

July 3, 2006

FOR PRIVATE CIRCULATION

**Equity**

	30 Jun 06	% Chg		
		1 Day	1 Mth	3 Mths
<b>Indian Indices</b>				
Sensex	10,609	4.4	2.0	(5.9)
Nifty	3,128	4.3	1.9	(8.1)
Banking	4,349	2.9	(8.8)	(17.4)
IT	2,494	3.4	1.7	(8.1)
Healthcare	3,132	2.1	(7.5)	(18.8)
FMCG	1,950	4.3	3.2	(11.8)
PSU	4,950	3.8	(5.5)	(19.0)
CNX Midcap	3,945	3.7	(10.3)	(17.6)
<b>World indices</b>				
Nasdaq	2,172	(0.1)	(2.1)	(7.0)
Nikkei	15,505	2.5	(1.1)	(9.9)
Hangseng	16,268	2.5	2.5	1.6

**Value traded (Rs cr)**

	30 Jun 06	% Chg - 1 Day
Cash BSE	3,217	18.5
Cash NSE	7,067	(6.0)
Derivatives	20,437.6	(36.3)

**Net inflows (Rs cr)**

	29 Jun 06	% Chg	MTD	YTD
FII	(280.2)	(618.5)	1,305	11,368
Mutual Fund	42.9	210.7	(2,391)	11,502

**FII open interest (Rs cr)**

	29 Jun 06	% Chg
FII Index Futures	7,181	12.9
FII Index Options	1,153	41.7
FII Stock Futures	6,913	6.5
FII Stock Options	26	73.1

**Advances/Declines (BSE)**

	30 Jun 06	A	B1	B2	Total	% Total
Advances	184	492	424	1100	74	
Declines	19	82	266	367	25	
Unchanged	1	11	16	28	2	

**Commodity**

	30 Jun 06	% Chg		
		1 Day	1 Mth	3 Mths
Crude (NYMEX) (US\$/BBL)	73.9	0.6	3.7	11.0
Gold (US\$/OZ)	615.9	2.7	(3.1)	5.2
Silver (US\$/OZ)	11.1	3.3	(8.6)	(5.2)

**Debt/forex market**

	30 Jun 06	1 Day	1 Mth	3 Mths
10 yr G-Sec yield	8.10	8.12	7.67	N.A.
Re/US\$	46.04	46.30	46.37	44.62

**Sensex**


Source: Bloomberg

**ECONOMY NEWS**

- The next Five-Year Plan will emphasize the provision of infrastructure at airports 'at a much faster pace' to cope with the massive growth of the aviation sector, the Planning Commission has said. (BS)
- The government has now decided to pin down those who have short-paid or evaded fringe benefit tax. The first check on whether the correct amount of FBT has been paid will be done on companies whose I-T returns are picked up by tax authorities for compulsory scrutiny. (ET)
- The small and medium municipalities will soon be able to tap the capital market to raise resources, with the Union Cabinet likely to clear a proposal to set up a special purpose vehicles - 'pooled finance development fund'. (ET)
- The government is in the process of revisiting provisions of the National Power Tariff Policy and making necessary amendments to ensure open access cross-subsidy surcharge is set according to each state. (ET)

