

Indian Financial Services

On Bank Street - Vol 143

- **NEWS FLASH: RBI** announced multiple measures to ease out liquidity crunch and boost market confidence: 1) cut CRR and SLR by 100bps; 2) reduced repo rate by 50bps; and 3) allowed banks access to special refinance at 7.5% for 90 days. **Union Bank** cuts PLR by 50bps to 13.5%.
- **RBI** relaxes forex derivative accounting norms.
- **RBI** allows NBFCs to 1) raise up to US\$10 million in foreign currency; and 2) raise capital through perpetual debt offering.
- **Inflation** data likely to be released once a month from January onwards.
- **PNB** cuts PLR by 50bps to 13.5%, and also announced a 50bp cut in the peak deposit rate of 10.5% from December 1.
- **Private Banks Index** rose in line with the market gaining 12.0% vs. 12.5% for BSE Sensex Index. Biggest gainers – **Private banks**: ICICI up 29.3% and HDFC up 12.0%. The **SOE Banks Index**, however, declined by 2.4% led by SBI, which was down 4.7%.

India Banks

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



Source: Bloomberg, J.P. Morgan.

See page 23 for analyst certification and important disclosures, including non-US analyst disclosures.

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Stock price performance

	31-Oct	Chg
SOE		
BOB	239	-2.5%
CBK	166	5.8%
PNB	421	0.2%
SBIN	1,110	-4.7%
UNBK	125	1.1%
ALBK IN Equity	48	0.9%
BOI IN Equity	241	5.9%
IOB IN Equity	74	-9.2%
SNDB IN Equity	50	-8.1%

Private		
HDFC	1,765	12.0%
HDFCB	1,023	5.1%
ICICIB	399	29.3%
IDFC	58	21.5%
YES	68	4.4%
DEVB IN Equity	24	-3.9%
KBL IN Equity	81	2.2%

Sensex	9,788	12.5%
SOE Bank Index		-2.4%
Pvt Bank Index		12.0%

Source: Bloomberg, J.P. Morgan estimates.
Note: Change in prices is weekly.

ADR/GDR (US\$)

	31-Oct	Chg	Prem
HDFCB	65.60	23.8%	5.74%
ICICIB	17.32	39.2%	7.39%
SBI	46.00	5.7%	2.49%
AXIS	12.00	2.3%	5.41%

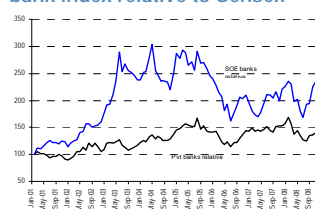
Source: Bloomberg, J.P. Morgan estimates.
Change in prices is weekly.

Others

	31-Oct	Chg
10 year yield	7.45	(0.33)
Rs/US\$	49.45	(0.52)
Brent (US\$/bbl)	64.40	3.74
Inflation*	10.68	(0.39)

Source: Bloomberg, J.P. Morgan estimates.
Change in prices is weekly.
*Inflation data is for week ended 18 Oct 2008.

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



Source: Bloomberg, J.P. Morgan estimates

On Bank Street

We are happy to present you with our banking news digest for the fortnight ended 1 November 2008.

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Sector news

RBI allows NBFCs to raise up to \$10 mn in foreign currency (Nov 1 ET) [Top](#)

RBI on Friday allowed non-deposit taking NBFCs to raise short-term funds in foreign currency up to USD 10 million under the approval route to meet liabilities. The resource should be used only for refinancing of short-term liabilities and no fresh asset should be booked out of resources. The borrowing should be fully swapped into rupee for the entire maturity and the maturity of the borrowing should not exceed three years. The facility would be available to those NBFCs, which are complying with prudential norms on capital adequacy. RBI said that the maximum amount should not exceed 50% of the net owned funds or USD 10 million which ever is higher.

From January, inflation data to be released once a month (Oct 31 Mint) [Top](#)

From January, India's inflation data will become more accurate, thereby improving the quality of regulatory response to it. That's because a key decision-making body of the Indian government has approved a proposal to release Wholesale Price Index (WPI)-based inflation data once a month from the current frequency of once a week, taking it just a step away from being implemented. The data will likely be more representative also because it will cover almost twice as many items as current data. The proposal now needs clearance from the cabinet committee on prices, a group of ministers who look at issues related to prices of essential commodities, before it can be implemented.

SEBI may limit FMPs realty sector investments (Oct 31 ET) [Top](#)

In an effort to discourage mutual funds' high exposure to the real estate sector, capital market regulator SEBI may impose limits on fund allocation to certain sectors in fixed maturity plans (FMP). SEBI, which is undertaking a structural review of FMPs, will also address the issue of asset-liability mismatch at some of the fund houses. An assessment of MF portfolios by SEBI shows that some funds have 15-16% exposure to the real estate sector and nearly 5% to NBFCs.

RBI to offer Rs 110.5 bn at special repo (Oct 30 ET) [Top](#)

The RBI said it would conduct a special 14-day repo auction for Rs 110.5 bn on Wednesday. The reversal of Wednesday's auction will take place on November 12, it said in a statement. The auction was introduced on October 14, and is being held every day until an allocated 200 billion rupees has been used.

Chidambaram to meet bank chiefs on Nov 4 (Oct 30 BS) [Top](#)

FM P Chidambaram will meet the heads of public sector banks and financial institutions, like IFCI and Small Industries Development Bank of India (Sidbi) on Tuesday to review their performance for the second quarter ended September 2008. Bankers said they also expect the government, which is the majority shareholder in 27 public sector banks, to discuss ways to manage the impact of the global slowdown and the financial turmoil on the Indian financial sector and the economy. A formal agenda for the meeting is yet to be circulated, they added.

State banks to get deposit largesse from Govt firms (Oct 30 BS) [Top](#)

State-owned commercial banks are expected to garner at least Rs 200 bn of additional bulk-deposits from public sector enterprises following an advisory from the finance ministry that government-owned companies should park their surplus cash with state-controlled banks. These public sector enterprises hold between 10 and

40% of their cash with private banks. The 45 listed public sector firms alone have cash and bank deposits of Rs 1,135 bn as of March 2008, according to Capitaline data. This excludes unlisted entities like state-owned telecom major BSNL Ltd, Coal India Ltd and Oil India Ltd.

