

TOP 5 PICKS

KUSAL KANSARA
Chief Technical Analyst, Padmakshi Financial Services

MARUTI | Bullish BUY



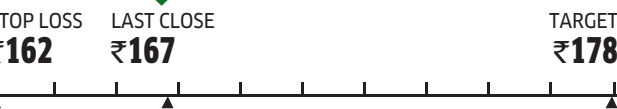
The momentum indicator MACD has formed a double bottom on daily charts. On weekly charts, the RSI is giving a positive divergence. Last week, the stock formed a hammer pattern at a crucial support level of ₹1,065. The stock has been moving up with good volumes.

HERO MOTOCORP | Bearish SELL



On daily charts, it has shown a bearish engulfing pattern along with a bearish belt hold. The momentum indicator RSI has given a 'sell' signal on daily charts, while it is overbought on weekly charts. The ADX is peaking out, while the DI is ready to give a negative crossover above the DI.

ALLAHABAD BANK | Uptrend BUY



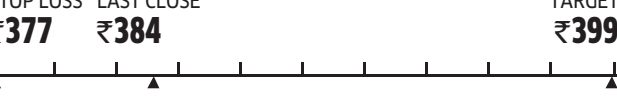
The momentum indicator MACD has formed a double bottom on daily charts. The price is very close to give a breakout above a resistance trendline from July tops. The OBV indicator on daily charts is appearing to have bottomed out.

DISH TV | Bounceback BUY



The stock has bounced back from the crucial 200 DEMA. On daily charts, the MACD has given a buy signal and we have a bullish belt hold pattern. The price is very close to give a breakout above a resistance trendline from July tops.

COAL INDIA | Bullish BUY

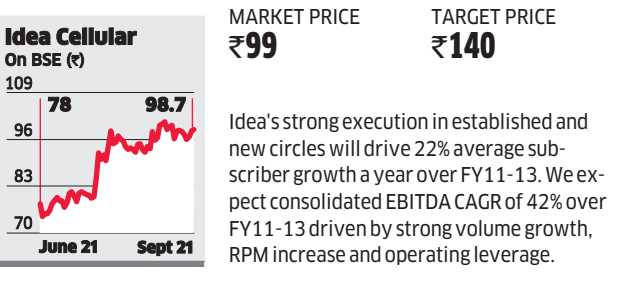


The stock has come out of consolidation breaking above the 20, 50 and 100 DEMA. The breakout is with good volumes with the OBV also giving a breakout. The DI is ready to cross above the -DI, with the momentum indicator MACD turning positive.

STOCKBUZZ

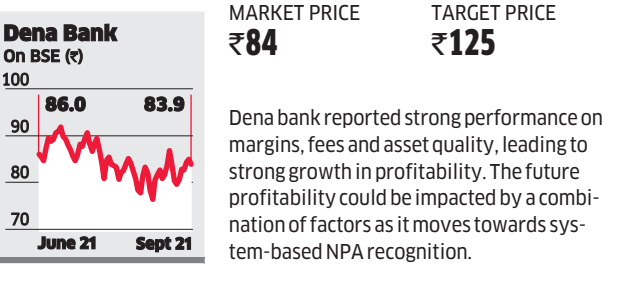
MID-TERM PICKS By Motilal Oswal Financial Services

IDEA CELLULAR | BUY



Idea's strong execution in established and new circles will drive 22% average subscriber growth a year over FY11-13. We expect consolidated EBITDA CAGR of 42% over FY11-13 driven by strong volume growth, RPM increase and operating leverage.

DENA BANK | BUY



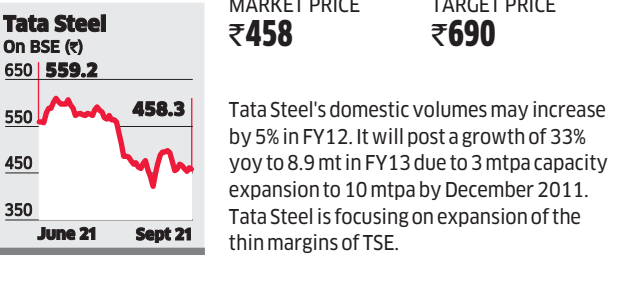
Dena Bank reported strong performance on margins, fees and asset quality, leading to strong growth in profitability. The future profitability could be impacted by a combination of factors as it moves towards system-based NPA recognition.

