investor's eye

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Index

Take Five

Scrip	Reco Date	Reco Price	CMP	Target
Bajaj Auto	15-Nov-05	1,873	**2,305**	3,500
BHEL	11-Nov-05	1,203	**1,744**	2,650
Infosys	30-Dec-03	1,378	**2,775**	3,324
Ranbaxy	23-Dec-03	534	**360**	600
TV18	23-May-05	280	**437**	704

Pulse Track

Year starts with a bang—April 2006 IIP grows at 9.5%

The Index of Industrial Production (IIP) grew by a strong 9.5% year on year for April 2006, beating the consensus expectations of an 8.2% growth. The growth, the highest in the last six months, was all round, as all production sectors, ie manufacturing, mining and electricity production, reported a handsome growth.

The buoyancy in the manufacturing sector continued unabated with a growth of 10.4%, one of the highest over the last twelve months. Remarkably, the growth came even on a higher base as the sector had grown at a rate of 9.2% in April 2005. The mining and electricity production sectors grew by 4.3% and 5.6% respectively.

Also the IIP numbers for March 2006 were revised upwards substantially with the overall growth in the IIP revised upwards from 7.7% to 8.2%. The Index of Manufacturing was revised upwards from 8.9% to 9.4%.

In %	Apr-06	Apr-05	Mar-06 (Revised)	Mar-06 (old)
IIP	9.5	8.1	8.2	7.7
General				
Manufacturing	10.4	9.2	9.4	8.9
Mining	4.3	2.8	1.2	0.5
Electricity	5.6	3.1	3.4	3.2
Use based				
Capital goods	24.9	14.6	11.6	10.0
Consumer goods	8.7	13.5	12.4	12.2
- Durables	10.6	18.7	19.5	19.4
- Non-durables	9.1	11.9	10.1	9.7

Source: Ministry of Statistics and Programme Implementation

Non-metallic minerals (read cement), machineries and equipment, and transport equipment (read passenger cars and two-wheelers) contributed to the growth in the manufacturing sector.

Key constituents of manufacturing sector

In %	Weight	y-o-y growth				
		Dec-05	Jan-06	Feb-06	Mar-06	Apr-06
Food products	9.1	4.2	9.9	16.2	15.8	5.6
Beverages, tobacco and related	2.4	7.8	10.6	7.9	18.9	11.7
Textile (including wearing apparel)	2.5	11.3	15.3	15.5	-0.6	9.5
Basic chemicals & chemical	14.0	-0.5	-1.3	2.3	3.8	12.1
Non-metallic minerals	4.4	15.9	18.4	13.5	16.6	15.4
Basic metal and alloy industries	7.5	11.5	12.7	13.9	23.5	20.7
Metal and parts	2.8	-5.2	3.4	5.7	11.5	4.9
Machinery and equipment	9.6	10.3	17.9	13.5	8.0	13.4
Transport equipment and parts	4.0	11.5	12.5	14.7	11.9	16.3
Other manufacturing industries	2.6	28.7	37.0	20.3	34.7	36.0

Source: Ministry of Statistics and Programme Implementation

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Indian Hotel Company

Apple Green

Stock Update

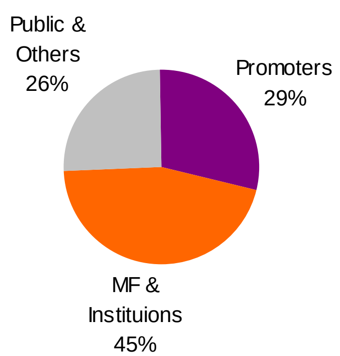
Positive outlook on business continues

Buy; CMP: Rs965

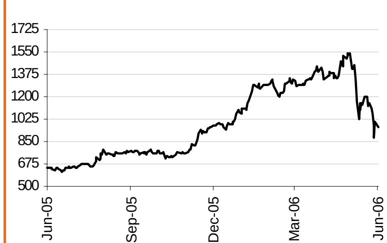
Company details

Price target:	Rs1,474
Market cap:	Rs5.637 cr
52 week high/low:	Rs1,584/610
NSE volume: (No of shares)	61,063
BSE code:	500850
NSE code:	INDHOTEL
Sharekhan code:	INDNHOT
Free float: (No of shares)	4.1 cr

Shareholding pattern



Price chart



Price performance

(%)	1m	3m	6m	12m
Absolute	-33.8	-23.0	4.2	56.4
Relative to Sensex	-15.9	-17.4	-4.3	7.1

Result highlights

- The revenues of Indian Hotel Company (IHCL) saw an increase of 33.6% year on year (yoy) to Rs355.9 crore in Q4FY2006, mainly powered by an increase in the average room rates (ARRs). The revenue growth was in line with expectations.
- The occupancy rates (ORs) in Q4FY2006 remained flat yoy at 79%, whereas the ARRs grew by a whopping 39.3% to Rs8,891. The flat OR was mainly on account of the market realignment towards a +30% rise in the room rates in prime properties.
- On the back of a strong revenue growth of 33.6% in the quarter, coupled with the benefits of operating leverage (typical to the hotel industry), the operating profit margins (OPM) saw an expansion of 900 basis points yoy to 35.5% in the quarter.
- IHCL's profit after tax (PAT) saw an increase of 120.0% yoy to Rs78.7 crore in Q4FY2006, which was marginally above expectations. The earnings for the quarter stood at Rs13.5 per share.
- The consolidated numbers for FY2006 generated a positive surprise. Against an estimated PAT of Rs190.8 crore, IHCL reported a PAT of Rs248.7 crore, surpassing our consolidated PAT estimates by 30.3%. A large part of the surprise has come from the turnaround in the operations of the loss making subsidiary, St James Court Hotels.
- IHCL maintains a positive view on the hotel industry, driven by (1) a strong demand and (2) little room inventory addition. Accordingly, the company expects a healthy jump in its ARR in FY2007E, which shall drive the margins and earnings of the company.
- Considering the bright business prospects for the company and the fact that the IHCL stock trades at a discount of 45% to its replacement cost of Rs1,400.0 per share, we maintain a BUY on the stock with a price target of Rs1,474.0 (target multiple at 27x—the stock typically trades at 25-27x its one-year forward earnings), an upside of 52.7%.

