



Prabhudas
Lilladher

Indian Banking Sector

Healthy Performance ahead with stable interest rate outlook



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(Prices as on 5th October, 2007)



Benign Macro Environment

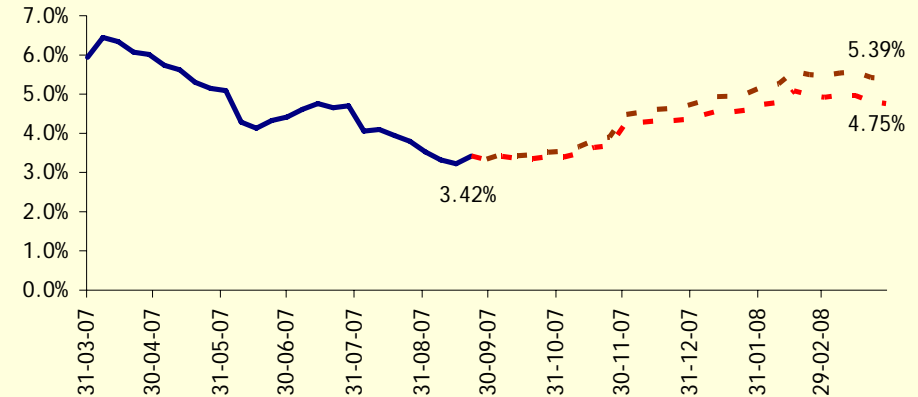
Then

- Inflation touched high of 6.7%
- Repo rate being increased by 175 bps since April'05
- CRR being increased by 200 bps since October'06

Now

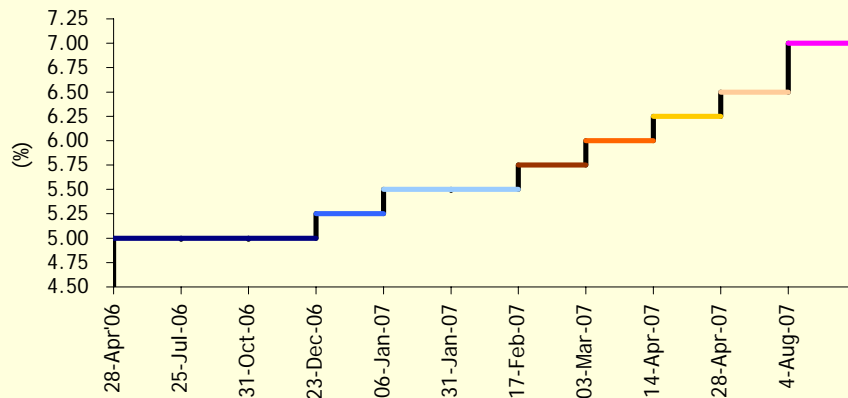
- Inflation came down March'07 onwards and stands at 3.42%
- No further Repo rate hike since March 07
- Inflation not expected to breach RBI's comfort zone

Inflation Movement



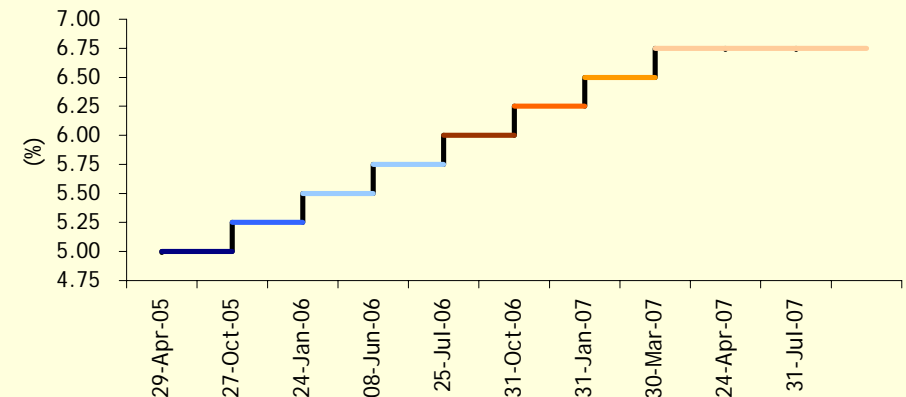
Source: CSO, PL Research

CRR Movement



Source: RBI, PL Research

Repo Rate



Source: RBI, PL Research

Sustainable credit off take

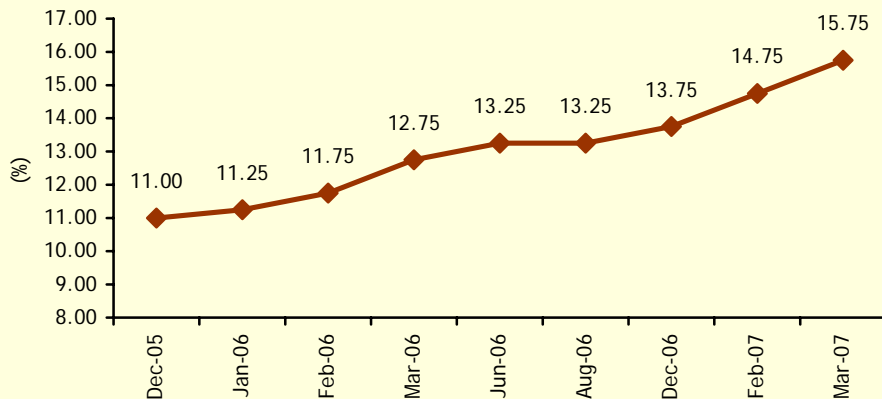
Then

- Credit offtake at high 30% for three consecutive years till FY 07

Now

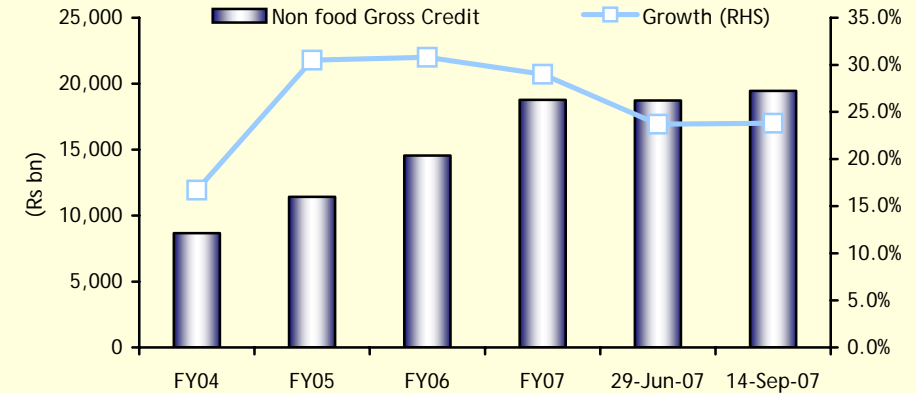
- Credit offtake at stable and sustainable level of 23%
- With multiple hikes, PLR stands high

