months of 2009. As beer shipments hit record lows and a mild summer cut sales of other beverages sold in aluminium cans, the aluminium shipments fell 18.3% in September from a year earlier to 1,57,085 tonnes in Japan.

BHP Billiton has reduced production to a minimum as labor strikes at Chile's Spence copper mine continues. Nyrstar, the world's biggest zinc producer, indicated that the market is likely to recover due to higher demand in the Chinese, European and the US steel industry. China exported 11,000 tonnes of copper in September, or more than one-third of 2009. Moreover, Japan's refined copper exports fell 11.1% in September from a year earlier, to 37,603 tonnes, with nearly half going to China.

This week, we expect metals to remain range-bound amid mixed data releases and a further decline in the dollar. Moreover, the FOMC rate decision and the ECB announcement of interest rates would be crucial to watch out for.

- Commodities Research Desk

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Mutual fund performance

Equity diversified

Scheme name	NAV	1 Year	2 Year	3 Year
IDFC Premier Equity - A (G)	23.17	84.00	4.30	96.70
Reliance RSF - Equity (G)	24.56	80.60	6.50	65.00
Tata Equity P/E Fund (G)	38.84	91.20	-4.70	61.10
Sundaram S.M.I.L.L.E Fund (G)	28.58	106.20	-2.00	60.20
UTI Dividend Yield Fund (G)	24.47	67.90	2.10	59.30
Baroda Pioneer Growth (G)	45.40	82.10	-0.40	58.50
HDFC Top 200 Fund (G)	166.12	79.90	3.70	58.20
DSP-BR Top 100 Equity - RP (G)	83.14	63.60	-3.40	57.20
ICICI Pru Infrastructure (G)	26.34	62.30	-16.60	54.60
Sahara Infrastructure-VPO (G)	15.98	81.40	-13.20	53.90

ELSS

Scheme name	NAV	1 Year	2 Year	3 Year
Taurus Tax Shield (G)	28.51	79.10	2.40	68.50
Can Robeco Eqty TaxSaver (G)	19.75	93.80	-3.70	61.90
Sundaram Tax Saver (G)	38.78	60.30	-7.20	53.40
Sahara Taxgain (G)	30.02	80.60	0.60	51.30
Fidelity Tax Advantage (G)	16.51	69.30	-7.60	43.60
Religare India Tax Plan (G)	13.58	81.10	-4.10	35.80
Principal Personal Tax Saver	81.73	67.60	-22.30	32.00
Franklin India Tax Shield (G)	160.58	60.50	-13.50	30.60
SBI Magnum Tax Gain (G)	51.79	67.90	-17.60	29.70
Tata Tax Advantage Fund-1(G)	12.95	63.30	-10.70	29.20

Equity (FMCG)

Scheme name	NAV	1 Year	2 Year	3 Year
Franklin FMCG Fund (G)	48.29	62.70	18.90	34.40
SBI Magnum FMCG Fund	19.06	63.30	17.70	28.70
ICICI Pru FMCG Fund (G)	49.67	66.10	2.20	28.30

Equity (Speciality)

Scheme name	NAV	1 Year	2 Year	3 Year
Birla SL Basic Industries (G)	85.51	78.30	-20.30	30.20
Birla Sun Life Buy India (G)	32.25	73.30	-0.20	22.00
JM Basic Fund (G)	16.89	71.80	-50.00	-3.60
JM Financial Services Fund (G)	8.50	12.80	-46.60	-15.00
JM Telecom Sector Fund (G)	7.31	14.20	-50.30	-26.90
Reliance Diver. Power - RP (G)	72.52	84.50	-0.30	127.10
Reliance Media & Entertain (G)	22.71	62.30	-28.40	14.90
Tata Life Sc & Tech Fund (G)	57.96	107.00	8.90	31.10

Equity (Tech)

Scheme name	NAV	1 Year	2 Year	3 Year
DSP-BR Technology.Com -RP (G)	27.11	70.90	-13.30	36.90
ICICI Pru Tech. Fund (G)	12.09	79.40	-16.00	-3.80
Birla SL New Millennium (G)	16.56	52.10	-24.30	-5.20
Franklin Infotech Fund (G)	46.75	62.30	1.10	-6.20
SBI Magnum IT Fund	16.65	49.10	-26.30	-17.60

Equity (Banking)

Scheme name	NAV	1 Year	2 Year	3 Year
Sahara Bkg & Fin. Services (G)	22.32	116.2	--	--
Reliance Banking Fund (G)	71.91	92.1	25.5	99
UTI Banking Sector (G)	30.92	81.1	-2.6	63.2
ICICI Pru Bkg & Fin Serv-RP(G)	13.79	80.5	--	--
Religare Banking Fund -RP (G)	14.63	73.1	--	--
Sundaram Fin-Serv. Opp.-RP (G)	14.79	62.8	--	--

