Weekly Review

June 12, 2010

Markets end marginally lower during the week

Markets ended marginally negative during the week, amidst sessions marked by volatility, with the Sensex and the Nifty ending lower by 0.3% each. BSE mid-cap index also witnessed a negligible fall of 0.1% during the week while BSE small-cap index ended flat, marginally outperforming their large-cap counterparts. The week witnessed mixed investor sentiment with positive global cues and robust IIP data cheering investors, while concerns over the cyclone delaying the monsoon acting as a deterrent in the initial part of the week. On the sectoral front, most of the major sectoral indices ended in red, with the BSE realty index losing the maximum of 4% followed by the BSE IT index losing 2.5%. However, BSE auto index gained the maximum of 1.6%, followed by the BSE healthcare index rising 1.5%.

BSE Auto Index - M&M and Bajaj Auto outperform

Robust May 2010 vehicle sales triggered BSE auto index to outshine consecutively in the second week of June with a gain of 1.6%, outperforming the BSE Sensex that declined 0.3%. Growth was largely driven by heavyweights M&M and Bajaj Auto, having weightage of 19.6% and 12.4%, respectively. M&M increased 3.3% during the week on the back of prediction of normal monsoon by the Meteorological Department. Bajaj Auto gained 5% on account of robust sales growth in May. Other index members, including Maruti and Hero Honda, also posted steady gains of 1-2% during the week, aided by strong volume numbers. However, CV majors such as Tata Motors and Ashok Leyland recorded marginal declines of 0.9% and 2.2%, respectively. We remain positive on the Indian auto sector. We estimate overall auto volumes to register a CAGR of around 10% over FY2010-12E, aided by improved economic environment for the sector. **We remain overweight on Maruti Suzuki, M&M and Tata Motors.**

Inside This Weekly

Hotel Leela Venture (HLVL) - Initiating Coverage: HLVL is one of the key players in the premium segment of the hospitality industry in India. We estimate HLVL's Top-line and PAT to register CAGRs of 41.6% and 57.9%, respectively, over FY2010-12E. Although HLVL's financials are currently recovering, we believe EV/Room is the ideal parameter for valuing the company on which it is expensive as compared to its peers. **Hence, we Initiate Coverage on the stock with a Neutral view.**

RIL - Event Update: RIL has announced the acquisition of Infotel Broadband Services (P) Ltd promoted by Nahata Group. Key factors to watch out for RIL will be the execution and ramp-up of the broadband foray. At 1.8x FY2012E P/BV, we believe that RIL is relatively undervalued at current levels. **We maintain a Buy view on RIL, with a Target Price of Rs1,260.**

Orchid Chemicals - Event Update: Orchid Chemicals has announced entering into an agreement to acquire Karalex Pharma, the US-based generic marketing and sales service company, through an all-cash deal. **We maintain a Neutral view on the stock.**

Note: Stock Prices are as on Report release date; Refer all Detailed Reports on Angel website

FII activity

As on	Cash (Equity)	Futures	(Rs crore) Net Activity
Jun 04	59	466	525
Jun 07	(46)	(1,927)	(1,972)
Jun 08	93	(374)	(281)
Jun 09	(0)	1,132	1,132
Jun 10	83	649	732
Net	**189**	**(53)**	**135**

Mutual Fund activity (Equity)

As on	Purchases	Sales	(Rs crore) Net Activity
Jun 03	412	423	(11)
Jun 04	232	523	(291)
Jun 07	595	573	22
Jun 08	649	418	231
Jun 09	757	547	210
Net	**2,645**	**2,483**	**162**

Global Indices

Indices	May 4, 10	June 11, 10	Weekly (% chg)	YTD
BSE 30	17,118	17,065	(0.3)	(2.3)
NSE	5,136	5,119	(0.3)	(1.6)
Nasdaq	2,219	2,244	1.1	(1.1)
DOW	9,932	10,211	2.8	(2.1)
Nikkei	9,901	9,705	(2.0)	(8.0)
HangSeng	19,780	19,872	0.5	(9.1)
Straits Times	2,807	2,796	(0.4)	(3.5)
Shanghai Composite	2,554	2,570	0.6	(21.6)
KLSE Composite	1,294	1,295	0.0	1.7
Jakarta Composite	2,823	2,802	(0.8)	10.6
KOSPI Composite	1,664	1,675	0.7	(0.4)

Sectoral Watch

Indices	May 4, 10	June 11, 10	Weekly (% chg)	YTD
BANKEX	10,773	10,748	(0.2)	7.1
BSE AUTO	7,894	8,018	1.6	7.8
BSE IT	5,296	5,162	(2.5)	(0.5)
BSE PSU	9,171	9,046	(1.4)	(5.1)

Hotel Leela Venture - Neutral

Price - Rs46

Initiating Coverage

Not much room

Hotel Leela Venture (HLVL) is one of the key players in the premium segment of the hospitality industry in India, with operations across six locations, and a portfolio of 1,190 owned rooms. HLVL has expansion plans lined up in two phases, of which the New Delhi and Chennai properties are expected to get operational in FY2011E. With tourist activity (domestic and foreign) picking up, we expect the industry and, in turn, hoteliers, to regain their lost glory.

Improving industry dynamics to boost HLVL's performance: HLVL has started witnessing the positive effects of the changing industry dynamics. Its Bangalore and Mumbai properties (contributing ~62% to revenues in FY2010) witnessed Occupancy Rates (ORs) of 70-80% in 4QFY2010, a marked improvement over the 55-65% levels on a yoy basis. Moreover, we believe the improving trend is bolstered by the firming up of Average Room Rates (ARRs) recently, indicating a stout recovery. Hence, we estimate HLVL's Top-line, EBIDTA and PAT to witness a CAGR of 41.6%, 69.5% and 57.9% respectively, over FY2010-12E.

