

KARNATAKA BANK

Margins stable; NPL's moderate

India Equity Research | Banking and Financial Services



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Karnataka Bank's (KBL) PAT moderated to INR801mn (up only 11% YoY) in Q3FY13, largely due to increased tax expense, higher provisioning for standard restructured accounts (INR90mn, as RBI raised requirement) and proactive provisioning for second wage revision (INR90mn). Headline asset quality numbers of GNPA/NNPA came in at 3.30%/2.19% (vis-à-vis 3.22%/2.08% in Q2FY13). Margin dipped a tad to 2.36% on 25bps base rate cut in Q3FY13. We expect the bank's NIMs to rise going forward due to improving CD ratio and reducing shortfall on PSL book and RoA to remain around 0.9%. Maintain 'BUY' with target price of INR180.

Slippages moderate

KBL's Q3FY13 headline asset quality numbers of GNPA/NNPA came in at 3.30%/2.19% (3.22%/2.08% in Q2FY13). Slippages moderated to INR864mn (1.5% vis-à-vis run rate of 2.2%). Both slippages (largest account being INR200mn and ~INR120mn in steel industry) and recoveries/upgrades were granular in nature. Restructuring during the quarter came in at INR911mn, taking outstanding restructured book to INR15bn (6.5%). Management is confident of improvement in asset quality—gaining traction in upgrades/recoveries over coming quarters as it expects three-four large accounts currently with CDR to be approved going forward, sale of some assets to ARCIL (being finalised) and higher auctions from SARFESI. KBL has guided for GNPA to be contained at 2.50-2.75% in FY13. We are building in credit cost of 80bps over FY13-14E.

Tax expense not an aberration

Higher tax expenses during the quarter (31% vis-a-vis run rate of 20%) dented KBL's bottom line. However, management believes this is the normal tax rate and the lower rate in previous quarters was on account of higher write-offs. Going forward, with not much left to write-off, the bank believes the tax rate will be at the current level.

Outlook and valuations: Margin to improve; maintain 'BUY'

Improvement in asset quality, led by sharp recoveries and aggressive write-offs, and margin will drive re-rating from the current level of 1.0x FY14E P/ABV for RoA of 0.9% and RoE of ~13-14% (yet to leverage the recently raised capital fully). We maintain 'BUY/Sector Outperformer'.

Financials (INR mn)								
Year to March	Q3FY13	Q3FY12	Growth %	Q2FY13	Growth %	FY12	FY13E	FY14E
Net int. income	2,278	1,869	21.9	2,326	(2.1)	7,440	9,209	11,299
Net profit	801	720	11.1	1,172	(31.7)	2,461	3,605	4,192
BV per share (INR)						138.0	151.4	166.7
EPS (INR)	4.3	3.8	11.3	6.2	(31.7)	13	19	22
Price/adj book (x)						1.3	1.2	1.0
Price/PPOP						6.5	5.0	3.9
Price/Earnings (x)						12.1	8.3	7.1

EDELWEISS 4D RATINGS

Absolute Rating	BUY
Rating Relative to Sector	Outperformer
Risk Rating Relative to Sector	Medium
Sector Relative to Market	Overweight

MARKET DATA (R: KBNK.BO, B: KBL IN)

CMP	: INR 158
Target Price	: INR 180
52-week range (INR)	: 199 / 64
Share in issue (mn)	: 188.3
M cap (INR bn/USD mn)	: 30/ 555
Avg. Daily Vol.BSE/NSE('000)	: 4,138.0

SHARE HOLDING PATTERN (%)

	Current	Q2FY13	Q1FY13
Promoters *	-	-	-
MF's, FI's & BK's	4.1	4.4	4.6
FII's	21.6	16.4	14.4
others	74.3	79.2	81.0
* Promoters pledged shares (% of share in issue)			NIL

PRICE PERFORMANCE (%)

	Stock	Nifty	EW Banks and Financial Services Index
1 month	(1.7)	3.7	10.6
3 months	17.1	6.5	4.7
12 months	87.4	17.8	22.7

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Margin flat at 2.36%

KBL's yield on advances came in at 12.78% (down 13bps QoQ) largely due to 25bps base rate cut undertaken by the bank during the quarter. This, coupled with a flattish cost of deposits, led to stable margin at 2.36% (down marginally by 4bps QoQ). CASA deposits also were stable at 23.4%. Management has guided for margin improvement to 2.7-2.8% by FY13 largely driven by: (i) thrust on CASA deposits (particularly SB deposits); (ii) run-down in low yielding RIDF investments; and (iii) better recoveries/upgrades. We are building in NIMs (calc.) of 2.5% by FY13-14.

