investor's eye

Visit us at www.sharekhan.com December 12, 2006

Index

Take Five

Scrip	Reco Date	Reco Price	CMP	Target
Aban Offshore	03-Mar-05	330	**1,081**	1,760
Aditya Birla Nuvo	06-Dec-05	714	**1,145**	1,280
Ceat	28-Nov-06	122	**117**	190
Lupin	06-Jan-06	403	**545**	670
Thermax	14-Jun-05	124	**374**	425

Pulse Track

IIP for October 2006 dips to 6.2%

The Index of Industrial Production (IIP) grew by 6.2% year on year (yoy) for October 2006, as compared to an 11.4% growth in September 2006 and a 9.8% growth in October 2005. The growth was significantly lower than the consensus estimate of 9.6%.

Key points

- The slowdown is not broad-based as basic goods are up 9.9% yoy, capital goods are up 8.2% yoy and intermediate goods are up 8.1% yoy.
- The slowdown is mainly in the consumer goods sector, which reported a 0.5% year-on-year (y-o-y) growth, with durables up only 2.4% yoy and non-durables down 0.4% yoy.
- The slowdown in the consumer goods production has largely been influenced by the festive season falling in the month October in the current fiscal compared to November in the previous fiscal.
- The decline in non-consumer durables production is somewhat strange as leading fast moving consumer goods (FMCG) companies have reported that the growth rate is normal. Further if we take a cue from the beverages and tobacco category which grew by 11.5% yoy the decline in non-durables remain a surpirse.

Manufacturing growth takes a dip

The growth in the manufacturing sector at 6% was much lower than what we have witnessed in the recent past. In fact it has gone below 10% for the first time in FY2007. The growth in the manufacturing production index (constituting 79.4% of the IIP) has been buoyant due to the growth in heavyweight sectors like chemicals (weightage 14%), food products (weightage 9.1%), machinery equipment (weightage 9.6%) and basic metal and alloy industries (weightage 7.5%) to mention a few. In October we have seen food products report a decline of 9.7% yoy, whereas basic chemicals and chemical products reported a marginal 1.9% y-o-y growth compared to an average y-o-y growth of 11% in FY2007 so far. The machinery and equipment production also reported single-digit growth rate at 6.4% yoy compared to an average y-o-y growth rate of 14% in FY2007 so far. We feel the decline in the production of sectors like food products and the lower growth coming from heavyweight sectors like chemicals, machinery and equipments has acted as a drag on the overall growth of the manufacturing index.

Food products report a 9.7% decline

In the food products category sugar and wheat have the highest weightage of 2.2% each. The crushing of sugar cane in the November-December period instead of October could have influenced the sugar production for October 2006. The low wheat production in the country during FY2007 has led to large scale wheat imports and the decline in the production of the same could have largely influenced the 9.7% y-o-y decline in the food products category.

In the chemicals and chemical products category fertilisers and filament yarn have the highest weightage of 1.8% each. The shutdown of Reliance Industries' plant at Jamnagar in the last week of October 2006 could have largely influenced the production figures for this category.

Other sectors report strong growth

However, certain sectors like basic metal and alloy industries grew by an impressive 20.8% yoy in October 2006 on top of a 16.7% y-o-y growth reported in October 2005. Non-metallic minerals (primarily cement products) grew by 12.5% yoy while the metal products grew by 25.6% on a much lower base.

Mining and electricity production stable

The mining production reported a 4% y-o-y growth on a lower base, while the electricity production grew by a strong 9.7% yoy on a higher base of 7.7% reported in October 2005.

Capital goods index grew by 8.2%

The index of capital goods grew by 8.2%. The point worth noting is that the growth has come on a higher base as the index grew by 24.3% during October 2005. The capital goods index reported a 2.2% y-o-y growth in September 2006; however the latest revised data points to a 6% growth. The production for the April to October 2006 period reported a growth of 15% yoy compared to a 16.9% y-o-y growth reported for the same period in the previous year. The growth rate in capital goods has come down to single digits from the high double-digit growth rates witnessed from February 2005 to August 2006. Strong order backlogs and infrastructure spending should see the capital goods index growth again moving up to double digits.

Consumer goods growth disappoints

The production of consumer goods grew marginally by 0.5% with the durables growing by 2.4% while the non-durables declined by 0.4% yoy.

In % yoy chg	Oct-06	Oct-05	Sep-06	YTD FY07	YTD FY06
IIP	**6.2**	**9.8**	**11.4**	**10.3**	**8.6**
General					
Manufacturing	6.0	10.9	12.0	11.2	9.7
Mining	4.0	-0.1	4.3	3.4	0.9
Electricity	9.7	7.7	11.5	7.1	5.2
Use based					
Capital goods	8.2	24.3	6.0	15.0	16.9
Consumer goods	0.5	14.6	12.0	9.8	13.5
- Durables	2.4	16.4	11.8	13.2	13.9
- Non-durables	-0.4	14.0	12.1	8.5	13.5

Source: Ministry of Statistics and Programme Implementation

Consumer goods growth influenced by festive demand pattern

Since the Diwali was in October for FY2007 and in November for FY2006 the higher production figures would have been reflected in the months of August and September 2006. The consumer goods index was up 14.6% and 12.5% for the months of August and September 2006 respectively on a y-o-y basis with consumer durables up 20.2% and 12.6% for the same months respectively. A look at the y-o-y production figures for commercial vehichles, cars and two-wheelers reflect the same trend.