New property additions to diversify geographical risks: To diversify location risks and tap new geographies, HLVL is spreading its presence in India. We expect significant delta in terms of diversification, both geographically and financially, to take effect from 2HFY2011E onwards, as its properties in Delhi and in Chennai get operational. These properties, along with the recently opened ones in Gurgaon and Udaipur, would enable HLVL in toning down its revenue dependence on Mumbai and Bangalore (combined) to ~40% in FY2012E.

Outlook and Valuation

The global economic meltdown, along with the terrorist attacks in India, affected the hospitality industry, and the hotel players were facing the heat through lower ARRs and ORs till 2QFY2010. However, as the business sentiment gathered steam, with the overall decent performance by India Inc, coupled with the tourist season that commenced in 3QFY2010, the dynamics of the industry seem to be changing. ORs, which were hovering ~60-62% levels in major cities in India in 2QFY2010, have already surpassed 70% levels in 3QFY2010 and have sustained those leves in 4QFY2010. With ORs stabilising, the next logical move from hoteliers will be a hike in the ARRs, resulting in a revival in their financials. The data of foreign tourist arrivals (FTAs) in India during December 2009 to March 2010 further fortifies our belief of a reversal in the trend. The month of December 2009 recorded the highest number of foreign tourist arrivals (in absolute terms) in the last 5 years, registering a rise of 21% yoy, while in January 2010, February 2010 and March 2010, FTAs rose by 16.4%, 9.9% and 13% yoy, respectively. We believe that this provides a clear indication of the good times that lie ahead for the hoteliers.

Although HLVL's financials are currently on the verge of recovery, we believe that EV/Room is the ideal parameter for valuing the company, considering the debt on its books. At the CMP, HLVL trades at an FY2012E EV/Room of Rs2.2cr, which is higher than the company's replacement cost of ~Rs1.8-2cr. Moreover, at current valuations, HLVL is expensive as compared to its peers. Among the mid-cap hotel players, we favour TAJGVK over HLVL, due to its superior financials and robust growth outlook. **Hence, considering the risk-reward, we Initiate Coverage on the stock with a Neutral view.**

Key Financials

Y/E March (Rs cr)	FY2009	FY2010	FY2011E	FY2012E
Net Sales	**470**	**436**	**632**	**874**
% chg	*(12.4)*	*(7.2)*	*44.9*	*38.3*
Adj. Net Profit	**38.8**	**41.0**	**75.0**	**102.3**
% chg	*(62.7)*	*5.9*	*82.7*	*36.4*
EPS (Rs)	**1.0**	**1.1**	**2.0**	**2.7**
EBITDA Margin (%)	30.8	29.0	40.3	41.6
P/E (x)	44.8	42.4	23.2	17.0
ROE (%)#	5.5	5.7	9.8	12.2
ROCE (%)#	2.8	1.8	5.3	8.3
P/BV (x)#	2.5	2.4	2.2	2.0
EV/Room (Rs cr)	3.9	3.5	2.2	2.2
EV/Sales (x)	8.8	9.5	6.4	4.6
EV/EBITDA (x)	28.7	32.9	16.0	11.1

Source: Company, Angel Research, Price as on June 11, 2010; Note: # Excluding revaluation reserves

Research Analyst - Viraj Nadkarni

Reliance Industries - Buy

Price - Rs1,046
Target Price Rs1,260

Event Update

Expanding horizons

Details of the deal: RIL has announced acquisition of Infotel Broadband Services (P) Ltd promoted by the Nahata Group. Infotel has emerged a successful bidder in all the 22 circles of the auction for Broadband Wireless Access (BWA) Spectrum conducted by the DoT. Infotel is now the only pan-India Wimax license holder owing to which it will emerge as the leader in the next generation broadband services in the country. RIL will invest around Rs4,800cr by way of subscription to fresh equity capital at par to be issued by Infotel. Post this investment, RIL will own 95% of the equity and Infotel will become its subsidiary. Infotel has to pay Rs12,848cr for the recent BWA licence. We believe funding of the same is likely to be done by the equity infusion by RIL, while the balance would be funded through debt.

Rationale for the deal: RIL's consolidated position in core refining and petrochemical along with its failed bid for Lyondellbasell has led to its foray into an unrelated business space. We estimate RIL to generate huge cash flows going ahead and deployment of the same was perceived to be a key challenge for it. Thus, its entry into the Broadband Internet space opens up newer growth avenues for the company.

Our Take - Strategic move: The total broadband subscribers in India stood at around 9mn at the end of March 2010. Currently, the Broadband industry is dominated by wired internet services. However the share of the wireless services is expected to see growth post a pan country roll-out of Wi-max and on account of reduction in cost of customer premise equipment (CPE). It may be noted here that RIL's previous foray into the Telecom space via. Reliance Infocomm proved to be a game changer, as it subsidised equipment cost and tariffs were also reduced substantially (with removal of incoming charges). Thus, if the BWA is successful, RIL is likely to benefit from first mover's advantage. India has witnessed substantial growth in the mobile subscriber base over the last decade, which provides a ready platform for offering various data services, which is currently at a nascent stage. On account of increase in smart phone penetration (Wi-Fi enabled), the company would be able to tap the huge growth opportunity in the mobile internet space. RIL plans to create world class state- of-the-art technology using an asset light strategy. RIL will forge several strategic relations with a host of leading global technology players, service providers, infrastructure providers, application developers, device manufacturers and others to leapfrog India to the 4G revolution. Wi-max technology has been developed about four years back and is still under evolution with just 6.5mn subscribers across the globe. Wi-max technology is likely to be the next big thing in the high speed internet saga on account of lower cost of deployment as it covers an area of 2 to10km.

