

### Marked slowdown in earnings

For Q2 FY09, we expect India Inc. to report muted earnings growth (11.6% yoy) in comparison to those in the previous quarters. With result season kicking off on a disappointing note (IT majors Infosys, Satyam and HCL Tech along with L&T failing to cheer the street), any further disappointment by index heavyweights could worsen sentiment on the street. Auto, Cement, Non-Ferrous Metals, Pharma and Utility sectors are expected to report weak set of numbers whereas Oil & Gas, Telecom and Steel companies are likely to report higher earnings growth on yoy basis. A big chunk of growth for Oil & Gas and Steel companies will primarily be on account of improved realizations rather than higher volumes.

### IT: Lowered expectations to be met

With important results (Infosys, Satyam and HCL Tech) already out, we do not see any major surprises (positive or negative) from remaining IT firms. While the announced Q2 FY09 numbers are in-line with our expectations, guidance and management commentary have deteriorated. Street expectations, have been further lowered for the remaining firms and should be met comfortably. We expect the large IT companies, to trade in a narrow range (+/- 15%) over next 4-6 months. A major trigger for further de-rating or re-rating would be enhanced clarity on the FY10 revenue growth outlook.

### FMCG: Growth momentum to continue

We expect the companies in our coverage universe to record revenue growth in the range of ~13-25% in Jul-Sep'08 quarter. Prices of key raw materials like milk, sugar, copra, tobacco, LAB and soda ash have increased sharply during the quarter, which will put pressure on operating margins. Most players have hiked prices (in the range of ~3-15%) and reduced pack sizes to mitigate rising input prices. However, with the recent sharp correction in prices of LAB (down by 12% from its peak of Rs122/Kg in Aug'08), crude oil and palm oil, the sector companies could witness healthy margin expansion in coming quarters. We remain bullish on ITC, HUL and Nestle.

### Telecom: Momentum to continue

Bharti Airtel and Idea Cellular are likely to register about 45-55% yoy increase in revenues while RCom would grow slower at about 21.1% yoy. ARPU's are not expected to decline qoq materially in the quarter. Revenue per minute is likely to maintain its downward trend, though the fall would be less sharp relative to Q1 FY09. Operating margins are likely to decline on a yoy basis but remain similar to previous quarter levels. Bharti is likely to witness the highest yoy

net profit growth at 33% amongst the three companies. Additionally, in case of RCom, forex exposure could weigh on quarterly numbers as it had unhedged foreign currency exposure worth US\$3.2bn.

### Oil & Gas: Only realization gains

Upstream companies will post a relatively stable quarterly performance in comparison to the rest of the industry in Q2 FY09. ONGC and Cairn India, may lose out on realizations following a fall in crude oil prices, but are beneficiaries of depreciation in INR. Chennai Petroleum will report subdued numbers as fall in GRMs impact earnings. Reliance Industries will post a relatively muted set of numbers as fall in GRMs would be marginally compensated with moderate expansion in petrochemical spreads. GAIL and Indraprastha Gas are expected to report strong set of numbers, whereas Petronet LNG is likely to report dip in profits.

### Metals: Non-Ferrous to disappoint

Strong realizations and depreciating rupee will boost metals' sector topline and bottomline. Steel prices in Q2 FY09 were ~30% higher yoy and ~5% higher on a qoq basis. Rise in steel realisations coupled with increased volume growth will lead to a 33.8% yoy growth in our steel universe. Non-ferrous firms will register an 8.7% yoy fall in topline due to falling LME prices. The impact of falling metal prices has been slightly offset by depreciating rupee. Among metals, we see JSPL outperforming, with a growth of 51.8% yoy in bottomline and HZL to underperform, with a fall of 37.8% yoy in bottomline.

### Outlook

Concerns pertaining to liquidity crunch, slowdown in IIP numbers and downgrades in GDP growth have overshadowed positive measures such as CRR cut and easing norms for FII inflows. Corporate earnings growth is also expected to be muted on the back of high interest costs and forex losses. Global credit crisis and headwinds in the domestic economy have driven heavy selling by FIIs in India. Over the last five days, FIIs have sold stocks worth Rs5,042cr. YTD, their sale stands at Rs47,838cr.

