

**February 28, 2007**
**FOR PRIVATE CIRCULATION**
**Equity**

	27 Feb 07	% Chg		
		1 Day	1 Mth	3 Mths
<b>Indian Indices</b>				
Sensex	13,479	(1.3)	(4.3)	(1.6)
Nifty	3,894	(1.2)	(4.6)	(1.5)
Banking	6,695	(1.6)	(7.8)	(6.8)
IT	3,628	(1.2)	(3.2)	1.9
Healthcare	3,613	(0.3)	(5.0)	(2.9)
FMCG	1,777	(1.9)	(6.8)	(11.9)
PSU	5,864	(0.8)	(6.9)	(5.3)
CNX Midcap	5,053	0.2	(4.3)	(0.3)
<b>World indices</b>				
Nasdaq	2,407.9	(3.9)	(2.3)	(1.0)
Nikkei	18,120	(0.5)	0.5	7.4
Hangseng	20,148	(1.8)	(3.1)	2.8

**Value traded (Rs cr)**

	27 Feb 07	% Chg - 1 Day
Cash BSE	3,797	0.9
Cash NSE	8,149	(9.9)
Derivatives	31,766	(8.1)

**Net inflows (Rs cr)**

	26 Feb 07	% Chg	MTD	YTD
FII	(582)	(114)	7,655	7,816
Mutual Fund	271	627	(866)	(2,208)

**FII open interest (Rs cr)**

	26 Feb 07	% chg
FII Index Futures	13,900	4.4
FII Index Options	5,059	3.1
FII Stock Futures	15,664	0.9
FII Stock Options	49	63.8

**Advances/Declines (BSE)**

	27 Feb 07	A	B1	B2	Total	% Total
Advances	106	352	345	803	52	
Declines	107	276	308	691	45	
Unchanged	1	15	24	40	3	

**Commodity**

	27 Feb 07	% Chg		
		1 Day	1 Mth	3 Mths
Crude (NYMEX) (US\$/BBL)	61.5	0.1	10.9	1.9
Gold (US\$/OZ)	663.4	(3.4)	2.5	3.3
Silver (US\$/OZ)	14.2	(3.5)	5.7	2.4

**Debt/forex market**

	27 Feb 07	1 Day	1 Mth	3 Mths
10 yr G-Sec yield	7.88	7.90	7.76	7.42
Re/US\$	44.22	44.21	44.23	44.66

**Sensex**


Source: Bloomberg

**ECONOMY NEWS**

- The Government has banned futures trading in wheat and rice. Commodity exchanges have been asked not to allow trading of new contracts and disallow fresh position building in existing contracts. (ET)
- Following directions from the PMO, the Commerce and Industry Ministry has mandated ICRIER to prepare a study on the domestic retail sector, specifically to see if emergence of large, organised retailers would displace mom-'n'-pop stores. (ET)
- Despite higher wheat production this year, India's overall wheat supply situation is likely to remain tight, a New Delhi-based US attaché said in a report released. (ET)
- With over 6 trillion cubic feet (tcf) of coal bed methane gas already discovered, India will be producing gas from below coal seams by 2007-08. Total 6.24-tcf coal methane reserve has been established in four coal bed methane blocks. (BS)
- Reaping dividends from strong economic growth and last Budget's move to shorten time limits for completion of assessments, the Finance Minister is expected to peg revised estimates for direct tax collections in 2006-07 at over Rs.2300 bn. (BL)
- Sebi has raised the amount of foreign portfolio investment inflow into the country so far in 2007 by nearly \$774 mn due to capture of fresh data under the new reporting system. (ET)

**CORPORATE NEWS**

- The news that a clutch of private equity players are eyeing Dow Chemicals, the largest chemical manufacturer in the US, could throw a spanner in the works for **RIL**. Reliance Industries is in the midst of hectic negotiations with Dow Chemicals for a possible JV. (ET)
- The **Tata group** is in talks with Israel's Rafael Armament Development Authority to form a joint venture to compete for the supply of defense systems to the Indian Army. The two sides raised the issue during the sixth biennial Aero India exhibition held in Bangalore recently, said reports. (BS)
- **Reliance Industries** is considering spinning off the drilling and exploration operations of its oil and gas business. The move is being interpreted as a precursor to raising funds for the logistics part of the oil and gas business. (BS)
- The Power Ministry is considering asking **Reliance Energy** to match the price offered by the Lanco Infratech-Globelec consortium for power from the Sasan ultra mega power project. (BS)
- **Moser Baer**, India's largest optical storage manufacturer, has tied up with **Pyramid Saimira** theatre chain for retailing the former's home video products in the latter's complexes. (ET)
- **Idea Cellular** has signed a three-year contract with Swedish equipment giant Ericsson for GSM expansion in the Maharashtra, Gujarat, Rajasthan, Madhya Pradesh and Himachal Pradesh telecom circles. (ET)
- The **Bharti group** gave its no objection certificate to Vodafone for acquiring controlling stake in **Hutch-Essar** two days before the crucial Hutchison Telecom International's board meeting on February 11 where the decision to sell stake to Vodafone was formally taken. (ET)

