

# Indbankonline

MARKETS FOR YOU

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## MESSAGE

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प्रधान मंत्री कार्यालय  
नई दिल्ली - 110 011  
PRIME MINISTER'S OFFICE  
NEW DELHI - 110 011

03 August 2007

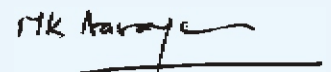


The opening up of the economy in the early 90s has gone a long way in changing the face of the Indian economy. India is today acknowledged as the one of the fastest growing economies in the world. High growth is, in fact, a function of the liberalized Foreign Direct Investments (FDI) regime.

The strong earnings growth of India, coupled with increasing recognition of India's long-term growth prospects, is attracting more and more investors. India's growth drivers are a favorable demography, an inclusive democracy, robust domestic consumption, strong growth rate and acceleration in infrastructure creation. This has also made various Indian companies more confident and willing to go global by acquiring companies abroad.

Given the current economic upsurge, stock market and real estate has emerged as one of the most appealing investment areas for domestic as well as foreign investors. The higher rate of returns on investments has made the Indian markets the preferred destination for foreign investments. This trend in stock market, which is rallying beyond the astonishing 15000 points, goes to prove the remarkable confidence of the investors in the strength and buoyancy of the Indian economy.

This newsletter would pave the way towards giving various insights on the investments and would assist the investors in making right investments.

  
**M. K. Narayanan**

## Markets Last Month

### Indian Equity Market

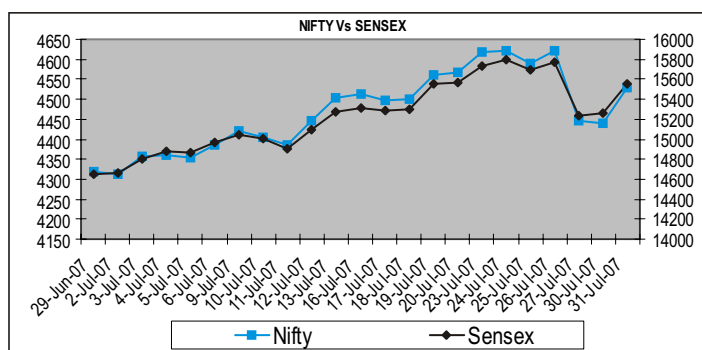
Market sentiments were buoyant ahead of the earnings season. Strong foreign fund inflow, firm global markets and good Quarter 1 2007 results fuelled the rally with key benchmark indices striking all-time high in July 2007.

The BSE Sensex and NSE Nifty broke all barriers and touched the all time high of 15868.85 and 4647.95 respectively on 24<sup>th</sup> July.

The Sensex lost 541 points on 27<sup>th</sup> July 2007, after climbing to its all time high on July 24. This was the 5th largest fall ever in the history of the index. Traders on the street dubbed it as a 'Black Friday'. The bears built huge short positions in the Nifty August series, which closed at 4402, down 175 points on 27<sup>th</sup> July.

The Nifty and Sensex closed at 4528.85 and 15550.99, with an increase of 210.55 points and 900.48 points respectively, on the last day of the month.

During the first fortnight, Metal stocks gained the most (11.4%) as stocks of Hindalco and SAIL galloped while IT stocks were the biggest losers as Infy results did not meet expectations due to Rupee appreciation. During the third week, BSE Oil gained the most (3.7%) while FMCG stocks were the biggest losers (~2%). During the last week of the month, all sectors were down except for the FMCG sector, which rose 5.4% over the third week. The month ended with Midcap stocks falling (BSE Mid Cap down 3.5%) stocks falling more than the Large Cap (Sensex down by 2.1%) stocks over the third week's closing.



Sebi has made it compulsory for all listed companies to come out with their financial results within a month after the end of every quarter. Companies have an option to furnish either unaudited or audited quarterly and year-to-date financial results to the stock exchange within one month from the end of each quarter.

On July 10, 2007, the BSE Realty Index, an index tracking shares of property developers, was launched. The index comprises 11 listed firms and represents about 95% market capitalization of real-estate development companies in the BSE-500 index.

### Institutional Investment - FII and MF Trend for the Month

FII's invested heavily in Indian stocks during the three weeks of the month, as they were net buyers on each of the days. FII purchases signify a sentiment reversal from the previous month when US treasury yields fell. Good corporate earnings and the rise in the value of the Indian rupee against the dollar have attracted foreign funds. Inflow from foreign institutional investor (FIIs) in the first half of July 2007 reached Rs 21451 crores (till 19 July 2007).

But during the fourth week, FIIs were net buyers till Thursday, and Friday saw FIIs becoming net sellers to the tune of Rs.1222.4 cr due to market sentiment. Unlike FIIs, Mutual funds were net sellers through out the month.

#### FII-Cash & Debt segment

(Rs.Crores)

Month	Equity Gross Purchase	Equity Gross Sales	Equity Net Purchase	Debt Gross Purchase	Debt Gross Sales	Debt Net Sales
July-07	77328.1	59292.8	18035.3	2051.5	3314.6	-1263.1

#### FII-Derivatives segment

(Rs.Crores)

Month	Index buy	Index sell	Stock buy	Stock sell
July -07	51531.7	48700.2	36173.4	42815.5

#### Mutual Fund- Cash & Debt Segment

(Rs. Crores)

Month	Equity Gross Purchase	Equity Gross Sales	Equity Net Sales	Debt Gross Purchase	Debt Gross Sales	Debt Net Purchase
July-07	14962	16578	-1596	26459	15263	11196

RBI allowed clearing corporations of stock exchanges to accept foreign securities as collateral. Foreign funds can now provide foreign sovereign securities with AAA rating as collateral to recognized stock exchanges in India for their transactions in the derivatives segment.

Till now, FIIs were required to give cash as margin for exposure in derivatives. Foreign portfolio managers can now dip into their idle holdings of bonds issued by overseas governments to give margin against futures and options (F&O) positions on the Indian stock exchanges.

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SPE

## Indian Fixed Income Markets

10-year benchmark G-Sec rallied during the first week, rounding off the biggest weekly gain in five months on speculation that the central bank will refrain from raising interest rates as inflation figures were within its comfort levels. During the second week, they were range bound in the absence of fresh triggers. The yields closed at 7.94% marginally lower than the last week close of 8.01%. During the third week G-Sec prices ended higher with an 82 paise gain over the previous week's close. Prices came off a bit on Thursday (third week) following comments from Finance Minister Mr. P. Chidambaram, who hinted that the central bank might not cut rates in the near term. Ample liquidity and bullish cut-off from auctions kept the market momentum high. During the end of the month, they again turned range-bound with a 15 paise loss over the previous week close. The markets declined (with yields rising) on last Friday of the month on expectations of liquidity tightening measures by RBI in its Monetary Policy review on July 31.

