

Mint Street

Banking & Financial Services Monthly



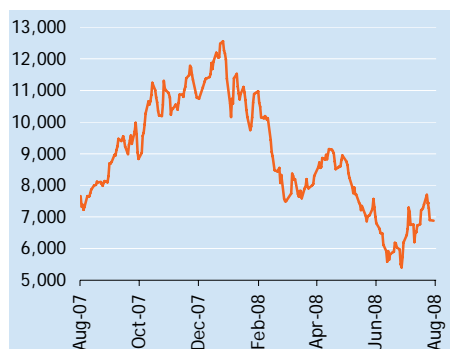
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Mint Street

Bankex Performance



Source: Bloomberg

Stock Performance

(%)	1M	6M	12M
Banks			
Axis Bank	(1.1)	(19.5)	6.7
Bank of Baroda	21.7	7.7	9.0
Bank of India	6.4	1.6	17.9
HDFC Bank	6.0	(5.3)	1.4
ICICI Bank	(3.0)	(25.7)	(28.0)
PNB	9.4	7.8	3.5
SBI	3.7	(11.8)	(3.1)
UBI	9.5	2.8	3.9
Financial Services			
HDFC	(4.8)	(12.9)	(1.7)
IDFC	(5.4)	(41.2)	(28.9)
Edelweiss	(13.1)	(23.3)	NA
India Infoline	(19.8)	(23.2)	(26.6)
Motilal Oswal	(4.6)	(18.9)	(47.1)
Reliance Capital	(8.5)	(8.8)	(13.1)

(All prices are as on September 12, 2008)

- Business growth maintained:** As on 29th Aug 2008, deposit growth has picked up to 22.1% YoY, compared to 19.6% as on 25th July 2008. Absolute amount mobilized has increased by Rs786bn MoM. Non-food credit growth at 25.5% YoY continues to remain high. Investment growth at 12.7% YoY is lower than the previous year. However, there has been a sharp jump in absolute investments on MoM basis.
- Yields have declined MoM:** The current yield curve has moved down from the record levels in the previous month. The reason being lower inflationary expectations mainly due to decline in crude oil prices (down 10.6% MoM) and other metals.
- Credit spreads have widened:** Despite fall in yields across maturities, credit spreads between the "AAA" rated five-year paper and "A" rated paper to G-Sec have moved up. It seems lower yields have not benefited the corporates. We find the market is more apprehensive about credit risks, indicated by the increased credit spread.
- Equity broking remains dismal:** August 2008 was another dismal month for the broking sector. Overall equity market volumes declined by 18.4% MoM with cash and F&O declining by 20.8% and 17.5% MoM, respectively. Things have not really turned for the better on the volume front, even in mid-September this year. While we are reasonably conservative in our forecast, if things continue to be same, we would have to reduce our profit forecasts by about 8-10%. In-line with equity market sentiment, investment banking activity also remains abysmal. Barring a few small-cap IPO and PE deals, not much activity has been witnessed on the deal-street.
- Private sector insurance growth weakening:** Private sector insurance growth which was holding out till June this year has slipped materially in July. From over 70% YoY, the growth in July has slipped to below 50%. Anecdotal evidence from companies suggests that August could be even lower. On the bright side, Mutual fund AUMs have held out remarkably well despite volatile equity markets. Overall AUMs grew by 16.4% YoY. Equity AUMs grew by 1.5% MoM, in line with the market-index rise.
- Conclusion:** The banking and financial services sector stocks have outperformed in the broader market (Bankex down 5.5%, Sensex down 8% MoM) mainly due to decline in oil leading to moderation in inflation expectations. However, inflation is likely to stay in double digits and then go down to (8-9%) by Mar 2009. Money supply is up 21% YoY and continues to remain above RBI's comfort zone (16-17%). Hence further RBI actions cannot be ruled out completely. Post the recent run-up in most banks and financial services sector stocks, we maintain our near term **Neutral** rating for the sectors.

Top Picks remain Axis Bank, HDFC Bank, HDFC and IDFC (BUY on declines)



