

February 14, 2007
FOR PRIVATE CIRCULATION
Equity

	13 Feb 07	% Chg		
		1 Day	1 Mth	3 Mths
Indian Indices				
Sensex	14,091	(0.7)	0.2	5.0
Nifty	4,045	(0.3)	(0.2)	4.6
Banking	7,267	(1.3)	(1.6)	5.9
IT	3,758	(0.8)	1.8	10.0
Healthcare	3,724	(0.5)	(3.8)	(2.0)
FMCG	1,866	(0.9)	(3.2)	(8.9)
PSU	6,142	0.6	(1.2)	0.9
CNX Midcap	5,083	(0.1)	(2.8)	1.2
World indices				
Nasdaq	2,459.9	0.4	(1.7)	1.2
Nikkei	17,621	0.7	3.9	8.8
Hangseng	20,132	(2.2)	3.2	7.3

Value traded (Rs cr)

	13 Feb 07	% Chg - 1 Day
Cash BSE	4,590	13.1
Cash NSE	10,010	12.4
Derivatives	49,029	22.6

Net inflows (Rs cr)

	12 Feb 07	% Chg	MTD	YTD
FII	218.7	(20.4)	(599.2)	(599.2)
Mutual Fund	(389.4)	(104.0)	(70.2)	194.7

FII open interest (Rs cr)

	12 Feb 07	% chg
FII Index Futures	13,407.3	1.2
FII Index Options	7,250.9	(0.9)
FII Stock Futures	17,396.0	(0.2)
FII Stock Options	29.5	(2.9)

Advances/Declines (BSE)

13 Feb 07	A	B1	B2	Total %	Total
Advances	83	264	307	654	43
Declines	123	358	359	840	55
Unchanged	2	16	20	38	2

Commodity

	13 Feb 07	% Chg		
		1 Day	1 Mth	3 Mths
Crude (NYMEX) (US\$/BBL)	58.9	(0.3)	11.2	1.1
Gold (US\$/OZ)	664.3	0.5	6.3	7.4
Silver (US\$/OZ)	13.9	1.5	8.4	9.0

Debt/forex market

	13 Feb 07	1 Day	1 Mth	3 Mths
10 yr G-Sec yield	7.89	7.82	7.72	7.58
Re/US\$	44.19	44.16	44.29	44.98

Sensex


Source: Bloomberg

ECONOMY NEWS

- The RBI announced a 50 basis points rise in the cash reserve ratio from 5.5% to 6%. The measure, to come in two doses, 5.75% from February 17 and then 6% from March 3, will impound Rs.140 bn from banks, which will now be left with less resource to lend from. (ET)
- The Government is planning a series of amendments to the Foreign Exchange Management Act to address the security concerns related to foreign investments. A new law is also being drafted to block FDI in sensitive sectors and sensitive areas of India. (ET)
- A sharp fall in excise collection growth rate in January this year notwithstanding, the Finance Ministry is hopeful of meeting the Budget estimate target of Rs.1,190 bn for the current fiscal. (BL)
- In its latest initiative to control the rising prices of essential food items, the Government has banned wheat exports for the whole of 2007. A notification from the Directorate General of Foreign Trade said the ban came into effect on February 9. (BS)
- The group of ministers set up to amend insurance laws has decided against spelling out a separate cap on FIIs in insurance companies. It will continue to be under the composite cap for both FDI and FII, capped at 26%. (ET)

