India Financial Sector

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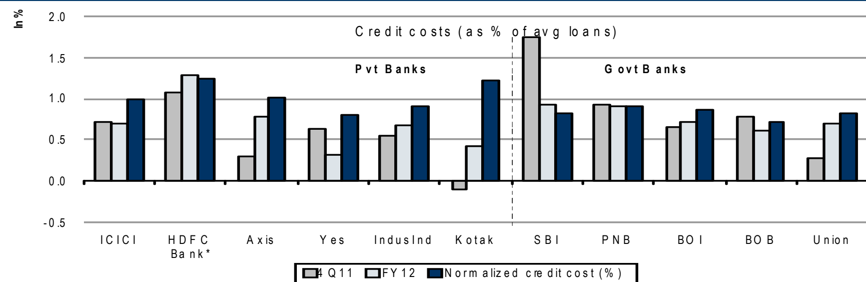
SECTOR REVIEW

Unwelcome clouds on the horizon

Figure 1: Lower than historic credit costs are buttressing current profitability



** includes excess provisions made.*

Source: Company data, Credit Suisse estimates

- **Focus shifts to asset quality.** As the economy slows and rates up 400 bp from lows, we shift focus to asset quality. Historically, NPAs rise as loan growth slows and delinquencies well correlated with rate increases (with a 12M lag). Therefore, in the next six months, we expect an end of the current benign asset quality cycle, which has been buttressing bank profitability even as NIM compression and lack of treasury profits have weighed on top-line growth.

- **Power sector – restructurings ahead.** Over past three years, bank loans to power sector have grown ~3x to US$57 bn. Bank exposure to this sector is now high at 10% of loans and 60-90% of book. Stress on these loans is appearing from off-take, fuel supply and developer risk. We estimate that PLFs below 65% will be inadequate to meet debt servicing needs. The 54 GW of capacity planned to come up in the next 24 months could be the tipping point for these risks to come to a fore as none of it is supported by FSA and 20% doesn't have PPAs. Most large developers are also stretched with (2.5x gearing) and large committed capex (4x of equity). Given long tenures and 'restructuring' leeway, banks may not report any immediate rise in NPLs but expect restructuring some of these loans in the next 18 months.

- **Downgrade ICICI.** We initiate on PFC (NEUTRAL) and REC (UNDERPERFORM) as we expect that rise in problem assets for these lenders will continue to weigh on valuations that are not cheap relative to government-owned banks (which have a more diversified loan book). We are reducing FY12-13E earnings of Indian banks by 2-10% as we build in an end of the benign asset quality cycle and raise credit cost estimates by 15-20 bp. We prefer banks with strong earning power, which will help them absorb rising credit costs better. Downgrade ICICI Bank to NEUTRAL (target price of Rs1,066) as RoA expansion shall likely halt with the credit costs bottoming and core RoEs will get capped at 14-15%.

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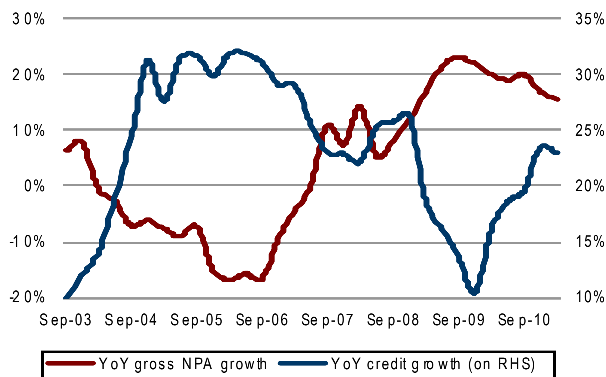
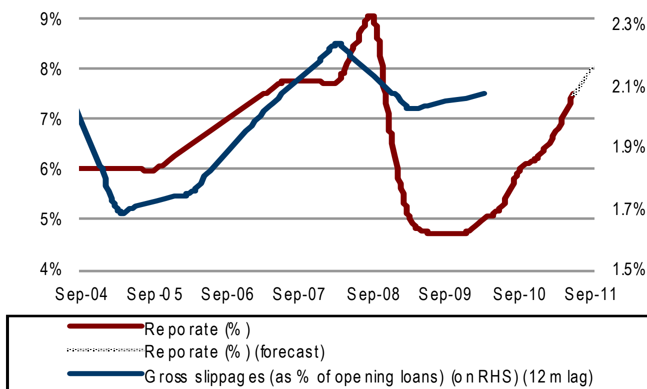
Focus charts

Figure 2: Credit and NPL growth are inversely correlated



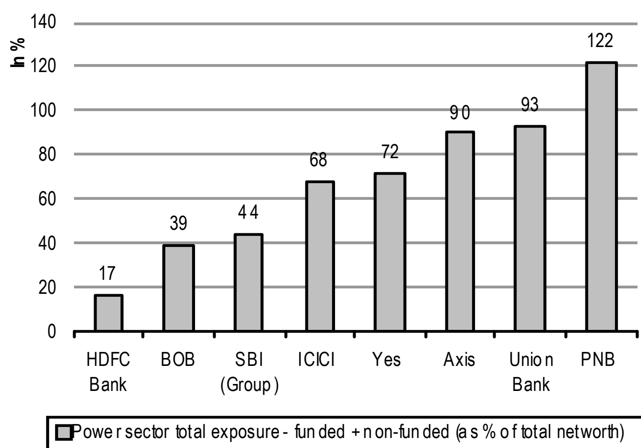
Source: RBI, CapitalLine

Figure 3: Slippages expected to rise with high interest rates



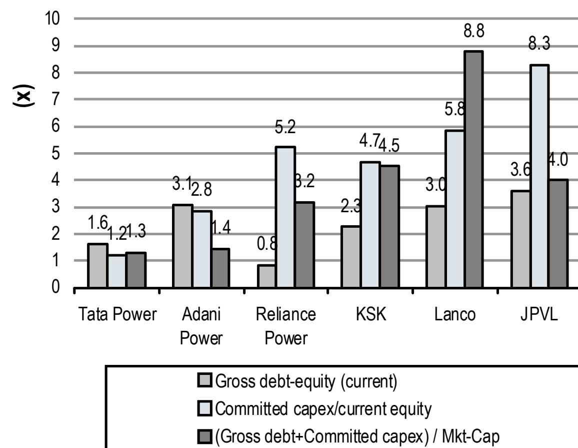
Source: RBI, CapitalLine, Credit Suisse estimates

Figure 4: Power sector exposure is 70-90% of book



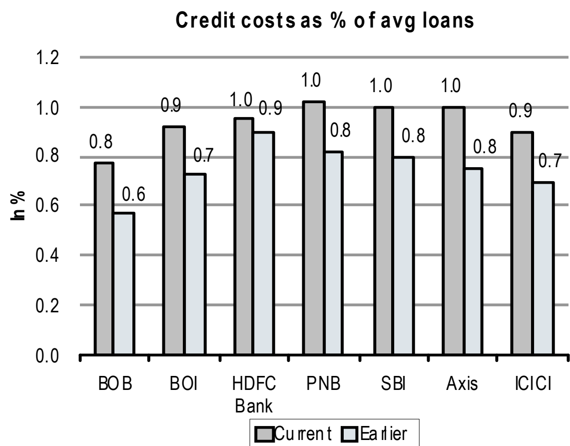
Source: Company data

Figure 5: Developers highly leveraged if one takes into account their committed cap-ex



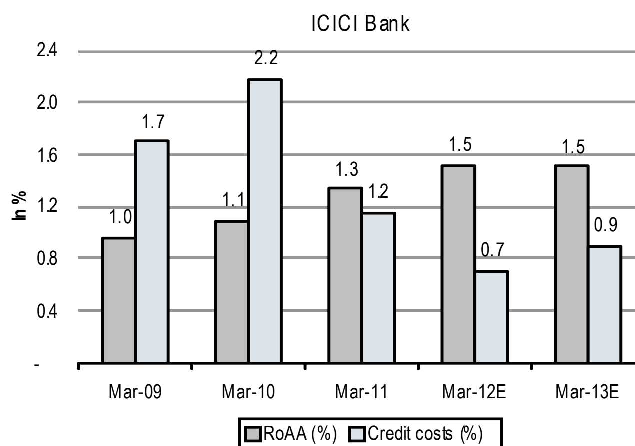
Source: Company data, Bloomberg, Credit Suisse estimates

Figure 6: We increase our FY13 credit costs by 15-20 bp



Source: Company data, Credit Suisse estimates

Figure 7: ICICI Bank's RoAA to stagnate with credit costs bottoming out



Source: Company data, Credit Suisse estimates

Focus now on asset quality

As economy slows and rates up 400 bp from lows, we shift focus to asset quality. History indicates that NPAs rise as loan growth slows and delinquencies are well correlated with rate increases (with a 12M lag). We therefore expect in the next six months, an end of the current benign asset quality cycle that has been buttressing bank profitability even as NIM compression and lack of treasury profits have weighed on top-line growth (current credit costs are at 0.9% versus historic average of 1.2%).

Historically, bank NPLs rise as loan growth slows

Slippages increase with interest rates

Power sector – restructurings ahead

Over past three years, bank lending to power sector has grown ~3x to US$57 bn. Exposure to sector is now high at 10% of total loans and 60-90% of book. Stress on these loans is appearing from off-take risk (lack of PPAs and weak SEB finance), fuel supply (lack of fuel supply agreements, rising domestic coal and gas deficits) and developer risk. We estimate that PLFs below 65% will be inadequate to meet debt servicing needs. The 54 GW of capacity planned to come up in next 24 months could be the tipping point for these risks to come to the fore as none of these are supported by FSA and 20% of it does not have PPAs. Many large power developers also now appear stretched with gearing levels of 500%. It is likely that given long tenures and leeway of restructuring, banks may not report any immediate rise in NPLs but expect restructuring several of these loans in next 18 months.

Power sector exposure at 70%+ of net worth

Significant off-take risk, fuel supply risk and developer risk

Likely 'restructuring' over the next 18 months

Downgrade ICICI Bank to NEUTRAL

We cut our FY13 earnings forecast for ICICI by 10% and downgrade ICICI Bank to NEUTRAL (from Outperform) as we expect the RoAs (1.4%) /core RoEs (14%) to stagnate with the credit costs bottoming out. ICICI's has grown its corporate book aggressively and currently has high share of power sector, commercial real estate (12%) versus peers. It is currently trading at 20% premium to Axis on Price /PPoP (only 13% discount to HDFC Bank) despite the seemingly inexpensive P/B multiples. We peg the core bank valuations at 2.0x book and cut our target price to Rs1,066.

ICICI's RoAs / RoEs to stagnate with credit costs bottoming out

Downgrade ICICI to NEUTRAL

UNDERWEIGHT Banks, power sector lenders

We initiate on PFC (NEUTRAL) and REC (UNDERPERFORM) as we expect that rise in problem assets for these lenders will continue to weigh on valuations that are not cheap relative to government owned banks (which have more diversified loan book) (For details please refer to our initiation reports on PFC – 'relative well position in tough industry' and REC – 'if it looks too good to be true…' dated 14 July 2011).

Initiate on REC with an UNDERPERFORM and PFC with a NEUTRAL

Indian Banks have YTD performed in-line with the market. Profitability pressures are already visible on back of slowdown in loan growth, NIM compression and treasury losses. Moderation in credit costs has however been supporting earnings growth. Power sector lenders (PFC, REC) have also been enjoying virtually NIL credit costs and reporting strong ROAs. We are cutting FY12-13 earnings of banks by 2-10% as we build in an end of benign asset quality cycle and raise FY13 credit cost estimates by 15-20 bp. Prefer banks with strong earning power, which will help them absorb rising credit costs better. HDFC Bank, Axis, PNB, BOB are our preferred exposures while we are cautious on ICICI, Yes Bank, IndusInd among privates and SBI, IOB among PSUs.

Maintain UNDERWEIGHT on Banks – Cautious on ICICI, IndusInd, Yes, SBI, IOB

Valuation summary

Figure 8: **Valuation summary**

	CS	Price	Mkt cap	BVPS (Rs)		P/B (x)		EPS (Rs)		EPS growth (%)		P/E (x)		ROE (%)	
	Rating	(Rs / sh)	(In $ bn)	FY12E	FY13E	FY12E	FY13E	FY12E	FY13E	FY12E	FY13E	FY12E	FY13E	FY12E	FY13E
Pvt sector															
Axis	O	1,274	11.7	545	619	2.3	2.1	89	102	10	15	14.4	12.5	17.7	17.8
HDFC Bank	O	2,516	21.1	631	744	4.0	3.4	108	136	33	26	23.4	18.6	19.0	20.4
ICICI	N	1,054	27.0	515	556	2.0	1.9	56	65	26	16	18.8	16.2	11.5	12.4
Kotak	N	490	8.0	171	199	2.9	2.5	23	28	7	20	21.3	17.8	14.8	15.3
Yes Bank	U	318	2.5	134	165	2.4	1.9	25	31	17	26	13.0	10.3	20.2	20.7
J&K Bank	O	849	0.9	833	975	1.0	0.9	149	181	18	21	5.7	4.7	19.3	20.0
IndusInd	N	278	2.9	94	109	3.0	2.6	15	20	17	31	18.5	14.1	16.5	19.0
ING Vysya	O	337	1.1	263	304	1.3	1.1	34	45	35	36	10.1	7.6	13.5	15.5
Public sector															
Bank of Baroda	O	876	7.6	587	690	1.5	1.3	109	126	1	16	8.0	6.9	20.2	19.8
Bank of India	N	403	4.9	335	394	1.2	1.0	60	72	33	19	6.7	5.6	19.5	19.7
PNB	O	1,135	8.1	746	883	1.5	1.3	145	168	4	16	7.8	6.7	19.7	19.5
SBI	N	2,433	34.3	1,548	1,776	1.6	1.4	246	321	40	30	9.9	7.6	16.8	18.1
Union Bank	O	299	3.5	244	285	1.2	1.0	48	55	21	16	6.3	5.4	18.3	18.5
United Bank	O	96	0.7	136	162	0.7	0.6	22	31	42	43	4.4	3.1	15.9	19.0
Non-bank fin															
HDFC	N	696	22.7	129	165	5.4	4.2	28	34	18	20	24.8	20.7	22.9	22.8
IDFC	N	135	4.4	85	94	1.6	1.4	10	12	9	22	13.6	11.2	12.4	13.7
Shriram Transport	O	682	3.4	271	334	2.5	2.0	65	78	20	19	10.4	8.8	26.9	25.9
PFC	N	205	4.5	150	174	1.4	1.2	31	36	19	16	6.6	9.0	22.2	22.2
REC	U	194	5.0	160	179	1.2	1.1	24	28	4	17	8.2	7.0	16.7	16.5
Core business															
ICICI	N	863	22.1	398	437	2.2	2.0	53	62	30	16	16.3	14.0	13.9	14.8
SBI	N	2,341	33.0	1,548	1,776	1.5	1.3	246	321	40	30	9.5	7.3	16.8	18.1
HDFC	N	424	13.8	100	108	4.2	3.9	23	27	21	19	18.6	15.6	24.0	26.5

Source : Bloomberg, Credit Suisse estimates

Focus now on asset quality

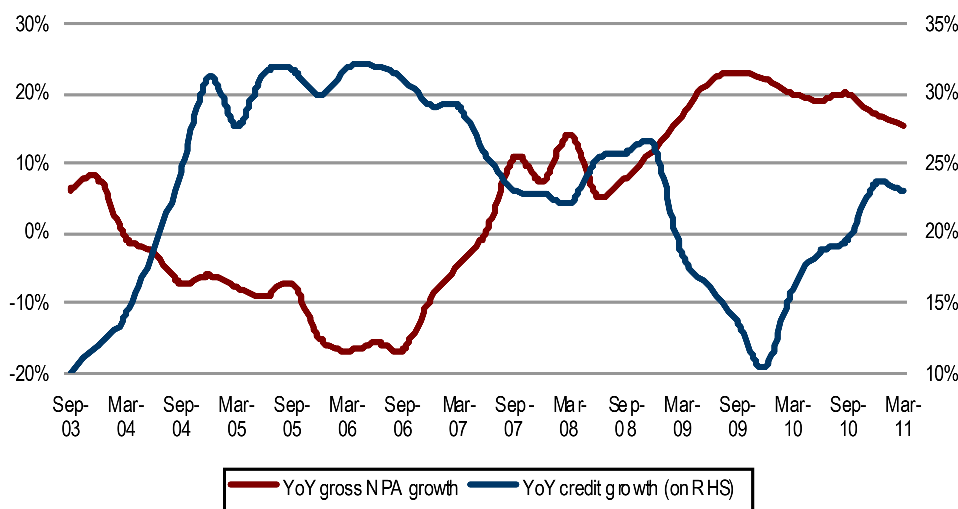
Historically, bank NPLs rise as loan growth slows

As the economy slows and interest rates are currently up 400 bp+ over the last year, we shift focus to asset quality. History indicates that bank NPAs will rise as loan growth slows. As also expected, delinquencies are well correlated (with a 12 month lag) to interest rate increases. Therefore, in the next six months, we expect an end of the current benign asset quality cycle that has been buttressing current bank profitability even as NIM compression and lack of treasury profits weigh on their top-line growth.

Slowing loan growth pushes up NPLs

History indicates that bank NPAs rise as loan growth slows. Historic credit growth and gross NPL growth (YoY %) are negatively correlated.

Figure 9: **Credit and NPL growth are inversely correlated**

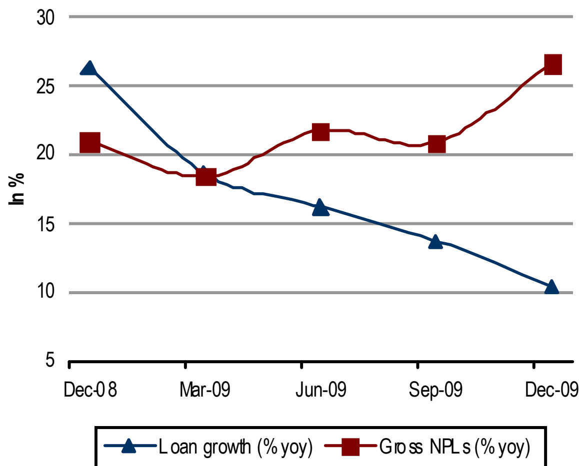


Source: RBI, Capital Line

Extract from RBI's financial stability report (June 2011)

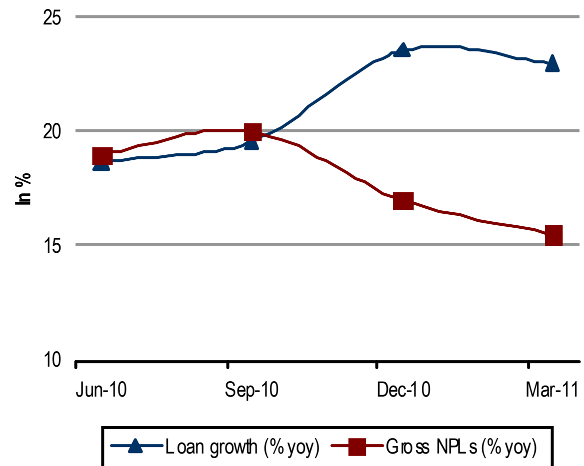
During the slow down phase when the credit off-take started declining and fell to 12-13 per cent in December 2009, the growth in NPAs rose from about 10 per cent levels in March 2008 to 25 per cent levels in December 2009. The credit growth during 2010-11, seemed comparable to the growth witnessed in pre-crisis period. It was also being seen that there was substantial deceleration in growth of NPAs. Apart from reflecting cyclicality, the pattern was also indicative of impairment in assets being actually initiated during phases of rapid credit growth.

