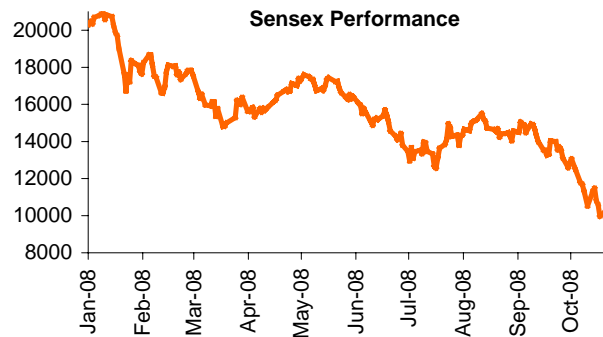




## GET WELL SOON

Sensex: 8510

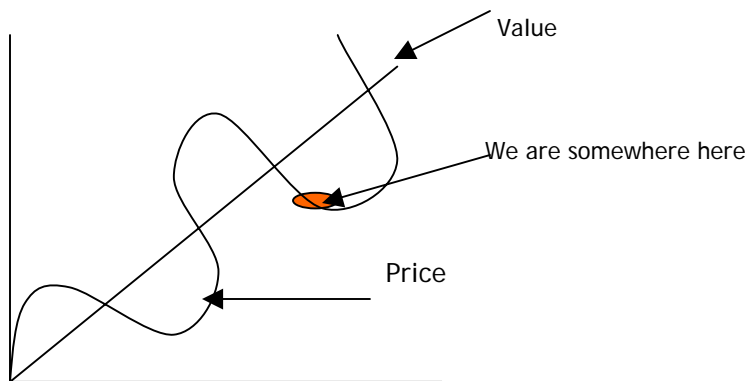
Nifty: 2524



The way Global equity markets are behaving for the past few months & the kind of attention its getting from the media, forces us to believe that, the world is coming to end ... but

In the History of world economy & stock markets there have been many occasions, where one would have thought, the world is coming to an end, but in reality it doesn't happen that way.

Stock Market has an uncanny neck of surprising everyone (on both the sides...UP and DOWN) and probably what we are going through right now is the other side of the extreme, which cant sustain for too long at this pace. (though can have near term pain, due to the magnitude of the problem and the wealth destruction it has caused in the past 10 months).



### Market Behavior over a period of Time

Markets never trades at fair value, there are always excesses on both sides. Markets always tends to overshoot or remains undervalued with respect to fair value. We believe that currently we are trading below fair value, once there is stability in the markets will change in future.

Lets look at some interesting data points:

- Across the board fall in Indices, Large Caps and Mid-cap Stocks from Jan 08 till October 08. (the fall would look even steeper adjusting the currency depreciation of 20% in the past 10 months) if we look at Dolex30 then the fall is of 61%

Stock / Index	Jan-08	Jun-08	Gain/ Loss (%)	Jun-08	Oct-08	Gain/ Loss (%)
Nifty	6144	4040	-34.24	4040	3234	-19.95
SBI	2385	1111	-53.42	1111	1415	27.36
Punj Lloyd	567.3	212.9	-62.47	212.9	168	-21.09
DLF	1071.5	396	-63.04	396	291	-26.52
L&T	4146	2184	-47.32	1092	799	-26.83
ICICI bank	1228	630	-48.70	630	403	-36.03
REL	2279	784	-65.60	784	497	-36.61
HDIL	1144	387	-66.17	301	152	-49.50
Aban Offshore	4958	2880	-41.91	2880	1008	-65.00

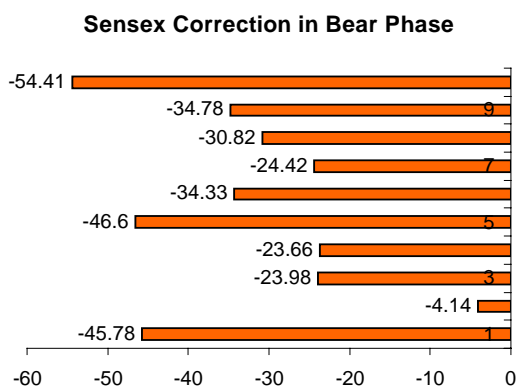
Only SBI has been able to outperform in the period between June 08 & Oct 08 giving positive return of 27% .

