investor's eye

Index

Take Five

Scrip	Reco Date	Reco Price	CMP	Target
Aban Offshore	03-Mar-05	330	**3,450**	5,420
HUL	24-Nov-05	172	**248**	280
Infosys	30-Dec-03	689	**1,787**	2,135
L&T	18-Feb-08	3,536	**3,133**	4,044
Tata Chem	31-Dec-07	411	**359**	535

Sharekhan Ltd
A-206, Phoenix House, 2nd Floor, Senapati Bapat Marg, Lower Parel, Mumbai - 400013, India.

Aditya Birla Nuvo

Apple Green

Stock Update

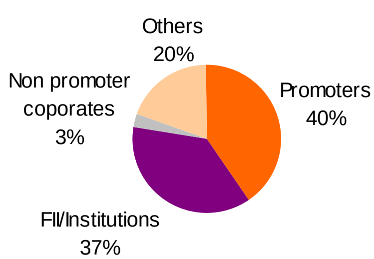
Insurance business ensures success

Buy; CMP: Rs1,507

Company details

Price target:	Rs2,035
Market cap:	Rs14,317 cr
52 week high/low:	Rs2502/1138
NSE volume: (No of shares)	1.1 lakh
BSE code:	500303
NSE code:	ABIRLANUVO
Sharekhan code:	INDRAYON
Free float: (No of shares)	5.7 cr

Shareholding pattern



Price chart

Price performance

(%)	1m	3m	6m	12m
Absolute	7.8	-23.2	-3.9	30.6
Relative to Sensex	-3.5	-20.5	8.8	2.0

Result highlights

- The consolidated revenues of Aditya Birla Nuvo (ABN) grew by 43.4% year on year (yoy) to Rs3,804.4 crore in Q4FY2008. The growth was driven by the solid performance of the insurance business, which grew by 78.3% yoy to Rs1,477 crore, contributing 39% to the overall revenues. The garment, insulator, financial service, carbon black and telecom businesses also contributed well to the overall growth.
- The share of the high-growth businesses (garments, life insurance, business process outsourcing [BPO], software and telecom) in the total sales in Q4FY2008 improved to 76% as compared with 73% in the same period last year.
- However, the operating profit margin (OPM) declined by 560 basis points to 5.2% on account of margin pressure in the key business segments and increased contribution of the insurance division. Consequently, the operating profit declined by 31% to Rs197 crore.
- The telecom, insulator, rayon, textile and financial service businesses witnessed improvement in the profit before interest and tax (PBIT) margin while the margin declined sharply in the garment, carbon black, BPO, fertiliser and life insurance businesses, thereby reducing the overall margin by 430 basis points to 2.1%.
- The company registered a net loss of Rs21.8 crore as against a net profit of Rs82.8 crore during the corresponding quarter last year due to higher depreciation and interest costs.
- The company continued to invest the cash generated from the value businesses into the growth businesses like life insurance and telecom. The company is also planning for aggressive retail expansion and joint venture for value-added fabrics.

Result table Rs (cr)

Particulars	Q4FY2008	Q4FY2007	% yoy	FY2008	FY2007	% yoy
Net sales	3804.4	2652.2	43.4	12134.0	8366.8	45.0
Total expenditure	3607.4	2366.7	52.4	11125.9	7291.0	52.6
Operating profits	197.0	285.4	-31.0	1008.1	1075.7	-6.3
Other income	44.0	20.1	119.2	93.1	63.9	45.8
EBIDTA	241.0	305.5	-21.1	1101.3	1139.6	-3.4
Interest	132.3	109.9	20.4	425.0	363.3	17.0
PBDT	108.7	195.6	-44.4	676.2	776.2	-12.9
Depreciation	150.1	117.0	28.3	524.9	422.8	24.2
PBT	-41.3	78.6	-152.6	151.3	353.5	-57.2
Tax	35.5	16.8	111.6	125.9	111.9	12.5
PAT	-76.8	61.9	-224.2	25.4	241.6	-89.5
PAT after MI	-21.8	82.2	-126.6	150.8	280.9	-46.3
OPM (%)	5.2	10.8		8.3	12.9	
EBIDTA (%)	6.3	11.5		9.1	13.6	
PATM (%)	-0.6	3.1		1.2	3.4	

- At the current market price, the stock trades at a price/ earnings ratio of 40.2x FY2009E consolidated earnings and enterprise value(EV)/earnings before interest, depreciation, tax and amortisation (EBIDTA) of 13.0x FY2009E. Based on the sum-of-the-parts valuation of the merged entity, we estimate the fair value of ABN to be Rs2,035 per share. We maintain a Buy recommendation on ABN with a 12-month price target of Rs2,035.

