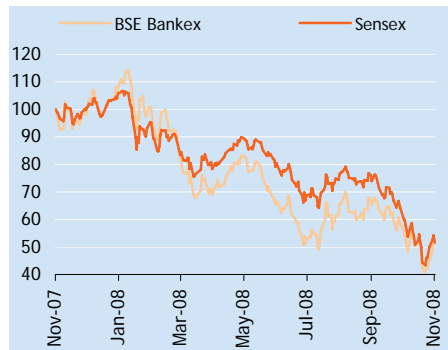


November 6, 2008

**BSE Bankex Performance v/s Sensex**



Source: Bloomberg

**Absolute Stock Performance**

(%)	1M	6M	12M
Sensex	(19.2)	(42.1)	(48.3)
BSE Bankex	(12.4)	(38.3)	(48.8)
Axis Bank	(14.1)	(36.2)	(38.2)
Bank of Baroda	(5.7)	(12.5)	(26.9)
Bank of India	(3.8)	(23.8)	(27.8)
HDFC Bank	(14.0)	(28.5)	(36.0)
ICICI Bank	(10.5)	(51.6)	(64.5)
PNB	0.6	(7.3)	(11.6)
SBI	(14.0)	(28.4)	(39.7)
UBI	1.8	(12.2)	(20.1)

(Prices as on November 5, 2008)

**Key Financials**

	CMP (Rs)	Rating	Price / Earnings (x)			Price / Adj. Book (x)		
			FY08	FY09E	FY10E	FY08	FY09E	FY10E
Axis Bank	604	BUY	20.2	15.0	12.2	2.5	2.3	2.0
Bank of Baroda	280	Accumulate	7.1	6.2	5.2	1.1	1.0	0.8
Bank of India	276	BUY	7.2	5.6	4.6	1.8	1.4	1.1
HDFC Bank	1,095	Accumulate	26.4	19.5	14.7	3.7	3.0	2.2
ICICI Bank	452	BUY	12.1	12.8	9.8	1.1	1.1	1.0
Punjab National Bank	492	Accumulate	7.6	6.2	5.3	1.5	1.3	1.1
State Bank of India	1,274	BUY	12.0	10.4	9.1	1.8	1.6	1.4
Union Bank of India	148	Accumulate	5.4	5.1	4.5	1.4	1.2	1.0

**Banking Sector**

**Delivered above estimates on most parameters**

- **Net interest income (NII) growth higher than expected:** NII for the companies under coverage grew by 39% YoY and 12% QoQ. This was mainly led by strong advances growth of 31% YoY and 8% on QoQ basis. Hike in PLR by most banks by around 100 bps and incremental CD ratio of over 100%, were the key triggers. NII for the quarter was 9% higher than our estimates for the banks under coverage.
- **Fee income remains robust:** Fee income growth has also been strong at 39% YoY and 4% on QoQ basis led by both PSU and private banks. Key outperformers were Axis, HDFC and BOI delivering ~15% QoQ growth.
- **Operating profit growth above estimates:** Banks have been able to deliver 44% YoY and 15% QoQ growth at the operating level due to robust NII, fee incomes and through controlled costs. The growth was mainly led by the PSU banks, registering 49% YoY growth as compared to 35% YoY growth in the private banks. Operating profit for the quarter was 15% higher than our estimates for banks under coverage.
- **Asset quality:** The asset quality has been maintained on QoQ basis, except for ICICI and SBI, as all other banks have made aggressive NPA provisions to keep the net NPA levels under check.
- **Positive surprise in PAT led by PSU banks:** BOI, PNB and SBI surprised positively on the PAT front outperforming the PAT estimates by 21%, 13% and 12%, respectively. Axis bank surprised positively, beating estimates by 11% amongst private banks. Strong NII growth was the key lever among all the banks delivering outperformance.
- **Valuation:** YTD Bankex is down 26.3% as compared to fall in Sensex by 35.3%. RBI's recent measures will help liquidity in the system. Banks now have better pricing power and the NPL cycle will get delayed with higher advances growth. All these will be positive for the sector in the near term. Maintain BUY on SBI, BOI, Axis and ICICI Bank.