Figure 10: **Post the global economic crisis, NPLs rose as loan growth slowed…**



Source: RBI, Credit Suisse estimates

Figure 11: **As loan growth picked up in FY11, NPLs witnessed a slow down**



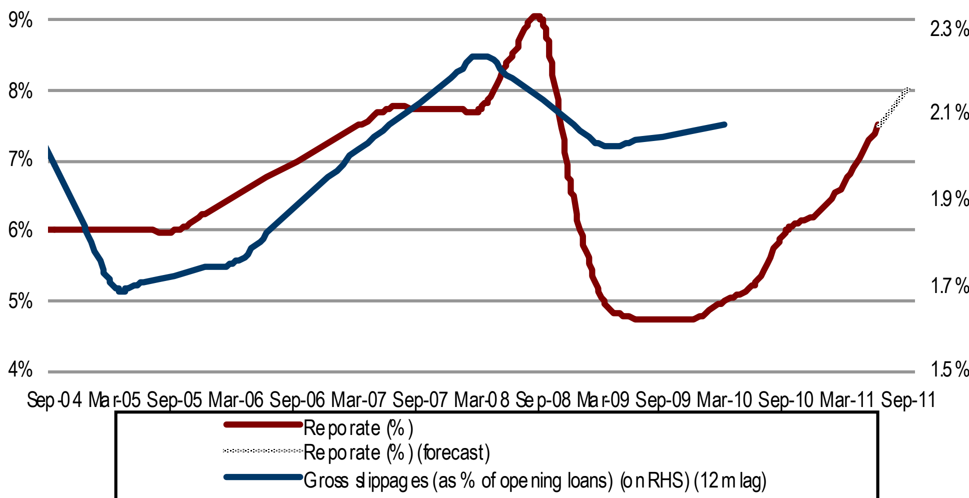
Source: RBI, Credit Suisse estimates

Delinquencies pick-up with interest rates

Slippages are well correlated to interest rates

Historically slippages (with a one-year lag) are also well correlated with the interest rates (repo rate). Interest rates have not only witnessed a sharp rise recently (repo rates were up 225 bp over the past one year and are expected to rise even further (our economist expects rates to rise by a further 50 bp by March 2012). The current rising interest rates are likely to lead to further higher slippages going forward.

Figure 12: **Slippages expected to rise with higher interest rates**



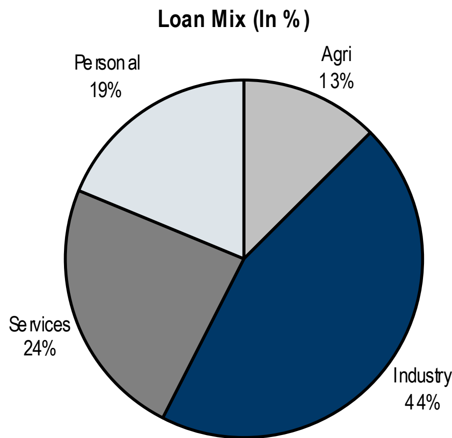
Source: Company data, Credit Suisse estimates, Bloomberg

NPAs currently coming from agri and SME

System Agri NPLs are at 5% levels….

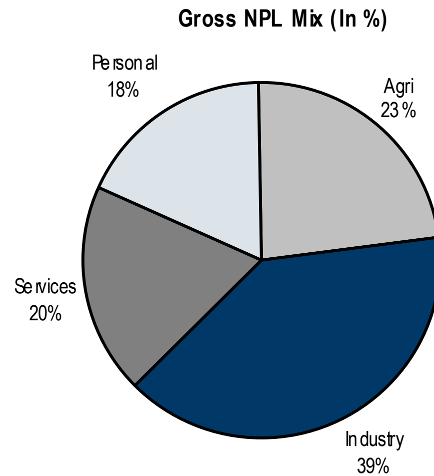
While the total agri loans comprise only 13% of total system loans, they account for 23% of the total NPLs (agri NPLs are around 5% of agri loans). Industry and services NPLs are marginally lower than the system NPLs (they comprise 68% of total loans and 60% of the total NPLs).

Figure 13: Banking system loan mix



Source: RBI

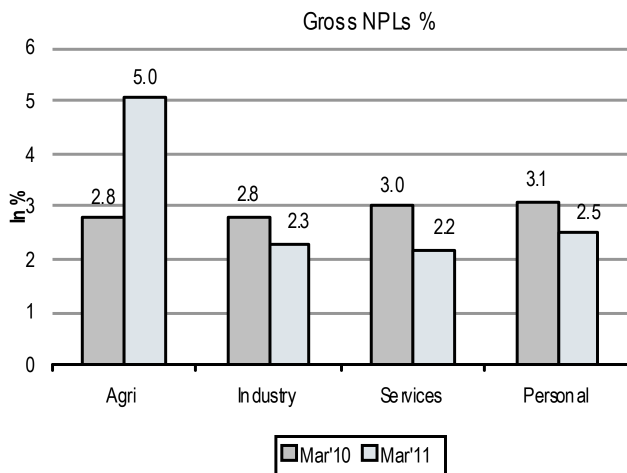
Figure 14: System NPL mix



Source: RBI, Credit Suisse estimates

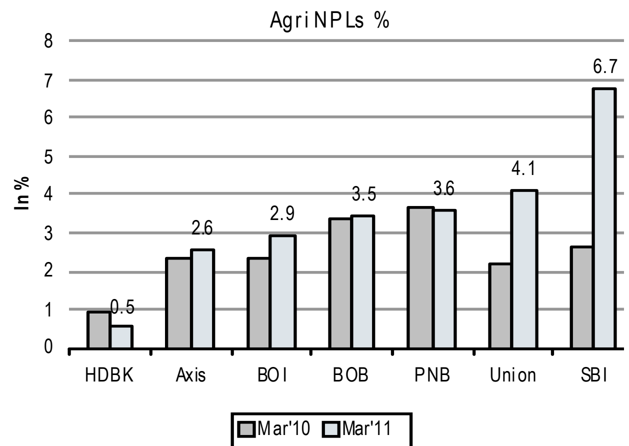
Gross NPLs percentage for all the segments declined in FY11 except for agri, which witnessed a sharp two-fold jump. SBI's agri NPLs are the highest among the peers at 7% levels.

Figure 15: Agri NPLs witnessed a sharp jump in FY11 …



Source: Company data

Figure 16: SBI, has high agri NPLs (%) vs peers

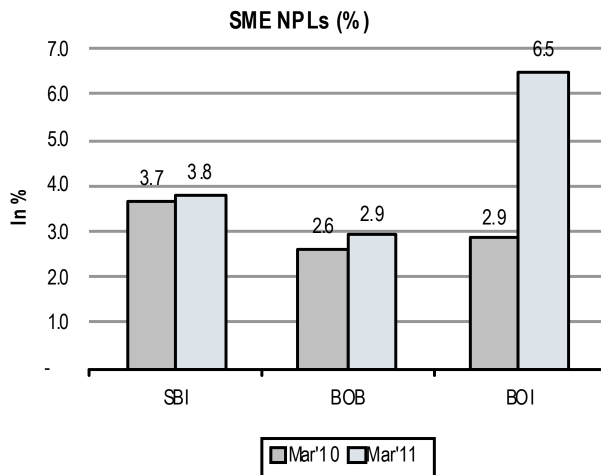


Source: Company data, Credit Suisse estimates

The SME NPLs (3-6% levels) are also much higher than the overall system NPLs (2.5%). PNB and BOB have witnessed a sharp rise (35-40% CAGR) in SME loans over the last two years. With the macro environment likely to turn more difficult (higher rates, slower growth) for SMEs, we expect increase in stress on the SME portfolio of the banks.

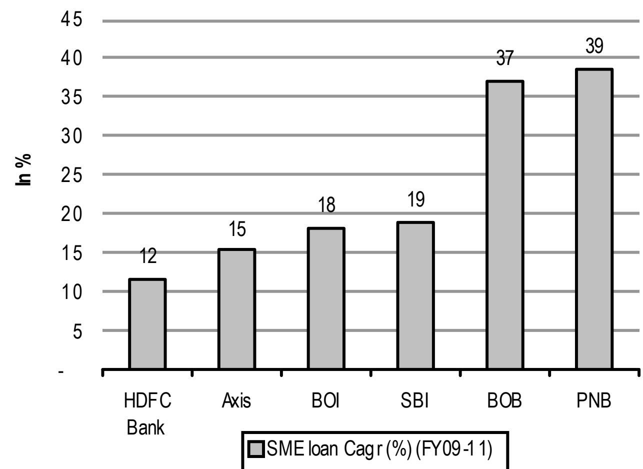
..and SME NPLs are at 3-6% levels

Figure 17: **SME NPL levels are also much higher versus system NPLs**



Source: Company data

Figure 18: **PNB, BOB have grown SME loans the fastest over past two years**

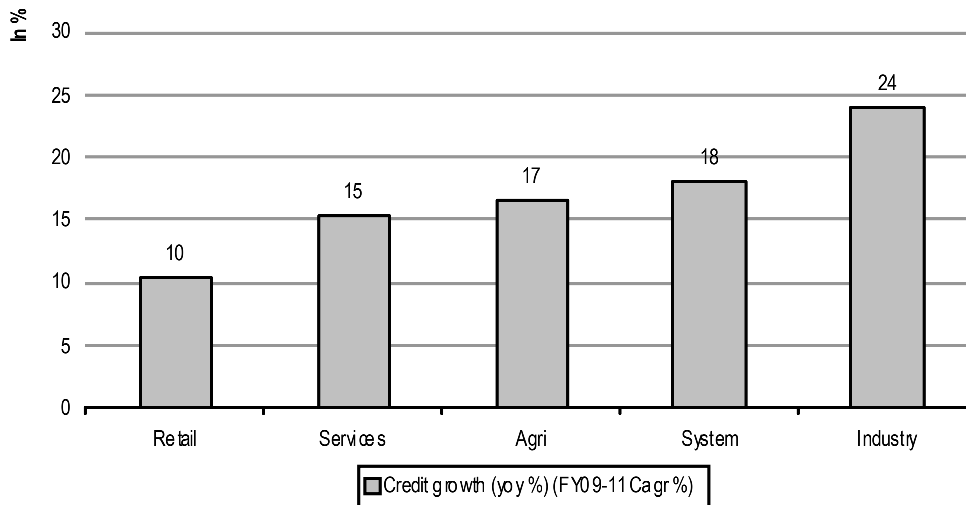


Source: Company data

Rapid expansion of loans to real estate, infra, NBFC sectors

Industry loan growth outpaced the system loan growth over the past two years, while retail loan has lagged system growth.

Figure 19: **Segmental loan growth (2-year CAGR %)**

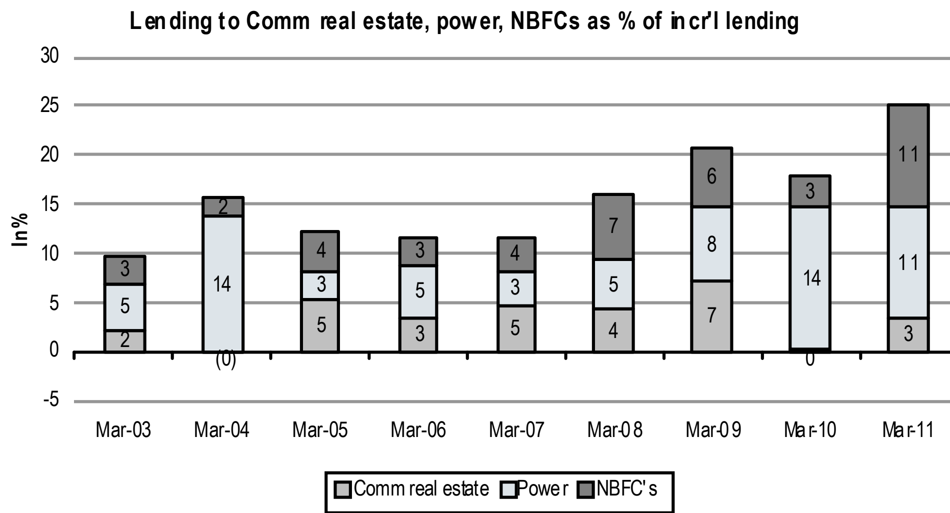


Source: Company data, Credit Suisse estimates

It is particularly noteworthy that lending to real estate, power and NBFCs was at a historical high of 25% of incremental lending in FY11.

Comm real estate, power and NBFCs comprised of 25% of incr'l lending in FY11

Fig 20: Comm. real estate, power & NBFCs comprised 25% of the incr'l lending in FY11

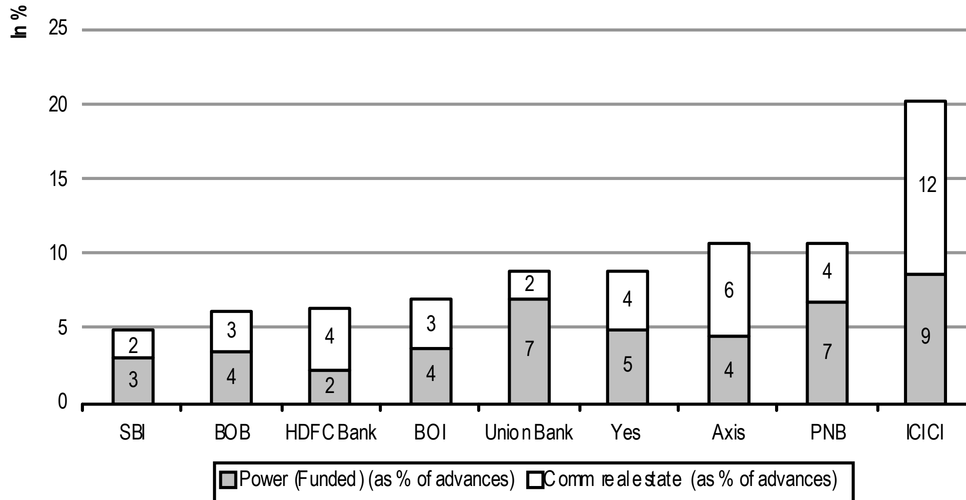


Source: RBI

ICICI and PNB have a high share of commercial real estate and power loans.

ICICI, PNB have high share of comm real estate, power loans

Figure 21: ICICI, PNB have higher share of comm real estate, power loans

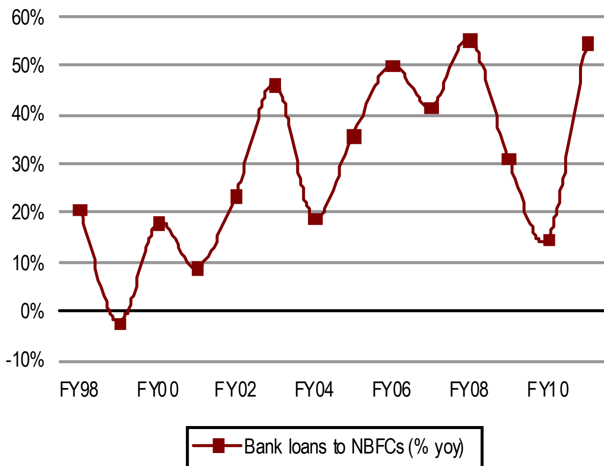


Source: Company data

Bank loans to NBFCs were up a sharp 55% YoY in FY11 and are currently at 5% of the loans. Yes Bank, SBI, Union have a high share of NBFC loans at 8-10% levels.

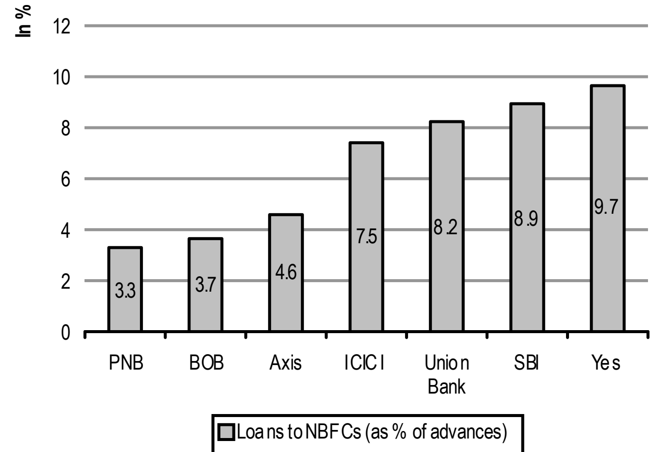
Bank loans to NBFCs were up a sharp 55% YoY

Figure 22: Bank loans to NBFCs are up a sharp 55% YoY in FY11



Source: Company data, Credit Suisse estimates

Figure 23: Yes Bank, SBI, Union have higher share of NBFC loans

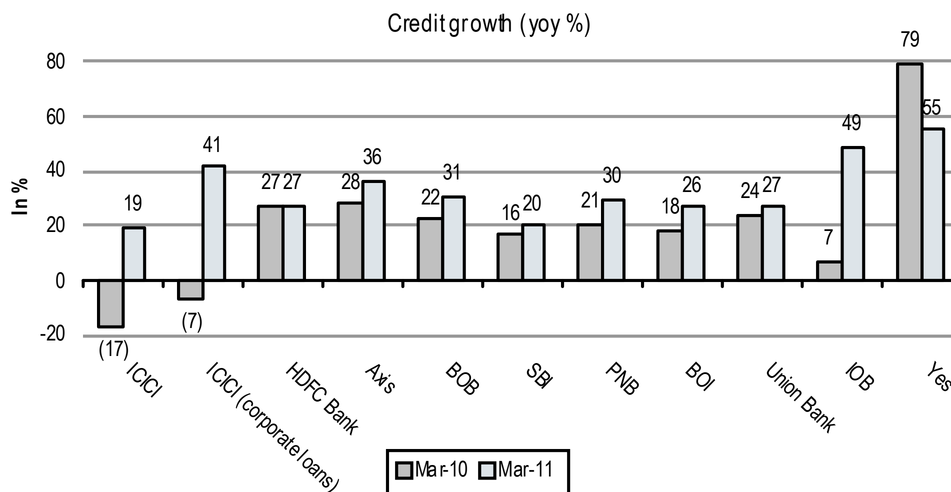


Source: Company data, Credit Suisse estimates

IOB, Yes, Axis, ICICI (corporate loan book) have witnessed sharp loan growth over the last two years, which shall make them more vulnerable once the asset quality cycle turns.

