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NSE
52 Wk H/L : 4676.95/2252.75
Mcap : Rs47,44,661 cr.
BSE
52 Wk H/L : 15970.70/7697.39

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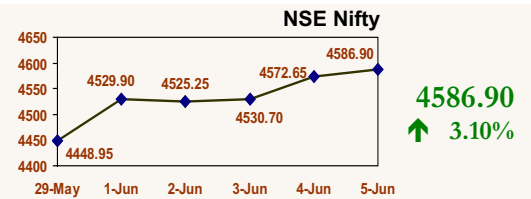
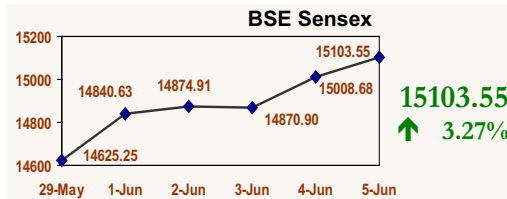
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by **S. Gopichand** on behalf of Karvy Stock Broking Limited.

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“Lucky 13” for the Sensex

The No.13 may be considered “unlucky” by many, but the Indian stock markets are certainly not one of them. For the 13th consecutive week, since the March lows, the BSE Sensex has closed in the green on a week-on-week basis. During the period, the Sensex has skyrocketed by more than 85% as it closed above the 15000-mark for the first time in nine months this week. In fact, until three months back, when the global economy reeled from the impact of the worst economic turmoil since the Great Depression, no one could have even remotely imagined of such a turnaround.

The Indian stock market is today the best-performing market in the world. The 85% jump in the Sensex since early March can be broadly attributed to two major phases. The initial phase, which constituted nearly two-thirds of the rise, was marked by a combination of strong global cues and better-than-expected fourth-quarter results. A stream of positive data emanated from the US at that time, raising hopes of a soft landing for the US economy and an early global recovery. The second phase came on the back of the unexpected election results, and the markets took off after the decisive mandate the UPA coalition received on May 16. With the Left proving to be a no-show, the Sensex has since risen nearly 25%.

So which sectors have outperformed the Sensex since the March lows? Well, the notable ones are BSE Realty, BSE Metals, BSE Capital Goods, BSE Bankex, and BSE Consumer Durables, which have shot up by 209%, 163%, 137%, 125% and 105%, respectively. Clearly, post the elections, the dynamics have changed for India. FIIs continue to be net buyers in our markets, and many prominent international brokerages have upgraded India to Overweight. Clearly, sentiment has changed for the better, but the remarkable run-up has also brought with it a greater degree of caution among investors.

Last week witnessed sectoral rotation with majority of sectors constituting a lesser weightage in the Nifty outperforming the index, including auto, construction, capital goods, FMCG, metals, software, telecom and power. The sectoral rotation was due to profit-booking in sectors where there was a sharp run-up in the penultimate week, while buying interest came into other sectors due to pre-budget expectations. The trend is likely to continue this week.

KBB weekly recommendations for the week beginning 08th June.

Scrip	Action	CMP	Entry	Stop Loss	Target	Time Frame
RNRL	Buy	90.40	88-90	84.90	98-100	5-6 Days
Sesa Goa	Buy	156.85	153-155	148.90	167-170	5-6 Days
Power Grid	Buy	125.05	122-123	118.90	128-130	5-6 Days
Sun TV	Buy	269.05	262-263	257.10	280-282	5-6 Days
ACC	Buy	859.80	865-867	850	900-902	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
Adlabs	Buy	347-350	338.10	400-402	-	-	-	-
IVRCL	Buy	325-330	317.10	368-370	505	20,685.00	12.50%	TA
SBI	Buy	1860-1865	1835.00	1950-1955	89	-2,487.09	-1.50%	SLT
IB Realstate	Buy	244-248	238.10	272-275	673	-5,314.20	-3.21%	SLT
Jyothi Structures	Buy	144-146	140.00	160-162	1141	18,259.86	11.03%	TA
Total						31,143.58		

Balance on inception (26-Jan-09)	Balance last week (29-May-09)	Balance current week (05-June-09)	Abs. returns WoW (%)	Abs. returns since Jan 26, 2009(%)
5,00,000	6,61,919	6,93,063	4.71	38.61

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

Bhusan Steel

CMP: 838.60

Bhusan Steel has witnessed a sharp rally in the last one week prior to which the stock was consolidating in a broad range. The stock made an inverted head and shoulder pattern and produced a breakout in the recent past. It gave a confirmed close above the 725 levels last week, thereby opening fresh upsides for the stock. The 8-day EMA would prove to be a critical point of support which is currently placed at 713 levels. The 14-day RSI has found support from 60 levels and has surged into the over-bought territory which is a cause of concern. However, we believe a marginal cool-off in the stock should bring it to levels of 60 on the scale and thereon further upward movement can be expected. The stock has crucial support placed around 750 and 725 levels. Investors are advised to assume long positions in the stock in the range of 750-780 levels for a short-term target of 950 and 1100 levels. All long positions in the stock should

be protected with a stop loss below 710 levels on a closing basis.

MRPL

CMP: 93.55

MRPL witnessed a dream run on Friday's trading session as it surged more than 20% on the back of a whopping rise in volumes. The stock witnessed a consolidation pattern last week and staged a breakout on Friday's trade. The volumes during consolidation remained low. The 14-day RSI has reached the overbought territory and is still indicating a buy signal. Any decline from the current levels will bring the trigger line towards the support of 60 levels, thus creating head-room for another rally. Immediate support is placed at around 85 and 80 levels. The 8-day EMA level is placed at around 77 levels which is unlikely to be broken in the near term. Investors are advised to assume long positions in the stock at 85 levels and average the same, if available, at 80 levels for a medium-term target of 110 levels. All long positions in the stock should be protected with a stop loss placed below 75 levels on a closing basis.

