

## India Market Weekly

March 30, 2007

Thought for the Week : **Over time, a portfolio of well-chosen stocks will always outperform bonds.**

| Indices                           | 29-Mar     | 23-Mar     | %       |
|-----------------------------------|------------|------------|---------|
| BSE                               | 13072      | 13286      | -1.61   |
| NSE                               | 3822       | 3861       | -1.02   |
| Dow Jones                         | 12,349     | 12,549     | -1.60   |
| Nasdaq                            | 2418       | 2452       | -1.38   |
| Hang Seng                         | 19801      | 19693      | 0.55    |
| Nikkei                            | 17288      | 17481      | -1.10   |
| <b>MKT CAPITALISATION (Rs cr)</b> |            |            |         |
|                                   | CI         | Pre        | % ch    |
| Sensex                            | 825157     | 846032     | -2.47   |
| NSE Total                         | 3337786    | 3392484    | -1.61   |
| BSE Total                         | 3517114    | 3572336    | -1.55   |
| <b>VOLUMES (Rs cr)</b>            |            |            |         |
| Exchange                          | Last       | Pre        | % ch    |
| BSE                               | 14786      | 15900      | -7.01   |
| NSE                               | 35136      | 32929      | 6.70    |
| <b>WEIGHTAGE IN BSE T/O</b>       |            |            |         |
| Indiabulls R                      |            | 961.89     | 6.05    |
| Infosys                           |            | 351.93     | 2.21    |
| Reliance                          |            | 321.08     | 2.02    |
| RCVL                              |            | 258.69     | 1.63    |
| IFCI                              |            | 219.91     | 1.38    |
| <b>TOP-5 DELIVERIES</b>           |            |            |         |
| Company                           | Vol (lakh) | Del (lakh) | Del (%) |
| HLL                               | 207.13     | 145.79     | 70.39   |
| Infosys                           | 97.30      | 68.19      | 70.08   |
| ITC                               | 366.43     | 241.51     | 65.91   |
| Reliance                          | 89.00      | 56.86      | 63.89   |
| HPCL                              | 22.70      | 13.19      | 58.11   |
| <b>FOREX / BULLION / MONEY</b>    |            |            |         |
| Currency                          | CI         | Prev       | %Ch     |
| Re./US \$                         | 43.49      | 43.38      | -0.24   |
| Re./UK                            | 85.20      | 85.31      | 0.12    |
| Re./Euro                          | 57.90      | 57.84      | -0.10   |
| Gold (Rs/10g)                     | 9360       | 9365       | -0.05   |
| Silver (Rs/Kg)                    | 19321      | 19333      | -0.06   |
| Call Money                        | 50.00      | 11.00      | 354.55  |
| <b>FIIs/MF ACTIVITY (Rs cr)</b>   |            |            |         |
| Mar 23-Mar 29                     | Pur.       | Sales      | Net     |
| FIIs                              | 12325      | 10525      | 1799    |
| MF                                | 1968       | 2699       | -730    |
| <b>FIIs/MF NET (Rs cr)</b>        |            |            |         |
|                                   | Week       | MTD        | * YTD   |
| FIIs                              | 1799       | 1871       | 28032   |
| MFs                               | -730       | -750       | 9,150   |

\*April'06 till date

### Market Outlook

During the week, market remained weak amid derivative expiry and ends on a positive note. Market lost 214 points and Mid cap lost 0.32%. Small cap outperformed during the week, with a gain of 0.22%. Mixed performance was seen in the sectoral indices. FMCG was the highest gainer among all the indices, which gained 2.9% along with Health Care sector which also performed well, gaining 2.1%. On the negative front Banking, Auto and IT were the major losers. Bankex lost 4.1%, Auto was down 3.4% and IT dropped 3.3%.

### Inflation

For the third week in a row, inflation remained unchanged at a high level of 6.46% for the week ended March 17, because of rise in prices of manufacturing goods. Inflation is quite high compared to just 3.69% a year ago, which is putting further pressure on interest rates ahead of RBI's monetary policy next month.

### Oil

Oil prices reflected an upward blip and surged above \$66 per barrel, at their highest level since mid-September amid political tensions in the Middle East. Declining U.S. supplies amid high demand also drove up prices of crude oil.

### Dollar

In the middle of the week Rupee touched seven-year high of 43.05 against the dollar as banks sold dollars to replenish their funds, thereby avoiding costlier money market borrowings. In the last two trading sessions of the week rupee turned and depreciated against the US currency by about 44 paise from its high, driven by import related demand from oil companies and higher than expected US economic growth.