IOB, Yes, Axis, ICICI (corporate) witnessed sharp growth in FY11

Figure 24: Credit growth over the past was high for IOB, Axis, ICICI (corporate)



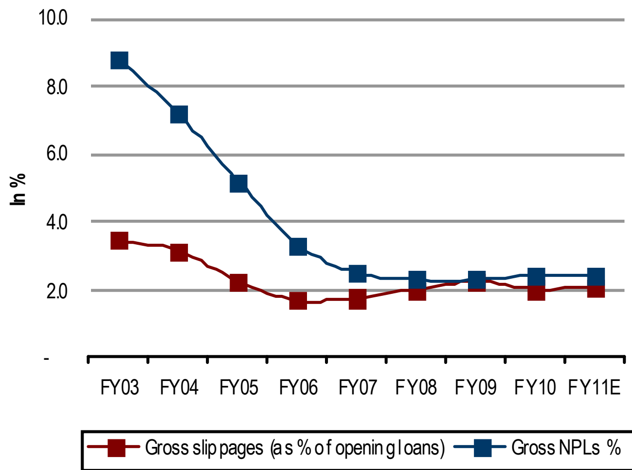
Source: Company data

Asset quality has been benign

NPL and delinquency trends have been benign over the past few years and are below their historic averages. Credit costs are expected to decline to 0.9% in FY12 from 1.2% levels in FY10 (versus the ten-year historic average of 1.2%).

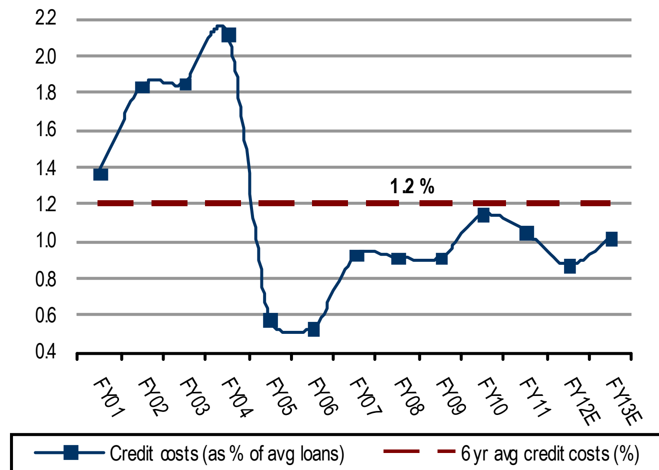
Slippages well below historic average over the past few years

Figure 25: **Gross slippages & NPLs well below historic avg**



Source: Company data, Credit Suisse estimates

Figure 26: **FY12 credit costs well below historic average**



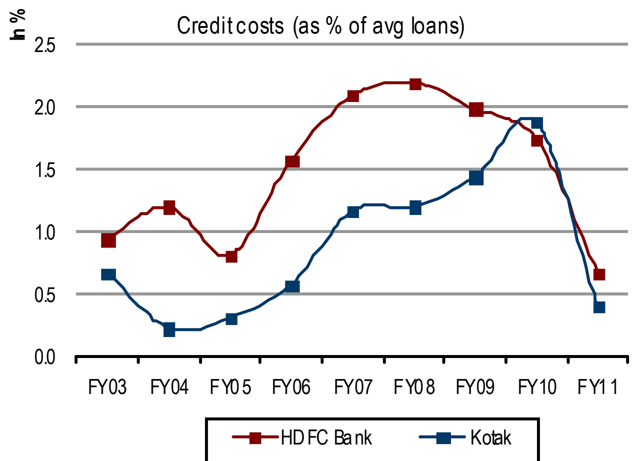
Source: Company data, Credit Suisse estimates

Retail asset quality – Too good to sustain the current trends

Credit costs for the retail banks (Kotak, HDFC Bank) are at historic lows (significantly below the historic averages) and we believe the current levels are too good to sustain.

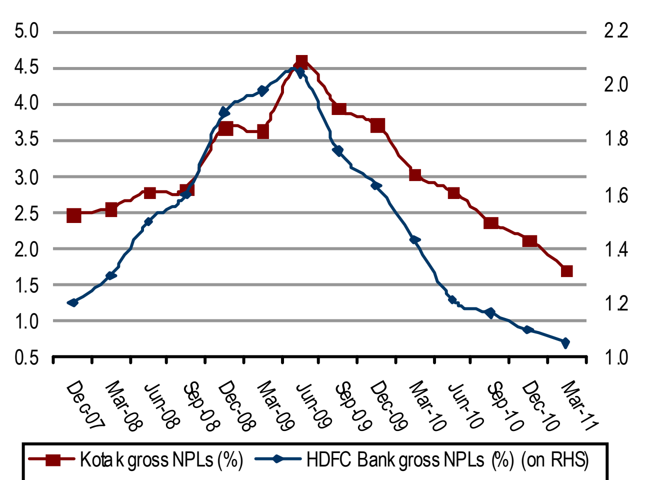
Credit costs for retail banks are at historic lows

Figure 27: **Credit costs for the retail banks are at historic lows …**



Source: Company data

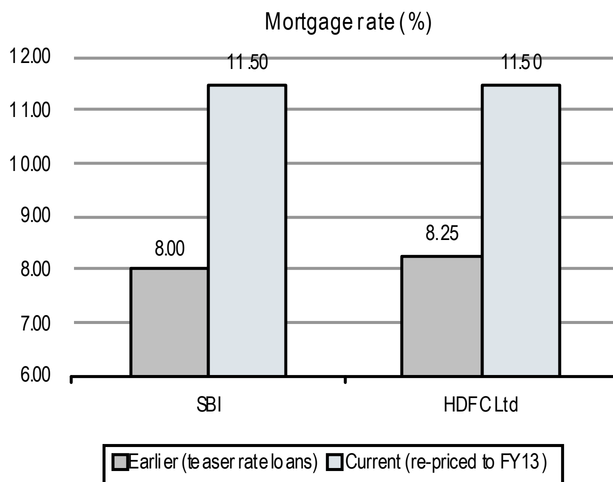
Figure 28: **Gross NPLs have declined to the 1% levels from a peak of 2-4%**



Source: Company data

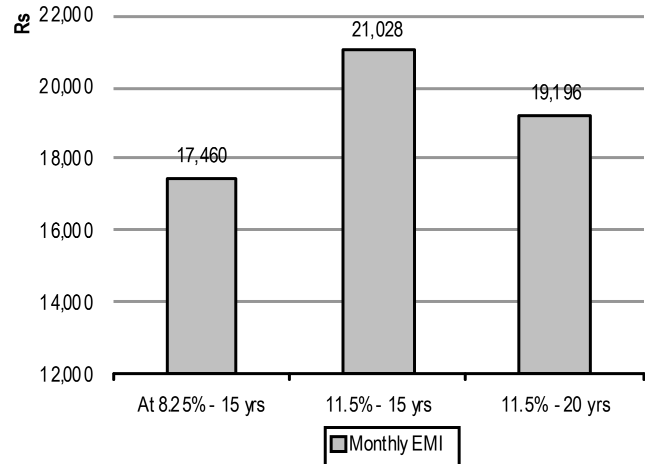
Mortgage EMIs shall have a sharp rise (around 20%) post the re-pricing of the teaser rate loans. Floating rates have increased by a sharp 300 bp over the past few months (versus the earlier teaser rate loans).

Figure 29: **Teaser rates are re-priced up by 300+ bp**



Source: Company data

Figure 30: **Monthly EMIs shall likely rise by around 20% post the re-pricing of teaser rate loans**



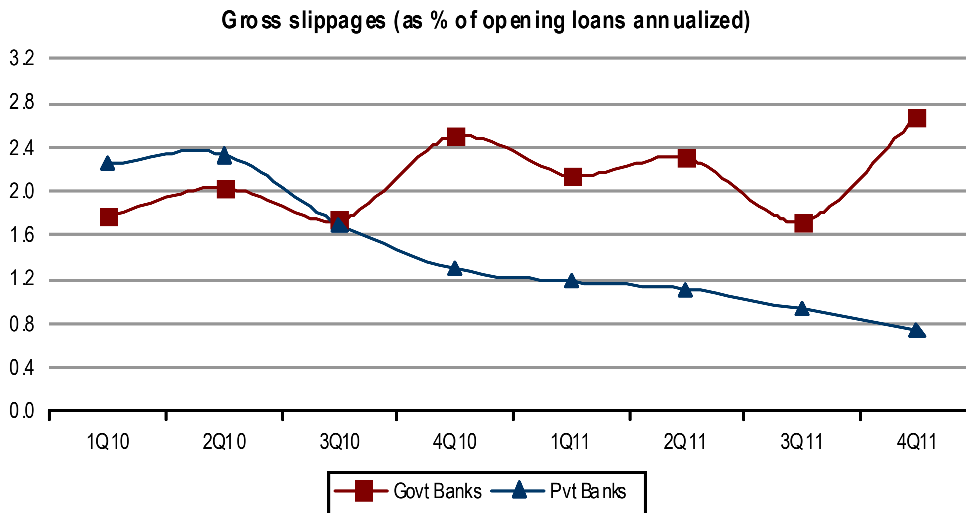
Source: Company data, Credit Suisse estimates

Some divergence is now appearing

Asset quality trends of Indian banks have been witnessing divergent trends with the government banks witnessing higher-than-expected deterioration and private banks seeing continued improvement. The NPL slippages for government banks rose to 2.5% in the last quarter (annualised) of loans from the 1.5% levels in the past two quarters. Slippages were at low 1% levels at the private banks over the past couple of quarters.

Divergent trends in slippages across government and private banks over past few quarters….

Figure 31: **Slippages continued to rise for govt. banks while they declined further for private banks**

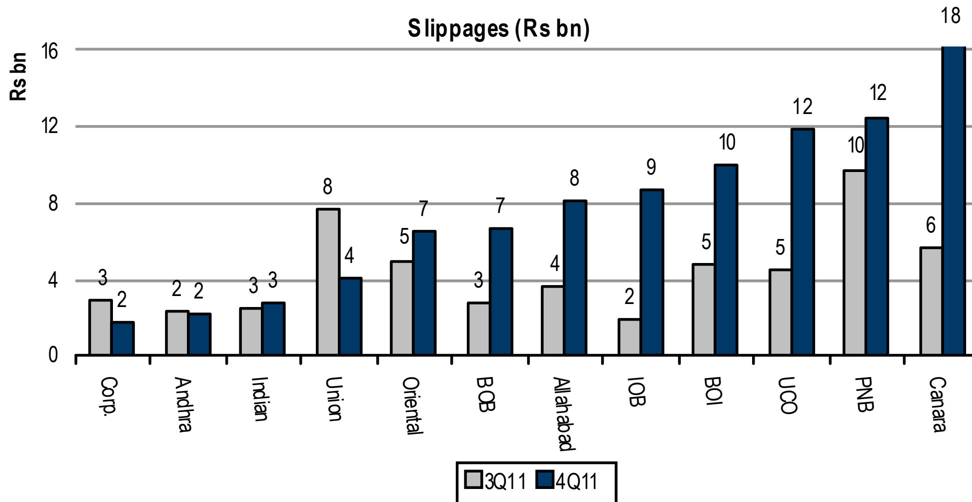


Source: Company data, Credit Suisse estimates

Gross slippages in 4Q11, in absolute terms were up a sharp 75% QoQ for the government banks. Around 30% of slippages are from the restructured asset portfolio and migration to system (CBS)-based NPL recognition, with branch auditing in 4Q having lead to higher slippages. Most government banks are guiding for moderation in NPLs in FY12 and even we are building in lower credit costs in FY12 (0.9% versus 1.2% historic average).

….credit cost estimates continue to be low for FY12

Figure 32: **Slippages at government banks were up 75% QoQ**



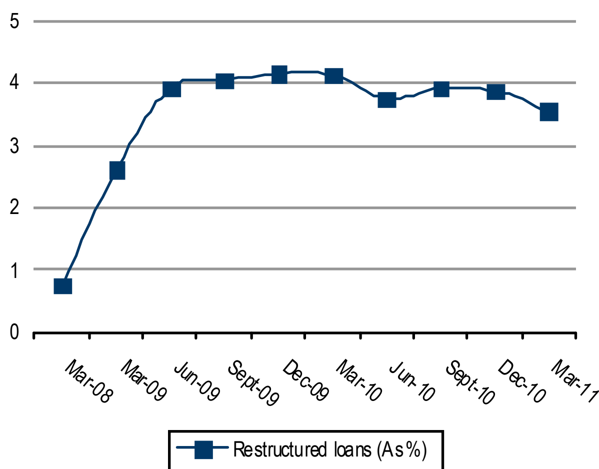
Source: Company data

Restructured asset slippages at 10-25%

Restructured assets are at 3.6% of loans (negligible incremental restructuring over the past two quarters) and total problem assets (gross NPLs + restructured assets) are at 6.1% of loans.

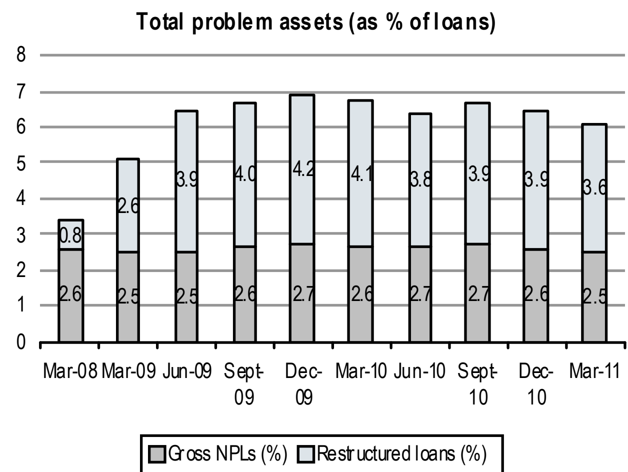
Total problem assets are at 6% of loans

Figure 33: **Restructured were down 30 bp QoQ to 3.6%**



Source: Company data, Credit Suisse estimates

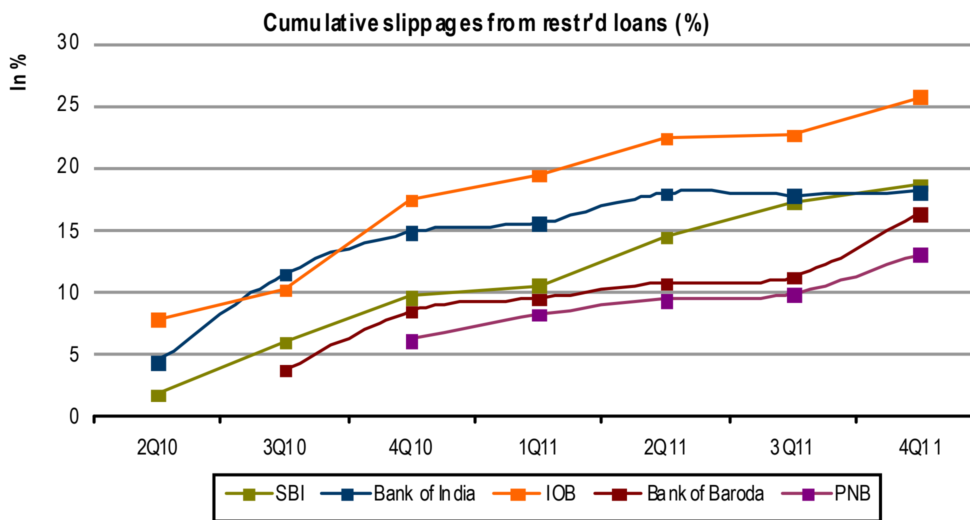
Figure 34: **Total problem assets were down 40 bp QoQ to 6.1%**



Source: Company data, Credit Suisse estimates

Slippages from the restructured assets have reached 10-25% levels over the past 18 months.

Figure 35: **Slippages from restructured assets are at 10-25% of loans**



Source: Company data, Credit Suisse estimates

Addition due to migration to 'system'-based NPLs

With the government banks still in the process of moving to system-based NPL recognition, there could be a near-term jump in the slippages at some government banks, which poses additional risk to asset quality.

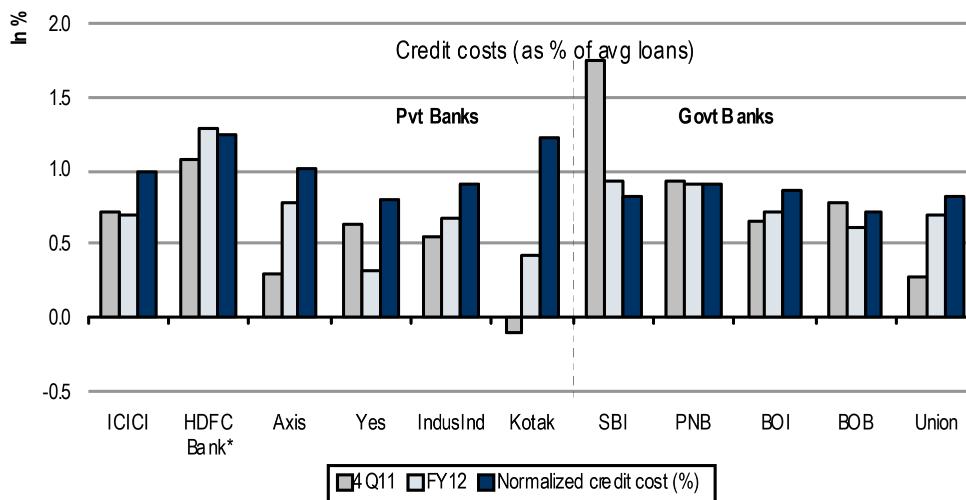
Movement to system based NPLs – additional risk to slippages

Current RoAs boosted by low credit costs

Credit costs in 4Q and even FY12 estimates are well below the historic levels for private banks, which is the key driver for their profitability. As we are likely to witness a turn in the asset quality cycle, swing in the credit costs to the cyclical averages should likely impact the RoAs for private banks (ICICI, Kotak, Yes Bank, IndusInd). HDFC Bank has been making provisions in excess of slippages and has excess provisions (4% of book value) on the balance sheet and the bank's exposure to vulnerable sectors is low compared to peers.

