



## Economy News

- ▶ Headline inflation, as measured by the wholesale price index (WPI), fell sharply to 8.98 per cent for the week ended November 1 from 10.72 per cent in the previous week. After five months, inflation is back in single digit, which economists said will give the Reserve Bank of India room to cut rates. (BS)
- ▶ The index of industrial production (IIP) rose by 4.8 per cent in September 2008 as against 7 per cent during the corresponding period last year. The manufacturing sector grew by 4.8 per cent as against 7.4 per cent last year. Electricity sector growth remained almost the same at 4.4 per cent as against 4.5 per cent in September 2007. The mining sector improved its performance by indicating 5.7 per cent growth as against 4.9 per cent. (BS)
- ▶ State-run banks might reduce their bulk deposit rates by 2-3% in the near future following finance ministry's instruction to avoid excessive competition amongst them by offering aggressive rates to their customers. (BL)
- ▶ The Bank of England said it allotted \$15.4 bn in 7-day dollar loans on Wednesday. The loans were offered at a fixed rate of 1.43%. (ET)
- ▶ China's industrial output grew at a slower pace than any economist forecast in October, stoking concern that the biggest contributor to global growth is running out of steam. Production rose 8.2 per cent from a year earlier, the smallest gain in seven years, the statistics bureau said. (BS)

## Corporate News

- ▶ State-owned **Bharat Heavy Electricals Ltd (BHEL)** is looking to tie up with private sector engineering major **Larsen & Toubro (L&T)** to jointly set up new-generation Light Water Reactor-based (LWR) capacities in the future. (BL)
- ▶ Bangalore-based **GMR Infrastructure** has backed out of its \$155-million acquisition of 50 per cent stake in Homeland Mining & Energy, a coal mining firm in South Africa. The declining coal prices and the findings in the due diligence have forced the company to withdraw the offer. (BS)
- ▶ **SKF India Ltd** on Thursday announced that it has entered into a long-term relationship with wind power firm **Suzlon Energy** for supplying bearings for the latter's wind turbines. The agreement covers an initial period of five years with a total contract value of €303 million. (BL)
- ▶ The division bench of the Bombay High Court on Tuesday said the government should only be concerned with its own share of gas and it cannot dictate the gas sale price or the profit margins of **RIL**. (ET)
- ▶ FMCG major **Emami** today said it is eyeing sales worth Rs 200 crore in the current fiscal from its winter-care product segment as expands its portfolio. (BS)
- ▶ **ONGC Videsh Ltd (OVL)** and its partner IPR Red Sea Inc have made a second oil discovery in the North Ramadan Concession, Gulf of Suez, Egypt. (BL)
- ▶ **IDBI** is learnt to be in talks with GE Commercial Finance (GE), the financial arm of GE, to pick up around 25% stake in the latter's construction equipment finance business in India. (ET)
- ▶ **Tata Motors**, which bought the marquee UK automobile brands earlier this year, has firmed up plans to develop a new platform for Land Rover to boost the prospects of the company. (BS)
- ▶ **Eicher Motors Ltd** said on Wednesday that its board will meet on November 20 to consider the buy back of its shares. (BL)
- ▶ **Corporation Bank** said on Wednesday that it would cut deposit rates by 50 basis points across all maturities beginning next month. (BL)
- ▶ **Religare**, an integrated financial services provider, has formed a strategic alliance with **Karur Vysya Bank** to offer equity trading services to the Bank's customers. (BS)

