



Banking

BSE Sensex: 9,202

S&P CNX: 2,803

4 February 2009

COMPANY NAME	PG.	
Axis Bank (Buy, Rs395)	12	<p>Stronger-than-expected results: 3QFY09 results demonstrated the pricing power enjoyed by banks, especially the state-owned banks, which posted higher yield on loans and strong fee income during the quarter. Trading gains (including MTMs) were strong, and banks rightfully increased NPA and staff cost provisions in the quarter. Asset quality remained comfortable with gross NPAs rising 7% QoQ in absolute amount. The transition to Basel II norms is leading to meaningful improvement in capital adequacy (tier I has improved QoQ by 50-60bp) despite continued traction in asset growth. Private banks' results were a mixed bag and largely below estimates on core numbers.</p> <p>NII of the banks under our coverage grew 33% YoY v/s our expectation of 27% and operating profit grew 40% v/s our expectation of 23%. Net profit grew 41% (v/s est. of 23%), despite banks making higher provision for wage revision, NPLs and taxation.</p> <p>State-owned banks – margins improve: In 3QFY09, easing of monetary policy (CRR cut by 350bp and SLR cut by 100bp) coupled with tight liquidity (giving banks pricing power) led to improvement in reported margins (up 10-15bp QoQ and 20-25bp YoY) for state-owned banks. Even SBI reporting flat margin QoQ was a positive surprise considering the liquidity built up by the bank. Amongst private banks HDFC Bank reported improvement in margins QoQ.</p> <p>Different approach adopted for growing the balance sheet: Loan growth for the large banks under our coverage (ex-ICICI) was 30%+ YoY however QoQ, it varied between 2-10%. Banks such as SBI, HDFC Bank and ICICI Bank adopted a cautious strategy for loan book growth whereas the other grew aggressively in the quarter. A large part of the resources mobilized in the quarter (CRR cut and deposits mobilized) was parked in liquid investments. The trend in deposit growth varied across banks (growth varied from -6% to 12% QoQ). SBI and Union Bank mobilized deposits significantly faster than industry (12% QoQ). However, CASA ratio has declined across banks (excluding Bank of Baroda).</p> <p>Asset quality comfortable: Gross NPAs in absolute terms, remained stable QoQ for state-owned banks except for Canara Bank and Bank of India where they grew 60% and 12% QoQ. Union Bank, PNB, Indian Bank and Bank of Baroda continued to hold strong asset quality. Private banks' gross NPAs increased 10% QoQ.</p> <p>Outlook: FY09 would be a peak performance year for banks as: (1) liquidity tightness offers pricing power; and (2) asset quality remains manageable and largely benign. We expect margins to decline for PSU banks in FY10, fee income growth to moderate and NPA costs to rise. RoA and RoE would be lower in FY10 compared with FY09 – though healthy at 15-20%. We prefer banks with lower costs of funds, higher provision coverage and comfortable tier I CAR. Our top picks are PNB, BoB, Union Bank and HDFC Bank. We also like SBI for the strong liability franchisee; however asset quality risks are higher.</p>
Bank of Baroda (Buy, Rs246)	13	
Bank of India (Neutral, Rs241)	14	
Canara Bank (Buy, Rs180)	15	
Federal Bank (Buy, Rs142)	16	
HDFC Bank (Buy, Rs896)	17	
ICICI Bank (Buy, Rs390)	18	
Indian Bank (Buy, Rs112)	19	
Punjab National Bank (Buy, Rs401)	20	
State Bank of India (Buy, Rs1,097)	21	
Union Bank of India (Buy, Rs145)	22	

COMPARATIVE VALUATIONS

	CMP (RS)	RECO	EPS (RS)			P/E (X)			P/BV (X)			ROE (%)		
			FY08	FY09E	FY10E	FY08	FY09E	FY10E	FY08	FY09E	FY10E	FY08	FY09E	FY10E
Banks														
Andhra Bank	53	Buy	11.9	13.5	13.3	4.5	3.9	4.0	0.8	0.7	0.6	18.0	19.0	16.7
Axis Bank	395	Buy	29.9	44.8	49.1	13.2	8.8	8.0	1.6	1.4	1.2	17.6	17.1	16.4
Bank of Baroda	246	Buy	39.3	52.8	59.0	6.3	4.7	4.2	0.9	0.8	0.7	15.6	18.3	17.9
Bank of India	241	Neutral	38.2	56.7	51.1	6.3	4.2	4.7	1.4	1.1	0.9	27.6	29.5	21.5
Canara Bank	180	Buy	38.2	46.8	47.7	4.7	3.8	3.8	0.9	0.8	0.7	19.1	21.3	18.7
Corporation Bank	178	Buy	51.2	61.3	60.8	3.5	2.9	2.9	0.6	0.5	0.5	18.4	19.2	16.6
Federal Bank	142	Buy	21.5	32.5	33.8	6.6	4.4	4.2	0.6	0.6	0.5	13.6	13.4	12.6
HDFC	1,442	Buy	68.4	77.7	87.2	21.1	18.6	16.5	3.4	3.0	2.8	22.2	17.4	17.5
HDFC Bank	896	Buy	41.0	53.2	67.1	21.9	16.8	13.4	2.8	2.6	2.2	16.1	15.8	17.9
ICICI Bank	390	Buy	37.4	33.8	38.6	10.4	11.5	10.1	0.9	0.9	0.8	11.7	7.9	8.6
Indian Bank	112	Buy	23.5	28.9	29.3	4.8	3.9	3.8	1.0	0.9	0.7	25.8	24.6	21.0
Indian Overseas Bank	59	Buy	22.0	25.1	23.6	2.7	2.3	2.5	0.7	0.5	0.5	27.8	25.8	20.3
J&K Bank	307	Buy	74.2	99.8	117.2	4.1	3.1	2.6	0.6	0.6	0.5	16.7	19.4	19.5
Karnataka Bank	70	Buy	19.9	21.5	23.1	3.5	3.3	3.0	0.6	0.5	0.5	18.5	17.7	16.8
Oriental Bank	133	UR	33.6	38.1	38.0	4.0	3.5	3.5	0.6	0.5	0.5	14.8	15.5	13.8
Punjab National Bank	401	Buy	65.0	96.7	97.7	6.2	4.1	4.1	1.2	1.0	0.8	19.6	25.4	21.3
State Bank	1,097	Buy	106.6	136.8	150.9	10.3	8.0	7.3	1.4	1.2	1.1	16.8	16.5	16.1
Union Bank	145	Buy	27.5	36.7	37.3	5.3	3.9	3.9	1.3	1.0	0.9	26.8	29.2	24.1
Sector Aggregate						9.4	7.5	7.1	1.6	1.3	1.1	17.4	16.9	16.0

UR = Under Review

EARNINGS REVISION

BANKING	REVISED EPS (RS)		UPGRADES/DOWNGRADES OVER 3QFY09 PREVIEW (%)	
	FY09E	FY10E	FY09E	FY10E
Andhra Bank	13.5	13.3	2.0	-7.5
Axis Bank	44.8	49.1	2.9	-0.3
Bank of Baroda	52.8	59.0	4.5	3.2
Bank of India	56.7	51.1	6.5	-0.4
Canara Bank	46.8	47.7	-1.4	-7.6
Corporation Bank	61.3	60.8	5.6	-0.2
Federal Bank	32.5	33.8	18.2	0.4
HDFC Bank	53.2	67.1	0.0	-0.4
HDFC	77.7	87.2	-1.4	-8.3
ICICI Bank	33.8	38.6	2.8	-8.5
Indian Bank	28.9	29.3	3.6	2.5
Indian Overseas Bank	25.1	23.6	4.6	-7.2
J&K Bank	90.8	100.3	-9.0	-14.4
Karnataka Bank	21.5	23.1	0.0	0.0
Oriental Bank of Commerce	38.1	38.0	-3.7	-13.3
Punjab National Bank	96.7	97.7	21.9	11.0
State Bank	136.8	150.9	-0.7	-1.9
Union Bank	36.7	37.3	10.9	10.1

Source: MOSL

NII grew 37% YoY for state-owned banks

NII growth for all banks was much higher versus our estimate. For the banks under our coverage NII grew 33% YoY v/s our estimated of 27% YoY. State-owned bank margins improved by 10-15bp QoQ (ex-SBI) and 20-25bp YoY whereas, private bank margins was a mixed bag.

NET INTEREST INCOME GROWTH IN LINE WITH ESTIMATES (RS M)

	ACTUAL DEC-07	EST. DEC-08	ACTUAL DEC-08	EST. CHG (%)	ACTUAL CHG (%)	VAR (%)
State-owned Banks	110,797	142,266	151,918	28.4	37.1	6.8
State Bank of India	42,564	56,055	57,582	31.7	35.3	2.7
Canara Bank	9,344	11,690	12,443	25.1	33.2	6.4
Punjab National Bank	14,242	17,548	19,674	23.2	38.1	12.1
Bank of India	10,795	14,048	15,217	30.1	41.0	8.3
Bank of Baroda	9,975	13,114	14,618	31.5	46.6	11.5
Union Bank	7,522	9,778	11,284	30.0	50.0	15.4
Indian Overseas Bank	6,560	8,128	8,227	23.9	25.4	1.2
Oriental Bank of Commerce	4,024	5,027	5,678	25.0	41.1	12.9
Indian Bank	5,774	6,878	7,196	19.1	24.6	4.6
Private Banks	43,483	53,291	52,839	22.6	21.5	-0.8
ICICI Bank	19,597	20,659	19,904	5.4	1.6	-3.7
HDFC Bank	14,376	19,722	19,793	37.2	37.7	0.4
Axis Bank	7,473	9,619	9,297	28.7	24.4	-3.4
Federal Bank	2,037	3,290	3,846	61.5	88.8	16.9
MOSL Banking Universe	164,432	208,033	218,060	26.5	32.6	4.8

Source: Company/MOSL

Except for ICICI Bank and Axis Bank, NII growth was higher than expected

State-owned banks that outperformed in NII growth were PNB, BoB, Union Bank, Indian Bank (adjusted for interest of recoveries of written of accounts) and OBC. Among the private banks, Federal Bank surprised positively whereas ICICI Bank and Axis Bank disappointed.

State-owned banks – margins improve: In 3QFY09, easing of monetary policy (CRR cut of 350bp and SLR cut of 100bp) coupled with tight liquidity (giving banks pricing power) led to improvement in reported margins (up 10-15bp QoQ and 20-25bp YoY) for state-owned banks despite the cut in PLR. Private banks' performance was a mixed bag with only HDFC Bank reporting improvement in margins QoQ.

A large amount of the incremental disbursement to rated corporates occurred at close to PLR rates (v/s sub-PLR 200-300bp a year ago). Strong improvement in margins for PNB, Canara Bank, Bank of Baroda and Indian Bank was a positive surprise whereas SBI reported flat margins (against expectation of marginal decline). For 3QFY09 SBI has adopted a cautious strategy of staying liquid. Its loan book grew merely 2% QoQ whereas, deposits grew 12% QoQ. A large part of the incremental resources was deployed in investments.

NET INTEREST MARGINS IMPROVE (%)

	3QFY08	2QFY09	3QFY09	QOQ CHG (BP)	YOY CHG (BP)
State-owned Banks					
State Bank of India*	2.83	3.16	3.15	-1	32
Canara Bank*	2.41	2.70	2.75	5	34
Punjab National Bank	3.66	3.78	3.85	7	19
Bank of India	3.14	3.20	3.40	20	26
Bank of Baroda	3.00	3.15	3.30	15	30
Union Bank	2.83	3.01	3.22	39	21
Indian Overseas Bank	3.11	3.19	3.15	-4	4
Oriental Bank of Commerce*	2.40	2.38	2.33	-5	-7
Indian Bank*	3.40	3.46	3.63	17	23
Private Banks					
ICICI Bank	2.30	2.40	2.40	0	10
HDFC Bank	4.30	4.20	4.30	10	0
Axis Bank	3.91	3.51	3.12	-39	-79
Federal Bank*	3.09	4.10	4.41	31	132

* Margins on a cumulative basis

Source: Company/MOSL

State-owned banks margins improved 10-15bp QoQ and 20-25bp YoY

Private banks recorded mixed performance. ICICI Bank's margin was stable, that of HDFC Bank improved while that of Axis Bank declined sharply. Significant improvement in margins was witnessed in the case of Federal Bank (benefit of the CRR cut, equity dilution in 4QFY08, pricing power and higher reliance on core deposits).

