



**IIFL**

INDIA PRIVATE CLIENTS

# Weekly Wrap

December 10, 2010

## Investment Idea

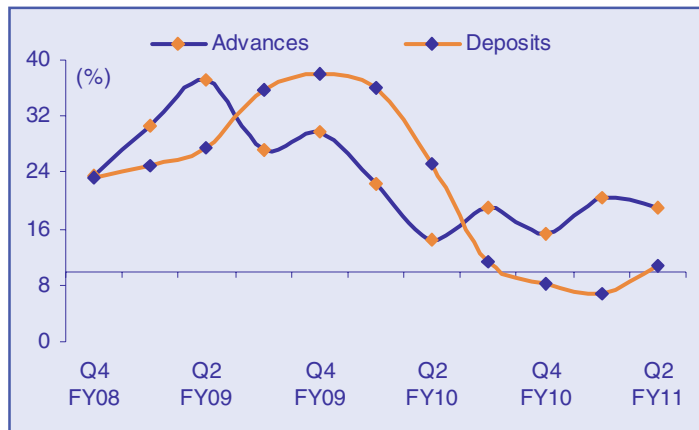
### State Bank of India

**BUY**  
CMP Rs2,732

#### Loan growth momentum to become more broad-based

SBI has witnessed strong loan book expansion of ~20% in the past 12 months increasing its market share to 17%. Key drivers have been robust branch addition in past three years and the new-found aggressiveness especially with respect to retail loans. SBI has emerged as the No.1 retail lender in the country with dominant market share in home, auto and education loans. Going ahead, growth is likely to become more broad-based with demand picking up from other segments. We estimate SBI's advances to grow by 20% in FY11 and 22% in FY12.

#### YoY growth in deposits and advances

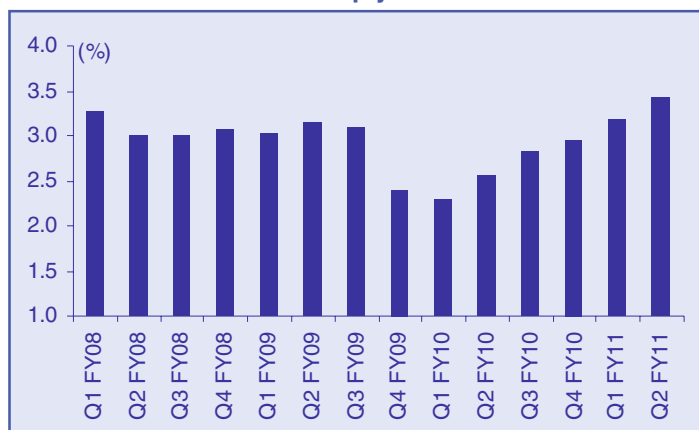


Source: Company, India Infoline Research

#### NIM to stabilize after recent expansion

SBI's NIM has recovered by significant 110bps in the past five quarters aided by 1) material decline in average surplus liquidity 2) significant improvement (900 bps+) in the CASA ratio 3) reduction in contribution of bulk term deposits and within high-cost deposits and 4) sharp improvement in C/D ratio (900 bps). We believe that bank should be able to hold NIM in a narrow range of 3.1-3.4% in the medium term with credit growth expected to pick-up. The recent deposits and lending rate hike would have a net marginal impact.

#### NIM has bounced-back sharply



Source: Company, India Infoline Research

#### Asset quality needs attention; equity issuance to bolster capital base

There has been a material deterioration in bank's asset quality over the past five quarters with present NPL levels being higher than most peers. Slippages from the restructured portfolio were significant at Rs6.6bn in Q2 FY11. NPL risk is the highest for SBI with Net NPLs comprising 17.6% of FY10 network. With PCR at 63%, the bank requires substantial provisioning to reach the stipulated 70% by September 2011. We estimate SBI's balance sheet to witness 19% CAGR over FY10-12. The expansion would be mainly funded by plough backs and a rights issue/follow-on offer. While RoA is likely to improve, RoE would be depressed by the equity issuance.

#### Recent correction has made valuation attractive

Given the bank's sheer size (commands 1/4th of the industry as a group), extensive reach (to benefit from semi-urban and rural upswing) and a well-diversified loan portfolio, SBI is the best proxy on the Indian Banking story. Recommend BUY with a SOTP target price of Rs3,500 which has been arrived after valuing 1) stand-alone bank at Rs2,830 using our proprietary Bank 20 valuation model 2) ownership in the six associate banks at Rs460 3) 74% stake in SBI Life at Rs157 4) 63% stake in SBI MF at Rs19 and 5) SBI Caps at Rs35.