ICICI Bank PLR



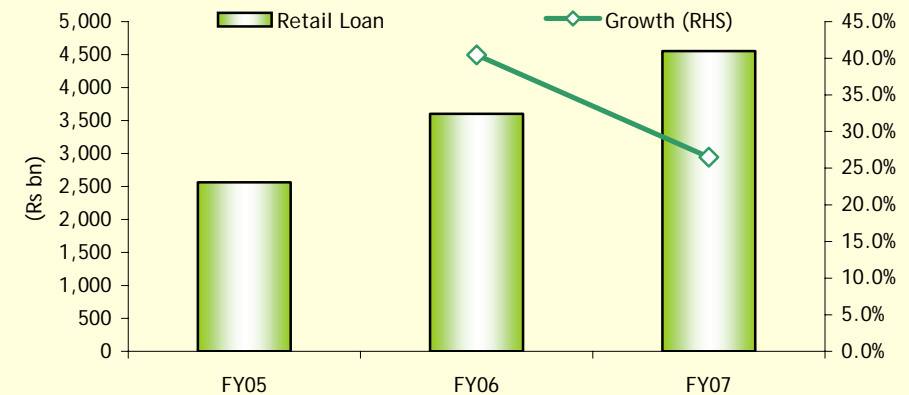
Source: Company Data, PL Research

Non Food Credit



Source: RBI, PL Research

Retail Credit



Source: RBI, PL Research

Steady Deposit Growth

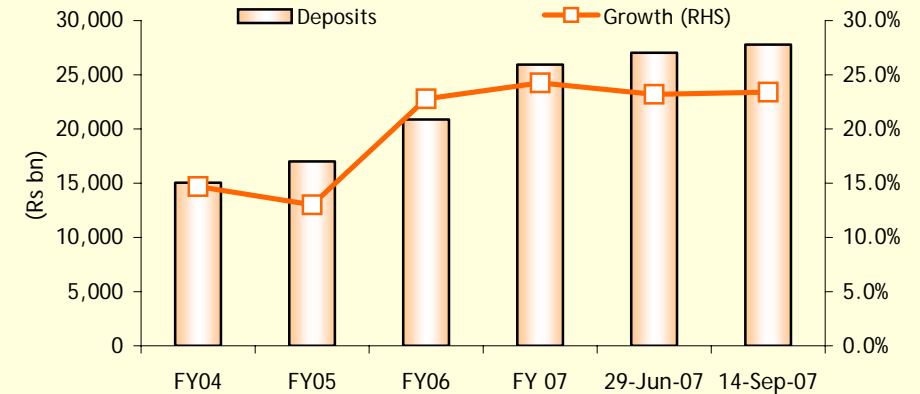
Then

- Scarcity of resources led to significant rise in deposit rates

Now

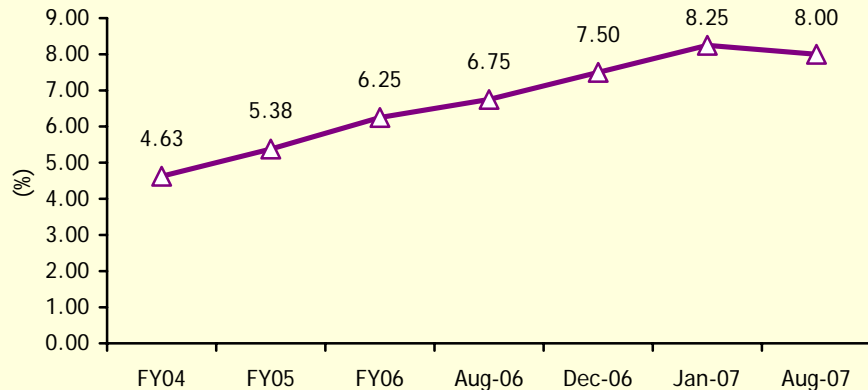
- Deposit growth at stable and sustainable level of 23%
- Deposit growth in tune with M3 growth
- Bank deposits command higher share of household savings
- Deposit rates started softening, specially in bulk category

Aggregate Deposits



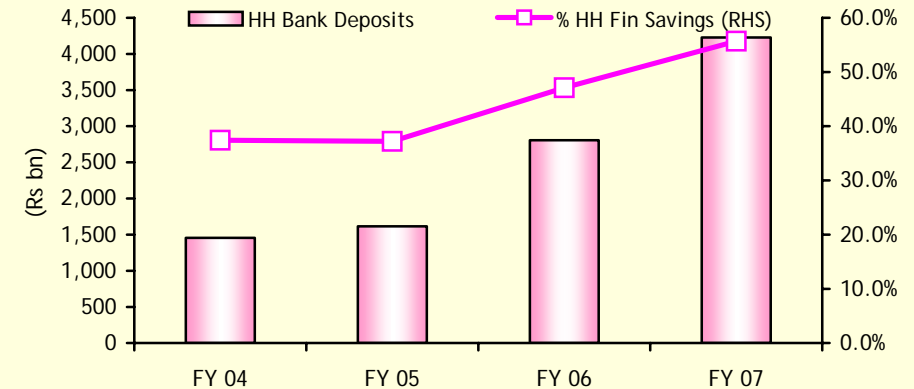
Source: RBI, PL Research

SBI Deposit rates (> 1 yr)



Source: RBI, PL Research

Bank Deposits as % of House Hold Savings



Source: RBI, PL Research

Stable Net Interest Margins

Yield on Advances	FY05	FY06	FY07	FY08E	FY09E
Axis Bank	7.8%	8.1%	9.1%	9.6%	9.7%
Bank of Baroda	7.3%	7.3%	8.3%	8.8%	9.0%
Bank of India	7.1%	7.5%	8.5%	9.1%	9.2%
Canara Bank	7.9%	7.8%	8.4%	9.1%	9.3%
HDFC Bank	7.7%	8.9%	10.6%	11.2%	11.5%
ICICI Bank	8.8%	8.6%	9.4%	10.2%	10.3%
PNB	7.9%	7.9%	8.9%	9.5%	9.7%
SBI	7.2%	7.6%	8.3%	8.9%	9.1%
Union Bank	8.3%	8.0%	8.8%	9.1%	9.2%
Yes Bank	6.1%	8.6%	9.7%	10.7%	11.0%

Source: Company Data, PL Research

NIMs	FY05	FY06	FY07	FY08E	FY09E
Axis Bank	2.5%	2.6%	2.7%	2.6%	2.7%
Bank of Baroda	3.5%	3.2%	3.1%	2.8%	2.8%
Bank of India	2.6%	2.9%	3.0%	2.8%	2.8%
Canara Bank	3.1%	3.0%	2.8%	2.2%	2.2%
HDFC Bank	4.0%	4.3%	4.8%	4.7%	4.6%
ICICI Bank	2.1%	2.4%	2.4%	2.2%	2.1%
PNB	3.7%	3.6%	3.7%	3.5%	3.5%
SBI	3.4%	3.4%	3.2%	3.1%	3.1%
Union Bank	3.3%	3.1%	3.0%	3.0%	3.0%
Yes Bank	3.0%	3.4%	2.3%	2.2%	2.3%

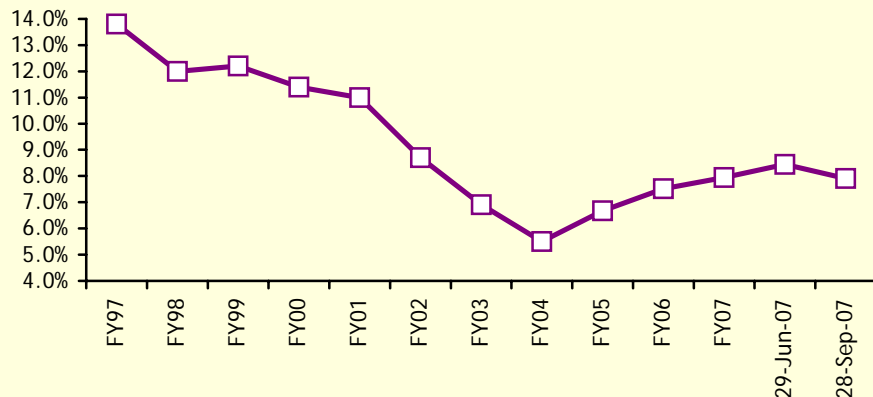
Source: Company Data, PL Research

- Multiple PLR hikes resulted in yields increasing by 100 bps
- With credit off take remaining strong, any PLR cut looks unlikely
- With softening of bulk deposit rates, pressure on margins to ease

Investment Depreciation: Not a significant threat

- SLR holding near to statutory minimum level
- 80% of SLR in HTM category
- With lesser supply of gilt paper, bond yields to stay range bound
- No meaningful threat on depreciation losses

10yr G-Sec Yield



Source: RBI, PL Research

SLR as % of NDTL

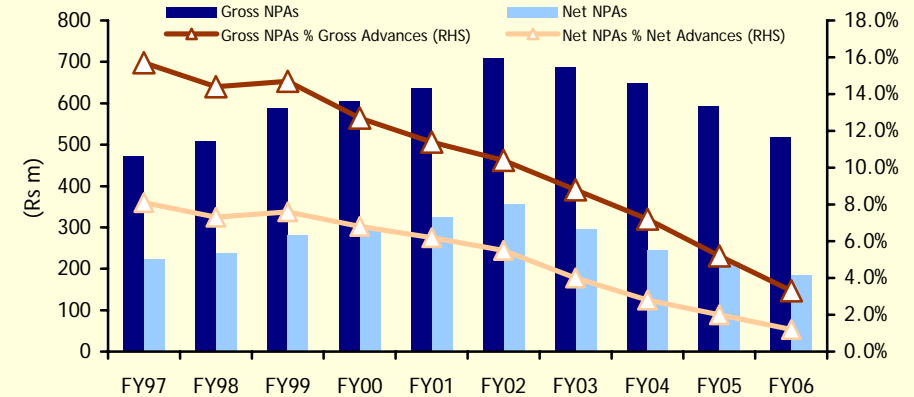
	FY05	FY06	FY07	FY08E	FY09E
Axis Bank	27.4%	30.9%	30.8%	28.4%	28.6%
Bank of Baroda	37.4%	29.0%	23.7%	25.0%	25.3%
Bank of India	24.9%	24.6%	23.1%	23.7%	23.2%
Canara Bank	32.3%	29.3%	29.2%	27.7%	25.9%
HDFC Bank	30.0%	38.5%	33.8%	32.6%	31.3%
ICICI Bank	29.7%	30.3%	27.8%	27.5%	27.6%
PNB	44.5%	29.8%	28.1%	26.9%	26.2%
SBI	48.8%	34.7%	27.4%	26.0%	26.6%
Union Bank	28.5%	28.6%	27.4%	26.6%	25.5%
Yes Bank	52.0%	36.8%	30.8%	28.5%	27.2%

