Prabhudas Lilladher

Banking Conference

Uncertain times but nothing alarming as yet

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Executive Summary

We had twelve bank managements and thirty-eight investors participating in our banking conference, resulting in almost two hundred and fifty closed-door group meetings spread over two and a half days. We have presented the highlights of the conference below and a separate brief write-up on each bank along with our comments.

Key takeaways

1. **Private banks appear more risk averse than their PSU counterparts:** Visible divergence between the Public (PSU) and Private (PVT) sector banks regarding business growth, going forward, especially a lot of uncertainty regarding credit growth in FY10. PVT banks appear to be more risk averse than PSU banks at the current juncture.
2. **Banking sector divided on business growth outlook:** PSU banks feel 17-20% credit growth could be expected in FY10. Credit growth is expected to be driven by infrastructure, substitution or replacement of overseas borrowings and financial inclusion. However, private banks feel that if the GDP growth of 5-6% is driven by government spending, then 17-20% growth figures look stretched, while 12-15% could be more realistic. However, if the 5-6% GDP growth is driven by bank lending, then 17-20% looks feasible.
3. **Margins to have downward bias, lower bulk deposit rates to provide stability:** Margins are likely to remain under pressure with PLR cuts. However, deposit re-pricing on the bulk side at 150-250 bps lower will provide some stability, going forward.
4. **Small savings rate to act as the floor for deposit rates:** Most banks have reduced their deposit rates. Currently, the maximum deposit rate for one year and above category is at 8%. However, some banks like Bank of India have gone ahead and reduced deposit rates to 7.5%. Most banks highlighted small savings rate to act, as the floor for deposit rates in the near term for one year and above category.
5. **Pricing powers at its all time best, but sub-PLR lending is back again:** Most banks conceded that they had enjoyed excellent pricing powers during Q3FY09, which they had not seen in their entire banking careers spanning close to 20-25 years. However, things have changed very swiftly and again sub-PLR lending for large corporate are being witnessed due to surplus liquidity in the system.
6. **Banks holding ~2% excess SLR, sitting on huge unrealised gains:** Almost all banks on an average had 2% surplus SLR available with them and had built-up average duration of 4-5 years in their HTM portfolio. Expectation for the ten-year benchmark yield is in the range of 5.25 - 5.75%, unlikely to see yields going below 5%. Needless to say that everybody is sitting on huge unrealized gains on their HTM book.

7. **No major demand pick up for new home loans:** New home loan schemes have not yet seen significant demand from customers, as the schemes are being rolled out. However, meaningful housing price corrections haven't happened so far, which still remains a deterrent.

8. **Asset quality will hold as restructuring will play a key part in Q4FY09:** Asset quality will hold up as the bulk of restructuring and rescheduling is expected in Q4FY09. Real NPL issues could surface from Q2FY10 onwards, if the stimulus packages don't succeed in reviving the industrial activity and resultant economic growth.

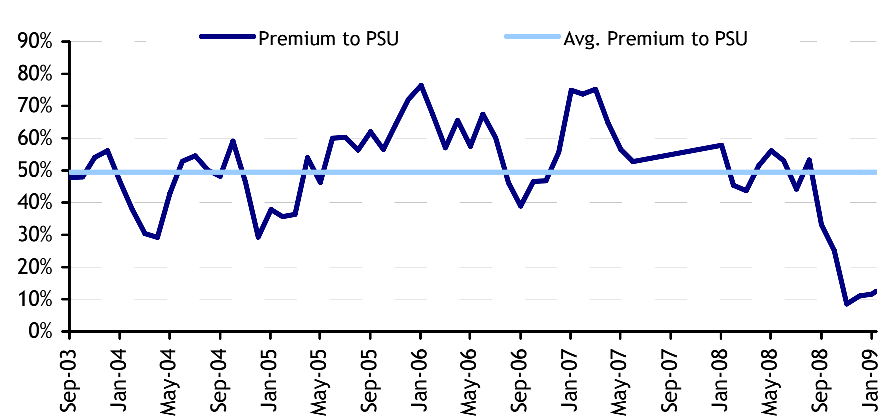
9. **Export oriented sectors remain vulnerable:** Export oriented sectors such as auto components, gems and jewellery and textiles remain most vulnerable and hence, have received special attention from the government and regulators. Real estate and steel sector also remain vulnerable. No major restructuring has been done by banks in Q3FY09.

10. **PSU banks factoring in ~15% average wage hike:** Most banks have built-in a 15% wage hike and have provided for the same up to December 2008.

Our view

We believe margins will remain under pressure going forward, at least for a couple of quarters (lower incremental CD ratio, PLR cuts and stickier deposit costs to impact margins negatively). Loan growth in FY10E is likely to be in the range of 15-20%. Asset quality issues remain a concern, but it is unlikely to increase significantly due to restructuring and rescheduling of the same. We continue to prefer PVT banks to PSU banks due to decline in valuation premium, better visibility in earnings and higher Tier I capital adequacy. Among PSU banks we remain selective and prefer large cap banks to mid cap banks as the financials of these bigger banks are more robust to absorb chunky asset quality issues and also better placed to tackle the tougher economic operating environment. Axis Bank, HDFC Bank, BOB and PNB remain our top picks.

Valuation Premium of Private against PSU Banks



Source: PL Research

Prabhudas Lilladher

Union Bank of India

Rating	BUY
Price	Rs149
Target Price	Rs195
Implied Upside	30.9%
Sensex	9,584

(Prices as on February 9, 2009)

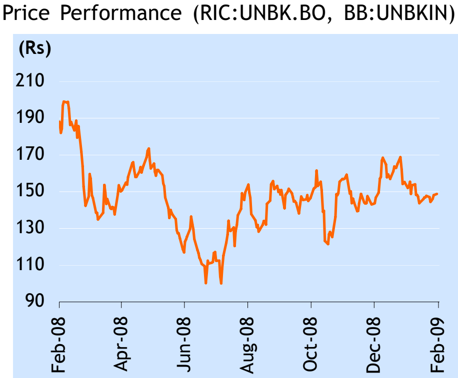
Trading Data	
Market Cap. (Rs bn)	75.2
Shares o/s (m)	505.1
Free Float	44.6%
3M Avg. Daily Vol ('000)	261.0
3M Avg. Daily Value (Rs m)	39.2

Major Shareholders	
Promoters	55.4%
Foreign	17.6%
Domestic Inst.	14.1%
Public & Others	12.9%

Stock Performance

	1M	6M	12M
Absolute	(4.1)	(0.4)	(22.3)
Relative	(6.0)	36.4	22.9

Price Performance (RIC:UNBK.BO, BB:UNBKIN)



Source: Bloomberg, PL Research

- **Asset quality:** The bank expects to remain well within its asset quality guidance of less than 2% GNPAs and below 1.25% delinquency ratio for FY09. As on December 2008, GNPAs of the bank stood at 1.68% and delinquency ratio of 1.1%. There has not been any major stress in the loan portfolio due to the diversified nature of the book. Retail book stands at Rs97.8bn at 10.5% of the total loan portfolio. The coverage ratio is likely to remain at high levels, currently at 90%.
- **Exposure and outlook on vulnerable sectors:** Commercial real estate exposure is ~Rs30bn. It is around 4% of the advances, of which 60% or Rs18-20bn is for the core developers.
- **Restructuring and rescheduling:** Bank has restructured around Rs5-10bn exposure to SME.
- **Credit growth:** Advances growth is expected to be around 24-25% in FY09 and ~24% in FY10E.
- **Network expansion:** The bank expects to continue its network expansion and grow at a phenomenal pace by adding 500 branches for the first half of FY10; this is in addition to 2596 braches operating at present. The bank has achieved full CBS roll-out across all the branches.
- **NIM:** Margins are expected to stabilize at 3% levels from the current levels of 2.97% for 9MFY09.
- **Outlook on CASA:** Low cost CASA deposits are expected to improve, since the bank is undertaking significant efforts to expand its branch. CASA should improve from the current levels of 30% to around 33-35% in FY10.

Key Financials (Y/e March)	FY08	FY09E	FY10E	FY11E
Net Interest Income (Rs m)	30,864	40,305	44,819	57,095
Growth (%)	*10.6*	*30.6*	*11.2*	*27.4*
Operating Profit (Rs m)	25,803	31,069	36,455	45,648
PAT (Rs m)	13,870	16,863	18,614	22,427
EPS (Rs)	27.5	33.4	36.9	44.4
Growth (%)	*64.1*	*21.6*	*10.4*	*20.5*
Net DPS (Rs)	4.0	4.5	5.0	5.5

Source: Company Data; PL Research

Profitability & Valuation	FY08	FY09E	FY10E	FY11E
NIM (%)	*2.8*	*3.1*	*2.9*	*3.1*
RoAE (%)	*22.1*	*20.9*	*19.5*	*20.0*
RoAA (%)	*1.2*	*1.2*	*1.1*	*1.1*
P / BV (x)	1.3	1.0	0.8	0.7
P / ABV (x)	1.4	1.1	0.9	0.8
PE (x)	5.4	4.3	3.9	3.2
Net dividend yield (%)	*2.7*	*3.0*	*3.4*	*3.7*

Source: Company Data; PL Research

- **Capital issues:** The bank's Tier I capital is at 7.5% (Basel I) and 8% (Basel II). It also has options available for Tier II issues. The bank has not been pursuing the rights issue for the time being. However, as and when the market improves, the bank will reconsider the same.
- **SLR and investment details:** Currently, the bank has 26% SLR holding; duration in the HTM book (Rs260bn or 63.1% of total investments) is above 4.46 years and AFS (Rs152.0bn or 36.8% of total investments) is 1.4 years. Total modified duration of the investment book is 3.4 years.
- **Details on AS-15 and wage provisions:** The bank has no deferred AS-15 expenses as it has already provided for the entire AS-15 transitional shortfall of Rs4bn from reserves, as on March 2008. The bank has fully provided for an expected wage hike at ~17%, effective retrospectively since November 2007.