*As recommended in our previous editions of Weekly Wrap, Nifty saw a sustained downtrend. Our first target of 3,300 was hit within four days and we are within touching distance of our second target of 3,000. We maintain our stance that the Nifty is yet to find a bottom. We expect Nifty to trade within a range of 2,800-3,000 levels on the lower side. On the upside, we believe intermediate resistance will be witnessed at 3,350 levels.*

### Sector-wise Q2 FY09 preview

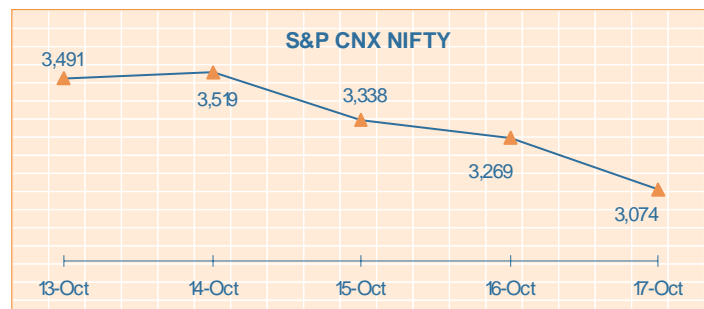
Sector	Revenues (Rs cr)	yoy growth (%)	OPM (%)	Inc/Dec (bps)	Net profit (Rs cr)	yoy growth (%)	No. of comp
Auto*	19,227	11.9	9.3	(281)	1,138	(11.9)	5
Banking	22,390	19.4	-	-	6,068	10.8	10
Cement*	8,072	8.6	25.4	(868)	1,280	(13.8)	5
IT**	14,650	(87.2)	23.2	-	2,617	(88.5)	4
Metals*	38,695	14.4	30.8	250	7,817	3.0	8
Hotels	519	3.7	33.0	(170)	102	(6.6)	3
Telecom	17,040	37.0	39.8	(160)	4,020	26.9	3
FMCG	12,264	19.3	18.7	(171)	1,790	9.8	9
Oil & Gas	77,754	28.7	24.1	(218)	11,065	8.0	7
Power	14,469	24.3	23.0	(560)	2,494	(0.5)	4

Source: India Infoline Research \* Certain companies number are taken on a standalone basis. \*\* Result announced are not covered into the preview table

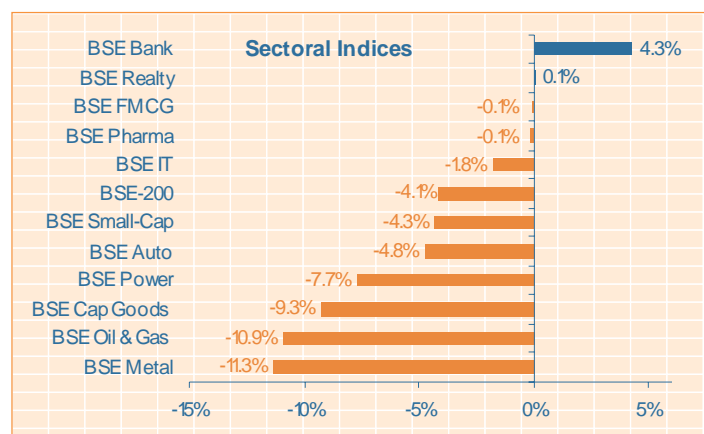
# India Infoline Weekly Wrap

## Market review

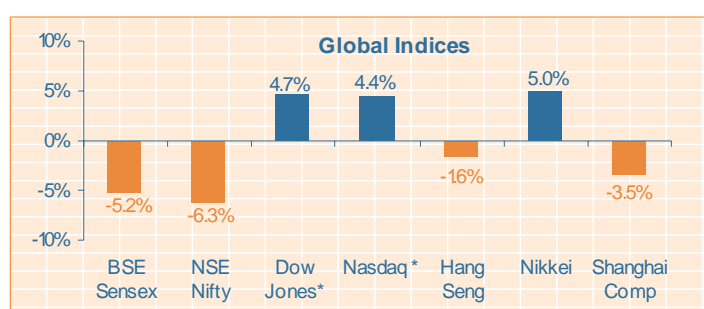
Despite a spate of positive steps taken by the RBI and SEBI to shore up liquidity, encourage dollar inflows and check relentless slide in the stock market, the benchmark indices continued to tumble. Weak global markets played spoilsport yet again. In addition, concerns about a slowing economy and muted corporate profit growth dragged the BSE Sensex below 10,000 mark for the first time since July 2006, down by 5.2% during the week. The NSE Nifty slumped 6.3% to 3,074.



Metal shares were yet again bore the brunt of the selloff on worries that an impending global recession will hurt demand for industrial metals. Tata Steel and SAIL were among the major losers. Heavy offloading of shares in Index heavyweight RIL over the week brought the Oil & Gas stocks sharply lower. Capital goods, power and IT stocks were the other big losers. However, banking stocks bucked the negative trend to close the week higher.



