

Indian Banks

Adapting well to changed realities!!



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Indian Banks OUTPERFORM through the credit crisis

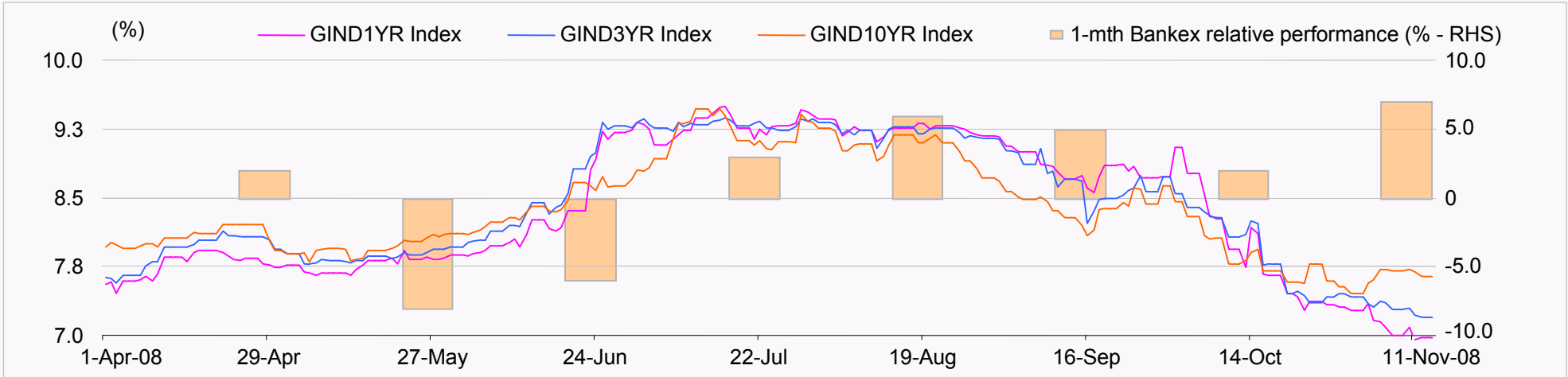
Banks beaten down...but still outperform relative to Sensex

Stock performance	Price	Absolute performance (%)					Relative performance (%)							
	21-Nov	1month	3month	6month	12month	24month	1month	3month	6month	12month	24mth	36 mth	48 mth	60 mth
PSU Banks														
Allahabad Bank	47	(15.1)	(25.6)	(35.2)	(57.0)	(49.5)	1.8	24.7	8.9	(10.2)	(22.8)	(43.6)	(45.1)	22.4
Andhra Bank	49	(9.5)	(16.1)	(29.2)	(49.2)	(45.8)	8.4	40.6	19.0	6.0	(17.2)	(48.3)	(46.7)	(36.8)
Bank of Baroda	268	(13.3)	1.6	(1.2)	(25.0)	4.4	3.9	70.3	66.2	56.5	59.4	10.6	(0.4)	(12.7)
Bank of India	262	(9.3)	(10.7)	9.8	(24.9)	37.6	8.7	49.6	84.7	56.7	110.2	126.0	143.0	162.2
Canara Bank	162	(11.1)	(13.6)	(22.1)	(39.5)	(45.4)	6.5	44.8	31.1	26.3	(16.6)	(23.5)	(32.5)	(23.8)
Corporation Bank	187	(21.2)	(33.6)	(22.3)	(57.8)	(53.7)	(5.5)	11.2	30.7	(11.9)	(29.3)	(46.2)	(58.1)	(56.2)
IDBI	62	(15.2)	(20.8)	(26.9)	(59.9)	(20.4)	1.6	32.7	23.0	(16.4)	21.5	(39.1)	(50.7)	(33.2)
Indian Bank	122	(9.7)	8.7	(23.7)	(22.8)	-	8.2	82.2	28.4	61.1	-	-	-	-
Punjab National Bank	451	(10.0)	13.9	(2.4)	(18.5)	(16.4)	7.8	90.9	64.2	70.0	27.7	0.5	(6.1)	43.7
State Bank of India	1,184	(20.4)	(23.3)	(26.2)	(45.1)	(4.1)	(4.7)	28.5	24.2	14.6	46.5	28.2	55.2	43.0
Syndicate Bank	51	(17.4)	(11.1)	(28.1)	(46.2)	(37.2)	(1.0)	48.9	20.9	12.2	(4.1)	(39.0)	(17.3)	(4.4)
Union Bank of India	144	(4.2)	7.4	7.1	(19.3)	8.1	14.7	80.0	80.1	68.3	65.1	20.6	10.2	89.6
Private Banks														
Axis Bank	412	(37.3)	(46.1)	(44.9)	(56.2)	(17.9)	(24.9)	(9.7)	(7.4)	(8.6)	25.4	62.3	78.7	192.1
HDFC Bank	856	(21.4)	(28.9)	(32.6)	(45.9)	(21.5)	(5.8)	19.2	13.4	12.9	19.9	21.6	19.3	53.4
ICICI Bank	334	(22.5)	(54.8)	(56.4)	(69.7)	(61.7)	(7.1)	(24.2)	(26.7)	(36.8)	(41.4)	(38.3)	(31.4)	(22.9)
ING Vysya	118	(34.6)	(50.3)	(57.3)	(62.8)	(30.1)	(21.7)	(16.7)	(28.1)	(22.5)	6.8	(30.8)	(32.4)	(61.6)
Yes Bank	59	(26.5)	(57.7)	(56.9)	(74.3)	(50.0)	(11.9)	(29.1)	(27.4)	(46.5)	(23.6)	(15.5)	-	-
NBFCs														
HDFC	1,396	(29.3)	(41.3)	(36.9)	(46.3)	(15.0)	(15.3)	(1.5)	6.1	12.0	29.8	26.1	30.5	44.2
Reliance Capital	442	(35.5)	(67.3)	(59.9)	(79.6)	(22.5)	(22.8)	(45.1)	(32.5)	(57.4)	18.3	(0.1)	114.8	174.4
Shriram Transport	195	(11.4)	(30.9)	(38.7)	(35.6)	57.4	6.2	15.8	3.2	34.5	140.4	100.0	340.9	460.4
Sensex	8,915	(16.6)	(40.3)	(40.5)	(52.1)	(34.5)								

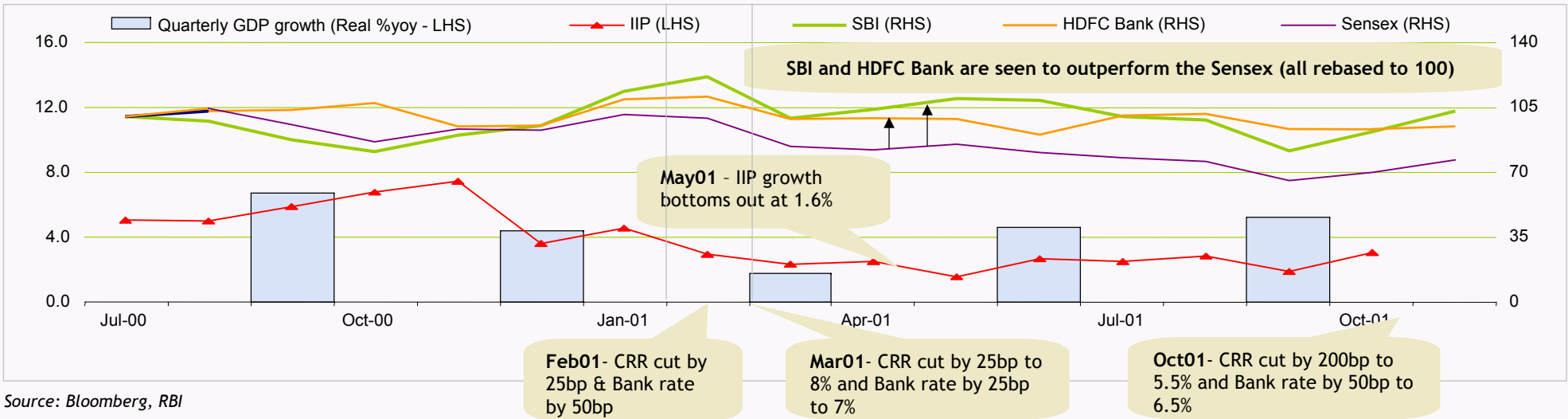
- Indian Financials corrected by 20-60% on the back of challenging macro-economic environment over the last 6 months
- During the past 6-12 months, banks (specifically PSUs) outperformed the Sensex on the back of expectations of benign interest rates, **THUS RETRIEVING THEIR 24-36 month under-performance**

Indian Banks: riding the yield curve...

Banks outperform when bond yields on a downtrend



... as exhibited in the last cycle



Source: Bloomberg, RBI

...buoyed by strong earnings growth

Company	Net Interest Income (Rs m)			Operating Profit (Rs m)			PAT (Rs m)		
	Sept 2008	Sept 2007	% yoy change	Sept 2008	Sept 2007	% yoy change	Sept 2008	Sept 2007	% yoy change
PSU Banks									
Allahabad Bank	4,935	4,147	19.0	3,142	2,996	4.9	417	2,398	(82.6)
Andhra Bank	4,335	3,244	33.6	2,784	2,322	19.9	1,615	1,512	6.8
Bank of Baroda	11,338	9,814	15.5	8,456	6,372	32.7	3,953	3,272	20.8
Bank of India	13,631	9,858	38.3	12,147	8,398	44.6	7,629	4,253	79.4
Canara Bank	11,490	7,869	46.0	7,735	6,503	18.9	5,294	4,016	31.8
Corporation Bank	4,067	3,546	14.7	3,515	2,945	19.3	1,915	1,614	18.7
Dena Bank	2,543	2,067	23.0	1,492	1,608	-7.2	1,028	922	11.6
IDBI	2,290	1,496	53.1	2,845	3,518	-19.1	1,625	1,555	4.5
Indian Bank	6,818	4,712	44.7	5,328	3,434	55.1	2,829	2,476	14.3
Punjab National Bank	17,122	12,915	32.6	13,678	8,550	60.0	7,071	5,385	31.3
State Bank of India	54,554	37,629	45.0	41,932	27,132	54.5	22,597	16,114	40.2
Syndicate Bank	7,475	4,891	52.8	4,578	3,260	40.4	2,619	2,276	15.1
Union Bank of India	9,753	6,564	48.6	6,997	5,285	32.4	3,615	2,760	31.0
Private Banks									
Axis Bank	9,135	5,887	55.2	8,744	4,629	88.9	4,029	2,278	76.9
ICICI Bank	21,476	17,860	20.2	22,849	18,872	21.1	10,142	10,027	1.2
HDFC Bank	18,665	11,627	60.5	11,229	8,267	35.8	5,280	3,685	43.3
ING Vysya Bank	1,566	1,091	43.5	916	625	46.6	470	320	47.0
Yes Bank	1,226	817	50.0	1,095	674	62.4	636	453	40.5
NBFCs									
HDFC	7,953	6,284	26.6	7,760	5,947	30.5	5,343	4,034	32.4
Mahindra & Mahindra Finance	1,964	1,791	9.7	1,244	1,154	7.8	352	377	(6.6)
Shri Ram Transport	4,363	2,724	60.2	3,060	2,009	52.3	1,656	923	79.4

- ❑ Banks reported a ~27% yoy growth in net profit in Q2FY09, driven by a 39% NII yoy growth for our banking universe
- ❑ The robust NII growth in turn was a function of: (i) significant improvement loan spreads (on the back of PLR hikes), and (ii) strong credit expansion of 31% yoy
- ❑ Operating profit rose by ~38%, also buoyed by strong fee income growth
- ❑ However, higher NPA provisions moderated bottom-line growth

Strong loan growth continues - banks only lenders left...