### Global Market

Global markets showed week performance except Hangseng, which rose 0.55%. Dow Jones and Nikkei lost 1.6% and 1.1% respectively. The US economy grew at an annual rate of 2.5% in the final quarter of 2006, faster than the 2.2% pace estimated a month ago. U.S. economic growth was moderately stronger in the fourth quarter, primarily because businesses added more to inventories than was estimated a month ago.

### Hikes in CRR and REPO Rate

RBI once again raised CRR by 50 bps to 6.5% and REPO rate by 25 bps to 7.75%.

### Outlook

Market is expected to show weakness in the coming week on the news of hike in CRR and REPO rates. The Sensex faces resistance at 13,847 levels while support exists at 12,308 levels. NIFTY faces resistance at 4,023 levels while support exists at 3,618 levels.

## Sectoral Outlook

### Steel :

We expect domestic steel prices to be hiked effective April 1 on account of global firmness in steel demand and prices. China Steel Corporation, Baosteel, US and European producers have plans to increase prices by approximately 2-3% from Q2CY07 due to the favourable demand-supply scenario in the global market. In the domestic market, following the appeal of Union Steel Minister Ram Vilas Paswan as one of the means to check the growing inflation, steel producers undertook a rollback in prices in March. The rollback was 100% in case of TMT bars and galvanised corrugated products, which are items of mass consumption, and 50% for HRC. Considering the robustness in steel prices in the global market, export market has become more lucrative than the domestic market wherein landed import prices are higher than domestic prices by Rs.2500-3000 per tonne. Steel companies are contemplating an increase of Rs.500-1000 per tonne from April 1 and we do not foresee any resistance from the government for the same. We recommend the sector as a trading call as we expect the firmness in prices to be maintained for at least one quarter. Our top picks in the sector remain the integrated players like Tata Steel, SAIL and JSW Steel.

### Banking :

The RBI once again gave a sudden jolt to the banking sector on Friday evening with a 25bps hike in repo rate, 50bps hike in CRR and decrease in interest on CRR from 1% to 0.5%. RBI has taken these measures considering the high inflation of 6.46% as on March 17 and the robust growth in money supply as well as bank credit. Money supply data as on March 2 indicates a 22.3% y-o-y growth and in order to suck out the excess liquidity from the system, RBI has hiked the CRR in 2 phases i.e. 25bps from April 14 and 25bps from April 28.

Banking sector will be negatively impacted on the cut in CRR interest as well as margin pressure due to increase in repo rate. Banks are likely to review the situation and there is likely to be an increase in lending rates as funds from RBI become expensive. The 10-year G-sec yield is also likely to increase resulting in MTM losses on the investment books of banks. We recommend investors to remain underweight on the sector in the short term in spite of attractive valuations as we also expect the Q4FY07 performance to be subdued.

| (Rs.bn)                  | 16.3.07   | 16.3.06   | % ch yoy | 29.12.06  | % ch qoq |
|--------------------------|-----------|-----------|----------|-----------|----------|
| <b>Credit</b>            | 18,669.56 | 14,425.91 | 29.42    | 17,663.44 | 5.70     |
| <b>Deposits</b>          | 25,046.52 | 20,037.75 | 25.00    | 23,883.92 | 4.87     |
| Cash-Deposit Ratio       | 7         | 5.95      |          | 7.04      |          |
| Investment-Deposit Ratio | 31        | 35.37     |          | 31.19     |          |
| Credit-Deposit Ratio     | 75        | 71.99     |          | 73.96     |          |

## News & Views

### ABC Bearings: Analysts' Meet

Recently ABC Bearings Ltd (ABC) had arranged an analyst meet in Mumbai. We attended the same. We enlist below some updates and business outlook as told by management during and after the meet.

#### Company profile

ABC Bearings Ltd, formerly known as Antifriction Bearings Company Ltd, is the largest producer of roller bearings (RB) in the country having leadership position of 27% (SKF: 2<sup>nd</sup> position 25% share). In the Rs35bn Indian bearings market, RB (mkt. share 32%) stands second to Ball Bearings (BB) (mkt. share 54%). Industrial and other bearings constitute the balance 14%. ABC manufactures both the types of RBs namely, Tapered Roller Bearings and Cylindrical Roller Bearings. It ranks 3<sup>rd</sup> in cylindrical roller bearings, only after FAG and NRB. It had exited from the BB segment in 2000 (sold to Tata Motors) and now concentrates only on RB, which find applications in HCV, MCV, LCV and Tractor segment. Roller bearing is used in Cars, and TWs. The company is being run by an experienced professional management. Its products are complying to stringent quality norm like ISO/TS 16949:2002.