Financials

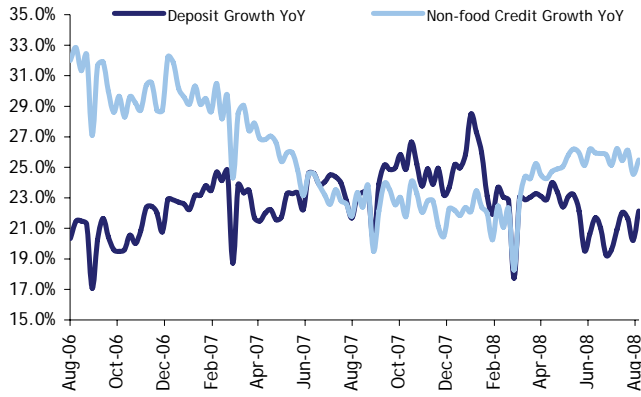
	Revenue / Net Op. Income (Rs bn)			EPS (Rs)			Adj. Book Value (Rs)			Return on Equity (%)		
	FY08	FY09E	FY10E	FY08	FY09E	FY10E	FY08	FY09E	FY10E	FY08	FY09E	FY10E
Banks												
Axis Bank	43.8	57.8	71.6	29.9	37.0	49.2	242	269	309	17.6	14.3	16.7
Bank of Baroda	59.7	66.2	77.1	39.5	44.3	51.4	302	333	400	14.7	13.9	13.9
Bank of India	63.5	72.9	84.5	38.2	45.5	54.9	199	240	289	24.4	20.5	20.5
HDFC Bank	83.3	109.7	142.6	41.4	56.1	74.6	307	364	493	16.3	15.8	16.9
ICICI Bank	161.2	176.7	217.4	37.4	35.4	50.9	404	422	460	11.7	8.3	11.1
PNB	75.3	84.0	97.2	65.0	72.4	87.1	393	441	510	18.0	17.3	18.0
SBI	257.2	305.3	337.9	106.5	108.8	131.2	710	776	871	16.8	13.3	14.3
UBI	41.7	46.1	51.2	27.5	26.5	30.5	151	169	193	22.1	17.0	17.0
Financial Services												
HDFC	30.5	35.4	43.0	68.5	81.7	99.9	421	473	543	22.2	18.4	19.7
IDFC	13.1	15.7	19.3	7.5	8.7	10.6	33	46	51	17.4	14.7	16.0
Edelwiess	10.9	11.3	15.1	39.6	34.8	42.8	247	278	315	23.4	13.4	15.3
India Infoline	10.2	12.5	17.0	6.1	6.7	7.9	37	54	60	15.3	10.0	11.6
Motilal Oswal	6.9	6.7	8.5	11.0	9.3	12.1	54	62	73	28.4	16.1	18.0
Reliance Capital	49.2	61.7	76.2	41.0	58.2	72.5	250	301	364	17.6	21.1	21.8

Valuation

	CMP (Rs)	Rating	TP (Rs)	Price / Earnings (x)			Price / Adj. Book (x)			Net Dividend Yield (%)		
				FY08	FY09E	FY10E	FY08	FY09E	FY10E	FY08	FY09E	FY10E
Banks												
Axis Bank	693	OP	921	23.1	18.7	14.1	2.9	2.6	2.2	0.9	1.0	1.2
Bank of Baroda	310	OP	315	7.8	7.0	6.0	1.0	0.9	0.8	2.6	2.9	3.2
Bank of India	285	OP	362	7.5	6.3	5.2	1.4	1.2	1.0	1.4	1.4	1.4
HDFC Bank	1,246	OP	1,500	30.1	22.2	16.7	4.1	3.4	2.5	0.7	0.8	0.9
ICICI Bank	653	MP	738	17.5	18.4	12.8	1.6	1.5	1.4	1.7	1.8	2.0
PNB	510	OP	604	7.8	7.0	5.9	1.3	1.2	1.0	2.6	2.6	2.7
SBI	1,512	MP	1,570	14.2	13.9	11.5	2.1	1.9	1.7	1.1	1.2	1.4
UBI	151	OP	182	5.5	5.7	4.9	1.0	0.9	0.8	2.7	3.0	3.3
Financials Services												
HDFC	2,179	MP	2,406	31.8	26.7	21.8	5.2	4.6	4.0	1.1	1.2	1.3
IDFC	91	OP	125	12.1	10.4	8.6	2.8	2.0	1.8	1.3	1.6	2.2
Edelwiess	519	OP	630	13.1	14.9	12.1	2.1	1.9	1.6	0.3	0.5	0.8
India Infoline	124	MP	130	20.2	18.4	15.6	3.4	2.3	2.0	0.6	0.6	0.7
Motilal Oswal	103	MP	120	9.3	11.0	8.5	1.9	1.7	1.4	1.8	1.0	1.4
Reliance Capital	1,210	MP	1,400	29.5	20.8	16.7	4.8	4.0	3.3	0.3	0.5	0.7

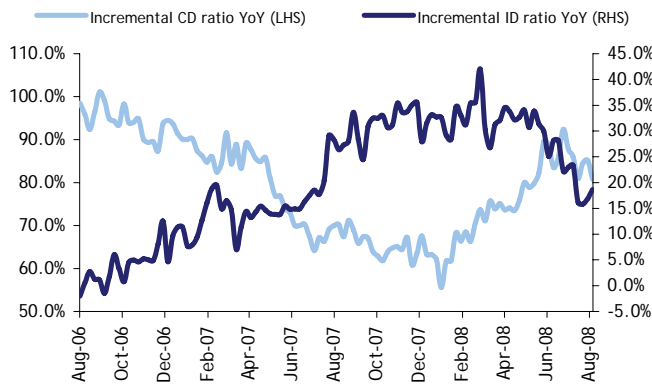
Banking

Deposit growth is still strong at 22.1% YoY, whereas non-food credit growth at 25.5% YoY remains high.