Loan growth continues unabated

Loan growth (yoy %)	Q4FY08	Q1FY09	Q2FY09
PSU Banks			
Allahabad Bank	20.4	26.0	23.4
Andhra Bank	24.3	23.0	19.5
Bank of Baroda	27.6	42.1	32.4
Bank of India	32.3	38.8	35.0
Canara Bank	8.9	16.1	25.1
Corporation Bank	30.8	28.3	33.3
Dena Bank	27.7	26.5	25.0
IDBI	31.6	30.7	39.7
Indian Bank	37.1	45.7	47.4
ING Vysya Bank	22.3	22.2	26.3
PNB	23.7	19.6	28.5
State Bank of India	25.2	32.3	37.1
Syndicate Bank	23.4	23.5	29.9
Union Bank of India	19.2	19.0	26.2
Private Banks			
Axis Bank	61.8	48.1	54.0
HDFC Bank - standalone	35.1	79.8	64.1
HDFC Bank - proforma consolidated	36.6	47.2	34.0
ICICI Bank	15.2	13.0	7.2
Yes Bank	49.9	45.3	53.2
NBFCs			
HDFC	29.2	31.0	30.9
MMFS	13.3	8.9	12.1
Shri Ram Transport	80.3	62.7	51.8
All Banks	24.7	29.5	31.1
Private Banks	25.1	30.3	25.8
PSU Banks	24.5	29.2	32.7
NBFCs	33.9	33.4	32.4

- ❑ Credit growth continued unabated at ~31% yoy in Q2FY09, well above RBI's FY09 target of 20%
- ❑ Banks emerged to be the only lenders in the wake of other sources of funding drying up:
 - ↓ External commercial borrowings
 - ↓ Export credit
 - ↓ Mutual funds

...resulting in significant PRICING POWER

Outsized expansion in loan spreads

Loan spreads (%)	Q2FY08	Q1FY09	Q2FY09	yoy change (bps)	qoq change (bps)
PSU Banks					
Allahabad Bank	3.9	3.5	3.6	(26.5)	16.5
Andhra Bank	4.2	4.0	4.8	57.2	80.5
Bank of Baroda	4.1	3.2	3.5	(55.0)	27.7
Bank of India	4.3	3.5	3.9	(43.1)	36.0
Canara Bank	3.1	3.3	3.8	68.1	48.5
Corporation Bank	3.7	3.4	3.4	(23.8)	7.5
Dena Bank	5.1	4.0	4.2	(92.1)	27.1
IDBI	0.3	1.1	1.6	122.3	47.8
Indian Bank	4.5	4.0	5.2	68.5	119.4
PNB	4.6	4.3	5.3	76.8	104.2
State Bank of India	3.8	3.5	3.9	9.9	33.9
Syndicate Bank	3.9	3.4	4.4	51.6	102.7
Union Bank of India	3.5	3.8	4.5	101.4	70.6
Private Banks					
Axis Bank	3.9	4.0	4.4	46.9	41.9
ICICI Bank	3.7	3.0	2.8	(89.1)	(17.7)
HDFC Bank - standalone	6.0	6.9	6.2	20.7	(73.4)
HDFC Bank - proforma consolidated	5.9	6.3	6.2	27.0	(5.6)
ING Vysya Bank	3.5	4.4	4.2	66.5	(22.7)
Yes Bank	2.5	4.0	3.4	88.3	(57.9)
NBFCs					
HDFC	11.1	11.1	11.9	79.3	81.9
MMFS	16.6	16.4	17.4	83.6	101.2
Shri Ram Transport	19.6	19.1	19.4	(14.8)	27.1

- ❑ In Q2FY09, loan spreads expanded by 25-80bp qoq for most banks on the back of PLR hike of 100-150bp effected since the beginning of the fiscal
- ❑ Lagged re-pricing of deposits added to the benefit

Fee income growth remains buoyant

Non trading income (Rs m)	Q2FY08	Q1FY09	Q2FY09	yoy growth (%)	qoq growth (%)
PSU Banks					
Allahabad Bank	1,198	849	1,236	3	46
Andhra Bank	1,232	1,197	1,434	16	20
Bank of Baroda	3,278	4,236	3,837	17	(9)
Bank of India	4,034	4,984	6,315	57	27
Canara Bank	3,709	4,155	3,352	(10)	(19)
Corporation Bank	1,427	1,531	1,507	6	(2)
Dena Bank	838	772	921	10	19
IDBI	973	1,625	1,941	100	19
Indian Bank	1,755	2,193	2,097	20	(4)
PNB	3,618	4,432	5,905	63	33
State Bank of India	15,990	21,810	21,816	36	-
Syndicate Bank	1,388	1,185	1,696	22	43
Union Bank of India	2,273	2,137	3,213	41	50
Private Bank					
Axis Bank	3,277	4,835	6,268	91	30
HDFC Bank - standalone	4,768	6,710	6,392	34	(5)
HDFC Bank - proforma consolidated	6,268	6,710	6,392	2	(5)
ICICI Bank	17,420	21,322	20,303	17	(5)
ING Vysya Bank	966	1,264	1,191	23	(6)
Yes Bank	651	NA	NA	NA	NA
NBFCs					
HDFC	96	102	154	60	51
MMFS	55	48	33	(40)	(30)
All Banks	68,793	86,174	90,340	31	5
Private Banks	27,082	35,070	35,072	30	-
PSU Banks	41,711	51,104	55,268	33	8

- ❑ On the back of strong credit growth, fee income increased by ~31% yoy for banks under our coverage, as **BANKS CHARGED MASSIVE FEES FOR NON FUNDED EXPOSURES...**however capital market volatility limited the growth in overall other income

Asset quality continues to improve...thus far

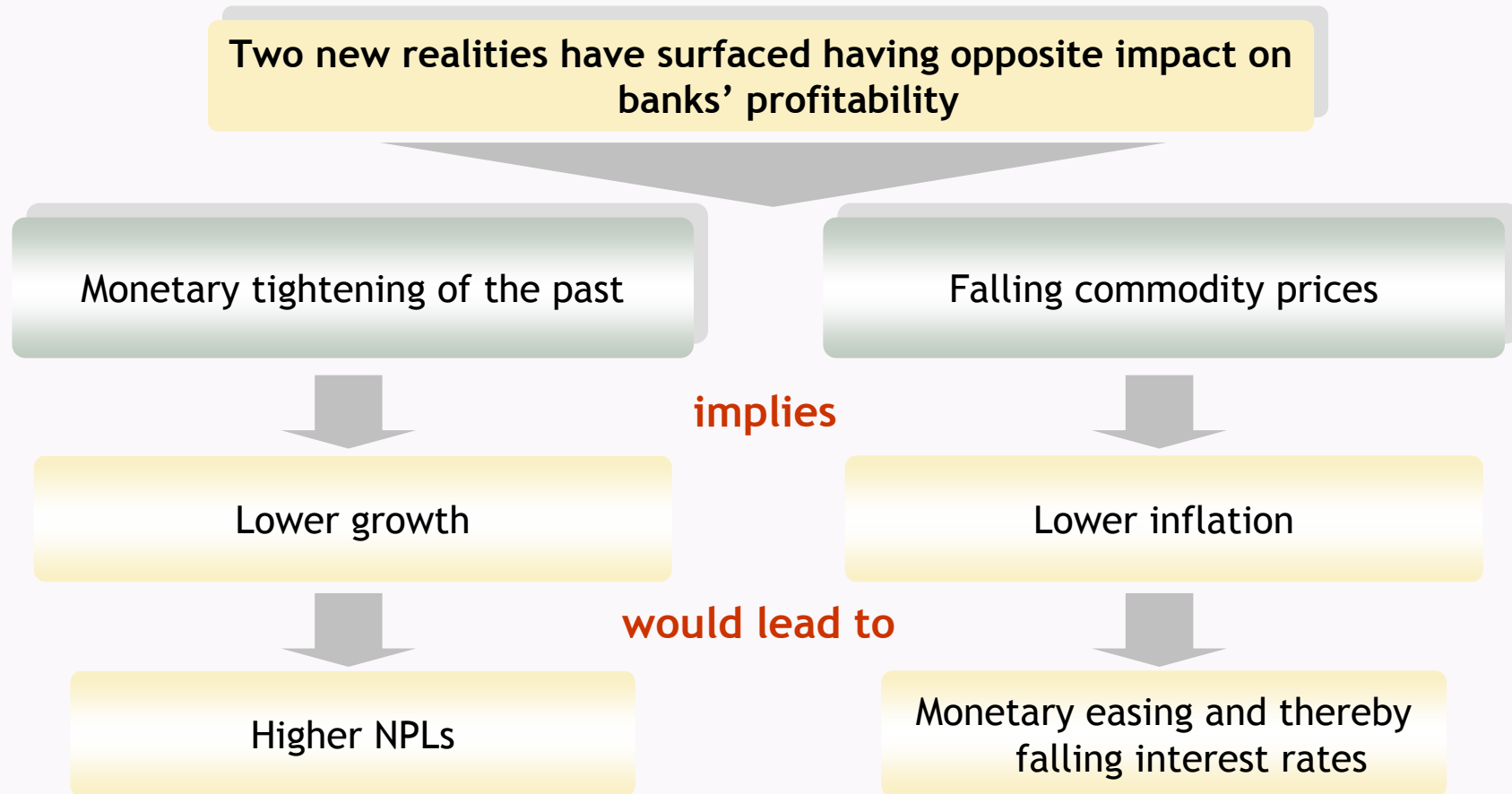
Gross NPAs on a downtrend

Gross NPA (%)	Q2FY08	Q3FY08	Q4FY08	Q1FY09	Q2FY09	yoy change (bps)	qoq change (bps)
PSU Banks							
Allahabad Bank	2.43	2.09	2.03	1.87	1.93	(50)	10
Andhra Bank	1.35	1.35	1.08	1.15	1.03	(30)	(10)
Bank of Baroda	2.36	2.14	1.86	1.88	1.64	(70)	(20)
Bank of India	2.07	1.9	1.68	1.64	1.53	(50)	(10)
Canara Bank	1.66	1.55	1.32	1.32	1.32	(30)	-
Corporation Bank	1.89	1.74	1.49	1.48	1.38	(50)	(10)
Dena Bank	3.58	3.09	2.45	2.47	2.32	(130)	(10)
IDBI	2.13	2.31	1.9	2.02	1.9	(20)	(10)
Indian Bank	1.58	1.41	1.22	0.95	0.98	(60)	(3)
PNB	4.65	4.19	2.78	2.85	2.4	(230)	(50)
State Bank of India	2.92	2.69	3.04	2.54	2.51	(40)	(3)
Syndicate Bank	3.07	2.86	2.71	2.84	2.55	(50)	(30)
Union Bank of India	2.42	2.1	2.18	2.08	1.93	(50)	(10)
Private Banks							
Axis Bank	1.09	0.92	0.83	1.04	1.03	(10)	(1)
HDFC Bank - standalone	1.23	1.21	1.43	1.55	1.64	40	10
HDFC Bank - proforma consolidated	1.01	1	1.14	1.55	1.64	60	10
ICICI Bank	3.23	3.36	3.36	3.8	4.28	110	50
ING Vysya Bank	2.09	1.83	1.39	1.58	1.45	(60)	(10)
Yes Bank	0	0	0.11	0.21	0.19	20	(3)
NBFCs							
HDFC	1.19	1.14	0.85	1.11	1.05	(10)	(10)
MMFS	8.74	9.65	8.39	10.99	10.52	180	(50)
Shri Ram Transport	0	0	0	0	1.74	170	170
All banks	2.61	2.44	2.34	2.26	2.22	(40)	(4)
Private banks	2.46	2.46	2.47	2.68	2.89	40	20
PSU banks	2.66	2.44	2.3	2.14	2.03	(60)	(10)

- Gross NPAs of most PSU banks continued to improve, coming down by ~60bp yoy and ~10bp qoq in Q2FY09
- However, private banks (specifically ICICI Bank and HDFC Bank) experienced a rise in Gross NPAs, given their larger exposure to retail loans

Indian Banks: Road ahead

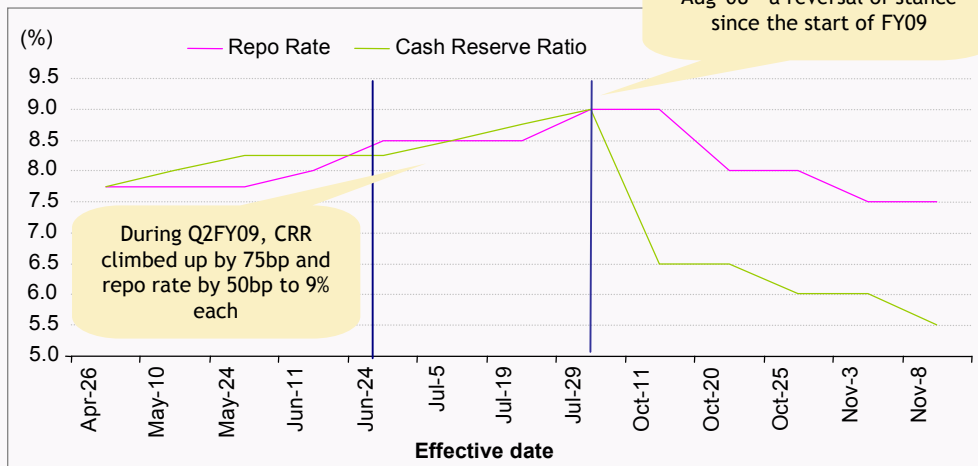
Dual forces at play



We believe the impact of monetary easing would overwhelm the rise in provisioning costs, given the significant ~ 30% EXPOSURE TO LONG DATED G-SECS which will massively appreciate in value

Monetary easing - change in stance...some respite

Monetary tightening through Q2FY09...

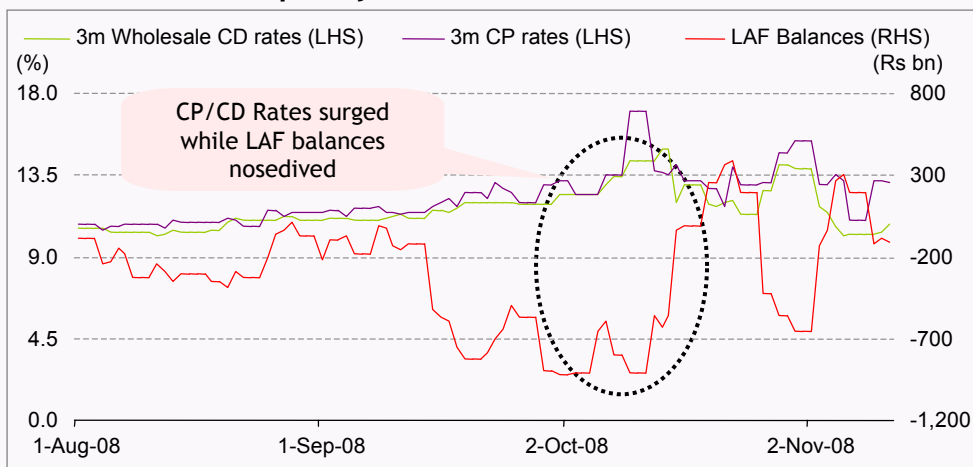


Source: RBI

...impelling RBI to change its stance

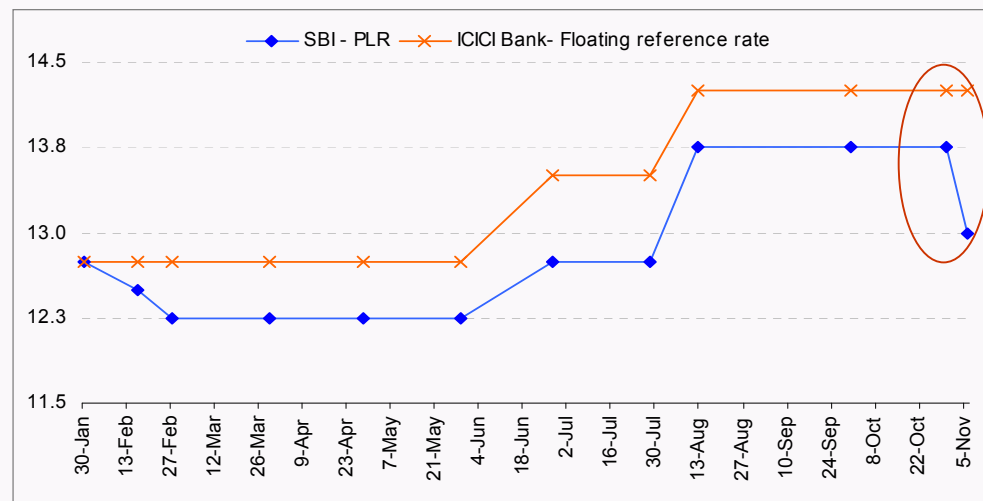
- On the back of worsening global financial crisis, RBI unleashed a slew of monetary easing measures, easing CRR by 350bp to 5.5% and repo rate by 250bp to 7.5% over Oct-early Nov
- Subsequently, PSU banks cut PLR rates by 50-75bp to 13-13.25%. Deposit rates are slated to reduce by 50bp from 1st week of December
- Private banks to reduce PLR rates, once cost pressures begin to abate

...led to severe liquidity crunch...



