

August 16, 2007

FOR PRIVATE CIRCULATION

Equity

	14 Aug 07	% Chg		
		1 Day	1 Mth	3 Mths
Indian Indices				
Sensex	15,001	(0.1)	(1.8)	7.7
Nifty	4,370	(0.1)	(3.0)	6.1
Banking	7,846	0.2	(5.3)	9.1
IT	3,675	(0.1)	(3.7)	0.4
Healthcare	3,630	(0.3)	(5.7)	(2.3)
FMCG	1,922	(0.5)	3.1	5.7
PSU	7,005	0.5	(1.3)	6.9
CNX Midcap	6,000	0.1	(3.3)	11.0
World indices (15 Aug)				
Nasdaq	2,459	(1.6)	(8.8)	(3.5)
Nikkei	16,476	(2.2)	(12.6)	(9.1)
Hangseng	21,376	(2.9)	(10.0)	(1.3)

Value traded (Rs cr)

	14 Aug 07	% Chg - 1 Day
Cash BSE	4,014.2	2.4
Cash NSE	7,831.9	(5.2)
Derivatives	28,494.0	(9.9)

Net inflows (Rs cr)

	13 Aug 07	% Chg	MTD	YTD
FII	(520)	(27)	(2,855)	40,051
Mutual Fund	23	113	421	(496)

FII open interest (Rs cr)

	13 Aug 07	% chg
FII Index Futures	16,637.6	(0.1)
FII Index Options	14,026.6	1.8
FII Stock Futures	28,535.4	(0.3)
FII Stock Options	212.7	2.5

Advances/Declines (BSE)

	14 Aug 07	A	B1	B2	Total	% Total
Advances	99	350	560	1,009	55	
Declines	115	356	314	785	43	
Unchanged	3	19	26	48	3	

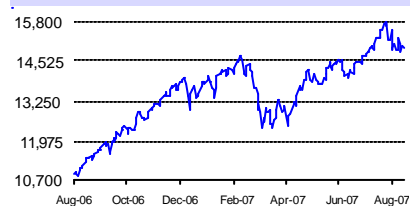
Commodity

	15 Aug 07	% Chg		
		1 Day	1 Mth	3 Mths
Crude (NYMEX) (US\$/BBL)	72.7	(0.8)	(1.9)	16.3
Gold (US\$/OZ)	667.6	(0.2)	0.2	0.6
Silver (US\$/OZ)	12.5	(1.7)	(3.8)	(3.6)

Debt/forex market

	15 Aug 07	1 Day	1 Mth	3 Mths
10 yr G-Sec yield %	7.98	7.98	7.90	8.17
Re/US\$	40.74	40.56	40.35	40.87

Sensex



Source: Bloomberg

ECONOMY NEWS

- Standard & Poor's has said the current problems with the subprime market will not precipitate a crisis in the financial markets. The rating agency has said safety valves in the financial system after the earlier Asian crises would prevent a global fallout. (ET)
- Oil breached \$74 a barrel after a larger-than-expected drop in US crude supplies and fears that a tropical storm in the Atlantic could disrupt output in the world's largest energy consumer. (ET)
- Hardening crude oil and metal prices may push up inflation to 5.11% for the current fiscal, higher than the RBI's estimate, economic think-tank NCAER has projected. (ET)
- The rupee, which is partially convertible, will move toward fuller convertibility in a gradual and calibrated manner, the Finance Minister informed the Rajya Sabha. (BL)
- The Government is likely to import 1.73 MT of LPG in the current fiscal to meet domestic demand even as the country will continue to depend on overseas supply for the next couple of years. (BS)
- Indian companies may invest more funds to add on to existing capacities in 2007/08 compared to last year as demand conditions remain strong forcing companies to operate close to their optimal levels, a central bank study said. (FE)

