

## India Update

### Market data as on Dec 8, 2006

#### INDICES

		% chg (DoD)
BSE Sensex	13799	(1.23)
S&P CNX Nifty	3962	(1.33)
BSE 100	6985	(1.15)
BSE 200	1656	(1.07)
Instanex Skindia DR	2344	(0.33)
Mindex	5369	(0.76)

#### OVERSEAS MARKETS

		% chg (DoD)
Dow Jones	12307	0.24
Nasdaq Comp.	2437	0.40
S&P 500	1410	0.18
Hang Seng	18740	(0.55)
Nikkei	16418	(0.34)

#### ADVANCES/DECLINES (BSE)

Group	A	B1	B2
Advances	41	199	414
Declines	159	451	511
Unchanged	2	11	29

#### FII TURNOVER (BSE+NSE)\* (Rs mn)

Bought	Sold	Net
16,575	16,474	101

#### NEW HIGHS AND LOWS (BSE)

Group	A	B1	B2
Highs	10	13	33
Low	-	4	3

#### CURRENCY

US\$1 = Rs44.73

\* FII turnover (BSE + NSE) as on December 7, 2006

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## Highlights

Sector/event	Impact
<b>FMCG:</b> Asian Paints – Earnings revision	Asian Paints (APL) is likely to outpace the decorative paint industry that is witnessing acceleration in sales growth. On the back of sustained robust growth outlook, we upgrade APL's earnings estimates by 6% and 10% for FY07E and FY08E respectively, which translate into earnings CAGR of 20.3% between FY06 and FY09E. We reiterate BUY on APL despite the stock having undergone a significant re-rating over the past two years.

## News Snippets

### Economy

- In its State of the Economy report, the Confederation of Indian Industry has revised its GDP growth estimate for the year from around 8% to 8.6%. (Business Line)

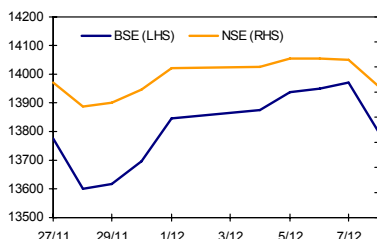
### Sectoral

- TRAI has proposed to broaden the scope of the ongoing rural mobile services project (being undertaken by the Government under the Universal Services Obligation Fund) by offering incentives to even those companies who lose out in the competitive bid, but set up cellular infrastructure in rural areas. (Business Line)
- ESPN-Star Sports has won the audio-visual rights for International Cricket Council events through '07-15 for a bid reportedly around US\$1.1bn. (Business Line)

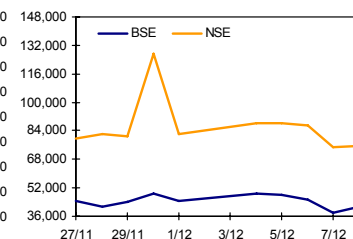
### Corporate

- Tata Group has picked up a 7.5% stake in SpiceJet for less than Rs1bn. (Business Standard)
- Infosys Technologies has become the first Indian company to book a place in the reputed NASDAQ-100 Index after its annual re-ranking. (Business Standard)
- Tata Steel has announced a revised bid of 500pence/share for Corus as against its earlier bid of 455pence/share valuing the company at US\$9.16bn. (Business Standard)

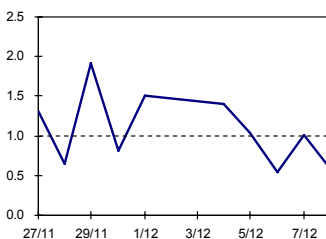
Market movement over last fortnight



Volumes in Rs mn (BSE and NSE)



Advances & Declines ratio (BSE)



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## Asian Paints (Buy)

FMCG

## EARNINGS REVISION

## Of a bright hue

Rs705

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## Earnings revision

(%)	FY07E	FY08E
Sales	↑ 6.3	↑ 11.4
EBITDA	↑ 3.4	↑ 8.6
EPS	↑ 5.8	↑ 10.0

Asian Paints (APL) is likely to outpace the decorative paint industry that is witnessing acceleration in sales growth. On the back of sustained robust growth outlook, we upgrade APL's earnings estimates by 6% and 10% for FY07E and FY08E respectively, which translate into earnings CAGR of 20.3% between FY06 and FY09E. We reiterate BUY on APL despite the stock having undergone a significant re-rating over the past two years.

