Economy News

- The Chief Election Commissioner has announced that the five-phase polling to elect the 15th Lok Sabha will begin on April 16. The final round of voting will be on May 13 and Counting would be done on May 16. (BL)
- India's exports declined by 15.9% to $12.38 billion in January from $14.71 bn a year ago period, posting contraction for the fourth month running under the impact of a slowdown in major global markets. Imports dipped for the first time this fiscal, by 18.2% to $18.45 bn, leaving a monthly trade deficit of about $6.07 bn. (BL)
- India lifted the ban on importing toys from China provided they conform to international safety norms. India had earlier on January 23 banned the import of Chinese toys for six months on grounds of public health and safety. (FE)
- The year 2009 is set to be more difficult for the Indian economy and despite the government's stimulus packages, it would take at least a year before it starts recovering, economists at Moody's has said. (BL)
- Iron ore export prices have slipped by up to 12% recently due to a fall in demand from China, which consumes almost half of Indian ore shipments. (ET)
- Liberalisation of the ECB norms has failed to have an impact on inflow of capital from the overseas markets as the funds raised by India Inc from abroad dropped to $1.3 billion in January 2009. (ET)

Corporate News

- **Maruti** sales in domestic market grew 19% to 70,625 units in February 2009 compared to 59,311 units in Feb 2008.
- In two wheelers, **TVS Motors** posted a 13% growth to 1.07 lakh units in February 2009 against 95,235 units in Feb 2008 while Bajaj Auto reported a 16.94% fall in its motorcycle sales in February at 1,31,785 units as against 1,58,662 units in the same month last year. (BS)
- **BHEL** is setting up a manufacturing unit at Tirumayam in Tamil Nadu at an investment of Rs 2.50 bn, which would produce 25,000 mn tonnes of boiler components per annum. (BL)
- **Aurobindo Pharma** said its Australian subsidiary has received approval from the government agency for registering its anti-hypertension drug Auro-Linsinopril in that country. (ET)
- **McNally Bharat Engineering** bagged an Rs 1.16 bn contract from state-run Steel Authority of India for a water supply system project at its Burnpur plant. (ET)
- **Sadbhav Engineering** said its consortium has bagged an order worth Rs 15.71 bn from Maharashtra State Road Development Corporation for modernisation and computerisation of border check posts. (BL)
- Mr. Anil Agarwal-led **Vedanta Group** will pump in a whopping Rs.700 bn in India by 2011-12, a stride that will make it the world's fifth largest metal and mining entity rubbing shoulders with the likes of BHP Billiton and Rio Tinto. (FE)
- The Essar-group promoted Aegis BPO has made an offer to acquire ICT Group (ICTG), a Nasdaq-listed firm based out of the US, for around $130 mn in cash. (ET)

Source: ET = Economic Times, BS = Business Standard, FE = Financial Express, BL = Business Line, ToI: Times of India, BSE = Bombay Stock Exchange

Equity

	2 Mar 09	% Chg 1 Day	1 Mth	3 Mths
Indian Indices				
SENSEX Index	8,607	(3.2)	(5.9)	(1.6)
NIFTY Index	2,675	(3.2)	(3.9)	0.7
BANKEX Index	4,034	(4.9)	(13.7)	(11.3)
BSET Index	2,058	(1.8)	(6.3)	(14.3)
BSETCG INDEX	5,727	(2.9)	(6.1)	(5.9)
BSEOIL INDEX	5,886	(2.9)	(2.8)	9.0
CNXMcap Index	3,113	(2.0)	(6.0)	(3.6)
BSESMCAP INDEX	3,049	(1.8)	(7.3)	(6.2)
World Indices				
Dow Jones	6,763	(4.2)	(16.3)	(21.3)
Nasdaq	1,323	(4.0)	(12.8)	(11.4)
FTSE	3,626	(5.3)	(12.9)	(13.0)
Nikkei	7,280	(3.8)	(7.9)	(10.0)
Hangseng	12,317	(3.9)	(5.8)	(11.4)

Value traded (Rs cr)

