



Economy News

- ▶ The government will retain its borrowing plan of Rs 4.47 Tn in FY11, despite reducing the size of market mop-up by Rs 100 Bn earlier this month due to cash shortage in the system. This would be done by having another borrowing after February 11, when the scheduled calendar for mop-up ends. (BS)
- ▶ India has imposed anti-dumping duty of up to 266 per cent on import of an information technology equipment - also used in the telecom sector - to guard the domestic industry against cheap Chinese and Israeli shipments. (BS)
- ▶ Maharashtra government plans to increase ready reckoner rates (RR) by 25-30 per cent from January 1. Mumbai's realty sector, which is moving quite rapidly, is expected to hit turbulence due to the state government's move. (BS)

Corporate News

- ▶ **NMDC** is likely to raise iron ore prices by three per cent next week for the January-March quarter, a move which could prompt domestic steel makers like JSW and Tata Steel to increase prices in the New Year. (BS)
- ▶ **Rashtriya Chemicals and Fertilisers (RCF)** is conducting due diligence on a proposal to acquire a 25 per cent stake in a rock phosphate mine owned by Russian fertiliser maker Acron Group for \$366 million. (BS)
- ▶ **DLF Ltd** will pay Rs. 1.45 Bn to settle a dispute with certain overseas investors, paving the way to rope in a strategic partner in ultra-luxury hotel chain Aman Resorts. (ET)
- ▶ **National Hydroelectric Power Corporation (NHPC)** is set to ramp up its power generation capacity in the country to 5,322 MW by the end of the 11th Five-Year Plan in March, 2012. (ET)
- ▶ **Reliance Industries** has urged the government to open up domestic uranium exploration and mining in line with NELP, to increase domestic output to reduce dependence on import of the metallic element. (ET)
- ▶ **Coal India Ltd** plans to start exploration in two coal blocks in Mozambique next fiscal from where it expects to begin production from 2014-15. (BL)
- ▶ **Indian Overseas Bank**, which is planning to achieve Rs.5 trn in the next three years, is targeting Rs.2.50 trn by the end of the current financial year. This is Rs.250 bn more than the bank's target for the current fiscal. (BL)
- ▶ **GMR Infrastructure** today said its arm GMR SEZ & Port Holdings Pvt Ltd had entered into a share subscription agreement to subscribe to 51 per cent in Kakinada SEZ Pvt Ltd. (BS)
- ▶ **Mahanagar Telephone Nigam Ltd** is expecting to finalize agreements for sharing its third generation (3G) mobile network with private service providers by early next year. (BS)

Equity

	24 Dec 10	% Chg		
		1 Day	1 Mth	3 Mths
Indian Indices				
SENSEX Index	20,074	0.5	4.9	(0.2)
NIFTY Index	6,012	0.5	4.5	(0.4)
BANKEX Index	13,016	0.0	(2.0)	(6.4)
BSET Index	6,694	0.2	11.4	12.6
BSETCG INDEX	15,196	0.7	2.6	(4.5)
BSEOIL INDEX	10,629	(0.1)	7.9	(1.0)
CNXMcap Index	8,699	0.1	0.1	(6.0)
BSESMCAP INDEX	9,354	0.3	(1.7)	(9.0)
World Indices				
Dow Jones	11,573	0.1	3.5	6.6
Nasdaq	2,666	(0.2)	4.8	11.9
FTSE	6,009	0.2	6.0	7.8
Nikkei	10,279	(0.7)	3.0	7.7
Hangseng	22,903	(0.6)	(0.2)	2.2

Value traded (Rs cr)

	24 Dec 10	% Chg - Day
Cash BSE	2,660	(16.9)
Cash NSE	9,996	(4.1)
Derivatives	110,438	26.0

Net inflows (Rs cr)

	23 Dec 10	% Chg	MTD	YTD
FII	(100)	321.5	(2,550)	129,025
Mutual Fund	362	194.9	1,643	(27,013)

FII open interest (Rs cr)

	23 Dec 10	% Chg
FII Index Futures	19,977	(1.0)
FII Index Options	57,810	1.7
FII Stock Futures	36,179	1.4
FII Stock Options	789	1.4

Advances / Declines (BSE)

