December 11, 2011

India: Financial Services

Equity Research

Attractive valuations on slower growth, NPL woes; initiate Fed, OBC

Credit growth to GDP growth likely to fall

We now expect lower credit growth of 14-15% in FY12E/FY13E as the ratio of credit growth to GDP growth falls to 0.9-1.1X from 1.3X on average over the past five years on macro slowdown, policy logjam, project delays and high interest rates. However, we do not expect it to fall to historical lows of 0.6X, on likely: (1) rate and CRR cut (150bps/100bps) over Jan. 2012-March 2013, (2) loans to projects approved or in the pipeline, and (3) acceleration of roads/other projects by government. Policy reform could provide positive, and ongoing Eurozone shocks negative, surprise to our estimates.

Recovery not as strong as FY08-10, but not as weak as FY97-02

Despite our concerns over the macro environment, we do not expect a repeat of FY97-02, a period when corporate India had higher capacity and leverage and banks had lower CAR and high NPL ratios, of >15%. Nor is it like the FY08-10 slowdown, which started from a stronger base in FY07, when India's fiscal deficit and banks' NPLs were lower. Also, the sector's valuations are higher now than in the prior two cycles; therefore, we think the next recovery may not be as strong as it was in FY08-10.

Lower margins, but likely higher MTM gains on investment book

Banks' operating profit will likely come under pressure in FY13 on higher NPL provisions and lower credit growth. Along with falling interest rates this will put pressure on banks margins in the 1H of FY2013. However, we expect margins to stabilize and then recover by the end of the year as falling deposit rates reflect with a lag. We also expect MTM gains as banks investment portfolios appreciate with falling interest yields.

Remain selective, prefer private banks over PSU banks

After major correction, bank stocks are trading below historical averages on concerns of NPLs and slowdown in credit growth. We revise FY12-14E earnings across our covered Indian financial stocks by -21% to 10% and our Camelot-based target prices by -21% to +12%. However, we think most concerns are priced in and we see limited downside risk. We prefer private over PSU banks (on resilient earnings); Buy INBK (Conv. list), YESB, ICBK, AXBK, BoB and PNB. We initiate on FEDB with Buy and OBC with Neutral. We upgrade HDFC (wholesale borrower to benefit from rate fall) and HDBK (marginal upside to target price) and lower UNBK (on sticky NPLs) to Sell.

COVERAGE SUMMARY

Rs.	Ticker	Rating	Price (8-Dec)	12-m TP	Up/downside potential (%)
Public Banks					
BOB	BOB.BO	Buy	731	900	23%
BOI	BOI.BO	Sell	337	280	-17%
OBC	ORBC.BO	Neutral	266	290	9%
PNB	PNBK.BO	Buy	930	1130	21%
SBI	SBI.BO	Neutral	1866	1920	3%
Union Bank	UNBK.BO	Sell	212	190	-10%
Private Banks					
Axis Bank	AXBK.BO	Buy	1004	1230	23%
Federal Bank	FED.BO	Buy	394	470	19%
HDFC Bank	HDBK.BO	Neutral	454	520	15%
ICICI Bank	ICBK.BO	Buy	744	950	28%
IndusInd	INBK.BO	Buy*	258	350	36%
Kotak Mahindra	KTKM.BO	Sell	484	470	-3%
Yes Bank	YESB.BO	Buy	286	350	22%
NBFCs					
HDFC	HDFC.BO	Neutral	669	690	3%
IDFC	IDFC.BO	Neutral	113	125	10%
LIC HF	LICH.BO	Neutral	229	250	9%
PFC	PWFC.BO	Neutral	166	190	15%
Shriram	SRTR.BO	Neutral	551	560	2%

* On our regional Conviction List.
Source: FactSet, Goldman Sachs Research estimates.

CHANGES IN OUR 12-MONTH TARGET PRICES

	Target Price (Rs)		
	New	Old	Change (%)
Public Banks			
BOB	900.0	1020.0	-11.8
BOI	280.0	320.0	-12.5
OBC	290.0	-	
PNB	1130.0	1300.0	-13.1
SBI	1920.0	2200.0	-12.7
Union Bank	190.0	240.0	-20.8
Private Banks			
Axis	1230.0	1420.0	-13.4
Federal	470.0	-	
HDFCB	520.0	520.0	0.0
ICICIB	950.0	1120.0	-15.2
IndusInd	350.0	340.0	2.9
KMB	470.0	470.0	0.0
Yes Bank	350.0	360.0	-2.8
NBFCs			
HDFC	690.0	690.0	0.0
IDFC	125.0	130.0	-3.8
LIC HF	250.0	230.0	8.7
PFC	190.0	170.0	11.8
Shriram	560.0	700.0	-20.0

Source: Goldman Sachs Research estimates.

We transfer coverage of NBFCs, KTKM, BOI to Rahul Jain.

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Prices in this report are based on market close of December 8, 2011.

Exhibit 1: We prefer Private banks over PSU banks and remain Neutral on NBFCs
Valuation: Indian financials stocks under our coverage

	Reuters ticker	Rating	Market Cap (US$ mn)	3m ADVT (US$ mn)	12/8/2011 Price (Rs)	Target Price/ Valuation (Rs)	Total Return Potential (%)	P/B (X)		P/E (X)		EPS (Rs)			EPS growth(%)			ROE	
								FY 2012E	FY2013E	FY 2012E	FY2013E	FY 2011	FY 2012E	FY2013E	FY 2011	FY 2012E	FY2013E	FY 2012E	FY2013E
Public banks																			
BOB	BOB.BO	Buy	5,555	8.4	**731**	900	25%	1.19	1.01	6.43	5.84	116.4	113.6	125.1	39%	-2%	10%	19%	18%
BOI	BOI.BO	Sell	3,504	5.9	**337**	280	-15%	1.03	0.90	8.56	5.95	47.3	39.3	56.6	43%	-17%	44%	12%	15%
ORBC	ORBC.BO	Neutral	1,536	3.9	**266**	290	13%	0.74	0.65	8.20	6.20	51.5	32.4	42.9	14%	-37%	32%	9%	11%
PNB	PNBK.BO	Buy	5,586	8.6	**930**	1,130	24%	1.22	1.02	6.16	5.40	140.6	151.0	172.4	14%	7%	14%	20%	20%
SBI	SBI.BO	Neutral	21,632	137.1	**1,866**	1,920	5%	1.60	1.42	11.52	9.54	130.1	162.0	195.5	-10%	24%	21%	15%	16%
SBI standalone valuation					**1,382**	1,436		1.24	1.09	8.94	7.35	117.1	154.5	188.0	-14%	32%	22%	15%	16%
Union Bank	UNBK.BO	Sell	2,217	5.4	**212**	190	-8%	0.86	0.75	6.00	5.61	39.7	35.3	37.7	-3%	-11%	7%	14%	13%
Private banks																			
Axis	AXBK.BO	Buy	7,828	56.2	**1,004**	1,230	24%	1.85	1.59	10.05	9.09	82.5	99.8	110.5	26%	21%	11%	20%	19%
Federal	FED.BO	Buy	1,187	3.2	**394**	470	21%	1.19	1.07	9.69	7.85	34.3	40.7	50.2	26%	18%	23%	13%	14%
HDFCB	HDBK.BO	Neutral	19,740	37.2	**454**	520	16%	3.59	3.10	20.88	17.30	17.0	21.7	26.2	25%	28%	21%	18%	19%
ICICIB	ICBK.BO	Buy	16,543	85.0	**744**	950	30%	1.43	1.33	14.20	12.73	45.1	52.4	58.5	25%	16%	12%	11%	11%
ICICI Bank standalone valuation					**504**	711		1.09	1.00	10.44	9.38	41.5	48.3	53.7	27%	17%	11%	11%	11%
IndusInd Bank	INBK.BO	Buy*	2,340	3.4	**258**	350	37%	2.68	2.27	15.74	13.17	13.2	16.4	19.6	55%	25%	20%	17%	18%
KMB	KTKM.BO	Sell	6,619	9.2	**484**	470	-3%	4.55	3.97	36.39	30.80	9.7	13.3	15.7	20%	36%	18%	13%	14%
KMB standalone valuation					**314**	301		3.01	2.62	25.45	21.50	8.8	12.3	14.6	17%	41%	18%	13%	13%
Yes Bank	YESB.BO	Buy	1,890	17.7	**286**	350	23%	2.17	1.79	10.88	9.16	22.3	26.3	31.3	42%	18%	19%	22%	21%
NBFC's																			
HDFC	HDFC.BO	Neutral	18,240	36.3	**669**	690	5%	5.13	4.48	24.20	20.10	24.1	27.6	33.3	22%	15%	20%	22%	24%
HDFC standalone valuation					**420**	441		4.21	3.58	17.87	14.30	20.1	23.5	29.4	21%	17%	25%	25%	27%
IDFC	IDFC.BO	Neutral	3,179	19.9	**113**	125	12%	1.44	1.29	10.44	9.48	9.0	10.8	11.9	10%	20%	10%	14%	14%
LIC Housing Finance	LICH.BO	Neutral	1,966	19.1	**229**	250	11%	2.22	1.81	11.49	8.35	20.6	19.9	27.4	40%	-3%	38%	21%	24%
Power Finance	PWFC.BO	Neutral	4,268	13.3	**166**	190	18%	1.07	0.92	7.89	5.20	22.8	21.0	31.9	10%	-8%	52%	15%	19%
Shriram Transport	SRTR.BO	Neutral	2,190	6.9	**551**	560	3%	2.05	1.70	9.63	8.53	54.5	57.2	64.7	33%	5%	13%	24%	22%

*On our regional conviction list. For important disclosures, please go to http://www.gs.com/research/hedge.html.
Total return potential includes dividend yield.

Source: Datastream, Goldman Sachs Research estimates.

Exhibit 2: Correction of up to 20% over the past 3 months on the slowing economy and rising asset quality concerns
Absolute and relative performance of Indian financials stocks under coverage

	Reuters		Price (Rs)	1-year (Rs)		Absolute price perf (%)							Rel price perf % (to BSE)						
	Ticker	Rating	8-Dec	High	Low	1-wk	1-mo	3-mo	6-mo	1-yr	2-yr	ytd	1-wk	1-mo	3-mo	6-mo	1-yr	2-yr	ytd
Public Banks																			
BOB	BOB.BO	Buy	731	990	686	2.7	(10.7)	(3.7)	(15.7)	(18.1)	42.6	(18.5)	2.6	(4.9)	0.3	(6.0)	(2.1)	45.4	1.4
BoI	BOI.BO	Sell	337	494	298	0.9	2.8	0.4	(20.4)	(23.1)	(11.0)	(25.1)	0.9	9.5	4.5	(11.2)	(8.1)	(8.2)	(6.8)
ORBC	ORBC.BO	Neutral	266	459	266	(1.5)	(11.1)	(16.4)	(23.6)	(29.8)	(0.3)	(34.4)	(1.5)	(5.3)	(13.0)	(14.8)	(16.2)	2.5	(18.4)
PNB	PNBK.BO	Buy	930	1,274	867	3.4	(4.7)	(3.2)	(15.0)	(21.3)	1.3	(23.9)	3.4	1.6	0.8	(5.1)	(6.0)	4.1	(5.3)
SBI	SBI.BO	Neutral	1866	3,100	1,654	2.6	(6.6)	(8.1)	(18.6)	(33.5)	(20.7)	(33.6)	2.5	(0.5)	(4.3)	(9.2)	(20.6)	(17.9)	(17.4)
Union Bank	UNBK.BO	Sell	212	378	203	(2.8)	(7.6)	(13.6)	(34.2)	(33.9)	(18.3)	(39.1)	(2.9)	(1.5)	(10.0)	(26.6)	(21.0)	(15.5)	(24.2)
Private banks																			
Axis	AXBK.BO	Buy	1004	1,455	937	3.3	(12.0)	(12.8)	(18.3)	(19.8)	2.1	(25.6)	3.2	(6.2)	(9.2)	(8.9)	(4.2)	4.9	(7.5)
Federal	FED.BO	Buy	394	470	334	7.4	(4.8)	2.8	(13.0)	(8.4)	56.9	(0.9)	7.4	1.5	7.1	(3.0)	9.5	59.7	23.2
HDFCB	HDBK.BO	Neutral	454	515	401	0.1	(6.4)	(6.2)	(3.6)	(0.5)	25.9	(3.3)	0.1	(0.2)	(2.4)	7.5	18.9	28.7	20.3
ICICIB	ICBK.BO	Buy	744	1,191	718	(2.4)	(15.5)	(19.1)	(29.1)	(32.7)	(11.9)	(35.0)	(2.4)	(10.0)	(15.7)	(20.9)	(19.6)	(9.1)	(19.1)
IndusInd Bank	INBK.BO	Buy*	258	303	210	(0.8)	(6.2)	(2.6)	(1.5)	(6.9)	117.1	(2.7)	(0.8)	(0.0)	1.4	9.9	11.3	119.9	21.0
KMB	KTKM.BO	Sell	484	512	338	1.1	(3.4)	3.2	8.7	3.8	22.6	6.9	1.1	3.0	7.4	21.2	24.0	25.4	32.9
Yes Bank	YESB.BO	Buy	286	336	236	2.6	(7.6)	(3.5)	(4.7)	(4.9)	13.0	(8.4)	2.5	(1.5)	0.4	6.3	13.6	15.8	13.9
NBFC's																			
HDFC	HDFC.BO	Neutral	669	732	589	2.0	(1.6)	1.5	1.4	(2.3)	19.5	(8.1)	2.0	4.9	5.7	13.1	16.7	22.3	14.3
IDFC	IDFC.BO	Neutral	113	189	103	2.3	(10.0)	(1.7)	(16.7)	(35.2)	(28.9)	(37.8)	2.3	(4.1)	2.3	(7.1)	(22.5)	(26.1)	(22.7)
LIC Housing	LICH.BO	Neutral	229	243	151	1.4	(2.7)	3.7	0.9	18.7	26.3	17.0	1.4	3.7	7.9	12.6	41.7	29.1	45.5
Power Finance	PWFC.BO	Neutral	166	339	133	(2.1)	(2.8)	11.0	(17.7)	(46.6)	(31.1)	(46.5)	(2.1)	3.6	15.6	(8.2)	(36.2)	(28.3)	(33.4)
Shriram Transport	SRTR.BO	Neutral	551	856	501	5.8	(6.2)	(18.7)	(18.0)	(25.2)	18.9	(29.4)	5.8	(0.0)	(15.3)	(8.5)	(10.6)	21.7	(12.1)

*On our regional conviction list.

Source: Datastream, Goldman Sachs Research estimates.

Valuations reflecting higher NPLs and lower earnings

Our top-down and bottom-up analysis of credit demand shows credit growth will likely slow down to around 14-15% for FY12/FY13, versus 17.7% now — driven by macro slowdown, policy log-jam, issues relating to poor coal availability and global concerns over Eurozone problems. In addition, our bottom-up analysis shows the impaired loan ratio (ie, NPLs plus restructured loans) could increase to 5.5-6% by FY13 (from 5% in FY11).

However, the significant stock price corrections of the last few weeks, in our view, already reflect both concerns of NPLs and the slowdown in credit growth.

With slower credit growth and higher NPLs, we are revising our FY12-FY14 earnings estimates for Indian banks by -21% to +4% and our 12-month target prices by -21% to +3%, but believe current price levels reflect most concerns. We revise our estimates on Non-Bank Financing Companies (NBFCs) by -15% to +10% and our 12-month target prices by -20% to +12%.

We expect limited downside risk, and note the c. 20+% return on our Buy rated stocks over 12 months, and suggest investors buy selected stocks. In general, we favor private banks given their earnings resilience:

- Our **Buys** are: IndusInd Bank (Conviction list), Yes Bank, Federal Bank (initiating coverage), ICICI Bank, Axis Bank, BoB and PNB.
- Our **Sells** are: BoI, Union Bank (downgrading from Neutral) and Kotak Bank.
- We upgrade HDFC and HDFC Bank to Neutral from Sell and initiate coverage on OBC with a Neutral.

Risks to our thesis include: Upside: better than expected recovery in investment activity, faster resolution to Eurozone problems, lower G sec yields. Downside risk: prolong economic downturn, sticky fiscal deficit, political uncertainty.

Exhibit 3: We revise our target prices by -21% to +12%
Target price changes and rating methodology

	Target Price (Rs)				
	New	Old	Change (%)	Methodology	Target P/B
Public Banks					
BOB	900.0	1020.0	-11.8	GS CAMELOT	1.5
BOI	280.0	320.0	-12.5	GS CAMELOT	0.9
OBC	290.0	-		GS CAMELOT	0.8
PNB	1130.0	1300.0	-13.1	GS CAMELOT	1.5
SBI	1920.0	2200.0	-12.7	SOTP	1.6
Union Bank	190.0	240.0	-20.8	GS CAMELOT	0.8
Private Banks					
Axis	1230.0	1420.0	-13.4	GS CAMELOT	2.3
Federal	470.0	-		GS CAMELOT	1.4
HDFCB	520.0	520.0	0.0	GS CAMELOT	4.1
ICICIB	950.0	1120.0	-15.2	SOTP	1.8
IndusInd	350.0	340.0	2.9	GS CAMELOT	3.6
KMB	470.0	470.0	0.0	SOTP	4.4
Yes Bank	350.0	360.0	-2.8	GS CAMELOT	2.6
NBFCs					
HDFC	690.0	690.0	0.0	SOTP	5.3
IDFC	125.0	130.0	-3.8	SOTP	1.6
LIC HF	250.0	230.0	8.7	GS CAMELOT	2.4
PFC	190.0	170.0	11.8	GS CAMELOT	1.2
Shriram	560.0	700.0	-20.0	GS CAMELOT	2.1

Source: Goldman Sachs Research estimates.

Reducing earnings on lower growth, higher provisions

Banks’ operating profit will likely come under pressure in FY13 on higher NPL provisions and lower credit growth. Furthermore, falling interest rates (our ECS team expects a CRR cut 100bps in calendar 2012 and repo rate cut of 150bps in 2Q-4Q calendar 2012) will put pressure on banks’ margins in the 1H of FY2013.

However, we expect margins to stabilize and then recover by the end of the year as falling deposit rates reflect with a lag. Some of the pressure on operating profit will be offset by MTM gains as we expect banks investment portfolios to appreciate with falling interest yields. We revise our FY12-14E earnings estimates for banks by -21% to +3% to reflect this. Risks to falling yields, and therefore MTM gains could arise from higher fiscal deficits.

Exhibit 4: We revise our estimates by -21% to 10% driven by lower credit growth
Earnings estimate changes for FY12-FY14

	Ticker	Net income (new) FY12E	FY13E	FY14E	Net income (old) FY12E	FY13E	FY14E	Change (%) FY12E	FY13E	FY14E
Public banks										
BOB	BOB.BO	44,626	49,153	61,480	45,417	52,429	61,900	-1.7%	-6.2%	-0.7%
BOI	BOI.BO	21,533	31,000	40,781	27,253	32,196	40,901	-21.0%	-3.7%	-0.3%
OBC	ORBC.BO	9,463	12,518	16,190				na	na	na
PNB	PNBK.BO	47,850	54,605	67,999	50,409	61,478	69,525	-5.1%	-11.2%	-2.2%
SBI	SBI.BO	102,855	124,153	153,768	103,352	142,482	161,018	-0.5%	-12.9%	-4.5%
Union Bank	UNBK.BO	18,498	19,788	25,609	18,739	21,208	26,701	-1.3%	-6.7%	-4.1%
Private banks										
Axis	AXBK.BO	41,159	45,546	56,716	41,527	47,738	56,229	-0.9%	-4.6%	0.9%
Federal	FED.BO	6,957	8,587	10,984				na	na	na
HDFCB	HDBK.BO	50,830	61,335	74,122	51,259	60,093	73,766	-0.8%	2.1%	0.5%
ICICIB	ICBK.BO	60,408	67,364	80,444	62,919	71,901	85,720	-4.0%	-6.3%	-6.2%
IndusInd Bank	INBK.BO	7,659	9,152	11,131	7,649	8,919	10,717	0.1%	2.6%	3.9%
Kotak Mahindra	KTKM.BO	9,816	11,597	14,616	9,956	11,402	14,538	-1.4%	1.7%	0.5%
Yes Bank	YESB.BO	9,243	10,978	13,579	9,496	11,477	13,818	-2.7%	-4.3%	-1.7%
NBFC's										
HDFC	HDFC.BO	40,698	49,008	58,376	40,989	48,772	57,591	-0.7%	0.5%	1.4%
IDFC	IDFC.BO	15,877	17,480	19,833	15,866	16,989	19,695	0.1%	2.9%	0.7%
LIC Housing Finance	LICH.BO	9,456	13,020	16,452	11,147	13,710	16,764	-15.2%	-5.0%	-1.9%
PFC	PWFC.BO	27,762	42,066	49,364	30,998	38,375	45,137	-10.4%	9.6%	9.4%
Shriram Transport	SRTR.BO	12,952	14,628	15,140	14,442	14,400	15,555	-10.3%	1.6%	-2.7%

Source: Goldman Sachs Research estimates.

Exhibit 5: Net profit, core earnings growth likely to improve in FY14 on macro recovery
Net and operating profit growth

	Net Income growth FY11	FY12E	FY13E	FY14E	Profits before treasury and provisions FY11	FY12E	FY13E	FY14E	RoE FY12E	FY13E	FY14E
PSU banks											
BOB	39%	5%	10%	25%	58%	23%	9%	27%	19%	18%	19%
BOI	43%	-13%	44%	32%	23%	9%	10%	24%	12%	15%	17%
OBC	32%	-37%	32%	29%	59%	-8%	6%	18%	9%	11%	13%
PNB	14%	8%	14%	25%	34%	15%	6%	29%	20%	20%	21%
SBI	-10%	24%	21%	24%	51%	26%	0%	20%	15%	16%	17%
Union Bank	0%	-11%	7%	29%	23%	22%	7%	22%	14%	13%	15%
Private banks											
Axis	35%	21%	11%	25%	37%	22%	16%	26%	20%	19%	20%
HDFCB	33%	29%	21%	21%	28%	16%	18%	27%	18%	19%	20%
ICICIB	28%	17%	12%	19%	17%	6%	11%	18%	11%	11%	12%
IndusInd Bank	65%	33%	20%	22%	70%	25%	31%	25%	17%	18%	19%
KMB	25%	40%	18%	26%	-10%	30%	21%	35%	13%	14%	15%
Yes Bank	61%	20%	19%	24%	67%	16%	19%	29%	22%	21%	22%
NBFCs											
HDFC	25%	15%	20%	19%	22%	18%	24%	20%	22%	24%	25%
IDFC	20%	24%	10%	13%	56%	8%	9%	20%	14%	14%	15%
LIC Housing	48%	-3%	38%	26%	59%	2%	30%	31%	21%	24%	25%
Power Finance	10%	6%	52%	17%	26%	29%	24%	18%	15%	19%	19%
Shriram Transport	41%	5%	13%	4%	38%	13%	12%	8%	24%	22%	19%

Source: Company data, Goldman Sachs Research estimates.

Exhibit 6: Lower credit growth and margin pressure in 1HFY13. Margins to stabilize and loan growth to recover in 2HFY13
Annual margins and advances growth estimates

	NIMs (%)				Advances growth (%)			
	FY11	FY12E	FY13E	FY14E	FY11	FY12E	FY13E	FY14E
PSU Banks								
Bank of Baroda	2.8	2.7	2.5	2.6	30.6	17.0	18.0	22.6
Bank of India	2.6	2.2	2.2	2.4	26.5	13.1	14.0	18.7
Oriental Bank of Commerce	2.9	2.4	2.4	2.4	14.9	17.3	16.9	20.8
Punjab National Bank	3.6	3.5	3.3	3.5	29.7	16.4	17.2	22.0
State Bank of India	3.0	3.4	3.1	3.2	19.8	16.4	14.1	18.2
Union Bank	3.0	2.8	2.6	2.8	26.5	13.8	15.0	17.6
Private Banks								
Axis Bank	3.2	3.1	3.1	3.3	36.5	20.1	21.5	24.1
Federal Bank	3.8	3.4	3.2	3.4	18.6	20.7	22.5	23.2
HDFC Bank	4.4	4.2	4.1	4.3	27.1	23.4	21.3	22.7
ICICI Bank	2.6	2.6	2.7	2.7	19.4	15.2	15.9	22.0
Indusind Bank	3.6	3.6	3.9	4.0	27.3	26.3	24.2	29.8
Kotak Mahindra Bank	5.0	4.6	4.7	4.8	41.2	31.2	28.2	32.7
Yes bank	2.8	2.4	2.5	2.6	54.8	18.0	25.0	28.0
NBFCs								
HDFC	3.5	3.4	3.4	3.6	19.6	20.0	21.3	21.7
IDFC	4.5	3.9	4.0	4.2	50.4	13.2	14.6	18.0
LIC HF	2.4	2.5	2.5	2.0	34.0	28.8	24.4	24.9
Power Finance	3.5	3.8	3.9	3.8	24.7	25.5	22.3	20.6
Shriram Transport Finance	9.3	8.6	8.4	8.0	23.8	17.5	15.5	15.2

Note: For Shriram, NIMs are calculated on average AUM.

Source: Company data, Goldman Sachs Research estimates.

Stocks down on the back of NPL concerns, risk reward favorable

We believe NPLs will rise and our bottom-up analysis of corporate India shows that stressed assets (defined as debt/equity ratios of more than 3x, interest cover of less than 1x and net worth less than zero), could rise to 22.7% of book by FY13 from 19.4% in FY11 and that banks reported impaired loans (NPLs + restructured loans) could increase to 5.5%-6.0% by FY13 from 5% in FY11 – see our report, *NPLs on the climb: Sweating, but not stressed*, dated December 11, 2011. However, at current valuations we believe most of the risk is priced in.

Exhibit 7: We are assuming a slowdown in PAT growth in FY12E driven by lower EBITDA margins and higher interest costs

Financial snapshot for sample group of 2214 companies

Number of companies	2214	2214	2214	2214	2214	2214	2214	2214	2214
Rs bn	**FY05**	**FY06**	**FY07**	**FY08**	**FY09**	**FY10**	**FY11**	**FY12E**	**FY13E**
Sales	**7,877**	**9,320**	**12,093**	**16,187**	**19,615**	**21,115**	**25,392**	**29,232**	**32,489**
y-o-y growth	*30.0*	*18.3*	*29.7*	*33.9*	*21.2*	*7.6*	*20.3*	*15.1*	*11.1*
Total income	**8,093**	**9,524**	**12,377**	**16,594**	**20,025**	**21,582**	**25,847**	**29,423**	**32,680**
y-o-y growth	*28.0*	*17.7*	*30.0*	*34.1*	*20.7*	*7.8*	*19.8*	*13.8*	*11.1*
Costs	6,604	7,854	10,097	13,640	17,253	18,123	21,772	25,062	27,825
y-o-y growth	*27.4*	*18.9*	*28.6*	*35.1*	*26.5*	*5.0*	*20.1*	*15.1*	*11.0*
EBITDA	**1,488**	**1,670**	**2,280**	**2,954**	**2,772**	**3,460**	**4,075**	**4,361**	**4,854**
y-o-y growth	*30.8*	*12.2*	*36.5*	*29.6*	*-6.2*	*24.8*	*17.8*	*7.0*	*11.3*
EBITDA margin	18.4	17.5	18.4	17.8	13.8	16.0	15.8	14.8	14.9
Depreciation	336	375	443	577	707	839	972	1,129	1,278
y-o-y growth	*15.8*	*11.4*	*18.3*	*30.2*	*22.5*	*18.7*	*15.8*	*16.2*	*13.3*
% of Sales	4.2	3.9	3.6	3.5	3.5	3.9	3.8	3.8	3.9
EBIT	**1,152**	**1,295**	**1,837**	**2,377**	**2,065**	**2,621**	**3,104**	**3,233**	**3,576**
y-o-y growth	*36.0*	*12.4*	*41.8*	*29.4*	*-13.1*	*26.9*	*18.4*	*4.2*	*10.6*
EBIT Margin	14.2	13.6	14.8	14.3	10.3	12.1	12.0	11.0	10.9
Interest expenses	206	223	284	422	611	626	749	1,022	1,106
y-o-y growth	*-12.9*	*8.3*	*27.2*	*48.9*	*44.7*	*2.5*	*19.6*	*36.5*	*8.2*
Effective interest rate (%)	**7.3**	**6.7**	**6.5**	**7.0**	**7.5**	**6.3**	**6.3**	**7.1**	**6.9**
Interest cover (x)	**5.6**	**5.8**	**6.5**	**5.6**	**3.4**	**4.2**	**4.1**	**3.2**	**3.2**
PBT	**940**	**1,159**	**1,673**	**2,116**	**1,687**	**2,221**	**2,537**	**2,597**	**2,863**
y-o-y growth	*57.9*	*23.3*	*44.4*	*26.4*	*-20.3*	*31.7*	*14.2*	*2.4*	*10.2*
PBT Margin	11.6	12.2	13.5	12.8	8.4	10.3	9.8	8.8	8.8
Tax	223	286	434	548	477	609	685	742	822
Tax rate	23.7	24.7	25.9	25.9	28.3	27.4	27.0	28.6	28.7
PAT	**697**	**855**	**1,179**	**1,476**	**1,248**	**1,557**	**1,829**	**1,843**	**2,013**
y-o-y growth	*52.7*	*22.8*	*37.9*	*25.2*	*-15.5*	*24.8*	*17.5*	*0.8*	*9.2*
PAT Margin	8.6	9.0	9.5	8.9	6.2	7.2	7.1	6.3	6.2

Rs bn	FY05	FY06	FY07	FY08	FY09	FY10	FY11	FY12E	FY13E
Gross Debt	**2,999**	**3,692**	**5,065**	**7,055**	**9,347**	**10,486**	**13,205**	**15,379**	**16,685**
y-o-y growth	12.4	23.1	37.2	39.3	32.5	12.2	25.9	16.5	8.5
% of sales	37.1	38.8	40.9	42.5	46.7	48.6	51.1	52.3	51.1
Equity	**3,920**	**4,981**	**6,299**	**8,719**	**9,715**	**11,610**	**13,925**	**15,610**	**17,217**
y-o-y growth	26.9	27.1	26.5	38.4	11.4	19.5	19.9	12.1	10.3
Debt/Equity (X)	**0.77**	**0.74**	**0.80**	**0.81**	**0.96**	**0.90**	**0.95**	**0.99**	**0.97**

Source: Capitaline, Goldman Sachs Research estimates.

Exhibit 8: We are forecasting NPLs + restructured loans to rise 26% this year and 22% next year to reach between 5.5%-6% of total advances over the next two years

Asset quality: Gross, Net NPL, Restructured assets – FY05-FY13E

Rs bn	FY05	FY06	FY07	FY08	FY09	FY10	FY11	FY12E	FY13E
GS Projection of NPLs + Restructured assets based on stressed asset analysis									
Gross Bank Credit	**11,527**	**15,514**	**20,125**	**25,079**	**27,936**	**32,719**	**40,121**	**45,898**	**52,508**
growth (y-o-y)	*27.8*	*34.6*	*29.7*	*24.6*	*11.4*	*17.1*	*22.6*	14.4	14.4
Gross NPL	**594**	**511**	**505**	**563**	**682**	**818**	**941**		
growth (y-o-y)	*-8.4*	*-13.9*	*-1.2*	*11.5*	*21.2*	*19.9*	*15.0*		
Gross NPL (%)	*5.2*	*3.3*	*2.5*	*2.2*	*2.4*	*2.5*	*2.3*		
Net NPL	**218**	**185**	**201**	**247**	**314**	**387**	**418**		
growth (y-o-y)	*-10.8*	*-14.8*	*8.4*	*23.0*	*27.1*	*23.2*	*8.0*		
Net NPL (%)	*1.9*	*1.2*	*1.0*	*1.0*	*1.1*	*1.2*	*1.0*		
Annual Restructured assets	**337**	**110**	**104**	**187**	**765**	**1,134**	**667**		
as (%) advances	*2.9*	*0.7*	*0.5*	*0.7*	*2.7*	*3.5*	*1.7*		
Outstanding restructured					**604**	**978**	**1,069**		
as (%) advances					*2.2*	*3.0*	*2.7*		
Gross NPLs + Restructured assets	**594**	**511**	**505**	**563**	**1,286**	**1,797**	**2,009**	**2,523**	**3,076**
growth (y-o-y)	*-8.4*	*-13.9*	*-1.2*	*11.5*	*128.4*	*39.7*	*11.9*	25.6	21.9
as (%) of System credit	***5.2***	***3.3***	***2.5***	***2.2***	***4.6***	***5.5***	***5.0***	***5.5***	***5.9***
Stressed assets analysis									
Stressed assets of sample companies	**545**	**637**	**725**	**980**	**2,403**	**1,985**	**2,555**	**3,075**	**3,782**
growth (y-o-y)	*-30.8*	*16.9*	*13.9*	*35.2*	*145.1*	*-17.4*	*28.8*	*20.3*	*23.0*
as (%) of total debt of sample companies	*18.2*	*17.2*	*14.3*	*13.9*	*25.7*	*18.9*	*19.4*	*20.0*	*22.7*

Source: RBI, Goldman Sachs Research estimates.

Exhibit 9: Not much downside risk to TP based on our stress test scenario

Stress-test valuations

	8-Dec-2011	Rating	Target price Rs/Share	Potential upside/ (downside)	Implied value Rs/share	Implied value variance v/s current price	BVPS (Rs)	Stressed BVPS (Rs)	Chg. (%)	CMP / Stress BV (X)	Current P/B	Median P/BV (X)
Banks	CMP			(%)	Stressed	(%)	12-m fw	12-m fw		12-m fw		
PSU Banks												
BOB	731	Buy	900	23%	760	4%	592	536	-9.5%	1.4	1.2	1.2
BOI	337	Sell	280	-17%	210	-38%	271	247	-9.0%	1.4	1.2	1.1
OBC	266	Neutral	290	9%	230	-14%	290	267	-7.8%	1.0	0.9	1.4
PNB	930	Buy	1,130	21%	860	-8%	670	613	-8.5%	1.5	1.4	1.4
SBI	1,866	Neutral	1,920	3%	1,540	-17%	1,356	1,293	-4.6%	1.4	1.4	1.6
- Standalone	1,382	--	1,436		1,056	17%	872	809	-7.2%	1.7	1.6	--
Union Bank	212	Sell	190	-10%	160	-24%	184	171	-7.2%	1.2	1.1	1.2
Pvt. Banks												
Axis Bank	1,004	Buy	1,230	23%	940	-6%	547	530	-3.0%	1.9	1.8	2.3
Federal Bank	394	Buy	470	19%	330	-16%	308	285	-7.6%	1.4	1.3	1.3
HDFC Bank	454	Neutral	520	15%	520	15%	127	147	0.0%	3.1	3.6	3.2
ICICI Bank	744	Buy	950	28%	810	9%	692	684	-1.2%	1.1	1.1	1.8
- Standalone	505	--	711		571	13%	453	445	-1.8%	1.1	1.1	--
IndusInd Bank	258	Buy*	350	36%	270	5%	100	100	-0.4%	2.6	2.6	1.8
Kotak Mahindra	484	Sell	470	-3%	470	-3%	106	122	0.0%	4.0	4.5	2.2
Yes Bank	286	Buy	350	22%	260	-9%	139	137	-1.0%	2.1	2.1	2.6

*This stock is on our regional Conviction list.

Source: Company data, Goldman Sachs Research estimates.

Exhibit 10: Key assumption changes in arriving at our implied stress case prices are: (1) lower BVPS on higher NPLs, (2) lower dividend growth on lower earnings growth and (3) lower RoE v/s base case
Key assumptions in arriving at target price and implied values under stress case

	Stress Case CAMELOT Assumptions						Base Case CAMELOT Assumptions						Stress Case vs Adj BVPS chg (%)
	Stage 1	Stage 2				Stressed	Stage 1	Stage 2				Adjsuted	
	Div. CAGR	(a) ROE	(b) Div Payout	Growth =a*(1-b)	No. of Yrs	BVPS 12-m fw	Div. CAGR	(a) ROE	(b) Div Payout	Growth =a*(1-b)	No. of Yrs	BVPS 12-m fw	
Public banks													
Bank of Baroda	4.0%	18.0%	15%	15.3%	12	536	7.4%	18.0%	15%	15.3%	12	592	-9.5
Bank of India	0.0%	15.0%	13%	13.0%	12	247	11.3%	15.0%	13%	13.0%	12	271	-9.0
Oriental Bank	0.5%	16.0%	15%	13.6%	12	267	7.1%	16.0%	28%	11.6%	12	290	-7.8
Punjab National Bk	3.0%	18.5%	15%	15.7%	12	613	13.4%	18.5%	15%	15.7%	12	670	-8.5
State Bank of India	4.0%	17.5%	15%	14.9%	12	809	15.0%	18.0%	15%	15.3%	12	872	-7.2
Union Bank	4.5%	15.0%	15%	12.8%	12	171	11.5%	15.0%	16%	12.6%	12	184	-7.2
Private banks													
Axis Bank	15.0%	17.0%	20%	13.6%	25	530	18.6%	17.8%	20%	14.2%	25	547	-3.0
Federal Bank	8.0%	17.0%	20%	13.6%	12	285	14.7%	17.0%	20%	13.6%	18	308	-7.6
HDFC Bank	23.6%	18.3%	20%	14.6%	25	136	24.0%	18.3%	20%	14.6%	25	137	-0.3
ICICI Bank	13.0%	15.0%	28%	10.8%	25	445	15.3%	16.5%	28%	11.9%	25	453	-1.8
IndusInd Bank	23.0%	18.0%	20%	14.4%	25	100	24.0%	19.6%	20%	15.7%	25	100	-0.4
Kotak Mahindra Bank	16.4%	16.3%	6%	15.4%	25	110	18.9%	16.3%	6%	15.4%	25	112	-1.9
Yes Bank	17.0%	17.0%	17%	14.1%	25	137	18.2%	18.5%	17%	15.4%	25	139	-1.0
NBFC's													
HDFC	17.7%	23.5%	35%	15.3%	25	109	17.7%	23.5%	35%	15.3%	25	109	0.0
IDFC	13.0%	15.0%	15%	12.8%	10	78	13.1%	16.0%	22%	12.5%	20	78	0.0
LICHF	20.9%	20.0%	21%	15.9%	12	115	20.9%	20.0%	21%	15.9%	12	115	0.0
Power Finance	10.0%	15.0%	15%	12.8%	10	163	16.7%	15.0%	20%	12.0%	10	163	0.0
Shriram Transport	11.4%	18.5%	12%	16.2%	18	292	11.4%	18.5%	12%	16.2%	15	292	0.0

Source: Goldman Sachs Research estimates.