Satyam Computers

CMP: 66.85

Satyam Computers had been consolidating after its debacle in the initial part of the year. The stock was moving within a broad range of 35-55, after which it had recently broke past the range and staged a sharp rally. The breakout has aided the stock to move past all the moving averages, barring the 200-day EMA, which increases the strength of the up-move. The stock climbed above the 50-day EMA last week, which is a positive takeaway, and would act as a strong support in the future. The 14-day RSI is in a comfortable position and is around 70 levels. The stock witnessed some cool-off due to profit-taking on Friday's trade after rallying for more than 30% W/W, which can be taken as an opportunity to enter the stock. Investors are advised to assume long positions in the stock within the range of 62-64 levels and average the same at 58 levels for a medium-term target of 85 and 100 levels. The stop loss should be placed below 40 levels on a closing basis.

- Pavan Katta

Fundamental view

Sun Pharma (Rs1,225)

Sun Pharma's net revenues for the quarter have de-grown by 10% to Rs11,344 mn despite an 81% growth in the domestic formulations business, to Rs6,525 mn. This has been due to change in the distribution set-up. On an actual basis, domestic formulations' revenues have grown 25% in the last quarter while formulations exports have de-grown due to product recalls in Caraco. The API business has shown a good traction in the quarter. However, the margins have declined from 58.9% to 33% for the quarter due to limited supplies of generic Protonix, expenses related to product recalls, inventory write-offs, and forex impact on overseas liabilities. Moreover, profits have de-grown by 45% to Rs3,949 mn for the

quarter, much higher than consensus, due to higher domestic revenues (one time).

Sun Pharma's US business continues to be a source of concern as the USFDA has again raised some apprehensions in May 2009 and the company has to reply in a span of 30 days. Although the company has given a guidance of 13-15% for FY10E, we believe that if we adjust for domestic formulations and negligible revenues for Pantaprazole in FY10E, then we will get a revenue growth of 3% in FY10 and 14.3% in FY11. Hence, we are upgrading our revenues on a higher base and are upgrading our EPS estimates by 3.8% in FY10 to Rs73.5 and by 2.8% to Rs80 in FY11. However, due to continued concerns on the US front, we are downgrading our FY11E multiple from 16x to 15.5x and assigning a price target of Rs1,240. Nevertheless, we continue to rate

the stock as 'Market Performer'.

Key Highlights

Sun Pharma's domestic formulations business, which witnessed stupendous growth in the last quarter, is likely to witness muted revenues for the next two quarters which will have a negative impact on the company's results.

Although Sun Pharma will sell restricted quantities of generic Protonix, its Ethylol opportunity remains. Caraco saw declining margins for the last quarter and operating losses for Q4FY10 due to product losses and inventory write-offs. We believe the company will report de-growth in revenues in FY10 from Caraco.

We await further clarity on inventory write-offs, manufactured and distribution product break-ups from the 10K document.

Sun Pharma has given 13-15% revenue guidance for FY10E and a capex of Rs1.7 bn. The company has also managed to cut down its debtors to Rs8.8 bn and its inventories are at Rs9.8 bn for FY09. Management believes it will be able to manage a similar number of debtors and inventory days going ahead.

Taro is expected to declare a re-statement of accounts due to a directive issued by the Israel court. Sun has received 18 approvals in FY09E and has 71 approvals to-date. The company filed 37 ANDAs in FY09E and 108 ANDAs are waiting for approval.

Sun Pharma	Y/E, Mar (Rs Mn)	FY07	FY08	FY09	FY10E	FY11E
Reuters/ Bloomberg Code	SUN.BO/ Net Sales SUNP@IN	21,327	33,571	42,723	43,945	50,220
Market Cap(Rs bn)	253.7 EBITDA	6,730	15,517	18,639	15,014	16,550
Market Cap(US\$ mn)	5401.8 Net Profit	7,101	14,720	18,177	15,400	16,751
Shares Outstanding(mn)	207.12 EPS(Rs)	34.3	71.1	86.9	73.5	80.0
52-week High/Low(Rs)	1,557/890 EPS growth (%)	34.6	107.3	22.3	(15.4)	8.9
	EBITDA margin(%)	31.6	46.2	43.6	34.2	33.0
Major Shareholders (%)	PER(x)	35.7	17.2	14.1	16.7	15.3
Promoters	63.71 EV/EBITDA (x)	37.3	15.6	11.9	14.0	12.0
FII's	18.84 P/S (x)	10.6	7.3	5.8	5.6	4.9
Banks/FI's/MF's	5.94 RoCE(%)	20.4	34.4	31.8	22.4	20.8
Public	11.5 RoE(%)	32.6	37.9	31.5	21.5	19.8

Source: Company and KSBL Research

US GAAP Consolidated

Market pulse

Bulk Deals

Company	Wt. Avg. Price (Rs.)	Traded Qty	Acquirer/Seller
Buy			
IVRCL Infra	286.75	1000000	Bajaj Allianz Life Insurancecompany
Gitanjali GE	123.85	453269	BNP Paribas Arbi
Aban Offshore	1148.34	260991	C D Integrated Serv
Alok Industries	28.04	3060985	Jaypee Capital Serv
Satyam Computers	71.53	4960307	Transglobal Secu
Sell			
Northgate Tech	35.03	235000	India Capital Fund
Sujana Tower	26.85	210000	Swiss Finance Corp
Venus Remedies	187.84	42500	Templeton Mf
Bombay Dyeing	308.90	300000	DSP Merrill Lynch Top 100 Eq Fund
Dhanus Tech	28.95	100000	Citigroup Global Markets Mauritius