NBFCs can raise capital through perpetual debts: RBI (Oct 30 ET) [Top](#)

The Reserve Bank on Wednesday granted another window for non-deposit taking NBFCs to raise capital by issuing perpetual debts. Considering the need for enhanced funds for increasing business and meeting regulatory requirements, it has been decided the non-deposit taking non-banking financial companies (NBFCs) may augment their capital funds by issue of perpetual debt, RBI said in a notification. Such instruments would be considered as Tier I capital to the extent of 15% of total Tier I capital as on March 31 of the previous accounting year, it said. It also said that the amount of excess perpetual debt over permissible limit would qualify as Tier II capital within the eligible limit.

RBI relaxes forex derivatives accounting norms (Oct 30 ET) [Top](#)

RBI on Wednesday relaxed the accounting guidelines for valuing derivatives, a move that will help the Indian banks with overseas branches to post better financial results. "It has now been decided to confine the applicability of the principle of borrower-wise asset classification to only the overdues arising from forward contracts and plain vanilla swap and options", the central bank said, while modifying its earlier notification for off-balance sheet exposures of banks. Under the borrower-wise classification norms, all other funded facilities given to defaulting clients are required to be shown as non-performing assets (NPAs). Earlier, the RBI had said borrower-wise classification norms would apply to all funded facilities of a client if the receivables representing mark-to-market value of a derivative contract remain unpaid for over 90 days.

RBI holds key rates, disappoints Dalal Street (Oct 25 BS) [Top](#)

RBI Governor Duvvuri Subbarao today kept key interest rates unchanged, but indicated that the central bank would remain proactive and use "conventional or unconventional" steps to address concerns arising out of inflation and a sustained rise in money supply and credit growth. Subbarao's first policy since taking charge of RBI in September, however, did not specify the measures. Nevertheless, his cautious stance failed to meet market expectations. The Bombay Stock Exchange's benchmark index, Sensex, fell almost 11%, the rupee dropped to a record intra-day low of below 50 versus the dollar and the yield on the benchmark 10-year bond climbed 12bps to 7.68%.

Now, ECB limit is hiked to \$35 bn (Oct 24 FE) [Top](#)

The government has raised by 60% the annual limit on external commercial borrowings (ECBs) by Indian companies to \$35 billion, from the current \$22 billion. Companies that already have permission to raise overseas loans will benefit immediately from this move. This comes a day after RBI announced a significant relaxation in ECB policy that allowed companies to repatriate up to \$500 million through the automatic route.

Capital inflows volatile, forex reserves comfortable: RBI (Oct 24 FE) [Top](#)

Review of the mid-term Macroeconomic and Monetary Development, released by the RBI (RBI), said that capital flows have remained volatile. Net capital flows during 2008-09 were lower than those in the corresponding period of 2007-08,

mainly on account of outflows by foreign institutional investors (\$7.3 billion) during 2008-09 (up to October 10, 2008) in contrast to net FII inflows (\$ 18.9 billion) during the corresponding period of 2007-08. On the other hand, net FDI flows into India were placed higher at \$16.7 billion during April-August 2008 against \$8.5 billion during April-August 2007. With net capital flows being higher than the current account deficit, the overall balance of payments recorded a surplus of \$2.2 billion during the first quarter of 2008-09 (\$11.2 billion in the first quarter of 2007-08).

RBI concerned over high commodity prices (Oct 24 BS)

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RBI on Thursday said there were signs of moderation in inflationary pressures but warned that commodity prices, despite falling in the second quarter, will remain at elevated levels. In its pre-policy report, the central bank reiterated its resolve to bring down inflation to around 7% by March 31, 2009, while lowering it further to 3% over the medium-term. The central bank said inflationary pressures continued to persist in most emerging market economies fuelled by rising commodity prices particularly of energy, food and metals. Manufactured products were the major drivers of the wholesale price index-based (WPI) inflation that was at 11.44% as on October 4, 2008, as against 3.2% a year ago. RBI said that manufactured products, which included metals, cement, machine tools, food products and cotton textiles, contributed about 47.1% to overall the inflation.

FinMin not to increase FII investment cap in Govt securities (Oct 24 FC)

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Finance Ministry today ruled out any increase in the investment limit by Foreign Institutional Investors (FIIs) in the government securities. He further said that as only 65% of FII investment cap of \$5 billion in government securities has been exhausted so far, there is no case for reviewing the limit. Earlier in June, the government raised the FII investment limit in government securities to \$5 billion from \$3.2 billion. Although the government has not hiked the investment limit in government securities, it has recently increased the FII investment cap in corporate debt to \$6 billion from \$3 billion to encourage flow of foreign investment.

India eases overseas loan rules to boost capital inflows (Oct 23 ET)

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India's central bank raised the ceiling on overseas borrowing by domestic firms to \$500 million from \$100 million, a move aimed at boosting capital inflows and shoring up the rupee after it hit record lows. A central bank statement posted on its Web site said companies could use the new facility without its approval for rupee or foreign currency spending. The changes to the borrowing rules will take effect immediately. It also scrapped a rule that required loans above \$100 million for infrastructure spending to have a minimum maturity of seven years.

We'll miss fiscal, revenue deficit goals, admits FM (Oct 23 ET)

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The government on Tuesday admitted it might miss the 2008-09 Budget targets for fiscal and revenue deficits as the global financial crisis forced the nation to borrow and spend more. The minister, who on Monday disclosed the government will exceed its borrowing target for the first time in four years, promised it will strive to meet the target next year. As per the Budget estimates, the government should reduce fiscal deficit — excess of total expenditure over total income, excluding market borrowing — to 3% of GDP and revenue deficit — difference between the current expenditure and current receipts — to 1% of gross domestic product. The Fiscal Responsibility & Budget Management (FRBM) Act mandates the government to cut fiscal deficit to

3% of GDP by 2008-09, or 0.3% every year. The Act also mandated scrapping revenue deficit by 2008-09.

Liquidity panel seeks more support for banks (Oct 23 BS)

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The Liquidity Adjustment and Injection Committee, headed by Finance Secretary Arun Ramanathan, has suggested that more steps may be required to infuse liquidity into the banking system. It added that the biggest move to help banks with overseas branches tide over the liquidity crunch was to allow the RBI to lend to them from the foreign exchange reserves. While the law prevents the central bank from doing so, sources said, a solution may be found.

Mobile banking norms draw Net, VAS company's ire (Oct 23 ET)

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RBI guidelines on mobile banking regarding compulsory inclusion of banks as financial intermediaries for transactions is attracting ire from the mobile value-added-services (VAS) and Internet industry, who maintain that both banking and non-banking entities should be encouraged to offer this service. Industry players demand that both telecom operators and mobile VAS providers should be allowed to offer payment mechanisms to subscribers not having bank accounts as well. According to RBI, only banks, which are licensed and supervised in India, and have a physical presence in India will be permitted to offer mobile banking services. The services shall be restricted only to customers of banks and/or holders of debit/credit cards issued as per the RBI guidelines.