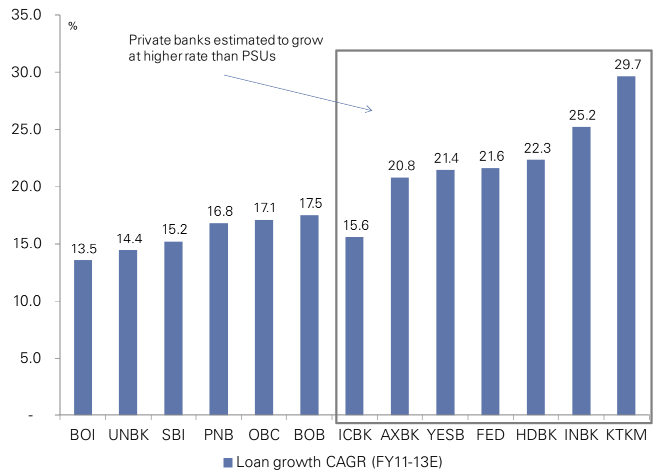
Prefer private over PSU; NBFCs facing structural/cyclical issues

We prefer Private Banks over PSU Banks given:

- Better margin management through rate cycles on asset/liability profile and CASA.
- Higher credit growth on back of retail book and network expansion.
- Relatively better NPL cycle management on lower exposure to SME, agriculture, small business and risk management.

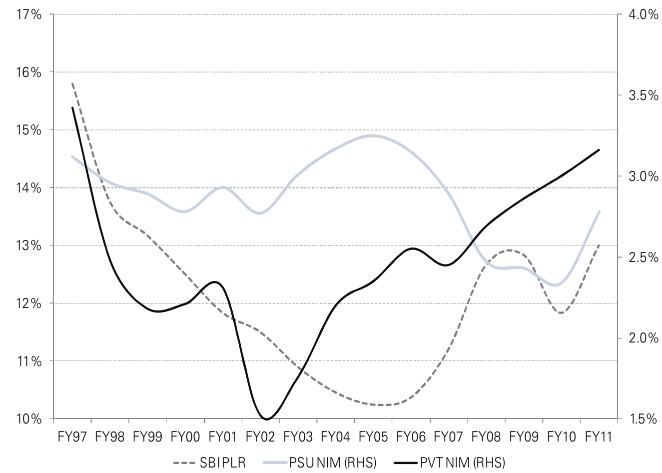
While NBFCs will benefit from falling interest rates, we find it difficult to recommend a buy on any of the names, given their structural/cyclical issues in growth. The housing finance companies such as HDFC and LICHF will likely see increased competition from banks as infra lending slows, infra lenders (IDFC and PFC) are troubled with issues in the power sector and others like Shriram are facing challenges to their business model from RBI regulation changes.

Exhibit 11: We expect private banks to grow faster
Loan growth CAGR (FY11-13E)



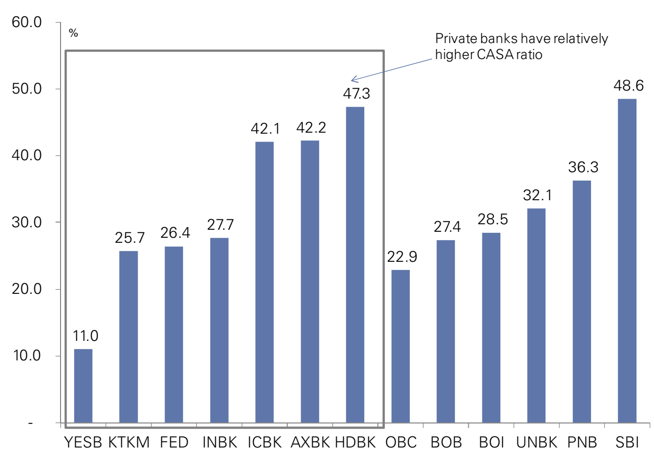
Source: Datastream, Goldman Sachs Research estimates.

Exhibit 12: Private bank margins have ticked up with higher PLR (Prime lending rate)
SBI PLR vs. Bank NIMs



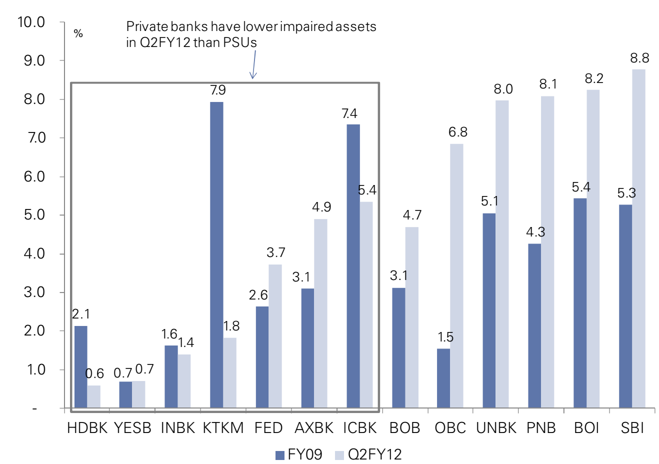
Source: Datastream, Goldman Sachs Research estimates.

Exhibit 13: ...as well as higher CASA (low cost) deposits
CASA ratio as of Q2FY12



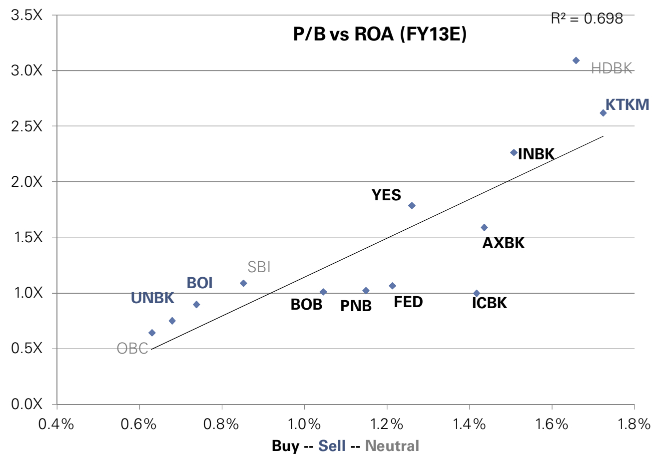
Source: Company data.

Exhibit 14: Private Banks screen better on asset quality even during tough times
Impaired loans as % of total loans; FY09 and Q2FY12



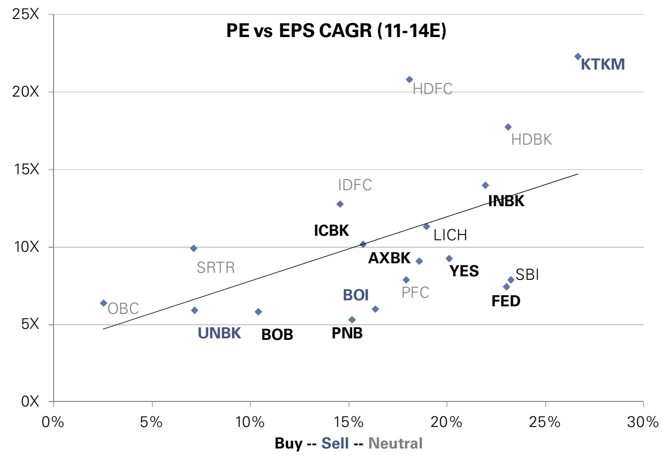
Source: Company data.

Exhibit 15: We prefer private banks which deliver high ROA
P/B vs. ROA



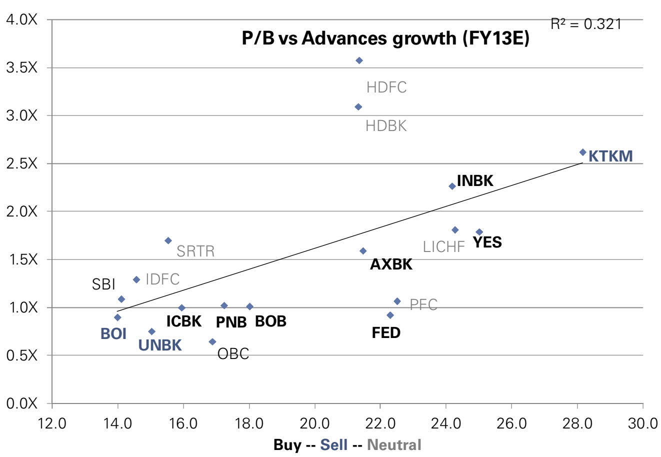
Source: Datastream, Goldman Sachs Research estimates.

Exhibit 16: ...with superior earnings momentum
P/E vs. EPS CAGR (FY11-14E)



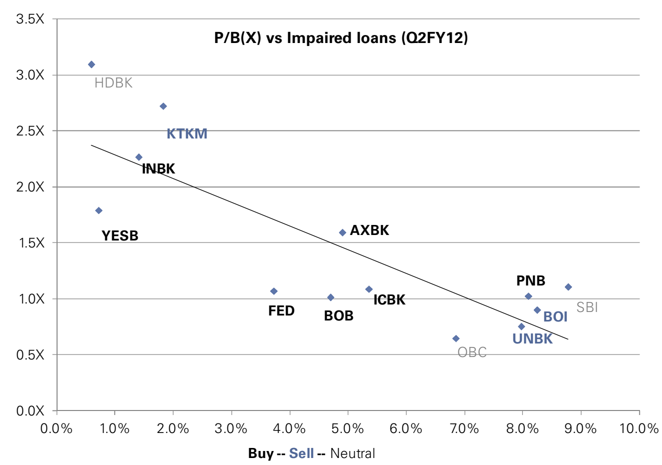
Source: Datastream, Goldman Sachs Research estimates.

Exhibit 17: ...driven by higher credit growth
P/B vs. advances growth



Source: Datastream, Goldman Sachs Research estimates.

Exhibit 18: ...while maintaining better asset quality
P/B vs. Impaired loans as % of advances (Q2FY12)



Source: Datastream, Goldman Sachs Research estimates.

Exhibit 19: Top picks – we prefer private banks over public banks
Summary of ratings and key arguments

	TP (Rs)	Potential upside (%)	FY2013 PER (X)	FY2013 APBR (X)	FY2013 RoE (%)	Key arguments
Top Buys						
IndusInd Bank	350	37%	13.2	2.40	18%	1) Potential to deliver high growth (>20%) while maintaining quality. 2) CASA to expand to over 33% by FY14 from 27%, 3) NIMs to expand 4% by FY14 from 3.5%, will likely translate into higher RoAs > 1.5%
Yes Bank	350	23%	9.2	1.89	21%	1) Trades at attractive valuations v/s earnings growth of over 18% and RoE of over 20%. 2) Key beneficiaries of lower wholesale rates. 3) Recent initiatives on SA (i.e offering higher rates), may also likely lead to increasing client acquisition driving up CASA ratio to 14% in FY13 from 11% now.
Federal Bank	470	21%	7.8	1.23	14%	1) Likely to generate RoA of 1.24% and earnings growth of ~23% CAGR over FY12-14E 2) New strategy focused on improving business processes, containing slippages (~3.8%) and generate newer revenue streams 3) Well capitalized with tier I ratio of ~16% – much higher than banks in our coverage universe except Kotak Bank.
ICICI Bank	950	30%	12.7	1.60	11%	1) Significant valuation correction on MSCI rebalancing 2) RoA likely to remain high at 1.4%, supported by higher CASA of 43-45% 3) The bank is now more focused on profitable growth and we believe that lower SME exposure and 35% retail book does provide comfort
Axis Bank	1,230	24%	9.1	1.73	19%	1) Trading at a steep discount to its median valuation of 2.3X and at a 50% discount to HDFC Bank 2) Consistently delivered 20% RoE. 3) Moderating growth in line with CASA growth.
BoB	900	25%	5.8	1.16	18%	1) Delivering RoA of 1.2% and RoE of 20%, improving the trajectory over the last few years. Despite NPL pressures, we believe the long-term sustainable RoA remains intact. 2) BoB also has lower net NPL v/s peers at 0.4% and gross at 1.5% (industry ratio at 2.5%).
PNB	1,130	24%	5.4	1.29	20%	1) Consistently delivered high RoA of over 1.2-1.3% 2) Higher slippages driven by legacy portfolio. Current management focused on protecting margin and cleaning book. 3) Gross NPL ratio at 2% and net 0.9%
Sell						
BoI	280	-15%	5.9	1.18	15%	While both BoI and Union appear inexpensive on valuations, we believe these will likely remain so on: (1) lower RoA of around 0.7%, (2) higher NPL slippages and (3) lower coverage ratio (60%) and (3) relatively lower Tier I ratio at around 8.5%.
Union	190	-8%	5.6	1.10	13%	
Kotak	470	-3%	30.8	3.97	14%	1) Margin likely to come off on increasing corporate loan book to 36% by FY14 from 32% in FY11 2) Subsidiaries account for 36% of our SOTP and carry downside risk given pressure in key businesses like brokerage and insurance 3) Slow progress on network expansion and therefore CASA ratio which has been stagnating between 27-30%

*This stock is on our regional Conviction Buy list. Total return potential includes dividend yield.

Source: Goldman Sachs Research estimates.

Exhibit 20: Transferring coverage of NBFCs, KTKM and BOI to Rahul Jain
Primary analyst details

Tabassum, Inamdar	Rahul, Jain
Axis Bank (AXBK.BO)	Bank of India (BOI.BO)
Bajaj Finserv (BJFS.BO)	Federal Bank (FED.BO)
Bank of Baroda (BOB.BO)	Housing Development Finance Corporation (HDFC.BO)
HDFC Bank (HDBK.BO)	Infrastructure Development Finance Co. (IDFC.BO)
ICICI Bank (ICBK.BO)	LIC Housing Finance (LICH.BO)
IndusInd Bank (INBK.BO*)	Oriental Bank of Commerce (ORBC.BO)
Max India (MAXI.BO)	Power Finance Corporation (PWFC.BO)
Punjab National Bank (PNBK.BO)	Kotak Mahindra Bank (KTKM.BO)
Religare Enterprises (RELG.BO)	Shriram Transport Finance (SRTR.BO)
State Bank of India (SBI.BO)	
Union Bank (UNBK.BO)	
Yes Bank (YES.BO)	
* Conviction List	

Source: Goldman Sachs Research.

Both macro and micro factors affecting credit growth

The Indian banking sector has seen some moderation in credit growth recently, down yoy to 17.7% as of November 2011 from 21.4% in March 2011. We expect growth momentum to slow further to around 14-15% for FY12E and FY13E as new project lending slows. Growth from here on will be driven by working capital finance, loans disbursements to project under implementation and retail credit, in our view.

On the downside, we believe the growth could fall to 8-10% for FY12E and FY13E based on historical low credit growth to GDP growth ratio of 0.6X; in a best case, we believe it could close the year at around 17-18% (given a ratio of a 1.1X-1.3X) — with positive surprise driven by significant/sharp cuts in interest rates, the CRR and policy initiatives. For the moment, however, our ECS team expects the RBI to start cutting the CRR by 100bps in CY12 and repo rates by 150bps in CY12 and another 50bps in FY14.

Exhibit 21: We expect credit growth to come off, settling at 14%-15%
Credit growth actual and estimates yoy growth (%)

				CAGR	yoy growth (%)		
Rs bn	**FY11**	**Oct-11**	**% of Total**	**FY06-FY11**	**Oct-11**	**FY12E**	**FY13E**
Gross Bank Credit	**37,316**	**39,064**	***100.0***	**20.9**	**18.7**	**14.4**	**14.4**
Food Credit	643	682	*1.7*	9.6	48.5	20.0	12.0
Non Food Credit	**36,674**	**38,382**	*98.3*	**21.2**	**18.2**	**14.3**	**14.5**
Agriculture	**4,603**	**4,353**	***11.1***	**21.5**	**7.1**	**11.0**	**15.0**
Industries	**16,208**	**17,596**	***45.0***	**24.1**	**23.1**	**18.1**	**15.9**
Textiles	1,447	1,469	*3.8*	19.9	17.4	11.0	12.0
Metals	2,099	2,326	*6.0*	26.1	29.9	20.0	15.0
Engineering	932	1,033	*2.6*	21.8	22.4	18.0	15.0
Infrastructure	**5,267**	**5,746**	***14.7***	**36.1**	**21.7**	**18.0**	**18.0**
Power	2,692	3,020	*7.7*	35.0	29.8	22.5	18.0
Telecommunications	1,005	925	*2.4*	40.3	-4.9	-5.0	10.0
Roads	926	1,053	*2.7*	36.3	29.7	25.0	18.5
Retail	**6,854**	**7,162**	***18.3***	**13.7**	**18.7**	**12.4**	**14.3**
Consumer Durables	102	86	*0.2*	7.4	-2.1	-5.0	5.0
Housing	3,461	3,699	*9.5*	13.3	13.9	14.0	16.0
Vehicle Loans	793	851	*2.2*	10.6	18.0	14.0	12.0
Other Personal Loans	1,238	1,200	*3.1*	2.5	13.1	8.0	14.0
Services	**9,008**	**9,271**	***23.7***	**23.0**	**18.2**	**10.6**	**11.6**
Trade	1,863	1,974	*5.1*	17.4	14.3	7.0	10.0
Commercial Real Estate	1,118	1,173	*3.0*	33.2	12.8	6.0	8.0
NBFCs	1,756	1,855	*4.7*	38.6	41.5	20.0	18.0
Other Services	2,494	2,478	*6.3*	14.5	15.1	10.0	10.0

Source: RBI, Goldman Sachs Research estimates.

Credit multiplier to range between 0.9-1.1X

Multiple factors such as increasing penetration level off a low base, increased private sector participation both in manufacturing and services sector, and favorable demographics led to high credit growth to GDP growth ratios of around 2.2X between FY00-FY10 and 1.3X in FY05-11.

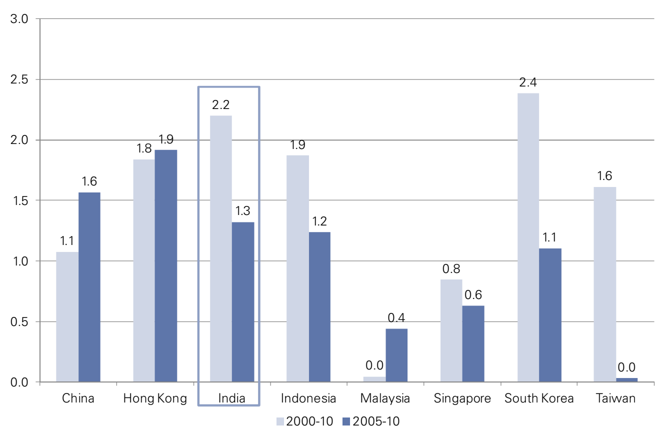
However, in five of the past 20 years India's credit growth to GDP growth ratio has fallen below 1X, to 0.5X-0.6X. These were in FY91/92/94 when India faced severe forex crises, high inflation and interest rates; and in FY97/FY99, when high interest rates of FY96 ('AAA' rated corporate were borrowing at 18%), significant over capacity, and Asian crises impacted demand in the subsequent years.

Even in the worst period of slowdown between FY97-FY02, India's credit growth was 15% CAGR, with a minimum of 9.6% in FY97. This was driven by food and retail credit, whereas credit to sectors such as industry, services and trade was around 10%.

Despite lack of political will for structural reforms; inaction in the infrastructure space, and in particular power; high interest rates; and global issues — we believe the growth multiplier will not dip below 1X GDP growth. Further, we would turn more bullish if we see significant interest rate cuts, policy initiatives on infrastructure and improvement in investment sentiment.

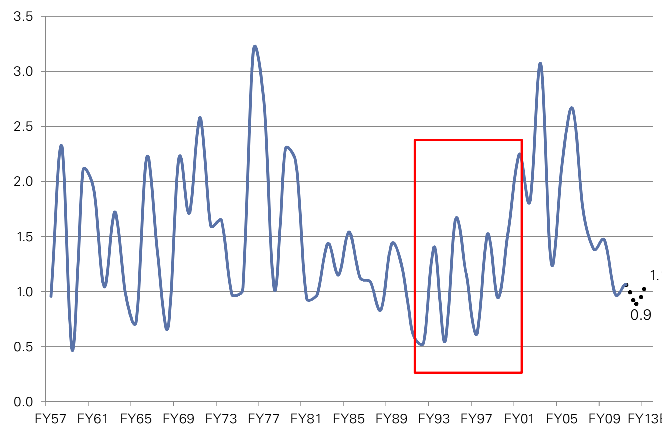
Our base case is that outstanding approvals and project under implementations and nominal GDP growth of 16% and 13.7% in FY12 and FY13 should help banks achieve low but decent credit growth of 14%-15% in FY12 and FY13. In a worst case, we estimate growth could fall to around 8-10%, i.e. 0.6X nominal GDP growth of 13.7% in FY13.

Exhibit 22: India's credit growth multiplier is relatively high vs. Asian peers, reflecting increasing penetration off a low base
Regional Credit growth to GDP growth ratio



Source: Central banks.

Exhibit 23: In five out of last 20 years, India's CD ratio has fallen to < 1X to around 0.5-0.6X
Credit growth to GDP growth (%)



Source: Reserve Bank of India, CSO, Goldman Sachs Global ECS Research estimates.

Slowdown in investment and GCF likely to impact growth

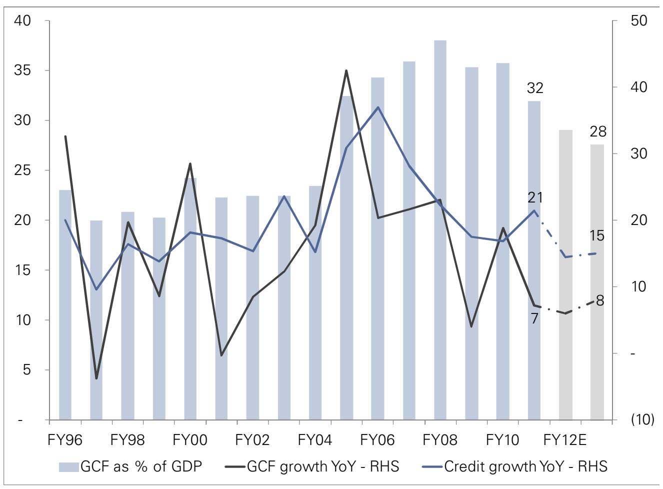
We believe the following factors could pose risk to credit growth:

- Challenging economic environment i.e. lower IIP (Index of industrial production) and GDP growth. Our ECS team recently lowered its India GDP growth estimates to 6.9% for FY12 and 7.2% for FY13 from 7.0% and 7.4%.
- Moderation in capacity utilization in selects sectors on growth slowdown.
- Delays in fresh capex activity on regulatory and policy delays (land acquisition bill, tariff hike by SEBs).
- High interest rates.
- High leverage levels in certain sectors (Food Processing, Logistic, Construction, Infrastructure, Telecom)

Although long term and structural growth potential is strong, near term challenges from lower gross capital formation (GCF), particularly from the private sector, could impact credit demand. This is particularly relevant as the share of retail credit to total credit in India is still low, with non-retail credit driving 88% of total credit.

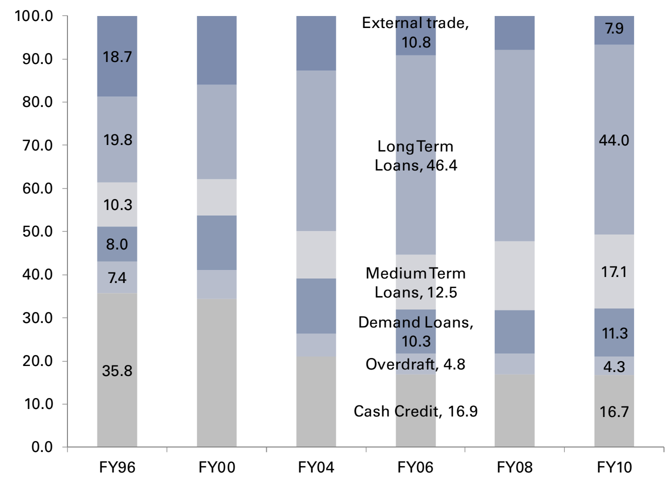
The high proportion of GCF over the last few years is reflected in the: (1) increase in credit to the industrial sector whose share increased to 45% from 38% in overall credit between FY06 and FY11, and (2) the increase in the banking sector medium and long term credit expansion of 47% CAGR since FY96, taking the share of long-term credit up to 44% in FY10 up from 15% in FY96. With both GCF and infrastructure lending tapering off, we expect banks will face challenges in growing their asset books in the near term.

Exhibit 24: Strong growth in gross capital formation (GCF) is reflected in credit growth and…
GCF as % of GDP, GCF growth yoy and Credit growth yoy



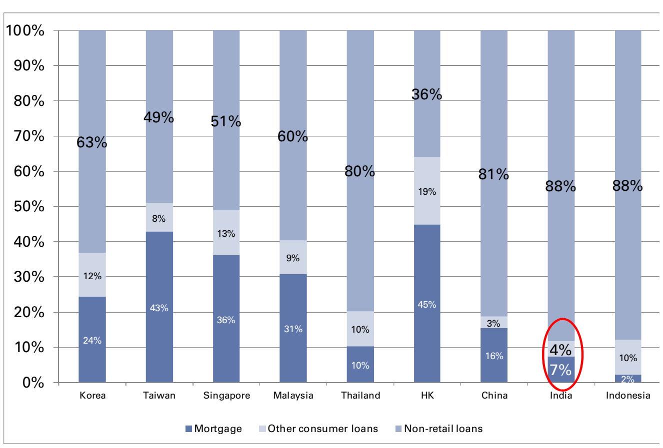
Source: Reserve Bank of India, CSO, Goldman Sachs Global ECS Research estimates.

Exhibit 25: …a shift to long- and medium-term loans, likely to fund project loans, which are drying up
Split of Credit by product type



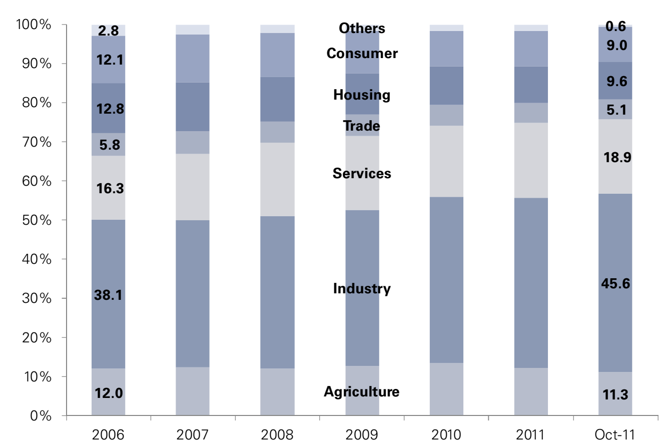
Source: Reserve Bank of India.

Exhibit 26: Non-retail credit tends to dominate the Asian loan book, more so in India. India's retail credit exposure is still fairly small, and has scope to increase
Credit book split by type of loans (2010)



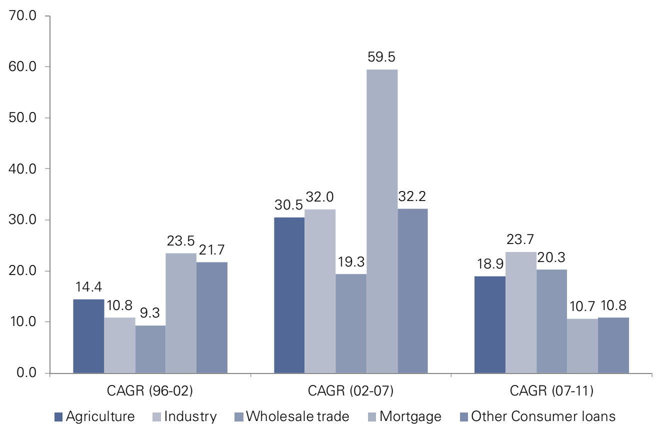
Source: Central Banks.

Exhibit 27: The share of industry credit is high and has risen to 45% from 38% in 2006
Share of key sectors in credit demand and changes over time



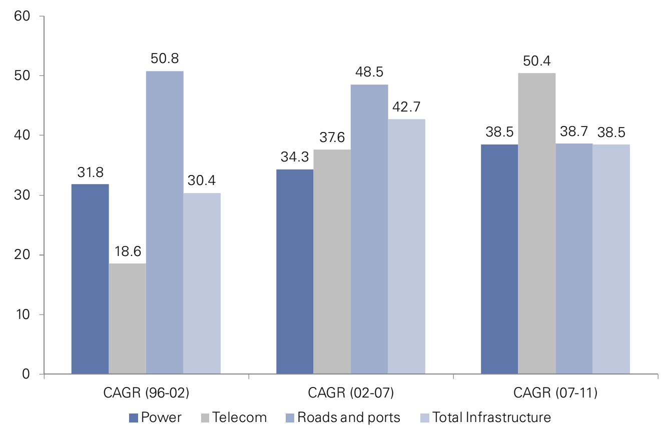
Source: Reserve Bank of India.

Exhibit 28: Industry and trade credit were key drivers of credit in recent years in India
Growth in credit: key sectors from 1996



Source: Reserve Bank of India.

Exhibit 29: Within industry, infrastructure has been key driver of growth
Growth in credit: key infra sectors from 1996



Source: Reserve Bank of India.

High interest rates and deficit could impact near-term growth

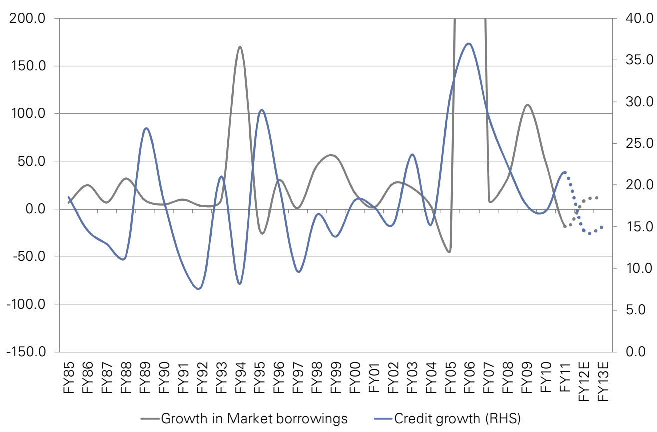
Through cycles, credit growth is most influenced by interest rates. Current high interest rates are one reason for slowing demand in credit. Our ECS team expects interest rates to fall in FY2013 by 150 bps (and for a CRR cut of 100 bps between January 2012 and March 2013). Technically, this should provide triggers to consumption and investment demand.

However, a high fiscal deficit can act as a dampener as government spending can crowd out private investment. Also unlike the past, the government will likely find it difficult to prop up the economy given its already high fiscal deficit. High interest rates on government securities can be a big disincentive for banks to take credit risk. Credit growth has seen maximum growth when the government's fiscal deficit declined (e.g. 2005-07). In FY2012, the government fiscal deficit has exceeded budgets significantly (estimated at 8.8%) and for FY2013 our ECS teams expects it to remain high at 8.2%, posing a risk to private investment.

We believe the banking sector could comfortably meet the government's fiscal deficit requirement under our base case scenario assumption of 14%-15% credit growth in FY12 and FY13. We calculate banks could run into problems if deposit growth is lower than its current 16.4%, at around 15%, and credit growth is higher at around 18% (see Scenario 2 Exhibit 34) or if deposit growth remains low at 15% and government borrowing rises further (see Scenario 4). This could drive up the cost of borrowing, impacting banks' margins.

Exhibit 30: India has seen maximum growth in credit at times of lower fiscal pressure

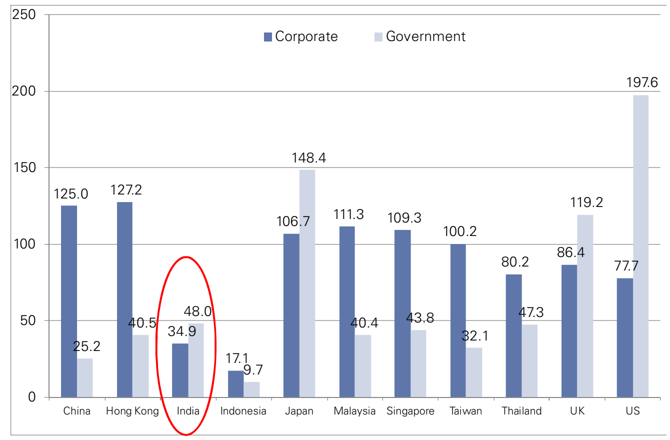
Credit growth and growth in net government borrowing



Source: Reserve Bank of India, Goldman Sachs Global ECS Research estimates.

Exhibit 31: India's government debt to GDP ratio is higher than corporate credit to GDP ratio, one of the reasons for low credit to GDP ratio

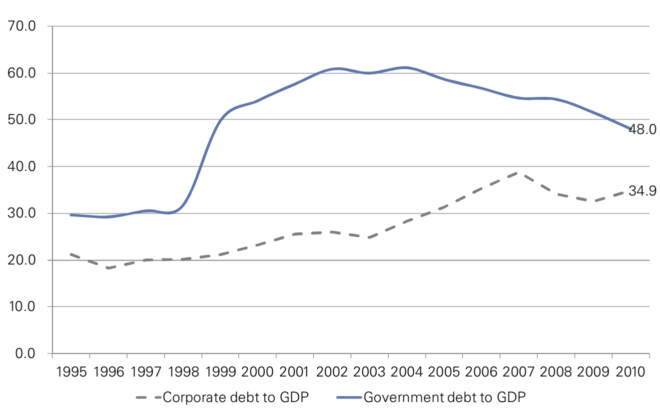
Corporate, Government debt as % of GDP (2010)



Source: Central Banks.

Exhibit 32: India's corporate debt has inched up with privatization, while gov't debt has fallen. The latter may spike again on lower GDP growth and higher fiscal slippage

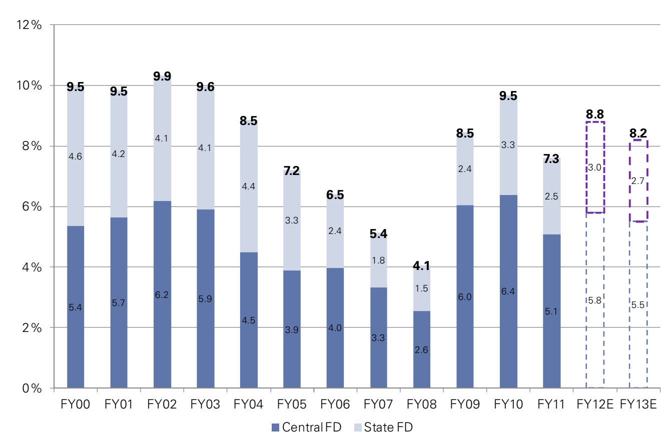
Corporate, Government debt, as % of GDP



Source: Reserve Bank of India.

Exhibit 33: Both the Central and the State deficits are rising

Fiscal deficit center and state



Source: CSO, Goldman Sachs Global ECS Research.

Exhibit 34: Lower deposit growth and higher fiscal deficit could pose further risk to our credit growth estimates - see Scenarios 2 and 4

	Base Case Scenario		Scenario 1 Lower credit growth		Scenario 2 Lower deposit and higher credit growth		Scenario 3 Lower deposit and credit growth and higher fiscal deficit		Scenario 4 Lower deposit, higher credit growth and fiscal deficit	
Center + State NET issuances	**FY12**	**FY13**	**FY12**	**FY13**	**FY12**	**FY13**	**FY12**	**FY13**	**FY12**	**FY13**
Rs. bn	**GS est**	**GS est**	**GS est**	**GS est**	**GS est**	**GS est**	**GS est**	**GS est**	**GS est**	**GS est**
Deposit o/s	65,305	77,060	65,305	77,060	64,189	73,817	88,619	101,912	75,101	86,366
Deposit growth yoy (%)	17.0	18.0	17.0	18.0	**15.0**	**15.0**	**15.0**	**15.0**	**15.0**	**15.0**
Incremental deposit over PY (A)	9,489	11,755	9,489	11,755	8,372	9,628	11,559	13,293	9,796	11,265
Credit o/s	45,098	51,863	44,901	51,636	46,477	54,842	59,124	67,992	51,187	58,865
Credit growth yoy (%)	14.5	15.0	14.0	15.0	**18.0**	**18.0**	**14.0**	**15.0**	**14.0**	**15.0**
Incremental credit over PY (B)	5,711	6,765	5,514	6,735	7,090	8,366	7,261	8,869	6,286	7,678
Min Gsec invest. banks need to make at 24% of deposits	2,277	2,821	2,277	2,821	2,009	2,311	2,774	3,190	2,351	2,704
Liquidity available with banks for investment (A-B)	3,778	4,990	3,975	5,020	1,283	1,263	4,298	4,424	3,510	3,587
Invest. assumed by our ECS team in Gsec	3,010	3,552	3,010	3,552	3,010	3,552	**3,371**	**3,978**	**3,371**	**3,978**
Excess liquidity/(shortfall)	768	1,438	965	1,468	(1,727)	(2,289)	927	446	138	(391)
Investment o/s	**18,010**	**21,562**	**18,010**	**21,562**	**18,010**	**21,562**	**18,371**	**22,349**	**18,371**	**22,349**
growth yoy (%)	20.1	19.7	20.07	19.7	20.1	19.7	22.5	21.7	15.6	21.7

Source: Goldman Sachs Research Estimates, Goldman Sachs Global ECS Research.

Buoyant equity markets too can support credit growth

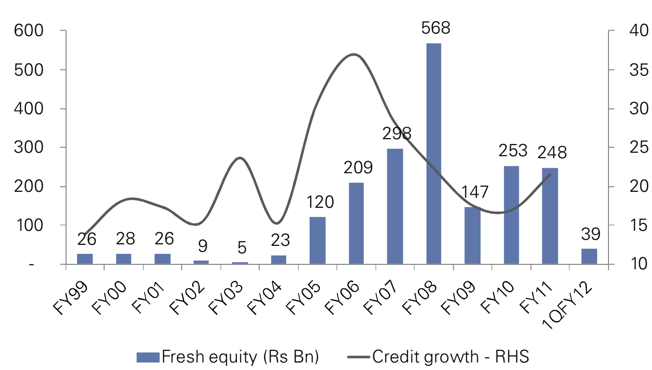
Investment activity can be strong if this is supported by non-banking channels such as capital markets, commercial paper, and External Commercial Borrowing (ECB). According to data from the RBI, non-banking channels — including ECBs, commercial paper, equity raising — accounted for 51% of total capital flow to the commercial sector over FY08-FY11. Inability of corporate India to raise equity in weak capital markets could hamper credit growth.