**CORPORATE NEWS**

- The government is vetting a proposal from the country's largest bank - **SBI** - to raise equity capital, which could mean lowering the stake of its principal shareholder to 51%. A dilution of equity holding over the next couple of years could be underway. (ET)
- The **Telecom Regulatory Authority of India (Trai)**, which had earlier issued show cause notices to private operators over the issue of network congestion has now hauled up state-owned **BSNL** and said it was the primary cause for the increase in network congestion levels across the country. (ET)
- Naresh Goyal is straining every sinew to get **Sahara** to refund Rs. 5 bn in guarantee money, which **Jet** had paid into an escrow account with **ICICI Bank**. On Friday, Mr Goyal had filed a petition with the Bombay High Court, holding Mr Roy personally liable for refunding Rs.5 bn by July 4. (ET)
- The **Essar group** has paid around Rs. 38.25 bn (\$850 mn) to ramp up its holding in two group companies, **Essar Shipping** and **Essar Oil**, by buying out global depository receipts from international investors. (BS)
- **Hero Honda** has reported 23% growth in total sales volume at 279,000 in the June 2006 compared with 226,000 units in June 2005. For the quarter ending June 2006, the company's cumulative sales stood at 833,000 units, recording a growth of 21% compared with the same period last year. (BS)
- To appease **Reliance Communication**, **Qualcomm** has offered sops including sharing marketing, advertising and promotional cost incurred by RCL. Qualcomm has also offered to slash handset costs based on volume commitments. Both offers have been rejected by RCL on the grounds that it wanted an upfront reduction in handset price. (BL)
- **Ranbaxy Laboratories** has said it has received approval from the US Food and Drug Administration to manufacture and market Cefprozil for oral suspension USP, 125 mg/5ml and 250 mg/5ml. (BL)
- **Metro Cash and Carry** CEO Thomas M Hubner met West Bengal chief minister Buddhadeb Bhattacharjee on Friday and proposed to invest Rs.900 mn in the state to develop a retail chain of agricultural products and food items. (ET)

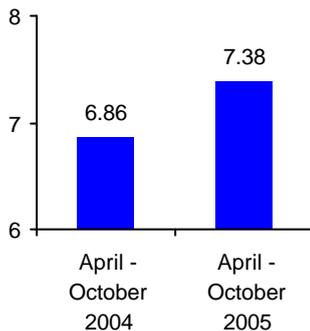
Source: ET = Economic Times, BS = Business Standard, FE = Financial Express, BL = Business Line, ToI: Times of India, BSE = Bombay Stock Exchange

## FROM OUR RESEARCH TEAM

### SECTOR UPDATE

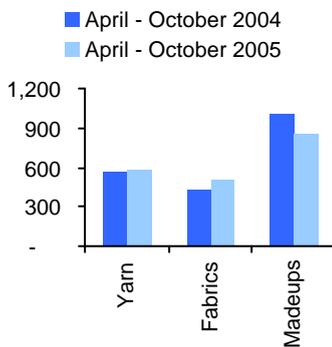
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#### India's textiles exports (\$ bn)



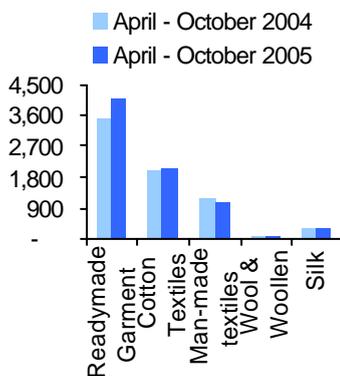
Source: TEXPROCIL

#### Exports of cotton textiles (\$ mn)



Source: TEXPROCIL

#### Break up of textile exports (\$ mn)



Source: TEXPROCIL

## OVERVIEW ON THE TEXTILES SECTOR

Our view on the overall textiles sector is positive. Some of the points due to which we are positive on the textile sector are as follows:

### Growing retail industry and rising expenditure by the Indian middle class

The growing retail industry and rising expenditure by the Indian middle class on apparels is slated to further increase the demand for yarn. With the development of the mall culture and rising disposable income levels the Indian middle class is willing to spend more on their consumption needs. The consumption of textiles includes apparels and home textiles. With rising fashion trends we expect the demand for apparels to rise. The other major growth segment is home textiles, which has got a major boost due to the mall culture developing in India.

### Global home textiles market and export opportunity

The global home textiles market is US\$70 bn and according to McKinsey estimates the growth in demand for home textiles is expected to be the fastest among all textile segments. According to KSA Technopac estimates, the country's home textile exports could reach US\$8 bn by 2010 compared to US\$2 bn now. There exists a huge export opportunity in the home textiles segment primarily because of the separation of the consumption and production functions due to cost-driven outsourcing from India. More than 60% of the global home textile demand comes from the UK and the US. All major home textile companies in the UK and the US are making losses and some of them have already filed for bankruptcy. The main reason for this is the rising cost of production. The cost of production is significantly lower in India, China and Pakistan and hence we expect a large chunk of the home textiles production to happen in low cost centres like India, China and Pakistan. Thus, there exists a huge growth opportunity in the home textiles market.

