Markets extend gains

BSE Sensex and S&P CNX Nifty hit their highest level in the last 31 months during the week, thereby extending their positive momentum and ending higher by 3.2% and 2.9%, respectively. BSE mid-cap and small-cap indices too continued their gaining streak during the week, ending higher by 2.4% and 3.4%, respectively. Markets opened the week on a positive note as the US reported a better-than-expected payroll data, giving credibility to recovery in the world's biggest economy. Moreover, volatility was witnessed in the latter part of the week as factors such as mixed global cues, sustained buying by foreign funds and good monsoons weighed on investor sentiments. On the sectoral front, all the sectoral indices ended in green during the week, with the BSE metal index gaining the maximum by 5.1% followed by BSE Bankex gaining 4.1%.

Metal sector gains on price increase

The BSE metal index gained 5.1% during the week, outperforming the Sensex by 1.9%. Since the start of the month, domestic steel companies have hiked steel prices by 3-4%, but have kept long product prices unchanged. Moreover, as per media reports, about 57 blast furnaces and production lines were temporarily suspended from September 4, after the Chinese government restricted power to meet its energy-saving targets. Tata Steel led the rally by surging 9.7% in absolute terms, outperforming the Sensex by 6.6%. Jindal Steel and JSW Steel outperformed the Sensex by 1.4% each, while SAIL outperformed the Sensex by 1.3%. On the iron ore side, as per media reports, Rio Tinto and steel mills in Japan have settled on a price cut of 13% for 3QFY2011 iron ore shipments. Sesa Goa lost 1.8%, underperforming the Sensex by 4.9%. However, NMDC gained 4.4% on reports that the company was looking to acquire coal assets in South Africa. On the non-ferrous front, Hindalco surged by 7.0% in absolute terms, outperforming the Sensex by 3.8%, as management indicated of increasing its stake in the company. Sterlite, Hindustan Zinc and Nalco gained 4.6%, 0.8% and 0.4%, respectively, due to higher base metal prices on the LME.

Inside This Weekly

Phillips Carbon Black - Re-initiate Coverage: Phillips Carbon Black (PCBL), the leading producer of carbon black in India , is well poised to benefit from the rising demand for tyres going ahead. Moreover, we expect its power segment to start contributing substantially to its bottom line in FY2011 and FY2012 and provide stability to its earnings. **We re-initiate coverage on PCBL with a Buy recommendation and an SOTP-based Target Price of Rs270.**

Sun Pharma - Event Update: Sun Pharma has received favourable verdict from the Israeli Supreme Court regarding its acquisition of Taro. The Supreme Court dismissed the plea by Taro to block Sun Pharma from raising its stake in Taro, almost settling a three-year ordeal that would help Sun Pharma to expand in the US. **We maintain a Neutral rating on Sun Pharma.**

FII activity

As on	Cash (Equity)	Futures	(Rs crore) Net Activity
Sep 03	486	412	898
Sep 06	1,040	1,468	2,508
Sep 07	201	458	660
Sep 08	463	(646)	(183)
Net	**2,190**	**1,693**	**3,882**

FII Data for Sept. 9 not updated on Sebi

Mutual Fund activity (Equity)

As on	Purchases	Sales	(Rs crore) Net Activity
Sep 02	381	316	65
Sep 03	883	529	354
Sep 06	658	626	31
Net	**1,922**	**1,471**	**451**

MF Data for Sept. 7-8 not updated on Sebi

Global Indices

Indices	Sept. 03, 10	Sept. 09, 10	Weekly (% chg)	YTD
BSE 30	18,221	18,800	3.2	7.6
NSE	5479	5640	2.9	8.4
Nasdaq *	2,234	2,229	(0.2)	(1.8)
DOW *	10,448	10,387	(0.6)	(0.4)
Nikkei	9,114	9,098	(0.2)	(13.7)
HangSeng	20,972	21,167	0.9	(3.2)
Straits Times	3,003	3,022	0.7	4.3
Shanghai Composite	2,655	2,656	0.0	(18.9)
KLSE Composite	1,436	1,438	0.1	13.0
Jakarta Composite	3,164	3,231	2.1	27.5
KOSPI Composite	1,780	1,784	0.2	6.0

Sectoral Watch

Indices	Sept. 03, 10	Sept. 09, 10	Weekly (% chg)	YTD
BANKEX	12,471	12,984	4.1	29.4
BSE AUTO	8,970	9,097	1.4	22.3
BSE IT	5,461	5,664	3.7	9.2
BSE PSU	9,809	10,053	2.5	5.5

*Note: * As on Sept. 8, 2010*

Phillips Carbon Black - Buy

Price - Rs213
Target Price - Rs270

Re-initiate Coverage

Black Magic

Phillips Carbon Black (PCBL), part of the RPG Group, is the leading producer of carbon black in India, with ~48% of the total installed capacity in FY2010. Currently, with ~65% of the total carbon black production in the country being consumed by the tyre industry, PCBL is well poised to benefit from the rising demand for tyres going ahead. Moreover, we expect the company's power segment to start contributing substantially to its bottom-line in FY2011 and FY2012 and provide stability to its earnings.

Carbon black demand-supply scenario to be favourable: On the demand front, considering the growth rate in domestic demand (9.6% CAGR over FY2010-12E) and exports (25% CAGR over FY2010-12E), we estimate the carbon black production (after factoring imports) to record CAGR of 11.8% over FY2010-12E. With the rising production trend, the overall capacity utilisation is also likely to rise to ~87% in FY2012E from ~82% in FY2010. On the other hand, supply is expected to record CAGR of 8.6% during FY2010-12E, thereby leading to a favourable demad-supply dcenario for the industry.

Volume growth backed by capacity expansions to drive PCBL's carbon black revenues: To capitalise on the rising demand for tyres PCBL has been on the expansion spree. Post commissioning of the 90,000MT green-field plant at Mundra in October 2009, the company's current installed capacity stands at 360,000MT. PCBL plans to further increase its capacity to 410,000MT by setting up a brown-field plant of 50,000MT in Mundra, which is expected to be operational by 3QFY2011E. Thus, with additional capacities coming on stream, we expect volumes and revenues of the carbon black segment to register CAGR of 15.3% and 22.3% respectively over FY2010-12E.

