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# Budget & fund flows

## *are crucial as sentiment turns cautious & tentative*

**By Sanjay R. Bhatia**

The markets witnessed a sharp correction, which took the Sensex to a low of 13805 on Wednesday but the markets managed to bounce back from this low level to touch 14372 on Thursday, 15th February 2007. The volumes recorded were good amid mixed advance decline ratio. Traders and speculators were active in Metals, Capital Goods, Pharma, Telecom and IT stocks. Incidentally, FIIs remained net buyers in the cash segment but were net sellers in the derivative segment during the course of the week. Mutual funds, however, remained net sellers.

Global cues have remained positive with crude prices declining to $58 and the Dow Jones Industrial Average touching record highs on the back of positive statements from the US Federal Reserve chief on the US economy. Indian markets, however, showed weakness for the better half of the week due to aggressive mergers & acquisitions by corporate India along with the RBI's decision to hike CRR rates by 50 basis points to arrest the rising inflation rates. The fall witnessed was sharp as well as the bounce back. It needs to be seen if the markets witnesses follow-up buying at higher levels ahead of the Budget. Only a good amount of follow-up buying at higher levels will help the markets test the previous historic highs. Fund flows along with the Budget are now two crucial factors. The market sentiment would remain cautious and tentative at higher levels. The markets would continue to display extreme bouts of volatility and choppiness ahead of the derivative segment expiry next week, which would be followed by the Budget. In the meanwhile, the markets would continue to take cues from global markets as well as domestic factors and stock specific action will be witnessed.


Technically, the BSE Sensex did not fall below the 13800 level, which is a positive sign. As indicated in the last issue, the markets corrected as FIIs remained heavy sellers in the derivatives segment. The markets are still not out of the woods. It is important that the Sensex moves and closes above the 14450 level. Only then will it try to test the 14750-14825 levels. On the downside, the 14000 followed by the 13800 are important support levels for the Sensex. In case of the Nifty, it is likely to face resistance at the 4150 level followed by the 4200-4250 levels. The 4015 level followed by 3968 are important support levels for the Nifty.

Traders, speculators and investors are advised to remain cautious and maintain trailing stop losses for their outstanding positions.

**TRADING ON TECHNICALS**

# Either side decisive move required: 13800-14750

**By Hitendra Vasudeo**

Last week's headline was 'Erratic moves witnessed'. Over the last two weeks, we have witnessed erratic Sensex move, which accounts for the volatility. Whenever we have high volatility, the market will be erratic in movement. We saw a huge down move from the high of 14723 to 13805 and back up to 14372. Such movements account for high volatility and erratic price behaviour. Our headline was thus more or less on par to represent the quality share price movements that was witnessed.

Last week, the Sensex opened at 14529.28 and maintained the same as the high for the week. Further, it fell to a low of 13805.36 and recovered to a high of 14372.96 before it closed the week at 14355.55 and thereby showed a net fall of 183 points on a week-to-week basis. At one point when the Sensex attained a low of 13805, the fall was of 733 points but the final recovery reduced this loss to 183 points on Thursday.

After the strong recovery on Thursday, the Sensex managed to hold the weekly up trend as it managed to close above the weekly reversal value of 14352. The Sensex had closed the week at 14355 and thus managed to hold the weekly uptrend. Although the level of 14000 was breached, the weekly uptrend remained in tact as a result of the close above 14352. The weekly trend is up after the weekly closing on 29/12/06 at 13786.91. Since then, the weekly trend is up and can turn down on fall below 13800 or if the weekly close is below 14395 on Friday.

Weekly resistance will be at 14654-14724. Weekly support will be at 14000-13800. In case of rise and close above 14724, then expect the rally to make new moves again towards 15265 at least. Support of 13800 will be very important. If the Sensex once again falls below 13800 and closes below 13800 as well, then expect a correction of the rise from 8799 to 14724. The retracement levels are placed at 12456-11758-11061. Any lower top against 14724 can put the pressure back on 13800. Therefore, it will be ideal if we witness a breakout and close above 14724. The most beneficial situation will be if we see a weekly close above 14724.

**For the Sensex, the Wave Count from the low of 8799 would be as follows:** Wave 1-8799 to 10940; Wave 2- 10940 to 9875; Wave 3- 9875 to 14035; Wave 4-14035 to 12801; Wave 5- 12801 to 14723 (current ongoing move).

**For internals of Wave 5 from 12801:** Wave 5 from 12801 could be into an Ending Diagonal as we overlap the moves.

**<u>Alternative 1- Ending Diagonal</u>**

**<u>Wave A- 12801 to 14060</u>**

Wave a -12801 to 13748

Wave b- 13748 to 13182

Wave c- 13182 to 14060

**<u>Wave B-14060 to 13303</u>**

**<u>Wave C- 13303 to 14723</u>**

Wave a-13303 to 14325

Wave b-14325 to 14043

Wave c-14043 to 14723

**<u>Wave D-14723 to 13805</u>**

**<u>Wave E-13805 to 14372</u>**

## WEEKLY UP TREND STOCKS

*Let the price move below Center Point or Level 2 and when it move back above Center Point or Level 2 then buy with what ever low registered below Center Point or Level 2 as the stop loss. After buying if the price moves to Level 3 or above then look to book profits as the opportunity arises. If the close is below Weekly Reversal Value then the trend will change from Up Trend to Down Trend. Check on Friday after 3.pm to confirm weekly reversal of the up Trend.*

| Scrips | Last Close | Level 1 | Level 2 | Center Point | Level 3 | Level 4 | Relative Strength | Weekly Reversal Value | Up Trend Date |
|---|---|---|---|---|---|---|---|---|---|
| | | Stop Loss | Buy Price | Buy Price | Book Profit | Book Profit | | | |
| PRAJ INDUSTRIES | 404.65 | 288.7 | 359.5 | 385.2 | 430.3 | 501.1 | 86.8 | 355.7 | 29-12-06 |
| BHARTI AIRTEL | 792.00 | 645.3 | 734.3 | 765.7 | 823.3 | 912.3 | 83.6 | 759.0 | 29-12-06 |
| INDIABULLS FIN. | 420.20 | 352.9 | 394.6 | 410.8 | 436.4 | 478.1 | 79.8 | 401.3 | 25-01-07 |
| ESSAR SHIPPING | 49.40 | 36.9 | 44.7 | 47.9 | 52.5 | 60.3 | 74.2 | 48.0 | 01-12-06 |
| BHARAT ELECTRO | 1734.00 | 1389.3 | 1599.3 | 1674.7 | 1809.3 | 2019.3 | 73.0 | 1525.0 | 25-01-07 |

## WEEKLY DOWN TREND STOCKS

*Let the price move above Center Point or Level 3 and when it move back below Center Point or Level 3 then sell with what ever high registered above Center Point or Level 3 as the stop loss. After selling if the prices moves to Level 2 or below then look to cover short positions as the opportunity arises. If the close is above Weekly Reversal Value then the trend will change from Down Trend to Up Trend. Check on Friday after 3.pm to confirm weekly reversal of the Down Trend.*

| Scrips | Last Close | Level 1 | Level 2 | Center Point | Level 3 | Level 4 | Relative Strength | Weekly Reversal Value | Down Trend Date |
|---|---|---|---|---|---|---|---|---|---|
| | | Cover Short | Cover Short | Sell Price | Sell Price | Stop Loss | | | |
| TATA TEA | 676.00 | 630.7 | 659.7 | 672.3 | 688.7 | 717.7 | 20.92 | 699.25 | 25-01-07 |
| COLGATE-PALMOL | 332.10 | 302.9 | 322.8 | 333.4 | 342.7 | 362.6 | 24.56 | 345.15 | 12-01-07 |
| BAJAJ HINDUSTAN | 160.55 | 112.2 | 141.9 | 152.9 | 171.6 | 201.3 | 24.64 | 164.95 | 03-11-06 |
| UNION BNK OF IND | 109.15 | 92.2 | 102.9 | 107.3 | 113.6 | 124.3 | 27.17 | 110.95 | 19-01-07 |
| SUZLON ENERGY | 1039.75 | 690.1 | 942.7 | 1098.4 | 1195.4 | 1448.0 | 27.21 | 1197.87 | 02-02-07 |