### Opening of the markets post-quota

The post-quota regime has opened up markets, which were earlier not available to domestic textiles and apparel manufacturers thereby opening up huge exports opportunity. The companies, which can produce good quality at lower cost, will be able to do well in the open markets. However, the keyword here is lower cost. The markets are now open worldwide and so the same competition can kill one if one fails to continuously reduce costs. Only the lowest cost producer with acceptable quality standards will be able to survive in the open markets. India's presence across the textile chain from fiber to garments has raised its preference among global retailers as a key outsourcing destination. However, we have to overcome poor infrastructure, shortage of power and soaring global oil prices, all of which can affect our competitive strength. The prices of cotton yarn have remained lower for the major part of the last year but during the last quarter the prices have firmed up and are likely to remain stable during the current quarter.

### Growth in demand for man-made fiber

Reduction of excise duty on all man-made fiber and yarn from 16% to 8% has brought them at par with cotton yarn and has thus increased the cost competitiveness of the synthetic yarn against cotton yarn, which would lead to increased demand for polyester yarn. The two possible yarns are cotton and polyester. The land available for cultivation of cotton is limited. Incremental demand of manmade fiber is, therefore, expected to grow at a much faster pace. Thus, going forward, we see strong demand for man-made fibers leading to more demand for POY. This will help to keep the prices of POY firm. We feel man-made fiber producers should be comfortably placed over the medium-term due to strong demand.

## Some concerns

Some of the concerns are poor infrastructure, shortage of power and soaring global oil prices, all of which can affect our competitive strength. The prices of cotton yarn have remained lower for the major part of the last year but during the last quarter the prices have firmed up and are likely to remain stable during the current quarter.

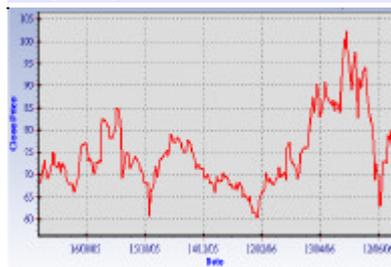
## Recommendations

### GHCL price performance



Source: Capitaline

### JBF price performance



Source: Capitaline

### Vardhman Polytex price performance



Source: Capitaline

Within the man-made fiber space we are optimistic about **JBF Industries**, which is one of the leading polyester chips manufacturers in India. The company is also among the top five players in the polyester yarn industry with a market share of nearly 7%. JBF has recently expanded its polyester chips capacity from 1.18 lakh tpa to 3.34 lakh tpa, which has already commenced commercial production. The company is also expanding its POY capacity from 60,000 tpa to 150,000 tpa, which is scheduled to commence commercial production from September 2006. The additional capacities will lead to significant increase in revenues and profitability for the company.

We estimate the company to report an EPS of Rs. 10.4 for FY07E and Rs 15.6 for FY08E. The stock has corrected significantly in line with the overall market correction. At Rs.78 the stock offers an excellent entry point as it is attractively valued at 7.5x FY07E and 5.0x FY08E earnings. We maintain our positive bias for the stock and maintain our **BUY** with a price target of Rs.181 with upside potential of 132%.

Within the cotton yarn and home textiles segment we like **GHCL** and **Vardhman Polytex**.

**GHCL** is expanding its spinning capacity from 65,000 spindles to 140,000 spindles, which is scheduled to be operational by January 2007. GHCL has also set up a new processing unit for home textiles at Vapi, Gujarat with 36 mn metres per annum of dyeing and printing capacity of wide width fabric. GHCL has also acquired 100% stake in Dan River Inc, which is a leading textiles player in the US. Dan Rivers caters to mega retailers such as JC Penny, Wal-Mart, Linen & Things and Bed, Bath and Beyond.