## Highlights of the Monetary Policy

- ❖ Bank Rate kept unchanged.
- ❖ Reverse Repo Rate and Repo Rate under Liquidity Adjustment Facility (LAF) kept unchanged.
- ❖ Withdrawal of the ceiling of Rs.3,000 crore on daily reverse repo under the LAF with effect from Monday, August 6, 2007. The Reserve Bank, however, retains the discretion to re-impose a ceiling as appropriate.
- ❖ The second LAF, conducted between 3.00 p.m. and 3.45 p.m. on a daily basis, is withdrawn with effect from Monday, August 6, 2007.
- ❖ Cash Reserve Ratio (CRR) to be increased by 50 basis points to 7.0 per cent with effect from the fortnight beginning August 4, 2007.
- ❖ GDP growth projection for 2007-08 retained at around 8.5 per cent, barring domestic or external shocks.
- ❖ Holding inflation within 5.0 per cent in 2007-08 assumes priority in the policy hierarchy, while reinforcing the medium-term objective to condition policy and perceptions to reduce inflation to 4.0-4.5 per cent on a sustained basis.

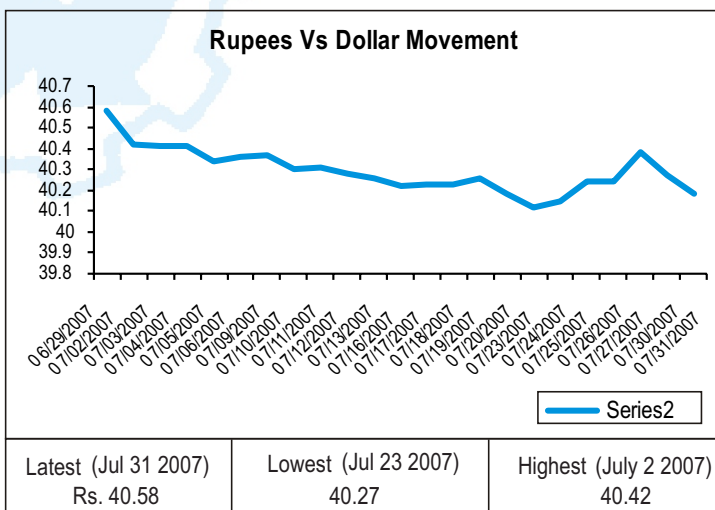
- ❖ While non-food credit growth has decelerated, the acceleration in money supply and reserve money warrants an appropriate response.
- ❖ Recent financial market developments in India and potential uncertainties in global markets warrant a higher priority in the policy hierarchy for managing appropriate liquidity conditions at the current juncture.

The CRR hike is the second this year, will help to suck the excess money from the system which in turn would force the banks to reduce their deposit rate, since the banks are unlikely to hike their interest rates. Call rates were sub-1% throughout the month as the system was awash with liquidity.

The WPI-based numbers rose to 4.41% for the week ended July 14 against 4.27% the previous week on costlier food items including vegetables (up 7%), cereals (up 0.9%), food grains and spices and condiments.

Forex reserves aggregated to US\$ 222.04bn in the week ended July 20, 2007.

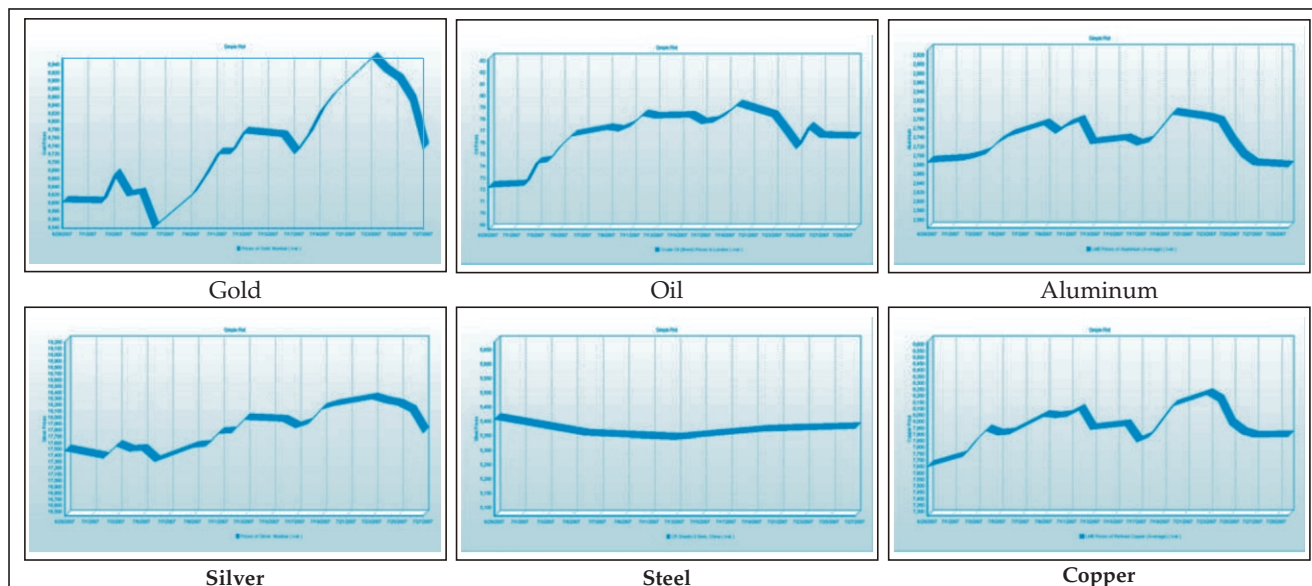
The rupee closed at Rs.40.53 per US Dollar during the last week depreciating 21 paise over the previous week close. RBI was buying dollars to support export competitiveness. Rupee value closed at Rs 40.58 for the month.



## Commodity Markets

The National spot exchange Ltd, an arm of the Multi Commodity Exchange of India (MCX), is slated to launch online trading in sesame seed, cotton, groundnut and castor seeds by September this year. MCX also plans to start futures trading in electricity, carbon credit, coal, freight index, weather index, real estate index and rain index after both the houses of the Parliament pass the amendment to the Futures Contracts Regulation Act.