	2 Mar 09	% Chg - Day
Cash BSE	2,545	(12.7)
Cash NSE	7,134	(19.8)
Derivatives	35,310.7	(9.9)

Net inflows (Rs cr)

	27 Feb 09	% Chg	MTD	YTD
FII	(270)	13	(2,690)	(6,941)
Mutual Fund	276	322	(1,261)	(2,127)

FII open interest (Rs cr)

	27 Feb 09	% Chg
FII Index Futures	7,394	0.8
FII Index Options	14,558	(1.7)
FII Stock Futures	11,682	(2.1)
FII Stock Options	1,006	22.8

Advances / Declines (BSE)

2 Mar 09	A	B	S	Total	% total
Advances	21	510	155	686	29
Declines	184	1137	253	1,574	67
Unchanged	-	71	11	82	4

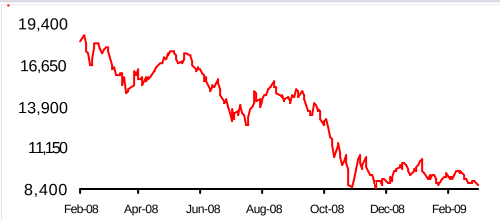
Commodity

	2 Mar 09	% Chg 1 Day	1 Mth	3 Mths
Crude (NYMEX) (US$/BBL)	40.1	(0.0)	(1.6)	(14.2)
Gold (US$/OZ)	926.1	(1.7)	3.4	20.3
Silver (US$/OZ)	12.9	(1.4)	3.8	33.2

Debt / forex market

	2 Mar 09	1 Day	1 Mth	3 Mths
10 yr G-Sec yield %	6.26	6.32	6.18	6.85
Re/US$	51.94	51.16	48.93	50.15

Sensex



Market Strategy

Research Team
+91 22 6621 6301

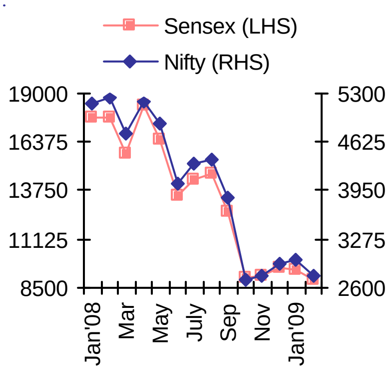
Market Strategy

The benchmark indices remained range bound during the month. Weak global markets and absence of fiscal stimulus measures weighed on the markets. The Vote-on-account, which was presented during the month, failed to cheer the markets as the Finance Minister did not offer any specific measures to further stimulate the economy. At the same time, the vote-on-account highlighted the elevated level of fiscal deficit.

On the US front, investors treated the new Financial Stability Plan with skepticism over lack of details. Markets in the US tumbled to multi-year lows. Economic activity shrunk appreciably across major regions. Fresh concerns on deteriorating prospects of emerging European economies resulted in weak eurozone markets.

On the domestic market front, the quarterly results have not provided any better visibility for FY10. The excise duty cuts announced after the interim budget has largely failed to have any meaningful impact on the respective sectors stocks. With no more macro triggers expected in the current quarter, we expect markets to take cues from the events in the international markets. We note that, the international markets have remained weak in the past few sessions. Over the next three month, markets will also start focusing on the general election and its possible outcomes. We expect the markets to follow a longer term trend once the election results are out and there is more clarity on FY10 earnings.