#### Valuation summary

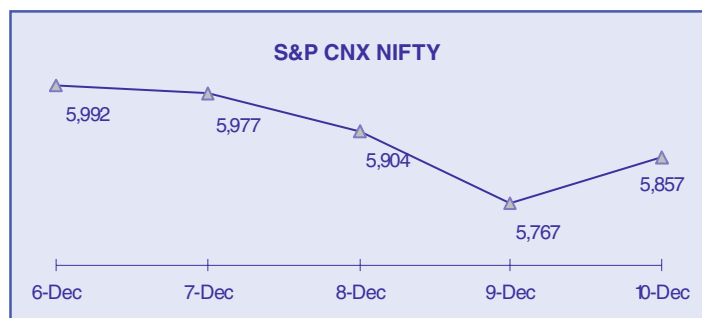
Y/e 31 Mar (Rs m)	FY09	FY10	FY11E	FY12E
Total operating income	335,650	386,396	490,795	591,422
yoy growth (%)	30.5	15.1	27.0	20.5
Op profit (pre-prov)	179,163	183,209	255,098	306,229
Net profit	91,223	91,660	106,736	135,996
yoy growth (%)	35.6	0.5	16.4	27.4
EPS (Rs)	143.7	144.4	149.4	190.4
BVPS (Rs)	912.7	1,038.8	1,340.9	1,484.5
P/E (x)	19.0	18.9	18.3	14.3
P/BV (x)	3.0	2.6	2.0	1.8
ROE (%)	17.1	14.8	13.2	13.5
ROA (%)	1.1	0.9	0.9	1.0
Dividend yield (%)	1.1	1.1	1.2	1.5
CAR (%)	14.3	13.4	14.8	14.0

Source: Company, India Infoline Research

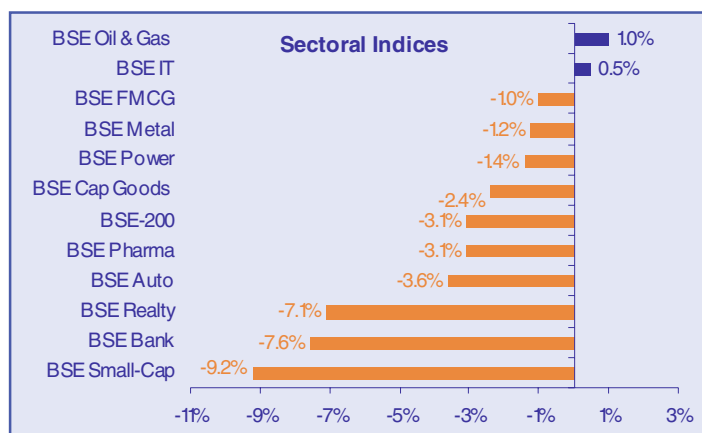
# India Infoline Weekly Wrap

## Market review

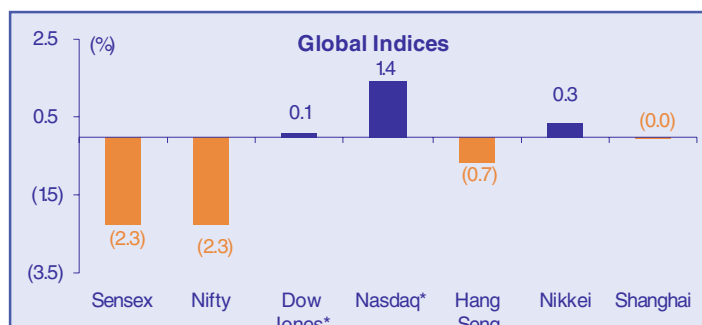
The relentless selling in small-cap and mid-caps shares dampened investor confidence, translating into a short-term blow after last week's recovery. Further, large cap names also witnessed a big sell-off, partly due to margin calls triggered by brokers. That resulted into a cascading effect and sent the market into a tailspin. However, a strong IIP data arrested the fall on the last day of the week, with the NSE Nifty closing above 5,850.



Tight liquidity in the banking system, hike in deposit rates and issues related to sharp increase in pension liability led to a steep fall in banking stocks. SBI (India's largest bank) tumbled over 10% during the week. Small cap indices ended the week 9% lower on the back of fresh reports about stock price rigging in a few counters.