Our comment

The bank has displayed prudent business growth with quality as margins have improved and asset quality levels are among the best among peer group banks. The re-branding exercise has helped in targeting new areas of business. Valuations remain attractive at 3.9x FY10E EPS, 0.8x FY10E BV and 0.9x FY10E ABV. We maintain our **BUY** rating with a price target of Rs195.

Prabhudas Lilladher

HDFC Bank

Rating	Accumulate
Price	Rs919
Target Price	Rs1,100
Implied Upside	19.7%
Sensex	9,584

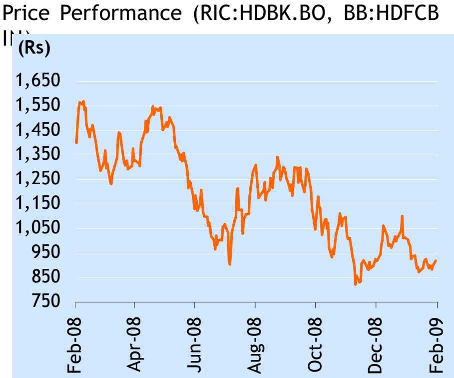
(Prices as on February 9, 2009)

Trading Data	
Market Cap. (Rs bn)	390.7
Shares o/s (m)	425.1
Free Float	80.6%
3M Avg. Daily Vol ('000)	348.0
3M Avg. Daily Value (Rs m)	329.8

Major Shareholders	
Promoters	19.4%
Foreign	27.4%
Domestic Inst.	28.6%
Public & Others	24.6%

Stock Performance	1M	6M	12M
Absolute	(9.2)	(28.2)	(36.4)
Relative	(11.1)	8.6	8.7

Price Performance (RIC:HDBK.BO, BB:HDFCB IN)



Source: Bloomberg, PL Research

- **Outlook on asset quality:** The bank's outlook on different segments is stated below:

  Wholesale: HDFC Bank has not witnessed any major stress as yet. However, if the economic situation continues to deteriorate, then the corporates will begin to show some weakness from Q1FY10. At the moment, the bank is confident of absorbing any spikes that may arise, with a minimal impact on the bank's net income.

  SME: During Q3FY09, the bank did witness some spikes in the SME loan portfolio of eCBoP, which was primarily from the erstwhile books of Lord Krishna bank and Bank of Punjab. The bank remains cautious, as the third quarter spikes may continue for a couple of quarters more. Overall, 10% of total advances could be classified as SME (of the wholesale book) which is ~Rs100bn, of which eCBoP SME book size is ~Rs50-60bn.

  Retail: The bank's retail asset quality is stable. The retails NPLS is believed to have almost peaked. The problems have been identified a lot earlier, as in the case of two-wheeler segment.

- **Incremental NPL accretion to be flattish; however, provision coverage may come down:** The changing mix of the NPL formation has resulted in a decline of the provision coverage (retail NPLs should stabilize). Retail NPL provisions are provided on a program basis, where the retail delinquencies (non retail business banking, agri) are fully provided for 180 days. For SME and wholesale advances, provisioning is on the basis of expected cash flows (the realizable value of the collateral). Hence, on an overall basis, provision coverage may come down as incremental coverage will be lower than retail provisions.

Key Financials (Y/e March)	FY08	FY09E	FY10E	FY11E
Net Interest Income (Rs m)	57,812	76,470	96,215	124,839
Growth (%)	*43.2*	*32.3*	*25.8*	*29.7*
Operating Profit (Rs m)	41,433	49,875	66,893	85,715
PAT (Rs m)	17,364	22,244	30,317	39,987
EPS (Rs)	41.1	52.3	67.2	88.6
Growth (%)	*4.1*	*32.4*	*28.4*	*31.9*
Net DPS (Rs)	7.0	8.5	9.5	10.5

Source: Company Data; PL Research

Profitability & Valuation	FY08	FY09E	FY10E	FY11E
NIM (%)	*4.4*	*4.5*	*4.5*	*4.5*
RoAE (%)	*18.1*	*16.7*	*17.1*	*18.2*
RoAA (%)	*1.3*	*1.2*	*1.4*	*1.4*
P / BV (x)	2.8	2.5	2.0	1.7
P / ABV (x)	2.9	2.7	2.1	1.8
PE (x)	22.3	17.1	13.3	10.1
Net dividend yield (%)	*0.8*	*0.9*	*1.0*	*1.1*

Source: Company Data; PL Research

- **Exposure and outlook on vulnerable sectors:** Advances break-up remains similar to FY08 composition. No material change has happened over the past nine months. The bank has a well-diversified book. Exposures to over 43 industries are less than 2%. As a proportion of its advances book, auto and auto ancillaries comprise 6-7%, which is the highest exposure it has to a sector considered to be vulnerable due to current economic downturn. However, the bank remains cautious and no stresses on the portfolio have been witnessed so far. The bank has minimal exposure to textiles, gems and jewellery and they don't pose any major risk. Commercial developers comprise less than 1% of total advances with no major risk.

- **Restructuring of loans:** Bank has not done any restructuring of loans so far.

- **Credit growth outlook:** According to the basic consensus from the expert economist's projections, India's GDP growth for 2009-10 is expected to be around 5-6%, with a loan growth in the banking system between 17-20%. As in the past, the bank has been growing at 4-5% faster than the system. The wholesale loan disbursals have picked up in Q4FY09. However, on a book basis it may remain flattish QoQ due to balance sheet management action which are typically done in the fourth quarter of every year. Key products in retail loans may see some pick up, as 100-150 bps reduction has been made in auto, two wheelers and personal loans. The bank remains cautious on credit cards. SBI remains the biggest competitor. However, the current situation has helped HDFC bank to pick and choose customers, thus gaining a market share from multiple players by taking those customers which HDFC Bank wants and not the entire customer segment. Retail loans grew 4-6% QoQ, after excluding run down in eCBoP book.

- **Fee income outlook:** Retail fees comprise approx 75%, while corporate fees comprise 25% of the total fees. Third party-related distribution fees and retail asset-related disbursement fees, comprises 20-25% and 8-10% of total retail fees, respectively. The rest is a function of recurring income like balance maintenance fees, ATM transaction fees, locker, debit card fees, depositary fees etc. Core fee income growth is sustainable in the range of 15-20% in the medium to long term.

- **Network expansion:** Normal expansion is likely to continue by adding around 150-200 branches.

- **NIM:** Current margins are at 4.3% and are expected to remain stable in the range of 4-4.2%.

- **CASA outlook:** Current CASA at 40%, which declined by 400bps QoQ during Q3FY09, as float balances declined and term deposits became the most preferred choice for depositors. However, CASA levels are expected to move up sequentially to ~42% and with better utilization of ~400 odd eCBoP branches its likely to reach 44% levels in the first half of 2009-10, as the final system integration is now in place.

- **SLR and investment details:** Currently, the bank has 26 to 27% SLR holding; duration in the SLR book is ~3 years. As a policy, the bank adopts a hedged trading policy and hence, investment gains are limited. The significant 43% QoQ growth in investments is mainly into G-Secs (60% plus), and the rest is in liquid mutual funds.
- **Capital issues:** The bank is well capitalized, with a Tier I capital at 9.7% as on December 2008.
- **Acquiring good quality priority sector advances remains a challenge:** Availability of good quality priority sector advances to fulfill the 40% regulatory requirements in the normal course of lending business, remains a challenge.
- **Comment on preferential issue and merger:** No discussions have taken place regarding the exercise of warrants to HDFC. The managements and the boards are independent and professionally managed. There is no discussion on the merger that has come to the board of HDFC Bank.

Our comment

HDFC Bank valuations have been impacted by the deterioration in asset quality levels post its merger with eCBoP. However the merger benefits have not yet been visible and should take another couple of quarters to reflect in its financials. The completion of system integration during Q4FY09 should help in streamlining operations of th emerged entity to a large extent. Valuations remain attractive at 13.3x FY10E EPS, 2x FY10E BV and 2.1x FY10E ABV. We maintain our **Accumulate** rating on the stock with a price target of Rs1100.