## Commodities Movement over the last month



Gold Prices were fluctuating throughout the month giving a 4.68% variation between the highest and the lowest price. Crude oil prices were skyrocketing during the month, making it to reach a 1 cent short of a record close due to concern and unrest in Nigeria, maintenance of a North Sea oil field that will curb supply as unexpected refinery closures cut fuel output, a pipeline shutdown and maintenance work reduced North Sea Brent oil production and a release of a government report which showed that the U.S. economy grew more than expected in the second quarter, indicating fuel demand will rise.

### Global Markets:

During the first fortnight U.S. stocks climbed a straight week, sending the Standard & Poor's 500 Index and Dow Jones Industrial Average to records, after takeover speculation swept through the metals industry. U.S. stocks had their first weekly decline during the third week in this month after concern grew that loan losses at banks and brokerages will restrain corporate profit growth. Speculation that the worst housing slump since 1991 will be exacerbated as defaults by the riskiest borrowers surge prompted the DJIA to retreat after closing above 14,000 for the first time on July 19. U.S. Treasuries raised the most in more than four months during that week. Wall Street suffered one of its worst losses of 2007 during the fourth week of the month, leading a global stock market plunge as investors succumbed to months of worry about the mortgage and corporate lending markets. While stocks plummeted, investors poured money into the safe haven of the bond market taking yields down to 4.76% on the 10Y note. China's shares held steady at near-record high prices, shrugging off a tumble by other Asian markets after Wall Street suffered one of its biggest drops this year.

China raised its interest rates for the third time since March, during the month, to cool the fastest pace of economic growth in 12 years and restrain inflation. The benchmark one-year lending rate was raised by 0.27% to an eight-year high of 6.84%. The deposit rate was increased to 3.33% from 3.06% and a tax on interest income was cut to encourage saving.

The dollar hovered near a record low against the euro during the third week of the month on lingering worries about the US housing market.

The BOE's nine member Monetary Policy Committee led by Governor Mervyn King, raised interest rates to 5.75%, the fifth rise since August 2006. Inflation was above the bank's 2% target for more than a year (2.5% in May). The pound rose close to a 26-year high against the dollar after the decision during the first week. Reserve Bank of Australia left its cash rate target unchanged at 6.25%. Bank Indonesia cut its key interest rate by 25 bps to 8.25%.

Indices	Country	Index as on 29th June	Index as on 31st July
NASDAQ	United States	2618.33	2583.28
DJIA	United States	13446.75	13358.31
S&P 500	United States	1,503.34	1473.91
Hang Seng	Hong Kong	21772.73	23184.94
Nikkei 225	Japan	18138.36	17248.89
Straits Times	Singapore	3,548.20	3547.66
FTSE 100	United Kingdom	6547.00	6330.90
CAC 40	France	6016.41	5746.24
DAX	Germany	7959.62	7588.40



## IPO and NFO Review

On 10 July 2007, the Securities and Exchange Board of India (Sebi) eased the rules for government-owned infrastructure companies on raising funds through initial share offerings (IPOs) by doing away with the mandatory one-year lock-in requirement of pre-issue share placements. The guideline on minimum post-issue promoter holding has also been relaxed. Currently, promoters have to maintain at least 20% in the post-IPO share capital of a company. This rule will not hold for government-owned infrastructure companies. Moreover, public sector infrastructure entities will have the

flexibility to issue IPOs with face value of share less than Rs 10. At present companies can do this, with an issue price above Rs 500. These relaxations will help government companies such as PSUs, statutory authorities and Special Purpose Vehicles (SPVs) set up by them to raise capital for their infrastructure development activities.

Of the 12 new issues during the month 8 issues were subscribed more than 30 times. Everonn systems and Simplex Projects had attractive subscriptions of 131.5 times and 85.5 times of their issue size respectively.

Open Issues					
Company Name	Issue Type	Face Value (Rs)	Premium (Rs)	Issue Open	Issue Close
Take Solutions Ltd.	Public Issue (B)	10	675-730	01/08/2007	07/08/2007
Puravankara Projects Ltd.	Public Issue (B)	5	500-525	31/07/2007	03/08/2007

Forthcoming Issues						
Company Name	Issue Type	Instrument Type	Face Value (Rs)	Premium (Rs)	Issue Open (Rs)	Issue Close
KPR Mills Ltd.	Public Issue (B)	Equity Share	10	133-156	02/08/2007	07/08/2007

New Listing						
Company Name	Offer Price (Rs.)	Listing Date	List Price (Rs.)	Last Traded Date	Last Traded Price (Rs.)	% Change
Allied Digital Services Ltd.	190	25/07/2007	332.5	31/07/2007	320.75	68.8%
Housing Development & Infrastructure	500	24/07/2007	538.6	31/07/2007	573.05	14.6%
Celestial Labs Ltd.	60	17/07/2007	75	31/07/2007	58.3	-2.8%
Roman Tarmat Ltd.	175	09/07/2007	306.25	31/07/2007	253.5	44.9%
DLF Ltd.	525	05/07/2007	526.6	31/07/2007	612.2	16.6%
Vishal Retail Ltd.	270	04/07/2007	472.5	31/07/2007	671.4	148.7%
Suryachakra Power Corporation Ltd.	20	23/07/2007	30	31/07/2007	21.1	5.5%
Spice Communications Ltd.	46	19/07/2007	55.75	31/07/2007	55.85	21.4%

The mutual fund industry closed July 2007 with Rs 4.86 lakh crore of assets under management (AUM). This showed an upswing of 21.37% in July 2007 compared with Rs 4.01 lakh crore managed in June 2007. AUM of Fund of Funds (FoFs) was Rs 2062.28 crore. Ample liquidity in the market, booming stock market and number of new funds offers has led to the increase in AUM.

NFO						
Scheme	Type	Class	Open Date	Close Date	Offer Price (Rs.)	Min. Inv. Amount (Rs.)
Sundaram CPOF	Close	Debt - Income	09/07/2007	07/08/2007	10	5000
JM Contra	Open	Equity - Diversified	16/07/2007	14/08/2007	10	5000
DSP ML World Gold	Open	Funds of Funds	25/07/2007	23/08/2007	10	5000
Escorts Infrastructu	Close	Equity - Diversified	26/07/2007	24/08/2007	10	5000
Kotak GlobalEmrgMark	Close	Equity - Diversified	25/07/2007	24/08/2007	10	5000
DWS GlobalThemaOffsh	Open	Funds of Funds	31/07/2007	28/08/2007	10	5000
HSBC Dynamic	Open	Equity - Diversified	03/08/2007	30/08/2007	10	10000

Out of these 32 schemes launched during the month, 28 schemes were debt funds (9 open ended schemes and 19 close ended schemes), 3 equity funds (2 open ended schemes and 1 close ended scheme) and 1 equity-balanced fund (close ended scheme).