Source: Company Data, PL Research

Asset quality remains robust

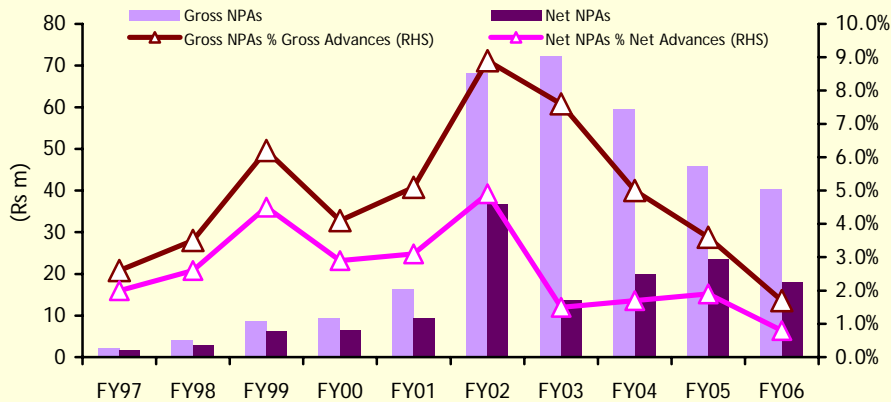
- Lower slippages and higher recoveries led to rapid reduction in NPAs
- Despite multiple rate hikes, no significant slippages
- With no further rate hike expected, asset quality to remain robust

All Banks



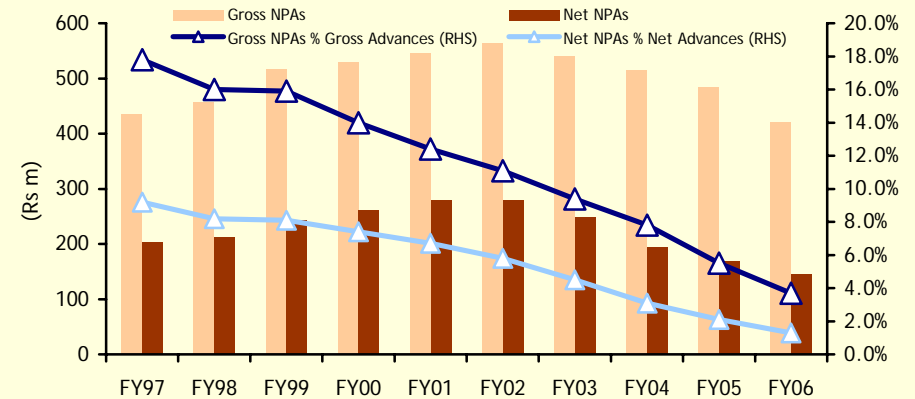
Source: Company Data, PL Research

Private Sector Banks



Source: Company Data, PL Research

Public Sector Banks



Source: Company Data, PL Research

Multiple capital raising options

New Capital raising options

(Rs m)	Perpetual Debt	Upper Tier II	Networth	Total % of Networth
Axis Bank	4,140	11,995	33,937	47.5%
Bank of Baroda	-	12,000	86,499	13.9%
Bank of India	8,695	-	55,037	15.8%
Canara Bank	-	15,000	81,039	18.5%
HDFC Bank	2,000	10,359	64,332	19.2%
ICICI Bank	21,430	12,550	243,634	13.9%
PNB	5,000	-	101,416	4.9%
SBI	9,159	25,235	310,300	11.1%
Union Bank	3,000	7,500	47,332	22.2%
YES Bank	-	2,000	7,871	25.4%

Source: Company Data, PL Research

Fee Income a capital free revenue stream

FY07	Fee Inc. % NII	Fee Income % Total Inc.
Axis Bank	49.7%	14.2%
Bank of Baroda	12.5%	4.6%
Bank of India	16.2%	5.7%
Canara Bank	11.8%	3.7%
HDFC Bank	34.8%	15.8%
ICICI Bank	65.3%	15.0%
PNB	17.6%	7.7%
SBI	29.9%	10.6%
Union Bank	9.8%	3.4%
Yes Bank	65.1%	14.3%

Source: Company Data, PL Research

- Banks proactively utilizing debt capital to propel capital adequacy
- Some moderation in credit growth, healthy profitability and debt capital option to reduce equity dilution
- Higher emphasis on fee income, a capital free revenue stream

What we expect going forward

- Stable interest rate in India as:
 - Domestic economy in high growth phase with ample liquidity vs. threat of slow down in US and credit crisis
 - RBI favours moderate inflation. With the threat of mid term polls, govt too would like to avoid inflationary expectations
 - Banks are in a state of equilibrium where both demand and supply is matched. Any rate cut will put pressure on margins or deposit growth
- How to tackle liquidity
 - CRR hike but it will put pressure on banks' margins and will induce them to increase rates
 - Increase the MSS limit
 - Will help in sucking out liquidity
 - Will help banks in meeting their SLR requirement

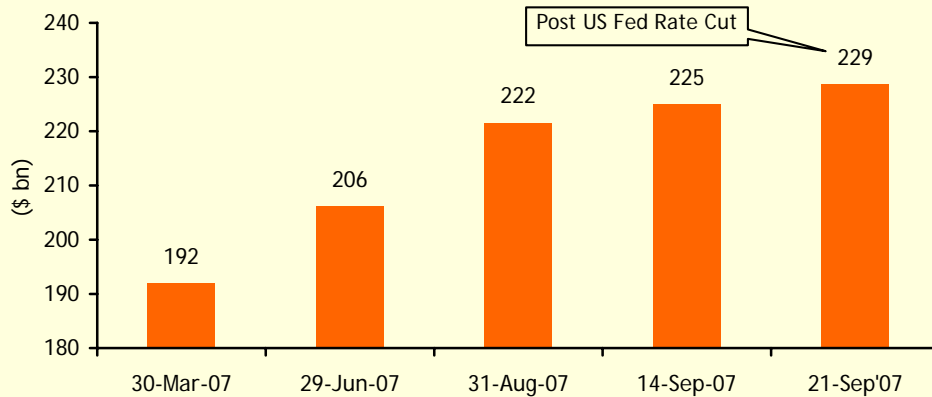
Outlook

- Healthy business growth of 20-25%
- Stable margins
- Robust asset quality
- Healthy profitability
- Higher Fee income
- More technology savvy
- Other capital raising options
- Attractive valuation



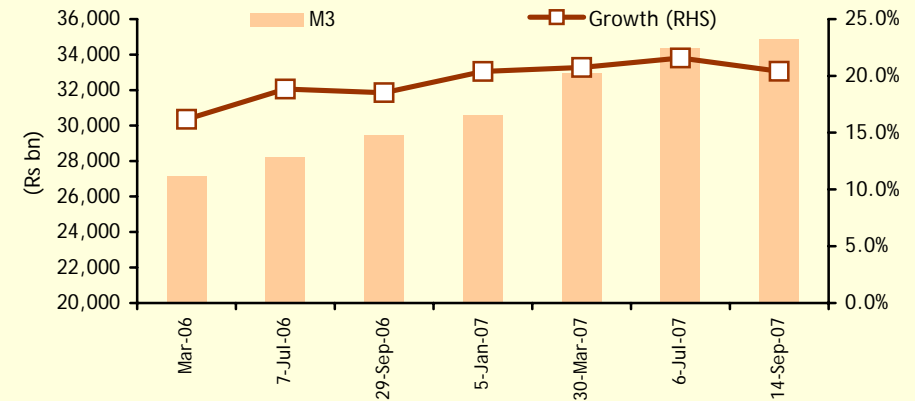
What could go wrong ?

Forex Reserves



Source: RBI, PL Research

M3 Growth



Source: RBI, PL Research

- Softening of rate in US leading to further accretion in forex reserves
- Money supply still remains high
- Consequent monetary tightening due to high liquidity
- Regulator's concerns on holding co. structure affecting value unlocking
- Delay in amendments of various acts
- Consolidation in the industry getting delayed

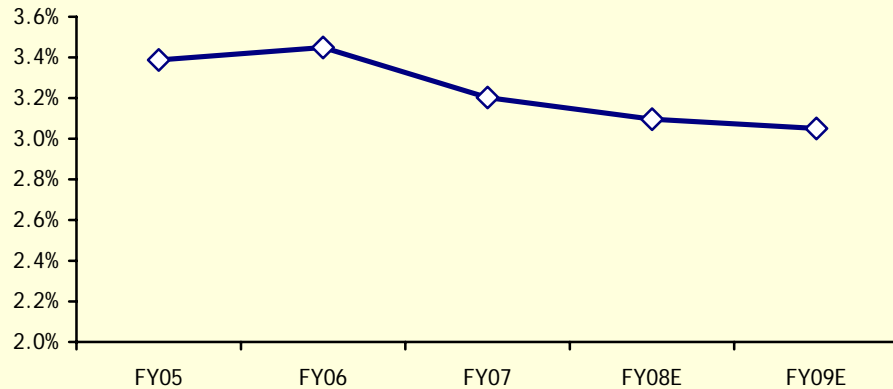
Valuations

	FY08E					FY09E			
	CMP	EPS	ABV	PER	P/ABV	EPS	ABV	PER	P/ABV
	(Rs)	(Rs)	(Rs)	(x)	(x)	(Rs)	(Rs)	(x)	(x)
Axis Bank	737	28.5	225.7	25.9	3.3	34.8	246.0	21.2	3.0
Bank of Baroda	323	36.5	244.1	8.9	1.3	43.9	271.4	7.4	1.2
Bank of India	275	28.3	118.4	9.7	2.3	34.1	142.7	8.1	1.9
Canara Bank	271	28.8	249.1	9.4	1.1	33.1	267.4	8.2	1.0
HDFC Bank	1400	43.5	323.6	32.2	4.3	52.3	361.7	26.8	3.9
ICICI Bank	1037	37.0	391.6	28.0	2.6	40.5	403.9	25.6	2.6
PNB	523	59.3	333.0	8.8	1.6	70.2	380.5	7.5	1.4
SBI	1863	98.7	558.7	18.9	3.3	112.4	649.4	16.6	2.9
Union Bank of India	161	20.1	96.6	8.0	1.7	24.0	110.6	6.7	1.5
YES Bank	198	5.2	39.1	37.9	5.2	7.6	46.8	26.0	4.2

