

**India Update**

**Market data as on May 6, 2009**

INDICES			% chg (DoD)
BSE Sensex	11953		(1.47)
S&P CNX Nifty	3625		(1.01)
BSE 100	6075		(1.49)
BSE 200	1402		(1.46)

**OVERSEAS MARKETS**

		% chg (DoD)
Dow Jones	8512	1.21
Nasdaq Comp.	1759	0.28
S&P 500	920	1.74
Hang Seng	17020	1.10
Nikkei	9379	4.47

**ADVANCES/DECLINES (BSE)**

Group	A	B	S
Advances	62	697	205
Declines	134	843	173
Unchanged	3	55	18

**FII TURNOVER (BSE+NSE)\* (Rs mn)**

Bought	Sold	Net
39,690	22,740	16,950

**NEW HIGHS AND LOWS (BSE)**

Group	A	B	S
High	3	4	3
Low	1	15	2

**CURRENCY**  
US\$1 = Rs49.50

\* FII turnover (BSE + NSE) as on May 5, 2009

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**Highlights**

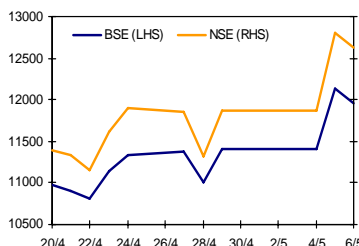
Sector/event	Impact
<b>METALS:</b> Sector update	Worldsteel Association estimates mild recovery in apparent steel use in '10, albeit post 14.9% YoY slide to 1.02bnte in '09. Meanwhile, the real, underlying demand for steel is incomprehensible, given uncertainty about global inventory levels and length of the destocking cycle. The timing and impact of destocking is a concern. The impact of inventory is likely to cease by end-CY09; but, production closures will continue and the drop in demand will result in some countries falling to levels of supply & demand not seen since the 1970s. Production closures and restructuring would either be maintained or accelerate. Though there will be some recovery due to termination of destocking, any improvement over CY09-10 will be on a considerably low base. While flat-product prices will continue to suffer extended destocking along a longer supply chain and Chinese overcapacity, rise in scrap prices on account of construction season setting-in in the Northern Hemisphere in Q2CY09 will provide support to long-product prices for the next 6-8 months. Domestic producers have increased flat & long product prices owing to: i) reduced imports, backed by government intervention, with 25% safeguard duties being contemplated in HRC and ii) increasing scrap prices. Domestic steel stocks continue to trade at a discount to international peers, despite greater volume visibility and ongoing trend of protectionist pricing. Reiterate our positive stance on Jindal Steel & Power (JSPL).

**News Snippets**

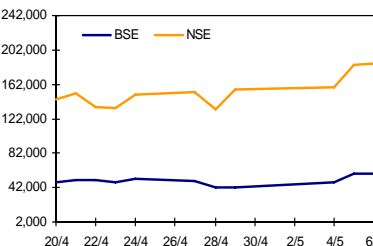
**Corporate**

- Essar Steel will invest Rs10bn in setting up steel processing units in India, the Middle East and North America (The Economic Times)
- State Bank of India has agreed to provide Rs5bn loan to Kingfisher Airlines, helping the Vijay Mallya-owned airline to meet its immediate cash needs. The airline is in discussions with many banks to raise at least Rs20bn. (The Economic Times)
- Tata Ltd, the UK subsidiary of Tata Sons, sold 10.34mn shares of Tata Consultancy Services (TCS) in a block deal at Rs615/share. The Tata Group held 76.2% stake in TCS as of March 31, '09. (The Economic Times)