Result table Rs (cr)

Particulars	Q4FY2006	Q4FY2005	% yoy chg
Net sales	355.9	266.3	33.6
Expenditure	229.4	195.8	17.2
Operating profit	126.5	70.5	79.4
Other Income	12.8	3.5	266.8
PBIDT	139.3	74.0	88.2
Depreciation	19.1	15.9	19.6
Interest	3.5	5.6	-36.9
PBT	116.7	52.5	122.3
Tax	38.1	16.7	127.3
PAT	78.7	35.8	120.0
Extraordinary	0.0	6.4	-100.0
PAT after extraordinary	78.7	42.2	86.5
OPM (%)	35.5	26.5	900 bps
PBITM (%)	33.8	21.8	1,200 bps
PATM (%)	22.1	13.4	870 bps
EPS (Rs)	13.5	6.1	120.0

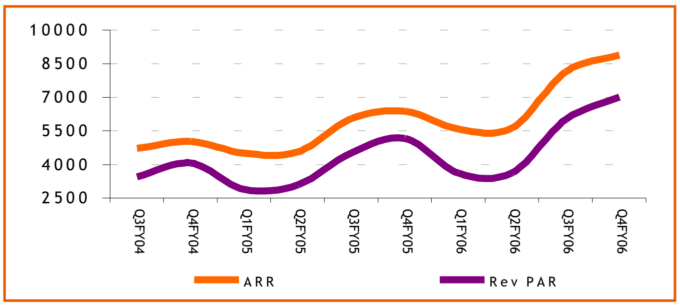
Strong revenue growth of 33.6% yoy in the quarter, in line with expectations

The company posted a 33.6% revenue growth yoy in the quarter with revenues of Rs355.9 crore and the same was in line with our estimates. The strong revenue growth was driven by a sharp rise in the ARR across all Taj properties.

ARRs continue northward march, push up room revenues

The rise in the room revenues was powered by a 39.3% year-on-year (y-o-y) increase in the ARRs to Rs8,891. The ORs were stable on a y-o-y basis at 79-80% in the quarter, but were up 500 basis points on a quarter-on-quarter (q-o-q) basis. With a buoyancy in the demand, the ARR has been constantly rising from Rs4,712 in Q4FY2004 to Rs6,384 in Q4FY2005 and to Rs8,891 in Q4FY2006.

ARR on a roll



Source:- Company, Sharekhan

Margin expansion of 900 basis points yoy to 35.5%

The operating profit jumped by 79.4% yoy to Rs126.5 crore, marginally above our estimates. Consequently, the OPM expanded by 900 basis points yoy to 35.5% in the quarter. The margin expansion was aided by a double-digit rise in the ARR, stable occupancies and a continuous leverage effect. The employee cost, the power, oil & fuel costs and the other expenses reduced significantly as a percentage of sales. The licence fee grew in line with the revenue growth and was maintained at 10-11% of the revenues in the quarter, typical of the hotel industry.

Cost structure for IHCL

% to net sales	Q4FY06	Q4FY05	Change in Basis points
Raw material consumed	7.6	8.1	-50.0
Employee expenses	17.9	23.3	-540.0
Power, oil & fuel	4.6	5.5	-90.0
Licence fees	10.6	10.1	50.0
Other expenses	23.8	26.5	-270.0
Operating costs	64.5	73.5	-900.0
Operating profit margins	35.5	26.5	900.0

PAT growth a whopping 120.0% yoy, marginally ahead of the expectation

Driven by the strong growth in the revenues and the sharp rise in the margins, the PAT before extraordinary grew by a whopping 120.0% yoy in the quarter to Rs78.7 crore. The growth in the PAT was higher than that in the operating profit due to a 37% reduction in the interest costs to Rs3.5 crore and a 266.8% rise in the other income to Rs12.8 crore. The holders of the company's foreign currency convertible bonds converted their holdings into equity during the last few quarters, thereby increasing the company's equity capital from Rs50.3 crore in Q4FY2005 to Rs58.4 crore in Q4FY2006 and reducing the borrowings.

FY2006 results--consolidated numbers generated a positive surprise

Stand-alone

For FY2006 the revenues grew by 27.9% to Rs1,084.3 crore. The operating profits grew by 57.5% to Rs315.0 crore and the OPM expanded by 550 basis points to 29%. The sharp jump in the ARR and stable occupancies coupled with the stable costs caused the PAT to grow by 121.3% to Rs183.8 crore, marginally above our expectation.

Consolidated

The consolidated numbers generated a positive surprise. For FY2006 the revenue grew by 39.9% to Rs1,837.3 crore and the operating profits grew by 62.9% to Rs508.4 crore. Against an estimated PAT of Rs190.8 crore, IHCL reported a PAT of Rs248.7 crore, surpassing our consolidated PAT estimates by 30.3%. A large part of the surprise has come from the turnaround in the operations of the loss making subsidiary, St James Court Hotels. This subsidiary has moved into the black, from a Rs36 crore loss in FY2005, boosting the consolidated performance. We had accounted for the loss in St James Court Hotels at Rs16 crore in our estimates for FY2006. Hence, the turnaround of the UK subsidiary coupled with a good performance of the group companies yielded a 30% earnings surprise.

IHCL expansion plans for FY2006-08E

IHCL is on track with its plans to construct new properties around the country, expand existing properties and expanding the budget hotel brand "Ginger" through its subsidiary, Roots Corporation. The company is also looking at setting up 5-star hotel properties in Thailand (Phuket), South Africa (Cape Town, Johanesburg and Durban) and Dubai. It is mainly looking at widening its Taj Exotica brand.

Under IHCL

Location	Type of hotel	Rooms (Nos)	Commencement Date
Faluknuma, Hyderabad	Luxury	75	December 2007
Bangalore	Business	200	December 2007
Santacruz, Mumbai	Business	200	June 2008
Coimbatore	Business	200	September 2008

Source: Sharekhan

Under subsidiaries, associates and JV's

Location	Type of hotel	Rooms (Nos)	Commencement Date
Taj GVK, Chennai	Business	200	March 2007
Taj GVK, Hyderabad	Business	460	Partly 2007
Fisherman's Cove	Luxury	75	March 2007
PM Hotel, Pune	Business	100	March 2007
Ginger (Roots Corp)	Budget	600	In 1 Year

Source: Sharekhan

Outlook continues to remain positive

On industry per se: The company communicated a positive outlook on the hotel industry of India with (1) a strong demand, (2) little room inventory addition, (3) the rising domestic customers--both leisure and business and (4) by reducing the dependence on foreign tourist arrivals and foreign currency spending.

On ARR front: Baring destinations like Bangalore, the company expects a continuous rise in the ARRs mainly driven by the strong fundamentals of the market. The strong demand coupled with a 20-25% room inventory addition in key cities over the next 12-15 months would trigger a strong case for the ARR rise. A large part of the new inventory is expected to hit the market in H2FY2008, thus giving a reasonable breathing space. The company expects a healthy jump in the ARR in FY2007E over FY2006.

On occupancies front: With all the Taj properties operating at +70% occupancies on a yearly basis, there exists little headroom for growth. But amidst the tight supply and the strong demand the company expects a 100-150-basis-point rise in occupancies in FY2007.

