investor's eye

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Index

Take Five

Scrip	Reco Date	Reco Price	CMP	Target
Deepak Fertiliser	17-Mar-05	51	**87**	126
HCL Tech	30-Dec-03	103	**346**	395
JP Associates	30-Dec-03	125	**652**	850
Madras Cement	17-Nov-05	1,498	**2,851**	4,000
NIIT Technologies	31-Mar-06	204	**540**	570

JK Cement

Cannonball

Stock Update

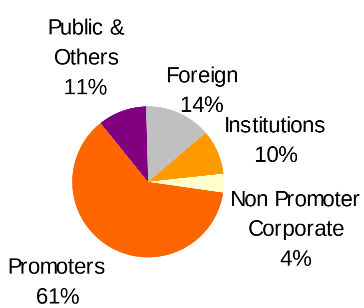
Price target revised to Rs200

Buy; CMP: Rs162

Company details

Price target:	Rs200
Market cap:	Rs1,124 cr
52 week high/low:	Rs231/109
NSE volume: (No of shares)	69,781
BSE code:	532644
NSE code:	JKCEMENT
Sharekhan code:	JKCEMENT
Free float: (No of shares)	2.7 cr

Shareholding pattern



Price chart

Price performance

(%)	1m	3m	6m	12m
Absolute	5.9	-13.5	-11.8	-6.8
Relative to Sensex	2.6	-12.4	-16.0	-22.9

Result highlights

- The overall revenues of JK Cement grew by 49% year on year (yoy) to Rs366 crore, as the overall volumes grew by 11% yoy and the realisations improved by 34.9% yoy.
- The expenditure for the quarter increased by 27% yoy to Rs255 crore mainly on account of a 13% year-on-year (y-o-y) increase in the raw material cost and a 31% y-o-y rise in the freight cost.
- The company's high leverage to cement prices resulted in a 145% y-o-y surge in its operating profits to Rs111.7 crore which helped the operating profit margin (OPM) to expand by 1,200 basis points yoy to 30.5%.
- As the interest cost and depreciation provision remained flat, the profit after tax (PAT) ballooned by 274% yoy to Rs61.4 crore.
- We had mentioned in our previous reports, the company is incurring a capital expenditure (capex) of Rs290 crore for setting up three captive power plants (CPPs). But as there has been a delay in the commissioning of all the projects, we don't expect the company to avail of the complete savings in the power cost in FY2008 as expected earlier.
- Consequently, we are revising our earnings estimate downwards by 5.2% to Rs211 crore from Rs222 crore. We are also introducing our FY2009 earnings estimate at Rs180 crore.

Result table Rs (cr)

Particulars	Q4FY07	Q4FY06	% yoy	FY07	FY06	% yoy
Net sales	366.6	245.9	49.1	1233.3	947.9	30.1
Total expenditure	254.9	200.3	27.3	904.1	775.0	16.7
Raw material consumed	32.8	26.9	21.9	122.3	97.7	25.2
Stock adjustment	-0.8	-12.7	-93.7	-1.8	-4.4	-59.1
Stores	20.6	18.3	12.6	83.7	76.2	9.8
Employee expenses	12.3	11.3	8.8	48.8	42.9	13.8
Power, Oil & Fuel	85.5	79.0	8.2	309.7	286.2	8.2
Freight	73.4	56.2	30.6	244.4	198.4	23.2
Other expenses	31.1	21.3	46.0	97.0	78.0	24.4
Operating profits	111.7	45.6	145.0	329.2	173.0	90.3
Other income	3.4	3.3	3.0	10.7	8.5	25.9
EBIDTA	115.1	48.9	135.4	339.9	181.5	87.3
Interest	9.2	14.3	-35.7	34.7	51.8	-33.0
PBDT	105.9	34.6	206.1	305.2	129.7	135.4
Depreciation	8.7	8.0	8.7	33.2	33.4	-0.6
PBT	97.2	26.6	265.4	272.0	96.3	182.5
Tax	35.8	10.2	251.0	93.5	31.4	
Reported profit after tax	61.4	16.4	274.4	178.5	62.9	183.7
Operating margins (%)	30.5	18.5		26.7	18.2	
EBIDTA (%)	31.1	19.6		27.3	19.0	
PBDT (%)	28.6	13.9		24.5	13.6	
PATM (%)	16.6	6.6		14.3	6.6	

- At the current market price of Rs162 per share, JK Cement is trading at 5.3x its FY2008 earnings and 6.2x its FY2009 earnings. We maintain our Buy recommendation on the stock with a reduced price target of Rs200 per share.