## PUNTER'S PICKS

*Note: Positional trade and exit at stop loss or target which ever is earlier. Not an intra-day trade. A delivery based trade for a possible time frame of 1-7 trading days. Exit at first target or above.*

| Scrips | BSE CODE | Last Close | Buy Price | Buy On Rise | Stop Loss | Target 1 | Target 2 | Risk Reward |
|---|---|---|---|---|---|---|---|---|
| ATLAS CYCLES (HARYAN | 505029 | 127.40 | 124.80 | 128.35 | 116.00 | 136.0 | 148.3 | 0.75 |
| NAGARJUNA AGRICHEM | 524709 | 140.95 | 136.70 | 142.00 | 116.75 | 157.6 | 182.9 | 0.69 |
| PRIME TEXTILES | 521149 | 188.75 | 185.35 | 189.35 | 170.00 | 201.3 | 220.7 | 0.67 |
| RAM INFORMATICS | 530951 | 25.20 | 24.00 | 26.10 | 23.50 | 27.7 | 30.3 | 1.47 |

## BUY LIST

| Scrip | Last Close | Buy Price | Buy Price | Buy Price | Stop Loss | Target 1 | Target 2 |
|---|---|---|---|---|---|---|---|
| ESSAR SHIPPING | 49.40 | 48.58 | 47.55 | 46.52 | 43.20 | 57.3 | 66.0 |

## EXIT LIST

| Scrip | Last Close | Sell Price | Sell Price | Sell Price | Stop loss | Target 1 |
|---|---|---|---|---|---|---|
| GRASIM INDUSTRIES | 2654.00 | 2733.14 | 2765.00 | 2796.86 | 2900.00 | 2463.1 |
| IVRCL INFRASTRUCTURE | 377.80 | 378.32 | 390.08 | 401.83 | 439.90 | 278.7 |
| JAIPRAKASH ASSOCIATE | 639.00 | 659.53 | 670.50 | 681.47 | 717.00 | 566.5 |
| SHREE PRECOATED STEE | 457.65 | 464.56 | 480.02 | 495.49 | 545.55 | 333.5 |
| ZEE TELEFILMS | 268.30 | 300.06 | 313.98 | 327.89 | 372.95 | 182.1 |

**(Ongoing move)**

**Alternative 2- Triple Combination**

Wave a -12801 to 13748
Wave b- 13748 to 13182
Wave c- 13182 to 14060
Wave X-14060 to 13303
Wave a-13303 to 14325
Wave b-14325 to 14043
Wave c-14043- to 14723
Wave X- 14723 to 13805
Wave a-13805 to 14372 (Ongoing move)
Wave b will have down move
Wave c will have up move

**Alternative Count from 8799 till 14723**

Wave 1-8799 to 10940;
Wave 2- 10940 to 9875;
Wave 3- 9875 to 14035;
Wave 4-14035 to 13303; Internals – Wave a: 14305 to 12801, Wave b: 12801 to 14060, Wave c: 14060 to 13303
Wave 5 Ending Diagonal- 13303 to 14723 (current ongoing move)
Wave A-13303 to 14723
Wave a-13303 to 14325
Wave b-14325 to 14043
Wave c-14043 to 14723
Wave B-14723 to 13805
Wave C- 13805 to 14372 (Ongoing move)

Wave counts are indicative of direction along with the set of moving averages, which are an objective way to define the trend. Objective and subjective analyses should confirm the upmove from hereon. Since the weekly trend is up, therefore, for the time being, the overall bias will be up.

Expect strong corrective phase on fall and close below 13800. If that happens the count will change to suit the trend while the macro overall trend/ macro count will remain bullish in tact.

**Strategy for the week**

Corrective dip to 13930 can be used for buying index-based stocks with a stop loss of 13800. Alternatively, buy on rise and close above 14750 for target area of 15265. Nifty traders can take the help of Sensex levels and can trade in NIFTY. For exclusive NIFTY view, on week-to-week basis, traders can subscribe to our weekly reports.

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# Just chill!

**By Fakhri H. Sabuwala**

First it was India born Lakshmi Mittal's acquisition of Arcelor. Then came the Tata acquisition of Corus at US$22 billion. Hardly has the ink of that joint venture dried when Kumarmangalam Birla displayed his mettle when he scooped up Atlanta based Novelis for US$6 billion. As if that was not enough, it was the turn of the UK based Vodafone to reverse the role and pave the way for the biggest acquisition in India of 67% stake in Hutchison Essar at an enterprise value of $19.3 billion.

The markets, a barometer as they are, did not find any reason to cheer up as it was argued that both Tata and Birla have paid more than called for, which will result in a resource and margin crunch for them over the next two to three years.

Little wonder, Tata Steel was down to Rs.430 and Hindalco to Rs.138. Vodafone's entry into the Indian telecom sector may put pressure on Bharti and Reliance Communications, as it will be three majors instead of two vying for the telecom pie now.

The market took a serious note of this and players, both local and foreign, though bullish, exercised caution.

Now that the Budget is only two weeks away, it makes sense evaluating the fundamentals in view of the rising inflation, rising interest rates, squeezing in money supply, Punjab poll results, etc. The RBI hiking cash reserve ratio (CRR) by 50 basis points may suck away close to Rs.14,000 cr. out of the banks and circulation. The clampdown on futures trading in commodities and the proposed cut in import duties to tackle inflation may all be a cause of great worry for the markets. All this dragged the Sensex down to the 13800 level knocking off nearly 1000 points from its recent high. Except for a handful of stocks like GAIL, Century Textiles, Bajaj Auto, Syngenta, Zee, etc. almost every scrip sank in the deluge.

What is shocking was that the volume was a high as Rs.50,000 cr. on Monday, 12th February, the second day of the fall and the large volumes on subsequent days together with market depth and breadth indicate that the sentiment had reversed.

The story that realty stocks may repeat the IT tragedy of 2001 is doing the rounds. The word 'land bank', which was till now music, has become a warning siren. Real estate prices in Mumbai and other cities, which had gone through the roof, may come down as the liquidity crunch grips the economy further.

The bull range witnessed on Thursday, 15th February 2007, may be a flash in the pan and could be misleading as the fears of inflation, reversal of Congress' fortunes in the Punjab polls and the impact of rising interest cost with the loss of liquidity cannot be reversed in one single day! So don't get carried away. Stay cool and just chill.

During these torrid times given the shift in gears and the change of gear and change of driver, it's time to pull out of stocks that have been riding more on momentum and less on fundamentals. Stick to metal scrips on decline, look for oil, gas, cement and select pharma stocks. Power and power transmission stocks shall remain on the high growth track. Banks, too, at current levels after the initial wash out are not expensive. The derivatives segment roll over of next Thursday, 22nd February 2007 is nearly through during this week and the market from 13500 on the lower side may once again prepare to look north in the wake of a growth oriented Budget.

Last but not the least, buy high beta counters. In other words buy scrips that have fallen more than the percentage fall in the Sensex or Nifty. These scrips will move faster that the rest.

## BEST BETS

## Murudeshwar Ceramics (Code: 515037) Rs.111.85

Promoted by Mr. R.N. Shetty in 1983, Murudeshwar Ceramics Ltd. (MCL) is a part of the reputed RNS Group with diversified interests in construction, hotel, power, engineering, auto, IT and education. In 1994, it was the first company to start manufacturing vitrified tiles with an initial capacity of 2,000 sq. mt./day and is one of the major players in this segment with more than 30% market share. Notably, 60% of sales come from institutional supplies to big builders like Hiranandani, Rahejas, Shobha, Mahindra Gesco, L&T, Mantri, Metro Rail, AAI, ICICI, HDFC, Wipro etc. Balance 40% comes from the retail market which it has 75 showrooms and 250 wholesale distributors across India. Although the company had exited the ceramic tiles business earlier due to strong demand it re-entered this business from FY06. It also has small 100% EOU granite division in Bangalore.

