

Dealer's Diary

The key benchmark indices slumped on worries over the pace of the US economy's recovery. IT stocks fell after the Union Cabinet approved the new Direct Taxes Code bill, wherein it proposed a hike in MAT on book profits to 20% from the prevailing 18%. The market recovered from the lower level at the onset of the trading session. The intraday recovery gathered strength in morning trade as Asian stocks came off lows, led by recovery in Japanese shares. The market extended losses to hit fresh intraday lows in mid-afternoon trade as European stocks extended initial losses and slumped in late trade. The Sensex and Nifty closed down 1.3% each, while the BSE mid-cap and small-cap indices closed lower by 1% and 1.3%, respectively. Among the front liners, ONGC, Tata Steel, RCOM and ACC gained 0–3%, while DLF, Hero Honda, ICICI Bank, Tata Power and JP Associates lost 2–3%. Among mid caps, FDC, Ispat Ind., Eicher Motors, Havells and Escorts gained 3–11%, while J&K Bank, Jubilant Food., Great Offshore, Puravankara and MVL declined 5–7%.

Markets Today

The trend deciding level for the day is 18064 / 5432 levels. If NIFTY trades above this level during the first half-an-hour of trade then we may witness a further rally up to 18183 – 18368 / 5472 - 5535 levels. However, if NIFTY trades below 18064 / 5432 levels for the first half-an-hour of trade then it may correct up to 17879 – 17759/5369 - 5329 levels.

Indices	S2	S1	R1	R2
SENSEX	17,759	17,879	18,183	18,368
NIFTY	5,329	5,369	5,472	5,535

News Analysis

- ABG Shipyard sells 4.7% stake in Great Offshore
- Corus to sell Teesside plant to Thai company for US \$500mn
- Ranbaxy to launch generic version of Valcyte in March 2013
- ONGC's royalty on Rajasthan field cut; possible obstacle to Vedanta-Cairn deal removed

Refer detailed news analysis on the following page.

Net Inflows (August 26, 2010)

Rs cr	Purch	Sales	Net	MTD	YTD
FII	3,652	3,496	157	10,407	58,348
MFs	714	737	(23)	(2,891)	(15,514)

FII Derivatives (August 27, 2010)

Rs cr	Purch	Sales	Net	Open Interest
Index Futures	3,652	3,496	157	11,447
Stock Futures	714	737	(23)	(2,891)

Gainers / Losers

Gainers			Losers		
Company	Price (Rs)	chg (%)	Company	Price (Rs)	chg (%)
Ispat Ind.	19	4.5	Great Offshore	372	(5.8)
Havells India	814	3.5	Bombay Dyeing	570	(4.1)
Cummins India	729	3.0	McLeod Russel	234	(4.1)
ONGC	1,318	2.9	Jai Corp	258	(3.8)
GAIL	459	2.5	Hind Copper	408	(3.7)

Domestic Indices	Chg (%)	(Pts)	(Close)
BSE Sensex	-1.3%	(227.9)	17,998
Nifty	-1.3%	(69.2)	5,409
MID CAP	-1.0%	(73.2)	7,635
SMALL CAP	-1.3%	(126.8)	9,641
BSE HC	-0.8%	(42.6)	5,536
BSE PSU	-0.3%	(30.7)	9,695
BANKEX	-2.1%	(258.6)	12,216
AUTO	-0.8%	(73.8)	8,710
METAL	-0.5%	(80.5)	14,911
OIL & GAS	0.4%	35.9	10,092
BSE IT	-1.8%	(101.1)	5,408
Global Indices	Chg (%)	(Pts)	(Close)
Dow Jones	1.7%	164.8	10,151
NASDAQ	1.6%	34.9	2,154
FTSE	0.9%	45.7	5,202
Nikkei	0.9%	84.6	8,991
Hang Seng	-0.1%	(14.7)	20,597
Straits Times	0.4%	12.9	2,939
Shanghai Com	0.3%	7.3	2,611

Indian ADRs	Chg (%)	(Pts)	(Close)
Infosys	-0.5%	(0.3)	\$58.0
Wipro	4.1%	0.5	\$13.1
Satyam	0.0%	-	\$4.5
ICICI Bank	0.4%	0.1	\$41.5
HDFC Bank	1.8%	2.8	\$162.5

Advances / Declines	BSE	NSE
Advances	868	303
Declines	2,122	1,071
Unchanged	73	30

Volumes (Rs cr)	BSE	NSE
BSE	5,303	
NSE		13,142

ABG Shipyard sells 4.7% stake in Great Offshore

ABG Shipyard (ABG) has sold a 4.66% stake in Great Offshore (GOF) at Rs371/share for Rs64.5cr through an open market transaction. ABG has been gradually offloading the 15% stake in GOF acquired during the open offer at Rs520/share. So far, it has offloaded around 14% stake in GOF at an average price of Rs421.7/share, thereby incurring loss of ~Rs53cr. However, we believe the stake sale will help the company to ease its liquidity and net D:E (~3.0x as of FY2010) position going forward. At the CMP, ABG is trading at 6.1x FY2012E earnings, 7.1x FY2012E EV/EBITDA and 1.1x FY2012E P/BV. **We maintain an Accumulate rating on the stock with a Target Price of Rs271.**

