

May 8, 2007

FOR PRIVATE CIRCULATION

Equity

	7 May 07	% Chg		
		1 Day	1 Mth	3 Mths
Indian Indices				
Sensex	13,879	(0.4)	8.0	(5.3)
Nifty	4,111	(0.2)	9.6	(2.7)
Banking	6,821	(0.8)	7.0	(10.2)
IT	3,705	(0.9)	7.0	(6.1)
Healthcare	3,737	(0.2)	2.5	(4.2)
FMCG	1,812	0.0	5.3	(5.2)
PSU	6,471	(0.2)	9.4	1.8
CNX Midcap	5,314	(0.6)	10.5	(1.8)
World indices				
Nasdaq	2,571.0	(0.0)	4.0	3.3
Nikkei	17,670	1.6	0.9	2.1
Hangseng	20,897	0.3	3.1	0.5

Value traded (Rs cr)

	7 May 07	% Chg - 1 Day
Cash BSE	4,369	5.5
Cash NSE	8,658	(7.9)
Derivatives	22,526.7	(22.9)

Net inflows (Rs cr)

	3 May 07	% Chg	MTD	YTD
FII	56	(277)	56	12,749
Mutual Fund	298	318	298	(1,981)

FII open interest (Rs cr)

	4 May 07	% chg
FII Index Futures	14,298	1.3
FII Index Options	5,455	4.5
FII Stock Futures	14,926	0.7
FII Stock Options	57	36.8

Advances/Declines (BSE)

7 May 07	A	B1	B2	Total	% Total
Advances	79	310	398	787	44
Declines	129	392	424	945	53
Unchanged	3	11	26	40	2

Commodity

	7 May 07	% Chg		
		1 Day	1 Mth	3 Mths
Crude (NYMEX) (US\$/BBL)	61.4	(0.1)	(4.4)	2.9
Gold (US\$/OZ)	688.8	(0.0)	2.0	4.3
Silver (US\$/OZ)	13.5	0.5	(1.3)	(1.9)

Debt/forex market

	7 May 07	1 Day	1 Mth	3 Mths
10 yr G-Sec yield %	8.2	8.2	8.2	7.8
Re/US\$	40.9	40.9	42.9	44.1

Sensex



Source: Bloomberg

ECONOMY NEWS

- The new agricultural strategy for the 11th Plan may have a slew of sops to increase the quantum of private and public investment in the sector. The move is aimed at accelerating growth in the agricultural sector through fresh investments. (ET)
- The Central Electricity Regulatory Commission plans to institute a system to address payment defaults by utilities. The CERC suggested that in case of default payments, generating companies will be allowed to stop supplying to defaulting utilities and sell their power elsewhere. (ET)
- The Finance Ministry has turned down a proposal for shifting the exporters' tax refund plan to the Commerce Ministry, which has been lobbying hard to take charge of the Duty Entitlement Pass Book scheme. (ET)
- The Reserve Bank of India has given banks three months time to be reasonable while pricing loans. (BL)
- In a bid to attract 'big oil' to India, the Government is close to finalizing an Open Acreage Licensing Policy, which gives companies a round-the-year window to pitch for oil and gas in blocks of their choice. (BS)
- Finance Minister P Chidambaram's efforts to bring down cement prices have finally borne fruit as cement manufacturers have introduced cuts in prices. Cement prices have come down by Rs.2-5 per 50-kg bag in certain regions. (BS)

CORPORATE NEWS

- The **Reliance group** has urged the government to relax the land ceiling imposed on multi-product special economic zones on a case-to-case basis. (ET)
- **Tata Steel** is considering the Singapore Stock Exchange for listing a possible global depository receipt issue for mobilizing \$500 mn (Rs.21 bn) to part-finance its \$12.9 bn (Rs.523.5 bn) acquisition of Anglo-Dutch steel maker Corus. (BS)
- **Tata Motors** has decided to shore up export revenues in 2007-08. For this, it has identified Spain, Italy, Turkey, South Africa, Nepal and Sri Lanka as focus markets. (ET)
- **Patel Engineering** said it has bagged a Rs.1.57-bn order from Brihanmumbai Municipal Corporation for construction of a tunnel in joint venture with **Pratibha Industries**. (ET)
- Two **Reliance** arms have raised \$925 mn (Rs.37.54 bn) in term loans to meet the infrastructural needs of the \$6-bn **Reliance Petroleum** greenfield refinery. Reliance Ports & Terminals and Reliance Utilities have mobilized \$500 mn and \$425 mn, respectively. (BS)
- **Aurobindo Pharma Ltd** has received USFDA approval for its Zolpidem tablets in strengths 5mg and 10mg. Zolpidem belongs to the class of imidazopyridines (medicines acting on central nervous system). (BL)
- Infosys BPO, the business process outsourcing subsidiary of **Infosys Technologies**, has become the first company in the world to earn the professional certification awarded by the Carnegie Mellon University covering the entire organization. (BL)
- UK-based grocery biggie Tesco is learnt to be in preliminary talks with the Munjals of **Hero group** for a joint foray in the retail sector. Hero Group recently announced its interest in getting into retail as part of a larger diversification move that includes four-wheelers. (ET)
- Four global giants, including Schrodgers, Blackstone and the US-based Capital, have offered to buy a small stake in **Reliance Capital's** mutual fund business, as the rapid growth in the domestic market continues to lure foreign firms. (ET)