On international operations: (1) St James Court Hotel—turned into the black during FY2006, mainly due to the improving scenario in the London market and the streamlining of operations by IHCL post its acquisition. The company expects to continue its good performance in FY2007 amidst a buoyant market and its renewed business strategy (renovation at St James to give it a facelift). (2) Pierre Hotel—New York is already among the top 3 hotels of the city with an ARR of US$515 (up 10% yoy) and occupancies of 77% (+600 basis points yoy). The company has prepared a US$35 million facelift programme to be implemented from July 2006 onwards. Post the restructuring, IHCL contemplates a higher ARR from the property thereby boosting its performance.

On inorganic growth front: IHCL plans to continue its inorganic growth initiatives to cover the key gateway cities and leisure destinations. After making successful acquisitions in countries like the UK, Australia etc, it now plans to foray into South Africa, Middle East and China.

We have upgraded our FY2007 numbers and introduced FY2008

There was a robust growth of 31% yoy in the ARRs in FY2006 and stable occupancies. The expected strong growth in the ARRs, the overall buoyant scenario in the hotel industry amidst the tight room supply (in metro cities), the expected strong growth in foreign tourist arrivals and the robust demand emanating from both the domestic and foreign tourists, creates a bright outlook for IHCL in FY2007. We have accordingly revised our stand-alone and consolidated numbers for IHCL—stand-alone net profit estimates have been revised upwards by 1.4% to Rs260.0 crore and the consolidated estimates have been revised upwards by 8.7% to Rs346.2 crore. We have also introduced our FY2008E estimates with a consolidated PAT of Rs352.8 crore.

Valuations

The company's stock trades at a PER of 16.3x its FY2007E consolidated earnings, which is quite attractive considering the bright outlook. Even when compared with its peers in the sector, IHCL's valuations appear attractive at a market capitalisation/room ratio of 0.7x as against that of 1.0x for EIH Hotels and 2.6x for Hotel Leela. Considering the bright business prospects for the company and the fact that the IHCL stock trades at a discount of 45% to its replacement cost of Rs1,400.0 per share, we maintain a BUY with a price target of Rs1,474.0 (target multiple at 27x- the stock typically trades at 25-27x its one-year forward earnings), an upside of 52.7% from the current market price of Rs965.

For FY2007E	Hotel Leela	EIH	IHCL
Mcap/sales	4.6	3.5	4.1
Mcap/room	2.6	1.0	0.7
PER	14.9	19.5	16.3
Ev/Ebidta	12.7	14.1	10.7
P/BV	2.5	3.6	3.0
ROCE	11.4	16.9	18.0
RONW	19.1	19.7	13.7

Earnings table

Stand-alone	FY05	FY06	FY07E	FY08E
Net profit (Rs cr)	83.1	183.9	260.0	251.2
Share in issue (cr)	5.0	5.8	5.8	5.8
EPS (Rs)	16.5	31.5	44.5	43.0
% y-o-y growth	*161.8*	*90.5*	*41.4*	*-3.4*
PER (x)	58.4	30.7	21.7	22.4
Book value (Rs)	225.1	293.7	325.2	355.2
P/BV (x)	4.3	3.3	3.0	2.7
EV/Ebidta (x)	22.3	15.2	10.7	13.7
Dividend yield (%)	1.0	1.3	1.3	1.3
ROCE (%)	7.5	13.6	18.0	16.3
RONW (%)	7.3	10.7	13.7	12.1
Consolidated				
Net profit (Rs cr)	81.8	248.7	346.2	352.8
EPS (Rs)	16.3	42.6	59.3	60.4
% y-o-y growth	*134.1*	*161.6*	*39.2*	*1.9*
PER (x)	59.3	22.7	16.3	16

The author doesn't hold any investment in any of the companies mentioned in the article.

MRO-TEK

Apple Green

Stock Update

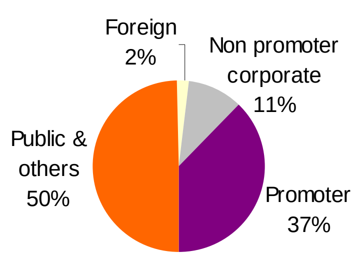
The right connection

Buy; CMP: Rs56

Company details

Price target:	Rs113
Market cap:	Rs115 cr
52 week high/low:	Rs109/36
NSE volume: (No of shares)	2.8 lakh
BSE code:	532376
NSE code:	MRO-TEK
Sharekhan code:	MROTEKLTD
Free float: (No of shares)	1.3 cr

Shareholding pattern



Price chart

Price performance

(%)	1m	3m	6m	12m
Absolute	-36.9	-31.6	-30.9	54.8
Relative to Sensex	-19.8	-26.6	-36.5	6.0

The key takeaways from the recently released annual report of MRO-TEK for the year 2005-06 are given below.

Pressure on pricing continues

Though the price-volume dynamics given below is not strictly comparable due to the variances caused by the change in the product sales mix, the table clearly reflects that the company continues to witness competition-led pricing pressure and its growth is largely driven by the robust increase in volumes. The strong growth in the user industries of wireless mobile services and Internet service providers (including broadband services), personal computers and banks is leading to a robust growth in the overall demand.

Volume play

	Realisation	Volume	Revenue	% of total turnover
Internet access products	-11.5%	34.1%	18.6%	43.1%
Telecom network products	-23.2%	59.3%	22.4%	47.0%
Enterprise network products	-8.2%	22.4%	12.4%	5.4%
Total*	-11.3%	35.4%	20.1%	95.5%

* Excludes other products that are not categorised by the company

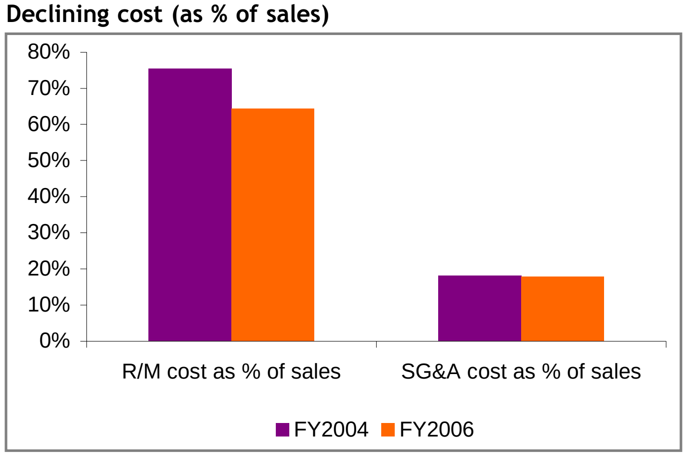
MRO-TEK is also benefiting from the continued efforts to enhance its product portfolio and expand its reach (tap new opportunities like Railtel and aviation companies). Another positive is the robust volume growth of 59.3% reported in the telecom network product segment in spite of the aggressive competition from some of the Chinese manufacturers like Huawei.

Improving operational metrics

MRO-TEK has shown a remarkable improvement in its profitability during the past two years. The operating profit margin (OPM) has improved from 6.2% in FY2004 to 17.7% during FY2006.

