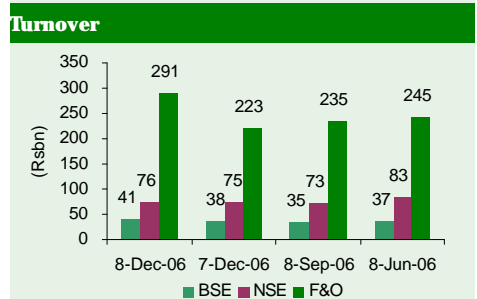




11 December 2006

Indices	%Change			
	8-Dec-06	1mth	3mth	6mth
Sensex	13,799	5.6	15.8	48.4
Nifty	3,962	4.9	14.1	45.4
CNXMidcap	5,746	4.5	27.6	64.7
Banking	7,214	11.2	34.5	67.6
Capital Goods	9,354	7.8	15.8	52.3
IT	5,130	6.8	20.1	56.2
Healthcare	3,725	0.5	2.5	29.7
NASDAQ	2,437	2.2	12.5	13.6
Dow Jones	12,307	1.1	8.0	12.5

Net Inflows				
Rsbm	7-Dec-06	6-Dec-06	MTD	YTD
FII	21	25.6	(15.3)	386.8
Mutual Fund	0	(2)	2.2	139.8
FII - F&O	(47.5)	46.8	(632.6)	(592.1)



Commodity & Currency	% Change			
	8-Dec-06	1mth	3mth	6mth
Crude (US\$/barrel)	62.0	3.4	(6.4)	(11.8)
Gold (US\$/Oz)	625.2	1.3	2.3	1.9
US\$	44.7	0.0	(3.3)	(2.8)
Euro	59.4	4.0	1.3	2.1

Debt				
%	8-Dec-06	1mth	3mth	6mth
RBI Reverse Repo	6.0	6.0	6.0	5.5
10 yr G-Sec yld	7.4	7.6	7.7	7.7
Spread 1 & 10 yr G-Sec	0.5	0.5	0.8	1.1
US 10 yr treasury	4.5	4.6	4.8	5.0
Surplus liquidity (Rsbm)	181.0	108.0	438.1	580.2

State Bank of India - Company Update Under Performer - Target Price Rs1,200

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Recently, on the sidelines of the London School of Economics (LSE) Asia Forum State Bank of India's (SBI) chairman Mr. O.P.Bhatt stated that the bank is contemplating to come out with follow-on public issue in the next fiscal year.

Also, the Finance Minister Mr. P. Chidambaram has been repeatedly saying on different occasions that necessary amendments would be made in The State Bank of India Act, 1955 to enable transfer of RBI's (central bank) stake to central government and bring down the promoter stake in SBI to 51% in line with most of the other state owned banks.

We've given consideration to the proposed development to be brought up by aspiring promoter (central government) to analyze the impact of the same on the bank.

We've looked into some of the important aspects of the matter, like

What does present SBI Act, 1955 permit?

What are the possible scenarios?

What are the reasons for the equity dilution?

If equity dilution, then at what price!

Finally check on valuation.

What does present SBI Act 1955 permit?

○ According to the Chapter II "Incorporation and Share capital of State Bank" of The State Bank of India Act, 1955 the central board may from time to time increase the issued capital but no increase in the issued capital shall be made in such a manner that Reserve Bank holds at any time less than 55% of the issued capital of the State Bank. Therefore RBI's stake can be brought down to 55% from present level of 59.73% and equity dilution can take place up to 4.73% without any amendments in the Act.

○ In accordance with sub-section 1 and 2 of Chapter IV "Shares" SBI's shares should not transferred in a manner such that RBI's stake get reduced to less than 55% of the SBI's issued capital.

State Bank of India (Consolidated)		(Rs mn)	FY2005	FY2006	FY2007E	FY2008E
Bloomberg/Reuters Code	SBI IN/SBI.BO	Total Income	286,896	311,007	314,413	346,169
Market Cap	Rsbm	712 Profit before provisions	152,793	153,300	144,333	156,255
Market Cap	US\$m	15,616 NIM (%)	3.43	3.40	3.15	3.07
52-week ran	Rs	1355/684 Net Profit	56,760	59,567	49,162	66,398
Shares in is	mn	526.3 EPS (Rs)	107.8	113.2	93.4	107.7
FII limit	%	20 EPS Growth (%)	1.0	4.9	-17.5	15.3
		P/E (x)	12.5	12.0	14.5	12.6
		Price/Book Value (x)	2.2	1.9	1.7	1.4
Major Shareholder (%)		Price/Adjusted Book Value (x)	2.8	2.2	1.9	1.5
RBI		59.7 Dividend Yield (%)	0.92	1.03	0.83	0.98
Banks/FIs/MFs		11.6 Cost-to-income (%)	46.7	50.7	54.1	54.9
Pvt. Corp. Bodies		2.3 ROA (%)	0.97	0.90	0.67	0.80
Public		6.5 ROE (%)	18.76	16.92	12.40	13.30
FII/NRIs/OCBs		19.8 Tier-1 Capital (%)	7.99	9.11	8.76	10.40