Exhibit 35: Proportion of foreign sources has moved up in the total flow of resources to the commercial sector from a low of 19% in FY09 to 27% in 1HFY12
Table showing composition of flow of resources to commercial sector

Composition (%)	FY08	FY09	FY10	FY11	1HFY11	1HFY12
Bank credit	43.1	47.4	48.8	58.1	54.1	45.9
Non banking channels: Domestic	24.7	33.4	30.2	25.4	25.7	27.6
Public issues by non-fin. entities	5.0	1.6	2.8	2.3	2.1	1.2
Gross pvt. placements by non-fin. entities	6.6	8.6	11.4	5.3	0.0	0.0
Net CPs issuance subs. by non-banks	1.0	0.6	4.3	2.8	8.7	11.9
Net credit by housing finance companies	4.1	3.0	1.7	2.9	1.8	2.2
Acc. by NABARD, NHB, SIDBI & EXIM Bank	2.2	3.5	1.4	3.3	3.2	1.7
Non-deposit taking NBFCs (net of bank credit)	3.5	8.7	3.9	5.9	7.3	8.0
LIC's investment in corp. debt, infra.	2.4	7.4	4.8	3.0	2.6	2.5
Non banking channels: Foreign sources	32.2	19.2	21.0	16.5	20.2	26.5
ECBs / FCCB	8.8	4.3	1.3	4.9	5.8	8.4
ADR/GDR issues exc. banks and fin. Inst.	3.4	0.5	1.5	0.8	1.5	0.4
Short-term credit from abroad	6.7	(3.5)	1.6	3.2	4.1	2.7
FDI to India	13.3	17.9	16.5	7.6	8.8	15.1

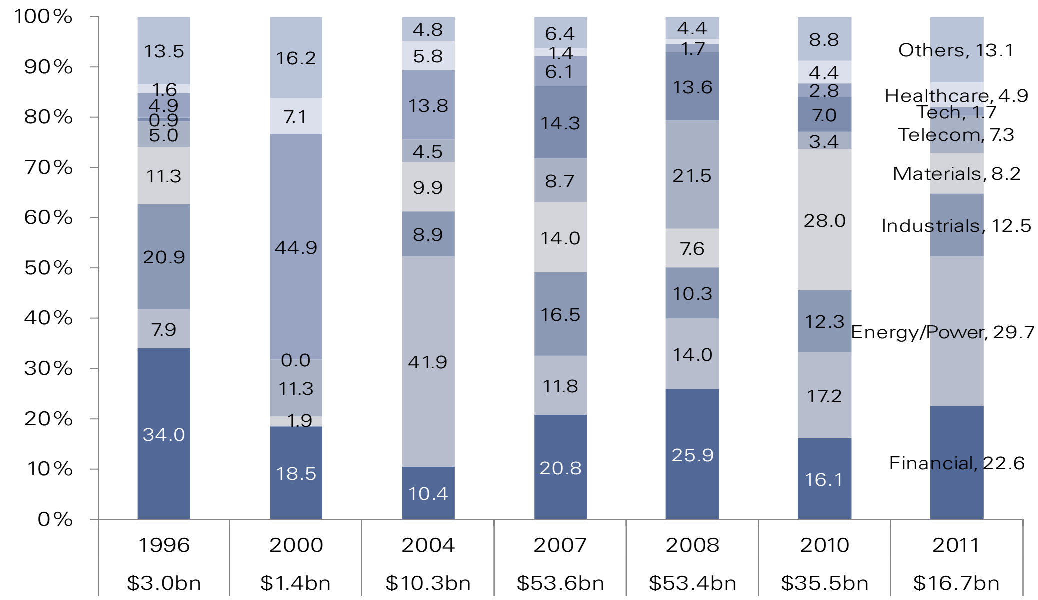
Source: Reserve Bank of India.

Exhibit 36: Equity raising enabled expansion in credit
New capital issuances by non-government public companies



Source: Reserve Bank of India.

Exhibit 37: Financials, Energy/power, Industrials and Materials key raisers of capital
Equity capital raising by sector for key years



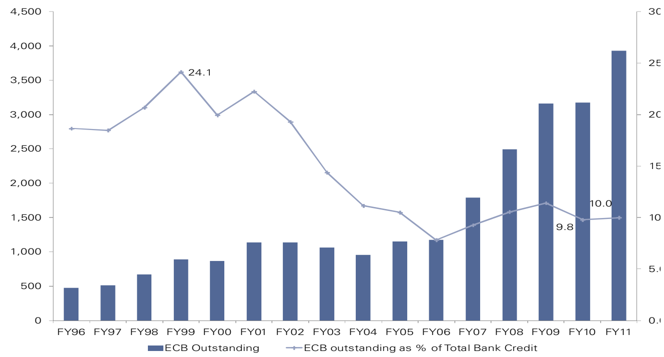
Source: Thomson Reuters.

Lower ECBs unlikely to add to domestic credit demand

ECBs grew at 24% CAGR over FY05-09 (before the financial crisis), due to the interest cost differential, ample liquidity and an appreciating INR. It collapsed during the global financial crisis but during this slowdown credit demand from the Indian banking sector was strong — in FY09 ranging between 22% and 29% as liquidity in the overseas market tightened forcing corporate to borrow from domestic banks.

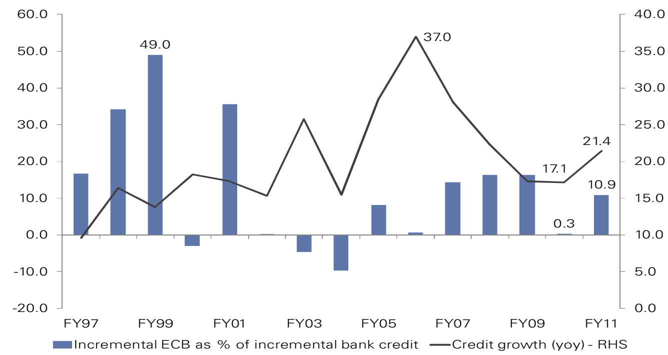
We are again seeing tightening liquidity in the overseas market; however, we do not expect a repeat of the FY09 high credit growth performance in FY13. In the last cycle the collapse in the overseas market liquidity was sudden and caught most borrowers off guard, this is not the case now. On an incremental basis, a shift in credit demand will support growth to some extent in domestic credit, in our view. Currently, on an outstanding basis ECBs account for 12.4% (June 2011) (10% as of FY11) of the credit and on an incremental basis this accounted for 10.9% of credit in FY11.

Exhibit 38: ECBs increased in FY11, but we expect this to fall once again given recent expansion in CDS spreads and liquidity squeeze internationally
Outstanding ECB amount (in Rs. Bn) and % of o/s banking sector credit



Source: Reserve Bank of India.

Exhibit 39: Incremental ECB to incremental bank credit decline to 0.3% in FY10, but did not lead to higher credit growth in FY10 for the banking industry.
Incremental ECB credit as % of increment total bank credit

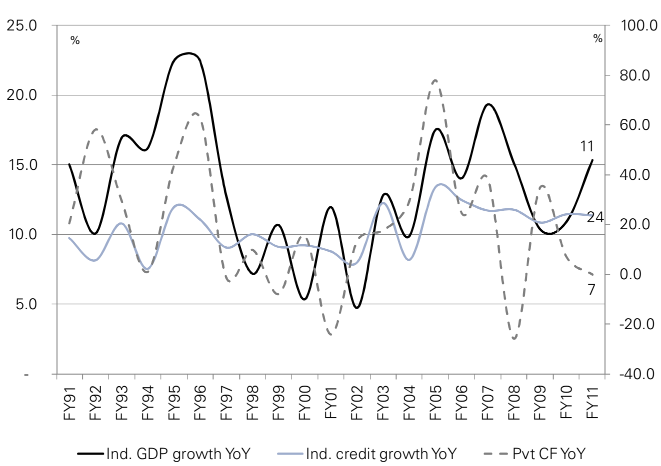


Source: Reserve Bank of India.

Industry: infrastructure key driver for past five years, what now?

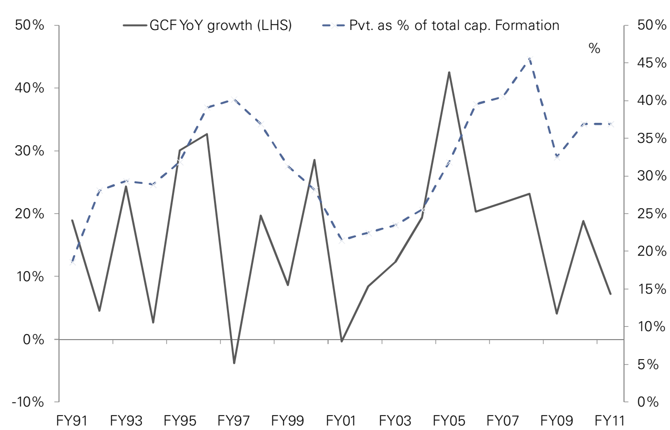
Since FY91, growth in industrial sector has largely been driven by the private sector, with the proportion of private fixed capital formation (PFCF) in Gross fixed capital formation (GFCF) expanding to 45.5% in FY08 from 18.6% in FY91; although this has recently moderated to 36.9% in FY11. In our view, the lack of policy initiatives will likely once again lead to postponement of investment/capex by the private sector, driving down gross capital formation.

Exhibit 40: Slowdown in GDP growth likely to impact credit growth from the industrial segment
Trend showing growth in industrial GDP versus industrial credit and Private Capital formation



Source: Reserve Bank of India.

Exhibit 41: Over the last 10yrs, PCF drove growth in capital formation
GCF growth (yoy) and share of Private Capital formation



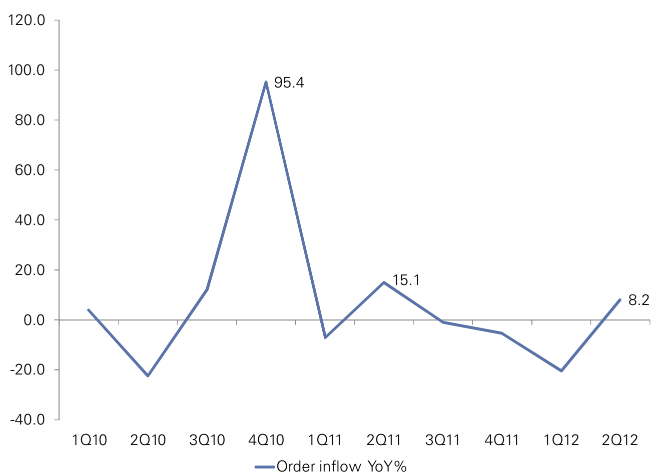
Source: Reserve Bank of India.

Some large capital goods and construction companies have reported a 4-5% decline in new order inflows over the past three to four quarters. According to recent data released by the RBI, in Q2FY12, 135 projects were approved for loans amounting to about Rs803bn, compared with 195 projects worth Rs1,428bn during the corresponding quarter of the previous year.

In our view, this is now being reflected in the gradual slowdown in credit growth to the infrastructure sector (down to 21.7% YoY as of October 2011 from 38.6% in March 2011). Despite this, credit growth to the industry segment has remained buoyant at 23.7% — in our view due to pick-up in working capital demand in light of the economic slowdown and the rise in commodity prices. Sectors that have shown strong growth are mining, basic metals, food processing, and gems and jewellery. Given the slower pace of investment activity however, we estimate credit from the industrial sector to moderate to around 18.1% by March 2012 and 15.9% in March 2013.

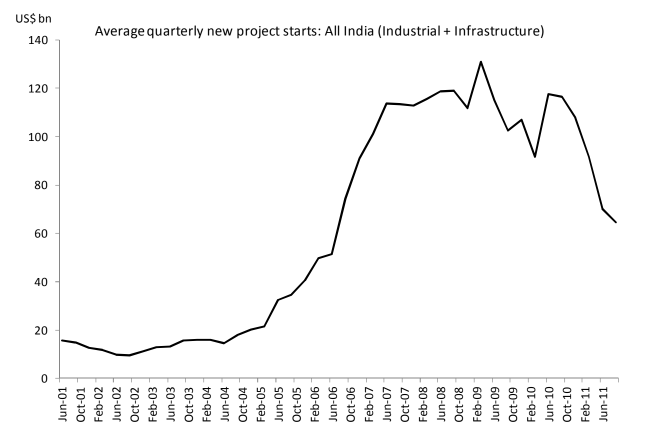
We believe growth could once again pick up in FY14 as our ECS team expects the RBI will likely cut interest rates by 150 bps in FY13 and as we expect project clearances to pick up in the second half of the year. There are small signs of improvements on policy front, for example, 10 states have raised tariffs over the last three months.

Exhibit 42: Order inflows for capital goods and infra companies have slowed down
Order inflow growth % for capital good and infra companies



Source: Company data, Goldman Sachs Research.

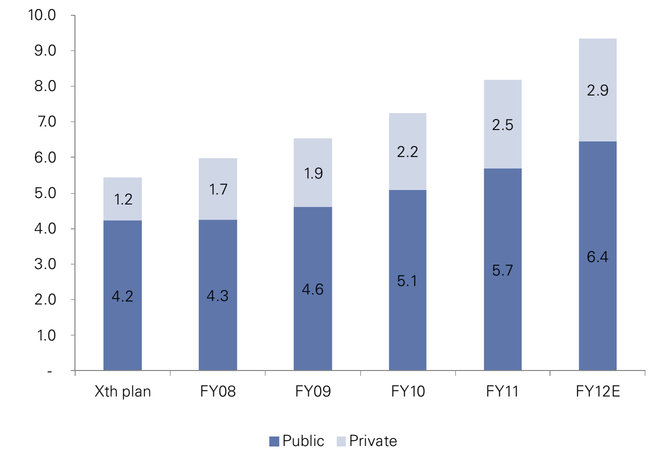
Exhibit 43: Investments have slowed significantly leading to slower new project starts
New investment across different sectors



Source: Planning Commission, CEIC.

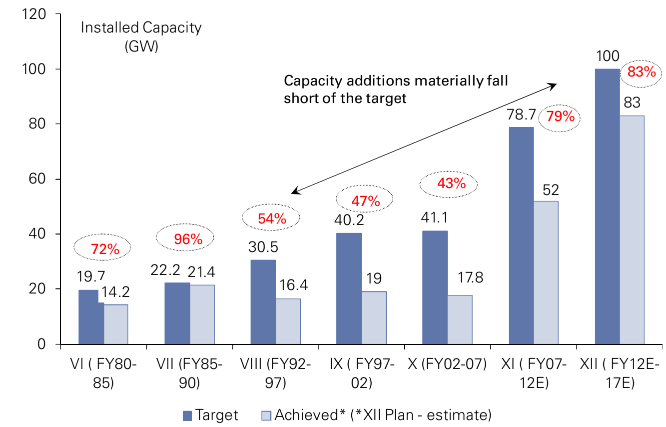
Power, roads, telecom, metals, constructions have been some of the key drivers of industrial credit — which expanded 31.5% over FY05-11 and whose share in total credit expanded to 45% from 30% in FY05. This was due to: a) robust economic growth, b) the comfortable interest rate environment, c) healthy capital markets, which enabled companies to maintain leverage ratios at comfortable levels, and d) increased private sector participation in the construction and infrastructure spaces.

Exhibit 44: Private participation has increased in infrastructure investment
Trend showing infrastructure investments as % of



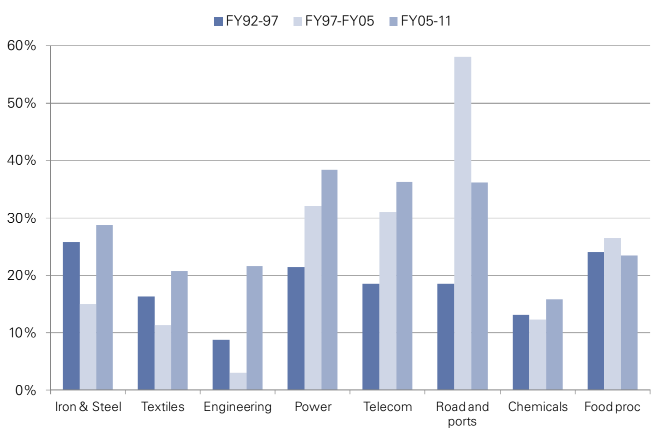
Source: Planning Commission.

Exhibit 45: Driving up actual achievement versus target in recent years
Trend showing installed capacity (GW)



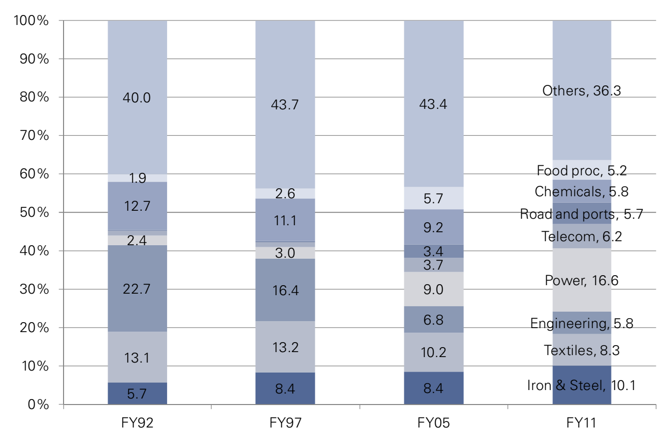
Source: Planning Commission.

Exhibit 46: Infrastructure segments like Power, Roads and Telecom have been key drivers of Industry growth
CAGR in bank loan growth to key industry segments



Source: Reserve Bank of India.

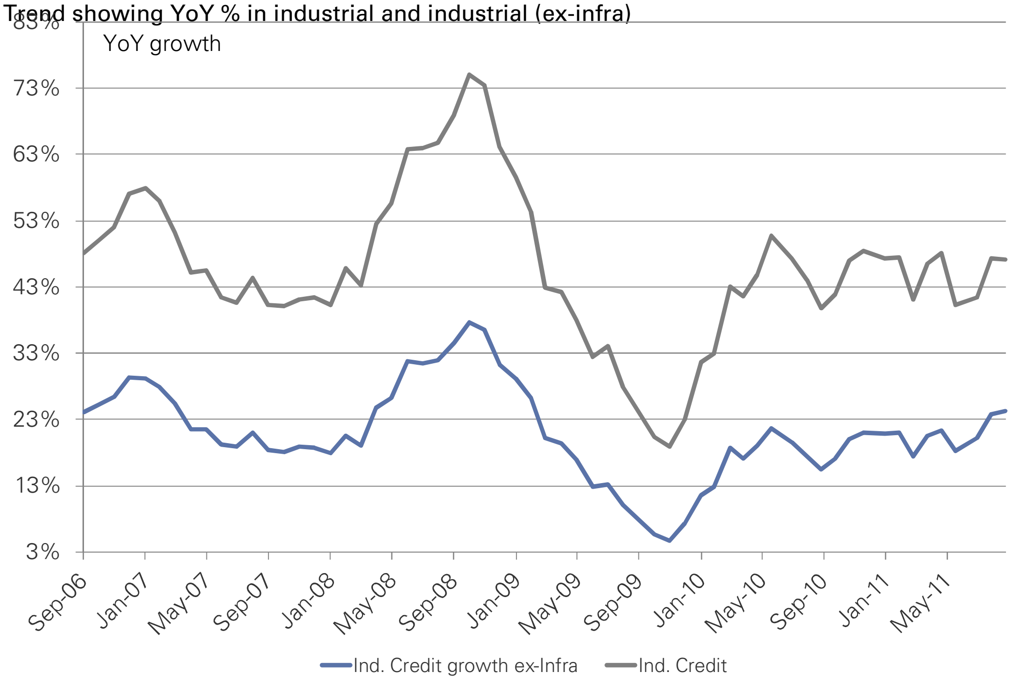
Exhibit 47: Power now accounts for c. 17% of total industry credit ahead of Iron & Steel at 10%
Split of industry loan book by key industry segments



Source: Reserve Bank of India.

Exhibit 48: While infrastructure has slowed, other sectors are driving growth. On an incremental basis infra accounted for nearly 47% of credit over the five years to March 2011; since then its share is down to 31.6%

Trend showing YoY % in industrial and industrial (ex-infra)



Source: Reserve Bank of India.

Exhibit 49: Most banks have between 8-15%exposure to the infrastructure segment

Exposure of select banks to Industry segments in FY11

Exposure to industry (%)	Axis	BOB	BOI	HDBK	ICBK	INBK	PNB	KTKM	SBI	UNBK	YESB
Textile	2.7	3.5	2.6	1.1	0.7	0.6	2.4	---	5.0	2.9	0.3
Gems & Jewellery	2.7	0.3	1.2	0.7	1.2	0.6	1.2	---	5.9	1.2	0.8
Cement	0.7	0.3	0.3	0.6	1.5	0.4	0.5	---	0.7	0.5	0.9
Construction	8.3	1.6	1.1	1.1	3.1	---	1.4	5.0	0.9	2.3	2.7
Automobiles	5.3	0.8	1.3	4.6	1.2	0.1	0.6	3.3	0.7	1.5	0.4
Iron and Steel	3.8	4.1	4.1	3.1	5.9	0.5	8.1	1.3	5.1	4.2	1.3
Other Metals	1.0	1.2	1.0	2.0	3.9	---	0.6	---	1.6	0.9	0.4
Real Estate	1.8	---	2.7	2.0	2.1	2.0	5.0	---	---	1.5	1.9
Infrastructure	14.7	11.5	7.0	3.6	10.9	3.8	14.9	8.2	11.4	10.3	11.2
Telecom	2.4	2.1	3.0	1.5	---	---	3.4	---	1.7	---	4.3
Power incl Electricity	5.8	5.8	2.8	2.1	4.9	1.9	9.2	1.0	4.7	6.3	6.4

Source: Company data.

Road showing traction, power going slow, ratio of target achievement key in driving credit demand

Three areas could drive bank credit growth in industry segment, in our view:

- Working capital finance.
- Project sin the pipeline.
- New projects.

According to the planning commissions' original projections for the 12th plan period investment over FY12-17 will be about US$911 bn. This compares with US$456bn of expected investments in the 11th plan. Much of the growth is to be driven by sectors such as power, telecoms, roads & ports etc. In most of plan years (Exhibit 45), the actual realization of investment has been significantly lower than the target — although the ratio has been improving with the increase in private sector participation.

Recent developments indicate that the planning commission itself may be revising down its target for the 12th plan to more achievable levels, and we have assumed lower estimates than in the original projections for potential credit opportunities for the banking system. For example, according to the planning commission, the telecom sector will likely see major expansion in overall plan spend to 24% of total spend compared with about 11% in the 11th plan period. Our telecoms analyst, Sachin Salgaonkar, believes realistic assumptions could be in the range of US$40-45bn over the next five years.

Exhibit 50: Projects in pipeline could drive growth in credit in the industry segment in FY13

Capital expenditure, potential credit creation in Rs bn

Capital expenditure (Rs bn)	FY12E	FY13E	FY14E	FY15E	Total
Sanctioned FY09	493	117	46	-	657
Sanctioned FY10	853	365	82	34	1,333
Sanctioned FY11	1,294	979	571	110	2,955
Total	**2,777**	**1,510**	**700**	**144**	**5,130**
Potential credit creation	**1,061**	**1,059**	**884**	**639**	**3,643**
% of Oct'11 Industry credit	*6.0*	*6.0*	*5.0*	*3.6*	*20.7*

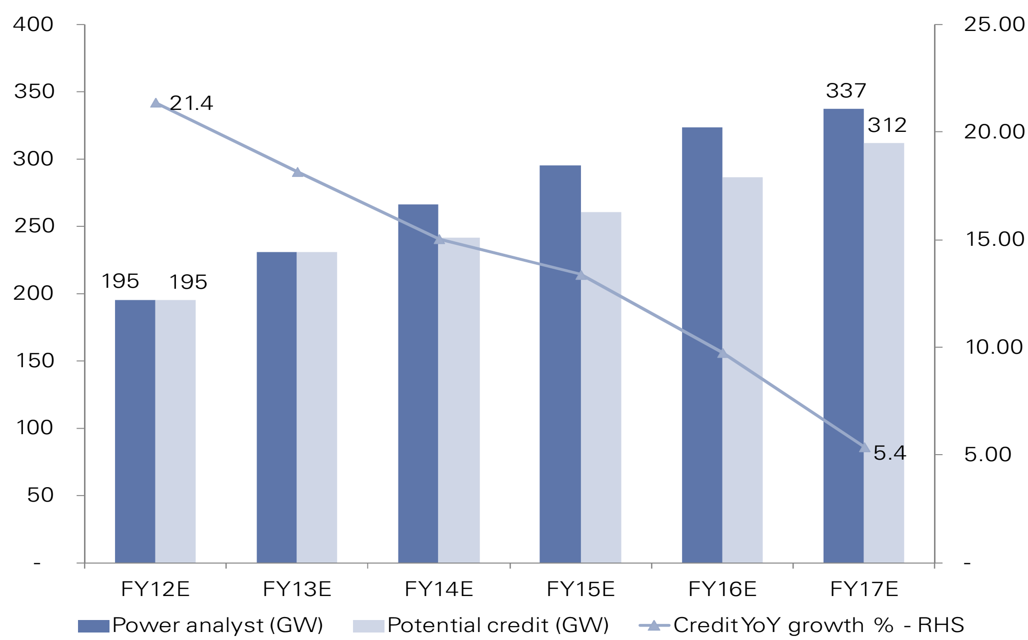
Source: RBI, Goldman Sachs Research estimates.

Exhibit 51: Along with investments from the 12th plan. Telecom, Power and Roads & Bridges sectors will drive growth as well, even assuming lower investments
Investments and estimates in infrastructure

Sector (Rsbn)	Revised projections (XI Plan)	Original projections (XII Plan)	Sensitivity 30%	Sensitivity 40%	Sensitivity 50%
Electricity	6,586	12,576	3,773	5,030	6,288
Roads and bridges	2,787	4,903	1,471	1,961	2,451
Telecom	3,451	10,117	3,035	4,047	5,058
Railways (including rail-based MRTS)	2,008	2,964	889	1,186	1,482
Irrigation (including watersheds)	2,462	3,986	1,196	1,595	1,993
Water supply and sanitation	1,117	1,852	556	741	926
Ports (including inland waterways)	406	1,050	315	420	525
Airports	361	663	199	265	331
Storage	90	257	77	103	129
Oil and gas pipelines	1,273	2,623	787	1,049	1,312
Total	**20,542**	**40,992**	**12,298**	**16,397**	**20,496**
Equity (25%)		10,248	3,074	4,099	5,124
Debt fin. reqd.		30,744	9,223	12,298	15,372
- of this bank financing (60%)		**18,447**	**5,534**	**7,379**	**9,223**
--bank financing (US$ = INR 45)		410	123	164	205
As % of Sep'11 Industrial credit		105.9	31.8	42.4	52.9

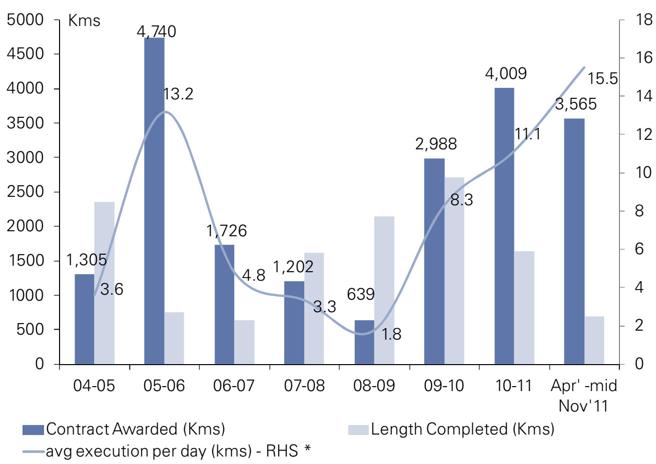
Source: Planning Commission, Goldman Sachs Research estimates.

Exhibit 52: We project slower loan growth in the power sector assuming projects are postponed despite financial closure, and that no new projects are approved. Growth could be higher if the government acts on reforms
Installed power capacity (GW) per our Power analyst, Durga Dath, target capacity addition for credit estimate, credit growth estimate



Source: Goldman Sachs Research estimates.

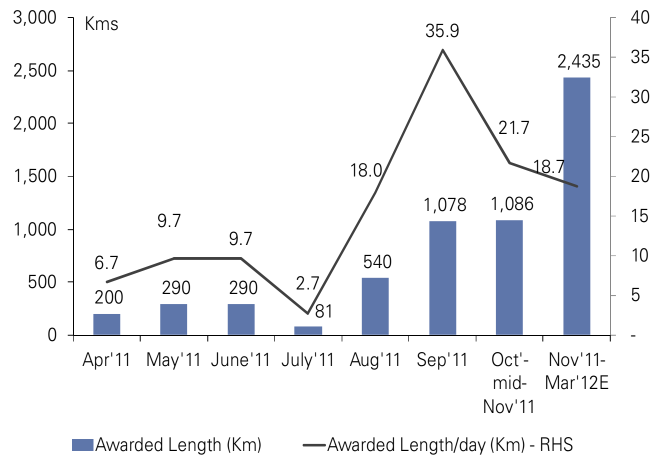
Exhibit 53: The Road sector shows the best traction and credit opportunity, in our view
Road contracts award and execution trend



*Total execution data is available till Sep-11 only.

Source: National Highway Authority of India.

Exhibit 54: As can be seen from the increase in roads awarded, that has increased to around 19 kms a day average from a low of 2.7 kms in July
Road contracts awarded trend



Source: National Highway Authority of India.

Exhibit 55: CRISIL advisory committee estimates US$114bn of investments in roads between FY13-16, versus planning commission estimate of US$109bn in the 12th plan period. We estimate approximately US$74bn could potentially be spent which would create US$36bn of credit opportunity for the banking system.
Break up of infrastructure spend in the road sector

Rs bn	FY12E	FY13E	FY14E	FY15E	FY16E	Total
National highways	372	506	562	555	540	2,163
State highways	376	419	459	508	544	1,930
Rural roads	220	238	252	270	286	1,046
Total	**968**	**1,163**	**1,273**	**1,333**	**1,370**	**5,139**
YoY growth		20	9	5	3	
as % of GDP	1.1	1.1	1.1	1.1	1.2	
GS estimates	**581**	**582**	**700**	**733**	**754**	**2,826**

Source: CRISIL infrastructure Advisory, Goldman Sachs Research estimates.

Exhibit 56: About 26mt of capacity additions are planned over FY12E-15E; even if 75%of this comes on stream, this could potentially create US$11bn credit opportunity for the banking system

Data showing major steel players capacity additions plans

Crude steel capacity (mt)	FY12E	FY15E	Expected
SAIL	15.9	24.7	8.8
Tata Steel (India)	6.8	12.7	5.9
JSW Steel	11	11	0.0
JSPL	4.9	6.9	2.0
Ispat	3.6	3.6	0.0
RINL	3.5	6.3	2.8
Bhushan Steel	2.2	5.1	2.9
Bhushan Power & Steel	1.4	1.4	0.0
Others	37.2	40.8	3.6
Total crude steel capacity	**86.6**	**112.5**	**26.0**

Source: Ernst & Young.

Exhibit 57: Power, steel and road capacity coming on board till FY13E could add up to 6.4% of incremental credit

Estimated bank credit disbursals to key sectors

	Oct 2011		Estimated Bank Credit disbursals				
Rs bn	O/S Bank Credit	% of system credit	FY13E	FY14E	FY15E	Total	% of Oct'11 system credit
Power	3,020	*7.9*	405	467	430	1,301	*3.4*
Steel	1,764	*4.6*	96	50	14	159	*0.4*
Roads	1,053	*2.7*	285	343	359	987	*2.6*
Total	**5,838**	***15.2***	**786**	**860**	**802**	**2,448**	***6.4***

Source: RBI, Goldman Sachs Research estimates.

Retail: mortgages still have much potential; affordability an issue

Although India's retail credit to GDP ratio is still fairly low at 26%, retail credit growth over the last five years has been modest at 16%, compared with overall bank credit growth of 21%. The share of retail credit to total credit therefore remains low at 26%. We believe this reflects both structural and cyclical factors:

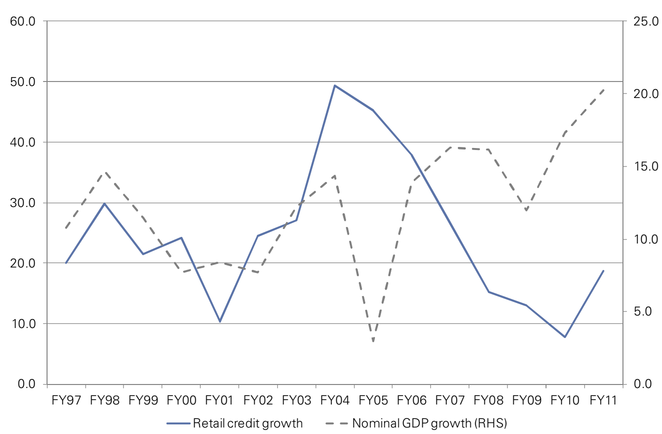
- High property prices are leading to slower penetration than would otherwise be the case.
- High interest rates over the last 18 months.
- Significant NPLs in two-wheelers (2W) and personal loans in 2007, leading to banks and finance companies pulling back from these markets.

We believe that growth in the near term will likely remain muted at 14% to 15.2% in FY12-13E mortgages (which accounts for 9.6% of total bank credit) until both property prices and interest rates decline. In terms of quality, the retail portfolio has seen significant clean-up since FY07 and currently is experiencing minimal NPL. The CIBIL (Credit Information Bureau (India) Limited) too is acting as a good check against retail borrowers defaulting. Moreover, India's overall indebtedness is low in general, as reflected in the high net savings rate.

Given the possible decline in interest rates in FY13 and the lack of investment demand we believe banks will increase their focus on mortgage lending — perhaps even taking market share from housing finance companies. We therefore expect credit demand to be 14%-15% in FY12E-FY13E, higher than the 13% CAGR in FY06-11. In our view, it is likely that increasing confidence on personal loans and probable lower defaults due to CIBIL checks may also mean banks increase their exposure to personal loans. Based on our auto sector analysis of CV (Commercial Vehicle), car and 2W demand, we expect demand for auto loans to rise 12% in FY13 and 18% CAGR over the next 10 years.

Exhibit 58: Retail growth should generally track nominal GDP growth; in India specific issues relating to higher property prices and higher NPLs in the non-mortgage portfolio led to the pressure on this sector.

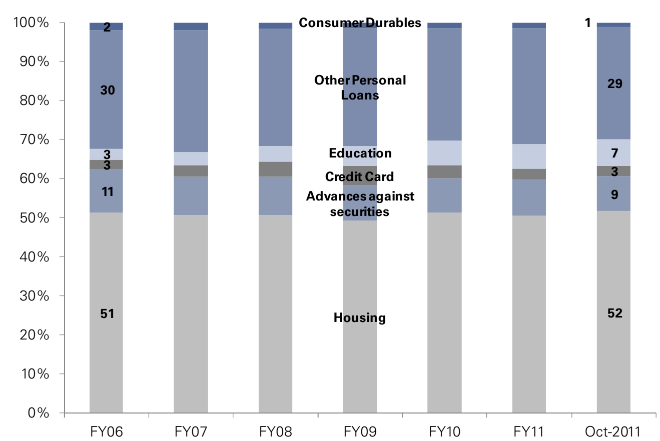
Retail growth (housing and others) and nominal GDP growth



Source: Reserve Bank of India, CSO.

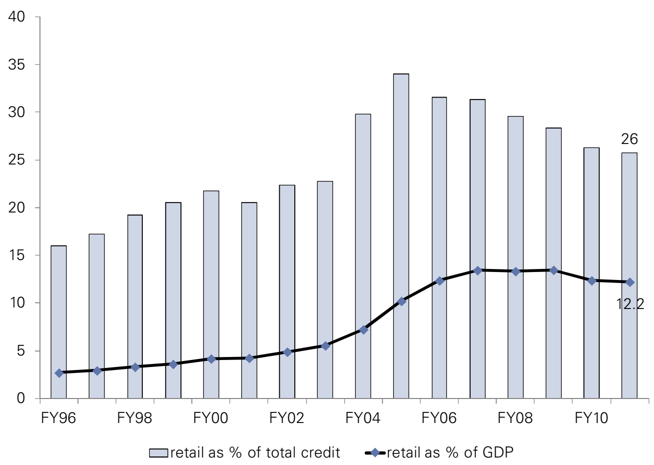
Exhibit 59: Housing continues to drive a majority of retail loan growth

Sectoral break-up of retail credit trend



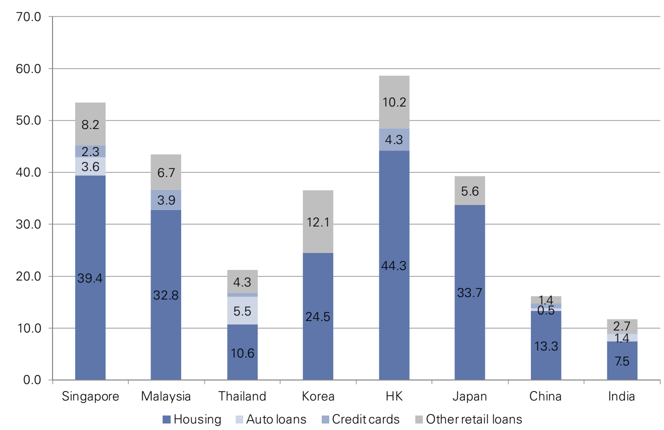
Source: Reserve Bank of India.

Exhibit 60: Penetration levels increased significantly since FY03 as low interest rates and a lack of demand from corporate drove banks to expand retail credit. However, the level has stagnated since FY07 on NPL concerns
Retail credit to GDP, penetration level (%)



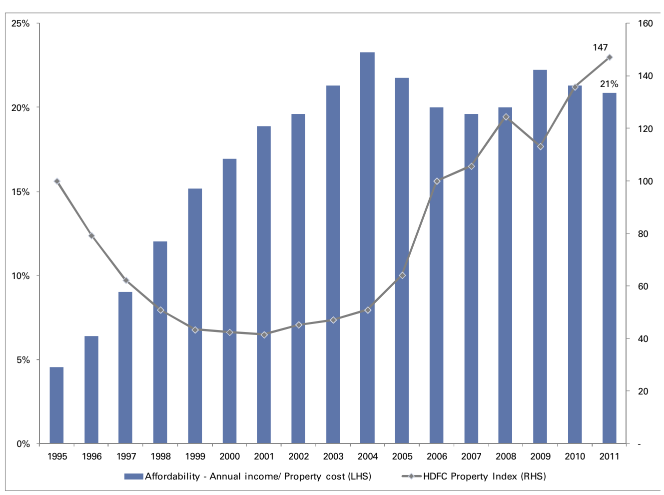
Source: Reserve Bank of India.