We estimate the company to report an EPS of Rs. 9.3 for FY07E and Rs. 15.7 for FY08E. At Rs. 122 the stock is attractively valued at 13.1x FY07E and 7.8x FY08E earnings. We maintain our positive bias for the stock and maintain our BUY with a price target of Rs.170 with upside potential of 39%.

**Vardhman Polytex** is a North India-based cotton and blended yarn manufacturer with significant export focus. The company is also expanding its capacity from 75,000 spindles to 1.33 lakh spindles. The company has entered into retailing of casual, semi-casual and intimate wear. The company is selling the garments under the brands AO`s and SENSA. It has already opened 25 stores as of now and this number is expected to go up to 45 stores by December 2006.

We estimate the company to report an EPS of Rs. 8.9 in FY07E and maintain our price target of Rs. 116.

We continue to be bullish on the textiles sector and our top picks are JBF Industries, GHCL and Vardhman Polytex.

## Summary

	EPS (Rs)		Current Price (Rs)	PE (x)		Target Price (Rs)
	FY07E	FY08E		FY07E	FY08E	
GHCL	9.3	15.7	122	13.1	7.8	170
JBF Industries	10.4	15.6	78	7.5	5.0	181
Vardhman Polytex	8.9	NA	83	9.3	NA	116

Source: Kotak Securities Ltd - Private Client Research

## Bulk deals

Trade details of bulk deals					
Date	Scrip name	Name of client	Buy/ Sell	Quantity of shares	Avg. Price (Rs)
30-Jun	Acknit Knitt	Dhanani International Ltd	S	20,000	46.60
30-Jun	Axon Infotec	Shah Sudha S	B	5,000	50.95
30-Jun	Bhagri Engg.	Surya Corporation	S	50,402	18.41
30-Jun	BL Kashyap	J.P Morgan Securities Ltd	B	75,000	939.99
30-Jun	BL Kashyap	Lloyd George Investment M	S	112,463	940.12
30-Jun	Ceat Ltd	Fidelity Trustee Company	B	915,000	80.99
30-Jun	Ceat Ltd	Merrill Lynch Capital	S	905,494	81.00
30-Jun	Maikaa Fibre	C R Kalavathi	B	100,000	9.97
30-Jun	Nakoda Text	Surya Prakash Heda	B	75,000	15.00
30-Jun	Ontrack Sys	Clivia Investments Ltd	B	450,000	3.10
30-Jun	Rathi Udyo L	Credo Capital Plc Account	B	350,000	36.79
30-Jun	Rathi Udyo L	Rajesh Kumar Sarda HUF	S	125,990	36.90
30-Jun	Worldw Le Ex	Samir Mukund Lal Shah	B	25,509	38.42
30-Jun	Worldw Le Ex	Samir Mukund Lal Shah	S	23,553	37.26

Source: BSE

## Forthcoming events

COMPANY/MARKET	
Date	Event
5-Jul	Tata Steel holds annual shareholders meeting; Ultratech Cement to announce earnings and dividend
12-Jul	Infosys Technologies earnings expected
15-Jul	Bajaj Auto earnings expected
18-Jul	HDFC earnings expected
19-Jul	Biocon earnings expected
20-Jul	Godrej Consumer Products holds shareholders meeting and to announce earnings and dividend
21-Jul	ITC to announce 1st quarter earnings
24-Jul	IDFC earnings expected
26-Jul	Mahindra & Mahindra earnings expected

Source: Bloomberg

## Gainers & Losers

Nifty Gainers & Losers				
	Price (Rs)	% change	Index points	Volume (mn)
<b>Gainers</b>				
ONGC	1,108.1	5.0	15.8	1.4
Reliance Ind	1,059.9	5.1	15.0	6.0
Hindustan Lever	229.1	9.3	9.0	5.4
<b>Losers</b>				
Jet Airways	589.8	(3.6)	(0.4)	0.2
BPCL	334.5	(1.6)	(0.3)	0.5
Ranbaxy Labs	356.4	(0.9)	(0.2)	2.6

Source: Bloomberg

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