Power segment- The game changer: PCBL currently has in place 60.5MW of power generating capacity and with further capacities coming up, the same will be enhanced to 77.5MW by 3QFY2012E. Since PCBL utilises the off-gas generated during the manufacture of carbon black for producing power, the company has no raw material requirements. Hence, although the power revenues would contribute a mere ~7% to the company's total top-line in FY2012E, on the bottom-line front it would contribute ~50% of total profit. Thus, a high proportion of the power revenues would percolate to the bottom-line and lend stability to the company's earnings while significantly de-risking its business model.

Outlook and valuation

Considering the favourable demand-supply dynamics of the carbon black industry, PCBL's capacity addition plans and its dominant position , we believe it to be well poised to capitalise on the increasing demand for carbon black going ahead. Moreover, the company's power segment is expected to contribute significantly to its profitability and lend stability to the company's earnings coupled with significantly de-risking its business model. Thus, we are bullish on the company's growth prospects over FY2010-12E

We have valued PCBL on the sum-of-the parts valuation methodology and arrived at a Target Price of Rs270 wherein we have valued PCBIL's carbon black segment at Rs144/share (1x FY2012E P/BV) and the power segment at Rs126/share (NPV method). **We re-initiate coverage on the stock with a Buy recommendation and SOTP-based Target Price of Rs270.**

Key Financials

Y/E March (Rs cr)	FY2009	FY2010	FY2011E	FY2012E
Net Sales	**1,163**	**1,235**	**1,643**	**1,899**
% chg	*12.6*	*6.0*	*33.3*	*15.6*
Net Profit	**(72.1)**	**122.7**	**143.9**	**175.4**
% chg	-	-	*17.2*	*22.0*
EBITDA Margin (%)	-	15.4	16.1	16.2
EPS (Rs)	**-**	**43.4**	**41.7**	**50.9**
P/E (x)	-	4.9	5.1	4.2
P/BV (x)	2.7	1.8	1.3	1.0
RoE (%)	-	44.8	31.7	26.6
RoCE (%)	-	20.7	22.8	23.6
EV / Sales (x)	1.0	1.0	0.6	0.5
EV/EBITDA (x)	-	6.5	4.0	3.0

Source: Company, Angel Research; Price as on September 3, 2010

Research Analyst - Viraj Nadkarni

Sun Pharma - Neutral

Price - Rs1,756

Event Update

Sun-Taro saga nearing to end...

Sun Pharma has received favourable verdict from the Israeli Supreme Court regarding its acquisition of Taro. The Supreme Court dismissed the plea by Taro to block Sun Pharma from raising its stake in Taro, almost settling a three-year ordeal that would help Sun Pharma to expand in the US.

We view this as a positive development for Sun Pharma; however, the future course of action by Taro's promoter (Levitt family) is still uncertain. In case the Levitt family does not go for any fresh legal course and honour the option agreement post the closure of the open offer, then Sun Pharma's stake in Taro would increase to 53.4% (voting rights 65%) from the current 36.6% (voting rights 24%).

Favourable verdict from the Israeli Supreme Court: Sun Pharma has received favourable verdict from the Israeli Supreme Court, which upheld Tel-Aviv District Court's ruling dismissing the appeal by Taro. The Supreme Court held that the Israeli special tender offer rules do not apply to the tender offer by Sun Pharma to purchase all outstanding shares of Taro for US $7.75 per share in cash.

The three-judge bench of the Supreme Court said there were no legal or moral grounds that required Sun Pharma to comply with the special tender offer rules. The Court declared that its ruling in favour of Sun Pharma was dictated by concerns of fairness, good faith and commercial stability and affirmed the District Court's finding that Taro and its directors had acted in bad faith.

The Court also awarded judicial expenses to Sun Pharma. The open tender offer is now scheduled to expire on September 14, 2010. Further, Sun Pharma will provide a subsequent offering period of not less than 10 business days nor more than 20 business days following the expiration date. Since May 2007, Sun Pharma has acquired 36.6% stake (voting right 24%) in Taro for US $105mn.

Post the favourable outcome of the Supreme Court, the following things could emerge for Sun Pharma:

- Taro issues 3.8mn shares to Sun Pharma post the exercise of warrants in December 2009 under the Share Purchase Agreement (SPA), which was sub judice pending the Supreme Court's decision.
- On closure of the open offer on September 14, 2010, Levitt family becomes liable to honour the option agreement by selling its stake (11.5%) to Sun Pharma. However, it might recourse to further legal action.
- Taro is currently quoting at US $11.4/share, which is at 47% premium to the open offer price of US $7.75/share. Hence, we do not expect any fresh tendering of shares under the offer.

Overall, Sun Pharma is expected to invest additional US $60mn to increase its stake in Taro.

Outlook and valuation

We expect Sun Pharma's net sales to post a 16.6% CAGR to Rs5,581cr and EPS to register a 14.0% CAGR to Rs84.8 over FY2010-12E. On the valuation front, we have valued Taro at Rs85/share (1x Mcap/Sales), given the lack of clarity over Taro's financials. The stock is trading at 24.5x FY2011E and 20.7x FY2012E core earnings. **We recommend Neutral on the stock with a Fair Value of Rs1,781 (Rs1,696/share, valuing the core business at 20x FY2012E earnings; and Rs85/share for Taro).**

Key Financials (Consolidated)

Y/E March (Rs cr)	FY2009	FY2010	FY2011E	FY2012E
Net Sales	**4,273**	**4,103**	**4,830**	**5,581**
% chg	*27.3*	*(4.0)*	*17.7*	*15.6*
Net Profit	**1,818**	**1,351**	**1,483**	**1,756**
% chg	*20.7*	*(25.7)*	*9.8*	*18.4*
EPS (Rs)	**87.8**	**65.2**	**71.6**	**84.8**
EBITDA Margin (%)	43.6	33.2	32.5	33.5
P/E (x)	20.0	26.9	24.5	20.7
RoE (%)	30.2	17.8	17.1	17.7
RoCE (%)	27.4	15.3	15.6	16.4
P/BV (x)	5.2	4.5	3.9	3.4
EV/Sales (x)	8.2	8.3	7.0	5.9
EV/EBITDA (x)	18.7	25.1	21.6	17.7

Source: Company, Angel Research; Price as on September 8, 2010; Note: Taro financials has not been included

Research Analyst - Sarabjit Kour Nangra /Sushant Dalmia

Ispat Industries - Not Rated

Price - Rs20

Management Meet Note

Incorporated in 1984, Ispat Industries upstream facilities (sponge iron, pig iron, hot rolled coils) are located at Dolvi (Maharashtra), 80-85kms away from Mumbai and are spread across 1,400 acres. The downstream facilities (galvanized sheets, cold rolled coils) are located at Kalmeshwar (Nagpur, Maharashtra). Ispat produces steel using the twin shell conarc furnace technology developed by SMS Siemag, Germany. The technology provides flexibility in terms of raw material feed, ie. sponge iron, hot metal or scrap. Also, energy consumption is lower at approx 240 units/tonne compared to the conventional EAF requirement of ~550 units/tonne of steel.

