



## Economy News

- ▶ India's tea production is likely to be lower by about 30 million kg (mkg) this year against last year's 979 mkg. President of Tea Association of India (TAI), attributed the drop to crop loss of about 15 mkg so far in the Assam Valley alone, largely due to the incessant rain followed by pest attacks. (BL)
- ▶ The government has postponed an Empowered Group of Ministers' (EGoM's ) meeting, which was to take place on Thursday, to consider raising diesel and cooking gas prices due to non-availability of some members in the EGoM. It has deferred the impending fuel rate hikes for the second time fearing its spiralling impact on soaring prices of vegetables and food items, officials at finance and oil ministries said. (ET)
- ▶ After a lull, the National Highways Authority of India (NHAI) is in the process of awarding 100 projects in the fourth quarter of this financial year. The projects are in various phases of award and will be given out before March. Around 14,000 km of road projects, worth around Rs.1 trillion, are in various stages of award process and will be awarded in the last quarter of this financial year. (BS)
- ▶ The food ministry's much-awaited notification on sugar exports of five lakh tonnes could be issued soon, along with details on the quota allotted to individual sugar mills for export. This is the first time in 15 years that the Indian sugar industry is in a position of surplus when the global market is tight in supplies and prices are firm. The export notification was ready to roll, but working out the quota for individual mills was taking time. The quota for individual mills is being worked on the basis on their production for the last three years. (ET)

## Corporate News

- ▶ **NTPC** is likely to get Cabinet approval to invite tenders worth Rs 180bn for procurement of nine supercritical units of 800 Mw capacity each. The bulk order of boiler and turbine units packages of an overall 7,200 Mw capacity is aimed at phased induction of the new supercritical technology in the power sector. The tender will be out in a month after the Cabinet's approval. The orders will be placed within nine to 10 months. (BS)
- ▶ **State Trading Corporation** has approached JSW Steel for recovering Rs.5.5bn owed by Ispat Industries. The government-owned trading house has written to JSW asking it settle the dues after it failed to get a response from Ispat. JSW finance director Seshagiri Rao acknowledged the letter from STC but didn't specify the amount. "We will be in a better position to respond after we take management control of Ispat," Mr Rao said. (ET)
- ▶ **State Bank of India** on Wednesday announced concessional rates for dairy, poultry and horticulture sector, under which loans can be availed for 10% per annum and above. Term loans and working capital for high value dairy projects and smaller dairy owners with a herd size of over 10 would be lent money at 10 per cent, a statement issued by the bank said. (BS)
- ▶ **Punjab National Bank** said on Wednesday that its plans to foray into insurance business are alive and is looking for a joint venture partner. The bank said it is looking for opportunities in both life and non-life business. It invited expression of interest (Eoi) for strategic partnership in life insurance and non-life insurance business from Indian and international companies. (ET)
- ▶ Due to its inability to ensure adequate gas supplies from domestic sources, Vemagiri Power Generation Ltd, a subsidiary of GMR Energy, is in talks with a Malaysian company for floating the LNG terminal, according to two persons in the know of the discussions. This is for the first time an Indian company would be using a floating storage and re-gasification unit. **GMR** is planning to put up an additional capacity of 750 megawatt (Mw) at an expense of about Rs 25bn in Vemagiri. (BS)

### Equity

	29 Dec 10	% Chg		
		1 Day	1 Mth	3 Mths
<b>Indian Indices</b>				
SENSEX Index	20,256	1.2	4.4	1.5
NIFTY Index	6,060	1.1	4.0	1.2
BANKEX Index	13,167	1.5	(2.2)	(5.4)
BSET Index	6,757	0.4	11.1	13.9
BSETCG INDEX	15,223	0.5	1.6	(4.8)
BSEOIL INDEX	10,560	0.3	4.4	(0.1)
CNXMcap Index	8,704	0.7	(0.9)	(5.5)
BSSEMCAP INDEX	9,511	1.1	(0.5)	(7.1)
<b>World Indices</b>				
Dow Jones	11,585	0.1	4.8	6.9
Nasdaq	2,667	0.2	5.6	12.2
FTSE	5,996	(0.2)	5.8	7.6
Nikkei	10,345	0.5	2.8	9.0
Hangseng	22,969	1.5	0.1	3.0