The improvement in the margins has been driven largely by the saving in the raw material cost, which has declined by over 11% as a percentage of sales during the last two years. On the other hand, the selling, general and administration expenses as a percentage of sales has been largely flat at around 18%.

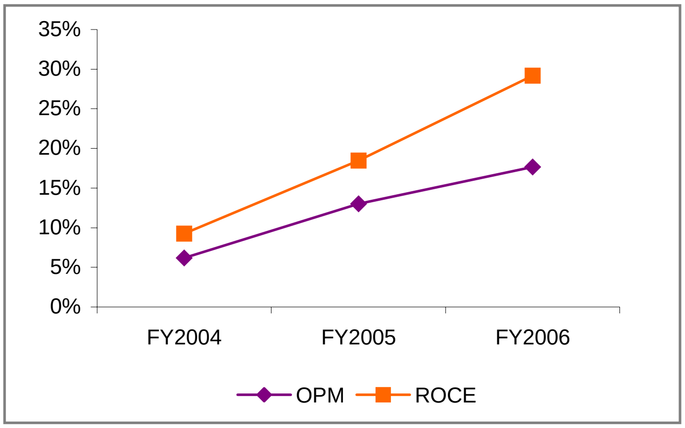
Declining cost (as % of sales)



Source: Sharekhan Research

The gross margins have largely improved on the back of a favourable shift in the product sales mix towards high-margin equipment. The overall improvement in operational efficiencies (clearly reflected in the decline in the working capital days from 175 days in FY2004 to 137 days in FY2006) also boosted the overall profitability.

Improving efficiencies, higher returns



Source: Sharekhan Research

Healthy cash flows

During the year, MRO-TEK has repaid the entire debt of Rs13.4 crore (term loans—Rs5.3 core, working capital loans—Rs8.1 crore) on its book and become a debt-free company. Moreover, the company has increased the dividend rate to 45% (or Rs2.25 per share), up from 25% in the previous year. In spite of this, the cash and cash equivalents increased by Rs4.5 crore to Rs21.7 crore (or Rs10.6 per share) by the end of FY2006. We expect the management to adopt a more liberal dividend policy given the debt-free status and the absence of any significant capital expenditure over the next couple of years. Thus, the scrip offers an attractive dividend yield at the current market price.

Other highlights

For the first time, the company has rewarded the senior management with employee stock options. It has issued 3.41 lakh options to employees (including the vice president--marketing and the chief financial officer) at an exercise price of Rs20 per share (around 75% lower than the market price of Rs80 prevailing at that time). It has taken a charge of Rs1.4 lakh as employee compensation cost using the intrinsic value method in FY2006.

The contingent liability of Rs3.73 crore related to the differential income tax claims have reduced to Rs0.7 crore in FY2006 due to favourable decisions in some of the disputed cases.

Valuation

After the recent correction, the stock is trading at extremely attractive valuations of 5.3x FY2007E and 4.2x FY2008E estimated earnings. The valuations are all the more attractive considering the estimated cash of Rs16.8 per share in FY2007 and Rs23.5 in FY2008. Moreover, given the expectations of a continued liberal dividend policy, the dividend yield could work out to anywhere between 4% and 5%. We maintain our Buy call on the stock with a price target of Rs113.

Key financials

Particulars	2005	2006E	2007E	2008E
Net profit* (Rs cr)	12.3	17.6	21.8	27.0
No of shares (cr)	2.0	2.0	2.0	2.0
EPS (Rs)	6.0	8.6	10.7	13.2
% y-o-y change (%)	*134.4*	*43.4*	*24.1*	*23.9*
PER (x)	9.4	6.6	5.3	4.2
Price/BV (x)	1.6	1.4	1.2	1.0
EV/EBIDTA (x)	7.5	3.8	2.7	1.8
Dividend yield (%)	2.2	4.0	4.9	5.8
RoCE (%)	18.5	29.2	33.7	35.5
RoNW (%)	17.1	20.9	21.8	22.8

Automobile

Sector Update

Strong growth continues in May

The automobile sector performed extremely well in May 2006 with majority of the segments posting a double-digit sales growth. The overall automobile sales volumes rose by 22.2% with the domestic and export sales rising by 21.5% and 31.1% respectively.

- **Passenger vehicles:** The car category has reported a strong growth of 29.6% in May 2006 in the domestic sales, whereas the utility vehicle (UV) category reported a modest growth of 6.8% in the domestic market.
- **Commercial vehicles:** The commercial vehicle (CV) segment reported a stellar performance, growing by 40% in May with both the medium and heavy commercial vehicle (M&HCV) and the light commercial vehicle (LCV) categories reporting healthy growth rates. The M&HCV category has grown by 38.9% whereas the LCV category has grown by 41.4% in the domestic market.
- **Three-wheelers:** The three-wheeler segment continued its strong march, reporting a growth of 29.5% in the domestic market. The domestic passenger category grew by 34.3% whereas the goods category grew by 22.8%.
- **Two-wheelers:** The growth in the two-wheeler segment continues to be led by the motorcycle category, which registered an overall growth of 26% in May 2006. The scooter category registered a decline of 4.9% for May 2006 whereas the moped volumes declined marginally by 1.2% for the month.

The gainers were Tata Motors, Hero Honda, Bajaj Auto, Maruti Udyog and Ashok Leyland.

Passenger vehicles

- The car sales recovered smartly in May 2006 with the industry witnessing a growth of 29.6% year on year (yoy) in the domestic market. On a year-till-date basis, the domestic car sales have registered a growth of 23%. The A2 mid-size segment has registered the highest growth of 36.6% for May 2006 while the A3 segment witnessed a growth of 20.9%.

Segment-wise domestic car sales

Segment	May volumes	% yoy chg
A1-Mini	6,743	10.3
A2-Compact	62,516	36.6
A3-Mid-sized	16,676	20.9
A4-Executive	2,380	-1.9
A5-Premium	499	25.1
A6-Luxury	-	-

- Maruti Udyog reported a growth of 31.7% in the domestic market, whereas the exports showed a modest growth of 8.5% to 2,384 units. The model *Maruti 800* was a pleasant surprise as its sales grew 10.3% yoy after witnessing a steady decline in the last year. This is the positive impact of the reduction in the excise duty effected in the recent budget. The A2 segment too recorded a very strong growth of 38%.

