



Index

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Take Five

Scrip	Reco Date	Reco Price	CMP	Target
♦ BEL	26-Sep-06	1,108	1,095	1,525
♦ India Cements	28-Sep-06	220	830	315
♦ ITC	12-Aug-04	69	186	220
♦ SE Asia Marine	12-Oct-06	190	181	270
♦ Solectron	08-Dec-03	99	247	315

Pulse Track

♦ September 2006 IIP up 11.4%

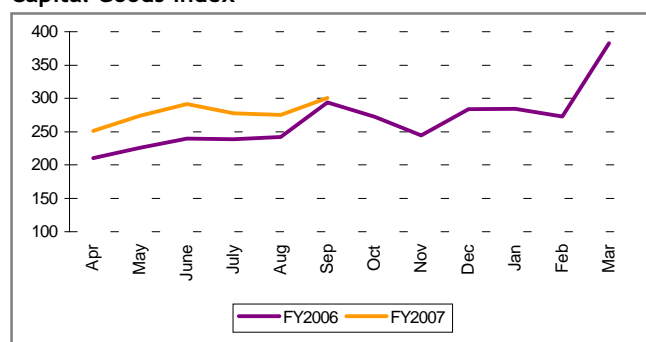
The Index of Industrial Production (IIP) grew by a strong 11.4% year on year (yoy) for September 2006, as compared with a 9.9% growth in August 2006 and a 7.2% growth in September 2005. The growth was higher than the consensus estimate of 9.8%.

The manufacturing sector maintained its double-digit growth rate at 12.0% yoy. What's worth noting is that the growth has come on a relatively higher base as the manufacturing sector grew by 7.2% in September 2005.

The mining production in the economy grew by 3.9% yoy while the electricity production grew by 11.3% yoy. The current growth has come on a lower base as both the mining and the electricity sector had witnessed a year-on-year decline in September 2005.

The Index of Capital Goods grew by only 2.2%, influenced largely by a higher base as the index had grown by 22.8% during September 2005. However, on a month-on-month basis the growth rate was strong at 9.3%. Also, the year-to-date growth rate for FY2007 remains strong at 15.2%, that too on a higher base of 15.6% in FY2006.

Capital Goods Index



Source: Ministry of Statistics and Programme Implementation

Growth in manufacturing sector

% y-o-y chng	Weight	May-06	Jun-06	Jul-06	Aug-06	Sep-06
Food products	9.1	-6.1	-2.4	27.1	2.0	10.0
Beverages, tobacco and related products	2.4	14.6	10.7	11.8	16.4	19.8
Cotton textiles	5.5	14.0	0.0	13.1	12.2	14.5
Textile products incl. wearing apparel	2.5	18.0	14.1	29.3	11.2	5.6
Wood and wood products	2.7	-19.6	-24.2	3.0	-14.6	19.6
Paper & paper products	2.7	17.2	9.9	7.1	-2.5	8.4
Chemicals & chemical products	14.0	14.6	4.0	9.6	10.4	13.0
Rubber, plastic, petroleum & coal products	5.7	12.1	10.1	9.5	12.9	15.3
Non-metallic mineral products	4.4	8.6	18.7	12.8	5.3	16.7
Basic metal and alloy industries	7.5	21.4	19.8	19.7	13.6	19.8
Metal products	2.8	-9.8	6.8	4.4	8.6	9.6
Machinery and equipment	9.6	13.9	16.5	14.2	20.3	11.6
Transport equipment	4.0	25.9	20.5	22.3	10.9	11.9
Other manufacturing industries	2.6	37.8	24.5	22.0	18.6	10.9

Source: Ministry of Statistics and Programme Implementation

The production of consumer goods grew by 12.5% with non-durables growing by 12.5% and durables growing by 12.6%. The strong growth in the Consumer Goods Index reaffirms the consumption-led growth story for the economy.

In % y-o-y chng	Sep-06	Sep-05	Aug-06	YTD FY07	YTD FY06
IIP	11.4	7.2	9.9	10.9	8.5
General					
Manufacturing	12.0	8.9	11.2	12.1	9.5
Mining	3.9	-1.9	-0.1	3.1	1.1
Electricity	11.3	-0.8	3.7	6.6	4.8
Use based					
Capital goods	2.2	22.8	14.7	15.2	15.6
Consumer goods	12.5	11.9	14.6	11.6	13.4
- Durables	12.6	15.2	20.2	15.9	13.4
- Non-durables	12.5	10.5	12.6	10.1	13.4

Source: Ministry of Statistics and Programme Implementation

The strong growth in the manufacturing sector was due to a double-digit growth witnessed in most of the heavyweight sectors. The basic metals pack grew by an impressive 19.8% yoy and non-metallic minerals (primarily cement products) grew by 16.7%. Machinery and equipment grew by 11.6%, petroleum products grew by 15.3%, chemicals grew by 13.0% and the transport equipment grew by 11.9%. Beverages and wood products, together contributing around 5%, grew by more than 19% each.

Currently the growth momentum remains strong and most of the sectors have been reporting a robust growth. Keeping this in perspective, the Reserve Bank of India has upped its gross domestic product (GDP) forecast to 8% from 7.5-8% projected earlier. We feel that with the busy season ahead the growth momentum would sustain.

Mahindra & Mahindra

Apple Green

Stock Update

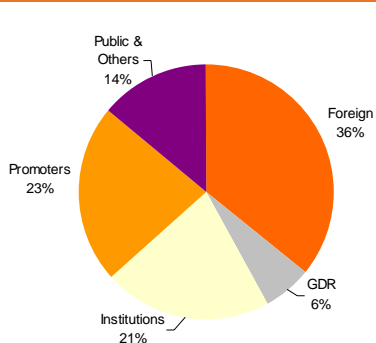
Extending Renault partnership

Buy; CMP: Rs830

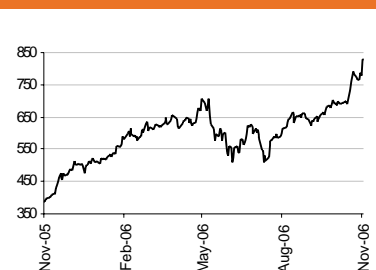
Company details

Price target:	Rs870
Market cap:	Rs20,006 cr
52 week high/low:	Rs833/378
NSE volume: (No of shares)	8.37 lakh
BSE code:	500520
NSE code:	M&M
Sharekhan code:	M&M
Free float: (No of shares)	17.13 cr

Shareholding pattern



Price chart



Price performance

(%)	1m	3m	6m	12m
Absolute	19.8	35.1	18.8	116.2
Relative to Sensex	12.7	14.3	11.8	34.8

Key points

- ◆ Mahindra and Mahindra (M&M) and Renault have signed a memorandum of understanding (MoU) to set up a greenfield passenger car manufacturing plant with a total capacity of 500,000 vehicles. Nissan too may join the venture and the decision regarding the same is expected in the next four months.
- ◆ We view the development as a positive for M&M as it deepens the relationship between the two companies. M&M would also benefit from the strong technical skills and wide product portfolio of Renault.
- ◆ Nissan too is expected to join the venture and the decision regarding the same is expected to be taken in the next four months. In case Nissan decides to join the venture, the scope of the project would widen further. It would also bolster the exports of the company.
- ◆ This plant would have the capability to make the Mahindra range of products as well as the Mahindra-Renault range of products, ie the various versions of *Logan*. Renault has also announced plans to set up a power-train plant through a wholly-owned subsidiary in India.
- ◆ We maintain our Buy recommendation on the stock with our sum-of-parts price target of Rs870, at which it would quote at 12.9x its FY2008E consolidated earnings.

M&M and Renault have signed a MoU to set up a greenfield passenger car manufacturing plant in India within the next five years. The plant would have a peak capacity of 500,000 vehicles and would be a 50:50 joint venture between the two companies. The plant is expected to go on stream by 2009 with an initial capacity of 300,000 vehicles.

