investor's eye

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Index

Take Five

Scrip	Reco Date	Reco Price	CMP	Target
Cadila Healthcare	21-Mar-06	297	**350**	425
Ceat	28-Nov-06	122	**124**	190
Lupin	06-Jan-06	403	**616**	670
Subros	26-Apr-06	206	**240**	370
Thermax	14-Jun-05	124	**370**	425

Sharekhan Ltd

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Gateway Distriparks

Cannonball

Stock Update

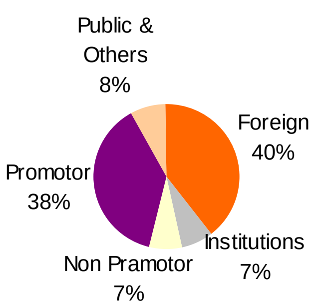
GDL to operate Conware CFS

Buy; CMP: Rs202

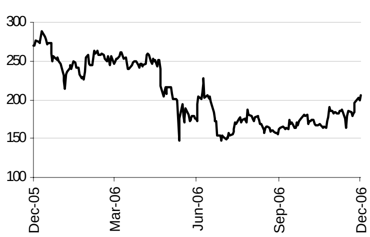
Company details

Price target:	Rs250
Market cap:	Rs1,906 cr
52 week high/low:	Rs297/144
NSE volume: (No of shares)	6.1 lakh
BSE code:	532622
NSE code:	GDL
Sharekhan code:	GATEWAY
Free float: (No of shares)	5.7 cr

Shareholding pattern



Price chart



Price performance

(%)	1m	3m	6m	12m
Absolute	13.0	26.7	19.7	-23.5
Relative to Sensex	11.0	13.3	-12.4	-48.8

Gateway Distriparks Ltd (GDL) has won an operations and management (O&M) contract for the Conware container freight station (CFS) from the Punjab state government. The duration of the contract is 15 years. GDL will make an upfront payment of Rs35 crore and play an annual fee of Rs10 crore with an escalation clause of 5% on the same. The Conware CFS achieved a throughput of 55,662TEU and EBITDA of Rs13.8 crore in FY2006; the same translates into an EBITDA/TEU of Rs2,500.

Conware CFS—sub—optimal utilisation at present

The Conware CFS, which is located just 7 kilometre away from the Jawaharlal Nehru Port Trust (JNPT) port, has a total capacity of 150,000TEUs of which only one-third is being utilised currently. The profitability of the CFS is also lower compared with GDL, as is evident from its EBITDA per TEU of Rs2,500 as against that of Rs4,000 for GDL. One of the significant reasons for the difference is that the operations of the CFS are skewed towards exports, which do not involve ground-handling charges.

Utilisation to improve on integration with GDL

GDL will have to incur an additional capital expenditure of Rs20 crore to improve the efficiency of the CFS. The exercise, we believe, will improve the volumes to 60,000TEU in FY2008 and to 70,000TEU in FY2009. It will also improve the EBITDA per TEU to Rs3,000-3,200 during the same period. We expect the utilisation of the CFS to increase once the fourth terminal is completed at the JNPT port by 2012-13. Thus we expect the utilisation of the CFS to improve gradually to its full capacity over the next 15 years.

Deal comes at the right time

JNPT is one of the biggest and busiest ports in the country, handling almost 70% of the total container volumes. To cash in on the growth in the volumes at the port, GDL has been mulling raising its capacity from the current 216,000TEU. The company's plan to set up a new CFS was unsuccessful on account of unavailability of land. Thus this O&M contract has come at the right time for GDL, as the same will provide the much-needed volume growth for the company going forward.

Valuation and view

Using the discounted cash flow method, the fair value of the deal works out to Rs10 per share. We believe that going forward the deal will provide the much-needed leverage to the volumes. Also, the synergies accruing to GDL on integration with the CFS will have a positive impact on its earnings over the long term. At the current market price of Rs202, GDL is trading at 20.9x its FY2007E earnings and 15.4 times its FY2008E earnings. We continue to remain bullish on the company and thus maintain our price target of Rs250 per share.

