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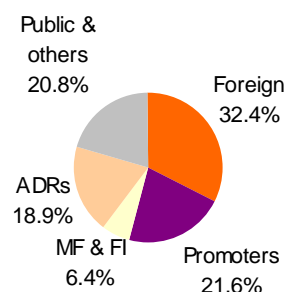
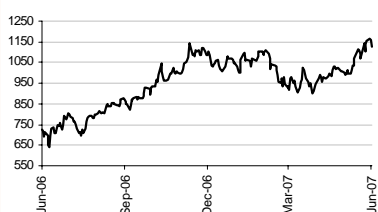
Take Five

Scrip	Reco Date	Reco Price	CMP	Target
♦ Aurobindo	28-May-07	684	717	914
♦ BASF	18-Sep-06	220	254	300
♦ Grasim	30-Aug-04	1,119	2,452	2,975
♦ Infosys	30-Dec-03	689	1,939	2,440
♦ JP Associates	30-Dec-03	125	676	850

HDFC Bank

Evergreen
Stock Update
Price target revised to Rs1,355
Buy; CMP: Rs1,127
Company details

Price target:	Rs1,355
Market cap:	Rs35,995 cr
52 week high/low:	Rs1,274/620
NSE volume: (No of shares)	6.0 lakh
BSE code:	500180
NSE code:	HDFCBANK
Sharekhan code:	HDFCBANK
Free float: (No of shares)	19.0 cr

Shareholding pattern

Price chart

Price performance

(%)	1m	3m	6m	12m
Absolute	15.8	25.6	7.7	57.7
Relative to Sensex	11.0	6.9	2.8	9.3

HDFC Bank has announced its plan to raise additional equity capital of Rs4,200 crore or \$1 billion, whichever is higher. The additional capital is required to strengthen its capital base under the new Basel II guidelines and also fund the future growth plans. We had earlier factored in our valuations a minor equity dilution of 5% during FY2008, based on the historical trend of capital raising programmes of the bank. However, the bank's recently announced capital raising plan is expected to lead to a dilution of 13.3% of the existing equity base and the same is much above our estimate. After the capital raising exercise the Tier-I ratio of the bank is expected to be at 11.6%.

Key points

- The present promoter's (ie the HDFC group) stake stands at 21.6%. With a view to maintaining the stake of the promoter group at or about 23% of the enhanced capital base, the bank would make a preferential offer of 13,582,000 equity shares of Rs10 each to the promoter group at a price of Rs1,023.49 per share determined by the SEBI formula. Thus the promoters would infuse Rs1,390 crore to maintain their stake at 22.8% of the enhanced equity base. The balance amount of the proposed equity capital may be raised either as a domestic public offering or as public or private offerings in one or more international markets. The bank already has 18.9% of its existing capital as American depository shares (ADS).
- We have assumed a follow-on offer price (FOP) of Rs1,000 per share for HDFC Bank which would result in a fresh issue of 2.81 crore equity shares to raise the remaining amount of Rs2,810 crore. The FOP is significantly higher than the bank's FY2007 year-end book value of Rs201 per share. Hence the issue would significantly add to the book value of the bank. The book value is expected to go up by 62% to Rs327 per share by March 2008 if we factor in a stable 31% earnings growth in FY2008.
- We have revised our FY2008 earnings estimate upwards by 1.8% to Rs1,503 crore from Rs1,475 crore. But after factoring in the higher dilution, the earnings per share (EPS) estimate has reported a decline of 7.3% to Rs41.6 from Rs44.9. We have also introduced our FY2009 estimates and at the current market price