### Equity

	12 Nov 08	% Chg		
		1 Day	1 Mth	3 Mths
<b>Indian Indices</b>				
SENSEX Index	9,536	(3.1)	(15.7)	(36.8)
NIFTY Index	2,848	(3.1)	(18.4)	(37.1)
BANKEX Index	5,188	(4.4)	(13.2)	(28.7)
BSET Index	2,633	(0.1)	(5.6)	(31.0)
BSETCG INDEX	7,258	(3.6)	(17.3)	(42.4)
BSEOIL INDEX	5,748	(3.0)	(23.9)	(44.9)
CNXMcap Index	3,661	(1.6)	(11.4)	(38.1)
BSESMCAP INDEX	3,813	(1.9)	(15.5)	(47.3)
<b>World Indices</b>				
Dow Jones	8,835	6.7	(5.1)	(23.9)
Nasdaq	1,597	6.5	(10.2)	(34.9)
FTSE	4,169	(0.3)	(5.1)	(24.2)
Nikkei	8,239	(5.3)	(9.1)	(33.7)
Hangseng	13,221	(5.1)	(19.3)	(36.5)

### Value traded (Rs cr)

	12 Nov 08	% Chg - Day
Cash BSE	3,644	0.6
Cash NSE	10,201	15.6
Derivatives	49,617.6	22.9

### Net inflows (Rs cr)

	11 Nov 08	% Chg	MTD	YTD
FII	(267)	(297)	524	(51,231)
Mutual Fund	(222)	(144)	(566)	13,587

### FII open interest (Rs cr)

	11 Nov 08	% Chg
FII Index Futures	8,846	(6.7)
FII Index Options	13,615	(4.0)
FII Stock Futures	10,501	(3.4)
FII Stock Options	227	17.1

### Advances / Declines (BSE)

	12 Nov 08	A	B	S	Total	% total
Advances	26	509	146	681	30	
Declines	177	1081	275	1,533	67	
Unchanged	1	49	12	62	3	

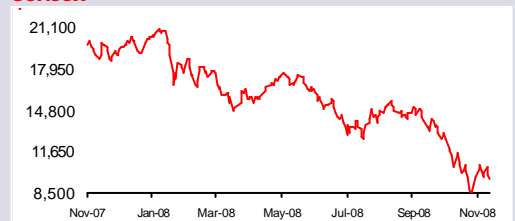
### Commodity

		12 Nov 08	% Chg		
			1 Day	1 Mth	3 Mths
Crude (NYMEX)	(US\$/BBL)	58.6	0.5	(25.5)	(49.1)
Gold (US\$/OZ)		736.5	3.4	(12.8)	(9.6)
Silver (US\$/OZ)		9.4	1.0	(14.5)	(33.9)

### Debt / forex market

	12 Nov 08	1 Day	1 Mth	3 Mths
10 yr G-Sec yield %	7.70	7.70	7.97	9.18
Re/US\$	49.29	48.12	48.26	42.38

### Sensex



**ECONOMY UPDATE****Saday Sinha**saday.sinha@kotak.com  
+91 22 6621 6312**SEPTEMBER IIP - IN LINE WITH EXPECTATIONS****October & November IIP numbers will be more important**

The index of industrial production (IIP) for September 2008 rose 4.8%, as compared to 7.0% in September 2007 on back of strong growth of 18.8% in the capital goods sector and 13.1% growth in consumer durables.

Mining, manufacturing and electricity grew at 5.7%, 4.8% and 4.4%, respectively during September, 2008. During the same period, Intermediate goods, which has 26.5% weight in IIP declined by 3.3%. A decline for two consecutive months is a cause of concern.

The cumulative growth for April-September 2008-09 stands at 4.9% over the corresponding period of the previous year. At the same time, IIP growth for August 2008 has been revised marginally upwards to 1.4% from 1.3%.

The leading indicators like automobile production, exports and excise tax collections etc suggest that October IIP number could be weak. The September IIP saw some up-tick, as companies moved to build up stocks ahead of the festive season to meet the expected demand. However, with demand not living up to the expectations, stacked up inventories might lead to sharp cutbacks in October & November outputs.

We believe that the broad moderation in IIP would continue for the rest of the financial year. However, the fiscal and monetary stimulus by the government is likely to increase consumption demand and hence mitigate the ill effect of moderating investment climate to a certain extent.

The fall in inflation to 8.9% for the week ended November 1, 2008 will provide greater leeway to the RBI & Government to take further monetary action on the interest rates front. However, we do not expect any significant rise in the spending because of fiscal considerations.