We met management of Ispat Industries. Key takeaways of our meeting are as follows:

Joint venture with Stemcor to set up a coke oven plant: Ispat has entered into a JV (Amba River Coke) with Stemcor for setting up a 1mn tonne coke oven plant at a cost of Rs1,124cr. Ispat holds 26% equity stake & the balance is held by Stemcor. The project will be funded through debt-equity ratio of 2:1 and is yet to achieve the financial closure. Ispat's equity contribution will be Rs100cr (Rs50cr will be through land and infrastructure support and balance Rs50cr through cash infusion). Once commissioned, the plant will cater to 100% coke requirement.

110MW power plant to lead to cost savings: Ispat under its subsidiary, Ispat Energy, is setting up 110MW captive power plant (CPP) comprising of two units of 55MW each. The plant will primarily use gases from coke oven and blast furnace. Land for the project has been acquired and the civil work has also started. Total cost of the project is expected to be Rs491cr and the company expects savings of Rs1,300cr post commissioning of the power plant.

Captive raw material holds the key for future performance: Ispat has already secured the prospecting license for developing iron ore mines in Maharashtra. The management expects to start mining in FY2012 and targets iron ore production of 2mn tonnes. The company in a JV with Essar Steel, Mukand, Kalyani Steel and Ind Synergy has also been allotted Behrabad (North) coking coal block in Madhya Pradesh. The mine has reserves of 170mn tonnes, with Ispat's share being 76mn tonnes.

Other key takeaways

- Ispat buys iron ore fines and lump ore from NMDC and imports pellets from GIIC Bahrain. The landed cost of iron ore from Bacheli complex is Rs8,500/tonne and from the Kirandul complex is Rs7,200/tonne. Ispat also has a quarterly pricing contract with GIIC Bahrain for supply of pellets.
- The blended cost of natural gas is ~Rs10/scm. Ispat sources gas from Reliance, PMT and ONGC.
- Currently, the company purchases power at Rs5.5/unit, which is expected to reduce post the commissioning of the 110MW power plant.
- The production cost for sponge iron, pig iron and hot rolled coils is Rs17,500, Rs22,000 and Rs29,000/tonne, respectively.
- The main advantage of using natural gas based plants is that the product quality is superior and the plant can produce both long and flat products, whereas coal-based plants manufacture only long products.
- Maintenance costs are low as gas-based plants undertake 10-15 days of annual maintenance shutdown as compared to coal-based plants, which undergo quarterly shutdown.

Outlook and Valuation

At the CMP, the stock is trading at P/BV of 1.4x and EV/EBITDA of 7.8x FY2010. We believe the future stock performance will be driven by improvement in raw material integration and successful commissioning of the power and coke oven plants.

Key Financials (Consolidated)

Y/E March (Rs cr)	FY2007	FY2008	FY2009	FY2010E
Net Sales	**7,473**	**8,323**	**8,264**	**7,783**
% chg	*48.8*	*11.4*	*(0.7)*	*(5.8)*
Net Profit	**(10)**	**31**	**(690)**	**(253)**
% chg	-	-	-	-
EPS (Rs)	**(0.8)**	**-**	**(6.3)**	**(3.4)**
EBITDA (%)	20.4	14.6	5.3	16.1
P/E (x)	-	-	-	-
P/BV (x)	0.8	0.9	1.2	1.4
RoE (%)	-	0.0	-	-
RoCE (%)	8.3	5.4	-	6.8
EV/Sales (x)	1.4	1.2	1.2	1.2
EV/EBITDA (x)	6.9	7.9	22.4	7.8

Source: Company, Angel Research; Price as on September 8, 2010

Research Analyst - Paresh Jain/Pooja Jain

Bulls in control - Markets may witness Exuberance

Sensex (18800) / Nifty (5640)

In our previous Weekly report, we had mentioned that in view of the narrow range body formation for two consecutive trading sessions, consolidation of the previous rise was being witnessed but not weakness, and expected markets to test higher levels of 18900 - 19050 / 5700 - 5750 in a couple of weeks. The week opened on a strong note and witnessed up-side momentum, which led the indices to close at a new 52-week high of 18800 / 5640 levels. The Sensex ended with net gains of (3.2)%, whereas the Nifty gained (2.9)% vis-à-vis the previous week.

Pattern Formation

- On the **Weekly chart**, prices have given a breakout from the upper trendline of the upward sloping channel, which was acting as a strong resistance zone for several weeks. Further, the momentum oscillators and indicators viz. RSI, Stochastic and ADX are positively poised. This suggests continuation of the upward momentum *(refer Exhibit 1)*.

Future Outlook

The coming week is likely to trade with positive bias. On the upside, we maintain our view that the indices are likely to test 18900 - 19050 / 5700 - 5750 levels in a couple of weeks or could even extend the gains beyond our target levels as the markets may witness a dynamic up-move. On the downside, 18440 - 18321 / 5530 - 5500 levels may act as support for the markets.

Traders with long positions in the range of 5470 - 5400 levels are advised to trail their stop loss to 5460 levels and hold their long positions for the mentioned target levels.