Source: Bloomberg

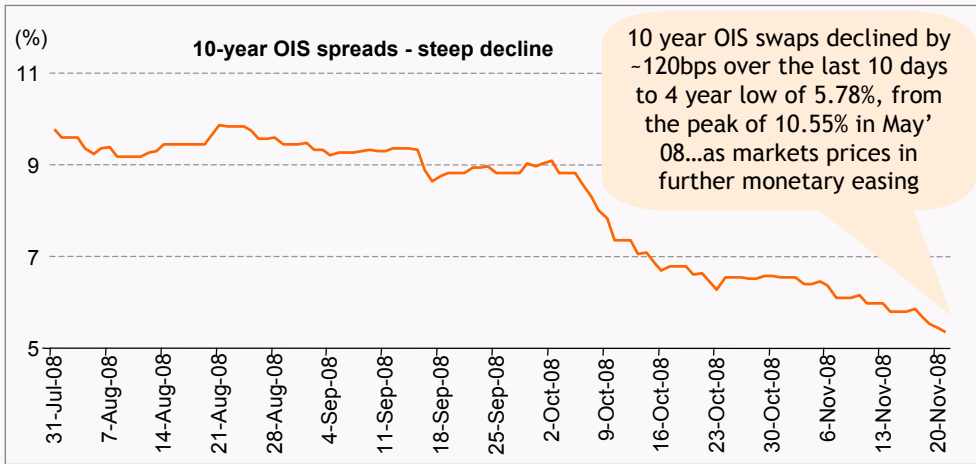
Subsequently PSUs cut lending rates... deposit rates to follow



Source: Companies

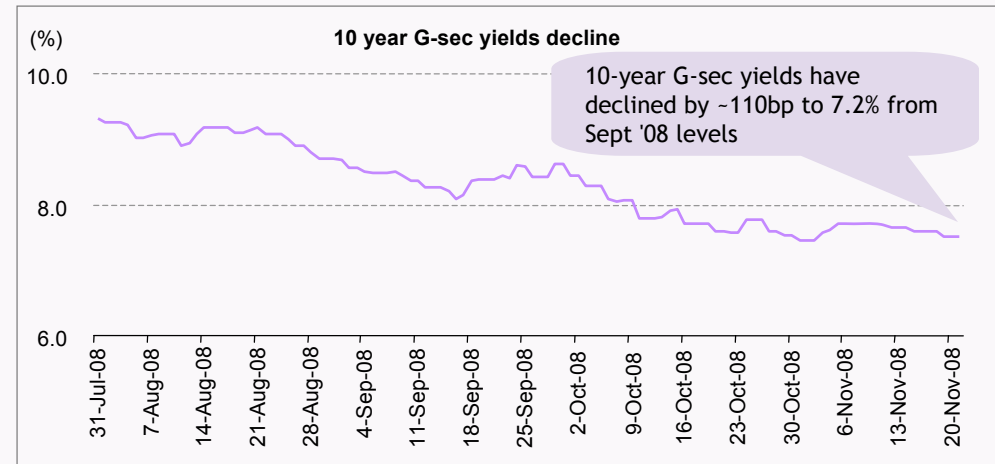
...more monetary easing expected

Interest rates to ease- reflected in declining OIS spreads...



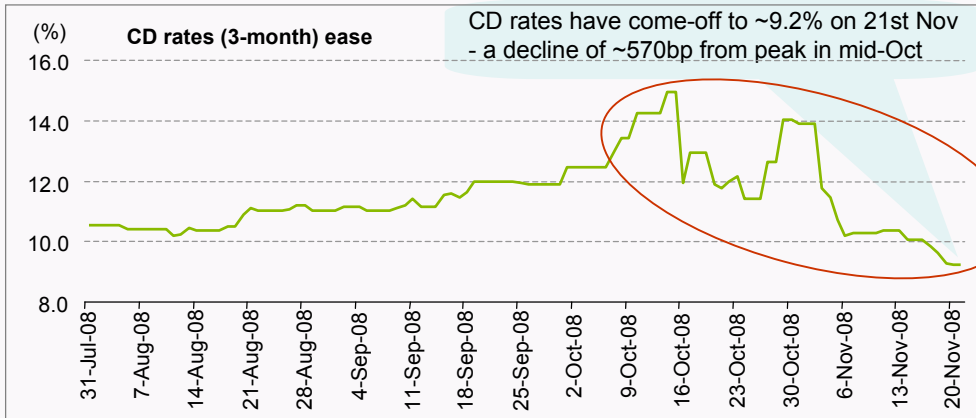
Source: Bloomberg

...as also 10-year G-sec yields



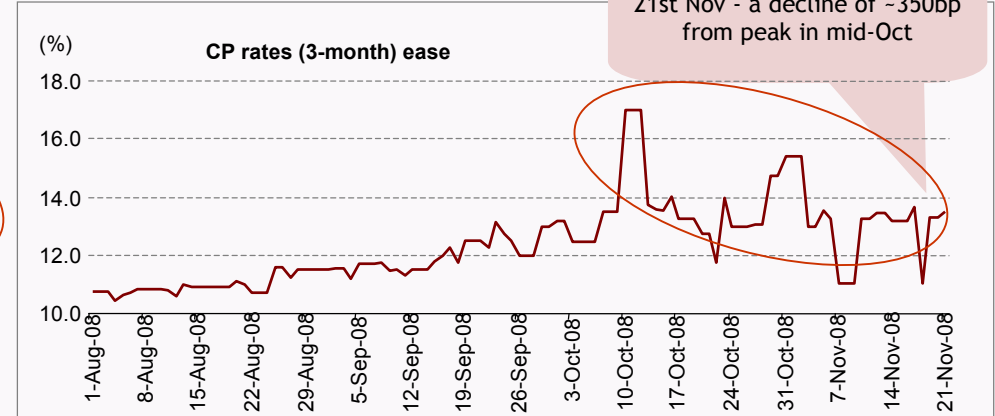
Source: Bloomberg

Pressure on bulk borrowing costs reduces...as CD rates ease...



Source: Bloomberg

...as well as CP rates

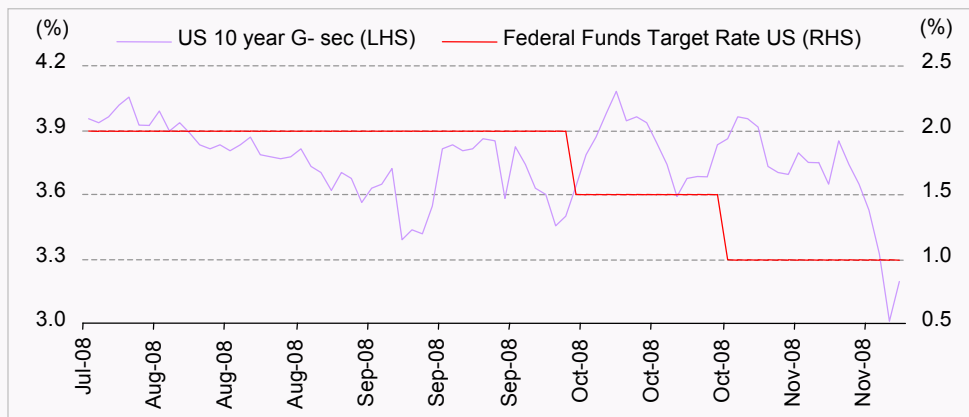


Source: Bloomberg

Markets pricing in more monetary easing...lower interest rates

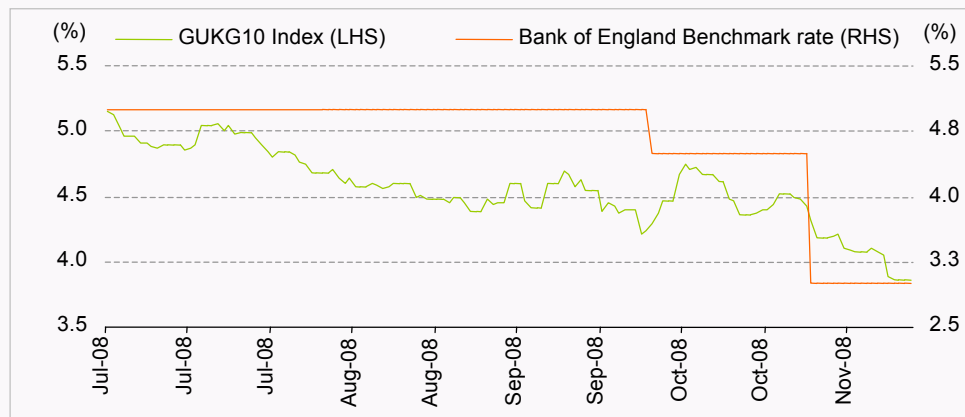
G-Secs - the only asset class in a bull run world over

United States



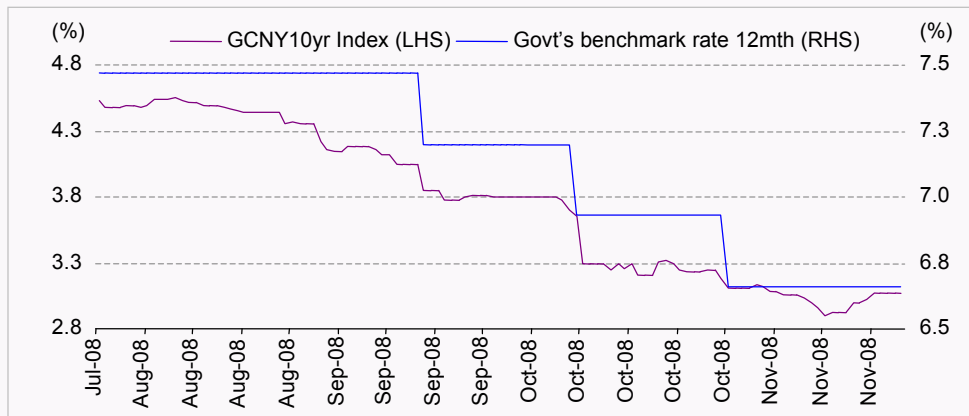
Source: Bloomberg

United Kingdom



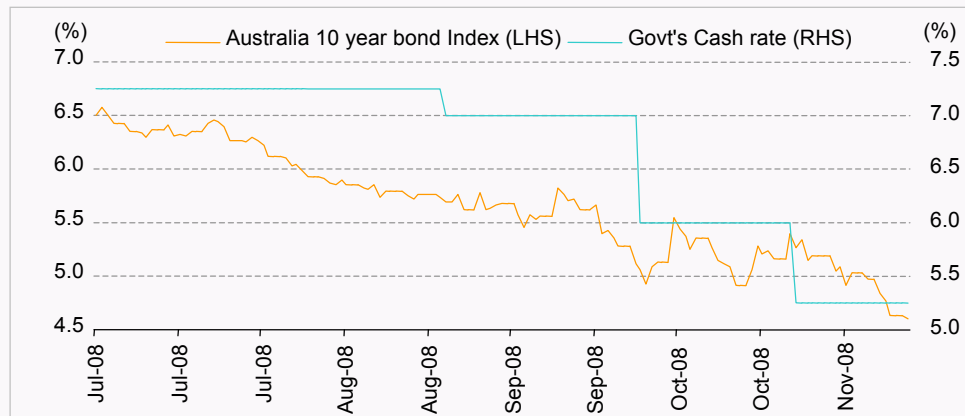
Source: Bloomberg

China



Source: Bloomberg

Australia



Source: Bloomberg

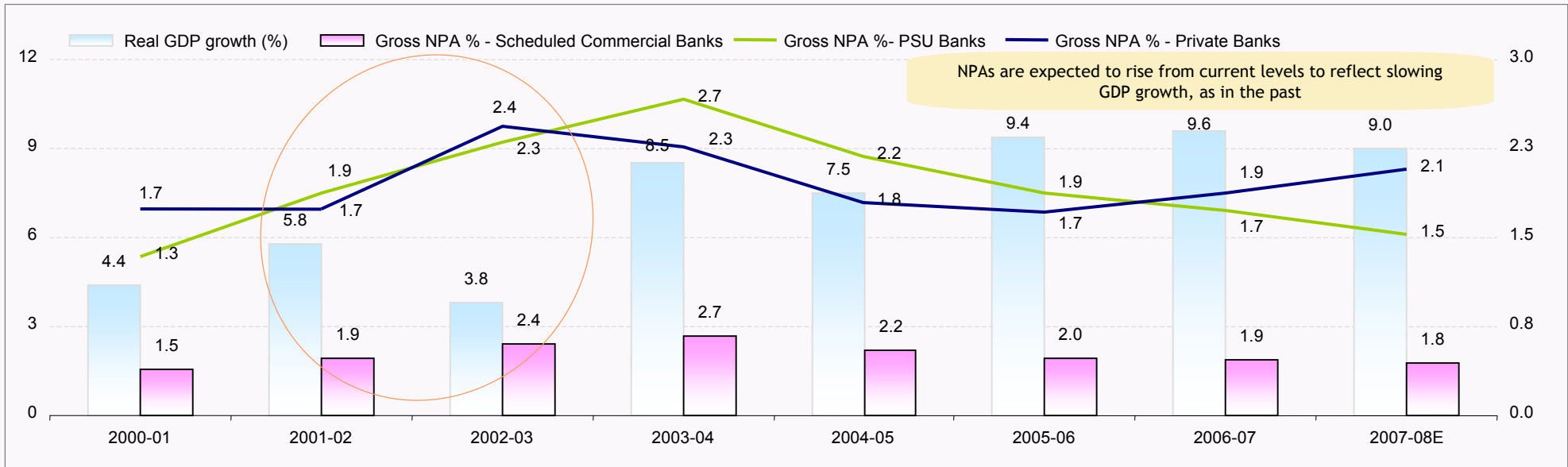
- Yields have declined by 60-80bp across the globe in Nov'08...catalyzed by monetary easing
- Indian Banks have 28-30% of their balance sheets in G-secs, which is due to appreciate

Turn in NPL cycle inevitable - hiccup or crisis?