Located in Hubli (Karnataka) and Karaikal (Pondicherry), MCL's manufacturing facilities are equipped with state-of-the-art technology in technical collaboration with Sacmi Imola & Breton, Italy. After its recent expansion, the total production capacity on stands at 21000 sq. mt./day of vitrified tiles and 20000 sq. mt./day of ceramic tiles. But its biggest strength is its captive mine for china clay and feldspar, which cater to 80% of its raw material requirements. It also enjoys substantial cost advantage at its Karaikal facility since it has an agreement with GAIL for supply of natural gas. Besides, it has access to grid power at a very competitive rate of Rs.3/kwh. The current capacity utilisation of Vitrified tiles unit is 85% and that of Ceramics tiles unit is 75%. To fulfill the increasing demand, MCL is further expanding its vitrified tile capacity by 4000 sq. mt./day. Incidentally, the company has a 20 acres land near the Electronic City where it intends to develop an IT park in future.

Fundamentally as well as financially, the company is on a strong footing. It has huge reserves of more than Rs.200 cr. on its equity of Rs.17.50 cr. leading to a book value of around Rs.115. Despite stiff competition, it enjoys healthy EBITA margins of 15% in ceramic tiles and 30% in vitrified tiles. Recently, the promoters and Reliance Capital AMC got their 25 lakh preference shares converted into equity shares at Rs.124 per share. For FY07, the company is expected to clock a turnover of Rs.240 cr. with net profit of Rs.28 cr., which works out to an EPS of Rs.16 on its diluted equity of Rs.17.50 cr. For FY08, its revenue & PAT may shoot up to Rs.300 cr. and Rs.35 cr. respectively. Its share price has the potential to touch Rs.175 level in a year's time and if the real estate story also pans out, then the scrip can go up to Rs.250 level.

## Anjani Portland Cement (Code: 518091) Rs.33.45

Established in 1983, Anjani Portland Cement Ltd. (APCL) is a small cement manufacturing company in Hyderabad led by Mr. Vishnu Raju of the Rassi Group. It produces 53 grade & 43 grade cement from high grade limestone and sells its under the brand name 'Anjani'. It also manufactures blended cements like Portland Slag Cement and Portland Pozzolona Cement depending upon the customers' requirement and distributes its product through an extensive dealer network mostly in Andhra Pradesh & Tamil Nadu. With its consistent quality and timely delivery, APCL has created a niche for itself in the fragmented cement industry.

Its manufacturing plant is located at Nalgonda district in Andhra Pradesh having an installed capacity of 3,00,000 TPA. Equipped with state of the art technology from Nihon of Japan, this plant has the distinction of being one of the most modern plants in the mini-cement sector. The dry process technology adopted by the unit has many advantages, such as efficiency, better quality control and reduced power consumption which results in low cost of production with consistent and sustained output. Besides, APCL has a mining lease spread over 300 acres merely 6 kms from the factory for mining of limestone. Moreover, it has a captive power plant of 2.7 MW through its wholly-owned subsidiary namely Vennar Ceramics.

Cement industry is witnessing the best of times due to large infrastructure developments, irrigation projects and the ongoing boom in the housing sector which has led to an unprecedented demand for cement. This demand coupled with the sharp rise in cement prices made APCL turnaround smartly. For the nine months ending 31st December 2006, its sales increased by 70% to Rs.54 cr. whereas net profit stood at Rs.8.60 cr. compared to net loss of Rs.2.50 cr. in the corresponding previous period. Its OPM has improved substantially to 23% against 14% for FY06. Accordingly, for FY07 it is estimated to report net sales of Rs.80 cr. with net profit of Rs.10.50 cr. This would translate into an EPS of Rs.6 on its equity of Rs.18.40 cr. With its 52 week high at Rs.44 and the current market cap of Rs.60 cr., the scrip has the potential to appreciate 50% in 12-15 months. Investors are advised to accumulate at sharp declines only.

## EXPERT EYE

**By V.H. Dave**

This telecom networking and systems integrator **Spanco Telesystems & Solutions Ltd. (STSL) (Code: 508976) (Rs.198)** has more than doubled sales and profits in the first three quarters of FY07. With a likely 25% return on its net worth (RNO), its business seems well-entrenched in the verticals of international call centres and BPO services. STSL is accredited with the ISO 9001 - 2000 quality certification for telecom integration services.

Established in 1995 by Mr. Kapil Puri and Mr. Rajesh Chhabria, STSL provides cutting-edge solutions and technology-rich products in the domains of telecom networking and systems integration. Besides catering to the carrier requirements of setting up access networks on fibre, copper and the wireless media, STSL has created business-enhancing alliances with leading communication behemoths including Nortel Networks, Airspan, Hewlett Packard and IBM among others. This helps in the leverage of product-service offering to provide the best communications infrastructure solutions to customers. STSL is actively involved in various major network infrastructure projects with the Defence, PSUs, utilities, enterprises and other renowned institutions in the country.

During FY06, STSL registered 105% higher net profit of Rs.20 cr. on 107% increased revenue of Rs.216 cr. During Q3FY07, sales moved up dramatically by 143% to Rs.136 cr. whereas net profit jumped by 113% to Rs.10 cr. During the first nine months of FY07, sales have gone up by 132% to Rs.318 cr. and net profit by 114% to Rs.23.6 cr.

STSL has a small equity capital of Rs.15.8 cr. and with reserves of Rs123 cr., the book value of the share works out to Rs.88. The value of its gross block including capital work in progress is Rs.81 cr. The promoters hold 35.6% in its equity, Reliance Capital holds 14.9%, FIIs and mutual funds hold 3.2% and 4.8% respectively, Shyam Telecom holds 3.4%, PCBs hold 18.1%, leaving 20% with the investing public.

During September 2006, in a Rs.100 cr. deal, Intelnet Global Services, the BPO company owned by HDFC and Barclays, acquired 51% of the domestic BPO business of STSL. Its domestic BPO business was farmed into a separate listed subsidiary to be owned 51% by Intelnet Global and 49% by STSL's shareholders.

In January 2007, STSL has signed a contract with IRCTC (Indian Railway Catering & Tourism Corporation) for setting up a call centre for railway inquiry system. In a 10-year contract with the Indian Railways, it will offer railway passengers a range of services including enquiries, ticketing and entertainment on mobiles on the train. The contract, based on a licence fee model, is valued at Rs.100 cr. and was awarded to a 50:50 joint venture of Spice Telecom and STSL.

With increasing stabilisation and maturity of the Indian telecom market, players in this sector have lined up aggressive investments to the tune of Rs.1, 00,000 cr. to augment their networks; build new networks and roll out new products, services and applications. The strengthening focus of telecom service providers to bring a larger number of people into the mobile fold along with the increasing tele-density, especially across the rural areas, will call for the setting up of telecommunications infrastructure. Modernisation of the existing infrastructure will be the norm with the growing bandwidth accommodating newer applications including video conferencing, video-on-demand, IPTV, Wi-MAX, 3G and content delivery across networks.

The prospects for the BPO business, too, are equally promising. The global industry is estimated at US$ 180 billion and is registering a compounded annual growth rate (CAGR) of between 8% - 10% per annum. Exports of Indian IT and IT-enabled services (ITeS) continued to record a growth rate of over 30% to touch $23.6 billion in 2005-06, according to industry association Nasscom.

Though the projected growth in exports for 2006-07 will continue to outstrip the growth in the domestic market, the industry is expected to meet its target of $60 billion by 2010. Of the total exports in 2005-06, the exports of the BPO industry grew by 37% to $6.3 billion.

