

December 14, 2006

FOR PRIVATE CIRCULATION
Equity

	13 Dec 06	% Chg		
		1 Day	1 Mth	3 Mths
Indian Indices				
Sensex	13,181	1.4	(1.8)	10.1
Nifty	3,765	1.3	(2.6)	8.5
Banking	6,726	3.0	(2.0)	19.3
IT	3,459	1.6	1.3	17.9
Healthcare	3,599	1.9	(5.3)	(0.1)
FMCG	1,907	(0.5)	(6.9)	(4.9)
PSU	5,788	1.3	(5.0)	1.8
CNX Midcap	4,835	2.4	(3.7)	7.0
World indices				
Nasdaq	2,432.4	0.0	0.1	9.1
Nikkei	16,693	0.3	2.9	5.1
Hangseng	18,718	(1.0)	(0.3)	9.5

Value traded (Rs cr)

	13 Dec 06	% Chg - 1 Day	
Cash BSE	4,138	(10.7)	
Cash NSE	9,636	(13.1)	
Derivatives	35,782	(21.2)	

Net inflows (Rs cr)

	12 Dec 06	% Chg	MTD	YTD
FII	95.2	(77.5)	(1,412)	38,457
Mutual Fund (517.5)	14.1	(821)	13,564	

FII open interest (Rs cr)

	12 Dec 06	% chg
FII Index Futures	10,382.1	4.5
FII Index Options	5,869.2	3.0
FII Stock Futures	15,286.2	1.2
FII Stock Options	180.7	5.2

Advances/Declines (BSE)

	13 Dec 06	A	B1	B2	Total	% Total
Advances	177	483	511	1171	66	
Declines	34	176	354	564	32	
Unchanged	1	5	35	41	2	

Commodity

	13 Dec 06	% Chg		
		1 Day	1 Mth	3 Mths
Crude (NYMEX) (US\$/BBL)	61.6	0.3	5.6	(2.6)
Gold (US\$/OZ)	628.8	(0.2)	1.3	9.3
Silver (US\$/OZ)	13.8	(0.6)	7.7	28.9

Debt/forex market

	13 Dec 06	1 Day	1 Mth	3 Mths
10 yr G-Sec yield	7.59	7.64	7.58	7.79
Re/US\$	44.79	44.84	44.98	46.19

Sensex


Source: Bloomberg

ECONOMY NEWS

- The eligibility criterion for airline companies seeking to fly to foreign destinations is set to be relaxed. The government is planning to reduce the requirement of minimum five years of domestic operations to three years for airlines proposing to tap offshore markets. (ET)
- The government is planning to revisit the amendment to the RBI Act to enable the regulator to pay interest to banks on their cash reserve ratio balances. (ET)
- The Finance Ministry has proposed to set up a nodal department in the ministry for services as the booming sector, which contributes over 60% to the Indian economy, is still not allowed full freedom to tap its potential. (ET)
- The Department of Telecom has moved a Cabinet note seeking to change some of the controversial provisions of the Press Note 5, which relates to hiking the FDI cap in the telecom sector from 49% to 74%. (BL)
- In a move to promote more efficient use of land, the Union government is planning to persuade states to enact legislation for ownership of apartments. (BS)

CORPORATE NEWS

- CSN, involved in the takeover battle with **Tata Steel** over Corus, has indicated it is willing to raise the bid offer from the present 515 pence. CSN may use its \$2-bn cash reserves over the \$11.6 bn it has already raised to finance the acquisition. The bid may then well cross 600 pence a share if it draws into its cash reserves. (ET)
- **Reliance** and **ONGC's** overseas investment arm are set to take up exploration and production activities in Iraq. The two are also expected to rope in Angolan oil firm Sonatrach to take up exploration of a discovered block in South Iraq. (ET)
- **ICICI Bank** has raised its lending rates by 0.5 percentage point, while deposit rates across the tenures were raised anywhere between 0.25% and 0.75%. The new rates will be effective from December 18. (ET)
- **Maruti Udyog** will raise prices by up to Rs.12,000 from January next year across its model range. MUL has decided to go in for another revision and informed its dealers of the same, market and dealer. (ET)
- **Bharti Enterprises** and the French insurance major AXA SA may join hands to set up a mutual fund and a non-life insurance company in the near future. (BL)
- **Reliance Industries** is looking at doubling output from the gas field at an enhanced investment of \$5.2 bn. The development plan envisages commencement of delivery of first gas by second half of 2008-09. (BL)
- The Ruias may be looking at buying out Hutchison's 67% equity stake in **Hutchison Essar** - in case they sell - for which they plan to approach banks. Hutchison holds a 52% stake, while Analjit Singh and Asim Ghosh hold another 15% together. (BS)
- **Punj Lloyd** is setting up a new subsidiary to which it will outsource all its back-office engineering operations. The new company will also take outsourcing contracts from other companies. (BS)
- **L&T Infotech**, a subsidiary of **Larsen & Toubro**, has signed a definitive agreement to acquire GDA Technologies Inc, and all of its design centers in the US and India. (BS)

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

ECONOMY UPDATE

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INDUSTRIAL GROWTH FOR OCTOBER

Temporary Blip

Index of Industrial Production (IIP) growth during October 2006 fell to a low of 6.2% compared to 9.8% in October 2005 mainly on account of the poor performance of the manufacturing sector. The cumulative growth for the period April-October 2006 stands at 10.3% over the corresponding period of the previous year.