Exhibit 61: And remains low versus regional markets
Retail product penetration as % of GDP (2010)



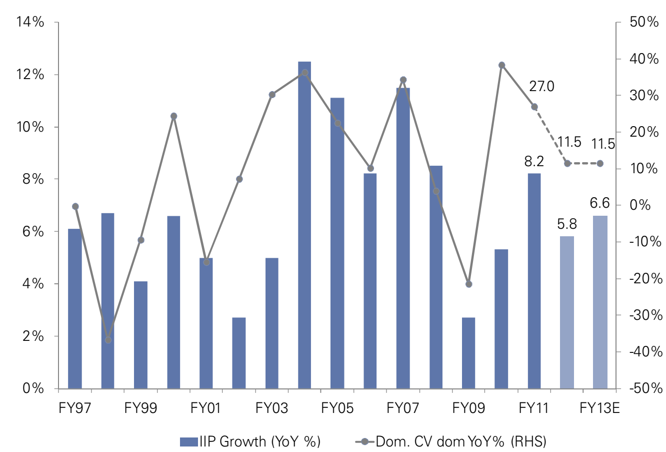
Source: Central banks.

Exhibit 62: Housing prices outpacing income growth, impacting demand despite low penetration
Annual income/total property cost and movement in property prices



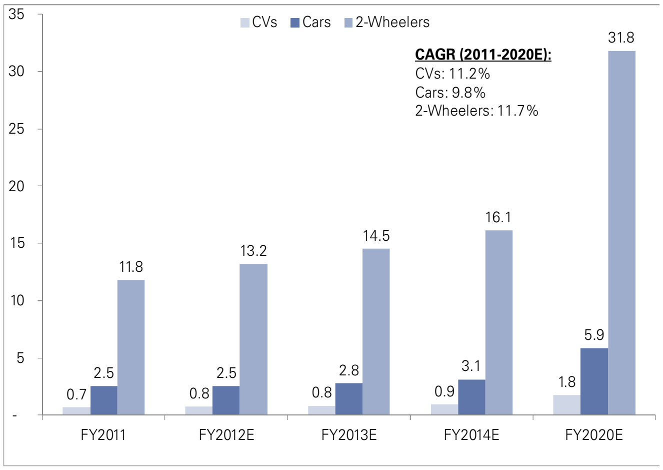
Source: HDFC.

Exhibit 63: Growth in CVs also likely to be impacted in the near term given lower IIP and GDP growth
Domestic CV sales growth Vs. IIP growth



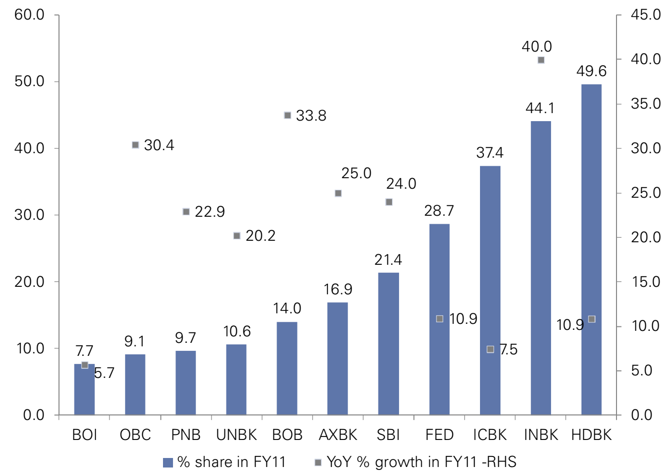
Source: CMIE, Bloomberg, Goldman Sachs Global ECS Research estimates.

Exhibit 64: Demand for automobiles to taper off from over 20% YoY growth in FY11
Estimated Demand for Cars, CVs and 2-wheelers (million)



Source: Goldman Sachs Research estimates.

Exhibit 65: On average, retail credit has grown 18% yoy for banks under coverage
Retail loans to total loans and growth in FY11 in retail credit



Source: Company data.

Rural India doing better than agri; can this drive credit growth?

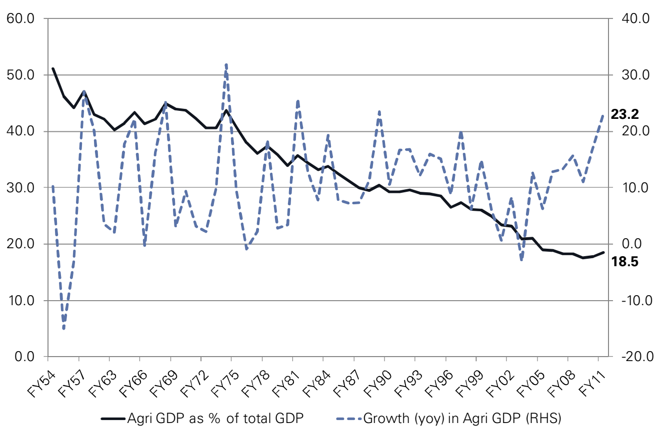
Agriculture credit as a share of total credit for the banking system is 11.7% and has been growing at over 20% since 2001 — even though the contribution of agriculture to GDP has fallen consistently over the last 30-40 years as manufacturing and services have increased in importance.

Surprisingly, neither the strong growth in agri capital formation nor the high credit growth has been reflected in agri GDP, which has stagnated. In our view, therefore, the high credit off take is a concern and could reflect the diversion of funds for personal consumption or other business activities. We believe the government's 2008 debt waiver scheme may have dissuaded some in the sector from paying their debts due to banks. While technically growth in agri lending should be slow given the sharp spike in the NPL ratio for most PSU banks (5-9%), pressure from government (close to eight state assembly elections in the next two years) may continue to drive growth — which we expect at 11% to 15% for the sector in FY12 and FY13.

Rural India otherwise is going strong, as is seen in: (1) high commodity prices versus the cost of key raw materials, (2) significant infusion by government through the NRGES scheme, (3) FMCG (Fast moving consumer goods) sales in the rural economy, (3) consumer durable and non-durables increasing penetration levels and (4) ongoing improvement in infrastructure i.e. roads, telecoms.

Exhibit 66: The share of agri GDP has shown a consistent decline — a function of both other sectors doing well and agri GDP growing slowly

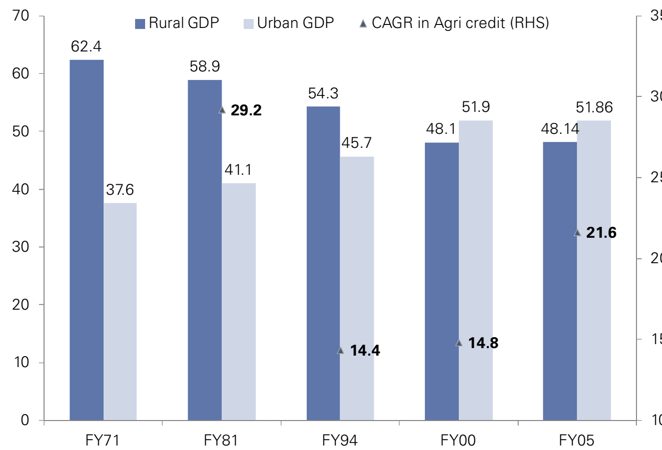
Agri GDP and growth in agri GDP



Source: Reserve Bank of India.

Exhibit 67: A consistent shift in the share of GDP to urban India

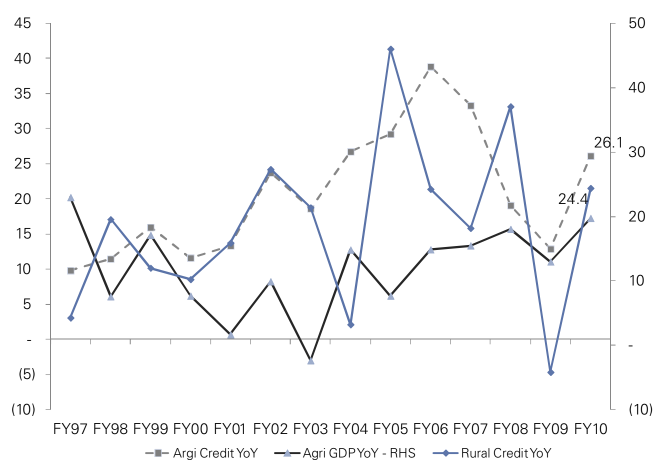
Share of rural and urban GDP (%), Agri credit CAGR over previous period (RHS)



Source: Reserve Bank of India.

Exhibit 68: Agri credit growth at CAGR (FY05-FY10) of 26% and rural at 19%

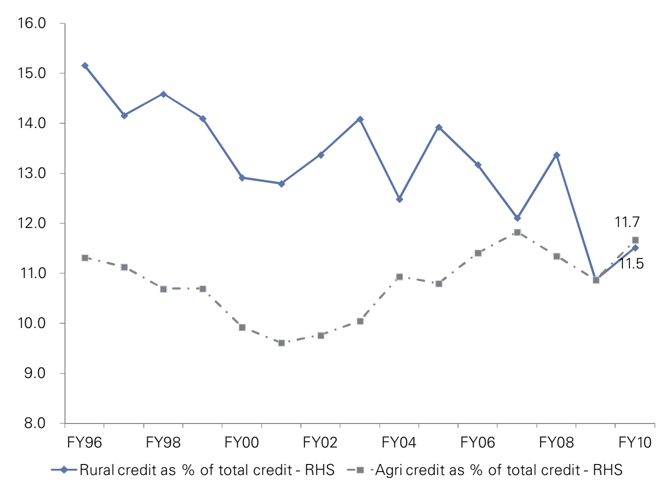
Agri credit growth, rural credit growth yoy and Agri GDP YoY



Source: Reserve Bank of India., CSO.

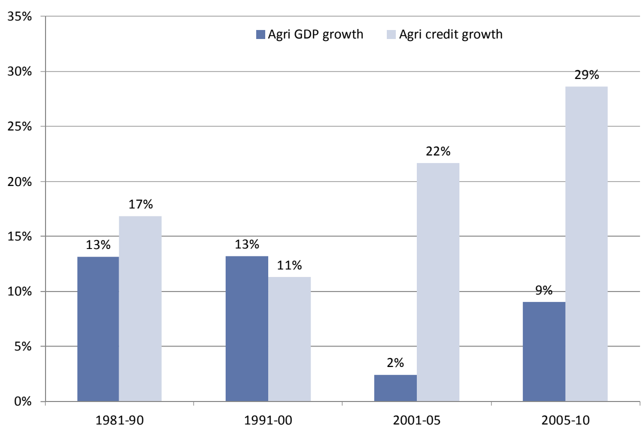
Exhibit 69: The share of rural credit has been coming down but that of agri credit has been rising

Agri credit to total credit and rural credit to total credit



Source: Reserve Bank of India.

Exhibit 70: Which means that growth is inefficient or that funds are being diverted to other sectors – which seem to be gaining a higher share
Agriculture credit growth and agri GDP growth (%)



Source: Reserve Bank of India, CSO.

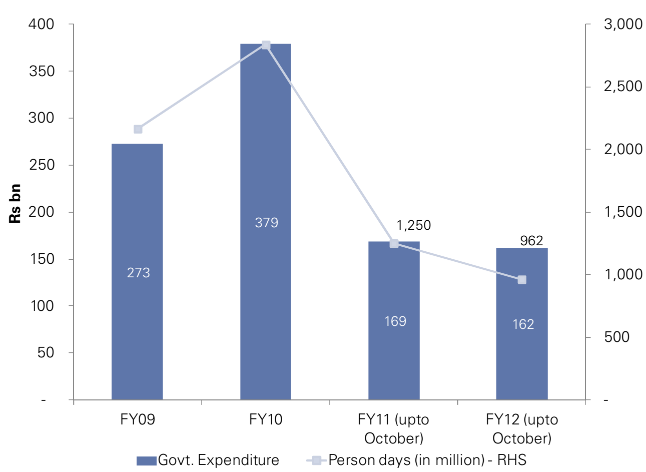
Exhibit 71: Rural is no longer solely agriculture; the share of agri has likely come down further in recent years
Sectoral contribution to rural GDP (%)

Contribution to Rural GDP (%)	FY71	FY00	FY05
Agri related	72.4	51.4	38.9
Non Agri related	27.6	48.6	61.1
Manufacturing	5.9	11.1	11.5
Community, social & personal services	6.4	9.3	8.2
Trade, hotels & restaurants	2.7	8.7	14.9
Financial, business services	6.7	6.5	8.4
Construction	3.5	5.6	7.8
Transport, storage & comm	1.3	4.0	5.7
Mining	0.8	1.8	3.7
Electricity	0.4	1.4	0.9

Source: Reserve Bank of India, CSO.

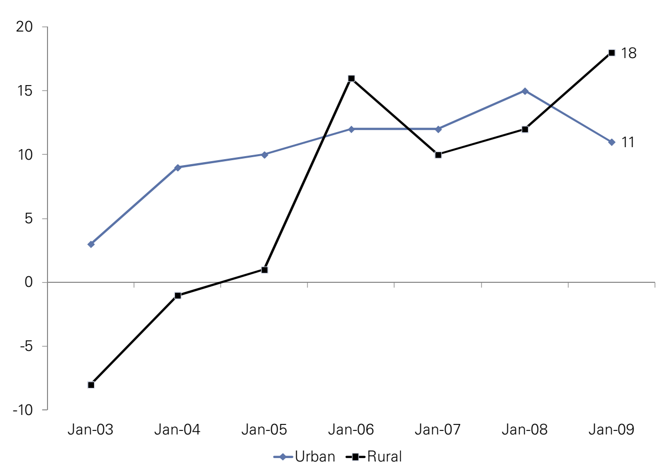
Over the past few years, there has been significant progress in rural India, due to structural changes in areas such as retailing, warehousing, telecommunications, and media penetration. In addition, the Mahatma Gandhi National Rural Employment Guarantee Act (MGNREGA) has added significant income into the hands of the consumer, leading to changing consumption pattern. The push for greater financial inclusion in rural areas by the government and the RBI will likely increase penetration of bank accounts and could lead to eventual increase in rural credit. However, much of the population still depends on agriculture, where in our view the credit culture has been undermined by the loan waiver scheme of FY2009, and engendered moral hazard among some rural borrowers. Banks, especially private ones, have therefore not been keen on lending to the agricultural sector.

Exhibit 72: Government has been providing employment in rural India
Government expenditure (Rs bn) and person days (mn) of work produced through MGNREGA



Source: Ministry of Rural Development, India.

Exhibit 73: And the buoyancy in rural India is also reflected in the strong demand for FMCG products
Growth in sales rural and urban India for FMCG products



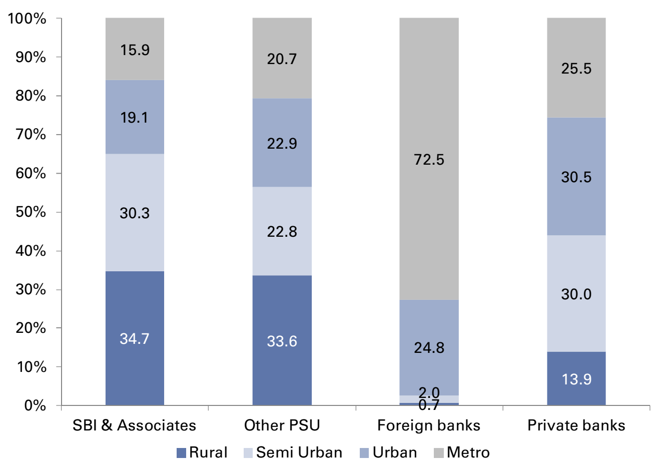
Source: RBI, Ministry of Agriculture.

Can rural India help drive credit growth?

While nearly 35% of the PSU bank branches (PSU banks account for around 67% of total banking loans) are located in rural areas, only 7.5% of credit is originated there. An additional 9.6% is originated from semi-urban branches. We note that the data might be distorted somewhat by credit extended to corporate that are in the agri business — e.g. tea, horticulture, sugar — which may have been accounted for in urban/metro branches.

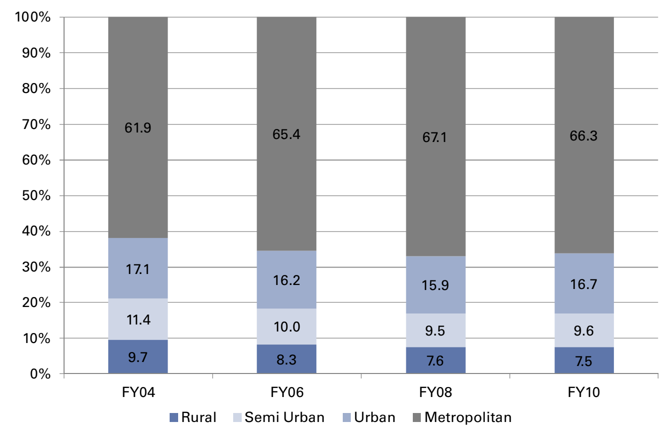
We believe that over the long-term, the prospects for growth in rural India and therefore of credit extension are very high. Credit formation could also be supported by ongoing urbanization, the implementation of technology, expansion of retailing and further changes in the composition of rural GDP to sectors other than agriculture. However, in the near term, issues relating to high defaults (due to past loan waivers) and high losses on micro-lending (as regulations now favour borrowers), will likely dissuade banks from increasing exposure to the segment.

Exhibit 74: Rural and Semi-urban branches account for 2/3 of total branches
Branch network split into Rural, Semi urban, Urban and Metro as of FY10



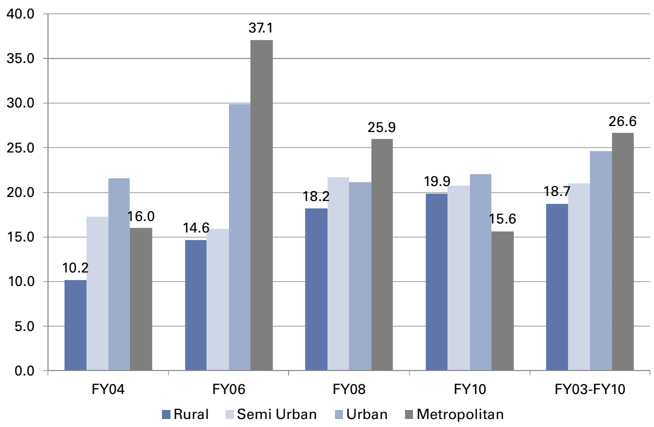
Source: Reserve Bank of India, Indian Banking Association.

Exhibit 75: But metros generate 2/3 of credit
Credit split by Population group



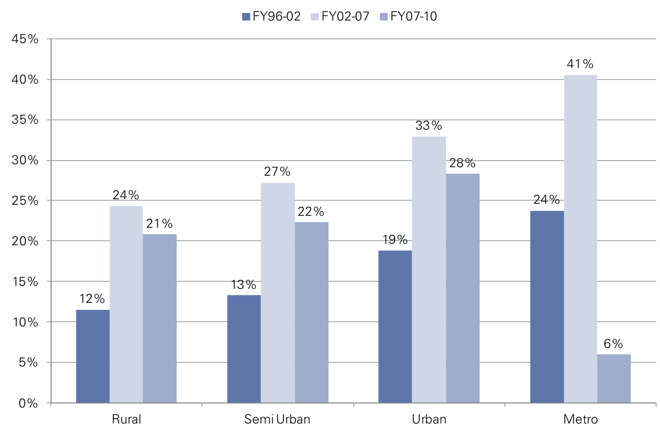
Source: Reserve Bank of India.

Exhibit 76: Rural credit demand has lagged in most years except in FY10…
Credit growth across population group (yoy), CAGR



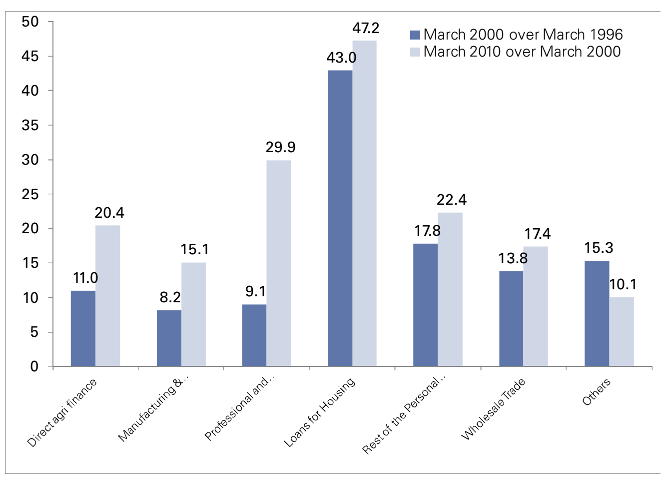
Source: Reserve Bank of India.

Exhibit 77: …as agriculture credit in rural regions has been growing more slowly
CAGR in Agriculture credit growth by region



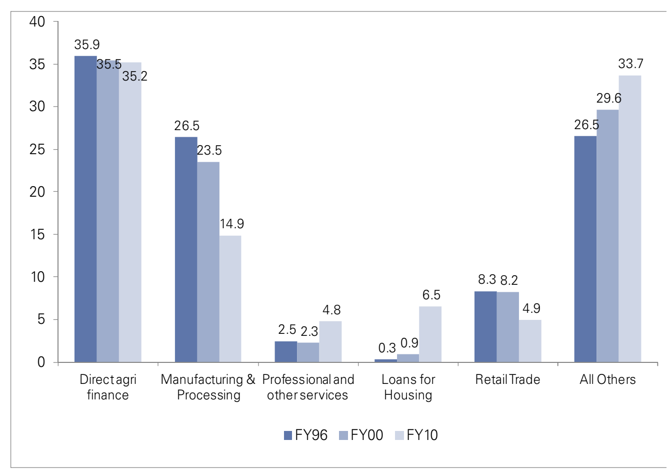
Source: Reserve Bank of India.

Exhibit 78: Housing credit continues to dominate rural credit, although direct agri finance and wholesale trade have picked up pace in the last decade
CAGR growth in sector credit in rural India March 2010 over March 2000 and March 2000 over March 1996



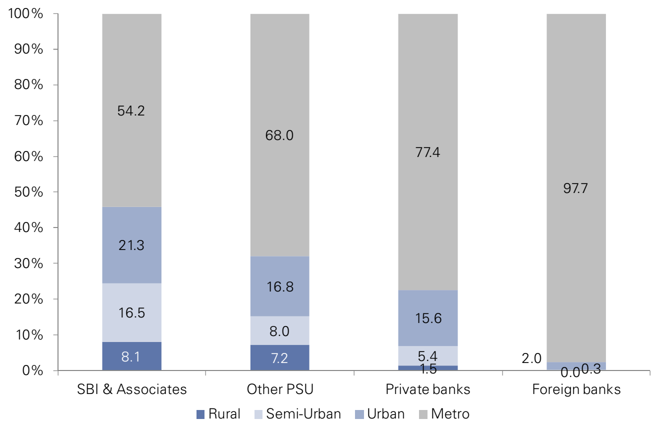
Source: Reserve Bank of India.

Exhibit 79: 65% of the credit is non-agri, although some of the sectors will likely be linked to agri — for example agri SME, food processing
Sectoral break of rural credit as % of rural credit



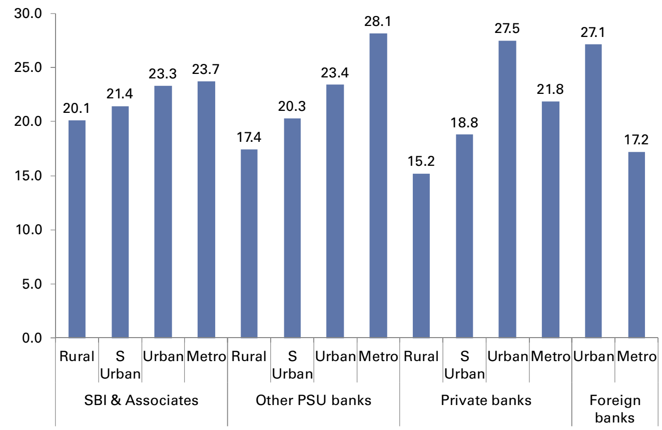
Source: Reserve Bank of India.

Exhibit 80: Exposure of private banks to rural and semi-urban areas is lower than PSU banks and SBI; this could change as RBI pushes these banks to increase PSL loans, and participate in financial inclusion of the rural sector
Credit split by bank category and population group (FY10)



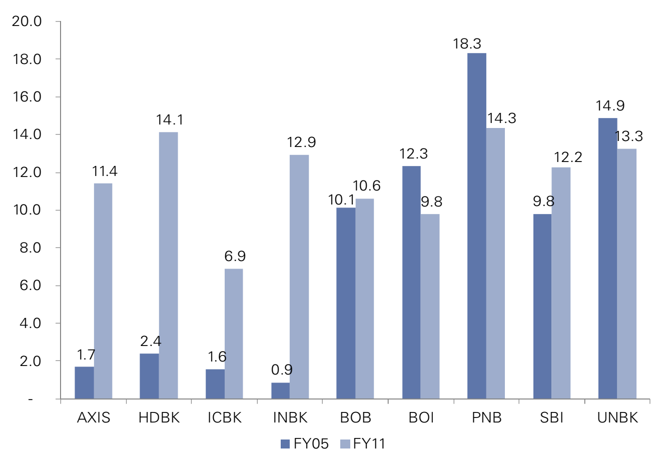
Source: Reserve Bank of India.

Exhibit 81: Metros have driven growth for PSU banks while Urban areas have so for Private/Foreign banks
CAGR in Credit growth by population group (FY03-FY10)



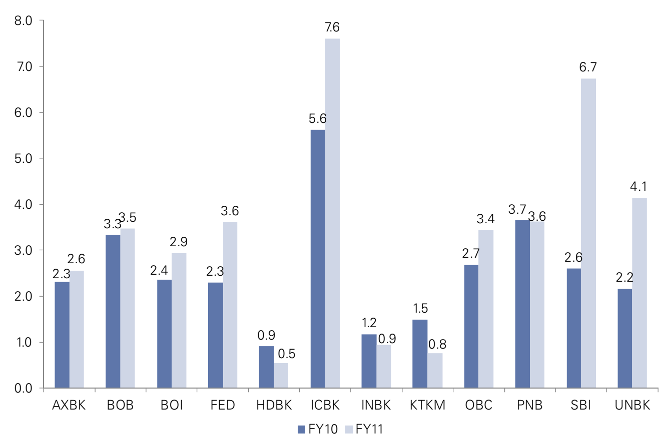
Source: Reserve Bank of India.

Exhibit 82: Private banks have increased exposure to agri as they try and meet priority sector requirements…
Agri loans as % of total loans



Source: Company data.

Exhibit 83: …but asset quality is a source of concern
Gross NPL ratio for Agriculture loans



Source: Company data.

SMEs: High risk, high growth, high returns

The Ministry of MSME defines small and medium enterprises (SME) based on investment in plant & machinery or fixed investment in a range of Rs2.5mn to Rs100mn for manufacturing units and Rs1mn to Rs50mn for enterprises in services.

Institutional penetration in SMEs appears very low. According to the all India survey conducted by the Ministry of micro and small and medium enterprises (MSME) on 26mn SMEs for the year 2007, approximately 93% of SMEs are dependent on self-finance and only about 5% access finance from institutional sources.

Having said that, the small and medium enterprises (SME) segment accounts for about 12% of banks' credit book and realized a growth of about 19% CAGR over FY08-11, albeit lower than the growth registered by large industries at 25%. PSU banks account for 76% of total SME credit (versus 50% in total credit). Private sector banks have moderated their exposure since the financial downturn in FY09 to 18% from 22% in FY08.

Looking at the break-up provided by Ministry of MSME, SMEs are concentrated pre-dominantly in sectors such as food products, textiles, metals, chemicals etc. Given the economic importance of SMEs (which contribute 8-10% of GDP, 45% of manufactured output and 40% of exports); the ministry has laid out a credit flow growth target of 15-20% to the SME sector.

While a large part of SMEs are concentrated in the manufacturing sector (as reflected in Exhibit 86), the slowdown in economic activity and industrial production will impact the credit flow in the sector. According to the RBI's latest survey on capacity utilization, capacity utilization is on a downtrend, which will impact demand for new capex-related loans and working capital financing.

We estimate total industrial growth at 17% CAGR over FY11-14E, lower than growth realized over FY05-11. However, we expect growth at SMEs could be lower due to: a) high slippage in sectors such as textiles, metals etc to which SMEs have a higher proportion, b) deteriorating financial health; and c) slowdown in western economies and the impact on exports.

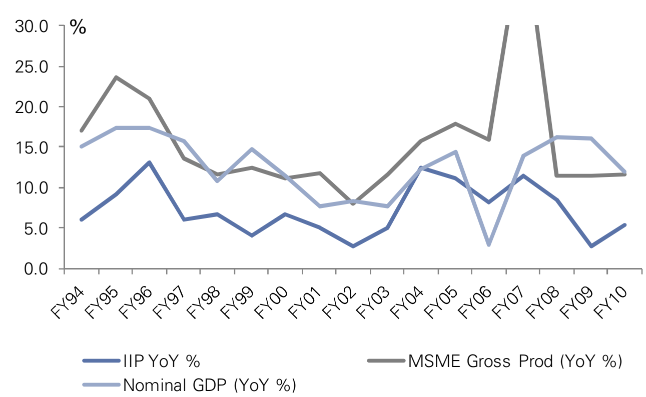
Exhibit 84: Limit on investment to be classified as MSME
Rs. Million

Classification	Manufacturing	Services
Micro	2.5	1
Small	50	20
Medium	100	50

As per MSMED Act, 2006

Source: Ministry of MSME, India.

Exhibit 85: MSME production growth has higher correlation with IIP growth (68%)
Trend showing IIP growth, GDP growth and MSME prod. growth



Note: Sharp increase in FY06 is due to re-classification of data. Data up to FY06 is only for small scale industries (SSI).

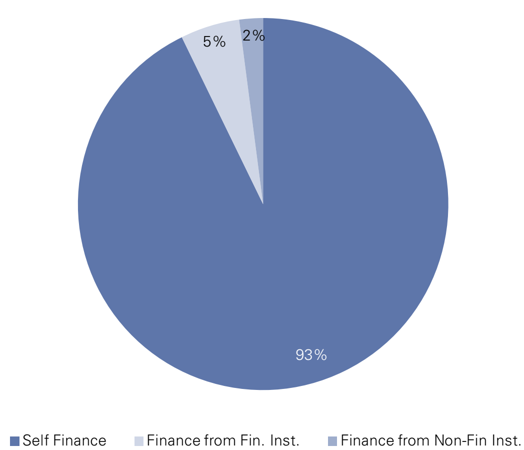
Source: CSO, RBI, Ministry of MSME, Goldman Sachs Global ECS Research.

Exhibit 86: Gross output of and fixed investment in MSMEs by industry
As of 2007

Industry	Gross Output (Rs. mn)	% share	Fixed Invst (Rs. mn)	% share
Grain mill products	572,056	8.1	245,753	4.9
Spinning and Weaving - Textiles	523,542	7.4	452,836	9.0
Basic Iron and Steeel	474,792	6.7	138,160	2.8
Fabricated metal products	396,890	5.6	330,017	6.6
Other chemical products	354,770	5.0	230,475	4.6
Other food products	337,867	4.8	223,057	4.5
Wearing apparel	317,565	4.5	310,749	6.2
Production and processing of edible food	286,679	4.0	97,876	2.0
Basic chemicals	233,419	3.3	167,878	3.4
Special purpose machinery	218,956	3.1	238,448	4.8
Plastic products	210,923	3.0	138,547	2.8
Transport equipment	188,343	2.7	na	na
Non-metallic products	185,205	2.6	210,300	4.2
General purpose machinery	183,707	2.6	118,266	2.4
Paper and products	154,119	2.2	na	na
Others	2,455,851	34.6	2,105,222	42.1
Total	7,094,682	100.0	5,007,584	100.0

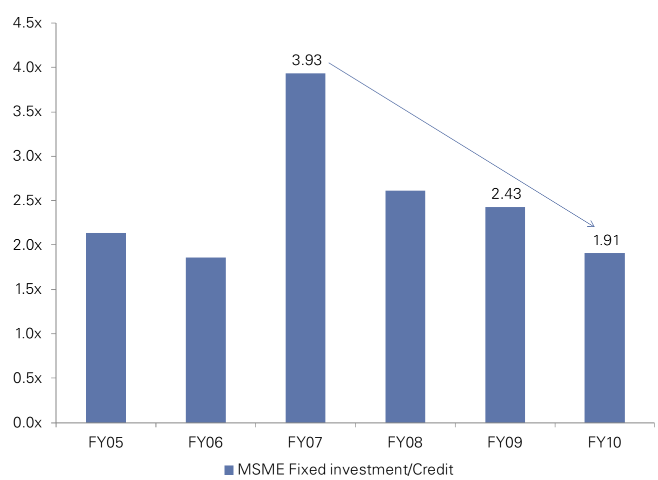
Source: Ministry of MSME.

Exhibit 87: Credit penetration by institutions was low in 2007 at about 5%
Source of funds among registered MSMEs (2007)



Source: Ministry of MSME.

Exhibit 88: MSME fixed investment growth was lower than growth in total credit
MSME fixed investment/MSME credit extended by banks



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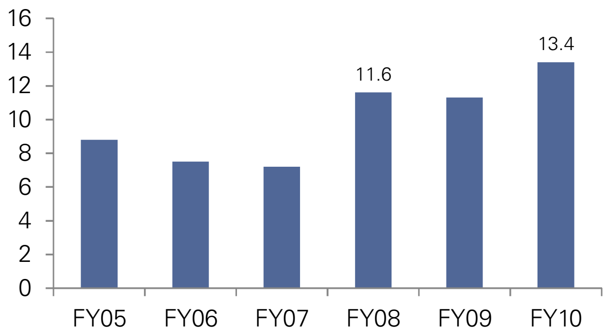
Source: Ministry of MSME, Reserve Bank of India.

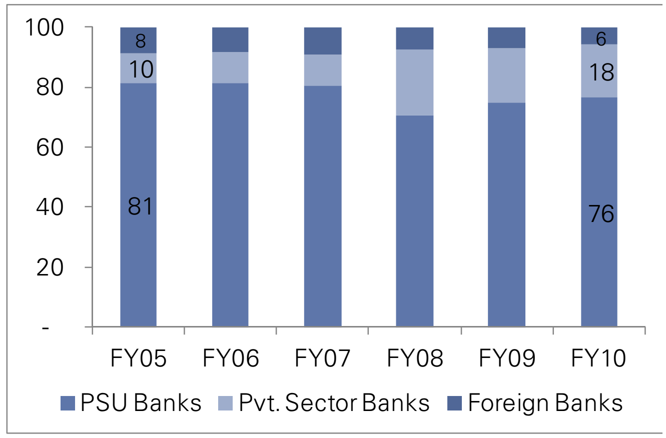
Exhibit 89: MSME sector lending has been on the rise…
% of MSME credit as a share of Net Bank Credit



* 2008 – reclassification of MSEs as per MSMED act, 2006
* Post Sep,2009 - retail credit (credit limit < Rs.2 mn) has been included into MSME

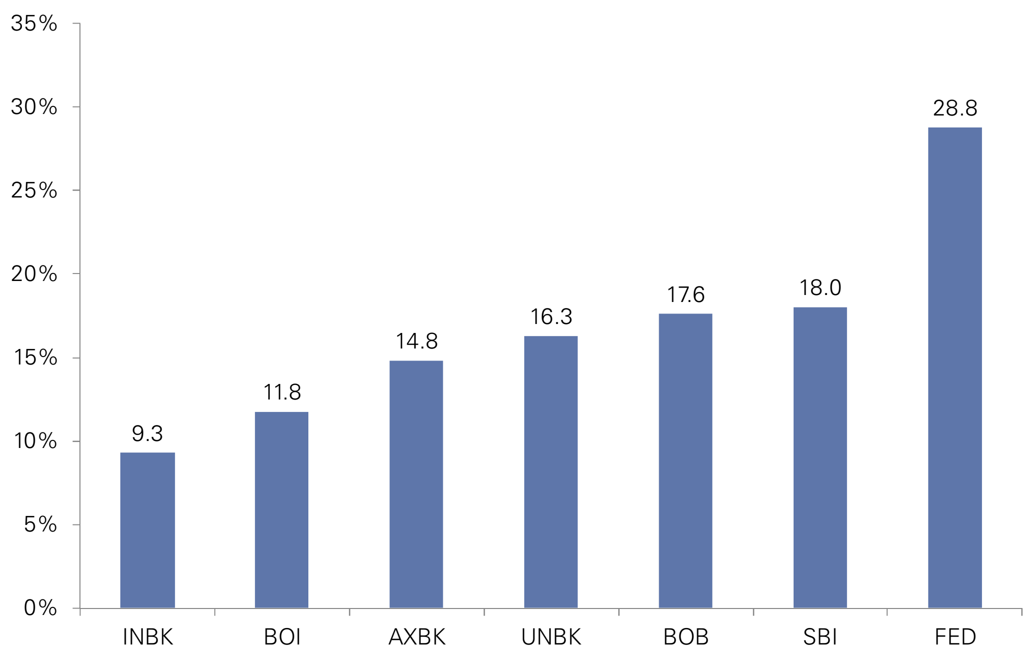
Source: Ministry of MSME.

Exhibit 90: …led by private sector bank lending
Proportion of MSME lending by bank categories



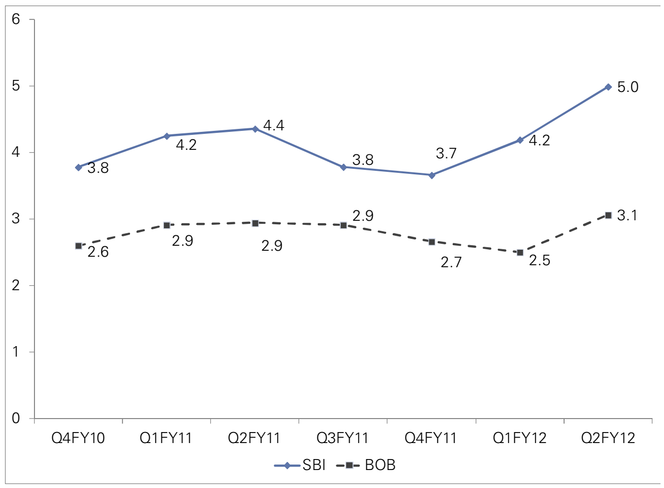
Source: Ministry of MSME, Reserve Bank of India.

