Eastern Financiers Ltd

Weekly Review

2nd February 2013

Weekly Wrap-Up

Third quarter policy review by the Reserve Bank that trimmed growth forecasts and eased inflationary expectations for FY13—curtailed the repo rate and the CRR by 25 BP each that was almost on anticipated lines. Inflow of foreign funds, assorted set of third quarter earnings by the corporates and murky comments by the US Federal Reserve on the global space landed the benchmarks indices in the negative terrain marking loss of about one and a half percentage point.

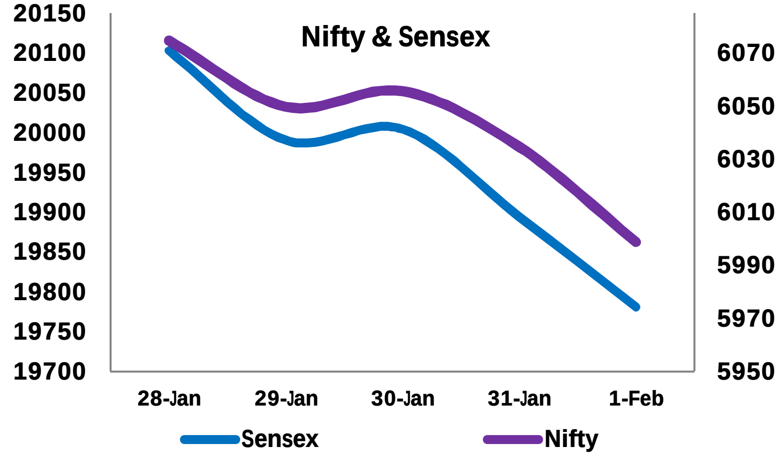
Reserve Bank in its ardently awaited third quarter policy meet announced a 25 BP reduction in the repo rate from 8% to 7.75%. The central bank also announced a reduction of 25 basis points in the cash reserve ratio (CRR) to 4% from 4.25% effective the fortnight beginning 9 February 2013. As a result of the reduction in the CRR, around Rs 18000 crore of primary liquidity will be injected into the banking system.

Keeping in view the expected moderation in non-food manufactured products inflation, domestic supply-demand balances and global trends in commodity prices, the baseline WPI inflation projection for March 2013 has been revised downwards from 7.5% set out in the Second Quarter Review (SQR) of Monetary Policy in October 2012 to 6.8%. The central bank has also lowered the baseline projection of GDP growth for FY13 to 5.5% from 5.8% given in the SQR.

US Federal Reserve in its two days meet said that the economic activity paused in recent months while fourth quarter data reflected a surprise economic contraction. The Federal Reserve maintained its aggressive bond-buying policy given the downside risks to the economic outlook. In a statement after a two-day meeting, the Fed said it would keep buying $85 billion a month in mortgage bonds and Treasuries. The Fed has kept its federal funds target for short-term rates unchanged at a record-low range of 0 to 0.25% for four years.

Following last week's impending set of third quarter earnings, markets this week witnessed mixed set of numbers with Union Bank, ICICI Bank, PNB, Tata Global and Lupin reporting healthy set of numbers on one hand while Bharti Airtel, Grasim Industries, BHEL and Colgate Palmolive disappointed the streets on the other. Bharti Airtel's third quarter net profit was eroded by high interest costs, forex losses and depreciation, but Chairman & Managing Director Mr. Sunil Mittal said that there were some positives as well despite a bleak operating environment. The company's Q3 consolidated net profit was Rs 284 crore, down 72% y-o-y and down 61% q-o-q. Quarterly revenues rose around 10% y-o-y to Rs 20,239 crore, but was flat compared to the second quarter.

