



Economy News

- ▶ The pension reforms bill to set up a regulator and give more freedom to subscribers for investing their retirement money is likely to be tabled in the Monsoon Session of Parliament, Finance Ministry sources said on Tuesday. (ET)
- ▶ The government has decided to continue the ban on export of non-basmati rice for another three months. The empowered group of ministers (EGoM) on food grains, which met on Tuesday, has decided to hold another meeting on November 1 to take a call on partially lifting the ban on non-basmati rice. (ET)
- ▶ With increasing concerns of foreign capital driving up real estate prices, RBI has recommended that foreign venture capital investments (FVCIs) be restricted to nine sectors (investment in other sectors being treated as foreign direct investment). It has suggested that capital market regulator SEBI set up a screening mechanism for all pending and future FVCI proposals. (ET)
- ▶ In order to increase domestic supply, State Trading Corporation has invited bids for sale of 3,260 tonnes of imported pulses. Pulses production is estimated at 15.19 million tonnes in 2007-08 crop year, while the domestic demand is around 17-18 mt. (BL)
- ▶ Chief economic adviser Arvind Virmani expects the economy to grow between 8% and 9% in the fiscal year to March 2009 and inflation to return to "normal levels" in 12 months. (MINT)

Corporate News

- ▶ **NTPC Ltd** has joined hands with the Asian Development Bank (ADB), GE Energy Financial Services, Kyushu Electric Power Co and Brookfield Renewable Power to form a joint venture firm to develop "greenfield and underutilised sites" for a portfolio of about 500 MW of renewable power generation resources in India. (BL)
- ▶ **NMDC** is in talks with Rio Tinto, the world's second largest diversified mining company, for a 50:50 joint venture, which would bid for global mining assets. (BS)
- ▶ **Tata Power** has emerged as the only Indian company among the six firms shortlisted to bid for Singapore's largest power utility, Senoko Power, which is likely to be sold at over \$3 billion. (BS)
- ▶ In a critical breakthrough **BHEL** has won first ever contract worth Rs.2,500 crore from Andhra Pradesh Power Development Co for supplying 800 MW supercritical boilers. It would set up 1,600 MW (2x800) steam generator at Krishnapatnam Power Project. (ET)
- ▶ After successfully bidding for Turkey's Istanbul international airport, **GMR** is in race for Russia's third-largest airport, Pulkovo Airport, in St Petersburg. The Russian government had included Pulkovo Airport in its privatisation list and had called for bids recently. (ET)
- ▶ **Bajaj Auto** has expressed disinterest in partnering the Nissan-Renault alliance in the mainstream car business. So, the Bajaj-Renault-Nissan partnership will be limited to the ultra low-cost car project. (ET)

Equity

| | 5 Aug 08 | % Chg | | |
|-----------------------|----------|-------|-------|--------|
| | | 1 Day | 1 Mth | 3 Mths |
| Indian Indices | | | | |
| BSE Sensex | 14,961 | 2.6 | 11.2 | (13.9) |
| Nifty | 4,503 | 2.4 | 12.1 | (12.5) |
| BSE Banking | 7,218 | 6.7 | 24.0 | (20.6) |
| BSE IT | 3,878 | 1.6 | (4.7) | (11.5) |
| BSE Capital Goods | 12,280 | 2.1 | 14.9 | (12.0) |
| BSE Oil & Gas | 10,159 | 1.3 | 12.1 | (12.8) |
| NSE Midcap | 5,861 | 1.6 | 13.8 | (16.8) |
| BSE Small-cap | 7,193 | 1.3 | 11.5 | (17.8) |
| World Indices | | | | |
| Dow Jones | 11,616 | 2.9 | 2.9 | (10.8) |
| Nasdaq | 2,350 | 2.8 | 4.7 | (5.4) |
| FTSE | 5,455 | 2.5 | 0.8 | (12.2) |
| Nikkei | 12,915 | (0.1) | (0.3) | (6.0) |
| Hangseng | 22,515 | - | 2.5 | (16.4) |

Value traded (Rs cr)

| | 5 Aug 08 | % Chg - Day |
|-------------|----------|-------------|
| Cash BSE | 6,815 | 15.8 |
| Cash NSE | 17,293 | 27.8 |
| Derivatives | 52,692.8 | 21.2 |

Net inflows (Rs cr)

| | 4 Aug 08 | % Chg | MTD | YTD |
|-------------|----------|-------|-------|----------|
| FII | (401) | (17) | (743) | (28,246) |
| Mutual Fund | 226 | 20 | 226 | 10,787 |