Ramping up of capacities at existing airports along with the creation of greenfield airports will require significant communications network creation. Moreover, with a view to providing increasing citizen benefits, WAN and other e-governance projects have been implemented or are in the pipeline, which will create ample opportunities in networking applications.

Given the scorching investment in the telecom space, STSL needs to enhance its business. It currently is in the process of raising funds / resources up to Rs.175 cr. for the business and proposed expansion plans / programme through FCCB/preferential allotment of shares.

Looking at the first three quarters, STSL is likely to achieve sales of Rs.470 cr. with a net profit of Rs.36 cr. in FY07, recording an EPS of Rs.23. Based on the bright prospects of the telecom industry, its EPS could increase to over Rs.35 in FY08. The share at its current rate of Rs.198 discounts FY08 earnings by just 5.6 times. A reasonable P/E multiple of 10, will take the share price to Rs.350 in about one year translate into a gain of 65%. The 52-week high/low of the share has been Rs.225/75.

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The shares of transformer companies are in demand with most shares touching their 52-week high. Within this segment, the share of **IMP Powers Ltd. (IMPPL) (Code: 517571) (Rs.107)** is recommended for decent appreciation in the long-term.

IMPPL was established in 1961 and now has two very well-established manufacturing units at Mumbai & Silvassa, manufacturing an entire range of electrical measuring instruments, testing equipments, power & distribution transformers.



It manufactures electrical instruments like ammeters, voltmeters, frequency meters, wattmeters, power factor meters, etc. It has also developed and introduced three-vector meter, maximum demand indicator, low power factor meter, etc. Its clientele includes all the state electricity boards, railways and public and private sector undertakings.

IMPPL can manufacture HV & EHV power transformer up to 220 KV Class to 150 MVA and its total installed capacity is 3600 MVA. Continuous in-house technical research and use of quality raw materials have enabled it to comply with the latest exacting standards both

Indian and International.
For the year ended 30th June 2006, its sales advanced by 54% to Rs.67 cr. with net profit of Rs.3.7 cr. against net loss of Rs.5.7 cr. in the previous year of 15 months ended 30th June 2005. For the December 2006 quarter while sales advanced by 62% to Rs.26 cr., net profit jumped by 141% to Rs.2.2 cr. For the half year ended 30th December 2006, although sales have surged by 55% to Rs.45 cr., net profit moved up by 142% to Rs.3.5 cr.
Its products are exported to Southeast Asia, Middle East, Africa, New Zealand and Australia. Exports during FY06 pole-vaulted three times to Rs.20 cr. from Rs.6.5 cr. in the previous year.
Its equity capital is Rs.5.9 cr. and with reserves of Rs.13.4 cr., the book value of the share works out to Rs.33. IMPPL continues to invest in expansion. During FY06, it invested Rs.3 cr. taking its gross block to Rs.42 cr. It was also able to reduce its borrowings to Rs.66 cr. from Rs.72 cr. in FY05.
The promoters hold 45% in its equity capital, non-promoter corporates hold 9.5%, Stressed Assets Stabilization Fund has acquired 12.6%, domestic institutions hold 6% leaving 26.9% with the investing public.
In a major expansion, its Kandivli plant was upgraded with state-of-the-art facilities to manufacture the complete range of electronic analog and digital meters including Ammeter, Voltmeter Frequency Meter, Dynamometer type Watt Meter, Power Factor Meter, Phase sequence Indicator, KVA Meter etc. in addition to High-end meters like Maximum Demand Indicator, Trivector Meter and KWH Meters. IMPPL is in the process of acquiring additional land in Silvassa for a proposed backward integration project for its transformer division.
The demand for transformers comprises new as well as replacement demand. For every one MW of new capacity that comes up, 7 MVA transformers are used across generation, transmission & distribution segments. This implies a demand of 7,00,000 MVA of transformers unfolding over the next five years. This will result in an annual demand of about 1,40,000 MVA. The current production is estimated to be around 90000 MVA leaving a large deficit gap for transformers.
The Government has set itself a vision of 'Power for all by 2012', which entails an investment of Rs.11,50,000 cr. in power generation, transmission & distribution. In view of this, the demand of transformers will drastically increase in coming years. Also, Indian players in the engineering segment foraying into turnkey projects overseas are further heading the demand for transformers. On the other hand, the production of transformers indicate a dearth in supply. In view of the strong demand and stringent supply, the transformer industry is expected to enjoy strong order book along with strong margins and IMPPL will be a major beneficiary.
IMPPL expects to garner sales of Rs.110 cr. for the current financial year with a bottom line of about Rs.9 cr., which will give an EPS of Rs.15 for FY07. The share of IMPPL is currently traded at just Rs.122 discounting its estimated EPS of Rs.15 by only 8 times against the industry average P/E of 32 for the electric equipment industry. With a reasonable P/E of 12, investment in this share is likely to fetch a decent appreciation of about 50% with a target price of Rs.180 in 6-9 months.

## STOCK WATCH

**By Saarthi**

Although most fertilizer scrips are buzzing on the bourses; **Liberty Phosphate (Code: 530273) (Rs.20)** is trading at a steep discount from its 52 week high of Rs.55. It is the largest manufacture of Single Super Phosphate (SSP) commanding more than 14% market share. Presently, the group has manufacturing capacity of 7,25,000 MTPA of SSP fertilizer and 1,65,000 MTPA of NPK. It is planning to put-up new projects in other states like UP, Haryana and Central MP and establish a SSP plant at Visakappatnum with capacity of 1,32,000 MTPA. It may also announce the merger of its other two group companies with itself in the near future. Although its last two quarters were not that great, still it may end FY07 with sales of Rs.175 cr. and net profit of Rs.2.50 cr. on a standalone basis which would amount to an EPS of Rs.4 on its equity of Rs.4.13 cr. As the company has allotted around 20 lakh shares at Rs.25 to the promoters and others, the scrip is bound to rise 50% in a few months. A strong buy.

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Although **Suryalata Spinning Mills (Code: 514138) (Rs.55)** didn't post a great result for the December 2006 quarter, the scrip is buzzing on the bourses. Sales increased by 10% to Rs.50 cr. but net profit fell 30% to Rs.1.50 cr. due to higher tax provisions and interest cost. The company is in the midst of aggressive expansion of Rs.126 cr., which includes adding 45,000 new spindles and setting up of weaving and processing unit with a capacity of 50,000 meters a day. It has already commenced trial production at its new spinning plant of 20,000 spindles for polyester viscose yarn in Mahabubnagar, AP. Now that its total production capacity stands enhanced from 64368 to 84368 spindles. It may clock a turnover of Rs.200 cr. and net profit of Rs.6.75 cr. for FY07 i.e. EPS of Rs.12 on its current equity of Rs.5.45 cr. With a book value of Rs.54 and EV of merely Rs.85, it's trading fairly cheap compared to its peers.

*****

**International Conveyors (Code: 509709) (Rs.171.85)** is engaged in manufacturing PVC conveyor belts used in mining and material handling activities. It reported stunning results for the December 2006 quarter. Sales jumped by 60% to

Rs.13.50 cr. whereas PBT spurted by 50% to Rs.2.30 cr. As company did not made any tax provision for this quarter net profit shot up 120% compared to Rs.1.06 cr. last year. Due to limited demand in domestic market, the company is putting special thrust on exports and has ambitious plan to increase its share in the lucrative global market. For the full year FY07, it may register a top-line of Rs.45 cr. and bottom-line of Rs.5 cr., which works out to an EPS of Rs.21 on its tiny equity of Rs.2.40 cr. Notably, a FII has accumulated 9% stake in the last two quarters from the open market. Scrip has the potential to touch Rs.250 in a year's time. Buy only at sharp declines.

