

ShroffConnect Weekly Report

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Shroff Securities Pvt. Ltd.

Portfolio Investment Management Services

Kolkata: 033 32933592/3658

Bangalore: 080 32996004/6005

Email: contact@shroffsecurities.com

Web: www.shroffsecurities.com

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Opinion as on 31/12/2011

- Money flow: There is no clear trend, but some flow into US treasuries continues as before.
 - **Opinion on money flow:** The uncertainty of the Eurozone debt issues and slowdown in major economies like China and Japan, all have led to money flowing out of stocks and commodities, and into the relatively safer US treasuries. There has been weakening in gold prices as well due to a resilient US economy and weakening of the Euro.
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- Indian stock market: The Indian market continued its weakness.
 - Sectors: Two wheelers, cement, cigarettes, food, housing finance, consumer goods, software and pharma are outperforming.
 - Positives: Low food inflation.
 - Negatives: High interest rate; high fiscal deficit; high government borrowings; lack of any growth inducing policies; lack of governance.
 - **Opinion on the Indian market:** There is negative news on all fronts and markets seem headed lower towards a support area of 4350-4450. Barring the breakdown of the Eurozone, the worst seems to be factored into the markets. For now, investors should exit on rallies. For fresh investments, the investors should wait for some stability prior to investing.

**Current news and
current world financial
market prices**

Current scenario & news

World economy

- China's factory activity shrank again in December as demand at home and abroad slackened, reinforcing the case for pro-growth policies to underpin the world's second-largest economy.
- Improving labour market conditions lifted U.S. consumer confidence to an eight month high in December, but persistently weak house prices remain an obstacle to faster economic growth.
- Japanese factory output dropped more than expected in November as supply chain disruptions caused by flooding in Thailand hit major manufacturers and worries about Europe's debt crisis and a slowing global economy compounded the damage.
- The euro fell to a 15-month low against the dollar as Italian bond yields rose after the nation sold less than its maximum target at an auction, highlighting funding difficulties amid the region's sovereign-debt crisis.

Indian economy

- Key macro-economic indicators and financials of 6,485 companies had a dismal performance during the second quarter of current fiscal. The growth rate of net sales in Q2 slowed down to 20.41 per cent against 27.67 per cent in Q1.
- The government is looking at borrowing around Rs 40,000 cr more to make up for the shortfall in revenue receipts and poor disinvestment realization in the current fiscal.
- India's external debt climbed 6.6 percent to \$326.6 billion by September end from \$306 billion at the beginning of the current financial year on account of a sharp increase in commercial borrowings, export credits and short-term debts.
- Indian bank deposits stood at 56.73 trillion rupees (\$1.062 trillion) as of Dec. 16, up 18.03 percent from a year earlier, but down 0.66 percent from the previous reporting date on Dec. 2.

WORLD MARKETS - A SNAPSHOT

	Name	Description	Week ended 31st Dec 2011	% Change
STOCKS	Australia	ASX	4111.04	(1.93)
	Brazil	Bovespa	56754.10	(1.64)
	China	Shanghai	2199.42	(0.24)
	France	CAC	3159.81	1.86
	Germany	DAX	5898.35	0.33
	Hong Kong	Hang Seng	18434.40	(1.05)
	India	Sensex	15454.92	(1.80)
	Japan	Nikkei	8455.35	0.72
	UK	FTSE	5572.28	1.08
	USA	DJIA	12217.60	(0.62)
COMMODITIES	Copper	\$/Pound	3.43	(1.15)
	Crude	\$/Barrel	99.06	(0.80)
	Gold	\$/Troy Ounce	1567.00	(2.59)
	Natural Gas	\$/MMBtu	2.97	(4.50)
	Silver	\$/Troy Ounce	27.87	(4.23)
	Aluminium	\$/Tonne	2020.00	0.20
	Lead	\$/Tonne	2035.00	0.74
	Nickel	\$/Tonne	18710.00	1.11
	Zinc	\$/Tonne	1845.00	(0.54)
CURRENCIES	GBP/USD		1.5543	(0.24)
	EUR/USD		1.2949	(0.73)
	AUD/USD		1.0209	0.68
	JPY/USD		76.89	(1.49)
	INR/USD		53.06	0.44
	HKD/USD		7.7670	(0.10)
	BRL/USD		1.8625	0.08
BONDS	2 Year	US Treasury	110.19	0.06
	10 Year		131.13	0.98
	30 Year		144.81	2.00