Key financials Rs (cr)

Particulars	FY2004	FY2005	FY2006E	FY2007E	FY2008E
Net profit (Rs cr)	19.1	34.9	73.0	89.3	120.9
Shares in issue (cr)	6.4	7.5	9.2	9.2	9.2
EPS (Rs)	3.0	4.7	7.9	9.7	13.1
% y-o-y growth	*27.3*	*82.7*	*109.2*	*22.3*	*35.4*
PER (x)	67.7	43.4	25.5	20.9	15.4
Book Value (Rs)	12.7	22.0	62.4	72.1	85.2
EV/EBIDTA (x)	47.7	28.5	18.4	17.0	11.3
RoCE (%)	24.4	27.1	20.0	16.0	18.7
RoNW (%)	23.5	21.1	12.7	13.4	15.4

State Bank of India

Apple Green

Stock Update

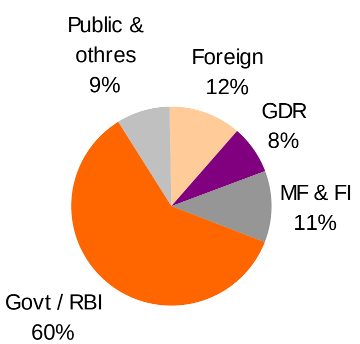
PLR hike to improve margins

Buy; CMP: Rs1,236

Company details

Price target:	Rs1,380
Market cap:	Rs65,051 cr
52 week high/low:	Rs1,379/684
NSE volume: (No of shares)	12.8 lakh
BSE code:	500112
NSE code:	SBIN
Sharekhan code:	SBI
Free float: (No of shares)	17.0 cr

Shareholding pattern



Price chart

Price performance

(%)	1m	3m	6m	12m
Absolute	-4.4	20.1	72.9	37.6
Relative to Sensex	-6.1	7.4	26.5	-8.0

Key points

- **SBI hikes PLR by 50 basis points:** State Bank of India (SBI), the country's largest bank, has announced a 50-basis-point hike in its prime lending rate (PLR) to 11.5% effective from December 27, 2006.
- **SBI had hiked deposit rates by 25-75 basis points**: SBI had earlier announced a hike in its term deposit rates by 25-75 basis points effective from December 11, 2006.
- **PLR hike to improve NIM:** SBI's net interest margin (NIM) is expected to improve by five basis points on an annualised basis, considering the net effect of the 50-basis-point hike in the PLR and the increase of 25 to 75 basis points in the deposit rates.
- **CRR hike to be a drag on the bank's profitability:** The cash reserve ratio (CRR) balances of banks have stopped earning interest post-June 2006. Also the impact of this on market liquidity will push the cost of funds higher for the banks. Both the factors are a drag on SBI's profitability.
- **An 8.5% equity dilution factored in:** We have factored in an 8.5% equity dilution (based on the current equity of Rs526.3 crore) in our valuation for the FY2008E numbers.
- **We maintain Buy on SBI:** We have valued SBI at 1.4x FY2008E consolidated book value of Rs955 plus another Rs57 per share for its life insurance subsidiary. At the current market price of Rs1,236 the stock is quoting at 12x its FY2008E earnings per share (EPS), 5.7x FY2008E pre-provision profit (PPP), 1.7x FY2008E stand-alone book value and 1.3x FY2008E consolidated book value. We maintain our Buy recommendation on the stock with the price target of Rs1,380.

Impact of PLR hike positive for the bank's margins

SBI, the country's largest bank, has announced a 50-basis-point hike in its PLR to 11.5% effective from December 27, 2006. Among the private players ICICI Bank was

Key financials Rs (cr)

Particulars	FY04	FY05	FY06	FY07E	FY08E
Net profit (Rs cr)	3,681.0	4,304.5	4,406.7	4,740.9	5,880.8
Shares in issue (cr)	52.6	52.6	52.6	52.6	57.1
EPS (Rs)	69.9	81.8	83.7	90.1	102.9
(%) y-o-y growth	*18.6*	*16.9*	*2.4*	*7.6*	*14.3*
PE (x)	17.7	15.1	14.8	13.7	12.0
P/PPP (x)	6.8	5.9	5.8	6.1	5.7
Book value (Rs/share)	384.4	457.4	525.3	599.9	717.6
P/BV (x)	3.2	2.7	2.4	2.1	1.7
Adj book value (Rs/share)	281.0	355.8	432.0	505.8	620.9
P/ABV (x)	4.4	3.5	2.9	2.4	2.0
RoNW (%)	19.7	19.4	17.0	16.0	15.6
Consolidated book value (Rs)	521.6	618.9	707.4	809.9	955.6
P/CBV (x)	2.4	2.0	1.7	1.5	1.3

the first to raise its PLR by 50 basis points to 13.75% and deposit rates by 25 to 75 basis points. The market was a little apprehensive whether public sector banks (PSBs) would be able to raise their PLR as in the last round of PLR hikes in August 2006, we had witnessed a lot of government intervention in the boardroom decisions of the PSBs.