Benchmark Indices

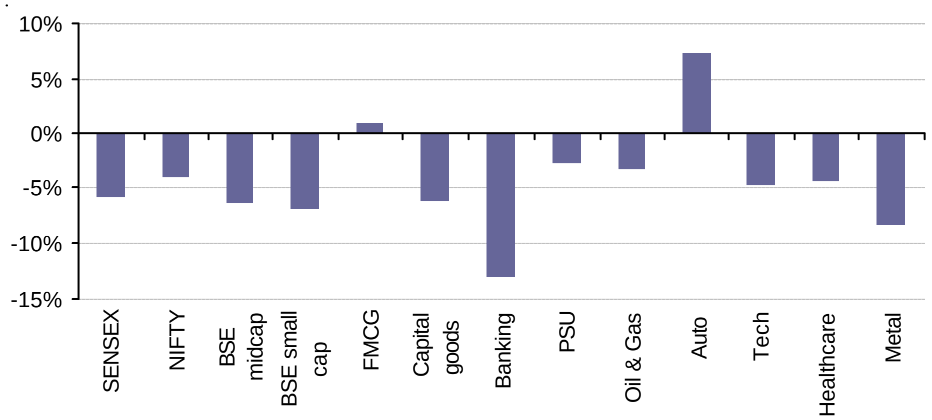


Source: Bloomberg

Markets failed to reflect any clear trend

At the beginning of the month, markets showed positive trend in anticipation of stimulus measures in the interim budget and positive global cues. Auto and Realty stocks reported major gains. However, the sentiment turned negative as investors were disappointed by the absence of any stimulus measures in the interim budget. Also, the bank bail-out package and the new fiscal stimulus package in the US gave little details and disappointed the markets. Towards the month end, the 3QFY08 GDP also came in at a lower-than-expected level of 5.3%. FIIs were major sellers once again, during the month, off-loading stocks worth Rs.21.8 bn, on a net basis. As a result, markets gave away entire gains of the month. The subsequent announcement of excise cuts by the government failed to cheer the markets.

Sectoral Indices (1st - 27 Feb 2009)



Source: Bloomberg

Vote on account - stood by conventions and avoided any fiscal policy measures

An interim budget, by nature, does not contain any major initiatives for the next fiscal. It has traditionally been an account keeping exercise with the incumbent inclined not to thrust its own views on the in-coming Government. The recent vote-on-account has kept up with this spirit and the acting Finance Minister, Mr. Pranab Mukherjee, did not announce any policy decisions for the next fiscal.

The Minister restricted himself to revising FY09 estimates and presenting broad estimates for the next fiscal. The vote-on-account did not contain even any major sector specific incentive or benefit despite the prevailing weakness in the economy. We believe that, some quarters of the market were expecting a cut in STT or short term capital gains tax, which did not materialize.

While there were no major initiatives, the interim budget continued with the UPA Government's focus on social initiatives with a view to promote a more equitable and inclusive growth. The 2009-10 central plan outlay for social services has been increased by Rs.46 bn. The interim budget has also provided additional sums for the energy sector. Allocations have increased by about 16% to Rs.1.15 trn for FY10. Rs.521 bn have been allocated to the Ministry of Power v/s Rs.363 bn in FY09.

The lack of even sector-specific incentives and market-related incentives, disappointed the markets, which reacted downwards.

US economic stimulus package and bank bailout plan fail to boost market sentiment

The much awaited USD 787bn stimulus plan was approved in the US. The stimulus plan included tax cuts of USD212bn for individuals and corporates aimed at putting more cash with consumers, direct spending of USD267bn and USD308bn towards appropriation spending. However, the US markets fell as it did not meet up to expectations.

The bank bail-out package announced by Mr. Geithner also fell short of expectations as it did not give out any specific details on helping the banks. Moreover, the Treasury Secretary indicated that, determining the extent of problems and probable solutions for them will take more time.

Concurrently, US investors have grown increasingly concerned about the effectiveness of rescue plans in containing a full-blown recession. On the economy front, Federal Reserve Chairman Ben Bernanke said that he hoped that the recession could end later this year, but cautioned that a full economic recovery will take more than two or three years. Reflecting these concerns, markets in US touched multi-year lows during the month.

3QFY09 GDP at 5.3%

The CSO (Central Statistical Organization) released the estimate of GDP for the 3QFY09 at 5.3%, which came slightly below the street expectations. The 'agriculture, forestry & fishing' and 'manufacturing' segments witnessed decline of 2.2% and 0.2%, respectively. The economic activities in mining, construction and services provided some vibrancy to Q3FY09 numbers.

