

Indian Financial Services

On Bank Street -Vol 78

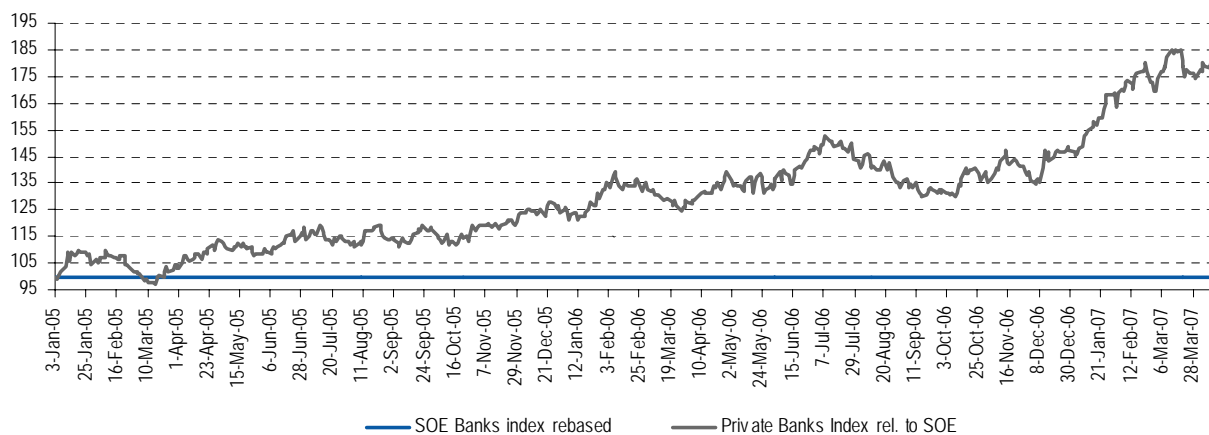
- *****FLASH***** Inflation at 5.74%, a little lower than expected – 65bps lower than last week’s release – downtrend expected to continue.
- **Stock Movement:** Early week slump due to tight money conditions gave way to gains on lower inflation and decent 4Q expectations; Net weekly performance in line with market
- **Private Bank Rate Hikes:** ICICI, Yes, CBOP, HDFC, HDFC Bank, UTI Bank hike PLR by 50-100 bps
- **SOE Bank Rate Hikes:** SBI, PNB, BOB, Syndicate, Union, Allahabad Bank, IOB hike PLR by 50-75 bps
- Indusind Bank raises \$33.82 mn through GDR offer
- Royal Bank of Scotland eyes India license
- ICICI Prudential infuses Rs 2.45 bn capital
- BOB to tie-up with UK firm for life insurance business

Banks

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Figure 1: Private Banks Index relative to SOE since January 2005



Source: Bloomberg, JPMorgan

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Stock Price Performance

	12-Apr	Chg
BOB	219	2.8%
CBK	190	1.6%
PNB	442	0.4%
SBI	968	2.1%
UNBK	102	-0.6%
ALBK	72	2.2%
BOI	173	7.4%
IOB	97	-2.6%
SNDB	64	5.1%
CBOP	37	0.3%
HDFC	1537	0.6%
HDFC Bank	958	1.6%
ICICI Bank	849	1.2%
IDFC	92	12.7%
YES	150	5.5%
DEVB	69	7.9%
KBL	170	2.2%
Sensex	13,114	2.0%
SOE Bank Index		2.1%
Pvt Bank Index		2.0%

Source: Bloomberg, JPMorgan estimates;
 Change in prices is weekly.

ADR/GDR (USD)

	12-Apr	Chg	Prem
HDFCB	67.79	1.1%	1.1%
ICICIB	39.50	3.0%	-0.3%
SBI	62.20	-1.3%	37.7%
UTI B	11.40	6.7%	5.5%

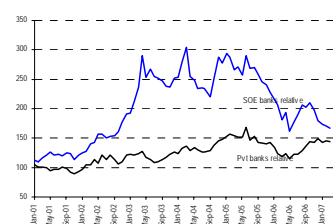
Source: Bloomberg, JPMorgan estimates;
 Change in prices is weekly.

Others

	12-Apr	Chg
10 year yield	8.05-	(0.11)
Rs/US\$	42.85	(0.08)
Brent (US\$/bbl)*	68.54	0.03
Inflation	5.74	(0.65)

Source: Bloomberg, JPMorgan estimates;
 Change in prices is weekly.

