Economy News

- The relentless rise of the rupee was partially stemmed on Thursday by the intervention of the Reserve Bank of India (RBI) in foreign exchange markets — possibly the first such instance this year. RBI's intervention is estimated to have been in the range of $400 million. In addition, state-owned oil companies bought dollars worth over $1 billion, taking the total market intervention to $1.5-2 billion. (BS)
- The Centre's indirect tax collection registered a robust 44.4% increase in the first half of the current fiscal to Rs 1506.8bn. The current growth rate in indirect tax revenue receipts is much higher than the 28% targeted for 2010-11 vis-à-vis the revised estimates for 2009-10. With this collection performance in April-September, the Centre has achieved 48% of the indirect tax Budget Estimates of Rs.3150bn for 2010-11. (BL)
- After two years of status quo, hotel chains are set to hike room tariffs this year. The revision across properties will be around 10 to 15%. (BL)

Corporate News

- **Reliance Infrastructure** has tied up loans of Rs.70bn for the development of Mumbai Metro Phase II rail link, which will connect Mumbai's suburbs, Charkop and Mankurd. The financial closure of the project was led by Axis Bank, and witnessed participation from IDBI Bank, Reliance Capital and its associates. This 32-km, fully elevated metro line with 27 stations along the route costs Rs 115bn. It is to be funded through a mix of equity, debt and a grant from the Maharashtra government. The project will get a viability gap grant of Rs 22.98bn from the state government. (BS)
- **Godrej Consumer Products** board has approved merging its unit Godrej Household Products Ltd with itself. The merger has been effective since April 1, 2010, post the acquisition of the the remaining 51% stake in Godrej Sara Lee, owned by its joint venture partner Sara Lee Corp. Following the acquisition, Godrej Consumer has become the largest homegrown household and personal care company in India and second largest household insecticides company in India, the company said. No shares will be issued post-merger as GHPL is a wholly-owned unit of the company. (ET)
- **L&T Infrastructure Finance Co Ltd,** an arm of engineering and construction giant Larsen & Toubro Ltd., plans to raise Rs.7bn by issuing infrastructure bonds to retail investors. L&T Infra plans to raise Rs2bn, with an option to retain oversubscription of up to Rs 5bn. (BS)
- **Ceat** is ramping up production at its newly set up radial tyre plant at Halol, Gujarat, and expects to achieve full capacity realisation by mid-2011. The company has invested about Rs 6bn in the new facility, which has the capacity to make 300,000 passenger car radial tyres (PCRs) and 40,000 truck and bus radial tyres (TBRs) a month. This is keeping in line with the rapid shift to these tyres in the two-wheeler segments. The Halol plant should add Rs 10-12bn to its topline. The capacity of the plant can further be increased from 150 tonnes a day to 550 tonnes. (BL)
- **GMR** has put in an aggressive bid to emerge as a frontrunner for the controlling stake in CIC Energy, the Canadian resources company. The bid, if successful, could value the acquisition at a little over $500 mn. GMR is pitted against JSW Group who have also put in a non-binding bid. Both companies are at various stages of completing a due diligence exercise within their stipulated exclusivity period. At least one more bid is expected from a Chinese party within a fortnight. (BS)
- Gayatri Infra Ventures, a subsidiary of **Gayatri Projects,** is planning to raise around Rs 15bn debt to fund a road project in Andhra Pradesh. The funds will be raised for development of Hyderabad-Karimnagar-Ramagundam road project worth Rs 22bn, to be taken up under BOT (Build, Operate and Transfer) mode. (ET)

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

Equity

		% Chg		
	14 Oct 10	1 Day	1 Mth	3 Mths
Indian Indices				
SENSEX Index	20,498	(0.9)	5.1	14.5
NIFTY Index	6,177	(0.9)	5.4	14.8
BANKEX Index	14,322	(1.1)	5.5	26.7
BSET Index	6,279	0.5	5.5	17.1
BSETCG INDEX	16,107	(1.9)	5.2	7.3
BSEOIL INDEX	10,847	(1.5)	1.8	2.7
CNXMcap Index	9,487	(0.2)	3.9	13.6
BSESMCAP INDEX	10,708	(0.5)	5.1	14.1
World Indices				
Dow Jones	11,095	(0.0)	4.9	7.1
Nasdaq	2,435	(0.2)	5.8	8.3
FTSE	5,727	(0.4)	3.1	9.9
Nikkei	9,584	1.9	(0.0)	(1.8)
Hangseng	23,852	1.7	9.2	17.2

Value traded (Rs cr)

	14 Oct 10	% Chg - Day
Cash BSE	6,357	2.9
Cash NSE	18,533	(5.1)
Derivatives	139,282	(11.1)

Net inflows (Rs cr)

	13 Oct 10	% Chg	MTD	YTD
FII	3,100	342.9	14,559	102,842
Mutual Fund	(337)	29.5	(2,909)	(25,665)

FII open interest (Rs cr)

	13 Oct 10	% Chg
FII Index Futures	16,231	(5.4)
FII Index Options	62,471	1.2
FII Stock Futures	44,843	(0.3)
FII Stock Options	1,342	10.8

Advances / Declines (BSE)

14 Oct 10	A	B	S	Total	% total
Advances	58	712	138	908	35
Declines	146	1169	258	1,573	61
Unchanged	1	88	25	114	4

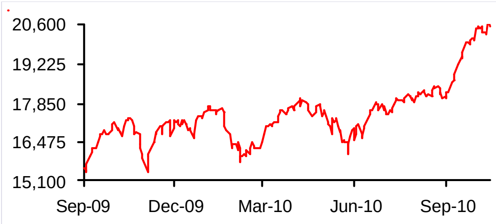
Commodity

		% Chg		
	14 Oct 10	1 Day	1 Mth	3 Mths
Crude (NYMEX) (US$/BBL)	82.7	0.0	8.8	7.9
Gold (US$/OZ)	1,374.8	0.4	8.8	14.1
Silver (US$/OZ)	24.5	2.4	20.0	34.5