Table 1: Valuation summary

		Y/E March	EPS (Rs)	P/E (x)	EV/E (x)		
Price (8/12/06) (Rs)	705	2005	18.4	38.4	23.8	BSE Sensex	13799
52 wk Range (Rs)	790/501	2006	23.1	30.5	19.5	Mkt cap. (Rs bn)	67.7
Dividend FY07E (Rs/sh.)	15.3	2007E	27.7	25.4	16.3	Mkt cap. (US\$ bn)	1.5
Dividend yield (%)	2.2	2008E	33.4	21.1	13.4	Shares out. (mn)	96.0
Face value (Rs)	10	2009E	40.1	17.6	11.2	Free float (%)	52.2

Source: Company data, i-SEC Research

- **Decorative paint industry witnessing growth acceleration.** Increased construction activity, continued momentum in up-trading to better quality of paints and shift in institutional buying in favour of paints from the organised sector are the main factors behind accelerated growth of the Indian organised decorative paint industry. We expect the industry's volumes and value sales to grow around 15% and 18% respectively over the next couple of years. Moreover, on the back of the recent spurt in construction activities by real estate as well as SEZ developers, we anticipate paint sales to surprise positively going ahead.
- **APL to register above-industry growth.** Though APL holds nearly half of the decorative paint market, its market share is significantly higher in high-growth and premium segments such as emulsion paints, exterior paints and wood paints. On the back of stronger growth in these segments, APL would likely register above-industry growth and continue to improve its revenue mix in favour of premium paints. As the company is strategically targeting to maintain margins despite improvement in revenue mix, it has been able to reduce its price premium over the unorganised sector, thereby providing a further boost to sales growth.
- **Raising earnings estimates by 6-10%.** In the light of stronger-than-expected revenue growth, we are upgrading APL's earnings estimates by 6% and 10% for FY07E and FY08E respectively. Further, we are introducing FY09 estimates, which translate into earnings CAGR of 20.3% between FY06 and FY09E.
- **Reiterate BUY.** Robust growth outlook, strong entry barriers, strengthening of APL's dominance in the industry, strong pricing power and increased commitment by the promoters (reflected in creeping acquisition) are favourable factors. Despite a significant re-rating of the stock over the past two years, we maintain BUY on the stock, which is currently trading at FY08E P/E of 21x.

Details in our report '*Of a bright hue*' dated December 11, 2006

## Comment

### **ECONOMY – CRR hike by RBI**

*Event:* The RBI has hiked cash reserve ratio (CRR) by 50bps to 5.5% (25bps increase each in December '06 and January '07).

*Impact:* The CRR hike would squeeze out Rs135bn from the banking system in order to contain risks of rising inflation (refer '*At crucial juncture*' dated November 27, '0) arising from good liquidity and exceptionally strong economic growth. After raising repo rate on October 31 and indicating its unwillingness to fund credit growth using its own balance sheet, the RBI has gone ahead and raised the cost of resources to banks (CRR funds do not earn any interest), a move that will likely lead to rise in lending rates.

The rise in CRR along with approaching date for advance tax payments (December 15) imply that liquidity is set to remain tight in the coming week. However, given strong capital inflows (FIIs, external debt raising by corporates as well as higher FDI) the liquidity situation may ease again as RBI absorbs dollars to resist currency appreciation. In fact, the current step (CRR hike) has been necessitated mainly because of improved liquidity on the back of strong capital flows and robust economic growth (refer *Brace up for RBI action* dated December 1, '06).