Source: Company and Karvy Estimates

Present status of the SBI Act, 1955 permits RBI's stake dilution up to 55% but doesn't permit equity dilution or transfer up to 51%. Necessary amendments would be required to effect into equity dilution and/or transfer of SBI's equity shares.

What are the possible scenarios?

- Equity dilution in RBI's stake in SBI up to 55% without any amendments
- Amendment in Chapter II of The SBI Act, 1955 and RBI's stake is diluted up to 51%
- Amendment in Chapter IV of The SBI Act, 1955 and central Bank's stake is transferred to central government and then in accordance with the Chapter VI of The Nationalised Banks (Management and Miscellaneous Provisions) Scheme, 1970 the central government stake in SBI can be diluted up to 51%.

At this juncture, we believe that the last scenario is most likely to take place considering the finance minister earnest desire and the bank's genuine need of resources.

What are the reasons for the equity dilution?

- Increase in Tier I capital to fund high growing credit offtake
- "Make hay while the SUN shines". The bank and the aspiring promoter could never have had better opportune time
- More headroom for Foreign investors: Foreign investors' holding would increase on absolute basis though, the percentage share holding would remain capped at 20%

If equity dilution, then at what price!

We've considered some of the follow-on public offer issue of state owned banks to deduce the pricing of the proposed SBI's public issue expected to come in June 2007.

	Public Issue Fixed Price	Book Value per share (Rs.)			Issue closing date	Price / BVPS (x)		
		FY2005	3 Q FY06	FY06		FY2005	3 Q FY06	FY06
Andhra Bank	Rs.90	50	55	60	16th Jan. 2006	1.8	1.63	1.5
Bank of Baroda	Rs.230	183	204	208.5	16th Jan. 2006	1.25	1.12	1.1
Union Bank of India	Rs.110	68	79.6	81	15th Feb. 2006	1.6	1.38	1.35

We believe that the SBI's follow-on public issue would be priced at Rs. 1225 per share (1.5x of estimated BVPS of Rs.815 after 1 Q FY08). If the central government's dilutes its stake in SBI to 51%, after the proposed transfer of SBI's stake then there would be 90 million equity shares on the block for follow-on public issue.

Since there is no formal announcement from SBI's chairman or the finance minister about number of shares or the pricing of the public issue, we've not discounted the same in our valuation model. But as and when it is formally announced, we would change our target price and rating accordingly.

Decline in interest rate

Due to continuous decline in the 10-year benchmark bond paper yield, we've increased estimated write-back of mark-to-market loss provisions. The bank has already marked its AFS and HFT investment books at 8.1% at the end of 1 Q FY07, since then the yield has coming down therefore write-back would be quite significant.

We increase our target price to Rs1,200/ share from our previous target of Rs1,145. We downgrade the stock as **Under Performer** due to recent run-up in stock price.