Current RoAs for private banks boosted by below normalized credit costs

Figure 36: **Credit costs well below historic levels for the private banks**



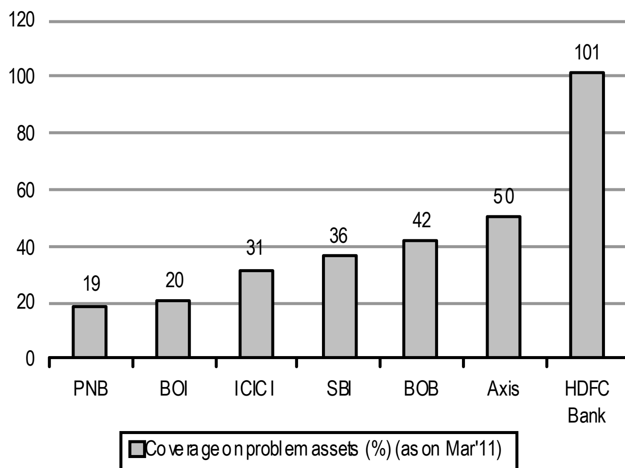
Source: Company data, Credit Suisse estimates

Problem asset coverage is low for most banks

NPL coverage levels for the Indian banks has been adequate at around ~90% (including general provisions) for the last few years. However, coverage on total problem assets (including restructured assets) is relatively low at 20-50% levels. We expect this to drop further as restructuring levels rise.

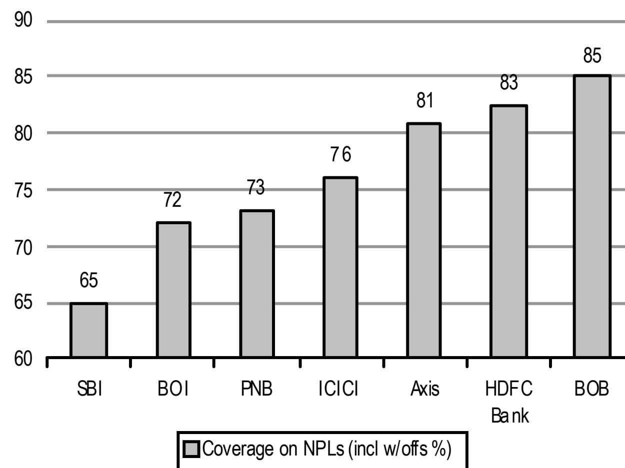
Coverage for problem assets is low at 20-50%

Figure 37: **Coverage ratios (including general provisions as on March 2011) for the problem assets is low**



Source: Company data

Figure 38: **NPL coverage (including write offs) currently at 70% levels – Likely to decline going forward**



Source: Company data, Credit Suisse estimates

Power sector – restructurings ahead

Over the past three years, bank lending to power sector has grown ~3x to US$57bn. Exposure to sector is now high at 10% of total loans and 60-90% of book. Stress on these loans is appearing from off-take risk (lack of PPAs & weak SEB finance), fuel supply (lack of fuel supply agreements, rising domestic coal and gas deficits) and developer risk. We estimate that PLFs below 65% will be inadequate to meet debt-servicing needs. The 54 GW of capacity planned to come up in next 24 months could be the tipping point for these risks to come to fore as none of these are supported by FSA and 20% of it does not have PPAs. Many large power developers also now appear stretched with high gearing (2.5x) and large committed cap-ex (4x of equity). It is likely that given long tenures and leeway of restructuring, banks may not report any immediate rise in NPLs but expect restructuring several of these loans in the next 18 months.

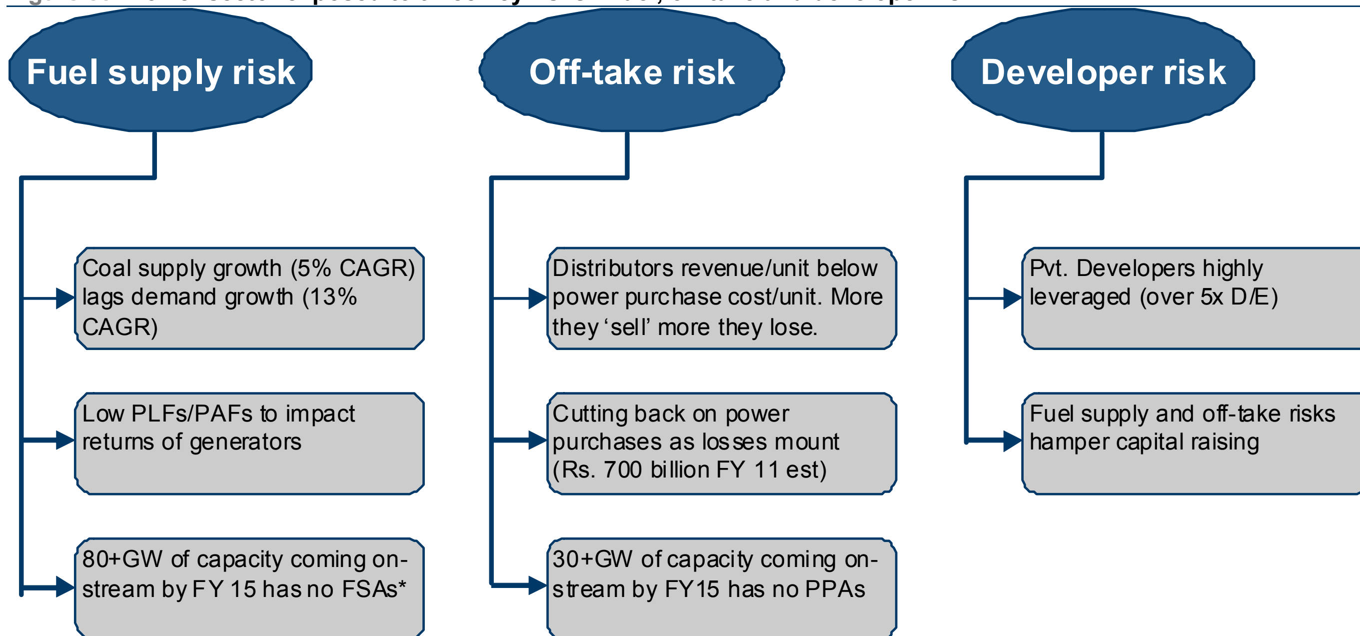
Bank loans to power sector were up 2.7x in three years

Total power exposure (funded + non-funded) at 70%+ of system net worth

Lending to the power sector is exposed to three risks –fuel supply risk, offtake risk and developer risk.

None of the upcoming capacity has FSA's

Figure 39: **Power sector exposed to three key risks – fuel, off-take and developer risk**



*Source: Company data, Credit Suisse estimates,*Fuel supply agreements*

Fuel supply risk: Coal production (growing at 5% CAGR) is not keeping pace with the rate of generation capacity addition (driving coal demand at 12% CAGR). Power plants are likely to, therefore, operate with low plant load factors (PLF) /plant availability factors (PAFs) – thereby impacting their economics. Power plants' earning and cash flows are very sensitive to changes in the PLF/ PAF and drop dramatically if these drop below 75%. It is important to note that as per the current coal allocation policy, the burden of coal shortage falls disproportionately on the new plants, i.e., the plants that have all the leverage. The government is expected to bring out a new coal allocation policy that would put the new plants on an equal footing in domestic coal allocation. However, if this policy change is not effected, the new plants could face significant stress (potentially see PLF/ PAFs drop below 50% levels where even interest servicing becomes difficult).

Coal deficit – New plants could face significant stress –PLFs could drop to < 50%

Offtake risk: The financial position of state-owned distribution companies is dire (leverage over 8x) and deteriorating further. Losses of these companies are estimated to be over Rs700 bn and our utilities team expects them to grow by a further Rs200 bn over the next

SEB's position deteriorating further

two years. Tariffs are set at uneconomic levels (in the period FY07–FY09 power purchase cost grew at a 7.3% CAGR while tariffs grew at only a 5.2% CAGR) and technical & commercial (T&C) losses remain high. For several utilities, the combination of low tariffs and high T&C losses means that their revenues do not even cover the cost of purchasing power from generation companies. Thus, the utilities find themselves in an untenable position where the more power they distribute, the greater are their losses. Therefore, they are trying to manage their losses by minimising their purchases. This exposes the generating companies to significant 'offtake' risk.

Scale of tariff increase is high and politically challenging

The problems in the distribution sector are not easily fixed. The scale of the tariff increases required (30%+ in the worst states) is large and politically challenging to implement. Further, the losses are large enough to strain the state governments' fiscal position (over 1% of the Gross State Domestic Product for many large states).

Developer risk: Several major private developers in the power sector are highly leveraged – particularly if one considers the committed capex. Five of the six major developers have debt-to-equity ratios of over 5x if their capital commitments are taken into account. They have been relying on public markets to raise equity to fund their projects. Given the fuel supply risks and the offtake risks currently plaguing the sector, there is a significant chance that the developers might not be able to raise capital in the equity market to complete projects on time.

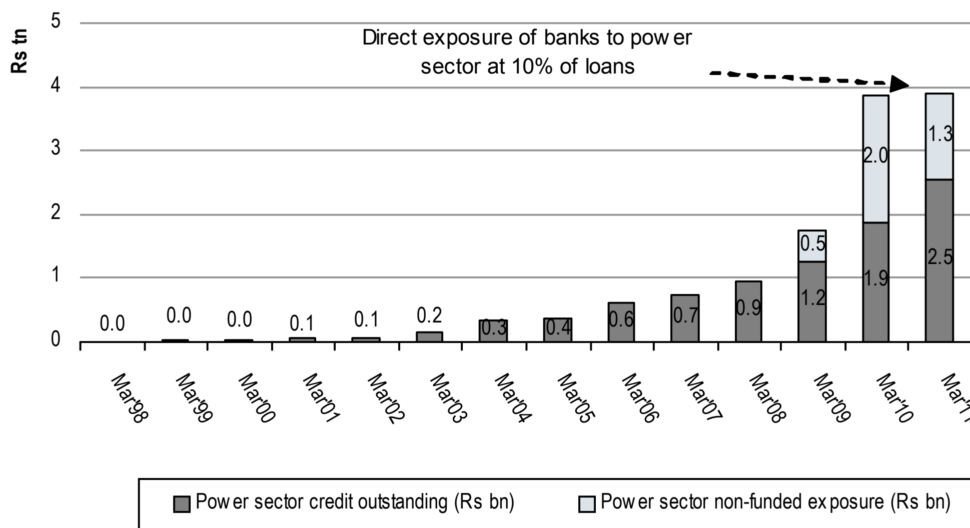
Our analysis shows that over the next 12-18 months these issues will likely become impossible to ignore. We expect loan restructurings to be initiated in this time frame, though relatively lax NPA recognition norms mean that banks will probably not be required to classify these assets as non-performing.

Explosive credit growth in the power sector

Power sector exposure (funded + non-funded) is 70%+ of net worth

Power sector exposure has grown dramatically over the past three year – both from the banking system and through the NBFCs. Total outstanding credit from the banks to the power sector has grown from Rs0.9 tn in March 2008 to Rs2.5 tn in March 2011. This represents 7% of the total loans of the banking system. Further, the banking system is also exposed to the sector through its unfunded exposures – an additional Rs1.3 tn. The total funded and unfunded exposures of the banking system are now at 70%+ of the equity base.

Figure 40: **Banks exposure has grown at 50% CAGR over the past two years**

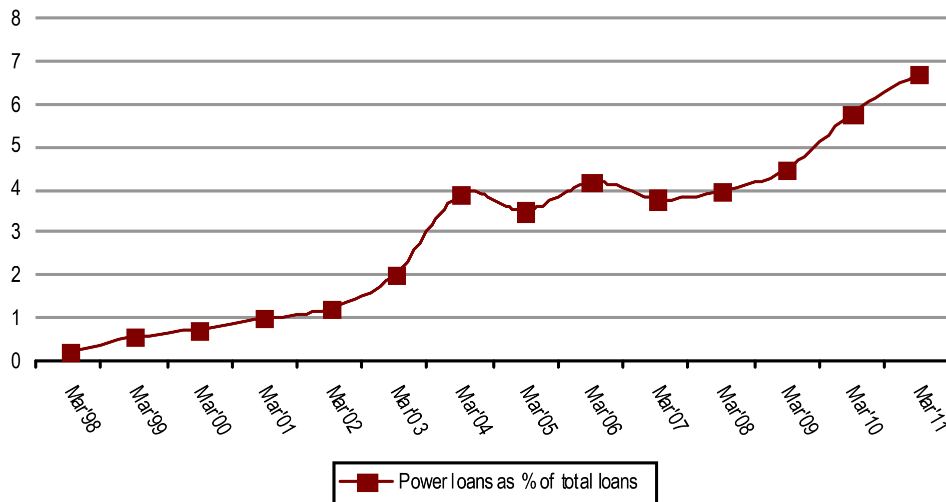


Source: Company data, Credit Suisse estimates

Power loans (on balance sheet) have reached 7% of loans.

Power sector loans (funded) are at 7% of loans

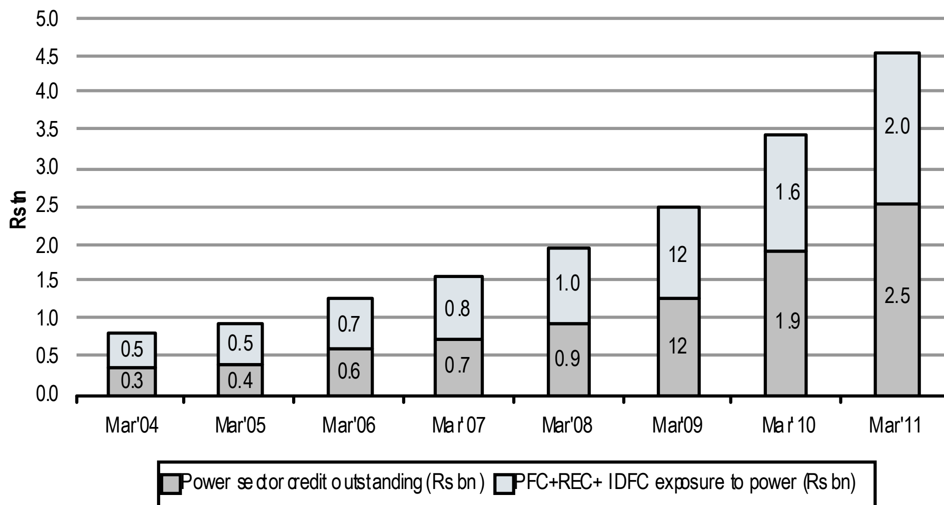
Figure 41: **Power sector loans (on balance sheet) have increased to 7%**



Source: Company data, Credit Suisse estimates

The total power sector credit extended by these NBFCs has doubled from Rs1 tn to Rs2 tn between March 2008 and March 2011.

Figure 42: **NBFC's have also lent almost as much as banks to the power sector**

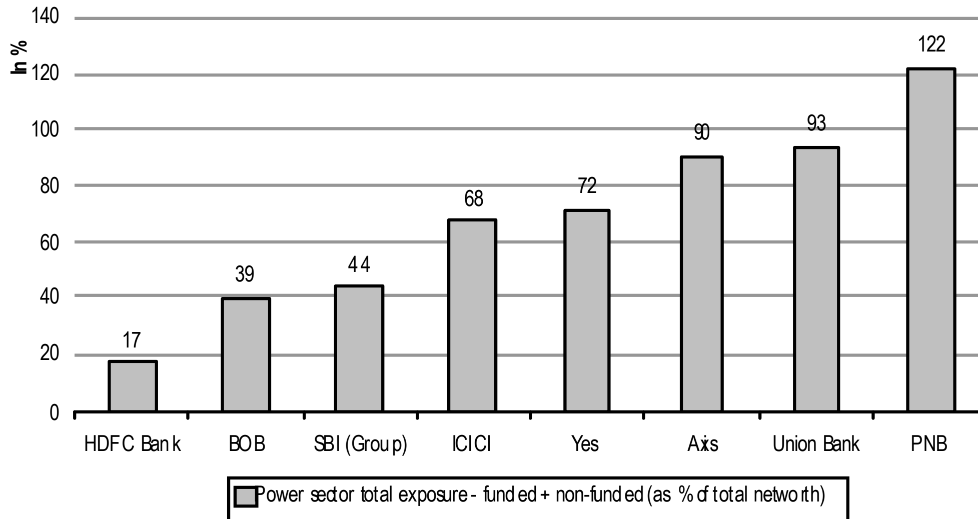


Source: Company data, Credit Suisse estimates

Power sector exposure is currently at 70-120% of the book value for banks such as PNB, Union Bank, Axis Bank, Yes Bank and ICICI Bank.

PNB, Union, Axis have high exposure to power loans

Figure 43: **Power sector exposure now accounts for 70-90% of the book value**



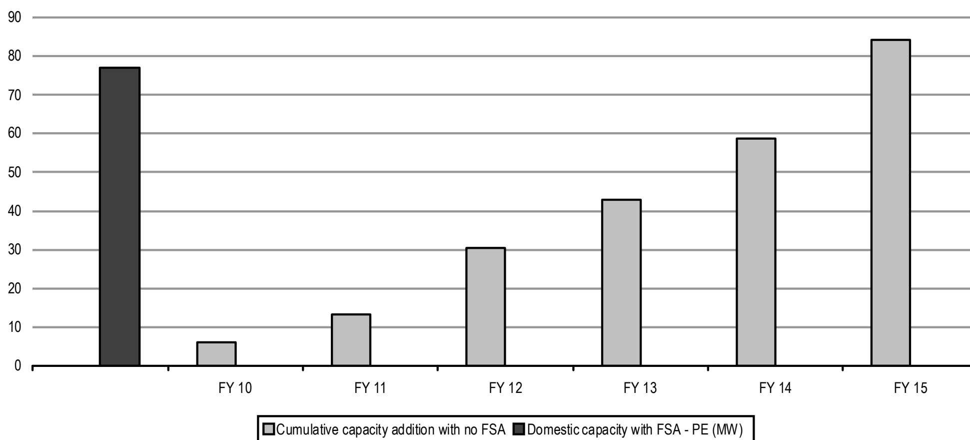
Source: Company data

Fuel supply risk

Coal production to lag supply growth

Coal production is not keeping pace with the rate of generation capacity addition. Power plants are likely to, therefore, operate with low plant load factors (PLF) /plant availability factors (PAFs) – thereby impacting their economics. Power plants' earning and cash flows are very sensitive to changes in the PLF/ PAF and drop dramatically if these drop below 75%. It is important to note that as per the current coal allocation policy, the burden of coal shortage falls disproportionately on the new plants i.e., the plants having all the leverage. The government is expected to bring out a new coal allocation policy that would put the new plants on an equal footing in domestic coal allocation. However, if this policy change is not effected, new plants could face significant stress.