Loan growth moderates to 19%

Given management's continued focus on asset quality, KBL's loan book growth moderated to 19% YoY in Q3FY13. However, management has guided for above average loan book growth of 25% for FY13 riding on a robust sanctions pipeline (corporate-INR6bn, mid-corporate-INR2bn) and increased traction in the retail book (as KBL decreased rate to be competitive with other banks). The bank has guided for continued focus on retail book aiming for loan book composition of retail/corporate segment of 50%/50% (47.2%/52.8% in Q3FY13) in the near term and 60%/40% over the long term. We are building in loan book CAGR of 20% over FY12-15.

Other highlights

- **Provision composition:** NPA provisions-INR218mn, Standard asset provisioning-INR121mn, investment depreciation-INR15mn and FITL-INR31mn.
- Treasury gains stood at INR85mn.
- Outstanding RIDF-INR28bn.
- Bulk deposit-2.5%.
- Has met with PSL target (including sub-targets) at 42% of ANBC with agriculture forming 17.2% and is expected to rise to 18% by FY13.

Table 1: Advance growth at 19.0%; CD ratio at 67.6%

	Q2FY12	Q3FY12	Q4FY12	Q1FY13	Q2FY13	Q3FY13
Advances (INR bn)	191	197	207	217	224	234
Advances growth Q-o-Q (%)	5.4	3.3	5.2	4.6	3.3	4.5
Advances growth Y-o-Y (%)	21.6	21.0	20.9	19.9	17.5	18.8
Deposits (INR bn)	288	298	316	325	340	346
Deposit growth Q-o-Q (%)	4.7	3.2	6.1	3.0	4.4	1.9
Deposit growth Y-o-Y (%)	15.2	17.2	15.6	18.1	17.7	16.2
CD ratio (%)	66.1	66.1	65.6	66.6	65.9	67.6

Source: Company

Table 2: Margin stable at 2.4%

	Q2FY12	Q3FY12	Q4FY12	Q1FY13	Q2FY13	Q3FY13
Net Interest Margin (%)	2.2	2.2	2.5	2.5	2.4	2.4
Yield on advances (%)	12.2	12.4	12.6	12.8	12.9	12.8
Yield on investments	6.6	6.1	6.2	7.0	7.2	7.2
Cost of deposits (%)	7.8	7.8	7.9	8.1	8.1	8.2

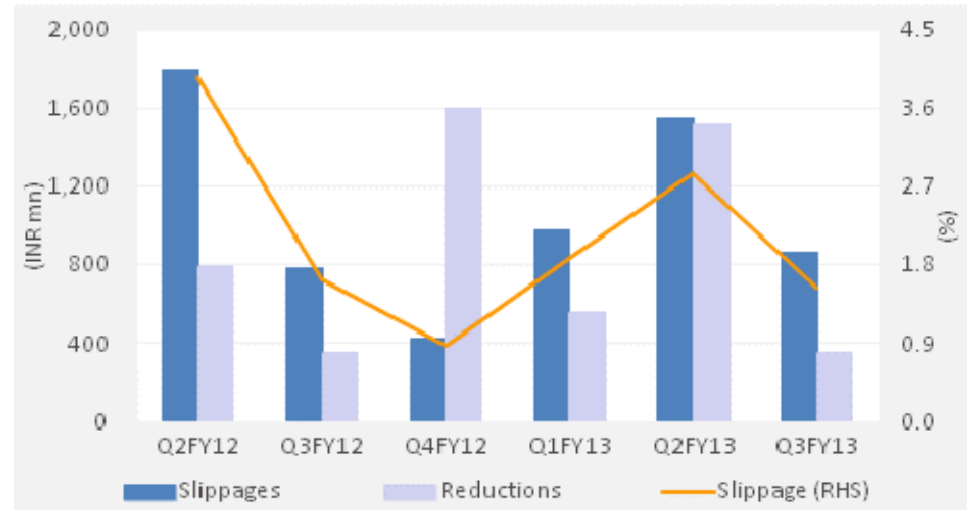
Source: Company

Table 3: Additional provisioning for std. restructured account led to higher provisions

(INR mn)	Q2FY12	Q3FY12	Q4FY12	Q1FY13	Q2FY13	Q3FY13
Investment depreciation	220	150	(84)	(118)	(195)	(15)
NPA	192	200	190	603	405	179
Others	68	34	651	85	18	207