## Highlights

### Q2FY09 results have surprised positively

Due to a reduction in foreign-based borrowing on account of the current credit scenario, we witnessed Indian banks substituting the foreign credit demand. The credit off-take increased substantially during the quarter, rising 29.3% on YoY basis as per the data reported by RBI on October 10, 2008.

Also, all the banks have increased their PLR during the quarter by ~100bps resulting in improved margins for all banks.

The banks under coverage beat our NII estimate by 8.8%, PAT estimates by 7.6% and operating profit by 14.9%.

#### Q2FY09 Results

(Rs m)

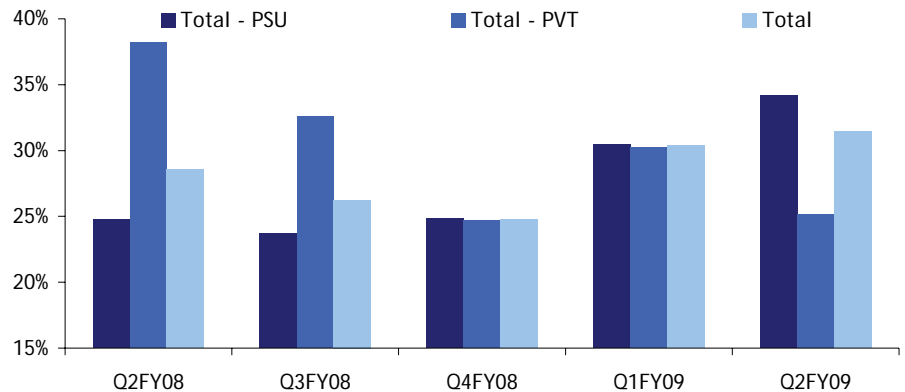
	NII			Operating Profit			PAT		
	Actual	PL Est.	Variation (%)	Actual	PL Est.	Variation (%)	Actual	PL Est.	Variation (%)
Axis Bank	9,135	8,237	10.9	8,745	6,906	26.6	4,029	3,632	10.9
Bank of Baroda	11,338	10,859	4.4	8,456	8,286	2.1	3,953	4,104	(3.7)
Bank of India	13,631	11,616	17.4	12,147	10,077	20.5	7,629	6,320	20.7
HDFC Bank	18,665	18,531	0.7	11,229	11,193	0.3	5,280	5,185	1.8
ICICI Bank	21,476	21,359	0.5	22,849	20,548	11.2	10,142	10,343	(1.9)
PNB	17,122	14,970	14.4	13,678	10,775	26.9	7,071	6,282	12.6
SBI	54,554	49,033	11.3	41,936	35,406	18.4	22,601	20,196	11.9
Union Bank of India	9,753	8,448	15.4	6,997	6,496	7.7	3,614	3,716	(2.7)
<b>Total</b>	<b>155,673</b>	<b>143,052</b>	<b>8.8</b>	<b>126,038</b>	<b>109,686</b>	<b>14.9</b>	<b>64,319</b>	<b>59,778</b>	<b>7.6</b>

Advances growth was 31% YoY and 8% QoQ for banks under coverage.

Amongst the private banks, Axis bank reported 54% YoY and 13% QoQ growth.

PSU banks reported 34% YoY and 11% QoQ advances growth. For the PSUs PNB, SBI and UBI were the banks growing advances above the 11% QoQ PSU average

