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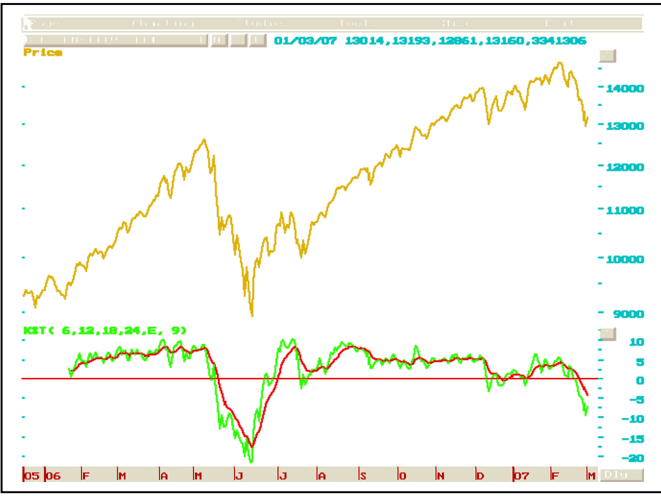
Markets rangebound

in an attempt to consolidate

By Sanjay R. Bhatia

The global meltdown last week triggered a major fall on the Budget day as the Sensex fell by more than 600 points on an intra-day basis. Lack of positive surprises from the Budget did not help matters. The advance-decline ratio remained negative amidst high volumes indicating a total sell-off, which is a negative sign for the markets. Traders and speculators were seen building short positions in cement, auto, IT, oil and gas and banking stocks. Mutual Funds remained net buyers during the week using lower levels as an opportunity to buy. FIIs, however, were seen selling at higher levels albeit their purchases were lower.



Global cues remained mixed with China increasing its CRR by 50 basis points (bps) triggering a global meltdown especially in emerging markets on worries that China was going to take severe steps to curb hot money. Crude oil continued to spike up as the UN prepared to impose further sanctions on Iran. Thus the fall witnessed over the week was rampant across the globe.

The Budget on the same day turned out to be a non-event due to the global meltdown as domestic markets failed to take proper note of the budgetary proposals. The Budget was on expected lines with no negative surprises due to the forthcoming UP elections. The Congress having already lost in Punjab and Uttaranchal assembly elections, the UP election is a crucial event. If the Congress is defeated in UP, then reforms are likely to take a back seat, which is a big negative for the markets. The only good news that emerged was on the inflation front with inflation falling to 6.05% against the previous figure of 6.63%. It is a positive sign but it needs to be seen if the falling trend continues as crude prices hover around the US$61 level.

The next big trigger for the markets would be the earnings season in April and the UP elections. Till then, the time the markets are likely to consolidate and remain rangebound unless we see some positive announcements from the government or if the institutional fund flow increases, which appear unlikely. In the meanwhile, the markets would witness stock specific action due to budgetary proposals and would keep a keen eye on inflation figures going forward.

Technically, as indicated in the last issue, the weakness and pain persists on Dalal Street. As the budgetary proposals get digested, the markets are bouncing back on short covering. It is important that the markets stabilise and witness follow-up buying at higher levels if the downtrend has to end and if the short covering and pull-back rally has to turn into a sustained upward rally. On the upside, Sensex 13362 level is a crucial resistance level. The Sensex has support at the 12995 and 12612 levels. In the case of the Nifty, the 3850 level followed by the 3942 level is likely to act as resistance levels. The 3716 and 3664 are important support levels for the Nifty. Traders and speculators could buy GMR Infra with a stop loss of Rs.380 and a target price of Rs.425-430.

Corrective levels to be tested

By Hitendra Vasudeo

In the issue date 19th January 2007, the headline of this column was 'Either side decisive move required: 13800-14750'. Last week, its headline was 'Further weakness may crop in'. First, the bottom of 13800 was violated and subsequently we witnessed further weakness. The weakness was certainly experienced and it was very strong one indeed.

All possible symptoms of a downtrend were, therefore, indicated over the last 2 weeks. Following a particular view is very important because there is no point in discussing that it was not implemented or could not be implemented because of various reasons after the adverse happening. Following, believing and implementing are the three basic elements for achieving success from technical analysis. Limited knowledge or unwilling to understand and follow the subject many times forces people to overlook or discount the importance to the discipline.

WEEKLY UP TREND STOCKS

Let the price move below Center Point or Level 2 and when it move back above Center Point or Level 2 then buy with what ever low registered below Center Point or Level 2 as the stop loss. After buying if the price moves to Level 3 or above then look to book profits as the opportunity arises. If the close is below Weekly Reversal Value then the trend will change from Up Trend to Down Trend. Check on Friday after 3.pm to confirm weekly reversal of the up Trend.

Scrips	Last Close	Level 1	Level 2	Center Point	Level 3	Level 4	Relative Strength	Weekly Reversal Value	Up Trend Date
		Stop Loss	Buy Price	Buy Price	Book Profit	Book Profit			
ABAN OFFSHORES	1889.00	1459.3	1734.3	1854.7	2009.3	2284.3	75.5	1842.5	02-09-07
NIIT	751.00	437.0	636.0	720.0	835.0	1034.0	84.3	641.2	15-02-07
ESSAR SHIPPING	48.90	34.5	44.3	49.6	54.1	63.9	79.2	48.6	12-01-06
JSW STEEL	470.95	400.0	450.0	479.0	500.0	550.0	76.8	461.0	24-11-06
EXIDE INDUSTRIES	47.05	37.6	43.4	45.6	49.2	55.0	72.3	46.7	03-02-07

WEEKLY DOWN TREND STOCKS

Let the price move above Center Point or Level 3 and when it move back below Center Point or Level 3 then sell with what ever high registered above Center Point or Level 3 as the stop loss. After selling if the prices moves to Level 2 or below then look to cover short positions as the opportunity arises. If the close is above Weekly Reversal Value then the trend will change from Down Trend to Up Trend. Check on Friday after 3.pm to confirm weekly reversal of the Down Trend.

Scrips	Last Close	Level 1	Level 2	Center Point	Level 3	Level 4	Relative Strength	Weekly Reversal Value	Down Trend Date
		Cover Short	Cover Short	Sell Price	Sell Price	Stop Loss			
TATA TEA	597.00	499.7	570.7	615.3	641.7	712.7	21.73	651.50	25-01-07
GRASIM INDS	2098.00	1626.7	1968.7	2181.3	2310.7	2652.7	25.08	2462.50	02-02-07
HINDUSTAN LEV.	179.00	153.0	171.0	181.0	189.0	207.0	25.88	193.70	25-01-07
INDIA CEMENTS	168.95	127.9	157.9	176.9	187.9	217.9	27.55	191.19	25-01-07
UNION BNK OF IND	95.65	78.0	90.1	96.6	102.2	114.3	27.68	103.69	19-01-07

Another important aspect of following technical analysis successfully is by proper planning and managing your money well. Losses are a part & parcel of the market and controlling them losses is important. Everybody operating in the market, right from small retail investors to market wizards to operators to FIIs have to go through some kind of losses depending on their capacity to trade in the market. Such an orientation is very important. When the market takes an U turn and when the going is good, nobody is interested in following the stop loss. Stop Loss is a taboo with many who act in the market but when markets nosedive, traders/investors use stop loss at the earliest to cut their losses early.

The signs of such weakness were already highlighted in the last couple of weeks. Last week, the Sensex opened at 13684.95 attained a high at 13723.40 and cracked down to a low of 12800.90, to finally close at 12886.13 and thereby showed a net fall of 714 points on a week to week basis.