Global markets didn't do much by the way of movement either way but managed to hold their own after Fed chairman Ben Bernanke said he could increase the QE2 size if needed. In addition, US President Barack Obama agreed to extend all Bush-era tax cuts to spur demand in a sluggish economy. In Europe, things were relatively quiet even as officials failed to announce any new steps to stem the debt crisis. Chinese market was under pressure amid an impending rate hike. Late on Friday, the central bank raised the reserve ratio for banks by 50 basis points.



\*As per previous close

## FII & MF activity

Date	(Rs cr)	
	FII Net Investment	MF Net Investment
02-Dec	463	294
03-Dec	542	(269)
06-Dec	77	-
07-Dec	(420)	-
08-Dec	(1,298)	-
<b>Total 2010</b>	<b>131,386</b>	<b>(28,404)</b>

## BSE Sensex & BSE 200 Top Five Gainers

BSE Sensex			BSE 200		
Company	CMP (Rs)	% Chg	Company	CMP (Rs)	% Chg
ACC	1,075	9.7	Ispat Ind.	19	6.2
Wipro	450	5.1	Videocon Ind.	212	4.0
NTPC	192	3.9	Piramal Health	455	3.3
BHEL	2,278	3.1	Nestle India	3,780	3.0
Jindal S&P	696	2.3	Areva T&D	320	2.6

## BSE Sensex & BSE 200 Top Five Losers

BSE Sensex			BSE 200		
Company	CMP (Rs)	% Chg	Company	CMP (Rs)	% Chg
SBI	2,737	(10.9)	Shriram Transprt	720	(16.2)
Reliance Comm	126	(9.6)	Allahabad Bank	208	(14.2)
DLF	283	(7.6)	Edelweiss	44	(13.7)
HDFC Bank	2,220	(7.2)	Karnataka Bank	149	(13.2)
Reliance Infra	781	(6.6)	Pantaloon Ret	350	(12.9)

## Bulk deals

Date	Institution	Scrip name	B/S	Qty (lacs)	Price
6-Dec	Stan Chart Bk	Camson Bio	B	1.0	17.0
6-Dec	Serum Institute	Core Project	B	10.0	247.0
7-Dec	Merrill Lynch	Core Project	B	6.32	245.0
7-Dec	Citibank	Tata Motors	B	28.65	1,310.0

## Book closures and record dates

Company	Date	Purpose
Shakti Pumps	13-Dec-2010	Dividend
Colgate Palmolive	14-Dec-2010	Interim Dividend
Neo Corp	15-Dec-2010	Dividend

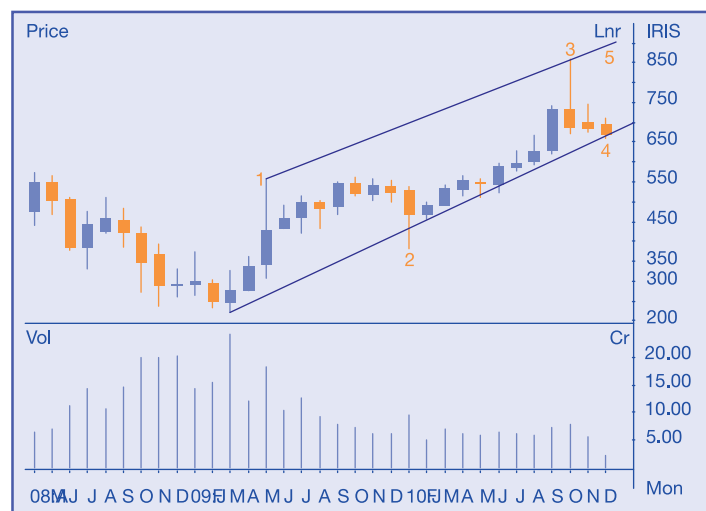
## Insider Trades

Company	Name	B/S	Qty ('000)
M&M.	R K Kulkarni	S	1.52
Hexaware Tech	Shailesh V Haribhakti	B	13.0
ACC	LIC.	S	3,816.0

# India Infoline Weekly Wrap

## Technical ideas

**HDFC Ltd** **BUY**  
CMP Rs672



HDFC Ltd has been moving into descending triangle on the daily chart with solid support seen at Rs660. As volumes continue to contract during the declines, it suggests lesser participation during the price fall and the long term uptrend in the counter remains intact. Heavy delivery based buying was witnessed during the dip of Thursday trading session. A dip towards Rs665 should be used as a buying opportunity, on expectation of breakout on higher side and better risk reward ratio.