INDIAN MARKETS - A SNAPSHOT

	Name	Description	Week ended 31st Dec 2011	% Change
STOCKS	Nifty	Large Cap	4624.30	(1.90)
	Sensex	Large Cap	15454.92	(1.80)
	BSE Midcap	Mid Cap	5135.05	(0.97)
	BSE Smallcap	Small Cap	5550.14	(1.15)
Some Major Shares	ACC	Rs/share	1136.90	(0.19)
	Bharti Airtel		343.50	3.89
	HDFC Ltd		652.05	(1.34)
	Infosys		2767.65	2.71
	L&T		994.65	(1.41)
	Reliance Inds		692.95	(7.16)
	Tata Motors		178.70	(3.38)
	Tata Steel		335.35	(3.44)
COMMODITIES	Aluminium	INR/Kg	106.95	1.23
	Copper	INR/Kg	406.00	(0.25)
	Crude	INR/Barrel	5296.00	0.13
	Gold	INR/10gms	27329.00	(1.68)
	Lead	INR/Kg	107.65	1.70
	Natural Gas	INR/1mmBtu	161.50	(2.48)
	Nickel	INR/Kg	991.20	0.59
	Silver	INR/Kg	51029.00	(3.92)
	Zinc	INR/Kg	98.45	0.25
CURRENCIES	INR/EUR		68.72	(0.35)
	INR/GBP		82.41	0.09
	INR/100 JPY		68.97	1.97
	INR/USD		53.06	0.44

Detailed macro /
fundamental analysis
of world economies

MACRO ECONOMIC SNAPSHOT OF MAJOR WORLD ECONOMIES

USA	Current	Previous
GDP Annual Growth Rate	1.50	1.60
Inflation Rate	3.40	3.50
Unemployment Rate	8.60	9.00
Benchmark Interest Rate	0.25	0.25
Govt. bond 10 year Rate	2.02	1.85

Euro Area	Current	Previous
GDP Annual Growth Rate	1.40	1.60
Inflation Rate	3.00	3.00
Unemployment Rate	10.30	10.20
Benchmark Interest Rate	1.00	1.25
Govt. bond 10 year Rate	varied	

China	Current	Previous
GDP Annual Growth Rate	9.10	9.50
Inflation Rate	4.20	5.50
Unemployment Rate	4.10	4.30
Benchmark Interest Rate	6.56	6.56
Govt. bond 10 year Rate	3.49	3.50

Japan	Current	Previous
GDP Annual Growth Rate	-0.70	-1.70
Inflation Rate	-0.50	-0.02
Unemployment Rate	4.50	4.50
Benchmark Interest Rate	0.00	0.00
Govt. bond 10 year Rate	0.98	0.99

UK	Current	Previous
GDP Annual Growth Rate	0.50	0.60
Inflation Rate	4.80	5.00
Unemployment Rate	8.30	8.30
Benchmark Interest Rate	0.50	0.50
Govt. bond 10 year Rate	2.04	2.04

India	Current	Previous
GDP Annual Growth Rate	6.90	7.70
Inflation Rate	9.39	10.06
Unemployment Rate	no data	
Benchmark Interest Rate	7.50	7.50
Govt. bond 10 year Rate	8.89	8.93

Brazil	Current	Previous
GDP Annual Growth Rate	2.10	3.30
Inflation Rate	6.64	6.97
Unemployment Rate	5.20	5.80
Benchmark Interest Rate	11.00	11.50
Govt. bond 10 year Rate	12.55	12.53

Russia	Current	Previous
GDP Annual Growth Rate	4.80	3.40
Inflation Rate	7.00	7.20
Unemployment Rate	6.40	6.00
Benchmark Interest Rate	8.00	8.25
Govt. bond 10 year Rate	6.00	6.00