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

FROM OUR RESEARCH TEAM

RESULT UPDATE

Vinay Goenka
vinay.goenka@kotak.com
+91 22 66341291

ASHOK LEYLAND LTD (ALL)

PRICE : Rs.39

RECOMMENDATION : **BOOK PROFITS**

TARGET PRICE : Rs.40

FY08E PE : 11x

Key Highlights

- Net sales for the quarter rose 32% to Rs.22.9 bn YoY piggybacking on a 28% YoY rise in vehicle volumes.
- EBITDA in this period recorded lower growth of 21% to Rs.2.6 bn YoY followed by a profit after tax of Rs.1.7 bn, as compared to Rs.1.3 bn recorded in Q4 last year. While this quarter's EPS stands at Rs.1.3 (on a higher equity base) last year's EPS stood at Rs.1.01 on a comparable basis.
- The operating margins have improved from 10.5% to 11.6% on a QoQ basis. However, on a YoY basis margins are down from 12.6% to 11.6% ALL had effected two price increases last year (April and November) that could cover primarily material costs hike only (Rs.25000 per vehicle)
- Other expenditure includes exchange difference arising out of restatement of foreign currency assets and liabilities. For the fourth quarter, there was a net gain of Rs.53.79 mn (against a net gain of Rs.46.06 mn for Q4FY06). Adjusting for forex changes the OPM for the quarter stood at 11.3% for Q4FY07. The company also incurred a one-time expense of Rs.100 mn during the quarter on advertisement expenses. ALL would be implementing another price hike of Rs.10000 in May that it could not implement in January 2007.
- During 2006-07, the company's total sales volume reached an all-time high of 83,094 vehicles (61,655 vehicles), a rise of 35%. The company's market share in the M&HCV segment rose by 0.8% to 28%. While market share in the truck business increased by 200 bps, the company lost market share in the passenger segment by around 400 bps leading to an increase in overall share.

Summary table

(Rs mn)	FY07	FY08E	FY09E
Sales	73,046	82,252	94,205
Growth (%)	39.0	13.0	15.0
EBITDA	7,516	8,600	10,020
EBITDA margin (%)	10.3	10.5	10.6
Net profit	4,382	4,721	5,334
Net cash (debt)	(2,550)	(2,900)	(1,184)
EPS (Rs) Diluted	3.30	3.50	4.00
Growth (%)	34.0	8.0	13.0
DPS (Rs)	1.5	1.5	1.5
ROE (%)	28.4	26.0	25.0
ROCE (%)	29.0	27.6	25.2
EV/EBITDA (x)	6.8	5.9	4.9
P/E (x)	11.9	11.0	9.7
P/BV (x)	2.9	2.4	2.1

Source: Company & Kotak Securities - Private Client Research

Quarterly performance

(Rs mn)	Q4FY07	Q4FY06	YoY %
Gross Sales	26,647	20,034	33
Excise Duty	3,737	2,686	39
Net Sales	22,910	17,348	32
Total Vehicles Sold	26,130	20,402	28
Other Income	169	110	53
Total Income	26,816	20,144	33
Total Expenditure	23,998	17,847	34
Op Profits	2,649	2,187	21
OPM %	11.6	12.6	
Interest	19	98	-81
Depreciation	481	330	46
PBT	2,318	1,869	24
Extra Ordinary Items	30	21	
Prov for Tax	495	559	-12
Deferred Tax	78	-46	
PAT before Extra Items	1746	1355	29
Pat after Extra Items	1715	1335	29
Equity Capital	1323	1222	
EPS (Rs)	1.30	1.09	18.64

Source: Company

Expect moderation in volumes in the current fiscal

ALL has posted strong volume growth for FY07 (35% YoY growth). We are, however, expecting sales growth to moderate in FY08 given the sluggishness in demand due to higher interest costs although the management has guided for 20% growth. The company is looking at new launches as part of the thrust to offer fully built vehicles. There are quite a few buses and trucks in the pipeline. ALL is targeting a share of the airport bus market and has lined up three buses under the brand name Avion for this segment. In the area of trucks, on the anvil are the 4921, the 3135 Tipper and the 2518 Mining Tipper.

Business Outlook: Capex plans to more than double capacity

As far as capex plans are concerned, ALL has lined up a Rs.10-bn capex plan over the next twelve months. The capex would be incurred for the engine and gearbox facilities at Ennore (50,000 units) as well as setting up a vehicle manufacturing unit in Uttaranchal. The company is looking at hiking its capacity over the next two years to around 184,000 vehicles from the current 84,000 units. Out of this, around 50,000 units are expected in Ennore towards the middle of FY08 while Uttaranchal will add around 25,000 units by March 2009 and 25,000 units by March 2010 in two phases. ALL is also looking at Rs.4 bn in investments in Detroit and Middle East among others.