- Equity meltdown has been observed across the global markets:

Index	Jan-08	Oct-08	Gain/ Loss (%)
Nifty	6144	3234	-47.36
Dow	13043.96	9033.66	-30.74
Nikkei	14692	8815	-40.00
Hangsang	27560	14624	-46.94
Brazil	62815	39044	-37.84
China	5273	1939	-63.23
Russia	1907	652	-65.81

- History of Bear markets:

Lets look at the history of bear markets in India from 1992 till 2008:



Period from	Period to	Months	Sensex fall from Top
Jan-08	24-Oct-08	9	-66.81
Dec-04	Apr-05	5	-4.14
Jan-04	Jun-04	5	-23.98
Feb-02	Oct-02	8	-23.66
Apr-00	Oct-01	18	-46.6
Apr-98	Nov-98	7	-34.33
Jul-97	Dec-97	5	-24.42
Jun-96	Dec-96	6	-30.82
Jun-94	Jan-96	20	-34.78
Apr-92	Apr-93	12	-54.41

In this Gloom & Doom lets not lose sight of some positive macro indicators :

- 1) Monsoons have been above average, which would have positive implications for rural growth and stability in the agri. products prices.

Deviation (%)	6/4/08	6/11/08	6/18/08	6/25/08	7/2/08	7/9/08	7/16/08	7/23/08	7/30/08	8/6/08
North-west India	111	-10	103	63	65	38	5	-33	-44	27
Central India	-2	-34	128	-12	-2	-38	-39	-64	22	5
South peninsular India	0	0	-10	-49	-31	-75	-53	-31	32	23
North-east India	-21	-15	-9	-13	11	-1	7	15	-39	-23
India-whole	5	-14	38	-10	8	-20	-19	-33	-6	7

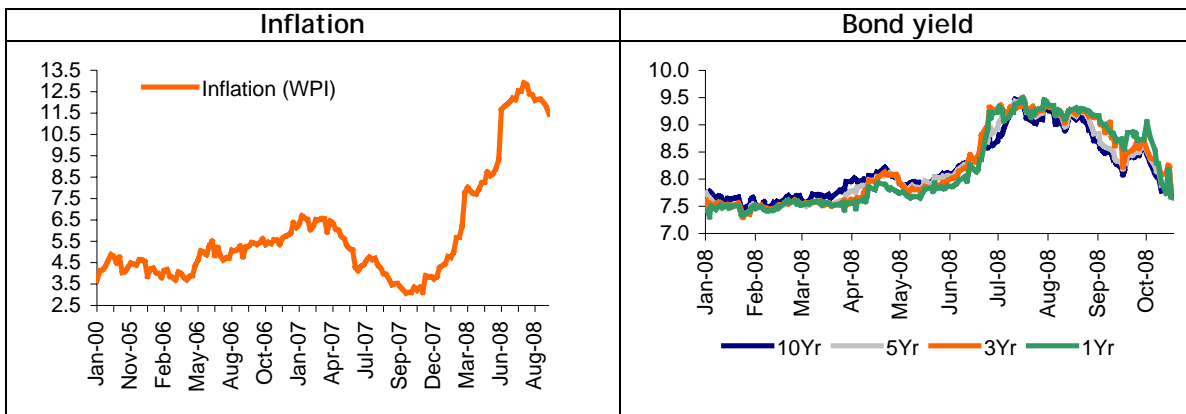
Note: Red: excess/deficient, Orange: above/below normal, Green: Normal

- 2) Crude and commodity prices have come off sharply in the past 8 months. This would help ease pressure on the on the fiscal deficit and inflation.