CORPORATE NEWS

- **DLF** is set to close the Swatantra Bharat Mills real estate deal with DCM Shriram Consolidated for over Rs.16 bn. This will be the largest private sector land deal in the country and will give DLF access to about 38 acres of prime land. (ET)
- In what could be a major input to solve the vexed issue of gas pricing, the Prime Minister's Economic Advisory Council has endorsed the gas price discovered by **Reliance Industries** by inviting bids from large consumers in the domestic market. (ET)
- Bharti Airtel Lanka Pvt Ltd, a subsidiary of **Bharti Airtel Ltd**, has said it will be investing \$200 mn over the next two years for offering mobile services in Sri Lanka. (BL)
- **BPCL** plans to shut its diesel hydro desulphurization unit, which produces around about 37,000 barrels per day, for maintenance for 25 days from late November, a senior company official has said. (ET)
- To keep pace with the 20-25% growth rate of its pyridine and derivatives business, **Jubilant Organosys** is expanding capacity by 23%. (BL)
- B Muthuraman, managing director, **Tata Steel** has said the company is committed to the Rs.25 bn titanium-dioxide project planned in Tamil Nadu. (BS)
- **Videocon Industries** has said that drilling in a Timor Sea exploration block, where it holds 25% stake, will begin next year. Videocon's share of exploratory expenditure would be \$18.9 mn. (BS)
- Infrastructure development firm **Pratibha Industries** in joint venture with Niraj Cement Structural, has bagged a road construction project worth Rs.1.37 bn from Indore Development Authority. (BL)
- **Ispat Industries** is planning to invest about Rs.100 bn within five years to ramp up domestic production, and is also planning to expand overseas through capacity expansion and backward integration. (BS)

Source: ET = Economic Times, BS = Business Standard, FE = Financial Express, BL = Business Line, Tol: Times of India, BSE = Bombay Stock Exchange

FROM OUR RESEARCH TEAM

EVENT UPDATE

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Key data (Rs bn)

	FY07	FY08E	FY09E
Interest income	115.37	144.67	167.57
Interest expense	60.23	80.36	93.67
Net interest income	55.15	64.31	73.90
Other income	10.42	12.26	14.72
Gross profit	32.31	40.00	48.06
Net profit	15.40	19.14	23.97
Gross NPA (%)	3.5	3.2	2.8
Net NPA (%)	0.8	1.1	0.8
Net interest margin (%)	3.7	3.7	3.6
RoE (%)	16.2	17.4	18.6
RoAA (%)	1.0	1.1	1.1
Dividend Yield (%)	1.2	1.2	1.2
EPS (Rs)	48.8	60.7	76.0
Adjusted BVPS (Rs)	308.0	344.5	416.5
P/E (x)	10.3	8.3	6.6
P/ABV (x)	1.6	1.5	1.2

Source: Company & Kotak Securities - Private Client Research

PUNJAB NATIONAL BANK

PRICE : Rs.504

TARGET PRICE : Rs.680

RECOMMENDATION : BUY

FY09E P/E: 6.6x, P/ABV: 1.2x

Punjab National Bank (PNB) hiked interest on fixed deposits by 25 to 125 basis points for various maturities with effect from August 16, which we believe is the realignment with market rates.

We have slightly changed our numbers to incorporate some increase in cost of funds due to hike in the deposit rates. However, we believe that structurally PNB is one of the best PSU banks with a pan-India presence, high quality deposit franchisee, margins (NIMs) higher than the industry average and advanced technological platform.

We believe the recent correction provides good buying opportunities for investors and maintain our BUY recommendation with a target price of Rs.680.

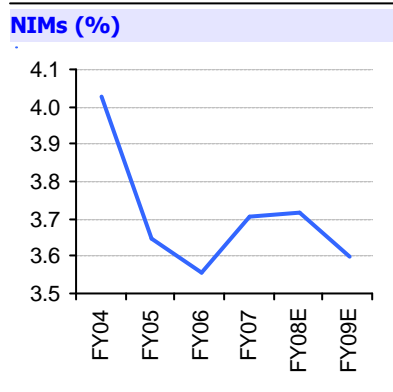
PNB hiked the interest rate on fixed deposits by 25 to 125 basis points for various maturities with effect from August 16. The bank's recent move comes after its recent withdrawal of a special deposit scheme which was offering 9.5% per annum for one year deposits. This may look contradictory in an environment when a number of private and public sector banks like SBI, ICICI Bank, BoB and BOI and others have reduced their deposit rates on various maturities.

However, a closer look will explain that after removal of the special scheme, the maximum rate of interest that PNB was offering was 8.25%, which is below the existing rate prevailing in the market (for example, ICICI Bank currently offers 9.5% for 390 days and many other PSU banks are also offering 9% for one year deposits). So, we believe that it was needed from the bank's point of view to remain competitive in attracting retail term-deposits, which is important for maintaining its core deposits, and in a way reducing its dependence on wholesale bulk deposits.