Exhibit 1: Sensex Weekly chart

Source: Falcon

Weekly Pivot Levels For Nifty 50 Stocks

SCRIPS	R2	R1	PIVOT	S1	S2
SENSEX	19,281	19,040	18,582	18,342	17,883
NIFTY	5,757	5,698	5,589	5,531	5,421
BANK NIFTY	11,752	11,599	11,316	11,164	10,881
A.C.C.	1,068	1,024	959	915	850
ABB LTD.	802	793	786	778	771
AMBUJACEM	147	142	134	128	120
AXISBANK	1,423	1,401	1,384	1,362	1,345
BHARAT PETRO	788	770	755	736	721
BHARTIARTL	369	359	349	339	329
BHEL	2,541	2,509	2,451	2,419	2,360
CAIRN	342	334	330	322	318
CIPLA	320	313	309	302	298
DLF	330	326	320	316	309
GAIL	480	471	465	456	450
HCL TECHNOLO	420	415	407	402	393
HDFC BANK	2,301	2,273	2,222	2,194	2,143
HERO HONDA	1,781	1,757	1,725	1,701	1,669
HINDALCO	191	187	180	176	169
HINDUNILVR	292	286	277	271	262
HOUS DEV FIN	650	640	633	623	616
ICICI BANK	1,088	1,069	1,035	1,016	982
IDEA	82	79	75	73	69
IDFC	197	193	187	183	176
INFOSYS TECH	2,975	2,935	2,860	2,820	2,746
ITC	170	166	164	160	158
JINDL STL&PO	739	727	708	696	676
JPASSOCIAT	125	122	118	115	110
KOTAK BANK	893	879	854	840	814
LT	1,927	1,904	1,866	1,843	1,805
MAH & MAH	686	671	643	628	600
MARUTI	1,369	1,342	1,310	1,282	1,250
NTPC	212	207	199	194	185
ONGC CORP.	1,401	1,379	1,349	1,327	1,297
PNB	1,265	1,244	1,223	1,201	1,180
POWERGRID	110	107	106	103	101
RANBAXY LAB.	530	518	511	499	492
RCOM	171	167	164	160	157
REL.CAPITAL	816	799	787	769	757
RELIANCE	998	978	950	931	903
RELINFRA	1,071	1,041	1,024	994	977
RPOWER	163	159	157	153	151
SIEMENS	730	720	710	700	689
STATE BANK	3,138	3,061	2,918	2,841	2,698
STEEL AUTHOR	208	204	198	194	188
STER	174	170	165	161	156
SUN PHARMA.	1,902	1,824	1,770	1,692	1,639
SUZLON	54	53	51	50	49
TATA POWER	1,313	1,287	1,268	1,242	1,223
TATAMOTORS	1,080	1,047	1,028	996	976
TATASTEEL	631	613	578	559	524
TCS	910	892	865	848	820
UNITECH LTD	85	84	82	81	79
WIPRO	423	415	408	401	394

Technical Research Team

5600-5700 is strong resistance zone

Nifty spot has closed at **5640** this week, against a close of **5479** last week. The Put-Call Ratio has increased from **1.38** to **1.48** levels and the annualized Cost of Carry (CoC) is negative **2.53**%. The Open Interest of Nifty Futures has increased by **12.59**%.

Put-Call Ratio Analysis

The Nifty PCR has increased from 1.38 to 1.48 levels. Week on week, a huge build up was visible in the 5500 and 5600 Put options. The 5600 put added around 139000 contracts, which we believe is mainly due to buying, as IV is at a very low level and FIIs are continuously buying Index options. On the other hand, unwinding in most of the call options below 5600 strike and a significant build up in the 5700 and 5800 call options was also observed.

Open Interest Analysis

The total Open Interest of the market is Rs1,90,183cr, as against Rs1,68,133cr last week, and the Stock Futures' open interest increased from Rs46737cr to Rs50,452cr. Some liquid stocks where open interest has increased significantly are BAJAJ-AUTO, DABUR, HINDZINC, GVKPIL and GESHIP. Stocks where open interest has decreased significantly are ISPATIND, GMDCLTD, LUPIN, TV-18 and GTOFFSHORE.

Futures Annual Volatility Analysis

The Historical Volatility of the Nifty has increased from 13.45% to 14.48%. IV of at the money options has decreased from 13.50% to 11.50%. Some liquid counters where HV has increased significantly are STERLINBIO, INDIACEM, ACC, ULTRACEMCO and GODREJIND. Stocks where HV has decreased are TECHM, IFCI, INDHOTEL, VIJAYABANK and TATACOMM.

Cost-of-Carry Analysis

The Nifty Sep. Future closed at a discount of 8.20 points, against a premium of 5.50 points last week and the Oct future closed at a discount of 3.15 points. Few liquid counters where CoC turned from negative to positive are EXIDEIND, IOB, RANBAXY and AXISBANK. Stocks where CoC turned from positive to negative are SBIN, DABUR, TATASTEEL and BHEL.

Derivative Strategy

Scrip : HINDUNILVR | **CMP : Rs. 279.05/-** | **Lot Size : 1000** | **Expiry Date (F&O) :** 30th Sep, 2010

View: Mildly Bearish | **Strategy: Call Hedge**

Buy/Sell	Qty	Scrip	Strike Price	Series	Option Type	Rate (Rs.)
Buy	1000	HINDUNILVR	Fut.	Sep	-	278.00
Buy	1000	HINDUNILVR	280	Sep	Call	4.00

BEP: Rs. 274.00/-

Max. Risk: Rs. 6,000.00/-
If HINDUNILVR closes on or above Rs. 280 on expiry.

Max. Profit: Unlimited
If HINDUNILVR continues to trade below BEP.

NOTE: Profit can be booked before expiry if Stock moves in the favorable direction.

Expected Payoff

Closing Price	Expected Profit/Loss
Rs. 265.00	Rs. 9.00
Rs. 270.00	Rs. 4.00
Rs. 275.00	(Rs. 1.00)
Rs. 280.00	(Rs. 6.00)
Rs. 285.00	(Rs. 6.00)
Rs. 290.00	(Rs. 6.00)

Scrip : NIFTY | **CMP : 5640.05/-** | **Lot Size : 50** | **Expiry Date (F&O) :** 30th Sep, 2010

View: Mildly Bearish | **Strategy: Long Put**

Buy/Sell	Qty	Scrip	Strike Price	Series	Option Type	Rate (Rs.)
Buy	50	NIFTY	5600	Sep	Put	50.00

BEP: 5550.00/-

Max. Risk: Rs. 2,500.00/-
If NIFTY closes on or above 5600 level on expiry.

Max. Profit: Unlimited
If NIFTY continues to trade below BEP.