Impact analysis: We believe that the venture would prove to be long gestation investment on account of low internet penetration levels and high time taken (around 2 years) in rollout of the technology on a pan-India basis. This coupled with upfront payment of the spectrum fees could result in the deal being marginally dilutive for RIL on the Earnings front (2-3%) over the next couple of years. Thus, RIL will take a long time to reap the benefits of the venture and impact of the same could not be gauged at the current juncture. On account of lack of clarity, currently we have not changed our estimates.

Outlook and Valuation

The key factors to watch out for RIL will be the execution and ramp-up of the Broadband foray. At 1.8x FY2012E P/BV, we believe that RIL is relatively undervalued at current levels. **We maintain a Buy on RIL, with a Target Price of Rs1,260,** translating into an upside of 20.4% from current levels.

Key Financials

Y/E March (Rs cr)	FY2009	FY2010	FY2011E	FY2012E
Net Sales	**151,224**	**203,740**	**234,754**	**243,596**
% chg	*10.3*	*34.7*	*15.2*	*3.8*
Net Profit	**14,969**	**15,898**	**22,743**	**28,550**
% chg	*(23.3)*	*6.2*	*43.1*	*25.5*
EPS (Rs)	**45.8**	**48.6**	**69.5**	**87.3**
EBITDA Margin (%)	15.5	15.2	17.6	20.0
P/E (x)	22.9	14.0	15.0	12.0
RoE (%)	14.5	11.9	14.7	16.1
RoCE (%)	8.4	8.0	11.4	13.8
P/BV (x)	2.8	2.4	2.1	1.8
EV/ Sales (x)	2.6	1.8	1.5	1.4
EV/ EBITDA (x)	16.9	12.2	8.7	7.0

Source: Company, Angel Research, Price as on June 11, 2010

Research Analyst - Deepak Pareek/Rahul Jain

Orchid Chemicals - Neutral

Price - Rs151

Event Update

Building blocks again...

Orchid Chemicals (Orchid) has announced entering into an agreement to acquire the US-based generic marketing and sales service company, Karalex Pharma, through an all-cash deal. Though the company has not disclosed the purchase consideration, it is estimated to be in the range of 2-2.5x Price/Sales. Orchid proposes to fund the deal through internal accruals, as it has residual cash of Rs300cr from the Hospira deal. On a conservative basis, we expect the deal to contribute US $10mn in FY2011E and US $15mn in FY2012E to Orchid's Top-line, with EBITDA Margins to be in line with current levels of 17-18%. With this acquisition, Orchid will get front-end presence in the US and reach its customers directly, which would increase overall Margins of its US generic business contributing 13% of FY2011E Sales. However, concerns on high Debtors (180 days) and low Return Ratios (9%) persist.

About Karalex Pharma: A generic marketing and sales services company, Karalex is focused exclusively on the US Healthcare market. The company formed in 2007 has launched over 100 generic pharmaceutical products with a combined value in excess of US $1bn. The company has recorded Top-line of US $10mn along with double-digit Operating Margins.

Benefits of the deal: Through this deal, Orchid will establish its front-end presence in the largest pharmaceutical market globally, USA. Though the company has not disclosed the purchase consideration, it is estimated in the range of 2-2.5x Price/Sales. Orchid proposes to fund the deal through internal accruals, as it has residual cash of Rs300cr from the Hospira deal. Further, Orchid plans to launch 15 generic products in the US through Karalex Pharma over the next few years. On a conservative basis, we expect the deal to contribute US $10mn in FY2011E and US $15mn in FY2012E to Orchid's Top-line, while EBITDA Margins are expected to be in line with current levels of 17-18%. The acquisition would increase overall Margins of the company's US generic business contributing 13% to FY2011E Sales.

Outlook and Valuation

Orchid's FY2010 results were disappointing especially on the Operating front, which was marred by Inventory and Debtor write offs to the tune of Rs235cr. Even post the write offs on the Debtors' front, receivable days at 180 continues to be on the higher side. On the Debt front, even though the company repaid Debt to the tune of Rs1,400cr in 4QFY2010, its Debt/Equity ratio continues to higher than the Industry average at 1.1x as on FY2010. However, on the positive side, the company has commenced supply of Tazo+Pip API to Hospira and expects to begin supply of the Penems API to Hospira and one more player by the end of 1QFY2011E.

We have marginally tweaked our Sales estimates to factor in the acquisition of Karalex Pharma. We estimate Net Sales to increase by 4.0-4.3%, while Net Profit is expected to increase by 10-11% over FY2011-12E.

We expect the company to register 12.8% CAGR in Net Sales to Rs1,652cr over FY2010-12E and EPS to touch Rs15.7 in FY2012E. On the bourses, during the last six months, the stock witnessed a sharp correction of 29% and is currently trading at fair valuations of 15.2x and 9.6x FY2011E and FY2012E Earnings, respectively. **Hence, we maintain a Neutral on the stock, with a Fair Value of Rs157.**

Key Financials (Consolidated)

Y/E March (Rs cr)	FY2009	FY2010	FY2011E	FY2012E
Net Sales	**1,260**	**1,299**	**1,220**	**1,652**
% chg	*0.5*	*3.1*	*(6.0)*	*35.3*
Recurring Net Profit	**(33.0)**	**(553.6)**	**70.1**	**110.2**
% chg	-	-	-	*57.2*
Recurring EPS(Rs)	**-**	**-**	**10.0**	**15.7**
EBITDA Margin (%)	11.9	-	17.2	18.0
P/E (x)	-	-	15.2	9.6
RoE (%)	-	-	5.6	9.4
RoCE (%)	0.5	-	3.8	6.8
P/BV (x)	1.9	0.9	0.8	1.0
EV/Sales (x)	2.9	1.6	1.7	1.4
EV/EBITDA (x)	24.2	-	10.1	7.9

Source: Company, Angel Research, Price as on June 10, 2010

Research Analyst - Sarabjit Kour Nangra/Sushant Dalmia

Undertone still positive - Testing time ahead for Bulls

Sensex (17065) / Nifty (5119)

In our previous Weekly report, we had mentioned that as long as the higher bottom levels of 16550 / 4960 holds, we were of the opinion that the indices would head higher and test 17350 - 17500 / 5200 -5250 levels. The initial part of the week witnessed selling due to weak global cues from where the markets recovered lost ground to close with a marginal loss of 0.3% vis-à-vis the previous week.