Equity (Pharma)

Scheme name	NAV	1 Year	2 Year	3 Year
Reliance Pharma Fund (G)	35.90	100.90	35.20	81.90
Franklin Pharma Fund (G)	41.64	92.00	48.20	49.10
UTI Pharma & Health (G)	27.09	53.80	19.70	27.40
SBI Magnum Pharma Fund (G)	32.26	80.50	-7.10	-7.50

Source: moneycontrol.com; Note: All NAV as of October 30, 2009, all returns are expressed in percentage terms.

(Compiled by Amit Chopra)

SPECIAL FEATURE

Credit policy: Key rates maintained

While economists were debating whether the Reserve Bank of India (RBI) would tighten interest rates and liquidity in the credit policy, the regulator left the rates unchanged. However, they surprised the market by compelling banks to a minimum provisioning cover of 70% by the end of September 2010. The RBI has thus made a major change in provisioning norms since the income recognition norms introduced in the early 1990s. This would have a major impact on banks like SBI, Canara Bank and Dena Bank.

Tightening of provisioning norm was required

In our opinion, the provisioning norm required tightening because the reported non-performing assets had ceased to be an adequate indicator of asset quality as the quantum of restructured standard assets far exceeded the quantum of non-performing assets. According to the RBI norms, there was a minimal provisioning for restructured standard assets and banks like SBI had a provisioning cover of only 45% on gross NPAs as on 1QFY10. Factoring restructured standard loans would further reduce the coverage ratio, although there is a debate by bankers and analysts on whether restructured standard loans should be treated as standard loans or as non-performing loans. We believe that the RBI has undertaken an overdue, but prudent, measure by compelling banks to have a minimal provisioning cover of 70% by end-September 2010 to reflect the actual asset quality in the industry.

Banks that are adversely affected by the new norms are Dena Bank, Canara Bank, State Bank of India and Bank of India while banks which would remain unaffected are Punjab National Bank, Bank of Baroda and Union Bank of India.

Provisioning cover of select banks

Banks	Provisioning as on 1QFY10 (%)
State Bank of India	45.1
Punjab National Bank	89.6
Bank of India	55.7
Canara Bank	27.8*
Bank of Baroda	81.7
ICICI Bank	51.0
Union Bank of India	88.0*
Andhra Bank	72.3
Axis Bank	63.0*
Dena Bank	38.0*

Source: Banks. Note: *2QFY10.

In the subsequent quarters, banks that are currently below 70% coverage would have to increase their provisioning so that the revised regulatory norm can be met, thereby impacting earnings.

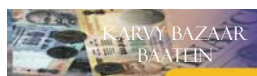
- Equity Research Desk

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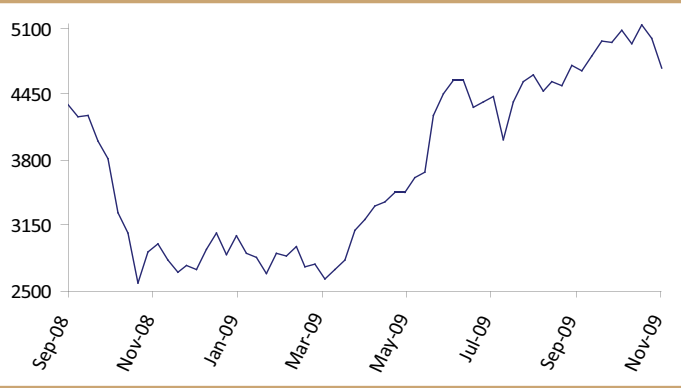
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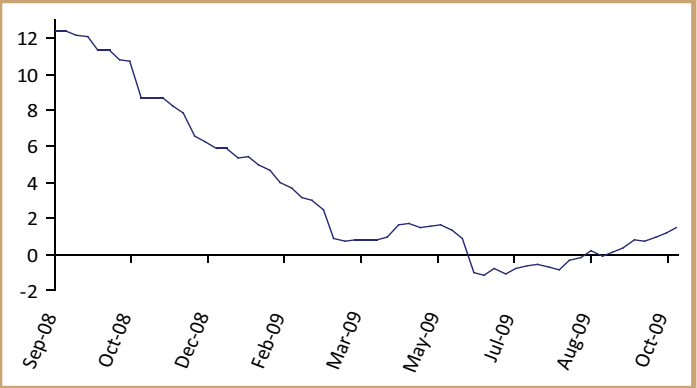