Debt / forex market

	14 Oct 10	1 Day	1 Mth	3 Mths
10 yr G-Sec yield %	N/A	N/A	N/A	N/A
Re/US$	44.12	44.51	46.45	46.70

Sensex



RESULT UPDATE

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INFOTECH ENTERPRISES LTD (IEL)

PRICE: RS.175 **RECOMMENDATION: ACCUMULATE**
TARGET PRICE: RS.199 **FY12E P/E: 10.4X**

Infotech's results were a mixed bag. While revenues were higher than what we had expected, EBIDTA margins once again disappointed. Consequently, PAT for 2QFY11 was marginally lower v/s our estimates. EMI volumes were up by 13% and UTG reported a 6% organic growth, which is encouraging. Ramp up of existing projects and new project initiations helped, we opine. The management has indicated billing rate pressures in new projects and at the time of re-negotiating long term agreements. This is of concern to us. Margins were flat (organically) QoQ, which was disappointing in light of the severe fall witnessed in 1Q. The company had to resort to further increments for scarce resources. This validates our concerns about mid sized companies facing pressures on salaries due to strong hiring by larger peers in a buoyant sector. Overall, we reduce our earnings estimates for FY11 to Rs.13.2 v/s Rs.14.1 earlier. We introduce our FY12 estimates and expect EPS to be Rs.16.8. Consequently, our PT stands revised to Rs.199 v/s Rs.189 earlier. At our target price, FY12 estimates will be discounted by about 12x. We believe this discount to larger peers is justified due to the limited visibility on FY12, pressure on billing rates and on margins. We maintain ACCUMULATE. We believe that, Infotech will have to address the above mentioned concerns before we turn more positive on the stock. We are also concerned about the relatively high proportion of project-based revenues (in UTG), client concentration for IEL (Top 5 makes about 40% of revenues) in addition to currency fluctuations.

Summary table

(Rs mn)	FY10	FY11E	FY12E
Sales	9531	11759	14655
Growth %	7.1	23.4	24.6
EBITDA	2083	1963	2472
EBITDA margin %	21.8	16.7	16.9
PBT	2079	1755	2283
Net profit	1708	1472	1870
EPS (Rs)	30.8	13.2	16.8
Growth %	83.8	-13.9	27.0
Net debt	-2293	-3882	-5012
ROE %	20.4	15.2	16.8
ROCE %	24.8	18.1	20.5
CEPS	38.6	17.7	21.8
Op cash flow	1572	1151	2044
NW capital days	66.3	60.0	57.8
P/E (x)	11.4	13.2	10.4
P/BV (x)	2.1	1.9	1.6
DPS (Rs)	2.0	2.0	2.5
EV/Sales (x)	1.8	1.3	1.0
EV/EBITDA (x)	8.2	7.9	5.8
P/Cash Earnings	9.1	9.9	8.0

Source: Company, Kotak Securities - Private Client Research

2QFY11 results - margins disappoint (Consolidated)

(Rs mn)	2QFY11 *	1QFY11	QoQ (%)	2QFY10	YoY (%)
Income	**2954.7**	**2528.0**	**16.9**	**2373.9**	**24.5**
Expenditure	2501.3	2124.9		1858.9	
EBDITA	**453.4**	**403.1**	**12.5**	**515.0**	**-12.0**
Depreciation	124.2	116.8		114.1	
EBIT	**329.2**	**286.3**	**15.0**	**400.9**	
Interest	3.1	2.4		2.4	
Other income	67.6	80.7		44.6	
PBT	**393.7**	**364.6**	**8.0**	**443.1**	**-11.1**
Tax	79.6	74.0		123.5	
PAT	**314.1**	**290.6**	**8.1**	**319.6**	**-1.7**
Sh of profit	16.2	36.8		32.9	
MI	-0.4	1.5		0.7	
Adj PAT	329.9	328.9	0.3	353.2	-6.6
EPS (Rs)	**2.97**	**2.96**		**3.18**	
Margins (%)					
EBDITA	15.3	15.9		21.7	
EBIT	11.1	11.3		16.9	
PAT	10.6	11.5		13.5	