Figure 44: **By FY15 the capacity with no fuel supply agreements will exceed the capacity that has fuel supply agreements**



Source: Company data, Credit Suisse estimates

Coal demand growing faster than supply

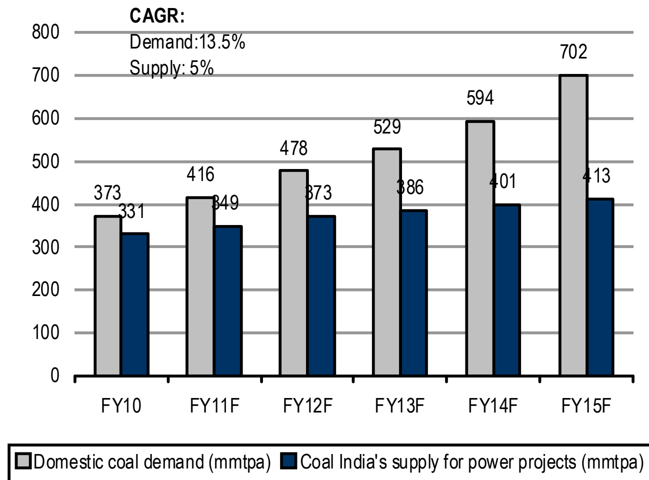
Coal deficit expected to reach 25% by FY15

Capacity addition in the power industry has experienced a significant step-up with the entry of private operators. This, in turn, is driving accelerated demand for coal. Unfortunately, there has been no similar acceleration in coal supply. Consequently, during the FY 10-FY15 period, it is expected that while coal demand will increase at 13.5%

CAGR (on average 66 mtpa growth), coal supply will grow at only 5% per annum (16 mtpa growth).

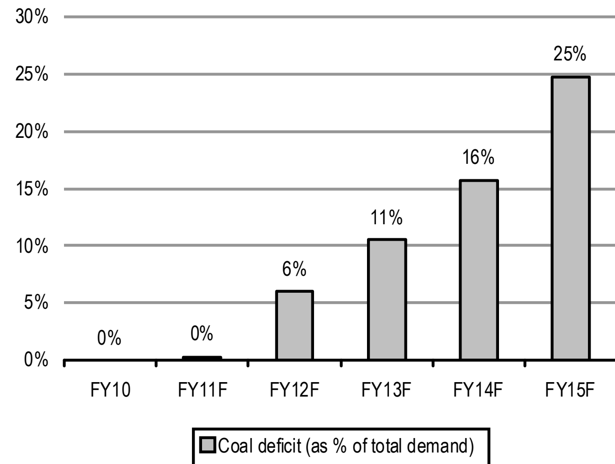
It is important to note that this deficit cannot be bridged through additional imports. Not only are there logistical constraints (port and rail capacity) to importing coal, but there are also technical limits to the use of imported coal in power plants (most plants have been designed to accept a maximum of 20% imported coal).

Figure 45: **Coal demand growth outstrips supply …**



Source: Company data, Credit Suisse estimates

Figure 46: **… leading to growing coal deficits**



Source: Company data, Credit Suisse estimates

Impact of fuel risk is high on earnings

Depending on the business model, the pass-through of a project's fixed costs (including ROE) is dependent on its PLF (for merchant power projects) or PAF (for regulated and Case I/ II projects). However, fuel deficit impacts a project's PLF as well as its PAF, thus exposing all projects and business models to risk.

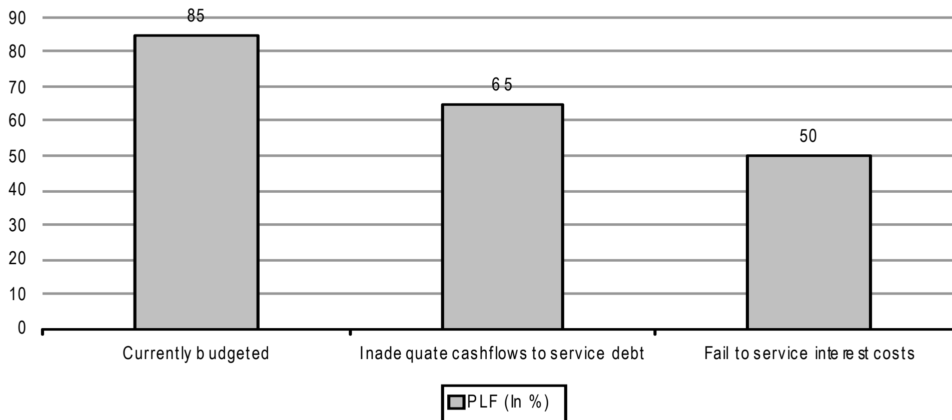
Inadequate cash flows to service debt below PLFs of 65%

Project earnings are highly sensitive to fuel risk as underscored by our sensitivity analysis, which suggests an earnings impact of up to 24% for a 10% shortfall in domestic coal supplies. Besides, we note that the impact on earnings is steep if the PAF falls below 75% for Case I/ II projects (attracts penalties) and 70% for regulated projects (lower than the commensurate pass-through of fixed costs).

Figure 47: **Fuel risk to impact all projects; impact would vary based on business models**

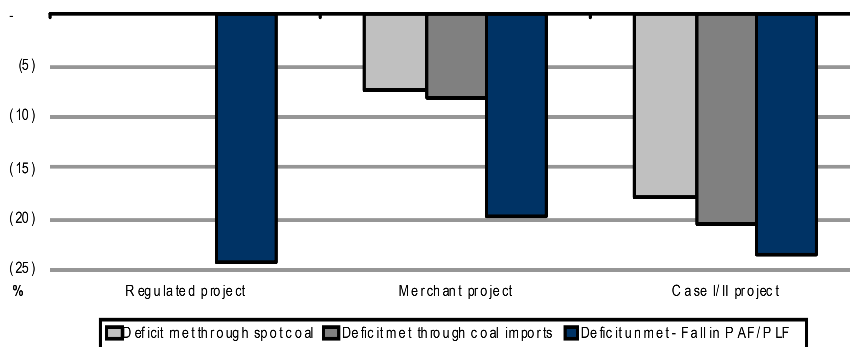
Business model	Remarks/ implications of fuel risk
Regulated / assured RoE	• Onus on developer to demonstrate fuel availability • Lack of adequate fuel supplies to impact plant availability factor • **Fall in PAF results in under-recovery of fixed costs (including assured RoE) and incentives** • However, **developer protected from fuel price risk**
Competitive tariff (Case I/ Case II)	• Onus on developer to demonstrate fuel availability • Lack of adequate fuel supplies to impact plant availability factor • **Fall in PAF/ PLF results in under-recovery of fixed costs (generally includes profits) and incentives** • Levelled tariffs comprises fixed and escalable components • Only escalable part of levelled tariff entitled for pass-through of cost increases • But many bids of developers have low proportion of escalable tariffs – **exposes developer to fuel price risk** • **Case I bid format away from reality—**does not consider need to blend fuel from different sources • **Renegotiation/dishonour of many competitive bids likely**
Merchant / Spot power sales	• Ability to pass on cost pressures through higher tariffs • But risk of high merchant tariff to sustain long term led by: (1) regulatory risk, (2) augmentation of national grid, (3) rise in merchant capacity, (4) long-dated contracts on power exchanges and (5) socio-political risk • Fuel deficit to impact PLF—**lower plant utilisation would lead to lower profits** • Difficult to pass on entire increase in fuel costs—**to impact profits**

Figure 48: **Debt service capacity strained at PLFs of 65%**



Source: Company data, Credit Suisse estimates

Figure 49: **% impact on earnings for a coal linkage project led by 10% domestic coal deficit (depending on the business model)**



Source: Company data, Credit Suisse estimates

Figure 50: **Impact on earnings is steep for a regulated project if PLF falls below 70%**

	Plant availability factor (%)			
	95%	85%	75%	65%
Fixed cost recovery as % of fixed cost	106%	100%	94%	85%
Incentives as % of fixed cost	6%	0%	-6%	-15%
Typical fixed cost for 1 GW regulated coal based project (Rs mn)	10,294	10,294	10,294	10,294
Gain / (loss) in profit (Rs mn)	**606**	**-**	**(606)**	**(1,579)**
Coal India - penalties received / (incentive paid) (Rs mn)	(44)	N.A.	44	132
Net gain/ (loss) in profit (Rs mn)	**562**	**-**	**(562)**	**(1,447)**
Base case profit at 85% plant availability	2,325	2,325	2,325	2,325
% impact on project earnings	**24%**	**0.0%**	**-24%**	**-62%**

Note: Not adjusted for Source: Credit Suisse estimates

Source: Company data, Credit Suisse estimates

Allocation policy change is essential to avoid financial strain in newer projects

Coal India has not signed any fuel supply agreements since March 2009

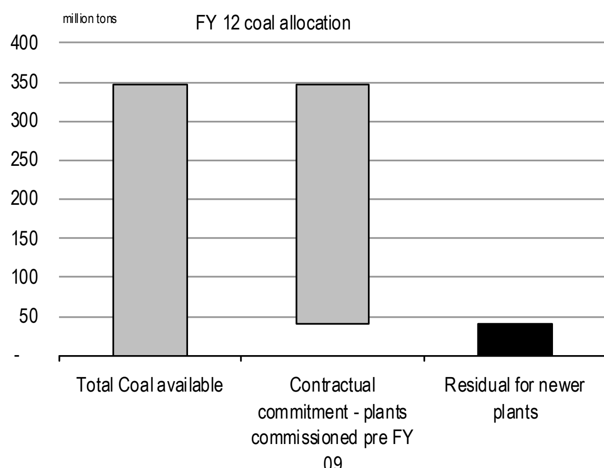
It is important to note that as per the current coal allocation policy, the burden of coal shortage falls disproportionately on the new plants (also the plants that have all the debt). This is because older plants (operational prior to March 2009) have binding fuel supply agreements with Coal India Limited (CIL). The CIL has, perhaps anticipating the shortage, not signed any fuel supply agreements since March 2009. Thus, as per the current allocation framework, only the residual coal (i.e., coal left over after satisfying the requirements of the FSAs) is allocated to the new plants.

PLF for new plants could fall to below 50% levels if the current policy sustains

The government is expected to bring out a new coal allocation policy that would put the new plants on an equal footing in domestic coal allocation. This would require all plants – new and old – to use a certain proportion of blended coal. Thus, freeing up some of domestic coal previously allocated to older plants for the new plants. In case this is not effected, the new plants could face significant stress.

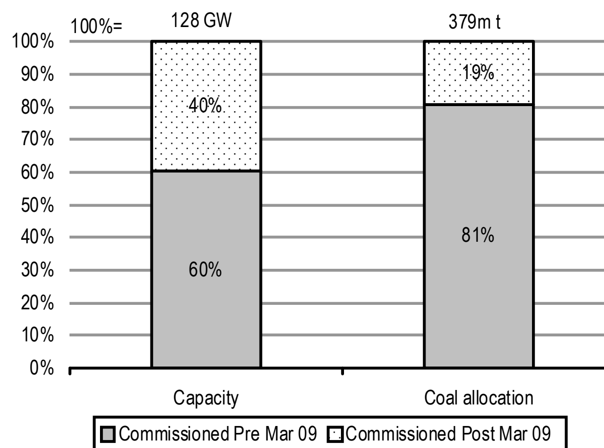
If the current policy is not changed by FY 14, new plants would account for 40% of generation capacity but may be allocated less than 20% of the coal production – putting them under significant financial strain (PLFs could drop below 50% levels, jeopardising their ability to service even the interest component of their debt burden).

Figure 51: **Under current policy, newer plants get only residual coal …**



Source: Company data, Credit Suisse estimates

Figure 52: **... unless policy is changed, by FY 14 new plants with 40% of capacity would get only 19% of coal**



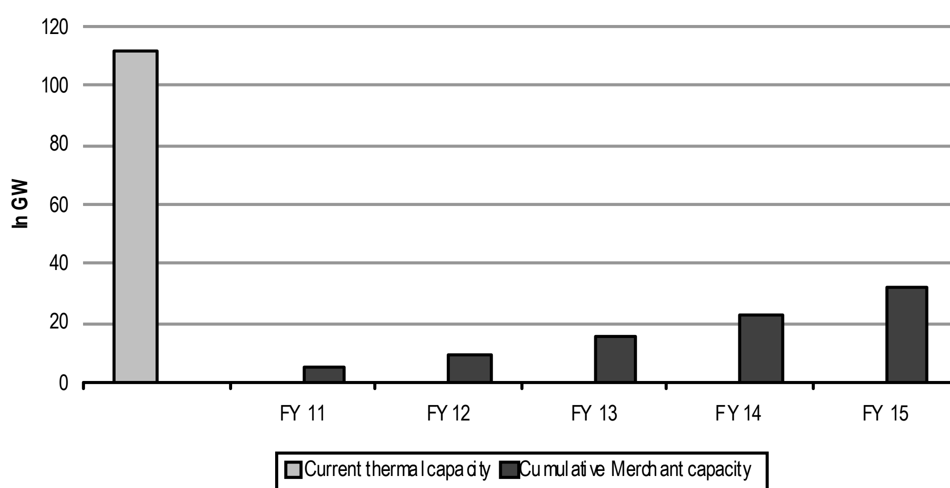
Source: Company data, Credit Suisse estimates

Off-take risk

SEB's health continues to deteriorate

While the generation sector has been opened to private players, power distribution largely remains under state-owned utilities, many of which are in a poor financial state. Their poor financial state is a manifestation of political compulsions – which necessitate that tariff increases be kept low and aggregate technical & commercial (AT&C) losses high. These companies are experiencing large and rising losses and are increasingly using borrowings to fund operational requirements (and not just capex). The poor financial state of the distribution companies implies that there is a significant chance that they may renege on power purchase commitments, delay payments to generation companies or default on their own debt. Remedying the financial position of the state distribution utilities is not easy. The scale of the tariff increases required, particularly in the worst-performing states, is large and politically challenging to implement. Further, the losses are large enough to strain the state governments' fiscal position.

Figure 53: **Significant capacity coming on-stream with no power purchase agreements**



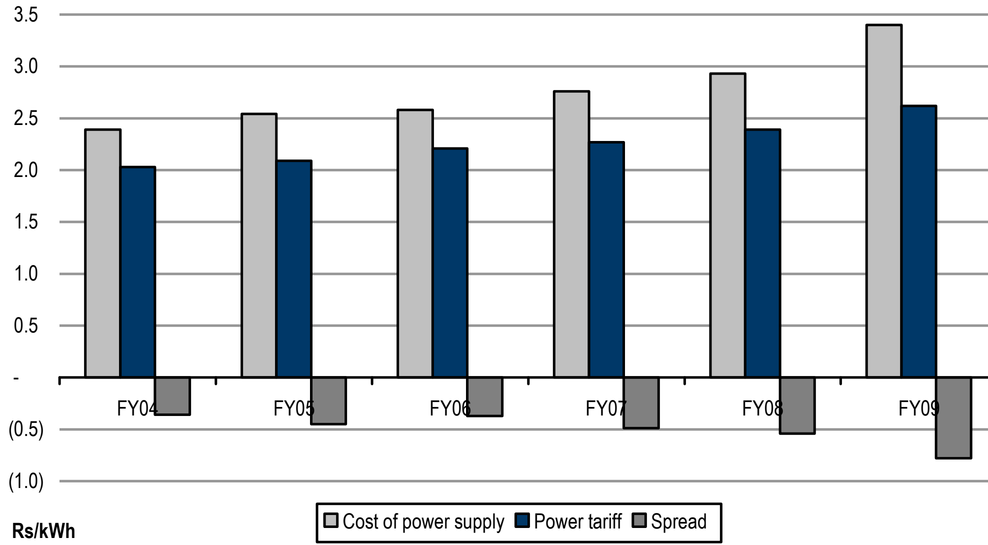
Source: Company data, Credit Suisse estimates

Large and growing losses at state distribution utilities

State-owned distribution utilities losses have grown 3x to US$10 bn in FY11 over the past four years and continue to rise

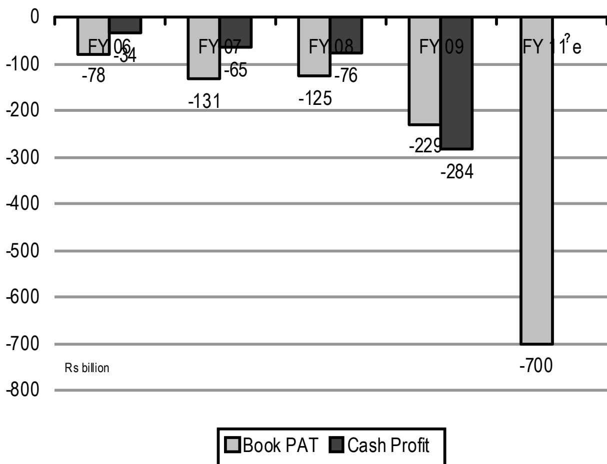
Losses at state government-owned distribution utilities are estimated to have grown from Rs139 bn in FY07 to Rs426 bn in FY11and are still rising. These are largely concentrated in the distribution entities. These losses are a manifestation of political compulsions to keep tariffs low (and maintain a relatively lax attitude towards AT&C losses). Specifically, in the period FY07–FY09 power purchase cost grew at 7.3% CAGR while tariffs grew at only a 5.2% CAGR. Consequently, several distribution utilities operate with a negative spread – where the revenues do not even cover the cost of the purchasing power (let alone the other operating costs).

