Indian Financials

Whoa

India
Banks

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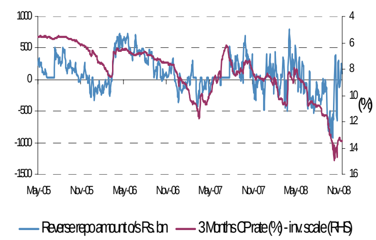
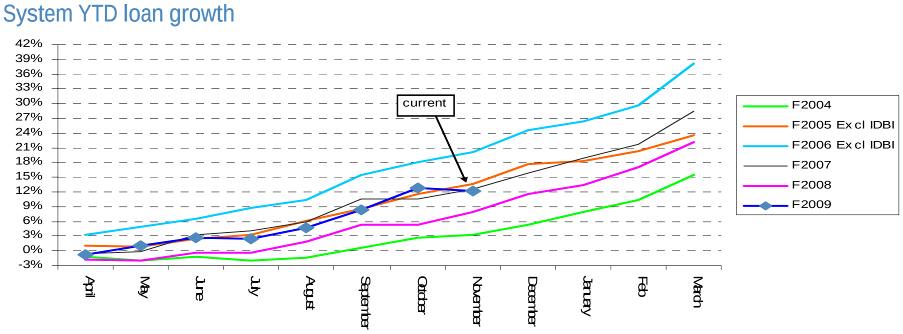
- **Loan growth slows sharply in Nov08, finally:** The latest loan growth data for Nov08 shows a sharp slowdown in YTD growth given tight liquidity and a deteriorating credit environment.
- **Sharp cut in our earnings estimates:** We cut our FY10 earnings estimates for the three large private banks (Axis, HDFC Bank, and ICICI Bank) by 10%-30% as we expect balance sheet growth, and correspondingly fee income, to slow down – mainly a top-line adjustment. The combination of lower top-line growth and higher provisions is likely to squeeze earnings growth below current consensus estimate levels, in our view.
- **Rates likely to come off as loan growth slows:** Liquidity is fine for banks but tight for corporates as banks have collected more deposits YTD, outweighing loan growth despite high incremental LDRs of 95%. But corporates are being squeezed, as evidenced by high funding costs of 13-14% for AAA customers plus severely restricted overseas funding options. However, as loan growth slows from 27% currently to 19% by Mar-09E, we envisage deposit rate cuts followed by lending rate cuts.
- **Normalized ROE doesn't work in abnormal times:** While our fair value multiples using normalized ROE suggest substantial Mar-10 upside for these stocks, FY10E ROEs remain subdued, implying downside (except for ICICI) if we were to base our multiple on these. We need to see an alleviation of stress on i) growth (loans, fees, revenues), and ii) asset quality, before reported ROEs trend towards normalized levels and stocks start to outperform. This is likely to be closer to Mar-10.
- **Top picks:** HDFC Ltd followed by ICICI Bank, as HDFC's growth and profitability are unlikely to be dented as much by the current environment, and we expect ICICI Bank to rebound quicker as the cycle turns around, given their valuations. Key risks include higher interest rates and much-slower-than-expected economic growth.

Reverse repo amount o/s in Rs B vs. three-month AAA CP rate (%)



Source: RBI, Bloomberg.

System YTD loan growth



Source: RBI, J.P. Morgan.

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We foresee a slowdown in top-line growth for the private banks (we deal with the SOEs separately in a later note), as balance sheet growth is likely to slow down led by a decrease in loan growth leading to pressures on fee growth as well. This is likely to lead to a disproportionately large impact on FY10E earnings of 8% for HDFC Bank, 17% for ICICI Bank, and 27% for Axis Bank.

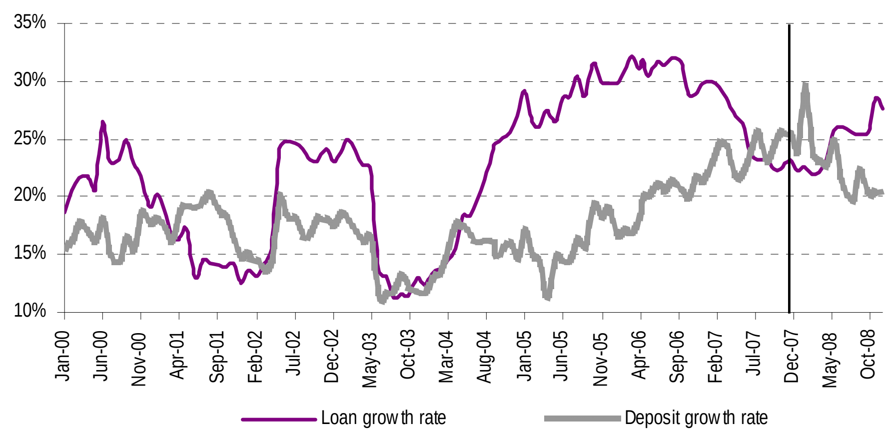
Accordingly, we adjust our normalized ROE assumptions to arrive at slightly lower fair value estimate multiples. But these continue to signal upside from current levels – so is it time to buy? Not necessarily, as normalized ROEs are being ignored in these abnormal times. Rather, we expect FY10 ROEs to compress over current levels given the top-line slowdown. If we were to use these to arrive at proforma fair value multiples, they would signal downside of 12% for Axis, and 23% for HDFC Bank, but upside for ICICI Bank. Investors are likely to want to see a significant improvement in various indicators before they start believing in normalized ROEs, primarily: i) a recovery in growth (balance sheet, fees and earnings); and ii) asset quality and provisioning.

In the face of this, our top picks continue to be HDFC Ltd (the mortgage company) and ICICI Bank.

Slowing loan growth

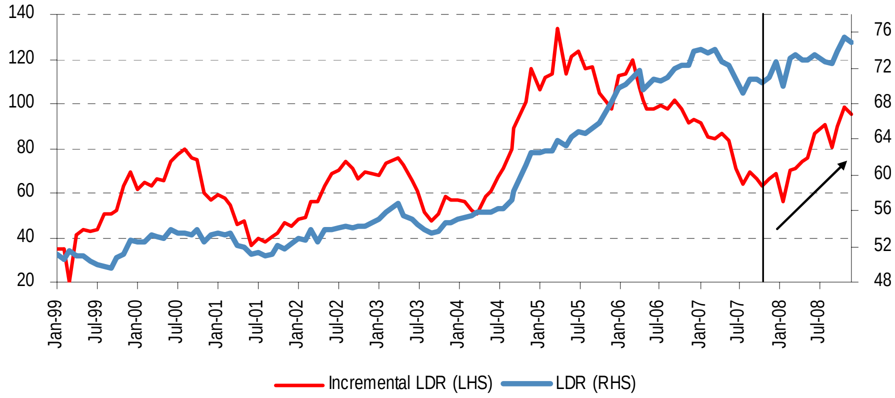
While Y/Y loan growth continues at elevated levels of 27% and the incremental LDR at 95% is the highest in two years, there is a low-base effect in play which is reflected in slowing loan growth if we were to look at it on a YTD basis. In fact, M/M loan growth has slowed in the busy season for the first time in several years.

Figure 1: System loan, deposit growth (yoy)



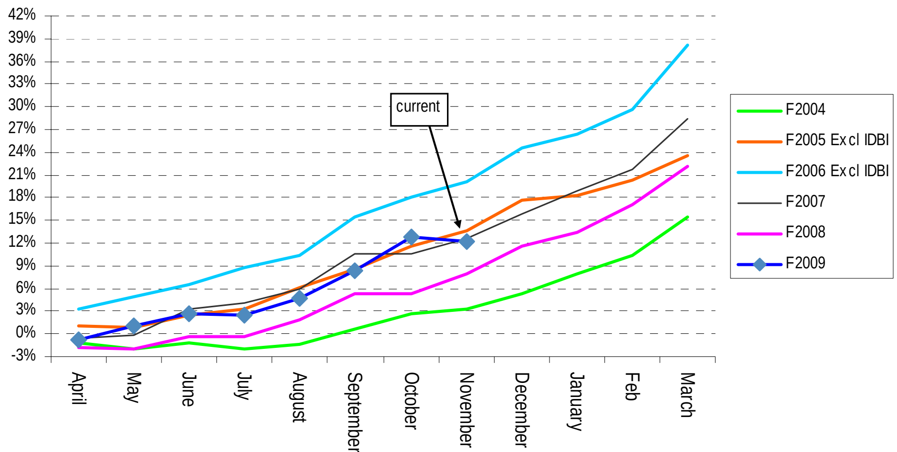
Source: RBI, J.P. Morgan.