Passenger vehicles

	Domestic sales			% Mkt share		Exports		
Segment	May-06	% YoY	% YTD	May-06	May-05	May-06	% YoY	% YTD
Cars	**88,814**	**29.6**	**23.3**			**15,863**	**17.9**	**30.9**
Maruti Udyog	45,267	31.7	23.8	51	50	2,384	8.5	15.3
Tata Motors	15,253	32.5	18.6	17	17	1,517	27.8	22.9
Hyundai Motors	16,062	15.7	14.8	18	20	9,781	6.3	30.9
Honda Siel Cars India	3,987	20.2	20.3	4	5	4	100.0	71.4
Ford India	3,072	112.3	93.8	3	2	2,177	2.1	56.5
UV/MPVs	**21,485**	**6.8**	**7.8**			**521**	**50.6**	**58.7**
M&M	6,824	10.9	9.9	32	31	193	-23.7	-33.2
Maruti Udyog	5,637	0.0	-2.0	26	28	108	30.1	18.7
Toyota Kirloskar Motor	3,477	8.0	14.0	16	16	0	NA	NA
Tata Motors	2,862	15.0	13.0	13	12	215	2050.0	1555.6
General Motors India	1,625	1.0	6.0	8	8	0	NA	NA

- Tata Motors continued its strong performance with an overall growth of 32.5%. *Indica* registered a growth of 46.3% in May at 12,409 units while the *Indigo* family registered a decline of 6.2% in sales at 2,844 units.
- The UV segment registered a growth of 6.8%. Tata Motors registered a growth of 15% whereas Mahindra & Mahindra (M&M) grew by 10.9%.

Commercial vehicles

- The CV segment recorded a very impressive growth of 40% in May 2006 with both the M&HCV and LCV categories contributing to the growth. The LCV category recorded a domestic growth of 41.4%, whereas the M&HCV category too reported a stellar performance by growing at 38.9%.
- Tata Motors registered a huge 64.2% jump in its domestic sales for May. The sales of M&HCVs grew by 55% over May 2005, while that of the LCVs registered a growth of 79% yoy. However, the growth in May 2006 took place on a low base of May 2005, when the sales were depressed due to unanticipated difficulties in certification and procurement of some critical parts.
- Ashok Leyland too performed well with a 20.7% growth in M&HCV sales for May. The domestic M&HCV sales grew by 22.5% with the goods category growing by 30%; however the passenger category registered a decline of 19%.
- M&M's volumes remained almost flat with a 1.3% growth in the domestic LCV passenger carrier segment.

Commercial vehicles

	Domestic sales			% Mkt share		Exports		
Segment	May-06	% YoY	% YTD	May-06	May-05	May-06	% YoY	% YTD
M&HCVs (passenger carrier)	**1,709**	**45.8**	**53.7**	**-**	**-**	**597**	**129.6**	**125.8**
Tata Motors	947	142.8	189.3	55.4	33.3	330	307.4	165.5
Ashok Leyland	550	-18.8	-23.9	32.2	57.8	214	42.7	75.9
Swaraj Mazda	89	242.3	300.0	5.2	2.2	0	-100.0	327.3
Eicher Motors	113	76.6	134.9	6.6	5.5	53	341.7	366.7
Volvo India	10	-33.3	-47.6	0.6	1.3	0	-100.0	-100.0
M&HCVs (goods carrier)	**17,866**	**38.3**	**59.7**	**-**	**-**	**560**	**0.5**	**-7.4**
Tata Motors	11,735	50.7	79.5	65.7	60.3	449	39.4	21.2
Ashok Leyland	4,732	30.2	45.6	26.5	28.1	95	-44.4	-41.0
Eicher Motors	1,098	11.6	9.5	6.1	7.6	16	-68.6	-75.3
Swaraj Mazda	284	-37.2	-28.5	1.6	3.5	0	-	-
Volvo India	12	-73.3	-27.5	0.1	0.3	0	-100.0	-100.0
Total M&HCV	19,575	38.9	59.2	59.4	59.8		0.0	0.0
LCV (passenger carrier)	**2,250**	**10.1**	**9.6**	**-**	**-**	**276**	**46.0**	**65.4**
Tata Motors	1,218	1.3	-8.4	54.1	43.2	254	49.4	83.1
Force Motors	198	-49.1	-15.5	8.8	19.0	1	-80.0	-80.0
M&M	390	1.3	-8.4	17.3	18.8	10	25.0	25.0
Swaraj Mazda	167	-2.9	-14.1	7.4	8.4	1	-	-91.7
Eicher Motors	209	20.1	-0.4	9.3	8.5	10	233.3	150.0
LCV (goods carrier)	**11,123**	**50.0**	**53.8**	**-**	**-**	**1,938**	**18.2**	**18.3**
Tata Motors	8,003	87.0	120.0	72.0	57.7	1,574	6.3	7.5
M&M	2,342	-0.1	-12.8	21.1	31.6	283	236.9	177.1
Swaraj Mazda	240	-30.4	-52.3	2.2	4.7	24	-	20.0
Eicher Motors	350	30.6	18.2	3.1	3.6	53	-7.0	-25.4
Force Motors	186	3.9	3.8	1.7	2.4	4	-73.3	96.2
Total LCV	**13,373**	**41.4**	**44.4**	**40.6**	**40.2**	**2,214**	**21.1**	**23.3**
Total CV	**32,948**	**39.9**	**53.1**	**-**	**-**	**3,371**	**27.4**	**27.0**

Two-wheelers

- The growth in the two-wheeler segment continues to be led by the motorcycle category, which registered a growth of 24.6% in May 2006. The scooter and moped categories registered a marginal decline of 1.3% and 2.2% respectively for May 2006.
- Hero Honda, the market leader in the motorcycle category, led the growth by growing at 31.4%. To address its problem of capacity constraint, it plans to expand its capacity to 3.9 million units. The expansion of its Gurgaon plant's capacity to 450,000 units has already been completed.
- Bajaj Auto continues to grow due to its growth in the motorcycle category, which grew by 20% for May 2006.
- TVS Motors' overall two-wheeler volumes were up by 16.6% yoy, led by a 23% growth in motorcycles and a 13.7% growth in scooters. The recently launched 150cc motorcycle *Apache* is helping the company gain a foothold in the premium segment.
- Honda Motorcycle and Scooters India has registered a decline of 12.6% in the motorcycle business. The scooter volumes grew marginally by 1.4%.

Two-wheelers

	Domestic sales			% Mkt share		Exports		
Segment	**May-06**	**% YoY**	**% YTD**	**May-06**	**May-05**	**May-06**	**% YoY**	**% YTD**
Two-wheelers	**644,926**	**18.4**	**14.9**			**52,996**	**28.1**	**25.0**
Scooters	*73,919*	*-1.3*	*-8.9*			*4,200*	*-42.1*	*-33.7*
HMSI	40,154	0.0	-8.0	54	53	3,298	16.0	12.0
TVS Motor Co	19,568	2.0	-3.0	26	26	828	-38.0	-12.0
BAL	1,925	-75.0	-79.0	3	10	0	-100.0	-100.0
Hero Honda	8,565	NA	NA	12	0	56	NA	NA
Kinetic Motor	2,927	-34.0	-27.0	4	6	15	-	-92.0
Kinetic Engg	780	-41.0	-58.0	1	2	3	-	-
Motorcycles	*569,005*	*24.6*	*20.8*			*44,657*	*47.3*	*43.4*
Hero Honda	285,193	31.4	17.1	50	48	9,852	8.3	8.9
Bajaj Auto	172,847	20.0	25.0	30	31	23,273	126.0	114.0
TVS Motor Co	71,731	21.0	38.0	13	13	6,540	47.0	23.0
Yamaha	20,490	34.0	40.0	4	3	4,777	11.0	-8.0
HMSI	12,037	-12.0	-23.0	2	3	57	-73.0	-84.0
Mopeds	*26,483*	*-2.2*	*5.5*			*4,252*	*5.4*	*-7.6*
TVS Motor Co	24,827	11.0	19.0	94	82	1,184	104.0	108.0
Kinetic Engg	1,483	-43.0	-35.0	6	10	282	-	-
Majestic Auto	173	-92.0	-83.0	1	8	2,786	-19.0	-29.0