Prabhudas Lilladher

Bank of India

Rating	Accumulate
Price	Rs250
Target Price	Rs350
Implied Upside	40.0%
Sensex	9,584

(Prices as on February 9, 2009)

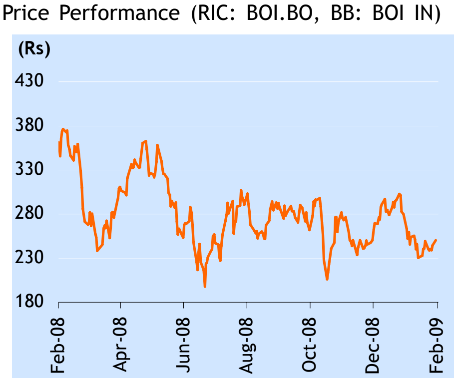
Trading Data	
Market Cap. (Rs bn)	131.6
Shares o/s (m)	525.9
Free Float	35.5%
3M Avg. Daily Vol ('000)	484.7
3M Avg. Daily Value (Rs m)	125.5

Major Shareholders	
Promoters	64.5%
Foreign	14.9%
Domestic Inst.	12.6%
Public & Others	8.0%

Stock Performance

	1M	6M	12M
Absolute	(10.7)	(13.9)	(29.5)
Relative	(12.6)	22.9	15.6

Price Performance (RIC: BOI.BO, BB: BOI IN)



Source: Bloomberg, PL Research

- **Asset quality:** Bank of India expects the asset quality to deteriorate marginally from the current GNPA levels of 1.63% to around 1.75% by March 2009. The bank has witnessed a considerable stress in the auto and real estate sector with NPA spikes. The coverage ratio is likely to remain at the current level of 77%. Retail book stands at Rs190.3bn, which is 17.9% of the total loan portfolio.
- **Exposure and outlook on vulnerable sectors:** The bank has Rs1.75bn non-fund based exposure to Maytas Infra. Of the key affected sectors, the bank has around Rs46.3bn (4.4% of advances) exposure in textiles and Rs10.4bn (1% of advances) exposure in auto and transport. Exposure to Gems and Jewellery is at Rs24.4bn (2.3% of advances), while exposure to commercial real estate developer is ~Rs35-45bn.
- **Composition of international investment book:** The bank has Rs46-50bn in international investments, of which Rs14bn is parked in G-Secs (Singapore and Kenya), Rs19bn in CLNs (linked to Indian corporates) and the balance is parked in bonds. There is no exposure to overseas equity. So far the bank has provided for Rs5bn in the overseas investment book.
- **Restructuring and rescheduling:** The bank has rescheduled nearly Rs10bn worth of loans and the process still continues.
- **Credit growth:** Advances growth is expected to be around 24-27% in FY09 and ~20% in FY10E.
- **Network expansion:** The bank expects to continue its network expansion by adding around 100 branches in FY10; this is in addition to the 2961 braches operating at present. CBS roll-out is in 2119 branches, covering 96% of business.

Key Financials (Y/e March)	FY08	FY09E	FY10E	FY11E
Net Interest Income (Rs m)	42,293	56,191	65,551	81,564
Growth (%)	*22.9*	*32.9*	*16.7*	*24.4*
Operating Profit (Rs m)	37,012	57,556	58,616	72,864
PAT (Rs m)	20,094	30,273	33,681	37,842
EPS (Rs)	38.2	57.6	64.0	72.0
Growth (%)	*66.1*	*50.7*	*11.3*	*12.4*
Net DPS (Rs)	3.5	4.0	4.0	4.5

Source: Company Data; PL Research

Profitability & Valuation	FY08	FY09E	FY10E	FY11E
NIM (%)	*2.8*	*2.7*	*2.9*	*2.8*
RoAE (%)	*24.4*	*25.3*	*22.6*	*20.8*
RoAA (%)	*1.3*	*1.5*	*1.4*	*1.3*
P / BV (x)	1.5	1.1	0.8	0.7
P / ABV (x)	1.6	1.1	0.9	0.7
PE (x)	6.5	4.0	3.6	3.2
Net dividend yield (%)	*1.4*	*1.6*	*1.6*	*1.8*

Source: Company Data; PL Research

- **NIM:** Margins are expected to stabilize at the current levels of 3%, as compared to 3.14% for 9MFY09. The bank has around Rs17-19bn of bulk deposits. Of these, around 6-8bn are getting re-priced at 125bps lower by March 2009.
- **Outlook on CASA:** Low cost CASA deposits are expected to improve, since the bank is undertaking significant efforts to mobilize CASA. The bank expects its CASA to stabilize in the range of around 33-35%, going forward from the current 32% levels.
- **Capital issues:** The bank is well placed, with Tier I capital at 8.92%. It also has options available for Tier II issues. The government holding remains high at 64% and Tier II headroom at Rs58-60bn.
- **SLR and investment details:** Currently, the bank has 25.5% SLR holding; duration in the HTM book (Rs317.5bn or 76.4% of total investments) is above five years and AFS (Rs98.34bn or 23.65% of total investments) is 0.9 years. The bank had picked up Rs80-90bn of long duration investment (~10 year paper mainly in the HTM portfolio) during Q2FY09, which will support the domestic investment yields, going forward.
- **Details on AS-15 and wage provisions:** The bank's total transitional liability stood at Rs6.25bn and it provides Rs1.25m per year over five years, starting from FY08. It has also been factoring a 20% wage increase (Rs240m per month), which we feel is substantially higher than the average of 15% that other peer banks are currently factoring.
- **New insurance products to be launched from Q4FY09:** The bank currently distributes ICICI Prudential insurance products. However, from the current quarter it is likely to promote its own joint venture insurance products from the Daichi stable.

Our comment

The bank seemed to be confident of its growth going forward, no major stress points were highlighted by the management. Valuations remain reasonable at 3.6x FY10E EPS, 0.8x FY10E BV and 0.9x FY10E ABV. We maintain our **Accumulate** rating with a price target of Rs350.

Prabhudas Lilladher

Kotak Mahindra Bank

Rating	Not Rated
Price	Rs273
Target Price	NA
Implied Upside	NA
Sensex	9,584

(Prices as on February 9, 2009)

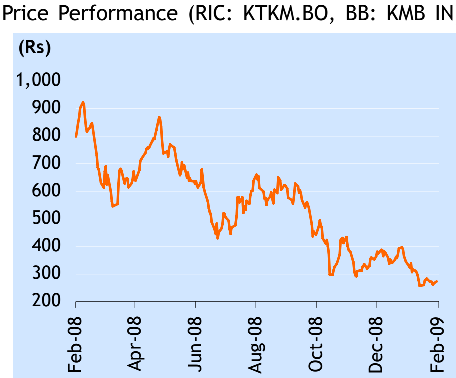
Trading Data	
Market Cap. (Rs bn)	94.1
Shares o/s (m)	344.7
Free Float	47.6%
3M Avg. Daily Vol ('000)	567.2
3M Avg. Daily Value (Rs m)	192.5

Major Shareholders	
Promoters	52.4%
Foreign	27.9%
Domestic Inst.	4.3%
Public & Others	15.4%

Stock Performance

	1M	6M	12M
Absolute	(20.7)	(57.3)	(68.2)
Relative	(22.6)	(20.4)	(23.1)

Price Performance (RIC: KTKM.BO, BB: KMB IN)



Source: Bloomberg, PL Research

- **Asset quality:** Kotak Mahindra Bank does not expect its asset quality to improve in the immediate future from the current GNPA and NNPA levels of 2.1% and 1%, respectively for the consolidated entity (excluding stressed assets). The bank has close to 100% coverage of its NNPAs in view of the large standard provisioning available with it. The bank has witnessed a considerable stress in the retail sector and SME, with an increase in the debtors and inventory cycle. The bank has around 46% of the loan book in CV, auto and personal loan category, which remain prone to asset quality issues. Retail book stands at Rs142.9bn of the total consolidated loan portfolio of Rs238.6bn. Industry-wide, the bank expects the GNPAs to pick up and believes that the retail sector has already reached mid-way through the NPA cycle. However, the delinquencies with SME and corporates are likely to be move up, going forward.
- **Lending business outlook:** Lending business is expected to moderate significantly as compared to the past. Advances and deposit growth is expected to slowdown, with only replacement advances taking place.
- **Network expansion:** The bank expects its network expansion to moderate. However, once the rentals fall significantly and some clarity emerges on the economic outlook, the network expansion is likely to pick-up. Branch network expansion has been toned down to above 220, as against an earlier target of 250 for March 2009.
- **Capital market and other businesses:** Capital market businesses will remain under stress, as major improvement in business volumes are not expected in the near term. Cost rationalization has been undertaken and still some headroom is left for further rationalization. There has been a break-even in the life insurance business and the renewal premium is still strong. This strong growth is required to offset the slowdown in the capital market-related businesses.

