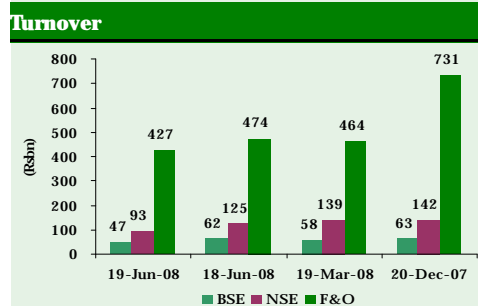




20 June 2008

Indices	%Change			
	19-Jun-08	1mth	3mth	6mth
Sensex	15,088	(12)	1	(21)
Nifty	4,504	(12)	(2)	(22)
CNX Midcap	6,096	(12)	4	(28)
Banking	7,013	(20)	(6)	(35)
Capital Goods	11,668	(14)	(11)	(38)
IT	4,306	(4)	28	(0)
Healthcare	4,427	4	21	4
NASDAQ	2,462	(1)	9	(7)
Dow Jones	12,063	(6)	(2)	(9)

Net Inflows				
Rs bn	17-Jun-08	16-Jun-08	MTD	YTD
FII	(5)	(1)	(70)	(224)
Mutual Fund	3	3	19	81
FII - F&O	1	6	24.6	412



Commodity & Currency % Change				
	19-Jun-08	1mth	3mth	6mth
Crude (US\$/barrel)	131.9	2.3	29.5	44.9
Gold (US\$/Oz)	899.6	(2.1)	(1.2)	13.0
US\$	42.9	0.5	6.4	8.5
Euro	66.8	(0.1)	7.8	17.5

Debt				
%	19-Jun-08	1mth	3mth	6mth
RBI Repo	8.0	7.8	7.8	7.8
10 yr G-Sec yld	8.5	7.9	7.6	7.8
Spread 1 & 10 yr G-Sec	0.3	0.2	0.1	0.4
US 10 yr treasury	4.2	3.8	3.4	4.1
Surplus liquidity (Rs bn)	115.8	(231.8)	439.3	223.7

## Banking Sector Update

**Rakesh Kumar**  
rakesh.kumar@karvy.com

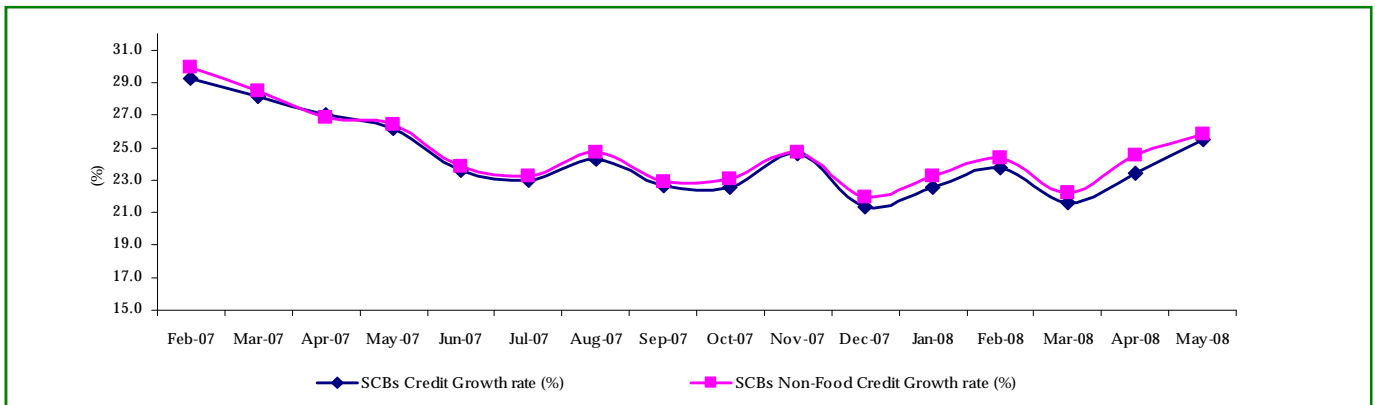
**Ranbaxy Lipitor deal - (Rs553)**  
**Market Performer - Target Price Rs 587**