Top line grew by 43.4% yoy

During Q4FY2008, the company witnessed a growth of 43.4% in its consolidated revenues to Rs3,804.4 crore on the back of the solid performance of its life insurance, carbon black, insulator and telecom businesses. The insurance revenues at Rs1,477 crore contributed 38.8% to the overall revenues after aggressive branch expansion instigated a massive 78.3% year-on-year (y-o-y) growth. Garment (up 26.2%), insulator (up 64.2%), financial service (up 43.5%), carbon black (up 47.3%) and telecom (up 39.6%) businesses also contributed well towards the growth. Only the textile business experienced a decline in revenues on a y-o-y basis during the quarter. The contribution of the high-growth businesses to the total sales improved to 76% in Q3FY2008 as compared with 73% in the same period last year.

Overall profitability masked by insurance losses

The operating profit declined by 31% to Rs197 crore with the margin falling by 560 basis points to 5.2%. The profit erosion was primarily due to an increase in the losses incurred by the insurance division, which is still at its nascent stage. The consolidated PBIT during Q4FY2008 declined by 52.3% to Rs81 crore. However, excluding the insurance business, the PBIT grew by 20% to Rs281.6 crore.

Segmental results Rs (cr)

Particulars	Q4 FY08	Q4 FY07	% yoy chg	FY08	FY07	% yoy chg
Revenue						
Garments	276.3	218.9	26.2	1025.8	830.4	23.5
Rayon yarn	127.8	107.4	18.9	475.2	441.5	7.6
Carbon black	267.1	181.3	47.3	863.8	738.9	16.9
Insulators	115.2	70.2	64.2	398.7	225.3	77.0
Textiles	153.1	159.0	-3.7	594.9	625.0	-4.8
Fertilisers	246.8	197.7	24.8	765.0	778.5	-1.7
Financial services	65.8	45.9	43.5	197.5	137.5	43.6
Life insurance	1477.2	828.3	78.3	4012.2	2068.8	93.9
Software	26.8	24.9	7.8	101.1	93.6	8.0
BPO	428.4	373.9	14.6	1577.7	1015.5	55.4
Telecom	626.8	449.1	39.6	2135.6	1421.8	50.2
Total revenue	3811.3	2656.5	43.5	12147.4	8376.8	45.0

Segmental results Rs (cr)

Particulars	Q4 FY08	Q4 FY07	% yoy chg	FY08	FY07	% yoy chg
PBIT						
Garments	-4.4	16.5	-126.9	0.0	64.6	-100.0
Rayon yarn	25.4	12.3	106.8	91.5	88.7	3.1
Carbon black	30.9	29.4	5.1	130.3	116.0	12.3
Insulators	37.4	20.3	84.0	122.5	42.8	186.3
Textiles	11.3	11.2	1.7	48.7	52.1	-6.6
Fertilisers	31.1	31.2	-0.2	84.5	100.9	-16.3
Financial services	17.6	6.8	156.9	44.4	34.2	29.9
Life insurance	-200.6	-64.8	-	-437.7	-135.5	-
Software	2.9	2.8	5.1	6.5	4.9	32.7
BPO	-8.7	7.9	-210.8	-26.5	33.8	-178.3
Telecom	138.1	96.2	43.6	476.3	271.5	75.5
Total PBIT	81.0	169.7	-52.3	540.5	674.0	-19.8
PBIT margin (%)						
Garments	-1.6	7.5		0.0	7.8	
Rayon yarn	19.9	11.4		19.3	20.1	
Carbon black	11.6	16.2		15.1	15.7	
Insulators	32.4	28.9		30.7	19.0	
Textiles	7.4	7.0		8.2	8.3	
Fertilisers	12.6	15.8		11.0	13.0	
Financial services	26.7	14.9		22.5	24.8	
Life insurance	-13.6	-7.8		-10.9	-6.5	
Software	10.8	11.1		6.4	5.2	
BPO	-2.0	2.1		-1.7	3.3	
Telecom	22.0	21.4		22.3	19.1	
Total PBIT	2.1	6.4		4.4	8.0	

Garments—margin hit by exports

The revenues of the garment business increased by 26.2% yoy to Rs276.3 crore during Q4FY2008. The exports grew by 17.7% to Rs54.6 crore on the back of a volume growth of 46.7%. However, the average sales realisations for exports declined by 19.8% to Rs310.2 per piece. In the domestic market, the company capitalised on its portfolio of strong brands as the average realisations improved by 14.4% to Rs794.3 per piece. Domestic sales increased by 28.1% to Rs222.4 crore. The company launched 113 stores during FY2008, taking its retail presence to 5.1 lakh square feet across 253 stores. This along with the higher lease rentals put the margin under pressure in the domestic markets while the weaker dollar affected the profitability of the exports. Consequently, the division registered a segmental loss of Rs4.4 crore as against a PBIT of Rs16.5 crore during the same period last year. Given that the rising income levels of Indian consumers would fuel demand for branded garments in future, we maintain a positive view on the business.