Top Gainers (Weekly)

Company	05-June	29-May	%Change
Suzlon	131.00	97.90	33.81
Unitech	97.80	79.60	22.86
Grasim	2513.35	2103.15	19.50
Tata Motors	389.20	336.85	15.54
Tata Steel	463.90	405.35	14.44
Ambuja Cements	102.95	91.60	12.39
Cairn India	259.05	231.85	11.73
HDFC	2425.70	2179.60	11.29
Rcom	339.55	305.65	11.09
Sun Pharma	1346.10	1213.75	10.90

Top Losers (Weekly)

Company	05-June	29-May	%Change
Axis Bank	738.50	778.95	-5.19
Rel Infra	1226.75	1272.00	-3.56
SBI	1817.65	1868.85	-2.74
RPL	140.55	144.40	-2.67
Reliance	2212.75	2271.90	-2.60
PNB	654.25	670.80	-2.47
HDFC Bank	1418.60	1444.50	-1.79
NALCO	348.20	354.10	-1.67
Idea	82.85	84.15	-1.54

FII Invt (Rs.cr)

MF (Rs.cr)

Date	Purchases	Sales	Purchases	Sales
1-Jun-09	3798.50	3180.60	952.90	1245.80
2-Jun-09	4067.60	3858.30	823.80	1411.80
3-Jun-09	3423.80	3740.00	1107.00	865.20
4-Jun-09	3626.10	2955.50	804.70	1207.50
5-Jun-09	-	-	-	-
Total	14916.00	13734.40	3688.40	4730.30

Corporate Actions

Company	Date	Purpose
Torrent Pharma	8-Jun-09	DIV-RS.4/- Per share
Kesoram Ind	9-Jun-09	AGM/DIV-RS.3.25 Per share
SBI	10-Jun-09	DIV-RS.29/ Per share
ICICI Bank	11-Jun-09	AGM/DIV-RS.11/- Per share
HUL	12-Jun-09	AGM/DIV-RS.4/- Per share

(Compiled by Krishna Veni M.)

PVR (Rs129)

In Q4FY09, PVR's sales increased by 6.2% Y/Y, which was higher than our estimates of a decline of 0.9% Y/Y. This was due to better ATP (Average Ticket Price) booked by the company on the back of new properties. The ATP recorded a Y/Y growth of 6% and stood at Rs140 in Q4FY09 against Rs132 in Q4FY08. However, EBITDA declined by 18% Y/Y as against our expectations of a decline of 7.3% in Q4FY09. The EBITDA margin stood at 10.1% against our expectations of 12.2% in Q4FY09. This was due to higher-than-expected F&B and personnel costs which increased their percentage due to lower realisations and lower occupancies witnessed during the quarter.

Sub-30% occupancies as expected: As expected, the occupancy levels fell below 30% and stood at 27.3% in Q4FY09 against 32% shown in the same quarter last year. The footfalls for the comparable properties dwindled by 7% from 3.32 mn in 4QFY08 to 3.08 mn in 4QFY09. This was mainly on account of lack of good quality content and lower-than-expected performance of big-budget movies such as 'Chandni Chowk to China' and 'Delhi-6'. Besides, since the beginning of March, there was hardly any content being released at the cinemas. The average occupancy for the whole year dropped from 39.4% to 32.6% due to weak content pipeline and security-related issues during the first three quarters of the year. The company showed a net loss for Q4FY09 to the tune of Rs11 mn. This was mainly due to the sub-30% occupancies and the newly operational properties which are yet to stabilise.

Consolidated FY09 results—marred by subsidiary losses: PVR recorded a net loss on its subsidiaries CR Retail (Phoenix Mills), Sunrise Infotainment Pvt. Ltd. (PVR Goregaon), and PVR BluO for FY09, which

are still stabilising after being launched in FY09.

Bajaj Hindustan (Rs163)

We are revising our rating on Bajaj Hindustan from 'Underperformer' to 'Outperformer' considering the high leverage benefit in the sugar up-cycle. The significant sugar inventory holdings of around 0.61 mn MT (metric tonne) as on March 2009 on a relatively low equity base (see exhibit: 1) is expected to give the company the highest earnings sensitivity in the sugar uptrend.

Exhibit 1:	Group Capacity (TCD)	Inventory (000 mt) as on March09	No shares (mn)	Inventory / 1 mn shares
Bajaj Hindustan	140,000	610	141.1	4,323
Balrampur	73,500	430	255.5	1,683
Renuka Sugars	40,000	527	276	1,909

Source: Company, KSBL Research

We have revised our valuation method from 0.7x FY10E book value to the average of two methods (1) 2x FY10E book and (2) 11x FY10E earnings. We have increased our sugar realization estimates by 5% from the earlier expectations of Rs23.4 per kg to Rs24.5 per kg. Moreover, we have revised our cane cost estimates from Rs150 to Rs155 per quintal in FY10. We believe the stock will outperform in the sugar sector due to its very high sensitivity to sugar prices.

