

**IIFL**

INDIA PRIVATE CLIENTS

Weekly Wrap

Investment idea

August 13, 2010

South Indian Bank

BUY
CMP Rs206

SIB is set to sail faster post a successful transformation

Under the aegis of new management, South Indian Bank (SIB) has transformed from a traditional, inefficient, treasury-focused, regional private bank to a modern, tech savvy, efficient, core operation focused and regionally more diversified private bank. The brand equity of the bank has witnessed a sea change, which is reflected in the 22% and 24% balance sheet and loan CAGR over FY05-10. With transformation complete, SIB is set for a smoother and sturdier growth over the next three years through execution on its strategic plan – 'Vision 2013'. Under this, the bank is targeting a robust 25% business CAGR over FY10-13 and further improvement in efficiency levels. With credit environment turning favourable and a credible management, we are confident that SIB would achieve its targets.

28% NII CAGR over FY10-12; adequately capitalized for growth

On the back of firm margin and 24% credit growth, we expect SIB to deliver a strong 28% NII CAGR over FY10-12. Bank's NIM is likely to move in a narrow band of 2.6-2.9% in the medium term cushioned by improvement in C/D ratio and strong deposit franchise that includes low-cost NRI deposits. Presently, SIB has the highest Tier-I capital amongst private banks at 13.1% providing more than sufficient headroom to grow at the targeted pace. The bank's balance sheet is one of the strongest in the industry with a high Tier-1 capital, low RWA/IEA ratio (45%) and negligible net NPLs (0.4%).

Asset quality to remain stable; RoE to improve

The asset quality of SIB has significantly improved over the past five quarters with GNPLs declining from 2.2% in Q4 FY09 to 1.3% in Q1 FY11. With conservative provisioning, the NNPLs have come down to 0.4% from 1.1% in the aforesaid period and PCR has crossed the 70% mark. Going ahead, we expect NPL levels to remain stable with strong loan book expansion. The FY10 RoA and RoE of SIB at 1% and 17% respectively were better than many private banks and we expect the RoE to improve to 19% by FY12 despite being conservative with respect to treasury income and provisioning.

Superior fundamentals but valuation at discount to peers

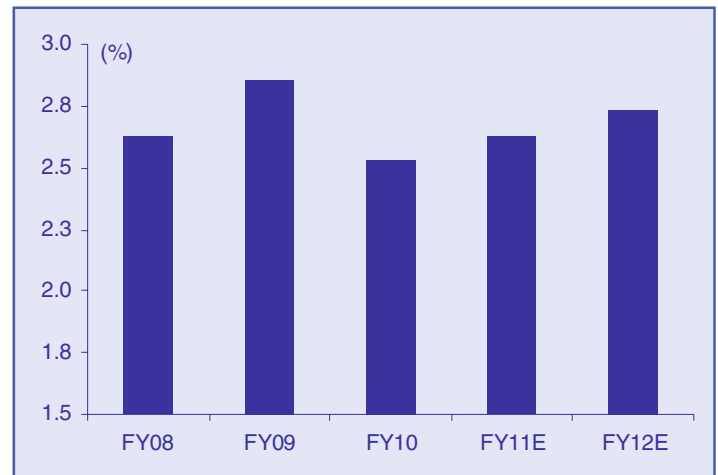
SIB trades at a 10-30% discount to comparable peers such as Federal Bank, ING Vysya Bank, Karnataka Bank and Dhanalakshmi Bank despite its superior growth profile, stronger balance sheet and higher RoE. We expect this anomaly to correct in the next 3-6 months. Further with no promoter interest, SIB is also an attractive M&A play.

