

Post Conference Notes

December 11, 2007



Edelweiss
Ideas create, values protect

Edelweiss Financial Services Conference 2007 Mumbai



10th - 11th December, 2007
The Taj Mahal Palace & Tower, Mumbai

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Preface

We concluded the 2007 conference calendar with a two-day (December 10 and 11) Financial Services Conference in Mumbai. Over two days, nine banks and ten non-banking financial services companies met around 100 investors. We believe, the BFSI space is continuously evolving, offering immense opportunities to financial intermediaries by constantly redefining boundaries, entering adjacent markets, and innovating. Interactions with companies attending the conference reaffirmed our belief in this strong growth story.

Core to our hypothesis is the belief that over the next three years, nominal GDP (ex-agri) is expected to grow at 14-15%, and revenues from the financial services sector (which will lead this growth) are expected to grow at 22-24%. We believe the current stage of economic growth in India, where savings and capital formation is at ~30% of GDP, offers serious opportunities in financial intermediation by banks, mutual funds, insurance companies, pension funds, brokers, and investment banks.

* Key takeaways

Key findings of this conference in terms of stocks were Geojit Financial Services, ING Vysya Bank, IndusInd Bank, and Mahindra & Mahindra Financial Services. We believe there is a perceptible change in the business strategies and fundamentals of these companies and it will be interesting to watch them, going forward.

Credit growth is expected to pick up in Q4, after a sluggish first half, while interest rates are expected to soften. We believe the consolidation theme among banks will play out over the next two years and therefore, re-rating of small private banks offers serious return potentials.

The broking segment will continue to see volume growth, which will be driven by three factors: (1) foreign institutional investors' interest in emerging economies and we believe that brokerage houses have built their research teams to cater to these clients; (2) continuous penetration from brokerage houses will ensure increase in participation from the retail segment; and (3) turnover velocity will improve over the next few years, closer to matured markets, with decline in promoters holdings, increase in FII limit in many sectors, and increased fund raising from capital markets.

Savings products such as mutual funds and insurance will continue their growth momentum. However, concerns on ability of insurance companies to ramp up their agency network remain. Non-banking finance companies have started actively focusing on new products such as rural housing finance, personal loans, and customized used vehicle financing to help fulfill the needs of their customers.

Our top picks at current valuations are Kotak Mahindra Bank, State Bank of India, Yes Bank, SREI Infrastructure, and Shriram City Union Finance.

At a Glance

	M Cap (INR) bn	M Cap USD mn	Price (INR)	P/B FY08E	P/B FY09E	EPS FY08E (INR)	ROE FY08E (%)	P/E FY08E (x)	P/E FY09E (x)	PE / G FY07-09	EPS CAGR FY07-09 (%)	Div yield FY08E (%)	P/PPOP FY08E (x)	Rating
Public Sector Banks														
Allahabad Bank	55	1,331	120	1.3	1.1	17.8	20.3	6.7	5.9	0.7	10.2	2.5	4.0	Buy
Indian Overseas Bank	99	2,424	185	2.1	1.7	20.8	26.1	8.9	7.7	0.6	14.3	1.6	5.4	Buy
Oriental Bank	71	1,721	282	1.2	1.1	33.2	15.2	8.5	7.4	1.3	6.6	0.7	5.5	Accum.
Pun. Natl. Bank	211	5,149	667	1.8	1.6	59.9	17.4	11.1	10.6	0.8	13.7	1.5	6.1	Buy
SBI (stand alone)	1,284	31,306	2,446	3.6	3.1	112.9	17.6	21.7	19.0	1.0	22.3	0.6	8.4	Buy
SBI (Cons)	1,109	27,722	2,166	2.3	2.0	152.7	17.6	14.2	12.5	0.7	19.8	0.6	7.4	Buy
Syndicate Bank	62	1,510	117	1.5	1.3	14.0	22.0	8.4	7.9	2.2	3.9	2.4	5.1	Buy
Union Bank (I)	106	2,582	207	1.9	1.6	20.9	20.5	9.9	8.2	0.4	22.6	1.7	4.7	Buy
Private Sector Banks														
Axis Bank	336	8,207	940	3.8	3.5	27.2	16.0	34.6	28.8	1.7	20.0	0.5	18.6	Buy
Centurion Bank	109	2,647	59	4.9	4.5	1.1	12.1	51.2	36.1	1.1	44.5	-	16.5	Buy
Federal Bank	56	1,367	328	1.4	1.3	24.0	15.0	13.7	12.8	1.2	11.0	1.2	7.6	Buy
HDFC Bank	631	15,391	1,775	5.1	4.5	45.6	17.3	38.9	29.6	1.3	29.6	0.4	18.0	Buy
ICICI Bank	1,412	34,439	1,316	3.1	2.9	36.9	11.4	35.7	28.6	2.3	15.3	0.8	16.4	Accum.
ICICI Bank#	990	24,154	923	2.2	2.0	36.9	10.6	25.0	20.1	1.6	15.3	1.1	11.5	Accum.
Kotak Mahindra Bank#	451	11,007	1,317	7.3	6.1	25.9	19.6	45.3	35.8	1.3	33.9	0.1	80.0	Buy
Karnataka Bank	27	670	227	2.0	1.8	16.3	15.1	14.0	11.8	0.9	15.2	1.5	6.9	Accum.
Yes Bank	72	1,609	262	6.1	3.9	5.7	16.2	46.2	29.7	0.8	61.6	-	24.5	Buy
Speciality Finance														
HDFC Ltd	870	21,219	2,947	8.0	6.6	69.8	24.3	42.2	36.3	2.9	14.4	0.3	-	Accum.
HDFC Ltd#	608	14,819	2,058	7.2	6.2	69.8	24.3	29.5	25.3	2.0	14.4	0.4	-	Accum.
LIC HF	33	805	387	1.8	1.7	33.0	18.1	11.7	9.7	1.1	10.3	2.1	-	Buy
IDFC	291	7,095	225	5.3	4.6	4.5	13.1	49.6	30.0	1.7	29.3	0.4	-	Accum.
Power Finance Corporation	309	7,529	269	3.0	2.7	11.9	13.8	22.6	19.4	0.7	32.0	1.3	-	Accum.
Reliance Capital	595	14,509	2,422	10.3	9.5	24.8	10.5	97.5	79.5	-	0.0	-	-	Under Review
SREI	24	579	214	3.9	4.2	9.9	19.4	21.6	17.1	0.8	27.2	0.5	-	Buy
Shriram City Union Finance	14	334	345	3.3	2.3	20.3	22.8	17.0	11.6	0.5	34.5	0.9	-	Buy

adjusted for subsidiaries

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AXIS BANK

INR 940

Future perfect

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 Ideas create, values protect
Representative: Mr. Hemant Kaul, President, Retail

* Re-branding exercise successful

The bank's re-branding exercise has been a success, through which the status of Axis Bank as a "new generation private sector bank" has been re-emphasized. Brand acceptance has been good, both from customers and employees, and concerns on any business loss due to change in name have disappeared. Majority of the expenses pertaining to the re-branding exercise have been booked in the second quarter. The bank has received 150 licenses for new branches and is planning to scale up its network to 670 by the year end.

* CASA + fee income-led business model

After scaling up its balance sheet size significantly the bank is keen on following the CASA-led business model (like HDFC Bank) and fee income-led business model (like ICICI and Kotak)—to boost its profitability and is finely balancing a mix between the two. The aggressive retail venture has helped the bank improve its retail liabilities and consequently, its CASA has improved to 45%. The bank's overall fee income has grown at 52% CAGR over the past five years, mainly due to good traction from wholesale banking.

* PE fund, AMC on the anvil

Axis Bank is raising a USD 500 mn PE fund which is near closure. The fund's focus is on infrastructure-based projects; the bank is putting the team in place. It also plans to start its asset management company and is awaiting RBI approval for the same.

* Asset composition is changing track

Currently, the bank's advance book distribution is: 43% in corporate, 23% in retail, 21% in SME, and 11% in agri. The bank considers SME as the growth engine for the country and sees huge opportunity there. Direct agricultural lending is also a critical focus area for the bank, given the sector's recent emergence. However, operating cost for agri lending remains a challenge.

* Valuations

We expect Axis Bank to post 20% EPS CAGR for FY07-09E and RoEs of ~13-15%. The stock is currently trading at 3.5x FY09E book and 29.0x FY09E earnings.

Financials

Year to March	FY06	FY07	FY08E	FY09E
Revenues (INR mn)	17,169	24,115	36,055	47,115
Rev growth (%)	49.7	40.5	49.5	30.7
Net interest income (INR mn)	10,782	15,671	22,527	31,273
Net profit (INR mn)	4,851	6,590	9,675	11,623
Shares outstanding (mn)	292.1	290.6	356.0	356.0
EPS (INR)	16.6	22.7	27.2	32.7
EPS growth (%)	35.9	36.6	19.9	20.1
P/E (x)	56.6	41.4	34.5	28.8
Price to book (x)	9.6	8.0	3.8	3.5
Price to PPOP (x)	31.7	20.9	18.6	13.4
ROE (%)	18.3	21.0	16.0	12.6

December 11, 2007

Reuters : UTBK.BO
 Bloomberg : AXSB IN

Market Data

52-week range (INR) : 1,025 / 399
 Share in issue (mn) : 356.5
 M cap (INR bn/USD mn) : 335.0 / 8,480.6
 Avg. Daily Vol. BSE/NSE ('000) : 773.2

Share Holding Pattern (%)

Promoters : 43.3
 MFs, Fls & Banks : 8.8
 Fls : 32.7
 Others : 15.2



*** Company description**

Axis Bank is the third-largest private sector bank in terms of asset size, with a balance sheet size of INR 732 bn. It has a network of 574 branches and extension counters across India. The bank earns substantial fee income from transaction and merchant banking activities. The key promoter UTI-I (special undertaking) holds 27.5% in the bank, followed by LIC at 10.4%; the remaining equity is largely held by FIs and public.

*** Key risks**

Change in management may affect the pace of growth and profitability. Any modification in the shareholding pattern could also affect the bank's management structure.

Financial Statements

Income statement						(INR mn)
Year to March	FY05	FY06	FY07	FY08E	FY09E	
Interest income	19,242	28,888	45,604	66,668	88,269	
Interest expenses	11,930	18,106	29,933	44,141	56,996	
Net Interest income	7,312	10,782	15,671	22,527	31,273	
Non interest income	4,158	6,386	8,444	13,528	15,842	
- Fee & forex income	3,316	5,792	9,073	12,640	16,726	
- Misc. income	468	223	449	588	716	
- Investment profits	374	372	(1,078)	300	(1,600)	
Net revenues	11,470	17,169	24,115	36,055	47,115	
Operating expense	5,814	8,141	12,146	17,812	23,707	
- Employee exp	1,769	2,402	3,813	5,963	8,801	
- Other opex	4,045	5,738	8,333	11,850	14,906	
Preprovision profit	5,656	9,028	11,969	18,243	23,408	
Provisions	618	1,714	2,004	3,614	5,834	
- Loan loss provisions	162	1,718	1,979	3,614	5,834	
- Investment depreciation	(37)	0	0	0	0	
- Other provisions	493	(4)	25	0	0	
PBT	5,038	7,314	9,965	14,629	17,574	
Taxes	1,692	2,464	3,375	4,954	5,951	
PAT	3,346	4,851	6,590	9,675	11,623	
Reported PAT	3,346	4,851	6,590	9,675	11,623	
EPS (INR)	12.2	16.6	22.7	27.2	32.7	
DPS (INR)	2.8	3.5	4.5	5.0	5.0	
Payout ratio (%)	22.9	21.1	19.8	18.4	15.3	

Growth ratios (%)

Year to March	FY05	FY06	FY07	FY08E	FY09E
NII growth	26.7	47.5	45.3	43.7	38.8
Fees growth	79.6	74.7	56.6	39.3	32.3
Opex growth	38.7	40.0	49.2	46.6	33.1
PPOP growth	50.4	63.9	50.7	37.5	39.4
PPP growth	(19.0)	59.6	32.6	52.4	28.3
Provisions growth	(77.0)	177.3	16.9	80.3	61.4
PAT growth	20.2	45.0	35.9	46.8	20.1

Operating ratios (%)

Year to March	FY05	FY06	FY07	FY08E	FY09E
Yield on advances	7.8	8.1	9.1	10.1	10.3
Yield on investments	7.1	7.2	7.2	7.3	7.4
Yield on assets	6.6	7.1	7.8	8.2	8.6
Net interest margins	2.5	2.6	2.7	2.8	3.0
Cost of funds	4.1	4.4	5.1	5.7	5.9
Cost of deposits	4.1	4.3	5.0	5.5	5.7
Cost of borrowings	6.6	7.4	7.8	8.1	8.5
Spread	2.5	2.7	2.7	2.5	2.7
Cost-income	50.7	47.4	50.4	49.4	50.3
Tax rate	33.6	33.7	33.9	33.9	33.9

Balance sheet						(INR mn)
As an 31st March	FY05	FY06	FY07	FY08E	FY09E	
Liabilities						
Equity capital	2,738	2,921	2,906	3,560	3,560	
Reserves	21,478	25,935	31,116	83,578	93,239	
Net worth	24,216	28,722	33,932	87,137	96,799	
Sub bonds/pref cap	7,886	17,886	35,014	43,514	43,514	
Deposits	317,120	401,135	587,856	729,283	944,035	
Borrowings	17,814	26,809	51,956	56,900	62,591	
Other liabilities	10,401	22,624	23,724	19,377	25,083	
Total	377,437	497,311	732,572	936,210	1,172,022	
Assets						
Loans	156,029	223,142	368,765	531,021	716,879	
Investments						
Gilts	75,384	117,898	164,308	182,321	188,807	
Others	67,366	97,376	104,663	119,959	134,802	
Cash & equi	52,762	36,418	69,183	79,967	103,515	
Fixed Assets	5,184	5,677	6,732	7,489	8,015	
Other Assets	20,712	16,800	18,921	15,454	20,004	
Total	377,437	497,311	732,572	936,210	1,172,022	
Balance sheet ratios						
Credit growth	86.0	32.2	50.0	40.5	32.6	
Deposit growth	51.3	26.5	46.5	24.1	29.4	
EA growth	54.1	35.1	48.9	29.2	25.3	
SLR ratio	22.5	27.5	25.7	25.0	20.0	
C-D ratio	69.7	72.9	74.6	84.5	86.5	
Low-cost deposits	38.0	40.0	39.9	42.4	42.6	
Gross NPA ratio	1.4	1.3	0.9	1.1	1.4	
Net NPA ratio	1.4	1.0	0.7	0.8	0.9	
Provision coverage	57.4	41.9	45.7	41.9	47.1	
Capital adequacy	12.7	11.1	11.6	16.9	14.1	
- Tier 1	8.9	7.3	6.4	10.7	9.2	
ROA decomposition (%)						
Year to March	FY05	FY06	FY07	FY08E	FY09E	
Net interest income/Assets	2.5	2.6	2.7	2.8	3.0	
Fees/Assets	1.3	1.5	1.6	1.6	1.7	
Investment profits/Assets	0.1	0.1	(0.2)	0.0	(0.2)	
Net revenues/Assets	4.0	4.2	4.1	4.5	4.6	
Operating expense/Assets	(2.0)	(2.0)	(2.1)	(2.2)	(2.3)	
Provisions/Assets	(0.2)	(0.4)	(0.3)	(0.4)	(0.6)	
Taxes/Assets	(0.6)	(0.6)	(0.6)	(0.6)	(0.6)	
Total costs/Assets	(2.8)	(3.0)	(3.0)	(3.3)	(3.5)	
ROA	1.2	1.2	1.1	1.2	1.1	
Equity/Assets	6.1	6.5	5.4	7.5	8.9	
ROE	18.8	18.3	21.0	16.0	12.6	
Valuation parameters						
Year to March	FY05	FY06	FY07	FY08E	FY09E	
EPS	12.2	16.6	22.7	27.2	32.7	
EPS growth (%)	1.7	35.9	36.6	19.9	20.1	
Book value per share	88.4	98.3	116.8	244.8	271.9	
Adjusted book value/share	82.9	93.1	110.3	236.8	259.9	
Price/Earnings	76.8	56.6	41.4	34.5	28.8	
Price/ BV	10.6	9.6	8.0	3.8	3.5	
Price/ ABV	11.3	10.1	8.5	4.0	3.6	
Dividend yield (%)	0.3	0.4	0.5	0.5	0.5	

BANK OF INDIA

INR 362

*Consistent performer***Representatives: Mr. J.S. Chiney, General Manager****Mr. U. S. Sharma, Asst. General Manager*** **Focus on profitable growth**

Bank of India (BoI) has guided for 28% growth in loan book in FY08 with focus on maintaining margins. The bank expects lending rates to be stable at these levels and has a softer outlook on deposit rates. The lending focus is on higher yielding segments like SME and mid corporates, for which the bank has set up a new business group under the Chairman's leadership. On the wholesale corporate lending front infrastructure, roads, power, SEZ, and NBFCs have emerged as strong borrowers.

* **Diluting equity to boost capital base**

The bank intends to dilute 5% of equity for capital raising. BoI expects a 100bps capital requirement due to Basel-II implementation in March 2008. The bank has improved its capital base by raising INR 6.5 bn by issue of Tier I hybrid, INR 17 bn by revaluation of property, and INR 2 bn using excess provisioning. The insurance JV with Daichi and Union Bank of India, where BoI holds 51%, is on track and the first premium is estimated to be written by April 2008. BoI will infuse around INR 2 bn in the JV.

* **Robust foreign business**

Nearly 20% of the bank's business is contributed by the foreign segment and the bank continues to see good traction on that front. UK and Singapore are the main geographies where BoI has good presence and the main customer base is the Indian diaspora.

* **Valuations**

The bank is currently trading at 3.1x FY07 book and 16.0x FY07 earnings. It has posted H1FY08 profits of INR 7.4 bn compared to INR 11 bn in FY07. Given the higher equity leverage, the bank posted RoE 21% for FY07 which will reduce post dilution. We like the bank for its current business model which focuses on India as well as abroad, strong balance sheet which we believe can support larger transactions critical for cross border deals, its extensive branch network, and clean asset quality.

Financials

Year to March	FY05	FY06	FY07
Revenues (INR mn)	33,927	38,164	50,034
Rev growth (%)	(15.0)	12.5	31.1
Net profit (INR mn)	3,400	7,014	11,232
Shares outstanding (mn)	488.1	488.1	488.1
EPS (INR)	7.0	14.4	23.0
EPS growth (%)	(66.3)	106.3	60.1
Book value (INR)	88.1	98.9	117.7
P/E (x)	52.0	25.2	15.7
Price to book (x)	4.1	3.7	3.1
ROE (%)	8.4	15.4	21.2

December 11, 2007

Reuters : BOI.BO
 Bloomberg : BOI IN

Market Data

52-week range (INR) : 415 / 132
 Share in issue (mn) : 488.1
 M cap (INR bn/USD mn) : 176.4 / 4,466.8
 Avg. Daily Vol. BSE : 2,448.3

Share Holding Pattern (%)

Promoters : 69.5
 MFs, FIs & Banks : 5.4
 FIs : 16.4
 Others : 8.7



*** Company description**

BoI is one of the leading public sector banks with a pan-India presence and higher concentration in western and eastern India. Its branch network exceeds 2,600 in India and it also has 25 overseas branches. It is one of the pioneers in building an international business model which contributes ~20% to the total business. It has made rapid progress on the technology front with 2,618 branches fully computerized and 85% of total business covered under the Core Banking System.

*** Key risks**

With asset quality reaching its peak, we believe provisioning requirement for the bank will rise from current levels.

Focus on building a balanced sheet could result in margin compression given the competitive environment outside India.

