



Economy News

- India's holdings of US Treasuries hit a new record of \$38.8 billion in May, despite a contraction in the country's foreign exchange reserves. In May, US dollar holdings amounted to 15 % of the country's reserves vs. 3 % last year. (BL)
- The idea of integrating all rural schemes into one comprehensive district plan will be a reality on October 2. On that day, the government will roll out its first convergence model in 10 districts. (BS)
- Power availability in the country is likely to improve in the coming days, as water levels in various reservoirs have started going up following the resumption of monsoon. According to the latest Central Water Commission (CWC) data, water storage at the 81 reservoirs across the country was 14 % (vs. 11% last week) of the total capacity of 151 billion cubic metres (bcm) of the reservoirs. (BS)
- For the first time in nearly a decade, nationalised banks have managed to grab 50 per cent share of the loans extended during the last financial year (FY09). According to the latest RBI data, nationalised banks accounted for 50.5 per cent of the gross bank credit at the end of March 2009, as against 48.3 per cent a year ago. (BS)
- The government is not considering a proposal to free controls on retail prices of petrol and diesel, minister of states for oil and gas Jitin Prasada said on Monday. (ET)

Corporate News

- The country's second largest private sector lender **HDFC Bank** today slashed benchmark lending rate by 25 basis points to 15.75 per cent. (ET)
- SBI** has recorded a stunning increase in the market share in the wake of the global slowdown. In FY09, the SBI group managed to increase its share of deposits by 1.5% from that in the previous fiscal. (ET)
- JSW Steel** has reported a 55 per cent rise in net profit quarter ended June 30, 2009 aided by a sharp fall in raw material cost and substantial increase in production. (BL)
- Larsen and Toubro** plans to invest Rs 1,500 crore this fiscal in its projects relating to power, including equipment manufacturing, shipyard and port development. (BL)
- NTPC Ltd** was forced to shut down its 1,000-MW Sipat thermal station briefly in May due to coal shortages and reported loss of generation at three other key stations — Kahalgaon, Talcher and Korba — during April-June. (BL)
- Drug firm **Merck Ltd** reported a net profit of Rs 11.88 crore for quarter ended on June 30, 2009, a decrease of 34 per cent over the same period last year. (FE)
- Vedanta Resources** has planned large expansions and acquisitions to enter the top five league in the global production of aluminium, copper and zinc by 2013. The London-listed giant will spend Rs.430 bn to enhance its capacity, in addition to its Rs.500 bn plan in power generation. (BS)

Equity

		% Chg			
	20 July 09	1 Day	1 Mth	3 Mths	
Indian Indices					
SENSEX Index	15,191	3.0	4.6	39.4	
NIFTY Index	4,502	2.9	4.4	33.8	
BANKEX Index	8,487	4.4	4.6	59.6	
BSET Index	3,760	7.3	14.7	55.3	
BSETCG INDEX	12,396	2.1	1.1	59.1	
BSEOIL INDEX	9,531	3.7	1.5	21.4	
CNXMcap Index	5,625	2.7	6.0	44.7	
BSESMCAP INDEX	5,824	2.5	3.7	44.6	
World Indices					
Dow Jones	8,848	1.2	3.6	11.0	
Nasdaq	1,909	1.2	4.5	16.1	
FTSE	4,444	1.3	2.2	11.4	
Nikkei	9,395	0.5	(2.7)	6.7	
Hangseng	19,502	3.7	8.2	26.9	

Value traded (Rs cr)

	20 July 09	% Chg - Day
Cash BSE	6,094	(6.9)
Cash NSE	19,072	5.2
Derivatives	70,008	(5.7)

Net inflows (Rs cr)

	17 July 09	% Chg	MTD	YTD
FII	260	(11)	5,668	30,557
Mutual Fund	742	406	1,117	3,645

FII open interest (Rs cr)

	17 July 09	% Chg
FII Index Futures	8,917	5.0
FII Index Options	26,331	4.3
FII Stock Futures	20,558	7.8
FII Stock Options	920	4.4

Advances / Declines (BSE)

Advances / Declines (\$SE)						
20 July 09	A	B	S	Total	% total	
Advances	165	991	234	1,390	69	
Declines	38	422	120	580	29	
Unchanged	-	36	9	45	2	

