

India Update

Market data as on Feb 13, 2007

INDICES

		% chg (DoD)
BSE Sensex	14091	(0.70)
S&P CNX Nifty	4045	(0.34)
BSE 100	7065	(0.71)
BSE 200	1667	(0.72)
Instanex Skindia DR	2422	(1.69)
Mindex	5806	0.00

OVERSEAS MARKETS

		% chg (DoD)
Dow Jones	12655	0.81
Nasdaq Comp.	2460	0.39
S&P 500	1444	0.76
Hang Seng	20132	(2.24)
Nikkei	17621	0.67

ADVANCES/DECLINES (BSE)

Group	A	B1	B2
Advances	78	244	295
Declines	124	378	372
Unchanged	2	14	22

**FII TURNOVER (BSE+NSE)*
(Rs mn)**

Bought	Sold	Net
23,230	21,043	2,187

NEW HIGHS AND LOWS (BSE)

Group	A	B1	B2
Highs	0	2	12
Low	7	26	6

CURRENCY

US\$1 = Rs44.20

* FII turnover (BSE + NSE) as on February 12, 2007

Contents

Page 2	Economy – CRR hike: Waiting for the dawn
Page 4	Recent reports/updates
Page 5	Quarterly results date reckoner

Highlights

Sector/event	Impact
ECONOMY: CRR hike	The Reserve Bank of India (RBI) has clearly accelerated the pace of monetary tightening by raising CRR 50bps to 6% (third such hike in the past three months) as part of demand-management measures aimed at cooling off the still 'red-hot' credit growth at 30%. We had anticipated some tightening by the RBI as regards the monetary policy until the next Annual Policy Meet in April '07, but the CRR hike, within a fortnight of the policy meeting, surprised us. As a result of the current move, sectors leveraged to high credit growth (real estate, high-value consumer discretionary and banking) may face pressure. On the other hand, FMCG, IT and pharmaceuticals remain largely unaffected. Going forward, we expect the RBI to make the next move in the Annual Policy Statement to be released on April 24, '07, unless monetary variables such as inflation deteriorate sharply. We expect the monetary action over the past three months to decelerate credit growth and to that extent, the current hike is a step closer to the pause in the tightening cycle.

News Snippets

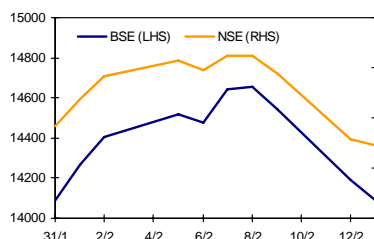
Sectoral

- The Videocon Group is in the final stages of negotiations for taking over Magaldi Power, an Italian company in the power equipment space. (Business Standard)

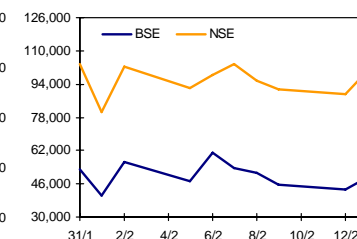
Corporate

- Tata Consultancy Services has forged a joint venture with three Chinese companies involving a multi-million dollar deal over the next five years, in which Microsoft is also hoping to pick up a 10% stake. (Business Line)
- Honda Motorcycle & Scooters plans to enter the 100cc market, dominated by Hero Honda currently (with *Passion* and *Splendor*). (The Economic Times)
- Bajaj Auto has unveiled the 200cc *Pulsar DTS-i* and guided for 25% revenue growth to Rs100bn in FY07E. (Hindustan Times)

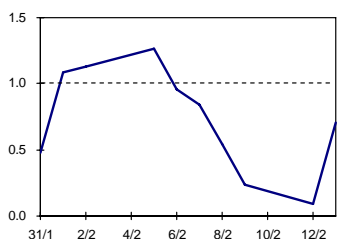
Market movement over last fortnight



Volumes in Rs mn (BSE and NSE)



Advances & Declines ratio (BSE)