Financial Statements

Income statement		(INR mn)			
Year to March	FY04	FY05	FY06	FY07	
Interest income	57,959	60,315	70,287	91,803	
Interest expenses	35,945	37,946	43,967	57,399	
Net interest income	22,014	22,369	26,320	34,405	
Non interest income	17,920	11,558	11,844	15,630	
- Fee & forex income	5,883	6,734	7,013	8,208	
- Misc. income	2,469	3,019	3,687	5,213	
- Investment profits	9,568	1,805	1,144	2,209	
Net revenues	39,934	33,927	38,164	50,034	
Operating expense	17,515	19,323	21,151	26,084	
- Employee exp	11,724	12,632	13,281	16,140	
- Other opex	5,791	6,691	7,870	9,944	
Preprovision profit	22,419	14,604	17,012	23,950	
Provisions	8,910	9,993	7,856	8,621	
- Loan loss provisions	6,554	3,817	6,241	7,741	
- Investment depreciation	421	4,942	913	133	
- Other provisions	1,935	1,234	701	747	
PBT	13,509	4,610	9,157	15,328	
Taxes	3,426	1,210	2,142	4,097	
PAT	10,083	3,400	7,014	11,232	
Reported PAT	10,083	3,400	7,014	11,232	
EPS (INR)	20.7	7.0	14.4	23.0	
DPS (INR)	3.0	2.0	3.4	3.5	
Payout ratio (%)	14.5	28.7	23.7	15.2	

Growth ratios (%)

Year to March	FY04	FY05	FY06	FY07
NII growth	8.1	1.6	17.7	30.7
Fees growth	7.2	14.5	4.1	17.0
Operating profit growth	6.2	10.3	9.5	23.3
PPP growth	7.9	(34.9)	16.5	40.8
Opex growth	2.4	12.2	(21.4)	9.7
PAT growth	12.2	(66.3)	106.3	60.1

Operating ratios (%)

Year to March	FY04	FY05	FY06	FY07
Yield on advances	7.5	7.1	7.5	8.5
Yield on investments	8.4	8.0	7.5	7.6
Yield on assets	7.4	7.0	7.0	7.5
Cost of funds	4.7	4.4	4.4	4.7
Cost of deposits	4.6	4.2	4.0	4.3
Cost of borrowings	7.5	9.0	10.2	11.0
Spread	2.8	2.5	2.6	2.7
Cost-Income	43.9	57.0	55.4	52.1
Tax rate	25.4	26.2	23.4	26.7

Balance sheet		(INR mn)			
As on 31st March	FY04	FY05	FY06	FY07	
Liabilities					
Equity capital	4,881	4,881	4,881	4,881	
Reserves	33,472	38,111	43,384	52,578	
Net worth	38,353	42,993	48,265	57,459	
Sub bonds/pref cap	22,082	24,467	32,967	47,589	
Deposits	714,824	788,214	939,320	1,198,817	
Borrowings	40,415	59,620	58,939	66,208	
Other liabilities	31,182	33,832	41,677	44,801	
Total	846,857	949,126	1,121,169	1,414,875	
Assets					
Loans	458,559	560,126	651,737	849,359	
Investments					
Gilts	196,744	211,431	239,401	266,120	
Others	74,885	70,595	78,417	88,807	
Cash & equi	85,579	75,263	114,460	174,055	
Fixed assets	6,243	6,486	6,526	6,398	
Other assets	24,847	25,225	30,628	30,135	
Total	846,857	949,126	1,121,169	1,414,875	
Balance sheet ratios (%)					
Credit growth	9.4	20.5	16.1	29.3	
Deposit growth	11.5	10.3	19.2	27.6	
EA growth	10.1	12.5	18.2	27.2	
SLR ratio	24.9	29.5	28.6	26.3	
C-D ratio	68.0	74.4	72.6	73.6	
Low-cost deposits	33.4	34.5	35.0	32.2	
Gross NPA ratio	7.9	5.5	3.7	2.4	
Net NPA ratio	4.5	2.8	1.5	0.7	
Provision coverage	44.8	50.8	60.9	69.9	
Capital adequacy	13.0	11.5	10.8	11.6	
- Tier 1	7.5	7.1	6.8	6.5	

ROA decomposition (%)

Year to March	FY04	FY05	FY06	FY07
Net interest income/Assets	2.83	2.58	2.63	2.79
Fees/Assets	1.07	1.13	1.07	1.09
Investment profits/Assets	1.23	0.21	0.11	0.18
Net revenues/Assets	5.13	3.91	3.81	4.06
Operating expense/Assets	(2.25)	(2.23)	(2.11)	(2.12)
Provisions/Assets	(1.14)	(1.15)	(0.78)	(0.70)
Taxes/Assets	(0.44)	(0.14)	(0.21)	(0.33)
Total costs/Assets	(3.84)	(3.52)	(3.11)	(3.15)
ROA	1.30	0.39	0.70	0.91
Equity/Assets	4.62	4.69	4.56	4.29
ROE	28.04	8.36	15.37	21.25

Valuation parameters

Year to March	FY04	FY05	FY06	FY07
EPS (INR)	20.7	7.0	14.4	23.0
EPS growth (%)	12.2	(66.3)	106.3	60.1
Book value per share (INR)	78.6	88.1	98.9	117.7
Adjusted book value/share (INR)	49.0	65.8	85.0	108.6
Price/Earnings (x)	17.5	52.0	25.2	15.7
Price/ BV (x)	4.6	4.1	3.7	3.1
Price/ ABV (x)	7.4	5.5	4/3	3.3
Dividend yield (%)	0.9	0.6	1.0	1.1

CITY UNION BANK

INR 340

On the growth path**Representative:** Mr. N. Kamakodi, Executive Director* **Focused regional business model**

City Union Bank (CUBK) expects FY08E business growth of 24% to INR 100 bn. However, we expect credit growth for the year to be higher at 30%, while deposit growth to remain marginally lower than industry at 21%. The bank enjoys strong loyalty from its customers mainly due to its regional presence for the past 100 years and its ability to service clients at a much more customized level compared to its peers. CUBK's deposit mix has a low CASA ratio (20% for H1FY08) but it does not rely on bulk deposits to fund growth. The target CASA ratio is likely to be at 20-24% for FY08-09E. More than 90% of the bank's network is in South India and new branches will be equally split between South and the rest of India.

* **Margins to stabilize at current levels**

Despite a lower CASA ratio of 20%, CUBK expects to post net interest margins at ~3.25-3.5% for the next few years with business growth being in excess of 20%. Its strength lies in its lending book, of which over 60% exposure is to funding working capital. On the fee income front, CUBK is one of the largest bancassurance partners for LIC. Also, the bank plans to strengthen its relationship with LIC by undertaking fee income services on loans disbursed.

* **Capital to be raised in the next few years**

CUBK expects to raise INR 2.5 bn capital in the next two years, mainly to strengthen its networth (current Tier I capital is ~13%) to ~ INR 10 bn. The bank has a policy of maintaining Tier I capital at 10%, while it will be conservative in utilizing its Tier II capital.

* **Valuations**

The stock has jumped by 45% in the past two weeks and trades at 2.5x FY07 adj.book and 12.0x FY07 earnings. We like the bank for its focused regional business model which allows it to have a higher pricing power, ability to consistently declare dividends, focus on growing its balance sheet, and its ability to generate returns in excess of 20%.

Financials

Year to March	FY05	FY06	FY07
Revenues (INR mn)	1,508	1,841	2,275
Rev growth (%)	(7.3)	22.1	23.5
Net interest income (INR mn)	1,108	1,398	1,675
Net profit (INR mn)	463	564	718
Shares outstanding (mn)	24.0	24.0	25.2
EPS (INR)	19.3	23.5	28.5
EPS growth (%)	(18.8)	21.7	21.3
P/E (x)	17.6	14.5	11.9
Price to adj. book (x)	4.2	3.2	2.5
ROE (%)	20.9	21.4	22.0

December 11, 2007

Reuters : CTBK.BO
Bloomberg : CUBK IN

Market Data

52-week range (INR) : 347 / 133
Share in issue (mn) : 25.2
M cap (INR bn/USD mn) : 8.6 / 216.7
Avg. Daily Vol. BSE/NSE ('000) : 48.7

Share Holding Pattern (%)

Promoters : 0.0
MFs, FIs & Banks : 5.2
FIs : 7.6
Others : 87.3



*** Company description**

CUBK is one of the strong performing regional banks in India. As of FY07, the bank has over 160 branches, with ~90% being in South India (70% of the total branches in Tamilnadu). As of FY07, the bank has a balance sheet of INR 53 bn. It has consistently generated one of the highest returns on assets, which is ~1.6% for FY05-07, because of its higher pricing power to its borrowers.

*** Key risks**

Competition pressure can force the bank to grow at the cost of margins, which is one of the highest in the industry.

Further rise in interest rates can lead to deterioration of asset quality from current levels and higher provisioning requirements.

Operating costs/assets remain one of the highest in the industry.

Financial Statements

Income statement		(INR mn)			
Year to March	FY04	FY05	FY06	FY07	
Interest income	2,762	2,907	3,264	4,001	
Interest expenses	1,799	1,798	1,866	2,326	
Net interest income	962	1,108	1,398	1,675	
Non interest income	665	400	444	600	
- Fee & forex income	194	257	177	183	
- Misc. income	123	209	185	382	
- Investment profits	348	(65)	81	35	
Net revenues	1,628	1,508	1,841	2,275	
Operating expense	449	561	702	901	
- Employee exp	250	309	363	444	
- Other opex	200	251	338	457	
Preprovision profit	1,178	948	1,140	1,374	
Provisions	408	415	445	385	
- Loan loss provisions	365	225	330	200	
- Investment depreciation	24	29	11	48	
- Other provisions	19	161	104	137	
PBT	770	533	695	989	
Taxes	200	70	131	271	
PAT	570	463	564	718	
Reported PAT	570	463	564	718	
EPS (INR)	23.8	19.3	23.5	28.5	
DPS (INR)	7.0	4.0	4.0	4.0	
Payout ratio (%)	29.5	20.7	17.0	14.0	

Growth ratios (%)

Year to March	FY04	FY05	FY06	FY07
NII growth	44.9	15.2	26.1	19.8
Fees growth	8.3	32.1	(31.0)	3.6
Opex growth	12.6	24.7	25.2	28.4
PPP growth	46.5	(19.6)	20.3	20.5
Provisions growth	49.6	1.5	7.3	(13.5)
PAT growth	70.9	(18.8)	21.7	27.4

Operating ratios (%)

Year to March	FY04	FY05	FY06	FY07
Yield on advances	11.5	10.4	10.7	10.5
Yield on investments	9.8	8.5	7.1	7.3
Yield on assets	9.9	9.1	9.0	8.9
Net interest margins	3.5	3.5	3.9	3.7
Cost of funds	6.6	5.8	5.3	5.3
Cost of deposits	6.9	6.0	5.6	5.5
Cost of borrowings	4.2	2.4	4.8	9.8
Spread	3.3	3.3	3.8	3.6
Cost-income	27.6	37.2	38.1	39.6
Tax rate	25.9	13.1	18.9	27.4

Balance sheet		(INR mn)			
Year to March	FY04	FY05	FY06	FY07	
Liabilities					
Equity capital	240	240	240	252	
Reserves	1,587	1,965	2,420	3,020	
Net worth	2,029	2,407	2,862	3,657	
Sub bonds/pref cap	0	0	0	0	
Deposits	28,467	30,952	35,177	46,993	
Borrowings	296	222	752	199	
Other liabilities	1,123	1,373	2,480	2,781	
Total	31,914	34,954	41,271	53,630	
Assets					
Loans	15,470	20,130	25,495	33,292	
Investments					
Gilts	11,828	10,108	9,015	11,498	
Others	962	915	1,560	1,572	
Cash & equi	2,395	2,268	2,664	4,839	
Fixed assets	241	314	360	392	
Other assets	1,019	1,220	2,176	2,037	
Total	31,914	34,954	41,271	53,630	
Balance sheet ratios (%)					
Credit growth	25.3	28.0	25.6	29.0	
Deposit growth	22.8	8.7	13.6	33.6	
EA growth	23.2	9.0	15.9	32.2	
SLR ratio	40.4	32.4	25.1	24.4	
C-D ratio	57.4	67.6	74.8	72.2	
Low-cost deposits	20.5	21.9	22.9	24.3	
Gross NPA ratio	10.4	6.3	4.3	2.6	
Net NPA ratio	6.4	3.4	2.0	1.1	
Provision coverage	41.2	52.2	55.3	79.0	
Capital adequacy	13.4	12.2	12.3	12.6	
- Tier 1	10.7	10.1	10.8	10.9	
ROA decomposition (%)					
Year to March	FY04	FY05	FY06	FY07	
Net interest income/Assets	3.5	3.5	3.9	3.7	
Fees/Assets	1.1	1.5	1.0	1.3	
Investment profits/Assets	1.3	(0.2)	0.2	0.1	
Net revenues/Assets	5.9	4.7	5.1	5.1	
Operating expense/Assets	(1.6)	(1.7)	(1.9)	(2.0)	
Provisions/Assets	(1.5)	(1.3)	(1.2)	(0.9)	
Taxes/Assets	(0.7)	(0.2)	(0.4)	(0.6)	
Total costs/Assets	(3.8)	(3.3)	(3.5)	(3.5)	
ROA	2.1	1.4	1.6	1.6	
Equity/Assets	6.6	6.9	7.3	7.2	
ROE	31.0	20.9	21.4	22.0	
Valuation parameters					
Year to March	FY04	FY05	FY06	FY07	
EPS (INR)	23.8	19.3	23.5	28.5	
EPS growth (%)	70.9	(18.8)	21.7	21.3	
Book value per share (INR)	84.5	100.3	119.2	145.1	
Adjusted book value/share (INR)	55.8	80.5	104.7	135.1	
Price/Earnings (x)	14.3	17.6	14.5	11.9	
Price/ BV (x)	4.0	3.4	2.8	2.3	
Price/ ABV (x)	6.1	4.2	3.2	2.5	
Dividend yield (%)	3.0	1.7	1.7	1.7	

DEWAN HOUSING FINANCE

INR 181

Niche player

Representatives: Mr. Prashant Chaturvedi, Chief Financial Officer
 Mr. Shivkumar Mani, General Manager, Marketing

* Disbursements to grow by 30-35% CAGR over next three years

Dewan Housing Finance (DHFL) plans to achieve 30-35% CAGR in disbursements over the next three years and grow its balance sheet size to INR 100 bn by FY10E. It plans to increase its branch network from the present 56 to 170 by FY10E.

* NIMs likely to be maintained at 3%

The company has maintained NIMs at 2.8% in FY07, generating average yield on advances of 10.5%; with average funding cost of 8.5%. The loans availed from banks qualify for priority sector lending and are drawn at spreads below prime lending rates. Incrementally, it lends at 12.8% sustaining spreads of 3% over incremental funding cost of 9.8%.

* To raise INR 1.5-2.0 bn in the near term

DHFL's existing capital adequacy ratio is 17% (up from 14%). To sustain the targeted growth rate of 30-35% disbursements, it plans to raise INR 1.5-2.0 bn. It will divest its stake in HDIL, if required, post expiry of the lock-in period in July 2008 to fund part of its growth.

* Investments explain more than 50% of its market cap

DHFL recently picked up 19.9% stake in Wadhawan Food Retail (WFRPL); on first-cut basis, we value this stake at INR 43/share. DHFL also holds 1.26% in HDIL valued at INR 2 bn (INR 36/share) at current market price. It also owns sizeable stake in a real estate venture fund of INR 1 bn, wherein it has invested INR 350 mn and expects IRR of 30-35% from it. It also holds 58% stake in DHFL Vysya Housing Finance.

* Valuations

DHFL has grown its revenues and PAT by 24% and 30% CAGR, respectively, for FY04-07 and reported revenue of INR 700 mn and profit of INR 300 mn in H1FY08. Its networth stands at INR 4 bn and it generates RoE in the 16-17% range. After adjusting the value of its investment the stock is currently trading at 1.2x FY07 book and 10.5x FY07 EPS.

Financials

Year to March	FY05	FY06	FY07
Revenues (INR mn)	663	896	1,084
Rev growth (%)	16.1	35.1	21.0
Net profit (INR mn)	295	403	517
Shares outstanding (mn)	50.1	50.1	50.1
Diluted EPS (INR)	6.2	6.7	7.9
EPS growth (%)	(10.9)	7.7	18.1
Book value (INR)	39.0	51.2	69.1
P/E (x)	28.9	26.8	22.7
Price to book (x)	4.6	3.5	2.6
Adj price to book (x)*	2.1	1.6	1.2
Adjusted P/E (x) *	13.3	12.4	10.5
ROE (%)	19.3	20.2	17.9

*Adj for value of investments

December 11, 2007

Reuters : DWNH BO
 Bloomberg : DEWHIN

Market Data

52-week range (INR) : 191 / 57
 Share in issue (mn) : 57.1
 M cap (INR bn/USD mn) : 10.3 / 259.2
 Avg. Daily Vol. BSE/NSE ('000) : 540.3

Share Holding Pattern (%)

Promoters : 53.9
 MFs, Fls & Banks : 0.9
 Fls : 16.2
 Others : 28.9



*** Company description**

DHFL, incorporated in 1984, is a private sector housing finance company offering housing loans, lease rental financing, and reverse mortgage loans to retail customers. Its main focus is on providing loans to the lower and middle income households in tier II and III cities for acquisition or construction of residential properties. The company has introduced India's first reverse mortgage scheme called 'Saksham' mainly targeted at senior citizens who want to supplement their income without selling their home. It has also ventured into international markets by opening representative offices in Dubai and UAE to cater to the needs of non-resident Indians there. The company also offers property insurance, free accident risk cover, and earthquake protection cover to its customer.

As of FY07, DHFL operates in 155 locations comprising 53 main branches, 67 service centres, and 35 camps. Its distribution network is primarily concentrated in western and southern India and it has entered in to an agreement with the Punjab & Sind Bank to increase its presence in North India.

*** Key risks**

DHFL provides loans to low and middle income households where competition is less intense due to absence of large private banks. Entry of large players in these segments may lead to loss in market share and impact the company's revenue growth and margins.

The risk of default is relatively high for the company due to its focus on low and middle income groups, which can be significantly impacted by slowdown in the economy or decline in income levels.

The company relies on term loans from banks and financial institutions for funding taken at floating rates and therefore, rise in interest rates can affect the company's margins.

Financial Statements

Income statement		(INR mn)		
Year to March	FY05	FY06	FY07	
Interest income	1,686	2,246	3,393	
Interest expenses	1,147	1,605	2,488	
Net interest income	539	641	905	
Non interest income	124	255	179	
- Fee income	89	57	118	
- Dividend income	0	2	27	
- Investment profits	11	125	4	
- Other income	24	71	30	
Net revenues	663	896	1,084	
Operating expense	243	316	364	
- Employee exp	97	108	132	
- Other opex	146	209	231	
Preprovision profit	420	580	720	
Provisions	27	29	57	
PBT	393	551	663	
Taxes	80	95	125	
PAT	313	456	538	
Extraordinaries	18	53	22	
Reported PAT	295	403	517	
EPS (INR)	6.2	6.7	7.9	
DPS (INR)	2.3	2.7	2.6	
Payout ratio (%)	38.9	33.4	25.7	

Growth ratios (%)

Year to March	FY05	FY06	FY07
NII growth	20.4	19.0	41.2
Fees growth	13.7	(36.3)	107.2
PPP growth	16.0	38.1	24.2
Opex growth	16.3	30.0	15.0
PAT growth	24.0	36.9	28.1

Operating ratios (%)

Year to March	FY05	FY06	FY07
Yield on advances	11.5	10.8	11.2
Yield on assets	10.5	9.9	10.5
Cost of funds	7.8	7.7	8.4
Spread	2.7	2.2	2.1
NIMs	3.4	2.8	2.8
Cost-Income	36.7	35.3	33.5
Tax rate	20.3	17.2	18.8

Balance sheet		(INR mn)		
As on 31st March	FY05	FY06	FY07	
Liabilities				
Equity capital	501	501	501	
Preference share capital	0	177	242	
Reserves	1,452	2,063	2,963	
Networth	1,954	2,564	3,464	
Deposits	1,123	1,009	697	
Borrowings	15,566	23,363	33,706	
Current liabilities	552	646	805	
Total	19,195	27,759	38,914	
Assets				
Loans	16,701	24,868	35,532	
Investments	1,070	833	823	
Current assets	1,120	1,630	2,142	
Fixed assets	306	448	453	
Other assets	(2)	(21)	(35)	
Total	19,195	27,759	38,914	
Balance sheet ratios (%)				
Credit growth	32.8	48.9	42.9	
Borrowings growth	35.5	46.0	41.2	
EA growth	35.5	45.3	41.0	
Net NPA ratio	1.5	1.3	1.2	

RoE decomposition (%)

Year to March	FY05	FY06	FY07
Net interest income/Assets	3.4	2.8	2.8
Fee income/Assets	0.7	0.6	0.5
Investment profits/Assets	0.1	0.6	0.0
Net revenues/Assets	4.1	4.0	3.3
Operating expense/Assets	1.5	1.4	1.1
Provisions/Assets	0.2	0.1	0.2
Taxes/Assets	0.5	0.4	0.4
Total costs/Assets	2.2	1.9	1.7
ROA	1.9	2.0	1.7
Equity/Assets	10.1	10.0	9.3
ROE	19.3	20.2	17.9

Valuation parameters (%)

Year to March	FY05	FY06	FY07
EPS (INR)	6.2	6.7	7.9
EPS Y-o-Y growth (%)	(10.9)	7.7	18.1
Book value per share (INR)	39.0	51.2	69.1
P/E (x)	28.9	26.8	22.7
P/BV (x)	4.6	3.5	2.6
Adjusted P/BV (x) *	2.1	1.6	1.2
Adjusted P/E (x) *	13.3	12.4	10.5

*Adj for value of investments

GEOJIT FINANCIAL SERVICES

INR 63

Strategic partnership to add value

Representatives: Mr. C. J. George, Managing Director
Mr. Satish Menon, Director, Operations

* Strong regional presence; average daily turnover of INR 11 bn

Geojit Financial Services (Geojit) had a client base of 375,000 in H1FY08 and it records an average daily trading volume of INR 11 bn, commanding 1.8% market share on the NSE and 0.9% on the BSE. Trading volumes are expected to pick up with an estimated industrywide volume growth, its entry into institutional broking, and expansion in retail through roll out of 100 branches in FY08E and further 100 in FY09E.

* Strategic partnership with BNP Paribas to add value

Geojit entered into a strategic partnership with BNP Paribas in March 2007 with the latter acquiring 27% stake in Geojit through preferential allotment. Geojit will utilize the money raised to expand its operations in India and the Middle East.

