



Index

- ♦ Stock Update >> [Bank of India](#)
- ♦ Sector Update >> [Information Technology](#)

Take Five

Scrip	Reco Date	Reco Price	CMP	Target
♦ Aditya Birla Nuvo	06-Dec-05	714	1,825	*
♦ Lupin	06-Jan-06	403.5	621	840
♦ M&M	1-Apr-04	232	828	900
♦ SBI	19-Dec-03	476	2,383	2,680
♦ TCS	6-Mar-06	852	1,100	1,425

*Price target under review

Bank of India

Apple Green

Stock Update

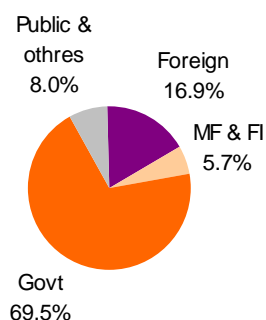
Bol to dilute 5% government stake

Buy; CMP: Rs361

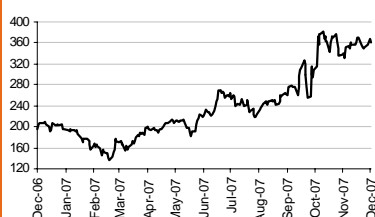
Company details

Price target:	Rs432
Market cap:	Rs17,572 cr
52 week high/low:	Rs415/132
NSE volume: (No of shares)	17.6 lakh
BSE code:	532149
NSE code:	BANKINDIA
Sharekhan code:	BOI
Free float: (No of shares)	14.9 cr

Shareholding pattern



Price chart



Price performance

(%)	1m	3m	6m	12m
Absolute	8.9	40.9	68.9	93.9
Relative to Sensex	3.7	18.0	20.7	30.0

Key Points

- Bank of India's (BoI) board of directors have approved the proposed issuance of 3.8 crore shares through Qualified Institutional Placement (QIP) route. BoI will convene an Extraordinary General Meeting on January 23, 2008 for further proceedings. Meanwhile the Government of India, the largest shareholder in BoI, has approved the QIP placement with a stipulation that the placement should be made with public sector enterprises and mutual funds only.
- The 3.8 crore shares will be issued by diluting 5% government's stake in BoI. Following the QIP placement, the government holding in BoI will be reduced to 65.4% from 69.4% currently. The issuance of 3.8 crore shares, equivalent to 7.8% of the existing equity base of 48.8 crore shares, would help the bank raise around Rs1,325 crore.
- With this, BoI becomes the first public sector bank (PSB) to make a QIP placement. The placement through QIP route will help the bank fetch much better pricing in a shorter time span compared with a follow-on public offering (FPO) considering the relatively smaller size of the issue.

The bank expects to raise around Rs1,325 crore

Currently, our model factors in a mobilisation of Rs1,000 crore at an estimated QIP price of Rs280. However, current prices indicate a floor price of around Rs350, leading to approximate gross proceeds of Rs1,325 crore. We have incorporated the higher capital mobilisation into our forecasts.

Issue to be book value accretive

BoI's book value per share stood at Rs118 as on FY2007 and the issue would definitely be book value accretive for the bank. Based on our revised QIP price estimate, the book value per share will increase by 3.2% and 2.6% to Rs157.2 and Rs184.6 in FY2008 and FY2009 respectively.

Return on equity to fall slightly

However, the return on equity (RoE) is likely to fall by 30 basis points to 21.5% in FY2008 and by 60 basis points to 20.9% in FY2009. We don't expect the bank to raise any equity capital in FY2009.

Valuation table

Particulars	FY2005	FY2006	FY2007	FY2008E	FY2009E
Net profit (Rs cr)	339.8	701.2	1123.2	1551.3	1874.1
Shares in issue (cr)	48.8	48.8	48.8	52.6	52.6
EPS (Rs)	7.0	14.4	23.0	29.5	35.6
EPS growth (%)	-66.3	106.4	60.2	28.2	20.8
PE (x)	51.8	25.1	15.7	12.2	10.1
P/PPP (x)	10.9	10.4	7.4	5.9	5.0
Book value (Rs/share)	88.1	98.9	117.7	157.2	184.6
P/BV (x)	4.1	3.6	3.1	2.3	2.0
Adj book value (Rs/share)	56.2	79.0	104.8	141.7	167.8
P/ABV (x)	6.4	4.6	3.4	2.5	2.2
RONW (%)	8.4	15.4	21.2	21.5	20.9

Capital raising to help improve CAR

The proceeds of the issue should enable Bol fund its new businesses and help it meet new Basel II norms. As of September end, the bank's capital adequacy ratio (CAR) stood at 12.57%, which includes 7.08% tier-I capital. After the issue the tier-I CAR of the bank would increase to 7.8%.

