Kotak Institutional Equities

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Contents

Updates

Sun TV Network: Proposed cable TV network by state government, start of new channels may have potential negative ramifications

Bajaj Allianz Life Insurance: Withdrawal of actuarially-funded product could impact growth and margin, we have enough cushion build in our model

Banks/Financial Institutions: Banks proceed with deposit rate cut post RBI policy, likely to maintain/improve margins

EQUITY MARKETS

		Change, %		
India	**10-Aug**	**1-day**	**1-mo**	**3-mo**
Sensex	14,868	(1.5)	(2.6)	7.8
Nifty	4,333	(1.6)	(3.8)	6.3
Global/Regional indices				
Dow Jones	13,240	(0.2)	(4.8)	(0.7)
Nasdaq Composite	2,545	(0.5)	(6.0)	(0.7)
FTSE	6,038	(3.7)	(10.1)	(8.0)
Nikkie	16,845	0.5	(7.6)	(4.0)
Hang Seng	21,837	0.2	(5.5)	6.7
KOSPI	1,842	0.7	(6.2)	14.9

Value traded - India

			Moving avg, Rs bn	
	10-Aug		**1-mo**	**3-mo**
Cash (NSE+BSE)	161.8		174.6	154.2
Derivatives (NSE)	488.7		327.2	311.1
Deri. open interest	844.3		759.0	518.6

Forex/money market

		Change, basis points		
	10-Aug	**1-day**	**1-mo**	**3-mo**
Rs/US$	40.6	-	20	(25)
6mo fwd prem, %	0.7	(25)	71	24
10yr govt bond, %	8.0	-	2	(17)

Net investment (US$mn)

	9-Aug		**MTD**	**CYTD**
FIIs	95		1,759	9,890
MFs	11		112	(242)

Top movers -3mo basis

		Change, %		
Best performers	**10-Aug**	**1-day**	**1-mo**	**3-mo**
Thermax	642	0.7	14.8	56.7
Reliance Energy	748	(1.3)	10.8	47.1
Reliance Cap	1,114	0.5	(6.5)	41.1
Crompton Greaves	295	1.7	13.8	39.9
SBI	1,607	(2.6)	3.4	39.9
Worst performers				
Escorts	90	(1.4)	(23.1)	(27.4)
Polaris	121	4.0	(19.2)	(26.6)
Bharat Forge	274	(0.7)	(13.5)	(20.8)
Essel Propack	60	(0.5)	(6.9)	(20.5)
Raymond	273	(1.2)	(8.8)	(19.6)

News Roundup

Corporate

- NTPC Ltd is considering the infusion of Rs5 bn as additional equity to part finance the completion of the liquefied natural gas terminal at the 2150 MW Dabhol plant of Ratnagiri gas and power.(BS)
- Air India is planning to partner India's largest private airline Jet Airways in areas ranging from infrastructure to staff training in order to improve the quality of service and to gain cost efficiencies on the highly competitive international routes.(FE)
- ONGC-Mittal Energy has won the offshore block NCMA-2 in Trinidad and Tobago beating Britain's Centrica Plc.(BS)

Economic and political

- Implementation of Conditional access system(CAS) has been delayed by at least six to eight months for about 5 mn cable television households in Delhi,Mumbai and Kolkatta.(BS)
- The proposed India-Iran double taxation avoidance agreement has run into a hurdle over the issue of what will constitute the definition of Indian companies 'permanent establishment' in Iran.

Source: ET = Economic Times, BS = Business Standard, FE = Financial Express, BL = Business Line.

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Media

SUTV.BO, Rs359	
Rating	U
Sector coverage view	Cautious
Target Price (Rs)	310
52W High -Low (Rs)	462 - 264
Market Cap (Rs bn)	141.5

Financials

March y/e	2007E	2008E	2009E
Sales (Rs bn)	6.8	9.5	12.2
Net Profit (Rs bn)	2.5	3.9	5.3
EPS (Rs)	6.3	10.0	13.4
EPS gth	*20.8*	*57.4*	*34.6*
P/E (x)	56.6	36.0	26.7
EV/EBITDA (x)	31.7	20.0	14.7
Div yield (%)	0.4	0.7	1.0