	24 Dec 10	A	B	S	Total	% total
Advances	134	994	219	1,347	53	
Declines	68	812	199	1,079	42	
Unchanged	1	104	21	126	5	

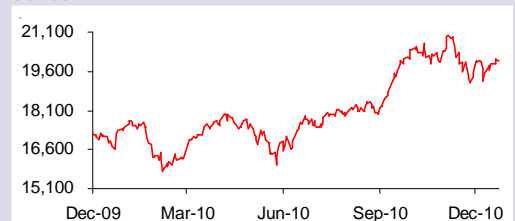
Commodity

	24 Dec 10	% Chg		
		1 Day	1 Mth	3 Mths
Crude (NYMEX) (US\$/BBL)	91.3	(0.2)	9.0	19.4
Gold (US\$/OZ)	1,383.7	0.3	1.6	6.6
Silver (US\$/OZ)	29.1	(0.8)	8.9	36.0

Debt / forex market

	24 Dec 10	1 Day	1 Mth	3 Mths
10 yr G-Sec yield %	7.90	7.93	7.97	7.87
Re/US\$	45.12	45.17	45.71	45.26

Sensex



COMPANY UPDATE

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INDIAN BANK

PRICE: Rs.256

TARGET PRICE: Rs.308

RECOMMENDATION: BUY

FY12E P/E: 6.2x, P/ABV: 1.2x

Concerns are largely priced in; upgrade to BUY

Indian Bank has corrected sharply in last two months (~16%) led by worries over margin pressure and asset class deterioration with the revelation of 'bribe-for-loan-scam' by CBI and rising concern over microfinance & telecom exposure by Indian banking system. We believe, the correction in stock price is overdone and hence we upgrade the stock to BUY from ACCUMULATE earlier with ~23% upside from the current level.

We opine that margin has peaked (3.76% in Q2FY11) and is likely to decline moderately in coming quarters. However, healthy CASA mix (~32%) of Indian Bank is likely to provide cushion in the tight liquidity environment.

Loan book grew 28.0% CAGR during FY04-10; expect it to moderate to 20% CAGR during FY10-12E as its loan growth would trail the deposit growth as its C/D ratio is already hovering ~71% at the end of Q2FY11.

Asset quality has stabilized - during Q2FY11, gross NPA & net NPA stood at 1.29% & 0.73%, respectively. Provision coverage ratio (including technical W/Os) is also healthy at 83.3% which provides cushion to its future earnings despite of any unforeseen deterioration in its asset quality.

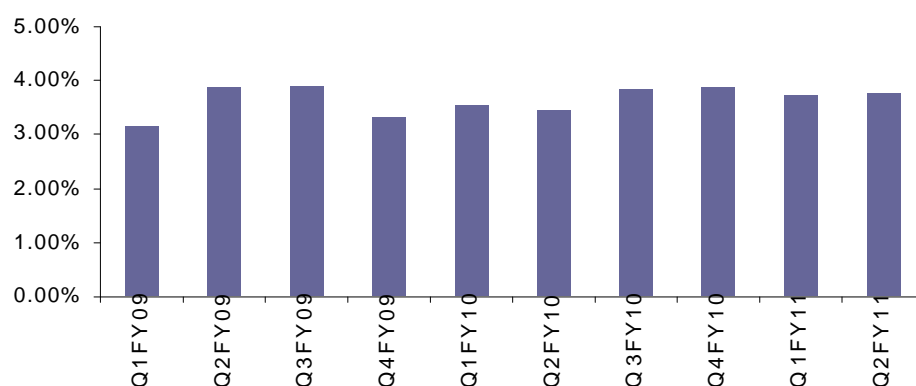
We have slightly tweaked our earning estimates for FY11E & FY12E and upgrade the stock to BUY from ACCUMULATE earlier with a target price of Rs.308 (Rs.315 earlier) on back of its recent price correction. At the target price, stock is likely to trade at 1.5x of its FY12E adjusted book value.

Indian Bank has corrected sharply in last 2 months; we upgrade the stock to BUY as correction is overdone in our view

Indian Bank has corrected sharply in last two months (~16%) led by worries over margin pressure and asset class deterioration with the revelation of 'bribe-for-loan-scam' by CBI and rising concern over microfinance & telecom exposure by Indian banking system. We believe, the correction in stock price is overdone and hence we upgrade the stock to BUY from ACCUMULATE earlier with ~23% upside from the current level.