Economy

INDIA

CASH RESERVE RATIO HIKE

Waiting for the dawn

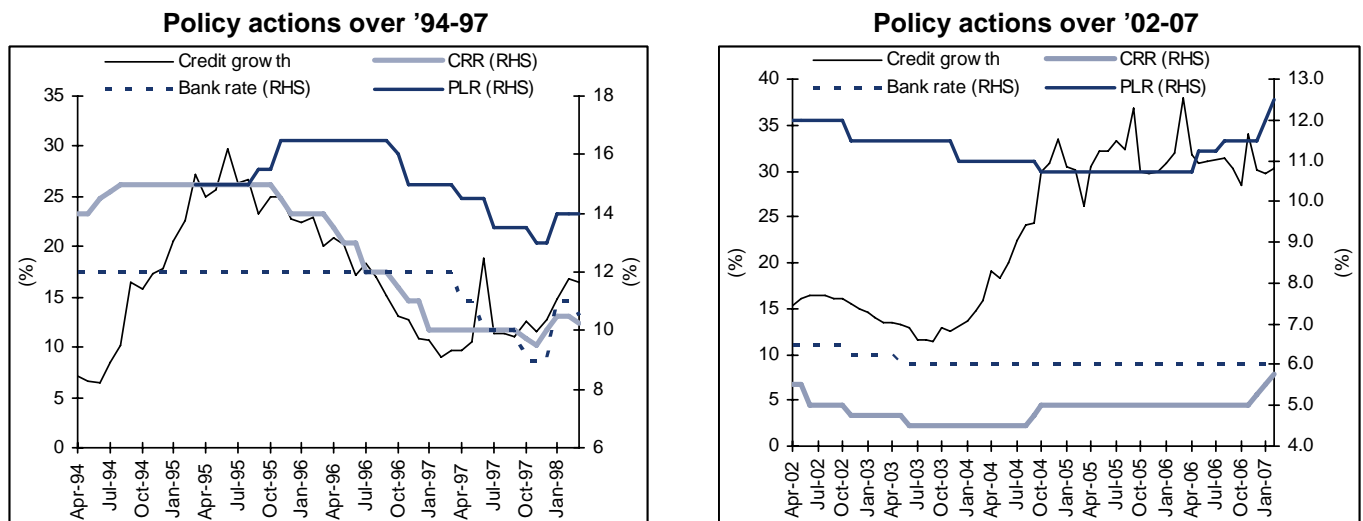
Vinay Patel

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The Reserve Bank of India (RBI) has clearly accelerated the pace of monetary tightening by raising CRR 50bps to 6% (third such hike in the past three months) as part of demand-management measures aimed at cooling off the still 'red-hot' credit growth at 30%. We had anticipated some tightening by the RBI as regards the monetary policy until the next Annual Policy Meet in April '07, but the CRR hike, within a fortnight of the policy meeting, surprised us. As a result of the current move, sectors leveraged to high credit growth (real estate, high-value consumer discretionary and banking) may face pressure. On the other hand, FMCG, IT and pharmaceuticals remain largely unaffected. Going forward, we expect the RBI to make the next move in the Annual Policy Statement to be released on April 24, '07, unless monetary variables such as inflation deteriorate sharply. We expect the monetary action over the past three months to decelerate credit growth and to that extent, the current hike is a step closer to the pause in the tightening cycle.

- The RBI, in a surprise move, raised CRR 50bps yet again (within a fortnight after the policy meeting held on January 31, '07; this is less than two months after the December '06 CRR hike of 50bps) to 6%, effective in two stages (February 17, '07 and March 3, '07). This action would likely pull out Rs140bn from the banking system liquidity. Continued momentum in monetary indicators, even after the CRR hike in December '06, led to the RBI move.
- The current hike suggests that the RBI is anticipating sizeable risks due to continued high credit growth and is therefore acting quickly to prevent any credit allocation excesses. We had expected some tightening from the monetary authority during the first half.