Shareholding, June 2007

	Pattern	% of Portfolio	Over/(under) weight
Promoters	93.0	-	-
FIIs	4.4	0.0	(0.1)
MFs	0.9	0.0	(0.1)
UTI	-	-	(0.1)
LIC	-	-	(0.1)

Sun TV Network: Proposed cable TV network by state government, start of new channels may have potential negative ramifications

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- Tamil Nadu government planning to start cable distribution
- Kalaignar TV of Tamil Nadu's chief minister set to launch shortly
- Competition for Sun's channels has emerged of late; more channels starting up

According to a report in the Business Standard (August 10), the Tamil Nadu government may enter cable TV distribution through a state government enterprise. We await details of the state government's plans regarding distribution of cable TV in Tamil Nadu. However, if implemented, this may potentially weaken the stranglehold of extant MSOs and provide an alternative distribution system for extant and new channels. We are not factoring in any negative impact of this potential development on Sun TV and retain our earnings. Key upside risks to our 12-month DCF-based target price of Rs310 stem from higher-than-expected ad and subscription revenues.

More details required. We assume the state government will start cable TV distribution as a multi-system operator (MSO) rather than build a full-fledged cable distribution system connecting households. The latter would be extremely expensive and may incite opposition from extant local cable operators. Nonetheless, an MSO may have some influence (not that we are suggesting a MSO does or will) on the delivery of channels into households through (1) position of the channel in the spectrum; the MSO can influence viewership of a channel by putting it on the coveted prime band or putting in the lower bands, (2) quality of signal of a channel and (3) disruption of signals.

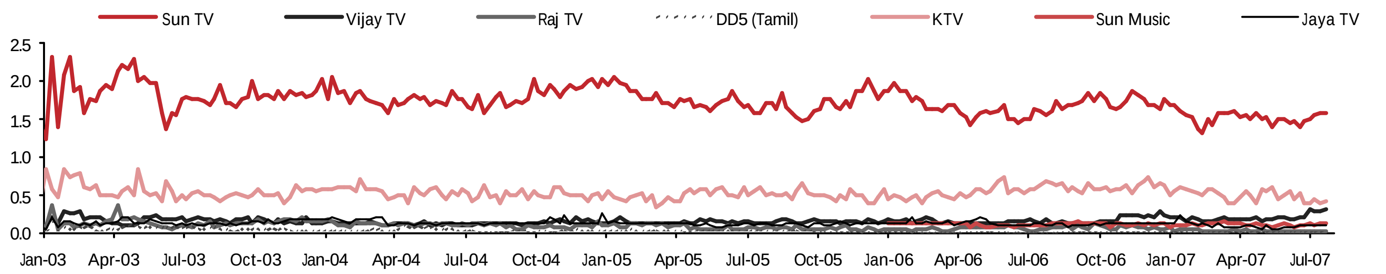
Too early to gauge the impact on Sun TV. We think it is very early to gauge the potential impact on Sun TV (if any) of the state government's plan to start cable distribution in Tamil Nadu. Sun TV operates the most popular Tamil language channels and we believe Sun TV's success only partly emanates from Sun TV group's strong position in cable distribution in Tamil Nadu. Sumangli Cable Vision, an affiliate of Sun TV and a multi-system operator in several large cities in Tamil Nadu, is the leading player in cable TV distribution in Tamil Nadu. We note that Sun TV's Kannada, Malayalam and Telugu channels are market leaders in their respective categories although they do not have the dominant position of Sun TV's Tamil channel. However, the Sun TV group does not have any significant presence in cable distribution in those states.

New channels may pose a threat to Sun's high market shares. We see potential risks to Sun's high market shares from entry of new channels in various South Indian-language markets. In particular, in the crucial Tamil market, Kalaignar TV, started by the family of the chief minister of Tamil Nadu, may emerge as a strong competitor to Sun TV; it has purchased the telecast rights of two of the biggest Tamil hits. Sun TV has very high market share in the Tamil market, which increases the risk of erosion of market share from new competition particularly from a potentially strong one such as Kalaignar TV. Raj TV's ratings have picked up, helped by improved programming.

