

## Dealer's Diary

The market came off lows amid initial volatility. The Sensex and the 50-unit S&P CNX Nifty recovered from one-week lows. The Sensex alternately swung between gains and losses in morning trade. Volatility ruled the roost as the key benchmark indices recovered soon after hitting fresh intraday lows in mid-morning trade. The market hit fresh intraday high in early afternoon trade as index heavyweight Reliance Industries turned positive from negative. The market slumped in afternoon trade as European stocks opened on a weak note. The Sensex hit one-week low below the psychological 16,000 level. The Sensex came off lows after hitting 20-month trough in mid-afternoon trade. The Sensex and Nifty closed lower by 1.8%, and 1.6%, respectively. The mid-cap and small-cap indices lost 1.3% and 1.1%, respectively. Among the front runners, Maruti Suzuki, L&T, Wipro, Tata Steel and BHEL gained 1-3%, while Coal India, ICICI Bank, Tata Motors, SBI and Mahindra & Mahindra lost 4-5%. Among mid caps, Patni Computer, Himadri Chem, Wockhardt, S Mobility and Areva T&D gained 2-5%, while Jubilant Foodwork, Network18 Media, Pipavav Doc, Amtek Auto and Page Inds lost 6-11%.

## Markets Today

The trend deciding level for the day is 15938/4790 levels. If NIFTY trades above this level during the first half-an-hour of trade then we may witness a further rally up to 16,130 – 16,395/4,852 – 4,932 levels. However, if NIFTY trades below 15938/4790 levels for the first half-an-hour of trade then it may correct up to 15,673– 15,481/4,710 – 4,649 levels.

Indices	S2	S1	R1	R2
SENSEX	15,481	15,673	16,130	16,395
NIFTY	4,649	4,710	4,852	4,932

## News Analysis

- Moody's downgrades stand-alone rating of SBI
- Auto numbers: Ashok Leyland – September 2011

Refer detailed news analysis on the following page

### Net Inflows (October 03, 2011)

₹ cr	Purch	Sales	Net	MTD	YTD
FII	1,640	2,422	(782)	(782)	(2,736)
MFs	387	620	(233)	(233)	5,311

### FII Derivatives (October 04, 2011)

₹ cr	Purch	Sales	Net	Open Interest
Index Futures	2,322	2,911	(589)	12,839
Stock Futures	1,496	1,767	(271)	25,618

### Gainers / Losers

Gainers			Losers		
Company	Price (₹)	chg (%)	Company	Price (₹)	chg (%)
Patni Computer	287	4.6	Sintex Ind.	112	(12.4)
Maruti Suzuki	1,107	2.7	Shipping Corp.	75	(9.6)
Cadila Health.	762	2.1	DLF	202	(7.8)
Areva T&D	219	2.0	JSW Steel	550	(7.1)
Colgate Palm.	984	1.8	Mundra Port	154	(6.5)

Domestic Indices	Chg (%)	(Pts)	(Close)
BSE Sensex	(1.8)	(286.6)	15,865
Nifty	(1.6)	(77.4)	4,772
MID CAP	(1.3)	(77.2)	5,936
SMALL CAP	(1.1)	(74.2)	6,705
BSE HC	(1.1)	(64.3)	5,767
BSE PSU	(1.8)	(130.1)	7,208
BANKEX	(3.1)	(325.7)	10,219
AUTO	(1.9)	(164.6)	8,301
METAL	(1.5)	(156.6)	10,399
OIL & GAS	(1.7)	(146.4)	8,282
BSE IT	(0.8)	(42.0)	5,154

Global Indices	Chg (%)	(Pts)	(Close)
Dow Jones	1.4	153.4	10,809
NASDAQ	3.0	69.0	2,405
FTSE	(2.6)	(131.1)	4,944
Nikkei	(1.1)	(89.4)	8,456
Hang Seng	(3.4)	(571.9)	16,250
Straits Times	(3.5)	(90.4)	2,531
Shanghai Com	(0.3)	(6.1)	2,359

Indian ADRs	Chg (%)	(Pts)	(Close)
Infosys	1.4	0.7	\$50.7
Wipro	1.6	0.1	\$9.0
ICICI Bank	(4.5)	(1.5)	\$31.9
HDFC Bank	1.0	0.3	\$28.1

Advances / Declines	BSE	NSE
Advances	985	444
Declines	1,762	1,017
Unchanged	125	63

Volumes (₹ cr)	BSE	NSE
BSE		2,614
NSE		11,418

## Moody's downgrades stand-alone rating of SBI

**Rating action:** Moody's Investors Service has downgraded State Bank of India's (SBI) bank financial strength rating (BFSR), or stand-alone rating, to D+ from C-. The revised rating maps to a baseline credit assessment (BCA) of Baa3. As a result of the lower BCA, the Hybrid debt rating was also downgraded to Ba3(hyb) from Ba2(hyb). The revised BFSR carries a stable outlook and the Hybrid rating a negative outlook. The credit rating downgrade comes on the back of the low tier-I capital adequacy ratio and expectations that the rise in NPAs is likely to continue in the near term – due to higher interest rates and a slower economy.