The decline in non-consumer durables production is somewhat strange as leading FMCG companies have reported that the growth rate is normal. Further if we take a cue from the beverages and tobacco category which grew by 11.5% yoy the decline in non-durables remain a surpirse.

Currently the growth rate seems to have moderated a bit. However, it is not broad-based as basic goods are up 9.9% yoy, capital goods are up 8.2% yoy and intermediate goods are up 8.1% yoy. It is only the consumer goods data that has impacted the IIP numbers. The year-till-date growth rates remain encouraging and with the sustained demand in cement and the ongoing infrastructure spending coupled with the expected pick-up in automobile sales, we feel the IIP would reflect better numbers in the coming months.

Growth in manufacturing sector

% y-o-y change	Weight	Jun-06	Jul-06	Aug-06	Sep-06	Oct-06
Food products	9.1	-2.4	27.1	2.0	10.0	-9.7
Beverages, tobacco and related products	2.4	10.7	11.8	16.4	19.8	11.5
Cotton textiles	5.5	0.0	13.1	12.2	14.5	10.8
Textile products incl. wearing apparel	2.5	14.1	29.3	11.2	5.6	9.3
Wood and wood products	2.7	-24.2	3.0	-14.6	19.6	10.6
Paper & paper products	2.7	9.9	7.1	-2.5	8.4	7.2
Chemicals & chemical products	14.0	4.0	9.6	10.4	13.0	1.9
Rubber, plastic, petroleum & coal products	5.7	10.1	9.5	12.9	15.3	8.2
Non-metallic mineral products	4.4	18.7	12.8	5.3	16.7	12.5
Basic metal and alloy industries	7.5	19.8	19.7	13.6	19.8	20.8
Metal products	2.8	6.8	4.4	8.6	9.6	25.6
Machinery and equipments	9.6	16.5	14.2	20.3	11.6	6.4
Transport equipment	4.0	20.5	22.3	10.9	11.9	5.4
Other manufacturing industries	2.6	24.5	22.0	18.6	10.9	-17.2

Source: Ministry of Statistics and Programme Implementation

Production figures

Dated	CV	yoy chng	Cars	yoy chng	Two wheeler	yoy chng
31-10-2005	36,726	29.7	92,135	0.4	775,768	22.9
30-11-2005	32,760	11.7	93,239	14.4	646,558	12.6
31-12-2005	28,453	-23.2	75,855	-1.3	609,277	1.2
31-07-2006	42,194	31.5	112,637	26.2	666,863	24.8
31-08-2006	40,433	28.7	108,587	24.1	625,852	4.7
30-09-2006	44,518	33.2	101,898	11.9	799,650	13.0
31-10-2006	40,505	10.3	102,040	10.8	792,907	2.2

Source: SIAM

Nucleus Software Exports

Emerging Star

Stock Idea

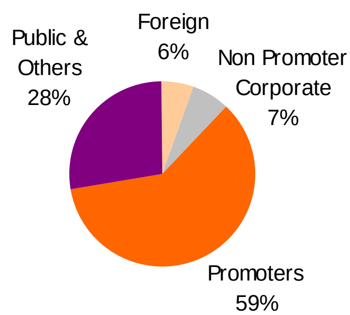
Product play

Buy; CMP: Rs497

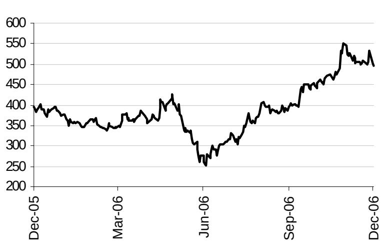
Company details

Price target:	Rs680
Market cap:	Rs801 cr
52 week high/low:	Rs575/245
NSE volume: (No of shares)	17,726
BSE code:	531209
NSE code:	NUCLEUS
Sharekhan code:	NUCSEX
Free float: (No of shares)	0.64 cr

Shareholding pattern



Price chart



Price performance

(%)	1m	3m	6m	12m
Absolute	-8.8	29.7	84.7	27.3
Relative to Sensex	-9.6	11.7	34.1	-15.1