Services grew 9.9% during Q3FY09 as against 10.2% in Q3FY08, showing only marginal moderation. This has came on the back of strong growth in Community & Social services (gr of 17.3%) due to salary hike on the sixth pay commission recommendation. Other segments like 'Finance, Real estate & Other businesses' and 'Trade, Hotels, Transport & Communication' also grew 9.5% and 6.8%, respectively. While a moderation in manufacturing was expected, the de-growth in agriculture came as a negative surprise.

The 5.3% GDP growth for 3QFY09 makes the fiscal growth target of nearly 7% difficult to achieve.

Elsewhere economic activity is down sharply

In Japan, GDP contracted 12.7% qoq, in the previous quarter (largest since 1974) led by fall in trade activity and domestic demand. Subdued economic activity was also reported from several large European economies.

European markets traded weak on concerns about impact of weakening Central and East European economies on the region's banks. In fact, Royal Bank of Scotland (RBS) recently declared one of the largest losses in corporate history. Singapore's GDP shrank at an annualized 16.4% (highest in 33 years) in the previous quarter.

Third round of stimulus measures in India

In late February, the government announced a 2% cut in Excise Duty and Service Tax rate While the general excise duty has been reduced from 10% to 8%, the rate of service tax rate has been cut from 12% to 10%.

Also, the 4% Excise Duty cut announced earlier in the stimulus package in December 2008 will now continue beyond March 31, 2009. The impact of excise duty cut will be felt on those sectors/products that are at the 10% Excise Duty rate slab. Amongst the sectors likely to be positively affected include Metals, Infrastructure & Real Estate, FMCG and Automobiles.

The Government has indicated that, these measures have been taken with the intention of boosting consumer demand and providing some relief to the industry reeling under the impact of slowdown. We believe that, these will further impact the fiscal deficit for FY10, which is already expected to be near 10.5% (combined for Centre and States) and has prompted S&P to downgrade India's outlook.

Downgrade in S&P's outlook; rising fiscal deficit is the culprit

In response to the higher combined fiscal deficit in FY09RE (about 11.5%) and FY10BE (about 10.5%), S&P cut its outlook on India's long-term sovereign credit rating to negative from stable, citing worsening government finances, which could raise firms' overseas borrowing costs and weaken the rupee. The rating itself has been maintained, though.

Non-plan expenditure during FY09 (RE) increased by 22% due to major increase in fertilizer subsidy, debt waiver scheme for farmers, food subsidy and defense expenditure. The total expenditure (plan and non-plan) has been revised upwards by 20%. However, the gross tax collection has been revised downwards by 8.7% as a result of lower direct and indirect tax collection. This will have its impact on the fiscal deficit (Centre only) for FY09 which has been revised upwards from 2.5% of GDP to 6.0% of GDP.

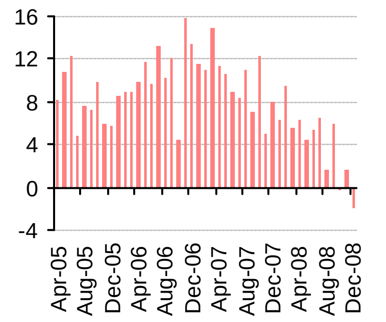
Fiscal deficit for FY10E has been budgeted at 5.5%, which in our view has downside risks given that government estimates are based on nominal GDP growth of 10.5% and increase in net tax collections of 6.8% (6.0% growth in FY09RE).

FIIs turn net sellers, once again

FIIs turned net sellers once again during the month. They sold shares worth Rs.21.8 bn during February. FIIs had been liquidating stocks in Indian and other emerging markets to shore up resources to beat the global liquidity crunch. FIIs turned net sellers probably because of renewed economic concerns and the corporate governance issues which cropped up post the Satyam episode.