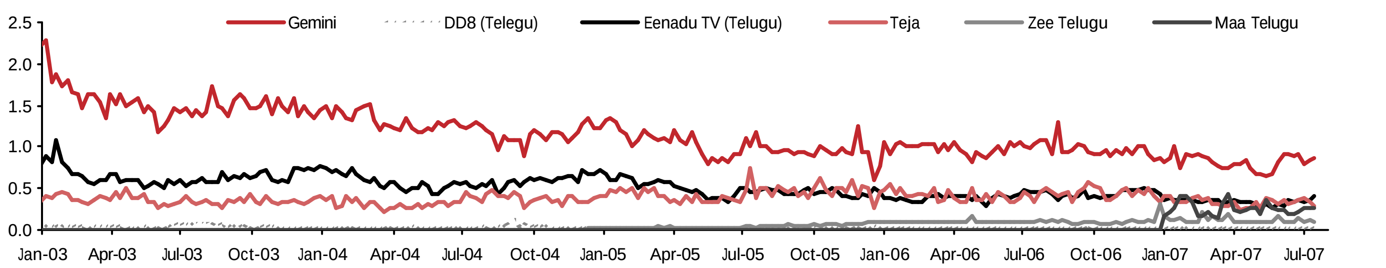
In other markets, Sun TV has lost some ground of late or has seen increased competition from new entrants. In the Malayalam market (small for Sun TV though), Asianet has emerged as the market leader and opened up a big gap with Sun's Surya TV. In the Telugu market, Maa Telugu (a new channel) has emerged as a strong channel and is competing with Eenadu TV and Sun's Teja TV for the second position; Sun's Gemini TV remains the market leader by a fair margin though.

Regional language channels-South, primetime ratings (%)

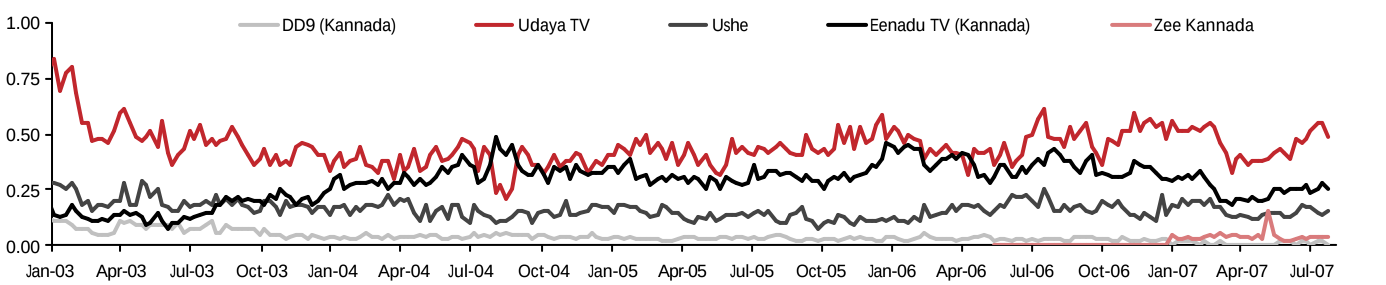
Primetime ratings - Tamil channels



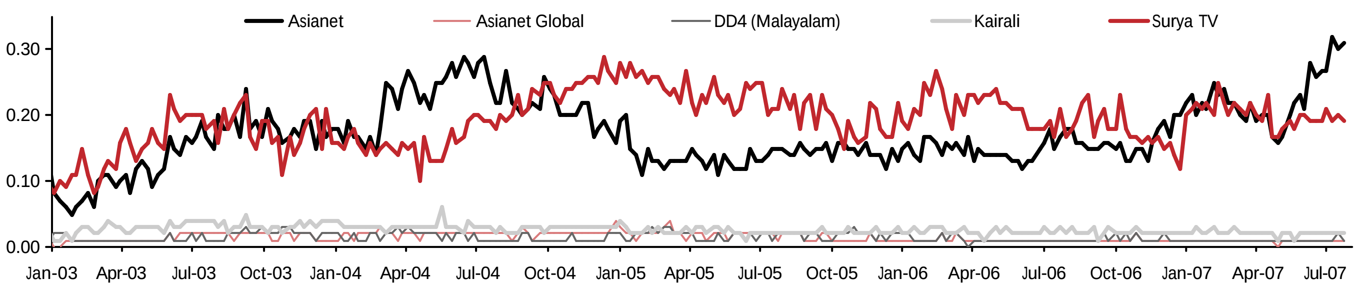
Primetime ratings - Telugu channels



Primetime ratings - Kannada channels



Primetime ratings - Malayalam channels



Source: TAM Media Research, compiled by Kotak Institutional Equities.

