

Sensex	16564
Nifty	4838

Banking

Positive

Sector summary:

The rise in interest rates has moderated credit growth for the sector to ~23% during the first half of Q2FY08. But deposit growth has gained momentum with a YoY growth of ~25% during the same period. The onset of the second quarter has shown some relief in the cost of term deposits. The moderation in credit growth and liquidity improvement in the system has enabled banks to cut their peak interest rates on deposits. The cut in the deposit rate was not passed on due to increase in CRR requirement. The margins during Q2FY08 are expected to remain stable. We expect a cut in lending rates in some of the products as the banks enter the busy season.

Key highlights of the results:

- The NII growth during Q2FY08 is expected to remain in line with the credit growth. We expect the NII growth for the sector as a whole to be around 24%-26% YoY.
- Margins are expected to remain stable during Q2FY08.
- The increasing fee and commission income will improve operating profit. Operating profit for the sector is expected to grow by ~30% during Q2FY08.
- Higher provisions and contingencies will moderate PAT growth to ~22% YoY.

Our top picks are:

- IOB
- Federal Bank
- South Indian Bank
- Karur Vysya Bank

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Valuation summary

Company	Price (Rs)	Rating	Target Price (Rs)	Mkt Cap (Rs bn)	NII		Operating Profit		Adj PAT		Adj EPS		FY08E		FY09E	
					Q2FY08E (Rs mn)	YoY (%)	Q2FY08E (Rs mn)	YoY (%)	Q2FY08E (Rs mn)	YoY (%)	Q2FY08E (Rs)	YoY (%)	ABV (Rs)	P/ABV (x)	ABV (Rs)	P/ABV (x)
Private Bnk																
ICICI Bnk	965	A	1,018	1,073	21,180	34.3	19,173	40.1	8,668	14.8	7.8	-8.2	398.2	2.4	420.2	2.3
HDFC Bnk	1,323	A	1,380	454	10,763	27.3	7,837	29.2	3,431	30.5	9.7	15.5	356.4	3.7	387.9	3.4
Axis	710	A	795	253	5,512	51.0	3,774	37.5	1,891	33.2	5.3	3.9	229.4	3.1	255.6	2.8
CBoP	42	A	45	71	1,636	21.1	1,007	61.7	376	20.7	0.2	4.8	10.3	4.1	11.2	3.8
Yes	187	A	201	52	649	58.3	676	93.4	394	83.4	1.4	75.0	45.6	3.7	52.2	3.2
Federal	352	B	416	30	2,054	22.7	1,766	27.0	845	21.7	9.9	22.2	204.7	1.6	253.7	1.3
Karur Vysya	337	B	395	18	1,035	23.9	796	0.4	489	14.8	9.1	5.8	219.2	1.5	250.3	1.3
South Indian	160	B	181	11	1,009	19.6	620	-12.8	306	63.8	4.3	63.8	117.7	1.2	133.6	1.0
Sub total					43,838	33.4	35,649	36.6	16,400	23.3						
Public Bnk																
SBI	1,800	A	1,562	947	47,832	22.7	33,405	35.1	14,188	19.8	27	19.8	791.5	2.3	947.9	1.9
PNB	513	B	604	162	16,572	21.6	10,208	14.9	5,569	10.3	17.7	10.3	343.4	1.5	403	1.3
BOI	259	A	279	126	10,911	20.1	6,479	35.2	2,783	31.2	5.7	31.2	139.1	1.9	178.3	1.5
BOB	313	B	336	114	11,883	33.4	7,341	19.2	3,565	23.6	9.8	23.6	250.9	1.2	285.6	1.1
IOB	140	B	156	76	7,275	18.9	4,770	15.0	3,044	21.8	5.6	21.8	87	1.6	111.6	1.2
Sub total					94,473	23.3	62,203	28.4	29,149	19.7						
Total					138,311	26.5	97,852	31.4	45,549	21.0						

Source: Religare Institutional Equity Research, Bloomberg (A: Accumulate, B: Buy)

Key data

Sector	Banking
Market Cap	Rs1,037bn/US\$25.9bn
52 Wk H/L (Rs)	1,009.9/646.5
Avg. daily vol. (6 month)	495,331

BSE Code	532174
NSE Code	ICICIBANK
Bloomberg	ICICIBC IN
Reuters	ICBK.BO

Sensex	16,564
Nifty	4,838

Shareholding pattern (%)

	31-Mar-07	30-Jun-07
FII's NRI, ADR/GDR	71.6	70.9
MFs and institutions	16.4	16.6
Promoters	0.0	0.0
Others	12.1	12.6

Absolute returns (%)

	1 mth	3 mth	12 mth
ICICI Bank	16.2	1.6	45.4
Sensex	18.4	14.2	35.0
BSE Bank	19.3	11.6	52.4

ICICI Bank

Accumulate
Current Price: Rs965
Target price: Rs1,018
Quarterly Performance
(Rs mn)

	FY07				FY08		FY07	FY08E
	1Q	2Q	3Q	4Q	1Q	2Q		
Interest/Discount on Advances/Bills	34,372	37,902	41,655	47,034	54,492	59,701	160,963	233,595
Income on investments	13,425	14,848	15,426	16,187	19,140	18,556	59,885	74,807
Interest on balances with RBI/Others	2,590	1,945	1,165	3,395	2,029	1,745	9,094	18,596
Interest Income	50,386	54,694	58,247	66,616	75,661	80,001	229,943	326,998
Change (%)	61.7	64.3	56.9	60.6	50.2	46.3	60.7	42.2
Interest expenditure	35,634	38,924	41,159	47,869	58,519	58,821	163,585	234,982
Change (%)	66.0	72.2	70.3	72.5	64.2	51.1	70.4	43.6
Net interest income	14,753	15,770	17,088	18,747	17,143	21,180	66,358	92,016
Change (%)	52.2	47.4	31.9	36.4	16.2	34.3	40.9	38.7
Other income	10,110	13,271	17,576	18,339	17,153	16,809	59,292	74,479
Change (%)	8.1	43.1	83.2	35.0	69.7	26.7	41.8	25.6
Total income	24,863	29,041	34,664	37,087	34,295	37,989	125,650	166,495
Change (%)	30.5	45.4	53.7	35.7	37.9	30.8	41.3	32.5
Payment to & provision for employee	3,568	3,930	4,262	4,408	5,218	5,108	16,168	21,018
Other operating expenses	11,647	11,423	12,870	14,798	13,835	13,707	50,738	68,333
Total Operating expenses	15,215	15,352	17,133	19,206	19,053	18,816	66,906	89,351
Change (%)	39.7	35.0	33.8	28.5	25.2	22.6	33.8	33.5
Operating Profit	9,648	13,689	17,531	17,881	15,242	19,173	58,744	77,144
Change (%)	18.3	59.2	79.9	44.4	58.0	40.1	51.1	31.3
Provisions and w/off	2,163	4,663	6,680	8,763	5,523	8,304	22,264	29,139
Change (%)	51.4	289.3	281.5	147.3	155.4	78.1	181.2	30.9
PBT	7,486	9,025	10,852	9,117	9,720	10,869	36,480	48,005
Change (%)	11.2	21.9	35.7	3.1	29.8	20.4	17.8	31.6
Taxes	1,286	1,475	1,751	866	1,969	2,202	5,378	7,077
Change (%)	(10.0)	(7.9)	9.9	(7.9)	53.1	49.2	(3.4)	31.6
PAT	6,200	7,550	9,101	8,251	7,751	8,668	31,102	40,929
Change (%)	17.0	30.2	42.2	4.5	25.0	14.8	22.4	31.6
Equity Capital (Rs mn)	8,919	8,929	8,941	8,993	9,031	11,117	8,993	11,117
No. of Shares (mn)	892	893	894	899	903	1,112	899	1,112
EPS	7.0	8.5	10.2	9.2	8.6	7.8	34.6	36.8
Cost/Income Ratio (%)	61	53	49	52	56	50	53	54

Financial highlights

- **Net Interest Income (NII)** is expected to increase by 34.3% YoY to Rs21,180mn. NIM is expected to be 2.3% during Q2FY08.
- **Operating Profit** is expected to increase by 40.1% YoY to Rs19,173mn.
- **Provisions and contingencies** are expected to increase by 78.1% YoY to Rs8,304mn.
- **PAT** is expected to increase by 14.8% YoY to Rs8,668mn.

Other business highlights

- **Advances** are expected to increase by 29.5% YoY to Rs2,122bn.
- **Deposits** are expected to increase by 25% YoY to Rs2,369bn.

Future outlook

- Earnings growth will be driven by strong rural banking.
- International Business will be a key growth driver.
- Life insurance business will be a key value driver for the bank.

Valuations and Recommendation

At CMP of Rs965, the bank is trading at P/ABV multiple of 2.4x FY08E ABV of Rs398 and 2.3x FY09E ABV of Rs420. We maintain our **Accumulate** rating.

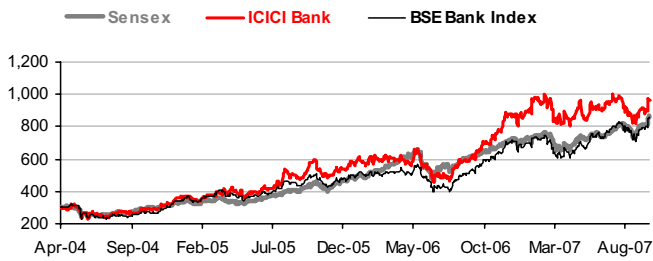
Sum of the Parts valuations

	Share holding of ICICI	Valuation	Valuation Criteria
ICICI Bank		637	Three stage DDM, Terminal growth rate of 5%, Sustainable ROE of 17%, COE of 12.1%
ICICI Securities Ltd	99.90%	40	15 times FY09E PAT of Rs2,929mn
ICICI Financial services		320	
ICICI Prudential life insurance company ltd	74.00%	280	18 times FY09E NBAP of Rs24.8bn
ICICI Lombard General insurance company ltd	74.00%	27	15 times FY09E PAT of Rs2,083mn
ICICI AMC	51.00%	13	20 times FY09E PAT of Rs1,488mn
ICICI Venture capital fund management company ltd	100.00%	7	10 times FY09E PAT of Rs765mn
Other investment		15	banking subsidiaries 15 times current PAT of Rs 318 mn, 3i Infotech at average CMP of Rs 200/share, first source at average market price of Rs 85/share
		1,018	

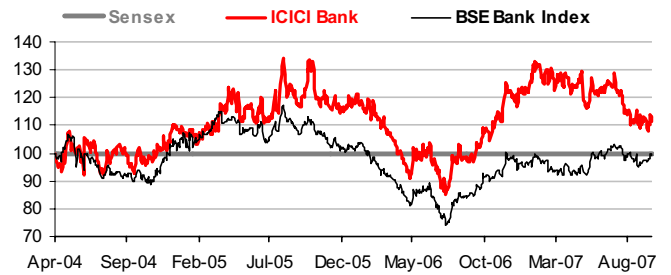
Stock performance

ICICI Bank

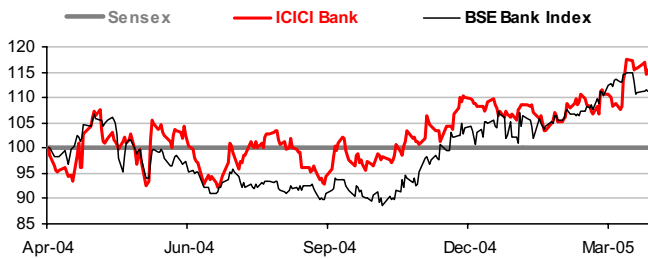
Absolute Perf. From Apr 04



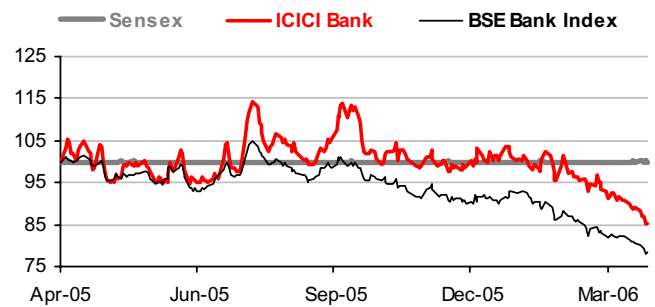
Relative Perf. From Apr 04



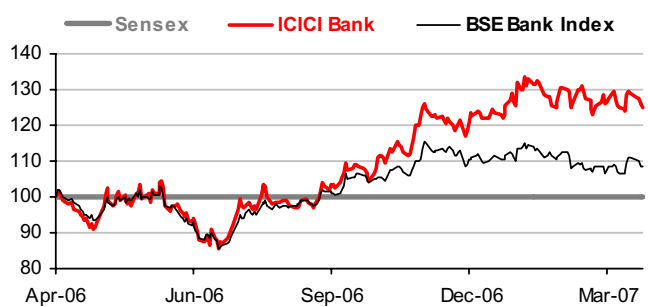
Relative Perf. From Apr 04 to Mar 05



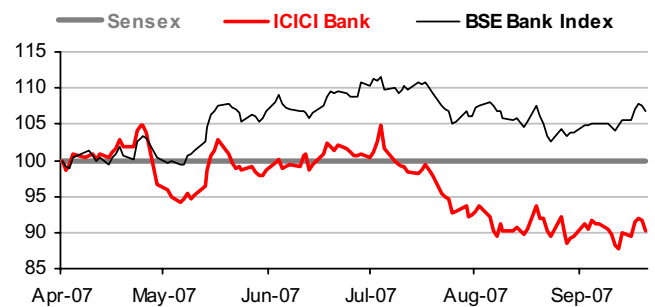
Relative Perf. From Apr 05 to Mar 06



Relative Perf. From Apr 06 to Mar 07



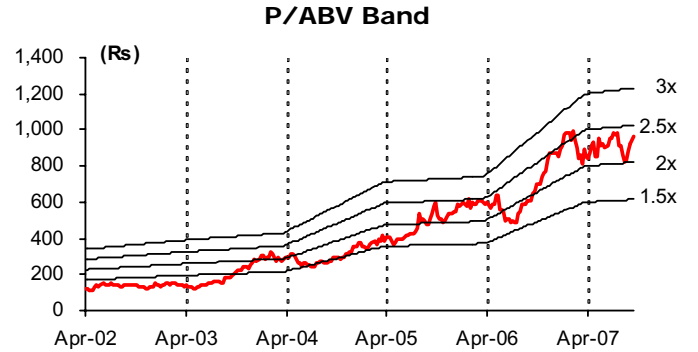
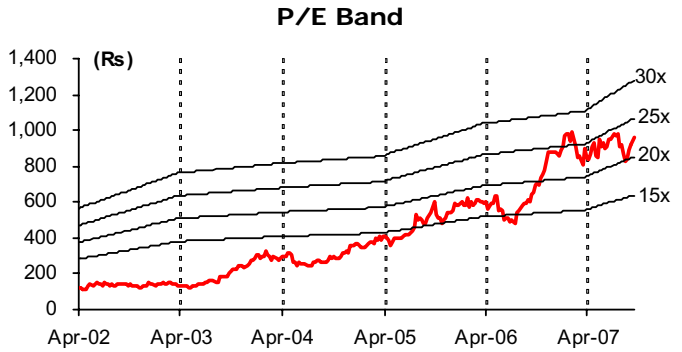
Relative Perf. From Apr 07



Source: Bloomberg, Religare Institutional Equity Research

12 month forward rolling band charts

ICICI Bank



ICICI Bank Financials

Income statement

(Rs mn)

Y/E, 31st March	FY05	FY06	FY07	FY08E	FY09E
Interest Earned	94,099	143,061	229,943	326,998	436,098
Interest on Advance	67,528	102,066	160,963	233,595	315,353
Income on investment	22,294	36,928	59,885	74,807	93,215
Inc. on invt. with RBI	4,276	4,068	9,094	18,596	27,530
Interest Expended	65,709	95,974	163,585	234,982	306,294
Interest on deposits	32,521	58,367	122,634	166,463	223,935
Int. on RBI/Int. borro.	33,188	37,608	40,951	68,519	82,358
Net Interest Income	28,390	47,087	66,358	92,016	129,804
Non-Interest Income	34,161	41,809	59,292	74,479	94,304
Core fee base Income	19,210	30,019	44,325	59,838	78,987
Total Income	62,552	88,896	125,650	166,495	224,109
Operating Expenditure	32,991	50,012	66,906	89,351	120,473
Employee Expenses	7,374	10,823	16,168	21,018	27,323
Other Expenses	25,617	39,189	50,738	68,333	93,150
Operating Profit	29,560	38,884	58,744	77,144	103,635
Prov. & Contingencies	4,288	7,918	22,260	29,139	40,503
PBT	25,272	30,966	36,484	48,005	63,133
Income Tax	5,220	5,565	5,378	7,077	9,307
Net Profit	20,052	25,400	31,106	40,929	53,826

Balance Sheet

(Rs mn)

Y/E, 31st March	FY05	FY06	FY07	FY08E	FY09E
LIABILITIES					
Equity	7,368	8,898	8,993	11,117	11,117
Reserves	121,632	216,662	237,242	456,015	482,528
Net Worth	129,000	225,560	246,235	467,132	493,645
Deposits	998,188	1,650,832	2,305,100	3,064,675	4,101,261
Borrowings	335,445	385,219	598,240	718,986	907,141
Other Lia & Provisions	213,962	252,279	297,005	289,559	495,985
Total	1,676,594	2,513,890	3,446,580	4,540,351	5,998,032
ASSETS					
Cash	5,545	12,088	17,862	20,000	20,000
Balance with RBI	57,904	77,256	208,576	313,010	469,660
Balance with Banks, etc.	65,851	81,059	144,772	176,097	214,852
Investments	504,873	715,474	912,580	1,136,931	1,416,914
Advances	914,052	1,461,631	1,958,660	2,644,191	3,569,658
Fixed Assets	40,380	39,807	47,941	51,071	53,110
Other Assets	87,989	126,575	156,189	199,052	253,838
Total	1,676,594	2,513,890	3,446,580	4,540,351	5,998,032

Ratios

Y/E, 31st March	FY05	FY06	FY07	FY08E	FY09E
No. of Shares	737	890	899	1,112	1,112
Earnings Per Share (Rs.)	27.2	28.5	34.6	36.8	48.4
Book Value (Rs.)	170.3	249.6	269.9	417.1	440.9
Adjusted Book Value (Rs.)	143.4	237.5	247.5	398.2	420.2
Dividend Per Share (Rs.)	8.5	8.5	10.0	15.0	21.0
Dividend Pay-out Ratio (%)	36.1	34.1	33.8	47.7	50.7
Valuation Ratios (x)					
Price/Earnings	35.5	33.8	27.9	26.2	19.9
Price/ BV	5.7	3.9	3.6	2.3	2.2
Price/Adjusted BV	6.7	4.1	3.9	2.4	2.3
Performance Ratios (%)					
Average Yield on funds	7.7	7.4	8.9	9.6	9.4
Average cost of Funds	5.7	5.7	6.6	7.0	7.0
Interest Spread	2.1	1.7	2.3	2.6	2.5
Net Interest Margin	2.3	2.4	2.6	2.7	2.8
Yields (%)					
Average Yield on Adv.	8.8	8.6	9.4	10.2	10.2
Average Yield on Invts	4.7	6.1	7.4	7.3	7.3
Average Cost of Deposits	3.9	4.4	6.2	6.2	6.3
Earnings Quality (%)					
Net Int. Inc/Total Income	45.4	53.0	52.8	55.3	57.9
Other Income/Opr. Profit	115.6	107.5	100.9	96.5	91.0
Cost/Income	52.7	56.3	53.2	53.7	53.8
Return on Avg. Net Worth	19.5	14.6	13.4	11.6	11.3
Return on Average Assets	1.2	1.0	0.9	0.9	0.9
Asset Quality (%)					
Capital Adequacy Ratio	11.8	13.4	11.7	15.1	12.5
Tier I Capital	7.6	9.2	7.4	11.2	8.8
Gr. NPA/Gr. Advances	5.4	2.0	2.4	2.4	2.4
Net NPA/Net Advances	2.0	0.7	1.0	0.8	0.6
Coverage Ratio%	61.4	63.7	58.4	67.2	73.6
Credit / Deposit Ratio	91.6	88.5	85.0	86.3	87.0
Incremental C/D Ratio	90.7	83.9	76.0	90.3	89.3
Investment / Assets	30.1	28.5	26.5	25.0	23.6
Growth Rates (%)					
Advances	16.2	41.7	27.5	24.6	24.6
Deposits	54.3	74.9	9.2	89.7	5.7
Interest Income	45.9	59.9	34.0	35.0	35.0
Interest Expended	46.6	65.4	39.6	33.0	33.8
Net interest Income	4.5	52.0	60.7	42.2	33.4
Other Income	(6.3)	46.1	70.4	43.6	30.3
Operating Profit	11.5	22.4	41.8	25.6	26.6
EPS	2.5	4.9	21.2	6.5	31.5
Net Profit	23.8	42.1	41.3	32.5	34.6

Key data

Sector	Banking
Market Cap	Rs467bn/US\$11.7bn
52 Wk H/L (Rs)	1341/863
Avg. daily vol. (6 month)	734,514

BSE Code	500180
NSE Code	HDFCBANK
Bloomberg	HDFCB IN
Reuters	HDBK.BO

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Nifty	4,838

Shareholding pattern (%)

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FII's NRI, ADR/GDR	51.5	46.3
MFs and institutions	5.6	8.0
Promoters	21.6	24.7
Others	21.4	21.0

Absolute returns (%)

	1 mth	3 mth	12 mth
HDFC Bank	19.8	19.9	49.8
Sensex	18.4	14.2	35.0
BSE Bank	19.3	11.6	52.4

HDFC Bank

Accumulate
Current Price: Rs1,323 Target price: Rs1,380
Quarterly Performance
(Rs mn)

	FY07				FY08		FY07	FY08E
	1Q	2Q	3Q	4Q	1Q	2Q		
Interest/Discount on Advances/Bills	9,058	9,958	11,373	12,953	14,536	15,734	43,342	58,035
Income on investments	5,195	5,933	5,848	6,010	6,172	6,016	22,986	26,225
Interest on balances with RBI/Others	790	465	372	936	551	565	2,563	3,182
Interest Income	15,043	16,357	17,593	19,898	21,259	22,315	68,890	87,442
Change (%)	68.2	59.9	49.1	44.3	41.3	36.4	54	27
Interest expenditure	6,867	7,901	8,307	8,721	10,836	11,552	31,795	40,971
Change (%)	85.4	92.3	63.1	36.5	57.8	46.2	65	29
Net interest income	8,176	8,456	9,286	11,177	10,422	10,763	37,096	46,471
Change (%)	56.1	38.1	38.5	51.2	27.5	27.3	46	25
Other income	2,909	3,401	3,129	3,312	5,158	5,123	15,162	19,135
Change (%)	10.4	30.7	5.7	42.5	77.3	50.6	35	26
Total income	11,085	11,857	12,415	14,489	15,581	15,886	52,258	65,606
Change (%)	40.8	35.9	28.4	49.1	40.6	34.0	42	26
Payment to & provision for employee	1,664	1,813	2,138	2,153	2,839	3,046	7,769	10,099
Other operating expenses	3,864	3,978	3,912	4,686	4,905	5,003	16,439	19,913
Total Operating expenses	5,527	5,791	6,050	6,839	7,744	8,049	24,208	30,012
Change (%)	54.4	44.2	34.7	41.8	40.1	39.0	43	24
Operating Profit	5,558	6,066	6,365	7,650	7,837	7,837	28,050	35,594
Change (%)	29.5	28.9	23.0	56.3	41.0	29.2	42	27
Provisions and w/off	2,040	2,481	2,060	2,671	3,071	2,747	11,663	14,057
Change (%)	23.0	37.4	4.5	143.0	50.6	10.7	61	21
PBT	3,518	3,585	4,305	4,979	4,766	5,091	16,388	21,536
Change (%)	33.6	23.6	34.3	31.2	35.5	42.0	31	31
Taxes	1,125	955	1,349	1,544	1,553	1,659	4,973	6,676
Change (%)	40.9	5.7	40.4	32.6	38.0	73.7	30	34
PAT	2,393	2,629	2,956	3,436	3,212	3,431	11,415	14,860
Change (%)	30.4	31.7	31.7	30.5	34.2	30.5	31	30
Equity Capital (Rs mn)	3,139	3,144	3,152	3,194	3,332	3,532	3,194	3,532
No. of Shares (mn)	314	314	315	319	333	353	319	319
EPS	7.6	8.4	9.4	10.8	9.6	9.7	36	47
Cost/Income Ratio (%)	50	49	49	47	50	51	46	46

Financial highlights

- **Net Interest Income (NII)** is expected to increase by 27.3% YoY to Rs10,763mn. NIM is expected to be 4% during Q2FY08.
- **Operating Profit** is expected to increase by 29.2% YoY to Rs7,837mn.
- **Provisions and contingencies** are expected to increase by 10.7% YoY to Rs2,747mn.
- **PAT** is expected to increase by 30.5% YoY to Rs3,431mn.

Other business highlights

- **Advances** are expected to increase by 30% YoY to Rs556bn.
- **Deposits** are expected to increase by 32% YoY to Rs837bn.

Future outlook

- **Strong Retail Business.** Retail has been the key growth area of the Bank and is expected to grow at a CAGR of ~30% over FY07-09. On the liabilities side, low-cost deposits constituted 52% of its total deposits. On the Assets side, Retail Credit constituted 57% of its advances portfolio. Hence, on account of the high share of retail business, the bank enjoys one of the highest NIM's (approx 4%) in the industry.
- **Aggressive branch expansion drive.** With the removal of the ban on opening new branches, HDFC bank has aggressively rolled out branches 218 branches in last 9 months taking the total number of branches to 753. The bank plans to open ~150 branches in next one year subject to availability of branch licenses by RBI.
- **Strong fee income growth** The bank has seen its fee income grow at a CAGR of 52% between FY00 and FY06, driven by the high growth in the retail asset segment. As we expect the high growth in retail to continue, fee based income is likely to maintain its pace over the next two years also.

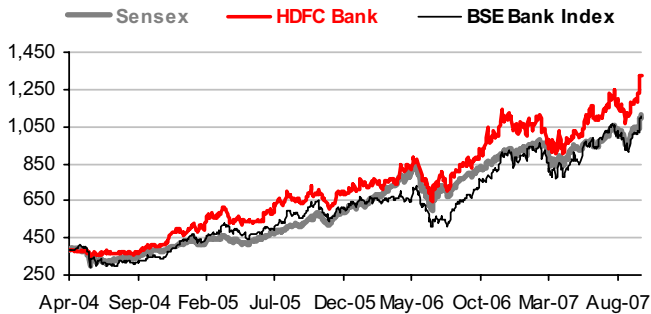
Valuations and Recommendation

At CMP of Rs1,323, the bank is trading at P/ABV multiple of 3.7x FY08E ABV of Rs356 and 3.4x FY09E ABV of Rs388. We maintain our **Accumulate** rating.