Valuation

With good asset quality, low interest rate risk, focused management and a high RoE of around 20% even after dilution, Bol continues to be one of the best performing PSBs. We expect the bank's earnings to grow at a compounded annual growth rate of 29% for FY2007-09E. At

the current market price of Rs361, the stock is quoting at 10.1x its FY2009E earnings per share, 5x pre-provisioning profit and 2x FY2009E book value. Considering the strong interest of investors in the domestic financial sector, PSBs remain very attractive mainly due to their low valuations and high RoEs. We maintain our Buy recommendation on the stock with a price target of Rs432.

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

Information Technology

Sector Update

Recovery in tech stocks

After drifting down continuously for past few months, tech stocks have recovered part of the lost ground on the back of renewed buying interest over the last couple of weeks. In addition to attractive valuations, the recovery has been driven by external factors such as stability of rupee against the dollar and indications of stable demand outlook by some of the global tech giants during their recent quarterly results.

Rupee stable against the dollar

Since the beginning of the quarter, the rupee has moved in the narrow range of Rs39 to Rs40 against the US dollar. Currently, the rupee trades at Rs39.40/USD as against Rs39.74/USD at the end of September 2007—an appreciation of around 0.9%, which is much lower than the steep appreciation of around 8.5% in the first half of this fiscal.

Exchange rate (end of period rates)

	Rupee/USD	Appreciation (%)
23-Dec-07	39.39	0.9
28-Sep-07	39.74	2.5
29-Jun-07	40.75	5.8
30-Mar-07	43.13	

However, the sudden appreciation of the rupee against the Pound Sterling has come as a surprise. The rupee has appreciated by 3% (to Rs78.02 as compared with Rs80.38) against the Pound Sterling over the past 50 days. This is likely to adversely impact the performance of specific tech stocks like Tech Mahindra (72%) and Mastek (65%) that have relatively higher exposure to the UK market. Among the frontline stocks, HCL Tech has around 25% billing in Pound Sterling (highest) whereas Satyam has relatively lowest exposure (9%).

Results of global tech majors to quell fears on slowdown

Robust results by some of the global tech majors such as Oracle and Accenture were quite encouraging and have helped quell fears about the possible slowdown in the demand environment (due to sub-prime issue). Especially Accenture which reported record order booking of \$5.9 billion and showed a double-digit growth in revenues from financial services sector. Moreover, the management has re-iterated that there are no signs of any slowdown in the overall IT spending as of now.

Valuation gap

In addition to improvement in external factors, attractive valuation is another key reason for the renewed buying interest in tech stocks. About a month back, leading stocks like Infosys and TCS were available at 16-17x their FY2009 earnings, whereas the broad market indices were trading at 17.5-18x FY2009 earnings. Thus, the risk-reward ratio was quite favourable.

In terms of outlook, there could be some pre-result run up in tech stocks in coming weeks. However, the commentary on demand environment would be keenly watched and would provide direction to tech stocks post quarterly results. We prefer Infosys and Satyam among the frontline stocks.

Valuation matrix

	EPS (Rs)			P/E		
	FY07	FY08	FY09	FY07	FY08	FY09
Infosys	66.9	81.0	97.3	27.1	22.4	18.6
TCS	42.2	51.4	61.8	26.1	21.4	17.8
Wipro	20.4	22.6	26.8	26.4	23.8	20.1
Satyam	21.4	25.2	30.3	21.4	18.2	15.1
HCL Tech	18.4	18.5	23.8	17.8	17.7	13.8

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

Evergreen

Housing Development Finance Corporation
HDFC Bank
Infosys Technologies
Reliance Industries
Tata Consultancy Services

Apple Green

Aditya Birla Nuvo
ACC
Apollo Tyres
Bajaj Auto
Bank of Baroda
Bank of India
Bharat Bijlee
Bharat Electronics
Bharat Heavy Electricals
Bharti Airtel
Canara Bank
Corporation Bank
Crompton Greaves
Elder Pharmaceuticals
Grasim Industries
HCL Technologies
Hindustan Unilever
ICICI Bank
Indian Hotels Company
ITC
Mahindra & Mahindra
Marico
Maruti Suzuki India
Lupin
Nicholas Piramal India
Punj Lloyd
Ranbaxy Laboratories
Satyam Computer Services
SKF India
State Bank of India
Tata Motors
Tata Tea
Unichem Laboratories
Wipro

