MICROSEC RESEARCH REPORT

WEEKLY | FUNDAMENTAL

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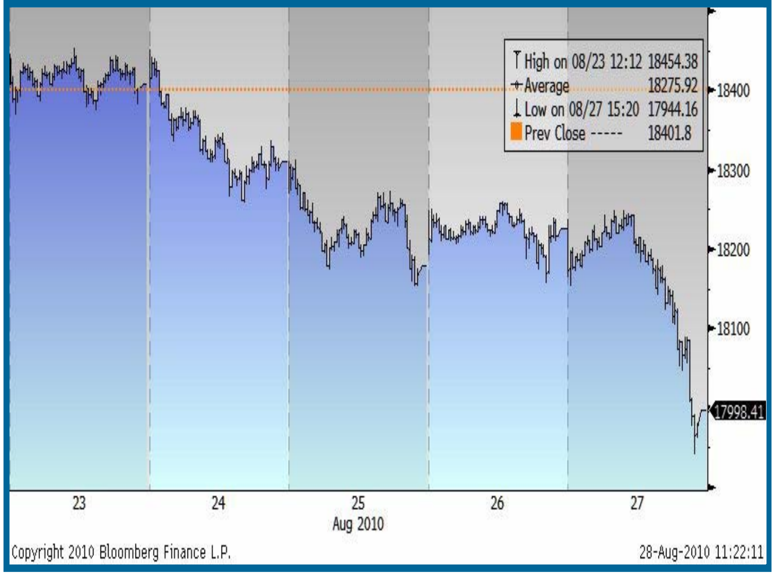
MARKET UPDATE

WEEKLY CHART OF SENSEX



OUTLOOK

Indian stock market is likely to remain choppy. Specific movement may be witnessed based on India's GDP data for the quarter ended June 2010. Monthly data of PMI, Auto, Cement and other commodities for the month of August 2010 and also the Exports-Imports data for the month of July 2010 are expected to be announced during the next week that may give further direction to the Indian market. Buy GE Shipping, Escorts, Philips Carbon, J&K Bank and Siyaram Silk Mills Bharat Forge on correction.

WEEK IN RETROSPECT

Indian stock market registered its first weekly loss after three weeks, following the weak global cues. Markets across the globe were gripped under selling pressure on worries about the pace of the economic recovery in the U.S. Volatility was high during the week as traders rolled positions in the derivatives segment. Market declined in three out of the five trading session. Sensex ended below the psychological 18,000 mark for the first time since July 30, 2010.

India's Foreign-Exchange Reserves fell by USD242 million to USD282.5 billion in the week ended August 20, 2010. India's food inflation slowed to 10.05 percent for the Week ended August 14, 2010 from a year earlier, after increasing by 10.35 percent in the previous week. India's southwest monsoon was 29% above normal during the week ended August 25, 2010 compared with 6 percent below normal in the previous week. Cumulative basis, rainfall was only 2% below normal since the season began on June 1, 2010.

On the global front, the U.S. economy expanded at a revised annual pace of 1.6% in Q2 of 2010, more than the Bloomberg Consensus of 1.4%. The initial estimate last month was a growth rate of 2.4%. The sale of Existing U.S. Homes sank 27.2% in July 2010 to a seasonally adjusted annual rate of 3.83 million units from June. New Homes in the U.S. fell to all-time record low in July 2010. New Home sales declined by 12.4% to a seasonally adjusted annual rate of 276,000 from a downwardly revised 315,000 in June. The U.S. Initial Jobless Claims decreased to 473,000 for the week ended August 21, 2010 from a revised 504,000 in the previous week. Germany's seasonally adjusted GDP expanded at 2.2% in Q2 of 2010 from the preceding three months of the year. This was the fastest quarterly growth rate seen in reunified Germany. PMI of the Germany Manufacturing sector dropped to the lowest point of the indicator in 6 months 58.2 from previous reading of 61.2. However, PMI of Service sector soared to 58.5 from a previous reading of 56.5. Japan's Jobless Rate fell to 5.2% in July 2010 from 5.3% in June.