Financials

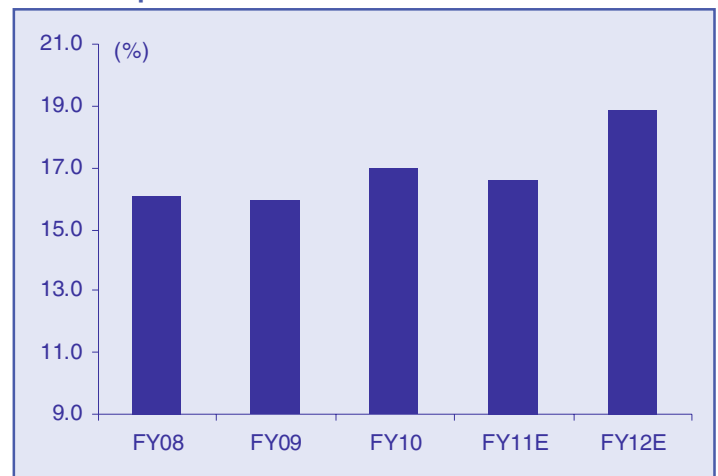
Y/e 31 Mar (Rs m)	FY09	FY10	FY11E	FY12E
Total operating income	6,872	7,768	9,188	11,536
Net profit	1,947	2,338	2,599	3,395
yoy growth (%)	28.4	20.0	11.2	30.6
EPS (Rs)	17.2	20.7	23.0	30.0
BVPS (Rs)	113.8	129.8	147.6	171.2
P/BV (x)	1.7	1.5	1.3	1.1
ROE (%)	15.9	17.0	16.6	18.9
CAR (%)	14.8	15.4	13.9	13.5