## Mutual Fund Corner

### Scheme for the Month

### Reliance media and Entertainment Fund (Open-ended Sector Specific fund)

Fund Manager: Sailesh Raj Bhan

Reliance Media & Entertainment Fund is an Open-ended Media & Entertainment sector scheme launched in September 2004. The Reliance Media and Entertainment Fund would harness the opportunity provided by the Indian media and entertainment sector.

Current Stats & Profile	
Latest NAV	30.1204 (31/07/07)
52-Week High	31.0883 (19/07/07)
52-Week Low	15.3044 (01/08/06)
Fund Category	Equity: Other Specialty
Type	Open End
Launch Date	September 2004
Net Assets (Cr)	176.90 (30/06/07)
Benchmark	CNX Midcap

The total fund has been invested in various segments like print, television, radio, cinema, outdoor advertising and also emerging genres such as internet advertising, etc.

#### Investment Objective

The primary investment objective of the Scheme is to generate consistent returns by investing in equity /equity related or fixed income securities of media & entertainment and other associated companies.

Trailing Returns		
As on 31 Jul 2007	Fund	CNX Midcap
1-Month	3.81%	3.38%
3-Month	15.48%	17.77%
1-Year	94.96%	59.31%
Return Since Launch	47.42%	----
Returns upto 1 year are absolute and over 1 year are Annualized.		

Fund Style		Portfolio	
<b>Investment Style</b> Growth   Blend   Value		<b>Characteristic</b> 0 - 100% in Equity & Equity related securities in the Media & Entertainment Sector.	
		0 - 100% in Fixed Income Securities of Media & Entertainment Sector & Money Market Instruments	
		<b>CAPITALIZATION</b> Large Medium Small	

The Fund will be invested in equity securities whenever the equity market and shares from the media sector are expected to do well. However, whenever the equity market is not expected to do well, the Fund will shift its focus in debt, which in extreme cases of bearish equity market can go upto 100%.

The Asset Allocation Pattern is only indicative. The investment manager in line with the investment objective may alter the above pattern for the short term and on defensive basis.

#### Top Holdings

Name of Holding	Instrument	% Net Assets
Others	Cash	28.38
Zee Entertainment Enterprises	Equity	9.52
Zee News Ltd.	Equity	7.79
New Delhi Television	Equity	7.09
Dish TV India	Equity	6.03
Hinduja T M T	Equity	5.95
Jagran Prakashan	Equity	5.42
U T V Software Communications	Equity	4.45
Prime Focus	Equity	3.96
Balaji Telefilms	Equity	3.72
Prithvi Nandy Comm.	Equity	3.22
Adlabs Films	Equity	3.18
Wire and Wireless India	Equity	2.51
Info Edge (India)	Equity	2.51
Sri Adhikari Brothers Tele.	Equity	1.87
Entertainment Network India	Equity	1.49
Mid-Day Multimedia Ltd	Equity	1.39
Macmillan India	Equity	1.01
Others	Equity	0.51

# Stock Watch

## Asian Hotels Ltd

**INDUSTRY : Hotels**

**HOUSE : Jatia**

### History of the Company

Asian Hotels Ltd (AHL) is one of the leading players in the Indian hospitality industry operating a chain of deluxe category hotels under the brand Hyatt Regency Hotels. The company has its presence in three metros Delhi, Kolkata and Mumbai. The company incorporated in 1981 has technical tie-up with the Hyatt International Asia Pacific, Hong Kong. GJS Hotels Ltd is a subsidiary of the company.

The company set up its first-grade room facilities for guests during the 1982 Asiad. This is the 530-room Hyatt Regency at New Delhi. Hyatt renders services and assistance in sales and marketing, international reservations, and advertising. As part of its expansion plan to have presence in other geographical location it commissioned two new properties (in five star deluxe hotels category) i.e Hyatt Regency Kolkata and Hyatt Regency Mumbai. The former has commenced its full-fledged operations on Jan 1, 2003 and the later on April 1, 2003.

During 1996-97, the company received the Hyatt International Award of Excellence for the Rooms Division and Food & Beverages Division. The company also received the award for the Best Business Hotel in the Northern region in the country awarded by the Department of Tourism, Government of India.

Share Holding Pattern (as on 31 - March - 2007)	
	(%)
Public	18.31
Institutional Investments	74.5
Financial Institutions	2.59
FII	3.4
MF	1.19
Others	0.01

The company has been in the hospitality business for the past 25 years, but has grown to only three properties after establishing its first five-star property in Delhi in the early 1980s. In recent years, it opened a property each in Mumbai and Kolkata and has acquired development rights in Bangalore and Bhubaneswar. But many of its peers like Indian Hotels, East India Hotels, ITC Hotels and Hotel Leela Ventures have grown manifold.

The board of directors of Asian Hotels, the owners of the Hyatt Regency properties in Mumbai, New Delhi and Kolkata, is proposing restructuring of the company into three independent undertakings.

Accordingly, one unit will own the Delhi property. The second unit will control the Kolkata property together with the investments and development options in Bhubaneswar, appropriate cash liquidity, besides Regency Convention Centre and Hotels Ltd. The third unit will own the Mumbai undertaking together with investments and developments options in Bangalore.

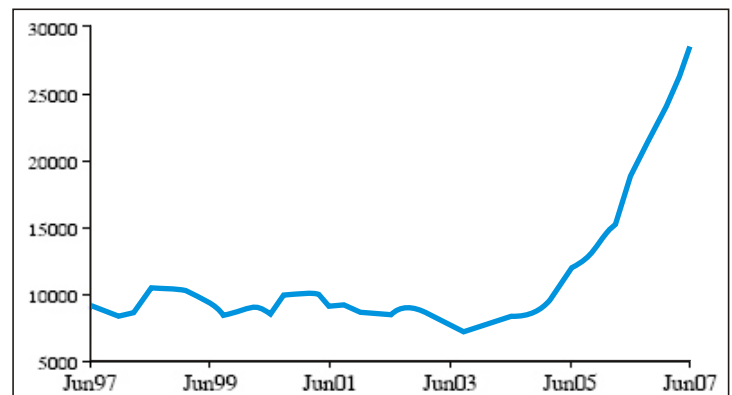
The trifurcation will lead to the creation of two new companies - Vardhman Hotels and Chillwinds Hotels, besides Asian Hotels. With each individual promoter getting charge of their own property to manage and grow, it is expected to significantly boost the growth prospects for the three entities. It will also induce each promoter to take a long-term strategic decision about the company's future, which may not be possible under the present arrangement. The fundamentals for the hospitality sector remains strong and demand continues to outstrip supply in big cities. The flipside is that post demerger, individual entities would be standalone hotels making them more vulnerable in a business downturn. The new companies would have to roll out aggressive expansion plans to remain in the big league.

