

Indian Financials



3QFY12 Review

- Margins Stable
- Slippages decline
- Restructuring rises
- Valuations near 5 year average

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Healthy core operations overshadows higher restructuring

Financials: Valuation Matrix

	P/E (x)		P/BV (x)		RoA (%)		RoE (%)	
	FY12	FY13	FY12	FY13	FY12	FY13	FY12	FY13
ICICI* [*]	13.6	11.5	1.9	1.7	1.5	1.4	13.8	14.3
HDFCB	23.8	18.9	4.2	3.6	1.7	1.7	18.9	20.5
AXSB	13.2	11.4	2.4	2.1	1.5	1.5	19.9	19.5
KMB	41.5	36.5	5.2	4.5	1.8	1.6	14.2	14.1
YES	12.9	11.1	2.7	2.3	1.5	1.3	23.3	22.3
IIB	18.3	15.0	3.3	2.8	1.6	1.5	19.3	20.1
VYSB	11.9	10.6	1.4	1.2	1.0	1.0	14.0	12.3
FB	10.3	8.8	1.4	1.2	1.3	1.3	13.8	14.5
J&KBK	5.3	4.8	1.0	0.9	1.4	1.4	20.8	19.7
SIB	8.0	7.1	1.6	1.3	1.1	1.0	21.1	20.3
Private Aggregate	12.6	10.8	1.8	1.6				
SBIN (cons)*	9.6	8.2	1.5	1.3	0.9	0.9	16.4	17.1
PNB	6.9	6.0	1.4	1.2	1.3	1.2	24.3	21.7
BOI	8.4	6.5	1.2	1.0	0.7	0.8	14.6	16.7
BOB	7.1	6.5	1.4	1.2	1.2	1.1	21.9	20.2
CBK	7.7	6.3	1.2	1.0	0.9	0.9	16.7	17.7
UNBK	9.7	5.8	1.1	1.0	0.6	0.8	12.2	18.2
IOB	9.6	5.7	0.8	0.7	0.4	0.5	8.4	13.1
OBC	7.4	6.2	0.8	0.7	0.7	0.7	11.4	12.4
INBK	5.5	5.0	1.1	1.0	1.4	1.3	21.6	20.0
CRPDK	4.8	4.2	0.9	0.8	1.0	1.0	20.2	19.8
ANDB	5.6	5.0	1.0	0.9	1.1	1.1	19.0	18.5
IDBI *	5.5	4.5	0.7	0.6	0.6	0.7	12.6	14.0
DBNK	4.3	3.6	0.8	0.7	0.9	1.0	17.9	18.4
Public Aggregate	9.1	7.5	1.4	1.2				
HDFC*	18.7	15.6	5.1	4.7	2.8	2.9	26.6	28.8
LICHT	13.9	9.8	2.6	2.2	1.6	1.8	20.3	24.3
DEWH	8.7	6.7	1.4	1.2	1.3	1.4	18.7	19.5
IDFC	14.1	13.0	1.7	1.5	3.0	2.7	13.9	13.2
RECL	8.7	7.3	1.7	1.5	3.1	3.1	20.7	21.8
POWF	9.7	7.9	1.4	1.2	2.6	2.6	16.6	16.6
SHTF	10.1	9.0	2.2	1.8	3.0	3.0	23.6	22.0
MMFS	13.2	10.4	2.5	2.1	3.8	3.8	20.8	22.4
NBFC Aggregate	14.5	12.1	3.5	2.9				

Operating performance remains healthy

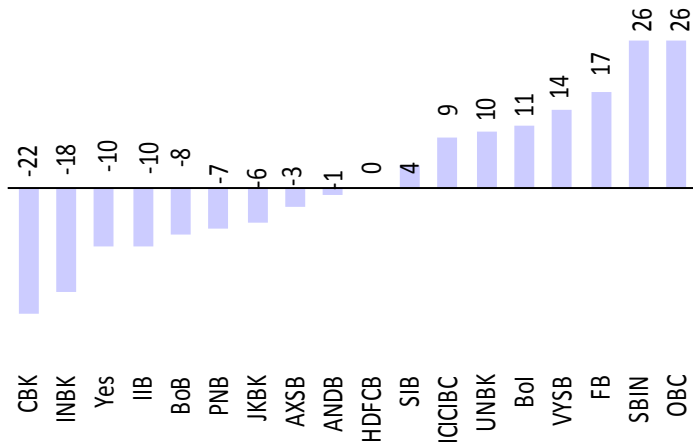
Slippages decline sequentially; Sharp rise in restructuring

- **Key highlights for private banks:** (1) Largely stable NIM QoQ, (2) Asset quality continues to be strong, with GNPA% stable/declining QoQ, (3) Business growth robust, investment book growth remains healthy, as large corporate funded by credit substitutes, (4) Mid-cap private banks report strong growth in SA Deposit post deregulation of SB rates.
- **Key highlights for state-owned banks:** (1) Largely stable margins QoQ, (2) strong fee income performance QoQ, (3) loan growth improves QoQ, however remains low on a YoY basis. (4) fall in CA deposits leading to muted CASA growth, (5) On a higher base (slippages were at an elevated level as in 2QFY12 most of the state owned banks migrated to system based recognition of NPA), slippages declines sharply QoQ (6) Addition of ~100bp of loans to restructured loans largely led by one large telecom account.
- **Positive surprises:** (1) **ICICI*:** Improvement in margins (+10bp QoQ) and strong performance on asset quality. (2) **SBIN:** Strong margin improvement (+26bp QoQ) (3) **BoB:** NIM stable QoQ, and robust fee income growth YoY. Among other banks FB, SIB and VYSB also delivered strong NIM and asset quality performance.
- **Negative surprises:** (1) **UNBK:** Higher provisions due to restructuring of loans (it had taken an NPV hit of 25% on one large telecom account restructured visa-vis 10-15% by its peers). (2) **CBK:** Sharp contraction in NIM (cal) by 20bp QoQ (3) **BoI:** Addition to restructured loans of INR30b in 3QFY12.



Healthy core operations overshadows higher restructuring

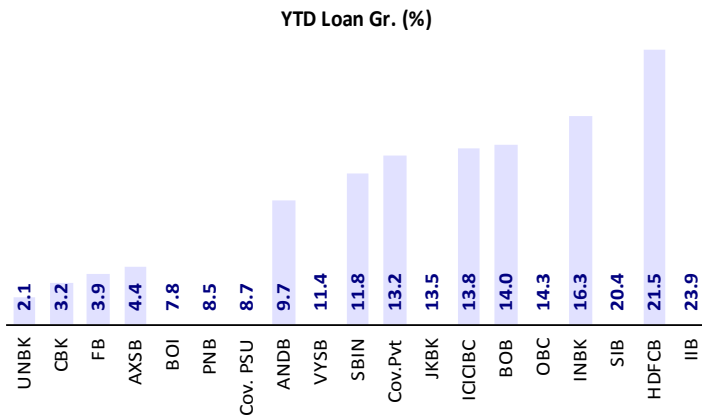
QoQ change in NIM (bp)



NIM performance strong across sector

- State-owned banks exhibited stable margin performance despite higher slippages – a positive surprise. SBIN surprised positively with a 26bp QoQ margin improvement. In case of BOB domestic NIMs declined ~15bp QoQ, however 20bp improvement in international NIMs led to largely stable global margins. BoI and OBC reported 20bp+ improvement in margins led by lower interest income reversal during the quarter.
- Private banks margins were largely stable QoQ. ICICIBC's margins improved ~10bp led by ~5bp improvement in domestic margins and ~30bp improvement in international margins. AXSB stable margins QoQ was a positive surprise. YES and IIB reported 10bp decline in margin led by higher cost of funds. FB NIM improved 15bp+ QoQ led by containment of cost of funds.

Loan growth of private banks remains strong (%)



Loan growth picks up QoQ; YTD growth muted for some PSU banks

- Loan growth for banks under our coverage was largely in line with industry average. While growth for state-owned banks picked up sequentially, on a YTD basis it remains low (led by impact of slowing corporate loan growth and higher asset quality related issues over past two-three quarters). Sharp depreciation in currency led to strong overall growth for banks with international presence like BoB, BoI and ICICIBC.
- Investment growth was also healthy across the sector, especially for private banks, as funding for large corporate happened through credit substitutes due to high base rates across the system.



Healthy core operations overshadows higher restructuring

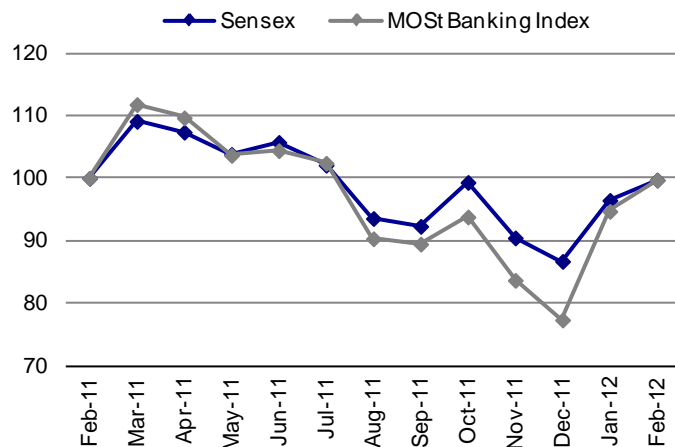
Slippages for PSBs declined QoQ (except PNB & BoB)

	Slippages (INR b)						3QFY12
	1QFY11	2QFY11	3QFY11	4QFY11	1QFY12	2QFY12	
ANDB	1.4	2.6	2.0	1.9	2.4	10.9	3.8
OBC	1.1	4.7	4.7	6.5	3.8	15.0	7.0
BoI	6.2	8.2	4.8	10.0	16.8	28.2	10.2
UNBK	6.2	11.3	7.7	4.1	7.7	18.2	5.7
SBIN	40.8	52.7	31.5	56.5	61.2	82.7	81.6
CBK	7.7	3.9	5.1	18.4	13.7	12.4	8.6
INBK	8.8	3.3	2.5	2.8	1.7	3.8	2.9
PNB	12.2	9.1	9.8	12.5	11.8	9.9	16.8
BoB	6.7	2.9	2.8	6.7	5.8	5.8	9.5
PSU Agg.	91	99	71	119	125	187	146

State-owned reports sharp decline in slippages

- ❑ Slippages for state-owned banks declined 22% QoQ – on a higher base (annualized slippage ratio of 3.1% v/s 4.2% a quarter ago). One large aviation account led to higher slippages, excluding the same slippages were better or inline with estimates.
- ❑ On recoveries and up-gradation PNB, UNBK and INBK disappointed whereas, CBK, OBC, ANDB delivered the strong performance
- ❑ Restructuring during the quarter increased sharply due to one large telecom account. On an average state-owned banks restructured ~100bp of overall loan – of which ~50% was on account of telecom segment. Most of the banks took an NPV hit of 10-15% on this account whereas UNBK took a hit of ~25%.

Banking index witnessed significant correction



Asset Quality trends will drive valuation from here-on

- ❑ Downward trend in inflation and moderating growth present a compelling case for reversal in interest rate cycle. This could significantly alter the growth and asset quality outlook.
- ❑ While slippages have declined, increased restructured loans in 3Q and expected in 1HCY12 remains a concern. Some of the big ticket restructuring like SEBs, Airlines, GTL etc are already getting modeled in estimates and credit costs estimates remain high.
- ❑ Improvement in growth outlook and lower rates can help mitigate some of these concerns in 2HCY12.
- ❑ Despite the sharp increase in CY12YTD, PSU bank valuations are still ~10% below the 5-yr averages. **Top picks:** PSU banks – SBIN and PNB. Private Banks - ICICIBC. In midcap space we like YES and INBK.



Core operations remain strong; NII and PAT inline with estimates

- For our coverage universe (ex SBIN), NII growth was inline with our expectation. Positive surprise on NII came from SBIN, FB and VYSB led by higher than expected margins. CBK surprised negatively led by lower margins.
- Positive surprise on PPP levels came from (a) BOB led by higher than expected trading profits and Forex income and (b) ICICIBC led by maiden dividend from insurance business (5% higher than exp) and (c) FB led by strong top-line performance
- Led by deterioration in asset quality and higher restructuring provisions, PNB, and UNBK reported ~12% and ~60% lower than est. PAT. Strong asset quality performance led to better than est. PAT for private banks.

INR Million	Net Interest Income					Operating Profit					Profit After Tax				
	Actual	Actual	Est. YoY	Actual	Var	Actual	Actual	Est. YoY	Actual	Var	Actual	Actual	Est. YoY	Actual	Var
	Dec 11	QoQ	Chg (%)	YoY	(%)	Dec 11	QoQ	Chg (%)	YoY	(%)	Dec 11	QoQ	Chg (%)	YoY	(%)
Company	Dec 11	Chg (%)	Chg (%)	Chg (%)	(%)	Dec 11	Chg (%)	Chg (%)	Chg (%)	(%)	Dec 11	Chg (%)	Chg (%)	Chg (%)	(%)
ANDB	9,839	3.4	15.3	17.1	1.6	7,676	11.8	13.1	22.5	8.3	3,032	-4.1	-9.7	-8.4	1.4
BOB	26,555	3.5	17.8	15.8	-1.7	25,952	22.0	23.7	40.2	13.4	12,899	10.6	14.7	20.7	5.2
BOI	20,676	8.6	5.3	4.1	-1.2	17,319	11.6	24.0	24.7	0.6	7,162	45.8	10.2	9.7	-0.4
CBK	19,186	-2.2	0.9	-9.5	-10.3	15,767	-1.8	14.6	4.2	-9.1	8,756	2.7	-17.3	-20.8	-4.3
INBK	11,700	3.1	10.9	12.8	1.7	9,116	-1.0	6.5	12.3	5.4	5,259	12.2	-13.5	7.0	23.8
OBC	11,399	15.2	7.2	10.7	3.2	8,271	9.1	7.8	6.9	-0.9	3,542	111.2	-21.7	-13.2	10.8
PNB	35,366	2.4	10.5	10.4	-0.1	26,764	5.9	9.8	13.9	3.7	11,501	-4.6	19.9	5.5	-12.0
SBIN	114,659	10.0	19.3	26.7	6.2	72,600	-2.9	13.8	7.3	-5.7	32,631	16	11.9	15.4	3.1
UNBK	17,809	7.2	5.9	10.2	4.1	12,841	6.6	-1.8	1.8	3.6	1,970	-44.1	-12.8	-66.0	-61.0
PSU Banks	267,187	6.7	13.1	15.3	2.0	196,306	4.1	13.4	13.2	-0.2	86,750	10.8	3.8	1.4	-2.3
PSU Bank (ex-SBI)	152,529	4.3	9.1	8.0	-1.0	123,706	8.7	13.2	17.0	3.3	54,119	7.8	-0.2	-5.5	-5.3
AXSB	21,403	6.6	21.4	23.5	1.8	20,592	16.0	19.1	24.2	4.3	11,023	19.8	16.6	23.7	6.1
FB	5,280	11.3	11.0	18.1	6.3	4,187	15.9	8.8	17.4	7.9	2,019	5.6	35.0	41.1	4.5
HDFCB	31,160	5.8	10.1	12.2	1.9	23,780	11.9	12.9	14.7	1.6	14,297	19.2	30.4	31.4	0.8
ICICIBC	27,120	8.2	15.6	17.3	1.5	26,871	14.2	8.9	14.7	5.3	17,281	15.0	9.8	20.3	9.5
IIB	4,307	2.7	18.3	18.6	0.3	3,492	4.9	20.4	19.9	-0.4	2,060	6.7	30.6	33.9	2.5
VYSB	3,236	6.6	26.4	31.6	4.1	2,113	11.6	29.7	32.5	2.2	1,195	3.6	34.1	44.0	7.3
SIB	2,734	5.7	30.3	33.5	2.5	1,790	7.6	26.0	25.3	-0.6	1,022	7.7	19.6	32.0	10.4
YES	4,276	10.9	30.5	32.3	1.4	3,988	3.3	31.2	28.1	-2.3	2,541	8.1	27.4	32.9	4.4
Private Banks	99,516	7.0	16.1	18.4	2.0	86,815	12.9	14.5	18.4	3.4	51,437	15.5	20.0	26.5	5.5
Cov. Banks	366,703	6.8	13.9	16.1	2.0	283,121	6.6	13.8	14.7	0.9	138,187	12.5	9.0	9.5	0.4
Cov. Banks (ex-SBI)	252,045	5.4	11.7	11.9	0.2	210,521	10.4	13.7	17.5	3.3	105,557	11.4	8.2	7.8	-0.4



Loan growth: State-owned banks report sequential improvement

- Sharp depreciation in currency led to strong overall growth for BOB, BOI, ICICIBC (higher international loan share). International loan growth for these banks stood at 17% QoQ and 65% YoY, 15% QoQ and 46% YoY and 4% QoQ and 38% YoY respectively.
- HDFCB witnessed strong growth across categories of retail loans (+8% QoQ and 30% YoY). Conscious decision of moderation in corporate loans (-2% QoQ and 15% YoY) led to moderation in overall loan growth. HDFCB reported the strongest growth of ~55% in CV loans. Credit card and PL grew ~30% YTD.
- AXSB and YES reported strong customer asset growth of 9% QoQ and 32% YoY and 7% QoQ and 28% YoY. Robust growth in vehicle finance portfolio (11% QoQ, ~35% YTD and ~45% YoY) is leading to strong growth for IIB.
- While ICICIBC retail loans continue to moderate, strong growth in international loans (partially helped by rupee depreciation) and corporate loans led to higher than industry growth sequentially. During 3QFY12 and YTD, ~90% and 100%+ of incremental growth came from international and corporate loans. Adjusted for rupee depreciation, loans grew 16.5% YoY vs. 19% reported.
- For PNB, ~45% of incremental loan growth came from Infrastructure and Metals during the quarter. Other PSU banks also reported sequential improvement in loan growth.

