

# Indian Financial Services

On Bank Street -Vol 79

- **\*\*\*FLASH\*\*\*** Inflation at 6.09% - higher than 5.8% expected.
- All eyes now on RBI meet scheduled for 24 April – ECB flows could potentially be capped at a lower level. Other than that no major action expected.
- Stock movement: SOE index up 8.7% - outperforming the market vs. private banks moving in line, up 3.9%. Star stock performer – Syndicate Bank, up 17%.
- UTI Bank reports 39.6% growth in profits in 4Q07 results.
- Fortis plans broking foray.
- SBI sees credit growth slowing down to 25 % in FY08.
- Canara Bank hikes PLR 75bp.

## Banks

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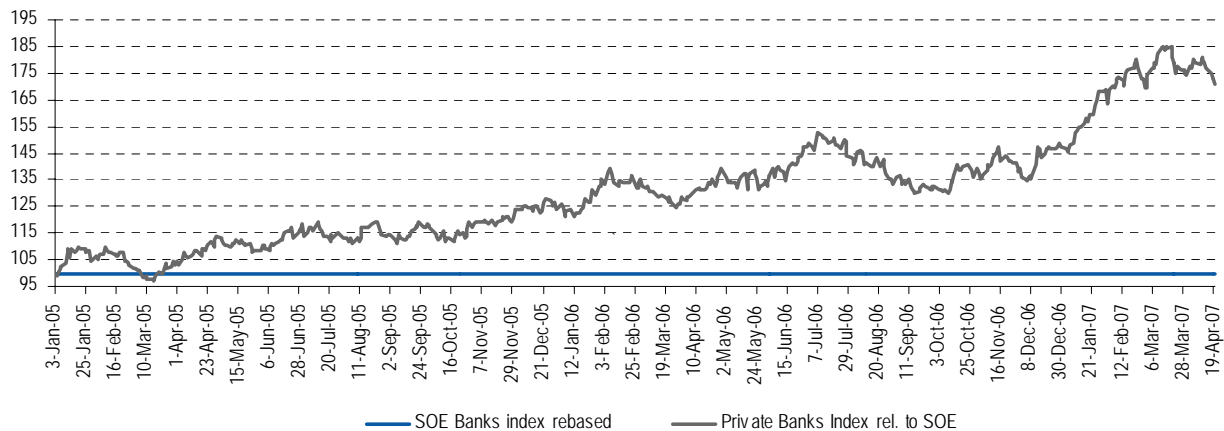
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Figure 1: Private Banks Index relative to SOE since January 2005



Source: Bloomberg, JPMorgan

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## Stock Price Performance

	19-Apr	Chg
BOB	232	6.1%
CBK	204	7.3%
PNB	482	8.9%
SBI	1053	8.8%
UNBK	105	3.2%
ALBK	76	5.3%
BOI	187	8.1%
IOB	104	7.2%
SNDB	74	16.8%
CBOP	38	3.0%
HDFC	1564	1.8%
HDFC Bank	983	2.6%
ICICI Bank	905	6.5%
IDFC	96	5.0%
YES	151	0.9%
DEVB	71	1.8%
KBL	165	-3.4%
Sensex	13,620	3.9%
SOE Bank Index		8.7%
Pvt Bank Index		3.9%

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

## ADR/GDR (USD)

	19-Apr	Chg	Prem
HDFCB	69.45	2.4%	-0.9%
ICICIB	42.36	7.2%	-1.5%
SBI	66.20	6.4%	32.2%
UTI B	11.10	-2.6%	0.6%

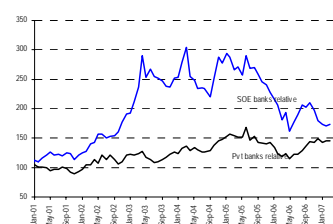
Source: Bloomberg, JPMorgan estimates;  
Change in prices is weekly.

## Others

	19-Apr	Chg
10 year yield	8.08-	0.03
Rs/US\$	42.08	(0.77)
Brent (US\$/bbl)*	65.63	(2.91)
Inflation	6.09	0.35

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 20 April 2007.

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## Sector news

### ***No interest on CRR balances (Apr 15-HBL)***

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RBI will not pay interest rate on CRR balances of banks, effective March 31, 2007. With this move, banks will not earn any income on the deposits impounded by the RBI under the CRR.

