

Thought for the Week : The market may ignore business success for a while, but eventually, it will confirm it.

Indices	5-Apr	30-Mar	%
BSE	12856	13072	-1.65
NSE	3752	3822	-1.82
Dow Jones	12,530	12,349	1.47
Nasdaq	2459	2418	1.70
Hang Seng	20210	19801	2.07
Nikkei	17491	17288	1.18
MKT CAPITALISATION (Rs cr)			
	CI	Pre	% ch
Sensex	817300	825157	-0.95
NSE Total	3327857	3337786	-0.30
BSE Total	3503670	3517114	-0.38
VOLUMES (Rs cr)			
Exchange	Last	Pre	% ch
BSE	12227	14786	-17.31
NSE	27530	35136	-21.65
WEIGHTAGE IN BSE T/O			
Indiabulls R		961.89	6.05
Infosys		351.93	2.21
Reliance		321.08	2.02
RCVL		258.69	1.63
IFCI		219.91	1.38
TOP-5 DELIVERIES			
Company	Vol (lakh)	Del (lakh)	Del (%)
		Week	Prev
HLL	137.64	91.34	66.36
Infosys	63.14	38.33	60.71
Satyam	135.94	81.01	59.59
Wipro	49.85	28.62	57.41
ITC	147.26	82.26	55.86
		65.91	
FOREX / BULLION / MONEY			
Currency	CI	Prev	%Ch
Re./US \$	42.77	43.49	1.64
Re./UK	84.18	85.20	1.20
Re./Euro	57.28	57.90	1.06
Gold (Rs/10g)	9398	9360	0.41
Silver (Rs/Kg)	19457	19321	0.70
Call Money	11.00	50.00	-78.0
FIIs/MF ACTIVITY (Rs cr)			
Mar 16 -Mar 22	Pur.	Sales	Net
FIIs	9638	9443	195
MF	1234	1270	-36
FIIs/MF NET (Rs cr)			
	Week	MTD	* YTD
FIIs	195	2711	28873
MFs	-36	-745	9,155

*April'06 till date

Market Outlook

Market witnessed huge selling pressure on Monday, on account of RBI measure to hike the CRR and repo rate by 50 bps and 25 bps respectively to curb inflation. But market recovered partly during the week following firm global market. Market lost 216 points during the week. Mid cap and Small cap lost 1.19% and 0.22% respectively. All major sectoral indices ended in red. Auto and Banking indices were the major losers which lost 5.41% and 2.6% respectively. Healthcare, Metal and Consumer Durable sectors outperformed the market which gained 5.12%, 1.59% and 0.95% respectively.

Global markets remain firm during the week on the back of fall in the crude oil prices and better economic indicators. Hang Seng was the biggest gainer among all the global indices.

➤ Inflation eases from the higher levels

After remaining unaltered for three weeks in a row, inflation dropped marginally to 6.39% for the week ended March 24 from 6.46% due to lower prices of some food items and manufactured products. It remained above the upper limit of the central bank's target of 5-5.50% for a 16th straight week. We expect inflation to ease further as RBI measure of tightening of liquidity will start reflecting in coming weeks. If the same will not happen then we may see some more rate hikes in the coming RBI Monetary policy review meeting.

➤ Core sector slowed to 7.2%

Lackluster performance by cement and electricity pulled down overall core sector index to 7.2% in February 2007. Cement showed a rise of 5.8% against the growth of 16.3% and electricity generation slowed down to 3.3% against 9.1% in same month of the last year. For April-February 2006-07, the index grew 8.3% as compared to 6.1% during the corresponding period of the previous year.

➤ Dollar weaken against rupee

During the week rupee touched a near eight-year high and touched Rs.42.84 a dollar. Rupee strengthened because of the purchases from refiners and importers. On the other hand crude oil prices are hovering around US \$ 64 per barrel mark.

➤ Lackluster performance in exports continues

During April-Feb 2007, India's exports showed a rise of 22.95% to US \$ 109 billion over the corresponding period of the previous year and import showed a rise of 31% to US \$ 165 billion. The sharp rise in the trade deficit was seen due to ban on the exports and cut in import duties in past few months to curb the inflation.

Outlook

We expect Infosys guidance for the next year to be little subdued, that may impact negatively to overall market sentiments. The Sensex faces resistance at 13121 levels while support exists at 12557 levels. NIFTY faces resistance at 3841 levels while support exists at 3655 levels.

Sectoral Outlook

Cement Numbers- Good dispatches but government intervention keeps sentiment negative.