Figure 2: SOE bank and private bank index relative to Sensex



Source: Bloomberg, JPMorgan estimates

On Bank Street

We are happy to present you with our banking news digest for the week ended 13 April 2007.

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- [Reverse mortgage to be reality by April end](#)
- [RBI sets bar for mortgage firms](#)
- [1 % cess on new home loans for safety fund](#)

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SOE Banks

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Sector news

RBI increases CRR and Repo Rate (Mar 31-ET)

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RBI has raised CRR by 50 bps to 6.5% in 2 phases. It has also raised repo rates by 25 bps to 7.75%. It has also reduced the interest paid to banks on eligible CRR balances from 1% to 0.5%.

Reverse mortgage to be reality by April end (Apr 2-ET)

[Top](#)

National Housing Bank will announce the guidelines for reverse mortgage that would allow senior citizens, who own houses, to have a regular stream of income.

RBI sets bar for mortgage firms (Apr 3-ET)

[Top](#)

To facilitate housing finance, RBI proposed a minimum capital requirement of Rs 1 bn for mortgage guarantee companies. As per the draft guidelines, mortgage guarantee company will have a minimum net owned fund of Rs 1 bn which shall be augmented to Rs 3 bn within three years from the date of commencement of business.

1 % cess on new home loans for safety fund (Apr 3-ET)

[Top](#)

Housing finance companies and commercial banks may have to contribute 1 % of their annual incremental home loans to a new “safety fund” proposed to be created under the National Housing and Habitat Policy, which is awaiting final Cabinet nod. The fund is aimed at providing affordable housing to the economically weaker section.

Comments:

Feedback from mortgage lenders indicates that they have not received any official communication on this proposal from the government. In fact, there was a committee set up about 3 years ago which had submitted a report proposing this measure amongst others - which was subsequently trashed.

Private Banks

ICICI hikes PLR and home loan rates (Apr 1-HBL)

[Top](#)

ICICI Bank hiked its PLR by 100 bps to 15.75 %. The bank has also raised mortgage rates by 100 bps.

Comments:

The Bank last increased its PLR in February, 2007 by 100 bps. The hike is in response to monetary tightening by RBI and demonstrates ICICI Bank's intention to preserve its margins.

HDFC hikes homes loan rates by up to 75 bps (Apr 3-HBL)

[Top](#)

HDFC has raised lending rates by 75 bps for new customers, while interest rates for existing customers are up 50 bps. HDFC's floating rate loan for new customers is now pegged at 11.25 %, while customers borrowing at a fixed rate will be charged 13.25 %. It has also raised its PLR by 75 bps to 14.25 %.

Comments:

The bank had last raised mortgage rates in March, 07 by 50-75 bps.

CBOP hikes PLR by 50 bps (Apr 10-FE)

[Top](#)

CBOP hiked its PLR by 50 bps to 15 %.

Comments:

The Bank last increased its PLR in March, 2007 by 100 bps.

Yes Bank hikes PLR by 75 bps (Mar 31-HBL)

[Top](#)

Yes Bank hiked its PLR by 75 bps to 14.75 %.

Comments:

The Bank last increased its PLR in February, 2007 by 50 bps.

Karnataka Bank sets Rs 285 bn business target (Apr 4-HBL)

[Top](#)

Karnataka Bank is targeting to reach a business turnover of Rs 285 bn FY08, implying yoy growth of about 21%

Centurion launches new service for HNIs (Apr 8-HBL)

[Top](#)

Centurion Bank of Punjab has launched a new service for high net-worth individuals. The service called 'Centurion Elite' will offer wealth management, financial planning free debit card with enhanced withdrawal limit of Rs 100,000 per day and other privileged banking services.

DCB to ramp up microfinance (Apr 10-BS)

[Top](#)

DCB will ramp up its microfinance operations and is seeking help from its promoter Akfed, which is active in microfinance space worldwide. The Aga Khan Association for Microfinance (AKAM) is the nodal agency through which Akfed routes its microfinance activities. AKAM will provide the bank a technology platform to set up the microfinance business.

IndusInd Bank raises \$33.82 mn through GDR offer (Mar 31-BS) [Top](#)

IndusInd Bank raised \$33.825 mn through its maiden issue of GDRs. The bank has allotted about 29.5 mn-equity shares of Rs 10 each under this offering. Each equity share will be represented by one GDR of the bank and the price had been fixed at \$1.147 per GDR.

SREI hikes rate by 150 bps (Apr 3-HBL) [Top](#)

Srei Infrastructure Finance has increased its benchmark rate by 150 bps to 13 %.