Exhibit 91: Banks exposure to SMEs ranges between 9% and 18%, with the exception of Federal Bank with 29% exposure.
SME exposure for banks (Q2FY12)



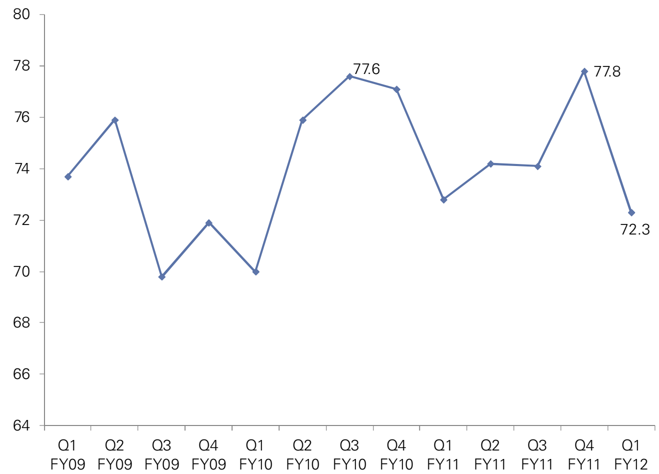
Source: Company data.

Exhibit 92: NPLs in the SME sector have been on the rise in recent quarters
Gross NPL ratio for SME sector in SBI and BoB



Source: Company data.

Exhibit 93: The risk of NPLs in the sector has likely increased due to rising rates and lower capacity utilization
Capacity utilization (OBICUS survey)



Source: Reserve Bank of India.

Federal Bank (FED.BO): Undervalued franchise; Initiate with Buy

Source of opportunity

We initiate coverage on Federal Bank (FED) with a Buy rating and Camelot based 12-month target price of Rs470, based on 1.5X adjusted book versus average ROA of 1.2% over FY12-14E.

FED is undergoing a restructuring phase under new management which involves revamping and improving products, business processes and strengthening risk management. We estimate FED will post earnings growth of 23% CAGR over FY12-14E on the back of healthy (but not aggressive) volume growth, stable margins, and better fee income opportunities. Moderation in slippage on restructuring could provide further potential for re-rating, in our view.

Catalyst

In its new avatar FED is: (1) focusing on further strengthening its niche areas such as SME, NRI (Non-resident Indian) and gold-loan-related businesses over the next three-five years; (2) expanding out of its home turf into select geographies while offering the same product profile; and 3) improve and revamp business practices/risk management to contain fresh slippages (about 4% in 2QFY12). We believe three factors will drive FED's rerating: (1) lower NPLs and one of the highest coverage ratios at 84% within our Bank coverage universe (Exhibit 117); (2) high capital adequacy ratio, one of the highest tier I capital ratios, at 15.6%, which will enable the bank to grow as economy recovers. We estimate healthy loan growth of 22% CAGR over FY12-14E, driven by corporate loans and retail gold loans and (3) potential to reduce NPLs given its new strategy. We expect this to drive 23% earnings growth CAGR over FY12E-FY14E , higher than PSU banks at 20% (as it trades at comparable valuations) and ROA of 1.2%, with the potential to surprise on upside with good execution.

Valuation

FED is currently trading at 1.1X on 12-month forward BVPS (or 1.2X BVPS adjusted for 100% net NPLs and 10% restructured assets). We believe the stock can re-rate to 1.5X (which is our Camelot-derived P/B multiple), at the high end of its 0.5X-1.5X historical range, given higher earnings growth and better ROA. We rate the stock Buy with a 12-month target price of Rs470.

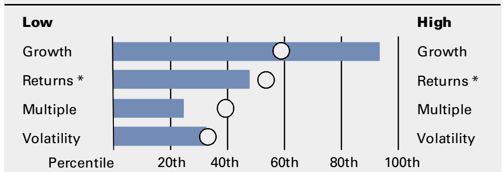
Key risks

1) Successful execution of strategy is key for rerating; any missteps could hinder this. 2) Strong employee union which has created issues in the past. 3) Higher slippages, especially in the SME book at 5.5%, remain a concern given economic slowdown.

INVESTMENT LIST MEMBERSHIP
Asia Pacific Buy list

Coverage View: Neutral

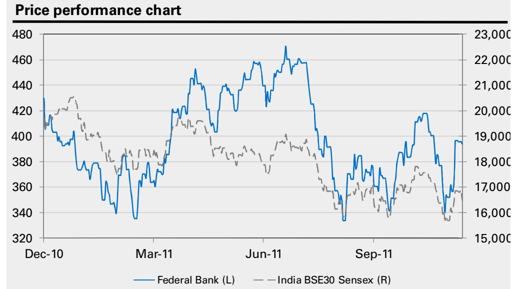
Investment Profile



Key data	Current
Price (Rs)	393.95
12 month price target (Rs)	470.00
Market cap (Rs mn / US$ mn)	67,384.0 / 1,302.9
Foreign ownership (%)	41.1

	3/11	3/12E	3/13E	3/14E
EPS (Rs)	34.32	40.67	50.20	64.21
EPS growth (%)	26.4	18.5	23.4	27.9
P/B (X)	1.3	1.2	1.1	0.9
P/E (X)	11.5	9.7	7.8	6.1
Dividend yield (%)	2.2	2.0	2.5	3.3
P/PPOP (X)	4.7	4.5	3.8	3.0
PPOP growth (%)	12.8	4.1	18.2	27.7
Preprovision ROA (%)	3.0	2.6	2.5	2.7
Credit cost (%)	1.6	1.1	0.9	1.0
ROA (%)	1.23	1.20	1.21	1.30
ROE (%)	12.0	12.9	14.4	16.3

Price performance chart



Share price performance (%)	3 month	6 month	12 month
Absolute	2.8	(13.0)	(8.4)
Rel. to India BSE30 Sensex	7.1	(3.0)	9.5

Source: Company data, Goldman Sachs Research estimates, FactSet. Price as of 12/08/2011 close.

Federal Bank: Summary financials

Profit model (Rs mn)	**3/11**	**3/12E**	**3/13E**	**3/14E**
Net interest income	17,465.8	19,423.3	22,020.8	27,696.6
Non-interest income	5,168.1	4,704.5	5,946.7	7,740.5
Operating revenue	22,633.9	24,127.7	27,967.5	35,437.0
Non-interest expense	(8,361.4)	(9,272.1)	(10,401.7)	(13,006.7)
Preprovision operating profit	14,272.5	14,855.7	17,565.8	22,430.4
Total provision charge	(5,254.4)	(4,345.7)	(4,580.7)	(5,820.6)
Associates	0.0	0.0	0.0	0.0
Pretax profit	9,018.1	10,510.0	12,985.0	16,609.8
Tax	(3,147.3)	(3,553.4)	(4,398.4)	(5,626.2)
Minorities	--	--	--	--
Net profit	**5,870.8**	**6,956.6**	**8,586.6**	**10,983.6**
Dividends	1,453.9	1,368.4	1,710.5	2,196.7
Dividends payout (%)	24.8	19.7	19.9	20.0

Earnings growth drivers (%)	**3/11**	**3/12E**	**3/13E**	**3/14E**
Net interest margin	3.67	3.35	3.11	3.28
Provision charge/total loans	1.64	1.13	0.97	1.00
YoY Growth (%)				
Customer deposits	19.3	24.8	20.2	20.4
Loans	18.6	20.7	22.5	23.2
Net interest income	23.8	11.2	13.4	25.8
Fee income	8.7	8.1	19.8	30.0
Non-interest income	(2.7)	(9.0)	26.4	30.2
Operating revenue	16.6	6.6	15.9	26.7
Operating expenses	(23.5)	(10.9)	(12.2)	(25.0)
Preprovision operating profit	**12.8**	**4.1**	**18.2**	**27.7**
Provision charges	21.7	(30.4)	43.7	15.7
Pretax profit	4.9	16.5	23.5	27.9
Net profit	26.4	18.5	23.4	27.9
EPS	26.4	18.5	23.4	27.9
DPS	70.0	(5.9)	25.0	28.4

Market dimensions	**3/11**	**3/12E**	**3/13E**	**3/14E**
No of branches	743.0	878.0	1,003.0	1,123.0
No of staff (000)	16.6	9.1	10.1	11.1
Revenues/staff (US$)	29,889.0	57,065.4	53,682.9	61,877.6
Net profit/staff (US$)	7,752.7	16,453.2	16,481.8	19,178.7

DuPont analysis (%)	**3/11**	**3/12E**	**3/13E**	**3/14E**
ROE	**12.0**	**12.9**	**14.4**	**16.3**
x leverage	10.3	9.3	8.4	8.0
=ROA	**1.23**	**1.20**	**1.21**	**1.30**

% of assets	**3/11**	**3/12E**	**3/13E**	**3/14E**
Net interest income	3.67	3.35	3.11	3.28
Fee income	0.24	0.21	0.21	0.23
Non-interest income	1.09	0.81	0.84	0.92
Operating revenue	4.76	4.16	3.95	4.20
Operating expenses	1.76	1.60	1.47	1.54
Preprovision operating profit	3.00	2.56	2.48	2.66
Loan loss provisions	1.06	0.60	0.71	0.69
Pretax profits	1.90	1.81	1.83	1.97
Taxes	0.66	0.61	0.62	0.67

Balance sheet (Rs mn)	**3/11**	**3/12E**	**3/13E**	**3/14E**
Gross loans	329,108.7	397,012.7	486,300.8	598,808.5
NPLs	11,483.3	16,112.3	21,996.2	23,338.6
Loan loss reserves	9,576.4	11,326.4	13,841.7	16,752.0
Total interest earning assets	**498,541.5**	**625,273.5**	**747,904.0**	**892,799.1**
Other non-interest earning assets	16,022.2	20,964.7	22,315.7	23,744.5
Total assets	**514,563.6**	**646,238.2**	**770,219.7**	**916,543.6**
Customer deposits	430,147.8	536,760.5	645,232.2	776,676.4
Total interest-bearing liabilities	449,274.4	569,116.4	686,512.3	824,422.6
Total equity	**51,086.6**	**56,442.4**	**63,027.9**	**71,441.5**

CAMEL ratios (%)	**3/11**	**3/12E**	**3/13E**	**3/14E**
C: Tier 1 capital ratio	15.6	14.6	13.7	13.0
C: Equity/loans	16.0	14.6	13.3	12.3
C: Equity/assets	9.9	8.7	8.2	7.8
A: NPL ratio	3.5	4.1	4.5	3.9
A: Loan loss reserves/NPLs	83.4	70.3	62.9	71.8
E: Net interest margin	3.67	3.35	3.11	3.28
E: Non int inc/oper revenues	22.83	19.50	21.26	21.84
E: Cost-income ratio	36.9	38.4	37.2	36.7
E: ROAA	1.23	1.20	1.21	1.30
L: Loan/deposit ratio	74.3	71.9	73.2	74.9

Key CAMELOT assumptions	**3/11**	**3/12E**	**3/13E**	**3/14E**
GS CAMELOT implied P/B (X)	--	1.5	--	--
GS CAMELOT implied P/E (X)	--	11.8	--	--
Risk-free rate (%)	8.1	8.1	8.1	8.1
Equity risk premium (%)	6.0	6.0	6.0	6.0
CAMELOT beta (X)	--	1.2	--	--
Risk-adjusted cost of equity (%)	--	15.3	--	--
3-yr adjusted DPS CAGR (%)	--	14.7	--	--
Sustainable ROE estimate (%)	--	12.8	--	--
LT dividend payout estimate (%)	--	60.8	--	--
Ex-growth bond-equivalent P/B (X)	--	0.8	--	--

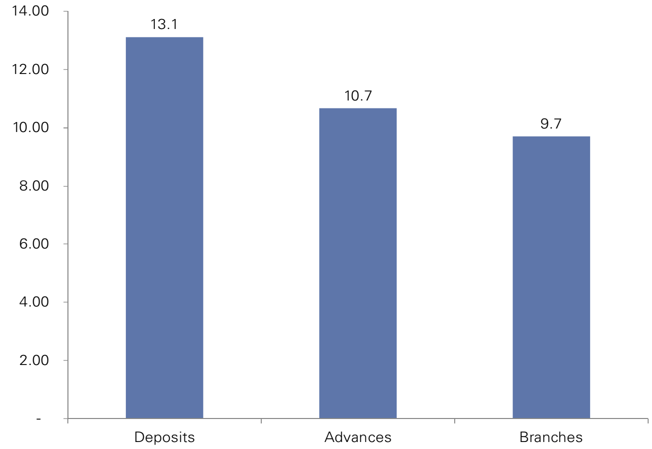
Loan portfolio (%)	**3/11**	**3/12E**	**3/13E**	**3/14E**
Commercial & corporate	68.4	70.2	71.2	71.9
Mortgages/home loans	16.9	15.1	14.6	14.2
Consumer	28.7	26.9	25.9	25.3

Valuation (current price)	**3/11**	**3/12E**	**3/13E**	**3/14E**
P/E basic (X)	11.5	9.7	7.8	6.1
P/B (X)	1.32	1.19	1.07	0.94
P/PPOP (X)	4.7	4.5	3.8	3.0
Dividend yield (%)	2.2	2.0	2.5	3.3
EPS, basic (Rs)	34.32	40.67	50.20	64.21
EPS, fully-diluted (Rs)	34.32	40.67	50.20	64.21
EPS, basic growth (%)	26.4	18.5	23.4	27.9
EPS, fully diluted growth (%)	26.4	18.5	23.4	27.9
BVPS (Rs)	298.67	329.98	368.48	417.66
DPS (Rs)	8.50	8.00	10.00	12.84

Note: Last actual year may include reported and estimated data.

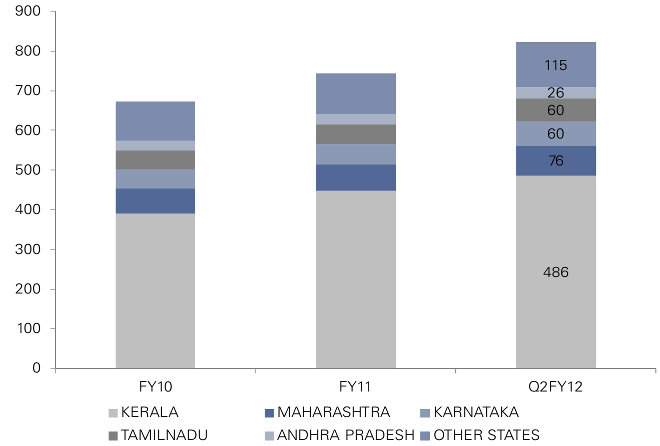
Source: Company data, Goldman Sachs Research estimates.

Exhibit 94: Federal Bank is a leading bank in Kerala
Market share of Federal Bank in Kerala



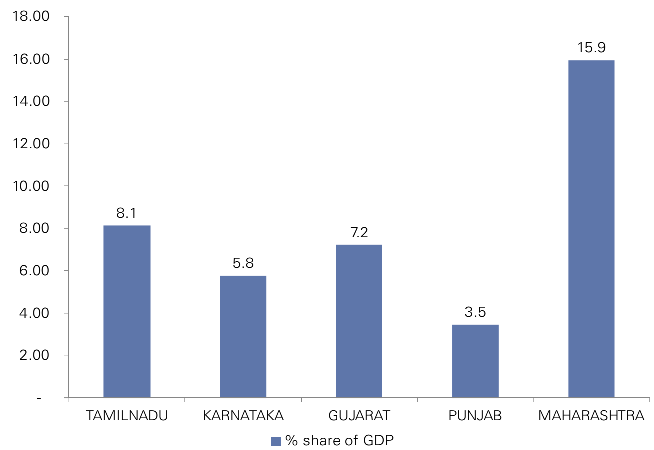
Source: Company data, Reserve Bank of India

Exhibit 95: With strong distribution in South India
Branch distribution network



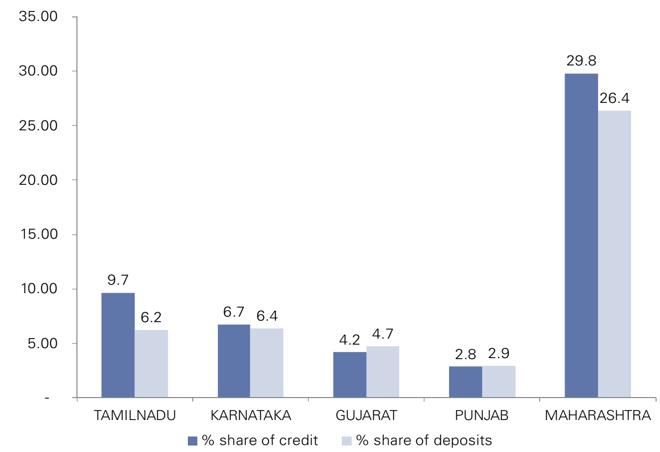
Source: Company data.

Exhibit 96: Focus states contribute 40% of India's GDP…
Percentage contribution to GDP (FY2010)



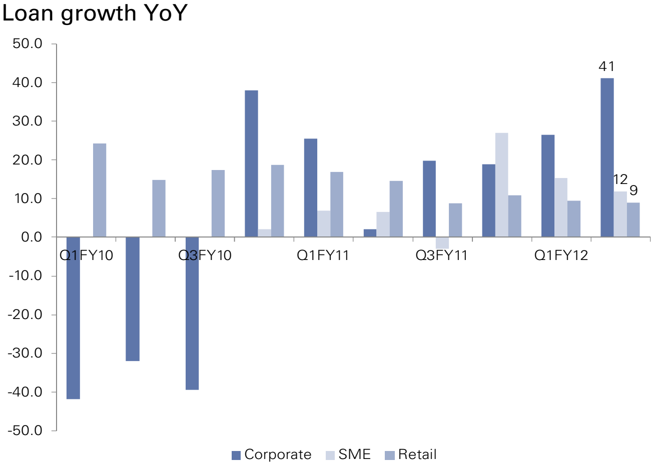
Source: CSO, Reserve Bank of India.

Exhibit 97: …and 53% of credit and 46% of bank deposits
Share of advances and deposits (FY2010)



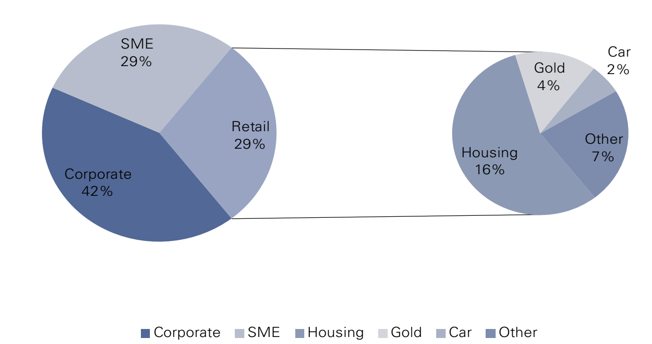
Source: Reserve Bank of India.

Exhibit 98: Loan growth picked up in all segments…
Loan growth YoY



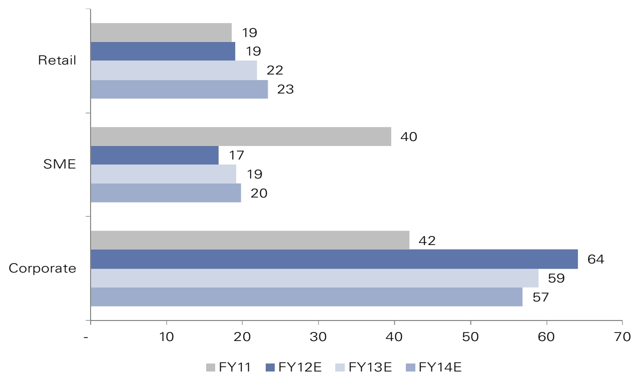
Source: Company data.

Exhibit 99: …leading to a steady mix of loan book
Outstanding loan book composition as of Q2FY12



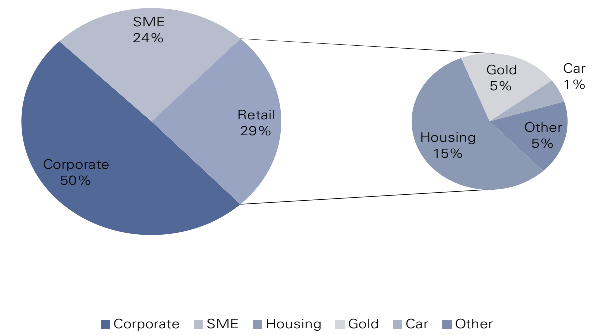
Source: Company data.

Exhibit 100: We expect the corporate segment…
Incremental contribution by loan segments



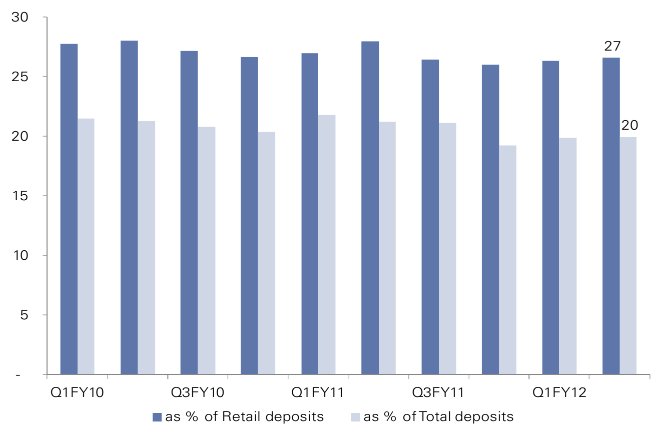
Source: Company data, Goldman Sachs Research estimates.

Exhibit 101: … and retail, in particular gold, to drive growth
Projected loan book composition in FY14E



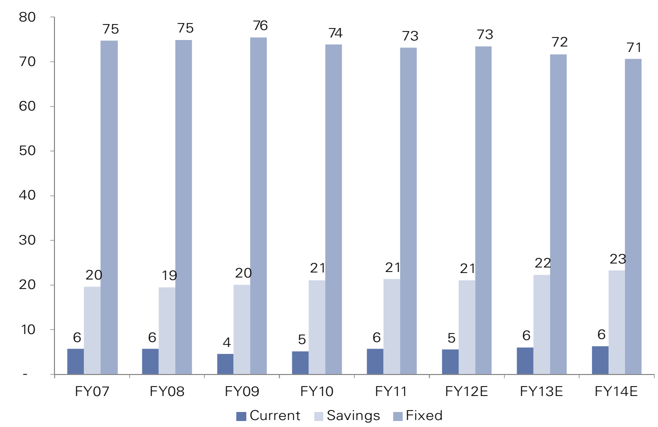
Source: Goldman Sachs Research estimates.

Exhibit 102: On liability side NRI deposits a key strength
NRI savings deposits



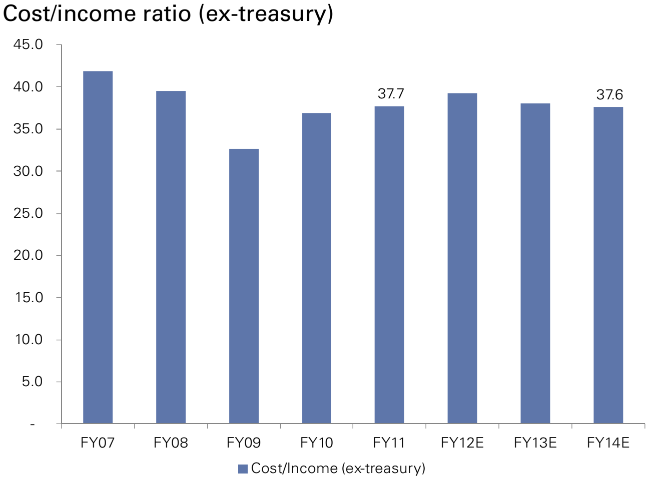
Source: Company data.

Exhibit 103: CASA is low & fixed deposits dominate liabilities
Deposit mix



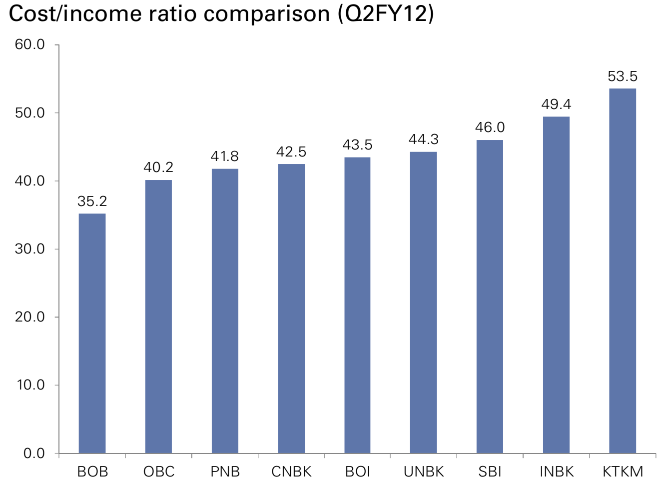
Source: Company data, Goldman Sachs Research estimates.

Exhibit 104: FED's cost income likely to stay stable
Cost/income ratio (ex-treasury)



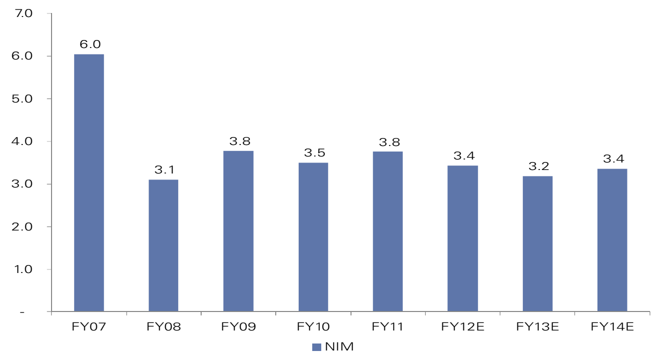
Source: Company data, Goldman Sachs Research estimates.

Exhibit 105: C/I ratio compares favorably with peers
Cost/income ratio comparison (Q2FY12)



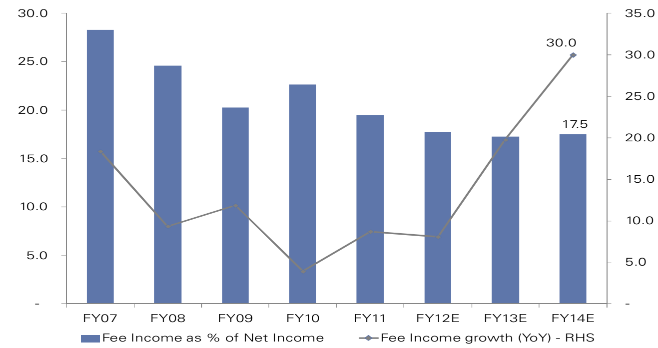
Source: Company data.

Exhibit 106: We expect Fed's margins to stabilize as the bank focuses on the quality of its lending and liability profile
Net interest margin



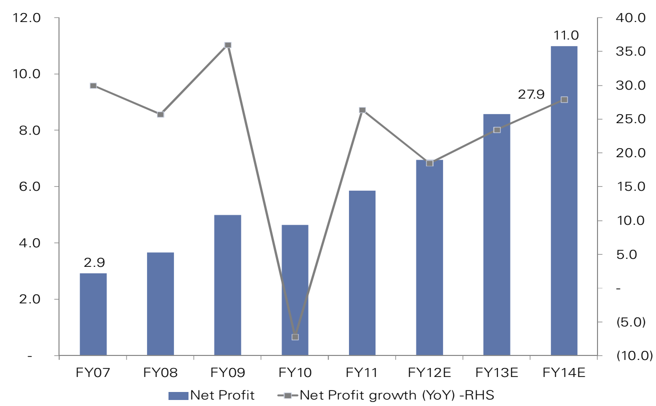
Source: Company data, Goldman Sachs Research estimates.

Exhibit 107: But fee income growth to pick up momentum given initiatives on cross selling and new products
Fee income as % of net income and fee income growth YoY



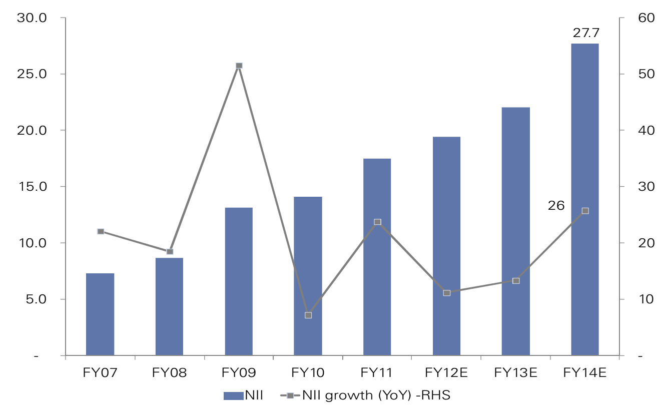
Source: Company data, Goldman Sachs Research estimates.

Exhibit 108: We expect earnings to grow at 26% CAGR FY12-14E…
Net Profit (Rs. bn) and Net profit growth YoY



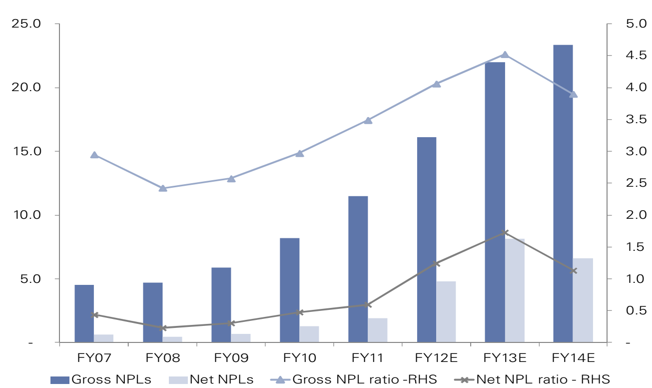
Source: Company data, Goldman Sachs Research estimates.

Exhibit 109: …aided by 19% CAGR FY12-14E of NII
Net interest income (Rs. bn) and NII growth YoY



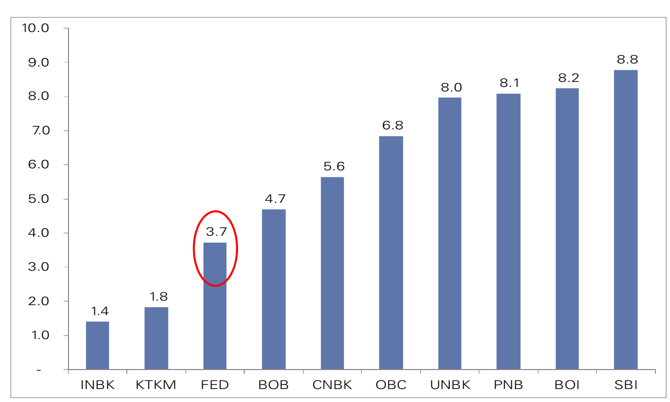
Source: Company data, Goldman Sachs Research estimates.

Exhibit 110: Key area of concern is NPLs which have been on the rise and which we expected to peak in FY13E as legacy loans are cleaned up…
Gross and net NPLs (Rs bn) and ratios



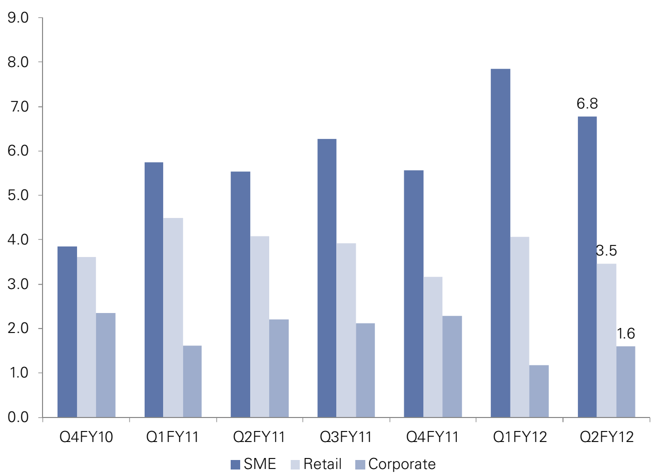
Source: Company data, Goldman Sachs Research estimates.

Exhibit 111: …however, Federal bank still compares well in terms of asset quality on a relative basis
Stressed (gross NPLs+ restructured loans) assets as a % of advances



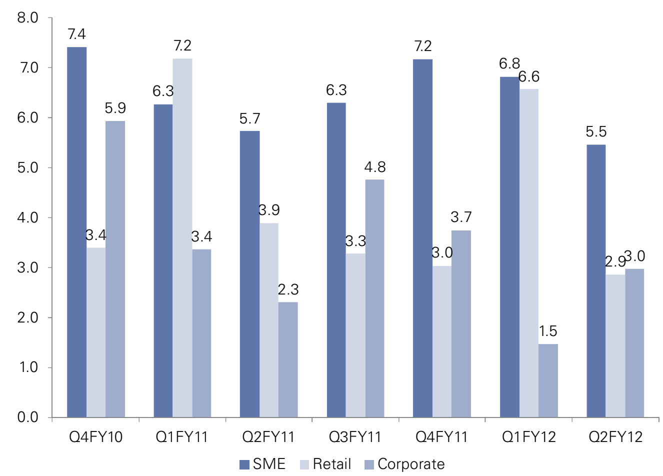
Source: Company data.

Exhibit 112: Key area of concern is SMEs which have the highest NPL ratio…
Gross NPL ratios



Source: Company data.

Exhibit 113: …and slippages in the segment remain high
Slippage ratio break up



Source: Company data.

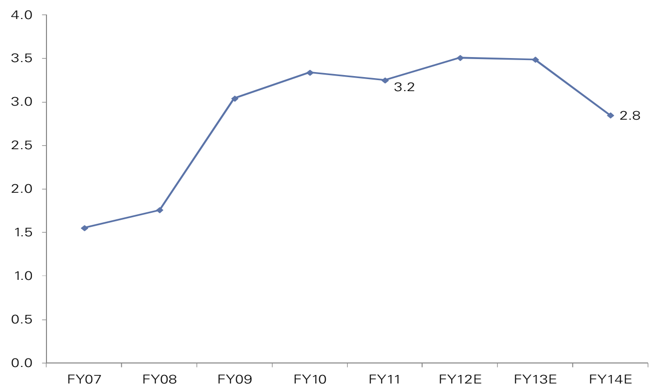
Exhibit 114: Our bottom-up analysis shows that in a worse case, NPL ratio could be 6.4%
Stress case NPL assumptions by industry

Stress case NPL assumptions - Industry wise	2QFY12	NPL assumption (%)	Rs mn	Comments
Retail loans	**96,730**	**5.0**	**4,837**	
CRE	**17,328**	**10.0**	**1,733**	High Risk
Industry	**107,193**	**10.6**	**11,344**	
Power	**19,220**	**20.0**	**3,844**	Highest Risk
Basic Metal & Metal products	**13,389**	**20.0**	**2,678**	High Risk
Gems & Jewellery	**224**	**10.0**	**22**	High Risk
Construction	**983**	**10.0**	**98**	High Risk
Other Infrastructure	**13,021**	**10.0**	**1,302**	High Risk
Roads & ports	**7,330**	**10.0**	**733**	High Risk
Chemicals & Chem products	5,736	7.5	430	Medium risk
Textiles	7,888	10.0	789	Medium risk
Mining & Quarrying	1,694	5.0	85	
Food Processing	7,004	3.5	245	
Beverages & Tobacco	178	3.5	6	
Leather & Leather products	653	10.0	65	
Paper & paper products	2,142	3.5	75	
Petroleum, Coal products & Nuclear Fuels	13,577	3.5	475	
Rubber, Plastic &their products	1,387	3.5	49	
Cement & Cem products	425	3.5	15	
All Engineering	4,656	3.5	163	
Vehicles, parts and Transport Equip.	1,132	3.5	40	
Other industries	6,555	3.5	229	
Others	125,189	3.5	4,382	
Total	**346,440**	6.4	**22,294**	

Current assumptions	Rs mn	%
FY12E	16,112	4.1
FY13E	21,996	4.5
FY14E	23,339	3.9

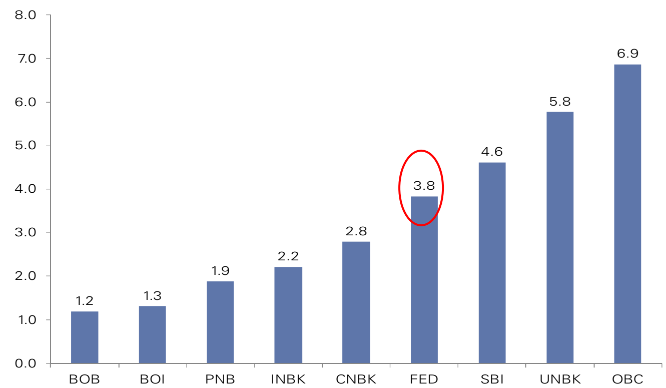
Source: Company data, Goldman Sachs Research estimates.

Exhibit 115: New mgmt is focused on reducing the high slippage ratio…
Slippage ratio trend



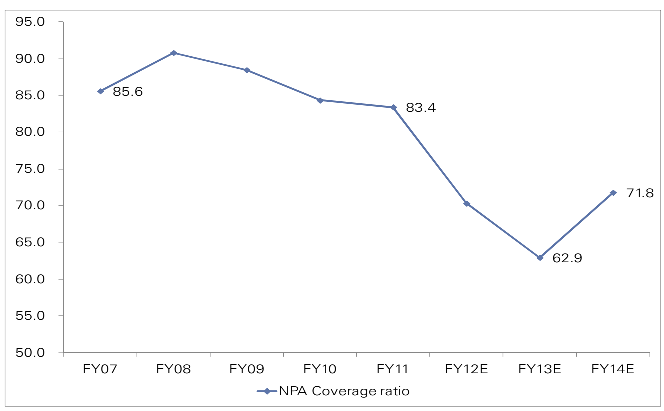
Source: Company data, Goldman Sachs Research estimates.

Exhibit 116: …from relatively high levels in Q2FY12
Slippage ratios as of Q2FY12



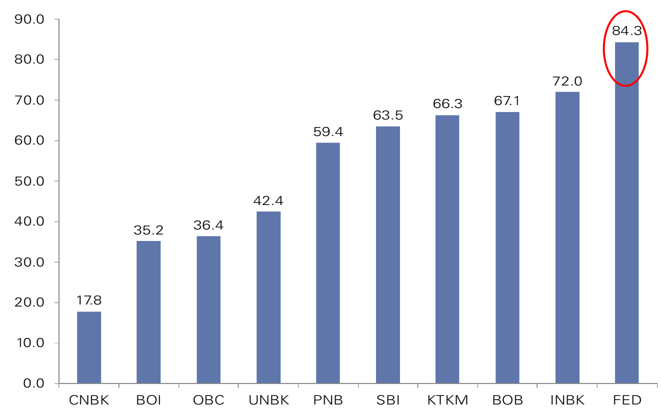
Source: Company data.