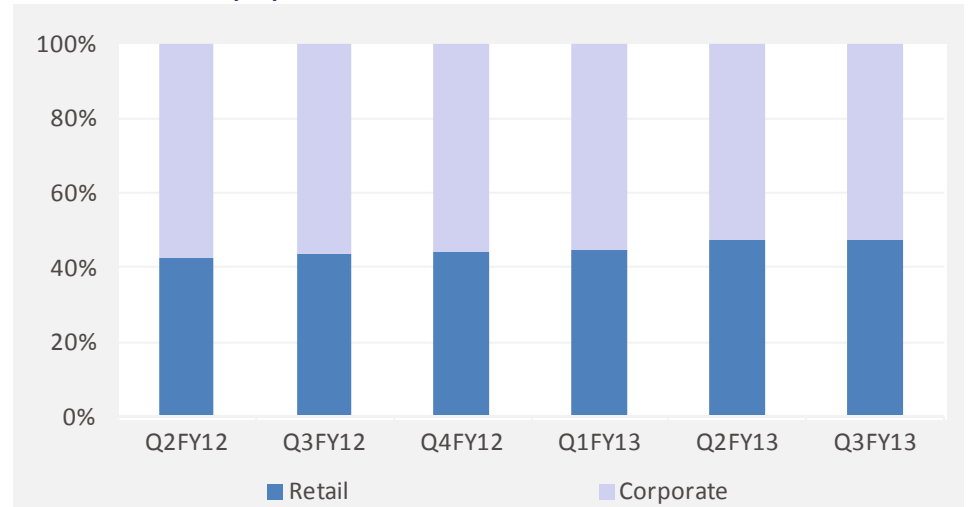
Source: Company

Chart 1: Slippages moderate (granular in nature)



Source: Company

Chart 2: Retail book proportion increases to 47.8%



Source: Company

Chart 3: Advances composition

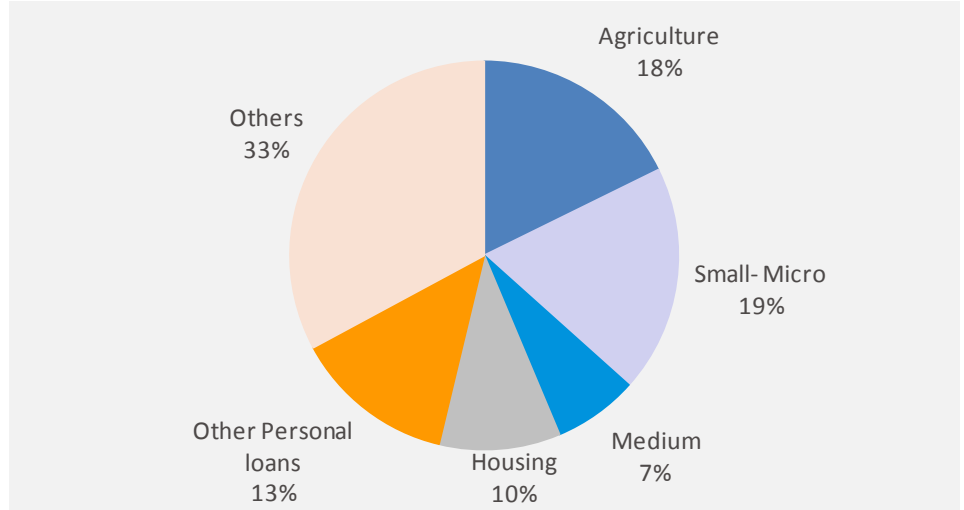
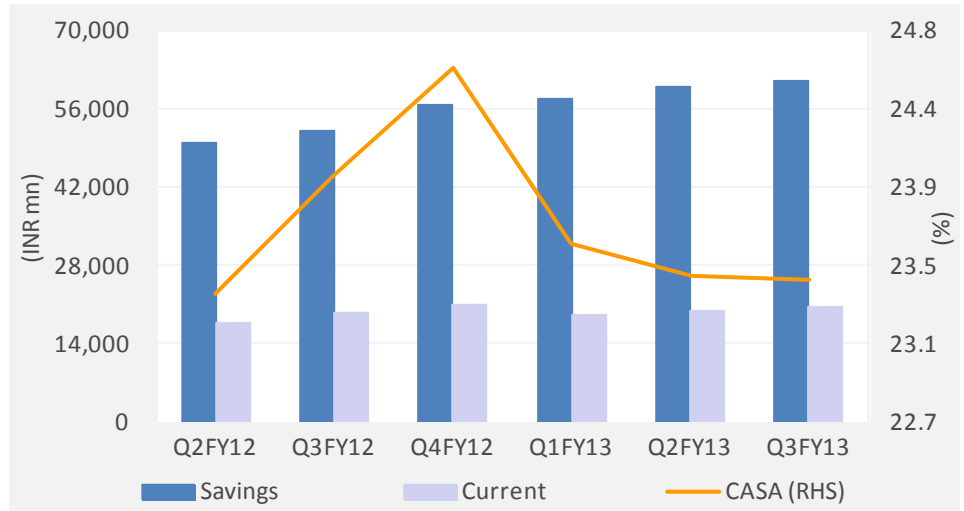