Top Picks

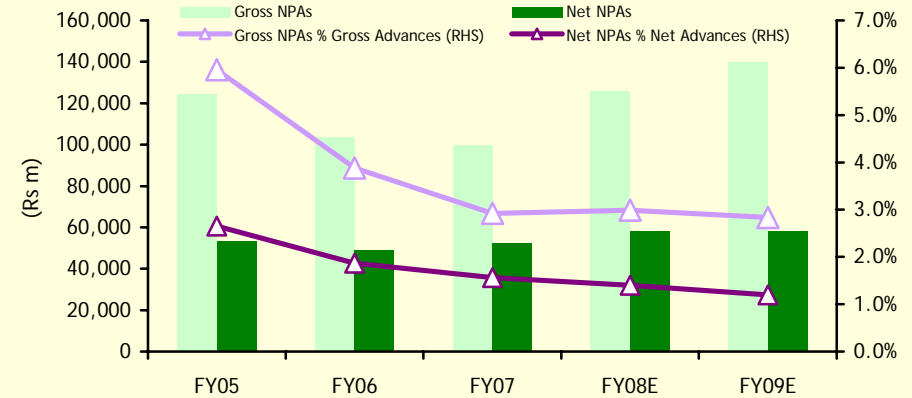
- Continued high credit growth of 29% resulted in 13 bps improvement in market share since March'07
- Deposit growth improved to 19% in Q1 FY 07 compared to 14.6% in FY 07
- Despite recent rate hikes, CASA ratio remains high at 41% and NIM stable at 3.3%
- Expect NII to grow by 13.5% in FY 08 compared to 3% in FY 07
- Expect profit to grow by 14% in FY 08 compared to 3% in FY 07
- Subsidiary merger getting momentum with SBI board approving the merger of State Bank of Saurashtra

Net Interest Margin



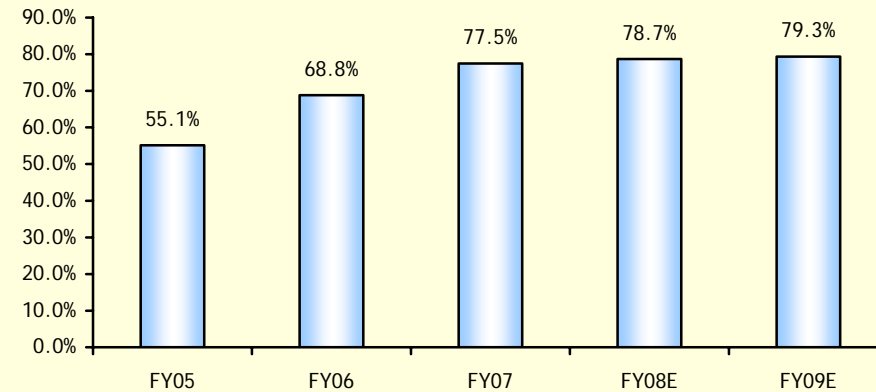
Source: Company Data, PL Research

NPA Movement



Source: Company Data, PL Research

C:D Ratio



Source: Company Data, PL Research

Financials

Income Statement

(Rs.m)

Y/e March	FY07	FY08E	FY09E
Interest Earned from Advances	248392	332875	407424
Interest Earned from Investments	114930	119574	138018
Others	31589	13215	13939
Total Interest Income	394910	465664	559381
Interest expense	234368	283440	347533
NII	160542	182225	211848
<i>Growth</i>	<i>3.0%</i>	<i>13.5%</i>	<i>16.3%</i>
Treasury Income	5678	7949	8346
NTNII	52015	39789	50532
Non Interest Income	57692	47737	58878
Total Income	452603	513402	618259
<i>Growth</i>	<i>4.3%</i>	<i>13.4%</i>	<i>20.4%</i>
Operating Expense	118235	129241	141278
Operating Profit	99999	100721	129448
<i>Growth</i>	<i>-11.5%</i>	<i>0.7%</i>	<i>28.5%</i>
NPA Provisions	14283	16926	22510
Investment Provisions	3792	-3921	6244
Total Provisions	23749	19521	36984
PBT	76251	81200	92464
Tax Provisions	30838	29232	33287
<i>Effective Tax Rate</i>	<i>40.4%</i>	<i>36.0%</i>	<i>36.0%</i>
PAT	45413	51968	59177

Balance Sheet

(Rs.m)

Y/e March	FY07	FY08E	FY09E
Equity	5263	5263	5264
Networth	310300	352145	400080
Deposits	4355211	5273878	6119586
Growth	14.6%	21.1%	16.0%
Low Cost deposits	2111345	2469045	2809883
<i>% of total deposits</i>	<i>48.5%</i>	<i>46.8%</i>	<i>45.9%</i>
Total Liabilities	5665652	6690406	7476223
Net Advances	3373365	4149239	4854609
<i>Growth</i>	<i>28.9%</i>	<i>23.0%</i>	<i>17.0%</i>
Investments	1491489	1645439	1922399
Total Assets	5665652	6690406	7476223

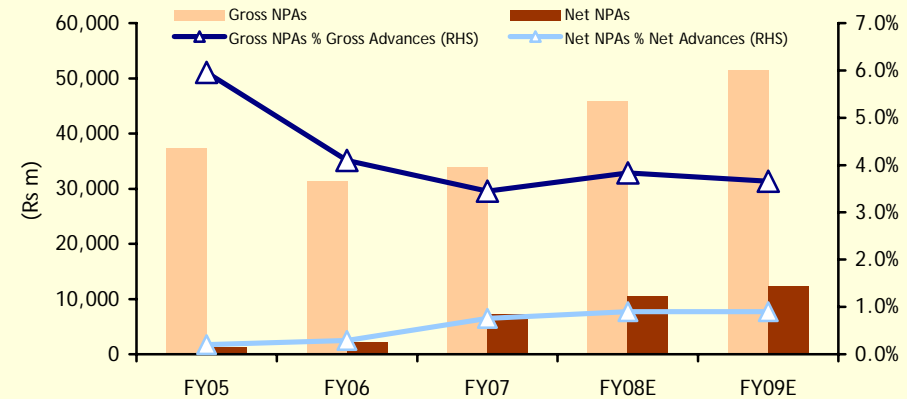
Valuations

Y/e March	FY07	FY08E	FY09E
EPS	86.3	98.7	112.4
Book Value	589.6	669.1	760.0
Adjusted Book Value	489.7	558.7	649.4
P/E	21.6	18.9	16.6
P/ABV	3.8	3.3	2.9
DPS	14.5	16.6	18.9
<i>Payout ratio</i>	<i>19.0%</i>	<i>19.0%</i>	<i>19.0%</i>
<i>Dividend Yield</i>	<i>0.8%</i>	<i>0.9%</i>	<i>1.0%</i>



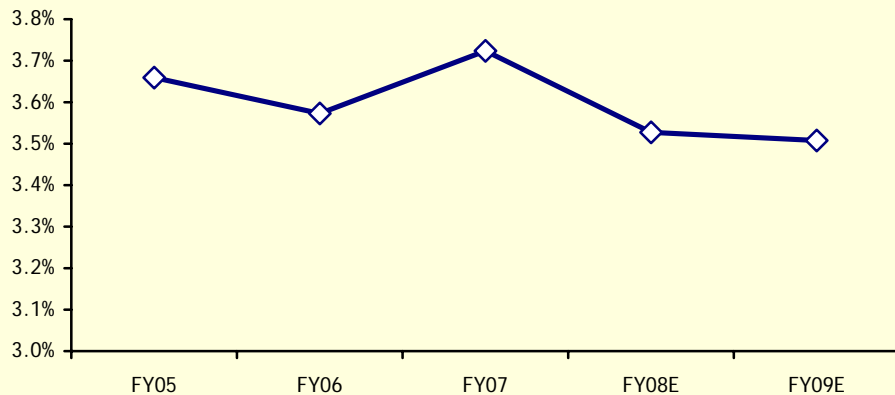
- Healthy credit growth at 23% with net NPA at 0.9%
- CASA ratio of 46% is highest in PSU segment despite strong deposit growth of 22%
- Highest NIM in PSU segment at 3.8% due to high yields and strong CASA base
- Expect profit to grow by 21% in FY 08 compared to 7% in FY 07