#### ➤ **NSK of Japan: World class technology collaborator**

ABC is constantly getting latest update on technology from its technology collaborator, NSK of Japan. Owing to such alliance it could afford to provide improved products year on year. It also improves the product portfolio of ABC. This makes a strong case for remaining a preferred vendor for its clients like TELCO, M&M etc. on a sustainable basis.

#### ➤ **Consolidation exercise and cost cutting exercise to continue**

ABC had a plant in Lonavala, which was shut down in October 2005 due to frequent power outage and resultant production loss. The same plant was relocated to the main plant at Bharuch, Gujarat. ABC gave VRS to majority of employees in this unit which curtailed the workforce from 1400 in 2000 to 326 now. ABC further deployed few NC/CNC lines to the manufacturing process, which improved significantly productivity. Post relocation of Lonavala unit, ABC is sitting with 18acres of idle land. The management has no intention to sell or develop the land in near term. ABC has implemented SAP ERP system, which will streamline the business process. All the above measures resulted in improved EBIDTA margin, which during the 9 months of FY07 has improved by a healthy 420bps. The management is further hopeful of improving this margin by another 100bps by introducing more value added products and containing the cost.

#### ➤ **Capacity Augmentation**

ABC is planning to augment the current rated capacity of 6.5mn to 8.0mn during September 2007 the cost of which will be met through internal accruals.

#### ➤ **Entry into new segment**

The management has indicated of entering into Rs1000mn railway bearing segment in FY08. This market is estimated to rise three-fold in the next two years, feels the management. ABC will supply wheel bearing for freight wagons But, ABC has no intention to enter into industrial gear segment.

#### ➤ **Recent 25% JV with NSK**

A new plant, named as NSK-ABC Bearings Ltd will come up by January, 2008 in Chennai with total project outlay of Rs800mn with initial outlay of Rs500mn. Final expansion will be over by 2010. ABC will contribute 25% to this JV. This JV will have no conflict of interest with its existing operations, as it would chiefly target the car segment, where ABC does not have presence. NSK will outsource bearing for its clients across the world and chiefly in Japan.

### Business outlook

ABC caters to HCV, MCVs, LCVs and Tractors. A major share of its business comes from CVs, of which 45% comes from M&HCV, 16% from LCVs and tractors contribute about 10%. Remaining comes from other segments live UVs, exports and aftermarket. Its OEM and Replacement sales ratio is 80:20. Export constitutes only 3% of the revenue. ABC has good client base, which includes all the auto majors like Tata Motors, M&M etc. ABC is the single source supplier for transmission bearings for Toyota group of companies for exports. The 11 months automobile sales data in the current fiscal shows 36% growth in CV business and 25% in tractor segment. The management expects slowdown in the tractor segment in FY08 to 15%. But expects the CV business to grow at slightly lesser than the current years growth. The management is hopeful of 20% growth in FY08. The stock currently trades at 7.89x its FY07 (E) EPS of Rs18.

## Financials

| (Rs in mn)           | 9MFY07  | 9MFY06  | YoY Growth | FY06    |
|----------------------|---------|---------|------------|---------|
| Net Sales            | 1367.8  | 1115.57 | 22.6%      | 1519.6  |
| Expenditure          | 1036.63 | 892.53  | 16.1%      | 1217.47 |
| Operating Profit     | 331.17  | 223.04  | 48.5%      | 302.13  |
| OPM                  | 24.2%   | 20.0%   |            | 19.9%   |
| Interest             | 28.89   | 19.39   | 49.0%      | 26.94   |
| Depreciation         | 60.09   | 50.63   | 18.7%      | 68.42   |
| Other Income         | 24.42   | 27.43   | -11.0%     | 64.55   |
| Profit before Tax    | 266.61  | 180.46  | 47.7%      | 271.33  |
| Tax                  | 80.69   | 46.96   | 71.8%      | 74.35   |
| Effective Taxation   | 30.3%   | 26.0%   |            | 27.4%   |
| Profit after Tax     | 185.92  | 133.5   | 39.3%      | 196.98  |
| Extraordinary Items* | 32.1    | 26.87   | 19.5%      | 39.91   |
| Net Profit           | 153.82  | 106.65  | 44.2%      | 157.07  |
| Equity Capital       | 115.5   | 115.5   |            | 115.5   |
| EPS                  | 13.32   | 9.23    |            | 13.60   |

\*Extraordinary item constitutes VRS amortization

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