Figure 2: System LDR, incremental LDR



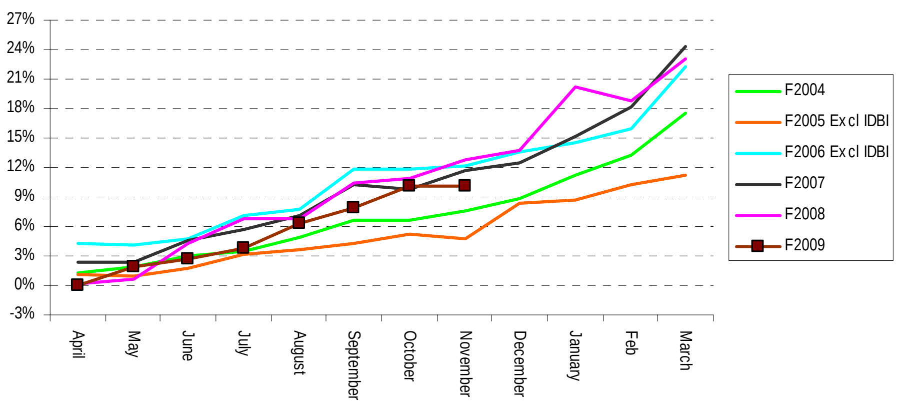
Source: RBI, J.P. Morgan.

Figure 3: System YTD loan growth



Source: RBI, J.P. Morgan.

Figure 4: System YTD deposit growth



Source: RBI, J.P. Morgan.

In fact, despite the high LDR, if we look at absolute levels of deposit and loan changes, there is a surplus at the system level.

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Table 1: System loan vs. deposit growth

Rs B, YE March	1H FY09 YoY	YoY%	1H FY09 YTD	YTD %
Deposits	6,375	20%	3,233	10%
Loans	6,256	29%	3,030	13%
Excess/(deficit) funding	118		203	

Source: RBI, J.P. Morgan.

So the moot question is, what is contributing to the current elevated levels of loan growth and what will pull it back? We take a look at the key factors:

First, looking at sector-wise data available up to Aug08, we see that key sectors pulling up growth are i) oil companies, ii) housing, iii) credit cards, and iv) professional loans which contributed to 80% of the yoy loan growth in Aug08 and 47% of the YTD growth up to Aug08.

Table 2: Sectoral contributors to loan growth: Aug08

	Mar08 YoY	May08 YoY	Aug08 YoY	Contribn to Aug YoY growth	Aug08 YTD	Contribn to YTD growth
Total	22%	24%	27%		5%	
Major sectors						
Agriculture	19%	19%	18%	8%	-4%	-10%
Industry	25%	27%	31%	45%	6%	49%
Personal	11%	16%	17%	17%	9%	42%
Services	31%	31%	35%	30%	4%	19%
Key sub-sectors						
Petroleum, coal & nuclear fuels	16%	63%	92%	14%	50%	19%
Housing	11%	14%	14%	40%	5%	12%
Credit cards	44%	87%	86%	16%	51%	9%
Professional & other svcs	24%	29%	56%	9%	29%	8%
				80%		47%

Source: RBI, J.P. Morgan.

In fact, YTD growth until Nov08 indicates that loans to oil companies grew 68% – this over a period when oil prices started spiking without a matching increase in domestic fuel prices. Accordingly, Mar-Aug08 data reveals an incremental increase of about Rs207B of loans to the petroleum sector, which we believe could be about Rs75B higher up to Nov08. Given the subsequent fall in crude and further approval of Rs650B of oil bonds (of which about Rs220B has been issued) there is a strong chance that oil companies will not only not borrow incrementally but also repay most of their incremental loans taken over Mar08.

Table 3: YTD and YOY loan growth, ex-petroleum

YTD Growth	YTD Nov08 (8mth)	Nov08 to Mar09E (4mth)	FY09E	Recent 3m trend (Nov over Aug)
Loans	12%	6%	19%	7%
Petroluem sector loans	68%	-36%	8%	12%
Loans ex-petroleum	11%	7%	19%	7%

YoY Growth	Mar08	Aug08	Nov08	Mar09E
Loans	22%	25%	27%	19%
Petroluem sector loans	16%	92%	-	8%
Loans ex-petroleum	22%	24%	-	19%

Source: RBI, J.P. Morgan.

Hence, we estimate that ex-oil company loan growth will follow similar trends seen over the last three months (approx 7% growth) to end the year at 19% loan growth for the system – a substantial deceleration from the current 27%, predominantly on account of oil company loans being repaid.

As deposit growth is also likely to track similar trends, we expect this slowdown to result in banks cutting deposit and lending rates. Importantly, we believe this time round, even the private banks will participate in these cuts as their cost of funding is likely to prompt a lending rate cut.

Broadly, on the macro front, our infrastructure analyst, Shilpa Krishnan, expects slower capex growth as a result of funding constraints. Compared to the 11th plan estimates of US$500B in capex, we are more likely to see only US$300-350B of capex driven mainly by government-led projects. In addition, our Economics team led by Jahangir Aziz has cut GDP estimates for India to 6.7% for FY09 and 6.2% for FY10 given the gridlock in domestic financing and deteriorating global outlook.

Speaking to banks, we understand that despite the several measures taken by RBI to unlock liquidity, there is some hesitancy based on liquidity uncertainties in the minds of bankers, particularly given the Rupee-$ operations of the RBI sucking out further liquidity. Incremental measures to encourage foreign flows are being offset by massive foreign portfolio outflows in the capital markets and tight global conditions. Accordingly, there is one school of thought that proposes big-bang measures to re-impose confidence in the system and remove near-term uncertainties, primary among which are uncapping NRI deposit rates completely rather than raising the cap incrementally, and offering more clarity on forex support from RBI's reserves to corporates and banks for meeting upcoming liabilities.

Given the slower GDP growth and weak global situation, we cut our loan growth estimates for the system to 19% for FY09 and 18% for FY10, premised on 18% and 16% deposit growth, respectively.

Impact of slower growth on private banks

While the entire system would face various degrees and types of impact because of this slowdown, in this report we focus on what is likely to happen to the three large private banks - Axis Bank, HDFC Bank, and ICICI Bank.

While slowing loan growth affects all three banks, ICICI Bank should be less affected as it has already seen a slowdown. Also, as some amount of fee income is linked to balance sheet based growth and capital markets, we expect lower fee growth as well, resulting in earnings hits of 10-30% as summarized below.

Table 4: Summary of revenue and earnings estimate changes, FY10E

	Loan growth			Fee growth			Revenues			Net Profit		
Bank	Old	New	Change	Old	New	Change	Old	New	Change	Old	New	Change
Axis Bank	30%	25%	-4%	49%	25%	-24%	35%	25%	-11%	32%	3%	-27%
HDFC Bank	32%	25%	-5%	30%	25%	-4%	33%	29%	-3%	50%	38%	-8%
ICICI Bank	7%	6%	-1%	20%	10%	-8%	21%	13%	-6%	31%	10%	-17%

Source: J.P. Morgan estimates.

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While these changes would affect book value and ROE for FY10E, we do not believe they justify a major change in normalized ROE given the cyclicality of these changes. However, in the current environment, attempting to value stocks on normalized ROE doesn't work, in our view. Instead, we try to simlate price targets using the compressed FY10E ROEs instead of normalized ROEs of these banks. Given the low investor confidence in a recovery of growth and profitability, these simulations would probably be what investors would view to be more realistic fair value estimates in this or a worsening environment. They are summarized below.

Table 5: Fair value and simulated fair value estimates, FY10E

Rs/share	Current price	Normalised ROE	Target Price*	Upside	FY10E ROE	Simulated target price	Up / downside
Axis Bank	405	16.8%	565	39%	14.0%	356	-12%
HDFC Bank	821	19.8%	1245	52%	14.7%	633	-23%
ICICI Bank	320	11.9%	710	122%	8.5%	655	105%

Source: Bloomberg, J.P. Morgan estimates; * Target price is for Mar-10E.

We use the Gordon Growth model to value the banks and sum of the parts for ICICI Bank's subsidiaries and associates (details of normalized ROE, earnings outlook and sum of the parts are available in the subsequent company sections of this report).

However, we believe that an alleviation in the current environment is quite likely (at least domestically) as the RBI and the government unleashes measures to tackle this crisis of confidence and spur economic growth. While this could be spread over a period of time, we believe true confidence will only emerge (particularly for private infrastructure projects) after the elections. Hence, investor belief in normalized ROEs will return only towards Mar-2010, in our view, implying volatile times prior to that. Main watch points would be: i) a recovery in growth (balance sheet, fees and earnings), and ii) no incremental deterioration in asset quality and provisioning.