Valuation table

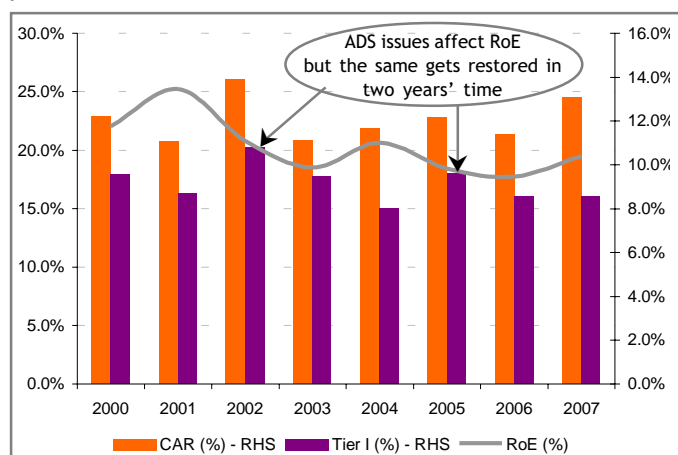
Particulars	FY2005	FY2006	FY2007	FY2008E	FY2009E
Net profit (Rs cr)	665.6	871.2	1141.9	1502.9	1964.2
Shares in issue (cr)	31.0	31.3	31.9	36.1	36.1
EPS (Rs)	21.5	27.8	35.8	41.6	54.4
% y-o-y change	20.1	29.5	28.5	16.4	30.7
PE (x)	52.5	40.5	31.5	27.1	20.7
P/PPP (x)	26.0	17.8	12.8	10.4	8.0
Book value (Rs/share)	145.9	169.2	201.4	326.6	368.6
P/BV (x)	7.7	6.7	5.6	3.5	3.1
Adjusted book value (Rs/share)	143.9	164.3	195.1	319.9	359.5
P/ABV (x)	7.8	6.9	5.8	3.5	3.1
RoNW (%)	17.9	17.7	19.3	15.8	15.6

of Rs1,127 the stock is quoting at 20.7x FY2009E EPS, 8.0x FY2009E pre-provision profits and 3.1x FY2009E book value. The historical one-year forward price-to-book value chart indicates that the HDFC Bank stock consistently trades around the 3.7x price-to-book value band. So maintaining the same price-to-book multiple of 3.7x for HDFC Bank we uphold our Buy recommendation on the stock with a revised price target of Rs1,355.

Excellent track record of restoring RoE

For banks capital is the raw material and hence banks need to raise equity in regular intervals to keep the growth momentum intact. Once a bank raises equity at a premium, the book value of the bank appreciates significantly but at the same time the return on equity (RoE) declines as the net worth increases. Over a period, with higher business growth earnings also increase and the bank is able to restore its earlier RoE. For HDFC Bank the return on average equity is expected to decline to almost 16% after the issue from the current 19% levels. HDFC Bank had last raised \$300 million of capital in January 2005 under an ADS issue. After that issue HDFC Bank has grown at a consistent rate of 31% for the past few years and we feel the bank's RoE would bounce back to the current levels in the next one to two years, as the historical trend suggests. Higher RoE helps banks to command better valuations in terms of their price-to-book value multiple.

HDFC Bank has been very successful in restoring its high RoEs post-dilution



Source: Bloomberg

Branch expansion underway, concerns over growth prospects have faded

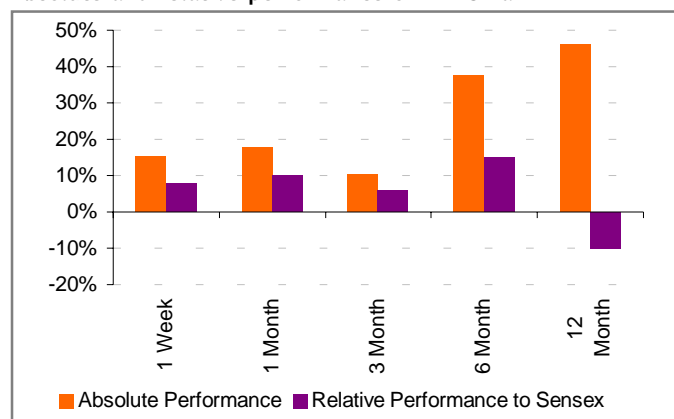
There were some concerns over the growth prospects of the bank after the Reserve Bank of India refused to grant fresh branch licences to the bank when it got involved in an initial public offering related demat scam along with

many other commercial banks. From September 2005 to September 2006 the bank's branch network stood at 535 branches. However, in the second half of FY2007 the bank opened 150 branches of which 100 were opened during Q4FY2007. The bank has also applied for 100 fresh branch licences in FY2008. With the branch expansion underway we feel the growth concerns for HDFC Bank have faded and the bank can maintain its growth momentum in the future.

