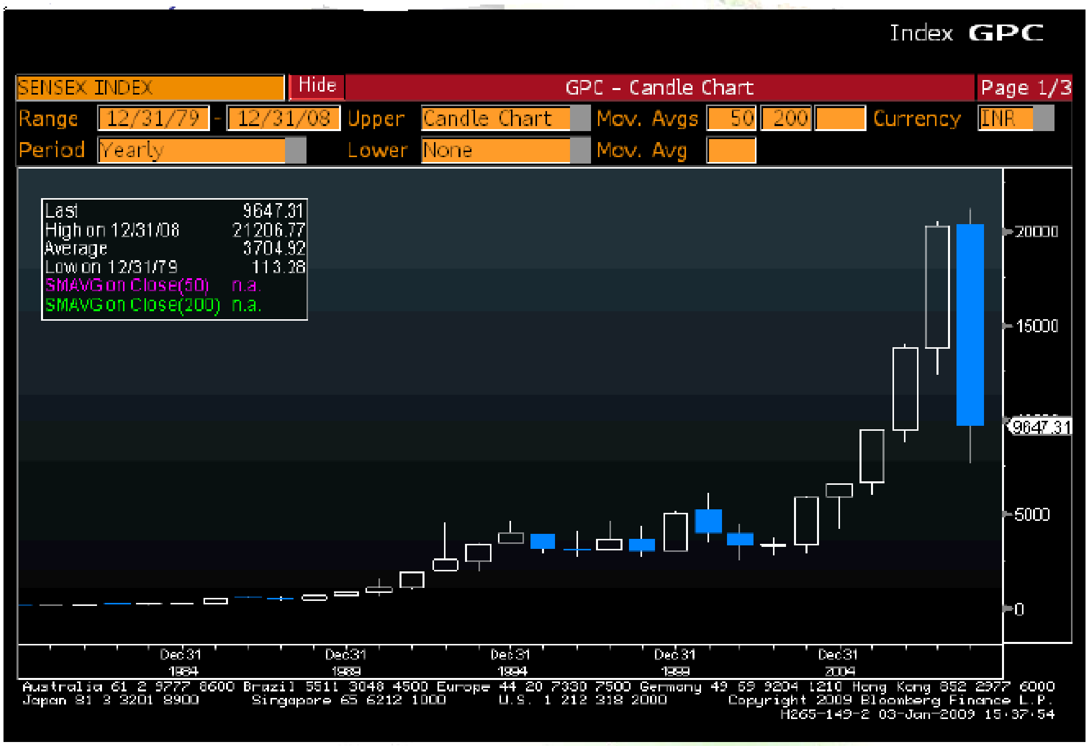
India Outlook 2009

The year 2008 was the test of times and fear was the key. 2008 will be recorded in the history of financial world for the worst ever as corporate giants, one after the other fell, leading to a global meltdown in equities, commodities and to some extend currencies. Alan Greenspan's book "The Age of Turbulence" couldn't have come at a better time than this, when turbulence in financial markets compared by some estimates as worse than the historic "The Great Depression" of 1929-shook the age old legacies of Wall Street. The year 2008 would better be described as the year of fall of Wall Street whose reverberations were felt the world over and which brought an end to the debate on decoupling of emerging economies from developed economies. However, it was time to boast as Indian regulators and market practice got a global dominance as it functioned smoothly despite high volatilities at a time when most global bourses and regulators faced problems.

Exhibit: Sensex yearly change



Source: Bloomberg

The sub prime crisis that had its first signs of appearance in 2006, nurtured in 2007 and burst in 2008, brining down Bear Sterns, Lehman Brothers, AIG International, Merrill Lynch, Morgan Stanley, Goldman Sachs and a host of others. You are never too big to fall were almost visible as Citigroup was on the verge of a fall too. The crisis that began in developed markets had a sweeping impact on other economies of the world. Emerging market equities fell more than the developed markets as slowdown in US hit exports from some emerging market economies to the US and other developed economies. In India, India VIX or the volatility index recorded the all time high of 92% on November 14th 2008 led by massive pullout from foreign institutional investors to the tune of USD13 billion. This called for the Indian regulator, SEBI, to reverse the rules on offshore derivative instruments introduced in 2007. Indian markets were down by 54 percent in 2008 whereas MSCI World equity Index was down by 44 percent. Commodity prices which led to global inflation and concerns to some emerging market growth fell sharply 55 percent as evinced by the fall of CRB index from its July 08 high.

Indian markets were volatile as FII's exited Indian markets on fear of eroding valuations and liquidity crisis. On the other hand, Indian Institutions and bought heavily during the same period. The table below shows trends in FII, MF and DI investments in 2008 compared to previous years.

Exhibit: Institutional and Mutual Fund Data

Cy	Fill Data (Rs Cr)		USD Bn		MF Data (Rs Cr)			DII Data (Rs Cr.)		
	Buy	Sell	Net	Net	Buy	Sell	Net	Buy	Sell	Net
2008	721,606	774,593.1	(52,987.1)	(13,135.1)	177,024.9	165,624.8	13,279.5	283,146.6	213,041.0	71,683.8
2007	814,877	743,390.7	71,486.5	17,235.1	183,444.9	177,368.7	6,672.0	218,426.9	194,003.5	24,423.3
2006	475,622.5	439,082.8	36,539.7	7,993.5	135,626.6	119,602.2	16,024.3	NA	NA	NA
2005	286,020.5	238,839.4	47,181.2	10,701.0	79,365.5	66,060.7	13,304.3	NA	NA	NA
2004	185,671.5	146,706.4	38,965.1	8,518.9	42,301.8	43,219.7	(917.9)	NA	NA	NA

For the first time in 15 years, India's IIP contracted in October 2008, leading to fall in corporate profits as historically profits have a high co-relation with industrial growth in the country. The fall in IIP has led to decline in excise duty and corporate advance tax collections. Lower direct tax collections also suggest that earnings are likely to dip in the quarter to follow. Over all tax collections during April- November 2008 is up 22 percent compared with 45 percent during the same period of last year.

Name	CMP 31-Dec-08	Ch 1yr	Ch 3yr	Ch 5yr
SHANGHAI SE COMPOSITE	1,820.81	(67.03)	56.82	21.63
KARACHI ALL SHARE IND	4,400.76	(60.06)	(31.71)	55.33
MSCI EM	565.78	(54.83)	(19.92)	27.78
BSE SENSEX 30 INDEX	9,647.31	(54.51)	2.65	65.22
NSE S&P CNX NIFTY INDEX	2,959.15	(53.45)	4.32	57.42
JAKARTA COMPOSITE IND	1,355.41	(52.25)	16.58	95.90
TAIWAN TAIEX INDEX	4,591.22	(50.68)	(29.89)	(22.06)
STOCK EXCH OF THAI IND	449.96	(49.25)	(36.96)	(41.73)
BRAZIL BOVESPA SE IDX	37,550.31	(49.20)	12.24	68.87
PSEi - PHILIPPINE SE IDX	1,872.85	(48.94)	(11.30)	31.21
HANG SENG INDEX	14,387.48	(48.35)	(3.29)	14.41
CAC 40 INDEX	3,217.97	(43.21)	(31.75)	(9.55)
NIKKEI 225	8,859.56	(42.52)	(45.01)	(17.02)
KUALA LUMPUR COMP IND	876.75	(42.50)	(2.56)	10.43
NASDAQ COMPOSITE IND	1,561.78	(41.18)	(29.19)	(22.05)
KOSPI INDEX	1,124.47	(40.62)	(18.48)	38.70
DAX INDEX	4,810.20	(40.62)	(11.06)	21.31
S&P 500 INDEX	894.02	(39.42)	(28.38)	(19.60)
DOW JONES INDUS. AVG	8,712.04	(34.81)	(18.77)	(16.72)
FTSE 100 INDEX	4,434.17	(32.14)	(21.08)	(0.95)
MEXICO BOLSA INDEX	22,553.24	(30.16)	26.64	156.34

Global Equity Market Performance in CY 2008

In the meltdown that followed in India, the BSE Realty Index declined the highest in CY 2008 by 83.58 percent followed by BSE Metal index that fell 74.56 percent. The Realty sector was impacted as companies were unable to fund their constructions and real estate prices were falling. Also, overleveraging in the sector bought to liquidation which catapulted the fall. The metal index fell as metal prices collapsed globally due to global liquidity crisis which led to inventory built ups.

