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MoneyMatters

MARK TO MARKET | MANAS CHAKRAVARTY & MOBIS PHILOPOSE

India Cements beats Q2 outlook

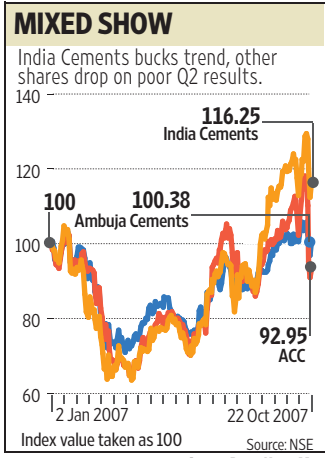
India Cements Ltd was the first in its sector to beat consensus estimates, which is commendable because some of its larger peers missed expectations by a large margin. ACC Ltd, Ambuja Cements Ltd and UltraTech Cement Ltd missed estimates by an average 14%, as cost pressures turned out to be much higher than analysts' expectations.

India Cements is the largest player in South India, which in turn is the strongest market currently in terms of price realizations. Last quarter, its per tonne realizations rose Rs262 per tonne over the June quarter, after adjusting freight costs.

ACC reported a pricing increase of Rs106 per tonne, while in the case of Ambuja Cements, it was Rs88.6 because of the firm's absence from the southern markets.

According to analysts, India Cements also benefited from holding high levels of coal stock, which helped it manage its costs better in the September-ended quarter.

The company relies on imported coal for 70% of its needs, and without the benefit of earlier stock, its costs too would have come under pressure. Peer group companies, however, saw profit taking a hit on account of high-



mint COLUMN

er power, fuel and raw material costs. ACC's per tonne realization (net of freight), rose 3.7% on a quarter-on-quarter basis. But power and fuel cost rose by 26.9% on a per tonne basis, leading to a 8.8% drop in operating profit per tonne. Similarly, Ambuja Cements' operating profit fell by 5.6% on a per tonne basis, because of higher power and fuel costs. UltraTech Cement's per tonne figures could be misleading because they include sales of ready-mix concrete. In addition, the company has changed the way it accounts for certain freight costs on inter-unit transfer of clinker. Nevertheless, profit was lower

than expected. Signs of cost pressure were already visible in the industry's June quarter results, when profit of leading firms rose at a rate lower than the increase in revenues. Things have gotten worse in the September quarter, but analysts aren't worried since the core story of a demand-supply mismatch and hence pricing power remains.

Yes Bank

Trading at a valuation of over 5.5 times its book value as on 30 September and around four times its book value for this fiscal, Yes Bank Ltd is by no means cheap. But then, the bank is no stranger to high valuations and expectations.

Yes Bank has been able to sustain very high growth rates, albeit on a comparatively low base and the September quarter was no exception.

Net interest income is up 102% year-over-year, advances are up 102%, deposits 129%, and operating profit up 93%. The bank's critics have said since its current and savings bank deposits are in single digits, the lender's cost of funds is high and volatile, given its dependence on wholesale deposits. In the September quarter, for instance, interest expense

forms 72.7% of interest earned—up from 67.2% in the year-ago period. What the bank lacks in margins, it has to make up in volumes. High non-interest income, which was a quarter of interest income in the June quarter, also helped. But at the same time, because the bank is expanding rapidly—the number of branches has grown to 60 from 22 a year ago—growth in operating expenses is high. The lender has to frequently dilute equity for growth. As the branch network grows, the proportion of low-cost deposits will rise and the cost of funds will decline. This is exactly what happened with all private banks and Yes Bank will be no exception.

That is why the bank is now setting up an asset reconstruction company, floating private equity funds and getting into business advisory services for small and medium enterprises.

The bank's stock has outperformed the Bankex this year and investors are hoping the bank will be acquired.

All the upsides seem to be priced into the stock, which perhaps is why the lender hasn't reacted to the sound second quarter results.

