India Banks

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Financials/Banks
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SO WHAT? THE BNP PARIBAS ANGLE

INDUSTRY OUTLOOK: ↑

- Liquidity concerns near term phenomenon. Domestic deposit growth adequate for funding the FY09E capex.
- External credit crunch is likely a non-issue for funding the FY09E capex.

Stock Picks

Company	BBG code	Rec	Share price (INR)	Target price (INR)	Upside/ (downside) (%)	Mkt cap (USD m)	Rec P/BV 2009E (x)	Rec P/BV 2010E (x)	Rec P/BV 2011E (x)
ICICI Bank*	ICICIBC IN	BUY	535.55	950.00	77.4	12,682	1.6	1.5	1.4
Bank of India	BOI IN	BUY	285.25	360.00	26.2	3,187	1.6	1.4	1.2
Axis Bank	AXSB IN	REDUCE	720.25	600.00	(16.7)	5,495	2.2	2.1	1.9

* At the TP for core bank; Source: BNP Paribas estimates

- **No significant liquidity-driven funding risks to our corporate capex estimate of USD76b for FY09.**
- **Domestic banking deposit growth adequate source of funds – we assume no ECB funding.**
- **No significant risk to our loan growth & deposit growth assumptions for ICICI Bank.**

India Liquidity – More slices & dices

Corporate capex – Show me the money

We have been receiving varied feedback and questions from our clients to our note dated September 25, 2008 'Corporate capex – Show me the money'. In this follow up note, we offer additional views of our data analysis in order to address some of these questions. To summarize our key conclusion in the earlier note – We believe the deposit growth in the Indian banking system is adequate to fund a bulk of the capital requirements across corporate, retail and rural/SME sectors in India.

Key points we like to highlight

- Adequate funds availability is to be evaluated against our proprietary capex estimate of USD76b for FY09. We would like to point out that this number is approximately 50% lower than the widely quoted figure of USD140b-150b.
- We are estimating corporate loans to take up bulk of the funds availability, primarily at the cost of retail loans.
- The relative growth rates across the major loan categories assumed ir our projections are summarized in Exhibit 3.
- In terms of aggregate loan book composition, we expect corporate loans will garner incremental market share (at the cost of retail loans) and we are assuming rural / SME loans to maintain the FY08 share, as summarized in exhibit 2.
- In terms of incremental credit and deposit growth assumptions for FY09, we are factoring in incremental loans of USD80b through the banking system funded by incremental deposits of USD128b, implying an incremental credit-deposit ratio of 63%. The current average credit-deposit ratio in the Indian context is approximately 73%.

Impact on our coverage universe

The loan growth and deposit growth assumptions for our coverage universe (ICICI Bank, Axis Bank and Bank of India) are detailed in Exhibit 3. We see no significant risk to our assumptions for ICICI Bank. For Axis Bank, we continue to reiterate the risks inherent to the management loan growth guidance in the range of 30-40%.

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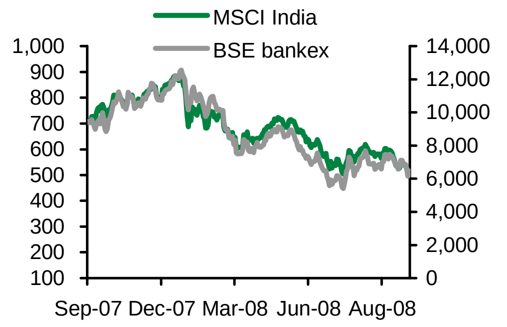
Top 10 Banks Of India

Company	Mkt cap (INR b)	Income (INR b)	Loan assets (INR b)
State Bank Of India	930	902.2	6,032.2
ICICI Bank	600	600.5	2,520.7
H D F C Bank	525	124.0	634.3
Axis Bank	260	88.0	596.6
Kotak Mahindra Bank	192	75.5	220.0
Bank of India	150	144.7	1,147.9
Punjab National Bank	150	162.6	1,195.0
Bank of Baroda	108	138.6	1,050.0
Canara Bank	80	164.1	1,070.0
Union Bank of India	72	105.3	727.0