NPA Movement



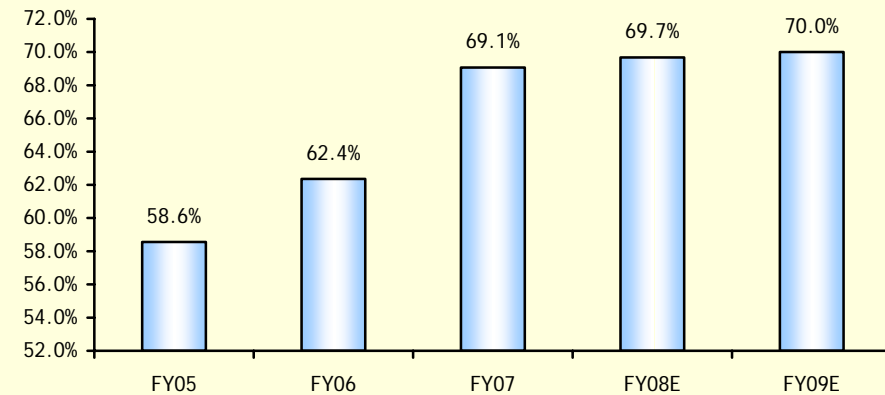
Source: Company Data, PL Research

Net Interest Margin



Source: Company Data, PL Research

C:D Ratio



Source: Company Data, PL Research



Financials

Income Statement

(Rs.m)

Y/e March	FY07	FY08E	FY09E
Interest Earned from Advances	76439	100943	121926
Interest Earned from Investments	35896	35689	40670
Others	3040	2429	2535
Total Interest Income	115375	139062	165132
Interest expense	60229	79328	96223
NII	55146	59733	68908
<i>Growth</i>	<i>18.2%</i>	<i>8.3%</i>	<i>15.4%</i>
Treasury Income	-3152	-4862	-4912
NTNII	13575	16668	20471
Non Interest Income	10423	11806	15558
Total Income	125798	150868	180690
<i>Growth</i>	<i>15.9%</i>	<i>19.9%</i>	<i>19.8%</i>
Operating Expense	33262	37087	40775
Operating Profit	32306	34453	43692
<i>Growth</i>	<i>10.7%</i>	<i>6.6%</i>	<i>26.8%</i>
NPA Provisions	5998	7969	6317
Investment Provisions	2881	-3325	2661
Total Provisions	10615	7740	12061
PBT	21691	26713	31631
Tax Provisions	6291	8014	9489
<i>Effective Tax Rate</i>	<i>29.0%</i>	<i>30.0%</i>	<i>30.0%</i>
PAT	15401	18699	22142

Balance Sheet

(Rs.m)

Y/e March	FY07	FY08E	FY09E
Equity	3153	3153	3153
Networth	101416	115441	132268
Deposits	1398597	1663691	1954025
Growth	16.9%	19.0%	17.5%
Low Cost deposits	645543	737435	842518
<i>% of total deposits</i>	<i>46.2%</i>	<i>44.3%</i>	<i>43.1%</i>
Total Liabilities	1624225	1907797	2213166
Net Advances	965965	1159158	1367807
<i>Growth</i>	<i>29.4%</i>	<i>20.0%</i>	<i>18.0%</i>
Investments	451898	498221	566261
Total Assets	1624225	1907797	2213166

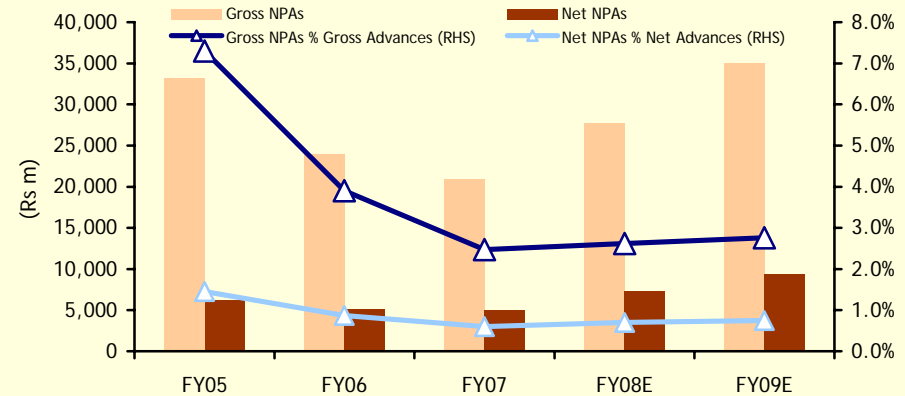
Valuations

Y/e March	FY07	FY08E	FY09E
EPS	48.8	59.3	70.2
Book Value	321.6	366.1	419.5
Adjusted Book Value	298.6	333.0	380.5
P/E	10.7	8.8	7.5
P/ABV	1.8	1.6	1.4
DPS	10.3	12.6	14.9
<i>Payout ratio (incl. Div Tax)</i>	<i>23.7%</i>	<i>24.0%</i>	<i>24.0%</i>
<i>Dividend Yield</i>	<i>1.9%</i>	<i>2.3%</i>	<i>2.8%</i>



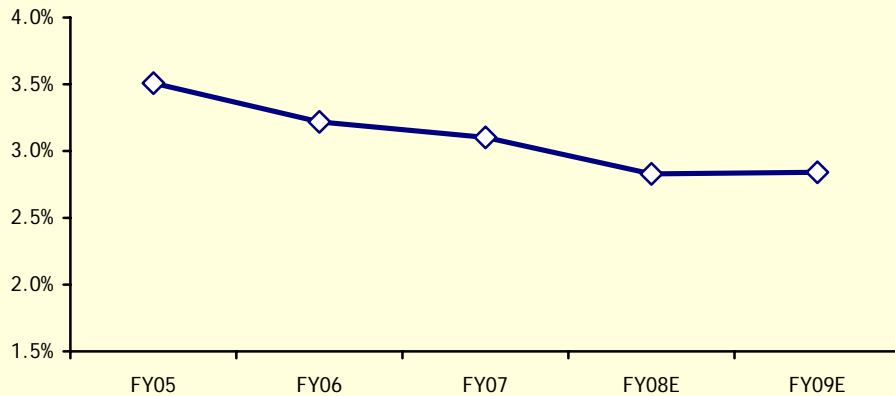
- With Q1 FY 08 credit growth at 28%, it is fourth successive years of credit growth higher than industry
- Despite strong credit growth asset quality remained robust with gross NPAs at 2.78% and net NPAs at 0.78% as on Q1 FY 08
- With CASA ratio of 38%, NIM are strong at 3.2%
- Expect profit to grow by 30% in FY 08 compared to 24% in FY 07
- Expect RoE to improve from 12.4% in FY 07 to 16% in FY 09

NPA Movement



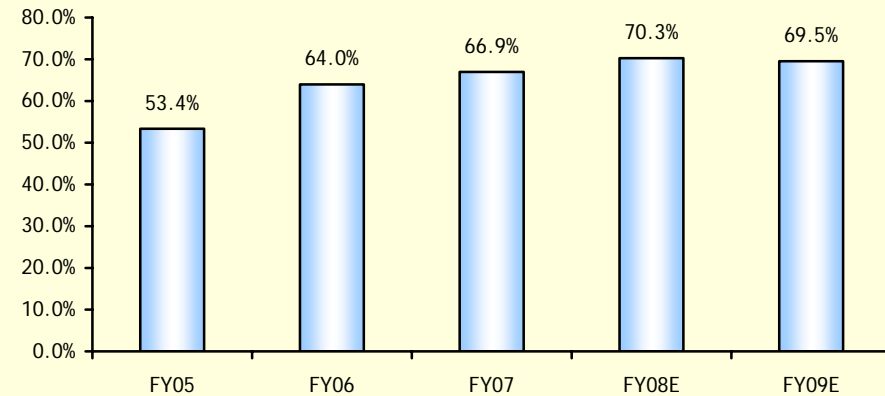
Source: Company Data, PL Research

Net Interest Margin



Source: Company Data, PL Research

C:D Ratio



Source: Company Data, PL Research

Financials

Income Statement

(Rs.m)

Y/e March	FY07	FY08E	FY09E
Interest Earned from Advances	59374	82417	102653
Interest Earned from Investments	27689	27069	33509
Others	5064	5212	5576
Total Interest Income	92126	114698	141737
Interest expense	54266	71770	89610
NII	37861	42928	52127
<i>Growth</i>	<i>19.3%</i>	<i>13.4%</i>	<i>21.4%</i>
Treasury Income	1362	0	0
NTNII	10371	12906	14247
Non Interest Income	11732	12906	14247
Total Income	103859	127603	155984
<i>Growth</i>	<i>27.0%</i>	<i>22.9%</i>	<i>22.2%</i>
Operating Expense	25443	27530	30049
Operating Profit	24150	28303	36325
Growth	25.9%	17.2%	28.3%
NPA Provisions	2191	4870	7642
Investment Provisions	3357	1172	1885
Total Provisions	7607	8407	12366
PBT	16543	19896	23959
Tax Provisions	6278	6566	7906
<i>Effective Tax Rate</i>	<i>38.0%</i>	<i>33.0%</i>	<i>33.0%</i>
PAT	10265	13331	16052