Capex Plans (Rs bn) for FY08

Uttaranchal	4.00
Ennore	3.75
Product Development	1.00
Others	1.25

Source: Company

Capacity details

	Nos	Time Frame
Current	84000	-
Ennore	50000	Oct'07
Uttaranchal	25000	March'09
Uttaranchal	25000	March'10

Source: Company

Valuation

We expect the company to report 8.4% growth in volumes for FY08 and 7.5% in FY09 with revenues of Rs.82.6 bn and Rs.94.6 bn, respectively. The company being a pure play commercial player would be the hardest hit in case interest rates sustain at current levels. Also, the Rs.10-bn borrowing program of the company would lead to higher interest burden for Ashok Leyland.

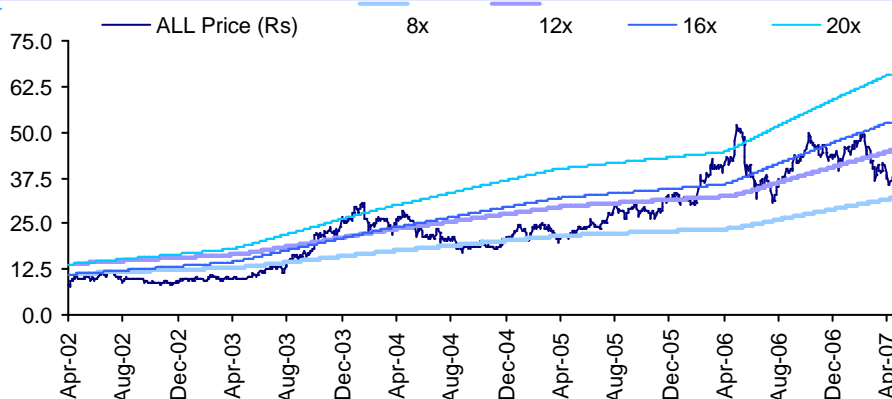
The company is also looking at financing its channel partners to reduce the burden of higher interest rates and push sales. Although the management has only indicated that they would enter this field if interest rates sustain at current levels, we believe such a step would be cash intensive and add to company's borrowing program.

Based on the changes we now expect the company to record net profits of Rs.4.7 bn translating into an EPS of Rs.3.5 on a fully diluted basis for FY08. For FY09, our profit estimate stands at Rs.5.3 bn resulting in an EPS of Rs.4.0 for the full year. Our DCF-based price target is now revised to Rs.40 as compared to our earlier estimate of Rs.43.

ALL currently trades at Rs.39 discounting FY08E earnings by 11x times. Given the limited upside available from the current levels we advise investors to book profits in the stock. Further upside risk to our estimates could come from higher volume visibility in FY08 and easing pressure on the interest rates.

We recommend BOOK PROFITS on ALL with a price target of Rs.40

PE band



Source: Company, Kotak Securities - Private Client Research

RESULT UPDATE

Awadhesh Garg
awadhesh.garg@kotak.com
+91 22 6634 1406

GLENMARK PHARMACEUTICALS LTD

PRICE : Rs.649
TARGET PRICE : Rs.700

RECOMMENDATION : HOLD
FY08E PE : 17.6x

Summary table

(Rs mn)	FY07	FY08E	FY09E
Revenues	12,070	17,157	22,046
Growth (%)	71.9	42.1	28.5
EBITDA	4,280	6,463	7,876
EBITDA margin (%)	35.5	37.7	35.7
Net profit	3,111	4,659	5,928
Net Margin (%)	25.8	27.2	26.9
EPS diluted (Rs)	25.9	36.9	46.0
Growth (%)	249.8	42.3	24.8
DPS (Rs)	0.7	0.7	0.7
RoE (%)	57.3	44.1	33.3
RoCE (%)	30.0	35.5	33.7
EV/Sales (x)	3.0	4.6	3.4
EV/EBITDA (x)	8.5	12.2	9.6
P/E (x)	10.9	17.6	14.1
P/BV (x)	5.0	5.8	3.9

Source: Company & Kotak Securities - Private Client Research

Key Result Highlights

- Glenmark has announced its financial results for FY07. The company has surpassed our estimates at net profit level. However, revenues are in line with our expectation. Total income (including NCE milestone) has grown 71.9% at Rs.12.07 bn as compared to Rs.7.02 bn in FY06. Revenues from the base business increased to Rs.11.02 bn against Rs.7.31 bn, recording a growth of 51%.
- The domestic formulation business grew 9% to Rs.4.29 bn against Rs.3.94 bn in FY06. It has registered a value growth of 22.1%, vis-à-vis that of the industry 15.8% (IMS ORG February 2007).
- Major growth came from the international markets of the US, Latin America and SRM, which have registered a revenue growth of 286%, 86% and 69% to Rs.2.2bn, Rs.1.4 bn and Rs.1.8 bn, respectively, driven by new products launches. The company now has 13 products launched in the US market.
- EBIDTA grew impressively by 212% to Rs.4.28 bn from Rs.1.37 bn mainly due to change in sales mix (higher formulation sales from international markets) and milestone payment from Merck KGaA. EBITDA margin for FY07 has improved by 1600 bps to 35.5%.
- Net profit after tax has recorded a huge jump of 254% at Rs.3.11 bn as compared to Rs.880 mn in FY06. This translated into an EPS of Rs.25.9. Net margin has risen by 1330 bps to 25.8%.
- All in all, the result is reflective of Glenmark's efforts to grow its business internationally. The company's progress in NCE research too has yielded encouraging results with the progress demonstrated by GRC-8200 (Diabetes), GRC-3886 (Oglemilast - Asthma/COPD), and GRC-6211 (TRP V1 antagonist).