Change in deposit rate

Tenor	Existing (%)		Proposed Tenor	Revised (%)	
	Less than Rs.1.5mn	Rs.1.5 mn to Rs.50 mn		Less than Rs.1.5mn	Rs.1.5 mn to Rs.50 mn
7 to 14 days	4.00	4.50	7 to 14 days	4.00	4.50
15 to 29 days	4.75	5.00	15 to 45 days	5.00	5.50
30 to 45 days	4.75	5.00			
46 to 60 days	5.25	5.50	46 to 90 days	6.00	6.50
61 to 90 days	5.50	5.50			
91 to 179 days	6.00	6.25	91 to 179 days	6.25	6.50
180 days to less than 1 yr.	7.00	7.25	180 days to less than 1 yr.	7.50	7.75
1 year to less than 2 years	7.50	8.00	1 year to less than 2 years	8.00	8.25
2 years to less than 3 years	7.50	7.75	2 years to less than 3 years	8.75	8.75
3 years to less than 5 years	7.75	8.00	3 years to less than 5 years	8.75	8.75
5 years to 10 years	8.00	8.25	5 years to 10 years	8.50	8.50

Source: Company



Source: Company, Kotak Securities - Private Client Research

	FY08E	FY09E
Advances	21.5	19.7
Deposits	17.7	16.1
Investments	8.2	8.4

Source: Kotak Securities - Private Client Research

Forecasted RoE (FY09E)	18.6
g (Perpetual growth rate)	5.0
r (Cost of Capital)	13.4
P/ABV (x)	1.63
ABV (FY 09E) (Rs)	417
Fair Value based on ABV (Rs)	680

Source: kotak PCG

Valuation

The bank looks well positioned to capitalize on growth opportunities in the Indian market. PNB's deposit franchise and large pool of savings and current balances should widen the bank's funding advantage if interest rates rise or liquidity tightens. Compared with its peers, PNB has a greater mid-market focus, which supports higher loan yields.

We expect the bank to grow its earning by 24.3% and 25.2% in FY08E and FY09E, respectively. In the same period, NII is expected to rise 16.6% and 14.9%, respectively. We estimate full year profit of Rs.19.14 bn and Rs.23.97 bn for FY08E and FY09E, respectively resulting into an EPS of Rs.60.70 and Rs.76.01. The adjusted book value is estimated to be Rs.344.55 and Rs.416.49, for FY08E and FY09E, respectively.

Assumptions

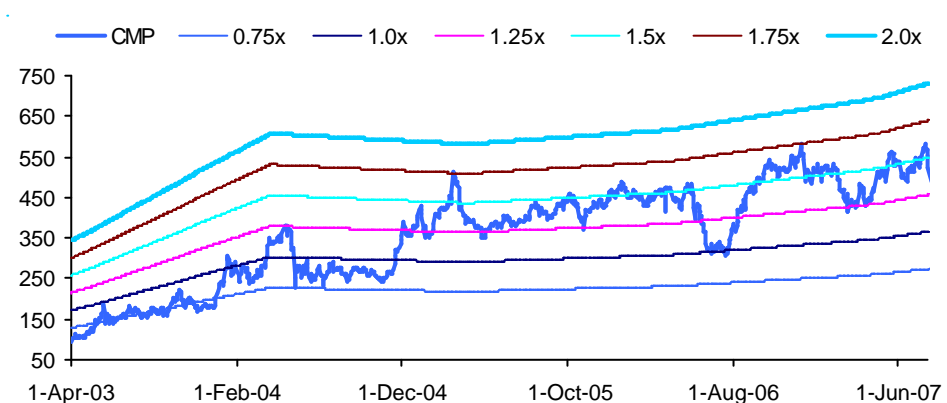
We are assuming a loan growth of 21.5% and 19.7% in FY08E and FY09E, respectively. In the same period, deposits are expected to rise 17.7% and 16.1%, respectively, and investments are expected to rise 8.2% and 8.4% in FY08E and FY09E, respectively.