Rayon—lifted by chlor-alkali business

The revenues of the rayon business grew by 18.9% yoy to Rs127.8 crore. The chemical business grew by 49.4% to

Rs48.7 crore on account of higher volumes (up 27.2%)and realisations (up 12.9%). The average VFY realisation further improved by 2.5% yoy to Rs184.5 per kilogram though the volume declined by 4.1%. The PBIT margin during the quarter improved by 850 basis points to 19.9% as the long-term contracts were revised at higher prices to absorb the rising pulp and sulphur prices. Consequently, the profit increased by 107% to Rs25.4 crore.

Carbon black—volume driven growth

The carbon black business recorded the highest ever revenue during the quarter as the revenues increased by 47.3% yoy to Rs267.1 crore. The sales volume increased by 32.8% with the full utilisation of the newly added capacity of 60,000 metric tonne (MT) during Q2FY2008. The sales realisation during the quarter improved by 10.9% to Rs4,4418 per tonne. However, the improved realisations were insufficient to pass on the sharp rise in crude oil prices completely, which put pressure on the margin. The increase in oil prices is passed on to customers with a time lag of three to four months. The PBIT during the quarter increased by a mere 5.1% to Rs30.9 crore with the margin declining by 460 basis points to 11.6%.

Insulator—buoyed by investments in power distribution

The insulator business reported solid performance as the revenues grew by 64.2% yoy to Rs115.2 crore. The revenue growth was contributed by a 31.3% growth in the volumes and a 25% growth in the realisation. Focus on high rating insulators led to better realisation during the quarter. The outlook for the business remains bullish, as the power sector continues to attract new investments with the government focusing on the power sector reforms and initiatives. New capacity of 12,000MT is expected to be operational by April 2008, which would take the total capacity to 48,000MT.

Textile—rising input costs put pressure

The textile business registered weaker performance during the quarter with the net sales declining by 3.7% yoy to Rs153.1 crore. The company continues to downsize the synthetic yarn segment, excluding which the revenues increased by 11.5%. Though downsizing the synthetic segment, focusing on the high-value flax and worsted segments and exiting from the synthetic segment have led to a marginal improvement in the margin, a higher raw material cost put the margin under pressure. Cheaper imports continued to affect the profitability of the linen business whereas the higher wool prices affected the worsted segment. The segmental PBIT during the quarter increased by 1.7% to Rs11.3 crore.

Fertilisers—operational at full capacity

The fertiliser plant continued to operate at its full capacity after a major breakdown in Q2FY2008. During Q4FY2008, the sales volume declined by 3.3% to 268,000MT from 277,000MT during the same quarter last year. In value terms, the sales increased by 24.8% yoy to Rs246.8 crore on account of higher realisations resulting from the recovery of higher energy cost. The PBIT remained flat at Rs31.1 crore with the margin declining by 320 basis points to 12.6% due to higher energy cost.

Any favourable change in the fertiliser policy may prompt capacity expansion by the company, which would lead to volume growth and better profitability.

Life insurance—new thrust through wider sales network

The insurance business displayed a solid y-o-y growth of 78.3% in the revenues to Rs1,477 crore, thereby maintaining its growth momentum. However, on sequential basis, the revenues remained flat. The first year premium (both individual and group) grew by 134% yoy to Rs867 crore. The company is aggressively ramping up its distribution network to over 1,000 branches by FY2009 to regain its lost market share from the other private players. The company has scaled up its distribution reach from 137 branches and 25,124 direct selling agents to 339 branches and over 1 lakh direct selling agents. The renewal premium during the same period witnessed a 36.5% y-o-y growth. The loss at the PBIT level grew to Rs201.9 crore as against a loss of Rs66 crore in Q4FY2007, due to an aggressive ramp-up of the distribution network and growing share of the new business premium.

Financial services

The financial service segment registered a 43.5% y-o-y growth in its revenues, which increased to Rs65.8 crore from Rs45.9 crore during Q4FY2007. The performance was primarily driven by the performance of the asset management company (AMC). The assets under management (AUM) for the AMC increased by 83% yoy to Rs34,864 crore with the share of the equity AUM (including offshore funds) declining from 34.4% to 28.6%. The division benefited from the expanded distribution network of 78 branches. The segmental PBIT during the quarter increased by 156.9% to Rs17.6 crore with the margin improving by 1,180 basis points to 26.7%.