#### Loan growth trend



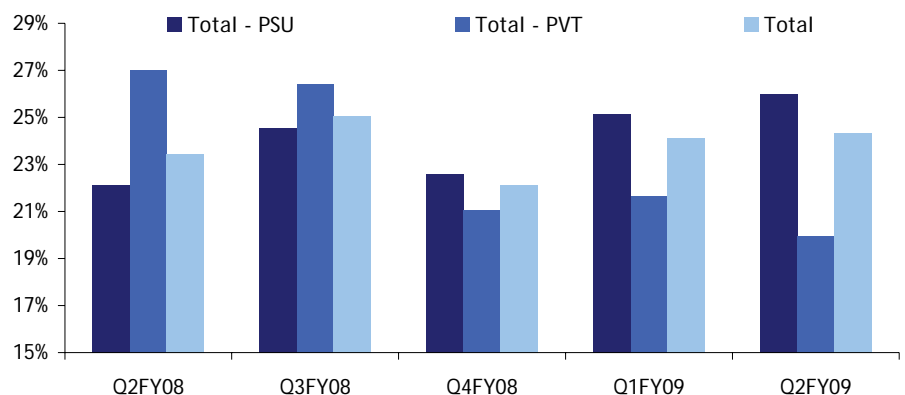
Source: Company Data, PL Research

Deposits growth was 24% YoY and 6% QoQ for banks under coverage.

Axis bank was again the top performer reporting 60% YoY and 16% QoQ growth, as compared to a de-growth for ICICI bank by 2% YoY and 5% QoQ.

PSU banks reported 26% YoY and 8% QoQ growth. For the PSUs PNB, SBI and UBI showed strong deposit mobilization during the quarter.

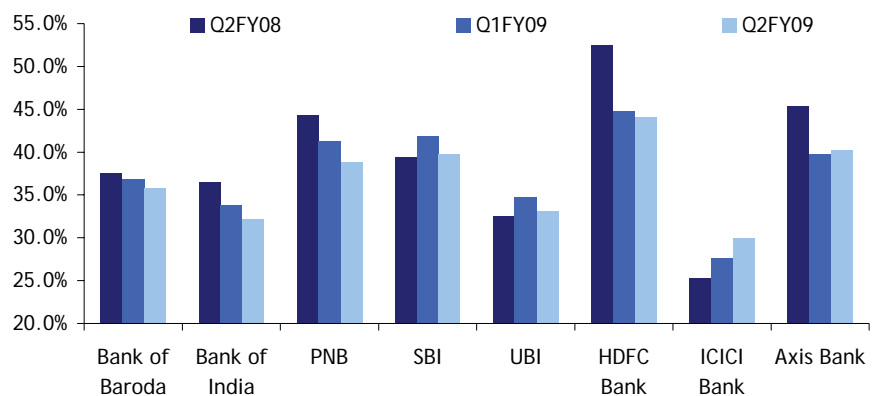
#### Deposits growth trend



Source: Company Data, PL Research

Across the board, all banks have lost CASA share as % of deposits. However, ICICI bank has bucked the trend. This is mainly on account of substituting high cost bulk deposits as loan demand is low and branch expansion helping to improve CASA.

#### CASA margins trend

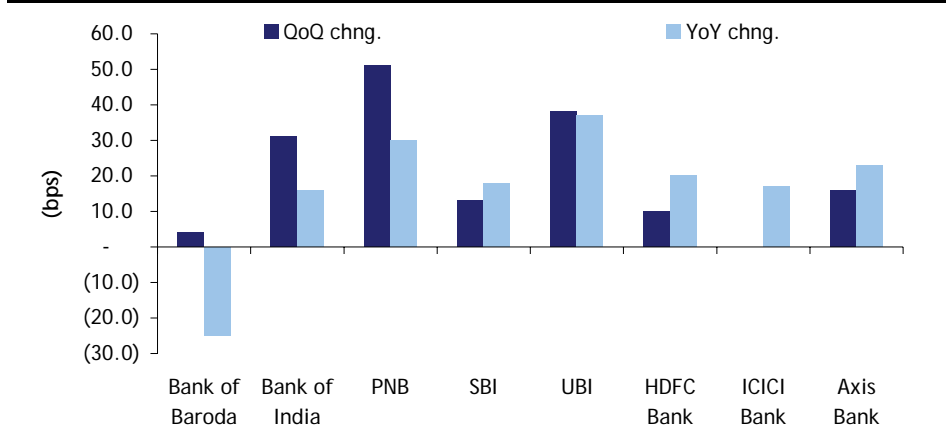


Source: Company Data, PL Research

Incremental CD ratio and PLR hikes of roughly 100bps, has helped to improve margins on QoQ and YoY basis.

The only exception is BoB, whose margins have fallen on YoY basis.

