

India: Financial Services

Equity Research

Valuations corrected, but macro may keep pressure on performance

Valuations have corrected, but not yet cheap and ...

Banking and finance stocks have fallen 18% to 25% from recent peaks, on concerns relating to inflation, potential margin pressures and liquidity squeeze. We believe the correction was much needed but stocks are not very cheap either on absolute basis nor relative to the risks they carry.

... macro headwinds still do not favor an overweight on banks

On the positive front, credit growth has picked up (24% yoy as of Dec 31) which, based on our discussion with banks, is likely driven by working capital finance on the back of rising inflation, and is broad-based (till November it was driven by the infrastructure sector). However, macro concerns remain: our ECS team expects (1) an interest rate hike of 100 bps in 2011, (2) liquidity to ease but remain tight, (3) weakness in balance of payments – high CA deficit funded by short term inflows and (4) G-Sec yield of 8.5-8.75% for FY12 vs. current level of 8.2%. Additionally, inflation remains sticky (core at 7.6% in Dec), and commodity prices are rising.

Earnings to come under pressure from 4Q

We believe bank earnings could carry downside risk on: margin pressure, which will likely start reflecting gradually from 4QFY11 onwards, and mark-to-market hit on G-Sec portfolio with yield now at 8.2%. In addition concerns could arise on: (1) growth – will higher interest rates impact credit growth? Banks we spoke to are indicating that it will be difficult to pass on significant rate hikes to customers. (2) NPLs - will higher rates start impacting asset quality and therefore provisioning requirement? While it is still early days, we feel the risk is likely more to the downside than upside.

Negative gap between wholesale and retail depositors reducing

We have been concerned about wholesale borrowers for some time, and given the spike in retail deposit rates, we have recently become cautious even on retail borrowers. Retail depositors still have some advantage in the form of low cost CASA deposits. In our view, banks that are aggressive in expanding their balance sheets will likely be more susceptible as dependence on bulk deposits increases. Even post correction valuations remain above average, while macro risks remain high. We remain selective and have Buys on IndusInd Bank (INBK.BO, Conviction List), ICICI Bank (ICBK.BO) (strong earnings growth), Punjab National Bank (PNBK.BO), and Bank of Baroda (BOB.BO) (structural re-rating on higher RoEs and relatively attractive valuations). We retain Sell on SBI, HDFC, IDFC, BOI and LICHF.

SUMMARY OF RATINGS, TARGET PRICES

Rs.	Ticker	Rating	Price (Jan 18)	Target Price	Upside potential (%)
Public Banks					
BOB	BOB.BO	Buy	812.40	1110.0	37%
BOI	BOI.BO	Sell	437.60	455.0	4%
PNB	PNBK.BO	Buy	1145.10	1500.0	31%
SBI	SBI.BO	Sell	256.35	280.0	10%
Union Bank	UNBK.BO	Neutral	315.20	405.0	28%
Private Banks					
Axis	AXBK.BO	Neutral	1279.20	1510.0	18%
HDFCB	HDBK.BO	Neutral	2108.75	2520.0	20%
ICICIB	ICBK.BO	Buy	1011.00	1245.0	23%
IndusInd	INBK.BO	Buy*	236.75	320.0	35%
KMB	KTKM.BO	Neutral	404.65	475.0	17%
Yes Bank	YESB.BO	Neutral	256.95	370.0	44%
NBFCs					
HDFC	HDFC.BO	Sell	657.55	650.0	-1%
IDFC	IDFC.BO	Sell	159.10	195.0	23%
LIC HF	LICH.BO	Sell	155.50	220.0	41%
Shriram	SRTR.BO	Neutral	759.75	850.0	12%

* denotes stock is on the regional Conviction List.

Note (1) Target price derivation: 12-month target prices are based on FY12E P/B derived using GS CAMELOT-based 3-stage DDM.

For SBI, ICICIB, Kotak, HDFC, we use SOTP. (2) Key risks: stronger (weaker) macro economic environment; looser/tighter liquidity conditions; and stronger/weaker credit growth.

Note: For important disclosures, please go to <http://www.gs.com/research/hedge.html>.

VALUATION SUMMARY

	P/B (X)		P/E (X)	
	FY 2011E	FY 2012E	FY 2011E	FY 2012E
Public banks				
Bank of Baroda	1.7	1.4	7.7	7.1
Bank of India	1.5	1.2	7.8	6.2
Punjab National Bank	1.8	1.5	7.8	6.3
State Bank of India	2.2	1.9	14.4	10.9
SBI standalone valuation	1.8	1.6	12.5	9.4
Union Bank	1.5	1.2	7.5	5.6
Private banks	2.7	2.3	18.7	15.2
Axis Bank	2.8	2.4	15.7	13.5
HDFC Bank	3.9	3.4	25.3	19.6
ICICI Bank	2.1	1.9	22.5	17.7
ICBK standalone valuation	1.7	1.5	17.4	13.5
IndusInd Bank	2.9	2.6	19.8	16.8
Kotak Mahindra Bank	4.4	3.9	37.4	31.6
KMB standalone valuation	2.5	2.2	21.6	18.1
Yes Bank	2.3	1.9	12.6	9.9
NBFC's	2.9	2.5	14.6	12.5
HDFC	5.5	4.9	28.0	23.7
HDFC standalone valuation	4.5	3.8	20.7	17.6
IDFC	2.1	1.9	16.9	13.6
LIC Housing Finance	1.7	1.5	7.0	7.2
Shriram Transport	3.5	2.8	13.6	11.5
Sector Average	2.4	2.1	14.3	11.7

Source: Datastream, Goldman Sachs Research estimates.

Tabassum Inamdar, CFA
+91(22)6616-9052 tabassum.inamdar@gs.com Goldman Sachs India SPL

Neha Agrawal
+91(22)6616-9161 neha.agrawal@gs.com Goldman Sachs India SPL

Shyam Srinivasan, CFA
+91(22)6616-9346 shyam.srinivasan@gs.com Goldman Sachs India SPL

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Much needed valuation correction underway

Over the last three months we have seen a much needed correction in banking and finance stocks, which have fallen 18% to 25% from recent peaks. We are, however, retaining our Neutral stance on the sector given macro headwinds – 100 bps increase in rates, 30-55 bps increase in G-Sec yields, potential shift of deposits from savings to term, sticky inflation and relative easy but still tight liquidity conditions. We believe these factors will start impacting banking sector earnings from 4Q and intensify in 2H of FY2012. In addition concerns could arise on: (1) growth – will higher rates impact credit growth? Banks we spoke to are indicating that it will be difficult to pass on significant rate hikes to customers. (2) NPLs - will higher rates start impacting asset quality and therefore provisioning requirement? While it is still early days, we believe the risk is likely more to the downside than the upside. We remain selective and have Buys on IndusInd Bank (INBK.BO, Conviction List), ICICI Bank (ICBK.BO) (strong earnings growth), Punjab National Bank (PNBK.BO), and Bank of Baroda (BOB.BO) (structural re-rating on higher RoEs and relatively attractive valuations). We retain Sell on SBI, HDFC, IDFC, BOI and LICHF.