Private banks continue to outpace PSUs

Currency dep. leading to strong gr. in some cases

	3QFY12	3QFY12 (Gr %)		2QFY12 (Gr %)		3QFY11 (Gr %)	
	(INR b)	QoQ	YoY	QoQ	YoY	QoQ	YoY
SBIN	8,463	7.0	16.5	2.6	16.1	6.7	21.3
PNB	2,626	5.5	18.7	2.5	19.3	6.0	29.8
CBK	2,193	0.6	15.5	1.4	23.8	7.8	28.8
BoB	2,607	9.0	25.8	2.9	23.9	7.4	32.7
BoI	2,331	7.5	20.9	0.9	17.7	4.5	22.8
UNBK	1,562	6.1	16.8	1.2	16.5	5.8	25.6
OBC	1,107	4.8	21.9	7.6	20.8	3.8	15.6
INBK	880	1.9	19.1	4.7	23.4	5.6	28.6
ANDB	792	6.3	20.7	-1.6	22.1	7.5	27.7
PSU (Ex- SBIN)	14,097	5.5	20.0	2.3	20.8	6.2	27.1
Coverage PSU	22,560	6.0	18.6	2.4	19.0	6.4	24.8
ICICIBC	2,462	5.2	19.1	6.0	20.5	6.4	15.3
HDFCB	1,943	3.1	22.1	7.4	20.0	1.3	33.1
AXSB	1,487	6.2	20.4	6.2	26.7	11.7	45.7
Yes	359	4.9	15.3	3.3	12.7	2.5	66.3
IIB	324	7.6	29.7	6.2	28.5	6.6	31.0
VYSB	263	5.8	22.6	4.3	22.8	6.0	22.5
SIB	251	7.3	30.6	5.4	29.5	6.4	29.1
FB	332	-1.2	17.6	5.1	21.6	2.2	8.5
JKBK	297	5.3	17.2	6.9	21.8	9.4	22.0
Coverage Private	7,718	4.7	20.6	6.2	21.9	5.8	27.8
Coverage Banks	30,278	5.7	19.1	3.3	19.7	6.2	25.5
Industry	43,656	5.2	16.0	1.5	21.2	10.0	24.6



Deposit growth lower than loan growth

- ❑ Banks under our coverage grew faster than industry. Private banks continue to outpace industry deposit growth on a QoQ basis, led by strong loan growth.
- ❑ Among state owned banks PNB and BOB reported significantly higher than industry growth at 23%+. However, on a higher base deposit growth moderated sharply for UNBK to 10% YoY. On a YTD basis, loans and deposits for UNBK grew ~2%.
- ❑ Currency depreciation drove international deposit growth for BOB (+11% QoQ) and BOI (+15% QoQ). Domestic deposits for BOB were up 4%+ QoQ whereas, for BOI it was flat.
- ❑ CBK and INBK chose to moderate the balance sheet growth during the quarter. Nevertheless, loan and deposit growth remained strong for INBK, YTD at 12% and 16% respectively.
- ❑ Within private sector banks strong deposits growth was witnessed for AXSB and IIB. Among the others SIB continued to outpace the system growth
- ❑ HDFCB and FB reported muted deposit growth QoQ as they choose to moderate balance sheet growth to protect margins. FB shed its high cost bulk deposit raised in 2QFY12, leading to muted deposit growth.

Higher funding via borrowings during the quarter

Private banks continue to outpace PSUs

	3QFY12	3QFY12 (Gr %)		2QFY12 (Gr %)		3QFY11 (Gr %)	
	(INR b)	QoQ	YoY	QoQ	YoY	QoQ	YoY
SBIN	10,010	2.9	13.9	2.4	13.8	2.8	14.0
PNB	3,565	4.3	23.4	5.5	25.0	5.7	23.5
CBK	3,155	0.9	19.7	4.1	25.4	5.7	25.4
BoB	3,492	6.1	24.0	5.2	22.1	4.4	30.9
BoI	3,073	2.7	21.7	2.0	24.1	4.8	22.6
UNBK	2,053	5.0	10.0	-1.8	10.0	5.0	23.5
OBC	1,562	4.4	20.8	3.5	18.9	2.8	16.8
INBK	1,190	2.4	17.8	5.2	18.6	3.1	19.2
ANDB	987	4.5	20.2	0.0	20.2	4.5	23.4
PSU (Ex- SBI)	19,076	3.8	20.3	3.3	21.5	4.8	24.0
Coverage PSU	29,086	3.4	18.0	3.0	18.7	4.0	20.3
ICICBC	2,606	6.3	19.7	6.2	9.9	-2.4	10.2
HDFCB	2,325	0.8	21.0	9.2	18.1	-1.6	24.2
AXSB	2,087	7.3	33.9	5.9	23.9	-0.7	36.9
Yes	469	6.5	18.9	1.1	10.2	-1.4	79.0
IIB	406	5.7	32.3	8.8	22.6	-2.0	23.9
VYSB	317	3.1	16.1	-1.9	17.8	4.6	16.2
SIB	338	2.4	25.3	4.5	31.8	7.7	30.8
FB	467	-1.1	26.6	10.1	30.9	2.2	6.7
JKBK	488	2.9	19.3	10.1	19.5	3.0	21.4
Coverage Private	9,503	4.3	23.7	6.8	17.8	-0.7	22.8
Coverage Banks	38,588	3.7	19.4	3.9	18.5	2.9	20.9
Industry	57,987	3.1	16.6	2.5	19.5	5.6	16.6



CD ratio improves across banks led by busy season

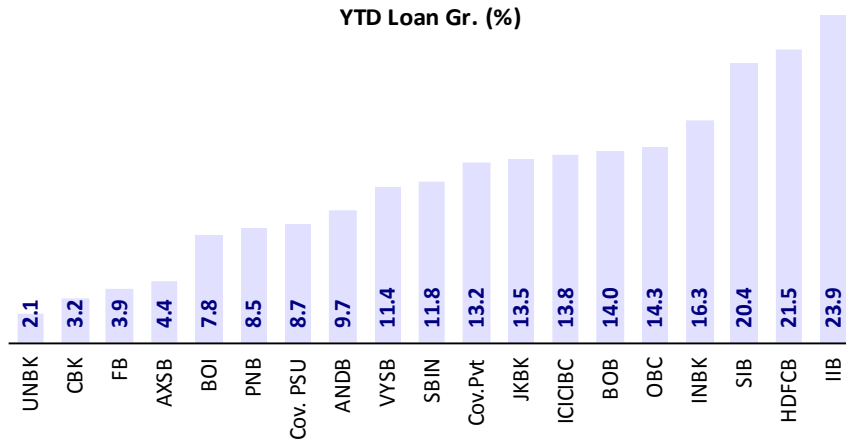
	YoY Loan Growth (%)							CD Ratio (%)						
	1QFY11	2QFY11	3QFY11	4QFY11	1QFY12	2QFY12	3QFY12	1QFY11	2QFY11	3QFY11	4QFY11	1QFY12	2QFY12	3QFY12
SBIN*	20.3	19.0	21.3	19.8	18.0	16.1	16.5	74.9	74.7	77.2	76.3	76.7	75.8	78.6
PNB	24.6	27.6	29.8	29.7	23.4	19.3	18.7	77.1	76.4	76.6	77.4	74.9	72.9	73.7
CBK	23.5	20.2	28.8	25.5	23.7	23.8	15.5	72.8	70.7	72.1	72.3	71.6	69.7	69.5
BOB*	30.7	29.6	32.7	30.6	25.2	23.9	25.8	69.2	68.8	70.6	72.6	71.3	69.1	70.7
BOI*	19.6	22.7	22.8	26.2	21.6	17.7	20.9	69.4	70.6	70.3	65.3	65.6	64.6	67.2
UNBK	29.9	27.1	25.6	26.2	16.7	16.5	16.8	72.9	71.1	71.7	75.6	73.1	75.3	76.1
OBC	20.3	14.3	15.6	15.0	14.1	20.8	21.9	70.0	69.6	70.2	69.6	67.9	70.7	70.9
INBK	30.9	29.8	28.6	20.9	21.3	23.4	19.1	74.8	71.4	73.2	71.6	74.7	74.3	74.0
ANDB	27.2	26.6	27.7	27.7	32.5	22.1	20.7	76.5	77.6	79.9	78.3	80.2	78.9	80.2
PSU (Ex- SBI)	25.3	24.8	27.1	26.3	22.3	20.8	20.0	74.1	73.1	74.1	74.1	73.5	72.7	73.9
Coverage PSU	23.4	22.5	24.8	23.8	20.7	19.0	18.6	76.3	75.5	77.2	76.5	76.1	75.7	77.6
ICICIBC*	-6.9	1.8	15.3	19.4	19.7	20.5	19.1	71.0	68.0	75.0	75.0	75.5	72.3	71.1
HDFCB	40.9	38.2	33.1	27.1	20.0	20.0	22.1	79.9	80.4	82.8	76.7	83.1	81.7	83.6
AXSB	39.1	36.5	45.7	36.5	21.4	26.7	20.4	73.6	70.5	79.3	75.3	71.8	72.0	71.3
Yes	107.2	86.2	66.3	54.8	26.1	12.7	15.3	86.8	75.8	78.9	74.8	76.0	77.6	76.4
IIB	31.3	33.4	31.0	27.3	31.4	28.5	29.7	78.9	75.0	81.5	76.1	80.5	78.5	79.9
VYSB	17.5	23.5	22.5	27.5	25.5	22.8	22.6	78.4	77.6	78.7	78.2	76.1	80.9	83.1
SIB	33.6	34.4	29.1	29.1	31.2	29.5	30.6	72.4	71.9	71.1	70.0	70.0	70.7	74.0
FB	16.6	7.2	8.5	18.6	17.8	21.6	17.6	77.6	76.5	76.5	74.3	74.5	71.1	71.0
JKBK	11.7	9.8	22.0	13.6	14.6	21.8	17.2	61.2	58.4	62.0	58.6	61.3	59.5	61.0
Coverage Private	19.0	21.9	27.8	26.6	21.1	21.9	20.6	80.8	78.2	83.3	80.1	81.3	80.9	81.2
Coverage Banks	22.3	22.3	25.5	24.5	20.8	19.7	19.1	77.4	76.1	78.6	77.4	77.4	76.9	78.5
Industry	21.6	19.1	24.6	21.5	20.1	21.2	16.0	73.4	72.7	75.7	75.7	74.5	73.8	75.3

*Domestic CD ratio

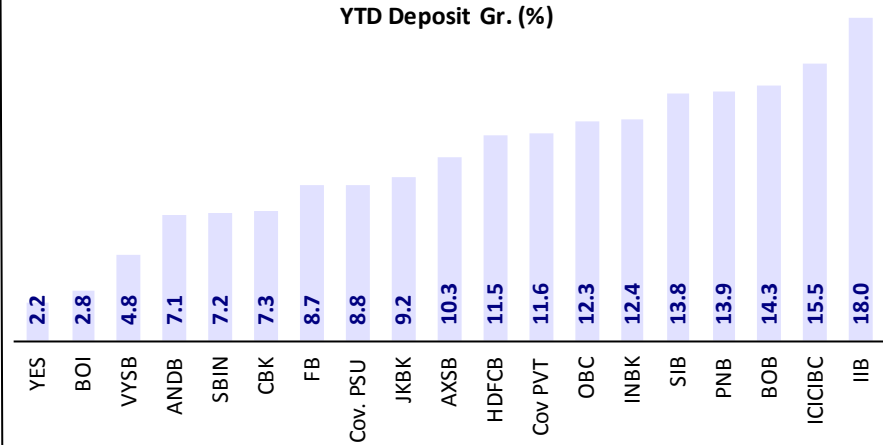


Business growth healthy; expect strong pick up in 4QFY12

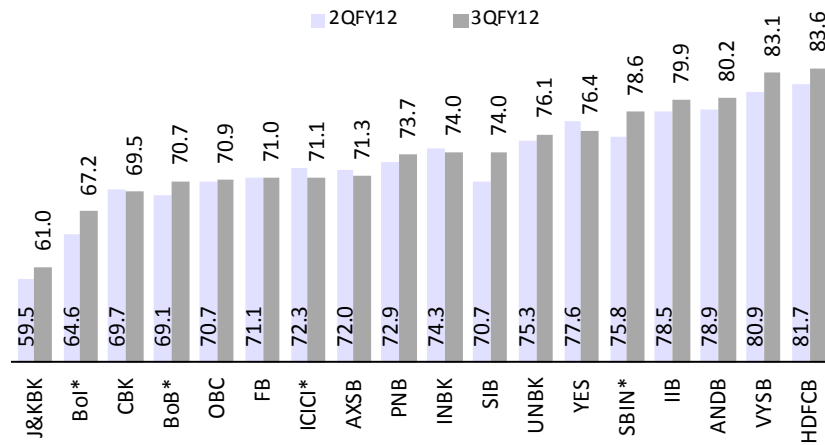
YTD loan gr. strong for PVT banks; PSU banks lag (%)



Deposit growth remains healthy (%)

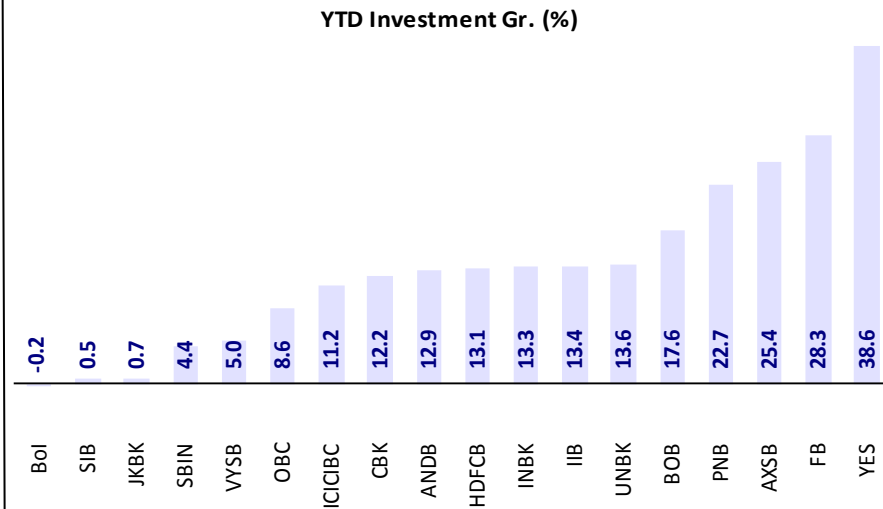


CD ratio improves QoQ (%)



*Domestic CD ratio

Credit substitutes leading to higher Investment gr



CASA growth moderates; Mid cap private banks gain strength



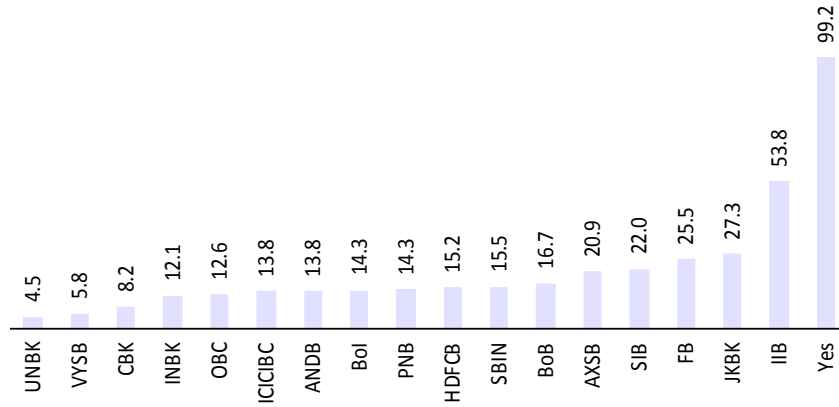
- ❑ CASA growth moderated, due to cannibalization of savings deposits to term deposits on account of higher interest rate. CASA ratio for most of the PSU banks have declined or at best remained stable QoQ (except BOI). BOB and ANDB reported strong 5%+ QoQ growth in CASA.
- ❑ Private banks reported healthy QoQ growth both in CA and SA deposits, partially helped by one off large float monies at the end of the quarter. YES, IIB and KMB witnessed strong traction in SA, post deregulation of saving deposit rate leading to sequential improvement in CASA ratio. Yes, IIB and KMB have increased SA Deposit rate by 150-300bp.