RBI allows higher interest on borrowed funds (Oct 23 BS)

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RBI also allowed companies to pay higher interest rates on borrowed funds. For a loan with maturity of over five years, companies can now pay up to 5% over the six-month London inter bank offered rate (Libor). In September, it was raised to 3.5% for five to seven years and 4.5% for above seven years. For maturity of three to five years, it is now 3%, up from the earlier 2%. In another big change, RBI also permitted companies to park ECB funds with overseas branches or subsidiaries of Indian banks or credit these funds to their rupee accounts with AD category- I banks in India, pending utilisation for permissible end-uses. However, the rupee funds cannot be invested in the capital market, real estate or lent to other companies.

RBI likely to ease cap on foreign currency deposits (Oct 22 ET)

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A further easing of the interest rate cap on foreign currency deposits, along with other policy measures to boost inflows, may be underway soon. A group appointed by the finance ministry to assess the liquidity demand and to suggest steps to augment liquidity has suggested revising the cap imposed on interest rates on foreign currency deposits. Recently, the RBI revised the cap on foreign currency non-resident (FCNR) (B) deposits and non-resident external (NRE) deposits by 50bps to Libor/swap rate plus 25bps and Libor swap rates plus 100bps, respectively. Since this fiscal, foreign currency reserves have fallen by \$35 billion, as overseas investors have sold stocks and with the central bank forced to sell dollars to prop up the rupee.

Banks seek dollar credit line from RBI (Oct 22 Mint)

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Indian banks are looking to the country's central bank to provide them with the money they need for their international operations. A sharp cut in banks' cash reserve ratio, which determines the money that commercial banks are required to keep with the banking regulator, has released Rs 1 trillion and eased pressure on domestic liquidity for the time being, but Indian bankers are a worried lot as overseas money lines are drying up with the global liquidity crunch continuing and banks refusing to

lend to each other. Banks are demanding a special dollar line of credit from the RBI (RBI) to tide over the liquidity crunch that they might face in their international operations soon if the situation does not improve.

RBI special repo facility finds few takers (Oct 22 ET)

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RBI special money market operation to provide money to mutual funds has found few takers as a series of liquidity inducing measures has eased the cash crunch in the financial system, industry experts said. While the RBI has offered to provide liquidity up to 200 billion rupees to mutual funds, borrowing under this special facility in the last five auctions since it was introduced stands at a mere 85.50 billion rupees. Improvement in liquidity conditions meant that funds are able to manage their redemptions by selling assets, said A.P. Kurian, chairman of Association of Mutual Funds.

Now, RBI cuts repo rate to ease liquidity (Oct 21 ET)

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RBI today signalled an end to the tight monetary policy regime by cutting the repo rate, or the rate at which it lends to banks, by 100bps to 8%. The reduction, the first since March 2004 and four days before the mid-term review of the annual policy Friday, is part of a series of liquidity-easing measures by the central bank to stoke investment and growth and counter the indirect impact of the global liquidity constraint in recent weeks. Although a repo rate cut was on the cards the cut was deeper than the 50 basis point expectation. Today's announcement was effective immediately.

FM's subsidy bill shows extra Rs 1 trillion (Oct 21 ET)

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Finance minister P Chidambaram on Monday sought Parliament approval for an additional spend of Rs 1.06 trillion (\$21.7 billion) for the fiscal year to fund the food and fertiliser subsidy bills as well as provide for the farm loan waiver scheme. This is the net additional outgo from the government for the fiscal year. The gross additional spending stands at Rs 2.37 trillion which would be offset to a large extent by savings of various ministries. According to analysts, the additional spending would lead to bigger borrowings, putting pressure on government finances and widening the fiscal deficit to more than the Budget target of 2.5% of GDP. However, this is likely to add liquidity in the system and generate economic activity.

Banks' exposure to Lehman Brothers \$336 m: FM (Oct 21 HBL)

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The Government on Monday said banks have exposure of \$336 million in US-based investment bank Lehman Brothers, which has filed for bankruptcy. The banks' exposure to Lehman Brothers is \$336 million (Rs 15.80 bn) as on September 30, the Finance Minister, P Chidambaram told Lok Sabha in a written reply. The exposure mainly consisted of investments in floating rate notes, nostro balances, bank guarantees, forex exposures, etc, he said. The banks have made aggregate provision of \$47.3 million (about Rs 2.2 bn) on these exposures, he added.

RBI further relaxes CD norms for mutual funds (Oct 21 ET)

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In a bid to help the mutual funds tide over the liquidity problems, the Reserve Bank on Monday allowed MFs to raise funds from banks against the Certificate of Deposits (CDs) until further notice. On October 14, the central bank allowed the mutual funds to raise funds against the Certificate of Deposits (CDs) for 15 days to help the MFs cope up redemption pressures. On a review, it has been decided that the relaxations allowed on October 14 would continue to be in force until further advice, RBI said in a notification today.

RBI keeps keen eye on banks' overseas deals (Oct 20 BS)

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The central bank is looking to check flight of capital under the guise of repatriation of portfolio investments. RBI is keeping close tabs on all remittances by Indian banks. The screening of data is more intense in the case of foreign and some private banks which act as custodians for foreign institutional investors (FIIs). Indian banks, both public and private, send capital to their foreign offices for everyday requirements in the inter-bank market and for client commitments. Most foreign investors — be it banks, parents of foreign banks, private equity players or foreign funds — have substantial investments in Indian entities through both foreign direct investment (FDI) and FII routes.

Planning commission projects inflation at 6% by March '09 (Oct 20 FE)

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Inflation figures of the government agencies are in for a big dose of downward correction as commodity prices come off their highs. First off the block will be the Planning Commission. The Commission has projected a 6% rate of wholesale price index-based inflation by March 2009; incidentally just about the time the elections to the Lok Sabha are scheduled. The projection is a full 100 basis point lower than the Reserve Bank's estimate made in its first quarter review in July.

Banks charging higher rates, say mutual funds (Oct 20 HBL)

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Though the RBI is providing funds at 9% to banks for on-lending to mutual funds, some banks are understood to be demanding as high as 14 to 15% interest from mutual funds. Under the RBI's special scheme to help the fund-starved mutual funds, banks can lend money to MFs against the collateral of Certificate of Deposits (CDs). They are also allowed to buy CDs from MFs. Some banks prefer to buy CDs from MFs rather than lending against them, as loan to MFs includes their overall exposure to the stock market. Moreover, some banks are accepting CDs of only public sector banks, said a mutual fund industry official.