Commodity	High	Low	Gain/Loss
Crude	146.2	69.85	-52.2%
Copper	8720	4630	-46.9%
Aluminium	3317	2130	-35.8%
Zinc	2365	1180	-50.1%

Period : Feb 08 till Oct 08

- 3) Inflation & interest rate seems to be peaked out.  
RBI has taken various steps in October 08 to try bring in liquidity in our system . We have had 250 bps cut in CRR & 100 bps cut in Repo Rate which will help to bring down interest rate in India & also keep growth momentum going.



- 4) Indian financial system is strong due to high capital adequacy ratio and overall low leverage. High CRR (6.5%)& SLR (25%) regulatory requirements along with Capital Adequacy ratio of 9% makes Indian banks stronger with low leverage as against over 30 times leverage of some of US & European banks which have collapsed.
- 5) Current credit crisis is a structural problem for US & Europe but a cyclical dip (temporary blip) for India, with overall growth (both GDP and Corporate earnings) likely to remain strong over next 3 years

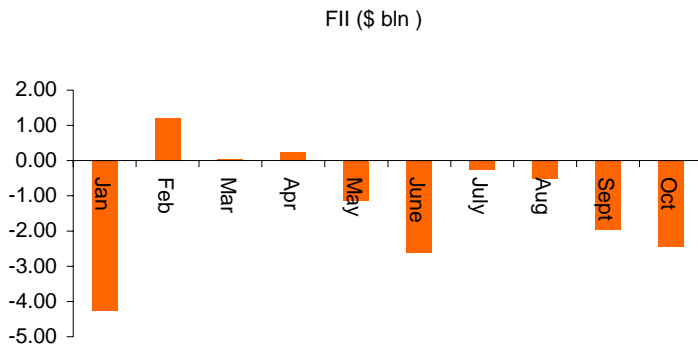
**Negative Events, which could have a bearing on the sentiment/flows in the near term :**

- 1) There is a risk of significant slow down in the global growth due to recent credit crisis, which could have implications for India in terms demand for some of the export oriented companies (e.g IT, Capital Goods).

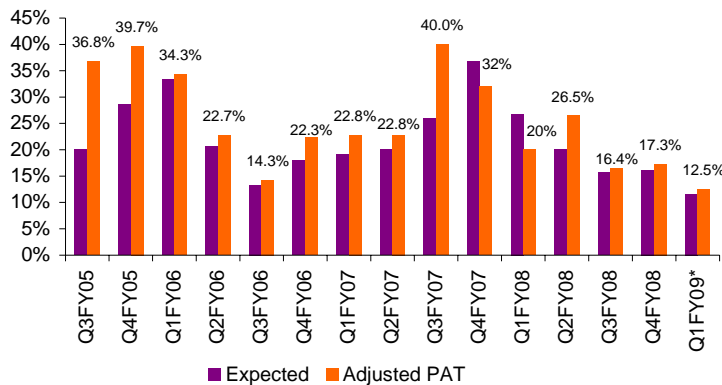
FII flows have been negative & they have withdrawn USD 11.76 bln from Indian Markets year.

Flows likely to remain weak due to major wealth destruction (risk appetite will remain low for a while post such huge carnage)

FII holdings has reduced 7% between Jan-Sep 2008 (from 38% of free-float to 35%); however the value of their holding has reduced 70% most of which is explained by the 50% market fall and 20% INR depreciation.