Exhibit 1: Over the past three months, most banks/NBFC stocks underperformed relative to Sensex

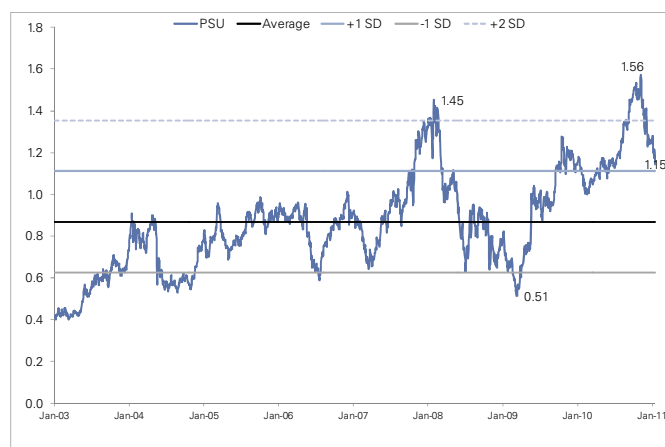
Absolute and relative performance (%)

	Price (Rs)	1-year (Rs)		Absolute price perf (%)						Rel price perf % (to BSE)					
	18-Jan	High	Low	1-wk	1-mo	3-mo	1-yr	2-yr	ytd	1-wk	1-mo	3-mo	1-yr	2-yr	ytd
Public Banks															
BOB	812	1,042	522	(4.9)	(9.1)	(17.4)	48.7	243.7	(9.4)	(4.4)	(5.5)	(12.8)	37.4	141.2	(2.7)
Bol	438	575	310	(1.4)	(0.2)	(17.8)	11.9	71.7	(2.7)	(0.9)	3.8	(13.2)	3.4	(30.9)	4.5
PNB	1145	1,384	854	(2.7)	(5.4)	(12.1)	24.6	149.7	(6.3)	(2.1)	(1.6)	(7.1)	15.1	47.2	0.7
SBI	2556	3,490	1,894	(2.1)	(7.4)	(19.3)	18.5	115.9	(9.1)	(1.6)	(3.7)	(14.7)	9.5	13.4	(2.3)
Union Bank	315	417	241	(1.3)	(4.2)	(21.0)	18.3	105.0	(9.3)	(0.8)	(0.3)	(16.6)	9.3	2.5	(2.6)
Private banks															
Axis	1279	1,589	973	(1.4)	(2.3)	(13.7)	15.4	176.3	(5.2)	(0.9)	1.7	(8.8)	6.6	73.7	1.8
HDFCB	2109	2,499	1,567	(1.8)	(4.2)	(12.1)	19.3	121.6	(10.1)	(1.2)	(0.3)	(7.1)	10.2	19.1	(3.5)
ICICIB	1011	1,270	789	(1.2)	(8.4)	(9.4)	17.1	136.0	(11.7)	(0.7)	(4.7)	(4.3)	8.2	33.5	(5.1)
IndusInd Bank	237	302	140	1.4	(5.7)	(9.4)	66.3	495.8	(10.8)	2.0	(1.9)	(4.3)	53.6	393.3	(4.2)
KMB	405	520	354	(3.1)	(12.7)	(20.5)	(4.7)	155.5	(10.6)	(2.6)	(9.2)	(16.0)	(12.0)	53.0	(3.9)
Yes Bank	257	378	225	(5.5)	(14.0)	(27.4)	(5.6)	242.5	(17.8)	(5.0)	(10.5)	(23.3)	(12.8)	139.9	(11.7)
NBFC's															
HDFC	658	759	462	(0.5)	(4.8)	(9.2)	28.5	111.4	(9.7)	0.1	(0.9)	(4.1)	18.8	8.8	(3.0)
IDFC	159	216	142	(1.7)	(7.0)	(23.1)	0.5	160.7	(12.7)	(1.2)	(3.2)	(18.7)	(7.1)	58.2	(6.2)
LIC Housing	156	294	145	(8.3)	(15.0)	(42.4)	(7.0)	220.6	(20.5)	(7.8)	(11.6)	(39.2)	(14.1)	118.1	(14.6)
Shriram Transport	760	894	431	7.2	(1.0)	(1.3)	47.3	282.8	(2.7)	7.8	3.0	4.2	36.1	180.3	4.6

Source: Datastream.

Exhibit 2: Post correction - PSU banks are trading at slightly above +1 SD

PSU banks' P/BV (X)



Source: Datastream, Bloomberg, Goldman Sachs Research.

Exhibit 3: Private banks trading at above average but below +1SD

Private banks' P/BV (X)



Source: Datastream, Bloomberg, Goldman Sachs Research.

Exhibit 4: Valuations more reasonable, but not cheap, still above median

Valuation summary

	Reuters ticker	Rating	Market Cap (US\$ mn)	3m ADVT (US\$ mn)	Price	Target Price/ Valuation (Rs)	Total Return Potential (Rs)	P/B (X)		P/E (X)		Historical P/B (X)		TP Implied FY12E	
					1/18/2011										
					(Rs)										
FY 2011E	FY 2012E	FY 2011E	FY 2012E	Median	Peak	P/B (X)	P/E (X)								
Public banks															
BOB	BOB.BO	Buy	6,509	9.6	812	1,110.0	39%	1.74	1.45	7.7	7.1	0.8	1.9	2.0	9.7
BOI	BOI.BO	Sell	5,055	17.3	438	455.0	6%	1.50	1.24	7.8	6.2	0.7	2.1	1.3	6.4
PNB	PNBK.BO	Buy	7,941	10.2	1,145	1,500.0	33%	1.80	1.46	7.8	6.3	1.3	1.8	1.9	8.2
SBI	SBI.BO	Sell	35,704	180.7	2,556	2,800.0	11%	2.15	1.87	14.4	10.9	0.8	2.0	2.0	12.0
SBI standalone valuation					2,071	2,314.2		1.81	1.56	12.5	9.4			1.7	10.5
Union Bank	UNBK.BO	Neutral	3,502	7.1	315	405.0	30%	1.46	1.20	7.5	5.6	0.9	1.5	1.5	7.2
Private banks															
Axis	AXBK.BO	Neutral	11,533	53.0	1,279	1,510.0	19%	2.79	2.41	15.7	13.5	1.4	4.6	2.8	15.9
HDFCB	HDBK.BO	Neutral	21,536	46.9	2,109	2,520.0	20%	3.89	3.36	25.3	19.6	3.1	5.0	4.0	23.4
ICICIB	ICBK.BO	Buy	24,843	111.3	1,011	1,245.0	24%	2.09	1.93	22.5	17.7	1.7	3.3	2.4	21.7
ICICI Bank standalone valuation					716	971.8		1.66	1.52	17.4	13.5			2.1	18.3
IndusInd Bank	INBK.BO	Buy*	2,423	12.9	237	320.0	36%	2.91	2.56	19.8	16.8	0.9	2.9	3.5	22.7
KMB	KTKM.BO	Neutral	6,549	13.9	405	475.0	18%	4.41	3.90	37.4	31.6	2.5	11.2	4.6	37.1
KMB standalone valuation					220	174.1		2.51	2.21	21.6	18.1			1.7	14.3
Yes Bank	YESB.BO	Neutral	1,961	19.2	257	370.0	45%	2.35	1.94	12.6	9.9	3.2	5.1	2.8	14.2
NBFC's															
HDFC	HDFC.BO	Sell	21,181	52.4	658	650.0	0%	5.52	4.85	28.0	23.7	2.8	7.0	4.8	23.4
HDFC standalone valuation					407	399.8		4.47	3.81	20.7	17.6			3.7	17.2
IDFC	IDFC.BO	Sell	5,112	27.8	159	195.0	24%	2.09	1.87	16.9	13.6	2.7	5.7	2.3	16.7
LIC Housing Finance	LICH.BO	Sell	1,623	57.2	156	220.0	44%	1.74	1.47	7.0	7.2	0.8	1.7	2.1	10.2
Shriram Transport	SRTR.BO	Neutral	3,779	8.6	760	850.0	13%	3.49	2.77	13.6	11.5	1.0	3.8	3.1	12.8

*This stock is on our regional Conviction list

Source: Company data, Goldman Sachs Research estimates.