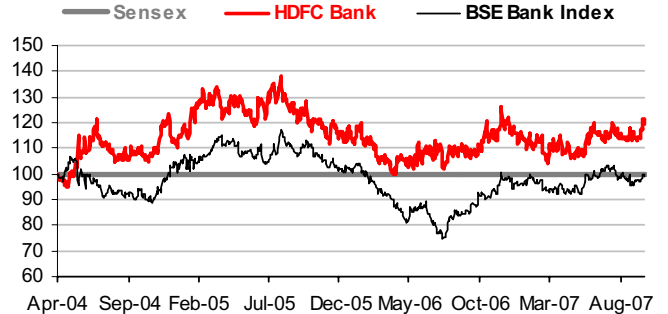
Stock performance

HDFC Bank

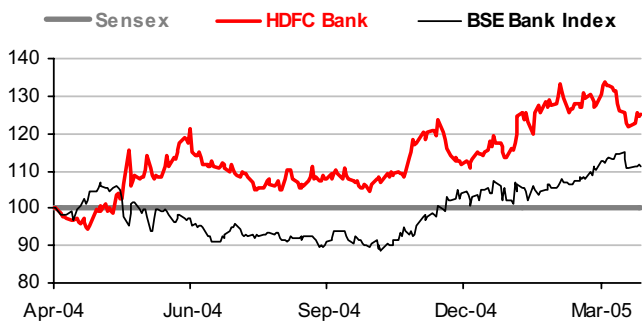
Absolute Perf. From Apr 04



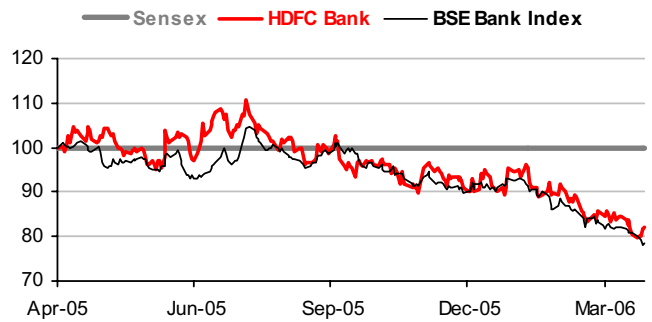
Relative Perf. From Apr 04



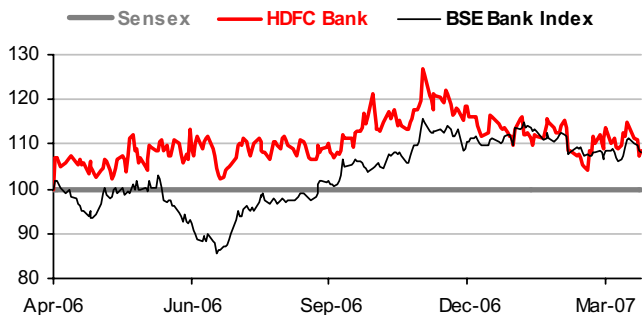
Relative Perf. From Apr 04 to Mar 05



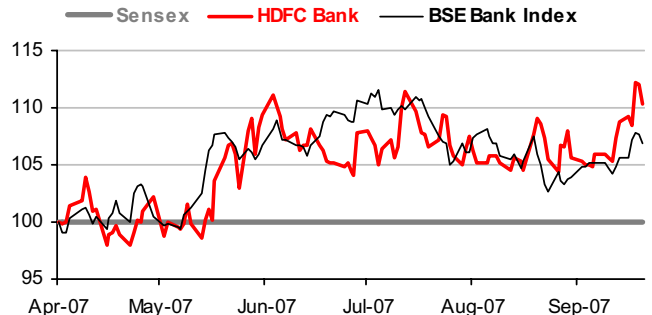
Relative Perf. From Apr 05 to Mar 06



Relative Perf. From Apr 06 to Mar 07



Relative Perf. From Apr 07

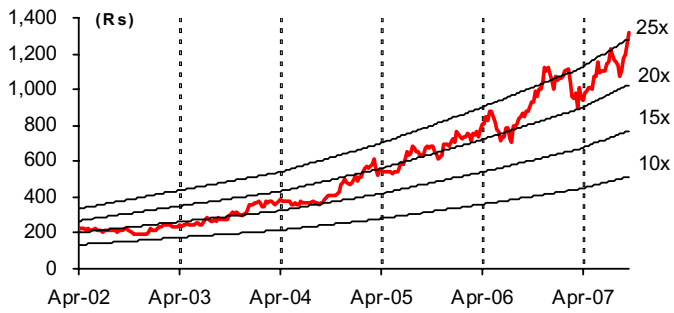


Source: Bloomberg, Religare Institutional Equity Research

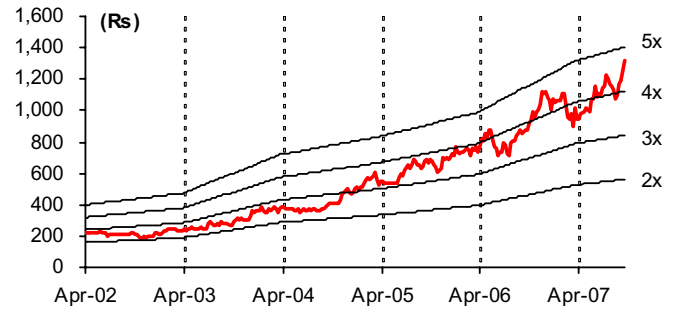
12 month forward rolling band charts

HDFC Bank

P/E Band



P/ABV Band



HDFC Bank Financials

Income statement

(Rs mn)

Y/E, 31st March	FY05	FY06	FY07E	FY08E	FY09E
Interest Earned	30,935	44,753	68,890	87,442	110,916
Interest on Advance	16,637	27,002	43,342	58,035	75,446
Income on investment	13,064	16,317	22,986	26,225	31,470
Inc. on invt. with RBI	1,234	1,435	2,563	3,182	4,000
Interest Expended	13,156	19,295	31,795	40,971	51,046
Interest on deposits	11,076	15,594	25,194	32,510	40,312
Int. on RBI/Int. borro.	2,079	3,701	6,600	8,461	10,734
Net Interest Income	17,779	25,458	37,096	46,471	59,870
Non-Interest Income	6,513	11,240	15,162	19,135	23,875
Core fee base Income	6,050	10,451	12,924	16,155	20,194
Total Income	24,293	36,698	52,258	65,606	83,745
Operating Expenditure	10,854	16,911	24,208	30,012	37,702
Employee Expenses	2,767	4,868	7,769	10,099	13,129
Other Expenses	8,087	12,043	16,439	19,913	24,573
Operating Profit	13,439	19,787	28,050	35,594	46,043
Prov. & Contingencies	3,649	7,252	11,663	14,057	17,886
PBT	9,789	12,535	16,388	21,536	28,157
Income Tax	3,134	3,827	4,973	6,676	8,729
Net Profit	6,656	8,708	11,415	14,860	19,428

Balance Sheet

(Rs mn)

Y/E, 31st March	FY05	FY06	FY07E	FY08E	FY09E
LIABILITIES					
Equity	3,099	3,131	3,194	3,532	3,532
Reserves	42,100	49,864	61,138	124,028	135,604
Net Worth	45,199	52,995	64,332	127,560	139,136
Deposits	363,543	557,968	682,979	846,894	1,050,149
Borrowings	52,900	45,605	62,133	76,986	85,720
Other Lia & Provisions	52,649	78,496	102,912	71,456	130,379
Total	514,290	735,064	912,356	1,122,897	1,405,384
ASSETS					
Cash	3,536	5,077	4,202	3,755	3,360
Balance with RBI	22,966	27,989	42,093	56,826	71,033
Balance with Banks, etc.	18,239	36,124	39,714	44,586	51,838
Investments	193,498	283,940	305,648	366,778	440,133
Advances	255,663	350,613	469,447	610,282	793,366
Fixed Assets	7,083	8,551	9,667	10,735	12,767
Other Assets	13,306	22,771	36,055	29,935	32,888
Total	514,290	735,064	906,826	1,122,897	1,405,384

Ratios

Y/E, 31st March	FY05	FY06	FY07E	FY08E	FY09E
No. of Shares	310	313	319	353	353
Earnings Per Share (Rs.)	21.5	27.8	35.7	42.1	55.0
Book Value (Rs.)	145.9	169.2	201.4	361.1	393.9
Adjusted Book Value (Rs.)	143.8	166.8	197.5	356.4	387.9
Dividend Per Share (Rs.)	4.5	5.5	7.0	12.0	19.0
Dividend Pay-out Ratio (%)	0.2	0.2	0.2	0.3	0.4
Valuation Ratios (x)					
Price/Earnings	61.6	47.6	37.0	31.4	24.1
Price/ BV	9.1	7.8	6.6	3.7	3.4
Price/Adjusted BV	9.2	7.9	6.7	3.7	3.4
Performance Ratios (%)					
Average Yield on funds	6.9	7.2	8.0	8.1	8.0
Average cost of Funds	3.6	3.9	4.9	5.1	5.1
Interest Spread	3.4	3.3	3.1	3.0	2.8
Net Interest Margin	4.0	4.1	4.3	4.3	4.3
Yields (%)					
Average Yield on Adv.	7.7	8.9	10.6	10.8	10.8
Average Yield on Invts	6.7	6.8	7.8	7.8	7.8
Average Cost of Deposits	3.3	3.4	4.1	4.3	4.3
Earnings Quality (%)					
Net Int. Inc/Total Income	73.2	69.4	71.0	70.8	71.5
Other Income/Opr. Profit	48.5	56.8	54.1	53.8	51.9
Cost/Income	44.7	46.1	46.3	45.7	45.0
Return on Avg. Net Worth	18.5	17.7	19.5	15.5	14.6
Return on Average Assets	1.3	1.2	1.3	1.3	1.4
Asset Quality (%)					
Capital Adequacy Ratio	12.2	11.4	13.1	12.8	12.7
Tier I Capital	9.6	8.6	8.6	8.3	8.0
Gr. NPA/Gr. Advances	1.3	0.9	0.7	1.0	0.9
Net NPA/Net Advances	0.2	0.2	0.3	0.3	0.3
Coverage Ratio%	80.8	77.1	64.3	72.5	72.0
Credit / Deposit Ratio	70.3	62.8	68.7	72.1	75.5
Incremental C/D Ratio	131.6	48.8	95.1	85.9	90.1
Investment / Assets	37.6	38.6	33.7	32.7	31.3
Growth Rates (%)					
Advances	44.1	37.1	33.9	30.0	30.0
Deposits	19.6	53.5	22.4	24.0	24.0
Interest Income	21.4	44.7	53.9	26.9	26.8
Interest Expended	8.6	46.7	64.8	28.9	24.6
Net interest Income	32.9	43.2	45.7	25.3	28.8
Other Income	35.7	72.6	34.9	26.2	24.8
Operating Profit	33.3	47.2	41.8	26.9	29.4
EPS	20.1	29.5	28.5	17.7	30.7
Net Profit	30.6	30.8	31.1	30.2	30.7

Key data

Sector	Banking		
Market Cap	Rs252bn/US\$6.3bn		
52 Wk H/L (Rs)	714.9/345.5		
Avg. daily vol. (6 month)	1,202,643		
BSE Code	532215		
NSE Code	UTIBANK		
Bloomberg	AXSB IN		
Reuters	UTBK.BO		
Sensex	16,564		
Nifty	4,838		
Shareholding pattern (%)			
	31-Mar-07	30-Jun-07	
FII's NRI, ADR/GDR	41.9	40.0	
MFs and institutions	6.9	8.6	
Promoters	43.1	42.9	
Others	8.1	8.5	
Absolute returns (%)			
	1 mth	3 mth	12 mth
UTI Bank	20.7	15.2	100.2
Sensex	18.4	14.2	35.0
BSE Bank	19.3	11.6	52.4

Axis Bank

Accumulate
Current Price: Rs710
Target price: Rs795
Quarterly Performance
(Rs mn)

	FY07				FY08		FY07	FY08E
	1Q	2Q	3Q	4Q	1Q	2Q		
Interest/Discount on Advances/Bills	5,503	6,110	7,053	8,362	10,124	11,422	27,029	41,274
Income on investments	3,755	4,165	4,573	4,822	4,919	4,970	17,315	19,830
Interest on balances with RBI/Others	280	226	270	484	326	262	1,261	1,113
Interest Income	9,539	10,501	11,896	13,668	15,370	16,654	45,604	62,217
<i>Change (%)</i>	53.4	52.7	59.3	64.1	61.1	58.6	57.9	36.4
Interest expenditure	6,321	6,849	7,738	9,025	10,901	11,141	29,933	41,287
<i>Change (%)</i>	58.3	58.5	68.5	73.6	72.5	62.7	65.3	37.9
Net interest income	3,218	3,652	4,158	4,642	4,468	5,512	15,671	20,929
<i>Change (%)</i>	44.7	43.0	44.7	48.4	38.8	51.0	45.3	33.6
Other income	2,005	2,048	2,797	3,011	3,423	3,184	10,101	13,998
<i>Change (%)</i>	33.6	15.0	61.3	32.0	70.8	55.5	38.4	38.6
Total income	5,223	5,699	6,956	7,653	7,892	8,697	25,772	34,927
<i>Change (%)</i>	40.2	31.4	50.9	41.5	51.1	52.6	42.6	35.5
Payment to & provision for employee	797	981	1,147	889	1,479	1,765	3,814	5,148
Other operating expenses	1,595	1,974	2,223	2,541	2,733	3,158	8,332	10,832
Total Operating expenses	2,392	2,955	3,370	3,430	4,212	4,923	12,146	15,980
<i>Change (%)</i>	41.5	49.6	64.6	41.2	76.1	66.6	49.2	31.6
Operating Profit	2,832	2,745	3,586	4,223	3,679	3,774	13,626	18,947
<i>Change (%)</i>	39.2	16.3	40.0	41.7	29.9	37.5	37.1	39.0
Provisions and w/off	1,008	588	763	1,065	1,009	888	3,664	4,339
<i>Change (%)</i>	58.6	(18.0)	28.9	56.3	0.1	51.1	39.6	18.4
PBT	1,824	2,157	2,824	3,158	2,670	2,886	9,962	14,607
<i>Change (%)</i>	30.3	31.2	43.3	37.4	46.4	33.8	36.2	46.6
Taxes	618	738	977	1,039	921	995	3,372	4,893
<i>Change (%)</i>	30.7	33.0	49.7	32.9	48.9	34.9	37.0	45.1
PAT	1,206	1,420	1,846	2,119	1,750	1,891	6,590	9,714
<i>Change (%)</i>	30.1	30.2	40.2	39.6	45.2	33.2	35.9	47.4
Equity Capital (Rs mn)	2,801	2,805	2,812	2,816	2,827	3,562	2,816	3,562
No. of Shares (mn)	280	281	281	282	283	356	282	356
EPS	4.3	5.1	6.6	7.5	6.2	5.3	54.0	57.8
Cost/Income Ratio (%)	45.8	51.8	48.4	44.8	53.4	56.6	47.1	45.8

Financial highlights

- **Net Interest Income (NII)** is expected to increase by 51% YoY to Rs5,512mn. NIM is expected to be 2.9% during Q2FY08 Vs 2.92% during Q2FY07.
- **Operating Profit** is expected to increase by 37.5% YoY to Rs3774mn.
- **Provisions and contingencies** are expected to increase by 51.1% YoY to Rs888mn.
- **PAT** is expected to increase by 33.2% YoY to Rs1891mn.

Other business highlights

- **Advances** are expected to increase by 47% YoY to Rs428bn.
- **Deposits** are expected to increase by 45% YoY to Rs710bn.

Future outlook

- Credit growth during FY07-09 is expected to be ~38% Vs ~60% during the FY07.
- The growth in CASA deposits will enable it to maintain its cost of deposits at a reasonable level.
- International business will de-risk the bank. UTI bank has opened a branch in Singapore and a representative office in Shanghai and has set up offices in Dubai and Hong Kong.
- Credit quality will be maintained.
- Agricultural finance is emerging as a key focus area.

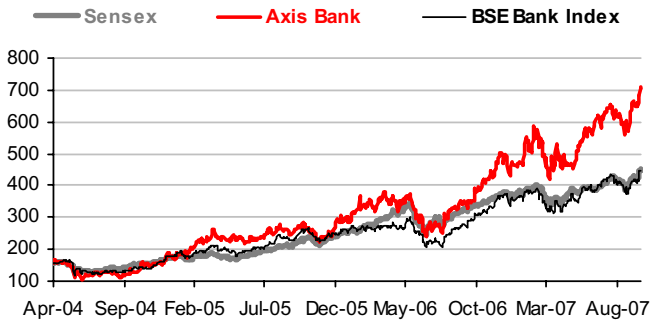
Valuations and Recommendation

At CMP of Rs710, the bank is trading at P/ABV multiple of 3.1x FY08E ABV of Rs229.4 and 2.8x FY09E ABV of Rs256. We maintain our **Accumulate** rating.

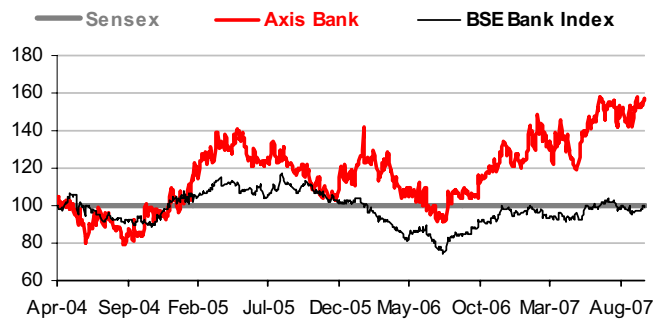
Stock performance

Axis Bank

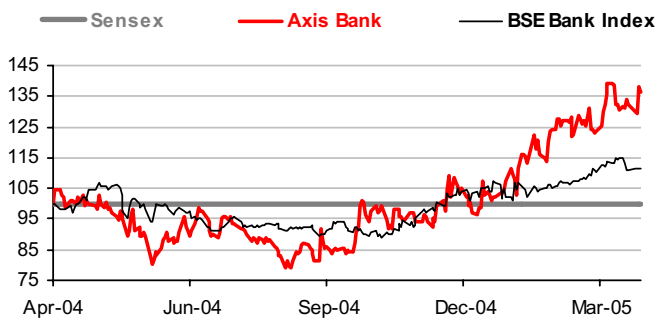
Absolute Perf. From Apr 04



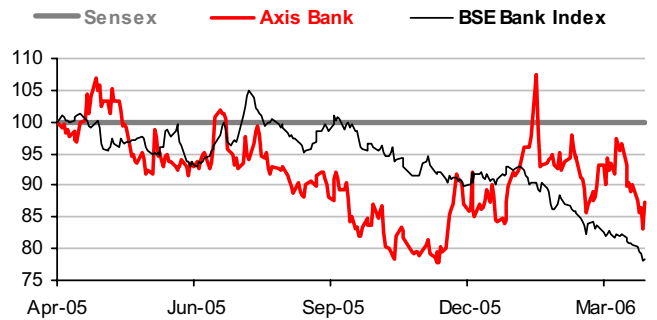
Relative Perf. From Apr 04



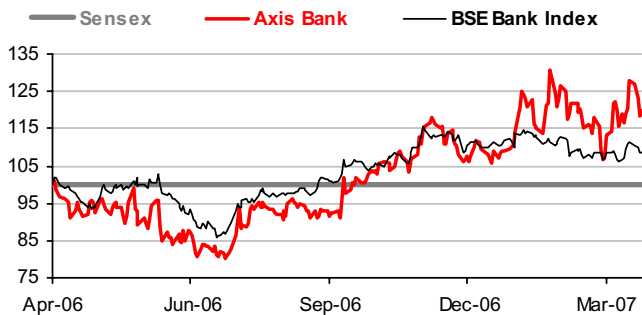
Relative Perf. From Apr 04 to Mar 05



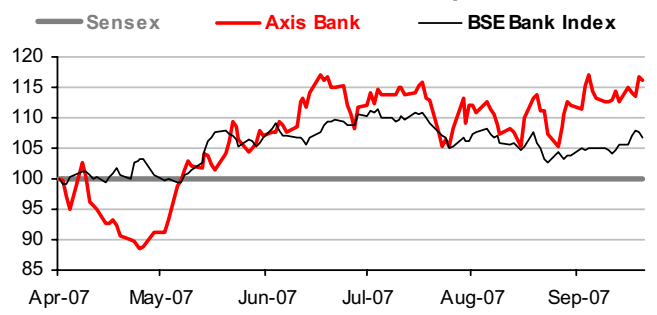
Relative Perf. From Apr 05 to Mar 06



Relative Perf. From Apr 06 to Mar 07



Relative Perf. From Apr 07

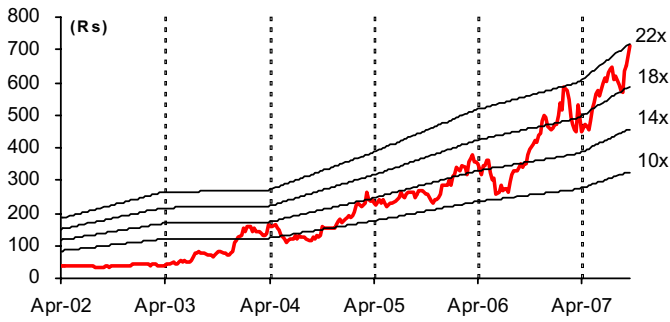


Source: Bloomberg, Religare Institutional Equity Research

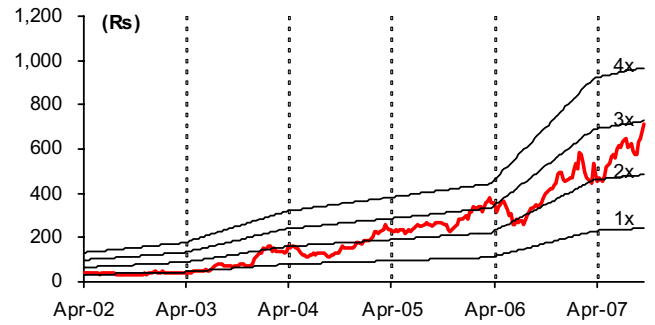
12 month forward rolling band charts

Axis Bank

P/E Band



P/ABV Band



Axis Bank Financials

Income statement

(Rs mn)

Y/E, 31st March	FY05	FY06	FY07E	FY08E	FY09E
Interest Earned	19,242	28,888	45,604	62,217	78,254
Interest on Advance	9,788	15,280	27,029	41,274	56,914
Income on investment	7,869	12,857	17,315	19,830	20,038
Inc. on invt. with RBI	1,585	751	1,261	1,113	1,302
Interest Expended	11,930	18,106	29,933	41,287	52,330
Interest on deposits	10,696	15,517	25,658	35,712	45,467
Int. on RBI/Int. borro.	1,234	2,589	4,275	5,575	6,863
Net Interest Income	7,312	10,782	15,671	20,929	25,924
Non-Interest Income	4,158	7,296	10,101	13,998	19,779
Core fee base Income	3,305	4,889	7,790	11,295	16,378
Total Income	11,470	18,079	25,772	34,927	45,704
Operating Expenditure	5,814	8,141	12,146	15,980	20,455
Employee Expenses	1,769	2,402	3,814	5,148	6,590
Other Expenses	4,045	5,738	8,332	10,832	13,865
Operating Profit	5,656	9,938	13,626	18,947	25,249
Prov. & Contingencies	619	2,625	3,664	4,339	4,731
PBT	5,037	7,313	9,962	14,607	20,518
Income Tax	1,691	2,462	3,373	4,893	6,874
Net Profit	3,346	4,851	6,590	9,714	13,645

Balance Sheet

(Rs mn)

Y/E, 31st March	FY05	FY06	FY07E	FY08E	FY09E
LIABILITIES					
Equity	2,738	2,787	2,816	3,562	3,562
Reserves	21,344	25,935	31,116	81,052	91,362
Net Worth	24,082	28,722	33,932	84,614	94,925
Deposits	317,120	401,135	587,856	734,820	918,525
Borrowings	25,700	44,695	73,235	80,559	108,754
Other Lia & Provisions	10,401	22,624	37,459	43,078	49,540
Total	377,303	497,177	732,482	943,070	1,171,743
ASSETS					
Cash	2,729	4,898	8,368	10,287	12,859
Balance with RBI	31,758	19,396	38,243	47,763	59,704
Balance with Banks, etc.	18,273	12,124	22,573	33,067	41,334
Investments	142,749	215,274	268,972	278,058	294,465
Advances	156,029	223,142	368,765	523,646	706,922
Fixed Assets	5,184	5,677	6,732	7,742	8,903
Other Assets	20,714	16,800	18,921	42,507	47,556
Total	377,437	497,311	732,572	943,070	1,171,743

Ratios

Y/E, 31st March	FY05	FY06	FY07E	FY08E	FY09E
No. of Shares	274	279	282	356	356
Earnings Per Share (Rs.)	12.2	17.4	23.4	27.3	38.3
Book Value (Rs.)	88.0	103.1	120.5	237.5	266.5
Adjusted Book Value (Rs.)	80.0	95.3	111.0	229.4	255.6
Dividend Per Share (Rs.)	2.8	3.5	4.0	6.0	8.0
Dividend Pay-out Ratio (%)	26.2	0.2	0.2	0.3	0.2
Valuation Ratios (x)					
Price/Earnings	58.1	40.8	30.3	26.0	18.5
Price/ BV	8.1	6.9	5.9	3.0	2.7
Price/Adjusted BV	8.9	7.5	6.4	3.1	2.8
Performance Ratios (%)					
Average Yield on funds	7.6	7.6	8.4	8.6	8.7
Average cost of Funds	4.2	4.6	5.4	5.6	5.7
Interest Spread	3.4	3.0	3.0	3.1	3.0
Net Interest Margin	2.9	2.9	2.9	2.9	2.9
Yields (%)					
Average Yield on Adv.	7.8	8.1	9.1	9.3	9.3
Average Yield on Invt	7.1	7.2	7.2	7.3	7.0
Average Cost of Deposits	4.1	4.3	5.2	5.4	5.5
Earnings Quality (%)					
Net Int. Inc/Total Income	63.7	59.6	60.8	59.9	56.7
Other Income/Opr. Profit	73.5	73.4	74.1	73.9	78.3
Cost/Income	50.7	45.0	47.1	45.8	44.8
Return on Avg. Net Worth	18.9	18.4	21.0	16.4	15.2
Return on Average Assets	1.1	1.1	1.1	1.2	1.3
Asset Quality (%)					
Capital Adequacy Ratio	12.7	11.1	11.6	16.5	15.1
Tier I Capital	8.9	7.3	6.4	12.2	10.6
Gr. NPA/Gr. Advances	2.0	1.7	1.1	1.0	1.0
Net NPA/Net Advances	1.4	1.0	0.7	0.6	0.6
Coverage Ratio%	30.3	41.9	36.5	47.1	45.1
Credit / Deposit Ratio	49.2	55.6	62.7	71.3	77.0
Incremental C/D Ratio	58.0	79.9	78.0	105.4	99.8
Investment / Assets	37.8	43.3	36.7	29.5	25.1
Growth Rates (%)					
Advances	66.6	43.0	65.3	42.0	35.0
Deposits	51.3	26.5	46.5	25.0	25.0
Interest Income	20.4	50.1	57.9	36.4	25.8
Interest Expended	16.8	51.8	65.3	37.9	26.7
Net interest Income	26.7	47.5	45.3	33.6	23.9
Other Income	(23.0)	75.5	38.4	38.6	41.3
Operating Profit	(19.0)	75.7	37.1	39.0	33.3
EPS	1.7	42.4	34.4	16.5	40.5
Net Profit	20.2	45.0	35.9	47.4	40.5

Key data

Sector	Banking
Market Cap	Rs72bn/US\$1.8bn
52 Wk H/L (Rs)	47.2/23.5
Avg. daily vol. (6 month)	1,676,633

BSE Code	532273
NSE Code	CENTBOP
Bloomberg	CBOP IN
Reuters	CENB.BO

Sensex	16,564
Nifty	4,838

Shareholding pattern (%)

	31-Mar-07	30-Jun-07
FII's NRI, ADR/GDR	34.2	33.4
MFs and institutions	8.0	7.9
Promoters	0.0	0.0
Others	57.8	58.8

Absolute returns (%)

	1 mth	3 mth	12 mth
CBoP	11.0	7.1	74.5
Sensex	18.4	14.2	35.0
BSE Bank	19.3	11.6	52.4

Centurion Bank of Punjab (CBoP)

Accumulate
Current Price: Rs42
Target price: Rs45
Quarterly Performance

(Rs mn)

	FY07				FY08		FY07	FY08E
	1Q	2Q	3Q	4Q	1Q	2Q		
Interest/Discount on Advances/Bills	1,923	2,227	2,611	3,076	3,566	4,221	9,837	17,183
Income on investments	501	573	634	729	806	745	2,436	3,600
Interest on balances with RBI/Others	110	70	79	153	85	104	413	475
Interest Income	2,534	2,870	3,324	3,957	4,457	5,070	12,685	21,257
Change (%)	149.2	49.3	59.7	76.1	75.9	76.7	57.9	67.6
Interest expenditure	1,302	1,519	1,860	2,309	3,011	3,434	6,990	13,314
Change (%)	181.5	54.9	79.3	110.8	131.3	126.1	72.8	90.5
Net interest income	1,232	1,351	1,465	1,649	1,446	1,636	5,696	7,943
Change (%)	122.3	43.5	40.1	43.1	17.4	21.1	42.8	39.4
Other income	864	881	1,018	1,470	1,418	1,411	4,054	5,423
Change (%)	320.4	70.4	72.1	(4.3)	64.1	60.2	89.3	33.8
Total income	2,097	2,231	2,483	3,118	2,864	3,047	9,750	13,366
Change (%)	175.9	53.0	51.7	16.0	36.6	36.6	59.1	37.1
Payment to & provision for employee	537	510	557	610	605	612	2,213	2,988
Other operating expenses	1,050	1,099	1,221	1,476	1,350	1,428	4,845	6,396
Total Operating expenses	1,586	1,609	1,778	2,086	1,955	2,040	7,058	9,383
Change (%)	176.6	35.2	37.5	39.2	23.3	26.8	40.4	32.9
Operating Profit	510	623	705	1,033	909	1,007	2,692	3,983
Change (%)	174	132.1	105.4	(13.2)	78.2	61.7	144.4	47.9
Provisions and w/off	194	116	162	563	383	409	856	1,611
Change (%)	174.3	(40.5)	392.4	(38.8)	97.4	251.7	0.1	88.2
PBT	316	506	543	470	526	597	1,836	2,372
Change (%)	173.9	597.1	75.1	73.3	66.5	18.0	109.0	29.2
Taxes	29	195	208	190	195	221	622	711
Change (%)	504.2	(242.8)	167.4	1,644.0	572.4	13.6	(8,392.0)	14.4
PAT	287	311	335	280	331	376	1,214	1,660
Change (%)	159.5	48.9	44.2	7.6	15.3	20.7	37.1	36.8
Equity Capital (Rs mn)	1,478	1,478	1,478	1,567	1,567	1,700	1,567	1,822
No. of Shares (mn)	1,478	1,478	1,478	1,567	1,567	1,700	1,567	1,822
EPS	0.19	0.21	0.23	0.18	0.21	0.22	0.77	0.91
Cost/Income Ratio (%)	76	72	72	67	68	68	72	70

Financial highlights

- **Net Interest Income (NII)** is expected to increase by 21.1% YoY to Rs1,636mn. NIM is expected to be 3.8% during Q2FY08.
- **Operating Profit** is expected to increase by 61.7% YoY to Rs1,007mn.
- **Provisions and contingencies** are expected to increase by 251.7% YoY to Rs409mn.
- **PAT** is expected to increase by 20.7% YoY to Rs376mn.

