

The Abundance Weekly

An exclusive BANHEM Research

VOL .84

2012 Outlook



"Since this issue is a yearly outlook, there will be no weekly next week. Regular coverage will resume from the week of January 23, 2012".

Global Overview

Welcome 2012!

MSCI World Index @1192:

Reading the tea leaves, we expect that 2012 will be a year of slowing global growth accompanied with heightened volatility.

We remain cautiously optimistic for the first half and more confident towards the second half of 2012.

We expect overall global growth to slow from 4.2% in 2010 and about 3.1% in 2011 to 2.60% in 2012 a little below the long run median.

In terms of global growth, we expect that 2012 will be a modest mid-cycle slowdown, a far cry from the sharp recession of 2009, when global GDP contracted 2.3% year-on-year basis. But, within this aggregate, we expect wide divergences. Our base case is that the EMU sovereign crisis will remain stubbornly serious provoking a sufficiently strong policy response from the ECB and creditor governments to prevent EMU disintegration and possibly a few disorderly sovereign debt defaults.

By contrast, we expect modest but sustained growth in the United States in 2012 and beyond, which will play the role of steam engine pulling the *world wagon*. We see relatively stronger – albeit slowing – growth in 2012 for emerging Asia, Latin America, Africa and Middle East.

BRIC leading the growth: As a result, we think it will be the BRIC nations that will give the major push as the engine at the rear end. The strongest piston in the rear engine, we believe, will be China that should directly account for roughly one third of global GDP growth, roughly twice the direct contribution from US GDP growth. In other words, while the US will initiate the recovery, emerging Asia, especially China will lead the growth with the biggest contribution to world economy.

Indices	Close
Sensex	15738
Nifty	4754
Hangseng	18593
Shanghai	2163
CAC	3137
DAX	6058
Dow Jones	12360
Nasdaq	2674
S&P500	1278

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Sino – US nexus: While it is clear that the global economic recovery will be led by China (in terms of percentage), it is even clearer that in order for China to sustain the GDP growth, it is imperative that the US stays out of recession. We see a *quid-pro-quo* here. Beijing will have to make sure that Uncle Sam remains financially healthy to ensure the safe-haven status of US Treasuries held by China and American demand for the Chinese goods. In return, the US will have to tone down the rhetoric about the Chinese Yuan's weakness (which has been gradually strengthening over the past few years) and any protectionist measures against Chinese imports in the US as well as political concessions.

Therefore, it is a foregone conclusion that in order for the world to see sustainable recovery, US and China must not only survive but thrive.

Risks:

European crisis and geo-politics: Euro zone crisis is far from over and might even get worse before it gets better. We foresee the risk of a series of further sovereign debt downgrades within the Euro zone over the next 1-2 quarters. We also see the resurgence of political risk intensifying in 2012, exacerbated by a concentration of elections in some of the world's largest economies and rising geopolitical risk in the MENA region and Asia.

Deleveraging of banks: The other potential risk lies in the deleveraging of the private sector debt that will continue to cap growth in the UK, US and Euro zone. This will be the unwinding of debt levels that have been trending up over several decades until recession-tainted 2008-2009. Eventually, the undoing of the record high private debt will culminate itself in to a solution to the pre-recession excessive credit extension, what we would call a curse becoming a boon as this would then improve the banks' balance sheets.

Markets could slip on oil! As we address, in brief in this space, the various issues plaguing the global markets and possible outcomes and solutions, there is a wild card that could still change the game. It is the potential energy shock. Crude has been in the news lately and with recent jawboning with Iran has only contributed to crude oil buyers' (rather speculators) belief that Strait of Hormuz is closing any minute choking the oil supply route (half of the world's oil is shipped through this narrow passage). Despite the strong possibility of the global equities finding a strong footing after a wobbly 2011 and may be 1st half of 2012, the oil shock could derail the efforts for the economic and financial markets' recovery. A sudden and strong surge in the crude oil prices could seriously undermine improvement in other fundamental segments of the economy worldwide.

Volatility is staying with us this year: With an increasingly inter-linked world and new financial products impacting markets and various asset classes, global markets have gone through a rapid change over the last decade. As the growth of derivatives continues, as high frequency trading expands and as markets become more globalized, market volatility will remain with us in 2012 and should start to abate towards the later part of the year.

The MSCI World Index looks boxed in a range for short term with resistance at 1250 in the near term. We think the index needs to test the support, which comes in around 1130. A break of 1130 should give pressure the index towards the October 4, 2011 low at 1074. We do not see the average breaking 1074 as the test of this support would have given the much-needed *closure* for the index to regroup and march north again. We need to see the 1250 resistance taken out before calling it all clear for assault on our 2012 year-end target of 1388 (April 29, 2011 high).

United States (S&P 500 Index @1278/Dow Jones Industrial Average @12360):

And the gold medal goes to Wall Street.

The Dow Jones Industrial Average took the top slot in global equity market performance for the calendar year 2011. The 30-blue chip average took the crown with 5.53% return.

We have been pounding on the table with our view of the American economy bottoming out for the past few months and Wall Street displaying the long nurtured maturity. Risk of testing October '11 lows notwithstanding, we feel vindicated.

Last week's data that further confirmed the bottoming process included:

- US manufacturing index expanded to 53.9% in December, the highest reading in six months, from 52.7% in November.
- Construction spending rose 1.2% in November, following a revised 0.2% drop in October.
- Initial jobless claims for the last week of the year 2011 fell by 15,000 to 372,000. Non-farm payrolls increased by 325,000 in December versus the rise of 204,000 jobs in November.
- Durable goods orders rose 1.8% in November.
- New jobs created during the first week of 2012 jumped to 200,000 against the expectation for 155,000 increase. The unemployment rate came down by another 0.2% to 8.5%, the lowest since February 2009. This time, not because of a decline in labor force participation rate, which held steady at 64%, but because people actually found jobs. The latest numbers help confirm the strength seen in the latest employment anecdotes, particularly ADP, and helps reinforce our theme that the US markets and economy are 'decoupling' from the negative macro-economic events engulfing Europe.
- In a related news coming from corporate America, Ford Motor Co. sales rose a whopping 10% in December yet confirming revival of consumer discretionary spending.

The slow and uneven growth in the US economy is expected to continue over much of 2012 before gaining traction for a sustained pace. Both the breadth and strength of the rebound is being held hostage by lingering imbalances in key sectors, fragile financial stability and unresolved policy matters.

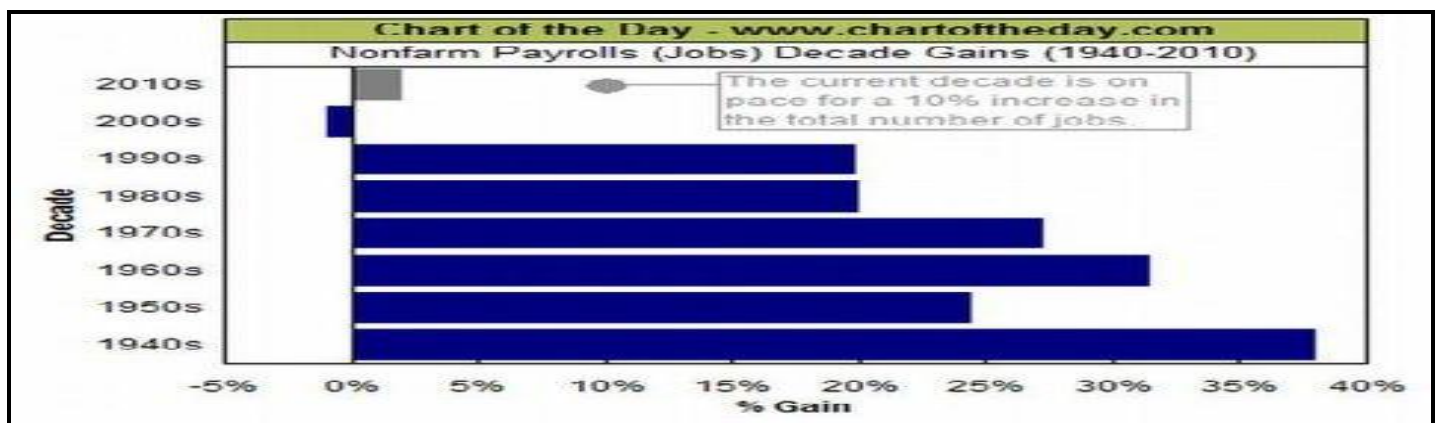
Despite the domestic uncertainties and global macro-economic negatives, recent pickup in growth reflects unwinding of temporary drags. Auto output and sales have rebounded as Japanese supply lines have reopened and production increased. Earlier weather induced disruptions have eased and the partial reversal of oil price spikes have buoyed discretionary income. Consumer spending is rising at the fastest rate in a year and business spending on plant and machinery is growing at double-digits.

Bank credit is rising again, led by near 10-percent growth in business lending, while consumer credit card limits are edging up. However, financial stress indicators are elevated and contagion from European sovereign debt crisis could feed through the banking system in the same way as the US subprime problem underpinned the global economy. Therefore, despite improving economic fundamentals, volatility in the US financial markets indicates that investors lack confidence in policymakers' abilities to head-off contagion.

While the housing is bottoming, we yet have to see meaningful revival in the sector, without which a broader recovery could be difficult. Prospects favor rather modest gains in homebuilding, mostly in lesser value-added apartment building. Although home prices have steadied in many parts of the country, vacancies and visible inventories are high, while more than a quarter of mortgages are under water. In fact such deeply depressed is the traffic of homebuyers that there are real-estate themed guided tours to lure potential local and foreign tourists to buy real estate.

The relative weakness in construction and finance along with retrenchment in state and local sector has contributed to slow employment gains and we expect the jobless rate to diminish rather modestly in 2012. Although the recovery has netted 2.3 million new jobs since early 2010, the employment-population ratio is still near a 30-year low. Despite strong corporate profits and historically wide margins that typically have signaled strong labor markets, policy uncertainties may be exacerbating firms' reluctance to expand.

Our work suggests that from peak to trough America has lost 8.9 million private sector jobs according to the official establishment survey. Since the February 2010 bottom, only little over 3 million of those lost private sector jobs have been recovered. Construction employment still remains down over that same period. Overall, the 3 million jobs that were created translate into 140,000-150,000 jobs per month. There lies a lot of room for improvement, which could eventually propel the economic recovery to a faster pace.



During the last decade (2000s), not only was that 20% plus growth not achieved, the decade actually ended with less jobs than when it began. This negative job growth is particularly noteworthy due to the fact that the U.S. population had increased by 10% during the same time frame.

Two years into the current decade (see gray column), the chart illustrates that job growth is positive. If job growth during the current decade were to increase at the same pace as what occurred during the first two years, the decade would end with a 10% gain in jobs (see gray dot). This is certainly better than the decade just passed. However, it is well off the 20% plus pace of decades past.

Greenback continues to break out: As expected, the US Dollar continues to make strides, especially against (and to much extent due to) the Euro. Current chart patterns indicate another 10 percent upside in the US currency that could hurt the US multinationals in the interim but on the same token keep the US Dollar based assets with the 'attractive' tag. Not too long ago, investors worried about the future of the Dollar, now it is the turn of the Euro to face the music.

In light of prolonged near-zero interest rates for a couple of years and flow of funds finding way in to the US, we expect the US Treasuries yields to remain and even go lower to around 1.50% (10-year note).

US stocks should continue to dominate the global scene as mentioned repeatedly in the recent past that the backdrop of strong corporate balance sheets, election year impact and record high liquidity in funds will be able to provide strong structural and fundamental support. We also see 'January effect' playing out this year. The first five days of the new year have produced an overall positive performance for the S&P 500 index and as stastically proven, if the month ends on an up note the year could also end up. As the saying goes, "the year goes as goes January."

This week, the S&P 500 Index revisited the resistance zone 1270-1290. Immediate support stays at 1202-1225 while the break of 1290 expands the odds to test the April 29, 2011 high of 1370 (our 2012 year-end target).

Dow Jones, too, shows immediate support around 12000. We see potential for the retest of April 29, 2011 high of 12876, and a new three-year high over 13000.

Europe (STOXX50 Index @2299):

2012 – A year of financial and fiscal consolidation.

The sovereign debt crisis is probably causing a renewed recession in the Euro zone, but we would caution against getting sucked in to a doomsday scenario. The recession should be mild, but painfully long enough to last until early-mid 2013. A little over 1% contraction in 2012 should set the stage for bottoming in the economy in early 2013 that could show a fraction of percent fall in early 2013 before the fiscal consolidation and clean up of banks' balance sheet clear the path for Euro zone to come out of the woods.