Consolidated Performance - Q4 FY07

(Rs mn)	Q4FY07	Q4FY06*	YoY (%)	Q3 FY07	QoQ (%)	FY07	FY06	YoY (%)
Net Sales	3,391	1,663	103.9	4,380	-22.6	12,070	6,952	73.6
Expenditure	2,380	1,324		2,052		7,790	5,580	
EBIDTA	1,010	339	197.7	2,328	-56.6	4,280	1,372	212.0
Depreciation	124	37		118		426	232	
EBIT	887	303	193.1	2,209	-59.9	3,854	1,140	238.2
Interest	147	12		100		404	147	
Other Income	77	26		31		161	128	
PBT	817	317	158.0	2,140	-61.8	3,611	1,121	222.2
Tax	184	66		250		500	241	
Profit After Tax	633	251	152.3	1,890	-66.5	3,111	880	253.6
Equity Shares (Mn)	120	119		120		120	119	
EPS (Rs)	5.3	2.1	149.5	15.7	-66.5	25.9	7.4	249.7
EBIDTA Margin (%)	29.8	20.4		53.1		35.5	19.7	
PAT Margin (%)	18.7	15.1		43.1		25.8	12.7	

Source: Company Press Release; * Standalone Figures

Strong growth driven by international formulation business

Glenmark's consolidated revenue (including NCE milestone) in FY07 has risen to Rs.12.42 bn from Rs.7.57 bn, registering a growth of 64%. EBIDTA grew impressively by 212% to Rs.4.28 bn from Rs.1.37 bn mainly driven by milestone payment from Merck KGaA and increased contribution from the US, Latin America and semi-regulated markets. The total formulation business was at Rs.9.7 bn, registering a 53% growth.

The company now has 13 products launched in the US market. During FY07, Glenmark and its partners have filed 16 products bringing the total number of ANDAs filed to date to 36. The company plans to launch 15-20 products during the year and expects to get six to seven product approvals in Q1FY08.

In Latin America, Glenmark has posted revenues of Rs.1.42 bn against Rs.764 mn in FY06 registering an 86% growth. The company has filed four new dossiers in Brazil during Q4; bringing the total number of dossiers filed during the year to 24. The company has filed more than 40 dossiers in markets across Latin America and has launched 10 products during the year.

Revenues from the export of branded formulations in semi-regulated markets has risen 69% to Rs.1.79 bn against Rs.1.06 bn in FY06. It has obtained registrations for 147 formulation products and also filed 403 more registrations in several of its exports markets in FY07.

The domestic formulation business grew 9% to Rs.4.29 bn against Rs.3.94 bn in FY06, registering a value growth of 22.1%, vis-à-vis that of the industry growth 15.8% in the first eleven months of FY07, according to IMS ORG MAT February 2007. During FY07, Glenmark has launched 36 new products, which included six first-to-launch-India molecules. The company plans to launch over 30 products in the domestic market in FY08 and is likely to grow at 15% per annum.

Revenue Break-Up (Q4 FY07)

(Rs mn)	Q4FY07	Q4FY06	YoY (%)	Q3FY07	QoQ (%)	FY07	FY06	YoY (%)
Formulations								
- USA	803	323	148.6	835	-3.8	2,208	572	286.0
- Latin America	676	390	73.3	292	131.4	1,421	764	85.9
- Semi Regulated Markets (SRM)	454	270	68.2	425	6.8	1,789	1,056	69.3
- India	1,197	1,183	1.2	1,123	6.5	4,290	3,937	9.0
Total Formulations (A)	3,130	2,166	44.5	2,676	17.0	9,706	6,329	53.4
% of Sales	89.8	93.1		87.3		88.0	86.5	
APIs (B)	356	162	120.0	390	-8.7	1318	987	33.6
% of Sales	10.2	6.9		12.7		12.0	13.5	
Revenue from Business (A+B)	3,486	2,328	49.8	3,066	13.7	11,025	7,316	50.7
Out-licensing Revenues (C)	0	0		1395		1395	266	425.2
Consolidated Revenues (A+B+C)	3,486	2,328	49.8	4,461	-21.9	12,420	7,582	63.8

Source: Company

Huge improvement seen in margins led by rise in exports and NCE milestone

In FY07, EBITDA margins have improved 1600 bps to 35.5%, mainly due to the receipt of 25 mn euros milestone payment from Merck KGaA, change in sales mix (higher formulation sales from international markets) and increasing domestic supply from the Baddi facility.