Chart 4: CASA ratio stable at 23.44%



Source: Company

Financial snapshot
(INR mn)

Year to March	Q3FY13	Q3FY12	% change	Q2FY13	% change	YTD13	FY13E	FY14E
Interest on advances	7,152	6,129	16.7	7,043	1.5	20,953	27,333	30,238
Interest on investments	2,478	1,844	34.4	2,399	3.3	7,002	8,466	9,601
Interest on other resources	11	2	606.3	12	(5.8)	25	224	228
Interest income	9,643	7,977	20.9	9,455	2.0	28,076	36,024	40,067
Interest exp	7,365	6,107	20.6	7,128	3.3	21,208	26,815	28,768
Net int. inc. (INR mn)	2,278	1,869	21.9	2,326	(2.1)	6,867	9,209	11,299
Fee income	862	851	1.4	869	(0.7)	2,641	3,149	3,640
Other income	862	851	1.4	869	(0.7)	2,641	3,549	4,140
Operating expenses	1,600	1,679	(4.7)	1,608	(0.5)	4,691	6,410	7,358
Staff expense	941	1,153	(18.4)	831	13.3	2,626	3,691	4,237
Other opex	659	526	25.2	777	(15.2)	2,065	2,718	3,120
Pre prov op profit (ppop)	1,540	1,041	48.0	1,588	(3.0)	4,817	5,949	7,581
Provisions	371	384	(3.5)	228	62.9	1,169	1,542	2,092
Profit before tax	1,170	657	78.1	1,360	(14.0)	3,649	4,807	5,989
Provision for taxes	369	(64)	(679.6)	188	96.1	842	1,202	1,797
PAT	801	720	11.1	1,172	(31.7)	2,807	3,605	4,192
Diluted EPS (INR)	4.3	3.8	11.3	6.2	(31.7)	14.9	19.1	22.3

Ratios

NII/GII (%)	23.6	23.4		24.6		24.5	25.6	28.2
Cost/income (%)	50.9	61.7		50.3		49.3	50.2	47.7
Provisions / PPOP	24.1	36.9		14.3		24.3	25.9	27.6
Tax rate (%)	31.6	(9.7)		13.8		23.1	25.0	30.0

Balance sheet data (INR bn)

Advances	234	197	18.8	224	4.5	234	247	296
Deposits	346	298	16.2	340	1.9	346	368	434

Asset quality

Gross NPA	7,812	8,011	(2.5)	7,294	7.1	7,812	7,059	7,557
Gross NPA (%)	3.3	4.0		3.2		3.3	2.8	2.5
Net NPA	5,114	4,388	16.5	4,643	10.1	5,114	4,304	4,330
Net NPA (%)	2.2	2.2		2.1		2.2	1.7	1.5

Key highlights of Karnataka Bank's Q2FY13 earnings conference call

- Karnataka Bank has engaged KPMG for business process reengineering initiative. KPMG has provided hand holding support with dedicated team of its 6 executives positioned at its headquarters. KPMG has done diagnosis study aimed at high growth/superior quality with benchmarks set for various parameters like NIM, RoA, CASA and advance growth. Their recommendations are in implementation stag: the bank has already introduced 60 marketing officers on their recommendation which bank didn't have it earlier. Even sourcing of customers is now tackled adequately (now it cross sells 5 products as against 2 products earlier).
- Gross NPLs came off from 3.31% in Q1FY13 to 3.22% in Q2FY13 – while slippages were INR 1.55 bn, it was offset by recoveries/upgrades of INR 811 mn and aggressive write off INR 714 mn.
- Has restructured INR 970 mn and overall restructured book (after some repayments) now stands at INR 14.85 bn. Of this restructured pool, INR 2.07 bn has turned into NPLs till date.
- Current mix of loan book: 52.5% corporate and 47.5% retail. Loan book composition: Agri 14.5%, MSME 17.03%, medium 5.97%, large 14.98%, Infra 11.14%, Real estate (Housing 8.5% + CRE 4.3%), NBFC 3.83%, education 1.82%, schematic loans 25.49% (gold loan 7.29%). PSL 40.1%
- RIDF INR 29 bn; should come down as repayments of INR 3-4 bn are falling due
- Not seeing much traction in saving deposit mobilization after having raised savings deposit rate in Dec '11 by 1% points to 5%, it has again rolled it back to 4% in June '12.
- No power to branches except for gold loans and deposit loans. Rest all retail loan have to be sent for origination to 10 regional Central Processing centers.