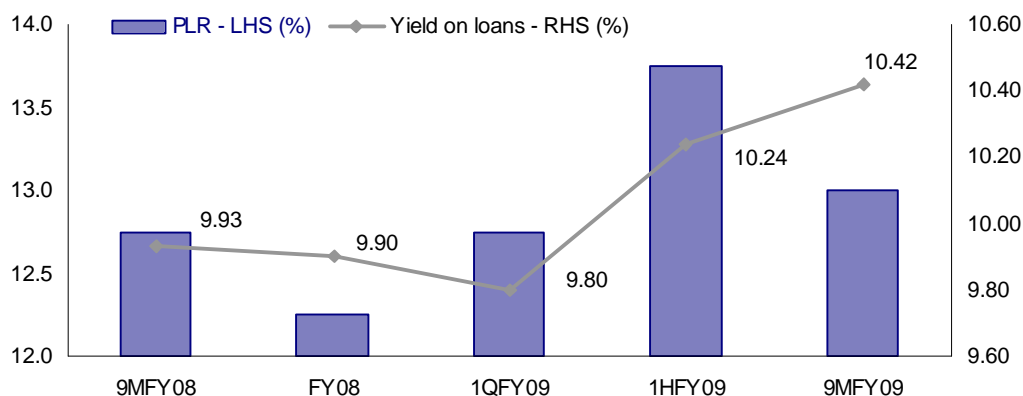
We expect margins to decline

We believe margins are at peak for banks in 3QFY09 and it is likely to decline going forward. However, the severity of decline would be determined by control on cost of funds and ability to grow CASA at faster pace (as term deposit rates have reduced significantly). BoB, BoI, PNB, SBI, Union Bank and Indian bank fare well on cost of funds management.

Strong pricing clearly evident; significant improvement in yield on loans

Pricing power was clearly witnessed as the yield on loans improved significantly across all banks. For state-owned banks, yield on loans improved by 20-50bp QoQ despite cut in PLR whereas, for private banks yield on loans improved ~75bp QoQ as private banks did not cut PLR in the quarter. ICICI Bank is the only bank where yield on loans declined YoY due to a fall in the loan book and shifting of book mix in favor of international and corporate loans. Strong improvement in yield on loans was witnessed in the case of PNB as the bank (despite aggressive cut in PLR by 150bp) largely curtailed the sub-PLR loans and effectively used arbitrage opportunities in the wholesale business.

SBI: IELD ON LOANS IMPROVED DESPITE PLR CUT (%)



Source: Company/MOSL

Movement in the cost of funds varied across banks. SBI's cost of funds was stable QoQ (a positive surprise) despite strong 12% QoQ growth in deposits (at higher rates). Indian Bank's cost of funds increased by only 5bp QoQ. For private banks, increase in the cost of funds was significant due to greater reliance on bulk/term deposits in the quarter.

YIELD ON LOANS INCREASED FASTER THAN COST OF DEPOSITS (%)

	YIELD ON LOANS					COST OF DEPOSITS				
	3QFY08	2QFY09	3QFY09	BP CHG. (QOQ)	BP CHG. (YOY)	3QFY08	2QFY09	3QFY09	BP CHG. (QOQ)	BP CHG. (YOY)
State-owned Banks										
State Bank of India *	9.9	10.2	10.4	18	49	5.6	5.9	6.0	1	40
Canara Bank *	10.2	10.5	10.7	19	47	6.8	6.6	6.8	21	3
Punjab National Bank*	10.3	11.3	11.5	25	118	5.6	6.1	6.3	20	69
Bank of India	9.6	9.8	10.5	69	90	5.5	5.8	6.1	32	58
Bank of Baroda	9.6	9.4	9.9	54	33	5.8	5.6	6.0	36	20
Union Bank	10.3	11.2	11.5	37	120	6.3	6.3	6.5	7	22
Indian Overseas Bank	10.8	10.8	11.1	31	24	6.7	6.5	7.0	50	29
Oriental Bank of Commerce*	10.2	10.7	10.9	27	70	7.0	7.2	7.4	21	40
Indian Bank*	10.6	10.9	11.1	26	48	5.9	6.1	6.2	5	33
Private Banks										
ICICI Bank	10.9	10.2	10.4	18	-47	7.8	7.0	7.5	43	-30
HDFC Bank	11.2	12.3	13.3	98	211	5.0	6.0	6.7	71	165
Axis Bank	10.5	10.9	11.6	75	109	5.7	6.2	6.9	68	119
Federal Bank*	11.5	12.0	12.3	37	80	6.8	6.8	6.9	8	10

* Numbers are on cumulative basis

Source: Company/MOSL

Momentum in loan growth and deposit growth continued: Loan growth for the large banks under our coverage (ex-ICICI) was 30%+ YoY. However on a QoQ basis, it varied between 2-10%. Banks such as SBI, HDFC Bank and ICICI Bank adopted a cautious strategy loan book growth whereas the others grew aggressively in the quarter. A large part of the resources mobilized during the quarter (CRR cut and deposits mobilized) was parked in liquid investments.

LOAN GROWTH REMAINS ROBUST FOR STATE-OWNED BANKS (RS B)

	3QFY08	2QFY09	3QFY09	QOQ CHG (%)	YOY CHG (%)
State-owned Banks	10,047	12,559	13,183	5.0	31.2
State Bank of India	3,903	4,934	5,038	2.1	29.1
Canara Bank	986	1,193	1,289	8.1	30.8
Punjab National Bank	1,015	1,304	1,415	8.5	39.4
Bank of India	1,037	1,293	1,361	5.3	31.3
Bank of Baroda	955	1,195	1,272	6.5	33.2
Union Bank	729	850	930	9.4	27.5
Indian Overseas Bank	546	697	717	2.8	31.3
Oriental Bank of Commerce	512	611	656	7.4	28.1
Indian Bank	363	481	505	4.9	39.1
Private Banks	3,530	4,144	4,082	-1.5	15.6
ICICI Bank	2,155	2,220	2,125	-4.3	-1.4
HDFC Bank	714	1,022	988	-3.4	38.4
Axis Bank	486	689	753	9.4	54.9
Federal Bank	175	213	216	1.1	23.4

*State-owned banks loans
grew 30%+ YoY*

*ICICI Bank and HDFC Bank
loans declined QoQ*

Source: Company/MOSL

Trend in deposit growth varied across banks from -6% to 12% QoQ. SBI and Union Bank mobilized deposits significantly faster than industry (12% QoQ). However CASA ratio has declined across banks (ex-Bank of Baroda). However, strong 20% YoY growth in CASA deposits for SBI, Union Bank, BoB, Canara Bank and Federal Bank is encouraging.

DEPOSITS GROWTH TREND (RS B)

	3QFY08	2QFY09	3QFY09	QOQ CHG (%)	YOY CHG (%)
State-owned Banks	13,852	16,616	17,867	7.5	29.0
State Bank of India	5,101	6,197	6,929	11.8	35.8
Canara Bank	1,442	1,715	1,748	1.9	21.3
Punjab National Bank	1,526	1,863	1,971	5.8	29.1
Bank of India	1,358	1,643	1,717	4.5	26.4
Bank of Baroda	1,369	1,611	1,686	4.7	23.2
Union Bank	992	1,159	1,296	11.8	30.7
Indian Overseas Bank	788	908	909	0.1	15.3
Oriental Bank of Commerce	742	874	914	4.6	23.2
Indian Bank	533	646	697	7.8	30.7
Private Banks	4,211	4,865	4,869	0.1	15.6
ICICI Bank	2,298	2,234	2,091	-6.4	-9.0
HDFC Bank	994	1,338	1,449	8.3	45.8
Axis Bank	686	1,029	1,057	2.8	54.2
Federal Bank	233	264	273	3.1	16.8

*SBI, Union Bank deposits
grew 12% QoQ*

Source: Company/MOSL

CASA RATIO DECLINING (%)

	3QFY08	2QFY09	3QFY09	QOQ CHG (BP)	YOY CHG (BP)
State-owned Banks					
State Bank of India	41.1	39.7	36.6	-313	-447
Canara Bank	31.9	32.0	31.0	-100	-90
Punjab National Bank	43.0	38.8	37.4	-144	-560
Bank of India	37.0	32.0	32.0	0	-500
Bank of Baroda	37.3	35.9	36.1	25	-118
Union Bank	33.1	33.1	30.4	-272	-273
Indian Overseas Bank	30.9	29.4	29.0	-35	-193
Oriental Bank of Commerce	26.5	24.0	24.0	0	-250
Indian Bank	35.3	33.1	31.1	-198	-416
Private Banks					
ICICI Bank	27.0	29.6	27.6	-208	57
HDFC Bank	50.9	44.0	40.0	-404	-1,087
Axis Bank	45.3	40.3	38.0	-230	-729
Federal Bank	26.1	26.8	27.4	61	130

BoB and Federal Bank are the only banks where CASA ratio improved QoQ

Source: Company/MOSL

Operating profit higher than estimated

Operating profit for banks in our coverage universe was much higher (~40%) versus our estimate (~23%). Despite the higher-than-expected operating expenditure, state-owned banks managed to record strong outperformance in the operating profit front due to higher-than-expected growth in NII, core fee income and strong trading profits. Fee income for certain state-owned banks such as SBI, Union Bank, Indian Bank, BoI, BoB grew more than 25% in 3QFY09.

OPERATING PROFITS HIGHER THAN ESTIMATED (RS M)

	ACTUAL DEC-07	EST. DEC-08	ACTUAL DEC-08	EST. CHG (%)	ACTUAL CHG (%)	VAR (%)
State-owned Banks	92,018	116,906	133,423	27.0	45.0	14.1
State Bank of India	36,597	44,559	44,826	21.8	22.5	0.6
Canara Bank	7,578	9,440	12,141	24.6	60.2	28.6
Punjab National Bank	9,912	12,378	18,059	24.9	82.2	45.9
Bank of India	9,714	13,198	17,616	35.9	81.4	33.5
Bank of Baroda	9,324	10,591	13,456	13.6	44.3	27.1
Union Bank	6,363	8,178	8,548	28.5	34.3	4.5
Indian Overseas Bank	4,931	7,703	8,677	56.2	76.0	12.7
Oriental Bank of Commerce	2,967	4,732	3,862	59.5	30.2	-18.4
Indian Bank	4,632	6,128	6,237	32.3	34.6	1.8
Private Banks	41,649	47,790	55,230	14.7	32.6	15.6
ICICI Bank	22,587	23,424	27,708	3.7	22.7	18.3
HDFC Bank	10,664	13,344	14,581	25.1	36.7	9.3
Axis Bank	6,723	7,882	9,096	17.2	35.3	15.4
Federal Bank	1,676	3,140	3,844	87.3	129.3	22.4
MOSL Banking Universe	142,219	175,183	200,126	23.2	40.7	14.2

Source: Company/MOSL

Strong NII and core fees growth, trading profit lead to higher than estimated operating profit growth

State-owned banks grew fees at a rapid pace

Significant increase in fee income was witnessed in state-owned banks on the back of strong growth in loan book and processing fees. Among the private banks, Axis Bank's fee income grew at a rapid pace of 53% where the positive surprise came from capital market related fee, which grew 2.5x. Sharp fall in fee income (25% YoY) was witnessed for ICICI Bank due to decline in: (1) loan disbursements, (2) third party distribution, and (3) deal volumes on international business. We note, continued traction in fee income for Federal Bank is impressive.