CORPORATE NEWS

- **Bajaj Auto** is targeting revenues of Rs.100 bn for the current fiscal with total sales of 2,800,000 vehicles. The company also launched today its 200cc Pulsar DTS-i at the price of Rs.65,497 ex showroom, New Delhi. (BS)
- **Gujarat State Petroleum Corporation** may have hit another jackpot in the well it is drilling in Dholka block. The company, which was drilling 'Ambethi 2' in the Dholka field near Ahmedabad has shown immense promise of fresh hydrocarbon reserve. (ET)
- **Tata Power Company** is preparing to bid at about \$1.6 bn for 30% of Indonesia's largest coal firm Bumi Resources in an attempt to counter Mitsubishi's bid of \$1.32 bn. The Japanese company's bid is the highest so far. (ET)
- The government has appointed Arun Balakrishnan, Director (HR), **Hindustan Petroleum Corporation**, as the next chairman and managing director. (ET)
- Prince Stone Investments Ltd, the Mauritius-based holding company of **Lanco Infratech Ltd**, and **Jindal Steel & Power Ltd** together have acquired 100% of the equity holding of Globeleq Ltd in Globeleq Singapore. (BL)
- **TCS**, and its Chinese partners - Beijing Zhongguancun Software Park Development, Uniware, and the Tianjin Huayuan Software Area Construction and Development - supported by the National Development and Reforms Commission, has inaugurated TCS China's premises at Z-Park in Beijing. (BS)
- Anil Ambani group company **Reliance Capital** has acquired over 6% stake in **Global Broadcast News**, which operates the English news channel CNN-IBN and Hindi channel IBN7. (BS)
- The **Videocon** group is close to acquiring Magaldi Power, an Italian company. (BS)
- Vodafone's deal to buy 67% in **Hutchison Essar** has run into unexpected trouble. The Ruias, who control the **Essar** group, are peeved about not being briefed beforehand about Vodafone's agreement with rival **Bharti Airtel** over sharing of infrastructure. (ET)

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

FROM OUR RESEARCH TEAM

ECONOMY UPDATE

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ANOTHER CRR HIKE

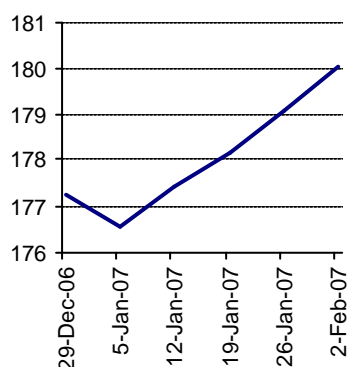
The RBI has raised the cash reserve ratio (CRR) by 50 bps from 5.5% to 6.0%, which will come into effect in two phases of 25 bps each from Feb 17, 2007 and March 3, 2007, respectively. This is the second instance in the last three months that the apex bank has raised CRR. Last time they increased this by 50 bps in early December.

This step has come on the back of spiraling inflation, which touched 6.58% on last Friday. RBI has taken this step to suck out excess liquidity from the system and contain inflationary expectations. This move is expected to suck out about Rs.140 bn of excess liquidity from the system.

The factors that have forced the RBI to hike the CRR...

- Inflation for the week ending January 27, 2007 is estimated to be 6.58%, the highest in two years.
- Economic environment continues to be very robust with 9.2% GDP growth forecast for 2006-07 by CSO.
- Although there is some early sign of moderation in credit growth in the last couple of months, the YoY growth in non-food credit, up to February 2, 2007 was 30.2% as against 33.2% a year ago.
- Broad money supply (M3) growth remains in the range of 19-20%, which is higher than 15% targeted by RBI.
- Continued inflow of foreign capital has forced the RBI to intervene in the forex market to prevent the sharp appreciation of the rupee, which has in turn raised rupee liquidity in the banking system. The forex reserve with the RBI has increased by \$2.8 bn (from \$177.25 bn as on 29 December 2006 to \$180.1 bn as on 2 February 2007) in January 2007. This has led to a rise in the liquidity by Rs.124 bn in the system. This is also evident from the following developments.
 - On February 8, 9, 12 and 13, 2007, through the LAF, Rs.30 bn, Rs.17.5 bn, Rs.21.55 bn and Rs.40.9 bn was absorbed as against average daily injections of liquidity of Rs.98.14 bn during February 1-7, 2007.
 - Under the market stabilization scheme (MSS), additional liquidity amounting to Rs.11.09 bn was absorbed during February 1-13, 2007.
 - Call money rate, which was ruling in the range of 7.75-8.35% during the month of January 2007, has also declined to 6.59% by February 13, 2007.