JK Cement's overall volumes for the fourth quarter grew by 11% yoy to 1.02 million metric tonne (MMT) as against the regional average of 7% y-o-y growth in the same period. Its grey cement volumes grew by 10.8% yoy to 9.52 lakh tonne whereas its white cement volumes remained flat at 67,100 tonne. The grey cement realisations grew by 39% yoy to Rs3,255 per tonne, resulting in revenues of Rs310 crore. The white cement realisations grew by 24% yoy to Rs8,434 per tonne on account of higher sales of the value-added product "JK Wall Putty", taking the total turnover to Rs56.6 crore. The overall revenues grew by 49% yoy to Rs366 crore.

Break-up of sales

Revenues	Grey	310.0	200.4
	White	56.6	45.5
Volumes	Grey	952179	859387
	White	67105	66820
Per tonne	3255.7	2331.9	
		8434.5	6809.3

Source: Sharekhan

Expenditure grows at a slower rate of 27% yoy

Expenditure for the quarter increased by 27% yoy to Rs255 crore mainly on account of a 13% y-o-y increase in the raw material cost and a 31% y-o-y rise in the freight costs. The other operating expenditure increased by a sharp 46% yoy to Rs31.1 crore. The expenditure per tonne increased by 15% yoy and 8% sequentially to Rs2,490. The two major costs, the power & fuel and freight costs, increased by 8.3% and 21.2% per tonne respectively quarter on quarter. On a y-o-y basis the power & fuel cost declined by 9% whereas the freight cost increased by 10%.

Per tonne expenditure analysis

Particulars	Q4FY07	Q4FY06	% yoy	Q3FY07	% yoy
Raw material consumed	320.4	312.1	3	306.69	4
Stock adjustment	-7.8	-147.3	-95	46.95	-117
Stores	201.2	212.3	-5	212.79	-5
Employee expenses	120.2	131.1	-8	124.88	-4
Power, oil & fuel	835.3	916.5	-9	771.23	8
Freight	717.1	652.0	10	591.41	21
Other expenses	303.8	247.1	23	250.75	21
Total exp	2490.2	2162.6	15.1	2162.6	15

Leverage to cement prices boosts operating profit by 145% yoy

The company's high leverage to cement prices resulted in a 145% y-o-y surge in its operating profits to Rs111.7 crore which helped the OPM to expand by 1,200 basis points yoy to 30.5%. The earnings before interest, tax, depreciation and amortisation (EBITDA) per tonne increased from Rs492 in the same quarter last year to Rs1,091, one of the highest in the history of the company.

PAT jumps on the back of flat interest cost and depreciation provision

The net interest cost declined by 36% yoy to Rs8.9 crore on account of interest proceeds on the surplus cash on books whereas the depreciation provision remained flat at Rs8.70 crore, as the company did not add any assets during the quarter. With the tax provision remaining constant, the net profit ballooned by 274% yoy to Rs61.4 crore.

Delay in commissioning of CPPs

As we had mentioned in our previous reports, the company is incurring a capex of Rs290 crore for setting up three CPPs. But on speaking to the management we understand that there is a delay in the commissioning of all the projects (refer table below). We were expecting a saving of Rs2.5 per unit for six months, assuming the additional capacities would come up on time. But taking cognisance of the delay, we expect the company to enjoy the full benefit of the savings only for two to three months.

Particulars	Earlier	Now
10 MW Turbine	Jan-07	Jul-07
20 MW Pet Coke Plant	Apr-07	Jun-07
13.2 MW WHR	Jun-07	Aug-Dec 2007

Source: Sharekhan

Revision of estimates

As mentioned earlier, we were expecting the CPPs to come up on time, leading to savings of Rs150-200 per tonne for FY2008. But since now we understand that the full benefit will not be available for the entire financial year, we are revising our earnings estimate downwards by 5.2% to Rs211 crore from Rs222 crore earlier. We believe that the northern region would see a surplus capacity in FY2009 (capacities of over 20MMT are being added over FY2007-09). In such a scenario, we believe that JK Cement would face more difficulty in maintaining its market share compared with its close competitors Shree Cement and Jaiprakash Associate who would have higher capacities. This would in turn affect its pricing power. Thus we have considered a Rs6-per-bag drop in cement prices. Consequently we expect the company to report earnings of Rs180 crore for the year.