FEE INCOME GREW RAPIDLY FOR STATE-OWNED BANKS(RS M)

	3QFY08	2QFY09	3QFY09	QOQ CHG (%)	YOY CHG (%)
State-owned Banks	31,964	39,282	42,139	7.3	31.8
State Bank of India	15,992	18,812	22,080	17.4	38.1
Canara Bank	3,194	2,102	2,485	18.2	-22.2
Punjab National Bank	2,634	3,670	4,359	18.8	65.0
Bank of India	2,761	4,425	3,536	-20.1	28.1
Bank of Baroda	2,261	2,853	2,806	-1.6	24.1
Union Bank*	1,850	2,573	2,671	3.8	44.4
Indian Overseas Bank*	1,478	2,425	1,732	-28.5	17.2
Oriental Bank of Commerce	774	862	994	15.3	28.4
Indian Bank*	1,034	1,561	1,476	-5.4	42.8
Private Banks	30,701	33,282	28,772	-13.6	-6.3
ICICI Bank	21,446	20,300	15,390	-24.2	-28.2
HDFC Bank	4,732	5,912	6,445	9.0	36.2
Axis Bank	4,034	6,268	6,189	-1.3	53.4
Federal Bank	490	802	748	-6.7	52.8

ICICI Bank witnessed significant decline in fee income

Note: Fee (non interest income ex-forex, trading and recoveries) for state-owned banks and for private banks as reported basis; * Fee income including forex

Source: Company/MOSL

Strong trading profits used for creating provisions

During the quarter state-owned banks used strong trading profits (including MTM reversal) to create provisions for expected (i) wage increases and (ii) deterioration in asset quality.

BANKS USED TRADING PROFITS FOR MAKING HIGHER PROVISIONS (RS M)

	TRADING	PROVISIONS		
	PROFITS*	ADDL. EMPLOYEES	NPA	TAX RATE (%)
State-owned Banks				
State Bank of India	10,156	7,500	5,151	42
Canara Bank	3,366	800	3,570	19
Punjab National Bank	6,534	1,500	4,250	38
Bank of India	3,720	720	2,070	41
Bank of Baroda	1,830	1,300	1,000	33
Union Bank	980	810	1,600	25
Indian Overseas Bank	3,326	510	1,100	44
Oriental Bank of Commerce	1,960	2,000	680	25
Indian Bank	1,095	300	300	27
Federal Bank	1,650	300	1,340	39

* including MTM reversals

Source: Company/MOSL

Asset quality comfortable: Gross NPAs in absolute terms remained stable QoQ for state-owned banks except for Canara Bank and Bank of India where they grew 60% and 12% QoQ. Union Bank, PNB, Indian Bank and Bank of Baroda continued to hold strong asset quality. Asset quality in private banks continued to deteriorate as gross NPAs increased 10% QoQ.

MOVEMENT IN GROSS AND NET NPA (RS B)

	GROSS NPAS (RS B)					NET NPAS (RS B)				
	3QFY08	2QFY09	3QFY09	% CHG. (QOQ)	% CHG. (YOY)	3QFY08	2QFY09	3QFY09	% CHG. (QOQ)	% CHG. (YOY)
State-owned Banks										
State Bank of India	106.4	125.5	133.1	6	25	56.1	66.2	68.6	4	22
Canara Bank	15.2	15.7	25.2	60	65	8.7	10.6	16.5	55	89
Punjab National Bank	42.5	31.2	32.6	4	-23	13.4	5.4	5.5	1	-59
Bank of India	19.7	19.8	22.1	12	12	6.3	6.1	7.0	15	10
Bank of Baroda	20.4	19.5	19.2	-2	-6	5.2	5.1	4.7	-7	-9
Union Bank	15.6	16.7	16.6	-1	7	2.6	1.2	1.3	10	-50
Indian Overseas Bank	10.2	17.3	17.2	0	68	1.9	10.0	9.2	-8	374
Oriental Bank of Commerce	14.0	11.8	10.9	-7	-22	3.3	5.2	5.0	-5	49
Indian Bank	5.1	4.7	4.6	-2	-9	0.8	0.9	0.8	-6	3
Private Banks										
ICICI Bank*	72.5	102.7	112.0	9	55	33.0	43.0	44.7	4	35
HDFC Bank	8.7	16.8	19.1	14	120	2.8	5.8	6.1	5	120
Axis Bank	4.5	7.1	7.9	11	76	2.3	3.4	3.4	2	46
Federal Bank	4.9	5.7	6.3	9	26	0.5	0.9	0.7	-17	37

* including w/off of Rs12b

Source: Company/MOSL

MOVEMENT IN GROSS AND NET NPA RATIOS (%)

	GROSS NPAS					NET NPAS				
	3QFY08	2QFY09	3QFY09	BP CHG. (QOQ)	BP CHG. (YOY)	3QFY08	2QFY09	3QFY09	BP CHG. (QOQ)	BP CHG. (YOY)
State-owned Banks										
State Bank of India	2.69	2.51	2.61	10	-8	1.4	1.3	1.4	2	-8
Canara Bank	1.54	1.31	1.94	63	40	0.9	0.9	1.3	39	39
Punjab National Bank	4.11	2.37	2.28	-9	-183	1.3	0.4	0.4	-3	-94
Bank of India	1.90	1.53	1.63	10	-27	0.6	0.5	0.5	4	-10
Bank of Baroda	2.11	1.62	1.50	-12	-61	0.5	0.4	0.4	-6	-17
Union Bank	2.10	1.93	1.68	-25	-42	0.4	0.1	0.1	0	-21
Indian Overseas Bank	1.87	2.47	2.40	-7	53	0.4	1.4	1.3	-14	94
Oriental Bank of Commerce	2.73	1.93	1.66	-27	-107	0.7	0.9	0.8	-10	9
Indian Bank	1.39	0.98	0.92	-6	-47	0.2	0.2	0.2	-2	-5
Private Banks										
ICICI Bank	N.A.	NA	NA	NA	NA	1.5	1.8	2.0	12	45
HDFC Bank	1.20	1.57	1.90	33	70	0.4	0.6	0.6	3	20
Axis Bank	0.80	0.91	0.90	-1	10	0.4	0.4	0.4	-4	-3
Federal Bank	2.76	2.62	2.83	21	7	0.3	0.4	0.3	-7	4

Source: Company/MOSL

Provision coverage ratio stable QoQ

Provision coverage ratio for most banks remained at the level of 2QFY09. In case of SBI, IOB, Federal Bank and Axis Bank, provision coverage ratio improved QoQ as the bank made higher NPA provisions on the back of strong operating performance. In the case of ICICI Bank, OBC and Union Bank, it fell marginally as they resorted to writeoffs in the quarter. We have increased our slippage ratio and NPA provision assumptions across all the banks under our coverage.

MOVEMENT OF PROVISION COVERAGE RATIO (%)

	2QFY08	3QFY08	4QFY08	1QFY09	2QFY09	3QFY09
State-owned Banks						
State Bank of India	45.2	47.3	45.4	44.8	47.3	48.4
Canara Bank	40.3	42.7	36.5	35.2	32.3	34.2
Punjab National Bank	60.4	68.5	77.3	78.1	82.6	83.1
Bank of India	63.7	67.8	69.3	68.8	69.3	68.4
Bank of Baroda	76.7	74.6	75.1	72.5	73.9	75.4
Union Bank	73.7	83.6	92.4	93.1	93.1	92.3
Indian Overseas Bank	83.6	81.0	63.6	57.0	42.2	46.4
Oriental Bank of Commerce	78.8	76.1	57.9	56.6	55.6	54.4
Indian Bank	83.2	84.8	80.0	82.0	81.9	82.6
Private Banks						
ICICI Bank	54.6	54.4	57.3	55.8	58.1	53.7
HDFC Bank	68.3	67.7	67.1	67.0	65.1	67.9
Axis Bank	42.4	47.7	49.8	49.0	52.6	56.6
Federal Bank	85.2	89.6	90.8	82.9	85.1	88.7

Source: Company/MOSL

Net profit higher than expected

Net profit of all the banks under our coverage grew 41% v/s our expectation of 23% growth. Strong outperformance came from Canara Bank, PNB, Bank of Baroda and Union Bank of India. Net profit growth for OBC and Indian Bank was marginally lower versus our expectation, as the bank has made higher general provisions and provisions for likely wage increases. Among private banks, outperformance was witnessed across the board. ICICI Bank's PAT was higher versus our expectation, due to higher trading profits however, on core operating profits it surprised us negatively. Axis Bank's strong loan growth at the cost of margins surprised us negatively however, strong growth in fee income and trading profits helped to post higher-than-expected growth in PAT.

Net profits higher than estimated despite making additional provisions for employees expenses (AS-15 and wage increase) and for NPAs

NET PROFIT HIGHER THAN ESTIMATES (RS M)

BANKING	ACTUAL	EST.	ACTUAL	EST.	ACTUAL	VAR
NET PROFITS	DEC 07	DEC 08	DEC 08	CHG (%)	CHG (%)	(%)
State-owned Banks	50,020	65,472	74,294	30.9	48.5	13.5
State Bank of India	18,086	24,292	24,784	34.3	37.0	2.0
Canara Bank	4,588	5,908	7,015	28.8	52.9	18.7
Punjab National Bank	5,413	6,953	10,058	28.5	85.8	44.7
Bank of India	5,119	7,197	8,722	40.6	70.4	21.2
Bank of Baroda	5,010	5,616	7,084	12.1	41.4	26.1
Union Bank	3,649	5,263	6,717	44.2	84.1	27.6
Indian Overseas Bank	3,082	3,782	3,884	22.7	26.0	2.7
Oriental Bank of Commerce	1,997	2,719	2,522	36.1	26.3	-7.2
Indian Bank	3,075	3,742	3,507	21.7	14.0	-6.3
Private Banks	20,694	21,489	25,986	3.8	25.6	20.9
ICICI Bank	12,303	9,934	12,722	-19.3	3.4	28.1
HDFC Bank	4,294	6,150	6,217	43.2	44.8	1.1
Axis Bank	3,068	4,047	5,009	31.9	63.2	23.8
Federal Bank	1,029	1,359	2,039	32.0	98.1	50.1
MOSL Banking Universe	75,994	93,433	107,071	22.9	40.9	14.6

Source: Company/MOSL

Outlook: FY09 would be a peak performance year for banks as: (1) liquidity tightness offers pricing power, and (2) asset quality remains manageable and largely benign. We expect margins to decline for PSU banks in FY10, fee income growth to moderate and NPA costs to rise. RoA and RoE would be lower in FY10 compared with FY09 – though healthy at 15-20%. We prefer banks with lower costs of funds, higher provision coverage and comfortable Tier I CAR. Our top picks are PNB, BoB, Union Bank and HDFC Bank. We also like SBI for the strong liability franchisee; however asset quality risks are higher.

