

December 12, 2007

FOR PRIVATE CIRCULATION

**Equity**

	11 Dec 07	% Chg		
		1 Day	1 Mth	3 Mths
<b>Indian Indices</b>				
Sensex	20,291	1.8	8.3	30.9
Nifty	6,097	2.3	8.5	35.6
Banking	11,779	2.5	15.6	47.6
IT	3,946	1.6	11.6	11.5
Healthcare	4,062	1.6	5.8	10.3
FMCG	2,170	0.4	5.5	4.2
PSU	10,086	1.8	2.3	37.7
CNX Midcap	8,672	1.5	18.6	38.2
<b>World indices</b>				
Nasdaq	2,652	(2.4)	2.6	2.3
Nikkei	16,045	0.8	3.6	(0.3)
Hangseng	29,227	2.5	2.9	17.1

**Value traded (Rs cr)**

	11 Dec 07	% Chg - 1 Day
Cash BSE	7,666	9.4
Cash NSE	18,733	13.9
Derivatives	20,290.9	1.8

**Net inflows (Rs cr)**

	10 Dec 07	% Chg	MTD	YTD
FII	301	5,681	2,343	69,399
MF (7 Dec)	71	(27)	392	3,287

**FII open interest (Rs cr)**

	10 Dec 07	% chg
FII Index Futures	17,856	1.5
FII Index Options	7,921	4.7
FII Stock Futures	49,730	2.1
FII Stock Options	109	14.8

**Advances/Declines (BSE)**

	11 Dec 07	A	B1	B2	Total	% Total
Advances	150	442	741	1,333	68	
Declines	66	308	225	599	31	
Unchanged	-	7	15	22	1	

**Commodity**

	11 Dec 07	% Chg		
		1 Day	1 Mth	3 Mths
Crude (NYMEX) (US\$/BBL)	89.5	(0.6)	(5.4)	12.0
Gold (US\$/OZ)	797.0	(1.4)	1.2	12.8
Silver (US\$/OZ)	14.5	(1.3)	0.7	14.6

**Debt/forex market**

	11 Dec 07	1 Day	1 Mth	3 Mths
10 yr G-Sec yield %	7.88	7.86	7.91	7.89
Re/US\$	39.34	39.41	39.35	40.56

**Sensex**



Source: Bloomberg

**ECONOMY NEWS**

- The Government's indirect tax collections grew 11.7% in April-November 2007 to Rs.1418.51 bn. The growth is a notch below the target rate of 12% required to meet the Budget estimate of Rs.2305.66 bn. (ET)
- The RBI may soon tighten the norms for foreign exchange derivatives, amid several banks and companies facing losses with calls on currency movements going wrong. (BS)
- The Planning Commission expects India's economy to grow by 8.5-9% during the current financial year and by 9% in the 11th Five Year Plan period, saying global slowdown would not affect India in the medium term. (ET)
- The Commerce Minister has said proposals to give additional benefits to exporters hit by an appreciating rupee are being considered by the Prime Minister. (BS)
- The Commerce and Industry Minister has said there was no proposal to change the 5,000 hectare ceiling on SEZs prescribed by a Group of Ministers. (ET)
- The Government is planning to arm itself with powers to disgorge ill-gotten gains of corporates as well as management executives who dupe the public, banks and institutions for personal enrichment. (ET)
- The Government is set to make it mandatory for companies to get all share allotments for non-cash considerations valued by an expert registered with the government. (ET)

**CORPORATE NEWS**

- **RIL** will invest over \$12 bn to develop its gas finds in the Krishna Godavari basin, Mahanadi and the North East Coast. The company has also signed contracts for two offshore blocks in Columbia. (ET)
- Orient-Express Hotels has rejected the **Tata group's** fresh overtures for an alliance with the company, delivering a setback to the Tatas' ambitious plans of owning a luxury hotel chain with a powerful brand name. (ET)
- Suzuki Motor Corp has said that **Maruti Suzuki India** will make its next global car, A-Star, which will drive its growth in Europe and help increase its annual sales in the continent to 420,000 vehicles from 310,000 in the last fiscal. (BS)
- **Tata Steel** has entered into a joint venture agreement with Sodemi for the development of Mount Nimba iron ore deposits in Ivory Coast. This is Tata Steel's first joint venture for iron ore. (BS)
- **Reliance Industries** is paying around Rs.20 bn to acquire the assets of Hualon Corporation, the Malaysian polyester manufacturer, a senior executive has said. (ET)
- **L&T** has picked up 26% equity in Feedback Ventures, a consulting firm in the infrastructure space, for Rs.400 mn. (BL)
- **TV18** has announced that it would acquire 53% stake in the publication company Infomedia India Ltd from an ICICI Venture managed fund, subject to regulatory clearances. (BL)
- **United Phosphorus**, India's largest crop protection company, is set to bid for Australia's largest agriculture chemical company, Nufarm. Sources said the Shroff-family, promoters of UPL, has started discussions with the Australian firm's management. (BS)
- **National Aluminium Company (Nalco)** plans to invest Rs.300 bn over the next five years for setting up a smelter and a power plant in Indonesia to expand its overseas business. (BS)
- **Diamond Cables** has said the company's conductor division received an order from two larger EPC contracting firms for the manufacture and supply of transmission and distribution conductors valued at Rs.800 mn. (BL)