Key Financials (Y/e March)	FY06	FY07	FY08	FY09E*
Net Interest Income (Rs m)	6,649	9,850	18,319	22,760
Growth (%)	*48.6*	*48.1*	*86.0*	*24.2*
Operating Profit (Rs m)	7,941	9,312	17,709	11,516
PAT (Rs m)	3,425	5,382	9,912	5,599
EPS (Rs)	11.1	16.5	28.8	16.2
Growth (%)	*(20.1)*	*49.0*	*74.3*	*(43.6)*
Net DPS (Rs)	0.60	0.70	0.75	0.75

Source: Company Data; PL Research ** Preliminary Estimates*

Profitability & Valuation	FY06	FY07	FY08	FY09E*
RoAE (%)	*19.2*	*20.1*	*22.1*	*9.3*
RoAA (%)	*3.2*	*3.7*	*4.3*	*1.6*
P / BV (x)	3.9	2.8	1.6	1.5
P / ABV (x)	4.0	3.1	1.7	1.7
PE (x)	24.7	16.5	9.5	16.9
Net dividend yield (%)	*0.2*	*0.3*	*0.3*	*0.3*

Source: Company Data; PL Research ** Preliminary Estimates*

- **NIM:** Kotak bank has one of the highest NIMs of around 6% in the industry. However, margins may come under pressure, going forward. CASA deposits are expected to be stable in the range of around 26%.
- **Capital issues:** The bank is very well placed, with Tier I capital at 13.8%. The bank has a clear focus to conserve capital and let the ROEs be subdued. It expects the other income streams to generate the incremental ROE, once the capital market improves.
- **Business and economic outlook:** The bank expects the overall outlook to be challenging and does not intend to take any undue risk, until there are signs of an economic recovery. The bank is currently under capital protection mode rather than targeting growth and expects recovery to take some time.

Our comment

The bank on a consolidated basis has suffered from a serious slowdown in capital market-related businesses. Problems in the commercial vehicles and retail sector had further made things difficult at the current juncture. High capital adequacy, strong franchisee and experienced management to tide over the difficult times remain the key positives. Valuations remain reasonable at 16.9x FY09E EPS, 1.5x FY09E BV and 1.7x FY09E ABV. We currently do not have an active coverage on the stock.

Prabhudas Lilladher

IDBI Bank

Rating	Not Rated
Price	Rs55
Target Price	NA
Implied Upside	NA
Sensex	9,584

(Prices as on February 9, 2009)

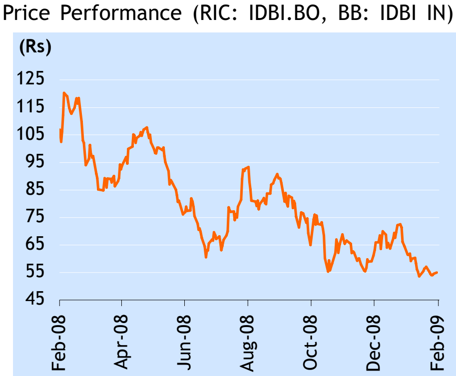
Trading Data	
Market Cap. (Rs bn)	61.4
Shares o/s (m)	724.8
Free Float	47.3%
3M Avg. Daily Vol ('000)	525.6
3M Avg. Daily Value (Rs m)	33.2

Major Shareholders	
Promoters	52.7%
Foreign	4.4%
Domestic Inst.	22.0%
Public & Others	20.9%

Stock Performance

	1M	6M	12M
Absolute	(14.7)	(40.6)	(52.2)
Relative	(16.6)	(3.8)	(7.1)

Price Performance (RIC: IDBI.BO, BB: IDBI IN)



Source: Bloomberg, PL Research

- Asset quality: IDBI Bank expects the asset quality to deteriorate moderately from the current levels of 1.71% GNPA. Retail book stands at Rs132.8bn at ~14% of the total loan portfolio. The coverage ratio is likely to be at the current level of 40%. NNPAs are likely to be in the range of 1.0-1.2% for FY09E.
- Exposure and outlook on vulnerable sectors: Of the key affected sectors, the bank has around Rs38.6bn (4.2% of advances) exposure in textiles and Rs133.6bn (14.5% of advances) exposure in iron and steel. Exposure to commercial real estate developer is ~Rs26.8bn (2.9% of advances).
- Restructuring and rescheduling: The bank has rescheduled an exposure of Rs0.04bn to two textile SME accounts. In January 2009, an account relating to a reputed steel producer has been rescheduled
- Credit growth: Advances growth is expected to be around 12-15% for FY09 and 20% in FY10E.
- Network expansion: The bank expects to continue its network expansion by adding 200 branches in FY10; this is in addition to the 504 braches operating at present. The bank is fully CBS complaint and has one of the best technology platforms amongst the PSU banks.
- **NIM:** Margins are expected to improve steadily from the current levels of 1% to around a realistic target of 1.2% by FY10.
- **Outlook on CASA:** Low cost CASA deposits are expected to improve from the current levels of 16.2%, with the bank planning to expand the branch network by 40% within a year. CASA should stabilize in the range of around 18% for FY10.

Key Financials (Y/e March)	FY06	FY07	FY08	FY09E*
Net Interest Income (Rs m)	3,799	6,579	6,564	12,503
Growth (%)	*102.2*	*73.2*	*(0.2)*	*90.5*
Operating Profit (Rs m)	8,009	9,066	13,331	11,893
PAT (Rs m)	5,609	6,303	7,295	7,230
EPS (Rs)	7.7	8.7	10.1	10.0
Growth (%)	*82.0*	*12.3*	*15.7*	*(0.9)*
Net DPS (Rs)	1.5	1.5	2.0	2.0

Source: Company Data; PL Research   ** Preliminary Estimates*

Profitability & Valuation	FY06	FY07	FY08	FY09E*
NIM (%)	*0.5*	*0.7*	*0.6*	–
RoAE (%)	*9.1*	*8.6*	*8.5*	*7.9*
RoAA (%)	*0.7*	*0.7*	*0.6*	–
P / BV (x)	1.0	1.0	0.9	0.8
P / ABV (x)	1.1	1.1	1.1	0.9
PE (x)	10.9	9.7	8.4	8.5
Net dividend yield (%)	*1.8*	*1.8*	*2.4*	*2.4*

Source: Company Data; PL Research   ** Preliminary Estimates*

- **Capital issues:** The bank is not very well placed, with Tier I capital at 6.93%. It is exploring/ other options for raising capital.
- **SLR and investment details:** Currently, the bank has 19% SLR holding; duration in the HTM book (Rs303.5bn or 78% of total investments) is above 6.9 years and AFS (Rs63.2bn or 16.3% of total investments) is 1.8 years. Total modified duration of the investment book is 6.62years. Equity book is Rs24.31bn (net). The equity book includes Rs9.46bn of strategic investments in subsidiaries and associates.
- **Details on AS-15 and wage provisions:** The bank has deferred AS-15 expenses of Rs0.6bn to be amortised over four years from 2008-09. It has also been factoring a 15% wage increase, which is in-line with an average of 15% that other peer banks are currently factoring.

Our comment

The bank has one of the lowest margins in the business and unlikely to see any major improvements under current challenging business environment. High duration in the HTM book remains the only positive. Valuations remain reasonable at 8.5x FY09E EPS, 0.8x FY09E BV and 0.9x FY09E ABV. We currently do not have active coverage on the stock.

Syndicate Bank

Rating	Not Rated
Price	Rs64
Target Price	NA
Implied Upside	NA
Sensex	9,584

(Prices as on February 9, 2009)

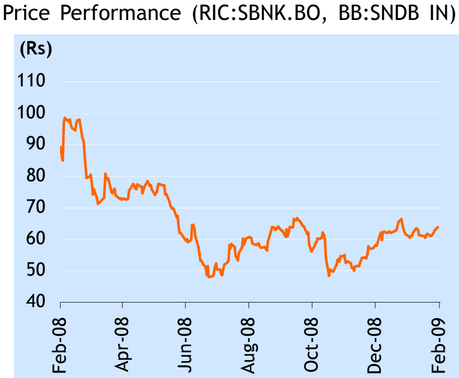
Trading Data	
Market Cap. (Rs bn)	33.3
Shares o/s (m)	522.0
Free Float	33.5%
3M Avg. Daily Vol ('000)	70.7
3M Avg. Daily Value (Rs m)	4.1

Major Shareholders	
Promoters	66.5%
Foreign	5.2%
Domestic Inst.	9.6%
Public & Others	18.7%

Stock Performance

	1M	6M	12M
Absolute	3.7	6.0	(29.6)
Relative	1.9	42.8	15.5

Price Performance (RIC:SBNK.BO, BB:SNDB IN)



Source: Bloomberg, PL Research

- **Asset Quality:** The bank expects to maintain asset quality levels with GNPAs in the range of 2.30% to 2.40% and NNPAs between 0.8% to 0.9% as on December 2008 mainly due to its restructuring plans (mentioned below) and higher recoveries Rs8.5bn target for FY09E of which Rs5.1bn has been achieved in the last nine-months. The management admits that if the economic activity doesn't recover with the fiscal stimulus and restructuring provided by the Government and banks, respectively, we would be delaying the potential NPL cycle.
- **Exposure and outlook on vulnerable sectors:** Of the key affected sectors, the bank has around Rs14.6bn (2% of advances) exposure in textiles and Rs23.4bn (3.2% of advances) exposure in basic metals. Gems and Jewellery exposure is low at Rs.3.5bn (0.5% of advances). Total commercial real estate exposure is ~Rs.25bn, of which core developer exposure is ~Rs17bn. There is no exposure of the bank to Satyam group or to Maytas. For real estate loans, the bank has taken 200% security and has made sure that 50% of equity and customer advances are brought in by the real estate developers.
- **Restructuring and rescheduling:** The bank expects to restructure 2000-3000 accounts, amounting to almost Rs.20bn or 2.8% of its total advances. The sacrifice due to restructuring should not have significant hit to its P&L as the bank will restructure and reschedule loans in a way in which the present value or sacrifice (as RBI terms) is minimal.
- **Credit growth:** Advances growth is expected to be 25% or FY09 and ~20% in FY10E.