Forex reserve



Source: RBI

By increasing the CRR by 50 bps, the RBI is trying to reduce the surplus liquidity in the banking system, which would lead to a hike in both deposit as well as lending rates, which in turn would also lead to moderation in credit growth.

Impact of CRR hike

- This move will suck out about Rs.140 bn from the banking system. So, it will impact the net profit of the banking sector as a whole by about Rs.12-13 bn.
- The direct impact of the CRR hike on bank's net interest margins (NIM) would be to the extent of 4-5 bps, as banks do not earn any interest on CRR balances.
- The banks will see an impact of 250-300 bps on their PBIT and 150-200 bps on their PAT.
- This will indirectly also lead to a hike in deposit as well as lending rates. The banks like SBI, BoB and IDBI have already hinted at taking this up in the coming near future.

- Borrowings for corporates will be affected due to rise in the interest rate.
- The bond prices are expected to fall due to this move, which will lead to a rise in the 10-year government yield. It is expected that the government yield will move above 8% marks in the near future.
- Due to a rise in the 10-year bond yield, the banks will also see their profits getting hit by provisions for depreciation on their investment book. However, most of the bank's investments in bonds are already close to the statutory bare minimum level of 25%, apart from the fact that a large chunk of their portfolio is in the HTM category where mark-to-mark losses do not arise.

In the WPI figure reported at 6.58% for the week ending 27 January 2007, food articles were the primary reason, which showed a YoY increase of 9.97%. We believe this is more because of supply side constraint than the prevailing monetary situation, and we believe that in the coming Budget the Government will take adequate steps to increase the supply of relevant commodities to curb inflationary pressures.

Food items were not the only culprits. The prices of manufactured goods also rose 6.21% over the last year. The recent spurt in inflation is also due to a low base effect and it is more likely to continue till March 2007.

Banks like ICICI Bank, SBI, BOI etc. that have overseas offices could even start funding their domestic credit through these foreign offices.

Although banking stocks may react negatively in the short-term, the medium to long-term outlook for the sector remains positive. We believe that RBI has done this to suck out the excess liquidity from the system. PSU banks, which have not raised their PLR even after the recent hike in repo rate by RBI, are expected to raise their deposit as well as lending rates. This will not have any material impact on the banks as they expected to raise their deposit rates as well as PLR to protect their margins as well as their profitability.

