



Economy News

- Apparel exports from India fell 17% in October to \$603 mn compared to the year-ago period as the country lost market share to China, Vietnam and Bangladesh due to uncompetitive pricing of fabrics in the domestic market. (BL)
- Inflation jumped to 4.78% in November, driven by rising prices of essential food items like pulses, fruits and vegetables. Among the food items which became dearer during the month were urad (24%), moong (14%) and chicken (10%). Driven by rising prices of potato and onion, fruits and vegetables became costlier by 3%. (BL)
- The Centre for Monitoring Indian Economy (CMIE) has once again revised its GDP growth forecast for the current fiscal to 6.7% from 6.2% announced last month. The upward revision in GDP projection by the CMIE in its latest report has been attributed to less damage to smaller crop than anticipated earlier. (BL)

Corporate News

- The government has set an ambitious target to mop up around Rs 110 bn from the proposed divestment of 5% stake in utility giant **NTPC Ltd** as against the original target of around Rs 82 bn. The government has set the process in motion by appointing four investment bankers-JP Morgan, Citi, Kotak and I-Sec -for the power generation firm's follow-on public offer (FPO). (ET)
- Tata Motors**, India's largest vehicle maker, expects sales of its sports utility vehicles to rise by 60% to 4,000 units a month, following the introduction of an upgraded version of its Sumo model. (ET)
- Oil major **Cairn India** has rescheduled some of its exploration plans at the Krishna- Godavari basin. As per the 2009-10 exploration programme of the company, three wells, which were scheduled to be drilled in KG-ONN- 2003/1 at the KG basin in the last quarter, will now be carried out in the first quarter of the next financial year. Cairn holds a majority stake in the block. (BS)
- Scenting opportunity in the budget hotel segment, diversified conglomerate Tata Group plans to construct 50 hotels of its no-frills chain -- Ginger -- across India in the next four years. **Indian Hotels Company (IHCL)**, the group's listed hospitality firm, owns 20 Ginger hotels in the country through its subsidiary Roots Corporation (RCL). (BS)
- Chambal Fertilisers & Chemicals** today said its US-based subsidiary -- ISGN Solutions Inc -- has acquired Fiserv Fulfillment Services on December 12. The acquisition would enable ISGN Solutions in offering range of services for the entire mortgage loan life cycle. (BS)
- The **DLF Ltd** board of directors will meet on Tuesday to consider the integration of DLF Assets Ltd (DAL), with the real estate company. This will be done through integration of Caraf Builders & Constructions (a K.P. Singh co that owns DAL) with DLF Cyber City Developers (a wholly-owned subsidiary of DLF that holds various commercial assets). (BL)
- Bharat Heavy Electricals Ltd (Bhel)** is planning to acquire Hungary-based boiler maker TGR to establish a manufacturing facility in Europe. This is part of the company's strategy to acquire companies in Europe and the United States to ramp up its manufacturing capabilities, acquire updated technology and wider market access. Once this acquisition is complete, the company plans to finalise a few more. (FE)
- Suzlon Energy**, India's biggest maker of wind-turbine generators, plans to complete \$2.8 billion of refinancing by January-end, Chairman Tuli Tanti said. Suzlon is consolidating its short and long-term loans, working capital and other borrowings into a single loan that's already been agreed by State Bank of India and IDBI Bank, the lead banks in the deal, the billionaire said in an interview. (BS)

Equity

		% Chg			
	14 Dec 09	1 Day	1 Mth	3 Mths	
Indian Indices					
SENSEX Index	17,098	(0.1)	1.5	3.9	
NIFTY Index	5,106	(0.2)	2.1	4.4	
BANKEX Index	9,992	(1.1)	(2.1)	8.9	
BSET Index	4,957	1.2	4.5	12.7	
BSETCG INDEX	14,010	1.0	4.4	4.6	
BSEOIL INDEX	10,376	0.1	2.3	0.1	
CNXMcap Index	7,269	(0.7)	2.4	13.7	
BSESMCAP INDEX	7,932	(0.5)	7.1	9.7	
World Indices					
Dow Jones	10,501	0.3	2.2	8.4	
Nasdaq	2,212	1.0	2.0	5.2	
FTSE	5,315	1.0	0.4	5.4	
Nikkei	10,106	(0.0)	3.2	(1.3)	
Hangseng	22,086	0.8	(2.8)	5.0	

Value traded (Rs cr)

