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### Updates

**Punjab National Bank:** PNB realigns deposit rates, which continue to be lower than those of peers

## News Roundup

### Corporate

- Real estate major DLF is set to close the Swatantra Bharat Mills (SMB) real estate deal with DC Shriram Consolidated for over Rs1.6 bn. (ET)
- The Prime Minister's Economic Advisory Council (EAC) has endorsed the gas price discovered by Reliance Industries (RIL) by inviting bids from select power and fertiliser companies along the pipeline routes for its gas from the Krishna Godavari region. (ET)
- The Shipping Corporation of India (SCI) is planning to diversify into shipbuilding in collaboration with existing players—both domestic and international. (BL)
- Caribbean FMCG giant GraceKennedy said it would explore options of acquisitions and setting up a manufacturing unit once it achieves critical mass in its operations in India. (BL)
- Vedanta Resources, the Anil agarwal-led mining major, has sold its 84.2% stake in Sterlite Gold to Geprgoa's GeoProMining for US\$86 mn. (ET)
- Global investment bank and equity fund Lehman Brother is learnt to have teamed up with Mumbai-based developer HDIL to bid for the redevelopment of Asia's largest slum, Dharavi. The project is expected to generate close to Rs25,000 crore in revenue for the Maharashtra government. (ET)
- Nortel Networks Corp. is picking a minority stake in Bangalore-based optical network firm Tejas Networks for about 120 million rupees (US\$3 million). (ET)

### Economic and political

- In his Independence Day speech, Prime Minister Manmohan Singh announced eight initiatives for education, which included setting up 6,000 high-quality schools, 370 colleges in low enrolment districts, 30 central universities, five Indian Institutes of Science Education and Research, eight Indian Institutes of Technology, seven Indian Institutes of Management and 20 Indian Institutes of Information Technology. (BS)
- The Department of Atomic Energy plans to add 30,000 MW of power based on imported nuclear fuel in the near future. (BL)
- The finance ministry has said the final policy (regarding equity participation by foreign airlines in Indian aviation companies) must include investment options by foreign airlines in domestic carriers. (ET)
- Pakistani cricketer turned politician Imran Khan has said that the Howard Government's decision to sell uranium to India will spark a new arms race on the subcontinent. Khan, who leads the Movement for Justice party, told a media channel yesterday that Australia's decision to export uranium would encourage generals in his country to spend more on weapons to counter India's access to nuclear fuel. (ET)
- Even as the (Indian) government maintained that the 123 Agreement was silent on nuclear testing, the United States categorically stated that the civilian nuclear deal with India would be "terminated" if India tests a nuclear weapon. (ET)

Source: ET = Economic Times, BS = Business Standard, FE = Financial Express, BL = Business Line.

## EQUITY MARKETS

India	Change, %			
	14-Aug	1-day	1-mo	3-mo
Sensex	15,001	(0.1)	(1.8)	7.7
Nifty	4,370	(0.1)	(3.0)	6.1
<b>Global/Regional indices</b>				
Dow Jones	12,861	(1.3)	(7.8)	(4.6)
Nasdaq Composite	2,459	(1.6)	(8.8)	(3.5)
FTSE	6,109	(0.6)	(8.8)	(6.9)
Nikkie	16,047	(2.6)	(12.0)	(8.5)
Hang Seng	20,682	(3.2)	(9.9)	(1.2)
KOSPI	1,689	(7.1)	(14.0)	6.3
<b>Value traded - India</b>				
		Moving avg, Rs bn		
	14-Aug	1-mo	3-mo	
Cash (NSE+BSE)	118.5	166.7	154.2	
Derivatives (NSE)	284.9	488.8	280.4	
Deri. open interest	862.0	817.7	549.8	

### Forex/money market

	Change, basis points			
	14-Aug	1-day	1-mo	3-mo
Rs/US\$	40.8	-	48	5
6mo fwd prem, %	0.7	(25)	71	24
10yr govt bond, %	8.0	3	4	(18)

