

Dealer's Diary

The key benchmark indices scaled their 32-month high in early trade. However, the market slipped into the red in morning trade, as most Asian stocks and US index futures fell before surging to a fresh 32-month high in afternoon trade after the Reserve Bank of India (RBI), at a mid-term policy review, signaled that it may be nearing a pause in its current tightening cycle. The market came off the higher level later. The market hit a fresh intraday low in late trade. The Sensex came off the lower level later. The Sensex and Nifty closed with losses of 0.4% and 0.6%, respectively. BSE mid and small-cap indices closed down by 1.0% and 0.4%, respectively. Among the front liners, DLF, HDFC, SBI, Maruti Suzuki and L&T gained 1–3%, while Infosys, Reliance Comm., Bharti Airtel, Sterlite Inds and Jaiprakash Associates lost 2–3%. Among mid caps, Alstom Projects, Indraprastha Gas, Alfa Laval, Berger Paints and Redington gained 3–6%, while HT Media, Shree Global, Pantaloon, Jagran Prakashan and Dish TV lost 4–8%.

Markets Today

The trend deciding level for the day is 19479/5849 levels. If NIFTY trades above this level during the first half-an-hour of trade then we may witness a further rally up to 19575–19732/5882–5935 levels. However, if NIFTY trades below 19479/5849 levels for the first half-an-hour of trade then it may correct up to 19322–19226/5796–5763 levels.

Indices	S2	S1	R1	R2
SENSEX	19,226	19,322	19,575	19,732
NIFTY	5,763	5,796	5,882	5,935

News Analysis

- GSM subscriber additions update
- RBI hikes repo (25bp) and reverse (50bp) repo rates
- SBI approaches Finance Ministry for raising Rs20,000cr

Refer detailed news analysis on the following page.

Net Inflows (September 15, 2010)					
Rs cr	Purch	Sales	Net	MTD	YTD
FII	4,959	2,599	2,360	10,761	69,887
MFs	634	1,121	(487)	(1344)	(17,137)

FII Derivatives (September 16, 2010)				
Rs cr	Purch	Sales	Net	Open Interest
Index Futures	2,157	2,804	(647)	22,973
Stock Futures	1,230	2,083	(853)	39,499

Gainers / Losers

Gainers			Losers		
Company	Price (Rs)	chg (%)	Company	Price (Rs)	chg (%)
Godrej Cons.	418	5.9	Exide Inds	156	(5.7)
Suzlon	53	3.0	Pantaloon	466	(4.4)
IndusInd Bank	248	2.8	Jubilant Org	341	(3.3)
DLF	350	2.7	Divis Labs	724	(3.3)
Cadila Health	626	2.3	Thermax	776	(3.3)

Domestic Indices	Chg (%)	(Pts)	(Close)
BSE Sensex	-0.4%	(84.6)	19,417
Nifty	-0.6%	(32.3)	5,829
MID CAP	-1.0%	(78.0)	7,990
SMALL CAP	-0.4%	(41.8)	10,144
BSE HC	-0.4%	(25.7)	5,725
BSE PSU	-0.6%	(60.6)	10,219
BANKEX	0.6%	80.3	13,651
AUTO	-0.4%	(41.3)	9,215
METAL	-1.5%	(247.5)	16,209
OIL & GAS	-1.0%	(106.4)	10,549
BSE IT	-2.3%	(136.2)	5,813
Global Indices	Chg (%)	(Pts)	(Close)
Dow Jones	0.2%	22.1	10,595
NASDAQ	0.1%	1.9	2,303
FTSE	-0.3%	(15.4)	5,540
Nikkei	-0.1%	(7.1)	9,510
Hang Seng	-0.2%	(34.2)	21,691
Straits Times	-0.1%	(3.9)	3,067
Shanghai Com	-1.9%	(50.0)	2,602

Indian ADRs	Chg (%)	(Pts)	(Close)
Infosys	0.2%	0.1	\$64.9
Wipro	-0.1%	(0.0)	\$13.8
Satyam	-0.8%	(0.0)	\$5.2
ICICI Bank	-0.4%	(0.2)	\$47.5
HDFC Bank	0.9%	1.6	\$179.7

Advances / Declines	BSE	NSE
Advances	1,032	369
Declines	1,961	998
Unchanged	95	39