Earnings table

Rs (cr)

Particulars	FY2005	FY2006	FY2007E	FY2008E
Stand-alone				
Net sales (Rs cr)	6,511.0	7,977.2	10,272.0	11,805.0
% y-o-y change	33.6	22.5	28.8	14.9
Net profit (Rs cr)	499.5	647.9	866.7	1,012.7
Shares in issue (cr)	23.34	23.36	23.36	23.36
EPS (Rs)	21.4	27.7	37.1	43.4
% y-o-y change	54.9	29.6	33.8	16.8
PER (x)	38.8	29.9	22.4	19.1
Consolidated				
Net profit (Rs cr)	711.0	1050	1351.2	1553.9
% y-o-y change	78.5	47.7	28.7	15.0
Shares in issue (cr)	23.34	23.36	23.36	23.36
EPS (Rs)	30.5	44.9	57.8	66.5
% y-o-y change	78.5	47.6	28.7	15.0
PER (x)	27.2	18.5	14.3	12.5

This plant would have the capability to make the Mahindra range of products as well as the Mahindra-Renault range of products, ie various versions of *Logan*. The product range would be marketed by Mahindra-Renault and sold through the well-established distribution network of M&M. The location of the project is yet to be finalised.

Renault has also announced plans to set up a power-train plant through a wholly-owned subsidiary in India. This plant will supply the engines and gearboxes for the *Logan* model and possible derivatives. It will also enable M&M to meet the power-train requirements for its utility vehicles and other products in future.

Nissan too may join the JV

Apart from this, Renault has also indicated that it would rope in Japanese carmaker Nissan in the venture. Renault holds 44% equity stake in Nissan and the latter is yet to finalise the quantum of equity it would purchase in the venture. A decision on the matter would be taken within the next four months. Nissan has been planning to set up a manufacturing facility in India and been in talks with Suzuki for the same. In case Nissan joins this joint venture, the probability of entering into a manufacturing alliance with

Suzuki would diminish. However, we gather that Nissan's plans to source 50,000 of the new vehicle for its European markets from Maruti's new plant at Manesar would continue even if Nissan joins M&M-Renault joint venture. Also, the plant capacity may be further increased in case Nissan joins the venture.

***Logan* expected to be launched in first half of 2007**

The management of M&M has said that the final testing of *Logan* is going on and the model is likely to be launched in the first half of 2007. The company is further expanding the capacity of its Nasik plant for *Scorpio* and *Bolero* from 300 vehicles per day to 540 vehicles per day in one year.

Valuation and view

We view the development as a positive development for M&M as it widens the relationship between the two companies. M&M would benefit from very strong technical skills of Renault and its wide product portfolio. In case Nissan decides to join the venture, it would further enhance the scope of the venture and boost its export sales. We maintain our Buy recommendation on the stock with our sum-of-parts price target of Rs870, at which level it would quote at 12.9x its FY2008E consolidated earnings.

The author doesn't hold any investment in any of the companies mentioned in the article.

Automobiles

Sector Update

Double digit growth continues

The automobile sector continued to grow at double digits in October though the sales were affected due to high inventory build-up with the dealers and a higher number of holidays during the month that affected production. The car segment performed well with a 16.3% domestic growth, while the domestic two-wheeler sales grew at a lower rate of 9.5%. The overall automobile sales volume rose by 11.7% with the domestic and export sales rising by 10.4% and 30.1% respectively.

- Passenger vehicles:** The car sales remained good in October 2006, growing by 16.3% in the domestic market. The utility vehicle (UV) segment reported a domestic growth of 8.6%. The car sales of market leader Maruti Udyog Ltd (MUL) grew by 11.4% in the domestic market while that of Tata Motors were affected due to a fire at its plant.
- Commercial vehicles:** The commercial vehicle (CV) sales continued their northward march and grew by 21.8% in the domestic market with both the medium and heavy commercial vehicle (M&HCV) and light commercial vehicle (LCV) sub-segments reporting strong growth rates. The M&HCV sub-segment grew by 27.7% whereas the LCV sub-segment grew by 14.6% in the domestic market. In the overall CV segment, Ashok Leyland Ltd (ALL) gained market share from 12.4% to 17.6% during the period.
- Two-wheelers:** Two-wheeler sales were slower in October with a growth of 9.5% though the retail sales were quite

strong. The industry leader Hero Honda Motors rendered a strong performance, with a 20.5% growth in its domestic sales. TVS Motors' numbers were below expectations mainly because of high inventories with the dealers.

- Three-wheelers:** The three-wheeler sales slowed down and grew at 7.5% in the domestic market. The passenger sub-segment remained almost flat, whereas the goods sub-segment grew by 18.8%. The market share of Piaggio improved from 29.8% to 34.4% during the period.

The gainers of the month were Ashok Leyland, Maruti Udyog and Hero Honda. Among our auto universe, M&M and Ahmednagar Forgings remain our top picks.

Industry highlights

	Domestic sales			Exports		
	Oct-06	YoY (%)	YTD (%)	Oct-06	YoY (%)	YTD (%)
Cars	92,383	16.3	21.8	14,690	10.5	12.5
UV/MPVs	26,297	8.6	12.8	387	-14.4	20.0
CV	38,544	21.8	34.4	4,152	22.4	27.1
- M&HCV	22,183	27.7	37.9	1,340	0.3	0.4
- LCV	16,371	14.6	29.5	2,812	20.6	22.6
Two-wheelers	818,537	9.5	14.4	51,466	24.7	27.4
- Scooters	85,042	-9.4	-1.6	1,840	-71.5	-52.5
- Motorcycles	705,467	13.2	17.5	45,779	50.8	52.1
- Mopeds	28,390	-6.3	4.5	3,847	-13.5	-10.8
Three-wheelers	35,773	7.5	17.8	13,205	117.1	65.7

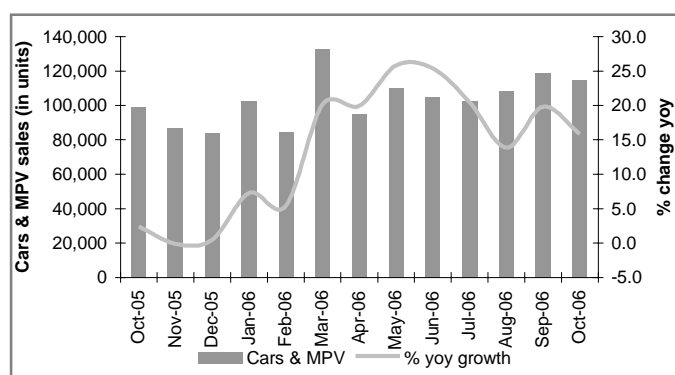
Sharekhan Auto universe

Company	CMP (Rs)	EPS		PER		EV/EBIDTA	
		FY07	FY08	FY07	FY08	FY07	FY08
Bajaj Auto	2,598	125.1	151.6	20.8	17.1	13.9	10.6
TVS Motor	100	4.8	8.7	20.7	11.5	11.7	6.7
Maruti Udyog	907	52.4	65.2	17.3	13.9	12.3	9.1
M&M	830	55.7	64.1	14.9	12.9	8.7	7.2
Tata Motors	817	53.9	67.4	15.2	12.1	9.3	7.9
Ashok Leyland	45.9	3.1	3.8	15.0	12.1	8.4	6.8
Omax Auto	101	11.5	14.9	8.8	6.8	4.6	3.9
Sundaram Clayton	1,202	52.8	77.2	18.5	12.6	15.3	10.2
Ahmednagar Forgings	276	21.9	38.1	12.6	7.2	6.9	4.0

Passenger vehicles

The car sales for October were good and grew by 16.3% year on year (yoy) in the domestic market. On a year-till-date basis, the domestic car sales grew by 21.8%. The A2 mid-size sub-segment registered a growth of 19.5% for October 2006 while the A3 sub-segment bounced back with a growth of 34.6%. The sales of *Maruti 800* further declined as the A1 sub-segment marked a decline of 30% in October. The A4 segment too continued its strong performance with a growth of 31.6% during the month.