The weekly trend has

EXIT LIST						
Scrip	Last Close	Sell Price	Sell Price	Sell Price	Stop loss	Target 1
ADANI ENTERPRISES	206.85	206.92	208.27	209.63	214.00	195.5
ALSTOM PROJECTS INDI	450.85	457.47	460.70	463.93	474.40	430.1
KALPATARU POWER TRAN	1071.00	1073.99	1088.50	1103.01	1150.00	951.0
MAHINDRA & MAHINDRA	771.00	783.01	789.50	795.99	817.00	728.0
MICO (MOTOR IND.CO.)	3330.00	3361.23	3392.50	3423.77	3525.00	3096.2
RELIANCE CAPITAL	613.05	615.69	619.92	624.16	637.85	579.8

turned down after the weekly closing on 23/02/07. The weekly downtrend began with a sharp fall during the week ended on 23/02/07. The weekly trend would turn up once again only when it crosses 14479 or if the Friday weekly close is above 13853.
The retracement levels of the rise from 8799 to 14723 are placed at 12460-11761-11062. We had expected a retracement down to 12460 at least last week. We had expressed that 12460 was likely to be attained. The low registered last week was 12800. The level of 12800 was also the important higher bottom on its way to 14723.
The Sensex is the verge of violating 12800. On a further sustained fall below 12800, expect a fall to 12671 and 12460 levels at least. To an outer extent, expect a slide to 11761 or 11062.
During its fall last week, the Sensex had left a gap at higher levels of 13298-13478. Till the Sensex does not close above 13478, we are open for a slide towards 12671 and 12460 levels at least. Weekly resistance will be at 13136-13298-13478 and 14395.

Strategy for the week

Exit long positions on spurt to resistance levels to cut losses or to book profits. Retracement levels of 12460-11761-11062 could provide an opportunity for selective low profile accumulation in index-based stocks.

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Politics v/s Economics

By Fakhri H. Sabuwala

Inflation remained the focal point in the Union Budget 2007-08 presented by finance minister (FM) P. Chidambaram. The media has made the Congress party believe that it was inflation, which led to its downfall in Punjab and Uttarakhand.
The hue and cry created is a product of the media and some vested political interests. It must, therefore, be viewed from the socio-political viewpoint only rather than the economic angle. Economics can vouch for such an aberration in interests and inflation rates when the economy is in a good and great transition. This is not the first time that we are witnessing such a high rate of inflation. But each time, the momentum of economic growth was not so high as it is today. Hence the big hue and cry is unwarranted and not to be given undue importance. It is a part and parcel of economic growth and will fall in line as the supply chain improves.
Hence, before we go into the impact, it would not be out of place to examine how, why and what punctured the sentiment.
The Minimum Alternate Tax (MAT) for all companies enjoying tax holidays was uncalled for. The market did not expect it in its wildest dream and this caught the IT scrips on the wrong foot. A step backward it is.
Rise in dividend distribution tax is bad news for investors, as this will see shrinking payouts in coming days.
Dual excise policy in cement is a reminder of the old days when cement prices were controlled and black marketing was rampant. This step sends wrong signals and may be the beginning that may extend to other sectors in coming days. Lastly, the sentiment was hurt beyond repair when tax exemption to construction companies under Sec 80IA stands withdrawn.

Sectoral Analysis

Automobiles: No major changes noticed. Excise burden up by 0.25% and will be passed on to customers making cars costlier. Duty cuts on steel, however, may improve the margins of auto companies and auto ancillaries. Focus on agriculture shall have a positive impact on farm equipment and tractor companies. This shall also positively impact two wheelers.
Buy on declines all auto majors and ancillaries.
Airways: More or less the impact is neutral.
Banking: Amendment to Sec 36(I) (viii) by lowering the limit from 40% to 20% on tax-free profits for banks & financial institutions on long-term infrastructure and housing loans with a duration of more than 5 years. This may impact HDFC & IDFC negatively.
Cement: The budget impact is negative and cement scrips despite losing value so far have no reason to cheer up or look northwards. Keep a vigilant eye on them and pick them up at levels 10% to 15 % lower than the current levels.
FMCG: Cigarettes may suffer due to increase in excise duty but inelasticity of its demand may see it off. Biscuits whose retail price is below Rs.50 a kilo and all kinds of food mixes, including instant mixes are fully exempt from excise duties. Footwear becomes cheaper, crude and refined sunflower oil see excise reduction by 15%.

ITC, Godfrey Phillips and VST Industries may feel the dampening impact. ITC with its multi businesses may not feel the heat that much because of its rural thrust and its hotels business. Dabur, Nestle, HLL, Godrej Consumer may explore selling branded food mixes. As far as soap, shampoos etc. are concerned, there are no big changes therein.

Textiles: Overall stand to gain as the budget has announced more pluses than minuses. Provision for scheme of integrated Textile Parks raised from Rs.189 cr. to Rs.425 cr. for 2007-08. Exports get a thrust with export benefits pouring in. The continuation and increase in TUFS will help the industry as many companies have drawn up plans for expanding their capacities.

Arvind, Raymonds, Reliance, Indorama Synthetics, Alok Industries, Welspun and Gokuldas Exports come out as clear winners.

Consumer Durables: Rural thrust may give a fresh impetus to the topline of consumer durable companies. Rationalization and simplification of service tax on works contracts will help the airconditioning contractors. Benefits to cold chain and process refrigeration equipment manufacturers will also help companies in cold storage & transportation business. Gateway Distriparks, Voltas, Videocon and Blue Star shall be the main beneficiaries.

Engineering & Construction: The overall impact is negative, withdrawal of Sec 80-IA of IT Act 1961 will not be applicable to executors of work contract with retrospective effect from 1st April 2000. For real estate developers, too, Sec 80 IB benefits stand withdrawn. Greater allocation to Bharat Nirman infra project shall be the only positive. Negative for Nagarjuna Constructions, IVRCL Infra and Gammon India.

Metals: Peak import duty cut by 2.5%. Coking coal fully exempt from duty. Custom duty on ferro alloys, stainless steel and primary steel down by 2.5%. Custom duty on primary and secondary forms of aluminium down by 2.5%.

Hidalco and Nalco may be negatively impacted, as it leaves not much room for raising aluminium prices. Tisco, which owns its own captive coal mines, does not stand to gain but SAIL and JSW Steel, which import coking coal, gain.

Power: Boost to Project 'Power to all by 2012' and big thrust to rural electrification shall benefit NTPC, Tata Power, REL, BHEL & Siemens.

Oil & Gas: Infrastructure status to natural gas distribution network is likely to benefit GAIL, GSPL and Reliance. Otherwise its just neutral for oil refining & distribution companies.

Pharmaceuticals: Allocation for anti aids drug can help Cipla. Exemption in excise duty on life saving vaccines is positive for vaccine manufacturers like Panacea, Wockhardt, Service tax exemption on clinical trials may support the endeavours of companies like Nicholas Piramal who are into CRM (contract, research & mfg.) space.

Telecom: Service tax net widens for telecom and allied services. Developers and suppliers of content for use in telecom to be brought under the purview of service tax. Additional cess of 1% is also painful.

BEST BETS

Visesh Infotechnics Ltd. (Code: 532411) Rs.36

Established in 1989 as an ERP software product company, Visesh Infotecnics Ltd. (VIL) is today a mature and fast growing company committed to providing reliable and cost-effective IT solutions to organizations globally. It has a state-of-the-art software development facility in Bangalore and another one at Gurgaon. Besides, it also has a base in Bangkok with a large strength of software and networking professionals. Importantly it has strategic partnerships & alliances with global IT leaders like Novell, Microsoft, Oracle, Compaq, IBM, Sun, Cisco, 3Com, HP, Toshiba etc. Its software and technology solutions are being used successfully in almost all industry verticals such as telecommunications, chemicals, automobiles, pharmaceuticals, services (including finance & ITeS), government, education, sugar, sales & distribution etc. Hence, VIL has a formidable client list of more than 1000 large and medium size corporates including several reputed multinationals and overseas clients and has been declared a winner in the world-renowned Deloitte Technology Fast 500 Asia-Pacific 2005 programme. It is also winner in the inaugural Deloitte Technology Fast 50 India programme.