Three-wheelers

- The three-wheeler segment continued to grow well in May 2006 with the volumes growing by 29.5% for the month led by a 34% growth in the passenger category. The goods category reported a growth of 23% for the month.
- Bajaj Auto has maintained its leadership in the segment with a market share of 63% in the passenger category and a 40% share in the goods category.
- M&M reported a growth of 50% in the goods category and an 81% growth in the passenger category.
- Piaggo performed well in the passenger segment, registering a growth of 62%. Piaggio's market share in the passenger category grew from 25% to 30%.

Valuation table

Particulars	EPS (Rs)	P/E	EV/EBITDA	Price/BV
Maruti				
FY07	67.9	11.2	7.3	3.0
FY08	84.2	9.0	5.3	2.3
Tata Motors				
FY07	58.1	12.6	8.9	3.5
FY08	70.7	10.4	7.5	3.1
Ashok Leyland				
FY07	3.1	11.8	6.6	2.4
FY08	3.8	9.5	5.3	2.3
M&M				
FY07	55.7	10.0	7.5	3.9
FY08	64.1	8.7	6.8	3.5
Bajaj Auto				
FY07	138.6	17.7	13.2	4.2
FY08	168.3	14.6	11.8	3.5
TVS Motor				
FY07	8.2	13.5	7.3	2.8
FY08	13.8	8.0	4.2	2.2

Three-wheelers

	Domestic sales			% Mkt share		Exports		
Segment	May-06	% YoY	% YTD	May-06	May-05	May-06	% YoY	% YTD
Total three-wheelers	**31,036**	**29.4**	**25.8**			**9,084**	**103.3**	**64.2**
3-whlrs (passenger carrier)	*18,628*	*34.0*	*29.0*			*4,378*	*107.0*	*-17.0*
Bajaj Auto	11,688	26.0	18.0	63	67	8,906	107.0	-18.0
Piaggio Vehicles Pvt Ltd	5,658	62.0	66.0	30	25	110	34.0	2.0
Scooters India	458	18.0	-8.0	2	3	0	0.0	0.0
Bajaj Tempo	196	8.0	21.0	1	1	1	0.0	2700.0
Mahindra & Mahindra	242	81.0	37.0	1	1	0	0.0	0.0
Three-wheelers (goods carrier)	*12,408*	*23.0*	*22.0*			*26*	*-71.0*	*-90.0*
Piaggio Vehicles Pvt Ltd	4,907	19.0	23.0	40	41	26	-62.0	-75.0
Bajaj Tempo	897	-30.0	-35.0	7	13	0	-100.0	-100.0
Bajaj Auto	3,435	47.0	39.0	28	23	0	-100.0	-100.0
Mahindra & Mahindra	1,831	50.0	54.0	15	12	0	-	-
Scooters India	503	10.0	-12.0	4	5	0	-	-

The author doesn't hold any investment in any of the companies mentioned in the article.

Industry Update

Mutual Fund

Mutual funds turn aggressive buyers

Industry news

- **Chola Mutual Fund becomes DBS Chola Mutual Fund**

  Chola Mutual Fund has been re-christened DBS Chola Mutual Fund following the conversion of the fund's sponsor Cholamandalam Investment and Finance, into Cholamandalam DBS Finance. This has come in the wake of the recent joint venture of the Murugappa Group with DBS Bank of Singapore.

- **Benchmark proposes gold Exchange Traded Fund (ETF)**

  Benchmark Mutual Fund has filed an offer document with the securities and exchange board of India (SEBI), for India's first gold ETF, a gold Benchmark Exchange Traded Scheme, Gold BeES. It is an open-ended scheme that will be listed on the National Stock Exchange and will invest in physical gold. The scheme seeks to generate returns, which closely correspond to the returns provided by the domestic price of gold.

- **Principal MF appoints Rajan Krishnan as Business Head**

  Principal PNB Asset Management Company has announced the appointment of Rajan Krishnan as Business Head-Asset Management. Rajan Krishnan joined the company in 2003 as Vice President-Sales & Marketing. He became Senior Vice President-Sales, Marketing & Business Strategy in 2005. As Business Head, his current responsibilities include business operations, the growth and progress of the company.

- **SEBI to issue fresh guidelines for MF distributors soon**

  SEBI is planning to clamp down heavily on mutual fund distributors. The distributors would be under the regulatory framework directly or through a self-regulatory authority. SEBI wants to ensure that MF products offered to the investors are best suited for them and not the distributors.

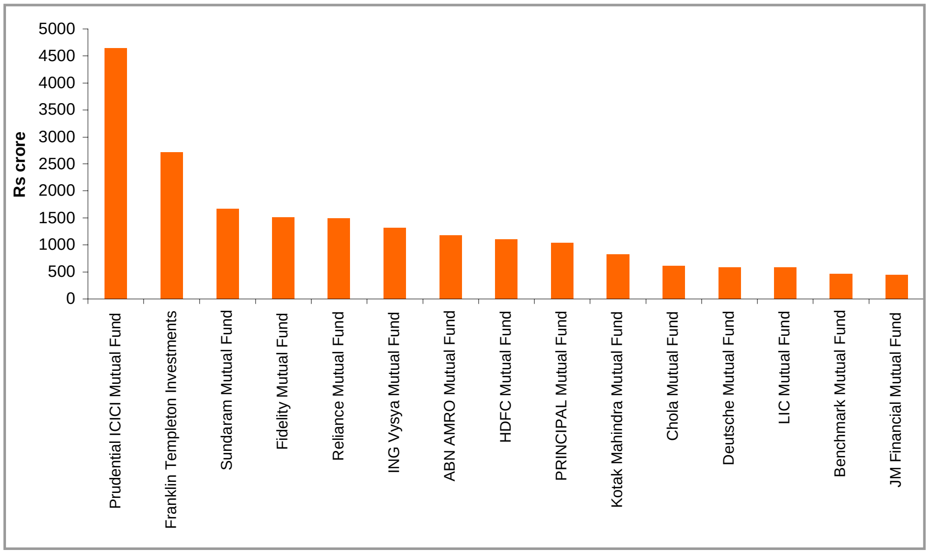
- **Prudential ICICI Mutual Fund replaces UTI to become the largest AMC**

  Prudential ICICI Mutual fund has emerged as the largest Indian mutual fund and has crossed the Rs32,000 crore mark. This is the first time that UTI has slipped from the top slot in the mutual fund industry, and currently has a corpus of Rs30,551 crore. Prudential ICICI AMC has added Rs4,648 crore to its overall corpus during the month. Prudential ICICI AMC is the only private sector player that has reached the top in the mutual fund sector.

