

Editorial

Is It Worth Investing In Primary Markets?

That's the dilemma investors are facing right now. To that, we'll say: Certainly, yes! But invest in only those few really deserving companies which leave enough on the table for the investors. In fact, readers may be surprised to know that almost 50 per cent of the IPOs / FPOs which had raised capital from the primary market during the current calendar year are trading below their offer prices. This is simply because the offer price decided by the promoters and the lead managers was too high to deserve a 'buy' recommendation from the analyst community. In other words, the lead managers hardly left anything on the table for the investors in order to fill their own pockets through higher commission fees. The commission of the lead managers is decided on the capital proposed to be raised through the issue, and hence higher the offer price, higher the commission. However, this doesn't mean that all the lead managers are to be blamed, but certainly when the sole objective is to rake in profits in the form of commission then many among the lead managers certainly get carried away - typically the small lead managers who have become quite active in last few months with small issues. Generally, the low value IPOs (i.e. the small issues) wanting to raise few crores have performed miserably in the current year. In the last three months alone close to 18 IPOs / FPOs were listed on the bourses and only six among them have appreciated significantly, while the remaining are still hovering close to the offer price or even below the offer price. For instance, the scrips of Atlanta, Action Construction Equipment, DCB, Info Edge and Gulshan Sugars, Parsvnath have appreciated in excess of 60 per cent, while Hanung Toys has appreciated 36 per cent after listing. Again, as mentioned earlier (in the edit on the primary market), companies with unique business model have done extremely well in the past and we feel they would continue to do so going forward also. Take, for instance, Info Edge which came with the higher band of Rs 320 and is now trading above Rs 600, entailing an appreciation of close to 88 per cent. Another example is of Action Construction Equipment (ACE) which again is the market leader in the mobile cranes business in India. ACE came with an offer price of Rs 130 is trading close to Rs 370 (on 30th Nov). Tech Mahindra too, which came out with an attractive pricing, has appreciated by more than 200 per cent. Moreover, there is high investment appetite among the investing community for infrastructure-related counters. For instance, Tantia Construction and BL Kashyap, Pratibha Industries, GMR Infrastructure, etc. are trading atleast 50 per cent higher than their offer price. The listing of Parsvnath Developers at Rs 540, in addition to the Sobha Developers' 100 times oversubscription reinforces this fact. Thus, investors wanting to apply for new IPOs must delve into the businesses of the companies wanting to raise money from the IPOs. In fact, many experts also believe that if similar businesses are already listed on the bourses, then it makes sense to take a call on them, instead of a new company with a minimal past track record. Hence, going forward, beware of the smaller IPOs before applying and do read the prospectus thoroughly before investing rather than depending on others' advise.

Meanwhile, the broad-based indices were quite volatile with a downward bias, largely due to the mild shake-up in the emerging as well as some of the developed markets ahead of the critical US economic data. In fact, the data that came on Wednesday reflected a stronger GDP growth, but a sharp plunge in the housing markets. Contrary to the Wall

Street expectation of 1.8 per cent rise, the US GDP during the third quarter grew 2.2 per cent. However, as per the US government, the housing sector reported a biggest decline in more than 15 years. Consequent to the higher than expected GDP numbers, the Dow and S&P 500 index ended the day with almost one per cent higher than their previous day's closing. The domestic index too was trading with a gain of 75 points on Thursday during the opening session, after the previous two choppy trading sessions. In fact, the Sensex lost 64 points or 0.5 per cent last week. However, the mid-caps and small-caps appear to be back in action after a long break. The large-caps were ruling the roost in the markets since last one year, putting the investing community on tenterhooks. Considering the valuation gap between the large-cap counters and some of the growth-oriented mid-caps, renewed buying interest has emerged in the mid-cap space once again. There are several mid-caps which had plunged drastically and were unable to participate in the recovery post-correction and it appears from the last couple of trading sessions that there is a renewed interest in these mid-caps. Hence, it is advisable to stick to quality mid-caps. However, beware of the junk stocks or the penny counters, as they too can lure the gullible investors into parting with (and eventually losing) their hard-earned money.