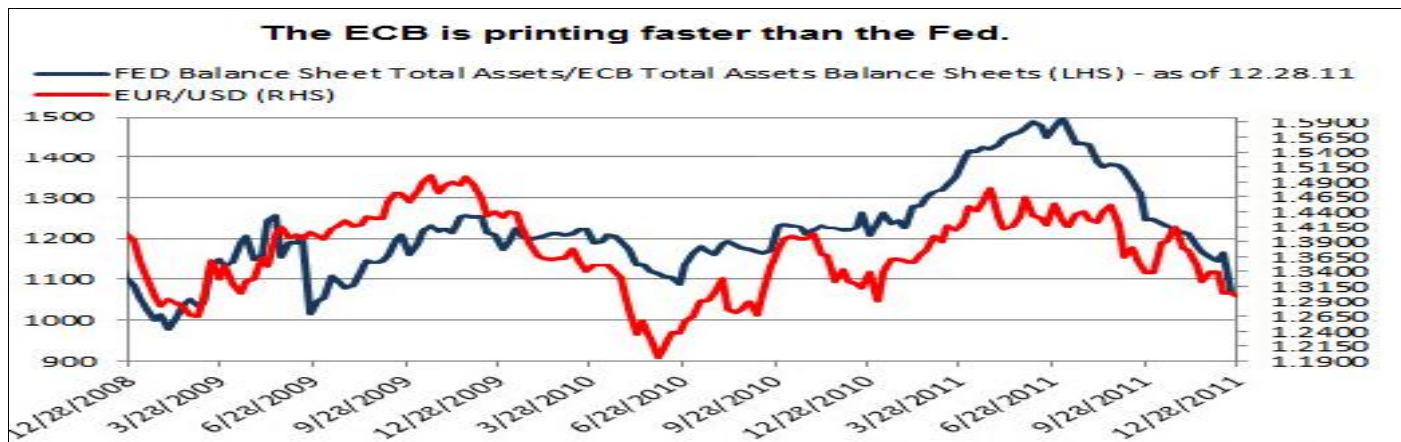
Ironically, the onset of the renewed recession is coincidental with the old recession, giving the Euro zone a double whammy. The burden of facing two recessions could get exacerbated by an escalation of the sovereign debt crisis. But, we think the escalation will be more in intensity than the magnitude.

Hence, although we expect this new recession to be much shallower than that of 2008-2009, it is likely to produce a significantly wider output gap. In this environment, the unemployment rate, which has already started to rise from the trough of 9.9% in mid-2011, is likely to increase somewhat.

The persistency of the crisis is also expected to lead to additional fiscal tightening in the non-core nations in 2012. Furthermore, the strained banking sector is likely to impose tighter norms for financing, adding to pressure for private sector deleveraging. This could lead to broad-based contraction in the domestic demand.

ECB cutting rates: In the last recession, the ECB set a lower bound of 1.0% for the main refinancing rate. Instead of cutting rates below 1.0%, the ECB engaged in additional liquidity measures to reduce market rates further. The ECB, then, had highlighted the distortion possibilities of overly-low interest rates, but had kept its options open in case of worsened circumstances. With the risk of deflation making a case for lower than 1.0% rates, we suspect the ECB would reduce rates this year to combat prolonged weakness of the Euro zone economy caused by the current sovereign debt crisis. A rate cut in the 2nd quarter to 0.5% would be in order.

We believe the ECB will also offer banks open market operations, as non-standard measure, to pump liquidity as and when required. The ECB is also expected to expand support for effected Euro zone governments by buying sovereign as well as corporate (bank) bonds.



Collapse of Euro or EMU?.....Naah.

The Euro zone problems are expected to yield new shapes and forms in terms of country or entity specific coming close of default, but these challenges, we believe, will be met with equally flexible set of solutions engineered by policymakers, within as well as without the region. Therefore, we assume the Euro zone will not break up, and that no nation will exit the EMU in 2012.

Needless to say that the Old Continent is stuck in a-hard-and-a-rock situation. Belt-tightening to curb spending resulting in fiscal restraint *being the hard and urgent need to create jobs and stimulate the economy being the rock*. Fresh news negative news stemming from old structural problems is expected to cloud investors' mind (case in point last week when Spain had to offer highest yield in 25 years to attract funds in the latest auction) while poor sentiment coupled with ad hoc measures adopted by the policymakers will keep the volatility in the region alive. We expect the region's equity markets to regain stability late 2012/early 2013 after producing pretty much a flat year.

Dividend yields look attractive relative to bonds and cash: Relative attraction of the European equity market's average dividend yield compared to other asset classes is a face-saver and deserves attention. Dividend yields are currently higher than 10-year government bonds across a range of Europe's largest economies. In the UK the 2012 expected dividend yield stands at 4.1% versus the 2% yield in the Gilts, in France the CAC-40 is expected to have yielded 4.9% in 2011 compared to the 10-year government bond yield of 3.29%. In Germany, the DAX is expected to have delivered a yield of 4% in 2011, the 10-year German Bund is currently yielding below 2%. Considering other members of the EMU, the pan-Europe's average yield stands at 4.4%, which (including 2009 when dividend yields surpassed bond yields for the first time) makes it the first sustained cross over in more than half a century. And should our prediction of a rate cut by ECB come to fruition, the dividend yield case becomes even stronger. Telecom and banking stocks stand out in this space.

Conclusion: Structural growth uncertainties, fiscal restraints, nagging sovereign debt crisis, declining earnings environment and constant struggle to get the ECB as lender of the last resort will continue to dog the European bourses. On the positive side, an eventual long term plan to monetize the sovereign debt, drop in the credit default swaps (CDS) rates, pickup in the manufacturing activity, drop in inflation and relatively higher dividend yield should provide support against any serious drop in the equity markets of the region.

The STOXX50 Index almost reached our upside target of 2400 (2392 on the 1s trading day of 2012) regis, and is currently consolidating towards 2182 (December 2011 low). A break of 2400 should take the index higher towards 2500, from where we are expecting a few pullbacks but we are expecting the index to end the year 2012 on a flat note.

Asia (MSCI Asia Pacific – ex Japan Index @114):

As the world is looking eastward, the expectations of seeing the biggest contribution to the global growth coming from the region are also increasing.

By virtue of high growth prospects the Asian region is already under the spot light. Two out of the four-nation BRIC block – China and India – are in Asia. Both nations carry significant weight in influencing the global GDP growth. Positive factors behind this reliability include strong domestic consumption, solid exports, relatively better balance sheet of banks and favorable demographics.

China: China has carried this weight very well in the last few years, but we do see hurdles for what is interchangeably referred to as the world's largest economy now with the US. We have no intention of being the party poopers, but if one is thinking China is immune to external development, we recommend a reality check.

China's days of double-digit growth are history, at least for now. A 7.5%-8.0% range of GDP growth over the next few years should be more realistic. Exporters will likely to continue to encounter margin squeeze and consolidation.

External and domestic risks may derail macro stability. Top hurdles include: sovereign debt crisis may worsen further creating deeper-than-feared recession in Euro zone, the real estate speculation control may fall short of target if policy fails to act in time, if there is QE3 in the US, inflation expectations may rise in China through capital inflows and rising commodity prices and finally capital flight (contradicting the last reason cited) may be a newly-emerging risk.

Not only the global macro economic developments are expected to impact the Chinese growth prospects, but also compel Beijing to give in to west's requests for contribution to the Euro zone coffers. China's manufacturing PMI has been strong. Latest figure for the month of December showed a rise to 50.3 from 49.0 in November. This was partly due to seasonal demand ahead of Lunar New Year in late January. The service PMI held steady at 52.5 in December, capping off the seventh consecutive year of expansion. The real economic numbers e.g. Industrial Production remains solid, but is showing signs of tapering off lately. November figure slowed down to 12.4% y-o-y 13.2 y-o-y in October.

We believe Euro zone problems are already knocking at Great Wall of China. Severe slowdown in Europe is going to take some shine off China. This is evident from the latest trade figures. China's trade surplus narrowed to \$14.5 billion in November from \$17.0 billion in October and was below consensus expectation of \$15.2 billion. China's cumulative 2011 trade surplus fell to \$160 billion from \$183.1 billion in 2010, with the figure as a percentage of GDP dropping to around 2% from 3.1%. This should please Washington, which has been urging Beijing to keep the ratio below 4%. Given the slow recovery in developed economies and still robust domestic demand, we expect the gap to narrow even further.

Hopes from China: We believe expansionary fiscal policy is expected to forestall downside risks. The general government debt level is still manageable. China will most likely maintain a proactive fiscal policy stance, setting the budget deficit at close to 2% of the GDP in 2012, after 1.0% during 2011. If fully implemented, that would provide a shot in the arm to domestic demand. Knowing China, spending is likely to be tilted toward social safety net (social housing, health care and pension) and infrastructure (irrigation, electricity and strategic sectors e.g. farming).

Pan Asia: Rest of Asia continues to remain hostage to global macro economics development. Sentiment has been on the edge as media has done an excellent job to sensationalizing the Euro zone problems beyond rationale. We foresee Asian markets trying to decouple from the external factors that may not necessarily underpin local economies or bourses. Relative strength in Asian banking system, success in combating inflation and high growth prospects are perfect ingredients for an Asian porridge – *not too hot not too cold*.

Weighing the fundamental data at hand, we are forecasting a 20% gain in the region's equity markets. Depending upon the progress (or lack thereof) in the Euro zone, where we are more optimistic than most of our competitors, we see external influence getting diluted over time and domestic fundamentals taking charge of the economies and markets.

The MSCI Asia Pacific – ex Japan Index has been unexciting. With 107-109 support firmly in place, we are eyeing first resistance at 118, followed by second one at 124. Although our prediction calls for yet higher target of 140 to surpass the hat trick of 2011, market needs conviction of flow of funds with a decisive break of 124.

Japan (Nikkei 225 Index @8390):

Tax Hike Bill: Consensus is calling for the Japanese economy to grow at a relatively stable pace in 2012, mostly driven by reconstruction demand from the earthquake. However, the underlying trend in the economy, which is largely driven by exports and industrial production, will likely be sluggish until the 1st half of 2012. Our view reflects lackluster growth in major trading partners and the Yen's strength. Meanwhile, in the global context of sovereign debt problems, the Japanese government plans to take a first step towards fiscal reform – proposing a consumption tax hike bill – this week. However, even this modest step may face significant political opposition, as is the case in Europe. As a result, most analysts remain cautious about Japan's fiscal outlook. But large private savings will likely continue to more than offset fiscal deficits, keeping the Japanese Government Bond (JGB) markets relatively peaceful over this forecast horizon.

Exports slowdown: After a sharp rebound driven by the normalization in supply chains until early summer, exports started to show compelling signs of slowing in recent months. Surprisingly, exports to China, especially those of capital goods, lost steam following a sharp increase in 2009 and 2010. This probably reflects not only the slowdown in the Chinese economy, but also a deterioration in the competitiveness of Japanese products in China in the wake of the sharp Yen appreciation against the Yuan, Korean Won and Euro. We suspect the Yen is going to remain quite firm against most currencies, more so against Euro. With the EMU debt crisis looming large over financial markets, we are likely to see periodic surges in Yen (safe haven bet).

High savings rate to rescue: Under the assumption that the consumption tax hike is not implemented, we expect the fiscal deficit to stay around high single digit of GDP and the debt to GDP ratio to rise substantially over the next few years. The reason we say "assumption" is because the bill faces strong opposition within the Democratic Party of Japan. And, the ruling coalition lacks an absolute majority in the Upper House. The bill cannot be passed in such circumstances. Besides, the Administration has promised to hold general elections before implementing the consumption tax hike and so the election outcome might nullify the administration's plans.

Therefore, Japan's debt ratio could very well be by far the worst among the industrialized nations. However, ample private saving is still likely to more than offset fiscal deficits in coming years. The corporate sector maintains large excess savings while the household savings rate now shows signs of a pickup, contrary to general perception that the rapidly graying population will push the saving rate into negative territory. We see the risk of further downgrade of Japanese sovereign debt rating, but do not expect any crisis in the immediate future, thanks again to the high saving rate.

The equity benchmark index did catch up this week to test our original immediate upside target of 8600 and has since reversed course to test 8330 and 8135 before it regroup for a fresh assault on the upside. While our short term upside target is 9150 we have chalked our 2012 year-end target at 10200.

India (SENSEX @15868):

2011 was a year that most investors and money managers alike, investing in India, would rather forget. Not only the Indian equity market produced negative return of 24.62%, but the Indian Rupee also shed 18.70% for the year.

Indian economy growth moderated in 2011 on the back of cyclical headwinds (read tight monetary policy) and loss of confidence in policy making weighed on business and investor activity. The RBI maintained its anti-inflationary stance for most of the year and hiked interest rates consistently by 350 basis points (225 bps in 2011). The GDP growth registered below 7% mark in the September quarter and inflation remained elevated. Despite the sharp hike in rates, private consumption held steady. This was reflected in the continued strength in top line growth for corporate, while profitability was impacted by higher input costs and rise in borrowing costs. Corporate balance sheets remain strong helped by low leverage and free cash flow generation. Most analysts have altered their GDP forecast for FY13 to around 7%.

Fiscal deficit – government helpless, but not hopeless: As the fiscal deficit shows trajectory of overshooting the target of 4.6% of the fiscal year GDP, the fiscal and monetary authorities are struggling to walk the tight rope of taking action as and when warranted but without exhaustion of limited resources. The fiscal deficit during April to November was Rs.3.53 trillion or 85.6% of the full-year target compared with 48.9% of budgeted target same period last year. Our preliminary estimate shows the deficit to widen to between 5.1-5.6% of the GDP in FY12. This is significantly higher than budgeted target, and the overshoot is largely due to slippages on both revenues (lower tax collection and sluggish divestments) as well as expenditures (higher subsidies on food and fuel).