Outlook

- Recovery target of INR 2.5 bn in FY13, of which INR 1.25 bn has been recovered in H1FY12
- Gross NPLs INR 5.5 bn – 2.5-2.75% and to bring down net NPLs below 1%. Also looking for asset sale to ARCIL
- Targeting NIMs of 3% by FY13 – thrust for CASA (particularly SB)
- Aiming at 50% corporate, 50% retail in the near term and 40:60 few years down the line
- Targets RoA of 1.25% plus and RoE of 18-19%
- Will add 40 branches in H2FY13 to take total tally to 550

Relevant data points

- For H1FY13: Yield on advances: 12.91%, cost of deposits: 8.14% and NIMs at 2.4%
- Investment depreciation write-back of INR 195 mn and for H1FY13 INR 315 mn
- Deposit breakup: Bangalore 28.58%, Chennai 6.46%, Delhi 10.7%, Hyderabad 4%, WB 6%, Mangalore 10%, Maharashtra 13.86%, Mysore 15%

Company Description

KBL was incorporated in 1924 at Mangalore (Karnataka) as a private bank. Over the years, it has merged with Sringeri Sharada Bank, Chitladurg Bank, and Bank of Karnataka. Karnataka continues to remain its major business area. Indian public holds >50% of the equity, institutional investors about 4%, and FIIs around 26%. It has market cap of INR29bn. It has a strong branch network consisting of ~561 branches and it is present in 21 states and two Union territories. It has entered in to a joint venture agreement and holds equity investments to the extent of 15% in Universal Sompo General Insurance Company.

Investment Theme

Karnataka Bank is one of the best regional-based private banks in the country with all branches under CBS. We like the bank for its strong regional presence, good technology network, and possible M&A play. It offers an attractive play on robust loan growth average 20% FY12-14E, improving asset quality, and consolidation in the Indian banking space. Current valuations look attractive; also possible M&A opportunity can provide an upside.

Key Risks

Undue delay in credit growth can result in slower-than-expected margin improvement.

Higher-than-expected slippage in restructured assets can result in deterioration in asset quality.

Financial Statements

Key Assumptions

Year to March	FY12	FY13E	FY14E	FY15E
Macro				
GDP(Y-o-Y %)	6.5	5.5	6.5	7.0
Inflation (Avg)	8.8	7.8	6.0	6.0
Repo rate (exit rate)	8.5	7.5	6.8	6.0
USD/INR (Avg)	47.9	54.5	54.0	52.0
Sector				
Credit growth	17.1	17.0	16.0	17.0
Deposit growth	13.4	15.0	14.0	17.0
CRR	4.8	4.3	4.3	4.3
SLR	24.0	23.0	23.0	23.0
G-sec yield	8.5	7.8	7.4	7.5
Company				
Yield on advances	12.5	12.0	11.1	10.6
Yield on investments	6.1	6.3	6.5	6.5
Yield on asset	9.4	9.4	9.0	8.8
Net interest margins	2.2	2.4	2.5	2.6
Cost of funds	7.5	7.4	6.8	6.5
Cost of deposits	7.8	7.6	6.9	6.6
Cost of borrowings	8.5	8.7	8.4	8.2
Spread	1.9	2.1	2.2	2.3
Tax rate (%)	14.7	25.0	30.0	30.0
Credit growth	18.9	19.0	20.0	20.0
Deposit growth	15.6	16.6	17.9	18.1
SLR ratio	23.0	23.0	23.0	23.0
Low-cost deposits	24.6	23.5	23.9	23.8
Gross NPA ratio	3.2	2.8	2.5	2.3
Net NPA ratio	2.1	1.7	1.5	1.2
Provision coverage	36.5	39.0	42.7	45.8
Incremental slippage	2.1	2.4	2.2	2.2
Net NPA / Equity	16.7	15.1	13.8	12.6
Capital adequacy	10.7	10.1	9.4	8.9

Income statement

(INR mn)