The Central Statistical Organization (CSO) has released a quick estimate of the index of industrial production (IIP) for September 2008. The IIP rose 4.8%, as compared to 7.0% in September 2007. This was on back of strong growth of 18.8% in the capital goods sector and 13.1% growth in consumer durables.

**Key highlights**

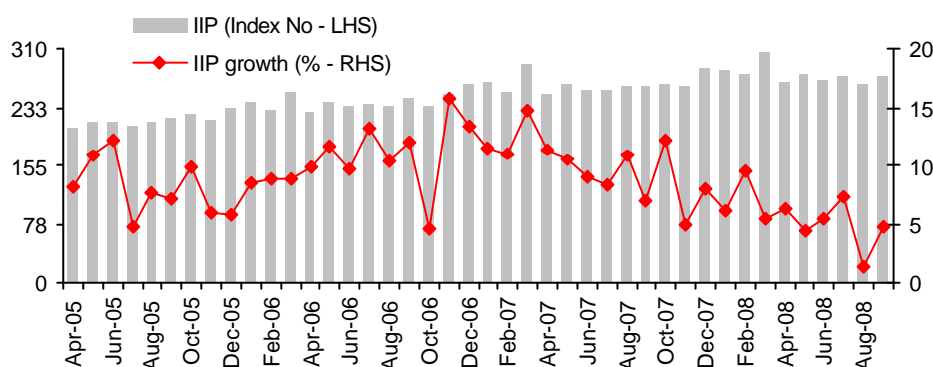
- The manufacturing sector recorded 4.8% growth during September 2008. This has led to a cumulative growth during April-September, 2008-09 of 5.2% over the corresponding period of last year.
- The mining sector grew 5.7% YoY. The cumulative growth during April-September, 2008-09 stands at 3.8% over the corresponding period of last year.
- The electricity sector grew 4.4% (YoY) and the cumulative growth during April-September, 2008-09 stands at 2.5% over the corresponding period of last year.
- In terms of industries, 9 out of 17 industry groups in the manufacturing sector have recorded positive growth during this month as compared to the corresponding month of the last year.
- The industry groups that have shown the highest growth in this month are...
  - Transport Equipment and Parts: 16.8%
  - Machinery and Equipment other than Transport Equipment: 16.1%
  - Metal Products and Parts, except Machinery and Equipment: 12.8%
- The sectoral growth (use-based classification) has been as under:
  - Basic goods: 4.6%
  - Capital goods: 18.8%
  - Intermediate goods: -3.3%
  - Consumer goods: 5.6%
- In September, consumer durables recorded a growth of 13.1% while consumer non-durables grew 2.8% with the overall growth in consumer goods being 5.6%.
- Apart from this, the IIP for August 2008 has been revised marginally upwards to 1.4% from the previously reported 1.3%.

**Index of industrial production**

	Mining index	Growth (%)	Maftg index	Growth (%)	Electricity index	Growth (%)	Total IIP	Growth (%)
	<b>10.47%</b>	<b>YoY</b>	<b>79.36%</b>	<b>YoY</b>	<b>10.17%</b>	<b>YoY</b>	<b>100.00%</b>	<b>YoY</b>
Apr-07	161.2	2.6	267.1	12.4	215.2	8.7	250.7	11.3
May-07	168.1	3.8	280.5	11.3	225.6	9.4	263.1	10.6
Jun-07	158.6	1.5	273.6	9.7	211.7	6.8	255.3	8.9
Jul-07	157.0	3.2	272.9	8.8	216.2	7.5	255.0	8.3
Aug-07	156.0	14.7	279.2	10.7	219.9	9.2	260.3	10.9
Sep-07	154.0	4.9	281.0	7.4	210.1	4.5	260.5	7.0
Oct-07	169.6	5.1	280.2	13.8	221.4	4.2	262.6	12.2
Nov-07	174.2	6.3	278.9	4.7	210.9	5.8	261.0	4.9
Dec-07	184.1	5.0	306.3	8.6	219.6	3.8	284.7	8.0
Jan-08	186.7	2.9	301.9	6.7	223.8	3.7	281.9	6.2
Feb-08	183.6	7.9	296.8	9.6	211.3	9.8	276.2	9.5
Mar-08	205.8	4.9	327.9	5.7	227.1	3.7	304.9	5.5
Apr-08	171.1	6.1	285.0	6.7	218.2	1.4	266.3	6.2
May-08	177.4	5.5	293.1	4.5	230.1	2.0	274.6	4.4
Jun-08	160.9	1.5	290.2	6.1	217.1	2.6	269.2	5.4
Jul-08	161.7	3.0	294.7	8.0	225.9	4.5	273.8	7.4
Aug-08	162.2	4.0	282.4	1.1	221.6	0.8	263.6	1.3
Sep-08	162.8	5.7	294.4	4.8	219.3	4.4	273.0	4.8