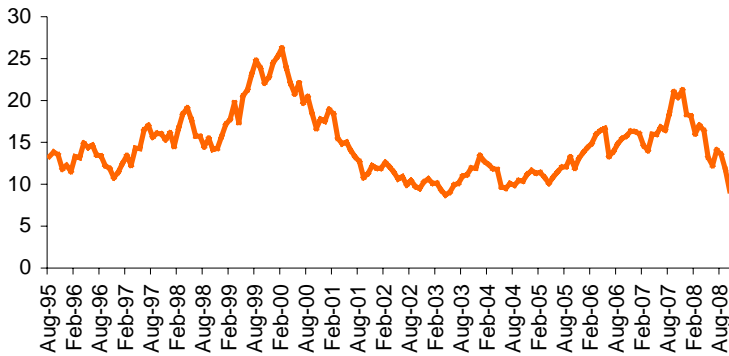


- 2) Results for Next couple of quarters may disappoint (due to Tightening measure taken by RBI in period between (April 08 till Nov 08), Global Slowdown which would bring down demand. Also Volatile rupee may take toll on the profitability of companies.



**Post correction, valuations have become even more attractive**

Valuations: Sensex is trading at P/E of 10 X 2009 Earnings  
 Key to these valuations is the growth expected for FY10 post recent credit crisis



Every Crisis brings in some important lessons. Lets look at the key takeaways from this crash.

**A) Leverage**

Majority of problems both in India and Globally are due to over leverage. If at all one wants to dabble in markets it should be done through OPTIONS as against FUTURES as losses will be limited.

As Warren Buffett said : "Leverage" is the only way a smart guy can go broke ... You do smart things, you eventually get very rich. If you do smart things and use leverage and you do one wrong thing along the way, it could wipe you out, because anything times zero is zero.

e.g. in the recent fall, stock prices have crashed resulting in huge losses for traders but in such volatile times, options could have been relatively better way play markets

Stock	Lot Size	Call option strike	Levels at Beginning of expiry	Possible loss in Futures	Possible Option Loss
RIL	75	1920	1950	40000	9000
Nifty	50	4100	4100	50000	8000
Tisco	382	440	440	69000	10000

**B) Invest in Companies with Strong business and cash flows.** Avoid Investing in hyped Companies and on basis of momentum in certain stocks.

Well-researched companies with strong fundamentals are likely to reap the rewards whenever the tide turns.

**C) It's a known fact that Equities is one of the best Asset class, but not at any price.** Equity has the potential to give superior returns over a period of time but can also give negative returns in the intervening period.

Moral of the story is to take long term view and "have liquidity" to take advantage of the fall and high returns that equity offers.

As seen from data below, In last 8 years we had 3 years when Nifty has given negative returns ranging from 50% to 15% but Nifty CAGR returns for the period stands at 9.26 %.

### Equity Returns - Nifty

Period	Returns
2000	-21%
2001	-15%
2002	4%
2003	73%
2004	10%
2005	34%
2006	41%
2007	53%
2008 till date	-67%

D) Always look at Risk Adjusted post Tax returns.

	FNO	EQUITY Short term	FD
Gross	30%	18%	10%
Risk	Very High	Medium	Very Low
Tax	33.99%	15.45%	33.99%
Net of tax	19.80%	15.22%	6.60%

### What are we telling Investors to do

Don't get too much influenced by the hype and attention this fall is getting and look out for opportunity for investment.

■ Build Investment Portfolio   ■ Invest in Nifty Bees   ■ Invest in Dividend Yield Stock

As a strategy, In order to take advantage of market volatility, investors can also look to do staggered buying in 2-3 parts.

### Stocks for Investment with a time frame of 18 to 36 months

Sr no.	Scrip name	Sector	CMP*	Earnings		P/E	
				FY09	FY 10	FY09	FY 10
1	Bharti Airtel	Telecom	534	45.1	54.7	11.84	9.76
2	Glenmark	Pharma	324	28.6	39.3	11.33	8.24
3	Sun Pharma	Pharma	1283	81.7	82.1	15.70	15.63
4	Hind. Unilever	FMCG	225	9.5	11.0	23.68	20.45
5	H D F C	Finance	1573	87.1	102.1	18.05	15.41
6	HDFC Bank	Banking	973	53.1	67.1	18.33	14.50
7	SBI	Banks	1156	108.8	131.0	10.62	8.83
8	Larsen & Toubro	Capital Goods	779	52.9	71.4	14.73	10.91
9	Madras Cement	Cement	65	18.0	20.9	3.61	3.11
10	Maruti Suzuki	Automobiles	534	62.6	72.1	8.54	7.41
11	Reliance Inds.	Diversified	1016	132.9	179.3	7.64	5.67
12	Infosys	IT	1249	101.1	110.3	12.35	11.32

