



Mr. Krishna Kumar Karwa,
Managing Director

From the Managing Director's Desk

Dear Investors,

Tao speaks of the yin and yang of life. There is a perception that yin and yang correspond to good and evil, Taoist philosophy discounts this as superficial labels. They prefer to focus on the idea of balance. A very beautiful analogy describes it as the relationship in terms of sunlight playing over a mountain and in the valley. As the sun moves across the sky, yin and yang gradually trade places with each other, revealing what was obscured and obscuring what was revealed. What better way to describe markets in May and June. In June the Indian markets emerged from the shadows, not to claim their place in the sun, but in daylight all the same!

Domestic markets seemed to find their own rhythm. While they did react to global cues they were not completely in reactive mode. For the quarter ended June, the Sensex rose for the sixth straight quarter, its longest such run in at least 20 years, gaining 1 per cent in the quarter ended June. The BSE index outperformed the MSCI's measure of Asian shares other than Japan which shed nearly 9 per cent. The BSE index rose 4.5 per cent in June to record its best monthly gain since March. FII's ended net buyers for the month while DII's were sellers – which has been the trend for this year.

A couple of big events in the month aided the markets. The EGOM (Empowered Group of Ministers) approved a proposal to make fuel prices market driven. The prices of petrol and diesel were increased as also prices of LPG and kerosene. The move will help the government bring down its fiscal deficit and release revenue for other reform programs. We expect Cement to bear the brunt between 2-6% of FY11E earnings as freight costs are a fairly high component. Capital Goods and Consumer companies will also be directly impacted 0.1-1% FY11E and 0.2-3% FY11E respectively, while the Auto sector could feel the indirect impact in terms of pressure on demand. If the freight cost increase is absorbed then CV sales would not be impacted but that remains to be seen. On the flip side under recoveries would reduce by 26% in FY11E and FY12E and there would be an incremental upside in the earnings of Oil marketing companies.

A landmark decision without doubt, the impact of which has to be looked at as not just in measurable savings and losses but also that reform as an agenda is not restricted to divestment and the 3G auction but also extends to other important areas. A rate hike which was imminent has taken place, repo and reverse repo rates have been increased by 25bps. Inflation is expected to increase by 120-130bps. In another move the government said all listed companies are required to maintain a minimum public float of 25%. Existing listed companies having less than 25% holding have to reach the stipulated level by an annual addition of not less than 5% to public holding. Definitely a step forward as this will increase the floating stock of several good companies where the promoter holding is too high.

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Towards the end of May the Ambani brothers entered into a new and simpler non-compete pact that they felt would help resolve the Krishna-Godavari gas dispute. All eyes were therefore on June 18th, Reliance's 36th Annual General Meeting. In his address to a crowd of 4000 odd people Mukesh Ambani outlined the strategy for the company in the years to come – he assured that gas would be made available to power-generation firms led by younger brother Anil and hoped for “harmonious” ties between the two groups in the future. Its curtains for the ongoing dispute and both seem to be moving forward with vigor towards plans for their respective companies.

A change was also signaled in by the Banking sector which switched over from the benchmark prime lending rate regime to a ‘base rate’. SBI kicked off the new lending rate regime by announcing a base rate of 7.5%. No bank can now lend below their base rates, unlike the way they were doing under the prime lending rate, or PLR, regime, which was in effect from 1994 when the nation took early steps toward freeing up lending rates. But it became a mockery when banks began lending far below the PLR to top corporates while retail and small corporates were paying a rate far higher than that. This move is hoped to bring greater transparency to the system.

In an aside the ULIP issue too was settled. The President promulgated an ordinance settling that ULIP's would come under the preview of IRDA and not SEBI – thus bringing that debate to an end.

One of the big events of this year will be the monsoons. It may well get top billing as we go into July. For June it has been a mixed bag. While the southern part of the country has got higher than their long period average (LPA) the northern states like UP are well below their average LPA. It is hoped that the monsoon will progress to cover the rest of the country and bring relief to all.

Global markets were thankfully quiet for a better part of the month. While the news and data coming out of Europe and US was not very good there was no further worsening. As some analysts have discussed in the US markets they are probably witnessing a ‘pause’ in the economic recovery which is something quite common in such cases. The PIGS continue to be stressed and a lot of the indices are below their 2008 levels. China did a yin and yang of its own. On one day in a move that gladdened markets across the globe they spoke yuan revaluation while towards the end of the month their weak or slower growth data pulled down Shanghai markets and put pressure on metal stocks.

July will kick start the earnings season and monsoon progress will be closely watched. Barring any more surprises markets will trade in a range and the activity – as it has been – will be very stock specific and gains are to be made in individual stocks. Markets currently favour ideas of consumption and stocks in a recovery mode. We too have highlighted various such ideas and think that this is where the money will be. Talking of kick starts the biggest event that has captured sporting minds across the globe has been the FIFA World Cup and we too have joined in the general mood, celebration, speculation and fun of the event. The event has now entered the semi final stage and we will all enjoy a high adrenalin final in July – so, to borrow from the theme song – Lets rejoice in the beautiful game, and together at the end of the day!

Happy Investing

Thanking you

Krishna Kumar Karwa

Emkay Global Financial Services Ltd.

Paragon Center, H -13 -16, 1st Floor, Pandurang Budhkar Marg, Worli, Mumbai – 400 013.

Tel.: 6612 1212 Fax: 6624 2410

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