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Market ends choppy trading session lower

The key benchmark indices provisionally ended with small losses in what was a choppy trading session. Fears the government may make dividend taxable in the hands of shareholders weighed on investors sentiment after the finance ministry's annual economic survey suggested a rationalization of the dividend distribution tax. The BSE 30-share Sensex was provisionally down 22.72 points or 0.16%, up close to 150 points from the day's low but off close to 140 points from the day's high. Weak European stocks and lower US index futures weighed on the domestic bourses. Index heavyweight Reliance Industries was weak. But ONGC surged. Metal and realty stocks rose but auto stocks fell.

Volatility was high right from the onset of the trading session. The key benchmark indices dropped after a positive start triggered by higher Asian markets. Concerns arising from a glut in share sales weighed on the bourses in early trade. Worries over inflation was another reason for nervousness in early trade after the hike in fuel price announced by the government after market hours on Wednesday, 1 July 2009. The market bounced back in mid-morning trade.

The market pared soon after surging to the fresh day's high after the presentation of the annual economic survey by the finance ministry in parliament which suggested a strong push for policy reforms. The market extended losses in afternoon trade. It cut losses later. Volatility was immense in the last one hour of trade.

Suggesting sweeping tax reforms, the Economic Survey released ahead of Monday's (6 July 2009) budget announcement for the fiscal year ending in March 2010, asked for rationalising the dividend distribution tax (DDT) so that dividend is taxed in the hands of receiver. As per the current dispensation, a company pays tax on dividend declared to shareholders which is called dividend distribution tax. The dividend is tax-free in shareholders hand.

The survey also called for a review and phasing out of surcharges, cesses and transaction taxes such as commodities transaction tax (CTT), securities transaction tax (STT) and fringe benefit tax (FBT).

The Economic Survey said economy could grow around 7% in the year ending March 2010 if the US economy recovers by September 2009. It further said economy could return to 8.5-9% growth in medium terms if reforms are pursued. It said government should free diesel and petrol prices at the earliest. The report said government should take advantage of the recent low price in oil costs to free petrol and diesel prices.

The Economic Survey has called for introduction of standardized credit default swaps on exchanges subject to strict controls, introduction of exchange traded derivatives such as interest rates swaps, foreign direct investment in multi format retail starting with food retail, raising foreign equity share in insurance to 49%, rationalising dividend distribution tax and revival of disinvestment plan to generate at least Rs 25,000 crore annually. The survey has also called for reforms in petroleum, fertilizers, food subsidies to reduce leakages, ensure targeting. The survey also called for an auction of third-generation mobile phone spectrum.

It also called for implementation of a goods and services tax (GST) by April 2010 to maximise revenues and simplify the tax regime. It also called for "greater urgency" to removing hurdles to investment in infrastructure by government and the private sector. The survey said inflation is no longer a worry and called for an urgent return to the targeted fiscal deficit of

3%.

The survey said it be challenging to fund \$500 billion of planned spending on roads and power plants over five years as the economic slowdown and the global financial crisis have made it difficult to raise funds

The survey has also called for passage of pending bills on pension, insurance and forward contract reforms.

Meanwhile, data released just ahead of the survey showed inflation declined 1.3% in 12 months to 20 June 2009 compared to fall of 1.14% in the preceding week . Inflation had dipped to negative in early June 2009 for the first time since 1977-78. But inflation for the year through 25 April 2009 was revised upwards to 1.75% from 0.7%.

The government had on Wednesday hiked petrol price by Rs 4 per litre and diesel by Rs 2 per litre.

Meanwhile, corporate India appears to be in a rush to raise funds by share sales to institutional investors. Bajaj Hindusthan (BHL) on Wednesday raised Rs 723 crore through a qualified institutional placement (QIP). A number of firms have announced plans this week to raise funds through shares sales to institutional investors, taking advantage of a solid surge in share prices in the past three months. Brokers expect companies to raise over \$10 billion in the current financial year by way of share placements and initial public offers.

A glut in share sales by companies may keep a lid on share prices in the secondary market. On the flip side, the raising of funds will help corporates finance expansion and reduce debt. But it will result in equity dilution which the stock market normally does not like due to earnings dilution.

European shares were trading lower on Thursday as investors took a cautious stance ahead of the influential US non-farm payroll figures. Commodity stocks fell tracking weakness in crude and metal prices. Key benchmark indices in France, Germany and UK were down by between 0.59% to 1.35%.

Most of the Asian stocks were trading lower today, 2 July 2009. While, Key benchmark indices in Japan, Singapore, Hong Kong and South Korea fell by between 0.01% to 1.09%. The key benchmark indices in China and Taiwan rose by between 1.35% to 1.73%.