Valuations

At the current market price of Rs162 per share, JK Cement is trading at 5.3x its FY2008 earnings and 6.2x its FY2009 earnings. Taking cognisance of the factors mentioned above, we maintain our Buy recommendation on the stock with a reduced price target of Rs200 per share.

Earnings table

Particulars	FY05	FY06	FY07	FY08E	FY09E
Net profit (Rs cr)	6.5	32.5	178.6	210.9	180.7
% y-o-y growth		*400.0*	*449.0*	*18.0*	*-14.0*
Shares in issue (cr)	5.0	5.0	7.0	7.0	7.0
EPS (Rs)	1.3	6.5	25.5	30.2	25.8
PER (x)	124.4	24.9	6.3	5.4	6.3
EV/EBIDTA (x)	44.4	10.8	4.6	3.9	3.9
RoCE (%)	6.8	9.6	23.2	24.7	19.0
RoNW (%)	1.7	4.8	21.6	20.8	15.4

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

Bank of Baroda

Apple Green

Stock Update

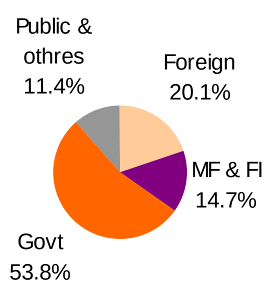
Improved performance

Buy; CMP: Rs285

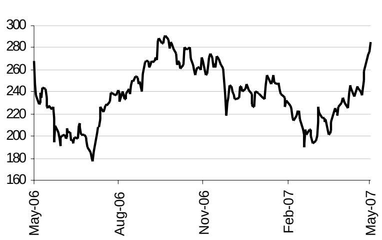
Company details

Price target:	Rs310
Market cap:	Rs10,460 cr
52 week high/low:	Rs296/176
NSE volume: (No of shares)	6.0 lakh
BSE code:	532134
NSE code:	BANKBARODA
Sharekhan code:	BOB
Free float: (No of shares)	16.9 cr

Shareholding pattern



Price chart



Price performance

(%)	1m	3m	6m	12m
Absolute	19.5	20.2	3.7	12.7
Relative to Sensex	15.8	21.8	-1.3	-6.8

Result highlights

- Bank of Baroda's (BoB) results are marginally below expectations. The profit after tax (PAT) grew by 17.6% year on year (yoy) but declined 25.4% quarter on quarter (qoq) to Rs245.7 crore compared with our estimate of Rs256.7 crore.
- The adjusted net interest income (NII) was up by 21.5% yoy and 9.6% qoq to Rs1,052.6 crore, better than our estimate of Rs1,002 crore. The net interest margin (NIM) has shown a sequential improvement of nine basis points, driven mainly by an improvement in the asset yields.
- The non-interest income grew by only 6.9% yoy to Rs397.8 crore; the growth was restricted mainly due to a 61.7% decline in the treasury income. However the core fee income grew by 36.4% yoy and 13.9% qoq.
- The operating profit was up 21% yoy but the core operating profit (operating profit excluding treasury and recovery) grew by 37.4% yoy.
- Although provisions and contingencies remained stable on a year-on-year (y-o-y) basis, yet the bank's tax liability for the current quarter went up significantly. This restricted the overall profit growth to only 17.6% on a y-o-y basis.
- The asset quality of the bank continues to be healthy with the gross non-performing assets (NPA) at Rs2,092 crore, down Rs300 crore sequentially. The net NPA in percentage terms stood at 0.6%, down from 0.67% in the previous quarter. The capital adequacy ratio (CAR) remains at a comfortable 11.8% with the Tier-I CAR at 8.74%.
- The bank has shown strong business growth with comfortable asset quality levels. However the profitability has not improved in proportion to the growth in the business, thereby leading to a lower return on equity. We feel the bank has successfully made structural changes required to show consistent business growth and the management has now focused on improving the profitability, which should lead to better numbers going forward. At the current market price of Rs285, the stock is quoting at 8x its FY2008E earnings and 1.1x FY2008E book value. We maintain our Buy recommendation on the stock with a price target of Rs310.