Other business highlights

- **Advances** are expected to increase by 48% YoY to Rs124bn.
- **Deposits** are expected to increase by 50% YoY to Rs171bn.

Future outlook

- The NIMs are expected to improve going forward as the bank has reduced deposit rates across all segment by 50 bps and is shedding high cost bulk deposits. In addition to reducing the deposit rate, the bank is also increasing its focus on low cost deposits which is expected to reduce its cost of fund by 2%. The decline in its cost of fund will result in an improvement in NIMs from 3.6% in Q1FY08 to 4.1% for FY08.
- The advances are expected to grow at a CAGR of 43% driven by growth in SME and corporate credit. This will reduce the proportion of retail credit from 68.8% in FY07 to 65% in FY10. The retail credit mix is also likely to change going forward as a slow down in two-wheeler and commercial vehicle loans will be compensated by a rise in mortgage loans and personal loans.
- Increasing its balance sheet size is the key focus area of the bank. The bank has a high cost to income ratio of 72% Vs 55% for its peers. The business per branch for the bank (excluding the Lord Krishna bank) is low compared to other banks of a similar nature. This provides scope for improvement. This ratio is expected to come down as the balance sheet size grows. This will result in an improvement in its efficiency ratio and higher growth in the earnings.

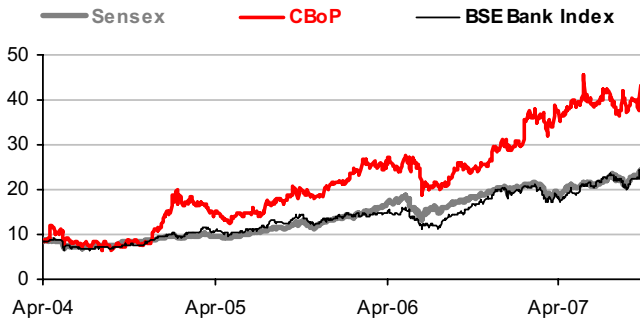
Valuations and Recommendation

At CMP of Rs42, the bank is trading at P/ABV multiple of 4.1x FY08E ABV of Rs10.3 and 3.8x FY09E ABV of Rs11.2. We maintain our **Accumulate** rating.

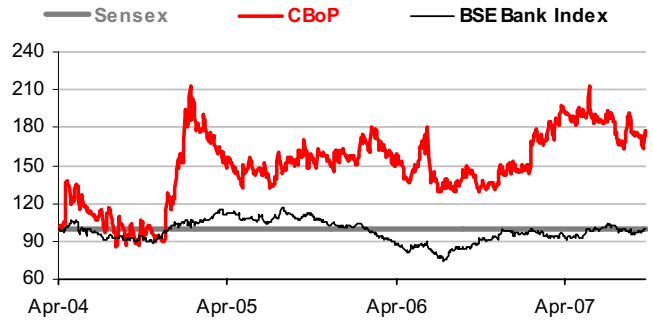
Stock performance

Centurion Bank of Punjab

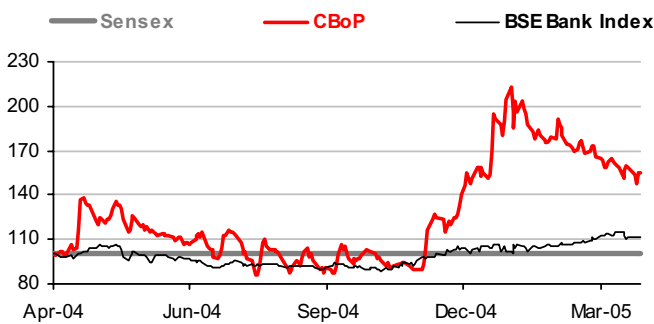
Absolute Perf. From Apr 04



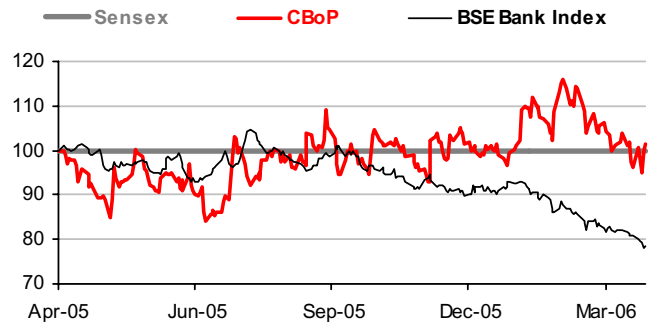
Relative Perf. From Apr 04



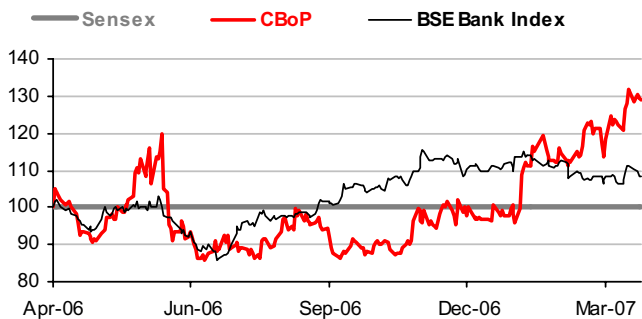
Relative Perf. From Apr 04 to Mar 05



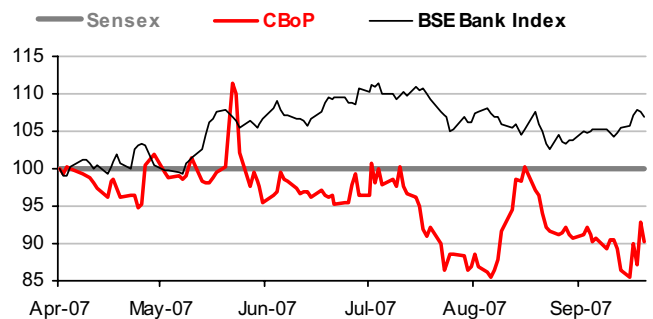
Relative Perf. From Apr 05 to Mar 06



Relative Perf. From Apr 06 to Mar 07



Relative Perf. From Apr 07

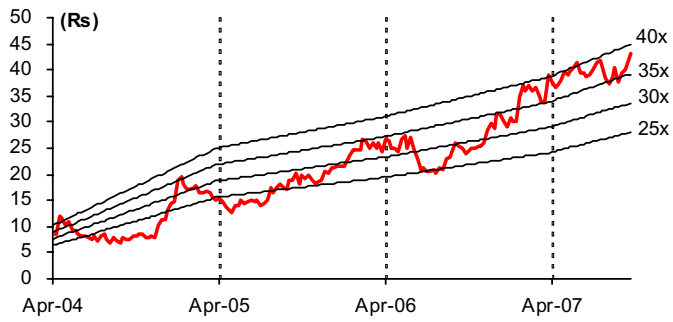


Source: Bloomberg, Religare Institutional Equity Research

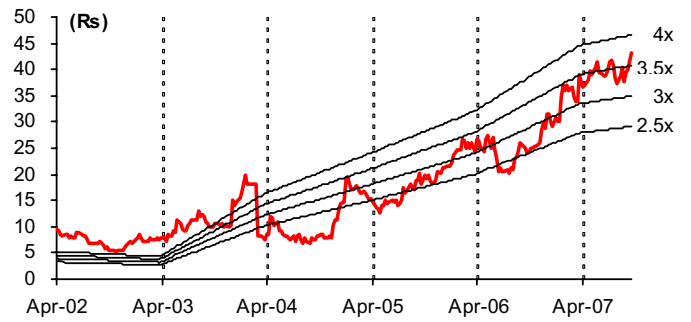
12 month forward rolling band charts

Centurion Bank of Punjab

P/E Band



P/ABV Band



Centurion Bank of Punjab Financials

Income statement

(Rs mn)

Y/E, 31st March	FY05	FY06	FY07	FY08E	FY09E
Interest Earned	3,461	8,032	12,685	21,257	30,137
Interest on Advance	2,682	5,795	9,837	17,183	24,915
Income on investment	541	1,799	2,436	3,600	4,555
Inc. on invt. with RBI	238	438	413	475	667
Interest Expended	1,682	4,044	6,990	13,314	18,861
Interest on deposits	1,461	3,758	6,535	11,922	17,250
Int. on RBI/Int. borro.	221	286	455	1,392	1,611
Net Interest Income	1,779	3,988	5,696	7,943	11,276
Non-Interest Income	835	2,142	4,054	5,423	6,697
Core fee base Income	583	1,973	3,669	4,873	5,979
Total Income	2,614	6,130	9,750	13,366	17,973
Operating Expenditure	1,364	5,028	7,058	9,383	12,258
Employee Expenses	427	1,424	2,213	2,988	3,944
Other Expenses	937	3,604	4,845	6,396	8,314
Operating Profit	1,250	1,101	2,692	3,983	5,716
Prov. & Contingencies	999	856	856	1,611	2,537
PBT	251	246	1,836	2,372	3,179
Income Tax	0	(7)	622	711	954
Net Profit	251	253	1,214	1,660	2,225
Extraordinary item		625			
PAT	251	878	1,214	1,660	2,225

Balance Sheet

(Rs mn)

Y/E, 31st March	FY05	FY06	FY07	FY08E	FY09E
LIABILITIES					
Equity	1,013	1,408	1,567	1,822	1,822
Reserves	3,672	7,769	12,394	18,931	21,157
Net Worth	4,686	9,178	13,961	20,753	22,978
Deposits	35,304	93,996	148,637	212,136	307,597
Borrowings	2,218	2,666	10,959	12,249	14,594
Other Lia & Provisions	2,866	7,854	11,271	15,781	22,073
Total	45,073	113,693	184,828	260,919	367,242
ASSETS					
Cash	477	1,675	2,345	2,758	3,384
Balance with RBI	2,842	3,890	8,447	13,789	19,994
Balance with Banks, etc.	1,310	4,895	4,102	5,303	5,383
Investments	14,796	29,228	46,150	64,609	87,223
Advances	21,940	65,334	112,213	162,709	235,928
Fixed Assets	1,364	3,113	3,373	3,879	4,461
Other Assets	2,343	5,557	8,198	7,872	10,870
Total	45,073	113,693	184,827	260,919	367,242

Ratios

Y/E, 31st March	FY05	FY06	FY07	FY08E	FY09E
No. of Shares	1,013	1,408	1,567	1,822	1,822
Earnings Per Share (Rs.)	0.2	0.6	0.8	0.9	1.2
Book Value (Rs.)	4.6	6.5	8.9	11.4	12.6
Adjusted Book Value (Rs.)	4.1	6.0	8.0	10.3	11.2
Dividend Per Share (Rs.)	0.0	0.0	0.0	0.0	0.0
Dividend Pay-out Ratio (%)	0.0	0.0	0.0	0.0	0.0
Valuation Ratios (x)					
Price/Earnings	169.5	67.4	54.2	46.1	34.4
Price/ BV	9.1	6.4	4.7	3.7	3.3
Price/Adjusted BV	10.3	7.0	5.2	4.1	3.8
Performance Ratios (%)					
Average Yield on funds	10.5	11.0	9.5	10.7	10.6
Average cost of Funds	4.9	6.0	5.5	6.9	6.9
Interest Spread	5.6	5.0	4.1	3.8	3.7
Net Interest Margin	4.8	4.9	4.5	4.0	3.9
Yields (%)					
Average Yield on Adv.	13.2	13.3	11.1	12.5	12.5
Average Yield on Invts	4.1	8.2	6.5	6.5	6.0
Average Cost of Deposits	4.5	5.8	5.4	6.6	6.6
Earnings Quality (%)					
Net Int. Inc./Total Income	68.0	65.1	58.4	59.4	62.7
Other Income/Opr. Profit	32.0	34.9	41.6	40.6	37.3
Cost/Income	52.2	82.0	72.4	70.2	68.2
Return on Average Assets	0.6	0.3	0.8	0.7	0.7
Return on Avg. Net Worth	9.5	3.6	10.5	9.6	10.2
Asset Quality (%)					
Capital Adequacy Ratio	21.4	12.5	11.1	11.7	10.7
Tier I Capital	3.1	17.8	10.8	9.9	7.4
Gr. NPA/Gr. Advances	6.8	4.7	2.8	2.8	2.8
Net NPA/Net Advances	2.5	1.1	1.3	1.2	1.1
Coverage Ratio%	64.8	76.9	55.5	57.7	61.1
Credit / Deposit Ratio	62.1	69.5	75.5	76.7	76.7
Incremental C/D Ratio	127.1	73.9	85.8	79.5	76.7
Investment / Assets	32.8	25.7	25.0	24.8	23.8
Growth Rates (%)					
Advances	41.0	197.8	71.8	45.0	45.0
Deposits	16.6	166.3	58.1	42.7	45.0
Interest Income	3.7	132.1	57.9	67.6	41.8
Interest Expended	(17.5)	140.4	72.8	90.5	41.7
Net interest Income	36.9	124.2	42.8	39.4	42.0
Other Income	(5.5)	156.4	89.3	33.8	23.5
Operating Profit	31.2	(11.9)	144.4	47.9	43.5
EPS	113.4	151.6	24.2	17.6	34.0
Net Profit	123.9	249.7	38.2	36.8	34.0

Key data			
Sector	Banking		
Market Cap	Rs52bn/US\$1.3bn		
52 Wk H/L (Rs)	205.2/87.55		
Avg. daily vol. (6 month)	1,306,099		
Shareholding pattern (%)			
	31-Mar-07	30-Jun-07	
FII's NRI, ADR/GDR	50.8	53.9	
MFs and institutions	1.2	1.1	
Promoters	35.9	35.9	
Others	12.1	9.0	
Absolute returns (%)			
	1 mth	3 mth	12 mth
Yes Bank	15.0	17.8	107.7
Sensex	18.4	14.2	35.0
BSE Bank	19.3	11.6	52.4

Yes Bank

Accumulate Current Price: Rs187 Target price: Rs201
Quarterly Performance

	FY07				FY08		(Rs mn)	
	1Q	2Q	3Q	4Q	1Q	2Q	FY07	FY08E
Interest/Discount on Advances/Bills	632	913	1,214	1,467	1,917	2,393	4,226	9,097
Income on investments	261	335	373	498	712	786	1,467	2,676
Interest on balances with RBI/Others	29	31	20	58	97	96	139	418
Interest Income	922	1,279	1,608	2,024	2,725	3,276	5,832	12,191
Change (%)	218.2	246.2	183.1	199.9	195.5	156.1	206.7	109.0
Interest expenditure	622	869	1,112	1,561	2,201	2,626	4,163	8,767
Change (%)	297.9	412.5	272.4	269.1	253.9	202.3	297.5	110.6
Net interest income	301	410	496	463	524	649	1,670	3,425
Change (%)	124.9	105.2	84.3	83.8	74.4	58.3	95.4	105.1
Other income	372	381	449	787	760	803	1,989	2,950
Change (%)	95.3	74.3	80.0	132.4	104.5	110.6	99.5	48.3
Total income	672	791	945	1,250	1,284	1,452	3,659	6,374
Change (%)	107.5	89.0	82.2	111.7	91.0	83.5	97.6	74.2
Payment to & provision for employee	229	282	273	391	439	485	1,175	2,056
Other operating expenses	144	161	194	262	237	292	760	1,331
Total Operating expenses	374	442	467	653	676	777	1,935	3,386
Change (%)	141.0	128.0	81.3	156.0	80.9	75.7	124.7	75.0
Operating Profit	298	349	479	598	608	676	1,724	2,988
Change (%)	76.8	55.4	83.1	78.0	103.8	93.4	74.0	73.3
Provisions and w/off	42	21	98	127	61	77	288	826
Change (%)	1,400.0	78.8	128.5	42.5	44.8	262.6	96.5	187.1
PBT	256	328	381	471	547	599	1,436	2,162
Change (%)	54.5	54.1	74.2	90.9	113.5	82.6	70.1	50.5
Taxes	88	113	130	162	187	205	493	752
Change (%)	63.7	60.7	76.3	73.1	113.8	81.0	69.2	52.6
PAT	169	215	251	309	360	394	944	1,410
Change (%)	50.0	50.8	73.1	101.7	113.3	83.4	70.6	49.4
Equity Capital (Rs mn)	2,700	2,700	2,800	2,800	2,800	2,800	2,800	3,000
No. of Shares (mn)	270	270	280	280	280	280	280	300
EPS	0.6	0.8	0.9	1.1	1.3	1.4	3.4	4.7
Cost/Income Ratio (%)	44	56	49	52	53	53	53	53

Financial highlights

- **Net Interest Income (NII)** is expected to increase by 58.3% YoY to Rs649mn. NIM is expected to be 2.5% during Q2FY08.
- **Operating Profit** is expected to increase by 93.4% YoY to Rs676mn.
- **Provisions and contingencies** are expected to increase by 262.6% YoY to Rs77mn.
- **PAT** is expected to increase by 83.4% YoY to Rs394mn.

Other business highlights

- **Advances** are expected to increase by 120% YoY to Rs82bn.
- **Deposits** are expected to increase by 110% YoY to Rs91bn.

Future outlook

- **Growth in core earnings on the back of strong credit growth.** The on going buoyancy in corporate and SME lending will enable the bank to maintain its high credit growth rate of ~64% over FY07-10 translating into strong growth in core earnings. Core earnings as a percent to total income is expected to rise from 47% to 56%.
- **NIMs will improve as the bank increases the proportion of retail deposit** The aggressive branch roll out plans and increasing focus on retail business will improve the proportion of low cost deposits resulting in higher NIMs. CASA will improve from the current level of 5.8% to 13.8% by FY10 with the increase in number of branches.
- **Non interest income will continue to show robust growth as non fund based business gets traction.** A strong pipeline in its financial advisory business, traction in third party distribution business and a pick up in transactional banking will drive the non-fee based income. Higher volumes in forex and derivatives will also add to the non interest income going forward.

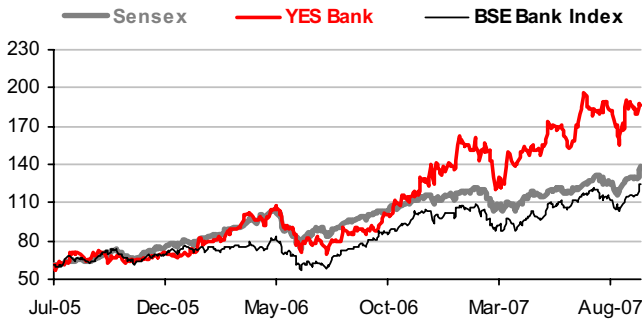
Valuations and Recommendation

At CMP of Rs187, the bank is trading at P/ABV multiple of 3.7x FY08E ABV of Rs46 and 3.2x FY09E ABV of Rs52. We maintain our **Accumulate** rating.

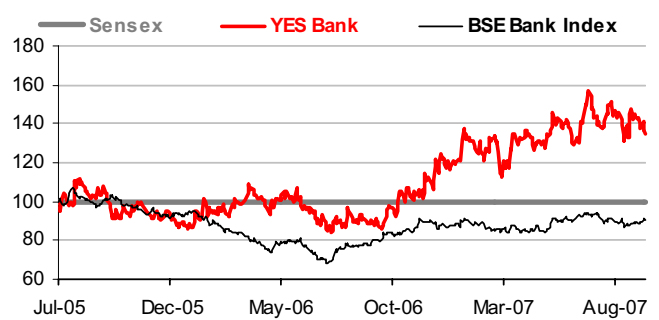
Stock performance

Yes Bank

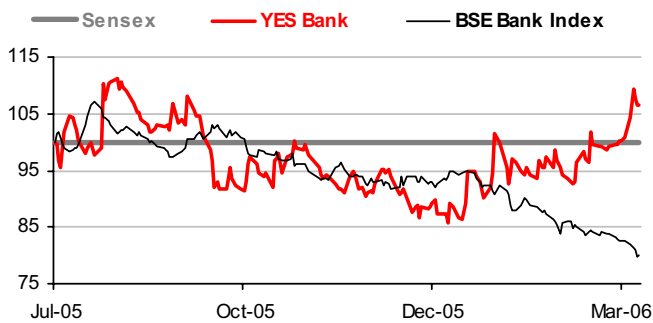
Absolute Perf. From Jul 05



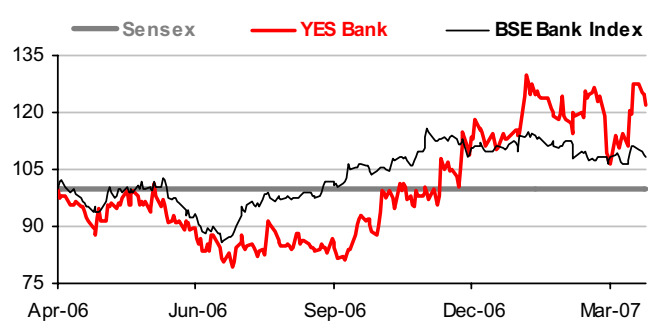
Relative Perf. From Jul 05



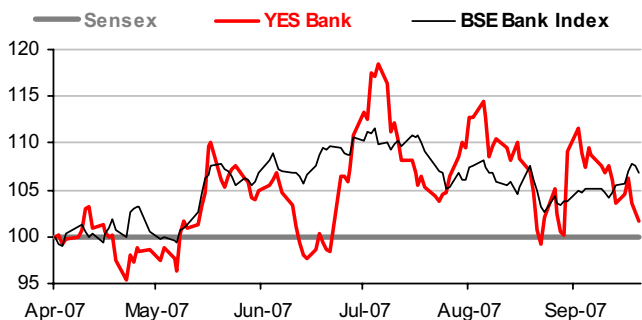
Relative Perf. From Jul 05 to March 06



Relative Perf. From Apr 06 to Mar 07



Relative Perf. From Apr 07

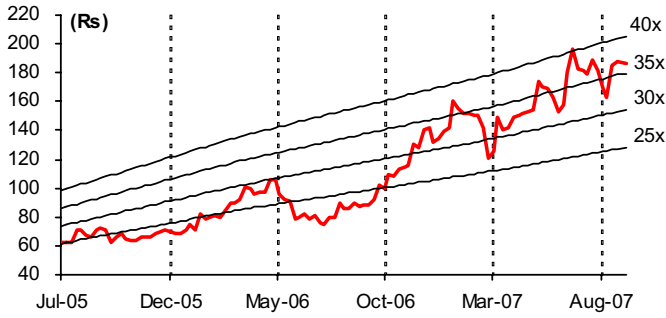


Source: Bloomberg, Religare Institutional Equity Research

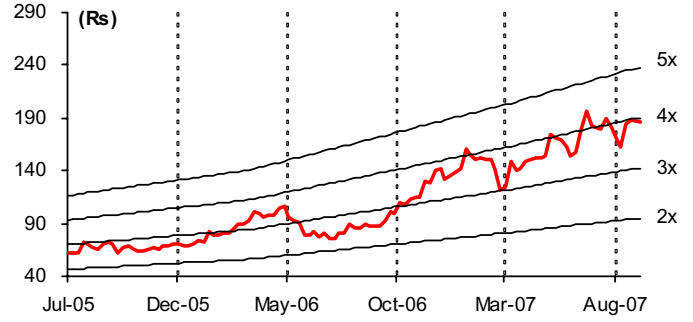
12 month forward rolling band charts

Yes Bank

P/E Band



P/ABV Band



Yes Bank Financials

Income statement

(Rs mn)

Y/E, 31st March	FY05	FY06	FY07	FY08E	FY09E
Interest Earned	300	1,902	5,876	12,191	19,793
Interest on Advance	231	1,361	4,226	9,097	15,354
Income on investment	62	475	1,510	2,676	3,870
Inc. on invt. with RBI	6	65	139	418	569
Interest Expended	118	1,047	4,163	8,767	14,194
Interest on deposits	89	851	3,293	7,206	12,093
Int. on RBI/Int. borro.	29	196	870	1,561	2,101
Net Interest Income	181	855	1,713	3,425	5,599
Non-Interest Income	182	997	1,946	2,950	4,300
Core fee base Income	78	419	726	1,279	2,139
Total Income	363	1,852	3,659	6,374	9,899
Operating Expenditure	399	861	1,935	3,386	5,726
Employee Expenses	213	501	1,175	2,056	3,598
Other Expenses	187	360	760	1,331	2,129
Operating Profit	(36)	991	1,724	2,988	4,173
Prov. & Contingencies	19	146	288	826	1,200
PBT	(55)	844	1,437	2,162	2,973
Income Tax	(18)	291	493	752	1,004
Net Profit	(38)	553	944	1,410	1,969

Balance Sheet

(Rs mn)

Y/E, 31st March	FY05	FY06	FY07	FY08E	FY09E
LIABILITIES					
Equity	2,000	2,700	2,800	3,000	3,000
Reserves	170	3,027	5,071	10,681	12,650
Net Worth	2,170	5,727	7,871	13,681	15,650
Deposits	6,630	29,104	82,204	150,080	241,610
Borrowings	3,697	5,648	13,459	17,760	24,256
Other Lia & Provisions	284	1,147	7,501	7,063	12,326
Total	12,782	41,626	111,035	188,585	293,842
ASSETS					
Cash	3	9	75	45	72
Balance with RBI	411	873	3,823	10,506	16,913
Balance with Banks, etc.	117	1,274	9,031	4,502	6,040
Investments	3,949	13,501	30,731	47,633	71,450
Advances	7,610	24,071	62,897	116,359	186,175
Fixed Assets	196	347	709	1,013	1,427
Other Assets	497	1,550	4,477	8,526	11,764
Total	12,782	41,626	111,743	188,585	293,842