Glenmark is continuously focusing on increasing sales from international markets because it believes that export business offers better profitability and opens up larger markets. Going forward, as exports rise, the margins would be better.

Further, its new manufacturing facility in Baddi (HP) has completed commissioning all its lines and is now fully functional. While the plant caters to the India market requirements and has been built to manufacture solid orals, liquid orals and semi-solids, its ointment line will also cater to demands from the regulated markets. The facility has contributed more than Rs.2.3 bn worth of production in FY07 leading to improvement in margins since this facility enjoys fiscal benefits.

We expect US\$35 mn milestone payment from asthma molecule GRC-3886 in FY08E

The management has categorically ruled out any negative development in GRC-3886 clinical trials. It said the program is progressing in two phase-II trials initiated in April 2006 assessing preliminary efficacy in asthma patients. One study is evaluating the efficacy of Oglemilast in exercised induced asthma; patient enrolment and dosing for this study was recently completed and the revenue results are expected shortly.

The second study is exploring the effect of Oglemilast in mild asthmatic patients facing an antigen challenge; patient enrolment for this study is on-going and the study is expected to be completed early calendar 2007. Both phase-II studies utilize a once-daily dosing regimen, as supported by pharmacokinetics and safety profile observed in Phase-1. Additionally, the partnership has finalized tablet formulation for further development.

The management has accepted that there is a delay in milestone payment from Forest Laboratories and US\$35 mn, which they were earlier expecting in FY07, is now likely to come in FY08. Hence, they have now given a guidance of US\$69 mn milestone payments in FY08E.

Talks ongoing to out-license GRC-6211

The management has revealed that talks are ongoing and in an advanced stage to out-license one more molecules GRC-6211 (osteoarthritis, dental pain, incontinence, neuropathic pain) with some global life science companies for further clinical studies and development. The molecule is in phase-1 studies and the company hopes to conclude the deal in FY08.

Glenmark also announced three new NCE compounds GRC-4039 (PDE4 inhibitor), GRC-10693 (Neuropathic pain) and GRC-10801 (obesity). All these compounds are being developed for different pain and inflammatory indications and are expected to enter phase-1 studies in Q1/Q2 FY08.

Valuations reasonable, many catalysts exists; Maintain Hold

We are raising our target price to Rs.700 per share - as we raise our earnings estimates for FY08 and FY09 and roll over to FY08E earnings. We are raising our estimates following a strong performance in the base generics business in FY07 and management's indication that they would easily surpass their FY08 guidance. We expect Glenmark to register 50% and 27% consolidated earnings growth in FY08E and FY09E, respectively, led by 34% core revenue growth and expected NCE milestone payment of US\$69 mn each in FY08 and FY09.

We expect fully diluted EPS of Rs.36.9 and Rs.46 for FY08E and FY09E, respectively, assuming income from milestone payments of US\$69 mn each in FY08 and FY09, while EPS from core business is expected to be Rs.20.8 in FY08 and Rs.30.3 in FY09E.

At Rs.649, the stock is trading at P/E of 17.6x FY08E and 14.1x FY09E fully diluted earnings. We have incorporated option value of IP assets (adopting international practice to value such type of companies) into stock prices to arrive at fair price. We have valued the company on a sum-of-the-parts (SOTP) valuation method; with the core business valued at Rs.454 (a P/E of 15x on FY09E fully diluted earnings) and an option value of Rs.246 for IP assets (Rs.138 for GRC-3886 and Rs.108 for GRC-8200). Hence, we arrived at a revised target price of Rs.700.

We believe valuations are reasonable and many potential catalysts exists in the stock namely, expected milestone payments, potential out-licensing deal for GRC-3886 to the European region, potential out-licensing deal for GRC-6211 and potential acquisition in EU/US countries. We maintain **HOLD**.

Key risks and concerns

- Greater than anticipated pricing pressure or lower market share in the generic or API business
- Any delay in ANDA filings and/or approval and any delay in launch by its global partners would impact the growth and profitability of the company.
- Suspension of key molecules GRC-3886/8200 from clinical trials due to toxicity or in-efficacy
- Reduction in drug prices in domestic market could impact profitability negatively.

We maintain HOLD on Glenmark with a price target of Rs.700

RESULT UPDATE

Saday Sinha
saday.sinha@kotak.com
+91 22 66341440

JAMMU & KASHMIR BANK

PRICE : Rs.695
TARGET PRICE : Rs.722

RECOMMENDATION : HOLD
P/ABV: 1.4x, P/E: 7.9x

Slightly modifying price target, HOLD with a price target of Rs.722

J&K Bank has declared its Q4FY07 results, which are slightly below our expectation. The net profit grew at 98.8% YoY whereas net interest income (NII) grew only at 7.3% YoY.

We believe the bank's NII will grow 23.4% and 19.2% in FY08E and FY09E, respectively. Our revised estimate of full-year profit is Rs.3.53 bn and Rs.4.27 bn for FY08E and FY09E, respectively. We have arrived at a new price target of Rs.722, that has a 4% upside from the current level, and recommend a **HOLD** strategy.