Balance Sheet

(Rs.m)

Y/e March	FY07	FY08E	FY09E
Equity	3655	3655	3655
Networth	86499	96497	108537
Deposits	1249160	1475984	1789811
Growth	33.4%	18.2%	21.3%
Low Cost deposits	414521	491109	607962
<i>% of total deposits</i>	<i>33.2%</i>	<i>33.3%</i>	<i>34.0%</i>
Total Liabilities	1431462	1695166	1996401
Net Advances	836209	1036899	1244279
<i>Growth</i>	<i>39.6%</i>	<i>24.0%</i>	<i>20.0%</i>
Investments	349436	431733	510981
Total Assets	1431462	1695166	1996401

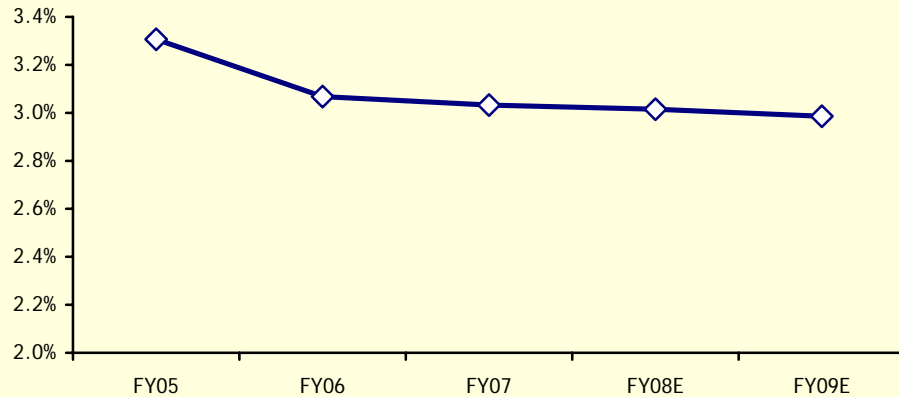
Valuations

Y/e March	FY07	FY08E	FY09E
EPS	28.1	36.5	43.9
Book Value	236.6	264.0	296.9
Adjusted Book Value	222.9	244.1	271.4
P/E	11.5	8.9	7.4
P/ABV	1.5	1.3	1.2
DPS	6.9	8.1	9.7
<i>Payout ratio (incl. Div Tax)</i>	<i>24.6%</i>	<i>25.0%</i>	<i>25.0%</i>
<i>Dividend Yield</i>	<i>2.1%</i>	<i>2.4%</i>	<i>2.9%</i>



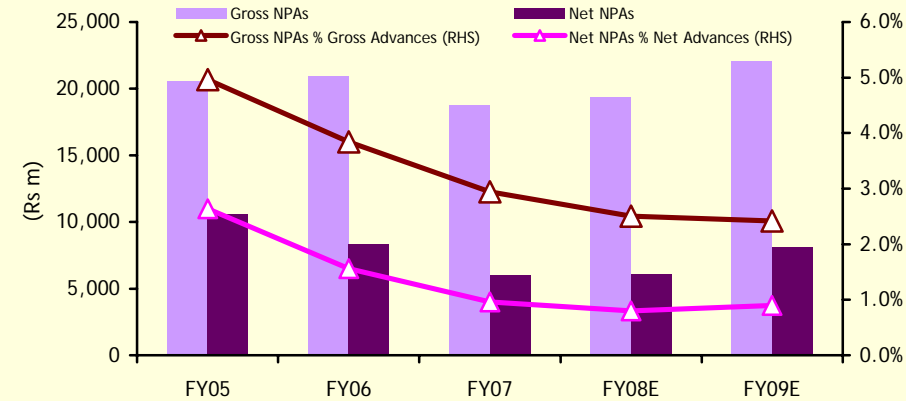
- Expect credit growth of 22% in FY 08 as against 17% in FY 07
- Expect deposit growth of 21% in FY 08 as against 15% in FY 07
- NIM improved by 7 bps to 3.11% in Q1 FY 08
- One of the most derisked treasury book with 95% of SLR book being in HTM basket
- High thrust on risk management resulted in gross NPA coming down to 2.78% and net NPAs coming down to 0.78% as on Q1 FY 08

Net Interest Margin



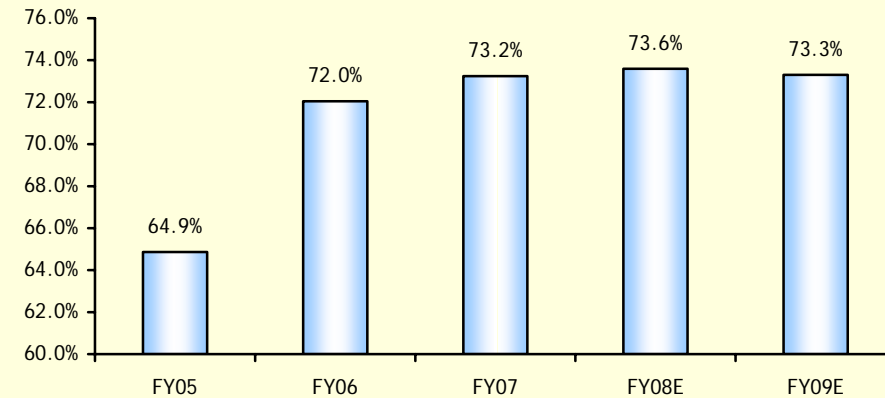
Source: Company Data, PL Research

NPA Movement



Source: Company Data, PL Research

C:D Ratio



Source: Company Data, PL Research

Financials

Income Statement

(Rs.m)

Y/e March	FY07	FY08E	FY09E
Interest Earned from Advances	50718	63294	76656
Interest Earned from Investments	21133	23158	27270
Others	1971	1629	1783
Total Interest Income	73822	88081	105709
Interest expense	45920	55540	67763
NII	27902	32541	37946
<i>Growth</i>	<i>17.5%</i>	<i>16.6%</i>	<i>16.6%</i>
Treasury Income	1085	326	358
NTNII	5780	6849	7807
Non Interest Income	6865	7175	8165
Total Income	80687	95256	113874
<i>Growth</i>	<i>26.9%</i>	<i>18.1%</i>	<i>19.5%</i>
Operating Expense	14759	16925	19093
Operating Profit	20008	22791	27017
<i>Growth</i>	<i>36.4%</i>	<i>13.9%</i>	<i>18.5%</i>
NPA Provisions	3300	3462	4314
Investment Provisions	1161	1196	1360
Total Provisions	6204	7138	8378
PBT	13804	15652	18639
Tax Provisions	5350	5478	6524
<i>Effective Tax Rate</i>	<i>38.8%</i>	<i>35.0%</i>	<i>0.0%</i>
PAT	8454	10174	12115

Balance Sheet

(Rs.m)

Y/e March	FY07	FY08E	FY09E
Equity	5051	5051	5051
Networth	47332	54872	63959
Deposits	851802	1034269	1225214
Growth	15.0%	21.4%	18.5%
Low Cost deposits	293856	364734	448553
<i>% of total deposits</i>	<i>34.5%</i>	<i>35.3%</i>	<i>36.6%</i>
Total Liabilities	1026779	1215614	1422596
Net Advances	623864	761114	898115
<i>Growth</i>	<i>16.9%</i>	<i>22.0%</i>	<i>18.0%</i>
Investments	279818	318119	361887
Total Assets	1026779	1215614	1422596

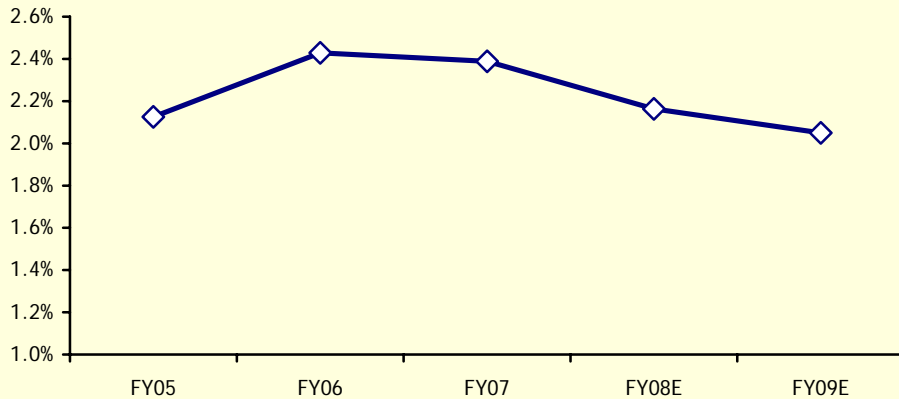
Valuations

Y/e March	FY07	FY08E	FY09E
EPS	16.7	20.1	24.0
Book Value	93.7	108.6	126.6
Adjusted Book Value	81.8	96.6	110.6
P/E	9.6	8.0	6.7
P/ABV	2.0	1.7	1.5
DPS	3.6	4.5	5.3
<i>Payout ratio (incl. Div Tax)</i>	<i>24.2%</i>	<i>25.0%</i>	<i>25.0%</i>
<i>Dividend Yield</i>	<i>2.1%</i>	<i>2.6%</i>	<i>3.1%</i>