	14 Dec 09	% Chg - Day
Cash BSE	3,956	(21.1)
Cash NSE	12,700	(15.7)
Derivatives	73,694	3.3

Net inflows (Rs cr)

	11 Dec 09	% Chg	MTD	YTD
FII	342	(9)	1,858	81,012
Mutual Fund	(58)	(87)	(1,177)	(4,741)

FII open interest (Rs cr)

	11 Dec 09	% Chg
FII Index Futures	14,885	0.9
FII Index Options	38,932	(0.5)
FII Stock Futures	25,062	1.3
FII Stock Options	631	0.3

Advances / Declines (BSE)

Advances & Declines (USD)						
	11 Dec 09	A	B	S	Total	% total
Advances		62	769	195	1,026	40
Declines		143	1,095	254	1,492	58
Unchanged		0	42	13	55	2

Commodity

			% Chg			
	14 Dec 09	1 Day	1 Mth	3 Mths		
Crude (NYMEX) (US\$/BBL)	70	0.4	(8.6)	(1.6)		
Gold (US\$/OZ)	1,127	1.0	0.9	12.0		
Silver (US\$/OZ)	17	1.3	(0.1)	2.1		

Debt / forex market

	14 Dec 09	1 Day	1 Mth	3 Mths
10 yr G-Sec yield %	7.62	7.58	7.62	7.35
Re/US\$	46.70	46.54	46.23	48.75

Sensex



COMPANY UPDATE

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HDFC BANK

PRICE: Rs.1757
TARGET PRICE: Rs.1840RECOMMENDATION: ACCUMULATE
FY11E P/E: 21.0x; P/ABV: 3.4x

We met with Mr. Paresh Sukhtankar (ED, HDFC Bank) to get an update on the bank's strategy and future outlook.

CBoP retail is performing on the expected lines. Out of total CBoP retail book, 2W (two wheelers) book has almost run off whereas personal loan book would take another 10-12 months to completely run off.

Bank was able to maintain its margin even during Q3FY09 and Q4FY09, when bulk deposit rate was hovering around 5-6% higher than the current prevailing rate. So, we believe that it would be easier for the bank to protect its margins.

We maintain the earning estimates for FY10E and FY11E and maintain ACCUMULATE rating on the stock with a target price of Rs.1840 based on P/ABV of 3.5x its FY11E adjusted book value and P/E of 22x its FY11E earnings.

We like HDFC Bank, a leader among private sector banks with healthy credit growth, one of the highest CASA, high and stable margins, high RoE, cleaner asset quality and a large proportion of fees in total income.

Key Takeaways

We met with Mr. Paresh Sukhtankar (ED, HDFC Bank) to get an update on the bank's strategy and future outlook. We returned positive to recognize its strategic response to recent macro economic developments.

Loan growth is picking up

Management has been reiterating that the bank endeavors to grow 3-4% faster than the system. In our view, banking system is likely to grow by 16-17% during FY10. During the same period, we are factoring 20% growth for HDFC bank.

Management has also indicated that loan growth is picking-up. In retail segment, mortgages and auto loans are driving the growth whereas bank is going slow on credit cards and personal loans. During Q2FY10, when system grew by only 3.4% (QoQ), HDFC bank managed to deliver 9.5% growth (QoQ) in its advances.

During Q2FY10, its retail book grew 7.3% YoY to Rs.626.5 bn, representing ~54.4% of gross advances. This has come mainly on the back of good traction in the car loan segment (26.7%) despite decline visible during Q2FY10 in personal loans and credit card segments. During Q2FY10, car loan book grew 6.2% (QoQ) whereas personal loans and credit card loans declined by 1.2% and 1.3%.

Comfortable Capital Adequacy Ratio (CAR) after warrants conversion by HDFC Ltd

HDFC Ltd has converted 26.2 mn warrants into equity shares @1530.13 by paying Rs.36.1 bn (the balance 90% of the subscription amount) to HDFC Bank. HDFC Ltd had subscribed to the preferential warrants issued by HDFC Bank in June 2008 to ensure that post HDFC Bank and CBoP merger, its stake in HDFC Bank does not fall below 20%.