MARKET DATA

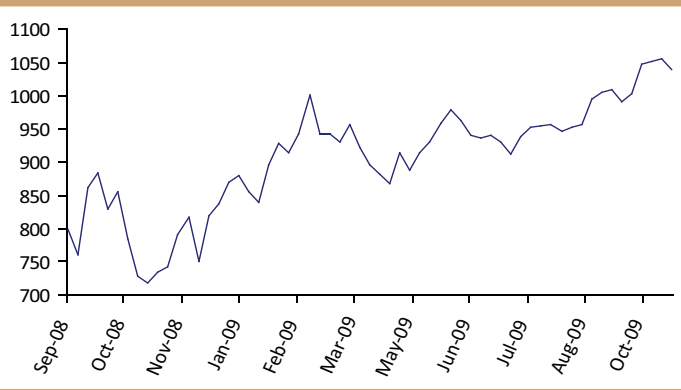
Nifty movement



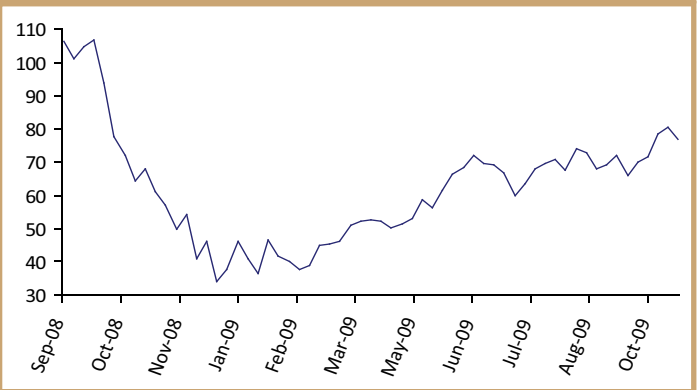
Inflation is at 1.51%



Gold (US\$/oz)



Crude oil (US\$/bbl)



Global indices: Weekly performance

	Close (Oct 30)	Close (Oct 23)	Weekly (%)	6M (%)	12M (%)	PE Ratio
ASIA						
Hang Seng	21752.87	22589.73	-3.70	37.74	53.04	22.35
STI	2651.13	2715.34	-2.36	37.63	47.30	20.90
S. Korea	1580.69	1640.17	-3.63	13.33	39.42	33.92
Nikkei 225	10034.74	10282.99	-2.41	9.39	14.50	-
AMERICA						
Dow Jones	9712.73	9972.18	-2.60	18.27	4.16	15.17
S&P 500	1036.19	1079.60	-4.02	18.08	6.96	20.98
NASDAQ	2045.11	2154.47	-5.08	18.96	18.84	35.36
Brazil Bovespa	61545.50	65058.84	-5.40	30.15	65.19	25.29
EUROPE						
FTSE-100	5044.55	5242.57	-3.78	18.88	15.24	127.63
DAX 30	5414.96	5740.25	-5.67	13.53	8.56	44.41
CAC 40	3607.69	3808.24	-5.27	14.17	3.46	13.79

Source: Bloomberg

Domestic indices: Weekly performance

	Close (Oct 30)	Close (Oct 23)	Weekly (%)	6M (%)	12M (%)	PE Ratio
Sensex	15896.28	16810.81	-5.44	39.40	62.40	19.28
Nifty	4711.70	4997.05	-5.71	35.63	63.28	19.56
BSE 500	6142.43	6546.75	-6.18	48.35	72.05	19.25
BSE Auto	6307.20	6466.93	-2.47	80.30	134.85	41.28
BSE Bankex	9336.16	10231.41	-8.75	64.22	86.30	14.12
BSE Capital Goods	12873.48	13447.45	-4.27	62.78	83.45	32.12
BSE Consumer Durables	3348.21	3638.78	-7.99	90.50	61.52	11.16
BSE FMCG	2808.97	2824.71	-0.56	34.08	56.07	29.77
BSE Healthcare	4377.20	4401.80	-0.56	42.67	57.53	34.04
BSE IT	4425.52	4528.43	-2.27	66.16	54.63	20.20
BSE Oil & Gas	9434.43	10006.69	-5.72	16.01	52.28	17.66
BSE Metal	13940.17	15420.96	-9.60	102.45	159.71	15.31
BSE Realty	3827.13	4522.81	-15.38	79.64	93.46	20.70
BSE PSU	8400.20	8969.48	-6.35	43.26	84.02	16.35
BSE Power	2914.62	3137.78	-7.11	37.95	84.08	29.44
BSE Tech	2855.37	3023.79	-5.57	32.01	32.10	18.30

(Compiled by Amit Chopra)

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