*Source : Company * - including Wellsco WEF 9 Aug 2010*

Revenues were up 17% QoQ - Volume growth encouraging

- Revenues for the quarter grew by about 17% QoQ including the financials of Wellsco, which were consolidated WEF 9th Aug 2010. Organically, revenues were up by about 13.5%, which is encouraging.
- While EMI reported a 13% rise in volumes, UTG also achieved a 6% growth QoQ.
- Infotech bagged 12 new accounts during the quarter comprising 5 in the EMI vertical and 7 in the UTG vertical.
- EMI has been witnessing consistent growth over the past few quarters on the back of significant new additions and scale up of existing accounts.
- Quarterly revenues crossed Rs.2bn during the quarter.
- According to the management, the spending in manufacturing industry has picked up and this has been led by hitech, heavy engineering and aerospace verticals.
- Each of the top 10 clients in EMI vertical grew Q-o-Q.
- We understand growth came due to the scale up is existing accounts and scale up in new accounts from Hamilton Sunstrand and Westinghouse. However, the scale up in Westinghouse will be more gradual.
- Infotech has penetrated the UTC group well with cumulative revenues of more than $250mn. It now operates at ACE Gold level across all divisions of UTC.
- The 6% volume growth in UTG was encouraging after three successive quarters of QoQ declines. This vertical has been facing continuing client issues. The projects-based nature of UTG revenues also adds to the uncertainty.
- The management had indicated in 1Q that, one of the large orders from a leading client (Swisscom) had continued to scale down during the quarter and new projects were expected to start only in 2QFY11. We understand that these projects have indeed started scaling up.
- The business added 7 new customers during the quarter, 4 of which are large "Must Have" accounts with significant scope to scale.
- The management indicated renewed traction in the US telecom and utilities businesses.
- The management has developed initiatives for broadening its concentrated revenue base (Top 5 make 38.4% of 2Q revenues); we have seen early results as this concentration is down from 43.4% in Q4FY10.
- We opine results of this 'diversification and growth' strategy will be important for IEL's broad based growth.
- We note currency fluctuations had a positive impact of about 5% on UTG and about 2% on EMI revenues.
- Management believes the coming quarters are likely to see healthy net employee additions and is targeting a net addition of close to 1600 over FY11E as the macro for IT services is expected to improve meaningfully starting CY10. We believe this will be largely back-ended.

EBIDTA margins were a negative surprise; we had expected improvement QoQ.

- EBITDA margins for the quarter were almost flat QoQ, on an organic basis. This was disappointing, especially after a steep fall in 1Q.
- We had, in fact, assumed an improvement QoQ.
- The company had to make grid corrections - give increments to a section of employees with critical skills. This entailed an additional cost of about Rs.48mn (increments effective Qpril 2010)
- Moreover, the company added senior managerial resources in sales and delivery to ensure sustained growth in future.
- According to the management, currency movements also impacted margins.
- We had indicated that, salary increments, higher levels of attrition (about 18% annualized in 2Q) and need to invest in business generating initiatives will put pressure on margins.

"Other income' and tax rates- in line with expectations

- Infotech reported a other income component of Rs.67mn comprising of interest and dividend income of Rs.41mn and a Rs.27mn gain on forex.
- The company has stated that its forward contracts FY11E onwards qualify for cash flow hedge accounting, and as such will sit in the exchange fluctuation reserve in the balance sheet and will be expensed through the P&L as and when they come up for expiry. We believe this is likely to make the other income line less volatile in a dynamic currency environment.
- The company provided tax at the rate of 20% of PBT and expects the same to move up to about 22 - 23% in FY11.

Acquisition of Wellsco

- During 2QFY11, Infotech acquired Wellsco in an all-cash deal. Wellsco is a focused Engineering Services provider to the US telecommunications industry.
- Wellsco has over 180 employees located across 5 offices. It also has some of the largest telecom companies in the US as long term customers.
- We believe that, on a strategic basis, the acquisition will give Infotech a toehold in to new marquee accounts in the telecommunications and network engineering services space.
- However, we do not expect any major impact on the financials of Infotech. Wellsco added Rs.85mn to 2Q revenues of Infotech.
- The management expects revenues of about Rs.150 - 160mn in 3Q from Wellsco with EBIDTA margins of about 10%.

Reduce FY11 estimates; introduce FY12 numbers

- We have moderated our earnings expectations for FY11, on the back of lower margins for the fiscal.
- We forecast a 23% rise in revenues YoY on the back of higher volumes and Wellsco consolidation.
- However, we believe that, margins will be under pressure and expect the same to fall to 16.7% v/s 21.9% in FY10. This is despite an improvement assumed over 2QFY11 levels.
- PAT is expected to fall by about 14% in FY11E.
- For FY12, we have assumed a revenue growth of about 25%, led by EMI.

- EBIDTA margins are expected to be flat over FY10 and salary increments and rupee (assumed to average Rs.45 per USD in FY12) set off the impact of higher efficiencies and utilisation levels.
- We have assumed tax rate to rise to 24% of PBT in FY12 v/s about 22% in FY11.
- Consequently, PAT is expected to rise by about 27% to Rs.1.87bn, resulting into an EPS of Rs.16.8.
- We expect the company to have net cash of about Rs.5bn by FY12 end, which works out to Rs.47 per share.

Deep relationships with existing customers and differentiated service offering augur well over the longer term

- Infotech has managed to deepen client engagement for clients like SP AusNet, P&W, Bombardier, Tele-Atlas & Swisscom over the recent quarters and enjoys relationships with marquee clients in its verticals.
- Management continues to see opportunities in the higher thrust which aero-space companies (Bombardier, etc are major clients) are giving to efficient and light engine design skill sets- areas where IEL has domain expertise and existing impressive client roster.

We mainain ACCUMULATE recommendation on Infotech Enterprises with a price target of Rs.199

- Its JV with HAL has started netting small sized contract wins. This part of the business is expected to materially benefit from opportunities in the domestic aero business.
- We have in our DCF model built in higher growth rates for Infotech over the medium term, given the improving demand environment.

Concerns

- A sharp acceleration in the rupee from our assumed levels will impact earnings estimates negatively for the company.
- Belying of hopes of a pick up in the economic outlook of major user economies could impact revenue growth of Infotech.

RESULT UPDATE

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AXIS BANK

PRICE: RS.1564 **RECOMMENDATION: BUY**
TARGET PRICE: RS.1825 **FY12E P/E: 15.1X, P/ABV: 2.9X**

Good performance on core operating front; gross NPA was contained due to higher write-offs, despite elevated slippage...