Spanish bank BBVA enters India (Apr 3-FE) [Top](#)

Spanish bank BBVA after receiving approval from RBI has opened its representative office in Mumbai. BBVA is the second Spanish bank to set up operations in India.

Royal Bank of Scotland eyes India license (Apr 4-ET) [Top](#)

Royal Bank of Scotland is considering applying for a banking license in India. The bank, which is a \$71 billion financial powerhouse and among the top 10 financial services groups in the world, is keen to roll out its retail and corporate banking operations in India.

SOE Banks

SBI hikes PLR by 50 bps (Apr 8-ET)

[Top](#)

SBI hiked its PLR by 50 bps to 12.75 %.

Comments:

The Bank last increased its PLR in February, 2007 by 75 bps.

BOB hikes PLR by 75 bps (Apr 6-ET)

[Top](#)

BOB hiked its PLR by 75 bps to 13.25 %.

Comments:

The Bank last increased its PLR in February, 2007 by 50 bps

PNB hikes PLR by 75 bps (Apr 12-BS)

[Top](#)

PNB hiked its PLR by 75 bps to 13 %

Comments:

The Bank last increased its PLR in February, 2007 by 50 bps.

Syndicate Bank hikes PLR by 75 bps (Apr 12-BS)

[Top](#)

Syndicate Bank hiked its PLR by 75 bps to 13 %

Comments:

The Bank last increased its PLR in February, 2007 by 50 bps.

Union Bank hikes PLR by 75 bps (Apr 12-BS)

[Top](#)

Union Bank hiked its PLR by 75 bps to 13.25 %

Comments:

The Bank last increased its PLR in February, 2007 by 50 bps.

IOB raises PLR by 75 bps (Apr 11-HBL)

[Top](#)

IOB hiked its PLR by 75 bps to 13.25 %

Comments:

The Bank last increased its PLR in February, 2007 by 50 bps.

Allahabad Bank hikes PLR by 75 bps (Apr 12-ET)

[Top](#)

Allahabad Bank hiked its PLR by 75 bps to 13.25 %

Comments:

The Bank last increased its PLR in February, 2007 by 50 bps.

Allahabad Bank raises deposit rates (Apr 4-BS)

[Top](#)

Allahabad Bank has raised deposit rates across all maturities by upto 175 bps.

Comments:

The bank had last raised deposit rates in January, 2007.

BOB aims at Rs 2450 bn- turnover; plans expansion abroad (Apr 1-HBL) [Top](#)

Bank of Baroda hopes to clock business turnover of Rs 2450 bn in FY08. The bank also plans to open 10 more offices abroad to take the total number to 70 from the existing 60. The bank is expanding abroad to tap the remittance-based opportunities.

PNB considering cut in exposure to personal loans (Apr 9-HBL) [Top](#)

PNB plans to cut exposure to personal loans, including home finance, to bridge the gap between higher credit off take and lower deposits.

PNB gets nod to operate UK arm (Apr 5-HBL) [Top](#)

PNB has received an in-principle approval from the UK's financial sector regulator to operationalise its subsidiary in London. The bank would now be required to infuse an initial capital of £25 mn in the subsidiary, after which a formal license would be given to start the subsidiary and open a branch.

Oriental bank ties up with Escorts (Apr 1-HBL) [Top](#)

Oriental Bank of Commerce has entered into a tie-up with Escorts for providing retail tractor finance to farmers. The bank will also offer credit facilities to authorized dealers of Escorts under a Channel Financing Arrangement.

Insurance

ICICI Prudential infuses Rs 2.45 bn capital (Apr 5-ET)

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ICICI Prudential Life Insurance has increased its capital by Rs 2.45 bn taking the total capital investment to Rs 20.6 bn. The two promoters, ICICI Bank and Prudential plc, contributed to the capital in their existing proportions of 74:26, respectively.

Comments:

The last capital infusion was in January, 2007 of Rs 2.3 bn

Bajaj Allianz gets Rs 1.3 bn capital infusion (Apr 1-ET)

[Top](#)

Bajaj Allianz has received a fresh capital infusion of Rs 1.3 bn, which has taken the total capital base to Rs 7 bn. The money will be used to fund its growth and expansion plans.

Comments:

The last capital infusion was in December, 2006 of Rs 0.7 bn

BOB to tie-up with UK firm for life insurance business (Mar 31-ET)

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Bank of Baroda will tie-up with UK-based insurance company Legal & General to undertake life insurance business in India.