Private Banks

Kotak Bank eyes 235 branches (Nov 1 DNA)

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Kotak Mahindra Bank would go slow on branch expansion owing to high realty prices, said Jaimin Bhatt, CFO of Kotak Mahindra Bank. He said the number of branches at the end of the current fiscal would be in the 220-235 range though the bank has got the RBI nod for more branches. Kotak Mahindra bank currently has 201 branches around the country. When asked where the new branches would come up, Bhatt said they would be across India with the stipulated 25% of branches in semi-urban and rural areas. He added that bank has no immediate plans to open its first overseas branch. Kotak Mahindra Bank posted a 12.7% drop in its net profit to Rs 480 mn for the quarter ended September this year over the June quarter. Operating profit decreased to Rs 1,120 mn in the current quarter to Rs 1,460 mn in the September quarter of FY08.

Kotak Q2 PAT falls 33.33% to Rs 1,610 mn (Nov 1 BS)

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Kotak Mahindra Bank today said its consolidated profit after tax (PAT) fell over 33% to Rs 1,610 mn during the second quarter of 2008-09, from Rs 2,414 mn during the same quarter last year. Its total income went up by 2.08% during the quarter to Rs 18,495 mn. During the period, interest income went up by 30.34% to Rs 10.92 bn. Non-tax provisions rose by 26.95% to Rs 659.5 mn during the second quarter this year from Rs 519.5 mn during July-September 2007. On a standalone basis, the bank's PAT fell by 36.51% to Rs 478.6 mn during July-September 2008. Total income was 12.98% higher at Rs 8.06 bn in the second quarter this year.

Expense cut helps ICICI report flat net, beat estimates (Oct 28 ET)

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Lower expenses helped ICICI Bank report a flat profit for the second quarter ended September 30, 2008. ICICI Bank reported a net profit of Rs 10.14 bn against Rs 10.02 bn in the corresponding period of the previous quarter. However, the bank's UK subsidiary has reported a \$46 mn loss against a \$17.2 mn profit last year on the back of higher provisioning. For the second quarter, the bank's balance sheet has contracted and is now at Rs 3,849.70 bn against Rs 3,997.95 bn in March. Net interest margins for the quarter were at 2.4% similar to the first quarter and against 2.23% in the second quarter of the previous fiscal. Even as retail advances were flat, corporate and international lending rose by 30% in the quarter. ICICI Prudential Life Insurance — the bank's largest Indian subsidiary posted a loss of over Rs 4.66 bn in the first half of the year. Bank's Canadian operations posted a profit of CAD 21 mn in the second quarter against CAD 3 mn last year.

Depositors pull out Rs 170 bn from ICICI since Mar (Oct 25 ET)

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ICICI Bank is shifting focus away from wooing bulk deposits as part of a strategy to reduce its cost of resources. Over the last six months, the bank saw an exodus in deposits following a cut in the lending costs. In the first quarter ended June 30, ICICI Bank saw deposit outflow of Rs 100 bn. From March till October 10, deposits fell by nearly Rs 170 bn. At the end of March 2008, ICICI Bank had deposits aggregating Rs 2,444.3 bn compared with Rs 2,344.6 bn at the end of the first quarter in the same financial year. The bank's deposit base stood at Rs 2,273.8 bn as on October 10.

Home loan rate hiked before CRR, Repo rate cut: ICICI Bank (Oct 24 ET)

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ICICI Bank on Thursday said it has adopted a wait and watch policy on changes in interest rates, and the recent hike in rate for new incremental home loan customers was before RBI's recent cuts in the cash reserve ratio and repo rate. ICICI Bank had

raised the interest rate for new home loans from 12% to 13% earlier this month, but it kept unchanged the benchmark rates, including its Floating Reference Rate (FRR) for home and other consumer loans. ICICI Bank had last announced raising its FRR by 0.75% on July 31 to 14.25%, but kept the fixed rate customers out of the ambit of any rate hike. The spokesperson said the rate change decision early this month was only for a specific segment of new incremental home loan customers and rates remain unchanged for old customers.

Himatsingka may pare forex losses (Oct 24 BS)

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Himatsingka Seide, which had sued HDFC Bank over a transaction, said the silk manufacturer and exporter's foreign exchange derivative losses may come down because of a directional change in the currency fluctuation. The Rs 9 bn Bangalore-based company earlier this year had filed a case against HDFC Bank for alleged losses of Rs 1.75 bn arising out of volatile currency movements. Himatsingka Seide in early 2007 had entered into a complex forex derivative contract with the lender to manage its Euro and US dollar currencies. On Thursday, Himatsingka Seide said in a statement that in respect of a disputed foreign exchange derivative contract, the counter party has communicated that the "knock out" event has occurred. Consequently the liability of the company under such contract stands significantly reduced.

ICICI hikes home loan rates by 1% (Oct 24 BS)

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ICICI Bank, the country's second largest lender, has raised its home loan rates by 100bps for new borrowers. The bank raised its floating rates from 12% to 13%, while the fixed rates were hiked to 16.5% with effect from October 10. The bank clarified that the new home loan rates are not applicable to its existing customers. Despite a slew of measures taken by the RBI (RBI) to ease the liquidity condition, the private sector lender has hiked its home loan rates in response to a high cost of funds. The bank's home loan rates, which are now among the highest in the industry, have been raised without any public announcement. The bank said it sent letters to loan applicants, detailing the new rate structure.

ICICI puts checks & balances on credit card biz (Oct 23 ET)

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ICICI Bank, the country's largest credit card issuer, has decided to put the brakes on its credit cards business. Facing a general economic slowdown like everybody else, the bank has now tightened the noose in preventing unbridled expansion of its credit-card clientele and also in respect of improving the overall client quality. With a staggering 8 mn customers, ICICI Bank claims to be numero uno in this field. Its outstanding advances under the credit cards business was over Rs 96 bn as on March 31, 2008, a 60% rise over Rs 61 bn exposure a year back. The bank is now insisting that card holders with high value purchases to opt for monthly repayment scheme to check the possibility of defaults.

ICICI Bank to focus on Agri sector (Oct 23 BS)

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ICICI Bank will focus on the rural market and the agriculture sector for its future growth. Since agriculture contributes about 18% to the Gross Domestic Product (GDP) of the country and employs about 65% of the workforce, it provides enough opportunity for growth. Keeping the vast untapped potential in the rural areas and in the agriculture sector, the bank will focus on reaching out to people not having access to the banking system, Kumar Ashish, General Manager, Rural Micro Banking and Agricultural Group, ICICI Bank said. ICICI has tied up with warehouses

for providing storage facilities to the farmers for getting higher price for their products.