Ratios

Y/E, 31st March	FY05	FY06	FY07	FY08E	FY09E
No. of Shares	200	270	280	300	300
Earnings Per Share (Rs.)	(0.2)	2.0	3.4	4.7	6.6
Book Value (Rs.)	10.9	21.2	28.1	45.6	52.2
Adjusted Book Value (Rs.)	10.9	21.2	28.1	45.6	52.2
Dividend Per Share (Rs.)	0.0	0.0	0.0	0.0	0.0
Dividend Pay-out Ratio (%)	0.0	0.0	0.0	0.0	0.0
Valuation Ratios (x)					
Price/Earnings	(888.6)	81.5	49.6	35.5	25.4
Price/ BV	15.4	7.9	5.9	3.7	3.2
Price/Adjusted BV	15.4	7.9	5.9	3.7	3.2
Performance Ratios (%)					
Average Yield on funds	2.5	7.3	8.0	8.5	8.6
Average cost of Funds	1.1	5.8	4.4	5.2	5.3
Interest Spread	1.3	1.5	3.7	3.3	3.3
Net Interest Margin	1.5	3.0	2.3	2.4	2.4
Yields (%)					
Average Yield on Adv.	3.0	8.7	9.7	10.2	10.2
Average Yield on Invts	1.6	5.4	6.8	6.8	6.5
Average Cost of Deposits	1.3	4.8	5.9	6.2	6.2
Earnings Quality (%)					
Net Int. Inc/Total Income	49.9	46.1	46.8	53.7	56.6
Other Income/Opr. Profit	(498.5)	100.7	112.9	98.7	103.1
Cost/Income	110.0	46.5	52.9	53.1	57.8
Return on Avg. Net Worth	(1.7)	14.0	13.9	13.1	13.4
Return on Average Assets	(0.3)	2.0	1.2	0.9	0.8
Asset Quality (%)					
Capital Adequacy Ratio	18.8	16.4	12.7	12.4	10.9
Tier I Capital	18.6	13.8	7.5	7.7	5.8
Gr. NPA/Gr. Advances	0.0	0.0	0.0	0.1	0.1
Net NPA/Net Advances	0.0	0.0	0.0	0.0	0.0
Coverage Ratio%	0.0	0.0	0.0	100.0	100.0
Credit / Deposit Ratio	114.8	82.7	76.5	77.5	77.1
Incremental C/D Ratio	NA	73.2	73.1	78.8	76.3
Investment / Assets	30.9	32.4	27.7	25.3	24.3
Growth Rates (%)					
Advances	NA	216.3	161.3	85.0	60.0
Deposits	NA	338.9	182.5	82.6	61.0
Interest Income	NA	534.4	209.0	107.5	62.4
Interest Expended	NA	783.8	297.5	110.6	61.9
Net interest Income	NA	371.4	100.5	99.9	63.5
Other Income	NA	449.0	95.1	51.6	45.8
Operating Profit	NA	2818.6	74.0	73.3	39.7
EPS	NA	1190.3	64.5	39.5	39.6
Net Profit	NA	1571.9	70.6	49.5	39.6

Key data			
Sector	Banking		
Market Cap	Rs30bn/US\$0.7bn		
52 Wk H/L (Rs)	375/188		
Avg. daily vol. (6 month)	258,083		
BSE Code	500469		
NSE Code	FEDERALBNK		
Bloomberg	FB IN		
Reuters	FED.BO		
Sensex	16,564		
Nifty	4,838		
Shareholding pattern (%)			
	31-Mar-07	30-Jun-07	
FIs NRI, ADR/GDR	57.6	55.0	
MFs and institutions	14.8	18.2	
Promoters	0.0	0.0	
Others	27.7	26.9	
Absolute returns (%)			
	1 mth	3 mth	12 mth
Federal Bank	17.3	18.5	66.0
Sensex	18.4	14.2	35.0
BSE Bank	19.3	11.6	52.4

Federal Bank

Buy
Current Price: Rs352
Target price: Rs416

Quarterly Performance

	FY07				FY08		(Rs mn)	
	1Q	2Q	3Q	4Q	1Q	2Q	FY07	FY08E
Interest/Discount on Advances/Bills	2,786	3,010	3,200	3,818	4,046	4,529	12,815	16,627
Income on investments	1,151	1,176	1,207	1,290	1,374	1,334	4,825	5,377
Interest on balances with RBI/Others	145	151	34	204	172	116	534	520
Interest Income	4,083	4,337	4,441	5,313	5,592	5,980	18,174	22,524
Change (%)	17.6	28.9	22.5	36.1	37.0	37.9	26.5	23.9
Interest expenditure	2,497	2,662	2,658	3,033	3,665	3,925	10,850	13,478
Change (%)	22.9	31.5	24.7	39.1	46.8	47.4	29.7	24.2
Net interest income	1,586	1,675	1,784	2,280	1,928	2,054	7,324	9,047
Change (%)	10.0	25.0	19.3	32.4	21.5	22.7	22.1	23.5
Other income	543	726	545	1,054	1,005	856	2,867	3,338
Change (%)	28.5	28.3	12.5	51.1	85.2	17.8	32.1	16.4
Total income	2,129	2,401	2,328	3,333	2,932	2,910	10,191	12,385
Change (%)	14.2	26.0	17.7	37.8	37.8	21.2	24.8	21.5
Payment to & provision for employee	649	656	602	697	631	718	2,605	2,786
Other operating expenses	342	355	371	389	417	426	1,457	1,748
Total Operating expenses	991	1,011	973	1,086	1,048	1,144	4,061	4,534
Change (%)	8.6	13.8	14.1	9.4	5.7	13.2	11.4	11.6
Operating Profit	1,137	1,390	1,355	2,247	1,884	1,766	6,130	7,851
Change (%)	19.6	36.6	20.4	57.5	65.7	27.0	35.6	28.1
Provisions and w/off	559	526	196	867	670	505	2,148	2,184
Change (%)	68.5	41.8	(1.4)	6.6	19.8	(4.0)	25.3	1.7
PBT	578	864	1,159	1,381	1,214	1,261	3,982	5,667
Change (%)	(6.7)	33.6	25.0	124.7	110.1	45.9	41.8	42.3
Taxes	176	170	321	388	545	416	1,055	1,700
Change (%)	33.1	61.2	52.2	262.5	209.1	145.4	89.9	61.2
PAT	402	695	838	993	669	845	2,927	3,967
Change (%)	(17.5)	28.2	17.0	95.6	66.6	21.7	30.0	35.5
Equity Capital (Rs mn)	856	856	856	856	856	856	856	856
No. of Shares (mn)	86	86	86	86	86	86	86	86
EPS	4.7	8.1	9.8	11.6	7.8	9.9	34.2	46.3
Cost/Income Ratio (%)	44	42	42	33	36	39	40	37

Financial highlights

- **Net Interest Income (NII)** is expected to increase by 22.7% YoY to Rs2,054mn. NIM is expected to be 3.5% during Q2FY08.
- **Operating Profit** is expected to increase by 27% YoY to Rs1,766mn.
- **Provisions and contingencies** are expected to decline by 4% YoY to Rs505mn.
- **PAT** is expected to increase by 21.7% YoY to Rs845mn.

Other business highlights

- **Advances** are expected to increase by 27% YoY to Rs161bn.
- **Deposits** are expected to increase by 17% YoY to Rs214bn.

Future outlook

- The bank has identified Retail & the SME sector as key growth drivers in the coming years. Advances are expected to grow at a CAGR of 26% between FY07-10, driven by a ~27% CAGR in retail & SME advances and ~24% CAGR in corporate advances.
- Deposits are expected to register a CAGR of 22% between FY07-10, whereas CASA deposits are expected to increase at CAGR of 26.6%. CASA deposits constitute around 25.3% of the total deposit and are expected to improve to 27.7% in FY09E and than to 28.8% by FY10E.
- The recoveries in written off accounts are expected to be strong due to the large written off portfolio of Rs6bn. The written off portfolio was secured by primary as well as secondary collateral which increases the probability of high recoveries.
- The cost to income ratio is expected to decline from 40% in FY07 to 35% by FY10 as the bank had large one off items in FY07 which are non-recurring in nature. The bank made a one time provision of Rs143mn towards VRS and a one time provision of Rs140mn for gratuity and pension pertaining to the previous period as per AS-15. Federal Bank is the only bank in its segment which is AS-15 compliant.

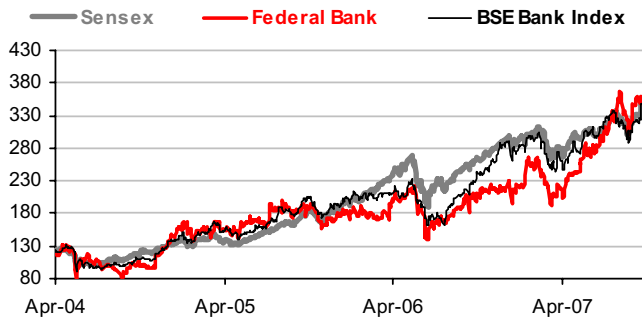
Valuations and Recommendation

At CMP of Rs352, the bank is trading at P/ABV multiple of 1.6x FY08E ABV of Rs205 and 1.3x FY09E ABV of Rs254. We maintain our **Buy** rating.

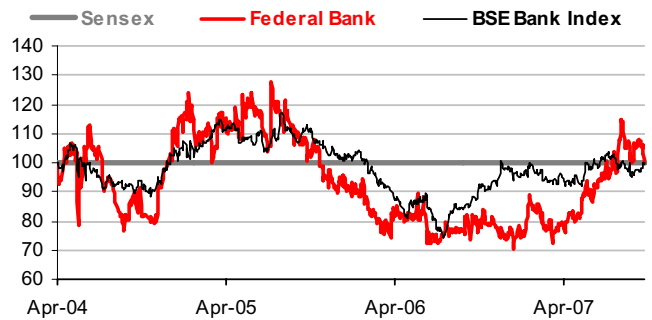
Stock performance

Federal Bank

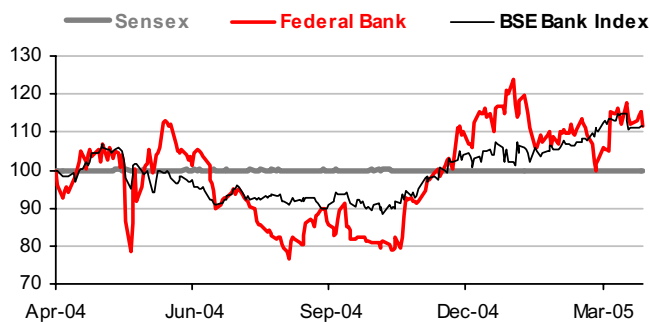
Absolute Perf. From Apr 04



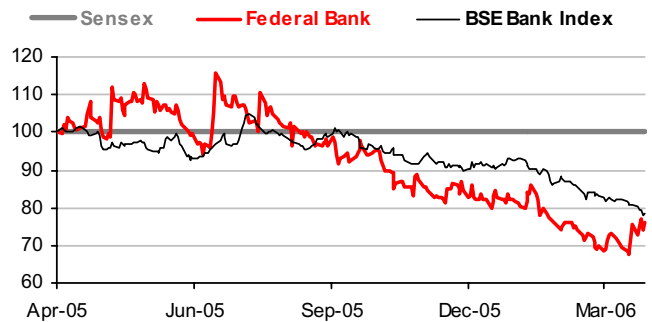
Relative Perf. From Apr 04



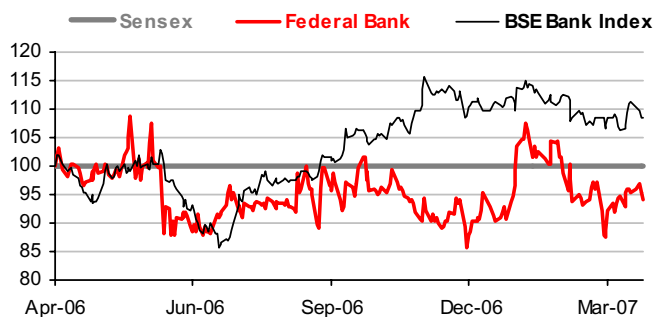
Relative Perf. From Apr 04 to Mar 05



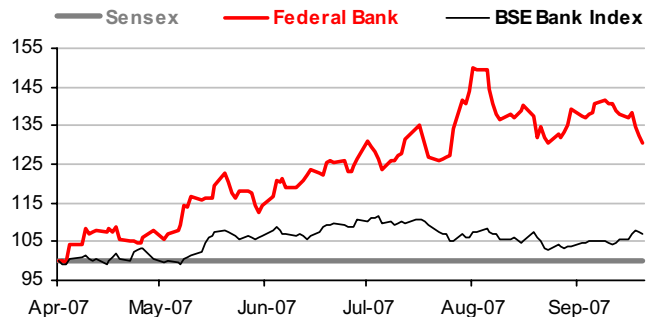
Relative Perf. From Apr 05 to Mar 06



Relative Perf. From Apr 06 to Mar 07



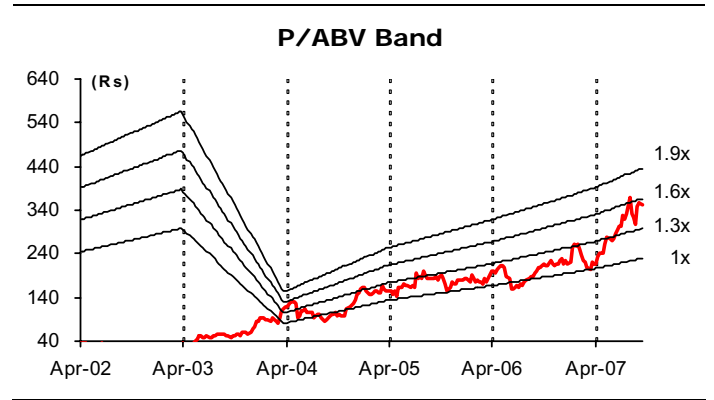
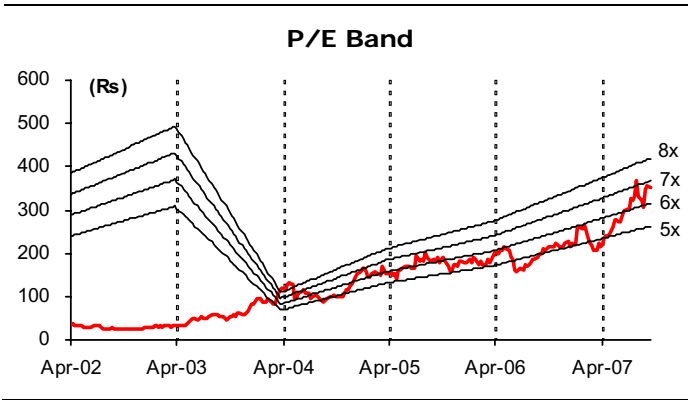
Relative Perf. From Apr 07



Source: Bloomberg, Religare Institutional Equity Research

12 month forward rolling band charts

Federal Bank



Federal Bank Financials

Income statement

(Rs mn)

Y/E, 31st March	FY05	FY06	FY07	FY08E	FY09E
Interest Earned	11,910	14,365	18,174	22,524	27,501
Interest on Advance	7,728	9,160	12,815	16,627	20,889
Income on investment	3,790	4,582	4,825	5,377	5,977
Inc. on invt. with RBI	393	624	534	520	635
Interest Expended	6,888	8,367	10,850	13,478	16,357
Interest on deposits	6,568	7,974	10,403	12,851	15,644
Int. on RBI/Int. borro.	319	393	446	627	714
Net Interest Income	5,023	5,998	7,324	9,047	11,143
Non-Interest Income	2,120	2,169	2,867	3,338	3,667
Core fee base Income	657	699	830	971	1,136
Total Income	7,143	8,167	10,191	12,385	14,810
Operating Expenditure	3,139	3,646	4,061	4,534	5,301
Employee Expenses	1,858	2,284	2,605	2,786	3,204
Other Expenses	1,281	1,362	1,457	1,748	2,097
Operating Profit	4,004	4,522	6,130	7,851	9,509
Prov. & Contingencies	2,843	1,714	2,148	2,184	2,492
PBT	1,161	2,808	3,982	5,667	7,018
Income Tax	260	556	1,055	1,700	2,105
Net Profit	901	2,252	2,927	3,967	4,912

Balance Sheet

(Rs mn)

Y/E, 31st March	FY05	FY06	FY07	FY08E	FY09E
LIABILITIES					
Equity	656	856	856	856	856
Reserves	6,577	11,644	14,036	17,502	21,814
Net Worth	7,233	12,500	14,892	18,358	22,670
Deposits	151,929	178,787	215,844	265,891	323,729
Borrowings	4,559	8,805	11,721	13,360	15,189
Other Lia & Provisions	4,488	6,337	4,446	8,193	11,822
Total	168,210	206,429	246,903	305,802	373,411
ASSETS					
Cash	1,550	1,578	1,295	1,595	1,942
Balance with RBI	5,343	10,568	15,109	18,612	22,661
Balance with Banks, etc.	8,666	6,579	5,396	6,647	8,093
Investments	57,992	62,724	66,690	76,694	88,198
Advances	88,226	117,365	148,991	190,342	238,146
Fixed Assets	1,854	1,739	2,124	2,786	3,133
Other Assets	4,579	5,877	7,297	9,125	11,237
Total	168,210	206,429	246,903	305,802	373,411

Ratios

Y/E, 31st March	FY05	FY06	FY07	FY08E	FY09E
No. of Shares	66	86	86	86	86
Earnings Per Share (Rs.)	13.7	26.3	34.2	46.3	57.4
Book Value (Rs.)	110.3	146.0	174.0	214.5	264.8
Adjusted Book Value (Rs.)	80.6	133.0	166.4	204.7	253.7
Dividend Per Share (Rs.)	2.5	3.5	4.0	5.0	6.0
Dividend Pay-out Ratio (%)	20.8	15.2	13.7	12.6	12.2
Valuation Ratios (x)					
Price/Earnings	23.7	12.4	9.5	7.0	5.7
Price/ BV	2.9	2.2	1.9	1.5	1.2
Price/Adjusted BV	4.0	2.4	2.0	1.6	1.3
Performance Ratios (%)					
Average Yield on funds	8.1	8.7	9.2	9.4	9.3
Average cost of Funds	4.6	4.9	5.2	5.3	5.3
Interest Spread	3.4	3.8	4.0	4.0	4.0
Net Interest Margin	3.4	3.6	3.7	3.8	3.8
Yields (%)					
Average Yield on Adv.	9.4	8.9	9.6	9.8	9.8
Average Yield on Invts	6.7	7.6	7.5	7.5	7.3
Average Cost of Deposits	4.6	4.8	5.3	5.3	5.3
Earnings Quality (%)					
Net Int. Inc/Total Income	70.3	73.4	71.9	73.0	75.2
Other Income/Opr. Profit	52.9	48.0	46.8	42.5	38.6
Cost/Income	43.9	44.6	39.8	36.6	35.8
Return on Avg. Net Worth	13.1	22.8	21.4	23.9	23.9
Return on Average Assets	0.6	1.2	1.3	1.4	1.4
Asset Quality (%)					
Capital Adequacy Ratio	11.3	13.8	13.4	10.1	9.8
Tier I Capital	6.4	9.7	8.9	6.9	7.0
Gr. NPA/Gr. Advances	7.3	4.6	3.0	3.0	3.0
Net NPA/Net Advances	2.2	1.0	0.4	0.4	0.4
Coverage Ratio%	70.9	78.7	85.6	85.6	86.9
Credit / Deposit Ratio	58.1	65.6	69.0	71.6	73.6
Incremental C/D Ratio	65.4	108.5	85.3	82.6	82.6
Investment / Assets	34.5	30.4	27.0	25.1	23.6
Growth Rates (%)					
Advances	14.6	33.0	26.9	27.8	25.1
Deposits	12.7	17.7	20.7	23.2	21.8
Interest Income	(0.1)	20.6	26.5	23.9	22.1
Interest Expended	(10.6)	21.5	29.7	24.2	21.4
Net interest Income	19.1	19.4	22.1	23.5	23.2
Other Income	(28.8)	2.3	32.1	16.4	9.8
Operating Profit	(8.3)	12.9	35.6	28.1	21.1
EPS	(78.1)	91.6	30.0	35.5	23.8
Net Profit	(33.9)	150.0	30.0	35.5	23.8

Key data

Sector	Banking		
Market Cap	Rs18bn/US\$0.4bn		
52 Wk H/L (Rs)	400/211.0332		
Avg. daily vol. (6 month)	46,073		
BSE Code	590003		
NSE Code	KARURVYSYA		
Bloomberg	KVB IN		
Reuters	KARU.BO		
Sensex	16,564		
Nifty	4,838		
Shareholding pattern (%)	31-Mar-07	30-Jun-07	
FII's NRI, ADR/GDR	23.0	24.4	
MFs and institutions	6.1	5.3	
Promoters	4.0	3.9	
Others	67.0	66.5	
Absolute returns (%)	1 mth	3 mth	12 mth
KVB	6.7	11.0	54.9
Sensex	18.4	14.2	35.0
BSE Bank Index	19.3	11.6	52.4

Karur Vysya Bank (KVB)

Buy
Current Price: Rs337
Target price: Rs395
Quarterly Performance

(Rs mn)

	FY07				FY08		FY07	FY08E
	1Q	2Q	3Q	4Q	1Q	2Q		
Interest/Discount on Advances/Bills	1,315	1,451	1,634	1,811	1,936	2,193	6,211	7,810
Income on investments	498	542	574	570	593	603	2,184	2,561
Interest on balances with RBI/Others	91	97	45	47	33	42	279	285
Interest Income	1,903	2,090	2,253	2,429	2,562	2,838	8,674	10,655
Change (%)	24.4	29.0	37.6	41.1	34.6	35.8	33.3	22.8
Interest expenditure	1,143	1,255	1,373	1,433	1,652	1,804	5,203	6,399
Change (%)	29.0	39.8	50.1	45.9	44.5	43.8	41.4	23.0
Net interest income	760	835	880	996	910	1,035	3,471	4,256
Change (%)	18.0	15.6	21.7	34.7	19.7	23.9	22.7	22.6
Other income	279	526	273	113	291	322	1,192	1,427
Change (%)	53.1	39.2	(10.8)	(79.9)	4.0	(38.7)	(1.2)	19.8
Total income	1,039	1,360	1,153	1,110	1,200	1,357	4,663	5,684
Change (%)	25.7	23.7	12.0	(14.9)	15.5	(0.3)	15.6	21.9
Payment to & provision for employee	221	228	242	236	251	267	927	1,112
Other operating expenses	279	339	297	83	287	294	998	1,167
Total Operating expenses	500	567	538	319	538	561	1,925	2,280
Change (%)	22.9	5.0	(7.3)	(28.4)	7.6	(1.2)	10.1	18.4
Operating Profit	539	793	615	790	662	796	2,738	3,404
Change (%)	28.5	41.8	36.9	(7.9)	22.8	0.4	19.7	24.3
Provisions and w/off	154	19	123	140	2	88	435	586
Change (%)	(1,576.9)	(76.6)	65.4	(56.8)	(99.0)	369.1	(7.1)	34.7
PBT	386	775	492	650	661	708	2,302	2,817
Change (%)	(10.3)	61.5	31.3	22.0	71.3	(8.5)	26.7	22.4
Taxes	2	349	231	121	181	220	702	845
Change (%)	(96.5)	70.6	97.9	36.0	9,442.1	(37.1)	51.4	20.4
PAT	384	426	262	529	480	489	1,600	1,972
Change (%)	2.0	54.8	1.3	19.2	24.9	14.8	18.2	23.3
Equity Capital (Rs mn)	180	360	360	495	537	539	495	539
No. of Shares (mn)	50	50	50	50	54	54	54	54
EPS	7.7	8.6	5.3	10.6	8.9	9.1	29.7	36.6
Cost/Income Ratio (%)	44	42	47	29	45	41	41	40

Financial highlights

- **Net Interest Income (NII)** is expected to increase by 23.9% YoY to Rs1,035mn. NIM is expected to be 4% during Q2FY08.
- **Operating Profit** is expected to increase by 0.4% YoY to Rs796mn. The low growth in operating profits is on account of high recoveries on written off account during Q2FY07.
- **Provisions and contingencies** are expected to increase by 369% YoY to Rs88mn. The sharp rise in on account of low base during Q2FY07.
- **PAT** is expected to increase by 14.8% YoY to Rs489mn.

Future outlook

- Steady credit growth of 23% over FY07-10 along with stability in NIMs will drive the core earnings. The proportion of CASA will increase marginally from 27.7% in FY07 to 28% in FY08 on the back of an expansion of its delivery channels. The bank is expanding its presence in unbanked urban and rural areas to improve its customer base.
- Non-interest income is expected to increase by 19% driven by growth in fee based income. The recovery in written off accounts will add to the growth of non interest account.
- Increase in leverage will improve its return ratio thus providing the scope for re-rating.
- Its capital adequacy ratio is 15.8% with Tier I capital at above 15%. This provides enough head room for the bank to leverage its balance sheet for future growth. The increase in leverage will improve its return ratios, thus providing scope for re-rating. The return on equity is expected to improve from 16.54% in FY07 to 19.93% in FY10.

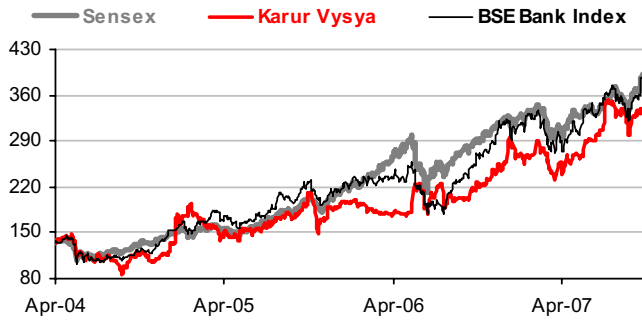
Valuations and Recommendation

At CMP of Rs337, the bank is trading at a P/ABV multiple of 1.5x FY08E ABV of Rs219 and 1.3x FY09E ABV of Rs250. We maintain our **Buy** rating.