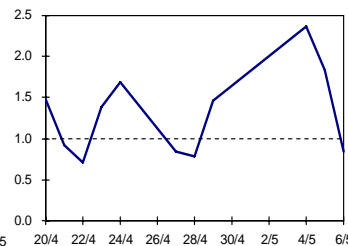
**Market movement over last fortnight**



**Volumes in Rs mn (BSE and NSE)**



**Advances & Declines ratio (BSE)**



## Sector update

## METALS

**Domestic steel in sweet spot**

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Worldsteel Association estimates mild recovery in apparent steel use in '10, albeit post a 14.9% YoY slide to 1.02bnte in '09. Meanwhile, the real, underlying demand for steel is incomprehensible, given uncertainty about global stock levels and length of the destocking cycle. The timing and impact of destocking is a concern. The impact of inventory is likely to cease by end-CY09; but, production closures will continue and the drop in demand will result in some countries falling to levels of supply & demand not seen since the 1970s. Production closures and restructuring would either be maintained or accelerate. Though there will be some recovery due to termination of destocking, any improvement over CY09-10 will be on a considerably low base. While flat-product prices will continue to suffer extended destocking along a longer supply chain (with distributors pushing even more inventory to steel mills) and increased Chinese overcapacity, rise in scrap prices on account of construction season setting-in in the Northern Hemisphere in Q2CY09 will provide support to long-product prices for the next 6-8 months. Domestic producers have increased flat & long product prices owing to: i) reduced imports, backed by government intervention, with 25% safeguard duties being contemplated in HRC, ii) increasing scrap prices and iii) improved sentiment due to the ~Rs200-billion infrastructural spending budget programme. Domestic steel stocks continue to trade at a discount to international peers, despite greater volume visibility and the ongoing trend of protectionist pricing. We reiterate our positive stance on Jindal Steel & Power (JSPL).

- **Flat-product demand & price levels even more pressured...**The supply chain is inclined to be longer for coil products; hence, destocking is longer-lasting while new production may not have been cut as much for long products.

US flat-product spot prices continue witnessing steady decline in end-user and stockholder demand, neither of which is showing any sign of restocking. Better-priced deals for larger buyers seem less frequent as most producers have been following the decreasing spot prices. Also, mill prices may fall at beginning-Q2CY09, when scrap prices also decrease. Flat-product prices for export to Asia continue to be firm, especially following drop in availability from Russia and Ukraine. Asian demand has been fair, though weaker than usual, this season as buyers look for market direction. Some further price gains in Asia seem likely if demand remains stable, provided production cuts outside China are maintained. There may be more export offers from China in the next few months, but price levels for many products are uncompetitive, even after the recent VAT rebates. North European flat prices will weaken at beginning-Q2CY09, although ArcelorMittal has announced that it will not further reduce prices for that quarter. Other producers will attempt holding prices, with the view that reduced production levels will benefit. It remains to be seen if further production cuts for flat-products will be required to support prices near current market levels.

- **... yet sentiment tips towards some stability in the Black Sea region...**CIS HRC exporters have maintained their latest offers to Turkey this week, confirming expectations of end of spiralling down of prices that has been the trend since many months. The most-recent CIS-origin HRC offer-prices quoted to buyers in Turkey were stable at US\$360-400/te for the main Turkish port for June delivery, while CRC offers held steady at US\$440-490/te. The latest, limited offers of China-origin HRC are still unworkable at US\$440-450/te freight-on-board levels for June production. Also, the onset of construction season is boosting demand.

- **...with Chinese overcapacity being the key drag.** With several major iron-making facilities set to be commissioned in northern China in the next couple of months, the country could witness significant rise in HRC production over May-June '09. While steel-market demand could slightly rebound over the period, new capacity coming onstream is likely to undermine any price gains. Handan Iron & Steel's subsidiary, Hanbao Iron & Steel, commissioned its second 3,200-cubic metre blast furnace on April 21, '09 that will produce ~5,000tpd iron to feed its 4.5mtpa hot-strip mill. Post commissioning of the new blast furnace, HRC production increased to ~200,000te in April '09 and would likely witness further rise over May-June '09.