FII open interest (Rs cr)

| | 4 Aug 08 | % Chg |
|-------------------|----------|-------|
| FII Index Futures | 14,424 | (4.1) |
| FII Index Options | 17,010 | 6.8 |
| FII Stock Futures | 17,267 | 5.5 |
| FII Stock Options | 603 | 8.8 |

Advances / Declines (BSE)

| | 5 Aug 08 | A | B | S | Total | % total |
|-----------|----------|-------|-----|-------|-------|---------|
| Advances | 157 | 1,159 | 287 | 1,603 | 65 | |
| Declines | 44 | 623 | 155 | 822 | 33 | |
| Unchanged | 2 | 41 | 12 | 55 | 2 | |

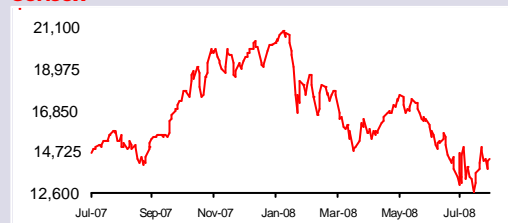
Commodity

| | 5 Aug 08 | % Chg | | |
|--------------------------|----------|-------|--------|--------|
| | | 1 Day | 1 Mth | 3 Mths |
| Crude (NYMEX) (US\$/BBL) | 118.7 | (0.4) | (18.3) | (2.6) |
| Gold (US\$/OZ) | 874.4 | (2.3) | (5.7) | 0.4 |
| Silver (US\$/OZ) | 16.5 | (2.8) | (8.5) | (1.8) |

Debt / forex market

| | 5 Aug 08 | 1 Day | 1 Mth | 3 Mths |
|---------------------|----------|-------|-------|--------|
| 10 yr G-Sec yield % | 9.17 | 9.36 | 9.16 | 7.86 |
| Re/US\$ | 42.24 | 42.37 | 43.25 | 40.68 |

Sensex



RESULT UPDATE

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BHARAT BIJLEE LTD

PRICE: Rs. 1228
TARGET PRICE: Rs. 1400

RECOMMENDATION: REDUCE
FY09E P/E: 9.1x

- ❑ Results are well below estimates.
- ❑ Revenue growth has come off due to deferment in sales of transformers to a particular client. The revenue deferred is close to Rs 180 mn, which will get reflected in Q2.
- ❑ Margins dip as a result of lower revenue booking and product mix. Cost pressures continue.
- ❑ Order book has remained stagnant at Rs 3.5 bn reflecting material slow-down in order inflows. Potential slow down in investment pipeline may impact company's ability to win orders. We have thus moderated our medium term growth projections.
- ❑ In the motors business, increased steel and copper prices are expected to keep margins under pressure.
- ❑ In our previous update (Rs 2400, Reduce), we had recommended Reduce citing deteriorating macro-environment and cost pressures as reasons. With the Q1 results coming below expectations, we have revised our earnings downwards. Order backlog is not inspiring either.
- ❑ We reiterate our negative stance on the company and maintain REDUCE with a price target of Rs.1400. (Rs.2600 earlier)

Summary table

| (Rs mn) | FY08 | FY09E | FY10E |
|-------------------|-------|-------|-------|
| Sales | 5,624 | 6,326 | 7,176 |
| Growth (%) | 19.8 | 12.5 | 13.4 |
| EBITDA | 1,156 | 1,172 | 1,301 |
| EBITDA margin (%) | 20.6 | 18.5 | 18.1 |
| Net profit | 725 | 767 | 850 |
| Net cash (debt) | (108) | 385 | 951 |
| EPS (Rs) | 128 | 136 | 151 |
| Growth (%) | 31.6 | 5.8 | 10.9 |
| CEPS | 135 | 142 | 157 |
| DPS (Rs) | 9.0 | 9.0 | 9.0 |
| ROE (%) | 51.0 | 38.0 | 30.0 |
| ROCE (%) | 68.0 | 51.0 | 42.0 |
| EV/Sales (x) | 1.0 | 0.9 | 0.8 |
| EV/EBITDA (x) | 4.9 | 4.9 | 4.4 |
| P/E (x) | 9.7 | 9.1 | 8.2 |
| P/Cash Earnings | 9.2 | 8.7 | 7.9 |
| P/BV (x) | 4.3 | 3.0 | 2.2 |