Margin has peaked; however, healthy CASA mix to support the margins in rising rate environment

During Q2FY11, its NIM (3.76%) has improved both YoY & QoQ by 31 bps and 5 bps, respectively. We opine that its margin has peaked (3.7%-3.8% during last 4 quarters) and is likely to decline moderately in coming quarters.

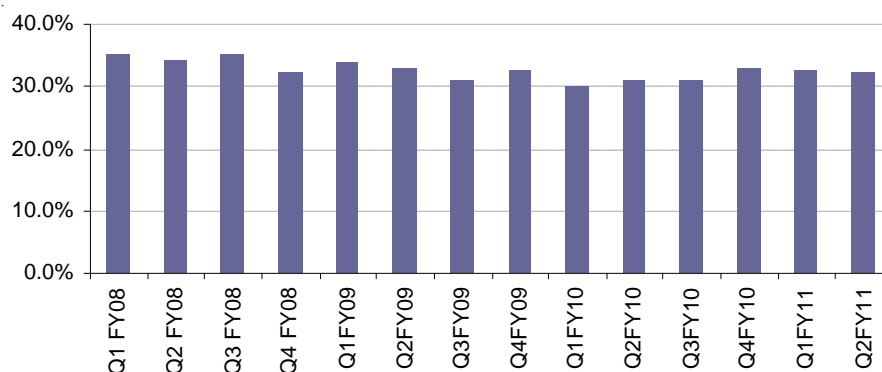
Trends in NIM (%)

Source: Company

We are modeling NIM to decline to 3.54% during FY11 as against 3.71% witnessed during FY10 and this is further likely to decline to 3.44% during FY12.

However, we believe that healthy CASA mix (~32%) of Indian Bank is likely to provide cushion in the tight liquidity environment. Its CASA mix grew 27.5% during Q2FY11 as compared to 20.1% growth in term deposits on back of 33.5% growth in current account deposits and 25.9% growth in saving deposits accounts.

Trends in CASA (%)



Source: Company

Loan book grew 28.0% CAGR during FY04-10; expect it to moderate to 20% CAGR during FY10-12E

During Q2FY11, loan book witnessed strong growth of 29.8% (YoY) to Rs.699.7 bn from Rs.539.2 at the end of Q2FY10. Large corporate, MSME and Agriculture grew 38.3%, 33.6% & 24.9%, respectively during Q2FY11. However, retail segment delivered moderate growth of 9.4% (YoY) during the same period.

Indian Bank has delivered strong loan book growth during FY04-10 (28.0% CAGR); however, we expect it to moderate to 20% CAGR during FY10-12E as its loan growth would trail the deposit growth as its C/D ratio is already hovering ~71% at the end of Q2FY11.

Stable asset quality; heartening to watch this

Asset quality has stabilized - during Q2FY11, gross NPA & net NPA stood at 1.29% & 0.73%, respectively. In absolute terms, although both gross NPA and net NPA increased sharply (YoY) - 88.3% and 418.8%, respectively, QoQ both improved by 8.5% and 1.1%, respectively.

Bank had witnessed sharp spike in NPA during Q1FY11, as it had migrated to NPA recognition based on CBS platform. This helps the bank in tracking distress accounts on day to day basis.

Provision coverage ratio (including technical W/Os) is also healthy at 83.3% which provides cushion to its future earnings despite of any unforeseen deterioration in its asset quality.

Superior return ratios justifies its premium valuation

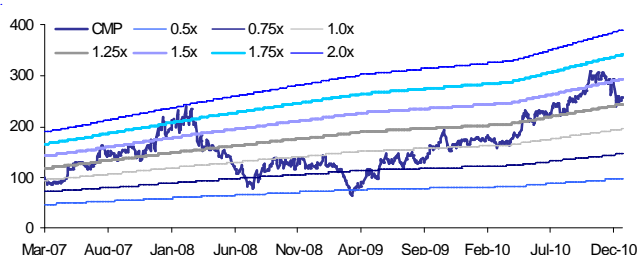
Indian Bank has delivered one of the highest return ratios in the industry (RoA:1.7% & RoE: 23.7%) which justifies its premium valuation. We are modeling RoA to remain in the range of 1.3-1.4% and RoE in the range of 21.0-22.0% during FY11-12 for Indian Bank, better than its peers.