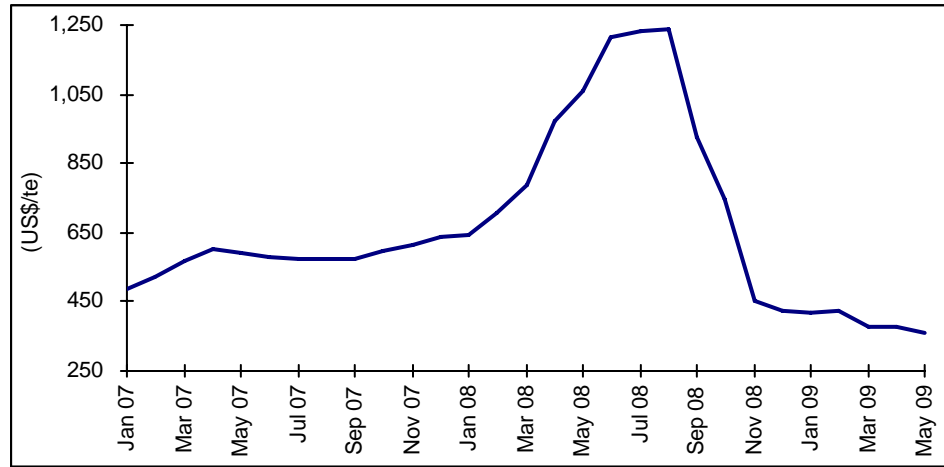
Meanwhile, Shougang may commission the rescheduled Caofeidian flats project by end-May '09. Although initial HRC production will be limited, it is expected to rise in H2CY09.

Anshan Iron & Steel commissioned its second blast furnace with 2.5mtpa capacity at its Bayuquan steel complex in Yingkou City at end-April '09. This new blast furnace is expected to bring Bayuquan's 3mtpa hot-strip mill to almost full capacity in May '09.

- **Global long product prices have stabilised after further fall in Q1CY09 from the end- CY08 lows.** Demand in the northern hemisphere is expected to higher owing to the ongoing construction season; but, it may only last six months. Buoyant scrap prices led to South European rebar exporters (Italy and Spain) raising prices for North African buyers by US\$50/te for May production & delivery. Also, increasing scrap prices led to rise in rebar & wire rod offerings from Turkey (Black Sea region), with small bookings reported for North Africa and Persian Gulf regions. Overall long-products price have slightly risen in SE Asia despite limited demand.
- **Indian HRC producers have increased prices Rs500-1,000 (US\$10-20)/te on reducing exports.** HRC is currently selling at Rs25,500-26,000 (US\$505-515)/te ex-mill, exclusive of duties and transport costs. Fresh consignments of imported HRC are expected only by mid-May. The Indian domestic HRC market currently enjoys considerable protection as the commodity can only be imported for consumption by the end user. Traders are also expecting further duty protection on HRC (+25%) and CRC, post the government initiating proceedings for imposition of safeguard duties for the two commodities. Prices of HRC in the domestic market continue to trade at US\$75-100/te premium to international prices that will be under pressure once raw-material prices decline.
- **Delivered prices of rebar in India rise Rs1,000-1,300 (US\$20-25)/te mainly due to increase in price of billet.** Prices of the benchmark 12mm rebar have increased to Rs34,200-34,500/te delivered from Rs33,200/te (MoM). Prices of billet, the basic raw material for production of rebar, have risen at least Rs800-1,000/te due to increased demand and rise in price of imported billet prices of ~Rs1,250/te.
- **Valuations – Enjoying domestic protection, yet following global cues.** We believe that rerating of domestic multiples was in line with both developed and emerging market multiples (Charts 5 & 6), despite greater volume visibility, prices at premium to world prices that are enjoying protectionist pricing and contract for coking-coal prices settled at US\$125/te. Also, India being in the lowest decile of the global cost curve (in the current raw material price environment), will be amongst the two last nations standing in terms of profitability of steel mills. China no longer poses an export threat (even after the 13% VAT rebate) as prices will be at US\$50-100/te premium to Indian prices. With the summer construction having commencing in Q2CY09, over-eagerness by Chinese and US/EU steelmakers to generate cashflows (matching the historical summer profile) remains a near-term risk to global steel pricing. We reiterate our

