

**July 5, 2006**
**FOR PRIVATE CIRCULATION**
**Equity**

	4 Jul 06	1 Day	% Chg
<b>Indian Indices</b>			
Sensex	10,662	-0.3	
Nifty	3,139	-0.4	
Banking	4,411	1.2	
IT	2,516	-0.4	
Healthcare	3,107	-0.8	
FMCG	1,943	-1.9	
PSU	4,997	0.3	
CNX Midcap	3,940	-0.3	
<b>World indices</b>			
Nasdaq	2,190	-	
Nikkei	15,639	0.4	
Hangseng	16,369	0.3	

**Value traded (Rs cr)**

	4 Jul 06	% Chg - 1 Day
Cash BSE	1,982	(15.1)
Cash NSE	5,061	-

**Net inflows (Rs cr)**

	3 Jul 06	% Chg	MTD	YTD
FII	106.3	(137.9)	1,411	11,474
Mutual Fund	433.8	911.6	(1,958)	11,936

**FII open interest (Rs cr)**

	3 Jul 06	% Chg
FII Index Futures	7,047	(1.9)
FII Index Options	1,426	23.7
FII Stock Futures	7,029	1.7
FII Stock Options	37	45.9

**Advances/Declines (BSE)**

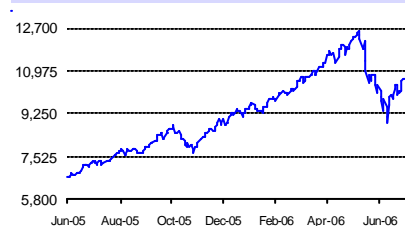
4 Jul 06	A	B1	B2	Total	% Total
Advances	95	219	294	608	40
Declines	102	356	393	851	57
Unchanged	3	8	23	34	3

**Commodity**

	4 Jul 06	1 Day	% Chg
Crude (NYMEX) (US\$/BBL)	73.9	-	
Gold (US\$/OZ)	620.2	-0.5	
Silver (US\$/OZ)	11.3	-0.4	

**Debt/forex market**

	4 Jul 06	1 Day
10 yr G-Sec yield	8.14	8.14
Re/US\$	46.00	46.01

**Sensex**


Source: Bloomberg

**ECONOMY NEWS**

- Encouraged by early tax receipts, the Finance Minister has said that the Government would meet its 2006/07 fiscal deficit target of 3.8 per cent of gross domestic product. (FE)
- With a view to arriving at a mutually agreed formula for pricing of sensitive petroleum products, the ministry of finance (MoF) has finally decided to scrutinise the details of the pricing model adopted by the oil marketing companies (OMCs). (FE)
- Private carriers will not be allowed to deliver ground handling services to other carriers at airports. As per the government's plans, only airport operators, subsidiaries of state-run carriers, or their ground handling subsidiaries, and agencies set up for the specific purpose will be allowed to deliver these services. (FE)

**CORPORATE NEWS**

- **Godrej Consumer Products** has entered into an agreement for the acquisition of the South African hair color business of the UK-based Rapidol, as well as its subsidiary Rapidol international which had a combined turnover of 52 million South African Rand (Rs 33 crore), for an undisclosed amount. (BS)
- India's sixth largest software exporter **Patni Computer Systems** would have to take a \$33 million hit in its 2003-04 results, following a review of tax liabilities in its US operations. The company will restate its results for 2003-04 and plans to appeal against the tax demand raised by US IRS (Internal Revenue Service). (FE)
- Pig Iron producer **Tata Metaliks** is eyeing strategic partnerships, including joint venture options, for entering the castings business, as a logical step towards diversification. (BS)
- **Indoco Remedies**, the Suresh Kare-promoted pharmaceutical formulations and API company, has acquired La NovaChem's active pharma ingredient (API) unit located at Patalganga in Maharashtra for an undisclosed sum. The acquisition has been effected by acquiring shares of La NovaChem (India), thereby making the company a 100 per cent subsidiary of the Rs 215 crore Indoco. (BS)
- With Qualcomm not agreeing to an across-the-board cut in royalty for CDMA handsets, **Reliance Communications** has now sought waiver of charges only for the rural areas. The telecom company is currently present in 4,500 towns and 3 lakh villages and is looking to expand its network to 6,000 towns and 4 lakh villages in the current fiscal. (BL)
- London-based metals and mining group **Vedanta Resources Plc** today invited preliminary bids for setting up a 2,400-Mw nuclear power plant in India. (BS)
- Domestic air travel will become a bit more expensive from July 7, as **Jet Airways**, Air Sahara, Indian, and **Air Deccan**, on Tuesday announced that they were increasing the fuel surcharge being levied on domestic air travel from Rs 300 to Rs 500. bl