	CA Dep	Growth (%)		SA Dep	Growth (%)		CASA Dep	Growth (%)		CASA ratio (%)						
	(INR b)	QoQ	YoY	(INR b)	QoQ	YoY	(INR b)	QoQ	YoY	1QFY11	2QFY11	3QFY11	4QFY11	1QFY12	2QFY12	3QFY12
SBIN	795	-3.8	5.7	3,679	4.4	15.5	4,474	2.8	13.6	47.5	47.8	48.7	48.7	47.9	47.6	47.5
PNB	233	-1.2	1.4	1,027	2.2	14.3	1,260	1.6	11.7	40.9	40.6	39.1	38.5	37.4	36.3	35.3
CBK	121	-27.9	-32.8	634	-1.1	8.2	754	-6.6	-1.4	29.0	28.9	29.0	28.3	25.4	25.8	23.9
BoB	230	6.2	12.3	718	4.8	16.7	948	5.1	15.6	35.2	35.9	35.1	34.4	33.9	34.0	34.1
BoI	150	13.9	9.9	636	0.1	14.3	786	2.5	13.4	32.4	33.5	32.5	29.2	30.5	31.6	32.4
UNBK	183	22.5	16.8	485	1.4	4.5	668	6.5	7.6	32.6	32.7	33.3	31.8	31.5	32.1	32.5
OBC	85	-1.0	-7.9	263	2.8	12.6	348	1.8	6.8	24.3	25.4	25.2	24.6	23.4	22.9	22.3
INBK	64	-5.6	1.1	295	6.1	12.1	359	3.8	11.1	32.7	32.2	32.0	30.8	30.5	29.8	30.2
ANDB	55	4.5	6.1	207	6.8	13.8	263	6.4	12.1	29.4	30.3	28.5	29.1	26.8	26.1	26.6
Coverage PSU	1,916	-0.9	2.6	7,944	3.2	13.8	9,859	2.4	11.4							
ICICI	400	21.3	26.6	735	4.8	13.8	1,135	10.1	18.0	41.9	39.0	40.3	39.5	40.0	38.3	39.0
HDFC	426	6.0	18.2	703	1.9	15.2	1,129	3.4	16.3	49.2	50.6	50.5	52.7	49.1	47.3	48.6
AXSB	395	11.6	47.2	473	1.1	20.9	868	5.6	31.6	39.9	39.1	3.8	37.5	37.0	38.3	37.0
Yes	12	40.0	99.2	12	40.0	99.2	59	22.2	46.5	10.5	10.1	10.2	10.3	10.9	11.0	12.6
IIB	68	-7.5	20.5	40	20.7	53.8	108	1.2	31.0	24.3	25.4	26.8	27.2	28.2	27.7	26.5
VYSB	51	6.5	21.4	52	0.2	5.8	103	3.2	13.0	34.0	35.9	33.5	34.6	33.8	32.6	32.6
SIB	12	-4.1	13.3	61	5.1	22.0	73	3.4	20.4	25.1	23.9	22.4	21.5	21.5	21.3	21.5
FB	23	-0.3	9.5	111	9.0	25.5	134	7.3	22.5	29.0	29.4	29.6	26.9	27.2	26.4	28.7
JKBK	46	0.7	4.7	150	10.8	27.3	196	8.2	21.1	37.8	41.1	39.6	40.5	40.4	38.2	40.2
Coverage Private	1,433	10.5	27.4	2,336	4.0	17.7	3,805	6.4	21.3							
Coverage Banks	3,349	3.7	12.0	10,280	3.4	14.7	13,664	3.5	14.0							

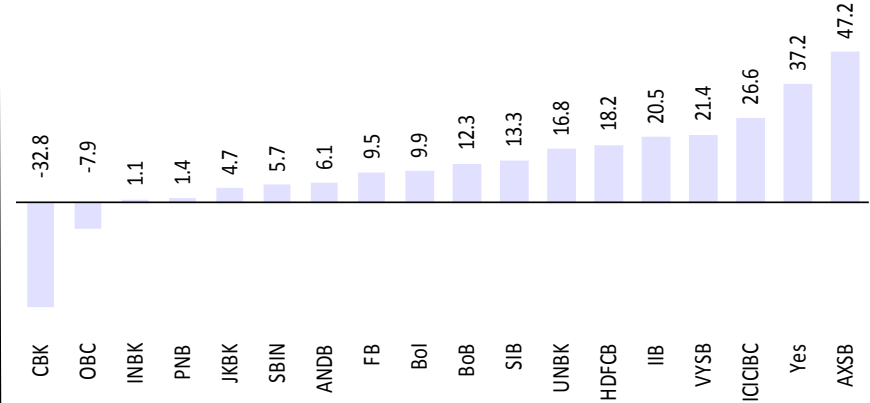


CASA growth moderated for PSU banks

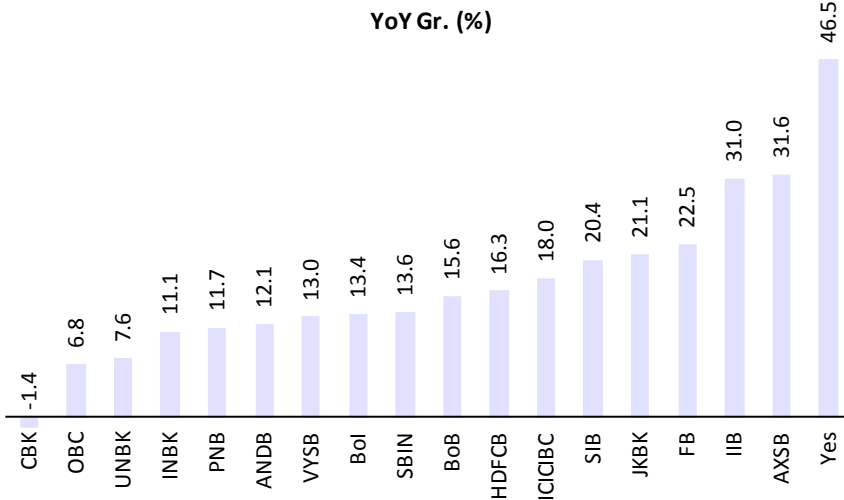
PSU banks lags on savings deposit gr.



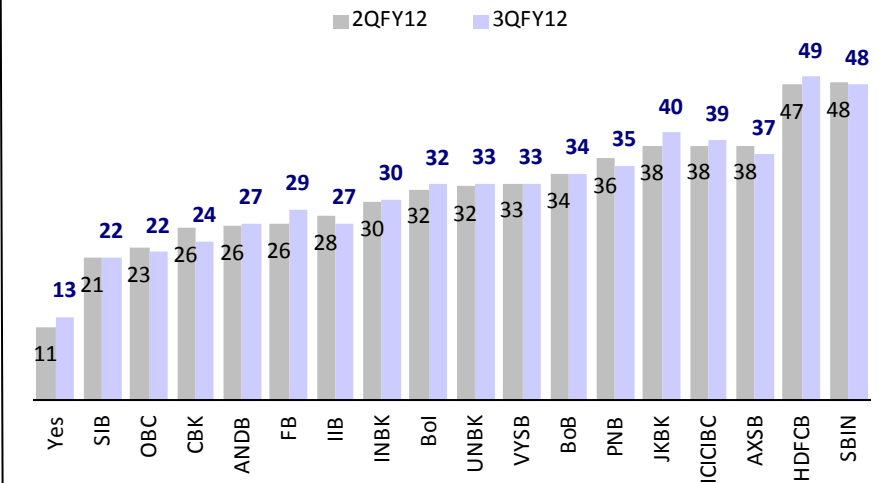
... and so as on current account deposits



... leading to moderation in CASA growth (% YoY)



CASA ratio – strong growth for midcap pvt. banks (%)





Key earnings trends – a snapshot

	NII			Fee Income			Core Operating Profit			PAT		
	INR B	QoQ %	YoY %	INR B	QoQ %	YoY %	INR B	QoQ %	YoY %	INR B	QoQ %	YoY %
SBIN	114.7	10	27	26.4	2	7	77.8	17	31	32.6	16	15
PNB	35.4	2	10	6.2	11	24	23.4	7	18	11.5	-5	6
CBK	19.2	-2	-9	4.5	4	44	12.5	3	-3	8.8	3	-21
BOB	26.6	3	16	4.5	-1	18	19.0	3	22	12.9	11	21
BOI	20.7	9	4	4.7	4	19	13.5	16	19	7.2	46	10
UNBK	17.8	7	10	3.2	28	16	10.2	6	-3	2.0	-44	-66
OBC	11.4	15	11	1.8	-7	20	7.1	6	3	3.5	111	-13
INBK	11.7	3	13	1.6	-33	-18	7.9	-3	4	5.3	12	7
ANDB	9.8	3	17	1.8	24	12	7.1	9	21	3.0	-4	-8
PSU (Ex- SBI)	153	4	8	28	4	19	101	6	11	54	8	-6
Coverage PSU	267	7	15	55	3	13	179	10	19	87	10.8	1
ICICIBC	27.1	8	17	17.0	0	5	25.0	8	13	17.3	15	20
HDFCB	31.2	6	12	11.4	14	21	20.9	10	11	14.3	19	31
AXSB	21.4	7	23	12.2	9	26	18.5	11	25	11.0	20	24
YES	4.3	11	32	1.6	-6	35	3.5	2	30	2.5	8	33
IIB	4.3	3	19	2.5	18	47	3.4	9	26	2.1	7	34
VYSB	3.2	7	32	1.3	16	23	1.7	23	74	1.2	4	44
SIB	2.7	6	34	0.5	33	32	1.7	12	29	1.0	8	32
FB	5.3	11	18	0.7	-5	-3	3.5	10	14	2.0	6	41
JKBK	4.5	4	16	0.6	3	9	3.1	3	20	2.1	7	27
Coverage Private	104	7	18	48	7	17	81	9	18	54	15	27
Coverage Banks	371	7	16	103	5	15	260	10	19	140	12	10
Coverage (Ex- SBI)	257	5	12	76	6	18	182	7	14	108	11	8



NII growth improves, led by uptick in margins

- Strong margin performance led to inline/above est. NII for most of the banks under our coverage. Further increase in cost of funds was off-set by higher yield on assets providing cushion to margins.
- Sequential NII growth for SBIN, OBC, YES and FB was strong at 10%+ QoQ. SBIN's strong growth was driven by healthy margin improvement. In 2QFY12, on back of higher slippages OBC had higher interest reversals which reduced in the quarter. ICICIBC NII growth of 8% QoQ was impressive.
- CBK is the only PSU bank in our coverage where NII was 10%+ lower than estimates due to sharp drop in margins QoQ (20bp). IIB and YES also reported moderation in margins, but strong volume growth partially offsets the impact

	3QFY12 (INR M)	QoQ Growth (%)						YoY Growth (%)							
		1QFY11	2QFY11	3QFY11	4QFY11	1QFY12	2QFY12	3QFY12	1QFY11	2QFY11	3QFY11	4QFY11	1QFY12	2QFY12	3QFY12
SBIN	114,659	8.7	11.1	11.5	-11.0	20.4	7.4	10.0	45.4	44.7	43.3	19.9	32.8	28.4	26.7
PNB	35,366	5.0	14.6	7.6	-5.4	2.8	10.8	2.4	44.5	49.4	44.8	22.4	19.9	16.0	10.4
CBK	19,186	8.2	14.2	7.4	-6.9	-9.2	9.4	-2.2	33.8	50.1	43.4	23.6	3.8	-0.5	-9.5
BoB	26,555	6.5	9.7	12.5	14.0	-12.1	11.7	3.5	54.2	46.8	43.2	49.8	23.6	25.9	15.8
BoI	20,676	12.2	2.0	11.9	16.1	-20.2	3.4	8.6	33.8	26.1	32.9	48.7	5.8	7.2	4.1
UNBK	17,809	-3.4	13.9	5.2	6.2	-7.4	4.5	7.2	73.9	72.6	48.3	22.9	18.0	8.2	10.2
OBC	11,399	6.9	1.9	-4.4	-1.6	0.5	-2.8	15.2	118.4	92.0	18.0	2.4	-3.7	-8.1	10.7
INBK	11,700	-0.8	8.7	5.5	7.1	-7.3	10.2	3.1	27.6	37.7	25.5	21.8	13.9	15.5	12.8
ANDB	9,839	12.2	6.4	7.2	2.6	5.7	4.5	3.4	66.8	52.2	44.2	31.3	23.7	21.4	17.1
PSU (Ex- SBI)	152,529	5.7	9.8	7.5	3.6	-7.0	7.6	4.3	49.5	49.6	39.1	29.2	13.6	11.3	8.0
Coverage PSU	267,187	6.8	10.3	9.0	-2.1	2.7	7.5	6.7	47.9	47.7	40.7	25.7	20.9	17.8	15.3
ICICIBC	27,120	-2.2	10.7	4.9	8.6	-3.9	4.0	8.2	0.3	8.3	12.3	23.3	21.1	13.7	17.3
HDFCB	31,160	2.1	5.2	9.9	2.3	0.3	3.4	5.8	29.4	29.2	24.9	20.8	18.6	16.6	12.2
AXSB	21,403	3.7	6.7	7.3	-1.9	1.4	16.4	6.6	44.8	40.5	28.5	16.5	13.9	24.3	23.5
Yes	4,276	7.3	19.5	3.2	7.8	1.6	8.9	10.9	67.1	77.9	53.2	42.7	35.1	23.1	32.3
IIB	4,307	8.4	11.5	10.1	6.9	0.5	7.5	2.7	76.7	58.1	52.7	42.2	31.9	27.1	18.6
VYSB	3,236	-3.7	6.8	-3.3	9.1	-2.4	15.9	6.6	38.5	32.9	12.1	8.6	10.1	19.4	31.6
SIB	2,734	112.2	17.9	3.8	8.2	-7.5	26.2	5.7	9.8	19.4	19.2	181.0	22.5	31.1	33.5
FB	5,280	0.9	6.1	2.0	0.1	2.7	3.2	11.3	42.5	32.9	17.4	9.3	11.2	8.2	18.1
JKBK	4,508	18.5	1.9	4.5	6.7	5.2	-0.7	3.8	37.9	52.9	34.3	34.7	19.5	16.5	15.7
Coverage Private	104,024	3.2	7.9	6.6	3.9	-0.5	7.1	6.9	25.6	27.8	23.1	23.4	18.9	18.0	18.3
Coverage Banks	371,211	5.8	9.6	8.3	-0.5	1.8	7.4	6.7	40.8	41.5	35.4	25.0	20.3	17.9	16.1
Coverage Banks (Ex-SBI)	256,553	4.7	9.0	7.1	3.7	-4.5	7.4	5.3	39.2	40.4	32.5	26.9	15.6	13.8	11.9



NIMs stable/improving QoQ – a positive surprise

- ❑ State-owned banks exhibited stable margin performance despite higher slippages – a positive surprise. In case of BOB domestic NIMs declined ~15bp QoQ, however 20bp improvement in international NIMs led to largely stable global NIMs.
- ❑ BOI improvement in domestic margins by ~15bp (due to higher CD ratio) and ~20bp in international book led to overall improvement QoQ
- ❑ SBIN's strong margin performance continues, with NIM up 26bp QoQ (cum. inc. of 98bp during 9MFY12). NIM for INBK and CBK declined by ~20bp QoQ.
- ❑ ICICIBC overall margins improved ~10bp led by ~5bp improvement in domestic margins and ~30bp improvement in international margins
- ❑ Led by higher bulk borrowing cost NIMs declined ~10bp QoQ for YES, IIB and KMB, despite strong traction in SA deposits growth
- ❑ YES reported 10bp decline in NIM, led by increase in cost of funds and higher deployment of funds in low yielding investments (up 40% YTD).
- ❑ AXSB (flattish margin), FB (improvement of 15bp+ QoQ) and OBC (+25bp QoQ) are the positive surprises.

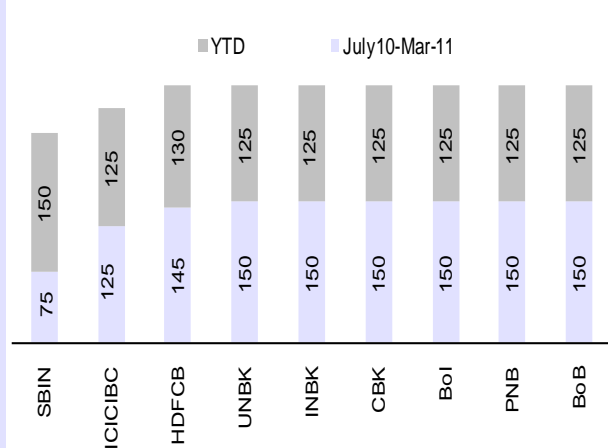
Net Interest Margins (%)	1QFY10	2QFY10	3QFY10	4QFY10	1QFY11	2QFY11	3QFY11	4QFY11	1QFY12	2QFY12	3QFY12	Change in (bp)	
												QoQ	YoY
SBIN	2.3	2.6	2.8	3.0	3.2	3.4	3.6	3.1	3.6	3.8	4.1	26	44
PNB	3.2	3.5	3.6	4.0	3.9	4.1	4.1	3.9	3.8	4.0	3.9	-7	-25
CBK	2.7	2.6	2.8	3.1	3.0	3.6	3.2	2.7	2.4	2.9	2.6	-22	-58
BoB	2.4	2.6	3.0	3.0	2.9	3.0	3.2	3.1	2.9	3.1	3.0	-8	-21
BoI	2.4	2.6	2.6	2.6	2.9	2.8	3.1	2.9	2.2	2.4	2.6	11	-54
UNBK	2.3	2.4	2.8	3.4	3.0	3.4	3.4	3.4	3.1	3.2	3.3	10	-13
OBC	1.8	2.0	3.0	3.3	3.3	3.3	3.1	3.0	2.9	2.6	2.9	26	-20
INBK	3.6	3.4	3.8	3.8	3.7	3.8	3.8	3.9	3.4	3.8	3.6	-18	-26
ANDB	2.9	3.1	3.4	3.4	3.7	3.9	3.9	3.7	3.8	3.8	3.8	-1	-10
Private banks													
ICICIBC	2.4	2.5	2.6	2.6	2.5	2.6	2.6	2.7	2.6	2.6	2.7	9	6
HDFCB	4.2	4.2	4.3	4.4	4.3	4.2	4.2	4.2	4.2	4.1	4.1	0	-10
AXSB	3.3	3.5	4.0	4.1	3.7	3.7	3.8	3.4	3.3	3.8	3.8	-3	-6
Yes	3.1	3.1	3.1	3.2	3.1	3.0	2.8	2.8	2.8	2.9	2.8	-10	0
IIB	2.5	2.9	2.9	3.2	3.3	3.4	3.6	3.5	3.4	3.4	3.3	-10	-36
VYSB	2.7	3.1	3.4	3.6	3.3	3.3	3.1	3.3	3.0	3.4	3.5	14	39
SIB	2.8	2.5	3.1	2.7	2.8	3.2	3.1	3.2	2.8	3.2	3.2	4	12
FB	3.3	3.7	4.1	4.2	4.2	4.4	4.3	4.0	3.9	3.8	3.9	17	-37
JKBK	3.1	3.0	3.3	3.3	3.7	3.7	3.7	3.7	3.8	3.7	3.6	-6	-7



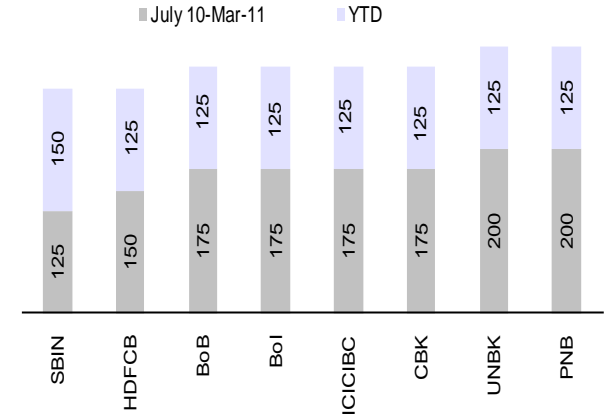
Lending Yields: Largely stable to marginal improvement

- On a QoQ basis, yields on loans were largely stable or witnessed marginal improvement
- OBC and UNBK yield on loans improved sharply QoQ as 2QFY12 included very high interest reversals
- Sharp improvement of 30bp+ in yield on loans for ANDB and JKBB was a positive surprise