YES BANK | BUY



Key positives are strong growth, proven execution capabilities, diversified fee income, and superior return ratios. Over FY08-11, the bank clocked more than 50% CAGR in its reported profit and balance sheet, demonstrating its strong execution capability.

TATA STEEL | BUY



Tata Steel's domestic volumes may increase by 5% in FY12. It will post a growth of 33% yoy to 8.9 mt in FY13 due to 3 mtpa capacity expansion to 10 mtpa by December 2011. Tata Steel is focusing on expansion of the thin margins of TSE.

HCL TECHNOLOGIES | BUY



We like HCL Tech, given its prowess in large deals, as validated by TPI surveys, and best-in-class execution in the growth areas for the industry, infrastructure services and emerging geographies. Our estimates are largely unchanged post the results.

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BRIC Support for Euro Zone Has Echoes of '98

BRIC may once again get caught in slipstream of another western seizure, demand shock

REUTERS LONDON

The world's giant emerging economies have no magic wand to resolve the euro zone's debt problems, but a contribution to its stabilisation could still prove powerful, help avert market panic and reap significant non-financial rewards.

Finance chiefs from the BRIC group — Brazil, Russia, India and China — meet this week in Washington and will discuss the possibility of investment in troubled euro zone sovereign bonds, in part to help relieve intensifying global financial stress.

The four fast-growing economies have a combined \$4.3 trillion in hard cash reserves at their disposal, three quarters of it held by China. The meeting reflects the level of anxiety among policymakers and investors everywhere about how the euro's seemingly intractable problems — as well as the prospect of election-year policy paralysis in the United States — could trigger the second steep global economic downturn in four years.

Little over a decade ago, Rubin, his then deputy Lawrence Summers and the sitting Federal Reserve chief Alan Greenspan were eulogized on Time magazine's front cover as "The Committee to Save the World" and lauded for their global initiatives to limit the impact of a series of emerging market collapses in the late 1990s.

Echoing a Greenspan speech made shortly after Russia's tumultuous sovereign default in 1998,



EMs are in the reverse position of helping their former rich world benefactors

President Bill Clinton warned in September of that year that the still-booming America could not remain an "oasis of prosperity" in a world of rising financial turmoil.

The global economy and mutual security interests, they argued, had become too interdependent for hubris. To act was not charity but quintessentially in national self-interest. Thirteen years on, the fast-growing emerging world may come to the same conclusion.

WORLD TURNED UPSIDE DOWN?

It is hard to ignore the symmetry — and no less the irony — of those same developing nations now being in the reverse position of helping their former rich world benefactors. But more importantly, the arguments of interdependence and national interest have not changed.

As with the post-Lehman world recession of 2008-2009, the fast-growing emerging world would once again get caught in the slipstream of another western market seizure and demand shock. Chinese, Indian, Russian and Bra-

zilian governments, for all their superior cash reserves and stable sovereign balance sheets, have a host of internal domestic imperatives to at least try to head off another global economic train crash.

And while buying the debt could hardly be described as a canny risk-free investment on paper, the decision for China and other BRICs would surely be assessed in terms of an economic prize of greater stability in client markets as well as a significant leverage at the top tables of global governance. The quid pro quos for this sort of tangible BRIC support for western partner economies could be worth more in the long term than basis points on a sovereign bond portfolio.

BRICAID?

For sure, many emerging market investors balk at the prospect of BRIC countries frittering away hard-won cash reserves in support of cash-strapped Western governments. "It is a very bad investment to buy sovereign bonds in the EU. They are either going to yield next to nothing in a currency which will lose value... and/or they might default. There is even a chance of capital controls," Jerome Booth of Ashmore Investment Management told clients about the prospect of "BRICAid".

Subex Stock Performance Hinges on Debt Recast

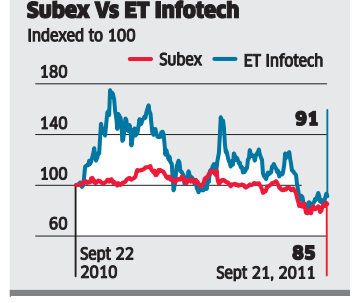
Concerns over co's rising overseas debt hamper stock's Street ride

Mid-Cap Mantra

RANJIT SHINDE
ET INTELLIGENCE GROUP

Bangalore-based Subex is expected to boost overall operating margins for the current fiscal, after selling its unprofitable division. While profitability of its core operations will improve, the nearing maturity of its foreign currency convertible bonds (FCCBs) raises some concerns. Its medium-term stock movement will depend largely upon how well the company deals with the situation without raising the cost of borrowings.