COMPARATIVE VALUATIONS

	CMP (RS)	RECO	EPS (RS)			P/E (X)			P/BV (X)			ROE (%)		
			FY08	FY09E	FY10E	FY08	FY09E	FY10E	FY08	FY09E	FY10E	FY08	FY09E	FY10E
Banks														
Andhra Bank	53	Buy	11.9	13.5	13.3	4.5	3.9	4.0	0.8	0.7	0.6	18.0	19.0	16.7
Axis Bank	395	Buy	29.9	44.8	49.1	13.2	8.8	8.0	1.6	1.4	1.2	17.6	17.1	16.4
Bank of Baroda	246	Buy	39.3	52.8	59.0	6.3	4.7	4.2	0.9	0.8	0.7	15.6	18.3	17.9
Bank of India	241	Neutral	38.2	56.7	51.1	6.3	4.2	4.7	1.4	1.1	0.9	27.6	29.5	21.5
Canara Bank	180	Buy	38.2	46.8	47.7	4.7	3.8	3.8	0.9	0.8	0.7	19.1	21.3	18.7
Corporation Bank	178	Buy	51.2	61.3	60.8	3.5	2.9	2.9	0.6	0.5	0.5	18.4	19.2	16.6
Federal Bank	142	Buy	21.5	32.5	33.8	6.6	4.4	4.2	0.6	0.6	0.5	13.6	13.4	12.6
HDFC	1,442	Buy	68.4	77.7	87.2	21.1	18.6	16.5	3.4	3.0	2.8	22.2	17.4	17.5
HDFC Bank	896	Buy	41.0	53.2	67.1	21.9	16.8	13.4	2.8	2.6	2.2	16.1	15.8	17.9
ICICI Bank	390	Buy	37.4	33.8	38.6	10.4	11.5	10.1	0.9	0.9	0.8	11.7	7.9	8.6
Indian Bank	112	Buy	23.5	28.9	29.3	4.8	3.9	3.8	1.0	0.9	0.7	25.8	24.6	21.0
Indian Overseas Bank	59	Buy	22.0	25.1	23.6	2.7	2.3	2.5	0.7	0.5	0.5	27.8	25.8	20.3
J&K Bank	307	Buy	74.2	99.8	117.2	4.1	3.1	2.6	0.6	0.6	0.5	16.7	19.4	19.5
Karnataka Bank	70	Buy	19.9	21.5	23.1	3.5	3.3	3.0	0.6	0.5	0.5	18.5	17.7	16.8
Oriental Bank	133	UR	33.6	38.1	38.0	4.0	3.5	3.5	0.6	0.5	0.5	14.8	15.5	13.8
Punjab National Bank	401	Buy	65.0	96.7	97.7	6.2	4.1	4.1	1.2	1.0	0.8	19.6	25.4	21.3
State Bank	1,097	Buy	106.6	136.8	150.9	10.3	8.0	7.3	1.4	1.2	1.1	16.8	16.5	16.1
Union Bank	145	Buy	27.5	36.7	37.3	5.3	3.9	3.9	1.3	1.0	0.9	26.8	29.2	24.1
Sector Aggregate						9.4	7.5	7.1	1.6	1.3	1.1	17.4	16.9	16.0

UR = Under Review

Axis Bank

STOCK INFO.	BLOOMBERG
BSE SENSEX: 9,202	AXSB IN
	REUTERS CODE
S&P CNX: 2,803	AXBK.BO

4 February 2009

Buy

Previous Recommendation: Buy

Rs395

Equity Shares (m)	357.7	YEAR	NET INCOME	PAT	EPS	EPS	P/E	P/BV	CAR	ROAE	ROAA	P/ABV
52-Week Range	1,140/363	END	(RS M)	(RS M)	(RS)	GROWTH (%)	(X)	(X)	(%)	(%)	(%)	(X)
1,6,12 Rel.Perf.(%)	-20/-7/-12	3/07A	24,784	6,590	23.4	34.5	16.9	3.3	11.6	21.0	1.1	3.4
M.Cap. (Rs b)	141.2	3/08A	43,808	10,710	29.9	28.0	13.2	1.6	13.7	17.6	1.2	1.6
M.Cap. (US\$ b)	2.9	3/09E	63,185	16,042	44.8	49.8	8.8	1.4	12.5	17.1	1.3	1.5
		3/10E	77,860	17,558	49.1	9.5	8.0	1.2	10.8	16.4	1.1	1.4

- For 3QFY09, Axis Bank posted a PAT of Rs5b, above our estimate of Rs4b, driven by higher treasury gains and lower provisions. NII growth of 24% was lower than our estimate of 29%.
- Loans grew 55% YoY to Rs753b (9% QoQ), while deposits grew 54% to Rs1,057b (3% QoQ). CASA growth slowed down: savings accounts grew 39% YoY while current accounts grew 20% YoY. CASA ratio fell by 230bp QoQ and 730bp YoY to 38%. CASA deposits declined 3% QoQ in absolute terms.
- Reported NIM fell 39bp QoQ and 79bp YoY to 3.12%, as cost of funds increased by 67bp QoQ to 6.9%. Liquidity crunch in October and November 2008 has impacted margins as it continues to be highly dependant on wholesale term deposits, which accounts for 47% of total deposits. The management's decision to grow assets in 3QFY09 despite lower CASA deposits impacted margins.
- Fee income growth is strong at 51% YoY, backed by corporate and capital market related fees. Retail fee growth slowed down to 21% YoY.
- Asset quality is robust – gross NPAs at 0.9% and net NPAs at 0.4%. Tier-I CAR improved to 9.5% in 3QFY09 from 9.2% in 2QFY09 due to strong earnings and benefit of RBI relaxation on risk weights on certain asset classes.
- Post 3QFY09 results, we have increased our EPS estimate for FY09 by 3%; our estimates for FY10 remain unchanged. The stock trades at 1.5x FY09E and 1.4x FY10E ABV, and 8.8x FY09E and 8x FY10E EPS. We reiterate **Buy**.

Y/E MARCH	QUARTERLY PERFORMANCE (RS MILLION)									
	FY08				FY09				FY08	FY09E
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4QE		
Interest Income	15,111	16,765	18,023	20,154	22,664	25,450	29,848	31,029	70,053	108,991
Interest Expense	10,901	10,878	10,550	11,870	14,560	16,316	20,551	20,888	44,200	72,314
Net Interest Income	4,209	5,887	7,473	8,284	8,105	9,134	9,297	10,142	25,854	36,677
Y-o-Y Growth (%)	41.3	72.9	91.1	88.7	92.5	55.2	24.4	22.4	76.1	41.9
Other Income	3,682	3,829	4,879	5,565	6,248	6,944	7,322	5,994	17,955	26,508
Net Income	7,892	9,716	12,352	13,849	14,353	16,078	16,619	16,136	43,808	63,185
Operating Expenses	4,212	5,087	5,630	6,621	6,329	7,334	7,522	8,622	21,549	29,808
Operating Profit	3,679	4,629	6,723	7,228	8,023	8,744	9,096	7,513	22,259	33,376
Y-o-Y Growth (%)	29.9	85.3	101.4	82.1	118.1	88.9	35.3	3.9	76.1	49.9
Provision & Contingencies	1,009	1,145	2,001	1,642	2,967	2,558	1,320	2,226	5,794	9,071
Profit before Tax	2,670	3,484	4,722	5,586	5,056	6,186	7,777	5,287	16,465	24,306
Tax Provisions	921	1,206	1,654	1,972	1,754	2,157	2,768	1,584	5,755	8,264
Net Profit	1,750	2,278	3,068	3,614	3,302	4,029	5,009	3,703	10,710	16,042
Y-o-Y Growth (%)	45.2	60.5	66.2	70.5	88.7	76.8	63.2	2.5	62.5	49.8
Int Exp/ Int Earned (%)	72.1	64.9	58.5	58.9	64.2	64.1	68.9	67.3	63.1	66.3
Other Income / Net Income (%)	46.7	39.4	39.5	40.2	43.5	43.2	44.1	37.1	41.0	42.0
Cost to Income Ratio (%)	53.4	52.4	45.6	47.8	44.1	45.6	45.3	53.4	49.2	47.2
Provisions/Operating Profit (%)	27.4	24.7	29.8	22.7	37.0	29.3	14.5	29.6	26.0	27.2
Tax Rate (%)	34.5	34.6	35.0	35.3	34.7	34.9	35.6	30.0	35.0	34.0

E: MOSL Estimates

Bank of Baroda

STOCK INFO.	BLOOMBERG
BSE Sensex: 9,202	BOB IN
	REUTERS CODE
S&P CNX: 2,803	BOB.BO

4 February 2009

Buy

Previous Recommendation: Buy

Rs246

		YEAR	NET INCOME	PAT	EPS	EPS	P/E	P/BV	CAR	ROE	ROA	P/ABV
		END	(RS M)	(RS M)	(RS)	GR. (%)	(X)	(X)	(%)	(%)	(%)	(X)
Equity Shares (m)	365.5	3/07A	49,593	10,265	28.1	24.1	8.8	1.1	11.8	12.4	0.8	1.1
52-Week Range	435/188	3/08A	59,628	14,355	39.3	39.8	6.3	0.9	12.9	15.6	0.9	1.0
1,6,12 Rel.Perf.(%)	-7/25/9	3/09E	74,967	19,287	52.8	34.4	4.7	0.8	13.3	18.3	1.0	0.8
MCap. (Rs b)	90.0	3/10E	82,925	21,576	59.0	11.9	4.2	0.7	12.0	17.9	0.9	0.8
MCap. (US\$ b)	1.8											

⚡ **Performance warrants a re-rating:** BoB's PAT at Rs7.1b was stronger than expected due to better core performance as well as heavy investment gains. NII grew 47% and margin improved 30bp YoY and 20bp QoQ to 3.3%. Fees grew ~25% YoY. Investment gain (including HK subsidiary winding up gain of Rs700n during the quarter) was Rs4.2b vs Rs1.9b in 3QFY08. MTM losses on investments were heavy (and surprising) at Rs2.3b due to equity MTM loss. NPAs remain comfortable with gross at 1.5% and net at 0.4%. Tier I CAR is at 8.5% under Basel II.

⚡ Heavy investment gains have been largely offset by 1) increase in provision for pension (Rs1.65b in 3QFY09 vs a run rate of ~Rs1b in previous quarters), 2) accelerated provisions towards wage settlement (Rs1.3b in 3QFY09 vs a run rate of Rs0.6b/quarter), and 3) Rs2.3b provision on investments. We are impressed by 1) CASA growth of 19% YoY, CASA ratio sustenance at 36%, 2) Exercise of pricing power demonstrated in improved margins and growing fees, and 3) buffers created by accelerating staff provisions. As BoB moves convincingly to a sustainable 1% RoA and 17%+ RoE during FY09, valuation re-rating is warranted. Valuation at 0.8x FY10E ABV and 4.2x FY10E EPS is attractive considering improvement in core operations. We maintain BoB as one of our top picks among PSU banks.

⚡ **Upgrading earnings:** We have increased earnings estimate by 3-4% over FY09 and FY10. We like management's strategic focus on (a) core deposits growth, (b) margin stability, (c) fees growth, and (d) NPA management. Execution on each of these parameters has been satisfactory. Maintain **Buy**.