On the long term charts, it is clearly evident that Intermediate wave 4 of primary degree has been completed this week in the form of a Zig Zag. Hence the rally emerging from the current levels should take stock towards the all-time peak. Adding to it, stock at present is resting on 'rising support line' drawn from the trough of March 2009.

We advise buying stock in the range of Rs688-693 with a stop loss of Rs674.5 for a Target of Rs730.

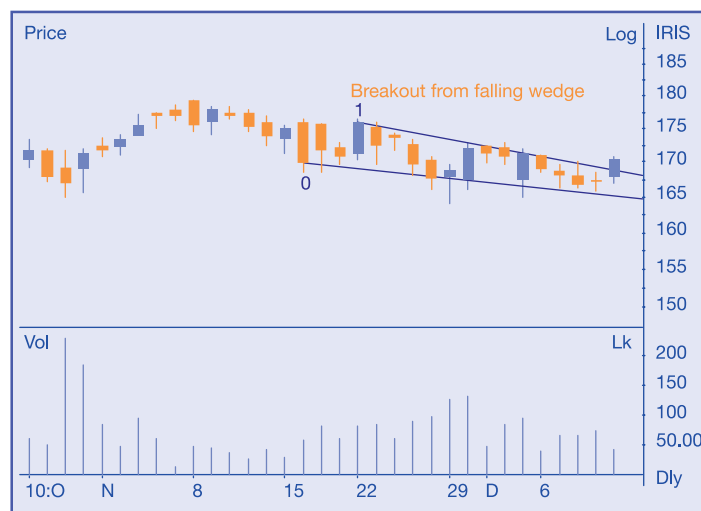
### Positive open interest build-up

Company	Price % chg	OI % chg	Vol % chg
Federal Bank	1.3	18.6	89.1
ACC	8.0	13.1	121.3
REC Ltd	2.7	12.0	39.7
Wipro	3.3	9.6	60.4
Adani Ent	2.7	7.6	40.3

### Technically strong

Company	CMP (Rs)	10 days Moving Average (Rs)	Total Traded Qty (lacs)	10 days Average Traded Qty (lacs)
India Cements	107	106	10.5	9.2
Sun TV	529	515	3.5	2.3
Areva T&D	321	309	7.8	5.5
HCL Infosys	99	94	8.0	5.5
Wipro	451	425	24.3	17.9

**ITC Ltd** **BUY**  
CMP Rs170



ITC Ltd has been holding the support of Rs165 quite well despite weakness in broader markets and managed to close in the green with a spurt in volumes on Thursday trading session. On the hourly chart too, the breakout is confirmed from the descending triangle with an immediate target seen at levels of Rs188. RSI on the daily chart has given a positive crossover which supports the buying argument in the counter and provides with a better risk reward ratio.

Adding to it being a defensive, it provides better diversification at times of high volatility in the markets.

We advocate buying stock above Rs170 with a stop loss of Rs163 for a Target of Rs185.

### Negative open interest build-up

Company	Price % chg	OI % chg	Vol % chg
HDIL	(1.4)	5.8	64.1
Cipla	(0.5)	5.2	96.2
HDFC Bank	(0.5)	4.9	9.6
PTC	(1.0)	3.8	(21.4)
Educomp	(0.8)	3.6	(13.5)

### Technically weak

Company	CMP (Rs)	10 days Moving Average (Rs)	Total Traded Qty (lacs)	10 days Average Traded Qty (lacs)
United Phos	171	184	16.3	12.8
Reliance Infra	780	838	19.5	14.1
SBI	2,732	2,931	63.3	38.6
LIC Housing	923	990	67.1	63.1
Rohta	149	158	11.3	8.2

# India Infoline Weekly Wrap

## Mutual fund round-up

### India Infoline picks

Mutual Funds	Assets (Rs Cr)	NAV (Rs)	Absolute return (%) as on December 09, 2010							
			1wk	1mth	3mth	6mth	1yr	2yr	3yr	5yr
HDFC Top 200 (G)	9,425	221.2	(2.8)	(6.2)	3.7	20.0	23.9	145.1	34.5	185.8
Reliance Equity Opportunities – (G)	2,694	37.1	(2.8)	(7.0)	(1.9)	19.4	33.0	180.7	21.5	165.7
IDFC Small & Midcap Equity –(G)	1,012	18.8	(4.7)	(10.1)	(3.6)	13.7	25.5	170.0	--	--
HDFC Prudence Fund (G)	5,738	216.5	(2.9)	(5.3)	0.5	14.6	26.6	140.4	37.7	158.9
ICICI Prudential Tax Plan (G)	1,337	145.9	(1.8)	(5.9)	1.2	16.2	23.9	170.4	22.7	103.4