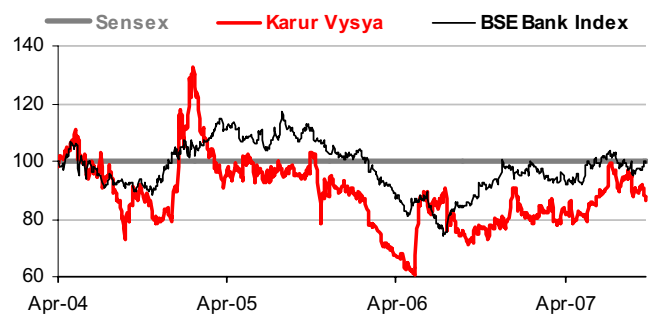
Stock performance

Karur Vysya Bank

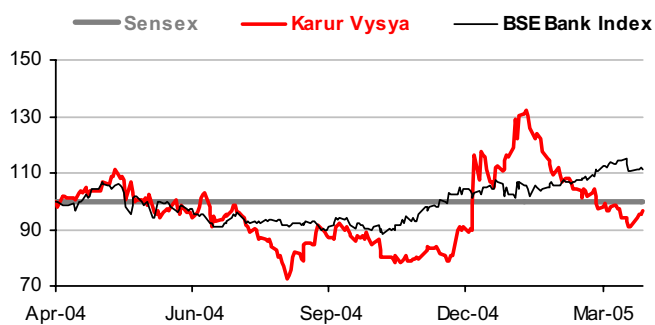
Absolute Perf. From Apr 04



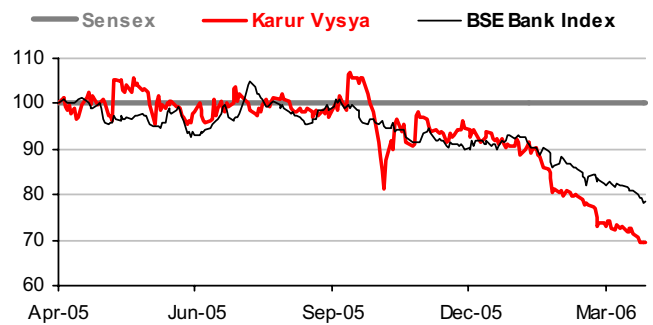
Relative Perf. From Apr 04



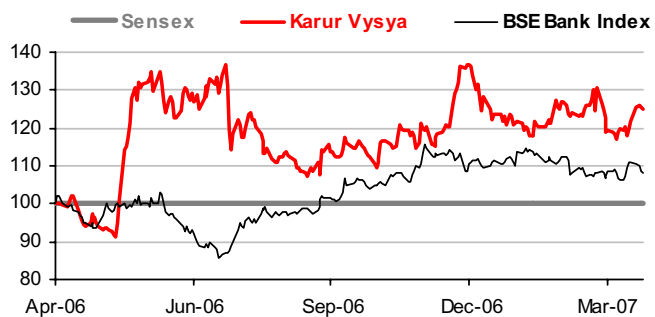
Relative Perf. From Apr 04 to Mar 05



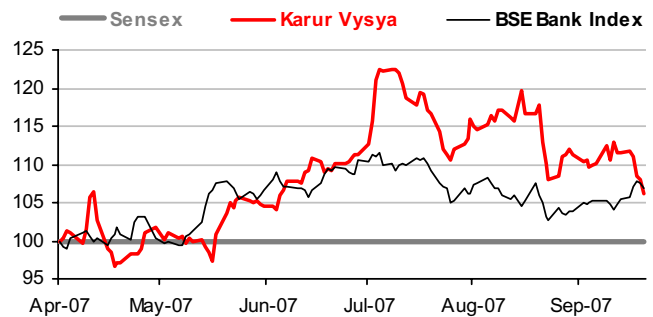
Relative Perf. From Apr 05 to Mar 06



Relative Perf. From Apr 06 to Mar 07



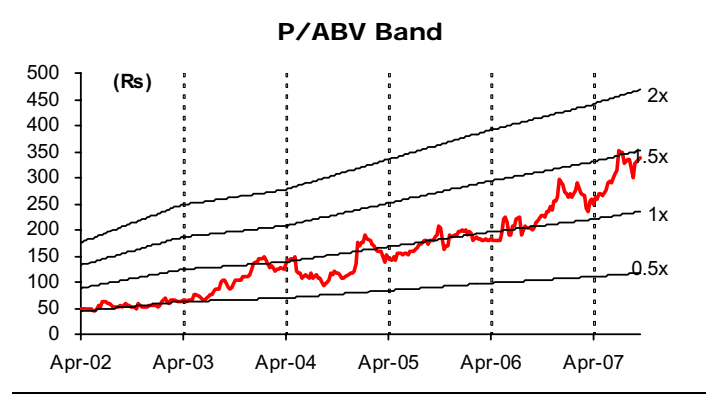
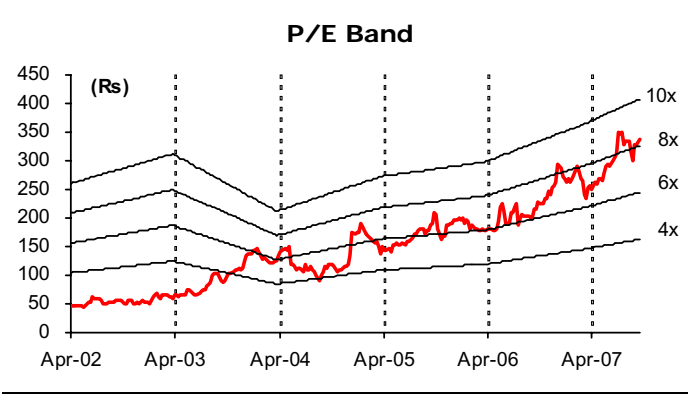
Relative Perf. From Apr 07



Source: Bloomberg, Religare Institutional Equity Research

12 month forward rolling band charts

Karur Vysya Bank



Karur Vysya Bank Financials

Income statement

(Rs mn)

Y/E, 31st March	FY05	FY06	FY07	FY08E	FY09E
Interest Earned	5,908	6,509	8,674	10,655	12,974
Interest on Advance	3,857	4,532	6,211	7,810	9,762
Income on investment	1,899	1,869	2,184	2,561	2,833
Inc. on invt. with RBI	151	108	279	285	379
Interest Expended	3,341	3,680	5,203	6,399	7,705
Interest on deposits	3,229	3,563	5,069	6,180	7,432
Int. on RBI/Int. borro.	111	116	134	219	273
Net Interest Income	2,567	2,829	3,471	4,256	5,269
Non-Interest Income	1,132	1,206	1,192	1,427	1,741
Core fee base Income	588	771	939	1,123	1,373
Total Income	3,698	4,035	4,663	5,684	7,011
Operating Expenditure	1,706	1,749	1,925	2,280	2,746
Employee Expenses	764	874	927	1,112	1,357
Other Expenses	943	875	998	1,167	1,389
Operating Profit	1,992	2,286	2,738	3,404	4,264
Prov. & Contingencies	674	469	435	586	811
PBT	1,318	1,818	2,302	2,817	3,453
Income Tax	265	464	702	845	1,036
Net Profit	1,053	1,354	1,600	1,972	2,417

Balance Sheet

(Rs mn)

Y/E, 31st March	FY05	FY06	FY07	FY08E	FY09E
LIABILITIES					
Equity	180	180	495	537	537
Reserves	7,429	8,537	10,137	11,441	13,129
Net Worth	7,609	8,716	10,632	11,978	13,666
Deposits	66,722	75,768	93,403	112,601	135,121
Borrowings	923	1,956	2,285	2,857	3,571
Other Lia & Provisions	3,595	3,638	4,470	9,176	14,752
Total	78,848	90,079	110,790	136,612	167,110
ASSETS					
Cash	648	847	1,299	1,351	1,621
Balance with RBI	3,167	3,859	4,652	7,882	9,458
Balance with Banks, etc.	2,737	3,117	1,768	1,971	2,365
Investments	22,190	22,981	28,740	33,338	38,839
Advances	46,198	55,554	70,405	88,006	110,008
Fixed Assets	1,022	984	967	1,055	1,143
Other Assets	2,887	2,735	2,959	3,009	3,677
Total	78,848	90,079	110,790	136,612	167,110

Ratios

Y/E, 31st March	FY05	FY06	FY07	FY08E	FY09E
No. of Shares (adj.)	50	50	54	54	54
Earnings Per Share adj. (Rs.)	21.2	27.3	29.8	36.7	45.0
Book Value (Rs.)	153.2	175.5	197.9	223.0	254.4
Adjusted Book Value (Rs.)	137.9	166.5	194.9	219.2	250.3
Dividend Per Share (Rs.)	3.6	4.3	10.0	11.0	12.0
Dividend Pay-out Ratio (%)	19.5	18.2	38.0	33.9	30.2
Valuation Ratios (x)					
Price/Earnings	15.1	11.7	10.7	8.7	7.1
Price/ BV	2.1	1.8	1.6	1.4	1.3
Price/Adjusted BV	2.3	1.9	1.6	1.5	1.3
Performance Ratios (%)					
Average Yield on funds	8.5	8.6	9.9	10.0	9.8
Average cost of Funds	5.2	5.1	6.0	6.1	6.1
Interest Spread	3.3	3.6	3.9	3.9	3.8
Net Interest Margin	3.7	3.8	4.0	4.0	4.0
Yields (%)					
Average Yield on Adv.	8.9	8.9	9.9	9.9	9.9
Average Yield on Invts	8.6	8.3	8.4	8.3	7.9
Average Cost of Deposits	5.1	5.0	6.0	6.0	6.0
Earnings Quality (%)					
Net Int. Inc/Total Income	69.4	70.1	74.4	74.9	75.2
Other Income/Opr. Profit	56.8	52.7	43.5	41.9	40.8
Cost/Income	46.1	43.3	41.3	40.1	39.2
Return on Avg. Net Worth	14.4	16.6	16.5	17.4	18.9
Return on Average Assets	1.4	1.6	1.6	1.6	1.6
Asset Quality (%)					
Capital Adequacy Ratio	16.1	14.8	14.5	13.7	13.2
Tier I Capital	14.4	13.3	14.0	11.8	11.0
Gr. NPA/Gr. Advances	5.1	3.9	2.8	2.5	2.2
Net NPA/Net Advances	1.6	0.8	0.2	0.2	0.2
Coverage Ratio%	65.1	74.9	92.1	91.0	91.1
Credit / Deposit Ratio	69.2	73.3	75.4	78.2	81.4
Incremental C/D Ratio	78.4	103.4	84.2	91.7	97.7
Investment / Assets	28.1	25.5	25.9	24.4	23.2
Growth Rates (%)					
Advances	14.8	20.3	26.7	25.0	25.0
Deposits	12.9	13.6	23.3	20.6	20.0
Interest Income	(8.8)	10.2	33.3	22.8	21.8
Interest Expended	(4.7)	10.1	41.4	23.0	20.4
Net interest Income	(13.6)	10.2	22.7	22.6	23.8
Other Income	52.4	6.6	(1.2)	19.8	22.0
Operating Profit	(7.1)	14.8	19.7	24.3	25.3
EPS	(32.0)	28.5	9.3	23.3	22.6
Net Profit	(32.0)	28.5	18.2	23.3	22.6

Key data			
Sector	Banking		
Market Cap	Rs11bn / US\$0.2bn		
52 Wk H/L (Rs)	170.95/66.55		
Avg. daily vol. (6 month)	262,457		
BSE Code	532218		
NSE Code	SOUTHBANK		
Bloomberg	SIB IN		
Reuters	SIBK.BO		
Sensex	16,564		
Nifty	4,838		
Shareholding pattern (%)			
	31-Mar-07	30-Jun-07	
FII's NRI, ADR/GDR	41.8	43.2	
MFs and institutions	6.7	7.8	
Promoters	0.0	0.0	
Others	51.5	49.0	
Absolute returns (%)			
	1 mth	3 mth	12 mth
South Indian Bank	18.4	32.0	139.6
Sensex	18.4	14.2	35.0
BSE Bank	19.3	11.6	52.4

South Indian Bank (SIB)

Buy
Current Price: Rs160
Target price: Rs181

Quarterly Performance

	FY07				FY08		(Rs mn)	
	1Q	2Q	3Q	4Q	1Q	2Q	FY07	FY08E
Interest/Discount on Advances/Bills	1,495	1,656	1,787	2,006	2,145	2,197	6,944	8,736
Income on investments	511	516	576	586	647	640	2,188	2,566
Interest on balances with RBI/Others	123	144	127	240	185	230	634	874
Interest Income	2,129	2,316	2,490	2,832	2,977	3,066	9,766	12,176
<i>Change (%)</i>	17.3	26.2	28.3	40.0	39.8	32.4	28.3	24.7
Interest expenditure	1,300	1,472	1,606	1,713	2,004	2,058	6,091	7,616
<i>Change (%)</i>	15.5	37.0	47.7	39.9	54.2	39.8	35.0	25.0
Net interest income	829	844	884	1,119	973	1,009	3,675	4,561
<i>Change (%)</i>	20.2	10.8	3.6	40.1	17.3	19.6	18.5	24.1
Other income	141	415	221	254	243	277	1,032	997
<i>Change (%)</i>	(16.5)	226.0	64.2	(12.8)	71.7	(33.4)	42.7	(3.3)
Total income	971	1,259	1,105	1,373	1,216	1,286	4,707	5,558
<i>Change (%)</i>	13.0	41.7	11.9	26.0	25.3	2.1	23.1	18.1
Payment to & provision for employee	342	307	290	393	395	402	1,332	1,522
Other operating expenses	208	242	203	204	283	264	856	942
Total Operating expenses	550	548	493	597	677	666	2,189	2,464
<i>Change (%)</i>	3.1	(13.3)	(6.4)	5.2	23.1	21.4	(3.2)	12.6
Operating Profit	420	710	612	776	538	620	2,518	3,094
<i>Change (%)</i>	29.1	177.7	32.8	48.6	28.1	(12.8)	61.0	22.9
Provisions and w/off	191	195	165	503	75	183	1,054	1,175
<i>Change (%)</i>	(18.9)	(5.2)	18.4	71.0	(60.5)	(6.1)	20.5	11.5
PBT	230	515	447	272	463	436	1,464	1,919
<i>Change (%)</i>	153.4	932.7	39.1	19.5	101.7	(15.3)	112.3	31.1
Taxes	79	99	199	47	159	131	423	576
<i>Change (%)</i>	110.9	(371.4)	72.8	(27.9)	101.5	32.5	134.3	36.1
PAT	151	417	248	226	304	306	1,041	1,344
<i>Change (%)</i>	183.4	382.6	20.3	38.3	101.8	(26.6)	104.5	29.0
Extra ordinary item		230					230	
Adjusted PAT	151	187	248	226	304	306	811	1,344
<i>Change (%)</i>	183.4	116.1	20.3	38.3	101.8	63.8	59.4	65.6
Equity Capital (Rs mn)	704	704	704	704	704	704	704	904
No. of Shares (mn)	70	70	70	70	70	70	70	90
EPS (Adjst)	2.1	2.6	3.5	3.2	4.3	4.3	11.5	14.9
Cost/Income Ratio(%)	44	44	45	43	56	52	46	44

Financial highlights

- **Net Interest Income (NII)** is expected to increase by 19.6% YoY to Rs1009mn. NIM is expected to be 2.9% during Q2FY08.
- **Operating Profit** is expected to decline by 12.8% YoY to Rs620mn. The decline is due to a one time gain during Q2FY07 on account of the sale of stake in Bharat Overseas Bank.
- **Provision and contingencies** are expected to decline by 6.1% YoY to Rs183mn.
- **Adjusted PAT** (adjusting for one time gain during previous year) is expected to increase by 63.8% YoY to Rs306mn.

Other business highlights

- **Advances** are expected to increase by 26% YoY to Rs93bn.
- **Deposits** are expected to increase by 25% YoY to Rs136bn.

Future outlook

- The bank is expected to show loan growth at a CAGR of 21% over FY07-10. Retail advances are expected to grow at a CAGR of 20% between FY07-10. Corporate advances including SME advances are expected to witness a ~22% CAGR over FY07-10.
- The NIMs are expected to increase marginally going forward as the improvement in its CASA ratio will enable the bank to contain its cost of deposits.
- Deposits are expected to register a CAGR of 18% between FY07-10, whereas CASA deposits are expected to increase at CAGR of 24%. CASA deposits constitute around 24% of the total deposits and are expected to rise to 27% in FY08E and then to 28% by FY09E.
- Commission Exchange and Brokerage (CEB) income will show healthy growth on the back of the banks renewed focus on its third party product distribution business and growth in remittance business.
- Recoveries in written off accounts are expected to be strong due to the large pool of written off assets. The bank is expected to recover around Rs1.30bn in FY08.

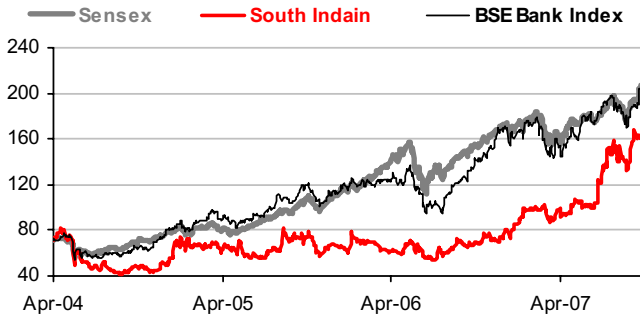
Valuations and Recommendation

At CMP of Rs160, the bank is trading at P/ABV multiple of 1.2x FY08E ABV of Rs118 and 1x FY09E ABV of Rs134. We maintain our **Buy** rating.

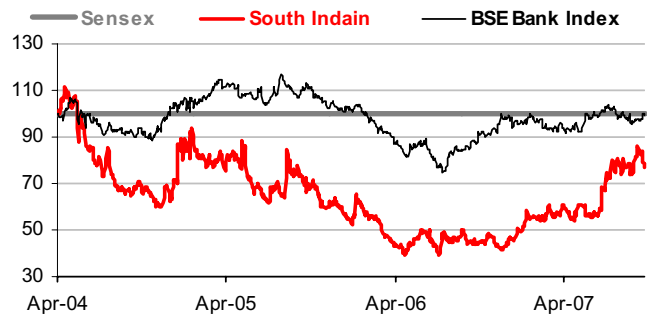
Stock performance

South Indian Bank

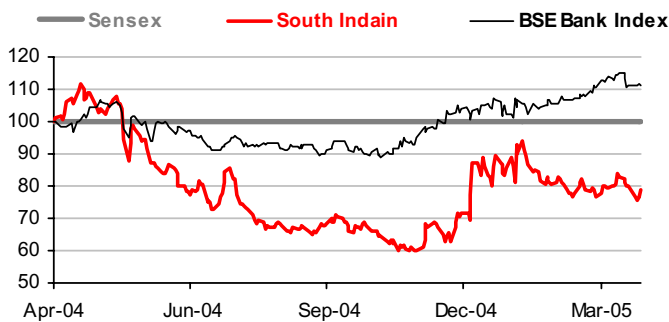
Absolute Perf. From Apr 04



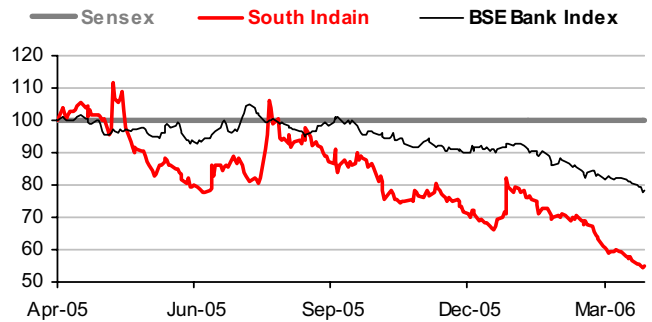
Relative Perf. From Apr 04



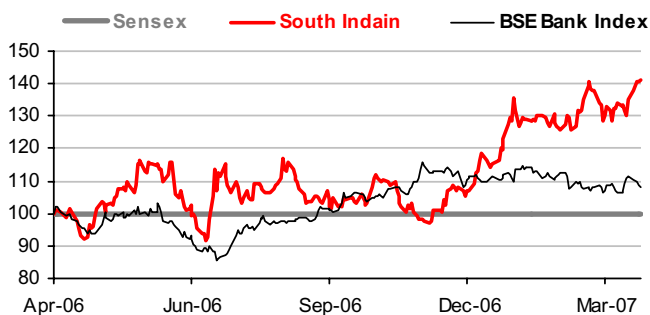
Relative Perf. From Apr 04 to Mar 05



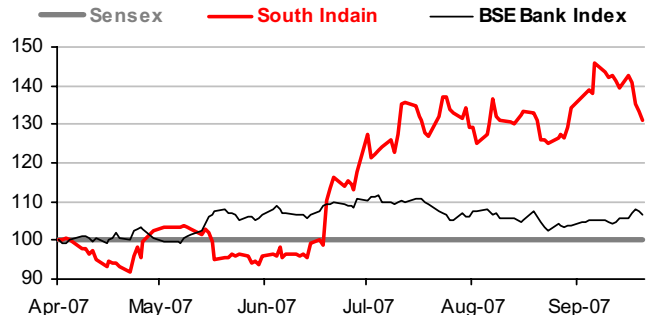
Relative Perf. From Apr 05 to Mar 06



Relative Perf. From Apr 06 to Mar 07



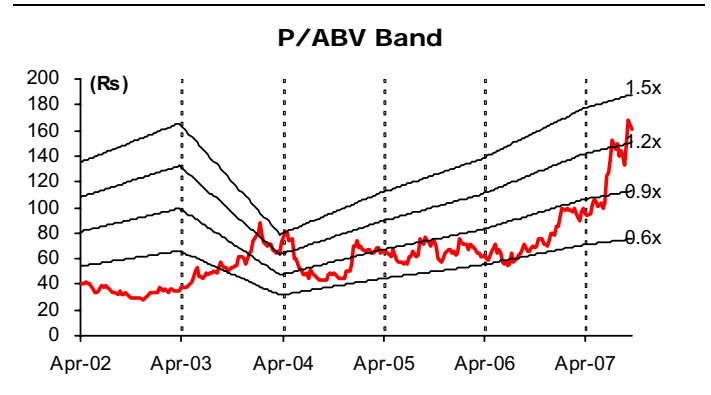
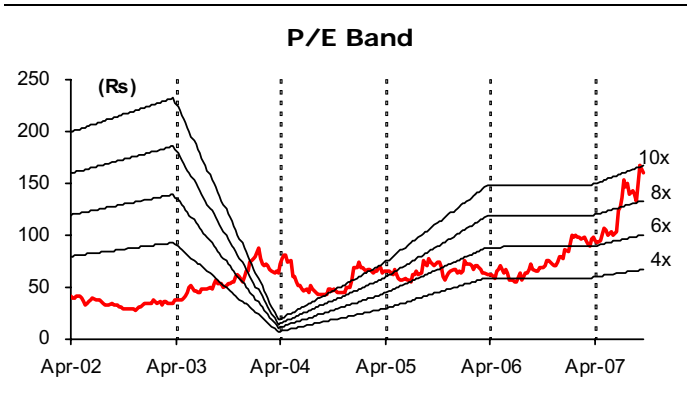
Relative Perf. From Apr 07



Source: Bloomberg, Religare Institutional Equity Research

12 month forward rolling band charts

South Indian Bank



South Indian Bank Financials

Income statement

(Rs mn)

Y/E, 31st March	FY05	FY06	FY07	FY08E	FY09E
Interest Earned	7,090	7,613	9,766	12,176	14,593
Interest on Advance	4,376	5,493	6,944	8,736	10,639
Income on investment	2,576	1,871	2,188	2,566	2,916
Inc. on invt. with RBI	138	249	634	874	1,037
Interest Expended	4,521	4,511	6,091	7,616	9,012
Interest on deposits	4,362	4,340	5,926	7,350	8,629
Int. on RBI/Int. borro.	159	171	165	265	384
Net Interest Income	2,569	3,102	3,675	4,561	5,580
Non-Interest Income	1,024	723	1,032	997	1,035
Core fee base Income	215	225	243	291	346
Total Income	3,593	3,824	4,707	5,558	6,615
Operating Expenditure	1,871	2,261	2,189	2,464	2,913
Employee Expenses	1,185	1,394	1,332	1,522	1,811
Other Expenses	686	867	856	942	1,102
Operating Profit	1,722	1,564	2,518	3,094	3,702
Prov. & Contingencies	1,584	874	1,054	1,175	1,289
PBT	138	690	1,464	1,919	2,413
Income Tax	51	181	423	576	724
Net Profit	87	509	1,041	1,344	1,689

Ratios

Y/E, 31st March	FY05	FY06	FY07	FY08E	FY09E
No. of Shares	48	70	70	90	90
Earnings Per Share (Rs.)	1.8	7.2	14.8	14.9	18.7
Book Value (Rs.)	95.5	91.0	102.8	124.7	139.5
Adjusted Book Value (Rs.)	52.7	74.2	91.8	117.7	133.6
Dividend Per Share (Rs.)	0.0	1.8	2.5	3.0	3.5
Dividend Pay-out Ratio (%)	0.0	0.3	0.2	0.2	0.2
Valuation Ratios (x)					
Price/Earnings	76.7	19.4	9.5	9.4	7.5
Price/ BV	1.5	1.5	1.4	1.1	1.0
Price/Adjusted BV	2.7	1.9	1.5	1.2	1.0
Performance Ratios (%)					
Average Yield on funds	7.9	8.1	9.1	9.2	9.0
Average cost of Funds	5.3	4.9	5.5	5.6	5.6
Interest Spread	2.7	3.2	3.6	3.6	3.4
Net Interest Margin	2.9	3.3	3.4	3.4	3.4
Yields (%)					
Average Yield on Adv.	9.2	9.4	9.7	9.9	9.9
Average Yield on Invts	7.3	6.4	7.1	6.8	6.5
Average Cost of Deposits	5.2	4.8	5.4	5.5	5.5
Earnings Quality (%)					
Net Int. Inc/Total Income	71.5	81.1	78.1	82.1	84.4
Other Income/Opr. Profit	59.4	46.2	41.0	32.2	28.0
Cost/Income	52.1	59.1	46.5	44.3	44.0
Return on Avg. Net Worth	2.0	9.3	15.3	14.5	14.1
Return on Average Assets	0.1	0.5	0.9	0.9	0.9
Asset Quality (%)					
Capital Adequacy Ratio	9.9	13.0	11.1	14.8	13.3
Tier I Capital	5.7	8.4	8.8	10.7	9.7
Gr. NPA/Gr. Advances	6.6	5.0	3.9	3.9	3.9
Net NPA/Net Advances	3.8	1.9	1.0	0.7	0.5
Coverage Ratio%	41.6	61.1	75.8	83.7	88.8
Credit / Deposit Ratio	63.2	66.5	64.7	68.0	69.1
Incremental C/D Ratio	550.4	92.5	58.2	86.3	75.5
Investment / Assets	33.1	25.3	25.1	24.4	24.2
Growth Rates (%)					
Advances	27.8	18.7	24.3	24.0	20.0
Deposits	2.6	12.8	27.8	18.0	18.0
Interest Income	4.1	7.4	28.3	24.7	19.8
Interest Expended	(5.8)	(0.2)	35.0	25.0	18.3
Net interest Income	28.0	20.7	18.5	24.1	22.4
Other Income	(56.4)	(29.4)	42.7	(3.3)	3.8
Operating Profit	(28.8)	(9.2)	61.0	22.9	19.7
EPS	(92.3)	296.2	104.5	0.5	25.7
Net Profit	(89.7)	485.0	104.5	29.0	25.7

Balance Sheet

(Rs mn)

Y/E, 31st March	FY05	FY06	FY07	FY08E	FY09E
LIABILITIES					
Equity	477	704	704	904	904
Reserves	4,076	5,704	6,536	10,372	11,704
Net Worth	4,553	6,409	7,240	11,277	12,608
Deposits	84,923	95,787	122,392	144,423	170,419
Borrowings	1,597	2,011	2,060	4,576	5,017
Other Lia & Provisions	3,703	4,069	4,834	8,673	12,979
Total	94,775	108,274	136,526	168,949	201,023
ASSETS					
Cash	599	676	696	1,011	1,193
Balance with RBI	3,733	4,785	6,301	10,110	11,929
Balance with Banks, etc.	2,681	7,974	12,458	12,276	14,486
Investments	31,334	27,394	34,301	41,162	48,571
Advances	53,653	63,702	79,189	98,195	117,833
Fixed Assets	776	898	896	1,101	1,246
Other Assets	2,000	2,845	2,685	5,095	5,765
Total	94,775	108,274	136,526	168,949	201,023

Key data

Sector	Banking
Market Cap	Rs951bn/US\$23.8bn
52 Wk H/L (Rs)	1836.9/845
Avg. daily vol. (6 month)	2,194,459

BSE Code	500112
NSE Code	SBIN
Bloomberg	SBIN IN
Reuters	SBI.BO

Sensex	16,564
Nifty	4,838

Shareholding pattern (%)

	31-Mar-07	30-Jun-07
FII's NRI, ADR/GDR	19.8	19.8
MFs and institutions	11.0	11.9
Promoters	59.7	59.7
Others	9.4	8.5

Absolute returns (%)

	1 mth	3 mth	12 mth
SBI	23.5	25.1	83.9
Sensex	18.4	14.2	35.0
BSE Bank	19.3	11.6	52.4

State Bank of India (SBI)

Accumulate
Current Price: Rs1,808 Target price: Rs1,562
Quarterly Performance

(Rs mn)

	FY07				FY08		FY07	FY08E
	1Q	2Q	3Q	4Q	1Q	2Q		
Interest/Discount on Advances/Bills	54,624	59,017	64,136	70,566	79,885	81,960	248,392	325,766
Income on investments	29,402	28,744	28,331	28,453	28,944	28,826	114,930	107,560
Interest on balances with RBI/Others	4,546	6,014	4,893	16,396	5,036	5,517	31,589	28,681
Interest Income	88,572	93,775	97,359	115,415	113,865	116,303	394,910	462,007
Change (%)	(3.4)	9.5	1.9	35.6	28.6	24.0	9.8	17.0
Interest expenditure	49,466	54,788	57,846	72,213	68,891	68,471	234,368	274,305
Change (%)	0.7	10.6	8.4	45.8	39.3	25.0	14.9	17.0
Net interest income	39,106	38,987	39,513	43,201	44,974	47,832	160,542	187,702
Change (%)	(8.1)	8.1	(6.4)	21.5	15.0	22.7	3.0	16.9
Other income	7,096	14,338	18,110	28,943	8,426	15,783	57,693	64,923
Change (%)	(55.0)	10.7	(1.6)	22.6	18.7	10.1	31.6	12.5
Total income	46,202	53,324	57,624	72,144	53,400	63,615	218,235	252,625
Change (%)	(20.7)	8.8	(4.9)	21.9	15.6	19.3	9.3	15.8
Payment to & provision for employee	19,243	19,547	20,297	20,239	20,264	20,524	79,326	87,258
Other operating expenses	8,903	9,051	8,777	12,222	9,521	9,685	38,909	43,809
Total Operating expenses	28,146	28,598	29,074	32,460	29,785	30,209	118,235	131,067
Change (%)	17.7	(2.0)	(16.0)	9.9	5.8	5.6	0.8	10.9
Operating Profit	18,056	24,726	28,550	39,684	23,615	33,405	100,000	121,558
Change (%)	(47.5)	24.7	9.8	34.0	30.8	35.1	21.2	21.6
Provisions and w/off	2,511	6,813	11,662	14,126	1,594	11,493	24,096	36,073
Change (%)	(85.8)	(16.7)	148.2	38.0	(36.5)	68.7	79.4	49.7
PBT	15,545	17,912	16,888	25,558	22,021	21,912	75,903	85,485
Change (%)	(7.1)	53.7	(20.7)	31.9	41.7	22.3	9.9	12.6
Taxes	7,559	6,067	6,237	10,626	7,763	7,725	30,490	29,174
Change (%)	68.0	1,214.0	(38.5)	(2.0)	2.7	27.3	22.0	(4.3)
PAT	7,986	11,845	10,651	14,932	14,258	14,188	45,413	56,311
Change (%)	(34.7)	(2.5)	(4.5)	75.0	78.5	19.8	3.1	24.0
Equity Capital (Rs mn)	5,263	5,263	5,263	5,263	5,264	5,264	5,263	5,263
No. of Shares (mn)	526	526	526	526	526	526	526	526
EPS	15.2	22.5	20.2	28.4	27.1	27.0	86.3	107.0
Cost/Income Ratio (%)	61	54	50	45	56	47	54	52

Financial highlights

- **Net Interest Income (NII)** is expected to increase by 22.7% YoY to Rs47,832mn. NIM is expected to be 3.2% during Q2FY08.
- **Operating Profit** is expected to increase by 35.1% YoY to Rs33,405mn.
- **Provisions and contingencies** are expected to increase by 68.7% YoY to Rs11,493mn.
- **PAT** is expected to increase by 19.8% YoY to Rs14,188mn.