Recommendations

Reliance Communications Face Value - Rs 5 Buy Rs 428

Ticker: 532712 Equity: Rs 1022.31 crore H/L: Rs 433/186

- After reporting meager profits in March 2006 and June 2006 quarters, Reliance Communications, owing to amalgamation, has reported quite encouraging numbers for the latest September ended quarter
- The company reported a top line of Rs 2823 crore in Q3FY06, while its bottom line stood at Rs 496 crore. Recently, Reliance Communications has entered into an agreement with GSM service providers: Hutchison-Essar and the Aditya Birla controlled- Idea Cellular to share passive infrastructure for cell sites. The agreement will help the company in faster rollout and will result in significant cost reduction going forward
- Further in a key business-to-consumer (B2C) mobile application proposal, Reliance Communications is planning to set up a platform for Indian petroleum giants, this will enable the public sector undertakings to service customers through mobile phones. The company would create a mobile zone for the oil companies, enabling them to handle queries, grievances, sales and cooking gas bookings over the air, a first-of-its-kind in the country. Thus, by looking at the overall strategy of this group (ADAG), we feel that the investors would gain decent appreciation from a long-term perspective of the next 12-18 months

Apollo Tyres Face Value - Rs 10 Buy Rs 359

Ticker: 500877 Equity: Rs 38.34 crore H/L: Rs 386.5/194

- The plunge seen in natural rubber prices in the last couple of months, is likely to have a positive bearing on the earnings of Apollo Tyres: the most competent domestic tyre manufacturer. Hence we feel that the investors can enter at current levels, from a long-term perspective of the next 4-6 quarters in a row

- The company reported a top line growth of 27 per cent, driven by the volume growth near Rs1784 crore through the first half of the current fiscal as against Rs1375 crore reported in its previous corresponding period. However, on account of higher rubber prices (which went as high Rs120 - 125 per Kg), the key raw material in manufacturing of tyre, had taken a toll in its bottom line. Consequently its bottom line was almost flat at Rs 36 crore, with significant pressure on its operating margins. But due to the softening of rubber prices, the scenario is likely to change in the coming quarters and hence we are afresh bullish on this counter
- The management is planning to pump in Rs 600 crore in the next four years for capacity expansion via organic and inorganic route. It is looking at certain international companies for acquisition; the company has recently purchased the Dunlop plant in South Africa. Apollo's newly acquired land in Tamil Nadu is set for a greenfield facility of trucks and for manufacturing plant of bus radials. Initially, the company will pump in Rs 300 crore in the new facility, that will be increased with an additional investment of Rs 200 crore in a span of two-three years, thereby leading to a significant volume growth going forward in the next few years

EIH **Face Value - Rs 2** **Buy** **Rs 105**
Ticker: 500840 *Equity: Rs 78.59 crore* *H/L: Rs 127/67*

- EIH, the leading player in the star category hotels in India, appears to be on the roll as far as its earnings growth is concerned, thanks to the buoyancy in the tourism sector, which is likely to continue going forward for the next few years atleast until the commonwealth games that are to be hosted in New Delhi. We feel that EIH is yet another counter in the hotels space, wherein investors can consider a fresh exposure from the long-term perspective
- The management is mulling over 12 new projects in India and abroad. These include: Oberoi brand luxury hotels and service apartments (both owned and managed), a world-class luxury train on Rajasthan circuit, another luxury Nile Cruiser in Egypt with therapy cabins and a Flight Kitchen at Kolkata international airport. New luxury hotels are to be built in Bangalore, Goa, Gurgaon, Siem Reap (Angkor Vat) Cambodia, the Maldives Islands and Dubai. Further, its luxury train project has received approval from the Rajasthan government and will ply via Rajasthan on a seven day trip
- The company has strong reserves, in excess of Rs 740 crore and hence financing of new projects would be a major for this company. The return on net worth has improved drastically during the last fiscal at 24x as compared to merely 5x during FY05

Technicals

Critical Support at 12950 level

Sensex has continued its upward march, has gone on to touch and sustain above the psychological figure of 13300 by posting an all time high of 13799.08 on 27.11.06 indicating the sustainability of its intermediate uptrend. Sensex is comfortably quoting above the 55-week EMA, the 200-day EMA and the 55-day EMA indicating significant stability at lower levels. Sensex is receiving support at 13200 level, the sanctity of which

followed by 12950 level needs to be maintained for the current ongoing positives to sustain.

