WAY2WEALTH
Your Personal Investment Guide

Monthly Chronicle: *Equity Markets*

06th Oct 2006

Domestic Indices:

This month too, the domestic bourses extended gains, on the back of falling crude prices, buoyant GDP numbers, strong advance tax collections and expectations of good quarterly numbers. FIIs pumped-in Rs 5,424.7 crores, followed by Mutual Funds that turned net buyers to the tune of Rs 1,339.7 crores during the month. The Sensex gained 6.5%, followed by the Nifty that added 5.1% this month. Mid-caps outpaced the broader markets, while small-caps rose in line with large-caps.

Major Indices – Mth-on-mth	Inc/ Dec	Chg (%)
BSE Sensex	755.37	6.46
S&P Nifty	174.50	5.11
BSE Mid-cap	350.31	7.30
BSE Small-cap	382.74	6.62

Sensex touched a high of 12,485 during the month & closed at 12,454, just a tad away from the all-time high of 12,671, which it topped in May 2006. The last three & a half months have seen the Sensex recovering almost all the losses that it had witnessed during the May-June massacre. Falling global oil prices, domestic buoyant economy and expectations of steadying global interest rates, on the back of moderate inflation & continued strength in consumer spending, led to the dramatic turnaround in the Sensex. With returns of about 32% YTD, India has been one of the strongest gainers within the region, placing its market valuations at a significant premium to other emerging markets. The high allocations for India in portfolio flows appear to be a reflection of the confidence that global investors repose in the "India story". The Indian economy and markets enjoy relative advantages - low dependence on exports or the US markets for growth, strong domestic drivers, relative political stability and a well-regulated stock market, with reasonable standards of corporate governance. GDP growth numbers released in the last week of Sep06 showed a strong growth rate of 8.9% in the April-June quarter, ahead of 8.4% in the same period last year. While the June quarter GDP numbers have bettered consensus expectations, there are already signs, of further acceleration in the ongoing quarter, from key macro indicators such as the monthly indices of industrial production and infrastructure, export growth apart from numbers on automobile sales, to provide a reasonable base to valuations.

Bankex (up 13.8%), Auto (up 8.5%,) Capital Goods (up 6.3%) and Metal stocks (up 5.1%) led to the smart recovery in the Sensex, while FMCG and IT stocks were laggards.

Key Domestic Highlights for the month

- Numbers released on advance tax for the period to September 15 have registered a strong increase of more than 30% over a year-ago period. The expansion in corporate tax mop-ups and advance tax receipts are a positive signal on corporate earnings for the July-September quarter.
- TRAI has decided to adopt a hybrid pricing model for allocating spectrum for third generation (3G) services, which means that operators would be first put through a pre-qualification round, after which an auction would be carried out for qualified companies. The regulator has proposed an auction, with a base price for different circles. TRAI has recommended a base price of Rs 80 crores for category A circles, plus Delhi and Mumbai metros, Rs 40 crores for category B circles, besides the two metros of Chennai and Kolkata. For category C circles, the regulator has proposed a base price of Rs 15 crores. In each circle, operators would bid for one of the five blocks of 2x5 MHz each, in the 2.1 GHz band. The highest successful bidder would get to choose the frequency block with the least interference and the widest reach.
- The month saw fresh announcements by both foreign and domestic automobile majors (Suzuki Motor Corporation, Honda SIEL), seeking to make investments in expanding domestic manufacturing capacities. This could enable India to emerge as a small car-hub, catering to the large domestic requirements as well as to export markets, where fuel efficiency concerns appear to be triggering renewed interest in compact

cars. Domestic consumers may also stand to benefit from an expanding menu of product and feature options at affordable prices, as competitive activity in the sector intensifies.

- Overseas pension funds, mutual funds, investment trusts, insurance companies, reinsurance companies, international or multilateral agencies, foreign government agency or a foreign central bank, would now be treated as Foreign Institutional Investors (FIIs), as per the recent amendment made in Foreign Institutional Investors (FII) Regulation Act 2006, by SEBI. Until now, overseas investment advisors were directing clients to buy participatory notes (PN). Now, they too can register with SEBI as FIIs.