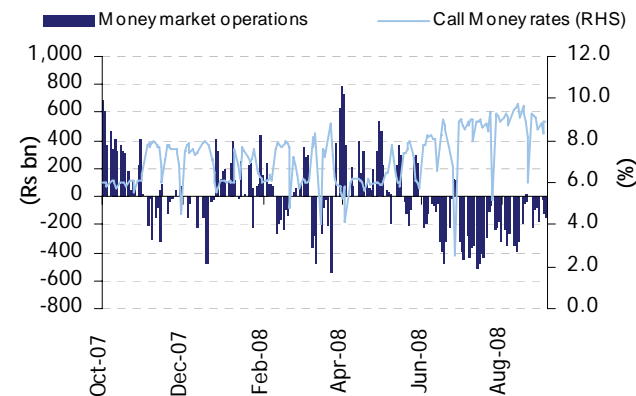
Source: Bloomberg

Incremental YoY CD ratio remains high at ~80.7%, YTFDY09 non-food credit up Rs945bn compared with a increase of Rs363bn for the same period in FY08



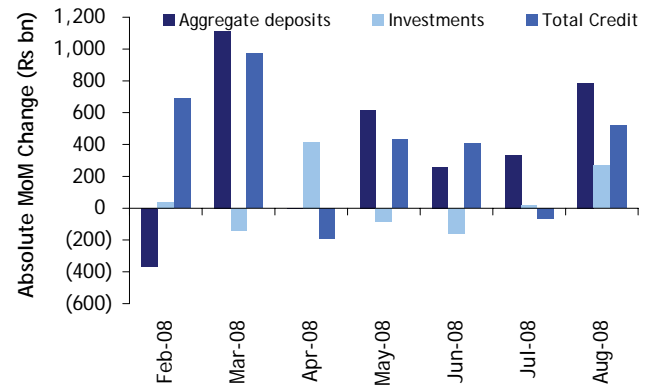
Source: RBI, PL Research

Call rates have remained at around 9% in the past month due to tight liquidity conditions with average infusion of ~Rs158bn in the past one month by RBI.



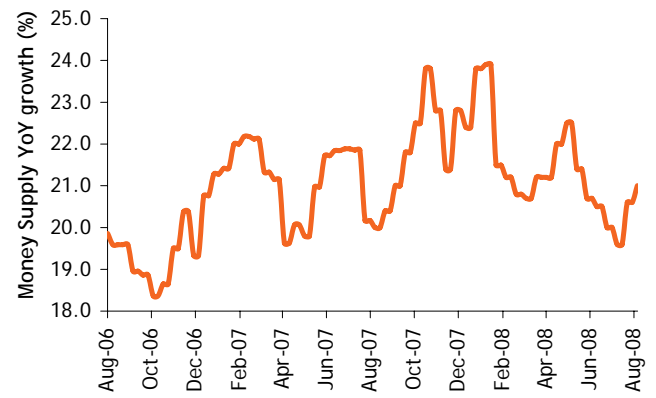
Source: RBI, PL Research

On MoM basis non-food credit, deposits and investments have all seen substantial growth.



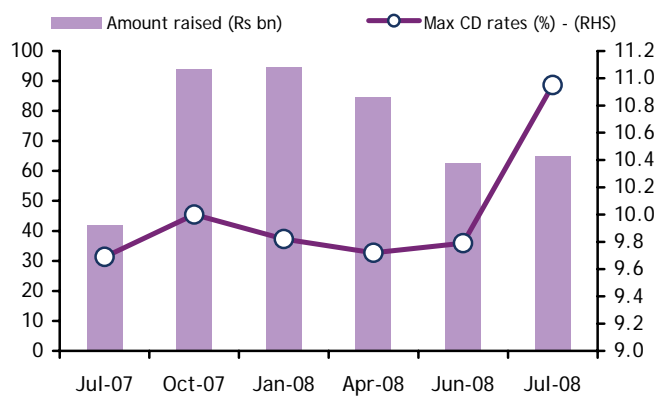
Source: RBI, PL Research

M3 growth has gone up to 21% from 20.0% recorded in July 2008 but is lower than 23.9% in Feb 2008



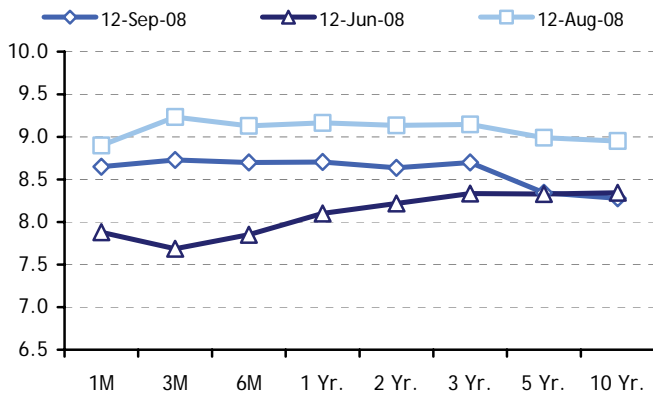
Source: RBI

Maximum CD rates have moved upwards to ~10.95% during July 2008, indicating higher bulk deposit rates