* Institutional business to be operational from next quarter

The company will venture into institutional broking through 50:50 JV with BNP Securities Asia investing INR 750 mn. The business will be managed by BNP; Geojit will earn nominal fees (of ~3bps) for executing institutional trade on its platform besides 50% share in profitability from this business. Mr. Abhijit Raha from CLSA has joined it as CEO and has set up a research team of 20. The business is expected to be operational in the next quarter.

* Expanding presence in Gulf to boost profitability

The company's JV with the Al Saud Group (Barjeel Geojit Securities) in the UAE generated revenues of AED 11 mn (INR 121 mn) and profits of AED 4.2 mn (INR 45 mn) in H1FY08. It has recently formed 30:70 JV with the Al Johar Group of Saudi Arabia (Aloula Geojit Brokerage) investing INR 300 mn to offer retail broking services for local capital markets in Saudi Arabia.

* Valuations

In H1FY08, Geojit generated revenues of INR 928 mn and profit of INR 246 mn. For FY08E, management has guided to a PAT of INR 650-750 mn and expects a 30-40% growth in FY09E. The stock is currently trading at 20x FY08E earnings, a steep discount to its peer group. Valuations appear attractive considering scale up in its institutional business and increased contribution to profits from Gulf businesses. We have a positive view on the stock.

Financials

Year to March	FY05	FY06	FY07
Revenues (INR mn)	544	1,020	1,361
Revenue growth (%)	35.5	87.4	33.5
PAT (INR mn)	101	227	252
PAT growth (%)	13.2	125.0	11.0
EPS (INR)	0.7	1.5	1.6
P/E (x)	87.7	42.2	39.3
P/B (x)	29.2	19.7	6.0
Price / Revenues (x)	17.6	9.4	9.7
RoE (%)	39.4	55.8	18.7

December 11, 2007

Reuters : GEOJ.BO
Bloomberg : GFSL IN

Market Data

52-week range (INR) : 72 / 28
Share in issue (mn) : 209.0
M cap (INR bn/USD mn) : 13.2 / 333.6
Avg. Daily Vol. BSE/NSE ('000) : 555.7

Share Holding Pattern (%)

Promoters : 58.6
MFs, Fls & Banks : 4.7
Fls : 2.2
Others : 34.5



*** Company description**

Geojit, incorporated in 1987, offers a bouquet of financial products and services to retail investors—equity and commodity broking, portfolio management services, and third party distribution of mutual funds and insurance. The company has established a strong network in South India and is planning to increase its presence in West and North India. It caters to 0.4 mn customers through its network of 392 offices.

While brokerage income remains a major contributor to revenue and profitability, income from commodity and distribution business is gaining traction. The company also provides portfolio management services and manages a corpus of more than INR 500 mn. It offers commodity broking through its subsidiary Geojit Commodities. Value-added services like customized finance and structured credit facilities in association with Geojit Credits Private had its impact in the volume building exercise.

Promoters hold 58% (including C J George and Shiny George at 22%, KSIDC 9%, and BNP Paribas 27%), while FII's have 2.2% stake in the company.

*** Key risks**

The company's businesses are highly dependent on conditions of the capital market and any unfavorable developments in the market affecting investor sentiments can significantly hamper revenue growth.

The Indian brokerage industry is highly competitive and competitive pressure can affect the company's market share and margins.

Financial Statements

Income statement		(INR mn)		
Year to March	FY05	FY06	FY07	
Operating income				
- Brokerage related income	515	912	1,149	
- Financial product distribution	13	65	96	
- Portfolio management services	4	16	21	
- Others	2	18	47	
Total operating income	534	1,010	1,312	
Other income	11	9	49	
Total revenues	544	1,020	1,361	
Expenses				
- Operating expenses	152	281	392	
- Employee cost	98	194	288	
- Administrative and other expenses	111	174	250	
Total expenses	361	649	929	
EBITDA	184	370	432	
Interest and other financing charges	0	0	2	
Depreciation	25	39	52	
PBT	158	331	378	
Taxes	54	107	134	
PAT	104	224	244	
Add : Share of profit from associates	-	3	8	
Dividend on preference share capital (net of tax)	3	-	-	
Adjusted PAT	101	227	252	
EPS (INR)	0.7	1.5	1.6	

Growth ratios (%)

Year to March	FY05	FY06	FY07
Revenue growth	35.5	87.4	33.5
Expenses growth	52.7	80.0	43.1
EBITDA growth	11.1	101.8	16.7
PBT growth	8.3	109.4	14.1
PAT growth	13.2	125.0	11.0

Operating ratios (%)

Year to March	FY05	FY06	FY07
Broking income / Total income	94.6	89.4	84.4
Operating expenses/ Total income	27.8	27.6	28.8
Employee cost / Total income	18.1	19.0	21.1
Other expenses / Total income	20.4	17.1	18.3
EBITDA margin	33.7	36.3	31.7
PBT margin	29.1	32.5	27.8
PAT margin	18.5	22.3	18.5

Balance sheet		(INR mn)		
As on 31st March	FY05	FY06	FY07	
Liabilities				
Equity capital	152	152	209	
Reserves	176	333	1,997	
Networth	328	486	2,206	
Secured loans	-	-	-	
Deferred tax liability	13	19	24	
Total	341	504	2,231	
Assets				
Fixed assets	134	220	253	
Investments	121	118	413	
Current assets				
- Sudry debtors	164	352	409	
- Cash and bank balances	285	487	1,826	
- Loans and advances	418	960	1,139	
- Others	3	2	18	
Current liabilities				
- Current liabilities	697	1,448	1,561	
- Provisions	90	192	271	
Net current assets	82	162	1,559	
Goodwill	4.1	3.8	4.8	
Miscellaneous expenses not written off	0	-	-	
Total	341	504	2,231	

Valuation parameters

Year to March	FY05	FY06	FY07
RoA (%)	37.6	53.7	18.4
RoE (%)	39.4	55.8	18.7
EPS (INR)	0.7	1.5	1.6
<i>EPS growth (%)</i>	<i>10.1</i>	<i>107.6</i>	<i>7.5</i>
Book value per share (INR)	2.2	3.2	10.6
P/E (x)	87.7	42.2	39.3
P/B (x)	29.2	19.7	6.0
Price/Revenues (x)	17.6	9.4	9.7

HDFC

INR 2,947

Premium franchise, premium valuation

Representatives: Mr. Conrad D'souza, Sr. General Manager, Treasury
 Mr. Pinank Shah, Manager, Operations

* Disbursement growth to be sustained at 25% plus

Housing Development Finance Corporation (HDFC), in line with CRISIL estimates, expects industrywide disbursement growth to further slow down in FY08 from an estimated 18-20% in FY07. However, with leading banks deliberately going slow in the mortgage finance space, HDFC per se will be able to improve market share and it expects to sustain disbursement growth of 25% plus in FY08E.

* HDFC's economic interest in life insurance business raised to 74%

Post the various developments between HDFC and Standard Life the pricing terms for conversion of HDFC's 24% stake in HDFC Standard Life have been revised from RoE methodology to appraisal value, which will in effect its economic interest to 74%.

* USD 205 mn of FCCBs converted

HDFC has allotted 640,572 shares upon conversion of FCCBs worth USD 205 mn. Post the allotment, its paid-up equity share capital stands at INR 2.8 bn. The company had issued 5,000 FCCBs worth USD 500 mn, of which ~60% have been converted till date.

* Sold one-third stake in Computer Age Management Services (CAMS)

HDFC recently sold one-third of its investments (INR 32 mn) in CAMS for ~INR 1 bn and capital gain for the same will be booked in the current quarter. Unrealised gain on the balance holding in CAMS will be ~INR 2 bn. It also holds 11% stake in ILFS (acquired for INR 947 mn) which is valued at INR 2.5 bn (assuming ILFS valuation at USD 600 mn).

* Valuations

Post these developments, we are now revising our value of HDFC's investments in subsidiaries/associates to INR 1,083 per share. After adjusting for the value of investments, the stock is trading at 3.8x FY09E book and 23.5x FY09E EPS. On SOTP basis, the stock is valued at INR 2,985 per share in FY09E and INR 3,267 per share in FY10E.

Financials

Year to March	FY06	FY07	FY08E	FY09E
Revenues (INR mn)	17,873	22,295	31,258	35,116
Rev growth (%)	22.3	24.7	40.2	12.3
Net interest income (INR mn)	12,155	16,472	23,568	27,934
Net profit (INR mn)	12,572	15,705	20,503	22,839
Shares outstanding (mn)	249.6	253.0	282.6	286.5
EPS (INR)	50.4	62.1	72.5	79.7
EPS growth (%)	20.0	23.2	16.9	9.9
P/E (x)*	37.2	30.2	25.9	23.5
Price to book (x)*	10.5	8.5	4.5	3.8
ROE (%)	30.1	31.3	23.6	17.7

* Adj. for value of investments

December 11, 2007

Reuters : HDFC.BO
 Bloomberg : HDFC IN

Market Data

52-week range (INR) : 2,965 / 1,397
 Share in issue (mn) : 278.9
 M cap (INR bn/USD mn) : 821.8/20,806.3
 Avg. Daily Vol. BSE/NSE ('000) : 705.1

Share Holding Pattern (%)

Promoters : 0.0
 MFs, Fls & Banks : 6.7
 Fls : 79.9
 Others : 13.4



*** Company description**

HDFC is India's largest provider of housing finance, primarily focusing on retail housing. It has widened its distribution network to 243 offices in India. It also covers over 90 locations through its outreach programme, which has helped the corporation disburse housing loans in more than 2,400 towns and cities in the country. It has also supplemented the distribution channel through the appointment of direct selling agents (DSA).

Besides the core business of mortgages, HDFC has evolved into a financial conglomerate diversifying into other businesses through its subsidiaries viz., HDFC Standard Life Insurance (81.9%), HDFC Asset Management Company (50%), HDFC Bank (23.33%), and HDFC General Insurance Company (74%). Currently, ~80% of the shares are held by foreign institutional investors/foreign direct investments and 11% by individuals.

*** Key risks**

Loss of market share to commercial banks and other housing finance companies.

Higher-than-expected increase in funding cost.

Risk of fraud and NPA accretion due to increase in interest rates and fall in property prices is inherent to the mortgage business.

Financial Statements

Income statement						(INR mn)
Year to March	FY05	FY06	FY07	FY08E	FY09E	
Interest income	28,423	37,066	53,141	74,802	90,656	
Interest expenses	19,575	24,911	36,669	51,234	62,722	
Net interest income	8,848	12,155	16,472	23,568	27,934	
Total non interest income	4,528	4,899	5,505	7,430	6,923	
-Fee Income	1,017	675	686	754	830	
-Dividend income	872	1,080	1,179	1,365	1,624	
-Investment profits	1,741	2,362	3,253	4,885	4,000	
-Income from investments	898	783	388	426	469	
Net revenues	13,376	17,054	21,977	30,998	34,856	
Operating expense	1,814	2,146	2,366	2,923	3,399	
- Employee exp	601	746	913	1,278	1,533	
- Other opex	1,213	1,400	1,454	1,645	1,866	
Preprovision profit	12,802	15,727	19,929	28,335	31,717	
Provisions	144	154	250	343	428	
PBT	12,657	15,572	19,679	27,991	31,289	
Taxes	2,202	3,000	3,974	7,488	8,450	
PAT	10,455	12,572	15,705	20,503	22,839	

Growth ratios (%)

Year to March	FY05	FY06	FY07	FY08E	FY09E
NII growth	66.6	37.4	35.5	43.1	18.5
Non-int income growth	(1.7)	8.2	12.4	35.0	(6.8)
Opex growth	9.3	18.3	10.3	23.5	16.3
PPP growth	35.7	22.8	26.7	42.2	11.9
Provisions growth	26.6	7.1	62.0	37.3	24.5
PAT growth	38.2	20.2	24.9	30.6	11.4

Operating ratios (%)

Year to March	FY05	FY06	FY07	FY08E	FY09E
Gross NPA ratio	1.1	1.0	1.0	1.0	1.0
CAR	13.4	15.0	12.9	15.6	14.7
Loan spread	2.1	2.3	2.1	2.5	2.3
Net interest margin	2.5	2.7	2.9	3.4	3.2
Cost-income	13.6	12.6	10.8	9.4	9.8
Tax rate	17.4	19.3	20.2	26.8	27.0

Loan sanctions and disbursements

Year to March	FY05	FY06	FY07	FY08E	FY09E
Sanctions	197,150	256,340	333,320	423,316	541,845
Disbursements	162,070	206,790	261,780	324,607	405,759
Disbursements to sanction ratio	82.2	80.7	78.5	76.7	74.9
Disbursements growth	27.6	27.6	26.6	24.0	25.0
Sanctions growth	29.6	30.0	30.0	27.0	28.0

Balance sheet						(INR mn)
As on 31st March	FY05	FY06	FY07	FY08E	FY09E	
Liabilities						
Equity capital	2,491	2,496	2,530	2,826	2,865	
Share premium	7,343	6,659	11,300	58,419	63,805	
Reserves	28,997	35,528	41,684	56,786	73,718	
Net worth	38,831	44,683	55,514	118,031	140,388	
Total deposits	78,401	87,414	103,844	122,655	155,293	
Borrowings	288,073	379,799	468,083	531,495	663,595	
Total liabilities	405,305	511,897	627,446	772,181	959,276	
Assets						
Loans	360,115	449,901	565,114	706,963	881,782	
Equity & MF	12,481	16,811	19,311	40,182	49,926	
Interest bearing investments	15,491	18,735	14,134	7,714	7,340	
Gilts	3,328	3,217	3,217	3,217	3,217	
Net current assets	10,247	19,985	22,308	10,510	13,109	
Fixed assets	2,948	2,473	2,131	2,056	1,982	
Other assets	694	774	1,231	1,540	1,921	
Total assets	405,305	511,897	627,446	772,181	959,276	

ROA decomposition (%)

Year to March	FY05	FY06	FY07	FY08E	FY09E
Net interest income / assets	2.5	2.7	2.9	3.4	3.2
Fee income/assets	0.3	0.1	0.1	0.1	0.1
Dividend income/assets	0.2	0.2	0.2	0.2	0.2
Investment profits/assets	0.5	0.5	0.6	0.7	0.5
Other income/assets	0.3	0.2	0.1	0.1	0.1
Net Op revenues/ assets	3.7	3.7	3.9	4.5	4.0
Non op income/ assets	0.3	0.2	0.1	0.0	0.0
Net revenues/ assets	4.1	3.9	3.9	4.5	4.1
Operating Expense/assets	0.5	0.5	0.4	0.4	0.4
Provisions/assets	0.0	0.0	0.0	0.0	0.0
Taxes/assets	0.6	0.7	0.7	1.1	1.0
Total Costs/assets	1.2	1.2	1.2	1.5	1.4
ROA	2.9	2.8	2.8	2.9	2.6
Equity/assets	10.1	9.2	8.8	12.5	15.0
ROE	28.7	30.1	31.3	23.6	17.7

Valuation parameters

Year to March	FY05	FY06	FY07	FY08E	FY09E
EPS (INR)	42.0	50.4	62.1	72.5	79.7
EPS Y-o-Y growth (%)	36.8	20.0	23.2	16.9	9.9
Book value per share (INR)	155.9	179.0	219.4	417.6	490.0
ROE (%)	28.7	30.1	31.3	23.6	17.7
ROA (%)	2.9	2.8	2.8	2.9	2.6
P/E (x)	70.2	58.5	47.4	40.6	36.9
P/BV (x)	18.9	16.4	13.4	7.1	6.0
Adjusted P/E (x) *	44.7	37.2	30.2	25.9	23.5
Adjusted P/BV (x) *	12.0	10.5	8.5	4.5	3.8

IDBI

INR 171

Cruising along

Representatives: Mr. R.K. Bansal, Chief Financial Officer

Mr. P. Sitaram, General Manager

Mr. Purushotam Agarwal, Deputy General Manager

* Building on a two pronged strategy

IDBI expects to improve its net interest margins from 0.75% to 0.9% for FY08E and further to 2% in the next two-three years. The bank plans to achieve this by: (1) replacing high cost borrowings (~40% of balance sheet at an average yield of 7.8%) with retail liabilities and increasing CASA mix to 30% by FY08E; (2) replacing advance book, which is focused on project financing (~ INR 300 bn), with retail book (50%) and corporate book; (3) NPA recoveries will ensure reduction in non-interest bearing SASF bonds; and (4) continuing to have low operating costs/assets (currently less than 1%) despite expansion plans.

* Investment book and recoveries will continue to boost bottomline

IDBI has indicated that it will book profits of ~INR 2.5 bn every quarter on a consistent basis and has sufficient cushion for the next three years. The company has an investment book of INR 35 bn split equally between listed and unlisted entities. Unlocking value in unlisted entities, notably that of NSE, NSDL, CARE, and SHCL etc., will continue to be a substantial trigger for the stock. The bank has written off accounts of INR 40 bn, of which the management perceives nearly 40-50% as recoverable. However, most of these accounts are sticky in nature and resolving them will take some time. The bank has guided for recoveries of INR 7 bn during the current fiscal.

* Valuations

Given the current fundamental outlook on interest margins, highly efficient operating metrics (the lowest in the industry because of its legacy balance sheet at less than 1%), and its highly attractive investment book, return ratios are expected to improve from current levels. The stock is currently trading at 2.0x FY07 book and 2.2x FY07 adjusted book.

December 11, 2007

Reuters : IDBI.BO
Bloomberg : IDBI IN

Market Data

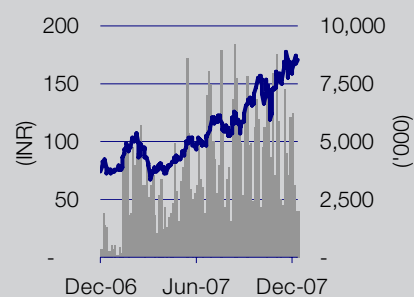
52-week range (INR) : 181 / 67
Share in issue (mn) : 724.1
M cap (INR bn/USD mn) : 123.5 / 3,126.4
Avg. Daily Vol. BSE/NSE ('000) : 11,840.3

Share Holding Pattern (%)

Promoters : 52.7
MFs, Fls & Banks : 17.5
Fls : 10.5
Others : 19.2

Financials

Year to March	FY05	FY06	FY07
Revenues (INR mn)	8,150	16,603	16,851
Rev growth (%)	(29.0)	103.7	1.5
Net interest income(INR mn)	1,879	3,799	6,579
Net profit (INR mn)	2,990	5,204	6,303
Shares outstanding (mn)	721.8	724.0	724.4
EPS (INR)	8.3	7.2	8.7
EPS growth (%)	16.3	(56.6)	21.1
P/E (x)	20.6	23.7	19.6
Price to book (x)	2.1	1.9	2.0
ROE (%)	5.1	8.5	10.0



*** Company description**

IDBI, which was established as Development Financial Institution (DFI), merged its subsidiary IDBI with itself in FY05. Post this merger, the company expanded its reach from ~220 to ~450 branches with the acquisition of loss making United Western Bank. The government of India has 52.7% stake in the bank, while LIC holds 5.6%. The bank has a balance sheet of more than INR 1,000 bn, while its market capitalization is less than INR 130 bn.

*** Key risks**

Expansion of branch network will remain a key execution criterion to replace its high cost borrowings before we see growth in balance sheet.

Ability to unlock value will remain a sticky issue given the legal hazards.