Exhibit: Performance of various BSE Indices during the year.

Name	CMP 31-DEC-08	Ch 1yr	Ch 3yr	Ch 5yr
BSE AUTO INDEX	2444.71	-54.83	-42.57	-3.52
BANK NIFTY INDEX	5001.55	-53.58	10.31	93.20
BSE CAPITAL GOODS IND	6911.12	-66.14	18.93	195.91
NSE CNX IT NIFTY INDEX	2187.00	-55.01	-44.02	-7.10
NSE CNX MIDCAP INDEX	3735.60	-61.81	-7.32	56.41
BOMBAY STOCK EX FMCG	1987.38	-22.66	20.63	79.08
BSE METAL INDEX	5214.35	-74.56	-19.60	-3.94
BSE OIL & GAS INDEX	6050.04	-57.60	37.17	91.38
BSE HEALTHCARE INDEX	2966.19	-35.55	-4.77	18.94
BSE POWER INDEX	1829.31	-62.89	25.48	NA
BOMBAY SE Realty Index	2274.13	-83.58	NA	NA
BSE BANK	5454.54	-56.98	7.34	94.87
BSE IT	2227.96	-53.06	-40.47	7.47

Commodities market had an equally bad performance in CY2008, touching all time highs in case of most commodities and touching 3-4 year lows at close of the year. The fall was on expectations that credit crisis would lead to a demand slump in global economies.

Exhibit: Performance of commodities under Reuters/Jefferies CRB index

Commodity price change 1 year-RJ/CRB Index	
Cocoa	38.77
Gold	1.65
Soyabean	(1.06)
Corn	(26.62)
Coffee	(26.73)
Sugar	(27.63)
Silver	(28.63)
Natural Gas	(36.16)
Wheat	(40.23)
Aluminium	(46.69)
Cotton	(49.93)
Heating Oil	(51.90)
Copper	(52.85)
Crude Oil	(55.08)

Sharp fall in emerging markets and commodities led to the appeal of the USD which appreciated to end the year against major global currencies, except the Japanese Yen. Flight of capital form emerging markets, sharp fall in crude oil prices led to dollar appreciation against major global currencies.

Exhibit: Performance of currencies in CY 2008

Global currency performance vs the USD in 2008	
Japanese Yen	22.91
Chinese Renminbi	6.98
Swiss Franc	6.35
Hong Kong Dollar	0.65
Macau Pataca	0.61
Lebanese Pound	0.55
Egyptian Pound	0.32
Brunei Dollar	0.19
South Korean Won	-25.74
British Pound	-26.39
South African Rand	-26.84
Brazilian Real	-23.67
Chilean Peso	-21.86
Australian Dollar	-21.52
Mexican Peso	-21.25
Indian Rupee	-19.23
Russian Ruble	-19.14

The year 2008 is best forgotten but apprehensions are rife as to the expectations in 2009. The ills of 2008 are likely to continue its haunt till the first half of 2009. The President Elect of the US-Barrack Obama is expected to bring change in US economy once he takes the hot seat. The expectations from “THE CHANGE” are high. Whereas he is likely to take immediate measures to boost the US economy, whether “those change” would bring a sweeping recovery in US output and consumption is doubtful. The change may happen but with a time lag. Hence, we may see a repeat of the volatilities seen during September-October 2008 in late January to February 2009. Also, most of the Indian heavyweights are likely to announce poorer than expected quarterly numbers for the quarter ending December 2008.

These two developments may see markets going volatile and touching its previous lows on closing basis. Come March 2009 and we may see activities surrounding the Indian general elections getting hot. It is again likely to be a period of uncertainties and hence a period of volatilities, but within a range. Indian markets may get stable from June-July 2009 as most of the factors responsible for lower growth and loss in confidence may ease. Corporate profits are likely to beat estimates from September 2009 onwards, i.e., second quarter of FY2009-10. The markets may give thumbs up to corporate growth a quarter in advance and hence we may see recovery in markets one way forward from June-July 2009.

In an effort to restore confidence in the economy, the Indian government and the RBI took a slew of measures to boost demand, employment and consumption across sectors through, what it called, the second stimulus package. RBI cut repurchase rates for the fourth time since October by one percentage point to 5.5% and the reverse repurchase rate by one percentage point to 4.0%. CRR was cut from 5.5% to 5.0%. The government also more than doubled, the amount overseas investors can hold in local bonds and extended capital to Indian banks. The yield on the 10-year benchmark bond fell to the lowest since April 2004. In a similar move, the Chinese government announced a USD586 Bn stimulus package to revive demand.

Equities as an asset class may also find favor with investment community as US Treasury bond prices have peaked and it has started correcting, which signifies that risk appetite of investors is increasing. Also, most of the commodities like crude oil, non-ferrous metals have almost bottomed and signs of recovery are visible, which shows severe demand destruction is priced in. These factors signal positive signs for equity markets.
Bail out packages announced globally and locally, falling commodities prices, inflation, interest rates and investor friendly moves of the government may attract inflows in India in terms of FII, FDI and other means. This may lead to the rise in the INR too, which would lead to further ease in monetary conditions.

Valuations of global market

Global stock markets have shrunk to 2004 levels as global market cap has fallen from its peak of USD 62.56 trillion in 2008 to USD31.68 trillion on the last day of close in 2008. Valuations that were running high during the beginning of the year have also shrunk to 3-4 year lows. Table below shows the decline in global valuations
Exhibit: Decline in Emerging Equity market valuations in 2008

Index	**Price to Earnings multiple**	
	Dec-07	Dec-08
China –Shanghai Composite	44.20	14.40
India-Sensex	27.90	11.80
South Korea-Kospi	17.40	11.00
Mexico-Bolsa	15.50	10.90
Taiwan-Taiex	20.20	8.90
Hong Kong-Hang Seng	18.10	8.70
Brazil-Bovespa	15.30	8.60
Russia-RTS	12.90	3.30

The above table may prompt investors to invest in other emerging economies as their markets are quoting at lower valuations than India. But merely investing based on lower PE multiples may not help as most of the emerging markets quoting at lower multiples to India are commodity based. India, on the contrary is a net importer of commodities and hence its economy is subject to improve when international prices of commodities fall. According to most recent GDP growth estimates, India's GDP is estimated to grow by 6.5 percent in 2008, next only to China. Hence, India will continue to enjoy premium compared to other emerging markets. Also, despite flight of capital from Indian markets, it is interesting to note that net FII addition in the country is on the rise (table below):