*****

**VST Tillers Tractors (Code: 531266) (Rs.145.75)** is engaged in manufacturing of farm equipments like power tillers, low HP (sub 20 HP) tractors, diesel engines and precision components. For December 2006, its sales grew by 25% to Rs.40.50 cr. but net profit almost doubled to Rs.3.60 cr. registering an EPS of more than Rs.6 for the quarter. For the first nine months it has already clocked a sales of Rs.116 cr. and PAT of Rs.8.55 cr. Interestingly to remain the top player, VST is importing tillers in the CKD form from China, assembling them at its Hosur facility and marketing them under a new brand 'Dragon Power Tiller'. With the GDP growth rate above 9%, the company is expected to end FY07 with turnover of Rs.160 cr. and net profit of Rs.11 cr., which works out to an EPS of Rs.19 on its equity of Rs.5.76 cr. As per unconfirmed reports, it has some surplus property in Bangalore, which may fetch a handsome value to the company.

## FIFTY FIFTY

**By Kukku**

### Investment Calls

*** Zenith Fibres Ltd. (Rs.26.2)** is the only manufacturer of the entire range of Polypropylene Staple Fibres (PPSF). It also trades in Polypropylene Spun Yarn. Incorporated in 1989, it was promoted by the Rungta Group, a multi-crore conglomerate. PPSF is used extensively in Filter Grade Fabrics, Floor and Automobile Carpets, Geotextiles, Knitted materials, thermal- bonded fabrics, Hygiene products, Construction Industry etc.

The company set up its plant imported from Barmag AG, Germany in village Tundav, near Baroda. It expanded its capacity of PPSF in August 1996 and imported the new plant from PFE Ltd., UK. About 60% of PPSF production is sold in the domestic market and balance 40% is exported to Nepal, Malaysia, Saudi Arabia, United Arab Emirates, Italy, Australia, South Africa and Japan.

Domestic realization, however, is better due to strong demand from the construction sector. The company is said to have added one more line, which will enhance capacity by around 20% but the benefit will come in next year only. FY07 sales are projected around Rs.40 cr. with net profit of about Rs.3.5 cr. to 4 cr. resulting in an EPS of around Rs.6.5, which may go up to Rs.9/10 by FY08.

The company has been paying dividend of 15% since the last few years, which may to go up in the current year in view of better profits and outlook.

The stock looks very attractive at the current level of around Rs.25/26 for safe investment and may give returns of around 50% over the next one year besides offering good dividend yield.

*** Ramsarup Industries Ltd. (Rs.151)** through its existing products like steel wires & TMT bars caters to the power and construction sectors, currently two of the most sought after and growth-oriented sectors of the Indian economy. The Construction sector could see an investment of about $320 billion in the 11th Five Year Plan. Similarly, the power sector is likely to witness an investment of $176.56 billion by FY12. Half of this would be spent on creating power transmission & distribution (T&D) infrastructure.

The company has forayed into the lucrative sector of power T&D infrastructure and begun erection and laying of transmission towers & lines, where margins are higher compared to its existing steel wires/TMT bars business. RIL already makes some vital inputs for T&D towers and lines such as wires and TMT bars. This will help it save on input costs, which will improve its margins further. RIL's existing relationship with Power Grid Corporation of India Ltd. and State Electricity Boards will go a long way in helping it get orders. To begin with, it has confirmed orders worth Rs.103 cr. to be executed in FY07 & FY08.

RIL has already reported EPS of around Rs.19.5 for the nine months period ended on 31st December 2006 and is likely to report full year EPS of around Rs.27 – Rs.28 for FY07, which is very likely to double to around Rs.50 in FY08.

Investors can very safely keep a watch to add this stock on reactions. Seeing to the strong growth in transmission & distribution, this stock can give very good growth in the long run.

## Market Guidance

* Investors should be careful about placement of stocks at high premium as many of the companies have no track record of good performance.

* Market players have taken good positions in some of these companies reporting consistent growth in sales & profits. As per a keen watcher observer such high consistency in growth is not possible when many good companies from the same sector do not record similar growth. Investors should be careful of such stocks.

* Over the last few weeks, investors were advised to keep a watch on fundamental stocks and buy on reactions at lower levels and avoid getting trapped at higher levels. Since the market has already reacted, investors can add part quantity in **Kirloskar Pneumatics (Rs.384), Atlas Copco (Rs.785), Tata Elxsi (Rs.278), Surya Roshni (Rs.62), Ramsarup Inds. (Rs.151), Era Constructions (Rs.425), JMC Projects (Rs.241), Ashiana Hsg. (Rs.175), Fortis Financial (Rs.109), Kojam Finvest (Rs.202), RPG Cables (Rs.49), Trigyn (Rs.31)** and **NESCO (Rs.1415)** to name a few.

* Coal India is going slow in buying the mining equipments from **Atlas Copco (Rs.785), Revathi Equipment (Rs.671)** and **Eimco Elecon (Rs.296).** Hence, they may not report that healthy a growth this quarter. Atlas Copco may not suffer as it has a very wide range of product and its gas compressor unit is said to be doing well, Revathi Equipment, too, has good export orders.

* **Yuken India (Rs.191)** has come out with encouraging results for Q3FY07, investors can hold on to the stock for a good upside.

* **KCP Ltd. (Rs.268)** has been recommended from lower levels. Investors can continue to hold this stock as a good portfolio choice for good long-term growth.

* **Ion Exchange (I) Ltd. (Rs.150), Ennore Foundries (Rs.160)** and **Karnataka Bank (Rs.183)** are under accumulation by well informed investors.

* In recent sharp fall, **Hikal (Rs.391)** has remained very firm. Investors can keep adding this stock as a safe investment bet to get good long-term growth.

## TOWER TALK

* The way the market crashed early last week gives the impression that some influential players had prior knowledge of the CRR hike.

* The shareprice of **Hazoor Multiproject** has fallen substantially due to agressive profit booking by shareholders on getting the bonus shares credited into their demat account last week only. Once the selling is over, scrip will bounce back to 18~20 levels immediately. Buy to get handsome gains in short-term.

* Real Estate scrips have been down very badly and a technical sharp pull back is on the card. Its best time to accumulate scarps like **Peninsula Land, Parshavnath, Shobha Developers, Gayatri Porojects** etc.

* Investors are advised to stay away from banking sector as they will underperform the market going forward. Sell banking scrips and invest in cement or power sector.

* **ITL Industries and GM Breweries** seems to have bottomed out technically. Both are fundamentally strong companies and expected to do better in coming quarters. Hold them patiently and don't sell in panic.

* **Greatoffshore** has been hammered down purposely by a shrewd operator to accumulate it at lower levels. Don't sell in panic. Instead one should buy as downfall is minimal from these levels.

* **Dujodwala Paper Chemicals** counter is attracting attention due to good performance as well as the good prospects for the paper industry. A value buy at the current levels.

* **Bajaj Auto** is poised to unlock value for its shareholders as and when it decides to demerge its businesses. Investor interest is also in Bajaj Auto Finance as well as Wearology.

* **Shivalik Global** has retracted from its recent highs and could be a value buy considering its real estate potential.

* Good Q3 results with increased profitability are seen in small cap stocks like **Vardhman Industries, Associated Stone, Chamatkar.net** and **Indian Card Clothing, TCFC Finance.**

* Rakesh, the big bull, is very, very bullish in **Titan** and circles close to him feel that the scrip has a long way to go.

* **Century Textiles** suffers as the realty deal has misfired. Scrip may be sold on this count.

* **Tata Steel** and **Hindalco** are safe bets for long-term players as they can be multi-baggers from hereon.

* **Tata Elxsi** is another star performer from the Tata stable. Get into the scrip advises a leading analyst.

* **Hero Honda** gets life on reduction in fuel prices. Despite the reducing margins it's a great contrarian pick.

## MARKET REVIEW

# Correction may continue

**By Ashok D. Singh**

The BSE Sensex lost 183.35 points for the week ended Tuesday, 15th February 2007, to settle at 14,355.55, while the NSE Nifty declined 41.20 points, to close at 4,146.20. A host of factors like fears of a further rise in domestic interest rates, a large number of IPOs lined up for the next few weeks, rising inflation, heavy unwinding of leveraged derivative positions and a surprise CRR hike were behind the havoc.