Result table Rs (cr)

Particulars	Q4FY07	Q4FY06	% yoy	FY07	FY06	% yoy
Net interest income*	1,052.6	866.7	21.5	3,786.1	3,174.9	19.3
Non-interest income	397.8	372.0	6.9	1,173.2	1,127.4	4.1
Treasury income	27.5	71.8	-61.7	136.0	252.0	-46.0
Fee income	143.6	105.3	36.4	472.9	361.0	31.0
Net income	1,450.4	1,238.7	17.1	4,959.3	4,302.3	15.3
Operating expenses	758.4	666.7	13.8	2,544.3	2,384.8	6.7
Operating profit	692.0	572.1	21.0	2,415.0	1,917.5	25.9
Core operating profit (excluding treasury& recovery)	576.1	419.3	37.4	2,020.1	1,498.7	34.8
Provisions & Contingencies	311.8	309.7	0.7	760.8	802.9	-5.2
PBT	432.2	262.4	64.7	1,654.3	1,114.6	48.4
Provision for taxes	186.6	53.6	248.4	627.8	287.6	118.3
Net profit	245.7	208.8	17.6	1,026.5	827.0	24.1

*adjusted for Rs22.7 crore of NII due to merger of BOB Housing and Rs30 crore of one time CRR interest income.

Adjusted NII growth at 21.5% yoy

During the quarter the bank's NII grew by 21.5% yoy and 9.6% qoq to Rs1,052.6 crore. Our calculations suggest that on a y-o-y basis, the NIM has declined by 12 basis points but shown a nine-basis-point improvement sequentially to 3.07% for Q4FY2007.

The improvement in the asset yields (due to prime lending rate hikes) has helped the bank to improve its margins sequentially despite pressure on the cost of funds due to a rise in the cost of deposits. The management has reiterated its intention to maintain the margins despite growing its balance sheet aggressively. The current and savings account (CASA) ratio stood at 39%, marginally down from 40% in December 2006. This could put pressure on the NIM going forward.

Yield analysis (%)

Particulars	Q4FY07	Q4FY06	Q3FY07	yoy chg in bps	qoq chg in bps
Yield on assets	7.65	7.20	7.41	44	23
Cost of funds	4.57	4.01	4.43	57	14
NIM - calculated	3.07	3.19	2.98	-12	9
NIM - reported*	3.23	3.26	3.21	-3	2

* reported NIMs are on a cumulative basis.

Source: Company, Sharekhan estimates based on average quarterly closing balances

Strong loan growth continues

The bank continues to pursue an aggressive loan book expansion policy with a 33.5% y-o-y growth in the domestic advances, above the domestic industry average of 30%, and a 71.5% growth in the global advances yoy. Such strong growth in the advances is putting pressure on deposit mobilisation, which in turn is resulting in higher cost of deposits.

Advances break-up

Particulars	As on March 2007	% yoy chg
Domestic advances:	67,262.8	33.5
- Retail	14,319.0	46.4
- Agriculture	10,366.4	50.9
- SME	9,006.2	31.4
- Others (corporate)	33,571.3	24.9
Foreign advances	16,358.2	71.5
Total	67,262.8	39.6

Bulk deposits and lower CASA add to deposit costs

The overall deposit growth stood at 33.2% yoy to Rs124,916 crore while the domestic deposits increased by 26.2% yoy to Rs99,726 crore. The pace of growth in the domestic deposits is slightly above the industry average of 24%. However, the overseas deposits have gone up by 72.4% to Rs25,190 crore, in line with a 71% y-o-y growth in the foreign advances. The CASA ratio for the bank has declined to 39% from 42% on a y-o-y basis and 40.4% on a sequential basis, as the bank has financed its aggressive credit growth with bulk deposits. This has resulted in an increase of 62 basis points in the cost of deposit to 4.77% in FY2007 from 4.15% in FY2006.

Decline in treasury profits restricts non-interest income growth

The other income increased by only 6.9% yoy to Rs397.8 crore, mainly due to a 61.7% y-o-y decline in treasury profits to Rs27.5 crore from Rs71.8 crore. However, the non-interest income excluding treasury was up by a robust 23.3% yoy with the core fee income up by 36.4% to Rs143.6 crore and the foreign exchange income up by 41.8% to Rs83.5 crore.