VIL's operations can be broadly divided into three segments: IT Solutions & Product Support, Enterprise Software & IT enabled Services. It has a proud history of product development and that of an IP (Intellectual Property) creator. In the ERP space, the company has three products namely *BusinesSoft*™, *BusinessPro*™ and *powERPro,* which are doing extremely well. Another software product *VRetail*™ is specially designed for retail space and has been deployed successfully by several departmental stores, supermarkets and retail chains in India and overseas. The company has lately diversified into high technology and fast emerging areas of mobile telematics with launch of *TransXS*™ pioneering remote vehicle tracking service that facilitates corporates and fleet operators to get 24x7 real-time information of their fleet location and enhance logistics management through vehicle utilization analysis, route planning, asset tracking etc. VIL also has a division called InfraServe, which designs, builds and manages IT infrastructure for its clients globally through effective deployment of hardware, software and networking products. Last fiscal, the company ventured into business of Knowledge Process Outsourcing (KPO) & BPO through its newly-formed division *VConnect*™ which has good orders and is expecting new legal process outsourcing contracts from reputed US Based law firm. A few months

back, it entered into 50:50 joint venture with Cyberworks Software, USA, to provide outsourced services to its clients from its contact centers (BPO units) in India. Its *Lapps.Biz*™ is an e-commerce portal that provides mobility devices (laptops, hand-helds etc.) and applications to the upwardly mobile retail buyer at the click of a mouse. The company also offers internet and web based services thru *SignDomains*™*, StepOne*™ *& InfraSurf*™.

Notably, VIL has some aggressive expansion plans for which it is planning to raise around Rs.44 cr. through FCCB / GDR/ preferential allotment route and has already taken the approval at the recent EGM. For FY06, its top-line increased by 120% to Rs.78.50 cr. and net profit shot up by nearly 6 times to Rs.11.05 cr. i.e. EPS of Rs.4. It declared Re.1 as dividend, which means a healthy payout ratio of 25%. For this fiscal, it is expected to register total revenue of Rs.125 cr. and with profit of Rs.19 cr. i.e. EPS of Rs.7 on its current equity of Rs.26.97 cr. Promoters' holding is around 56% and its book value stands at Rs.27. Although it needs funds for expansion, still it may declare 12.50% as dividend for FY07. Its forthcoming FCCB/GDR is expected to be placed above Rs.50 per share. Hence investors are strongly recommended to buy at current levels with a price target of Rs.55 (50% returns) in 9-12 months.

VST Tillers Tractors (Code: 531266) Rs.132

Established in 1965, VST Tillers and Tractors Ltd. (VST) is the undisputed leader in the Indian tiller market enjoying more than 50% market share. It manufactures power tillers along with low horse power (sub 20 HP) tractors to cater to small farmers. Power tiller is nothing but the two-wheeled version of tractors and is meant for farmers with smaller land holdings and for those who cannot afford expensive tractors. The cost of a tiller is almost 1/3rd of a tractor. Presently, tillers is the main product of the company with 2/3rd revenue coming from it followed by tractors, which contribute around 20%. In addition, VST supplies farm equipments, diesel engines and precision components like crankshafts, connecting rods etc. It is also trades by supplying imported machinery from other countries such as rice transplanters, combine harvesters, garden tillers, reapers, hedge trimmers, bush cutters, hole diggers etc.

VST has three manufacturing facilities at Bangalore, Mysore and Hosur in technical collaboration with the Mitsubishi group of Japan. The products are sold under the brand name - VST Shakti, Mitsubishi-Shakti and Euro Trac and are also exported to countries in South Asia, East Asia, Middle East, Africa, Europe, USA etc. In order to beat the competition and increase its market share in the lower end tillers, VST has started importing Chinese tillers in CKD form, assemble them at its Hosur facility and sell them under a new brand Dragon Power Tiller (14 HP horizontal four stroke single cylinder) through its marketing and distribution network. In collaboration with Mitsubishi, Japan, it is planning to put up a manufacturing plant of diesel engines for power generators and tractors. Besides, the company continues to pursue cost cutting strategies, increasing manufacturing efficiencies, strengthening marketing initiatives and garner greater economies of scale to stay ahead.

In the Union Budget 2007-08, the government has put special thrust on agriculture and hence farm credit target has been raised from Rs.1,75,000 cr. to Rs.2,25,000 cr. with addition of 50 lakh new farmers to the banking system. This augurs well for VST since more than 80% of tractor sales are on credit. It has reported very encouraging results for the December 2006 quarter and may end FY07 with sales of Rs.160 cr. and profit of Rs.11 cr. i.e. EPS of Rs.19 on its equity of Rs.5.76 cr. The management may even declare Rs.4 as dividend. Its sales and net profit can rise to Rs.200 cr. and Rs.12.75 cr. for FY08. Moreover, it also has some surplus property in Bangalore, which may fetch a handsome value to the company, although officially not announced by the company. Hence investors are advised to buy at declines as its share price can appreciate by 50% in 9-12 months.

EXPERT EYE

By V.H. Dave

Sri Ganapathy Mills Co. Ltd. (SGMCL) (Code: 521236) (Rs.35.20) was incorporated in 1946. Its main promoters were S. S. Arunachalam Pillai, S. S. Alwarappa Pillai and C. Somasundaram Pillai. In 1976, it was taken over by K. Venkadasamy, Managing Director. The other group firms are Subburaj Cotton Mills and Subburaj Spinning Mills Pvt. Ltd. The company came out with a. IPO of Rs.7.80 cr. in January 1995 mainly to part-finance its expansion and installation of windmills to co-generate power for captive consumption all at a cost of Rs.15cr. SGMCL manufactures cotton yarn of counts varying from 6s to 80s.

During FY06, SGMCL posted a net profit of Rs.2.1 cr. on sales of Rs31 cr. Its EPS was Rs.7 and a dividend of 10% was paid. During Q3FY07, net profit went up by 25% to Rs.1 cr. as compared to Rs.0.8 cr. in Q3FY06. During the first three quarters of FY07, although sales declined by 9% to Rs.21 cr., net profit advanced by 36% to Rs.3 cr. SGMCL has taken major initiatives to improve its profitability in coming years.

SGMCL exports cotton yarn to Sri Lanka, Korea, Taiwan, Bangladesh, Singapore, Israel, Philippines & U.K. During FY06, exports amounted to Rs.23 cr. representing 74% of its sales. The company is exploring all possibilities to encash this opportunity and enter into the lucrative US and European markets.

SGMCL has a small equity base of just Rs.3.1cr. and with reserves of Rs.18 cr., the book value of the share works out to Rs.68.

The promoters hold 55% in its equity capital, Loyal Credit & Investments hold 4.9% leaving 40.1% with the investing public.

While the government hopes to raise textile exports to $50 billion by 2010 from the current $15 billion, investments in the domestic industry have only gathered strength about three years ago through the introduction of TUFS, lowering of duties and tax sops. This is despite the Multi-Fibres Agreement (MFA) having been signed ten years ago. The scaling up at this point to achieve this magic figure would require a massive Rs.70,000 – 80,000 cr. in capacity expansion but significant expansion and modernization is being undertaken by textile units across the country. The global textile trade is set for explosive growth on World Trade Organization (WTO)-mandated dismantling of trade barriers and quota restrictions since January 2005. This has opened a huge export opportunity for India and China, which are home to the world's most cost-competitive textile manufacturers. One of the biggest opportunities is the export trade in home textiles, the market for which is estimated to grow from US $9 billion in 2002 to US $23 billion in 2010.

If the results so far are any thing to go by, SGMCL is all set to register an EPS of above Rs.13 in FY07. The share of SGMCL is available at a P/E of just 3 onFY07 earnings. Due to its tiny equity capital, its improved results and cost cutting initiatives coupled with bright prospects of the textile sector, SGML is shares are an excellent buy. Investment in this share is likely to fetch a minimum return of about 50% in 6-9 months. The 52-week high/low of the share has been Rs.52/21.

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Graphite India Ltd. (GIL) (Code: 509488) (Rs.53.70) makes graphite electrodes for electric arc furnace (EAF) based steel plants. Worldwide, the proportion of steel produced through the EAF route has increased. This is likely to ensure steady business for graphite electrodes. As there is a strong supply-demand mismatch and their prices are expected to remain firm in the near-to-medium term.

GIL, a part of the K. K. Bangur Group, was incorporated in 1974 and into manufactures graphite electrodes, anodes, miscellaneous graphite and carbon products. Its plants are located in Durgapur, Bangalore and Nashik.

Graphite International B.V., Carbon International Holdings N V and Carbon Finance are the three subsidiaries of GIL.

The impervious graphite equipment (IGE) division manufactures and markets heat exchangers, ejectors, pumps and turnkey plants at its Nashik plant. Graphite equipment has wide application in corrosive chemicals industries such as pharmaceutical, agro-chemical, chloro alkali and fertilizer industries. GIL supplies around 70% of the total domestic requirement.