Key highlights**Key data**

Rs bn	FY06	FY07	FY08E	FY09E
Interest income	17.06	18.99	22.21	25.48
Interest expense	10.43	11.31	12.73	14.17
Net interest income	6.64	7.68	9.48	11.31
Other income	1.33	1.60	1.92	2.08
Gross profit	4.52	5.56	7.06	8.42
Net profit	1.77	2.75	3.53	4.27
Gross NPA (%)	2.5	2.1	2.3	2.3
Net NPA (%)	0.9	1.1	1.1	1.0
Net interest margin (%)	2.6	2.8	3.1	3.4
RoE (%)	10.2	14.4	16.3	17.0
RoAA (%)	0.7	1.0	1.2	1.3
Dividend Yield (%)	1.2	1.7	1.2	1.2
EPS (Rs)	36.4	56.7	72.8	88.1
Adj. BVPS (Rs)	343.5	374.2	433.7	508.6
P/E (x)	17.3	12.3	9.5	7.9
P/ABV (x)	2.0	1.9	1.6	1.4

Source: Company & Kotak Securities - Private Client Research

- Net interest income rose only 7.3% from Rs.1.89 bn to Rs.2.02 bn due to interest expense increasing faster than interest income. Interest expense for Q4FY07 rose 23.4% YoY whereas increase in interest income was relatively subdued at 16.6% YoY.
- Other income for Q4FY07 was flat at 3.4% YoY to Rs.539.7 mn from Rs.521.8 mn, primarily due to a recent regulatory change where other income also incorporates Rs.162 mn provision for amortization of securities. If this were excluded, the other income category would grow at 34.3% YoY.
- Net interest margin (NIM) improved to 2.97% in Q4FY07 from 2.68% in Q4FY06 due to better liability management and compositional shifts in advances and investment portfolios. However, sequentially, it is down from 3.56% in Q3FY07.
- Net profit rose 98.9% from Rs.227.8 mn in Q4FY06 to Rs.452.8 mn in Q4FY07 due to lower provisions and contingencies, which were down 54.7% YoY.
- Total advances in Q4FY07 grew 17.9% YoY and now stands at Rs.170.8 bn while growth in deposits was subdued at 7.3% to Rs.251.9 bn. However, with a closer look at the deposit mix, we notice that demand deposits grew at 15.5% and savings deposits grew at 16.7% in the same period.
- The investment book has also reduced in size by 17.9% in Q4FY07 to Rs.73.92 bn from Rs.90.02 bn.
- Gross NPAs rose in absolute terms from Rs.3.7 bn in Q4FY06 to Rs.5.02 bn in Q4FY07. Net NPAs also rose from Rs.1.34 bn in Q4FY06 to Rs.1.94 bn in Q4FY07. Gross NPA ratio rose slightly from 2.52% in Q4FY06 to 2.89% in Q4FY07. Similarly, net NPA ratio also rose from 0.92% in Q4FY06 to 1.13% in Q4FY07. The NPA coverage ratio at the end of FY07 stands at 61.43%, slightly lower than 63.64% at the end of FY06.
- The credit-deposit (CD) ratio increased to 67.79% in Q4FY07 as against 61.67% in Q4FY06.
- The capital account savings account (CASA) ratio is up at 37.02% in Q4FY07 from 34.17% in the corresponding period of last year.
- Capital adequacy ratio (CAR) for the bank is up from 12.14% in Q4FY06 to 13.24% in Q4FY07, with Tier-I and Tier-II standing at 12.60% and 0.64%, respectively. Although, we believe the bank is well capitalized for adhering to Basel II norms, the management has indicated they might go for capital raising plan in the middle of FY08, on the back of prevailing higher cost of debt (upper as well lower tier-II)

Financials (Rs mn)			
Quarterly Performance	Q4FY07	Q4FY06	% (YoY)
Int. on advances	3,753.9	3,018.3	24.4
Int. on investments	1,368.2	1,334.6	2.5
Int. on RBI/Other balances	88.3	115.3	-23.4
Total int. earned	5,210.4	4,468.2	16.6
Other income	539.8	521.8	3.4
Total Income	5,750.2	4,990.0	15.2
Employee cost	598.7	498.6	20.1
Other operating exp	495.0	483.5	2.4
Interest expenses	3,186.6	2,581.8	23.4
Total expenses	4,280.3	3,563.9	20.1
Operating profit	1,469.9	1,426.1	3.1
Provisions	460.0	1,015.4	-54.7
Taxes	557.1	182.9	204.6
Net profit	452.8	227.8	98.8
EPS (Rs)	9.34	4.70	98.7
Net interest income	2,023.8	1,886.4	7.3

Source: Company

Valuation and recommendation

We believe the bank is poised to move from a stage of 'margin led growth' to a new stage of 'volume led growth'. The management has shown confidence in achieving credit growth of 30-35% in J&K (contra to the country average) whereas it expects 18-20% of credit growth outside J&K. The management also expects deposits to grow in the range of 18-20% by focusing mainly on the rural J&K state where CASA potential is very high.