Yes Bank Jul-Sep net profit up 40%, beats forecast (Oct 23 ET) [Top](#)

Yes Bank Ltd posted a 40% rise in July-September net profit, beating forecasts, as it maintained margins while expanding its loan book by 53%, a top official said. The bank posted a net profit of Rs 636.2 mn for the quarter against Rs 452.8 mn during the same period a year earlier. Its net interest margin was 2.8% while its loan book rose by 53% to Rs 115.15 bn. The bank's average cost of funds is 9.2% while the average yield on advances is 12.7%. The bank's non-interest income, which constitutes about 40% of its total income, rose to Rs 803 mn against Rs 770 mn a year ago. The bank plans to continue its focus on building its deposit base and plans to take its low-cost deposit base or current account and savings account (CASA) to 20% by 2010 from the present 9%.

ICICI says will repay \$300 m bonds (Oct 22 DNA) [Top](#)

ICICI Bank will repay \$300 million of five-year foreign currency bonds maturing on Wednesday, a spokesperson from the bank said. "These bonds were issued in October 2003 to provide foreign currency financing to Indian companies (and now that they have matured) they are being repaid," ICICI spokesperson Charudatta Deshpande, said. Earlier on Tuesday, Bloomberg reported that, apart from the \$300 million of ICICI notes maturing, a further \$1.1 billion of dollar- and euro-denominated debt are maturing through 2009. Government-owned State Bank of India has \$400 million of notes scheduled for repayment at the end of next year. ICICI's \$300 million bonds carry a coupon of 4.75% per annum. The bank does not plan to raise any fresh money to repay this bond.

Indus-Ind gets nod to raise more capital (Oct 21 BS) [Top](#)

After raising \$51.73 million (around Rs 2.48 bn) in June through issue of global depository receipts (GDRs), private sector lender IndusInd Bank has got the shareholders' approval for raising further capital, if a need arises. The proposal was approved at the bank's AGM last month. The capital raised through the GDR issue is scheduled to be infused over a span of 12 months.

SOE Banks

Syndicate bank trims bulk deposits (Nov 1 HBL)

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Syndicate Bank reduced its bulk deposits by Rs 10,550 mn on year on year basis in a bid to bring down the cost of working funds. CMD of Syndicate Bank, George Joseph, said: "The bank has taken a conscious decision to shed bulk deposits and focus on raising its core deposits. Bulk now comprised less than 33% of our overall deposits." Core deposits that included current and savings accounts were Rs 627,500 mn in the second quarter of 2008-09. Gross deposits during the period were Rs 957,560 mn. Despite the reduction in bulk deposits, Syndicate Bank's cost of working funds hardened to 6.89% in Q2 this year, up from 6.65% the corresponding period of the last year.

PNB cuts PLR by 50 bps to 13.50% (Nov 1 ET)

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Punjab National Bank was the first one to cut benchmark prime lending rate by 50 bps from 14% to 13.50%. It is with effect from Saturday. The revised rate will be applicable to all existing and new accounts. Consumers of housing loans, car loans and education loans of the bank will benefit more as this 50 basis point cut in PLR is in addition to 50 basis point discount given to them since Oct 16, 2008 as a part of festival bonanza. This will continue unless the discount is withdrawn. The bank has also decided to reduce the peak rates of deposits from 10.5% to 10% with effect from Dec 1, 2008.

Bank of India hikes deposit rates on certain tenures (Nov 1 ET)

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Bank of India has hiked its interest rates on certain maturity deposits by 0.25-0.5% from November 1. Deposits having tenure of one year to 399 days will now attract an interest rate of 10% as against 9.75% earlier. Similarly, deposits in 400 days and 401 days to less than 2 years tenures will carry 10.5% (10%) and 10% (9.75%) respectively. Interest rate on floating rate deposit scheme will be 0.25% over the over the term deposit rates applicable for the relevant tenures of deposits for maturities of three years and above, the bank said.

IOB to raise Rs. 11 bn of capital through Tier I & II bonds (Nov 1 FC)

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Indian Overseas Bank will be raising capital of Rs 11 bn through Tier I and Tier II bonds. In a meeting held on Thursday, the board of directors of the Bank considered and accorded sanction for raising, the capital on a private placement basis. The bank will be raising Rs 3 bn by way of Tier I perpetual bonds and further Rs 2.9 bn through lower Tier II bonds and Rs 5.1 bn through upper Tier II bonds. Meanwhile, the bank's second quarter profit rose 12.30% to Rs 3.59 bn from Rs 3.19 bn in the year-ago quarter.

IOB net up 12% (Oct 31 BS)

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Indian Overseas Bank (IOB) has reported a 12% increase in net profit during the quarter ended September 30 to Rs 3.59 bn as compared to Rs 3.19 bn for the same period last year. The bank's total income rose by 25% to Rs 26.43 bn from Rs 21.04 bn. Interest earned increased to Rs 24.27 bn from Rs 19.30 bn, an increase of 25%. IOB's operating profit rose by 16% to Rs 5.34 bn from Rs 4.58 bn.

SBI sets 26% credit expansion target (Oct 30 ET)

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State Bank of India today said it expects a loan growth of 26% in 2008-09 against 23% recorded last year. The country's largest bank's advances for the year ended

March 2008 stood at Rs 4,221.8 bn. During April-September, the bank registered credit expansion of a whopping 162.35% at Rs 510.2 bn against Rs 194.47 bn in the same period a year ago. SBI has drawn expansion plan for business growth that includes addition of 1,500 branches across the country. The bank's total number of branches has surpassed 10,400 mark.

Bank of Baroda improves asset quality (Oct 30 Mint)

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State-owned Bank of Baroda bucked the trend of rising bad loans during the September quarter, reducing its Gross NPLs not only in percentage terms from 1.9% at the end of June to 1.6% by the end of September, but also in absolute terms. This was despite loan growth being a higher-than-industry 32.4%. But lower staff costs helped the bank post a rise in operating profit of 32.7%, around the same year-on-year (y-o-y) rate of growth as in the June quarter. However high mark-to-market provisions on the bank's overseas exposure to credit-linked notes as well as on domestic investments, together with provision for an expected wage revision, ate into profits and the bank's profits after tax were up 20.8% yoy. The bank's international loans have grown more rapidly than its domestic loan book and now constitute 24% of total loans.