Glass reinforced plastic (GRP) pipes and tanks division manufactures and markets GRP pipes and tanks. GIL converts users of conventional pipes to GRP through intelligent marketing, superior product quality, competitive pricing and value-added services. The entry of the private sector in retailing of India's petroleum products has greatly enhanced the opportunities for GRP tanks.

During 2004-05, GIL enhanced the installed capacity of Carbon Paste and Calcined Petroleum Coke by 5200 TPA and 5000 TPA respectively taking their total installed capacity to 25000 TPA and 30000 TPA

July - September 2006

EBG Quarterly Performance: 100%

During July – September 2006, which is the fourth quarter of the third year of 'Early Bird Gains' (EBG) – the investment newsletter that spots multi-baggers, it has scored 100% success with all 14 recommendations recording an appreciation.

EBG has, therefore, consistently, maintained quality while the bonus issues in excess of 30% highlight the confidence of its recommendations.

Issue Dated	Scrip	Buy Price	Highest price since recom.	Growth %
06-07-06	Tayo Rolls Ltd.	112.5	160	42
12-07-06	Amara Raja Batteries Ltd.	251.95	485	92
19-07-06	Simbhaoli Sugars Ltd.	74.45	100	34
19-07-06	Visaka Industries Ltd.	118.1	156	32
26-07-06	Suryavanshi Spinning Mills	46	64	39
02-08-06	Clariant Chemicals (I) Ltd.	247	360	46
09-08-06	Banco Products (India) Ltd.	192.1	344	79
16-08-06	Bilpower Ltd.	91.25	248	172
23-08-06	Proto Infosys	3	7	133
30-08-06	Godawari Power & Ispat Ltd.	79.1	123	56
06-09-06	Panoramic Universal Ltd.	92.3	210	128
13-09-06	Menon Pistons Ltd.	67.15	90	34
20-09-06	Zenith Computers Ltd.	73.15	90	23
27-09-06	Vinay Cements Ltd.	23.95	39	62

EBG for sure profits

respectively. In 2005-06, its Durgapur plant raised the graphite production capacity to 34,000 TPA from 14,000 TPA. This will help its export thrust for the larger diameter electrodes. GIL's total graphite manufacturing capacity now works out to 55000 TPA.

GIL has an installed capacity of 33 MW of power generation through hydel and multi-fuel routes and has invested in an exclusive transmission line to obtain the benefit of low cost power at one of its plants. It is exploring investments in the power sector to further reduce its power cost and enhance its competitive edge.

For FY06, GIL earned 31% higher net profit of Rs.63 cr. on 19% increased sales of Rs.614 cr. During Q3FY07, GIL posted 80% higher net profit of Rs.27 cr. on 30% increased sales of Rs.217 cr. compared to Q3FY06. During the first nine months ended 31st December 2006 while sales advanced by 46% to Rs.609 cr., net profit excluding extraordinary income of Rs.89 cr. worked out to Rs.80 cr., which was higher 125% higher over the previous corresponding period.

Its equity capital is Rs.29.4 cr. and with reserves of Rs.424.6 cr., the book value of the share works out to Rs.31 (face value Rs.2). Its debt:equity ratio is 1.15:1 and the gross block including capital work in progress has gone up by Rs.165 cr. to Rs.689 cr. on massive expansion from Rs.524 cr. in FY04.

The promoters hold 53% in the equity capital, total foreign holding including FIIs is 11%, institutions/mutual funds hold 14%, PCBs hold 7% leaving 15% with the investing public.

During FY06, GIL raised Rs.185 cr. by way of Foreign Currency Convertible Bonds (FCCBs) at a competitive YTM of 5% for a five-year maturity. The conversion price is set at Rs.57.

Graphite Electrodes are used in electric arc furnace (EAF) based steel industry for conducting current and is a consumable item for the steel industry. The estimated world capacity for manufacture of Electrode is over 1,00,000 TPA. The principal manufacturers are based in USA, South America, Europe, Japan, India and China. GIL is among the top-five graphite electrode manufacturers of the world, with a global market share of around 8%.

The Indian economy has stayed on track with brisk industrial growth in major steel consuming sectors like automobiles and consumer durables. The signing of several MOUs for huge investments by global steel majors in India will ensure the robust growth trajectory of the steel industry in the near to medium term and the steel capacity is expected to double in the next 4 to 5 years.

GIL is also planning to expand capacities of its German unit to increase its footprint in the European market. Its exports during FY06 amounted to Rs.330 cr. constituting 53% of sales.

Given the robust demand and pricing outlook for graphite electrodes and the strong demand for other products such as fibre reinforced pipes and tanks and graphite equipment and the turnaround of its German facilities lends strength to this recommendation.

The shares of GIL are traded at Rs.55 discounting the estimated FY07 earnings of Rs.8.5 by 6.5 times against the industry average P/E of 11. Applying a reasonable P/E multiple of 9, the share price has the potential to cross the Rs.77 mark in about 6-9 months translating into a gain of 40%. The 52-week high/low of the share has been Rs.70/38.

*****

The share of **Maruti Udyog Ltd. (MUL) (Code: 532500) (Rs.833.95)** is recommended for decent appreciation in the long term. MUL has announced excellent results for the first three quarters of FY07 based on which an EPS of Rs.53 can be expected for FY07.

MUL is the largest manufacturer of passenger cars in the country and is the market leader. It sold total 62,999 vehicles in February 2007 up by 53% from 41,095 units sold in February 2006. 59,095 units were sold in the domestic market in February 2007 up by 61% from 36,608 units sold in February 2006.

During FY06, MUL registered a 10% increase in sales of Rs.12016 cr. and posted 39% higher net profit of Rs.1197 cr. yielding an EPS of Rs.41. It paid a dividend of 70%. During Q3FY07, it has earned 11% higher net profit of Rs.376 cr. on 18% increased sales of Rs.3680 cr. During the first three quarters of FY07, while sales moved up by 17% to Rs.10224 cr., net profit advanced by 34% to Rs.1113 cr. MUL was set up as a joint venture between Suzuki Motor Company of Japan and the Government of India. However, following the dilution of government stake in MUL, Suzuki gained the controlling stake. It now has a 54.2% share in MUL whereas the government holds 10.3%, 8% is picked up by LIC, total FII holding is 15.4%, institutions/mutual funds hold 7.7% leaving 4.4% with the investing public.

The Government of India has decided to sell its residual stake through competitive bids by eligible institutions. The Government had raised Rs.1,567 cr. in January 2006 by selling 8% stake in MUL to the State-owned banks, insurance and financial companies.

Its equity capital is Rs.144.5 cr. and with reserves of Rs.5308 cr., the book value of the share works out to Rs.188 making it a bonus candidate. The value of its gross block as on 31st March 2006 was Rs.4955 cr. The value of its investments is a whopping Rs.2051 cr. and the borrowings are just Rs.72 cr.

MUL has recently launched its fourth car assembly plant at Manesar near Gurgaon in Haryana. A diesel engine and transmission plant set up under a new joint venture of Suzuki Motor Company (SMC) and MUL called Suzuki Powertrain

India Limited (SPIL) and SMC's two-wheeler plant under Suzuki Motorcycle India Private Limited (SMIPL) were also inaugurated. Both facilities span across 600 acres.

MUL's new export model, expected to be launched in 2008-09 will also be manufactured at this plant. Accordingly, this plant has been made to suit SMC and MUL's global ambitions and is among SMC's best plants worldwide, claims MUL. The new assembly plant is also a key step forward in MUL's goal of achieving annual sales of 1 million cars in India by 2010. The plant is under a joint venture company, called SPIL in which SMC holds 70% equity while the rest is held by MUL.

Together, SMC and MUL have drawn up an investment plan of Rs.9,000 cr. by 2010. This includes investments for the fourth car assembly plant, the diesel engine and transmission plant, launch of new models and upgradation of MUL's old facilities in Gurgaon.

MUL has requested the government for extension of CNG/LPG pipeline from Gurgaon to Manesar (a distance of about 25 km) to enable its new plants use the fuels for power and for support on industrial water supply by extending the canal water line from Gurgaon to Manesar and supply of stable and inexpensive power.