Source: Company, Kotak Securities - Private Client Research

Quarterly performance

| | Q1 FY09 | Q1 FY08 | % change |
|----------------------------------|--------------|--------------|------------|
| Net Sales | 1,056 | 1,156 | -9 |
| Other Income | 4 | 9 | -51 |
| Total Income | 1,060 | 1,164 | -9 |
| Total Expenditure | 924 | 957 | -3 |
| RM costs | 685 | 708 | -3 |
| Purchase of traded goods | 11 | 46 | -75 |
| employee costs | 123 | 96 | 28 |
| Other expenditure | 105 | 108 | -3 |
| PBIDT | 132 | 199 | -34 |
| Interest | 5 | 9 | -48 |
| PBDT | 132 | 199 | -34 |
| Depreciation | 12 | 8 | 50 |
| PBT | 120 | 191 | -37 |
| Tax | 43 | 65 | -33 |
| Reported Profit After Tax | 77 | 126 | -39 |
| OPM (%) | 12.5 | 17.2 | |
| Raw material cost to sales (%) | 64.9 | 61.2 | |
| Other expenditure to sales (%) | 9.9 | 9.3 | |
| Tax rate (%) | 36.1 | 33.9 | |

Source: Company

Revenue growth hit due to sales deferment

During the quarter, revenues declined by 9%, which was clearly below our expectations. The management indicated that revenues of around Rs 180 mn could not be booked as the customer's site was not ready and hence dispatches were withheld. Another factor has been lack of capacity in transformers. Order backlog has also remained stagnant indicating significant tempering of buoyancy in the transformer sector. While demand from utilities may remain healthy, we note that current macro-economic conditions may actually slow down demand from the industrial sector.

Operating margins decline sharply

A major part of the margin decline is due to sales deferment of Rs 180 mn as profits could not be booked even as costs were incurred. Apart from general material price and other inflationary pressures, increase in share of motors business (which has lower margins) also impacted profitability. Operating margins likely to recover partly in the second quarter.

Staff costs up 28% yoy

Increase in staff costs is mainly due to wage increments. The company is implementing SAP across the organization and hence there was higher employee costs associated with manpower working on the project. Bharat Bijlee is expected to complete its capacity expansion in August and it has hired requisite manpower for added capacity, which has also contributed to rise in staff costs.

Commissioning of transformer capacity of 11000 MVA delayed to August 2008

BBL's transformer division is currently operating at over 100% utilization and in view of this, it is in the process of raising its transformer capacity from 8000 MVA to 11000 MVA at its existing location at Kalwa. Most of the capex of Rs 300 mn has been incurred in FY08. The enhanced capacity is expected to be commissioned in August 2008 as compared to Jun-July 2008 as indicated earlier.

In the motors segment, the company plans to introduce higher end motors upto 500 HP by the year-end.

Order book growth remains lacklustre

BBL's current order backlog stands at Rs 3.5 bn plus, equivalent to ten months of estimated FY08 transformer revenues.

Capacity build-up remains strong in transformer sector

We note that capacity additions have accelerated in recent months. This coupled with current moderation in industrial production may put pressure on pricing. Our earnings estimates build in this scenario. Discussions with management also indicate tempering of margins from FY08 levels.

Capacity addition

| MVA | Capacity FY07 | Capacity FY08 | Planned expansion |
|--------------|---------------|----------------|-------------------|
| Emco | 10,000 | 20,000 | 0 |
| BBL | 8,000 | 8,000 | 3,000 |
| Voltamp | 7,200 | 9,000 | 4,000 |
| ABB | 12,000 | 12,000 | 0 |
| Areva | 9,000 | 15,000 | 50,000 |
| Siemens | 0 | 15,000 | 0 |
| Indotech | 3,450 | 7,450 | 0 |
| CGL | 25,970 | 25,970 | 0 |
| TRIL | 7,200 | 7,200 | 16,000 |
| Total | 79,370 | 112,170 | 73,000 |

Source: Company

Revised earnings downwards

We are projecting a 12.5% and 13.4% growth (17.8% and 16% earlier) in revenues in FY09 and FY10. We are factoring transformer production of 9200 MVA in FY09 on a capacity of 11000 MVA slated to be increased from 8100 MVA.