Growth in industrial output in December'06 slowed its pace in more than a decade. But its persistent strength and the rising inflation kept the prospects of further monetary tightening alive. Data released on 12 February showed the output rising 11.1% in December 2006 from a year earlier in line with the median estimate of 10.9% of analysts but slower than the upwardly revised annual growth of 15.4% in November'06.

Manufacturing rose 11.9% in December from a year earlier, capital goods production rose by an annual 20.2% while consumer goods output rose 7.4%. The government estimates that the economy will grow 9.2% in 2006-07 on the back of rising industrial output and services.

The wholesale price index rose 6.73% in the 12 months to 3 February – higher than the previous week's annual increase of 6.58% due to an increase in food and manufactured product prices. The annual inflation rate was 3.98% during the corresponding week of the previous year.

On Monday, 12th February 2007, the BSE Sensex plunged 348.20 points to settle at 14,190.70. It stayed in the red for the entire session as plenty of stop losses were triggered due to highly leveraged positions in the derivatives market. Weak global markets also played spoilsport. The Sensex lost 99.72 points on Tuesday, 13th February 2007, to settle at 14,090.98 in highly volatile trading. The benchmark index shed 81.08 points, to end at 14,009.90 on Wednesday, 14th February 2007. It had plunged to a low of 13,805.36 but recovered on short covering in the latter half of the day's trading session. The initial fall was because of the Reserve Bank of India (RBI) announcing a surprise hike in the cash reserve ratio (CRR) to 6% from 5.5% in two stages, the first on 17 February 2007 and the second on 3 March 2007 to curb inflation and credit growth.

The Sensex rebounded after falling for the past four trading sessions taking cue from firm Asian markets and short covering in derivatives ahead of the expiry of February 2007 derivative contracts on Thursday, 15th February 2007. It jumped 345.65 points, to settle at 14,355.55 that day. The market was closed for Mahashivratri on 16 February 2007.



Aluminium major Hindalco Industries plunged 13.81% to Rs.151.90 after its large all-cash acquisition of US-based Novelis for approximately $6 billion, including approximately $2.4 billion of debt raised concerns about a short-term strain on financials. Novelis posted a net loss of $102 million during the third quarter of 2006. The US company has been plagued by high metal prices.

The Indian government said it was cutting the retail prices of petrol by Rs.2 per litre and diesel by Re.1 a litre. This will put pressure on refining companies, impacting their profitability. The banking sector is also expected to remain under pressure following the latest 50-basis-point increase in the cash reserve ratio (CRR) by the Reserve Bank of India (RBI). CRR is the percentage of banks' total deposits they have to keep with it.

Volatility is expected to remain high in the week ahead of the derivative expiry for February, which is scheduled on 22 February 2007. Continuation of correction that started last week cannot be ruled out.

**MARKET**

# Pre-Budget correction was necessary

**By G. S. Roongta**

The week ended on 16th February 2007 was full of interesting actions with leading aluminium producer, Hindalco bidding for the US based Atlanta's Novelis, a world class technology company and supplier of key products such as Aluminium sheets and beverage cans for Coca Cola.

This acquisition will turn Hindalco's fortune paving its way to the global Fortune 500 Companies list and occupy a prestigious position to join the elite club after Reliance Industries and Tata Steel.

Novelis is the largest flat rolled aluminium products player in the world with 19% share of the global market, which will help realize Mr. Kumar Mangalam Birla's long cherished dream of becoming the largest global player in a product that he deals in.

It is indeed a matter of great pride and satisfaction for Indian corporates to compete globally and bid successfully when there are good opportunities.

The two largest overseas metals takeover bids with Tatas bid for Corus for US $12 billion and now the US $6 billion deal for Atlanta based Novelis in quick succession has opened the eyes of world class players that India is now a fast growing country. Earlier, Mr. Lakshmi Mittal made history by donning the crown of the 'Steel King' and it's now Mr. Kumar Managlam Birla's turn heading to become the 'Aluminium King' in the world. It is indeed a matter of great satisfaction for us and an eye-opener to overseas players about the Indian Inc.'s foresight and world class capital raising capabilities.

Simultaneously, the UK based telecom giant, Vodafone, emerged as the biggest bidder to buy out the 67% stake in Hutchison Essar at an enterprise value of US $19.3 billion equivalent to Rs.86,000 cr. The deal was finalized on the same day and is rated to be the biggest takeover in the recent corporate history. This deal made a big fortune for Hong Kong based billionaire Li Ka-Shing and the Rubia brothers of the Essar group.

It is indeed a great irony that the stock markets have not greeted these big deals favourably. On the contrary, these stocks turned bearish with market analysts saying that these deals will impact the financial viability of the business houses badly and pressure their margins. This is a silly and a hurriedly taken view like the reaction to Budget proposals for levies made during the course of the Budget speech and offers temptation for quick buying/selling of stocks with half-hearted knowledge about the full impact of the levies without having gone through the fine print.

Does it mean that those who have made win-win deals in international markets were fools or that advisors had no idea about the money. If a final count is taken of the several gains and indirect benefits, concession in duties and taxation, raw material supply chain and distribution of final products sales etc. are not all but a few of the positives to make a final tally of the gains to benefit the acquirer.

The stock market has always behaved strangely on several such occasions in the past also. The reaction to sell off such stocks is not at all right but strange while dampening the sentiments of such large acquisitions without any cogent reasons. The Tata Steel stock nosedived by Rs.40 to Rs.50 in eight to ten successive trading sessions, which counters the knee-jerk reaction to its takeover of Corus. This fall is just 10%, which is quite routine as such falls take place quite often in Tata Steel shares without any major reason. So, where is the market statement of the Corus acquisition not proving good for Tata Steel shareholders in the short or long-term? There can be no panic like situation in Tata Steel shares till it is locked in under lower circuit filters.

As I had said in my last article, any fall in Tata Steel share price is good for the Tatas as they are keen to acquire additional stakes to enhance the group's holding, which is presently very low in the context of the current takeover and acquisitions scenario. The funding of the Corus acquisition by the Tatas is not a great problem at all once the deal process is completed and Corus is merged with the company.

The Tata Steel share, which is currently discounted at a P/E multiple of 5 against 2006-07 estimated earnings is much lower compared to the merged entity.

When global giants like Vodafone determine the enterprise value, then should we really believe really that the Tata Steel share is just good enough to be fully priced at Rs.440 i.e. just 4 times future earnings? I will consider it a shallow or stupid valuation and investors should not be carried away by such quick reactions and sell off their precious stocks at such throwaway prices.

Similar is the story of Hindalco. When the acquisition is considered to be good by its management and will male India Inc. a world class leader, then why put out the Hindalco stock for selling?

A non-ferrous metals giant with just Rs.100 cr. equity is joining the Fortune 500 league is a very significant achievement that it is capable to make an investment of US $6 billion in cash is not a child's play but speaks of the great financial prowess that it possesses. Can anybody name any company whose equity base is so small that it can dare to acquire a company of such magnitude and scale? Such a move, on the contrary, should have been greeted by the market rather than to calling for immediate disinvestments as if company's fortunes are marred!

It is very interesting to note that the Hindalco share was already available very cheap in such a bullish market. Its price had hit Rs.220 a year or so back when the BSE index was just 8000 to 9000. Since then, the BSE Sensex has gained nearly 80% against which the Hindalco stock has lost 40% making shocking history! This is despite the company declaring a 90% increase in net profit in the Q3FY07 results. This is again despite aluminium prices being at an all time high of US $2800 per tonne on LME and despite all analysts issuing a buy signal for Hindalco on TV channels and in the print media. This acquisition, which should add more colour and value to Hindalco's market cap, has been the cause of divestment is equally strange and a dampener as it happened a few day earlier for Tata Steel.

