

✧ **Thought for the Week** : Owning stocks is like having children; do not get involved with more than you can handle ✧

Indices	Nov 10	Nov 3	%	
BSE	13283	13131	1.16	
NSE	3835	3805	0.79	
Dow Jones	12,103	12,018	0.71	
Nasdaq	2376	2334	1.80	
Hang Seng	18891	18750	0.75	
Nikkei	16112	16350	-1.46	
MKT CAPITALISATION (Rs cr)				
	CI	Pre	% ch	
Sensex	845053	835375	1.16	
NSE Total	3209964	3187045	0.72	
BSE Total	3455769	3422009	0.99	
VOLUMES (Rs cr)				
Exchange	Last	Pre	% ch	
BSE	22147	20273	9.24	
NSE	41462	39654	4.56	
WEIGHTAGE IN BSE T/O				
Reliance		1,206.98	5.45	
Hind Zinc		669.63	3.02	
TISCO		306.86	1.39	
GMR		224.26	1.01	
RCVL		177.53	0.80	
TOP-5 DELIVERIES				
Company	Vol (lakh)	Del (lakh)	Del (%)	Prev
HPCL	22.25	33.90	152.3	137.03
Infosys	60.01	37.23	62.04	59.86
HLL	272.42	162.48	59.64	53.35
ITC	191.52	108.86	56.84	50.31
Wipro	30.39	16.15	53.14	54.18
FOREX / BULLION / MONEY				
Currency	CI	Prev	%Ch	
Re./US \$	44.62	44.77	0.34	
Re./UK	85.44	85.03	-0.49	
Re./Euro	57.44	56.84	-1.05	
Gold (Rs/10g)	9,178	9,153	0.27	
Silver (Rs/Kg)	19,059	18,812	1.31	
Call Money	6.75	6.75	0.00	
FIIs/MF ACTIVITY (Rs cr)				
Nov 3 - 9	Pur.	Sales	Net	
FIIs	9926	8421	1505	
MF	2459	2578	-119	
FIIs/MF NET (Rs cr)				
	Week	MTD	* YTD	
FIIs	1505	2012	19426	
MFs	-119	338	7,885	

*April'06 till date

Market Outlook

During the week market remain firm on the back of low crude oil prices and strong buying by foreign funds. The benchmark index ended with a gain of 152 points to 13282.9 and Nifty by 66 points to 3805 points. However, selling pressure was seen at higher levels due to the over stretched valuations.

During the week global market remained firm on the back of falling treasury yields and lower oil prices. The Dow Jones industrial average was up by 85 points to 12103, Nasdaq ended higher by 42 points to 2376 and Hang Seng was up by 141 points to 18891.

GDP growth forecast revised upward

National Council for Applied Economic Research (NCAER) has revised up its 2006-07 economic growth forecast to 8.1% from 7.9% previously due to good monsoon rains, robust exports and foreign investment inflows. NCAER expects GDP to expand by an average annual rate of 8.2% in the next five years. At the sectoral level, the council projects annual average growth rates of 2.4% for agriculture, industry growth of 8.2% and services sector growth of 10%. The export and import growth of merchandise trade is projected at roughly the same rate of 17% per year.

Rupee touched 7 month high

Rupee touched a seven-month high during the week on the account of huge dollar inflow from the FIIs and lack of dollar demand from the importers. Rupee closed at 44.62 per dollar.

Turnaround in the crude and electricity fueled the infrastructure growth

Six Infrastructure industries showed a rise of 9.9% in September 2006 as compared to corresponding month of the previous year (6.3%). The higher growth in six infrastructure industries was seen mainly on account of a turnaround in the crude petroleum and electricity sectors. During April-September 2006 six Infrastructure industries showed a rise of 7.3% over the corresponding period of the previous year (6.1%).

Inflation fall to 5.09%

Inflation fell to 5.09% for the week ended October 28 from the previous week of 5.41%. This was the fourth week in a row where WPI stood above the five per cent mark.

Outlook

The Sensex faces resistance at 13554 levels while support exists at 12957 levels. NIFTY faces resistance at 3909 levels while support exists at 3745 levels.

Sectoral Outlook

Telecom

Indian telecom sector continues to set subscribers additions record and register impressive growth M-o-M. After setting a world record by adding over 6 million subscribers in September '06, it is expected to have added over 6.5 million subscribers in October. While the GSM operators have reported a growth of 5.16% M-o-M by adding a net addition of 4.7 million in October, the numbers of CDMA operators are yet to be released. In GSM category, Bharti led the growth by reporting a growth of 5.73% M-o-M and added 1.55 million subscribers during October followed by State-owned BSNL which added 1.1 million subscribers during the same period.

The major chunk of the growth is coming from the circle B & C which have reported a M-o-M growth of 6.34% and 6.21% respectively followed by the circle A (4.08% M-o-M) and Metros (2.91% M-o-M).

We expect the sector to continue this ride on the cellular boom for next few coming quarters and believe that the integrated players with pan India presence like Bharti Airtel and Reliance communication to benefit most out of this growth momentum.

GSM Market Share

Players	Subscribers Base (Mn)		Net Add.	Market Share%
	Sep'06	Oct'06		As on Oct'06
Bharti	27.06	28.61	1.55	29.9%
BSNL	20.94	22.05	1.12	23.0%
Hutch	20.36	21.27	0.91	22.2%
IDEA	10.36	10.98	0.62	11.5%
Aircel	3.80	4.01	0.20	4.2%
Reliance Telecom	2.96	3.18	0.23	3.3%
MTNL	2.29	2.33	0.04	2.4%
Spice	2.20	2.27	0.07	2.4%
BPL	1.05	1.05	0.00	1.1%
All India	91.01	95.74	4.73	100.0%

News & Views

Airlines: Competition heating up in the civil aviation space

The increased peak season air-passenger traffic and the decline in the ATF prices by 16% in the past 2 months has provided some relief to the domestic airline companies. But the intensifying competition in the civil aviation space is still a cause of worry for all the existing airlines. As opposed to domestic demand for air travel which is increasing at a rate of 25-30% annually, the growth in the air seat capacity has been around 55% for the past one year (especially coming from the LCC's). On an average the country is ordering 5-6 aircrafts every month.