Growth in passenger car segment



- The market leader MUL had a good month, reporting a growth of 11.4% in the domestic market and of 250% in the car segment of the export market. The company's A2 sub-segment comprising *Alto*, *Swift*, *WagonR* and *Zen* grew at 23.5%, mainly on the back of the strong sales of *Alto* and the success of *Wagon R Duo*. The *Alto* sales for the month rose to 22,294 units, which is also the highest ever-monthly sales figure for any model and make in India.
- The A3 sub-segment of MUL reported a decline of 11.7% due to the weakening sales of *Baleno* and *Esteem*. Overall, MUL has maintained its market share in the passenger car segment at 48.7%.
- Tata Motors' car sales were disappointing for the month mainly due to a fire at the paint shop of its Pune plant which affected car production. The company's car sales declined by 6.6% yoy in October. The *Indica* sales for the month were 10,998 vehicles (up 9.1%) and the *Indigo* family registered sales of 1,722 units, declining by 51.3% yoy.
- Honda Siel continued to perform well this year with the October sales reaching 5,569 vehicles, marking a phenomenal growth of 432.4%. The strong response received for its new vehicle *Honda Civic* and continued strong performance of its star vehicle *Honda City* led to this growth. Ford India too continued to clock strong numbers, registering a 159.5% growth yoy in the domestic market for the month.

- The overall domestic UV segment posted a growth of 8.6%. The UV sales of Mahindra and Mahindra (M&M) declined by 8.2% in the domestic market. Going forward, the company plans to launch the *Scorpio* model with a new 2.2CRDe engine, following which the model's sales may pick up. MUL performed well in the UV segment, registering a growth of 19.1%. Toyota Kirloskar continued its brilliant show with a 48.8% growth whereas Tata Motors' UV sales grew by 11.6% in the domestic market.

Passenger vehicle sales

Segment	Total sales			Domestic market share
	Oct-06	YoY(%)	YTD(%)	
Cars	107,073	15.5	20.2	
Maruti Udyog	52,176	16.5	15.5	52.0
Tata Motors	13,527	-11.8	15.6	13.8
Hyundai Motors	26,070	5.7	18.5	20.1
Honda Siel Cars India	5,573	432.8	50.9	6.0
Ford India Ltd	5,374	11.2	9.8	3.4
UV/MPVs	26,684	8.2	12.9	
M&M	8,156	-7.5	6.6	30.1
Maruti Udyog	7,987	18.4	15.6	30.0
Toyota Kirloskar Motor	3,515	48.8	8.6	13.4
Tata Motors	4,065	8.7	26.5	15.2
General Motors India	2,011	5.7	20.7	7.6

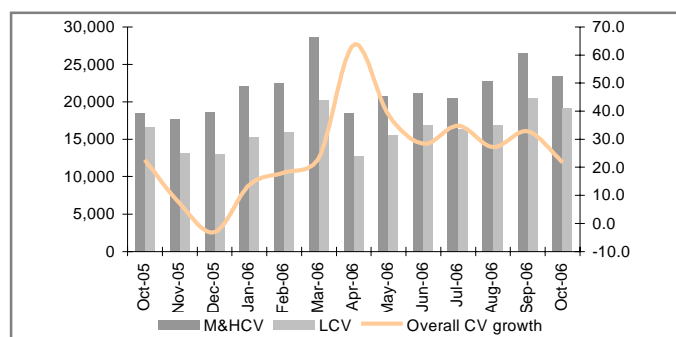
Commercial vehicles

- The searing growth in the CV sales continued with a domestic growth of 21.8% in October 2006. Both M&HCV and LCV sub-segments reported strong numbers. The heavy commercial vehicle (HCV) sales recorded a growth of 27.7%, whereas the LCV sales were slightly lower with a growth of 14.6% in the domestic market.
- Ashok Leyand was the major gainer in the CV segment. Its domestic CV sales grew by 73.4% while exports grew by 26.9%. This was due to a very strong performance in the M&HCV goods carrier segment where it recorded a growth of 105.4% with sales of 5,571 vehicles. Consequently, it also improved its market share from 22.2% to 30.5% in the M&HCV segment. The company has also raised its product prices by 2.5% with effect from November 2006. The company plans a number of new launches during the year including *Inter Century-Luxura* buses, a 6x4 multi-axle mining tipper, a higher tonnage vehicle with J-series engine, the NEWGEN range of trucks and a new HMV defence truck for the Indian army.
- Market leader Tata Motors too reported good numbers for the month; however the same were lower in comparison with the sales in the earlier months. In the domestic market, the M&HCV sales rose by 18.5% to 23,354 vehicles while the LCV sales rose by 24.3% to 10,170

vehicles. During the month, Tata Motors raised its bus and truck prices by up to 2% due to rising input costs.

- ◆ Among the other players, M&M also reported good growth numbers, with a growth of 10.2% in the domestic LCV segment, while Eicher Motors reported an overall domestic growth of 18.2% with its domestic M&HCV sales growing by 28.3%.

Growth in commercial vehicle sales



Commercial vehicle sales

Segment	Total sales			Domestic market share
	Oct-06	YoY(%)	YTD(%)	
Ashok Leyland	7,255	69.5	35.9	17.6
Eicher Motors	2,476	19.4	20.9	6.2
Swaraj Mazda	867	-17.7	-12.2	2.1
Tata Motors	26,178	17.6	43.7	6.0
Volvo India Pvt Ltd	52	-32.5	-27.1	0.1
Tatra Trucks India	5	25.0	-52.0	0.0
Bajaj Tempo	553	-27.7	-10.9	1.3
M&M	5,310	17.3	8.1	12.0
Total	42,696	21.8	33.6	100.0

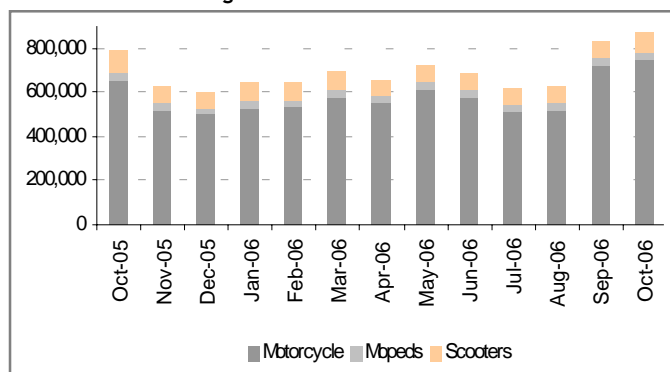
Two-wheelers

- ◆ Two-wheeler sales were again slower in October after the recovery witnessed in the last month. In view of the festive demand, the dealers had very high inventory levels, as the vehicles were stocked up in the previous two months. However, the retail sales for the month remained extremely good.
- ◆ The motorcycle sales for the month stood at 705,467 vehicles in the domestic market, registering a growth of 13.2%. Both scooter and moped sales were weaker during the month, registering a decline of 9.4% and 6.3% respectively.
- ◆ The market leader Hero Honda rendered a strong sales performance driven by the strong sales of *Passion Plus* and *Super Splendour*. This was after a disappointing performance in the last three months. Its overall sales rose by 20.4% with a domestic growth of 20.5%. The retail sales for the month stood at 500,000 vehicles. The sales received a boost as a result of the heavy

sales promotion exercise undertaken by the company, which offered a Motorola phone with talk-time on the purchase of every bike. The company's recently launched bike *New CBZ*, a 150cc bike, has received a very encouraging response from the market, and the waiting period for the same is believed to be around one month. The company further plans to launch about four to five bikes for the remainder of the year.