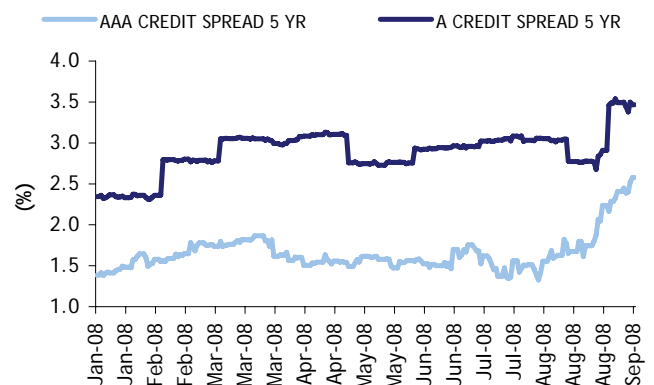
Source: RBI

Decline in inflationary pressures have helped yield curve to move downwards by roughly 50bps across all maturities, with the steepest decline in 10yr G-Sec.



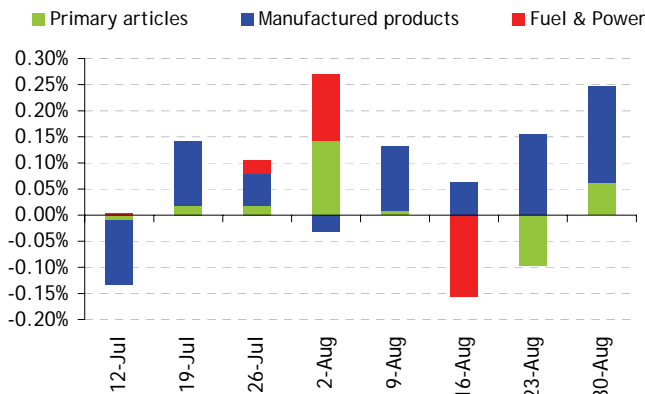
Source: Bloomberg, PL Research

Credit spreads have moved up, by about 100bps in AAA rated corporates reflecting increased risk perception.



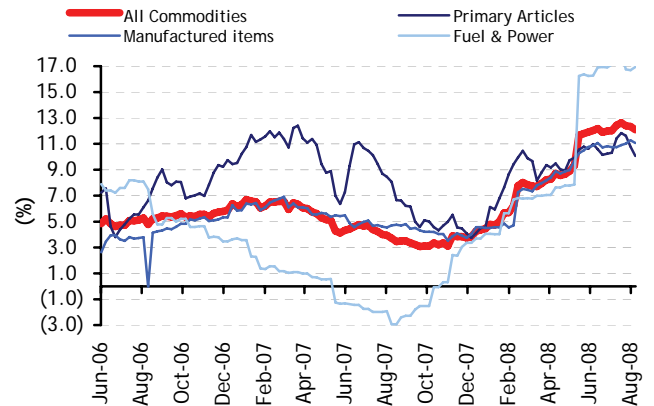
Source: Bloomberg, PL Research

WoW change in inflation was at 0.21%, with inflation in both primary as well as manufactured products moving up by ~30bps.



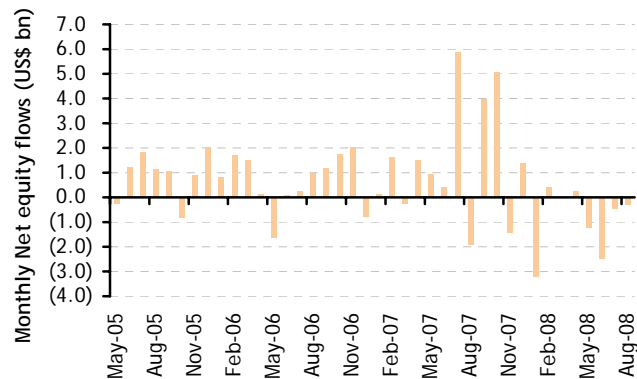
Source: Bloomberg, PL Research

Inflation cooled down to 12.10% on 30th August 2008, after hitting a 16 year high of 12.63 on 9th August 2008.



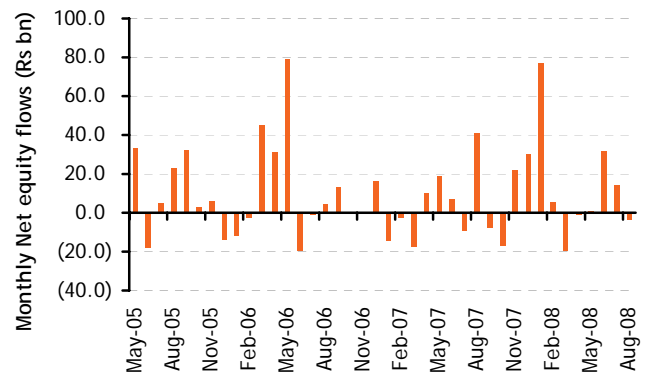
Source: Bloomberg, PL Research

FIs continue to remain net sellers with net sales of US\$7.9 YTD. The net sell for the month of August was US\$300m