Bulk deals

Trade details of bulk deals					
Date	Scrip name	Name of client	Buy/ Sell	Quantity of shares	Avg. Price (Rs)
13-Feb	Advani Hot R	Mackertich Consultancy Se	B	50,000	193.70
13-Feb	Advani Hot R	UBS Securities Asia Ltd.	S	48,245	193.70
13-Feb	Allianz Secu	Manish G. Lakhi	B	253,157	51.92
13-Feb	Ashco Indust	Shailesh Ved	B	50,250	74.50
13-Feb	Ashco Indust	Crystal Interior Products	S	50,000	74.49
13-Feb	Ashco Indust	Neha Ashok Kotwani	S	21,000	73.65
13-Feb	Avaya Global	Reliance Capital Trustee	B	500,000	250.00
13-Feb	Avaya Global	HDFC Trustee Co Ltd HDFC	S	500,000	250.00
13-Feb	Cambridge	Vidhyawati Sharma	B	91,152	103.54
13-Feb	Commit Cap S	M K Commitments Pvt Ltd	S	43,690	15.90
13-Feb	Conart Engin	B K Shah and Co	S	25,000	43.50
13-Feb	Cranes Soft	Swiss Finance Corporation	B	600,000	102.99
13-Feb	Cranes Soft	HDFC Mutual Fund	S	590,449	103.00
13-Feb	Ganeshforgin	Basantkumar B. Rungta	S	70,000	43.00
13-Feb	Garwa Mari I	ICDS Limited	S	32,602	28.33
13-Feb	Gravity Ind	Nilpa Kalpeshbhai Patel	S	50,000	12.35
13-Feb	IOL Broadban	Global Asset Mgmt Hongkon	B	380,000	368.62
13-Feb	JMT Auto Ltd	Ravi Kanaialal Sheth	S	61,124	94.00
13-Feb	JMT Auto Ltd	Bharat Kanaialal Sheth	S	54,842	94.00
13-Feb	Kaman Hsg	Bakliwal Financial Servic	B	21,025	227.73
13-Feb	Karut Net L	Raj Investments	B	50,093	188.20
13-Feb	Macmilan Ind	Reliance Capital Trustee	B	558,928	305.00
13-Feb	Macmilan Ind	Bsma Limited	S	389,931	305.00
13-Feb	Macmilan Ind	Citi Group Global Market	S	233,089	305.32
13-Feb	Megasoft Ltd	HDFC Core Satellite Fund	S	216,033	130.81
13-Feb	Nagarj Agric	Bijam Bio Sciences Pvt Lt	B	100,500	132.43
13-Feb	Navneet Pub	Reliance Capital Trustee	B	3,433,650	50.50
13-Feb	Navneet Pub	BSMA Limited	S	3,444,780	50.51
13-Feb	Prajay Eng S	Goldman Sachs Investment	B	144,935	259.55
13-Feb	Riga Sugar C	Anil Goyal	S	25,000	46.59
13-Feb	Simplex Trad	Exdon Trading Company Ltd	B	8,000	156.50
13-Feb	Som Distil B	Basmati Securities Pvt Ltd	B	99,227	15.92
13-Feb	Som Distil B	Lilac Farms Private Ltd	B	71,004	15.33
13-Feb	Steel Stri W	Savitri Minerals Pvt Ltd	B	150,000	230.35
13-Feb	Sumeet Indus	Master Finlease Ltd	B	170,593	27.15
13-Feb	Suraj Stainl	Diamant Investment and Fin	B	50,850	159.90
13-Feb	Suryala Spin	Search Finvest Pvt Limite	B	30,357	60.06
13-Feb	Tanej Aero A	RBA Finance And Investmen	B	200,000	252.30
13-Feb	Tulip It	Merrill Lynch Capital Mar	B	151,000	558.31
13-Feb	Venus Remeds	Morgan Stanley Dean Witte	B	330,000	499.40
13-Feb	Vivimed Labs	Search Finvest Pvt Ltd	B	43,724	214.09
13-Feb	Vyapar Inds	Harsiddh Online	B	52,524	163.81
13-Feb	Vyapar Inds	Sunil Amarlal Shroff	B	37,000	165.43

Source: BSE

Gainers & Losers

Nifty Gainers & Losers

	Price (Rs)	% change	Index points	Volume (mn)
Gainers				
ONGC	886	2.2	8.1	1.4
Bharti Airtel	740	2.0	5.4	1.9
Wipro	638	1.2	2.1	0.7
Losers				
Reliance Com	441	(3.0)	(5.7)	9.7
Infosys Tech	2,304	(2.0)	(5.3)	0.9
L&T	1,614	(2.8)	(2.6)	1.1

Source: Bloomberg

Forthcoming events

COMPANY/MARKET

Date	Event
14-23 Feb	Initial Public Offer of Raj Television Network opens
14-22 Feb	Initial Public Offer of Astral Poly Technik opens
15-23 Feb	Initial Public Offer of Jagjanani Textiles, AMD Metplast opens
14-Feb	Zenotech Laboratories holds press conference
15-Feb	Hexaware Tech to announce earnings and dividend; Abhishek Mills holds press conference to announce IPO; Hewlett Packard organizes conference for its new product; Artemis Health Sciences and Philips Electronics holds press conference
16-Feb	ABB, Glaxo SmithKline Pharma to announce earnings and dividend
20-Feb	HLL to announce earnings and dividend
22-Feb	Wockhardt to announce 4th quarter earnings and dividend

Source: Bloomberg

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