Source: ET = Economic Times, BS = Business Standard, FE = Financial Express, BL = Business Line, Tol: Times of India, BSE = Bombay Stock Exchange

## FROM OUR RESEARCH TEAM

### COMPANY UPDATE

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#### Keydata

(Rs bn)	FY07	FY08E	FY09E
Interest income	115.37	144.67	167.57
Interest expense	60.23	80.36	93.67
Net interest income	55.15	64.31	73.90
Other income	10.42	12.26	14.72
Gross profit	32.31	40.00	48.06
Net profit	15.40	19.14	23.97
Gross NPA (%)	3.5	3.2	2.8
Net NPA (%)	0.8	1.1	0.8
Net interest margin (%)	3.7	3.7	3.6
RoE (%)	16.2	17.4	18.6
RoAA (%)	1.0	1.1	1.1
Dividend Yield (%)	0.9	0.9	0.9
EPS (Rs)	48.8	60.7	76.0
Adjusted BVPS (Rs)	308.0	344.5	416.5
P/E (x)	13.7	11.0	8.8
P/ABV (x)	2.2	1.9	1.6

Source: Company & Kotak Securities - Private Client Research

#### Growth Rate

	FY08E	FY09E
Advances	21.5	19.7
Deposits	17.7	16.1
Investments	8.2	8.4

Source: Kotak Securities - Private Client Research

#### RoE - P/ABV based Fair Value computation

Forecasted RoE (FY09E)	18.6
g (Perpetual growth rate)	5.0
r (Cost of Capital)	13.4
P/ABV (x)	1.63
ABV (FY 09E) (Rs)	417
Fair Value based on ABV (Rs)	680

Source: Kotak Securities - Private Client Research

## PUNJAB NATIONAL BANK

PRICE : Rs.667

TARGET PRICE : Rs.711

RECOMMENDATION : HOLD

FY09E P/E: 8.8X, P/ABV: 1.6X

**In view of the recent run-up in stock prices and limited upside from current levels, we are revising our rating on PNB from BUY to HOLD.**

**We are maintaining our earning estimates, however, enhancing our target price from Rs.680 to Rs.711 by adding Rs.31 for 25% stake in UTI AMC business.**

Punjab National Bank (PNB) is the second largest PSU bank in India with a pan-India presence. It has a relatively stronger distribution network in northern and central India. Established in 1894, it has an asset base of around \$44 bn, where government ownership stands at 57.8%.

It is serving over 18.3 mn customers through 4,525 branches including 435 extension counters. It is also among the top five banks in the country, with about 5% share of deposits and advances of the banking system.

The bank has a high quality deposit franchise and in terms of current account & saving account (CASA) it stands next only to HDFC Bank and SBI in the Indian banking space.

More than 85% of the bank's business is covered by core banking solutions (CBS), which can be further leveraged to drive fee income growth, mobilizing low cost deposits and improving operating efficiency.

The bank is best placed even in the rising interest rate environment with its robust CASA mix and de-risked investment portfolio.

The bank is well positioned to capitalize on growth opportunities in the Indian market. PNB's deposit franchise and large pool of savings and current balances should widen the bank's funding advantage if interest rates rise or liquidity tightens. Compared with its peers, PNB has a greater mid-market focus, which supports higher loan yields.

### Valuations

We are maintaining our earning estimates and expect the bank to grow its earning by 24.3% and 25.2% in FY08E and FY09E, respectively. In the same period, NII is expected to rise 16.6% and 14.9%, respectively. We estimate full year profit of Rs.19.14 bn and Rs.23.97 bn for FY08E and FY09E, respectively resulting into an EPS of Rs.60.70 and Rs.76.01. The adjusted book value is estimated to be Rs.344.55 and Rs.416.49, for FY08E and FY09E, respectively.