Key points

- **Niche player with established presence:** Nucleus Software Exports Ltd (NSEL) is a niche player offering software products and services to companies in the banking and financial service space. It has established itself globally with product installation base of over 250 application modules in more than 30 countries.
- **Product business drives growth:** The product business grew exponentially in FY2006, on the back of some impressive order wins like the $12-million multi-year deal with GMAC. Apart from this, it added 21 new clients and bagged orders for 38 new installations in FY2006. In the first half of FY2007 also, the company added 14 new clients and continued to grow its pending order book that stood at Rs135 crore as on September 2006. Consequently, we expect the product revenues to grow at a CAGR of 67% over FY2006-08.
- **Margins are sustainable:** In spite of the cost pressures and the aggressive employee addition targets for this year, the company is likely to sustain its overall profitability. The growing contribution from the high-margin product business is expected to mitigate the adverse impact of the rising wage bill and the expansion-related pressures in the intermediate term.
- **Alliance could throw positive surprises:** The initiatives to forge joint marketing alliances with global technology giants and develop a network of channel partners could result in higher-than-expected order bookings. The partnership model has already started yielding results.
- **Valuation:** Revenues and earnings are estimated to grow at CAGR of 38% and 40% respectively over FY2006-08E. At the current price the stock trades at 11x its FY2008 earnings, which is relatively cheaper compared with the peer companies. We recommend a Buy on NSEL with a one-year price target of Rs680.

Company background

NSEL's flagship product FinnOne is a comprehensive suite of retail banking product and consists of various application modules like loan origination, customer acquisition, recovery management, delinquency and general accounting system.

Key financials

Particulars	FY2005	FY2006	FY2007E	FY2008E
Net profit (Rs cr)	20.6	37.0	57.4	72.9
No of shares (cr)	1.6	1.6	1.6	1.6
EPS (Rs)	6.4	23.0	35.7	45.3
% y-o-y change	-	*260.4*	*55.1*	*26.9*
PER (x)	38.9	21.6	13.9	11.0
Price/BV (x)	9.5	7.0	4.9	3.5
EV/EBIDTA(x)	26.2	15.7	10.4	7.9
Dividend yield (%)	0.5	0.7	0.9	1.1
RoCE (%)	30.9	38.0	40.3	37.0
RoNW (%)	24.5	32.3	35.0	32.2

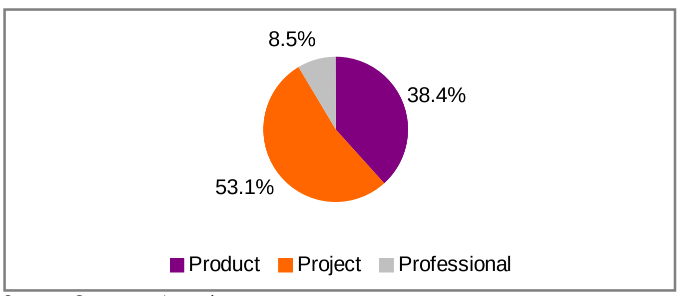
It has been ranked as the eighth highest selling product by the International Banking Systems (IBS; a leading publication house that ranks various banking software product companies in terms of the number of sales of a product globally) for 2005.

The ranking has improved consecutively over the last two years, up from the 15th position in 2003 and the 10th position in 2004. The FinnOne product has the distinction of being one of the leading universal banking solution with 120 customers spanning four continents, including reputed names like GE Capital, Citibank N.A, American Express Bank, Bank of America, BNP Paribas, Standard Chartered Bank, Shinsei Bank, HDFC Bank, Shensei Bank and Tokyo Star Bank amongst others.

The company also has other software products like Cash@Will (cash management), FMS (fraud management), BankOnet (Internet banking), Trade Facto (trade finance) and PowerCARD (credit card system). By the end of FY2006, the company had implemented 250 application modules in 30 countries globally.

In addition to the product business, NSEL offers project-oriented customised application development and maintenance services. Through its wholly-owned subsidiary, Virstra i-Technology, the company operates a dedicated development centre for one of its large clients.

Revenue break-up (FY2006)



Source: Company, Annual report

Investment arguments

GMAC deal provided the initial fillip

After two years of flat growth, the product revenues grew at an exponential rate of 115% to Rs56.8 crore during the fiscal ended March 2006. NSEL got the required fillip after bagging the $12-million multi-year order to roll out loan and collection management module of the FinnOne suite at several locations for General Motors Acceptance Corporation (GMAC, a wholly-owned subsidiary of the General Motors group and one of the world's largest auto finance companies).

NSEL had implemented the FinnOne modules for GMAC in India and several other Asian locations like Taiwan, Indonesia, Thailand and China over a period of four years, 2000-04. The relationship with GMAC was further strengthened by the order in early 2005 to implement modules of FinnOne across various locations in Europe, Latin America and the Asia pacific region. The order is providing steady revenues of around Rs5 crore in each quarter, which is likely to continue over the next six quarters.