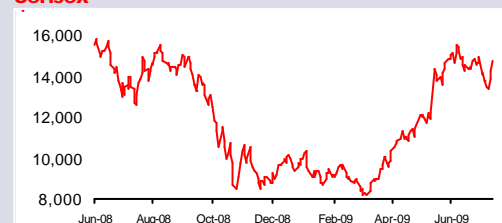
Commodity

			% Chg			
	20 July 09	1 Day	1 Mth	3 Mths		
Crude (NYMEX) (US\$/BBL)	64.0	0.1	(7.9)	37.7		
Gold (US\$/OZ)	948.7	1.2	1.6	7.3		
Silver (US\$/OZ)	13.7	1.7	(3.9)	13.6		

Debt / forex market

	20 July 09	1 Day	1 Mth	3 Mths
10 yr G-Sec yield %	7.00	7.03	6.95	6.46
Re/US\$	48.20	48.74	48.61	50.33

Sensex



RESULT UPDATE**Saday Sinha**saday.sinha@kotak.com
+91 22 6621 6312**ALLAHABAD BANK****PRICE: Rs.87****TARGET PRICE: Rs.100****RECOMMENDATION: ACCUMULATE****FY10E P/E: 4.8x; P/ABV: 0.7x**

Q1FY10 core performance came better than our expectations; Net NPA also declined both YoY as well as QoQ; Now, we are upgrading the stock to ACCUMULATE from REDUCE earlier.

- Allahabad Bank (ALB) delivered 34.3% growth in NII (Net Interest Income) on back of improvement in NIM from 2.6% during Q1FY09 to 3.0% during Q1FY10 along with healthy growth in gross advances (21.1% YoY)
- Its net profit rose three-fold (224.4% YoY) due to strong growth in NII (34.3%) along with whopping increase in non-interest income (156.6%).
- We have revised our earning estimates upward for FY10E and introducing FY11E numbers. We are upgrading the stock to ACCUMULATE from REDUCE earlier on back of good performance on operating front as well as on NPA reduction.
- At target price of Rs.100 (revised upward from Rs.68 earlier), stock would trade at 0.75x its FY10E adjusted book value.

Summary table

(Rs bn)	2008	2009	2010E	2011E
Interest income	61.71	73.65	82.22	94.51
Interest expense	44.99	52.06	58.25	67.12
Net interest inc	16.72	21.59	23.97	27.40
Other income	9.65	11.42	11.30	10.34
Gross profit	14.80	19.01	19.31	20.28
Net profit	9.75	7.69	8.06	8.89
Gross NPA (%)	2.0	1.8	2.0	2.0
Net NPA (%)	0.8	0.7	0.9	1.0
NIM (%)	2.8	2.9	2.9	2.9
RoE (%)	20.1	13.9	13.1	13.1
RoAA (%)	1.3	0.9	0.8	0.7
Dividend Yield (%)	4.0	2.9	3.5	3.5
EPS (Rs.)	21.8	17.2	18.1	19.9
Adj BVPS (Rs)	107.9	121.6	129.7	144.0
P/E (x)	4.0	5.0	4.8	4.4
P/ABV (x)	0.8	0.7	0.7	0.6

Source: Company, Kotak Securities - Private Client Research

Result Performance

(Rs mn)	Q1FY10	Q1FY09	YoY (%)
Interest on advances	15,582.4	12,413.3	25.5
Interest on Investment	4,424.9	4,613.5	-4.1
Interest on RBI/ banks' balances	74.6	29.5	153.1
Other interest	-	0.0	NM
Total Interest earned	20,081.9	17,056.2	17.7
Interest expenses	13,791.3	12,371.2	11.5
Net interest income	6290.6	4685.0	34.3
Other income	3,695.1	1,440.1	156.6
Net Revenue (NII + Other income)	9,985.7	6,125.2	63.0
Operating Expenses	4,079.4	3,057.9	33.4
Payments to / Provisions for employees	2,720.8	1,902.3	43.0
Other operating expenses	1,358.6	1,155.6	17.6
Operating profit	5,906.3	3,067.3	92.6
Provisions & contingencies	396.3	2,022.4	-80.4
Provision for taxes	2,481.4	111.2	2130.8
Net profit	3,028.6	933.6	224.4
EPS, Rs	6.76	2.09	223.4

Source: Company

Strong growth in NII and net profit

- ALB delivered 34.3% growth in NII (Net Interest Income) to Rs.6.29 bn in Q1FY10 from 4.69 bn in Q1FY09 on back of improvement in NIM from 2.6% during Q1FY09 to 3.0% during Q1FY10 along with healthy growth in gross advances (21.1% YoY).
- Interest expense grew only 11.5% YoY vs.17.7% growth in interest income during Q1FY10.
- Its net profit rose three-fold (224.4% YoY) to Rs.3.03 bn in Q1FY10 from 0.93 bn in Q1FY09 due to strong growth in NII (34.3%) along with whopping increase in non-interest income (156.6%).

