

India Market Weekly

December 16, 2006

✧ Thought for the Week : Volatility caused by money managers will offer true investors more chances to make money ✧

Indices	Dec 15	Dec 8	%	
BSE	13614	13799	-1.34	
NSE	3889	3962	-1.84	
Dow Jones	12,417	12,278	1.13	
Nasdaq	2454	2428	1.07	
Hang Seng	19111	18740	1.98	
Nikkei	16914	16418	3.02	
MKT CAPITALISATION (Rs cr)				
	CI	Pre	% ch	
Sensex	866430	877917	-1.31	
NSE Total	3336086	3395873	-1.76	
BSE Total	3531196	3592310	-1.70	
VOLUMES (Rs cr)				
Exchange	Last	Pre	% ch	
BSE	22862	22157	3.18	
NSE	46879	43392	8.04	
WEIGHTAGE IN BSE T/O				
Reliance		967.83	4.23	
RCVL		946.22	4.14	
TISCO		640.66	2.80	
Parsvanath		612.43	2.68	
Zee Tele		486.20	2.13	
TOP-5 DELIVERIES				
Company	Vol (lakh)	Del (lakh)	Del (%)	
		Week	Prev	
HPCL	16.41	24.15	147.1	202.82
Infosys	69.51	44.08	63.42	72.76
HLL	236.52	147.17	62.22	65.62
Satyam	143.60	82.11	57.18	58.39
ITC	224.09	121.72	54.32	64.10
FOREX / BULLION / MONEY				
Currency	CI	Prev	%Ch	
Re./US \$	44.66	44.72	0.13	
Re./UK	87.42	87.57	0.17	
Re./Euro	58.58	59.37	1.34	
Gold (Rs/10g)	9,134	9,208	-0.80	
Silver (Rs/Kg)	20,272	20,297	-0.12	
Call Money	6.75	6.75	0.00	
FIIs/MF ACTIVITY (Rs cr)				
Dec 8 - 13	Pur.	Sales	Net	
FIIs	9995	9728	267	
MF	2537	3908	-1371	
FIIs/MF NET (Rs cr)				
	Week	MTD	* YTD	
FIIs	267	9424	25327	
MFs	-1371	-204	6,197	

*April'06 till date

Market Outlook

During the week market remained volatile on account of increase in the CRR and disappointing index of industrial production numbers. Market lost almost 1000 points in first two trading session but bounced back as value buying emerges at the lower levels. The benchmark index ended with a loss of 185 points to 13614 points. During the week the BSE Mid-Cap Index decline by 1.46% and BSE Small-Cap Index declined by 0.93%.

The US market remained firm and the Dow Jones industrial average touched a record high in more than six-year high. Market remained firm on the back of upbeat earnings from the banking sector, a drop in jobless claims and a rebound in technology. During the week the Dow Jones industrial average was up by 139 points and Nasdaq ended higher by 26 points.

Disappointing numbers

Industrial output growth slowed to 6.2% in October 2006, which is lowest in this fiscal, the lower growth was seen mainly on account of a slowdown in manufacturing production. Manufacturing increased 6% in October from 10.9% a year ago, Electricity generation grew 9.7%, while mining output increased 4% as against a negative growth of 0.1% in October 2005.

Fed kept Interest rate unchanged

The Federal Reserve kept interest rates unchanged for the fourth straight meeting. The Fed had raised rates seventeen consecutive times in a bid to keep inflation in check but paused in August and has been on hold since. The move is taken due to slow economic growth and partly due to weakness in the housing market.

Crude oil prices bounced back

Oil prices remained firm on account of larger-than-expected drop in U.S. crude stocks and cut in the output by OPEC. Inflation for the week ended 2 Dec 2006 stood at 5.16% as compared to 5.30% in the last week. The decline in the inflation was mainly on the account of fall in the fuel index and primary article.

Outlook

Market is expected to remain range bound. The Sensex faces resistance at 13733 levels while support exists at 13603 levels. NIFTY faces resistance at 4022 levels while support exists at 3888 levels.