Why we believe the NPL cycle is due to turn?

- ❑ **Elevated interest rates:** As in the past, periods of high interest rates lead to rise in NPLs, albeit with a lag
- ❑ **IIP slowing down:** IIP has slowed to 4.9% yoy for the Apr-Sep 2008 as against 9.5% in the same period in the last fiscal, on the back of slump in capital goods as capex slowdown hits the economy.

Gross NPAs* are due to rise...in line with slowing GDP



Source: RBI, IDFC-SSKI Research; * are reported as a % of Total Assets

Where is the pressure mounting????

This time - Where is the pressure mounting?...

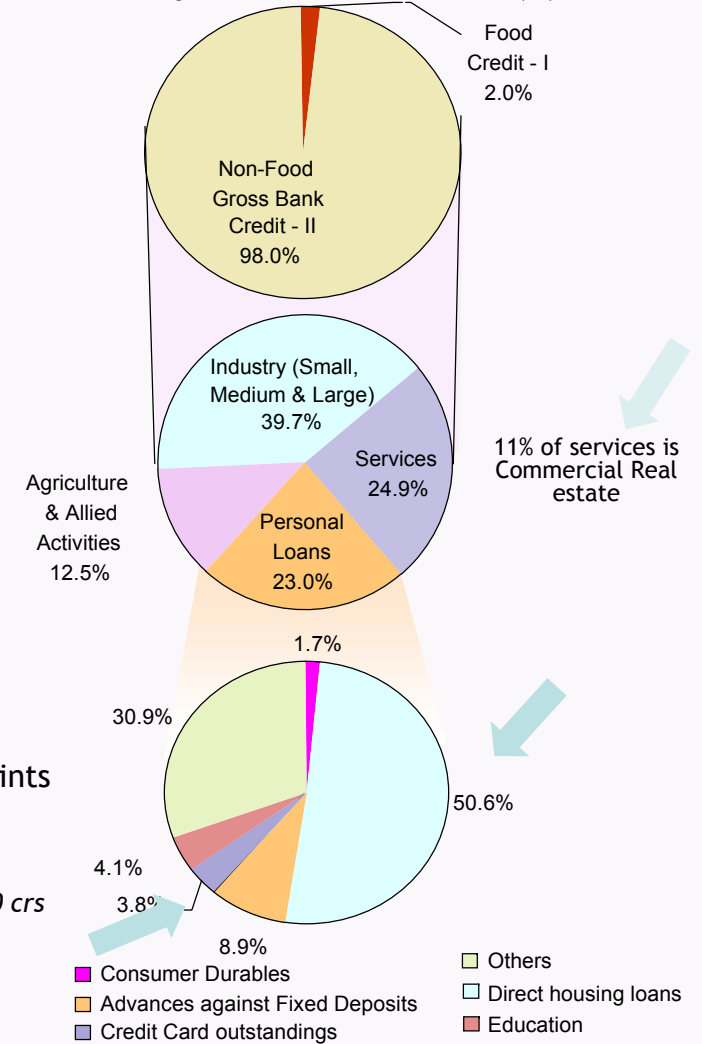
Industry (Rs crores)	2008	% of total
Coal	10,616	1.2
Mining	-	-
Iron and steel	80,790	9.3
Other metals and metal products	23,929	2.7
All engineering	52,442	6.0
of which: Electronics	16,024	1.8
Electricity	-	0.0
Cotton textiles	47,337	5.4
Jute textiles	1,055	0.1
Other textiles	42,862	4.9
Sugar	16,726	1.9
Tea	2,334	0.3
Food processing	50,221	5.8
Vegetable oils (including vanaspati)	7,191	0.8
Tobacco and tobacco products	5,641	0.6
Paper and paper products	13,622	1.6
Rubber and rubber products	10,410	1.2
Chemicals, dyes, paints etc.	64,391	7.4
of which :		0.0
i) Fertilisers	9,251	1.1
ii) Petro-chemicals	9,516	1.1
iii) Drugs and Pharmaceuticals	23,286	2.7
Cement	14,210	1.6
Leather and leather products	5,750	0.7
Gems and jewellery	24,995	2.9
Construction	28,298	3.2
Petroleum	41,738	4.8
Automobiles including trucks	29,152	3.3
Computer software	8,163	0.9
Infrastructure	202,296	23.2
Ships acquired from abroad under new scheme	-	0.0
Other industries	87,731	10.1
Total	871,900	100

Pressure points

Pressure points

Note: Gross bank credit (FY08) - ~Rs Rs22,47,000 crs

Break up of Gross bank credit (%)



Pressure is building on ~10% of total Gross Bank Credit

Stress in ~10% of Gross Bank Credit

Exposure at risk (2008)

Rs crores	Total exposure	Exposure to large companies	Exposure to large companies (% assumed)	Exposure at risk	Exposure at risk (% of total bank credit)
Industry credit (Small, medium, large)					
Metals (Ferrous + non-ferrous)	104,719	52,360	50	52,360	2.3
Cotton Textiles	47,337	14,201	30	33,136	1.5
Chemicals (excluding fertilizers, petro-chemicals, drugs)	22,338	2,234	10	20,104	0.9
Gems and jewellery	24,995	3,749	15	21,246	0.9
Sugar	16,726	2,509	15	14,217	0.6
Total	216,115	75,053		141,063	6.3
Real-estate (included in services)	62,276	31,138	50	62,276	2.8
Credit cards (included in personal loans)	19,259	0	NA	19,259	0.9
Total exposure at risk				222,598	9.9

Source: RBI, IDFC-SSKI Research

Stress points in commercial real estate, credit cards, and industry segments such as metals, chemicals, gems & jewellery and sugar

Restructuring likely: Banks are likely to resort to restructuring as the first option, more effective in segments such as commercial real estate, where NPLs are possible as a result of mismatches between tenor of debt and en-cashing of key collateral i.e. land

Nonetheless, we are factoring a rise in NPLs for banks to rise to 5-6% by FY10 from current levels of ~2%

Why is it different this time????

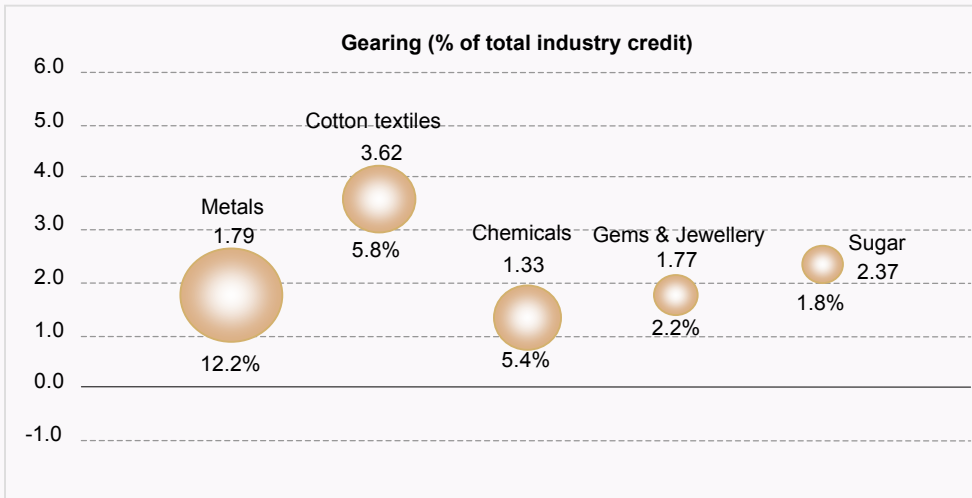
1997 - one of the worst NPL cycles

- ❑ Provisioning requirements - less stringent
 - NPL recognition: **180 days past due**
 - No standard asset and general provisioning mandated

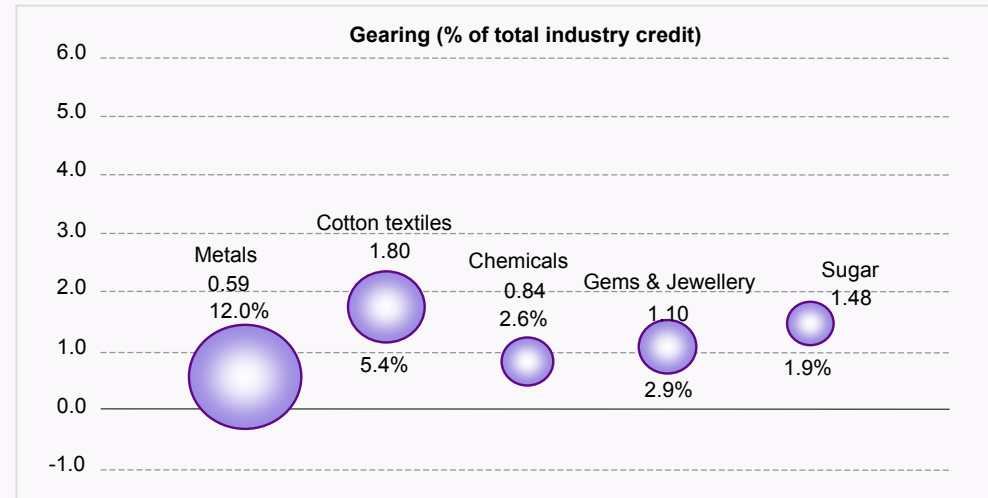
2009 - pressure mounts amidst global financial crisis

- ❑ Provisioning requirements - cushion built
 - NPL recognition: **90 days past due**
 - General provisioning requirement: 1%
 - Standard asset provisions:
 - 0.4% of incremental credit
 - 2% of real estate sector, credit card receivables, capital market exposure, personal loans
 - 2% of non-deposit taking systemically important NBFCs (recently reduced to 0.4%)

Gearing levels - relatively higher



Gearing levels - relatively lower



Source: RBI, CMIE, Capitaline; Note: Size of the bubble denotes the % of total industry credit to the respective sector

Factored in higher provisions

A spike in Gross NPAs factored...to account for building stress!!

	NPA Provisions (Rs mn)				Gross NPAs				CAGR over FY08-10	
	FY08	FY09E	FY10E	yoy rise in FY10 (%)	Sept '08	FY09E	FY10E	rise over current levels (%)	Pre-provisioning profits	PAT
Allahabad Bank	2,686	1,901	3,512	84.8	1.93	2.50	3.17	64.2	(5.5)	(11.8)
Andhra Bank	987	1,136	1,358	19.6	1.03	1.30	1.50	45.6	5.4	6.0
Axis Bank	3,440	3,755	7,178	91.2	0.91	1.55	2.90	218.7	33.9	31.8
Bank of Baroda	4,360	4,456	10,732	140.9	1.62	1.87	2.60	60.5	18.0	16.9
Bank of India	6,972	7,706	14,484	87.9	1.53	2.14	3.04	98.7	27.3	25.8
Canara Bank	8,750	6,167	10,245	66.1	1.31	2.60	5.40	312.2	9.3	9.6
Corporation Bank	1,230	2,121	3,216	51.6	1.36	1.78	2.40	76.5	16.5	10.8
Dena Bank	2,640	2,559	3,015	17.8	2.32	3.50	5.00	115.5	10.5	8.0
HDFC Bank	12,160	6,880	9,903	43.9	1.57	3.30	5.60	256.7	29.8	31.5
ICICI Bank	25,420	34,250	49,802	45.4	4.18	6.20	11.00	163.2	20.2	6.4
IDBI	1,340	2,100	3,525	67.9	1.87	2.20	3.50	87.2	(1.8)	(1.3)
Indian Bank	3,496	2,051	4,378	113.5	0.98	1.50	2.30	134.7	17.3	12.9
ING Vysya Bank	360	1,147	1,703	48.4	1.44	2.60	4.00	177.8	39.9	28.2
PNB	10,264	9,377	15,951	70.1	2.37	3.04	4.10	73.0	20.6	16.3
State Bank of India	20,009	26,912	51,864	92.7	2.51	3.70	6.10	143.0	24.9	15.0

Source: Company, IDFC-SSKI Research

- We have conservatively built in a **130%** rise in Gross NPAs in FY10 over H1FY09 levels for banking universe
- **Gross NPAs** for our coverage are estimated to touch **5 - 6%** by **FY10**, with Gross NPAs of **~11%** in FY10 for ICICI Bank built in

We DON'T believe that the NPLs rise will be so acute..but have built in higher provisions into our numbers to highlight strength of pre provisioning profits

What is in store FOR BANK EARNINGS ?

