



## Economy News

- ▶ The wholesale price index (WPI)-based inflation rate declined for the second consecutive week to 12.34 per cent for the week ended 23 August, as prices of food items like rice and pulses fell. Inflation of 30 essential commodities tracked closely by the government declined to 6.9 per cent in the week ended August 23, as against 7.24 per cent reported a week earlier. (BS)
- ▶ The European Central Bank and the Bank of England both held interest rates steady yesterday which reinforced investor opinion that the international interest rate cycle had peaked. (ET)
- ▶ According to RBI, banks in India may need to raise about Rs.1trn annually over the next five years if they have to adhere to the new prudential norms prescribed by the Bank for International Settlements (BIS) (ET).
- ▶ India's external debt increased by over 30% to \$221.2bn in the financial year ended March 2008, as domestic currency gained against the US dollar and also due to sharp rise in external commercial borrowings. The weakening of US dollar against other currencies accounted for 20 per cent of the increment in India's external debt. (BS)

## Corporate News

- ▶ A clutch of private equity players is interested in picking up British Telecom's (BT) stake in **Tech Mahindra**, according to industry and banking sources. BT currently holds about 31% in Tech Mahindra and is keen on retaining about 10% stake because of the \$2bn committed business which it has given to Tech Mahindra. (ET)
- ▶ Daiichi Sankyo's open offer to acquire an additional 20 per cent stake in **Ranbaxy Laboratories** ended yesterday. The open offer was fully subscribed, although further details are not available. Daichii Sankyo's plan was to acquire up to 92.1 million shares through the open offer to have a controlling majority stake in the pharmaceutical major with a cumulative stake of about 55 per cent. (ET)
- ▶ **Tata Power Company Ltd (TPC)** has forayed into the geothermal energy sector by acquiring 10% stake in Australia's Geodynamics for \$37mn (about Rs.1.65bn). TPC would get a board representation in Geodynamics Ltd, a listed company in Australia with a market capitalisation of A\$350 million. Both companies would also jointly explore geothermal blocks outside Australia. (BS)
- ▶ **Moser Baer India's** photovoltaic (PV) business unit plans to raise Rs.4.1bn from a consortium of global investors such as Nomura, CDC Group, Credit Suisse, Morgan Stanley, IDFC PE and IDFC. The new investment will dilute Moser Baer's stake in the unit by 6.5 per cent to 93.5 per cent, said the company. The transaction values Moser Baer's PV business at Rs.63.5bn. Earlier in 2007, the company had raised Rs.4bn through the private equity route. (ET)
- ▶ The August sales of **ACC** and **Grasim Industries** - India's two biggest cement makers - witnessed their first big decline in about a year as demand for the building material slumped. ACC registered a 2 per cent fall in its August sales to 1.54mn tonnes (MT), the sharpest decline since February 2007. Grasim Industries' production fell by 8.87% to 2.12 MT and despatches nose-dived to 2.2 MT, down by 5.39 per cent in August. (ET)
- ▶ **Patel Engineering** is close to acquiring a mid-sized coal mine in Indonesia for about Rs.1bn. The mine will be used for the company's proposed 1200MW power plant in Gujarat. (ET)

### Equity

	4 Sep 08	% Chg		
		1 Day	1 Mth	3 Mths
<b>Indian Indices</b>				
BSE Sensex	14,899	(1.0)	(0.4)	(5.5)
Nifty	4,448	(1.2)	(1.2)	(4.9)
BSE Banking	7,435	(0.2)	3.0	1.2
BSE IT	4,086	0.5	5.3	(11.5)
BSE Capital Goods	12,188	(0.9)	(0.7)	0.6
BSE Oil & Gas	9,845	(1.8)	(3.1)	(2.2)
NSE Midcap	5,829	(0.1)	(0.6)	(6.2)
BSE Small-cap	6,974	(0.1)	(3.0)	(9.8)
<b>World Indices</b>				
Dow Jones	11,188	(3.0)	(3.7)	(11.2)
Nasdaq	2,259	(3.2)	(3.9)	(11.4)
FTSE	5,362	(2.5)	(1.7)	(10.6)
Nikkei	12,558	(1.0)	(5.2)	(14.7)
Hangseng	20,389	(1.0)	(9.6)	(18.2)

