



## Economy News

- ▶ The committee on financial sector reforms is set to suggest easier entry norms for the banking sector, measures to revitalize PSU banks, allow a more active role for local banks and make priority sector obligations more meaningful, among a slew of measures. (ET)
- ▶ International Finance Corporation has announced that its corpus for India in '08-09 will be \$1 bn. (BS)
- ▶ The yen has breached the crucial barrier of 100 to the dollar and reached an intraday high of 99.73 before closing for the day at 100.70. (BS)
- ▶ The steep increase in international crude prices saw the Indian crude oil basket hover around \$102 a barrel. (BL)
- ▶ Climate change is likely to create new food insecurities by further pushing up already rising prices and bringing down the world agriculture GDP by 16% by 2020, the International Food Policy Research Institute report has said. (ET)

## Corporate News

- ▶ **GAIL (India)** and **RIL** are examining prospects of joint petrochemicals projects in Qatar and Russia. (BL)
- ▶ **Bhel** and Nuclear Power Corporation of India have decided to float a JV company to undertake manufacturing of nuclear power generation equipment. (ET)
- ▶ **NTPC** has said it will invest Rs.130 bn for adding 2,700 MW capacity during the next financial year. (BL)
- ▶ **IOC** has signed an agreement with Maruti Suzuki India for marketing its lubricants under the latter's genuine parts trademark. (BL)
- ▶ **Glenmark Pharmaceuticals** has said it has initiated the marketing and distribution of Nabumetone tablets and Hydroxyzine Hydrochloride tablets, used in the treatment of arthritis and anxiety in the US market. (BL)
- ▶ **Union Bank of India** has entered into a strategic tie-up with financial services provider, IDBI Capital Market, to offer online trading services to customers. (BL)
- ▶ Concerned over **BSNL's** financial viability and its plan to offer services in rural areas after removal of subsidies, the Government is considering exempting BSNL's rural fixed line operations from license fee, a move that could benefit BSNL by Rs.4 bn annually. (BL)
- ▶ **Vishal Retail** is planning to enter real estate sector. (BS)
- ▶ **Dabur India's** health and beauty retail subsidiary, H&B Stores, will set up three warehouses to cater to 350 stores to be rolled out by 2010. (BS)
- ▶ **Unitech** and **Indiabulls Real Estate** have deferred the listing of their respective real estate investment trusts on the Singapore Stock Exchange. (BS)
- ▶ Heineken's acquisition of Scottish & Newcastle's 37.5% stake in **United Breweries** will not trigger an open offer, said chairman Vijay Mallya. (ET)
- ▶ **Paramount Airways** has ruled out its merger with any other airline in India, saying they were a profit making organization and were looking at acquisitions. (ET)
- ▶ **Essar Oil** has said it will raise \$2 bn (Rs.80.94 bn) through securities for the proposed expansion of its refining and exploration capacity. (BS)

### Equity

	13 Mar 08	% Chg		
		1 Day	1 Mth	3 Mths
<b>Indian Indices</b>				
BSE Sensex	15,357	(4.8)	(13.6)	(23.3)
Nifty	4,624	(5.1)	(11.1)	(23.5)
BSE Banking	8,077	(5.6)	(23.9)	(28.7)
BSE IT	3,312	(4.6)	(13.8)	(22.3)
BSE Capital Goods	13,309	(5.6)	(18.3)	(33.0)
BSE Oil & Gas	10,022	(5.8)	(8.3)	(22.8)
NSE Midcap	6,315	(5.7)	(10.4)	(29.4)
BSE Small-cap	8,075	(5.4)	(14.2)	(33.8)
<b>World Indices</b>				
Dow Jones	12,146	0.3	(1.9)	(9.0)
Nasdaq	2,264	0.9	(3.0)	(14.1)
FTSE	5,692	(1.5)	(3.2)	(11.0)
Nikkei	12,433	(3.3)	(8.6)	(19.7)
Hangseng	22,302	(4.8)	(6.2)	(18.2)

### Value traded (Rs cr)

	13 Mar 08	% Chg - Day
Cash BSE	5,985	(15.2)
Cash NSE	13,603	(12.8)
Derivatives	44,869.5	0.5

### Net inflows (Rs cr)

	12 Mar 08	% Chg	MTD	YTD
FII	144	(183)	(1,346)	(13,690)
Mutual Fund	(494)	(255)	(776)	7,264

### FII open interest (Rs cr)

	12 Mar 08	% Chg
FII Index Futures	26,000	(2.2)
FII Index Options	8,453	3.7
FII Stock Futures	22,928	(6.5)
FII Stock Options	134	(10.4)