QUARTERLY PERFORMANCE

(RS MILLION)

	FY08				FY09				FY08	FY09E
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4QE		
Interest Income	26,006	28,798	30,022	33,311	32,938	35,510	41,080	42,508	118,135	152,036
Interest Expense	16,961	18,983	20,047	23,026	22,368	24,172	26,462	27,588	79,017	100,590
Net Interest Income	9,046	9,814	9,975	10,285	10,570	11,338	14,618	14,919	39,118	51,446
% Change (YoY)	16.3	17.1	9.8	-2.4	16.9	15.5	46.6	45.1	9.3	31.5
Other Income	4,242	4,541	6,180	5,546	5,126	4,759	8,465	5,172	20,510	23,522
Net Income	13,287	14,355	16,155	15,831	15,696	16,097	23,083	20,091	59,628	74,967
Operating Expenses	6,843	7,983	6,831	7,687	7,094	7,641	9,627	9,570	29,343	33,931
Operating Profit	6,445	6,372	9,324	8,145	8,602	8,456	13,456	10,522	30,286	41,036
% Change (YoY)	25.9	23.7	30.1	5.4	33.5	32.7	44.3	29.2	25.4	35.5
Provision & Contingencies	1,414	981	1,570	4,250	2,803	2,419	2,810	4,216	8,214	12,249
Profit before Tax	5,030	5,392	7,754	3,895	5,799	6,037	10,646	6,305	22,072	28,787
Tax Provisions	1,722	2,120	2,744	1,131	2,090	2,084	3,562	1,763	7,716	9,500
Net Profit	3,308	3,272	5,010	2,764	3,709	3,953	7,084	4,542	14,355	19,287
% Change (YoY)	102.6	13.5	52.2	12.5	12.1	20.8	41.4	64.3	39.8	34.4
Int Exp/ Int Earned (%)	65.2	65.9	66.8	69.1	67.9	68.1	64.4	64.9	66.9	66.2
Other Income / Net Income (%)	31.9	31.6	38.3	35.0	32.7	29.6	36.7	25.7	34.4	31.4
Cost to Income Ratio (%)	51.5	55.6	42.3	48.6	45.2	47.5	41.7	47.6	49.2	45.3
Provisions/Operating Profit (%)	21.9	15.4	16.8	52.2	32.6	28.6	20.9	40.1	27.1	29.8
Tax Rate (%)	34.2	39.3	35.4	29.0	36.0	34.5	33.5	28.0	35.0	33.0

E: MOSL Estimates

Bank of India

STOCK INFO.	BLOOMBERG
BSE Sensex: 9,202	BOI IN
	REUTERS CODE
S&P CNX: 2,803	BOI.BO

4 February 2009

Neutral

Previous Recommendation: Buy

Rs241

Equity Shares (m)	525.9
52-Week Range	415/189
1,6,12 Rel.Perf.(%)	-11/20/15
M.Cap. (Rs b)	126.5
M.Cap. (US\$ b)	2.6

YEAR	NET INCOME	PAT	EPS	EPS	P/E	P/BV	CAR	ROE	ROA	P/ABV
END	(RS M)	(RS M)	(RS)	GROWTH (%)	(X)	(X)	(%)	(%)	(%)	(X)
3/07A	50,034	11,232	23.0	60.2	10.5	2.0	11.8	21.2	0.9	2.2
3/08A	63,461	20,094	38.2	66.1	6.3	1.4	12.0	27.6	1.3	1.5
3/09E	84,552	29,837	56.7	48.5	4.2	1.1	12.8	29.5	1.5	1.2
3/10E	94,140	26,867	51.1	-10.0	4.7	0.9	11.7	21.5	1.2	1.0

At the peak of performance: Bank of India reported 41% NII growth in 3QFY09 to Rs15.2b (v/s est. of 30% growth). Net profit grew by 70% to Rs8.7b led by stronger core operating numbers and higher trading profits. Key highlights of the performance are:

- 1) Strong balance sheet growth (loans up 31%, deposits up 26%);
- 2) Margins improve QoQ by 20bp and YoY by 26bp to 3.4%.
- 3) Growth in fee income (ex-forex) remains strong (up 28% YoY), Trading profits were strong at Rs4.4b v/s Rs1.2b in 3QFY08 and Rs180m in 2QFY09. Trading profits including forex income increased to Rs6.7b v/s Rs2b
- 4) Asset quality deteriorates during the quarter. Gross NPA and net NPAs in absolute terms increased 12% QoQ. Provision coverage ratio including floating provisions remains strong at ~79%

Downgrade to Neutral: BoI has continued to deliver results that are significantly better than expected. However, we believe sustaining the current growth momentum would be difficult in future as margins come under pressure and NPA costs rise. Recent growth in loan book has been significantly above industry levels and has occurred at a significantly loss in CASA deposits growth (CASA ratio is down from 41% in 3QFY07 to 31% in 3QFY09). We expect earnings to decline 10% in FY10 after a CAGR of 62% over FY06-09E. While valuations at 1x FY10E ABV and 4.7x FY10E EPS are not expensive considering the RoE of 20%+ in FY10; we believe stock upside is limited in near to mid term. Downgrade to **Neutral**.

Q/YE MARCH	(RS MILLION)									
	FY08				FY09				FY08	FY09E
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4QE		
Interest Income	27,273	29,752	31,511	35,016	35,483	39,628	43,432	44,773	123,552	163,316
Interest Expense	17,801	19,895	20,717	22,848	23,676	25,996	28,215	29,278	81,260	107,165
Net Interest Income	9,472	9,858	10,795	12,168	11,808	13,631	15,217	15,495	42,292	56,151
Y-o-Y Growth (%)	23.9	16.1	25.7	25.7	24.7	38.3	41.0	27.3	22.9	32.8
Other Income	3,812	5,284	5,541	6,532	5,664	6,495	10,506	5,736	21,169	28,401
Net Income	13,284	15,142	16,336	18,700	17,472	20,126	25,722	21,231	63,461	84,552
Operating Expenses	6,506	6,744	6,622	6,579	6,748	7,979	8,107	7,741	26,450	30,574
Operating Profit	6,778	8,398	9,714	12,122	10,724	12,147	17,616	13,491	37,012	53,978
Y-o-Y Growth (%)	45.0	75.3	75.6	35.4	58.2	44.6	81.4	11.3	54.5	45.8
Provision & Contingencies	1,992	2,993	2,314	2,866	3,490	2,868	2,720	3,461	10,165	12,538
Profit Before tax	4,786	5,405	7,400	9,256	7,234	9,280	14,896	10,030	26,847	41,440
Tax Provisions	1,634	1,153	2,281	1,686	1,615	1,651	6,174	2,163	6,753	11,603
Net Profit	3,152	4,253	5,119	7,570	5,620	7,629	8,722	7,867	20,094	29,837
Y-o-Y Growth (%)	51.0	100.5	100.8	69.2	78.3	79.4	70.4	3.9	78.9	48.5
Int Exp/ Int Earned (%)	65.3	66.9	65.7	65.3	66.7	65.6	65.0	65.4	65.8	65.6
Other Income / Net Income (%)	28.7	34.9	33.9	34.9	32.4	32.3	40.8	27.0	33.4	33.6
Cost to Income Ratio (%)	49.0	44.5	40.5	35.2	38.6	39.6	31.5	36.5	41.7	36.2
Provisions/Operating Profit (%)	29.4	35.6	23.8	23.6	32.5	23.6	15.4	25.7	27.5	23.2
Tax Rate (%)	34.1	21.3	30.8	18.2	22.3	17.8	41.4	21.6	25.2	28.0

E: MOSL Estimates

Canara Bank

STOCK INFO.	BLOOMBERG
BSE SENSEX: 9,202	CBK IN
	REUTERS CODE
S&P CNX: 2,803	CNBK.BO

4 February 2009

Buy

Previous Recommendation: Buy

Rs180

Equity Shares (m)	410.0	YEAR	NET INCOME	PAT	EPS	EPS	P/E	P/BV	CAR	ROE	ROA	P/ABV
52-Week Range	324/135	END	(RS M)	(RS M)	(RS)	GROWTH (%)	(X)	(X)	(%)	(%)	(%)	(X)
1,6, 12 Rel.Perf.(%)	-1/27/8	3/07A	54,778	14,208	34.7	5.8	5.2	0.9	13.5	18.8	1.0	1.0
M.Cap. (Rs b)	73.7	3/08A	57,507	15,650	38.2	10.1	4.7	0.9	13.3	19.1	0.9	1.0
M.Cap. (US\$ b)	1.5	3/09E	66,456	19,175	46.8	22.5	3.8	0.8	12.2	21.3	1.0	0.8
		3/10E	75,105	19,558	47.7	2.0	3.8	0.7	11.6	18.7	0.9	0.8

NPA buildup masks strong core earnings: Canara Bank 3QFY09 NII and PAT are significantly above our estimates. Improvement in margins (34bp YoY), robust loan growth (up 31%) and trading profits led to PAT growth of 53%.

Key highlights of the performance are:

- ✦ Gross NPAs in absolute terms increased 60% QoQ (Rs10b) to ~Rs25b. Management clarified that most of the gross NPA addition is technical in nature. Management guides that gross NPA would drop to ~Rs20b by March 2009.
- ✦ NII grew 33% YoY to Rs12.4b (v/s est. of 26%) led by sharp improvement in margins and strong loan growth.
- ✦ Loans grew by 31% YoY and 8% QoQ to Rs1,289b. Deposits grew by 21% YoY and 2% QoQ to Rs1,748b.
- ✦ Trading profits were strong at Rs3.4b in 3QFY09 v/s Rs960m in 3QFY08 and Rs35m in 2QFY09.
- ✦ Provisions were at Rs3.5b as the bank made ~Rs3.6b of provisions for the NPAs.

Maintain Buy: We expect the bank to report EPS of Rs46.8 in FY09 and Rs47.7 in FY10. ABV will be Rs215 and Rs230 in FY09 and FY10. The stock trades at 0.8x FY10E ABV and 3.8x FY10E EPS. We believe valuations are attractive and the fall in stock price should be viewed as a buying opportunity. The stock offers a dividend yield of ~6%+. **Maintain Buy.**

	QUARTERLY PERFORMANCE								(RS MILLION)	
	FY08				FY09				FY08	FY09E
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4QE		
Interest Income	33,800	34,826	35,502	37,880	37,305	41,092	46,254	48,261	142,007	172,913
Interest Expense	24,859	26,957	26,158	28,655	27,114	29,602	33,811	35,265	106,629	125,792
Net Interest Income	8,941	7,869	9,344	9,225	10,192	11,490	12,443	12,996	35,378	47,121
% Change (Y-o-Y)	-5.7	-19.8	-10.1	-12.9	14.0	46.0	33.2	40.9	-12.1	33.2
Other Income	3,801	5,721	5,464	7,143	3,685	3,388	7,575	4,688	22,129	19,335
Net Income	12,742	13,590	14,808	16,368	13,877	14,877	20,018	17,684	57,507	66,456
Operating Expenses	6,621	7,086	7,230	6,976	6,841	7,142	7,877	7,927	27,913	29,788
Operating Profit	6,121	6,503	7,578	9,392	7,036	7,735	12,141	9,757	29,594	36,669
% Change (Y-o-Y)	3.7	5.7	8.0	-6.6	15.0	18.9	60.2	3.9	1.6	23.9
Other Provisions	3,015	1,787	1,990	3,751	5,409	1,441	3,526	2,620	10,544	12,996
Profit before Tax	3,106	4,716	5,588	5,641	1,627	6,294	8,615	7,137	19,050	23,673
Tax Provisions	700	700	1,000	1,000	400	1,000	1,600	1,498	3,400	4,498
Net Profit	2,406	4,016	4,588	4,641	1,227	5,294	7,015	5,639	15,650	19,175
% Change (Y-o-Y)	26.0	11.0	26.1	-8.0	-49.0	31.8	52.9	21.5	10.1	22.5
Interest Expense/Interest Income (%)	73.5	77.4	73.7	75.6	72.7	72.0	73.1	73.1	75.1	72.7
Other Income/Net Income (%)	52.0	52.1	48.8	42.6	49.3	48.0	39.4	44.8	48.5	44.8
Cost to Income Ratio (%)	29.8	42.1	36.9	43.6	26.6	22.8	37.8	26.5	38.5	29.1
Provisions/Operating Profits (%)	49.3	27.5	26.3	39.9	76.9	18.6	29.0	26.9	35.6	35.4
Tax Rate (%)	22.5	14.8	17.9	17.7	24.6	15.9	18.6	21.0	17.8	19.0

E: MOSL Estimates

Federal Bank

STOCK INFO.	BLOOMBERG
BSE SENSEX: 9,202	FB IN
S&P CNX: 2,803	REUTERS CODE
	FED.BO
Equity Shares (m)	171.0
52-Week Range	319/113
1,6,12 Rel.Perf.(%)	-9/5/-4
M.Cap. (Rs b)	24.2
M.Cap. (US\$ b)	0.5

4 February 2009

Buy

Previous Recommendation: Buy

Rs142

YEAR	NET INCOME	PAT	EPS	EPS	P/E	P/BV	CAR	ROE	ROA	P/ABV
END	(RS M)	(RS M)	(RS)	GROWTH (%)	(X)	(X)	(%)	(%)	(%)	(X)
3/07A	10,191	2,927	34.2	30.0	4.1	0.8	13.4	21.3	1.3	0.8
3/08A	12,630	3,680	21.5	-37.1	6.6	0.6	22.5	13.6	1.3	0.6
3/09E	18,886	5,564	32.5	51.2	4.4	0.6	18.9	13.4	1.6	0.6
3/10E	20,687	5,787	33.8	4.0	4.2	0.5	17.5	12.6	1.5	0.5

Federal Bank's 3QFY09 results were significantly better than our expectations backed by strong core operating performance as well as higher than expected trading profits and MTM gains. Key highlights:

- NII grew 89% YoY (v/s our estimate of 62%) to Rs3.8b, led by 105bp YoY and 31bp QoQ improvement in margins.
- Loan growth moderated to 23% YoY to Rs215b (up 1% QoQ) and deposits grew 17% YoY (up 3% QoQ) to Rs273b.
- Other income grew 94% YoY, backed by strong 53% YoY growth in fee income, robust trading profits and recoveries from written-off accounts.
- Provisions were lower at Rs500m (v/s our estimate Rs1.1b) due to MTM write-back of Rs980m during the quarter.
- Gross NPAs increased 8% QoQ in absolute terms. However; asset quality remains strong, with net NPAs at 0.3% and provision coverage ratio of ~90%. Incremental slippages in 9MFY09 are to the tune of Rs5b.