Strong traction in non-interest income

Non-interest income grew from Rs.1.44 bn in Q1FY09 to Rs.3.70 bn in Q1FY10, a growth of whopping 156.6% YoY. This strong growth came on the back of healthy traction in the fee-based income and huge jump in the treasury profit.

Trend in non-interest income

(Rs bn)	1Q2008	2Q2008	3Q2008	4Q2008	1Q2009	2QFY09	3Q2009	4Q2009	1Q2010	YoY (%)
Fee Income (CEB & Forex)	2.04	1.04	0.90	1.43	1.07	0.91	1.18	2.07	1.47	36.6
Profit on sale of Investments	0.45	0.36	3.01	1.24	0.32	0.08	2.88	2.45	2.14	565.3
Others	0.27	0.16	0.09	0.20	0.05	0.32	0.02	0.07	0.09	95.6
Total non-Interest income	1.22	1.56	4.00	2.87	1.44	1.31	4.08	4.59	3.70	156.6

Source: Company

Bank registered healthy business growth

Total business of the bank increased 21.8% to Rs.1504.0 bn in Q1FY10.

- Total deposits of the bank rose 22.1% (YoY) to Rs.894.0 bn in Q1FY10. Core deposits of the bank increased 36.4% YoY from Rs.534.2 bn in Q1FY09 to Rs.728.6 bn in Q1FY10.
- Advances of the bank increased 21.4% (YoY) to Rs.610.0 bn in Q1FY10. The bank has also maintained the C/D ratio around 68-69%. Agricultural and SME advances increased 13.8% and 26.1% YoY, respectively.

Return on assets (RoA) as well as Return on equity (ROE) improved from 0.45% and 8.51% in Q1FY09 to 1.22% and 23.62% in Q1FY10, respectively.

Capital Adequacy Ratio (CAR) at the end Q1FY10 stands at 12.54% vis-à-vis 11.68% at the end of Q1FY09 and 13.11% at the end of Q4FY09.

The NIM of the bank improved to 3.0% in Q1FY10 from 2.6% in Q1FY09, an improvement of 40 bps YoY.

Positive surprise on NPA front

We were positively surprised by its performance on the NPA front. Net NPA declined both YoY as well QoQ by 40.8% and 47.6%, respectively. Gross NPA increased 16.5% YoY but was flat (growth of 1.6%) QoQ.

In percentage terms, its gross NPA improved to 1.79% from 1.87% a year ago. Similarly, net NPA improved to 0.37% (0.72% a year ago).

Trend in NPAs

(Rs bn)	1Q 2009	2Q FY09	3Q 2009	4Q 2009	1Q 2010	YoY (%)	QoQ (%)
Gross NPA	9.38	10.00	10.16	10.78	10.93	16.5	1.4
Gross (%)	1.87	1.93	1.93	1.81	1.79		
Net NPA	3.71	4.35	4.29	4.19	2.20	-40.8	-47.6
Net (%)	0.75	0.85	0.82	0.72	0.37		

Source: Company

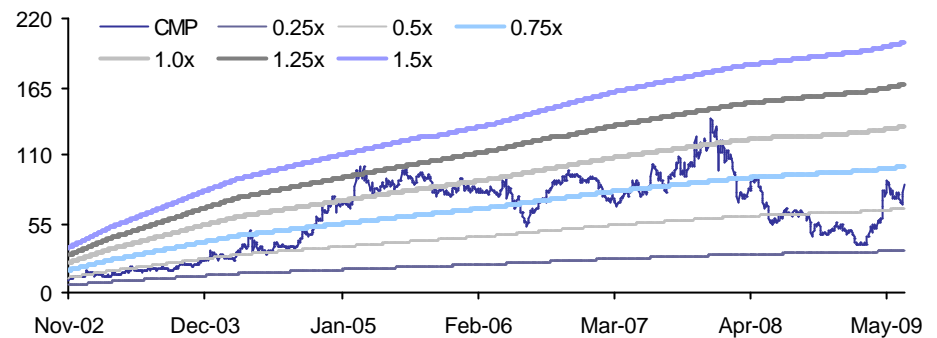
It recovered Rs.50 cr from defaulters, upgraded loans worth Rs.97 cr and written off Rs.50 cr.