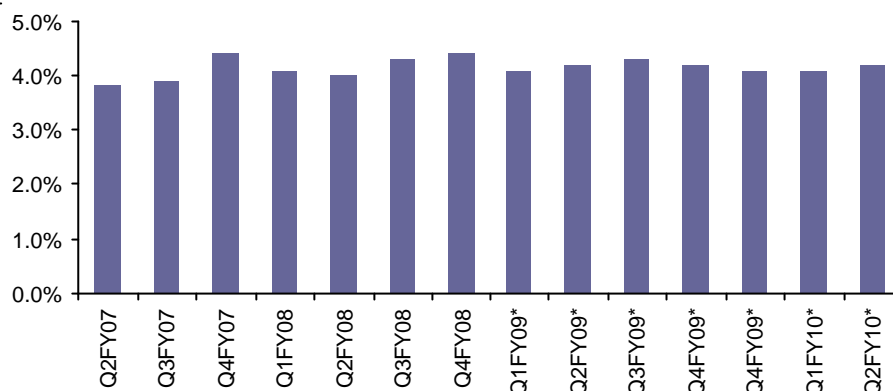
Management has apprised us that this capital would be sufficient to fund the loan growth for next 2-3 years.

Bank has one of the highest margins

HDFC Bank has always delivered one of the highest NIM in the industry. The management has also guided us about the stable margin outlook for the bank. They believe, it would move in the range of 3.9-4.2%, going forward.

Now, the bank is offering reduced rates for many products on back of decline in its cost of funds as deposit re-pricing is taking place at lower rates. Bank was able to maintain its margin even during Q3FY09 and Q4FY09, when bulk deposit rate was hovering around 5-6% higher than the current prevailing rate. So, we believe that it would be easier for the bank to protect its margins.

Trend in NIM (%)



Source: Company; * Stands for post merger data

During Q2FY10, its NIM improved sequentially to 4.2% from 4.1% in Q1FY10; however it remained flat vis-à-vis 4.2% in Q2FY09.

Although there is some pressure from falling asset yields, both from competitive pricing in the system and its conscious decision to focus more on less risky assets (lower risk comes with lower return), the recent cut in policy rates is likely to partly offset these factors. In our view, its margins are likely to stabilize around 4.0%, going forward.

No major shocks on asset quality front

Its gross NPA and net NPA increased 20.9% (YoY) and 3.1% (YoY), respectively during Q2FY10. However, both declined sequentially by 6.3% and 8.2%, respectively.

Gross NPA as a proportion of gross advances increased to 1.8% in Q2FY10 as compared to 1.6% in Q2FY09; however it declined sequentially from 2.1% in Q1FY10. Net NPA as a proportion of net advances declined to 0.4% at the end of Q2FY10 as compared 0.6% each in Q2FY09 and Q1FY10.

Trend in NPA

	Q1FY09	Q2FY09	Q3FY09	Q4FY09	Q1FY10	Q2FY10
Gross NPA (Rs. Cr)	1502.7	1675.9	1911.4	1988.1	2163.5	2026.9
% of Gross Advances	1.5	1.6	1.9	2.0	2.1	1.8
Net NPA (Rs. Cr)	496.1	584.1	614.3	627.6	656.5	602.4
% of Net Advances	0.5	0.6	0.6	0.6	0.6	0.4
Provision Coverage (%)	67.0	65.0	67.9	68.4	70.0	70.0

Source: Company

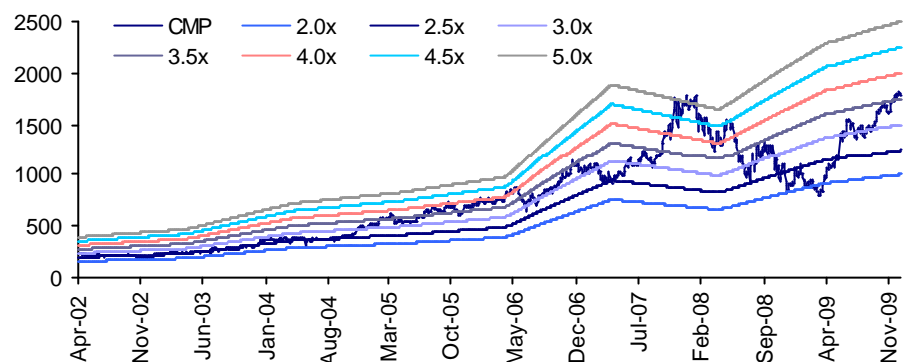
CBoP retail is performing on the expected lines, as they had stopped incrementally from October 2007 itself. Out of total retail book, 2W (two wheelers) book has almost run off whereas personal loan book would take another 10-12 months to completely run off.