Maintain Buy: We have revised our FY09 earnings estimate upwards by 20% after factoring in higher NIMs (on account of lower CRR and increased yield on loans) and strong growth in fee-based/treasury income. We keep our FY10 estimates unchanged. We expect the bank to report 22% CAGR in earnings over FY08-11. We expect RoA to remain strong at 1.5%+ over FY09-11. However, excess capital would restrain RoE for FY10-11 at ~13%. The stock trades at 4.2x FY10E EPS of Rs33.8 and 0.5x FY10E ABV. Maintain **Buy**.

QUARTERLY PERFORMANCE

(RS MILLION)

	FY08				FY09				FY08	FY09E
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4QE		
Interest Income	5,553	5,943	6,487	7,172	7,451	8,281	8,764	9,220	25,154	33,716
Interest Expense	3,665	3,918	4,450	4,442	4,669	4,963	4,918	5,098	16,474	19,649
Net Interest Income	1,889	2,024	2,037	2,730	2,782	3,318	3,846	4,121	8,680	14,067
% Change (Y-o-Y)	22.2	23.9	16.6	22.0	47.3	63.9	88.8	51.0	21.1	62.1
Other Income	1,044	808	850	1,249	962	1,042	1,648	1,167	3,950	4,819
Net Income	2,932	2,832	2,887	3,979	3,744	4,360	5,494	5,288	12,630	18,886
Operating Expenses	1,048	1,066	1,210	1,365	1,209	1,331	1,650	1,634	4,689	5,823
Operating Profit	1,884	1,766	1,676	2,614	2,535	3,029	3,844	3,654	7,941	13,063
% Change (Y-o-Y)	65.7	27.1	23.7	16.3	34.5	71.5	129.3	39.8	29.6	64.5
Other Provisions	670	548	345	1,377	1,724	1,569	500	1,543	2,940	5,335
Profit before Tax	1,214	1,218	1,331	1,238	811	1,461	3,344	2,112	5,002	7,728
Tax Provisions	545	265	302	209	130	318	1,306	411	1,321	2,164
Net Profit	669	953	1,029	1,029	682	1,143	2,039	1,701	3,680	5,564
% Change (Y-o-Y)	66.6	37.2	22.8	3.6	1.8	19.9	98.1	65.3	25.7	51.2
Interest Expense/Interest Income (%)	66.0	65.9	68.6	61.9	62.7	59.9	56.1	55.3	65.5	58.3
Other Income/Net Income (%)	35.6	28.5	29.4	31.4	25.7	23.9	30.0	22.1	31.3	25.5
Cost to Income Ratio (%)	35.7	37.6	41.9	34.3	32.3	30.5	30.0	30.9	37.1	30.8
Provisions/Operating Profits (%)	35.6	31.0	20.6	52.7	68.0	51.8	13.0	42.2	37.0	40.8
Tax Rate (%)	44.9	21.8	22.7	16.9	16.0	21.8	39.0	19.5	26.4	28.0

E: MOSL Estimates

HDFC Bank

STOCK INFO.	BLOOMBERG
BSE SENSEX: 9,202	HDFCB IN
	REUTERS CODE
S&P CNX: 2,803	HDBK.BO

4 February 2009

Buy

Previous Recommendation: Buy

Rs896

Equity Shares (m)	424.3	YEAR	NET INCOME	PAT	EPS	EPS	P/E	P/BV	CAR	ROAE	ROAA	P/ABV
52-Week Range	1,615/800	END	(RS M)	(RS M)	(RS)	GROWTH (%)	(X)	(X)	(%)	(%)	(%)	(X)
1,6,12 Rel.Perf.(%)	-4/18/10	3/08A*	88,645	17,386	41.0	21.1	21.9	2.8	13.5	16.1	1.3	2.8
M.Cap. (Rs b)	380.3	3/09E	106,389	22,592	53.2	29.9	16.8	2.6	12.1	15.8	1.3	2.7
M.Cap. (US\$ b)	7.8	3/10E	130,669	28,470	67.1	26.0	13.4	2.2	11.3	17.9	1.4	2.4
		3/11E	159,150	36,196	85.3	27.1	10.5	1.9	10.7	19.5	1.4	2.0

* Includes pro forma merged figures for HDFC Bank and CBoP

Results in line: HDFC Bank reported merged numbers with Centurion Bank of Punjab (CBoP) for 3QFY09. Hence the same is not comparable to the previous year. However, in order to compare, we have merged 3QFY08 numbers for CBoP as well. On adjusted numbers, (1) NII grew 22%, in line with estimate, (2) other Income grew 12% YoY, higher than estimate on the back of strong treasury profits (Rs2.3b v/s Rs1.3b), (3) adjusted PAT grew 30% YoY, in line with estimate, and (4) gross NPA ratio increased to 1.9%, while net NPA was stable at 0.6%.

- Adjusted deposits 21% YoY to Rs1.4t. CASA ratio declined to 40% v/s 44% in 2QFY09. CASA deposit grew only 4% YoY. Loans declined 3% QoQ and increased 14% YoY on adjusted basis to Rs988b. Investment book has increased by 43% QoQ to Rs633b. Customer assets declined QoQ by 7%. HDFC Bank has built up the SLR book and liquid investments during the quarter. Management was risk averse and preferred liquidity during the quarter.
- Reported margin improved to 4.3% v/s 4.2% in 2QFY09.
- In absolute terms, gross NPAs increased 14% QoQ to Rs19.1b and net NPAs increased 5% QoQ to Rs6.1b.

Maintain Buy: We have not included HDFC warrant conversion in our estimates. We expect earnings CAGR of 28% over FY08-11E on 20% CAGR in assets (combining HDFC Bank with CBoP from FY08 itself). RoA is likely to remain high at 1.3-1.4% with RoE of 18% in FY10 and 20% in FY11. We estimate BV of Rs349 and Rs402 in FY09 and FY10 respectively. We expect EPS to be Rs53 in FY09 and Rs67 in FY10. The stock trades at 2.4x FY09E ABV and 2x FY10E ABV and 16.8x FY09E and 13.4x FY10E EPS. Maintain **Buy** with a target price of Rs1,140, an upside of 27.2%.

	QUARTERLY PERFORMANCE									
	FY08				FY09*				FY08	FY09E*
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4QE		
Interest Income	20,692	23,628	27,269	29,562	36,217	39,912	44,685	45,578	101,150	166,392
Interest Expense	10,836	12,001	12,893	13,141	18,983	21,248	24,893	25,460	48,871	90,583
Net Interest Income	9,855	11,627	14,376	16,421	17,234	18,665	19,793	20,118	52,279	75,810
Growth (%)	30.1	47.6	65.6	55.7	74.9	60.5	37.7	22.5	50.7	45.0
Other Income	5,725	4,824	6,789	5,493	5,934	6,431	9,394	8,820	22,825	30,579
Net Income	15,581	16,451	21,165	21,914	23,169	25,096	29,186	28,938	75,103	106,389
Operating Expenses	7,744	8,184	10,501	11,027	12,894	13,867	14,606	14,714	37,456	56,080
Operating Profit	7,837	8,267	10,664	10,887	10,275	11,229	14,581	14,224	37,647	50,308
Growth (%)	41.0	36.3	67.5	42.3	31.1	35.8	36.7	30.7	46.8	33.6
Provisions and Contingencies	3,071	2,894	4,231	4,651	3,445	3,460	5,318	4,862	14,843	17,085
Profit Before Tax	4,766	5,373	6,432	6,236	6,830	7,768	9,263	9,362	22,804	33,223
Provision for Taxes	1,553	1,688	2,139	1,525	2,187	2,488	3,046	2,911	6,905	10,631
Net Profit	3,212	3,685	4,294	4,711	4,643	5,280	6,217	6,451	15,899	22,592
Growth (%)	34.2	40.1	45.2	37.1	44.5	43.3	44.8	36.9	39.3	42.1
Int Exp/ Int Earned (%)	52.4	50.8	47.3	44.5	52.4	53.2	55.7	55.9	48.3	54.4
Other Income/Total Income (%)	36.7	29.3	32.1	25.1	25.6	25.6	32.2	30.5	30.4	28.7
Cost to Income Ratio (%)	49.7	49.7	49.6	50.3	55.7	55.3	50.0	50.8	49.9	52.7
Provisions/Operating Profit %	39.2	35.0	39.7	42.7	33.5	30.8	36.5	34.2	39.4	34.0
Tax Payout %	32.6	31.4	33.2	24.4	32.0	32.0	32.9	31.1	30.3	32.0

E: MOSL Estimates; *FY09 numbers include merger of CBoP

ICICI Bank

STOCK INFO.	BLOOMBERG
BSE SENSEX: 9,202	ICICIBC IN
	REUTERS CODE
S&P CNX: 2,803	ICBK.BO

4 February 2009

Buy

Previous Recommendation: Buy

Rs390

Equity Shares (m)	1,112.7
52-Week Range	1,245/282
1,6,12 Rel.Perf.(%)	-10/-2/-17
M.Cap. (Rs b)	433.5
M.Cap. (US\$ b)	8.9

YEAR	NET INCOME	PAT	EPS	EPS	P/E	AP/E*	P/BV	AP/ABV*	CAR	ROE	ROA
END	(RS M)	(RS M)	(RS)	GROWTH (%)	(X)	(X)	(X)	(X)	(%)	(%)	(%)
3/07A	125,650	31,102	34.6	21.2	11.3	7.6	1.4	1.1	11.7	13.4	1.0
3/08A	161,149	41,577	37.4	8.0	10.4	7.1	0.9	0.7	14.0	11.7	1.1
3/09E	159,135	37,553	33.8	-9.7	11.5	7.8	0.9	0.7	14.9	7.9	1.0
3/10E	178,139	42,916	38.6	14.3	10.1	6.5	0.8	0.7	14.0	8.6	1.1

* Price adjusted for value of key ventures and BV adjusted for investments in those key ventures

- **Treasury income saves the quarter:** ICICI Bank's 3QFY09 PAT of Rs12.7b was higher than estimated due to treasury income being Rs9.8b in the quarter. Core performance was weak, marked by 1) 2% YoY growth in NII (7% QoQ decline), 8% YoY and 15% QoQ decline in CASA deposits.; 2) 25% YoY decline in fees and 3) continued build up in NPAs (net NPAs increased 4% QoQ and reached 2%). Loan book de-growth was steeper at 4% QoQ.
- Performance in the quarter was impacted by the rumors spread in Sept-Oct 2008. Over next couple of quarters, while we expect CASA deposit growth to come on track and CASA ratio to improve; earnings outlook remains bleak due to pressure on fees and rising NPA costs. Further reduction in operating costs would be difficult as management delivers on expanding branch network.
- Management's strategy of improving core deposits (and sacrificing loan growth) and building up branch network (to add 580 more branches in CY09) would correct the ALM mismatches in the balance sheet (and in turn improve core profitability) over the longer term. Tightening of credit controls, reducing reliance on DSAs in fresh disbursements and slowing down on riskier loans would help the bank control NPA accretion. Also the sharp fall in wholesale deposit (47% of total deposits) rates would help the bank to quickly reduce its cost of deposits in FY10.
- **Reducing target price:** We have cut our FY10 EPS estimates by 9% to factor pressure on fees. Adjusted for subs value at Rs139/share (reduced from Rs169); stock trades at 0.7x FY10E ABV (adjusted for 50% investment in subs and 65% net NPAs). We value ICICIBC at Rs446/share (0.8x FY10E ABV + Rs139/share for subs value).