**Rahul Sharma**  
rahul.sharma@karvy.com

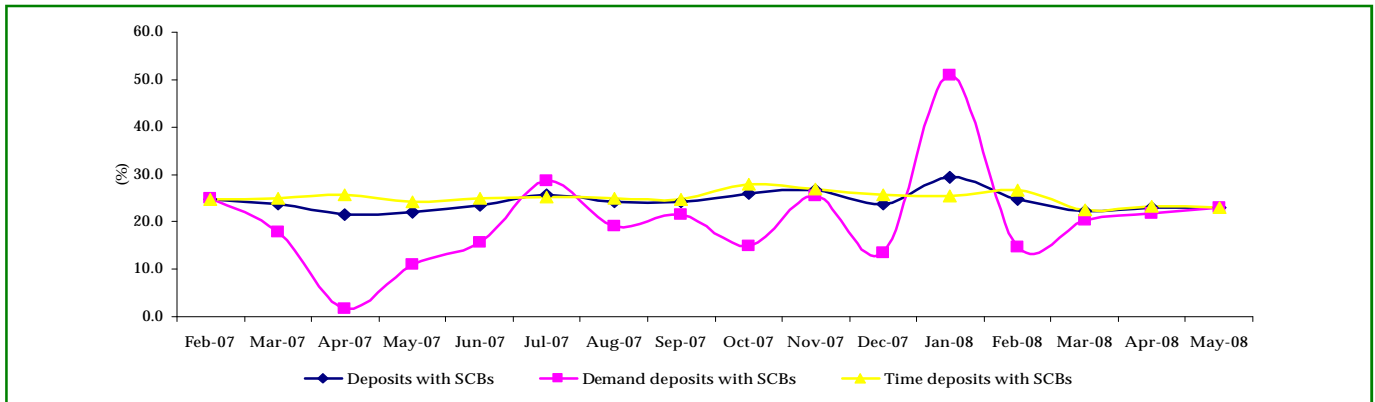
## Banking sector update

*Cost-push inflation and higher bond yield eat into monetary assets; underperformance continues*

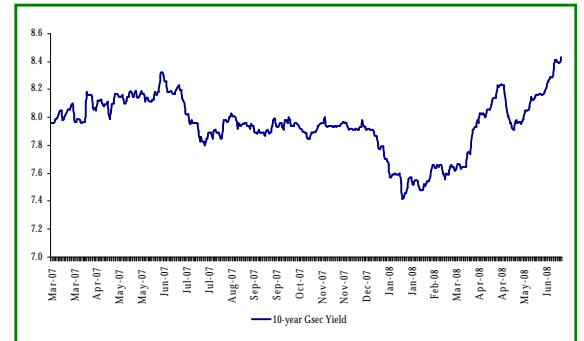
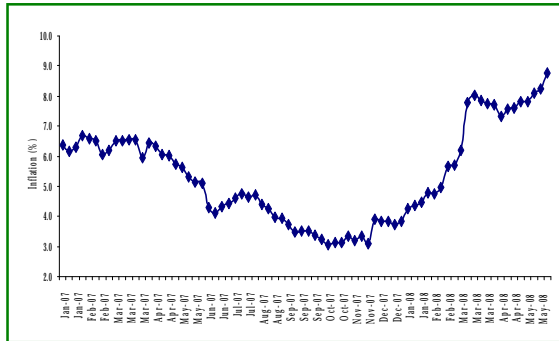
**Robust numbers in credit & deposit growth:** The scheduled commercial banks (SCBs) reported uptrend trajectory in credit and deposit growth in first quarter of FY2008-09, generally unusual in April-June quarter in previous years due to cyclical pressure and more credit pumped in the pipeline in fourth quarter of a year. In 1Q FY09, as reported in some of the print media, the oil marketing seems to borrowing heavily for their working capital requirements resulting into higher credit offtake; another factors contributing credit growth would be credit demand from SMEs sector. Till the May 2008, SCBs' credit growth and non-food credit growth were 25.5% and 25.8% respectively.



In 1Q FY09, SCBs' deposit growth has been quite strong due to volatility in equity market and money market. Therefore majority of savings are routing to banks. Till May 2008, demand and time deposits both grew by 23% (Y-o-Y).