Valuation & Recommendation

At the current market price of Rs.87, the stock is trading at 4.8x its FY10E earnings and 0.7x its FY10E ABV. We have revised our earning estimates upward for FY10E and introducing FY11E numbers.

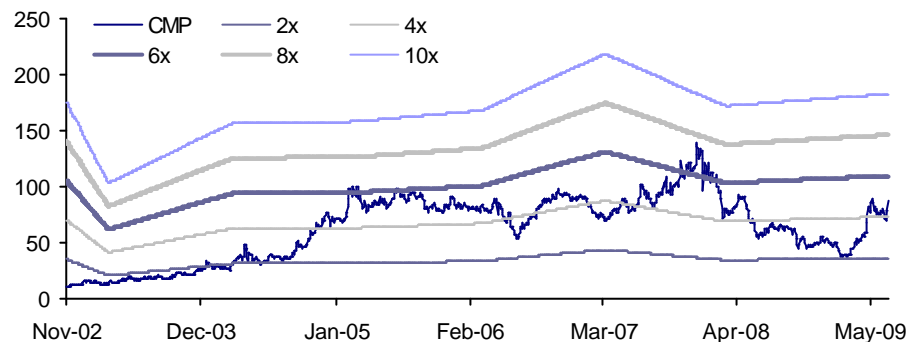
Now, we expect net profit for FY10E and FY11E to be Rs.8.06 bn and 8.89 bn, respectively. This would result into an EPS of Rs.18.1 and Rs.19.9 for FY10E and FY11E, respectively. Adjusted book value for FY10E and FY11E is estimated to be Rs.129.7 and Rs.144.0, respectively

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 ACCUMULATE on Allahabad Bank with a price target of Rs.100

We are upgrading the stock to **ACCUMULATE** from REDUCE earlier on back of good performance on operating front as well as on NPA reduction.

At target price of Rs.100 (revised upward from Rs.68 earlier), stock would trade at 0.75x its FY10E adjusted book value.

RESULT UPDATE

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INFRASTRUCTURE DEVELOPMENT FINANCE CORPORATION (IDFC)

PRICE: Rs.142**TARGET PRICE: Rs.140****RECOMMENDATION: ACCUMULATE****FY10E P/E: 20x, P/ABV: 2.7x**

- ❑ Infrastructure advances growth remained muted; decelerated by 2% yoy to Rs. 211bn. Disbursements declined by 44% yoy.
- ❑ For Q1FY10, IDFC's core earning was largely in line with expectations. Total income grew by 23% yoy driven by enhanced NIM on infrastructure advances.
- ❑ Better than expected Net profit growth of 25%yoy; fee based income improved, while treasury income dipped.
- ❑ We have marginally tweaked our earnings estimated for IDFC, and have factored in 100% economic interest for IDFC-SSKI (80% earlier) to arrive at our revised price target of Rs. 140.
- ❑ Given the governments thrust on infrastructure development, we maintain our positive outlook for the company, however, the muted return ratios may limit significant upside from current levels we maintain our ACCUMULATE recommendation for the stock.

Summary table

(Rs mn)	2008	2009	2010E
NII	5,887	7,890	8,136
Non-Int Income	7,349	7,594	9,254
Total Income	13,236	15,485	17,389
Optg Profit	10,717	11,820	13,289
PAT	7,435	7,427	8,902
Gross NPA (%)	0.20	0.40	0.45
Net NPA (%)	0.02	0.20	0.20
NIMs (%)	2.8	3.2	2.8
RoA (%)	2.6	2.5	2.7
RoE (%)	17.6	12.9	13.9
Divi. Payout (%)	20.9	20.5	21.5
EPS (Rs)	5.8	5.8	7.0
BV (Rs)	43.2	47.7	53.1
Adj. BV (Rs)	43.2	47.4	52.7
P/E (x)	24.4	24.3	20.4
P/ABV (x)	3.3	3.0	2.7