Pattern Formation

- On the Daily chart, we are now witnessing an "Inverse Head and Shoulder" in the making which would be confirmed once the indices close above17150 / 5150 levels (Refer Exhibit 1).
- On the Weekly chart, we reiterate our view that prices are still trading in an upward sloping channel and are headed in upward direction (Refer Exhibit 2).

Future Outlook

We maintain our view that as long as the indices hold the higher bottom of 16550 / 4960 level, we are of the opinion that the indices would trade with positive bias for the coming week. The immediate resistance for the indices is at 17150 / 5150 levels. Once that is crossed, on closing basis, we could see a breakout of an "Inverse Head and Shoulder" pattern on the Daily chart that would lead the indices to test 17500 - 17670 / 5250 - 5300. On the flip side if the indices break 16544 / 4960 levels on the downside then selling may intensify and we could test 16373 - 16070 / 4900 - 4800 levels. **Traders holding their long position should maintain a stop loss of 16544 / 4960.**

Exhibit 1: Nifty Daily chart

Source: Falcon

Exhibit 2: Nifty Weekly chart

Source: Falcon

Reliance Industries (1046) - BULLISH

Buying Range : Rs. 1046.00 - Rs. 1020.00
Stop - loss : Rs. 990.00
Targets : Rs. 1140.00 - Rs. 1150.00
Time frame : 4 - 6 weeks.

Reliance Industries: The stock has taken support at the crucial level of 995 in the past week. Also volumes increased substantially on Friday's Trading session and momentum indicators are positively poised. We expect the stock to show a positive move going forward in the next 4 to 6 weeks. Traders can buy at current levels or on dips up to 1020 levels and place a stop-loss at 990 levels. Target on the upside would be at 1140 -1150 levels (Refer Exhibit 3).

Exhibit 3: Reliance Industries Weekly chart

Source: Falcon

Weekly Pivot Levels For Nifty 50 Stocks

SCRIPS	R2	R1	PIVOT	S1	S2
SENSEX	17490	17277	16919	16707	16348
NIFTY	5247	5183	5075	5011	4903
BANK NIFTY	9672	9562	9353	9242	9033
A.C.C.	945	904	857	815	768
ABB LTD.	879	869	858	847	836
AMBUJACEM	123	119	114	110	105
AXISBANK	1298	1272	1234	1208	1170
BHARAT PETRO	608	574	555	522	503
BHARTIARTL	309	291	274	257	240
BHEL	2498	2445	2346	2294	2195
CAIRN	313	307	296	291	280
CIPLA	357	347	333	323	309
DLF	283	273	264	253	244
GAIL	474	467	457	450	440
HCL TECHNOLO	393	381	370	358	347
HDFC BANK	2043	1995	1902	1853	1760
HERO HONDA	2110	2062	1986	1937	1861
HINDALCO	153	146	138	131	122
HINDUNILVR	270	262	248	239	225
HOUS DEV FIN	2927	2868	2764	2705	2601
ICICI BANK	941	893	803	755	665
IDEA	58	56	55	53	51
IDFC	177	170	162	155	146
INFOSYS TECH	2746	2688	2652	2595	2559
ITC	301	291	283	274	266
JINDL STL&PO	677	659	632	615	588
JPASSOCIAT	130	126	121	118	113
KOTAK BANK	790	775	751	736	713
LT	1729	1703	1659	1633	1590
MAH & MAH	650	628	595	573	539
MARUTI	1417	1387	1334	1304	1251
NTPC	205	202	200	197	195
ONGC CORP.	1233	1207	1181	1155	1129
PNB	1077	1056	1019	998	960
POWERGRID	106	104	103	100	99
RANBAXY LAB.	449	441	427	418	405
RCOM	188	180	171	163	154
REL.CAPITAL	720	701	676	657	631
RELIANCE	1087	1066	1031	1011	975
RELINFRA	1196	1154	1101	1059	1005
RPOWER	174	167	159	151	143
SIEMENS	746	732	706	692	666
STATE BANK	2798	2569	2401	2172	2004
STEEL AUTHOR	213	206	196	188	179
STER	681	658	631	609	582
SUN PHARMA.	1751	1717	1690	1656	1629
SUZLON	57	55	54	52	51
TATA POWER	1296	1268	1230	1202	1164
TATAMOTORS	803	784	754	734	704
TATASTEEL	496	485	467	456	438
TCS	784	772	751	738	718
UNITECH LTD	74	71	69	66	64
WIPRO	681	664	643	626	605

Technical Research Team

Market is at higher side of the range; 4800-5200

Nifty spot has closed at **5119** this week, against a close of **5136** last week. The Put-Call Ratio has increased from **1.40** to **1.44** levels and the annualized Cost of Carry (CoC) is negative **1.37**%. The Open Interest in Nifty Futures has increased by **9.05**%.

Put-Call Ratio Analysis

The Nifty PCR has increased from 1.40 to 1.44 levels. The 4800 and 5000 Put options added significant open interest in the week gone by. On the other hand, many Call options added considerable open interest. The 5200 call has highest positions, and Friday's build-up also suggests it is difficult for the market to breach the 5200 level, while the 5000 is the immediate support for the market.

Open Interest Analysis

The total Open Interest of the market is Rs1,36,657cr, as against Rs1,21,532cr last week, and the Stock Futures' open interest increased from Rs33,068cr to Rs34,723cr. In the week gone by, HINDALCO added significant open interest, 130 level may act as a strong support for the stock. Some liquid stocks where open interest has increased are YESBANK, BRFL, IDFC PANTALOONR and ABAN. Stocks where open interest has decreased significantly are FORTIS, UNIPHOS, IOB, AUROPHARMA, TECHM and RCOM.