We model Sun's revenues to grow strongly led by growth in pay-TV and FM radio revenues

Derivation of revenues of Sun TV/Sun TV Network, March fiscal year-ends, 2005-2013E (Rs mn)

	2005	2006	2007	2008E	2009E	2010E	2011E	2012E	2013E
Advertisement revenues									
Sun TV	1,038	1,085	1,491	1,858	2,130	2,442	2,799	3,147	3,538
K TV	100	123	141	162	182	205	226	248	273
Sun News	28	39	47	55	62	70	78	86	95
Sun Music	2	94	122	163	183	206	232	255	281
Sun Kids	—	—	—	151	209	249	297	345	399
Sun Documentary	—	—	—	64	164	196	233	271	313
Sun Sports	—	—	9	58	65	73	82	91	100
Surya TV	226	386	476	574	663	764	881	1,003	1,142
Kiran TV	3	28	40	59	82	92	104	114	125
Gemini TV	—	—	467	596	686	789	907	1,032	1,173
Teja TV	—	—	44	51	57	64	70	77	85
Gemini News	—	—	35	41	46	52	58	64	70
Gemini Music	—	—	75	100	113	127	142	157	172
Udaya TV	—	—	428	535	615	708	814	926	1,053
Udaya Movies	—	—	43	49	55	62	68	75	82
Udaya Varthegulu (News)	—	—	25	29	33	37	42	46	50
Udaya TV 2	—	—	30	40	45	51	57	63	69
Total TV ad revenues	**1,397**	**1,755**	**3,472**	**4,584**	**5,389**	**6,187**	**7,091**	**7,999**	**9,022**
Radio	144	158	168	658	1,375	1,862	2,304	2,816	3,027
Total advertisement revenues	**1,542**	**1,913**	**3,640**	**5,242**	**6,764**	**8,048**	**9,395**	**10,815**	**12,050**
Broadcast revenues (or slot sales)									
Sun TV	455	531	607	698	768	845	930	1,023	1,125
Surya TV	38	60	60	69	75	83	91	100	111
Gemini TV	—	—	332	381	419	461	507	558	614
Udaya TV	—	—	86	101	111	123	135	148	163
Total broadcast revenues	**493**	**591**	**1,085**	**1,250**	**1,375**	**1,512**	**1,663**	**1,830**	**2,012**
Total ad and broadcast revenues	**2,034**	**2,504**	**4,725**	**6,491**	**8,139**	**9,560**	**11,058**	**12,644**	**14,062**
Pay-TV revenues									
Sun TV	398	447	659	1,335	2,016	2,473	2,874	3,196	3,509
Surya TV	—	—	—	—	162	208	249	284	319
Gemini TV	—	—	643	767	911	1,113	1,328	1,555	1,735
Udaya TV	—	—	373	447	535	656	785	920	1,029
Total pay-TV revenues	**398**	**447**	**1,675**	**2,549**	**3,624**	**4,449**	**5,235**	**5,956**	**6,592**
International revenues	88	183	339	355	371	386	399	409	416
Others	10	18	42	70	100	130	154	178	203
Sumangali Cable Vision (SCV)	356	—	—	—	—	—	—	—	—
Total revenues	**2,886**	**3,152**	**6,781**	**9,465**	**12,234**	**14,525**	**16,847**	**19,188**	**21,274**
Growth (%)	**7**	**9**	**115**	**40**	**29**	**19**	**16**	**14**	**11**

Source: Company, Kotak Institutional Equities estimates.

Consolidated profit model, balance sheet, cash model of Sun TV for 2006 and SunTV Network for 2007-2012E, March fiscal year-ends (Rs mn)