P/ABV Valuation Methodology

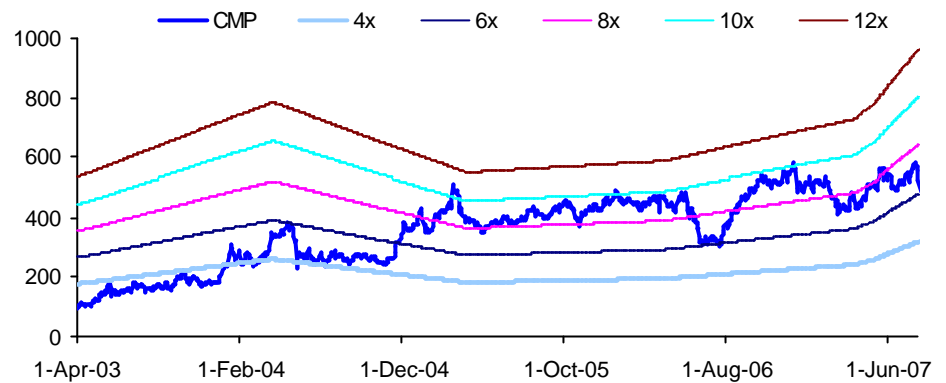
At the RoE of 18.6% (FY09E), cost of equity of 13.4% and perpetual growth rate of 5%, the theoretical fair value stands at 1.63x its adjusted book value, which yields a fair value of Rs.680 (reducing from the earlier target price of Rs.699).

Historically, the stock has been trading between the ranges of 1.25x to 1.75x ABV and currently, at the price of Rs.504, the stock is trading at merely 1.2x its FY09E adjusted book value. We are quite optimistic on the bank's future performance owing to its pan-India presence, high quality deposit franchisee, higher than the industry average margins (NIMs), advanced technological platform and largely de-risked investment portfolio.

Rolling 1-year forward P/ABV band



Source: Company, Kotak Securities - Private Client Research

Rolling 1-year forward P/E band

Source: Company, Kotak Securities - Private Client Research

We recommend a BUY on PNB with a price target of Rs.680

Therefore, we are maintaining our **BUY** recommendation on PNB with a price target of Rs.680 (At target price, the stock will trade at 1.63x its FY09E adjusted book value), which would provide a 35% upside from current levels over a 12-month horizon.

Profit & loss account (Rs Bn)

	2006	2007	2008E	2009E
Interest Income	95.84	115.37	144.67	167.57
Interest Expense	49.17	60.23	80.36	93.67
Net Interest Income	46.67	55.15	64.31	73.90
% Growth	16.5	18.2	16.6	14.9
Treasury Income	5.80	1.63	2.24	2.55
Other Income from Banking Operations	6.93	8.79	10.03	12.17
Total Income	59.40	65.57	76.57	88.62
Employees Expenses	21.15	23.52	25.88	28.46
Other Operational Expenses	9.08	9.74	10.69	12.09
Operating Profit	29.17	32.31	40.00	48.06
% Growth	-4.0	10.7	23.8	20.2
Tax	5.96	6.29	8.20	10.27
Loan Loss Provisions	8.82	10.62	12.66	13.83
Net Profit	14.39	15.40	19.14	23.97

