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WEEK AHEAD

Market may remain volatile ahead of Union budget

The market could be volatile ahead of the presentation of the Union Budget 2009-2010 on 6 July 2009. Stock-specific activity may rule the roost based on budget expectations. The Annual Economic Survey will be presented on 2 July 2009, a day ahead of the Rail Budget on 3 July 2009. Investors will track global cues for a direction

Railway Minister Ms Mamata Banerjee will present the Rail Budget on 3 July 2009. As per media reports, another fare cut is unlikely because Lalu Prasad's Interim Railway Budget in February 2009 has already strained the Indian Railways' finances. Lalu Prasad had announced a 2% reduction in passenger fares. Similarly, any increase in freight rates looks unfeasible because of the current economic downturn. With the present economic conditions not providing much scope for either large-scale fare concessions or an across-the-board increase in freight rates, the highlight of the Railway Budget for 2009-10 is likely to be a big push to public-private partnership (PPP) initiatives to enhance the Indian Railways' capacity to earn higher revenues on a sustainable basis.

The next major trigger for the market is the Union Budget 2009-2010. Many equity analysts have been raising earnings forecasts of India Inc on hopes that the new government will provide thrust on the infrastructure sector and push economic reforms to boost growth. Citigroup expects the economy to grow by 6.8% in the year ending March 2010 (FY 2010) and 7.8% in the year ending March 2011 (FY 2011).

The Union Budget 2009-2010 attains significant importance in the wake of the global financial crisis. Despite the country being relatively unharmed compared to the West, the UPA government will have many tasks on its to-do list, which includes boosting growth and demand, continuing to maintain liquidity, balancing inflation and also containing the country's worrying fiscal situation.

The Government has made its intention clear to push for reforms and pursue the disinvestment agenda, which was met with stiff opposition in the UPA's previous stint when the Left parties were members for a major part of the five-year tenure. The Congress party had in its manifesto released before polls promised to go ahead with disinvestment while retaining a majority holding in the state-run companies. Disinvestment programme was earlier put on backburner due to stiff opposition from the Left front.

Also the passage of the Bill to amend the Insurance Act, 1938 is likely to be touched upon in the budget. Apart from raising the foreign investment ceiling to 49%, from 26% at present, the Bill had proposed to do away with the stipulation on Indian promoters having to mandatorily sell a part of their holdings after 10 years

of operation.

The Indian government may unveil a roadmap in its 6 July budget to deregulate fuel pricing and give leeway to state-run oil refiners to fix petrol and diesel prices within a band. If the reform proposals are approved prices of petrol could rise by Rs 5.1 a litre and diesel by Rs 2.6 a litre. After the ruling coalition was re-elected in May with a stronger mandate, Oil Minister Murli Deora had said the government was considering a proposal to free state controls on transport fuel prices.

With infrastructure bottlenecks plaguing the economy, expectations are rife that the upcoming Budget will provide a big stimulus to this core sector, particularly roads and ports. A big push to Public Private Partnership (PPP) projects in infrastructure may be also on the cards.

For the power sector, the Budget may contain significant increases in spending, including for generation, rural electrification, and for minimising transmission and distribution losses. Other measures which the Budget may announce on infrastructure would be to give greater flexibility to the Infrastructure Investment and Financing Company (IIFCL), which has been set up as a refinancing facility for infrastructure projects, to deploy funds.

Meanwhile, foreign funds activity will be closely watched. After aggressively buying during the past three months or so foreign funds sold shares totaling Rs 3,168.40 crore in eight trading sessions from 15 June 2009 to 24 June 2009. FII inflow in June 2009 totaled Rs 2,964 crore (till 24 June 2009). FII inflow in calendar year 2009 totaled Rs 24,283.40 crore (till 24 June 2009).

Investors will also closely watch the progress of India's annual monsoon. Prithviraj Chavan, the Minister of Science and Technology, said in a press conference, on Wednesday, 24 June 2009, that India's monsoon, which runs from June to September, will be below normal this year. Monsoon rains will be 93% of long term average. Rain in the crucial sowing month of July will be 93% of long term average. The rains are likely to pick up in August in which month rains will be 101% of long term average, the minister said.

The June-September monsoon rains are a major influence on the economy, as two-thirds of Indians depend on agriculture and large areas of the vast south Asian country suffer from a lack of modern irrigation facilities. Poor monsoon rains could dent rural demand, hurt corporate profitability and undermine sentiment in financial markets.

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