

Strategy Note

India Infoline Model Portfolio (IMP)

Post the general election outcome, we had identified 15 momentum stocks to be bought till the budget to take advantage of the sudden change in market sentiment. Since then, equity market has rallied sharply on reduction in domestic political risk and improvement in global liquidity. Our 15 momentum stocks, assuming equal weights, delivered 50% return in 15 days since their recommendation. To sustain outperformance, we replaced five stocks in the first week of June which were trading near their fair value and had limited upside potential. Cumulatively till date, the 15 stocks have returned 26% despite the market correction pre and post budget, a significant outperformance to Sensex (13.1%) and BSE 200 (16.1%). For instance, If an investor would have invested Rs1lakh in each stock on May 18th than his current portfolio value would have risen to **Rs1.9mn** from **Rs1.5mn**. 9 of the 15 stocks recommended have outperformed the BSE 200. The India Infoline Model Portfolio (IMP) too after its revision on 1st April 2009 has delivered 30.2% return. It is up 59.1% since its inception in October 2008.

Post budget, we feel that investors should refocus on the India Infoline Model Portfolio (IMP). As an exercise of shuffling the portfolio at regular intervals, we are making some changes to strengthen IMP for continued outperformance. This time, we are retaining only 3 stocks and replacing the other 12 either with stronger peers or

companies from other sectors having better prospects. Tactically, we have replaced defensives from FMCG and pharmaceutical space with high-beta infrastructure stocks which would benefit from higher infrastructure allocation in the budget. Further, we have tweaked weights for the companies retained. All these adjustments have been done with a positive long term view on the market and our belief that new government would initiate reforms and fiscal consolidation process soon. However, in the near term the market would remain choppy. Further correction to 12,500 on the Sensex would provide a good opportunity to invest.

Momentum stocks have significantly outperformed the Sensex and BSE 200

Our 15 momentum stocks have significantly outperformed its benchmark, BSE 200, since their recommendation on May 18th 2009. These stocks, assuming equal weights, have delivered a return of 26.2% since then, beating the Sensex (13.1%) and BSE 200 (16.1%). Stocks that contributed significantly to the outperformance were Patel Engineering (up 93.2%), Simplex Industries (up 62%), Voltamp Transformers (up 47.4%), Nagarjuna Fertilizers (up 43.5%) and GVK Power (up 40.7%). Key draggers were Genus Power (down 0.4%), United Phosphorus (up 0.8%) and ICSA Ltd (up 2.8%). Overall, 9 out of the 15 stocks recommended delivered better return than BSE 200.