Exhibit 2: EPS Sensitivity for FY10

Change from base case	-10.2%	-6.1%	Base Case	2.0%	6.1%	10.2%
Sugar price (Rs/Kg)	22	23	24.5	25	26	27
PAT (Rs mn)	908	1485	2494	2840	3416	4051
EPS (Rs)	6.4	10.5	17.6	20	24.2	28.6

Source: KSBL Research

We now expect Bajaj Hindustan to report a revenue of Rs28.72 bn (earlier at Rs27.6 bn) and a profit of Rs2.49 bn (earlier Rs1.97 bn) in FY10. At the current price of Rs163, the stock is trading at 4.3x FY10E earnings and is trading at an EV/EBIDTA of 4.8. Our revised valuation based on an average of 2x FY10E BV (i.e., at Rs208 per share) and 11x FY10E earnings (i.e., Rs194) is Rs201 per share (previously Rs73).

PVR	Rs mn	FY06	FY07	FY08	FY09	FY10E
Reuters/Bloomberg Code	PVRL.BO/PVRL.IN	1,049	1,667	2,659	3,521	4,399
Market Cap. (Rs mn)	2,984	159	266	489	472	749
Market cap. (US\$ mn)	63	53	102	216	87	235
Shares Outstanding (mn)	23	2.3	4.4	9.4	3.8	10.2
52-week High/Low (Rs)	209/58	7.4	91.6	112.3	(59.9)	170.0
	EBITDA margin (%)	15.1	16.0	18.4	13.4	17.0
	PER (x)	55.8	29.1	13.7	34.3	12.7
	P/BV (x)	1.7	1.6	1.5	1.0	0.9
	Market Cap/Sales	41.2	2.8	1.8	1.1	0.85
	EV/EBITDA (x)	23.7	18.7	14.0	8.6	8.4
	DividendYield (%)	8.7	0.8	0.8	0.8	0.8
	ROCE (%)	10.2	7.1	7.8	12.8	6.0
	ROE (%)	16.1	4.7	5.8	11.4	3.3

Source: Company and KSBL Research

- Karvy Equity Desk

Mutual Fund performance

Equity Diversified

Scheme Name	NAV (Rs)	1 Year	3 Years	5 Years
Reliance Reg Savings-Equity(G)	22.28	5.31	24.33	-
IDFC Premier Equity-A(G)	19.85	-1.15	22.16	-
Birla SL Frontline Equity(G)	65.11	8.66	20.49	30.56
Sahara Growth(G)	68.21	14.09	20.32	30.72
DBS Chola Opportunities(G)	35.01	-3.69	19.36	28.00
DSPBR Top 100 Equity(G)	74.55	4.32	19.30	30.87
Baroda Pioneer Growth(G)	40.95	2.73	18.82	29.95
HDFC Top 200(G)	144.38	10.20	18.26	31.92
DWS Investment Opportunity(G)	29.69	-11.05	17.94	28.15
Reliance NRI Equity(G)	28.77	10.96	17.63	-

Income Funds

Scheme Name	NAV (Rs)	3 Mnts	1 Year	3 Years
Canara Robeco Income(G)	18.92	3.60	30.89	14.08
ICICI Pru Income-Ret(G)	29.32	4.63	23.77	12.54
Fortis Flexi Debt-Reg(G)	15.40	5.30	20.28	12.71
Kotak Twin Advantage II(G)	13.28	20.96	19.71	-
Kotak Bond-Reg(G)	25.43	2.38	17.55	11.14
Reliance Income(G)	30.04	2.62	17.41	10.56
IDFC Dynamic Bond-A(G)	18.02	2.15	17.36	12.14
Birla SL Income Plus-Ret(G)	40.79	2.58	17.23	11.76
Kotak Bond-Deposit(G)	23.68	2.38	17.14	9.89
ING Income(G)	23.93	3.93	17.13	10.79

Balanced Schemes

Scheme Name	NAV (Rs)	1 Year	3 Years	5 Years
Principal Child Benefit-Career Builder	70.41	-6.52	16.83	23.60
Principal Child Benefit-FutureGuard	69.38	-6.62	16.76	23.57
DSPBR Balanced(G)	49.35	4.54	15.95	23.31
Birla SL '95(G)	228.91	12.36	15.53	24.81
HDFC Prudence(G)	137.30	10.31	15.24	25.76
FT India Balanced(G)	39.14	4.78	13.72	20.62
Tata Balanced(G)	60.27	4.29	13.32	24.11
Magnum Balanced(G)	41.65	6.03	11.92	-
Templeton India Children's Asset-gift(G)	35.03	5.53	11.74	12.39
Birla SL Freedom(G)	31.86	5.01	11.26	17.94

Short-term Debt

Scheme Name	NAV (Rs)	3 Mnts	1 Year	3 Years
Sundaram BNPP Flexible-ST-Inst(G)	13.89	2.89	9.94	8.62
HDFC FRF-LT(G)	15.01	2.38	9.91	8.48
Escorts FRF(G)	12.84	2.24	9.79	7.93
LICMF FRF-STP(G)	14.47	1.57	9.13	8.76
DSPBR FRF-Inst(G)	1277.57	1.63	9.02	7.22
Templeton FRF Income-ST-Inst(G)	13.31	1.76	9.01	8.50
UTI-FRF-STP(G)	1445.54	1.69	9.00	7.74
Magnum FRF-STP(G)	13.65	1.42	8.92	7.47
Canara Robeco FRF-STP(G)	13.72	1.54	8.83	8.30
HSBC FRF-LT-Inst(G)	13.91	1.68	8.82	8.51