Financial Statements

Income statement					(INR mn)
Year to March	FY04	FY05	FY06	FY07	
Interest income	68,430	26,557	53,807	63,454	
Interest expenses	70,803	24,679	50,008	56,875	
Net interest income	(2,373)	1,879	3,799	6,579	
Non interest income	13,857	6,271	12,805	10,272	
- Fee & forex income	1,003	1,590	3,310	3,116	
- Misc. income	1,397	1,197	2,397	2,228	
- Investment profits	11,457	3,484	7,097	4,928	
Net revenues	11,484	8,150	16,603	16,851	
Operating expense	5,748	4,622	8,595	7,785	
- Employee exp	1,817	1,575	3,185	2,829	
- Other opex	3,931	3,046	5,410	4,956	
Preprovision profit	5,735	3,528	8,008	9,066	
Provisions	1,120	725	2,060	2,119	
- Loan loss provisions	0	(342)	1,673	2,233	
- Investment depreciation	0	(16)	387	(114)	
- Other provisions	1,120	1,083	0	0	
PBT	4,615	2,803	5,948	6,947	
Taxes	(35)	(188)	744	644	
PAT	4,650	2,990	5,204	6,303	
Reported PAT	4,650	2,990	5,204	6,303	
EPS (INR)	7.1	8.3	7.2	8.7	
DPS (INR)	1.5	0.8	1.5	1.5	
Payout ratio (%)	21.1	9.1	20.9	17.2	

Growth ratios (%)

Year to March	FY04	FY05	FY06	FY07
NII growth	(170.8)	(179.2)	102.2	73.2
Fees growth	7.9	58.5	108.2	(5.9)
Operating profit growth	40.4	(19.6)	86.0	(9.4)
PPP growth	8.7	(38.5)	127.0	13.2
Opex growth	55.2	(35.3)	184.0	2.9
PAT growth	15.8	(35.7)	74.0	21.1

Operating ratios (%)

Year to March	FY04	FY05	FY06	FY07
Yield on advances	14.5	11.2	8.6	8.5
Yield on investments	6.2	3.4	7.6	9.0
Yield on assets	11.7	3.9	6.7	7.1
Cost of funds	12.4	3.7	6.3	6.4
Cost of deposits	0.0	3.7	4.4	5.7
Cost of borrowings	13.7	8.4	16.0	7.9
Spread	(0.7)	0.2	0.4	0.7
Cost-Income	50.1	56.7	51.8	46.2
Tax rate	(0.8)	(6.7)	12.5	9.3

Balance sheet		(INR mn)			
As on 31st March	FY04	FY05	FY06	FY07	
Liabilities					
Equity capital	6,528	7,218	7,240	7,244	
Reserves	51,821	52,045	56,474	55,112	
Net worth	58,349	59,263	63,714	62,356	
Sub bonds/pref cap	0	38,778	38,043	52,707	
Deposits	38,645	151,026	260,009	433,540	
Borrowings	483,847	500,055	475,303	424,044	
Other liabilities	57,814	65,180	49,655	45,103	
Total	638,655	814,303	886,724	1,017,750	
Assets					
Loans	328,680	454,136	527,385	624,708	
Investments					
Gilts	90,000	148,983	161,799	162,086	
Others	152,431	101,564	91,706	94,667	
Cash & equi	19,392	56,532	53,628	69,111	
Fixed assets	9,067	8,894	8,110	7,141	
Other assets	39,086	44,195	44,096	60,037	
Total	638,655	814,303	886,724	1,017,750	
Balance sheet ratios (%)					
Credit growth	(28.9)	54.3	12.7	15.7	
Deposit growth	(10.8)	290.8	72.2	66.7	
EA growth	2.6	28.9	9.6	13.9	
SLR ratio	17.2	22.9	22.0	18.9	
C-D ratio	850.5	335.8	221.1	153.3	
Low-cost deposits	0.0	38.3	29.5	25.4	
Gross NPA ratio	0.0	2.7	2.1	2.0	
Net NPA ratio	2.7	1.9	1.1	1.2	
Provision coverage		30.3	49.5	41.4	
Capital adequacy	18.2	15.5	14.8	13.7	
- Tier 1	14.9	11.9	11.7	9.1	
ROA decomposition (%)					
Year to March	FY04	FY05	FY06	FY07	
Net interest income/Assets	(0.4)	0.3	0.5	0.7	
Fees/Assets	0.4	0.4	0.7	0.6	
Investment profits/Assets	2.0	0.5	0.9	0.6	
Net revenues/Assets	2.0	1.2	2.1	1.9	
Operating expense/Assets	(1.0)	(0.7)	(1.1)	(0.9)	
Provisions/Assets	(0.2)	(0.1)	(0.3)	(0.2)	
Taxes/Assets	0.0	0.0	(0.1)	(0.1)	
Total costs/Assets	(1.2)	(0.8)	(1.4)	(1.2)	
ROA	0.8	0.4	0.7	0.7	
Equity/Assets	11.0	8.7	7.7	7.1	
ROE	7.3	5.1	8.5	10.0	
Valuation parameters					
Year to March	FY04	FY05	FY06	FY07	
EPS (INR)	7.1	8.3	7.2	8.7	
EPS growth (%)	15.8	16.3	(56.6)	21.1	
Book value per share (INR)	89.4	82.1	88.0	86.1	
Adjusted book value/share (INR)	79.9	73.9	82.6	79.1	
Price/Earnings (x)	23.9	20.1	23.7	19.6	
Price/ BV (x)	1.9	2.1	1.9	2.0	
Price/ ABV (x)	2.1	2.3	2.1	2.2	
Dividend yield (%)	0.9	0.5	0.9	0.9	

INDUSIND BANK

INR 131

*In fine fettle***Representatives: Mr. Bhaskar Ghose, Managing Director****Mr. Arun Chatterjee, Vice President****Mr. S.V. Zaregaonkar, Executive Vice President & CFO****Mr. J Moses Harding, Executive Vice President, Head Wholesale****Mr. S.V. Parthasarathy, Executive Vice President*** **New management team to come on board soon**

IndusInd Bank (IIB) guided that Mr. Romesh Sobti, ex-chief of ABN Amro NV, and probably a few more members are expected to join the bank sometime soon (no definite timeline given). Mr. Bhaskar Ghose will move to the parent holding company, IndusInd Holdings (IIHL) (which has a 28% stake in IIB), but will retain his seat on IIB's board.

* **Business coming out of a difficult phase**

The management has guided that IIB's margins will improve from current levels in the next few years. The bank's securitization income has declined in the past one year due to change in recognizing income as well as compulsory credit rating of underlying assets. Further, capital provisions (~200bps of Tier I) for these assets had affected profitability. The bank has indicated that most of these assets will mature, which will release cash (collateral provided) and capital allocated. The bank had provided vehicle loans at 8% in 2004, while incremental vehicle loans are being provided at 14%. With older assets getting re-priced, we believe this will improve margins. Rapid expansion of branches in the past was not commensurate with income generated. These branches will now help in replacing high cost borrowings. CASA ratio, currently at 17%, is expected to move to 35% by FY10E with focus on tapping Ashok Leyland Finance's (AFL) customers.

* **Plans to raise capital to fund growth**

IIB will raise equity capital as its Tier I capital is at 6.8%. The bank has indicated that it will raise INR 2-2.5 bn by FY08E to fund growth in its balance sheet.

* **Valuations**

The stock is currently trading at 4.8x FY07 book and 61.0x FY07 earnings. The bank is one of the few players that has mainstay business focused on the vehicle financing segment. While RoEs have remained at 4-7% in the past two years, incremental business at higher yields and new management focus could boost income.

Financials

Year to March	FY05	FY06	FY07
Revenues (INR mn)	6,663	5,039	5,155
Rev growth (%)	0.4	(24.4)	2.3
Net interest income(INR mn)	4,155	3,151	2,714
Net profit (INR mn)	2,101	368	682
Shares outstanding (mn)	290.5		319.8
EPS (INR)	7.2	1.3	2.1
EPS growth (%)	(20)	(82.5)	68.3
P/E (x)	18.1	103.4	61.4
Price to book (x)	5.8	5.2	4.8
ROE (%)	25.8	4.3	7.1

December 11, 2007

Reuters : INBK.BO
 Bloomberg : IIB IN

Market Data

52-week range (INR) : 137 / 37
 Share in issue (mn) : 290.7
 M cap (INR bn/USD mn) : 38.1 / 965.2
 Avg. Daily Vol. BSE/NSE ('000) : 2,665.7

Share Holding Pattern (%)

Promoters : 28.5
 MFs, FIs & Banks : 3.3
 FIs : 18.4
 Others : 49.8



*** Company description**

Promoted by the Hinduja Group in 1994, which has a 28% stake in the bank, IIB is one of the new generation private sector banks in India. It currently has a network of ~170 branches, spread over 27 states and Union territories. In addition, IIB also has a representative office each in Dubai and London. The bank raised 9% capital in FY06 through a GDR issue. The bank's balance sheet is ~INR 219 bn and more than 60% of its loan book is exposed to vehicle financing. CASA ratio is at 17%. The bank is strengthening its network to reduce dependence on high cost deposits.

*** Key risks**

Risk of sharper deterioration of asset quality due to high exposure to vehicle financing.

Margin improvement hinges on the bank's ability to replace market borrowings with low cost deposits.

Financial Statements

Income statement		(INR mn)			
Year to March	FY04	FY05	FY06	FY07	
Interest income	9,861	11,344	11,883	15,003	
Interest expenses	6,693	7,189	8,732	12,288	
Net interest income	3,169	4,155	3,151	2,714	
Non interest income	3,469	2,508	1,888	2,441	
- Fee & forex income	342	458	511	874	
- Misc. income	924	1,533	1,661	2,059	
- Investment profits	2,204	516	-283	-491	
Net revenues	6,638	6,663	5,039	5,155	
Operating expense	2,171	2,650	3,166	3,440	
- Employee exp	504	602	848	963	
- Other opex	1,668	2,049	2,318	2,477	
Preprovision profit	4,467	4,012	1,873	1,716	
Provisions	1,740	1,407	1,281	642	
- Loan loss provisions	1,607	675	1,034	657	
- Investment depreciation	-30	630	76	23	
- Other provisions	163	103	171	-38	
PBT	2,727	2,605	592	1,074	
Taxes	86	504	224	392	
PAT	2,641	2,101	368	682	
Reported PAT	2,641	2,101	368	682	
EPS (INR)	9.1	7.2	1.3	2.1	
DPS (INR)	2.3	1.8	0.0	0.6	
Payout ratio (%)	24.7	24.9	0.0	28.1	

Growth ratios (%)

Year to March	FY04	FY05	FY06	FY07
NII growth	71.8	31.1	(24.2)	(13.9)
Fees growth	(29.9)	34.1	11.4	71.2
Operating profit growth	84.2	22.0	19.5	8.6
PPP growth	35.0	(10.2)	(53.3)	(8.4)
Opex growth	(25.8)	(19.1)	(9.0)	(49.9)
PAT growth	172.9	(20.4)	(82.5)	85.3

Operating ratios (%)

Year to March	FY04	FY05	FY06	FY07
Yield on advances	11.0	10.0	9.3	10.2
Yield on investments	7.6	7.2	6.6	7.0
Yield on assets	8.6	8.1	7.8	8.4
Cost of funds	5.7	4.9	5.5	6.7
Cost of deposits	5.1	5.7	6.7	7.9
Cost of borrowings	11.7	8.3	8.5	12.9
Spread	2.9	3.1	2.3	1.7
Cost-Income	32.7	39.8	62.8	66.7
Tax rate	3.2	19.3	37.8	36.5

Balance sheet		(INR mn)			
As on 31st March	FY04	FY05	FY06	FY07	
Liabilities					
Equity capital	2,904	2,905	2,905	3,198	
Reserves	5,100	5,387	5,755	7,368	
Net worth	8,004	8,292	8,661	10,566	
Sub bonds/pref cap	2,040	4,720	6,391	8,460	
Deposits	112,003	131,143	150,063	176,448	
Borrowings	23,104	6,106	5,349	5,927	
Other liabilities	5,714	5,959	5,761	7,870	
Total	150,865	156,220	176,225	209,271	
Assets					
Loans	73,012	89,998	93,105	110,842	
Investments					
Gilts	37,930	34,288	45,857	48,509	
Others	6,898	6,404	8,242	10,408	
Cash & equi	21,710	11,546	14,805	25,954	
Fixed assets	2,984	3,245	3,396	3,696	
Other assets	8,332	10,740	10,821	9,863	
Total	150,865	156,220	176,225	209,271	
Balance sheet ratios (%)					
Credit growth	29.5	22.1	3.8	18.5	
Deposit growth	30.3	17.1	14.4	17.6	
EA growth	54.5	1.9	13.9	20.8	
SLR ratio	27.9	25.0	29.5	26.6	
C-D ratio	66.7	69.5	63.0	63.5	
Low-cost deposits	11.2	10.7	12.9	14.9	
Gross NPA ratio	3.5	3.5	2.9	3.1	
Net NPA ratio	2.9	2.7	2.1	2.5	
Provision coverage	18.1	23.8	27.5	20.1	
Capital adequacy	12.8	11.6	10.5	12.5	
- Tier 1	8.9	7.2	6.8	7.3	
ROA decomposition (%)					
Year to March	FY04	FY05	FY06	FY07	
Net interest income/Assets	2.8	2.9	2.1	1.5	
Fees/Assets	1.1	1.4	1.4	1.6	
Investment profits/Assets	1.9	0.4	(0.2)	(0.3)	
Net revenues/Assets	5.8	4.7	3.3	2.9	
Operating expense/Assets	(1.9)	(1.9)	(2.1)	(1.9)	
Provisions/Assets	(1.5)	(1.0)	(0.8)	(0.4)	
Taxes/Assets	(0.1)	(0.4)	(0.1)	(0.2)	
Total costs/Assets	(3.5)	(3.2)	(3.1)	(2.5)	
ROA	2.3	1.5	0.2	0.4	
Equity/Assets	6.1	5.8	5.6	5.4	
ROE	37.7	25.8	4.3	7.1	
Valuation parameters					
Year to March	FY04	FY05	FY06	FY07	
EPS (INR)	9.1	7.2	1.3	2.1	
EPS growth (%)	106.1	(20.4)	(82.5)	68.3	
Book value per share (INR)	27.6	28.5	29.8	33.0	
Adjusted book value/share (INR)	22.4	22.7	25.1	27.0	
Price/Earnings (x)	14.4	18.1	103.4	61.4	
Price/ BV (x)	4.7	4.6	4.4	4.0	
Price/ ABV (x)	5.8	5.8	5.2	4.8	
Dividend yield (%)	1.7	1.4	0.0	0.5	

INDIAN OVERSEAS BANK

INR 185

Healthy growth

Representatives: Mr. Sanjoy Chatterji, General Manager, Treasury
 Mr. K.S. Krishna Murthy, Dy. General Manager

* Strength of business model continues

Indian Overseas Bank (IOB) expects to post robust ~28% growth in credit (growth in past two quarters was at 13%) for FY08E, which will be higher than industry growth. The bank's conscious business model to lend to high margin SME and retail segments will help it sustain loan yields. 88% of the book is collateralized, 5% backed by guaranteed and only 7% unsecured. The bank expects deposit growth to be at ~27% (growth in the past two quarters was at 19.4%) and the comfortable SLR book, which is currently at 31%, will help fund further growth.

* Margins sustainable at current levels; AS 15 provisions to continue

The management has guided that net interest margins will stabilize at ~3.4%, as in Q2FY08, but with an upward bias. IOB's margins were at ~3.7% for FY07 (the highest for any PSU bank), but declined marginally by ~30bps in Q2FY08, mainly due to decline in low cost deposits. We believe this to be sustainable given the sufficient cushion in its SLR book. We have forecasted a 20% growth in core fee income for FY08 and the management has indicated that it will focus on generating fee income through derivative products and loan syndication fees. IOB will provide INR 1.28 bn (total outstanding liability of ~INR 6.3 bn annually) for the next five years to meet its AS 15 liability and this will be charged through the P&L statement.

* Basel II impact will be ~60bps; open to inorganic opportunity

The impact of Basel II requirements compliance on IOB will be a marginal 60bps. The bank has sufficient headroom in its Tier I capital (~9%) and the bank has indicated that it is open to grow inorganically if there is a good opportunity available.

* Valuations

The stock is currently trading at 1.7x FY09E book and 7.7x FY09E earnings. We like the bank for its high RoE and RoAs of ~1.25% for FY08E. Given the current cushion in Tier 1 capital, we do not expect the bank to raise capital in the next two years. We expect IOB to generate 23-26% RoE and 13.4% EPS CAGR over FY07-09E.

Financials

Year to March	FY06	FY07	FY08E	FY09E
Revenues (INR mn)	26,418	32,036	36,893	41,861
Rev growth (%)	10.0	21.3	15.2	13.5
Net interest income (INR mn)	20,672	25,608	28,697	32,355
Net profit (INR mn)	7,831	10,084	11,351	13,183
Shares outstanding (mn)	544.8	544.8	544.8	544.8
EPS (INR)	14.4	18.5	20.8	24.2
EPS growth (%)	59.3	28.8	12.6	16.1
P/E (x)	12.9	10.0	8.9	7.7
Price to book (x)	3.3	2.6	2.1	1.7
Price to PPOP (x)	0.1	0.1	0.1	0.1
ROE (%)	28.5	29.1	26.1	24.6

December 11, 2007

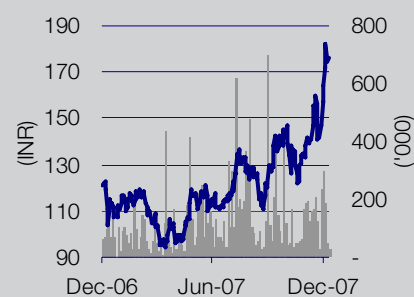
Reuters : IOBK.BO
 Bloomberg : IOB IN

Market Data

52-week range (INR) : 199 / 89
 Share in issue (mn) : 544.8
 M cap (INR bn/USD mn) : 101.0 / 2,555.7
 Avg. Daily Vol. BSE ('000) : 464.0

Share Holding Pattern (%)

Promoters : 61.2
 MFs, FIs & Banks : 6.0
 FIs : 18.6
 Others : 14.2



*** Company description**

IOB is a mid-sized PSU bank with balance sheet size of ~INR 850 bn. It has 1,556 domestic branches and over 300 ATMs, and currently 389 branches are under core banking. It is dominantly present in four southern states of Tamil Nadu, Kerala, Andhra Pradesh, and Karnataka. The bank has six overseas branches and aims to grow its share in trade finance and remittance market through BhoB. The bank's focus traditionally has been on SME lending, which forms 40% of total credit, which explains its high margins. Government holding is at 61% and foreign holding at maximum permissible 20%.

*** Key risks**

Aggressive credit growth may lead to higher than estimated NPA, while the loan book bias towards SME could lead to higher risk of asset quality deterioration.

More than expected compression in net interest margin with industry wide contraction of low cost deposits.

Financial Statements

Income statement					(INR mn)
Year to March	FY05	FY06	FY07	FY08E	FY09E
Interest income	39,510	44,063	58,321	76,597	92,108
Interest expenses	20,955	23,391	32,713	47,900	59,753
Net interest income	18,555	20,672	25,608	28,697	32,355
Non interest income	5,459	5,746	6,428	8,196	9,506
- Fee & forex income	3,521	3,808	4,739	5,686	6,653
- Misc. income	(250)	(834)	(709)	510	1,353
- Investment profits	2,189	2,772	2,398	2,000	1,500
Net revenues	24,014	26,418	32,036	36,893	41,861
Operating expense	11,585	12,616	13,878	16,259	17,444
- Employee exp	8,435	8,936	9,311	10,878	11,261
- Other opex	3,151	3,680	4,567	5,381	6,183
Preprovision profit	12,429	13,802	18,157	20,634	24,417
Provisions	4,308	3,948	4,424	4,418	5,585
- Loan loss provisions	3,129	1,938	2,168	4,314	5,085
- Investment depreciation	877	1,738	2,412	104	500
- Other provisions	302	272	(156)	0	0
PBT	8,121	9,854	13,734	16,216	18,833
Taxes	3,205	2,023	3,650	4,865	5,650
PAT	4,916	7,831	10,084	11,351	13,183
Reported PAT	4,916	7,831	10,084	11,351	13,183
EPS (INR)	9.0	14.4	18.5	20.8	24.2
DPS (INR)	2.4	2.6	3.0	3.0	4.0
Payout ratio (%)	26.6	18.1	16.2	14.4	16.5

Growth ratios (%)

Year to March	FY05	FY06	FY07	FY08E	FY09E
NII growth	16.0	11.4	23.9	12.1	12.7
Fees growth	19.3	8.2	24.4	20.0	17.0
Opex growth	14.2	8.9	10.0	17.2	7.3
PPOP growth	20.8	7.7	42.9	18.2	23.0
PPP growth	(0.7)	11.0	31.6	13.6	18.3
Provisions growth	(6.3)	(8.4)	12.0	(0.1)	26.4
PAT growth	(4.1)	59.3	28.8	12.6	16.1

Operating ratios (%)

Year to March	FY05	FY06	FY07	FY08E	FY09E
Yield on advances	9.2	8.8	9.5	10.0	10.1
Yield on investments	9.3	9.1	8.2	8.2	8.0
Yield on assets	8.3	8.3	8.5	8.8	9.0
Net interest margins	3.9	3.9	3.7	3.3	3.1
Cost of funds	4.5	4.5	4.9	5.7	6.0
Cost of deposits	4.6	4.6	4.9	5.6	5.9
Cost of borrowings	6.5	6.8	9.4	9.4	9.6
Spread	4.6	4.2	4.7	4.4	4.2
Cost-income	48.2	47.8	43.3	44.1	41.7
Tax rate	39.5	20.5	26.6	30.0	30.0

Balance sheet						(INR mn)
As an 31st March	FY05	FY06	FY07	FY08E	FY09E	
Liabilities						
Equity capital	5,448	5,448	5,448	5,448	5,448	
Reserves	18,886	25,104	33,276	42,793	53,531	
Net worth	24,334	30,552	38,724	48,241	58,979	
Sub bonds/pref cap	11,327	20,827	22,300	23,300	24,300	
Deposits	442,412	505,293	687,404	824,885	973,364	
Borrowings	5,907	7,366	28,962	39,118	51,710	
Other liabilities	22,752	28,317	43,998	17,709	21,011	
Total	506,732	592,356	821,389	953,254	1,129,364	
Assets						
Loans	252,052	347,562	470,603	611,784	746,376	
Investments						
Gilts	162,189	160,418	212,534	218,583	238,349	
Others	27,959	29,105	27,211	32,294	37,776	
Cash & equi	49,540	37,072	89,793	78,970	93,308	
Fixed assets	3,105	3,355	3,927	4,651	5,283	
Other assets	11,888	14,843	17,321	6,972	8,271	
Total	506,732	592,356	821,389	953,254	1,129,364	
Balance sheet ratios (%)						
Credit growth	21.2	33.3	32.0	29.7	22.0	
Deposit growth	6.7	14.2	36.0	20.0	18.0	
EA growth	7.6	16.8	39.4	17.7	18.5	
SLR ratio	36.2	31.3	29.7	25.0	23.0	
C-D ratio	62.5	72.9	70.7	76.5	79.1	
Low-cost deposits	38.9	39.9	34.9	33.7	34.2	
Gross NPA ratio	5.3	3.4	2.3	1.7	1.6	
Net NPA ratio	1.3	0.6	0.5	0.0	0.0	
Provision coverage	77.0	81.7	77.0	97.4	104.2	
Capital adequacy	14.2	13.0	13.3	13.4	12.7	
- Tier 1	7.1	8.5	8.2	8.9	8.8	
ROA decomposition (%)						
Year to March	FY05	FY06	FY07	FY08E	FY09E	
Net interest income/Assets	3.9	3.9	3.7	3.3	3.1	
Fees/Assets	0.7	0.6	0.6	0.7	0.8	
Investment profits/Assets	0.5	0.5	0.3	0.2	0.1	
Net revenues/Assets	5.1	5.0	4.7	4.2	4.1	
Operating expense/Assets	(2.4)	(2.4)	(2.0)	(1.9)	(1.7)	
Provisions/Assets	(0.9)	(0.7)	(0.6)	(0.5)	(0.5)	
Taxes/Assets	(0.7)	(0.4)	(0.5)	(0.6)	(0.5)	
Total costs/Assets	(4.0)	(3.5)	(3.2)	(2.9)	(2.8)	
ROA	1.0	1.5	1.5	1.3	1.3	
Equity/Assets	4.6	5.1	5.0	5.0	5.2	
ROE	22.5	28.5	29.1	26.1	24.6	
Valuation parameters						
Year to March	FY05	FY06	FY07	FY08E	FY09E	
EPS (INR)	9.0	14.4	18.5	20.8	24.2	
EPS growth (%)	(4.1)	59.3	28.8	12.6	16.1	
Book value per share (INR)	44.7	56.1	71.1	88.5	108.3	
Adjusted book value/share (INR)	40.6	53.2	67.8	88.2	108.3	
Price/Earnings (x)	20.5	12.9	10.0	8.9	7.7	
Price/ BV (x)	4.1	3.3	2.6	2.1	1.7	
Price/ ABV (x)	4.6	3.5	2.7	2.1	1.7	
Dividend yield (%)	1.5	1.6	1.9	1.9	2.5	

ING VYSYA BANK

INR 310

Emerging out of the woods

Representatives: Mr. Vaughn Richtor, Managing Director & Chief Executive Officer

Mr. Jayant Mehrotra, Chief Financial Officer

Mr. Janak Desai, Country head, Wholesale banking

* Improving fundamentals with optimizing organizational structure

ING Vysya Bank seemed confident of continuing the good work it had started in FY07. The bank is optimizing its organizational structure by driving the sales structure through a target-linked incentive for branch managers, driving HR process, appraisal process, and partnering with union and officers' associations.