Non-interest income (Rs crore)

Particulars	Q4FY2007	Q4FY2006	y-o-y chng
Treasury income	27.5	71.8	-61.7
Fee income	143.6	105.3	36.4
Forex income	83.5	58.9	41.8
Recoveries	88.4	81.0	9.2
Miscellaneous & others	54.8	55.0	-0.5
Total	397.8	372.0	6.9
Non-interest income (excluding treasury)	370.3	300.2	23.3

Source: Company, Sharekhan Research

Core operating profit up 37.4% yoy

The core operating profit (ie the operating profit excluding the treasury gains and recoveries) reported a growth of 37.4% yoy, driven by a good core income growth and controlled operating expenses.

Asset quality remains healthy despite strong advances growth

The asset quality of the bank continues to be healthy despite a strong growth in the advances with the gross NPA at Rs2,092 crore, down Rs 300 crore sequentially, and the net NPA in percentage terms at 0.6%, down from 0.67% in the previous quarter.

CAR remains comfortable

The bank's CAR stood at 11.8% with the Tier-I CAR at 8.74%. With the management's willingness to explore hybrid options, the capital would not be a constraint for the bank's growth in the medium term.

Valuation and view

The bank has shown strong business growth with comfortable asset quality levels. However the profitability has not improved in proportion to the growth in the business. This has led to lower return on the equity. We feel the bank has successfully made structural changes required to show consistent growth and focused on improving the profitability, which should lead to better numbers going forward. At the current market price of Rs285, the stock is quoting at 8x its FY2008E earnings and 1.1x FY2008E book value. We maintain our Buy recommendation on the stock with a price target of Rs310.

Earnings table

Particulars	FY04	FY05	FY06	FY07E	FY08E
Net profit (Rs cr)	967.0	676.9	827.0	1026.5	1307.4
Shares in issue (cr)	29.5	29.5	36.6	36.6	36.6
EPS (Rs)	32.8	23.0	22.6	28.1	35.8
EPS growth (%)	18.6	-30.0	-1.6	24.1	27.4
PE (x)	8.7	12.4	12.6	10.1	8.0
P/PPP (x)	3.4	3.6	5.1	4.3	3.6
Book value (Rs/share)	174.2	191.1	214.6	234.7	260.3
P/BV (x)	1.6	1.5	1.3	1.2	1.1
Adj book value	138.8	170.0	200.4	220.9	254.1
P/ABV (x)	2.1	1.7	1.4	1.3	1.1
RONW (%)	20.3	12.6	11.2	12.5	14.5

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

Bajaj Auto

Apple Green

Stock Update

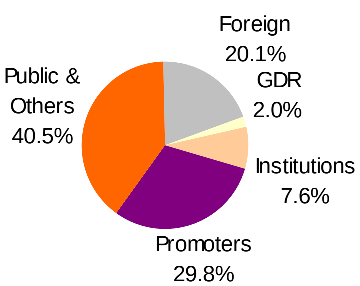
Q4FY2007 results: First-cut analysis

Buy; CMP: Rs2,500

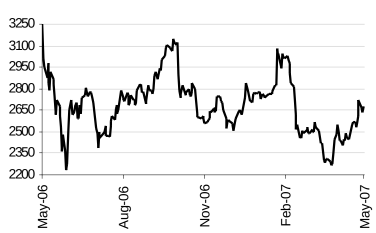
Company details

Price target:	Rs3,300
Market cap:	Rs25,326 cr
52 week high/low:	Rs3,325/2,085
NSE volume: (No of shares)	2.6 lakh
BSE code:	500490
NSE code:	BAJAJAUTO
Sharekhan code:	BAJAJ
Free float: (No of shares)	6.9 cr

Shareholding pattern



Price chart



Price performance

(%)	1m	3m	6m	12m
Absolute	8.0	-10.9	3.5	-12.9
Relative to Sensex	4.7	-9.7	-1.5	-27.9