### ***FM asks banks to moderate credit growth, hold interest rates for home loans upto Rs 1 mn (Apr 20-ET)***

[Top](#)

Finance Minister asked SOE banks to temper credit growth as well as rebalance their portfolios. He also cautioned against mobilizing bulk deposits at high costs and asked the banks to keep interest rates low for home loans up to Rs 1mn

### ***Minority loans to get priority lending status (Apr 20-BS)***

[Top](#)

Loans extended to minority communities would soon qualify for priority sector lending. The finance ministry has asked the RBI to amend the priority sector norms to include minority communities under lending to weaker sections

### ***RBI may cut rates on NRI deposits (Apr 17-BS)***

[Top](#)

Deposit schemes for NRIs could become unattractive as part of attempts to check foreign exchange inflows. RBI may reduce the rate of interest that banks offer on NRI deposits to discourage foreign exchange inflows, in addition to proposals being considered by the government to put curbs on ECBs

### ***RBI may clamp down on ECBs for real estate (Apr 18-BS)***

[Top](#)

RBI is seriously considering the option of clamping down on overseas financing for real estate in a bid to contain inflation. The clampdown will be part of a package from the central bank to make end-use norms for ECB funds more stringent for various sectors

### ***SEBI caps Mutual funds' exposure to short-term bank deposits at 15 % (Apr 17-BS)***

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SEBI has capped mutual funds' exposure to short-term bank deposits at 15 % in order to ensure that the money they have collected are deployed in line with investment objectives. This, however, may be increased to 20 % provided the trustees give prior approval.

### ***RBI urged to raise home loan limit (Apr 19-BS)***

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Commercial banks have urged the RBI to raise the cap on individual home loans for the purpose of classification under priority sector lending in the backdrop of the overall rise in property prices. The banks want the central bank to raise the ceiling to Rs 20 mn from Rs 15 mn for classification under priority sector.

### ***Banks for right to prepay deposits (Apr 19-BS)***

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Banks have requested the RBI to allow them to prepay high-cost deposits, to avoid liquidity and interest rate risks. At present, banks do not have the freedom to prepay deposits that carry higher interest rates, even though depositors have the option of withdrawing their deposits.

***Banks must raise Rs 455 bn from capital markets to comply with Basel II requirements as per RBI study (Apr 19-HBL)*** [Top](#)

Leading public and private sector banks would have to increase their Tier-I capital by about Rs 512 bn within March 31, 2009, including raising Rs 455 bn from the capital market to meet the Basel-II requirements on minimum capital adequacy of 9%. The Reserve Bank of India has conveyed this to the Government after conducting a simulation study of 50 public and private sector banks.

***Banks can break lockers not used for over a year (Apr 17-FE)*** [Top](#)

RBI issued fresh guidelines permitting banks to break open lockers that were unoperated for more than one year. These guidelines are aimed at tackling rising security threats. RBI also asked banks not to insist on fixed deposits beyond the permitted limit for issuing lockers. The banks, however, may obtain a fixed deposit at the time of the allotment of locker to cover three years' rent and charges for breaking open the locker in case of an eventuality.

## Private Banks

### ***UTI Bank reports 39.6% growth in profits (Apr 18-ET)***

[Top](#)

UTI Bank reported a 39.6% yoy growth in its net profit at Rs 2.12 bn for 4Q07. The bank's net interest income grew by 48.4% yoy to Rs 4.64 bn. The fee-based and other income for 4Q07 rose by 59% yoy to Rs 2.58 bn. The bank opened 80 new branches during this quarter.

### ***UTI Bank to raise Rs 20 bn fresh capital (Apr 18-ET)***

[Top](#)

UTI Bank has decided to go in for a fresh equity issue in the current financial year. The bank is looking at raising around Rs 20 bn either through a domestic issue or global depository receipts in order to spruce up its tier-I capital base

### ***LIC may get government's nod for UTI Bank stake (Apr 16-FE)***

[Top](#)

LIC may get the government's nod to buy out the 27.44 % stake that the Specified Undertaking of the Unit Trust of India holds in UTI Bank, to take its stake to 37.82 %. The acquisition will give the country's largest insurance company an entry into the banking sector. At present, LIC holds 10.38% stake in UTI bank.

### ***ICICI identity for Sangli Bank (Apr 19-HBL)***

[Top](#)

All branches of Sangli Bank will function as branches of ICICI Bank from April 19 with the RBI sanctioning the scheme of amalgamation of Sangli Bank with ICICI Bank.