The monthly data shows industrial growth slowed from 11.4% in September 2006. (revised downward from 11.5%) This is lower than the consensus expectation of 9.6% but we believe this is an aberration and maintain our forecasts of GDP growth rate at 8.5% for FY07 and 8.0% for FY08.

We believe it is just an aberration and this will not shake our confidence in the Indian growth story...

- The inventory build-up in September due to festive demand in October could explain the slowdown in consumer durables. Many industries had slowed down production in October to clear excess inventories. For example, two-wheeler sales growth was strong at 10.3% in October, whereas production growth was only 2.2% in the same month.
- If we look at capital goods, we may feel this has slowed down to 8.2% in October 2006 from 24.3% in the corresponding month of previous year. However, a closer look will make it clear that after 19 months of double-digit growth, it slowed down in September and that trend continued in October as well. It rose from 6% in September 2006 to 8.2% in October 2006. We believe that strong order backlogs, an uptrend in construction, and a focus on infrastructure development and SEZs should continue to drive capital goods production in future.
- There is also the likelihood of revision in these numbers. It is because this is a quick estimate, which cannot be always accurate. For example, IIP data for September was revised downwards from 11.5% to 11.4% and capital goods data was revised up from 2.2% to 6% in the same month (September 2006)

Sector-based classification

Mining, manufacturing and electricity sectors for October 2006 grew at 4.0%, 6.0% and 9.7%, respectively, as compared to the corresponding period of the previous year. The cumulative growth during April-October, 2006-07 over the corresponding period of 2005-06 in the three sectors have been 3.4%, 11.2% and 7.1% respectively, which moved the overall growth in the General Index to 10.3%.

Index of Industrial Production (Sectoral Classification)					
(Base: 1993-94=100)	Weights	Oct-06	Oct-05	Sep-06	YTD 07
Mining	10.5	4.0	(0.1)	3.9	3.4
Manufacturing	79.3	6.0	10.9	12.0	11.2
Electricity	10.2	9.7	7.7	11.3	7.1
IIP	100	6.2	9.8	11.4	10.3

Source: Ministry of Statistics and Program Implementation

Manufacturing segment growth decelerated to 6% from 12% in the previous month. Food products, chemicals and machinery were the key segments driving the slowdown in the manufacturing sector. The key reasons behind the slowdown were lower manufacturing growth largely attributed to a sharp deceleration in consumer goods.

Use-based classification

According to use-based classification, sectoral growth rates in October 2006 were 9.9% in basic goods, 8.2% in capital goods and 8.1% in intermediate goods. Consumer durables and consumer non-durables have recorded growth of 2.4% and (0.4%), respectively, with the overall growth in consumer goods being 0.5%.

Index of Industrial Production (Use based Classification)					
(Base: 1993-94=100)	Weights	Oct-06	Oct-05	Sep-06	YTD 07
Basic Goods	35.5	9.9	7.0	11.5	9.0
Capital Goods	9.7	8.2	24.3	6.0	15.0
Intermediate Goods	26.4	8.1	2.1	13.4	10.4
Consumer Goods	28.4	0.5	14.6	12.0	9.8
Consumer Durables	5.1	2.4	16.4	11.8	13.2
Consumer Non-Durables	23.3	(0.4)	14.0	12.1	8.5
IIP	100	6.2	9.8	11.4	10.3

Source: Ministry of Statistics and Program Implementation

The consumer goods segment growth decelerated to 0.5% in October 2006 compared with 12% in September 2006. We believe this slowdown is largely an aberration and could be possible due to an inventory build-up in September given the anticipation of festival demand during October. The intermediate segment growth decelerated to 8.1% from 13.4% in the previous month, which is in congruence with the slowdown seen in the growth of goods exports (11% in October down from 22% in September). The capital good production growth accelerated to 8.2% from 6% in the previous month while basic goods production decelerated marginally to 9.9% from 11.5% in the previous month.

In terms of industries, as many as 12 out of the 17 industry groups have shown positive growth during October 2006 as compared to the corresponding month of the previous year. The industry group 'metal products and parts, except machinery and equipment' has shown the highest growth of 25.6%, followed by 20.8% in 'basic metal and alloy industries' and 12.5% in 'non-metallic mineral products'. On the other hand, the industry group 'other manufacturing industries' has shown a negative growth of 17.2% followed by 9.7% in 'food products' and 8.3% in 'leather and leather & fur products'.

Key items that saw a contraction include food products, that is, biscuits, sugar, tea, coffee, wheat flour (-9.7%), leather (-8.3%) and other manufacturing industries, that is, medical/surgical instruments, wrist watches, lab instruments (-17.2%).

Conclusion

The early indicators like cement dispatches (7.9%), automobile sales {passenger vehicles (15.9%), tractor sales (15.4%) and commercial vehicles (21.8%)} have shown robust growth in November. This, coupled with a potential reversal in the one-off effect from the consumer segment could lead to a rebound in IIP growth in November.