Revised IMP

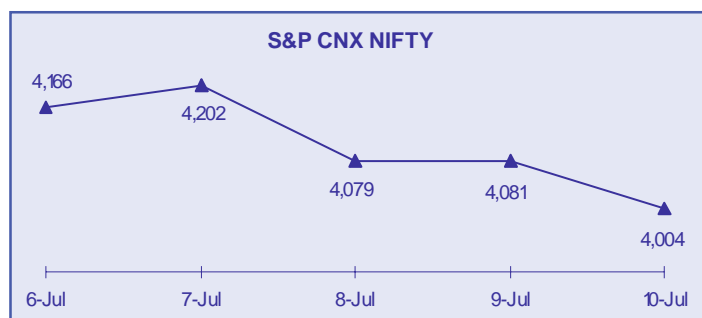
Sr. No	Company	Sector	New Wght (%)	Old Wght (%)	CMP (Rs)	Investment positives
1	ACC	Cement	5.0	6.0	788	Plans to enhance its capacity to 30mtpa, increase of 30%, by Dec '10. Robust demand from higher infrastructure spending to keep prices firm.
2	Bajaj Auto	Auto	7.0	0.0	973	Higher disposable income to drive demand growth. Success of new launches key to earnings growth. Lower raw material costs will lead to margin expansion.
3	Canara Bank	Financials	6.0	0.0	238	Robust loan growth to continue while asset quality to remain in-check. Improvement in C/D ratio and CASA to support FY10 NIM. Attractive valuations at 0.8x FY10 BV.
4	DLF	Real Estate	5.0	0.0	283	Discount pricing policy to boost residential demand. Selling of non-core assets to lower debt gearing. Focus on affordable housing likely to generate higher earnings.
5	ICICI	Financials	6.0	0.0	653	Concerns wrt NPLs and international exposure have waned. Higher NIM and cost productivity to enhance FY10 RoE. Valuations attractive despite recent run-up.
6	ITC	FMCG	7.0	6.0	210	Dominates a relatively inelastic cigarette industry. Diversification into other consumer segments has met success. Top pick in the FMCG space.
7	Indiabulls Real Estate	Real Estate	5.0	0.0	186	Ibills to double its residential projects in FY10. Focus on tier-2/3 cities. 3 thermal power plants, totalling to 5,280MW, expected to be operational by FY12.
8	L&T	Capital Goods	10.0	0.0	1,414	Rs703bn quality order book provides strong earnings visibility. Foray into new verticals like defense & nuclear. Earnings to witness 33% CAGR over FY09-11E.
9	Reliance Ind	Oil and Gas	10.0	14.0	1,830	Increase in MAT rate along with uncertainty over 80-IB benefits will impact near term earnings. SC decision over gas pricing would be a key harbinger for the stock. However, its long term E&P story remains intact.
10	Reliance Cap	Financials	5.0	0.0	761	A diversified financial services play. Strong parentage and large capital base to aid growth in new businesses. Recent correction provides an opportunity to invest.
11	RComm	Telecom	7.0	0.0	255	GSM foray to bolster revenues. Net D/E to decline as company may turn FCF positive. Scope for valuation gap to narrow; trades at a steep 34% discount to Bharti.
12	Simplex Infra	Infrastructure	7.0	0.0	352	Rs100bn order book provides significant visibility. Augmenting portfolio by venturing into new verticals. Earnings to witness 24% CAGR over FY09-11E.
13	Sintex	Infrastructure	7.0	0.0	216	Construction of traditional concrete houses to drive its prefab business. Market leader in plastic products with 60% market share. We expect its earnings to grow at 26% CAGR over FY09-11E.
14	Suzlon	Power	7.0	0.0	87	Acquisition of RE Power will accelerate growth. Restructuring of debt covenants to ease pressure on the balance sheet. Trades attractively at 10x FY11E EPS.
15	United Phosph	Agri	6.0	0.0	137	Strong emphasis by the government to achieve higher agriculture growth to drive volumes. Margins likely to expand due to lower RM prices.

Source: India Infoline Research

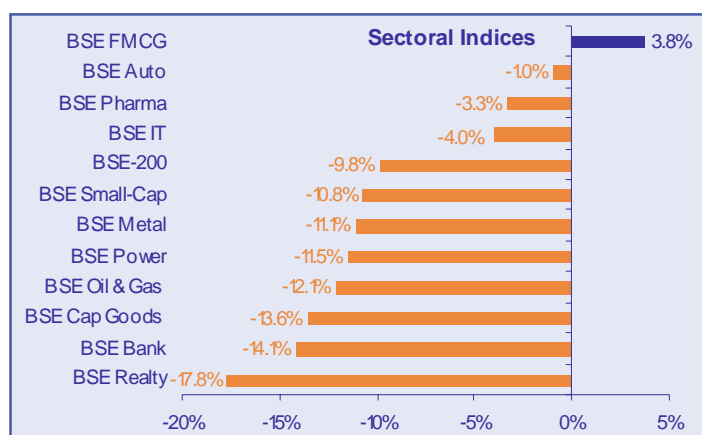
India Infoline Weekly Wrap

Market review

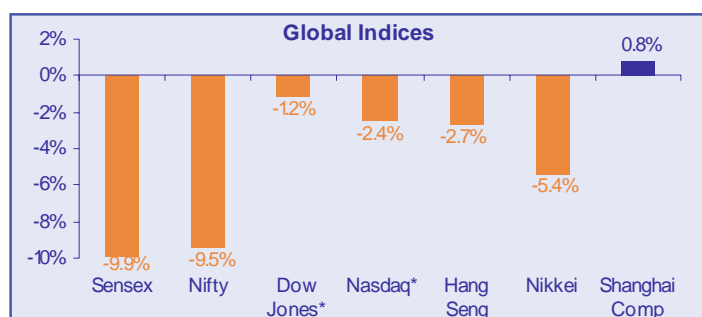
The Indian market was left high and dry by a disappointing Budget due to lack of any new liberalization measures and owing to much higher deficit targets. Street expectations of major pro-reform measures didn't find any place in the budget. Instead, the Finance Minister continued the thrust on social welfare. Finally, the BSE Sensex lost 9.9% and the NSE Nifty dropped 9.5% to register biggest weekly fall since October 2008.