In the last 12 months, lending rates have increased by 250-300bp



PLR change (bps)



(%)	1QFY10	2QFY10	3QFY10	4QFY10	1QFY11	2QFY11	3QFY11	4QFY11	1QFY12	2QFY12	3QFY12	Chg. QoQ	Chg. YoY
SBIN	10.0	9.9	9.5	9.2	9.3	9.7	9.7	9.5	10.4	11.1	11.2	10	149
PNB	10.5	10.8	10.4	10.2	10.2	10.6	10.6	10.8	11.4	11.9	12.0	5	138
CBK	10.1	10.0	10.0	9.2	9.4	9.9	9.8	10.0	10.5	10.9	11.1	17	132
BoB	8.7	8.7	8.6	8.2	8.2	8.4	8.6	8.7	9.1	9.6	9.5	-19	87
BoI	9.3	9.0	8.4	8.1	8.4	8.5	8.8	8.8	8.9	9.4	9.5	4	67
UNBK*	8.1	8.0	8.0	8.0	7.8	8.3	8.4	8.8	9.1	9.3	9.6	37	123
OBC	10.4	10.3	10.3	9.8	10.0	10.3	10.3	10.6	11.4	11.7	12.2	58	192
INBK	11.0	10.8	10.9	10.1	10.1	10.2	10.4	10.5	11.1	11.5	11.7	16	131
ANDB	11.2	11.2	10.9	10.6	10.9	11.0	11.1	11.6	12.2	12.5	12.8	31	169
Private Bank													
ICICIBC**	9.8	9.2	8.6	8.5	8.3	8.3	8.3	8.6	9.0	9.5	9.5	1	117
HDFCB**	11.9	11.1	10.4	9.9	9.7	9.7	10.0	10.4	10.8	11.0	11.3	34	133
AXSB**	9.9	9.8	9.6	8.8	8.7	8.9	8.9	9.2	10.1	10.8	11.0	13	209
Yes	12.5	11.1	10.3	9.7	9.6	9.5	10.0	10.7	11.6	12.2	12.4	20	240
IIB	13.4	13.1	12.4	11.9	12.2	12.1	12.3	12.9	13.5	13.8	13.8	-2	148
VYSB	11.3	10.5	10.2	9.8	9.6	9.8	10.1	10.7	11.1	11.4	11.7	29	153
SIB	11.8	11.5	10.8	10.4	10.8	10.5	10.9	11.5	11.8	12.5	12.7	21	183
FB	11.4	11.6	11.4	11.0	10.8	11.2	11.1	11.2	12.0	12.7	12.9	17	185
JKBK	11.6	11.2	11.1	10.5	10.9	11.0	10.7	11.2	11.4	11.8	12.2	35	144

* Quarterly Calculated; ** YoF; Chg in bp



Cost of deposits nearing to peak

- ❑ Slowing loan growth coupled with moderation in bulk deposits led to containment of deposits rates in the system. Further, most banks were averse to increasing retail deposit rates aggressively.
- ❑ Among large PSBs (except for BoB and BoI – who have large intl. ops.), SBIN enjoys the lowest cost of funds on the back of its strong CASA base.
- ❑ Deregulation of savings deposit rate was the landmark decision during the quarter and some of the mid cap private sector banks have increased it by 200-300bp, full impact of which will be witnessed in 4QFY12.
- ❑ We believe cost of deposits have peaked out and expect moderation from 1QFY13. The only caveat remains is persistent tight liquidity.
- ❑ Bulk funded organizations may witness sharp pressure on cost of funds due to continued tight liquidity in the system.

SBIN's deposit rates (%)

	Sep-09	Aug-10	Dec-10	Mar-11	Jul-11	Sep-11	Dec-11	Feb-12
46-90d	4.0	4.0	5.5	5.5	7.0	7.0	7.0	7.0
91-180d	5.3	4.8	6.0	6.0	7.3	7.3	7.3	7.3
180-240 days	6.0	6.0	7.3	7.8	6.5	7.0	7.0	7.0
240d to less than 1yr	6.0	6.0	7.3	7.8	7.8	7.8	7.8	7.8
550d	6.5	7.3	8.5	9.3	9.3	9.3	9.3	9.3
1-2 Yr	6.5	6.8	7.8	8.3	9.3	9.3	9.3	9.3
1000 d	7.0	7.3	8.5	9.3	9.3	9.3	9.3	9.3
2-3Yr	7.0	7.0	8.3	8.8	9.3	9.3	9.3	9.3
5-8Yr	7.5	7.5	8.5	8.5	9.3	9.3	9.3	9.3
8 Yr+	7.8	7.8	8.8	8.8	9.3	9.3	9.3	9.3

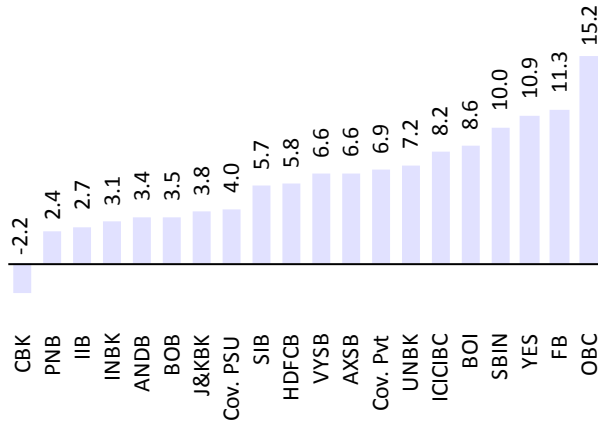
(%)	1QFY10	2QFY10	3QFY10	4QFY10	1QFY11	2QFY11	3QFY11	4QFY11	1QFY12	2QFY12	3QFY12	Change in (bp)	
												QoQ	YoY
SBIN	6.2	6.0	5.6	5.4	5.3	5.2	5.1	5.4	5.7	6.0	6.0	4	94
PNB	5.9	5.7	5.2	4.9	5.0	5.0	5.2	5.6	6.3	6.5	6.7	22	154
CBK	6.5	6.5	5.8	5.7	5.7	5.7	5.6	6.2	7.1	7.2	7.6	34	195
BoB	5.4	5.2	4.7	4.4	4.4	4.5	4.5	4.8	5.4	5.6	5.7	4	112
BoI	5.8	5.6	5.3	4.8	4.8	5.0	5.0	5.3	6.0	6.1	6.0	-13	99
UNBK*	6.0	5.8	5.4	4.9	5.0	5.1	5.2	5.5	6.2	6.3	6.4	18	127
OBC	7.4	7.1	6.2	5.7	5.6	5.9	6.1	6.5	7.2	7.6	7.9	22	177
INBK	6.1	5.9	5.7	5.1	5.3	5.4	5.4	5.6	6.4	6.6	6.9	26	150
ANDB	6.8	6.4	5.9	5.6	5.5	5.7	5.8	6.5	7.0	7.5	7.6	13	175
Private Bank													
ICICI**	6.7	6.2	5.5	5.2	5.2	5.3	5.5	5.7	6.1	6.4	6.3	-8	82
HDFC**	5.8	5.1	4.4	3.9	4.3	4.5	4.7	4.9	5.5	6.2	6.4	20	167
AXSB	6.1	5.4	4.8	4.5	4.6	4.8	4.8	5.6	6.1	6.2	6.3	15	155
Yes	8.1	7.2	6.6	6.3	6.3	6.7	7.1	7.8	8.5	8.6	8.9	30	180
IIB	7.7	7.2	6.6	6.0	6.0	6.0	6.2	7.0	7.7	8.2	8.2	0	199
VYSB	6.4	5.5	5.0	4.6	4.7	4.9	5.4	6.0	6.8	6.9	6.9	6	150
SIB	6.9	7.5	6.7	6.6	6.4	6.3	6.5	7.1	7.6	7.7	8.0	27	147
FB	7.1	6.8	6.5	6.0	5.8	5.9	6.0	6.2	7.0	7.4	7.6	13	154
JKBK	6.0	5.9	5.4	4.9	5.1	5.2	5.1	5.4	5.4	6.2	6.6	44	149

* Reported ** Calculated CoF

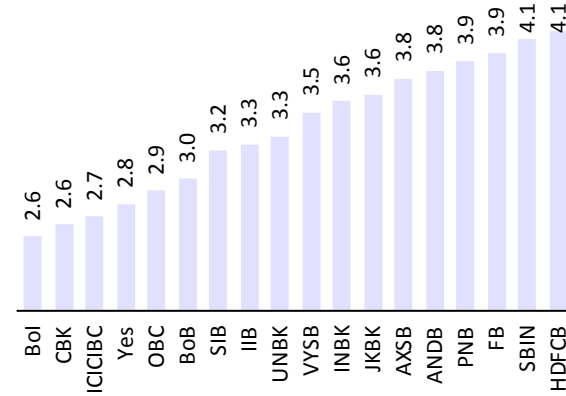


Margins surprise positively - Stable/Improving QoQ

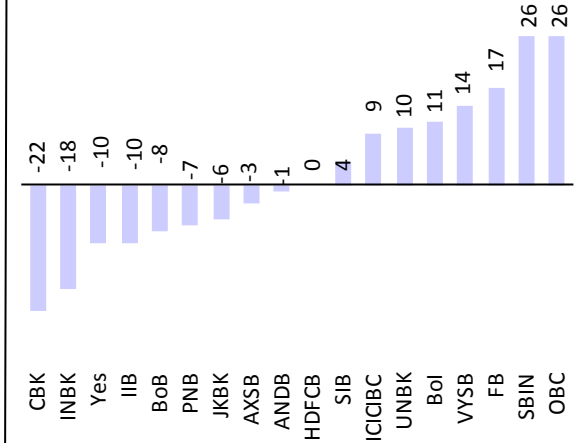
QoQ NII growth healthy (%)



NIMs remain healthy (%)

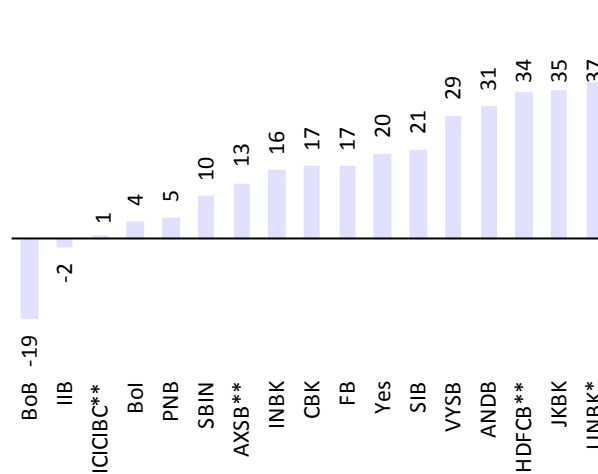


Margins surprise positively (QoQ change; bp)

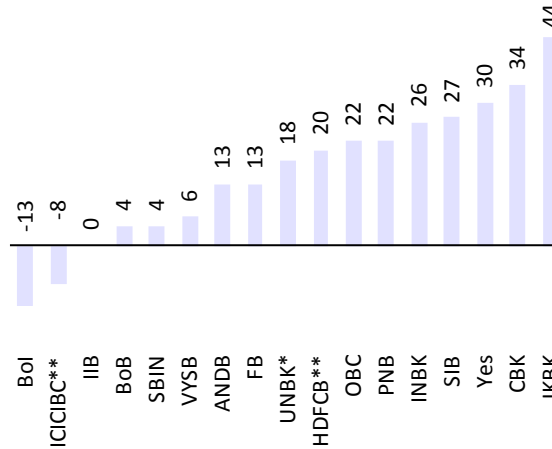


QoQ Change Bps for YOL, COD and Term deposits cost

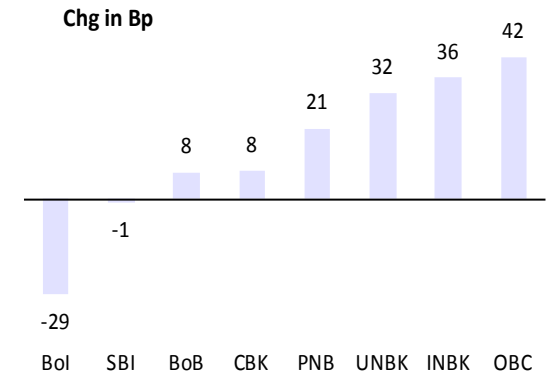
Loan re-pricing led to higher YoL



CoD continues to rise



Sharp increase in term deposit cost except for SBIN and UNBK (cal.)





Fee income growth improves QoQ

- On a YoY basis, fee income remained healthy, and on a QoQ basis picked up sharply (on a lower base), for some banks. This could be attributed to pick up in loan growth, higher income from third party distribution and higher forex related income.
- PNB, UNBK, ANDB, AXSB, and IIB reported strong fee income growth.
- Change in SBIN's strategy to focus on yields rather than fees from customers has resulted in margin improvement and moderation of fee income.
- IIB reported strong growth in fee income (up 18% QoQ and 47% YoY), led by FX, TPP and processing fees. HDFCB fee income performance was impressive on a YoY basis.

	3QFY12 (INR m)	QoQ Growth (%)						YoY Growth (%)							
		1QFY11	2QFY11	3QFY11	4QFY11	1QFY12	2QFY12	3QFY12	1QFY11	2QFY11	3QFY11	4QFY11	1QFY12	2QFY12	3QFY12
SBIN	26,415	-30.9	22.2	-15.9	50.6	-29.4	-1.2	1.6	29.4	40.0	13.1	7.0	9.3	-11.7	6.6
PNB	6,221	6.1	2.2	-6.4	28.2	4.3	-16.5	11.3	7.1	25.3	18.8	30.2	27.9	4.4	24.1
CBK	4,531	-13.8	13.0	-19.7	60.9	-12.2	-1.9	3.6	10.3	20.5	-1.2	26.0	28.2	11.3	43.6
BoB	4,520	-25.2	29.0	-4.8	25.8	-17.4	14.3	-0.6	3.8	24.1	7.5	15.6	27.8	13.2	18.1
BoI	4,713	-26.9	28.0	-2.7	19.0	-21.0	21.3	4.4	-5.6	20.1	21.5	8.3	16.9	10.9	19.0
UNBK	3,231	-46.2	88.6	-3.2	-2.9	-22.1	20.5	27.7	-32.2	32.1	29.1	-4.6	38.1	-11.8	16.4
OBC	1,808	-11.5	7.0	-10.3	18.5	-7.4	17.4	-6.8	29.2	5.3	2.6	0.7	5.3	15.5	20.1
INBK	1,621	21.7	-13.3	-10.8	10.5	-15.2	29.5	-32.8	31.1	23.4	8.3	4.1	-27.5	8.4	-18.4
ANDB	1,796	-28.1	5.8	15.8	13.8	-26.1	7.8	23.7	43.6	18.0	6.1	0.2	3.0	5.0	12.2
PSU (Ex- SBI)	28,440	-15.5	16.2	-6.7	23.9	-12.6	6.0	4.0	6.0	22.1	12.4	13.5	17.5	7.2	19.4
Coverage PSU	54,855	-24.3	19.3	-11.6	37.5	-22.0	2.3	2.8	17.1	31.1	12.8	9.8	13.2	-2.9	12.9
ICICIBC	17,010	-7.1	12.5	2.2	10.2	-11.9	7.7	0.1	7.2	14.6	14.2	17.7	11.6	6.9	4.7
HDFCB	11,362	-2.5	8.0	9.4	6.4	-7.0	6.8	14.2	16.2	16.3	22.1	22.5	16.8	15.6	20.7
AXSB	12,210	-3.3	12.7	13.9	27.3	-14.1	6.0	9.0	20.1	17.9	20.9	58.0	40.4	31.9	26.3
Yes	1,631	7.5	-3.6	3.2	34.8	-13.6	23.1	-5.7	101.4	14.6	20.9	44.3	16.0	48.0	35.2
IIB	2,532	15.5	25.9	5.3	-4.1	13.5	14.8	17.8	49.8	33.4	54.4	46.9	44.4	31.7	47.3
VYSB	1,290	-9.2	13.5	4.0	13.3	-18.5	14.4	16.2	17.1	16.1	26.5	21.4	9.0	9.9	22.9
SIB	465	-15.5	20.1	3.6	16.9	-22.8	10.1	33.0	15.9	42.8	24.5	22.8	12.2	2.9	32.1
FB	670	-6.4	13.0	-0.5	-1.3	-6.5	10.7	-4.9	11.3	5.2	9.1	3.8	3.7	1.6	-2.9
JKBK	648	-31.8	-6.2	6.0	61.3	-40.9	10.3	3.3	33.2	11.5	8.6	9.3	-5.3	11.4	8.6
Coverage Private	47,818	-4.8	11.2	6.6	14.2	-11.4	8.2	6.7	15.9	16.4	19.2	28.9	20.0	16.7	16.8
Coverage Banks	102,673	-17.0	15.9	-4.1	26.9	-17.6	4.9	4.6	16.6	24.6	15.6	16.9	16.1	5.1	14.7
Coverage Banks (Ex-SBI)	76,258	-9.3	13.1	1.3	17.8	-11.8	7.3	5.7	11.8	18.6	16.6	22.5	19.0	12.9	17.7



Treasury income contribution remains muted

G-sec Yield (%)

	1 year	2 year	5 year	10 year
29-Sep-10	6.6	7.0	7.7	7.8
31-Dec-10	7.3	7.5	7.9	7.9
31-Mar-11	7.5	7.6	N.A.	8.0
30-Jun-11	8.1	8.2	8.4	8.3
30-Sep-11	8.3	8.4	8.3	8.4
31-Dec-11	8.5	8.1	8.4	8.6
15-Feb-12	8.1	N.A.	8.3	8.2

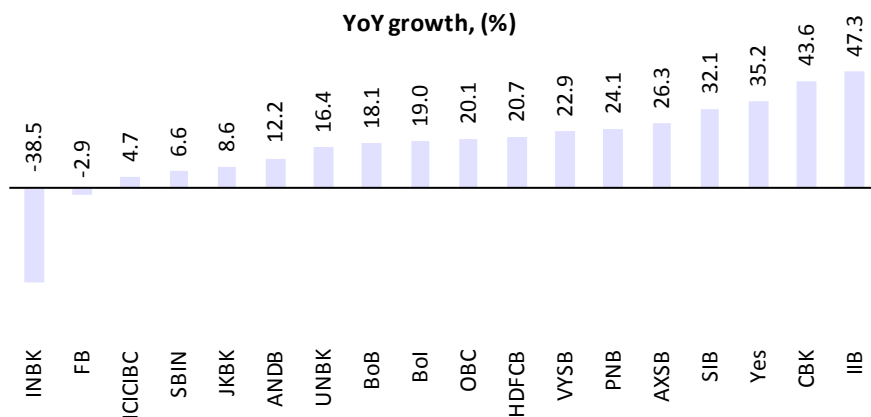
- While CBK and BOB, reported strong trading profits YoY, for other PSU banks trading profits remained flat. Led by higher MTM losses net impact on PBT was negligible.
- SBI booked losses worth INR10.9b on its equity portfolio; net investment loss stood at INR2.2b for the quarter.
- Among the private sector banks except AXSB, others have reported muted trading profits during the quarter.

