

**Weekly Newsletter****Geo-Political Events Sour Mood!****Markets this week**

- The markets witnessed significant volatility, remained largely in a narrow range between 9200-9300 during an eventful week, closed almost flat on weekly basis. Market participants saw a lot of action in the mid and small cap space as they continued to outperform the benchmark. The index remained in negative territory for the last couple of sessions, off from the lifetime high on Wednesday after the Urjit Patel led RBI monetary policy committee maintained the status quo by keeping the Repo Rate Unchanged. Global tensions put a dampener on the market sentiments as concerns emerged over escalating tensions between US and Russia over the Syrian conflict.
- NIFTY and SENSEX lost some of their mid-week gains but still registered net gains as they ended on 9198 and 29707, up by 24 points (+0.27%) and 86 points (+0.29%) respectively. The broader markets continued to outperform as the NIFTY MIDCAP and SMALLCAP index gained 0.48% and 0.34% respectively.
- The biggest sectoral gainer for the week was REALTY as it added 4.65%. Sobha Ltd. gained 16.11% and while Godrej Properties was the other big gainer with an increase of 13.60%.
- The biggest sectoral loser for the week was IT as it lost 2.03%. Infosys and Tech Mahindra were the big losers from the IT pack, they lost 3.98% and 3.47% respectively.

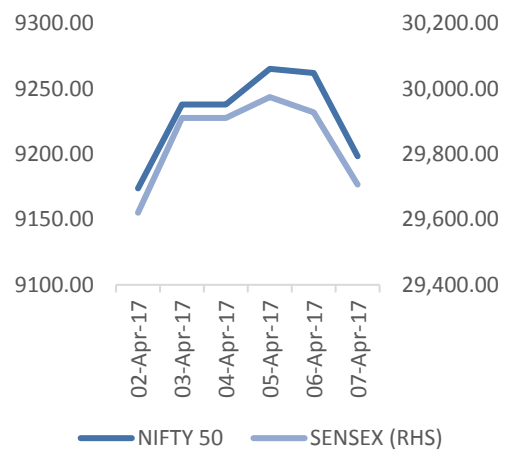
Corporate updates

- Output of eight core industry recorded growth of 1% YoY in February 2017. Growth was largely driven by a rise in output of coal and steel sectors by 7.1% and 8.7% YoY, respectively, albeit on a lower base of corresponding period.
- State oil marketing companies and ministry of petroleum are in discussions to bring daily review of prices at petrol pumps to align them with international prices. Currently, prices at petrol pumps are reviewed fortnightly.
- coal secretary has downgraded grades of 177 coal mines of coal India, every one notch downgrade results in reduction of INR 50/ton in realization, this could impact earnings and reduce earnings by ~5% for FY18 & FY19.
- Shankara Building Products (SBPL) listed at INR555 at 21% premium against its issue price of INR460. The stock ended at INR683 above 23% to its issue price on Friday.
- Tata Motors has received an order for 500 buses from Ivory Coast. Company-owned Jaguar Land Rover (JLR) on Friday reported its best-ever annual retail sales of 6,04,009 units in the financial year ended 31 March, 2017, up 16% from the year-ago period.
- Sunil Hitech Engineers Limited has bagged a road project worth INR982 crore in Maharashtra on a hybrid annuity mode from the National Highways Authority of India. The Company also has projects worth INR2000 crore in pipeline.
- Reserve Bank of India on Friday proposed to float wholesale and long-term finance (WLTF) banks that would long-term high value projects something similar to the development finance institutions (DFIs) of fast.
- Central government along with the NITI Aayog and over 70- senior level officers from states would discuss agriculture marketing reforms next week.