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

## RESEARCH TEAM

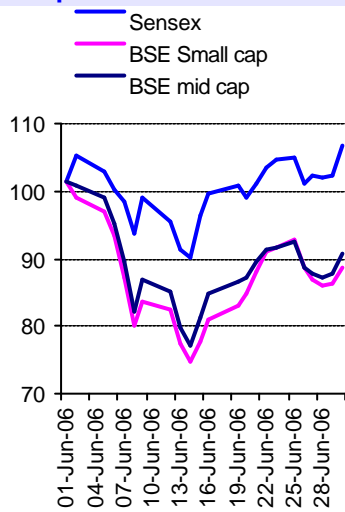
# COMMENTARY FOR JULY 2006

## Markets

The markets continued to remain volatile during June. After continuing last month's fall and going below 8900, the market moved up smartly to levels of 10600, a bounce back of 19% over two weeks. The rise was witnessed all across the market, with almost all sectors bouncing back.

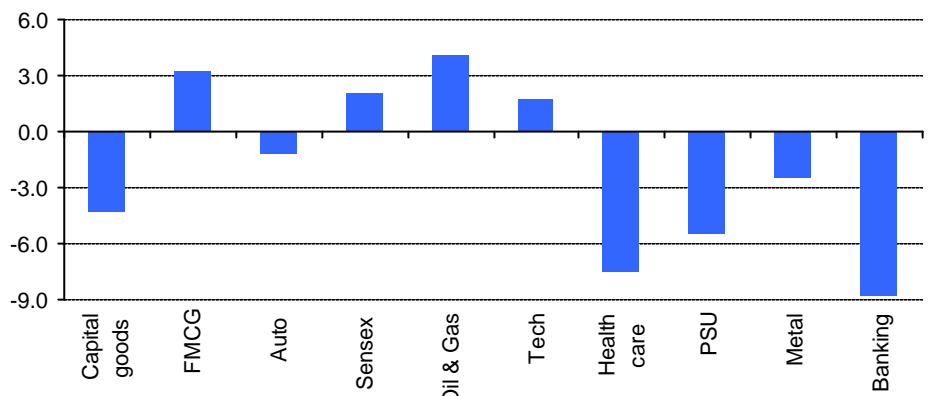
However, despite the rise, most of the sectoral indices ended lower for the month. The Bank Index, HealthCare Index, PSU Index and Capital Goods Index were the worst affected with falls of between 3% - 8% during the month. On the other hand, BSE Oil Index, FMCG Index and Tech Index gained between 2% - 4% (Sensex rose by 2%).