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MARKET MONITOR

MARKETS SUMMARY

BSE			NSE		
Stocks Advanced	1,319		Stocks Advanced	564	
Stocks declined	1,324		Stocks declined	577	
Stocks Unchanged	59		Stocks Unchanged	20	
Total Stocks Traded	2,702		Total Stocks Traded	1,161	
New Highs	85		New Highs	18	
Advancing Volumes	187,569,913		Advancing Volumes	243,206,612	
Declining Volumes	143,392,325		Declining Volumes	233,253,703	
Unchanged Volumes	3,524,137		Unchanged Volumes	1,988,180	
Total Volumes	334,486,375		Total Volumes	478,448,495	
New Lows	106		New Lows	50	

ETF

Fund	Close	Change
Bank BeES	764	13.92
Bank Special	138	-1
Nifty BeES	526	-2.04
Gold Traded Fund	979	-3.29
Junior BeES	93.5	0.49
Liquid BeES	999.99	-0.01
UTI Gold Fund	972.5	-3.55
UTI Exchange Fund	517.99	-19.51

INDEX FUTURES

Index	Close	Change
Nifty Oct07	5190.1	-2.85
Nifty Nov07	5172	-1.7
Nifty Dec07	5160	-13.2
CNX-IT Oct07	4782	-65.6
CNX-IT Nov07	4843	-94.8
CNX-IT Dec07	5200	232.1
Bank Nifty Oct07	7569	159.25
Bank Nifty Nov07	7570	124.2

ADR

Company	Price at 8p.m.(\$)	%Chg
Dr Reddy's Lab	15.9	1.92
HDFC Bank	108.08	2.3
ICICI Bank	54.72	2.45
Infosys Tech	49.52	1.64
MITL	8.81	9.71
Rediff.com	15.66	-1.07
Satyam Com	26.35	1.35
Sify Ltd	7.89	-0.38
Sterlite Inds	20.25	1.15
Tata Motors	19.4	0.52
VSNL	25.51	6.6
Wipro	15.07	0.8

GDR

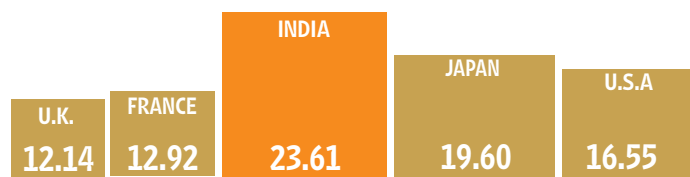
Company	Price at 6p.m.(\$)	%Chg
Axis Bank	20.5	-3.98
Bajaj Auto	63	-
Gaill(I) Ltd	59	-1.34
Grasim Inds	85	-3.95
Hindalco Inds	4.35	0.46
ITC Ltd	4.3	-2.27
L&T	78.5	3.29
M&M	20	6.78
Ranbaxy Labs Ltd	10.3	-3.29
Reliance Energy	102.55	4.04
Reliance Inds	123.25	-1.99
State Bank of India	103.302	5.1

RECORD DATES

Company	Date	Purpose
Ashok Leyland Ltd.,	23/10/2007	Quarterly Results
Britannia Industries Ltd	23/10/2007	Quarterly Results
Godrej Consumer Products Ltd	23/10/2007	Quarterly Results
Indiabulls Financial Services Ltd	23/10/2007	Quarterly Results
National Aluminium Co. Ltd.	23/10/2007	Quarterly Results
Peninsula Land Limited	23/10/2007	Stock Split
Tata Consultancy Services Ltd.	23/10/2007	300% Second Interim Dividend
Blue Star Ltd	23/10/2007	Quarterly Results
Suzlon Energy Ltd	23/10/2007	Quarterly Results

SENSEX & THE WORLD

Valuation of BSE SENSEX in terms of price earning multiples compared across the Global markets



KEY INDICES

Index	Close	Change
Bse Mid-Cap	7263.41	24.83
Bse Small-Cap	8851.47	51.15
Bse-100	9077.18	32.04
Bse-200	2136.51	7.22
Bse-500	6831.7	24.04
CNX Midcap	6665.8	76.7
CNX Nifty Junior	9165.9	49.9
S&P CNX 500	4238.35	-12.1
S&P CNX Nifty	5184	-31.3
Sensex	17613.99	54.01