GLOBAL MARKET DURING LAST 5 DAYS

NAME	LAST PRICE	5D % CH	1M % CH	3M % CH	1Y% CH	P/E	EST P/E	P/B	ESTP/B
DOW JONES	10150.65	(0.62)	(3.01)	0.14	6.35	13.20	12.22	2.45	2.34
NASDAQ	2153.63	(1.20)	(4.48)	(4.58)	6.15	23.23	16.08	2.43	2.30
S&P 500	1064.59	(0.66)	(3.36)	(2.28)	3.47	14.13	12.77	1.97	1.85
FTSE 100	5201.56	0.12	(1.07)	0.25	5.96	16.83	10.58	1.76	1.64
CAC 40	3507.44	(0.53)	(3.72)	(0.22)	(5.03)	12.25	10.37	1.15	1.17
DAX	5951.17	(0.90)	(3.20)	0.08	7.86	13.15	10.71	1.35	1.34
NIKKEI 225	8991.06	(2.05)	(5.73)	(7.91)	(14.65)	22.09	15.61	1.20	1.12
HANG SENG	20597.35	(1.83)	(2.06)	4.20	2.48	13.20	13.29	1.77	1.69
STRAITS TIMES	2938.74	0.08	(1.64)	7.27	11.20	11.75	14.20	1.62	1.62
TAIWAN TAIEX	7722.91	(2.58)	(0.49)	5.86	13.41	14.92	12.93	1.77	1.73
KOSPI	1729.56	(2.59)	(1.69)	6.58	7.56	11.29	9.49	1.22	1.26
BRAZIL BOVESPA	65585.14	(1.64)	(2.86)	5.87	13.66	14.42	12.46	1.80	1.70
RUSSIAN RTS	1421.47	(0.25)	(3.94)	3.99	30.47	8.36	7.39	1.08	1.01
SHANGHAI SE COMPOSIT	2610.74	(1.19)	(1.01)	(1.70)	(8.74)	18.21	15.46	2.53	2.17
BSE SENSEX	**17998.41**	**(2.19)**	**0.73**	**6.73**	**13.04**	**17.52**	**17.19**	**3.18**	**2.81**
NSE S&P CNX NIFTY	**5408.70**	**(2.20)**	**0.77**	**6.75**	**14.29**	**18.16**	**17.25**	**3.13**	**2.76**

MARKET STATS

MICROSEC
MICRO FOCUS. MEGA WEALTH

MSCI INDICES

NAME	LAST PRICE	5D % CH	1M % CH	3M % CH
MSCI WORLD	1089.24	(0.41)	(3.16)	0.83
MSCI AC WORLD	280.97	(0.61)	(3.03)	1.46
MSCI AC ASIA PACIFIC	116.82	(1.24)	(1.92)	2.96
MSCI EM	970.04	(1.83)	(2.16)	5.78

VOLATILITY INDICES

NAME	LAST PRICE	5D % CH	1M % CH	3M % CH
CBOE SPX VOLATILITY	24.45	(4.08)	4.04	(23.76)
INDIA NSE VOLATILITY	19.63	17.54	NA	NA

10 YERS BOND MARKETS

NAME	YIELD	5D % CH	1M % CH	3M % CH
US Generic Govt 10 Year Yield	2.64	1.31	(13.25)	(21.30)
UK Govt Bonds 10 Year Note Gen	2.90	(2.49)	(17.49)	(19.71)
Brazil Government Generic Bond	4.07	5.28	(4.42)	(18.65)
Japan Govt Bond Year to maturity	1.01	7.91	(4.81)	(19.60)
Australia Govt Bonds Generic M	4.81	(2.16)	(8.79)	(10.78)
India Govt Bond Generic Bid Yi	8.04	1.32	4.32	7.36

FOREX MARKET

NAME	LAST PRICE	5D % CH	1M % CH	3M % CH
DOLLAR INDEX SPOT	82.92	(0.17)	0.89	(3.79)
EUR-USD X-RATE	1.28	0.40	(1.79)	3.24
USD-GBP X-RATE	0.64	0.05	0.42	(6.10)
USD-BRL X-RATE	1.75	0.35	0.98	3.73
USD-JPY X-RATE	85.22	0.47	3.14	6.83
USD-INR X-RATE	46.89	(0.45)	(0.45)	0.90
USD-CNY X-RATE	6.80	(0.11)	(0.29)	0.49
USD-KRW X-RATE	1196.76	(1.14)	(1.28)	2.28