03rd April to 07th April, 2017**Indian equity benchmark indices' returns**

Broad Indices	WkCl	WkOp	% Chg
NIFTY 50	9198	9174	0.27%
SENSEX	29707	29621	0.29%
NIFTY MID 50	4405	4384	0.48%
NIFTY SMALL 50	3836	3823	0.34%

Sectoral Indices	WkCl	WkOp	% Chg
AUTO	9994	9880	1.15%
BANK	21431	21444	-0.06%
ENERGY	12055	11648	3.49%
FINANCIAL	8742	8734	0.09%
FMCG	23236	23542	-1.30%
IT	10486	10703	-2.03%
METAL	3111	3096	0.48%
PHARMA	10286	10411	-1.20%
REALTY	225	215	4.65%

Benchmark Indices**FII and DII weekly investments (RS Cr)**

Action	FII Inv (Equity)	DII Inv (Equity)
Buy	21580	13283
Sell	20826	13234
Net	755	49

Nifty top 5 gainers/losers

Gainers	WkCl	WkOp	% Chg
Larsen & Toubro	1686	1575	7.02%
Bharti Infratel	348	326	6.66%
Reliance Inds.	1407	1321	6.49%
Maruti Suzuki	6259	6016	4.05%
BPCL	675	650	3.92%
Losers	WkCl	WkOp	% Chg
Indiabulls Hsg.Fin.	956	998	-4.20%
Infosys	982	1022	-3.98%
TechM	443	459	-3.47%
Sun Pharma	666	688	-3.23%
Tata Power	88	90	-3.15%



Weekly Newsletter

Stock in Focus: Karnataka Bank

- Karnataka Bank was incorporated in 1924 at Mangalore as a private bank in Karnataka state. Over the years, the bank has merged with Sringeri Sharada Bank Ltd., Chitladurg Bank Ltd., and Bank of Karnataka. Karnataka continues to remain the Bank's major business area. The bank has 2,075 service outlets with 738 branches, 3 Extension Counters and 1,334 ATMs in 486 centres across India as on 31st December, 2016. It has forayed into general insurance business as a joint venture agreement with Universal Sompo General Insurance Company. The Bank operates in four segments: treasury, money market operations and foreign exchange operations, corporate/wholesale banking, retail banking, and other banking operations.



Stock Information

CMP (INR)	144.05
O/s Shares (Cr):	28.27
Market Cap (INR Cr):	4072.30
52 WK HI/LO (INR):	147/82.15
Face Value (INR):	10

Shareholding Pattern in %

Promoters	-
FIs & Local MFs	8.55
FIIIs	20.19
Public & Others	71.26

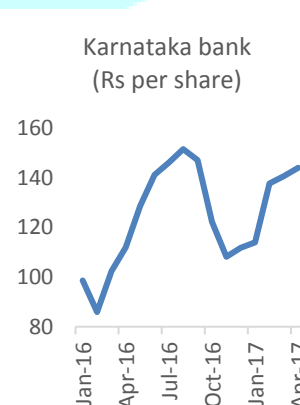
Financial Snapshot (Rs in crores)

	3Q17	3Q16
Int. Earned	1,324	1,237
Int. Exps	-947	-932
<i>NII</i>	377	305
Othr Income	134	133
Net Income	510	438
Op. Exps	338	246
Op Profits	172	192
Provs.	101	63
PBT	71	129
Prov for Tax	3	32
<i>Net Profit</i>	69	37
EPS (Rs)	10	14
(Annualized)		

Asset Quality Indicators (Rs in crs)

	3Q17	3Q16
Gross NPA	1,560	1,187
Net NPA	1,066	791
%Gross NPA	4%	4%
% Net NPA	3%	2%
% CRAR	13%	12%

Price Chart



Financial Performance

- For the quarter ended December 2016, the bank has posted 7% growth in interest income to Rs 1323.93 crore while interest expenses rose 2% to Rs 947.42 crore. NII moved up 23% to Rs 376.51 crore, as net interest margin (NIM) rose to 2.54% in 9MFY2016 from 2.34% in 9MFY2016.
- The non-interest income of the bank rose mere 1% to Rs 133.59 crore in Q3FY2017. The core fee income of the bank declined 5% to Rs 107 crore, while trading income surged 35% to Rs 27 crore in Q3FY2017 over Q3FY2016.
- Operating expenses increased 38% to Rs 338.24 crore. The employee cost declined 57% to Rs 176.75 crore in Q3FY2017, while the other operating expenses increased 21% to Rs 161.49 crore. Expense ratio jumped to 66.3% in Q3FY2017 compared with 56.2% in Q3FY2016.
- For the nine months ended December 2016 (9MFY2017), the bank has posted 2% increase in net profit to Rs 313.89 crore. The net interest income improved 21% to Rs 1138.45 crore, while non-interest income jumped 33% to Rs 497.65 crore in 9MFY2017. The expense ratio jumped by 487 bps to 59.3% in 9MFY2017 compared to 54.4% in 9MFY2016. The operating expenses increased 11% to Rs 666.53 crore, while provision and contingencies zoomed 72% to Rs 367.45 crore. The profit before tax dipped 23% to Rs 299.08 crore in 9MFY2017. After considering -5% of effective tax rate, the net profit eased 2% to Rs 313.89 crore in 9MFY2017.