Valuations

At the current market price of Rs.256, the stock is trading at 6.2x its FY12E earnings and 1.2x its FY12E ABV. We have slightly tweaked our earning estimates for FY11E and FY12E and now expect net profit for FY11E and FY12E to be Rs.13.92 bn and Rs.17.77.

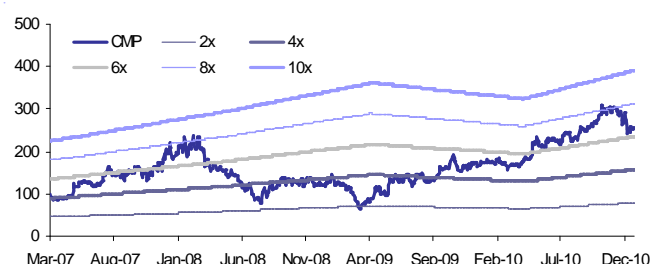
This would result into an EPS of Rs.32.4 and Rs.41.3 for FY11E and FY12E, respectively. Adjusted book value for FY11E and FY12E is estimated to be Rs.164.5 and Rs.205.4, respectively.

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 upgrade to BUY on Indian Bank with a revised price target of Rs.308

We are upgrading the stock to **BUY** from ACCUMULATE earlier with price target of Rs.308 (earlier Rs.315) based on 1.5x of its FY12E adjusted book value.

Key data

(Rs bn)	2009	2010	2011E	2012E
Interest income	68.30	78.57	90.55	108.70
Interest expense	42.22	45.53	52.77	64.75
Net interest income	26.09	33.04	37.79	43.95
Growth (%)	28.5	26.7	14.4	16.3
Other income	10.35	11.74	12.30	14.59
Gross profit	20.56	27.47	29.79	35.13
Net profit	12.45	15.55	13.92	17.77
Growth (%)	26.4	24.9	-10.5	27.7
Gross NPA (%)	0.9	0.8	1.2	1.1
Net NPA (%)	0.2	0.2	0.6	0.4
Net interest margin (%)	3.5	3.7	3.5	3.4
CAR (%)	14.0	12.7	13.0	13.0
RoE (%)	25.6	25.6	19.6	21.3
RoA (%)	1.6	1.7	1.2	1.3
Dividend per share (Rs)	5.0	6.5	7.5	7.5
EPS (Rs)	29.0	36.2	32.4	41.3
Adjusted BVPS (Rs)	125.3	151.3	164.5	205.4
P/E (x)	8.9	7.1	7.9	6.2
P/ABV (x)	2.0	1.7	1.6	1.2