MONEY MARKETS

NAME	LAST	5D % CH	1M % CH	3M % CH
BBA LIBOR USD 3M	0.30	(9.82)	(38.31)	(44.86)
MIBOR Offer Market 3M	0.89	0.00	0.00	27.14
India Indicative Call Rate	5.30	(7.50)	11.58	28.33

INDUSTRIAL METALS & ENERGY MARKETS

NAME	LAST PRICE	5D % CH	1M % CH	3M % CH
COPPER (USD/T)	7459.00	2.81	5.67	6.80
ALUMINUM (USD/T)	2058.00	0.88	0.10	(0.34)
ZINC (USD/T)	2095.00	1.80	9.74	7.99
LEAD (USD/T)	2090.00	1.65	5.72	13.34
OIL (USD/BBL)	75.17	2.33	(3.01)	0.83
NATURAL GAS (USD/MMBTU)	3.70	(9.40)	(24.99)	(19.07)

PRECIOUS METALS

NAME	LAST	5D % CH	1M % CH	3M % CH
GOLD (USD/OZ)	1238.10	0.84	6.59	2.10
SILVER (USD/OZ)	19.09	6.06	8.33	3.11

INDUSTRY INDICES

NAME	LAST PRICE	5D % CH	1M % CH	3M % CH
BALTIC DRY INDEX	2712.00	(1.60)	45.10	(34.74)
BBG WORLD IRON INDEX	257.94	(2.12)	(2.57)	0.98

AGRO MARKET

NAME	LAST	5D % CH	1M % CH	3M % CH
COFFEE (USD/IB)	178.85	(3.35)	8.56	29.70
COTTON (USD/IB)	86.07	3.02	12.22	8.84
SUGAR (USD/IB)	19.96	0.05	8.36	30.12
WHEAT (USD/BU)	695.00	(2.39)	10.85	34.95
SOYBEAN (USD/BU)	1026.00	2.19	6.27	11.67

INSTITUTIONAL FLOW IN CR (23/08-27/08)

INSTRUMENT	PURCHASE	SALE	NET
FII (P)	12809.62	12148.18	661.34
DII	6204.53	7042.09	(837.56)
MUTUAL FUND (23/08-26/08)	2397.60	3559.70	(1162.10)

FII DERIVATIVE SEGMENT IN CR (23/08-27/08)

INSTRUMENT	PURCHASE	SALE	NET
INDEX FUTURE	24720.43	27839.30	(3118.87)
INDEX OPTION	33911.73	22588.94	11322.79
STOCK FUTURE	32338.31	33059.71	(721.40)
STOCK OPTION	888.54	986.44	(97.90)

Data Source: Bloomberg, BSE, NSE

TELECOM & IT

The government announced that the telecom operators, who had bagged 3G spectrum in the auction held recently, would be allocated airwaves from September 1, paving way for launch of high-speed mobile broadband services. The Department of Telecom (DoT) had set September 1 as the deadline for allocating spectrum, as per the schedule of auction, which fetched the government over `67,000 Crore for selling 3G frequency. There are, however, apprehensions in the industry as the defence forces are yet to vacate spectrum in several areas, as the alternate network for them is still not ready. Asked whether government will be able to give spectrum on time, Minister of State for Telecom and IT Sachin Pilot said, "After September 1, 2010, allocation will take place and services will be rolled out." The government had risen over `1.06 lakh Crore from sale of spectrum for both 3G and Broadband Wireless Access (BWA) services.
(Source: ET)

Terming unsolicited calls by the telemarketers as a 'menace', Minister of State for Telecom Sachin Pilot said that the government will soon put a complete curb on such calls and SMSes. Pilot said "This (unsolicited calls) has become a menace. This does not happen anywhere in the world. Telecom operators and service providers had been categorically asked to stop the increasing menace of sending unsolicited calls and SMSes." The Department of Telecom and Telecom Regulatory Authority of India have already held necessary consultations to put a complete ban to such calls, he added.
(Source: Rediff)

The leading mobile phone operator Vodafone cautioned its subscribers of a disruption of email and messenger services after August 31 in the face of a government deadline to ban BlackBerry's encrypted services if security agencies are not given access. The caution came within hours of the government saying that a solution to monitoring of BlackBerry services to address its security concerns remained elusive.
(Source: ET)