SBI wants collaterals from airlines seeking credit (Oct 30 HBL)

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State Bank of India has insisted that airline companies provide corporate guarantees as a precondition for credit lines. Top SBI officials said that at least two of the country's largest private sector airline companies had approached it for credit support. Currently, only the public sector National Aviation Company, the holding company of Air India, has credit support from the domestic banking sector. Unlike the public sector, where there was an implicit sovereign guarantee cover and physical asset coverage, private sector had little to offer as collateral, SBI officials said. Under current guidelines for borrowers, the prescribed physical asset coverage ratio is 150% of the outstanding credit. Besides, the bankers said, the airline companies were also not in a position to pledge cash flows. This was because almost all private sector airline companies largely operate leased fleet. This makes lease financiers the asset owners.

SBI deposits grow Rs 10 bn a day (Oct 30, BS)

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Deposits with State Bank of India have been growing daily by Rs 10 bn on an average in the last 10 days, an executive of the bank said on Wednesday. "We are getting both fixed and CASA (current account and savings account) deposits," the official said. The country's largest lender has still no plan of cutting its deposit rates, despite the RBI's signal following reduction in repo rate and cash reserve ratio.

SBI Q2 net up 40%, but sees margins shrinking (Oct 28, ET)

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SBI on Monday reported a higher-than-expected net profit of Rs 22.59 bn for the quarter ended September 30, up 40.2%, from Rs 16.11 bn during the same quarter of the previous year. The results for the second quarter include the business of State Bank of Saurashtra which was merged with SBI in August 2008.

The bank's chairman OP Bhatt said SBI's net interest margins would come down marginally, but would continue to be above 3%. The net interest margin for the second quarter was 3.2%. The bank's home loans grew 23.5%, auto loans by 30.48% and education loan by 43.81%. SBI Card, however, suffered a loss of Rs 279 mn for the quarter.

Bank of India Q2 net rises 80% on robust credit growth (Oct 23 HBL) [Top](#)

Bank of India reported an 80% growth in second quarter net profit, beating analysts' predictions. T.S. Narayanasami, Chairman and Managing Director, attributed the better-than-expected results to robust credit growth and healthy recovery of written off assets. The bank's net profit increased to Rs 7.63 bn from Rs 4.25 bn in the year-ago period. Analysts tracking the bank had predicted a 33-35% growth in bottom line, in view of the rising cost of funds. However, the bank's net interest margin (NIM) improved marginally to 3.2% from 3.04%, despite the cost of deposits increasing to 5.79% from 5.53% in the year-ago period. The average yield on advances fell marginally to 9.79% from 9.99%.

Dejected, ONGC to park its funds with SBI (Oct 22 FE) [Top](#)

After fighting the system for over nine months, the \$24-billion public sector entity Oil and Natural Gas Corporation (ONGC) has finally given up to the finance ministry's demand to prefer public sector banks for investing its cash surplus and discontinue the bidding process for investing bulk deposits. ONGC, the country's biggest PSU in terms of market cap, profit and net worth, currently has over Rs 230 bn in surplus. So far, it has been following the practice of inviting bids from banks (public and private) to place its cash deposits. However, with the finance ministry insisting on discontinuation of the process, ONGC has been forced to park its entire cash surplus with its principal banker SBI.

UBI cuts home loan rates by 0.50% (Oct 21 ET) [Top](#)

Union Bank of India on Monday became the first bank to reduce its home loan rates by 0.50% after the Reserve Bank slashed its key short-term repo rate by one percent. The new interest rate, with effect from tomorrow, will be 11%. The public sector bank has cut interest by 0.50% for home loans up to Rs 3 mn. Interest rates on housing loans of over Rs 3 mn will avail benefit of a 0.25% in card rates as a part of the festival offer, the bank said. Earlier, Punjab National Bank (PNB) had cut its home loan rates after the Reserve Bank slashed its cash reserve ratio (CRR) by 2.5% with effect from October 11.

Canara Bank's Q2 net up by 32% (Oct 21 ET) [Top](#)

Canara Bank, on Monday reported a net profit of Rs 5.29 bn for the second quarter of the current fiscal, up by 32% compared to Rs 4.02 bn for the corresponding period in the previous year. Operating profit for the second quarter grew by 19% to Rs 7.74 bn, bank's Chairman and Managing Director A C Mahajan said after a board meeting here. Net interest income for the second quarter recorded a 46% year-on-year growth to touch Rs 11.49 bn compared to Rs 7.87 bn last year. The bank's fee based income grew year-on-year by 16.4% to touch Rs 6.17 bn. Net Interest Margin at 2.70% had increased by 28bps over March 2008.

Moratorium on merger of sbi and 6 associate banks (Oct 20 FC) [Top](#)

SBI has agreed to a six-month moratorium on any proposal involving merger of its associate banks. A memorandum of understanding (MoU) to this effect has been signed between the SBI management and the bank's officers' federation as part of a deal to avert the proposed strike by the officers. The indefinite strike, which was supposed to begin on October 20, has since been called off. The six-month moratorium on merger begins from October 16, the day when the MoU was signed. The All India SBI Officers' Federation (AISBIOF) had called an indefinite strike to press for its demand for a uniform methodology to compute pension payable to SBI

staff and against the merger of associate banks with the SBI. The federation represents nearly 80,000 officers of the SBI group.

Dealers to accept only sbi drafts for nano (Oct 19 ET)

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There are two companies being talked about very excitedly in Gujarat in these troubled times — Tatas and SBI who have reportedly tied up for Nano project. The proposed agreement, according to the buzz in the market, is such that 12,000 SBI branches in the country will accept bookings down to the village level. Besides, if you were to buy a Nano, once it rolls out from Pantnagar or Pune sometime in November, only SBI will offer direct loans to purchase the car. Even if you were not taking a loan, sources said, the only bank draft that all Tata Motors dealers will be accepting will be of SBI, which has already applied for a licence for a 'Nano branch' at Chharodi plant site.

Allahabad Bank net falls 82% on higher provisions (Oct 19 BS)

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Allahabad Bank has reported 82.5% drop in net profit at Rs 416.8 mn for the quarter ended September 30, 2008, against Rs 2.39 bn during the corresponding quarter of the previous fiscal. The drop in net profit was mainly on account of a higher provisioning of Rs 2.72 bn for the quarter, against Rs 597.7 mn during the corresponding quarter of last fiscal, according to K.R. Kamath, CMD - Allahabad Bank.