Key Financials (Y/e March)	FY06	FY07	FY08	FY09E*
Net Interest Income (Rs m)	18,809	21,501	20,728	26,719
Growth (%)	*11.0*	*14.3*	*(3.6)*	*28.9*
Oeprating Profit (Rs m)	10,376	14,109	14,702	16,776
PAT (Rs m)	5,365	7,161	8,481	9,913
EPS (Rs)	10.3	13.7	16.2	19.0
Growth (%)	*20.4*	*33.5*	*18.4*	*16.9*
Net DPS (Rs)	2.5	2.8	2.8	3.0

Source: Company Data; PL Research ** Preliminary Estimates*

Profitability & Valuation	FY06	FY07	FY08	FY09E*
NIM (%)	*3.4*	*3.0*	*2.2*	—
RoAE (%)	*21.3*	*22.2*	*21.4*	*20.7*
RoAA (%)	*0.9*	*1.0*	*0.9*	—
P / BV (x)	1.3	1.0	0.9	0.7
P / ABV (x)	1.3	1.0	0.9	0.8
PE (x)	6.2	4.7	3.9	3.4
Net dividend yield (%)	*3.9*	*4.4*	*4.4*	*4.7*

Source: Company Data; PL Research ** Preliminary Estimates*

- **Expansion and hiring plans:** The bank plans to hire 3000 employees over two years in addition to 2500 employees hired during 2008-09; its current employee base is at 25150 . It is recruiting almost after 20 years. It also plans to increase its branch network to 2250 branches by March 2009 from 2203 as on December 2008.
- **NIM:** Margins are expected to stabilize at 3% levels from the current levels of 3.2% recorded in Q3FY09. Almost Rs130bn of bulk deposits (average cost 9.6%) will get re-priced by March 2009 at 7.5% or less. Negatives from PLR cuts, re-emergence of sub-PLR lending should be negated to a large extent by benefits of lower bulk deposit rates for the bank. Of the total loan book, 75% is floating while 25% is fixed.
- **Outlook on CASA:** Low cost CASA deposits are expected to improve, with bank undertaking aggressive customer acquisition. Since April 2006, six million customers have been added, while one lakh HNIs have been added since September 2008. The bank has achieved 100% CBS integration, which will help in stabilizing and improving CASA balances. It has also been gaining market share from private banks in certain territories.
- **Capital issues:** The bank has a Tier I capital at 7.17% and has raised Rs3.4bn of IPDI at an interest rate of 9.4%. As per Basel II, the Tier I capital adequacy is 7.95%. The bank has also requested the Government for injection of Rs13bn capital in various forms.
- **SLR and investment details:** Currently, the bank has 26% SLR holding. The duration in the HTM book (Rs209bn or 77% of total investments) is 5.46 years and AFS (Rs62bn or 23% of total investments) is 3.4 years. Equity book is Rs2.2bn, as on December 2008 (Rs3.2bn, as on March 2008) and losses booked in the equity book during Q3FY09 stood at Rs400m. Gains in the G-Sec book of Rs500m resulted in a net gain from investments in Q3FY09 for Rs90m.
- **Details on AS-15 and wage provisions:** The bank's total transitional liability is to be amortised over five years and stood at Rs2.98bn; Rs.600m has been charged every year (Rs150m every quarter). It has provided Rs600m for wage hike from November 2007-December 2008 and hence there is no shortfall during that period. But it has been factoring a 12% wage increase, which we feel is a tad lower than the average of 15% which the other peer banks are currently factoring.

Our comment

The bank has demonstrated a good track record of growth and asset quality levels. The bank has focussed on improving its low cost deposits and fee income revenues with adequate expansion in branches and staff strength. Capital is a concern in the near term, however government is expected to infuse funds going forward. Valuations remain attractive at 3.4x FY09E EPS, 0.7x FY09E BV and 0.8x FY09E ABV. We currently do not have active coverage on the stock.

Indian Overseas Bank

Rating	Not Rated
Price	Rs59
Target Price	NA
Implied Upside	NA
Sensex	9,584

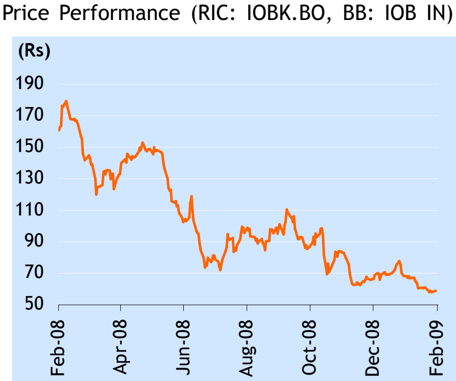
(Prices as on February 9, 2009)

Trading Data	
Market Cap. (Rs bn)	32.1
Shares o/s (m)	544.8
Free Float	38.8%
3M Avg. Daily Vol ('000)	165.6
3M Avg. Daily Value (Rs m)	11.4

Major Shareholders	
Promoters	61.2%
Foreign	16.1%
Domestic Inst.	8.2%
Public & Others	14.5%

Stock Performance	1M	6M	12M
Absolute	(14.0)	(38.4)	(65.3)
Relative	(15.8)	(1.6)	(20.2)

Price Performance (RIC: IOBK.BO, BB: IOB IN)



Source: Bloomberg, PL Research

- **Asset quality:** Indian Overseas Bank believes that if the current economic slowdown continues to worsen, then its asset quality will significantly deteriorate from the current industry level slippages of 2.5%. The bank has witnessed a considerable stress in the SME, mid and large corporate, with increased slippages. Retail book stands at Rs86.4bn, at 12.1% of the total loan portfolio. The coverage ratio is likely to be at 55-60% and NNPAs are likely to be in the range of 1.3-1.5% for FY09E. Industry wide the bank expects the GNPAs to reach around 4-5% by FY10E if the economic environment does not stabilize.
- **Exposure and outlook on vulnerable sectors:** Of the key affected sectors, the bank has around Rs35.3bn (5% of advances) exposure in textiles and Rs40.0bn (5.6% of advances) exposure in basic metals. Exposure to Gems and Jewellery is at Rs2.2bn (0.3% of advances), while exposure to. commercial real estate developer is ~Rs40bn (5.6% of advances). Also, the bank has Rs1bn exposure to Maytas (Rs0.5bn each, for equipment and working capital finance).
- **Restructuring and rescheduling:** The bank has restructured an infrastructure-related loan of Rs3bn.
- **Credit growth:** Advances growth is expected to be at 24% in FY09 and around 18-20% in FY10E.
- **Network expansion:** The bank expects to continue its network expansion by adding 70-100 branches in FY10; this is in addition to the 1894 braches operating at present. CBS roll-out is in 1465 branches, covering 96% of business. The bank is expected to achieve a full CBS roll-out by March 2009.

Key Financials (Y/e March)	FY06	FY07	FY08	FY09E*
Net Interest Income (Rs m)	20,672	25,608	26,795	29,920
Growth (%)	*11.4*	*23.9*	*4.6*	*11.7*
Operating Profit (Rs m)	13,467	15,600	20,018	24,045
PAT (Rs m)	7,833	10,084	12,023	13,142
EPS (Rs)	14.4	18.5	22.1	24.1
Growth (%)	*20.3*	*28.7*	*19.2*	*9.3*
Net DPS (Rs)	2.6	3.0	3.5	3.6

Source: Company Data; PL Research ** Preliminary Estimates*

Profitability & Valuation	FY06	FY07	FY08	FY09E*
NIM (%)	*3.9*	*3.7*	*3.0*	–
RoAE (%)	*27.2*	*28.1*	*27.2*	*23.9*
RoAA (%)	*1.4*	*1.4*	*1.3*	–
P / BV (x)	1.0	0.8	0.7	0.5
P / ABV (x)	1.1	0.9	0.7	0.6
PE (x)	4.1	3.2	2.7	2.4
Net dividend yield (%)	*4.4*	*5.1*	*5.9*	*6.1*

Source: Company Data; PL Research ** Preliminary Estimates*

- **NIM:** Margins are expected to be at ~3%, going forward, as compared to 3.14% in 9MFY09 and 3.3% for 9MFY08. The bank has redeemed Rs2.2bn of bulk deposits during Q3FY09, with an average cost of 12.78%.
- **Outlook on CASA:** Low cost CASA deposits are expected to stabilize at ~32% by December 2009, as compared to the current levels of 30% due to a reduction of spread between CASA and term deposits.
- **Capital issues:** The bank is comfortably placed, with a Tier I capital at 8% (Basel I) and 8.4% (Basel II), respectively. It also has options available for Tier II issues. Headroom is available in the range of Rs10-11bn
- **SLR and investment details:** Currently, the bank has 24.6% SLR holding; duration in the HTM book (Rs227.6bn or 80.4% of total investments) is 4.8 years and AFS (Rs54.3bn or 19.2% of total investments) is 2.5 years.
- **Details on AS-15 and wage provisions:** The bank's total transitional liability stood at Rs4.5bn and it provides Rs890m per year over five years, starting from FY08. It has provided Rs1.5bn for wage hike from November 2007 to March 2008 building in a 15% expected increase, which is in line with the industry average.