Chart 1: Monetary tightening over business cycles



Source: RBI, CMIE

- The important question is what next? We believe that recent hikes by the RBI (since December '06) along with sharp increases in lending rates by several leading banks would likely lead to moderation in credit growth, going ahead and expect the RBI to make the next move only in its Annual Policy Statement in April (though risk of another move on the interest rate front cannot be entirely ruled out if monetary variables' growth remains at current levels or inflation accelerates). Important domestic macroeconomic data releases/events (apart from the Union budget for FY08) expected over the next two months are:
 - IIP growth for January (March 12, '07)
 - Q3FY07 GDP data (end-March)
 - Balance of Payments data for Q3FY07

Weekly releases from the RBI (under statistical supplement) and the Government regarding inflation would also be the key data points

- While it may be premature to contemplate a pause until credit demand starts moderating, the three quick hikes in the past three months by the RBI make us believe that we have moved closer to an eventual pause in this tightening cycle. Inflation rate is likely to moderate on the back of current monetary action and fiscal measures undertaken in the recent past. Improved crop production and a likely base effect would also help moderate inflation going forward. In the last rate tightening cycle (1994-1995), the RBI had hiked CRR twice to arrest credit growth before reducing the CRR after 15 months.
- The CRR hike comes as a damper for sectors leveraged to credit growth such as real estate and banking (as banks earn zero interest on CRR deposits). Rising bond yields, too, are a negative, although artificial demand due to SLR will still be steady. We had expected the banking sector to witness adverse newsflow on the monetary front in Q1 due to inflation risks, but the RBI move was stronger than our expectations.
- Sectors which remain unaffected by the current hike are IT, pharmaceuticals and FMCG and therefore act as defensives. With the central bank focussing on moderating the credit growth, the sectors most exposed to domestic bank lending would be retail and small & medium enterprises, arguably contributing to deceleration as large companies will be able to access capital from abroad.

Recent reports/updates		
Analyst	Company/Sector	Date
Rajesh Vora	Dr. Reddy's Lab: Bolstering the base	Feb 9
Amar Kedia	Aviation Sector: Clear horizons	Feb 9
Anand Shah	Godrej Consumer: Outshining the rank	Feb 6
Poonam Nishal	Bharti Airtel: Ringing in success	Feb 5
Vinay Patel	Monetary policy review: Yet another surprise	Feb 1
Shekhar Singh	Mphasis: In the fray	Feb 1
S. Ramesh	Netback margin monthly: Exploding margins	Jan 24
Shekhar Singh	Satyam Computer: Tangy Flavor	Jan 19
S. Ramesh	Reliance Industries: Refined surprise	Jan 19
Shekhar Singh	Infotech Enterprises: Minor roadblock	Jan 17
Shekhar Singh	Wipro: Getting back on track	Jan 17
Vinay Patel	Market Strategy: Still packs a punch	Jan 16
Shekhar Singh	HCLT: Upbeat Mood	Jan 16
Shekhar Singh	TCS: Robust Performance	Jan 16
Shekhar Singh	Infosys Technologies: In line with expectations	Jan 11
Anand Shah	FMCG Quarterly results preview: Keep the faith	Jan 9
S. Ramesh	Oil&Gas Quarterly results preview: Steals the show	Jan 5
Shilpa Gupta	Automobile Quarterly results preview: Upbeat tempo	Jan 5
Shekhar Singh	Technology Quarterly results preview: Time for prudence	Jan 4
Rajagopal Ramanathan	Banking Quarterly results preview: Triumphant act	Jan 4
Omprakash / Amarnath	Media Quarterly results preview: Buzzmakers	Jan 4
Poonam Nishal / R. Amarnath	Utilities Quarterly results preview: Brimming with energy	Jan 3
Rajesh Vora	Pharma Quarterly results preview: On growth wavelength	Jan 2