With limited room for maneuverability compared with 2008, the government has little choice but to raise an additional Rs.92,800 crore. This has put considerable pressure on the currency, which alone has been responsible of shaving off 8% of the Indian equity valuation in 2011. We believe the policymakers' recent measures some of which include: raising the permissible interest rates on loans/NRI deposits, raising debt limits, opening Dollar swap-lines should ease the pressure on the currency. While opening of FDI to more sectors, the possibility of Dollar bond issuance, attractive perks to lure declared funds overseas back in to the country and offer amnesty to bring in undeclared wealth to India would beef up fund inflows.

We could see the government resort to number of measure such as mentioned above to bring down the deficit.

Positives: Measures and developments that look promising enough to support equities at this time are:

-Recent announcement of Qualified Financial Investor (QFI) being allowed to buy Indian shares. This should open new avenue to bring liquidity and have broader investor participation. That should, to some extent, help narrow the spreads in the derivatives on the underlying indexes and stocks.

-Rupee weakness, while has been a major negative factor, ironically has also become a selling point for Indian equities. Presumably, most of the damage already done, the current level of the currency makes the Indian shares, whose revenues are primarily generated overseas, extremely attractive. With potential foreign exchange gain, exclusive of the dividends and capital gain, could aid the stock market recovery.

Conclusion: High growth prospects, generally strong corporate earnings and abating inflation makes Indian equities attractive. Fundamentally, the SENSEX is trading at 13x earnings multiple, a 10% discount to the average, making Indian shares an attractive investment. With volumes rising back to normal level (Rs.100+ billion) from the recently registered lethargic volume of Rs.50 billion on average, indicates that delivery-based buying has caught momentum. Upcoming quarterly report card should show an overall positive picture, but we would be watching for guidance for cues in the immediate future.

Fixed income: The RBI continued to pursue monetary tightening to tame sustained high inflation in 2011. In the absence of complementary fiscal policy measures and policy paralysis, the RBI introduced couple of key changes – (i) moved to single policy rate, and (ii) de-regulated the savings deposit rate.

In an environment of low bond yields across developed world, FII interest in Indian bond markets has remained high – FII flows aggregated \$8.5 billion. We are recommending investors to lock in the presumable peak in interest rates. We are expecting the monetary policy to shift to easing cycle in the 1st quarter of FY2012-13.

Techni Color (SENSEX @15868):

Last week, we said, “The 30-blue chip index did march northward but fell short of our target of 16500 and has since weakened from 16049 to break 15475 (61.8% retracement of the recent rally), which now opens the risk of a test of 15135 (December low and point of reversal). Index might wait for global cues as Monday (2nd January) is a holiday in many western markets. “

The SENSEX index took a sharp turn back up from 15358 has been consolidating between 16049 and 15678. A break above 16049 seems to be on the cards this week with immediate target of 16450-16500.

The index has remained in a bearish trend since October 2010. With RSI reading showing recovery in the weekly charts and MACD beginning to catch up, we can expect a recovery within the downtrend channel. With potential 10-12% gain, our 2012 year-end target is 17900-18000. We need to clear the 200-DMA around 17003, which also happens to be the December high, for pick up in the momentum to the upside.

Metals:

Copper @\$7,496:

In 2012, copper might tip either way as the demand/supply factor is showing neutral case. The combined inventories in the London Metal Exchange (LME), Comex and Shanghai Exchange registered warehousing totaling 540,271 metric tons as of mid-December, 2011, a slight deficit of 7,553 metric tons (1%) compared to a year ago. This is in line with the equilibrium and therefore a neutral factor. The red metal would only garner fundamental demand when macro global economic backdrop yields a major change for the better. With Euro zone problems persistent, Chinese demand keeping low, Japanese not showing major change in their reconstruction demand, the US infrastructure projects yet to be implemented and Indian infrastructure projects bogged down in the policy impasse and red tape, we see little reason to be bullish on the metal.

Technically, however, we would watch \$7,800 resistance for short term for a rally up to \$8,300-8,400.

Gold @\$1,611:

The gold market has had an excellent run making annual highs for ten consecutive years. Currently, however, the fundamentals are not clear enough to support the repetition of the past ten years' performance for gold. One of the main factors affecting the demand for gold is the desire to replace the paper currency with gold as the metal is, generally, seen as a tangible and liquid asset class. Recently, the nervousness about the prospects of survival of Euro did not create a pickup in demand for gold though. The Euro weakness, instead, pushed the demand for US Dollar pushing the yellow metal in a meaningful correction. The Dollar, which trended lower for the 1st half of 2011, and treaded sideways in the 3rd quarter, has climbed back to the highest level since January (we have discussed the Dollar forming a long-term bottom in our recent editions) further underpinning gold.

In terms of inflation, the basic school of thought of easing and government fiscal deficits fueling an inflationary spiral has not borne out either. Interest rate hikes in China and India have quieted inflationary pressures there, while fiscal austerity measures to address budget deficits have trumped the expansion in money supply in the OECD.

For interest rates, the less than 2% yield on US 10-year Treasury note represents the broader opportunity cost to holding a long position in gold. Declining interest rates tend to support gold as evidenced by the last decade's bullish move in gold, which we think remains the only major supportive factor for gold at the present time. However, the longer term downtrend in rates may be coming to an end. Rates may not be heading higher in the near future, but they may be at the bottom already.

Therefore, we think the fundamental story for gold has turned from bullish to neutral for now, suggesting the time has come to shift away from the bias of long term holding (or even hoarding) gold to more flexible trading approach.

Technically, the three-year uptrend in gold remains intact, support wherein is detected around \$1,544. Next support comes in at \$1,523 (last week's low). Selling can be expected around \$1,641 (mid-December high). Only a clear breach of 200-DMA @\$1,633 would make a case for another bull run for gold for a test of all-time high of over \$1,900.

Oil @\$101:

Crude oil prices had remained depressed recently as fears of a potential Iranian supply disruption have faded a bit until the last few sessions' move on the upside. Additional supply from Libya has also eased the pressure on crude prices overall while challenging the OPEC's target of limiting the production to 30 million barrels per day. We suspect that with declining seasonal demand over the next quarter or so should also release some pressure on oil prices.

However, geo-political risks (Iran) potentially choking any supply routes could undermine oil prices. The only other fundamental reason really would have been a booming world economy, which regrettably a mirage for all of us at this time. Technically, a decisive move above \$100-102 does open the risk for run up to \$108-110 zone.

USD/INR @52.73:

With a loss of over 18% for the year, the Rupee seems to be in no mood to turn around. We tried to check the pitfalls behind the weakness of the currency.

India Inc. foreign debt: Indian companies have international debt of around \$240 billion currently @4%. If hedged for foreign exchange risk, another 4% would have to be added to the cost. This totals to 8% compared with a 10% borrowing in local currency. Had India Inc. borrowed in Rupees, they would have had a windfall. Or alternatively, had they hedged, the cost would have gone up from 4% to 8%, but they would have saved themselves from an 18% loss in exchange rate. Then why did the Indian companies hedge?

(1) According to Mecklai “lack of liquidity is a major cause of lack of hedging”. There is an inherent message. India has to manage the liquidity issue more vigilantly, which once again brings back to the pavilion of limited resources at the RBI’s disposal. We think it is the job of the commercial banks to guide and encourage foreign exchange hedging to reduce risk and cost to the local borrower/importer/exporter.

(2) Rupee has never in the past moved as much as it has now. Therefore, it was also complacency on the part of borrowers, who never foresaw such fierce move on the downside. This also caused the losses to pile up.

Another reason for the Rupee weakness is the indirect strength of the Dollar strength, which again, has materialized on the back of the Euro zone crisis negatively impacting Euro. Average borrower did not see the Greenback gaining so strongly and therefore, waylaid hedging thought.

Better than 1997: Recent discussion on TV with the former RBI Governor – Bimal Jain, the guest commented that India is in a much better shape than during the 1997 currency crisis. He is right. India’s coffers have built up in the last one and a half decade. The war-chest is not fully bulletproof though but some coverage to smoothen the foreign exchange volatility is better than no coverage at all.

Finally, the RBI has released draft on BASEL III norms, which it says must be implemented by 2013 and met by 2017. This is another concrete step in ensuring better asset quality program in place for future.

Other than that, the RBI’s firepower is rather limited. Less than expected tax revenues and more than expected subsidy expenditures have left central bank on the tenterhooks. A far improved economic backdrop with foreign investment flooding India would probably do the trick. We are not able to see the magician.

Technically, the USD/INR is in uncharted waters. However, considering the six-month short term uptrend, 52.50-52.75 is a minor support for the Dollar. A 2-3 days of close above 53 would push the Dollar toward 55+.

-Ramesh Sadhwani

(All stock indices are as of close of business January 6, 2012 and the commodity and currency prices are as of close of business January 9, 2012)

India continues to remain amongst the best placed in terms of domestic consumption, demographics, rising income levels and robust underlying demand. Here is a review of the factors holding us back and expectations for the year 2012...

India Offers...

India continues to remain the 'land of opportunity' as the world remains muddled in the crises dawned upon us post Lehman bros collapse in the autumn of 2008. The huge middle class, rising disposable incomes, increasing aspirations, robust domestic consumption, high savings rate, healthy and well regulated financial system and strong underlying demand for credit have been the fundamental drivers of the India growth story.

India Succumbs...

However India has had its fair share of issues in regard to stubborn inflationary pressure, political logjam, interest rates steepening, corruption scandals, environmental clearance issues as well as sharp erosion in confidence levels of India Inc.

The UPA-II government after a resounding victory driven by welfare schemes such as the MGNREGA has all but faltered in its agenda in terms of strong development of infrastructure projects, disinvestment in PSUs, lack of reforms in banking and insurance sector, poor additions to power capacity, provide an attractive climate to attract FDI as well as bringing in swift and clean governance.

India at Crucial Juncture...

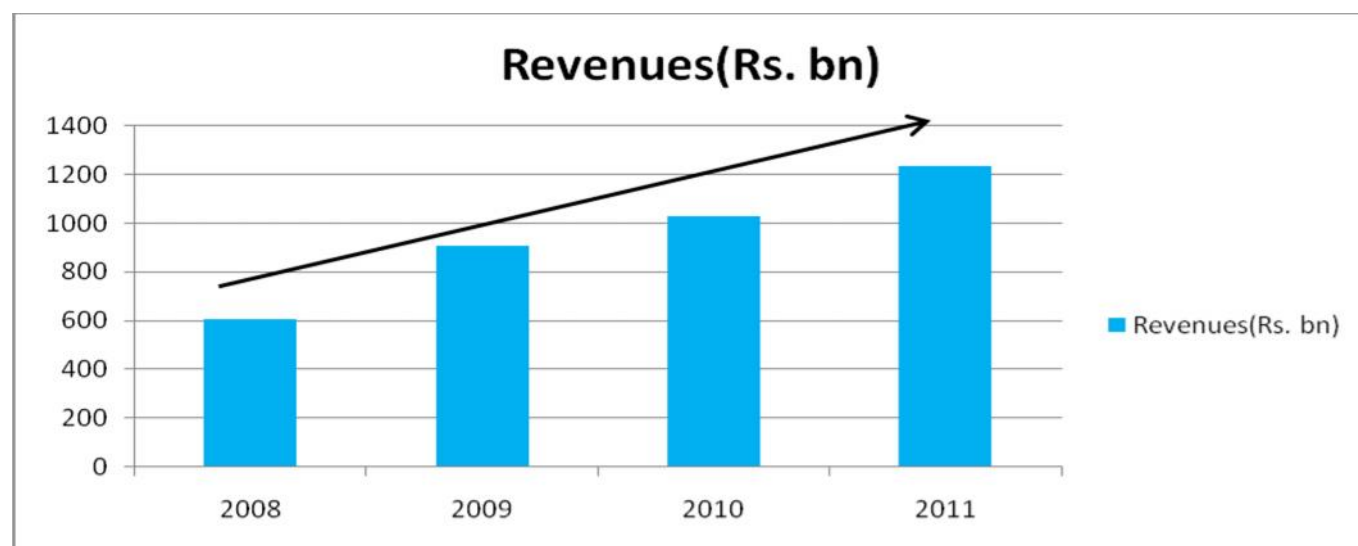
With the general election being a couple of years away and India witnessing significant slowdown on account of headwinds in terms of lackadaisical policy decisions, tight monetary policy, sharp deterioration in global economy with recession knocking at Europe's door, we believe it's about time the Indian government puts the feet on the pedal and accelerates second generation reforms.

The government, after showing signs of seriousness by the approving 51%- FDI stake in multi-brand retail succumbed to coalition dharma. Hence Indian as well as overseas investors have chosen the sidelines as safe place to be, keenly await for the 'big push' in terms of policy reforms on land acquisition, Mining policy, DTC and GST, investment friendly policies to attract FDI flows, boost competitiveness of exports, and bite the bullet in terms of doing away subsidies in politically sensitive areas such as fertilizers and diesel and derivative products which would showcase its seriousness in attaining fiscal discipline. It's about time the government prunes the image deficit it has built over the last 2½ years.