Investment Rationale

- Karnataka Bank is one of the well placed regional-based private banks in the country with all branches under CBS. It has strong regional presence, good technology network.
- It has seen accelerated branch additions in the past few quarters, this is expected to result in an increased share of CASA deposits.
- The bank is increasingly focusing on Retail advances growth which is gaining share for the last three years of total advances and the yield is high in this segment. Retail advances currently account for 52.40% of the loan book.

Key Concerns

- 62% of branches are in its home-state of Karnataka and the bank originates close to 45% of loans from the region. This high geographic concentration may limit its scope for growth.
- Given the higher stress in corporate loans, most banks are looking at retail and MSME segments for growth. This could result in the bank facing greater competitive intensity as it looks to expand its retail presence and could negatively impact fee income.
- Volatility in interest rates could impact the financial performance.

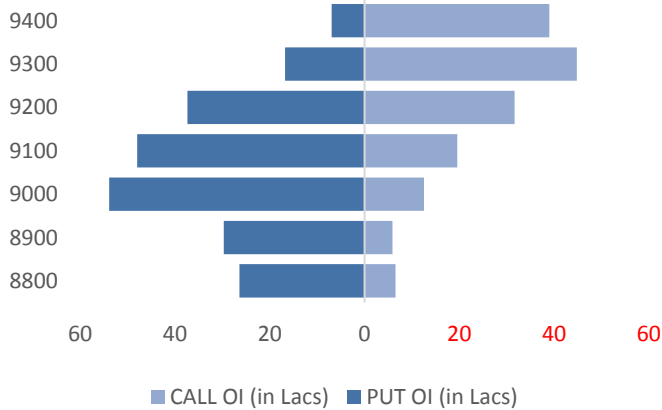
Valuation

- Karnataka Bank is currently trading at a low P/E and a P/B of 9.68x and 0.89x as compared to the industry average of 23.48x and 2.90x respectively. Given the cheap valuation and improving business performance, we believe that it could see a re-rating in the next 2-3 quarters.



Weekly Newsletter Technical View

NIFTY Index Option Open Interest



Maximum put open interest was seen at 9000 followed by 9100 with 54 lakh and 48 lakh contracts respectively. 9200 PE had accumulated 38 lakh contracts added 17 lakh contracts during the week.

Fresh call writing was seen at 9300 with 45 lakh contracts which will act as a key resistance for the index. The maximum Call open interest stood at 9500 strike with 50 lakh contracts added 18 lakh contracts this week. While strike prices 9200 had 32 lakh contracts in open interest.

During the week index witnessed strong put addition at 9100 and 9200 strike even though 9000 strike had highest put base. The put-call-ratio (PCR) stands at 1.01 as against 0.89 previous week.

Resistance	R1 – 9215	R2 – 9245	R3 – 9300
Support	S1 – 9180	S2 – 9120	S3 – 9050

Market Outlook

Indian bourses closed marginally below 9200 on a negative mood amid fears from global markets after it failed to move above 9300 during the midweek. The Friday's correction may be because of fear or a profit booking, but, technically the index has got the much awaited correction which is really important for it to form a base for the next leg of bull rally. Minutes from US FOMC, Domestic monetary policy and Airstrikes by US in Syrian territory had kept the volatility high during the week, but any kind of headwinds failed to move index significantly lower, this clearly demonstrates the strength of the markets. India VIX continues to remain at record low level below 12, despite an eventful week. Immediate major support for the index is at 9120-9050 with a minor support at 9180. On the upside, index is expected to reach new highs if it moves above immediate resistance at 9280. As we enter into the earnings season, the index is likely to consolidate with stock specific moves.