The company's transformer business enjoys PVC clause for its state-sector orders and also on some private sector orders. Hence it is protected to a large extent on the material price front. However inflation in other areas may put pressure on margins. Additionally, its motors business (no PVC) should see some margin erosion due to spiraling prices of steel, copper and CRGO. Thus we have reduced our margin estimate to 18.5% and 18.1% in FY09 and FY10 (19.9% and 19.5% resp) respectively. Resultantly, our revised earnings estimate is down by 8.3% and 9.3% respectively.

Valuation

We maintain REDUCE on Bharat Bijlee with a price target of Rs.1400

Bharat Bijlee is cash rich and value of its equity investments is Rs 336 per share. The stock is currently trading at 8.9x and 8.1x FY09 and FY10 earnings respectively. We value Bharat Bijlee on a DCF basis with target price of Rs 1400 including Rs 269 in investments (at 20% discount). We maintain **REDUCE**.

RESULT UPDATE

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+91 22 6621 6312**ICICI BANK****PRICE: Rs.694**
TARGET PRICE: Rs.939**RECOMMENDATION: BUY**
FY10E P/E: 16.1x, P/ABV: 1.6x

The ICICI Bank's performance on core operating front is in-line with our estimates. However, increase in NPAs (both net as well as gross) in Q1FY09 is concerning to a certain extent.

In Q1FY09, net interest income (NII) showed 41.3% growth whereas net profit declined by 6.1%.

We are slightly tweaking our earnings estimates and assuming higher NPAs for FY09E and FY10E. We maintain a BUY rating on the stock with a target price of Rs.939 (reducing from Rs.1095) based on SOTP methodology, where the value of its standalone business comes to Rs.591 (P/ABV: 1.4x FY10E ABV) and the value of subsidiaries included here is Rs.348 (20% discount to the fair value of its subsidiaries at Rs.435).

Quarterly Performance

| (Rs mn) | Q1FY09 | Q1FY08 | % Change |
|---|---------------|---------------|--------------|
| Int. on advances | 57,542 | 54,492 | 5.6 |
| Int. on investments | 18,882 | 16,787 | 12.5 |
| Int. on RBI/Other balances | 1,290 | 1,521 | -15.2 |
| Other Interest | 1,205 | 508 | 137.1 |
| Total Interest earned | 78,918 | 73,308 | 7.7 |
| Interest expenses | 58,021 | 58,519 | -0.9 |
| Net interest income | 20,898 | 14,790 | 41.3 |
| Other income | 15,382 | 19,506 | -21.1 |
| Net Revenue (NII + Other income) | 36,279 | 34,296 | 5.8 |
| Total operating expense | 19,139 | 19,053 | 0.5 |
| Employee cost | 5,232 | 5,218 | 0.3 |
| Direct marketing agency expenses | 2,283 | 3,827 | -40.3 |
| Other operating exp | 11,624 | 10,008 | 16.1 |
| Operating profit | 17,140 | 15,242 | 12.5 |
| Provisions | 7,925 | 5,523 | 43.5 |
| Provision for Taxes | 3,646 | 3,276 | 11.3 |
| Deferred tax | -1,711 | -1,307 | 30.9 |
| Net profit | 7,280 | 7,751 | -6.1 |
| EPS (Rs) | 6.54 | 8.61 | -24.0 |

Source: Company

Slow balance sheet growth

The bank's balance sheet size has grown 10.4% YoY to Rs.3941.6 bn at the end of Q1FY09 from Rs.3569.3 bn at the end of Q1FY08.

Loan growth slowed to 13.0% in Q1FY09 on the back of muted growth in the retail segment (Flat in Q1FY09). The consolidated advances of the bank, its overseas banking subsidiaries and ICICI HFC grew 19.5% YoY and now stand at Rs.2572.9 bn at the end of Q1FY09 from Rs.2152.9 bn at the end of Q1FY08.

The slow growth in retail book has been partly compensated by strong growth in International business which grew 64% during Q1FY09 and now accounts for about 24% of total loan book.

Total deposits grew only 1.6% to Rs.2344.6 bn at the end of Q1FY09 from Rs.2307.9 bn at the end of Q1FY08. However, its low cost deposits (CASA) improved 500 bps from 22.4% in Q1FY08 to 27.4% in Q1FY09. Current and saving account deposits (CASA) increased 24.3%, whereas term deposit declined 5.0% to Rs.1702 bn. The management has a target of taking CASA to 33-35% levels by FY10.