	Net Investment Gains (INR m)						Net Investment Gains as a % to PBT					
	2QFY11	3QFY11	4QFY11	1QFY12	2QFY12	3QFY12	3QFY11	4QFY11	1QFY12	2QFY12	3QFY12	
SBIN	-2,391	115	302	-8,791	-4,302	-2,205	0	2	-28	-11	-5	
PNB	-290	470	60	-860	-840	-570	3	0	-5	-5	-3	
CBK	441	90	-310	-865	827	-280	1	-3	-9	8	-3	
BoB	1,302	313	863	-645	-1,550	1,614	2	6	-5	-9	9	
BoI	-268	-66	486	197	34	-478	-1	7	2	1	-5	
UNBK	1,650	1,020	1,610	1,050	180	280	12	22	14	3	9	
OBC	8	314	-521	-619	-618	-538	5	-18	-13	-23	-12	
INBK	50	60	256	-220	-750	-359	1	3	-4	-11	-5	
ANDB	182	97	649	333	194	-28	2	16	6	5	-1	
PSU (Ex- SBI)	3,075	2,298	3,093	-1,629	-2,523	-358	3	4	-2	-4	0	
Coverage PSU	684	2,413	3,395	-10,420	-6,825	-2,563	2	4	-10	-6	-2	
ICICIBC	-1,440	210	-1,960	-250	-800	-650	1	-10	-1	-4	-3	
HDFCB	-521	-307	86	-413	-13	-818	-2	1	-3	0	-4	
AXSB	1,080	1,350	581	702	280	1,180	10	4	5	2	7	
Yes	141	410	241	247	410	483	14	8	8	12	13	
IIB	122	240	192	278	239	131	10	7	10	8	4	
VYSB	630	120	30	10	30	50	10	2	1	2	3	
SIB	92	91	49	109	4	-40	8	4	9	0	-3	
FB	64	64	13	7	72	-76	3	0	0	3	-2	
JKBK	229	177	29	65	40	90	7	1	2	1	3	
Coverage Private	397	2,355	-739	756	263	349	4	-1	1	0	0	
Coverage Banks	1,081	4,767	2,656	-9,664	-6,563	-2,214	3	2	-6	-4	-1	

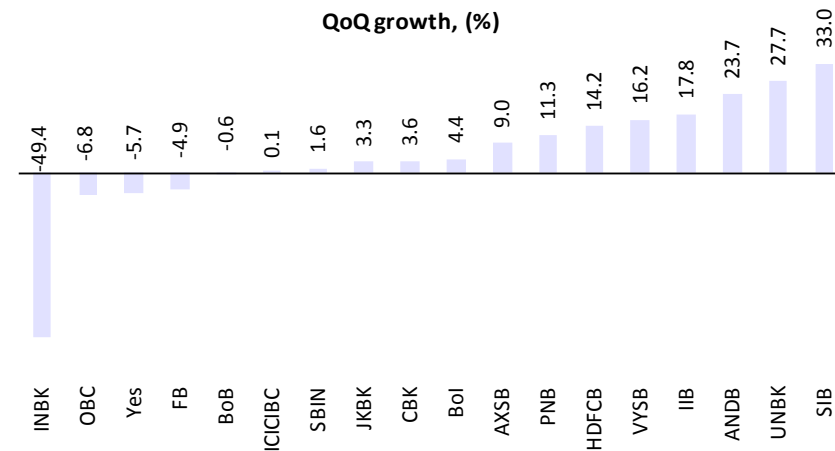
Healthy fee income growth; Trading income contribution low



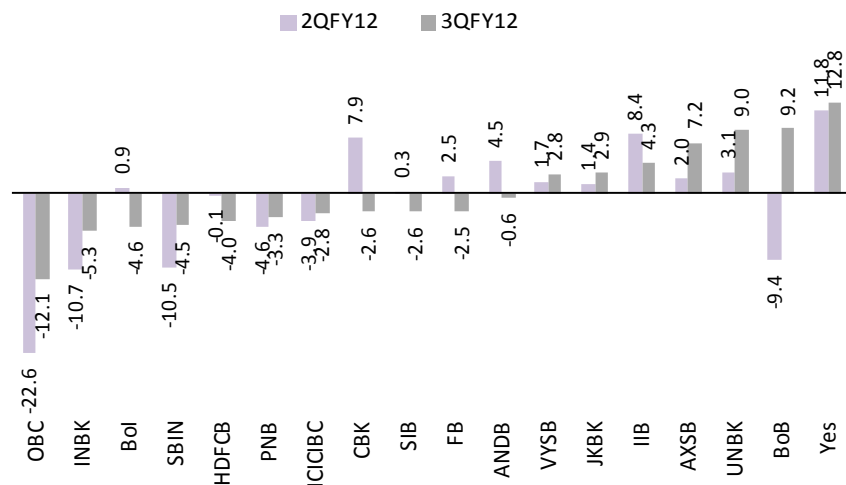
Healthy Fee income growth



QoQ fee income growth picks up for private banks



Contribution of net trading income to PBT remains a drag (%)



Recoveries from written-off accounts improve

	Recoveries (INR m)						% to PBT
	1QFY11	2QFY11	3QFY11	4QFY11	1QFY12	2QFY12	
SBIN	2,264	2,708	2,071	3,430	1,734	2,342	5
PNB	760	920	1,230	2,210	1,090	680	4
CBK	880	650	720	3,270	620	1,350	13
BoB	561	692	615	859	288	1,220	7
BoI	369	301	658	919	312	876	8
UNBK	380	440	310	980	590	420	13
OBC	160	183	159	574	390	260	6
INBK	640	380	230	110	180	400	6
ANDB	91	105	130	178	45	41	1
Coverage PSU	3,842	3,671	4,052	9,100	3,515	5,247	7



Opex growth largely in line with estimates

- For our coverage universe, opex growth was restricted to ~2% QoQ, led by moderation in opex growth for state-owned banks (on a higher base). For private banks, opex continued to grow at 18%+, led by branch expansion and employee addition.
- ICICIBCs' opex grew 12% YoY (1.3% QoQ), led by moderation in employee expenses (up 10% YoY and flat QoQ). BOR was merged on 12 August 2010, thus, the full impact of which was visible in 3QFY12.
- Strong operating leverage is seen for PSU banks, as employee expenses growth moderated on a higher base. However UNBK reported sharp increase in employee expense as it started providing for increase in DA for pension provisions (total amt INR4b, Qtr impact of INR1b).
- OBC opex grew 20% QoQ led by strong growth of 25%+ for employee expenses. YES opex grew 10%+ QoQ led by higher recruitment and branch expansion

	3QFY12 (INR m)	QoQ Growth (%)						YoY Growth (%)						Cost to core Income ratio (%)								
		1QFY11	2QFY11	3QFY11	4QFY11	1QFY12	2QFY12	3QFY12	1QFY11	2QFY11	3QFY11	4QFY11	1QFY12	2QFY12	3QFY12	1QFY11	2QFY11	3QFY11	4QFY11	1QFY12	2QFY12	3QFY12
SBIN	63,318	-19.5	18.6	-2.8	21.3	-11.8	6.4	-0.7	-1.2	34.1	10.6	12.6	23.3	10.6	13.1	50.0	52.1	48.6	57.6	48.6	49.0	44.9
PNB	18,143	26.5	14.6	7.3	-2.6	3.5	5.1	0.0	10.2	37.8	37.7	51.5	23.9	13.7	6.1	44.6	45.4	46.2	45.4	45.6	45.2	43.6
CBK	11,209	11.5	11.1	5.1	6.0	-13.3	12.9	-5.4	35.2	38.1	30.0	38.0	7.3	9.0	-1.9	47.1	46.0	46.9	48.8	46.9	49.4	47.3
BoB	12,097	-1.8	12.2	5.1	34.5	-25.5	4.9	3.0	5.5	11.6	12.2	55.8	18.2	10.5	8.3	43.7	43.6	41.8	48.5	41.5	38.9	38.9
BoI	11,878	-8.4	7.1	27.1	54.5	-42.6	8.1	-0.5	7.4	11.6	33.1	92.6	20.7	21.7	-4.7	44.5	44.9	52.3	69.3	49.9	50.7	46.8
UNBK	10,889	-0.2	23.7	-7.3	70.6	-37.2	5.4	13.8	36.2	50.3	37.9	95.3	22.9	4.6	28.4	49.3	50.2	44.8	72.9	50.5	50.0	51.8
OBC	6,081	-5.9	7.9	0.4	-3.5	15.0	-5.9	19.5	25.2	34.3	-0.1	-1.6	20.3	4.8	24.8	37.0	39.0	41.3	39.5	45.7	43.0	46.0
INBK	5,397	25.3	18.8	-10.1	1.1	3.9	11.8	-3.1	-2.9	19.3	-0.3	35.2	12.1	5.5	13.7	38.3	43.8	38.4	36.0	41.0	40.4	41.8
ANDB	4,515	9.0	-5.6	0.5	9.0	-4.8	3.4	2.1	31.0	38.9	26.8	12.8	-1.5	7.9	9.6	50.1	44.5	41.2	43.0	40.9	40.3	38.8
PSU (Ex- SBI)	80,208	6.6	12.1	5.3	23.0	-19.4	6.2	2.4	16.1	28.8	24.9	54.8	17.0	10.9	7.8	44.5	45.0	45.1	52.1	45.6	45.1	44.4
Coverage PSU	143,526	-6.6	14.9	1.6	22.3	-16.2	6.3	1.0	7.9	31.1	18.3	33.4	19.8	10.8	10.1	46.7	47.9	46.5	54.3	46.9	46.8	44.6
ICICIBC	19,168	-2.8	5.9	9.4	7.4	-1.4	4.0	1.3	-4.0	10.2	26.1	20.9	22.7	20.5	11.6	43.6	41.4	43.6	42.9	45.6	45.0	43.4
HDFCB	21,580	2.2	2.3	9.0	9.1	-3.2	4.9	6.3	16.0	18.6	22.2	24.3	17.8	20.9	17.8	51.4	49.6	49.3	52.0	51.2	51.5	50.7
AXSB	15,109	5.4	9.2	5.2	8.9	0.2	10.0	3.0	28.6	27.8	27.0	31.8	25.3	26.2	23.6	47.0	47.2	45.3	45.4	47.9	46.9	45.0
Yes	2,402	7.0	3.7	6.7	7.4	4.2	10.0	12.4	41.3	35.9	41.6	27.1	23.8	31.3	38.4	41.0	37.8	39.1	36.5	39.3	38.3	40.7
IIB	3,465	10.4	7.5	10.2	1.5	8.1	10.8	6.5	36.3	30.9	48.8	32.7	29.9	33.9	29.4	53.2	49.3	50.1	49.1	50.9	51.3	50.7
VYSB	2,822	-0.7	23.1	-3.8	16.7	-13.5	8.2	2.0	12.9	32.0	24.2	37.3	19.6	5.1	11.4	65.4	74.1	72.2	76.3	71.2	66.7	62.4
SIB	1,543	47.1	12.2	-4.9	15.5	-12.0	28.2	6.0	3.1	21.2	15.4	81.2	8.4	24.0	38.2	53.5	50.7	46.5	49.1	47.9	49.5	48.2
FB	2,472	-0.3	5.1	7.5	12.4	-6.7	3.4	7.4	18.0	21.0	27.8	26.6	18.5	16.5	16.5	39.6	38.9	41.1	46.3	42.5	42.2	41.6
JKBK	2,009	-2.6	-5.0	14.5	28.2	-21.4	2.6	4.2	36.7	23.5	28.7	36.0	9.7	18.5	7.8	40.2	37.9	41.5	46.6	38.0	38.8	39.0
Coverage Private	70,570	2.0	5.9	7.5	9.3	-2.7	6.6	4.2	13.1	19.6	26.1	27.0	21.0	21.8	18.1	47.3	46.0	46.4	47.3	48.0	47.6	46.5
Coverage Banks	214,096	-4.0	12.0	3.4	18.2	-12.3	6.4	2.0	9.5	27.4	20.7	31.5	20.2	14.1	12.6	46.9	47.3	46.5	52.1	47.2	47.0	45.2
Coverage Banks (Ex-SBI)	150,778	4.5	9.3	6.3	16.9	-12.5	6.4	3.2	14.7	24.6	25.4	41.8	18.9	15.7	12.4	45.7	45.4	45.6	50.0	46.7	46.3	45.4



Core operating profit growth – a mixed bag

- Strong margin performance and sequential pick-up in fee income led to healthy operating profit growth. However, on a YoY basis, stable/declining margins and moderation in loan growth impacted core operating performance.
- SBIN reported strong growth in core operating profit performance despite muted fee income growth, led by

strong margin performance (up 26bp QoQ). Other PSU banks performance was mixed with strongest growth coming from PNB, BOB and BOI.

- Within private sector banks, strong core PPP was witnessed from VYSB, YES, AXSB and SIB. Other private sector banks earnings were largely inline.

	3QFY12 (INR m)	QoQ Growth (%)						YoY Growth (%)							
		1QFY11	2QFY11	3QFY11	4QFY11	1QFY12	2QFY12	3QFY12	1QFY11	2QFY11	3QFY11	4QFY11	1QFY12	2QFY12	3QFY12
SBIN	77,756	16.4	9.1	11.9	-15.7	26.9	4.8	17.0	146.8	55.2	72.2	19.8	30.6	25.5	31.2
PNB	23,444	-7.4	10.8	4.0	0.5	2.8	6.7	6.7	68.8	51.9	43.2	7.3	19.1	14.6	17.6
CBK	12,507	-2.4	16.5	1.1	-1.6	-6.4	2.1	3.0	24.3	50.0	40.7	13.1	8.4	-5.0	-3.2
BoB	18,978	2.1	12.7	13.1	2.3	-1.1	17.3	2.7	101.3	81.2	62.0	33.1	28.9	34.1	21.8
BoI	13,510	15.8	5.2	-5.5	-24.9	29.8	4.8	16.3	45.6	38.3	28.5	-13.6	-3.1	-3.4	18.9
UNBK	10,151	-18.9	19.3	15.2	-48.5	65.6	7.3	6.1	66.6	82.2	51.6	-42.6	17.2	5.4	-2.9
OBC	7,126	11.0	-0.6	-8.8	4.1	-10.9	4.9	5.6	210.2	111.5	30.3	4.8	-15.9	-11.2	2.8
INBK	7,524	-6.7	-5.4	12.4	11.7	-15.6	14.2	-8.2	60.3	50.0	42.5	10.8	0.2	20.9	-1.2
ANDB	7,119	-1.6	18.2	14.9	1.1	3.8	6.0	8.8	115.4	51.9	44.0	35.2	42.6	27.9	21.1
PSU (Ex- SBI)	100,360	-1.8	9.7	5.1	-7.1	4.5	8.2	5.3	69.2	60.2	43.5	5.2	11.9	10.4	10.7
Coverage PSU	178,116	4.4	9.5	7.7	-10.5	12.8	6.8	10.1	92.2	58.2	53.6	10.2	19.0	16.1	18.8
ICICI	24,962	-5.3	15.8	-0.2	10.7	-11.7	6.7	7.9	9.3	11.3	4.8	21.0	12.9	4.0	12.5
HDFC	20,942	-0.4	9.7	10.5	-2.3	0.1	3.5	9.7	38.3	33.4	26.1	18.0	18.6	11.8	11.0
AXSB	18,504	-2.2	8.3	13.5	8.4	-9.6	14.7	11.4	42.3	35.6	24.5	30.3	20.4	27.5	25.2
Yes	3,505	7.7	18.1	1.1	20.1	-7.5	14.8	1.6	113.8	68.9	43.6	54.5	32.7	29.0	29.7
IIB	3,373	10.5	25.4	6.9	5.3	0.8	8.9	9.3	126.2	71.9	58.0	55.9	42.2	23.5	26.3
VYSB	1,704	-12.8	-18.8	6.2	-6.1	12.7	33.5	23.5	93.6	16.4	-0.9	-29.4	-8.8	50.1	74.5
SIB	1,657	120.7	25.1	12.7	4.3	-7.9	20.2	11.8	20.8	23.6	24.2	224.5	35.4	30.1	29.0
FB	3,478	0.0	8.2	-2.0	-8.9	8.6	4.6	10.5	54.2	33.3	9.2	-3.4	4.9	1.4	14.4
JKBK	3,148	15.1	4.6	-1.2	3.9	12.1	-0.6	3.4	37.6	63.9	31.3	23.5	20.3	14.3	19.7
Coverage Private	81,272	-0.7	11.7	5.8	5.3	-5.5	8.2	9.2	32.2	27.9	18.4	23.6	17.6	13.9	17.6
Coverage Banks	259,388	2.8	10.2	7.1	-5.5	6.4	7.2	9.8	68.1	47.1	40.4	14.6	18.6	15.4	18.4
Coverage Banks (Ex-SBI)	181,632	-1.3	10.6	5.4	-1.7	-0.2	8.2	7.0	51.1	44.5	31.5	13.0	14.3	11.9	13.6



PAT inline; Higher NPV losses leading to lower PAT in some case

- Strong performance on margin led to inline/above est. NII for most banks under our coverage. Further higher cost of funds was off-set by improvement in yield on assets. Sequential NII growth for OBC, YES and FB was strong at 10%+ QoQ. ICICIBC NII growth of 8% QoQ was impressive.
- Fee income growth picked up for most of the banks led by sequential improvement in loan growth and higher forex related gains. IIB, PNB and HDFCB fee income performance was impressive.