Tight liquidity + softening economic growth = moderation in loan growth

H2FY09 margins to decline by 15-25bps =
(+ve) CRR cut + (+ve) lower deposit costs + (-ve) PLR cut

Elevated interest rates + slower GDP growth = Asset quality stress for banks

Cost ratios improve = No wage hike arrears + Limited technology spending

PSU Banks

- Lower treasury gains (relative to FY08) imply lower non-interest income as % of net revenues

Private Banks

- Lower loan growth as incremental lending to retail curtailed
- Fee income to remain robust as franchise strengthens and market share increases

Loan growth to moderate

Loan growth (yoy %)	FY05	FY06	FY07	FY08	FY09E	FY10E	FY08-10 CAGR
PSU Banks							
Allahabad Bank	38	38	42	20	18	17	18
Andhra Bank	36	26	26	23	19	19	19
Bank of Baroda	22	38	40	28	29	22	26
Bank of India	21	17	30	34	27	22	25
Canara Bank	27	31	24	9	19	17	18
Corporation Bank	34	29	25	31	23	20	22
Dena Bank	20	26	29	26	22	18	20
IDBI	38	16	19	32	27	16	21
Indian Bank	30	22	30	37	28	22	25
PNB	28	24	29	24	25	20	22
State Bank of India	28	29	29	24	23	21	22
Syndicate Bank	29	36	42	24	18	18	18
Union Bank of India	36	33	17	19	23	20	21
Private Banks							
Axis Bank	67	43	65	62	38	34	36
HDFC Bank	70	42	36	38	30	30	30
ICICI Bank	47	60	34	15	2	5	4
ING Vysya Bank	31	13	17	22	25	25	25
Yes Bank		216	161	50	40	35	37
All banks	33	33	31	25	22	19	21
PSUs	29	28	29	24	24	20	22
Private Banks	53	52	38	26	15	18	17
Private Banks ex ICICI Bank	63	40	46	45	33	31	32

- ❑ With softening GDP growth, advances growth for PSU banks is expected to exhibit a declining trend
- ❑ While loan growth for private banks is currently running at above industry average, going forward the growth is likely to stabilize at lower levels (given curtailed lending to retail segments).
- ❑ ICICI Bank is likely to adopt a low growth posture in the wake of increasing asset quality pressure

Margins - a mixed bag

NIMs (%)	FY05	FY06	FY07	FY08	FY09E	FY10E	Change over FY08-10 (bps)
PSU Banks							
Allahabad Bank	3.42	3.14	2.85	2.36	2.20	2.04	(32)
Andhra Bank	3.58	3.19	3.21	2.73	2.53	2.34	(39)
Bank of Baroda	3.10	3.05	2.79	2.42	2.23	2.17	(26)
Bank of India	2.28	2.54	2.71	2.64	2.65	2.49	(15)
Canara Bank	3.00	2.94	2.69	2.04	2.22	2.17	12
Corporation Bank	3.39	3.03	2.81	2.42	2.18	2.03	(39)
Dena Bank	2.99	2.86	2.95	2.55	2.22	2.14	(41)
IDBI	0.52	0.63	0.73	0.60	0.56	0.62	2
Indian Bank	3.29	3.30	3.43	3.14	3.36	3.25	11
PNB	3.35	3.25	3.39	3.06	2.93	2.84	(23)
State Bank of India	3.25	2.93	2.84	2.64	2.66	2.60	(5)
Syndicate Bank	3.41	3.32	2.86	2.11	2.04	1.85	(26)
Union Bank of India	3.31	3.07	3.03	2.85	2.70	2.60	(26)
Private Banks							
Axis Bank	2.36	2.46	2.39	2.83	2.96	2.97	14
HDFC Bank	3.09	3.73	4.08	4.47	4.40	4.43	(4)
ICICI Bank	2.14	2.11	1.89	1.96	2.19	2.47	50
ING Vysya Bank	2.29	2.71	2.47	2.22	2.42	2.57	34
Yes Bank		3.24	2.24	2.40	2.62	2.60	20
NBFCs							
HDFC	2.61	2.93	2.97	3.61	3.67	3.49	(12)
Shri Ram Transport	11.36	9.19	7.72	7.85	8.66	9.20	135
All banks	2.87	2.86	2.74	2.53	2.50	2.45	(7)
PSUs	2.99	2.87	2.79	2.43	2.34	2.24	(19)
Private Banks	2.47	2.85	2.62	2.78	2.92	3.01	23

Calculated on average balances

- ❑ In H2FY09 margins for PSU banks are likely to decline by 15-25bps, with the benefit of lower CRR being more than offset by lower lending rates
- ❑ Over medium term, margins of private banks expected to improve as against a decline for PSU banks, as they increasingly focus on accumulation of low cost deposits

Provisioning costs to remain elevated

NPA Provisions/ average loans (%)	FY05	FY06	FY07	FY08	FY09E	FY10E	Change over FY08-10 (bps)
PSU Banks							
Allahabad Bank	0.22	0.31	0.26	0.59	0.35	0.55	(4)
Andhra Bank	0.08	0.20	0.15	0.32	0.30	0.30	(1)
Bank of Baroda	1.15	0.70	0.14	0.46	0.36	0.70	24
Bank of India	0.69	0.89	0.74	0.70	0.60	0.91	20
Canara Bank	1.49	0.91	0.51	0.85	0.52	0.74	(11)
Corporation Bank	0.72	0.88	0.69	0.36	0.49	0.61	25
Dena Bank	2.66	1.86	1.25	1.28	1.00	0.99	(29)
IDBI	(0.10)	0.43	0.24	0.19	0.23	0.31	13
Indian Bank	1.22	0.48	0.37	1.02	0.45	0.77	(24)
PNB	0.31	0.47	-	0.95	0.70	0.97	2
State Bank of India	0.67	0.06	0.48	0.53	0.58	0.92	39
Syndicate Bank	0.56	0.92	0.76	0.60	0.50	0.60	0
Union Bank of India	0.62	0.33	0.57	0.86	0.63	0.69	(17)
Private Banks							
Axis Bank	0.02	0.67	0.25	0.71	0.53	0.75	3
HDFC Bank	0.74	1.31	1.70	1.76	0.74	0.82	(93)
ICICI Bank	0.17	0.38	0.84	1.21	1.50	2.10	89
ING Vysya Bank	0.66	0.55	0.63	0.27	0.70	0.82	55
Yes Bank	-	-	-	0.03	0.74	0.77	73
All banks	0.64	0.49	0.54	0.76	0.66	0.92	16
PSUs	0.71	0.47	0.44	0.63	0.53	0.78	15
Private Banks	0.30	0.60	0.91	1.19	1.12	1.43	24

- ❑ In the wake of slowing economic growth we expect stress on asset quality to increase and have built in higher NPA provisions, though partly offset by lower MTM provisions
- ❑ Given the higher exposure of private banks to retail loans, we expect asset quality pressures to persist

Non-trading income to moderate...

Fee Income as % of avg assets	FY05	FY06	FY07	FY08	FY09E	FY10E	Change over FY08-10 (bps)
PSU Banks							
Allahabad Bank	0.42	0.68	0.49	0.51	0.53	0.50	(2)
Andhra Bank	1.23	0.87	0.89	0.89	0.90	0.86	(3)
Bank of Baroda	0.86	0.84	0.96	0.94	0.90	0.83	(11)
Bank of India	1.08	1.03	1.07	1.09	1.21	1.23	14
Canara Bank	0.99	1.04	0.92	1.08	0.94	0.88	(20)
Corporation Bank	1.16	1.17	1.10	0.95	0.90	0.86	(9)
Dena Bank	0.84	1.10	1.21	0.92	0.92	0.86	(6)
IDBI	0.37	0.60	0.76	0.46	0.48	0.52	5
Indian Bank	0.92	1.16	1.49	1.30	1.24	1.18	(12)
PNB	1.16	0.75	0.88	0.86	0.90	0.83	(3)
State Bank of India	1.20	0.80	1.17	1.09	1.25	1.24	15
Syndicate Bank	0.69	0.81	0.63	0.56	0.57	0.58	1
Union Bank of India	0.77	0.49	0.60	0.70	0.82	0.79	8
Private Banks							
Axis Bank	1.39	1.17	1.55	1.74	1.70	1.63	(11)
HDFC Bank	1.40	1.96	2.04	1.97	1.85	1.85	(12)
ICICI Bank	1.45	1.56	1.91	1.84	2.03	2.21	36
ING Vysya Bank	1.19	1.04	1.23	1.80	1.89	2.04	24
Yes Bank	1.22	3.43	2.41	2.10	2.02	2.09	(1)
All banks	1.07	0.98	1.19	1.17	1.23	1.22	5
PSUs	1.00	0.83	0.98	0.94	1.00	0.97	3
Private Banks	1.42	1.58	1.87	1.86	1.93	1.99	13

- ❑ Fee income of private banks likely to remain robust as they focus on strengthening franchise and gain market share at the cost of PSU peers
- ❑ Lower trading gains (relative to FY08) and loss of market share to restrict expansion in other income for PSU banks

...and operating costs to be contained...

Cost to income ratio (%)	FY05	FY06	FY07	FY08	FY09E	FY10E
PSU Banks						
Allahabad Bank	57.0	56.3	48.3	43.9	49.0	51.7
Andhra Bank	45.5	55.0	50.0	47.2	48.6	49.1
Bank of Baroda	46.3	55.4	51.3	49.2	44.8	45.2
Bank of India	56.9	55.4	52.1	41.7	37.2	34.6
Canara Bank	44.9	47.9	46.8	48.5	48.0	47.9
Corporation Bank	39.0	43.9	41.2	41.6	38.7	35.6
Dena Bank	61.7	47.4	49.0	48.7	49.8	47.9
IDBI	55.7	51.8	46.2	41.8	47.9	46.4
Indian Bank	43.4	47.0	47.0	45.8	43.2	42.7
PNB	52.4	51.3	47.9	46.8	44.4	41.8
State Bank of India	47.8	58.7	54.2	49.0	45.2	43.1
Syndicate Bank	55.3	58.0	50.1	50.4	51.8	50.9
Union Bank of India	44.4	44.3	42.4	38.2	38.8	38.0
Private banks						
Axis Bank	50.7	45.0	49.0	49.2	48.6	51.4
HDFC Bank	48.7	53.3	52.4	52.8	53.9	51.6
ICICI Bank	50.4	54.9	53.2	50.6	46.7	38.9
ING Vysya Bank	84.4	82.9	72.4	66.5	62.7	60.3
Yes Bank	110.0	46.5	52.9	49.4	45.0	42.2
All banks	49.3	54.1	51.0	48.1	46.1	44.0
PSUs	48.8	54.1	50.2	46.7	44.5	43.0
Private Banks	51.8	54.3	53.1	51.5	49.8	46.2

- Cost to income ratio to continue improving on back of absence of any wage arrears and limited technology spends going forward
- For select private banks the opposite trend might be evidenced, given their aggressive expansion plans

...driving a strong earnings growth

PAT Growth (%)	FY05	FY06	FY07	FY08	FY09E	FY10E	FY08-10 CAGR
PSU Banks							
Allahabad Bank	(10.2)	39.9	28.9	29.9	(28.0)	8.1	(11.8)
Andhra Bank	12.2	(6.7)	11.3	6.5	(2.5)	15.2	6.0
Bank of Baroda	(30.0)	22.2	24.0	40.0	16.2	17.6	16.9
Bank of India	(66.2)	105.9	60.1	78.9	39.0	13.8	25.8
Canara Bank	(20.4)	15.5	10.9	10.1	9.2	10.0	9.6
Corporation Bank	(20.2)	10.5	21.3	36.3	5.5	16.2	10.8
Dena Bank	(73.5)	19.7	176.2	78.5	7.8	8.3	8.0
IDBI	(33.9)	82.6	12.4	15.8	(7.5)	5.3	(1.3)
Indian Bank	0.7	23.5	50.6	32.8	5.7	20.6	12.9
PNB	27.2	(0.9)	32.6	10.6	21.1	11.7	16.3
State Bank of India	16.9	2.4	3.1	48.2	21.2	9.0	15.0
Syndicate Bank	(7.2)	33.2	34.6	17.5	(15.2)	12.0	(2.6)
Union Bank of India	1.0	(6.1)	25.2	64.1	3.9	12.6	8.2
Private banks							
Axis Bank	20.2	45.0	35.9	62.5	40.9	23.3	31.8
HDFC Bank	30.6	44.6	31.2	39.6	30.1	33.0	31.5
ICICI Bank	22.5	26.7	22.4	33.7	(5.0)	19.2	6.4
ING Vysya Bank	NM	NM	886.6	76.6	25.4	31.0	28.2
Yes Bank		NA	70.6	112.0	39.2	37.1	38.1
All banks	(2.0)	17.7	22.0	37.6	13.0	15.1	14.0
PSU Banks	(6.4)	12.6	19.9	36.5	13.4	11.7	12.5
Private Banks	19.3	36.7	28.7	40.9	11.9	24.7	18.1

PAT of banks under our coverage, expected to grow at 14% CAGR over FY08-10, with private banks reporting a growth of 18% during the period