Exhibit: Number of FIIs Added

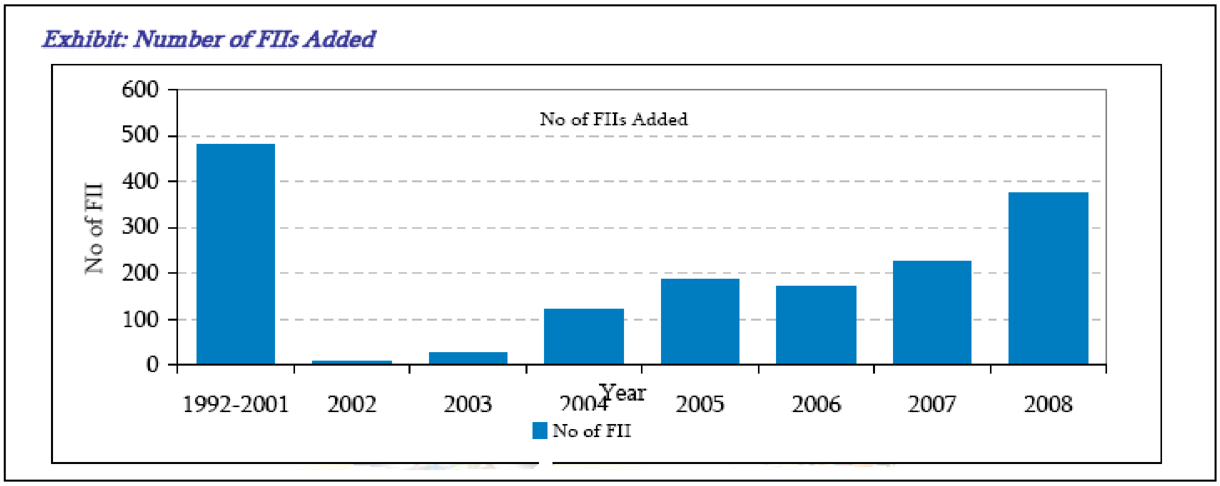


Exhibit: Selected Indices Data, Current and Expected

Particulars	Sensex	Auto	Power	CG	Metal	Teck	O&G	Realty	Bank
CMP(31 December 08	9647.31	2444.71	1821.31	6911.12	5214.35	1947.04	6050.04	2306.55	5521.96
EPS	1005.83	373.59	98.77	449.66	1889.65	162.24	621.23	473.53	537.97
BVPS	4584.67	1543.56	755.85	1996.99	6223.59	690.50	3240.57	1750.89	4112.40
P/E	9.59	6.54	18.52	15.37	2.76	12.00	9.74	4.87	10.26
P/BV	2.10	1.58	2.42	3.46	0.84	2.82	1.87	1.32	1.34
EPS(CY09E)	896.87	270.45	112.97	499.21	1303.01	180.93	556.82	396.10	525.84
P/E(CY09E)	10.76	9.04	16.19	13.84	4.00	10.76	10.87	5.82	10.50

Source: Bloomberg, Current EPS and BVPS is on TTM Basis

Telecommunication Sector

2008 – A quick flashback

Indian Telecommunication Sector reported a robust performance during CY2008. The country added more than 100 Mn mobile subscribers during the first eleven months of the year. With this, the mobile subscriber base in India increased to 336.08 Mn in November 2008. Robust growth in subscriber base helped the nation's mobile operators to register continued growth in top line despite a declining trend in the Average Revenues per User (ARPU) levels. At the end of November 2008, Bharti Airtel (Bharti) strengthened its leading position further by a 118 basis points (bps), from a year earlier levels, with an increased market share of 24.67%. Reliance Communications (RCOM) remained number two with 17.73% market share while Vodafone Essar (Vodafone), with 17.49% share, remained a closer number three. Revenues for the top three listed mobile companies Bharti, RCOM and Idea Cellular (Idea), increased by 43.0%, 23.47% and 47.33%, respectively, during the half year ended September 2008. Several foreign operators entered/expand into the Indian region through tie-ups including – Telenor, NTT DoCoMo, Telecom Malaysia, Etisalat, and Sistema. However, Indian operators' ambitious overseas expansion plans hit a roadblock in the form of unsuccessful talks of Bharti and RCOM to acquire MTN. Nevertheless, Idea successfully acquired majority stake in Spice Communications during the year. On the policies front, removal of access deficit charge came as a respite to the telecom operators. In short, the Indian Telecommunication Sector remained unaffected from the global slowdown and witnessed a phenomenal growth during 2008.

Expectations for 2009

With overall tele-density levels still remaining low at just 32.34% in the country, we expect the robust subscriber growth in telecom sector to continue in the year 2009 as well. In our view, the average net adds during Calendar Year (CY) 2009 will be well above 10 Mn levels. The expected auction of third generation (3G) spectrum is likely to make the country's mobile market more lucrative with high speed data and video services on mobile. Furthermore, the launch of high-end 3G services is also anticipated to support the ARPU levels of operators. However, the decline in the ARPU levels, at a slower pace, may continue during 2009 as well. The much awaited Mobile Number Portability (MNP) is also expected to be launched during the year. Some of the key things to watch in the year will be:

- 3G Auction
- Implementation of RCOM's pan India GSM services launch and its buyback of Foreign Currency Convertible Bonds (FCCBs)
- Idea and Tata Teleservices' (TTSL) expansion in new circles
- Launch of mobile services by new players such as Unitech, Swan Telecom, Videocon, Loop and STel in the Indian mobile market
- Expected introduction of MNP

Bharti is likely to further strengthen its leading position with highest share in net subscriber additions during the upcoming year as well. Entry of new players in the market, RCOM's GSM launch and aggressive expansion by TTSL and Idea may boost up the subscriber additions even beyond 12 Mn per month in the latter half of the year. As a result, we expect the telecom operators' top line to continue growing at a decent pace during CY2009. However, higher expansion costs and continued decline in tariffs may shave off some of this growth from bottom line. As a result, the operators may witness a slight decline in margins during the coming quarters. Nevertheless, we expect the growth in telecom sector to remain intact in CY2009 as well without being affected by the global environment.

Information Technology Sector

2008 – A quick flashback

The CY2008 was as a nightmare for the Indian Information Technology (IT) sector led by one of the greatest depression in the global history. The crisis, which intensified into US sub prime market in the beginning of 2008, gradually spread across Europe, Japan, and became a global one in the latter half of the year. As a major part of the top five IT vendors' revenues comes from North America and Europe, this crisis adversely affected their revenues. While 89.6% of Infosys Technologies' (Infosys') Q2 FY 2009 revenues were contributed by North America and Europe, these geographies contributed 86.1%, 85.1%, 82.6% and 65.0%, respectively, of HCL Technologies (HCL), Tata Consultancy Services (TCS), Satyam Computer Services (Satyam) and Wipro's top line during the quarter. As a result, these vendors collectively reported a subdued growth in business volumes during the year. However, the depreciation of Indian Rupee (INR) against major global currencies supported the revenues growth of IT companies in INR terms. The INR, which depreciated almost 20% from year ago levels, also helped these companies to report an improvement in margins. Nevertheless, most of these companies hedged their revenues against the currency fluctuation and couldn't avail the full benefit of the depreciation of INR. In addition, considering the global downturn, the IT players are now aiming at domestic projects. With this, TCS recently won two major contracts – Passport Seva Project from Ministry of External Affairs and e-governance project. Furthermore, Satyam may bag a significant IT outsourcing contract from Indian Railways.