QUARTERLY PERFORMANCE										(RS MILLION)	
Y/E MARCH	FY08				FY09				FY08	FY09E	
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4QE			
Interest Income	73,308	75,165	79,118	80,293	78,918	78,350	78,361	77,513	307,883	313,142	
Interest Expense	58,519	57,305	59,521	59,498	58,021	56,874	58,457	57,270	234,842	230,621	
Net Interest Income	14,790	17,860	19,597	20,795	20,898	21,476	19,904	20,243	73,041	82,521	
Y-o-Y Growth (%)	22.4	33.9	32.0	29.3	41.3	20.2	1.6	-2.7	29.6	13.0	
Other Income	19,506	20,719	24,266	23,617	15,382	18,773	25,145	17,314	88,108	76,615	
Net Income	34,295	38,579	43,863	44,411	36,279	40,250	45,050	37,557	161,149	159,135	
Operating Expenses	19,053	19,708	21,276	21,505	19,136	17,400	17,341	16,827	81,542	70,704	
Operating Profit	15,242	18,871	22,587	22,907	17,144	22,849	27,708	20,730	79,607	88,431	
Y-o-Y Growth (%)	58.0	37.8	28.9	28.1	12.5	21.1	22.7	-9.5	35.5	11.1	
Provisions and Contingencies	5,523	6,445	7,603	9,475	7,925	9,235	10,077	10,447	29,046	37,684	
Profit before Tax	9,720	12,427	14,984	13,432	9,219	13,614	17,631	10,284	50,561	50,747	
Provision for Taxes	1,969	2,401	2,681	1,933	1,935	3,472	4,910	2,878	8,984	13,194	
Net Profit	7,751	10,026	12,303	11,498	7,283	10,142	12,722	7,406	41,577	37,553	
Y-o-Y Growth (%)	25.1	32.7	35.2	39.4	-6.0	1.2	3.4	-35.6	33.7	-9.7	
Int Exp/Int Earned (%)	79.8	76.2	75.2	74.1	73.5	72.6	74.6	73.9	76.3	73.6	
Other Income / Net Income (%)	56.9	53.7	55.3	53.2	42.4	46.6	55.8	46.1	54.7	48.1	
Cost to Income Ratio (%)	55.6	51.1	48.5	48.4	52.7	43.2	38.5	44.8	50.6	44.4	
Provisions/Operating Profit (%)	36.2	34.2	33.7	41.4	46.2	40.4	36.4	50.4	36.5	42.6	
Tax Rate (%)	20.3	19.3	17.9	14.4	21.0	25.5	27.8	28.0	17.8	26.0	

E: MOSL Estimates

Indian Bank

STOCK INFO.	BLOOMBERG
BSE SENSEX: 9,202	INBK IN
	REUTERS CODE
S&P CNX: 2,803	INBA.BO

4 February 2009

Buy

Previous Recommendation: Buy

Rs112

Equity Shares (m)	429.8	YEAR	NET INCOME	PAT	EPS	EPS	P/E	P/BV	CAR	ROE	ROA	P/ABV
52-Week Range	256/78	END	(RS M)	(RS M)	(RS)	GROWTH (%)	(X)	(X)	(%)	(%)	(%)	(X)
1,6,12 Rel.Perf.(%)	-13/42/-3	3/07A	26,052	7,598	17.7	39.3	6.2	1.5	14.1	29.9	1.5	1.5
M.Cap. (Rs b)	47.3	3/08A	30,596	10,087	23.5	32.8	4.7	1.0	12.9	25.8	1.6	1.0
M.Cap. (US\$ b)	1.0	3/09E	36,713	12,424	28.9	23.2	3.8	0.9	11.4	24.6	1.6	0.9
		3/10E	41,187	12,591	29.3	1.3	3.8	0.7	10.2	21.0	1.4	0.8

Indian Bank's reported NII grew 25% YoY (adjusted NII grew 49% YoY) v/s our estimate of 19% YoY growth. Business growth remained strong and asset quality improved.

- ✍ In 3QFY09 NIMs improved 5bp QoQ and 8bp YoY to 3.91%.
- ✍ Loans grew 38% YoY and 5% QoQ to Rs505b. Deposits grew by 31% YoY and 8% QoQ to Rs697b. Core deposits grew 21% from March 2008 levels v/s overall deposit growth of 14%. The share of bulk deposits reduced to 9.5% v/s 10.3% in 2QFY09.
- ✍ Fees grew by 43% YoY to Rs1.5b. In 9MFY09, fee growth was 34% YoY to Rs4.7b.
- ✍ Asset quality continues to remain strong with GNPA ratio below 1% and provision coverage ratio of 83%. The bank has comfortable CAR of 12.7% (Tier I at 10.6%).

Maintain Buy: We like the bank's strategy of growing core deposits, focusing on margins and growing fees. However, We expect margins to decline in FY10 (15bp) as we expect loan repricing to be faster than deposit repricing. Other income growth would remain under pressure as fees growth slows down and recoveries drop. We have upgraded our net profit estimates by 4% in FY09 to account for higher loan growth and improvement in margins. We have kept the FY10 estimates unchanged and factored in the slippage ratio of 3% v/s 0.5% in 9MFY09. We expect the bank to report EPS of Rs29.3 and BV of Rs150 in FY10. RoE and RoA would be 21% and 1.4% in FY10. The stock trades at 0.8x FY10E ABV and 3.8x FY10E EPS. **Maintain Buy.**

Y/E MARCH	(RS MILLION)									
	FY08				FY09				FY08	FY09E
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4QE		
Interest Income	11,952	12,574	13,911	13,600	15,018	16,882	17,840	18,731	51,508	68,470
Interest Expense	7,124	7,862	8,137	8,468	9,623	10,063	10,644	11,262	31,591	41,592
Net Interest Income	4,828	4,712	5,774	5,132	5,395	6,818	7,196	7,469	19,917	26,879
% Change (Y-o-Y)	24.8	9.1	39.5	-6.7	11.7	44.7	24.6	45.5	11.8	35.0
Other Income	1,815	2,357	2,849	3,129	2,432	2,128	2,873	2,401	10,679	9,834
Net Income	6,644	7,069	8,623	8,261	7,827	8,946	10,069	9,870	30,596	36,713
Operating Expenses	3,346	3,635	3,991	3,031	3,461	3,618	3,833	3,431	14,003	14,343
Operating Profit	3,297	3,434	4,632	5,230	4,366	5,328	6,237	6,439	16,593	22,370
% Change (Y-o-Y)	43.7	15.5	59.6	-3.4	32.4	55.1	34.6	23.1	17.4	20.0
Other Provisions	907	497	1,057	1,782	1,690	1,089	1,410	804	4,243	4,993
Profit before Tax	2,390	2,937	3,575	3,448	2,676	4,239	4,827	5,635	12,350	17,377
Tax Provisions	270	461	500	1,031	500	1,409	1,320	1,723	2,262	4,952
Net Profit	2,120	2,476	3,075	2,417	2,176	2,829	3,507	3,912	10,087	12,424
% Change (Y-o-Y)	28.7	46.4	61.4	2.7	2.6	14.3	14.0	61.9	32.8	23.2
Interest Expense/Interest Income (%)	59.6	62.5	58.5	62.3	64.1	59.6	59.7	60.1	61.3	60.7
Other Income/Net Income (%)	27.3	33.3	33.0	37.9	31.1	23.8	28.5	24.3	34.9	26.8
Cost to Income Ratio (%)	50.4	51.4	46.3	36.7	44.2	40.4	38.1	34.8	45.8	39.1
Provisions/Operating Profits (%)	27.5	14.5	22.8	34.1	38.7	20.4	22.6	12.5	25.6	22.3
Tax Rate (%)	11.3	15.7	14.0	29.9	18.7	33.3	27.3	30.6	18.3	28.5

E: MOSL Estimates

Punjab National Bank

STOCK INFO.	BLOOMBERG
BSE SENSEX: 9,202	PNB IN
	REUTERS CODE
S&P CNX: 2,803	PNBK.BO

4 February 2009

Buy

Previous Recommendation: Buy

Rs401

Equity Shares (m)	315.3	YEAR	NET INCOME	PAT	EPS	EPS	P/E	P/BV	CAR	ROE	ROA	P/ABV
52-Week Range	711/332	END	(RS M)	(RS M)	(RS)	GROWTH (%)	(X)	(X)	(%)	(%)	(%)	(X)
1,6,12 Rel.Perf.(%)	-17/18/8	3/07A	69,436	15,401	48.8	7.0	8.2	1.2	12.3	16.0	1.0	1.3
M.Cap. (Rs b)	126.3	3/08A	75,317	20,488	65.0	33.0	6.2	1.2	13.5	19.6	1.1	1.2
M.Cap. (US\$ b)	2.6	3/09E	96,938	30,505	96.7	48.9	4.1	1.0	11.8	25.4	1.4	1.0
		3/10E	108,605	30,805	97.7	1.0	4.1	0.8	11.1	21.3	1.2	0.9

Punjab National Bank (PNB) reported PAT of Rs10b (up 86%) for 3QFY09, which is significantly higher than estimated.

- Loans grew 39% YoY and 9% QoQ to Rs1.4t and deposits grew 29% YoY and 6% QoQ to Rs1.97t. However, CASA declined to 37% from 39% a quarter ago.
- NII grew 38% YoY and 15% QoQ. Margins expanded 19bp YoY and 7bp QoQ to 3.85%. The management has largely curtailed sub-PLR loans.
- Other income increased 96% YoY due to 250% growth in trading gains and 37% YoY growth in core fees.
- The bank's gross NPA ratio was 2.3% and provision coverage ratio was at 83%. The management has prudently recognized Rs5b of technical NPAs (15% of total gross NPAs).
- Strong trading gains (Rs3.4b during 3QFY09) have been used to make (1) higher NPA provisions (Rs4.3b), and (2) accelerated wage settlement provision (Rs1.5b). The management has not fully reversed MTM gains considering the volatility in G-Sec yields. While we expect momentum to slow down in loan growth and fee income, return ratios will remain superior, with RoA at 1%+ and RoE at 20%+.