Have the pillars of growth weakened?

Middle class / rural India to cushions the fall...

India's middle class population which is estimated to be above 200mn despite accounting for ~20% of population remains the fuel of the India's growth engine. The middle class demand for everything from high quality education to durables to connectivity to entertainment to protein rich diet to financial services to luxurious products remains buoyant and envious. Disposable income derived from our sample size of 3703cos has moved up by 15%YoY in nominal terms. The government's employment scheme MGNREGA has played an important role in improving the income level of the huge rural population which has been a major cushion to India's growth over the last three years, wherein blue/white collared jobs got the stick in urban cities. Revenues for our sample size of 20 companies in the FMCG and Consumer Durable space have registered revenue growth of 27% over FY08-11. We believe the resilience in demand from the middle class and rural population would be largely instrumental in cushioning the fall.

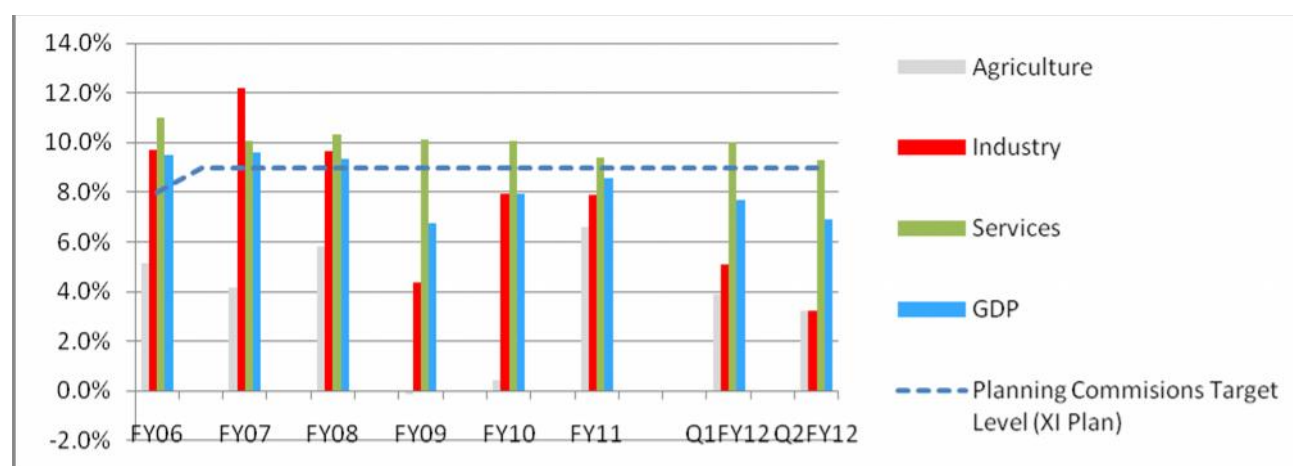


GDP growth still amongst the best...

Services resilient, Industry slips, Agriculture buffers

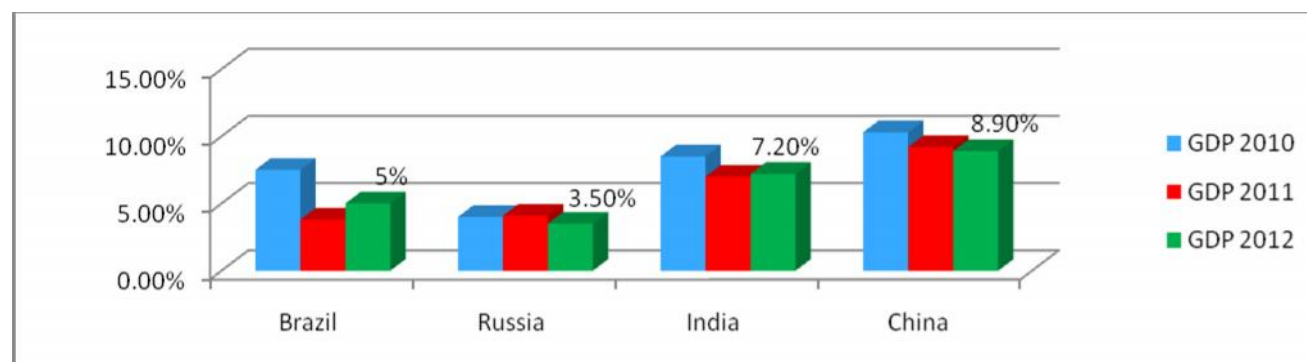
India has been the only country besides China which has successfully managed to hold on to respectable growth rates since 2008. India has clocked an average growth of 7.8% over the last three fiscals (FY09-11) however the **momentum has shifted from manufacturing and services to Agriculture**. Though there has been weakness across the board, agriculture has emerged as the pillar of strength for the Indian economy.

Agriculture which contributes 14% of GDP recorded a growth of 3.2%YoY in Q212 compared to 5.4%YoY seen last year. On the other hand, manufacturing growth has more than halved from 7.1% in Q211 to 3.2% in Q212. *Manufacturing and services have witnessed headwinds on account of monetary tightening, raw material costs, delayed capex and significant rise in global uncertainty. Services growth has relatively held up, growing 9.3% compared to 9.6% seen last year. Agriculture continues to observe healthy growth* on account of normal monsoons this year as well. Consensus GDP growth estimates for FY12 have been significantly lowered to ~7.1-7.3%. **Thus the planning commission's target level of 9% average growth over the XI five year (2007-12) has turned out to be too farfetched.**



Source: Banham Research

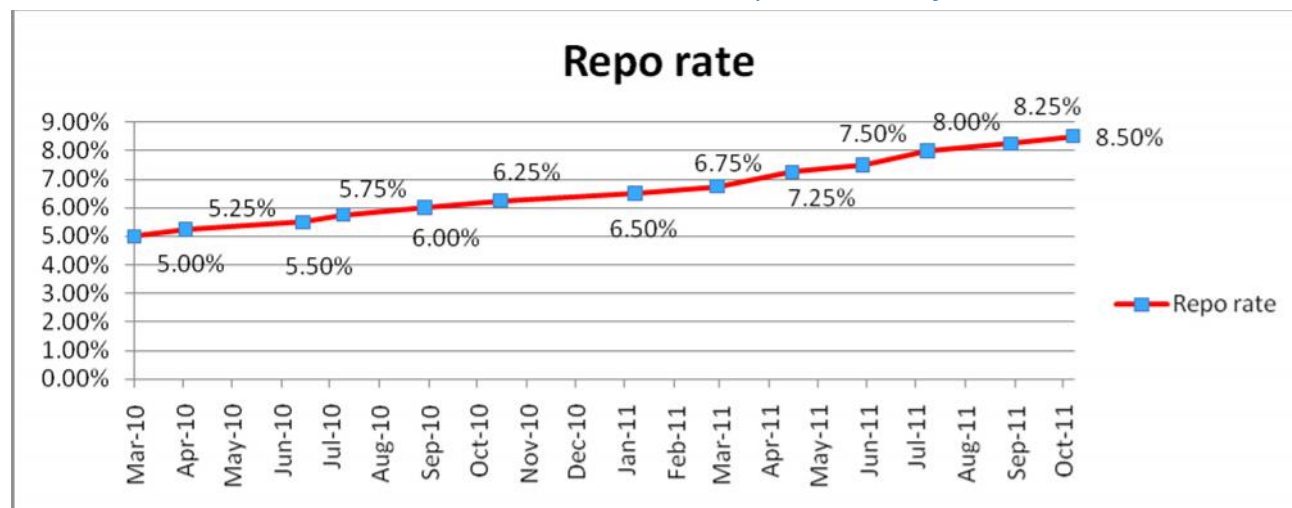
Nevertheless, on a relative basis India continues to remain an outperformer on the global scene and is expected to clock a healthy growth premium compared to its first two cousins in the BRIC formation.



Source: Banham Research

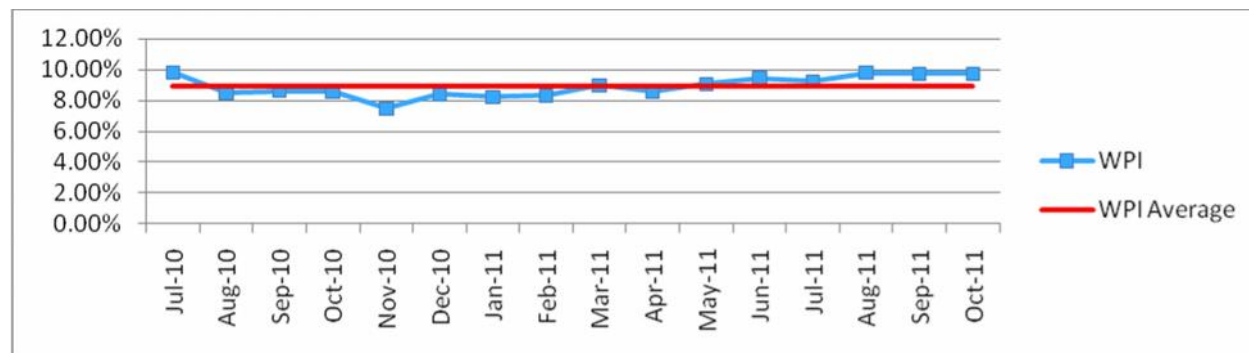
Monetary policy tightening cycle at its peak...

RBI has hiked rates 13times since March 2010 in its attempts to tame inflation



Source: Banhem Research

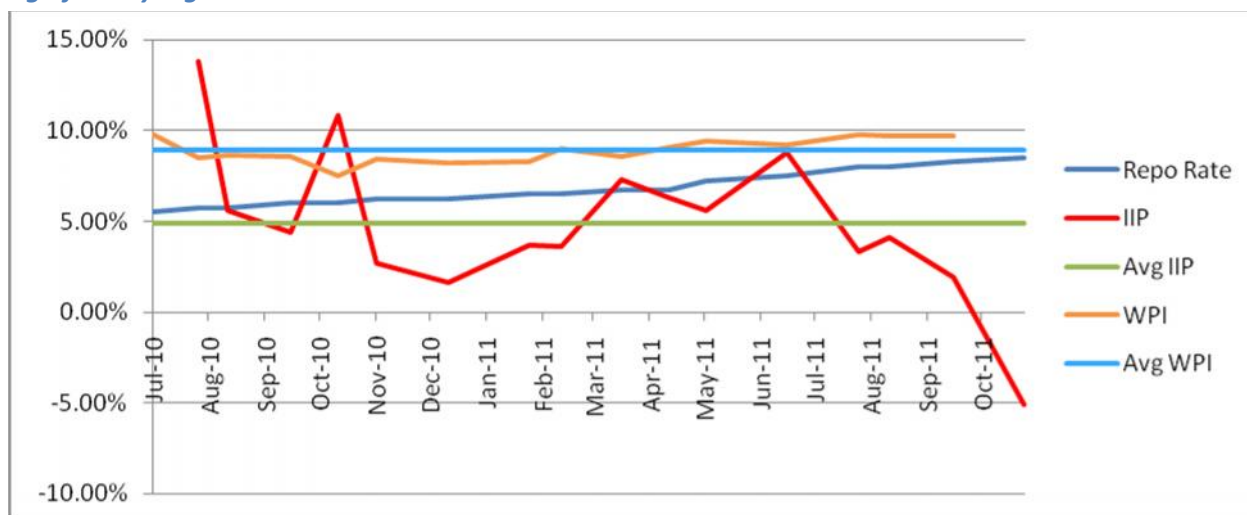
The RBI has aggressively hiked repo rate over the last 21 months as inflation has remained extremely stubborn with WPI averaging 8.9% since July 2010, since the data as per new base year is available.



Source: Banhem Research

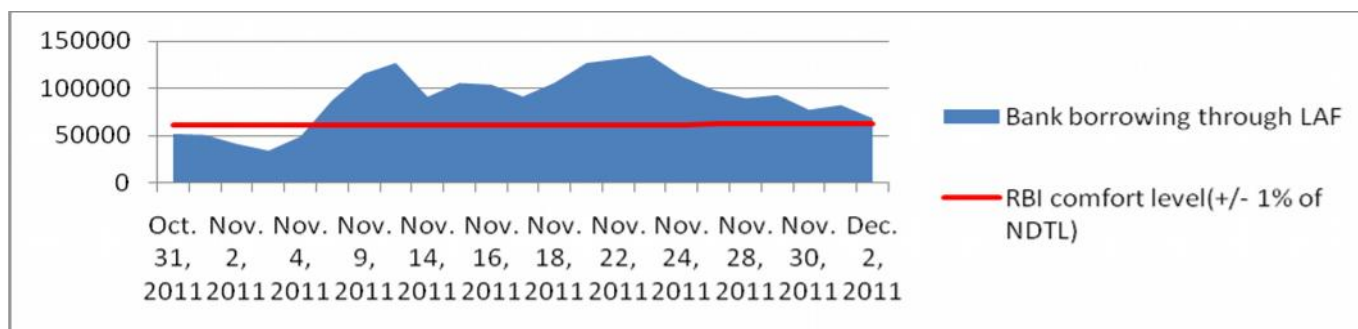
However we believe that inflation is likely to taper towards the RBI estimated level of 7% by March 2012 as seasonal factors and deteriorating global demand push prices lower. Food inflation for the week ended Dec17, has declined sharply to 0.42% compared to 1.81% in the previous week. The IIP data for October at -5.1% compared to 2% (revised) for November has further provided deafening evidence to demonstrate the slowdown in the domestic economy. On the other hand the core sector data, which accounts for 37.9% of IIP, for November has recorded robust growth of 6.8% compared to the 0.3% growth in Oct and 3.7% in Nov 2010.