BPO

The BPO operations continue to suffer on account of weak dollar and US slowdown. The revenues increased by 14.6% to Rs428.5 crore from Rs373.9 crore during the same quarter last year, while the PBIT registered a loss of Rs8.7 crore as against a profit of Rs7.9 crore. The number of operating seats increased by 21.5% to 9,089 during the quarter while the number of employees increased by 18.3% to 12,908. The company is trying to improve its seats/site utilisation as well as revenue mix in favour of the knowledge process outsourcing (KPO) segment. Going forward, we expect the BPO operations to continue to suffer due to the rising rupee and higher operating cost s thus severely affecting its profitability.

Telecom—another stellar performance

The telecom revenues grew by 39.6% yoy to Rs626.8 crore from Rs449.1 crore during Q4FY2007 on the back of a 71.4% y-o-y increase in the number of subscribers. Sequentially, the revenue was up 15.5% yoy to Rs626.8 crore. With the addition of 29.7 lakh subscribers in the current quarter, the subscriber base at 240.2 lakh was up 14.1% sequentially. The PBIT margin of the telecom business expanded by 60 basis points to 22.0% from 21.4% during the same quarter last year, while sequentially the margin remained nearly flat. Idea Cellular is expected to roll out its services in Mumbai and Bihar circles by June 2008, and in the other nine circles after the allocation of spectrum. In view of future expansion plans costing over Rs8,000 crore, we expect the momentum in Idea Cellular to continue despite a decline in the average realisations per user.

Valuation and view

At the current market price, the stock trades at a price/ earnings ratio of 40.2x FY2009E consolidated earnings and EV/EBIDTA of 13.0x FY2009E. Given the diverse businesses of ABN, the company is best valued using the sum-of-the-parts method. Based on the method, we estimate the fair value of ABN to be Rs2,035 per share. We maintain a Buy recommendation on ABN with a price target of Rs2,035.

Valuation table

Particulars	FY2006	FY2007	FY2008	FY2009E
Net sales (Rs cr)	5006.9	8366.8	12134.0	16091.9
Net profit (Rs cr)	206.7	280.4	104.6	426.3
No of shares (cr)	8.4	9.3	11.4	11.4
EPS (Rs)	24.8	30.0	9.2	37.5
% y-o-y change	*215.3*	*35.6*	*-62.7*	*307.4*
PER (x)	60.9	50.2	163.9	40.2
Price/BV (x)	6.3	4.0	4.4	2.2
EV/EBIDTA(x)	25.7	17.4	21.5	13.0
Dividend yield (%)	0.3	0.4	0.4	0.5
RoCE (%)	7.8	7.1	3.8	3.9
RoNW (%)	12.9	10.0	2.8	7.3

SOTP valuation

Particulars	Multiple base	Multiple year	Multiple value (Rs)	Multiple (x)	Value (Rs cr)
Garments	Revenue	FY2009E	1268.2	1.0	1,268.2
Rayon	OP	FY2009E	124.1	5.0	620.5
Carbon black	OP	FY2009E	188.5	6.0	1,131.2
Textiles	OP	FY2009E	73.0	6.0	438.1
Fertilisers	OP	FY2009E	131.3	7.0	919.4
Insulators	OP	FY2009E	180.8	7.0	1,265.9
BPO	Revenue	FY2009E	1735.5	0.5	867.7
ITES	Revenue	FY2009E	111.2	0.5	55.6
Telecom					11,460.5
Insurance					4,786.3
AMC					1,318.3
Hindalco Industries					174.1
Business EV					24,305.9
Less- Net debt					1,148.0
Equity value					23,157.9
Equity capital					113.81
Par value					10.00
No of shares (cr)					11.4
Fair value per share					**2,035.0**

The author doesn't hold any investment in any of the companies mentioned in the article.