ELSS

Scheme Name	NAV (Rs)	1 Year	3 Years	5 Years
Taurus Tax Shield(G)	28.09	10.20	20.76	30.40
Sundaram BNPP Tax Saver(G)	35.61	8.96	17.17	-
Sahara Tax Gain(G)	26.84	11.85	14.86	11.73
Fidelity Tax Advantage(G)	14.49	1.55	14.41	-
Franklin India Taxshield(G)	144.51	-0.44	10.49	25.41
Tata Tax Advantage-1	11.90	-0.20	10.41	-
Principal Personal Tax saver(G)	72.03	-15.86	9.75	23.24
Reliance Tax Saver (ELSS)(G)	14.76	6.25	8.39	-
Baroda Pioneer ELSS 96	20.15	-7.74	8.18	20.84
HDFC TaxSaver(G)	147.39	3.13	7.44	31.22

Gilt Funds

Scheme Name	NAV (Rs)	3 Mnts	1 Year	3 Years
ICICI Pru Gilt-Invest-PF	18.27	6.47	41.61	18.32
JM G-Sec-Reg(G)	28.96	3.24	31.45	12.04
Escorts Gilt(G)	20.40	3.02	31.37	12.33
ICICI Pru Gilt-Invest(G)	31.96	4.04	31.24	14.87
DSPBR GSF-Longer Dur(G)	31.38	-0.57	26.37	12.23
Templeton India G-Sec-LTP(G)	22.64	0.95	23.90	12.79
Birla SL Govt Sec-LT(G)	24.52	10.00	23.05	8.74
ICICI Pru Gilt-Treasury-PF	15.23	2.32	22.43	11.48
Templeton India G-Sec-Composite(G)	32.51	0.48	22.11	11.62
Templeton India G-Sec-PF(G)	14.28	0.48	22.11	11.64

MIP

Scheme Name	NAV (Rs)	1 Mnt	3 Mnts	1 Year
ICICI Pru Qrtly Inv II-D(G)	11.84	1.02	2.91	12.99
UTI-FIIF-AS II-Inst(G)	11.91	0.96	2.90	11.22
ICICI Pru Annual Inv III-Ret(G)	11.67	0.89	2.72	11.17
ICICI Pru Annual Inv II-Inst(G)	11.76	0.94	2.85	11.07
UTI-FIIF-AS II(G)	11.83	0.93	2.81	10.83
Fortis Mthly Inv -A(Ren-G)	11.62	0.96	2.69	10.82
HDFC Qrtly Inv-B-Ret(G)	12.14	0.57	1.97	10.66
ICICI Pru Qrtly Inv II-A(G)	11.61	0.76	2.00	10.57
UTI-FIIF-AS I-Inst(G)	11.85	0.85	2.57	10.54
ICICI Pru Qrtly Inv II-E(G)	11.62	0.84	2.48	10.43

Liquid Funds

Scheme Name	NAV (Rs)	1 Mnt	3 Mnts	1 Year
Escorts Liquid Plan(G)	13.26	0.80	2.39	9.94
Fortis Money Plus-Inst(G)	13.34	0.60	1.82	9.87
Templeton FRF Income-LT-SIP(G)	12.01	0.54	2.04	9.71
Fortis Money Plus-Reg(G)	13.20	0.58	1.75	9.50
JM Money Mgr-Super(G)	12.37	0.61	1.87	9.49
Templeton FRF Income-LT-Inst(G)	13.34	0.52	1.97	9.44
Tata Treasury Mgr-HIP(G)	1175.04	0.47	1.58	9.23
DWS Cash Oppor-30D(G)	11.32	0.49	1.85	9.19
Tata Treasury Mgr-RIP(G)	1174.80	0.46	1.55	9.13
Sahara Liquid-Variable Pricing(G)	1611.95	0.60	1.93	9.12

Source: Acemf Note: All NAV as of June 04, 2009

(Compiled by Pradeep Kumar S)

Commodities review

Precious metals review

Bullion: Bullion prices posted major gains last week. The most active COMEX June gold futures made a weekly high of \$990.30 per troy ounce, up by \$11.5 from its penultimate week's closing. Similarly, silver rallied to a weekly high of \$16.25 per troy ounce, up by \$1.94 from its penultimate week's closing.

The major reasons behind last week's rally were the fall in the US dollar and the increase in investment in gold, which is reflected by the increase in gold holdings of the SPDR Gold Trust, the world's largest gold exchange-traded fund. Bullion prices normally trade higher when the US dollar depreciates in value as investors look to bullion as an alternative asset class. The dollar continued to decline against a basket of six major currencies on concerns that nations are considering alternatives to the world's main reserve currency, thereby spurring investors to sell the greenback.

We believe that the key driver for bullion prices in the near term will be the US Unemployment Data, to be released on Friday June 5, which is expected to increase to 9.2% compared to previous month's level of 8.9%. We believe that this data will further drive down the US dollar and will be positive for bullion prices.

Energy review

Crude oil futures prices continued with its

uninterrupted rally last week. The most active July NYMEX crude oil futures made a weekly high of \$69.60/bbl, increasing by \$3/bbl. Crude oil prices rallied to its highest level since November as China's manufacturing expanded for a third continuous month. The rise in China's Purchasing Manager's Index, which stayed above 50 in May, indicated towards an economic recovery. China, the world's second-biggest energy consumer, increased its prices of gasoline and diesel by as much as 8% on Friday of the penultimate week; a move that may prompt domestic refiners to boost crude oil purchases for processing. However, in the middle of the week, prices fell moderately as the weekly DOE report showed that the US supplies had unexpectedly increased at a time when fuel consumption has plunged to a 10-year low. Fuel demand in the world's largest energy user fell by 9,00,000 barrels to 17.7 million barrels a day last week, while gasoline consumption slipped by 5,18,000 barrels to 9.02 million. We expect a continuation of this bullish trend this week with the arrival of the US summer driving season. This will induce refiners to boost stockpiles to meet increased demand.