HDFC bank has already brought the erstwhile CBoP's retail as well as corporate book provisioning standards in line with its own standards. Therefore, in our view, it only needs incremental provisions, going forward.

Earnings to grow 26.4% CAGR over FY09-11E

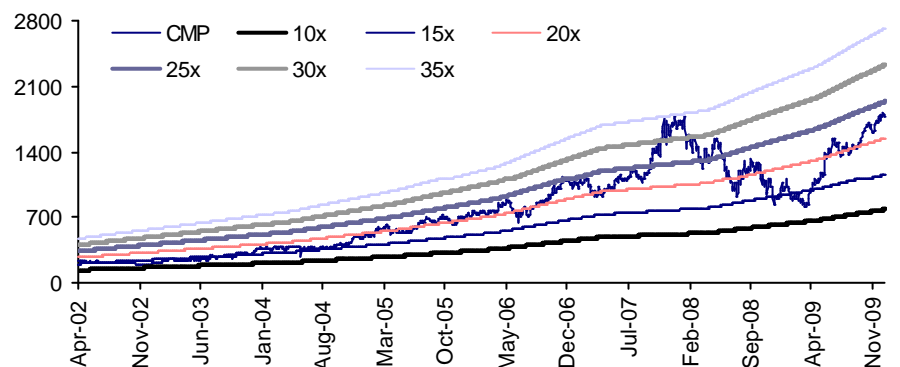
- We expect earnings to grow at 26.4% and balance sheet size at 13.8% CAGR over FY09-11. We expect RoA to remain high around 1.5% and RoE around 16% in FY10-11E.
- At the current market price of Rs.1757, the stock is trading at 21.0x its FY11E earnings and 3.4x its FY11E ABV. We expect net profit for FY10E and FY11E to be Rs.28.28 bn and 35.89 bn, respectively.
- This would result into an EPS of Rs.65.9 and Rs.83.7 for FY10E and FY11E, respectively. Adjusted book value for FY10E and FY11E is estimated to be Rs.462.7 and Rs.523.8, respectively

Rolling 1-year forward P/ABV band



Source: Company, Kotak Securities - Private Client Research

Rolling 1-year forward P/E band



Source: Company, Kotak Securities - Private Client Research

We recommend ACCUMULATE on HDFC Bank with a price target of Rs.1840

In our view, HDFC bank would continue to enjoy the valuation premium vis-à-vis its peers on back of - one of the highest CASA, high and stable margins, high RoE, cleaner asset quality and a large share of fee-income to its total income. It has consistently delivered a growth of around 30% (YoY) in net profit for the past 30 quarters.

We maintain **ACCUMULATE** rating on the stock with unchanged target price of Rs.1840 based on P/ABV of 3.5x its FY11E adjusted book value and P/E of 22x its FY11E earnings.

Key data

(Rs bn)	FY08*	FY09	FY10E	FY11E
Interest income	123.00	163.32	170.40	203.70
Interest expense	63.79	89.11	89.81	101.95
Net interest income	59.21	74.21	80.60	101.75
Other income	28.92	32.91	41.18	45.05
Gross profit	41.58	51.79	64.93	80.98
Net profit	19.83	22.45	28.28	35.89
Gross NPA (%)	1.6	2.4	2.5	2.5
Net NPA (%)	0.5	0.8	0.8	0.8
Net interest margin (%)	4.3	3.8	3.5	3.8
RoE (%)	17.0	15.8	16.0	16.2
RoAA (%)	1.4	1.3	1.5	1.6
Dividend Yield (%)	0.4	0.6	0.6	0.6
EPS (Rs)	48.3	52.8	65.9	83.7
Adjusted BVPS (Rs)	377.6	329.6	462.7	523.8
P/E (x)	36.4	33.3	26.6	21.0
P/ABV (x)	4.7	5.3	3.8	3.4

Source: Company, Kotak Securities - Private Client Research; Note: * stands for proforma number post the merger with CBoP