Source: Company, Kotak Securities - Private Client Research

Result Highlights

(Rs mn)	Q1FY09	Q4FY09	Q1FY10	YoY%	QoQ%
Net Interest Income	2,140.0	2,520.0	2,440.0	14.0	(3.2)
NII on infrastructure projects	1,773.0	1,950.0	2,190.0	23.5	12.3
NII on treasury	363.0	570.0	250.0	(31.1)	(56.1)
Non-interest income	1,620.0	1,570.0	2,180.0	34.6	38.9
-Principal Investments	640.0	300.0	680.0	6.3	126.7
-Asset Management	160.0	780.0	720.0	350.0	(7.7)
-Investment Banking	360.0	290.0	350.0	(2.8)	20.7
-Loan related& other fees	460.0	200.0	430.0	(6.5)	115.0
Other income	60.0	40.0	70.0	16.7	75.0
Total Income	3,820.0	4,130.0	4,690.0	22.8	13.6
Operating Expenses	780.0	1,320.0	1,030.0	32.1	(22.0)
Pre-Provision Profits	3,040.0	2,810.0	3,660.0	20.4	30.2
Provisions	160.0	1,150.0	(60.0)		
PBT	2,880.0	1,660.0	3,720.0	29.2	124.1
Less: Provision for Tax	700.0	496.0	1,000.0	42.9	101.6
Add: Profit in Associate Company	0.0				
Less: Minority interest	20.0				
PAT	2,180.0	1,164.0	2,720.0	24.8	133.7
Cost/Income Ratio (%)	20.4	32.0	22.0		
Effective Tax rate (%)	24.3	29.9	26.9		
Average NIM (%)	2.9	2.9	3.2		
Sanctions (Rs bn)	44.9	16.6	43.6	(2.8)	162.2
Disbursements (Rs bn)	27.4	25.7	15.4	(43.6)	(39.9)
Infrastructure Loans	214.9	206.0	211.1	(1.7)	2.5

Source: Company, Kotak Securities - Private Client Research

Advances growth remained subdued following lower disbursements

IDFC's Infrastructure loan growth remained subdued during the Q1FY10. IDFC reported a de-growth of 2% in its infrastructure loans to Rs. 211bn from Rs.215bn. Disbursements witnessed a plunge of 44% yoy to Rs.15.4bn, while approvals, although lower by 3% yoy, have improved sequentially over Q4FY09 to Rs 43.6bn. We believe that despite improved liquidity conditions, new project additions were delayed; following the general election and a clearer guideline on infrastructure development and economic growth.

Improved margins-significantly positive; key driver for core earnings growth

Improved core NII (infrastructure lending) helped improve IDFC's overall performance for Q1FY10. Easing cost of funds coupled with thrust on improved margins helped improve NIM to 3.2%.

Asset under management

Fund Name	AUM Q1FY10 (Rs bn)
Fund I	8.4
Fund II	19.9
Fund III	31.6
IDFC Private Equity	59.9
IDFC Project Equity	38.4
IDFC Investment Advisors	3.0
IDFC Mutual Fund	216.9
Total	318.2

Source: Company

Net profit grew by 25%; fee based income improved, while treasury income dipped

IDFC's net profit for the Q1FY10 has gone up by 25% yoy to Rs. 2.72bn as compared to our expectation of Rs. 2.5bn. The improved fee income and also the reversal of provision on investment book helped better earnings growth. Fee income of the company has gone up by 35% yoy to Rs. 2.2bn, mainly due to higher asset management fee contribution, courtesy higher growth in its mutual fund AUM, while investment banking and lending business related fee remained flattish.

It has also reversed provision created against investments amounting Rs. 238mn, adjusted against provision for loan loss and other contingencies.

Valuation and Recommendation

Moderation in the infrastructure loan book during FY09 has helped IDFC in improving its capital adequacy ratio which now stands at 20% and as now as much comfortable liquidity position and a leverage of 4.8x. Asset quality has been well taken care off with additional provision created in Q4FY09. In light of this we expect a ~17% yoy growth in IDFC's infrastructure loan book.

In the wake of increase in governments thrust on infrastructure development, we maintain positive outlook for the stock. On the other hand, muted return ratios will impact the valuation multiple for the stock.

We recommend ACCUMULATE on IDFC with a price target of Rs.140

We have marginally tweaked our earning estimate factoring in a 17% growth in infrastructure advances and enhanced NIM. Based on our sum of the part (SoTP) valuation methodology, we have revised our price target for IDFC to Rs. 140. During Q1FY10, IDFC has also increased its economic interest in IDFC-SSKI to 100% from 80% earlier; we have factored in the same in our workings. With positive future outlook and a limited upside from our price target, we maintain accumulate recommendation on the stock.

At the current market price, the stock is quoting at P/Ex of 20x and P/ABV of 2.7x its FY10 earnings estimates. We maintain our **ACCUMULATE** recommendation on the stock with a revised price target of Rs. 140.