Further, steps undertaken by the RBI over the past one year have not helped moderate credit growth to the desired extent (as indicated in the press release) and we, therefore, do not preclude a rise in reverse repo rates if inflation indicators deteriorate and asset markets scale new highs.

### **Banking sector**

The decision to increase CRR will surely end the bond market revelry seen in Q3FY07 and lead to yields on the 10-year benchmark correcting 35-40bps to 7.75-7.8% by March '07. Further, an increase in the policy rate should slow systemic credit growth to below 25% by end-FY07. Another fall-out of this decision, in light of the resource squeeze and a phased exhaustion in excess SLR holdings, would be deposit rate hike by banks (SBI raised rates on term deposits by 75bps across all maturities on Friday). Consequently, we expect private sector banks followed by public sector banks to hike lending rates 25-50bps by January '07. As most banks have a strong pipeline in terms of unutilised sanctions and with credit demand remaining robust, pricing power would strengthen leading to sustained margins in the medium term.

However, this announcement could lead to an across-the-board correction (10-15%) in banking stocks in the short term. This should be used as an opportunity to enter stocks that have successfully contained asset growth well below the current systemic growth rate of 27-30% and possess a good mix of low-cost deposits franchise. Our suggested picks would be Punjab National Bank (BUY) and State Bank of India (BUY) among large-cap PSU banks and Andhra Bank (Unrated) amongst mid-sized banks. We believe fastest growing banks in the i-SEC Banking universe – Bank of Baroda (BUY) and UTI Bank (BUY) – could be most affected. However given their strong fundamentals, a correction should be used to accumulate from a medium-to-long term perspective. We expect stocks such as Corporation Bank (SELL), IDBI (SELL) and Syndicate Bank (UNRATED) to witness a larger correction given their structural weakness on the resources front.

Recent reports/updates		
Analyst	Company/Sector	Date
Anand Shah	Asian Paints: Of a bright hue	Dec 11
Poonam Nishal / R. Amarnath	Bharti Airtel: The best is passé	Dec 6
Rajesh Vora	Dr. Reddy's Labs: Reaping riches	Nov 29
Vinay Patel	Economy: At crucial juncture	Nov 27
Poonam Nishal / R. Amarnath	VSNL: Real(i)ty bites	Nov 24
Rajagopal R. / Dipankar C.	Corporation Bank: Uneasy balance	Nov 22
Dipankar Choudhury	SBI: Trifling inconvenience	Nov 21
Poonam Nishal / R. Amarnath	MTNL: Keep it on hold	Nov 16
S. Ramesh	Netback margin: Resurgent retail	Nov 14
Dipankar Choudhury	Oriental Bank: Ambushed by counterpoise	Nov 13
Rajesh Vora	Aventis Pharma: Sluggish gait	Nov 13
Shekhar Singh	Technology: FAQs on sponsored ADS	Nov 8
Vinay Patel	Interest rates: Lights turning amber	Nov 3
Rajesh Vora	Glenmark Pharma: Arrived in style	Nov 3
S. Ramesh	Reliance Industries: Gas galore	Nov 3
Shilpa / Anand	Indian Hotels: Impressive ambience	Nov 3
Vinay Patel / Dipankar Choudhury	Mid-term Credit Policy Review: Time for vigil	Oct 31
Shilpa Gupta	Ashok Leyland: Margin blues	Oct 31
S. Ramesh	GAIL India: Floods maul earnings	Oct 31
S. Ramesh	Indraprastha Gas: One step ahead	Oct 31
Shilpa Gupta	Tata Motors: Creditable calibre	Oct 31
Shekhar Singh	Mphasis BFL: Multibagger	Oct 30
Shilpa Gupta	Mahindra & Mahindra: Driven by excellence	Oct 30

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