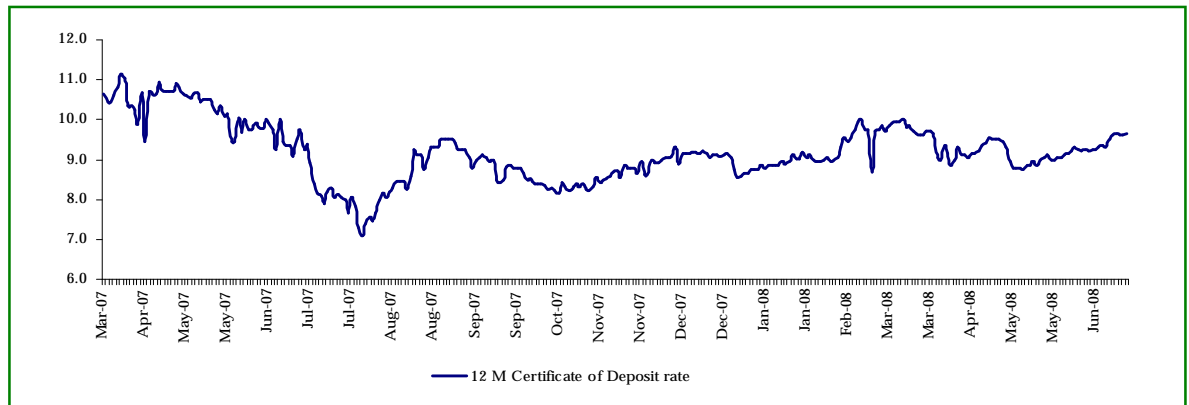
**Uptrend in inflation & bond yield:** Continuous increase in inflation from 6.21% in 1st March 2008 to 8.75% in 31st May has led to increase in G-sec bond yield across maturities; during 1QFY09 till date, inflation increased by 100 bps and 10-year benchmark bond paper yield has increased by 52 bps to 8.43%.



**CASA share may decline further:** Due to recent uptrend in bond yield and Repo rate, banks are increasing their term deposits rates across maturities. Increase in term-deposit rates may lead to conversion of portion of saving deposits into term deposits resulting into decrease in CASA share and increase in cost of deposits. As on end-March 2008, most of the banks reported decline in their CASA share over a year period; OBC and Syndicate Banks have least CASA share among the block, therefore these state-owned banks would be most impacted by increase in wholesale deposits rates.

CASA share	
Andhra Bank	33.4
Axis Bank	45.7
Bank of India	35.5
Canara Bank	32.4
City Union Bank	20.9
Indian Overseas Bank	33.5
Karur Vysya Bank	25.6
Oriental Bank	27.0
Punjab National Bank	43.0
State Bank	43.0
Syndicate Bank	30.1
Union Bank	34.9

**Increase in wholesale deposit rates:** In wholesale deposit market also rates have started hardening; for the last one month 12-month certificate of deposits rates have increased by 65 basis points to 9.65%, which would eventually result into overall increase in cost of funds and strain on margins. Banks with low CASA share would witness their margins declining.



**Treasury income would remain subdued:** High volatility in equity and money markets would not offer any opportunity for banks to make treasury gains, infact some of the banks could report losses in treasury operations. Banks having direct exposure to equity market may report slightly higher losses rather exposure through mutual fund schemes. In bond market there is hardly any scope to make capital gains in increasing interest rate scenario.

**Investments depreciation; a hole in banks' bottomline:** Increase in bond yield across maturities would increase banks' investment depreciation provisions. As on end-March 2008, majority of state-owned banks under coverage have AFS portfolio size equal to a quarter of the total investment portfolio barring Oriental Bank, Canara Bank, Indian Overseas Bank and Union Bank, these four banks AFS portfolio sizes are 50%, 40%, 35% and 29% to their total investment portfolios and their AFS portfolios respective duration are 3.24, 1.52, 3.5 and 3.1 years respectively. Therefore in current increasing interest rate scenario, Oriental Bank stands to lose most in terms of investment depreciation provisions.