Bulk deals

Trade details of bulk deals

Date	Scrip name	Name of client	Buy/ Sell	Quantity of shares	Avg. price (Rs)
20-Jul	Aarey Drugs	Thakor Lalatmaram Modi	B	28,051	48.57
20-Jul	Avance Techn	Pananghat Muraleedharan	S	42,733	44.95
20-Jul	Bgil FI Tec	Jinesh Bhatt	S	69,958	18.10
20-Jul	Ccap Ltd	Ramaben Jaysukhlal Parekh	B	24,109	36.30
20-Jul	Ccap Ltd	Kiran Poddar	S	34,360	36.30
20-Jul	DJS Stock Sh	Nirmal Singh Bhangoo	B	60,000	33.00
20-Jul	DJS Stock Sh	Shohesh P Shah	S	73,600	33.02
20-Jul	Dynemic Pro	Rajiv Mohan Gupta	B	100,000	19.42
20-Jul	Dynemic Pro	Dhaval Amrish Shah	S	72,953	19.38
20-Jul	Eastern Gas	Rehwa Corporation Limited	B	60,000	60.85
20-Jul	Eastern Gas	SB Liquor Distributors Privat	B	58,008	62.33
20-Jul	Fact Enterp	Drb Securities Pvt Ltd	B	59,398	22.95
20-Jul	Fact Enterp	Monitor Vinimay Private Limited	S	34,000	22.95
20-Jul	Jaihind Synt	Prashant Mahadev Kamble	S	95,410	4.51
20-Jul	Jumbo Bag Lt	Sanjeev Burman Jhaveri	B	75,353	66.00
20-Jul	Kadamb Const	Rekha Jain	B	15,000	40.00
20-Jul	Kadamb Const	Rambhaba Holdings & Trading	S	15,000	40.00
20-Jul	Kaman Hsg	Nisha Sumanjain	B	90,000	31.79
20-Jul	Kay Pow Pap	Jolly Gupta	B	58,277	6.06
20-Jul	Kay Pow Pap	Bampsl Securities Ltd.	B	58,710	6.56
0-Jul	Seamec Ltd	Reliance Capital Mutual Fund	B	1,000,000	145.02
20-Jul	Seamec Ltd	Sundaram BNP Paribas Mutual Fund A/C Select Midacap Fund	S	978,487	145.74
20-Jul	Sheetal Bio	Amrut Securities Ltd.	B	702,958	0.69
20-Jul	Sheetal Bio	Amit Shantilal Mehta	S	795,000	0.69
20-Jul	SRF Limited	Fidelity Trustee Company Private Ltd A/C Fidelity Equity	S	312,841	109.52
20-Jul	Stanpacks In	Mahalakshmi Raichooti	B	40,000	5.71
20-Jul	Summit Sec	CD Equifinance Pvt Ltd	B	284,270	10.05
20-Jul	Summit Sec	Chandravadan Desai (Huf)	S	289,498	10.05
20-Jul	Webel SI Ene	Mavi Investment Fund Ltd.	B	50,000	213.25
20-Jul	Well Pack Pa	Hemant Madhusudan Sheth	B	51,000	154.43
20-Jul	Well Pack Pa	Rekha Bhandari	B	27,470	158.72
20-Jul	Well Pack Pa	Amar Premchand Walmiki	S	40,000	151.93

Source: BSE

Gainers & Losers

Nifty Gainers & Losers

	Price (Rs)	chg (%)	Index points	Volume (mn)
Gainers				
Reliance Ind	2,033	5.0	25.2	4.1
Infosys Tech	1,971	5.6	18.5	2.5
ICICI Bank	785	5.6	17.2	10.1
Losers				
ITC	225	(1.7)	(3.6)	4.5
HDFC	2,507	(0.6)	(1.5)	1.0
Reliance Infra	1,135	(1.5)	(0.9)	3.6

Source: Bloomberg

Forthcoming events

Company/Market

Date	Event
21-Jul	Chambal Fertilizer, Ultratech, Thermax, Dr. Reddy's Lab, LIC Housing Finance, Yes Bank, OBC earnings expected
22-Jul	Wipro, Canara Bank, India Cements, GTL, Tech Mahindra earnings expected
23-Jul	Maruti, Biocon, Ambuja Cements, Siemens, Alstom Project, MRPL, Indian Bank, Union Bank of India, Bharti Airtel, Madras Cements earnings expected
24 Jul	HCC, Bharat Electronics, Gail Inda, CESC, Bharat Forge earnings expected

Source: Bloomberg

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