Charging that the property was acquired from the proceeds of the Satyam fraud, the Enforcement Directorate (ED) took possession of 4,000 acres belonging to Satyam founder B Ramalinga Raju and his family members in Loyapalli village near Ibrahimpatnam of Ranga Reddy district. The ED, which has attached 347 such properties so far, gave some time to the Rajus for handing over these properties to them and when that did not happen, it began taking physical possession of the land. The property in Loyapalli is one among the 347 properties that has been attached but is the single largest asset. The ED began the process of physical attachment of the property after its adjudicating authority in Delhi last week confirmed the provisional orders issued by the ED on these properties.
(Source: ET)

Soon after Washington's decision to nearly double visa application fees as a part of its border security law, a bigger storm in the form of the 'Comprehensive Immigration Reforms Bill' is gaining momentum in the US. It is expected to hit the Indian IT outsourcing industry in November, with potentially disastrous consequences. Talk of comprehensive immigration legislation has been in the air for some time. It took a backseat for some time due to Congressional elections in the US, but the debate is expected to intensify in November once those elections are over. The Bill, which aims to curb illegal immigrants to the US from Mexico, also proposes to axe visas (whether H1-B or L1) to foreign companies that do not employ at least 50 percent local people in the US. If passed, the Bill is expected to snap the spine of the Indian IT outsourcing sector, which is nowhere near this 50 per cent figure and still relies on H1-B and L1 visas to transition clients' contracts offshore.
(Source: BS)

BANK & FINANCE

Dr. Drabu, Chairman of J&K Bank was asked to resign by the J&K government and he duly obliged. This sudden announcement resulted in stock sliding by 6.95% during the day to end at `789.75. His departure would definitely be missed, since he catapulted the bank to a very strong position. However, the bank, on its website stated that the state government, in consultation with the RBI would make interim arrangements till a successor is found.

We had initiated a buy on J&K Bank dated August 3, 2010 in an earlier report based on its strong financials and attractive valuation. (CMP as on Aug 3, 2010: `816.25 with a target price in the range of `950-1,005/-). We continue to be invested in the bank. The price slide is more out of uncertainty rather than any change in the fundamental position of the bank. *"A rational investor should be able to control oneself; one can't let his emotions get in the way of his mind."*

L&T Finance, has expressed its interest publicly to apply for a banking license post the central bank's proposal for new banking licenses for the financial sector. After NBFCs, state-owned power finance companies PFCs, REC and PFC, came into the race to foray into the banking business. The heads of power finance PSUs held a meeting on Thursday to discuss the issue.

State Bank of Indore has now merged into State Bank of India after 90 years of banking.

Reflecting the trend of sizable chunk of restructured assets turning into bad loans, rating agency CARE has pegged Indian banking sector's gross NPAs at 3.5% of gross advances by March 2011. It expects 15% restructured assets to be converted into NPAs in FY11. This was in addition to the normal system NPAs, as mentioned by CARE.

- The Union Cabinet on August 26, 2010 approved a new set of direct tax rules that propose to raise income tax exemption limit from INR1.6 lakh to INR2 lakh, leaving more money in the hands of individuals, and a lower tax rate for companies. The much-awaited Direct Taxes Code, or DTC, Bill, which seeks to replace the nearly 50-year-old income tax law, is likely to be introduced in Parliament on Monday August 30, 2010, and may then be referred to a select committee of members of both houses of Parliament. The basic exemption limit is proposed to be raised to INR2 lakh from the current INR1.6 lakh and corporate tax rate for both domestic and foreign companies is proposed at 30%. Women will enjoy a higher exemption of up to 2.5 lakh. There will be no surcharge or cess on companies, thereby bringing the corporate tax rate to 30% from present 34%. The new changes in the tax rates, expected to come into effect from April 1, 2011. The new code proposes three income tax slabs -- income of up to INR2-INR5 lakh will face 10%, INR5-INR10 lakh will attract 20% and income over INR10 lakh will face tax at the rate of 30%. The housing loan exemption of INR1.5 lakh would also be available to individual taxpayers on the interest component.

- The lower house of parliament on August 25, 2010 approved a landmark bill to open up the India's USD150 billion nuclear power market, after the government agreed to tougher provisions that an industry group said would hamper the sector's growth.