### Index performance



Source: Bloomberg

### Sectoral indices performance (%) - June 2006

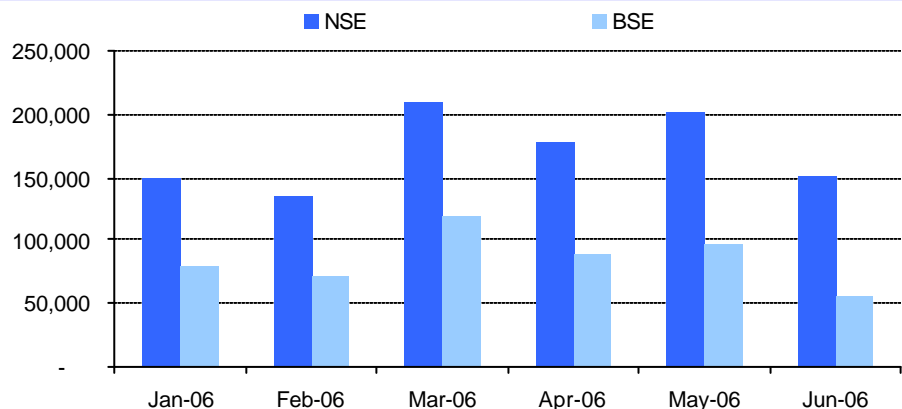


Source: Bloomberg

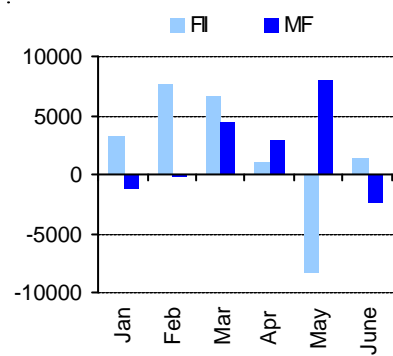
In May 2006, the mid and small cap indices had suffered the most. This was partly in sympathy with the overall market trend and also partly due to liquidation of leveraged positions (inadequacy of margins). In June 2006 also, the BSE Mid cap Index and the BSE Small cap Index fell by 13% and 16% respectively and underperformed the BSE Sensex (2% rise).

A notable factor in June has been the relatively low volumes accompanying the volatility in the markets. In our opinion, the lower volumes reflect the lack of conviction and the indecisiveness on the part of market players about the likely future direction of the markets. Thus, the market may not be able to hold on to the recent trends that have been built on lower volumes.

### Monthly Volumes Cash Segment (Rs Crores)



Source: Bloomberg

**FII / MF investments (Rs cr)**

Source: Bloomberg

**FII/MFs**

June 2006 witnessed a reversal of flows witnessed in May from FIIs and domestic funds. While FIIs pumped in money (about Rs.13bn) in June, domestic mutual funds were net sellers (about Rs.24bn) during the month. This is in contrast to what was witnessed in the previous month, where FIIs were net sellers (about Rs.82.5bn) and mutual funds pumped in a significant Rs. 79 bn. In our opinion, the selling from MFs was mainly due to some redemption pressures faced by them from individuals and other investors.

**IPO market continues to remain impacted**

The slide in markets has had its impact on the IPO market. While new listings happened at below issue prices, a couple of IPOs were put off due to perceived lack of demand.

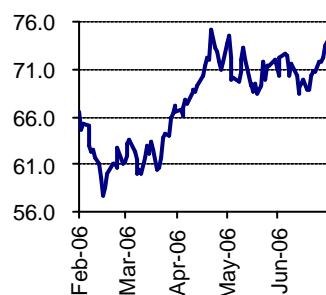
During June 2006, Prime Focus and Unity Infraprojects listed at prices, which were at a discount to their issue price. On the other hand, IPOs of Vigneshwara Exports and Blue Plast were put off - one of them due to lower than required subscription.

We believe the IPO market will remain subdued till the sentiments in the secondary markets improve. We also feel the pricing of IPOs will also happen at reasonable valuations as compared to those earlier.

**IPOs**

Listed in June	Issue price (Rs)	Price on listing (Rs)	% Gain/(loss)
All cargo Global Logistics	675	520	(23.0)
Prime Focus	417	374	(10.3)
Unity Infraprojects	675	500	(25.9)
Rathi Udyog	50	37	(26.0)
Deccan Aviation	148	105	(29.1)
Gangotri Textiles	41	35	(14.6)

Source: NSE

**Crude price (US\$/bbl)**

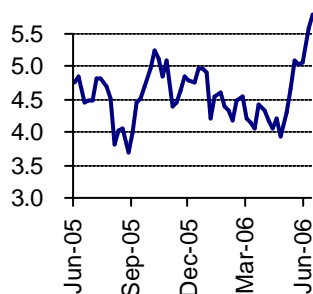
Source: Bloomberg

**Petro price hike**

Finally, the price hikes came in with petrol and diesel prices getting hiked by Rs.4 per liter and Rs.3 per liter, respectively. The government had to hike prices in view of the consistently high international crude prices, which have remained steady at around \$70 per barrel.