**Asset quality may deteriorate further:** Expected increase in lending rates by banks after they are done with deposits rates hikes, some delinquencies (on advances based on floating rates) may occur due to increased interest payments required to be made by the borrowers. We believe that after the banks complete their deposit rates hike exercise, they would increase their PLRs or lending rates for specific advances resulting into some comfort on net interest margin front but the banks would have to be very selective. As a result in the medium-term, yield on funds would improve but asset quality turn out to be bad in later days.

**In recent time, banking stocks' market capitalization have eroded by 35-40% and could fall further due to anticipated increase in cost-push inflation and bond yield. But from the current juncture, downside in selective banking stocks is very limited and risk-reward ratio is in favour. Majority of banks are trading at P/ABV multiple of five year low; we are positive on Punjab National Bank, Axis Bank and Bank of India. Though, we reiterate in medium-term banking stocks could underperform the market.**

**Sector: Pharma****Ranbaxy Lipitor deal - (Rs553)****Market Performer**  
**Target Price: Rs587**

Ranbaxy has entered into agreements with Pfizer Inc to settle patent litigation worldwide involving Lipitor in US ( US \$ 8 bn) and 7 other countries (US \$ 2.5 bn). The settlement also involves Caduet US \$ 400 mn (combination of Atorvastatin and Amlodipine). This would enable Ranbaxy to launch the products in November 2011 and have exclusivity for a period of six months for the product in US for Lipitor and Caduet and 2-3 mths in rest of the countries as Lipitor would be allowed to launch a couple of months prior to patent expiry in these countries. However in US the company may have to fight authorized generics competition. We believe the NPV value per share would be Rs 37 for Lipitor in US and other markets as well as Caduet in US.

We value the core business of the company at Rs 435 based on 25x CY 2009E basis while we value the FTF opportunity of Imitrex and Valacyclovir of Rs 8.4 in CY 2009E at 6x which translates in a Rs 50 per share value in CY 2009E. As the Nexium upside is a recurring business we value it at 25x and ascribe a value of Rs 65 to it. The NPV for the Lipitor and Caduet is Rs 37 and we ascribe that value. We arrive at a fair value of Rs 587 for the company and rate the company as **Market Performer**.

**Ranbaxy Labs**

		<b>Rs Mn</b>	<b>CY2005</b>	<b>CY2006</b>	<b>CY2007</b>	<b>CY2008E</b>	<b>CY2009E</b>
Reuters/Bloomberg Code	RANB.BO/RBXY@IN	Net sales	52,816	61,434	70,722	78,760	98,196
Market Cap(Rs bn)	206	EBITDA	3,111	8,825	10,348	10,974	15,991
Market Cap(US\$ mn)	4815	Reported PAT	2,265	4,881	4,957	6,518	12,528
Shares Outstanding(mn)	372	EPS(Rs)	6.1	12.3	12.5	13.4	25.8
52-week High/Low(Rs)	593/300	EPS growth (%)	(69.3)	102.2	1.6	7.4	92.2
		EBITDA margin(%)	5.9	14.4	14.6	13.9	16.3
Major Shareholders (%)		PER(x)	90.9	45.0	44.3	41.2	21.5
Promoters	34.84	EV/EBITDA (x)	71.7	27.4	23.4	14.5	9.8
FII's	13.95	P/S (x)	4.0	3.4	3.1	2.7	2.8
Banks/Fis/MFs	25.23	RoCE(%)	5.8	13.3	12.7	10.4	12.9
Public	25.94	RoE(%)	4.7	22.9	22.6	9.0	10.3