Result highlights

- Bajaj Auto's Q4FY2007 results are slightly ahead of our expectations due to a higher than expected other income. The net sales grew by 6.8% to Rs2,313.6 crore in the fourth quarter.
- The operating profit of the company declined by 23.2% to Rs326.3 crore as the operating profit margin declined by 550 basis points to 14.1% year on year. However, the margin was stable on a sequential basis.
- The net profit before extraordinary items for the quarter declined 3.9% to Rs320.75 crore.
- The consolidated income from operations rose to Rs2,589.5 crore from Rs2,297.5 crore in the same quarter last year. The consolidated profit grew to Rs377.4 crore for the quarter as compared with Rs357.3 crore in the same quarter last year.
- The company has also announced its demerger, whereby two new companies will be listed. The existing Bajaj Auto will be renamed as Bajaj Investment and Holdings Ltd (BIHL) and will be the holding company for two other companies, namely Bajaj Auto (new-consisting of two- and three-wheeler manufacturing business) and Bajaj Finserv Ltd (BFL). Bajaj Finserv would comprise wind power, insurance and financing businesses.
- All shareholders in the existing Bajaj Auto on the record date would become shareholders in each of the new companies and be issued shares of the two new

Result table Rs (cr)

Particulars	Q4FY07	Q4FY06	% yoy	FY07	FY06	% yoy
Net sales	**2313.6**	**2165.9**	**6.8**	**9,520.4**	**7,667.9**	**24.2**
Total expenditure	1987.3	1740.9		8,103.4	6,311.6	
Raw material consumed	1715.5	1529.1		6,900.1	5,373.6	
Stock adjustment	-23.7	-43.0		0.9	-49.0	
Employee expenses	68.8	68.2		301.5	274.1	
Other expenses	226.6	186.6		906.8	712.9	
Expenses capitalised	0.0	0.0		-5.9	0.0	
Operating profits	326.3	425.0	-23.2	1,417.0	1,356.3	4.5
Other income	157.7	103.1		555.6	438.5	
EBIDTA	484.0	528.1	-8.3	1,972.6	1,794.7	9.9
Interest	2.4	0.1		5.3	0.3	
PBDT	481.6	528.0	-8.8	1,967.3	1,794.4	9.6
Depreciation	45.8	46.8		190.3	191.0	
PBT	**435.8**	**481.3**		**1,777.0**	**1,603.4**	
Tax	115.1	147.6		490.1	479.1	
Profit after tax	**320.8**	**333.6**	**-3.9**	**1,286.9**	**1,124.3**	**14.5**
Extraordinary items	-12.4	13.3		23.7	2.5	
Reported PAT	333.2	320.3	4.0	1263.2	1121.7	12.6
EPS	30.5	34.3		122.4	111.4	
OPM(%)	14.1	19.6		14.9	17.7	

companies in the ratio of 1:1. After such issuance, for every share held in the existing Bajaj Auto each shareholder would:

- continue to hold one share of BHIL (existing BAL) of face value of Rs10 each fully paid up,
- be allotted one share of the new Bajaj Auto (existing BHIL) of face value of Rs10 each, fully paid up, and
- be allotted one share of BFL of face value of Rs5 each, fully paid up.

- We will come out with our detailed update on the company and revise our estimates after gaining more clarity on the de-merger. Watch this space.

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

Union Bank of India

Ugly Duckling

Stock Update

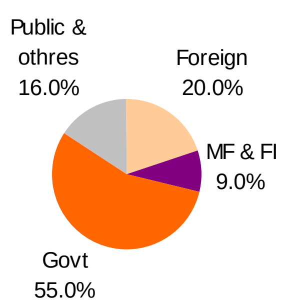
Strong operating performance

Buy; CMP: Rs120

Company details

Price target:	Rs141
Market cap:	Rs6,061 cr
52 week high/low:	Rs142/81
NSE volume: (No of shares)	7.9 lakh
BSE code:	532477
NSE code:	UNIONBANK
Sharekhan code:	UBI
Free float: (No of shares)	22.5 cr

Shareholding pattern



Price chart

Price performance

(%)	1m	3m	6m	12m
Absolute	17.0	12.1	-9.9	6.9
Relative to Sensex	13.4	13.6	-14.2	-11.6