Though the IIP data has been erratic it's still a reflection of the stifling environment manufacturers are currently facing. Though RBI policy action has been minimally effective in bringing down inflation, it has certainly put in disarray corporate capex plans as well delayed retail consumption. *However, we also believe not all ills in the economy have been due to the RBI rate hike spree and the lackadaisical attitude of the government on reforms is equally responsible. As in the absence of the sharp hikes, inflation rate in the system could have been significantly higher*



Source: Banhem Research

We believe given the clear signs of weakness in factory output and inflation moving decisively lower, has enabled the RBI to assure Corporate Inc that borrowing costs would move lower going forward. Corporate India is likely to redraw its investment plans as the rate cycle begins to turn, however government policies would be major determinant for implementation of these plans. *We expect RBI to begin the rate cutting cycle towards start of FY13 and hence expect explicit dovish comments from the central bank in the interim period to revive confidence across the board.*



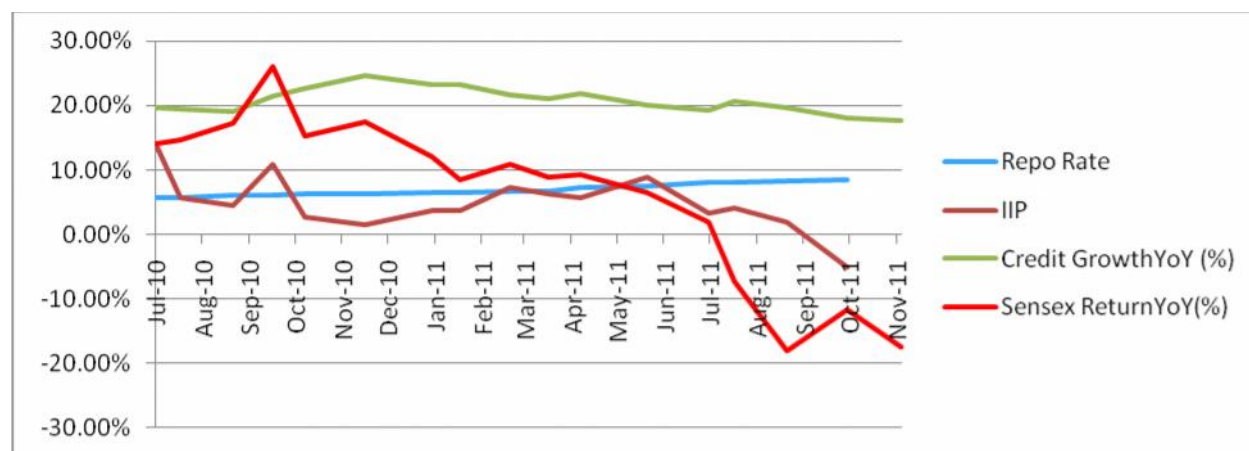
Source: Banhem Research

RBI has already initiated several OMOs during December to ease the liquidity in the system...

Momentum in credit growth has slowed but underlying demand remains strong; RBI rate cuts expected to begin FY13; pick up in credit to lag...

Credit demand in the system after growing at robust pace in the first half of FY12 has tapered below RBI's target level of 18% for the year. RBI's tough stance on inflation and consequent rate hikes has been instrumental in lowering credit growth however we believe the significant hurdles faced by the industry in terms of business environment has also pushed momentum lower.

Credit growth has begun to slow as the economy has begun to moderate, however considering credit growth to be a lagging indicator, growth in advances could witness sharper moderation in the months ahead. Banks have turned cautious toward sanctioning further loans as concerns on rising NPAs have grown in areas such as SMEs, Power and Airlines etc. As per ICRA estimates NPAs in the system are estimated to rise to 2.9% compared to 2.3% in FY11.



Source: Banham Research

The banking system however remains confident of dealing with likely rise in NPA and has been boosting its provision coverage ratios, focusing on recovery mechanisms. However there seems to be increasing possibility of sharp slippages in loans both in the retail as well as corporate segments. Stock market, which is a lead indicator, continues to point to difficult economic environment moving ahead.

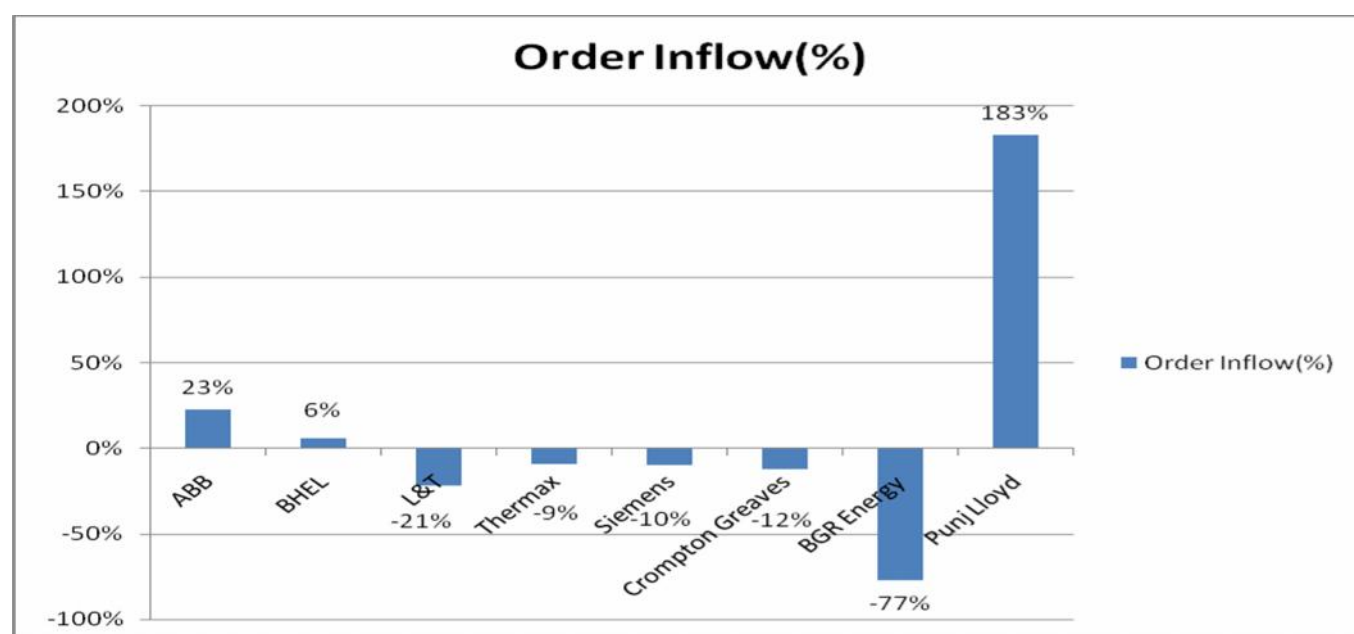
Hence we believe a lethal combination of high interest rates, poor business environment, banks turning cautious and investor sentiment turning lower has hurt credit growth off-take. However we believe there remains pent-up demand for credit in the system which could flow in once investment environment improves (with caveat that policy reforms are seen or at least uncertainty is removed) and borrowing costs begin to move notably lower more towards Q2FY13 although RBI may initiate easing a quarter earlier.

Industry has been the biggest drag...

Industry which accounts for $\sim 1/3^{\text{rd}}$ of the GDP has been the biggest drag on the Indian GDP growth. As mentioned earlier, the secondary sector has been severely impacted on account of rapid deterioration in demand, both internal as well as external. Demand has been on a downward spiral on account of high interest rates in the domestic economy, delayed capex spend, declining government spend on capital formation, poor execution of infrastructure projects, environmental clearance issues amongst others.

Manufacturers have been hit by double whammy of faltering demand and rising raw material costs. Manufacturing inflation for the month of Nov-11 stood at 7.7% compared to 7.66% in the previous month.

As a reflection of sharp slowdown in the economy, the order inflow of our sample size of our 8 capital goods companies, have recorded average growth of 10% YOY while order books have declined 1%. However excluding outliers (2nos), the order inflows have declined 4% YoY while order book has grown mere 3%YoY.



Source: Banham Research

Gross fixed capital formation, which currently accounts for 30.5% share of GDP, has contracted 0.6% YoY basis at the end of the Q2FY12. However considering efficiency of capital (measured by share of fixed capital investments/GDP growth rate) in the economy has moved lower, [if investment share stagnate at current levels, GDP growth of above 7% seems hard to achieve.](#)



Considering significant decline in economic growth and **deterioration in efficiency of capital, clearly points to rise in idle capacity in the economy**. Thus we believe it is pretty evident that demand in the economy has begun to moderate at a quick pace. We believe even if investment share in GDP remains at current levels (30.5%), and there is a **shift in factors which could possible drive demand such as declining interest rates, higher wages and higher government spends (seems difficult), would provide the much needed push to GDP growth**.

Industry however is also facing a dilemma with a weak demand environment and stubborn raw material costs. Raw material costs for manufacturers have been on the rise across the board.

Raw material cost for our sample size of 205 manufacturing cos of the BSE 500 has shown 21% growth YoY. However the **spike in costs seems to be alleviating compared to the Q112 and Q411**, wherein raw material costs had grown 26% and 25% respectively.

We believe there seems to be strong undercurrents of fatigue in the demand environment while impediments such as rising interest expense burden, stubborn raw material costs, weak pace of reforms stalling fresh investments and deteriorating global economic conditions, have hurt Corporate India confidence level.

There could be consolidation in the demand environment over the next quarter however as we expect government to initiate key policy reforms post elections in key states such as UP, Punjab, Gujarat amongst others and the RBI begins to initiate rate cuts concurrently, we could possible see in investments and spending rise in the economy.

H2FY13 should ring in the change

- ❖ **UPA government expected to shift gears with 2½ yrs left in power**
- ❖ **Transmission of lower policy rates begins to take effect in the economy**
- ❖ **Clear cut policy on access to key resources such as land, Coal, iron ore, water**
- ❖ **Approval of Companies bill to boost corporate governance practices and thus investor confidence**
- ❖ **Investment cycle to resume on higher clarity of govt. policy and lower cost of capital**



Banking

The Indian banking sector has been under duress over the last year given the sharp tightening stance of the RBI, weakening credit demand, rising NPAs partly on account of system based recognition, SBI downgrade, higher cost of funds and weakening economic environment.

However the banking sector has managed to maintain profitability at core levels, with most banks posting healthy improvement in Net interest Margins (NIMs). We believe both PSU and Pvt. Banks have managed the core operations credibly (Q212 NII grew 18%YoY for Pvt and 16%YoY for PSU bks) however the difference has been at the bottom-line with PAT growing 28% for private banks while mere 5% for PSU banks which have had to provide for rising NPAs.

We have remained overweight on the sector since mid 2011 however largely on account of the strong core operations, well capitalized operations. However the expectations of stronger push on reforms from the government to revive growth, an earlier pause in rate cycle and moderation in uncertainty on domestic issues such as land acquisitions, mining and corruption scandals etc have been a disappointment. In-fact things have turned for the worse.

The deceleration in the economy has been much stronger than expected, consequently the NPA pressure on the banking sector has moved significantly higher. We have always remained cautious on asset quality however continue to remain confident of the sector ability to deal with the incremental surge.

We believe the stocks in the sector have been beaten down to extremely attractive valuation, providing attractive dividend yield and healthy upside potential. We continue prefer private sector banks on account of superior asset quality, strong core business powered by high low cost deposit base as well as better-quality borrower profile, strong branch network and sustained deliverance of high return ratios. The strong commitment of the government to boost capital adequacy of PSBs, is a huge positive. We believe there is strong potential emerging in the midcap PSU bank space however the risks on asset quality are equally higher.

Recommendations:

ICICI Bank – TP Rs.917

Yes Bank – TP: Rs.300

Bank of Baroda – TP: Rs.932

Auto

The Auto sector after witnessing resounding sales for most part of the year **has begun to witness moderation in sales** despite offering significant discounts during the festive period. The auto makers are witnessing double whammy of declining sales and stubborn raw material costs which has hurt revenue as well as profitability.

Domestic passenger car sales witnessed a turnaround in November after contracting for four consecutive months, rose by 7 per cent. The sales for October had declined 23.8% largely exemplified on account of the labour strike at passenger car major Maruti Suzuki. As per the figures released by SIAM, motorcycle sales in India grew by 22.67 per cent in November.