Stock performance after previous equity issue's announcement

If we see the absolute and relative price performance of HDFC Bank during its previous ADS issue in January 2005, the bank has consistently outperformed the market in all the periods except for the 12-month period from January 2005. After it announced its latest capital raising plans the bank's stock has been one of the outperformers (up 12% since the announcement date compared with the Sensex, which has risen 2% over the same period) in the market. This outperformance is the result of the market's confidence that HDFC Bank's management would restore its RoE within a period of one to two years. If HDFC Bank indeed manages to do so again, it would be a remarkable achievement as most of its peers are unable to achieve such a feat and hence always trade at a discount to the bank.

Absolute and relative performance of HDFC Bank



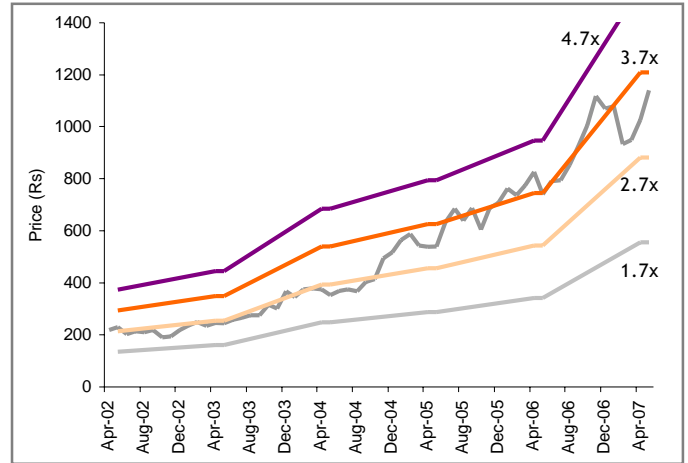
Source: Bloomberg

Valuation and view

We have revised our FY2008 earnings estimate upwards by 1.8% to Rs1,503 crore from Rs1,475 crore. But after factoring in the higher dilution, the EPS estimate has reported a decline of 7.3% to Rs41.6 from Rs44.9. We have also introduced our FY2009 estimates and at the current market price of Rs1,127 the stock is quoting at 20.7x FY2009E EPS, 8.0x FY2009E pre-provision profits and 3.1x FY2009E book value. Looking at the historical one-year forward price-to-book value chart we find that the HDFC

Bank stock consistently trades around the 3.7x price-to-book value band. So maintaining the same price-to-book multiple of 3.7x for HDFC Bank we uphold our Buy recommendation on the stock with a revised price target of Rs1,355.

Historical 1-year forward price to book value ratio



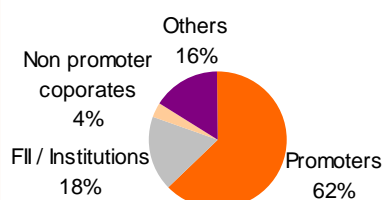
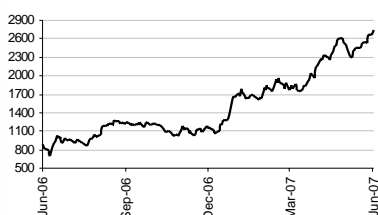
Source: Bloomberg

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

Aban Offshore

Emerging Star
Stock Update
Price target revised to Rs3,110
Buy; CMP: Rs2,750
Company details