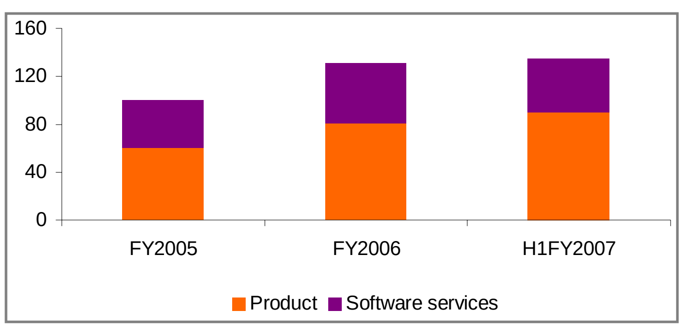
What's more, there is scope to further scale up the relationship with GMAC by penetrating into the other geographies like North America and getting orders to implement the other modules of the FinnOne suite like loan origination, which has been recently implemented at the Chinese operations of GMAC. Moreover, the GMAC deal involving the implementation of its flagship product across several locations would be a strong reference point to bid for business from the other retail lending institutions globally.

Strong order book to drive growth

In addition to the GMAC deal, the company has been able to add around six new clients (on an average) in each of the last six quarters. What's more, many of these clients have been acquired in newer geographies like Australia, Africa and the Middle East (top four banks in the UAE have chosen to implement the lending module of the FinnOne suite). In all, the company has added 35 new clients to implement various modules of FinnOne suite during the past 18 months.

Consequently, the order backlog has grown from around Rs100 crore at the end of March 2005 to Rs131 crore at the end of FY2006. What's more, the same has inched up further to Rs135 crore as on September 2006, in spite of the healthy revenue growth of 53% during the first half of this fiscal. The pending order book in its product business is at a record high level of Rs90 crore (this is excluding the $2.3-million product order booked in October 2006). We expect the revenues from the product business to grow at compounded annual growth rate (CAGR) of 67% over the two-year period FY2006-08.

Order book (Rs crore)



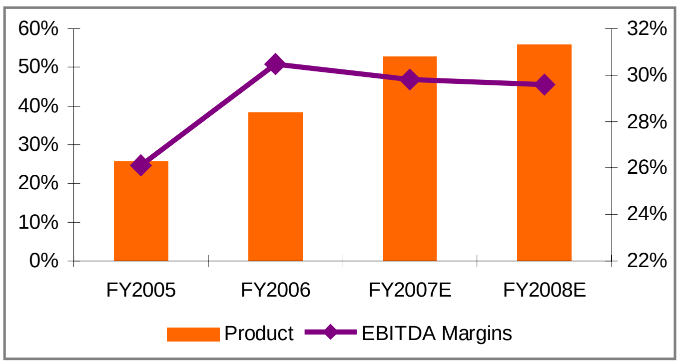
Source: Company, Sharekhan Research

Margins are sustainable

NSEL has shown a dramatic improvement in its profitability during the two-year period FY2004-06. The earnings before interest, tax, depreciation and amortisation (EBITDA) margin has improved from 19% to 30.5% in this period. The improvement in the margin has been driven largely by the growing contribution of the high-margin product business and the savings in the selling, general and administration cost as a percentage of sales.

Going forward, the company is expected to maintain its margins in the narrow range of 28-31%, largely due to the continued increase in the revenue contribution from the relatively faster growing product business. The product business is projected to be growing at a CAGR of 67% over FY2006-08E as compared with the software service business, which is estimated to grow at 17-18% in the same period. As a result, the product business is expected to contribute around 56% of the total revenues in FY2008, up from 38.4% in FY2006.

High-margin product revenues to support its profitability



Source: Company, Annual report

Strategy to form alliances has started yielding results

NSEL has adopted a strategy to form alliances with leading global technology companies to jointly bid for large orders as a consortium partner. Over the past couple of years, it has formed joint marketing alliances with Hewlett Packard (HP), Oracle, IBM, Sun, Intel and Fujitsu. It has attained the highest level of partner status (Principal Partner) with Sun at a global level and has recently received an award from Oracle for its middleware solution.

The strategy has started yielding results with the company bagging an order from a public sector bank in India as part of the consortium team led by HP. NSEL has indicated that the realisations are actually better in such deals due to the brand image and premium pricing commanded by the global technology company leading the consortium. Moreover, the alliances have considerably improved the company's marketing reach.

To further boost its product business, NSEL has also signed agreements with a slew of channel partners in various geographies. The company expects to improve its presence in the developed markets like Europe through the channel partners.

Conservative accounting policy, healthy balance sheet

NSEL follows a conservative accounting policy of expensing the entire expenditure related to research & development of software products in the corresponding quarter itself, unlike some of the other companies that amortise the same over the life of the product.

NSEL is a zero-debt company and had cash & cash equivalents of Rs74.3 crore as on March 2006. It expects to comfortably fund its aggressive capital expenditure plans (planned capital expenditure of Rs25-30 crore in FY2007) to expand its infrastructure through internal accruals. We expect the company to report a healthy return on capital employed of over 40% in the current fiscal.

Investment concerns

High client concentration and a growing dependence on product revenues

The top five clients contributed over 73% of the total turnover in FY2006, which is relatively on the higher side and could result in a pronounced impact on the performance in case the business from even one of the large customers slows down. Moreover, the growing dependence on the product revenues could result in higher volatility in the quarterly performance due to the non-linear nature of the product business.