Asian Hotels said its shareholders would get five shares in each of its three demerged entities for every 10 shares held. The company would also raise Rs 521 crore in preference shares, bulk of it will be from a promoter firm. Of which fully convertible preference shares worth Rs 311 crore to Yans Enterprises (H.K.) on a preferential basis and Rs 30 crores will be raised through issuance of fully convertible preference shares to independent private equity investors. In addition, the board has approved the issue of 1,00,00,000 1% cumulative redeemable non-convertible preference shares of Rs 10 each at a premium of Rs 80 per preference share aggregating to Rs 90,00,00,000 to one of the promoters and IDFC on a preferential basis. These shares will be redeemed in three annual installments at a premium of Rs 16.90 crore. It would raise a similar amount from Magus Estates & Hotels.

But the entire proposal had to be reworked as the Department of Economic Affairs of the Ministry of Finance had declared that optionally convertible instruments would be treated as debt instruments; hence, warranting compliance with the Government's external commercial borrowings guidelines.

### Industry outlook

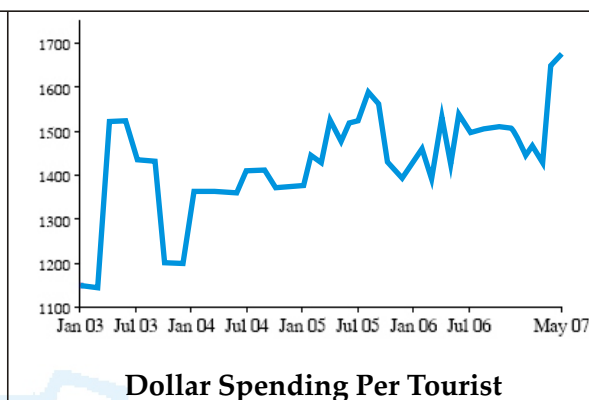
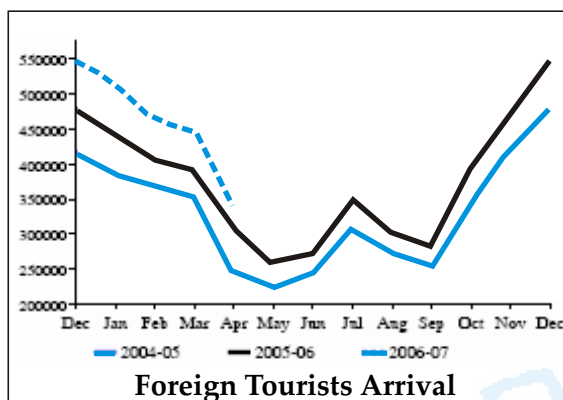
Sales for the hotels and restaurants sector grew by 32.3 per cent during the March 2007 quarter. Operating profit margins for the sector stood at 38.1 per cent while net profit margins stood at 23.1 per cent during the March 2007 quarter.



Hotels - Trend in Investments

Total outstanding investments in the hotels and restaurants sector grew by 54.4 per cent year on year for the quarter ended June 2007 to Rs.28,564.1 crores. A total of 45 new projects amounting to Rs.3,332 crores were announced during the June 2007 quarter. DLF plans to build eight hotels in Gujarat as part of the 74:26 joint venture between DLF and Hilton Hotels Corporation. Indian Hotels plans to set up the Kolkata Gateway Hotel Project at a cost of Rs.150 crores. It expects to complete this project by December 2009.

The June 2007 quarter had 105 projects under implementation amounting to Rs.8,615 crores. These include Hotel Leela Ventures projects, EIH's projects and Indian Hotels. Foreign tourist arrivals for May 2007 stood at 2.7 lakh. Growth in foreign tourist arrivals slowed down to five per cent in May 2007 when compared to the year ago period's growth of 14.7 per cent. An appreciating Indian rupee has resulted in a 23.6 per cent increase in dollar earnings to USD 455.6 million during May 2007 when compared to the year ago period.



#### Financial Snapshot

	(Rs. crores)				
	FY 2006-07	FY 2005-06	FY 2004-05	Q 200706	Q 200606
Equity	22.8	22.8	22.8	22.8	22.8
Revaluation Reserve account	857.00				
Networth	337.48	307.85	277.15	-	-
Capital Employed	-	512.51	536.83	-	-
NetSales	413.42	328.49	258.27	132.41	104.06
Rate of Growth(%)	25.85%	27.19%	-	27.24%	
Other Income	1.34	1.46	0.98	0.53	0.87
PBIDT	180.33	127.27	88.4	64.74	46.06
Rate of Growth(%)	41.69%	43.97%	-	40.56%	-
PBT	140.87	87.11	44.74	53.92	36.2
PAT	91.5	56.7	25.49	34.42	22.82
Rate of Growth(%)	61.38%	122.44%	-	50.83%	-
BookValue(Rs)	148.02	135.02	121.56	-	-
EPS(UnitCurr.)	40.13	24.87	11.18	15.10	10.01
PBIDTM(%)	43.62%	38.71%	38.71%	48.89%	44.15%
PBDTM(%)	39.42%	32.88%	25.28%	45.62%	40.03%
PATM(%)	22.13%	17.25%	9.87%	26.00%	21.88%

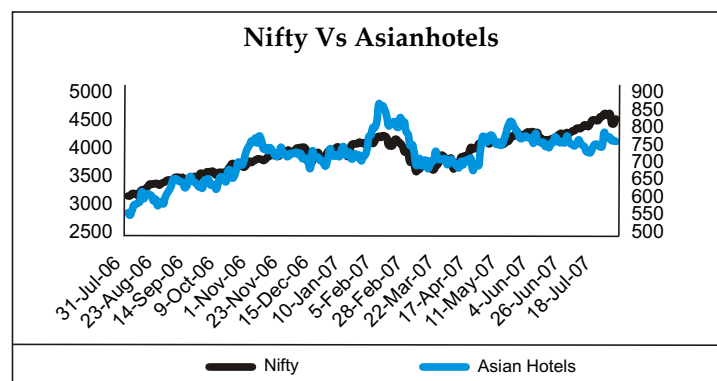
For the full year, net profit rose 61.38% to Rs 91.50 crore in the year ended March 2007 as against Rs 56.70 crore during the previous year ended March 2006. Sales rose 25.85% to Rs 413.42 crore in the year ended March 2007 as against Rs 328.49 crore during the previous year ended March 2006.