We believe there continues to remain strong consumer demand however it remains extremely sensitive to interest rates hence demand is likely to remain sticky at least for the first half calendar year 2012. The combination of rising fuel costs and rising interest rates have managed to dent consumer confidence levels significantly.

Commercial vehicles demand scenario has been varied segment-wise with demand remaining robust in light commercial vehicles (LCV) while medium and heavy commercial vehicle sales have moderated. As per SIAM, total commercial vehicles grew 20%YoY between April-Nov driven by 29.3% rise in LCVs whereas M&HCVs grew 9.4% during the same period. **Freight rates have held up so far yet there remains a possibility of decline considering moderation in economic activity is likely sustain at-least for the first half of CY2012.**

Price differential between fuel prices namely diesel and petrol has widened significantly and hence the demand for diesel vehicles/variants have moved significantly higher. This has raised concerns of additional duties to temper the demand from non-priority consumers (~15% consisting of Buses, Jeeps, Passenger Cars, Three wheelers, Taxis). Hence as the price differential continues to widen, the risk of imposition of higher duties is expected to move higher. The attractiveness of higher revenues for the government only adds to level of probability.

Thus to summarise, we believe sluggishness in passenger vehicle sales to continue over the next 3months (Jan-Mar) as borrowing costs remain high. Sharp petrol price hikes could be seen post state election and hence remains an overhang on the sector. Higher competition in the PV segment could result in competitive pricing pressures. Two wheeler sales have begun to show signs of weakness off late however a faster revival is expected in the segment. Commercial vehicles sales are expected to continue to be driven by the LCV while softening of freight rates could hurt M&H vehicle sales. Hence Auto sector is most likely to move in to top gear towards the end Q1FY13, till then consolidation is likely to continue.



Information Technology

The IT sector remains a mixed bag with industry management optimism on client budgets waning over the quarters and now seemingly achievable targets are being doubted upon. *The only silver lining has been the sharp depreciation of the dollar against the rupee which would improve profitability in INR terms.*

The sector however remains confident of clients maintaining non-discretionary (ADM) spend however uncertainty on discretionary spends have risen considerably. The managements have reiterated their confidence of clients' budgets holding up, and hence remain focused on building talent pools. *However pricing would be key variable to monitor in FY13*, as clients are expected to demand more for less on account of tight budgets expected.

Attrition levels in the sector which had shown significant rise over the first two quarters of calendar year (Q411/Q112) have begun to trend lower. Companies in the sector have hiked salaries by ~12-15% has helped to stem the rise.

Non linear revenues continue to remain another focus area for the sector, despite the lumpiness in the nature of revenue flows. Though currently consists of minor share of overall revenues, there seems to be strong traction in demand for products and platform services, as companies seek to expand footprint with limited physical infrastructure as well as provide integrated services.

We believe the sector is **well poised in terms of delivery capabilities** and hence any improvement in global economic environment would boost sector prospects.

The large cash pools available with companies could potentially result in higher acquisitions especially in the European region which possibly are available at attractive valuations.

We remain in favor of large-caps on account of their superior ability to absorb near term weakening demand and to scale up revenue growth through the inorganic route. The wide portfolio of services offered is expected to work in their favor as clients are expected to prefer integrated technology partners at good bargains.

Recommendations:

Infosys – TP: Rs.3200



FMCG & Consumer Durables

The Fast moving consumer goods sector has been the biggest beneficiary of robust consumer sentiment helping the cos in the sector to easily pass on rise costs, thereby sustaining revenue growth as well as profitability.

Rural India which accounts for around 1/3 of revenues for the sector has been the biggest driver of demand for the sector. The robust agri-produce, high prices, welfare measures such as MGNREGA and growing aspirations have propelled demand from this huge consumer segment. **The FMCG cos have successfully expanded their reach across the country in order to tap the rising consumerism in the rural areas.**

Urban India continues to consume their soaps, toothpastes and cornflakes, however there seems to be a visible shift towards thriftiness as demand for combination deals and higher discounts have moved higher. **Though there still remains healthy demand, nervousness seems to be creeping into urban consumer behavior.**

We believe the Indian consumer demand could witness mild degree of moderation as general economic activity slows down. However the state assembly elections this year is likely to provide boost to consumer demand as newly elected governments initiate feel good measures. Declining interest rates would provide a boost to consumers' sentiment as healthy share of purchases for durables are made through the EMI route.

However there seems to be emerging risk for companies in the FMCG sector as the government has issued a notification, Packaged Commodities Rules 2011 saying 20 items namely baby food, weaning food, biscuits, butter, cereals, bread, tea, coffee, edible oil, beverages, milk powder, rice, atta, salt, aerated drinks, mineral water, soap, detergents, cement and paint must be retailed only in stipulated pack sizes. The move has certainly erased the flexibility available to the FMCG cos, who have regularly varied the product weights to balance the impact of rising costs on revenues and profitability. The industry has urged the government to keep price sensitive points of Re.1, Rs.2, 5, 10 and 20, away from the regulations which will come into effect from July onwards.

Though we continue to remain positive on the business prospects of the sector driven by factors such as healthy demand traction, strong product reach, sustained margins and falling raw material costs, we believe valuations seem to be too stretched. Hence maintain Neutral on the sector.

Infrastructure

The infrastructure sector has been the most underperforming sector on account of several fundamental issues such as project delays on account of land acquisition problem, environmental clearances, rising interest rates and severe deterioration in the economic environment.

The order inflows for our sample size of 6 cos have recorded a decline of 4%YoY while order book has managed to inch up by mere 3 percent. The sharp deceleration in the economy on account of sharp rise in interest rates and sluggish pace of project approvals has hurt corporate expansion plans.

The rising interest rate and high leveraged nature of business have severely hampered profitability while significant rise in raw material costs have hurt operating margins of most cos. Higher working capital requirement has further dented the operating atmosphere for the sector given the long gestation periods of projects.

The poor implementation of government projects, difficulties in obtaining financial closures for private projects and sluggish pace of investment friendly policies, has severely dented confidence levels of India Inc. Allied issues such as the mining ban, corruption scandals and inordinate delays in decision making have further eroded investor confidence.

The land acquisition bill in the current form provides for compensation to land owners 5-6 times the market value thus significantly escalates the land cost component for the project and hence turning the entire projects unviable/unattractive. Though the bill needs to be cleared by the parliament it has certainly delayed the land acquisition of projects underway.

Power projects have been a biggest drag as coal linkages have been hard to come. Go-No Go policy of the government has hurt coal output drastically. According to Planning Commission data, the power sector alone was losing potential production of 143,000 mw of power due to the MoEF policy¹. However the new Minister of State for Environment and Forests, Jayanti Natarajan has discarded the policy and has adopted a case to case basis approach, which should provide some succor to the sector. Poor domestic coal output has forced power generators to import coal, in order to sustain production. **However the sharp 20% rupee depreciation has made production through imported coal unfeasible** and hence power deficit could possibly move up to 12-15% from 10% currently.

In the year through March 2011, the National Highways Authority of India built 1,780 kilometers of motorways, about 30 percent less than its target. In the same period, the nation added 9,585 megawatts of power, 34 percent less than forecast².

Thus combination of high interest rates and poor government policy has completely undermined the potential of the sector. We believe though the sector remains the best placed to play the famed India growth story; the sector seems to be presently enveloped by extremely tough environment. However the easing of rates in the second half and stronger political will to expedite implementation of projects would lift the spirit for the sector. We remain in favour of companies with strong order book to bill and strong execution track record.

Recommendations:

L&T TP: Rs.1430

IRB Infrastructure TP: Rs.218

Source: 1: DNA-Sep21, 2011

2: Bloomberg

ICICI Bank is our top pick in the private sector bank space on account of attractive valuations, strong core business driven by large branch network, high CASA deposit base, stable margins, well capitalized to absorb asset quality pressures as well as improved quality of loan book profile given the management's focus to de-risk balance sheet.

ICICIBk is currently trading at 1.26x FY13 ABV, have a SOTP target price of Rs.917.

Investment rationale:

Retail loans to drive loan growth: We expect ICICIBk to witness loan growth of 19% and 18% for FY12/FY13 respectively. Retail loans which account for a healthy 35% of the loan book is expected to witness strong traction as interest rates are expected to soften in FY13. The bank has rightly shifted focus from personal loans towards housing and auto loans within the retail loan segment which provides confidence of higher sustainability of asset quality.

Stable Net interest Margins @ 2.5%: ICICIBk is expected to continue to witness stable NIMS of 2.5% on account of its healthy CASA base as well as improved traction in higher yielding retail credit portfolio to support margins. Benefit of deposit re-pricing in H2FY13 would also aid margins.

Operating costs improvement key challenge: ICICIBk has witnessed deterioration in Cost: income ratio in Q212 (44.6% vs. 41.5% Q211) on account of larger employee base, higher wages and full impact of BoR merger and moderation in income component. However the management does not foresee large increase in employee base and expects cost to asset ratio to be in the 1.7-1.8% band. We believe any pick-up in non-interest income could ease cost pressures.

Asset quality issue to be key determinant: ICICIBk NNPA's have declined to 0.93% vs. 1.62% in Q211. The management continues to remain confident of asset quality, and maintaining credit costs ~HY12 levels of 0.56% however we have modeled credit costs at 0.8% for FY12/13. Restructured loans in Q212 have risen to 1.1% vs. 0.9% in Q112. Hence any sharp deterioration in restructured loans remains key risk.

CMP: Rs.725

(27 Dec 2011)

BUY

TGT: Rs.917

BSE Code: 532174
NSE Code: ICICIBank
Bloomberg Code: ICICIBC.IN
FV: Rs10

Share Holding

	Q212	Q112	Q411
Promoter	-	-	-
FII	38.17	38.61	38.62
DII	25.24	25.14	24.19
Others	36.59	36.25	37.19
Total	100.0	100.0	100.0

Source: BSE

Price vs. Sensex



Quarterly Results

	Q212	YoY%	QoQ
NII	2506	14%	4%
Opex	1892	20%	4%
PPOP	2354	6%	5%
PAT	1503	22%	13%

Financials-Standalone	FY10	FY11	FY12e	FY13e
NII	8114	9017	10529	12415
PPOP	9732	9048	9767	11190
PAT	4025	5151	5834	6653
GNPA	5.2%	4.6%	4.1%	4.2%
NNPA	2.1%	1.1%	1.0%	0.9%
ROE	8%	9.7%	10.2%	10.9%
ROA	1.1%	1.3%	1.3%	1.3%

Yes Bank

Yes Bank remains an outperformer in terms of asset quality track record, healthy Net interest margins, loan book profile, well capitalized operations and strong management. We believe the bank despite taking the lead in increasing saving bank deposit rates will be able to sustain margins as blended cost of funds would move lower. YesBk focus to increase its branch network to 500 by Mar-13 is expected to boost CASA deposit base as well provide higher traction to retail banking revenue stream.

YesBk is currently trading at 1.58x FY13ABV of Rs.158.7 and expected to trade at 1.9x FY13ABV giving us out target price of Rs.300.

Investment Rationale:

Robust NII growth: YesBk witnessed robust NII growth of 23%YoY to Rs.385.6cr in Q212 on account of higher Yields on advances and investments. Yes Bank has recorded an average growth of 39%YoY growth over the trailing 4quarters. NIMs dipped marginally (10bpsYoY) on account of rise in cost of funds, however improved 10bpsQoQ to 2.90%. Advances grew 12.7% to Rs.34194cr however including credit substitutes, growth stood at 27.4% YoY. Deposits grew 10.2% to Rs.44075.9cr on account of higher traction in CASA deposit base which grew 19.4% to Rs.4838.8cr. NIMs could provide positive surprise as CASA deposit base (presently @11%) gains traction on higher interest rates and growing branch network and resultantly lower dependence on bulk deposits.

High asset quality, well capitalised: YesBk remains well placed on account of its loan book mix. Large corporates account for 61.4%, mid-size corporate 23.8% and branch banking (SME& Retail)-14.9%. The bank has successfully managed its asset quality and low exposure to sensitive (CM, comm. RE) and troubled sectors (power, Infra, Textile) adds to comfort. NNPA stood at 0.04% as on Sep2011. Credit costs could inch higher in event of further moderation in economic environment, hence could impact return ratios. Yes bank remains well capitalized, with tier-1cap at 9.4% and has been successful in raising capital at regular intervals.

Best in class Cost to income ratio: YesBk continues to witness excellent cost:income ratio at 35.6% largely comforted by strong traction in transaction bkg, financial mkts and financial advisory revenue streams. Other income grew 63% YoY to Rs.214cr. The bank has success managed to contain its non staff expenditure, however overall opex could move higher on account of its branch expansion plans. Hence ROAs could moderate on account of higher opex and credit costs, but expected to remain comfortably above 1% mark.