Source: SEBI

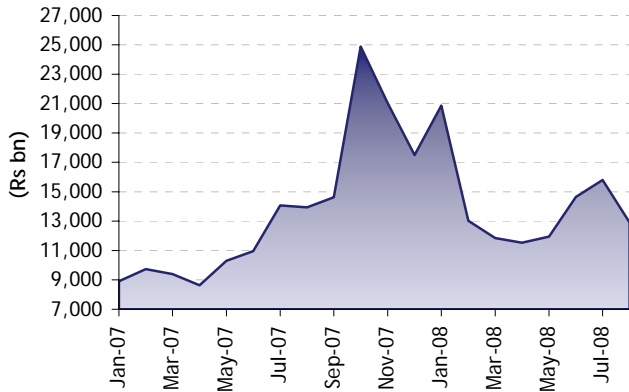
Mutual funds sold Rs3.7bn in August. However, according to the BSE provisional figure DII bought Rs2.97bn indicating buying by other domestic financial institutions.



Source: SEBI

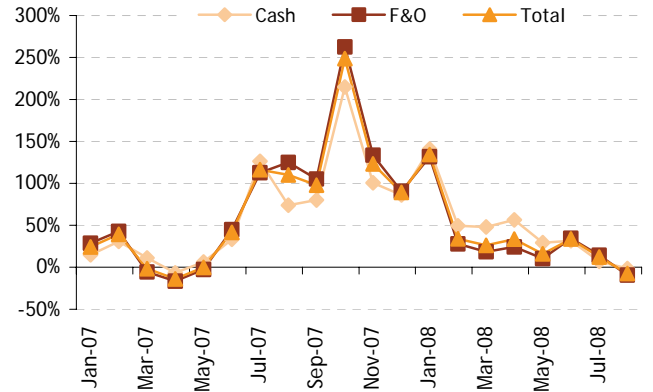
Equity and Commodity Broking

Equity market volume fell sharply by nearly 20% MoM in August



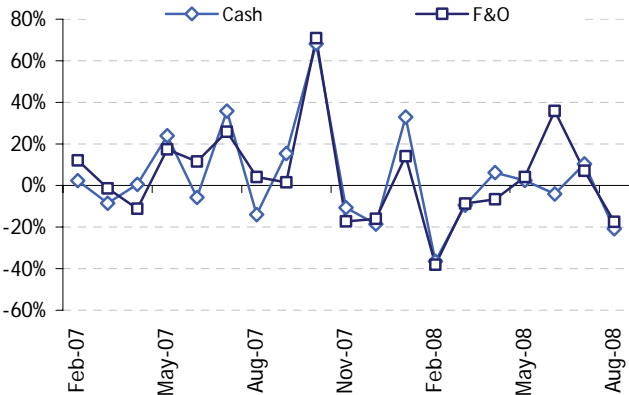
Source: NSE, BSE

As a result the YoY growth has for the first time in last two years moved in the negative territory



