

**ING INVESTMENT MANAGEMENT HOUSEVIEW**

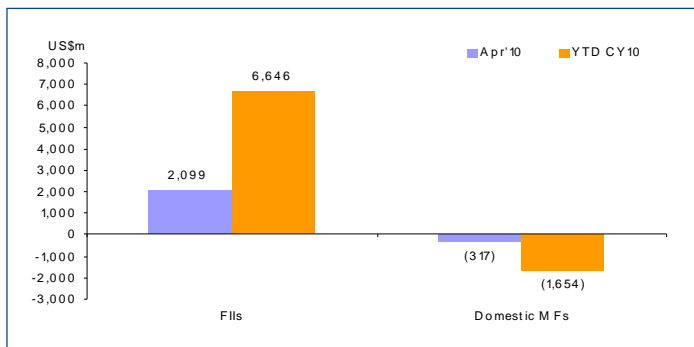
**Indian Economic Outlook**

- The Reserve Bank of India (RBI) raised the key policy rates – repo and reverse repo by 25bps each, in its Annual Monetary Policy Statement for FY11.
- The repo and the reverse repo rate stand at 5.25% and 3.75%, respectively. Cash reserve ratio (CRR) was also hiked by 25bps to 6%
- The central bank has placed its baseline projection for FY11 GDP growth at 8%, with an upside bias. WPI inflation, according to RBI, will cool down to ~5.5% by end of March 2011.
- Government started its long awaited 3G auction in April. Government is likely to raise more than Rs.50,000 crores from the auctions.
- The Index of Industrial Production (IIP) grew at 15.1% Y-o-Y in February against a growth of ~16.7% Y-o-Y in the previous month (Jan'10) and a mere ~0.2% Y-o-Y growth a year ago (Feb'09).

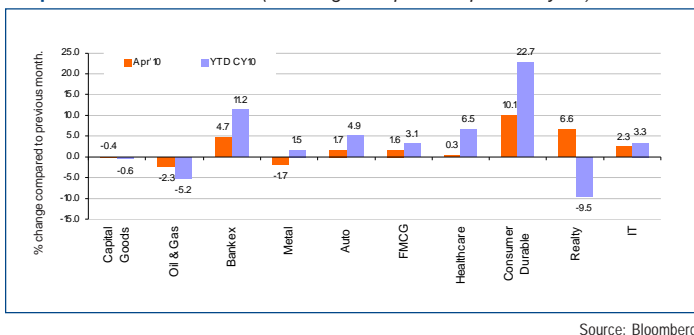
**Indian Equity Market Insights**

- April was a mixed month for most global markets. While market got impacted from European debt crisis, US Fed's assurance to keep rate low provided much needed support to the market.
- Indian markets also performed in line with global markets. The key index Sensex ended the month with marginal gains of 0.2%. Mid Cap and Small Cap Index outperformed large cap index registering returns of 4.6% and 8.4%, respectively.
- FII continues to remain bullish on Indian equities and invested US\$2099m in the month of April. Domestic MFs, however, remained negative and sold US\$317m worth of equities.
- Consumer Durables and Realty were the two best performing sector after a couple of subdued months and registered returns of 10.1% and 6.6%, respectively. Oil and Gas was the worst performing sector falling 2.3% during the month of April.

**FII and MF Trend**



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



**ING OVERVIEW OF SECTORAL TREND**

**BANKING**

The quarterly results from the banking sector so far were better than expected. Private banks' earnings were boosted by improvement in net interest margins, higher fee based income and lower provision. On the other hand, public sector banks in general have shown good loan growth, improvement in low cost funds and higher provisions during the March quarter. While there has been some deterioration in asset quality (mainly for PSU banks), overall gross NPA ratio is under control. We are positive on PSU banks backed by expected improvement in earnings and their attractive valuations.

**CONSUMER STAPLES**

In order to improve/hold market share, consumer companies have resorted to more promotions and/or price cuts. P & G cut prices of its detergents aggressively and is offering higher grammage on shampoos. HUL responded by slashing prices of its detergents by 10-29%. It has also trimmed prices of major soaps by 7% and 6%, respectively. Marico has cut prices of almost all major coconut and hair oil SKUs (Stock Keeping Units). After the steep hike in excise duty on cigarettes, ITC has raised prices of its products by around 10%. GSK has also raised prices of its products, by 5%.

On the Raw material front, most raw materials continue to trade higher than last year. Prices of all crude oil derivatives have increased with rising crude oil prices. Higher packaging material prices would also affect all consumer companies. We expect further heating up of competition in commoditized segments of consumer staples, thus impacting margins across players. And, we remain watchful of valuation attractiveness on the branded segment, for potential outperformer opportunities. We remain underweight on the sector.

**UTILITIES**

CERC(Central Electricity Regulatory Commission) has notified revised Unscheduled Interchange (UI) regulations which would be effective from May 3rd 2010. The primary objective of the new grid code is to bring stricter grid discipline and to push utilities towards the organized electricity markets (power exchanges/short term bilateral agreements) for meeting their unscheduled power needs rather than over-drawing power from the grid.

We believe this revision would lead to more volumes and firming up of rates in the short term power market. Merchant power suppliers, however, typically contract their capacities for upto 3 months and hence this revision may not immediately lead to higher realizations. Potential for higher realizations does exist if generation from hydro plants does not pick up in the monsoon season leading to continued high level of deficit in the power market. The potential beneficiaries from the increased UI rates would be a select few generators with operational merchant capacity. We remain underweight on the sector, while being watchful of merchant power operators.

**METALS**

Feedback from the 2010 International Iron Ore Market Seminar suggests that steel production is expected to increase in 2010 due to a rise in end user demand, which should support demand for iron ore. While current steel inventory is high, the recent fall in HRC(Hot Rolled Coil) and rebar inventories also indicate that demand is picking up. In response to rising demand and higher input costs, global steel companies have already started raising prices. In India, steel prices have risen by approximately Rs.4,000 per tonne but another Rs.3,000 per tonne hike would be required to neutralize the cost impact for non-integrated producers.

**CEMENT**

On an average, cement prices remained strong across the country in the month of April, with slight corrections in the Central region. The Southern region saw the largest increase in prices on the back of strong demand and production cuts. While cost pressures are likely to increase going forward, we expect companies to report better margins in the 1st quarter of FY11 compared to the 4th quarter of FY10 as most of the price increases came only in the month of March. However, we expect prices to come under pressure during monsoon months due to slowing demand and increased supply from new capacities.

**AUTO**

Volume growth is expected to continue to remain strong, driven by the economic recovery, increase in availability of finance and new product launches expanding the market. We expect EBITDA margins to moderate going forward due to increase in raw material costs. However, margins should continue to remain above historical averages as companies should be able to partially pass on higher input costs by increasing prices. Further, higher production from tax free zones will also help to counter increasing cost pressure through a lower tax burden.

**INVESTMENT MANAGEMENT**



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