



## India Market Weekly

December 23, 2006

✧ Thought for the Week : A stock doesn't know you own it ✧

Indices	Dec 22	Dec 15	%
BSE	13472	13614	-1.04
NSE	3871	3889	-0.46
Dow Jones	12,421	12,417	0.03
Nasdaq	2416	2454	-1.55
Hang Seng	19320	19111	1.09
Nikkei	17105	16914	1.13
<b>MKT CAPITALISATION (Rs cr)</b>			
	CI	Pre	% ch
Sensex	858233	866430	-0.95
NSE Total	3330622	3336086	-0.16
BSE Total	3524538	3531196	-0.19
<b>VOLUMES (Rs cr)</b>			
Exchange	Last	Pre	% ch
BSE	21063	22862	-7.87
NSE	42862	46879	-8.57
<b>WEIGHTAGE IN BSE T/O</b>			
Shobha Dev	1,135.61	5.39	
Reliance	632.74	3.00	
RCVL	541.55	2.57	
SBI	389.06	1.85	
Parsvanath	341.96	1.62	
<b>TOP-5 DELIVERIES</b>			
Company	Vol (lakh)	Del (lakh)	Del (%)
		Week	Prev
HPCL	9.86	19.75	200.3
Infosys	68.32	45.58	66.71
ITC	264.50	161.02	60.88
HLL	124.41	72.81	58.52
Wipro	50.70	26.39	52.05
			47.88
<b>FOREX / BULLION / MONEY</b>			
Currency	CI	Prev	%Ch
Re./US \$	44.49	44.66	0.38
Re./UK	87.44	87.42	-0.02
Re./Euro	58.69	58.58	-0.20
Gold (Rs/10g).	9,010	9,134	-1.36
Silver (Rs/Kg).	18,490	20,272	-8.79
Call Money	6.60	6.75	-2.22
<b>FIIs/MF ACTIVITY (Rs cr)</b>			
Dec 14 - 20	Pur.	Sales	Net
FIIs	8396	9149	-753
MF	3603	3009	594
<b>FIIs/MF NET (Rs cr)</b>			
	Week	MTD	* YTD
FIIs	-753	-2264	24574
MFs	594	-552	6,791

\*April'06 till date

### Market Outlook

Market remained volatile during the week on the back of global uncertainty and ahead of derivative expiry in next week. During the week Thai market plunged the most in at least 19 years, after the central bank said international investors must pay a 10% penalty unless they keep funds in the country for a year. Impact of the news was also seen in the other emerging markets. The benchmark index ended with a loss of 143 points to 13471 points. During the week the BSE Mid-Cap Index decline by 0.22% and BSE Small-Cap Index gained by 0.80%.

### Export clocked growth of 39% in April-November

Merchandise exports in April-November 2006 showed a rise of 39% to \$79.58 billion. The cumulative value of the country's imports in the April-November period rose by 36.5% at \$115.63 billion over \$84.7 billion during April to November 2005. Crude oil imports registered a growth of 40.52% over the April-November period and stood at \$ 39.99 billion. Non oil imports also registered a growth of 17.03% at \$76.63 billion over \$65.48 billion in the same period last year. The trade deficit for the first eight months in financial year 2006-07 rose by \$8.4 billion at \$36.04 billion, which is 30% higher than the deficit of \$27.64 billion during the same period in 2005.

### Viability gap-funding a key to infrastructure growth

The Government has so far given in-principle approval to 17 proposals under the viability gap-funding (VGF) facility for public private partnership (PPP) projects. The VGF facility is meant to reduce capital cost of the projects by credit enhancement. Government is planning to use forex reserves for financing infrastructure projects.

### Robust tax collection

In April-December the centre's net direct tax collections have surged by 41.55% to Rs.109000 crore as compared to Rs.77000 crore collected in the same period last year, which is around 52% of the budget estimates.

### Inflation remains above 5%

Inflation rose to 5.32% for the week ended December 9, from 5.16% in the previous week mainly due to increase in prices of some food articles including vegetables.

### Outlook

Market is expected to remain volatile ahead of derivative expiry in the next week. The Sensex faces resistance at 13574 levels while support exists at 13310 levels. NIFTY faces resistance at 3915 levels while support exists at 3808 levels.

## Sectoral Outlook

### Sugar :

After a series of negative news, the sector finally has got some positive news in the form of partial removal of export ban imposed by the finance ministry in August 2006. The ministry has allowed export of 1mn tn during the current sugar season within which the priority is given to the mills carrying their export obligation.