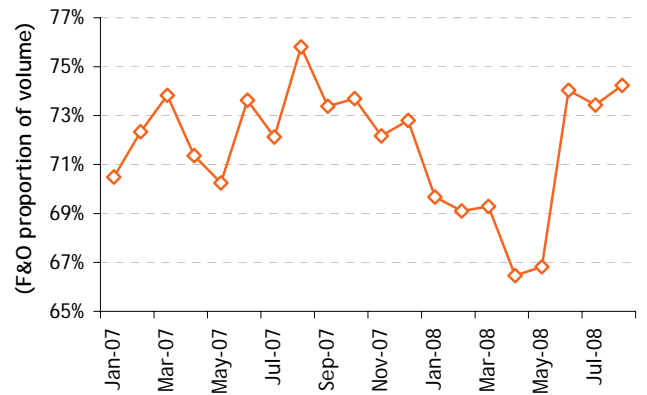
Source: NSE, BSE

MoM decline in cash volumes more than F&O



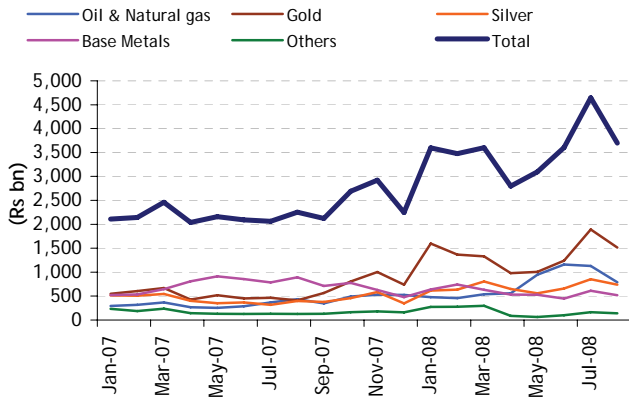
Source: NSE, BSE

As a result the share of F&O volumes continues to rise



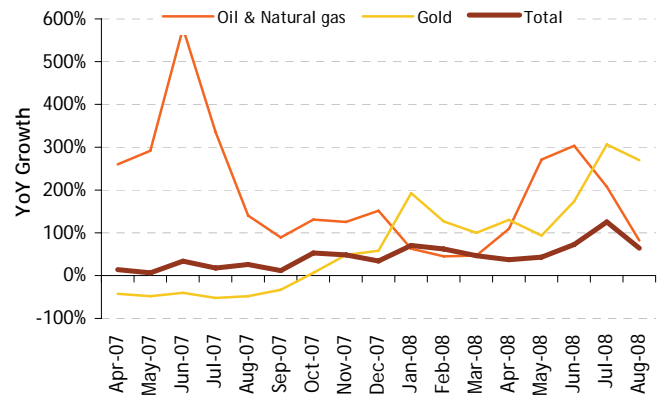
Source: NSE, BSE

Volumes on the MCX fell sharply MoM



Source: MCX

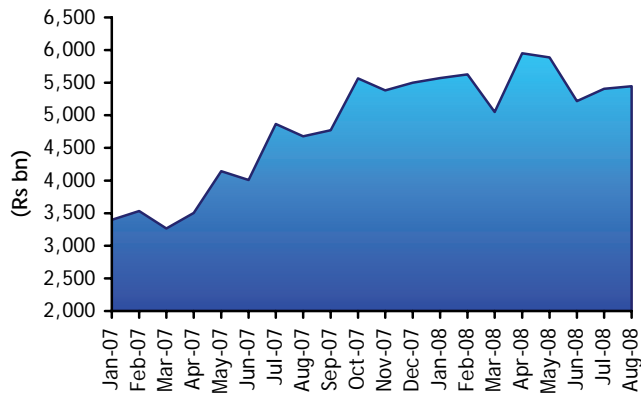
The sharp MoM volume decline was led by Oil & Natural Gas and Gold contracts



Source: MCX

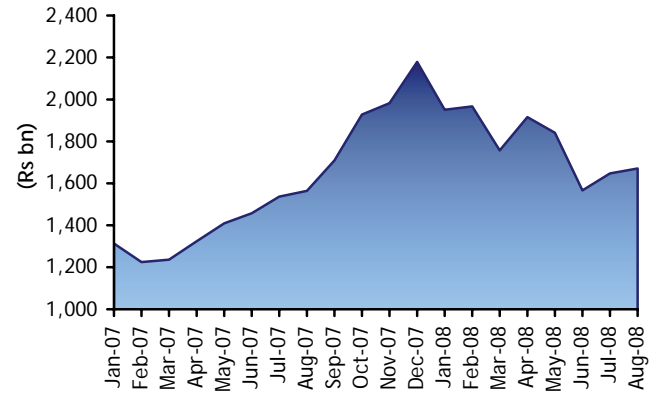
Asset Management

Total AUMs remained flat in August compared to July 2008



Source: AMFI

Equity AUMs grew marginally for the second month in a row, but the increase was in-line with rise in Index



Source: AMFI

Most incumbents gained market share in August and players like Reliance MF, HDFC MF and Birla MF have done particularly well

AUM growth of select players (%)

	Aug-07	Sep-07	Oct-07	Nov-07	Dec-07	Jan-08	Feb-08	Mar-08	Apr-08	May-08	Jun-08	Jul-08	Aug-08
Reliance	135.1	145.9	153.3	124.5	118.8	97.9	121.6	106.0	104.5	66.4	51.7	27.3	31.1
UTI	19.0	29.5	36.9	25.4	49.2	40.3	35.9	38.0	48.0	36.6	30.1	8.4	12.6
HDFC	57.9	61.2	73.3	58.2	63.9	39.3	48.9	57.9	64.3	55.2	47.9	26.4	31.8
Birla	58.3	90.9	100.4	79.5	86.6	69.6	64.7	92.5	112.1	74.6	110.4	43.8	41.1
SBI	46.8	57.2	71.6	71.4	93.8	57.1	59.6	73.6	65.7	61.7	48.6	12.6	34.1
Kotak	53.4	72.8	103.0	57.1	69.4	75.9	56.4	55.7	53.6	32.6	26.7	-17.7	-4.2
JM Financial	-4.1	38.3	110.2	142.5	237.4	264.9	271.8	319.5	236.5	243.7	210.1	152.1	194.7
IDFC (Stanchart)	-0.6	10.5	33.6	10.7	3.7	2.9	8.8	18.8	-2.6	-11.7	-10.1	-29.7	-20.8
Total	52.3	63.8	79.5	57.6	69.9	64.1	59.3	54.8	69.8	42.1	30.2	11.1	16.4

Source: AMFI

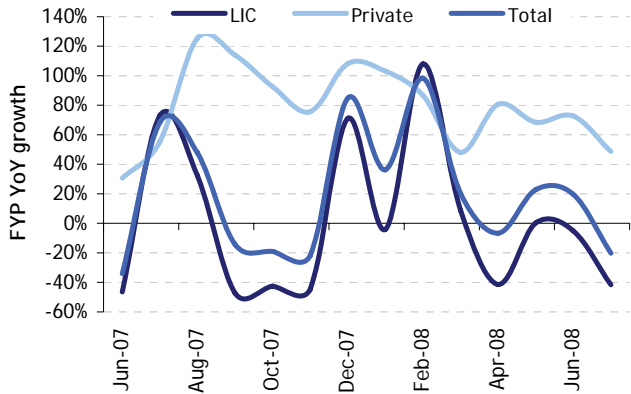
Market share of select players (%)