Axis bank reported strong growth in its net interest income (40.5%) buoyed by strong growth in its loan book (36.5% YoY; however, muted growth of 1.8% QoQ) along with 16 bps YoY improvement in margins. Its net profit grew 38.3% on back of robust growth in its core business and moderate growth in provisions & contingencies.

Non-interest income declined marginally to Rs.10.33 bn during Q2FY11 (decline of 3.0% YoY) on back of lower trading profit (decline of 51.6%). During the same period, fee income grew moderately at 18.0% YoY; however, it lagged overall business growth.

It continued to display superior liability franchise which is visible in terms of its CASA mix (41.5% at the end of Q2FY11). Its NIM improved (16 bps YoY) on back of lower cost of funds (decline of 66 bps YoY) which is underpinned by strong CASA mobilization.

In absolute terms, gross NPA inched up marginally (1.6% QoQ) due to higher write-offs, despite elevated slippage witnessed during Q2FY11. During the same period, net NPA declined slightly on higher provisions done by the bank. As a result, coverage ratio improved to 80.1% (including prudential write-offs).

Restructured book has performed better than our expectations. At the end of Q2FY11, cumulative restructured book stands at Rs.20.6 bn (1.86% of net advances).

We have slightly tweaked our earning estimates for FY11 & FY12. We are also rolling over the target multiples to FY12E estimates. We maintain BUY rating on the stock with the target price of Rs.1825 (revised upward from Rs.1490) based on P/ABV of 3.4x its FY12E adjusted book value and P/E of 17.5x its FY12E earnings.

Result Performance (Rs mn)

	Q2FY11	Q2FY10	YoY (%)
Interest on advances	24,290.3	19,501.9	24.6
Interest on Investment	11,235.4	8,595.6	30.7
Interest on RBI/ banks' balances	383.7	300.2	27.8
Other interest	333.1	205.9	61.8
Total interest earned	**36,242.5**	**28,603.6**	**26.7**
Interest expense	20,091.5	17,106.8	17.4
Net interest income	**16151.0**	**11496.8**	**40.5**
Other income	10,332.4	10,655.8	-3.0
Operating Revenue (NII + Other income)	26,483.4	22,152.6	19.5
Operating Expenses	**11,619.9**	**9,095.1**	**27.8**
Payments to / Provisions for employees	4,053.0	3,042.0	33.2
Other operating expenses	7,566.9	6,053.1	25.0
Operating Profit Before Prov. & Cont.	**14,863.5**	**13,057.5**	**13.8**
Provisions & contingencies	3,787.6	4,988.9	-24.1
Provision for taxes	3,724.5	2,752.2	35.3
Net profit	**7,351.4**	**5,316.4**	**38.3**
EPS (Rs.)	**18.01**	**14.64**	**23.0**

Source: Company

Good performance on core operating front

Axis bank reported strong growth in its net interest income (40.5%) from Rs.11.50 bn in Q2FY10 to Rs.16.15 bn in Q2FY11 buoyed by strong growth in its loan book (36.5% YoY; however, muted growth of 1.8% QoQ) along with 16 bps YoY improvement in margins.

During the same period, net profit grew 38.3% from Rs.5.32 bn in Q2FY10 to Rs.7.35 bn in Q2FY11 mainly driven by strong performance on core operating front (NII growth of 40.5%) and 24.1% decline in provisions & contingencies, despite muted non-interest income (decline of 3.0% YoY).

Strong balance sheet expansion

The bank's balance sheet has grown 31.7% YoY (5.5% QoQ) to Rs.1998.3 bn at the end of Q2FY11 from Rs.1517.1 bn at the end of Q2FY10.

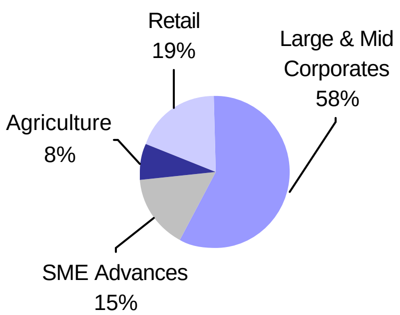
Net advances grew 36.5% YoY (1.8% QoQ) and now stand at Rs.1105.9 bn at the end of Q2FY11. The robust loan growth has come on the back of strong growth witnessed by 'Large & Mid corporate' segment (58.9% growth). However other segments like 'Agri & micro-finance' (14.2%), 'SME' (12.0%) and retail (16.8%) witnessed modest growth.

Trend in Advances (Rs bn)

	1Q 2010	2Q 2010	3Q 2010	4Q 2010	1Q 2011	2Q 2011	YoY Gr (%)
Large & Mid Corporate	388.8	401.0	416.0	525.0	601.3	637.1	58.9
SME Advances	142.3	150.1	165.0	194.8	168.2	168.1	12.0
Agriculture	82.2	79.5	77.7	115.3	105.9	90.7	14.2
Retail	167.8	179.8	189.0	208.2	210.7	210.0	16.8
Total Advances (Rs. Bn)	781.1	810.4	847.7	1,043.4	1,086.1	1,105.9	36.5

Source: Company

Breakup of Advances (Q2FY11)



Source: Company

Total deposits also grew 35.7% YoY (6.4% QoQ) to Rs.1568.9 bn at the end of Q2FY11 from Rs.1156.0 bn at the end of Q2FY10. Out of this, savings and current account deposits grew 35.0% and 27.6 %, respectively. Although term deposits grew at 38.7%, CASA stayed at 41.5%, displaying superior liability franchise.