Futures Annual Volatility Analysis

The Historical Volatility of the Nifty has decreased from 27.18% to 26.33%. IV of at the money options is at the same level of 21% and has gone up to 27% during the week. Some liquid counters where HV has increased significantly are GTL, BHARTIARTL, HEROHONDA, BHEL and KSOILS. Stocks where HV has decreased are ABB, INDIANB, PUNJLLOYD, EDUCOMP and RENUKA.

Cost-of-Carry Analysis

The June Future closed at a discount of 2.50 points as against a discount of 15.55 points last week and July future closed at a discount of 6.50 points. Some liquid counters where CoC turned from negative to positive are HINDUNILVER, INDIANB, PETRONET, POWERGRID and INFOSYSTCH. Stocks where CoC turned from positive to negative are CANBK, ABAN, WIPRO, TATAPOWER and BHEL.

Derivative Strategy

Scrip : HINDALCO **CMP : Rs.139.50/-** **Lot Size : 3518** **Expiry Date (F&O) :** 24th June, 2010

View: Mildly Bullish **Strategy: Ratio Call Spread**

Buy/Sell	Qty	Scrip	Strike Price	Series	Option Type	Rate (Rs.)
Buy	3518	HINDALCO	140	June	Call	5.00
Sell	7036	HINDALCO	150	June	Call	1.75

HBEP: Rs.158.50/-
LBEP: Rs.141.50/-
Max. Risk: Unlimited
If HINDALCO continues to trade above HBEP.
Max. Profit: Rs.29,903.00/-
If stock closes at Rs.150 on expiry.
Note: Profit can be booked before expiry, if stock moves in the favorable direction and the time value decay.

Expected Payoff

Closing Price	Expected Profit/Loss
Rs. 130.00	(Rs. 1.50)
Rs. 142.00	Rs. 0.50
Rs. 154.00	Rs. 4.50
Rs. 166.00	(Rs. 7.50)
Rs. 178.00	(Rs.19.50)

Scrip : LT **CMP : Rs.1677.05/-** **Lot Size : 200** **Expiry Date (F&O) :** 24th June, 2010

View: Range Bound **Strategy: Short Straddle**

Buy/Sell	Qty	Scrip	Strike Price	Series	Option Type	Rate (Rs.)
Sell	200	LT	1650	June	Call	50.00
Sell	200	LT	1650	June	Put	25.00

HBEP: Rs.1725.00/-
LBEP: Rs. 1575.00/-
Max. Risk: Unlimited
If LT continues to trade above HBEP or below LBEP.
Max. Profit: Rs.15000.00/-
If stock closes at Rs.1650 on expiry.
Note: Profit can be booked before expiry, if stock remains in the desired range and the time value decay.

Expected Payoff

Closing Price	Expected Profit/Loss
Rs. 1510.00	(Rs. 65.00)
Rs. 1580.00	Rs. 5.00
Rs. 1650.00	Rs. 75.00
Rs. 1720.00	Rs. 5.00
Rs. 1790.00	(Rs. 65.00)

Diversify your Portfolio with Arbitrage Funds

Arbitrage Funds

- Arbitrage involves simultaneous purchase and sale of equivalent instruments from two or more markets to benefit from a discrepancy in their prices.
- Arbitrage funds in India mainly take advantage of opportunities between equity cash and futures markets.
- Though some funds do seek to generate returns from arbitrage in debt market.
- This strategy normally acts as a shield against market volatility as both buying and selling transactions offset each other.

Features of Arbitrage Funds

Objective	Seek to generate returns from arbitrage opportunities in market.
Investment Strategy:	Buy stocks in cash markets and sell futures, to take arbitrage advantage.(When arbitrage opportunities are not available they allocate funds to short term debt money market instruments)
Asset Allocation:	Equity & Related instruments, Derivatives, Short term debt & Money Market instruments.
Risk :	Low

Benefits of Arbitrage Funds over Liquid Funds

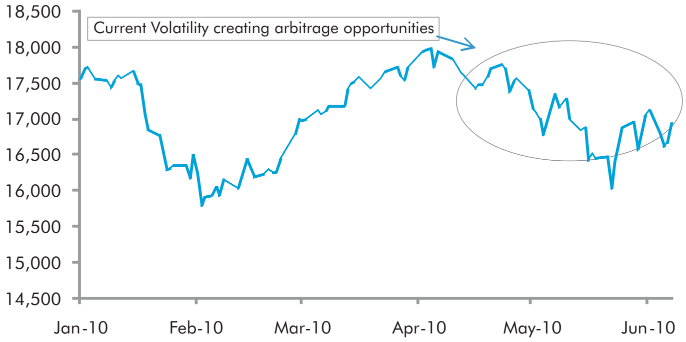
- Generally Arbitrage funds (equity arbitrage funds) are taxed like equity funds at 15% for short-term capital gains and no Dividend Distribution Tax (DDT); however, 28% is deducted from liquid funds as dividend distribution tax (DDT).
- Though some funds having higher proportion of debt in their portfolio may be treated as debt fund for taxation.
- Thus generally arbitrage funds have a tax advantage over liquid funds.
- Liquid funds are not allowed to invest in papers exceeding maturity of 91 days, which further affects their returns.
- Thus, recent regulations in liquid funds limit their capacity to deliver higher returns.
- Current market volatility may provide ample opportunities for arbitrage, which allows arbitrage funds to be better placed to generate comparatively higher returns.