### ***Indiabulls to revamp its businesses (Apr 17-TOI)***

[Top](#)

Indiabulls Financial Services has decided to restructure its businesses. The revamp include de-merging its stock broking businesses and buying out minority shareholders in its personal loans and housing finance arms.

### ***Citicorp sells stake in Yes Bank (Apr 17-TOI)***

[Top](#)

Citicorp International Finance Corporation sold 7.94 mn shares of Yes Bank, bringing down its stake in the bank from 5.37 % to 2.53 %. The shares were sold at a price of Rs 156 to Merrill Lynch Capital.

### ***Bank of Rajasthan hikes PLR (Apr 18-HBL)***

[Top](#)

Bank of Rajasthan hiked its PLR by 50 bps to 14.5 %.

### ***Fortis plans broking foray (Apr 19-BS)***

[Top](#)

European banking and insurance major Fortis is planning to foray into wealth management and equity broking business in India to tap the growing rich and super rich individuals of one of the fastest growing economies in the world.

### ***DE Shaw, Och Ziff plan NBFC foray here (Apr 18-ET)***

[Top](#)

US-based global hedge funds DE Shaw and Och Ziff are learnt to be considering setting up NBFC in India, after the final guidelines for setting up NBFCs by foreign companies are announced.

## SOE Banks

### ***SBI sees credit growth slowing down to 25 %***

[Top](#)

SBI expects its advances growth to slow down to 25% this fiscal as against the 28 % growth in FY07. The chairman of SBI also expects that interest rates have peaked or are near peak. He also felt home loan rates would not go up any further.

### ***Canara bank hikes PLR (Apr 17-BS)***

[Top](#)

Canara Bank has hiked its PLR by 75 bps to 13.25 %

### **Comments:**

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

### ***IOB gets RBI nod for financial services arm (Apr 18-HBL)***

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IOB has secured RBI's approval for starting a financial services subsidiary. IOB would invest Rs 500 mn in IOB Financial Services Ltd, the company that will be set up to provide services such as stock broking, depository participant, wealth management, distribution of third-party financial products and, at a later stage, investment banking.

### ***Merger of Associates with SBI not in near future (Apr 18-HBL)***

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The Ministry of Finance has ruled out any immediate plans for a merger of four associate banks of the SBI with the parent bank. The unlisted associate banks are State Bank of Hyderabad, State Bank of Indore, State Bank of Patiala and State Bank of Saurashtra, while those listed on the stock exchanges are State Bank of Bikaner & Jaipur, State Bank of Travancore and State Bank of Mysore.

### ***State Bank of Travancore hikes PLR to 13 % (Apr 16-HBL)***

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State Bank of Travancore has hiked its PLR from 12.5% to 13 %.

### ***PNB offers floating rate deposits (Apr 19-HBL)***

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PNB launched the PNB Floating Rate Fixed Deposit Scheme, where the interest payable on the fixed deposit would automatically change with the changes in the fixed-deposit card rates made available by the bank from time to time. The scheme would be valid in Core Banking Solution branches only.

### ***PNB ties up with Motilal Oswal (Apr 18-FE)***

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PNB has forged a tie-up with Motilal Oswal Securities to provide online trading facility for its customers. PNB customers will now be able to trade in equity and derivatives online using Oswal's online trading platform.

## Insurance

### ***Left against move to raise FDI limit in insurance (Apr 20-ET)***

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Group of Ministers failed to convince the Left parties on the need for raising FDI limit in insurance sector to 49 % and discussions on a Bill toward this end would be held again later.

### ***Life claims cannot be denied on false data (Apr 18-ET)***

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It may soon become illegal for a life insurance company to refuse to honour a claim on the ground that the policyholder had misstated facts while buying the policy. Insurance firms will be given five years to verify the details in a proposal form and repudiate a policy in case there is any false information provided.

### ***SBI Life to tap rural banks (Apr 19-ET)***

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SBI Life is planning to tap co-operative banks and RRBs to spruce up sales of its insurance products.

### ***Bharti AXA Life launches its first traditional product (Apr 19-HBL)***

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Bharti AXA Life has announced the unveiling of its first traditional endowment product called SaveConfident.