### Net investment (US\$m)

	13-Aug	MTD	CYTD
FIs	(129)	1,759	9,530
MFs	6	111	(112)

### Top movers -3mo basis

Best performers	Change, %			
	14-Aug	1-day	1-mo	3-mo
Thermax	662	1.1	21.8	62.7
Reliance Energy	754	0.0	6.8	49.0
Crompton Greaves	301	2.6	16.3	33.7
Reliance Cap	1,114	(0.9)	(5.4)	32.9
ABB India	1,108	0.5	(0.3)	30.5
<b>Worst performers</b>				
Polaris	120	(1.2)	(19.3)	(28.6)
Escorts	92	1.5	(21.4)	(26.7)
Bharat Forge	275	0.5	(13.0)	(20.9)
Essel Propack	59	(1.5)	(8.7)	(19.9)
Raymond	274	0.1	(8.9)	(19.4)

Kotak Institutional Equities Research

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**Banking****PNBK.BO, Rs504**

Rating	OP
Sector coverage view	Neutral
Target Price (Rs)	610
52W High -Low (Rs)	594 - 400
Market Cap (Rs bn)	158.8

**Financials**

March y/e	2007	2008E	2009E
Sales (Rs bn)	72.4	75.7	87.5
Net Profit (Rs bn)	15.4	17.4	20.0
EPS (Rs)	48.8	55.2	63.3
EPS <i>gth</i>	7.0	13.1	14.7
P/E (x)	10.3	9.1	8.0
P/B (x)	1.7	1.5	1.3
Div yield (%)	2.6	1.4	1.6

**Shareholding, June 2007**

	% of		Over/(under)
	Pattern	Portfolio	weight
Promoters	57.8	-	-
FIs	20.1	0.5	(0.0)
MFs	8.1	1.2	0.6
UTI	-	-	(0.5)
LIC	2.1	0.3	(0.3)

**Punjab National Bank: PNB realigns deposit rates, which continue to be lower than those of peers**

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- **PNB raises deposit rates by 25-125 bps across maturities**
- **Expect the realignment of rates to reduce reliance on bulk deposits in 2H**
- **Reiterate our OP rating on the stock given attractive valuations of 8.0X PER and 1.3X APBR FY2009**

PNB has raised interest rates on deposits by 25-125 bps across maturities with effect from August 16, 2007. We believe that the bank's decision to raise interest rates was to realign its rates with those prevailing in the market place. The sharpest revision has occurred in the 2-3 years maturity bracket. Post this revision of interest rates, the maximum interest rate offered by PNB across maturities is 8.75%, which continues to be lower than those offered by other comparable banks. We expect the revision of rates by PNB to aid its deposit mobilization efforts and likely reduce reliance on bulk deposits as credit demand picks up in 2H of the current fiscal. Margins will likely remain stable in the short term, but rise over the next three to four quarters as the bank sheds high-cost bulk and retail deposits garnered (special schemes) in March and April and moderates loan growth. Reiterate our OP rating on the stock given attractive valuations of 8.0X PER and 1.3X APBR FY2009.

**Exhibit 1:PNB realigns its deposit rates**

Card rates for deposits less than Rs1.5 mn (%)

Maturity period	PNB		SBI
	1-Jul-08	16-Aug-07	9-Aug-07
15-45 days	4.75	5.00	5.00
45- 90 days	5.50	6.00	5.50
90-180 days	6.00	6.25	5.50
180- 270 days	7.00	7.50	6.75
270 days - 1 year	7.00	7.50	6.75
1 year - 499 days	7.50	8.00	8.00
500 days	7.50	8.00	9.25
500 days - 1 year	7.50	8.00	8.00
2 years - 3 years	7.50	8.75	8.00
3 years - 4 years	7.75	8.75	8.25
4 years - 5 years	7.75	8.75	9.25
Above 5 years	8.00	8.50	8.50

Source: Companies.