Interestingly, Kumarmangalam Birla is also in the race to acquire additional stakes in Hindalco to about 51% from the present 23% i.e. add about 30% stake.

If marketmen are concerned about extra financial burden on Tata Steel or Hindalco, then why have the shares of Essar Group not risen given that nearly Rs.30,000 cr. is going to fall into the Essar kitty based on the Vodafone takeover valuation. The criterion, which is negative for Tata Steel and Hindalco is hugely positive for the Essar Group and should have sent Essar's stock prices zooming. But it hasn't. Why?

Regrettably, small investors who are guided solely by share prices adopt the herd mentality and divest their precious stocks in such confusing circumstances only to repent later.

Another major event of the week was the enhancement of CRR by half percentage point to curb by sucking out Rs.14,000 cr. liquidity from the market. This also added fuel to the fire dampening the market sentiment further.

Raising CRR on unscheduled occasions by the RBI is also likely to please and win public sympathy to curb rising inflation, which has crossed 6%.

The 14,000 cr. liquidity exit given the size of the present economy is like a few drops in the ocean and done with an eye to popularity. Consider it good for the short-term but for the stock markets, where the daily turnover exceeds Rs.50,000 to Rs.60,000 cr. I consider it a political measure to satisfy the public and silent the opposition.

The market has lost nearly 183 points last week turning the weekly closing negative, which calls investors to watch the market very carefully as the days ahead will be hectic for buying and selling great volatility. Under such a scenario investors must park their funds in such panic like situations in good fundamentally strong stocks in sectors like steel, cement and power.

**ANALYSIS**

# Accel Frontline Ltd.: Good for medium to long term

**By Devdas Mogili**

Accel Frontline Ltd. (AFL) is a Chennai based company, operating in IT services. AFL began as Accel Automation Pvt. Ltd. in 1991 and commenced operations by providing multi-vendor services for computer systems.

Its multi-locational operations commenced in 1992 with offices in Coimbatore and Thiruvananthapuram. The company has wholly owned subsidiaries in Singapore and UAE and hit recently acquired M/s Telesis Global Solutions, which provides banking solutions. N.R. Panicker is the chairman & managing director of the company.

In 1993, AFL took over a computer-manufacturing unit from the Kothari Group of Chennai to provide system integration and product solutions. In 1996, it forayed into software by setting up an application development center in and expanded its operations to various parts in South India.

In 1997, with a view to expand its service network nationally, Accel acquired a Delhi based company named Athreya Technologies and Industrial Development Pvt. Ltd., an offshoot of India Telecomp Ltd, which provided it a base in all major cities in northern India.

In 1998, AFL acquired the services business of Network Ltd, an HCL Group company dealing in office automation products and services. This provided the company with a national footprint of 16 offices with 250 trained engineers, and its turnover crossed US$ 10 million.

In 1999, the company raised private equity from one of India's largest venture capital funds, ICICI Ventures Ltd. and acquired the systems & engineering services business of Fujitsu ICIM Ltd., which was at one time the country's largest IT company.

The IT business of Accel Ltd was re-organized into Accel ICIM Systems & Services Ltd after this acquisition and AFL then became the holding company. The key management team was moved from Accel Ltd. & Fujitsu ICIM to Accel ICIM Systems & Services Ltd.

In 2000, AFL crossed the US$25 million turnover mark and established itself as a leading IT services company operating in the corporate segment with one of the largest network of offices in India. The company received strategic investment from Intel Capital.

In 2004, the company forged a strategic alliance with Singapore based Frontline Technologies Corporation Ltd. (FTC) and made Accel ICIM a joint venture between Accel Ltd and FTC and changed the name to Accel ICIM Frontline Ltd. FTC is a leading IT services company listed on the Singapore Exchange Main Board with a group turnover of US$ 200 million. Frontline has operations in five countries spread across the Far East and China.

The joint venture would help Accel ICIM financially as well as its business expansions. As part of the joint venture agreement, Frontline invested in the equity of Accel ICIM to improve its long-term viability and profitability and introduced an array of new support offerings through the Indian arm. The name of the company changed to Accel Frontline Limited with effect from 01.11.2005 to reflect the new direction.

Fiscal 2004-05 witnessed the emergence of its Software Division as a major business unit within AFL. The company was assessed at SEI CMMi Level 5 for its Enterprise Software Solutions practice. Major long-term software contracts were awarded to the company and the manpower resource of the software group grew to more than 300 professionals in 2005.

Steps initiated by the company to improve the process quality and manpower competence resulted in the company securing ISO-9001 certification for its IT Services Division and SEI CMMi Level 5 for its Software Division.

For the third year in a row, Dataquest in its national Employee Satisfaction Survey adjudged AFL among the top 10 IT employers in India in September 2005.

Performance: The company has reported highly encouraging consolidated results for the quarter ended 31st December 2006.

**Financial Highlights:** (Rs. in lakh)

| Particulars | QE 31/12/06 | QE 31/12/05 | 9M 31/12/06 | 9M 31/12/05 | Year 31/03/06 |
|---|---|---|---|---|---|
| Net Sales/Income | 4953 | 4785 | 13893 | 11637 | 16913 |
| Other Income | 53 | 41 | 80 | 64 | 92 |
| Total Income | 5006 | 4825 | 13972 | 11701 | 17005 |
| Expenditure | | | | | |
| a. Inc/Dec in stock | 124 | (238) | 134 | (220) | (220) |
| b. Raw Materials | 67 | 143 | 169 | 580 | 663 |
| c. Staff Cost | 747 | 827 | 2493 | 2371 | 3243 |
| d. Power & Fuel | 33 | 23 | 76 | 66 | 94 |
| e. Purch goods res | 2433 | 2769 | 7420 | 5895 | 8920 |
| f. Service spares | 142 | 123 | 306 | 249 | 358 |
| g. Other Exp | 635 | 512 | 1483 | 1387 | 1960 |
| Total Expenditure | 4180 | 4159 | 12081 | 10329 | 15017 |
| PBIDT | 826 | 666 | 1891 | 1372 | 1988 |
| Int & Fin charges | 134 | 144 | 405 | 355 | 496 |
| Dep & Amortis | 82 | 86 | 201 | 196 | 267 |
| PBT | 610 | 437 | 1286 | 821 | 1225 |
| Provision for tax | 169 | 150 | 321 | 253 | 326 |
| Equity | 2250.90 | 1733.33 | 2250.90 | 1733.33 | 1733.33 |
| Reserves | - | - | - | - | 4412 |
| Basic EPS (Rs.) | 1.96 | 1.16 | 4.29 | 1.62 | 5.19 |
| Diluted EPS (Rs.) | 2.35 | 1.16 | 3.08 | 1.62 | 5.19 |

It can be seen that it posted a consolidated sales figure of Rs.53.49 cr. with a net profit of Rs.4.41 cr. registering a basic EPS of Rs.1.96 and diluted EPS of Rs.2.35 for Q3FY07. The annualized basic EPS works out to nearly Rs.4 and the diluted EPS to Rs.9.4.

**Financials:** AFL has an equity base of Rs.22.51 cr. with a book value of Rs.44.1.

**Share Profile:** The AFL share with a face value of Rs.10 is listed on both BSE and NSE under B1 segment. Its share price touched a high of Rs.107 and a low of Rs.58 since its listing on the stock exchanges on October 30, 2006. At its current market price of Rs.86, it has a market capitalisation of Rs.195 cr.

**Prospects:** From 2001 to 2003, the company focused on institutionalising the organization and consolidating its position as a leading systems integration and infrastructure services company. It forged alliances with Sun Microsystems, Oracle, JD Edwards, Citrix etc. to provide Enterprise IT solutions and software services. It also started operations in Dubai and Singapore to create a market for its software services.

**Conclusion:** At its current market price of Rs.86, the AFL share is discounted less than 10 times its FY07 estimated earning against the industry average P/E multiple of 27. This small-cap stock has a bright future going ahead and can be considered for investment on declines with a medium to long-term perspective.