## 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
<b>SOE Banks</b>														
BOB IN	232	171	2,006	UW	-2	0	26	12.3	10.2	11.8	10.2	8.2	1.00	0.92
CBK IN	204	214	1,990	N	21	6	16	20.3	18.6	18.8	5.9	5.1	1.03	0.89
PNB IN	482	427	3,609	UW	2	4	36	16.4	14.9	17.6	10.2	7.5	1.43	1.22
SBIN IN	1,053	1,010	13,173	OW	2	-23	15	17.0	11.8	12.2	16.3	14.2	1.83	1.65
SBI (Consol)	1,053		13,173								12.5	10.9	1.35	1.23
UNBK IN	105	100	1,264	UW	-15	39	12	16.5	19.0	18.5	5.7	5.1	1.01	0.87
ALBK IN	76	80	806	UW	10	15	11	19.9	19.9	19.1	4.4	4.1	0.81	0.71
BOI IN	187	110	2,169	UW	34	16	24	17.5	17.6	18.8	9.7	8.4	1.59	1.39
IOB IN	104	161	1,347	OW	32	15	14	28.8	26.6	24.8	5.5	4.8	1.42	1.15
SNDB IN	74	81	922	UW	38	4	39	23.9	21.0	24.4	4.9	4.6	1.12	0.95
<b>Private Banks</b>														
CBOP IN	38	31	1,324	OW	NM	38	72	11.2	12.4	18.2	43.9	25.6	5.11	4.26
HDFCB IN	983	980	7,289	N	25	29	29	17.7	19.6	21.3	27.3	21.2	4.94	4.13
HDFC IN	1,564	1,272	9,267	OW	20	19	21	29.3	29.4	29.6	26.5	21.9	7.15	5.89
ICICIBC IN	905	1100	19,119	OW	5	34	30	14.6	14.5	16.6	23.7	18.3	3.25	2.84
IDFC IN	96	69	2,573	N	17	20	21	18.5	18.4	19.1	21.8	18.6	3.79	3.36
YES IN	151	130	970	OW	NM	48	47	13.2	10.6	11.0	52.3	35.5	4.16	3.72
DEVB IN	71	80	248	OW	NM	NM	556%	NM	3.1	12.8	131.7	20.1	2.75	2.42
KBL IN	165	156	474	OW	20	13	20	16.9	16.8	17.6	10.0	8.4	1.58	1.38

Source: Bloomberg, JPMorgan

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

### Macro Indicators

Table 2: Loan, deposit growth

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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	19-Apr-07	1m Chg	3M Chg	12M chg
3m T Bill	7.20	(0.05)	0.09	1.82
10 year g sec	8.08	0.02	0.25	0.75
1 year AAA corp	10.32	(0.16)	1.62	3.24

Source: Bloomberg

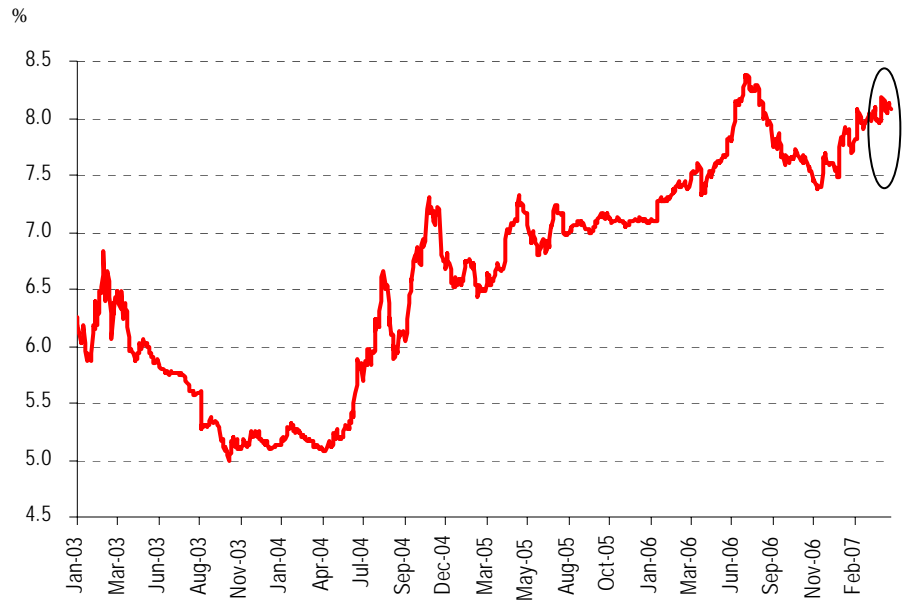
### Company Events

Table 4: 4Q07 results & misc.