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Companies

J.P.Morgan

Asia Pacific Equity Research
22 November 2008

Axis Bank Ltd

FY10E top-line cut

Overweight

AXBK.BO, AXSB IN

Price: Rs411.50

▼ **Price Target: Rs565.00**
Previous: Rs810.00

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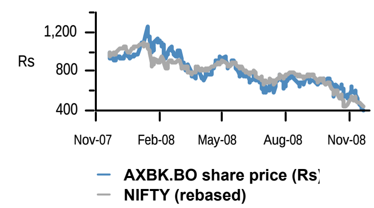
J.P. Morgan Securities (Asia Pacific) Limited

- We are removing Axis Bank from J.P. Morgan's Asia Analysts' Focus List.
- We cut Axis Bank's earnings 27% in F2010E on the back of a 400bp cut in loan growth to 25% and 2400bp cut in fee growth to 25%, leading to a 1100bp cut in revenue growth to 25%.
- Corporate loan growth and corporate plus capital market related fees are likely to see moderation in the current environment, providing the basis for our cuts.
- We cut our normalised ROE by 330bp and our fair parent multiple reduces to 1.9x despite a reduction in the risk free rate to 7.5%, vs. 8.0% assumed earlier. Thus, our Mar-10 price price target is reduced to Rs565 based on the Gordon Growth model, implying 39% upside.
- However, given the lack of visibility of normalized ROEs, a simulated fair value based on the subdued F10E ROE of 14% is Rs356, implying 12% downside from current levels. Near-term pressures on the stock are expected to yield back-ended up to Mar10E, resulting in our maintaining our Overweight rating.
- Key risks to our rating are a significant rise in rates and NPLs plus an unanticipated slowdown of growth in the near term.

Price Performance



	YTD	1m	3m	12m
ABS	-58.3%	-34.2%	-39.7%	-59.3%
REL	0.1%	-16.0%	2.5%	-3.5%

Reuters: AXBK.BO, Bloomberg: AXSB IN

Rs in millions, year-end March

	FY06	FY07	FY08	FY09E	FY10E				
Net profit (RsMM)	4,851	6,590	10,710	14,170	14,585	52-week range	1,292-384	Reuters	
Basic EPS (rep'd) (Rs)	17.4	23.4	29.9	39.6	40.8	Market cap	US$2.94B	Bloomberg	AXB LI
Basic EPS growth (%)	42.4%	34.4%	28.0%	32.3%	2.9%	Shares o/s	358.6MM	52-wk range	US$32.2-8.8
P/E (basic) (x)	23.3	17.3	13.5	10.2	9.9	Price	Rs 411.5	Ratio	1:1
BVPS (Rs)	103.1	120.5	245.1	275.7	305.5	Date of Price	21 Nov 08	Avg daily volume	3,243 GDRs
P/BV (x)	3.93	3.37	1.65	1.47	1.33	Free float	55.9%	Current prem (%)	2.93
ROE (%)	18.4%	21.0%	17.6%	15.2%	14.0%	Avg daily value	Rs 3,274MM	13-wk avg prem (%)	0.23
Tier 1 ratio (%)	7.3%	6.4%	10.2%	8.7%	7.8%	Avg daily value	US$65.1MM	52-wk avg prem (%)	0.37
DPS (Rs)	4.0	5.3	7.0	9.0	11.0	Avg daily Vol	5.1MM shares	Exchange rate	Rs50.3/US$1
Div. yield (%)	1.0%	1.3%	1.7%	2.2%	2.7%	BSE Sensex	8,915.21		

Source: Company reports, Datastream, and J.P. Morgan estimates.

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Table 6: Axis Bank: Earnings outlook

	FY09E	FY10E
Profit & Loss		
Interest on Advances	49%	31%
Interest on Investments	45%	32%
Other Interest Income	65%	16%
Total Interest Income	48%	31%
Interest Expenses	52%	33%
Net Interest Income (NII)	42%	26%
P/(L) on sale of Investments	-9%	0%
P/(L) on Exchange Transactions	35%	30%
Fee & Other Income	43%	25%
Total Non-Interest Income	35%	23%
Total Income	39%	25%
Operating Expenses	35%	36%
Pre-provisioning Profits	43%	15%
Provisions for NPAs	62%	56%
Provisions for Std. Assets	111%	32%
Provisions on Investments	2194%	0%
Other Provisions	-80%	33%
Total Provisions	81%	40%
PBT	30%	3%
Tax	25%	3%
PAT	32%	3%
Balance Sheet		
Deposits	35%	25%
Net Advances	36%	25%
Total Assets	33%	24%
Net Interest Margin	0.04%	-0.05%
Book Value	12%	11%
EPS	32%	3%
ROA	-0.06%	-0.22%
ROE	-2.40%	-1.18%

Source: J.P. Morgan estimates.

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Table 7: Axis Bank—Normalised ROE

Axis Bank	NORMALISED	FY05	FY06	FY07	FY08	FY09E	FY10E
Net Margin (as % of avg. IEA)	2.92%	2.35%	2.39%	2.48%	2.92%	2.95%	2.90%
NIM (as % of avg. Assets)	2.83%	2.21%	2.27%	2.39%	2.83%	2.87%	2.83%
Non-IR/Asset	1.89%	1.38%	1.37%	1.54%	1.72%	1.75%	1.72%
Non-IR/Revenues	40.0%	38.5%	37.7%	39.3%	37.9%	37.9%	37.8%
Fees/Revenues	35.0%	34.1%	32.2%	34.1%	32.9%	33.1%	32.9%
Dealing/Revenues	5.00%	4.4%	5.5%	5.2%	5.0%	4.7%	4.9%
Other Rev/Revnues	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Total Revenue	4.72%	3.59%	3.64%	3.93%	4.55%	4.62%	4.54%
Cost/Income	50.8%	52.4%	51.2%	50.2%	51.8%	49.4%	53.3%
Cost/Assets	2.40%	1.88%	1.86%	1.98%	2.36%	2.28%	2.42%
Pre-Provision Profits	2.32%	1.71%	1.78%	1.96%	2.19%	2.34%	2.12%
LLP/Loans	-1.24%	-0.13%	-0.90%	-0.66%	-1.03%	-1.25%	-1.41%
Loans/Assets	60.00%	40.8%	43.6%	48.4%	53.0%	55.5%	56.3%
Prov/Writebacks on Sec.	0.00%	-0.03%	0.29%	-0.02%	0.15%	0.03%	0.02%
Pre-Tax	1.58%	1.63%	1.67%	1.62%	1.80%	1.67%	1.35%
Effective Tax Rate	33.60%	33.6%	33.7%	33.8%	34.9%	33.6%	33.6%
ROAA	1.05%	1.08%	1.11%	1.07%	1.17%	1.11%	0.89%
Equity / Assets	6.25%	5.73%	6.04%	5.09%	6.65%	7.30%	6.37%
RoE	16.76%	18.9%	18.4%	21.0%	17.61%	15.21%	14.03%
Adjusted NAV	300.0						
PV of Adj NAV	252.8						
COE	13.5%						
RFR	7.5%						
Equity Prem	6.0%						
Beta	1.00						
Growth	9.8%						
Fair P/BV	1.87x						
Terminal Value	472.6						
Sum of PV of Dividends	25.51						
Fair Value	498.1	Mar 2010		Fair Value = Rs. 565			

Source: Company, J.P. Morgan estimates.

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Axis Bank Ltd: Summary of Financials

Income Statement Rs in millions, year end Mar	FY06	FY07	FY08	FY09E	FY10E
NIM (as % of avg. assets)	2.4%	2.5%	2.9%	3.0%	2.9%
Earning assets/assets	94.8%	96.3%	96.8%	97.2%	97.4%
Margins (% of earning assets)	2.3%	2.4%	2.8%	2.9%	2.8%
Net Interest Income	9,907	14,683	25,854	36,642	46,138
Total Non-Interest Income	5,998	9,492	15,752	22,328	28,011
Fee Income	5,129	8,244	13,678	19,527	24,370
Dealing Income	869	1,248	2,075	2,801	3,641
Other Operating Income	-	-	-	-	-
Total operating revenues	15,905	24,176	41,606	58,970	74,149
Operating costs	-8,141	-12,146	-21,549	-29,150	-39,512
Pre-Prov. Profits	7,765	12,030	20,057	29,819	34,637
Provisions	-1,718	-1,961	-4,975	-8,829	-12,972
Other Inc/Exp.	1,267	-107	1,381	350	300
Exceptionals	0	0	0	0	0
Disposals/ other income	-	-	-	-	-
Pre-tax	7,313	9,962	16,463	21,341	21,965
Tax	2,462	3,372	5,752	7,171	7,380
Minorities	0	0	0	0	0
Other Distbn.	-	-	-	-	-
Attributable Income	4,851	6,590	10,710	14,170	14,585