Rising employee cost

NSEL has a fairly high attrition rate of around 17% in spite of the aggressive correction effected in the salary level during the current fiscal. Moreover, the company has set an aggressive employee addition target in FY2007 (planned increase of 50% in its employee base). The expected increase in the contribution from the high-margin product revenues is likely to support the margins. Moreover, the company is broadening its employee pyramid by aggressively recruiting freshers to support its margins.

Valuation

The consolidated revenues and earnings are estimated to grow at CAGR of 38% and 40% respectively over the two-year period of FY2006-08E. At the current price NSEL trades at 11x its FY2008 earnings; the valuation is relatively cheaper compared with that of the peer companies. We recommend a Buy call on NSEL with a one-year price target of Rs680 (15x FY2008 estimated earnings of Rs45.3 per share).

Financials

Profit and loss account

Rs (cr)

Particulars	FY05	FY06	FY07E	FY08E
Net sales	103.0	148.2	222.4	283.7
Total expenditure	76.1	103.0	156.1	199.8
EBITDA	26.9	45.2	66.2	83.9
Other income	2.6	3.1	6.5	8.4
Depreciation	3.5	4.8	6.8	8.6
PBT	26.0	43.5	66.0	83.8
Tax	5.4	6.5	8.6	10.9
PAT	20.6	37.0	57.4	72.9

Valuation

Particulars	FY05	FY06	FY07E	FY08E
EPS (Rs)	12.8	23.0	35.7	45.3
P/E	38.9	21.6	13.9	11.0
Book value	52.3	71.2	101.8	140.7
Price/BV	9.5	7.0	4.9	3.5
Market cap/Sales	7.8	5.4	3.6	2.8
EV/Sales	7.5	5.1	3.4	2.6
EV/EBIDTA	26.2	15.7	10.4	7.9
Dividend yield (%)	0.5	0.7	0.9	1.1

Balance sheet

Rs (cr)

Particulars	FY05	FY06	FY07E	FY08E
Share capital	16.1	16.1	16.1	16.1
Reserves and surplus	68.0	98.6	147.8	210.6
Networth	84.1	114.7	163.9	226.7
Total debt	0.0	0.0	0.0	0.0
Capital employed	84.1	114.7	163.9	226.7
Net fixed assets	27.7	29.0	40.2	49.6
CWIP	0.7	1.0	2.0	1.0
Investments	48.7	50.0	70.0	98.0
Deferred tax assets	0.2	0.0	0.0	0.0
Net current assets	6.8	34.7	51.7	78.0
Capital deployed	84.1	114.7	163.9	226.7

Key ratios (%)

Particulars	FY05	FY06	FY07E	FY08E
GPM	42.0	45.7	43.8	43.1
OPM	26.1	30.5	29.8	29.6
NPM	20.0	25.0	25.8	25.7
RoCE	30.9	38.0	40.3	37.0
RoNW	24.5	32.3	35.0	32.2

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

Bank of India

Apple Green

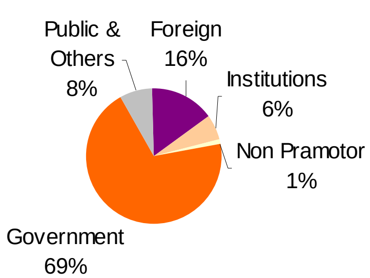
Stock Update

Acquiring 76% stake in an Indonesian bank

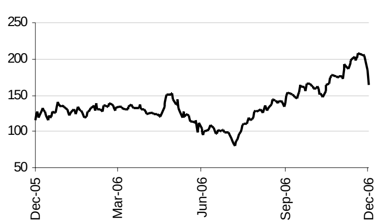
Buy; CMP: Rs165

Company details	
Price target:	Rs185
Market cap:	Rs8,047 cr
52 week high/low:	Rs212/78
NSE volume: (No of shares)	16.5 lakh
BSE code:	532149
NSE code:	BANKINDIA
Sharekhan code:	BOI
Free float: (No of shares)	14.9 cr

Shareholding pattern



Price chart



Price performance

(%)	1m	3m	6m	12m
Absolute	-5.9	18.2	58.6	42.1
Relative to Sensex	-3.8	6.1	15.7	-0.1

Key points

- Bank of India (BoI) is set to acquire a majority 76% stake in Indonesian bank, P T Bank Swadesi Tbk, at an estimated cost of Rs111.3 crore ($25 million). The deal will be completed in another couple of months, as certain clearance issues need to be sorted out.
- The Indonesian bank is a mid-sized bank, listed on the Jakarta Stock Exchange and has been operating in Indonesia for the last 38 years. It has an asset base of Rs445 crore ($100 million), a deposit base of Rs333.8 crore ($75 million) and a net worth of Rs48.9 crore ($11 million).
- The Indonesian bank has four branches, two each in Jakarta and Surayaba, and five sub-branches. International business contributes approximately 20% of BoI's assets as on September 30, 2006.
- BoI has been operating in Indonesia for the last 33 years through a representative office and hence its management felt that acquiring a local bank would be a better deal than setting up a bank in Indonesia as the capital requirements for setting up a new bank are high at Rs1,335 crore ($300 million).
- Since 20% of BoI's assets are from foreign operations, we feel that the deal would add value to the bank's overall operations considering the financials of the bank (refer table below). The bank acquired has an asset base of Rs445 crore (2% of BoI's international assets and 0.4% of BoI's total assets as on March 31, 2006) which we feel is fairly manageable.