The current deposit mix between J&K state and outside stands at 62:38. The management expects this to take to the level of 68:32 by the end of this financial year FY08. Similarly, current advance mix between J&K state and outside stands at 34:66, which is expected to reach 40:60 levels by the end of FY08. The bank is realigning its strategy to lend more within the state where it enjoys higher margins and thus plans to improve its overall margins.

At the end of FY07, the bank has 451 branches and it has also got the approval for setting up 50 new branches. Out of this, 33 will be opened within the J&K whereas the rest will go to other part of the country.

We have slightly modified our earnings estimates and now estimate full year profits of Rs.3.53 bn and Rs.4.27 bn for FY08E and FY09E, respectively, resulting into an EPS of Rs.72.78 and Rs.88.15, respectively.

Adjusted book value is estimated to be Rs.433.71 and Rs.508.57 for FY08E and FY09E, respectively.

P/ABV Valuation

At an RoE of 17.0% in FY09E and cost of equity of 13.5%, the theoretical fair value stands at 1.42x its adjusted book value, which yields a fair value of Rs.722 based on FY09E estimates.

The stock is currently trading at a P/E of 7.9x of its FY09E and P/ABV of 1.4x its FY09 adjusted book value. The fair value based on residual income and P/ABV is estimated to be at Rs.722, which indicates a limited upside of 4% from the current level. We recommend a HOLD on the stock with a price target of Rs.722.

We are advising a HOLD strategy as the management has guided us to achieve credit growth of 30-35%, going forward. We have not incorporated such kind of growth in our model. We would like to wait and watch before incorporating such growth, which might provide decent upside from the current level. So, we advise our clients to **HOLD** the stock with a target price of Rs.722.

We recommend a HOLD on J&K Bank with a price target of Rs.722

RoE - P/ABV based Fair Value Calculation

Forecasted RoE	17.0
g (perpetual growth rate)	5.0
r (cost of equity)	13.5
P/ABV (x)	1.42
ABV (Rs.)	508.6
Fair Value based on ABV (Rs.)	722.2

Source: 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)
7-May	Empower Inds	Rajesh Kumar Agarwal	B	50,000	17.47
7-May	Empower Inds	Pinakin Ratilal Shah	B	26,000	17.39
7-May	Gemstone Inv	Hemant Madhusudan Sheth	B	50,000	22.50
7-May	Gemstone Inv	Ashok Girdharlal Bhansali	B	15,000	22.50
7-May	Gemstone Inv	Sushila Premchand Shah	S	32,350	22.50
7-May	Gemstone Inv	Nihal Premchand Shah	S	57,610	22.50
7-May	Indusfila	Reliance Capital Trustee Co Ltd	S	184,375	170.00
7-May	Jagjanani	Rashmikant Ashokbhai Dave	B	86,000	25.00
7-May	Jagjanani	Hiren Kumar Parshottam Bhai Patel	B	80,000	25.73
7-May	Jagjanani	Kanubhai Prajapati	B	220,000	25.78
7-May	Jagjanani	Mala Hemant Sheth	B	200,000	25.77
7-May	Jagjanani	Vicky Rajesh Jhaveri	B	100,000	25.75
7-May	Jagjanani	Jhaveri Trading and Investment	B	150,000	25.75
7-May	Jagjanani	Rashmikant Ashokbhai Dave	S	86,000	26.00
7-May	Maharastra	Sourabh Tiwari	B	42,945	118.11
7-May	Pvr Ltd	Variable Insurance Products Fund Iii Mid Cap Portfolio	B	306,767	210.00
7-May	Pvr Ltd	Ubs Securities Asia Ltd.	S	155,343	210.00
7-May	Pvr Ltd	India Advantage Fund I	S	197,676	210.00
7-May	RadhaMadhav	Prism Impex Pvt Ltd	B	200,000	71.58
7-May	RadhaMadhav	Sweety Investment	S	105,155	71.52
7-May	Rama Paper	Rohnil R Boradia	S	46,617	39.26
7-May	Tripex Over	Ramkripa Securities Pvt Ltd	B	100,000	39.60
7-May	Tripex Over	Shri Parshwa Finance	S	100,000	39.60
7-May	Usher Agro	Rikesh R Shah	S	104,917	30.53
7-May	Visu Intl	Lilac Farms Private Ltd	S	292,748	12.93

Source: BSE

Gainers & Losers

Nifty Gainers & Losers				
	Price (Rs)	% change	Index points	Volume (mn)
Gainers				
Reliance Ind	1,607	1.5	6.3	2.8
Bharti Airtel	822	0.8	2.3	0.9
BPCL	350	4.4	1.0	0.6
Losers				
Wipro	553	(2.6)	(4.1)	0.6
Infosys Tech	2,042	(1.5)	(3.3)	1.0
ICICI Bank	844	(1.4)	(2.1)	1.6