- The government in its review of the Foreign Trade Policy unveiled a INR1,052 crore stimulus package to boost exports in the face of its slowing growth. This policy review is part of the Foreign Trade Policy (FTP) for 2009-14, which was announced in August 2009. Aiming to provide some relief to exporters hurt by global slowdown, Sharma announced extending DEPB (Duty Entitlement Pass Book) scheme for six months or till June 30, 2011. Under this scheme, the government reimburses duties on imported inputs used in exports. Government also announced extension of zero duty EPCG (Export Promotion for Capital Goods) for one more year that is till March 31, 2011, and SHI (Status Holders Incentive) scheme for one more year till March 31, 2011.Also, interest subvention of 2% been extended to textiles, jute, leather and engineering goods sectors.

- Larsen & Toubro (L&T) bagged two projects worth INR11.95 billion from ONGC to set up an additional processing unit at its gas processing complexes at Hazira and Uran.

- ARSS Infrastructure Projects received a new order worth INR1.03 billion from office of the chief engineer, National Highways, Orissa.

- Aban Offshore bagged a USD15 million (INR697.50 million) contract from Cairn Energy for the deployment of the jack-up rig Aban-Il in Ravva block, located offshore East Coast of India, for a 5 firm well plus 2 optional well programmed.

- Atlanta in consortium received order amounting to INR541 million from office of the chief engineer, National Highways, Orissa, Sachivalaya Marga, Unit-4, Bhubaneshwar. The order work includes execution of the widening and strengthening existing intermediate lane to two lane carriage away in km 159.90 to 184.260 km of NH 224.

- PowerGrid Corporation of India foray into the business of telecom tower infrastructure, citing a positive market potential. The company may proceed with this diversification opportunity for telecom tower infrastructure after due diligence from a consultant. The company recently appointed KPMG as a consultant to evaluate the telecom infrastructure business plan of the company, including due diligence for tower business opportunity. The board was apprised of the interim report submitted by Booz & Co. on diversification strategy. Booz & Co. were appointed by the company as consultant in May, for developing corporate plan, vision, diversification strategy etc. They have recommended focusing on leveraging the company's power transmission towers infrastructure for telecom infrastructure purpose.

- Bajaj Corp, one of the India`s leading producers of hair oils has posted 18.25% rise in its net profit for first quarter ended on June 30 at INR227.06 million as against INR192.02 million for the corresponding quarter last year. Company's net sales increased by 14.90% to stand at INR817.08 million for June 2010 quarter as against INR711.13 million for same quarter previous year. Bajaj Corp entered capital market on August 2, 2010 with a fresh issue of 4.5 million equity shares of INR5 each, in a price band of INR630-INR660 a share.

- Cipla approved the acquisition of Meditab Specialties Pvt. Ltd. for an aggregate consideration of INR133.35 crores. Meanwhile, the company has declared a special interim dividend of INR paise per equity share (face value of INR2 per share) for the financial year ending March 31, 2011 to commemorate 75th Anniversary of the company. The total payout inclusive of dividend tax would aggregate of approx INR75 crores.

- Piramal Healthcare Ltd signed a definitive agreement under which, Super Religare Laboratories Ltd would acquire Piramal Diagnostic Services Pvt Ltd, a subsidiary of the company. Piramal Healthcare now informs that the company has completed the divestiture of its shareholding in Piramal Diagnostic to Super Religare Labs.

EVENTS

Aug 30, 2010

- The U.S. Personal Income data for July 2010.
- The U.S. Personal Spending data for July 2010.

Aug 31, 2010

- India's Q1 FY2010-11 GDP data.
- The U.S. Consumer Confidence data for August 2010.
- Japan's Industrial Production data for July 2010.

Sep 01, 2010

- India's Exports-Imports data for July 2010.
- India, China and Germany PMI Manufacturing data for August 2010.
- Germany Retail Sales data for July 2010.
- Bloomberg FCI data for August 2010.
- The U.S. ABC Consumer Confidence data for the week ended August 29, 2010.

Sep 02, 2010

- The U.S. Initial Jobless Claims data for the week ended August 28, 2010.
- The U.S. Factory Order data for July 2010.
- The U.S. Pending Home Sales data for July 2010.

Sep 03, 2010

- India's Food and Fuel Inflation data for the week ending August 21, 2010.
- India, China and Germany PMI Services data for August 2010.
- The U.S. Unemployment data for August 2010.