Trend in Deposit growth

| (Rs bn) | Q1FY08 | Q2FY08 | Q3FY08 | Q4FY08 | Q1FY09 |
|---------------------------------|----------------|----------------|----------------|----------------|----------------|
| Deposits | 2,307.9 | 2,283.1 | 2,297.8 | 2,444.3 | 2,344.6 |
| Saving | 321 | 350 | 380 | 391 | 435 |
| Current | 196 | 230 | 240 | 247 | 208 |
| CASA (Low Cost Deposits) | 517 | 587 | 625 | 638 | 643 |
| Term | 1,791 | 1,703 | 1,678 | 1,806.5 | 1,702.0 |
| CASA (%) | 22.4 | 25.7 | 27.2 | 26.1 | 27.4 |

Source: Company

Strong Core operating performance

Net interest income (net of premium amortization on government securities) grew 41.3% from Rs.14.79 bn in Q1FY08 to Rs.20.90 bn in Q1FY09. This increase can be attributed to slower advance growth, improvement in low cost deposits (CASA) coupled with improvement in margins.

Core operating profit (operating profit excluding treasury income) grew 74% from Rs.13.3 bn in Q1FY08 to Rs.23.1 bn in Q1FY09.

However, net profit declined 6.1% from Rs.7.75 bn in Q1FY08 to Rs.7.28 bn in Q1FY09.

Other income down due to treasury loss

Non-interest income declined 21.1% to Rs.15.38 bn in Q1FY09 from Rs.19.51 bn in Q1FY08 due to a treasury loss of Rs.5.9 bn.

- Fee income increased 37.1% from Rs.14.28 bn in Q1FY08 to Rs.19.58 bn in Q1FY09.
- Treasury loss of Rs.5.94 bn in Q1FY09 as against a profit of Rs.1.95 bn in Q1FY08. (about Rs.2.0 bn from fixed income / SLR securities and rest Rs. 3.9 bn on equity book)

Improving NIMs

NIM of the bank rose to 2.4% at the end of Q1FY09 from 1.95% at the end of Q1FY08.

Capital adequacy

The bank's capital adequacy at the end of Q1FY09 was 13.42% (including Tier-I capital adequacy of 11.29%) as against the regulatory requirement of 9.0%.

Asset quality

At the end of Q1FY09, the bank's net NPA stands at 1.74% of net customer assets, deteriorating from 1.33% in Q1FY08.

Gross NPA (includes non-performing loans and credit substitutes) increased from Rs.60.43 bn at the end of Q1FY08 to Rs.92.82 bn at the end of Q1FY09. During same period net NPA increased from Rs.27.42 bn in Q1FY08 to Rs.41.02 bn in Q1FY09. We are factoring in higher slippage at 1.8% (earlier 1.6%) for FY09E and FY10E to take into account increase in NPA.

Subsidiaries: Adding significant value...

ICICI Prudential Life

ICICI Prudential Life Insurance Co is one of the dominant private sector players in life insurance, which increased its market share from 12.7% in FY08 to 13.8% during April 2007-May 2008 on the basis of retail new business weighted received premium. While the life insurance business has been making accounting losses due to customer acquisition and business set-up costs and reserving, there has been a considerable value build up over the last five years.

The bank's new business premiums (NBP) have grown at 90% CAGR over FY04-07. They are expected to grow at a CAGR of 34% between FY07 and FY10E mainly driven by rapid network expansion, new product launches and strong demand from under penetrated semi-urban markets.

We expect new business achieved profit (NBAP) to grow at 31% CAGR over FY07-10E, with margins stabilizing around 18-19% by FY10E. We are assigning a multiple of 20x to NBAP (new business achieved profit) of FY10E due to its strong volume and NBAP growth. We arrive at a value of Rs.396.0 bn for the company on FY10E estimates, thus resulting in a value of Rs.263 per ICICI bank share.