	Aug-07	Sep-07	Oct-07	Nov-07	Dec-07	Jan-08	Feb-08	Mar-08	Apr-08	May-08	Jun-08	Jul-08	Aug-08
Reliance	14.5	14.8	14.4	14.5	14.7	13.9	16.6	18.9	16.8	16.7	17.4	15.6	16.3
UTI	8.9	9.4	9.3	9.7	10.3	9.4	9.3	9.7	8.8	9.3	9.7	8.5	8.6
HDFC	8.7	8.7	8.6	8.7	8.8	7.9	8.2	8.9	8.7	9.5	10.1	9.4	9.9
Birla	5.8	5.8	6.1	5.8	5.8	6.4	6.2	7.3	6.6	7.0	7.9	6.9	7.0
SBI	4.7	5.0	4.8	5.1	5.3	4.9	5.2	5.8	5.1	5.4	5.8	5.4	5.4
Kotak	4.1	4.0	4.0	4.0	3.7	4.0	3.7	3.6	3.4	3.8	4.1	3.5	3.4
JM Financial	0.9	1.2	1.5	2.1	2.3	2.5	2.5	2.6	2.0	2.2	2.2	2.0	2.2
IDFC (Stanchart)	3.3	2.7	3.0	2.7	2.4	2.4	2.5	2.7	2.3	2.4	2.2	2.2	2.3

Source: AMFI

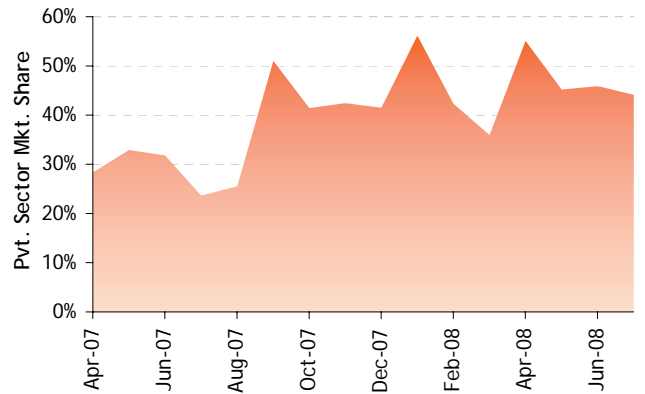
Life Insurance

After decent performance in April, May and June, private sector FYP growth slowed down sharply in July 2008



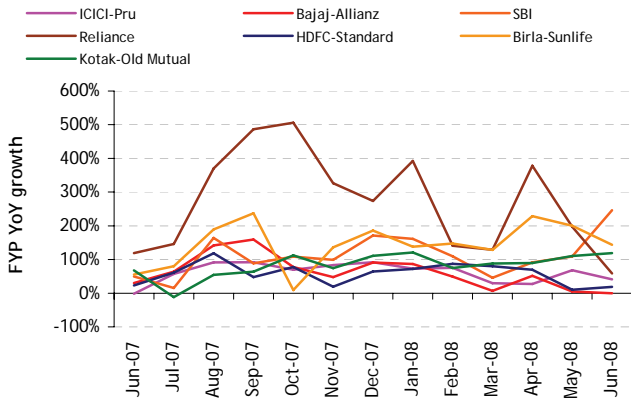
Source: IRDA

.. but private sector market share of FYP continues to hover around 45%



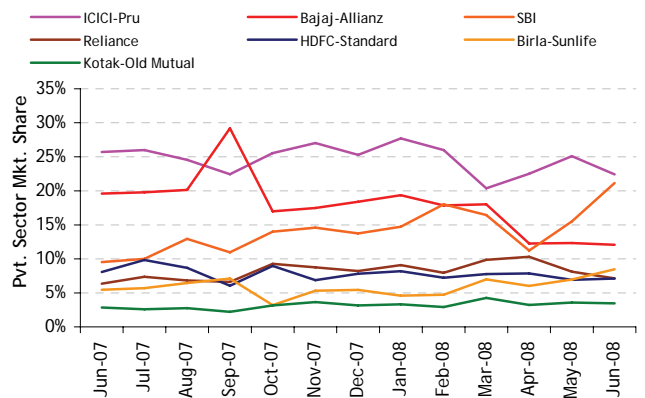
Source: IRDA

Almost all large players, with the exception of Reliance Life, witnessed a sharp slowdown in FYP growth



Source: IRDA

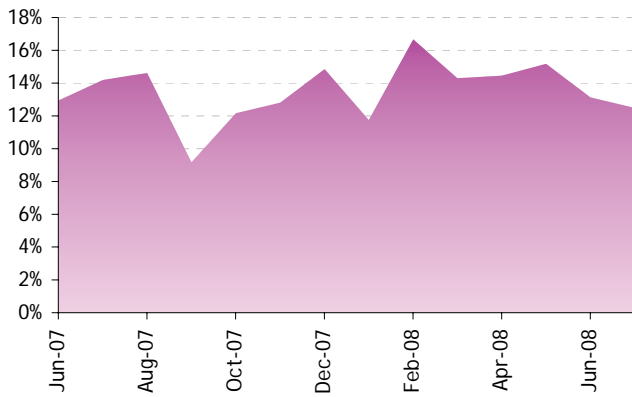
Though SBI Life challenged it briefly in June, ICICI-Pru remains the clear leader by a margin amongst private sector players