Realty stocks fell sharply after the Finance Minister failed to provide any sops for the housing sector. Heavy selling was also seen in oil & gas, capital goods and banking stocks. FMCG stocks outperformed amid optimism that a broadly consumption-centric budget augers well for the sector'.



Global equity markets extended the recent downtrend amid growing doubts over the so-called 'green shoots' theory. Manufacturing output in the UK and the Japanese machinery orders unexpectedly declined, adding to apprehensions that the global recession is far from over. Markets were also jittery ahead of the start of quarterly earnings.



*As per previous close

FII & MF activity

Date	(Rs cr)	
	FII Net Investment	MF Net Investment
2-Jul	402	(166)
3-Jul	568	(207)
6-Jul	(351)	304
7-Jul	2,799	(588)
8-Jul	776	196
Total 2009	29,234	2,023

BSE Sensex & BSE 200 Top Five Gainers

BSE Sensex			BSE 200		
Company	CMP (Rs)	% Chg	Company	CMP (Rs)	% Chg
ITC	211	9.9	Marico	81	9.1
Hero Honda	1,452	6.0	Colpal	673	8.5
Ambuja Cem	96	5.0	Kesoram Inds	285	6.3
TCS	395	1.1	Godrej Cons	171	4.1
Cipla	262	0.7	Ultratech Cem	730	3.3

BSE Sensex & BSE 200 Top Five Losers

BSE Sensex			BSE 200		
Company	CMP (Rs)	% Chg	Company	CMP (Rs)	% Chg
Reliance Infra	1,029	(20.3)	Chambal Fert	50	(29.2)
Tata Steel	353	(19.4)	NIIT	52	(27.1)
DLF	279	(17.3)	IFCI	40	(25.9)
R Com	242	(17.2)	Adlabs	269	(23.9)
ICICI Bank	629	(16.6)	Aban	677	(23.7)

Bulk deals

Date	Institution	Scrip name	B/S	Qty (lacs)	Price
7-Jul	Fidelity Fund	ANG Auto	S	2.4	32
8-Jul	Deutsche Fund	Si Group	B	2.5	69
9-Jul	Goldman Sachs	Educomp	B	1.0	3,748
9-Jul	Morgan Stanley	HCC	S	31.9	99
9-Jul	HDFC Fund	Noida Toll	S	9.5	36

Insider trades

Company	Name	B/S	Qty ('000)
Arihant Foundation	S Jayalakshmi	B	3.6
Ashtavinayak	Dhilin Mehta	B	4.5
Opto Circuit	Usha Ramnani	B	20.0

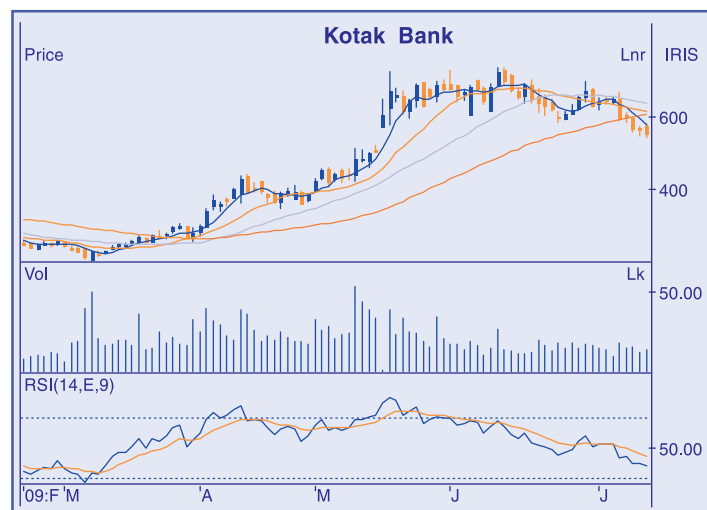
Book closures and record dates

Company	Date	Purpose
Hyderabad Ind	18-Jul-09	100% dividend
Lanco Ind	22-Aug-09	10% dividend