Source: Company, Kotak Securities - Private Client Research

Bulk deals

Trade details of bulk deals					
Date	Scrip name	Name of client	Buy/ Sell	Quantity of shares	Avg. Price (Rs)
14-Aug	Alembic Limi	Fidelity Indian Mutual Fund Ac Fidelity Equity Fund	B	2,277,688	74.00
14-Aug	Alembic Limi	Macquarie Bank Limited	S	2,082,500	74.00
14-Aug	Alembic Limi	Hsbc Financial Services Middleeast	S	957,725	74.00
14-Aug	Alfa Transfr	Religare Securites Ltd Caterpi	B	28,778	68.75
14-Aug	Ankit Metal	Lotus Global Investments Ltd	B	1,000,000	60.50
14-Aug	Crazy Infote	Subhashini	B	50,000	195.28
14-Aug	Crazy Infote	Sweety Investment	B	30,000	195.50
14-Aug	Crazy Infote	Prakash Surajmal Shsh	S	40,101	195.38
14-Aug	Crazy Infote	Shital Samir Shah	S	35,000	195.36
14-Aug	Devaki Hosp.	Vishwanath Murlidhar Joshi	B	50,000	20.79
14-Aug	Dredg Corp I	Reliance Capital Trustee Co Ltd Ac Reliance Long Term	B	807,182	530.00
14-Aug	Dredg Corp I	Merrill Lynch Capital Market España S A Svb	S	397,000	530.03
14-Aug	Dredg Corp I	Macquarie Bank Limited	S	349,130	530.00
14-Aug	Elpro Intern	Goel Fintrade Private Limited	B	27,979	217.88
14-Aug	Elpro Intern	Pankaj Tibrawalla	S	20,836	216.87
14-Aug	Gangotri I&S	Shyamkant R Gaund	B	25,000	30.95
14-Aug	Gemstone Inv	Bhaveshtextile	B	25,000	27.40
14-Aug	Gemstone Inv	Bhaveshtextile	S	16,100	27.70
14-Aug	Glory Poly	Vivek Lakshminath Mehrotra	S	120,000	59.02
14-Aug	Haz Mul Pro	Mudra Securities	B	125,000	14.77
14-Aug	Jindal Hotel	Arcadia Share and Stock Brokers	S	18,700	45.78
14-Aug	Kirloskar El	Life Insurance Corporation Of India	S	300,000	218.00
14-Aug	Malu Paper	Saboo Capital And Securities	B	121,741	48.63
14-Aug	Mascon Globa	Maruti Securities Ltd	B	1,714,369	14.03
14-Aug	Mascon Globa	Dla Investments P Ltd	S	1,500,000	13.57
14-Aug	Pearl Fashion	Morgan Stanley And Co Intl Ac Morgan Stanley DWitter Mau Ltd	B	500,000	255.00
14-Aug	Pearl Fashion	Morgan Stanley And Co Intl Ac M organ Stanley Investments Mau Ltd	B	483,653	255.00
14-Aug	Pearl Fashion	Fidelity Investment Mgmt Hk Ltd Ac Fid Funds Mauritius Ltd	S	986,963	255.04
14-Aug	Praj Industries	Morgan Stanley And Co Intl Ac Morgan Stanley D Witter Mau Ltd	B	509,000	193.01
14-Aug	ProtoInfosy	Sudhir Jain	B	200,000	3.53
14-Aug	ProtoInfosy	Edelweiss Estates Private Limited	S	354,713	3.53
14-Aug	Rasoya Protn	Prakash Surajmal Shah	B	73,132	79.98
14-Aug	Shah Alloy L	Ankit Rajendra Sanchaniya	B	100,000	70.00
14-Aug	Speciality	Paru Securities Pvt Ltd	S	22,000	61.94
14-Aug	Spectra Indu	Vishu Enterprise	S	36,090	24.25
14-Aug	Steel Exch	Diamant Investment and Finance	S	86,761	31.61
14-Aug	Sujana Metal	JM Financial Mutual Fund Ac Small And Midcap Fund	S	308,593	35.56
14-Aug	Trent	Reliance Mutual Fund	B	252,800	680.93
14-Aug	Utv Software	Sonata Investments Ltd	B	832,000	472.50
14-Aug	Utv Software	Macquire Bank Limited	S	832,766	472.50
14-Aug	Vanasth Text	Jitendra Mehta	S	100,000	11.10
14-Aug	Visu Intl	Bakliwal Financial Ser I Pvt Ltd	B	200,000	14.45

Source: BSE

Gainers & Losers

Nifty Gainers & Losers				
	Price (Rs)	% change	Index points	Volume (mn)
Gainers				
ONGC	853	1.2	4.2	0.5
Bharti Airtel	856	0.5	1.7	0.4
Reliance Ind	1,833	0.2	1.0	1.0
Losers				
HDFC	1,941	(2.1)	(2.2)	0.3
BHEL	1,688	(1.4)	(2.2)	0.6
SAIL	148	(1.7)	(2.1)	3.7

Source: Bloomberg

Forthcoming events

COMPANY/MARKET	
Date	Event
16-Aug	IVR Prime Urban Developers listing on BSE & NSE; Diwan Rahul Nanda of Topsgroup holds press conference
20-Aug	Initial Public Offer of Motilal Oswal opens
21-Aug	Initial Public Offer of Indowind Energy opens
23-Aug	HCL Infosystems to announce earnings and final dividend; Thomas Cook (India) to announce 2nd quarter results
24-Aug	Cipla holds annual shareholder meeting; Procter & Gamble, Gillette India to announce earnings and dividend
29-Aug	Tata Steel holds annual shareholders meeting

Source: Bloomberg

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