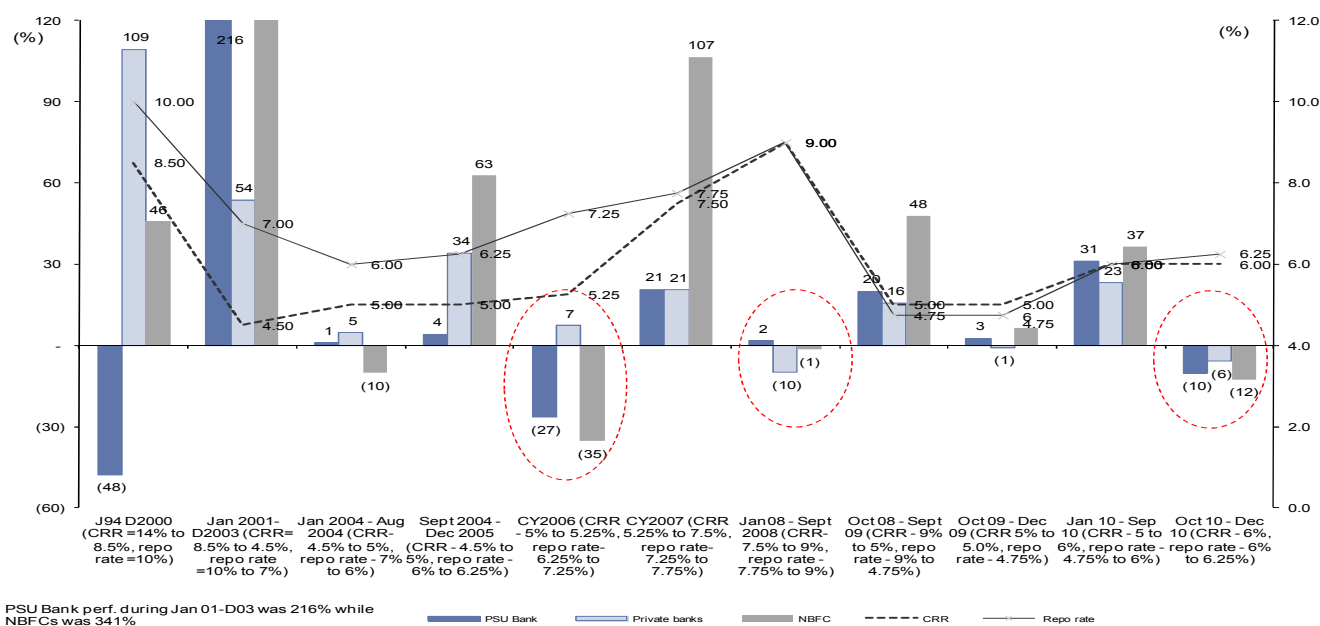
Exhibit 5: Further risk to valuations could increase from higher cost of equity
Sensitivity analysis for a 50/100bp increase in Cost of Equity (COE) on valuations

Rs.	Rating	Price (Jan 18)	Price Target	Upside Potential (%)	50bps increase in COE		100bps increase in COE	
					Implied TP	Upside (%)	Implied TP	Upside (%)
Public banks								
Bank of Baroda	Buy	812	1,110.0	36.6%	1,000	23.1%	910	12.0%
Bank of India	Sell	438	455.0	4.0%	430	-1.7%	410	-6.3%
Punjab National Bank	Buy	1,145	1,500.0	31.0%	1,350	17.9%	1,220	6.5%
State Bank of India	Sell	2,556	2,800.0	9.5%	2,595	1.5%	2,410	-5.7%
Union Bank	Neutral	315	405.0	28.5%	370	17.4%	335	6.3%
Private banks								
Axis Bank	Neutral	1,279	1,510.0	18.0%	1,310	2.4%	1,140	-10.9%
HDFC Bank	Neutral	2,109	2,520.0	19.5%	2,160	2.4%	1,870	-11.3%
ICICI Bank	Buy	1,011	1,245.0	23.1%	1,140	12.8%	1,045	3.4%
IndusInd Bank	Buy*	237	320.0	35.2%	265	11.9%	235	-0.7%
Kotak Mahindra Bank	Neutral	405	475.0	17.4%	430	6.3%	390	-3.6%
Yes Bank	Neutral	257	370.0	44.0%	340	32.3%	310	20.6%
NBFC's								
HDFC	Sell	658	650.0	-1.1%	600	-8.8%	555	-15.6%
IDFC	Sell	159	195.0	22.6%	170	6.9%	150	-5.7%
LICHF	Sell	156	220.0	41.5%	200	28.6%	180	15.8%
Sriram Transport	Neutral	760	850.0	11.9%	750	-1.3%	660	-13.1%

Source: Datastream, Goldman Sachs Research estimates.

Exhibit 6: Financials have underperformed recently on concerns of higher rates. Will they perform when rates rise further as was the case in the last cycle? The key difference between the two cycles was strong M3 growth of 23% in 2008 vs. 16% now

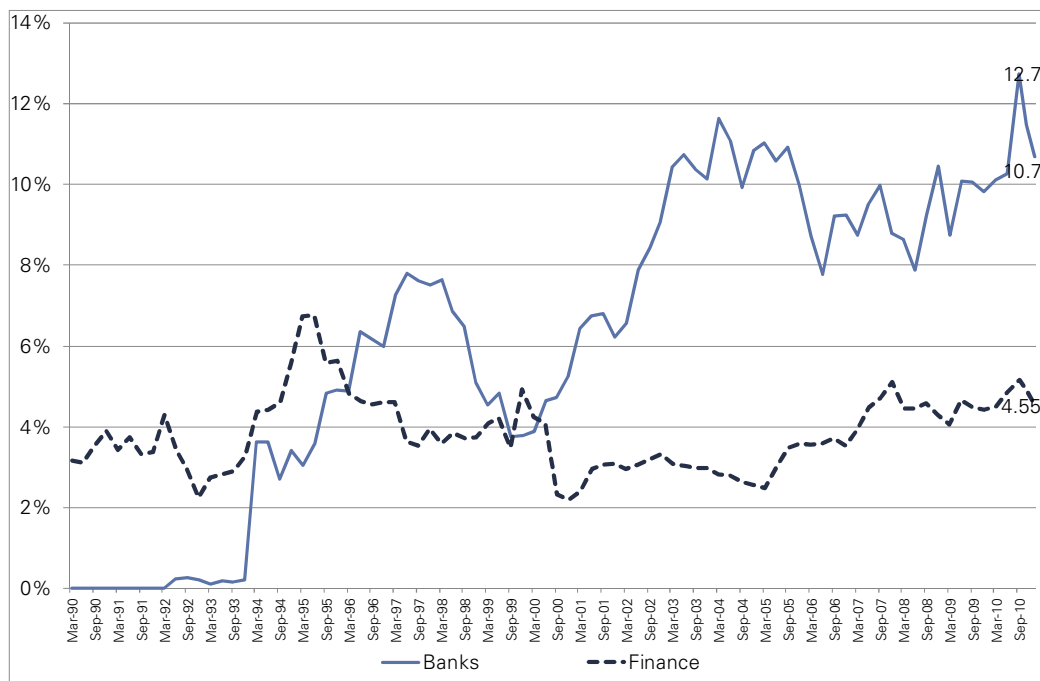
Relative performance of Banks, NBFCs vs. repo rate and CRR