CMP: Rs.251

(27 Dec 2011)

BUY

TGT: Rs.300

BSE Code:532648

NSE Code: Yes Bank

Bloomberg Code: YES.IN

FV: Rs10

Share Holding

	Q212	Q112	Q411
Promoter	26.28	26.50	26.57
FII	45.23	48.09	45.54
DII	14.46	11.76	14.69
Others	14.03	13.65	13.20
Total	100.0	100.0	100.0

Source: BSE

Price vs. Sensex



Quarterly Results

	Q212	YoY%	QoQ
NII	385.6	23%	9%
Opex	213.8	31%	10%
PPOP	385.9	37%	19%
PAT	235.0	33%	9%

Financials-Standalone	FY10	FY11	FY12e	FY13e
NII	788	1247	1738	2195
PPOP	863	1190	1527	1871
PAT	478	727	925	1132
GNPA	0.27%	0.23%	0.27%	0.29%
NNPA	0.06%	0.03%	0.03%	0.03%
ROE	20.3%	21.1%	22%	22%
ROA	1.6%	1.5%	1.4%	1.3%

Bank of Baroda

BOB is a top pick in the PSU bank space on account of strong business growth, healthy NIMs, superior asset quality, large branch network and low operating costs in relation to income. The stock is currently trading at extremely attractive valuation hence providing excellent capital gains opportunity as well as decent dividend yield (2.4%). We expect PAT to grow at CAGR 17% over FY11-13e period

BoB is currently trading at 0.95x FY13ABV of Rs.717 and expected to trade at 1.3x FY13ABV giving us out target price of Rs.1175.

Investment Rationale:

Excellent core operations: BOB has reported healthy 26% NII growth in the Q212 which is amongst the highest in the entire banking sector. Domestic Net interest margins remained stable at 3.67% (+5bps YOY and 28bps QoQ) on account of healthy transmission of rising cost of funds (due to higher traction in term deposits base).

Strong Business growth: BoB reported robust 22.8% growth in business driven by strong 23.9% growth in advances and 22.1% in deposits. The bank has successfully managed to transfer cost pressures as YoA have grown 50bpsQoQ compared to cost of deposits (+25bps), hence posting strong improvement in NIMS. We expect business to record CAGR of 20% over FY11-13e.

NIMS to remain healthy: BoB continues to report superior NIMs on account of high CASA base and strong rise in yields on advances and investments. Global NIMs grew to 3.07% (up 20bpsQoQ and 5bpsYoY) driven by domestic NIMs.

Cost to income amongst the best: BoB successful containment of costs (+9%YoY) and robust rise in income (+21%) has resulted in the bank having a best in class C/I ratio at 35.2%. The bank is expected to sustain this competitive edge in terms of costs, which provides strong cushion to bottom-line growth.

Healthy asset quality: BoB continues to maintain superior asset quality ratios compared to similar sized PSU peers. GNPA's grew mere 2bpsYoY and fell 5bps QoQ despite a sharp 25%YOY rise in absolute terms. Restructured loans consist of 3.3% of advances, however fresh slippages were less than 1% annualized. The bank has tier-1 capital at 8.82%. The government has committed further Rs.775cr through preference shares to boost the CRAR of the bank, hence provides confidence of bank sustaining its growth.

CMP: Rs.678

(27 Dec 2011)

BUY

TGT: Rs.932

BSE Code:532134

NSE Code: BANKBARODA

Bloomberg Code: BOB.IN

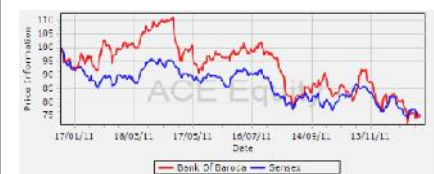
FV: Rs10

Share Holding

	Q212	Q112	Q411
Promoter	57.03	57.03	57.03
FII	14.34	16.08	16.56
DII	16.75	16.32	15.99
Others	11.88	10.57	10.42
Total	100.0	100.0	100.0

Source: BSE

Price vs. Sensex



Quarterly Results

	Q212	YoY%	QoQ
NII	2566	26%	12%
Opex	1161	9%	5%
PPOP	2140	29%	17%
PAT	1166	14%	13%

Financials-Standalone	FY10	FY11	FY12e	FY13e
NII	5939	8802	10934	13424
PPOP	4935	6981	8884	10816
PAT	3058	4242	4634	5797
GNPA	1.4%	1.4%	1.6%	1.8%
NNPA	0.3%	0.3%	0.4	0.4%
ROE	22%	23%	20%	21%
ROA	1.2%	1.3%	1.2%	1.2%

Infosys

Infosys remains the top pick in the IT space as the company is well prepared to tackle the challenging environment enveloping the industry currently, on account of its renewed focus post mgmt restructuring, fresh aggressiveness expected in terms of revenue growth both organic and especially inorganic, wide portfolio offerings, strong deal pipeline and possibly higher utilizations. Shift in customer focus towards credible integrated service providers bodes well for Infosys. Margin improvements could be seen on account of currency impact and higher utilizations, unless pricing environment deteriorates significantly.

The stock is currently trading at 16x FY13e earnings and expected to trade at 19x FY13e earnings giving us our target price of Rs.3200.

Investment rationale:

Strong pipeline; wide service offering: Infy's wide service offering bodes well as customers are likely to prefer established integrated players. Deal sizes could possibly contract and hence ability offer wide range of services could be decisive factor in the year ahead. Infosys currently as of Sept-11 is in pursuit of 12 large deals and 27 transformational deals.

Higher utilizations could boost margins: Infy could witness higher utilizations going ahead which could support margins in the event of deterioration in pricing environment. However the management remains confident of pricing sustaining however moderation in business volumes remains key risk.

BFSI sector stabilizing, Retail, Mfg, Healthcare showing strong traction: The BFSI sector which accounts for 35% of revenues, witnessed 4.2% QoQ (4.8% ccy) revenue growth in Q212. Mgmt remains confident of the sector on account of demand for superior risk management systems. Mfg (4% QoQ), Retail & Life sciences (5.4% QoQ) incl. Healthcare, Energy (+4.5% QoQ) are emerging as healthy demand substitutes for BFSI demand.

Non Linear Growth: Infy continues to focus on expanding its non-linear revenue stream and has witnessed strong traction for its products and platforms. Finacle™ added 17 clients while Info Edge™ signed 10 strategic deals in Q212.

Inorganic growth: Infosys could be the leader in consolidating its market position in the market through acquisitions. Infy is willing to spend ~\$700mn on inorganic growth. Considering the depressed economic environment, the possibility of availability of strategic fits at attractive valuations seems highest.

CMP: Rs.2762

(27 Dec 2011)

BUY

TGT: Rs.3200

BSE Code: 500209
NSE Code: INFY
Bloomberg Code: INFO.IN
FV: Rs.5

Share Holding (%)

	Q212	Q112	Q411
Promoter	16.04	16.04	16.04
FII	36.66	36.88	36.12
DII	10.71	9.84	9.00
Others	36.59	37.24	38.84
Total	100.0	100.0	100.0

Source: BSE

Price vs. Sensex



Quarterly Results

	Q212	YoY%	QoQ
Net sales	8099	17%	8%
OP	2281	9%	17%
PAT	1906	10%	11%

Financial –Cons.	FY10	FY11	FY12e	FY13e
Revenues	22742	27501	33826	41945
EBITDA	7852	8964	10750	12985
EBITDA (%)	34.53	32.60	31.78	30.96
EBIT	6910	8102	9750	11835
EBIT (%)	30.38	29.46	28.82	28.22
PAT	6219	6823	8197	9834
EPS	108.89	119.42	143.46	172.10

IRB Infrastructure

IRB Infrastructure is a strong buy on account of its strong order book, excellent execution track record, key roadways under BOT portfolio resulting in sustained vehicular traffic growth and insulates impact of tariff hikes, de-risked revenue inflow from BOT projects, diversification into real estate and airport development. The NHAI remains focused on the boosting the pace of awarding projects and seems to be on track to meets its aim of 7300km(+40%YoY) of which 4300km has already been awarded. We believe the strong execution capability, healthy combination of EPC and BOT revenues, high revenue and order inflows visibility, and extremely attractive valuations make IRB Infrastructure an excellent value buy.

IRB is currently trading at 8.8x FY13e earnings and could be bought for a target price of Rs.200 (target multiple of 11.5x FY13e EPS of Rs.17.4)

Investment rationale:

Strong Order book: IRB order book stands at Rs.9635.1cr as on Sep-11, resulting in revenue visibility of 3.9x over FY11 revenues. Order book consists of Rs.7600cr of construction to be executed over next three to four years. Of order book, the Ahmedabad Vadodara project accounts for 36.62%, Tumkur Chitradurga 10.59%, O&M 21.45%, Amritsar-Pathankot 10.77%, Jaipur-Tonk Deoli 11.8%, Talegaon Amravati 7.25% and Sindhudurg Airport 1.56%. The company has completed 95% work on the Surat Dahisar project as well as Kholapur project, while has completed 15-20% of Jaipur-Tonk Deoli, Talegaon Amravati and Amritsar-Pathankot project.

Important roadways insulate revenue inflow: IRB has under its belt key road projects in its BOT portfolio such as Mumbai-Pune, Bharuch-Surat, Surat Dahisar and hence vehicular traffic growth is expected to sustain despite tariff hikes. The mgmt expects vehicular traffic to grow by 6% on the aforementioned projects.

Lower Competitive intensity expected: IRB expects competitive intensity to decline going forward on account of capital constraints for peers and hence provides room to seek projects at higher IRR (~18% vs. 16% seen in Ahem-Vodo project).

Mgmt remains confident of fulfilling equity infusion requirement in projects: IRB is expected to require Rs.3000-3500cr over the next four years for the Jaipur- Deoli, Talegaon Amravati and Amritsar-Pathankot project (~Rs.1700) and remaining for the Ahem-Vadodara project.

CMP: Rs.140

(27 Dec 2011)

BUY

TGT: Rs.218

BSE Code:532947

NSE Code: IRB

Bloomberg Code: IRB IN

FV: Rs.10

Share Holding

	Q212	Q112	Q411
Promoter	74.86	74.80	74.80
FII	13.32	13.43	14.06
DII	4.74	3.98	3.88
Others	7.08	7.79	7.26
Total	100.0	100.0	100.0

Source: BSE

Price vs. Sensex



Quarterly Results

	Q212	YoY%	QoQ
Net sales	735.9	50%	-8%
EBIDTA	321.5	36%	-2%
PAT	110.0	11%	-18%

Financial – Cons.

	FY10	FY11	FY12e	FY13e
Revenues	1705	2438	3462	4258
EBITDA	798	1094	1388	1775
EBITDA (%)	45.8	44.3	40.1	41.7
EBIT	668	993	1139	1394
EBIT (%)	38.3	37.8	32.9	32.7
PAT	385	452	478	577
EPS	11.6	13.6	14.4	17.4

Larsen & Toubro

L&T remains well placed in terms of execution capabilities and hence is expected to be the biggest beneficiary of turnaround in investment cycle. Though FY12 has been a washout in terms of order inflows, the large order book provides strong comfort in terms of maintaining revenue run-rate. The downward shift in commodity prices alleviates margins concerns to some extent however competitive pricing pressure especially in power sector is expected to continue. Interest rate cycle seems to have peaked, hence working capital constraints would move lower. We remain confident of revival in order inflows in H2FY13 as transmission of RBI rate cuts (Q1FY13) boosts domestic capex plans of private sector while government is expected to shift gears post state elections.

L&T is currently trading at 11.4x FY13e EPS and could be bought for a target price of Rs.1430 (implying a target multiple of 16x FY13e EPS of Rs.87.9)

Investment rationale:

Order book to comfort top-line growth: L&T order book at the end of Q2FY12 stands at Rs.1421.85bn which provides excellent revenue visibility of 3x TTM revenues. We believe there remains a possibility of further run down in order book over the next 2 quarters as order inflows are expected to remain muted. However the large order book size provides enough room to sustain revenue growth run rate.

Transition of monetary policy stance from hawkish to dovish bodes well: L&T is expected to be biggest beneficiary as system interest costs begin to move lower and fixed capital formation begins to gain traction in H2FY13. Greater clarity on policies related to resources (Land, Coal, iron ore, Gas, Water) to boost order inflows from Infra, Power, Hydrocarbons and Process segment.

Commodity prices to ease: L&T is currently witnessing headwinds on margins on account of raw material costs and competition. RM costs are expected to move lower, consequently alleviating margin pressure to some extent. However competitive pricing to remain an overhand on margins.

E&C torch bearer, E&E neutral, M&IP revival key for profitability: L&T continues witness relatively stable revenue growth and margins in Engg and Const, however heightened competition in electrical & electronics segment seems to hurt segment margins, however revival in fortunes of mining industry is the wild card as the Machinery and Ind products contributes 6.3% of revenues but a vital 10% to EBITDA.