Sectoral Outlook

Banking :

The sector was in limelight during the week as RBI surprised the market with a CRR hike over the weekend. RBI's intention was to reduce the liquidity in the system, and thereby flow to credit to the overheated sectors. This has also led to increase in G-sec yields from 7.38% on Friday to 7.68% on Thursday as daily repo outstanding reduced from Rs.26000 crore to Rs.9500 crore. Corporate advance tax payments and CRR hike could lead to a squeeze on the liquidity in the immediate term, resulting in further pressure on G-sec yields. Several banks have hiked PLR and deposit rates in order to garner retail deposits to meet the robust credit demand. We expect consolidation in the sector as yields firm up and maintaining NIMs becomes a challenge for the banks in a scenario of increasing deposit rates.

Capital Goods :

Continuous order inflow and strong order backlog augur well for all engineering and construction companies in the past one month. In last one month many engineering and construction companies won new domestic and overseas contracts.

The major contract won by the companies are like: McNally Bharat Engineering bagged an order of worth Rs.399.2 million from Vedanta Alumina for execution of ash handling system, Era Constructions bagged an order worth Rs.530 million from NHAI for four-laning of Gwalior Bypass in Madhya Pradesh on BOT annuity basis, Pratibha Industries bagged an order worth Rs.245 million from MMRDA for widening and construction of Andheri-Kurla Link Road, IVRCL Infrastructures & Projects has bagged orders worth Rs.608.10 crore from Jharkhand State Electricity Board and Gujarat Water Supply & Sewerage.

In overseas market L&T bagged two contracts worth US \$86 million from Sinopec, Punj Lloyd bagged an order from PTT Polyethylene Co for construction of a LDPE plant and Praj Industries bagged an order from Biowanze SA.

We have seen that companies show significant improvement in margin the last quarter on the back of increase in the order size and higher bidding. We expect margins to improve further as raw material prices are cooling.

Looking at the government focus on the infrastructure development, power project, coal mining, refining projects and capacity addition by the industries like steel, cement, power refinery, sugar and chemicals demand for the capital goods are expected to remain robust in the coming years. The order book position of the companies is healthy giving good visibility to their earnings for the next 2-4 years. We expect the company's order book to remain strong during the current year. Our outlook for the sector is positive

News & Views

Banco Prodcuts (India) Ltd

Company Profile

Banco Products (India) Limited (BPL) is in the business of manufacturing Gaskets and Radiators - both of which are considered important components in sealing and cooling applications in Automotive and industrial

engines.. BPL was incorporated in March 1963 by Mr. V.K.Patel as a private limited company which was later changed to Gaskets and Radiators Ltd. and subsequently to current name. The company has 2 manufacturing plants based at Baroda for manufacturing gaskets and radiators. While it caters mainly to the automotive sector in both product segments, it also manufactures radiators for railways. The company has collaboration with Elring Klinger, Germany for Engine Head Gaskets and Japan Metal Gaskets, Japan for Maruti Udyog Limited. The company has an installed capacity to manufacture 0.375 million radiators. Both the gasket and radiator production facilities are well supported by a sophisticated tool room. Radiators contribute 60% to the revenues while the balance 40% is contributed by gaskets. The company has a ISO 9002 and QS 9000 certification in addition to a recently obtained TS16949 certification.

Investment Rationale

- BPL has successfully commissioned the 100% Export Oriented Unit (EOU) during FY06 and has secured substantial number of OEM orders, till the date, the favorable contribution thereof, could be seen in coming years.
- BPL has been developing new markets both in India and abroad, substantially broad basing export sales, penetrating existing markets and launching new products. In addition, there is an increased focus on achieving greater efficiency through cost reduction initiatives, improved quality standards and better supply chain management.
- The radiator business of the company has been the key growth driver which grew 43.35% in FY06 compared to FY05.
- The company has been successful in improving its product mix through exports of Aluminum radiators, in addition to its mainstay product i.e. Cu-Br radiators. The usage of Cu Br radiators has declined over the years in the global automobile industry, including India, due to technical superiority of the Al radiators. The strong growth in radiator sales is a result of the company's success in tapping industrial customers for its Cu- Br radiators as well as its strong focus on radiator exports in the European aftermarket and Railways, KOEL etc on domestic front.
- In addition to aluminium radiators the Company has successfully produced various aluminium heat exchanger products such as oil-coolers, charged air coolers etc.
- The company is the second largest gasket manufacturer in the country and its gasket revenues sales continue to be well diversified across the OEM, replacement and export markets.
- High promoters stake of 70%.
- The company has been consistently paying 75% dividend for last 3 years.