Source: ET = Economic Times, BS = Business Standard, FE = Financial Express, BL = Business Line, ToI: Times of India, BSE = Bombay Stock Exchange

## FROM OUR RESEARCH TEAM

### ECONOMIC SURVEY

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## ECONOMIC SURVEY 2006-07

**Economic Survey 2006-07, which is considered the policy pointer of the Government, was tabled on Tuesday in Parliament. It has told the Government that the fight against inflation has to be calibrated without compromising growth.**

### Essence of the economic survey

The economic survey, while appreciating the growth rates achieved in FY07 and over the past four fiscals, has indicated that maintaining this high growth with moderate inflation should be a priority. Also, the growth has to be inclusive in nature so that the same can be sustained in the longer-term.

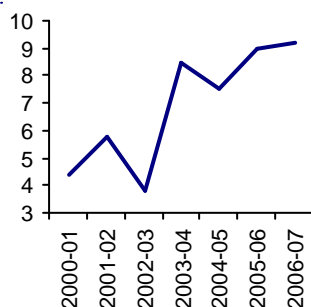
The survey has indicated that for achieving a sustained high growth it is necessary to have well-directed investments in infrastructure by both the Government and private sectors, domestic and foreign. The survey has also indicated that despite the high growth rates the economy is not overheating.

In terms of inclusive growth, the survey has indicated there will be inclusive growth only if there is growth, in the first place. In order to have inclusive growth, the survey has suggested focused investments in health, education and physical infrastructure. Also, it has indicated the importance of providing more and more people with productive and sustainable jobs. Effective implementation of the flagship social schemes of the Government has also been stressed on by the survey.

While the survey has acknowledged the inflationary pressures prevalent in the economy, it has also indicated that commodity-specific supply shortfall-led inflation may not have immediate solutions. The longer-term solutions include increasing yields and domestic output of various agricultural products, through effective use of technology. The survey has also indicated that higher investments in capacity creation can avert problems of capacity constraints and reduce inflationary pressures.

The survey has also stressed on maintaining fiscal prudence in the backdrop of an increasing need to invest in infrastructure and controlling inflation. It has advised against any expensive compromise on fiscal rectitude.

### GDP Growth (%)



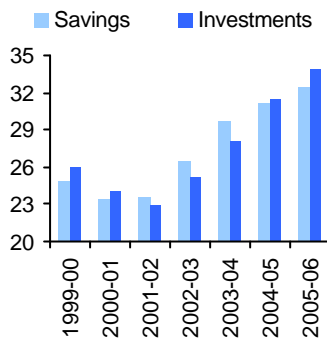
Source: Economic Survey 2006-07

### GDP growth

The advance estimates of GDP for 2006-07, released by the Central Statistical Organization (CSO) on February 7, 2007, placed the growth of GDP at factor cost at constant (1999-2000) prices in the current year at 9.2%. The ratcheting up of growth observed in recent years is reflected in the Eleventh Five Year Plan target of an average annual growth of 9% relative to 8% targeted by the Tenth Plan. The survey also remains optimistic about sustaining the growth trajectory in the future.

Services have contributed 68.6% in the overall average growth in GDP in the last five years between 2002-03 and 2006-07. The entire residual contribution is coming from the industry. As a result, in 2006-07, the share of agriculture in GDP declined to 18.5%, whereas the share of industry and services improved to 26.4% and 55.1%, respectively.

### Saving & Investment (%)



Source: Economic Survey 2006-07

## Saving and Investments: Central to growth

A notable feature of the current growth phase is the upsurge in the rate of saving and investment in the economy. The revival in gross domestic capital formation (GDCF) that commenced in 2002-03 has been followed by a sharp rise in the rate of investment in the economy. This, in turn, has sustained the industrial performance and reinforces the outlook for future growth. Apart from this, in the last two years of 2004-05 and 2005-06, investment rather than private consumption has become the main source of GDP growth.

The survey also pointed out that with the proportion of population in the working age group (15-64 years) increasing steadily from 62.9% in 2006 to 68.4% in 2026, the demographic dividend in the form of high savings rate is likely to continue in the future.

Investment requirements for infrastructure during the Eleventh Five Year plan are estimated to be around \$320 bn. While nearly 60% of these resources would come from the public sector, the balance would need to come either from the private sector and/or through public-private partnership (PPP).