Expectations for 2009

The lag impact of global economic slowdown is likely to continue affect the performance of Indian IT vendors. As some of their big financial clients, such as Lehman Brothers, have lost existence, many others have become a part of other organizations. In addition, the financial crisis is also spreading into manufacturing domain, which was helping IT companies in sustaining the top line growth during CY2008. Though, across the globe, many stimulus relief packages are being announced in recent past to concur the slowdown, the implementation of the same will be instrumental in setting the direction of the sector's performance. The liquidity infusion through these packages will assist the Indian IT sector to revive in medium term. In near term, the reduction in discretionary spending and delayed decisions by the clients may restrict the industry's revenues growth. Though the domestic focus may support the performance, global scenario is unlikely to change dramatically in near term. The currency movement may also not turn as supportive in 2009 as it was in CY2008. Moreover, Infosys' management, in FY2009, foresees a 15.0% growth in Indian IT segment due to global slowdown, compared with 30.0% during the last financial year. Considering these factors, our outlook for the sector remains bleak for CY2009. However, on a medium to long term basis, expected demand for Legal Process Outsourcing, pressure on global players to rationalize costs and India's cost and quality advantages are likely to support the performance of the nation's IT industry.

Exhibt: Telecom and IT Sector Matrix with Current and Estimates Number (31 December 2008)

Particulars	**BSTE CK**	**Infosys**	**TCS**	**Wipro**	**Satyam**	**HCL**	**Bharti**	**RCOM**	**Idea**
Current Market Price	1947.04	1115.45	477.90	233.40	170.80	115.30	715.50	227.20	52.65
Current Data	**TTM Data**	**On the basis of FY 2008 EPS and BVPS**							
EPS	162.24	81.54	51.36	22.62	25.24	15.82	33.71	26.32	3.96
BVPS	690.50	241.17	124.67	80.03	107.97	62.75	114.17	140.63	13.45
P/E	12.00	13.68	9.30	10.32	6.77	7.29	21.23	8.63	13.31
P/BV	2.82	4.63	3.83	2.92	1.58	1.84	6.27	1.62	3.91
Estimated Data(Fy 2009)									
EPS	180.93	101.57	56.87	25.96	33.36	22.05	44.34	27.72	3.26
BVPS	NA	314.79	164.73	101.27	135.36	93.43	160.60	160.18	39.76
P/E	10.76	10.98	8.40	8.99	5.12	5.23	16.14	8.20	16.16
P/BV	NA	3.54	2.90	2.30	1.26	1.23	4.46	1.42	1.32
Estimated Data(Fy 2010)									
EPS	NA	110.01	61.77	28.37	34.46	22.15	54.76	29.81	3.98
BVPS	NA	389.33	207.97	121.87	164.14	103.53	213.15	187.47	44.10
P/E	NA	10.14	7.94	8.23	4.96	5.21	13.07	7.62	13.22
P/BV	NA	2.87	2.30	1.92	1.04	1.11	3.36	1.21	1.19

Source: Bloomberg

For HCL current Data are for the year ending June 08 and Estimates Data are also for FY ending in month of June.

Auto Sector

2008 – A quick flashback

Automobile sector which was in gear during the first half of calendar year 2008, witnessed a major hit during the second half. Automobile sales continued to decline across segments since September 2008, with major fall witnessed in the heavy and medium commercial segment. The segment witnessed a negative growth of 16.8 percent for the period April-November 2008, while total commercial segment witnessed a decline of 9.2 percent. The segment which outperformed the industry is passenger car segment, registering a growth of 10.7 percent, while the total industry witnessed a growth of only 5.8 percent. The sales fell drastically in the second half mainly due to the global financial turmoil which has led to slowdown in the domestic economic growth, high interest rates and tight liquidity situation. Poor sentiments and a severe finance crunch on account of restrictive lending from financial institutions have severely hit sales volumes. Seeing the demand setback, almost all companies have announced or initiated a production cut either by shutting the plant temporarily or by reducing shifts in the month of November and December 2008.

Expectations for 2009

The first three-four months look foggy for the Automobile sector, while after that we may witness some revival in the sales numbers of companies. The reasons which led to the slowdown for the sector in CY2008 were high interest rates, high domestic oil prices and inadequate vehicle financing which affected the overall automobiles sector. The current slowdown in economic growth and automobiles industry has further deteriorated due to the global financial crisis, with wide-spread job and salary cuts, the impact of which on the automobiles sector, especially the passenger cars segment, was unavoidable. The lost jobs led to reduction in purchasing power and uncertainty, which further deteriorated the volumes.

The major trigger for the segment is likely to be improvement in lending from financial institutions and banks, the key demand driver, as around 70-80 percent of buying is funded by borrowings. The RBI has also taken measures such as cut in CRR, Repo Rates, Reverse Repo and SLR, which are likely to bring in efficient liquidity into the system with a lag effect of 5-6 months. However, reduction in interest rates, increased lending from banks and financial institutions, and financial tie-up of these majors with banking as well as their own financial arms can ease the pressure and support volume growth going forward. We further believe demographics will favor strong growth for the Indian auto sector over a long period, especially for cars. Only eight out of every 1,000 Indians own a car, while 37 out of every 1,000 Indians own a motorcycle. So we may see major demand coming from rural areas as penetration level in that segment of economy is still very low.

We anticipate sales volumes in the coming months should be in doldrums due to the slowdown in domestic as well as global economies. Auto majors have already cut prices on account of an excise duty cut of 4 percent and the sector should benefit from further softening of interest rates, especially after measures taken by the government announced in the second stimulus package to bring in additional liquidity into the system by bringing CRR, Repo rate and Reserve Repo rate to 5 percent, 5.5 percent and 4 percent respectively. Also falling commodity prices coupled with expected fall in oil prices, better vehicle financing and subsequent surge in affordability should benefit the sector going forward.

Exhibit: Auto Sector Matrix with Current and Estimates Number (31 December 2008)

Particulars	BSEAUTO	Maruti Suzuki	Tata Motors	M&M	Bajaj Auto	Hero Hona
Current Market Price	**244.71**	**520.20**	**159.85**	**274.50**	**391.10**	**803.65**
Current Data						
EPS(08A)	373.59	61.95	49.73	61.52	53.73	48.47
BVPS(08A)	1543.56	298.61	218.49	257.86	112.22	149.55
P/E	6.54	8.40	3.21	4.46	7.28	16.58
P/BV	1.58	1.74	0.73	1.06	3.49	5.37
Estimated Data (Fy 2009)						
EPS	270.45	54.92	34.24	53.16	53.51	57.96
BVPS	NA	342.78	280.22	319.82	136.54	184.11
P/E	9.04	9.47	4.67	5.16	7.31	13.87
P/BV	NA	1.52	0.57	0.86	2.86	4.37
Estimated Data (Fy 2010)						
EPS	NA	61.31	33.60	68.01	59.55	66.99
BVPS	NA	397.85	300.28	390.77	165.85	227.70
P/E	NA	8.48	4.76	4.04	6.57	12.00
P/BV	NA	1.31	0.53	0.70	2.36	3.53