Above all, it has sought upgradation and improvements in ports and even development of a new port on the western shores for easier exports. Put together, Suzuki and MUL's exports are projected to go up to 2,00,000 units per year by the second half of 2008. This is almost four times MUL's total exports of 50,000 so far.

At present, car penetration in India is only about 7 cars per 1000 people, which is even less than some of our neighbouring countries. There is also a large population of two-wheeler owners, who would naturally upgrade to an entry-level car. Therefore, there is large latent demand for passenger cars waiting to be tapped in India.

Based on the first three quarters, MUL, is expected to register an EPS of about Rs.53 in FY07. The strong book value of the share is expected to increase to Rs.235 in the current year on Rs.5 per share making it a strong bonus candidate. At the current market price of Rs.840, the share is available at a P/E x of 15.9 on FY07 earnings.

Considering the bright prospects of the passenger car industry and the strong fundamentals of MUL coupled with its various expansion plans and multinational status, the shares of MUL are worth buying with a price target of Rs.1200 in 6 to 9 months. The 52-week high/low of the share has been Rs.991/670.

STOCK WATCH

By Saarthi

IG Petrochemicals Ltd. (Code: 500199) (Rs.57.10) is the world’s third largest producer of Pthalic Anhydride (PAN), which is used in the manufacture of plasticizers, alkyd resins and as an intermediate in the production of dyes and pigments. Due to major financial restructuring and capital infusion by Spinnaker-a global fund, the company has made a strong turnaround this fiscal. For the December 2006 quarter, while its sales increased by 50% only to Rs.150 cr., its net profit zoomed to Rs.10.90 cr. against a net loss of Rs.15.60 cr. last year. Notably, it recorded the highest OPM of around 14% due to high realization, low raw material costs and higher capacity utilization. For the full year FY07, it is expected to clock a turnover of Rs.600 cr. with PAT of Rs.33.50 cr., which translates into an EPS of Rs.13 on its current equity of Rs.26.30 cr. and EPS of Rs.11 on its diluted equity of Rs.30.80 cr. A good turnaround scrip.

*****

A major beneficiary of the Railway Budget will be **Kalindee Rail Nirman (Engineers) Ltd. (Code: 522259) (Rs.164.75)**. It is a forerunner in execution of the railway signalling, gauge conversion from metre gauge to broad gauge, new railway line construction, modernisation of railway yards. up-gradation of railway sidings in ports, power plants, petroleum sidings, access control systems for metro rail, fibre optic networks, etc. Recently, it merged group company, Kalindee India Projects, through a swap ratio of 17:20, which will help it to bid for larger projects. Besides, it just now raised around Rs.27 cr. through a preferential allotment of 17.25 lakh shares at Rs.156.50 per share. Further, it is planning to raise approx. Rs.30 cr. through the GDR or FCCB route. It may end FY07 with a turnover of Rs.175 cr. with net profit of Rs.10.50 cr. i.e. EPS of Rs.10 on its diluted equity of Rs.10.34 cr. Since the company has more than Rs.750 cr. of orders in hand, its top-line is expected to shoot upto Rs.300 cr. with PAT of around Rs.22 cr. i.e. EPS of Rs.21 on its current equity for FY08. A solid buy as its share price can shoot upto Rs.240 in 12 months.

*****

By this year’s budget, the government has expressed its special thoughts on health and family welfare by increasing its allocation by 20% to more than Rs.15,000 cr. This is positive for **Sanjivani Parenterals (Code: 531569) (Rs.32.85)** to some extent as it a supplier of pharmaceutical products to government bodies. Few months back, it bagged a prestigious order from the Mumbai Municipal Corporation and also won the bid of CMS Tender for bulk supply to all hospitals of the West Bengal government. Recently, it also entered into some contract with the defence ministry for three years, which is a good breakthrough for the company. For FY07, it may report a total revenue of Rs.75 cr. with net profit of Rs.4.50 cr. i.e. an EPS of Rs.8 on its equity of Rs.5.90 cr. Technically also, the scrip has bottomed out and the risk:reward clearly favours the bulls in this scrip.

*****

After hitting a high of Rs.122, **Paradyne Infotech Ltd. (Code: 532672) (Rs.87.30)** has corrected sharply to Rs.80 levels on fears of MAT implementation and the FBT on ESOP. However, it is a rapidly growing mid-cap IT company set to capitalise on strong growth opportunities in HR and Banking software products, offshore & domestic software services, e-governance projects and IT infrastructure management services through both organic and inorganic initiatives in domestic as well as global markets. For the December 2006 quarter, its top-line grew by 60% to Rs.34.50 cr. and net profit more than doubled to Rs.3.95 cr. registering an EPS of Rs.3.65 for the quarter. For full year FY07, it may register total revenue of Rs.125 cr. and after providing Rs.2.50 cr. as current tax, net profit may stand at Rs.14 cr. This translates into an EPS of Rs.13 on its current equity of Rs.10.88 cr. For FY08, its EPS can rise to Rs.16. Buy on declines.

*****

PBA Infrastructure Ltd. (Code: 532676) (Rs.95.30) executes civil engineering projects and specializes in construction of highways, dams, runways, heavy RCC structures, bridges and other infrastructure projects for various government bodies. Although the shares of construction and infrastructure companies have tumbled sharply on withdrawal of some tax exemptions in the budget, the future prospects of PBA Infrastructure are very encouraging as it regularly bags good orders. Its first three quarters revenue is up by 75% to Rs.187 cr. but net profit grew by 20% only to Rs.10 cr. only due to higher interest cost and tax provisions. Since it has pending contracts worth more than Rs.500 cr., it may report sales of Rs.265 cr. with net profit of Rs.12 cr. for FY07, which may shoot up to Rs.325 cr. and Rs.16.50 cr. respectively for FY08. This works out to an EPS of Rs.9 & Rs.12 for FY07 and FY08 respectively. The company is also planning to raise capital through FCCB/GDR/ preferential allotments, which will lead to its re-rating going forward.

FIFTY FIFTY

By Kukku

Investment Call

* **Swaraj Engines Ltd. (SEL) (Rs.147)** is a joint venture between Punjab Tractors Ltd. (PTL) and Kirloskar Oil Engines Ltd. (KOEL). Originally it was set up to manufacture engines for PTL but in recent years it has also become a supplier of hi-tech engine components to Swaraj Mazda Ltd. (SML).

Since start of commercial operations in 1989-90, SEL has supplied over 2,55,000 engines for fitment into Swaraj tractors being produced and sold by PTL. SEL's engine business currently constitutes about 85% of its product revenue. The balance 15% represents value of hi-tech engine components supplied to SML for assembly of engines for their commercial vehicles.

The long-term prospects of both the tractor and commercial vehicles industry are good. The government initiatives to addressing the needs of the farm sector such as water, credit, marketing and technology and the massive investments planned for urban and rural infrastructure including roads, ports, power etc., coupled with the ongoing economic growth are expected to drive the future demand of both these segments. As an OEM supplier to PTL and SML, SEL's own business prospects appear sustainable.

Last year, the company issued bonus in ratio of two shares for every share held and paid 75% dividend on the enlarged capital. At the current level of Rs.146, dividend yield, too, is very attractive.

For the first three quarters of FY07, the company has already reported net EPS of around Rs.9 and for the full year it is likely to be around Rs.11/12. Investors advised to stay invested or to keep a watch on this stock for investment at lower levels around Rs.135/140.

Market Guidance

* Investors can keep a watch on **Ion Exchange (Rs.139)** to add on reactions as favourable reports are said to be pouring in. The company also got good benefit in this recent Budget.

* **KCP Ltd. (Rs.221)** has five mini-hydel units aggregating 8.25 MW capacity on the Guntur Branch Canal of the Nagarjuna Sagar dam. All of them are operating at full capacity due to the abundant water in the Nagarjuna Sagar dam. It also has 12 wind turbines of 225 KW each located in Tirunelveli district of Tamil Nadu. This

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2) 5th Jan'07- 12.27 pm: Buy Tata Teleservice Delivery at 20.15 SL 16.50 Target 24-28.