Exhibit 117: Given the slowing economy we believe Fed may not be in a position to retain…
NPA coverage ratio trend



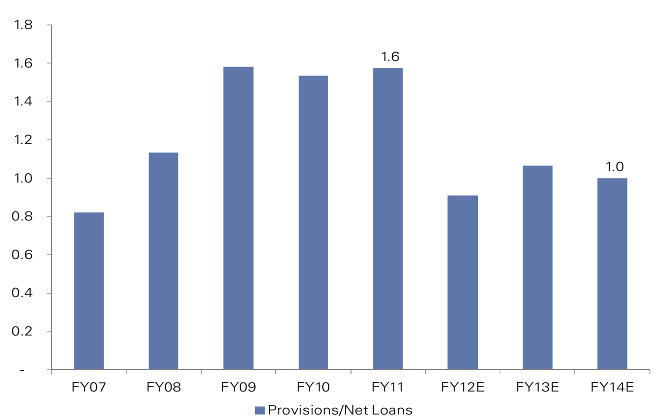
Source: Company data, Goldman Sachs Research estimates.

Exhibit 118: …its current high coverage ratio
NPA coverage ratios as of Q2FY12



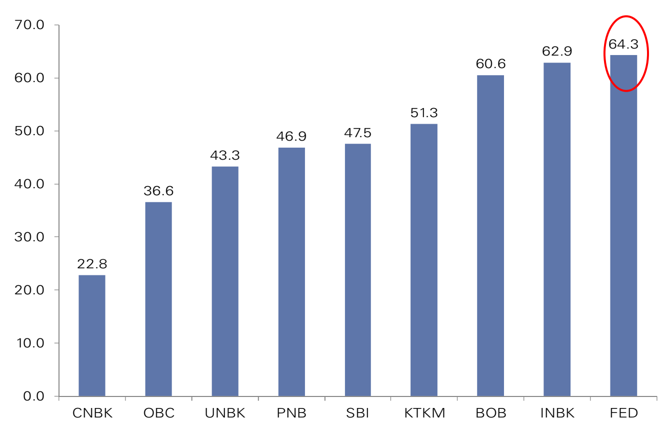
Source: Company data.

Exhibit 119: Provisions to come down industry wide…
Loan loss provisions as % of loans, FED



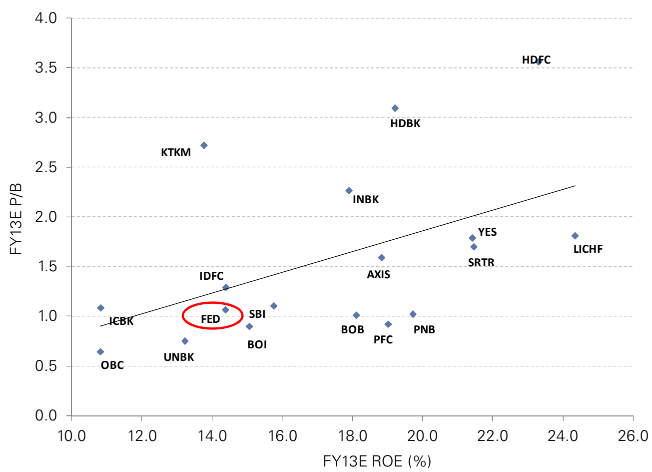
Source: Company data, Goldman Sachs Research estimates.

Exhibit 120: …yet FED's coverage ratio likely to remain high versus some key banks
Projected NPA Coverage ratio FY13E



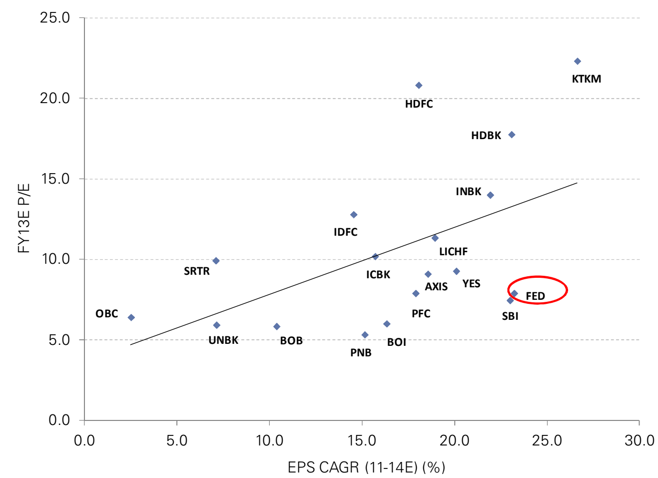
Source: Company data.

Exhibit 121: Federal bank currently trades on a par with a PSU bank on P/B-ROE...
Scatter chart PB vs. ROE



Source: Goldman Sachs Research estimates.

Exhibit 122: ...as well as on a P/E-EPS growth basis
Scatter chart PE vs. EPS CAGR



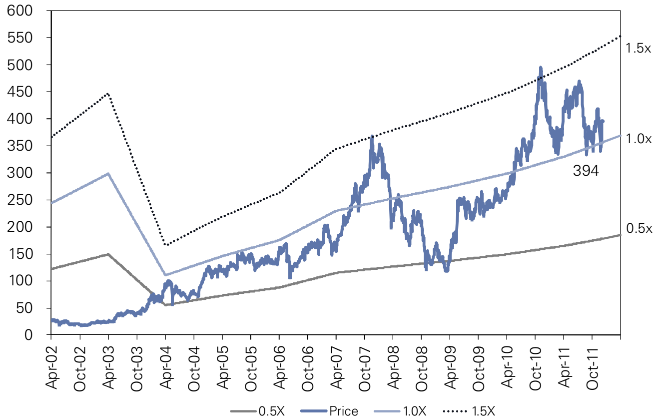
Source: Goldman Sachs Research estimates.

Exhibit 123: Even though Federal bank's ROA is better than all PSUs
ROE decomposition (as % of avg. assets)

	3-year average (FY12E-FY14E)								
	FED	INBK	KTKM	PNB	BOB	BOI	UNBK	OBC	SBI
Net interest income	3.2	3.7	4.6	3.3	2.6	2.2	2.6	2.3	3.1
Other income	0.9	1.9	1.6	0.8	0.6	0.8	0.8	0.6	1.2
Total income	**4.1**	**5.6**	**6.1**	**4.2**	**3.2**	**3.0**	**3.4**	**2.9**	**4.3**
Operating expenses	1.5	2.8	3.4	1.7	1.2	1.4	1.5	1.3	2.0
Pre provision income	**2.6**	**2.8**	**2.8**	**2.4**	**2.0**	**1.5**	**1.9**	**1.6**	**2.3**
Loan loss provisions	0.7	0.5	0.3	0.7	0.5	0.5	0.8	0.7	0.9
Pre -tax pre extraordinary income	**1.9**	**2.2**	**2.5**	**1.7**	**1.5**	**1.0**	**1.1**	**0.9**	**1.3**
ROA	**1.2**	**1.5**	**1.7**	**1.2**	**1.1**	**0.7**	**0.7**	**0.6**	**0.9**
Avg assets/avg equity	11.7	12.0	8.1	17.3	17.3	20.4	19.5	17.0	18.6
ROE	14.5	18.0	14.1	20.3	18.9	14.7	14.1	10.7	15.9

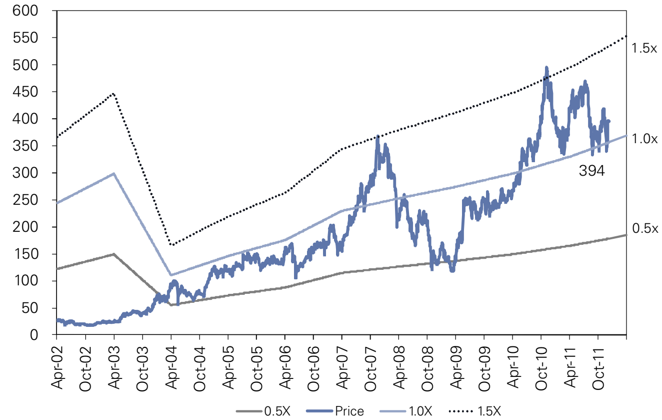
Source: Goldman Sachs Research estimates.

Exhibit 124: Valuations have corrected in the last year both on a P/B…
P/BV band chart



Source: Datastream, Goldman Sachs Research estimates.

Exhibit 125: …and P/E basis
P/E band chart



Source: Datastream, Goldman Sachs Research estimates.

Exhibit 126: Trading below 1X Standard deviation above average on P/B
P/B SD band

Source: Datastream, Goldman Sachs Research estimates.

Exhibit 127: And only marginally above average on P/E, despite recent initiatives and changes in management
P/E SD band

Source: Datastream, Goldman Sachs Research estimates.

IndusInd Bank (INBK.BO): Outlining blue sky scenario; reiterate Buy

IndusInd Bank a defensive with growth potential, CL Buy

IndusInd Bank has been on our Conviction Buy list since September 1, 2010. Even though it has appreciated significantly over the last two years by 80%, we keep the stock on our Conviction list as management remains focused on: (1) expanding its network after restructuring, (2) building a strong liability franchise, (3) enhancing its profitable retail assets. We believe IndusInd Bank not only acts as a good defensive in the current market environment which is plagued by NPL concerns (INBK's net NPLs are 0.3% vs 0.2-0.7% for peers, but also provides an opportunity to participate in structural and cyclical growth. We increased our earnings estimates for IndusInd Bank for FY13E/FY14E by 2.6% and 3.9% to reflect higher margin on falling rates on wholesale borrowing (70% of fixed deposit is wholesale).

Blue-sky scenario indicates 50% upside, v/s base case 37% (including dividend)

Given that IndusInd Bank is in the process of scaling up operations, we believe it is difficult to fully comprehend and factor in the full benefit of potential growth in our numbers. We have therefore conducted a blue-sky scenario analysis — employing management's growth guidance, i.e for FY14: (1) branch network at 700 vs. 650 GSe, (2) CASA ratio at 35% vs. 33%, (3) fee income growth CAGR 31% versus 26% (FY12-14E), (4) loan growth at 34% CAGR FY12-FY14E versus 26.7%, and (5) loan-loss provisions at 0.7-0.75% vs. 0.8-0.9%. Under this more bullish scenario, we estimate in FY13 ROA of 1.6% vs. 1.5% in our base case.

Valuation

We maintain our Buy rating (Conviction Buy list) and revise our GS Camelot-based target price to Rs350 (from Rs340), implying 37% upside potential. The stock is trading at 2.4X 12m fwd. P/B and 14.1X 12m fwd. P/E vs. earnings CAGR of 21% in same period over FY12E-FY14E.

In our blue-sky scenario, we see INBK generating ROAs of 1.6% (FY13-FY14, vs. 1.5% in FY12E), growing earnings at 32% CAGR between FY12-14E and trading at 12.2X FY13E P/E.

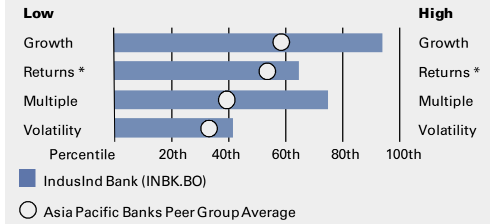
Key risks

Frequent capital raisings, execution risk driving up cost ratios with network expansion and slowing CV cycle impacting overall loan growth and margin.

INVESTMENT LIST MEMBERSHIP
Asia Pacific Buy list
Asia Pacific Conviction Buy list

Coverage View: Neutral

Investment Profile

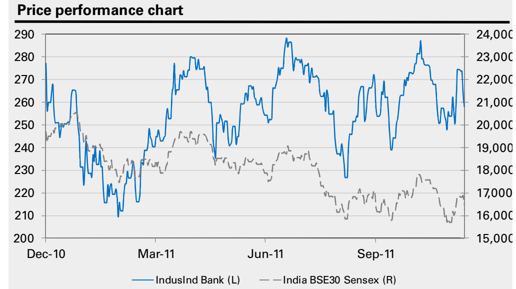


* Returns = Return on Capital For a complete description of the investment profile measures please refer to the disclosure section of this document.

Key data	Current
Price (Rs)	258.30
12 month price target (Rs)	350.00
Market cap (Rs mn / US$ mn)	113,332.8 / 2,191.3
Foreign ownership (%)	49.1

	3/11	3/12E	3/13E	3/14E
EPS (Rs)	13.16	16.41	19.61	23.85
EPS growth (%)	55.0	24.7	19.5	21.6
P/B (X)	3.0	2.7	2.3	1.9
P/E (X)	19.6	15.7	13.2	10.8
Dividend yield (%)	0.8	1.1	1.3	1.6
P/PPOP (X)	10.5	8.6	6.7	5.3
PPOP growth (%)	53.7	22.4	28.1	26.2
Preprovision ROA (%)	2.7	2.6	2.8	2.8
Credit cost (%)	0.8	0.6	0.8	0.9
ROA (%)	1.43	1.53	1.51	1.48
ROE (%)	17.9	17.5	17.9	18.7

Price performance chart



Share price performance (%)	3 month	6 month	12 month
Absolute	(2.6)	(1.5)	(6.9)
Rel. to India BSE30 Sensex	1.4	9.9	11.3

Source: Company data, Goldman Sachs Research estimates, FactSet. Price as of 12/08/2011 close.

IndusInd Bank: Summary financials

Profit model (Rs mn)	**3/11**	**3/12E**	**3/13E**	**3/14E**
Net interest income	13,765.1	17,071.2	22,936.7	28,858.5
Non-interest income	7,136.6	9,342.9	11,400.5	14,895.6
Operating revenue	20,901.7	26,414.1	34,337.2	43,754.2
Non-interest expense	(10,084.8)	(13,178.1)	(17,379.2)	(22,346.7)
Preprovision operating profit	10,816.9	13,236.1	16,958.0	21,407.4
Total provision charge	(2,018.9)	(1,888.7)	(3,297.7)	(4,793.3)
Associates	0.0	0.0	0.0	0.0
Pretax profit	8,798.0	11,347.4	13,660.3	16,614.2
Tax	(3,024.6)	(3,688.8)	(4,507.9)	(5,482.7)
Minorities	--	--	--	--
Net profit	**5,773.4**	**7,658.6**	**9,152.4**	**11,131.5**
Dividends	(932.3)	(1,302.0)	(1,555.9)	(1,892.4)
Dividends payout (%)	16.1	17.0	17.0	17.0

Earnings growth drivers (%)	**3/11**	**3/12E**	**3/13E**	**3/14E**
Net interest margin	3.40	3.41	3.78	3.84
Provision charge/total loans	0.77	0.57	0.80	0.90
YoY Growth (%)				
Customer deposits	28.7	21.9	25.5	28.6
Loans	27.3	26.3	24.2	29.8
Net interest income	55.3	24.0	34.4	25.8
Fee income	32.8	26.9	21.2	31.7
Non-interest income	28.9	30.9	22.0	30.7
Operating revenue	45.2	26.4	30.0	27.4
Operating expenses	(37.0)	(30.7)	(31.9)	(28.6)
Preprovision operating profit	**53.7**	**22.4**	**28.1**	**26.2**
Provision charges	7.7	2.6	74.6	45.4
Pretax profit	65.0	29.0	20.4	21.6
Net profit	64.7	32.7	19.5	21.6
EPS	55.0	24.7	19.5	21.6
DPS	18.0	31.3	19.5	21.6

Market dimensions	**3/11**	**3/12E**	**3/13E**	**3/14E**
No of branches	300.0	430.0	550.0	650.0
No of staff (000)	7.0	10.1	13.4	16.2
Revenues/staff (US$)	65,469.9	55,982.0	49,637.8	52,221.1
Net profit/staff (US$)	18,083.8	16,231.5	13,230.7	13,285.6

DuPont analysis (%)	**3/11**	**3/12E**	**3/13E**	**3/14E**
ROE	**17.9**	**17.5**	**17.9**	**18.7**
x leverage	8.0	8.7	8.4	7.9
=ROA	**1.43**	**1.53**	**1.51**	**1.48**

% of assets	**3/11**	**3/12E**	**3/13E**	**3/14E**
Net interest income	3.40	3.41	3.78	3.84
Fee income	0.63	0.65	0.65	0.69
Non-interest income	1.76	1.86	1.88	1.98
Operating revenue	5.16	5.27	5.65	5.82
Operating expenses	2.49	2.63	2.86	2.97
Preprovision operating profit	2.67	2.64	2.79	2.85
Loan loss provisions	0.45	0.38	0.54	0.64
Pretax profits	2.17	2.26	2.25	2.21
Taxes	0.75	0.74	0.74	0.73

Balance sheet (Rs mn)	**3/11**	**3/12E**	**3/13E**	**3/14E**
Gross loans	263,586.9	332,346.4	413,649.6	537,422.2
NPLs	2,658.6	3,190.3	5,423.5	7,050.6
Loan loss reserves	1,930.4	2,497.0	3,486.3	4,924.3
Total interest earning assets	**437,035.8**	**522,657.0**	**643,118.7**	**807,459.2**
Other non-interest earning assets	19,322.6	23,529.4	25,421.1	27,615.8
Total assets	**456,358.4**	**546,186.4**	**668,539.9**	**835,075.0**
Customer deposits	343,653.7	419,035.8	525,864.1	676,110.9
Total interest-bearing liabilities	402,507.5	485,915.6	600,208.7	757,826.3
Total equity	**40,502.2**	**47,117.2**	**55,177.5**	**64,095.1**

CAMEL ratios (%)	**3/11**	**3/12E**	**3/13E**	**3/14E**
C: Tier 1 capital ratio	12.3	11.5	11.1	10.4
C: Equity/loans	15.5	14.3	13.4	12.0
C: Equity/assets	8.9	8.6	8.3	7.7
A: NPL ratio	1.0	1.0	1.3	1.3
A: Loan loss reserves/NPLs	72.6	78.3	64.3	69.8
E: Net interest margin	3.40	3.41	3.78	3.84
E: Non int inc/oper revenues	34.14	35.37	33.20	34.04
E: Cost-income ratio	48.2	49.9	50.6	51.1
E: ROAA	1.43	1.53	1.51	1.48
L: Loan/deposit ratio	76.1	78.9	78.0	78.8

Key CAMELOT assumptions	**3/11**	**3/12E**	**3/13E**	**3/14E**
GS CAMELOT implied P/B (X)	--	--	--	--
GS CAMELOT implied P/E (X)	--	--	--	--
Risk-free rate (%)	7.0	7.0	7.0	7.0
Equity risk premium (%)	5.0	5.0	5.0	5.0
CAMELOT beta (X)	--	1.1	--	--
Risk-adjusted cost of equity (%)	--	12.5	--	--
3-yr adjusted DPS CAGR (%)	--	24.0	--	--
Sustainable ROE estimate (%)	--	13.0	--	--
LT dividend payout estimate (%)	--	61.5	--	--
Ex-growth bond-equivalent P/B (X)	--	1.0	--	--

Loan portfolio (%)	**3/11**	**3/12E**	**3/13E**	**3/14E**
Commercial & corporate	55.2	51.9	49.6	52.9
Mortgages/home loans	0.9	1.9	2.3	2.7
Consumer	44.1	47.5	49.6	46.2

Valuation (current price)	**3/11**	**3/12E**	**3/13E**	**3/14E**
P/E basic (X)	19.6	15.7	13.2	10.8
P/B (X)	2.96	2.68	2.27	1.94
P/PPOP (X)	10.5	8.6	6.7	5.3
Dividend yield (%)	0.8	1.1	1.3	1.6
EPS, basic (Rs)	13.16	16.41	19.61	23.85
EPS, fully-diluted (Rs)	13.16	16.41	19.61	23.85
EPS, basic growth (%)	55.0	24.7	19.5	21.6
EPS, fully diluted growth (%)	55.0	24.7	19.5	21.6
BVPS (Rs)	87.17	96.40	113.94	133.26
DPS (Rs)	2.12	2.79	3.33	4.05

Note: Last actual year may include reported and estimated data.

Source: Company data, Goldman Sachs Research estimates.

Union Bank of India (UNBK.BO): Downgrade to Sell on asset quality

Source of opportunity

We downgrade Union Bank of India from Neutral to Sell on the back of weaker fundamentals than peers — such as its higher slippage ratio (5.8%; or about 2% adjusted for one-off items vs. 3.1% for PSU peers); lower Tier 1 ratio of 8.7% (vs. 9.1% for peers); and lower coverage ratio of 42% (vs. 52% for peers). Furthermore, we expect lower loan growth and margin pressure as with other banks due to slower economic growth and our expectations for interest rate cuts. The bank has seen its RoA fall to 0.6% in 2QFY12, which is the lowest among banks under our coverage and which we expect to remain low at around 0.7% between FY12-FY14E.

Catalyst

We reduce our earnings estimates for FY12E/FY13E/FY14E by 1.3%/6.7%/4.1% as we lower our loan-growth assumptions by 6% over FY12-14E both and increase provisioning expenses. We believe that asset quality issues and its lower Tier 1 ratio will hinder loan growth and we expect the bank to lose market share in advances.

Valuation

Union Bank has been a significant underperformer relative to the benchmark index, falling 14%in the last 3 months and down 34% over the last 12 months due to concerns over higher slippages, and disappointment on management not delivering on guidance. The stock currently trades at a low 0.72X 12-m fwd P/B but we believe it could de-rate further and continue to underperform on its poor fundamentals. Based on our Camelot based valuation methodology, we value the stock at 1X 12-month fwd book adjusted (for 100% net NPL write off and 15% provision on restructured assets) versus ROA of 0.7%.

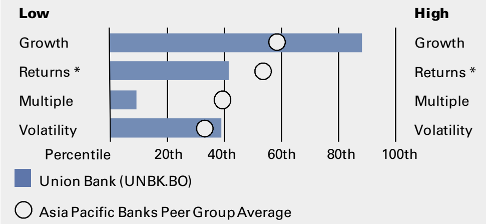
Key risks

Upside risk: Sharp and aggressive rate cuts by the RBI would undercut NPL concerns and could benefit NIMs from 3QFY13.

INVESTMENT LIST MEMBERSHIP
Asia Pacific Sell list

Coverage View: Neutral

Investment Profile

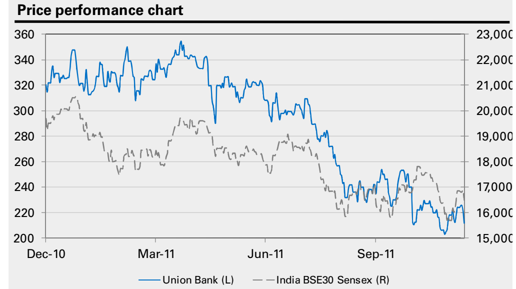


* Returns = Return on Capital For a complete description of the investment profile measures please refer to the disclosure section of this document.

Key data				Current
Price (Rs)				211.70
12 month price target (Rs)				190.00
Market cap (Rs mn / US$ mn)				111,001.2 / 2,146.2
Foreign ownership (%)				11.9

	3/11	3/12E	3/13E	3/14E
EPS (Rs)	39.72	35.28	37.74	48.84
EPS growth (%)	(3.3)	(11.2)	7.0	29.4
P/B (X)	1.0	0.9	0.8	0.7
P/E (X)	5.3	6.0	5.6	4.3
Dividend yield (%)	3.8	2.7	2.9	3.7
P/PPOP (X)	2.6	2.2	2.1	1.7
PPOP growth (%)	17.7	15.5	5.5	22.7
Preprovision ROA (%)	2.0	2.0	1.8	1.9
Credit cost (%)	0.9	1.3	1.2	1.1
ROA (%)	0.97	0.73	0.68	0.76
ROE (%)	18.0	13.8	13.2	15.2

Price performance chart



Share price performance (%)	3 month	6 month	12 month
Absolute	(4.0)	(29.2)	(38.7)
Rel. to India BSE30 Sensex	(4.5)	(22.6)	(27.1)

Source: Company data, Goldman Sachs Research estimates, FactSet. Price as of 12/05/2011 close.

Union Bank: Summary Financials

Profit model (Rs mn)	3/11	3/12E	3/13E	3/14E
Net interest income	62,167.6	68,303.4	74,368.7	90,322.9
Non-interest income	20,387.8	20,492.4	21,652.6	25,667.1
Operating revenue	82,555.4	88,795.8	96,021.3	115,990.1
Non-interest expense	(39,500.1)	(39,059.1)	(43,549.7)	(51,606.4)
Preprovision operating profit	43,055.3	49,736.7	52,471.6	64,383.7
Total provision charge	(13,495.9)	(21,784.6)	(23,371.8)	(26,723.9)
Associates	0.0	0.0	0.0	0.0
Pretax profit	29,559.4	27,952.1	29,099.8	37,659.8
Tax	(8,734.5)	(9,453.8)	(9,311.9)	(12,051.1)
Minorities	--	--	--	--
Net profit	**20,824.9**	**18,498.3**	**19,787.9**	**25,608.6**
Dividends	4,194.7	2,959.7	3,166.1	4,097.4
Dividends payout (%)	20.1	16.0	16.0	16.0

Earnings growth drivers (%)	3/11	3/12E	3/13E	3/14E
Net interest margin	2.88	2.69	2.55	2.69
Provision charge/total loans	0.89	1.27	1.18	1.15
YoY Growth (%)				
Customer deposits	19.1	13.8	15.6	18.6
Loans	26.5	13.8	15.0	17.6
Net interest income	48.3	9.9	8.9	21.5
Fee income	3.7	16.3	8.7	17.9
Non-interest income	3.2	0.5	5.7	18.5
Operating revenue	33.9	7.6	8.1	20.8
Operating expenses	(57.5)	1.1	(11.5)	(18.5)
Preprovision operating profit	**17.7**	**15.5**	**5.5**	**22.7**
Provision charges	79.2	42.2	35.1	7.9
Pretax profit	4.3	(5.4)	4.1	29.4
Net profit	0.4	(11.2)	7.0	29.4
EPS	(3.3)	(11.2)	7.0	29.4
DPS	45.5	(29.4)	7.0	29.4

Market dimensions	3/11	3/12E	3/13E	3/14E
No of branches	3,105.0	3,278.0	3,478.0	3,678.0
No of staff (000)	27.7	28.9	29.9	31.4
Revenues/staff (US$)	65,294.4	65,828.0	61,996.9	71,317.6
Net profit/staff (US$)	16,470.7	13,713.6	12,776.2	15,745.7

DuPont analysis (%)	3/11	3/12E	3/13E	3/14E
ROE	**18.0**	**13.8**	**13.2**	**15.2**
x leverage	5.4	5.3	5.1	5.0
=ROA	**0.97**	**0.73**	**0.68**	**0.76**

% of assets	3/11	3/12E	3/13E	3/14E
Net interest income	2.88	2.69	2.55	2.69
Fee income	0.17	0.17	0.16	0.16
Non-interest income	0.95	0.81	0.74	0.77
Operating revenue	3.83	3.49	3.29	3.46
Operating expenses	1.83	1.54	1.49	1.54
Preprovision operating profit	2.00	1.96	1.80	1.92
Loan loss provisions	0.60	0.72	0.85	0.80
Pretax profits	1.37	1.10	1.00	1.12
Taxes	0.41	0.37	0.32	0.36

Balance sheet (Rs mn)	3/11	3/12E	3/13E	3/14E
Gross loans	1,528,054.6	1,718,344.4	1,976,509.4	2,350,544.2
NPLs	36,230.0	61,591.0	83,147.9	74,833.1
Loan loss reserves	20,927.4	27,346.7	36,016.8	45,370.2
Total interest earning assets	**2,286,073.3**	**2,650,388.1**	**3,019,072.0**	**3,522,146.2**
Other non-interest earning assets	73,771.2	77,294.1	83,119.2	85,536.6
Total assets	**2,359,844.5**	**2,727,682.1**	**3,102,191.3**	**3,607,682.8**
Customer deposits	2,024,612.9	2,304,174.1	2,662,568.0	3,158,634.9
Total interest-bearing liabilities	2,175,349.1	2,516,617.2	2,875,011.1	3,359,687.5
Total equity	**126,535.2**	**141,600.2**	**157,715.5**	**178,530.6**

CAMEL ratios (%)	3/11	3/12E	3/13E	3/14E
C: Tier 1 capital ratio	8.7	8.5	8.5	8.4
C: Equity/loans	8.4	8.2	8.0	7.7
C: Equity/assets	5.4	5.2	5.1	4.9
A: NPL ratio	2.4	3.6	4.2	3.2
A: Loan loss reserves/NPLs	57.8	44.4	43.3	60.6
E: Net interest margin	2.88	2.69	2.55	2.69
E: Non int inc/oper revenues	24.70	23.08	22.55	22.13
E: Cost-income ratio	47.8	44.0	45.4	44.5
E: ROAA	0.97	0.73	0.68	0.76
L: Loan/deposit ratio	74.6	74.6	74.2	73.6

Key CAMELOT assumptions	3/11	3/12E	3/13E	3/14E
GS CAMELOT implied P/B (X)	--	--	--	--
GS CAMELOT implied P/E (X)	--	--	--	--
Risk-free rate (%)	7.0	7.0	7.0	7.0
Equity risk premium (%)	5.0	5.0	5.0	5.0
CAMELOT beta (X)	--	1.3	--	--
Risk-adjusted cost of equity (%)	--	13.5	--	--
3-yr adjusted DPS CAGR (%)	--	11.5	--	--
Sustainable ROE estimate (%)	--	13.0	--	--
LT dividend payout estimate (%)	--	61.5	--	--
Ex-growth bond-equivalent P/B (X)	--	1.0	--	--

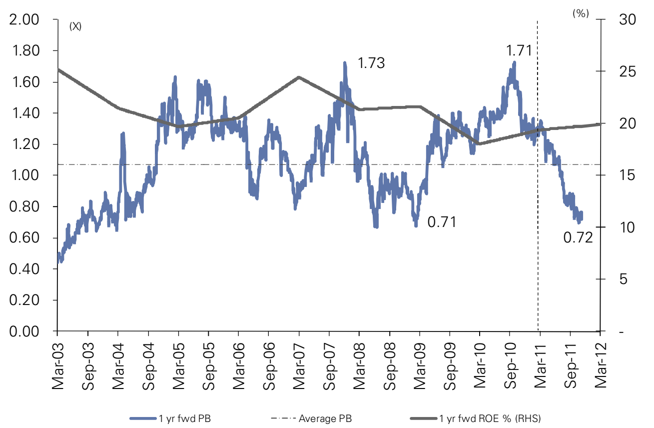
Loan portfolio (%)	3/11	3/12E	3/13E	3/14E
Commercial & corporate	88.2	90.9	91.0	90.2
Mortgages/home loans	6.0	6.0	5.8	5.6
Consumer	10.6	9.1	9.0	8.7

Valuation (current price)	3/11	3/12E	3/13E	3/14E
P/E basic (X)	5.3	6.0	5.6	4.3
P/B (X)	1.00	0.86	0.75	0.66
P/PPOP (X)	2.6	2.2	2.1	1.7
Dividend yield (%)	3.8	2.7	2.9	3.7
EPS, basic (Rs)	39.72	35.28	37.74	48.84
EPS, fully-diluted (Rs)	39.72	35.28	37.74	48.84
EPS, basic growth (%)	(3.3)	(11.2)	7.0	29.4
EPS, fully diluted growth (%)	(3.3)	(11.2)	7.0	29.4
BVPS (Rs)	211.31	245.61	280.88	321.57
DPS (Rs)	8.00	5.64	6.04	7.81

Note: Last actual year may include reported and estimated data.

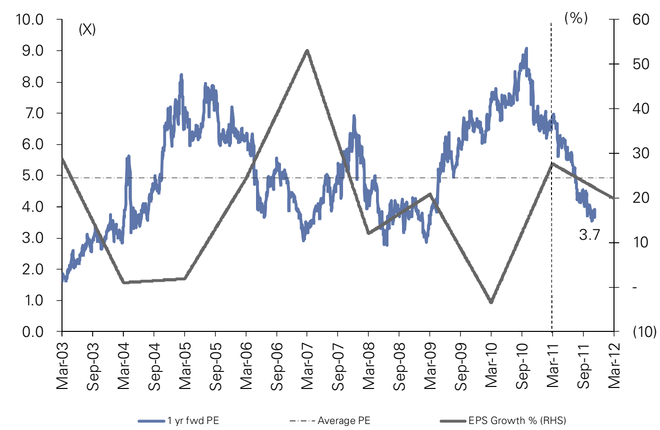
Source: Company data, Goldman Sachs Research estimates.

Exhibit 128: P/B multiple has fallen off in the last year on concerns over asset quality….
P/B vs. ROE



Source: Datastream, Goldman Sachs Research estimates.

Exhibit 129: …and so did its P/E multiple. The stock could de-rate further, in our view
P/E vs. EPS growth



Source: Datastream, Goldman Sachs Research estimates.

Exhibit 130: ROA has come off sharply in FY11 with little potential for improvement in sight in FY12-14E
ROE decomposition (as % of average assets)

	FY06	FY07	FY08	FY09	FY10	FY11	FY12E	FY13E	FY14E
Net interest income	2.9	2.9	2.7	2.7	2.4	2.9	2.7	2.6	2.7
Other income	0.8	0.9	1.1	1.0	1.1	0.9	0.8	0.7	0.8
Total income	**3.7**	**3.8**	**3.8**	**3.7**	**3.5**	**3.8**	**3.5**	**3.3**	**3.5**
Operating expenses	2.1	1.6	1.4	1.7	1.5	1.8	1.6	1.5	1.5
Pre provision income	**1.6**	**2.2**	**2.4**	**2.1**	**1.9**	**2.0**	**1.9**	**1.8**	**1.9**
Loan loss provisions	0.3	0.5	0.6	0.4	0.4	0.6	0.7	0.8	0.8
Pre -tax pre extraordinary income	**1.3**	**1.6**	**1.8**	**1.6**	**1.6**	**1.4**	**1.1**	**1.0**	**1.1**
RoA pre-tax/prov/treasury/extr.	**1.5**	**2.1**	**2.1**	**1.8**	**1.6**	**1.8**	**1.8**	**1.7**	**1.8**
(1- tax rate)	78.6	65.5	76.4	73.5	73.2	70.1	66.2	68.0	68.0
ROA	**1.0**	**1.0**	**1.4**	**1.2**	**1.2**	**0.9**	**0.7**	**0.7**	**0.8**
Avg assets/avg equity	19.8	19.7	18.1	17.7	18.6	18.7	19.0	19.5	20.0
ROE	19.7	20.5	24.5	21.3	21.7	17.7	13.8	13.2	15.2

Source: Company data, Goldman Sachs Research estimates.

Oriental Bank of Commerce (ORBC.BO): Initiate with Neutral

Investment view

We initiate coverage on Oriental Bank of Commerce (OBC) with a Neutral rating and a Camelot-derived 12-month target price of Rs290 based on 12-m fwd P/B of 0.8X. Low profitability (FY12-14E average ROA of 0.6% relative to the PSU average of 0.9%) driven by its lower margin and fees, and asset quality issues have led the stock to de-rate. While valuations are not demanding, in our view (currently trades at 0.68X 12m fwd. P/B vs. historical average of 0.8X and 6.7X P/E 12m fwd. vs historical average of 1X) the stock is unlikely to re-rate unless we see improvement on all these fronts. We expect OBC to show earnings growth of 3% CAGR over FY11-14E on account of: a) volumes growth of about 18% CAGR; b) stable NIMs; and c) higher credit costs at 1% versus 0.7% over the past three years.

Core drivers of growth

OBC in our view faces headwinds to earnings growth due to: a) slower loan growth (18% CAGR over FY11-14 vs. 20.8% for banks under coverage), b) continued pressure on asset quality (we build in higher slippages at 2.9%) and c) higher MTM losses in 2HFY13 given that 10-year government bond yields are at about 8.8%. Higher exposure to infrastructure-related sectors, which are under pressure, will further affect growth momentum. On the positive side, aggressive rate cuts by the RBI of 150bps in FY13 will likely lead to a) concerns on NPLs receding and b) respite on margins as OBC has about 30% of deposits in the bulk category.

Valuation

OBC is currently trading at 0.9x 12-m forward adjusted (for net NPLs and 15% of restructured assets) P/B against an average ROA of 0.62% over FY12-14E. Our Camelot model gives a P/B of 1X, implying a price target of Rs290. Concerns on potential slippages and change in management in three months will restrict the re-rating, in our view.

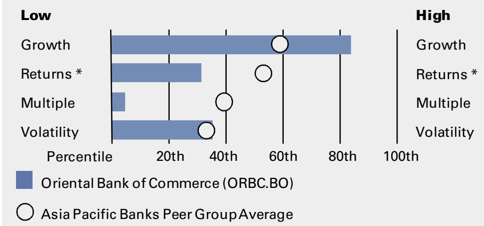
Risks to the investment case

Key upside risks to our estimate are: a) aggressive cuts by the RBI earlier than anticipation, b) marked improvement in asset quality.
Downside risks include: a) prolong slowdown in economy and b) higher interest rates to further affect asset quality.

INVESTMENT LIST MEMBERSHIP
Neutral

Coverage View: Neutral

Investment Profile

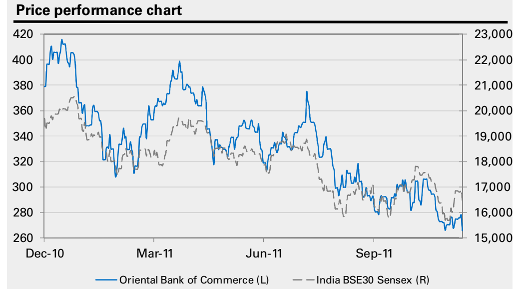


* Returns = Return on Capital. For a complete description of the investment profile measures please refer to the disclosure section of this document.

Key data	Current
Price (Rs)	265.90
12 month price target (Rs)	290.00
Market cap (Rs mn / US$ mn)	77,579.0 / 1,500.0
Foreign ownership (%)	9.8

	3/11	3/12E	3/13E	3/14E
EPS (Rs)	51.51	32.43	42.91	55.49
EPS growth (%)	13.7	(37.0)	32.3	29.3
P/B (X)	0.8	0.7	0.6	0.6
P/E (X)	5.2	8.2	6.2	4.8
Dividend yield (%)	3.9	3.9	4.5	4.8
P/PPOP (X)	2.4	2.5	2.4	2.0
PPOP growth (%)	34.0	(5.8)	5.4	17.7
Preprovision ROA (%)	2.2	1.8	1.6	1.6
Credit cost (%)	1.3	1.5	1.0	0.9
ROA (%)	1.01	0.55	0.63	0.70
ROE (%)	15.5	8.5	10.8	12.9

Price performance chart



Share price performance (%)	3 month	6 month	12 month
Absolute	(16.4)	(23.6)	(29.8)
Rel. to India BSE30 Sensex	(13.0)	(14.8)	(16.2)

Source: Company data, Goldman Sachs Research estimates, FactSet. Price as of 12/08/2011 close.