NOTE: Profit can be booked before expiry if NIFTY moves in the favorable direction.

Expected Payoff

Closing Price	Expected Profit/Loss
Rs. 5375.00	Rs. 175.00
Rs. 5450.00	Rs. 100.00
Rs. 5525.00	Rs. 25.00
Rs. 5600.00	(Rs. 50.00)
Rs. 5675.00	(Rs. 50.00)
Rs. 5750.00	(Rs. 50.00)

Recommended Schemes in Balanced Funds

HDFC Prudence Fund - Growth

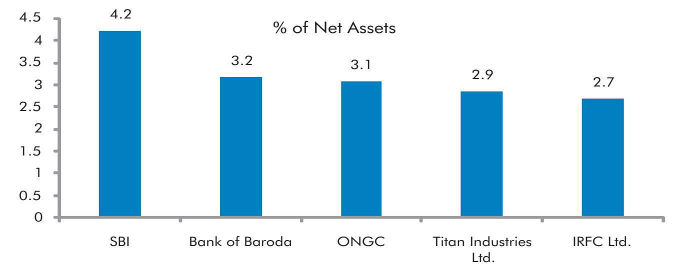
Scheme Objective

The investment objective of the Scheme is to provide periodic returns and capital appreciation over a long period of time, from a judicious mix of equity and debt investments, with the aim to prevent/ minimize any capital erosion.

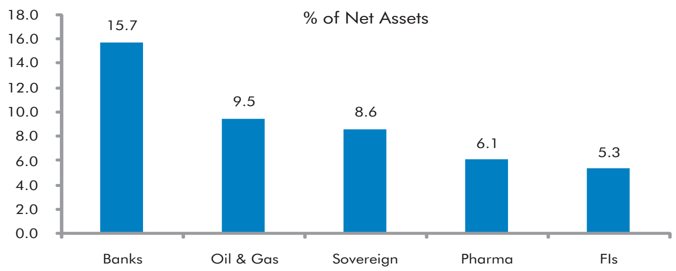
Fund at a Glance

Face Value	10
NAV (6-Sept-10)	211.28
52-Week High (6-Sept-10)	211.28
52-Week Low (7-Sept-09)	151.44
Fund Category	Hybrid
Type	Open Ended
Entry Load	NIL
Exit Load	1% for redemption within 1 year
Minimum Inv.	Rs. 5000
Inception Date	1st February 1994
AUM as on 31-Jul-10	Rs. 4742.43cr
Benchmark Index	Crisil Balanced Fund Index
Fund Manger	Mr. Prashant Jain / Mr. Anand Laddha

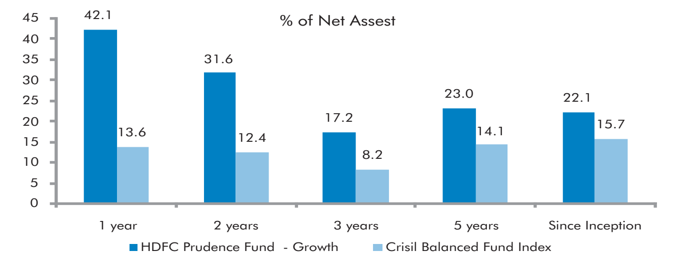
Top 5 Holdings as on 31st July 2010



Top 5 Sectors as on 31st July 2010



Performance Analysis (% Returns)



Note: Returns are as on 6th September, 2010 on CAGR basis

Portfolio Attributes (31-Jul-10)

Large Cap (%)	35.93
Mid Cap (%)	30.08
Small Cap (%)	6.96
Equity (%)	73.43
Bonds (%)	12.84
Gilt (%)	8.59
Debt (%)	21.43
Cash & Equivalent (%)	5.14

Key Ratios

Expense Ratio (%)	1.84
Standard Deviation	0.42
Beta	1
Sharpe	0.45
Jensen	7.08

Ratios as on 6th September 2010 on the Basis of 3 years daily rolling return (CAGR)

Investment Analysis** (as on 6th September 2010)

Company Name	Total Amount Invested	SIP Present Value	Lump sum Present Value
1 year	12,000	12,993	14,588
3 years	36,000	55,813	53,982
5 years	60,000	1,06,309	1,57,614

**SIP Investment of Rs. 1000 per month

Fund Analysis

- In debt, scheme has 13% exposure in AAA bonds and 9% in sovereign papers.
- High Credit Quality of Papers takes care of Credit Risk.
- The fund manager generally invests in Growth, Value Blend oriented stocks and focuses on large and mid cap stocks.
- The scheme has not only outperformed its Benchmark since Inception, but also its peer group schemes in this category.
- This fund has the lowest expense ratio compared to its peers.

Ideal for Investors

- Investment Horizon: Long Term
- Risk Appetite: Moderate

Reliance RSF - Balanced - Growth

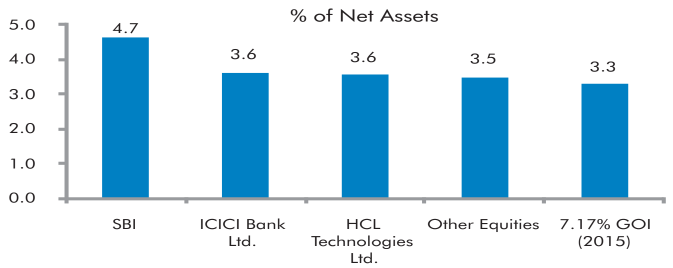
Scheme Objective

The scheme seeks to generate consistent returns and appreciation of capital by investing in a mix of securities comprising of equity, equity related instruments & fixed income instruments.