\* CMP as on October 24, 2008

### Dividend Yield Stocks (Sharekhan universe)

Sr No	Company name	CMP* (Rs)	Dividend (Rs)	Dividend Yield	Net Sales (mIn Rs)	PAT (MIn Rs)
1	Bajaj Auto	462	22.5	4.87%	91640	7258
2	Bharat Electronics	594	20	3.37%	5624	725
3	BOB	245	9.6	3.92%	121643	15181
4	HUL	225	6.6	2.93%	139134	17677
5	ICICI bank	310	12	3.87%	340950	31153
6	Tata Tea	533	20	3.75%	43923	19059
7	Union bank	123	5.5	4.47%	94473	13870
8	Deepak Fertilizer	46	3.5	7.61%	11445	1090

\* CMP as on October 24, 2008

We expect these stocks to deliver a return of 24-30% CAGR over next 3 years.

---

#### Disclaimer

"This document has been prepared by Sharekhan Ltd.(SHAREKHAN) This Document is subject to changes without prior notice and is intended only for the person or entity to which it is addressed to and may contain confidential and/or privileged material and is not for any type of circulation. Any review, retransmission, or any other use is prohibited. Kindly note that this document does not constitute an offer or solicitation for the purchase or sale of any financial instrument or as an official confirmation of any transaction.

Though disseminated to all the customers simultaneously, not all customers may receive this report at the same time. SHAREKHAN will not treat recipients as customers by virtue of their receiving this report.

The information contained herein is from publicly available data or other sources believed to be reliable. While we would endeavour to update the information herein on reasonable basis, SHAREKHAN, its subsidiaries and associated companies, their directors and employees ("SHAREKHAN and affiliates") are under no obligation to update or keep the information current. Also, there may be regulatory, compliance, or other reasons that may prevent SHAREKHAN and affiliates from doing so. We do not represent that information contained herein is accurate or complete and it should not be relied upon as such. This document is prepared for assistance only and is not intended to be and must not alone be taken as the basis for an investment decision. The user assumes the entire risk of any use made of this information. Each recipient of this document should make such investigations as it deems necessary to arrive at an independent evaluation of an investment in the securities of companies referred to in this document (including the merits and risks involved), and should consult its own advisors to determine the merits and risks of such an investment. The investment discussed or views expressed may not be suitable for all investors. We do not undertake to advise you as to any change of our views. Affiliates of Sharekhan may have issued other reports that are inconsistent with and reach different conclusion from the information presented in this report.

This report is not directed or intended for distribution to, or use by, any person or entity who is a citizen or resident of or located in any locality, state, country or other jurisdiction, where such distribution, publication, availability or use would be contrary to law, regulation or which would subject SHAREKHAN and affiliates to any registration or licensing requirement within such jurisdiction. The securities described herein may or may not be eligible for sale in all jurisdictions or to certain category of investors. Persons in whose possession this document may come are required to inform themselves of and to observe such restriction.

SHAREKHAN & affiliates may have used the information set forth herein before publication and may have positions in, may from time to time purchase or sell or may be materially interested in any of the securities mentioned or related securities. SHAREKHAN may from time to time solicit from, or perform investment banking, or other services for, any company mentioned herein. Without limiting any of the foregoing, in no event shall SHAREKHAN, any of its affiliates or any third party involved in, or related to, computing or compiling the information have any liability for any damages of any kind. Any comments or statements made herein are those of the analyst and do not necessarily reflect those of SHAREKHAN."

---