Source: Company and Karvy Estimates

**BULK DEALS ON NSE - 19 June 2008**

Symbol	Scrip Name	Client Name	Buy/Sell	Quantity Traded	Price
AMTEKAUTO	AmtekAuto-Roll Sett	WARHOL LIMITED	BUY	844,206	249.4
AZTECSOFT	Aztecsoft Limited	GLOBE CAPITAL MARKET LTD	BUY	261,497	74.8
GWALCHEM	Gwalior Chemical Industri	GOLDMAN SACHS INVESTMENTS MAURITIUS 1LTD	BUY	218,799	100.6
KOHINOOR	Kohinoor Foods Limited	A S CONFIN PVT.LTD.	BUY	97,325	111.5
NAGARFERT	Nagarjuna Fert & Chem	CLEAN FINANCE & INVESTMENT LTD	BUY	2,336,066	45.8
NDTV	New Delhi Television Limi	SWISS FINANCE CORPORATION (MAURITIUS) LIMITED	BUY	1,250,000	452.3
SASKEN	Sasken Commu Techno Ltd	PARWATI CAPITAL MARKET PRIVATE LIMITED	BUY	192,229	160.4
SASKEN	Sasken Commu Techno Ltd	TRANSGLOBAL SECURITIES LTD.	BUY	151,686	160.4
AMTEKAUTO	AmtekAuto-Roll Sett	OPPENHEIMER FUNDS INCA/C OPPENHEIMER DEV. Mkt. FUN	SELL	714,667	249.2
AZTECSOFT	Aztecsoft Limited	GLOBE CAPITAL MARKET LTD	SELL	19,332	74.5
KOHINOOR	Kohinoor Foods Limited	A S CONFIN PVT.LTD.	SELL	140,225	112.3
NAGARFERT	Nagarjuna Fert & Chem	CLEAN FINANCE & INVESTMENT LTD	SELL	2,336,066	45.8
NDTV	New Delhi Television Limi	PRANNOY ROY	SELL	1,250,000	452.3
SASKEN	Sasken Commu Techno Ltd	PARWATI CAPITAL MARKET PRIVATE LIMITED	SELL	192,229	161.2
SASKEN	Sasken Commu Techno Ltd	TRANSGLOBAL SECURITIES LTD.	SELL	152,786	160.4