Source: Bloomberg

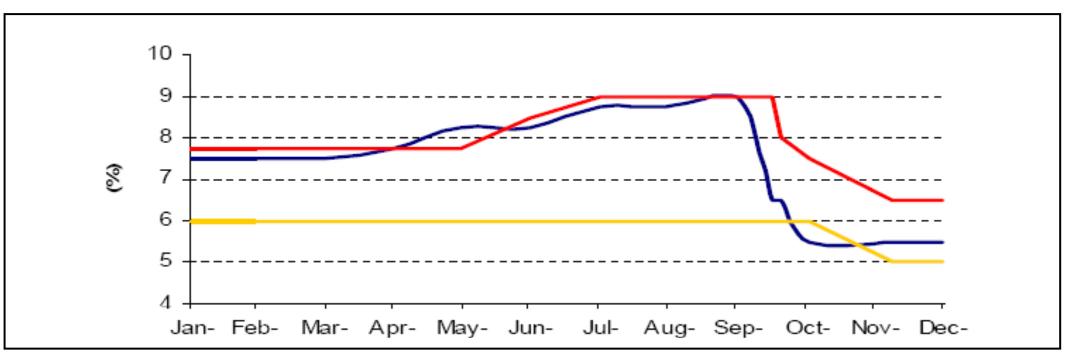
Banking Sector

2008 – A quick flashback

The global financial situation continues to be uncertain and unsettled. What started off as a sub-prime crisis in the US housing mortgage sector, turned successively into a global banking crisis, global financial crisis and now a global economic crisis. It is the first financial crisis since the Great Depression that originated in the advanced economies and rapidly engulfed the whole world. The Indian banking system is not directly exposed to the sub-prime mortgage assets. It has very limited indirect exposure to the US mortgage market, or to the failed institutions or stressed assets. Indian banks, both in the public sector and in the private sector, are financially sound, well capitalized and well regulated.

Bank profits for the first quarter of 2008-09 have been hit on account of sharp increase in interest rates, negative impact on treasury incomes and mounting bad loans. The country's 40 listed banks reported near flat profit growth during the quarter. On a cumulative basis, these banks reported a 0.46% rise in net profit to INR6918 crs for the quarter ended June this year as against INR6866 crs during April – June 2007. Furthermore, as a result of rise in bad debt and bond yields, cumulative provisions and contingencies turned out to be higher than the combined net profit. Total provisions rose over two-anda-half times to about INR7667 crs during the first quarter of 2008-09 compared with INR3056 crs during April-June 2007. However, in the second quarter, bond yields came down by 75 basis points to 8.46 per cent, helping banks to recover some of the money they had set aside for the April- June quarter. Banks for the second quarter ended 30 September, 2008, reported a 26 percent y-o-y growth in their bottom lines. The robust sectoral performance despite the concerns over slowdown was the result of improvement in operating earnings with net interest income, the difference between interest earned and interest paid, growing by 37.35 per cent. Also, during the same quarter Public Sector Banks (PSU) banks have outperformed Private sector banks on a cumulative basis. PSU banks registered a 27.98 percent y-oy growth in their bottom lines, while Private Banks registered a 19.71 percent y-o-y growth.
The Reserve Bank of India has been continuously monitoring the liquidity and monetary conditions in the recent period. According to a survey conducted by the Federation of Indian Chambers of Commerce and Industries (FICCI), a major strength of the Indian banking industry is the regulatory system, which has helped the country mark its place on the global banking scene. Ever since liquidity in the system tightened, RBI has cut CRR at regular intervals to inject funds. Since October, the central bank has cut the CRR on four different instances totaling 350 bps, from 9% to 5.5%. The Reserve Bank of India has also cut its benchmark repurchase rate by a total of 2.5 percentage points in three stages starting October 20 to 6.5 percent from a seven-year high of 9 percent. Furthermore, in an attempt to boost liquidity into the system, the central bank has reduced the statutory liquidity ratio (SLR), by 100 basis points to 24%.

Exhibit: Cash Reserve Ratio, Repo and Reverse Repo Rates



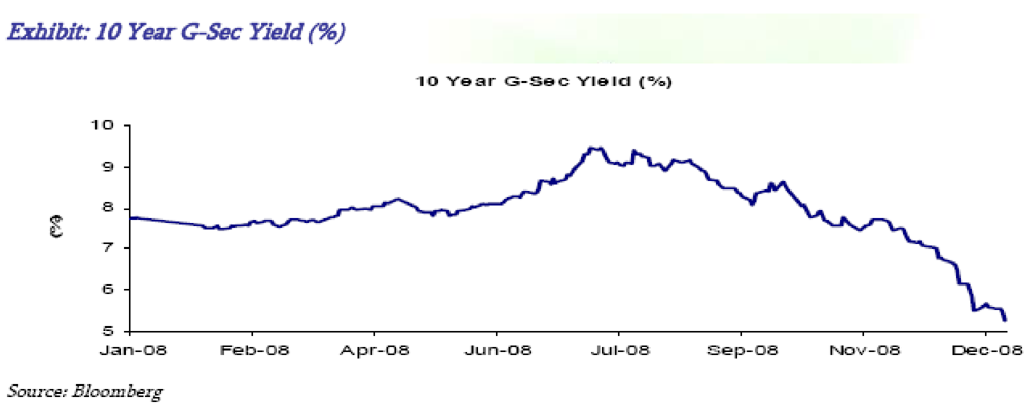
Despite pressures emanating from global financial markets, Indian banks witnessed a healthy 25 to 29 per cent average growth in credit disbursals, primarily in housing, auto and infrastructure loans. In the current quarter i.e. Q3 FY09 with other sources of credit drying up, banks have been enjoying a virtual monopoly and pricing power. Core income is currently going strong with banks sustaining higher loan yields while optically cutting PLR rates and hiking fee income rates.

Expectations for 2009

The future outlook for the banking sector appears positive, with strong credit growth, which is likely to remain over the next few years. On January 2, 2009, , RBI further eased the monetary policy by cutting key interest rates and unveiled the second emergency package to boost lending and to stimulate the slowing economy. The Central Bank cut the CRR, the amount of reserves that banks keep with RBI, by 50 bps to 5.0 per cent which will inject liquidity to the tune of INR20,000 crs into the system. Furthermore, the RBI also cut the repurchase rate and reverse repurchase rates by 1.0 per cent each to 5.5 per cent and 4.0 per cent respectively. This proactive move by the apex bank will help the banks to bring down their cost of funds significantly. The Central Bank also asked the public sector banks to raise their credit targets for the fiscal to ensure optimal disbursal of funds at least cost. Also, to enhance flow of credit to micro enterprises, it decided to increase the guarantee cover extended by Credit Guarantee Fund Trust to 85 percent for credit facility up to INR500,000. Other measures include recapitalization of the public sector banks to the value of INR 200 billion over the next two years. All these measures announced by the Indian government and the RBI is likely to boost lending to the cash starved sectors and help the slowing economy to be revitalized. However, some pain will be felt in the banking system in the form of rising delinquencies particularly from risky sectors because of the slowdown. This would make banks more cautious in terms of lending and also require them to make adequate provisions, which would eat away into the profitability and depress the RoEs to a certain extent. But after the slew of measures taken by RBI to revive the slowing economy and giving banks more time to restructure their loans by increasing the earlier duration of 90 days to 120 days, the risk of rise in delinquency next year may be controlled. The extension in deadline would reduce the provisioning cost of banks lending to the sector.