* New management brings industry wide expertise

17 out of the bank's 19 top managers have been inducted within the past one year and bring with them, on an average, 15 years of industry expertise from foreign and private banks. With a new team in place, the bank's focus on improving operational productivity has intensified.

* Leveraging on branch network

ING Vysya Bank currently has 406 branches, of which 40% are in rural and semi urban areas. It considers these franchises as strong CASA gatherers. It has additional 56 licenses in hand and plans to open new branches during the current fiscal. The bank views the rural and semi urban customer base as a huge opportunity along with SME and mid corporate segments.

* Focusing on retail and wholesale fees

The management views retail fees as the core fee income driver with strong traction being witnessed in retail fee areas like third party distribution, bancassurance, banking transaction fees. On the wholesale side, the bank plans to leverage on its parent's (ING Direct) global relations, cross sell its products, and thereby, establish a stronger customer facing franchise.

* Valuations

The bank's operating parameters are on an improving trajectory with strong support from its promoters (ING Direct) and with a competent team in place. The stock trades at 3.1x current book value, which is at a steep discount to some of its peers. We expect this valuation gap to narrow with reporting of improved numbers in coming quarters.

Financials

Year to March	FY04	FY05	FY06	FY07
Revenues (INR mn)	6,074	4,773	6,756	8,018
Rev growth (%)	5.6	(21.4)	41.6	18.7
Net interest income (INR mn)	2,441	3,568	4,812	5,421
Net profit (INR mn)	590	(381)	91	889
Shares outstanding (mn)	22.7	22.7	90.7	90.9
EPS (INR)	26.0	(16.8)	1.0	9.8
EPS growth (%)	(31.8)	(164.4)	(105.9)	879.4
P/E (x)	11.9	(18.5)	310.1	31.7
Price to book (x)	1.4	1.5	3.6	3.1
Price to PPOP (x)	9.2	(6.6)	(20.7)	143.6
ROE (%)	9.8	(6.3)	1.2	9.4

December 11, 2007

Reuters : VYSA.BO
 Bloomberg : VYSBIN

Market Data

52-week range (INR) : 340 / 149
 Share in issue (mn) : 91.0
 M cap (INR bn/USD mn) : 28.2 / 713.5
 Avg. Daily Vol. BSE/NSE ('000) : 95.3

Share Holding Pattern (%)

Promoters : 44.1
 MFs, Fls & Banks : 12.9
 Fls : 23.9
 Others : 19.1



*** Company description**

ING Vysya Bank was formed by coming together of Vysya Bank, a private sector bank with a strong presence in South, and Dutch Financial major ING in October 2002. The bank currently has 406 branches with 100% of the business under CBS. The bank has been traditionally strong in SME and retail lending, which explains its higher than peer margins. CASA ratio is also respectable at 29% as on Q2FY08. ING took controlling stake in the bank prior to finalizing of foreign shareholding guidelines by RBI and therefore, is the only Indian bank with more than 5% holding by a foreign bank.

*** Key risks**

Due to high exposure to the SME segment, sharp slowdown in economic growth may result in deterioration in asset quality.

Lower-than-expected decline in cost to assets can impact RoA progression.

Financial Statements

Income statement					(INR mn)
Year to March	FY04	FY05	FY06	FY07	
Interest income	9,242	9,906	12,224	14,014	
Interest expenses	6,801	6,338	7,413	8,593	
Net Interest income	2,441	3,568	4,812	5,421	
Non interest income	3,633	1,205	1,945	2,598	
- Fee & forex income	1,298	916	1,855	1,674	
- Misc. income	481	280	343	622	
- Investment profits	1,853	9	(253)	302	
Net revenues	6,074	4,773	6,756	8,018	
Operating expense	3,456	3,801	5,229	5,104	
- Employee exp	1,676	1,761	2,342	2,385	
- Other opex	1,780	2,040	2,887	2,719	
Preprovision profit	2,618	972	1,527	2,915	
Provisions	1,873	1,706	1,313	1,639	
- Loan loss provisions	519	525	534	695	
- Investment depreciation	442	819	569	0	
- Other provisions	912	363	210	945	
PBT	745	(734)	215	1,275	
Taxes	155	(353)	124	386	
PAT	590	(381)	91	889	
EPS (INR)	26.0	(16.8)	1.0	9.8	
DPS (INR)	5.0	0.0	0.0	0.7	
Payout ratio (%)	19.2	0.0	0.0	6.6	

Growth ratios (%)

Year to March	FY04	FY05	FY06	FY07
NII growth	12.5	46.2	34.9	12.7
Fees growth	6.8	(29.5)	102.5	(9.8)
Opex growth	3.6	10.0	37.6	(2.4)
PPP growth	8.2	(62.9)	57.2	90.9
Provisions growth	58.5	(8.9)	(23.1)	24.9
PAT growth	(31.7)	(164.6)	(123.8)	881.3

Operating ratios (%)

Year to March	FY04	FY05	FY06	FY07
Yield on advances	8.9	8.1	8.5	8.6
Yield on investments	7.2	6.5	7.2	7.5
Yield on assets	8.2	7.5	8.1	8.3
Net interest margins	2.2	2.7	3.2	3.2
Cost of funds	5.9	4.7	4.9	5.1
Cost of deposits	5.9	4.5	4.8	5.0
Cost of borrowings	8.4	9.4	8.7	9.3
Spread	2.3	2.8	3.2	3.2
Cost-income	56.9	79.6	77.4	63.6
Tax rate	20.8	48.1	57.8	30.3

Balance sheet		(INR mn)			
As on 31st March	FY04	FY05	FY06	FY07	
Liabilities					
Equity capital	227	227	907	909	
Reserves	4,097	3,718	3,812	4,634	
Net worth	6,278	5,919	9,081	9,925	
Sub bonds/pref cap	3,500	3,500	5,740	6,376	
Deposits	104,781	125,693	133,353	154,186	
Borrowings	9,644	8,308	11,075	8,436	
Other liabilities	6,832	8,976	7,303	12,832	
Total	131,034	152,396	166,551	191,755	
Assets					
Loans	69,367	90,806	102,315	119,762	
Investments					
Gilts	29,473	33,976	37,531	40,450	
Others	11,379	6,875	6,193	4,828	
Cash & equi	11,146	12,314	11,233	15,917	
Fixed Assets	2,149	1,965	2,939	2,852	
Other Assets	7,519	6,459	6,341	7,947	
Total	131,034	152,396	166,551	191,755	
Balance sheet ratios (%)					
Credit growth	19.4	24.3	9.7	15.2	
Deposit growth	14.1	20.0	6.1	15.6	
EA growth	15.8	18.6	9.2	15.1	
SLR ratio	25.5	25.4	26.0	24.9	
C-D ratio	74.7	77.3	79.9	79.6	
Low-cost deposits	24.9	24.2	27.0	28.9	
Gross NPA ratio	2.7	2.1	1.8	1.1	
Net NPA ratio	2.6	2.1	1.8	1.0	
Capital adequacy	11.1	9.1	10.7	10.6	
- Tier 1	6.1	5.2	7.1	6.4	

ROA decomposition (%)

Year to March	FY04	FY05	FY06	FY07
Net interest income/Assets	2.2	2.7	3.2	3.2
Fees/Assets	1.6	0.9	1.5	1.4
Investment profits/Assets	1.6	0.0	(0.2)	0.2
Net revenues/Assets	5.4	3.6	4.5	4.7
Operating expense/Assets	(3.1)	(2.9)	(3.5)	(3.0)
Provisions/Assets	(1.7)	(1.3)	(0.9)	(1.0)
Taxes/Assets	(0.1)	0.3	(0.1)	(0.2)
Total costs/Assets	(4.8)	(3.9)	(4.4)	(4.2)
ROA	0.5	(0.3)	0.1	0.5
Equity/Assets	5.3	4.6	5.0	5.6
ROE	9.8	(6.3)	1.2	9.4

Valuation parameters

Year to March	FY04	FY05	FY06	FY07
EPS (INR)	26.0	(16.8)	1.0	9.8
EPS growth (%)	(31.8)	(164.4)	(105.9)	879.4
Book value per share (INR)	277.2	260.7	100.1	109.2
Adjusted book value/share (INR)	220.5	201.1	86.2	100.4
Price/Earnings (x)	11.9	(18.5)	310.1	31.7
Price/ BV (x)	1.1	1.2	3.1	2.8
Price/ ABV (x)	1.4	1.5	3.6	3.1
Dividend yield (%)	1.6	0.0	0.0	0.2

KOTAK MAHINDRA BANK

INR 1,317

At vantage point
Representatives: Mr. Jaimin Bhatt, Group Chief Financial Officer
*** Kotak Mahindra Group: Best positioned financial intermediary**

We believe the Kotak Mahindra Group is the best-positioned financial intermediary to capture existing and emerging market opportunities in the financial services space due to its ability to enter adjacent markets. We expect Kotak Mahindra Bank (Kotak) to capitalize its strong position in the rapidly expanding brokerage and investment banking businesses, and extend market share in commercial banking, asset management, and life insurance businesses.

Revenues likely to grow at 40% CAGR; shift from 'agency' to 'annuity' business

- * We expect Kotak's consolidated revenues (excluding insurance) to attain 40% CAGR over FY07-10E. In our view, its revenue stream will be dominated by annuity businesses (commercial banking, insurance, and asset management) over the next three years. A growing pie of commercial banking and increasing thrust on fee-based revenues from alternate asset and wealth management services are likely to reduce volatility in Kotak's earnings and valuations.

Q2FY08 numbers reaffirm our belief in the stock

- * Kotak's Q2FY08 results were strong—100% plus growth in commercial banking business and three-fold rise in profits from securities and investment banking businesses. Its securities business remained buoyant with strong industry wide volume growth and we believe recent P-note guidelines will benefit domestic institutional brokers as it will expand their commission pool. It has a strong investment banking pipeline—INR 70 bn of pending M&A transactions and 12 IPOs in the pipeline including Reliance Power, Titagarh Wagoms, Future Capital, among others.

Valuations

- * We like Kotak for its diversified business mix, which offers growth from capital markets in the medium term and strong annuity businesses in the long term. After stripping off life insurance's value, the stock is trading at 4.7x FY09E book and 26x FY09E earnings. We arrive at fair value per share on SOTP basis at INR 1,159 in FY09E and INR 1,357 in FY10E. Possible upsides to our fair value can flow from increased stressed assets recovery, better-than-expected investment banking and securities trading volume.

Financials

Businesses	Valuation methodology	Multiple (x)	FY09E	FY10E
			Value per share (INR)	Value per share (INR)
Securities	P/E	25.0	350	416
Invst banking	P/E	25.0	73	88
Banking	P/B	3.5	363	413
Life insurance	Appraisal value	22.9	165	188
Domestic asset management	% of AUM	5.0	56	67
Offshore AM	% of AUM	7.4	31	43
Private equity & VC	% of AUM	15.0	26	37
Car lending	P/B	2.0	42	50
Excess networth	P/B	2.0	55	55
TOTAL			1,159	1,357

December 11, 2007

 Reuters : KTKM.BO
 Bloomberg : KMB IN

Market Data

 52-week range (INR) : 1,335 / 365
 Share in issue (mn) : 327.0
 M cap (INR bn/USD mn) : 430.7/10,903.6
 Avg. Daily Vol. BSE/NSE ('000) : 824.7

Share Holding Pattern (%)

 Promoters : 55.4
 MFs, Fls & Banks : 5.2
 Fls : 22.1
 Others : 17.3


*** Company description**

Kotak is India's leading full services financial conglomerate, dominating the securities and investment banking space; it is currently focused on growing its banking, asset management, and insurance businesses. It began operations in 1986 as a bill discounting and leasing NBFC under Kotak Mahindra Finance and converted itself into a bank in 2003. The group has a widespread presence across 320 cities and services close to 2.9 mn customer accounts. Kotak Securities has a network of 856 offices, Kotak Mahindra Bank has 133 branches, and Kotak Life has 93 branches. The group has a decent platform to cross sell its products across the group, given its presence through the financial spectrum. Kotak Securities has 8.1% market share in the overall market volumes and is one of the prominent domestic investment bankers. Amongst commercial banks, it is still in a nascent stage with 0.67% share in advances and 0.46% share in deposits. It is developing its presence in asset management and insurance businesses, where it has 3-4% market share.

*** Key risks**

More than one-third of Kotak's revenues and almost half of its profits are derived from capital market-linked businesses. Therefore, we believe the key industry risk includes any unfavourable developments in the capital market such as a downturn in India's equity, reduced foreign interest, decline in trading volumes, investment banking pipeline failing to materialize, and lower AUM flows, which could adversely affect our growth assumptions and hence, valuations.

We believe intense competition from global and local players in equity markets may pose a major challenge for Kotak to maintain its market share and leadership position.

Loss of key personnel could disrupt the company's operations and client relationships.

Our numbers build in expansion in branch network, and therefore, improvement in the low-cost deposit franchise. Delay in execution of these plans could impact our earnings estimates.

Financial Statements

Income statement					(INR mn)
Year to March	FY06	FY07	FY08E	FY09E	FY10E
Income					
Interest income	11,633	20,413	30,120	39,732	49,864
Interest expenses	5,397	10,826	16,632	22,091	27,557
Net interest income	6,236	9,588	13,488	17,641	22,307
Equity brokerage and related income	4,371	5,098	7,387	8,646	10,100
Fee income	3,968	5,249	8,051	11,438	14,393
Financial adv. & transactional services	960	894	2,003	1,989	2,299
Investment management fees	354	455	772	1,201	1,431
Portfolio advisory fees	26	72	119	186	253
Income from investments	52	126	64	64	65
Other income	638	1,525	2,170	2,515	3,446
Total income	16,604	23,006	34,054	43,681	54,293
Payments to employees	3,791	5,765	8,265	10,889	13,649
Other expenses	5,743	7,458	9,819	12,322	14,566
Total operating expenditure	9,534	13,223	18,084	23,211	28,216
Operating profit	7,071	9,783	15,971	20,471	26,077
Provision	399	1,327	2,017	2,140	2,388
EBIT	6,672	8,457	13,953	18,331	23,689
Provision for tax	2,076	2,504	4,239	5,642	7,301
Net profit before extraordinaries	4,596	5,953	9,714	12,689	16,388
Less: Adjustments	(833)	(137)	(200)	(200)	(200)
Add: Associates	23	144	50	50	50
Net profit	3,786	5,960	9,564	12,539	16,238

Growth ratios (%)

Year to March	FY06	FY07	FY08E	FY09E	FY10E
Revenues growth	69.2	38.6	48.0	28.3	24.3
Operating profit growth	85.5	38.4	63.2	28.2	27.4
PAT growth	77.9	57.4	60.5	31.1	29.5
Operating margin	42.6	42.5	46.9	46.9	48.0
PAT margin	22.8	25.9	28.1	28.7	29.9

Balance sheet						(INR mn)
As on 31st March	FY06	FY07	FY08E	FY09E	FY10E	
Assets						
Bal. with banks & money at call	6,180	13,506	18,672	24,236	29,762	
Investments	42,190	78,220	79,103	80,732	80,732	
Advances	104,199	155,734	206,692	257,557	316,282	
Fixed assets	1,619	2,174	2,478	2,597	2,390	
Other assets	12,179	15,130	20,918	27,151	33,342	
G/W on consolidation	34	34	34	34	34	
Total assets	170,475	271,794	337,568	404,861	477,958	
Liabilities						
Capital	3,093	3,262	3,423	3,423	3,423	
Reserves and surplus	20,528	30,747	54,895	66,577	81,654	
Networth	23,621	34,009	58,318	70,000	85,076	
Minority interest	2,709	309	150	150	150	
ESOP pending	118	284	284	284	284	
Deposits	56,167	96,610	144,915	182,592	205,416	
Borrowings	58,026	101,665	85,716	57,744	38,971	
Others liabilities and provisions	29,834	38,917	48,185	94,089	148,060	
Total liabilities	170,475	271,794	337,568	404,861	477,958	

Valuation parameters

Year to March	FY06	FY07	FY08E	FY09E	FY10E
RoE (%)	19.8	20.7	20.7	19.5	20.9
RoA (%)	3.3	2.7	3.2	3.4	3.7
EPS (INR)	15	18	28	37	48
<i>EPS growth (%)</i>	<i>(27.5)</i>	<i>22.8</i>	<i>55.5</i>	<i>30.6</i>	<i>29.1</i>
Book value (INR)	76.4	104.3	170.4	204.5	248.6
DPS (INR)	0.6	0.7	1.5	2.1	2.9
P/E (X)	88.6	72.2	46.4	35.5	27.5
P/BV (X)	17.2	12.6	7.7	6.4	5.3
P/E (adjusted for insurance) (X)	80.1	65.2	41.3	31.1	23.6
P/BV (adjusted for insurance) (X)	15.6	11.4	6.9	5.6	4.5

MAHINDRA & MAHINDRA FINANCIAL SERVICES

INR 284

Rural focus

Representative: Mr. Dinesh Prajapati, General Manager, Treasury

* Focused on rural and semi-urban markets

Mahindra & Mahindra Financial Services (MMFSL) has an extensive nationwide network of 424 branches in H1FY08 with 420 branches located in rural and semi-urban areas and plans to roll out 50-60 new branches in the next year. The company is uniquely positioned to benefit from government's thrust on boosting the rural economy given its wide client base of 0.7 mn and limited presence of private players.

* Poised to take advantage of auto industry growth

MMFSL has maintained leadership in financing products of its parent company and ~60% of its loan book comprises Mahindra & Mahindra products. It has entered into agreements with Maruti Suzuki, Tata Motors, Hyundai, and Ashok Leyland to finance their products and plans to increase the proportion of non-Mahindra vehicles in its portfolio. It is well poised to benefit from an estimated 16% CAGR in the organized auto finance market over FY07-11E.

* Higher loan slippage in Q2FY08, likely to improve in H2FY08

The company's gross NPA increased from 5.5% in FY07 to 7.9% in H1FY08 and net NPA increased from 2.5% to 4% in the same period due to delayed monsoons affecting agricultural production resulting in higher slippage in tractor loans. However, historically, the company's collections are better in the second half of the year.

* Ventured into insurance broking, aggressive plans in housing finance

The company currently employs around 300 people in insurance broking and reported profit of INR 20 mn in H1FY08. It has ventured into rural housing finance and disbursed loans of INR 200 mn by October with a ticket size in the range of INR 0.3-0.5 mn at yields of 16-18%. It has aggressive plan to grow its book over the next two-three years.

* Valuations

MMFS is moving towards becoming an integrated rural finance player in the coming years and poised for better future growth. It has grown its revenue by 38% CAGR and profit by 27% CAGR over FY05-07 and reported revenue of INR 5.4 bn and profit of INR 0.6 bn in H1 FY08. It generated RoA and RoE of 2.6% and 18-19%, respectively, in FY06-07 and maintained its NIMs in the 8-9% range. The stock is currently trading at 3.1x FY07 book and 17.8x FY07 earnings.