BULK DEALS ON NSE - 8 Dec 2006

Symbol	Scrip Name	Client Name	Buy/Sell	Quantity Traded	Price
POLARIS	POLARIS SOFTWARE LAB LTD	Sundaram Mutual Fund (Growth Fu	BUY	525,000	140
MALUPAPER	MALU PAPER MILLS LIMITED	VIJIT RAMAVAT	BUY	99,036	44
IFCI	IFCI LTD	JAYPEE CAPITAL SERVICES LTD.	BUY	4,437,350	13
QUINTEGRA	QUINTEGRA SOLUTIONS LTD.	ASHITA BHAVIN PAREKH	BUY	180,000	70
GWALCHEM	GWALIOR CHEM IND LTD	ASIT C MEHTA INVESTMENT INTERRM	BUY	136,694	96
LIQUIDBEES	LIQUID BENCHMARK ETS	NORTHGATE TECHNOLOGIES LTD	BUY	40,000	1,000
QUINTEGRA	QUINTEGRA SOLUTIONS LTD.	INVESTRICK SEC. INDIA PVT LTD	BUY	265,773	71
INFOTECENT	INFOTECH ENTERPRISES LTD	HSBC EQUITY FUND	BUY	500,000	312
CLASSIC	CLASSIC DIAMONDS (I) LTD	MERRILL LYNCH CAPITAL MARKETS E	BUY	100,000	483
PIONEEREMB	PIONEER EMBROIDERIES LTD	SEARCH FINVEST PVT. LTD.	BUY	53,133	197
NEPCMICON	NEPC INDIA LTD	SUNITA SURANA	BUY	347,700	28
MALUPAPER	MALU PAPER MILLS LIMITED	VIJIT RAMAVAT	SELL	68,282	42
IFCI	IFCI LTD	JAYPEE CAPITAL SERVICES LTD.	SELL	5,172,850	13
MPHASISBFL	MPHASIS BFL LIMITED	MORGAN STANLEY DEAN WITTER MAUR	SELL	1,262,724	263
NOVAPETRO	NOVA PETROCHEMICALS	BHAVANA TEXTILE PVT LIMITED	SELL	54,309	14
NANDAN	NANDAN EXIM LIMITED	JHAVERI TRADING AND INVESTMENT	SELL	894,503	8
VISUALSOFT	VISUALSOFT TECHNOLOGIES L	SHAH ASHOK POPATLAL	SELL	172,000	68
GWALCHEM	GWALIOR CHEM IND LTD	ASIT C MEHTA INVESTMENT INTERRM	SELL	136,694	96
INFOTECENT	INFOTECH ENTERPRISES LTD	MERRILL LYNCH CAPITAL MARKETS E	SELL	513,140	312
PIONEEREMB	PIONEER EMBROIDERIES LTD	SEARCH FINVEST PVT. LTD.	SELL	34,700	197
CLASSIC	CLASSIC DIAMONDS (I) LTD	RAJSHAH ENTERPRISES PRIVATE LIM	SELL	50,000	483
CLASSIC	CLASSIC DIAMONDS (I) LTD	CHAUHAN FINSTOCK	SELL	50,200	483
LIQUIDBEES	LIQUID BENCHMARK ETS	BENCHMARK MUTUAL FUND	SELL	43,737	1,000
QUINTEGRA	QUINTEGRA SOLUTIONS LTD.	ROSE BURG INC	SELL	458,333	70
MALUPAPER	MALU PAPER MILLS LIMITED	PRISM IMPEX PVT LTD	SELL	200,000	44