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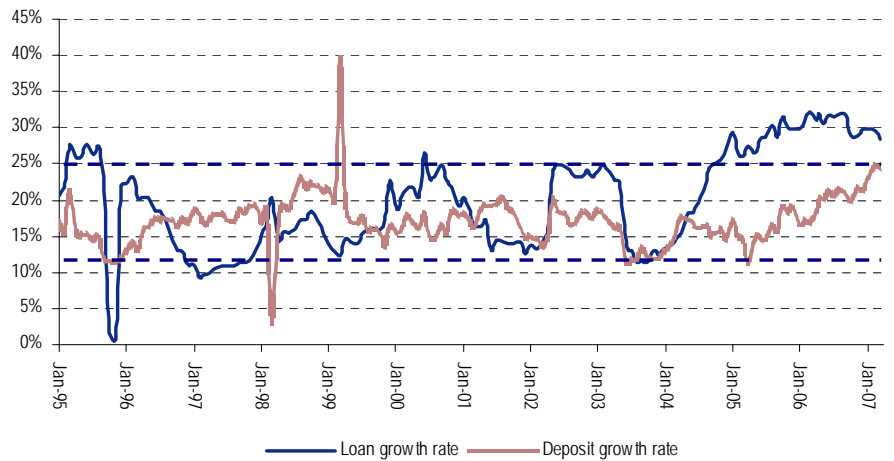
Date	Events
23-Apr	BOI, IOB results
24-Apr	RBI monetary policy review, HDFC Bank, Yes Bank results
25-Apr	IDFC results
28-Apr	ICICI Bank results, BOB results
30-Apr	Canara Bank results
3-May	HDFC results
7-May	Union Bank results
12-May	SBI results

Figure 3: 10-year bond yields



Source: Bloomberg

Figure 4: System loan and deposit growth

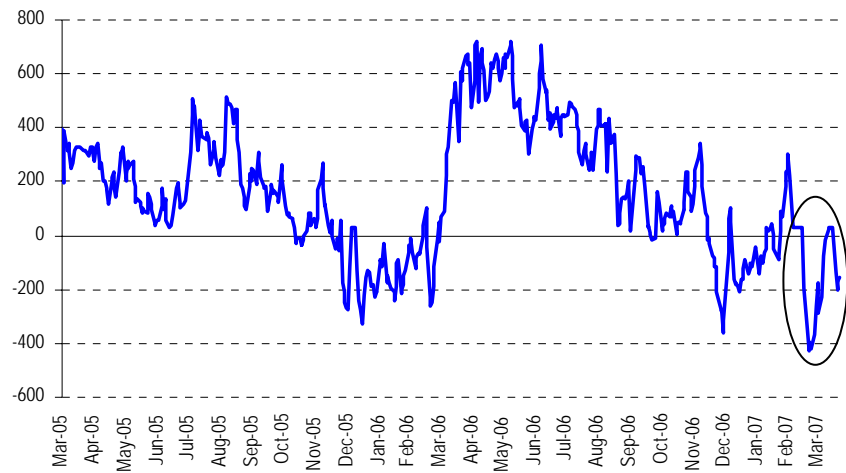


Source: Reserve Bank of India, JPMorgan

## Liquidity metrics

Figure 5: Net reverse repo amount outstanding

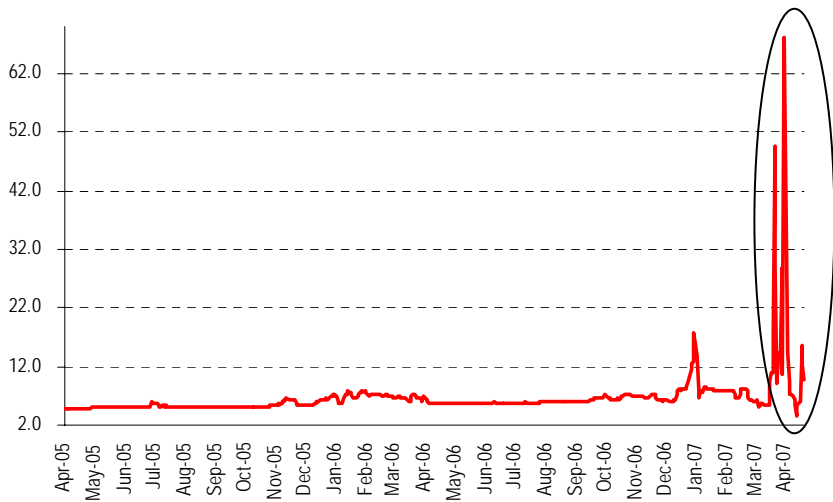
Rs in billions



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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