CMP: Rs.1029

(27 Dec 2011)

BUY

TGT: Rs.1430

BSE Code:500510

NSE Code: LT

Bloomberg Code: LT.IN

FV: Rs.2

Share Holding

	Q212	Q112	Q411
Promoter	-	-	-
FII	15.94	16.44	15.18
DII	36.24	36.62	37.50
Others	47.82	46.94	47.32
Total	100.0	100.0	100.0

Source: BSE

Price vs. Sensex

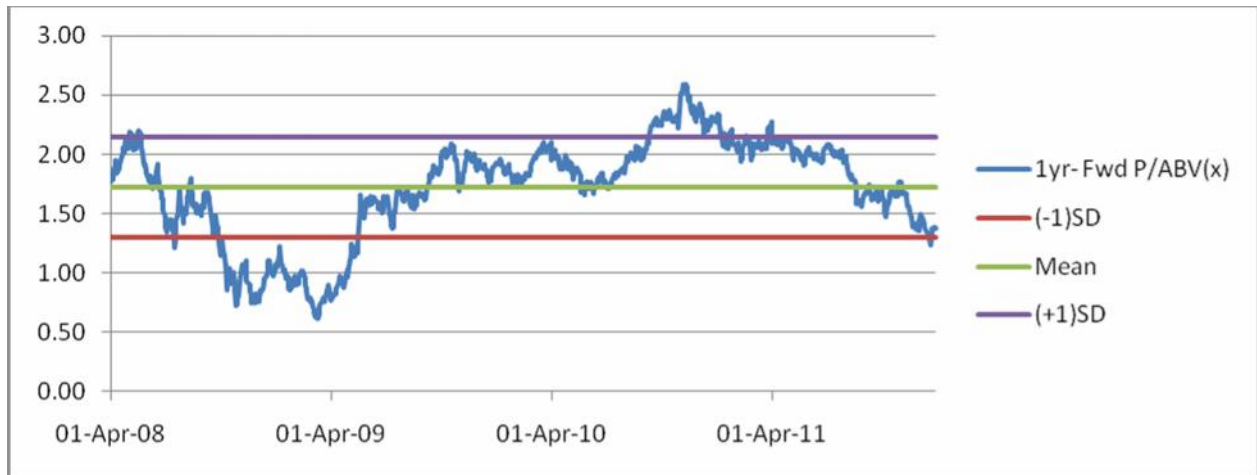


Quarterly Results- Standalone

	Q212	YoY%	QoQ
Net sales	11245	21%	19%
EBITDA	1174	17%	4%
PAT	798.4	15%	7%

Financials-Cons.	FY10	FY11	FY12e	FY13e
Revenues	44310	52516	63018	75622
EBITDA	7221	8758	9783	12176
EBITDA (%)	16.4	16.8	15.7	16.2
EBIT	8866	8663	9226	10785
EBIT (%)	20.2	16.6	14.8	14.4
PAT	5451	4456	4675	5436
EPS	88.3	72.0	75.6	87.9

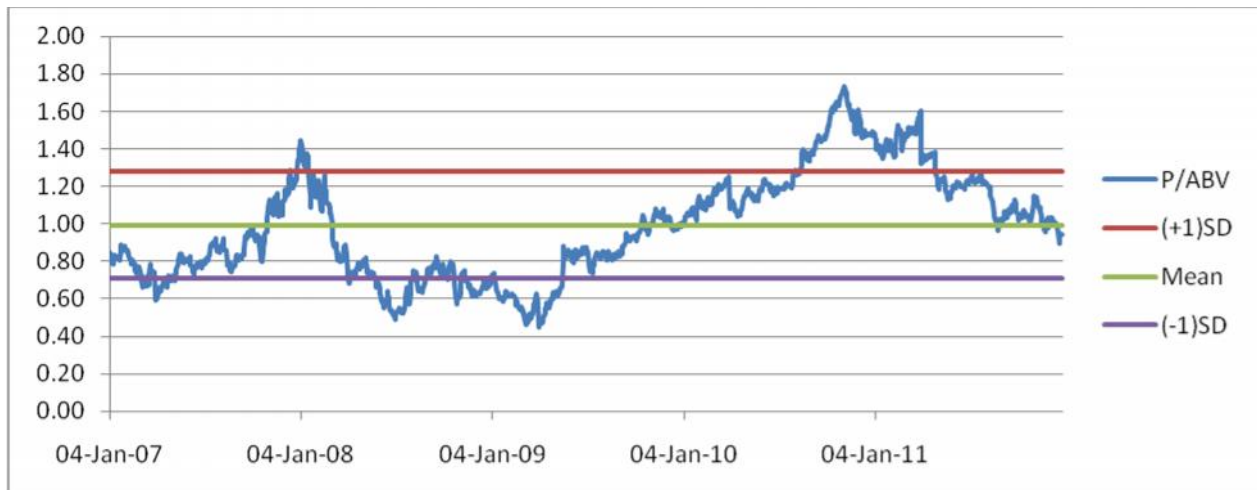
ICICI Bank P/ABV 1yr fwd



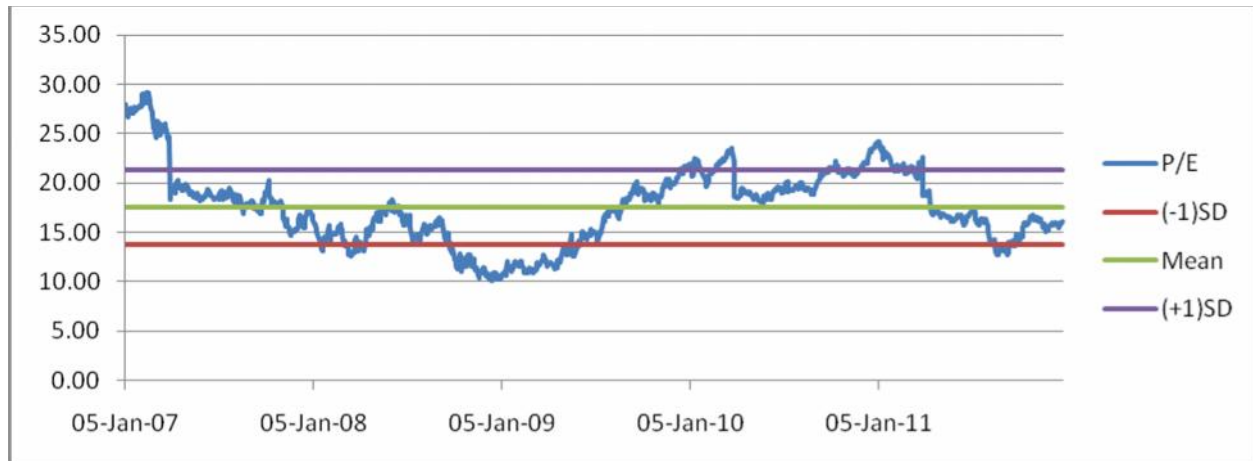
Yes Bank P/ABV 1yr fwd



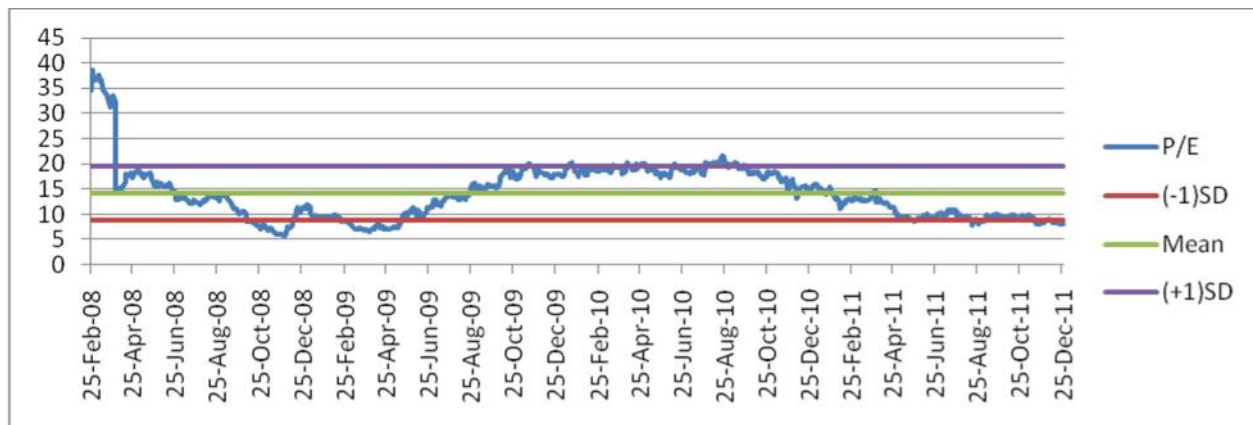
Bank of Baroda P/ABV 1yr fwd



Infosys P/ABV 1yr fwd



IRB Infra P/E 1yr fwd



L&T P/E 1yr fwd



RESEARCH BY: HEDLEY ALBUQUERQUE



➤ Averages

A very simple but effective method to judge the confirmation of a firm uptrend is the Golden Cross of 50-200 DMA on charts, especially for the long term investors. As moving averages are lagging indicators, the signal will come late but the confirmation will be effective. Right now 50 DMA is trading below the 200 DMA.



Relative Strength Index

Momentum Indicator- RSI indicates that Nifty is trading in the oversold zone (RSI is smoothened by inputting the average). We have drawn a downward sloping trend line, which cover the whole of last year's down move. Trend line indicates that when RSI crosses 33% on upside we can see a new rally for the year. Technical bounce is expected from the bottom since Nifty is trading in the oversold zone.



❖ Monthly Chart

Monthly Chart are bearish, moving in what looks like a bear flag. But being 13 months old makes it a falling channel. The chart indicates that Nifty had formed a Mirror Image and completed the pattern in the end of 2010 year with the high of 6338 level. It is, therefore, conclusive that the down trend from the high of 6338 level, where it completed the Mirror image, remains intact till the date. Channel support for the month is at 4360 and resistance at 5296. Any move above the 5296 level will take out Nifty from the downwards channel trend.

The Monthly Pivot Points show that below 4800 level , resistance is at 5000 and above and the support is at 4400 levels and then below..



❖ Yearly view

Yearly chart shows a definite pullback after a down year. 4400-4300 level should be a decent entry point to start going long.

Conclusion:

Trend is down and weakness persists with rallies fizzling out sooner each time as is vivid with the formation of a falling wedge. We are moving into a particular down trending channel on the market —whether on Nifty or Bank Nifty. Now, the downsides, as far as these channel targets implied, are not a lot. So, we see downside risk to about 4,400-4300 levels on the Nifty, while any move below these levels due to any negative trigger will drag Nifty towards 3800 level. The daily, weekly and monthly charts are reaching oversold zone. Yearly charts historically have shown a rebound after a down year. The rising wedge is a bullish pattern but till it breaks on the upside, bullishness cannot be assumed.

We will be looking at a breakout, a confirmation from Nifty or Bank Nifty itself. So, Nifty needs to move at least above 5,200 level, as far as current scenario is concerned, to produce a breakout which will take Nifty towards 5600/5800 levels. Once a breakout from this particular channel is done then only we will see a much more greener 2012. Until and unless that happens, we foresee markets grinding in this particular channel and lower targets taken out.

However, there is a silver lining too to these dark clouds. We feel that though it may be a turbulent volatile time but there is going to be a great buying investment opportunity in 2012 to capitalize on.

RESEARCH BY: SWATI HOTKAR

Stock View : TECHNICAL VIEW

MONTHLY CHART

SHORT/ SELL: HIND PETRO

Monthly chart of Hind Petro clearly shows formation of a HEAD & SHOULDER pattern. Left shoulder with a high of 405.74, right at 400.78 & head having high of 529.39. The volume on formation of Head is very high, on breakdown (neckline) volume looks low but the move of fall is significantly higher. All momentum indicators RSI, Stochastic & MACD are indicating bearish scenario for the scrip.

Scrip can be shorted at CMP or on a bounce back rally in the range of 270 – 290 with a stop loss of 406 for a target of 150 & 103



SHORT/ SELL: ONGC

Scrip has a formation of a HEAD & SHOULDER pattern wherein the confirmation of breakdown needs to be watch. On monthly chart, scrip has not given closing below neckline of 244.20. Scrip on intra-day basis has broken the level of 244.20 indicating bearishness. A monthly closing below neckline will take down this scrip to selling zone in long run.

RSI, Stochastic & MACD have made negative crossover & several attempts of reversal have failed. We can see selling pressure at various levels supported by momentum indicators.

Scrip can be shorted once it closes below 244.20 on monthly chart, short on a bounce to the level of 255 - 265 with a stop loss of 326 for a target of 217 & 195



SHORT/ SELL: EXIDE IND

Monthly chart has a formation of double top with a neckline at 109.15. Scrip needs to close below neckline on monthly chart for viability of chart pattern. RSI has broken down from oversold region & trading in the range of 35 – 45.

Volume on selling side looks very strong & every reversal would be viewed from selling/ shorting perspective.

Scrip can be shorted once it closes below 109.15 on monthly chart, short on a bounce to the level of 115 - 125 with a stop loss of 152 for a target of 88 & 80



RESEARCH BY: AVDHUT BAGKAR

(Prepared on 9 January, 2012)

RATINGS

Buy	Accumulate	Neutral	Reduce	Sell
> 15%	+5>15%	+5%/-5%	-5%<-15%	>-15%

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***Year's end is neither an end nor a beginning but a going on, with all the wisdom that
experience can instill in us.***

Hal Borland

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