Life Insurance Business

| (Rs mn) | FY07 | FY08E | FY09E | FY10E |
|--|----------------|----------------|----------------|----------------|
| Single Premium | 7,915 | 9,894 | 11,873 | 14,247 |
| Regular Premium | 43,706 | 64,248 | 83,522 | 108,579 |
| New Business Premium (NBP) | 51,621 | 74,142 | 95,395 | 122,826 |
| % growth | 98 | 44 | 29 | 29 |
| Weighted NBP (APE) | 44,498 | 65,237 | 84,710 | 110,004 |
| NBAP Margin (Annualized Premium Earnings) | 20 | 19.2 | 18 | 18 |
| NBAP (New Business Achieved Profit) | 8,810 | 12,526 | 15,248 | 19,801 |
| % growth | 67 | 42 | 22 | 30 |
| At P/NBAP of 20x | 176,200 | 250,511 | 304,955 | 396,014 |
| Value assigned to ICICI Bank | 130,388 | 185,379 | 225,666 | 293,050 |
| Value/Share for Life Insurance Business | 117 | 167 | 203 | 263 |

Source: Company, Kotak Securities - Private client Research

ICICI Lombard

ICICI Lombard General Insurance Co. improved its overall market share to 13.3% during April 2007-May 2008 with continued leadership in private sector. It showed 21% growth in gross written premium (GWP) to Rs.10.77 bn in Q1FY09.

In our view, ICICI Bank's general insurance venture is worth Rs.41.92 bn. This translates into Rs.28 per share of ICICI Bank, for its 74% stake.

ICICI Securities

ICICI Securities has three main businesses, namely, retail broking (ICICI Direct), institutional equities and corporate finance. ICICI Securities' revenue and profit for FY08 stand at Rs.7.5 bn and Rs.1.5 bn, respectively. We estimate the value of its brokerage and investment banking business (ICICI Securities) at Rs.42.34 bn. This translates into Rs.38 per share of ICICI Bank, for its 100% share.

Prudential ICICI AMC

Prudential ICICI Asset Management Co continues to be among the top three asset management companies in India with average mutual fund assets under management at around Rs.552 bn in July 2008. M&A transactions in the industry in the past have taken place at 4-10% of AUM.

We have assumed that by the end of FY10, the AUM would increase to Rs.848.8 bn, a CAGR of 25.0 % during FY08-10E. We value its AMC business at Rs.50.93bn. This translates into Rs.23 per share of ICICI Bank, for its 51% share.

Private Equity

ICICI Venture Fund Management Co (ICICI Venture) is the largest private equity company in India with assets under management of about Rs.96 bn (\$2.4 bn). Its profit after tax for FY08 was Rs.900 mn. We have assigned a value of Rs.37.22 bn to this business. This would translate into Rs.33 per share of ICICI Bank, for its 100% stake in the venture.

Valuation and recommendation

At the current market price of Rs.694, the stock is trading at 16.1x its FY10E earnings and 1.6x its FY10E ABV. We have slightly tweaked our earning estimates and now expect net profit for FY09E and FY10E to be Rs.38.27 bn and Rs.47.92 bn, respectively. This will result in an EPS of Rs.34.4 and Rs.43.1 for FY09E and FY10E, respectively.

Due to increase in net-NPA, bank's adjusted book value for FY09E and FY10E is expected to come down to Rs.401.9 and Rs.422.2, respectively. (Earlier it was Rs.420.9 and Rs.457.9 for FY09E and FY10E, respectively)

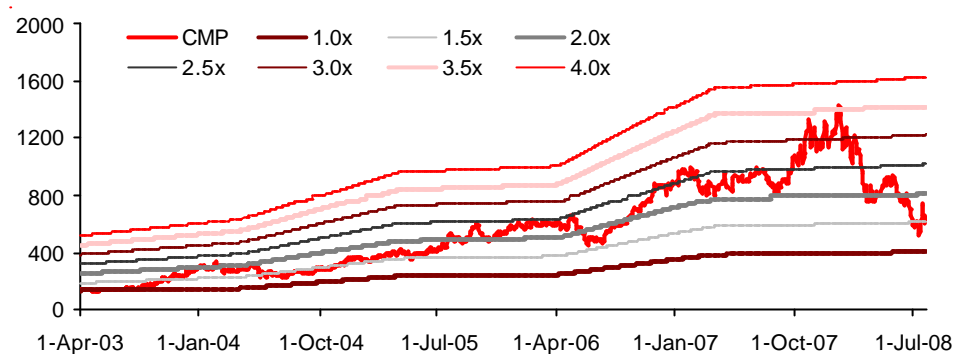
Sum of Parts Valuation

| | Basis | Multiple (x) | Year | Value per Share (Rs) |
|------------------------------------|-------|--------------|------|----------------------|
| Core Banking Business (standalone) | ABV | 1.4 | FY10 | 591 |
| Overseas Banking Subsidiaries | ABV | 2 | FY10 | 49 |
| Life Insurance Business | NBAP | 20 | FY10 | 263 |
| ICICI Securities | PAT | 15 | FY10 | 38 |
| Asset Management | AUM | 6% | FY10 | 23 |
| Private Equity | AUM | 10% | FY10 | 33 |
| Non Life Insurance | PAT | 15 | FY10 | 28 |
| Total Value of subsidiaries | | | | 435 |
| 20% discounted value | | | | 348 |
| Total Value | | | | 939 |