## MONEY FOLIO

## Abhishek Mills IPO opens on 20th Feb.

Abhishek Mills Ltd. (AML), a textile and infrastructure company, is entering the capital market with a public issue of 41,00,000 equity shares of Rs.10 each for cash at a premium to be decided through the 100 per cent book building process and the price band of Rs.95 to Rs.110. the issue opens for subscription / bids on Tuesday, 20th February and closes on Monday, 26th February 2007. The issue will be listed on BSE and NSE.

AML has 33,120 spindles producing 100% combed cotton yarn with finer counts in the range of 40s to 120s. AML has export base in countries like Germany, Italy, Switzerland, Vietnam, Bahrain, Hong Kong, Russia, Korea and Mauritius. Three years back, it diversified into construction and became eligible and applied for registration as category Class IB registered contractor with PWD, GoM. On obtaining this registration, AML will be eligible to bid for various infrastructure projects directly.

Through this issue proceeds, a 100% EOU, is setting up an integrated textile plant for yarn dyeing, weaving, fabric processing at Tamgaon, Kolhapur district in Maharashtra adjacent to its existing premises and additional spinning facilities at its existing leasehold land. With this high expansion, AML will add facilities to produce around 8 to 9 million metres of high end yarn dyes shirting fabric. AML intend to export the final product i.e. Yarn Dyed Shirting Fabric from the Expansion Project. The expansion project is expected to start commercial production by January 2008.

For six months ended on 30th September, AML posted sales of Rs.40.86 cr. with a PAT of Rs.6.73 cr. while for FY06 it recorded a turnover of Rs.67.35 cr. with a PAT of Rs.12.81 cr.

## Tubeknit Fashions IPO opens on 21st Feb.

Tubeknit Fashions Ltd. (TFL) is entering the capital market with an Offer for Sale of 5,20,000 equity shares and Public Issue of 37,55,000 equity shares both of Rs.10 each through a 100% book-building process in the price band of Rs.100 to rs.120 per share. The Bid/Issue opens on Wednesday, 21st February and closes on Tuesday, 27th February 2007. The issue will be listed on the BSE and NSE.

TFL had an integrated manufacturing set up in Tirupur with a capacity of 38,000 pieces of knitted garments per day making it one of Tiurupur's leading exporters of hosiery garments. Its manufacturing facilities are spread across four locations fully backed by facilities for product development, design studios and efficient sampling infrastructure to provide quality service to customers. It has separate knitting unit and stitching units covering 1,39,000 sq. ft. and employing 1089 people directly. It has 12 satellite units that work for it exclusively covering 78,000 sq. ft. and employing over 1200 people.

It has now embarked on an expansion to set up a 20400 spindles cotton yarn spinning mill with additional facilities for garment dyeing, printing, cutting, stitching and embroidery. It also proposes to invest Rs.10 cr. in a 50:50 joint venture with a partner from Switzerland. This joint venture would manufacture garments primarily for exports. In addition, TFL proposes to invest in developing and enhancing recognition of its brand in the domestic market. Post expansion, the capacity of the company would increase from 38000 pieces per day to 78000 pieces per day.

The company has a track record of consistent growth at a CAGR of 23.40% from 1999 to 2004. For FY06, it posted a turnover of Rs.155.83 cr. with net profit of Rs.8.93 cr. for the nine months period ended 31st December 2006, it posted a turnover of Rs101.17 cr. with net profit of Rs.6.24 cr.

## Deutsche Börse picks up 5% stake in BSE

Deutsche Börse, a leading European exchange operator and transaction services provider, has picked up 5% stake in BSE for Rs.189 cr. at a price of Rs.5,200 per share as a precursor to their exploring ways of strengthening their collective competencies across a broad spectrum of business areas. This transaction puts the value of BSE at Rs.3,777 cr. [USD 854 million].

The agreement brings together the two institutions and their proven capabilities to work towards exploring opportunities to grow the respective exchanges, introduce more cutting edge products in the markets and assist each other in promotional activities in both markets.

## Benchmark AMC launches Gold Exchange Traded Fund (Gold BeES)

Benchmark Asset Management Company has launched its Gold Benchmark Exchange Traded Scheme (Gold BeES) to provide returns that, before expenses, closely correspond to the returns provided by domestic price of gold through physical Gold.

Gold BeES is an Open-Ended, Exchange listed Scheme tracking domestic prices of gold through investments in physical gold. The New Fund Offer commences on 15th February and closes on 23rd February 2007. Each unit of Gold BeES will be approximately equal to price of 1 (one) gram of Gold. During the NFO, there will be entry load ranging from 1.5% to 0% and on the ongoing basis there will be no load. Total expense ratio of the fund will not exceed 1% per annum.

An investor can start by investing as little as Rs. 10,000 and in multiples of Rs. 1,000 thereafter. There is no upper limit for investment. After the NFO, as Gold BeES will be listed on the NSE, investors can buy or sell units of Gold BeES from the secondary market on the National Stock Exchange of India Ltd. and the minimum number of units that can be bought or sold is 1 (one) unit.

Benchmark pioneered the concept of Gold ETF in the world when it filed offer document for Gold BeES with SEBI in May 2002. Today, many commodity ETFs, including gold, have already been launched. Various Gold ETFs across the world have assets under management (AUM) of around US$12 billion.

## NHB tie up with School of Architecture

National Housing Bank (NHB), the apex housing finance institution and regulator of housing finance companies and School of Planning and Architecture (SPA), New Delhi a premier Academic Institution, undertaking teaching and research in the fields pertaining to human settlements and the environment , entered into a Memorandum of Co-operation for collaborating in areas of training and research/consultancy in housing, integrated township development, low cost housing for the unserved and the underserved.

## Visu Int'l to set up school

Visu Int'l Ltd., a pioneer in 'Global education', engaged in education counselling and consultancy coaching and training services for TOEFL, GRE, GMAT, SAT, IELTS, etc. has earmarked land at Hyderabad for setting up an international school for software development.

## Soma Textiles to expand Denim capacity

Soma Textiles & Inds Ltd. has implemented the expansion-cum-modernisation programme at its Ahmedabad plant with the expansion of Denim fabric manufacturing capacity by 10 million metres.
The company had recently allotted 1,850,000 GDRs worth $ 17.2975 million representing 18,500,000 underlying equity shares of Rs.10 each to the Depository Deutsche Bank Trust Company, Americas.

## IKF Tech to acquire land for refinery

IKF Technologies Ltd, engaged in the field of bio-fuel and ITES/BPO has entered into an agreement with Indian Oil Corp (IOC), for technology transfer for production of bio-diesel. It is entering an MOU with the Government of Gujarat for investment of Rs.110 cr. for acquisition of land for setting up the refinery. The company has also started plantation work in Meghalaya and Rajasthan and plans to complete plantation of over 2 lakh hectares by 2008 end.

## Rana Sugars Q3 topline up

Rana Sugars Ltd. has announced excellent Q3FY07 results. Net sales were up at Rs.3.88 cr. from Rs.2.66 cr. in Q3FY06 but net profit was flat Rs.1.13 cr. The company has diversified into power generation and production of Ethanol at its distillery in Amritsar, Punjab.

## Sujana Universal Industries net zooms

Sujana Universal Industries has announced Q3FY07 results whereby its turnover has gone up from Rs.190.14 cr. to Rs.209.16 cr. and net profit has zoomed to Rs.10.77 cr. from Rs.6.98 cr. in Q3FY06.

## Binani announces JV for zinc alloys

Binani Zinc Ltd., a subsidiary of Binani Industries Ltd. has announced a JV for the manufacture and marketing of high quality zinc die-casting alloys with Mazak Ltd. a leading global manufacturer of die-casting alloys. The new company, Binani Mazak Pvt. Ltd., will be a 50:50 JV based in Cochin, Kerala, India.

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