Net profit of Asian Hotels rose 50.83% to Rs 34.42 crore in the quarter ended March 2007 as against Rs 22.82 crore during the previous quarter ended March 2006. Sales rose 27.24% to Rs 132.41 crore in the quarter ended March 2007 as against Rs 104.06 crore during the previous quarter ended March 2006.

The Company, based on the report by a Certified Valuer, has revalued land and building of Hyatt Regency Delhi, one of the units of the Company, as at 28th February, 2007 at Rs. 857.00 crores, thereby increasing the value of land and building by an amount of Rs. 821.32 crores, and therefore an equivalent amount has been credited to the Revaluation Reserve Account. Asian Hotels has also recommended final dividend of 20%.

#### Market Snapshot

Market Data (As on 31-Jul-2007)	
Price (Rs)	754
Lat. P/E	18.1
Mkt. Cap.(Rs Cr)	1719.12
Lat. BV(Rs)	523.89
52 W H/L(Rs)	900 / 537
Lat. EPS(Rs)	41.58
Lat.Eqty (Rs Cr)	22.8
Div. Yield (%)	1.3
BSE CODE	500023
BSE Group	B1
NSE CODE	ASIANHOTEL





# Power Finance Corporation Ltd

**INDUSTRY:** Finance - Term-Lending Institutions

**HOUSE:** Government of India

## *History of the Company*

Power Finance Corporation is the leading power sector public financial institution and a non-banking financial company providing fund and non-fund based support for the development of the Indian power sector. PFC organization occupies a key position in the government's plans for the growth of this sector. PFC is likely to be a key beneficiary of the power sector development in the country. It possesses strong business visibility coupled with support from the government.

PFC commenced its business operations in fiscal 1988 as part of a GoI initiative to enhance funding of power projects in India. The Company initially provided funding to power projects for SEBs and power departments. In-line with the government's decision to encourage private sector participation, PFC began financing power projects in the private sector from fiscal 1997. PFC's clients include state power utilities, central power sector utilities, power departments, private power sector utilities (including independent power producers), joint sector power utilities, power equipment manufacturers and power utilities run by local municipalities.

Share Holding Pattern (as on 30 - June - 2007)	(%)
Government	89.78
MF	1.25
Financial Institutions	0.48
Foreign Institutional Investors	4.9
Others	3.59

In fiscal 1999, the GoI granted PFC, the "Mini Ratna" status, where the company would be considered as a public sector enterprise that, by virtue of their operational efficiency and financial strengths, has been accorded greater operational freedom and autonomy in decision making. Govt. of India has conferred the Company with the status of Nav Ratna PSU on 22nd June 2007. It will allow higher operational freedom to the board of directors of the company regarding extent of investment in joint ventures, incurring of capital expenditure, creation of below board level positions, investment in equity etc.

## **Future PFC**

PFC is intending to expand the financial assistance to projects ancillary to the power sector, specifically those projects relating to the provision of fuel to power generating utilities. PFC intends to promote private sector participation in electricity generation, transmission, distribution in-line with the government's focus on increasing competition in this sector, and also by funding coal, lignite, oil and gas companies and infrastructure agencies that transport and handle fuel for power projects.

In January 2006, the company formalized common lending documents with Life Insurance Corporation of India and ten Indian banks to establish the "Power Lenders Club", whereby the company intends to facilitate "one stop shopping" for their clients in the power sector and to provide them access to capital from a consortium of financial

Institutions and banks to enable power projects to achieve faster financial closure.

The company has been designated as the nodal agency by the GoI for the development of nine UMPPs (Ultra Mega Power Projects) located in Sasan in Madhya Pradesh, Mundra in Gujarat, Krishnapatnam in Andhra Pradesh, Barhi in Jharkhand, Tadri in Karnataka, Girye in Maharashtra, Ib Valley in Orissa, Akaltara in Chattisgarh and Cheyyur in Tamil Nadu. As on February 8, 2007 the company has incorporated nine wholly owned subsidiary companies to act as SPVs for these projects. The company, through these subsidiaries and in conjunction with the MoP and CEA, will undertake all activities necessary to obtain the appropriate clearances required to establish these generation projects.

The company intends to set up a venture capital fund, India Power Fund, to invest in power sector projects. The company has committed \$1 billion to this fund. Oriental Bank of Commerce has agreed to invest Rs. 100 million in the India Power Fund. Further, LIC has also expressed its interest to participate in the India Power Fund.

Power Finance Corporation (PFC) is planning to tap the overseas market to raise a \$1 billion (\$500 million through ECBs & rest through ADR/GDR route or lines of credit with international financial institutions such as ADB) in the current fiscal. The company also plans to raise Rs 9,000 crore of debt by floating power bonds in the domestic market to get wider retail participation. A portion of it would also be raised through FCCBs.

Funds worth Rs 12,500 crores are expected to be raised by PFC in the domestic market this fiscal. Apart from bonds, it would raise medium-term loans worth Rs 3,500 crore from institutions. The new financing instruments being examined by the company are on the lines of the recommendations of the working group on power.

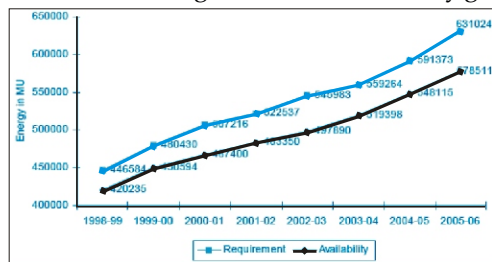
## **Industry outlook:**

The power sector financing industry is becoming increasingly competitive and the company's growth will depend on their ability to compete effectively and maintain a low effective cost of funds. The increasing competition comes from public and private sector commercial banks in India and from other financial institutions that provide power sector finance products or services. There is no peer for PFC as they are the only NBFC, listed in the market that lends specifically to power sector. Competition in this industry depends on the ongoing evolution of government policies relating to the industry, the entry of new participants into the industry and the extent to which there is consolidation among banks and financial institutions in India. PFC's competitive advantage lies by maintaining a low effective cost of funds.