Deposits (Rs bn)

	Sep-09	Jun-10	Sep-10	Gth QoQ (%)	Gth YoY (%)
Demand	**494.6**	**592.5**	**651.9**	**10.0%**	**31.8%**
Current	214.6	245.5	273.7	11.5%	27.6%
Saving	280.1	347.0	378.1	9.0%	35.0%
Term	661.4	882.3	917.0	3.9%	38.7%
Total	**1156.0**	**1138.5**	**1568.9**	**6.4%**	**35.7%**

Source: Company

Lower non-interest income on back of decline in trading profit

Non-interest income declined marginally to Rs.10.33 bn during Q2FY11 (decline of 3.0% YoY) on back of lower trading profit (Rs.1.08 bn in Q2FY11 as against Rs.2.24 bn in Q2FY10, a decline of 51.6% YoY).

During the same period, fee income grew moderately at 18.0% YoY from Rs.7.19 bn in Q2FY10 to Rs.8.49 bn in Q2FY11; however, it lagged overall business growth.

Margins improved YoY; however it declined sequentially

The NIM improved YoY to 3.68% during Q2FY11 from 3.52% during Q2FY10. However, it declined marginally from 3.71% in Q1FY11, in line with our expectations. We have assumed further decline in NIM (3.57% in FY11 and 3.65% in FY12), as bank has to hike its deposit rates to mobilize more resources, going forward.

Trends in NIM (%)

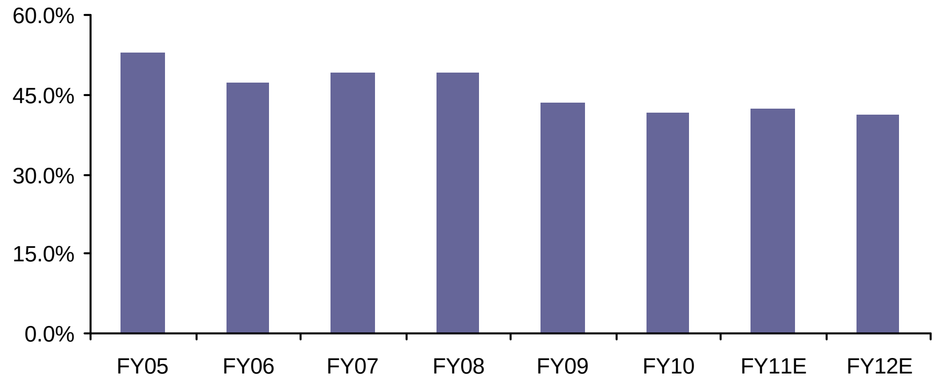
Source: Company

We have seen this bank delivering 3.0%+ NIM during last 13 quarters mainly on the back of lower cost of funds which was underpinned by superior liability franchise.

Healthy operating efficiency

Despite rapid expansion in its branch network, Axis bank has managed its operating efficiency well. Its cost / Income ratio improved from 52.9% in FY05 to 41.4% in FY10. During Q2FY11, it stood at 43.9%, which is comparable with the best in the industry. We are expecting C/I ratio to stabilize at ~42% levels in next two years.

Cost / Income ratio (%)



Source: Company, Kotak Securities - Private Client Research

Stable Asset Quality - gross NPA inched up marginally; however net NPA declined sequentially

In absolute terms, gross NPA inched up marginally (1.6% QoQ) due to higher write-offs (Rs.2.94 bn), despite elevated slippage (Rs.1.3 bn; slippage ratio: Rs.1.71%) witnessed during Q2FY11. During the same period, net NPA declined slightly on higher provisions done by the bank. As a result, coverage ratio improved to 80.1% (including prudential write-offs).

In percentage terms, gross NPA as a proportion of gross customer assets improved to 1.12% at the end of Q2FY11 as compared to 1.21% at the end of Q2FY10 and 1.13% at the end of Q1FY11.

During the same period, net NPA as percentage net customer assets improved to 0.34% at the end of Q2FY11 as compared to 0.45% and 0.35% at the end of Q2FY10 and Q1FY11, respectively.

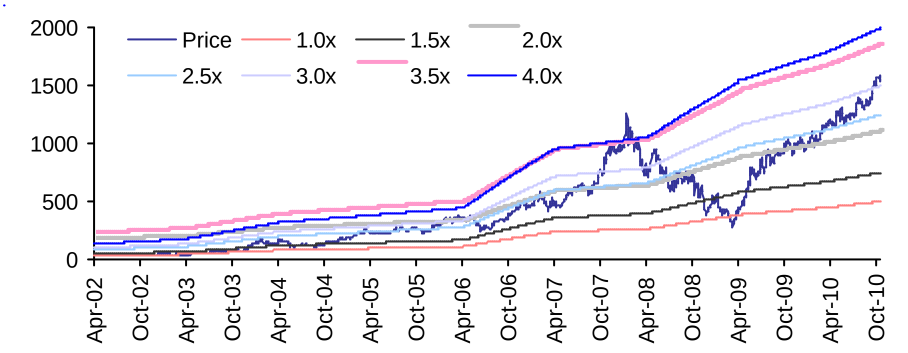
Restructured book has performed better than our expectations. At the end of Q2FY11, cumulative restructured book stands at Rs.20.6 bn (1.86% of net advances).

Valuations & recommendation

At the current market price of Rs.1564, the stock is trading at 15.1x its FY12E earnings and 2.9x its FY12E ABV.