Source: IRDA

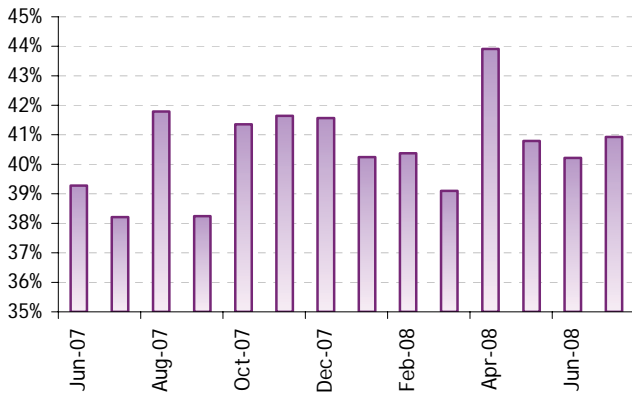
Non-Life Insurance

Overall growth continues to slip in July...



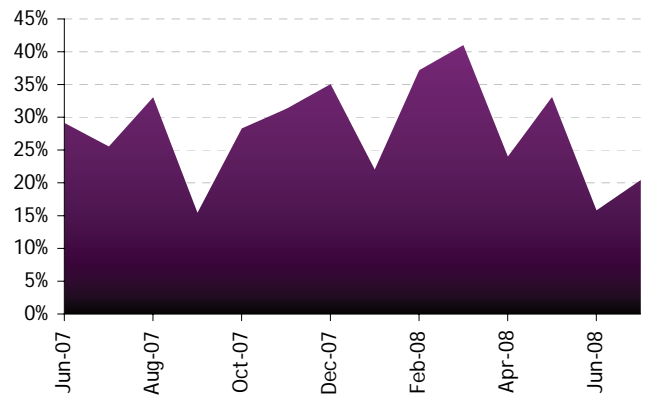
Source: IRDA

Cut-throat pricing has resulted in private sector's market share prevailing between 40-42% without any gains in the last year or so



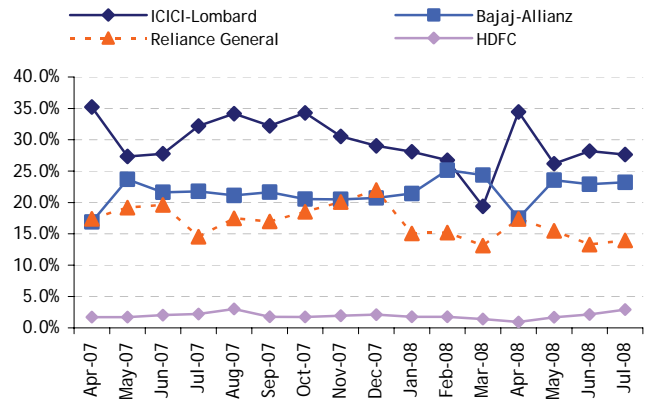
Source: IRDA

...though the private sector growth showed some improvement in July 2008 as compared to June 2008



Source: IRDA

ICICI Lombard maintains its leadership, but Bajaj-Allianz is not too far behind

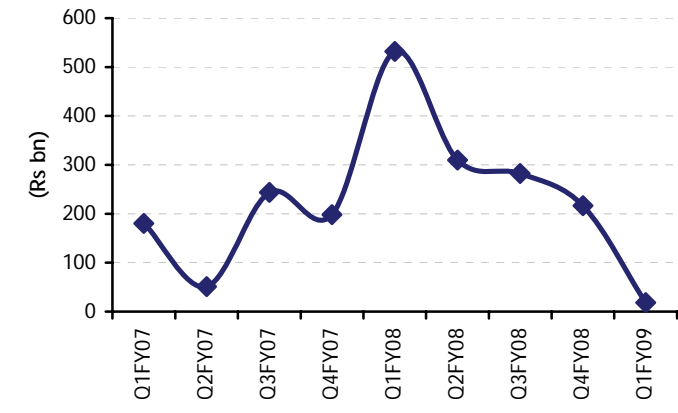


Source: IRDA



Investment Banking

Since February 2008, capital raising remains badly hit and is unlikely to improve materially in the near future



Source: Prime Database



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PL's Recommendation Nomenclature

BUY	: > 15% Outperformance to BSE Sensex	Outperformer (OP)	: 5 to 15% Outperformance to Sensex
Market Performer (MP)	: -5 to 5% of Sensex Movement	Underperformer (UP)	: -5 to -15% of Underperformance to Sensex
Sell	: <-15% Relative to Sensex		
Not Rated (NR)	: No specific call on the stock	Under Review (UR)	: Rating likely to change shortly

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