State Bank of India

Apple Green

Stock Update

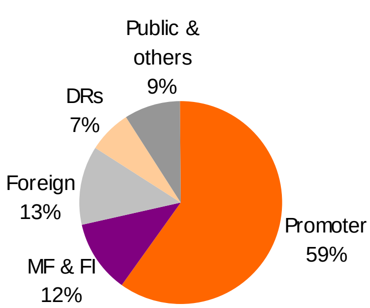
Price target revised to Rs2,315

Buy; CMP: Rs1,779

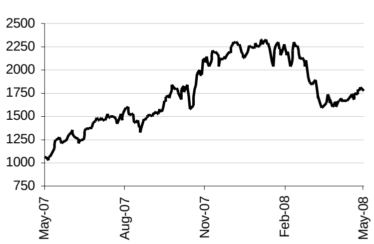
Company details

Price target:	Rs2,315
Market cap:	Rs112,339 cr
52 week high/low:	Rs2540/1069
NSE volume: (No of shares)	11.0 lakh
BSE code:	500112
NSE code:	SBIN
Sharekhan code:	SBI
Free float: (No of shares)	25.4 cr

Shareholding pattern



Price chart



Price performance

(%)	1m	3m	6m	12m
Absolute	10.0	-16.6	-14.1	77.2
Relative to Sensex	-1.6	-13.6	-2.7	38.4

Result highlights

- The Q4FY2008 profit after tax (PAT) of State Bank of India (SBI) came in at Rs1,883.2 crore, indicating a growth of 26.1% year on year (yoy).
- The reported net interest income (NII) for the quarter stood at Rs4,800.6 crore, up 5.6%. However, after adjusting for the one-time items in Q4FY2008 and the year-ago period, the NII comes in at Rs4,415.6 crore, up only 1% yoy.
- The non-interest income growth was muted at 5.6% yoy, due to a higher dividend income base last year, losses in the foreign exchange segment and flattish treasury income growth.
- Notably, the operating expenses were flat at Rs3,245.4 crore, primarily due to net effects of a Rs475-crore write-back of gratuity and pension related provisions as well as a one-time provision of Rs200 crore related to wage hike.
- The provisions and contingencies for Q4FY2008 were up 14.6% yoy. Amongst the provisions, those for the non-performing assets (NPAs) witnessed a spike of 46% yoy and reached Rs1,067 crore. However, the increase was offset by lower investment depreciation and provisions for standard assets compared with the year-ago period. Notably, the bank has not made any specific provisions for mark-to-market (MTM) losses arising from the credit-linked notes portfolio, which is estimated at ~ $800 million.
- SBI's asset quality deteriorated further on absolute and relative terms, thereby causing concern. The gross NPAs (GNPA) increased by 28.4% yoy to Rs12,837 crore, while the net NPAs (NNPA) jumped up by 41.2% yoy to Rs7,424 crore.
- The management stated that the bank is witnessing change in the behavior of the performing accounts following the announcement of the debt-waiver scheme. Consequently, the agri-NPAs have increased by ~ Rs1,000 crore.

Result table Rs (cr)

Particulars	Q4FY08	Q4FY07*	% yoy	% qoq	FY2008	FY2007	% yoy
Net interest income	4800.6	4546.7	5.6	12.8	17021.2	15058.2	13.0
Net interest income (adj)	4415.6	4371.7	1.0	3.7	17021.2	15058.2	13.0
Non-interest income	2817.2	2667.7	5.6	4.4	8694.9	6765.3	28.5
Treasury income	*296.5*	*299.3*	*-1.0*	*-53.9*	*946.3*	*-72.9*	-
CEB	*3060.2*	*2337.3*	*30.9*	*198.9*	*5914.3*	*4804.5*	*23.1*
Forex income & others	*-539.5*	*31.1*	-	*-152.4*	*1834.3*	*2033.7*	*-9.8*
Net income	7617.8	7214.4	5.6	9.6	25716.2	21823.5	17.8
Operating expenses	3245.4	3246.0	0.0	-1.5	12608.6	11823.5	6.6
Operating profit	4372.4	3968.4	10.2	19.5	13107.6	9999.9	31.1
Core operating profit (excluding treasury)	4075.9	3669.1	11.1	35.1	12161.2	10072.9	20.7
Provisions & contingencies	1619.2	1412.6	14.6	101.3	2668.7	2409.6	10.7
PBT	2753.2	2555.8	7.7	-3.6	10438.9	7590.3	37.5
Provision for taxes	870.0	1062.6	-18.1	-16.9	3709.8	3049.0	21.7
Net profit	1883.2	1493.2	26.1	4.1	6729.1	4541.3	48.2

CEB: Commission, exchange, brokerage

- Various subsidiaries of the bank continued to perform well in their respective businesses. The management is confident about approval for the State Bank of Saurashtra merger proposal.
- At the current market price of Rs1,779, SBI trades at 16.3x 2009E earnings per share, 7.4x 2009E pre-provisioning profit per share and 2.1x 2009E book value per share. We maintain our Buy call with a revised price target of Rs2,315.