Source: Company, Kotak Securities - Private Client Research

Bulk deals

Trade details of bulk deals

Date	Scrip name	Name of client	Buy/ Sell	Quantity of shares	Avg. price (Rs)
24-Dec	Bilpower	Satvik Securities Pvt Ltd	B	142,000	143.5
24-Dec	Bilpower	Vimal Finstock Pvt Ltd	B	60,000	143.5
24-Dec	Bilpower	Gulshan Investment Co Ltd	S	225,000	143.5
24-Dec	Birla Shloka	Philipa John Dmello	B	125,000	27.3
24-Dec	Dazzel Conf	Manish Devendra Rathi	B	45,000	17.5
24-Dec	Dazzel Conf	Praveen Kumar Arora	S	42,885	17.5
24-Dec	DB Intl Stock	Pratham Investments	B	38,500	79.6
24-Dec	Exelon Infra	Manoj Shivprasad Chokda	S	95,798	29.4
24-Dec	Incap Financial	Dhaval Amrish Shah	B	30,000	28.2
24-Dec	Incap Financial	Dharmendra Harilal Bhojak	B	50,000	28.2
24-Dec	Incap Financial	Manjulaben Jagdishkumar Patel	S	80,000	28.2
24-Dec	Jayshree Chem	Sanjay Kothari Huf	B	250,000	13.7
24-Dec	Jayshree Chem	Meenakshi Kothari	S	250,000	13.7
24-Dec	Jmd Telefilms	Bunnings Trade Link Pvt Ltd	B	325,000	15.5
24-Dec	Kay Power	Bampsl Securities Ltd	B	54,390	20.0
24-Dec	Kay Power	Kaushalaya Garg	S	100,974	20.0
24-Dec	Kirloskar El	Dwarkadhish Trading Pvt. Ltd.	B	273,969	64.1
24-Dec	Madhusudan Se	Vardhaman C Shah Huf	S	10,000	64.4
24-Dec	Madhusudan Se	Kinjal Vardhaman Shah	S	10,000	64.4
24-Dec	NCL Research	Saikat Tradelink Pvt Ltd	B	39,000	38.1
24-Dec	NCL Research	Swapanpuri Tradelink Pvt Ltd	B	30,000	39.0
24-Dec	NCL Research	Sprint Vanijya Pvt Ltd	B	70,000	38.1
24-Dec	NCL Research	Atul Umakant Rege	S	25,000	38.1
24-Dec	NCL Research	Rajesh Kamal Kapoor	S	23,000	38.1
24-Dec	NCL Research	Pravin Vasant Mehta	S	35,000	38.2
24-Dec	Nexsoft Info	Jmp Securities Pvt Ltd	S	35,001	55.5
24-Dec	Parichay Invest	Gagabhai Desai Amul	B	20,500	145.1
24-Dec	Parichay Invest	Suraj Holding Ltd	S	7,000	139.1
24-Dec	Phyto Chem	Janaki Ramaiah Yarlaga	B	43,451	10.9
24-Dec	Phyto Chem	Srinivas Rao Pabbathi	S	58,095	10.8
24-Dec	Polypro Fibrils	Macro Equicom	B	37,000	28.0
24-Dec	Ranklin Sol	Sree Devi Devarasetty	B	60,000	25.7
24-Dec	Ranklin Sol	Kotak Mahindra Investments Ltd	S	88,905	25.7
24-Dec	Ranklin Sol	JMP Securities Pvt Ltd	S	47,310	25.7
24-Dec	Rich Capital	Rajni Gupta	B	37,000	108.1
24-Dec	Rotam Comm	Mehul Girishbhai Shah	B	4,964	20.4
24-Dec	Shree Nath Com	Paritosh Trading Pvt Ltd	B	35,500	71.8
24-Dec	TGF Media Sy	Anil Kumar Kabra	B	37,500	14.5
24-Dec	TGF Media Sy	Priyanka Maheshwari	B	24,600	14.5
24-Dec	TGF Media Sy	Jaganathan A V	S	40,000	14.5
24-Dec	TGF Media Sy	Subramanian Lalitha	S	40,000	14.5
24-Dec	Vaishnavi	Mukundlal Narayanlal Baheti	B	100,000	27.2
24-Dec	Vaishnavi	Mukundlal Baheti	B	87,047	27.2
24-Dec	Vaishnavi	Satish Kumar Mamidi	S	200,000	27.2
24-Dec	Vjil Consulting	Paras Kesharmal Bathia HUF	S	45,328	16.2
24-Dec	Wearology	Chartered Finance and Leasing Ltd	B	30,000	130.0
24-Dec	Wearology	Dwarkadhish Trading Pvt. Ltd.	S	30,000	130.0
24-Dec	White Diamond	Ratnakant Chandrakant Shirodkar	B	60,700	12.4
24-Dec	White Diamond	Lee and Nee Softwares (Exports) Ltd.	S	60,000	12.4

Source: BSE

Gainers & Losers

Nifty Gainers & Losers

	Price (Rs)	chg (%)	Index points	Volume (mn)
Gainers				
ITC Ltd	170	1.8	5.3	5.0
L&T	1,960	1.3	4.5	0.6
HDFC Bank	2,218	1.3	3.3	0.4
Losers				
Tata Motors	1,306	(3.4)	(5.2)	3.2
ICICI Bank	1,118	(1.0)	(4.4)	2.0
HDFC	699	(0.4)	(1.3)	1.2

Source: Bloomberg

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