### Fund this week: IDFC Small & Midcap Fund

Fund snapshot		Asset allocation (%)	
Fund Manager	Kenneth Andrade	Equity	88.1
Latest NAV	Rs18.8	Debt	0.8
NAV 52 high/low	Rs21/14	Cash/call	11.1
Latest AUM (cr)	Rs1,012	<b>Top 5 holdings (%)</b>	
Type	Open-ended	M&M Financial Services Ltd.	4.4
Class	Equity - Diversified	Vardhman Textiles Ltd.	4.3
Options	Growth & dividend	Shree Renuka Sugars Ltd.	3.9
Min investment	Rs5,000	Exide Industries Ltd	3.6
Benchmark	CNX Midcap	Tulip Telecom Ltd.	3.6
No. of stocks	22	<b>Top 3 sectors (%)</b>	
No. of sectors	15	Bank - Public	5.8
Expense ratio	2.1%	Consumer Food	5.6
Exit load	1.0%	Finance NBFC	5.0

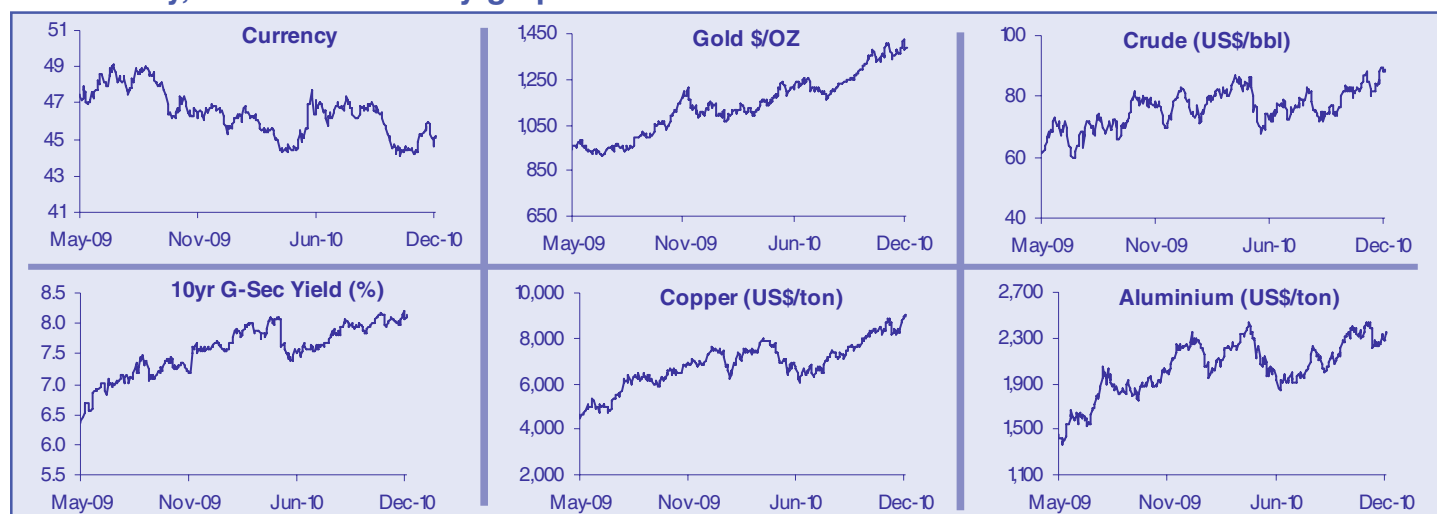
### NFO update

Fund Name	Close	Type	Class
Reliance FHF XVI Sr 6	14-Dec	CE	Debt - FMP
IDFC FMP Sr 61	14-Dec	CE	Debt - FMP
ICICI Pru FMP Sr 53 - 1 Yr - D	16-Dec	CE	Debt - FMP

### Dividend update

Mutual Fund	Dividend %	Record date	Class
DSP BlackRock FMP-3M-Sr 20	100.0	14-Dec	Debt
Kotak Qtrly Interval Plan Sr 1	100.0	15-Dec	Debt
ICICI Pru Qtrly Interval Plan II	1.5	15-Dec	Debt

## Commodity, debt and currency graphs



\* As per previous close

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