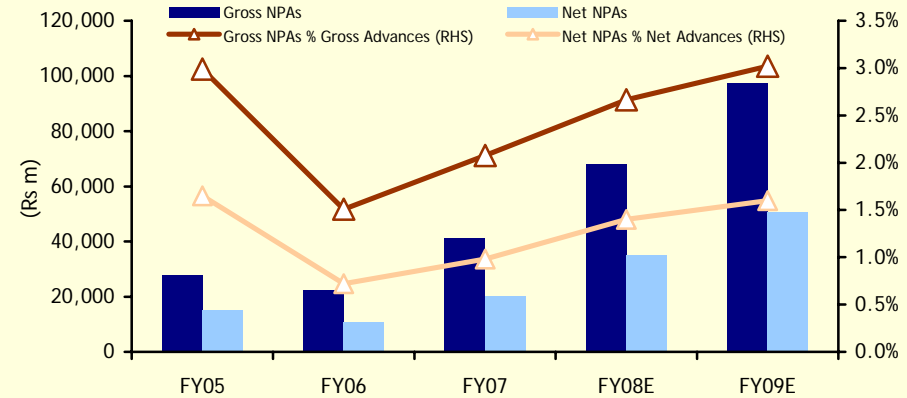
- Number of branches increased by 195 in Q1 FY 08 alone against increase of 145 branches in entire FY 07
- Rapid increase in branch network to improve CASA ratio and reduce pressure on margins
- With gross NPAs at 3% and net NPAs at 1.3%, asset quality remains strong despite some slippages in recent past
- Despite some moderation, expect credit to grow at 28% in FY 08
- Expect profit to grow by 19% in FY 08 against 22% in FY 07
- RBI's final guidelines on holding company structure to speed up value unlocking in subsidiaries

Net Interest Margin



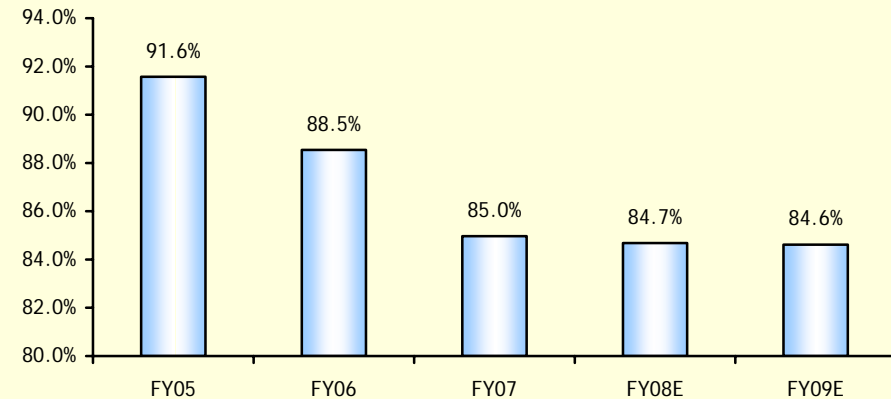
Source: Company Data, PL Research

NPA Movement



Source: Company Data, PL Research

C:D Ratio



Source: Company Data, PL Research

Financials

Income Statement

(Rs.m)

Y/e March	FY07	FY08E	FY09E
Interest Earned from Advances	160963	227753	291799
Interest Earned from Investments	59885	78175	96690
Others	9094	9423	10563
Total Interest Income	229943	315350	399052
Interest expense	163585	236676	306116
NII	66358	78674	92936
<i>Growth</i>	<i>40.9%</i>	<i>18.6%</i>	<i>18.1%</i>
Treasury Income	11152	4461	4015
NTNII	48139	67824	94322
Non Interest Income	59292	72285	98337
Total Income	289235	387636	497389
<i>Growth</i>	<i>56.5%</i>	<i>34.0%</i>	<i>28.3%</i>
Operating Expense	66906	82070	101050
Operating Profit	58744	68890	90223
<i>Growth</i>	<i>51.1%</i>	<i>17.3%</i>	<i>31.0%</i>
NPA Provisions	14283	17863	28330
Investment Provisions	419	512	627
Total Provisions	22264	23663	35608
PBT	36480	45227	54615
Tax Provisions	5378	8141	9831
<i>Effective Tax Rate</i>	<i>14.7%</i>	<i>18.0%</i>	<i>18.0%</i>
PAT	31102	37086	44784

Balance Sheet

(Rs.m)

Y/e March	FY07	FY08E	FY09E
Equity	8993	11068	11068
Networth	243634	468485	497594
Deposits	2305102	2960573	3733356
Growth	39.6%	28.4%	26.1%
Low Cost deposits	502144	652788	848624
<i>% of total deposits</i>	<i>21.8%</i>	<i>22.0%</i>	<i>22.7%</i>
Total Liabilities	3446581	4503905	5410673
Net Advances	1958656	2507080	3158920
<i>Growth</i>	<i>34.0%</i>	<i>28.0%</i>	<i>26.0%</i>
Investments	912578	1134525	1373375
Total Assets	3446581	4503905	5410673

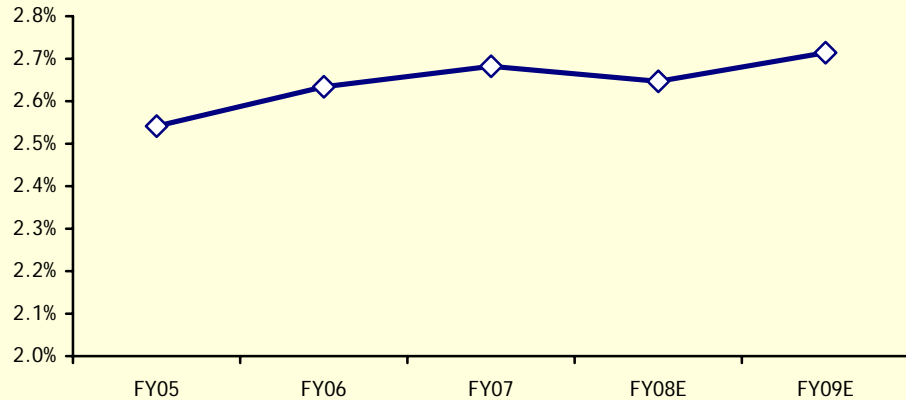
Valuations

Y/e March	FY07	FY08E	FY09E
EPS	34.8	37.0	40.5
Book Value	270.9	423.3	449.6
Adjusted Book Value	248.8	391.6	403.9
P/E	29.8	28.0	25.6
P/ABV	4.2	2.6	2.6
DPS	10.0	10.4	12.6
<i>Payout ratio (incl. Div Tax)</i>	<i>33.9%</i>	<i>35.0%</i>	<i>35.0%</i>
<i>Dividend Yield</i>	<i>0.9%</i>	<i>1.0%</i>	<i>1.2%</i>



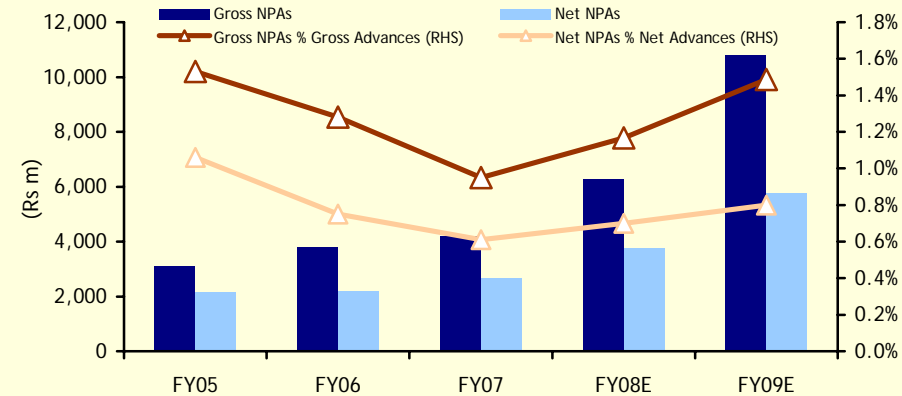
- Strong growth momentum maintained with credit growth at 60% in Q1 FY 08
- Despite high deposit growth of 45%, share of CASA deposit maintained at 38%
- With strong growth, gross NPAs at just 1% and net NPAs at 0.6% as on Q1 FY 08
- Expect continued high profit growth of 37% in FY 08 compared to 36% in FY 07