Source: Bloomberg, Datastream, Goldman Sachs Research

Exhibit 7: Banks account for nearly 10.7% of total market cap; a sharp decline from their recent peak

Proportion of Banks, Finance sectors as a % of top 200 market cap companies

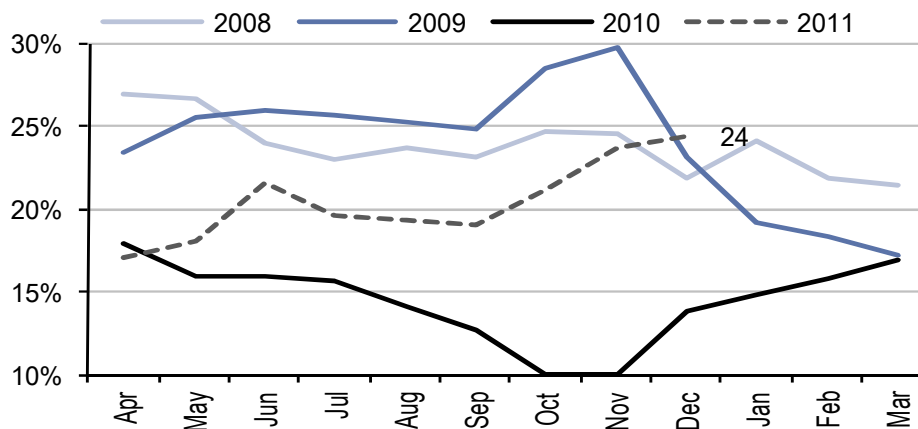


Source: Capitaline, Datastream.

But macro-economic variables provide little comfort

Exhibit 8: Credit growth strong in recent past. Banks indicate this is more broad-based and
incrementally driven by working capital finance as inflation pressures have intensified

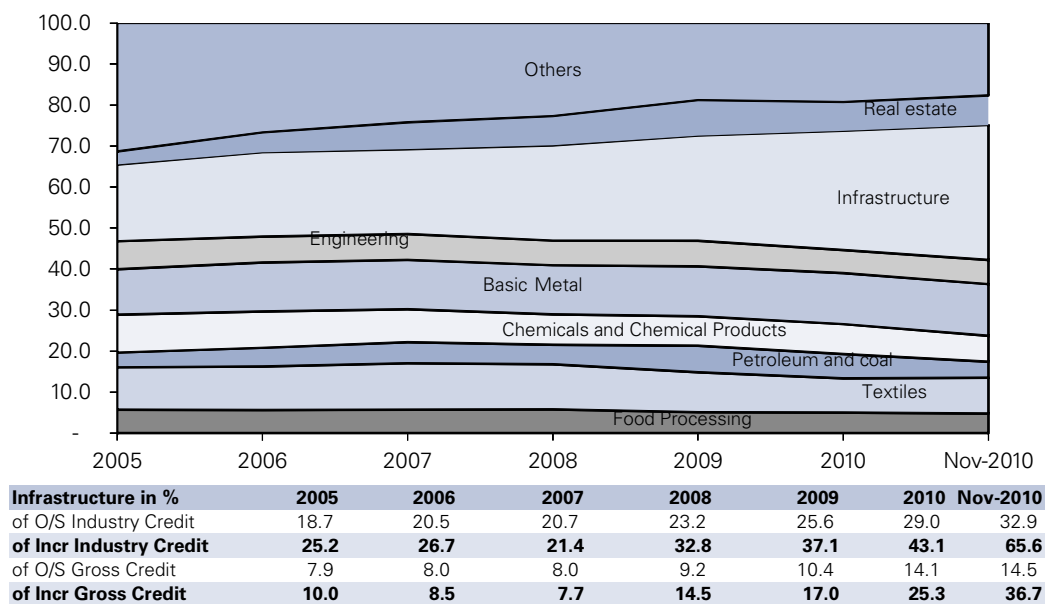
Credit growth yoy (%)



Source: RBI

Exhibit 9: However, RBI data till November indicates, that most of the credit to the industry segment has been driven by Infrastructure lending

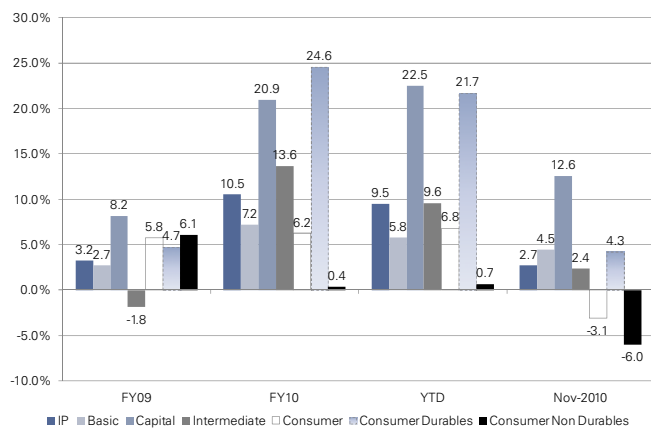
Sectoral share of Industry credit in % from 2005 to Nov-2010 and share of Infrastructure in %



Source: RBI

Exhibit 10: Recent weakness in IP growth, cement and steel demand is concerning

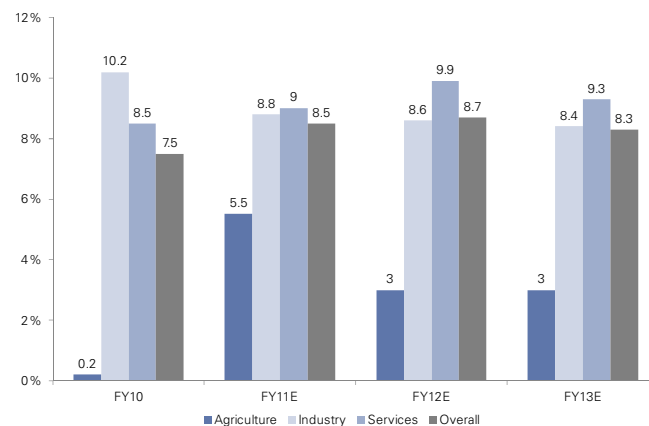
Growth in IP and its constituent sectors in %



Source: CEIC, GS Global ECS Research

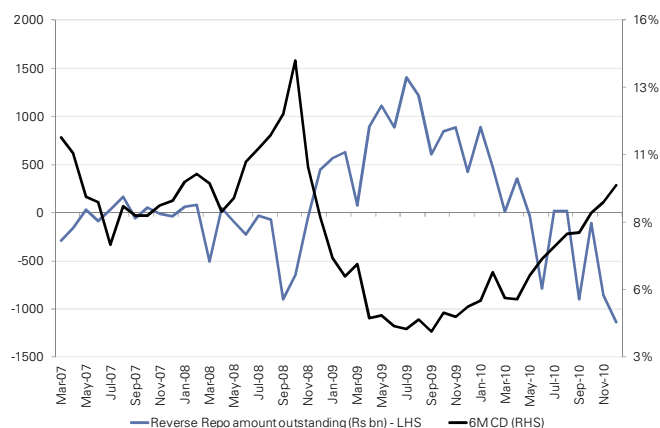
Exhibit 11: Our ECS team expects all three sectors of the economy to grow in FY11-FY13

GDP Components, % chg yoy



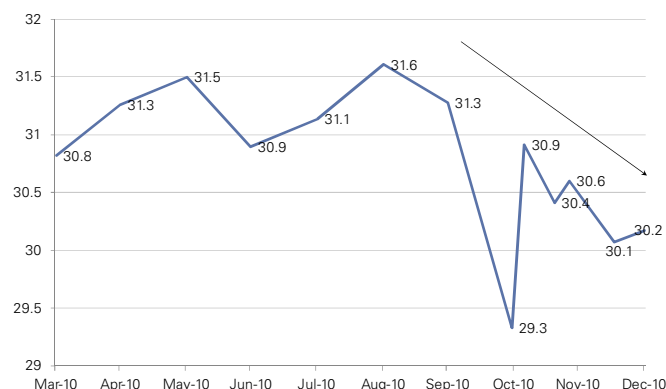
Source: GS Global ECS Research estimates.