### Value traded (Rs cr)

	4 Sep 08	% Chg - Day
Cash BSE	5,380	(14.5)
Cash NSE	12,908	(9.0)
Derivatives	46,291	(21.4)

### Net inflows (Rs cr)

	2 Sep 08	% Chg	MTD	YTD
FII	1,337	(879)	1,166	(28,404)
Mutual Fund	116	(244)	36	10,236

### FII open interest (Rs cr)

	2 Sep 08	% Chg
FII Index Futures	12,637	(5.2)
FII Index Options	22,093	2.5
FII Stock Futures	19,077	2.7
FII Stock Options	849	30.8

### Advances / Declines (BSE)

	4 Sep 08	A	B	S	Total	% total
Advances	80	883	226	1,189	49	
Declines	122	821	197	1,140	47	
Unchanged	4	58	20	82	3	

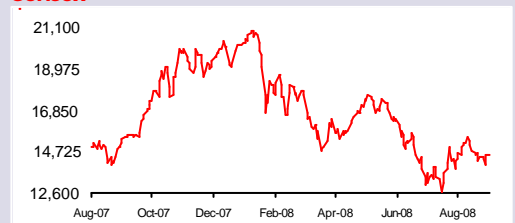
### Commodity

		4 Sep 08	1 Day	1 Mth	3 Mths
Crude (NYMEX)	(US\$/BBL)	107.8	(0.1)	(9.6)	(15.7)
Gold	(US\$/OZ)	796.5	(0.6)	(9.0)	(9.3)
Silver	(US\$/OZ)	12.8	(0.7)	(22.7)	(25.7)

### Debt / forex market

	4 Sep 08	1 Day	1 Mth	3 Mths
10 yr G-Sec yield %	8.68	8.68	9.17	8.20
Re/US\$	44.36	44.41	42.37	42.90

### Sensex



## COMPANY UPDATE

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## LIC HOUSING FINANCE

PRICE: Rs.338

TARGET PRICE: Rs.377

RECOMMENDATION: ACCUMULATE

FY09E P/E: 6.2x

We spoke to the management of LIC Housing Finance to discuss its business growth outlook. The stock has outperformed since our last recommendation at Rs.257. The strong quarterly results have driven the stock price. We expect the traction in the home loan disbursements to continue for LICHF. At the current market price of Rs.338, LICHF trades at 1.4x its FY09E ABV and 6.2x its FY09E EPS of Rs.54. The stock has run-up recently, and has outperformed the markets. Looking at the limited upside of about 10%, we recommend an "ACCUMULATE" on the stock (BUY earlier). Any weakness in the stock price can be utilized as a buying opportunity with a 12-month price target of Rs.377.

