

## Research calls

### In-house view

<p><b>Mercator Lines</b></p> <p><b>CMP: Rs 69</b></p> <p><b>Target: Rs 79</b></p> <p><b>Rating: Buy</b></p> <p><b>Risk: High</b></p>	<p><b>Mercator Lines – Winds of change</b></p> <p>The Baltic Dry Index has tripled over the past five months on increase in Chinese import of iron ore, increase in tonne-mile demand on Brazil-China route and congestion at Chinese ports.</p> <p>The tanker market is expected to remain subdued in the near term. However, we anticipate a recovery in the winter months on account of seasonality and indications that the OPEC is unlikely to cut production at current crude rates.</p> <p>Currently, time charter rates are 2–3x higher than spot market freight rates. We believe that MLL will strike term contracts sooner than later given that supply in the dry bulk market is slated to increase in CY10. The company's term clients have sound credit ratings as certified by various rating agencies. Hence, the risk of default is minimal.</p> <p>We anticipate that the rig contracted to Great Eastern Shipping is likely to contribute 8% of the topline and 18% of the profits in FY10 on a consolidated basis. The rig, operating under the Singapore subsidiary, MLL Offshore, is exempt from paying tax for a period of five years.</p> <p>A major capital dredging project at Sethusamundaram is currently being carried out, in which an estimated 83mn cubic metres of sediment has to be dredged. As per the last update, only 34% of the dredging work has been concluded, leaving tremendous untapped potential for coming years.</p> <p>We are rolling forward our target price to FY11, valuing the stock at 4x EV/EBITDA. Our revised target price stands at Rs 79 (earlier Rs 65), offering a 22% upside from current levels. We maintain our Buy rating on the stock. At our target price, MLL is trading at a P/E of 5.5x, EV/EBITDA of 4.9x and P/BV of 0.7x FY11E. We note that an unanticipated increase in dry bulk tonnage or change in contract mix (spot to term ratio) will depress freight rates and impact our estimates.</p>
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### Event-based calls

- ❖ Sesa Goa buys Dempo assets for Rs 17.5bn. (ET)
- ❖ L&T sells entire 11.5% stake in UltraTech for Rs 10.4bn. (FE)

### Market outlook

<p><b>Dow: Positive</b></p> <p><b>Asia: Positive</b></p> <p><b>Day's view: Positive</b></p>	<p>US markets closed up and Asian markets are also positive. Retail sales rose in May for the first time in three months, an increase driven almost solely by US shoppers returning to automobile showrooms seeking bargains, and the rising cost of gasoline. For the day we are positive on our market.</p>
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### Stocks in focus

Stock	Rationale
<b>Reliance Industries</b>	<p>Reliance Industries' main growth story would be its E&amp;P business as gas production is likely to start from March-end with an initial capacity of 25mmscmd, expanding to 80mmscmd by Q3FY10. However, its refinery business is likely to be adversely impacted by the southward trend in GRMs. To mitigate the risk, the company has merged its refining subsidiary RPL to get the benefit of better combined GRM due to the higher refining complexity of the RPL refinery. The RIL-RPL merger is a win-win proposition for both the companies. We recommend a Buy on the stock.</p>

## Key market data

Market turnover	Value (US\$ mn)	% Chg
BSE	1,600	(9.3)
NSE	5,019	(7.6)
Derivatives (NSE)	13,329	(14.1)

Forex / Crude	11-June-09	% Chg		
		1-day	1-mth	3-mth
Rs/US\$	47.6	(0.8)	4.0	9.0
Euro/US\$	1.4	(0.0)	3.4	9.2
Crude (\$/bbl)	72.4	(0.3)	23.1	54.0

Emerging markets	11-June-09	% Chg			
		1-day	1-mth	3-mth	6-mth
Brazil	53,411	0.5	4.8	37.6	38.7
Shanghai	2,806	0.3	7.2	31.5	43.6
Hong Kong	19,086	1.6	11.3	59.0	29.3
India	15,411	(0.4)	26.8	84.7	59.0
South Korea	1,425	0.4	1.6	26.3	29.1
Taiwan	6,561	(0.1)	2.0	38.0	46.4

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# Technical analysis

## BSE Sensex daily trend



Source: ASA

## Technical outlook daily

SENSEX (15411.47 ↓ 55)	NIFTY (4637.70 ↓ 17)
<p>Sensex moved within the narrow range yesterday and has given a negative close at 15411 down by 55 points. However, stock specific move from the Mid-Cap and Small-Cap segment were able to maintain the positive market sentiments.</p>	
<p>Sensex yesterday's trading range was within its previous day's trading range, hence the low and high form during the last two trading sessions would be crucial. The low was formed at 15168(Nifty 4551) which should be maintained so that the Sensex positive bias would be maintained. Breakout would be above 15580(Nifty 4688) the high of the last two trading sessions.</p>	
<p>Sensex if able to maintain 15168(Nifty 4551) its move above 15580(Nifty 4688) would lead to 15718 (Nifty 4758-4837) levels. On the contrary, Sensex if breaks 15168 (Nifty 4551) the trend would once again would be in a range with support at 14526(Nifty 4453-4365) and resistance at 15580 (Nifty4688) levels.</p>	
<p>Senex support level is placed at 15240-15161-15007 (Nifty 4586-4550-4514).</p>	
<p>Sensex trend would be negative below 14526 (Nifty 4365) levels.</p>	
<p><b>Sensex Intraday Support levels:</b> Support 15240-15161-15000 Resistance 15580-15642-15718.</p>	
<p><b>Nifty Intraday Support levels:</b> Support 4586-4550-4514 Resistance 4688-4712-4753.</p>	
<p><b>Sector Specific:</b> Stocks from the Auto, Metal, Telecommunication and Fertilizer segments were positive. Chambal Fertilizer, Tata Chemical and Tata Communication are positive</p>	
<p><b>Stock Specific:</b> 1) Chambal Fertilizer LTP Rs.71.75 Buy between Rs.71-70 Stop Loss Rs.67 Target Rs.77-79.</p>	
<p>2) Tata Comm. LTP Rs.537.65 Buy between Rs.535-530 Stop Loss Rs.511 Target Rs.557-568.</p>	

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