Exhibit 12: Simultaneously, liquidity remains tight...
Reverse repo amount outstanding (Rs bn), 6M CD rates in %



Source: Bloomberg.

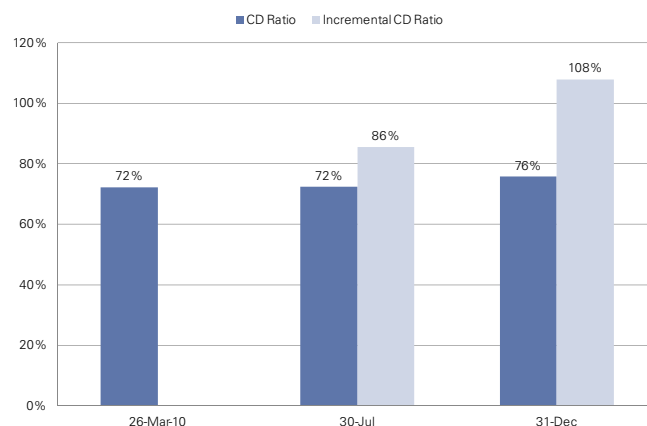
Exhibit 14: Funded by running down investments...
Investment-deposit ratio %



Source: Reserve Bank of India.

Exhibit 13: ...and has led to higher incremental CD ratio at over 100%+

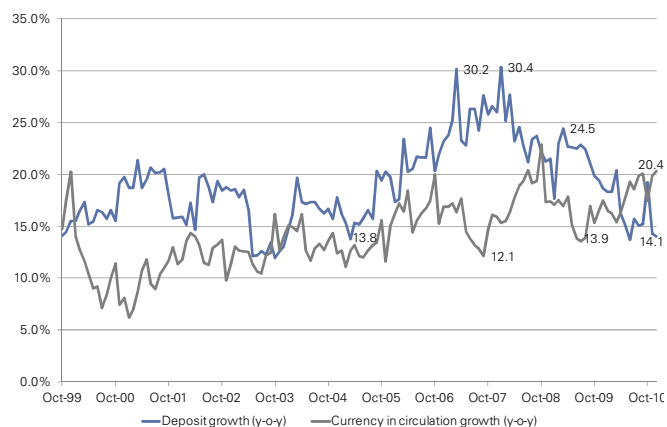
Credit/Deposit ratio (outstanding, incremental) - %



Source: Reserve Bank of India.

Exhibit 15: ...as consumers have preferred keeping cash vs deploying this in deposits...

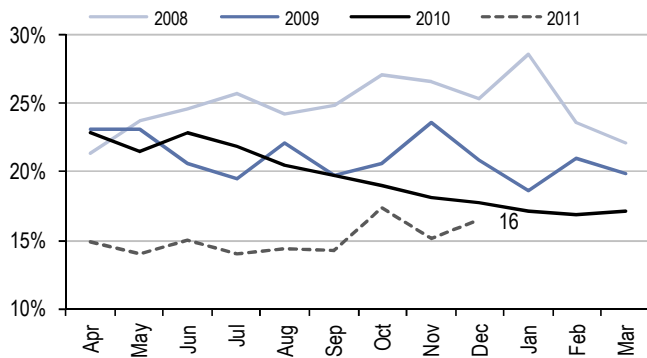
Deposit growth, Currency in circulation growth in %



Source: RBI, Bloomberg.

Exhibit 16: Recent data shows that deposit growth has picked up...

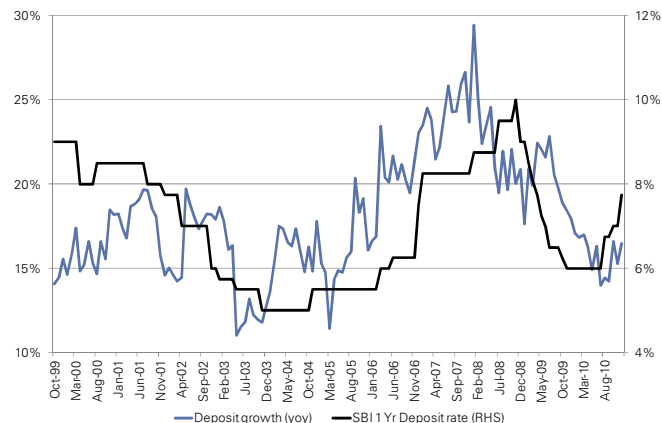
Deposit growth yoy in %



Source: RBI

Exhibit 17: ...on back of higher deposit rates. However, our ECS team expects tight liquidity scenario to persist, though ease a bit

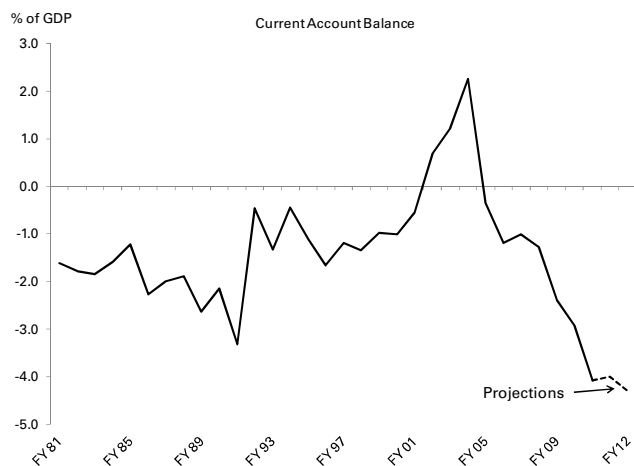
Deposit growth, SBI's 1 year deposit rate in %



Source: RBI, Bloomberg

Exhibit 18: And pressure from current account deficit,...

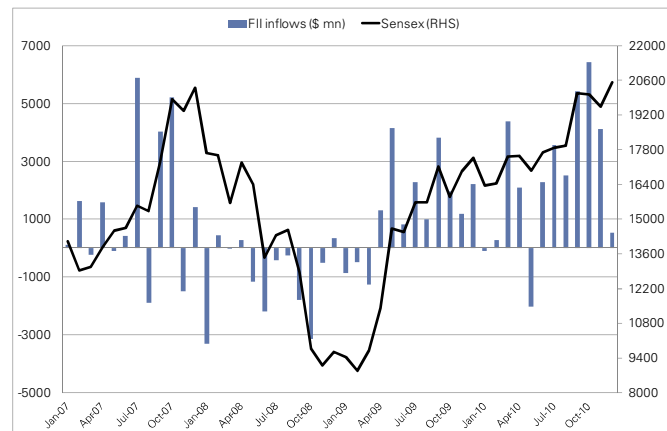
Currant account balance as % of GDP in %



Source: CEIC, GS Global ECS Research

Exhibit 19: ...and FII inflows too, may impact liquidity

FII inflows in \$ mn vs. Sensex



Source: Bloomberg, SEBI.