### Advances / Declines (BSE)

	13 Mar 08	A	B	S	Total	% total
Advances	9	229	72	310	12	
Declines	199	1640	411	2,250	87	
Unchanged	1	19	8	28	1	

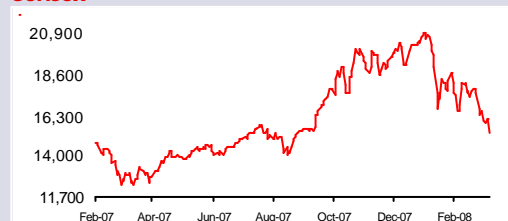
### Commodity

	13 Mar 08	% Chg		
		1 Day	1 Mth	3 Mths
Crude (NYMEX) (US\$/BBL)	109.8	(0.5)	15.0	20.2
Gold (US\$/OZ)	994.8	1.2	9.6	25.2
Silver (US\$/OZ)	20.5	1.8	19.2	48.6

### Debt / forex market

	13 Mar 08	1 Day	1 Mth	3 Mths
10 yr G-Sec yield %	7.58	7.57	7.52	7.88
Re/US\$	40.47	40.33	39.75	39.41

### Sensex



## COMPANY UPDATE

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## POWER FINANCE CORPORATION

PRICE: Rs.152  
TARGET PRICE: Rs.245RECOMMENDATION: BUY  
FY09E P/ABV: 1.7x

## Wholly-owned subsidiary company for advisory business

Power Finance Corporation (PFC) has informed the BSE that the board of directors of the company has approved the following:

- Approval for setting up a wholly-owned subsidiary company to promote, organize and carry on consultancy services in the related activities of the company.
- Approval for setting up a wholly-owned subsidiary company as nodal agency to implement the accelerated power development and reform program (ARDRP) of the Government of India in the country.

## Consultancy service business model

- PFC's consultancy services division offers a host of services. These include restructuring and reform activities, financial management of resources, including mobilization and accounting systems, risk assessment, feasibility analysis, project structuring and development of appropriate solutions for improving efficiency, development of sustainable human resources plans, communication and information dissemination, information management systems, legal as well as contract services for the power sector.
- The new company would also carry out the advisory and consultancy work for various mega power projects and also for ultra mega power projects (UMPPs).
- The consultancy services company of the PFC would take up all consultancy services assignments, which are currently carried out under PFC's umbrella. So far, the company has carried out 47 assignments under its consultancy and advisory services division. During H1FY08, PFC had around 14 assignments in the pipeline and around 19 assignments in hand valued close to Rs 492 mn. Besides this, the company also plans to charge the UMPP a sum of Rs 150 mn per project.

## Loan book to demonstrate CAGR of 23% over FY07-09E

- PFC holds around 20% market share in the power sector financing segment. Over FY02-07, PFC has financed 29,000 MW of power generation capacity. Meanwhile, its loan book grew at a CAGR of 22% to Rs.439.03 bn.
- Given the robust capex requirement in the power generation, distribution and transmission segment under the Eleventh Five Year plan, we continue to believe the loan book of the company would witness a CAGR of 23% over FY07-09E. During 9MFY08, sanctions of the company logged 58% YoY growth to Rs.436.07 bn. On the flipside, the disbursements of the company demonstrated a de-growth of around 10% YoY to Rs.31.7 bn. Notwithstanding the slowdown in the disbursement in Q3FY08, we opine that the growth in the loan book is likely to accelerate with sanctions adding to the loan book.
- NIMs of the company are expected to remain strong during FY08 at around 3.7%, thanks to the re-pricing of loans carried out during H1FY08 and prudent asset liability management. With the interest rate cycle peaking out, the company would witness marginal pressure in its NIMs during FY09 to 3.6%.
- We expect PFC's net profit to demonstrate a CAGR of 20% over FY07-09E. We expect the company to report a net profit of Rs.11.9 bn in FY08 and Rs.14.1 bn over FY09E. The EPS of the company is expected to be Rs.10.4 and Rs.12.3 over FY08 and FY09, respectively.