Tax Implications*

Dividend Distribution Tax:	Dividends will be tax free in the hands of the investor.
Short Term Capital Gains:	Equity STCG tax-15.45 % Debt STCG tax-30.90 %
Long Term Capital Gains:	Equity-NIL Debt-20.60% with Indexation and 10.30 % without Indexation

**Individuals/HUF/NRI*

Opportunities for Arbitrage funds - BSE Index

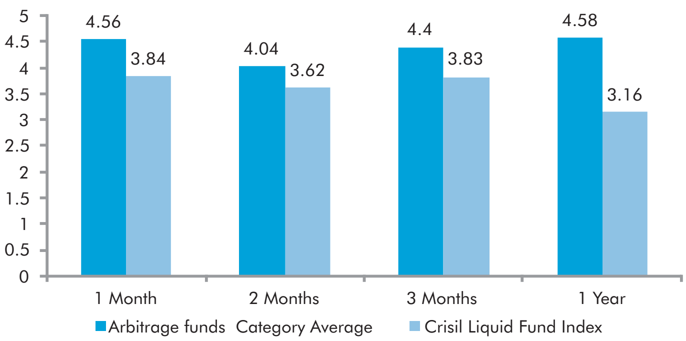


Source: Angel Research

Why Arbitrage Funds Now?

- Volatile markets or sustained bull markets with intermittent corrections are conducive for arbitrage funds.
- For the past few months the equity markets have been very volatile presenting various arbitrage opportunities.
- It is expected that there may be high volatility in the markets in near short term.
- Thus Arbitrage funds should form part of the investors' portfolio for diversification.

Performance Comparison (% Returns)*



*Source: Angel Research; Note: * Returns are simple annualised and as on 10th June 2010.*

- Arbitrage funds have consistently outperformed their benchmark.
- Arbitrage funds are an ideal way to earn decent returns with low risk.

Who should invest in arbitrage Funds?

- Investors who are risk averse.
- Those who want a balance of safety, returns & liquidity.
- Looking for potentially higher returns compared to a liquid / money market fund.
- For investors who want to protect their portfolio from downside risk, these funds are excellent portfolio diversifiers.

Recommended Arbitrage Funds

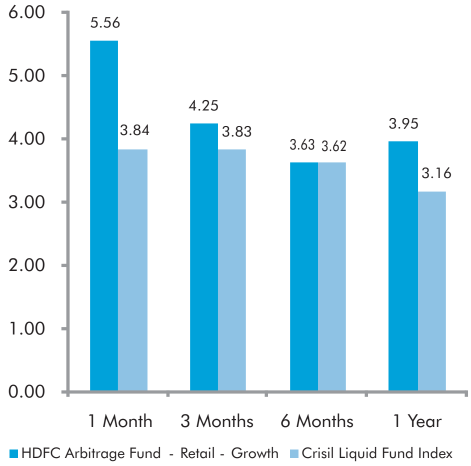
HDFC Arbitrage Fund

Inception: 8th June 2005
Type: Open-Ended
Inception: 23rd Oct 2007
Corpus: Rs. 641.15 (31-May-10) Crs
Fund Manager: Anil Bamboli and Anand Laddha
Min Investment: Rs. 5000
Entry Load: Nil
Exit Load: Max 1%
Latest NAV: Rs 11.69
52 Week High: Rs 11.71 (01-Jun-10)
52 Week Low: Rs 11.25 (16-Jun-09)

Key Ratios*

Expense Ratio: 0.82 (31-Mar-10)
Standard Deviation: 0.090
Jensen: 0.0002
*3 Yrs rolling return
Returns & Ratios as on 12th June 2010
Portfolio as on 30th May 2010
Returns are Simple Annualized

Performance Comparison - (% Returns)



Source: Angel Research

Scheme Objective

To generate income through arbitrage opportunities between cash and derivative market and arbitrage opportunities within the derivative segment and by deployment of surplus cash in debt securities and money market instruments.

Fund Analysis

Currently the scheme has 29% Debt exposure, 67% equity exposure & holds 2.4 % in Cash & Equivalent. Highest Sector exposure is in Banking, Refineries, finance, and Power sectors. The Fund has consistently outperformed its benchmark. On equity side it has 36% exposure in Large Cap stocks, 31% in midcap stocks and 0.50% in small cap stocks.

- It has a Low standard deviation & expense ratio.
- Positive Jensen ratio shows fund manager's superior stock selection ability.

USPs of this Fund

- Equity exposure is mainly in large cap and midcap stocks with minimal exposure to small cap stocks.
- Invests surplus cash in high quality short term debt & money market instruments when arbitrage opportunities are not available.
- Lowest Expense Ratio compared to the peer group.
- Generally provides higher returns compared to liquid and ultra short term funds.
- Tax efficiency of an Equity Mutual Fund.
- Provides portfolio diversification & market neutral returns.

Ideal for Investors

- **Investment Horizon** - Short Term
- **Risk Appetite** - Low

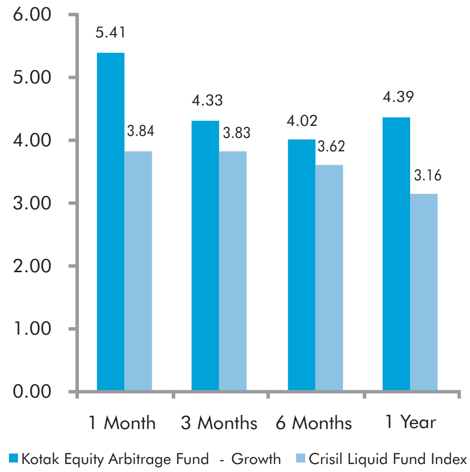
Kotak Equity Arbitrage Fund

Inception: Open-Ended
Inception: 21th Sept 05
Corpus: Rs. 395.88 (31-May-10) Crs
Fund Manager: Deepak Gupta, Abhishek Bisen and Sajit Pisharod
Min Investment: Rs 5000
Entry Load: Nil
Exit Load: Max 0.50%
Latest NAV: Rs 13.78
52 Week High: Rs 13.8 (01-Jun-10)
52 Week Low: Rs 13.21 (11-Jun-09)

Key Ratios*

Expense Ratio: 0.95 (31-Mar-10)
Standard Deviation: 0.089
Jensen: 0.002
***1 Yrs rolling return**
Returns & Ratios as on 12th June 2010
Portfolio as on 30th May 2010
Returns are Simple Annualized

Performance Comparison - (% Returns)



Source: Angel Research

Scheme Objective

The investment objective of the scheme is to generate capital appreciation and income by predominantly investing in arbitrage opportunities in the cash and derivatives segment of the equity market, and by investing the balance in debt and money market instruments.