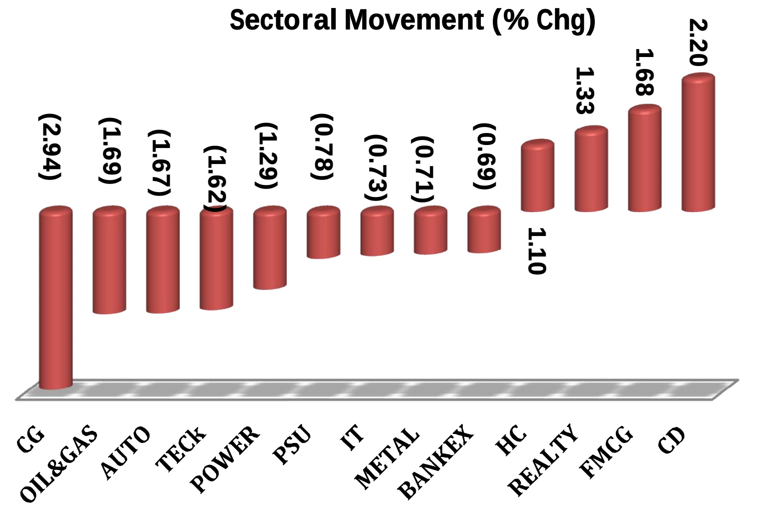
Market Trend



Major Indices

Major Indices	1st Feb 13	25th Jan 13	% Chg
BSE Sensex	19,781.19	20,103.53	(1.60)
S& P Nifty	5,998.90	6,074.65	(1.25)
BSE Midcap	6,967.50	6,974.23	(0.10)
BSE Small cap	7,056.48	7,142.71	(1.21)
BSE 100	6,064.75	6,121.09	(0.92)
BSE 200	2,451.37	2,471.41	(0.81)
BSE 500	7,636.78	7,696.35	(0.77)
CNX NIFTY JUNIOR	12,304.55	12,266.50	0.31
CNX 100	5,923.45	5,984.00	(1.01)
S&P CNX DEFTY	3,904.65	3,920.75	(0.41)
S&P CNX 500	4,775.90	4,816.45	(0.84)
CNX MIDCAP	8,357.45	8,374.45	(0.20)
NIFTY MIDCAP 50	2,315.85	2,348.70	(1.40)

Sectoral Trend



Market Perspective

Following an enthralling week that was vogued by the keenly awaited RBI policy meet on the domestic arena and the US Federal Reserve meet on the global space, markets next week is set to be paved by the global bankers meet in England and the European Union along with the next batch of crucial third quarter earnings by the corporates back home.

Inflow of foreign funds that persisted to step in this week, shall be kept an eye upon next week too. FII's have poured in funds to the tune of Rs. 4311.96 crores this week.

Reaction of the Asian indices to the influential US non-farm payrolls data for January 2013 that was released on the last day of the week shall be eyed upon.

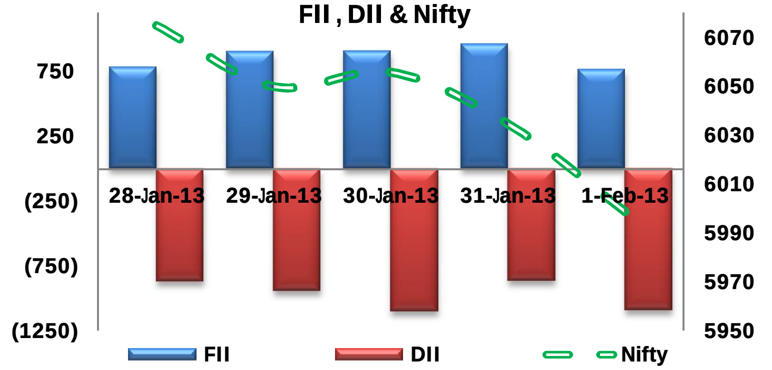
Automobile sales performance for the first month of the calendar year 2013 that has started trickling in from the last day of the week shall pave the way for the auto index. Maruti Suzuki sales rose marginally while that of Tata Motors slumped marking the steepest fall in January. Domestic car makers reported muted volumes for January as high interest rates dissuaded buyers from making purchases, although car makers believe the worst is over with auto loans becoming cheaper following the Reserve Bank of India (RBI) reducing its key lending rate.

On the corporate front, the finalization of the much awaited Jet-Etihad deal may be kept a close eye on next week.