Highlights

- Despite the recent fall in the equity markets, the industry's assets under management (AUM) increased by 7.1% to Rs276,342 crore in May 2006. This was led by the strong inflows into liquid funds; the AUM for equity funds decreased by 4.3% to Rs112,427 crore.
- Fund managers made purchases worth Rs18,345 crore and remained net buyers to the tune of Rs7,893 crore in the equity markets.
- The net inflow into equity mutual funds amounted to Rs10,866 crore in May 2006; the new fund offering (NFO) collections were significantly higher at Rs5,884 crore.
- The domestic mutual funds are sitting on Rs10,989 crore of cash. This is exclusive of the collections made by Standard Chartered Enterprise Equity Fund, which was launched but did not close in May.
- The steep correction in the prices of equities has driven the mutual funds to aggressively invest in May 2006. Mutual funds have been in a strong investment mode by decreasing their cash holdings.
- Mutual funds have slashed their exposure to diversified, cement and metal companies and have bought stocks in the miscellaneous, housing & construction and banking sectors.

- **Major movers for May 2006**



Despite the steep crash in the equity markets, the mutual fund industry saw its AUM increase by 7.1% from Rs257,529 crore in April 2006 to Rs276,342 crore in May 2006. The growth in the AUM was mainly due to the strong inflows into liquid funds. However, the AUM for equity funds fell by 4.3% from Rs117,475 crore in April to Rs112,427 crore in May 2006. The decline in the AUM of equity funds was due to the sharp crash in the equity markets.

Prudential ICICI Mutual Fund clocked the highest increase in absolute terms of Rs4,647 crore to Rs32,151, replacing UTI Mutual Fund as India's largest asset management company. Franklin Templeton Mutual Fund and Sundaram Mutual Fund followed Prudential ICICI Mutual Fund, whereas SBI Mutual Fund posted the highest decline of Rs836 crore, followed by Standard Chartered Mutual Fund and Morgan Stanley Mutual Fund.

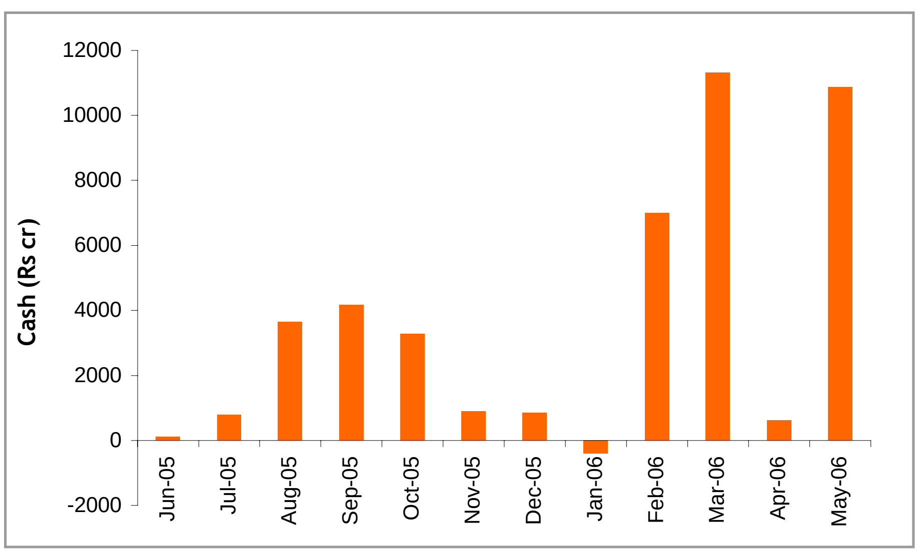
- **Stock Market Activities for Mutual Funds**

Mutual Funds turned net buyers of equities in the month of May 2006.

Month	Purchase (Rs cr)	Sales (Rs cr)	Net (Rs cr)
May-06	18,345.43	10,452.06	7,893.37

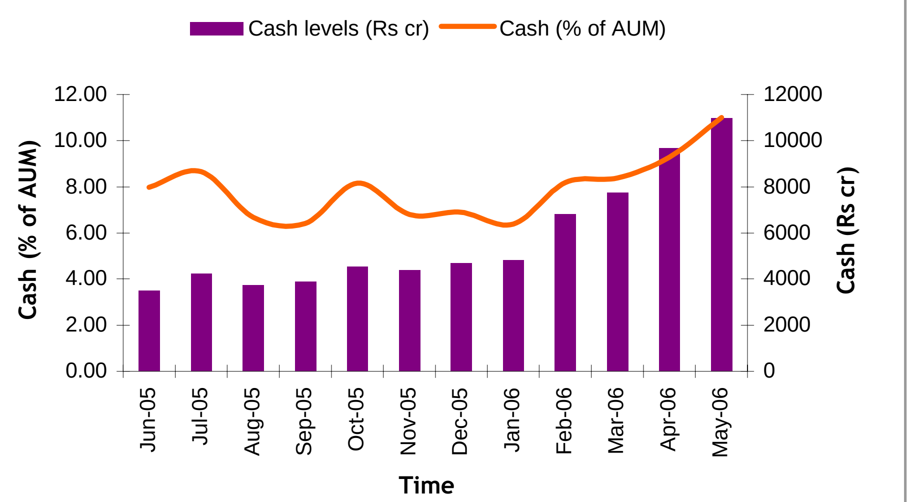
Equity fund flow

The net fund flow into equity mutual funds stood at Rs10,866 crore in May 2006. The fund flow in May saw a considerable jump from the significantly lower fund flows recorded in the month of April. The relatively higher net fund flow is attributed to Rs5,884 crore collected by new fund offerings in May 2006 (Fidelity Special Situations Fund, Sundaram Rural India Fund, Templeton India Equity Income Fund and ABN Amro Future Leaders Fund), as against only Rs33 crore collected in April 2006. Additionally, the amount flowing into existing schemes was also higher at Rs10,227 crore in May 2006 as compared to Rs6,012 crore garnered in April.