Trend (Index): Up
Support: 13576, 13461
55 WEEK EMA: 11040.22
MACD: BUY MODE
ROC: SELL MODE
STOCHASTIC: SELL MODE

Last Index Closing: 13616.73
Resistance: 13652, 13723
100 WEEK EMA: 9718.14
RMI: BUY MODE
RSI: BUY MODE

Kamadgiri Synthetics Buy

Rs 15.90

Kamadgiri Synthetics bottomed out by posting an intra-day low of Rs 11.98 on 11.02.04, moved sideways for quite a few trading sessions while continuous support came in the form of the 13 level (support area) and continuous resistance came in the form of the 55-day EMA. The scrip finally posted an intra-day low of Rs 12.25 on 8.06.04 and these levels have not been seen since. Kamadgiri Synthetics commenced an intermediate uptrend from here (there wasn't enough clarity on the long term front), struggled but overcame the 55-day EMA, posted a series of progressively higher tops and bottoms, started moving within the confines of an upward sloping channel, almost gave a throwover from this channel and finally peaked at an intra-day high of Rs 25.40 on 30.11.04. The scrip almost gave a downward key reversal from here, couldn't sustain these levels for long, entered a corrective phase, declined to post an intra-day low of Rs 18.25 on 4.02.05, rebounded smartly from here, posted a good but unsustainable rally to post a high of Rs 37.95 on 16.09.05 only for the scrip to enter a sharp correction. Currently Kamadgiri Synthetics seems to be on the verge of entering a short term uptrend, has overcome the 55-day EMA and with the oscillators looking positive indicating the possibility of a further upside from here.

Trading Pointers

Indicators: MACD-Buy RMI-Buy Stochastic-Buy ROC-Buy RSI-Buy
Support: 13.90, 10.05 Resistance: 18.50, 26.50
Targets: 1st Target: 20.00 2nd Target: 24.00 BSE Code: 514322
Stoploss: 013.25 (cls) 55 Day EMA: 014.10

Paramount Communications

Buy Rs 232

Paramount Communications bottomed out by posting an intra-day low of Rs 17.80 on 13.05.05, moved sideways for quite a few trading sessions while continuous support came in the form of the 18 level (support level - refer to chart) and resistance came in the form of the 55-day EMA. The scrip finally posted an intra-day low of Rs 21.40 on 30.06.05 and these levels have not been seen since. It commenced an intermediate uptrend from here (this time around there was distinct clarity on the long term front), struggled but eventually took support on the 55-day EMA, posted a series of progressively higher tops and bottoms, started moving within the confines of an upward sloping channel, almost gave a throwover from this channel and finally peaked at an intra-day high of Rs 308.25 on 27.04.06. The scrip almost gave a downward key reversal from here, couldn't sustain these levels for long, entered a corrective phase, declined to post an intra-day low of Rs 114 on 25.07.06, rebounded smartly from here, posted a smart but slightly unsustainable rally to post a high of Rs 237 on 21.09.06 only for the scrip to post a fresh lower bottom. Currently it looks set to commence an intermediate uptrend, while a close above the 245 level would mean an upward breakout from a

sideways movement and with the mechanical indicators looking positive, a further upside from these levels cannot be ruled out.