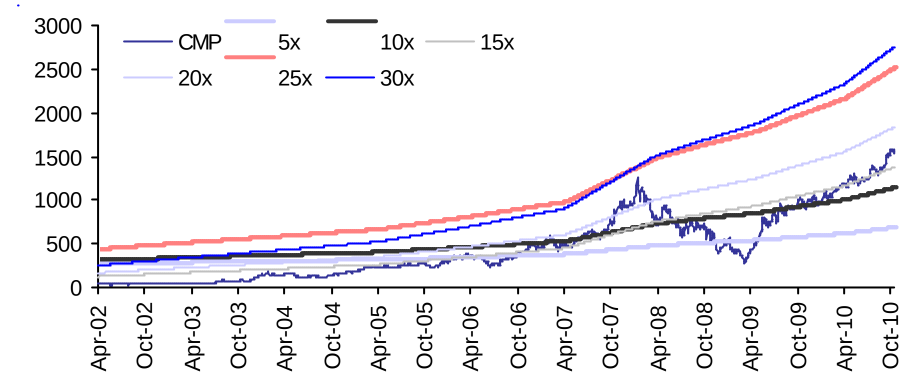
We have slightly tweaked our earning estimates for FY11 & FY12. Now, we expect net profit for FY11E and FY12E to be Rs.31.67 bn and 42.25 bn, respectively. This would result into an EPS of Rs.77.7 and Rs.103.7 for FY11E and FY12E, respectively. Adjusted book value for FY11E and FY12E is estimated to be Rs.450.8 and Rs.536.9, respectively.

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 BUY on Axis Bank with a revised price target of Rs.1825

We are also rolling over the target multiples to FY12E estimates. We maintain BUY rating on the stock with the target price of Rs.1825 (revised upward from Rs.1490) based on P/ABV of 3.4x its FY12E adjusted book value and P/E of 17.5x its FY12E earnings.

We accord similar multiple witnessed during FY07-08, when economy was doing well. We believe, Axis bank is likely to continue to trade at a premium valuation vis-à-vis its peers on back of robust business growth (faster than the system growth), quality liability franchise, stable asset quality, healthy operating efficiency and robust return ratios (RoA & RoE).

Key data

(Rs bn)	2009	2010	2011E	2012E
Interest income	108.35	116.38	149.05	186.95
Interest expense	71.49	66.34	84.93	105.60
Net interest income	**36.86**	**50.04**	**64.12**	**81.35**
Other income	28.97	39.46	43.80	54.46
Gross profit	37.25	52.41	62.20	80.20
Net profit	**18.15**	**25.15**	**31.67**	**42.25**
Gross NPA (%)	1.0	1.1	1.2	1.2
Net NPA (%)	0.4	0.4	0.3	0.3
Net interest margin (%)	3.3	3.5	3.6	3.7
RoE (%)	19.6	19.5	18.2	20.6
RoAA (%)	1.41	1.53	1.57	1.71
Dividend Yield (%)	0.6	0.8	0.8	0.9
EPS (Rs)	**50.6**	**62.1**	**77.7**	**103.7**
Adjusted BVPS (Rs)	262.7	385.6	450.8	536.9
P/E (x)	**30.9**	**25.2**	**20.1**	**15.1**
P/ABV (x)	6.0	4.1	3.5	2.9

Source: Company, Kotak Securities - Private Client Research

RESULT UPDATE

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LIC HOUSING FINANCE

PRICE: RS.1458 **RECOMMENDATION: REDUCE**
TARGET PRICE: RS.1300 **FY12E P/E:12.8X**

- **Healthy mortgage loan growth of 36% yoy drives the earnings; overall performance better than our expectation with net profit growth of 37% yoy to Rs.2.34bn**
- **Core interest income remains strong during Q2FY11; NIM under pressure due to rising cost of fund**
- **Asset quality improves sequentially, along with improved provision coverage; LICHF targets a 0.5% GNPA level**
- **Rolling over our estimates to FY12, revising our price target to Rs. 1300, valuations appear rich therefore maintain Reduce recommendation**

Summary table

(Rs Bn)	FY10	FY11E	FY12E
Interest Income	32.8	46.3	58.2
Interest expenses	24.0	34.1	43.5
NII	8.9	12.2	14.7
Non-Int Income	1.9	3.3	2.9
Total Income	10.7	15.5	17.6
Optg Profit	8.8	13.7	15.5
PAT	6.7	9.6	10.9
Gross NPA (%)	0.7	0.7	0.7
Net NPA (%)	0.1	0.1	0.1
NIMs (%)	2.7	2.8	2.7
RoA (%)	2.0	2.2	2.0
RoE (%)	23.7	25.6	24.1
Divi. Payout (%)	22.0	0.0	0.0
EPS (Rs)	70.2	101.1	114.3
BV (Rs)	356.6	432.3	517.9
Adj. BV (Rs)	351.7	426.9	512.1
P/E (x)	20.8	14.4	12.8
P/ABV (x)	4.1	3.4	2.8