Corus to sell Teesside plant to Thai company for US \$500mn

After months of negotiations, Corus has decided to sell its Teesside cast products (TCP) plant to Thailand's Sahaviriya Steel (SSI). Corus has signed an MoU with SSI to sell its TCP business for US \$500mn (GBP 320mn). The assets covered by the MoU include the Redcar and South Bank coke ovens, TCP's power generation facilities and sinter plant, the Redcar blast furnace and the Lackenby steelmaking facilities. The sale agreement would also result in Corus and SSI operating Redcar Wharf (TCP's bulk terminal) as a joint venture, giving Corus the flexibility to carry out its other steelmaking operations, while also meeting SSI's requirements. If the deal is successfully concluded, the company expects to restart operations at the TCP plant in the first half of 2011.

We believe the deal is a positive development for Tata Steel as the operations at Teesside were unviable after its four key clients walked away from a long-term contract in 2009 (about 80% of TCP's business). Moreover, the decision to mothball the TCP plant had sparked strong political and labour opposition as it had put risk on jobs of over 700 employees. At the CMP, Tata Steel is trading at 5.8x FY2011E and 5.1x FY2012E EV/EBITDA. **We maintain our Buy recommendation on Tata Steel with an SOTP-based Target Price of Rs702.**

Ranbaxy to launch generic version of Valcyte in March 2013

Ranbaxy will launch the generic version of Roche's Valcyte drug in March 2013, two years before the patent expiry as part of the settlement. The company expects to have 180-day exclusivity of the product. Valcyte, the anti-viral drug, posted global sales of US \$287mn for the first half of 2010. We expect the product to contribute an NPV of Rs2.5 per share (net sales of US \$52mn and net profit of US \$31mn) during the exclusivity period. **We recommend Neutral on the stock.**

ONGC's royalty on Rajasthan field cut; possible obstacle to Vedanta-Cairn deal removed

ONGC is set to get permission from the Centre to pay only one-third of its total royalty obligation to the Rajasthan government on the revenue earned from oil blocks owned by Cairn India, removing a possible obstacle to the Vedanta-Cairn deal and saving the oil explorer an annual outgo of US \$350mn.

It is said that the Centre has acceded to ONGC's plea that its share of the royalty outgo be restricted to 30% of the total amount, mirroring its corresponding interest in the oil block. The Centre will compensate the Rajasthan government for the remaining amount though the modalities of the compensation have not yet been finalised. ONGC was upset that while Cairn Energy was selling its stake in its Indian subsidiary to Vedanta for up to US \$8.5bn, it was making just US \$2/bbl from the oil blocks because of its high royalty payment.

The settlement on the royalty issue is likely to result in ONGC dropping its objections to the transaction, even though it leaves the Centre with no option but to take care of a large part of the royalty bill. Unhappy with its royalty outgo, which is estimated to be US \$2bn over the life of the asset, ONGC had written to Cairn about two months ago, expressing its desire to give up its interest in the Rajasthan oil block. ONGC had also written to the petroleum ministry that it was not commercially viable to remain invested as a licensee in this block as its returns on the investments were negative. In fact, with every barrel increase in production, the cost for ONGC went up further and led to higher losses.

While the option of ONGC exiting the oil blocks remains on the table, government officials said it was unlikely that Cairn, Vedanta or any other company would absorb the PSU's large royalty obligations. The petroleum ministry said that the only way out is for the government to step in, cap ONGC's royalty burden and take the hit.

We believe restricting the royalty burden to 30% will come as a major relief to ONGC's shareholders and remove an overhang from the stock. **We maintain an Accumulate rating on ONGC with a Target Price of Rs1,256, and a Neutral rating on Cairn.**

Economic and Political News

- Core infrastructure industries output up 3.9% in July 2010
- Auto component industry to touch US \$110bn by 2020: ACMA
- Gujarat Government has earmarked Rs350cr for infra, tourism development

Corporate News

- Jindal Power's Rs13,000cr project gets initial 'Green' nod
- PFC to divest up to 20% through public issue: Government
- TCS signs Rs130cr e-governance contract with Madhya Pradesh

Source: Economic Times, Business Standard, Business Line, Financial Express, Mint

Events for the day	
Birla Power	Dividends, Results
Ruchi Infra	Dividends, Results
Usher Agro	Results

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Ratings (Returns) :

 Buy (> 15%)
 Reduce (-5% to -15%)

 Accumulate (5% to 15%)
 Sell (< -15%)

Neutral (-5 to 5%)

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