Financials

Year to March	FY04	FY05	FY06	FY07
Revenues (INR mn)	2,159	2,736	3,786	5,260
Rev growth (%)	31.5	26.7	38.4	38.9
Net profit (INR mn)	652	840	1,091	1,347
EPS (INR)	10.8	12.0	13.1	16.0
EPS growth (%)	47.0	11.3	9.4	22.4
P/E (x)	26.5	23.8	21.8	17.8
Book value per share (INR)	41.5	50.9	82.2	93.1
Price to book (x)	6.9	5.6	3.5	3.1
ROE (%)	28.7	27.6	20.9	18.4

December 11, 2007

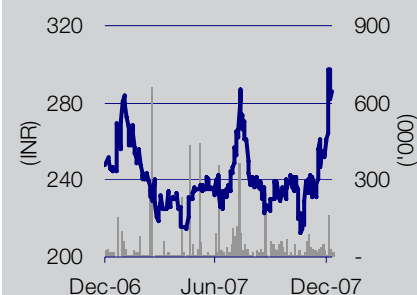
Reuters : MMFS.BO
 Bloomberg : MMFSIN

Market Data

52-week range (INR) : 310 / 212
 Share in issue (mn) : 86.0
 M cap (INR bn/USD mn) : 24.4 / 618.3
 Avg. Daily Vol. BSE/NSE ('000) : 101.80

Share Holding Pattern (%)

Promoters : 70.0
 MFs, Fls & Banks : 0.1
 Fls : 25.2
 Others : 4.8



*** Company description**

MMFS finances purchase of utility vehicles, tractors and cars, particularly in rural and semi-urban areas. Around 80% of its branches are in rural areas and 21% in semi-urban areas. It is leveraging well on its close association with M&M and its 1,500 plus auto dealer relationships, retaining leadership in financing Mahindra products. Currently, it has a network of over 415 branches covering 25 states and an employee strength of 2,791. The company has also tied up with Maruti Suzuki India for financing Maruti products.

On the back of increased demand in UV, tractors, and car segment, MMFS has delivered strong growth in customer contracts, asset size, and profitability. Its asset book grew by 46% CAGR over FY04-07, aiding 41% CAGR in revenues and 25% CAGR in profitability. In the recent past, MMFS has diversified its product portfolio to include insurance brokerage, mutual fund business, and financing two wheeler and personal loans.

Promoters hold 68% in the company, stake of FIIs is 25%, and only 5% is with the public.

*** Key risks**

Currently, private players' presence in rural and semi urban India is limited. Entry of large players may impact the company's revenue growth and profitability.

The company is highly dependant on parent's portfolio and is currently trying to diversify its sources of revenue by entering into new businesses and tie ups with other auto companies. However, most of these initiatives are still at a nascent stage and therefore, subject to execution risks.

The company needs to maintain credit rating to avail funds at competitive rates.

Financial Statements

Income statement					(INR mn)
Year to March	FY04	FY05	FY06	FY07	
Income from operations					
Interest income	2,098	3,475	5,165	7,652	
Interest expense	969	1,332	2,194	3,240	
Net interest income	1,129	2,143	2,971	4,412	
Income from securitisation/assignment	258	193	489	538	
Income from insurance business	-	21	38	77	
Other operating income	695	301	169	102	
Total operating income	2,082	2,658	3,667	5,128	
Other income	78	77	119	132	
Total revenues	2,159	2,736	3,786	5,260	
Operating expenses	1,141	870	1,324	1,969	
- Employee expense	180	272	415	684	
- Other operating expense	915	560	858	1,210	
- Depreciation/amortization	46	39	52	74	
Preprovision profit	1,019	1,865	2,462	3,291	
Provisions & write-offs	-	510	816	1,223	
PBT	1,019	1,356	1,646	2,068	
Taxes	367	516	555	720	
PAT	652	840	1,091	1,347	
EPS (INR)	10.8	12.0	13.1	16.0	

Growth ratios (%)

Year to March	FY04	FY05	FY06	FY07
NII growth	2,836.9	89.8	38.7	48.5
Revenue growth	31.5	26.7	38.4	38.9
Opex growth	23.4	(23.7)	52.1	48.7
PPP growth	42.0	83.1	32.0	33.7
PBT growth	42.0	33.1	21.4	25.6
PAT growth	47.0	28.8	29.9	23.4

Operating ratios (%)

Year to March	FY04	FY05	FY06	FY07
Yield on assets	13.5	14.9	13.9	14.9
Cost of funds	7.2	6.6	6.9	7.4
Spread	6.3	8.3	7.0	7.5
Net interest margins	7.3	9.2	8.0	8.6
Cost-income	52.8	31.8	35.0	37.4
Tax rate	36.0	38.0	33.7	34.8

Balance sheet ratios (%)

Year to March	FY04	FY05	FY06	FY07
Disbursements (INR mn)	23,027	33,434	44,779	54,409
Disbursements growth (%)	43	45	34	22
Credit growth (%)	78.0	74.3	55.3	30.4
Borrowings growth (%)	38.9	56.9	61.4	23.3
EA growth (%)	19.7	49.8	59.8	37.9
Gross NPA ratio (%)		6.2	4.8	5.5
Net NPA ratio (%)		3.0	2.3	2.5

Balance sheet		(INR mn)			
As on 31st March	FY04	FY05	FY06	FY07	
Liabilities					
Equity capital	606	702	833	840	
Preference share capital	-	500	500	-	
Reserves	1,911	2,872	6,018	6,981	
Networth	2,517	3,573	6,851	7,821	
Secured loans	13,234	22,036	34,837	45,803	
Unsecured loans	2,480	2,502	3,978	3,291	
Total loans	15,715	24,538	38,815	49,093	
Total	18,232	28,611	46,166	56,914	
Assets					
Fixed assets	136	168	230	276	
Investments	448	363	2,977	264	
Current assets					
- Loans and advances	16,627	28,974	44,994	58,663	
- Cash and bank balances	38	1,129	1,495	2,840	
- Sundry Debtors	1,068	137	28	23	
- Others	1,802	22	9	20	
Current Liabilities					
- Current liabilities	2,073	2,153	3,499	5,116	
- Provisions	125	399	548	808	
Net current assets	17,336	27,710	42,480	55,622	
Deferred tax assets	311	364	467	744	
Miscellaneous expenses not written off	2	-	-	-	
Intangible assets	-	6	12	8	
Total assets	18,232	28,611	46,166	56,914	

RoE decomposition (%)

Year to March	FY04	FY05	FY06	FY07
Net interest income/Assets	7.3	9.2	8.0	8.6
Operating income/assets	13.4	11.4	9.9	10.0
Other income/Assets	0.5	0.3	0.3	0.3
Net revenues/Assets	13.9	11.8	10.2	10.3
Operating expense/Assets	7.3	3.7	3.6	3.8
Provisions/Assets	0.0	2.2	2.2	2.4
Taxes/Assets	2.4	2.2	1.5	1.4
Total costs/Assets	9.7	8.1	7.2	7.6
ROA	4.2	3.6	2.9	2.6
Equity/Assets	14.6	13.1	14.0	14.3
ROE	28.7	27.6	20.9	18.4

Valuation parameters

Year to March	FY04	FY05	FY06	FY07
Revenues (INR mn)	2,159.5	2,735.7	3,786.1	5,259.6
Rev growth (%)	31.5	26.7	38.4	38.9
Net profit (INR mn)	652.0	840.0	1,091.3	1,347.2
EPS (INR)	10.8	12.0	13.1	16.0
EPS growth (%)	47.0	11.3	9.4	22.4
Book value per share (INR)	41.5	50.9	82.2	93.1
Price to book (x)	6.9	5.6	3.5	3.1
Price to earnings (x)	26.5	23.8	21.8	17.8
ROE (%)	28.7	27.6	20.9	18.4

MAX INDIA

INR 235

Gaining ground



Representatives: Mr. Neeraj Basur, Chief Financial Officer
Mr. Jatin Khanna, Manager, Finance

* Life insurance business to remain mainstay

Max New York Life (MNYL), a JV of Max India with New York Life for life insurance business, is expected to achieve CAGR in premium of 50% over the next three years. To achieve this growth, the company plans to expand its distribution centers to more than 600, from 200 currently, as well as grow its agency force to 200k from 25k in the next three years. MNYL will infuse capital of ~INR 18 bn in the next three years to fund this growth.

We see the following distinct features in MNYL: (1) one of the lowest average age of 24 years on policies underwritten; (2) one of the most productive agent forces in terms of premium mobilized; (3) policy mix balanced between traditional and ULIPs; and (4) higher operational cost compared to peers due to lack of strong bancassurance model.

The company also clarified that its economic interest will remain at ~50%, with New York Life having an option to increase its stake, which will be calculated on the higher side of total capital infused, embedded value and net asset value.

* Steady growth in healthcare segment

In the healthcare segment, Max Healthcare expects to be profitable by FY10E. In two of its newer hospitals it has managed to breakeven in two years, in comparison to industry average of four-five years. The company operates two tertiary hospitals, four secondary hospitals, two specialty centres, and nine clinics. The company plans to increase its bed capacity from 770 to ~ 1,220 over the next two years. It does not need further cash infusion to support growth plans for the next few years and expects EBITDA margin of 20–25% and ROCE of ~ 22–25% in the next two to three years.

* Valuations

MNYL continues to post losses (PBIT INR 511 mn for H1FY08 compared to INR 292 mn for H1FY07) mainly due to losses in the insurance as well as healthcare businesses. MNYL has a treasury book of INR 13-14 bn mainly to fund healthcare and insurance businesses. The stock is currently trading at 2.5x FY07 book.

Financials (Max New York Life Insurance)

Year to March	FY04	FY05	FY06	FY07
Revenues (INR mn)	5,130	7,013	15,376	19,941
Revenue growth (%)		37	119	30
Net profit (INR mn)	(962)	(1,599)	2,956	(712)
Networth (INR mn)	1,623	1,392	5,456	4,838
Networth growth (%)		(14.2)	291.9	(11.3)
Price to book (x)	32.7	38.1	9.7	11.0

December 11, 2007

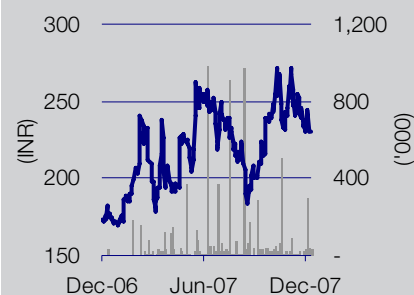
Reuters : MAXI.BO
Bloomberg : MAX IN

Market Data

52-week range (INR) : 290 / 164
Share in issue (mn) : 443.4
M cap (INR bn/USD mn) : 104.1 / 2,635.1
Avg. Daily Vol. BSE/NSE ('000) : 125.9

Share Holding Pattern (%)

Promoters : 33.4
MFs, Fls & Banks : 2.2
Fls : 39.2
Others : 25.2



*** Company description**

Max India is promoted by Mr. Anajit Singh and family. The company has eight broad business verticals. Of these, insurance and healthcare contribute maximum to revenues, while they continue to consume capital as they are yet to declare profits. The company generates cash from its other verticals like healthcare staffing (where it generates fee from training and sending nurses on contractual basis), clinical research, foils, and real estate.

Max India has a tie-up with New York Life where the former has an economic interest of 50%. This business vertical will remain to be one of the focus areas for the Max Group. Unit-linked insurance products contribute 50% to the business. As of FY07, the company had a market share of 5.4% and currently has an agent base of over 25,000.

As of September 2007, the promoters have 33% stake in the company, while FII's hold ~56%.

*** Key Risks**

Continuous expansion of insurance business will require constant capital infusion to sustain growth, while the other key business of healthcare is also not in a stage where it can generate free cash flows.

Insurance business will require rapid expansion of agents to generate business.

Max New York Life Insurance

Financial Statements

Income statement				(INR mn)
Year to March	FY04	FY05	FY06	FY07
Revenues				
Transfer from policyholders account	-	-	0.6	1.2
Income from investments	82	46	78	141
Other Income	56.5	0.8	0.0	40.7
Total income	138	47	78	183
Expenditure				
Contribution to the policyholders fund	2,450	1,027	652	742
Others	15.9	17.1	27.1	45.9
Provisions	-	-	-	-
Total	2,466.0	1,043.8	678.7	787.8
Profit before tax	(2,328)	(997)	(601)	(605)
Tax	-	-	-	-
PAT	(2,328)	(997)	(601)	(605)

Growth ratios (%)

Year to March	FY04	FY05	FY06	FY07
Sources of funds				
Share capital	3,461	4,661	5,574	7,324
Reserves and surplus	(2,326)	(3,253)	(3,866)	(4,413)
Networth	1,135	1,408	1,709	2,911
Policy liabilities	1,601	3,350	5,663	9,125
Provision for linked liabilities	-	253	1,780	6,546
Funds for future appropriations	-	-	55	70
Total liabilities	2,736	5,011	9,207	18,652
Application of funds				
Shareholders investments	852	1,138	1,408	2,710
Policyholders investments	1,601	3,439	5,740	9,194
Assets held to cover linked liabilities	-	253	1,780	6,546
Loans	0	0	-	-
Fixed assets	555	563	684	901
Current assets				
Cash and bank balances	169	160	221	397
Advances and other assets	272	438	823	1,516
Total current assets	441	598	1,043	1,913
Current liabilities and provisions	713	1,033	1,486	2,662
Net current assets	(272)	(435)	(443)	(748)
Miscellaneous expenditure	-	53	38	50
Total	2,736	5,011	9,207	18,652

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RELIANCE CAPITAL

INR 2,422

*Business momentum intact***Representative:** Mr. Praveen Challa, Vice President, IR* **Reliance MF: AUMs to touch INR 1-tn mark by FY08E**

Reliance Capital expects to touch the INR 1-tn mark by the end of this fiscal. It is now more focused on performance fees related business. Its offshore AUMs have grown to USD 250 mn with relatively higher return accruing to the fund. It expects overall AUMs to grow by 35-40% in FY10E.

* **Reliance Life: Aims to be in Top 2 over next three-four years**

Reliance Life reported APE growth of ~150% in H1FY08 and it now commands 5.6% share among private players. Its insurance agent force will grow to 150,000 by December 2007 end and will further increase three-fold over the next two-three years. The company expects to end this fiscal with new business premium of INR 30 bn. With aggressive expansion in agents and branches it expects to achieve 100% growth in premium income in FY10E.

* **Reliance Money: Customer base of 300,000; daily trading turnover of INR 21 bn**

Reliance Money adds 5,000-6,000 customers everyday and has grown its customer base to 300,000 in a span of four-five months serviced through 4,000 outlets. Besides broking, it offers third party distribution services (among top three distributor for SBI and UTI), over the counter gold fund and money transfer facilities (tie up with Western Union for inward remittances). It expects to post profits of INR 1.5 bn by FY09E and will grow it more than two-fold in FY10E.

* **Reliance General: Incremental growth from retail products**

The company has already written gross premium of INR 18 bn YTD and expects to end this fiscal with INR 22 bn. It plans to invest INR 5-6 bn in this business over the next two years. The combined ratio will sustain at 96-97% and will generate RoEs of 22-25%. Retail product's contribution to premium income will improve to 65% by FY08E and 70% by FY09E.

* **Reliance Consumer Finance: To disburse INR 60 bn in FY08E**

The company expects to disburse INR 60 bn of consumer loans in FY08E. It is equally focused in distributing auto, SME, personal & mortgage loans. It will generate blended NIMs of 3.5% and RoAs of 1.2-1.4%. The company plans to grow its loan book aggressively by disbursing INR 100-150 bn in FY09E and FY10E.

We are in the process of revising our numbers post these developments and will follow it up with a detailed note.

December 11, 2007

Reuters : RLCP.BO
 Bloomberg : RCFT IN

Market Data

52-week range (INR) : 2,525 / 530
 Share in issue (mn) : 245.6
 M cap (INR bn/USD mn) : 594.8/15,057.8
 Avg. Daily Vol. BSE/NSE ('000) : 2,569.4

Share Holding Pattern (%)

Promoters : 52.4
 MFs, Fls & Banks : 2.7
 Fls : 29.7
 Others : 15.2



*** Company description**

Reliance Capital has been actively pursuing growth opportunities in the Indian financial services sector, post demerger and reorganization of the Reliance Group, to become a leading financial powerhouse. It has undergone significant strategy changes in the past one year, with focus shifting to fast-growing segments in the financial services space, viz., asset management, insurance, brokerage, and consumer financing business from leasing and infrastructure financing.

Reliance Capital is India's largest mutual fund (AUMs of INR 800 bn), and the third-largest general insurer (in terms of gross written premium of INR 9.5 bn in H1FY08). Currently, it is aggressively investing to grow its life insurance business by expanding its distribution franchise and increasing its agent force. The company has recently launched a retail broking venture under the brand *Reliance Money* and retail financing business under *Reliance Consumer Finance*.

*** Key risks**

Execution failure is a key business risk, as its value driving businesses are at a nascent stage (life insurance, retail broking, and consumer financing).

We have assigned 100% value to its life insurance and broking businesses in our valuation estimates based on our discussions with the management. Though Reliance Capital has 100% economic interest, technically it holds only 16% in Reliance Life and has no direct stake in Reliance Money.

Growth in asset management, life insurance, and broking businesses is highly dependant on the conditions in capital markets. Any unfavorable development in markets going forward may hamper our growth assumptions and consequently impact valuations negatively.

Intense competitive pressures in any business segment may affect the expected market share and/or margins.

Financial Statements

Income statement						(INR mn)
Year to March	FY05	FY06	FY07	FY08E	FY09E	
INCOME						
Lease rental & other charges	289	205	3	1	-	
Invem. mangt., advisory and trustee fee	443	895	1,925	3,601	5,035	
General ins. prem. & commi. earned	1,959	1,872	10,312	25,190	43,085	
Consumer financing income	-	-	-	3,920	13,204	
Other income	2,849	6,498	9,338	10,064	8,751	
Total income	5,540	9,471	21,579	42,777	70,074	
Operating expenditure						
Payment to & provision for employees	223	446	1,472	2,723	4,242	
Administrative and other expenses	2,129	2,151	11,412	26,116	43,400	
Bad debts written off	81	-	-	-	-	
Provision for consumer financing	-	-	-	723	2,434	
Impairment loss	(81)	-	1	-	-	
Miscellaneous exp written off	16	12	12	10	-	
Total expenditure	2,368	2,609	12,897	29,571	50,075	
EBITDA	3,173	6,862	8,682	13,206	19,999	
Interest & finance charges	1,511	452	427	2,666	7,997	
Depreciation	296	256	140	129	117	
PBT	1,366	6,154	8,115	10,411	11,885	
Provision for tax	128	336	1,118	2,062	2,894	
PAT before extraordinary items	1,238	5,819	6,997	8,349	8,991	
Minority interest & share of associate	(879)	(105)	35	10	10	
Adjusted PAT	359	5,714	7,032	8,359	9,001	
Diluted number of shares (in mn)	127	218	230	246	246	
Diluted EPS (INR)	2.8	26.2	30.6	34.0	36.6	
Proposed div. on equity share capital	382	713	860	980	1,103	
Dividend tax thereon	55	100	146	135	152	

Growth ratios (%)

Year to March	FY05	FY06	FY07	FY08E	FY09E
Income growth	21.0	70.9	127.9	98.2	63.8
EBITDA growth	(14.3)	116.3	26.5	52.1	51.4
PBT growth	6.8	350.5	31.9	28.3	14.2
PAT growth	1.2	370.1	20.3	19.3	7.7

Operating ratios (%)

Year to March	FY05	FY06	FY07	FY08E	FY09E
EPS (INR)	2.8	26.2	30.6	34.0	36.6
EPS growth (%)	(79.2)	827.8	16.9	11.0	7.7
Book value per share (INR)	116	188	215	245	277
Price/Earnings (x)	858.1	92.5	79.1	71.2	66.2
Price/ BV (x)	21.0	12.9	11.2	9.9	8.8
Dividend yield (%)	0.1	0.2	0.2	0.2	0.2
Price to income (x)	55.6	55.8	25.8	13.9	8.5

Balance sheet						(INR mn)
As on 31st March	FY05	FY06	FY07	FY08E	FY09E	
ASSETS						
Gross block	5,521	3,906	3,480	2,398	2,424	
Less : Depreciation	3,114	2,463	2,291	1,742	1,833	
Lease Adjustment A/c	(203)	327	-	100	100	
Net block	2,203	1,771	1,190	757	691	
Capital work in progress	131	131	199	133	134	
Investments	17,560	23,938	28,531	31,100	39,657	
Current assets, loans & advances						
Stock in trade	3,061	62	307	307	307	
Sundry debtors	137	777	2,776	4,442	5,887	
Cash & bank balances	362	2,016	2,121	213	(2,729)	
Other current assets	4,822	6,189	1,539	575	628	
Loans & advances	1,536	12,239	37,583	86,311	153,970	
Current liabilities and provisions						
Liabilities	619	1,024	3,064	4,216	5,244	
Provisions	830	1,232	4,104	10,949	18,894	
Net current assets	8,468	19,027	37,159	76,683	133,926	
Miscellaneous exp. not written off	69	62	50	-	-	
Total assets	28,432	44,929	67,129	108,673	174,409	
Liabilities						
Paid-up share capital	1,278	2,234	2,462	2,462	2,462	
Reserves	13,653	39,385	50,562	57,806	65,554	
Warrants	-	495	-	-	-	
Net worth	14,862	42,052	52,974	60,268	68,015	
Minority interest	351	387	-	30	60	
Secured loans	-	1,675	1,450	43,450	100,918	
Unsecured loans	13,136	744	12,580	4,914	5,404	
Deferred tax liability (net)	14	9	75	11	12	
Total Liabilities	28,432	44,929	67,129	108,673	174,409	

RELIGARE ENTERPRISES

INR 540

Gaining traction

Representatives: Mr. Anil Saxena, Group Chief Financial Officer
Mr. Shachindra Nath, Group Chief Operating Officer

* Securities broking: Now commands ~6% market share

Religare Enterprises' (Religare) securities broking business is mainly retail driven (institutional broking business contributes less than 1% to total revenue) and is gaining traction due to aggressive expansion of its distribution network (added 750 branches in the past 18 months) and high reliance on margin funding. The company now enjoys ~6% market share (compared to 2.7% in FY07), recording average daily trading volume of INR 60 bn with blended commission rates of 5-6bps.