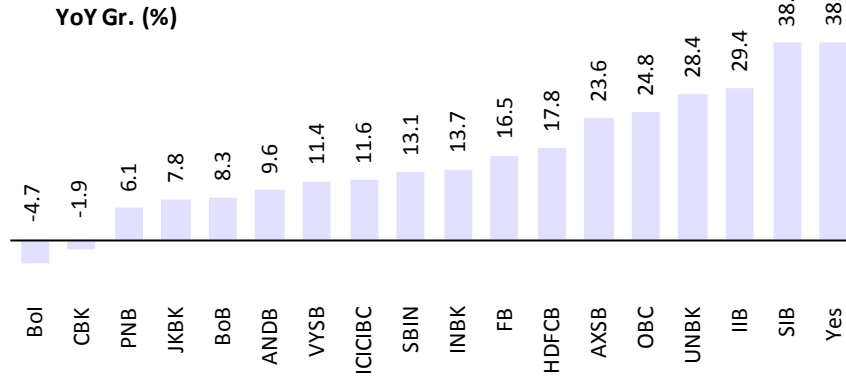
- While core operating performance was healthy, higher provisions towards NPA and loan restructured led to higher provisions for some PSU banks impacting profitability. While operating performance was in-line with est. for UNBK, significantly higher provisions led to 66% YoY decline in PAT.
- Pvt. Banks profitability remained robust led by stable margins and healthy asset quality performance. PAT for coverage pvt. banks grew ~27% YoY and 15% QoQ.

PAT	3QFY12 (INR m)	QoQ Growth (%)						YoY Growth (%)							
		1QFY11	2QFY11	3QFY11	4QFY11	1QFY12	2QFY12	3QFY12	1QFY11	2QFY11	3QFY11	4QFY11	1QFY12	2QFY12	3QFY12
SBIN	32,631	56.1	-14.2	13.1	-99.3	N.A.	77.5	16.1	25.1	0.5	14.1	-98.9	-45.7	12.4	15.4
PNB	11,501	-5.9	0.6	1.4	10.2	-8.0	9.0	-4.6	28.4	15.9	7.8	5.8	3.4	12.1	5.5
CBK	8,756	101.4	-0.5	9.7	-18.6	-19.4	17.4	2.7	82.5	10.7	5.0	78.9	-28.4	-15.4	-20.8
BoB	12,899	-5.2	18.6	4.9	21.1	-20.2	12.9	10.6	25.4	60.7	28.4	42.8	20.2	14.4	20.7
BoI	7,162	69.5	-14.9	5.9	-24.4	4.8	-5.1	45.8	24.1	90.8	61.0	15.4	-28.6	-20.4	9.7
UNBK	1,970	1.3	-49.6	91.0	3.1	-22.3	-24.1	-44.1	36.0	-39.9	8.5	0.7	-22.8	16.2	-66.0
OBC	3,542	14.6	9.5	2.7	-18.3	6.4	-52.7	111.2	41.1	46.8	41.1	5.2	-2.3	-57.8	-13.2
INBK	5,259	-10.2	12.9	18.2	-10.7	-7.3	15.2	12.2	11.0	11.8	11.3	7.0	10.5	12.7	7.0
ANDB	3,032	33.4	-5.4	9.2	-5.5	23.3	-18.0	-4.1	25.1	10.6	20.2	30.2	20.4	4.3	-8.4
Coverage PSU	86,750	28.7	-7.2	12.0	-34.6	17.6	19.1	10.8	31.2	13.9	16.9	-12.6	-20.1	2.5	1.4
ICICIBC	17,281	2.0	20.5	16.2	1.1	-8.3	12.9	15.0	16.8	18.9	30.5	44.4	29.8	21.6	20.3
HDFCB	14,297	-3.0	12.4	19.3	2.5	-2.7	10.5	19.2	33.9	32.7	32.9	33.2	33.7	31.5	31.4
AXSB	11,023	-3.0	-0.9	21.3	14.4	-7.6	-2.3	19.8	32.0	38.3	35.9	33.4	27.0	25.2	23.7
Yes	2,541	11.7	12.7	8.4	6.4	6.2	8.8	8.1	56.3	57.8	51.8	45.2	38.2	33.3	32.9
IIB	2,060	21.0	12.3	15.6	11.6	5.0	7.2	6.7	37.1	71.1	74.8	75.3	52.0	45.0	33.9
VYSB	1,195	1.7	8.9	10.3	10.0	3.0	22.7	3.6	14.6	40.8	37.0	34.4	36.1	53.3	44.0
SIB	1,022	51.3	31.7	0.6	5.6	0.9	15.1	7.7	-2.8	6.1	24.0	111.7	41.2	23.3	32.0
FB	2,019	12.8	6.5	1.9	20.0	-14.9	30.8	5.6	-3.3	38.9	29.8	47.0	10.8	36.2	41.1
JKBK	2,132	21.2	12.2	2.8	-17.5	31.6	9.5	6.8	23.2	21.6	19.9	15.4	25.3	22.3	27.0
Coverage Private	53,569	2.2	12.0	16.0	5.0	-4.2	9.2	15.2	25.0	29.8	33.8	39.4	30.7	27.5	26.6
Coverage Banks	140,319	19.9	-1.8	13.3	-21.5	8.0	15.2	12.4	29.4	18.6	22.0	4.7	-5.7	10.6	9.7

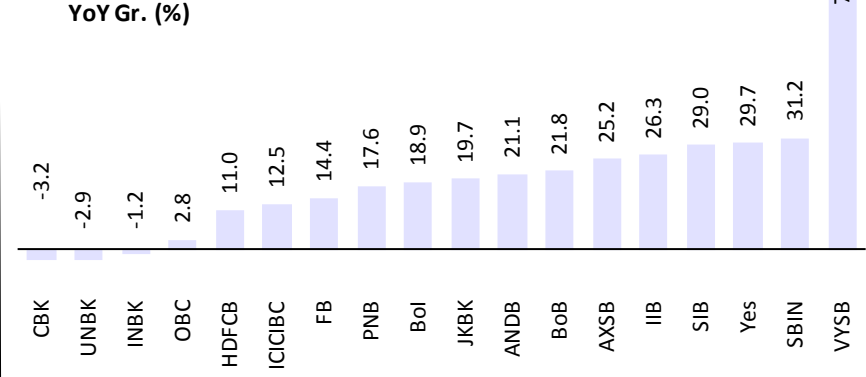


Profitability impacted due to higher provisions

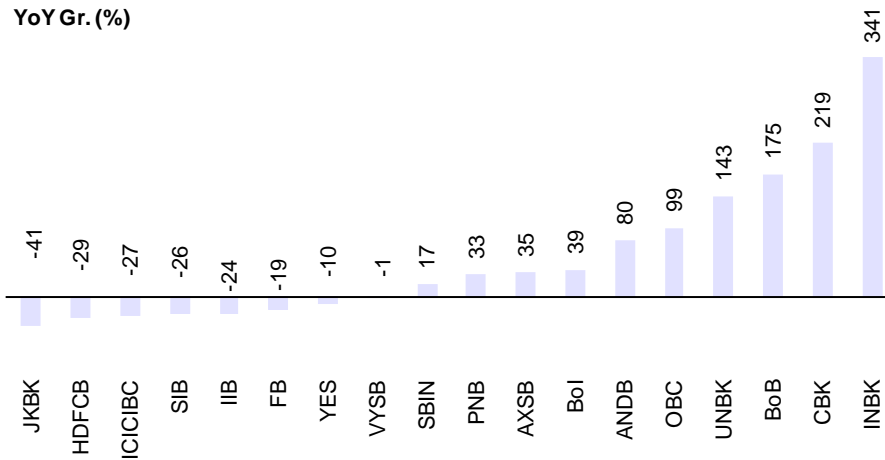
Opex for private banks increase due to expansion



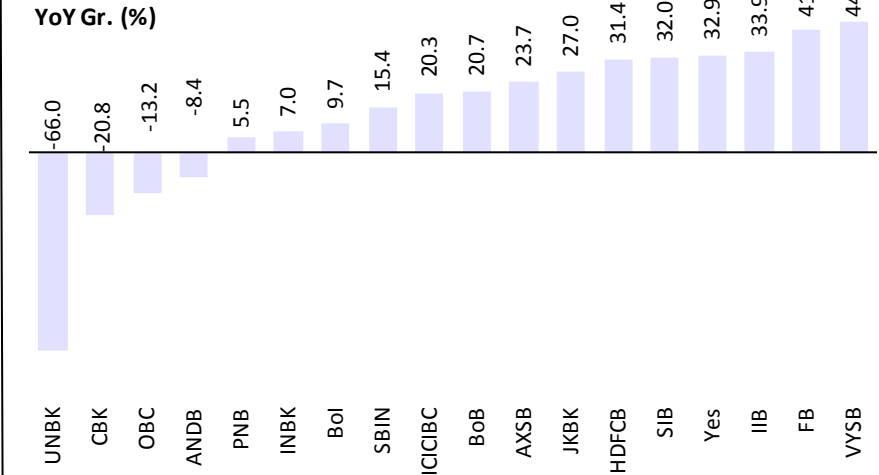
Core operating profitability remains healthy



Prov. increase, due to higher restructuring and MTM losses



Private banks profitability remains robust





Asset quality: Private banks showing an Impressive performance

- ❑ Slippages for state-owned banks declined 22% QoQ – on a higher base (annualized slippage ratio of 3.1% v/s 4.2% a quarter ago). One large aviation account led to higher slippages, excluding the same slippages were better or inline with estimates.
- ❑ On recoveries and up-gradation PNB, UNBK and INBK disappointed whereas, CBK, OBC, ANDB delivered strong performance
- ❑ Private banks asset quality remained healthy with GNPA and NNPA being largely flattish QoQ. BoI and OBC disappointed with higher restructuring during the quarter of INR30b and INR22b respectively.
- ❑ Restructuring during the quarter increased sharply due to large telecom account. On an average state – owned banks restructured ~100bp of overall loan – of which ~50% was on account of one large telecom account. Most of the banks took an NPV hit of ~10% on this account whereas UNBK took a hit of ~25%.
- ❑ Going forward restructuring is expected to increase led by restructuring of SEBs, Air India and other large-mid corporate accounts. Private banks asset quality is expected to remain healthy due to lower restructured loans, lesser proportion of direct agricultural loans and better risk management.

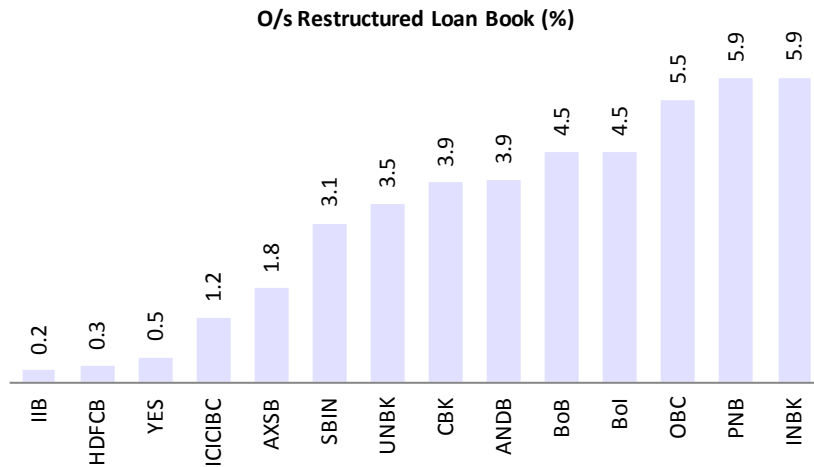
	Gross NPA				Net NPA				Calculated Prov. Cov %			PCR (%)
	INRb	QoQ %	YoY %	GNPA %	INRb	QoQ Gr %	YoY Gr %	NNPA %	3QFY11	1QFY12	3QFY12	Incl W/off
SBIN	401.0	18	71	4.6	188.0	17	61	2.2	50	53	53	63
PNB	64.4	25	42	2.4	29.0	39	84	1.1	65	59	55	70
CBK	40.0	5	45	1.8	32.7	5	64	1.5	28	18	18	68
BoB	39.0	14	41	1.5	13.3	18	78	0.5	73	67	66	81
BoI	63.9	-2	41	2.7	40.9	-4	147	1.8	63	35	36	61
UNBK	52.1	1	45	3.3	28.8	-3	80	1.9	55	42	45	63
OBC	32.3	4	83	2.9	20.6	4	153	1.9	54	36	36	63
INBK	11.9	14	58	1.4	7.0	17	67	0.8	45	43	42	77
ANDB	18.8	-5	116	2.4	9.4	-13	206	1.2	65	45	50	65
Coverage PSU	322.4	7	49		190.5	3	90					
ICICI	98.2	-3	-4	3.3	20.8	-7	-28	6.1	72	78	79	79
HDFC	20.2	7	13	1.0	4.0	12	20	0.2	81	81	80	80
AXSB	19.1	10	29	1.1	6.8	24	77	0.4	74	69	64	75
Yes	0.7	5	-1	0.2	0.1	6	-17	0.0	76	80	80	80
IIB	3.3	0	9	1.0	0.9	0	3	0.3	70	72	72	72
VYSB	5.4	5	-4	2.0	0.8	4	-41	0.3	76	85	85	85
SIB	2.3	2	-8	0.9	0.6	0	-22	0.2	71	75	75	75
Federal	13.6	9	18	4.0	2.4	24	7	0.7	80	84	82	82
JKBK	5.5	1	8	1.8	0.5	-22	361	0.2	98	88	91	94
Coverage Pvt	168.4	1	3		36.5	2	-12					
Coverage Banks	490.8	5	29		227.0	3	60					



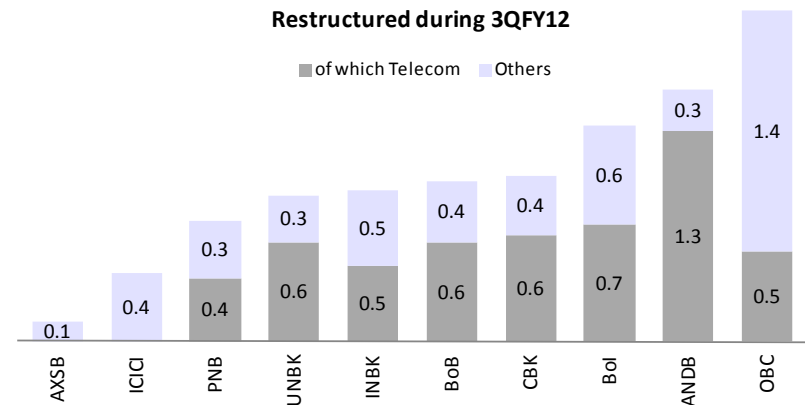
Asset quality: State-owned banks slippages decline QoQ

	Slippages (INR b)							Slippage Ratio (%)										
	1QFY11	2QFY11	3QFY11	4QFY11	1QFY12	2QFY12	3QFY12	1QFY11	2QFY12	3QFY11	4QFY11	1QFY12	2QFY12	3QFY12	FY05-10	FY11	FY12E	FY13E
ANDB	1.4	2.6	2.0	1.9	2.4	10.9	3.8	1.3	2.1	1.6	1.4	1.7	7.2	2.3	0.9	1.4	3.0	2.4
OBC	1.1	4.7	4.7	6.5	3.8	15.0	7.0	0.6	2.5	2.4	3.1	1.8	6.9	3.1	2.7	1.9	3.4	2.6
BoI	6.2	8.2	4.8	10.0	16.8	28.2	10.2	1.7	2.2	1.2	2.3	3.8	6.1	2.1	1.8	1.7	3.1	2.4
UNBK	6.2	11.3	7.7	4.1	7.7	18.2	5.7	2.6	4.5	2.9	1.3	2.5	5.8	1.7	1.6	2.5	2.5	2.0
SBIN	40.8	52.7	31.5	56.5	61.2	82.7	81.6	3.0	3.7	2.1	3.6	3.7	4.9	4.5	2.3	2.9	4.0	3.6
CBK	7.7	3.9	5.1	18.4	13.7	12.4	8.6	2.2	1.1	1.4	4.4	3.2	2.8	1.8	2.1	2.1	2.2	2.3
INBK	8.8	3.3	2.5	2.8	1.7	3.8	2.9	6.8	2.4	1.8	1.8	1.0	2.2	1.6	1.1	1.5	1.6	2.0
PNB	12.2	9.1	9.8	12.5	11.8	9.9	16.8	3.1	2.2	2.3	2.7	2.4	1.9	3.0	1.8	2.3	2.1	2.2
BoB	6.7	2.9	2.8	6.7	5.8	5.8	9.5	1.9	0.8	0.7	1.5	1.3	1.2	1.8	1.3	1.1	1.3	1.4
PSU Agg.	91	99	71	119	125	187	146	2.6	2.7	1.9	2.9	2.9	4.2	3.1				

Net Restructured loan as % to overall loan (%)



Addition to restructured loan book in 3QFY12 as a % to overall loans





Asset quality: Recoveries and up gradation throwing mixed picture

Recoveries and up-gradation a mixed bag

	Recoveries & Upgradation (INR m)					As a % to Op GNPA				
	3QFY11	4QFY11	1QFY12	2QFY12	3QFY12	3QFY11	4QFY11	1QFY12	2QFY12	3QFY12
SBIN	14,300	26,660	30,760	17,720	19,680	6.2	11.4	12.1	6.4	5.8
PNB	2,750	4,110	6,520	7,190	3,590	6.8	9.1	14.9	14.7	7.0
CBK	N.A.	13,560	5,690	5,060	5,470	N.A.	49.2	18.4	14.0	14.4
BoB	1,169	1,534	1,970	1,875	3,044	4.3	5.5	6.2	5.5	8.9
BoI	8,185	3,637	3,573	4,438	8,989	16.8	8.0	7.4	7.7	13.7
UNBK	2,560	1,040	3,040	2,320	2,060	7.3	2.9	8.4	6.2	4.0
OBC	1,831	285	1,213	2,413	5,142	12.6	1.6	6.3	11.9	16.5
ANDB	218	355	590	1,237	4,826	2.8	4.1	5.9	10.5	24.3