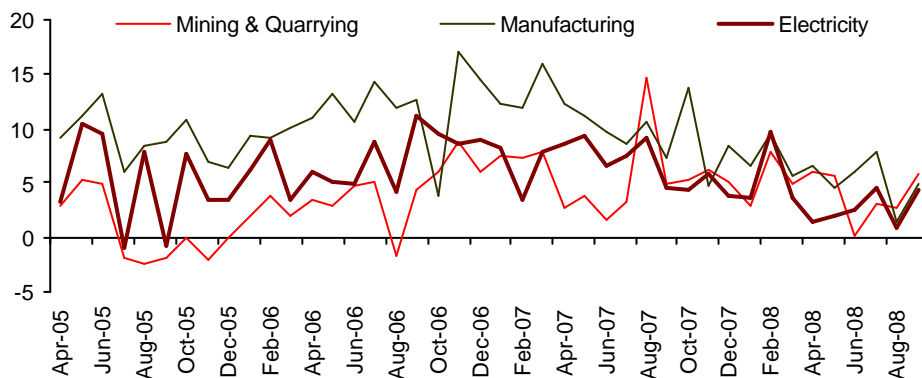
Source: Ministry of Statistics and Programme Implementation

**Index of Industrial Production (IIP)**



Source: Ministry of Statistics and Programme Implementation

**Sectoral Breakup of IIP**



Source: Ministry of Statistics and Programme Implementation

### Capital goods spring pleasant surprise

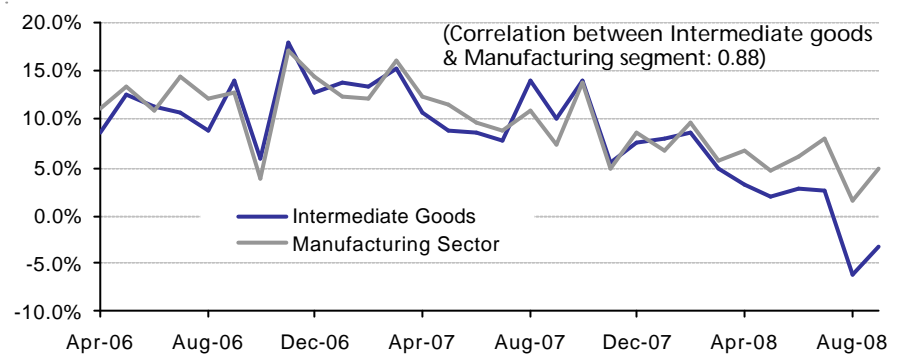
Capital goods spring pleasant surprise by growing at 18.8% in the month of September 08 as compared to 20.9% in September 2007 and 0.9% in August 2008. However, on a cumulative basis, growth for the period April-September, 2008-09 came down to 10.6% as against 20.2% during the same period last year.

The CG index is an important component signifying the investment mood in the economy. The tight financing environments along with the rise in input cost have been affecting the investment climate in our economy. We also note that the financial crunch & negative global sentiments have impacted the investments in the month of October, 2008. So, going forward, we will be closely watching the CG index to get an idea about the future growth prospects in the economy.