While the oil marketing companies (OMCs) had been demanding a much steeper hike to tide over their subsidy burden, the government chose to not pass on the entire burden to the consumer. The hikes in petrol and diesel prices have been lower than that demanded by the OMCs, kerosene and LPG have been spared from the hike.

While a few states have reduced duties to curtail the overall impact, nevertheless, these are significant hikes and have already started impacting the inflation figures. We view consistently high international crude prices as a major concern so far as the future growth of the Indian economy is concerned.

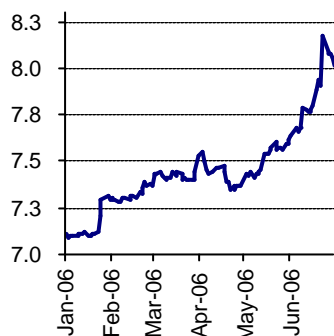
**Inflation (%)**

Source: Bloomberg

**Inflation**

The rise in fuel prices, along with the rise in prices of commodities like wheat and sugar, put pressure on inflation, which rose sharply to 5.44% for the week ended June 17. The fuel price increase may have been partly accounted for in this figure with the full impact still to come.

The Government has also signaled its increasing anxiety over the growing index. It announced a slew of measures like duty free imports of wheat and sugar to restrict the price increases. However, these measures will take time to come into effect. In case of sugar, global prices are ruling higher than domestic prices and, hence, may not have any impact on domestic prices.

**Interest rate (%) - 10 yr G-sec**

Source: Bloomberg

**Interest rates**

With the growing fear of inflation, interest rates are expected to move up. The US Federal Reserve, in its meeting on June 29 increased the rate by 25 basis points and indicated that future interest rate movements would depend on the economy's performance. Also, Bank of Japan, which desisted from hiking rates this month, may do so in the ensuing months. The markets took these comments as an indication that the Fed may not hike rates in the immediate future and nudged higher immediately.

Higher interest rates, while impacting profitability, have also had an impact on valuations. On the other hand, the short-term impact on the markets is through the liquidity, which has buoyed emerging markets over the past couple of years.

**Metal prices**

Domestic metal prices came down in June with several companies in the non-ferrous metals segment announcing price cuts. While Hindalco and Nalco reduced aluminum prices by 6% and 12%, respectively, Hindustan Zinc cut zinc prices by about 7%. These reductions were in sympathy with international trends, where prices remained soft during this period.

In case the weakness in metals prices continues, we believe it will be favorable for the user industries like automobiles, auto ancillaries, engineering, capital goods, etc.

**Monsoon**

After the initial showers, which were earlier than expected, rainfall has been delayed. For the month of June, rainfall in India has been 21% lower than average.

This is one factor that will be watched very closely by the markets due to its impact on agriculture. Agriculture is an important constituent of India's GDP. Also, a good agricultural growth leads to higher rural income and consequently, better consumption power.

We believe the early progress of monsoon and a good geographical distribution of the same is critical for the overall economic growth of the country.

**Strong corporate earnings**

On the positive side, results for FY06 have been either in line or above estimates. Market studies suggest that while revenues (excluding banks and oil companies) have grown by about 17% on a YoY basis, EBIDTA has maintained a similar growth rate. Net profits have improved by about 18.5% for this set of companies.

This indicates that demand remained strong during FY06 and companies were able to largely restrict the impact of rising costs through higher efficiencies and cost control. However, in the backdrop of rising interest rates and raw material prices, it will be a challenge for the corporate sector to maintain profit margins.

During FY06, while oil companies suffered due to the increased subsidy burden, banks were impacted due to rising interest rates and also losses on treasury portfolios.

**Future outlook**

The markets have bounced back by about 19% from their lows reached on 14 June, thus recouping more than half of the percentage losses recorded from the all-time highs.