Our comment

The bank has certain asset quality issues relating to the textile sector, however the fundamentals of the bank remain sound. Top management is cognizant of a possible slowdown and asset quality issues going forward which vary from many other PSU counterparts. Valuations remain very attractive at 2.4x FY09E EPS, 0.5x FY09E BV and 0.6x FY09E ABV for a bank with above 20% RoE. We currently do not have active coverage on the stock.

Prabhudas Lilladher

Andhra Bank

Rating	Not Rated
Price	Rs55
Target Price	NA
Implied Upside	NA
Sensex	9,584

(Prices as on February 9, 2009)

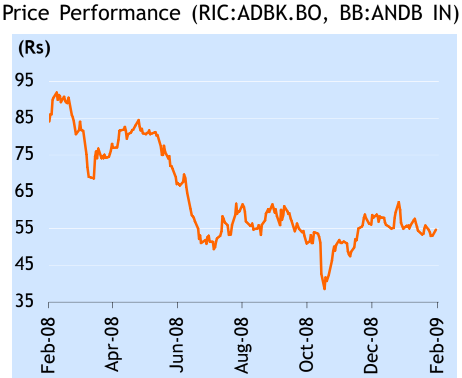
Trading Data	
Market Cap. (Rs bn)	26.5
Shares o/s (m)	485.0
Free Float	48.4%
3M Avg. Daily Vol ('000)	108.5
3M Avg. Daily Value (Rs m)	5.7

Major Shareholders	
Promoters	51.6%
Foreign	15.2%
Domestic Inst.	15.9%
Public & Others	17.3%

Stock Performance

	1M	6M	12M
Absolute	(0.5)	(8.4)	(39.0)
Relative	(2.3)	28.4	6.1

Price Performance (RIC:ADBK.BO, BB:ANDB IN)



Source: Bloomberg, PL Research

- **Asset quality:** Andhra bank has one of the best asset qualities in the industry, with GNPAs at 0.9% and NNPAs at 0.2%. The bank doesn't expect its asset quality to show any major deterioration, as the bank has been very prudent in its lending. Also, its exposures to vulnerable sectors are well within the acceptable levels. The coverage ratio is likely to remain at the current levels of 77%.

- **Exposure and outlook on vulnerable sectors:** Of the key affected sectors, the bank has around Rs18.65bn (4.4% of advances) exposure in textiles and Rs25.5bn (6.1% of advances) exposure in iron and steel. The bank's exposure to commercial real estate developer is ~Rs7.4bn (1.8% of advances).

- **Restructuring and rescheduling:** The bank has rescheduled an exposure of Rs1bn to Micro Small and Medium Enterprise (MSME). The bank has no direct exposure to Satyam. However, it has an exposure of Rs400m in a JV with Maytas (as a minority stakeholder) with 15% and ICICI Venture fund and Nagarjuna Construction Company (NCC) with 60% and 25% stake, respectively.

- **Credit growth:** Advances growth is expected to be around 28-30% for FY09E and ~25% in FY10E.

- **Network expansion:** The bank expects to continue its network expansion by adding 70-100 branches in FY10; this is in addition to the 1410 branches operating at present. CBS roll-out is in 1011 branches, covering 91.7% of business and the bank intends to bring all branches under CBS by March 2009.

- **NIM:** Margins are expected to stabilize at ~3-3.2% levels from the Q3FY09 levels of 3.35% and 9MFY09 levels of 3.18%. The bank has around Rs91.2bn of bulk deposits, of which Rs20bn are getting re-priced at around 150-250bps (lower by March 2009).

Key Financials (Y/e March)	FY06	FY07	FY08	FY09E*
Net Interest Income (Rs m)	11,690	14,175	14,199	15,227
Growth (%)	*9.3*	*21.3*	*0.2*	*7.2*
Opearting Profit (Rs m)	7,691	9,312	10,569	10,651
PAT (Rs m)	4,855	5,379	5,756	6,003
EPS (Rs)	10.0	11.1	11.9	12.4
Growth (%)	*(23.0)*	*10.8*	*7.0*	*4.3*
Net DPS (Rs)	3.5	3.8	4.0	4.5

Source: Company Data; PL Research ** Preliminary Estimates*

Profitability & Valuation	FY06	FY07	FY08	FY09E*
NIM (%)	*3.3*	*3.3*	*2.8*	*2.5*
RoAE (%)	*20.5*	*17.8*	*18.0*	*17.5*
RoAA (%)	*1.3*	*1.2*	*1.1*	*1.0*
P / BV (x)	0.9	0.8	0.8	0.7
P / ABV (x)	0.9	0.9	0.8	0.8
PE (x)	5.5	4.9	4.6	4.4
Net dividend yield (%)	*6.4*	*6.9*	*7.3*	*8.2*

Source: Company Data; PL Research ** Preliminary Estimates*

- **Outlook on CASA:** Low cost CASA deposits are expected to improve, since the bank is undertaking significant efforts to mobilize CASA. The bank expects its CASA to stabilize in the range of around 32-34%.

- **Capital issues:** The bank is well placed, with Tier I capital at 8.71%. It also has options available for Tier II issues. Headroom available is Rs10.4bn in Hybrid Tier I and Rs13.9bn in Tier II. The bank will be able to sustain on internal accruals and will not require any capital infusion till March 2010, with around 20-25% growth in its balance sheet.

- **SLR and investment details:** Currently, the bank has 25.5% SLR holding; duration in the HTM book (Rs120bn or 73% of total investments) is 5.4 years and AFS (Rs43bn or 27% of total investments) is 1.8 years. Total modified duration of the investment book is 4.87 years. Equity book is at Rs1.64bn (Net) and MTM depreciation stood at Rs712m during Q3FY09.

- **Details on AS-15 and wage provisions:** The bank had adjusted Rs2.6bn from net worth in March 2008, to comply with AS-15 requirements. The bank has provided Rs200m per quarter from April - December 2008. It has also been factoring a 15% wage increase, which is in-line with an average increase of 15% that other peer banks are currently factoring.

Our comment

The bank has one of the best asset quality levels. However the bank is currently focussing more on quality growth which should augur well going forward. Valuations remain attractive at 4.4x FY09E EPS, 0.7x FY09E BV and 0.8x FY09E ABV. We currently do not have active coverage on the stock.

Prabhudas Lilladher

Allahabad Bank

Rating	Not Rated
Price	Rs48
Target Price	NA
Implied Upside	NA
Sensex	9,584

(Prices as on February 9, 2009)

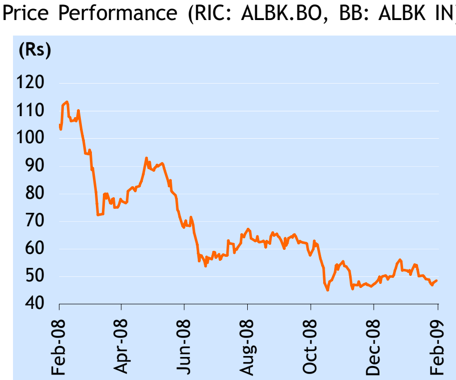
Trading Data	
Market Cap. (Rs bn)	21.6
Shares o/s (m)	446.7
Free Float	44.8%
3M Avg. Daily Vol ('000)	255.0
3M Avg. Daily Value (Rs m)	12.9

Major Shareholders	
Promoters	55.2%
Foreign	12.1%
Domestic Inst.	13.8%
Public & Others	18.9%

Stock Performance

	1M	6M	12M
Absolute	(7.4)	(25.8)	(56.2)
Relative	(9.2)	11.0	(11.0)

Price Performance (RIC: ALBK.BO, BB: ALBK IN)



Source: Bloomberg, PL Research

- **Business:** The business of Allahabad bank had peaked to Rs1,279bn, as on December 31, 2008, constituting deposits of Rs751bn and advances of Rs528bn. During the first three quarters, the bank consciously shed Rs50bn of bulk / high cost deposit and reprised its advances, which resulted in an increase in the operating profits.