The stock of Subex rose by as much as 8.5% on Tuesday, after the company announced that it sold the telecom fulfillment solutions business, which it had acquired four years ago. The segment contributed approximately 14% to its FY11 revenue of over ₹493 crore, but without any significant profit. Subex CEO and MD Subash Menon



believes that though the sell-off would take away around ₹68 crore of revenue from the topline in FY12, the remaining business of telecom revenue assurance and fraud management will be able to grow fast enough during the year to fill the gap. For instance, of the total FY11 revenue, the company clocked over ₹427 crore in products revenue and the remainder came from services portfolio. After removing the income from the now discontinued segment, products revenue works out to be around ₹360 crore. Menon believes that going by the current business traction, the products seg-

ment would be able to more than compensate for the revenue loss due to the latest sell-off.

The revenue from the products division would now come at a higher operating margin of 38-29%. Earlier, the margin was restricted to 32-33% due to the non-profitability of the fulfillment segment. What could stir concern is the impending foreign currency debt on Subex's books. This could be one reason why its stock lost its gains during the Wednesday's trade after investors realised that proceeds from the sale were not sufficient enough to pay off the loan worth ₹423 crore.

Subex has two FCCB issues due for maturity in March 2012. The FCCB conversion price of ₹656 and ₹80 for these bonds, respectively, is far higher than the stock price of ₹47.6 on Wednesday. If the stock tends to remain at this level, Subex would either have to repay debt or look for refinancing alternative. Therefore, its stock performance would hinge on how quickly the management finds a suitable solution to reduce its debt.

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Investors Flood Stable Value Funds that Beat Market

Investors put \$540 b in stable value funds as of December 2010

ELIZABETH ODY
NEW YORK

Galliard Capital Management's stable-value funds, designed to preserve principal in tumultuous times, drew more than four times the usual inflows in August as market volatility increased, said managing partner John Caswell.

Investors in retirement plans administered by Wells Fargo moved \$850 million into the funds that month, while at Aon Hewitt, a benefits manager, about \$1 of every \$5 transferred by plan participants was put in a stable-value fund. "Some of those restrictions may not be clearly communicated until a participant tries to make a transaction, and then they're prevented from making it," Elvander said. Stable-value funds are viewed by many investors as a higher yielding alternative to money-market funds, said Pamela Hess, director of retirement research at Aon Hewitt, a unit of Aon. In August they returned 0.22%, compared with the 5.68% decline in the Standard & Poor's 500 Index. They achieve those returns in part by purchasing insurance contracts, which come with restrictions. The funds are riskier than the typical money-market fund, meaning they aren't really comparable investments, said Donald Stone, president of Chicago-based Plan Sponsor Advisors.

NO GUARANTEES

"There's a reason why they call them stable value, not guaranteed," Stone said. "I don't think participants understand that. They understand if they put a dollar in they'll get a dollar back, and some interest." There was about \$540 billion invested in stable value products as of December, according to the Stable Value Investment Association. The funds are more complicated than most investors realize, said Hess.

Although they're often called "funds," stable-value can refer to funds that pool one or more retirement plan's assets, and to insurance contracts, in some cases annuities, that are offered within defined-contribution retirement plans such as 401(k)s. The funds generally invest in short- to intermediate-term bonds and buy insurance on their portfolios. The contracts are issued directly to a retirement plan sponsor or to its participants, and offer an interest rate that resets periodically.

Funds may lag behind money funds' yields if interest rates rise rapidly because they generally take longer to adjust to rate changes

Such losses are rare, said Galliard's Caswell. Often companies have no need to liquidate a plan in a bankruptcy, and if they do they generally have more time to plan and are able to pay out participants' assets without losses, he said.

'ALL BETS OFF'

"During 2008, the liquidity and



pricing issues in the fixed-income markets adversely impacted the market value of the securities in these accounts to the point that the third-party guarantors considered terminating their financial guarantees with the accounts," the report said. The Boston-based company is in the process of exiting the stable-value business, said spokeswoman Alicia Curran Sweeney.

RISING RATES

Even though the funds generally invest in longer-dated debt than money-market funds, they could lag behind money funds' yields if interest rates rise rapidly because they generally take longer to adjust to rate changes, Caswell said.