Volumes (Rs cr)	
BSE	5,264
NSE	16,362

GSM subscriber additions update

GSM subscriber net addition data for August 2010 stood at an impressive 13.5mn subscribers compared to the run rate of 11.5mn–12mn/month. Among the listed players, Idea stole the show by adding close to 1.99mn subscribers v/s 1.86mn in July 2010, followed by Airtel adding 2.03mn v/s 2.60mn in July 2010. Vodafone and Aircel added 2.31mn and 1.61mn subscribers, respectively. BSNL and Uninor proved to be the dark horses, adding 2.29mn v/s 1.18mn in July 2010 and 2.22mn v/s 0.85mn in July 2010, respectively. **Our preferred pick is Bharti Airtel, with an Accumulate recommendation and Target Price of Rs360.**

RBI hikes repo (25bp) and reverse (50bp) repo rates

The RBI, in its maiden mid-quarter monetary policy review, raised interest rates for the fifth time since mid-March 2010, with an objective to control inflationary expectations. It raised the repo rate (the rate at which it lends to banks) and reverse repo rate (the rate at which it borrows from banks) by 25bp and 50bp to 6.0% and 5.0%, respectively. Effectively, reducing the Liquidity Adjustment Facility (LAF) corridor to 100bp, after a reduction of 25bp in the July 2010 policy as well. The Central Bank has maintained status quo on Cash Reserve Ratio (CRR) at 6.0%.

Key takeaways from the policy review are:

- Inflation remains the dominant concern for hiking the rates.
- Expectation of rate hike containing inflation and not disrupting growth.
- Monetary tightening that has been carried out since October 2009 has taken the monetary situation close to normal.
- GDP and IIP growth rates indicate that the recovery is consolidating and the economy is rapidly converging to its trend rate of growth.
- Fiscal deficit to be contained at targeted 5.5% on account of higher-than-expected realisations from 3G and BWA auctions coupled with buoyant tax revenue.

In our view, the expected increase in interest rates will not affect the sector negatively, as it will be outweighed by acceleration in core earnings growth on the back of improvement in credit growth and fee income coupled with a sharp reduction in NPA losses. However, on a relative basis, we continue to prefer banks with a high CASA ratio and a lower-duration investment book, given the rising interest rate scenario.

We prefer large banks, viz., HDFC Bank, ICICI Bank, SBI and Axis Bank on account of their stronger core competitiveness and likelihood of credit and CASA market share gains because of strong capital adequacy and robust branch expansion. Generally, we expect mid-size banks to underperform on the net interest income front from 2HFY2010 and expect stock returns to reflect the same. **Looking at valuations, right now our top picks are ICICI Bank from the large banking space and Federal Bank from the mid-cap space.**

SBI approaches Finance Ministry for raising Rs20,000cr

As per media reports, SBI has sought the Finance Ministry's approval for raising Rs20,000cr via a Follow-on Public Offering (FPO) or a rights issue. Earlier this month, SBI's management had indicated that it would prefer a rights issue rather than an FPO. The government holds a 59.4% stake in the bank. The parliament had recently passed a bill allowing the government to reduce its stake in the bank to 51% from the then existing minimum limit of 55%. The proposed capital raising would facilitate the bank to improve its capital adequacy ratio from 13.5% as of 1QFY2011, thereby enabling the bank to grow at a healthy pace over the next couple of years. We maintain a positive outlook on the stock, especially in light of its dominant position and reach, strong growth and superior earnings quality. **However, the stock has reached our price targets and the rating is under review.**

Economic and Political News

- Food inflation rises to 15.1%
- Fiscal deficit to be contained at targeted 5.5%: RBI
- Government raises DA to 45%, to cost exchequer Rs9,303cr p.a.
- Economy to grow by 9% in FY2011–12: Finance Minister
- Monsoon rains 19% above normal in the past week: Met. Department

Corporate News

- Ashok Leyland bags order for 2,850 buses from Tamil Nadu government
- JK Paper to raise about Rs450cr
- Ispat to sell 10% stake to UK's Stencor

Source: *Economic Times, Business Standard, Business Line, Financial Express, Mint*

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Ratings (Returns) :	Buy (> 15%)	Accumulate (5% to 15%)	Neutral (-5 to 5%)
	Reduce (-5% to -15%)	Sell (< -15%)	

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