Muted NII growth

The reported NII for the quarter stood at Rs4,800.6 crore, indicating a muted growth of 5.6% yoy. The growth was muted primarily due to pressure on the margin. After adjusting the periods under review for one-time items, the growth in the adjusted NII is further lower at 1% yoy to Rs4,415.6 crore. The Q4FY2008 NII has been adjusted for the interest income of Rs385 crore from income tax refunds, while the year-ago period has been adjusted for the interest income from the cash reserve ratio (CRR) balance maintained with the Reserve Bank of India (RBI).

NIM remains under pressure

The net interest margin (NIM) continued to witness pressure during Q4FY2008, primarily due to the increased cost of funds. As evident in the table below, while the yields on assets improved by 34 basis points, the 82-basis-point increase in the cost of funds outpaced the yield improvement, which culminated into a 48-basis-point decline in the NIM.

Yield analysis (%)

Particulars	Q4FY08	Q4FY07	yoy bps
Yield on assets	7.95	7.61	34
Cost of funds	5.14	4.32	82
NIM (calculated) on assets	2.81	3.29	-48
NIM Adjusted	2.58	3.16	-59

Deposits up 23.4% yoy, CASA stable

SBI's deposits as at the end of Q4FY2008 stood at Rs5,37,406 crore, indicating a growth of 23.4% yoy. The deposit growth was well in line with the advances growth. Notably, the current account and savings account (CASA) ratio was largely stable at 43% compared with 44% a year ago.

Growth in advances healthy at 23% yoy

The growth in advances for the quarter stood at a healthy 23.4% yoy to Rs422,181 crore. The healthy growth was achieved on the back of +20% year-on-year (y-o-y) growth across the board. Notably, the international advances were up 50.4% yoy as the company participated in opportunities arising from the acquisition spree of Indian companies overseas.

Advances profile Rs (cr)

Particulars	Q4FY08	Q4FY07	% yoy	% qoq
Retail	88,549	73,590	20.3	8.3
Housing	45,097	37,982	18.7	6.1
SME	78,184	61,890	26.3	13.1
Agriculture	43,605	34,992	24.6	5.3
Corporates	152,663	123,195	23.9	11.8
Mid	44,044	35,844	22.9	4.9
Large	108,619	87,351	24.3	14.8
International	58,135	38,652	50.4	4.9
Total advances	**422,181**	**342,232**	**23.4**	**6.8**

One-time items kept operating expenses in check

In Q4FY2008 the growth in the operating expenses was contained at 0.4% yoy, primarily due to one-time items. During the quarter, the bank wrote back Rs475 crore related to gratuity and pension provision. The write-back helped the bank offset the wage hike provision of Rs200 crore and a 38.6% y-o-y growth in the other operating expenses. The spike in the other operating expenses was due to a jump in the depreciation charge and higher other expenses as the bank incurred cost on redesigning branches and network expansion.

Operating expenses details Rs (cr)

Particulars	Q4FY08	Q4FY07	% yoy	% qoq
Staff cost	1,570	2,024	-22.4	-28.5
Payments to employees	2,044	1,864	9.7	12.7
Contribution for employees	-475	160	-396.0	-224.6
Other operating expenses	1,675	1,208	38.6	52.4
Total operating expenses	**3,245**	**3,232**	**0.4**	**-1.5**

Provisions for NPAs up 46% yoy

The provisions for NPAs witnessed a spike of 46% yoy and reached Rs1,067 crore. Despite that the overall provisions grew by a moderate 14.6% yoy to Rs1,619 crore, as investment depreciation and provisions for standard assets were significantly lower compared with that in the year-ago period. The investment depreciation provision includes MTM losses of Rs168 crore on the securities issued to the Government of India in connection with SBI's rights issue. Notably, the bank has not made any specific provisions for MTM losses arising from its credit-linked notes portfolio, which is estimated at ~ $800 million.

Provisions break-up Rs (cr)

Particulars	Q4FY08	Q4FY07	% yoy	% qoq
Provisions for NPAs	1,067	731	45.9	140.2
Provisions for standard assets	249	299	-16.8	13.1
Investment depreciation	217	334	-35.2	277.1
Others	86.45	47.88	80.6	4.4
Total	1,619	1,413	14.6	101.3

AS-15 provisions charged against reserves

SBI provided for AS-15 expenses, representing transitional liability related to pension provisions, against reserves. The total amount of AS-15 liability charged against reserves is Rs4,218 crore on the stand-alone books and additional Rs1,344 crore in the books of the subsidiaries/associates.