Net Interest Margin



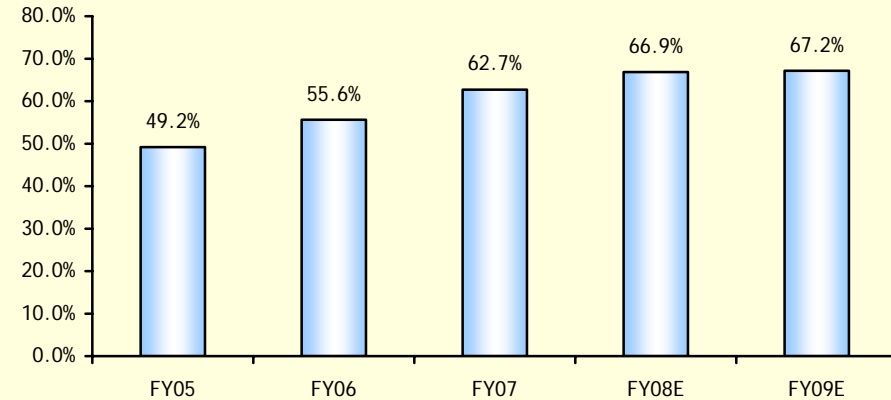
Source: Company Data, PL Research

NPA Movement



Source: Company Data, PL Research

C:D Ratio



Source: Company Data, PL Research

Financials

Income Statement

(Rs.m)

Y/e March	FY07	FY08E	FY09E
Interest Earned from Advances	27029	43186	61195
Interest Earned from Investments	17315	22703	28866
Others	1261	1341	1395
Total Interest Income	45604	67231	91456
Interest expense	29933	45377	61642
NII	15671	21854	29814
<i>Growth</i>	<i>45.3%</i>	<i>39.5%</i>	<i>36.4%</i>
Treasury Income	609	1096	1424
NTNII	8505	12635	17471
Non Interest Income	9114	13731	18895
Total Income	54718	80962	110351
<i>Growth</i>	<i>55.0%</i>	<i>48.0%</i>	<i>36.3%</i>
Operating Expense	12146	17593	24328
Operating Profit	12638	17992	24381
<i>Growth</i>	<i>39.5%</i>	<i>42.4%</i>	<i>35.5%</i>
NPA Provisions	737	1807	2513
Investment Provisions	670	896	1114
Total Provisions	2676	4535	6174
PBT	9962	13457	18206
Tax Provisions	3372	4441	6008
<i>Effective Tax Rate</i>	<i>33.8%</i>	<i>33.0%</i>	<i>33.0%</i>
PAT	6590	9016	12198

Balance Sheet

(Rs.m)

Y/e March	FY07	FY08E	FY09E
Equity	2816	3507	3507
Networth	33937	82875	92024
Deposits	587856	799769	1074896
Growth	46.5%	36.0%	34.4%
Low Cost deposits	234302	340149	477389
<i>% of total deposits</i>	<i>39.9%</i>	<i>42.5%</i>	<i>44.4%</i>
Total Liabilities	732572	1013939	1314333
Net Advances	368765	534709	721857
<i>Growth</i>	<i>65.3%</i>	<i>45.0%</i>	<i>35.0%</i>
Investments	268972	328487	414087
Total Assets	732572	1013939	1314333

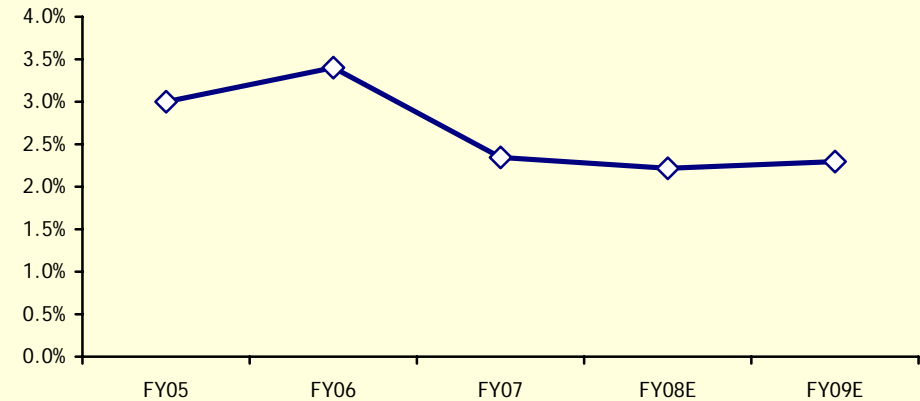
Valuations

Y/e March	FY07	FY08E	FY09E
EPS	23.5	28.5	34.8
Book Value	120.5	236.3	262.4
Adjusted Book Value	111.0	225.7	246.0
P/E	31.3	25.9	21.2
P/ABV	6.6	3.3	3.0
DPS	5.3	6.3	7.7
<i>Payout ratio (incl. Div Tax)</i>	<i>22.6%</i>	<i>25.0%</i>	<i>25.0%</i>
<i>Dividend Yield</i>	<i>0.7%</i>	<i>0.8%</i>	<i>1.0%</i>



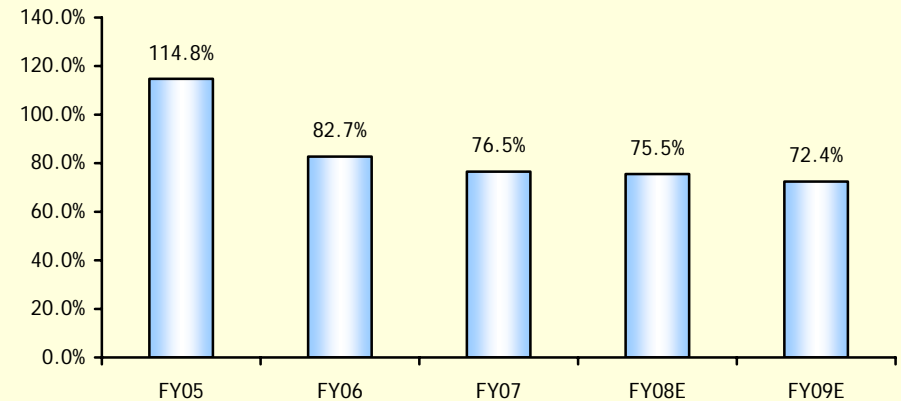
- Strong credit growth of 118% and deposit growth of 168% in Q1 FY 08
- Zero gross NPA despite three years of strong growth
- Branch network set to cross 100 mark by this year end
- CASA set to cross with operationalisation of new branches
- Expect profits to grow by 61% in FY 08 on the back of 71% growth in FY 07
- A prime candidate for takeover

Net Interest Margin



Source: Company Data, PL Research

C:D Ratio



Source: Company Data, PL Research



Financials

Income Statement

(Rs.m)

Y/e March	FY07	FY08E	FY09E
Interest Earned from Advances	4226	9579	17899
Interest Earned from Investments	1510	3268	5361
Others	139	715	892
Total Interest Income	5876	13562	24152
Interest expense	4163	10291	18302
NII	1713	3271	5850
<i>Growth</i>	<i>94.5%</i>	<i>90.9%</i>	<i>78.8%</i>
Treasury Income	45	59	70
NTNII	1901	3174	5127
Non Interest Income	1946	3232	5197
Total Income	7822	16794	29349
<i>Growth</i>	<i>169.8%</i>	<i>114.7%</i>	<i>74.8%</i>
Operating Expense	1935	3683	6483
Operating Profit	1724	2821	4564
<i>Growth</i>	<i>74.0%</i>	<i>63.6%</i>	<i>61.8%</i>
NPA Provisions	0	90	325
Investment Provisions	0	41	66
Total Provisions	288	558	1146
PBT	1437	2262	3418
Tax Provisions	493	747	1128
<i>Effective Tax Rate</i>	<i>34.3%</i>	<i>33.0%</i>	<i>33.0%</i>
PAT	944	1516	2290

Balance Sheet

(Rs.m)

Y/e March	FY07	FY08E	FY09E
Equity	2800	3000	3000
Networth	7871	11736	14026
Deposits	82200	153890	288777
Growth	182.4%	87.2%	87.7%
Low Cost deposits	4739	14965	38711
<i>% of total deposits</i>	<i>5.8%</i>	<i>9.7%</i>	<i>13.4%</i>
Total Liabilities	111031	202320	345270
Net Advances	62900	116226	209208
<i>Growth</i>	<i>161.3%</i>	<i>84.8%</i>	<i>80.0%</i>
Investments	30700	51345	81228
Total Assets	111006	202320	345270

Valuations

Y/e March	FY07	FY08E	FY09E
EPS	3.4	5.2	7.6
Book Value	28.1	39.1	46.8
Adjusted Book Value	28.1	39.1	46.8
P/E	57.8	37.9	26.0
P/ABV	7.1	5.1	4.2
DPS	0.0	0.0	0.0
<i>Payout ratio (incl. Div Tax)</i>	<i>0.0%</i>	<i>0.0%</i>	<i>0.0%</i>
<i>Dividend Yield</i>	<i>0.0%</i>	<i>0.0%</i>	<i>0.0%</i>





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PL's Recommendation Scale

BUY	:	> 15% Outperformance to BSE Sensex	Outperformer	:	5 to 15% Outperformance to Sensex
Market Performer	:	-5 to 5% of Sensex Movement	Underperformer	:	-5 to -15% of Underperformance to Sensex
Sell	:	<-15% Relative to Sensex			

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