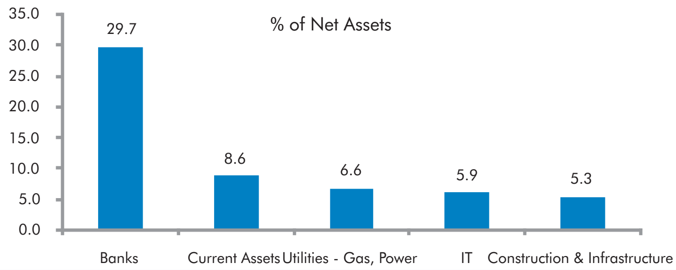
Fund at a Glance

Face Value	10
NAV (6-Sept-10)	23.04
52-Week High (23-Aug-10)	23.19
52-Week Low (3-Nov-09)	17.21
Fund Category	Hybrid
Type	Open Ended
Entry Load	NIL
Exit Load	1% for redemption within 1 year
Minimum Inv.	Rs. 500
Inception Date	8th June 2005
AUM as on 31-Jul-10	Rs. 593.71cr
Benchmark Index	Crisil Balanced Fund Index
Fund Manger	Mr. Amit Tripathy / Mr. Omprakash Kuckien

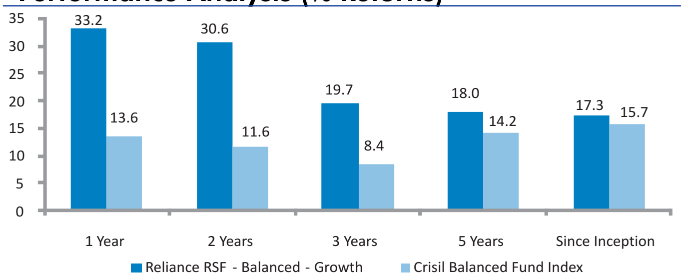
Top 5 Holdings as on 31st July 2010



Top 5 Sectors as on 31st July 2010



Performance Analysis (% Returns)



Note: Returns are as on 6th September, 2010 on CAGR basis

Portfolio Attributes (31-Jul-10)

Large Cap (%)	45.83
Mid Cap (%)	15.89
Small Cap (%)	1.93
Equity (%)	67.14
Debentures (%)	4.78
Gilt (%)	4.15
Debt (%)	8.93
CD/FD	15.29
Cash	8.63
Cash & Equivalent (%)	23.92

Key Ratios

Expense Ratio (%)	2.24
Standard Deviation	0.37
Beta	0.90
Sharpe	0.54
Jensen	9.28

Ratios as on 6th September 2010 on the Basis of 3 years daily rolling return (CAGR)

Investment Analysis** (as on 6th September 2010)

Company Name	Total Amount Invested	SIP Present Value	Lump sum Present Value
1 year	12,000	12,824	14,080
3 years	36,000	54,385	55,944
5 years	60,000	1,04,368	1,34,588

**SIP Investment of Rs. 1000 per month

Fund Analysis

- In debt, scheme has 5% exposure in AAA bonds, 4% in sovereign papers and 15% in P1+
- High Credit Quality of Papers takes care of Credit Risk.
- The fund manager generally invests in Growth, Value Blend oriented stocks and focuses on large cap stocks.
- It has outperformed its benchmark since inception.

Ideal for Investors

- Investment Horizon: Long Term
- Risk Appetite: Moderate

Currencies Weekly Performance Snapshot

The US Dollar Index (DX) gained almost 1% in this week as uncertainty over the global economic front boosted demand for the low-yielding currency. Worries over the debt crisis in the Euro Zone re-emerged after a report by the Wall Street Journal triggered negative sentiments as it indicated that the European bank stress tests underestimated the exposure of some major banks to sovereign debt. On the back of this, the Euro slumped 1.4% in this week and touched a low of 1.2657. Another factor that added downside pressure on the Euro was news that German banks would require 100 billion Euros more capital if new global banking rules are passed. The Indian Rupee appreciated slightly by 0.3% in this week, taking cues from continuing inflows in the country coupled with stable domestic equities. The Nifty gained 160 points till Thursday and the rise in equities raised hopes of capital inflows, thereby supporting rise in the Rupee.

Exhibit 1: Currencies Performance

Currency	4-Sep	9-Sep	Chg	% Chg
DX	82.02	82.62	0.6	0.7
Euro	1.2893	1.2712	(0.0181)	(1.4)
INR	46.63	46.47	(0.16)	(0.3)
JPY	84.40	83.69	(0.71)	(0.8)
GBP	1.5445	1.5400	(0.004)	(0.3)

Source: Telequote

Economic growth in the US is decelerating....

The major economic data release from the US this week was the Beige Book. The Fed Beige Book indicated that the US economy had recovered at a moderate pace but continued to shows signs of deceleration. High level of unemployment coupled with slow growth in the world's largest economy is a major concern. The US Federal Reserve is expected to maintain interest rates at record lows and this is also expected to add to the economic woes of the world's largest economy. Conditions in the world's largest economy continued to remain under doubt as a survey by 12 Fed regional banks indicated that five reported conditions were decelerating.

Data indicated that residential real estate sales markets weakened to very low levels. However, New York City's rental market continued to improve at a modest pace. President Barack Obama unveiled a $50 billion infrastructure plan in order to create jobs over the long-term by reconstructing roads, railways and airports. This factor is expected to be supportive for base metals as investment in infrastructure will raise demand for industrial metals. The President is also announced a $100 billion plan to permanently extend tax credit for R&D.

Concerns over European economy re-emerge

Investor confidence index in the Euro Zone showed that investor sentiment fell more than expected from its 30-month high to 7.6 from 8.5 in August. Factory orders in Germany declined unexpectedly by 2.2% in the month of July as demand in the Euro Zone weakened. This has been the biggest drop since February 2009. European Central Bank (ECB) Governing Council member Axel Weber said that the global financial crisis is not yet over and setbacks cannot be ruled out. He also added that the direct and indirect consequences of the crisis may take years to settle. The ECB also released its monthly bulletin in this week which suggested that global recovery continues but at a modest pace amid mixed economic data. The central bank also added that global recovery may slow down in the second-half of this year.

Fundamental and Technical Outlook

Macroeconomic concerns are currently dominating market sentiments. In this week too, we expect economic scenario in the US and the Euro Zone to play a crucial in providing further direction. Since uncertainty over global economic growth persists, we expect the DX to strengthen. The Euro is expected to remain under pressure in the near-term as poor economic data from the Euro Zone in the last few days coupled with fears over the impact of the debt crisis in the long run will reduce the appeal of the currency. The Indian Rupee will take cues from the risk sentiments in the financial markets, domestic equities and FII inflows. Foreign institutional investors (FIIs) bought shares worth Rs 201.30cr on Tuesday, 7 September 2010. On a year-to-date basis, FII inflow stood at Rs 62,321cr.