Asset quality remains a concern

The bank's asset quality deteriorated further on absolute and relative terms, which is a cause for concern. The GNPA increased by 28.4% yoy to Rs12,837 crore, leading to a 12-basis-point increase in the %GNPA to 3.04%. Further, the NNPA too jumped up by 41.2% yoy to Rs7,424 crore, while the %NNPA increased by 22 basis points to 1.78%. Despite the increased provisions for NPAs, the provisioning coverage ratio declined to 42.2% from 47.4% a year ago.

Our discussion with the management revealed that the bank witnessed an increase of Rs1,000 crore in agriculture NPAs. According to the management, the increase in agri-NPAs is due to a change in the behavior of the performing accounts following the announcement of the debt-waiver scheme. The Government of India, with a view to releasing farmers from their debt burden, had announced the debt-waiver scheme.

Asset quality

Particulars	Q4FY08	Q4FY07	% yoy	% qoq
GNPA	12837.0	9998.0	28.4	20.6
% GNPA	*3.04*	*2.92*	*12bps*	*35bps*
NNPA	7424.0	5258.0	41.2	32.3
% NNPA	*1.78*	*1.56*	*22bps*	*34bps*
Provisioning coverage (%)	42.2	47.4	-524bps	-511bps

Rights issue boosts CAR to 13.5%

The capital adequacy ratio (CAR) as at end of Q4FY2008 stood at a comfortable 13.47%, up from 12.34% in Q4FY2007 owing to the recently consummated rights issue.

Subsidiaries continue to perform well

- SBI Life, the life insurance business of the bank, generated premiums of Rs5,622 crore, up 92% yoy, helped by branch expansion.
- SBI Mutual Fund, the asset management business, too registered a robust performance with AUMs growing by 58% to Rs26,963 crore. In line, the PAT for FY2008 was up 76% yoy to Rs69.7 crore.
- SBI Caps witnessed an impressive growth of ~100% in net profit during FY2008 to Rs142.2 crore.
- SBI Factors grew its net profit by 115% yoy during FY2008. With a view to expanding its factoring business, SBI acquired Global Trade Finance during the quarter. After the acquisition, SBI Factors will hold a dominating position in the factoring business.
- Meanwhile, the performance of the associate banks was moderate at 12.1% yoy during FY2008, with most of the associate banks (except State Bank of Saurashtra) registering a healthy growth yoy.

Management confident about SBS merger

On the merger of associates, specifically the State Bank of Saurashtra (SBS), the management is confident about getting the approval in near future. According to the management, the delay is primarily due to legal ambiguity and stand-off over the need of parliamentary approval vs a cabinet approval for finalising the merger. Following a successful merger of State Bank of Saurashtra with SBI, the latter intends to start the process of amalgamating the other associates.

Valuation and view

We have fine-tuned our 2009 estimates and lowered our long-term growth estimates after factoring in additional information. Besides the estimates of the core banking business, we have revisited our estimates for the subsidiaries as well. Consequently, we are lowering our price target to Rs2,315 and reiterating our Buy recommendation on the stock. At the current market price of Rs1,779, SBI trades at 16.3x 2009E earnings per share, 7.4x 2009E pre-provisioning profit per share and 2.1x 2009E book value per share.

Valuation table

Particulars	FY05	FY06	FY07	FY08A	FY09E
Net profit (Rs cr)	4304.5	4406.7	4541.3	6729.1	6866.7
Shares in issue (cr)	52.6	52.6	52.6	63.1	63.1
EPS (Rs)	81.8	83.7	86.3	106.6	108.8
EPS growth (%)	16.9	2.4	3.1	23.6	2.0
PE (x)	21.8	21.2	20.6	16.7	16.3
P/PPP (x)	8.5	8.3	9.0	8.6	7.4
Book value	457.4	525.3	594.7	777.1	860.8
P/BV (x)	3.9	3.4	3.0	2.3	2.1
Adj book value	355.8	432.0	494.8	673.7	725.8
P/ABV (x)	5.0	4.1	3.6	2.6	2.5
RONW (%)	19.4	17.0	15.4	15.5	13.3
Cons book value (Rs)	618.9	707.4	802.0	967.2	1074.8
P/CBV (x)	2.9	2.5	2.2	1.8	1.7

The author doesn't hold any investment in any of the companies mentioned in the article.

Cement

Sector Update

Modest growth

In April 2008, major cement players reported marginal growth in their cement dispatches on account of capacity constrains and time required for new capacities to stabilise.

Ambuja Cements posted a 0.5% growth in its cement dispatches to 1.48 million tonne. The dispatches were ~4.2% lower than the production on account of time lag for diverting the export quantity to the domestic market. AV Birla group comprising of Grasim Industries and UltraTech Cement reported a 2.2% growth in its cement dispatches to 2.71 million tonne, while ACC reported a decline of 0.6% to 1.73 million tonne. Volumes of ACC were affected due to maintenance work and power shortage.