Other business highlights

- **Advances** are expected to increase by 23% YoY to Rs3,553bn.
- **Deposits** are expected to increase by 20% YoY to Rs4,711bn.

Future outlook

- Credit growth is expected to be ~25% during FY08E & FY09E driven by mid sized corporates, international business and agri-lending.
- The bank has set a CASA target of ~44.0% in FY08, a 300 bps increase from the current level. The bank expects a 100 bps improvement in the current account component and a 200 bps improvement in the savings account component.
- Restoration of growth in fee based income: We believe that the roll out of CBS and large branch penetration will enable the bank to compete aggressively for non government business. A significant portion of the non-interest income of the bank is contributed by government business. The increasing tax collection of the Central government would provide growth to the bank's fee based income.
- The capital adequacy ratio for next year is targeted at 12% out of which Tier I would constitute 8% (the target is set after considering the likely impact of the new capital adequacy norm under Basel II).

Valuations and Recommendation

At CMP of Rs1,800, the bank is trading at P/ABV multiple of 2.3x FY08E ABV of Rs 791 and 1.9x FY09E ABV of Rs948. We maintain our **Accumulate** rating.

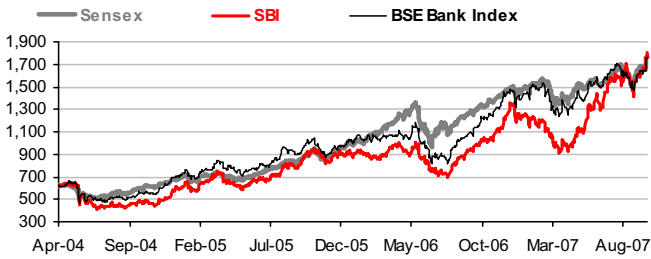
Sum of the Parts Valuation

	ownership	Parameters	FY07	FY08E	FY09E	Value per share (Rs)	
SBI and its banking subsidiaries		ABV (Rs)	629	728	859	1,434	valued at 1.67 times FY09 ABV of Rs859
SBI Life	74.0%	NBAP (Rs mn)	2,748	4,122	6,183	91	15 times FY09 NBAP of Rs 6183mn
SBI cards	60.0%	PAT (Rs mn)	587	755	981	16	20 times FY09 PAT of Rs981mn
SBI Fund Mgt.	63.0%	PAT (Rs mn)	298	342	394	7	20 times FY09 PAT of Rs394mn
SBI factors	54.0%	PAT (Rs mn)	132	144	173	2	20 times FY09 PAT of Rs173mn
SBI Caps	86.2%	PAT (Rs mn)	707	707	707	12	15 times FY09 PAT of R 707mn
						1,562	

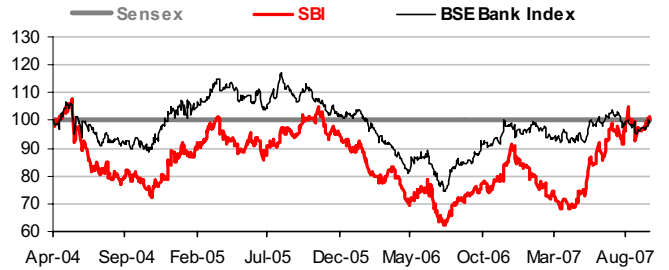
Stock performance

State Bank of India

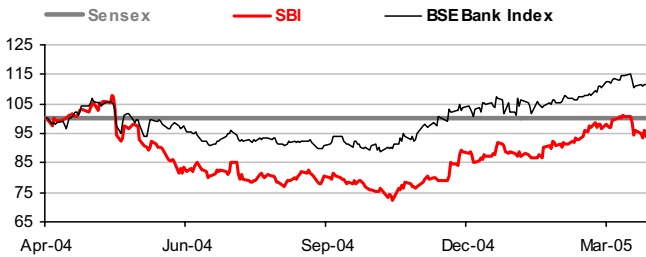
Absolute Perf. From Apr 04



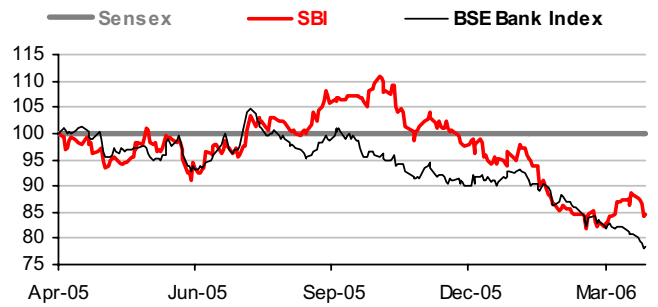
Relative Perf. From Apr 04



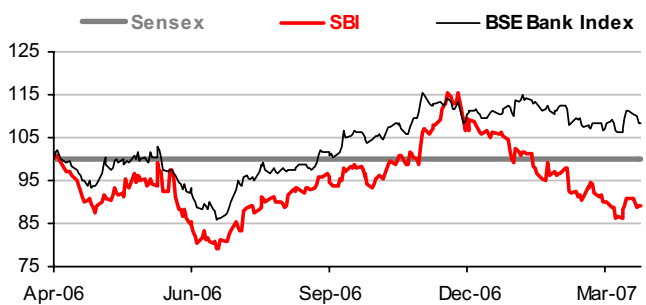
Relative Perf. From Apr 04 to Mar 05



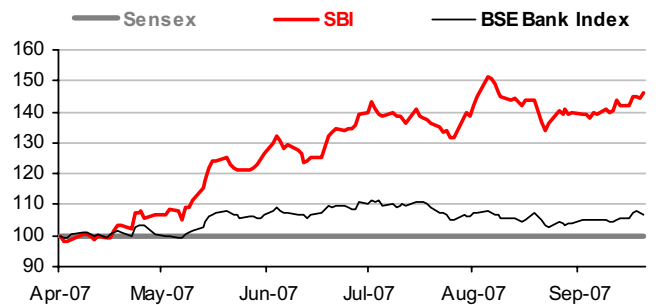
Relative Perf. From Apr 05 to Mar 06



Relative Perf. From Apr 06 to Mar 07



Relative Perf. From Apr 07

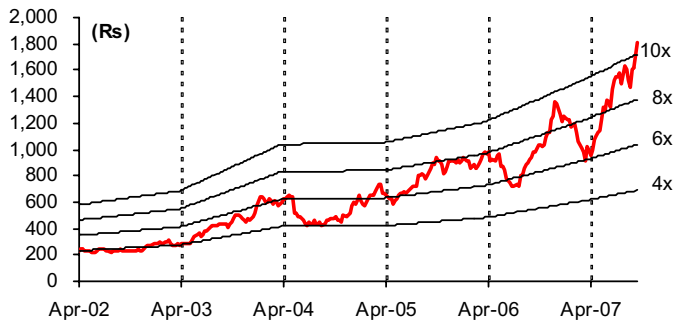


Source: Bloomberg, Religare Institutional Equity Research

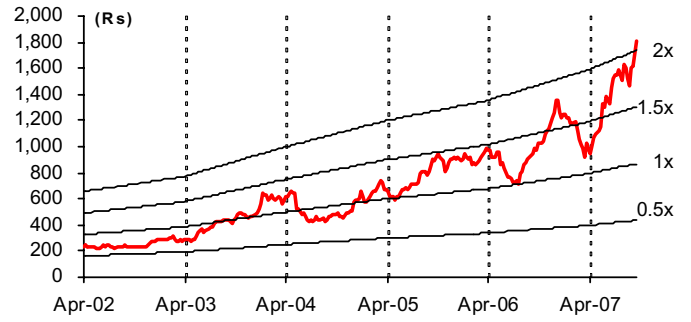
12 month forward rolling band charts

State Bank of India

P/E Band



P/ABV Band



State Bank of India Financials (Consolidated)

Income statement

(Rs bn)

Y/E, 31st March	FY05	FY06	FY07E	FY08E	FY09E
Interest Earned	445	497	572	689	803
Interest on Advance	192	259	368	471	565
Income on investment	215	193	168	176	188
Inc. on invt. with RBI	38	45	36	46	54
Interest Expended	249	279	340	413	481
Interest on deposits	233	251	292	359	420
Int. on RBI/Int. borro.	16	28	48	54	61
Net Interest Income	196	218	233	277	322
Non-Interest Income	100	111	111	120	132
Core fee base Income	48	53	61	71	81
Total Income	296	330	344	397	455
Operating Expenditure	144	176	200	225	250
Employee Expenses	86	108	106	122	136
Other Expenses	58	68	94	103	114
Operating Profit	152	154	144	172	204
Prov. & Contingencies	70	65	36	42	43
PBT	82	89	108	129	162
Income Tax	26	32	42	45	57
PAT	56	57	66	84	105
Minority interest	1	1	3	3	4
Net Profit	55	55	64	81	101

Ratios

Y/E, 31st March	FY05	FY06	FY07E	FY08E	FY09E
No. of Shares	0.5	0.5	0.5	0.5	0.5
Earnings Per Share (Rs.)	103.8	105.1	120.9	153.7	191.9
Book Value (Rs.)	618.5	707.0	808.2	939.7	1109.4
Adjusted Book Value (Rs.)	497.4	598.3	675.2	791.5	947.9
Dividend Per Share (Rs.)	12.5	14.0	14.0	19.0	19.0
Dividend Pay-out Ratio (%)	12.0	13.3	11.6	12.4	9.9
Valuation Ratios (x)					
Price/Earnings	17.4	17.2	15.0	11.8	9.4
Price/ BV	2.9	2.6	2.2	1.9	1.6
Price/Adjusted BV	3.6	3.0	2.7	2.3	1.9
Performance Ratios (%)					
Average Yield on funds	7.9	7.9	8.0	8.2	8.1
Average cost of Funds	5.1	5.0	5.4	5.6	5.6
Interest Spread	2.9	2.9	2.6	2.6	2.6
Net Interest Margin	3.3	3.3	3.1	3.1	3.2
Yields (%)					
Average Yield on Adv.	7.5	7.8	8.5	8.8	8.8
Average Yield on Invts	8.4	7.9	7.6	7.4	7.1
Average Cost of Deposits	5.0	4.8	5.0	5.2	5.2
Earnings Quality (%)					
Net Int. Inc/Total Income	36.0	35.9	34.0	34.2	34.5
Other Income/Opr. Profit	66.0	72.4	77.4	70.1	64.7
Cost/Income	48.7	53.4	58.2	56.8	55.0
Return on Avg. Net Worth	18.2	15.9	16.0	17.6	18.7
Return on Average Assets	0.9	0.8	0.9	1.0	1.0
Asset Quality (%)					
Capital Adequacy Ratio	13.1	12.6	12.0	11.5	11.5
Tier I Capital	9.1	8.5	8.0	8.0	8.0
Gr. NPA/Gr. Advances	4.8	3.1	3.0	2.9	2.7
Net NPA/Net Advances	2.2	1.5	1.4	1.3	1.2
Coverage Ratio%	53.6	51.3	51.7	54.1	55.3
Credit / Deposit Ratio	56.7	68.8	76.6	79.2	81.3
Incremental C/D Ratio	91.0	230.3	122.5	95.7	93.2
Investment / Assets	41.7	32.7	26.6	27.1	25.1
Growth Rates (%)					
Advances	28.9	30.4	30.2	20.0	20.0
Deposits	16.2	7.5	17.0	16.0	17.0
Interest Income	7.6	11.7	15.1	20.4	16.5
Interest Expended	(2.3)	12.0	21.9	21.4	16.5
Net interest Income	23.4	11.4	6.5	19.0	16.5
Other Income	(10.7)	10.9	0.1	8.0	10.0
Operating Profit	4.3	1.1	(6.3)	19.3	19.0
EPS	(1.2)	1.2	15.1	27.1	24.8
Net Profit	(2.8)	1.1	16.9	27.1	24.8

Balance Sheet

(Rs bn)

Y/E, 31st March	FY05	FY06	FY07E	FY08E	FY09E
LIABILITIES					
Equity	5	5	5	5	5
Reserves	320	367	420	489	579
Net Worth	326	372	425	495	584
Minority interest	13	14	17	20	24
Deposits	5,061	5,440	6,363	7,381	8,635
Borrowings	229	370	487	584	701
Other Lia & Provisions	657	772	860	946	1,041
Total	6,286	6,968	8,152	9,426	10,985
ASSETS					
Cash & Balance with RBI	256	311	451	443	518
Balance with Banks, etc.	253	262	274	269	315
Investments	2,620	2,279	2,165	2,556	2,763
Advances	2,870	3,743	4,873	5,847	7,017
Fixed Assets	36	40	40	44	49
Other Assets	251	333	349	265	323
Total	6,286	6,968	8,152	9,426	10,985

State Bank of India Financials (Standalone)

Income statement

(Rs bn)

Y/E, 31st March	FY05	FY06	FY07E	FY08E	FY09E
Interest Earned	324	360	395	462	546
Interest on Advance	130	177	248	326	400
Income on investment	160	140	115	108	114
Inc. on invt. with RBI	34	41	33	39	45
Interest Expended	185	204	234	274	326
Interest on deposits	172	181	191	229	276
Int. on RBI/Int. borro.	13	23	34	45	62
Net Interest Income	139	156	161	188	220
Non-Interest Income	71	44	58	65	73
Core fee base Income	35	40	48	56	63
Total Income	211	200	218	253	293
Operating Expenditure	101	117	118	131	147
Employee Expenses	69	81	79	87	98
Other Expenses	32	36	39	44	49
Operating Profit	110	82	100	122	146
Prov. & Contingencies	45	44	51	58	61
PBT	65	39	49	63	85
Income Tax	22	25	30	29	35
Net Profit	43	14	19	34	50

Ratios

Y/E, 31st March	FY05	FY06	FY07E	FY08E	FY09E
No. of shares	0.5	0.5	0.5	0.5	0.5
Earnings Per Share (Rs.)	81.8	83.7	86.3	107.0	129.7
Book Value (Rs.)	457.4	525.3	594.7	679.5	786.9
Adjusted Book Value (Rs.)	355.8	432.0	494.8	613.0	720.4
Dividend Per Share (Rs.)	12.5	14.0	14.0	19.0	19.0
Dividend Pay-out Ratio (%)	12.0	19.1	19.0	20.8	17.1
Valuation Ratios (x)					
Price/Earnings	22.1	21.6	21.0	16.9	13.9
Price/ BV	4.0	3.4	3.0	2.7	2.3
Price/Adjusted BV	5.1	4.2	3.7	2.9	2.5
Performance Ratios (%)					
Average Yield on funds	6.8	6.7	7.9	7.9	8.0
Average cost of Funds	5.1	5.1	5.3	5.3	5.2
Interest Spread	1.7	1.6	2.6	2.7	2.7
Net Interest Margin	2.9	2.9	3.2	3.2	3.2
Yields (%)					
Average Yield on Adv.	7.2	7.6	8.3	8.7	8.8
Average Yield on Invts	8.4	7.8	7.4	7.0	6.9
Average Cost of Deposits	5.0	4.9	4.7	4.8	4.9
Earnings Quality (%)					
Net Int. Inc/Total Income	66.2	78.0	73.6	74.3	75.2
Other Income/Opr. Profit	33.8	22.0	26.4	25.7	24.8
Cost/Income	47.8	58.7	54.2	51.9	50.2
Return on Avg. Net Worth	19.4	17.0	15.4	16.8	17.7
Return on Average Assets	0.9	0.9	0.8	0.9	0.9
Asset Quality (%)					
Capital Adequacy Ratio	12.5	11.9	12.3	11.3	11.3
Tier I Capital	8.8	8.2	8.0	7.8	7.8
Gr. NPA/Gr. Advances	6.0	3.6	2.9	2.4	2.0
Net NPA/Net Advances	2.7	1.9	1.6	0.9	0.7
Coverage Ratio%	57.1	49.0	47.4	65.0	65.0
Credit / Deposit Ratio	55.1	68.8	77.5	79.7	81.0
Incremental C/D Ratio	91.8	456.0	136.4	91.4	87.9
Investment / Assets	42.9	32.9	26.3	24.2	22.3
Growth Rates (%)					
Advances	28.1	29.3	23.0	18.0	18.0
Deposits	15.2	3.5	15.2	15.2	14.2
Interest Income	6.5	11.0	9.8	17.0	18.2
Interest Expended	(4.1)	10.3	14.9	17.0	18.8
Net interest Income	24.7	11.8	3.0	16.9	17.3
Other Income	(6.5)	(38.4)	31.6	12.5	11.9
Operating Profit	15.0	(24.9)	21.2	21.6	19.8
EPS	16.9	2.4	3.1	24.0	21.2
Net Profit	16.9	2.4	3.1	24.0	21.2

Balance Sheet

(Rs bn)

Y/E, 31st March	FY05	FY06	FY07E	FY08E	FY09E
LIABILITIES					
Equity	5	5	5	5	5
Reserves	235	271	308	352	409
Net Worth	241	276	313	358	414
Deposits	3,670	3,800	4,355	5,167	6,197
Borrowings	192	306	397	490	571
Other Lia & Provisions	496	555	600	602	542
Total	4,599	4,939	5,666	6,617	7,724
ASSETS					
Cash	14	21	21	22	23
Balance with RBI	154	196	270	337	388
Balance with Banks, etc.	225	229	229	242	256
Investments	1,971	1,625	1,491	1,604	1,725
Advances	2,024	2,616	3,373	4,116	5,021
Fixed Assets	27	28	28	30	31
Other Assets	184	224	253	267	282
Total	4,599	4,939	5,666	6,617	7,724

Key data			
Sector	Banking		
Market Cap	Rs161bn/US\$4bn		
52 Wk H/L (Rs)	593.95/400		
Avg. daily vol. (6 month)	851,937		
BSE Code	532461		
NSE Code	PNB		
Bloomberg	PNB IN		
Reuters	PNBK.BO		
Sensex	16,564		
Nifty	4,838		
Shareholding pattern (%)			
	31-Mar-07	30-Jun-07	
FIs NRI, ADR/GDR	20.1	20.1	
MFs and institutions	15.9	16.2	
Promoters	57.8	57.8	
Others	6.2	6.0	
Absolute returns (%)			
	1 mth	3 mth	12 mth
PNB	7.4	(2.6)	3.8
Sensex	18.4	14.2	35.0
BSE Bank	19.3	11.6	52.4

Punjab National Bank (PNB)

Buy
Current Price: Rs.513
Target price: Rs.604

Quarterly Performance

	FY07				FY08		(Rs mn)	
	1Q	2Q	3Q	4Q	1Q	2Q	FY07	FY08E
Interest/Discount on Advances/Bills	16,856	18,351	19,460	21,772	24,109	27,763	76,439	99,825
Income on investments	8,940	8,738	9,297	8,921	8,943	9,321	35,896	38,377
Interest on balances with RBI/Others	509	554	726	1,251	581	586	3,040	3,092
Interest Income	26,305	27,643	29,483	31,944	33,633	37,669	115,375	141,294
Change (%)	14.9	16.6	20.6	29.4	27.9	36.3	20	22
Interest expenditure	13,476	14,015	15,024	17,714	19,850	21,097	60,229	75,369
Change (%)	12.1	18.8	20.4	37.5	47.3	50.5	22	25
Net interest income	12,829	13,628	14,459	14,230	13,782	16,572	55,146	65,925
Change (%)	17.9	14.4	20.8	20.6	7.4	21.6	18	20
Other income	2,928	2,840	3,231	5,184	4,319	3,212	10,423	11,338
Change (%)	15.8	(9.1)	27.6	23.0	47.5	13.1	(25)	9
Total income	15,756	16,468	17,689	19,414	18,101	19,784	65,569	77,263
Change (%)	17.5	9.6	22.0	21.2	14.9	20.1	8	18
Payment to & provision for employee	4,792	5,108	5,813	7,811	6,411	6,907	23,525	28,229
Other operating expenses	2,176	2,472	2,310	2,779	2,359	2,670	9,738	10,419
Total Operating expenses	6,969	7,580	8,123	10,591	8,770	9,576	33,262	38,649
Change (%)	0.0	(7.5)	(10.1)	75.5	25.8	26.3	10	16
Operating Profit	8,787	8,888	9,567	8,824	9,331	10,208	32,306	38,614
Change (%)	36.3	30.0	75.0	(11.6)	6.2	14.9	7	20
Provisions and w/off	(216)	1,018	3,577	6,127	(1,905)	2,252	10,615	12,458
Change (%)	(118.6)	983.2	252.3	0.3	(783.7)	121.2	26	17
PBT	5,135	7,870	5,990	2,697	6,259	7,956	21,691	26,156
Change (%)	(2.8)	16.7	34.6	(30.3)	21.9	1.1	(1)	21
Taxes	1,460	2,820	1,691	320	2,009	2,387	6,291	7,847
Change (%)	(14.2)	11.8	126.4	(67.5)	37.6	(15.4)	6	25
PAT	3,675	5,050	4,299	2,377	4,251	5,569	15,401	18,309
Change (%)	2.6	19.7	16.0	(17.7)	15.7	10.3	(3)	19
Equity Capital (Rs mn)	3,153	3,153	3,153	3,153	3,153	3,153	3,153	3,153
No. of Shares (mn)	315	315	315	315	315	315	315	315
EPS	11.7	16.0	13.6	7.5	13.5	17.7	49	58
Cost/Income Ratio (%)	44	46	46	55	48	48	51	50

Financial highlights

- **Net Interest Income (NII)** is expected to increase by 21.6% YoY to Rs16,572mn. NIM is expected to be 3.8% during Q2FY08.
- **Operating Profit** is expected to increase by 14.9% YoY to Rs10,208mn.
- **Provisions and contingencies** are expected to increase by 121.2% YoY to Rs2,252mn.
- **PAT** is expected to increase by 10.3% YoY to Rs5,569mn.

Other business highlights

- **Advances** are expected to increase by 25% YoY to Rs1,029 bn.
- **Deposits** are expected to increase by 20% YoY to Rs1,541bn.

Future outlook

- Advances are expected to grow at a CAGR of 25% for the next two years fueled by high growth in the Retail and Agri segments.
- NIMs should be stable going forward. Strong CASA deposits will ensure stable margins even in the current rising interest cost scenario
- A higher proportion of business under CBS coverage provides the opportunity for growth in Fee and Commission Income. This also helps control operating costs and brings down Cost/ Income Ratio. Currently 83% of bank's total business is covered under CBS.

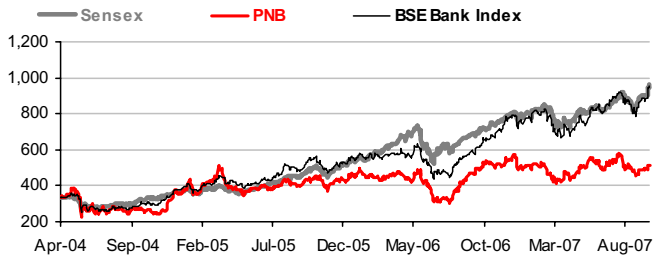
Valuations and Recommendation

At CMP of Rs513, the bank is trading at P/ABV multiple of 1.5x FY08E ABV of Rs343 and 1.3x FY09E ABV of Rs403. We maintain our **Buy** rating.

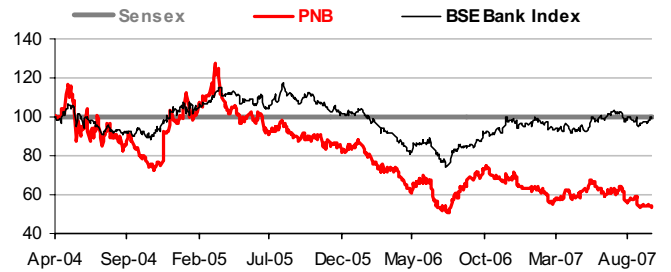
Stock performance

Punjab National Bank

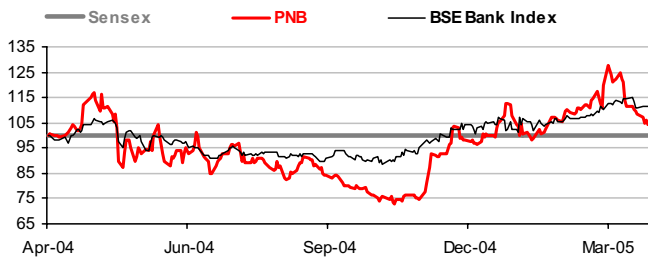
Absolute Perf. From Apr 04



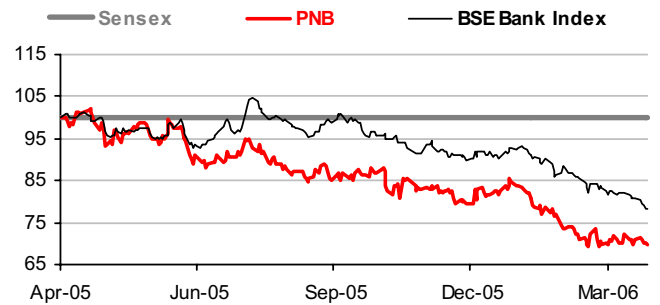
Relative Perf. From Apr 04



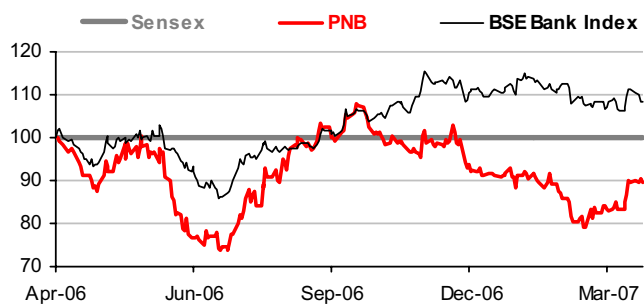
Relative Perf. From Apr 04 to Mar 05



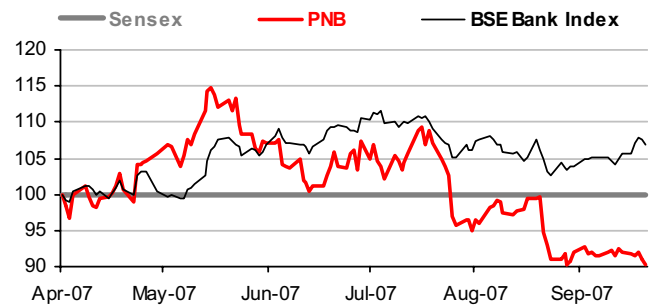
Relative Perf. From Apr 05 to Mar 06



Relative Perf. From Apr 06 to Mar 07



Relative Perf. From Apr 07

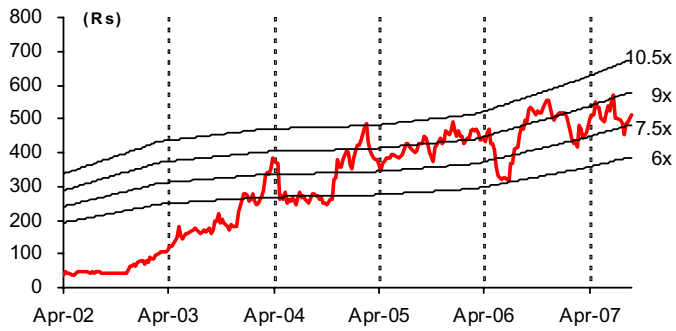


Source: Bloomberg, Religare Institutional Equity Research

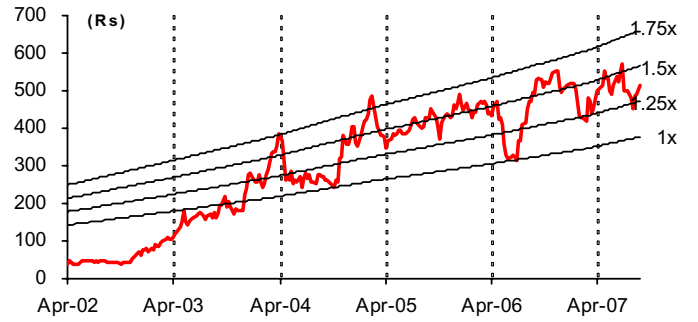
12 month forward rolling band charts

Punjab National Bank

P/E Band



P/ABV Band



Punjab National Bank Financials

Income statement

(Rs mn)