Write-offs decline QoQ for most banks

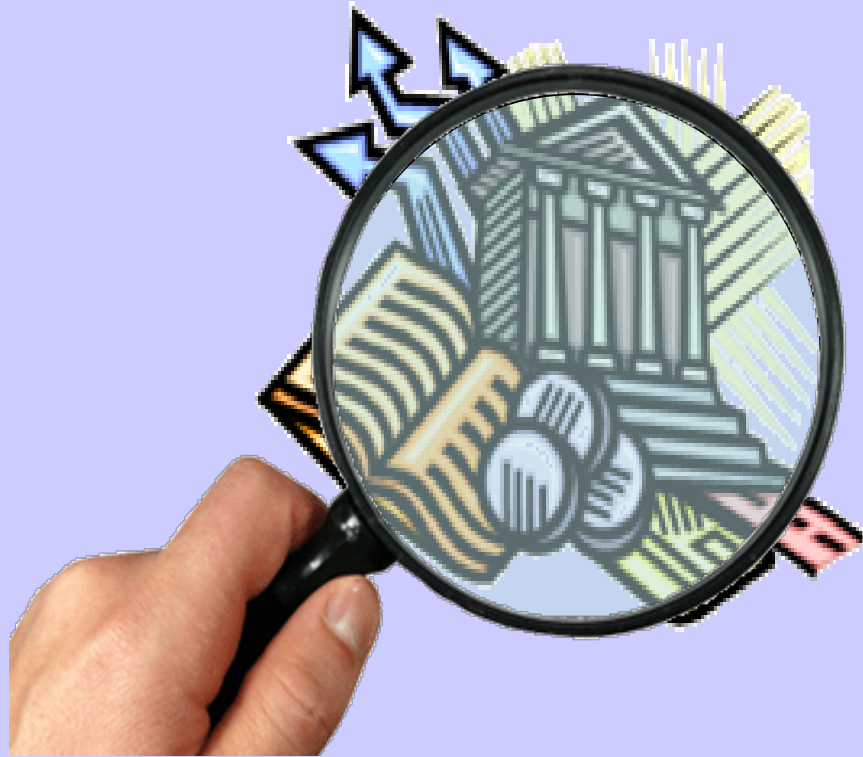
	Write-offs (INR m)					As a % to Op GNPA				
	3QFY11	4QFY11	1QFY12	2QFY12	3QFY12	3QFY11	4QFY11	1QFY12	2QFY12	3QFY12
SBIN	14,900	10,910	6,040	3,200	410	6.4	4.7	2.4	1.2	0.1
PNB	1,850	10,020	110	180	310	4.6	22.1	0.3	0.4	0.6
CBK	N.A.	2,300	2,870	5,430	1,090	N.A.	8.4	9.3	15.1	2.9
BoB	1,210	1,315	1,149	4,184	1,552	4.4	4.7	3.6	12.2	4.6
BoI	N.A.	3,084	1,499	15,961	2,640	N.A.	6.8	3.1	27.6	4.0
UNBK	4,520	2,600	3,400	1,980	2,890	12.8	7.3	9.4	5.3	5.6
OBC	808	3,667	1,425	1,857	635	5.5	20.8	7.4	9.1	2.0
ANDB	800	330	14	1,583	13	10.4	3.8	0.1	13.5	0.1

Net slippages decline QoQ (except for PNB and BoB)...

	4QFY10	1QFY11	2QFY11	3QFY11	4QFY11	1QFY12	2QFY12	3QFY12
SBIN	1.1	1.4	2.2	1.2	1.9	1.9	3.8	3.4
PNB	1.1	1.7	1.3	1.6	1.8	1.1	0.5	2.4
CBK	N.A.	N.A.	N.A.	N.A.	1.1	1.9	1.7	0.7
BoB	1.0	1.2	0.4	0.4	1.2	0.8	0.8	1.3
BoI	3.4	0.5	1.4	-0.9	1.5	3.0	5.2	0.3
UNBK	2.8	1.4	3.8	1.9	1.0	1.5	5.0	1.1
OBC	2.7	0.2	1.1	1.5	2.9	1.2	5.8	0.8
ANDB	N.A.	0.8	1.9	1.4	1.1	1.3	6.4	-0.6

... So as credit cost

	Credit cost (%)						
	1QFY11	2QFY11	3QFY11	4QFY11	1QFY12	2QFY12	3QFY12
SBIN	1.1	1.3	0.9	1.8	0.6	1.2	1.5
PNB	1.1	0.7	1.0	0.9	0.9	0.5	0.9
CBK	0.3	0.5	0.3	1.1	0.5	0.9	0.3
BoB	0.6	0.3	0.4	0.8	0.2	0.5	0.8
BoI	0.7	0.6	0.3	0.7	0.7	1.5	0.6
UNBK	0.3	2.0	1.1	0.3	1.0	1.4	1.1
OBC	0.7	1.0	0.8	1.7	0.6	1.3	0.4
INBK	2.5	0.6	0.2	0.9	0.6	0.5	0.5
ANDB	0.1	0.6	1.0	1.2	0.6	1.2	0.2
ICICIBC	1.7	1.4	0.9	0.7	0.8	0.6	0.6
HDFCB	1.1	1.2	0.7	0.8	0.4	0.2	0.3
AXSB	1.1	1.2	0.8	0.3	0.4	0.7	0.9



Non Banking Financial Companies

Quarterly snapshot: Healthy growth; Spreads - mixed bag

- **Business growth remains healthy (ex-SHTF):** Business growth for NBFCs under our coverage (ex-SHTF) remained healthy. HFCs continued to witness healthy loan growth. Among IFCs, IDFC surprised with a strong 12% QoQ growth in loan book (after reporting muted growth during 1HFY12). Among VFCs, SHTF continued to witness slowdown in growth, while MMFS maintained healthy growth trend on the back of its diversified portfolio strategy.
- **Spreads – mixed bag:** Spreads / margins for HFCs remained stable, except LICHF as its margins continued to moderate on the back of rising costs. Among IFCs, IDFCs spreads improved due to better liability management, while POWF and RECL's margins contracted sequentially due to interest reversal on large accounts slipping into NPAs. NIMs for VFCs declined QoQ. SHTF's margins declined sharply (~80bp QoQ) on account of pressure on yields.
- **Asset quality remained healthy (ex-IFCs):** Asset quality for HFCs and VFCs remained stable QoQ. SHTF wrote off residual loans exposed to the mining segment in the states of AP, Karnataka and Goa during the quarter. Among IFCs, GNPA's increased QoQ due to some large power projects slipping into NPAs for POWF and RECL, while for IDFC one small account (from tourism segment) slipped into NPA.
- **We maintain neutral** on the sector due to regulatory headwinds, impending changes in 1) asset classification and provisioning norms 2) changes in classification of PSL loans and 3) final guidelines on securitization of loans. Reversal in interest rate cycle could act as a major catalyst and alter the growth and margin outlook significantly. Among NBFCs we prefer IDFC.

Company	(INR m)					NII					Operating Profit					PAT				
	Actual	Actual	Est. YoY	Actual	Var	Actual	Actual	Est. YoY	Actual	Var	Actual	Actual	Est. YoY	Actual	Var					
	Dec'11	QoQ	Chg (%)	YoY	(%)	Dec'11	QoQ	Chg (%)	YoY	(%)	Dec'11	QoQ	Chg (%)	YoY	(%)					
DEWH	1,241	11.4	39.2	43.6	3.2	988	13.9	28.0	21.9	-4.7	750	4.3	24.3	21.4	-2.3					
HDFC	12,364	-0.6	16.6	15.1	-1.2	13,483	-0.5	14.3	9.8	-3.9	9,813	1.1	10.5	10.1	-0.3					
LICHF	3,258	-2.5	-1.4	-7.5	-6.2	3,262	-2.8	-29.9	-33.3	-4.9	2,258	-10.6	-20.1	-23.5	-4.3					
MMFS	4,178	7.1	25.4	23.2	-1.8	2,797	10.1	29.3	22.8	-5.1	1,547	14.1	23.7	33.5	7.9					
SHTF	8,038	-3.7	0.5	-3.9	-4.4	6,465	-5.2	11.3	5.5	-5.2	3,027	1.1	0.7	0.4	-0.3					
IDFC	5,460	9.6	11.9	18.7	6.0	5,801	-8.4	23.5	16.8	-5.4	3,812	-27.3	18.9	18.6	-0.3					
POWF	10,970	1.6	21.6	18.5	-2.5	10,920	3.5	18.6	17.7	-0.8	7,915	-1.3	19.1	17.4	-1.5					
RECL	10,052	5.8	17.1	18.5	1.2	9,763	1.7	12.7	8.6	-3.6	7,054	-1.6	12.1	6.5	-4.9					
NBFC	55,560	2.1	14.2	12.9	-1.1	53,478	-0.2	11.9	7.8	-3.7	36,175	-4.1	10.5	8.9	-1.5					

HFCs: Growth momentum maintained; stable margins

- **Growth momentum maintained:** The healthy loan growth momentum for HFCs was maintained during the quarter. Among HFCs under coverage DEWH continued to grow strongly at 50% YoY, while HDFC and LICHF too continued to grow at a steady clip.
- **Spreads remain stable (ex-LICHF):** HDFC and DEWH reported stable spread/margins. However, LICHF surprised negatively with a 18bp QoQ contraction in reported NIMs. Margin contraction for LICHF has continued for the third consecutive quarter. DEWH has maintained its margins within a narrow band between 2.8%-3.0% over a period of time, which is commendable.
- **Stable asset quality:** Asset quality has remained stable QoQ and no major threat to the same is expected in the near to medium term.
- **Outlook:** We expect growth momentum to continue on the back of latent demand in the mortgage space and peaking of interest rate cycle. For DEWH, inability to raise capital could affect its growth trajectory, while movement in margins will remain a key monitorable for LICHF.

	HFCs - YoY Gr. (%)										
	1QFY10	2QFY10	3QFY10	4QFY10	1QFY11	2QFY11	3QFY11	4QFY11	1QFY12	2QFY12	3QFY12
Disbursements											
HDFC	21	29	19	35	25	28	21	9	20	18	19
LICHF	60	75	86	61	40	36	28	34	5	1	2
DEWH	64	92	78	57	65	71	53	82	22	28	49
Loans											
HDFC	13	10	9	15	17	19	21	20	22	19	21
LICHF	29	32	35	38	37	36	36	34	32	29	27
DEWH	42	49	55	51	53	55	56	61	57	51	50
PAT											
HDFC	21	24	23	26	23	22	33	23	22	20	10
LICHF	18	27	14	35	71	37	39	48	21	-58	43
DEWH	59	70	73	95	64	55	54	40	28	24	21
Spreads / Margins (%)											
HDFC ^	2.2	2.2	2.3	2.3	2.3	2.3	2.3	2.3	2.3	2.3	2.3
LICHF#	2.5	2.4	2.8	3.3	3.0	2.9	3.1	3.5	2.8	2.5	2.3
DEWH*	3.0	3.1	3.0	3.0	3.0	3.1	3.0	3.0	2.9	2.8	2.8

^ Reported Cumulative; *Cumulative NIM, # Reported NIM

VFCs: Margins remain under pressure; Growth healthy (ex-SHTF)

- **Loan growth (ex-SHTF) remains healthy:** Despite slowdown in auto sales, the AUM growth for MMFS for the quarter remained healthy. However, SHTF continued to witness moderation in its asset growth on the back of sluggish CV demand and intensifying competitive landscape.
- **Spreads remain under pressure:** Spreads/margins remained under pressure 1) on account of rising cost of funds and inability of vehicle financiers to pass on the complete increase in cost of borrowings 2) intensifying competitive landscape affecting yields and thereby margins (in case of SHTF).
- **Asset quality remained stable:** Asset quality remained stable with no major negative surprises. SHTF made a write off of INR200m on its residual portfolio exposed to the mining sector in the states of AP, Karnataka and Goa. With this, SHTF has no pending exposure in the mining regions of AP, Karnataka and Goa.
- **Outlook:** Growth in the vehicle financing segment is likely to remain sluggish due to 1) slowing auto sales and 2) rising competition from small private banks and other NBFCs in the CV financing segment. Margins should stabilize / improve from hereon with interest rate cycle likely to reverse sooner than later.

	VFCs - YoY Gr. (%)										
	1QFY10	2QFY10	3QFY10	4QFY10	1QFY11	2QFY11	3QFY11	4QFY11	1QFY12	2QFY12	3QFY12
Disbursement											
SHTF	15	-2	71	40	22	28	30	59	20	5	-4
MMFS	N.A.	N.A.	N.A.	N.A.	76	54	79	45	34	32	39
AUM											
SHTF	17	15	24	25	25	23	20	24	22	20	16
MMFS	6	7	16	26	32	35	44	41	40	41	40
PAT											
SHTF	14	25	59	72	76	44	27	27	20	0	0
MMFS	49	96	110	30	86	68	55	12	38	16	7
Spreads / NIM (%)											
SHTF	6.6	7.2	7.4	7.8	7.9	7.8	8.2	7.7	7.6	8.2	7.4
MMFS ^	10.6	11.1	11.7	13.0	11.1	11.5	11.7	12.1	10.0	10.2	10.2
GNPA (%)											
SHTF	2.2	2.3	2.4	2.8	2.5	2.5	2.4	2.6	2.7	2.7	2.8
MMFS	9.8	9.0	8.7	6.4	6.9	5.8	5.6	4.0	4.6	4.0	4.1

^ Cumulative Gross Spread

IFCs: Strong growth; Spreads - mixed bag; Signs of stress visible

- **Loan growth remains strong:** Asset growth remained strong with loans growing by 12% QoQ, 7% QoQ and 5% QoQ for IDFC, POWF and RECL respectively. POWF and RECL are witnessing growth due to their strong o/s sanctions pipeline, IDFC capitalized on the refinancing opportunities available in the market.
- **Spreads – mixed bag:** IDFC’s spreads improved 7bp QoQ on the back of better liability management (increasing share of low cost foreign currency borrowings). While POWF’s and RECL’s margins contracted by 10bp+ QoQ on the back of rising costs of funds and interest income reversals due to higher slippages during the quarter.
- **Asset quality falters:** Asset quality of infra financing companies witnessed some stress on account of certain large ticket power projects falling in the NPA category. For IDFC, one account from the tourism category (albeit small in quantum) fell into NPA category.
- **Outlook:** Loan growth remained healthy but the outlook for the same depends on how the macroeconomic developments pan out. Asset quality under current uncertain environment remains a key monitorable. Increase in standard provisioning and other regulatory changes could impact earnings going forward.

	IFCs - YoY Gr. (%)										
	1QFY10	2QFY10	3QFY10	4QFY10	1QFY11	2QFY11	3QFY11	4QFY11	1QFY12	2QFY12	3QFY12
Sanctions											
RECL	26	8	69	-53	51	-36	0	585	-7	4	-17
POWF	24	17	-69	98	-23	84	319	-53	17	-57	-13
IDFC	-3	34	91	195	199	233	121	40	-56	-58	-41
Loans											
RECL	33	32	28	30	29	26	22	24	24	24	25
POWF	21	19	20	24	29	28	27	25	22	26	28
IDFC	-3	3	10	22	39	56	51	50	30	14	25
PAT											
RECL	73	70	49	45	25	25	40	25	13	1	16
POWF (Adj.)	39	51	33	29	23	22	22	8	14	25	17
IDFC	26	26	46	96	23	16	19	26	-6	55	19
Spreads / NIMs (%)											
RECL	4.4	4.3	4.1	4.5	4.6	4.4	4.6	4.3	4.4	4.5	4.3
POWF	4.3	4.2	4.2	3.9	4.1	4.1	4.1	3.5	3.9	4.0	3.9
IDFC ^	2.4	2.7	2.6	2.7	2.7	2.5	2.4	2.3	2.2	2.3	2.4