International operations also contributed to overall improvement

BoI has reported very good Q2FY2007 numbers with a 60.5% growth in the profit after tax year on year (yoy); its foreign operations also contributed to the improved results (refer to our Investor Eye dated October 31, 2006). BoI is among the few

Valuation table Rs (cr)

Year ended March 31	FY2005	FY2006	FY2007E	FY2008E
Net profit (Rs cr)	340.1	701.4	916.3	1,083.7
Shares in issue (cr)	48.8	48.8	48.8	48.8
EPS (Rs)	7.0	14.4	18.8	22.2
EPS growth (%)	-66.3	106.3	30.6	18.3
PE (x)	23.7	11.5	8.8	7.4
P/PPP (x)	5.5	4.7	3.7	3.3
Book value (Rs/share)	91.5	102.1	116.3	134.5
P/BV (x)	1.8	1.6	1.4	1.2
Adj BV/share	59.6	82.2	101.4	131.2
P/ABV (x)	2.8	2.0	1.6	1.3
RONW (%)	8.0	14.8	17.2	17.7

public sector banks that have shown significant improvement in their foreign operations. As on September 30, 2006 the bank's foreign spreads expanded by 32 basis points yoy to 1.63% while its foreign advances were up by 10% yoy and foreign deposits rose by 13% yoy.

	Sep-05	Sep-06	% y-o-y chng
Spread			
Domestic	2.91	3.27	36*
Foreign	1.31	1.63	32*
Global	2.57	2.95	38*
Deposits			
Domestic	70151	85544	21.9
Foreign	15705	17750	13.0
Global	85856	103294	20.3
Advances			
Domestic	45371	58494	28.9
Foreign	13794	15195	10.2
Global	59165	73689	24.5

* yoy change in basis points

Foreign presence

The overseas network of BoI consists of 24 offices spread across 12 countries in four continents, with presence in all the major financial centres such as London, New York, Paris, Tokyo, Singapore and Hong Kong. The overseas branches accounted for 20% of the bank's total business as at September end 2006. The bank has opened a representative office in Beijing, China during May 2006. It also has plans to expand its foreign operations in Doha (Qatar), Johannesburg (South Africa), Antwerp (Belgium) etc.

Financials of the Indonesian bank

As in December 2005, the Indonesian bank had net non-performing assets (NNPAs) of Rs4.2 crore on a total loan book of Rs200.6 crore, which translates into an NNPA ratio of 2.1%, not alarmingly high. The bank's net profit has remained stable at Rs5 crore for the last three financial years.

Financials of PT Bank Swadeshi Tbk

Particulars (Rs crore)	FY2003	FY2004	FY2005
Total assets	334.5	397.3	418.6
Total loans	164.7	183.6	200.6
Non-performing assets	0.6	2.1	4.2
NNPA (%)	0.4	1.1	2.1
Net interest income	15.1	16.2	15.0
Net profit (Losses)	5.2	5.7	5.4
NII/total assets (%)	4.5	4.1	3.6
RoA (%)	1.6	1.4	1.3

Source: Bloomberg (converted at Rs 44.5 per dollar)

Valuation and view

BoI was among the major losers (down 10%) on December 11 and 12, 2006 in the aftermath of the 50-basis-point hike in the cash reserve ratio (CRR) announced by the Reserve Bank of India and the unwinding of leveraged positions in the derivatives market. We believe the CRR hike was a negative for banks and it simply acted as a trigger for a correction. The market however dumped the banking stocks with more disgust than they deserved. Banks have also been the major gainers in the past couple of months. We continue to like BoI due to its focus on selective business growth that results in margin expansion and the low interest rate risk on its investment book. Its Q2FY2007 numbers (refer to our Investor Eye dated October 31, 2006) have reflected the same with margin expansion of 38 basis points yoy in its global business, far better than that of its peer group. At the current market price of Rs165 the stock trades at 7.4x FY2008E earnings per share, 3.3x FY2008E pre-provisioning profit and 1.2x FY2008E book value. We maintain our Buy call on the stock with a price target of Rs185.

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

What's In—What's Out

Mutual Fund

Fund Analysis: December 2006

Favourite stock picks in the portfolios of equity and mid-cap funds

An analysis has been undertaken on equity and mid-cap funds' portfolios, indicating the favourite picks of fund managers for the month of November 2006. Equity funds comprise of all diversified, index, sector and tax planning funds, whereas mid-cap funds include a universe of 17 funds such as Reliance Growth, Franklin India Prima Fund, HDFC Capital Builder, Birla Mid-cap Fund etc.