Year to March	FY12	FY13E	FY14E	FY15E
Interest income	31,129	36,024	40,067	45,770
Interest expended	23,689	26,815	28,768	32,431
Net interest income	7,440	9,209	11,299	13,339
Non interest income	3,344	3,549	4,140	4,706
- Fee & forex income	2,200	2,438	2,815	3,252
- Misc. income	644	712	825	954
- Investment profits	500	400	500	500
Net revenue	10,784	12,759	15,439	18,046
Operating expense	5,682	6,410	7,358	8,259
- Employee exp	3,250	3,691	4,237	4,682
- Other opex	2,432	2,718	3,120	3,577
Preprovision profit	5,102	6,349	8,081	9,786
Provisions	2,216	1,542	2,092	2,500
Loan loss provisions	1,700	1,717	1,967	2,300
Investment depreciation	508	(200)	100	150
Other provisions	8	25	25	50
Profit before tax	2,886	4,807	5,989	7,287
Provision for tax	425	1,202	1,797	2,186
Profit After Tax	2,461	3,605	4,192	5,101
Reported PAT	2,461	3,605	4,192	5,101
Diluted EPS (INR)	13.1	19.1	22.3	27.1
Dividend per share (INR)	3.5	5.0	6.0	7.0
Dividend payout (%)	31.5	30.5	31.4	30.0

Growth ratios (%)

Year to March	FY12	FY13E	FY14E	FY15E
NII growth	21.5	23.8	22.7	18.1
Fees growth	12.9	10.8	15.5	15.5
Opex growth	3.5	12.8	14.8	12.3
PPOP growth	46.0	29.3	27.4	22.5
PPP growth	43.6	24.4	27.3	21.1
Provisions growth	84.1	(30.4)	35.7	19.5
Net profit	20.3	46.5	16.3	21.7

Operating ratios

Year to March	FY12	FY13E	FY14E	FY15E
Yield on advances	12.5	12.0	11.1	10.6
Yield on investments	6.1	6.3	6.5	6.5
Yield on assets	9.4	9.4	9.0	8.8
Net interest margins	2.2	2.4	2.5	2.6
Cost of funds	7.5	7.4	6.8	6.5
Cost of deposits	7.8	7.6	6.9	6.6
Cost of borrowings	8.5	8.7	8.4	8.2
Spread	1.9	2.1	2.2	2.3
Cost-income	52.7	50.2	47.7	45.8
Tax rate	14.7	25.0	30.0	30.0

Balance sheet		(INR mn)			
As on 31st March	FY12	FY13E	FY14E	FY15E	
Equity capital	1,883	1,883	1,883	1,883	
Reserves & surplus	24,099	26,618	29,505	33,085	
Net worth	25,982	28,501	31,388	34,968	
Sub bonds/pref cap	3,500	3,500	3,500	3,500	
Deposits	316,083	368,475	434,343	513,082	
Borrowings	7,971	8,280	8,589	8,898	
Other liabilities	9,680	11,519	13,822	16,587	
Total liabilities	363,217	420,275	491,643	577,035	
Loans	207,207	246,576	295,892	355,070	
Cash and equivalents	18,656	21,729	25,600	30,227	
Gilts	74,537	86,689	101,909	120,090	
Others	53,875	55,243	56,957	59,013	
Fixed assets	1,522	1,750	1,943	2,101	
Other Assets	7,418	8,287	9,341	10,534	
Total assets	363,217	420,275	491,643	577,035	
Credit growth	18.9	19.0	20.0	20.0	
Deposit growth	15.6	16.6	17.9	18.1	
EA growth	14.9	15.8	17.1	17.5	
SLR ratio	23.0	23.0	23.0	23.0	
C-D ratio	67.9	69.3	70.5	71.7	
Low-cost deposits	24.6	23.5	23.9	23.8	
Gross NPA ratio	3.2	2.8	2.5	2.3	
Net NPA ratio	2.1	1.7	1.5	1.2	
Provision coverage	36.5	39.0	42.7	45.8	
Incremental slippage	2.1	2.4	2.2	2.2	
Net NPA / Equity	16.7	15.1	13.8	12.6	
Capital adequacy	10.7	10.1	9.4	8.9	
- Tier 1	9.7	9.2	8.6	8.2	