- **Profitability:** The bank has earned operating profit of Rs13bn in the first three quarters of FY09, as against Rs11bn in the corresponding period of FY08. The net profit, however, remained at Rs5bn in the above period in FY09, as against Rs8bn in FY08. The same was low due to an increase in the provision by Rs5bn in the first three quarters of FY09 over the corresponding period in FY08. The major provision is on account of depreciation on investments (including a one-time hit of Rs1.45bn, taken for shifting of portfolio in HTM in August 2008, which would not have happened if the portfolio had not been transferred in August 2008). Additional income tax provision of Rs0.90bn and provision of Rs0.80bn for IRS, besides a lump sum provision of Rs0.45bn, were allowed against an expected wage settlement.

- **Asset quality:** The bank expects a moderate deterioration in its asset quality from the current GNPA levels of 1.9%. It has witnessed a manageable stress in the corporate advances with a slight uptick in the NPAs. Retail book stands at Rs78.1bn. Currently, the NPA coverage ratio is at 58%. NNPAs are likely to be in the range of 0.80% to 1% for FY09E.

- **Exposure and outlook on vulnerable sectors:** Of the key affected sectors, the bank has around Rs16.0bn (3% of advances but not in Thirupur) exposure in textiles and Rs30.0bn (5.7% of advances) exposure in basic metals. Gems and Jewellery exposure is low at Rs4bn (0.7% of advances). Commercial real estate developer exposure is ~Rs12bn.

Key Financials (Y/e March)	FY06	FY07	FY08	FY09E*
Net Interest Income (Rs m)	15,774	17,507	17,808	20,765
Growth (%)	*15.6*	*11.0*	*1.7*	*16.6*
Operating Profit (Rs m)	11,241	10,999	14,795	18,477
PAT (Rs m)	7,061	7,501	9,746	8,279
EPS (Rs)	15.8	16.8	21.8	18.5
Growth (%)	*1.2*	*6.2*	*29.9*	*(15.0)*
Net DPS (Rs)	4.0	3.0	3.5	3.5

Source: Company Data; PL Research   ** Preliminary Estimates*

Profitability & Valuation	FY06	FY07	FY08	FY09E*
NIM (%)	*3.3*	*3.0*	*2.4*	–
RoAE (%)	*23.7*	*18.5*	*20.1*	*14.7*
RoAA (%)	*1.4*	*1.2*	*1.3*	–
P / BV (x)	0.7	0.6	0.5	0.4
P / ABV (x)	1.0	0.7	0.6	0.5
PE (x)	3.1	2.9	2.2	2.6
Net dividend yield (%)	*8.3*	*6.2*	*7.2*	*7.2*

Source: Company Data; PL Research   ** Preliminary Estimates*

- **Credit growth:** Advances growth is expected to be around 20-24% in FY09 and ~20% in FY10E.
- **Network expansion:** The bank expects to continue its network expansion by adding 100 branches in FY10; this is in addition to the 2226 branches operating at present. The bank has taken CBS on war-footing basis. So far, 721 branches covering 76% of business has been rolled out in CBS. The bank is planning to cover 900 branches under CBS, which will cover business exceeding 80%.
- **NIM:** Margins are expected to stabilize at ~3% levels from the current levels of 3.2% recorded in Q3FY09. This is due to a reduction of ~Rs50bn in the bulk deposits by the bank from Rs199bn, as on March 2008. Also, the PLR increases have helped the advances yield.
- **Outlook on CASA:** Low cost CASA deposits are expected to improve since the bank is undertaking significant efforts to mobilize CASA. Over the past four months, the bank has mobilized 0.8mn savings accounts and in Q4FY09 the focus is on improving current accounts. CASA should stabilize in the range of around 35%. The bank's significant presence in the rural and semi-urban areas (61% of branches), should help it to improve its CASA, going forward.
- **Capital issues:** The bank is well placed in terms of its capital adequacy, as its CRAR as per Basel II is 12.20%, as on December 31, 2008. Further, 12.20% constitutes 7.98% in Tier I. The bank is having enough headroom for raising Tier I and Tier II capital to support its growth plan. Presently, the bank is having a headroom of Rs7.65bn in Hybrid Tier I and Rs19bn in Tier II. The bank share is currently trading below its book value.
- **SLR and investment details:** Currently, the bank has 26.1% SLR holding; duration in the HTM book (Rs166bn or 60% of total investments) is above five years and AFS (Rs114bn or 40% of total investments) is 1.9 years. Total modified duration of the investment book is four years. Equity book is Rs4.2bn (gross) and MTM depreciation stood at Rs1.6bn.
- **Details on AS-15 and wage provisions:** The bank has fully provided for employee benefits as per AS-15. Further, during the first three quarters of FY09, the bank has provided a lump sum amount of Rs0.45bn towards an expected wage settlement.

Our comment

The bank has adopted prudent deposit mobiisation and advances growth strategy to leverage its presence in Uttar Pradesh and West Bengal. Focus on fee income to help improve RoE going forward. Exposure to vulnerable sectors remains within acceptable levels. Valuations remain very attractive at 2.6x FY09E EPS, 0.4x FY09E BV and 0.5x FY09E ABV. We currently do not have active coverage on the stock.

Prabhudas Lilladher

Yes Bank

Rating	Not Rated
Price	Rs60
Target Price	NA
Implied Upside	NA
Sensex	9,584

(Prices as on February 9, 2009)

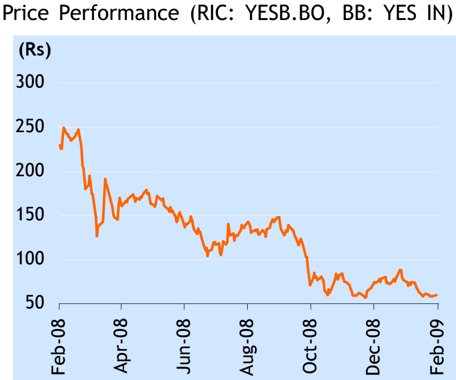
Trading Data	
Market Cap. (Rs bn)	17.8
Shares o/s (m)	295.8
Free Float	67.4%
3M Avg. Daily Vol ('000)	242.8
3M Avg. Daily Value (Rs m)	17.1

Major Shareholders	
Promoters	32.6%
Foreign	23.5%
Domestic Inst.	31.8%
Public & Others	12.1%

Stock Performance

	1M	6M	12M
Absolute	(21.1)	(56.6)	(74.7)
Relative	(23.0)	(19.8)	(29.6)

Price Performance (RIC: YESB.BO, BB: YES IN)



Source: Bloomberg, PL Research

- **Credit growth:** Total advances growth is expected to be 20-25% for FY09. The loan growth in FY10 would depend on the overall economic outlook. The bank's lending businesses are primarily driven by non-retail business currently. Hence, the stance in general is cautious, as the corporate profitability is under stress.
- **Corporate and institutional banking (CIB) expected to do well:** Large cap companies with a turnover of Rs7.5bn and above are categorised in this segment. Advances in this segment stood at Rs73.3bn, up 44.5% YoY and will grow by 35-40% for FY09E. This segment is likely to do better than the industry in FY10E.
- **Emerging corporates (EC) and business banking (BB) segment growth remains muted:** Companies with a turnover of less than Rs7.5bn but greater than Rs1.5bn are categorised as EC, while a turnover of less than Rs1.5bn is categorised in the BB group. Advances in these segments grew by only 4% YoY.
- **NIM:** Margins are expected to stabilize at the current levels of 2.7-2.9% and then improve with improving CASA balances. The bank's cost of deposits stood at 9.6%, with an average duration of 19 months. The average yield on advances stood at 13.7%, with a duration of 16 months. CASA stood at 9% and is expected to remain stable between 9-10% in the near term.
- **Network expansion:** The bank plans to follow an asset-based approach. Initially the focus will be on good quality assets and later with the expansion of branches, the liability base will get more diversified. The bank is committed to grow its branch network to 115 and 250 by March 2009 and by December 2010, respectively.