Source: Company, India Infoline Research

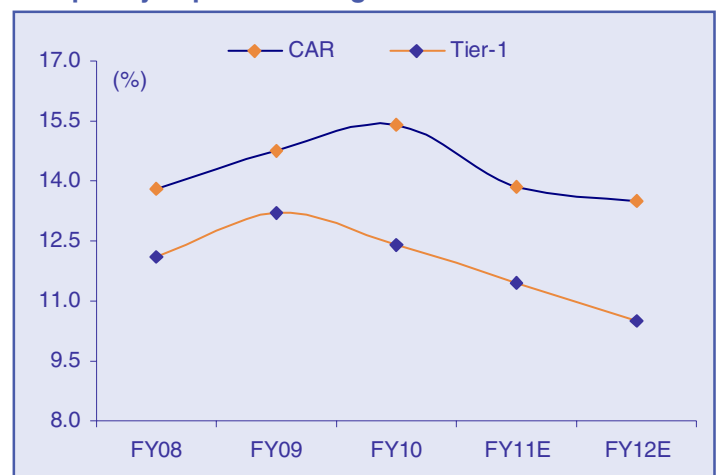
NIM to remain firm in FY11 and FY12



RoE to improve to 19% in FY12



Adequately capitalized for growth

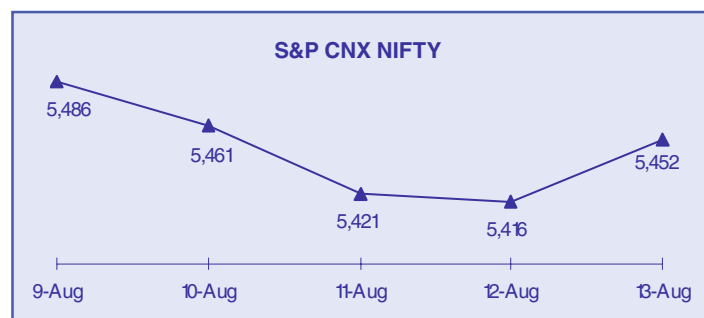


Source: Company, India Infoline Research

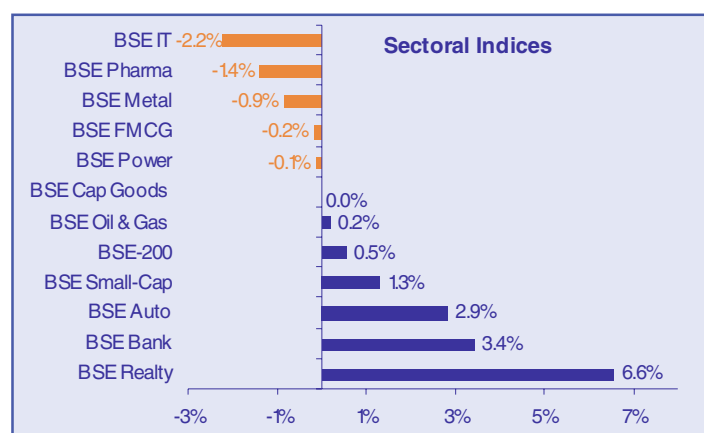
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Market review

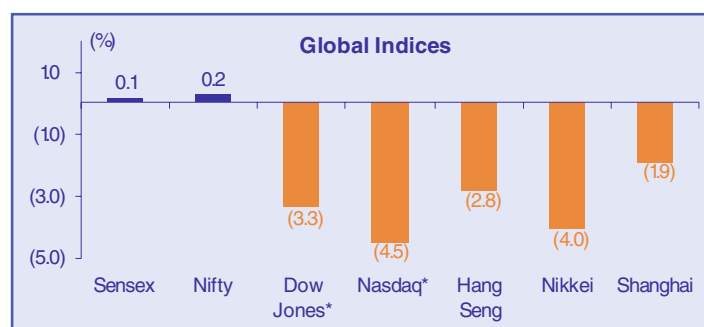
The Indian markets once again failed to capitalize on a bright start as the Fed's downbeat assessment of the US economy coupled with worries about the state of other key economies weighed on the sentiment. But, stellar results by banking major SBI and steel giant Tata Steel helped counter the bad news on the domestic economy (IIP fell and food inflation spiked). Finally, the NSE Nifty added 0.2% but the BSE Sensex closed virtually unchanged on the week.



Real Estate stocks extended their recent advance after most of them announced strong first-quarter results. Also, optimism that moderate rate hikes will not have a major impact on demand for housing spurred buying in realty shares. Buoyed by strong earnings of sector leader SBI, other banking stocks rallied this week. Auto stocks also gained on the back of impressive quarterly earnings by Tata Motors.



The Fed's move to go for fresh easing in a bid to bolster the US economy coupled with disappointing data from China and the UK spooked investors. Risk aversion increased, leading to investors reducing their holdings of equities, commodities and high-yielding currencies of emerging markets. But, by the end of the week things appeared to be stabilising after euro-zone GDP data smashed estimates.



*As per previous close

FII & MF activity

Date	FII	MF
	Net Investment	Net Investment
05-Aug	167	(187)
06-Aug	829	(323)
09-Aug	(59)	124
10-Aug	614	(387)
11-Aug	193	115
Total 2010	51,930	(13,310)

BSE Sensex & BSE 200 Top Five Gainers

BSE Sensex			BSE 200		
Company	CMP (Rs)	% Chg	Company	CMP (Rs)	% Chg
Tata Motors	1,013	13.2	Wipro	415	(4.1)
State Bank	2,850	9.0	M&M	627	(3.4)
DLF	323	4.9	Infosys Tech	2,777	(3.0)
HUL	266	4.9	Reliance Comm	168	(2.9)
ONGC	1,278	3.7	HDFC	2,996	(2.7)

BSE Sensex & BSE 200 Top Five Losers

BSE Sensex			BSE 200		
Company	CMP (Rs)	% Chg	Company	CMP (Rs)	% Chg
Tata Comm	330	20.1	MMTC	1,396	(11.5)
Bombay Dyeing	662	16.6	Sterlite Indus	161	(8.9)
Indiabulls Real	194	14.4	Aban Offshore	832	(8.2)
Patni Computer	517	14.0	IVRCL Infra	162	(6.9)
Tata Motors	1,017	13.7	Edelweiss Cap	56	(5.6)