What's in

Top new stocks added to the equity funds' portfolios.

Company name	No of shares	Mkt value (Rs cr)
ANG Auto 100000	3.09	
Alphageo (India)	125649	2.03
Apollo Hospitals Enterprise	45000	2.02
Blue Bird India	--	2.81
City Union Bank	100294	1.71
Eastern Silk Industries	436336	12.05
Geojit Financial Servics	2129461	6.27
Great Offshore	988416	97.22
Gujarat Apollo Equipments	400000	7.93
Gujarat State Financial Corp	--	6.53
Info Edge (India)	157229	9.91
Lanco Infratech	2563903	66.89
Network Eighteen Fincap	601200	82.46
Parsvnath Developers	1843832	97.04
R System International	1178309	25.09
Rajesh Exports	269500	6.24
Saksoft	201726	2.92
Subhash Projects & Marketing	1169028	24.25
TRF	823470	34.70
Vardhman Holding	201703	7.23

Top new stocks in the mid-cap funds' portfolios.

Company name	No of shares	Mkt value (Rs cr)
Alstom Projects India	142941	6.10
Apar Industries	110550	2.49
Atlanta	200200	17.99
Cambridge Solutions	3373868	40.54
Eastern Silk Industries	436336	12.05
Great Offshore	192000	9.46
Hanung Toys & Textiles	221493	2.86
ING Vysya Bank	155000	2.53
Jubilant Organosys	155000	3.97
Jyoti Structures	195000	2.65
Network Eighteen Fincap	120000	4.13
New Delhi Television	130783	3.07
Parsvnath Developers	58274	3.07
Phillips Carbon Black	319323	3.96
Prithvi Information Solutions	792261	29.85
Punj Lloyd	209622	21.67
Punjab National Bank	49779	2.71
Tata Power Company	273229	15.88
TRF	286676	12.08
Viceroy Hotels	352778	3.38

What's out

Complete exits in the equity funds' portfolios.

Company name
ESI
Ucal Fuel Systems
Jindal South West Holding
Micro Technologies India

Complete exits in the mid-cap funds' portfolios.

Company name	Company name
Balrampur Chini Mills	Tata Elxsi (India)
BPCL	UTV Software Communication
ESI	Shoppers Stop
Havells India	Alembic
Hindustan Dorr-Oliver	Balaji Telefilms
Murudeshwar Ceramics	Mid-Day Multimedia
Nahar Industrial Enterprises	Petronet Lng
NIIT	Tata Consultancy Services
Oswal Chemicals & Fertilizers	ABG Shipyard
Raipur Alloys & Steel	Sadbhav Engineering
Sakthi Sugars	

Favourite picks for the month

Top additions to the existing holdings of equity funds' portfolios.

Company name	No of shares added	Mkt value added (Rs cr)
KEC International	67644498	2557.98
Tata Motors	3832963	310.24
HCL Technologies	4508395	283.69
Punj Lloyd	2306097	238.20
Larsen & Toubro	1535122	210.22
Dr Reddy's Laboratories	2644301	198.53
Bharat Heavy Electricals	744363	186.60
Wipro	2623385	157.13
Simplex Infrastructures	3541642	141.75
Sun TV	877710	134.03
Hero Honda Motors	1468157	109.03
ITC	5592932	103.25
Parsvnath Developers	1843832	97.04
NTPC	4767316	70.15
Lanco Infratech	2563903	66.89
Hindustan Construction Co	4184455	64.48
Nagarjuna Construction Co	2861290	61.65
Mahindra & Mahindra	721753	59.26
Kotak Mahindra Bank	1520196	57.88
Prithvi Information Solutions	1529640	57.62

Top additions to the existing holdings of mid-cap funds' portfolios.

Company name	No of shares added	Mkt value added (Rs cr)
KEC International	7251536	274.22
Cambridge Solutions	3373868	40.54
TVS Motor Company	3500000	34.25
IVRCL Infrastructure & Projects	728233	32.02
Prithvi Information Solutions	792261	29.84
Escorts	2299995	27.02
Punj Lloyd	209622	21.65
Simplex Infrastructures	534751	21.40
NIIT Technologies	800436	20.77
Sesa Goa	161230	20.40
Ansal Properties & Industries	198738	19.16
Atlanta	200200	17.99
Tata Power Company	273229	15.88
Amtek Auto	437107	15.49
Jindal Saw	366136	14.78
Megasoft	1289049	14.78
Bank of India	684999	13.77
TRF	286676	12.08
Eastern Silk Industries	436336	12.05
Lupin	214304	11.33