Vijaya bank plans direct foray into insurance (Apr 7-HBL)

[Top](#)

Vijaya Bank proposes to enter into insurance business directly after it finalizes its exit from the three-way life insurance joint venture that it had entered into along with Principal Financial Group of the US and PNB.

Dena Bank plans to enter non-life insurance (Apr 2-HT)

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Dena Bank is planning a foray in the non-life insurance segment and a decision in this regard is likely to be taken at its board meeting scheduled this month.

Appendix 1

Valuations

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Table 1: Indian Financials - Valuation Summary

	Price (Rs)	Target Price (Rs)	Mcap \$ mil	Stock Rating	Earnings growth (%)			ROE (%)			P/E (x)		P/B (x)	
					2006	2007E	2008E	2006	2007E	2008E	2007E	2008E	2007E	2008E
SOE Banks														
BOB IN	219	171	1,858	UW	-2	0	26	12.3	10.2	11.8	9.7	7.7	0.95	0.87
CBK IN	190	214	1,821	N	21	6	16	20.3	18.6	18.8	5.5	4.7	0.96	0.83
PNB IN	442	427	3,253	UW	2	4	36	16.4	14.9	17.6	9.3	6.9	1.31	1.12
SBIN IN	968	1,010	11,888	OW	2	-23	15	17.0	11.8	12.2	15.0	13.0	1.68	1.52
SBI (Consol)	968		11,888								11.5	10.0	1.24	1.13
UNBK IN	102	100	1,203	UW	-15	39	12	16.5	19.0	18.5	5.5	4.9	0.98	0.84
ALBK IN	72	80	752	UW	10	15	11	19.9	19.9	19.1	4.1	3.9	0.77	0.67
BOI IN	173	110	1,971	UW	34	16	24	17.5	17.6	18.8	9.0	7.8	1.48	1.28
IOB IN	97	161	1,234	OW	32	15	14	28.8	26.6	24.8	5.1	4.4	1.32	1.07
SNDB IN	64	81	775	UW	38	4	39	23.9	21.0	24.4	4.2	3.9	0.96	0.81
Private Banks														
CBOP IN	37	31	1,262	OW	NM	38	72	11.2	12.4	18.2	42.6	24.8	4.96	4.14
HDFCB IN	958	980	6,979	N	25	29	29	17.7	19.6	21.3	26.6	20.6	4.82	4.03
HDFC IN	1,537	1,272	8,942	OW	20	19	21	29.3	29.4	29.6	26.0	21.5	7.02	5.79
ICICIBC IN	849	1100	17,622	OW	5	34	30	14.6	14.5	16.6	22.2	17.2	3.05	2.67
IDFC IN	92	69	2,406	N	17	20	21	18.5	18.4	19.1	20.7	17.7	3.61	3.20
YES IN	150	130	944	OW	NM	48	47	13.2	10.6	11.0	51.8	35.2	4.12	3.69
DEVB IN	69	80	239	OW	NM	NM	556%	NM	3.1	12.8	129.4	19.7	2.70	2.38
KBL IN	170	156	482	OW	20	13	20	16.9	16.8	17.6	10.4	8.7	1.64	1.43

Source: Bloomberg, JPMorgan

Prices as of April 12, 2007; annual data represents financial year ending March;

Macro Indicators

Table 2: Loan, Deposit growth

[Top](#)

As at 30-Mar-2007

Loan Growth (yoy)	28.5%
Deposit Growth (yoy)	24.3%
Incremental LDR	84.2%
LDR	74.1%

Source: RBI, JPMorgan

Note: YoY growth rates have been computed by taking 31 Mar 2006 as the base date

Table 3: Interest Rates

[Top](#)

Yields	12-Apr-07	1m Chg	3M Chg	12M chg
3m T Bill	7.13	(0.15)	0.16	1.34
10 year g sec	8.05	0.07	0.54	0.49
1 year AAA corp	10.21	0.08	1.04	2.87

Source: Bloomberg

Company Events

Table 4: 4Q07 Results & Misc.