Source: Kotak Securities - Private Client Research

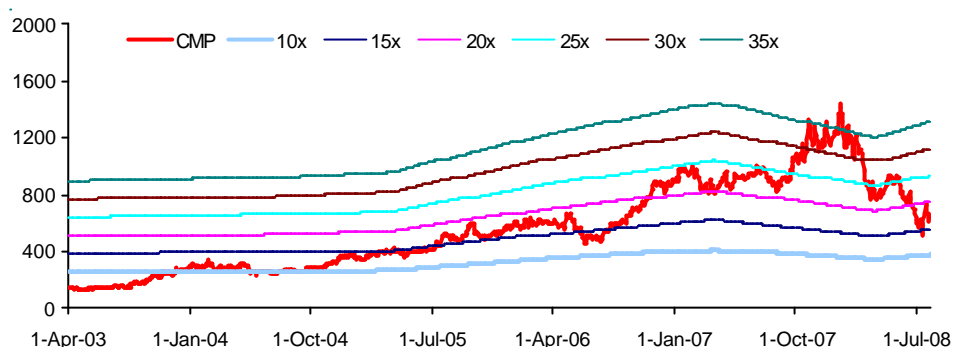
On the basis of SOTP, we maintain a **BUY** rating on the stock with a target price of Rs.939 (reducing from Rs.1095), where the value of its standalone business comes to Rs.591 (P/ABV: 1.4x FY10E ABV, earlier Rs.687) and the value of subsidiaries included here is Rs.348 (20% discount to the fair value of its subsidiaries at Rs.435).

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 like ICICI Bank for its presence across businesses - retail assets, corporate banking, SME, agriculture, international banking, life insurance. After stripping out the subsidiary value of Rs.348, the stock is currently trading at 8.0x its FY10E standalone earnings and 0.8x its FY10E adjusted book value.

We recommend BUY on ICICI Bank with a price target of Rs.939

Therefore, we maintain a BUY rating on the stock with a target price of Rs.939 based on SOTP (Core business: Rs.591, 1.4x FY10E ABV, Subsidiaries: Rs.348 at 20% discount to its fair value of Rs.435). This provides 35% upside from current levels.

Key data (Rs bn)

| | FY07 | FY08 | FY09E | FY10E |
|--------------------------------|--------------|--------------|--------------|---------------|
| Interest income | 219.96 | 307.88 | 338.78 | 383.82 |
| Interest expense | 163.58 | 234.84 | 247.52 | 270.04 |
| Net interest income | 56.37 | 73.04 | 91.26 | 113.78 |
| Other income | 69.63 | 88.11 | 83.78 | 99.08 |
| Gross profit | 59.09 | 79.61 | 84.79 | 107.72 |
| Net profit | 31.45 | 41.58 | 38.27 | 47.92 |
| Gross NPA (%) | 2.1 | 3.4 | 4.0 | 4.5 |
| Net NPA (%) | 1.0 | 1.5 | 1.8 | 1.9 |
| Net interest margin (%) | 2.0 | 2.2 | 2.3 | 2.5 |
| RoE (%) | 13.5 | 11.7 | 8.0 | 9.5 |
| RoAA (%) | 1.1 | 1.1 | 0.9 | 1.1 |
| Dividend Yield (%) | 1.6 | 1.7 | 1.7 | 1.7 |
| EPS (Rs) | 35.2 | 41.3 | 34.4 | 43.1 |
| Adjusted BVPS (Rs) | 252.1 | 389.4 | 401.9 | 422.2 |
| P/E (x) | 18.2 | 15.5 | 18.6 | 14.9 |
| P/ABV (x) | 2.5 | 1.6 | 1.6 | 1.5 |