### Value traded (Rs cr)

	29 Dec 10	% Chg - Day
Cash BSE	2,523	6.2
Cash NSE	9,536	9.6
Derivatives	125,046	31.6

### Net inflows (Rs cr)

	28 Dec 10	% Chg	MTD	YTD
FII	149	(43.9)	(2,099)	129,476
Mutual Fund	(125)	61.6	1,772	(26,885)

### FII open interest (Rs cr)

	28 Dec 10	% Chg
FII Index Futures	20,516	(0.4)
FII Index Options	60,425	2.9
FII Stock Futures	37,175	2.1
FII Stock Options	739	(3.3)

### Advances / Declines (BSE)

	29 Dec 10	A	B	S	Total	% total
Advances	151	1,117	256	1,524	59	
Declines	53	699	165	917	35	
Unchanged	2	121	24	147	6	

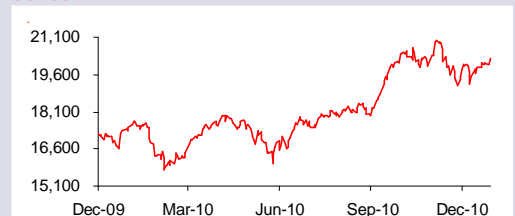
### Commodity

	29 Dec 10	% Chg		
		1 Day	1 Mth	3 Mths
Crude (NYMEX) (US\$/BBL)	91.2	0.0	8.4	14.0
Gold (US\$/OZ)	1,412.0	0.5	1.8	8.0
Silver (US\$/OZ)	30.6	0.9	8.4	40.1

### Debt / forex market

	29 Dec 10	1 Day	1 Mth	3 Mths
10 yr G-Sec yield %	7.90	7.90	8.01	7.85
Re/US\$	45.06	45.10	45.94	44.95

### Sensex



## COMPANY UPDATE

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## HDFC LTD

PRICE: Rs.717  
TARGET PRICE: Rs.720

RECOMMENDATION: ACCUMULATE  
FY12E P/E: 25.3x; P/ABV: 5.3x

- ❑ Mortgage loan growth to remain healthy; increased lending rate will aid retaining net interest margin
- ❑ Change in the mortgage loan provisioning norms (new NHB guidelines) will have very marginal impact on the earnings; overall asset quality remains healthy.
- ❑ We maintain our positive outlook for HDFC and recommend investors to ACCUMULATE the stock on declines with a price target of Rs. 720.

## Summary table

(Rs bn)	2010	2011E	2012E
Int. Income	109.0	129.0	156.2
Int. expenses	70.6	81.5	99.3
NII	38.3	47.6	56.9
Growth (%)	12.0	24.0	20.0
Non-Int Income	4.6	6.0	7.2
Total Income	43.0	53.5	64.1
Optg Profit	39.7	49.1	59.2
PAT	28.3	34.0	40.7
Growth (%)	27.0	20.0	20.0
GNPA - 6 mths(%)	0.7	0.6	0.5
NNPA (%)	0.2	0.1	0.0
Spreads (%)	2.2	2.2	2.2
RoA (%)	2.7	2.8	2.8
RoE (%)	20.0	20.9	22.2
Divi. Payout (%)	36.6	8.5	10.0
EPS (Rs)	98.4	23.7	28.3
BV (Rs)	529.3	120.8	134.6
Adj. BV (Rs)	524.1	120.1	134.6
P/E (x)	36.4	30.3	25.3
P/ABV (x)	6.8	6.0	5.3

Source: Company, Kotak Securities - Private Client Research

### Mortgage loan growth to remain healthy; increased lending rate will aid retaining net interest margin

HDFC has discontinued the dual interest rate product (8.75%-9%), and is currently offering mortgage loans at 9% rate of interest. Lending rates to existing customers has also been revising by 75bps. Following the tighter liquidity conditions, the borrowing cost - both short as well as long term, has gone up sharply during Q3FY11. The increase in lending rate will aid HDFC in retaining the net interest margin. The company has guided for net spreads of 2.2% going forward.

With lower mortgage penetration in India and steady demand for housing, leading mortgage financiers like HDFC will remain in sweet spot. We expect a steady 25% yoy growth in disbursements over FY11-12, and a 22% CAGR in mortgage loans to Rs.1,193bn and Rs.1,459bn during FY11 and FY12 respectively.

### Change in the mortgage loan provisioning norms will have very marginal impact on the earnings; overall asset quality remains healthy.

NHB has mandated that housing finance companies should create provision for 0.4% of the total loans outstanding by September 2011. HDFC is carrying an excess provision of about Rs. 4bn in its books as on Q3FY11, which will be utilized toward the additional provisioning requirement. Further, the maximum loan to value of ratio for loans up to Rs. 2mn is 90% and loans above Rs.2mn is 80%, HDFC's average loan to value ratio stood at 68% and therefore is less likely to have any significant impact on its business.