Figure 54: **State government distribution utilities operate with a negative spread**



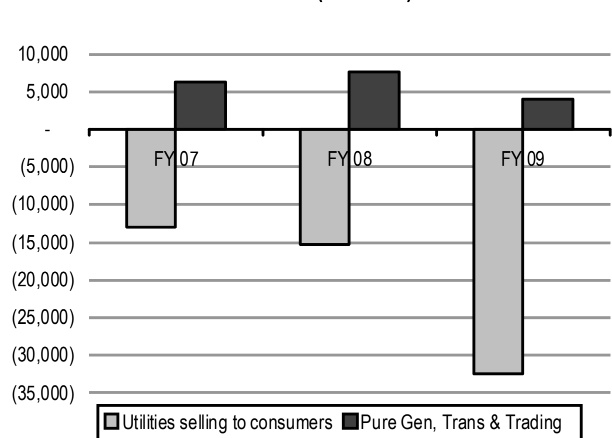
Source: PFC, Credit Suisse estimates

Figure 55: **Losses at state utilities are high and rising …**



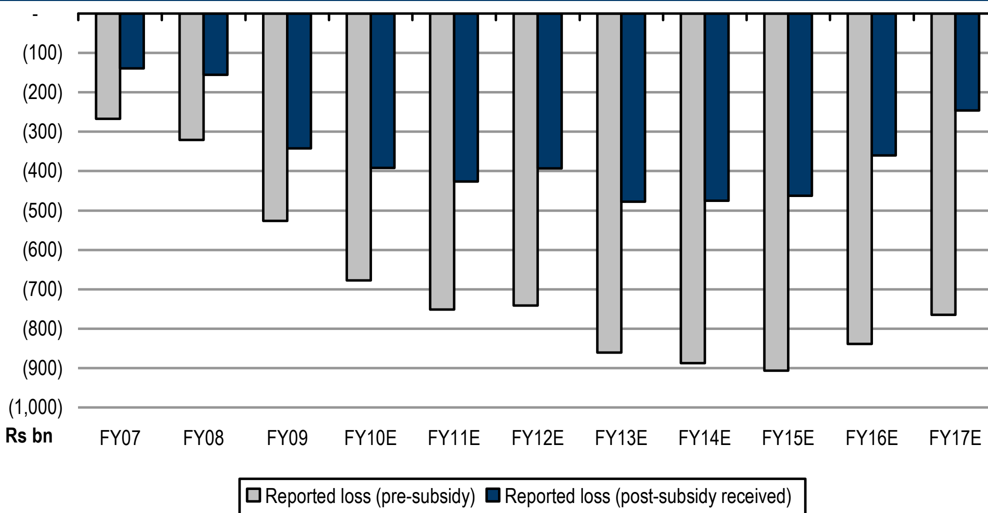
Source: Company data, Credit Suisse estimates

Figure 56: **… and concentrated in distribution segment**



Source: Company data, Credit Suisse estimates

Figure 57: **SEB losses to grow by further Rs200 bn by FY 11**



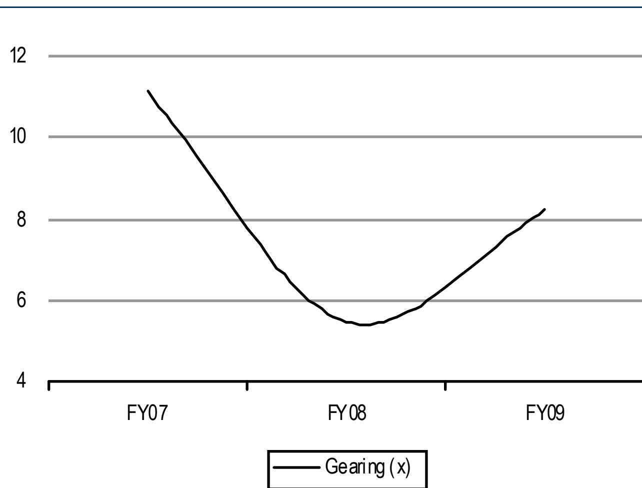
Source: PFC, Credit Suisse estimates

Distribution utilities already highly leveraged and now even borrowing to meet operating needs

SEB leverage is high at ~8x

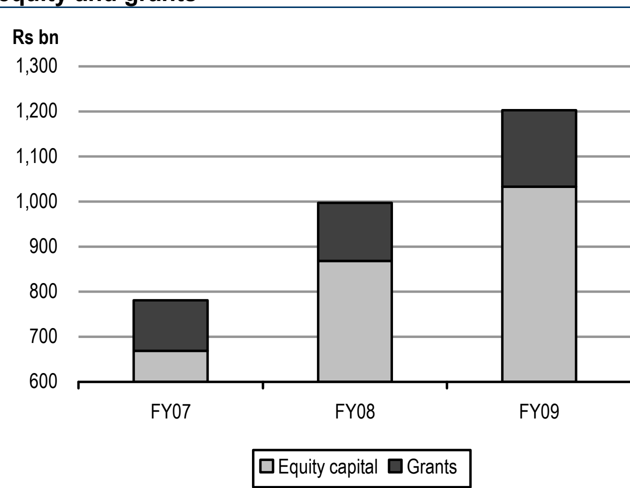
SEBs are currently operating at very high gearing (at 8x as of FY09). This is despite continuous investments by the state governments in the form of equity and grants. As can be seen from the Figure below, equity share capital and grants for SEBs have increased by 54% in two years over FY07-09. The debt levels are rising as some distribution companies have to borrow even to meet their operating needs (in addition to capex needs).

Figure 58: SEBs gearing is high …



Source: PFC, Credit Suisse estimates

Figure 59: … despite continuous investments through equity and grants



Source: PFC, Credit Suisse estimates

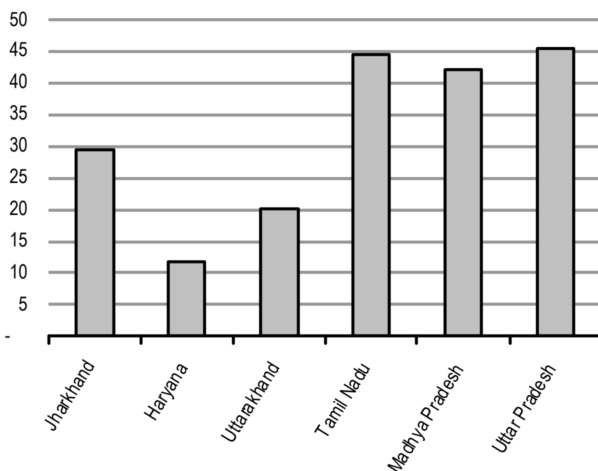
Problems are not easy to fix

Scale of tariff hikes required is large

The scale of tariff hikes required to fix the problems in the distribution sector is large. Further, the scale of the losses is large (more than 1% of the Gross State Domestic Product in many large states), making it difficult for the states to offset the losses through further subsidies.

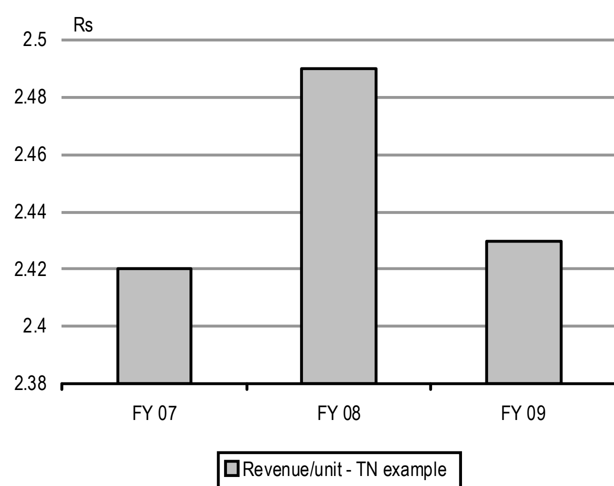
Tariff hikes of 40-50% would possibly be required in the worst-performing states to bridge the deficit.

Figure 60: Tariff hikes required for break-even …



Source: Company data, Credit Suisse estimates

Figure 61: … Appear difficult given past record



Source: Company data, Credit Suisse estimates

SEB's losses are at 0.5-2.0% of state GDP

It is essential to consider the problem on a state-by-state basis to understand the true nature of the challenge – at least from a lender's perspective. Examining numbers in aggregate can present a deceptively comforting picture. For example, state utilities in aggregate can achieve break-even with tariff hikes of ~23%. This, however, is misleading. It does not mean that all utilities have achieved break-even. All it signifies is that profits of profitable ones are as large as losses of loss-makers. However, given that the profit making utilities would not pay off the debts or the suppliers (generating companies) of the loss making ones, the aggregate break-even level is of little comfort to the generation companies and to the lenders.

Furthermore, the losses of some states now represent a significant share of the Gross State Domestic Product.

Figure 62: **Annual losses were significant relative to states GDP even in FY 09**

	Losses/ State GDP
Jharkhand	(0.32)
Haryana	(0.78)
Uttarakhand	(1.16)
Arunachal Pradesh	(1.06)
Tamil Nadu	(2.10)
Madhya Pradesh	(1.82)
Uttar Pradesh	(1.59)
Nagaland	n/a
Bihar	(0.71)
Mizoram	(1.94)
Jammu & Kashmir	n/a
Manipur	(2.22)

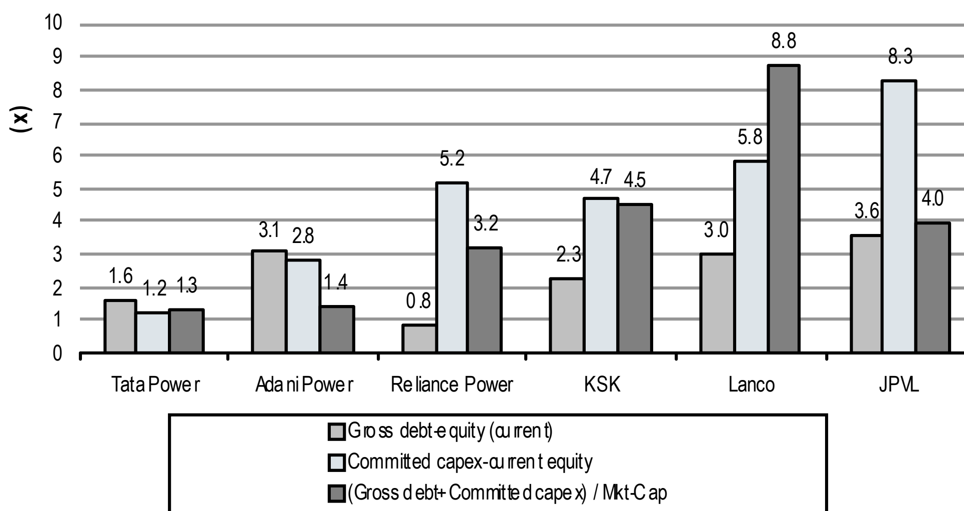
Source: Company data, Credit Suisse estimates

Gross debt + Committed Cap-ex to market cap is a high 4-5x for developers

Execution/ Developer risk

Several major private developers in the power sector are highly leveraged – particularly if one considers the committed capex. Most of the major developers have capital commitments are 4-5x of the equity base and market-cap. They have been relying on public markets to raise equity to fund their projects. Given the fuel supply risks and the offtake risks currently plaguing the sector, there is a significant chance of developers being unable to raise capital in the equity market for timely project completions.

Figure 63: **Developers highly leveraged if one considers their committed capex**



Source: Company data, Credit Suisse estimates

Downgrade ICICI Bank to NEUTRAL

We cut our FY13 earnings forecast for ICICI by 10% and downgrade ICICI Bank to NEUTRAL (from Outperform) as we expect the RoAs (1.4%) /core RoEs (14-15%) to stagnate with the credit costs bottoming out. ICICI's has grown its corporate book aggressively and currently has high share of power sector, commercial real estate (12%) versus peers. It is currently trading at 20% premium to Axis Bank on Price /PPoP (only 13% discount to HDFC Bank) despite the seemingly inexpensive P/B multiples. We peg the core bank valuations at 2.0x book and cut our target price to Rs1,066. Our FY12 EPS declines by 7% as we marginally cut our NIMs (by 5 bp) and slightly increase the operating costs along with a 5 bp increase in the credit cost assumptions.

Expect RoAs / RoEs to stagnate for ICICI with credit costs bottoming out

Figure 64: **ICICI Bank – Earnings changes summary**

	FY12E			FY13E		
	Revised	Earlier	% change / bp	Revised	Earlier	% change / bp
Credit costs (as % of loans)	0.70	0.65	5	0.90	0.70	20
Net profit (Rs mn)	66,010	71,140	(7)	76,538	85,123	(10)
EPS	56.1	60.5	(7)	65.1	72.3	(10)
BVPS	514.9	519.4	(1)	556.3	568.2	(2)
ROAE %	11.5	12.4	(84)	12.4	13.6	(118)
Core Bank RoAE %	13.9	15.0	(106)	14.8	16.2	(144)

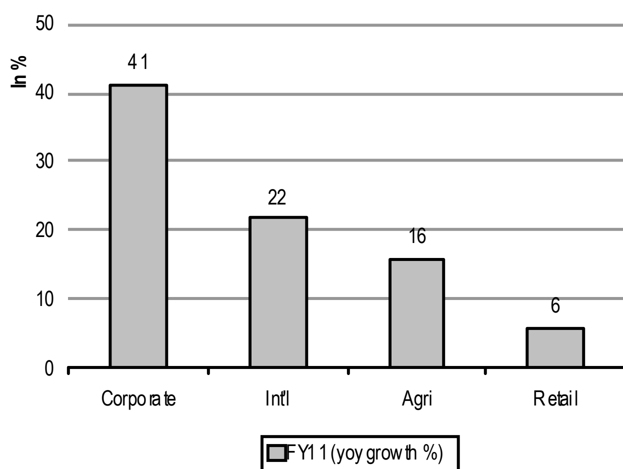
Source: Company data, Credit Suisse estimates

Growth led by corporate book – large exposure real estate, power

ICICI Bank is increasingly transforming into a corporate lender (versus primarily being a retail bank over the past few years), and currently, over 80% of its total credit exposure is in the corporate segment (versus 60% in March 2008). Even in FY11, domestic corporate loan book grew at a strong 41% YoY (versus 8% for non-corporate book) and has been the key growth driver.

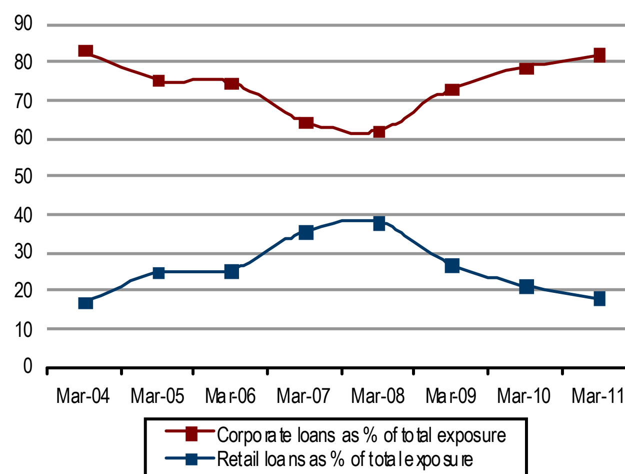
Domestic corporate book was up a sharp 41% in FY11

Figure 65: **ICICI Bank's domestic corporate loan book witnessed a sharp 41% growth in FY11**



Source: Company data, Credit Suisse estimates

Figure 66: **Corporate exposure continues to rise for ICICI (currently it is 82% of total exposure)**

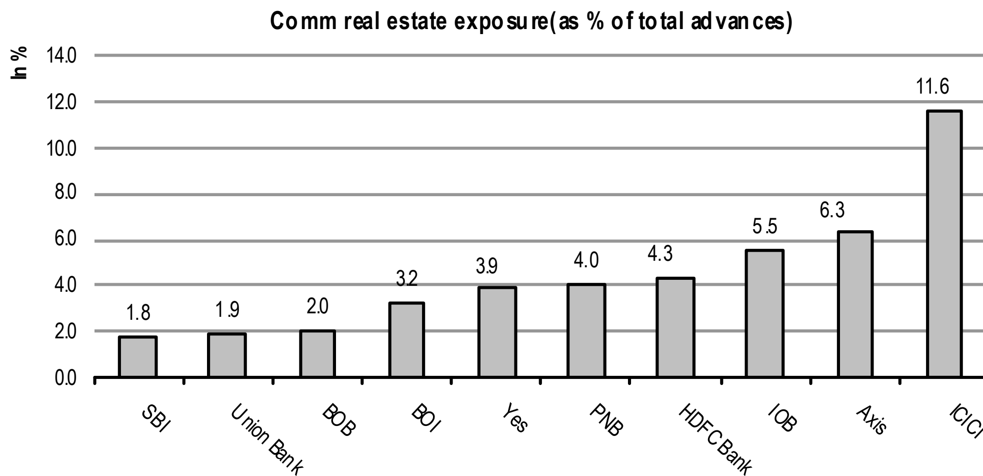


Source: Company data, Credit Suisse estimates

Notably, commercial real estate loans have witnessed a staggering 86% YoY growth in FY11; and currently, the share of commercial real estate loans for ICICI is highest among the peers (12% of loans; 46% of net worth).

Comm real estate loans are at 12% of total loans

Figure 67: **Share of comm. real estate loans highest for ICICI (+86% YoY in FY11)**

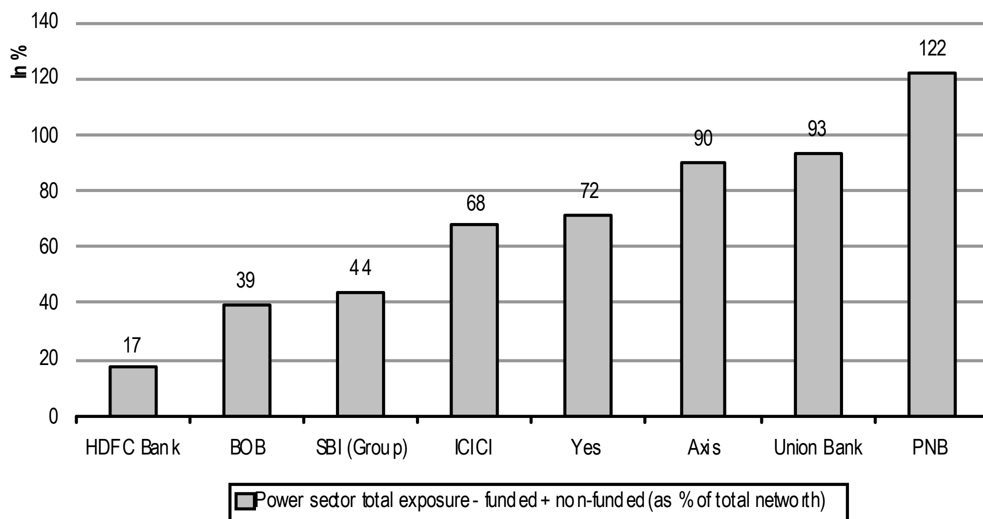


Source: Company data

Comm real estate accounted for 33% of ICICI's incremental lending in FY11

Loans to power sector (funded exposure) for ICICI were also up a sharp 69% in FY11 and are currently at 34% of the bank's net worth.