On the macro façade, Markit Economics will unveil HSBC India Services PMI for December 2012 on 5 February 2013. The HSBC services Purchasing Managers' Index, based on a survey of around 400 companies, rose to 55.6 in December 2012 from November's 52.1. Services make up nearly 60% of India's economic output.

On the global space, investors shall closely watch the Bank of England and the European Commercial Bank 's announcement on Thursday after this week's FOMC meet. Corporate earnings for the fourth quarter and key economic releases that includes Japan PMI Composite, China PMI Composite, European Union Retail Sales, Japan Machine Orders, European Union PMI Composite, UK Industrial Production and US Jobless Claims among others.

FII Activity



Weekly Movers

Company Name	Last Trade	Previous week close	% Return WoW
Suzlon Energy	25.15	18.05	39.34
Essar Oil Ltd.	91.85	74.55	23.21
Adani Ports	149.90	129.60	15.66
Pidilite Inds.	245.90	212.60	15.66
GMR Infra	20.20	18.10	11.60

Weekly Laggers

Company Name	Last Trade	Previous week close	% Return WoW
Bharti Airtel	330.50	361.00	(8.45)
Opto Circuits India	79.80	85.25	(6.39)
Colgate Palm.	1,345.55	1,428.55	(5.81)
UltraTech Cement	1,860.85	1,950.55	(4.60)
Allahabad Bank	159.55	167.20	(4.58)

Upcoming Events

Date	Company	Date	Company	Date	Company
4-Feb	United Spir	5-Feb	GTL	6-Feb	Jindal Saw
4-Feb	REC	5-Feb	JB Chem	6-Feb	P & G Hygi
4-Feb	Jain Irr	5-Feb	Jindal Stain	6-Feb	Bajaj Elect
4-Feb	KFA	5-Feb	Ballarpur Ind	7-Feb	TVS Elec
4-Feb	BoB	5-Feb	UCO Bank	7-Feb	Bomb Dye
4-Feb	IL&FS Trans	5-Feb	Mangal Chem	7-Feb	OMDC
4-Feb	JK Cement	6-Feb	Cipla	7-Feb	CEAT
4-Feb	BOC India	6-Feb	Welspun India	7-Feb	Ambuja Ce
4-Feb	Escorts Ltd	6-Feb	Tech Mah	7-Feb	ACC
4-Feb	Rashtr Chem	6-Feb	Emami Infra	7-Feb	Balaji Tele
4-Feb	Jubilant Food	6-Feb	MOIL	7-Feb	Hotel Leel
5-Feb	CCL Prod	6-Feb	Apollo Tyres	7-Feb	Jindal Drill
5-Feb	U B (Hold)	6-Feb	Tribhovandas	7-Feb	Apollo Hos
5-Feb	A2Z Maint	6-Feb	India Glycols	7-Feb	Pfizer
5-Feb	Compuc Soft	6-Feb	Godrej Ind	7-Feb	NDTV
5-Feb	NHPC	6-Feb	Alphageo	7-Feb	GE Shippi
5-Feb	Kesoram Ind	6-Feb	Accel Fron	7-Feb	Auro Phar
5-Feb	McDowell Hol	6-Feb	IRB Infra	7-Feb	VIP Ind
5-Feb	United Bank	6-Feb	United Brew	7-Feb	UFLEX