Oriental Bank of Commerce: Summary Financials

Profit model (Rs mn)	3/11	3/12E	3/13E	3/14E
Net interest income	41,775.5	40,906.2	45,045.5	53,999.6
Non-interest income	9,600.7	11,368.0	12,012.8	13,908.0
Operating revenue	51,376.2	52,274.1	57,058.3	67,907.6
Non-interest expense	(18,924.8)	(21,704.6)	(24,838.5)	(29,979.2)
Preprovision operating profit	32,451.4	30,569.5	32,219.8	37,928.4
Total provision charge	(12,065.3)	(16,644.3)	(13,535.8)	(14,800.5)
Associates	0.0	0.0	0.0	0.0
Pretax profit	20,386.1	13,925.2	18,684.0	23,127.9
Tax	(5,357.4)	(4,462.7)	(6,165.7)	(6,938.4)
Minorities	--	--	--	--
Net profit	**15,028.7**	**9,462.5**	**12,518.3**	**16,189.5**
Dividends	3,034.3	2,999.9	3,464.0	3,723.6
Dividends payout (%)	20.2	31.7	27.7	23.0

Earnings growth drivers (%)	3/11	3/12E	3/13E	3/14E
Net interest margin	2.80	2.36	2.27	2.33
Provision charge/total loans	1.26	1.48	1.03	0.93
YoY Growth (%)				
Customer deposits	15.6	17.3	15.8	19.2
Loans	14.9	17.3	16.9	20.8
Net interest income	43.7	(2.1)	10.1	19.9
Fee income	11.0	11.0	10.6	15.0
Non-interest income	(20.0)	18.4	5.7	15.8
Operating revenue	25.1	1.7	9.2	19.0
Operating expenses	(12.2)	(14.7)	(14.4)	(20.7)
Preprovision operating profit	**34.0**	**(5.8)**	**5.4**	**17.7**
Provision charges	72.0	18.3	43.7	(13.3)
Pretax profit	27.1	(31.7)	34.2	23.8
Net profit	32.4	(37.0)	32.3	29.3
EPS	13.7	(37.0)	32.3	29.3
DPS	14.3	(1.1)	15.5	7.5

Market dimensions	3/11	3/12E	3/13E	3/14E
No of branches	1,597.0	1,777.0	1,957.0	2,107.0
No of staff (000)	16.6	17.2	18.2	19.4
Revenues/staff (US$)	67,844.4	65,099.1	60,512.0	67,570.5
Net profit/staff (US$)	19,846.0	11,784.1	13,276.0	16,109.2

DuPont analysis (%)	3/11	3/12E	3/13E	3/14E
ROE	**15.5**	**8.5**	**10.8**	**12.9**
x leverage	6.5	6.4	5.8	5.4
=ROA	**1.01**	**0.55**	**0.63**	**0.70**

% of assets	3/11	3/12E	3/13E	3/14E
Net interest income	2.80	2.36	2.27	2.33
Fee income	0.43	0.41	0.39	0.39
Non-interest income	0.64	0.66	0.60	0.60
Operating revenue	3.44	3.02	2.87	2.93
Operating expenses	1.27	1.25	1.25	1.29
Preprovision operating profit	2.17	1.76	1.62	1.64
Loan loss provisions	0.65	0.66	0.83	0.62
Pretax profits	1.36	0.80	0.94	1.00
Taxes	0.36	0.26	0.31	0.30

Balance sheet (Rs mn)	3/11	3/12E	3/13E	3/14E
Gross loans	959,082.2	1,138,610.7	1,334,281.5	1,612,987.5
NPLs	19,205.4	36,071.0	52,926.7	54,339.5
Loan loss reserves	9,823.9	13,265.4	19,035.4	24,040.6
Total interest earning assets	**1,562,535.8**	**1,772,923.6**	**2,043,617.7**	**2,425,773.4**
Other non-interest earning assets	50,897.9	78,898.8	80,446.7	81,749.5
Total assets	**1,613,433.7**	**1,851,822.4**	**2,124,064.4**	**2,507,522.9**
Customer deposits	1,390,542.6	1,631,602.2	1,888,943.3	2,251,191.5
Total interest-bearing liabilities	1,451,441.0	1,694,566.3	1,954,575.5	2,326,200.7
Total equity	**110,971.4**	**111,558.2**	**120,024.0**	**131,857.3**

CAMEL ratios (%)	3/11	3/12E	3/13E	3/14E
C: Tier 1 capital ratio	11.2	9.8	9.8	9.2
C: Equity/loans	11.6	9.9	9.1	8.3
C: Equity/assets	6.9	6.0	5.7	5.3
A: NPL ratio	2.0	3.2	4.0	3.4
A: Loan loss reserves/NPLs	51.2	36.8	36.0	44.2
E: Net interest margin	2.80	2.36	2.27	2.33
E: Non int inc/oper revenues	18.69	21.75	21.05	20.48
E: Cost-income ratio	36.8	41.5	43.5	44.1
E: ROAA	1.01	0.55	0.63	0.70
L: Loan/deposit ratio	69.0	69.0	69.6	70.6

Key CAMELOT assumptions	3/11	3/12E	3/13E	3/14E
GS CAMELOT implied P/B (X)	--	1.0	--	--
GS CAMELOT implied P/E (X)	--	7.7	--	--
Risk-free rate (%)	8.1	8.1	8.1	8.1
Equity risk premium (%)	6.0	6.0	6.0	6.0
CAMELOT beta (X)	--	1.3	--	--
Risk-adjusted cost of equity (%)	--	15.9	--	--
3-yr adjusted DPS CAGR (%)	--	7.1	--	--
Sustainable ROE estimate (%)	--	12.8	--	--
LT dividend payout estimate (%)	--	60.8	--	--
Ex-growth bond-equivalent P/B (X)	--	0.8	--	--

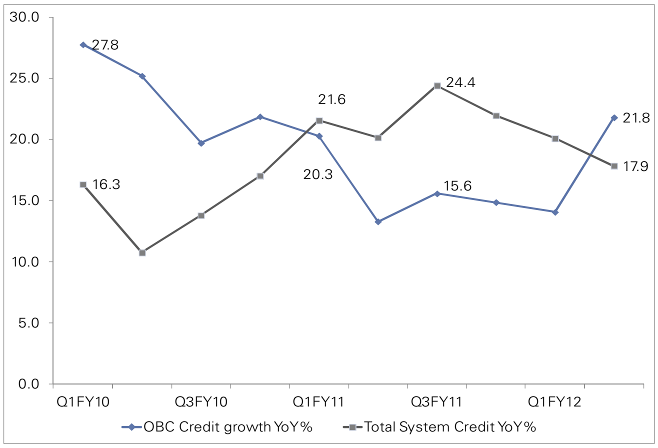
Loan portfolio (%)	3/11	3/12E	3/13E	3/14E
Commercial & corporate	90.9	88.2	88.5	88.9
Mortgages/home loans	4.6	7.9	7.5	7.1
Consumer	9.1	10.6	10.1	9.6

Valuation (current price)	3/11	3/12E	3/13E	3/14E
P/E basic (X)	5.2	8.2	6.2	4.8
P/B (X)	0.76	0.74	0.65	0.59
P/PPOP (X)	2.4	2.5	2.4	2.0
Dividend yield (%)	3.9	3.9	4.5	4.8
EPS, basic (Rs)	51.51	32.43	42.91	55.49
EPS, fully-diluted (Rs)	51.51	32.43	42.91	55.49
EPS, basic growth (%)	13.7	(37.0)	32.3	29.3
EPS, fully diluted growth (%)	13.7	(37.0)	32.3	29.3
BVPS (Rs)	349.97	357.62	411.38	451.94
DPS (Rs)	10.40	10.28	11.87	12.76

Note: Last actual year may include reported and estimated data.

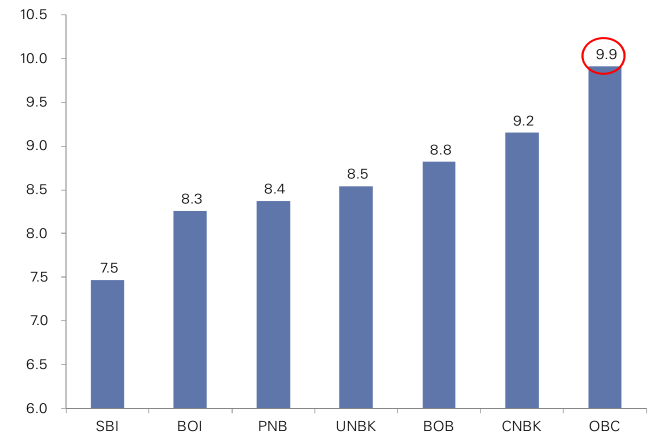
Source: Company data, Goldman Sachs Research estimates.

Exhibit 131: OBC loan book growth has lagged industry…
OBC loan growth and System credit growth



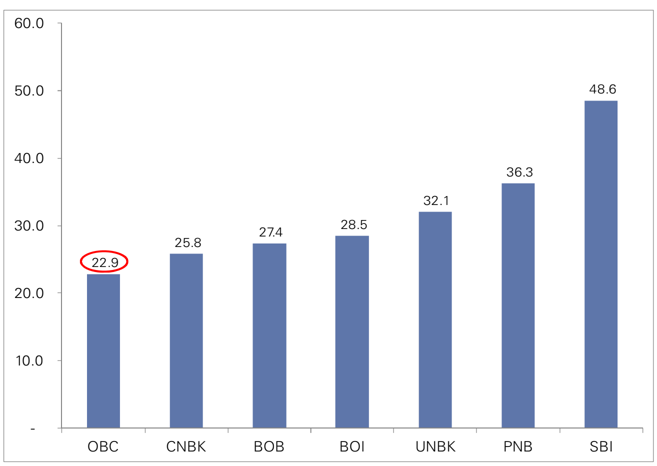
Source: Company data, Reserve Bank of India.

Exhibit 132: …but has ample room to grow on high Tier 1
Tier 1 capital ratio



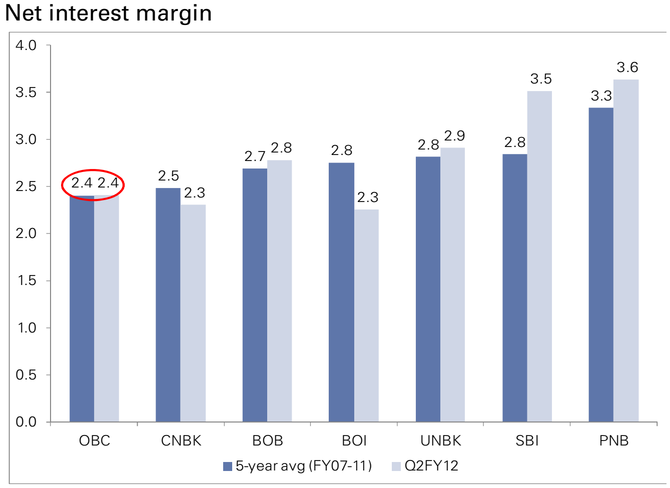
Source: Company data.

Exhibit 133: OBC has the lowest CASA ratio among PSUs
CASA ratio as of Q2FY12



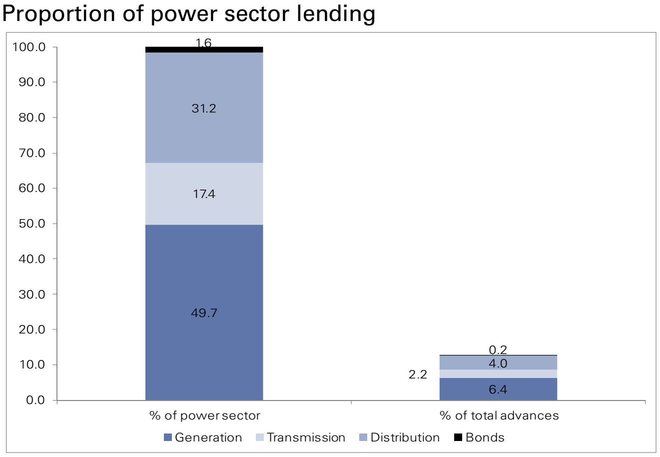
Source: Company data.

Exhibit 134: and consequently, lowest NIMs among PSUs
Net interest margin



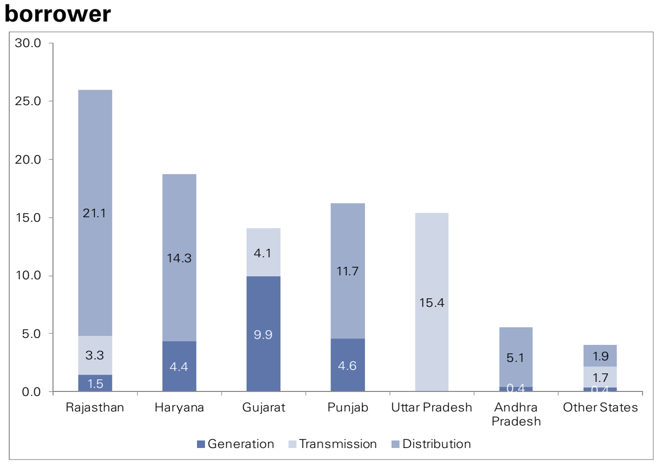
Source: Company data.

Exhibit 135: High exposure to power generation a concern
Proportion of power sector lending



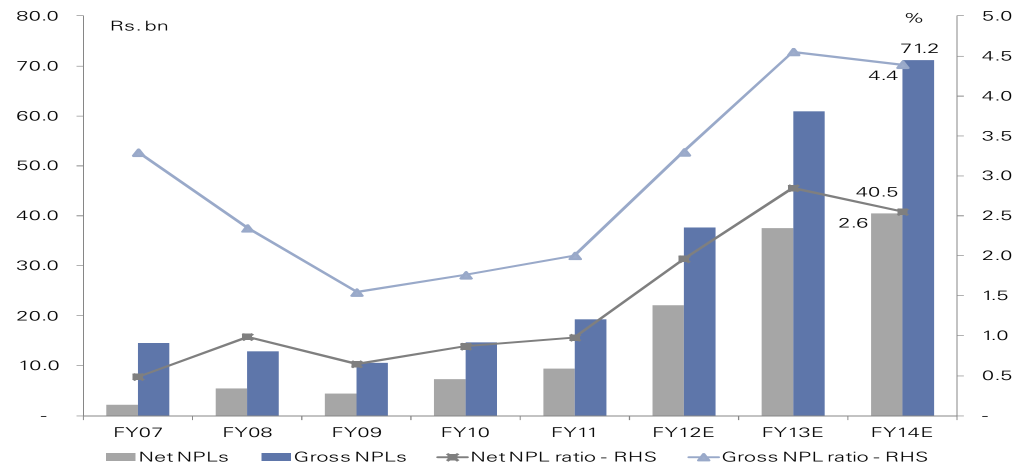
Source: Company data.

Exhibit 136: Among utilities Rajasthan is the biggest borrower



Source: Company data.

Exhibit 137: We expect asset quality to worsen in FY12-13E before it gets better in FY14E
Gross and net NPAs and ratios



Source: Company data, Goldman Sachs Research estimates.

Exhibit 138: In addition to the asset quality issues, OBC has among the lowest ROA/ROE of PSU banks in the last five years and we expect this to further decrease in FY12E-14E
ROE comparison]

	5 - year average (FY07-FY11)						3 - year average (FY12E-FY14E)					
	PNB	BOB	BOI	UNBK	OBC	SBI	PNB	BOB	BOI	UNBK	OBC	SBI
Net interest income	3.2	2.6	2.6	2.7	2.3	2.6	3.3	2.6	2.2	2.6	2.3	3.1
Other income	1.2	1.1	1.2	1.0	0.9	1.4	0.8	0.6	0.8	0.8	0.6	1.2
Total income	**4.4**	**3.7**	**3.8**	**3.7**	3.2	**4.0**	**4.2**	**3.2**	**3.0**	**3.4**	**2.9**	**4.3**
Operating expenses	2.1	1.7	1.8	1.6	1.4	2.0	1.7	1.2	1.4	1.5	1.3	2.0
Pre provision income	**2.3**	**2.0**	**2.0**	**2.1**	1.8	**2.0**	**2.4**	**2.0**	**1.5**	**1.9**	**1.6**	**2.3**
Loan loss provisions	0.4	0.3	0.5	0.5	0.2	0.5	0.7	0.5	0.5	0.8	0.7	0.9
Pre -tax pre extraordinary income	**1.9**	**1.5**	**1.4**	**1.6**	1.4	**1.5**	**1.7**	**1.5**	**1.0**	**1.1**	**0.9**	**1.3**
Extraordinary income	0.0	0.0	0.0	0.0		0.0	0.0	0.0	0.0	0.0		0.0
RoA pre-tax/prov/treasury/extr.	**2.1**	**1.7**	**1.8**	**1.9**	1.5	**1.9**	**2.4**	**2.0**	**1.4**	**1.8**	**1.6**	**2.2**
ROA pre-tax/treas. & post prov	1.7	1.4	1.3	1.4	1.3	1.4	1.7	1.5	0.9	1.0	0.9	1.3
(1- tax rate)	66.3	68.4	72.3	71.7	73.5	61.9	67.6	72.7	71.1	68.7	68.3	64.4
ROA	**1.3**	**1.1**	**1.0**	**1.1**	1.0	**0.9**	**1.2**	**1.1**	**0.7**	**0.7**	**0.6**	**0.9**
Avg assets/avg equity	16.4	16.9	19.5	18.5	14.7	16.7	17.3	17.3	20.4	19.4	17.0	18.6
ROE	20.6	18.4	19.7	21.1	14.7	15.3	20.3	18.9	14.7	14.4	10.7	15.9

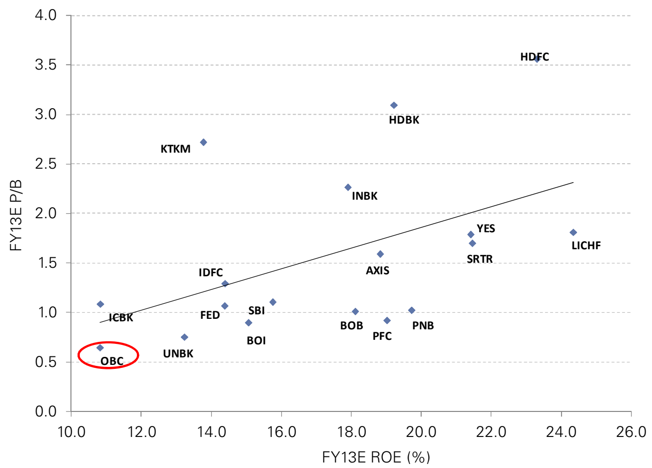
Source: Company data, Goldman Sachs Research estimates.

Exhibit 139: We expect OBC's ROA to decline as asset quality concerns mount in FY12-14E
ROE decomposition (as % of average assets

	FY06	FY07	FY08	FY09	FY10	FY11	FY12E	FY13E	FY14E
Net interest income	2.8	2.5	2.0	2.0	2.3	2.8	2.4	2.3	2.3
Other income	1.0	0.9	0.8	1.1	1.0	0.6	0.7	0.6	0.6
Total income	**3.8**	**3.5**	**2.8**	**3.0**	**3.3**	**3.4**	**3.0**	**2.9**	**2.9**
Operating expenses	1.8	1.5	1.3	1.4	1.6	1.4	1.3	1.3	1.3
Pre provision income	**2.0**	**2.0**	**1.5**	**1.6**	**1.7**	**2.1**	**1.7**	**1.6**	**1.6**
Loan loss provisions	0.0	-0.1	-0.2	0.2	0.5	0.6	0.7	0.8	0.6
Pre -tax pre extraordinary income	**1.7**	**1.6**	**1.5**	**1.1**	**1.3**	**1.4**	**0.8**	**0.9**	**1.0**
RoA pre-tax/prov/treasury/extr.	**1.7**	**1.8**	**1.3**	**1.1**	**1.4**	**2.0**	**1.6**	**1.5**	**1.6**
ROA pre-tax/treas. & post prov	1.6	1.9	1.4	0.9	0.9	1.4	1.0	0.7	0.9
(1- tax rate)	83.2	78.5	66.6	77.8	70.7	73.7	68.0	67.0	70.0
ROA	**1.4**	**1.2**	**1.0**	**0.9**	**0.9**	**1.0**	**0.5**	**0.6**	**0.7**
Avg assets/avg equity	13.3	12.3	14.5	15.4	16.0	15.5	15.6	17.2	18.4
ROE	18.9	15.4	14.8	13.5	14.5	15.5	8.5	10.8	12.9

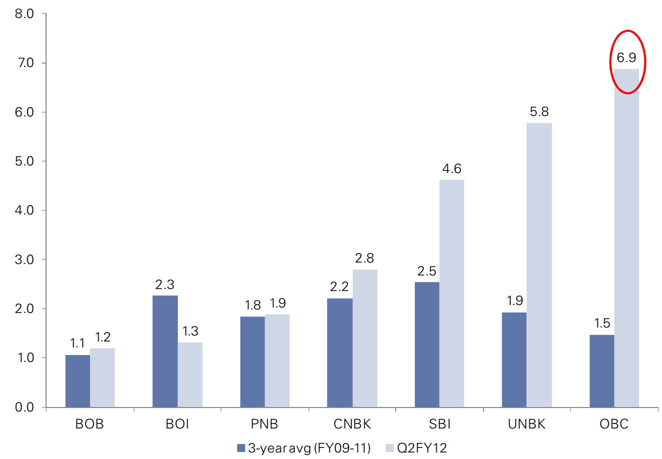
Source: Company data, Goldman Sachs Research estimates.

Exhibit 140: Currently OBC trades at 0.7X fwd P/BV…
P/B vs. ROE



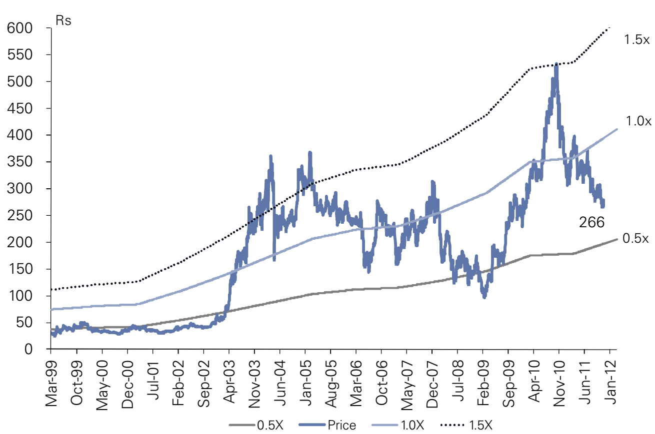
Source: Datastream, Goldman Sachs Research estimates.

Exhibit 141: …reflecting asset quality and lower EPS concerns
Slippage ratio



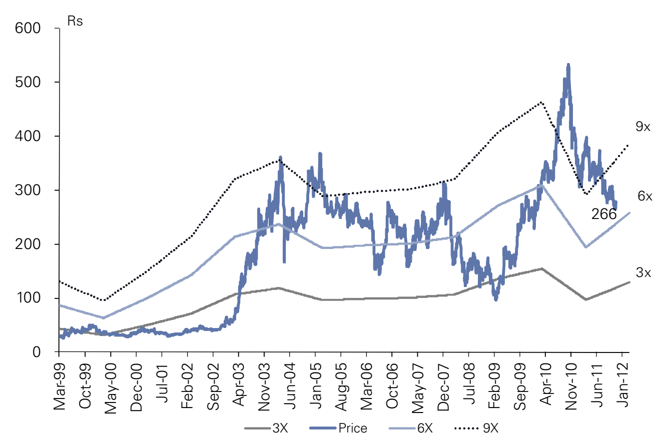
Source: Company data.

Exhibit 142: OBC currently trades at 0.7X 12m-fwd book
P/B band



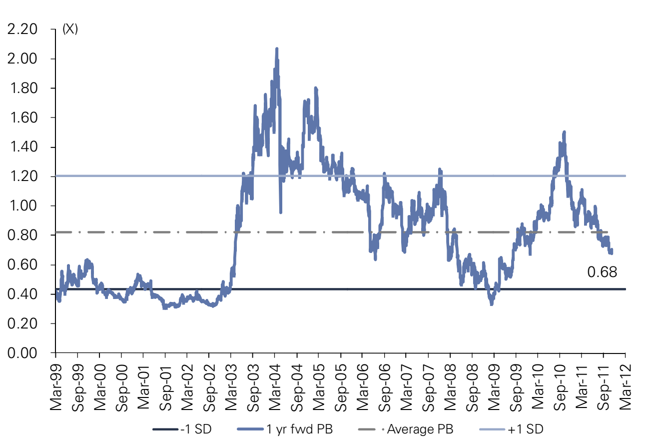
Source: Datastream, Goldman Sachs Research estimates.

Exhibit 143: … and at 7.0X 12m-fwd earnings
P/E band



Source: Datastream, Goldman Sachs Research estimates.

Exhibit 144: OBC now trades below its hist. P/B avg
P/B Std. dev band



Source: Datastream, Goldman Sachs Research estimates.

Exhibit 145: …but slightly above hist. avg. P/E
P/E Std. dev band

Source: Datastream, Goldman Sachs Research estimates.

HDFC (HDFC.BO, Neutral): Benefit from rate cycle: Up to Neutral

What happened

We upgrade HDFC to Neutral from Sell on its strong growth momentum and recent underperformance and likely benefits from falling interest rates. HDFC is currently trading at 4.7X 12-m fwd book (3.6X FY13E standalone). The company continues to command premium valuations, given high ROEs and strong growth potential. Our ECS team expects the RBI to cut interest rates aggressively by 150bp in FY13 and 50bp in FY14, which coupled with potential cut in the CRR towards the end of FY12, would be beneficial for wholesale borrower like HDFC.

Since we downgraded HDFC to Sell on Aug 31, 2010, the stock has moved up 7% vs. a decline of 8.3% for BSE Sensex (past 12months -2.3% vs. Sensex -16.3%). Given concerns of NPLs, HDFC with its clean book, higher ROE and strong growth outperformed the market vs. other banks in our view.

Current view

While other NBFCs under our coverage are struggling due to structural or regulatory issues, HDFC is well positioned to maintain its growth momentum. Furthermore, as a wholesale borrower, HDFC would benefit from the benign interest rate environment which our ECS team forecasts. We expect HDFC to realize earnings growth of 20% CAGR over FY12-14E (highest among NBFCs) led by: a) 28bps expansion in spreads over FY12014E; 2) healthy volumes growth of 22% CAGR over the same period. However, we also expect heightened competition from PSU banks due to declining growth opportunities in other sectors. Our unchanged SOTP based target price is Rs690, implying an upside of 5% and 5.3X 12-month forward P/B.

Risks

Upside: Sharp and aggressive rate cuts by RBI; **Downside**: Prolonged economic slowdown and higher interest rates, higher competition from PSU banks.

Exhibit 146: We upgrade HDFC to Neutral with SOTP TP of Rs690

HDFC SOTP valuation

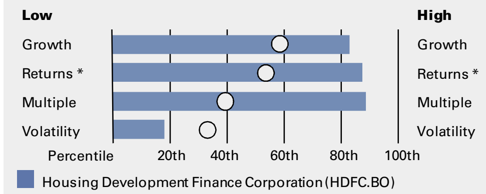
Business/ subsidiaries	HDFC's holding (%)	Value per share (Rs)	Valuation methodolody/ multiple
HDFC		445	Based on CAMELOT model (4x12-m fw BVPS)
Value of subsidiaries and associates		**245**	
HDFC Bank	23.7	170	At target price based on CAMELOT
HDFC Standard Life MF			
MF business	60.0	18	6% of average AUM during Sep 2011
PMS business	60.0	2	10% of PMS AUM
Life insurance	74.0	44	14X NBV + EV
Gruh Finance	61.5	5	Based on current market price
HDFC Venture capital			
HDFC Real Estate Fund	80.5	1	Rs10bn (US$250mn) of fund assuming value of 15%
HDFC IT Corridor Fund	80.5	0	Rs4.64bn of fund assuming value of 15%
HDFC International Fund	100.0	3	US$800 mn assuming value of 15%
Implied value per share		**690**	

Source: Company data, Goldman Sachs Research estimates.

INVESTMENT LIST MEMBERSHIP
Neutral

Coverage View: Neutral

Investment Profile

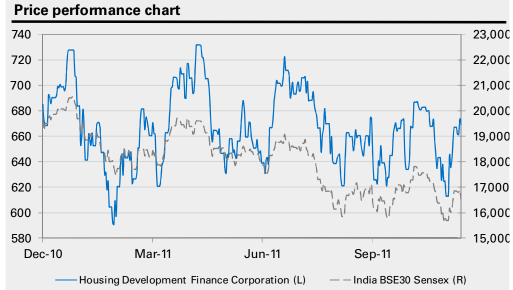


* Returns = Return on Capital. For a complete description of the investment profile measures please refer to the disclosure section of this document.

Key data	Current
Price (Rs)	669.00
12 month price target (Rs)	690.00
Market cap (Rs mn / US$ mn)	981,347.2 / 18,974.2
Foreign ownership (%)	72.9

	3/11	3/12E	3/13E	3/14E
EPS (Rs)	24.10	27.64	33.29	39.65
EPS growth (%)	22.4	14.7	20.4	19.1
P/B (X)	5.7	5.1	4.5	3.9
P/E (X)	27.8	24.2	20.1	16.9
Dividend yield (%)	1.3	1.5	1.8	2.2
P/PPOP (X)	19.9	17.2	14.2	12.0
PPOP growth (%)	24.2	15.8	20.6	19.1
Preprovision ROA (%)	3.9	3.8	3.9	3.9
Credit cost (%)	0.1	0.1	0.0	0.0
ROA (%)	2.76	2.69	2.75	2.75
ROE (%)	21.7	22.3	23.8	24.7

Price performance chart



Share price performance (%)	3 month	6 month	12 month
Absolute	1.5	1.4	(2.3)
Rel. to India BSE30 Sensex	5.7	13.1	16.7

Source: Company data, Goldman Sachs Research estimates, FactSet. Price as of 12/08/2011 close.

Housing Development Finance Corporation: Summary financials

Profit model (Rs mn)	3/11	3/12E	3/13E	3/14E
Net interest income	44,876.5	52,429.2	64,901.7	77,540.1
Non-interest income	8,304.8	9,097.1	9,161.1	10,528.9
Operating revenue	53,181.3	61,526.3	74,062.8	88,069.0
Non-interest expense	(3,811.7)	(4,364.1)	(5,146.7)	(5,957.9)
Preprovision operating profit	49,369.6	57,162.2	68,916.1	82,111.2
Total provision charge	(700.0)	(716.3)	(849.3)	(1,033.3)
Associates	0.0	0.0	0.0	0.0
Pretax profit	48,669.6	56,445.8	68,066.8	81,077.8
Tax	(13,320.0)	(15,747.8)	(19,058.7)	(22,701.8)
Minorities	--	--	--	--
Net profit	**35,349.6**	**40,698.0**	**49,008.1**	**58,376.0**
Dividends	(13,202.0)	(15,058.3)	(18,133.0)	(21,599.1)
Dividends payout (%)	37.3	37.0	37.0	37.0

Earnings growth drivers (%)	3/11	3/12E	3/13E	3/14E
Net interest margin	3.50	3.47	3.65	3.66
Provision charge/total loans	0.06	0.05	0.05	0.05
YoY Growth (%)				
Customer deposits	--	--	--	--
Loans	19.6	20.0	21.3	21.7
Net interest income	24.6	16.8	23.8	19.5
Fee income	(4.9)	29.1	14.2	22.0
Non-interest income	19.3	9.5	0.7	14.9
Operating revenue	23.7	15.7	20.4	18.9
Operating expenses	(17.7)	(14.5)	(17.9)	(15.8)
Preprovision operating profit	**24.2**	**15.8**	**20.6**	**19.1**
Provision charges	20.7	2.3	18.6	21.7
Pretax profit	24.3	16.0	20.6	19.1
Net profit	25.1	15.1	20.4	19.1
EPS	22.4	14.7	20.4	19.1
DPS	25.0	13.6	20.4	19.1

Market dimensions	3/11	3/12E	3/13E	3/14E
No of branches	289.0	304.0	316.0	350.0
No of staff (000)	1.5	1.6	1.6	1.6
Revenues/staff (US$)	762,778.0	840,946.1	889,438.2	1,037,030.4
Net profit/staff (US$)	507,018.4	556,263.9	588,550.3	687,389.6

DuPont analysis (%)	3/11	3/12E	3/13E	3/14E
ROE	**21.7**	**22.3**	**23.8**	**24.7**
x leverage	12.7	12.1	11.6	11.1
=ROA	**2.76**	**2.69**	**2.75**	**2.75**

% of assets	3/11	3/12E	3/13E	3/14E
Net interest income	3.50	3.47	3.65	3.66
Fee income	0.17	0.19	0.18	0.19
Non-interest income	0.65	0.60	0.51	0.50
Operating revenue	4.15	4.07	4.16	4.15
Operating expenses	0.30	0.29	0.29	0.28
Preprovision operating profit	3.85	3.78	3.87	3.87
Loan loss provisions	0.05	0.05	0.05	0.05
Pretax profits	3.80	3.73	3.82	3.82
Taxes	1.04	1.04	1.07	1.07

Balance sheet (Rs mn)	3/11	3/12E	3/13E	3/14E
Gross loans	1,174,916.9	1,409,927.4	1,710,868.3	2,081,468.0
NPLs	9,038.5	11,765.8	14,277.1	17,317.1
Loan loss reserves	3,650.7	4,316.0	5,237.3	6,318.8
Total interest earning assets	**29,877.4**	**1,498,172.0**	**1,792,321.7**	**2,170,693.7**
Other non-interest earning assets	1,365,143.8	131,001.3	138,044.3	140,075.6
Total assets	**1,395,021.3**	**1,629,173.3**	**1,930,366.0**	**2,310,769.4**
Customer deposits	246,251.0	290,653.2	343,061.6	394,520.9
Total interest-bearing liabilities	1,154,104.8	1,366,439.3	1,634,009.6	1,977,468.7
Total equity	**173,165.2**	**191,837.4**	**219,615.7**	**252,721.9**

CAMEL ratios (%)	3/11	3/12E	3/13E	3/14E
C: Tier 1 capital ratio	12.2	11.5	11.3	11.1
C: Equity/loans	14.8	13.6	12.9	12.2
C: Equity/assets	12.4	11.8	11.4	10.9
A: NPL ratio	0.8	0.8	0.8	0.8
A: Loan loss reserves/NPLs	40.4	36.7	36.7	36.5
E: Net interest margin	3.50	3.47	3.65	3.66
E: Non int inc/oper revenues	15.62	14.79	12.37	11.96
E: Cost-income ratio	7.2	7.1	6.9	6.8
E: ROAA	2.76	2.69	2.75	2.75
L: Loan/deposit ratio	475.6	483.6	497.2	526.0

Key CAMELOT assumptions	3/11	3/12E	3/13E	3/14E
GS CAMELOT implied P/B (X)	--	4.1	--	--
GS CAMELOT implied P/E (X)	--	31.6	--	--
Risk-free rate (%)	7.0	7.0	7.0	7.0
Equity risk premium (%)	5.0	5.0	5.0	5.0
CAMELOT beta (X)	--	1.0	--	--
Risk-adjusted cost of equity (%)	--	12.0	--	--
3-yr adjusted DPS CAGR (%)	--	17.7	--	--
Sustainable ROE estimate (%)	--	13.0	--	--
LT dividend payout estimate (%)	--	61.5	--	--
Ex-growth bond-equivalent P/B (X)	--	1.1	--	--

Loan portfolio (%)	3/11	3/12E	3/13E	3/14E
Commercial & corporate	NM	NM	NM	NM
Mortgages/home loans	100.0	100.0	100.0	100.0
Consumer	NM	NM	NM	NM

Valuation (current price)	3/11	3/12E	3/13E	3/14E
P/E basic (X)	27.8	24.2	20.1	16.9
P/B (X)	5.67	5.13	4.48	3.90
P/PPOP (X)	19.9	17.2	14.2	12.0
Dividend yield (%)	1.3	1.5	1.8	2.2
EPS, basic (Rs)	24.10	27.64	33.29	39.65
EPS, fully-diluted (Rs)	24.10	27.64	33.29	39.65
EPS, basic growth (%)	22.4	14.7	20.4	19.1
EPS, fully diluted growth (%)	22.4	14.7	20.4	19.1
BVPS (Rs)	118.05	130.31	149.18	171.66
DPS (Rs)	9.00	10.23	12.32	14.67

Note: Last actual year may include reported and estimated data.

Source: Company data, Goldman Sachs Research estimates.