Source: Bloomberg

Forthcoming events

COMPANY/MARKET	
Date	Event
8-May	Dabur India to announce earnings; Gail India, Kotak Mahindra Bank and Syndicate Bank to announce earnings and dividend
9-May	Lupin Lab to announce earnings and dividend; Fortis Healthcare hosts listing ceremony at BSE
10-May	Finolex Cables to announce earnings
11-May	Hero Honda to announce earnings and dividend
12-May	Chambal Fertilizers, SBI to announce earnings and dividend
14-May	Voltas to announce earnings and dividend
15-May	Sun Pharmaceutical Industries to announce earnings
16-May	Balaji Telefilms to announce earnings and dividend
17-May	Bajaj Auto, Wyeth Ltd, Dabur Pharma to announce earnings and dividend
18-May	Syndicate Bank, DRL, Tata Motors to announce earnings and dividend; Hindustan Lever holds annual shareholder meeting
19-May	Karnataka Bank to announce earnings and dividend
21-May	SAIL to announce earnings and dividend
23-May	Punjab National Bank to announce earnings and dividend
28-May	Mahindra & Mahindra to announce earnings and dividend
30-May	Madras Cements to announce earnings and dividend

Source: Bloomberg

Research Team

Name	Sector	Tel No	E-mail id
Dipen Shah	IT, Media, Telecom	+91 22 6634 1376	dipen.shah@kotak.com
Sanjeev Zarbade	Capital Goods, Engineering	+91 22 6634 1258	sanjeev.zarbade@kotak.com
Teena Virmani	Construction, Cement, Mid Cap	+91 22 6634 1237	teena.virmani@kotak.com
Awadhesh Garg	Pharmaceuticals	+91 22 6634 1406	awadhesh.garg@kotak.com
Apurva Doshi	Logistics, Textiles, Mid Cap	+91 22 6634 1366	doshi.apurva@kotak.com
Saurabh Gurnurkar	IT, Media, Telecom	+91 22 6634 1273	saurabh.gurnurkar@kotak.com
Vinay Goenka	Auto, Auto Ancillary, Sugar	+91 22 6634 1291	vinay.goenka@kotak.com
Saday Sinha	Economy, Banking	+91 22 6634 1440	saday.sinha@kotak.com
Lokendra Kumar	Oil & Gas	+91 22 6634 1540	lokendra.kumar@kotak.com
Shrikant Chouhan	Technical analyst	+91 22 6634 1439	shrikant.chouhan@kotak.com
Kaustav Ray	Editor	+91 22 6634 1223	kaustav.ray@kotak.com
K. Kathirvelu	Production	+91 22 6634 1557	k.kathirvelu@kotak.com

Disclaimer

This document is not for public distribution and has been furnished to you solely for your information and must not be reproduced or redistributed to any other person. Persons into whose possession this document may come are required to observe these restrictions.

This material is for the personal information of the authorized recipient, and we are not soliciting any action based upon it. This report is not to be construed as an offer to sell or the solicitation of an offer to buy any security in any jurisdiction where such an offer or solicitation would be illegal. It is for the general information of clients of Kotak Securities Ltd. It does not constitute a personal recommendation or take into account the particular investment objectives, financial situations, or needs of individual clients.

We have reviewed the report, and in so far as it includes current or historical information, it is believed to be reliable though its accuracy or completeness cannot be guaranteed. Neither Kotak Securities Limited, nor any person connected with it, accepts any liability arising from the use of this document. The recipients of this material should rely on their own investigations and take their own professional advice. Price and value of the investments referred to in this material may go up or down. Past performance is not a guide for future performance. Certain transactions -including those involving futures, options and other derivatives as well as non-investment grade securities - involve substantial risk and are not suitable for all investors. Reports based on technical analysis centers on studying charts of a stock's price movement and trading volume, as opposed to focusing on a company's fundamentals and as such, may not match with a report on a company's fundamentals.

Opinions expressed are our current opinions as of the date appearing on this material only. While we endeavor to update on a reasonable basis the information discussed in this material, there may be regulatory, compliance, or other reasons that prevent us from doing so. Prospective investors and others are cautioned that any forward-looking statements are not predictions and may be subject to change without notice. Our proprietary trading and investment businesses may make investment decisions that are inconsistent with the recommendations expressed herein.

Kotak Securities Limited has two independent equity research groups: Institutional Equities and Private Client Group. This report has been prepared by the Private Client Group. The views and opinions expressed in this document may or may not match or may be contrary with the views, estimates, rating, target price of the Institutional Equities Research Group of Kotak Securities Limited.

We and our affiliates, officers, directors, and employees world wide may: (a) from time to time, have long or short positions in, and buy or sell the securities thereof, of company (ies) mentioned herein or (b) be engaged in any other transaction involving such securities and earn brokerage or other compensation or act as a market maker in the financial instruments of the company (ies) discussed herein or act as advisor or lender / borrower to such company (ies) or have other potential conflict of interest with respect to any recommendation and related information and opinions.

The analyst for this report certifies that all of the views expressed in this report accurately reflect his or her personal views about the subject company or companies and its or their securities, and no part of his or her compensation was, is or will be, directly or indirectly related to specific recommendations or views expressed in this report.

No part of this material may be duplicated in any form and/or redistributed without Kotak Securities' prior written consent.

Registered Office: Kotak Securities Limited, Bakhtawar, 1st floor, 229 Nariman Point, Mumbai 400021 India.