Domestic Economy Review

- Growth in Indian manufacturing slowed to a three-month low in January, as new export orders lost momentum. The HSBC Markit manufacturing Purchasing Managers' Index (PMI), fell to 53.2 in January, after surging to a six-month high of 54.7 in December. The new export orders sub-index slipped to 54.6 in January, showing the slowest pace of growth since October.
- The Reserve Bank of India (RBI) lowered its key policy rate for the first time in nine months on Tuesday, but struck a cautious note on further easing as it waits to see how the government's upcoming budget aims to bring a bloated fiscal deficit under control. The RBI cut the policy repo rate by 25 basis points (bps) to 7.75 percent to help support an economy set to post its slowest annual growth rate in a decade. Reverse repo adjusted to 6.75 percent, being maintained at a 100 basis points difference with the Repo rate. It also cut the Cash reserve ratio by 25 basis points to 4.00% effective fortnight beginning February 9.
- As all eyes are on industrial production figures for December to ascertain any firm trend on the growth front. Growth in output for the eight core sectors, constituting over one-third of the factory production, saw a bit of improvement as it rose to 2.6% in December from 1.6% in the previous month. However, growth in the core industries, which comprises 37.9% of the index of industrial production (IIP), was lower than 4.9% in the same month of 2011-12. The cumulative expansion of the eight industries-crude oil, natural gas, cement, coal, electricity, steel, petroleum refinery products and fertilizers- was down at 3.3% in April-December 2012 against 4.8% in the same period previous fiscal. Production of natural gas and coal contracted by 14.9% and 0.2%, respectively, in the month under review. Fertilizer output too shrunk by 3.8% against 0.8% growth in December 2011. Steel and electricity production slowed to 5.2% and 4.4%, respectively, in the reported period against 10.2% and 8.9%, respectively, in the year-ago period. Cement output slowed to 3.9% from 13.6% in December 2011. However, Crude oil and petroleum refinery output grew by 1% and 5% against the fall of 5.5% and 0.7%, respectively, in December 2011.
- The Centre and the states have crossed one major hurdle in the way of Goods & Services Tax (GST) by agreeing to a compensation formula for the Central Sales Tax (CST), but even then the new indirect tax regime might not be introduced in 2013-14. At the Empowered Group of state finance ministers meeting, the states' approval came with some riders and they could not come to a consensus on the design and structure of GST. A sub-committee of the Centre and state government officials recommended 100 per cent compensation to states for a cut in CST from four per cent to two per cent for 2010-11, 75 per cent for 2011-12 and 50 per cent for 2012-13, respectively. The Centre will now have to fork out Rs 34,000 crore as CST arrears. The states demanded that the compensation should be paid immediately and the Centre should give a timeframe for it. They also threatened to go back to 4 per cent CST rate if 100 per cent compensation was not given for 2013-14. By its very nature, CST is in contrast with GST since the former is imposed on inter-state movement of goods while the latter creates the common Indian market. So, CST is expected to be out of the system, once GST comes. States like Andhra Pradesh, Gujarat, Tamil Nadu, Odisha, West Bengal and Haryana would benefit most from CST compensation.
- India's economic growth could fall to 5.5% this fiscal before seeing gradual recovery next year, according to a RBI-sponsored survey. The latest estimate, that came a day ahead of the RBI quarterly monetary policy review, is lower than the government's revised annual growth estimate of 5.7%. The median growth projection has been revised downwards to 5.5% on the back of slower growth for 2012-13 fiscal, said the 22nd round of survey by professional forecasters of RBI. The RBI had earlier projected a growth rate of 5.8%.The RBI sponsored survey said that there would be a gradual recovery in 2013-14 and the economy could clock a growth of 6.5%.The Indian economy grew at over 8% for two consecutive years before declining to 6.5% in 2011-12 fiscal.
- The per capita monthly income, a measure to assess standard of living, grew at a slower rate of 13.7% to Rs 5,130 in 2011-12 at current prices compared to Rs 4,513 in 2010-11. On the Gross Domestic Saving (GDS) front, the data revealed that the growth at current prices in 2011-12 slowed to 30.8% of GDP at market prices as against 34% in the previous year. The GDS is estimated at Rs 27,65,291 crore during last fiscal as against Rs 26,51,934 crore in 2010-11. The slower growth in GDS has been mainly due to decline in financial savings of household sector from 10.4% to 8%, private corporate sector from 7.9% to 7.2% and that of public sector from 2.6% to 1.3% in 2011-12 as compared to 2010-11. The rate of Gross Capital Formation at current prices is 35.0% in 2011-12 as against 36.8% in 2010-11. The gross domestic capital formation has increased from Rs 28,71,649 crore in 2010-11 to Rs 31,41,465 crore in 2011-12 at current prices.