The potential benefits expected from PPP are: cost effectiveness, higher productivity, accelerated delivery, clear customer focus, enhanced social service, and recovery of user charges. Based on the number of projects that have been approved or are under consideration, it is estimated that a leveraging of nearly six times could be achieved through this route.

## Agriculture - important for inclusive growth and restricting inflation

Agriculture, which has grown at 3% in the last five years, is expected to grow at only 2.7% in 2006-07 and is a cause of concern. Low investment, imbalance in fertilizer use, low seeds replacement rate, a distorted incentive system and low post-harvest value addition continue to be a drag on the sector's performance.

With more than half of the population directly depending on this sector, low agricultural growth has serious implications for the 'inclusiveness' of growth. Furthermore, it can complicate the maintenance of price stability with supply-side problems in essential commodities of day-to-day consumption.

On the production front, total foodgrains production in 2006-07 stands at 209.2 mn tons, which is marginally higher than the production of 208.6 mn tons in 2005-06. Production of crops, particularly wheat and pulses, has plateaued for some time now. There has not been any varietal breakthrough in pulses although it was brought within the ambit of Technology Mission on Oilseeds in 1990.

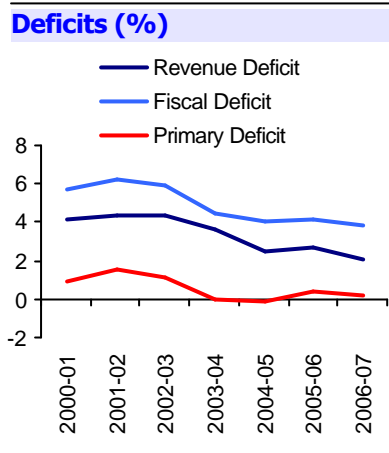
Pulses are genetically low yielding; and are grown on marginal and sub-marginal lands under rain-fed conditions. Thus, the focus needs to shift to micro-irrigation, micronutrients, improved production practices and development of improved/better yielding seeds.

## Inflation

The survey also pointed out that 39.4% of the overall inflation in WPI on February 3 2007 came from the primary group of commodities. Within the primary group, the mineral subgroup recorded the highest year-on-year (YoY) inflation at 18.2%, followed by food articles at 12.2% and non-food articles at 12.0%. Food articles including manufactured products like sugar and edible oils accounted for about 27.2% of the inflation of 6.7% on February 3 2007.

Inflation, with its roots in supply-side factors, was accompanied by buoyant growth of money and credit in 2005-06 and 2006-07 so far. While GDP growth accelerated from 7.5% to 9.0% between 2004-05 and 2005-06, the corresponding acceleration in growth of broad money (M3) was from 12.3% to 17.0%. M3 grew by 21.1% YoY on January 19 2007. The increase in money-multiplier along with the fast growth of reserve money resulted in the rapid growth of broad money.

The change in the liquidity and inflation environment is reflected in the continuous hardening of interest rates in 2005-06 and in 2006-07 so far. With the high demand for credit not adequately matched by deposit growth, there was a steady rise in the credit-deposit ratio and hardening of interest rates. However, the hardening is more pronounced at the shorter end of the yield curve suggesting concerns about inflation only in the short run.



Source: Economic Survey 2006-07

## Fiscal prudence

The medium-term fiscal policy stance of the Government has been to reduce deficits; prioritize expenditure and ensure that these result in intended outcomes and augment resources by widening the tax base and improving the compliance while maintaining moderate rates.

For the medium-term, management of the fiscal deficit, and to provide the support of a strong institutional mechanism, the Fiscal Reforms and Budget Management Act (FRBMA) came into effect from July 5 2004. The fiscal deficit of the Centre as a proportion of GDP has come down from 6.2% in 2001-02 to 3.8% in 2006-07 (Budget Estimate)

Our fiscal consolidation process, unlike other countries has been essentially revenue-led and has involved reprioritization of expenditure with a focus on outcomes. In the reduction of revenue and fiscal deficits, buoyant revenue growth has been complemented by a discernible shift in the composition of expenditure.

With the implementation of the award of the Twelfth Finance Commission, which was calibrated to restructure public finances of both the Centre and States, the process gained momentum. In the current year, as a proportion of GDP, the budgeted fiscal deficit of the states has declined to less than the mandated 3% two years ahead of schedule, and only a marginal revenue deficit remains to be eliminated.

## External Sector

In the balance of payments, in 2005-06 and in the first half of 2006-07, capital flows more than made up for the current account deficits of \$9.2 bn and \$11.7 bn, respectively, and resulted in reserve accretion. The current account deficit reflected the growing trade deficit in the last two years. Exports grew fast, but imports grew even faster, reflecting in part the ongoing investment boom and the high international petroleum price.