Y/E, 31st March	FY05	FY06	FY07E	FY08E	FY09E
Interest Earned	84,599	95,842	115,375	141,294	171,911
Interest on Advance	42,461	53,415	76,439	99,825	124,805
Income on investment	39,740	40,303	35,896	38,377	43,017
Inc. on invt. with RBI	2,397	2,124	3,040	3,092	4,089
Interest Expended	44,531	49,174	60,229	75,369	91,502
Interest on deposits	41,633	46,118	56,175	70,160	84,619
Int. on RBI/Int. borro.	2,899	3,056	4,054	5,210	6,883
Net Interest Income	40,067	46,668	55,146	65,925	80,408
Non-Interest Income	16,757	12,312	10,423	11,403	12,027
Core fee base Income	6,913	7,526	9,700	11,362	12,422
Total Income	56,824	58,979	65,569	77,328	92,435
Operating Expenditure	29,752	30,232	33,262	38,941	46,729
Employee Expenses	24,240	21,150	23,525	28,229	33,875
Other Expenses	5,512	9,082	9,738	10,712	12,854
Operating Profit	27,072	28,748	32,306	38,387	45,706
Prov. & Contingencies	8,016	8,399	10,615	12,253	14,936
PBT	19,056	20,348	21,691	26,135	30,770
Income Tax	4,955	5,955	6,291	7,840	9,231
Net Profit	14,101	14,393	15,401	18,294	21,539

Balance Sheet

(Rs mn)

Y/E, 31st March	FY05	FY06	FY07E	FY08E	FY09E
LIABILITIES					
Equity	3,153	3,153	3,153	3,153	3,153
Reserves	78,459	90,610	101,202	115,807	133,657
Net Worth	81,612	93,763	104,355	118,960	136,810
Deposits	1,031,669	1,196,849	1,398,597	1,685,338	2,034,181
Borrowings	50,612	86,222	56,437	71,317	87,353
Other Lia & Provisions	98,519	75,839	65,903	214,572	226,974
Total	1,262,412	1,452,673	1,625,291	2,090,187	2,485,318
ASSETS					
Cash	6,556	7,539	9,634	10,112	12,205
Balance with RBI	88,046	226,406	114,086	235,947	244,102
Balance with Banks, etc.	16,288	13,971	32,735	29,493	35,598
Investments	506,728	410,553	451,898	519,683	597,636
Advances	604,128	746,274	965,965	1,227,985	1,514,988
Fixed Assets	9,652	10,302	10,098	11,613	13,355
Other Assets	31,014	37,628	40,874	55,353	67,434
Total	1,262,413	1,452,674	1,625,291	2,090,187	2,485,318

Ratios

Y/E, 31st March	FY05	FY06	FY07E	FY08E	FY09E
No. of Shares	315	315	315	315	315
Earnings Per Share (Rs.)	44.7	45.6	48.8	58.0	68.3
Book Value (Rs.)	258.8	297.4	331.0	377.3	433.9
Adjusted Book Value (Rs.)	215.3	261.3	298.6	343.4	403.0
Dividend Per Share (Rs.)	5.5	6.0	10.0	10.0	10.0
Dividend Pay-out Ratio (%)	0.1	0.1	0.2	0.2	0.2
Valuation Ratios (x)					
Price/Earnings	11.5	11.2	10.5	8.8	7.5
Price/ BV	2.0	1.7	1.6	1.4	1.2
Price/Adjusted BV	2.4	2.0	1.7	1.5	1.3
Performance Ratios (%)					
Average Yield on funds	8.2	8.0	8.3	8.6	8.6
Average cost of Funds	4.5	4.2	4.1	4.7	4.7
Interest Spread	3.7	3.8	4.2	3.9	3.9
Net Interest Margin	3.9	3.9	4.0	4.0	4.0
Yields (%)					
Average Yield on Adv.	7.9	7.9	8.9	9.1	9.1
Average Yield on Invts	8.6	8.8	8.3	7.9	7.7
Average Cost of Deposits	4.4	4.1	4.3	4.6	4.6
Earnings Quality (%)					
Net Int. Inc/Total Income	70.5	79.1	84.1	85.3	87.0
Other Income/Opr. Profit	61.9	42.8	32.3	29.7	26.3
Cost/Income	52.4	51.3	50.7	50.4	50.6
Return on Avg. Net Worth	21.4	16.4	15.5	16.4	16.8
Return on Average Assets	1.2	1.1	1.0	1.0	0.9
Asset Quality (%)					
Capital Adequacy Ratio	14.8	12.0	12.3	12.0	11.7
Tier I Capital	8.9	10.1	9.4	9.0	8.7
Gr. NPA/Gr. Advances	5.9	4.1	3.4	3.4	3.4
Net NPA/Net Advances	1.8	1.1	0.8	0.6	0.5
Coverage Ratio%	71.7	73.4	78.6	81.9	87.1
Credit / Deposit Ratio	58.6	62.4	69.1	72.9	74.5
Incremental C/D Ratio	86.5	86.1	108.9	91.4	82.3
Investment / Assets	40.1	28.3	27.8	24.9	24.0
Growth Rates (%)					
Advances	27.9	23.5	29.4	27.1	23.4
Deposits	17.3	16.0	16.9	20.5	20.7
Interest Income	8.8	13.3	20.4	22.5	21.7
Interest Expended	7.2	10.4	14.2	34.2	21.4
Net interest Income	10.6	16.5	18.2	19.5	22.0
Other Income	(10.3)	(26.5)	(15.3)	9.4	5.5
Operating Profit	(13.3)	6.2	12.4	18.8	19.1
EPS	27.2	2.1	7.0	18.8	17.7
Net Profit	27.2	2.1	7.0	18.8	17.7

Key data

Sector	Banking		
Market Cap	Rs126bn/US\$3.1bn		
52 Wk H/L (Rs)	276.2/132		
Avg. daily vol. (6 month)	2,543,312		
BSE Code	532149		
NSE Code	BANKINDIA		
Bloomberg	BOI IN		
Reuters	BOI.BO		
Sensex	16,564		
Nifty	4,838		
Shareholding pattern (%)			
	31-Mar-07	30-Jun-07	
FII's NRI, ADR/GDR	16.2	16.8	
MFs and institutions	5.6	5.7	
Promoters	69.5	69.5	
Others	8.7	8.0	
Absolute returns (%)			
	1 mth	3 mth	12 mth
BOI	16.8	20.1	74.0
Sensex	18.4	14.2	35.0
BSE Bank	19.3	11.6	52.4

Bank of India (BOI)

Accumulate
Current Price: Rs260
Target price: Rs279
Quarterly Performance
(Rs mn)

	FY07				FY08		FY07	FY08E
	1Q	2Q	3Q	4Q	1Q	2Q		
Interest/Discount on Advances/Bills	13,591	15,755	16,382	18,577	20,235	22,642	63,975	83,131
Income on investments	5,925	5,990	6,384	6,301	6,389	6,407	24,601	27,747
Interest on balances with RBI/Others	694	836	421	1,276	1,229	996	3,227	4,216
Interest Income	20,211	22,582	23,187	26,154	27,853	30,046	91,803	115,094
Change (%)	29.2	35.9	28.8	30.6	37.8	33.1	30.6	25.4
Interest expenditure	11,966	13,497	13,979	15,844	17,801	19,134	54,958	69,053
Change (%)	19.0	33.5	29.9	40.9	48.8	41.8	32.3	25.6
Net interest income	8,244	9,085	9,208	10,310	10,052	10,911	36,845	46,041
Change (%)	47.5	39.6	27.1	17.4	21.9	20.1	28.1	25.0
Other income	2,507	2,942	2,603	5,137	3,232	3,371	13,189	14,846
Change (%)	-14.8	27.3	33.8	80.6	28.9	14.6	40.2	12.6
Total income	10,751	12,026	11,811	15,447	13,284	14,283	50,034	60,887
Change (%)	26.0	36.4	28.5	32.9	23.6	18.8	31.1	21.7
Payment to & provision for employee	3,685	4,136	3,842	4,477	4,134	4,549	16,140	19,045
Other operating expenses	2,389	3,100	2,437	2,018	2,372	3,255	9,944	11,337
Total Operating expenses	6,075	7,236	6,279	6,495	6,506	7,804	26,084	30,382
Change (%)	24.8	31.2	15.3	22.0	7.1	7.9	23.3	16.5
Operating Profit	4,676	4,791	5,532	8,952	6,778	6,479	23,950	30,505
Change (%)	27.6	45.1	47.6	42.1	45.0	35.2	40.8	27.4
Provisions and w/off	1,685	1,587	2,286	3,064	1,992	2,253	8,621	8,752
Change (%)	21.1	4.3	26.7	-2.4	18.3	42.0	9.7	1.5
PBT	2,991	3,204	3,246	5,888	4,786	4,226	15,328	21,753
Change (%)	31.5	80.0	67.0	86.4	60.0	31.9	67.4	41.9
Taxes	904	1,083	697	1,414	1,634	1,442	4,097	5,873
Change (%)	62.3	136.1	36.0	130.1	80.7	33.2	91.2	43.4
PAT	2,087	2,121	2,549	4,474	3,152	2,783	11,232	15,880
Change (%)	21.5	60.5	78.1	75.9	51.0	31.2	60.1	41.4
Equity Capital (Rs mn)	4,881	4,881	4,881	4,881	4,881	4,881	4,881	4,881
No. of Shares (mn)	488	488	488	488	488	488	488	488
EPS	4.3	4.3	5.2	9.2	6.5	5.7	23.0	32.5
Cost/Income Ratio (%)	57	60	53	42	49	55	52	50

Financial highlights

- **Net Interest Income (NII)** is expected to increase by 20.1% YoY to Rs10,911mn. NIM is expected to be 2.8% (excluding amortization expenses) during Q2FY08.
- **Operating Profit** is expected to increase by 35.2% YoY to Rs6,479mn.
- **Provisions and contingencies** are expected to increase by 42% YoY to Rs2,253mn.
- **PAT** is expected to increase by 31.2% YoY to Rs2,783mn.

Other business highlights

- **Advances** are expected to increase by 25% YoY to Rs921bn.
- **Deposits** are expected to increase by 25% YoY to Rs1291bn.

Future outlook

- **Credit to grow at 25% in FY08-09.** The focus on Retail and SME credit will translate into an overall credit growth of 25%.
- **Thrust on CASA deposits to help manage the rising cost of deposits.** BOI targets to increase the share of low cost deposits to 43% from the current 40%. This will contain the cost of deposits to some extent in a rising interest rate scenario.
- **Life insurance business is a longer-term upside.** The bank is entering into the Life Insurance Business through a Joint Venture with Dai-ichi Mutual Life of Japan, which is the 6th largest life insurance company of the world and the 2nd largest in Japan.

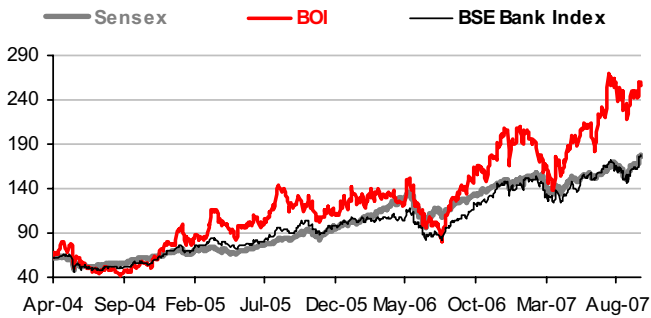
Valuations and Recommendation

At the CMP of Rs260, the bank is trading at P/ABV multiple of 1.9x FY08E ABV of Rs139 and 1.5x FY09E ABV of Rs178. We maintain our **Accumulate** rating.

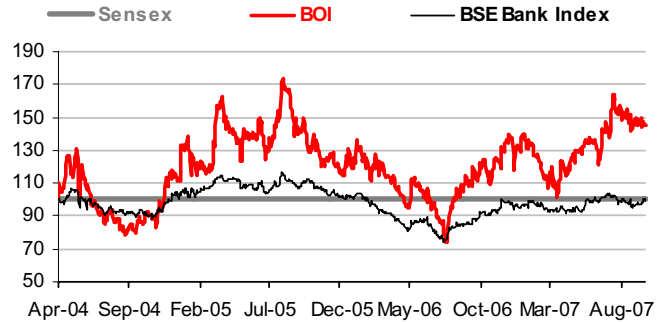
Stock performance

Bank of India

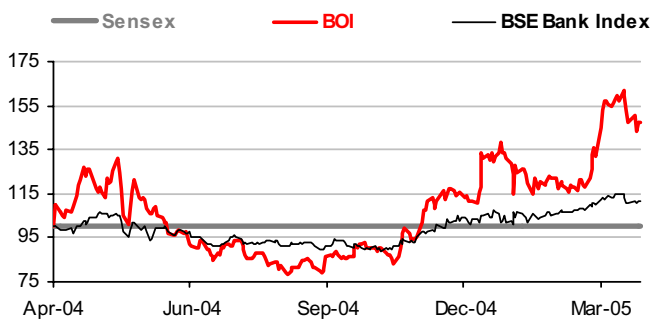
Absolute Perf. From Apr 04



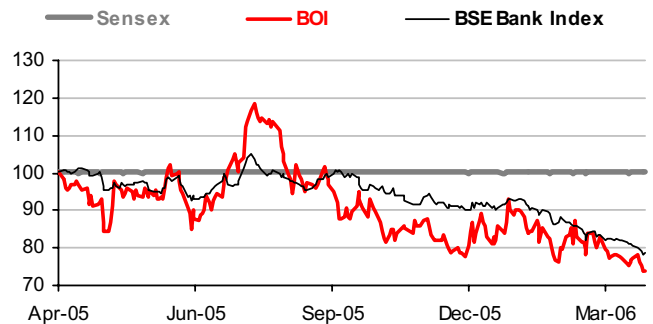
Relative Perf. From Apr 04



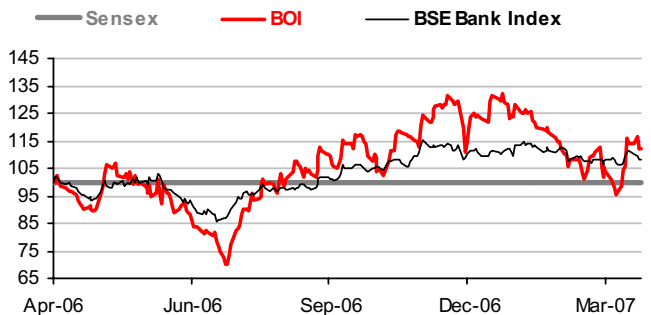
Relative Perf. From Apr 04 to Mar 05



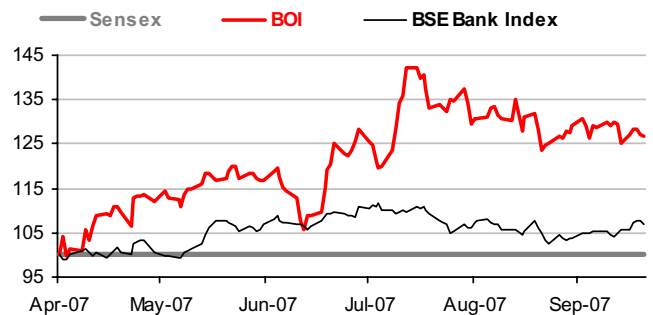
Relative Perf. From Apr 05 to Mar 06



Relative Perf. From Apr 06 to Mar 07



Relative Perf. From Apr 07

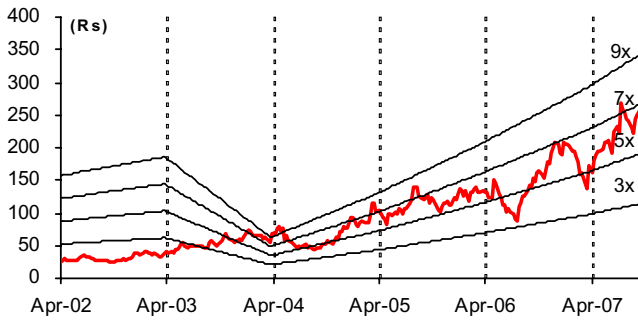


Source: Bloomberg, Religare Institutional Equity Research

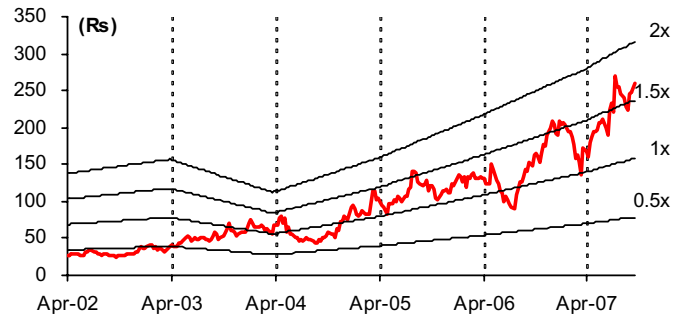
12 month forward rolling band charts

Bank of India

P/E Band



P/ABV Band



Bank of India Financials

Income statement

(Rs mn)

Y/E, 31st March	FY05	FY06	FY07E	FY08E	FY09E
Interest Earned	60,315	70,287	91,803	115,094	141,126
Interest on Advance	36,159	45,730	63,975	83,131	102,719
Income on investment	21,272	21,613	24,601	27,747	33,912
Inc. on invt. with RBI	2,885	2,944	3,227	4,216	4,495
Interest Expended	36,448	41,531	54,958	69,053	83,237
Interest on deposits	31,368	34,978	46,084	58,802	71,827
Int. on RBI/Int. borro.	5,080	6,552	8,874	10,252	11,410
Net Interest Income	23,867	28,756	36,845	46,041	57,889
Non-Interest Income	10,060	9,407	13,189	14,846	16,793
Core fee base Income	6,734	7,013	8,208	9,618	11,272
Total Income	33,927	38,164	50,034	60,887	74,682
Operating Expenditure	19,323	21,151	26,084	30,382	35,052
Employee Expenses	12,632	13,281	16,140	19,045	21,902
Other Expenses	6,691	7,870	9,944	11,337	13,150
Operating Profit	14,604	17,012	23,950	30,505	39,629
Prov. & Contingencies	9,993	7,856	8,621	8,752	9,814
PBT	4,610	9,157	15,328	21,753	29,815
Income Tax	1,210	2,142	4,097	5,873	8,348
Net Profit	3,400	7,014	11,232	15,880	21,467

Balance Sheet

(Rs mn)

Y/E, 31st March	FY05	FY06	FY07E	FY08E	FY09E
LIABILITIES					
Equity	4,881	4,881	4,881	4,881	4,881
Reserves	39,767	44,957	54,072	67,953	87,421
Net Worth	44,649	49,839	58,954	72,835	92,303
Deposits	788,210	939,320	1,198,817	1,447,524	1,755,568
Borrowings	83,087	91,906	113,798	127,419	141,060
Other Lia & Provisions	33,832	41,677	44,801	109,014	136,639
Total	949,777	1,122,742	1,416,370	1,756,791	2,125,570
ASSETS					
Cash	2,447	2,845	3,246	4,343	5,267
Balance with RBI	36,600	53,039	68,723	94,089	114,112
Balance with Banks, etc.	36,215	58,576	102,086	72,376	79,001
Investments	282,026	317,818	354,928	473,340	538,959
Advances	560,126	651,737	849,359	1,061,699	1,327,123
Fixed Assets	8,142	8,100	7,893	8,288	8,702
Other Assets	24,225	30,628	30,135	42,657	52,406
Total	949,782	1,122,743	1,416,370	1,756,791	2,125,570

Ratios

Y/E, 31st March	FY05	FY06	FY07E	FY08E	FY09E
No. of Shares	488	488	488	488	488
Earnings Per Share (Rs.)	7.0	14.4	23.0	32.5	44.0
Book Value (Rs.)	91.5	102.1	120.8	149.2	189.1
Adjusted Book Value (Rs.)	56.2	79.0	107.8	139.1	178.3
Dividend Per Share (Rs.)	2.0	3.0	4.0	5.0	6.0
Dividend Pay-out Ratio (%)	32.5	23.8	17.2	12.6	9.3
Valuation Ratios (x)					
Price/Earnings	37.3	18.1	11.3	8.0	5.9
Price/ BV	2.8	2.5	2.2	1.7	1.4
Price/Adjusted BV	4.6	3.3	2.4	1.9	1.5
Performance Ratios (%)					
Average Yield on funds	7.0	7.0	7.5	7.5	7.5
Average cost of Funds	4.4	4.4	4.7	4.8	4.8
Interest Spread	2.6	2.7	2.8	2.7	2.7
Net Interest Margin	2.8	2.9	3.0	3.0	3.1
Yields (%)					
Average Yield on Adv.	7.1	7.5	8.5	8.7	8.6
Average Yield on Invts	7.7	7.2	7.3	6.7	6.7
Average Cost of Deposits	4.2	4.0	4.3	4.4	4.5
Earnings Quality (%)					
Net Int. Inc/Total Income	70.3	75.4	73.6	75.6	77.5
Other Income/Opr. Profit	68.9	55.3	55.1	48.7	42.4
Cost/Income	57.0	55.4	52.1	49.9	46.9
Return on Avg. Net Worth	8.0	14.8	20.6	24.1	26.0
Return on Average Assets	0.4	0.7	0.9	1.0	1.1
Asset Quality (%)					
Capital Adequacy Ratio	11.5	10.8	11.6	11.0	11.0
Tier I Capital	7.1	6.8	6.5	6.3	6.3
Gr. NPA/Gr. Advances	5.5	3.7	2.4	2.2	2.2
Net NPA/Net Advances	2.8	1.5	0.7	0.5	0.4
Coverage Ratio%	44.8	53.7	64.5	75.8	79.1
Credit / Deposit Ratio	71.1	69.4	70.8	73.3	75.6
Incremental C/D Ratio	138.4	60.6	76.2	85.4	86.2
Investment / Assets	29.7	28.3	25.1	26.9	25.4
Growth Rates (%)					
Advances	22.1	16.4	30.3	25.0	25.0
Deposits	10.3	19.2	27.6	20.7	21.3
Interest Income	4.1	16.5	30.6	25.4	22.6
Interest Expended	1.4	13.9	32.3	25.6	20.5
Net interest Income	8.4	20.5	28.1	25.0	25.7
Other Income	(43.9)	(6.5)	40.2	12.6	13.1
Operating Profit	(15.0)	12.5	31.1	21.7	22.7
EPS	(66.3)	106.3	60.1	41.4	35.2
Net Profit	(66.3)	106.3	60.1	41.4	35.2

Key data			
Sector	Banking		
Market Cap	Rs113bn/US\$6.3bn		
52 Wk H/L (Rs)	322/188.5		
Avg. daily vol. (6 month)	830,616		
BSE Code	532134		
NSE Code	BANKBARODA		
Bloomberg	BOB IN		
Reuters	BOB.BO		
Sensex	16,564		
Nifty	4,838		
Shareholding pattern (%)			
	31-Mar-07	30-Jun-07	
FII's NRI, ADR/GDR	20.9	20.8	
MFs and institutions	14.7	15.9	
Promoters	53.8	53.8	
Others	10.6	9.5	
Absolute returns (%)			
	1 mth	3 mth	12 mth
BOB	18.2	18.3	16.7
Sensex	18.4	14.2	35.0
BSE Bank	19.3	11.6	52.4

Bank of Baroda (BOB)

Buy
Current Price: Rs313
Target price: Rs336

Quarterly Performance

(Rs mn)

	FY07				FY08		FY07	FY08E
	1Q	2Q	3Q	4Q	1Q	2Q		
Interest/Discount on Advances/Bills	11,894	13,945	15,630	17,905	18,706	21,356	59,374	79,724
Income on investments	6,460	6,803	7,221	7,205	6,349	6,406	27,689	30,371
Interest on balances with RBI/Others	1,322	1,112	1,019	1,611	1,491	1,292	5,064	5,799
Interest Income	19,677	21,859	23,870	26,721	26,546	29,055	92,126	115,894
Change (%)	17.6	29.0	34.4	36.7	34.9	32.9	31	26
Interest expenditure	11,378	12,952	14,263	15,674	16,961	17,172	54,266	68,476
Change (%)	24.4	42.0	48.6	44.0	49.1	32.6	40	26
Net interest income	8,299	8,908	9,607	11,046	9,586	11,883	37,861	47,418
Change (%)	9.4	13.9	17.8	27.5	15.5	33.4	19	25
Other income	2,252	3,217	3,337	2,403	3,702	3,073	11,732	12,922
Change (%)	7.9	3.9	22.6	(35.4)	64.4	(4.5)	4	10
Total income	10,551	12,125	12,944	13,450	13,287	14,956	49,593	60,340
Change (%)	9.1	11.1	19.0	8.6	25.9	23.3	15	22
Payment to & provision for employee	3,826	3,873	4,325	4,418	4,500	4,570	16,441	19,236
Other operating expenses	1,690	2,095	2,051	3,166	2,343	3,045	9,003	9,093
Total Operating expenses	5,516	5,968	6,375	7,584	6,843	7,615	25,443	28,328
Change (%)	7.8	0.1	4.5	13.8	24.1	27.6	7	11
Operating Profit	5,035	6,157	6,569	5,866	6,445	7,341	24,150	32,011
Change (%)	10.5	24.3	37.6	2.5	28.0	19.2	26	33
Provisions and w/off	2,531	1,593	1,417	1,543	1,414	1,920	5,628	9,644
Change (%)	(1.6)	26.8	(26.7)	(50.2)	(44.1)	20.5	(41)	71
PBT	2,504	4,564	5,152	4,322	5,030	5,420	18,522	22,368
Change (%)	26.2	23.5	81.3	64.7	100.9	18.8	91	21
Taxes	871	1,680	1,861	1,866	1,722	1,855	6,278	7,381
Change (%)	109.8	52.0	126.9	248.4	97.7	10.4	865	18
PAT	1,633	2,884	3,291	2,457	3,308	3,565	12,244	14,986
Change (%)	4.1	11.3	62.8	17.6	102.6	23.6	36	22
Equity Capital (Rs mn)	3,655	3,655	3,655	3,655	3,655	3,655	3,655	3,655
No. of Shares (mn)	366	366	366	366	366	366	366	366
EPS	4.5	7.9	9.0	6.7	9.1	9.8	28	41
Cost/Income Ratio (%)	52	49	49	56	51	51	51	47

Financial highlights

- **Net Interest Income (NII)** is expected to increase by 33.4% YoY to Rs11,883mn. NIM is expected to be 3.1% during Q2FY08.
- **Operating Profit** is expected to increase by 19.2% YoY to Rs7,341mn.
- **Provisions and contingencies** are expected to increase by 20.5% YoY to Rs1,920mn.
- **PAT** is expected to increase by 23.6% YoY to Rs3,565mn.

Other business highlights

- **Advances** are expected to increase by 27% YoY to Rs901bn.
- **Deposits** are expected to increase by 45% YoY to Rs1,335bn.

Future outlook

- The core business is shaping up well after the make over process.
- The migration to a technology back platform has enabled the bank to augment its low cost deposits thus stabilizing the NIMs (3%).
- The CAR is at a comfortable 13.3% (tier I: ~9%) with enough headroom available in the tier II category. The bank is not adequately leveraged which we believe will improve its RoE as it increases its leverage to support its future growth.
- Its international operation has gained traction and makes up 20% of advances. The rise in international operations has enabled the bank to accelerate its non interest income as well.

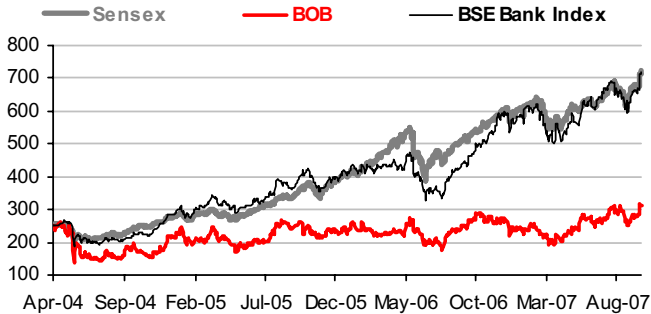
Valuations and Recommendation

At the CMP of Rs313, the bank is trading at P/ABV multiple of 1.2x FY08E ABV of Rs251 and 1.1x FY09E ABV of Rs 286. We maintain our **Buy** rating.