- ◆ Bajaj Auto's motorcycle sales were good in October with an overall growth (including exports) of 22.4%. The growth was restricted due to high inventory build-up with dealers and production loss due to higher number of holidays. However, the retail sales for October remained strong at 350,000 vehicles. The company is facing a huge demand for its *Pulsar 180cc*. However, the large number of holidays in the last month had restricted the production due to which the waiting time for the same is in the region of 25 days.
- ◆ Bajaj Auto has recently launched its *Pulsar 150cc* with added features like digital speedometer, headlamp reflector, parking lamps and slightly lower handlebar position giving it a more sporty look. We expect this to trigger a huge demand in the coming months. The company has also increased the prices of some of its products. The three-wheeler prices have been increased by Rs1,000 or 1-1.25% per vehicle. The company has raised the *Pulsar* prices by Rs2,000-2,200 on an average while the *Platina* prices have been raised by Rs500.
- ◆ TVS Motors' numbers for October were disappointing with an overall growth of 3.2% due to a high inventory build-up with dealers and production loss due to a *bandh* in Karnataka. Its overall motorcycle sales grew by 8% in October and scooter sales declined by 10%. The retail sales for the month were good at 185,000 vehicles. Its moped sales remained almost flat. The company will soon launch a two-stroke variant, *Scooty Teenz*.
- ◆ The sales of Honda Motorcycle and Scooters also slowed down due to a high base effect and grew by only 15.1% in the motorcycle segment and declined by 11.1% in the scooter segment.

Two-wheeler sales growth



Two-wheeler sales

Segment	Total sales			Domestic market share
	Oct-06	YoY(%)	YTD(%)	
Two-whlrs	870,003	10.3	15.3	
Scooters	86,882	-13.4	-6.3	
HMSI	44,864	-11.1	7.0	51.7
TVS Motor Co	22,836	-10.0	1.9	26.0
BAL	49	-99.7	-85.4	0.1
Motorcycles	751,246	14.9	19.7	
Hero Honda	352,392	16.7	9.3	48.9
Bajaj Auto	251,022	22.4	34.3	31.7
TVS Motor Co	92,328	8.0	29.8	12.3
Mopeds	32,237	-7.2	2.5	
TVS Motor Co	27,161	0.4	18.1	91.7
Kinetic Engg	3,137	5.6	-15.2	5.2
Majestic Auto	1,939	-58.9	-61.5	3.2

Three-wheelers

- ♦ The three-wheeler segment remained buoyant in October 2006 with the overall volumes growing by 24.5% for the month. The sales of the passenger sub-segment grew by 24.5% while that of the goods sub-segment grew by 18.4% during the month.

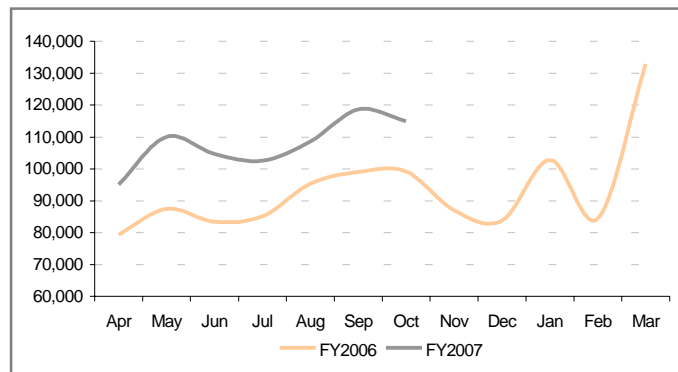
- ♦ Bajaj Auto's overall sales (including exports) grew by 30.3% led by a whopping 114.1% growth in the export volumes. In the domestic market, Bajaj Auto has lost its market share to Piaggio and M&M with its share coming down from 47.8% to 44.0%.
- ♦ M&M registered a strong overall growth of 56.2% led by an 88% growth in the goods carrier segment, on the back of the success of its vehicle *Champion Alfa*.
- ♦ Piaggio increased its domestic market share by 460 basis points to 34.4%. It reported a strong 31% growth in the passenger carrier segment and a 20% growth in the goods carrier segment.

Three-wheeler sales

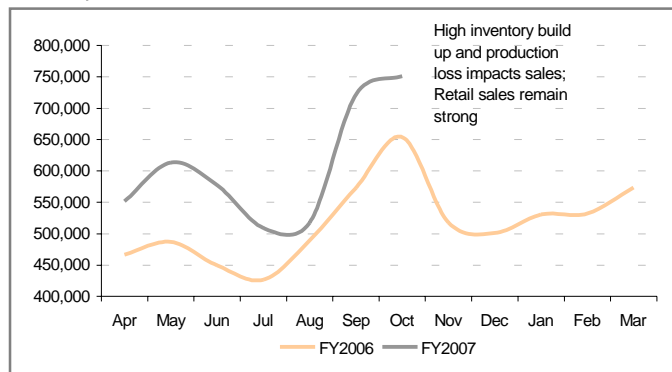
Segment	Total sales			Domestic market share
	Oct-06	YoY(%)	YTD(%)	
Two-whlrs	870,003	10.3	15.3	
Atul Auto	1,515	-12.8	-5.6	4.1
Bajaj Auto	28,507	30.3	25.3	44.0
Bajaj Tempo	1,453	-5.3	-19.5	3.7
Mahindra & Mahindra	3,643	56.2	68.3	10.1
Piaggio Vehicles Pvt Ltd	12,551	25.4	38.4	34.4
Scooters India	1,309	-29.6	5.6	3.7
Total	48,978	24.5	26.7	

Automobiles—on a growth highway

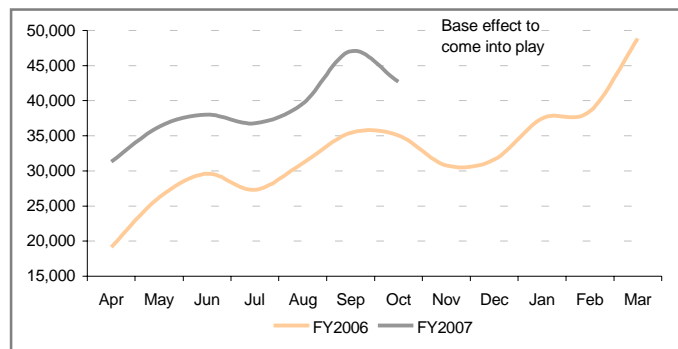
Cars



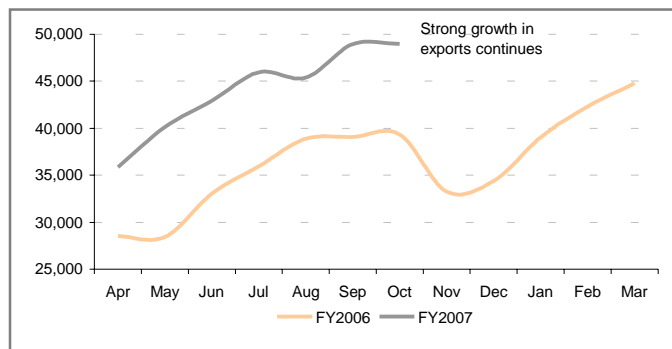
Motorcycles



Commercial vehicle



Three wheelers



Mutual Gains

Mutual Fund

Sharekhan's top equity fund picks

October was a milestone month for the Indian equity markets as the BSE's benchmark index, the Sensex breached the 13,000 mark for the first time in its history. Fuelled by strong corporate results along with sustained buying by foreign institutional investors (FIIs) and mutual funds, the Sensex and the Nifty, both posted gains of around 4.8% during the month, touching new highs.

The long-term outlook for the Indian economy continues to remain bright. The upbeat consumer mood is fuelling the growth of the economy, which is marching ahead at an average pace of 8% per annum. Impressed by the economy's stupendous performance, the Planning Commission has now upgraded the estimated gross domestic product (GDP) growth rate for the Eleventh Five-Year Plan to an average of 9% from the earlier projection of 8%. In the mid-term review of its annual monetary policy the Reserve Bank of India (RBI) too has raised the annual GDP growth target for FY2007 to 8% from its earlier estimate of 7.5-8%.