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segment is expected to contribute substantially to its profit in the current year.
While cement and engineering divisions are doing well, the company is also set to fully utilise its hydel power projects and capitalise on its surplus real estate.
* **Revathi Equipment (Rs.695)** is likely to report an additional EPS of around Rs.10 from its new acquisitions in the current year on a consolidated basis.
* Investors should pick good yield stocks in this reaction like **Zenith Fibres (Rs.25), Sambandam Spg. (Rs.118), First Leasing (Rs.42)** and **Swaraj Engines (Rs.147).**
* Investors who are sitting on good cash can lock part of such funds into fixed maturity plan mutual funds giving returns of around 9.5% post tax.
* **Saregama India (Rs.214)** is attracting good informed buying from informed big investors. Keep a watch.
* Investors were warned not to remaining overbought from time to time and to remain in cash. Those sitting on good cash can think of adding good stocks at every lower levels like **KCP Ltd. (Rs.221), Atlas Copco (Rs.735)** and **Hikal (Rs.375).** Investors are also advised to keep booking part profits at every pull-back till the trend becomes clear.
New investors are advised to stay away from the market.

TOWER TALK

* **Prithvi Information Systems** is likely to post an EPS of Rs.50 in FY07 and Rs.65 for FY08. The share is sure to move up.
* **Era Constructions** is being accumulated in anticipation of bumper results.
* **Gayatri Projects** is implementing Rs.600 cr. worth of irrigation projects. The scrip's immediate target is Rs.325.
* **Diamond Cables** shares are being cornered by persons in the know. Scrip may cross Rs.175.
* Market has overreacted to the application of MAT to IT companies. It is behaving in the same fashion when FBT was introduced. Sooner than later, this sector including mid cap IT companies will make a sharp pull-back.
* Introduction of dual excise duty on **Cement** indicates how serious the govt. is to bring down the prices of cement. Soon they may ban cement export also. Stay away from this sector and avoid bottom fishing.
* The imposition of export duty on iron ore and removal of import duty on coking coal are very positive for steel and metal industry. Buy **SAIL, Tata Steel, Monnet Ispat, Tata Sponge, Godawari Power** etc.
* The finance minister has put special thrust on Agriculture in the budget. Farm credit has been raised to Rs.2,25,000 cr. and fertilizer subsidy increased by 30% to around Rs.22,500 cr. Buy **GNFC, GSFC, VST Tillers** etc.
* Govt. has not only extended the TUF scheme for the textile sector but also increased the provisions for it by 70% to Rs.911 compared to Rs.535 cr. for 2006-07. It's positive for spinning units like **Winsome Textile, Kallam Spinning, Sambandam, Ambika, Suryalata** etc.
* A sum of Rs.96,000 cr. has been allocated for defence in this budget. **Zen Technologies, Micro Technologies, Premier Explosives, Astra Microwave** will gain from this.
* **Money mutual funds** may witness evaporation of funds to RBI bonds, as dividend tax will make it uneconomical for investors henceforth.
* **Hindustan Lever** may be considering a 100% buy-back. The change in name may only be a prelude to it.
* **NTPC** and **Tata Power** may gain a lot from the boost in rural electrification.
* Rollback of withdrawal of Sec 80 IB and Sec 80 IA is on the cards aver market pundits. So look out for construction and real estate scrips on decline.
* The dual excise policy in cement reminds one of the controlled pricing in cement and the rampant black marketing!
* **BHEL** bonus may be followed by a split in face value.

MARKET REVIEW

Budget falls short of market expectations

By Ashok D. Singh

The Sensex shrunk below the psychological level of 13,000 for the week ended 2 March 2007 as the market declined amid high volatility. Before the market could overcome the pre-Budget blues, a disappointing Union Budget 2007-08 and weak Asian markets pushed the market lower. The market was expecting reforms in Union Budget 2007-08, a key trigger for any future rally. However, the Budget fell short of all such expectations. Lack of inflows at higher levels, high valuations, rising inflation and interest rates, fears of earnings slowdown in coming quarters, defeat of the Congress in Uttarakhand and Punjab and profit-taking at higher levels pulled the market down.
The BSE Sensex shed 746.40 points for the week ended 2 March 2007 to settle at 12,886.13 compared with the previous week's closing of 13,632.53 on 23 February 2007. The NSE Nifty lost 212.20 points, to settle at 3726.75 compared with the previous week's closing at 3,938.95. From an all-time high of 14,723.88 struck on 9 February 2007, the Sensex has corrected a sharp 1,838 points (14.27%) in less than a month.

The BSE Mid-Cap shed 198.65 points for the week ended 2 March 2007 to settle at 5,466.24 compared to the previous week's closing of 5,664.89. The BSE Small-Cap shed 258.62 points, to 6,645.81, compared to the previous week's closing at 6,904.43.

On Monday, 26th February, the day of the Railway Budget, the 30 shares BSE Sensex advanced 16.99 points (0.12%), to 13,649.52. However, the market experienced volatility and swung 1,000 points, between some of the vital intra-day tops and bottoms of the day. The market pulled off an almost incredible rebound after a steep intra-day fall in mid-afternoon trade. Cement, banking, auto and steel shares were behind the Sensex's rebound. The rise in cement and steel shares was due to a cut in rail freight rate on key raw materials in their manufacture.

On Tuesday, 27th February, the 30 shares BSE Sensex lost 170.69 points (1.2%), to 13,478.83 on weak Asian markets. Nevertheless, select stocks edged up in a weak market, as investors bet on sector-specific Budget sops.

On Wednesday, 28th February 2007, the day of the Union Budget, the 30 shares BSE Sensex tumbled 540.74 points to settle at 12,938.09 on heavy selling across the board. The Sensex suffered its biggest fall in eight months after 13 June 2006. Increase in taxes for cement, IT and construction firms and weak global markets caused the huge fall on the bourses.

An increase in dividend distribution tax impacted trading on the bourses, and the market tumbled soon after the announcement. No changes have been made in corporate tax. The dividend distribution tax has been raised to 15% from 12.5%, and tax exemptions for certain sectors have been withdrawn in the Union Budget 2007-08. There was no removal of the 10% corporate surcharge. It was abolished only for firms with a taxable income of Rs.1 cr., or less. The market was expecting abolition of 10% surcharge for all corporates. The education cess on all taxes has been raised by 100 basis points. On the flip side, the Budget did not propose any increase in the short-term capital gains tax as was feared in the run-up to the day of presentation. Even the securities transaction tax (STT) remains unchanged.

The Budget allocated higher spending for infrastructure and agriculture, emphasised on fiscal consolidation, and reduced tariffs in an attempt to contain inflation. There were no significant initiatives for industry and services in the Budget.

The finance minister also said that measures will be taken to allow short-selling by institutional investors, which will have to be backed by delivery. With regard to personal income tax, there is some relief to the taxpayers as the exemption limit went up to Rs.1,10,000 from Rs.1,00,000 earlier.

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The Securities & Exchange Board of India (Sebi) said on Tuesday it had raised the amount of foreign portfolio investment inflow into India so far in 2007 by Rs.3430.75 cr. ($773.91 mn.) due to capturing of fresh data under the new reporting system.

The Sensex, rebounded with great force on Thursday (1 March 2007). Bargain-hunting for battered index pivotals and short-covering in the derivatives segment helped to reverse the downtrend. Most of the gains came in the second half of the day's trading session, triggered by short covering. Volatility was also at its best.

On Friday (2 March 2007), the Sensex gravitated below the psychological level of 13,000 after a late sell-off gripped the market. The 30 shares BSE Sensex lost 273.42 points (2.08%), to settle at 12,886.13, its lowest closing level since late-October 2006. Index heavyweight Reliance Industries (RIL) dived and so did IT scrips, cement producers, banks and telecom shares.

FIIs have pressed substantial sales over the past few days. FIIs were net sellers to the tune of Rs.438.70 cr. on Thursday, 1st March, the day when the Sensex rose 221 points. As per provisional data, FIIs were net sellers to the tune of Rs.613 cr. on Friday.

On the flip side, inflation, which had been a cause of concern over the few weeks, started cooling for

the second straight week. However, latest figures show inflation for week ended 17 February 2007 at 6.05% versus 6.63% in the previous week. The development will soothe many frayed nerves. The market had estimated inflation at 6.30%. The drop was largely due to a cut in petrol and diesel prices, and may provide some respite to the market.