IMPORTANT FUNDAMENTAL FINANCIAL RATIOS FOR SENSEX STOCKS

Company	Industry	Price as on 30/12	TTM P/E	P/BV
Bajaj Auto Ltd	Automobile Two & Three Wheelers	1592.80	13.15	7.55
Bharat Heavy Electricals Ltd.	Electric Equipment	239.00	9.10	2.61
Bharti Airtel Ltd.	Telecommunication - Service Provider	342.90	26.33	2.69
Cipla Ltd.	Pharmaceuticals & Drugs	319.55	25.43	3.58
Coal India Ltd.	Mining & Minerals	300.85	40.47	8.11
DLF Ltd.	Construction - Real Estate	183.05	21.40	1.23
HDFC Bank Ltd.	Bank - Private	427.05	22.28	3.57
Hero MotoCorp Ltd.	Automobile Two & Three Wheelers	1905.25	18.19	9.24
Hindalco Industries Ltd.	Aluminium & Aluminium Products	115.75	9.57	0.72
Hindustan Unilever Ltd.	Household & Personal Products	407.80	34.93	22.16
Housing Development Finance Corporation Ltd.	Finance - Housing	649.45	24.88	5.12
ICICI Bank Ltd.	Bank - Private	684.60	13.78	1.35
Infosys Ltd.	IT - Software	2765.05	21.97	5.35
ITC Ltd.	Cigarettes/Tobacco	201.30	28.44	8.23
Jaiprakash Associates Ltd.	Engineering - Construction	52.40	14.47	1.19
Jindal Steel & Power Ltd.	Steel/Sponge Iron/Pig Iron	453.10	11.30	2.62
Larsen & Toubro Ltd.	Engineering - Construction	995.10	14.95	2.61
Mahindra & Mahindra Ltd.	Automobiles-Tractors	683.05	15.63	3.62
Maruti Suzuki India Ltd.	Automobiles - Passenger cars	920.05	13.19	1.82
NTPC Ltd.	Power Generation/Distribution	160.60	13.72	1.84
Oil & Natural Gas Corpn. Ltd.	Oil Exploration	256.95	9.72	2.01
Reliance Industries Ltd.	Refineries	692.90	10.37	1.45
State Bank Of India	Bank - Public	1619.50	9.69	1.13
Sterlite Industries (India) Ltd.	Metal - Non Ferrous	89.60	5.32	0.69
Sun Pharmaceutical Inds. Ltd.	Pharmaceuticals & Drugs	496.85	27.20	4.68
Tata Consultancy Services Ltd.	IT - Software	1161.25	23.41	8.25
Tata Motors Ltd.	Automobiles-Trucks/Lcv	178.40	5.37	2.17
Tata Power Company Ltd.	Power Generation/Distribution	87.25	65.01	1.64
Tata Steel Ltd.	Steel/Sponge Iron/Pig Iron	335.25	2.99	0.76
Wipro Ltd.	IT - Software	398.80	18.39	3.81

World macro scenario

- USA – The government continues its stimulus policies by extending tax rate cuts and forcing interest to remain as low as 0.25% till 2013. There is improved consumer spending and housing starts.
- Europe – 26 EU states agree to fiscal integration without UK. Distressed countries are looking to the IMF to bail them out. Economic slowdown and even recession is on the cards for most countries.
- China – Exports to the US and Europe are leading to lack of demand in the manufacturing sector. There is evidence of a housing and real estate bubble collapse.
- Japan – Exports to the US and Europe are leading to lack of demand and a strong yen. There is no sign of a continuing recovery post the nuclear disaster in the country.
- Rest of the World – There is political turmoil in Russia with protests against Putin. There is an embargo against Iran by the developed world which may lead to an oil crisis. There is political unrest in Egypt, parts of the Middle East and Africa. Most of the protests are against corruption.

Indian macro scenario

- Economy – The economy is slowing and the impact is being felt across the board. The November IIP data was of minus 5.1%
- Government policies – There has been a lack of growth oriented policies for the past one year and above. Landmark legislations like introduction of GST, DTC, Land Acquisition have been postponed due to the compulsions of coalition politics.
- RBI – The RBI has signalled a pause in interest rate hikes.
- Politics – Elections are being held in 5 states from 29th Jan to 3rd Mar 2012. These are in Punjab, Uttarakhand, Uttar Pradesh, Manipur and Goa. Due to these coming elections, policies are geared towards populism more than anything else.
- Sectors – The capital goods, metals and mining, power, realty and steel sectors are reeling under low demand. The sectors doing reasonably well are two wheelers, cement, food, fast moving consumer goods and software sectors. Mining, pharma and telecom sectors await restrictive and taxing legislation.