Source: Company, Kotak Securities - Private Client Research

Result highlights

(Rs bn)	Q2FY11	Q1FY11	Q2FY10	YoY (%)	QoQ (%)	H1FY11	H1FY10	YoY (%)
Interest income	11.0	10.1	8.3	31.8	8.7	21.1	16.1	30.8
Interest expenses	7.4	6.8	6.0	23.4	8.9	14.2	11.7	21.1
Net Income	**3.6**	**3.4**	**2.4**	**53.0**	**8.2**	**7.0**	**4.5**	**56.4**
Other Income	0.1	0.0	0.0	71.2	192.7	0.1	0.1	63.6
Total Income	3.7	3.4	2.4	53.3	9.5	7.1	4.5	56.5
Operating Expense	0.5	0.4	0.6	(8.8)	27.6	0.9	0.9	2.7
Operating profit	**3.2**	**3.0**	**1.9**	**71.7**	**7.1**	**6.2**	**3.6**	**69.3**
Provi. for loan loss	0.0	0.1	(0.4)			0.1	(0.3)	
Profit before tax	**3.2**	**2.9**	**2.3**	**40.3**	**10.3**	**6.1**	**4.0**	**53.6**
Provisions for taxes	0.8	0.8	0.6			1.6	1.0	
Profit after tax	**2.3**	**2.1**	**1.7**	**37.0**	**10.6**	**4.5**	**2.9**	**51.3**
EPS (Rs)	**24.7**	**22.3**	**18.0**			**47.0**	**31.1**	
Cost/Income ratio (%)	13.6	11.7	22.9			12.7	19.3	
Effective Tax rate (%)	26.6	26.7	24.8			26.6	25.6	
Sanctions	76.7	53.5	53.7	42.9	43.4	130.2	82.2	58.3
Disbursements	51.0	33.9	37.6	35.8	50.4	84.9	61.9	37.3
Mortgaged Loan	433.8	400.3	318.9	36.0	8.4	433.8	318.9	36.0
GNPA (%)	0.74	0.92	1.28			0.74	1.28	
NNPA (%)	0.21	0.35	0.62			0.21	0.62	

Source: Company

Healthy mortgage loan growth drives the earnings; overall performance better than our expectation

LICHF's Q2FY11 performance is better than our expectations, supported by strong growth in advances and improvement in assets quality. LICHF has reported mortgage growth of 36% yoy to Rs. 433.8bn aided by a 35.8% yoy growth in disbursements to Rs. 51.0bn. The strong growth in business is attributable to improved retail demand; however, LICHF's developer's loan sanctions and disbursements have also grown at relatively faster pace. LICHF's outstanding developer's loan book forms close to 11% (10% in Q1FY11) of the total loan book.

Core interest income remains strong during Q2FY11; NIM under pressure due to rising cost of fund

LICHF has reported a strong growth in its core earnings supported by improved interest income and steady growth in its processing fee income. Overall interest income (including retail and developers) grew by 31.7% yoy to Rs.10.4bn from Rs.7.8bn in Q2FY10. Growth in interest income from developer's loan book was relatively strong at 58.7% in the backdrop of strong growth in developers loan and higher interest yields.

NIM for Q2FY11 witnesses some pressure following increase in the cost of funds as the overall interest rates have started moving northwards during Q2FY11. LICHF reported a NIM of 2.94% as compared to 3.0% (lower by 6bps qoq) in Q1FY11. NIM is impacted by a 6bps sequential increase in cost of funds to 7.9% and also due to pressure on yield on developer's loan.

With the 50 bps increase in benchmark rate and re-pricing of its assets, LICHF is expected to maintain NIM at around 2.9%-3% for FY11 since close to 65% of its loan book is on a floating rate while 58% of its liabilities are at fixed rate.

Asset quality improves sequentially, along with improved provision coverage; LICHF targets a 0.5% GNPA level

LICHF has reported improvement in its asset quality for Q2FY11, with gross NPA of 0.74% as compared to 0.92% in Q1FY11. Its net NPA ratio has also improved to 0.21% from 0.35% seen in Q1FY11 on the back of steady recoveries and sequentially improved provision coverage of 71.8% from 62%. For FY11, LICHF is targeting to maintain provision coverage of over 82% and expecting material improvement in its asset quality.

Rolling over our estimates to FY12, revising our price target to Rs. 1300, valuations appear rich therefore maintain Reduce recommendation

We maintain REDUCE recommendation on LIC Housing Finance with a revised price target of Rs.1300

We are now rolling over estimates for LICHF to FY12 and accordingly revising our price target for the stock (dividend discount model based) to Rs. 1300 (includes value of 20% stake in LICMF). We expect advances growth of 30%yoy for FY11 and 23% yoy for FY12 to Rs. 495.0bn and Rs.606.4bn respectively. We expect net profit of Rs.9.6bn and EPS of Rs.101 for FY11 and net profit of Rs.10.85bn and EPS of Rs.114 for FY12.

At the current market price the stock is trading at P/Ex of 14.4x and P/ABV of 3.4x its FY11 estimates and P/Ex of 12.8x and P/ABVx of 2.8x its FY12 estimates. LICHF's valuations appear rich and therefore we continue to maintain our **REDUCE** recommendation for the stock.