Insurance

SBI Life launches health plan for state bank group customers (Oct 24 BS) [Top](#)

SBI Life Insurance Co. Ltd on Thursday launched its first group health insurance plan "Citi9" for State Bank Group customers. The introduction of "SBI Life - Group Citi9" here is part of a pilot project, and the company intends to introduce the offering across the country in due course. Citi9 is available for State Bank Group account holders aged 18 to 55 years, with maximum cover ceasing age being 65. The minimum sum assured is Rs 25,000 and the maximum Rs 0.5 mn. The plan can be availed for a minimum term of two years and a maximum of five years with an annual premium mode.

ADAG, PRU eyeing AIA operations (Oct 20 ET) [Top](#)

Reliance Anil Dhirubhai Ambani Group (R-ADAG) is looking to buy out the Asian insurance business of US-based financial services giant AIG. The proposed deal, which would exclude AIG's Indian insurance JVs, would make R-ADAG the largest life insurance firm in South East Asia. Sources told ET the asking price for American International Assurance Company (AIA), the wholly owned arm of AIG, has been pegged at around \$10 billion. Meanwhile, a late night Reuters report quoting a British newspaper said UK insurer Prudential is in advanced talks with two strategic investors to sell a 20% stake. The funds raised would help mount a \$14.93-billion bid for the Asian business of AIG.

Appendix 1

Valuations

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Indian Financials – Valuation Summary

	Price	Target	Upside	Stock	Earnings growth (%)			ROE (%)			P/E (x)		P/B (x)	
	(Rs)	Price (Rs)	(%)	Rating	FY08E	FY09E	FY10E	FY08E	FY09E	FY10E	FY09E	FY10E	FY09E	FY10E
SOE Banks														
Bank of Baroda	239	420	76%	N	41.2%	14.1%	26.5%	15.7%	15.8%	17.5%	5.3	4.2	0.78	0.68
Canara Bank	166	201	21%	UW	6.9%	15.9%	12.6%	13.8%	14.3%	14.3%	3.9	3.4	0.52	0.46
Punjab National Bank	421	678	61%	OW	21.9%	27.6%	21.0%	16.8%	18.5%	19.1%	5.5	4.6	0.95	0.81
State Bank of India	1,110	2,847	157%	OW	26.4%	35.3%	25.9%	15.5%	15.4%	16.9%	7.5	6.0	1.09	0.94
State Bank of India (Consol)	1,110	2,847	157%	OW	20.0%	33.7%	25.9%	16.4%	16.6%	18.0%	5.7	4.5	0.88	0.75
Union Bank of India	125	228	83%	OW	38.7%	24.5%	20.9%	20.7%	21.8%	22.1%	4.3	3.6	0.87	0.73
Allahabad Bank	48	91	89%	UW	10.3%	-3.2%	14.5%	17.2%	14.6%	14.9%	2.7	2.4	0.37	0.33
Bank of India	241	380	58%	N	32.4%	34.0%	24.6%	22.6%	23.8%	24.0%	5.9	4.7	1.27	1.03
Indian Overseas Bank	74	228	210%	OW	10.8%	18.5%	26.5%	25.2%	24.3%	25.1%	3.0	2.4	0.67	0.54
Syndicate Bank	50	96	94%	UW	-14.4%	26.7%	18.3%	16.5%	16.9%	17.5%	3.3	2.8	0.53	0.46
Private Banks														
HDFC Bank	1,023	1,150	12%	N	19.2%	16.8%	45.3%	16.2%	13.1%	15.9%	21.5	14.8	2.51	2.20
HDFC	1,765	2,900	64%	OW	46.2%	0.8%	26.2%	27.8%	20.0%	21.6%	19.3	15.3	3.58	3.08
ICICI Bank	399	833	109%	OW	19.5%	-14.9%	31.0%	11.7%	8.2%	10.1%	10.9	6.7	0.90	0.82
YES Bank	68	260	281%	OW	102.4%	53.5%	60.0%	19.0%	19.4%	23.3%	6.4	4.0	1.05	0.83
Development Credit Bank	24	98	302%	N	433.9%	129.6%	31.8%	9.3%	14.6%	16.7%	4.0	3.0	0.54	0.47
Axis Bank	563	810	44%	OW	28.0%	41.1%	32.4%	17.6%	16.1%	18.6%	13.3	10.1	2.02	1.74

Source: Bloomberg, J.P. Morgan.

Prices as of 31-Oct, annual data represents financial year ending March.

Macro Indicators

Table 1: Loan, Deposit growth

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As at Oct-10-2008	
Loan Growth (yoy)	29.1%
Deposit Growth (yoy)	21.4%
Incremental LDR	96.2%
LDR	75.2%

Source: RBI, J.P. Morgan.

Note: YoY growth rates have been computed by taking 12 Oct 2007 as the base date.

Table 2: Interest Rates

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Yields	17-Oct	1M Chg	3M Chg	12M chg
3m T Bill	7.05	-1.70	-2.05	0.15
10 year g sec	7.45	-0.80	-1.82	-0.44
1 year AAA corp	12.40	1.10	1.38	3.85

Source: Bloomberg.

Table 3: Bank ETFs

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Name	AUM (Rs MM)	B'berg Ticker
BEES	27,441	BBEES IN Equity
PSU-BEES	1,104	PSUBBE IN Equity
Kotak PSU	347	KOPSUB IN Equity

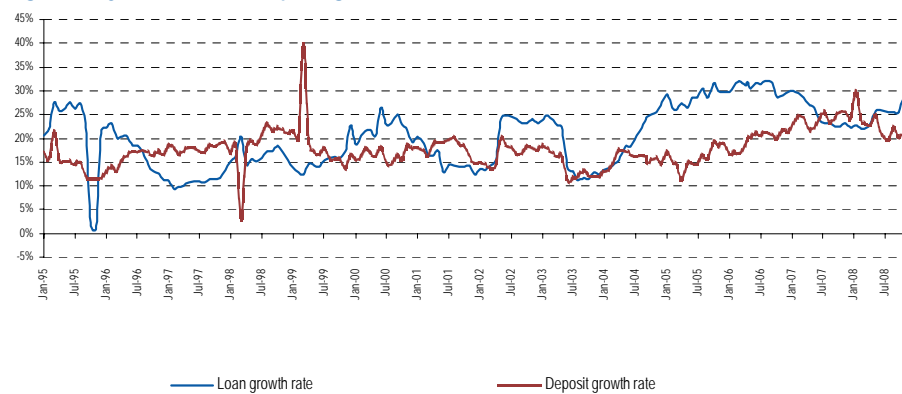
Source: Bloomberg, AUM as of Sep-08.