Indian Banks - how numbers stack up

	PAT (Rs m)			Total assets (Rs bn)			Advances (Rs bn)			Deposits (Rs bn)			CASA (%)		
	FY08	FY09E	FY10E	FY08	FY09E	FY10E	FY08	FY09E	FY10E	FY08	FY09E	FY10E	FY08	FY09E	FY10E
PSU Banks															
Allahabad Bank	9,748	7,019	7,590	829	948	1,087	497	589	688	716	822	945	36.0	33.0	33.0
Andhra Bank	5,756	5,610	6,463	566	655	766	342	408	486	494	573	672	33.6	33.0	32.0
Bank of India	20,094	27,938	31,796	1,788	2,164	2,585	1,135	1,441	1,759	1,500	1,839	2,218	30.6	30.0	29.0
Bank of Baroda	14,355	16,685	19,624	1,796	2,254	2,619	1,067	1,378	1,688	1,520	1,928	2,268	31.2	30.0	30.0
Canara Bank	15,650	17,083	18,791	1,805	2,019	2,306	1,072	1,278	1,492	1,541	1,724	1,973	31.5	30.0	29.0
Corporation Bank	7,350	7,757	9,016	666	779	918	392	481	580	554	657	779	35.0	28.0	26.5
Dena Bank	3,597	3,877	4,199	386	466	539	230	281	330	339	413	479	39.2	37.5	36.5
IDBI	7,299	6,751	7,107	1,307	1,590	1,906	822	1,041	1,209	730	985	1,359	16.6	17.0	17.5
Indian Bank	10,087	10,662	12,860	705	804	947	398	510	622	610	694	818	32.3	32.5	31.5
Punjab National Bank	20,488	24,815	27,729	1,990	2,411	2,823	1,195	1,494	1,793	1,665	2,093	2,454	43.0	38.5	38.0
State Bank of India	67,291	81,585	88,952	7,215	8,258	9,862	4,168	5,130	6,197	5,374	6,443	7,927	47.0	40.0	41.0
Syndicate Bank	8,481	7,188	8,048	1,071	1,236	1,424	641	756	888	952	1,107	1,283	30.9	29.5	28.0
Union Bank of India	13,873	14,412	16,233	1,241	1,462	1,672	743	912	1,091	1,039	1,234	1,417	34.9	33.0	34.0
Pvt Banks															
Axis Bank	10,711	15,093	18,604	1,096	1,479	1,921	597	822	1,100	876	1,230	1,613	45.7	41.0	42.5
ING Vysya Bank	1,569	1,967	2,578	255	291	358	146	183	230	205	236	292	31.5	32.5	32.2
Yes Bank	2,000	2,784	3,817	170	219	288	94	132	178	133	173	231	8.5	10.3	13.0
HDFC Bank	15,902	22,932	30,491	1,576	2,011	2,572	802	1,046	1,359	1,204	1,594	2,055	54.5	46.0	49.0
ICICI Bank	41,577	39,489	47,071	3,998	3,955	4,101	2,256	2,311	2,432	2,444	1,986	1,865	26.1	30.0	33.5
NBFCs															
HDFC	24,399	25,499	30,334	844	1,036	1,325	730	912	1,150						
Shri Ram Transport	3,898	6,096	8,030	183	228	302	151	194	266						

Attractive valuations

	Reco.	Price	Mkt Cap	Adj Book value (Rs)			3yr EPS cagr	2yr EPS cagr	RoE (%)			PE (x)			P/Adj. Book Value (x)		
		21 st Nov 2008	(Rs bn)	FY08	FY09E	FY10E	FY05-FY08	FY08-FY10	FY08	FY09E	FY10E	FY08	FY09E	FY10E	FY08	FY09E	FY10E
PSU Banks																	
Allahabad Bank	OP	47	20.9	95.5	109.0	122.4	22.1	(11.8)	20.0	12.7	12.4	2.1	3.0	2.8	0.5	0.4	0.4
Andhra Bank	Neutral	49	23.7	70.4	79.4	90.3	(3.0)	6.0	18.0	16.2	16.5	4.1	4.2	3.7	0.7	0.6	0.5
Bank of India	OP	250	131.5	209.0	255.9	319.6	76.2	25.8	24.4	24.0	22.9	6.5	4.7	4.1	1.2	1.0	0.8
Bank of Baroda	OP	268	98.0	312.5	355.5	420.2	19.6	16.9	14.6	14.3	15.1	6.8	5.9	5.0	0.9	0.8	0.6
Canara Bank	OP	162	66.6	204.6	246.2	299.2	12.1	9.6	15.0	15.2	14.8	4.3	3.9	3.5	0.8	0.7	0.5
Corporation Bank	OP	187	26.8	298.8	347.5	409.6	22.3	10.7	18.4	17.1	17.1	3.6	3.5	3.0	0.6	0.5	0.5
Dena Bank	OP	28	7.9	54.8	71.2	89.2	80.7	8.0	21.8	19.4	17.5	2.2	2.0	1.9	0.5	0.4	0.3
IDBI	UP	62	45.1	66.8	80.4	90.5	31.1	(1.3)	11.1	9.3	9.1	6.2	6.7	6.3	0.9	0.8	0.7
Indian Bank	OP	122	52.3	122.1	146.0	175.0	197.7	12.9	22.2	18.6	18.8	5.2	4.9	4.1	1.0	0.8	0.7
Punjab National Bank	OP	451	142.1	398.4	489.3	544.3	10.2	16.3	18.0	18.4	17.5	6.9	5.7	5.1	1.1	0.9	0.8
State Bank of India	OP	1,184	747.4	941.0	1,112.6	1,338.8	9.2	15.0	16.8	15.6	15.0	11.1	9.2	8.4	1.3	1.1	0.9
Syndicate Bank	UP	51	26.9	84.4	83.9	91.6	23.9	(9.3)	21.4	15.6	15.4	3.2	4.3	3.8	0.6	0.6	0.6
Union Bank of India	OP	144	72.9	152.8	178.5	206.9	20.7	8.2	22.1	18.1	17.5	5.3	5.1	4.5	0.9	0.8	0.7
Pvt Banks																	
Axis Bank	OP	412	147.2	246.7	281.4	322.1	36.3	24.6	17.6	16.1	17.5	12.3	9.8	7.9	1.7	1.5	1.3
ING Vysya Bank	OP	118	12.1	136.9	158.2	184.1	20.7	28.2	11.9	12.1	14.0	7.7	6.1	4.7	0.9	0.7	0.6
Yes Bank	OP	59	17.5	44.6	54.0	66.9	20.7	38.1	19.0	19.1	21.3	8.7	6.3	4.6	1.3	1.1	0.9
HDFC Bank	OP	856	303.6	325.5	344.2	368.5	25.6	22.7	15.4	16.7	17.2	19.1	15.9	12.7	2.6	2.5	2.3
ICICI Bank	OP	334	371.7	416.6	444.6	478.4	11.1	6.4	11.7	8.2	9.2	8.9	9.4	7.9	0.8	0.8	0.7
NBFCs																	
HDFC	OP	1,396	401.7	433.2	488.1	553.5	26.8	11.5	24.2	19.2	20.2	16.5	15.8	13.2	3.2	2.9	2.5
Shri Ram Transport	OP	195	39.7	87.8	116.6	145.7	24.9	37.4	26.9	28.3	28.8	9.7	6.6	5.1	2.2	1.7	1.3

❑ Amidst serious concerns on asset quality and the global financial crisis, Indian Financials are trading at a discount to book values

- ✓ PSU banks are available at 0.3x - 0.9x FY10 adjusted book value
- ✓ Premium multiples enjoyed by private banks have compressed (now trading at 0.6x - 2.3x FY10 ABV)

So, what to play?

We remain Overweight on Financials

- ❑ NO asset quality CRISIS in the offing, while NPLs due to rise (more than factored in current beaten-down stock prices)
- ❑ On the back of continued monetary easing, benign interest rates to map out
- ❑ Margins to remain stable as reserve requirements deplete and deposit costs also come down

We prefer large PSU banks, ICICI Bank and HDFC Bank...

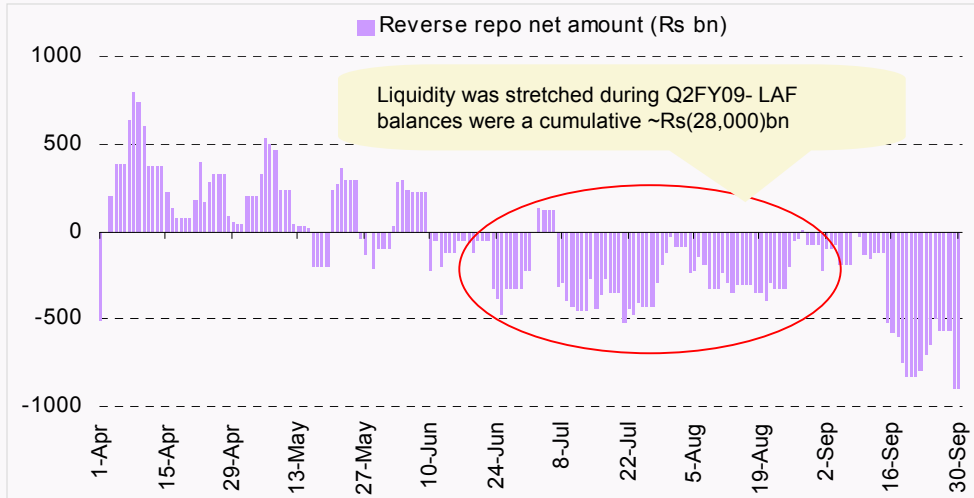
... on the following premise:

- ❑ Bond proxy nature of business
- ❑ Pricing power in lending driven by the current monopolistic position of banks
- ❑ Extremely attractive valuations (especially ICICI Bank)
- ❑ Strong deposit profile with steady CASA ratio

Appendix: The quarter gone by

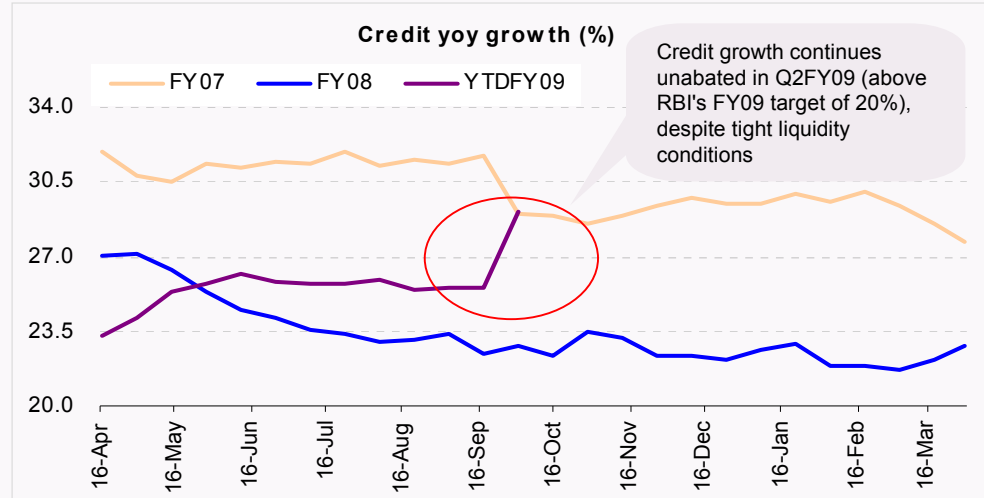
Tight liquidity...but credit growth unabated

Liquidity remains stretched during Q2FY09...



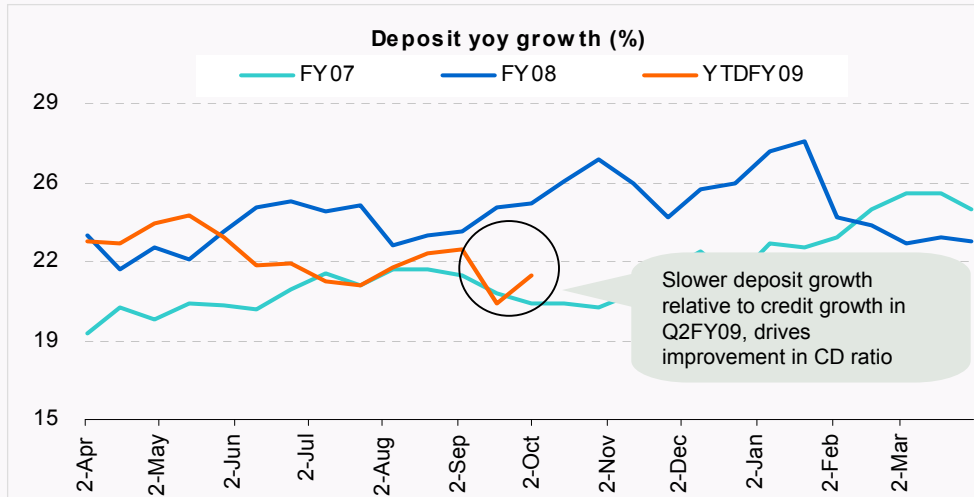
Source: Bloomberg

...but credit growth continues unabated...



Source: RBI

Deposits grow at a slower pace...