Fund Analysis

Currently the scheme has 30% Debt exposure and holds 70% Cash & Equivalent Exposure. Currently in its portfolio it has exposure in debt and money market instruments. The Fund has consistently outperformed its benchmark and peer group in current volatile markets. The Fund Managers tries to generate superior returns through futures and cash market arbitrage opportunities available in the market.

- It has a Lower standard deviation & expense ratio.
- Positive Jensen ratio shows the fund manager's superior stock selection ability.

USPs of this Fund

- When arbitrage opportunities are available, the fund invests mainly in large cap & mid cap stocks both in cash & futures market otherwise it invests mainly in high quality debt instruments.
- The fund targets returns higher than short term fund & liquid funds.
- Tax efficiency of a Mutual Fund.
- Provides portfolio diversification & market neutral returns.
- Ideal for investors who are averse to capital loss.

Ideal for Investors

- **Investment Horizon** - Short Term
- **Risk Appetite** - Low

Indian Rupee seesaws

Global financial markets faced a dilemma in the last week amid a host of mixed news on the economic front. This led to a mixed trend in the Indian Rupee last week which closed on a flat note at 46.83. During mid-week, the Rupee received some support on account of easing concerns over the global economy as economic data from China came on the positive side. Also, economic data from India was supportive as the Industrial Production figures came in at 17.6%, the sharpest rise since December 2009. This helped to lift sentiments in the domestic markets but the positive momentum built over the last few days came to a halt as the equities closed the week in the negative territory.

What helped to provide trigger to the global equity markets mid-week was the positive economic data from China. The country's industrial output rose 16.5 percent from a year earlier, but this was less than the previous figures of 17.8%. Retail sales rose by 18.7 percent as against a previous gain of 18.5 percent. China's foreign trade and exports continued to surge in May. Data indicated that foreign trade jumped by 48.4 percent whereas exports increased by 48.5 percent.

Exhibit 1: Indian Rupee Weekly Price Chart

Source: Telequote

Economic data only from China was satisfactory as the US and UK data came slightly on the bearish side. US ISM manufacturing index fell to 59.7 in May from a previous figure of 60.4 in April. The UK housing market is slowing down again, as the latest monthly survey shows that prices fell by 0.4% in May, after a 0.1% drop in April, taking the average UK house price down. UK manufacturing unexpectedly weakened in April for the first time in three months as car production dropped and factory output fell 0.4 percent from March. Retail sales in the US unexpectedly dropped in May by 1.2% in May from a previous increase of 0.6% in April.

Fears over the sovereign debt crisis in the Euro Zone continue and the coming week could witness re-emergence of fears. Global economy continues to remain vulnerable to downside risks. The Japanese Prime Minister in his statement last week said that he fears a Greece-like crisis in Japan. The country needs to deal with its swelling national debt as the country has the largest public debt among industrialized nations at 218.6% of its gross domestic product in 2009.

This indicates that worries over the economic front have not eased and the coming week is expected to witness selling pressure. We expect this to lead to a rise in risk aversion in the financial markets which will reduce demand for higher-yielding and riskier investment assets, thereby reducing demand for equities and commodities. On the back of this, the Indian Rupee could depreciate as weak global economic news could lead to weakness in the currency.

Exhibit 2: Important economic data for the next week

Date	Country	Indicator	Forecast	Previous
15 June	Euro Zone	German ZEW Economic Sentiment	48.7	45.8
16 June	US	Building Permits	0.63M	0.61M
16 June	US	PPI m/m	-0.5%	-0.1%
17 June	US	Fed Chairman Ben Bernanke Speaks	-	-
17 June	US	Unemployment Claims	454K	456K

Source: Telequote

Fundamental Outlook

The European debt crisis will continue to have an impact on the global equity markets. A package of $1 trillion to the ailing European has not helped to contain losses. We expect fears over the European sovereign debt issues to continue to haunt financial markets in the next week. On the back of this, domestic markets may witness concern over capital outflows from the country in the short-term. Hence, we expect the Rupee to trade with a depreciation bias in the coming week with support seen at 46.30/45.55 and resistance at 47.75/48.85.

Sr. Research Analyst (Commodity) - Reena Walia Nair

Wheat

Wheat is an important staple food of the world which contributes 35 percent in the total food grain and 21.8 percent in the total area under food grains. World Wheat production for the year 2010-2011 is projected lower at 668.52 million metric tonnes as on June 2010, down (1.69 %) as compared to 680.03 million tonnes in 2009-2010.

According to latest data released by USDA as on June 2010 global consumption is currently projected to outpace production as exportable supplies in the EU and Russia fall, and production shortfalls in Turkey and Syria boost import demand. However, global wheat stocks are almost unchanged at 192.9 million tonne. Wheat ending stocks are projected to shrink particularly in Russia. However, the ending stocks in the United States are projected higher at 27 million tonnes and expected to account for nearly 50 percent of traditional exporter stocks.

Indian Scenario: In India Wheat is considered as one of the major foodgrain. Area sown in wheat is 27.8 million hectares which is 19.72 percent of total food grain. Production is expected to be around 80.98 million tonnes and U.P contributes a major chunk in the production of wheat at around 35 percent. The other major producers of wheat in India are Punjab, Haryana, Rajasthan and M.P. With over 22 million tonnes procured till May 20, 2010 wheat stocks with the Food Corporation of India and other agencies is now estimated at over 35 million tonnes.