## Summary table

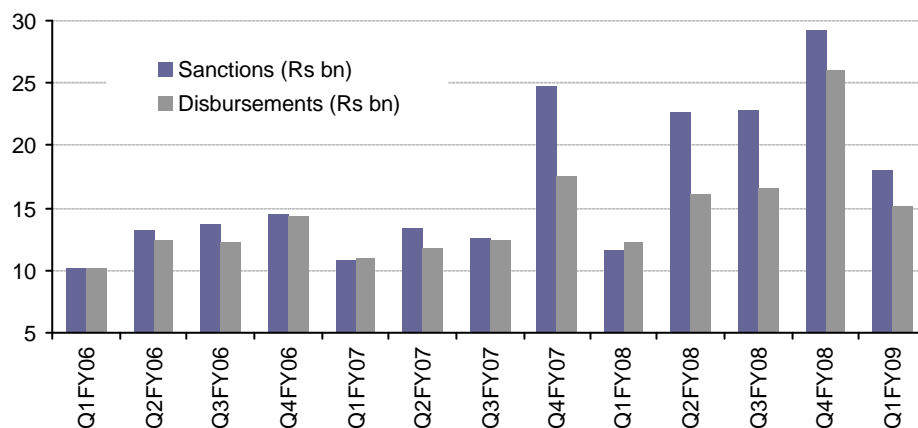
(Rs bn)	FY07	FY08	FY09E
Interest Income	15.0	20.4	25.2
Interest expenses	11.0	14.7	18.6
NII	4.0	5.6	6.6
Non-Int Income	0.8	1.3	1.6
Total Income	4.8	6.9	8.2
Optg Profit	3.7	5.6	6.7
PAT	2.8	3.9	4.6
Gross NPA (%)	2.6	1.7	1.4
Net NPA (%)	1.3	0.6	0.4
NIMs (%)	2.5	2.8	2.7
RoA (%)	1.7	1.9	1.9
RoE (%)	19.3	22.9	23.2
Divi. Payout (%)	27.3	24.9	24.3
EPS (Rs)	32.9	45.6	54.5
BV (Rs)	181.6	215.5	253.9
Adj. BV (Rs)	154.5	198.9	240.8
P/E (x)	10.3	7.4	6.2
P/ABV (x)	2.2	1.7	1.4

Source: Company, Kotak Securities - Private Client Research

## Traction in earnings to continue subsequent to higher mortgage loan growth

- Mortgaged loan growth to remain strong:** Mortgage loan book of the HFC has demonstrated a 25% yoy growth during the Q1FY09 to Rs.227.57bn. LICHF continues to witness strong growth in its business subsequent to buoyant demand for housing. Robust 55% yoy growths in sanctions indicate strong disbursements to follow. Meanwhile, the due higher provisioning requirement and asset quality constrains, mortgage assets loss attractiveness for large private banks. This in contrary proved advantageous for housing finance companies like LICHF. We expect a 22.5% yoy growth in the loan book for LICHF for FY09E.

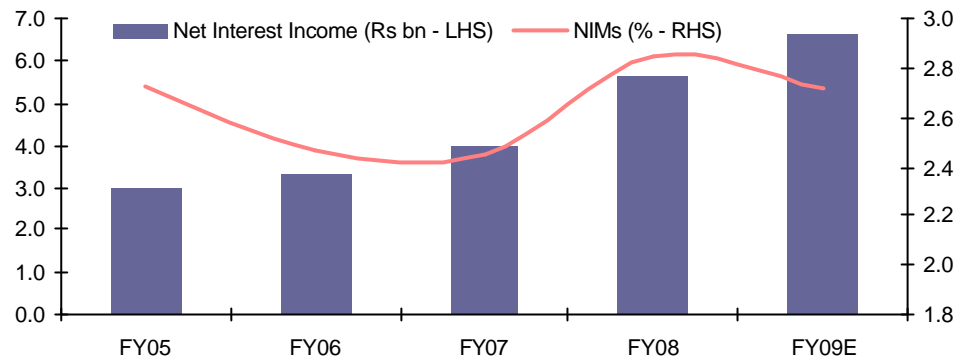
## Sanctions &amp; disbursements



Source: Company

- Stable net interest margins to support profitability:** Net interest income (NII) for LICHF grew by a whopping 44% yoy. LICHF has been efficiently able to pass on the rise in cost of funds to its customer. LICHF revised its lending rate by 25bps during Q1FY09. It further increased the lending rate by 50bps in the beginning of second quarter. With revision in lending rate in the beginning of Q2FY09, the margins are likely to remain strong in the next quarter (Q2FY09). We expect a NIM of 2.7% for FY09E and a NII of Rs.6.6 bn

### Sanctions & disbursements



Source: Company

- **Healthy asset quality:** An aggressive bad loan recovery effort has helped improve asset quality. Gross NPA ratio for FY08 improved to 1.7% as compared to 2.5% in FY07. Meanwhile the Net NPA ratio of less than 1% at 0.6% augurs well for the company's improved asset quality.
- **Preeminent return ratios:** Strong earning growth support return ratios; LICHL reported a RoA of 1.9% and RoE of 23%. We expect LICHL to maintain strong return ratios going forward.
- **Affluent capital adequacy ratio:** Capital adequacy ratio stood at 15% for the Q1FY09, of which Tier I is 10%. The company had called off its equity raising plans; instead, LICHL has raised Tier-II bonds to meet its additional capital adequacy requirements. The new capital adequacy ratio does not apply to a housing finance company.