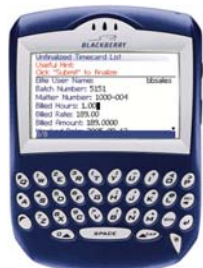
Base metals review

The base metals prices staged a strong rally last week due to firm Asian equity markets and an erratic movement in the dollar index. On the LME, the fall in copper inventory by 9,075 tonnes resulted in a sharp rise in copper prices. On the other hand, lead inventories increased by 3,725 tonnes. Moreover, the cancelled-warrants ratios for base metals

declined last week indicating robust demand for base metals. Aluminium was the best performer last week, gaining 8.65%, followed by lead at 6.11%, and copper 4.04%.

Better-than-expected US economic data helped to raise sentiments across financial markets. The U.S.GDP Q/Q rose marginally to -5.9%, while ISM Manufacturing Index stood at 42.8, Pending Home Sales increased substantially to 6.7%, Non-farm Productivity rose to 1.6%, and Factory Orders rose to 0.7%. Sumitomo Corp. (Bolivia), Japan's third-largest trading company is planning to increase production in 2009 following reduced production costs and rising metals prices in the last quarter. As aluminium demand is rising in the construction industry, China is going for stockpiling, and this move is supporting prices. However, nickel witnessed a downward trend as consumption by Japanese industries in Q1FY09-10 fell by 58.4% Y/Y to 5,923 tonnes as compared to 14,238 tonnes in the same quarter of 2008. The holding of US Treasuries by Asian central banks to maintain market stability resulted in dollar recovering its losses, but with demand coming in towards the latter part of the week, base metals prices traded higher. A rise in manufacturing activity in the Euro-zone and China, and a growth in the US ISM Non-Manufacturing composite helped to lift the market mood. This week, base metals prices are expected to trade higher due to better industrial demand from India and China.

- Commodities Research Desk



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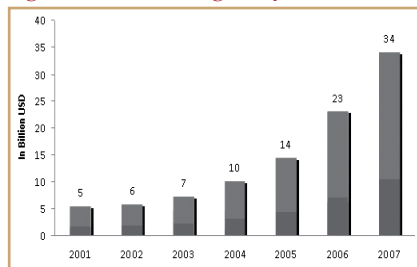
Dynamics of currency futures

The currency exchange market is a place where one currency is traded against another. It is the largest financial market in the world, and includes trading between large banks, central banks, currency speculators, multinational corporations, governments, and other financial markets and institutions. Markets for currency exist in the form of spot market, swaps, outright forwards and futures & options, with size and liquidity much higher than others. The average daily turnover globally is over US\$3.9 trillion, with minimum size for most of deals at \$100,000. The main trading centers include London, New York, Tokyo, Singapore and Mumbai. Currencies are traded against one another and each pair of currencies constitute an individual product, traditionally represented as XXX/YYY, where YYY is the ISO 4217 international three-letter code of the currency into which the price of one unit of XXX is expressed (called base currency). For instance, USD/INR is the price of the US dollar expressed in Indian rupees, as in 1 USD = 50 INR.

The Indian forex market

India has seen a series of structural reforms in the foreign exchange market since the early 1990s. The exchange rate regime, which was pegged earlier, was floated partially in March 1992 and fully in March 1993. The Indian forex market has recorded phenomenal growth in the last few years, evident from the wide range of products, huge participation, expanding liquidity, and robust turnover. From 2001 to 2007, forex trading in India has been showing a CAGR (compounded annual growth rate) of 40%. According to the Reserve Bank of India (RBI), the average daily turnover in the Indian foreign exchange market in 2007 stood at around US\$41 billion. The same was around \$23.07 billion in 2006 and \$14 billion in 2005. In India, spot market transactions hold the majority 42% share of the total forex turnover, followed by 39% share in foreign exchange swaps, and the rest is contributed by outright forward transactions.

Figure 1: India—Average daily forex turnover



The 4Ps of Indian forex: People, product, price and place

The foreign exchange market in India can be classified into two segments. The merchant segment consisting of transactions put through by customers to meet their transaction needs of acquiring / offloading foreign exchange, and the inter-bank segment encompassing transactions between banks. The market comprises of customers, authorized dealers (ADs) in foreign exchange and the Reserve Bank of India. The ADs are essentially banks authorized by RBI to do foreign exchange business. Major public sector units, corporates and other business entities with foreign exchange exposure access the foreign exchange market through the intermediation of ADs.

In India, the main trading centres are Mumbai, Delhi, Kolkata, Chennai, Bengaluru, Kochi and Ahmedabad, with Mumbai accounting for a significant chunk of the transactions. The Foreign Exchange Dealers Association of India (FEDAI) plays an important role in the forex market as it sets the ground rules for fixation of commissions and other charges and also involves itself in matters of mutual interest of the ADs.

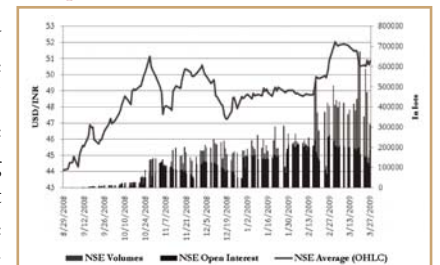
Table 1: Transaction formats existing in India

Spot	This form of trade represents a direct exchange between two currencies; it has the shortest timeframe and involves cash rather than a contract; and interest is not included in the agreed-upon transaction.
Forwards	In this transaction, money does not actually change hands until some agreed-upon future date. A buyer and a seller agree on an exchange rate for any date in the future, and the transaction occurs on that date regardless of what the market rates are then.
Futures	Currency futures are forward transactions with standard contract sizes and maturity dates.
Swap	Two parties exchange currencies for a certain length of time and agree to reverse the transaction at a later date.