Banks have raised lending rates, but rise in deposit cost has been sharper

Exhibit 20: Banks have raised PLR by 100-150 bps since Dec 2009...

Change in PLR (% and bps)

PLR (%)	SBI	BOB	BOI	PNB	UNBK	HDFCB	ICBK
Dec-09	11.75	12.00	12.00	11.00	11.75	15.75	15.75
Aug-10	12.25	12.50	12.50	11.75	12.25	15.75	16.25
Oct-10	12.50	12.50	12.50	11.75	12.25	16.25	16.25
Nov-10	12.50	12.50	12.50	11.75	12.75	16.25	16.25
Dec-10	12.75	13.25	13.25	12.50	13.25	16.50	16.75
YTD change (bps)	100	125	125	150	150	75	100

Source: Company data. Goldman Sachs Research.

Exhibit 21: ...and base rate by 50-100 bps

Change in base rate (% and bps)

Base rate (%)	Initial	Oct-10	Dec-10	Jan-11	Change since Oct '2010 (bps)
SBI	7.5	7.6	7.6	8.0	0.4
Union	8.0	8.5	9.0	9.0	0.5
BOB	8.0	8.5	9.0	9.0	0.5
BOI	8.0	8.5	9.0	9.0	0.5
PNB	8.0	8.5	9.0	9.0	0.5
HDFC Bank	7.3	7.5	7.5	7.5	-
ICICI Bank	7.5	7.8	7.8	8.3	0.5
Axis Bank	7.5	7.8	8.0	8.0	0.3
IndusInd	7.0	7.0	7.8	7.8	0.8
Kotak	7.3	7.5	8.0	8.0	0.5
Yes bank	7.0	7.0	8.0	8.0	1.0

Source: Company data, Goldman Sachs Research.

Exhibit 22: But deposit rates have risen sharply by 150-225 bps on key maturities and peak deposit rates (not same maturity, but where most depositors invest funds) are now closer to bulk rates

Change in deposit rates

Current Deposit rates	BOB	PNB	SBI	Axis	ICICI	HDFCB	Union	BOI	Indus	Yes	Kotak
7 days to 14 days	2.50%	3.00%	4.00%		3.75%	3.00%	2.50%	2.50%	3.00%	3.50%	
15 days to 45 days	3.00%	4.00%	5.00%	2.5-3.0%	3.75%	3.25-4.0%	3.50%	2.75-3.0%	4.00%	3.75%-4.0%	4-4.5%
46 days to 90 days	4.00%	5.00%	5.50%	3.5-4.0%	3.75-4.25%	4-5%	4.00%	4.00%	5.5-5.75%	5.00%	5.00%
91 days to 180 days	6.25%	6.00%	6.00%	5.75-6%	5.75%	5.50%	6.00%	6.25%	6.25%	6.25%	6.25%
181 days & above but less than 1 year	7-7.5%	7%-7.50%	7.75%	7-8%	7.00%	6-7.75%	7-7.25%	7.25-7.5%	7.75-8.5%	7.25-7.5%	7.5-7.75%
1 year & above but less than 2 years	8.25-8.6%	8.0%-8.25%	8.25-9%	8.75-9%	8-9%	8-8.25%	8-8.1%	8.50%	9-9.5%	7.75-8.5%	8.25-9.1%
2 years and above upto 749 days	8.50%	8.25%	8.75%	8.25%	8.25%	8.25-9%	8-8.6%	8.25%	8.75-9.5%	8.00%	8.75%
Above 750 days but less than 3 years	8.50%	8.25%-8.5%	8.75-9%	8.25%	8.25-9%	8.25%	8.00%	8.25%	8.75-9.5%	8-8.5%	8.75%
3 years and above but less than 5 years	8.25%	8.25%	8.25%	7.00%	8.50%	8.25%	7.50%	7.75-8.25%	8.75%	8.25%	8.75%
5 years and above but less than 8 years	8.25%	8.50%	8.50%	7.00%	8.50%	8.25%	7.50%	7.00%	8.75%	8.25%	8.75%
8 years and above up to 10 years	8.25%	8.50%	8.75%	7.00%	8.75%	8.25%	7.50%	7.00%	8.75%	8.25%	8.75%

Source: Bank websites.

Exhibit 23: SBI's peak deposit rate has increased 150 bps, whereas deposit rate for 1-2 year maturity has risen by 275 bps from the low of November 2009

Trends in SBI offered deposit rates in % over the last 12 months

Tenure	Nov-09	Aug-10	Oct-10	Dec-10	Jan-11
15-30 days	2.50	4.00	4.00	4.50	5.00
91-120 days	4.75	4.75	5.50	6.00	6.00
181-270 days	5.25	6.00	6.00	7.25	7.75
1 - 2 years	6-6.25	6.75-7.25	7.25-7.5	7.75-8.5	8.75-9
2 - 3 years	6.50	7-7.25	7.5-7.75	8.25-8.5	8.75-9
3 - 5 years	6.50	7.25	7.25	8.25	8.25
5 - 8 years	7.25	7.50	7.50	8.50	8.50
8 - 10 years	7.50	7.75	7.75	8.75	8.75

Source: Company data.

Exhibit 24: Bulk borrowing cost may correct in short term, a seasonal factor, but rise again
G Sec yields, CD and CP rates for various maturities in %

Treasury/Gsec yields on shorter end have moved up

%	Mar-07	Mar-08	Mar-09	Dec-09	Mar-10	Jun-10	Sep-10	Dec-10	Jan-11	Change in 2010 (bps)	Change in 2011 (bps)
1 yr G Sec	7.63	7.56	5.16	4.39	5.15	5.42	6.51	7.29	7.42	290	13
3 yr G Sec	7.98	7.63	4.99	6.44	6.74	6.76	7.19	7.48	7.65	104	17
5 yr G Sec	7.93	7.77	6.76	7.26	7.53	7.37	7.68	7.86	7.88	61	2
10 yr G Sec	7.98	7.96	7.01	7.59	7.83	7.55	7.95	7.92	8.18	33	26

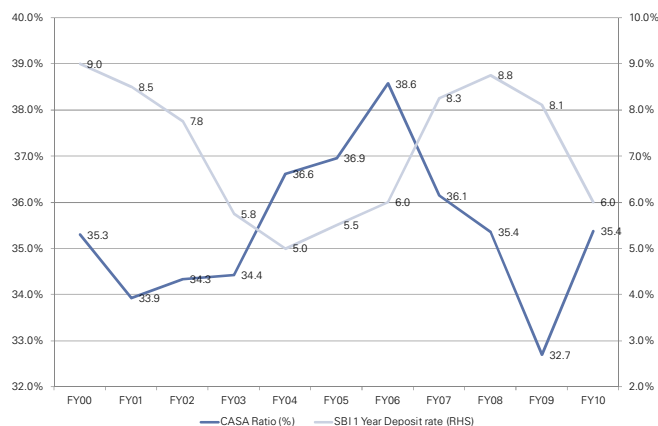
Even CP/CD rates have also moved-up sharply