Negative trends in the Indian power sector or the Indian economy could adversely affect the business and financial performance. Significant shortages in the supply of crude oil, natural gas or coal could adversely affect the Indian economy and the power sector projects to which the PFC has exposure, and would affect them adversely.

According to the Central Electricity Authority (CEA), total energy shortage during fiscal 2007 up to September 2006 was 26,793 million units amounting to 8% of total requirements and the peak shortage was 11,650 MW translating to 12.2% in terms of peak demand requirements. According to the Planning Commission's, in order for India to maintain a sustained growth of 8% per annum to 2031, India would need to increase primary energy supply and electricity supply by 3 to 4 times and by 5 to 7 times respectively. By fiscal 2032 power generation capacity would have to increase to 778,095 MW.

Although power generation capacity in India has increased substantially in recent years, it has not kept pace with the growth in demand or the growth of the economy generally.



According to data from the Ministry of Power per capita consumption of energy in India is projected to increase to 932 kWh/year in 2012. The per capita consumption in India is extremely low in comparison to much of the rest of the world, in part due to unreliable supply and inadequate distribution networks.

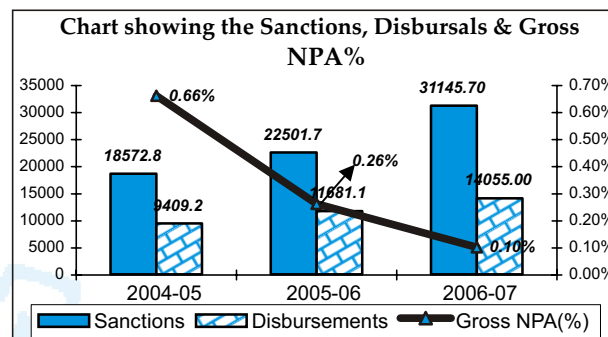
The GoI in its mission "Power for all by 2012", estimated that India's installed generation capacity should be 200,000 MW by the end of its Eleventh Five Year Plan in 2012. The funding requirement of the power sector is estimated at Rs. 8,50,000 Crores during the 11th plan to add 68,869 MW of fresh capacity.

### Financial Snapshot

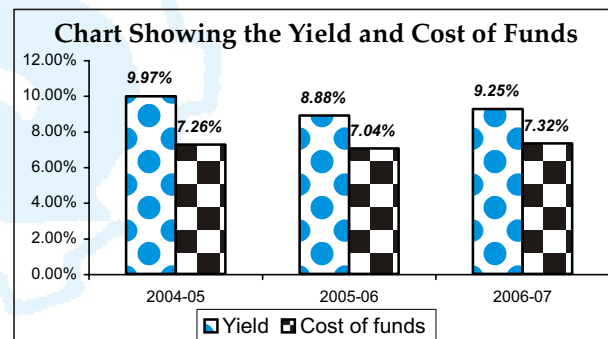
	(Rs. crores)				
	FY 2006-07	FY 2005-06	FY 2004-05	Q 200706	Q 200606
Equity	1147.77	1030.45	1030.45	1147.77	1030.45
Networth	8593.09	7536.05	7678.55	-	-
Capital Employed	NA	35063.3	29184.29	-	-
Net Sales	3816.67	3150.88	3057.63	1144.48	844.93
Rate of Growth (%)	21.13%	3.05%	-	35.45%	-
Sanctions	31145.70	22501.7	18572.8	13,268.20	17342.1
Rate of Growth (%)	38.41%	21.15%	-	-23.49%	-
Disbursements	14055.00	11681.1	9409.2	3215.9	2854.3
Rate of Growth (%)	20.32%	24.15%	-	12.67%	-
Gross NPA (%)	0.10%	0.26%	0.66%	-	-
Yield	9.25%	8.88%	9.97%	9.88%	9.01%
Cost of funds	7.32%	7.04%	7.26%	7.95%	7.30%
Spread	1.93%	1.84%	2.71%	1.93%	1.71%
NIM	3.52%	3.43%	4.45%	3.67%	3.31%
Other Income	118.37	51.17	26.72	42.20	0.21
PBITD	3885.87	3145.59	3012.21	1176.19	803.7
Rate of Growth (%)	23.53%	4.43%	-	46.35%	-
PBT	1511.53	1264.83	1390.41	453.58	258.74
PAT	986.14	970.95	984.12	308.65	151.9
Rate of Growth (%)	1.56%	-1.34%	-	103.19%	-

Power Finance Corporation (PFC) reported over two-fold surge in net profit to Rs 308.65 crore for the first quarter ended June 2007, compared to Rs 151.9 crore in the same period last year. Total income rose 35.58 per cent to Rs 1,144.48 crore (Rs 844.93 crore).

The gross non-performing assets (NPAs) stood at 0.10% for the year ended March 2007 on the total loan assets of the company. During the year the disbursement reached all time high of 14055.00 crores (11681.1 Crores) registering a growth of 20.32%. Sanction figure has also registered a jump of 47.30% at Rs. 31145.70 Crores (Rs. 22501.7 Crores). The disbursement, which was at Rs 2,854 crore in the corresponding quarter last year, has grown up to Rs 3,215 crore this year.



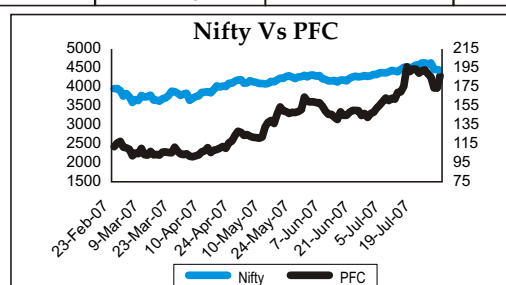
The company's CAR is at 18.59%. The company expects its CAPEX to be around Rs 17,000-20,000 crores for the year 2007-08.



The net interest margin (NIM), has increased to 3.52% (as on 31st March 2007) and to 3.67% (as on 30 June 2007). The loan assets have increased from Rs 36,000 crore to Rs 45,000 crore. The cost of funds has increased from 7.30% to 7.95%.