	2006	2007	2008E	2009E	2010E	2011E	2012E
Profit model (Rs mn)							
Net sales	3,219	6,780	9,465	12,234	14,525	16,847	19,188
EBITDA	**2,035**	**3,874**	**5,977**	**8,073**	**9,951**	**11,795**	**13,617**
Other income	172	411	789	910	1,196	1,550	1,974
Interest (expense)/income	(65)	(64)	(18)	—	—	—	—
Depreciation	(147)	(294)	(525)	(630)	(515)	(436)	(381)
Amortization	—	(56)	(235)	(235)	(235)	(235)	(195)
Pretax profits	**1,995**	**3,871**	**5,989**	**8,118**	**10,398**	**12,675**	**15,015**
Tax-cash	(709)	(1,509)	(2,059)	(2,852)	(3,614)	(4,377)	(5,163)
Tax-deferred	16	108	(18)	51	38	27	17
Minority interest	—	(9)	21	(25)	(50)	(72)	(96)
Net profits after minority interests	**1,302**	**2,461**	**3,932**	**5,292**	**6,771**	**8,253**	**9,773**
Earnings per share (Rs)	**5.3**	**6.3**	**10.0**	**13.4**	**17.2**	**20.9**	**24.8**
Balance sheet (Rs mn)							
Total equity	3,071	11,932	14,714	18,277	22,628	27,930	34,210
Deferred Tax	32	(56)	(38)	(88)	(127)	(153)	(170)
Total borrowings	2,333	867	—	—	—	—	—
Currrent liabilities	741	1,693	1,633	1,766	1,845	1,930	2,023
Total capital	**6,209**	**14,478**	**16,329**	**19,999**	**24,441**	**29,874**	**36,325**
Cash	732	6,494	6,348	9,522	13,507	18,355	24,121
Current assets	2,440	3,221	5,143	6,338	7,356	8,397	9,458
Total fixed assets	2,830	3,543	2,910	2,405	2,040	1,779	1,599
Intangible assets	206	1,220	1,927	1,732	1,537	1,342	1,146
Total assets	**6,209**	**14,478**	**16,329**	**19,999**	**24,441**	**29,874**	**36,325**
Free cash flow (Rs mn)							
Operating cash flow, excl. working capital	1,722	3,239	4,721	6,350	7,579	8,784	9,956
Working capital	(251)	(1,992)	(1,982)	(1,063)	(938)	(956)	(968)
Capital expenditure	(2,091)	(433)	(793)	(125)	(150)	(175)	(200)
Investments	(326)	(849)	(821)	(1,129)	(1,242)	(1,366)	(1,503)
Other income	80	402	789	910	1,196	1,550	1,974
Free cash flow	**(619)**	**814**	**1,946**	**5,161**	**6,490**	**7,654**	**8,788**
Ratios (%)							
Debt/equity	76.0	7.3	—	—	—	—	—
Net debt/equity	52.1	(47.2)	(43.1)	(52.1)	(59.7)	(65.7)	(70.5)
RoAE	36.1	32.9	29.6	32.2	33.3	32.8	31.6
RoACE	**27**	**27**	**30**	**33**	**34**	**34**	**32**

Source: Kotak Institutional Equities estimates.

Insurance

Bajaj Allianz Life Insurance: Withdrawal of actuarially-funded product could impact growth and margin, we have enough cushion build in our model

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- IRDA likely to withdraw acturial-funded prodcut
- This accounts for 50-60% of Bajaj Allianz sales
- Cushion build in our growth and margin estimates, valuation remain unchanged

At a recent conference organized by the Institute of Actuaries of India, the IRDA Executive Direct Mr K Subrahmanyam indicated that sales of actuarial-funded products will be stopped soon. We believe that close to 50-60% of Bajaj Allianz premium income is driven by this product. Withdrawal of this product will likely slow down Bajaj Allianz premium collections and also impact its margin. We believe that one of the likely causes for a higher NBAP margin reported by Bajaj Allianz compared to ICICI Prudential Life was this actuarial-funded product. We are, however, not changing our valuation for the company given the cushion built into our model.

Product likely to be withdrawn: Insurance companies generally allocate a portion of the premium received towards expenses and the balance is transferred to policyholder funds. The amount of allocations is clearly specified. Actuarially-funded products are designed in such a manner that they permit insurance companies to reduce a portion of their cost from the first-year premium even in future/subsequent years. This product therefore leads to lower upfront losses for companies selling this product as the provision for liabilities is much lower than a normal asset-linked product. Mr Subrahmanyam, ED, IRDA stated that the key reason IRDA was becoming cautious on this product was the likely risk of misselling – "no transparency to policyholders; and agents could not explain implications" – i.e agents may not inform the customer that the company will be reducing expenses not only from the renewal premium received but also from the first year premium which is policyholders fund account.