India Infoline Weekly Wrap

Technical ideas

Kotak Bank SELL CMP Rs552

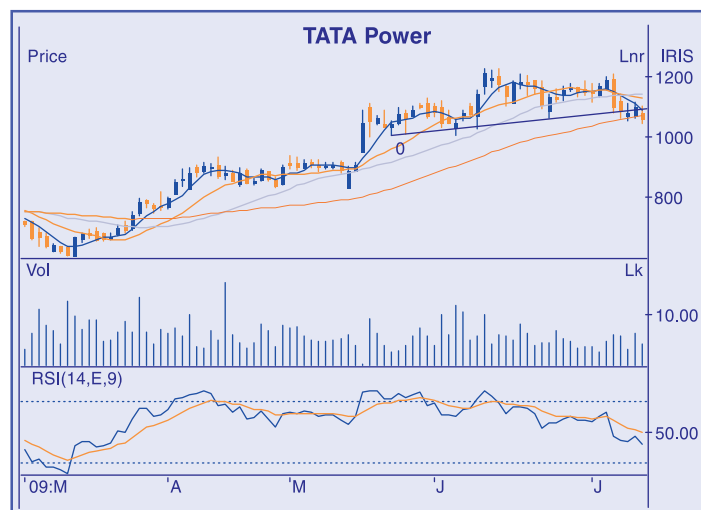


The stock has been on a downtrend since its peak of Rs737 witnessed during the second week of June '09. The stock on repeated occasion finds support around its short-term trendline placed at Rs590 in last week. The stock witnessed near-term rallies but faced resistance at higher levels.

This week, we saw the stock breaking below its multiple support levels. The recent decline was accompanied by higher volumes. Friday's decline confirms the breakdown from the multiple support zone. Furthermore, on the weekly chart, it has broken down from a small consolidation pattern, confirming the negative trend. The breakdown from support zone could see the stock declining to around Rs520 and below.

We recommend traders to initiate short positions at current levels and on rallies to Rs575 for target of Rs520 and Rs510. A stop loss of Rs592 is recommended on all short positions.

Tata Power SELL CMP Rs1,064



The daily chart shows a maturing head and shoulder pattern, with the neckline looming around Rs1,090 levels (as shown above in the chart). The break down from this pattern suggests more downside from the current levels.

The head and shoulder top placed at Rs1,230, coincided with a double top is a signal that the stock is set to fall. The completion of the pattern over the week has further confirmed the bearish view on the stock. Such patterns are usually formed at the peak of an upward trend (as shown above).

We expect the weakness to continue in the near term with daily RSI also showing a downward trend. Momentum indicators also denote that the stock could trudge lower in the near term. We recommend a high-risk sell on the stock between the levels of Rs1,050-1,085 with a stop loss of Rs1,105 for an initial target of Rs1,000 and Rs980.

Positive open interest build-up

Company	Price % chg	OI % chg	Vol (lacs)
Jindal steel	0.1	8.8	6.9
Cipla	0.2	6.3	8.7
Sterlite	2.6	5.3	32.1
Wipro	3.3	1.9	17.3
PFC	1.9	1.1	4.9

Negative open interest build-up

Company	Price % chg	OI % chg	Vol (lacs)
Biocon	(7.9)	15.8	5.3
Siemens	(2.7)	14.9	6.7
Patni	(2.2)	12.9	0.4
Corp. Bank	(0.9)	12.5	0.1
BEML	(4.0)	10.9	2.5

Technically strong

Company	CMP (Rs)	10 days Moving Average (Rs)	Total Traded Qty (lacs)	10 days Average Traded Qty (lacs)
Kesoram Inds	285	273	5.0	1.9
Godrej Cons	171	167	4.7	2.0
TCS	395	389	42.7	27.5
Wipro	385	379	31.4	11.5
Satyam Comp	75	73	583.5	254.7

Technically weak

Company	CMP (Rs)	10 days Moving Average (Rs)	Total Traded Qty (lacs)	10 days Average Traded Qty (lacs)
Mphasis BFL	367	375	4.3	4.8
Madras Cem	101	103	2.8	4.1
India Cements	135	137	11.6	20.3
Sun Pharma	1,115	1,134	2.2	8.7
NTPC	193	196	52.5	77.9

India Infoline Weekly Wrap

Mutual fund round-up

India Infoline picks

Mutual Funds	Assets	NAV	Absolute return (%) as on Jul 09, 2009							
	(Rs Cr)	(Rs)	1wk	1mth	3mth	6mth	1yr	2yr	3yr	5yr
HDFC Top 200 Fund (G)	3,689	139.1	(6.1)	(5.8)	35.9	57.3	16.6	13.1	60.6	275.5
Franklin FMCG Fund (G)	26	39.9	2.2	4.2	23.7	28.2	16.0	12.5	19.3	180.9
Reliance Vision Fund (G)	3,453	188.1	(6.5)	(8.7)	26.5	42.3	5.3	(12.1)	34.9	223.5
Sundaram Tax Saver (G)	1,004	31.6	(7.0)	(11.2)	25.5	34.1	3.4	5.9	52.2	306.6
UTI Dividend Yield Fund (G)	1,295	20.2	(4.9)	(4.5)	23.5	37.9	10.8	11.8	61.4	--