Colourless yet growth oriented Budget

By G. S. Roongta

The suspense over the Union Budget 2007-08 is now over with its presentation by the Finance Minister (FM), P. Chidambaram, on Wednesday, 28th February 2007 in the Lok Sabha.

Judged by the high hopes and expectations built, it was a disappointing affair, which added to the woes of the market beginning Monday, 26th February 2007. The sharp fall by 541 points on the Budget day only aggravated the foul sentiment, which took a toll of 1786 points from its recent peak of 14,723.88 made on Friday, 9th February 2007.

G.S. Roongta

The poor opening early last week was attributed to the weak global trends. This coupled with the high expectations of concessions and reliefs expected by various industries apart from the overall reduction in personal and corporate tax rates and the STT paid on short-term trading in the market, which did not materialize in the Budget led to the meltdown.

The effect was, therefore, more psychological than real as it reflected market reaction to betrayal of hopes, which had rightfully developed given the booming economy and excellent tax collections, both at the corporate and individual levels, as admitted by the FM himself on more than one occasion. It was, therefore, only natural that marketmen expected some genuine grievances of the economy to be addressed but that was not to be. This led to large scale panic sales on the Budget day and unloading of institutional holdings too. On finding no support at any level, the FIIs, too, sold heavily in the Cash and Futures segments of the market thereafter.

Sectorwise, the biggest victims of the Budget were the Cement stocks, which were already facing a tough time on the bourses even before the presentation of the Budget. They had already fallen by 15%-20% across the board on pre-Budget days but they were dealt a real deadly blow by the hike in excise duty by 50% although the FM would like the people to believe that there is no increase in duty provided the industry stuck to the retail price of Rs.190 per cement bag of 50 kgs.

Knowing full well that this is well nigh impossible given the all round increase in operating costs, the FM has tried to placate the building & construction lobby, which has been crying hoarse at the escalating cement costs as the real cause for the runaway real estate prices. But this appears to be a ill-conceived scheme that may boomerang and will be modified sooner than later if not completely withdrawn. It will open the floodgates of black marketing and corruption.

But perhaps the biggest blow and disappointment was felt on the taxation front as people were expecting the FM to raise the tax exemption limits for the salaried class and individuals from Rs.1 lakh p.a. to atleast Rs.1.5 lakh if not Rs.2 lakh p.a. given the impact of inflation and rising prices in the economy over the past two years. But the FM handed a mere lollypop by raising the exemption limit by a measly Rs.10,000 p.a. and simultaneously gave a bitter dose by enhancing the education cess by 1%. This, in effect, will largely neutralize the so-called exemption granted. There was no reduction in the surcharge over and above the tax rates, which was fond hope of individual assessees.

The corporates, too, were hopeful of 5% reduction in corporate tax in line with other developed economies and were sure if the abolishing of surcharge on the income tax as promised by the FM two years back. But they were in for a rude shock as not only were their hopes belied but also they were burdened with an additional 2.5% higher dividend distribution tax! In addition there was disappointment with the extension of minimum alternate tax (MAT) on deductions claimed under Sections 10A and 10B of the Income Tax Act. Besides, neither was the obnoxious cash transaction tax nor the fringe benefit tax (FBT) abolished nor modified. On the contrary, employee stock options (ESOPs) were brought under the tax net on grounds of being a fringe benefit. This did not go down well with the corporates, who were struggling to recruit and retain talent through the use of ESOPs.

What greatly disappointed industrialists and market men was that the FM chose to introduce new levies without caring to offer reliefs to tax payers in these days of higher cost of living especially when revenue collection was up by 40% through direct taxation and tax compliance has vastly improved. Is this the way to reward tax payers for the increasing compliance.

Before discussing the Budget implications, I would like to take Money Times readers back to my forecast on specific sectors last week which read as follows, "However, my pre-Budget sectoral recommendations are for Steel, Cement, Fertiliser, Power Generation and Power Distribution, Textiles, Rural Electrification and Agricultural products."

Since the Budget proposals deal with a large number of items, it is not possible to analyse them all in one single article. Let us, therefore, evaluate how my forecast featured in Union Budget 2007-08.

Steel: Steel has been the biggest beneficiary of this Budget with the imposition of Rs.300 per tonne export duty on iron ore and concentrates. The mining industry, which flourished over the last two years will be checked but this move will help the Steel industry a great deal with easy and cheap availability of indigenous raw materials. Interestingly, Indian companies had exported nearly 100 mn. tonnes of iron ore last year.

The duty exemption on coking coal will also benefit small steel producers as coal comprises almost 40% of the cost of hot metal produced. Besides, cut in customs duty on seconds and defective steels by half to 10% is also a right step to boost the steel industry. Steel prices may rise from Rs.1000 to Rs.1500 per MT as hinted by Mr. S. K. Roongta, chairman of SAIL.

Cement: The two-way exemption in excise duty for cement will invite confusion and uncertainty. On the one hand the excise duty is stated to have been reduced by Rs.50 from Rs.400 per tonne if the retail price does not exceed Rs.190 per bag. But at the same time the FM proposes to hike the excise duty by 50% from Rs.400 to Rs.600 if the retail price exceeds Rs.190 per 50 kgs. bag. This would translate in a hike of Rs.10 per bag as against a reduction of Rs.2.50 if it is sold below the stipulated of Rs.190.

This dual system of excise will invite black marketers to issue false bills to take advantage of the reduced excise duty. This scam will run right through the manufacturers, stockists, agents, retailers and politicians.

As is well-known, the demand for cement exceeds the supply and the situation is going from bad to worse as no further capacity expansion is envisaged till next year. According to me, if the government wanted a portion of the cement cake, it should have raised the excise duty right away by Rs.100 or Rs.200 per MT instead of this dual pricing formula, which is open to manipulation and difficult to monitor.

Cement prices, as I said several time before, are likely to remain firm between Rs.200 to Rs.225 and the government attempt to take credit by bringing it down seems far-fetched in the free market mechanism. However, if the government wants to spoil the cement sector like it did in the case of sugar, there is very little that one can do.

Textiles: This sector, as I had forecast, has received several benefits as India has emerged as the largest producer of synthetic fibre and yarn globally. Custom duty has been drastically been reduced to 7.5% on polyester fibre and yarn. Currently, polyester fibre is sold around Rs.60,000 per MT in overseas markets as against the domestic price of Rs.66,000 per tonne. Thus with this huge difference of Rs.6000 per MT, spinners and weavers will definitely benefit either through fall in domestic prices or cheaper imports. It is pertinent to note that cotton was already cheap on account of the bumper crop worldwide and with manmade fibre prices following suit, it will be a great relief to the fabric manufacturers. Besides, the much sought extension of the Technology Upgradation Fund Scheme (TUFS), which offers 5% interest subsidy on upgradation of plant and 10% capital subsidy, augurs well for the modernization of the industry. Further, the cut in excise duty on caprolactum from 16% to 12% will benefit producers of manmade fibres like RIL, Garden Silk Mills, Century Enka, etc.

Thus, textile as a whole has been a big beneficiary of this Budget.

Fertilisers: Although no major change was announced, the FM has invited recommendations of a fertilizer commission. After receiving the report, decisions on subsidies or increase in the price of urea will be taken at a later date and bring relief to the sector.

Rural Electrification: The whole Budget is focused on upliftment of rural activities and funds have been generously allocated under various schemes like Bharat Nirman and the Regional Infrastructure Development Fund (RIDF) outlay has been increased to Rs.12,000 cr.

Agriculture: the country's main challenge remains agriculture, whose contribution to the GDP has reduced. The FM has given a big boost to farm credit allocating Rs.2,25,000 cr. as against Rs.1,97,000 cr. in 2006-07. Also the 2% interest subvention scheme for short-term or cash crop loans will continue while the National Agricultural Insurance Scheme (NAIS) will get another Rs.500 in the coming year.

The National Bank for Agriculture and Rural Development (NABARD) will continue to sanction loans and disburse funds to State governments. The corpus of such funds has been raised by Rs.12,000 cr.