Growth Rates	FY06	FY07	FY08	FY09E	FY10E
Loans	43.2%	64.8%	61.8%	36.3%	25.2%
Deposits	26.5%	46.5%	49.1%	35.0%	25.0%
Assets	31.8%	47.3%	49.6%	32.9%	24.1%
Equity	19.3%	18.1%	158.4%	12.5%	10.8%
RWA	62.2%	46.8%	53.1%	47.8%	24.1%
Net Interest Income	45.1%	48.2%	76.1%	41.7%	25.9%
Non-Interest Income	40.4%	58.3%	65.9%	41.7%	25.5%
of which Fee Grth	35.5%	60.7%	65.9%	42.8%	24.8%
Revenues	43.3%	52.0%	72.1%	41.7%	25.7%
Costs	40.0%	49.2%	77.4%	35.3%	35.5%
Pre-Provision Profits	46.9%	54.9%	66.7%	48.7%	16.2%
Loan Loss Provisions	963.2%	14.1%	153.7%	77.5%	46.9%
Pre-Tax	45.2%	36.2%	65.2%	29.6%	2.9%
Attributable Income	45.0%	35.9%	62.5%	32.3%	2.9%
EPS	42.4%	34.4%	28.0%	32.3%	2.9%
DPS	26.0%	30.8%	33.2%	27.9%	22.2%

Balance Sheet Gearing	FY06	FY07	FY08	FY09E	FY10E
Loan/deposit	56.0%	63.0%	68.4%	69.0%	69.1%
Investment/assets	43.3%	36.7%	30.8%	32.0%	29.5%
Loan/Assets	44.9%	50.3%	54.4%	55.5%	52.3%
Customer deposits/liab.	80.7%	80.2%	80.0%	81.0%	76.2%
LT debt/liabilities	9.0%	11.9%	8.3%	8.6%	8.2%

Per Share Data Rs	FY06	FY07	FY08	FY09E	FY10E
EPS	17.41	23.40	29.94	39.61	40.77
DPS	4.04	5.28	7.03	9.00	11.00
Payout	23%	23%	23%	23%	27%
Book value	103.06	120.49	245.13	275.74	305.52
Fully Diluted Shares	0.00	0.00	0.00	0.00	0.00

Asset Quality/Capital	FY06	FY07	FY08	FY09E	FY10E
Loan loss reserves/loans	0.7%	0.4%	0.4%	0.6%	0.8%
NPLs/loans	1.7%	1.1%	0.8%	1.2%	1.4%
Loan loss reserves/NPLs	41.8%	36.4%	49.8%	54.0%	55.0%
Growth in NPLs	21.5%	10.8%	18.1%	90.2%	57.3%
Tier 1 Ratio	7.3%	6.4%	10.2%	8.7%	7.8%
Total CAR	11.1%	11.6%	13.7%	11.5%	10.7%

Key Balance sheet Rs in millions	FY06	FY07	FY08	FY09E	FY10E
Net Loans	223,142	368,765	596,611	811,392	1,014,239
LLR	-1,581	-1,523	-2,463	-5,080	-8,137
Gross Loans	224,724	370,288	599,075	816,471	1,022,376
NPLs	3,780	4,187	4,946	9,407	14,794
Investments	215,274	268,972	337,051	467,197	571,998
Other earning assets	16,800	18,921	27,845	32,050	37,960
Avg. IEA	414,448	592,429	884,805	1,240,039	1,589,431
Goodwill	0	0	0	0	0
Assets	497,311	732,572	1,095,778	1,456,802	1,807,625
Deposits	401,135	587,856	876,262	1,182,954	1,478,692
Long-term bond funding	44,695	86,970	90,534	125,113	159,546
Other Borrowings	17,886	35,014	34,293	52,000	64,500
Avg. IBL	394,325	560,328	820,811	1,137,431	1,473,153
Avg. Assets	437,374	614,942	914,175	1,276,290	1,632,214
Common Equity	28,722	33,932	87,685	100,529	120,114
RWA	385,982	566,434	867,197	1,281,986	1,590,710
Avg. RWA	311,989	476,208	716,815	1,074,591	1,436,348

Du-Pont Analysis	FY06	FY07	FY08	FY09E	FY10E
NIM (as % of avg. assets)	2.4%	2.5%	2.9%	3.0%	2.9%
Earning assets/assets	94.8%	96.3%	96.8%	97.2%	97.4%
Margins (as % of Avg. Assets)	2.3%	2.4%	2.8%	2.9%	2.8%
Non-Int. Rev./ Revenues	37.7%	39.3%	37.9%	37.9%	37.8%
Non IR/Avg. Assets	1.4%	1.5%	1.7%	1.7%	1.7%
Revenue/Assets	3.2%	3.3%	3.8%	4.0%	3.8%
Cost/Income	51.2%	50.2%	51.8%	49.4%	53.3%
Cost/Assets	1.9%	2.0%	2.4%	2.3%	2.4%
Pre-Provision ROA	5.1%	5.3%	6.2%	6.3%	6.2%
LLP/Loans	-0.8%	-0.5%	-0.8%	-1.1%	-1.3%
Loan/Assets	43.6%	48.4%	53.0%	55.5%	56.3%
Other Prov, Income/ Assets	0.3%	-0.0%	0.2%	0.0%	0.0%
Operating ROA	4.7%	5.0%	5.7%	5.7%	5.5%
Pre-Tax ROA	5.0%	5.0%	5.9%	5.7%	5.5%
Tax rate	33.7%	33.8%	34.9%	33.6%	33.6%
Minorities & Outside Distbn.	0.0%	0.0%	0.0%	0.0%	0.0%
ROA	1.1%	1.1%	1.2%	1.1%	0.9%
RORWA	1.6%	1.4%	1.5%	1.3%	1.0%
Equity/Assets	6.0%	5.1%	6.7%	7.3%	6.4%
ROE	18.4%	21.0%	17.6%	15.2%	14.0%

Source: Company reports and J.P. Morgan estimates.

HDFC Bank

FY10E top-line cut

Neutral

HDBK.BO, HDFCB IN

Price: Rs856.45

▲ **Price Target: Rs1,245.00**
Previous: Rs1,150.00

- We cut our earnings estimates for HDFC Bank by 8% for FY10E on the back of a 500bp cut in loan growth to 25% and 400bp cut in fee growth to 25% leading to a 300bp cut in revenue growth to 29%.
- Corporate loan growth and corporate plus capital market related fees are likely to moderate in the current environment, providing a basis for our estimate cuts.
- While we cut our normalized ROE estimate by 160bp, our fair value estimate multiple remains broadly at 3x given the reduction in the risk free rate to 7.5% from the 9.5% assumed earlier. Thus, our March 2010 share price target increases to Rs1,245 using the Gordon Growth Model.
- However, given the lack of visibility of normalized ROE, a simulated fair value based on the subdued FY10E ROE of 14.7% is Rs633, implying share price downside of 23%. Thus, we expect more pressure on the stock in the near term and maintain our Neutral rating. We also remain concerned about the timeline of potential synergy extraction from the CBOP merger.
- Key risks to our rating and price target include a significant fall in rates and pickup in growth in the near term.

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Banks

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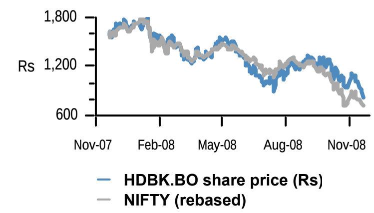
Price Performance



Reuters: HDBK.BO, Bloomberg: HDFCB IN

Rs in millions, year-end March

	FY07*	FY08*	FY09E	FY10E				
Net profit	12,627	17,320	20,955	28,894	52-week range	Rs1825–798	Reuters	
Basic EPS (rep'd) (Rs)	34.2	40.8	47.6	63.5	Market cap	US$7.23B	Bloomberg	HDB US
Basic EPS growth (%)	22.5	19.2	16.8	33.3	Shares outstanding	425.1MM	52-wk range	US$145.44–45.25
P/E (basic) (x)	24.0	20.1	17.2	12.9	Free float	76%	Ratio	3:1
BVPS (Rs)	183.8	318.9	407.2	459.2	Avg daily value	US$51.61MM	Avg daily volume	0.79MM ADRs
P/BV (x)	4.5	2.6	2.0	1.8	Avg daily volume	2.30MM	Current prem (%)	-7.84%
ROE (%)	19.3	16.2	13.1	14.7	BSE Sensex	8915.21	13-wk avg prem (%)	1.41
Tier 1 ratio (%)	8.8	10.4	10.8	9.8	Exchange rate	Rs50.3/US$1	52-wk avg prem (%)	1.49
DPS (Rs)	7.2	9.1	10.1	11.5				
Div. yield (%)	0.9	1.1	1.2	1.4				

Source: Company reports, Bloomberg, and J.P. Morgan estimates. FY07* & FY08* numbers are estimated for the merged (HDFC- CBOP) entity.