Fund this week: Reliance Vision Fund

Fund snapshot		Asset allocation (%)	
Fund Manager	Ashwani Kumar	Equity	82.0
Latest NAV	Rs188.1	Debt	0.0
NAV 52 high/low	Rs206/117	Cash/call	18.0
Latest AUM	Rs3,453cr	Top 5 holdings (%)	
Type	Open-ended	State Bank of India	8.1
Class	Equity - Diversified	Larsen & Toubro	5.0
Options	Growth & dividend	Reliance Inds	4.6
Min investment	Rs5,000	Divis Lab	4.4
Entry load	2.25%<Rs5cr	Infosys Tech	4.1
Exit load	1%<Rs5cr<1yr	Top 3 sectors (%)	
Benchmark	BSE 100	Banks	13.6
No. of stocks	26	Computers - Software & Education	10.9
Expense ratio	1.9%	Oil & Gas, Petroleum & Refinery	9.8

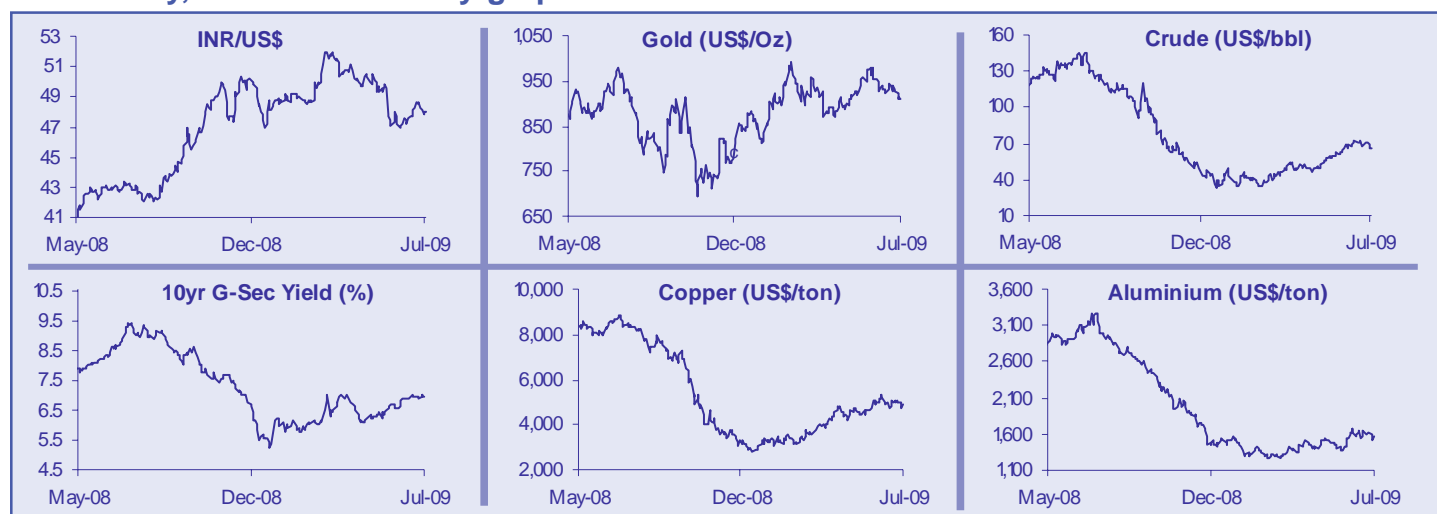
NFO update

Fund Name	Close	Type	Class
Religare Business Leaders	31-Jul	OE	Equity - Div
DSP-BR World Energy	31-Jul	OE	Hybrid
Franklin Build India Fund	31-Jul	OE	Equity - Div

Dividend update

Mutual Fund	Dividend %	Record date	Class
UTI Top 100 Fund	10.0	14-Jul	Equity - Div
Reliance Monthly Invt Sr I	100.0	14-Jul	Debt - Invt
UTI Monthly Invt Plan II	100.0	15-Jul	Debt - Invt

Commodity, debt and currency graphs



* As per previous close

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