The move is expected to reduce the pressure on sugar price seen in past couple of months. Even though the export ban is lifted, the international price, which currently rules at \$350/tn has turned unattractive for exporters. With the average sugar production cost going upto Rs 15/kg, the exporters are unlikely to make any significant gains out of this, however will help the mills to liquidate the stock. The price which touched Rs 1620/qtl in the domestic market is unlikely to see any recovery in near term. The pricing pressure is likely to continue for the current season.

The biggest beneficiary of the above development is Sakthi Sugar, which currently has to export 75% of the production to meet its export obligation. We expect the situation for south based mills will be in relatively better position due to their port access and possible lower inventory in southern region due to exports.

### Power

The week passed by remained a land mark as govt. announced the winner of first two ultra mega power projects of 4000MW each. The Sasan project was bagged by Lanco group which bid tariff of Rs 1.19/unit. On the second imported coal based Mundra project Tata Power emerged as lowest cost bidder offering Rs 2.26/unit cost. The financial closure for the project is likely within six months.

The sector is likely gain momentum with these developments as fresh investment is likely to flow into these projects for next few years. Although these are long gestation period projects none of the companies are likely to accrue benefits in short term.

## News & Views

### India Glycols Limited- Rs 125

#### Background –

India Glycols Limited (IGL) is one of the leading manufactures of Glycols, Ethoxylates & PEGs, Performance Chemicals, Glycol Ether & Acetates, Guar Gum and Potable Alcohol. The Company's principal activities are to produce and manufacture Mono Ethylene Glycol (MEG) using the non-petroleum route in the country. The operations of the Company with respect to MEG business are influenced by government policies on availability and pricing of molasses.

#### Investment Rationale -

- Overall demand of MEG in India is 950,000 MTPA as compared to supply of 850,000 MTPA and the balance shortfall is being met by imports. IGL totally utilized its installed capacity of 89,214 MT for MEG production in FY-06 and with the additional capacity expansion of 27,000 MT; volumes during the next year are expected to be significantly higher.
- IGL has decided to increased Glyeol Ether Acetate capacity to 18000 MT for which there is significant demand and this will help the company to further increase export turnover. Additions are also being made in the Ethylene Oxide Derivatives (EOD) Section to create additional capacity for making formulations to meet the demand particularly in the textile sector.
- IGL is diversifying into the field of herbal fanning and for the purpose herbal farms have been leased from Uttaranchal State Government.
- IGL is also setting up a Turbo Generator of 12 MW capacity. There would be substantial saving by power produced from this turbine.
- MEG price has softened in past few months on the back of easing crude oil prices. However the regional supply of MEG was tight which further provide support to the market sentiment.
- As polyester industry has been given a boost in the budget, many polyester producing company has expanded their capacity which will result in a higher consumption of MEG during the FY-07.
- In terms of challenges, there is a huge capacity creation in Saudi Arabia and Iran, which may result in short term excess availability of MEG in the world market during the year 2008. However, higher petroleum prices will result in curtailing production of MEG from plants in Europe/ USA which are dependent on Naptha/ Ethylene purchases.

#### Valuation

IGL is likely to benefit from the robust demand in domestic market. While the prices of MEG has gone down in past few months, the molasses prices which is a major raw material for IGL also eased due to record sugar production expected in current season. IGL is likely to see margin expansion due to lower raw material cost and power cost. At current market price the stock trades at 5x FY07E earnings. We recommend investors to Buy the stock.

## Financials

(Rs Million)	Q2-FY07	YoY Chg (%)	Q1 -FY07	YoY Chg (%)	FY06	FY05	YoY Chg (%)
Net Sales	2251.50	21.3	2164.20	25.3	7112.70	5574.30	27.6
Other Income	12.00	60.0	15.10	112.7	218.40	35.40	516.9
Total Expenditure	1852.40	14.4	1838.40	32.9	6130.20	4097.60	49.6
EBDITA	411.10	68.5	340.90	-2.9	1200.90	1512.10	-20.6
Interest	96.80	106.0	85.10	226.1	211.50	156.20	35.4
EBDT	314.30	59.5	255.80	-21.3	989.40	1355.90	-27.0
Depreciation	111.80	30.5	109.00	27.2	367.20	316.50	16.0
PBT	202.50	81.9	146.80	-38.6	622.20	1039.40	-40.1
Tax	-4.40	-93.0	26.70	-3.3	36.50	249.70	-85.4
PAT	206.90	18.6	120.10	-43.2	585.70	789.70	-25.8
EPS	7.42	18.5	4.31	-43.2	21.01	28.32	-25.8
Equity Capital	278.80	0.0	278.80	0.0	278.80	278.80	0.0
EBIDTA Margin	17.7		15.1		13.8	26.5	

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