### Declining Intermediate goods is a concern

Intermediate goods, which has 26.5% weights in index of industrial production (IIP) declined by 3.3% during the month of September 2008, a decline for two consecutive months, is a cause of concern. As a result of this the cumulative growth for the period April-September, 2008-09 came down to 0.1% as against 9.9% during the same period last year.

#### Trend in Intermediate goods and manufacturing sector growth



Source: Ministry of Statistics and Programme Implementation

The above chart shows that there is high correlation between growth of intermediate goods and manufacturing goods (Correlation: 0.88). The negative growth in intermediate goods in last two months is a cause of concern for future growth of manufacturing sector. This negative growth is likely to have come on back of final goods manufacturers running down their inventories in expectation of slowdown in the economy. Therefore, going forward, there is a downward risk to manufacturing sector growth, which has around 80% weights in IIP.

### Growth in Consumer goods provided some respite

The consumer goods sector has shown decent growth of 5.6% in September 2008. Both, consumer durable and non-durable have shown healthy growth at 13.1% and 2.8%, respectively. As a result of this the cumulative growth for the period April-September, 2008-09 stood at 7.7% as against 5.5% during the same period last year.

The decent growth in this segment can be attributed to the initiatives taken by the Government in recent budget in the form of excise cut as well as reduction in tax burden on consumers.

### October IIP is likely to be appalling

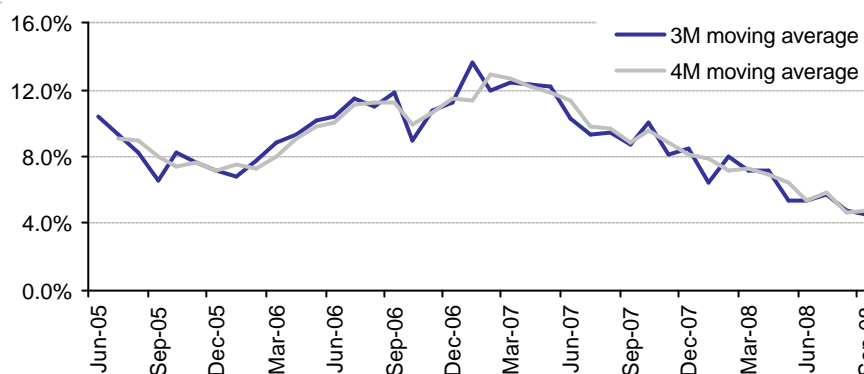
The leading indicators like automobile production, exports and excise tax collections etc suggest that October IIP number would be appalling. The September IIP saw some up-tick, as companies moved to build up stocks ahead of the festive season to meet the expected demand. However, with demand not living up to the expectations, stacked up inventories might lead to sharp cutbacks in October & November outputs.

In October, CV and 2-wheelers sales declined 24.2% (YoY) and 15.1% (YoY), respectively. Similarly, excise tax collection for the month of October declined by around 8.7% (YoY) whereas exports during the same period witnessed a decline of 15% (YoY).

Moreover, looking closely at the data for individual industries, we find that three industry groups namely- Transport Equipment & Parts, Machinery and Equipment other than Transport equipment and Metal Products & Parts except Machinery and Equipment (cumulative weight: 16.4%) witnessed growth of 16.8%, 16.1% and 12.8%, respectively for the month of October 08.

However, news about the automobile sector is shutting down their capacity in response to shrinking sales and companies across the board deferring their investment plans, do not bore well for the upcoming IIP for future months.

### Trend in 3M & 4M moving average of IIP



Source: Ministry of Statistics and Programme Implementation

### Moderation in IIP is to continue

The September IIP confirmed the slowdown trend, which is visible from the 3-month & 4-month moving average of IIP. We have been expecting moderation in IIP growth as we believe that the investment growth in FY09 would be lower than the last year. However, with fast deteriorating global financial market along with increased pessimism affecting domestic investment climate, the overall macro risk to lower production has increased.