Dispatches during April 2008

Company	Apr-08	Apr-07	% yoy chg
ACC	1.73	1.74	-0.6
Ambuja Cements	1.48	1.47	0.5
AV Birla Group	2.71	2.65	2.2

The government has raised excise duty on cement sold at a price of more than Rs250 a bag. Cement sold at these prices would now attract an excise duty of 12% ad valorem as against that of Rs600 per tonne earlier. This will lead to higher excise incidence for players selling cement in markets, where cement prices are above Rs250 a bag. The average retail cement price in the third weak of April was Rs256 a bag in Chennai, Rs265 per bag in Bangalore and Rs251 a bag in Mumbai.

Cement prices	Excise duty	
	Old	New
Below Rs190 a bag	Rs350 per tonne	Rs350 per tonne
Between Rs190-250 a bag	12% ad valorem	12% ad valorem
Above Rs250 a bag	Rs600 per tonne	12% ad valorem

Retail prices of cement in the 3rd weak of April

City	Cement prices
Ahmadabad	223
Mumbai	251
Delhi	232
Chandigarh	240
Kolkata	240
Chennai	256
Bangalore	265
Hyderabad	216

Source: CMIE

As a step to control inflation, which has breached the 7% mark, the government has imposed a ban on cement export. In FY2008 India exported 3.65 million tonne of cement and 2.37 million tonne of clinker as against the domestic cement consumption of 164.01 million tonne. As the cement and clinker export comprises only 3.7% of the total domestic consumption, it is not likely to have a major impact on the average cement price. However it has impacted cement prices in Gujarat. Our feedback from dealers indicates that cement prices in Gujarat have declined by about Rs5 a bag.

Outlook

At the end of FY2008, the reported annualised installed capacity of the industry stood at 188.97 million tonne as compared to 166.73 million tonne at the end of FY2007. Out of the total 22.24 million tonne capacity added in FY2008, about 14.35 million tonne were added in March 2008. Aggressive capacity addition along with the increasing concern of the government to check the rising inflation has considerably reduced the pricing power of the industry. On the cost front, the industry has witnessed a sharp increase in fuel prices. Thus unlike the past, where the earnings were driven primarily by high cement prices, we believe that going ahead volume and cost saving will drive the earnings of the cement companies.

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Sharekhan Stock Ideas

Evergreen

Housing Development Finance Corporation
HDFC Bank
Infosys Technologies
Larsen & Toubro
Reliance Industries
Tata Consultancy Services

Apple Green

Aditya Birla Nuvo
Apollo Tyres
Bajaj Auto
Bank of Baroda
Bank of India
Bharat Bijlee
Bharat Electronics
Bharat Heavy Electricals
Bharti Airtel
Canara Bank
Corporation Bank
Crompton Greaves
Elder Pharmaceuticals
Grasim Industries
HCL Technologies
Hindustan Unilever
ICICI Bank
Indian Hotels Company
ITC
Mahindra & Mahindra
Marico
Maruti Suzuki India
Lupin
Nicholas Piramal India
Punj Lloyd
Ranbaxy Laboratories
Satyam Computer Services
SKF India
State Bank of India
Tata Motors
Tata Tea
Wipro

Cannonball

Allahabad Bank
Andhra Bank
Gateway Distriparks
International Combustion (India)
JK Cement
Madras Cement
Shree Cement
Tourism Finance Corporation of India

Emerging Star

3i Infotech
Aban Offshore
Alphageo India
Axis Bank (UTI Bank)
Balaji Telefilms
BL Kashyap & Sons
Cadila Healthcare
Jindal Saw
KSB Pumps
Navneet Publications (India)
Network 18 Fincap
Nucleus Software Exports
Orchid Chemicals & Pharmaceuticals
Patels Airtemp India
Television Eighteen India
Thermax
Zee News

Ugly Duckling

Ashok Leyland
Aurobindo Pharma
BASF India
Ceat
Deepak Fertilisers & Petrochemicals Corporation
Genus Power Infrastructures
ICI India
India Cements
Indo Tech Transformers
Ipca Laboratories
Jaiprakash Associates
KEI Industries
Mahindra Lifespace Developers
Mold-Tek Technologies
Orbit Corporation
Punjab National Bank
Ratnamani Metals and Tubes
Sanghvi Movers
Selan Exploration Technology
SEAMEC
Shiv-Vani Oil & Gas Exploration Services
Subros
Sun Pharmaceutical Industries
Surya Pharmaceutical
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