The buoyancy in the economy is translating into growth for the corporate sector, whose earnings have been growing at over 20% for the past couple of quarters. After its stunning performance in the first quarter, India Inc reported impressive numbers for the second quarter as well. The earnings of the BSE200 companies grew by 51% over last year. The earnings of the Sensex companies saw a growth of 22.7% over last year against estimates of a 20% growth. In view of the good performance, the consensus estimates for the earnings growth of the Sensex companies have been upgraded for FY2007 and FY2008. The earnings of the Sensex companies are now projected to grow by 22.6% in FY2007 against the earlier estimate of 21%; the FY2008 earnings estimate has seen a sharper revision to 14.6% from the earlier 11%.

The ongoing capital expenditure spree of Indian companies ought to ensure their earnings growth in the coming quarters and that is probably the reason why Indian equities are still finding takers among the foreign investors. Despite the Indian market's not-so-cheap valuations at the current levels of 13,100, the interest of the foreign investors has not waned and as many as 150 new FIIs registered with the Securities and Exchange Board of India (Sebi) in the January-October period. The total number of FIIs registered with Sebi now stands at 973 and together these highly influential investors bought Indian equities to the tune of \$1.7 billion (net) in the last month. The

FIIs have pumped \$6.7 billion into the market so far in CY2006 (January-October). We believe the vibrancy in the economy and the expectations of continued growth in corporate earnings will sustain the interest of global investors. The domestic scene is equally hot, with more and more household savings (India's savings rate remains a healthy 30% of the GDP) entering the market through mutual funds. Mutual funds are sitting on a cash pile of Rs9,000-10,000 crore which will enter the market sooner or later. Significant fund flows are expected from domestic insurance companies as well. The liquidity situation too thus remains comfortable.

Overall, we believe that the key drivers of the market--sustained economic and corporate growth, continued interest of foreign investors and a comfortable liquidity situation--are in place and will continue to propel the market upward. However, global market cues driven by the uncertainty of crude prices, a slowdown in the US economy, fears of rising inflation and the resultant interest rates hikes will continue to loom over the market. In the meantime, sectors such as fast moving consumer goods, cement, capital goods and banking continue to present good investment opportunities.

We have identified the best equity-oriented schemes available in the market today based on the following parameters: the past performance as indicated by the returns, the Sharpe ratio and Fama (net selectivity).

The past performance is measured by the returns generated by the scheme. Sharpe indicates risk-adjusted returns, giving the returns earned in excess of the risk-free rate for each unit of the risk taken.

FAMA measures the returns generated through selectivity, ie the returns generated because of the fund manager's ability to pick the right stocks. A higher value of net selectivity is always preferred as it reflects the stock picking ability of the fund manager.

For our selection of funds, we have given 50% weightage to the past performance as indicated by the returns, 25% weightage to the Sharpe ratio of the fund and the remaining 25% to the FAMA of the fund.

All the returns stated below, for less than one year are absolute and for more than one year the returns are annualised.

We present below our recommendations in the equity-oriented mutual fund category.

Aggressive Funds

Mid-cap Category

Scheme Name	NAV	Returns as on October 30, 2006 (%)				
		3 months	6 months	1 year	2 years	3 years
Sundaram BNP Paribas Select Midcap	86.97	19.99	3.80	83.64	73.18	64.10
Birla Mid Cap Fund	61.32	26.35	2.66	56.88	55.16	52.82
Reliance Growth	249.82	30.17	-0.74	62.68	66.41	62.64
Indices						
BSE Sensex	13024.26	21.95	8.15	68.98	51.44	39.62

Opportunities Category

Scheme Name	NAV	Returns as on October 30, 2006 (%)				
		3 months	6 months	1 year	2 years	3 years
Prudential ICICI Dynamic Plan	59.31	25.25	2.87	74.44	66.82	50.45
Prudential ICICI Discovery Fund	26.79	21.33	-2.05	52.56	60.39	--
Indices						
BSE Sensex	13024.26	21.95	8.15	68.98	51.44	39.62

Equity Diversified/Conservative Funds

Scheme Name	NAV	Returns as on October 30, 2006 (%)				
		3 months	6 months	1 year	2 years	3 years
SBI Magnum Global Fund 94	39.21	28.22	1.79	66.32	76.51	73.23
SBI Magnum Multiplier Plus 93	48.55	22.26	0.58	64.52	73.85	58.48
HDFC Equity Fund	139.41	22.30	6.74	62.26	59.16	48.77
DSP ML Equity Fund	42.38	23.74	2.76	61.03	60.98	51.26
Birla SunLife Equity Fund	166.17	26.56	4.78	59.62	60.65	55.25
Indices						
BSE Sensex	13024.26	21.95	8.15	68.98	51.44	39.62

Thematic/Emerging Trend Funds

Scheme Name	NAV	Returns as on October 30, 2006 (%)				
		3 months	6 months	1 year	2 years	3 years
Prudential ICICI Infrastructure Fund	17.00	28.59	5.20	78.94	--	--
Tata Infrastructure Fund	22.00	26.37	1.19	77.84	--	--
DSP ML Tiger Fund	29.93	26.66	2.82	71.50	63.36	--
SBI Magnum Sector Umbrella - Contra	35.17	23.32	0.09	67.40	73.24	71.49
HDFC Core & Satellite Fund	25.05	22.32	-1.80	63.39	54.85	--
Indices						
BSE Sensex	13024.26	21.95	8.15	68.98	51.44	39.62

Balanced Funds

Scheme Name	NAV	Returns as on October 30, 2006 (%)				
		3 months	6 months	1 year	2 years	3 years
JM Balanced	21.87	16.64	1.86	53.12	37.43	28.52
DSP ML Balanced Fund	36.60	16.41	3.74	45.52	36.28	34.06
HDFC Prudence Fund	106.54	19.17	10.99	43.51	46.29	39.03
Franklin India Balanced Fund	33.72	17.78	5.34	44.99	35.72	31.35
Kotak Balance	22.73	12.55	-2.79	45.46	44.47	38.46
Indices						
Crisil Balanced Fund Index	2356.16	12.67	5.19	36.70	28.16	22.61

Tax Planning Funds

Scheme Name	NAV	Returns as on October 30, 2006 (%)				
		3 months	6 months	1 year	2 years	3 years
SBI Magnum Tax Gain Scheme 93	50.30	22.50	2.88	54.18	80.45	75.88
HDFC Tax saver	140.55	23.47	-0.80	55.84	68.54	62.74
Prudential ICICI Taxplan	91.27	23.34	-6.75	46.69	63.83	55.94
Sundaram BNP Paribas Tax saver	25.32	24.45	-5.01	52.10	57.78	51.64
Franklin India Taxshield	122.45	19.66	-0.61	52.67	49.52	46.62
Indices						
BSE Sensex	13024.26	21.95	8.15	68.98	51.44	39.62

Every individual has a different investment requirement, which depends on his financial goals and risk-taking capacities. We at Sharekhan first understand the individual's investment objectives and risk-taking capacity, and then recommend a suitable portfolio. So, we suggest that you get in touch with our Mutual Fund Advisor before investing in the best funds.

Risk-Return analysis

The charts on the following pages give you a snapshot of how the mutual funds have performed on the risk-return parameters in the past. We have used the bubble analysis method to measure their performances on three parameters viz risk, return and fund size. The risk is measured by standard deviation, which measures the average deviation of the returns generated by a scheme from its mean returns. We have tried to explain the same with the help of a diagram, which is divided into four quadrants, with each quadrant containing funds of a particular risk-return profile. The size of the bubble indicates the size of the fund.

The funds in the **high-risk high returns** quadrant follow a very aggressive approach and deliver high absolute returns compared to the peers albeit at a higher risk.