Exhibit 147: Share price performance since Aug 31, 2010 of Housing Development Finance Corporation versus peer group

Prices as of the close of December 8, 2011

Company	Ticker	Primary analyst	Price currency	Price as of 12/08/11	Price performance since 08/31/10	3 month price performance	6 month price performance	12 month price performance
Asia Pacific Banks Peer Group								
Housing Development Finance Corporation	**HDFC.BO**	**Tabassum Inamdar, CFA**	**Rs**	**669.00**	**7.0%**	**1.5%**	**1.4%**	**-2.3%**
Agricultural Bank of China (A)	601288.SS	Ning Ma	Rmb	2.58	-4.1%	0.0%	-7.2%	-1.9%
Agricultural Bank of China (H)	1288.HK	Ning Ma	HK$	3.51	-0.3%	-0.8%	-17.4%	-14.4%
AMMB Holdings	AMMB.KL	David Ng, CFA	RM	5.90	4.2%	-7.4%	-9.4%	-8.1%
Axis Bank	AXBK.BO	Tabassum Inamdar, CFA	Rs	1,003.65	-24.2%	-12.8%	-18.3%	-19.8%
Bangkok Bank	BBL.BK	Melissa Kuang, CFA	Bt	156.50	6.1%	-0.6%	5.4%	4.3%
Bangkok Bank (Foreign)	BBLf.BK	Melissa Kuang, CFA	Bt	170.00	11.1%	5.3%	14.5%	9.3%
Bank Central Asia	BBCA.JK	Vincent Chang	Rp	7,950.00	37.1%	-5.4%	13.6%	18.7%
Bank Danamon	BDMN.JK	Vincent Chang	Rp	4,425.00	-14.8%	-19.5%	-25.3%	-33.5%
Bank Mandiri	BMRI.JK	Vincent Chang	Rp	6,650.00	14.6%	-7.6%	-5.0%	0.2%
Bank Negara Indonesia	BBNI.JK	Vincent Chang	Rp	3,875.00	17.6%	-7.7%	3.3%	-4.9%
Bank of Ayudhya	BAY.BK	Melissa Kuang, CFA	Bt	22.40	2.8%	-11.3%	-14.7%	-4.3%
Bank of Ayudhya (Foreign)	BAYf.BK	Melissa Kuang, CFA	Bt	22.80	4.1%	-9.7%	-12.3%	-4.2%
Bank of Baroda	BOB.BO	Tabassum Inamdar, CFA	Rs	730.85	-9.2%	-3.7%	-15.7%	-18.1%
Bank of Beijing	601169.SS	Richard Xu, CFA	Rmb	9.76	-22.9%	1.3%	-6.0%	-17.9%
Bank of China (A)	601988.SS	Ning Ma	Rmb	2.92	-9.5%	-0.7%	-12.6%	-10.7%
Bank of China (H)	3988.HK	Ning Ma	HK$	2.88	-23.2%	-4.6%	-27.6%	-29.9%
Bank of Communications (A)	601328.SS	Ning Ma	Rmb	4.61	-15.8%	-1.1%	-9.4%	-9.0%
Bank of Communications(H)	3328.HK	Ning Ma	HK$	5.51	-26.5%	0.7%	-20.9%	-24.9%
Bank of East Asia	0023.HK	Gurpreet Singh Sahi, CFA	HK$	28.65	-2.1%	-0.9%	-11.7%	-10.9%
Bank of India	BOI.BO	Tabassum Inamdar, CFA	Rs	336.85	-23.8%	0.4%	-20.4%	-23.1%
Bank Of Nanjing	601009.SS	Richard Xu, CFA	Rmb	9.50	-9.4%	15.3%	4.4%	-5.5%
Bank of Ningbo	002142.SZ	Richard Xu, CFA	Rmb	9.47	-24.4%	-3.6%	-16.1%	-22.7%
Bank Rakyat Indonesia	BBRI.JK	Vincent Chang	Rp	6,750.00	45.2%	-2.9%	5.5%	17.4%
Bank Tabungan Negara	BBTN.JK	Vincent Chang	Rp	1,260.00	-30.4%	-20.3%	-24.6%	-29.6%
BOC Hong Kong (Holdings)	2388.HK	Vincent Chang	HK$	18.20	-11.0%	-11.2%	-20.7%	-29.7%
Canara Bank	CNBK.BO	Rahul Jain	Rs	439.85	-14.4%	-0.1%	-17.5%	-33.8%
Cathay Financial Holding Company	2882.TW	Vincent Chang	NT$	31.30	-30.7%	-14.6%	-31.4%	-32.4%
Chang Hwa Commercial Bank	2801.TW	Vincent Chang	NT$	16.55	-0.9%	-17.3%	-27.0%	-22.7%
China CITIC Bank (A)	601998.SS	Richard Xu, CFA	Rmb	4.12	-23.0%	-10.6%	-12.6%	-20.0%
China CITIC Bank (H)	0998.HK	Richard Xu, CFA	HK$	4.49	-7.9%	14.2%	-10.1%	-10.6%
China Construction Bank (A)	601939.SS	Ning Ma	Rmb	4.76	3.7%	4.6%	-3.4%	-0.2%
China Construction Bank (H)	0939.HK	Ning Ma	HK$	5.69	-8.6%	-0.7%	-18.7%	-18.7%
China Everbright	0165.HK	Richard Xu, CFA	HK$	12.24	-28.7%	13.1%	-19.4%	-32.7%
China Everbright Bank	601818.SS	Richard Xu, CFA	Rmb	2.83	-16.8%	-7.2%	-17.7%	-25.3%
China Merchants Bank (H)	3968.HK	Ning Ma	HK$	16.12	-19.6%	2.7%	-13.8%	-21.0%
China Merchants Securities	600999.SS	Richard Xu, CFA	Rmb	11.41	-29.0%	-3.1%	-16.2%	-29.7%
China Minsheng Banking (A)	600016.SS	Richard Xu, CFA	Rmb	6.13	13.7%	3.4%	6.6%	20.9%
China Minsheng Banking (H)	1988.HK	Richard Xu, CFA	HK$	6.75	-4.5%	3.7%	-6.1%	-3.3%
Chinatrust Financial Holdings	2891.TW	Vincent Chang	NT$	17.95	7.2%	-13.1%	-23.8%	-1.8%
Chong Hing Bank	1111.HK	Gurpreet Singh Sahi, CFA	HK$	14.00	-14.5%	-7.2%	-20.0%	-31.7%
Chongqing Rural Commercial Bank	3618.HK	Richard Xu, CFA	HK$	4.14	NA	19.0%	-19.9%	NA
CIMB Group Holdings	CIMB.KL	David Ng, CFA	RM	6.99	-10.4%	-2.6%	-16.7%	-19.7%
CITIC Securities	600030.SS	Richard Xu, CFA	Rmb	11.07	-5.5%	-7.1%	-11.3%	-16.3%
Dah Sing Banking Group	2356.HK	Gurpreet Singh Sahi, CFA	HK$	6.95	-39.4%	-18.6%	-39.5%	-49.0%
Dah Sing Financial Holdings	0440.HK	Gurpreet Singh Sahi, CFA	HK$	23.65	-49.3%	-20.5%	-44.2%	-55.2%
DBS Group Holdings	DBSM.SI	David Ng, CFA	S$	12.30	-11.4%	-5.6%	-16.4%	-12.4%
Far East Horizon	3360.HK	Richard Xu, CFA	HK$	7.02	NA	2.8%	-13.8%	NA
Federal Bank	FED.BO	Rahul Jain	Rs	393.95	16.0%	2.8%	-13.0%	-8.4%
First Financial Holdings	2892.TW	Vincent Chang	NT$	18.10	5.0%	-13.4%	-21.2%	-19.1%
Fubon Financial Holdings	2881.TW	Vincent Chang	NT$	31.40	-11.7%	-19.9%	-21.4%	-13.9%
Haitong Securities	600837.SS	Richard Xu, CFA	Rmb	8.43	-12.4%	7.3%	-5.4%	-19.0%
Hang Seng Bank	0011.HK	Vincent Chang	HK$	94.00	-11.9%	-14.4%	-23.0%	-27.0%
HDFC Bank	HDBK.BO	Tabassum Inamdar, CFA	Rs	453.90	6.4%	-6.2%	-3.6%	-0.5%
HDFC Bank (ADR)	HDB		$	28.51	-10.8%	-14.7%	-12.8%	-20.4%
Hong Leong Bank	HLBB.KL	David Ng, CFA	RM	10.54	24.2%	-10.8%	-14.0%	18.4%
Hong Yuan Securities	000562.SZ	Richard Xu, CFA	Rmb	13.18	-21.8%	-7.3%	-18.4%	-29.1%
HSBC Holdings	0005.HK	Philippa Rogers, CFA	HK$	62.35	-17.7%	-3.6%	-21.5%	-22.2%
Hua Xia Bank	600015.SS	Richard Xu, CFA	Rmb	11.12	-5.0%	4.6%	-2.6%	-0.4%
ICICI Bank	ICBK.BO	Tabassum Inamdar, CFA	Rs	744.15	-23.9%	-19.1%	-29.1%	-32.7%
ICICI Bank (ADR)	IBN		$	30.00	-27.4%	-24.1%	-36.5%	-39.5%
IndusInd Bank	INBK.BO	Tabassum Inamdar, CFA	Rs	258.30	16.8%	-2.6%	-1.5%	-6.9%
Industrial and Commercial Bank of China (A)	601398.SS	Ning Ma	Rmb	4.16	3.8%	0.2%	-5.9%	-2.1%
Industrial and Commercial Bank of China (H)	1398.HK	Ning Ma	HK$	4.90	-11.6%	-1.8%	-16.9%	-16.5%
Industrial Bank	601166.SS	Richard Xu, CFA	Rmb	12.65	-11.2%	-4.1%	-5.5%	-6.3%
Infrastructure Development Finance Co.	IDFC.BO	Tabassum Inamdar, CFA	Rs	113.25	-36.6%	-1.7%	-16.7%	-35.2%
Kasikornbank	KBAN.BK	Melissa Kuang, CFA	Bt	123.00	13.4%	-2.8%	10.3%	-2.8%
Kasikornbank (Foreign)	KBANf.BK	Melissa Kuang, CFA	Bt	124.00	8.8%	-2.0%	11.2%	-5.7%
Kotak Mahindra Bank	KTKM.BO	Tabassum Inamdar, CFA	Rs	483.60	16.7%	3.2%	8.7%	3.8%
Krung Thai Bank	KTB.BK	Melissa Kuang, CFA	Bt	15.80	9.7%	-17.3%	-7.6%	-3.7%
Krung Thai Bank (Foreign)	KTBf.BK	Melissa Kuang, CFA	Bt	13.40	-5.6%	-28.3%	-31.6%	-25.6%
LIC Housing Finance	LICH.BO	Tabassum Inamdar, CFA	Rs	228.80	-4.8%	3.7%	0.9%	18.7%
Malayan Banking Berhad	MBBM.KL	David Ng, CFA	RM	8.21	-2.1%	-5.5%	-6.5%	-2.3%
Mega Financial Holdings	2886.TW	Vincent Chang	NT$	20.45	7.8%	-13.7%	-14.2%	-2.1%
Oriental Bank of Commerce	ORBC.BO	Rahul Jain	Rs	265.90	-37.3%	-16.4%	-23.6%	-29.8%
Oversea-Chinese Banking Corp.	OCBC.SI	David Ng, CFA	S$	8.12	-6.3%	-6.1%	-12.4%	-17.1%
Power Finance Corporation	PWFC.BO	Tabassum Inamdar, CFA	Rs	165.85	-52.5%	11.0%	-17.7%	-46.6%
Public Bank Berhad	PUBMe.KL	David Ng, CFA	RM	12.64	3.8%	-2.8%	-3.7%	-1.3%
Public Bank Berhad	PUBM.KL	David Ng, CFA	RM	12.64	5.0%	-2.8%	-3.8%	-1.3%
Punjab National Bank	PNBK.BO	Tabassum Inamdar, CFA	Rs	930.10	-21.3%	-3.2%	-15.0%	-21.3%
Religare Enterprises	RELG.BO	Tabassum Inamdar, CFA	Rs	421.05	-8.1%	1.7%	-11.1%	-10.8%
RHB Capital	RHBC.KL	David Ng, CFA	RM	6.92	4.1%	-18.5%	-30.4%	-18.6%
Samsung Card	029780.KS	Eunice Lee	W	42,900.00	-19.8%	-12.2%	-23.7%	-31.0%
Shanghai Pudong Development Bank	600000.SS	Richard Xu, CFA	Rmb	8.78	-18.4%	-5.2%	-11.5%	-11.6%
Shenzhen Development Bank	000001.SZ	Richard Xu, CFA	Rmb	15.94	-9.0%	-3.8%	-4.5%	-3.3%
Shin Kong Financial Holdings	2888.TW	Vincent Chang	NT$	8.33	-21.2%	-12.8%	-32.8%	-30.6%
Shriram Transport Finance	SRTR.BO	Tabassum Inamdar, CFA	Rs	551.35	-23.2%	-18.7%	-18.0%	-25.2%
Siam Commercial Bank	SCB.BK	Melissa Kuang, CFA	Bt	114.50	20.2%	-4.2%	10.6%	7.5%
Siam Commercial Bank (Foreign)	SCBf.BK	Melissa Kuang, CFA	Bt	113.00	19.6%	-3.8%	-5.8%	13.0%
SinoPac Holdings	2890.TW	Vincent Chang	NT$	8.85	-18.0%	-13.7%	-29.0%	-22.1%
Standard Chartered Bank	2888.HK	Philippa Rogers, CFA	HK$	174.80	-11.7%	3.7%	-12.4%	-21.4%
State Bank of India	SBI.BO	Tabassum Inamdar, CFA	Rs	1,865.85	-32.5%	-8.1%	-18.6%	-33.5%
Taishin Financial Holdings	2887.TW	Vincent Chang	NT$	10.95	-10.6%	-15.1%	-32.3%	-20.8%
Union Bank	UNBK.BO	Tabassum Inamdar, CFA	Rs	211.70	-35.6%	-13.6%	-34.2%	-33.9%
United Overseas Bank	UOBH.SI	David Ng, CFA	S$	15.30	-18.3%	-15.4%	-20.2%	-15.9%
Wing Hang Bank	0302.HK	Vincent Chang	HK$	63.15	-23.2%	-16.0%	-22.3%	-39.9%
Yes Bank	YESB.BO	Tabassum Inamdar, CFA	Rs	286.45	-7.9%	-3.5%	-4.7%	-4.9%
Yuanta FHC	2885.TW	Vincent Chang	NT$	15.20	-8.8%	-7.3%	-18.5%	-20.0%
India BSE30 Sensex				**16,488**	**-8.3%**	**-3.9%**	**-10.4%**	**-16.3%**

Note: Prices as of most recent available close, which could vary from the price data indicated above. This table shows movement in absolute share price and not total shareholder return. Results presented should not and cannot be viewed as an indicator of future performance.

Source: FactSet, Quantum database.

HDFC Bank (HDBK.BO): Resilient franchise: Upgrade to Neutral

What happened

We remove HDFC Bank from the Sell list and upgrade to Neutral for its high loan-growth v/s our coverage group, high margins and low NPLs. The stock has 13% upside potential and on relative basis will likely deliver far more resilient earnings growth and better asset quality in the current economic environment. Since we downgraded HDFC Bank to Sell on July 21, 2011, the stock has fallen 8.5% vs. -10.6% for BSE Sensex (past 12-month -0.5% vs. Sensex -16.3%). Given concerns of NPLs, HDFC Bank with its clean book, higher ROE and strong growth likely outperformed the market vs. other banks in our view.

Current view

While we expect the system to witness slowdown in loan growth at 14%-15% in FY12E-FY13E, we believe HDFC Bank can deliver better loan growth of 20%-21% over the same period, mainly driven by the retail segment at 21% CAGR. This along with stable NIMs (over FY13E-14E) and lower NPL provisions ratio (the ratio is down, although the absolute number will still grow 3% and 17% in FY12E and FY13E), we expect earnings CAGR of 24% over FY11-FY14E versus an average of 22% for the private banks in our coverage universe. We believe the bank will likely continue to trade at a premium on the back of higher credit growth and earnings in a difficult environment (our 12-month target price implies 4.1X 12-month forward P/B book).

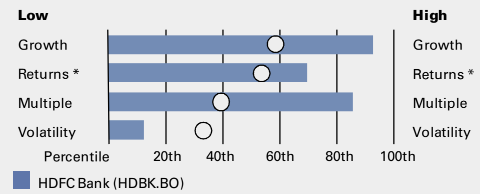
Valuation

HDFC Bank is trading at 17.3X PER and 3X P/B FY13 v/s ROA of 1.66% and CAGR earnings growth of 21% FY12-14E. Our unchanged 12-month target price of Rs520 is derived using our 3-stage Camelot model and indicates modest upside of 16% from current levels (including dividends).

Risks

Upside: Sharp and aggressive rate cuts by RBI; **Downside:** higher competition in retail loans from PSU banks, pick up in credit costs.

Investment Profile

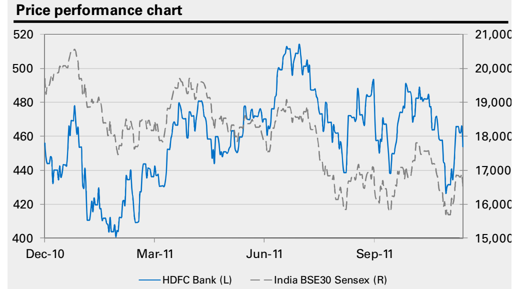


* Returns = Return on Capital For a complete description of the investment profile measures please refer to the disclosure section of this document.

Key data	Current
Price (Rs)	453.90
12 month price target (Rs)	520.00
Market cap (Rs mn / US$ mn)	1,055,839.5 / 20,414.5
Foreign ownership (%)	46.9

	3/11	3/12E	3/13E	3/14E
EPS (Rs)	17.00	21.74	26.23	31.70
EPS growth (%)	24.6	27.8	20.7	20.8
P/B (X)	4.2	3.6	3.1	2.7
P/E (X)	26.7	20.9	17.3	14.3
Dividend yield (%)	0.7	1.0	1.2	1.4
P/PPOP (X)	13.7	11.8	9.8	7.7
PPOP growth (%)	20.1	16.1	19.8	27.4
Preprovision ROA (%)	3.1	2.9	2.9	3.1
Credit cost (%)	1.2	0.8	0.7	0.9
ROA (%)	1.57	1.65	1.66	1.69
ROE (%)	16.7	18.5	19.2	20.0

Price performance chart



Share price performance (%)	3 month	6 month	12 month
Absolute	(6.2)	(3.6)	(0.5)
Rel. to India BSE30 Sensex	(2.4)	7.5	18.9

Source: Company data, Goldman Sachs Research estimates, FactSet. Price as of 12/08/2011 close.

INVESTMENT LIST MEMBERSHIP
Neutral

Coverage View: Neutral

HDFC Bank: Summary financials

Profit model (Rs mn)	3/11	3/12E	3/13E	3/14E
Net interest income	105,431.3	121,569.3	142,437.5	178,337.0
Non-interest income	43,350.8	52,104.1	63,129.1	74,518.6
Operating revenue	148,782.1	173,673.4	205,566.6	252,855.7
Non-interest expense	(71,529.2)	(84,003.6)	(98,110.5)	(115,944.2)
Preprovision operating profit	77,252.9	89,669.7	107,456.0	136,911.4
Total provision charge	(19,066.9)	(15,017.8)	(17,257.0)	(27,907.9)
Associates	0.0	0.0	0.0	0.0
Pretax profit	58,186.0	74,651.9	90,199.1	109,003.5
Tax	(18,922.6)	(23,821.6)	(28,863.7)	(34,881.1)
Minorities	--	--	--	--
Net profit	**39,263.4**	**50,830.4**	**61,335.4**	**74,122.4**
Dividends	7,676.2	10,166.1	12,267.1	14,824.5
Dividends payout (%)	19.6	20.0	20.0	20.0

Earnings growth drivers (%)	3/11	3/12E	3/13E	3/14E
Net interest margin	4.22	3.94	3.85	4.07
Provision charge/total loans	1.19	0.76	0.72	0.95
YoY Growth (%)				
Customer deposits	24.6	21.0	22.4	21.6
Loans	27.1	23.4	21.3	22.7
Net interest income	25.7	15.3	17.2	25.2
Fee income	27.1	17.2	18.4	18.0
Non-interest income	13.9	20.2	21.2	18.0
Operating revenue	22.0	16.7	18.4	23.0
Operating expenses	(24.1)	(17.4)	(16.8)	(18.2)
Preprovision operating profit	**20.1**	**16.1**	**19.8**	**27.4**
Provision charges	(27.1)	3.0	16.9	61.7
Pretax profit	35.7	28.3	20.8	20.8
Net profit	33.2	29.5	20.7	20.8
EPS	24.6	27.8	20.7	20.8
DPS	29.9	30.8	20.7	20.8

Market dimensions	3/11	3/12E	3/13E	3/14E
No of branches	1,986.0	2,250.0	2,500.0	2,750.0
No of staff (000)	55.8	57.8	60.5	66.8
Revenues/staff (US$)	58,562.7	64,531.8	65,748.1	73,170.8
Net profit/staff (US$)	15,454.6	18,887.0	19,617.4	21,449.4

DuPont analysis (%)	3/11	3/12E	3/13E	3/14E
ROE	**16.7**	**18.5**	**19.2**	**20.0**
x leverage	9.4	8.9	8.6	8.5
=ROA	**1.57**	**1.65**	**1.66**	**1.69**

% of assets	3/11	3/12E	3/13E	3/14E
Net interest income	4.22	3.94	3.85	4.07
Fee income	1.44	1.37	1.35	1.35
Non-interest income	1.73	1.69	1.71	1.70
Operating revenue	5.95	5.63	5.56	5.77
Operating expenses	2.86	2.73	2.65	2.65
Preprovision operating profit	3.09	2.91	2.90	3.13
Loan loss provisions	0.57	0.48	0.47	0.64
Pretax profits	2.33	2.42	2.44	2.49
Taxes	0.76	0.77	0.78	0.80

Balance sheet (Rs mn)	3/11	3/12E	3/13E	3/14E
Gross loans	1,613,806.0	1,989,855.0	2,414,020.1	2,965,847.7
NPLs	16,943.4	21,179.3	33,886.8	42,358.5
Loan loss reserves	13,979.3	17,248.3	20,703.1	29,166.6
Total interest earning assets	**2,597,422.8**	**3,132,479.5**	**3,750,488.8**	**4,493,216.2**
Other non-interest earning assets	176,103.1	258,650.6	258,506.8	257,454.5
Total assets	**2,773,525.9**	**3,391,130.1**	**4,008,995.6**	**4,750,670.7**
Customer deposits	2,085,864.1	2,524,388.4	3,090,593.1	3,757,510.5
Total interest-bearing liabilities	2,286,166.2	2,804,135.9	3,375,017.3	4,059,913.1
Total equity	**253,792.7**	**295,844.7**	**342,828.8**	**399,608.0**

CAMEL ratios (%)	3/11	3/12E	3/13E	3/14E
C: Tier 1 capital ratio	12.2	11.7	11.5	11.3
C: Equity/loans	15.9	15.0	14.3	13.6
C: Equity/assets	9.2	8.7	8.6	8.4
A: NPL ratio	1.0	1.1	1.4	1.4
A: Loan loss reserves/NPLs	82.5	81.4	61.1	68.9
E: Net interest margin	4.22	3.94	3.85	4.07
E: Non int inc/oper revenues	29.14	30.00	30.71	29.47
E: Cost-income ratio	48.1	48.4	47.7	45.9
E: ROAA	1.57	1.65	1.66	1.69
L: Loan/deposit ratio	76.7	78.2	77.5	78.2

Key CAMELOT assumptions	3/11	3/12E	3/13E	3/14E
GS CAMELOT implied P/B (X)	--	3.8	--	--
GS CAMELOT implied P/E (X)	--	29.2	--	--
Risk-free rate (%)	7.0	7.0	7.0	7.0
Equity risk premium (%)	5.0	5.0	5.0	5.0
CAMELOT beta (X)	--	0.9	--	--
Risk-adjusted cost of equity (%)	--	11.5	--	--
3-yr adjusted DPS CAGR (%)	--	24.0	--	--
Sustainable ROE estimate (%)	--	13.0	--	--
LT dividend payout estimate (%)	--	61.5	--	--
Ex-growth bond-equivalent P/B (X)	--	1.1	--	--

Loan portfolio (%)	3/11	3/12E	3/13E	3/14E
Commercial & corporate	49.5	47.0	47.0	47.6
Mortgages/home loans	7.1	7.3	7.4	7.5
Consumer	49.6	52.2	52.2	51.5

Valuation (current price)	3/11	3/12E	3/13E	3/14E
P/E basic (X)	26.7	20.9	17.3	14.3
P/B (X)	4.16	3.59	3.10	2.66
P/PPOP (X)	13.7	11.8	9.8	7.7
Dividend yield (%)	0.7	1.0	1.2	1.4
EPS, basic (Rs)	17.00	21.74	26.23	31.70
EPS, fully-diluted (Rs)	17.00	21.74	26.23	31.70
EPS, basic growth (%)	24.6	27.8	20.7	20.8
EPS, fully diluted growth (%)	24.6	27.8	20.7	20.8
BVPS (Rs)	109.10	126.52	146.61	170.90
DPS (Rs)	3.32	4.35	5.25	6.34

Note: Last actual year may include reported and estimated data.

Source: Company data, Goldman Sachs Research estimates.

Exhibit 148: Share price performance since July 21, 2011 of HDFC Bank versus peer group

Price as of the close of December 8, 2011

Company	Ticker	Primary analyst	Price currency	Price as of 12/08/11	Price performance since 07/21/11	3 month price performance	6 month price performance	12 month price performance
Asia Pacific Banks Peer Group								
HDFC Bank	**HDBK.BO**	**Tabassum Inamdar, CFA**	**Rs**	**453.90**	**-8.5%**	**-6.2%**	**-3.6%**	**-0.5%**
Agricultural Bank of China (A)	601288.SS	Ning Ma	Rmb	2.58	-4.8%	0.0%	-7.2%	-1.9%
Agricultural Bank of China (H)	1288.HK	Ning Ma	HK$	3.51	-12.9%	-0.8%	-17.4%	-14.4%
AMMB Holdings	AMMB.KL	David Ng, CFA	RM	5.90	-8.7%	-7.4%	-9.4%	-8.1%
Axis Bank	AXBK.BO	Tabassum Inamdar, CFA	Rs	1,003.65	-19.0%	-12.8%	-18.3%	-19.8%
Bangkok Bank	BBL.BK	Melissa Kuang, CFA	Bt	156.50	-7.7%	-0.6%	5.4%	4.3%
Bangkok Bank (Foreign)	BBLf.BK	Melissa Kuang, CFA	Bt	170.00	-0.3%	5.3%	14.5%	9.3%
Bank Central Asia	BBCA.JK	Vincent Chang	Rp	7,950.00	-1.9%	-5.4%	13.6%	18.7%
Bank Danamon	BDMN.JK	Vincent Chang	Rp	4,425.00	-20.1%	-19.5%	-25.3%	-33.5%
Bank Mandiri	BMRI.JK	Vincent Chang	Rp	6,650.00	-11.9%	-7.6%	-5.0%	0.2%
Bank Negara Indonesia	BBNI.JK	Vincent Chang	Rp	3,875.00	-1.9%	-7.7%	3.3%	-4.9%
Bank of Ayudhya	BAY.BK	Melissa Kuang, CFA	Bt	22.40	-18.5%	-11.3%	-14.7%	-4.3%
Bank of Ayudhya (Foreign)	BAYf.BK	Melissa Kuang, CFA	Bt	22.80	-16.3%	-9.7%	-12.3%	-4.2%
Bank of Baroda	BOB.BO	Tabassum Inamdar, CFA	Rs	730.85	-17.6%	-3.7%	-15.7%	-18.1%
Bank of Beijing	601169.SS	Richard Xu, CFA	Rmb	9.76	-0.8%	1.3%	-6.0%	-17.9%
Bank of China (A)	601988.SS	Ning Ma	Rmb	2.92	-5.2%	-0.7%	-12.6%	-10.7%
Bank of China (H)	3988.HK	Ning Ma	HK$	2.88	-17.9%	-4.6%	-27.6%	-29.9%
Bank of Communications (A)	601328.SS	Ning Ma	Rmb	4.61	-6.7%	-1.1%	-9.4%	-9.0%
Bank of Communications(H)	3328.HK	Ning Ma	HK$	5.51	-17.9%	0.7%	-20.9%	-24.9%
Bank of East Asia	0023.HK	Gurpreet Singh Sahi, CFA	HK$	28.65	-4.5%	-0.9%	-11.7%	-10.9%
Bank of India	BOI.BO	Tabassum Inamdar, CFA	Rs	336.85	-17.4%	0.4%	-20.4%	-23.1%
Bank Of Nanjing	601009.SS	Richard Xu, CFA	Rmb	9.50	6.7%	15.3%	4.4%	-5.5%
Bank of Ningbo	002142.SZ	Richard Xu, CFA	Rmb	9.47	-12.6%	-3.6%	-16.1%	-22.7%
Bank Rakyat Indonesia	BBRI.JK	Vincent Chang	Rp	6,750.00	1.5%	-2.9%	5.5%	17.4%
Bank Tabungan Negara	BBTN.JK	Vincent Chang	Rp	1,260.00	-25.0%	-20.3%	-24.6%	-29.6%
BOC Hong Kong (Holdings)	2388.HK	Vincent Chang	HK$	18.20	-20.9%	-11.2%	-20.7%	-29.7%
Canara Bank	CNBK.BO	Rahul Jain	Rs	439.85	-14.5%	-0.1%	-17.5%	-33.8%
Cathay Financial Holding Company	2882.TW	Vincent Chang	NT$	31.30	-30.2%	-14.6%	-31.4%	-32.4%
Chang Hwa Commercial Bank	2801.TW	Vincent Chang	NT$	16.55	-27.3%	-17.3%	-27.0%	-22.7%
China CITIC Bank (A)	601998.SS	Richard Xu, CFA	Rmb	4.12	-6.8%	-10.6%	-12.6%	-20.0%
China CITIC Bank (H)	0998.HK	Richard Xu, CFA	HK$	4.49	-2.8%	14.2%	-10.1%	-10.6%
China Construction Bank (A)	601939.SS	Ning Ma	Rmb	4.76	-2.3%	4.6%	-3.4%	-0.2%
China Construction Bank (H)	0939.HK	Ning Ma	HK$	5.69	-6.3%	-0.7%	-18.7%	-18.7%
China Everbright	0165.HK	Richard Xu, CFA	HK$	12.24	-13.4%	13.1%	-19.4%	-32.7%
China Everbright Bank	601818.SS	Richard Xu, CFA	Rmb	2.83	-13.7%	-7.2%	-17.7%	-25.3%
China Merchants Bank (H)	3968.HK	Ning Ma	HK$	16.12	-12.7%	2.7%	-13.8%	-21.0%
China Merchants Securities	600999.SS	Richard Xu, CFA	Rmb	11.41	-17.4%	-3.1%	-16.2%	-29.7%
China Minsheng Banking (A)	600016.SS	Richard Xu, CFA	Rmb	6.13	8.9%	3.4%	6.6%	20.9%
China Minsheng Banking (H)	1988.HK	Richard Xu, CFA	HK$	6.75	-4.0%	3.7%	-6.1%	-3.3%
Chinatrust Financial Holdings	2891.TW	Vincent Chang	NT$	17.95	-26.0%	-13.1%	-23.8%	-1.8%
Chong Hing Bank	1111.HK	Gurpreet Singh Sahi, CFA	HK$	14.00	-16.5%	-7.2%	-20.0%	-31.7%
Chongqing Rural Commercial Bank	3618.HK	Richard Xu, CFA	HK$	4.14	-6.1%	19.0%	-19.9%	NA
CIMB Group Holdings	CIMB.KL	David Ng, CFA	RM	6.99	-18.1%	-2.6%	-16.7%	-19.7%
CITIC Securities	600030.SS	Richard Xu, CFA	Rmb	11.07	-12.6%	-7.1%	-11.3%	-16.3%
Dah Sing Banking Group	2356.HK	Gurpreet Singh Sahi, CFA	HK$	6.95	-31.9%	-18.6%	-39.5%	-49.0%
Dah Sing Financial Holdings	0440.HK	Gurpreet Singh Sahi, CFA	HK$	23.65	-36.8%	-20.5%	-44.2%	-55.2%
DBS Group Holdings	DBSM.SI	David Ng, CFA	S$	12.30	-17.9%	-5.6%	-16.4%	-12.4%
Far East Horizon	3360.HK	Richard Xu, CFA	HK$	7.02	-8.6%	2.8%	-13.8%	NA
Federal Bank	FED.BO	Rahul Jain	Rs	393.95	-13.9%	2.8%	-13.0%	-8.4%
First Financial Holdings	2892.TW	Vincent Chang	NT$	18.10	-23.7%	-13.4%	-21.2%	-19.1%
Fubon Financial Holdings	2881.TW	Vincent Chang	NT$	31.40	-30.8%	-19.9%	-21.4%	-13.9%
Haitong Securities	600837.SS	Richard Xu, CFA	Rmb	8.43	-3.8%	7.3%	-5.4%	-19.0%
Hang Seng Bank	0011.HK	Vincent Chang	HK$	94.00	-22.5%	-14.4%	-23.0%	-27.0%
HDFC Bank (ADR)	HDB		$	28.51	-19.8%	-14.7%	-12.8%	-20.4%
Hong Leong Bank	HLBB.KL	David Ng, CFA	RM	10.54	-19.9%	-10.8%	-14.0%	18.4%
Hong Yuan Securities	000562.SZ	Richard Xu, CFA	Rmb	13.18	-19.6%	-7.3%	-18.4%	-29.1%
Housing Development Finance Corporation	HDFC.BO	Tabassum Inamdar, CFA	Rs	669.00	-4.0%	1.5%	1.4%	-2.3%
HSBC Holdings	0005.HK	Philippa Rogers, CFA	HK$	62.35	-17.9%	-3.6%	-21.5%	-22.2%
Hua Xia Bank	600015.SS	Richard Xu, CFA	Rmb	11.12	2.3%	4.6%	-2.6%	-0.4%
ICICI Bank	ICBK.BO	Tabassum Inamdar, CFA	Rs	744.15	-28.5%	-19.1%	-29.1%	-32.7%
ICICI Bank (ADR)	IBN		$	30.00	-36.5%	-24.1%	-36.5%	-39.5%
IndusInd Bank	INBK.BO	Tabassum Inamdar, CFA	Rs	258.30	-5.2%	-2.6%	-1.5%	-6.9%
Industrial and Commercial Bank of China (A)	601398.SS	Ning Ma	Rmb	4.16	-4.8%	0.2%	-5.9%	-2.1%
Industrial and Commercial Bank of China (H)	1398.HK	Ning Ma	HK$	4.90	-14.2%	-1.8%	-16.9%	-16.5%
Industrial Bank	601166.SS	Richard Xu, CFA	Rmb	12.65	-8.1%	-4.1%	-5.5%	-6.3%
Infrastructure Development Finance Co.	IDFC.BO	Tabassum Inamdar, CFA	Rs	113.25	-17.2%	-1.7%	-16.7%	-35.2%
Kasikornbank	KBAN.BK	Melissa Kuang, CFA	Bt	123.00	-9.2%	-2.8%	10.3%	-2.8%
Kasikornbank (Foreign)	KBANf.BK	Melissa Kuang, CFA	Bt	124.00	-10.1%	-2.0%	11.2%	-5.7%
Kotak Mahindra Bank	KTKM.BO	Tabassum Inamdar, CFA	Rs	483.60	1.6%	3.2%	8.7%	3.8%
Krung Thai Bank	KTB.BK	Melissa Kuang, CFA	Bt	15.80	-20.2%	-17.3%	-7.6%	-3.7%
Krung Thai Bank (Foreign)	KTBf.BK	Melissa Kuang, CFA	Bt	13.40	-29.5%	-28.3%	-31.6%	-25.6%
LIC Housing Finance	LICH.BO	Tabassum Inamdar, CFA	Rs	228.80	7.7%	3.7%	0.9%	18.7%
Malayan Banking Berhad	MBBM.KL	David Ng, CFA	RM	8.21	-7.1%	-5.5%	-6.5%	-2.3%
Mega Financial Holdings	2886.TW	Vincent Chang	NT$	20.45	-20.5%	-13.7%	-14.2%	-2.1%
Oriental Bank of Commerce	ORBC.BO	Rahul Jain	Rs	265.90	-23.9%	-16.4%	-23.6%	-29.8%
Oversea-Chinese Banking Corp.	OCBC.SI	David Ng, CFA	S$	8.12	-16.9%	-6.1%	-12.4%	-17.1%
Power Finance Corporation	PWFC.BO	Tabassum Inamdar, CFA	Rs	165.85	-20.5%	11.0%	-17.7%	-46.6%
Public Bank Berhad	PUBMe.KL	David Ng, CFA	RM	12.64	-5.7%	-2.8%	-3.7%	-1.3%
Public Bank Berhad	PUBM.KL	David Ng, CFA	RM	12.64	-5.4%	-2.8%	-3.8%	-1.3%
Punjab National Bank	PNBK.BO	Tabassum Inamdar, CFA	Rs	930.10	-18.5%	-3.2%	-15.0%	-21.3%
Religare Enterprises	RELG.BO	Tabassum Inamdar, CFA	Rs	421.05	-7.5%	1.7%	-11.1%	-10.8%
RHB Capital	RHBC.KL	David Ng, CFA	RM	6.92	-24.6%	-18.5%	-30.4%	-18.6%
Samsung Card	029780.KS	Eunice Lee	W	42,900.00	-30.8%	-12.2%	-23.7%	-31.0%
Shanghai Pudong Development Bank	600000.SS	Richard Xu, CFA	Rmb	8.78	-9.8%	-5.2%	-11.5%	-11.6%
Shenzhen Development Bank	000001.SZ	Richard Xu, CFA	Rmb	15.94	-7.2%	-3.8%	-4.5%	-3.3%
Shin Kong Financial Holdings	2888.TW	Vincent Chang	NT$	8.33	-34.9%	-12.8%	-32.8%	-30.6%
Shriram Transport Finance	SRTR.BO	Tabassum Inamdar, CFA	Rs	551.35	-19.6%	-18.7%	-18.0%	-25.2%
Siam Commercial Bank	SCB.BK	Melissa Kuang, CFA	Bt	114.50	-3.0%	-4.2%	10.6%	7.5%
Siam Commercial Bank (Foreign)	SCBf.BK	Melissa Kuang, CFA	Bt	113.00	-4.2%	-3.8%	-5.8%	13.0%
SinoPac Holdings	2890.TW	Vincent Chang	NT$	8.85	-26.2%	-13.7%	-29.0%	-22.1%
Standard Chartered Bank	2888.HK	Philippa Rogers, CFA	HK$	174.80	-12.5%	3.7%	-12.4%	-21.4%
State Bank of India	SBI.BO	Tabassum Inamdar, CFA	Rs	1,865.85	-23.9%	-8.1%	-18.6%	-33.5%
Taishin Financial Holdings	2887.TW	Vincent Chang	NT$	10.95	-32.5%	-15.1%	-32.3%	-20.8%
Union Bank	UNBK.BO	Tabassum Inamdar, CFA	Rs	211.70	-28.0%	-13.6%	-34.2%	-33.9%
United Overseas Bank	UOBH.SI	David Ng, CFA	S$	15.30	-23.5%	-15.4%	-20.2%	-15.9%
Wing Hang Bank	0302.HK	Vincent Chang	HK$	63.15	-25.6%	-16.0%	-22.3%	-39.9%
Yes Bank	YESB.BO	Tabassum Inamdar, CFA	Rs	286.45	-9.8%	-3.5%	-4.7%	-4.9%
Yuanta FHC	2885.TW	Vincent Chang	NT$	15.20	-18.5%	-7.3%	-18.5%	-20.0%
India BSE30 Sensex				**16,488**	**-10.6%**	**-3.9%**	**-10.4%**	**-16.3%**

Note: Prices as of most recent available close, which could vary from the price data indicated above. This table shows movement in absolute share price and not total shareholder return. Results presented should not and cannot be viewed as an indicator of future performance.

Source: FactSet, Quantum database.

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Reg AC

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