Cushion built into our estimates: Despite the likely possibility of IRDA withdrawing this product, we are not changing our estimate of Bajaj Allianz Life Insurance contribution to Bajaj Auto SOTP for two reasons:

1) We have assumed a growth of 66% in premium collection for FY2008 as against the 100% targeted by the company and 88% achieved in the 1QFY08,

2) We are assuming much lower margin of 14.7% for its life insurance business against the 22% reported by the company – this factors in both the higher tax rate and fall in margin due to likely increasing competition.

Additionally, the company will likely be given some time to withdraw the product in case IRDA does take this drastic step of stopping sales. We believe that Bajaj Allianz is well placed in the insurance business, with strong distribution network and will be in a position to replace this product with other products.

Banking

Sector coverage view			Neutral
		Price, Rs	
Company	Rating	10-Aug	Target
SBI	IL	1,607	1,450
HDFC	IL	1,947	1,700
HDFC Bank	IL	1,132	1,250
ICICI Bank	IL	866	1,000
Corp Bk	IL	348	360
BoB	OP	293	330
PNB	OP	498	610
OBC	IL	226	240
Canara Bk	IL	268	250
LIC Housing	OP	184	240
Axis Bank	U	590	570
IOB	OP	124	150
Shriram Trans	OP	172	200
SREI	IL	98	110
MMFSL	IL	236	265
Andhra	OP	84	120
IDFC	IL	125	120
PFC	U	176	125
Centurion Bank	U	39	35
Federal Bank	OP	331	340
J&K Bank	OP	684	875
India Infoline	U	625	670
Indian Bank	IL	146	135

Banks proceed with deposit rate cut post RBI policy, likely to maintain/ improve margins

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- Banks have reduced card rates on deposits in recent weeks, though response has not been symmetric
- Policy actions to reduce liquidity are likely to be supportive of bank margins
- We continue to prefer banks(PNB, IOB, BOB and HDFC Bank) with higher CASA ratio and focusing on growing advances in line with their core deposits

We expect most banks to see stable margins going forward, PNB and Corporation Bank could be amongst to report an improvement in margin. Our survey of deposit rates of key banks shows that special deposit schemes have been either withdrawn or interest rates on such schemes have been reduced. However, those banks, which had reduced rates prior to the CRR hike, reversed this measure in some buckets, likely fearing a hike in bulk deposit rates. Amongst key banks, PNB and Corporation Bank have been most aggressive in reducing their rates, SBI, HDFC Bank have not withdrawn their schemes, but reduced rates marginally, while ICICI Bank continues to offer higher rates.

Banks reduce card rates on deposits but action by banks has not been symmetric. We surveyed key banks deposit rates to gauge the reaction of banks post the recent CRR hike. As indicated in our note commenting on the quarterly policy of RBI, we did not expect banks to increase PLR and expected delays in the deposit rate cut. Based on our survey, we note most banks had started withdrawing their special deposit schemes prior to the announcement of policy (CRR hike) and banks which had not already taken this step have subsequently begun to withdraw these schemes. The responses of banks to the evolving interest rate scenario over the past few months can be summed up as follows:

a) Most banks had launched special schemes in the Feb-Apr'07 period to mobilize deposits to fund their credit growth. These schemes were typically of a duration of 1-2 years;

b) Some banks, including PNB, OBC, Corporation and Andhra Bank, have withdrawn these schemes over the past few weeks, whereas BOB, Canara Bank and Axis Bank have reduced the interest rates by 50 bps on such schemes (see Exhibit 2);

c) SBI, HDFC Bank and ICICI Bank continue to maintain their special deposit schemes. However, SBI has reduced its interest rate on special deposits by 25 bps and HDFC Bank has reduced the interest rate on such deposits by 50 bps;

d) Over and above the special schemes, Corporation Bank and PNB have aggressively reduced their deposit rates on other normal deposits, while some banks have reduced rates at the shorter end of maturity spectrum; (see Exhibit 3)

e) We are disappointed with SBI's policy of not reducing rates sufficiently and even increasing the rate for deposits by 25 bps in some of maturity buckets.