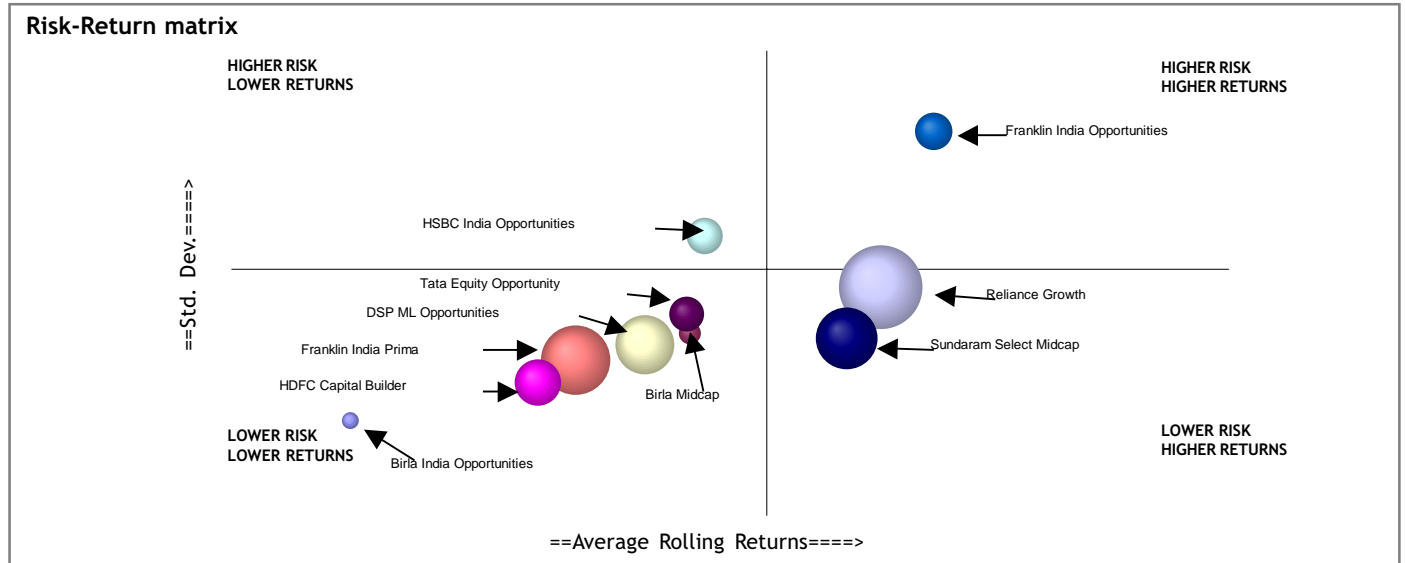
The funds in the **low-risk high returns** quadrant outperform the peer group on the risk-adjusted returns basis as they deliver higher returns compared to the peers without exposing the portfolio to very high risk.

The funds in the **low-risk low returns** quadrant are not very aggressive and provide lower absolute returns, taking lower risks.

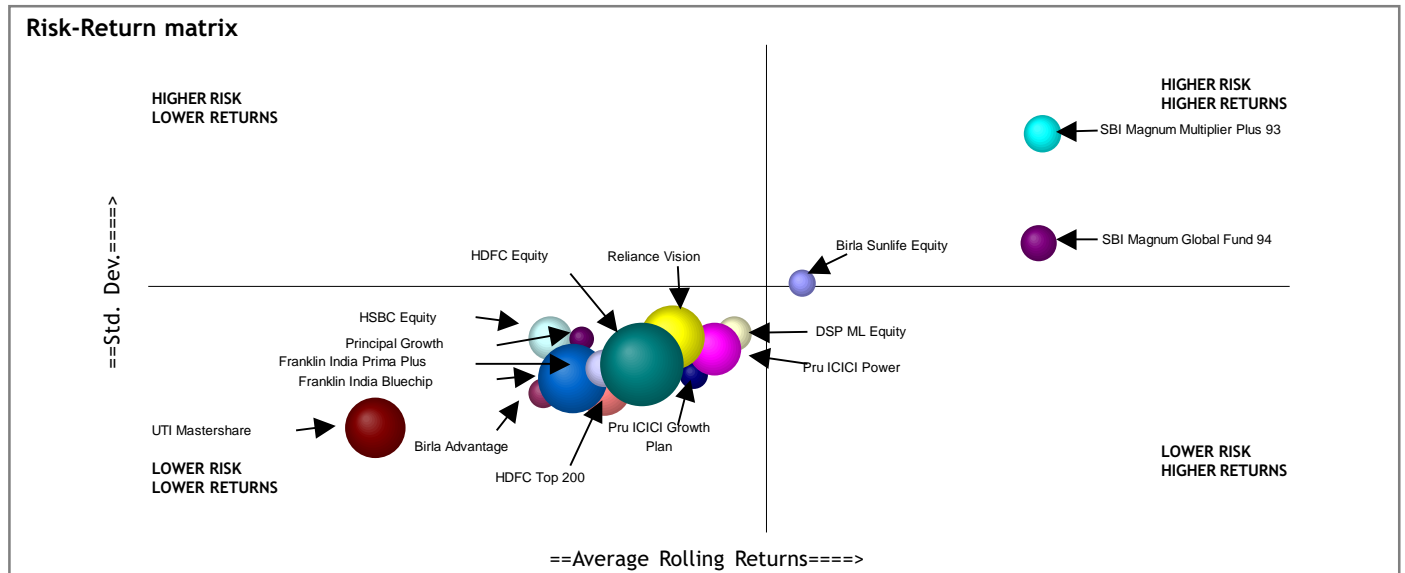
The funds in the **high-risk low returns** quadrant underperform the peers on the risk adjusted returns basis as they adopt a high-risk strategy but the returns fail to compensate the risk taken by the fund.

For aggressive, conservative and tax planning funds, risk is measured in terms of two years' volatility while returns are measured as two years' average rolling returns as on October 30, 2006. For thematic and balanced funds, risk is measured in terms of one year's volatility while returns are measured as one year's average rolling returns as on October 30, 2006.