Result highlights

- The Q4FY2007 results of Union Bank of India (UBI) are below our expectations with the profit after tax (PAT) reporting a growth of 57.4% year on year (yoy) to Rs228.1 crore compared with our estimate of Rs254.7 crore. The profit is lower mainly due to higher than expected provisions made by the bank during the quarter.
- The adjusted net interest income (NII) was up 29.4% yoy and 9.4% quarter on quarter (qoq) at Rs750.4 crore. The net interest margin (NIM) of the bank improved on a sequential basis by 38 basis points to 3.37% for Q4FY2007. Controlled increase in costs coupled with improvement in yields helped the bank to improve its margins both yoy and qoq.
- The improvement in the NIM was a fall-out of the strategy adopted by the bank's management in the previous quarters. The bank shed low yielding advances and focused on quality advances to improve the yields on the asset side. On the liability side, the bank reduced the high-cost term deposits and improved its low-cost deposits, which helped in containing the costs.
- The operating profit was up 49.4% yoy and 30.7% qoq, while the core operating profit (ie the operating profit excluding the treasury gains and others) reported a growth of 56.4% yoy and 31.4% qoq. The growth was driven by a good core income growth and controlled operating expenses.
- Provisions and contingencies rose by 48.1% yoy and 148.3% qoq mainly due to higher non-performing asset (NPA) and standard asset provisions made during the quarter to improve the asset quality levels.
- As a result of higher provisioning the bank's NPA level improved to 0.96% from 1.12% in the previous quarter. The gross NPA level also declined to 2.94% from 3.24% on a sequential basis.

Result table Rs (cr)

Particulars	Q4FY07	Q4FY06	% yoy	% qoq	FY07	FY06	% yoy
Net interest income*	750.4	580.1	29.4	9.4	2,790.2	2,374.3	17.5
Non-interest income	280.0	213.0	31.5	36.4	842.0	625.0	34.7
- CEB	86.0	63.0	36.5	45.8	274.0	218.0	25.7
- Treasury	13.0	20.0	-35.0	-57.0	109.0	95.0	14.7
Net income	1,030.4	793.1	29.9	15.6	3,632.2	2,999.3	21.1
Operating expenses**	370.9	351.5	5.5	-4.1	1,475.9	1,402.4	5.2
Operating profit	659.5	441.6	49.4	30.7	2,156.3	1,596.9	35.0
Core operating profit (excluding treasury & others)	532.5	340.6	56.4	31.4	1,887.3	1,372.9	37.5
Provisions & contingencies	354.0	239.0	48.1	148.3	776.0	703.0	10.4
PBT	442.5	220.4	100.8	22.3	1,380.3	893.9	54.4
Provision for taxes	214.4	75.5	184.1	101.0	535.0	219.5	143.8
Net profit	228.1	144.9	57.4	-10.6	845.3	674.4	25.3

*Adjusted for one-time income of Rs92 crore in Q4FY2007 for CRR interest (Rs35 crore), and interest on IT refunds (Rs57 crore) and Rs18 crore in Q4FY2006 for interest on IT refunds.

**Adjusted for reversal of Rs45 crore for AS-15 related provisions charged during M9FY2007.

- The management's renewed focus on profitable businesses and asset quality is a welcome move for the bank's future performance, which is aptly reflected in its improved NIMs and low NPA levels. The bank is currently available at attractive valuations compared to its peers. At the current market price of Rs120, the stock is quoting at 5.6x its FY2008E earnings and 1x FY2008E book value. We maintain our Buy recommendation on the stock with a price target of Rs141.

Sequential growth in margin continues

The bank's NII grew by 29.4% yoy and by 9.4% qoq to Rs750.4 crore. The NIM of the bank improved by 60 basis points yoy and by 38 basis points qoq. Such an improvement in the margin was possible as the bank continued to shed low yielding advances and high-cost borrowings while focusing on increasing its low-cost deposits. This helped the bank in improving its yields and containing its costs.

The low-cost deposit base has remained stable on a sequential basis at 34.5% compared with 34.9% in December 2006. However the same has improved by 210 basis points yoy which has helped in controlling the cost of funds.

Yield analysis (%)

Particulars	Q4FY07	Q4FY06	Q3FY07	yoy chg in bps	qoq chg in bps
Yield on assets	8.75*/8.60	7.37/7.34	8.06	126	54
Cost of funds	5.23	4.57	5.07	66	16
NIM	3.52*/3.37	2.80	2.99	60	38

* reported figures/reported figures adjusted for one-time items

Source: Company, Sharekhan estimates based on average quarterly closing balances

The bank has opted for quality of advances rather than quantity

The bank's advances grew by 16.9% yoy to Rs62,386 crore as on March 2007 compared with a 29.4% year-on-year growth reported in September 2006. This has been a conscious decision of the bank's management to grow its advance book selectively, shed the low-yielding advances and focus on better yields. All this in turn has improved the margins.