GLOBAL INDICES

Index	Close	Change
All Ord -Australia	6592.1	-131.2
Composite Index-China	5667.332	-150.72
Hang Seng	28373.63	-1091.4
Karachi 100	14599.95	-187.6
KLSE Composite	1350.81	-19.36
Kospi	1903.81	-66.29
Nikkei	16438.47	-375.9
Set- Thailand	860.09	-15.74
Straits Times	3642.64	-105.34
Taiwan Weighted	9360.63	-251.09

FOREIGN EXCHANGE RATES

CROSS - CURRENCY RATES (INR)		SPOT RATES (US\$)	
Australian dollar	34.8635	Australian dollar	0.8776
Bahrain dinar	105.4210	Bahrain dinar	0.3770
British pound	80.5275	British pound	2.0267
Canadian dollar	40.5118	Canadian dollar	0.9810
Danish krone	7.5357	Danish krone	5.2743
Euro	56.1945	Euro	1.4136
Hong Kong dollar	5.1272	Hong Kong dollar	7.7509
Indonesian rupiah	43.5050	Indonesian rupiah	9135.0
Japanese yen	0.3484	Japanese yen	114.055
Kuwait dinar	142.7850	Kuwait dinar	0.2783
Malaysian ringgitt	11.7765	Malaysian ringgitt	3.3745
Mauritian rupee	1.3116	Mauritian rupee	30.300
Singapore dollar	27.0995	Pakistani rupee	60.620
Swiss franc	33.7425	Singapore dollar	1.4664
Taiwanese dollar	1.2190	Swiss franc	1.1778
Thai baht	1.2612	Taiwanese dollar	32.600
UAE dirham	10.8220	Thai baht	31.510
US dollar	39.8900	UAE dirham	3.6723

All information is derived from their respective dollar rates, with the average rate of bid and ask set as the cross currency rate.

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MICHAEL CHU/HARVARD BUSINESS SCHOOL

Clients' perspective important for product development

BY RANA ROSEN
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MUMBAI

Harvard Business School (HBS) Prof. Michael Chu has helped deploy a \$5.7 billion (Rs22,686 crore) private equity (PE) fund at Kohlberg Kravis Roberts & Co. (KKR), co-founded a Latin American private equity fund Pegasus Capital, worked at Boston Consulting Group, and served at Pace Industries (a KKR-sponsored leveraged buyout) as chief financial officer.

Yet, he has been drawn to microfinance through his life. He sees it as the one humanitarian effort that makes scale an ally. From 1993, the Chinese-born Uruguayan-American citizen was president and chief executive officer of non-profit microfinance organization Accion International for seven years. And in June, he started another fund—Ignia Fund—to invest in commercial enterprises in low-income markets of Latin America. He also lectures at HBS on leading social enterprise and doing business with the poor, and was in India earlier this month for research on Yes Bank Ltd's "responsibility banking" for one of Harvard Business Review's fa-

mint INTERVIEW

mous case studies—with particular interest in the bank's partnership with Accion to do urban, individual lending. Chu spoke to Mint about why he is in India and why PE investors are now intrigued by this sector. Edited excerpts:

What is the significance of Yes Bank partnering with Accion?

Responding to poverty and reaching very large numbers requires scaling up. For this, regulated financial institutions that can tap into the capital markets are needed. Now that the world accepts that there is an economic rationale to serve the poor and that it is attractive, then you have the opportunity of working with institutions such as Yes Bank and you don't have to create a bank out of an NGO (non-governmental organization).

How is this partnership different?

Yes Bank and Accion look at the people they serve as clients. This is a broad generalization, but a lot of times NGOs look at the people they serve as beneficiaries. I think that is very important for product development to think of clients, because you think of customer



Customer focus: Michael Chu, Harvard Business School professor.

service and try to understand their needs from their eyes.

What needs of the low-income sector are often missed?

You have to understand the cycle of cash generation of the people you serve. Also, when dealing with the over-banked segment, it is natural for the first topic to be the interest rate. But with low-income sectors, interest rate is only one part of the total cost of transaction.

The opportunity cost for the poor is huge, which is not intuitive. The interest rate could be nothing compared to what they could lose in a day's business without the loan.

Why are PE investors interested in microfinance?

I think that people are beginning to look at it with enormous interest now. In Europe

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Read the full interview at www.livemint.com/michaelchu.htm