RoE decomposition (%)				
Year to March	FY12	FY13E	FY14E	FY15E
Net interest income/assets	2.2	2.4	2.5	2.6
Fees/Assets	0.9	0.8	0.8	0.8
Investment profits/Assets	0.2	0.1	0.1	0.1
Net revenues/assets	3.3	3.3	3.5	3.5
Operating expense/assets	(1.7)	(1.7)	(1.7)	(1.6)
Provisions/assets	(0.7)	(0.4)	(0.5)	(0.5)
Taxes/assets	(0.1)	(0.3)	(0.4)	(0.4)
Total costs/assets	(2.5)	(2.4)	(2.5)	(2.5)
ROA	0.7	0.9	0.9	1.0
Equity/assets	7.6	7.1	6.7	6.4
ROAE (%)	9.8	13.2	14.0	15.4

Valuation parameters				
Year to March	FY12	FY13E	FY14E	FY15E
Diluted EPS (INR)	13.1	19.1	22.3	27.1
Y-o-Y growth (%)	20.2	46.5	16.3	21.7
Book value per share (INR)	138.0	151.4	166.7	185.7
Adjusted book value per share	121.8	135.4	150.6	169.3
Diluted PE (x)	12.1	8.3	7.1	5.8
Price/BV (x)	1.1	1.0	0.9	0.9
Price/ Adj. BV (x)	1.3	1.2	1.1	0.9
Dividend yield (%)	2.2	3.2	3.8	4.4
Price to income (x)	5.6	5.1	4.4	3.8

Peer comparison valuation

Name	Market cap (USD mn)	Diluted PE (X)		Price/ Adj. BV (X)		ROAE (%)	
		FY13E	FY14E	FY13E	FY14E	FY13E	FY14E
Karnataka Bank	554	8.3	7.1	1.2	1.1	13.2	14.0
Allahabad Bank	1,600	4.9	4.0	0.9	0.7	16.9	17.9
Axis Bank	11,006	11.8	9.6	2.2	1.9	20.1	20.6
Bank of Baroda	6,740	7.2	5.8	1.3	1.1	17.8	18.7
Federal Bank	1,610	10.0	8.7	1.4	1.3	14.3	14.8
HDFC Bank	29,273	23.6	18.7	4.5	3.8	20.4	21.7
ICICI Bank	25,070	17.1	15.0	2.6	2.3	12.5	12.9
Indian Overseas Bank	1,236	6.3	4.7	0.7	0.7	9.5	11.9
IndusInd Bank	4,188	21.4	16.9	3.1	2.6	17.5	16.6
ING Vysya	1,609	14.2	11.0	1.9	1.7	14.4	16.2
Oriental Bank Of Commerce	1,789	6.4	4.9	0.9	0.8	12.8	15.0
Punjab National Bank	5,506	6.2	5.0	1.3	1.0	16.9	17.9
South Indian Bank	683	0.7	0.6	0.2	0.1	24.9	25.2
State Bank of India	31,353	11.5	10.3	2.1	1.9	16.3	16.0
Union Bank Of India	2,591	7.8	6.4	1.1	1.0	15.6	16.7
Yes Bank	3,351	13.6	10.8	3.1	2.4	24.9	25.2
Median	-	9.1	7.9	1.3	1.2	16.6	16.7
AVERAGE	-	10.7	8.7	1.8	1.5	16.8	17.6

Source: Edelweiss research

Additional Data

Directors Data

Ananthakrishna	Chairman	P Jayarama Bhat	Managing Director & CEO
R V Shastri	Director	U R Bhat	Director
T S Vishwanath	Director	Sitarama Murty M	Director
S V Manjunath	Director	D Harshendra Kumar	Director
H Ramamohan	Director	T R Chandrasekaran	Director

Auditors - R K Kumar & Co

**as per last annual report*

Holding – Top10

	Perc. Holding		Perc. Holding
Religare Finvest Ltd	3.84	Kotak Mahindra	3.37
Bathina Haritha	3.08	Life Insurance Corp	2.68
Macquarie Group Ltd	2.35	HSBC Bank Mauritius	1.52
Dimensional Fund Advisors	1.5	Bajaj Holdings and Investment	1.4
Pradeep K R	1.24	Franklin Resources	1.19

**in last one year*

Bulk Deals

Data	Acquired / Seller	B/S	Qty Traded	Price
13 Feb 2012	Kumaraswamy Reddy Bathina	Sell	1000000	100.10
30 Mar 2012	Kumaraswamy Reddy Bathina	Sell	2903000	95.31
30 Mar 2012	Haritha Bathina	Buy	2398703	95.65
25 Oct 2012	Macquarie Bank Ltd	Sell	1112000	135.17
30 Nov 2012	Pace Stock Broking Services Pvt Ltd	Buy	35999	172.64
10 Dec 2012	Barclays Capital Mauritius Ltd	Buy	1160210	194.31
27 Dec 2012	The Royal Bank Of Scotland N.V. London Branch	Sell	1404000	165.31