Bulk deals

Date	Institution	Scrip name	B/S	Qty (lacs)	Price
6-Aug	Franklin Temp.	Lancor Hold	B	5.0	106
9-Aug	Fidelity Mgmt	Gitanjali Gems	B	11.8	209
10-Aug	Citigroup GI	Gayatri Projects	S	0.8	388
10-Aug	Morgan Stanley	Aban Offshore	S	3.4	900
11-Aug	Deutsche Bk	Aksh Optifibre	S	4.1	22

Book closures and record dates

Company	Date	Purpose
Aegis Logistics	17-Aug-10	Bonus
HDFC	18-Aug-10	Split
Motherson Sumi	18-Aug-10	Dividend

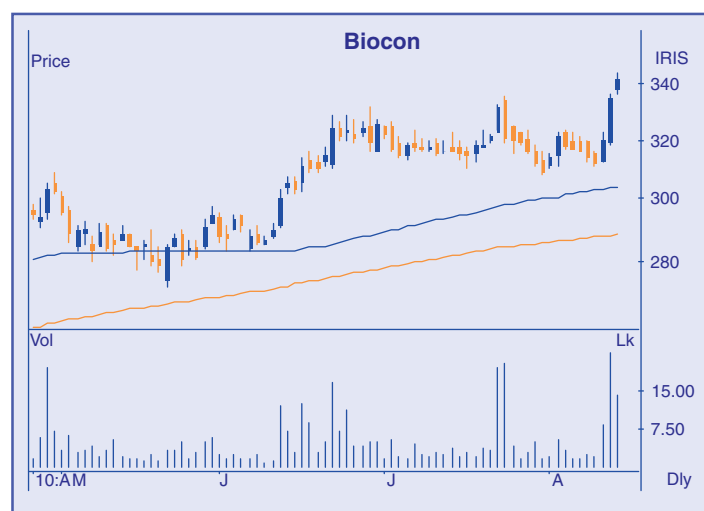
Insider Trades

Company	Name	B/S	Qty ('000)
Action Con.	Vijay Agrawal	B	18.6
Natco Pharma	V C Nannapaneni	B	39.0
Kavveri Telecom	M M Ganesh	S	40.0

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Technical ideas

Biocon BUY CMP Rs342



On the daily chart, the stock has given an upside breakout in Thursday's trading session. It suggests that the consolidation range is about to end and may reverse into an uptrend. On Friday, the stock rallied by over 2% confirming the bullish set up. Moreover, the stock has given a close above its key moving averages on expanding volumes.

Thursday's up move in the stock was supported by spurt in volumes which almost tripled than that of its 10-day average.

The breakout was also confirmed on weekly chart as earlier peak of Rs336 was surpassed with formation of higher top and higher bottom on weekly candlestick chart. We advise buying the stock between Rs339-344 with stop loss of Rs330 for a target of Rs365 and Rs370.

DLF BUY CMP Rs323



On the daily chart, the stock has given an upside breakout. The above mentioned pattern has taken place after a strong downtrend. The stock had been on a well entrenched downtrend from the peak of Rs345 in April 2010 to a low of Rs255 in June 2010. After making a decent run up from lows of Rs255 to Rs325, stock has been consolidating in the tight range Rs325-300 without interrupting its medium term uptrend.

Such a consolidation is to be viewed as a positive signal and it paves way for smart upmove ranging from 6-8%. On the line chart, the stock is holding above its breakout levels of Rs320.

Any move above Rs324 (200-DMA) could see the stock attempting Rs350 levels in the short-term. Based on above evidences and a positive crossover on RSI, we recommend traders to buy the stock between Rs320-325 with stop loss of Rs310 for target of Rs350-355.