The rise has been supported by FII buying (net purchases of about Rs. 13bn in June). At sub-9000 levels, the valuations had become reasonable for several fundamentally sound stocks, as stated by us in our previous monthly commentary.

For the Sensex, FY07 earnings seem fairly discounted at the current levels. While the continuing GDP growth and good corporate results for FY06 do indicate that fundamentals remain sound, a few concerns still remain on the horizon and the markets are expected to take cues from these factors.

The US Federal Reserve, while making future rate hikes contingent on the economy/inflation growth in the future has not ruled out further rate increases. Any such increase may have a bearing on the fund flows into India. While interest rates are expected to harden globally, crude prices have also remained firm and may have a bearing on the longer-term inflation.

Other domestic factors, which will be closely watched, are the progress of the monsoons and the ensuing quarterly results. It is important that the monsoons are adequate and also the temporal distribution is right. This will ensure the sustainable growth of the GDP, which grew by 8.4% in FY06 on the back of a good agriculture growth.

Results for the April 2006 - June 2006 quarter will be announced in July. While the results are expected to be in line with estimates, markets will definitely take important cues about the raw material prices (commodities), interest rate burden (due to higher rates) and revenue growth for FY07.

These factors are expected to result in continuing volatility in the markets leading to excesses on either side. In times of such volatility, taking short-term calls may prove costly.

Thus, we advise a cautious stance on the market, which have moved up swiftly over last 2 weeks. The current state of the market and any potential falls can be utilized to switch positions to accumulate fundamentally sound large and mid caps, available at reasonable valuations.

The list of recommended scrips is as under:

#### Recommended stocks

Sector	Companies
<b>Auto / Ancillaries</b>	Tata Motors, Subros, Amtek, ISMT
<b>Banks / Financial institutions</b>	SBI, ICICI, IOB, UTI Bank, Allahabad Bank, Dewan
<b>Capital Goods, Engineering</b>	L&T, Siemens, Bharat Bijlee, Crompton, Easun
<b>Cement</b>	ACC, Shree Cement, Birla Corp
<b>Construction</b>	Nagarjuna, IVRCL, Era, Madhucon
<b>FMCG</b>	ITC, Dabur, REI Agro
<b>IT / ITES</b>	Infosys, Satyam, TCS, Allsec, Zensar, R Systems, Megasoftware, KPIT, Infotech
<b>Logistics</b>	Gati, Gateway Distriparks
<b>Pharma</b>	Orchid, Jubilant, Glenmark, Alembic
<b>Sugar</b>	Bajaj Hindustan, Balrampur Chini, Dwarikesh
<b>Others</b>	Murudeshwar, JBF, Champagne Indage, Tata Chemicals, Indraprastha Gas, GHCL

Source: Kotak Securities - Private Client Research

## SECTOR UPDATE

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## AUTO SALES VOLUME

The cumulative motorcycle sales for the top three two-wheeler companies grew 28% YoY in June. Bajaj Auto was the outperformer with YoY motorcycle sales growth of 40%. Sales of Hero Honda were slower for the month at 22% as compared to the last month with the discounts being phased out. TVS Motors continued its impressive performance with another month of high growth.

### Volume trends - Two Wheelers

	Jun 06	Jun 05	YoY (%)	Apr-Jun 06	Apr-Jun 05	YoY (%)
<b>Bajaj Auto</b>						
Motorcycles	183,549	130,710	40	568,187	422,543	34
Total 2 Wheelers	188,231	141,316	33	578,621	451,661	28
3 Wheelers	25,687	19,966	29	70,875	53,311	33
<b>Total</b>	<b>213,918</b>	<b>161,282</b>	<b>33</b>	<b>649,496</b>	<b>504,972</b>	<b>29</b>
<b>Hero Honda</b>						
Domestic	268,508	214,048	25	803,297	658,026	22
Exports	10,152	12,025	(16)	29,395	29,541	0
<b>Total</b>	<b>278,660</b>	<b>226,073</b>	<b>23</b>	<b>832,692</b>	<b>687,567</b>	<b>21</b>
<b>TVS Motors</b>						
Motorcycles	74,683	60,170	24	233,816	176,580	32
Total 2 Wheelers	126,679	108,111	17	376,274	307,425	22