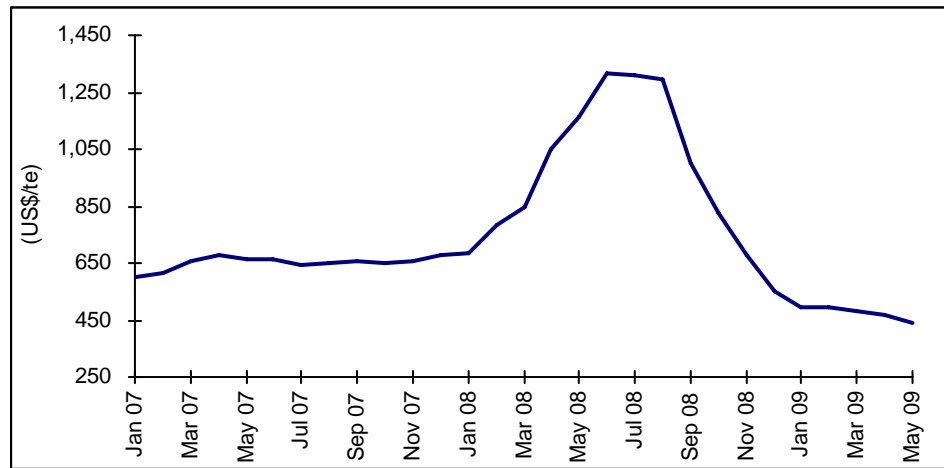
positive stance on JSPL. Also, with Tata Steel enjoying maximum operating leverage, the company may outperform the broad metal index, provided Europe sees volume recovery. The stock currently trades at FY10E P/E and EV/E of 4.3x and 5.5x respectively.