**Our stance:** We had turned cautious on the capital adequacy front post the 4QFY2011 results itself wherein we had highlighted the weakened capital adequacy as a key risk to our investment call. We had also cut our credit growth (by 4% each for FY2012 and FY2013) as well as earnings estimates (by 11-15% for FY2012 and FY2013). Though the bank's management has time and again stated that its plans for a rights issue are on track, media reports indicate that the rights issue is unlikely to go through in FY2012 considering the tight fiscal situation of the central government.

**Issue specific to SBI:** Post the announcement of the downgrade, Bank Nifty cracked by c.4%. However, we note that the downgrade action is an issue specific to SBI and is unlikely to hamper prospects of other banks. The downgrade is likely to push up borrowing costs (both tier-II borrowings and overseas borrowings) for the bank. The borrowings of SBI as of FY2011 through borrowings outside of India stood at ₹70,231cr constituting c.60% of total borrowings and 5.7% of total liabilities. The higher cost of funds is likely to add to the negative overhang on the stock in the near-term.

**Valuations cheap, but returns likely to be back ended:** The earnings trajectory for SBI remains reasonable on the back of declining regulatory provisioning burden. However, the lower capital adequacy and higher level of delinquencies have been plaguing the stock's performance over the past 2 quarters and are unlikely to be resolved in the short term due to the tight fiscal position of the central government and the slowing domestic economy. That said, we remain positive on the stock as the bank's core RoEs have improved over the past few years due to strong CASA market share gains and high fee income and, unlike most other PSBs, actual FY2011 RoEs are below core levels due to low asset yields, providing scope for upside as yields normalise to sectoral averages. We believe, going forward, SBI has ample levers to deliver healthy operating income growth even in a higher interest rate environment as well as manage its provisioning requirements. The bank's NIM has been on an accelerating path (except the dip due to one –offs in 4QFY2011) since 1QFY2010 from 2.3% to 3.6% in 1QFY2012. The bank has also recently caught up with peers in terms of increasing the lending rates which is likely to support NIMs in the short-term. Valuations (at 1.1x FY2013E ABV after adjusting for subsidiaries) appear cheap, in our view; however the stock's returns are likely to be back ended. **We maintain our Buy recommendation on the stock with a target price of ₹2,403.**

## Auto numbers: Ashok Leyland – September 2011

Ashok Leyland (ALL) reported weak set of volume numbers for September 2011. Total volumes registered a higher-than-expected decline of 17.3% yoy to 8,576 units, mainly because of a dip in domestic volumes, which plunged by 21.6% yoy. Sequentially though, total volumes jumped by 18.8%, led by a 20.9% increase in domestic sales. Exports, on the other hand, maintained their strong momentum, posting growth of 31.8% yoy (6.7% mom). At ₹25, ALL is trading at 13x FY2012E and 9.7x FY2013E earnings. **We maintain our Buy view on the stock with a target price of ₹31.**

## Economic and Political News

- Cabinet nod has been sought for converting IIFCL into NBFC
- Government's draft policy on electronics aims US\$400bn turnover by 2020
- Food processing ministry seeks four-fold hike in twelfth plan outlay

## Corporate News

- ONGC to raise oil output by 15% to 28mn tonnes by FY2013
- PVR plans to invest ₹100cr in FY2013 to expand its movie screening network
- DLF to invest ₹200cr to establish 250 skill training centres

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

Research Team Tel: 022-3935 7800

 E-mail: [research@angelbroking.com](mailto:research@angelbroking.com)

 Website: [www.angelbroking.com](http://www.angelbroking.com)

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### Ratings (Returns):

*Buy (> 15%)*
*Reduce (-5% to 15%)*
*Accumulate (5% to 15%)*
*Sell (< -15%)*
*Neutral (-5 to 5%)*

**Address: 6th Floor, Ackruti Star, Central Road, MIDC, Andheri (E), Mumbai - 400 093.**

**Tel: (022) 3935 7800**

Angel Broking Ltd: BSE Sebi Regn No : INB 010996539 / CDSL Regn No: IN - DP - CDSL - 234 - 2004 / PMS Regn Code: PM/INP000001546

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