Source: NSE

BULK DEALS ON BSE - 8 Dec 2006

Symbol	Scrip Name	Client Name	Buy/Sell	Quantity Traded	Price
505506	AXONINFOTEC	PAWANDEVI MAGANLAL MEHTA	S	5,000	147
500045	BELLA STEAL	JMP SECURITIES PVT. LTD.	B	5,027,217	1
500045	BELLA STEAL	JMP SECURITIES PVT. LTD.	S	2,559,607	1
500045	BELLA STEAL	KARNATAKA STATE II AND D	S	3,500,000	1
532542	CREW BOS	H.J.SECURITIES PVT.LTD.	B	77,149	219
532542	CREW BOS	H.J.SECURITIES PVT.LTD.	S	77,149	219
530843	CUPID LTD	HEMENDRA CHANDRA SINGH	B	50,000	40
530843	CUPID LTD	RAHUL JHA	B	50,000	40
530843	CUPID LTD	MUKESH JITENDRA VORA	S	46,399	40
521220	DAMODARTHRE	V.N.DOSHI	S	15,579	54
524818	DYNAMICINDU	ATUL SHAH	S	18,000	44
517477	ELNETTECHNO	HITESH JHAVERI	B	30,089	121
517477	ELNETTECHNO	V.N.DOSHI	B	43,004	121
517477	ELNETTECHNO	HITESH JHAVERI	S	30,056	121
517477	ELNETTECHNO	V.N.DOSHI	S	43,004	121
524624	GAGAN GASEL	B C B FIN. P LTD	B	23,300	8
532175	INFOTECH ENR	FRANKLIN INDIA PRIMA FUND	B	1,100,000	312
532175	INFOTECH ENR	MERRILL LYNCH CAPITAL MAR	S	1,136,860	312
516020	KANOI PAPI N	N C JAIN	B	44,591	22
516020	KANOI PAPI N	GIRISH B SHAH	B	135,703	23
516020	KANOI PAPI N	MANOJ GOEL	B	431,311	21
516020	KANOI PAPI N	V.N.DOSHI	B	88,591	22
516020	KANOI PAPI N	HITESH JHAVERI	S	37,288	20
516020	KANOI PAPI N	N C JAIN	S	44,591	22
516020	KANOI PAPI N	GIRISH B SHAH	S	135,703	21
516020	KANOI PAPI N	MANOJ GOEL	S	431,311	22
516020	KANOI PAPI N	V.N.DOSHI	S	113,591	22
515093	MADHAV MAR G	V AND U CAPLEASE PVT LTD	B	90,000	143
515093	MADHAV MAR G	VOLGA INTERNATIONAL LTD	S	80,160	143
524232	MAHAR POLYBU	SATCHITHANANDAM NAMASIVAY	B	210,000	14
524232	MAHAR POLYBU	SIMRAN SUNIL RAHEJA	S	214,400	14
532728	MALU PAPER	JMP SECURITIES PVT. LTD.	B	427,945	44
532728	MALU PAPER	PRISM IMPEX PVT LTD	S	120,000	44
532728	MALU PAPER	MITAL SECURITIES AND FINA	S	210,000	44
532728	MALU PAPER	JMP SECURITIES PVT. LTD.	S	297,670	44
532728	MALU PAPER	DIAMANT INVESTMENT AND FI	S	100,980	42
531453	MOHIT INDUST	RAMNIKLAL KUNVERJI SHETHI	B	32,607	66
531453	MOHIT INDUST	RAMNIKLAL KUNVERJI SHETHI	S	32,607	66
532641	NANDAN EXIM	JHAVERI TRADING AND INVES	S	887,681	8
530605	NOVA PETRO	QUALITY EXIM PVT LTD	S	84,319	14
530605	NOVA PETRO	HEXA INTERNATIONAL PVT LT	S	78,036	14
517536	ONWARDTECHN	UTTAM FINANCIAL SERVICES	B	65,752	81
517536	ONWARDTECHN	UTTAM FINANCIAL SERVICES	S	65,752	81
531791	OSIAN LPG BO	CHANDER BHAN BANASAL AND	B	50,000	17
531791	OSIAN LPG BO	DHANANJAY KHOT	S	30,000	18
512449	PACE ELEC(P)	PERFECT HOMFIN PVT LTD	B	89,950	39
521153	PANTALOOIN	CHARTERED TRADERS PVT.LTD	B	63,087	379
521153	PANTALOOIN	ASUTI TRADING PVT LTD	S	50,000	379
530555	PARAMO COMMU	VOLGA INTERNATIONAL LTD	B	134,455	235
532742	PAUSHAK LTD	SIERRA INVESTMENTS LTD.	B	150,000	97
532742	PAUSHAK LTD	GRANADA INVESTMENT LTD	S	150,000	97
526247	PREM EXPLOSI	ASHA PJAIN	B	55,000	56
526640	ROYALE MHI	JHAVERI TRADING AND INVES	B	203,959	79
590029	RPG TRANSM	PUSHKAR BANBIYA LTD	B	70,000	172
511144	SAYA HOUSING	SANTOSA INVESTMENT AND TR	S	33,085	9
503205	SHREE RAM	ANVIL FINTRADE PVT. LTD	B	113,216	620
503205	SHREE RAM	JYOTI KASLIWAL	S	140,000	620
526479	SKY INDUSTRI	ARUNABEN N BHANUSHALI	B	20,000	44
517224	SUJANA UNIV	MAVI INVESTMENT FUND LTD	S	350,000	25
500427	UNIFLEX CABE	HITESH JHAVERI	B	90,109	38
532765	USHER AGRO	MUKESH HIRALAL DOCTARIA	B	156,413	12
532765	USHER AGRO	MUKESH HIRALAL DOCTARIA	S	166,413	13
532765	USHER AGRO	KAPISH PACKAGING PRIVATE	S	214,297	13
532214	VISUALSOFT	ASHOK POPATLAL SHAH	S	129,000	68
531217	WESTERN INDI	C R RAJESH NAIR	B	500,000	10

Source: BSE

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Stock Ratings		Absolute Returns		Stock Ratings		Absolute Returns
Buy	:	> 25%		Market Performer	:	0 - 15%
Out Performer	:	16 - 25%		Under Performer	:	< 0%

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