**Chart 1: CIS export prices of HRC – Expect further weakness**



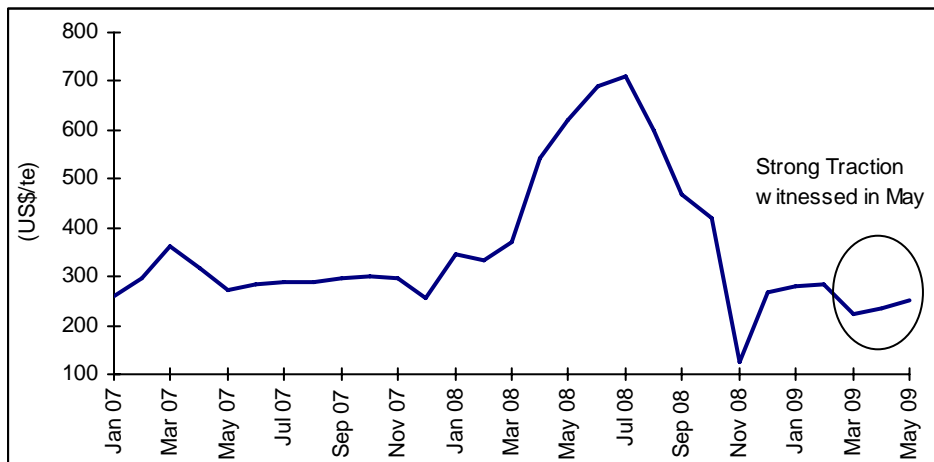
Source: Steelbb, I-Sec Research

**Chart 2: CIS export prices of CRC**



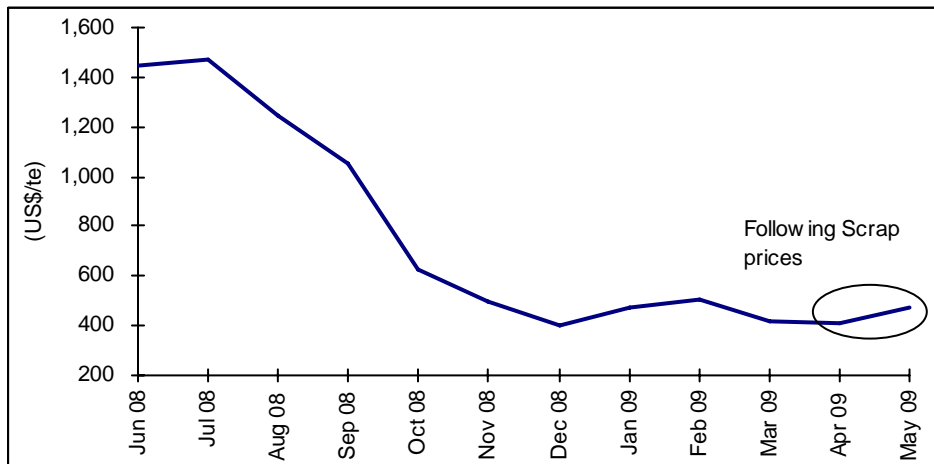
Source: Steelbb, I-Sec Research

**Chart 3: US scrap export prices**



Source: Steelbb, I-Sec Research

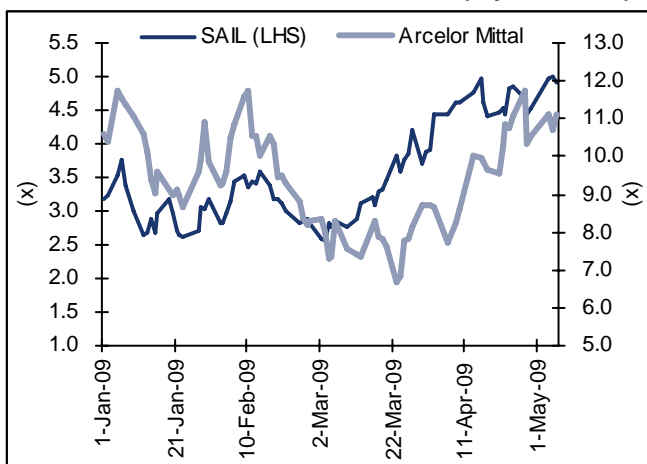
**Chart 4: Turkey wire-rod prices**



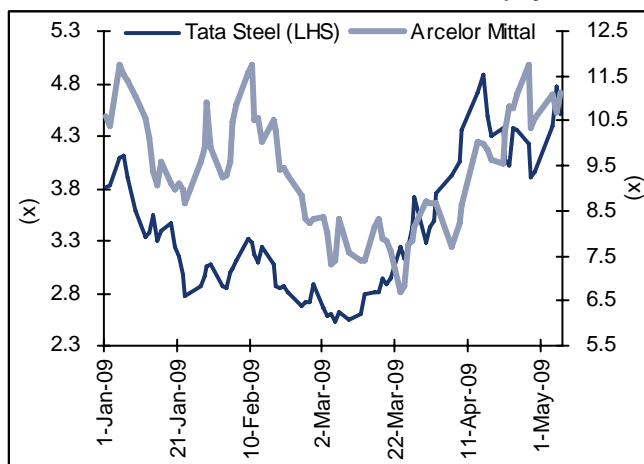
Source: Steelbb, I-Sec Research

**Chart 5: Rerating – Domestic majors versus ArcelorMittal (developed markets)**

**SAIL P/E versus ArcelorMittal P/E (1-yr forward)**

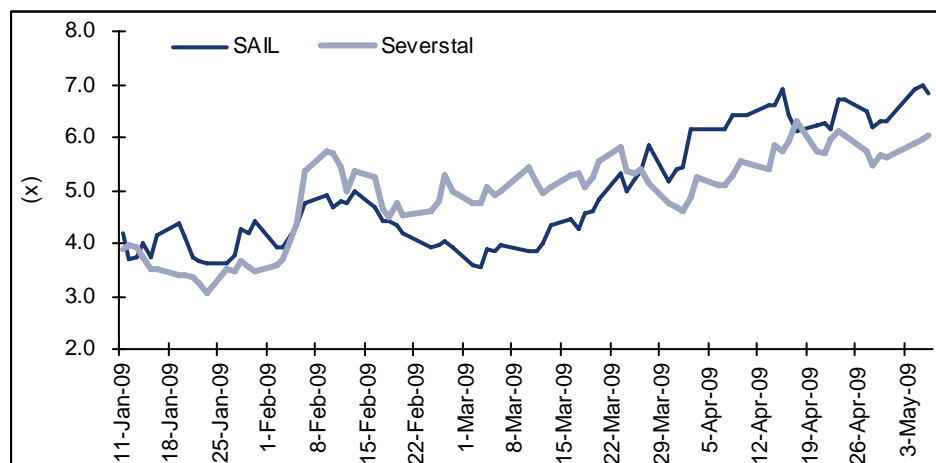


**Tata Steel P/E versus ArcelorMittal P/E (1-yr forward)**



Source: I-Sec Research

Chart 6: P/E rerating (1 year forward) – SAIL versus Severstal



Source: I-Sec Research

## Recent reports/updates

Analyst	Company/Sector	Date
Sandeep / Krupal	OnMobile Global: Marching ahead	May 5
Siddharth / Abhishek	HDFC: Horizons clear	May 5
Siddharth / Abhishek	Canara Bank: Smart comeback	May 4
Krupal / Sandeep	Info Edge: Superior execution	May 4
Sandeep / Krupal	Patni Computer: Signs of stability	May 4
Krupal / Sandeep	Educomp Solutions: Weak performance	May 4
Siddharth / Abhishek	Bank of India: Asset quality woes	May 4
Amit Mishra / Gagan	Gujarat Gas: Lower PMT volumes hurt earnings	May 4
Vikash / Suchitra WL	RCom: Poor wireless KPIs	May 4
Vikash / Suchitra WL	Bharti Airtel: Revenue growth lower; margins stable	May 4
Gaurav Pathak / Sunil Teluja	Lanco Infratech: Steadfast growth	May 4
Gaurav Pathak / Sunil Teluja	DLF: Unconvincing quarter	May 4
Pallav Agarwal / Abhijit Mitra	Sterlite Industries: To consolidate for greater gains	Apr 29
Krupal / Sandeep	Allied Digital Services: Margin concerns	Apr 29
Krupal / Sandeep	Nucleus Software: Tall order	Apr 28
Sanjay / Sunil	GSK Consumer: Shining star	Apr 28