### Financials

- We continue to maintain our 22.5% yoy growth estimates for LICHL's mortgage loan portfolio over FY09, to Rs.268.7 bn from Rs.219.4 bn in FY08.
- We expect NIM of around 2.7% for FY09. Net profit growth for FY09 is expected at 20% yoy to Rs 4.6 bn.
- Capital adequacy ratio stood at 15% for the Q1FY09, of which Tier I is 10%. The company had called off its equity raising plans; instead, LICHL has raised Tier-II bonds to meet its additional capital adequacy requirements. The new capital adequacy ratio does not apply to a housing finance company.

### Valuation

- We continue to maintain our positive bias for LICHL on back of strong Mortgage loan book growth, with which we will continue to see strong traction earnings growth going forward.
- The stock has witnessed quick run up in price post its Q1FY09 results. Hence we recommend accumulating the stock at lower levels.
- We maintain our earning estimates and fair price derivatives for the stock until Q2FY09. We value LICHL at Rs.377, based on some of the parts methodology. We have valued the core business at Rs 342, and LICHL's stake in LICMF (39%) at Rs 36 per share. We recommend **ACCUMULATE** (from buy previously) for LICHL with a 12-month Price target of Rs.377.

**We now recommend to ACCUMULATE on LIC Housing finance with a price target of Rs.377**

## Bulk Deals

## Trade details of bulk deals

Date	Scrip name	Name of client	Buy/ Sell	Quantity of shares	Avg. price (Rs)
4-Sep	Asian Oilfie	Vsb Investments Private Limited	S	94,361	125.00
4-Sep	Austral Coke	Majestic Sales Promotion P Ltd	S	228,000	237.15
4-Sep	Austral Coke	Baron Consultants Pvt Ltd	S	150,000	235.00
4-Sep	Austral Coke	Taib Sec Mauritius Ltd	S	321,470	286.75
4-Sep	Carn Nut Ana	Sudha Commercial Company Ltd	B	30,000	103.50
4-Sep	Carn Nut Ana	Mackerstich Consultancy Services	S	30,000	103.50
4-Sep	Koff Br Pict	Hitesh Shashikant Jhaveri	B	26,053	32.58
4-Sep	Koff Br Pict	Laxmi Cap Broking Pvt Ltd	S	38,514	32.39
4-Sep	Koff Br Pict	Deepal Corporation	S	37,198	32.10
4-Sep	Koff Br Pict	Hitesh Shashikant Jhaveri	S	26,053	32.60
4-Sep	Refex Refrig	Deepika Sharad Nansi	B	85,000	307.09
4-Sep	S.S.Organics	P. L. Bharathi	B	100,000	8.50
4-Sep	S.S.Organics	Aryavart Savings Unit Limited	S	198,200	8.50
4-Sep	Somi Convey	Hetu Investments and Trading Ltd	B	79,000	21.77

Source: BSE

## Gainers &amp; Losers

## Nifty Gainers &amp; Losers

	Price (Rs)	% change	Index points	Volume (mn)
<b>Gainers</b>				
GAIL India	421	3.5	2.0	1.6
Infosys Tech	1,789	0.8	1.3	2.7
SBI	1,535	0.8	1.2	2.6
<b>Losers</b>				
Reliance Ind	2,152	(2.7)	(14.5)	2.7
ONGC	1,068	(3.1)	(12.1)	1.1
NTPC	174	(1.7)	(4.2)	3.5

Source: Bloomberg

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