Indian currency futures market

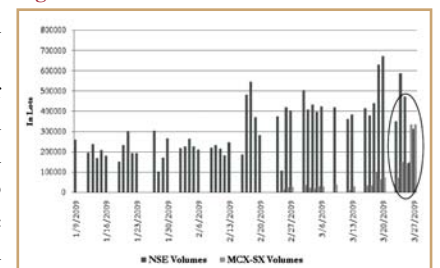
Currency futures are forex derivative contracts to buy or sell one currency against another on a specified future date, at a price decided in the contract. It is a market where the underlying commodity is a currency exchange rate, such as the US dollar versus the Indian rupee. Globally, €/US\$, £/US\$, CHF/US\$, and US\$/¥ are the most heavily exchange-traded currency products.

Figure 2: NSE currency futures—Volumes and open interest



In India, currency futures transactions are allowed only for USD/INR. Until futures were launched in India, trading in currencies was not permitted for everyone and only the OTC forex markets and the inter-bank forex networks offered currency trading in India. The markets were far beyond the reach of small investors, speculators and arbitrageurs. However to enable investors to have currency exposure and to manage the volatility

Figure 3: NSE vs. MCX-SX volumes



in the currency market, currency futures were introduced in India on August 29, 2008. The National Stock Exchange of India was the first platform to provide currency futures platform and it was then followed by Bombay Stock Exchange (BSE) and the Multi-Commodity Exchange – Stock Exchange (MCX-SX).

Currency futures was introduced to help residents and non-residents exposed to currency risk. The risk arises when residents purchase foreign currency assets and non-residents purchase domestic currency assets. If the exchange rate remains unchanged from the time of the purchase of the asset to its sale, no gains and losses are made out of currency exposures. But if domestic currency depreciates (appreciates) against the foreign currency, the exposure would result in gain (loss) for residents purchasing foreign assets and loss (gain) for non-residents purchasing domestic asset. Major participants include corporate, banks, SME, individuals, investors, etc.

Currency risks could be hedged, mainly through forwards, futures, swaps and options. The main advantage of currency futures over its closest substitute product, viz., forwards, which are traded over-the-counter (OTC) lies in price transparency, elimination of counterparty credit risk and greater reach in terms of easy accessibility to all. An

ALTERNATIVE INSTRUMENTS

importer can go long on the futures platform to protect his margins from possible rupee depreciation, while an exporter can go short to prevent any adverse impact by way of a rupee appreciation. The logic behind going long and short is taking an equal and opposite position in the futures market to offset the existing risk exposure.

Currency futures are here to bring about better price discovery and also, possibly, lower transaction costs. Apart from pure hedgers, currency futures also invite arbitrageurs, speculators and noise traders who may take a bet on exchange rate movements without an underlying or an economic exposure as a motivation for trading. As of now, FIIs and NRIs are not permitted to participate in the currency futures market.

The major factors determining the fluctuations in the Indian currency markets are as follows:

Interest rates: Expectations and possible changes in interest rates play a crucial role as it determines the level of foreign capital investment going in and out of the country. Higher interest rate differential may attract more funds, thereby leading to the appreciation of the local currency.

Foreign funds flow: Strong economic fundamentals attract funds into the country. This is further determined by political stability, economic direction, and country-specific ratings. Capital flows, balance of payments, and the reasons for its fluctuation like crude oil prices, are important factors to watch out for. Thus, more inflow of foreign currency will help in the appreciation of the domestic currency and vice-versa.

Economic indicators: Economic indicators show how a country is performing as compared to earlier periods. Economic indicators include several data releases, equity market movements, among other things. A good performance is generally positive for the currency and vice-versa.

RBI intervention: Any changes in monetary and banking policies usually have a direct impact on money liquidity, and hence the currency. The RBI often buys and sells currencies to maintain currency value in its comfort zone. Such buying/selling may result in appreciation/depreciation of the currency.

Other factors: Natural calamities and terrorist attacks which may hamper economic growth and prospects may affect the currency negatively.

Currency reserves: Countries with large reserves are considered to have robust economies while depleting reserves are a sign of slowdown. The changes in reserves have a direct relation with currency movements.

Trend in overseas markets: Performance of the US dollar against the majors and the movements of Asian stock markets also influence the Indian currency. A stronger dollar against the majors may depreciate the rupee while the rise of Asian stocks may lead to speculation of more inflows, and, therefore, appreciation of the currency. The reverse also holds true.

Movements in NDF and forward market: The changes in NDF and forward markets are directly related to the current changes in the rupee as they reflect the expectations in the future.