%	Mar-07	Mar-08	Mar-09	Dec-09	Mar-10	Jun-10	Sep-10	Dec-10	Jan-11	Change in 2010 (bps)	Change in 2011 (bps)
CD 3M	11.45	9.55	6.20	3.85	4.95	6.50	7.13	9.00	8.85	515	-15
CD 6M	11.15	9.45	6.45	4.87	5.20	6.65	7.61	9.38	9.20	451	-18
CD 12M	10.25	9.35	7.45	5.85	6.05	6.90	8.07	9.48	9.55	363	7
CP 3M	11.75	10.03	9.20	4.25	5.75	6.88	7.53	9.48	9.25	523	-23
CP 6M	11.19	9.50	9.50	5.50	6.00	6.98	7.99	9.73	9.55	423	-17
CP 12M	10.90	9.70	10.00	6.55	6.75	7.37	8.48	9.95	9.88	340	-7

Source: Bloomberg, Goldman Sachs Research

Exhibit 25: Risk of CASA ratio coming down has increased as deposit rates rise

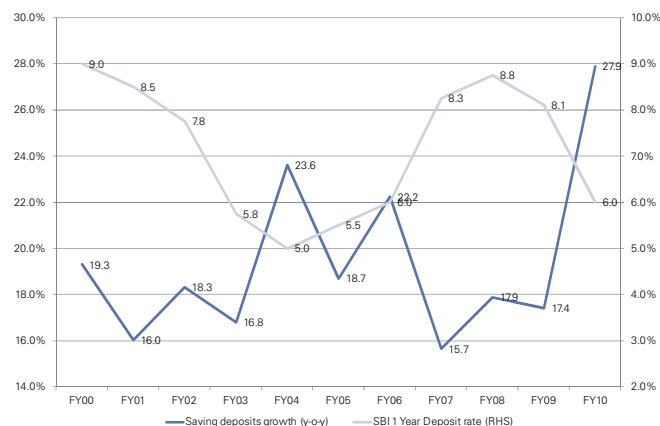
CASA ratio (%) vs. SBI's 1-year deposit rate (%)



Source: IBA, RBI, Bloomberg.

Exhibit 26: SA deposits will likely move to term, given the sharp increase in the deposit rate over the last two months

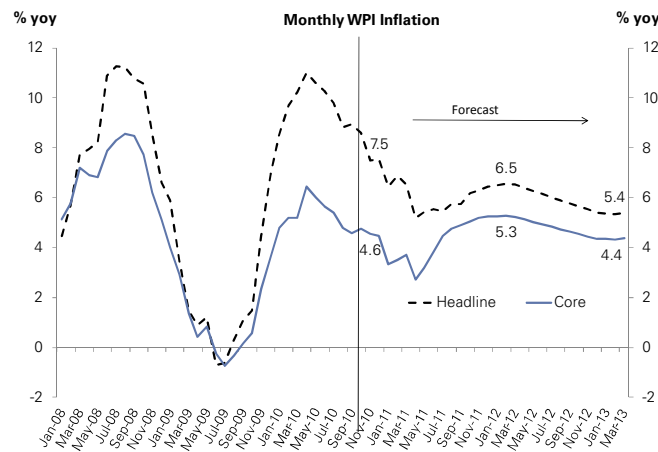
Saving deposits yoy growth vs. SBI's 1-yr deposit rate (%)



Source: IBA, RBI, Bloomberg.

Exhibit 27: Headline inflation and core prices remain high though coming off yoy from a high base. Our ECS team's FY12E head-line inflation is 6.5%, core inflation 5.2%

WPI and core inflation (%) – Jan '08 – FY13E

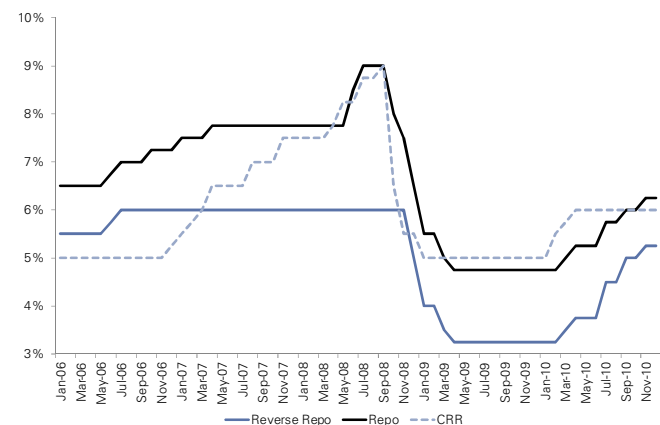


Note: Manufacturing inflation is used as a proxy for core inflation

Source: Ministry of Commerce & Industry, CEIC, ECS Research estimates.

Exhibit 28: RBI may thus continue to raise rates; our ECS team expects another 100 bps in 2011

Reverse repo, Repo and CRR in %



Source: Bloomberg

Exhibit 29: Margins for banks impacted with a lag as rates rise, as was seen in the last cycle

Trend in margins (Q2FY07-Q4FY11E) and FY10-FY13E, SBI PLR and 1 Year deposit rate in %

NIMs (%)	Q2FY07	Q4FY07	Q2FY08	Q4FY08	Q2FY09	Q4FY09	Q2FY10	Q4FY10	Q2FY11	Q4FY11E	FY10	FY11E	FY12E	FY13E	Change over Q407-Q409	Change over Q210-Q411E
SBI PLR	11.00	11.50	12.25	12.25	13.75	12.25	11.75	11.75	12.25	12.75*					275^	100
SBI 1 Year Deposit rate	6.25	7.50	8.25	8.75	9.50	8.10	6.50	6.00	6.75	7.75*					325^	125
Public Banks																
Bank of Baroda	3.09	3.33	2.80	2.54	2.54	2.82	2.40	2.71	2.73	2.70	2.41	2.65	2.58	2.70	-51	30
Bank of India	3.00	2.99	2.67	2.93	3.01	2.79	2.48	2.43	2.58	2.58	2.38	2.51	2.70	2.80	-21	10
Punjab National Bank	3.65	3.16	3.21	3.20	3.44	3.07	3.20	3.59	3.84	3.73	3.23	3.68	3.63	3.58	-9	54
State Bank of India	3.20	3.31	2.66	2.97	3.03	2.29	2.34	2.73	3.10	3.01	2.44	2.97	3.03	2.94	-102	67
Union Bank	2.69	3.49	2.59	2.65	3.09	2.45	2.10	3.07	3.11	2.82	2.43	2.80	2.80	2.85	-104	72
Private Banks																
Axis Bank	2.72	2.81	3.02	3.44	3.20	3.01	3.25	3.64	3.43	3.31	3.14	3.22	3.37	3.28	20	7
HDFC Bank	4.04	4.89	4.28	5.17	4.60	4.24	4.30	4.58	4.33	4.45	4.31	4.45	4.59	4.51	-66	15
ICICI Bank	2.12	2.17	2.14	2.34	2.46	2.55	2.48	2.52	2.60	2.64	2.45	2.57	2.91	2.96	38	16
IndusInd Bank	1.47	1.80	1.73	1.80	1.84	2.31	3.07	3.37	3.64	3.68	2.99	3.60	3.81	4.06	51	61
Kotak Mahindra Bank	4.74	4.57	5.05	6.08	5.93	6.21	5.57	5.83	5.15	5.21	5.80	5.30	5.22	5.20	164	-36
Yes Bank	3.09	2.00	2.68	2.79	2.82	3.04	3.05	3.04	2.77	2.59	2.79	2.72	2.75	2.84	103	-45
NBFCs																
HDFC	2.54	3.52	3.40	4.44	3.32	3.76	2.94	4.11	3.44	3.71	3.25	3.34	3.40	3.45	24	77
IDFC			3.92	2.94	3.82	3.69	4.18	4.93	3.52	4.44	4.47	4.54	4.15	3.79	-23	26
LIC HF			3.30	3.01	2.86	2.99	2.81	3.25	2.80	2.71	2.65	2.69	2.37	2.32	-30	-10
Shriram Transport Finance	9.14	9.05	9.71	10.14	9.81	9.65	9.99	12.11	13.46	13.94	11.54	13.88	13.65	13.90	60	395

* Margins are calculated as net interest income/ average interest earning assets, and are thus different from reported ratios. SBI's PLR and 1 year deposit rates for Q4FY11E are the latest available data.