As per the latest update received from the states area sown under wheat is 286.64 lakh hectares (lha) as compared to 278.77lha till the same period previous year.

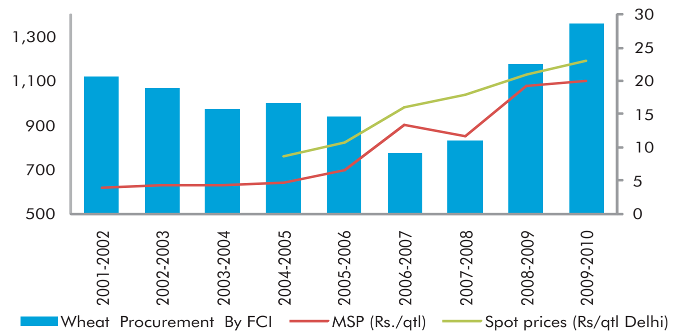
Exhibit 1: Wheat Statistics

	2008-09	2009-2010	2010-2011
World		*Figures in million metric tonnes*	
Production	683	680	668
Imports	140.2	126.6	128.1
Exports	143.1	129.2	130.9
Consumption	636	651	663.8
Ending stocks	165	192.9	193.9
India		*Figures in million metric tonnes*	
Production	78.57	80.98	80
Imports	18.85		119920 *
Exports			
Consumption	70.92	78.21	80
Ending stocks	13.43	16.1	15.99

*Note: *figure in lakh tonnes*

Procurement of wheat: The procurement season starts from April to June. The government has fixed the procurement target at 26.3 million tonnes for this year. But, it is behind the target as the season will end soon. Haryana and Punjab have been the major procurement states contributing 101.8 lakh tonnes, and 68.53 lakh tonnes a decline of 5.3 percent and 8.3 percent compared to the previous year. On the other hand, U.P, M.P., Rajasthan and Gujrat have contributed 16 lakh tonnes, 34.77 lakh tonnes, 4.73 lakh tonnes, 2.30 lakh tonnes to the central pool respectively. Total procurement sums to around 223 lakh tonnes.

Exhibit 2: Wheat procurement and MSP



Source: USDA

India has extended the deadline to sell more wheat from federal government stocks to September 30, 2010 from the earlier deadline of June 30, 2010. The country currently has federal wheat stocks of 33.7 million metric tonnes, while the government's buffer stock requires only 4 million tonnes. The government is also selectively allowing exports in small quantities for the past few months. But lacklustre demand from overseas buyers due to lower price quotes of wheat in the international market and higher domestic prices in mandis is affecting the exports.

Outlook: Wheat prices in the short term are expected to improve due to crop loss in the major producing state U.P. and improved buying by the millers and stockists. However, in the medium to long term prices will remain subdued due to sufficient global and domestic stocks. Domestic prices will be capped on the higher side as the government has extended date of sale of wheat from their stocks to September 30 from June 30, 2010. Technically, prices will find support at Rs.1245/1220 per quintal and resistance may be seen at Rs.1320/1350 per quintal levels.

Research Analyst (Commodities) - Nalini Rao

Commodity Technical Report

MCX August Gold

Last week, Gold prices opened the week at (Rs.18820 /10 grams), initially moved sharply higher, but found strong resistance at Rs.19198 levels. Later prices fell sharply lower towards 18555 levels and Gold finally ended the week with loss of Rs.59 to close at Rs.18735 as compared with previous week's close of Rs.18794.

Trend : Sideways

MCX GOLD Weekly Chart

Source: Telequote

Key Levels For Week :

S1 - 18465 S2 - 18180 R1 - 18850 R2 - 19000

Recommendation: Sell MCX Gold August Between 18840-18870 with strict Stop-loss above 19000 for a Target of 18550 and then 18350

MCX July Silver

Last week, Silver prices opened the week at (Rs.28291/kg), initially moved lower but found good support at Rs.28031. Later prices moved sharply higher, breaking the initial resistance, made a high of 29563. Silver finally ended the week with a gain of Rs.740 to close at Rs.29181 as compared with previous week's close of Rs.28441.

Trend : Sideways

MCX SILVER Weekly Chart

Source: Telequote

Key Levels For Week :

S1 - 28950 S2 - 28500 R1 - 29370 R2 - 29770

MCX June Copper

Last week, Copper prices opened the week at (Rs.291.65/ kg), initially made a low of 284.10 and then moved sharply higher breaking the initial resistance, made a high of 304.90. Copper finally ended the week with a gain of Rs.10.60 to close at Rs.303.70 as compared with previous week's close of Rs.293.10.

Trend : Sideways

MCX COPPER Weekly Chart

Source: Telequote

Key Levels For Week :

S1 - 296.40 S2 - 288.40 R1 - 308.80 R2 - 314.80

Recommendation: Buy MCX Copper June in the range of 297-295 with strict stop-loss below 288 Targeting 308 then 312.

MCX June Crude

Last week, Crude prices opened the week at (Rs.3361/barrel), initially made a low of 3319 then moved sharply higher breaking the initial resistance but found strong resistance at Rs.3576 level. Later prices corrected towards 3447 levels. Crude finally ended the week with a gain of Rs.114 to close at Rs.3478 as compared with previous close of Rs.3364.

Trend : Sideways

MCX CRUDEOIL Weekly Chart

Source: Telequote

Key Levels For Week :

S1 - 3415 S2 - 3230 R1 - 3550 R2 - 3650

Recommendation: Buy MCX Crude June in the range of 3420-3400 with strict stop-loss below 3320 Targeting 3570 then 3630.

Sr. Technical Analyst (Commodities) - Samson P

NOTES

NOTES

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

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