Banks with high level of CASA deposits and less dependent on bulk deposits are likely to stand better in CY 2009. Banks like Axis, HDFC Bank, SBI, and PNB with consistent high CASA deposits are better placed to manage the cost of funds. In medium term continuous fall in inflation, bond yield and eventually whole-sale deposits rates and anticipated cut in retail deposits rates would incrementally reduce the banks' cost of funds and therefore the lending rates. The change in government bond yields in CY2008 is as follows:

Exhibit: 10 Year G-Sec Yield (%)



In CY 2009, cost to income ratio is expected to improve on back of absence of any wage arrears and limited technology spends going forward. For selected banks the opposite trend might be evidenced, given their aggressive expansion plans. Given the slower GDP growth and weak global situation, loan growth is estimated to grow by 19% for FY09 and 18% for FY10, whereas deposits are expected to grow by 18% and 16%, respectively. In the short term PSU Banks are going to be benefited from a lot of factors. One of course is the yield correction in the Government 10-year bond which came down all the way from 9.5% to 5.5%. The second big thing is that there has been a flight to safety both on deposits as well as credit towards PSU banks. Currently on credit, PSU Banks rates are lower than the Private Banks with average differential in PLRs in the range of 100-300 bps. In all banking stocks could take the leadership mantle in 2009 as they have a lot of fundamentals going in for them.

Exhibit: Banking Sector Matrix with Current and Estimates Number (31 December 2008)

Particulars	**BANKEX**	**ICICI**	**SBI**	**HDFC Bank**	**Axis Bank**	**PNB**
Current Market Price	**5454.54**	**448.10**	**1288.80**	**998.35**	**504.70**	**526.70**
Current Data						
EPS(08A)	537.97	31.19	159.09	46.37	31.80	69.87
BVPS(08A)	4112.40	401.93	969.74	325.45	244.60	414.58
P/E	10.14	13.92	8.10	21.53	15.87	7.54
P/BV	1.33	1.11	1.33	3.07	2.06	1.27
Estimated Data (FY2009)						
EPS	526.23	35.61	126.36	53.75	39.92	74.30
BVPS	NA	442.80	964.00	353.26	277.18	415.88
P/E	10.37	12.58	10.20	18.57	12.64	7.09
P/BV	NA	1.01	1.34	2.83	1.82	1.27
Estimated Data (FY 2010)						
EPS	NA	44.43	142.46	67.57	50.96	86.75
BVPS	NA	464.32	1056.87	439.95	319.29	474.26
P/E	NA	10.09	9.05	14.78	9.90	6.07
P/BV	NA	0.97	1.22	2.27	1.58	1.11

Source: Bloomberg

Cement Sector

2008 – A quick flashback

Starting on a bullish note with cement prices touching historic high in April-May 2008, amid buoyant demand, cement industry slipped on to a subdued shore in the second half as the realty sector was rattled by the unprecedented financial crunch. Caught between the government intention to tame the skyrocketing inflation, which touched a sixteen year high of 12.98 percent in October 2008, and soaring input costs in July 2008, the industry was given an ultimatum by the government to hold prices. In a bid to increase supply in the domestic markets, exports were banned from the country and overseas cement volumes were less than 3 percent of the total production of about 200 million tonnes.

On the other hand, duty-free imports from Pakistan were allowed to further soften prices in the northern market specially Punjab and Haryana. Prices of coal, which constitutes around 10 percent of overall input cost, hit new high on supply constraints and good demand in the first half of 2008. It touched a high of USD193 a tonne in July 2008, when the crude oil was hovering at USD147 a barrel. Capacity utilization of the industry dropped to a low 85 per cent in the first half of the financial year 2009, against 93.4 percent in the same period last year. Though drop in capacity utilization was partially attributed to the new capacity added, it is also attributed to the weak demand from the housing sector which contributes around 65 percent of overall cement consumption. In December 2008, northern India cement companies ACC and Shree Cement shut down their plants due to the slowdown in the demand. ACC became the first victim of sluggish demand followed by Shree cement, with both deciding to shut their plants for 15 days.

Exhibit : Dispatches

Company	April-November 2008	April-November 2007	% Chg
ACC	13.508	13.205	2.29
Ambuja Cement	11.345	11.05	2.67
Grasim	10.141	9.86	2.85
Ultra Tech	9.808	9.47	3.57
Shree Cement	4.73	3.848	22.92
India Cement	6.08	6.01	1.16
Industry Total	**114.68**	**107.31**	**6.87**

Expectations for 2009

The short-term outlook for the cement industry looks desolate on the back of slow down of demand from the housing sector. Cement demand is primarily derived from housing (60-65%), infrastructure (20-25%), commercial construction (10-15%) and industrial segments (5-10%). The slowdown in real estate has adversely affected the industry. With a worsening of the macroeconomic scenario, off take of cement from the construction industry is also likely to slow down. Initial signs of a slowdown in demand are already visible as ACC has shut down its Gagal-II plant, Himachal Pradesh, for 15 days, followed by Shree Cement, which has also shut down its Rajasthan plant for 15 days. Domestic cement consumption, after reporting growth of around 10 percent in the last three years, has slowed down to 6.87 percent during April-November 2008.

The industry is expected to add 45.5 million tones (mt) of capacity in FY09, of which 28.3 mt of capacity is already commissioned and another 42.4 mt of fresh capacity is likely to be added in FY10, against incremental demand growth of 10-12 mt, assuming an annualized demand growth of 5-6 per cent. At this rate, the industry may be saddled with more than 65 mt of surplus capacity by the end of FY10 and capacity utilization is estimated to fall to about 73.5 per cent from 95.4 per cent in FY08. Over a longer horizon, we expect the fear of over-supply to be negated, with the demand of cement coming from other sectors, especially from nuclear sector, to build up nuclear plants and government spending on infrastructure is likely to be boosted pre and post election.

In order to boost demand for the cement industry, the government has reduced the excise duty in December 2008, from 12 percent to 8 percent and further announced Counter Veiling Duty (CVD) exempt, which is likely to boost demand for domestic cement as prices of landed imported cement from Pakistan is expected to go up. Moreover, margins of major cement companies may improve on the back of easing costs, specially coal prices which has fallen more than 60 percent from its peak of USD193 in July 2008, reduction in ocean freight rates due to fall in Baltic Dry Index by over 93 percent, and reduction on fuel prices are most likely to benefit cement makers. The correction in coal prices is expected to benefit the domestic cement makers, but the gains will be largely offset due to the depreciation in the INR against the USD which has depreciated by about 20 percent since June 2008 and advanced booking of inventory at higher prices by the companies. Moreover, due to a sharp decline in the prices of crude oil, the government has cut petrol prices by INR5 per litre and that of diesel by INR 2 per litre in December 2008, which is likely to give relief to secondary freight cost of domestic cement companies. As a result of fall in input costs cement companies can witness savings of INR18-22 per bag. Hence, we expect the companies to pass on the benefit of savings to the end users in order to fuel demand for cement.

Going forward, we expect cement industry to be on the back seat in comparison to other consortium industries with major dependence on growth drivers like Real Estate and Infrastructure sectors.