This has led to a slide in passenger loads and rise in operational losses. As opposed to 75% last November, the average load factor for the industry at present stands at 65%. This in turn limits the scope for revision in the airfares in the peak season for majority of the existing carriers, except for Spicejet airlines which is operating at a load factor of 80% currently and hence is considering a hike of 10% to its existing fares. Leading carrier Jet airways which has lost substantial market share over the last one year to low cost carriers and has incurred a loss of Rs 100 cr for the first half, plans to stay away from price hike this season. Similarly Deccan Aviation which reported a loss of Rs 340 cr and Rs 45 cr for 15 months ended June 06 and quarter ended Sept 06 respectively has also decided to react to the market forces.

Hence in the coming months some slow down could be seen in the expansion plans of some airlines on account of low yields and losses on various routes.

Scheduled Airlines	Existing Fleet	Planned Capacity by 2010	Jul-Sept 2006	
			Passengers carried (lakhs)	Market share (%)
Indian	77	76	16.49	21.6
Jet Airways	52	85	23.15	30.4
Sahara	27	29	6.68	8.8
Deccan	41	116	14.67	19.3
Kingfisher	11	75	6.7	8.8
Spicejet	6	25	5.25	6.9
Paramount	2	17	0.61	0.8
Go Air	2	22	1.93	2.5
Indigo	3	100	0.71	0.9
Total	221	545	76.19	100

News & Views

IOB Result Update – CMP Rs.111.15

Highlights for the quarter

Impressive business growth

The bank posted an impressive business growth with advances growing at 40% y-o-y and deposits by 20% y-o-y. In spite of a robust business growth, the NIMs have been maintained firm at 4.01%. Yield on advances rose by 56bps to 9.49% whereas cost of deposits stood at 4.99%, an increase of 37bps. On the back of strong business growth rate observed in H1FY07, the management has revised its credit growth estimates upwards from 25% to 30% for the fiscal FY07.

Cost/Income ratio increased but highly competitive at 45.7%

The bank has registered an increase in cost/income ratio from 39% in the sequential quarter to 45.7% in Q2FY07. This was due to higher operating costs and lower treasury gains. However, amongst the public sector banks, IOB is better placed in terms of its operational efficiency. In terms of the AS (15) impact of pension liability, the bank stands

Investment portfolio faces marginal interest rate risk

The bank has an investment portfolio of Rs.198bn with 85% of its securities in the HTM category. HTM duration is 4.25 years and AFS is 2 years. The bank is cushioned to the extent of 8% yield on the benchmark G-sec. In Q2FY07, IOB made a write back of Rs.350mn on investments.

Comfortable CAR at 14.66%

CAR for Q2FY07 was 14.66% after Tier II issue of Rs.5000mn at 9.35%. IOB has been one of the first banks to issue perpetual debt and has been very aggressive in raising Tier II capital. Thus, the strong CAR has enabled the bank to revise its lending growth rate, without any liquidity crunch. Tier I capital stands at 8.9%. Considering Basel-II guidelines, which have been extended, the bank has estimated CAR at 13.3% as on Sept'06 post adjustment.

Bharat Overseas Bank (BhOB) merger – expansion of reach

The BhOB bank merger is under progress and this will increase its reach by an additional 103 branches. Organically, IOB is yet awaiting RBI nod for further branch licenses.

Valuation

IOB has one of the best return ratios in the industry and there appears further headroom to improve the same. The bank has an RoE of 29% and RoA of 1.48% as on Sept'06. At the CMP of Rs.111.15, the bank is trading at a P/Adj BV of 1.6x FY07E. We recommend 'Buy' with a price target of Rs.135.

Financials

(Rs in mn)	Q2FY07	Q2FY06	% y-o-y	H1FY07	H1FY06	% y-o-y
Interest Earned	137,212.7	107,576.9	27.5	261,301.4	210,117.0	24.4
Other Income	15,200.4	17,455.4	(12.9)	40,312.9	35,599.7	13.2
Total Income	152,413.1	125,032.3	21.9	301,614.3	245,716.7	22.7
Interest Expense	76,021.4	55,846.2	36.1	142,555.7	110,072.3	29.5
Operating expenses	34,911.5	30,849.8	13.2	67,928.9	59,983.9	13.2
Total expenses	110,932.9	86,695.9	28.0	210,484.6	170,056.2	23.8
Profit prior provisioning	41,480.2	38,336.4	8.2	91,129.7	75,660.6	20.4
Provisions & Contingencies	5,414.2	9,121.5	(40.6)	28,406.6	23,275.7	22.0
Provision for Taxes	11,080.6	9,365.9	18.3	15,533.9	14,216.6	9.3
Net Profit	24,985.4	19,849.0	25.9	47,189.2	38,168.3	23.6
EPS (Rs.)	4.6	3.6		8.7	7.0	
Equity	54,480.0	54,480.0		54,480.0	54,480.0	
NII	61,191.3	51,730.8	18.3	118,745.6	100,044.8	18.7
Net NPA (%)	0.6	0.9		0.6	0.9	
CAR (%)	14.7	13.7		14.7	13.7	
RoA (%)	1.5	1.5		1.5	1.5	

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