**in last one year*

Insider Trades

Reporting Data	Acquired / Seller	B/S	Qty Traded
No Data Available			

**in last one year*

Company	Absolute reco	Relative reco	Relative risk	Company	Absolute reco	Relative reco	Relative Risk
Allahabad Bank	BUY	SP	M	Axis Bank	BUY	SO	M
Bank of Baroda	BUY	SP	M	Federal Bank	BUY	SO	L
HDFC	HOLD	SP	L	HDFC Bank	HOLD	SP	L
ICICI Bank	BUY	SO	L	Indian Overseas Bank	HOLD	SU	M
IndusInd Bank	BUY	SP	L	Infrastructure Development Finance Co Ltd	BUY	SO	L
ING Vysya	BUY	SO	L	Karnataka Bank	BUY	SO	M
Kotak Mahindra Bank	REDUCE	SU	M	LIC Housing Finance	BUY	SO	M
Mahindra & Mahindra Financial Services	BUY	SO	M	Manappuram General Finance	BUY	SO	M
Multi Commodity Exchange of India	BUY	SO	M	Muthoot Finance	BUY	SO	M
Oriental Bank Of Commerce	BUY	SO	L	Power Finance Corp	BUY	SO	M
Punjab National Bank	HOLD	SU	M	Reliance Capital	BUY	SO	M
Rural Electrification Corporation	BUY	SO	M	Shriram City Union Finance	BUY	SO	M
South Indian Bank	HOLD	SP	M	State Bank of India	BUY	SO	L
Union Bank Of India	BUY	SO	M	Yes Bank	BUY	SO	M

ABSOLUTE RATING

Ratings	Expected absolute returns over 12 months
Buy	More than 15%
Hold	Between 15% and - 5%
Reduce	Less than -5%

RELATIVE RETURNS RATING

Ratings	Criteria
Sector Outperformer (SO)	Stock return > 1.25 x Sector return
Sector Performer (SP)	Stock return > 0.75 x Sector return
	Stock return < 1.25 x Sector return
Sector Underperformer (SU)	Stock return < 0.75 x Sector return

Sector return is market cap weighted average return for the coverage universe within the sector

RELATIVE RISK RATING

Ratings	Criteria
Low (L)	Bottom 1/3rd percentile in the sector
Medium (M)	Middle 1/3rd percentile in the sector
High (H)	Top 1/3rd percentile in the sector

Risk ratings are based on Edelweiss risk model

SECTOR RATING

Ratings	Criteria
Overweight (OW)	Sector return > 1.25 x Nifty return
Equalweight (EW)	Sector return > 0.75 x Nifty return
	Sector return < 1.25 x Nifty return
Underweight (UW)	Sector return < 0.75 x Nifty return

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Coverage group(s) of stocks by primary analyst(s): Banking and Financial Services

Allahabad Bank, Axis Bank, Bank of Baroda, Federal Bank, HDFC, HDFC Bank, ICICI Bank, Infrastructure Development Finance Co Ltd, IndusInd Bank, Indian Overseas Bank, Karnataka Bank, Kotak Mahindra Bank, LIC Housing Finance, Multi Commodity Exchange of India, Manappuram General Finance, Mahindra & Mahindra Financial Services, Muthoot Finance, Oriental Bank Of Commerce, Punjab National Bank, Power Finance Corp, Reliance Capital, Rural Electrification Corporation, State Bank of India, Shriram City Union Finance, South Indian Bank, Union Bank Of India, ING Vysya, Yes Bank

Recent Research

Date	Company	Title	Price (INR)	Recos
25-Jan-13	Oriental Bank of Commerce	Tax write-back cushions provisions hit; <i>Result Update</i>	330	Buy
22-Jan-13	Kotak Mahindra Bank	Beat on growth and non-interest income; <i>Result Update</i>	641	Reduce
21-Jan-13	HDFC	Defying competition, individual loan growth robust; <i>Result Update</i>	812	Hold

Distribution of Ratings / Market Cap

Edelweiss Research Coverage Universe

	Buy	Hold	Reduce	Total
Rating Distribution*	118	46	17	181
* - stocks under review				
	> 50bn	Between 10bn and 50 bn	< 10bn	
Market Cap (INR)	117	57	7	

Rating Interpretation

Rating	Expected to
Buy	appreciate more than 15% over a 12-month period
Hold	appreciate up to 15% over a 12-month period
Reduce	depreciate more than 5% over a 12-month period

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