### Assumptions

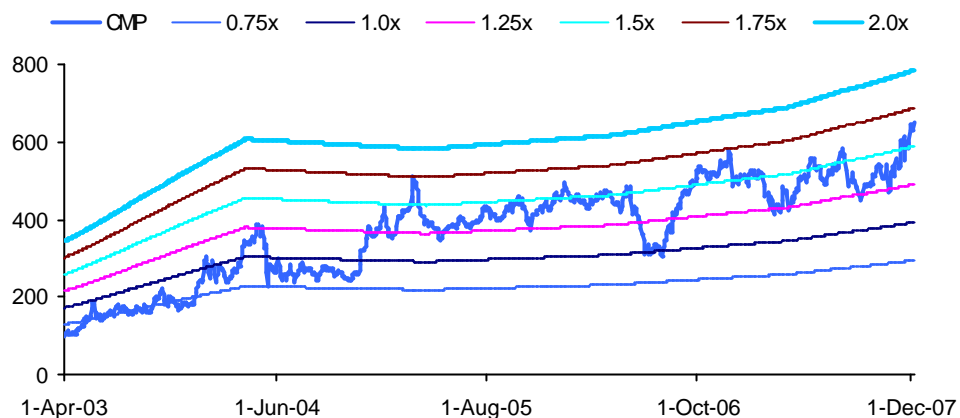
We are assuming a loan growth of 21.5% and 19.7% in FY08E and FY09E, respectively. In the same period, deposits are expected to rise 17.7% and 16.1%, respectively, and investments are expected to rise 8.2% and 8.4% in FY08E and FY09E, respectively.

### RoE - P/ABV Valuation Methodology

At the RoE of 18.6% (FY09E), cost of equity of 13.4% and perpetual growth rate of 5%, the theoretical fair value stands at 1.63x its adjusted book value, which yields a fair value of Rs.680 based on single-stage dividend discount model (DDM).

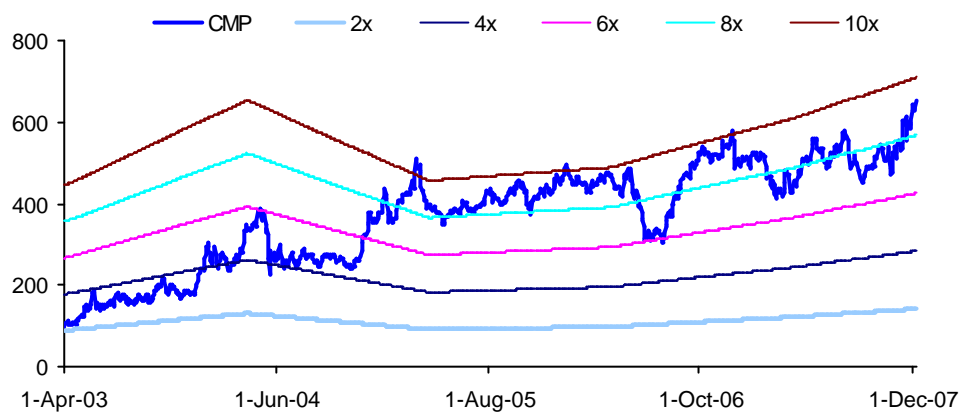
Historically, the stock has been trading in the ranges of 1.25x to 1.75x ABV and at current stock price, it is trading at 1.6x its FY09E adjusted book value.

### 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

PNB holds a 25% stake in UTI AMC, which is likely to go for an IPO in late FY08 (as reported in some pink papers). At the end of November 2007, its asset under management (AUM) stands at Rs.522 bn. UTI AMC's 25% stake is valued at Rs.9.9 bn (valued at 6% of AUM of UTI AMC's FY09E AUM of Rs.658 bn) giving Rs.31 per share of PNB.

**We recommend HOLD on PNB with a price target of Rs.711**

Adding Rs.31 for 25% stake in UTI AMC business, we are increasing the target price from Rs.680 to Rs.711. However, in view of the recent run-up in stock prices and limited upside from current level, we are revising our rating on the stock from **BUY** to **HOLD**. At the price target of Rs.711, the stock will trade at 1.63x (after stripping the value Rs.31 coming from 25% stake in UTI AMC business) its FY09E adjusted book value, which would provide a 6.6% upside from current levels.