Price target:	Rs3,110
Market cap:	Rs10,585 cr
52 week high/low:	Rs2,810/645
NSE volume: (No of shares)	1.2 lakh
BSE code:	523204
NSE code:	ABANLOYD
Sharekhan code:	ABANLOYD
Free float: (No of shares)	1.4 cr

Shareholding pattern

Price chart

Price performance

(%)	1m	3m	6m	12m
Absolute	6.1	51.4	129.7	184.9
Relative to Sensex	1.7	28.9	119.3	97.6

Key points

- Aban Offshore Ltd's (AOL) earnings estimate for FY2009 has been revised upwards by 15.8% to factor in the higher than our assumption of day rates for the six existing assets that are scheduled for renewal over the next three quarters. The revised estimate also factors in the steep appreciation of the rupee and the exchange rate assumption has been revised to Rs41 against the US Dollar (USD) for FY2008 and FY2009.
- In addition to the net positive impact of the re-pricing of its assets at higher day rates and the change in the foreign exchange (forex) rate assumption, the sentiment towards the stock would be boosted by the flow of positive news related to the delivery of two newly built jack-up rigs and the contracts for the same. Moreover, the delivery of its drill ship, Aban Abraham, is also scheduled in August 2007.
- At the current market price the stock trades at 21.8x FY2008 and 7.5x FY2009 estimated earnings. We maintain our Buy call on the stock with a revised price target of Rs3,110 (8.5x FY2009E earnings).

Re-pricing of its existing assets

Over the next three quarters, six of AOL's existing assets are scheduled for renewal of contracts. Going by the recent trend, the re-pricing of its assets is expected at much higher days rates as compared to both the prevailing day rates and our assumptions. Consequently, we have revised the day rate assumptions for the six assets up for renewal in FY2008.

Schedule for re-pricing of assets (day rate in USD)

	Asset	Existing day rates	Assumed day rates	Revised assumption on day rates
Q3CY07	FPU Tahara	26,900	60,000	90,000
Q4CY07	Aban VI	39,000	95,000	125,000
	Aban IV	57,600	125,000	155,000
Q1CY08	Aban V	53,000	125,000	155,000
	Aban III	57,600	125,000	155,000
	Drill ship Frontier Ice	43,000	80,000	110,000

Consolidated financials

Particulars	FY2006	FY2007E	FY2008E	FY2009E
Net profit (Rs cr)	76.8	112.4	485.3	1409.1
Shares in issue (cr)	3.7	3.8	3.8	3.8
EPS (Rs)	20.8	29.2	126.1	366.1
% y-o-y growth	49.9	40.0	331.9	190.4
PER (x)	131.9	94.2	21.8	7.5
Book value (Rs)	116.9	250.8	374.9	739.0
P/BV (Rs)	23.5	11.0	7.3	3.7
EV/EBIDTA (x)	25.7	23.1	10.7	4.1
RoCE (%)	15.9	7.5	19.7	34.2
RoNW (%)	26.3	11.6	33.6	49.5

Rupee appreciation to partly mitigate the upside

We have also factored in the sharp appreciation of the rupee in our estimates and have revised the exchange rate assumption to Rs41 per USD. Though this has partially mitigated the gains from the upside in re-pricing of its assets, the cumulative impact is positive and has resulted in a 15.8% upward revision in the FY2009 earnings estimate.

Other positive news flow

Apart from the steep upward revision in the day rates for its existing assets, the scheduled delivery of two newly built rigs (deep driller 4 and 5) of its subsidiary Sinvest in Q2FY2008 would also boost the sentiments on the counter. We expect the company to announce contracts with day rates of around \$200,000 for the new rigs.

Another additional asset in the form of drill ship Aban Abraham is scheduled to be delivered in August 2007 (after the refurbishment). The company has a confirmed contract at the day rate of \$410,000 (around \$123 million for a year) from Addax Petroleum and Sinopec.

Valuation

At the current market price the stock trades at 21.8x FY2008 and 7.5x FY2009 estimated earnings. We maintain our Buy call with a revised price target of Rs3,110 (8.5x FY2009 earnings).

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

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