

MANAGEMENT OUTLOOK



EFFECT OF SWINE FLU AND MONSOON ON INDIAN STOCK MARKET

SWINE FLU EFFECT

As we the global economy is about to come out of the menace of recession it is now being hit with a series of swine flu cases that is yet to be contained. The outbreak has the origination from Mexico where about more than 100 people has lost their lives. In India till now 63 cases of H1N1 flu were reported.

Many have likened the economic impact of swine flu to that of SARS (Severe Acute Respiratory Syndrome) back in November 2002 to July 2003, which delayed the post-dot-com recovery by several months.

WHAT IS SWINE FLU?

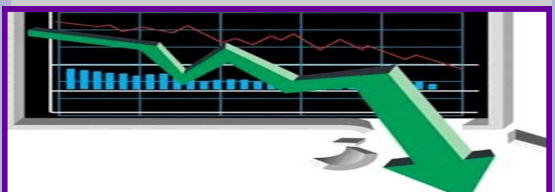
Swine flu is a respiratory disease. WHO says it is caused by influenza type A which infects swine, or pigs. The infection is undergoing constant mutation or change and there are several types of swine flu.

How does the swine flu spread? The flu spread most likely through

coughing or sneezing. The symptoms are quite like that of any other flu. These include fever, cough, sore throat, body ache, chill and fatigue. Treatment for swine flu: Till now there is no vaccine for the treatment of swine flu. Oseltamivir and Tamiflu are the generic drugs that can be used for the treatment.

ECONOMIC EFFECT OF SWINE FLU:

1. The major outbreak of swine flu could be increasing the cash strapped Indian government thereby increasing the fiscal deficit.
2. FII outflow will bring the stock market down.
3. Due to the massive capital outflow rupee is likely to depreciate further.
4. Industries could be affected as it will disrupt the supply chain.
5. GDP is expected to take hit due to decline in economic activity.

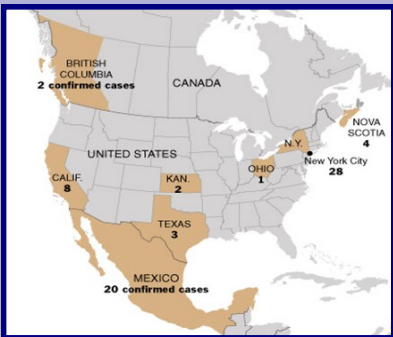




INDUSTRIES LIKELY TO BE AFFECTED BY THE SWINE FLU:

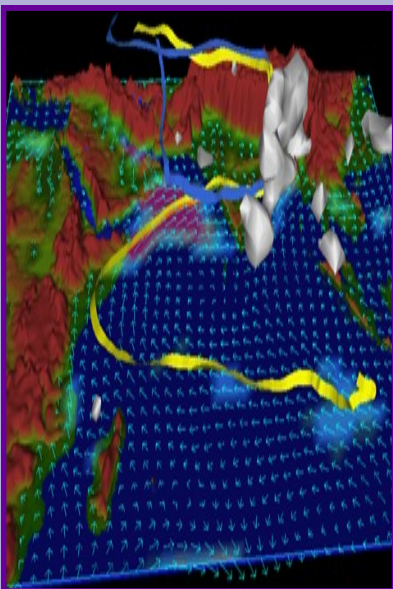
1. TOURISM INDUSTRIES: Tourism Industry which has already been hit by the global economic slowdown is now scared that if the swine flu is not controlled by the time of tourism peak season i.e.; October, it will take a toll on the tourism industry.

2. AIRLINE: As the swine flu is likely to slow down the movement of people across the country and within the country, it is likely to bring down the occupancy rate of the airline thereby hitting the top line and bottom line. Other industries will not see a direct impact from the pandemic. But economic slowdown caused by the disease will restrict production and economic activity. This will hit their profitability.



COMPANIES THAT WILL BENEFIT FROM SWINE FLU:

- 1. CIPLA:** Cipla has the capacity to manufacture up to 1.5 million doses of Oseltamivir. It is expected to benefit if any outbreak happens because of the huge production capacity.
- 2. RANBAXY:** Ranbaxy has the production capacity that can produce and supply Oseltamivir at very short notice.



MONSSON EFFECT

Normally, monsoon covers most parts of the country except north-west India by 20th June. Thus, there has been a delay in advance of monsoon over Orissa, Maharashtra and north Andhra Pradesh, and over Bihar, Chhattisgarh, Jharkhand and south Madhya Pradesh & south Gujarat. Actual rainfall for the country as a whole is 39.5 mm against a normal of 72.5 mm with a deficiency of 45%. Out of the 36 meteorological subdivisions, rainfall was excess/ normal in 8, while it was deficient/ scanty in 28 subdivisions.

ECONOMIC SIGNIFICANCE OF MONSOON:

Structurally the importance of agriculture as a percentage of GDP has decreased over the past few decades from nearly 50% in the 1970s to 17% now. But monsoon still has the important role to play in the economy as 60% of the total population depends on agriculture. Even today 60% of the agriculture is rainfall dependent.

INDIAN GROWTH STORY TO GET IMPACTED:

As post credit crisis companies have started looking towards the rural India for next big growth opportunity. Bad monsoon will have adverse impact on the company's growth plan as rural income will decline, which will impact their consumption. Companies are looking towards the rural economy as they are least leveraged as compared to urban India.

FOOD STOCK:

At present government has the capability to tackle the weak monsoon as the food grain with the government is at 6 year high. But price increase will be more pronounced in cash crop and vegetables and fruits. Rice, sugarcane, cotton, soy and oilseeds are the key kharif crops.

SECTORS VULNERABLE TO MONSOON:

1. **FMCG**
 - (a) HUL
 - (b) ITC
2. **2-WHEELERS**
 - (a) Hero Honda
 - (b) Bajaj Auto
3. **FARM EQUIPMENT**
 - (a) Mahindra & Mahindra
 - (b) Escorts
4. **TELECOM**
 - (a) Bharti Airtel
 - (b) Vodafone
5. **PSU BANKS**
 - (a) SBI
 - (b) Bank of Baroda

SECTORS TO HAVE LEAST OR NO IMPACT OF MONSOON:

1. **IT**
 - (a) Infosys
 - (b) Wipro
2. **POWER**
 - (a) NTPC
 - (b) Tata Power

STOCK MARKET REACTION:

It has been seen that good monsoon keeps the stock market in good mood. If there is below normal rainfall or drought like situation the stock market performance will be significantly affected. The affect will be more pronounced because still the investors' confidence is very fragile. Rising price of food items will make the inflation zooming, which will make the interest in the economy to go up. This will affect the investment and consumption. Good monsoon is not only good for Indian economy but also for stock market.

CONCLUSION:

In terms of potential beneficiary in events of weak monsoon, the government chooses to increase the spending on infrastructure, irrigation and public work. Such increase in the rural expenditure will help firms engaged in

- (a) Infrastructure
 - (b) Capital goods
 - (c) Construction
 - (d) Irrigation technology
- Indirect beneficiary could be sectors like
- (a) Steel
 - (b) Fertilizers
 - (c) Cement