Financial highlights during H1FY07

During the H1FY07 sales grew by 44% to Rs1195.13 mn from Rs829.94mn in H1FY06. In spite of the pressure from key raw materials viz, Aluminum, Copper etc BPL has maintained tight control over other operating expenses, which led to 183bps improvement in Operating Profit Margin (OPM) to 13.79% (11.96%). Operating profit rose by 66.1% to Rs164.80mn against Rs 99.22mn in H1FY06. Interest rose 107.2 % to Rs16.66mn as BPL raised a debt of Rs152.04mn during FY06 for its EOU unit. Depreciation also grew by 63.4% due to commissioning of the EOU due to which the tax outgo was lower at 18% compared to 33% in the H1FY06. Net profit after tax surged by 120% to Rs128.13mn from Rs58.24mn in H1FY06. Incidentally, the net profit for the H1FY07 is more than that of FY06.

Valuation

The stock currently trades at Rs269.35, which discounts 7.11x the annualised 1HFY07 EPS of Rs37.9. As the benefit of the EOU business in terms of higher sales from profitable radiator business will continue to accrue in coming years, we recommend investors to buy the stock at current market price level.

Financials

(Rs in mn)	H1FY06	H1FY07	% Change	FY05	FY06	% Change
Net Sales	829.94	1195.13	44.0	1361.01	1726.75	26.9
Expenditure	730.72	1030.33	41.0	1189.24	1506.48	26.7
Operating Profit	99.22	164.80	66.1	171.77	220.27	28.2
OPM	11.96%	13.79%		12.62%	12.76%	
Interest	8.04	16.66	107.2	7.60	20.96	175.8
Depreciation	17.41	28.44	63.4	29.67	39.93	34.6
Other Income	13.45	36.61	172.2	37.37	25.23	-32.5
Profit before Tax	87.22	156.31	79.2	171.87	184.61	7.4
Provision for Tax	28.98	28.18	-2.8	66.49	57.51	-13.5
<i>Effective Taxation</i>	<i>33.23%</i>	<i>18.03%</i>		<i>38.69%</i>	<i>31.15%</i>	
Profit after Tax	58.24	128.13	120.0	105.38	127.10	20.6
Equity Capital	67.60	67.61		67.60	67.61	
EPS	8.62	18.95		15.59	18.80	

Networth Research: E-mail- research@networthstock.com

Research	Sector	E-mail id	Telephone nos.
Janish Shah	Head of Research (Auto/FMCG/Power)	janish@networthstock.com	022-22836307/8/11
Kanan Shah	Banking / Metals / Shipping	kanan@networthstock.com	022-22836307/8/11
Rajan Kumar	Cement / Pharmaceuticals	rajan@networthstock.com	022-22836307/8/11
Sumit Gupta	Macro Economy / Capital Goods	sumit@networthstock.com	022-22836307/8/11
Rati Pandit	Hotels / Aviation	rati@networthstock.com	022-22836307/8/11
Rishi Maheshwari	Information Technology	rishim@networthstock.com	022-22836307/8/11
Surya N. Nayak	Associate	suryanarayan@networthstock.com	022-22836307/8/11
Taral Mehta	Associate	taral@networthstock.com	022-22836307/8/11
Shashin Shah	Mid Caps	sdshah@networthstock.com	
Viral Doshi	Equity Strategist	viral@networthstock.com	022-22836307/8/11
Amar More	Production	amar@networthstock.com	022-22836307/8/11

Networth Institutional Sales: E-mail- dealing@networthstock.com

Raj Bhandari / Sanjay Makhija / Jignesh Desai 022-22633020/1/2

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Networth Stock Broking Ltd.

Regd. Office:- 5 Churchgate House, 2nd floor, 32/34 Veer Nariman Road, Fort, Mumbai - 400001.
 Tel Phone nos. : 022 - 22850428/4/5/6 Fax nos. : 022 - 22856191

Corporate Office :- 143-B, Mittal Court, 224, Nariman Point, Mumbai – 400021.
 Tel Phone nos. : 022 - 22836307/8/11 Fax nos. : 022 - 22836313