Source: NSE

**BULK DEALS ON BSE - 19 June 2008**

Symbol	Scrip Name	Client Name	Buy/Sell	Quantity Traded	Price
520155	ABG INFRALOG	MACQUARIE BANK LIMITED	B	71,758	380.0
532981	ANU LABS	S.M.NISSAR	B	194,830	446.9
532981	ANU LABS	PRABHUDAS LILLADHER PVT. LTD.	B	97,313	435.5
532981	ANU LABS	BHANDARI RAKHI KALPESH	B	98,369	436.9
532981	ANU LABS	SUMMIT COMMUNICATIONS PVT LTD	S	70,000	433.4
532981	ANU LABS	S.M.NISSAR	S	195,470	447.3
532981	ANU LABS	PRABHUDAS LILLADHER PVT. LTD.	S	97,313	435.8
532981	ANU LABS	BHANDARI RAKHI KALPESH	S	98,369	439.9
500029	AUTOLITE INE	NISHA MAHESHWARI	B	100,040	50.5
507910	FIBERWB IN	KANUBHAI MANILAL PATEL	S	74,999	10.3
532022	FILAT FASH	MEHUL H SHAH	B	30,000	30.4
531863	GEEKAY FINAN	LOTUS GLOBAL INVESTMENTS LIMITED	B	70,000	63.4
532857	GLORY POLY	MS MAVIMPEX LTD	S	100,000	64.0
532764	GWALIOR CHEM	GOLDMAN SACHS INVESTMENTS MAURITIUS I LTD	B	124,623	101.2
505840	JAIPAN INDUS	ENCA FINLEASE LTD.	S	36,638	37.5
530985	JPTSECURITI	JYOTSNA SHARDA	S	21,000	124.4
530985	JPTSECURITI	ANGEL INFIN PRIVATE LIMITED	S	18,000	124.4
512559	KOHINORFOODS	A S CONFIN PVT LTD	B	141,222	111.7
512559	KOHINORFOODS	MARUTI SECURITIES LTD	B	476,486	107.2
512559	KOHINORFOODS	MARUTI SECURITIES LTD	S	350,295	112.1
532986	NIRAJ CEMENT	ATUL A. MEHTA	B	55,098	190.3
532986	NIRAJ CEMENT	ANIL AMRUTLAL GANDHI	B	444,139	189.8
532986	NIRAJ CEMENT	AMRUT SECURITIES LTD	B	81,474	189.6
532986	NIRAJ CEMENT	S.M.MISSAR	B	183,316	190.3
532986	NIRAJ CEMENT	HEMANT MADHUSUDAN SHETH	B	85,000	190.1
532986	NIRAJ CEMENT	BHAVESH PRAKASH PABARI	B	90,000	190.3
532986	NIRAJ CEMENT	SATISH RAMANLAL SHAH	B	71,000	189.2
532986	NIRAJ CEMENT	PRABHUDAS LILLADHER PVT. LTD.	B	323,401	191.1
532986	NIRAJ CEMENT	N D NISSAR	B	245,496	189.6
532986	NIRAJ CEMENT	SHREE BHIKSHU FIN..PVT LTD	B	143,216	190.3
532986	NIRAJ CEMENT	H.J.SECURITIES PVT. LTD.	B	105,619	190.3
532986	NIRAJ CEMENT	DHARMRAJBHAI BHABHLUBHAL WALA	B	351,500	190.1
532986	NIRAJ CEMENT	SHARMISHTA MAHESHBHAI SHAH	B	458,177	190.3
532986	NIRAJ CEMENT	SUREKHABEN MAHENDRABHAI SHAH	B	616,697	189.9
532986	NIRAJ CEMENT	MAHESH CHOTALAL SHAH	B	175,000	190.1
532986	NIRAJ CEMENT	SHAH MADHUBEN AMRUTLAL	B	366,954	189.8
532986	NIRAJ CEMENT	BHAVARLAL BABULAL JAIN	B	1,287,959	191.1
532986	NIRAJ CEMENT	BHATT JITENDRA V	B	325,596	190.1
532986	NIRAJ CEMENT	BHANDARI RAKHI KALPESH	B	87,979	190.8
532986	NIRAJ CEMENT	S.M.NISSAR	S	183,316	190.7
532986	NIRAJ CEMENT	SATISH RAMANLAL SHAH	S	71,000	191.7
532986	NIRAJ CEMENT	PRABHUDAS LILLADHER PVT. LTD.	S	323,401	191.2
532986	NIRAJ CEMENT	N D NISSAR	S	245,496	190.0
532986	NIRAJ CEMENT	SHREE BHIKSHU FIN PVT LTD	S	141,100	190.1
532986	NIRAJ CEMENT	H.J.SECURITIES PVT. LTD.	S	105,619	190.4
532986	NIRAJ CEMENT	DHARMRAJBHAI BHABHLUBHAL WALA	S	221,675	189.8
532986	NIRAJ CEMENT	SHARMISHTA MAHESHBHAI SHAH	S	311,177	190.3
532986	NIRAJ CEMENT	SUREKHABEN MAHENDRABHAI SHAH	S	506,697	191.3
532986	NIRAJ CEMENT	SHAH MADHUBEN AMRUTLAL	S	276,954	191.2
532986	NIRAJ CEMENT	BHAVARLAL BABULAL JAIN	S	1,287,959	191.0
532986	NIRAJ CEMENT	BHATT JITENDRA V	S	325,596	192.4
532986	NIRAJ CEMENT	BHANDARI RAKHI KALPESH	S	87,979	190.5
532986	NIRAJ CEMENT	INDRA KUMAR BAGRI	S	69,067	190.1
532986	NIRAJ CEMENT	ANIL AMRUTLAL GANDHI	S	350,400	191.5
532986	NIRAJ CEMENT	AMRUT SECURITIES LTD	S	81,474	190.6
590077	RANKLIN SOLU	SATISH KUMAR MAMIDI	S	80,000	146.7
508976	SPANCTELESY	ALOSHAVANIYA PVT LTD	S	94,048	121.5
523363	STER HOL RES	EVERSIGHT TRADECOMM PVT LTD	B	306,353	29.2
523363	STER HOL RES	ALOSHAVANIYA PVT LIMITED	S	312,500	29.2

Source: BSE

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<b>Stock Ratings</b>		<b>Absolute Returns</b>		<b>Stock Ratings</b>		<b>Absolute Returns</b>
Buy	:	> 25%		Market Performer	:	0 - 15%
Out Performer	:	16 - 25%		Under Performer	:	< 0%

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