"Right or wrong, there are plenty of disclosures that participants receive that nothing is guaranteed," with stable-value funds, said Jon Upham, principal of Irvine, California-based SageView Advisory Group, a consultant to plan sponsors. — Bloomberg

Calculus

NESTLE Competition, Interest Outgo Threaten Margins

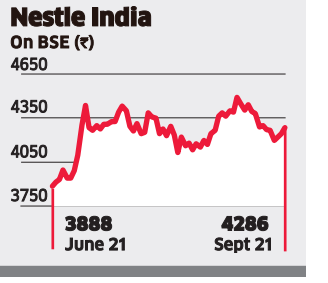
JWALIT VYAS
ET INTELLIGENCE GROUP

Nestle India's stock is currently trading close to its all-time high valuation. However, this has more to do with investors rushing to the 'safe heaven' FMCG stocks in volatile times, rather than anything about its fundamental strength or future growth prospects.

The company has been taking price hikes across segments to protect its margin from rising input costs. Recently, it hiked prices of its infant and baby food products by 4-5%, which contributes a little over one-third of the company's total revenues. Prices of its coffee brands were also raised around 10-15% with some increases in its dairy and noodle product prices.

In the previous quarter also, Nestle had taken some marginal price hikes on its overall portfolio. As a result, its volume growth remained at 12% against the year-ago period — much lower than the growth observed in the previous quarters. Also, the price hike could not entirely protect the margin. Operating margin in the June '11 quarter declined by almost 200 basis points on a sequential basis.

The recent price hikes it took may help in maintaining the gross margin — the margin it makes on sale of every ₹100 over the cost of raw material.



But the operating margin will continue to remain under pressure as spending on advertisement and marketing goes up to counter high competition. Nestle continues to face stiff competition in most of its products from several large corporates, like ITC, HUL and GSK.

In addition, the company may also face higher interest outgo on its external commercial borrowings in view of the weakening rupee. The company has taken a loan of around \$60 million, or ₹280 crore, from its parent company as a part of its huge capital expenditure plans.

At the current market price of ₹4,286, the company is trading at a price-to-earning multiple of 47, which is close to its all-time high. In view of all these reasons and the high base of the previous year, this valuation enjoyed by the Nestle India's stock is not justified.

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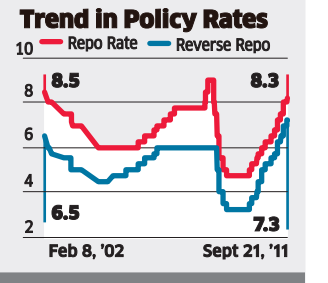
RBI'S INTEREST RATE POLICY Rate Hikes may Increase Asset Quality Risks

SKANDITA AGRAWAL
ET INTELLIGENCE GROUP

Successive increases in policy rates since February '10 to date mean that the ongoing bout of interest rate tightening has been the fastest in India. The RBI has raised key policy rates 350 bps from a low of 4.75% (repo rate) to 8.25% now over the past 18 months. Policy rates were as high as 12% back in 1997 and 9% in 2004, although the drivers for those tightening cycles were different.

In 2004-08, policy rate soared from 4.5% to 9% with strong economic growth, demand pressures and a major run-up in asset prices, including equity, gold and real estate prices. That spell of monetary tightening was not driven by any major or sustained rise in inflation as is the case now. Inflation on an average was contained at 5-6% throughout 2004-07. Since 2008, inflation has been on the upswing.

The impact of earlier rate increases, a slowdown in growth and a higher base of the previous year is expected to soften inflation, but not before the end of the 2010 fiscal. Besides, the underlying drivers of inflation, another stark difference between the two phases of monetary tightening, according to Sajjid Chinoy, India economist, JP Morgan, is the monetary policy framework which was in place in 2008



vis-à-vis now. In 2008, to prevent exchange rate appreciation in the wake of capital inflows, the RBI intervened in the foreign exchange market leading to a liquidity injection which undercut the central bank's efforts to maintain tight monetary conditions. To its credit, this time around, the RBI has, by and large, not intervened in the foreign exchange market and allowed the exchange rate to appreciate which has helped contribute in a way to cool inflationary heat.

However, any further lending rate increases are likely to moderate loan demand but more than that, the key concern is the increase in asset-quality risks for the banking sector. The earlier rate hike cycle was followed by a global melt down from which many economies rebounded in less than two years. However, the latest round of tightening may not be painless.

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"I really admire my broker's ability to judge a stock by its potential rather than its promise."

- Girish J. Bakshi, Angel Broking Customer

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