Siddharth / Abhishek	Bank of Baroda: Earnings bonanza	Apr 28
Sandeep / Krupal	TCS: Uncertainty takes toll	Apr 27
Rajesh Vora	Cipla: Time to sell	Apr 27
Rajesh Vora	Ranbaxy: Another shocker	Apr 27
Vikash / Suchitra WL	Idea Cellular: Margins look up	Apr 27
Shilpa Gupta / Hemant Joshi	Maruti Suzuki: Below expectations	Apr 27
Amit Mishra / Gagan	Reliance Industries: Other income props earnings	Apr 24
Siddharth / Abhishek	HDFC Bank: Turning sour	Apr 24
Vikash Mantri / Suchitra WL	Zee News: Investing for growth	Apr 24
Pallav Agarwal / Abhijit Mitra	Hindustan Zinc: Awaiting fresh triggers	Apr 23
Vikash Mantri / Suchitra WL	Zee Entertainment: One-offs boost profits	Apr 23
Sandeep / Krupal	Wipro: Outperformer in challenging times	Apr 23
Shilpa / Hemant Joshi	Hero Honda Motors: Pitched to win	Apr 21
Shilpa Gupta / Hemant Joshi	Speedometer (April '09): Growth in spurts	Apr 21
Pallav / Abhijit	Sesa Goa: Buy at dips	Apr 21
Siddharth / Abhishek	Axis Bank: Concerns appeased	Apr 21
Sanjay / Sunil Teluja	Colgate-Palmolive: Strong earnings growth ahead	Apr 20
Vikash / Suchitra WL	Balaji Telefilms: End of the 'K' era	Apr 17
Amit Mishra / Gagan	Oil&Gas Sector: Take some money off the table	Apr 17
Gaurav Pathak / Sunil Teluja	Unitech: Burst of strength	Apr 17
Sanjay / Sunil	FMCG – Quarterly Results Preview	Apr 16
Vikash / Suchitra WL	Sun TV Network: In fair value zone	Apr 16
Sandeep / Krupal	Infosys Technologies: Feeble start	Apr 15
Vikash / Suchitra WL	Media Monitor – April '09: Boom in stocks; gloom in industry	Apr 15

## Results date reckoner

## May 2009

Sun	Mon	Tue	Wed	Thu	Fri	Sat
		.			1 .	2 .
3 .	4 HDFC	5 .	6 .	7 JSW Steel, Union Bank	8 Peninsula Land, Alembic	9 SBI
10 HUL	11 .	12 Asian Paints	13 Balaji Telefilms	14	15 Chambal Fertilisers, Ashok Leyland	16 .
17 .	18 Dr. Reddy's Lab.	19 .	20 Mphasis	21 Bajaj Auto	22	23
24	25	26	27 Cairn	28 Tata Power	29	30

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