* Margin funding book of INR 18 bn

The company has increasingly resorted to margin funding to drive its volume and has relatively higher margin funding book of INR 18 bn (compared to INR 8 bn in FY07) with average yield on loans in the 24-26% range. It also plans to provide margin funding services to the clients of other brokers as well.

* Diversifying in fee-based revenue streams

To leverage its wide distribution network and client relationships, Religare offers financial advisory, portfolio management, and third party distribution services (mutual fund and insurance) to retail clients. It recently entered into a 50:50 JV with Macquarie Bank to offer customized solutions and advisory services to high net worth individuals. It has a strong pipeline of investment banking deals equivalent to generating revenues of INR 200 mn. It plans to sell life insurance, pension and mutual fund products through its joint venture with Aegon International. It also ventured into consumer financing through personal loans and loans against securities (LAS) and has disbursed personal loans of INR 805 mn in H1FY08 with average ticket size of INR 0.4-0.5 mn.

* Valuations

We expect the company to post 75% CAGR in revenues over FY07-09E and record profits of INR 821 mn in FY08E and INR 1.3 bn in FY09E. The stock is currently trading at 49.5x FY08E and 31.3x FY09E earnings.

Financials

Year to March	FY07	FY08E	FY09E
Revenues (INR mn)	3,201	6,633	9,787
Revenue growth (%)	70.0	108.8	46.0
PAT (INR mn)	255	821	1,298
EPS (INR)	3.9	10.8	17.1
EPS growth (%)		178.9	58.1
PAT margin (%)	8.0	12.4	13.3
P/E (x)	138.1	49.5	31.3
P/B (x)	10.8	7.1	6.5
Price / Revenues (x)	10.8	6.1	4.2
RoE (%)	16.8	18.3	21.6

December 11, 2007

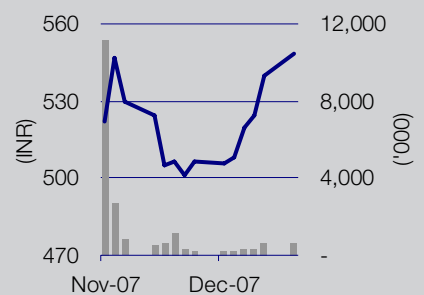
Reuters : RELG.BO
Bloomberg : RELG IN

Market Data

52-week range (INR) : 600 / 324
Share in issue (mn) : 75.8
M cap (INR bn/USD mn) : 40.7 / 1,029.9
Avg. Daily Vol. BSE/NSE ('000) : 32,560.7

Share Holding Pattern (%)

Promoters : 54.0
MFs, FIs & Banks : 8.0
FIs : 15.0
Others : 23.0



* **Company description**

Religare, promoted by Mr. Malvinder Singh and Mr. Shivinder Singh, promoters of Ranbaxy, offers a range of financial products and services to retail, HNI, corporate and institutional investors—equity broking, commodities broking, consumer financing, wealth management, PMS, insurance broking, and third party distribution. The company has a widespread retail presence through 1,217 business locations (owned offices and business associates) servicing 237,000 customers and enjoys ~4% market share in terms of equity trading volume. It is also increasing its presence in the online trading segment, and strategic tie up with IndusInd Bank will provide further support. It offers commodity broking services to ~23,000 customers and clocks an average trading volume of INR 4 bn. It does not have strong foothold in institutional business, which contributed less than 2% to total brokerage related revenue in H1FY08.

The company is diversifying into more stable fee-based revenue streams by leveraging its client base and wide distribution network. It has ventured into consumer financing through personal loans and loans against securities and third party distribution of mutual funds and insurance products. It currently has a team of 48 people in its investment banking business and a strong pipeline of deals equivalent to generating revenue of INR 200 mn. It also offers portfolio management and wealth advisory services to high net worth individuals.

The company intends to offer life insurance and pension products through its subsidiary Religare Insurance Holding Company, a joint venture with Aegon International, and art related broking and advisory services through its subsidiary Religare Arts Initiatives.

* **Key risks**

Businesses of the company are highly dependent on conditions of the capital market and any unfavorable developments in the market affecting investor sentiments can significantly hamper the company's revenue growth and profitability.

Highly competitive pressure in the brokerage industry can affect the company's market share and margins.

Religare has higher reliance on margin funding and is expanding its consumer financing business. Its unsecured loan disbursement has grown by more than 100% in H1FY08. Any decline in the asset quality will affect the company's profitability.

Financial Statements

Income statement		(INR mn)		
Year to March	FY07	FY08E	FY09E	
Brokerage related income	1,633	3,410	4,977	
Interest income from operation	952	2,122	3,281	
- Lending activities	711	1,524	2,495	
- Delayed payments	241	598	787	
Advisory income	251	345	484	
Interest Income	150	278	416	
Other Income	215	479	628	
Total revenues	3,201	6,633	9,787	
Operating expense				
- Operating cost	538	1,095	1,363	
- Employee cost	638	1,266	1,860	
- Administrative and other expenses	707	1,266	1,738	
- Interest and finance charges	709	1,559	2,577	
- Depreciation	128	214	300	
Total operating expenses	2,719	5,400	7,838	
PBT	482	1,233	1,949	
Taxes	201	412	651	
PAT before minority interest	281	821	1,298	
Minority interest	(26)	-	-	
Add : Share of profit from associates	-	-	-	
PAT	255	821	1,298	
Extraordinaries	(6)			
Adjustment (Net of tax)	1			
Net profit	250	821	1,298	
Diluted EPS (INR)	3.9	10.8	17.1	

Growth ratios (%)

Year to March	FY07	FY08E	FY09E
Revenue growth	70.0	108.8	46.0
PBT growth	8.7	155.8	58.1
PAT growth	(12.4)	222.3	58.1

Operating ratios (%)

Year to March	FY07	FY08E	FY09E
Broking income / Total income	51.0	51.4	50.9
Direct cost / Total income	16.8	16.5	13.9
Employee cost / Total income	19.9	19.1	19.0
Other administrative cost / Total income	22.1	19.1	17.8
PBT margin	15.1	18.6	19.9
PAT margin	8.8	12.4	13.3

Balance sheet		(INR mn)		
As on 31st March	FY07	FY08E	FY09E	
Liabilities				
Equity capital	644	758	758	
Reserves	2,561	5,003	5,480	
Networth	3,204	5,760	6,237	
Deferred tax liability	25	32	33	
Secured loans	2,890	7,018	9,061	
Unsecured loans	3,935	14,695	16,565	
Loans	6,825	21,713	25,627	
Total	10,055	27,505	31,897	
Assets				
Fixed assets	760	1,011	1,095	
Investments	856	2,356	2,356	
Current assets	11,013	29,443.4	36,303	
- <i>Sundry debtors</i>	2,686	5,531	7,870	
- <i>Cash and bank balances</i>	2,428	6,601	6,789	
- <i>Loans and advances</i>	5,863	17,137	21,391	
- <i>Others</i>	36	174	253	
Current liabilities and provisions	2,574	5,304	7,857	
- Current liabilities	2,519	4,812	6,713	
- Provisions	55	492	1,144	
Net current assets	8,439	24,139	28,446	
Total	10,055	27,505	31,897	

Valuation parameters

Year to March	FY07	FY08E	FY09E
RoA (%)	3.4	4.6	4.5
RoE (%)	16.8	18.3	21.6
EPS (INR)	3.9	10.8	17.1
<i>EPS growth (%)</i>		178.9	58.1
Book value per share (INR)	49.8	76.0	82.3
P/E (x)	138.1	49.5	31.3
P/B (x)	10.8	7.1	6.5
Price / Revenues (x)	10.8	6.1	4.2

SHRIRAM CITY UNION FINANCE

INR 345

Small is beautiful**Representative:** Ms. Subhasri Shriram, Executive Director* **Unique and sound business model**

Shriram City Union Finance (SCUF) follows unique and sound business model with presence in high yielding, high growth, small ticket retail finance segment (consumer durable finance, auto loans, personal loans, business finance and retail gold loans), and superior sustainable RoEs of 23% plus. The concept of chit fund-based lending is gradually losing its sheen and SCUF aims to fill this space by lending to these customers, thereby retaining decades old relationships.

* **In a high growth phase; significant traction in asset growth**

With an adequate capitalization (CAR of 24% post equity raising in December 2006), the company is expected to grow its loan book by 67% CAGR over FY07-09E. It will leverage on the customer base of Shriram Group's chit fund entities and will actively spread its wings in western and northern India to grow its personal loans, CDs, and enterprise loans.

* **Superior RoEs likely to sustain at 23% plus**

Operating in high yielding retail finance segments, further supported by healthy asset quality, SCUF generated RoEs of 35% plus over FY04-06 which compressed to 25% in FY07 due to equity dilution (of 55%) and higher commissions. Going forward, RoE is expected to sustain at 23% plus levels, driven by strong operating efficiencies and increased leverage.

* **Proven risk management**

SCUF's customers are primarily drawn from the group's chit fund entities who are assessed for their track record and repayment capability. Most importantly, the company meets its customers (at least once a month) to gauge their credit worthiness. Considering the group's expertise in recovery, its gross NPAs will remain at 2.4-2.5% over FY07-09E, and net NPAs at 1.4-1.5%.

* **Valuations**

We expect the company to grow its EPS (post dilution and warrant conversion) by 35% CAGR over FY07-09E, buoyed by robust asset growth of 62% CAGR and high NIMs of 13-14%. The stock is currently trading at 2.3x FY09E book and 11.6x FY09E. Considering SCUF's presence in high growth segments and high RoAs of 3.4-3.7%, we believe the stock deserves higher multiple.

Financials

Year to March	FY06	FY07E	FY08E	FY09E
Net revenues (INR mn)	1,075	2,168	3,729	5,721
Net profit (INR mn)	318	516	881	1,456
EPS (INR)	10.9	16.4	20.3	29.7
EPS growth (%)	43.9	50.6	23.7	46.3
Book value per share (INR)	33.4	83.3	104.8	149.2
P/E (x)	31.6	21.0	17.0	11.6
Price/ BV (x)	10.3	4.1	3.3	2.3
Dividend yield (%)	0.8	0.8	1.0	1.0

December 11, 2007

Reuters : SHCU.BO
Bloomberg : SCUF IN

Market Data

52-week range (INR) : 375 / 139
Share in issue (mn) : 39.1
M cap (INR bn/USD mn) : 13.5 / 341.5
Avg. Daily Vol. BSE/NSE ('000) : 17.0

Share Holding Pattern (%)

Promoters : 50.8
MFs, Fls & Banks : 1.4
Fls : 3.2
Others : 44.6



*** Company description**

SCUF was incorporated in 1986 as a deposit accepting NBFC. Prior to 2002, it was exclusively engaged in transport finance with special emphasis on financing pre-owned commercial vehicles to small road transport operators. In 2002, it extended its product lines to include small-ticket retail financing, viz., consumer durables, two wheelers, personal and enterprise loans. It deliberately went slow on disbursements in the CV segment which has become a key focus area of its group company Shriram Transport Finance. The company's operations are largely concentrated in southern states of Andhra Pradesh, Tamil Nadu, Karnataka, and western region (particularly Maharashtra).

SCUF offers only small-ticket retail products (ranging from INR 25,000-100,000) with shorter tenors (12-24 months) which generate yields in excess of 20%. It leverages on the large investor base (1.2 mn investors) of Shriram Group's chit fund entities to continuously build its asset book and utilizes 465 chit fund outlets for marketing products and collecting loans. The company has been successful in keeping its default rates at lower levels by better assessment of its customers and effective collection of its loans and has maintained best in class NIMs at 14.7%.

*** Key risks**

SCUF operates in the small-ticket retail finance segment in semi-urban and rural areas and may face stiff competition from banks, other financial institutions, and multinational players which have access to cheap funds. Our earnings estimates may not fructify if the company is unable to maintain its spreads at expected levels of 10-12% due to inability to maintain yields at 22-24% amidst stiff competition.

Risk of frauds and NPA accretion is inherent to the retail lending business and NPA provisioning could be higher than our estimates in case of any economic slowdown or dip in income levels.

Financial Statements

Income statement						(INR mn)
Year to March	FY05	FY06	FY07	FY08E	FY09E	
Financing and other interest income	1,716	1,988	3,387	6,075	9,548	
Interest and other charges	941	972	1,322	2,448	3,942	
Net interest income	775	1,016	2,065	3,627	5,605	
Other income	96	59	102	103	115	
Net revenues	871	1,075	2,168	3,729	5,721	
Operating expense	409	432	1,125	1,807	2,585	
- Employee exp	61	56	93	130	182	
- Depreciation	50	42	37	41	46	
- Other opex	299	334	994	1,635	2,357	
Preprovision profit	461	644	1,043	1,922	3,135	
Provisions	97	161	249	588	929	
PBT	364	482	794	1,335	2,207	
Taxes	133	165	278	454	750	
PAT	231	318	516	881	1,456	
EPS (excl extraordinary) (INR)	7.6	10.9	16.4	20.3	29.7	
DPS (INR)	2.5	3.0	3.0	3.5	3.5	
Payout ratio (%)	33.0	27.5	18.3	17.2	11.8	

Growth ratios (%)

Year to March	FY05	FY06	FY07	FY08E	FY09E
Net interest income growth	15.7	31.1	103.3	75.6	54.5
Net revenues growth	13.0	(37.9)	72.8	0.1	12.6
Opex growth	(5.5)	5.5	160.6	60.7	43.1
PPP growth	43.6	39.5	62.1	84.3	63.1
PAT growth	25.8	37.5	62.5	70.6	65.3

Operating ratios (%)

Year to March	FY05	FY06	FY07	FY08E	FY09E
Yield on assets	24.8	23.8	24.1	23.7	23.1
Cost of funds	15.8	14.1	12.6	12.8	12.5
Spread	9.0	9.7	11.6	10.9	10.7
Net interest margins	11.2	12.2	14.7	14.1	13.6
Cost-income	47.0	40.1	51.9	48.5	45.2
Tax rate	36.6	34.1	35.0	34.0	34.0

Balance sheet						(INR mn)
As on 31st March	FY05	FY06	FY07	FY08E	FY09E	
Liabilities						
Equity capital	271	271	426	426	485	
Reserves	431	634	2,831	4,039	6,747	
Net worth	702	905	3,257	4,465	7,232	
Subordinate debt/preference capital	765	1,128	2,235	3,535	4,785	
Secured loans	5,362	6,826	11,205	21,801	33,503	
Unsecured loans	620	960	2,042	3,342	4,592	
Deferred tax liability	277	317	297	305	283	
Total	7,726	10,135	19,036	33,448	50,395	
Assets						
Loans	7,086	8,510	17,105	31,539	47,818	
Investments	16	66	66	66	66	
Current assets	1,538	3,488	5,084	6,627	8,877	
Current liabilities	1,520	2,488	3,776	5,387	7,050	
Net current assets	18	1,000	1,307	1,240	1,826	
Fixed assets (net block)	605	558	557	603	684	
Miscellaneous exp written off	1	0	0	0	-	
Total	7,726	10,135	19,036	33,448	50,395	
Balance sheet ratios (%)						
Loan growth	11.6	20.1	101.0	84.4	51.6	
Borrowings growth	0.6	30.1	70.1	89.8	51.5	
EA growth	6.1	34.5	93.0	77.8	51.3	
Gross NPA ratio	2.6	3.9	2.4	2.4	2.5	
Net NPA ratio	1.3	2.5	1.5	1.5	1.4	
Provision coverage	51.8	38.2	36.6	40.0	45.0	

ROA decomposition (%)

Year to March	FY05	FY06	FY07	FY08E	FY09E	
Net interest income/Assets	11.2	12.2	14.7	14.1	13.6	
Other income/Assets	1.4	0.7	0.7	0.4	0.3	
Net revenues/Assets	12.6	12.9	15.5	14.5	13.9	
Operating expense/Assets	(5.9)	(5.2)	(8.0)	(7.0)	(6.3)	
Provisions/Assets	(1.4)	(1.9)	(1.8)	(2.3)	(2.3)	
Taxes/Assets	(1.9)	(2.0)	(2.0)	(1.8)	(1.8)	
Total costs/Assets	(9.2)	(9.1)	(11.8)	(11.1)	(10.3)	
ROA	3.3	3.8	3.7	3.4	3.5	
Equity/Assets	9.2	9.6	14.8	15.0	14.2	
ROE	36.3	39.6	24.8	22.8	24.9	

Valuation parameters

Year to March	FY05	FY06	FY07	FY08E	FY09E	
EPS (INR)	7.6	10.9	16.4	20.3	29.7	
EPS growth (%)	(11.9)	43.9	50.6	23.7	46.3	
Book value per share (INR)	25.9	33.4	83.3	104.8	149.2	
Adjusted book value per share (INR)	23.6	28.1	78.7	97.3	139.9	
Price/ Earnings (x)	45.5	31.6	12.0	17.0	11.6	
Price/ BV (x)	13.3	10.3	4.1	3.3	2.3	
Price/ Adj. BV (x)	14.6	12.3	4.4	3.5	2.5	
Dividend yield (%)	0.7	0.8	0.8	1.0	1.0	
Price to income (x)	10.7	8.7	6.2	3.6	2.9	

SREI INFRASTRUCTURE FINANCE

INR 214



Metamorphosis

Representatives: Mr. K. K. Mohanty, Executive Director
Mr. Bajrang Chaudhary, Chief Financial Officer

* From finance player to a comprehensive infrastructure company

SREI Infrastructure Finance (SREI) wants to capitalise on the growing demand for infrastructure and is shifting from being a pure finance player to a comprehensive infrastructure company. As a first step in this direction, it has inked an MoU with Veolia to improve urban transportation projects. Recently, it agreed to develop six road projects worth INR 40 bn, two SEZs worth INR 40 bn, and two ports worth INR 15 bn. Investments/equity contribution in these projects has huge upside potential post the development/completion stage.

* Proposed JV with BNP Paribas on track

The progress of SREI's proposed 50:50 JV with the BNP Paribas Lease Group (BPLG) is on track with necessary approvals being received from ROC and the high court and is expected to be completed over the next two-three months. Funds from BNP are expected to flow in by the end of the current financial year. The business will gain scalability in CY08 and benefits to the topline and profitability are likely to start kicking in by Q4FY08E.

* Recently allotted advisory contract for Ganga Expressway

Post the demerger, SREI's network will be freed to build project finance book (equivalent to current asset base) without any further dilution. SREI has been allotted project management and advisory contract from UP state government for 950 km Ganga Expressway road project (estimated investment of INR 250 bn) wherein it will be one of the three-four advisors in the deal. On a rough count, total fee of INR 1.5 bn is expected to accrue over four-five years.

* Quipo to invest INR 20 bn over next four years

Quipo Infrastructure Equipment, wherein SREI holds 15%, is planning to invest INR 15 bn for construction equipment rental and INR 5 bn for energy rental businesses. It is also expected to start operations in the Gulf, especially in the equipment rental and oil and gas space. It also plans to invest INR 67 bn over the next two-three years to set up 25,000 telecom towers.

* Valuations

We expected its consolidated EPS to grow by 25% to INR 9.6 in FY08E and by 17% to INR 11.2 in FY09E, factoring in warrant issuance, demerger of equipment financing business, and better asset growth.

We are in the process of revising our numbers post these developments and will follow it up with a detailed note.

December 11, 2007

Reuters : SREI.BO
 Bloomberg : SREI IN

Market Data

52-week range (INR) : 221 / 46
 Share in issue (mn) : 108.9
 M cap (INR bn/USD mn) : 23.3 / 590.0
 Avg. Daily Vol. BSE/NSE ('000) : 1,149.4

Share Holding Pattern (%)

Promoters : 20.1
 MFs, Fls & Banks : 7.4
 Fls : 49.1
 Others : 23.4



*** Company description**

SREI is primarily into financing infrastructure equipment and projects as well as renewable energy projects. The company has 52 offices across India and is a market leader in infrastructure equipment financing with a 30% market share. Equipment finance forms a major chunk of SREI's portfolio (around 93%), infrastructure project finance forms around 5-6%, with renewable energy financing making up the rest. Along with the above-mentioned financing businesses, SREI undertakes other businesses through its wholly owned subsidiaries. It is tapping emerging business opportunities in venture capital, asset management, investment banking, and insurance broking through its subsidiaries. SREI also runs a fleet management business through Quipo, to provide equipment on rental basis; it has a 15% stake in Quipo.