India, largely being a domestic oriented economy with domestic savings playing a key role in financing its growth story, is less dependent on external world environment. However, the negative impact of financial turmoil in US and Europe can not be ignored as this is impacting capital inflows which are used to bridge the gap between domestic investment and domestic savings.

We believe that the broad moderation in IIP would continue for the rest of the financial year (H2FY09). However, the fiscal stimulus provided by government in the form of reduction in the excise duties as well as reduction in tax burden on consumers along with higher disposable income on account of sixth pay revision is likely to increase consumption demand and hence mitigate the ill effect of moderating investment climate to a certain extent.

The inflation rate fell sharply to 8.98% for the week ended November 01, 2008, lowest in almost last six-months. WPI declined 1.74% from 10.72% in the preceding week. This decline was on the back of steep drop in prices of some petroleum products and metals and would provide a relief to the RBI. We expect RBI to further cut Repo and Reverse repo rates to provide more liquidity in the slowing economy and hence mitigate the ill effect of moderating investment climate to a certain extent. Potential action on interest rate front will also lead to lower cost of capital for the companies.

## Bulk Deals

## Trade details of bulk deals

Date	Scrip name	Name of client	Buy/ Sell	Quantity of shares	Avg. price (Rs)
12-Nov	Asia Ind Net	Devang J Gadoya	S	21,200	12.74
12-Nov	Chemf Alkal	Titanium Equipment and anode Mfg.	B	160,000	35.00
12-Nov	Chemf Alkal	Dr. Rao Holdings Pte Ltd.	S	160,000	35.00
12-Nov	Dolph Med Se	Integrated Financial Services Ltd	B	110,000	3.21
12-Nov	Dolph Med Se	Sarojini Finance and Investment Pvt Ltd	S	110,000	3.21
12-Nov	Madhucon Pro	Copthall Mauritius Investment Ltd	B	525,229	56.80
12-Nov	Madhucon Pro	Bsma Limited	S	525,229	56.80
12-Nov	Mather Pumps	Quest Portfolio	B	83,162	204.88
12-Nov	Mount Eve Mi	Tata Tea Ltd	B	244,322	92.16
12-Nov	Natraj Fin	Sparkle Toothbrush Mfg Co Pvt	B	30,000	34.45
12-Nov	Olympic Oil	Punnisanghavi	B	5,000	3.85
12-Nov	Olympic Oil	Patil Vijay Balwant	S	5,000	3.85
12-Nov	Patel Airtem	Pragati Ti Up Pvt Ltd	S	28,000	33.10
12-Nov	RFL Internat	Alpha Graphic India Ltd	S	79,295	0.75
12-Nov	RFL Internat	Kalavatiben Bhartkumar Shah	S	31,667	0.76
12-Nov	RFL Internat	Ravi Thanvi	S	72,474	0.77
12-Nov	Rishi Laser	Rakesh Radhey Shyam Jhunjunwala	B	380,000	29.65
12-Nov	Rishi Laser	Rekharakeshjhunjunwala	S	380,000	29.65
12-Nov	Shyam Star	Setu Securities Pvt Ltd	B	223,886	22.21
12-Nov	Stl Global	Suresh Babulal Shah	B	108,600	7.49

Source: BSE

## Gainers &amp; Losers

## Nifty Gainers &amp; Losers

	Price (Rs)	% change	Index points	Volume (mn)
<b>Gainers</b>				
TCS	535	1.1	1.0	1.9
BPCL	313	3.1	0.5	0.8
Tata Com	479	2.4	0.5	0.3
<b>Losers</b>				
Reliance Ind	1,162	(3.8)	(11.6)	8.3
Bharti Airtel	632	(4.2)	(8.4)	5.0
ONGC	712	(3.3)	(8.3)	2.9

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

**Awadhesh Garg**

Pharmaceuticals, Hotels  
awadhesh.garg@kotak.com  
+91 22 6621 6304

**Apurva Doshi**

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

**Saurabh Gurnurkar**

IT, Media  
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

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