Trading in the US index futures indicated Dow could fall 28 points at the opening bell today, 2 July 2009.

US markets shut in the green but off highs yesterday, 1 June 2009 after a barrage of economic reports. The Dow gained 57.06 points, or 0.7%, to 8,504.06. The S&P 500 index rose 4.01 points, or 0.4%, to 923.33. The Nasdaq composite index was up 10.68 points, or 0.6%, to 1,845.72.

In economic news, the June 2009 ISM manufacturing index rose to 44.8 from 42.8 in May 2009, slightly higher than expected. Meanwhile, the ADP employment change report showed more than-expected job losses for June 2009 at 4,73,000 jobs.

As per the provisional data, the BSE 30-share Sensex was down 22.72 points or 0.16% to 14,622.75. The Sensex opened 48.84 points higher at 14,694.31. At the day's high of 14,764.35, the Sensex rose 118.88 points in early afternoon trade. The Sensex lost 175.78 points at the day's low of 14,469.69 in afternoon trade.

The S&P CNX Nifty was down 1.50 points or 0.03% to 4,339.40 as per the provisional data.

BSE clocked a turnover of Rs 5,972 crore higher than Rs 5,770.71 crore on Wednesday 1 July 2009.

The market breadth, indicating the overall health of the market, was positive. On BSE, 1,417 shares rose as compared with 1,156 that fell. 87 shares remained unchanged.

Among the 30-member Sensex pack, 15 fell while rest advanced.

India's largest private sector firm by market capitalisation Reliance Industries (RIL) fell 2.64% to Rs 2,003 after the company said on Wednesday, 1 July 2009, it would appeal to the Supreme Court against a ruling that it should enter into a gas supply agreement with former group firm Reliance Natural Resources (RNRL).

RIL had said on Tuesday, 30 June 2009, it could not sign a gas supply agreement with Reliance Natural Resources (RNRL) as there was no clarity on government approval for the terms. RIL said it wanted the terms such as price, quantity and tenure to be subject to government approval. The Bombay High Court, in its order dated 15 June 2009, had directed that Anil Ambani's RNRL will get assured gas supply of 28 million metric standard cubic metre per day (mmscmd) of gas from RIL's Krishna-Godavari basin for 17 years at \$2.34 million per metric British thermal unit (mmbtu). This is 44.28% less than the price fixed by the government for gas sale from the RIL block in the KG basin at \$4.2 million per metric British thermal unit.

PSU OMCs rose as government hiked petrol and diesel prices yesterday. HPCL and IOCL rose by between 1.28% to 2.01%. BPCL fell 0.6%. Higher fuel prices will reduce underrecoveries at the state-run oil firms on domestic sale of petrol and diesel at a controlled price.

India's largest oil exploration firm by sales ONGC rose 6.38% after company's chairman and Managing Director R. S. Sharma said the company's fuel subsidy burden for the current year will be significantly lower than the previous year, if the crude prices stay around the current level. GAIL India jumped 7.69%.

The current government-controlled fuel pricing regime in India forces state-run producers such as ONGC to partially subsidise state oil marketing companies to sell products at low prices to consumers.

Metal stocks rose after LME, a gauge of six metals traded on the London Metal Exchange, rose 2.9% yesterday, 1 July 2009. Sterlite Industries, Hindustan Zinc, Hindalco Industries, Jindal Steel, Steel Authority of India rose by between 0.33% to 3.84%.

India's largest steel maker by sales Tata Steel rose 5.82% on reports the plans to sell global depositary receipts worth about \$600 million.

Auto stocks fell on worries fuel price hike may hamper auto sales. India's top small car maker by sales Maruti Suzuki India fell 1.79%. The company's total vehicle sales rose 22.63% to Rs 75,109 units in June 2009 over June 2008. Maruti's domestic sales rose 9.5% to Rs 61,773 units, while exports soared 175.8% to Rs 13,336 units in June 2009 over June 2008. The company announced June 2009 sales figures during trading hours on Wednesday, 1 July 2009.

India's largest tractor maker by sales Mahindra & Mahindra fell 0.61% even as its domestic sales jumped 24% to 22,526 units in June 2009 over June 2008.

India's largest commercial vehicle maker by sales Tata Motors fell 2.19%. Tata Motors on Wednesday reported a 3.91% decline in its total sales to 45,399 units in June 2009 over June 2008.

India's largest bike maker by sales Hero Honda Motors slipped 0.92% despite a 23.7% surge in sales to 3,65,734 units in June 2009 over June 2008.

Aurobindo Pharma declined 2.4% to Rs 470 after a block deal of 8.01 lakh shares on NSE at Rs 460 per share.

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