See page 21 for analyst certification and important disclosures, including non-US analyst disclosures.

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FY10E top-line cut

Table 8: HDFC Bank: Earnings outlook, YoY growth

Rs in millions, year-end March

Profit & Loss	FY09E	FY10E
Net Interest Income	35%	29%
Commission, Exchange, Brokerage	25%	25%
FX Income	5%	20%
Non-Interest Income	10%	29%
Total Income	27%	29%
Operating Expenses	31%	24%
Pre-Provisioning Profit	22%	34%
Provisions	21%	28%
Pre-tax Profit	23%	38%
Net Profit	21%	38%
EPS	17%	33%
Core Operating Profit	31%	31%
Balance Sheet		
Loans	32%	25%
Assets	29%	23%
Book Value	28%	13%
Gross NPLs	0.03%	0.07%
Tier 1 Ratio	0.45%	-1.03%
Ratios		
ROE	-3.16%	1.59%
ROA	-0.14%	0.11%
Net Interest Margin	-0.05%	0.08%
Cost-Income Ratio	1.79%	-1.82%

Source: J.P. Morgan estimates.

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Table 9: HDFC Bank: Normalised ROE

Year-end March

HDFC Bank	NORMALISED	FY07*	FY08	FY08*	FY09E*	FY10E*
Net Margin (as % of avg. IEA)	4.62%	4.42%	4.64%	4.61%	4.56%	4.64%
NIM (as % of avg. Assets)	4.48%	4.21%	4.44%	4.40%	4.38%	4.48%
Non-IR/Asset	1.73%	1.92%	1.91%	1.95%	1.75%	1.73%
Non-IR/Revenues	27.9%	31.4%	30.1%	30.8%	28.5%	27.9%
Fees/Revenues	24.4%	27.6%	26.1%	26.2%	24.9%	24.4%
Dealing/Revenues	3.5%	3.8%	4.0%	4.5%	3.6%	3.4%
Other Rev/Revnues	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Total Revenue	6.22%	6.13%	6.34%	6.36%	6.13%	6.20%
Cost/Income	52.6%	47.9%	51.7%	53.9%	54.0%	52.7%
Cost/Assets	3.27%	2.94%	3.28%	3.43%	3.31%	3.27%
Pre-Provision Profits	2.95%	3.20%	3.06%	2.93%	2.82%	2.93%
LLP/Loans	-2.15%	-2.09%	-2.15%	-2.11%	-2.16%	-2.15%
Loans/Assets	52.00%	50.0%	51.6%	51.5%	50.9%	52.0%
Prov/Writebacks on Sec.	0.05%	-0.16%	0.12%	0.01%	-0.04%	0.03%
Pre-Tax	1.88%	1.99%	2.08%	1.85%	1.68%	1.84%
Effective Tax Rate	32.00%	30.4%	32.0%	30.7%	32.0%	32.0%
ROAA	1.28%	1.39%	1.41%	1.28%	1.14%	1.25%
Equity / Assets	6.46%	7.1%	8.2%	7.4%	8.7%	8.5%
RoE	19.77%	19.5%	17.2%	17.3%	13.1%	14.7%
Adjusted NAV	412.6					
PV of Adj NAV	349.6					
COE	13.0%					
RFR	7.5%					
Equity Prem	6.0%					
Beta	0.92					
Growth	9.8%					
Fair P/BV	3.06x					
Terminal Value	1071.1					
Sum of PV of Dividends						
Fair Value	1102.1		Mar 10 fair value = Rs. 1246			

Source: Company reports and J.P. Morgan estimates. (*) represents proforma numbers for the merged (HDFC & CBOP) entity.

HDFC Bank: Summary of Financials

Income Statement					
Rs in millions, year end Mar	FY06	FY07	FY08	FY09E	FY10E
NIM (as % of avg. assets)	3.9%	4.6%	4.6%	4.6%	4.6%
Earning assets/assets	95.6%	95.1%	95.4%	96.1%	96.5%
Margins (% of earning assets)	3.7%	4.4%	4.4%	4.4%	4.5%
Net Interest Income	23,007	40,381	59,354	80,410	103,369
Total Non-Interest Income	11,761	20,181	26,361	32,129	39,905
Fee Income	10,767	17,796	22,489	28,063	35,026
Dealing Income	994	2,385	3,872	4,066	4,879
Other Operating Income	-	-	-	-	-
Total operating revenues	34,768	60,562	85,715	112,538	143,274
Operating costs	-16,911	-31,266	-46,220	-60,772	-75,550
Pre-Prov. Profits	17,857	29,296	39,495	51,766	67,724
Provisions	-4,798	-9,472	-14,636	-20,151	-25,835
Other Inc/Exp.	-521	-1,598	129	-800	600
Exceptionals	0	0	0	0	0
Disposals/ other income	-	-	-	-	-
Pre-tax	12,538	18,226	24,988	30,815	42,490
Tax	3,830	5,599	7,668	9,861	13,597
Minorities	0	0	0	0	0
Other Distbn.	-	-	-	-	-
Attributable Income	8,708	12,627	17,320	20,954	28,893

Growth Rates	FY06	FY07	FY08	FY09E	FY10E
Loans	37.4%	66.1%	37.2%	32.9%	25.0%
Deposits	53.5%	49.0%	47.8%	30.0%	25.0%
Assets	42.9%	49.3%	45.8%	29.5%	23.0%
Equity	17.3%	47.3%	73.5%	36.9%	12.8%
RWA	45.9%	46.1%	43.4%	32.4%	25.0%
Net Interest Income	29.4%	75.5%	47.0%	35.5%	28.6%
Non-Interest Income	64.0%	71.6%	30.6%	21.9%	24.2%
of which Fee Grth	74.2%	65.3%	26.4%	24.8%	24.8%
Revenues	39.3%	74.2%	41.5%	31.3%	27.3%
Costs	55.8%	84.9%	47.8%	31.5%	24.3%
Pre-Provision Profits	26.7%	64.1%	34.8%	31.1%	30.8%
Loan Loss Provisions	172.3%	97.4%	54.5%	37.7%	28.2%
Pre-Tax	28.1%	45.4%	37.1%	23.3%	37.9%
Attributable Income	30.8%	45.0%	37.2%	21.0%	37.9%
EPS	22.4%	22.3%	19.2%	16.8%	33.3%
DPS	18.9%	14.8%	26.4%	11.0%	13.9%

Balance Sheet Gearing	FY06	FY07	FY08	FY09E	FY10E
Loan/deposit	63.1%	70.4%	65.3%	66.8%	66.7%
Investment/assets	38.6%	32.1%	35.3%	36.0%	33.2%
Loan/Assets	47.4%	52.8%	49.6%	50.8%	48.8%
Customer deposits/liab.	75.9%	75.8%	76.8%	77.1%	74.2%
LT debt/liabilities	6.2%	6.4%	5.5%	4.9%	4.3%

Per Share Data Rs	FY06	FY07	FY08	FY09E	FY10E
EPS	28.00	34.23	40.79	47.64	63.48
DPS	6.27	7.20	9.10	10.10	11.50
Payout	23%	27%	25%	25%	20%
Book value	169.24	183.82	318.88	407.21	459.19
Fully Diluted Shares	0.00	0.00	0.00	0.00	0.00

Asset Quality/Capital	FY06	FY07	FY08	FY09E	FY10E
Loan loss reserves/loans	1.0%	1.1%	1.2%	1.3%	1.4%
NPLs/loans	1.4%	1.7%	1.9%	1.9%	2.0%
'Specific loan loss reserves/NPLs	0.0%	0.0%	0.0%	0.0%	0.0%
Growth in NPLs	15.9%	91.7%	55.0%	35.0%	30.0%
Tier 1 Ratio	8.5%	8.8%	10.4%	10.8%	9.8%
Total CAR	11.4%	12.8%	13.5%	14.1%	13.4%

Key Balance sheet Rs in millions	FY06	FY07	FY08	FY09E	FY10E
Net Loans	348,627	578,792	793,339	1,052,806	1,314,338
LLR	-3,537	-6,312	-9,477	-13,923	-18,749
Gross Loans	352,164	585,105	802,816	1,066,729	1,333,087
NPLs	5,089	9,756	15,123	20,416	26,540
Investments	283,940	351,798	564,939	745,568	893,855
Other earning assets	20,457	43,672	53,837	66,124	78,841
Avg. IEA	597,002	871,314	1,286,963	1,764,540	2,228,594
Goodwill	0	0	0	0	0
Assets	735,064	1,097,184	1,599,862	2,071,459	2,547,638
Deposits	557,968	831,617	1,229,283	1,598,068	1,997,585
Long-term bond funding	45,605	70,289	88,360	101,614	116,856
Other Borrowings	0	0	0	0	0
Avg. IBL	510,008	752,739	1,109,774	1,508,662	1,907,061
Avg. Assets	624,677	916,124	1,348,523	1,835,661	2,309,549
Common Equity	52,995	78,047	135,391	185,346	211,610
RWA	602,329	879,817	1,261,515	1,670,803	2,088,504
Avg. RWA	507,527	741,073	1,070,666	1,466,159	1,879,653