Banking: BSE Bankex ↑ 13.77%

Banking stocks attracted strong buying interest that saw the bankex surging by 730.9 points to 6,038.9. The surge was mainly supported by a weak Dollar that fell from Rs 46.55 to Rs 45.96 for the month and also the 10-year benchmark yield falling from 7.89% to 7.64%, while touching a low of 7.57%. The fall in yield is likely to result in banks reporting strong treasury gains in Q2.

- RBI has suggested lowering, or scrapping outright, the several service charges on individual customers for using banking services.
- RBI has asked IDBI to take control of the sick United Western Bank, which was put under moratorium by the central bank after its capital was wiped out due to mounting bad loans.
- A merger was at its fore, with Lord Krishna Bank merging with Centurion Bank of Punjab and with Indian Overseas Bank making Bharat Overseas its wholly owned subsidiary by acquiring the stake of ING Vysya.

Technology: BSE IT ↑ 2.5% & Automobiles: BSE Auto 8.51% ↑

The Technology counters saw marginal gains of 2.5% after notching an 8.5% increase in the previous month. The month saw acquisitions by 3i Infotech and Cognizant, while Satyam and Infosys formed global alliances. In the coming month, the sector would seek direction from the quarterly earnings of biggies like Infosys, Wipro, TCS and Satyam. The IT companies are expected to report decent QoQ numbers, on the back of volume growth. The Auto Index continued to trade firm and increased by 8.51%, following a 10.46% increase in the previous month. The surge was well supported by the falling crude oil prices, which had hit a low of US$ 57 a barrel. In stock specific, M&M bought 67.9% in the German forging company, Jeco Holdings. The Sector would take cue from the sales numbers and the quarterly results to be reported by auto majors like Bajaj Auto, Hero Honda, Maruti, Tata Motors and M&M.

FMCG: BSE FMCG ↑ 1.78% & Capital Goods: BSECG ↑ 6.33%

The FMCG sector rose marginally, despite the near normal monsoon, after the index clocked ~8% growth in August. The price hikes announced by companies like HLL, Godrej during the quarter, would provide support to the quarterly results of these companies. In stock specific news, HLL has merged Modern Food Industries with itself. The Capital goods sector continues to have a good run on the bourses, having logged above 6% growth for two consecutive months. The sector continues to witness huge order inflows, driven by the increased infrastructure development in the country. In stock specific, Punj Llyod has entered into a joint agreement with Swissport International, to develop projects in the domestic ground-handling sector. With mega companies like BHEL, HCC and NTPC sitting on huge cash reserves, capacity expansion is not a constraint to complete their burgeoning order books.

Pharma: BSE Pharma ↑ 4.12%

Pharma counters continue to make steady gains of 4.12%, though subdued, compared to the previous month. However, in the last few closing sessions, news that the Indian Pharmaceutical industry has moved to a new pricing regime, wherein the prices would fall by capping the trade margins on generic drugs at 15% for wholesale and 35% for retail, acted as a dampener. So far, margins on many of these drugs exceeded 1000%. In stock specific, Wockhardt remained in the news, on reports that the Company would acquire Pinewood Laboratories, Ireland, for US$ 150 million. Earlier, the Company announced that it is going to develop a manufacturing and research facility at an SEZ in Aurangabad.

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Cement

Cement stocks remained in the limelight as they surged by 4-12%, during the month. Major cement companies have hiked the product prices by Rs 3-5 per bag in October. As in steel, the cement sector would see huge investments, as capacities to the tune of 75 million tonnes would be added by 2010, at an investment of Rs 26,250 crores. Lafarge, the French construction group, would build a 3 million-tonne cement plant in North India, at an investment of € 160 million. However, no fresh capacities are likely to be added till FY08, which would keep the demand- supply gap intact & the prices favourable. The cement counters would take cue from the monthly production and dispatch numbers of major cement companies as well as their quarterly earnings.