Bulk deals

Trade details of bulk deals

Date	Scrip name	Name of client	Buy/ Sell	Quantity of shares	Avg. price (Rs)
14-Dec	Carol Info	Database Software Technology Pvt. Ltd.	B	182,339	61.4
14-Dec	Carol Info	Harsiddh Specific Family Trust	S	200,000	61.3
14-Dec	Cubex Tubings	Hemant Ashar	S	47,855	16.0
14-Dec	Gi Enginerg	Kadam Holding Ltd	S	38,425	16.8
14-Dec	Indraprastha Gas	Genesis Indian Investment Co Ltd	S	1,065,412	190.0
14-Dec	Jindal Hotels	Ajay Gupta	S	41,860	49.1
14-Dec	Odyssey Corp	Bhrosemand Commodities Pvt. Ltd.	S	53,600	20.0
14-Dec	Omkar Overs	S N Investment	B	25,000	41.1
14-Dec	Omkar Overs	Pathik Nayanbhai Shah	B	25,000	37.2
14-Dec	Omkar Overs	Falguniben Mahavirbhai Gohil	S	53,000	37.2
14-Dec	Omkar Overs	Ayodhyapati Investment Pvt Ltd	S	30,000	41.1
14-Dec	Omkar Overs	Arunkumar Solanki	S	25,000	37.9
14-Dec	Omkar Overs	Nishith Prakash Shah	S	43,553	37.2
14-Dec	Orbit Exports	Mediaman Multirade Private Ltd	B	315,000	19.6
14-Dec	Orbit Exports	Subhkam Ventures (I) Private Ltd	S	168,560	19.6
14-Dec	Orbit Exports	Fountain Vanijya Pvt Ltd	S	147,500	19.6
14-Dec	Parsharti Inv	Jayeshkumar Chimanlal Soni	B	22,800	35.9
14-Dec	Parsharti Inv	Krupa Sanjay Soni	S	21,084	35.5
14-Dec	Poddar Pigm	Poddar Pigments Ltd Buy Backx	B	90,000	35.0
14-Dec	Prabhav Inds	Pushpa Ramesh Shah	B	55,700	32.0
14-Dec	Prabhav Inds	Shreenathji Finstock Pvt Ltd	S	85,000	32.3
14-Dec	Pritish Nandy	Naresh Kumar Huf	S	96,390	34.5
14-Dec	Priyadarshini Sp	Pradeep Kr Aggarwal	S	61,040	18.7
14-Dec	Rajratan Glo	Sangeeta Chordia	B	22,000	115.5
14-Dec	Rajratan Glo	NSB Securities Private Limited	S	41,250	115.5
14-Dec	Rama Pulp	Dinesh Sanghvi	B	110,000	31.5
14-Dec	Rama Pulp	Aarfin Brokers Pvt. Ltd.	B	50,000	31.4
14-Dec	Rama Pulp	Punam Akhil Patva	B	40,841	31.5
14-Dec	Rama Pulp	Mahipat Iwdarmal Mehta	S	50,000	31.4
14-Dec	Rama Pulp	Prabha Farms Pvt Ltd	S	163,790	31.5
14-Dec	Real Strips	Ajay Hamlai	S	24,603	51.1
14-Dec	Regency Trust	Pooja Bhargava	B	29,500	13.7
14-Dec	Regency Trust	Abhinav Bhargava HUF	B	30,000	13.7
14-Dec	Regency Trust	Abhinav Bhargava	B	30,000	13.7
14-Dec	Regency Trust	Srinjani Kajaria	S	87,200	13.7
14-Dec	Riba Textiles	Ketan Nalinkant Shah	B	56,965	15.6
14-Dec	Riba Textiles	Hemal Ketan Shah	S	57,000	15.6
14-Dec	Samtex Fashions	Bijal Madhani HUF	B	42,245	26.8
14-Dec	Shivalik Bimet	Tecknopoint Mercantile Co	B	99,094	29.4
14-Dec	Shivalik Bimet	Sainath Herbal Care Marketing P.Ltd	S	244,846	28.6
14-Dec	Super Crop	Ritaben Bhogilal Patel	S	41,573	12.2
14-Dec	Super Crop	Jyotsanaben Ambalal Patel	S	35,872	12.3

Source: BSE

Gainers & Losers

Nifty Gainers & Losers

	Price (Rs)	chg (%)	Index points	Volume (mn)
Gainers				
Infosys Tech	2,499	1.5	6.2	1.2
BHEL	2,410	1.6	2.1	1.2
L&T	1,700	0.6	1.9	1.3
Losers				
ICICI Bank	851	(1.6)	(5.3)	4.1
Bharti Airtel	320	(3.6)	(5.1)	7.5
HDFC Bank	1,757	(1.6)	(3.3)	0.8

Source: Bloomberg

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