Du-Pont Analysis	FY06	FY07	FY08	FY09E	FY10E
NIM (as % of avg. assets)	3.9%	4.6%	4.6%	4.6%	4.6%
Earning assets/assets	95.6%	95.1%	95.4%	96.1%	96.5%
Margins (as % of Avg. Assets)	3.7%	4.4%	4.4%	4.4%	4.5%
Non-Int. Rev./ Revenues	33.8%	33.3%	30.8%	28.5%	27.9%
Non IR/Avg. Assets	1.9%	2.2%	2.0%	1.8%	1.7%
Revenue/Assets	4.7%	5.5%	5.4%	5.4%	5.3%
Cost/Income	48.6%	51.6%	53.9%	54.0%	52.7%
Cost/Assets	2.7%	3.4%	3.4%	3.3%	3.3%
Pre-Provision ROA	7.4%	8.9%	8.8%	8.7%	8.6%
LLP/Loans	-1.4%	-1.6%	-1.8%	-1.9%	-1.9%
Loan/Assets	48.7%	51.2%	51.5%	50.9%	52.0%
Other Prov, Income/ Assets	-0.1%	-0.2%	0.0%	-0.0%	0.0%
Operating ROA	6.8%	8.1%	7.8%	7.8%	7.6%
Pre-Tax ROA	6.7%	7.9%	7.9%	7.7%	7.6%
Tax rate	30.5%	30.7%	30.7%	32.0%	32.0%
Minorities & Outside Distbn.	0.0%	0.0%	0.0%	0.0%	0.0%
ROA	1.4%	1.4%	1.3%	1.1%	1.3%
RORWA	1.7%	1.7%	1.6%	1.4%	1.5%
Equity/Assets	7.9%	7.2%	7.9%	8.7%	8.5%
ROE	17.7%	19.3%	16.2%	13.1%	14.7%

Source: Company reports and J.P. Morgan estimates.

ICICI Bank

FY10E top-line cut

Overweight

ICBK.BO, ICICIBC IN

Price: Rs334.05

▼ **Price Target: Rs710.00**
Previous: Rs833.00

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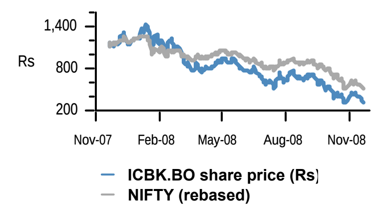
- We cut ICICI Bank's earnings for F2010E 17% on the back of a 100bp cut in loan growth to 6%, and an 800bp cut in fee growth to 10%, leading to a 600bp cut in revenue growth to 13%.
- Corporate loan growth and corporate plus capital-market-related fees and gains are likely to see moderation in the current environment, providing the basis of our cuts.
- We cut our normalised ROE by 200bp, and our fair parent multiple reduces to 0.86x despite a reduction in the risk free rate to 7.5%, vs. 8.0% assumed earlier. Thus, our Mar-10 price target reduces to Rs710, based on sum of the parts (details inside).
- However, given the lack of visibility of normalized ROEs, a simulated fair value based on the subdued F10E ROE of 8.3% is Rs655, yet implying robust upside. While we could see some pressure in the near term, We believe ICICI is likely to recover the quickest among its peers. We reiterate our Overweight rating.
- Key risks to our rating and price target are a significant rise in rates and NPLs, plus an unanticipated slowdown of growth in the near term.

Price Performance



	YTD	1m	3m	12m
ABS	-74.0%	-22.1%	-52.8%	-72.6%
REL	-15.6%	-3.9%	-10.6%	-16.8%

Table 10: ICICI Bank (Reuters: ICBK.BO, Bloomberg: ICICIBC IN)

Rs in million, year end March

	FY07	FY08	FY09E	FY10E				
Net profit	31,100	41,581	38,862	42,658	52-week range	Rs1465–282	Reuters	
Basic EPS (rep'd) (Rs)	34.8	41.3	34.9	38.3	Market cap	US$7.39B	Bloomberg	IBN US
Basic EPS growth (%)	11.3	18.9	-15.5	9.8	Price	Rs 334.05	52-wk range	US$74.25–11.33
P/E (basic) (x)	9.2	7.7	9.2	8.3	Date of Price	21 Nov 2008	Ratio	2 shares=1 ADR
BVPS (Rs)	270.4	417.5	440.4	465.8	Shares outstanding	1113MM shares	Avg daily volume	4.23MM ADRs
P/BV (x)	1.2	0.8	0.7	0.7	Free float	92%	Current prem (%)	-11.03
ROE (%)	13.4	11.7	8.1	8.5	Avg daily value	US$162.7MM	13-wk avg prem (%)	-1.06
Tier 1 ratio (%)	7.4	11.3	11.2	11.5	Avg daily volume	16.67MM shares	52-wk avg prem (%)	-0.34
DPS (Rs)	10.0	11.0	12.0	13.0	BSE Sensex	8,915.21		
Dividend yield (%)	3.1	3.4	3.8	4.1	Exchange rate	Rs50.3/US$1		

Source: Company reports, Datastream, and J.P. Morgan estimates.

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FY10E top-line cut

Table 11: ICICI Bank: Earnings Outlook – YoY Growth (%)

	FY 09E	FY 10E
Interest Income	5.1%	5.0%
Interest Expense	1.8%	4.0%
Net Interest Income	15.8%	7.8%
Commission, Exchange, Brokerage	30.0%	10.0%
FX Income	25.0%	10.0%
Core Fees	29.9%	10.0%
Capital Gains	-222.7%	-70.0%
Miscellaneous Income	-50.0%	0.0%
Non-Treasury, Non-Interest Income	8.4%	8.8%
Total Non Interest Income	-13.4%	19.3%
Total Operating Income	0.0%	13.2%
Core Revenues	12.0%	8.3%
Operating Expenses	-10.1%	9.8%
Operating Profit	10.1%	16.0%
Core Operating Profits	36.6%	7.2%
Loan Loss Provisions & Contingencies	25.7%	18.4%
Pre-tax Profit	1.1%	14.3%
Tax	36.7%	28.6%
Net Profit	-6.5%	9.8%
EPS	-15.5%	9.8%
Deposits	5.0%	8.0%
Customer Assets	2.8%	6.1%
Net Interest Margin	0.16%	0.08%

Source: J.P. Morgan estimates.

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Table 12: ICICI Bank: Normalised ROE

ICICI Bank	Normalised	FY 2007	FY 2008	FY 2009E	FY 2010E
Net Margin (as % of avg. IEA)	2.33%	2.01%	2.08%	2.22%	2.29%
Non-IR/Asset	2.17%	1.92%	2.10%	2.10%	2.17%
Non-IR/Revenues	49.8%	50.4%	51.7%	50.0%	50.3%
Fees/Revenues	49.0%	44.7%	51.0%	49.2%	49.4%
Dealing/Revenues	0.8%	5.7%	0.7%	0.8%	0.8%
Other Rev/Revnues	0.0%	0.0%	0.0%	0.0%	0.0%
Total Revenue	4.36%	3.81%	4.06%	4.19%	4.32%
Cost/Income	42.4%	57.2%	52.7%	42.3%	42.9%
Cost/Assets	1.85%	2.18%	2.14%	1.77%	1.86%
Pre-Provision Profits	2.51%	1.63%	1.92%	2.42%	2.47%
LLP/Loans	-1.75%	-1.29%	-1.36%	-1.56%	-1.76%
Loans/Assets	58.00%	58.0%	57.5%	58.0%	58.0%
Prov/Writebacks on Sec.	0.00%	0.34%	0.22%	-0.25%	-0.07%
Pre-Tax	1.50%	1.22%	1.36%	1.27%	1.38%
Effective Tax Rate	27.00%	14.7%	17.8%	24.0%	27.0%
Minorities and outside interests	0.00%	0.00%	0.00%	0.00%	0.00%
ROAA	1.09%	1.04%	1.12%	0.96%	1.01%
Equity / Assets	9.20%	7.8%	9.5%	11.8%	11.9%
RoE	11.89%	13.4%	11.7%	8.1%	8.5%
Adjusted NAV	516.6				
PV of Adj NAV	435.2				
COE	13.5%				
RFR	7.5%				
Equity Prem	6.0%				
Beta	1.0				
Growth	9.0%				
Fair P/BV	0.86x				

Source: Company reports, J.P. Morgan estimates.