Sector & Commodity Update

- A high-powered committee of the government has decided against further increasing India's foodgrains warehousing capacity beyond the ongoing expansions. The Committee, constituted under the directions of the Prime Minister's Office (PMO), to plan for additional grain storage requirement in the next 10 years in view of the proposed Food Security Bill submitted its report. The panel, after assessing the current and future foodgrains production and procurement scenario, concluded that government should use new technologies like silo bags to meet temporary storage needs during harvest season. The Committee also said the additional storage currently being constructed by the government under the Private Entrepreneurs Guarantee (PEG) scheme would significantly improve the position of storage and meet the requirement of FCI to a large extent and hence any more additions to the already planned extensions might lead to under-utilization and lead to extra financial burden for the government. At present, the Food Corporation of India (FCI) and state agencies have a total storage capacity of around 71.5 million tonnes. However, in view of rising procurement of grains the government is constructing an additional storage capacity of almost 18.1 million tonnes under the PEG scheme, while another 1.55 million tonnes is being added through modern silos.
- In a big relief to sugar millers, the government after many years has decided not to convert unsold non-levy (free-sale) sugar into levy sugar (sold through ration shops) for the first six months of this sugar season that ends in March, 2013. The government has also lowered the total quantity of sugar that mills are required to sell in the open market between October 2012 to March 2013 to 10.65 million tonnes, down 0.15 million tonnes from the earlier ordered 10.80 million tonnes. In the last three years, the government had released on an average 9.04 million tonnes of sugar in the first six months of the crop marketing season. Millers said that the measures were badly needed as ex-mill sugar prices in most parts of the country had dropped below the cost of production because of excess supplies leading to a pile of sugarcane arrears due to farmers.
- In a move that will hit oil PSUs hard, the Finance Ministry wants changes in the way petrol and diesel are priced by suggesting excluding the element of import duties to save about Rs 18,000 crore in subsidy bills. The Finance Ministry has informed the Petroleum Ministry that auto fuel need to be priced at export parity rather than import parity as the 2.5% customs duty was adding to the under-recoveries of the state-run oil marketing companies without contributing any revenue to the exchequer. Indian Oil, Hindustan Petroleum and Bharat Petroleum together are projected to end the fiscal with Rs 1,60,000 crore of under-recoveries on selling diesel, domestic LPG and kerosene below cost. Upstream oil companies like ONGC are to meet about Rs 60,000 crore of this and the rest Rs 1,00,000 crore was to come from the government as cash subsidy. By changing the pricing methodology, the Finance Ministry wants to cut its cash outgo by about Rs 18,000 crore in the current fiscal.
- The coal ministry has extended the 30 January deadline for government-owned companies to apply for the 17 coal blocks to be allocated under the new bidding regime. Central and state Public Sector Undertakings (PSUs) now have time till 8 February to submit their applications. The coal ministry said the deadline has been extended on the request of state government companies.
- Despite being allowed to charge extra fees in order to bring more assets from smaller towns and cities, Indian mutual fund houses' over-dependence on top cities continues. Proportion of assets from top 15 cities has further inched up in the October-December quarter. It is interesting to note that it was at the beginning of this quarter that capital markets regulator or the Securities and Exchange Board of India (SEBI) allowed fund houses to charge extra fees if they pull in more funds from beyond top cities. For the third quarter in a row, proportion of assets under management (AUM) from bigger cities rose. During the quarter ended 31 December, 87.71% of total assets were contributed from cities like Mumbai, Delhi, Bangalore, Kolkata, Chennai, Ahmedabad, Pune, Hyderabad and Baroda, among others In the immediate previous quarter, assets from these cities stood at 87.43% while in the April-June quarter the figure was 86.95%.
- Cellular Operators Association of India (COAI) has asked the Department of Telecommunications (DoT) to reconsider the "unsustainable spectrum prices" for the upcoming auction. In a letter to Communications and IT Minister Kapil Sibal, COAI has said that at the current prices proposed by the government for 1,800 MHz and 900 MHz spectrum, the only expected participation is what can be broadly termed "coercive participation", i.e. only operators having operations to save, may participate under protest. COAI has also stated that the government, this time, has complete freedom to set a price that brings operators into the auction and brings about public good by ensuring productive deployment of all available spectrum and continuing competition in the market.