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Date	Events
24-Apr	RBI monetary policy review, Yes Bank results
28-Apr	ICICI Bank results
30-Apr	Canara Bank results
3-May	HDFC results
7-May	Union Bank results

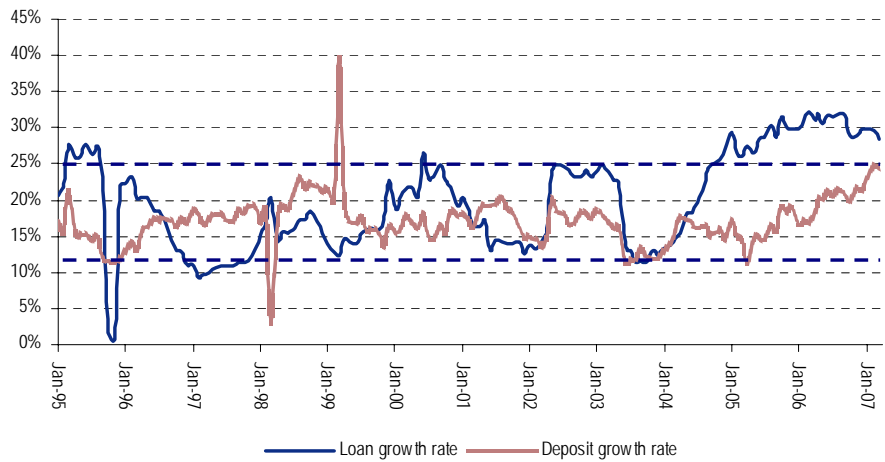
Source: Companies

Figure 3: 10 yr bond yields



Source: Bloomberg

Figure 4: System loan and deposit growth

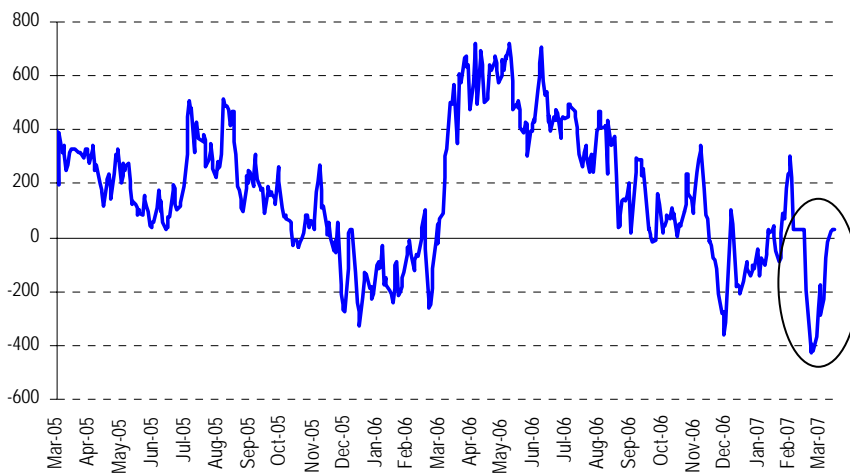


Source: Reserve Bank of India, JPMorgan

Liquidity Metrics

Figure 5: Net Reverse Repo Amount Outstanding

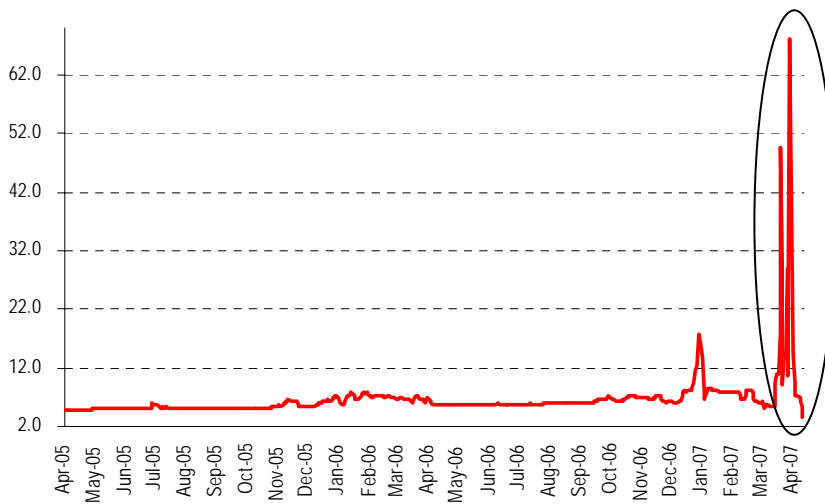
Rs bn:



Source: Bloomberg

Figure 6: Interbank Rate

%



Source: Bloomberg

Glossary of terms

BS: Business Standard

DC: Deccan Chronicle

ET: Economic Times

FE: Financial Express

HBL: Hindu Business Line

DH: Deccan Herald

HT: Hindustan Times

TOI: Times of India

IE: Indian Express

RBI: Reserve Bank of India

FM: Finance Minister

MoF: Ministry of Finance

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