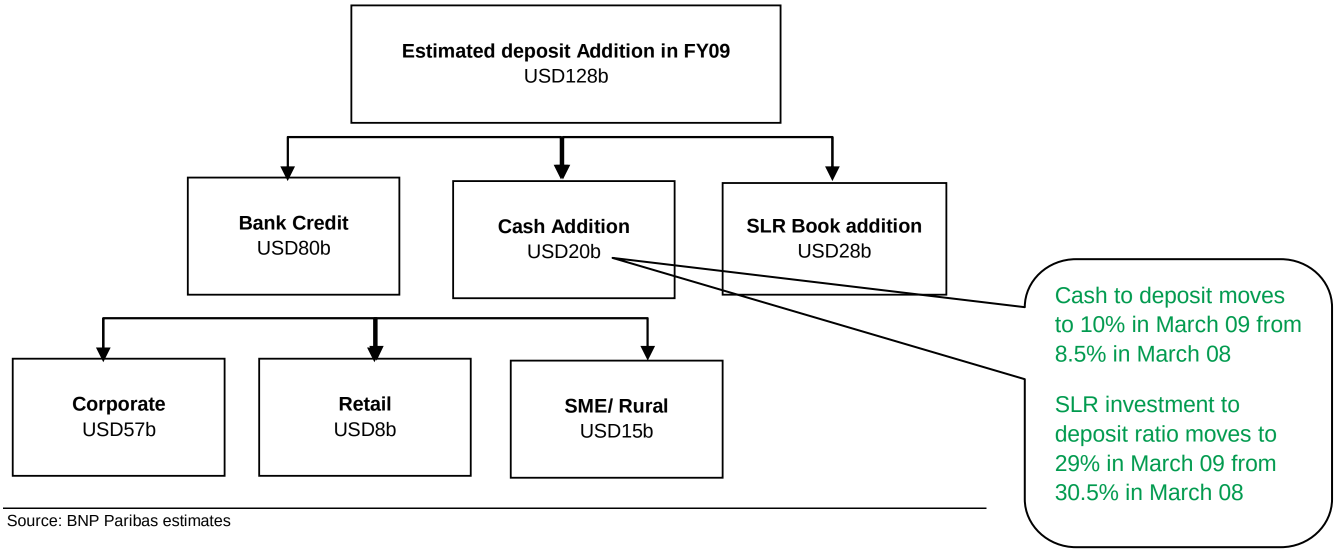
Source: BNP Paribas estimates (Revenue and loan asset as for FY08)

BANKEX India vs MSCI INDIA



Source: Datastream

Exhibit 1: Incremental Deposits For FY09 And Usage



Source: BNP Paribas estimates

At an estimated growth of 20% in deposit base for FY09, the incremental addition is USD128b. Out of this roughly USD20b would go into increasing the cash base as the stipulated cash reserve ratio (CRR) has moved to 9% in September 2008 from 7.75% in March 2008. We expect the cash to deposit ratio will move up to 10% by March 2009 compared to 8.5% in March 2008. On the other hand statutory liquidity ratio (SLR) remains at 25% although RBI has recently provided a temporary 1% relief below the statutory limit. We expect the investment to deposit ratio will come down to 29% by March 2009 compared to 30.5% in March 2008. This ratio stood at 30% as on August 2008. The incremental bank credit of USD80b would further facilitate corporate credit of USD57b, retail loans of USD8b and USD15b of lending to SME and rural sector.

Exhibit 2: Loan Book Composition

% of total loan book	FY08	FY09E
Retail	18.7	17.5
Corporate	57.9	59.1
SME/Rural	23.4	23.4

Source: BNP Paribas estimates

Exhibit 3: Sectorwise Loan Book Growth

(y-y %)	FY08	FY09E
Retail	37.7	8.0
Corporate	22.1	17.8
Priority Sector	27.2	15.0
Overall	25.6	15.4

Source: BNP Paribas estimates

Our sector wise loan book growth estimates are 8%, 17.8% and 15% for retail, corporate and the priority sector, respectively. The priority sector loans comprise housing loans below INR2m ticket size, infrastructure sector lending besides rural and SME exposure.

Exhibit 4: Loan And Deposit Growth Estimates For Coverage Universe – FY09E

(y-y %)	Loan growth	Deposit growth
ICICI Bank	11.2	16.7
Axis Bank	20.0	23.6
Bank of India	20.2	21.7

Sources: CMIE; BNP Paribas estimates

We do not expect our loan and deposit growth assumptions to be at risk for ICICI Bank and Bank of India. For Axis Bank, we reiterate the risks to the management loan growth guidance upward of 30%.

DISCLAIMERS & DISCLOSURES

Recommendation structure

All share prices are as at market close on 30 September 2008 unless otherwise stated. Stock recommendations are based on absolute upside (downside), which we define as (target price* - current price) / current price. If the upside is 10% or more, the recommendation is BUY. If the downside is 10% or more, the recommendation is REDUCE. For stocks where the upside or downside is less than 10%, the recommendation is HOLD. In addition, we have key buy and key sell lists in each market, which are our most commercial and/or actionable BUY and REDUCE calls and are limited to at most five key buys and five key sells in each market at any point in time.

Unless otherwise specified, these recommendations are set with a 12-month horizon. Thus, it is possible that future price volatility may cause a temporary mismatch between upside/downside for a stock based on market price and the formal recommendation.

*In most cases, the target price will equal the analyst's assessment of the current fair value of the stock. However, if the analyst doesn't think the market will reassess the stock over the specified time horizon due to a lack of events or catalysts, then the target price may differ from fair value. In most cases, therefore, our recommendation is an assessment of the mismatch between current market price and our assessment of current fair value.