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Table 13: ICICI Bank: Sum-of-the-parts valuation – 1 year forward

	Jun08	Sep08	Mar09E	Mar10E
Life insurance (Rs bn)	31	34	40	52
General insurance (Rs bn)	7	11	13	18
UK (Rs bn)	19	24	24	29
Canada (Rs bn)	14	14	17	22
Others (Rs bn)	16	17	17	17
Total (Rs bn)	87	100	110	137
YoY Change (Rs bn)			23	27
Rs/share of ICICI Bank	78	90	99	123
Reported BV			440	466
Adjusted BV			341	342
Fair Multiple				
				0.86
Fair value of parent				
				294
+ PV of dividends				
				28
Target Price of Parent				322
Current market price				334
Upside				-4%
Value of Subs				388
Life Insurance				274
General Insurance				47
AMC				12
Others				55
Target Price				710
Upside				113%

Source: J.P. Morgan estimates.

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ICICI Bank: Summary of Financials

Income Statement Rs in millions, year end Mar	FY06	FY07	FY08	FY09E	FY10E
NIM (as % of avg. assets)	2.0%	2.0%	2.1%	2.2%	2.3%
Earning assets/assets	93.3%	94.1%	94.6%	94.4%	93.8%
Margins (% of earning assets)	1.9%	1.9%	2.0%	2.1%	2.2%
Net Interest Income	39,068	56,370	73,041	84,571	91,205
Total Non-Interest Income	39,955	57,260	78,140	84,739	92,163
Fee Income	35,224	50,820	77,038	83,362	90,649
Dealing Income	4,731	6,440	1,102	1,377	1,515
Other Operating Income	-	-	-	-	-
Total operating revenues	79,023	113,630	151,181	169,310	183,368
Operating costs	-47,245	-65,030	-79,720	-71,673	-78,715
Pre-Prov. Profits	31,778	48,600	71,461	97,637	104,653
Provisions	-7,924	-22,260	-29,050	-36,502	-43,217
Other Inc/Exp.	7,110	10,140	8,150	-10,000	-3,000
Exceptionals	0	0	0	0	0
Disposals/ other income	-	-	-	-	-
Pre-tax	30,964	36,480	50,561	51,135	58,436
Tax	5,563	5,380	8,980	12,272	15,778
Minorities	0	0	0	0	0
Other Distbn.	-	-	-	-	-
Attributable Income	25,401	31,100	41,581	38,862	42,658

Growth Rates	FY06	FY07	FY08	FY09E	FY10E
Loans	58.7%	34.4%	16.0%	3.8%	6.1%
Deposits	65.4%	39.6%	6.0%	5.0%	8.0%
Assets	49.9%	37.1%	16.0%	2.0%	8.0%
Equity	76.9%	9.5%	91.1%	5.5%	5.8%
RWA	54.5%	39.0%	16.1%	7.7%	4.0%
Net Interest Income	37.6%	44.3%	29.6%	15.8%	7.8%
Non-Interest Income	65.9%	43.3%	36.5%	8.4%	8.8%
of which Fee Grth	68.2%	44.3%	51.6%	8.2%	8.7%
Revenues	50.6%	43.8%	33.0%	12.0%	8.3%
Costs	57.4%	37.6%	22.6%	-10.1%	9.8%
Pre-Provision Profits	41.5%	52.9%	47.0%	36.6%	7.2%
Loan Loss Provisions	235.8%	180.9%	30.5%	25.7%	18.4%
Pre-Tax	22.5%	17.8%	38.6%	1.1%	14.3%
Attributable Income	26.7%	22.4%	33.7%	-6.5%	9.8%
EPS	14.8%	11.3%	18.9%	-15.5%	9.8%
DPS	-0.6%	17.5%	10.0%	8.8%	8.3%

Balance Sheet Gearing	FY06	FY07	FY08	FY09E	FY10E
Loan/deposit	89.3%	85.9%	94.0%	93.0%	91.3%
Investment/assets	28.5%	26.5%	27.9%	25.5%	23.3%
Loan/Assets	58.1%	56.8%	56.4%	51.8%	46.6%
Customer deposits/liab.	65.7%	66.9%	61.1%	57.3%	52.5%
LT debt/liabilities	15.3%	20.5%	21.6%	17.0%	15.5%

Per Share Data Rs	FY06	FY07	FY08	FY09E	FY10E
EPS	31.23	34.77	41.33	34.92	38.33
DPS	8.53	10.02	11.03	12.00	13.00
Payout	30%	29%	30%	34%	34%
Book value	249.55	270.44	417.53	440.45	465.77
Fully Diluted Shares	0.00	0.00	0.00	0.00	0.00

Asset Quality/Capital	FY06	FY07	FY08	FY09E	FY10E
Loan loss reserves/loans	0.8%	1.1%	1.8%	2.8%	2.8%
NPLs/loans	1.6%	2.1%	3.4%	4.8%	4.8%
Loan loss reserves/NPLs	0.0%	0.0%	0.0%	0.0%	0.0%
Growth in NPLs	-33.3%	84.0%	83.2%	47.3%	6.1%
Tier 1 Ratio	9.2%	7.4%	11.3%	11.2%	11.5%
Total CAR	13.3%	11.7%	14.9%	14.2%	14.5%

Key Balance sheet Rs in millions	FY06	FY07	FY08	FY09E	FY10E
Net Loans	1,461,631	1,958,656	2,256,160	2,319,127	2,460,466
LLR	-12,135	-22,010	-41,660	-67,028	-71,113
Gross Loans	1,473,766	1,980,666	2,297,820	2,386,155	2,531,579
NPLs	22,930	42,200	77,300	113,901	120,842
Investments	715,474	912,580	1,114,540	1,143,527	1,232,164
Other earning assets	126,575	164,896	205,751	246,901	296,281
Avg. IEA	1,954,737	2,804,101	3,519,898	3,813,063	3,979,466
Goodwill	0	0	0	0	0
Assets	2,513,890	3,446,572	3,997,950	4,077,909	4,404,142
Deposits	1,650,832	2,305,102	2,444,310	2,566,526	2,771,848
Long-term bond funding	385,219	706,600	863,990	762,486	816,405
Other Borrowings	0	0	0	0	0
Avg. IBL	1,684,843	2,523,876	3,160,001	3,318,656	3,458,632
Avg. Assets	2,095,242	2,980,231	3,722,261	4,037,929	4,241,025
Common Equity	222,060	243,130	464,710	492,014	543,663
RWA	2,085,936	2,899,930	3,367,550	3,628,204	3,774,277
Avg. RWA	1,718,052	2,492,933	3,133,740	3,497,877	3,701,241

Du-Pont Analysis	FY06	FY07	FY08	FY09E	FY10E
NIM (as % of avg. assets)	2.0%	2.0%	2.1%	2.2%	2.3%
Earning assets/assets	93.3%	94.1%	94.6%	94.4%	93.8%
Margins (as % of Avg. Assets)	1.9%	1.9%	2.0%	2.1%	2.2%
Non-Int. Rev./ Revenues	50.6%	50.4%	51.7%	50.0%	50.3%
Non IR/Avg. Assets	1.9%	1.9%	2.1%	2.1%	2.2%
Revenue/Assets	3.1%	3.3%	3.8%	3.8%	3.5%
Cost/Income	59.8%	57.2%	52.7%	42.3%	42.9%
Cost/Assets	2.3%	2.2%	2.1%	1.8%	1.9%
Pre-Provision ROA	5.4%	5.5%	5.9%	5.6%	5.3%
LLP/Loans	-0.5%	-1.1%	-1.3%	-1.5%	-1.7%
Loan/Assets	57.3%	58.0%	57.5%	58.0%	58.0%
Other Prov, Income/ Assets	0.3%	0.3%	0.2%	-0.2%	-0.1%
Operating ROA	5.1%	4.8%	5.2%	4.7%	4.3%
Pre-Tax ROA	5.4%	5.2%	5.4%	4.4%	4.3%
Tax rate	18.0%	14.7%	17.8%	24.0%	27.0%
Minorities & Outside Distbn.	0.0%	0.0%	0.0%	0.0%	0.0%
ROA	1.2%	1.0%	1.1%	1.0%	1.0%
RORWA	1.5%	1.2%	1.3%	1.1%	1.2%
Equity/Assets	8.3%	7.8%	9.5%	11.8%	11.9%
ROE	14.6%	13.4%	11.7%	8.1%	8.5%

Source: Company reports and J.P. Morgan estimates.