We believe the robust growth in industrial and infrastructure capex along with service driven consumption growth will drive the IIP in future at a strong pace. In our view, the whole economy will benefit from this through both forward and backward linkages.

As the industrial sector contributes about a quarter to the GDP growth, we maintain our GDP growth forecast at 8.5% for FY07 based on the assumptions that agriculture, industry and services will grow at 3.0%, 9.0% and 9.0%, respectively. While the recent GDP numbers (1HFY07 = 9.1%) pose marginal upside risks to our full year estimate, the healthy industrial growth of 10.3% for seven months of this fiscal year will provide a cushion against any drop in the contribution from agricultural sector or services to the GDP.

Bulk deals

Trade details of bulk deals					
Date	Scrp name	Name of client	Buy/ Sell	Quantity of shares	Avg. Price (Rs)
13-Dec	Abg Shipyard	Standard Chartered Privat	B	405,888	217.68
13-Dec	Chd Dev Ltd	JMP Securities Pvt. Ltd.	B	1,057,731	14.40
13-Dec	Chd Dev Ltd	JMP Securities Pvt. Ltd.	S	1,135,381	14.45
13-Dec	Estar Info	Rupali Sharad Gupta	S	254,600	0.45
13-Dec	Gayatri Proj	Citigroup Global Markets	B	50,000	280.38
13-Dec	Gemstone Inv	Manish Suresh Joshi	B	19,100	11.19
13-Dec	Goldston Tec	Sanjay Jain	B	133,000	35.75
13-Dec	Goldston Tec	Consolidated Securities	S	146,548	35.03
13-Dec	Greaves Cott	Birla Dividend Yield Plan	B	302,637	290.00
13-Dec	K Sera Sera	Merrill Lynch Capital Mar	B	500,000	23.70
13-Dec	K Sera Sera	Bsma Limited	S	500,000	23.70
13-Dec	Koff Br Pict	Naresh Saboo	B	43,547	17.74
13-Dec	Koff Br Pict	Saba Khan	S	28,747	17.52
13-Dec	Lloyd Ele En	Goldman Sachs And Company	B	157,393	139.00
13-Dec	Lloyd Ele En	Oceanic Marketing Agencie	S	200,000	139.01
13-Dec	Maikaa Fibre	Jai Gopal and Company	B	101,519	10.81
13-Dec	Mazda Ltd	HSBC Financial Services M	B	325,000	154.97
13-Dec	Mazda Ltd	Sorab Mody	S	150,000	153.80
13-Dec	Mefcom Agr I	Kalpana Madhani Securitie	S	20,000	89.28
13-Dec	Mefcom Agr I	Arya Investments	S	20,000	89.72
13-Dec	Mohit Indust	SRK Projects Pvt. Ltd	S	29,906	63.03
13-Dec	Osian Lpg Bo	Vijay Lakshmi Sachdeva	B	40,000	16.90
13-Dec	Pantaloon In	Asuti Trading Pvt. Ltd.	B	216,850	372.76
13-Dec	Pantaloon In	Opportune Trading	S	216,850	372.76
13-Dec	Paramo Commu	Manulife Global Fund Indi	B	160,000	203.40
13-Dec	Paramo Commu	Volga International	S	130,935	202.99
13-Dec	Patel Airtem	Harsiddh Specific Family	S	50,000	39.97
13-Dec	Sanguine Md	Neil Information Technolo	B	67,108	43.27
13-Dec	Shree Ram	ABN Amro Bank N V London	B	105,000	568.35
13-Dec	Standard Ind	Standard Industries Ltd	B	401,984	64.95
13-Dec	Videocon Com	Amit Investment .	S	67,000	53.65

Source: BSE

Gainers & Losers

Nifty Gainers & Losers

	Price (Rs)	% change	Index points	Volume (mn)
Gainers				
Reliance Com	433	7.3	12.1	12.5
Reliance Ind	1,238	2.7	9.2	5.3
Bharti Airtel	598	3.8	8.4	1.6
Losers				
ONGC	790	(1.9)	(6.5)	2.1
HLL	219	(1.9)	(1.9)	3.6
Infosys Tech	2,150	(0.7)	(1.6)	1.6

Source: Bloomberg

Forthcoming events

COMPANY/MARKET

Date	Event
14-20 Dec	Initial Public Offer of Shree Ashtavinayak Cine vision opens
14-21 Dec	Initial Public Offer of Lumax Auto Technologies open
14-Dec	Baring Equity & Bhushan Steel holds meeting with Jean Eric Philips Electronic holds press conference for product launch
15-Dec	Aurobindo Pharma to consider merger of 2 units; DCB holds press conference
20-Dec	GAIL India to announce interim dividend; MRF to announce earnings and dividend Hindustan Petroleum Corp to announce interim dividend; Four Soft to consider fund raising plans; Tantia Constructions to consider funds raising plans
22-Dec	Indian Oil Corp to announce interim dividend
23-Dec	ONGC to announce interim dividend

Source: Bloomberg

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