## Bulk deals

Trade details of bulk deals					
Date	Scrip name	Name of client	Buy/ Sell	Quantity of shares	Avg. Price (Rs)
11-Dec	Alpa Lab	SPJstock	S	150,601	50.02
11-Dec	Arham Plasti	Cherukuri Sirisha	B	30,000	21.08
11-Dec	Ashco Indust	Master Finlease Ltd	S	30,000	38.88
11-Dec	Betala Glo S	Chhotalal R Bhanderi	B	10,000	11.07
11-Dec	Birla Cap	Ramesh Kumar Kabara	B	67,760	10.32
11-Dec	Birla Cap	Ayodhyapati Investment Pvt. Ltd	S	384,701	10.31
11-Dec	CCSInfotech	Sugnya Jayesh Kuwadia	B	100,000	11.81
11-Dec	Cenlub Indus	Sanjay Jain	S	23,279	31.92
11-Dec	Cerebra Int	Sunil Giridharilal Raheja	S	40,000	35.37
11-Dec	DMC Inter	Shree Khemi Shakti Leas and Prope	B	20,250	25.16
11-Dec	DMC Inter	Shalani Dhoop Pvt. Ltd	S	19,659	25.52
11-Dec	Eldeco Hous.	Rajiv Arora	S	15,236	322.76
11-Dec	Empower Inds	Dewang D Master	S	150,000	20.50
11-Dec	Era Constr I	J M Mutual Fund	B	190,000	567.15
11-Dec	Gangotri I&S	Prafulchandra Shah	B	25,000	40.38
11-Dec	Gangotri I&S	GBK Resources Pvt Ltd	S	33,925	39.14
11-Dec	Gemstone Inv	Bhupesh Rathod	S	37,000	26.38
11-Dec	Gemstone Inv	Prem Mohanlal Parikh	S	15,355	26.92
11-Dec	Gemstone Inv	Alpesh Arvind Patel	S	20,000	26.90
11-Dec	Glory Poly	Ms Mavi Impex Ltd.	S	125,000	96.79
11-Dec	Grabal Alok	Sonata Investments Ltd	B	200,000	12.00
11-Dec	Greenpl Indu	Ashish Kacholia	B	400,000	320.00
11-Dec	Greenpl Indu	Aeneas Portfolio Company Lp FDI	S	406,136	320.24
11-Dec	Hitech Plast	GKK Capital Markets Private Ltd	B	98,714	119.93
11-Dec	Ind-Swift Lt	Morgan Stanley Mauritius Company	S	210,000	38.76
11-Dec	Intens Tech	HSBC Financial Services Middleeast	S	200,000	91.31
11-Dec	IOL Chem Ph	Sweetey Investment	B	70,000	163.70
11-Dec	K Sera Sera	Newgen International Pvt. Ltd.	S	110,421	35.09
11-Dec	Kisan Mouldg	Hitesh Jhaveri	S	37,001	60.84
11-Dec	Lok Housi Co	Marigold Investrade Private Ltd	S	234,357	354.25
11-Dec	Moschip Semi	Gary Kannedy	S	250,000	30.05
11-Dec	Nahar Indust	Sundaram BNP Paribas M F Ac			
		Sundaram BNP Paribas Select Mcap	B	206,000	114.53
11-Dec	NPR Finance	B.S. Agency Pvt. Ltd.	B	50,000	28.74
11-Dec	NPR Finance	Susamma Mathew	S	57,900	28.78
11-Dec	Pasari Spin	Inkam Financial Consultants P Ltd	S	50,000	25.15
11-Dec	Pentamedia G	JMP Securities Pvt. Ltd.	S	1,563,049	10.10
11-Dec	Priya Spin L	Pradeep Kumar Agarwal	B	73,360	19.81
11-Dec	Radhe Develo	Moghiben Vaghjibhai Shah	B	80,754	35.85
11-Dec	SKS Log Ltd	Anjana Sarvesh Shasi	S	100,000	69.75
11-Dec	Southern Isp	Kushal Commercial Pvt Ltd	S	49,555	20.35
11-Dec	Spentex Indu	CLC and Sons Private Limited	B	1,000,000	40.10
11-Dec	Spentex Indu	Money Matters Advisory Services	S	1,000,000	40.10
11-Dec	Sujana Metal	Goldman Sachs Investments Mau	S	295,000	37.11
11-Dec	Syncom Formu	Rupal Piush Avlani	S	92,619	59.95
11-Dec	Tutis Tech	Hitesh Jhaveri	B	90,006	26.80
11-Dec	Vadilal Ente	Nar Singhpal Singh	B	5,505	104.15
11-Dec	Yashraj Secr	Dilip K.Pagare	B	130,000	21.56

Source: BSE

## Gainers & Losers

### Nifty Gainers & Losers

	Price (Rs)	% change	Index points	Volume (mn)
<b>Gainers</b>				
Bharti Airtel	1,036	6.5	21.1	5.0
ONGC	1,240	3.9	17.6	1.5
Reliance Ind	2,886	2.2	16.1	3.2
<b>Losers</b>				
Infosys Tech	1,744	(0.3)	(0.4)	1.1
BHEL	2,670	(0.2)	(0.4)	1.0
Ambuja Cement	151	(0.3)	(0.1)	1.0

Source: Bloomberg

## Forthcoming events

### COMPANY/MARKET

Date	Event
12-Dec	Renaissance Jewellery hosts listing ceremony at NSE & BSE; Precision Pipes & Profiles holds press meet to discuss on IPO; Birla Sun Life holds press conference for new initiative; Edelweiss Capital listing on BSE & NSE
13-Dec	Manaksia holds press meet to discuss on IPO
14-Dec	MRF to announce earnings and final dividend; Initial Public Offer of Aries Agro opens
17-Dec	Public Offer of Porwal Auto Components and Manaksia Ltd opens

Source: Bloomberg

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