Exhibit 1: Interest rates offered by banks has declined in recent weeks

Change in card rates on deposits from their peak in February/April,May 2007 (bps)

Maturity period	BOB	Canara Bank	Corp Bank	IOB	OBC	PNB	SBI	Axis Bank	HDFC Bank	ICICI Bank
15-45 days	0	0	-150	0	0	0	0	-100 to -200	0	0
45- 90 days	0	0	-200 to -250	0	0	0	0	-50	0	0
90-180 days	0	0	-275	0	25	0	0	50	0	0
180- 270 days	0	0	-150	-25	0	0	25	-15 to -25	-50	-25
270 days - 1 year	0	0	-50	0	0	0	25	0	175	-25
1 year - 3 years	-50	-50	-75 to -150	-25 to -50	40-70	-75	-25	-50	-25 to -50	-50
3 - 5 years	0	0	-125	-45	0	-125	0	0	0	0
Above 5 years	0	0	-75	-35	0	-50	25	0	0	0

Note: OBC has withdrawn its special deposit scheme of 400 days deposit at 9.75%, while increasing rates on 1-3 year deposits

Source: Companies.

Exhibit 2: Most banks have withdrawn or reduced the interest rates on special deposit schemes

Key features of special deposit schemes offered by banks

	Key features of deposit schemes		
Bank	Previous offer	Current offer	Maximum deposit rate on offer currently by banks (irrespective of maturity)
BOB	1 year deposits @ 9.5% p.a	1 year deposits @ 9.0% p.a.	9.00%
Canara Bank	1 year deposits @ 9.5% p.a.	1 year deposits @ 9.0% p.a.	9.00%
Corp Bank	500 days deposits @ 9.75% p.a.	Completely withdrawn	8.25%
OBC	400 days deposits @ 9.75%p.a.	Completely withdrawn	9.00%
IOB	1 year deposits @ 9.5% p.a., 3-5 yr deposits @ 9.6% p.a.	1 year deposits @ 9.0% p.a., 3-5 yr deposits @ 9.15% p.a.	9.25%
PNB	1 year to less than 2 years deposits @ 9.5% p.a., 2 years to less than 3 years deposits @ 9.25% p.a.	1 year to less than 2 years deposits @ 7.5% p.a., 2 years to less than 3 years deposits @ 7.75% p.a.	8.00%
SBI	550 days deposits @ 9.5% p.a., 4 years to less than 5 years deposits @9.5% p.a.	550 days deposits @ 9.25% p.a., 4 years to less than 5 years deposits @ 9.25% p.a.	9.25%
Axis Bank	1 year to less than 2 years deposits @ 9.5% p.a.	1 year to less than 2 years deposits : @ 9.0% p.a.	9.00%
HDFC Bank	390 days deposits @ 9.25% p.a., 2 years 16 days deposits @ 9.5% p.a.	390 days deposits @ 9.0% p.a., 2 years 16 days deposits @ 9.0% p.a. 286 days deposits @ 8.5% p.a.	9.00%
ICICI Bank	390 days deposits @ 9.5% p.a., 590 days deposits @ 9.5% p.a., 890 days deposits @ 9.5% p.a., 4 years to less than 5 years deposits @9.5% p.a.	390 days deposits @ 9.5% p.a., 590 days deposits @ 9.5% p.a., 890 days deposits @ 9.5% p.a., 4 years to less than 5 years deposits @9.5% p.a.	9.50%

Source: Companies.

Exhibit 3: Most banks have reduced card rates on deposits post CRR hike announced by RBI
Change in card rates on deposits for banks (bps)

Maturity period	BOB	Canara Bank	Corp Bank	IOB	OBC	PNB	SBI	Axis Bank	HDFC Bank	ICICI Bank
15-45 days	0	0	-100 to -150	0	0	0	0	0	-250	0
45- 90 days	0	0	-200 to -250	0	0	0	0	0	0	0
90-180 days	0	0	-275	0	25	0	0	0	0	0
180- 270 days	0	0	-125	-25	0	0	25	0	-50	-25
270 days - 1 year	0	0	-50	0	0	0	25	0	175	-25
1 year - 3 years	-50	-50	-25 to -75	-25 to -50	40-70	0	-25	0	-25 to -50	-50
3 - 5 years	0	0	-25	-45	0	0	0	0	0	0
Above 5 years	0	0	25	-35	0	0	25	0	0	0

Source: Companies.

Recent policy actions are likely to moderate liquidity growth, likely to be supportive of bank margins. Ministry of Finance and RBI have announced the following measures to moderate liquidity:

a) Reduce supply of foreign exchange—repatriation of ECB proceeds into rupee liquidity capped at US$20 mn per corporate per financial year;

b) Ceiling for the outstanding securities under the Market Stabilisation Scheme (MSS) for the year FY2008 has been enhanced to Rs1.5 tn from Rs1.1 tn.