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The custom duty reduction on edible oil and some reliefs provided for agricultural products and increased allocation for irrigation is also a part of relief to agriculture. Similarly, exemption from duty granted for low-priced biscuits and readymade food mixes will help the biscuit industry, ITC, Tasty Bite, etc.

Thus most of my expectations and forecast for the above sectors have turned true as the FM recognizes them to be the most significant. While the Budget may have brought grief to some, it is a 'feel good' for many others. It has definitely taken the long-term growth of the economy into account and attempted to contain inflation, which is the need of the hour.

Prakash Industries Ltd.: Shining performance

By Devdas Mogili

Prakash Industries Ltd. (PIL) is a 27-year-old Haryana based company belonging to the Surya Roshni group whose operations can be broadly classified into four segments i.e. Steel, Power, PVC Pipes and others. They include mining & crushing, sponge iron, steel bloom/billets/ingots, power generation, steel structurals, wire rods and HB wire, ferro alloys, rigid PVC pipes, worsted yarn, black & white picture tubes, power generation through wind energy, export of iron ore fines and silico manganese.

The company's integrated steel and power plant is located at Champa, Chattisgarh;

Rolled Products division is at Raipur; Raw Material Division is at Barbil, Orissa; Worsted yarn division is at Silvassa, Dadra & Nagar Haveli; one PVC Pipe division is at Kashipur, Uttaranchal while another is at Rayya near Amritsar, Punjab. The windmills are at Alvoimozghy, Tamil Nadu and the Black and White Picture tubes division is at Pithampur, Indore, Madhya Pradesh. V. P. Agarwal is the chairman and managing director of the company.

In addition, the company has setup Rotary Kilns based on SL/RN technology of Lurgi, Germany. Recognizing the potential to tap the waste gases let out by the Sponge Iron kiln, the company also installed a power co-generation plant with Waste Heat Recovery Boilers in collaboration with Lurgi, Germany. Installing the first boiler in the country based on utilization of hot gases itself is a milestone for the company and is a part of the company's contribution for harnessing energy from waste resources.

In another move towards self reliance and to ensure the uninterrupted supply of consistent quality of Iron ore for its Sponge Iron Kilns, the company set up a crushing and screening plant at Koira in district Sundargarh in Orissa.

The company's Rolling Mill facilities were setup at Raipur in Chhattisgarh to manufacture steel structurals. PIL has also installed the latest Submerged Arc Furnaces to produce high quality ferro alloys.

During 2005-06, PIL set up a Wire Rod Rolling Mill, which was successfully commissioned towards the end of FY06. This is a forward integration project with high value addition and with better product mix. The company commenced coal-mining operations in the current fiscal at Chotia Coal Block allotted by the Government of India, this will result in substantial cost saving in steel production. The company has also been allotted Prospecting Licences for Iron Ore Mining in Chhattisgarh and Orissa.

Performance: The company posted net sales of Rs.799.26 cr. with net profit of Rs.71.47 cr. registering an EPS of Rs.7.16 for FY06 but skipped the dividend to conserve resources for future requirements.

Financial Highlights: (Rs. in lakh)

Particulars	QE 31/12/06	QE 31/12/05	9M 31/12/06	9M 31/12/05	YE 31/03/06
Total Sales/Income	29176	23185	73571	62405	90309
Less: Excise Duty	3440	2711	8133	7926	10383
Net Sales/Income	25736	20474	65438	54479	79926
Other Income	30	24	142	38	80
Liability written back	-	-	-	-	116
Total Expenditure					
Inc/Dec in stock	13	(42)	(484)	(192)	(740)
Raw Material	15150	13767	38128	35590	53121
Staff Cost	900	732	2427	2069	2923
Other Expenditure	4151	2449	10761	7091	9356
PBIDT	5552	3592	14748	9959	15462
Financial Expenses	609	521	1580	1438	1833
Depreciation	1392	1414	4150	4136	5492
Tfr from Rev Reserv	(239)	-	(713)	-	(634)
PBT	3790	1657	9731	4385	8771
Curr Tax (MAT)	421	139	1088	369	729
Deferred tax	-	668	-	1513	1588
FBT/Wealth tax	14	13	34	21	36
MAT cr. adjustment	(421)	-	(1088)	-	(729)
Net Profit	3776	837	9697	2482	7147
Paid up equity	10204	10110	10204	10110	10110
Pref Share capital	700	800	700	800	800
Res Exc Rev Reserv	-	-	-	-	21159
EPS (Rs)	3.46	0.85	8.88	2.52	7.16

Q3 Results: PIL has come out with fabulous results for Q3FY07. It notched up net sales of Rs.257.36 cr. with a net profit of Rs.37.76 cr. posting a basic EPS of Rs.3.46. It registered an impressive sales growth of 11.02% while net profit jumped by 351% as compared to Q3FY06. The annualized EPS works out to Rs.14.84.

Financials: PIL has an equity base of Rs.109.04 cr. supported by reserves of Rs.211.59 cr. with a book value of Rs.29.40.

Share Profile: The PIL share with a face value of Rs.10 is listed and traded both on the BSE and NSE under B2 segment. Its share price touched a 52-week high/low of Rs.66/Rs.22. At its current market price of Rs.37, it has a market capitalization of Rs.403 cr.

Shareholding Pattern: The promoters hold 62.45% of its equity capital while non-promoter holding, including public holding is to the tune of 37.55%.

Prospects: The domestic steel industry is also poised for a take-off based on the back of economic growth, which calls for value addition by way of backward and forward integration in almost every segment. And India is emerging as a major steel-producing nation in terms of technology, quality or cost efficiency.

PIL's Rigid PVC Pipe division with increasing brand consciousness has witnessed phenomenal growth and its production has improved by over 40% over the previous year. In view of the growing demand for PVC Pipes, the division is expected to further improve its performance in the current year. The company's power generation at the Wind Power Division was at its optimum during the year. The performance of its other divisions has also been quite satisfactory during the year.

With the Indian economy all set for rapid development and steel being one of the key factors of growth, the company is expected to reap full benefit of its backward and forward integration.

Conclusion: PIL has announced shining performance for Q3FY07. With the commissioning of its power project, the company's profit margins are expected rise further in the days to come.

At its current market price of Rs.37, the share price is discounted less than 3 times its estimated FY07 earnings against the industry average P/E multiple of 13. The share is grossly undervalued and can be included to add shine to one's portfolio.

MONEY FOLIO

Lotus India AMC launches Contra Fund and Mid Cap Fund

Lotus India AMC, a joint venture between Fullerton Fund Management Group and Sabre Capital Worldwide, has launched its 'Twin Offer' NFO – the Lotus India Contra Fund and the Lotus India Mid Cap Fund.

The Lotus India Contra Fund is an open-ended equity fund, which aims to generate capital appreciation through the Contrarian style of investing, while the Lotus India Mid Cap Fund, a close ended equity fund with a maturity of 3 years, will invest in the equity related instruments of mid cap companies.

This 'Twin Offer' Funds priced at Rs.10 per unit plus the applicable load for Contra Fund is open for subscription till 15th March 2007. The Lotus India Contra Fund will re-open for ongoing purchase/redemption on or before 13th April 2007. The scheme is open to resident individuals, institutions as well as Non-Resident Indians and foreign institutional investors.

Union Bank of India Signs MOU with Maharashtra Postal Circle

Union Bank of India and the Maharashtra Postal Circle of India Post have joined hands for marketing of the bank's Priority Sector loan products in Maharashtra.

The Maharashtra Postal Circle will extend various services to villagers at certain mutually agreed post offices, which are deep rooted with a large network in villages and knowledge of the people. Under this tie-up, the Post Offices will identify prospective borrowers and help them to choose the appropriate schemes/products of the bank as also assist the villagers in filling up the application forms.

The bank is arranging for training the Post Office staff through the Indian Institute of Banking and Finance. The bank's Village Knowledge Centres will be rendering useful assistance in this regard.

The Post Offices will therefore be able to canvass more business for the Bank. Under this tie-up, all types of Agriculture loans right from Crop Loan to large value loans like Poultry, Dairy, Tractor etc. will be made available to the farmers in Jalgaon, Nasik, Hingoli, Solapur, Ahmednagar and Pune covering the Bank's 56 branches.

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