Exhibit 2: Technical Levels

Currency	Support	Resistance
DX	81.40	83.50
Euro	1.2510	1.3000
INR	46.10	47.05
JPY	82.65	86.00
GBP	1.5180	1.5655

Source: Telequote

Research Analyst (Commodity) - Reena Walia Nair

Commodities Update

Exhibit 1: Commodities Weekly Performance

	9th Sep. 2010	4th Sep. 2010	% Change
Non Agri- Commodities (MCX)			
Top Gainers			
Nickel	1054.8	1020.8	3.3
Crude Oil	3505	3471	1
Gold	19074	18971	0.5
Top Losers			
Natural Gas	179.8	183.7	-2.1
Agri Commodities (NCDEX/MCX)			
Top Gainers			
Maize	1148.5	1096	4.79
Turmeric	12610	12192	3.43
Mentha	825.8	799.8	3.25
Jeera	13945	13800	1.05
Top Losers			
Guar	2055	2151	-4.46

International Perspective: In the international commodities space, sentiments remained mixed on the back of uncertainty over the global economic scenario. The week began with concerns over the European debt crisis and the fragility of the banking system in the Euro Zone. But by mid-week these concerns fizzled out on improved demand for Portugal and Poland bonds. Economic concerns eased after a sale of Portugal's bonds which is due in 2021 attracted bid for 2.6 times the amount offered. Although, the Euro witnessed strength on the back of bond sales we feel that downside risks persists as growth in the Euro Zone may not be sustainable on the back of the impact of the debt crisis. The latest Fed Beige Book indicated that the US economy had recovered at a moderate pace but continued to show signs of deceleration. High level of unemployment coupled with slow growth in the world's largest economy is a major concern. The US Federal Reserve is expected to maintain interest rates at record lows and this is also expected to add to the economic woes of the world's largest economy.

Nickel prices outperformed the base metals pack in this week, gaining 3.3% on the MCX till Thursday. Physical nickel premiums held steady in the first week of September despite a rise in demand for the metal. What added to the upside in prices was optimism over a rise in consumption of nickel. Consumption of the metal is expected to rise 14% in the fourth-quarter on the back of higher stainless steel production in China.

Natural Gas prices declined more than 2% in this week as moderating temperatures in the US coupled with concern over rising supplies put pressure on prices.

Agri Perspective: In the agri segment **Maize** continued to rule firm in the last week with prices surging by 4.8 percent due to price supportive fundamentals. Lower global carryover stocks of corn and shrinking world supplies of wheat has supported the prices to strengthen. Also, reports of demand for the commodity from Indonesia and Philippines due to freight advantage are adding to the gains. **Mentha** traded firm in the last week and surged by 3.25 % due to supportive fundamentals. Production of mentha is projected to be lower by around 25% and is projected at 25-27 thousand tonnes in 2010. Lower availability is helping bulls in the domestic market. Most of the spices which witnessed correction, bounced from support levels due to expected demand from domestic buyers ahead of festivals. Turmeric recovered from earlier losses and firmed due to bargain buying at lower levels. Among the losers, **Guar** which traded firm in the previous week shed the earlier gains and dipped to lows of Rs.2,039/qtl and ended in red by 4.5%.

Exhibit 2: Major Economic Data Releases this week

Date	Country	Indicator	Forecast	Previous
14-Sep	EURO	German Eco Sentiment	-	14.0
14-Sep	US	Retail Sales	-	0.4%
16-Sep	US	PPI	-	0.2%
16-Sep	US	Philly Fed Mfg Index	-	-7.7
17-Sep	US	Prelim Consumer Sentiment	-	68.9

Outlook: Macroeconomic uncertainty continues to dominate market sentiments. Slow recovery in the US coupled with fears over European debt crisis will affect risk appetite in the financial markets. On the back of these concerns we expect base metals and crude oil to come under pressure. Oil prices will also feel downside pressure due to concern over demand and rising inventories. Gold prices are expected to rise as economic uncertainty will continue to provide upside support to prices. Festive season demand in India is also supportive to gold.

In the Agri segment this week prices in Oil Complex are expected to recover particularly Mustard / Rape Mustard Seed with revival of demand from the local stockists. Most of the Spices are also expected to find support and strengthen due to price supportive fundamentals. Premium prices of Syrian jeera in the international market will drive overseas buyers to cheaper destinations such as India. Indian jeera is being offered at $3,000/tonne whereas Syria is offering its origin at $3,300/tonne.

Research Analyst (Commodity) - Nalini Rao/ Reena Walia Nair

Kapas

Kapas prices on NCDEX gained more than 10% since last 2 weeks due to delay in harvesting in India and tightening global supplies. Cotton harvest in India may be delayed because of an extended monsoon in the current season. Estimates of lower Cotton output in Pakistan due to recent floods and drop in productivity in China due to excessive low temperatures is also supporting the Cotton prices. Kapas April 2011 contract on NCDEX, since its launch in April 2010, tested a low of Rs. 570 and a high of Rs. 642 per 20 kgs till mid August and are currently trading higher at around Rs. 700 per 20 kgs. Uptrend is expected to continue in the coming months due to supportive fundamentals.

Indian Cotton Scenario: In India, total cotton acreage is reported higher at around 110 lakh hectares in 2010-11 compared to 103.29 lakh hectares in 2009-10 and 94.06 lakh hectares in 2008-09 (Source CAB). In the Northern states in Punjab, the cotton acreage is at par with last year level and has been estimated at 5.30 lakh hectares as against 5.36 lakh hectares in previous year. However, in Haryana and Rajasthan, the acreage under cotton has decreased by around 12% and 43% at 4.45 and 2.54 lakh hectares respectively as compared to last year. Crop is likely to be delayed by 15 days in Northern zone due to intermittent rains and late sowing.

Exhibit 1: Cotton Balance Sheet

	2008-09	2009-10	2010-2011*
Opening stock	35.5	71.5	40.5
Crop size	290	295	325
Imports	10	7	5
Total Supply	**335.5**	**373.5**	**370.5**
Mill consumption	190	207	
Small Mill consumption	20	23	246
Non-Mill consumption	19	20	20
Total consumption	229	250	266
Export	35	83	49.5
Total Demand	**264**	**333**	**315.5**
Carry forward	***71.5***	***40.5***	***55***

Source: Cotton Advisory Board (Note: Quantity in lakh bales of 170 kgs each)

Cotton acreage is reported higher in Maharashtra at 40 lakh hectares compared to 35 lakh hectares in 2009-10. Acreage under Cotton in Gujarat remained unchanged at 26 lakh hectares. Whereas, in Karnataka, acreage increased to 17 lakh hectares against 14.83 in 2009-10.