Metals: BSE Metal ↑ 5.12%

The Metal index extended its August gains, on the back of increasing metal prices on the LME. Except for copper, which declined marginally, all other metals increased by 0.2-16.8%. This was reflected in the stock prices of Tata Steel, JSW Steel, SAIL, Hindustan Zinc and Nalco, that surged by 3.6-8%. Meanwhile, the metal sector, especially that of steel, is going through massive expansion plans announced by steel majors from India as well as abroad. In the current month, the board of approval has cleared the SEZ proposal, of the Korean steel giant, Posco, for Orissa, with an investment of Rs 53,000 crores. While many such projects are still on paper, it would be interesting to see when they take-off.

Oil & Gas: BSE Oil & Gas ↑ 2.50%

The Oil & gas sector emerged as one of the laggards, after logging a double-digit growth in the previous month. The subdued 2.5% growth was mainly due to the steep fall in crude oil prices that has touched a low of US$ 57 a barrel. During the month, the Government issued oil bonds worth Rs 14,150 crores, out of total Rs 28,300 crores, to compensate the state-owned OMCs for the losses on retail sales of petrol and diesel. In stock specific, the ONGC-Sinopec JV acquired an oilfield in Colombia, with reserves of more than 300 million barrels of oil. Also, OVL teamed up with Petrobras of Brazil for oil & gas exploration.

Economic Data: Fairly Strong

GDP growth numbers released during the month showed a strong growth rate of 8.9% in the April-June quarter, ahead of 8.4% in the same period last year. Agriculture growth was maintained, while industry & services registered higher growth. Manufacturing (11.3%), trade/ transport/ communications (13.2%) and finance/ real estate (8.9%) were some of the segments that underpinned this growth. While the June-quarter GDP numbers have bettered consensus expectations, there have already been signs of further acceleration in the ongoing quarter, from key macro indicators such as the monthly indices of industrial production and infrastructure and export growth, apart from numbers on automobile sales. This has been driven by positive trends in both consumption and fixed investments.
Infrastructure growth accelerated to 9% in July, from 2.3% in the corresponding month of last year, helped by positive trends in oil production, oil refining and cement. This takes the cumulative growth in the April-July period to 7%, relative to 6.1% in the same period last year. The break-up of these numbers showed evidence of broad-based improvement, with five of the six core sectors registering accelerated YoY year growth.

Industrial production numbers for July, at 12.4%, gave further evidence of the renewed growth momentum in the current quarter. Industrial growth was aided by a 13.3% growth in manufacturing, with revival in mining and electricity output. Consumption trends also witnessed strong double-digit acceleration during the month.

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Market Outlook: Range bound

In the coming days, we expect the market to move in a consolidation zone and take direction from the quarterly numbers, which would start flowing from 11 October onwards. The market would also track the monetary policy, which would be announced in the latter half of the coming month. The turnaround, which has happened over the past three & a half months, has seen the Sensex recover most of its losses, which had occurred during the May massacre. However, Midcaps are still 18% off their highs, whereas large caps are a striking distance away from the high made in May06. Thus, we believe that there is still scope for appreciation in the mid-cap space and we expect the mid & small caps to outpace the broader markets. Further, news funds are coming out with NFOs, to invest largely in the mid & small-cap space. Strong corporate advance tax collections indicate a positive signal, which may keep the market in positive terrains.

On the sectoral front, cement counters would be in the limelight as the despatch figures are likely to accelerate and the pricing environment is likely to remain favourable. Falling crude prices and the coming festive season would attract buying interest in auto companies. Banking stocks would continue to trade firm, on the back of softening interest rates. Metal Stocks are likely to remain range-bound in absence of any major triggers. Technology companies are expected to report decent QoQ numbers, on the back of volume growth.

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