Exhibit : Cement Demand-Supply Scenario

Millon Tonnes	FY 06	FY 07	FY08	FY09E	FY10E
Effective Capacity	158.10	166.7	175.7	221.2	263.6
Production	141.8	155.7	167.6	178.9	193.7
Capacity utilization (%)	89.7	93.4	95.4	80.9	73.5
Domestic consumption	135.6	149.0	164.0	177.1	191.3
Export	9.2	5.9	3.7	2.5	2.8
Import	-	-	0.4	0.8	0.4

Exhibit: Cement Sector Matrix with Current and Estimates Number (31 December 2008)

Particulars	ACC	Amuja Cement*	Grasim	Ultratech	India Cement
Current Market Price	**480.15**	**70.05**	**1219.85**	**385.50**	**138.75**
Current Data					
EPS(08A)	75.85	12.12	315.25	81.11	23.1
BVPS(08A)	221.85	31.92	997.42	217.10	114.71
P/E	6.33	5.78	3.87	4.75	6.01
P/BV	2.16	2.19	1.22	1.78	1.21
Estimated Data (Fy 2009)					
EPS	61.70	8.01	251.62	73.13	22.38
BVPS	262.95	35.39	1269.51	281.45	131.50
P/E	7.78	8.75	4.85	5.27	6.20
P/BV	1.83	1.98	0.96	1.37	1.06
Estimated Data (Fy 2010)					
EPS	49.87	6.75	212.43	62.79	18.74
BVPS	296.52	39.31	1440.21	338.16	147.64
P/E	9.63	10.38	5.74	6.14	7.40
P/BV	1.62	1.78	0.85	1.14	0.94

Source: Bloomberg *year ending December

Metal Sector

2008 – A quick flashback

The year 2008 was a very eventful one for the metals sector. The sector witnessed a lot of movement in prices and inventory. In the first half of the year, metal prices rallied to a peak previously unseen and in the second half of the year prices saw a free fall which pared almost all the gains witnessed earlier. The inventory also followed the price patterns and producers matched the demand. But the sudden downturn caught a lot of them on the wrong foot and inventory piled up as demand dried up.

The year began on a strong note for metal sector with prices rocketing up to the highest levels. In the second half of the year, the prices of steel declined by 58% from their peak levels, to USD525 a tone from USD1250. The prices of raw materials also followed the same trajectory and zoomed up correspondingly. Coking coal price increased by 200% to approximately USD305 a tonne and iron ore prices went up by 85% to touch USD150 a tonne. This run of increasing prices was followed by a free fall in the prices where coking coal prices fell to USD200 from a high of USD305 and iron ore prices fell to USD60-70 from a peak of USD205, in the second half of the year.

The rise in prices led to an increase in production as demand also grew during the period. But the sudden change in prices in the opposite direction led to increased production with demand drying up resulting in increased inventory holdings for the producers. Higher inventory at the LME and huge selloff by the hedge funds in commodities led to a steep fall in the base metal prices, which have corrected by more than 50% in the last couple of months. The LME prices of most base metals after the steep fall are even below their cost of production or at their marginal cost of production for most of the high-cost manufacturers, which has led to production cuts globally. The price changes, from peaks, in Metals during the year 2008:

In USD/tonne

Metal	Highest Price	Current Price	Change(%)
Aluminum	3317	1495	55%
Copper	8730	2950	66%
Zinc	2030	1145	44%
Lead	3420	940	73%

Note: CMP as on 30/12/2008

The global financial turmoil which started with the fall of Lehman Brothers in September followed by recession in major global economies led to the freefall of metal prices. The credit crunch led to delay in the expansion plans of the companies. The producers across the globe had to cut their productions by 20%-30% as there were no signs of rise in demand, coupled with inventory pileup.

The Indian market was also affected and the effects of the rise and fall in prices led to increased inventory with the producers, which again pulled the prices even lower. A vicious cycle of low prices and increased inventory led most of the producers to cut their production by approximately 20 percent. However, by the first week of December, many companies have seen the reduction in their inventories due to increasing production cuts and will increase production as and when demand picks up. Mr. L. N. Mittal, Chairman of Arcelor Mittal, said that inventory levels are low and if demand rises in first or second quarter of 2009, the company would increase the production.

The Indian Government had taken following steps to boost domestic demand of steel:

- Withdrawing the export duty on certain steel products like pig iron, iron and steel ingots, bars, rods, angles, shapes and sections. These products attracted an export duty of 15% before the above measures were taken.
- Further to reduce dumping of steel from China and Ukraine Indian Government imposed 5% ad valorem import duty on Pig iron, semi finished products, flat products and long products.
- On 7 December 2008, unveiled INR30,000-crore fiscal stimulus package including an across the board 4% cut on excise duty, in a bid to shield the domestic economy from the global economic slowdown.

Expectations for 2009

Though the prices of metals seem to have bottomed out, the demand is still on the wane owing to global financial crunch, coupled with slowdown in auto and construction sector. The demand is likely to pick up in the second half of the year 2009, as the gap between demand-supply will narrow down owing to production cut of up to 35% across the world. The prices of most of the metals are hovering around their marginal cost of production. However, with declining input prices, marginal cost is also expected to come down by 10%-20%.

Further, the Government's initiative to increase public spending and provide sops to the industry may boost the demand for the commodities. In line with this, the Indian Government on January 2, 2009, withdrew the re-imposed 10 per cent Countervailing Duty (CVD) on imports of long steel products - TMT bars and Structurals. It also withdrew exemptions on customs duty on imported zinc and ferro alloys.

The move is likely to benefit Indian Steel producers, by reducing the gap between landed imported price and domestic price, which are witnessing high inventories and cheap dumping. The landed imports of TMT bars are hovering at around INR26000 a tonne, while the domestic prices are at INR 32000 a tonne. The exemption would narrow the gap by INR3000 a tonne. With the exemptions withdrawn on customs duty on zinc and ferro alloys, importers will now have to pay five per cent customs duty on import of zinc and ferro alloys. This would help domestic zinc and ferrochrome prices remain firm and boost demand to some extent. Though the industry welcomed the move, it expects more such steps to boost the sentiments further.

In addition, demand in China is a key factor in determining the demand of metals, as China is one of the largest consumers of the same. Many Chinese mills have opted for production cuts, by up to 15%, due to sluggish demand and weakening prices. To boost its economy, China announced a package of USD 586 billion by 2010, to spend on low-cost housing, social welfare and rural infrastructure, aimed at stimulating domestic spending. However, the impact of this will be seen in the second half of 2009.

Also, per capita consumption for most metals in India and China are still well below the developed markets, which will keep long-term demand for metals intact. Growing population, increasing income levels, low penetration for electricity, telecom, drinking water, etc. are some of the factors in India, which are likely to drive huge investments in infrastructure and consequently could fuel demand for metals.