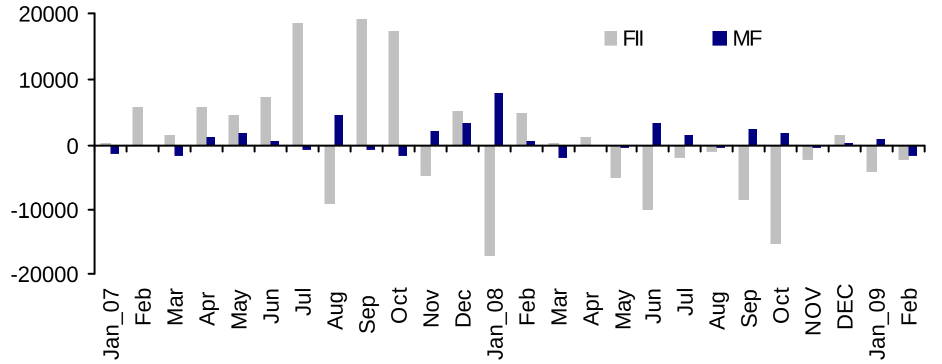
Also, financial institutions in developed markets themselves continued to remain under significant stress. FII selling has been one of the important reasons for the weakness in markets during the month. We had mentioned last month that, outflows on account of FII selling will remain a major concern to watch out for. Stabilization of FII flows and / or positive FII flows are important for the markets to stabilize and move up.

IIP growth (%)



Source: MOSPI

FII & Mutual Fund investment (Rs cr)



Source: Bloomberg

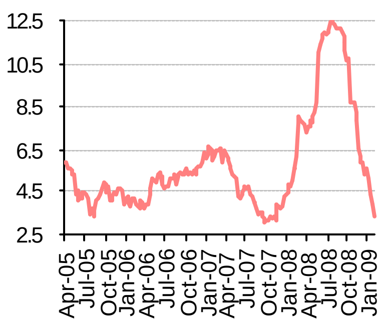
IIP de-grew in December 2008

The IIP for December 2008 posted a 2.0% decline as compared to an 8.0% growth in December 2007. Mining, manufacturing and electricity reported growth of 1.0%, 1.6% and -2.5%, respectively during December 2008.

Capital goods grew 4.2%, whereas intermediate goods and consumer goods declined 8.5% and 2.7%, respectively. The cumulative growth for April-November 2008-09 stands at 3.2% over the corresponding period of the previous year.

The RBI and Government have taken several measures recently to spur growth. The recent fall in inflation would provide greater leeway to RBI for taking softer monetary stance, going forward. In our view, further fiscal stimulus by the government is less likely, given their fiscal position.

Inflation (%)



Source: Bloomberg

Inflation continued to moderate – a positive

Inflation continued to moderate and was at 3.36% for the week ended February 14, 2009. A further cut in the retail fuel prices (LPG, Diesel and Petrol) is expected to help in moderating inflation further. According to estimates, the base effect may also lead to a downward bias in the next few weeks. The moderation in inflation rate is a positive as it gives more headroom for the Government and RBI to pursue growth through various monetary and fiscal tools.

Recommendation

The quarterly results have not provided any additional visibility on prospects in FY10. The excise duty cut has largely failed to have any meaningful impact on the respective sectors stocks.

With no more macro triggers expected in the current quarter, we expect markets to take cues from the events in the international markets. We note that, the international markets have remained weak in the past few sessions. Over the next three month, markets will also start focusing on the general election and its possible outcomes.

Valuations at about 10x current year earnings, are not demanding. However, we believe that, the markets will follow a longer - term trend only once there is further visibility on FY10 growth.

In the backdrop of a challenging economic situation, we believe that, companies which benefit from Government spending (in construction, capital goods and power / power related sectors) and select FMCG companies (which have not yet been impacted by the slow down) will find favour with the market.

The following are our preferred picks from among the sectors we cover:

Preferred picks

Sector	Stocks
Banking	Union Bank, BoB, PNB, HDFC Bank, Axis Bank
Construction	IVRCL, NCC, Sunil Hi Tech
Engineering	Bharat Electronics, Hindustan Dorr Oliver, Voltas, L&T
IT	Infosys, Infotech, Mphasis
Logistics	Gateway Distriparks, Redington
Media	Zee News
Metals & Mining	Sesa Goa
NBFCs	LIC Housing Finance, IDFC, HDFC
Oil & Gas	Petronet LNG, GSPL
Other Midcaps	AIA Engg, Nitin Fire, Numeric Power, JBF, EKC