Cannonball

Allahabad Bank
Andhra Bank
Gateway Distriparks
International Combustion (India)
JK Cement
Madras Cement
Shree Cement
Tourism Finance Corporation of India

Emerging Star

3i Infotech
Aban Offshore
Alphageo India
Axis Bank (UTI Bank)
Balaji Telefilms
BL Kashyap & Sons
Cadila Healthcare
Jindal Saw
KSB Pumps
Navneet Publications (India)
Network 18 Fincap
Nucleus Software Exports
Orchid Chemicals & Pharmaceuticals
Patels Airtemp India
Television Eighteen India
Thermax
Zee News

Ugly Duckling

Ahmednagar Forgings
Ashok Leyland
Aurobindo Pharma
BASF India
Ceat
Deepak Fertilisers & Petrochemicals Corporation
Genus Power Infrastructures
ICI India
India Cements
Indo Tech Transformers
Ipca Laboratories
Jaiprakash Associates
KEI Industries
Mold-Tek Technologies
Orbit Corporation
Punjab National Bank
Ratnamani Metals and Tubes
Sanghvi Movers
Selan Exploration Technology
SEAMEC
Shiv-Vani Oil & Gas Exploration Services
Subros
Sun Pharmaceutical Industries
Surya Pharmaceutical
Torrent Pharmaceuticals
UltraTech Cement
Union Bank of India
Wockhardt
Zensar Technologies

Vulture's Pick

Esab India
Orient Paper and Industries
WS Industries India

To know more about our [products and services click here.](#)

Disclaimer

"This document has been prepared by Sharekhan Ltd.(SHAREKHAN) This Document is subject to changes without prior notice and is intended only for the person or entity to which it is addressed to and may contain confidential and/or privileged material and is not for any type of circulation. Any review, retransmission, or any other use is prohibited. Kindly note that this document does not constitute an offer or solicitation for the purchase or sale of any financial instrument or as an official confirmation of any transaction.

Though disseminated to all the customers simultaneously, not all customers may receive this report at the same time. SHAREKHAN will not treat recipients as customers by virtue of their receiving this report.

The information contained herein is from publicly available data or other sources believed to be reliable. While we would endeavour to update the information herein on reasonable basis, SHAREKHAN, its subsidiaries and associated companies, their directors and employees ("SHAREKHAN and affiliates") are under no obligation to update or keep the information current. Also, there may be regulatory, compliance, or other reasons that may prevent SHAREKHAN and affiliates from doing so. We do not represent that information contained herein is accurate or complete and it should not be relied upon as such. This document is prepared for assistance only and is not intended to be and must not alone be taken as the basis for an investment decision. The user assumes the entire risk of any use made of this information. Each recipient of this document should make such investigations as it deems necessary to arrive at an independent evaluation of an investment in the securities of companies referred to in this document (including the merits and risks involved), and should consult its own advisors to determine the merits and risks of such an investment. The investment discussed or views expressed may not be suitable for all investors. We do not undertake to advise you as to any change of our views. Affiliates of Sharekhan may have issued other reports that are inconsistent with and reach different conclusion from the information presented in this report.

This report is not directed or intended for distribution to, or use by, any person or entity who is a citizen or resident of or located in any locality, state, country or other jurisdiction, where such distribution, publication, availability or use would be contrary to law, regulation or which would subject SHAREKHAN and affiliates to any registration or licensing requirement within such jurisdiction. The securities described herein may or may not be eligible for sale in all jurisdictions or to certain category of investors. Persons in whose possession this document may come are required to inform themselves of and to observe such restriction.

SHAREKHAN & affiliates may have used the information set forth herein before publication and may have positions in, or may from time to time purchase or sell or may be materially interested in any of the securities mentioned or related securities. SHAREKHAN may from time to time solicit from, or perform investment banking, or other services for, any company mentioned herein. Without limiting any of the foregoing, in no event shall SHAREKHAN, any of its affiliates or any third party involved in, or related to, computing or compiling the information have any liability for any damages of any kind. Any comments or statements made herein are those of the analyst and do not necessarily reflect those of SHAREKHAN."