Exhibit: Metal Sector Matrix with Current and Estimates Number (31 December 2008)

Particulars	BSE Metals	Tata Metals	SAIL	Sterlite	Hindalco	JSPL
Current Market Price	**5214.35**	**217.20**	**77.50**	**260.10**	**51.40**	**911.25**
Current Data						
EPS(08A)	1889.65	162.92	18.39	94.31	18.40	80.58
BVPS(08A)	6223.60	393.22	56.38	314.79	128.20	250.37
P/E	2.76	1.33	4.21	2.76	2.79	11.31
P/BV	0.84	0.55	1.37	0.83	0.40	3.64
Estimated Data (Fy 2009)						
EPS	1303.02	101.38	15.35	51.40	12.26	141.56
BVPS	NA	440.51	67.88	376.64	142.43	386.69
P/E	4.00	2.14	5.05	5.06	4.19	6.44
P/BV	NA	0.49	1.14	0.69	0.36	2.36
Estimated Data (Fy 2010)						
EPS	NA	66.50	14.81	40.51	8.58	164.17
BVPS	NA	468.10	78.28	416.73	143.59	547.94
P/E	NA	3.27	5.53	6.42	5.99	5.55
P/BV	NA	0.46	0.99	0.62	0.36	1.66

Source: Bloomberg

Capital Goods & Power Sectors

2008 – A quick flashback

The Capital goods sector began in a top gear during 2008. However, the global financial turmoil in September took its toll on the sector as it delayed the expansion plans of the companies across the industries, thereby impacting the growth of capital goods sector. Strong capital expenditure growth in Power and Infrastructure sectors drove the top line for most of the capital goods companies. Power equipment segment continued to show good growth on y-o-y basis as well on q-o-q basis during CY2008. Large capital goods companies witnessed impressive order books inflows over the year. Though the power transmission universe has been showing increase in order book during the first half, there was a slowdown in new orders during the last six months. There was an increase in the input cost due to sharp rise in commodity prices, which impacted the margins of industry at large during H1 FY2009. It was not possible for capital goods industries to pass on the increase in costs. The net margins were also impacted due to increase in interest cost and higher depreciation led by expansion during the first half. The declining commodity prices and policies both fiscal and monetary (stimulus package announced by the Government in the recent past) may support the growth in order book inflows.

Expectations for 2009

We expect slow growth in the incremental capital goods order flows due to a sharp downturn in the industrial production levels. The government's monetary and fiscal policies should help the growth of the capital sector; however the sector may grow at a slower pace in first six months of 2009 vis-à-vis same period in 2008. Infrastructure is one of the main criteria for economic growth. As the poor infrastructure facility in the country is lagging a sustainable GDP growth, the Indian government and the RBI has given a fiscal and monetary stimulus earlier and has further released such packages. All this augurs well for the capital goods sector. The government's initiative to bring clarity to power sector reforms is a positive sign for the industry. More coordination between the centre and the state for infrastructure developments is a step in the right direction as India is a power deficit country. T&D losses are a major concern for the Indian economy. The initiatives of power companies to reduce the same will keep the order book size of companies in these segments healthy. With power generation and distribution looking brighter, power equipments companies can look forward to a promising 2009. Fiscal measures to various industries like steel, power, refineries etc is likely to fuel growth for the capital goods sector in the year 2009.

The clearance of the India-US civil nuclear deal was a major relief for the country to promote nuclear capacity addition. India plans to increase it to 20,000 mw by 2020 from present capacity of 4,153 mw. Besides, the commissioning of two power exchanges Indian Energy Exchange (June 28) and Power Exchange India (October 22) created additional forum for power starved states to procure power in the day ahead trading.

Exhibit: Capital Goods and Power Sector Matrix with Current and Estimates Number (31 December 2008)

Particulars	**BSE Capital Goods**	**BSE Power**	**L&T**	**BHEL**	**NTPC**	**TATA Power**	**Reliance Infrastructures**
Current Market Price	**6911.12**	**1829.31**	**773.75**	**1362.60**	**180.60**	**749.15**	**579.50**
Current Data							
EPS(08A)	447.78	98.77	39.22	58.41	9.06	49.84	49.62
BVPS(08A)	1996.99	755.85	185.26	220.10	64.11	347.66	694.40
P/E	15.43	18.52	19.68	23.33	19.93	15.03	11.68
P/BV	3.46	2.42	4.18	6.19	2.82	2.15	0.83
Estimated Data (FY2009)							
EPS	502.19	112.97	49.38	65.50	9.76	74.28	47.91
BVPS	NA	NA	212.13	NA	69.30	440.37	541.22
P/E	13.76	16.19	15.67	20.80	18.50	10.09	12.09
P/BV	NA	NA	3.65	NA	2.61	1.70	1.07
Estimated Data (FY2010)							
EPS	NA	NA	62.00	79.90	10.61	90.09	52.75
BVPS	NA	NA	263.71	NA	75.33	512.73	621.29
P/E	NA	NA	12.48	17.05	17.02	8.32	10.99
P/BV	NA	NA	2.93	NA	2.40	1.46	0.93

Source: Bloomberg

Real Estate Sector

2008 – A quick flashback

In the last six months residential rental and capital values across India have either remained stagnant or declined by around 10-15 per cent across micro-markets. The Net asset Value (NAV) of the real estate companies have eroded by 50% to 80% as of October from their peak levels of January 08. The reasons for the same were drop in realizations, rising construction and financial costs, rising leverage, delay in cash flows, exclusion of certain non starter projects and increase in discount rate on account of higher risk free rate and risk premium. The effect of the decline is more evident in under-construction developments. The scenario does not differ much for commercial office space, where rentals for keymarkets of major cities witnessed similar decline. Developers are facing a severe cash crunch that is hindering the execution of ongoing projects and grounding new launches. Further, demand has dropped off sharply over the past 9–10 months, particularly for residential units. Also, over the past 6–8 months, realty companies have found it virtually impossible to secure loans from banks owing to the tight liquidity conditions and high risk weights imposed on commercial real estate loans.

Expectations for 2009

Starting November 2008, the Government took a slew of proactive measures to boost demand for real estate and they include concessional interest rates for loans up to INR 20 lakh, pumping in INR 300,000 crore to the Banking system over a few weeks, to ease liquidity, reduction in risk weightage for housing loans, refinance by National Housing Bank at low interest rates and many more such measures. On January 2, 2009 the government announced the much awaited second stimulus package, in which it took following initiatives to revive the sector:

- To facilitate access to funds for the housing sector, the "development of integrated townships" would be permitted as an eligible end-use of the ECB, with the approval of RBI.
- Non-banking financial companies, or NBFCs, dealing exclusively with infrastructure financing, would be permitted to access ECB from multilateral or bilateral financial institutions, under the approval route of the RBI.
- India Infrastructure Finance Company (IIFCL) is being enabled to access in tranches an additional 300 billion rupees by way of tax free bonds once funds raised in the current year are effectively utilized.

In order to boost lending and to stimulate the slowing economy, RBI further eased the monetary policy, on 02 January 2009. The Central Bank cut the CRR, the amount of reserves that banks keep with RBI, by 50 bps to 5.0 per cent. Furthermore, RBI cut repurchase and reverse repurchase rate by 1.0 per cent each to 5.0 percent and 4.0 percent respectively. The interest rate cut should prompt those who were delaying decisions for sometime, now to wrap up deals for their dream homes during the first few weeks of the New Year. The government's move to allow builders to raise foreign loans or ECBs to develop townships is also being seen as a significant move. The other good news is that the IT majors have not altered their hiring numbers much. Besides, hiring numbers for banks, insurance and some other sectors are likely to go up significantly. Job creation due to these factors should generate fresh demand for housing. However, there is still a long way to go for the sector to revive. We may witness bankruptcies, distress sale of under construction projects and land parcels along with decline in prices and rentals.

Developers with staying power would utilize this consolidation phase to emerge stronger and position themselves in an advantageous manner to capitalize on the growth phase post consolidation. The presence of handful of corporate with proven corporate governance likes Mahindra Lifespace, Godrej Properties etc is a silver lining for the sector.

Realty stock prices have already corrected 85