Concerns for the banking sector in terms of a CRR hike are likely to be mitigated to some extent following the policy initiatives on ECB and MSS, which are targeted at reducing the liquidity in the market. In addition, RBI had already increased the reverse repo limit for banks, which was earlier restricted to Rs30 bn for the system as a whole. An increase in MSS will likely reduce downward pressure on Gsec yields.

Margin of banks unlikely to follow a trend and will differ from bank to bank. We continue to prefer banks with higher CASA ratio and focused on growing advances in line with their core deposits. PNB, IOB, BOB and HDFC Bank are most likely to maintain margin over the few quarters. In our view, Indian Bank's highly liquid balance sheet'SLR ratio of 36% (against statutory SLR norm of 25%) after the conversion of recapitalization bonds as tradable SLR bonds'makes it uniquely placed to benefit from this macro environment.

We believe the margins of banks are unlikely to follow a broad trend and could vary from bank to bank. Deployment of excess liquidity (see Exhibit 4) in busy season (2H), will likely enable banks to improve their overall yields on assets. But the trend in funding costs could vary from bank to bank depending upon the following: (a) amount mobilized under special deposit schemes, (b) trend of CASA ratio at the bank and (c) extent of deposit rate cuts announced by the bank.

Exhibit 4: Most banks raised more deposits than they deployed in loans in 1Q08

Incremental deposits raised and deployed in loans in 1QFY08, Rs bn

	Incremental deposits	Incremental loans	SLR on incremental deposits	Excess liquidity
Public banks				
Andhra Bank	(7)	(5)	(2)	0
Bank of Baroda	(25)	(54)	(6)	35
Canara Bank	7	(38)	2	43
Corporation Bank	(27)	(11)	(7)	(9)
Indian Bank	27	6	7	15
Indian Overseas Bank	15	7	4	4
Oriental Bank of Commerce	5	(3)	1	7
Punjab National Bank	27	(10)	7	30
State Bank of India	141	27	35	79
Old private banks				
Federal Bank	(7)	(2)	(2)	(3)
J&K Bank	(5)	3	(1)	(6)
New private banks				
HDFC Bank	133	69	33	31
ICICI Bank	3	24	1	(22)
Axis Bank	23	44	6	(27)

Source: Companies, Kotak Institutional Equities estimates.

"Each of the analysts named below hereby certifies that, with respect to each subject company and its securities for which the analyst is responsible in this report, (1) all of the views expressed in this report accurately reflect his or her personal views about the subject companies and securities, and (2) no part of his or her compensation was, is, or will be, directly or indirectly, related to the specific recommendations or views expressed in this report: Sanjeev Prasad, Tabassum Inamdar."

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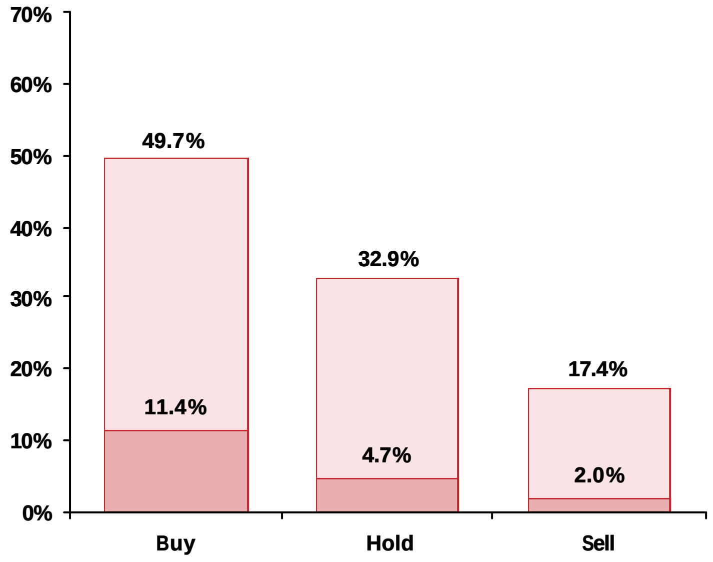

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Source: Kotak Institutional Equities. As of June 30, 2007

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