Cash levels

Liquidity



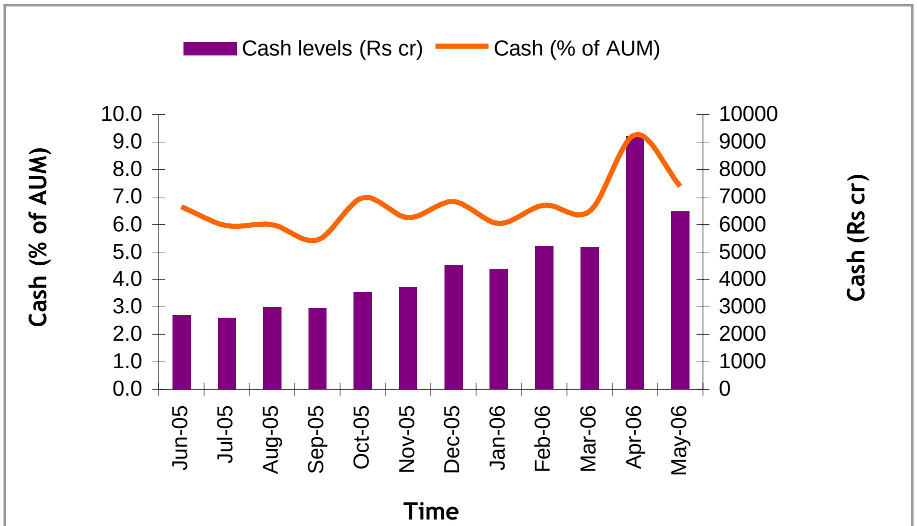
Note: includes all equity funds in the industry launched before May 2006

The absolute cash levels for all equity funds launched before May 2006 increased to Rs10,989 crore from Rs9,669 crore in April 2006. Cash as a percentage of the total corpus also increased from 9.3% in April 2006 to 11% in May 2006.

The cash holdings of all mutual funds launched before May 2006 is higher than what was seen in April because of the higher number of new scheme offers that closed in May. These newly launched schemes are probably yet sitting on high amounts of cash till they figure out their investment strategy, which is increasing the total cash holdings of all mutual fund schemes. As seen below, the cash as a percentage of the total corpus has actually fallen in May 2006 if we do not include the cash held by these newly launched schemes. This indicates that mutual funds have been aggressively deploying their cash to invest at the lower prices that are available as a result of the crash in the markets.

Sentiments

The steep corrections in the market have provided an opportunity to mutual funds to invest at lower levels. Mutual funds have been aggressively deploying their cash holdings to make "value" purchases. Thus, cash levels have fallen from 9.3% of the total corpus in April 2006 to 7.4% of the total corpus in May 2006.



Note: Includes all equity funds in the industry with a NAV track record of 3 months+.

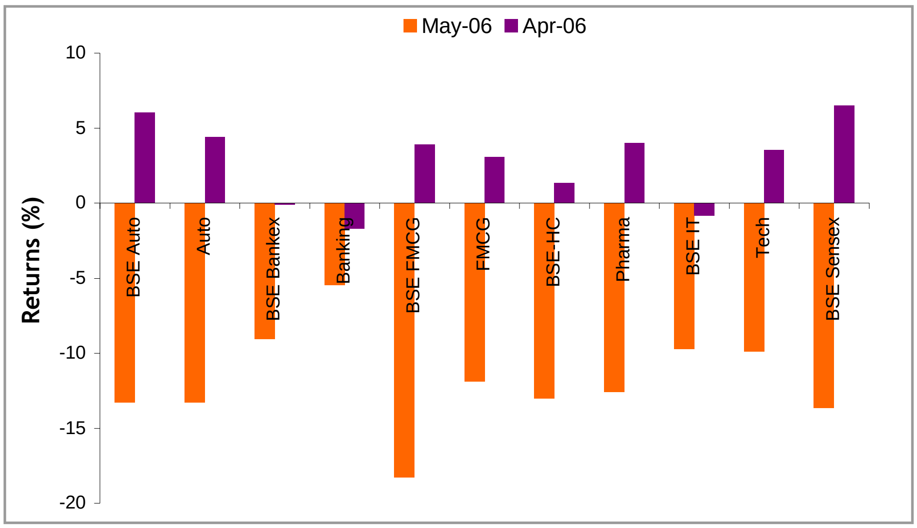
Sector allocation

Major shifts in the sector allocation for the equity-diversified category are as under:

Sector name	May 2006		April 2006	
	Amount (Rs cr)	% of net assets	Amount (Rs cr)	% of net assets
Increase in exposure				
Miscellaneous	5312.80	6.79	3673.22	4.30
Housing & construction	3384.36	4.33	2161.50	2.53
Banks	5904.06	7.55	5471.62	6.41
Finance	1033.84	1.32	975.38	1.14
Hotels & resorts	747.75	0.96	714.27	0.84
Fertilisers, pesticides & agrochemicals	786.80	1.01	791.80	0.93
Decrease in exposure				
Diversified	10567.82	13.51	14085.09	16.51
Cement	2120.23	2.71	2824.02	3.31
Metals	2133.54	2.73	2668.35	3.13
Sugar	841.23	1.08	1208.29	1.42
Auto & auto ancilliaries	6606.11	8.45	7490.00	8.78
Power generation, transmission & equip	1824.49	2.33	2256.60	2.64

Performance of sector funds

All fund categories have generated negative returns in May 2006, in line with the steep fall in the equity markets. All fund categories have outperformed the Sensex, which fell sharply by 13.6% in May 2006. Additionally, funds in the auto, banking, FMCG and pharma sectors have outperformed their respective benchmark indices (the BSE Auto index, the BSE Bankex, the BSE FMCG and the BSE healthcare index respectively) whereas the funds in the technology sector have underperformed the BSE IT index in May 2006. Banking funds gave the highest returns in May 2006, followed by technology and FMCG funds.



Disclaimer: mutual fund investments are subject to market risk. Please read the offer document carefully before investing. Past performance may or may not be sustained in the future.

Sharekhan Stock Ideas

Evergreen

HDFC Bank
Infosys Technologies
Reliance Industries
Tata Consultancy Services

Apple Green

Aditya Birla Nuvo
Associated Cement Companies
Bajaj Auto
Balrampur Chini Mills
Bharat Bijlee
Bharat Heavy Electricals
Corporation Bank
Crompton Greaves
Godrej Consumer Products
Elder Pharmaceuticals
Grasim Industries
Hindustan Lever
Hyderabad Industries
ICICI Bank
Indian Hotel Company
ITC
Mahindra & Mahindra
Marico Industries
Maruti Udyog
MRO-TEK
Lupin
Nicholas Piramal India
Omax Auto
Ranbaxy Laboratories
Satyam Computer Services
Sintex Industries
SKF India
State Bank of India
Sundaram Clayton
Tata Motors
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Television Eighteen India
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Ugly Duckling

Ashok Leyland
Deepak Fertilisers & Petrochemicals Corporation
Genus Overseas Electronics
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JM Financial
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NIIT Technologies
Punjab National Bank
Ratnamani Metals and Tubes
Sanghvi Movers
Saregama India
Selan Exploration Technology
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UltraTech Cement
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