Positive open interest build-up

Company	Price % chg	OI % chg	Vol % chg
Federal Bank	1.5	13.7	(7.6)
Opto Circuits	0.1	13.4	(62.8)
Nalco	2.8	11.1	(69.9)
BEML	2.1	8.8	114.0
Tata Com	2.7	6.9	(64.0)

Negative open interest build-up

Company	Price % chg	OI % chg	Vol % chg
Jain Irrigation	(0.1)	11.6	(94.2)
Nagarjuna Con	(0.6)	7.3	69.4
Tulip	(1.2)	6.5	(62.2)
JP Power	(1.4)	6.3	(97.2)
GVK Power	(0.7)	4.6	(24.0)

Technically strong

Company	CMP (Rs)	10 days Moving Average (Rs)	Total Traded Qty (lacs)	10 days Average Traded Qty (lacs)
Titan	2,980	2,808	1.2	0.1
Bata	320	299	5.1	2.2
Biocon	342	317	3.3	1.3
IGL	314	302	1.1	0.6
Chennai Petro	278	267	0.9	0.4

Technically weak

Company	CMP (Rs)	10 days Moving Average (Rs)	Total Traded Qty (lacs)	10 days Average Traded Qty (lacs)
BF Utilites	933	960	7.7	4.1
GDL	101	104	2.0	1.5
Lupin	1,832	1,880	0.9	0.2
Patel Eng	412	420	1.9	0.7
Infosys	2,780	2,827	1.6	0.7

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Mutual fund round-up

India Infoline picks

Mutual Funds	Assets	NAV	Absolute return (%) as on August 12, 2010							
	(Rs Cr)	(Rs)	1wk	1mth	3mth	6mth	1yr	2yr	3yr	5yr
HDFC Top 200 (G)	8,020	203.4	0.6	2.8	9.4	19.4	31.5	54.3	63.5	222.7
ICICI Pru Dynamic Plan (G)	2,282	102.0	(0.5)	0.8	5.9	13.8	33.8	40.4	43.2	183.5
IDFC Small & Midcap Eqty -(G)	746	18.5	(0.2)	3.6	9.5	23.2	55.1	97.7	--	--
HDFC Tax Saver (G)	2,588	229.0	0.5	3.0	10.1	20.1	42.5	58.4	43.0	141.9
Reliance RSF - Balanced (G)	563	22.6	1.4	4.6	9.1	17.6	32.3	64.4	76.6	124.0

Fund this week: IDFC Small & Midcap Fund

Fund snapshot		Asset allocation (%)	
Fund Manager	Kenneth Andrade	Equity	74.9
Latest NAV	Rs18.5	Debt	0.0
NAV 52 high/low	Rs19/11	Cash/call	25.1
Latest AUM (cr)	Rs746	Top 5 holdings (%)	
Type	Open-ended	Strides Arcolab	3.9
Class	Equity - Diversified	Bombay Rayon Fashions	3.8
Options	Growth & dividend	IVRCL Infrastructures & Projects	3.7
Min investment	Rs5,000	Dewan Housing Finance	3.4
Benchmark	CNX Midcap	Exide Industries	3.2
No. of stocks	40	Top 3 sectors (%)	
No. of sectors	29	Pharma	7.5
Expense ratio	1.9%	IT - Software	5.9
Exit load	1%	Breweries & Distilleries	4.4

NFO update

Fund Name	Close	Type	Class
DWS FTF-Sr 73 (370D)	17-Aug	CE	Debt - FMP
UTI FTIF Sr-8 Plan-6 (366D)	17-Aug	CE	Debt - FMP
ICICI Pru FMP Sr-53-3Yr- Plan A	23-Aug	OE	Debt - FMP

Dividend update

Mutual Fund	Dividend %	Record date	Class
Kotak Qtlly Interval Plan Sr 3	100.0	17-Aug	Debt
ICICI Pru Medium Term Pre +	3.2	17-Aug	Debt
ICICI Pru Qtlly Interval Plan I	1.4	16-Aug	Debt

Commodity, debt and currency graphs



* As per previous close

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