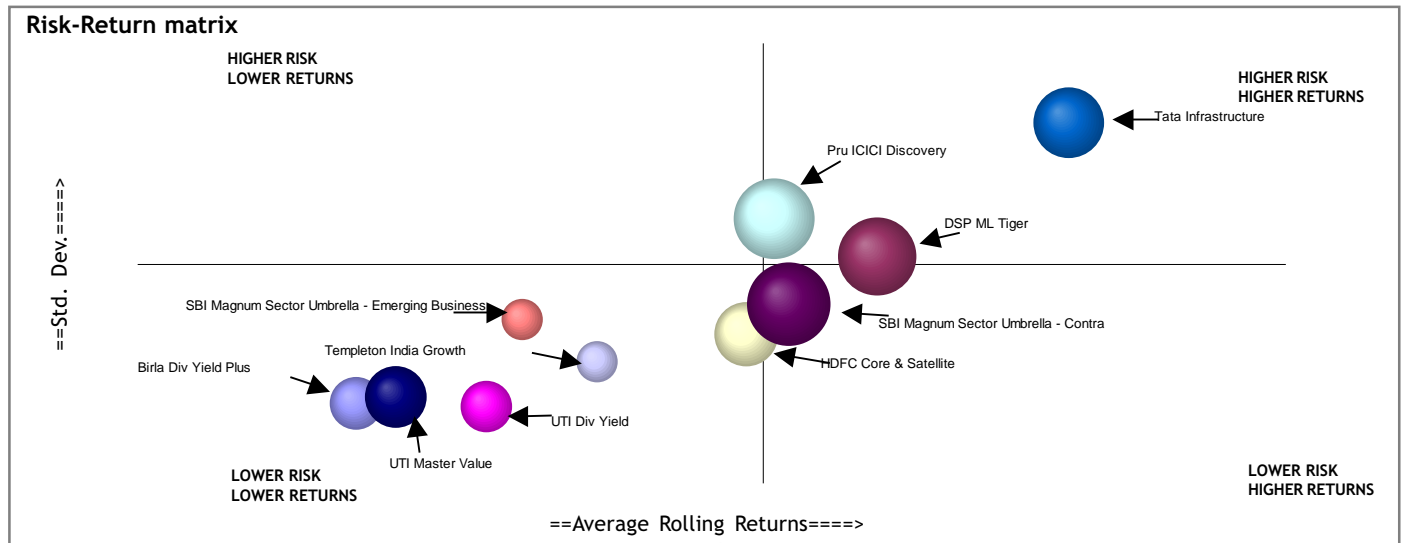
Aggressive Funds



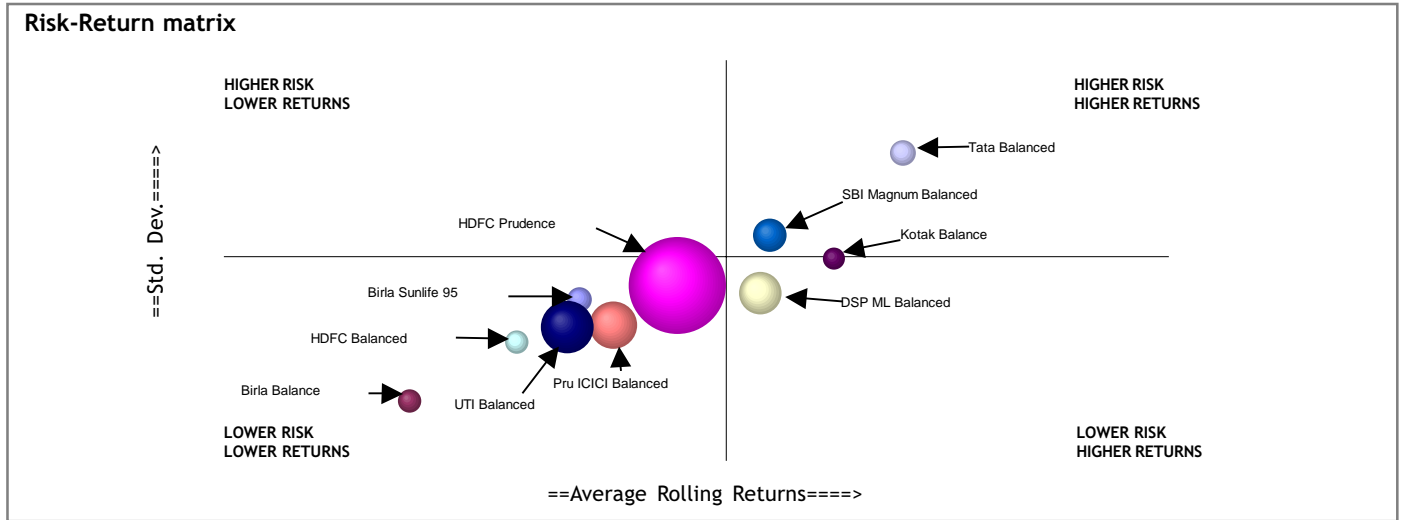
Equity Diversified/Conservative Funds



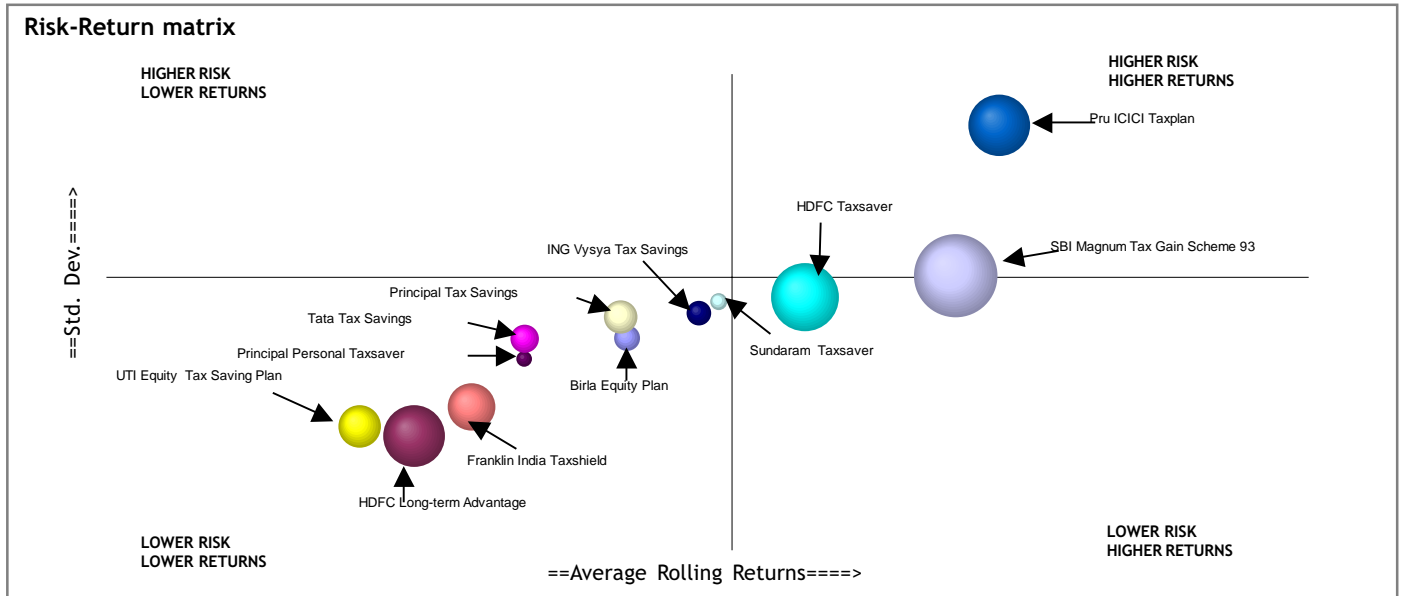
Thematic/Emerging Trend Funds



Balanced Funds



Tax Planning Funds



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What's In—What's Out

Mutual Fund

Fund Analysis: November 2006

Favourite stock picks in the portfolios of equity and mid cap funds

An analysis has been undertaken on equity and mid-cap funds' portfolios, indicating the favourite picks of fund managers for the month of October 2006. Equity funds comprise of all diversified, index, sector and tax planning funds, whereas mid-cap funds include a universe of 17 funds such as Reliance Growth, Franklin India Prima Fund, HDFC Capital Builder, Birla Mid-cap Fund etc.

What's in

Top new stocks added to the equity funds' portfolios.

Company name	No of shares	Mkt value (Rs cr)
Accel Frontline	--	1.32
Atlanta	--	3.83
Deep Industries	--	3.47
Development Credit Bank	245778	5.15
Fiem Industries	461110	4.54
Gateway Distriparks	26130	0.44
Gayatri Projects	--	20.91
Global Vectra Helicorp	853683	28.39
Godfrey Phillips India	91191	9.44
Hanung Toys & Textiles	271525	4.96
HBL Nife Power Systems	34740	0.94
Honeywell Automation India	--	6.86
JM Financial	--	8.70
JHS Sevendgaard Laboratories	617465	4.14
Petronet LNG	500000	2.76
Richa Knits	--	0.12
Sona Koyo Steering Systems	100000	0.68
Uniphos Enterprises	26227	0.08
United Spirits	385000	123.97
Vardhaman Laboratories	152210	5.51

Top new stocks in the mid-cap funds' portfolios.