Figure 3: 10-year bond yields



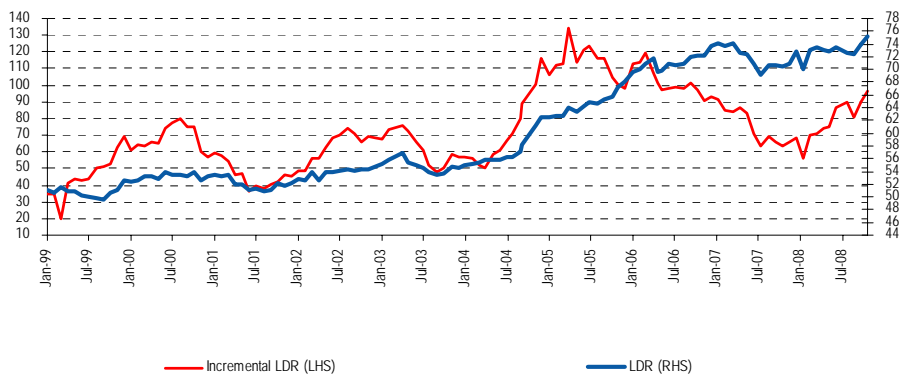
Source: Bloomberg.

Figure 4: System loan and deposit growth



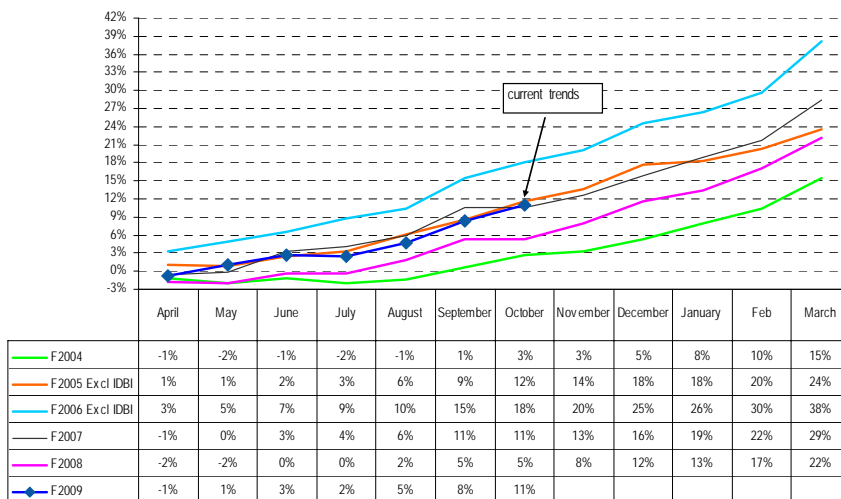
Source: Reserve Bank of India, J.P. Morgan.

Figure 5: System: Loan-deposit ratios



Source: Reserve Bank of India, J.P. Morgan.

Figure 6: System: YTD loan growth, FY04-current

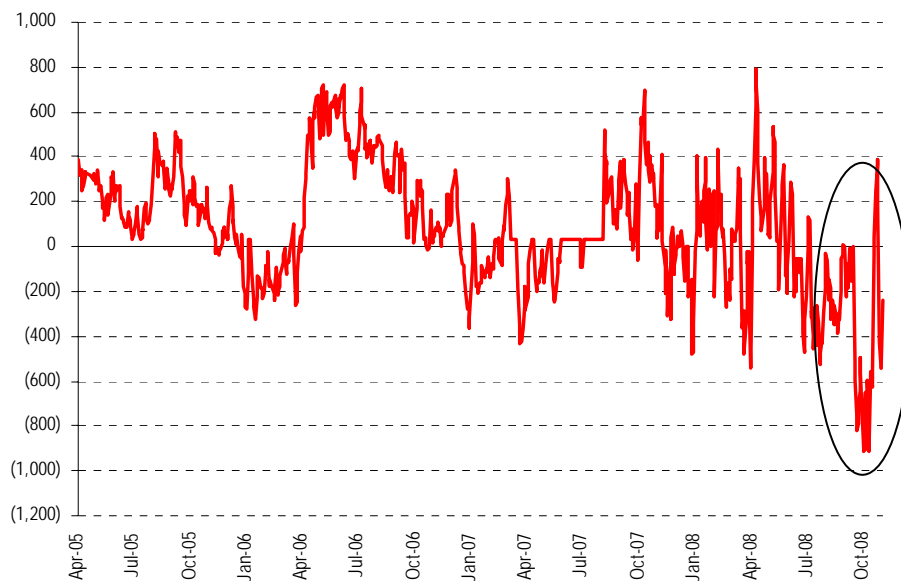


Source: RBI, J.P. Morgan.

Liquidity Metrics

Figure 7: Net reverse repo amount outstanding

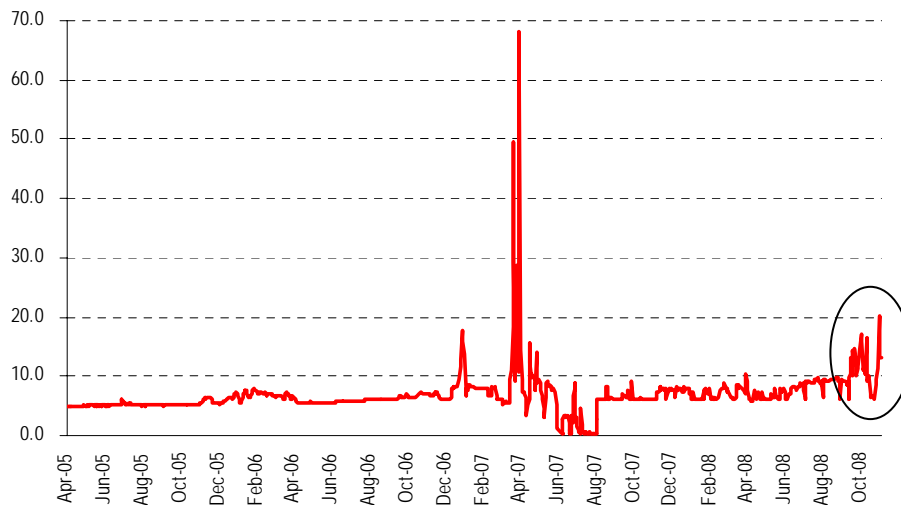
Rs in billions



Source: Bloomberg.

Figure 8: Inter-bank rate

%



Source: Bloomberg.

Glossary of terms

CNBC: CNBC TV 18 India

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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