The US and European governments' plan to pump billions of dollars into banks and revive the credit markets failed to enthuse investors. There is still considerable skepticism about the effectiveness of these measures and its impact on the world economy. Sentiment was hit after a series of bad economic reports reinforced a growing view that the US may not be able to avert a recession. Growing fears about the impact of a prolonged global recession on other economies dragged Asian and European markets down.



\*As on Thursday

## FII & MF activity

(Rs cr)

Date	FII Net Investment	MF Net Investment
10-Oct	(848)	(118)
11-Oct	(2,323)	315
13-Oct	(842)	520
14-Oct	(189)	(263)
15-Oct	(840)	(383)
Total 2008	(47,838)	11,999

## BSE Sensex & BSE 200 Top Five Gainers

BSE Sensex			BSE 200		
Company	CMP (Rs)	% Chg	Company	CMP (Rs)	% Chg
HUL	242	8.9	Mphasis	175	32.4
ICICI Bank	391	7.6	Glenmark	460	29.1
Satyam Comp	266	6.1	Chambal Fert	40	24.7
SBI	1,419	5.0	Bata	104	20.8
HDFC	1,782	3.5	HPCL	236	19.6

## BSE Sensex & BSE 200 Top Five Losers

BSE Sensex			BSE 200		
Company	CMP (Rs)	% Chg	Company	CMP (Rs)	% Chg
Hindalco	64	(21.0)	Orchid Chem	264	(28.5)
Tata Motors	243	(16.7)	Kirloskar Bro	141	(27.3)
ONGC	776	(15.3)	Reliance Cap	70	(25.2)
RIL	1,306	(14.5)	BF Utilities	604	(23.3)
Tata Steel	248	(13.8)	IVRCL Infra	896	(22.5)

## Bulk deals

Date	Institution	Scrip name	B/S	Qty (lacs)	Price
14-Oct	CLSA	Gujarat NRE	S	22.2	38
14-Oct	Morgan Stan	Moser-baer	B	11.9	130
15-Oct	Credit Suisse	Eicher Motors	S	1.5	201
15-Oct	Goldman Sach	United Phosph	S	19.0	228
16-Oct	Fidelity Funds	Ibolls Real Est	S	30.6	101

## Stocks in No-Delivery period

Company	From	To
Areva T&D	21-Oct-08	28-Oct-08
Arrow Webtex	29-Oct-08	05-Nov-08

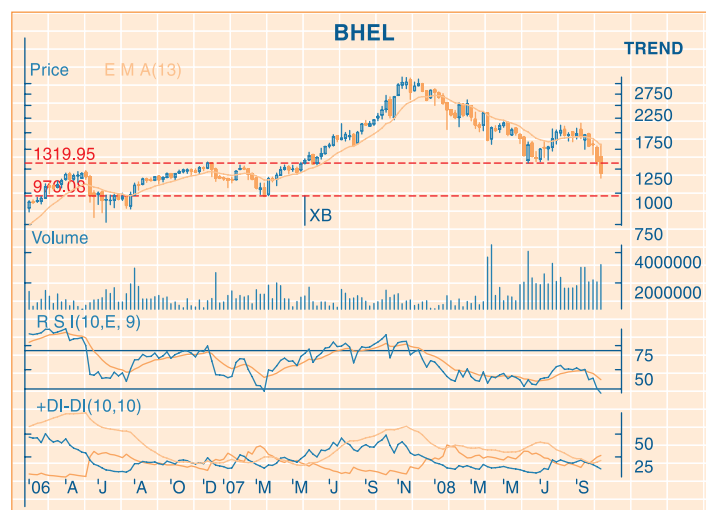
## Insider trades

Company	Name	B/S	Qty ('000)
XL Telecom	Dinesh Kumar	B	84.2
Sanghvi Movers	Chandrakant Sanghvi	B	2.9
Kotak Mahindra Bank	C. Jayaram	S	20.0
Gitanjali Gems	Mehul C. Choksi	B	207.9
Man Industries	Ramesh Mansukhani	B	6.5

# India Infoline Weekly Wrap

## Technical ideas

**BHEL** **SELL**  
CMP Rs1,192



The stock achieved its peak at Rs2,925 levels in November 2007 and corrected to a low of Rs1,325 levels in June 2008. Since then, it saw a pullback rally to Rs1,910 levels in July 2008.

The decline from July highs has taken the stock below June 2008 low. The current week has seen the stock declining by more than 10% to close just above the Rs1,200 levels. The Weekly ADX has also generated a sell signal.