^ Change in SBI PLR, deposit rates is from Q207 to Q209

Source: Company data, Goldman Sachs Research Estimates.

Exhibit 30: Profits are quite sensitive to a decrease in NIM.

EPS Sensitivity to a 20,30, 50bps decrease in NIM

	Current Estimates				20bps decrease in NIM				30bps decrease in NIM				50bps decrease in NIM			
	NIM (%)		EPS (Rs)		EPS (Rs)		EPS change (%)		EPS (Rs)		EPS change (%)		EPS (Rs)		EPS change (%)	
	FY11E	FY12E	FY11E	FY12E	FY11E	FY12E	FY11E	FY12E	FY11E	FY12E	FY11E	FY12E	FY11E	FY12E	FY11E	FY12E
Public banks																
Bank of Baroda	2.65	2.58	105.91	113.99	94.02	99.44	-11.2%	-12.8%	88.08	92.17	-16.8%	-19.1%	76.20	77.63	-28.0%	-31.9%
Bank of India	2.51	2.70	56.41	70.62	48.49	61.22	-14.0%	-13.3%	44.53	56.52	-21.1%	-20.0%	36.60	47.12	-35.1%	-33.3%
Punjab National Bank	3.68	3.63	146.71	182.38	133.17	166.18	-9.2%	-8.9%	126.40	158.07	-13.8%	-13.3%	112.86	141.87	-23.1%	-22.2%
State Bank of India	2.97	3.03	177.00	234.21	154.66	208.03	-12.6%	-11.2%	143.49	194.94	-18.9%	-16.8%	121.15	168.76	-31.6%	-27.9%
Union Bank	2.80	2.80	42.07	56.01	36.20	48.83	-14.0%	-12.8%	33.26	45.24	-20.9%	-19.2%	27.39	38.07	-34.9%	-32.0%
Private Banks																
Axis Bank	3.22	3.37	74.29	92.85	68.06	84.98	-8.4%	-8.5%	64.95	81.04	-12.6%	-12.7%	58.72	73.17	-21.0%	-21.2%
HDFC Bank	4.45	4.59	83.24	107.51	76.41	99.20	-8.2%	-7.7%	73.00	95.04	-12.3%	-11.6%	66.18	86.73	-20.5%	-19.3%
ICICI Bank	2.57	2.91	44.94	57.25	40.34	52.19	-10.2%	-8.8%	38.04	49.67	-15.4%	-13.2%	33.44	44.61	-25.6%	-22.1%
IndusInd Bank	3.60	3.81	12.31	15.10	11.22	13.72	-8.8%	-9.2%	10.68	13.02	-13.3%	-13.8%	9.59	11.64	-22.1%	-23.0%
Yes Bank	2.72	2.75	20.46	26.04	18.73	23.59	-8.5%	-9.4%	17.86	22.36	-12.7%	-14.1%	16.12	19.91	-21.2%	-23.5%
NBFCs																
HDFC	3.34	3.40	23.45	27.72	22.35	26.36	-4.7%	-4.9%	21.79	25.68	-7.1%	-7.4%	20.69	24.32	-11.8%	-12.3%
IDFC	4.54	4.15	9.39	11.68	9.00	11.10	-4.2%	-4.9%	8.80	10.82	-6.3%	-7.4%	8.41	10.24	-10.5%	-12.3%
LIC HF	2.69	2.37	22.20	21.59	19.35	18.03	-12.8%	-16.5%	17.92	16.24	-19.2%	-24.8%	15.08	12.68	-32.1%	-41.3%
Shriram Transport	13.88	13.65	55.99	66.16	54.44	64.32	-2.8%	-2.8%	53.66	63.41	-4.2%	-4.2%	52.11	61.57	-6.9%	-7.0%

Source: Goldman Sachs Research estimates.

Exhibit 31: Impact of deposit rate hikes manifests with a lag, banking sector earnings are likely to see downgrade

Profitability metrics, GS vs. Consensus

	Reuters ticker	Rating	GS Net profit (Rs mn)			GS EPS (Rs.)			GS EPS growth (%)			Consensus PAT (Rs mn)		GS vs. Consensus	
			FY 2011E	FY 2012E	FY 2013E	FY 2011E	FY 2012E	FY 2013E	FY 2011E	FY 2012E	FY 2013E	FY 2011E	FY 2012E	FY 2011E	FY 2012E
Public banks															
BOB	BOB.BO	Buy	38,712	41,666	51,283	105.91	113.99	140.30	27%	8%	23%	37,872	46,205	2%	-10%
BOI	BOI.BO	Sell	29,669	37,140	43,672	56.41	70.62	83.04	70%	25%	18%	26,633	33,869	11%	10%
PNB	PNBK.BO	Buy	46,259	57,504	64,281	146.71	182.38	203.87	18%	24%	12%	45,299	56,246	2%	2%
SBI	SBI.BO	Sell	112,398	148,725	168,236	177.00	234.21	264.94	23%	32%	13%	114,006	149,773	-1%	-1%
Union Bank	UNBK.BO	Neutral	21,249	28,293	33,767	42.07	56.01	66.85	2%	33%	19%	22,439	28,965	-5%	-2%
Private banks															
Axis	AXBK.BO	Neutral	33,327	38,961	45,463	81.30	95.05	110.91	24%	17%	17%	31,743	40,460	5%	-4%
HDFCB	HDBK.BO	Neutral	38,505	49,733	62,691	83.24	107.51	135.52	22%	29%	26%	38,905	50,588	-1%	-2%
ICICI	ICBK.BO	Buy	51,717	65,886	84,487	44.94	57.25	73.41	24%	27%	28%	50,804	64,819	2%	2%
IndusInd Bank	INBK.BO	Buy*	5,573	6,564	8,425	11.98	14.12	18.12	41%	18%	28%	5,358	7,277	4%	-10%
KMB	KTKM.BO	Neutral	7,944	9,389	11,982	10.83	12.80	16.34	34%	18%	28%	7,969	10,702	0%	-12%
Yes Bank	YESB.BO	Neutral	7,065	8,990	10,730	20.46	26.04	31.08	30%	27%	19%	7,065	8,990	0%	0%
NBFC's															
HDFC	HDFC.BO	Sell	34,342	40,597	48,888	23.45	27.72	33.39	19%	18%	20%	33,479	39,943	3%	2%
IDFC	IDFC.BO	Sell	14,152	17,602	21,194	9.39	11.68	14.06	15%	24%	20%	13,398	17,071	6%	3%
LIC Housing Finance	LICH.BO	Sell	10,543	10,255	12,807	22.20	21.59	26.96	51%	-3%	25%	9,359	10,661	13%	-4%
Shriram Transport	SRTR.BO	Neutral	12,629	14,924	18,220	55.99	66.16	80.78	36%	18%	22%	12,239	15,523	3%	-4%

Ahead of consensus by 5% or more

Below consensus by 5% or more

* This stock is on our regional Conviction List

Source: Bloomberg, Goldman Sachs Research estimates.

Reg AC

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