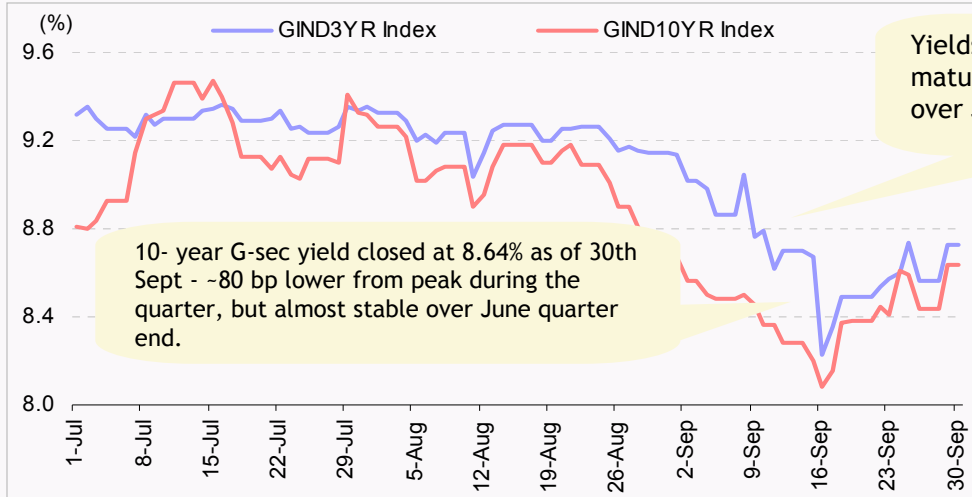
Source: RBI

...lead to an improving incremental CD ratio

(%)	FY08	FY09
9-Jul	69	86
23-Jul	67	86
6-Aug	71	84
20-Aug	71	80
3-Sep	72	81
17-Sep	66	89
1-Oct	67	96

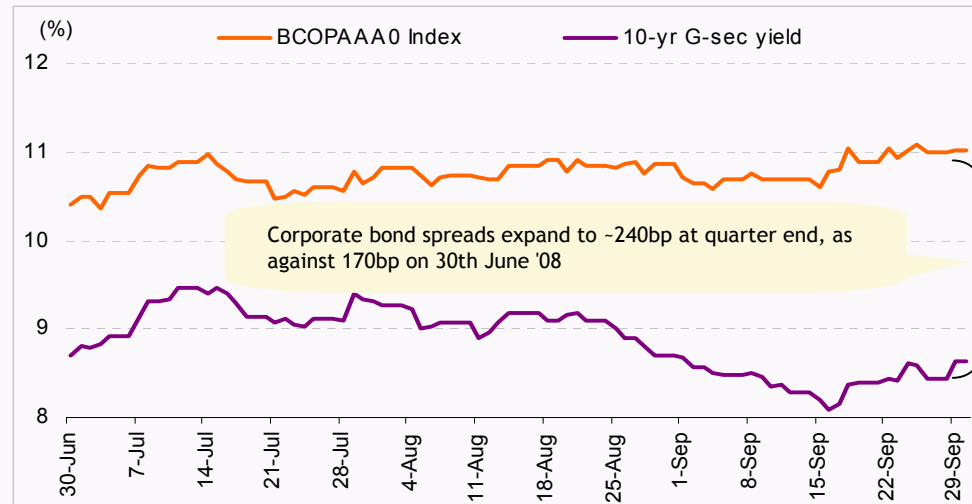
G-sec yields ease, but corporate spreads widen

G-sec yields: Though volatile through Q209, at quarter-end closed only a tad lower



Source: Bloomberg

However, corporate bond spreads worsened



Source: Bloomberg

□ In Q1FY09, banks incurred outsized MTM depreciation on G-Sec as yields rose steeply across maturities

□ In Q2FY09, MTM depreciation write-backs on G-sec portfolio (on the back of easing yields) were somewhat muted by incremental depreciation on corporate bond book

Q2FY09 - Key highlights

Positives

- ✓ Robust PAT growth driven by strong NII growth in turn buoyed by:
 - ✓ Strong credit expansion, and
 - ✓ Margin expansion on the back of PLR hikes affected during the quarter and positive ALM gap
- ✓ Banks with international exposures (as ICICI Bank, BOB and BOI) provided adequately for MTM losses on such exposures

Public Sector Banks

- ✓ Asset quality improved with Gross NPAs declining in percentage terms for almost all PSU banks

Private Banks

- ✓ Traction in fee income driven by expansion in retail franchise and growth in credit

Negatives

- ✗ CASA ratio declined by 75bp+ sequentially for almost of all banks given the high term deposit rates on offer, with Axis and ICICI Bank being the exceptions
- ✗ Loan loss coverage slipped due to lower NPA provisions made by banks, which supported the bottom-line

Public Sector Banks

- ✗ Higher than expected provisions for many banks as (i) wage hike provisions made; and (ii) reversed the earlier written-offs provisions on waived farm loans

Private Banks

- ✗ Asset quality pressures continue to persist, given the higher exposure of private banks to retail loans

Q2FY09- Robust NII performance..

- 39% NII yoy growth for our banking universe leads to 28% yoy growth in net profit
- Significant improvement in margins on the back of aggregate PLR hike of 100-150bps affected during the quarter
- Strong credit expansion of 31% yoy for our coverage

Company	NII (Rs m)			Operating profit (Rs m)			PAT (Rs m)		
	Sept 2008	Sept 2007	% yoy change	Sept 2008	Sept 2007	% yoy change	Sept 2008	Sept 2007	% yoy change
PSU Banks									
Allahabad Bank	4,935	4,147	19.0	3,142	2,996	4.9	417	2,398	(82.6)
Andhra Bank	4,335	3,244	33.6	2,784	2,322	19.9	1,615	1,512	6.8
Bank of Baroda	11,338	9,814	15.5	8,456	6,372	32.7	3,953	3,272	20.8
Bank of India	13,631	9,858	38.3	12,147	8,398	44.6	7,629	4,253	79.4
Canara Bank	11,490	7,869	46.0	7,735	6,503	18.9	5,294	4,016	31.8
Corporation Bank	4,067	3,546	14.7	3,515	2,945	19.3	1,915	1,614	18.7
Dena Bank	2,543	2,067	23.0	1,492	1,608	-7.2	1,028	922	11.6
IDBI	2,290	1,496	53.1	2,845	3,518	-19.1	1,625	1,555	4.5
Indian Bank	6,818	4,712	44.7	5,328	3,434	55.1	2,829	2,476	14.3
Punjab National Bank	17,122	12,915	32.6	13,678	8,550	60.0	7,071	5,385	31.3
State Bank of India	54,554	37,629	45.0	41,932	27,132	54.5	22,597	16,114	40.2
Syndicate Bank	7,475	4,891	52.8	4,578	3,260	40.4	2,619	2,276	15.1
Union Bank of India	9,753	6,564	48.6	6,997	5,285	32.4	3,615	2,760	31.0
Private Banks									
Axis Bank	9,135	5,887	55.2	8,744	4,629	88.9	4,029	2,278	76.9
ICICI Bank	21,476	17,860	20.2	22,849	18,872	21.1	10,142	10,027	1.2
HDFC Bank	18,665	11,627	60.5	11,229	8,267	35.8	5,280	3,685	43.3
ING Vysya Bank	1,566	1,091	43.5	916	625	46.6	470	320	47.0
Yes Bank	1,226	817	50.0	1,095	674	62.4	636	453	40.5
NBFCs									
HDFC	7,953	6,284	26.6	7,760	5,947	30.5	5,343	4,034	32.4
Mahindra & Mahindra Finance	1,964	1,791	9.7	1,244	1,154	7.8	352	377	(6.6)
Shri Ram Transport	4,363	2,724	60.2	3,060	2,009	52.3	1,656	923	79.4

...driven by strong growth in advances...

	Total Advances	Total deposits	CD ratio (%)		
	yoy growth (%)	yoy growth (%)	Q1FY09	Q2FY09	qoq change (bps)
PSU Banks					
Allahabad Bank	23.4	11.8	68.6	70.2	159
Andhra Bank	19.5	13.7	69.3	72.1	283
Bank of Baroda	32.4	22.6	71.8	74.2	238
Bank of India	35.0	26.7	77.2	78.7	156
Canara Bank	25.1	18.1	70.3	69.6	(78)
Corporation Bank	33.3	31.8	71.2	72.2	109
Dena Bank	25.0	18.6	66.7	68.5	175
IDBI	39.7	58.9	107.4	109.7	224
Indian Bank	47.4	20.2	71.5	74.4	294
PNB	28.5	24.2	66.1	70.0	389
State Bank of India	37.1	28.0	79.8	80.6	78
Syndicate Bank	29.9	14.2	69.8	72.6	275
Union Bank of India	26.2	22.3	70.7	74.7	396
Private Banks					
Axis Bank	54.0	60.5	68.7	66.9	(182)
ICICI Bank	7.2	(2.1)	95.6	99.4	377
ING Vysya Bank	26.3	22.7	70.8	75.9	511
HDFC Bank - standalone	64.1	46.9	73.9	76.4	247
HDFC Bank - proforma consolidated	34.0	21.2	73.9	76.4	247
Yes Bank	53.2	44.4	80.1	80.3	23
NBFCs					
HDFC	30.9				
MMFS	12.1				
Shri Ram Transport	51.8				
All Banks	31.1	23.7	76.9	78.6	164
Private Banks	25.8	20.7	83.4	84.9	145
PSU Banks	32.7	24.5	75.1	76.9	179
NBFCs	32.4	NA	NA	NA	NA

- ❑ Strong credit growth driven by corporate loans as alternative funding sources dried up
- ❑ Relatively lower deposit growth of 24% yoy led to ~160bps sequential improvement in CD ratio in Q2FY09
- ❑ PSU banks' loan and deposit growth surpassed that of private banks; 200-300bp impact of lending to fertilizer and oil companies

...and significant expansion in margins, as...

NIMs (%)	Q2FY08	Q3FY08	Q4FY08	Q1FY09	Q2FY09	yoy change (bps)	qoq change (bps)
PSU Banks							
Allahabad Bank	2.25	2.32	2.20	2.36	2.33	8	(3)
Andhra Bank	2.65	2.92	2.55	2.42	2.95	30	52
Bank of Baroda	2.66	2.55	2.41	2.32	2.42	(24)	10
Bank of India	2.74	2.73	2.85	2.56	2.82	8	26
Canara Bank	1.87	2.23	2.14	2.25	2.42	54	16
Corporation Bank	2.66	2.36	2.58	2.27	2.35	(31)	8
Dena Bank	2.53	2.58	2.65	2.25	2.54	1	29
IDBI	0.56	0.77	0.78	0.28	0.69	13	41
Indian Bank	3.16	3.62	3.09	3.00	3.66	50	67
PNB	3.05	3.23	3.21	2.85	3.21	16	36
State Bank of India	2.40	2.64	2.65	2.62	2.77	37	15
Syndicate Bank	2.10	1.98	2.33	1.91	2.82	72	91
Union Bank of India	2.44	2.61	2.31	2.58	2.94	50	36
Private Banks							
Axis Bank	2.90	3.43	3.31	2.90	3.03	13	12
ICICI Bank	1.98	2.11	2.14	2.11	2.21	23	10
ING Vysya Bank	2.14	2.89	2.35	2.45	2.37	24	(8)
HDFC Bank - standalone	4.09	4.55	4.96	4.57	4.39	29	(18)
HDFC Bank - proforma consol	3.94	4.31	4.16	4.21	4.39	44	18
Yes Bank	2.58	2.62	2.71	2.63	2.67	9	4
NBFCs							
HDFC	3.42	3.49	4.37	3.29	3.50	8	22
MMFS	10.49	10.87	13.41	10.36	10.37	(12)	1
Shri Ram Transport	8.72	7.96	8.50	8.86	8.86	14	0
All Banks	2.49	2.67	2.62	2.46	2.70	21	24
Private Banks	2.74	3.12	3.10	2.93	2.93	20	(0)
PSU Banks	2.39	2.50	2.44	2.28	2.61	22	33
NBFCs	7.54	7.44	8.76	7.50	7.58	3	8

NIMs calculated on average quarterly balances

- ❑ Margins improved by 21bps yoy for our banking universe, as loan spreads improved on the back of higher yields (as a result of PLR hikes), despite increased CRR burden
- ❑ NIMs of PSU banks rebounded sharply on a sequential basis on a lower base due to PLR cuts implemented earlier during the year

..yield on advances improved sharply..