Key Financials (Y/e March)	FY07	FY08	FY09E	FY10E
Net Interest Income (Rs m)	1,714	3,367	4,632	6,148
Growth (%)	*94.5*	*96.5*	*37.6*	*32.7*
Operating Profit (Rs m)	1,724	3,503	4,088	6,049
PAT (Rs m)	944	2,003	2,584	2,520
EPS (Rs)	3.4	6.8	8.7	8.5
Growth (%)	*64.5*	*100.9*	*29.0*	*(2.5)*
Net DPS (Rs)	—	—	—	—

Source: Company Data; PL Research

Profitability & Valuation	FY07	FY08	FY09E	FY10E
NIM (%)	*2.3*	*2.5*	*2.4*	*2.4*
RoAE (%)	*13.9*	*19.0*	*17.8*	*14.8*
RoAA (%)	*1.2*	*1.4*	*1.3*	*1.0*
P / BV (x)	2.1	1.3	1.1	1.0
P / ABV (x)	2.1	1.4	1.2	1.0
PE (x)	17.8	8.9	6.9	7.0
Net dividend yield (%)	—	—	—	—

Source: Company Data; PL Research

- **Asset quality will deteriorate, but unlikely to be a major problem:** The bank expects the asset quality to remain stable, with GNPAs to be in low single digits. The bank has a total loan loss provision coverage at 232% and specific loan loss coverage ratio at 66%. This is expected to remain high.
- **High HTM duration to mitigate NPL risks:** The bank has built-up above four year duration in the HTM (Rs38bn) book as a counter cyclical measure. AFS book size is Rs14bn, with duration of around two years.
- **Exposure and outlook on various sectors:** The bank's main focus areas are food and agribusiness, which comprises 20% of advances (not under stress). Almost 50% of the advances book (comprising food, engineering and telecom) is insulated from any major problem.
- **Restructuring and rescheduling:** The bank has not undertaken any restructuring as yet.
- **Capital issues:** The bank's current Tier I capital is at 7.9% (Basel I) and will improve by 70-80bps under Basel II. Capital is not a concern at the current stage. Long standing investors of the bank have always shown interest, whenever capital is required. However, growth outlook is not very high and hence capital may not be required.
- **Total income composition unlikely to change much:** The bank maintains that the total income composition will remain (60-55%) in the favour of interest income and (40-45%) non-interest income. Non-interest income, excluding treasury, is almost equally distributed among trade-related services, third party distribution and advisory. Among the three pieces, the advisory services piece is likely to be under some pressure as M&A activities have dried up. However, debt syndication remains very vibrant. Again, going forward, the bank's retail distribution and wealth management fees will compensate to some extent for the loss in advisory fees at this juncture. Hence, there exist multiple levers to keep the interest and non-interest income proportion more or less stable over a medium to long term period.

Our comment

The bank has been growing at a robust pace, however slow down in cross border advisory and M&A activities are likely to impact its non-interest income. Sharp decline in bulk deposit rates remain a big positive for the bank with 9% CASA. Comparatively lower Tier I than other private banks remain a hindrance to growth at this juncture. Valuations remain attractive at 7x FY10E EPS, 1x FY09E BV and 1x FY09E ABV. We currently do not have active coverage on the stock.

Dena Bank

Rating	Not Rated
Price	Rs36
Target Price	NA
Implied Upside	NA
Sensex	9,584

(Prices as on February 9, 2009)

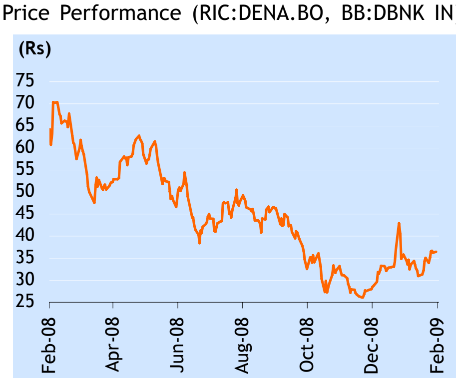
Trading Data	
Market Cap. (Rs bn)	10.5
Shares o/s (m)	286.8
Free Float	48.8%
3M Avg. Daily Vol ('000)	594.1
3M Avg. Daily Value (Rs m)	20.8

Major Shareholders	
Promoters	51.2%
Foreign	11.5%
Domestic Inst.	5.7%
Public & Others	31.6%

Stock Performance

	1M	6M	12M
Absolute	1.8	(23.7)	(46.0)
Relative	(0.1)	13.1	(0.9)

Price Performance (RIC:DENA.BO, BB:DBNK IN)



Source: Bloomberg, PL Research

- **Asset quality:** The bank expects some stress in its asset quality from the current GNPA levels of 2.3%. Retail book stands at Rs32.5bn at around 12.7% of the total loan portfolio. The coverage ratio is likely to remain at current levels of 50-55%. NNPAs are likely to be contained at around 1% for FY09E.
- **Exposure and outlook on vulnerable sectors:** The bank has Rs380m exposure to Maytas through a SPV. Of the key affected sectors, the bank has around Rs6.48bn (2.5% of advances) exposure in gems and jewellery, Rs7.00bn (2.8% of advances) exposure in textile, Rs9.5bn in basic metals, Rs3.0bn in real estate and negligible exposure in auto and auto-ancillaries.
- **Restructuring and rescheduling:** Bank has restuctured Rs0.9bn worth of loans, as on December 2008.
- **Credit growth:** Advances growth is expected to be around 20-24% in FY09 and ~22% in FY10E.
- **Network expansion:** The bank expects to continue its network expansion by adding around 100 additional branches (mainly in the northern areas) for FY10 from the current level of 1180 branches. The bank has a long-term plan to open 400 branches in the next three years. The bank has 492 branches (80% of business) under CBS and is expected to take all branches under CBS by December 2009.
- **NIM:** Margins are expected to stabilize at the current levels of 2.8-3.0% from the exceptionally high margins of 3.76% as seen in Q3FY09 and 2.93% for 9MFY09. The high Q3FY09 margins were a combination of re-pricing of short term loans (~Rs30bn) and IT refund of Rs0.3bn. About Rs9bn of high cost deposits 11-13% average will get re-priced by March 2009.

Key Financials (Y/e March)	FY06	FY07	FY08	FY09E*
Net Interest Income (Rs m)	7,227	8,554	8,929	11,074
Growth (%)	*5.3*	*18.4*	*4.4*	*24.0*
Operating Profit (Rs m)	6,220	6,675	7,228	7,508
PAT (Rs m)	730	2,016	3,598	4,238
EPS (Rs)	2.5	7.0	12.5	14.8
Growth (%)	*19.7*	*176.1*	*78.5*	*17.8*
Net DPS (Rs)	–	0.8	1.0	1.1

Source: Company Data; PL Research ** Preliminary Estimates*

Profitability & Valuation	FY06	FY07	FY08	FY09E*
NIM (%)	*3.0*	*3.1*	*2.7*	–
RoAE (%)	*6.0*	*14.2*	*22.0*	*21.3*
RoAA (%)	*0.3*	*0.7*	*1.0*	–
P / BV (x)	1.0	0.8	0.7	0.5
P / ABV (x)	1.0	0.8	0.7	0.6
PE (x)	14.3	5.2	2.9	2.5
Net dividend yield (%)	–	*2.2*	*2.7*	*3.0*

Source: Company Data; PL Research ** Preliminary Estimates*

- **Outlook on CASA:** CASA deposits are expected to be in the range of around 39-40% and are expected to improve, going forward, due to the banks focus on opening new branches and full implementation of CBS by December 2009.
- **Capital issues:** The bank is not well placed, with Tier I capital at 6.99% and GOI holding at 51.1%. It is exploring other options and has asked for Rs5bn capital injection from the GOI (modalities awaited).
- **SLR and investment details:** Currently, the bank has 27% of DTL in SLR holding, duration in the HTM book (Rs97.3bn or 80.9% of total investments) is 4.97 years and AFS/HFT (Rs23.01bn or 19.12% of total investments) is 2.95 years. Total modified duration of the investment book is 4.54 years. Its equity book size is Rs1.4bn.
- **Details on AS-15 and wage provisions:** The bank's total transitional liability stood at Rs1.1bn and it provides Rs220m per year over five years, starting from FY08. It has provided Rs0.5bn for wage hike from November 2007 to March 2008, building in a 15% expected increase. This is in line with the industry average.

Our comment

The bank has one of the best CASA ratios in the industry and plans to expand significantly in the medium term. However, capital constraints remain the major hurdle. Valuations remain attractive at 2.5x FY09E EPS, 0.5x FY09E BV and 0.6x FY09E ABV. We currently do not have active coverage on the stock.

Prabhudas Lilladher

POWERING YOUR FINANCIAL GROWTH

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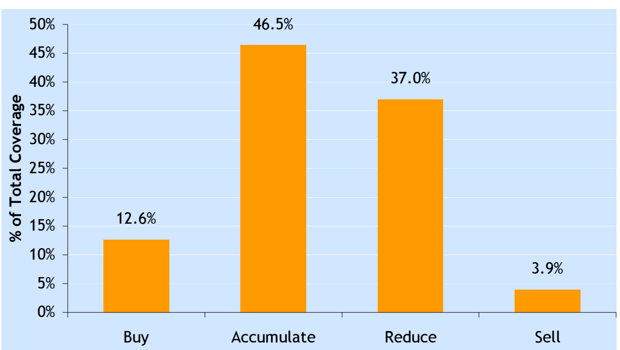
Rating Distribution of Research Coverage



PL's Recommendation Scale

BUY	Over 15% Outperformance to Sensex over 12-months	**Accumulate**	Outperformance to Sensex over 12-months
Reduce	Underperformance to Sensex over 12-months	**Sell**	Over 15% underperformance to Sensex over 12-months
Trading Buy	Over 10% absolute upside in 1-month	**Trading Sell**	Over 10% absolute decline in 1-month
Not Rated (NR)	No specific call on the stock	**Under Review** (UR)	Rating likely to change shortly