In the first nine months of the current year, imports grew 36.3%. After a slow start, exports also gained momentum to grow at 36.3% in the same period of the current year. Buoyancy of exports was driven by the resurgence in the manufacturing sector and sustained demand from major trading partners.

The invisible account remained strong and stable capital flows seamlessly financed the moderate levels of current account deficit caused primarily by the rise in international oil prices. As a proportion of GDP, invisibles stand at 11.5% of GDP in 2005-06 exhibiting steady growth from a modest level of 2.4% of GDP in 1990-91. The most recent two years have shown acceleration, particularly in software and business services.

## Conclusion

The survey pointed out that the economy appears to have decidedly 'taken off' and moved from a phase of moderate growth to a new phase of high growth. To facilitate this further a careful consideration of two issues are require, sustaining high growth with moderate inflation along with the inclusive nature of such high growth.

Thus, the survey has stressed on inclusive growth with moderate inflation. It has called for policies to restrict inflation without impacting growth. Several measures have been suggested, prime among which are sustaining investments in infrastructure, focused and effective implementation of social schemes in education, health and employment, removing supply side constraints and improving agricultural produce and yields (more so in agriculture).

## Bulk deals

Trade details of bulk deals					
Date	Scrip name	Name of client	Buy/ Sell	Quantity of shares	Avg. Price (Rs)
27-Feb	Axon Infotec	V R P Financial Services	B	4,000	237.00
27-Feb	Dhampur Sugar	Invesco Asset Management	B	274,472	76.70
27-Feb	Dhampur Sugar	CTCL As Trustee for Inves	B	243,455	76.70
27-Feb	Dhampur Sugar	Abudhabi Investment Autho	S	732,000	76.70
27-Feb	Flawle Diamo	Chandrakant Bhogilal Shah	S	45,000	92.33
27-Feb	Gujrat Terce	Mukeshkumar K Varma	S	36,438	13.13
27-Feb	JSW SI	Kangaroo Intl. Services P	B	3,000,000	470.06
27-Feb	JSW SI	Sonata Investments Ltd	S	3,000,000	470.04
27-Feb	Kadamb Const	Laxmi Choudhary	S	21,000	19.80
27-Feb	Mohit Indust	Shaishil Tushar Jhaveri	B	34,000	50.51
27-Feb	Mohit Indust	Shaishil Jhaveri	B	30,000	52.65
27-Feb	Mohit Indust	Suketu Sumtilal Shah	B	85,000	50.90
27-Feb	Mohit Indust	Rajeev Goyal	S	85,000	51.64
27-Feb	Nikki Glob F	Yogita Sanjay Mundada	B	90,000	10.39
27-Feb	Nikki Glob F	Pramod Kakani HUF	B	55,000	10.39
27-Feb	Nikki Glob F	Yogita Kakani	B	65,000	10.39
27-Feb	Nikki Glob F	Ashok Kantoor	S	30,000	10.39
27-Feb	Nikki Glob F	Orient Craft	S	80,000	10.39
27-Feb	Osian Lpg Bo	Bakliwal Financial Servic	B	39,050	16.40
27-Feb	Pioner Embro	Lehman Brothers Asia Ltd	B	60,000	206.80
27-Feb	Simplex Trad	Parvati Minerals Private	B	2,500	164.50
27-Feb	Spanc Telesy	Santosh Industries Ltd	B	489,696	200.50
27-Feb	Spanc Telesy	Shyam Telecom Limited	S	400,000	200.50
27-Feb	Tantia Cons	Prism Impex Pvt Ltd	B	120,243	121.11
27-Feb	Transwarranty	Vinco Sales And Services	B	115,000	47.19
27-Feb	Tripex Over	Anik Industries Ltd	S	99,900	134.00

Source: BSE

## Gainers & Losers

Nifty Gainers & Losers				
	Price (Rs)	% change	Index points	Volume (mn)
<b>Gainers</b>				
HDFC Bank	976	2.5	1.5	0.6
ACC	961	1.9	0.7	0.6
Maruti Udyog	887	1.0	0.5	0.5
<b>Losers</b>				
ONGC	818	(2.0)	(7.2)	1.3
ICICI Bank	876	(3.1)	(5.1)	2.5
TCS	1,264	(1.7)	(4.3)	1.2

Source: Bloomberg

## Forthcoming events

COMPANY/MARKET	
Date	Event
28-Feb	India to unveil Federal Budget for year 2007-08 Alfa Laval to announce earnings and dividend BCCI hosts live Union Budget viewing session with experts FICCI hosts live Union Budget discussion in New Delhi Finance Minister Chidambaram holds post-budget press meet
1-Mar	Indian Bank hosts listing ceremony at NSE; Union Bank holds press conference
5-Mar	TV18 to announce interim dividend; Network 18 to consider rights offer
6-Mar	GAIL India to announce special interim dividend

Source: Bloomberg

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