Our concerns on the macro front

World economies

- US rising deficit and debt; need for continuous stimulus through low interest rates and tax cuts.
- Euro zone slowdown and sovereign debt crisis; countries outside the euro area not wanting to fund IMF to bail out European countries.
- Chinese slowdown and real estate bubble.

Indian economy

- High inflation and interest rate though interest rate hike cycle has stopped.
- High and growing fiscal deficit through subsidies and less collection of taxes
- Weak currency; central bank not in position to check
- Lack of governance and populist politics.

Detailed technical analysis of world financial markets

WORLD MARKETS - TECHNICAL SNAPSHOT



STOCKS			Brazil	Australia	China
			Germany	France	India
			UK	Hong Kong ↑	
			USA	Japan ↑	

COMMODITIES		Crude Oil	Gold	Copper	Aluminium
				Lead	Natural Gas
					Nickel
					Silver
					Zinc

CURRENCIES (against USD)	HKD ↑		AUD	GBP	BRL
			JPY		EUR
					INR

BONDS (US Treasury)	10 Year ↑		2 Year		
	30 Year				

↑ = moved up from last week, ↓ = moved dn from last week

INDIAN MARKETS - TECHNICAL SNAPSHOT

		Very Bullish	Bullish	Neutral	Bearish	Very Bearish
INDICES						Mid Cap Nifty Sensex Small Cap
SECTORS				FMCG IT Teck	Auto Healthcare	Bankex Cap Goods Cons Durable Metal Oil & Gas Power Realty
COMMODITIES	Crude Oil			Copper Gold ↓ Lead Nickel Zinc	Aluminium Natural Gas Silver	
CURRENCIES (against INR)	GBP JPY USD		EUR			

↑ = moved up from last week, ↓ = moved dn from last week

MAJOR LARGE CAP COMPANIES - TECHNICAL SNAPSHOT

	Very Bullish	Bullish	Neutral	Bearish	Very Bearish
COMPANIES	Hind Unilever	Ambuja Cem Cipla ↓ Grasim Ind ↑ Sun Pharma TCS Ultratech Wipro	ACC ↓ Apollo Tyres Bajaj Auto Cairn ↓ DLF Dr Reddy Havells India HDFC Hero Motoco Hind Zinc Idea Cellular Infosys Tech ITC Kotak Bank Lupin MRF Power Grid Tata Global Tata Motors	Ashok Leyland ↓ Bharti Airtel Bosch Ltd HCL Tech HDFC Bank Jaiprakash Asso Jindal Steel M&M Nestle India ↓ O N G C Petronet LNG ↓ RCOM ↑ RECL Reliance Ind Tata Chemicals Tech Mahindra ↑	ABB Andhra Bank Axis Bank Bank of Baroda Bhel BPCL Canara Bank Chambal Fert ↓ Coal India Crompton Gr Exide Inds GAIL Hindalco ICICI Bank JSW Steel LT Maruti Suzuki NTPC PNB Ranbaxy Reliance Capital Reliance Infra SBI Sesa Goa Shriram Trans Siemens
				Very Bearish	
				Sterlite Ind Tata Power Tata Steel Thermax UCO Bank	

↑ = moved up from last week, ↓ = moved dn from last week

MAJOR MEDIUM & SMALL CAP COMPANIES - TECHNICAL SNAPSHOT

		Very Bullish	Bullish	Neutral	Bearish	Very Bearish
COMPANIES			GSK Con Health ↑	Britannia Ind	Asian Paints	Bharat Forge
				Colgate-Palm	Bata India	Biocon
				GMDC	Dabur	Castrol India
				LIC Housing	Federal Bank	Cummins
					Godrej Cons	GE Shipping
					I D F C ↑	Glaxo Pharma
					I G L	GSPL ↓
					Marico	HCC
					Titan Ind	Indian Hotel
					Yes Bank	S C I
						Voltas

↑ = moved up from last week, ↓ = moved dn from last week

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