Source: Company; Kotak Securities - Private Client Research

Bulk Deals

Trade details of bulk deals

| Date | Scrip name | Name of client | Buy/ Sell | Quantity of shares | Avg. price (Rs) |
|-------|--------------|--|--------------|-----------------------|--------------------|
| 5-Aug | Advanta | Acacia Partners Lp | B | 186,000 | 762.0 |
| 5-Aug | Advanta | Carlson Fund Equity Ac Asian Smallcap S | S | 300,000 | 762.0 |
| 5-Aug | Ahmednagar F | Mavi Investment Fund Ltd | S | 251,201 | 94.4 |
| 5-Aug | Anjani Synth | Narendra V. Bahuva | S | 54,077 | 36.4 |
| 5-Aug | Bihar Tubes | Sarojini Finance and Investments | B | 302,357 | 130.0 |
| 5-Aug | Bihar Tubes | Sarla B Gidwani | B | 75,000 | 141.2 |
| 5-Aug | Bihar Tubes | Pushpman Consultants | S | 100,000 | 127.8 |
| 5-Aug | Cni Res Ltd | Chandrakant J Vallakati | B | 250,000 | 5.5 |
| 5-Aug | Cni Res Ltd | Acme Craft Pvt Ltd | S | 293,199 | 5.5 |
| 5-Aug | DMC Inter | Vijender Goyal | S | 23,396 | 9.1 |
| 5-Aug | Ess Dee Alum | Deutsche Securities Mauritius Ltd | S | 500,000 | 335.0 |
| 5-Aug | Goldston Tec | Laxma Reddy Bandari | S | 175,000 | 126.4 |
| 5-Aug | Good Luck St | Hans Sec Broking P Ltd | S | 36,000 | 213.2 |
| 5-Aug | Gremac Infra | Mavi Investment Fund Ltd | S | 86,672 | 93.5 |
| 5-Aug | Harita Seat | Horticultural And Cons Eng P Ltd | B | 511,072 | 66.0 |
| 5-Aug | Harita Seat | Reliance Capital Trustee Co. Ltd. Ac Reliance Tax Saver Elss Fund | S | 511,072 | 66.0 |
| 5-Aug | Jaisal Secur | Rajagopalan K P | B | 25,000 | 37.3 |
| 5-Aug | Jaisal Secur | Canos Trading Pvt Ltd. | S | 28,000 | 37.3 |
| 5-Aug | LKP Mer Fin. | Padmakshi Fin .Serv.P.Ltd. | B | 150,000 | 124.9 |
| 5-Aug | Org Informat | Deutsche Bank Ag London Gdr Ac | S | 230,000 | 31.6 |
| 5-Aug | Parekh Alum | Manish Maru | B | 180,000 | 140.1 |
| 5-Aug | Parekh Alum | Pioneer Nirman India Private L | S | 147,633 | 140.2 |
| 5-Aug | Pioner Embro | Birla Global Finance Company Ltd | S | 71,389 | 42.7 |
| 5-Aug | Prajay Eng S | Deutsche Securities Mauritius Ltd | B | 377,443 | 71.4 |
| 5-Aug | Prajay Eng S | Deutsche Bank Ag London GDR Ac | S | 377,443 | 71.4 |
| 5-Aug | Spanc Telesy | Intell Invofin India Pvt Ltd | B | 258,293 | 93.5 |
| 5-Aug | Spanc Telesy | Ashok R Ruia | S | 268,925 | 93.5 |
| 5-Aug | Vertex Secur | Samir S Shah | B | 51,590 | 31.8 |
| 5-Aug | Yashraj Secr | Gopala Pillai Vijayakumar | B | 272,745 | 8.4 |
| 5-Aug | Yashraj Secr | Mujahid A. Shaikh | S | 145,000 | 8.4 |
| 5-Aug | Yashraj Secr | Irfan K. Kazi | S | 140,000 | 8.4 |

Source: BSE

Gainers & Losers

Nifty Gainers & Losers

| | Price (Rs) | % change | Index points | Volume (mn) |
|----------------|------------|----------|--------------|-------------|
| Gainers | | | | |
| SAIL | 151 | 4.4 | 4.3 | 14.3 |
| Reliance Pet | 174 | 3.1 | 3.9 | 21.5 |
| Infosys Tech | 1,659 | 1.2 | 1.8 | 1.2 |
| Losers | | | | |
| Reliance Ind | 2,242 | (2.4) | (13.3) | 4.1 |
| ONGC | 982 | (1.5) | (5.5) | 1.7 |
| TCS | 815 | (3.0) | (4.1) | 1.3 |

Source: Bloomberg

Forthcoming events

Company/Market

| Date | Event |
|--------|--|
| 12-Aug | FDC to consider buy-back of its shares |

Source: Bloomberg

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