

ING INVESTMENT MANAGEMENT HOUSEVIEW

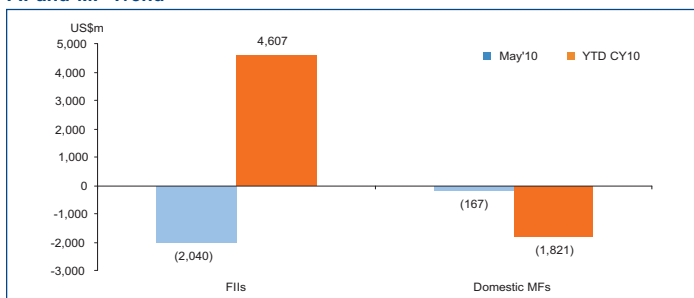
Indian Economic Outlook

- India's 4QFY10 real GDP growth came in at 8.6% yoy, broadly in line with expectations. For FY10 GDP growth stood at 7.4% compared to 6.7% in the previous year.
- While the Private consumption remained weak and witnessed a growth of 4.3% only, strong growth in fixed investment and government spending led to good overall growth.
- WPI inflation for April came in at 9.6% and was higher than the comfort zone for the policy makers. We expect a continuing rate tightening this year by RBI.
- Government received a windfall gain from auction of 3G and BWA spectrum. Against the expectations of Rs. 35,000 crores, Government is likely to receive ~Rs100,000 crores from the two auctions; leading to reduction in fiscal deficit.
- The Index of Industrial Production (IIP) grew at 13.5% Y-o-Y in March against a growth of ~15.1% Y-o-Y in the previous month. With the base impact catching up, we expect the growth to taper down further going forward.

Indian Equity Market Insights

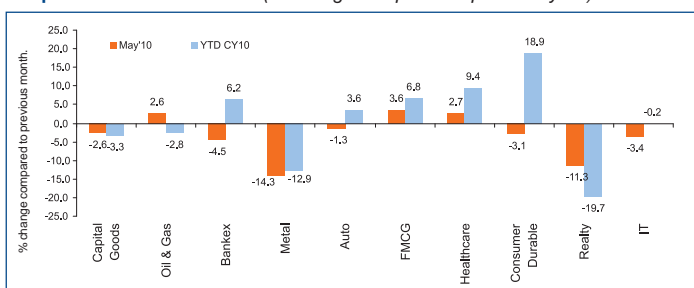
- Driven by European crisis, most developed markets went into a selling mode. Even the bail out packages couldn't calm the markets with most indices across the globe ended the month in red.
- Indian markets also wasn't decoupled from the global selling frenzy and ended the month in red. However, Indian markets outperformed the developed markets with Sensex falling only by 3.5% during the month of May.
- After a few consecutive months of positive flows, FIIs started pulling out money from Indian markets. Month of May saw outflow of US\$2,040m by FIIs. Domestic MFs also were negative and sold US\$167m worth of equities.
- The negative sentiments in the market didn't augur well for Metals and Realty sectors with both sectors losing more than 10% during the month. Defensive sectors like FMCG and Healthcare were in favour again with both indices registering a positive return.

FII and MF Trend



Source: SEBI

Snapshot of Sectoral Trend (% change compared to previous year)



Source: Bloomberg

ING OVERVIEW OF SECTORAL TREND

BANKING

Credit demand grew 17.2% YoY and 2% YTD as on 07 May 2010, whereas, deposit growth has declined to 14.8% YoY and YTD growth of 1%. In 1QFY11, telecom sector (3G) is likely to boost credit off-take to the tune of Rs 450-470bn. Better than expected 3G auction collection (thus lower trade deficit) and Euro-zone crisis have cooled down the commodity prices leading to a sharp bond rally in 10-yr G-sec yields down to ~7.4% from recent ~8% levels in April 2010, which could ease concerns on PSU banks in the near-term. We remain positive on the sector (overweight on PSU banks) expecting improvement in credit growth and core-operating performance along with nearly peaking asset quality deterioration by 1HFY11E.

INFORMATION TECHNOLOGY

European crisis and following FII outflow from Indian markets has led to rupee depreciating sharply against the US\$. While Euro and GBP has weakened significantly, strength of US\$ is hugely positive for majority of IT services company given most companies derive 60-70% of revenue in US\$. One need to keep an eye on European situation and its impact on the currency. While the demand outlook is stable with most companies aiming for 15%-20% volume growth in FY11, we are neutral on the sector due to concern on wage hikes and rich valuations.

TELECOM

Government completed the 3G spectrum auctions in May with value of pan-India spectrum reaching Rs16.75bn. No player was able to get pan-India spectrum due to aggressive bidding by all operators. After the completion of 3G spectrum auction, BWA spectrum auction has started and aggressive bidding has been seen here too. In addition TRAI came in with recommendation on 2G spectrum pricing which is highly negative for incumbent GSM operators. We expect business outlook to remain negative for some time and maintain our negative stance on the sector.

INDUSTRIAL MANUFACTURING AND CONSTRUCTION

The state owned transmission utility has planned capital expenditure of Rs. 640bn in nine high-capacity transmission corridors to evacuate power from new generation units coming up in Orissa, Sikkim, Jharkhand, Chhattisgarh, Madhya Pradesh, Andhra Pradesh and Tamil Nadu. This along with the likely condition on domestic manufacturing would open up brighter avenues for domestic T&D equipment manufacturers and service providers. We thus maintain our positive stance on the sector.

CEMENT

After a strong surge in the month of April, cement prices have begun correcting across the country. Cement demand has slowed down in the month of May as construction work came to a standstill driven by the heat wave across the country combined with an acute water shortage. Prices are expected to drop further on the back of weakening demand in the monsoon season and increased supply from newly commissioned capacities. Further, the sharp increase in clinker inventory could create additional pressure on cement prices as we enter the lean season.

AUTO

Retail demand continues to remain robust during the first two months of financial year FY2011, despite April being a seasonally weak month. Some key models have a waiting period of 1-3 months with companies being unable to meet demand due to production constraints. With low inventory levels currently, we expect strong volume growth to continue over the next few months. As we had expected, most auto companies reported weaker sequential margins in Q4 FY2010 due to an increase in input prices. Going forward, we expect pressure on margins to continue especially in the car segment as increased competition will limit ability to fully pass on cost increases.

METALS

Indian steel companies are likely to lower HRC (Hot Rolled Coil) prices in the month of June following the weakening in international steel prices. The sharp increase in steel prices from Feb-April (approx. 20%) has also led to a sharp apparent demand slowdown (de-stocking) and even real demand has seen a slowdown. Indian steel industry has benefited from the near 7% depreciation of the INR v/s the USD from end April, in the absence of which, pressure on Indian domestic steel prices would have been far higher.

INVESTMENT MANAGEMENT



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