Advances growth moderated to 16.9% for FY2007 from 29.4% in H1FY2007

Particulars	Mar 2007	Mar 2006	% yoy	% qoq
Advances	62386	53380	16.9	7.00
Retail advances	13529	11553	17.1	3.94

Non-interest income up 31.5% yoy

The non-interest income increased by 31.5% yoy to Rs280 crore; this includes the fee income, which grew by 36.5% yoy, and the foreign exchange income, which was up by 36.7% yoy.

Non-interest income (Rs crore)

Particulars	Q4FY07	Q4FY06	% yoy	% qoq
Treasury income	13.0	20.0	-35.0	-57.0
Fee income	86.0	63.0	36.5	45.8
Forex income	67.0	49.0	36.7	42.6
Others	114.0	81.0	40.7	65.1
Total	280.0	213.0	31.5	36.4
Non-interest income (excl. treasury & others)	153.0	112.0	36.6	44.3

Source: Company, Sharekhan Research

Core operating profit up by 56.4% yoy

The reported operating profit was up by 80% yoy. However adjusting for the one-time interest income mentioned earlier for the Rs92-crore and Rs45-crore write-backs in AS-15 provisions under staff expenses, the operating profit was up 49.4% yoy and 30.7% qoq. The core operating profit (ie the operating profit excluding the treasury gains and others) reported a growth of 56.4% yoy and 31.4% qoq, driven by a good core income growth and controlled operating expenses. The improvement in the core performance of the bank coupled with the controlled increase in the operating expenses helped the bank to report such strong operating numbers.

Higher NPA provisions improve asset quality

Provisions and contingencies are up 48.1% yoy and 148.3% qoq mainly due to higher NPA and standard asset provisions made during the quarter to improve the asset quality levels. As a result of the higher provisioning, the bank's NPA level improved to 0.96% from 1.12% in the previous quarter. The gross NPA level also declined to 2.94% from 3.24% on a sequential basis.

Particulars (In Rs crore)	Q4FY07	Q4FY06	Q3FY07
Total provisions	354.0	239.0	142.6
Amortisation	38.0	39.0	39.0
Investment depreciation	78.0	83.0	29.0
NPA	158.0	89.0	51.0
Std assets	92.0	19.0	23.6
Others	-12.0	9.0	-

The bank's Tier-I capital is at 7.8%

The capital adequacy ratio (CAR) of the bank stood at 12.8% with the Tier-I CAR at 7.8% as in March 2007. The management has stated that to meet its Basel II requirements, it has enough headroom in the Tier-II category, thereby ruling out the possibility of any equity issuances in the medium term.

Valuation and view

The management's renewed focus on profitable businesses and asset quality is a welcome move for the bank's future performance, which is aptly reflected in its improved NIMs and low NPA levels. The bank is currently available at attractive valuations compared to its peers. At the current market price of Rs120, the stock is quoting at 5.6x its FY2008E earnings and 1x FY2008E book value. We maintain our Buy recommendation on the stock with a price target of Rs141.

Earnings table

Particulars	FY04	FY05	FY06	FY07E	FY08E
Net profit (Rs cr)	712.1	719.1	675.2	845.3	1079.7
Shares in issue (cr)	46.0	46.0	50.5	50.5	50.5
EPS (Rs)	15.5	15.6	13.4	16.7	21.4
% y-o-y change	*28.8*	*1.0*	*-14.5*	*25.2*	*27.7*
PE (x)	7.8	7.7	9.0	7.2	5.6
P/PPP (x)	3.7	3.5	3.8	2.8	2.5
Book value (Rs/share)	67.1	78.6	90.2	102.0	116.9
P/BV (x)	1.8	1.5	1.3	1.2	1.0
Adj book value	48.7	55.5	73.7	90.1	105.6
P/ABV (x)	2.5	2.2	1.6	1.3	1.1
RONW (%)	25.2	21.5	15.8	17.4	19.5

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

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