Maintain Buy: We have revised our EPS estimates upwards by 11-12% for FY09-10. The stock trades at 0.9x FY10E ABV and 4.1x FY10E EPS. We believe valuations are attractive. **Buy.**

QUARTERLY PERFORMANCE

(RS MILLION)

	FY08				FY09				FY08	FY09E
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4QE		
Interest Income	32,860	34,631	36,361	38,798	41,385	46,504	52,947	52,833	142,650	193,669
Interest Expense	19,850	21,716	22,119	23,625	26,937	29,382	33,274	33,117	87,309	122,710
Net Interest Income	13,010	12,915	14,242	15,173	14,448	17,122	19,674	19,716	55,342	70,959
Y-o-Y Growth (%)	7.4	0.4	4.0	12.7	11.0	32.6	38.1	29.9	6.2	28.2
Other Income	5,091	4,678	4,834	5,372	4,561	6,628	9,452	5,337	19,976	25,978
Net Income	18,101	17,593	19,076	20,545	19,009	23,750	29,126	25,053	75,317	96,938
Operating Expenses	8,770	9,043	9,165	8,277	9,185	10,072	11,066	11,046	35,255	41,369
Operating Profit	9,331	8,550	9,912	12,268	9,824	13,678	18,059	14,007	40,062	55,569
Y-o-Y Growth (%)	89.7	-5.0	3.6	39.0	5.3	60.0	82.2	14.2	10.7	38.7
Provision & Contingencies	3,072	779	1,576	1,677	2,105	3,177	1,813	2,943	7,103	10,039
Profit before tax	6,259	7,771	8,336	10,591	7,719	10,501	16,246	11,064	32,959	45,530
Tax Provisions	2,009	2,386	2,923	5,154	2,595	3,430	6,188	2,812	12,472	15,025
Net Profit	4,251	5,385	5,413	5,438	5,124	7,071	10,058	8,252	20,488	30,505
Y-o-Y Growth (%)	15.7	6.6	25.9	128.8	20.5	31.3	85.8	51.8	33.0	48.9
Int Exp/Int Earned (%)	60.4	62.7	60.8	60.9	65.1	63.2	62.8	62.7	61.2	63.4
Other Income / Net Income (%)	28.1	26.6	25.3	26.1	24.0	27.9	32.5	21.3	26.5	26.8
Cost to Income Ratio (%)	48.4	51.4	48.0	40.3	48.3	42.4	38.0	44.1	46.8	42.7
Provisions/Operating Profit (%)	32.9	9.1	15.9	13.7	21.4	23.2	10.0	21.0	17.7	18.1
Tax Rate (%)	32.1	30.7	35.1	48.7	33.6	32.7	38.1	25.4	37.8	33.0

E: MOSL Estimates Quarterly and Annual numbers would not tally due to reclassification

State Bank of India

STOCK INFO.	BLOOMBERG
BSE SENSEX: 9,202	SBIN IN
	REUTERS CODE
S&P CNX: 2,803	SBI.BO

4 February 2009

Buy

Previous Recommendation: Buy

Rs1,097

Equity Shares (m)	631.5
52-Week Range	2,310/991
1,6,12 Rel.Perf.(%)	-10/10/0
MCap. (Rs b)	692.7
MCap. (US\$ b)	14.2

YEAR	NET INCOME	PAT	EPS	CONS.	CONS.	P/BV	CONS.	CAR	ROE	ROA
END	(RS M)	(RS M)	(RS)	EPS (RS)	P/E (X)	(X)	/ABV (X)	(%)	(%)	(%)
3/07A	218,234	45,413	86.3	120.9	9.1	1.8	1.3	12.3	15.4	0.9
3/08A	257,162	67,291	106.6	141.9	7.7	1.4	1.1	13.5	16.8	1.0
3/09E	331,869	86,376	136.8	178.5	6.1	1.2	1.0	11.9	16.5	1.1
3/10E	387,215	95,266	150.9	196.5	5.6	1.1	0.9	11.2	16.1	1.0

* Valuation multiples are adjusted for SBI Life's value

Strong operating performance despite one offs: SBI 3QFY09 PAT at Rs24.8b is in line with our estimates. Key highlights of the results are: (1) deposits growth at 36% YoY and 12% QoQ, savings deposits growth at 27% YoY and 5% QoQ, contained cost of deposits and sustained margins QoQ; (2) a strong fee growth of 57% YoY and 3) 100bp improvement in provision coverage QoQ to 48% (remains low though).

Some surprises are: (1) lower than expected MTM reversal of Rs3.4b - attributable to equity losses and (2) pension deficit provision of Rs7.5b during 3QFY09 – due to sharp decline in G-sec yields.

Maintain top pick in the sector: Going forward we expect (1) margins to decline as PLR cuts and high retail term deposit rates play their role (2) fee income growth rate to moderate to 15-20% and (3) provision coverage ratio to continue to increase. Lower NPA coverage and strong loan book growth in the past pose a key risk to SBI's earnings ahead. We expect SBI's gross NPAs to rise to Rs265b in FY10 from Rs133b currently. However, valuations at 0.8x P/ABV of FY10E consolidated ABV are attractive. Considering the RoEs of 16-17% over next two years, we value SBI at 1.3x FY10E consolidated ABV. Our target price is Rs1,605 (1.3x FY10E consolidated ABV + Rs130/share for SBI Life). Maintain **Buy** with a top pick rating.

QUARTERLY PERFORMANCE

	(RS MILLION)									
	FY08				FY09				FY08	FY09E
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4QE		
Interest Income	110,905	116,163	126,668	135,767	137,992	155,665	180,303	182,416	489,503	656,376
Interest Expenses	68,891	78,534	84,105	87,761	89,815	101,112	122,722	124,512	319,291	438,160
Net Interest Income	42,014	37,629	42,564	48,006	48,177	54,554	57,582	57,904	170,212	218,216
Y-o-Y Growth (%)	19.0	6.3	23.8	5.6	14.7	45.0	35.3	20.6		28.2
Other Income	11,386	20,419	26,972	28,172	24,039	23,431	32,256	33,927	86,949	113,653
Net Income	53,400	58,049	69,536	76,178	72,215	77,985	89,838	91,831	257,162	331,869
Operating Expenses	29,785	30,916	32,938	32,447	32,592	36,053	45,011	39,712	126,086	153,368
Operating Profit	23,615	27,132	36,597	43,731	39,623	41,932	44,826	52,119	131,076	178,500
Y-o-Y Growth (%)	30.8	28.4	55.7	10.2	67.8	54.5	22.5	19.2		36.2
Provision & Contingencies	1,594	857	8,044	16,191	15,495	6,106	1,968	19,969	26,687	43,538
Profit before Tax	22,021	26,275	28,553	27,540	24,129	35,826	42,858	32,150	104,389	134,963
Provision for Taxes	7,763	10,161	10,467	8,707	7,721	13,229	18,074	9,563	37,098	48,587
Net Profit	14,258	16,114	18,086	18,833	16,408	22,597	24,784	22,587	67,291	86,376
Y-o-Y Growth (%)	78.5	36.0	69.8	26.1	15.1	40.2	37.0	19.9	48.2	28.4
Int Exp/ Int Earned (%)	62.1	67.6	66.4	64.6	65.1	65.0	68.1	68.3	65.2	66.8
Other Income / Net Income (%)	21.3	35.2	38.8	37.0	33.3	30.0	35.9	36.9	33.8	34.2
Cost to Income Ratio (%)	55.8	53.3	47.4	42.6	45.1	46.2	50.1	43.2	49.0	46.2
Provisions/Operating Profit (%)	6.7	3.2	22.0	37.0	39.1	14.6	4.4	38.3	20.4	24.4
Tax Rate (%)	35.3	38.7	36.7	31.6	32.0	36.9	42.2	29.7	35.5	36.0

E: MOSL Estimates

Union Bank of India

STOCK INFO.	BLOOMBERG
BSE SENSEX: 9,202	UNBK IN
	REUTERS CODE
S&P CNX: 2,803	UNBK.BO

4 February 2009

Buy

Previous Recommendation: Buy

Rs145

Equity Shares (m)	505.1	YEAR	NET INCOME	PAT	EPS	EPS	P/E	P/BV	CAR	ROE	ROA	P/ABV
52-Week Range	212/96	END	(RS M)	(RS M)	(RS)	GROWTH (%)	(X)	(X)	(%)	(%)	(%)	(X)
1,6,12 Rel.Perf.(%)	-5/40/22	3/07A	34,767	8,454	16.7	25.3	8.7	1.5	12.8	19.2	0.88	1.7
M.Cap. (Rs b)	73.3	3/08A	41,734	13,871	27.5	64.1	5.3	1.3	12.5	26.8	1.22	1.3
M.Cap. (US\$ b)	1.5	3/09E	51,823	18,557	36.7	33.8	3.9	1.0	12.0	29.2	1.33	1.0
		3/10E	61,054	18,828	37.3	1.5	3.9	0.9	11.5	24.1	1.11	0.9

Quality of earnings impressive: Union Bank of India's 3QFY09 results were above estimate and strong across parameters. Earnings grew 84% YoY backed by 50% YoY NII growth. We are particularly impressed with a) CASA growth of 20% YoY, b) Margin improvement (up 20bp QoQ to 3.22%), and 3) strong asset quality underlined by 90%+ coverage ratio. Deposits (up 31% YoY and 12% QoQ) and loans (up 28% YoY and 9% QoQ) have grown strong during the quarter. Pricing power is highlighted by the fact that yield on loans are up 37bp QoQ despite PLR cuts. NIMs improved 20bp QoQ and 40bp YoY to 3.2%. Our concern on Tier I capital adequacy is partially allayed considering partial adoption of Basel II (<25% loan book externally rated) has led to 60bp improvement in Tier I. Tier I under Basel II is 8.1% as of December 2008.

Maintain Buy: UBI continues to deliver strong operational performance. Robust growth in core deposits, technological upgradation, business transformation and brand building is commendable and we believe this would benefit in the longer term. We expect margin to decline in FY10 (~20bp) and fee income growth to moderate (~15%) as bank's pricing power is damaged. We model Gross NPAs rising 2.3x from current levels till March 2010 and NPA cost doubling in FY10. Still UBI would deliver strong return ratios of 1.1% RoA and 24% RoE in FY10. Management's execution and quality of earnings would continue to give UBI a valuation premium as compared to other PSU banks. We value UBI at 1.5x FY10E ABV or Rs233/share – an upside of 60.6%.

QUARTERLY PERFORMANCE	(RS MILLION)									
	FY08				FY09				FY08	FY09E
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4QE		
Interest Income	20,741	22,384	24,227	25,664	25,332	28,313	32,617	32,751	93,016	119,013
Interest Expense	13,399	15,820	16,705	17,685	17,232	18,560	21,333	22,061	63,609	79,186
Net Interest Income	7,342	6,564	7,522	7,979	8,100	9,753	11,284	10,690	29,406	39,827
% Change (Y-o-Y)	15.7	4.6	9.7	-5.3	10.3	48.6	50.0	34.0	11.6	35.4
Other Income	2,150	2,873	3,838	3,467	2,217	2,833	3,921	3,026	12,327	11,996
Net Income	9,492	9,436	11,360	11,446	10,317	12,586	15,205	13,716	41,734	51,823
Operating Expenses	4,241	4,153	4,997	2,539	4,157	5,589	6,656	3,389	15,930	19,791
Operating Profit	5,251	5,283	6,363	8,907	6,160	6,997	8,548	10,326	25,804	32,032
% Change (Y-o-Y)	35.5	35.8	36.6	17.4	17.3	32.4	34.3	15.9	29.0	24.1
Other Provisions	1,554	976	1,150	3,520	2,957	2,033	-449	1,717	7,199	6,258
Profit before Tax	3,697	4,308	5,213	5,387	3,203	4,965	8,997	8,609	18,605	25,774
Tax Provisions	1,450	1,550	1,564	170	920	1,350	2,280	2,667	4,734	7,217
Net Profit	2,247	2,758	3,649	5,217	2,283	3,615	6,717	5,943	13,871	18,557
% Change (Y-o-Y)	34.8	42.0	42.4	128.7	1.6	31.1	84.1	13.9	64.1	33.8
Interest Expense/Interest Income (%)	64.6	70.7	69.0	68.9	68.0	65.6	65.4	67.4	68.4	66.5
Other Income/Net Income (%)	22.6	30.4	33.8	30.3	21.5	22.5	25.8	22.1	29.5	23.1
Cost to Income Ratio (%)	44.7	44.0	44.0	22.2	40.3	44.4	43.8	24.7	38.2	38.2
Provisions/Operating Profits (%)	29.6	18.5	18.1	39.5	48.0	29.0	-5.3	16.6	27.9	19.5
Tax Rate (%)	39.2	36.0	30.0	3.2	28.7	27.2	25.3	31.0	25.4	28.0

E: MOSL Estimates

N O T E S



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MOST has broking relationships with a few of the companies covered in this report.

MOST is engaged in providing investment-banking services in the following companies covered in this report: Nil

This information is subject to change without any prior notice. MOST reserves the right to make modifications and alternations to this statement as may be required from time to time. Nevertheless, MOST is committed to providing independent and transparent recommendations to its clients, and would be happy to provide information in response to specific client queries.