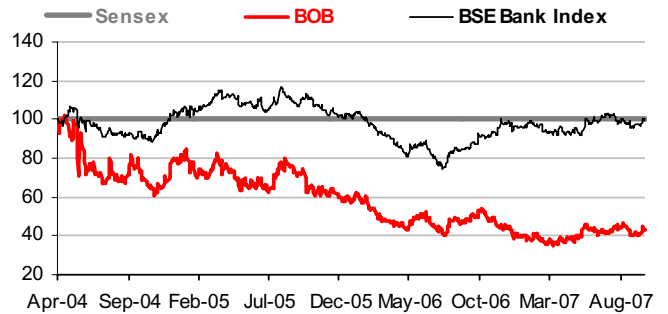
Stock performance

Bank of Baroda

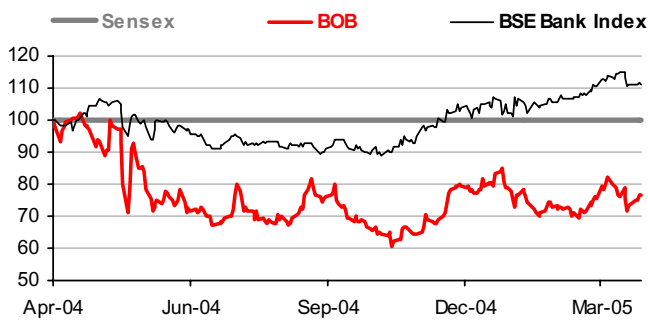
Absolute Perf. From Apr 04



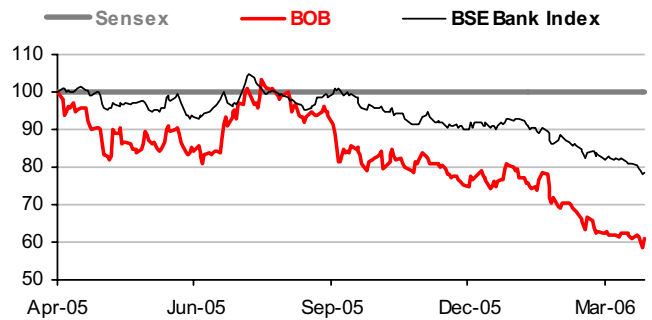
Relative Perf. From Apr 04



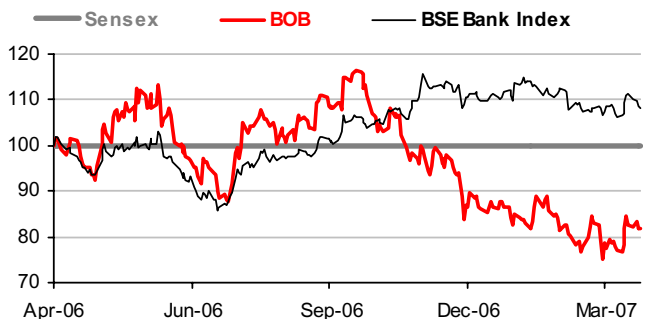
Relative Perf. From Apr 04 to Mar 05



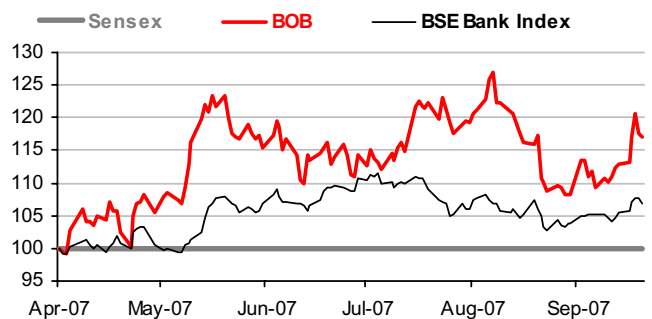
Relative Perf. From Apr 05 to Mar 06



Relative Perf. From Apr 06 to Mar 07



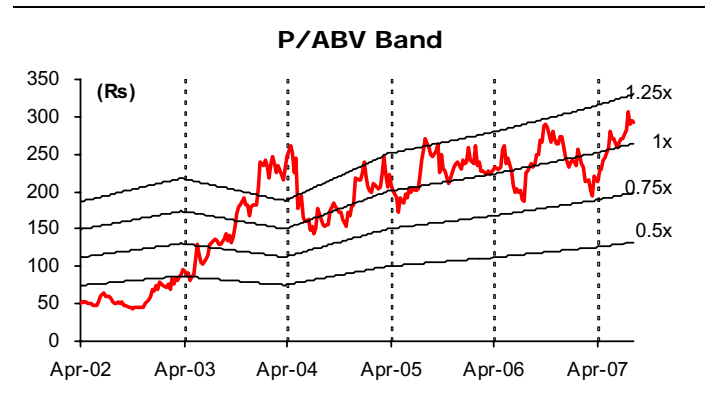
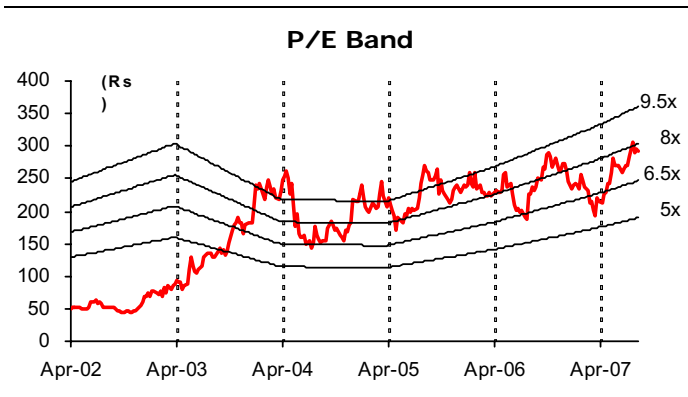
Relative Perf. From Apr 07



Source: Bloomberg, Religare Institutional Equity Research

12 month forward rolling band charts

Bank of Baroda



Bank of Baroda Financials

Income statement

(Rs mn)

Y/E, 31st March	FY05	FY06	FY07E	FY08E	FY09E
Interest Earned	64,314	70,500	92,126	115,894	142,125
Interest on Advance	29,028	37,778	59,374	79,724	100,358
Income on investment	29,890	29,064	27,689	30,371	35,187
Inc. on invt. with RBI	5,397	3,658	5,064	5,799	6,580
Interest Expended	34,521	38,751	54,266	68,476	84,035
Interest on deposits	32,480	35,172	49,861	64,357	79,090
Int. on RBI/Int. borro.	2,042	3,579	4,405	4,120	4,945
Net Interest Income	29,793	31,749	37,861	47,418	58,090
Non-Interest Income	13,048	11,274	11,732	12,922	14,451
Core fee base Income	3,426	3,610	4,729	5,911	6,975
Total Income	42,841	43,023	49,593	60,340	72,540
Operating Expenditure	19,822	23,848	25,443	28,328	33,774
Employee Expenses	13,811	15,238	16,441	19,236	23,467
Other Expenses	6,011	8,610	9,003	9,093	10,307
Operating Profit	23,019	19,175	24,150	32,011	38,766
Prov. & Contingencies	14,312	9,502	5,628	9,644	11,163
PBT	8,707	9,674	18,522	22,368	27,603
Income Tax	1,863	651	6,278	7,381	9,109
Net Profit	6,844	9,023	12,244	14,986	18,494

Ratios

Y/E, 31st March	FY05	FY06	FY07E	FY08E	FY09E
No. of Shares	295	366	366	366	366
Earnings Per Share (Rs.)	23.0	22.6	28.1	34.9	43.0
Book Value (Rs.)	191.1	214.6	236.6	263.3	298.1
Adjusted Book Value (Rs.)	150.1	200.4	222.9	250.9	285.6
Dividend Per Share (Rs.)	5.0	6.0	6.5	7.0	7.0
Dividend Pay-out Ratio (%)	24.7	30.4	27.1	23.5	19.1
Valuation Ratios (x)					
Price/Earnings	13.6	13.8	11.1	9.0	7.3
Price/ BV	1.6	1.5	1.3	1.2	1.0
Price/Adjusted BV	2.1	1.6	1.4	1.2	1.1
Performance Ratios (%)					
Average Yield on funds	7.6	7.1	7.5	7.6	7.6
Average cost of Funds	4.4	4.3	4.8	4.8	4.8
Interest Spread	3.2	2.9	2.7	2.8	2.8
Net Interest Margin	3.5	3.2	3.1	3.1	3.1
Yields (%)					
Average Yield on Adv.	7.3	7.3	8.3	8.4	8.4
Average Yield on Invts	8.0	8.1	7.9	7.9	7.6
Average Cost of Deposits	4.2	4.0	4.6	4.6	4.6
Earnings Quality (%)					
Net Int. Inc/Total Income	69.5	73.8	76.3	78.6	80.1
Other Income/Opr. Profit	56.7	58.8	48.6	40.4	37.3
Cost/Income	46.3	55.4	51.3	46.9	46.6
Return on Avg. Net Worth	12.6	12.3	12.4	14.0	15.3
Return on Average Assets	0.7	0.7	0.7	0.7	0.7
Asset Quality (%)					
Capital Adequacy Ratio	12.6	13.7	11.8	11.0	10.9
Tier I Capital	8.2	11.0	9.7	9.2	9.2
Gr. NPA/Gr. Advances	7.4	4.0	2.5	2.3	1.9
Net NPA/Net Advances	1.5	0.9	0.6	0.4	0.3
Coverage Ratio%	63.7	78.3	76.0	81.0	81.8
Credit / Deposit Ratio	53.4	64.0	66.9	68.6	70.2
Incremental C/D Ratio	93.2	133.9	75.9	75.3	77.9
Investment / Assets	39.2	31.0	24.4	23.8	23.6
Growth Rates (%)					
Advances	21.9	38.0	39.6	27.0	25.0
Deposits	11.5	15.2	33.4	24.0	22.0
Interest Income	4.6	9.6	30.7	25.8	22.6
Interest Expended	(3.4)	12.3	40.0	26.2	22.7
Net interest Income	15.9	6.6	19.3	25.2	22.5
Other Income	(24.1)	(13.6)	4.1	10.1	11.8
Operating Profit	(7.4)	(16.7)	25.9	32.6	21.1
EPS	(30.0)	(1.6)	24.1	24.2	23.1
Net Profit	(30.0)	22.2	24.1	24.2	23.1

Balance Sheet

(Rs mn)

Y/E, 31st March	FY05	FY06	FY07E	FY08E	FY09E
LIABILITIES					
Equity	2,945	3,655	3,655	3,655	3,655
Reserves	53,332	74,789	82,844	92,601	105,307
Net Worth	56,278	78,444	86,499	96,257	108,963
Deposits	813,335	936,620	1,249,160	1,548,958	1,889,729
Borrowings	16,408	48,022	11,426	17,296	24,043
Other Lia & Provisions	60,622	70,839	84,377	99,733	125,321
Total	946,642	1,133,925	1,431,462	1,762,244	2,148,056
ASSETS					
Cash	3,972	5,363	6,734	6,586	6,586
Balance with RBI	23,151	27,971	57,402	74,622	85,815
Balance with Banks, etc.	65,419	101,212	118,668	128,741	139,688
Investments	370,744	351,142	349,436	419,454	506,525
Advances	434,004	599,118	836,209	1,061,985	1,327,481
Fixed Assets	8,608	9,207	10,888	9,628	9,779
Other Assets	40,744	39,912	52,125	61,228	72,181
Total	946,642	1,133,925	1,431,462	1,762,244	2,148,056

Key data			
Sector	Banking		
Market Cap	Rs75bn/US\$1.8bn		
52 Wk H/L (Rs)	145.25/88.6		
Avg. daily vol. (6 month)	495,582		
BSE Code	532388		
NSE Code	IOBN		
Bloomberg	IOB IN		
Reuters	IOBK BO		
Sensex	16,564		
Nifty	4,838		
Shareholding pattern (%)			
	31-Mar-07	30-Jun-07	
FII's NRI, ADR/GDR	18.0	18.2	
MFs and institutions	5.6	5.8	
Promoters	61.2	61.2	
Others	15.1	14.8	
Absolute returns (%)			
	1 mth	3 mth	12 mth
IOB	23.3	21.1	30.9
Sensex	18.4	14.2	35.0
BSE Bank	19.3	11.6	52.4

Indian Overseas Bank (IOB)

Buy
Current Price: Rs140
Target price: Rs156

Quarterly Performance

(Rs mn)

	FY07				FY08		FY07	FY08E
	1Q	2Q	3Q	4Q	1Q	2Q		
Interest/Discount on Advances/Bills	8,337	9,392	9,924	11,358	12,890	13,616	39,010	53,737
Income on investments	3,880	3,945	4,362	4,846	4,944	5,057	17,033	19,672
Interest on balances with RBI/Others	192	384	451	1,250	628	658	2,278	2,602
Interest Income	12,409	13,721	14,737	17,454	18,462	19,330	58,321	76,011
Change (%)	21.0	27.5	28.9	50.2	48.8	40.9	32.4	30.3
Interest expenditure	6,653	7,602	8,686	9,771	11,372	12,055	32,713	44,551
Change (%)	22.7	36.1	40.6	57.4	70.9	58.6	39.9	36.2
Net interest income	5,755	6,119	6,051	7,682	7,090	7,275	25,608	31,460
Change (%)	19.1	18.3	15.1	42.0	23.2	18.9	23.9	22.9
Other income	(342)	1,520	1,980	1,905	616	1,249	3,870	5,487
Change (%)	-118.9	-12.9	23.8	-10.3	280.0	17.8	-28.5	41.8
Total income	5,413	7,639	8,031	9,587	7,706	8,525	29,478	36,947
Change (%)	(18.5)	10.4	17.1	27.3	42.3	11.6	13.0	25.3
Payment to & provision for employee	2,342	2,413	2,133	2,423	2,431	2,462	9,311	10,707
Other operating expenses	960	1,078	982	1,547	1,183	1,293	4,567	5,317
Total Operating expenses	3,302	3,491	3,116	3,970	3,614	3,755	13,878	16,025
Change (%)	13.3	13.2	(2.4)	15.9	9.5	7.6	10.0	15.5
Operating Profit	2,112	4,148	4,916	5,617	4,091	4,770	15,600	20,923
Change (%)	-43.4	8.2	34.2	36.7	93.8	15.0	15.8	34.1
Provisions and w/off	(554.1)	541	1,251	1,820	620	834	1,866	3,399
Change (%)	(139.1)	(40.6)	43.9	(20.4)	211.9	53.9	(48.3)	82.1
PBT	2,666	3,607	3,665	3,797	3,471	3,936	13,734	17,524
Change (%)	15.0	23.5	31.2	108.1	30.2	9.1	39.3	27.6
Taxes	445	1,108	1,197	900	787	892	3,650	4,731
Change (%)	(8.2)	18.3	45.7	509.0	(76.6)	19.5	80.4	29.6
PAT	2,220	2,499	2,468	2,898	2,685	3,044	10,084	12,793
Change (%)	21.2	25.9	25.1	41.7	20.9	21.8	28.7	26.9
Equity Capital (Rs mn)	5,448	5,448	5,448	5,448	5,448	5,448	5,448	5,448
No. of Shares (mn)	545	545	545	545	545	545	545	545
EPS	4.1	4.6	4.5	5.3	4.9	5.6	18.5	23.5
Cost/Income Ratio (%)	61	46	39	41	47	44	47	43

Financial highlights

- **Net Interest Income (NII)** is expected to increase by 18.9% YoY to Rs7,275mn. NIM is expected to be 4% during Q2FY08.
- **Operating Profit** is expected to increase by 15% YoY to Rs4,770mn.
- **Provisions and contingencies** are expected to increase by 53.9% YoY to Rs834mn.
- **PAT** is expected to increase by 21.8% YoY to Rs3,044mn.

Other business highlights

- **Advances** are expected to increase by 25% YoY to Rs514bn.
- **Deposits** are expected to increase by 20% YoY to Rs684bn.

Future outlook

- IOB is gearing up to effectively leverage its branch network and improve its efficiency levels to ramp up business volumes with an eye to expand its credit portfolio to drive its core earnings. The credit growth rate of ~25% is achievable given its high capital adequacy ratio of 13.31%.
- The Bank has managed to improve its interest margins with a focus on low-cost deposits and re-pricing of high-cost term deposits at lower rates.
- Further, on the assets side, the bank is focusing on the relatively high yielding retail, SME, infrastructure and agriculture segments to sustain the yields on its advances portfolio.
- Focus on non interest income- IOB has taken timely steps to improve its non-interest revenue stream by resorting to third party distribution of financial products. It has also effectively restructured its Treasury operations by focusing on equity.

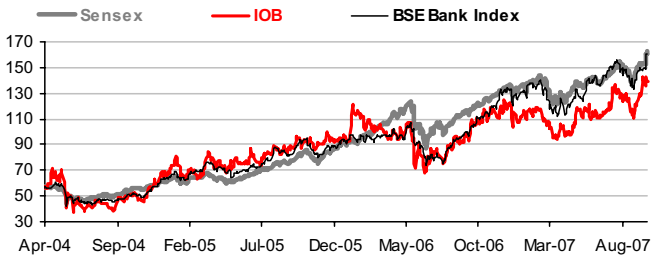
Valuations and Recommendation

At CMP of Rs140, the bank is trading at P/ABV multiple of 1.6x FY08E ABV of Rs87 and 1.2x FY09E ABV of Rs112. We maintain our **Buy** rating.

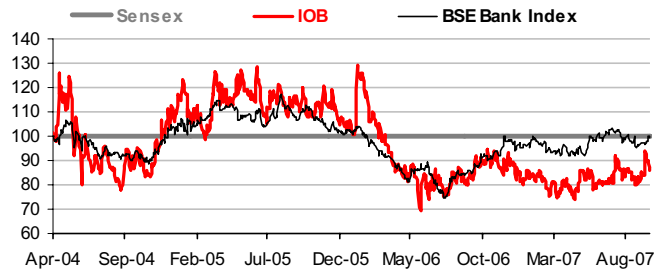
Stock performance

India Overseas Bank

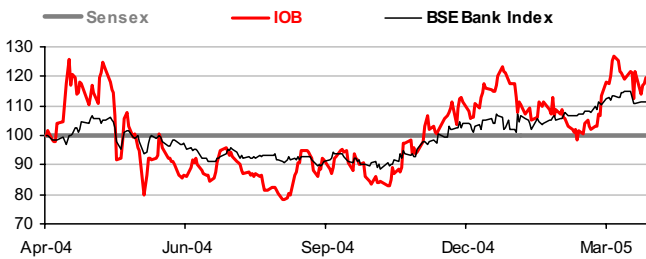
Absolute Perf. From Apr 04



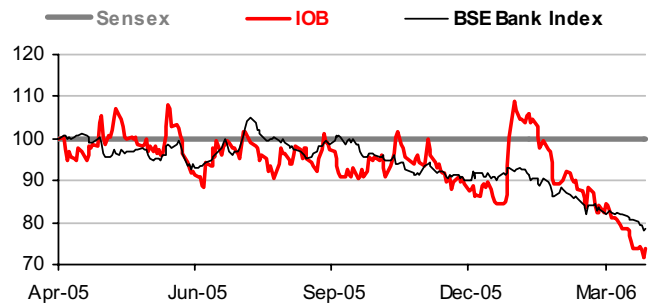
Relative Perf. From Apr 04



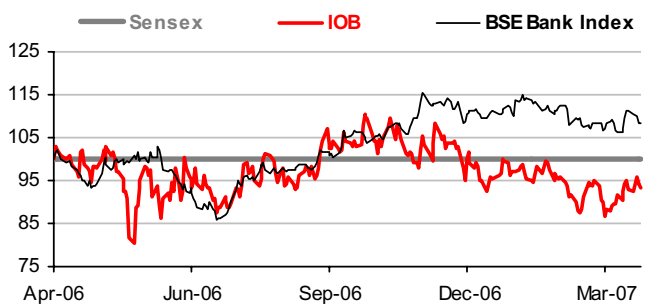
Relative Perf. From Apr 04 to Mar 05



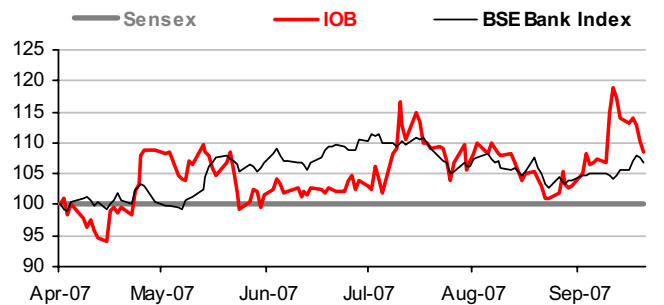
Relative Perf. From Apr 05 to Mar 06



Relative Perf. From Apr 06 to Mar 07



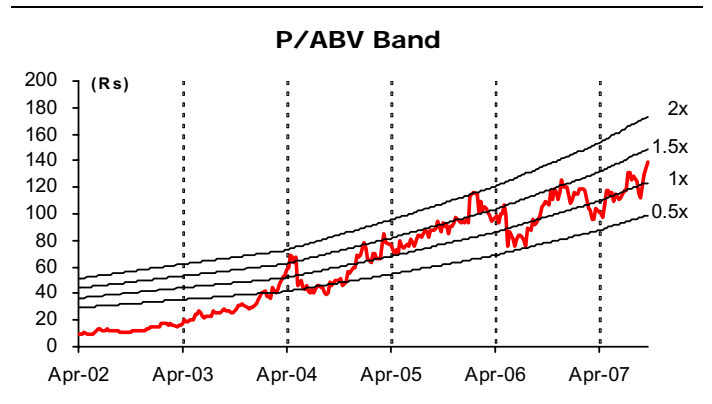
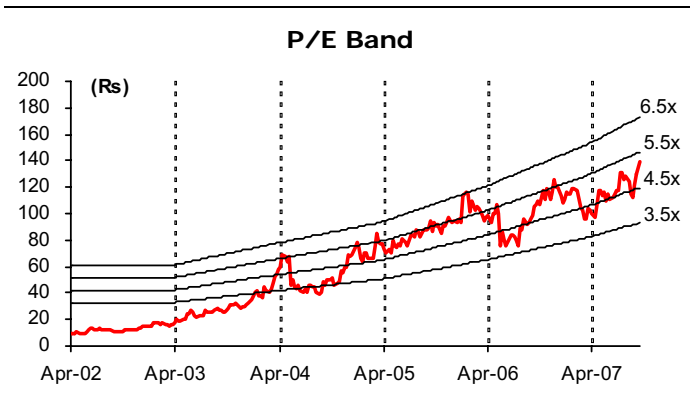
Relative Perf. From Apr 07



Source: Bloomberg, Religare Institutional Equity Research

12 month forward rolling band charts

Indian Overseas Bank



Indian Overseas Bank Financials

Income statement

(Rs mn)

Y/E, 31st March	FY05	FY06	FY07	FY08E	FY09E
Interest Earned	39,510	44,063	58,321	76,011	91,531
Interest on Advance	20,923	26,291	39,010	53,737	67,171
Income on investment	17,720	16,733	17,033	19,672	21,275
Inc. on invt. with RBI	868	1,039	2,278	2,602	3,084
Interest Expended	20,955	23,391	32,713	44,551	53,530
Interest on deposits	19,909	21,857	28,964	39,320	47,183
Int. on RBI/Int. borro.	1,046	1,534	3,748	5,232	6,346
Net Interest Income	18,555	20,672	25,608	31,460	38,001
Non-Interest Income	6,398	5,411	3,870	5,487	7,066
Core fee base Income	2,668	3,075	1,497	3,187	4,966
Total Income	24,953	26,083	29,478	36,947	45,067
Operating Expenditure	11,585	12,616	13,878	16,025	18,323
Employee Expenses	8,435	8,936	9,311	10,707	12,099
Other Expenses	3,151	3,680	4,567	5,317	6,223
Operating Profit	13,368	13,467	15,600	20,923	26,745
Prov. & Contingencies	3,650	3,611	1,866	3,399	4,473
PBT	9,718	9,856	13,734	17,524	22,272
Income Tax	3,205	2,023	3,650	4,731	6,013
Net Profit	6,514	7,833	10,084	12,793	16,258

Balance Sheet

(Rs mn)

Y/E, 31st March	FY05	FY06	FY07	FY08E	FY09E
LIABILITIES					
Equity	5,448	5,448	5,448	5,448	5,448
Reserves	20,304	26,326	34,456	45,177	59,363
Net Worth	25,752	31,774	39,904	50,625	64,811
Deposits	442,412	505,293	687,404	824,885	989,862
Borrowings	5,907	7,366	28,962	33,697	39,215
Other Lia & Provisions	34,079	49,144	66,298	76,284	87,971
Total	508,150	593,578	822,568	985,492	1,181,859
ASSETS					
Cash	2,960	3,153	4,686	5,164	5,666
Balance with RBI	38,795	27,627	42,175	52,719	63,263
Balance with Banks, etc.	7,785	6,293	42,932	46,676	50,815
Investments	190,147	189,523	239,745	267,915	299,430
Advances	252,052	347,562	470,603	588,254	735,317
Fixed Assets	4,523	4,577	5,107	5,417	5,756
Other Assets	11,888	14,843	17,321	19,348	21,612
Total	508,150	593,578	822,568	985,492	1,181,859

Ratios

Y/E, 31st March	FY05	FY06	FY07	FY08E	FY09E
No. of Shares	545	545	545	545	545
Earnings Per Share (Rs.)	12.0	14.4	18.5	23.5	29.8
Book Value (Rs.)	47.3	58.3	73.2	92.9	119.0
Adjusted Book Value (Rs.)	41.4	54.2	68.5	87.0	111.6
Dividend Per Share (Rs.)	2.4	2.6	3.0	3.3	3.3
Dividend Pay-out Ratio (%)	22.8	20.6	19.0	16.2	12.7
Valuation Ratios (x)					
Price/Earnings	11.6	9.7	7.5	5.9	4.7
Price/ BV	2.9	2.4	1.9	1.5	1.2
Price/Adjusted BV	3.4	2.6	2.0	1.6	1.2
Performance Ratios (%)					
Average Yield on funds	8.4	8.3	8.5	8.7	8.7
Average cost of Funds	4.8	4.9	5.3	5.7	5.7
Interest Spread	3.6	3.4	3.2	3.0	3.0
Net Interest Margin	3.9	3.9	3.7	3.6	3.6
Yields (%)					
Average Yield on Adv.	9.2	8.8	9.5	10.2	10.2
Average Yield on Invts	9.0	8.8	7.9	7.8	7.5
Average Cost of Deposits	4.6	4.6	4.9	5.2	5.2
Earnings Quality (%)					
Net Int. Inc/Total Income	74.4	79.3	86.9	85.1	84.3
Other Income/Opr. Profit	47.9	40.2	24.8	26.2	26.4
Cost/Income	46.4	48.4	47.1	43.4	40.7
Return on Avg. Net Worth	28.0	27.2	28.1	28.3	28.2
Return on Average Assets	1.3	1.3	1.2	1.3	1.4
Asset Quality (%)					
Capital Adequacy Ratio	14.2	13.0	13.3	13.0	12.8
Tier I Capital	7.1	8.5	8.6	8.0	7.5
Gr. NPA/Gr. Advances	5.3	3.4	2.3	2.3	2.2
Net NPA/Net Advances	1.3	0.7	0.5	0.5	0.5
Coverage Ratio%	77.0	81.7	77.0	76.3	75.8
Credit / Deposit Ratio	57.0	68.8	68.5	71.3	74.3
Incremental C/D Ratio	178.0	151.9	67.6	85.6	89.1
Investment / Assets	37.4	31.9	29.1	27.2	25.3
Growth Rates (%)					
Advances	24.2	37.9	35.5	25.0	25.0
Deposits	6.7	14.2	36.0	20.0	20.0
Interest Income	5.2	11.5	32.4	30.3	20.4
Interest Expended	(2.7)	11.6	39.9	36.2	20.2
Net interest Income	16.0	11.4	23.9	22.9	20.8
Other Income	(13.6)	(15.4)	(28.5)	41.8	28.8
Operating Profit	0.9	0.7	15.8	34.1	27.8
EPS	27.0	20.3	28.7	26.9	27.1
Net Profit	27.0	20.3	28.7	26.9	27.1

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Rating definition

Buy	: > 15% returns relative to Sensex	Accumulate	: +5 to +15% returns relative to Sensex
Sell	: > (-)15% returns relative to Sensex	Reduce	: (-) 5 to (-) 15% returns relative to Sensex
Hold	: Upto + / (-) 5% returns relative to Sensex		

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