Additional requirement of a 2% provision on dual rate loans will be met from the excess provision in the books. For HDFC, the dual rate loans outstanding in the books amounts to Rs. 200bn, nevertheless, the excess provision of Rs 4bn will be sufficient to take care of additional provision requirement. Importantly HDFC has discontinued the scheme from December 2010 onwards and there are no new additions to the portfolio. Therefore, the new NHB norms are less likely to have any significant impact on HDFC's earnings going forward.

HDFC's asset quality remains healthy, during Q2FY11; HDFC reported a gross NPA of Rs.9.4bn (0.9% of assets) and net NPA of 2.1bn. Provision coverage for Q2FY11 stood firm at 77%.

**We maintain our positive outlook for HDFC and recommend investors to accumulate the stock on declines with a price target of Rs. 720.**

Given the steady demand for housing in Indian, we maintain our positive outlook for HDFC. We maintain our earnings estimates; we expect a net profit growth of 20% yoy to Rs.34bn for FY11 and 19.8% yoy growth and net profit of Rs.40.7 bn for FY12.

**We maintain our positive outlook for HDFC and recommend investors to accumulate the stock on declines with a price target of Rs.720**

We value HDFC using sum-of-the-parts (SOTP) methodology. The core business (mortgage financing) is valued on dividend discount model (DDM), based on which we arrive at a fair value of Rs.486 (FY12 estimates), which is 3.6x its FY12 adjusted book value of Rs.134. We have valued HDFC subsidiaries-at Rs.235, leading to a price target of Rs.720. The stock is trading at 3.6x P/ABVx- post stripping the value of subsidiaries and investments. We maintain our **ACCUMULATE** recommendation with a price target of Rs.720.

## Bulk deals

## Trade details of bulk deals

Date	Scrip name	Name of client	Buy/ Sell	Quantity of shares	Avg. price (Rs)
29-Dec	Balaji Dist	Globe Capital Market Ltd	B	461,938	53.3
29-Dec	Balaji Dist	Infina Finance Pvt Ltd	S	278,323	53.3
29-Dec	ENSA Steel	Chimanlal Maneklal Securities	B	26,365	15.3
29-Dec	Gandhinagar Hot	Hema Viral Joshi	S	35,000	188.7
29-Dec	GCV Services	Arsenal Finstock Services Pvt Ltd	S	58,770	85.8
29-Dec	GCV Services	Saurabh Chandrakant Nagarsheth	S	51,000	87.8
29-Dec	JMD Telefilms	Flex Trade Pvt Ltd	S	318,013	16.1
29-Dec	Kpit Cummins	Kpit Systems Ltd Emp Welfare Trust	B	794,550	143.0
29-Dec	Kpit Cummins	Cummins Inc	S	794,550	143.0
29-Dec	Marg	Karvy Financial Services Ltd	B	226,660	149.8
29-Dec	Marg	Rishikesh Hire Purchase & Leasing	S	182,900	149.9
29-Dec	PFL Infotech	Tripurari Properties Pvt Ltd	B	37,669	89.8
29-Dec	Raj Packaging	Rajesh Sumatibhai Mehta	S	95,098	69.4
29-Dec	Real Strips	Bhagwandas Phabiomal Ghanshani	B	28,000	129.6
29-Dec	Real Strips	Singhal Products India Pvt Ltd	S	80,000	129.5
29-Dec	Shree Nath Com	Rupak Developers Pvt Ltd	B	36,849	69.5
29-Dec	Shree Nath Com	Dytron Finvest Pvt Ltd	B	34,000	68.5
29-Dec	Shree Nath Com	Narayan Singh Rao	S	60,000	69.5
29-Dec	Shrenuj	Prest Impex Pvt Ltd	B	800,002	44.3
29-Dec	SV Electricals	U Kiran	S	110,000	190.4

Source: BSE

## Gainers &amp; Losers

## Nifty Gainers &amp; Losers

	Price (Rs)	chg (%)	Index points	Volume (mn)
<b>Gainers</b>				
HDFC Bank	2,328	3.2	8.5	0.8
HDFC	717	2.4	7.4	1.7
ICICI Bank	1,129	1.6	6.8	2.3
<b>Losers</b>				
Cipla	367	(1.2)	(0.8)	0.8
Wipro	489	(0.6)	(0.5)	0.6
Sun Pharma	480	(0.6)	(0.4)	1.0

Source: Bloomberg

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