The Cotton Advisory Board, in its meeting held on 27th August 2010 has projected cotton production in the country in the ensuing cotton season 2010-11 at 325.00 lakh bales as against 295.00 lakh bales in the 2009-10. During the last season, the closing stock was 40.5 lakh bales of cotton. With domestic consumption estimates of 220 lakh bales, the country may have a closing stock of 50-55 lakh bales at the end of the 2010-11.

Global Cotton Scenario: Global Cotton Production is estimated higher at 25.11 million tones in 2010-11 compared to 21.75 million tones in 2009-10 (Source: ICAC). China has reported a drop in its production from 6.8 million tons to 6.4 million tons due to excessive low temperatures and rains. China is expected to increase its import from USA from 10.94 million bales to about 12.5 million bales to meet its local demand. The recent flashfloods in Pakistan has ruined about 2.5 million tones of the crop worth about Rs 75 billion. Pakistan is expected to import most of its cotton requirement from India to meet its demands because of the low transportation cost involved.

Cotton futures in New York reached 91.18 cents a pound on Sept. 7, the highest closing price in 15 years on concern that crops in the US, China and Pakistan are being damaged by heavy rains.

Exhibit 2: Price trend

Source: Telequote

Outlook: In the short to medium term, Kapas prices are expected to remain firm due to increasing demand for quality cotton amidst lower ending stocks and delay in arrivals. Also, tightening global supplies would lead to higher export demand thereby supporting the prices. Any significant decline in the prices may be treated as a good buying opportunity for long term. Technically, Kapas April 2011 contract shall find strong support at Rs.682/Rs.670 and resistance may be seen at Rs.709/ Rs.720.

Research Analyst (Commodity) - Vedika Narvekar

Disclaimer

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

Address: Acme Plaza, 'A' Wing, 3rd Floor, M.V. Road, Opp. Sangam Cinema, Andheri (E), Mumbai - 400 059.
Tel : (022) 3952 4568 / 4040 3800

Research Team

Fundamental:

Sarabjit Kour Nangra	VP-Research, Pharmaceutical	sarabjit@angeltrade.com
Vaibhav Agrawal	VP-Research, Banking	vaibhav.agrawal@angeltrade.com
Vaishali Jajoo	Automobile	vaishali.jajoo@angeltrade.com
Shailesh Kanani	Infrastructure, Real Estate	shailesh.kanani@angeltrade.com
Anand Shah	FMCG , Media	anand.shah@angeltrade.com
Deepak Pareek	Oil & Gas	deepak.pareek@angeltrade.com
Sushant Dalmia	Pharmaceutical	sushant.dalmia@angeltrade.com
Rupesh Sankhe	Cement, Power	rupeshd.sankhe@angeltrade.com
Param Desai	Real Estate, Logistics, Shipping	paramv.desai@angeltrade.com
Sageraj Bariya	Fertiliser, Mid-cap	sageraj.bariya@angeltrade.com
Viraj Nadkarni	Retail, Hotels, Mid-cap	virajm.nadkarni@angeltrade.com
Paresh Jain	Metals & Mining	pareshn.jain@angeltrade.com
Amit Rane	Banking	amitn.rane@angeltrade.com
John Perinchery	Capital Goods	john.perinchery@angeltrade.com
Srishti Anand	IT, Telecom	srishti.anand@angeltrade.com
Jai Sharda	Mid-cap	jai.sharda@angeltrade.com
Sharan Lillaney	Mid-cap	sharanb.lillaney@angeltrade.com
Amit Vora	Research Associate (Oil & Gas)	amit.vora@angeltrade.com
V Srinivasan	Research Associate (Cement, Power)	v.srinivasan@angeltrade.com
Mihir Salot	Research Associate (Logistics, Shipping)	mihirr.salot@angeltrade.com
Chitrangda Kapur	Research Associate (FMCG, Media)	chitrangdar.kapur@angeltrade.com
Vibha Salvi	Research Associate (IT, Telecom)	vibhas.salvi@angeltrade.com
Pooja Jain	Research Associate (Metals & Mining)	pooja.j@angeltrade.com
Yaresh Kothari	Research Associate (Automobile)	yareshb.kothari@angeltrade.com
Shrinivas Bhutda	Research Associate (Banking)	shrinivas.bhutda@angeltrade.com
Sreekanth P.V.S	Research Associate (FMCG, Media)	sreekanth.s@angeltrade.com
Hemang Thaker	Research Associate (Capital Goods)	hemang.thaker@angeltrade.com

Technicals:

Shardul Kulkarni	Sr. Technical Analyst	shardul.kulkarni@angeltrade.com
Mileen Vasudeo	Technical Analyst	vasudeo.kamalakant@angeltrade.com

Derivatives:

Siddarth Bhamre	Head - Derivatives	siddarth.bhamre@angeltrade.com
Jaya Agarwal	Derivative Analyst	jaya.agarwal@angeltrade.com

Institutional Sales Team:

Mayuresh Joshi	VP - Institutional Sales	mayuresh.joshi@angeltrade.com
Abhimanyu Sofat	AVP - Institutional Sales	abhimanyu.sofat@angeltrade.com
Nitesh Jalan	Sr. Manager	niteshk.jalan@angeltrade.com
Pranav Modi	Sr. Manager	pranavs.modi@angeltrade.com
Sandeep Jangir	Sr. Manager	sandeepp.jangir@angeltrade.com
Ganesh Iyer	Sr. Manager	ganeshb.Iyer@angeltrade.com
Jay Harsora	Sr. Dealer	jayr.harsora@angeltrade.com
Meenakshi Chavan	Dealer	meenakshis.chavan@angeltrade.com
Gaurang Tisani	Dealer	gaurangp.tisani@angeltrade.com

Production Team:

Bharathi Shetty	Research Editor	bharathi.shetty@angeltrade.com
Simran Kaur	Research Editor	simran.kaur@angeltrade.com
Bharat Patil	Production	bharat.patil@angeltrade.com
Dilip Patel	Production	dilipm.patel@angeltrade.com

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