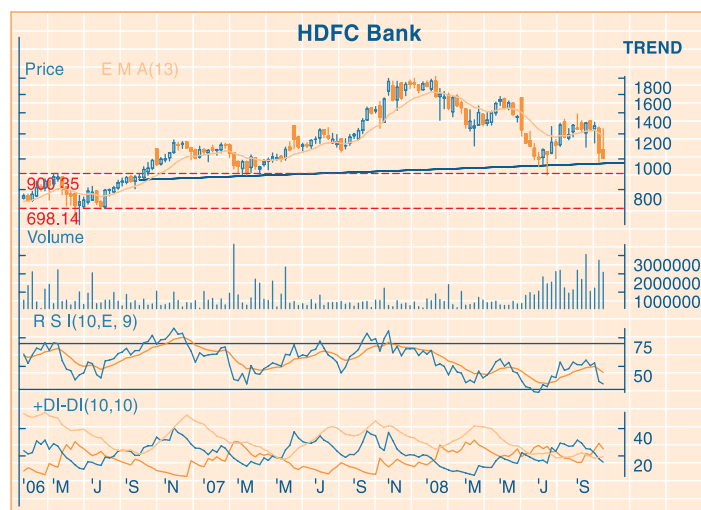
Volumes have also seen a smart increase and were at 11-week high. The increase in volumes accompanying the severe decline in stock lends credence to the breakdown seen on the Weekly charts.

In view of the above mentioned technical evidences, we recommend investors to review their investments given the negative implication on future price movement for the stock. Traders can sell the stock at current levels and on rallies to resistance of Rs1,270-1,300 levels for target of Rs1,100 and Rs1,000. A stop loss of Rs1,357 is recommended on all short positions.

### Technically strong

Company	CMP (Rs)	10 days Moving Average (Rs)	Total Traded Qty (Lacs)	10 days Average Traded Qty (Lacs)
Andhra Bank	54	53	36.7	8.8
HPCL	236	224	26.5	12.0
Allahabad Bank	62	61	9.5	8.1
IOC	405	382	8.7	5.1
Hotel Leela	28	27	25.0	17.6

**HDFC Bank** **SELL**  
CMP Rs1,026



HDFC Bank has seen a sharp value erosion since recording its 52-week high of Rs1,825 in mid January 2008. The stock hit a 52-week low of Rs890 levels in mid July 2008. The stock price then moved up smartly to record a high of Rs1,387 levels in September 2008 before correcting back to Rs1,000 levels in Friday's trade.

The price movement of the stock since September 2006 till date appears to have taken form of a Head & Shoulder pattern with a rising neckline. Head & Shoulder formation is an acclaimed reversal pattern and indicates bearish implication on future price movement. A breakdown from the said pattern would be confirmed when the share price closes below the neckline currently placed around Rs1,000 levels.

We recommend traders to initiate short positions at current levels and on price rallies to resistance levels of Rs1,080-Rs1,120 for target of Rs900, and Rs840. A stoploss above Rs1,135 is recommended on all short positions.

### Technically weak

Company	CMP (Rs)	10 days Moving Average (Rs)	Total Traded Qty (Lacs)	10 days Average Traded Qty (Lacs)
Dr Reddy's Labs	448	469	1.6	6.2
Indian Hotels	61	62	5.6	15.0
Corp Bank	229	243	0.5	1.0
Ranbaxy	257	268	22.1	57.2
Dabur	81	84	3.1	11.3

## Buzz on the street

**Bajaj Auto** may cut two-wheeler production due to slowdown in motorcycles sales.

**JSW Steel** may further announce a cut in steel prices this month.

**OVL**, a subsidiary of **ONGC** is likely to bid for 8 oil and gas blocks auctioned in Iraq.

**NTPC** officials may discuss the possibility of an out-of-court settlement with **RIL**.

# India Infoline Weekly Wrap

## Mutual fund round-up

### India Infoline picks

Mutual Funds	Assets	NAV	Absolute return (%) as on October 16, 2008							
	(Rs Cr)	(Rs)	1wk	1mth	3mth	6mth	1yr	2yr	3yr	5yr
Birla SL Frontline Equity Fund - (G)	400	43.8	(5.6)	(18.2)	(12.2)	(30.3)	(38.6)	(5.0)	43.6	170.8
HDFC Growth Fund - (G)	1,014	46.3	(5.8)	(17.3)	(8.8)	(26.7)	(33.7)	4.0	54.0	203.7
Reliance RSF - Equity - (G)	734	14.6	(6.0)	(22.4)	(18.3)	(35.4)	(33.0)	(0.1)	44.8	-
Sundaram Select Focus - (G)	916	57.7	(4.0)	(14.5)	(12.7)	(25.9)	(39.1)	5.4	66.7	198.5
UTI Dividend Yield Fund - (G)	969	15.7	(1.9)	(13.1)	(7.2)	(22.2)	(32.8)	3.8	36.7	-