Source: Company

**Bajaj Auto:** The motorcycle segment grew strongly by 40% for the month as the company continues to post robust numbers. Three-wheeler sales continue to be buoyant with a growth of 29% YoY. The company has posted 33% growth YTD in the three-wheeler segment, which is one of the higher margin businesses for BAL. On the exports front, Bajaj Auto clocked 116% rise in volumes with sales of 34,369 units. In FY 2006-07, Bajaj has targeted a total sale of 2.85 mn units (2.55 mn two-wheelers and 0.3 mn three-wheelers), including exports of 365,000 units. So far, the two-wheeler segment has grown by 28% YTD and BAL looks on course to achieve its full year estimates. We remain positive on the stock with a 12-month price target of Rs. 3400.

**Hero Honda:** Hero Honda sold 268,508 motorcycles in June, which is a 25% YoY growth. On the exports front, volumes declined by 16% YoY. For the quarter ending June 2006, the company achieved cumulative sales of 8,32,692 units, recording a growth of 21.29% compared to the same period last year. The company has announced eight new launches in 2006-07, to strengthen its product portfolio across segments including four new products. During the month, Hero Honda launched Glamour FI — India's first fuel injection motorcycle.

**TVS Motors:** Motorcycle sales for TVS Motors grew 24% YoY in June clocking volumes of 74,683 units as compared with 60,170 units in June 2005. Significant growth in motorcycles boosted overall two-wheeler sales in June 2006, which stood at 126,679 units posting a growth of 17%. During June 2006, strong performances by TVS Star in the entry-level segment and Apache in the premium segment helped boost the overall growth in the motorcycle segment. Apache continued its high growth curve and in a short span of its launch has become the No. 2 brand in the premium segment. On the exports front, TVS recorded a growth of 36% with sales of 10,220 units.

### FY07

	CMP (Rs)	Sales	Net profit	EPS (Rs)	P/E (x)	Reco
Bajaj Auto	2743	94,927	13,572	134.14	20.4	HOLD
Hero Honda	790	100,631	11,184	56.00	14.1	HOLD
TVS Motors	99	38,750	1,704	7.10	13.9	REDUCE

Source: Company, Kotak Securities - Private Client Research

## Bulk deals

### Trade details of bulk deals

Date	Scrip name	Name of client	Buy/ Sell	Quantity of shares	Avg. Price (Rs)
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N A

Source: BSE



## Forthcoming events

COMPANY/MARKET	
Date	Event
5-Jul	Tata Steel holds annual shareholders meeting; Ultratech Cement to announce earnings and dividend
6-Jul	Standard Chartered Bank holds press conference
10-Jul	CRISIL earnings expected
12-Jul	Infosys Technologies, iGate Global earnings expected
13-Jul	UTI Bank earnings expected
15-Jul	Bajaj Auto, GNFC earnings expected
17-Jul	Titan Industries earnings expected
18-Jul	HDFC earnings expected
19-Jul	Biocon earnings expected
20-Jul	Godrej Consumer Products holds shareholders meeting and to announce earnings and dividend; Kotak Mahindra Bank earnings expected
21-Jul	ITC to announce 1st quarter earnings, annual shareholder meeting
24-Jul	ABB, IDFC earnings expected
26-Jul	Mahindra & Mahindra earnings expected

Source: Bloomberg

## Gainers & Losers

Nifty Gainers & Losers			
	Price (Rs)	% change	Volume (mn)
<b>Gainers</b>			
Zee Tele	251	5.2	1.4
PNB	336	4.1	0.7
Suzlon	1060	3.3	1.2
<b>Losers</b>			
L&T	2191	-3.5	0.3
ITC	178	-3.3	7.6
Dabur	139	-2.9	0.7

Source: Bloomberg

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