Yield on advances (%)	Q2FY08	Q3FY08	Q4FY08	Q1FY09	Q2FY09	yoy change (bps)	qoq change (bps)
PSU Banks							
Allahabad Bank	10.51	10.38	10.39	9.93	10.64	13	71
Andhra Bank	10.49	10.57	10.54	10.26	11.63	114	137
Bank of Baroda	9.75	9.32	9.20	8.77	9.33	(42)	55
Bank of India	9.86	9.46	9.60	9.05	9.68	(17)	64
Canara Bank	10.22	10.19	10.19	9.95	10.66	44	71
Corporation Bank	9.69	9.79	9.65	9.54	10.32	63	78
Dena Bank	9.92	9.70	9.77	9.84	10.43	51	58
IDBI	9.79	9.31	8.41	9.39	10.01	22	61
Indian Bank	10.27	11.22	10.22	9.93	11.22	96	129
PNB	10.20	10.52	10.30	10.31	11.54	134	123
State Bank of India	9.52	9.76	9.40	9.20	9.69	18	49
Syndicate Bank	10.58	10.42	10.29	9.99	10.97	40	98
Union Bank of India	9.83	9.84	9.66	9.71	10.55	72	84
Private Banks							
Axis Bank	10.55	10.54	10.12	10.26	10.87	33	62
ICICI Bank	11.00	10.89	10.57	10.24	10.24	(76)	1
ING Vysya Bank	10.27	10.05	9.85	10.35	11.07	80	72
HDFC Bank - standalone	11.28	11.18	11.92	13.16	12.30	103	(86)
HDFC Bank - proforma consolidated	11.66	11.43	9.69	11.97	12.30	65	34
Yes Bank	11.52	12.67	12.23	12.83	13.75	223	92
NBFCs							
HDFC	11.14	11.45	12.03	11.12	11.94	79	82
MMFS	16.60	17.31	18.62	16.43	17.44	84	101
Shri Ram Transport	19.57	20.60	20.24	19.15	19.42	(15)	27
All Banks	10.28	10.31	10.13	10.14	10.83	55	68
Private Banks	10.92	11.07	10.94	11.37	11.65	72	28
PSU Banks	10.05	10.04	9.82	9.68	10.51	47	83
NBFCs	15.77	16.45	16.96	15.56	16.26	49	70

Calculated on average quarterly balances

- Yield on advances improved by ~55bps yoy and ~70bps qoq on back of full effect of PLR hike affected in Q1FY09 and further hikes in Q2FY09 (full impact to be seen in Q3FY09)
- Shortage of alternative funding sources led to enhanced pricing power for banks and re-aligning of portfolio towards better rated corporate loans

..and cost of deposits rises with a lag

Cost of deposits (%)	Q2FY08	Q3FY08	Q4FY08	Q1FY09	Q2FY09	yoy change (bps)	qoq change (bps)
PSU Banks							
Allahabad Bank	6.60	6.46	6.90	6.45	7.00	40	55
Andhra Bank	6.25	6.16	6.73	6.25	6.82	57	57
Bank of Baroda	5.68	5.68	6.06	5.54	5.81	13	28
Bank of India	5.53	5.53	5.57	5.51	5.79	26	28
Canara Bank	7.11	6.84	7.27	6.64	6.86	(24)	22
Corporation Bank	6.02	6.07	6.19	6.18	6.89	87	71
Dena Bank	4.77	5.08	5.36	5.89	6.20	143	31
IDBI	9.44	9.07	8.06	8.30	8.44	(100)	14
Indian Bank	5.76	5.78	5.63	5.93	6.03	27	10
PNB	5.64	5.55	5.63	6.03	6.21	57	18
State Bank of India	5.73	5.72	5.67	5.65	5.81	8	15
Syndicate Bank	6.70	6.79	6.61	6.62	6.58	(12)	(5)
Union Bank of India	6.34	6.31	6.28	5.91	6.04	(30)	13
Private Banks							
Axis Bank	6.60	6.04	5.78	6.27	6.46	(14)	20
ICICI Bank	7.32	7.80	7.53	7.27	7.45	13	18
ING Vysya Bank	6.77	6.14	6.14	5.96	6.91	14	95
HDFC Bank - standalone	5.28	5.14	4.99	6.23	6.10	82	(13)
HDFC Bank - proforma consolidated	5.72	5.51	4.13	5.71	6.10	38	39
Yes Bank	9.03	9.14	8.72	8.88	10.37	134	150
All Banks	6.47	6.43	6.43	6.43	6.78	31	36
Private Banks - HDFC Bank (stand-alone)	7.00	6.85	6.63	6.92	7.46	46	54
Private Banks - HDFC Bank (consol)	7.09	6.93	6.46	6.82	7.46	37	64

Calculated on average quarterly balances; 95% of interest expense is assumed to be related to deposits (except IDBI and ICICI Bank)

- ❑ Rise in cost of deposits was restricted to ~30bps yoy despite accelerated growth in term deposits (in wake of higher term rates on offer), as deposits re-price with a lag
- ❑ Average cost of deposits of private banks' rise at a faster pace than PSU banks due to: (i) impact of CBOP's lower CASA on HDFC Bank's costs and; (ii) Yes Bank's whole-sale funded business model

CASA ratio slips

CASA (%)	Q2FY08	Q3FY08	Q4FY08	Q1FY09	Q2FY09	yoy change (bps)	qoq change (bps)
PSU Banks							
Allahabad Bank	35.00	35.61	36.04	35.14	33.34	(166)	(180)
Andhra Bank	32.03	34.06	33.57	31.90	34.13	210	223
Bank of Baroda	37.47	37.30	35.93	36.86	35.85	(162)	(101)
Bank of India	36.52	36.62	35.22	33.85	32.18	(435)	(167)
Canara Bank	31.61	32.00	31.80	34.16	32.00	39	(216)
Corporation Bank	29.46	29.99	35.00	27.42	25.60	(385)	(182)
Dena Bank	39.10	39.92	39.05	38.31	39.11	2	80
IDBI	21.00	19.45	16.56	14.67	16.19	(481)	152
Indian Bank	34.27	35.27	32.35	33.84	33.09	(118)	(75)
PNB	43.91	43.00	42.99	41.31	38.84	(507)	(247)
State Bank of India	39.45	41.05	43.00	41.87	39.71	26	(216)
Syndicate Bank	29.48	31.40	30.95	30.10	31.81	233	171
Union Bank of India	32.50	33.10	34.86	34.76	33.10	59	(166)
Private Banks							
Axis Bank	45.37	45.27	45.68	39.84	40.27	(509)	43
HDFC Bank - standalone	52.52	50.87	54.50	44.85	44.04	(848)	(81)
HDFC Bank - proforma consolidated	43.34	42.10	45.10	44.85	44.04	70	(81)
ICICI Bank	25.33	27.20	26.09	27.60	30.00	467	240
ING Vysya Bank	29.06	30.25	31.48	29.71	29.10	4	(62)
Yes Bank	7.41	8.04	8.50	8.91	9.00	159	9
All Banks	34.19	35.70	35.92	35.03	33.49	(69)	(153)
PSU Banks	34.18	35.82	35.99	35.29	33.03	(115)	(226)
Private Banks	34.21	35.24	35.64	34.08	35.26	105	118
Private Banks ex ICICI	45.35	44.63	46.15	40.08	39.62	(573)	(47)

- ❑ CASA ratio slipped by ~70bp yoy and 150bp qoq due to: (1) growth in term deposits on the back of high rates on offer; (2) limited IPO float amidst capital market volatility
- ❑ ICICI Bank, Axis Bank and a few small PSU banks (due to renewed focus on retail liabilities) are exceptions to this trend

Traction in fee income

Non trading income (Rs mn)	Q2FY08	Q1FY09	Q2FY09	yoy growth (%)	qoq growth (%)
PSU Banks					
Allahabad Bank	1,198	849	1,236	3.1	45.6
Andhra Bank	1,232	1,197	1,434	16.4	19.8
Bank of Baroda	3,278	4,236	3,837	17.0	-9.4
Bank of India	4,034	4,984	6,315	56.5	26.7
Canara Bank	3,709	4,155	3,352	-9.6	-19.3
Corporation Bank	1,427	1,531	1,507	5.6	-1.6
Dena Bank	838	772	921	9.9	19.3
IDBI	973	1,625	1,941	99.5	19.5
Indian Bank	1,755	2,193	2,097	19.5	-4.4
PNB	3,618	4,432	5,905	63.2	33.2
State Bank of India	15,990	21,810	21,816	36.4	0.0
Syndicate Bank	1,388	1,185	1,696	22.2	43.2
Union Bank of India	2,273	2,137	3,213	41.4	50.4
Private Banks					
Axis Bank	3,277	4,835	6,268	91.3	29.6
HDFC Bank - standalone	4,768	6,710	6,392	34.1	-4.7
HDFC Bank - proforma consolidated	6,268	6,710	6,392	2.0	-4.7
ICICI Bank	17,420	21,322	20,303	16.6	-4.8
ING Vysya Bank	966	1,264	1,191	23.2	-5.8
Yes Bank	651	NA	NA	NA	NA
All Banks	68,142	85,235	89,422	31.2	4.9
Private Banks	26,431	34,131	34,154	29.2	0.1
PSU Banks	41,711	51,104	55,268	32.5	8.2

- ❑ Strong growth in credit led to momentum in fee income for PSU banks (~33% yoy growth)
- ❑ Traction in fee income for private banks with 29% yoy growth driven by expansion in retail franchise and growth in credit
- ❑ Overall noninterest income growth was subdued at 7% yoy due to lower trading gains relative to Q2FY08

Sequential decline in provisioning costs

Provisions as a % of avg assets	Q2FY08	Q1FY09	Q2FY09	yoy change (bps)	qoq change (bps)
PSU Banks					
Allahabad Bank	0.17	0.96	1.26	108	30
Andhra Bank	0.09	0.86	0.39	30	(47)
Bank of Baroda	0.27	0.61	0.52	25	(10)
Bank of India	0.83	0.76	0.59	(24)	(16)
Canara Bank	0.43	1.20	0.30	(12)	(89)
Corporation Bank	0.41	0.61	0.32	(8)	(28)
Dena Bank	0.48	0.51	0.37	(11)	(14)
IDBI	0.66	0.06	0.30	(35)	24
Indian Bank	0.33	0.94	0.59	25	(35)
PNB	0.18	0.42	0.59	41	18
State Bank of India	0.06	0.85	0.32	26	(53)
Syndicate Bank	0.25	1.19	0.52	27	(67)
Union Bank of India	0.36	0.94	0.61	25	(33)
Private Banks					
Axis Bank	0.56	1.06	0.85	28	(22)
HDFC Bank - standalone	1.02	0.91	0.81	(21)	(10)
HDFC Bank - proforma consolidated	1.02	0.87	0.81	(20)	(5)
ICICI Bank	0.71	0.80	1.04	32	24
ING Vysya Bank	-0.19	0.64	0.33	52	(32)
Yes Bank	-0.03	0.72	0.27	30	(45)
NBFCs					
HDFC	0.07	0.05	0.07	1	2
MMFS	3.36	4.94	3.68	32	(126)
Shri Ram Transport	1.84	1.38	1.38	(46)	0
All Banks	0.67	1.35	0.92	25	(43)
Private Banks	1.28	1.55	1.51	22	(4)
PSU Banks	0.48	1.30	0.74	27	(55)
NBFCs	0.65	0.66	0.59	(6)	(7)

- ❑ Provisions as a % of average assets increased by 25bp yoy for our universe to 0.92%, due to higher NPA provisions
- ❑ However, provisions for PSU banks were lower on a sequential basis due to absence of MTM depreciation on G-sec book suffered in Q1FY09
- ❑ As expected, MTM write-backs were limited during the quarter, as benefit of lower G-Sec yields was offset by depreciation on banks' corporate bond books, as spreads increased

Asset quality...a key monitorable

Public Sector Banks

- ❑ Asset quality of PSU banks improved as Gross NPAs declined in % terms for almost all of them
- ❑ Coverage has fallen for most of the smaller PSU banks, which in turn bolstered profits

	Gross NPA %			Loan loss provisioning as % of average loans			Provisioning Coverage				
	Q1FY09	Q2FY09	change (bps)	Q2FY08	Q1FY09	Q2FY09	Q2FY08	Q1FY09	Q2FY09	yoy change (bps)	qoq change (bps)
Allahabad Bank	1.87	1.93	6	0.30	(0.44)	0.86	69.19	60.43	56.54	(1,265)	(389)
Andhra Bank	1.15	1.03	(12)	0.19	0.43	0.50	85.78	91.06	76.65	(913)	(1,441)
Bank of Baroda	1.86	1.62	(24)	0.15	(0.15)	0.06	76.68	72.48	73.94	(273)	147
Bank of India	1.64	1.53	(11)	0.93	0.48	0.25	64.03	68.84	69.26	523	42
Canara Bank	1.31	1.31	0	0.64	0.52	0.53	40.32	35.19	32.34	(799)	(285)
Corporation Bank	1.46	1.36	(10)	0.45	0.36	0.40	81.68	75.75	70.66	(1,103)	(509)
Dena Bank	2.47	2.32	(15)	1.27	1.14	0.44	57.27	55.06	56.32	(94)	127
IDBI	1.98	1.87	(11)	0.50	0.09	(0.05)	45.97	32.13	31.76	(1,422)	(37)
Indian Bank	0.95	0.98	3	-	-	0.03	83.20	82.00	81.88	(133)	(12)
PNB	2.82	2.37	(45)	0.40	0.16	1.01	60.43	78.10	82.57	2,213	446
State Bank of India	2.54	2.51	(3)	(0.02)	(0.23)	0.77	45.16	44.79	47.28	212	249
Syndicate Bank	2.84	2.55	(29)	0.38	0.21	0.62	69.84	64.28	64.30	(553)	2
Union Bank of India	2.08	1.93	(15)	0.78	(0.27)	1.18	73.69	93.05	93.06	1,937	1

Asset quality (...contd)

Private Banks

- ❑ Private banks continue to face pressure, given the higher exposure to retail loans (and now the elevated interest rates and slowdown in economic growth)
 - ✓ Private banks have now adopted a cautious stance towards incremental disbursements to riskier segments
- ❑ A case in point is ICICI Bank whose Gross NPAs increased by 42% yoy to 4.18% in Q2FY09 as a result of stress in the retail portfolio, primarily credit cards and personal loans. The bank continues to run-off these portfolios

	Gross NPA %			Loan loss provisioning as % of average loans			Provisioning Coverage				
	Q1FY09	Q2FY09	change (bps)	Q2FY08	Q1FY09	Q2FY09	Q2FY08	Q1FY09	Q2FY09	yoy change (bps)	qoq change (bps)
Axis Bank	0.92	0.91	(1)	0.61	NA	0.86	42.38	48.98	52.59	1,021	361
HDFC Bank - standalone	1.50	1.57	7	1.88	1.62	1.36	68.27	66.99	65.15	(313)	(184)
HDFC Bank - proforma consolidated	1.50	1.57	7	1.54	1.47	1.36	68.27	66.99	65.15	(313)	(184)
ICICI Bank	3.72	4.18	46	1.12	1.55	1.56	54.61	52.61	55.45	84	284
ING Vysya Bank	1.57	1.44	(13)	0.56	0.91	0.17	63.38	46.69	46.22	(1,716)	(47)
Yes Bank	0.21	0.19	(2)	-	0.16	0.30	-	18.17	25.21	-	704

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