Bulk deals

Trade details of bulk deals

Date	Scrip name	Name of client	Buy/ Sell	Quantity of shares	Avg. price (Rs)
14-Oct	Amar Remedies	Rashmikant Hasmukhlal Kamdar	B	132,149	123
14-Oct	Anjani Fabrics	Sarda Madhusudan Narayanlal	B	53,000	60
14-Oct	Anjani Fabrics	Shivkumar Krishnakumar Vaid	S	53,494	60
14-Oct	Anjani Fabrics	Kimi Harmindersingh Arora	S	60,000	60
14-Oct	Arrow Sec	Kamlesh Nahar	B	50,000	70
14-Oct	Arsi Cosmetics	Susmit Bhupendrabhai Sutaria	S	50,000	18
14-Oct	Aryaman Fin	Rajesh H Huf	B	100,000	17
14-Oct	Aryaman Fin	Palaparthy Venkataramana Murthy	S	125,210	17
14-Oct	Beryl Drugs	Saurabh Kumar Rasiklal Gandhi	B	28,796	35
14-Oct	Beryl Drugs	Abhirati Trading Private Ltd	S	58,296	36
14-Oct	Bharat Gears	Chander Kanta	B	48,298	90
14-Oct	Chartered Log	Jmp Securities Pvt Ltd	S	315,211	18
14-Oct	Choice Intl	Yash Management And Satellite Limited	B	34,000	137
14-Oct	Dazzel Conf	Suman Gupta	B	36,699	30
14-Oct	Dazzel Conf	Hemendra Harilal Gusani	S	40,000	29
14-Oct	Dazzel Conf	Rohilkhan Sharesfinancial Servicespvtltd	S	100,500	30
14-Oct	Dmc Edu	A.A.Doshi Share & Stock Brokers Ltd	S	165,247	16
14-Oct	Gujarat Capital	Prakash Biharilal Dhebar	S	175,000	123
14-Oct	Ifl Promoters	Krishna Infomedia Limited	B	35,840	17
14-Oct	Ifl Promoters	Jitendra Singh	B	21,500	18
14-Oct	Ifl Promoters	Shark Communications Pvt Ltd	S	30,908	18
14-Oct	Ifl Promoters	Sl Gupta And Company	S	21,512	17
14-Oct	Jaihind Syn	Mihir Dhiraj Karia	S	65,102	37
14-Oct	Jaihind Syn	Manish Shashikant Turakhia	S	39,000	34
14-Oct	Kadvani Sec	Cosco Vanijya Pvt Ltd	B	22,000	18
14-Oct	Karuturi Glob	Aashka Construction Private Limited	B	2,549,179	37
14-Oct	Karuturi Glob	Satyasai Ivnestments	B	5,000,000	36
14-Oct	Kay Power	Bhaijee Portfolio Ltd.	B	200,000	21
14-Oct	Kay Power	Laxmi Devi	S	125,000	21
14-Oct	Kay Power	Geetika Goyal	S	100,000	21
14-Oct	Khaitan Elect	Haridarshan Sales Private Limited	B	117,182	202
14-Oct	Master	Perla T N V A R Sudarsan	B	28,005	54
14-Oct	Midfield Ind	Apv Shares & Securities Private Limited	B	325,000	431
14-Oct	Money Matters	Sparrow India Diversified Opp Fund I	B	200,000	695
14-Oct	Money Matters	Jigyasa Properties Private Limited	S	180,729	695
14-Oct	Muthoot Cap	Krishnakumar Arthilakshmi	B	35,315	191
14-Oct	Ncl Research	Santosh Banwarilal Agrawal	S	20,000	180
14-Oct	Ncl Research	Sanjay Jaideo Poddar	S	25,000	180
14-Oct	Parichay Invest	Amul Gagabhai Desai	B	11,000	76
14-Oct	Parichay Invest	Dhirenkumar Dharamdas Agarwal	B	10,450	76
14-Oct	Polypro Fibrils	Ajay Ravindra Shah	B	26,052	28
14-Oct	Quintegra Sol	Sainath Herbal Care Marketing	B	391,326	14
14-Oct	Rcl Foods	Primex Ltd	S	25,000	63
14-Oct	Refnol Resins	Bharathi Yadav Mamilla	S	17,629	17
14-Oct	Reliance Chem	Venture Broking Pvt. Ltd	B	38,943	97
14-Oct	Sacheta Metals	Saroj Sugandhi	B	40,000	72
14-Oct	Sanjivani Par	Sainath Herbal Care Marketing Pvt Ltd	B	30,670	66
14-Oct	Seasons Furn	Madhukar Gaddam	S	66,350	13
14-Oct	Shah Foods	Anita Rakeshkumar Ranka	B	5,165	78
14-Oct	Shah Foods	Rajiv Sumantkamat	S	3,723	77
14-Oct	Sharyans Res	India Capital Management Ltd A/C India Capitalopportunities 1 Ltd	S	260,000	124

Trade details of bulk deals

Date	Scrip name	Name of client	Buy/ Sell	Quantity of shares	Avg. price (Rs)
14-Oct	Southern Onlin	Standard Investments	S	280,000	25
14-Oct	Sterling Hol Res	Edelcap Securities Ltd	B	586,054	94
14-Oct	Sterling Hol Res	Madhukar Chimanlal Sheth	S	586,054	95
14-Oct	Sumedha Fisc	Camphar Securities and Advisory Pvt Ltd	S	46,996	39
14-Oct	Sumedha Fisc	Amrita Singh	S	35,874	39
14-Oct	Super Crop	Kalpana Madhani Securities Pvt Ltd	B	30,000	19
14-Oct	Tgf Media Sy	Silver Golden Property Develop Fin Inv	B	20,200	14
14-Oct	Tgf Media Sy	Santhanam Dehaleesan	S	20,200	14
14-Oct	Tutis Tech	Shriparasramholdingpvtltd	B	103,000	40
14-Oct	Twentyfirst Cent	Ashwani Khurana	S	100,000	43
14-Oct	Unisys Soft	Rajesh Gadodia	B	116,299	79
14-Oct	Vikram Thermo	Narendra Gupta	B	15,000	25
14-Oct	Vikram Thermo	Meenaxi Gupta	B	40,000	25
14-Oct	Vikram Thermo	Dhara Himesh Patel	S	54,285	25
14-Oct	Webel Sl Ene	The Royal Bank Of Scotland Plc As Trustee Of Jupiter India Fund	B	184,936	117

Source:

Gainers & Losers

Nifty Gainers & Losers

	Price (Rs)	chg (%)	Index points	Volume (mn)
Gainers				
Infosys Tech	3,185	1.0	5.3	1.2
Tatta Steel	653	2.3	3.1	8.0
Sesa Goa	375	4.4	2.0	7.9
Losers				
L&T	2,012	(3.2)	(11.9)	1.6
Reliance Ind	1,059	(1.3)	(8.0)	5.6
ICICI Bank	1,140	(1.6)	(7.4)	2.8

Source: Bloomberg

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