Figure 68: **Total power exposure (funded + non-funded) is at 68% of ICICI's net worth**



Source: Company data, Credit Suisse estimates

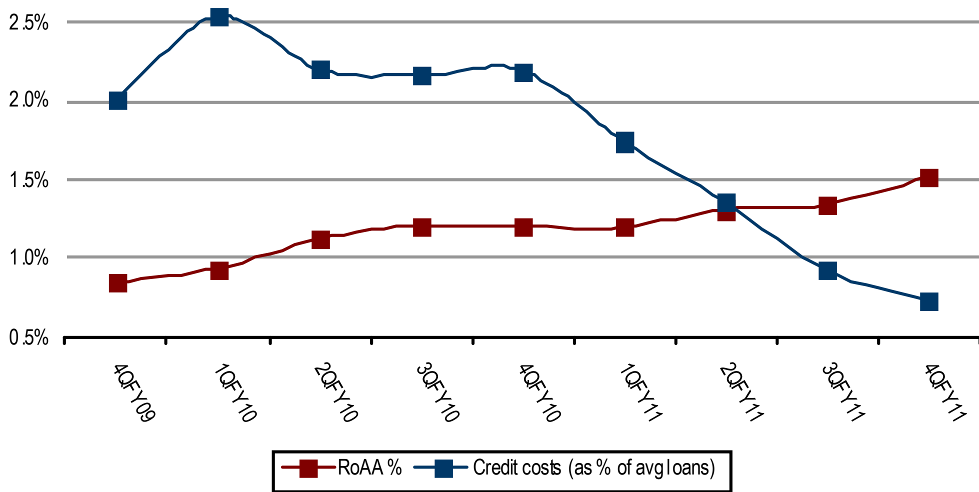
Power sector loans were up 69% YoY in FY11 and power exposure is at 68% of net worth

RoA expansion was driven by credit cost moderation

Declining credit costs (from 2.5% to 0.6% levels over the past two years) have been the key driver behind ICICI bank's RoA expansion (currently 1.6% versus 0.8% two years ago).

RoA expansion over the past two years mainly driven by the credit cost moderation

Figure 69: **Declining credit costs led to rising RoAs for ICICI Bank**



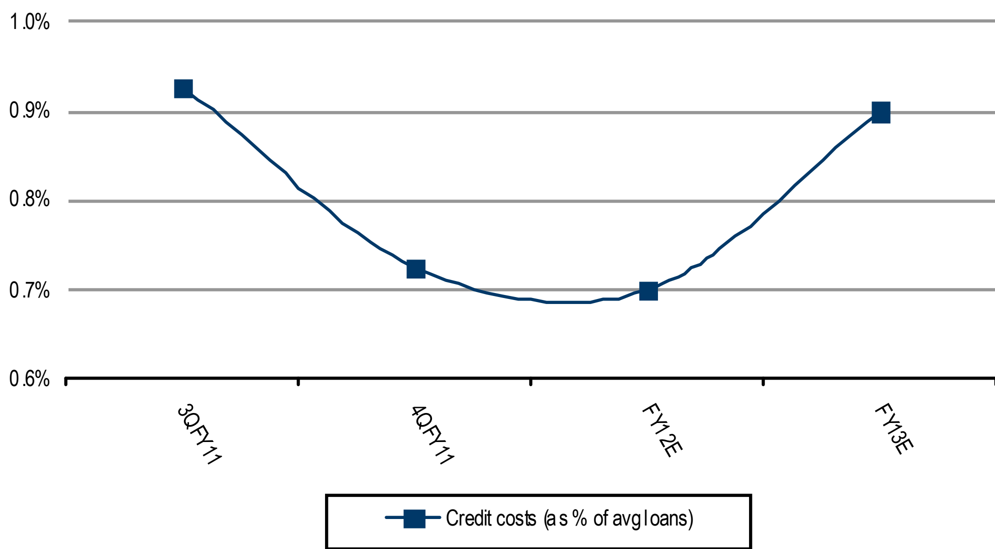
Source: Company data, Credit Suisse estimates

RoAs, RoEs to stagnate with credit costs bottoming

We believe that the corporate portfolio is likely to face stress over the next two years given the high share of risky assets (relative to peers). Hence, we expect the credit costs to increase to 0.9% levels in FY13 (from 0.7% in FY12).

Forecast FY13 credit costs of 0.9%

Figure 70: **We expect credit costs to rise to 0.9% from 0.7% in FY12**

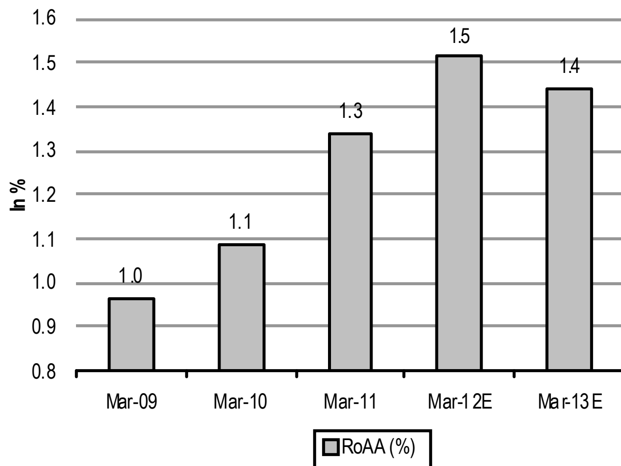


Source: Company data, Credit Suisse estimates

We expect the core bank RoEs to stagnate over the next two years (14-15%) and the RoAs to remain at 1.4-1.5% levels over FY12-13E.

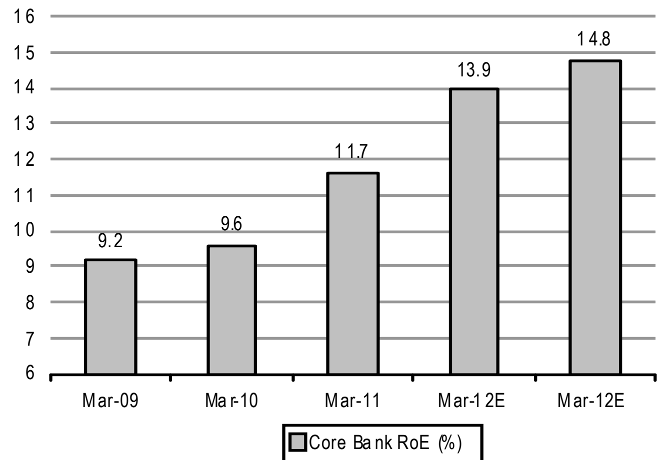
Core bank RoEs to remain low at < 15% over the next two years

Figure 71: RoAAs to stagnate over the next two years …



Source: Company data, Credit Suisse estimates

Figure 72: … so will the core banking RoEs



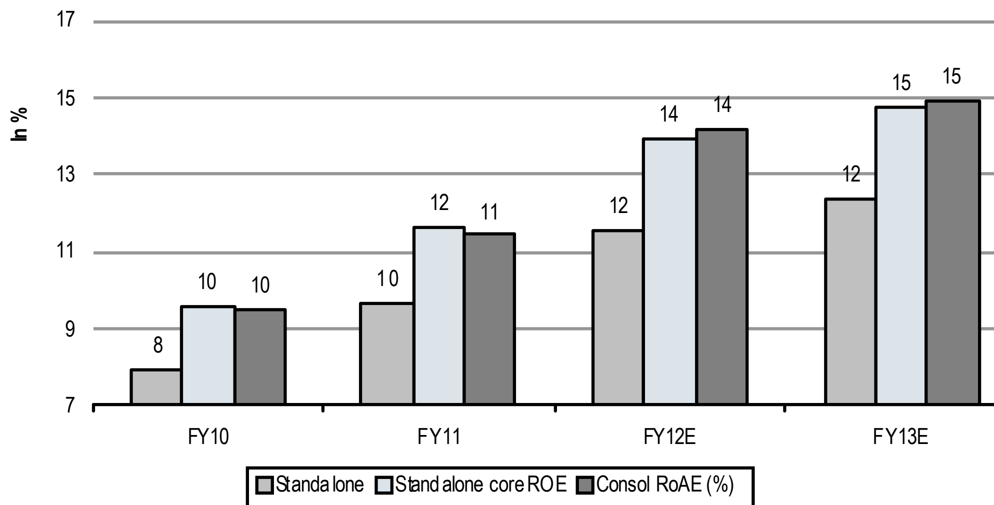
Source: Company data, Credit Suisse estimates

Consol earnings set for a jump led by life insurance 'accounting profits'

Life insurance "accounting profits" set for a major jump

However, ICICI's consolidated ROE is set for a major uplift (15% over FY12-13 versus 11% in FY11) because of a big jump in the 'accounting profits' at its life insurance business. In FY11, buoyed by earnings from the back book, a strong lapse income and drop in new business strain (new business dropped 26% YoY), accounting profits jumped to Rs8.1 bn. We expect a further 60% rise in FY12 as new business growth is slack and accrual of profits from in-force policies. Reported ROE of life insurance is likely to be as high as 35-45% in FY12& 13. However, the 'value' accretion in life business is likely to be meagre because of the depressed new business margins and growth.

Figure 73: Core bank RoEs to remain low at 14-15% over the next two years



Source: Company data, Credit Suisse estimates

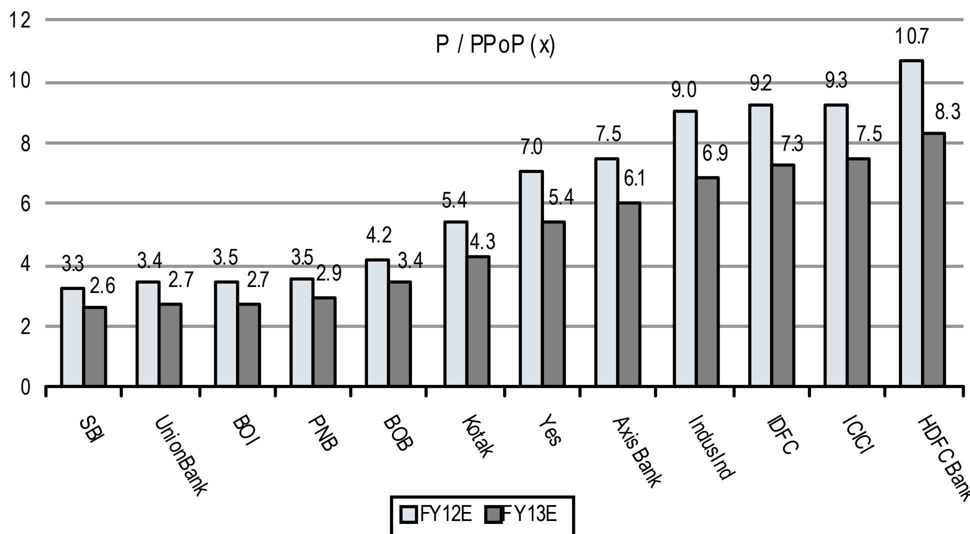
While life insurance accounting profits will drive up consolidated earnings, we maintain our life insurance valuation at US$3.0 bn (Rs86/sh – based on the appraisal value) as new business margins remain under pressure. Our appraisal value is based on the embedded value of US$2.1 bn plus 10x FY12 new business profits (assuming 14% margins and flat new business growth in FY12).

Valuations not cheap on P /PPoP

On a P/PPoP basis, ICICI is at a 20% premium vs Axis

ICICI is only at a 13% discount to HDFC Bank on a price to pre-provisioning profit (PPoP) and at a 20% premium to Axis Bank.

Figure 74: **ICICI Bank is only at a 13% discount to HDFC Bank on P/ PPoP and at a 20% premium to Axis Bank**

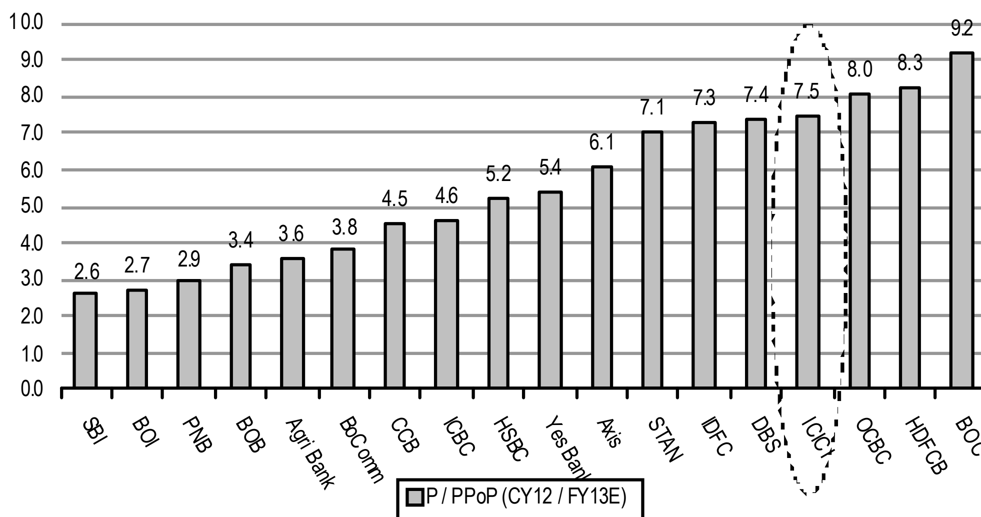


Source: Company data, Credit Suisse estimates

ICICI is not cheap on P / PPoP basis even compared to regional peers

Even compared to regional peers, ICICI is among the most expensive names on a P/ PPoP basis.

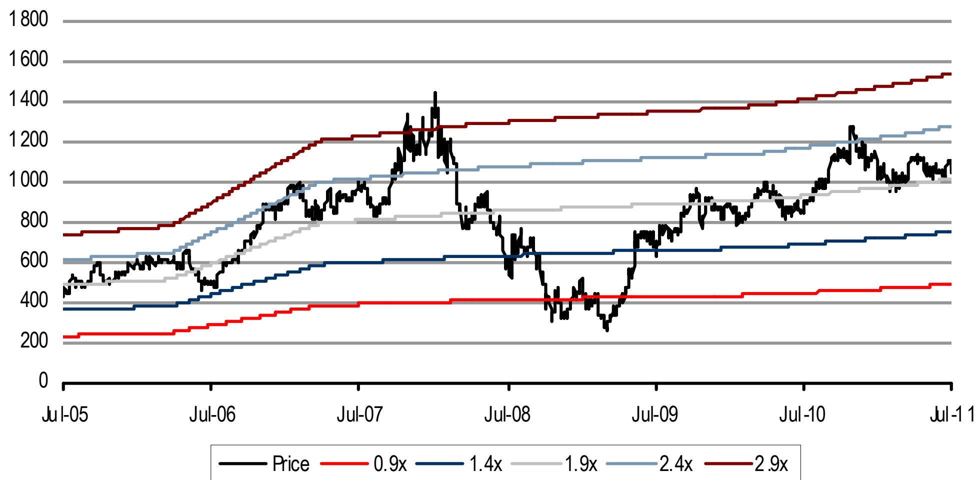
Figure 75: **ICICI – expensive even compared to regional peers on P / PPoP**



Source: Bloomberg, Credit Suisse estimates

ICICI is currently trading at its historic average on P/B.

Figure 76: **Valuations not cheap at 2.2x book with core RoEs < 15%**



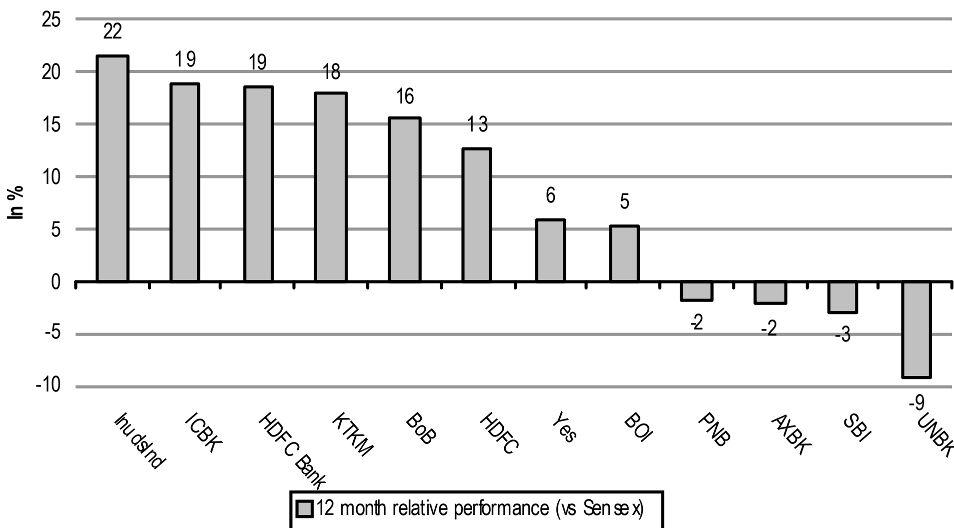
Source: Company data, Credit Suisse estimates

ICICI has outperformed peers over the past one year

ICICI Bank has outperformed the market by 20% over the past one year and has been among the best performing banks in India.

ICICI has been among the best performers over the past one year

Figure 77: **ICICI Bank has been among the best performers over the past one year**



Source: Company data, Credit Suisse estimates

Peg valuations at 2.0x core book – Target price of Rs1,066

With core bank RoEs likely to remain at 14-15% over the next two years, we peg the core book value multiple at 2.0x and arrive at a sum-of-the-parts valuation at Rs1,060 (we value the subsidiaries at Rs191.

Target price of Rs1,066 – based on 2.0x core book

Figure 78: Sum-of-the-parts valuation

	Inv (USD bn)	FY11 RoAE (%)	FY12 RoAE (%)	Basis of val/n	Rs /sh
Core book	9.6	11.7	13.9	2.0x FY12 BV	874
Overseas subs.	1.3	5.6	6.0	0.5x BV	25
Life ins	0.8	48.4*	47.5*	Appraisal val	86
Gen ins	0.2	-7.3	13.7	12x Eco surplus	13
HFC	0.2	19.2	20	1.0x BV	15
Others	0.1	36.6	30		51
Total	12.3	11.4	15		1,066

Source: Company data, Credit Suisse estimates

UNDERWEIGHT Banks, power sector lenders

We initiate on PFC (Neutral) and REC (Underperform) as we expect that rise in problem assets for these lenders will likely continue to weigh on valuations that are not cheap relative to government-owned banks (which have more diversified loan book).