^ Spreads on a rolling 12-mth basis

Valuation Matrix

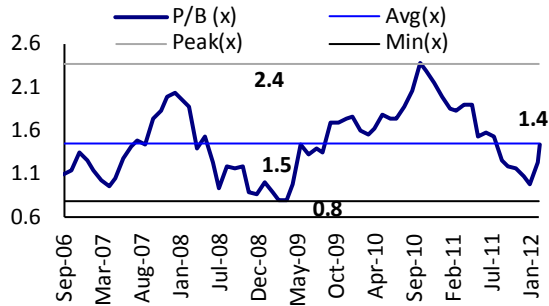
Financials: Valuation Matrix

	Rating	CMP (INR)	Mcap (USD b)	EPS (INR)		P/E (x)		P/BV (x)		RoA (%)		RoE (%)	
				FY12	FY13	FY12	FY13	FY12	FY13	FY12	FY13	FY12	FY13
ICICI ^{BC*}	Buy	982	23.0	55	62	13.6	11.5	1.9	1.7	1.5	1.4	13.8	14.3
HDFCB	Neutral	528	5.0	22	28	23.8	18.9	4.2	3.6	1.7	1.7	18.9	20.5
AXSB	Buy	1,281	10.7	97	112	13.2	11.4	2.4	2.1	1.5	1.5	19.9	19.5
KMB	Neutral	578	4.3	13	15	41.5	36.5	5.2	4.5	1.8	1.6	14.2	14.1
YES	Buy	363	2.6	28	33	12.9	11.1	2.7	2.3	1.5	1.3	23.3	22.3
IIB	Buy	313	3.0	17	21	18.3	15.0	3.3	2.8	1.6	1.5	19.3	20.1
VYSB	Buy	355	0.9	30	34	11.9	10.6	1.4	1.2	1.0	1.0	14.0	12.3
FB	Buy	444	1.5	43	50	10.3	8.8	1.4	1.2	1.3	1.3	13.8	14.5
J&KBK	Buy	860	0.8	162	180	5.3	4.8	1.0	0.9	1.4	1.4	20.8	19.7
SIB	Buy	28	0.1	3	4	8.0	7.1	1.6	1.3	1.1	1.0	21.1	20.3
Private Aggregate			51.8			12.6	10.8	1.8	1.6				
SBIN (cons)*	Buy	2,417	31.2	241	280	9.6	8.2	1.5	1.3	0.9	0.9	16.4	17.1
PNB	Buy	1,078	6.9	155	181	6.9	6.0	1.4	1.2	1.3	1.2	24.3	21.7
BOI	Neutral	380	4.2	45	59	8.4	6.5	1.2	1.0	0.7	0.8	14.6	16.7
BOB	Neutral	864	6.9	122	133	7.1	6.5	1.4	1.2	1.2	1.1	21.9	20.2
CBK	Buy	560	5.0	73	89	7.7	6.3	1.2	1.0	0.9	0.9	16.7	17.7
UNBK	Buy	263	2.8	27	45	9.7	5.8	1.1	1.0	0.6	0.8	12.2	18.2
IOB	Neutral	109	1.4	11	19	9.6	5.7	0.8	0.7	0.4	0.5	8.4	13.1
OBC	Buy	307	1.8	42	50	7.4	6.2	0.8	0.7	0.7	0.7	11.4	12.4
INBK	Buy	243	2.1	44	48	5.5	5.0	1.1	1.0	1.4	1.3	21.6	20.0
CRPBK	Neutral	510	1.5	106	120	4.8	4.2	0.9	0.8	1.0	1.0	20.2	19.8
ANDB	Buy	131	1.5	24	26	5.6	5.0	1.0	0.9	1.1	1.1	19.0	18.5
IDBI *	Neutral	118	2.4	17	21	5.5	4.5	0.7	0.6	0.6	0.7	12.6	14.0
DBNK	Buy	94	0.6	22	26	4.3	3.6	0.8	0.7	0.9	1.0	17.9	18.4
Public Aggregate			68.5			9.1	7.5	1.4	1.2				
HDFC*	Neutral	717	21.4	27	31	18.7	15.6	5.1	4.7	2.8	2.9	26.6	28.8
LICHF	Buy	269	2.6	19	28	13.9	9.8	2.6	2.2	1.6	1.8	20.3	24.3
DEWH	Buy	259	0.6	30	39	8.7	6.7	1.4	1.2	1.3	1.4	18.7	19.5
IDFC	Buy	148	4.4	11	11	14.1	13.0	1.7	1.5	3.0	2.7	13.9	13.2
RECL	Buy	248	5.0	29	34	8.7	7.3	1.7	1.5	3.1	3.1	20.7	21.8
POWF	Buy	220	5.1	23	28	9.7	7.9	1.4	1.2	2.6	2.6	16.6	16.6
SHTF	Buy	576	2.6	57	64	10.1	9.0	2.2	1.8	3.0	3.0	23.6	22.0
MMFS	Neutral	723	1.5	55	70	13.2	10.4	2.5	2.1	3.8	3.8	20.8	22.4
NBFC Aggregate			43.2			14.5	12.1	3.5	2.9				

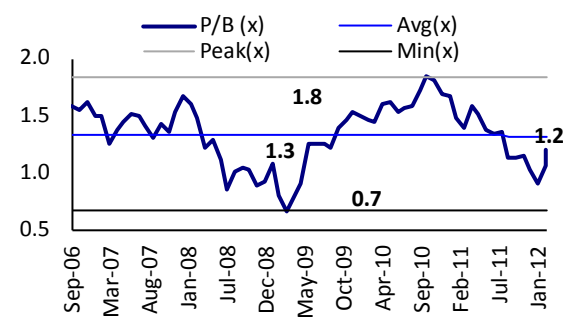
*Multiples adj. for value of key ventures/Investments; For ICICI Bank, HDFC Ltd BV is adjusted for investments in subsidiaries

Stocks at 5-year average valuations (P/BV trend)

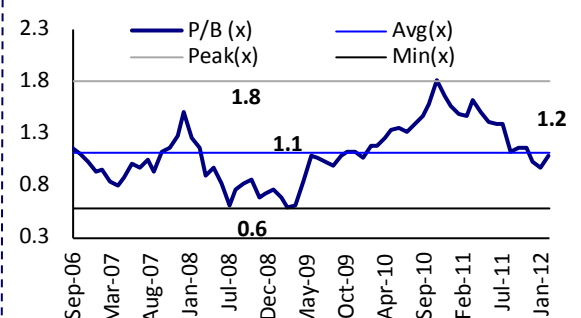
SBI – ~25% below its' March peak



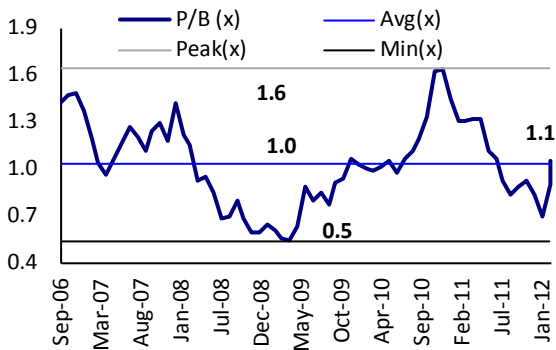
PNB – ~10% discount to mean valn.



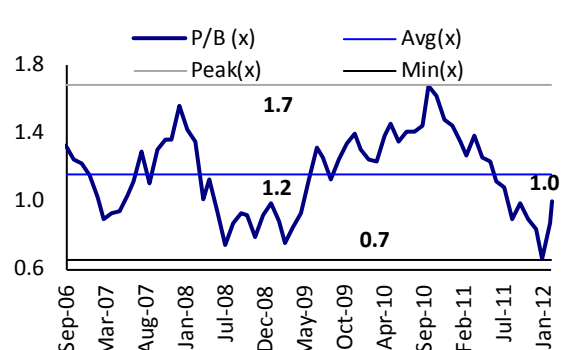
BoB – nearing mean valuations



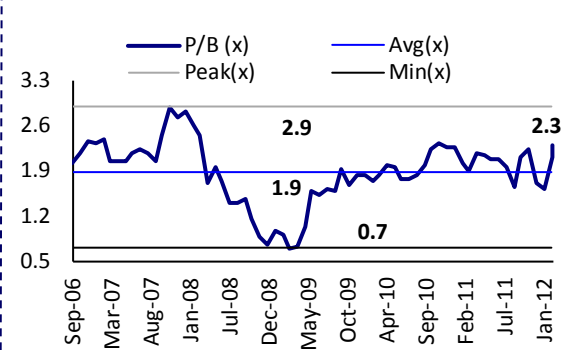
CBK – Trading near mean valuations



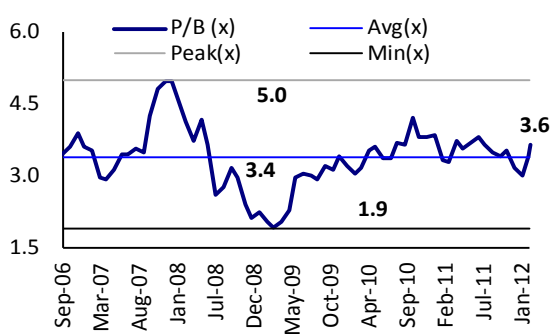
UNBK – ~20% discount to mean



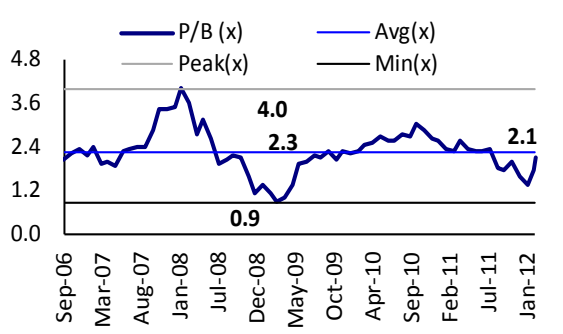
ICICIB – above mean valuations



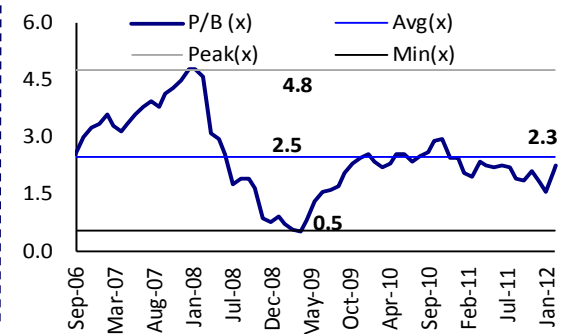
HDFCB – Above mean valuations



AXSB – ~40% discount to HDFCB

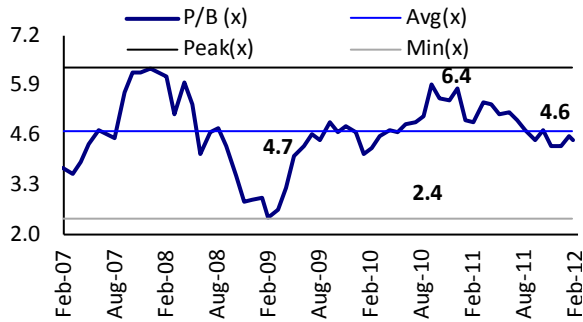


YES – 10% below mean valuations

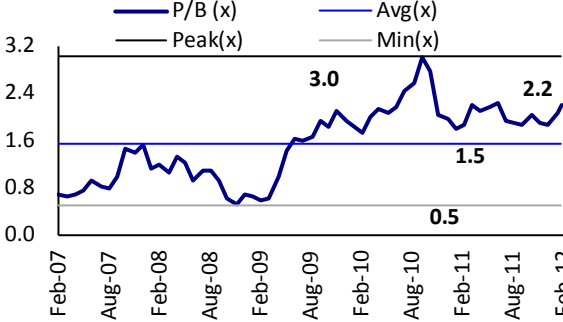


Stocks at 5-year average valuations (P/BV trend)

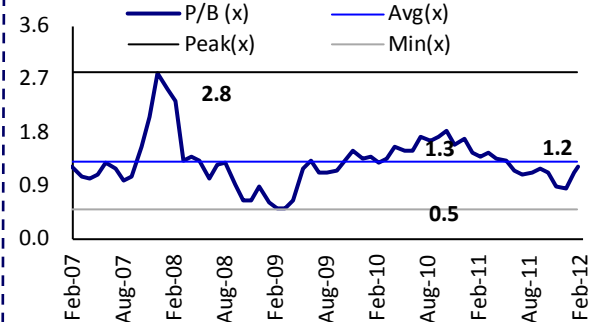
HDFC: Trading at mean valn.



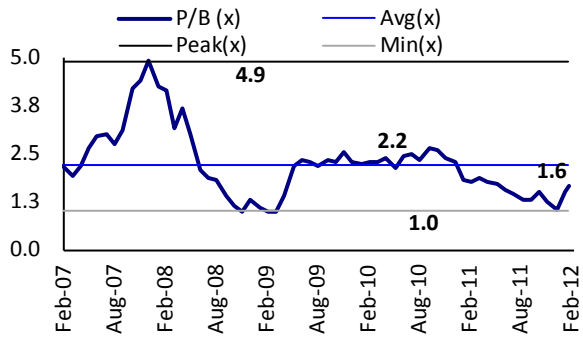
LICF: 40%+ above mean valn.



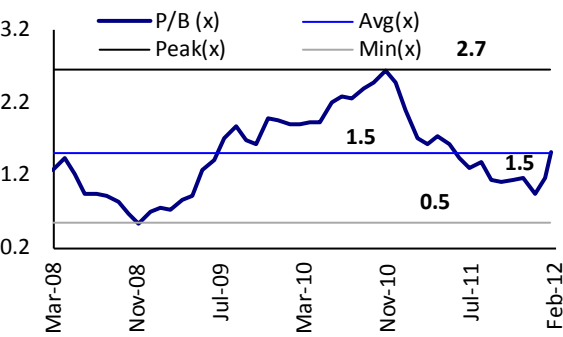
DEWH: Hovering at around mean valn.



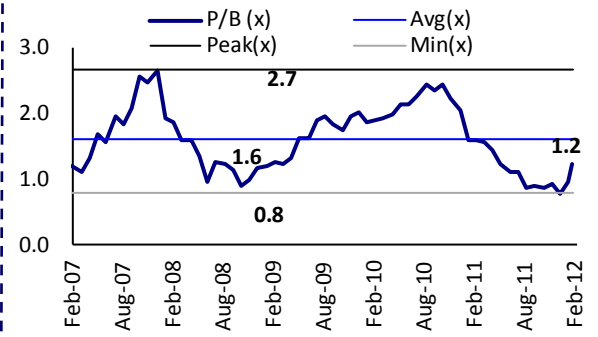
IDFC: Near 30% lower than mean valn.



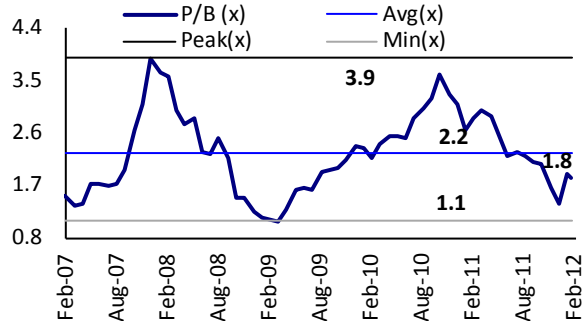
RECL: Trading near mean valn.



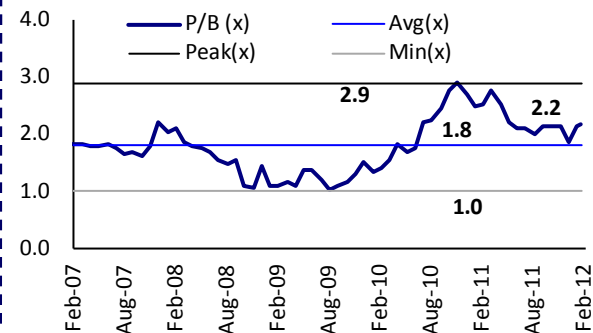
POWF: ~30% below mean valn.



SHTF: At ~20%+ discount to mean valn



MMFS: Trading at 15%+ above mean valn



Thank You

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MOTILAL OSWAL Detailed Report | September 2011
Sector: Banking and Finance

Financials

Peak rates, low valuations

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MOTILAL OSWAL Base Report | May 2011
Sector: Banking and Finance

Power Finance Corporation

Emerging from the woods

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MOTILAL OSWAL Detailed Report
Sector: Banking

State Bank of India

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MOTILAL OSWAL Base Report | SECTION: BANKING

IndusInd Bank

Polished execution

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MOTILAL OSWAL Base Report | 14 February 2011
Sector: Banking

Wall of Worry?

the whiteblower series

Savings deposit rate: To deregulate or not?
Critical question impacting 28% of bank deposits

Can banks save margins?
Active consideration to deregulate savings deposits 2% of deposits and 17% of CASA deposits to be impacted

Every 100p increase in savings deposit rate raises cost of deposits by 20p

Praying on could become difficult, impacting NIM

Bankers agree that deregulation is inevitable, but have mixed responses

Arguments in favor of a regulated savings deposit rate

Key data points

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MOTILAL OSWAL Detailed Report | March 2011
Sector: Banking

Financials

Operating leverage ahead | Well-capitalized

Above-average margins | Strong loan growth

Peak NPAs behind | Credit cost to drop

Fueled to fly

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MOTILAL OSWAL Update | Sector: Banking & Finance
28 Mar 2011

Rural Electrification Corp

CMP: Rs197 TP: Rs310 Buy

Business outlook healthy; SEB losses an overhang
Superior return rates, attractive valuations

Expect strong loan growth of 22% over FY11-13E; due to a healthy demand environment, however, NIMs may come off peaks

Rating SEB losses an overhang on REC's risk appetite, given its high exposure to T&D. However the government's thrust on power sector reform, protection through an end-use mechanism, and SEB initiatives to ease the strain on cash flows provide some comfort.

The REC stock price has corrected 50% from its peak. We believe current valuations are attractive at 1.5x FY13E EV. Buy with a target price of Rs310 (1.5x FY13E EV).

Increased lending opportunity of more than 100% over FY12-17
The government has made high allocations to the power sector in its Eleventh and Twelfth Five Year Plans. During the Twelfth Plan the power sector fund requirement will be Rs 18,000 for generation +10000 for transmission. Rs 14,000 for transmission over FY12-17 will be Rs 12,000. Assuming debt equity of 70:30, this translates into a massive opportunity of over 100% for lending agencies. We expect REC to post 22% CAGR in loan books to be 1.2x by FY13.

Government thrust on reforms, SEB focus to outpaces margin well
The T&D segment (51% comprises the bulk of the loan book, and with stable discounts against negative signed cash positive genre, the working on asset quality relatively high. However, interventions with industry participants suggest it is unlikely that SEB will default, as state governments would not out on selling SEBs. Production to procure, particularly costly about 10% of power, off these and timely recovery of subsidies would ease the strain on cash flow for SEBs.

NIMs to contract, but would still be healthy at over 4%
REC's NIMs have improved significantly from 3.6% in FY10 to 4.1% in FY11 due to positive asset liability mix (ALM) and decline in wholesale rates. A mitigation position of internal commercial borrowings (ICC), due to the PFC status, which helps to widen healthy margins. However, with lower room for feed (C) under the audited credit going ahead, widening interest rates, we believe NIMs could diminish further in the consequent years. We expect spreads and NIMs to ease off over their target of 3.3% and 5% in FY11 to 3% and 2.7% in FY12 respectively.

Valuations attractive, reiterate Buy
We expect REC to post 22% CAGR over FY11-13, with NII growth of 17%. While we expect ROA to decline by ~30p to ~3.1% over FY11-FY13 owing to a compression in NIMs, ROE would remain strong at 2.22% due to improving leverage (CAGR of 5% debt of end of March 2011). We reiterate Buy with a target price of Rs310 (1.5x FY13 EV).

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MOTILAL OSWAL Initiating Coverage
Sector: Banking

ING Vysya Bank

Quality growth

Improved ROA, ROE

33% EPS CAGR

Lower credit cost

Higher productivity

Robust loan growth

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