Company name	No of shares	Mkt value (Rs cr)
Alok Industries	410000	2.98
Apollo Tyres	913613	30.59
Ashapura Minechem	215446	4.80
Chambal Fertilisers & Chemicals	858171	3.04
Colgate-Palmolive (India)	122904	5.10
Deep Industries	--	3.47
Dredging Corporation of India	313100	18.79
Financial Technologies	--	6.49
Gayatri Projects	--	10.46
Global Vectra Helicorp	112198	14.11
Hikal Chemical Industries	72500	3.05
JMC Projects (India)	341571	5.43
Madhucon Project	164488	5.07
Moser Baer (India)	333600	7.80
NIIT Technologies	1319999	32.16
Petronet LNG	500000	2.76
Shivani Oil & Gas Exploaration	--	27.06
United Spirits	--	6.02
UTI Bank	65474	2.85
Videsh Sanchar Nigam	99897	4.35

* includes universe of 17 Mid-cap Funds

What's out

Complete exits in the equity funds' portfolios.

Company name
Gujarat Flourochemicals

Complete exits in the mid-cap funds' portfolios.

Company name	Company name
Bajaj Hindustan	Wockhardt
Hindustan Organic Chemicals	Glenmark Pharmaceuticals
ICI (India)	Pantaloon Retail (India)
McDowell & Company	Chennai Petroleum Corporation
Nicholas Piramal India	Mahindra Automotive Steel
Punjab Tractors	Deccan Aviation
Rane Engine Valves	TV Today Network

* includes universe of 17 Mid-cap Funds

Favourite picks for the month

Top additions to the existing holdings of equity funds' portfolios.

Company name	No of shares added	Mkt value added (Rs cr)
ABB	158231	56.4
Alfa-Laval (India)	189273	16.9
Amtek Auto	282929	8.8
Andhra Bank	2009677	18.8
Apollo Tyres	3790809	127.6
Ashapura Minechem	215446	4.8
BPCL	1327929	53.2
Colgate-Palmolive (India)	348218	14.5
Deepak Fertilisers	671951	5.6
Dredging Corporation of India	437546	26.3
Engineers India	141356	7.4
Finolex Cables	493256	22.7
Godfrey Phillips India	91191	9.4
HEG	956438	13.2
HOEC	905806	8.9
HPCL	2974161	96.6
IBP	269733	14.2
ITC	1766828	33.5
Kalpataru Power Transmission	47759	4.0
Karnataka Bank	383976	4.6

Top additions to the existing holdings of mid-cap funds' portfolios.

Company name	No of shares added	Mkt value added (Rs cr)
Apollo Tyres	913613	30.7
Ashapura Minechem	215446	4.8
Bank Of India	421990	7.3
Binani Industries	155128	4.6
Colgate-Palmolive (India)	122904	5.1
Deepak Fertilisers	657884	5.5
Dishman Pharmaceuticals	496409	9.4
Dredging Corporation of India	313100	18.8
Emco (Emco Transformers)	105571	6.7
India Infoline	1299643	25.3
JaiPrakash Associates	214003	12.4
JMC Projects (India)	341571	5.4
Lupin	125034	6.4
Madhucon Project	164488	5.1
Moser Baer (India)	333600	7.8
NIIT Technologies	1319999	32.1
Raymond	453212	20.8
Sundaram Fasteners	302878	4.7
Vardhman Spinning & General Mills	583910	21.0
Videsh Sanchar Nigam	99897	4.3

* includes universe of 17 Mid-cap Funds

Popular stocks in mid-cap funds

Company name	No of shares	Mkt value (Rs cr)
Aditya Birla Nuvo	1600000	164.53
Bank of Baroda	3205497	89.43
Bharat Earth Movers	1327795	142.86
Crompton Greaves	4413088	105.43
Fag Bearings India	1510159	100.43
Gammon India	2823061	110.98
Goodlass Nerolac Paints	1106202	103.57
India Cements	5718194	122.74
IPCA Laboratories	2738568	118.74
JaiPrakash Associates	5618780	326.94
Jindal Saw	2448353	89.88
Jindal Steel and Power	455937	82.31
JSW Steel	267057	113.31
Maharashtra Seamless	2395102	99.46
MICO	306625	105.42
Northgate Technologies	0	91.09
Raymond	1996464	91.5
Reliance Industries	1025543	125.73
Sintex Industries	4681981	90.64
State Bank of India	899999	98.61

Exclusive stocks

Some stocks held by only one fund.

Scrip Name	Fund House
Bharat Seats	UTI Mutual Fund
City Online Services	DSP Merrill Lynch Mutual Fund
Control Print (I)	HDFC Mutual Fund
Dabur Pharma	Tata Mutual Fund
Dhunseri Tea & Industries	PRINCIPAL Mutual Fund
DIC India	UTI Mutual Fund
Ennore Foundries	PRINCIPAL Mutual Fund
Govind Rubber(Merged)	Reliance Mutual Fund
Hitkari Fibers	UTI Mutual Fund
ITD Cementation India	Kotak Mahindra Mutual Fund
Photoquip	PRINCIPAL Mutual Fund
Sanghi Polyesters	UTI Mutual Fund

Cash rich funds: Top 10 funds having more cash compared to the others (%)

Birla Long-term Advantage Fund, Reliance Index Fund, JM Emerging Leaders Fund, Sundaram Select Midcap, Sahara Wealth Plus Fund and Sahara Infrastructure Fund are some of the cash rich equity diversified funds waiting for right valuations to invest.

Scheme	Equity (%)	Debt (%)	Cash & equivalent (%)
Birla Long Term Adv Fund	59.24	0	40.76
Reliance Index Fund - Nifty Plan	64.09	0	35.91
Sahara Wealth Plus Fund	66.15	0	33.85
Sundaram BNP Paribas Select Midcap	69.1	0	30.9
JM Emerging Leaders Fund	73.18	0	26.82
LIC Tax Plan	76.3	0	23.7
Can D MAT	76.32	0	23.68
Sahara Infrastructure Fund	76.67	0	23.33
Canequity Tax saver	77.95	0	22.05
Birla SunLife Basic Industries	78.15	0	21.85

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Evergreen

HDFC Bank
Infosys Technologies
Reliance Industries
Tata Consultancy Services

Apple Green

Aditya Birla Nuvo
ACC
Bajaj Auto
Balrampur Chini Mills
Bank of Baroda
Bank of India
Bharat Bijlee
Bharat Electronics
Bharat Heavy Electricals
Canara Bank
Corporation Bank
Crompton Greaves
Elder Pharmaceuticals
Grasim Industries
Hindustan Lever
Hyderabad Industries
ICICI Bank
Indian Hotels Company
ITC
Mahindra & Mahindra
Marico Industries
Maruti Udyog
Lupin
Nicholas Piramal India
Omax Autos
Ranbaxy Laboratories
Satyam Computer Services
SKF India
State Bank of India
Sundaram Clayton
Tata Motors
Tata Tea
Unichem Laboratories
Wipro

Cannonball

Allahabad Bank
Andhra Bank
Cipla
Gateway Distriparks
International Combustion (India)
JK Cement
Madras Cement
Shree Cement
Transport Corporation of India

Emerging Star

3i Infotech
Aban Offshore
Cadila Healthcare
KSB Pumps
Marksans Pharma
Navneet Publications (India)
New Delhi Television
Orchid Chemicals & Pharmaceuticals
ORG Informatics
Solelectron Centum Electronics
Television Eighteen India
Thermax
TVS Motor Company
UTI Bank
Welspun Gujarat Stahl Rohren

Ugly Duckling

Ahmednagar Forgings
Ashok Leyland
BASF India
Deepak Fertilisers & Petrochemicals Corporation
Genus Overseas Electronics
HCL Technologies
ICI India
India Cements
Jaiprakash Associates
JM Financial
KEI Industries
NIIT Technologies
Punjab National Bank
Ratnamani Metals and Tubes
Sanghvi Movers
Saregama India
Selan Exploration Technology
South East Asia Marine Engineering & Construction
Subros
Sun Pharmaceutical Industries
Surya Pharmaceuticals
UltraTech Cement
Union Bank of India
Universal Cables
Wockhardt

Vulture's Pick

Esab India
Orient Paper and Industries
WS Industries India

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