**Exhibit 2: PNB continues to offer the lowest deposit rate amongst major banks**  
 Maximum deposit rate offered by banks

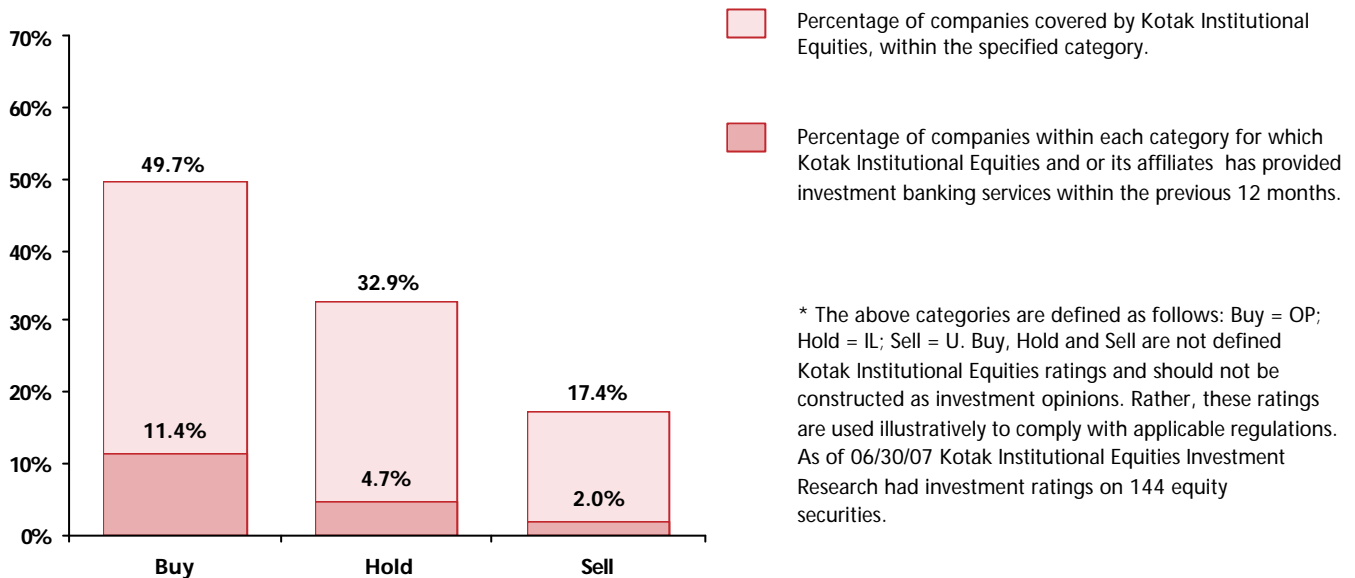
<b>Bank</b>	<b>Maximum deposit rate on offer currently by banks (irrespective of maturity)</b>
BOB	9.00%
Canara Bank	9.00%
Corp Bank	8.25%
OBC	9.00%
IOB	9.25%
PNB	8.75%
SBI	9.25%
Axis Bank	9.00%
HDFC Bank	9.00%
ICICI Bank	9.50%

Source: Companies.

"Each of the analysts named below hereby certifies that, with respect to each subject company and its securities for which the analyst is responsible in this report, (1) all of the views expressed in this report accurately reflect his or her personal views about the subject companies and securities, and (2) no part of his or her compensation was, is, or will be, directly or indirectly, related to the specific recommendations or views expressed in this report: Tabassum Inamdar."

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Source: Kotak Institutional Equities.

As of June 30, 2007

### Ratings and other definitions/identifiers

#### Current rating system

##### Definitions of ratings

**OP = Outperform.** We expect this stock to outperform the BSE Sensex over the next 12 months.

**IL = In-Line.** We expect this stock to perform in line with the BSE Sensex over the next 12 months.

**U = Underperform.** We expect this stock to underperform the BSE Sensex over the next 12 months.

Our target price are also on 12-month horizon basis.

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