## Summary table

Rs mn	FY07	FY08E	FY09E
Income from opn	37.4	48.8	60.7
Interest expenses	23.1	30.7	39.3
Net interest income	14.3	18.2	21.4
Other Income	0.4	0.5	0.7
Total Income	14.7	18.7	22.1
Operating Profit	14.1	17.9	21.2
PAT	9.9	11.9	14.1
Gross NPA (%)	0.1	0.1	0.1
Net NPA (%)	0.1	0.1	0.1
NIMs (%)	3.6	3.7	3.6
RoA (%)	2.3	2.3	2.2
RoE (%)	13.1	13.3	14.5
Dividend (%)	30.4	35.0	35.0
EPS (Rs)	8.6	10.4	12.3
BV (Rs)	74.9	81.1	88.5
Adj Book Value (Rs)	74.5	80.6	87.8
P/E (x)	17.7	14.6	12.3
P/ABV (x)	2.0	1.9	1.7

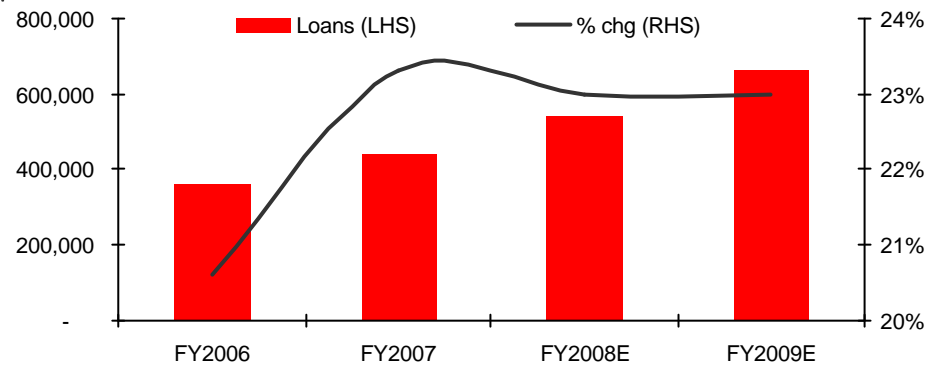
Source: Company, Kotak Securities - Private Client Research

### Recommendation

- Going forward, we continue to believe that the business growth of the company will be lumpy in nature. The outlook for the company remains positive given its proficiency in the power sector financing and strong capex requirement in the space.
- Given PFC's 20% market share, we expect PFC's loan book to witness a CAGR of 24% over FY07-12, that is, during the Eleventh Five Year Plan. The loan book growth will be higher towards the mid and closure of the Eleventh Five Year Plan as the capacity addition would be nearing its closures.
- We would value the consultancy services subsidiary of PFC separately from the core financing business as and when we receive more clarification from the company with respect to the consultancy assignments. However, the overall valuation of the company remains the same since we have already factored in the revenues from the consultancy services fees in our earnings model. We continue to value the company on a dividend discount model and P/BV multiple. Based on this we value the company at Rs.245 per share. With the recent correction in the stock price, at Rs.152 the stock currently trades at 1.7x its FY09E ABV of Rs.88 and around 12.3 x its FY09 EPS of Rs.12.3. We continue to maintain **BUY** on the stock with a 12-month price target of Rs.245.

**We maintain BUY on Power Finance Corporation with a price target of Rs.245**

### Loan growth (Rs mn)



Source: Company, Kotak Securities - Private Client Research

## Bulk Deals

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**Trade details of bulk deals**

Date	Scrip name	Name of client	Buy/ Sell	Quantity of shares	Avg. price (Rs)
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**Details not available due to technical problems**

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## Gainers & Losers

### Nifty Gainers & Losers

	Price (Rs)	% change	Index points	Volume (mn)
<b>Gainers</b>				
Hero Honda Motors	737	1.2	0.3	0.2
Bajaj Auto	2,101	0.3	0.1	1.1
Hindustan Unilever	222	(0.1)	(0.1)	1.8
<b>Losers</b>				
Reliance Ind	2,243	(5.5)	(33.1)	4.1
SAIL	195	(10.8)	(16.8)	21.5
Reliance Com	501	(7.1)	(13.6)	7.2

Source: Bloomberg

## Forthcoming events

### Company/Market

Date	Event
14-Mar	Tata Teleservices holds press conference Titagarh Wagons holds press conference to discuss on IPO
15-Mar	Syndicate Bank to announce interim dividend
25-Mar	Initial Public Offer of Kiri Dyes & Chemicals opens
28-Mar	Bata India to announce earnings for 2007

Source: Bloomberg

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