Cement Companies posted mixed set of number for the month of March. ACC production (capacity utilization 103 percent) and dispatches were up 1.74 and 3.4 percent respectively at y-o-y while AV Birla groups production (capacity utilization at 109.5 percent) and dispatches were up 6.17 and 7.64 % respectively.

ACC Ltd posted a cement production and dispatches of 1.77 million MT and 1.81 MT for the month of March 2007 while production and despatch figure for the Jan – March quarter were at 4.86 and 4.88 lower by 1.4 and 1 % y-o-y due to shutdown at some of its plant for some modification during February.

For AV Birla Group, cement production and dispatches for the month of March 2007 stood at 3.11 lakh mt and 3.16 lakh mt, registering a growth of 6.17 per cent and 7.64 per cent y-o-y. Cement production and dispatches for april-march 2007 has moved up by 8.33 per cent and 8.46 percent y-o-y to 32.51 million MT and 32.56 lakh mt.

Meanwhile the government countervailing duty and special additional excise duty on import of cement effectively bringing down the cost of imported cement by Rs 32 thus making imported cement competitive in coastal markets. Though the lack of port infrastructure and handling facility at port would not make import in huge quantity possible, the sentiment against cement stocks is expected to be negative despite attractive valuation.

Automobile:

Automobile companies have reported mixed numbers. The highest growth was recorded by M&M in commercial and utility vehicles. The Scorpio volume (inclusive of exports) grew by 56% in March'07 to 5260 (Mar'06: 3364), whereas in the FY07 it clocked 42593 nos up by 25% from 34084 in FY06. In April'07 Mahindra Renault (a 51:49 JV between M&M and Renault of France) launched "Logan". Both diesel and petrol versions of Logan are priced aggressively. It plans to sell 4000+ vehicles per month. (installed capacity 50,000 p.a.). Tata Motors and Maruti also registered better sales in Mar'07. Tata Motors registered highest ever-monthly sales across all segments in March'07. CV sales grew by 12.6% to 30,720 (27,289), Passenger vehicle sales grew by 14% to 25,760. For the FY07 CV sales rose by 39% to 299,173 whereas passenger vehicle sales rose by 20% to 226,893. But exports in Mar'07 has declined 3% in Tata motors to 6299(6508), whereas Maruti recorded 275% rise in exports to 7,216 nos. (2,055). Overall export growth in Maruti was muted to 13% in FY07 to 39,295 (34,781) and 5% in the case of Tata Motors 53,312 (50,539). Management of Maruti recently opined that in the near term, growth in sales would decelerate thanks to the recent hike in bank interest rate. Tractor sales of M&M, has slowed down to 6.5% in Mar'07 as compared to 20.6% for FY07. In 2/3W space all the companies registered a dismal growth in Mar'07. Both Bajaj Auto and TVS Motors' sales declined, but Hero Honda could manage to show 2.1% growth in sales. Bajaj has set a growth of 10% to sell 3mn vehicles in FY08. We maintain "Buy" on Maruti and M&M.

Company (nos)	March'07	March'06	YoY Ch %	FY07	FY06	YoY Ch %
TATA Motors	62,779	56,406	11.3%	579,378	454,345	27.5%
Ashok Leyland	8,444	8,577	-1.6%	83,101	61,655	34.8%
Maruti Udyog Ltd	71,772	63,196	13.6%	674,924	561,819	20.1%
M&M (CV,UV)	20,623	16,400	25.8%	178,229	149,424	19.3%
M&M (Tractor)	7,805	7,326	6.5%	102,529	85,028	20.6%
Hero Honda	277,915	272,312	2.1%	3,336,756	3,000,751	11.2%
Bajaj Auto Ltd	193,562	212,419	-8.9%	2,721,178	2,279,862	19.4%
TVS Motors Ltd	128,207	128,857	-0.5%	1,528,214	1,342,204	13.9%

News & Views

Spicejet Ltd (Rs.44)

Spicejet Ltd is the second-largest LCC in the domestic airline industry with a market share of 9%. Originally promoted by the SK Modi Group under the name Modiluft, SpiceJet was acquired by Royal Holding Services (Kansagra family) in 2000. It restarted operations in May '05. Backed by strong management and significant experience in start-up airlines as well as the LCC industry, SpiceJet also has a maintenance support by KLM. With 11 Boeing 737-800 aircraft in its fleet, it currently operates 120 flights a day to 14 destinations across the country. The company has declared its Q3 FY07 (Dec-06-Feb-07) results this week.