Global Economy

- U.S. stocks rallied, sending the Dow Jones Industrial Average above 14,000 for the first time in five years, as data on the labor market and manufacturing boosted confidence in the world's biggest economy. The S&P 500 climbed 0.68% to 1,513.17, returning to a five-year high. The index marked the fifth straight weekly gain. The Dow rose 113.81 points to 14,009.79. U.S. equity benchmark indexes slipped from five-year highs earlier in the week as a report showed U.S. gross domestic product unexpectedly shrank in the fourth quarter.
- Equities rallied as Labor Department figures showed payrolls rose 157,000 following a revised 196,000 advance in the prior month and a 247,000 surge in November. The jobless rate increased to 7.9 percent from 7.8 percent. Other reports showed manufacturing in the U.S. expanded more than forecast in January, reaching a nine-month high, while confidence among American households unexpectedly rose.
- Asian stocks rose this week, with the regional benchmark index capping a three-month rally, as Japanese equities gained on earnings and a pickup in Chinese industrial profits highlighted the region's growth momentum. The Nikkei gained 2.42% this week, capping a 12- week advance after Japan's Cabinet Office boosted its outlook for real GDP growth to 2.5 percent in the year to March 2014, from a previous projection of 1.7%. Hong Kong's Hang Seng Index gained 0.6 percent, while China's Shanghai advanced 5.6%. South Korea's Kospi Index added 0.6%.
- European stocks posted their biggest weekly decline this year as a report showed the U.S. economy unexpectedly shrank in the fourth quarter and Spain's markets regulator lifted a ban on shorting equities. The U.S. economy contracted for the first time since the second quarter of 2009. Gross domestic product dropped at 0.1% annual rate. A separate release showed that U.S. house prices increased 5.5% in the year through November, their biggest year-on-year gain since August 2006. Spanish banks slumped as the country's stock-market regulator, known as CNMV, said that it wouldn't extend a ban on shorting stocks.

Currency Update

- The dollar fell to the lowest versus the euro since November 2011 as a strengthening U.S. jobs market and expectations the Federal Reserve will sustain stimulus to ensure the recovery boosted investors' risk appetite.

Global Indices Movement

Indices	1st Feb 13	25th Jan 13	% Chg
USA			
Dow Jones	14,009.79	13,895.98	0.82
Nasdaq Composite	3,179.10	3,149.71	0.93
S&P 500	1,513.17	1,502.96	0.68
Asian Indices			
NIKKEI	11,191.34	10,926.65	2.42
KOSPI	1,957.79	1,946.69	0.57
SHANGHAI	2,419.02	2,291.30	5.57
TAIWAN	7,855.97	7,672.58	2.39
HANGSENG	23,721.84	23,580.43	0.60
European Indices			
CAC	3,773.53	3,778.16	(0.12)
FTSE	6,347.24	6,284.45	1.00
DAX	7,833.39	7,857.97	(0.31)

Currency Movement

Currency	1st Feb 13	25th Jan 13	% Chg WoW
USD	53.32	53.85	(0.98)
Euro	72.63	71.72	1.27
GBP	84.60	85.26	(0.77)
Yen (per 100)	57.85	60.30	(4.06)

Commodity

Commodity	1st Feb-13 (Rs.)	25th Jan-13 (Rs.)	% Chg WoW
Gold (10 grams)	29,975.00	30,564.00	(1.93)
Silver(kg)	57,256.00	58,582.00	(2.26)
Crude Oil(barrel)	5,213.00	5,167.00	0.89
Natural Gas(mmbtu)	176.00	185.60	(5.17)
Aluminium (kg)	109.60	110.00	(0.36)
Copper(kg)	444.90	436.50	1.92
Nickel(kg)	980.00	929.60	5.42
Lead(kg)	129.35	129.20	0.12
Zinc(kg)	113.55	112.10	1.29

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