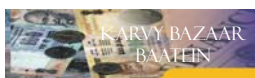
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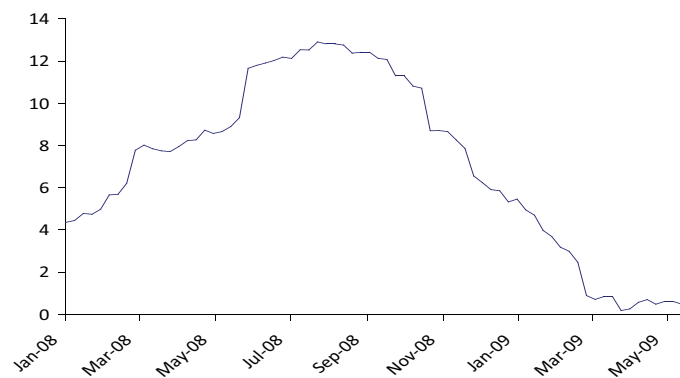
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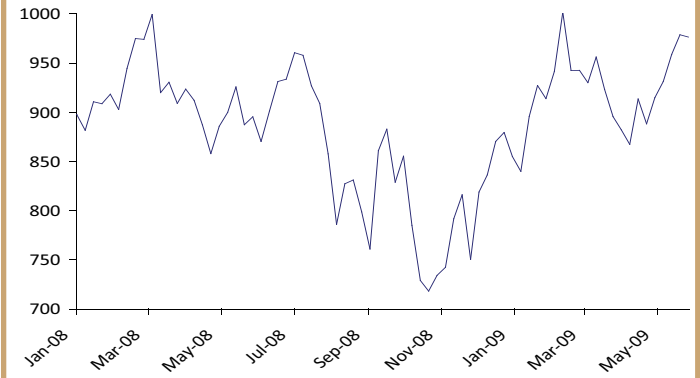


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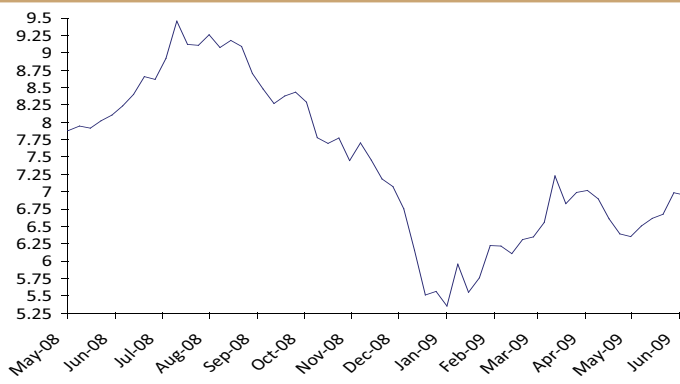
Inflation has fallen to 0.48%



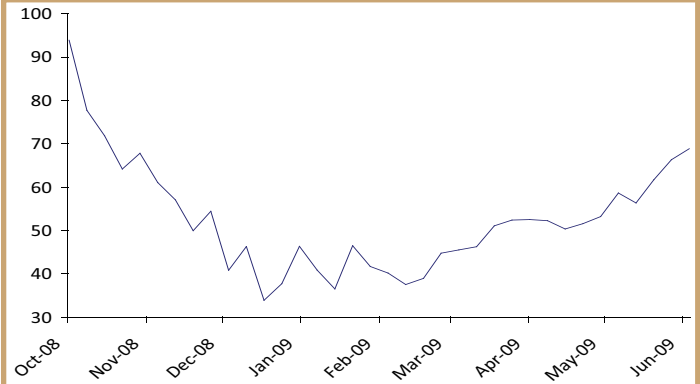
Gold (US\$/oz)



10-year bond yield (%)



Crude (US\$/bbl)



Global indices: Weekly performance

	Close (June 05)	Close (May 29)	Weekly (%)	6M (%)	12M (%)	PE Ratio
Asia						
Hang Seng	18679.53	18171.00	2.80	34.91	-22.99	16.75
(STI)	2396.35	2329.08	2.89	44.43	-23.78	12.65
S. Korea	1394.71	1395.89	-0.08	35.66	-23.88	29.53
Nikkei 225	9768.01	9522.50	2.58	23.37	-31.89	-
America (closing as on June 4)						
Dow Jones	8750.24	8500.33	2.94	1.33	-30.58	21.63
S&P 500	942.46	919.14	2.54	7.58	-32.88	14.80
NASDAQ	1850.02	1774.33	4.27	22.57	-27.45	28.17
Brazil Bovespa	53463.90	53197.73	0.50	51.25	-24.92	21.54
Europe (closing as on June 4)						
FTSE-100	4386.94	4417.94	-0.70	10.03	-25.69	29.65
DAX 30	5064.80	4940.82	2.51	16.24	-26.63	27.24
CAC 40	3312.03	3277.65	1.05	12.01	-31.80	11.85

Source: Bloomberg

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Domestic indices: Weekly performance

	Close (June 05)	Close (May 29)	Weekly (%)	6M (%)	12M (%)	PE Ratio
Sensex	15103.55	14625.25	3.27	68.47	-4.22	16.13
Nifty	4586.90	4448.95	3.10	68.98	-1.93	16.72
BSE 500	5767.03	5520.25	4.47	75.89	-6.52	15.92
BSE Auto	4934.06	4610.61	7.02	119.46	16.87	16.03
BSE Bankex	8204.28	8258.43	-0.66	74.28	11.64	13.45
BSE Consumer Durables	3030.84	2758.07	9.89	82.72	-24.83	9.49
BSE FMCG	2219.58	2096.64	5.86	15.65	-8.52	21.16
BSE Healthcare	3638.11	3435.95	5.88	28.85	-16.29	35.60
BSE IT	3154.35	2997.55	5.23	33.81	-31.69	14.77
BSE Oil & Gas	10324.09	10419.47	-0.92	87.87	2.61	17.70
BSE Metal	11695.50	10878.42	7.51	152.07	-25.58	7.76
BSE Realty	4029.74	3819.89	5.49	138.14	-36.30	11.68
BSE PSU	8692.37	8427.44	3.14	90.57	29.36	61.91
BSE Power	3008.64	2881.36	4.42	82.50	11.08	28.68
BSE Tech	2646.68	2519.96	5.03	38.04	-24.93	16.85

(Compiled by Amit Chopra)

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