Key Highlights

- During the quarter the company added 5 more Boeing 737-800's to its existing fleet of 6 Boeing 737-800 aircrafts. It introduced daily flights from Kolkatta to Hyderabad by way of the 11th aircraft inducted recently and introduced additional frequencies on the Bangalore-Mumbai-Hyderabad routes. Going forward plans are being firmed up to connect Kolkata to Jaipur, Goa, Mumbai, Ahmedabad, Bhubaneswar and Port Blair. Next year, Kolkata would be connected to regional destinations such as Bagdogra, Dibrugarh and Agartala.
- The company is adding 8 more aircrafts in FY08 in between the months of Sept-07-Feb-08 and 7 more in FY09. This is being funded by way of Rs 2.98 bn (USD 67 mn) raised from a preferential allotment of 56.31 mn shares at Rs 52.69 of Rs 10 each, to Ewart Investment, Tata Investment Corporation, BNP Paribas Arbitrage Fund, Istihmar PJSC and KBC Financial Products (UK).
- Spicejet's third quarter operating revenues stood at Rs 246 crore versus Rs 132 crore an 86.3% increase y-o-y. Its net loss stood at Rs 21 crore in Q3 FY07 as compared with profit of Rs 4.3 crore in Q3 FY06. It entered into a sale and lease back for 6 Boeing 737-800 aircrafts which contributed Rs 186.2 mn to the other income of Rs 316.5 mn during this quarter.
- The company remains an undisputed leader in passenger load factor (PLF) amongst all the domestic airlines. However, for Q3 FY07 PLF was 77% which was slightly lower than the PLF in the corresponding period last year. The PLF in case of their newly added routes and frequencies was 75% and 80% in case of the old routes.
- Due to seat capacity being doubled this quarter the yields / RPKM stood at 2.20p, 2.16p and 1.96p in the months of Dec 06, Jan 07 and Feb 07 respectively. Yields for the new routes and old routes were 1.95p and 2.45p respectively. Yields per passenger were slightly better at Rs 2,650 as opposed to 2,400 in Q2 FY07.
- Despite a rise in fuel cost from 1.07 ASKM to 1.11 ASKM, the airline has bought down its total cost / ASKM to 2.44 this quarter from 2.65 / ASKM in the corresponding period last year. This has been possible due to a remarkable saving in its non fuel cost from 1.85 / ASKM last year to 1.33 / ASKM this quarter. This is lower than Air Deccan's CASKM of Rs 2.70 for Airbus and Rs 3.10 (avg Airbus and ATR). Still the company has decided to stick to the fuel surcharge of Rs 750 as every 1% increase in the fuel cost impacts its bottomline by 0.4% and also has not rolled back any congestion fee. It expects its non fuel costs to further go down by 8-9% in FY08.
- Due to the seat capacity already being higher in the industry as opposed to the demand, the company plans to fight the lean season this summer by sub-leasing 1-2 of its aircraft to European carriers and thereby earning additional revenues. The focus will also be on increasing ancillary revenues from sale onboard and in-flight advertisement.

Valuation

Spicejet follows the proven LCC model, which offers superior returns by way of higher asset utilization, focus on alternate revenue streams and lower operating costs. With an expanded fleet the company expects a good growth in its passenger volumes and targets a market share of 14-15% by 2007 end. It expects to start generating profits from second half of FY08. However in our view the airline will continue to face difficult times in the short term due to competition and over capacity in the industry. Also revival of the industry's profitability including that of Spicejet Ltd is dependent to some extent on an act of consolidation or acquisition of weaker players by the larger ones. We recommend investors to 'ACCUMULATE' the stock.

Financials

(Rs.mn)

	Q3 FY07	Q3 FY06	y-o-y%	Q2 FY07	q-o-q%	FY06
Total Revenues	2,460.4	1,320.9	86.3	1,650.3	49.1	4,196.5
Total Expenditure	2,935.2	1,410.8	108.1	2,209.2	32.9	4,878.4
EBIDTA	(474.8)	(89.9)	(428.1)	(558.8)	15.0	(681.9)
EBIDTA %	(19.3)	(6.8)	-	(33.9)	-	(16.2)
Interest	10.5	7.2	45.4	6.6	58.6	31.3
Depreciation	26.3	43.5	(39.5)	25.4	3.6	81.6
Other Income	316.5	186.6	69.6	409.8	(22.8)	335.0
Provision for taxation	(1.3)	3.0	(145.0)	3.6	(137.0)	13.1
Prior Period items	(19.9)	-	-	0.5	-	58.7
Net Profit/Loss	(213.7)	43.0	(596.9)	(184.2)	16.0	(414.2)
NPM %	(8.7)	3.3	-	(11.2)	-	(9.9)
Equity Capital	2,406.5	1,798.4	33.8	1,843.4	30.5	1,843.4
EPS (Rs)	(0.9)	0.2	-	(1.0)	-	(2.2)

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