Popular stocks in mid-cap funds

Company name	No of shares	Mkt value (Rs cr)
Aditya Birla Nuvo	1583438	184.13
Bank of Baroda	3331167	86.86
Bharat Earth Movers	1273147	131.06
Fag Bearings India	1510465	99.37
Gammon India	2659685	123.37
Goodlass Nerolac Paints	1023954	87.74
India Cements	4528743	106.57
IPCA Laboratories	2601505	125.71
JaiPrakash Associates	5435413	360.28
Jindal Saw	2814489	113.80
Jindal Steel and Power	410333	88.46
JSW Steel	3262521	107.08
Maharashtra Seamless	2393230	106.04
MICO	301000	103.85
Northgate Technologies	1077540	89.61
Raymond	1997317	87.16
Reliance Industries	925542	115.18
Sesa Goa	780300	98.69
Sintex Industries	4487443	103.46
State Bank of India	874999	115.24

Exclusive stocks

Some stocks held by only one fund.

Scrip Name	Fund House
3M India	Kotak Mahindra Mutual Fund
Bharat Seats	UTI Mutual Fund
Control Print (I)	HDFC Mutual Fund
Dhunseri Tea & Industries	PRINCIPAL Mutual Fund
Disa India	Kotak Mahindra Mutual Fund
Govind Rubber Ltd (Merged)	Reliance Mutual Fund
Mahendra Petrochemicals	UTI Mutual Fund
Photoquip	PRINCIPAL Mutual Fund
Piramyd Retial	SBI Mutual Fund
Sanghi Polyesters	UTI Mutual Fund
SICOM	UTI Mutual Fund
Sonata Software	Kotak Mahindra Mutual Fund
State Bank of Bikaner & Jaipur	UTI Mutual Fund
Tezpore Tea Company	UTI Mutual Fund
Zicom Electronic Security	SBI Mutual Fund

Cash rich funds: Top 10 funds having more cash compared to the others (%)

Birla Long-term Advantage Fund, Sundaram Select Midcap, Sahara Wealth Plus Fund, DBS Chola Opportunities Fund, UTI Spread Fund and UTI Equity Fund are some of the cash rich equity diversified funds waiting for right valuations to invest.

Scheme	Equity (%)	Debt (%)	Cash & equivalent (%)
LIC MF Index Fund - Sensex Plan	67.78	0	32.22
Sahara Wealth Plus Fund	70.38	0	29.62
Birla Long Term Adv Fund	73.12	0	26.88
Sundaram BNP Paribas Select Midcap	75.22	0	24.78
DBS Chola Opportunities Fund	76.74	0	23.26
Cangrowth Plus	78.39	0	21.61
Birla SunLife Capital Tax Relief 96	78.6	0	21.4
UTI Spread Fund	60.38	18.85	20.77
UTI Equity Fund	79.31	0	20.69
UTI Contra Fund	80.66	0	19.34

Evergreen

HDFC Bank
Infosys Technologies
Reliance Industries
Tata Consultancy Services

Apple Green

Aditya Birla Nuvo
ACC
Apollo Tyres
Bajaj Auto
Balrampur Chini Mills
Bank of Baroda
Bank of India
Bharat Bijlee
Bharat Electronics
Bharat Heavy Electricals
Canara Bank
Corporation Bank
Crompton Greaves
Elder Pharmaceuticals
Grasim Industries
Hindustan Lever
Hyderabad Industries
ICICI Bank
Indian Hotels Company
ITC
Mahindra & Mahindra
Marico
Maruti Udyog
Lupin
Nicholas Piramal India
Omax Autos
Ranbaxy Laboratories
Satyam Computer Services
SKF India
State Bank of India
Sundaram Clayton
Tata Motors
Tata Tea
Unichem Laboratories
Wipro

Cannonball

Allahabad Bank
Andhra Bank
Cipla
Gateway Distriparks
International Combustion (India)
JK Cement
Madras Cement
Shree Cement
Transport Corporation of India

Emerging Star

3i Infotech
Aban Offshore
Alphageo India
Cadila Healthcare
KSB Pumps
Marksans Pharma
Navneet Publications (India)
New Delhi Television
Nucleus Software Exports
Orchid Chemicals & Pharmaceuticals
ORG Informatics
Solectron Centum Electronics
Television Eighteen India
Thermax
TVS Motor Company
UTI Bank

Ugly Duckling

Ahmednagar Forgings
Ashok Leyland
BASF India
Ceat
Deepak Fertilisers & Petrochemicals Corporation
Genus Overseas Electronics
HCL Technologies
ICI India
India Cements
Indo Tech Transformers
Jaiprakash Associates
JM Financial
KEI Industries
NIIT Technologies
Punjab National Bank
Ratnamani Metals and Tubes
Sanghvi Movers
Saregama India
Selan Exploration Technology
South East Asia Marine Engineering & Construction
Subros
Sun Pharmaceutical Industries
Surya Pharmaceuticals
UltraTech Cement
Union Bank of India
Universal Cables
Wockhardt

Vulture's Pick

Esab India
Orient Paper and Industries
WS Industries India

Home