Trading Pointers

Indicators: MACD-Buy RMI-Buy Stochastic-Buy ROC-Sell RSI-Buy
 Support: 215, 198 Resistance: 245, 274
 Targets: 1st Target: 251 2nd Target: 256 BSE Code: 530555
 Stoploss: 218.00 (cls) 55 Day EMA: 214.58

Street Talk

Momentum Call

A pharma analyst is quite bullish on Divi's Lab and Sun Pharma from near-term perspective. He also feels both these counters can be retained even from longer term perspective owing to their stronger fundamentals.

Value Pick

The counter of Satyam Computers may witness renewed buying interest from the institutional investors in next few weeks says a dealer working with leading broking outfit.

Bonus declared in last few days

Company Name	Ratio	XBonus Date
Zandu Pharmaceutical Works Ltd.	1:3	NA
Bombay Swadeshi Stores Ltd.	1:3	NA
KPIT Cummins Infosystems Limited	1:1	NA
Avon Properties Ltd.	1:2	NA
Nandan Exim Ltd.	1:1	NA
Dolphin Offshore Enterprises (India) Ltd.	3:5	NA
Dabur India Ltd.	1:2	NA
Apar Industries Ltd.	1:3	NA
Balaji Amines Ltd.	1:1	NA
Gupta Synthetics Ltd.	2:1	NA
Alchemist Limited	1:1	NA

3:1 means, 3 additional shares for every one held

Dividends declared in last few days

Company Name	Dividend (%)	Div. Yield	BCDT From
Goa Carbons Ltd.	15	NA	
Murli Agro Products Ltd.	20	NA	
Ashirwad Capital Ltd.	35	NA	
Gujarat Mineral Development Corpn. Ltd.	60	NA	
Sri Nachammai Cotton Mills Ltd.	12.5	NA	
Hazoor Media & Power Limited	10	NA	
Granules India Ltd.	12.5	NA	
Siemens Ltd.	190	NA	

Shaw Wallace & Company Ltd.	10	NA
Walchandnagar Industries Ltd.	45	NA
Syndicate Bank	15	12/6/2006

Splits declared in last few days

Company Name	Ratio*	XSplit Date
Bombay Swadeshi Stores Ltd.	10:2	NA
Pondy Oxides & Chemicals Ltd.	2:10	NA
Classic Diamonds (India) Ltd.	10:2	NA
JIK Industries Ltd.	1:10	NA
KPIT Cummins Infosystems Limited	5:2	NA
Graphite India Ltd.	10:2	NA
Gokaldas Exports Ltd.	10:5	NA
Paramount Communications Ltd.	10:2	NA
Lakshmi Energy & Foods Ltd.	10:2	NA
HT Media Ltd.	10:2	NA
Lakshmi Machine Works Ltd.	100:10	NA

(*10:2 means old FV Rs 10 & New FV of Rs 2)

Best IPO/FPO Performers during 2006

IPO	Offer Price (Rs)	CMP (Rs)	% Gain / Loss
Atlanta	150	815	443
Tech Mahindra	365	1122	207
Tantia Const	50	152	204
Sadbhav Eng	185	494	167
DCB	26	61	135
Action Const	130	277	113
BL Kashyap	685	1355	98
Pratibha Ind	120	237	98
Info Edge	320	590	84
GMR Infra	210	361	72
Indo Tech Trans	130	220	69
Voltamp Trans	345	581	68
Sun TV	875	1467	68
Gulshan Sugars	40	64	60
Guj State Petro	27	41	52
Ent Network Ind	162	244	51

Worst IPO/FPO Performers during 2006

IPO	Offer Price (Rs)	CMP (Rs)	% Gain / Loss
Birla Power Sol	42	29	-31
Richa Knits	30	20	-33
Usher Agro	15	9.92	-34
Gangotri Textil	41	26	-37
Raj Rayon Ltd	65	40	-38

Emkay Shares	120	73	-39
JHS Svendgaard	58	34	-41
Nitin Spinners	21	12	-43
Dynemic Product	35	18	-49
Visa Steel	57	29	-49
Powersoft Glob	22	11	-50
Shivalik Global	60	28	-53
K Sera Sera	68	31	-54
Sakuma Exports	50	21	-58
Uttam Sugar	340	139	-59