SBI expected to set the pace for others

A PLR hike by SBI would make it easier for the other PSBs to follow suit, however the PLR for most of the PSBs is at 11.5% while the same was at 11% for SBI. Hence the other banks may hike the PLR by 25 to 50 basis points.

CRR hike to be a drag on SBI's profitability

The Reserve Bank of India's (RBI) latest decision to hike the CRR by 50 basis points would affect the banks' profitability in two ways. Firstly, post-June 2006 the CRR balances have stopped earning interest and secondly, the CRR hike will reduce the liquidity in the market, which will push the cost of funds higher for the banks. Both the factors are a drag on SBI's profitability.

Market cheers SBI's decision to hike PLR

After the CRR hike, SBI had increased its deposit rates by 25-75 basis points but kept the PLR unchanged, hoping that the RBI would reconsider providing interest on the CRR balances. As a result the market was worried about its NIM. But the bank's recent decision to hike PLR by 50 basis points has been cheered by the market and the SBI stock gained 2.6% on December 26, 2006 to close at Rs1,246.

PLR hike to improve NIM

The increased deposit rates would be applicable for fresh deposits and those deposits that come up for renewal, while the PLR hike entitles the bank to revise all outstanding loans linked to the PLR with immediate effect. Hence, the bank stands to gain as the net increase is positive and the NIM is expected to improve by five basis points on an annualised basis.

Assumptions	Increase in	Change in %
Advances to total assets at 60%; 55% of advances to get re-priced due to PLR hike of 50 basis points	Yield on assets	0.17
Term deposits to total assets at 45%; 40% of term deposits to get re-priced on fresh additions and renewals based on an average deposit rate increase of 65 basis points	Cost of deposits	0.12
Impact (on an annualised basis)	**Increase in NIM**	**0.05**

Follow on public offer expected in FY2008

We have assumed a follow on public offer (FPO) of 4.5 crore equity shares at an assumed issue price of Rs1,000 per share. The same translates into an equity dilution of 8.5% based on existing equity capital base of Rs526.30 crore. Considering the robust growth targets set by the bank and the management's intent to raise equity in FY2008, we have factored in the same in our valuations. At present, RBI holds 59.7% in SBI and we have assumed that RBI's holding would be at 55% post issue.

Valuation and view

We have valued SBI at 1.4x FY2008E consolidated book value of Rs955 plus another Rs57 per share for its life insurance subsidiary. We believe the CRR hike was a negative for the banks and it simply acted as a trigger for a correction in the second week of December 2006. However, after the initial correction most of the banking stocks under our coverage have recovered from their steep fall witnessed on December 11, 2006. At the current market price of Rs1,236, SBI is marginally down from its December 11, 2006 closing price of Rs1,243. It is quoting at 12x its FY2008E EPS, 5.7x FY2008E PPP, 1.7x FY2008E stand-alone book value and 1.3x FY2008E consolidated book value. We maintain our Buy recommendation on the stock with the price target of Rs1,380.

Sharekhan Stock Ideas

Evergreen

HDFC Bank
Infosys Technologies
Reliance Industries
Tata Consultancy Services

Apple Green

Aditya Birla Nuvo
ACC
Apollo Tyres
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
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
Alphageo India
Cadila Healthcare
KSB Pumps
Marksans Pharma
Navneet Publications (India)
New Delhi Television
Nucleus Software Exports
Orchid Chemicals & Pharmaceuticals
ORG Informatics
Solectron Centum Electronics
Tata Elxsi
Television Eighteen India
Thermax
TVS Motor Company
UTI Bank

Ugly Duckling

Ahmednagar Forgings
Ashok Leyland
BASF India
Ceat
Deepak Fertilisers & Petrochemicals Corporation
Fem Care Pharma
Genus Overseas Electronics
HCL Technologies
ICI India
India Cements
Indo Tech Transformers
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

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