### Market Report

Market Data (As on 31-Jul-2007)			
Price (Rs)	185.75	Lat. P/E	18.7
Mkt. Cap.(Rs Cr)	21319.83	Lat. BV(Rs)	74.87
Lat. EPS(Rs)	9.93	52 W H/L(Rs)	206 / 101
Lat.Eqty (Rs Cr)	1147.77	Div. Yield (%)	1.89
BSE CODE	532810	BSE Group	A
NSE CODE	PFC		



### Understanding Risk and Return

#### Return

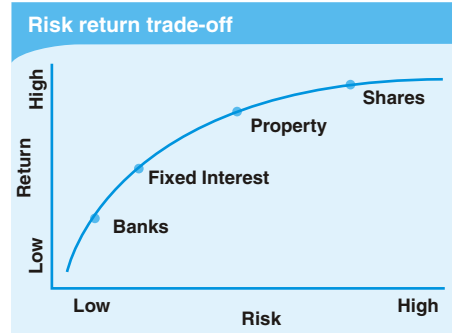
Returns are nothing but the appreciation/ depreciation in the value of the capital invested over a period of time. It also includes the dividends or interest received on the investments respectively. It is not necessary for a return to be positive always, it may be negative at times based on the market fluctuations. Return cannot be viewed in isolation, ignoring the risk factor while making an investment; though the ultimate objective of investment is the maximization of return.

#### Risk

Risk is the likelihood or possibility that the investor could loose the money invested. Thus, risk is the element of uncertainty involved. The basic definition of risk is that one's financial expectations may not be achieved.

There are various events that may result in the expectations not being achieved and they include:

- **Volatility Risk** - An investment may lose value either temporarily or permanently. The fluctuation that a security undergoes within a particular time frame is called volatility. Unlike cash, securities reflect the market conditions and the share prices change accordingly. Volatility is not the same as risk but an important component of risk. Thus, for measuring the volatility it is vital to set the time frame within which you require back the capital invested.
- **Market Risk** Market risk arises due to incurring a capital loss by a significant drop in the property or share market prices. This can also be the result of rising interest rates.
- **Credit Risk** Credit risk is the risk that the company may default either on the repayment of the principal sum or the interest due (applicable for bonds).
- **Legislation Risk** - Legislation may be enacted, especially in the form of superannuation, taxation, etc, that adversely affects an investment or the net returns from an investment, which could have been profitable earlier.



The faster an investment is expected to grow, the greater the investment risk.

#### The factors that influence the choice of a risk/ return medium

- Attitude towards risk, a major factor in your investment decisions, depends on whether you are risk averse or tolerant based on which your risk level may be low or high, respectively. It can further be attributed to the psychological aspects like media news, advice from close relatives or friends, which in turn leads to the final decision of investing or not.
- Age forms the second vital point to be considered while investing. A young person may not have many dependants and be free to juggle the money available for future use whereas a middle-aged person may need the money at a shorter span of time than the former to meet his commitment towards the family. A person who has completed the family chores and now retired may need the money on a regular basis to meet the needs of his and his spouse alone.
- The next prime factor is the time frame within which the money is required. This can be considered to be a derivative of the above point.
- The next factor is emotional temperament and experience in investing
- Last but not the least, the income at the disposal of the person in question is a key to the investments made as it leads each one to form the base for their risk tolerance, time span, etc.

#### Investment Tip

##### Understand and analyze 'Good Performance'

'Good performance' is a subjective thing. Ideally, to analyze performance, one should consider returns as well as the risk taken to achieve those returns. Besides, consistency in terms of performance as well as portfolio selection is another factor that should play an important part while analyzing the performance.

Therefore, if an investment takes you past your risk tolerance while providing you decent returns, it cannot always be termed as good performance. In fact, at times to ensure that your investment remains within the parameters defined in the investment plan, you may be forced to exit from that scheme. In other words, you need to assess as to how much risk you have taken, and did you receive an adequate reward for taking that risk. Besides, you also need to consider whether own risk profile allows you to accept the revised level of risk. Risk Level keeps changing in accordance with the experience and past losses.

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**Un-Audited Financial Results for the Quarter ended 30.06.2007**

Sl. No.	Particulars	Three months ended 30.06.2007	Corresponding three months in the previous year 2006-07	Previous Accounting Year 2006-07
		Un-Audited		Audited
1	Income from Operations	2434.49	175.80	2577.46
2	Other Income	0.33	1.78	9.63
3	Total Expenditure	89.31	76.29	342.73
	a) Staff cost	37.27	29.84	133.05
	b) Postage & telephones	6.85	9.33	45.22
	c) Other expenditure	45.19	37.12	164.46
4	Interest	506.48	0.00	0.00
5	Depreciation	39.18	40.97	166.63
6	Provision for Non Performing Assets	(75.07)	(48.64)	(144.37)
7	Provision for Depreciation on Investments	(0.17)	0.00	30.16
	Prior Period Expenses -Interest tax	0.00	0.00	49.89
8	<b>Profit before tax</b>	<b>1875.09</b>	<b>108.96</b>	<b>2142.05</b>
9	Provision for tax			
	a) Fringe Benefit Tax	0.52	0.47	2.31
	b) Current Tax	171.62	0.00	0.00
	c) Deferred Tax	16.82	5.96	22.57
10	<b>Net profit</b>	<b>1686.13</b>	<b>102.53</b>	<b>2117.17</b>
11	Paid up equity share capital (Face value per share - Rs. 10/-)	4437.82	4439.41	4437.82
12	Reserves excluding revaluation reserves (as per balance sheet) of previous accounting year			(788.84)
13	Basic & diluted EPS for the period, for the year to date and for the previous year (not annualised)	3.80	0.23	4.77
14	Aggregate of non-promoter shareholding			
	- Number of Shares	15604400	15604400	15604400
	- Percentage of shareholding	35.16%	35.16%	35.16%

**Notes:**

- The Market value of quoted investments (Cost-Rs.4.11 crore) of the company as on 30.06.2007 was Rs.35.61 crore.
- Indian Bank has waived interest on borrowings from the year 2002-03 onwards. Consequent to the complete repayment of borrowings during this quarter, an amount of Rs 5.06 crores has been paid to Indian Bank towards interest on borrowings upon their demand under the right of recompense.
- There were no investor complaints pending at the beginning of the quarter and no complaints were received during the quarter ended 30.6.2007.

The above financial results have been taken on record by the Board of Directors of the company at the meeting held on 19.7.2007

Place : Chennai  
Date : 19.7.2007

  
**S Annadurai**  
President & Wholtime Director

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