Source: Kotak Securities - Private Client Research

Bulk Deals

Trade details of bulk deals

Date	Scrip name	Name of client	Buy/ Sell	Quantity of shares	Avg. price (Rs)
2-Mar	Ahlcon Paren	Bikramjit Singh Ahluwalia	B	750,090	14.00
2-Mar	Ahlcon Paren	Ahluwalia Contract India Ltd.	S	750,090	14.00
2-Mar	Edserv Soft	Rajeshpravinbhanushali	B	356,923	117.66
2-Mar	Edserv Soft	Avinish Kishorchandra Shukla	B	91,084	107.89
2-Mar	Edserv Soft	Rajeshpravinbhanushali	S	301,923	108.09
2-Mar	Elpro Intern	Lotus Global Investments Limited	S	70,000	255.00
2-Mar	G.S. Auto	Hardik M Mithani	B	39,767	7.35
2-Mar	Gemstone Inv	Nainesh Himat Jatania	S	20,000	22.85
2-Mar	Kzleasing	Karan Maheshkumar Hadvani	B	17,027	56.42
2-Mar	Kzleasing	Jyotikaben Maheshbhai Hadvani	B	18,030	56.33
2-Mar	Orisa Sp Irs	Nishu Finlease Pvt Ltd	B	108,400	326.55
2-Mar	Photoquip In	Vimal J Soni	B	80,000	9.95
2-Mar	Photoquip In	Javed S Saiyed	S	79,700	9.95
2-Mar	Span Diagnos	Bajrang Maheshwari	B	20,000	35.00
2-Mar	Span Diagnos	Nimbaram Dharmaji Prajapati	B	20,000	45.00
2-Mar	Span Diagnos	Bajrang Maheshwari	S	20,000	45.00
2-Mar	Span Diagnos	Nimbaram Dharmaji Prajapati	S	20,000	35.00
2-Mar	UTV Software	Fidelity Funds Mauritius Limited	B	286,212	195.00
2-Mar	Well Pack Pa	Gandhi Manisha Navneetlal	B	25,000	74.44

Source: BSE

Gainers & Losers

Nifty Gainers & Losers

	Price (Rs)	chg (%)	Index points	Volume (mn)
Gainers				
M&M	320	2.6	0.3	1.7
Tata Communication	404	(0.1)	(0.0)	0.1
Cipla	191	(0.3)	(0.1)	1.0
Losers				
Reliance Ind	1,226	(3.2)	(10.2)	4.9
ONGC	664	(3.8)	(9.1)	1.6
NTPC	179	(3.3)	(8.1)	3.6

Source: Bloomberg

Forthcoming events

Company/Market

Date	Event
6-Mar	Nestle India to announce earnings & final dividend

Source: Bloomberg

Research Team

Dipen Shah
IT, Media
dipen.shah@kotak.com
+91 22 6621 6301

Sanjeev Zarbade
Capital Goods, Engineering
sanjeev.zarbade@kotak.com
+91 22 6621 6305

Teena Virmani
Construction, Cement, Mid Cap
teena.virmani@kotak.com
+91 22 6621 6302

Apurva Doshi
Logistics, Textiles, Mid Cap
doshi.apurva@kotak.com
+91 22 6621 6308

Saurabh Gurnurkar
Media, IT
saurabh.gurnurkar@kotak.com
+91 22 6621 6310

Saurabh Agrawal
Metals, Mining
agrawal.saurabh@kotak.com
+91 22 6621 6309

Saday Sinha
Banking, Economy
saday.sinha@kotak.com
+91 22 6621 6312

Sarika Lohra
NBFCs
sarika.lohra@kotak.com
+91 22 6621 6313

Siddharth Shah
Telecom
siddharth.s@kotak.com
+91 22 6621 6307

Shrikant Chouhan
Technical analyst
shrikant.chouhan@kotak.com
+91 22 6621 6360

K. Kathirvelu
Production
k.kathirvelu@kotak.com
+91 22 6621 6311