Initiate on REC with an UNDERPERFORM and PFC with a NEUTRAL

Indian Banks have YTD performed in-line with the market. Profitability pressures are already visible on back of slowdown in loan growth, NIM compression and treasury losses. Moderation in credit costs has however been supporting earnings growth. Power sector lenders (PFC, REC) have also been enjoying virtually NIL credit costs and reporting strong ROAs. We are cutting FY12-13 earnings of banks by 2-10% as we build in an end of benign asset quality cycle and raise FY13 credit cost estimates by 15-20 bp. Prefer banks with strong earning power, which will help them absorb rising credit costs better. HDFC Bank, Axis, PNB, BOB are our preferred exposures while we are cautious on ICICI, Yes Bank, IndusInd among privates and SBI, IOB among PSUs.

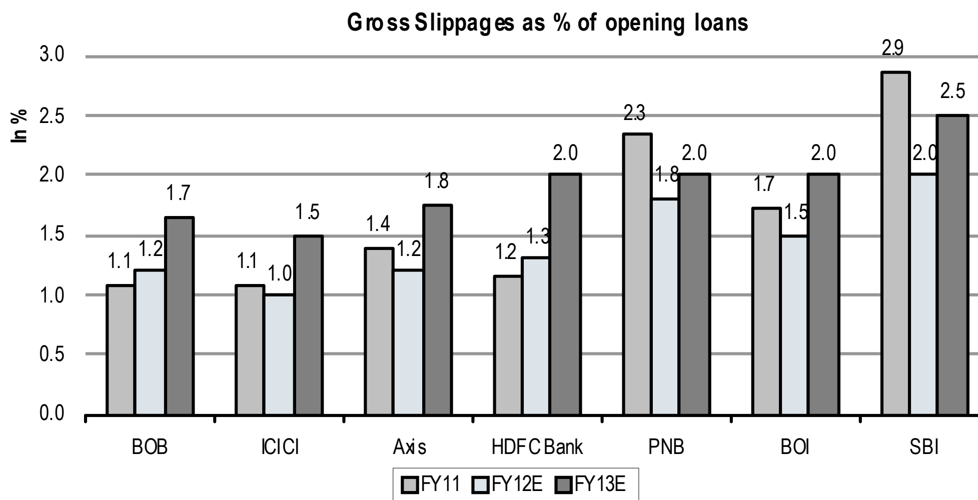
Prefer HDFC Bank, Axis, PNB, BOB and cautious on ICICI, Yes, IndusInd, SBI, IOB

Cut earnings estimates by 2-10%

We forecast an increase in restructured assets and NPLs for the banks leading to higher slippages and credit costs in FY13. Consequently, we reduce our FY12-13 earnings estimates by 2-10% across various banks.

Cut our FY13 estimates by 2-10% for various banks

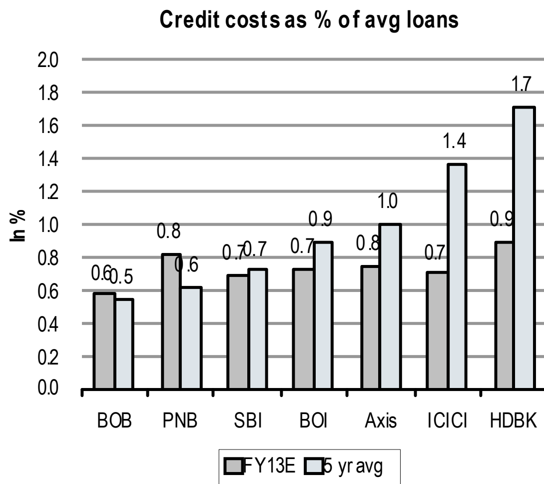
Figure 79: **We expect the gross slippages to rise in FY13 …**



Source: Company data, Credit Suisse estimates

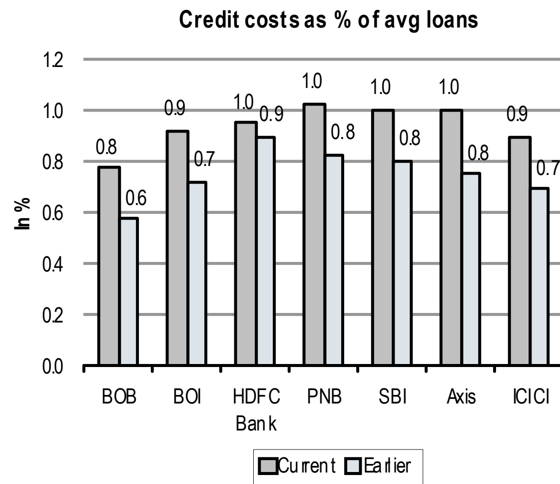
We increase our FY13 credit cost estimates by 15-20 bp.

Figure 80: ... leading to higher credit costs but still below historic average



Source: Company data, Credit Suisse estimates

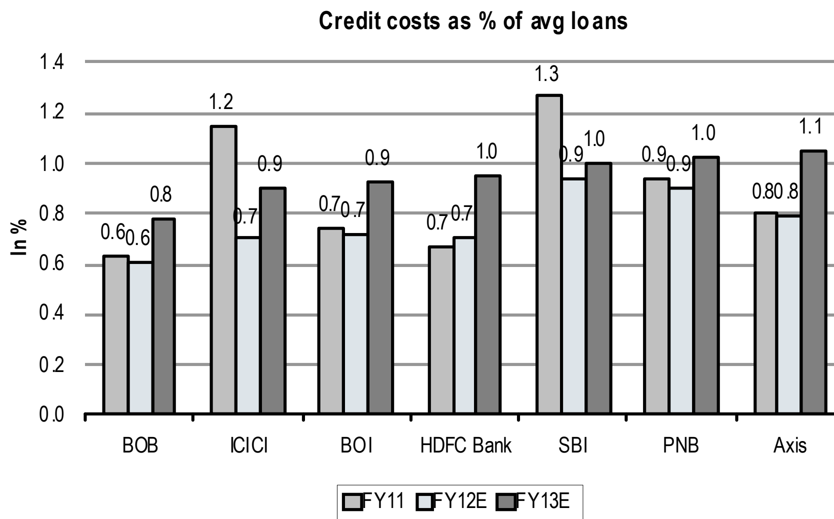
Figure 81: Increase FY13 credit costs by 15-20 bps for various banks



Source: Company data, Credit Suisse estimates

We expect the credit costs to rise to the 1.1% levels in FY13 from the 0.9% levels in FY12.

Figure 82: Credit cycle to revert in FY13 …

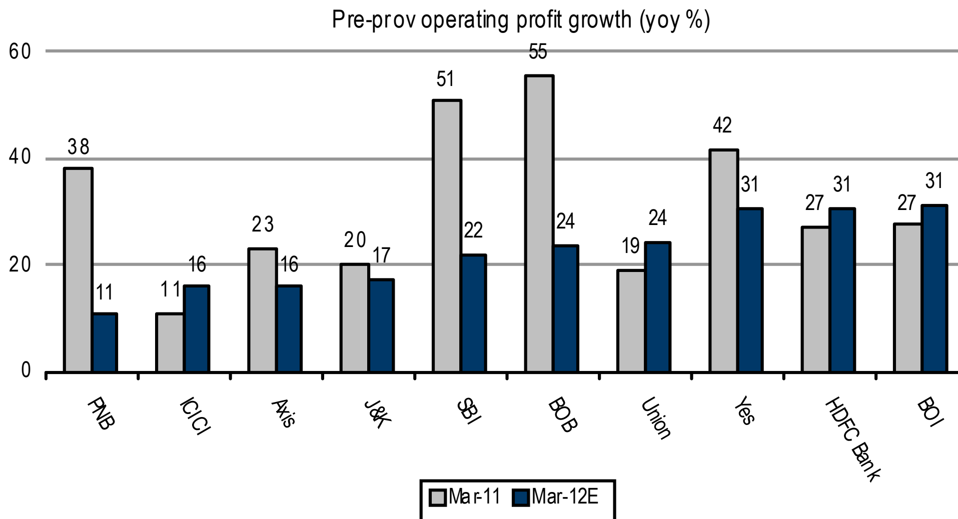


Source: Company data, Credit Suisse estimates

PPoP / Earnings growth to moderate

We expect the pre-provision operating profit growth for banks to moderate in FY12 driven by the margin compression and a reversal of the treasury gains.

Figure 83: **Pre-provisioning profit growth to moderate in FY12**

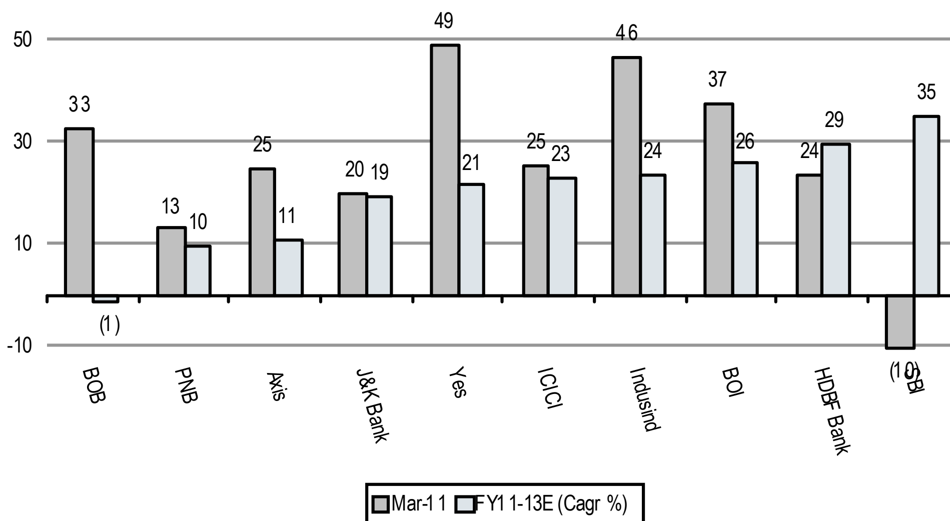


Source: Company data, Credit Suisse estimates

We expect the earnings growth momentum to slow in FY12 (driven by lower margins) and FY13 (driven by higher credit costs).

Earnings growth to moderate over the next two years

Figure 84: **FY12-13 EPS growth to moderate for most banks**



Source: Company data, Credit Suisse estimates

UNDERWEIGHT banks – Prefer retail funded franchises and banks with strong earnings power

Indian Banks have YTD performed in-line with the market. Profitability pressures are already visible on the back of slowdown in loan growth, NIM compression and treasury losses. However, moderation in credit costs has been supporting earnings growth, particularly at banks like ICICI, Kotak, IndusInd, Axis and Yes. Power sector lenders (PFC, REC) have also been enjoying virtually NIL credit costs and reporting strong ROAs.

Initiate on REC with an UNDERPERFORM and PFC with a NEUTRAL

However, as the benign asset quality cycle now bottoms out, we forecast further earnings deceleration. The rise in problem assets will also weigh on valuations that are not cheap (private banks are currently trading at the historic average while government banks are slightly below historic average) and recommend UNDERWEIGHT on the sector.

We are cutting FY12-13 earnings of Indian banks by 2-10% as we build in an end of the benign asset quality cycle and raise credit cost estimates by 15-20 bp for FY13.

Rise in problem assets shall weigh on valuations

Figure 85: **Earnings changes summary**

	FY12E			FY13E		
EPS (Rs / sh)	**Current**	**Earlier**	**% change**	**Current**	**Earlier**	**% change**
ICICI	56	60	(7)	65	72	(10)
Axis	89	90	(1)	102	109	(6)
SBI (consol)	181	184	(1)	236	248	(5)
PNB	145	145	-	168	181	(7)
BOB	109	116	(6)	126	137	(8)
BOI	60	62	(2)	72	75	(5)
Union Bank	48	48	-	55	62	(10)

Source: Company data, Credit Suisse estimates

Prefer banks with strong earnings power

Downgrade ICICI Bank to NEUTRAL (from Outperform), which is currently trading at a 20% premium to peers (like Axis Bank) on Price /PPoP despite the seemingly inexpensive P/B multiples. We prefer banks with strong earning power, which will help them absorb rising credit costs better. We therefore maintain OUTPERFORM on Axis due to its robust credit growth, continued build-up of deposit franchise despite it also facing near term margin pressures. Its valuations have also moderated post its recent underperformance.

Prefer HDFC Bank, Axis, PNB, BOB and are cautious on ICICI, Yes, IndusInd, SBI, IOB

HDFC Bank is the best positioned in the current environment of rising rates and loan growth, with a strong deposit franchise, lower treasury income, high Tier I and cushion of excess provisions.

We are cautious on ICICI, Yes Bank, IndusInd, Kotak, which are likely to witness a swing in the asset quality (current credit costs are at historic lows and well below normalised levels). We adjust our target prices (0-10 %), factoring in the earnings cut.

Figure 86: **Target price change summary**

Stock	Rating	CMP (Rs)	Old TP	New TP	Upside (%)
Axis Bank	O	1,274	1,575	1,485	17
HDFC Bank	O	2,516	2,738	2,738	10
ICICI Bank	N	1,054	1,319	1,066	2
Yes Bank	U	318	296	296	(6)
IndusInd	N	278	300	300	9
State Bank Of India	N	2,433	2,499	2,487	4
Punjab National Bank	O	1,135	1,254	1,236	10
Union Bank of India	O	299	384	342	15
Bank of Baroda	O	876	1,124	1,035	19
Bank of India	N	403	439	433	7

Source: Company data, Credit Suisse estimates

Companies Mentioned *(Price as of 13 Jul 11)*
Adani Power Ltd (ADAN.BO, Rs 109.75, NEUTRAL, TP Rs 116.00)
Agricultural Bank of China (1288.HK, HK$ 3.97, UNDERPERFORM [V], TP HK$ 3.55)
Axis Bank Limited (AXBK.BO, Rs 1274.15, OUTPERFORM, TP Rs 1485.00)
Bank of Baroda (BOB.BO, Rs 875.90, OUTPERFORM, TP Rs 1035.00)
Bank of China Ltd (3988.HK, HK$ 3.59, NEUTRAL, TP HK$ 4.09)
Bank of Communications (3328.HK, HK$ 6.71, NEUTRAL, TP HK$ 7.51)
Bank of India (BOI.BO, Rs 402.95, NEUTRAL, TP Rs 433.00)
China Construction Bank (0939.HK, HK$ 6.08, OUTPERFORM, TP HK$ 7.64)
Coal India (COAL.BO, Rs 368.10, OUTPERFORM [V], TP Rs 450.00)
DBS Group (DBSM.SI, S$ 14.71, NEUTRAL, TP S$ 16.80)
HDFC Bank (HDBK.BO, Rs 2515.65, OUTPERFORM, TP Rs 2738.00)
Housing Development Finance Corp (HDFC.BO, Rs 695.50, NEUTRAL, TP Rs 725.00)
HSBC Holdings (0005.HK, HK$ 75.45, NEUTRAL, TP HK$ 89.04)
ICICI Bank (ICBK.BO, Rs 1054.10, OUTPERFORM, TP Rs 1066.00)
Indian Overseas Bank (IOBK.BO, Rs 143.40, UNDERPERFORM, TP Rs 94.00)
IndusInd Bank (INBK.BO, Rs 277.85, NEUTRAL, TP Rs 300.00)
Industrial & Commercial Bank of China (1398.HK, HK$ 5.63, OUTPERFORM, TP HK$ 6.87)
Infrastructure Development Finance Co Ltd (IDFC.BO, Rs 135.00, NEUTRAL, TP Rs 138.00)
ING Vysya Bank (VYSA.BO, Rs 337.40, OUTPERFORM, TP Rs 460.00)
Jaiprakash Power Ventures Ltd (JAPR.BO, Rs 45.55, NEUTRAL [V], TP Rs 64.00)
Jammu and Kashmir Bank (JKBK.BO, Rs 848.95, OUTPERFORM, TP Rs 1093.00)
Jindal Steel & Power Ltd (JNSP.BO, Rs 623.20, OUTPERFORM, TP Rs 760.00)
Kotak Mahindra Bank Ltd (KTKM.BO, Rs 490.05, NEUTRAL, TP Rs 444.00)
KSK Energy Ventures Ltd (KSKE.BO, Rs 112.05, OUTPERFORM, TP Rs 166.00)
Lanco Infratech Ltd. (LAIN.BO, Rs 23.00, NEUTRAL [V], TP Rs 34.00)
National Hydroelectric Power Corporation Ltd (NHPC.NS, Rs 25.05, NEUTRAL, TP Rs 27.00)
NTPC Ltd (NTPC.BO, Rs 190.25, NEUTRAL, TP Rs 186.00)
Oversea-Chinese Banking Corporation (OCBC.SI, S$ 9.33, OUTPERFORM, TP S$ 11.60)
Power Finance Corporation (PWFC.BO, Rs 194.40, NEUTRAL, TP Rs 200)
Punjab National Bank Ltd (PNBK.BO, Rs 1135.20, OUTPERFORM, TP Rs 1236.00)
Reliance Power Ltd (RPOL.BO, Rs 116.95, UNDERPERFORM, TP Rs 126.00)
Rural Electrification Corporation (RURL.BO, Rs 205.10, UNDERPERFORM, TP Rs 160)
Shriram Transport Finance Co Ltd (SRTR.BO, Rs 681.60, OUTPERFORM, TP Rs 860.00)
Standard Chartered Plc (2888.HK, HK$ 198.30, UNDERPERFORM, TP HK$ 190.79)
State Bank Of India (SBI.BO, Rs 2432.50, NEUTRAL, TP Rs 2487.00)
Tata Power Company Ltd (TTPW.BO, Rs 1284.45, NEUTRAL, TP Rs 1365.00)
Union Bank of India (UNBK.BO, Rs 299.40, OUTPERFORM, TP Rs 342.00)
United Bank of India (UBOI.BO, Rs 96.15, OUTPERFORM, TP Rs 136.00)
Yes Bank Ltd (YESB.BO, Rs 318.20, UNDERPERFORM, TP Rs 296.00)

Disclosure Appendix

Important Global Disclosures

Ashish Gupta, Anish Tawakley & Deepak Ramineedi each certify, with respect to the companies or securities that he or she analyzes, that (1) the views expressed in this report accurately reflect his or her personal views about all of the subject companies and securities and (2) no part of his or her compensation was, is or will be directly or indirectly related to the specific recommendations or views expressed in this report.

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Analysts' stock ratings are defined as follows:

Outperform (O): The stock's total return is expected to outperform the relevant benchmark* by at least 10-15% (or more, depending on perceived risk) over the next 12 months.

Neutral (N): The stock's total return is expected to be in line with the relevant benchmark* (range of ±10-15%) over the next 12 months.

Underperform (U): The stock's total return is expected to underperform the relevant benchmark* by 10-15% or more over the next 12 months.

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