*** Key risks**

A key risk on the upside would be better-than-expected margins and better fee income performance.

Ability to refinance its growth is pivotal. Being an NBFC, source of funding for SREI is limited to wholesale funding, securitization, and equity issuance. A spike in interest rates could hamper its margins in case of its inability to pass on the hike to customers.

Financial Statements

Income statement						(INR mn)
Year to March	FY05	FY06	FY07	FY08E	FY09E	
Interest and financing income	1,289	2,178	3,671	4,721	5,722	
Interest exp	558	1,067	2,166	2,673	3,089	
Net operating income	731	1,110	1,505	2,048	2,633	
Other income	48	110	226	271	360	
Net revenues	779	1,221	1,731	2,319	2,992	
Operating expenses	315	449	687	946	1,039	
Operating profit	464	771	1,044	1,372	1,953	
Provisions and contingencies	68	72	131	149	133	
PBT	395	699	913	1,223	1,820	
Provision for tax	113	196	67	103	327	
PAT	283	503	846	1,121	1,493	
Share of associates/minority interest	6	14	(3)	7	10	
PAT after minority interest	277	489	848	1,114	1,483	
EPS (INR)	5.4	4.7	7.7	9.6	11.2	
Dividend per share (INR)	1.5	2.0	1.0	1.5	1.5	
Dividend pay out (%)	27.8	43.2	12.9	15.6	13.4	

Growth ratios (%)

Year to March	FY05	FY06	FY07	FY08E	FY09E
Net interest income	45.4	51.9	35.5	36.1	28.5
Net revenues	37.1	56.6	41.8	34.0	29.0
Opex	38.5	42.4	52.9	37.8	9.8
Provisions	32.0	5.6	81.6	13.6	(10.6)
PBT	37.0	76.8	30.5	34.1	48.7
PAT	37.4	78.0	68.1	32.5	33.2

Operating ratios (%)

Year to March	FY05	FY06	FY07	FY08E	FY09E
EPS (INR)	5.4	4.7	7.7	9.6	11.2
Y-o-Y growth (%)	38.0	(12.2)	63.0	24.5	16.5
P/E (x)	34.3	39.1	24.0	19.3	16.5
Book value per share (INR)	31.1	38.1	46.4	99.9	113.2
Adjusted book value per share (INR)	30.7	38.0	45.5	99.4	112.5
Price to PPOP (x)	24.7	30.3	22.4	18.3	14.7
Price/ book (x)	6.9	5.6	4.6	2.1	1.9
Price/ Adjusted book (x)	7.0	5.6	4.7	2.2	1.9

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SHRIRAM TRANSPORT FINANCE

INR 331

*First in second hand***Representative:** Mr. Sanjay K Mundra, Vice President* **Robust business growth supported by growing industry market**

Shriram Transport finance (SHTF) expects to double its loan book to INR 250 bn by FY10E from its current book of INR 120 bn. The company believes in four strong growth drivers to fulfil this—(a) growth in used vehicle market as well as increasing market share from 20%; (b) increase in the cost of used vehicles to top its growth; (c) entering new segments of pre-owned vehicles; and (d) expanding business locations to ~500 centers from 250.

SHTF's internal estimate of the current potential is INR 450 bn (~4.2 mn trucks) and this is expected to grow to INR 900-1,000 bn by FY10E. Of this market size, 50% (INR 225 bn) is in 0-4 year vehicles (~1.4 mn trucks), 27% (INR 125 bn) is 5-12 years, and 22% is in over 12 years (INR 100 bn). SHTF will continue to focus on the over five year used vehicle market. With the current cost of a new vehicle increasing by over 25% in the past two-three years, the cost of used vehicle financing is also expected to increase correspondingly and entering into new used vehicle segments such as buses, tractors and mini tonnage segment will help in doubling the balance sheet.

* **Strength in business model**

SHTF has a clear focus of maintaining margins at current levels (net interest margin of 8-10%) and believes that its current business model which spans over three decades of operations focused on the used vehicle segment will be able to weather competition from new entrants. Given the subjective valuation for valuing a used vehicle, SHTF has built a history of successful track record (measured by its low credit loss of 2%) as well as its strong employee focused model (over 2,900 field staff who are responsible not only for origination but collection as well and staff costs is a mix of fixed as well as variable) will be helpful over other score based loan disbursements mechanisms prevalent in banks and other NBFCs.

* **Valuations**

We believe that SHTF's focus on NIMs will help the company post RoAs in the 2.75-3% range. The stock is currently trading at 33.6X FY07 earnings and 5.6x FY07 book. We like the company for its strength of the current business model and growth in the industry.

Financials

Year to March	FY05	FY06	FY07
Revenues (INR mn)	1,830	4,936	7,019
Rev growth (%)	28.5	169.7	42.2
Net profit (INR mn)	494	1,419	1,916
EPS (INR)	6.8	8.6	9.9
EPS growth (%)	(12.3)	26.3	14.1
P/E (x)	48.4	38.3	33.6
Book value per share (INR)	26.4	49.6	59.0
Price to book (x)	12.5	6.7	5.6
ROE (%)	33.9	27.3	19.8

December 11, 2007

Reuters : SRTRI.BO
Bloomberg : SHTF IN

Market Data

52-week range (INR) : 340 / 111
Share in issue (mn) : 191.1
M cap (INR bn/USD mn) : 63.3 / 1,601.4
Avg. Daily Vol. BSE/NSE ('000) : 151.6

Share Holding Pattern (%)

Promoters : 44.7
MFs, Fls & Banks : 4.5
Fls : 14.3
Others : 36.5



*** Company description**

STF is the largest asset financing NBFC with AUMs of INR 140 bn plus and live contracts of more than 500,000 customers. The company is a leader in organized high yield financing of pre-owned CVs with strategic presence in 5-12 years old trucks and having a market share of 20- 25%. In new CV financing, it enjoys a market share of 7-8%. It has a low cost pan-India presence covering 91.3% of truck owners with a network of six regional offices, 85 divisional offices, and 391 branches and employs more than 2,000 field officers.

STF has successfully crossed INR 140 bn of assets marking nearly 5x growth in the past five years from INR 25 bn in FY02. With expansion in branches the company is expected to increase its customer base to 1 mn by FY10E.

The company has grown its assets by 37% CAGR over FY04-07 and earnings have grown at 73% CAGR during the same period. Disbursements have grown by 62% in FY07 and pre-owned CV constituted 62% of the total disbursements in FY07.

*** Key risks**

In event of an economic slowdown, there is greater risk of NPA accretion.

Yields may come under pressure with increased competition in this segment.

Rising interest rate scenario may have an adverse impact on its funding cost.

Financial Statements

Income statement		(INR mn)		
Year to March	FY05	FY06	FY07	
Interest income	2,921	8,211	13,844	
Interest expenses	1,628	4,151	7,239	
Net interest income	1,293	4,061	6,605	
Non interest income	538	875	414	
Net revenues	1,830	4,936	7,019	
Operating expense	1,012	2,637	3,813	
- Employee exp	140	467	717	
- Other opex	825	2,072	2,968	
- Depreciation	47	97	128	
Preprovision profit	818	2,300	3,206	
Provisions	39	138	314	
PBT	779	2,162	2,892	
Taxes	285	745	988	
Reported PAT	493	1,416	1,904	
Extraordinaries	(1)	(2)	(12)	
Adjusted PAT	494	1,419	1,916	
EPS (INR)	6.8	8.6	9.9	
DPS (INR)	2.3	2.9	2.9	
Payout ratio (%)	33.5	33.0	29.9	

Growth ratios (%)

Year to March	FY05	FY06	FY07
NII growth	20.9	214.2	62.6
Revenue growth	28.5	169.7	42.2
PPP growth	35.5	181.2	39.4
Disbursement growth	45.8	234.2	42.2
Opex growth	23.4	160.4	44.6
PAT growth	33.9	187.2	34.4

Operating ratios (%)

Year to March	FY05	FY06	FY07
Yield on assets	20.8	23.0	18.1
Cost of funds	12.9	13.6	10.8
Spread	7.9	9.4	7.3
Cost/Income	55.3	53.4	54.3
Tax rate	36.7	34.5	34.2
NIM	9.2	11.4	8.6

Balance sheet		(INR mn)		
As on 31st March	FY05	FY06	FY07	
Liabilities				
Equity capital	654	1,692	1,842	
Reserves	1,317	6,462	8,822	
Stock options outstanding	10	235	200	
Net worth	1,981	8,389	10,864	
Non convertible preference shares	253	0	0	
Borrowings	14,612	44,361	87,384	
Deferred tax liability	535	1,337	866	
Total	17,381	54,087	99,115	
Assets				
Loans	-	-	-	
Investments	41	92	2,246	
Fixed assets	489	1,572	1,675	
Current assets	19,545	59,027	104,431	
Current liabilities	2,698	6,607	9,238	
Net current assets	16,847	52,419	95,193	
Other assets	4	4	1	
Total	17,381	54,087	99,115	
Balance sheet details				
Disbursements (INR mn)	13,904	46,471	66,080	
Disbursement growth (%)	45.8	234.2	42.2	
Borrowing growth (%)	59.6	203.6	97.0	
EA growth (%)	62.1	211.2	83.3	

ROA decomposition (%)

Year to March	FY05	FY06	FY07
Net interest income/Assets	9.2	11.4	8.6
Net revenues/Assets	13.0	13.8	9.2
Operating expense/Assets	7.2	7.4	5.0
Provisions/Assets	0.3	0.4	0.4
Taxes/Assets	2.0	2.1	1.3
Total costs/Assets	9.5	9.9	6.7
ROA	3.5	4.0	2.5
Equity/Assets	11.4	15.5	12.6
ROE	33.9	27.3	19.8

Valuation parameters

Year to March	FY05	FY06	FY07
Revenues (INR mn)	1,830	4,936	7,019
Rev growth (%)	28.5	169.7	42.2
Net profit (INR mn)	494	1,419	1,916
EPS (INR)	6.8	8.6	9.9
EPS growth (%)	(12.3)	26.3	14.1
P/E (x)	48.4	38.3	33.6
Book value per share (INR)	26.4	49.6	59.0
Price to book (x)	12.5	6.7	5.6
ROE (%)	33.9	27.3	19.8

STATE BANK OF INDIA

INR 2,446

*The big daddy*

Representatives: Mr. S.S. Ranjan, Chief General Manager
 Mr. Sunil Damodar, Deputy General Manager
 Mr. S. Ramesh, Chief Manager

* Government nod for subscribing to rights issue

The State Bank of India's (SBI) planned rights issue has received the government's nod. The government plans to invest up to INR 100 bn and the size of the issue is likely to be in the INR 170-180 bn range. Investments will be in the form of marketable SLR bonds. SBI has also specified inorganic plans to scale up its international business.

* Operating parameters improving

SBI expects margins to remain stable with an upward bias with a softening interest rate outlook. The bank expects lending rates to come down, though PLR may remain unchanged. Margins had been under pressure due to bulk deposits which were raised at higher rates, but the bank expects the pressure to recede as these deposits will be repriced at lower rates and will be replaced by CASA deposits to an extent. AS-15 liability is estimated to be INR 50 bn, but a decision on treatment of the same has not been taken. SBI is not witnessing any stress on any specific portfolio and is confident of maintaining, if not improving, its asset quality.

* Future business initiative in planning stage

The bank is mulling over various business initiatives where it can create further value. This includes a tie up with a general insurance company, launching a venture capital fund, pension fund, and a SME focused business vertical. SBI is also looking at significantly increasing its SME and international book.

* Valuations

Assuming a 25% discount to current market price to raise INR 170 bn, the likely rights ratio will be 1:5 (20% dilution). After assuming this capital addition, the stock trades at 1.8x FY09E.

Financials

Year to March	FY06	FY07	FY08E	FY09E
Revenues (INR mn)	199,741	218,233	249,227	283,188
Rev growth (%)	(5.2)	9.3	14.2	13.6
Net interest income (INR mn)	125,854	143,767	164,507	196,108
Net profit (INR mn)	44,076	45,412	62,373	73,863
Shares outstanding (mn)	526.3	526.3	631.6	631.6
EPS (INR)	83.7	86.3	98.8	117.0
EPS growth (%)	2.4	3.0	14.5	18.4
P/E (x)* Cons	18.7	16.3	12.9	11.4
Price to book (x) * Cons	2.9	2.5	2.1	1.8
ROE (%)	17.0	15.4	14.7	13.1

* Price Adj. for subs.value of 280

December 11, 2007

Reuters : SBI.BO
 Bloomberg : SBIN IN

Market Data

52-week range (INR) : 2,745 / 845
 Share in issue (mn) : 562.2
 M cap (INR bn/USD mn) : 1,287 / 32,582
 Avg. Daily Vol. BSE/NSE ('000) : 2,060.6

Share Holding Pattern (%)

Promoters : 59.7
 MFs, Fls & Banks : 11.6
 Fls : 12.0
 Others : 16.7



*** Company description**

SBI is India's largest commercial bank with an asset size of INR 4,600 bn. It has over 9,000 branches on standalone basis and 14,000 branches including associates. It has a market share of around 20% in advances and 28% in deposits. Over the past two years, the bank has increased its focus on retail credit to provide itself the necessary growth momentum and improve spreads. Retail credit forms 23% of its total loan book. Further, to manage operations better, SBI has integrated its treasury operations and has a common technology platform across all its seven subsidiary banks. The number of SBI branches under CBS is 4,573. This has increased synergies amongst its banking subsidiaries. It has the largest ATM network of ~5,900 and largest card base of ~24 mn.

*** Key risks**

Macro economic risk is the biggest risk for SBI, given its size and exposure.

Increasing geographic penetration by new private sector banks can lead to faster-than-expected decline in market share.

Market risk on its investment book as 36% of investments are in the AFS category.

Financial Statements

Income statement						(INR mn)
Year to March	FY05	FY06	FY07	FY08E	FY09E	
Interest income	324,280	327,447	378,135	474,801	573,414	
Interest expenses	184,834	201,593	234,368	310,294	377,306	
Net Interest income	139,446	125,854	143,767	164,507	196,108	
Non interest income	71,199	73,887	74,466	84,720	87,080	
- Fee & forex income	40,729	49,509	52,614	58,875	65,835	
- Misc. income	12,736	18,522	16,053	16,844	17,245	
- Investment profits	17,735	5,855	5,799	9,000	4,000	
Net revenues	210,645	199,741	218,233	249,227	283,188	
Operating expense	100,739	117,251	118,235	130,890	142,382	
- Employee exp	69,073	81,230	79,326	87,333	93,665	
- Other opex	31,666	36,021	38,909	43,556	48,717	
Preprovision profit	109,906	82,490	99,998	118,337	140,806	
Provisions	44,688	13,429	23,749	22,379	27,170	
- Loan loss provisions	13,190	5,530	20,175	21,638	25,670	
- Investment depreciation	23,384	8,483	3,792	741	1,500	
- Other provisions	8,114	(584)	(218)	0	0	
PBT	65,218	69,062	76,249	95,958	113,635	
Taxes	22,171	24,986	30,838	33,585	39,772	
PAT	43,048	44,076	45,412	62,373	73,863	
Reported PAT	43,048	44,076	45,412	62,373	73,863	
EPS (INR)	81.8	83.7	86.3	98.8	117.0	
DPS (INR)	12.5	14.0	14.0	16.0	19.0	
Payout ratio (%)	15.3	16.7	16.2	16.2	16.2	

Growth ratios (%)

Year to March	FY05	FY06	FY07	FY08E	FY09E
NII growth	24.7	(9.7)	14.2	14.4	19.2
Fees growth	11.4	21.6	6.3	11.9	11.8
Opex growth	9.0	16.4	0.8	10.7	8.8
PPOP growth	31.4	(12.5)	22.2	14.3	22.3
PPP growth	14.5	(24.9)	21.2	18.3	19.0
Provisions growth	(3.4)	(69.9)	76.8	(5.8)	21.4
PAT growth	17.0	2.4	3.0	37.4	18.4

Operating ratios (%)

Year to March	FY05	FY06	FY07	FY08E	FY09E
Yield on advances	7.2	7.6	8.3	9.3	9.4
Yield on investments	8.5	7.9	7.6	7.3	7.3
Yield on assets	7.9	7.2	7.5	7.9	8.1
Net interest margins	3.4	2.8	2.9	2.8	2.8
Cost of funds	4.5	4.5	4.7	5.3	5.6
Cost of deposits	5.0	4.8	4.7	5.4	5.6
Cost of borrowings	6.6	7.9	9.7	8.1	8.5
Spread	2.2	2.8	3.6	3.9	3.8
Cost-income	47.8	58.7	54.2	52.5	50.3
Tax rate	34.0	36.2	40.4	35.0	35.0

Balance sheet						(INR mn)
As on 31st March	FY05	FY06	FY07	FY08E	FY09E	
Liabilities						
Equity capital	5,263	5,263	5,263	6,316	6,316	
Reserves	235,458	271,178	307,723	526,688	586,512	
Net worth	240,721	276,441	312,986	533,004	592,827	
Sub bonds/pref cap	34,648	49,858	144,307	164,307	184,307	
Deposits	3,670,475	3,800,461	4,355,211	5,164,437	6,043,971	
Borrowings	191,843	306,414	397,033	568,947	647,108	
Other liabilities	461,140	505,524	456,116	378,933	442,229	
Total	4,598,829	4,938,698	5,665,652	6,809,627	7,910,442	
Assets						
Loans	2,023,745	2,616,415	3,373,365	4,216,706	5,060,047	
Investments						
Gilts	1,756,730	1,388,266	1,216,135	1,466,776	1,538,923	
Others	214,249	237,077	275,350	325,009	380,255	
Cash & equi	393,221	445,600	519,687	562,386	657,474	
Fixed assets	26,977	27,529	28,189	28,621	28,516	
Other assets	183,907	223,810	252,927	210,128	245,226	
Total	4,598,829	4,938,698	5,665,652	6,809,627	7,910,442	
Balance sheet ratios (%)						
Credit growth	24.1	26.0	27.3	25.0	20.0	
Deposit growth	15.2	3.5	14.6	18.6	17.0	
EA growth	13.3	6.8	14.9	22.0	16.2	
SLR ratio	45.5	33.8	25.6	25.0	22.5	
C-D ratio	58.8	72.1	80.0	84.3	86.3	
Low-cost deposits	41.3	47.6	48.5	44.0	44.1	
Gross NPA ratio	5.9	3.9	2.9	2.0	1.6	
Net NPA ratio	2.6	1.9	1.6	1.3	1.1	
Provision coverage	57.1	52.7	47.4	37.5	31.6	
Capital adequacy	12.5	11.9	12.3	15.8	15.4	
- Tier 1	8.0	9.4	8.0	10.5	10.2	
ROA decomposition (%)						
Year to March	FY05	FY06	FY07	FY08E	FY09E	
Net interest income/Assets	3.4	2.8	2.9	2.8	2.8	
Fees/Assets	1.3	1.5	1.4	1.3	1.2	
Investment profits/Assets	0.4	0.1	0.1	0.2	0.1	
Net revenues/Assets	5.1	4.4	4.3	4.2	4.0	
Operating expense/Assets	(2.4)	(2.6)	(2.3)	(2.2)	(2.0)	
Provisions/Assets	(1.1)	(0.3)	(0.5)	(0.4)	(0.4)	
Taxes/Assets	(0.5)	(0.6)	(0.6)	(0.6)	(0.6)	
Total costs/Assets	(4.1)	(3.4)	(3.4)	(3.1)	(2.9)	
ROA	1.0	1.0	0.9	1.0	1.0	
Equity/Assets	5.4	5.7	5.9	7.1	7.9	
ROE	19.4	17.0	15.4	14.7	13.1	
Valuation parameters						
Year to March	FY05	FY06	FY07	FY08E	FY09E	
EPS (INR)	81.8	83.7	86.3	98.8	117.0	
EPS growth (%)	17.0	2.4	3.0	14.5	18.4	
Book value per share (INR)	457.4	525.3	594.7	843.9	938.7	
Adjusted book value/share (INR)	386.2	460.0	524.8	784.4	875.8	
Price/Earnings* (x)	18.9	18.7	16.3	12.9	11.4	
Price/ BV* (x)	3.3	2.9	2.5	2.1	1.8	
Price/ ABV* (x)	3.3	2.9	2.5	2.2	1.9	
Dividend yield (%)	0.7	0.8	0.8	0.9	1.1	

* Adj. for subs.

NOTES

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Distribution of Ratings / Market Cap

Edelweiss Research Coverage Universe

	Buy	Accumulate	Reduce	Sell	Total
Rating Distribution	103	47	22	3	190
* 13 Stocks under review / 2 rating withheld					
	> 50bn	Between 10bn and 50 bn	< 10bn		
Market Cap (INR)	96	65	29		

Rating Interpretation

Rating	Expected to
Buy	appreciate more than 20% over a 12-month period
Accumulate	appreciate up to 20% over a 12-month period
Reduce	depreciate up to 10% over a 12-month period
Sell	depreciate more than 10% over a 12-month period

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