### Fund this week: Birla Sun Life Frontline Equity Fund - Growth

Fund snapshot		Asset allocation (%)	
Fund manager	Mahesh Patil	Equity	78.7
NAV - October 16, 08	Rs43.8	Debt	0.0
NAV 52 high/low	Rs83/43	Cash/call	21.3
AUM - September 30, 08	Rs400cr	Top 10 holdings (%)	
Type	Open-ended	Reliance Inds	6.9
Class	Equity - diversified	Bharti Airtel	6.3
Options	Growth & dividend	ONGC	4.6
Min investment	Rs5,000	Infosys Tech	3.7
Entry load	2.25%<Rs5cr	Axis Bank	3.4
Exit load	1%<Rs5cr<1yr	ITC	3.3
Registrar	CAMS	HDFC Bank	3.0
Benchmark	BSE200	Crompton Greaves	2.3
No. of stocks	43	HDFC	2.3
Expense ratio	2.3%	GAIL	2.2

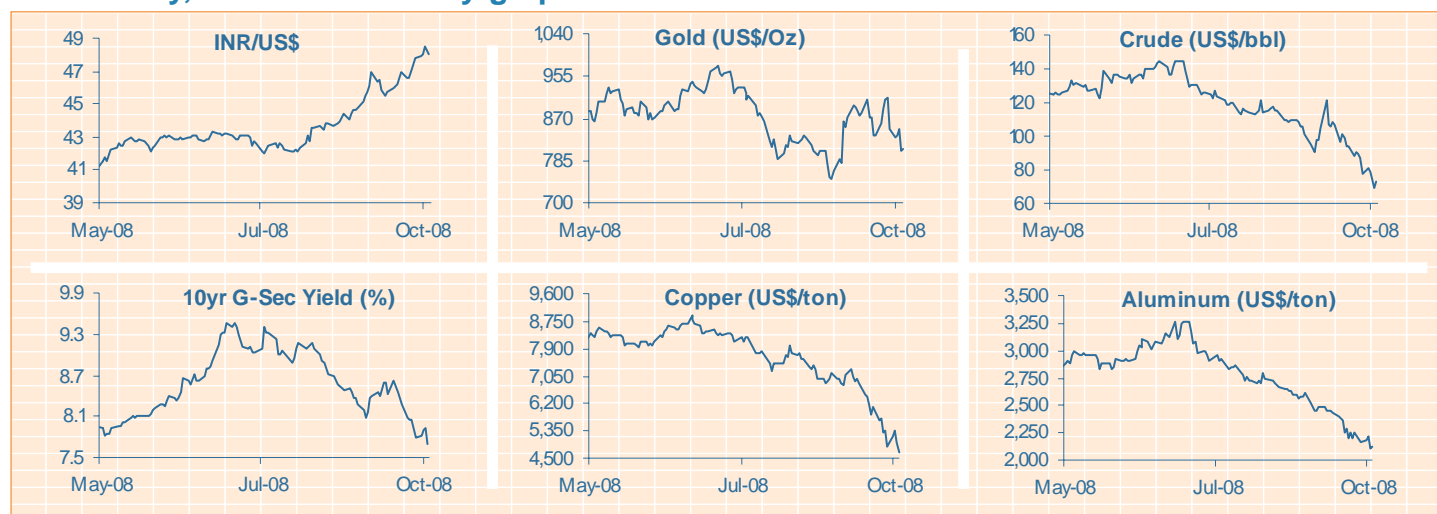
### NFO update

Fund Name	Close	Type	Class
HDFC FMP90D Oct08 Sr9(2)	21-Oct	CE	Debt - FMP
IDFC FMP - Yearly Sr-27-A & B	23-Oct	CE	Debt - FMP
ICICI Pru SMART Sr-A 15M	24-Oct	CE	Debt - FMP

### Dividend update

Mutual Fund	Dividend %	Record date	Class
UTI FIIF - Sr II Qrtly Intv - IV	100.0	21-Oct	Debt - Intv
HDFC FMP 90D July 08 (2)	100.0	21-Oct	Debt - Intv
UTI Mastershare	22.0	23-Oct	Eq - Div

## Commodity, debt and currency graphs



Closing as on Thursday

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