Quarterly results date reckoner

No.	Nifty companies	Date of result	No.	Other companies	Date of result
1	ABB India	February 16	1	Adlabs Films	January 23
2	ACC	February 1	2	Alembic Limited	January 17
3	Bajaj Auto	January 16	3	Apollo Hospitals Enterprise	January 24
4	Bharat Heavy Electricals	January 25	4	Arvind Mills	January 25
5	Bharat Petroleum Corporation	January 29	5	Ashok Leyland	January 31
6	Bharti Airtel	January 23	6	Asian Paints	January 29
7	Cipla	January 23	7	Aventis Pharma	-
8	Dabur India	January 19	8	Balaji Telefilms	January 24
9	Dr. Reddy's Laboratories	January 22	9	Bank of Baroda	January 24
10	GAIL (India)	January 31	10	Bharat Forge	January 20
11	GlaxoSmithKline Pharmaceuticals	February 16	11	Britannia Industries	January 29
12	Grasim Industries	January 23	12	Cadila Healthcare	January 22
13	Gujarat Ambuja Cements	February 2	13	Canara Bank	January 18
14	HCL Technologies	January 15	14	Colgate-Palmolive	January 22
15	HDFC Bank	January 11	15	Corporation Bank	January 24
16	Hero Honda Motors	January 31	16	GlaxoSmithKline Consumer	January 31
17	Hindalco Industries	January 25	17	Glenmark Pharma	January 23
18	Hindustan Lever	February 20	18	Godrej Consumer Products	January 20
19	Hindustan Petroleum Corporation	January 31	19	Gujarat Gas Company	February 23
20	Housing Development Finance Corporation	January 24	20	IDBI	January 22
21	ITC	January 31	21	Indian Hotels Co.	January 23
22	ICICI Bank	January 20	22	Indraprastha Gas	January 29
23	Indian Petrochemicals Corporation	January 15	23	Info Edge (India)	January 29
24	Infosys Technologies	January 11	24	Infotech Enterprises	January 17
25	Jet Airways (India)	January 19	25	Jammu & Kashmir Bank	January 22
26	Larsen & Toubro	January 29	26	JSW Steel	January 22
27	Mahanagar Telephone Nigam	January 27	27	Kansai Nerolac Paints	January 30
28	Mahindra & Mahindra	January 31	28	Madras Cements	January 30
29	Maruti Udyog	January 22	29	Marico	January 19
30	National Aluminium Company	January 22	30	Mphasis	January 31
31	Oil & Natural Gas Corporation	January 30	31	National Thermal Power Corp.	January 31
32	Oriental Bank of Commerce	January 24	32	Nestle India	-
33	Punjab National Bank	January 31	33	Patni Computer Systems	February 7
34	Ranbaxy Laboratories	January 18	34	Polaris Software Lab	January 22
35	Reliance Communications	January 31	35	Procter & Gamble	January 29
36	Reliance Energy	January 18	36	Punjab Tractors	January 31
37	Reliance Industries	January 18	37	Raymond	January 19
38	Satyam Computer Services	January 19	38	Sasken Communication Technologies	January 24
39	Siemens Ltd.	January 18	39	SpiceJet	-
40	State Bank of India	January 23	40	Tata Tea	January 31
41	Steel Authority of India	January 29	41	TVS Motor Company	January 25
42	Sun Pharmaceutical Industries	January 29	42	Union Bank of India	January 25
43	Suzlon Energy Ltd.	January 29	43	UTI Bank	January 12
44	Tata Consultancy Services	January 15	44	Wockhardt	February 22
45	Tata Motors	January 23			
46	Tata Power Co.	January 29			
47	Tata Steel	January 30			
48	Videsh Sanchar Nigam	January 30			
49	Wipro	January 17			
50	Zee Telefilms	January 22			

Note: Result dates in calendar format on Page 6

Quarterly results date reckoner

FEBRUARY 2007

Sun	Mon	Tue	Wed	Thu	Fri	Sat
				1 ACC	2 Gujarat Ambuja	3 .
4	5 .	6 .	7 Patni Computer	8 .	9 .	10 .
11	12 .	13 .	14 .	15 .	16 ABB, GSK Pharma	17 .
18	19 .	20 Hindustan Lever	21 .	22 Wockhardt	23 Gujarat Gas	24 .
25	26 .	27 .	28 .			

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