**NIM margins change**

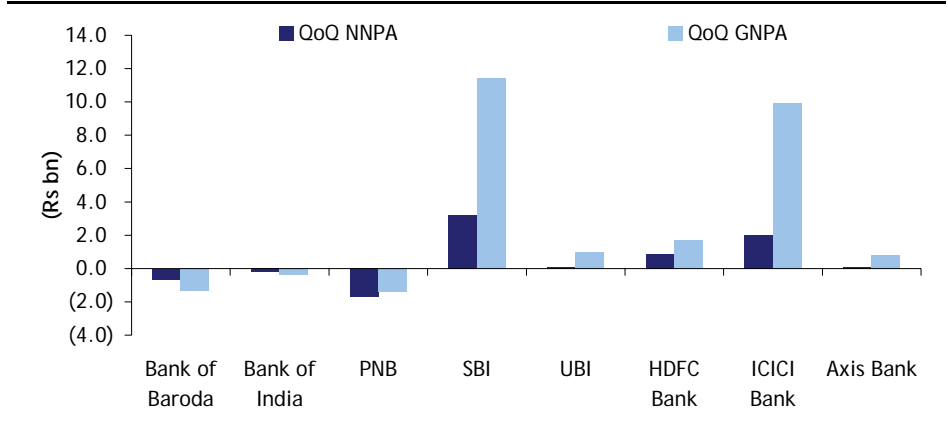


Source: Company Data, PL Research

SBI and ICICI Bank have witnessed asset quality deterioration on both GNPA and NNPA levels.

All other banks have made aggressive NPA provisions to keep the net NPA levels in check.

**GNPA & NNPA QoQ change**

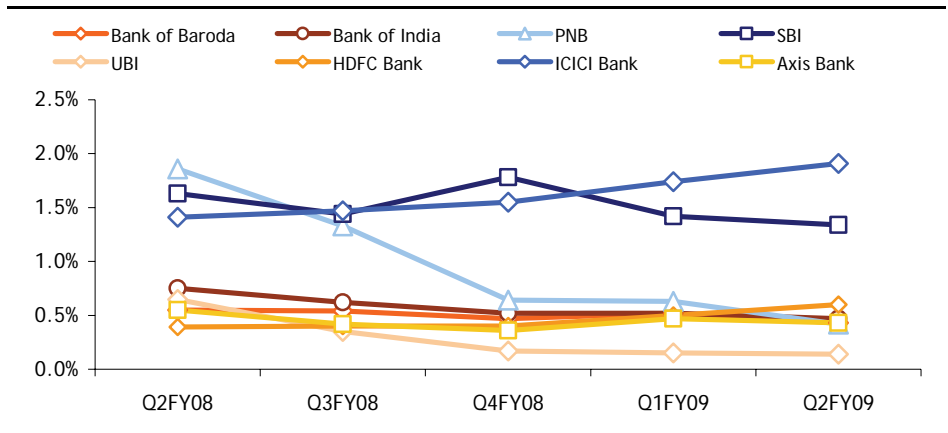


Source: Company Data, PL Research

NNPA as % of assets have also remained stable for most banks, except for ICICI Bank.

HDFC bank has seen a marginal uptick in NNPA as % of assets. However, it is within manageable levels.

**Net NPA trend**



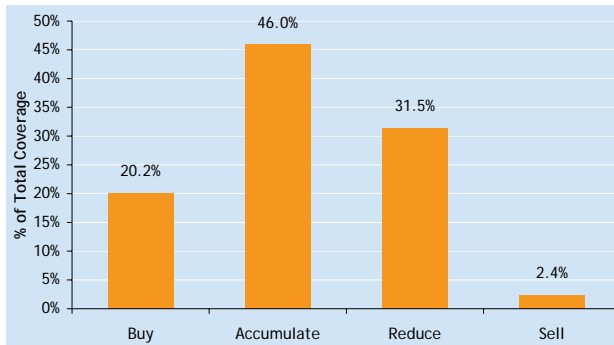
Source: Company Data, PL Research

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#### Rating Distribution of Research Coverage



#### PL's Recommendation Nomenclature

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

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