Companies Recommended in This Report (all prices in this report as of market close on 21 November 2008, unless otherwise indicated)
Axis Bank Ltd (AXBKq.L/$8.80 [19-November-2008]/Overweight), Axis Bank Ltd (AXBK.BO/Rs411.75/Overweight), HDFC (Housing Development Finance Corporation) (HDFC.BO/Rs1,399.30/Overweight), HDFC Bank (HDBK.BO/Rs856.70/Neutral), HDFC Bank (HDB/$45.25 [20-November-2008]/Neutral), ICICI Bank (ICBK.BO/Rs335.55/Overweight), ICICI Bank (IBN/$11.33 [20-November-2008]/Overweight)

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- **Analyst Position:** The following analysts (and/or their associates or household members) own a long position in the shares of Axis Bank Ltd: Sachin Sheth. The following analysts (and/or their associates or household members) own a long position in the shares of HDFC Bank: Sachin Sheth. The following analysts (and/or their associates or household members) own a long position in the shares of ICICI Bank: Sachin Sheth, Sunil Garg.
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- **Non-Investment Banking Compensation:** JPMSI has received compensation in the past 12 months for products or services other than investment banking from Axis Bank Ltd, HDFC (Housing Development Finance Corporation), HDFC Bank, ICICI Bank. An affiliate of JPMSI has received compensation in the past 12 months for products or services other than investment banking from Axis Bank Ltd, HDFC (Housing Development Finance Corporation), HDFC Bank, ICICI Bank.
- An affiliate of JPMSI owns a significant stake in HDFC Securities Limited, a privately held subsidiary of HDFC.
- An affiliate of JPMSI owns a significant stake in HDFC Securities Limited, a privately held subsidiary of HDFC.

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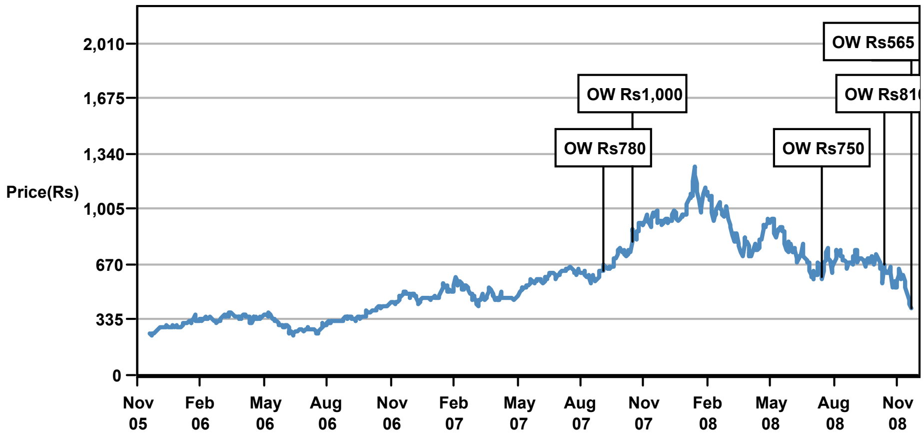
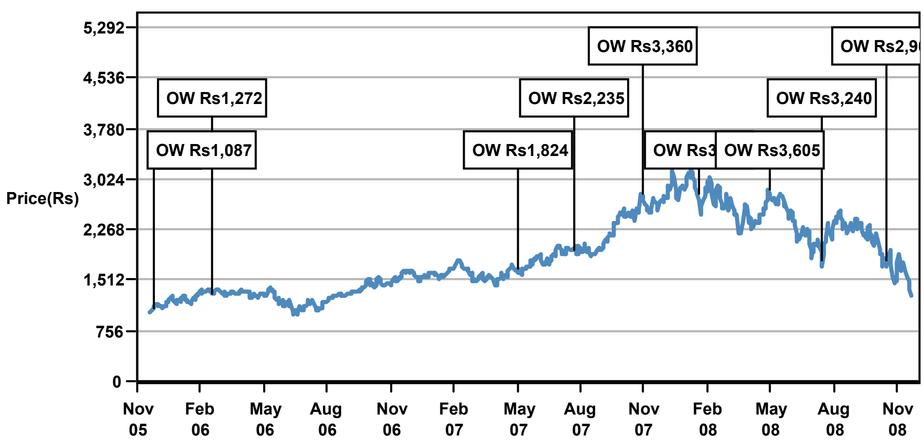
Axis Bank Ltd (AXBK.BO) Price Chart



Date	Rating	Share Price (Rs)	Price Target (Rs)
03-Sep-07	OW	635.35	780.00
16-Oct-07	OW	813.35	1000.00
16-Jul-08	OW	596.55	750.00
14-Oct-08	OW	662.90	810.00
21-Nov-08	OW	406.05	565.00

Source: Reuters and J.P. Morgan; price data adjusted for stock splits and dividends.
Initiated coverage Sep 03, 2007. This chart shows J.P. Morgan's continuing coverage of this stock; the current analyst may or may not have covered it over the entire period.
J.P. Morgan ratings: OW = Overweight, N = Neutral, UW = Underweight.

HDFC (Housing Development Finance Corporation) (HDFC.BO) Price Chart



Date	Rating	Share Price (Rs)	Price Target (Rs)
25-Nov-05	OW	1086.05	1087.00
18-Feb-06	OW	1300.05	1272.00
04-May-07	OW	1679.20	1824.00
25-Jul-07	OW	1974.70	2235.00
30-Oct-07	OW	2813.05	3360.00
21-Jan-08	OW	2819.80	3709.00
30-Apr-08	OW	2881.45	3605.00
16-Jul-08	OW	1800.30	3240.00
17-Oct-08	OW	1801.15	2900.00

Source: Reuters and J.P. Morgan; price data adjusted for stock splits and dividends.
Break in coverage Feb 26, 2004 - Jul 02, 2004. This chart shows J.P. Morgan's continuing coverage of this stock; the current analyst may or may not have covered it over the entire period.
J.P. Morgan ratings: OW = Overweight, N = Neutral, UW = Underweight.

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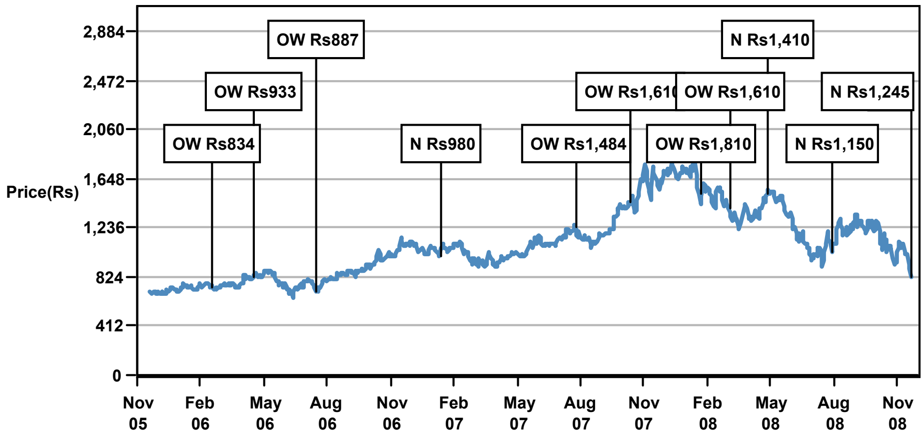
HDFC Bank (HDBK.BO) Price Chart



Date	Rating	Share Price (Rs)	Price Target (Rs)
18-Feb-06	OW	742.35	834.00
18-Apr-06	OW	815.50	933.00
18-Jul-06	OW	706.85	887.00
12-Jan-07	N	999.35	980.00
27-Jul-07	OW	1241.60	1484.00
12-Oct-07	OW	1456.45	1610.00
22-Jan-08	OW	1517.55	1810.00
04-Mar-08	OW	1390.55	1610.00
27-Apr-08	N	1517.95	1410.00
30-Jul-08	N	1028.90	1150.00
21-Nov-08	N	822.25	1245.00

Source: Reuters and J.P. Morgan; price data adjusted for stock splits and dividends.
Break in coverage Feb 26, 2004 - May 26, 2004. This chart shows J.P. Morgan's continuing coverage of this stock; the current analyst may or may not have covered it over the entire period.
J.P. Morgan ratings: OW = Overweight, N = Neutral, UW = Underweight.

HDFC Bank (HDB) Price Chart

Date	Rating	Share Price ($)	Price Target ($)
12-Jan-07	N	72.64	-
26-Jul-07	OW	89.90	-
27-Apr-08	N	114.88	-

Source: Reuters and J.P. Morgan; price data adjusted for stock splits and dividends.
Break in coverage Feb 26, 2004 - May 26, 2004. This chart shows J.P. Morgan's continuing coverage of this stock; the current analyst may or may not have covered it over the entire period.
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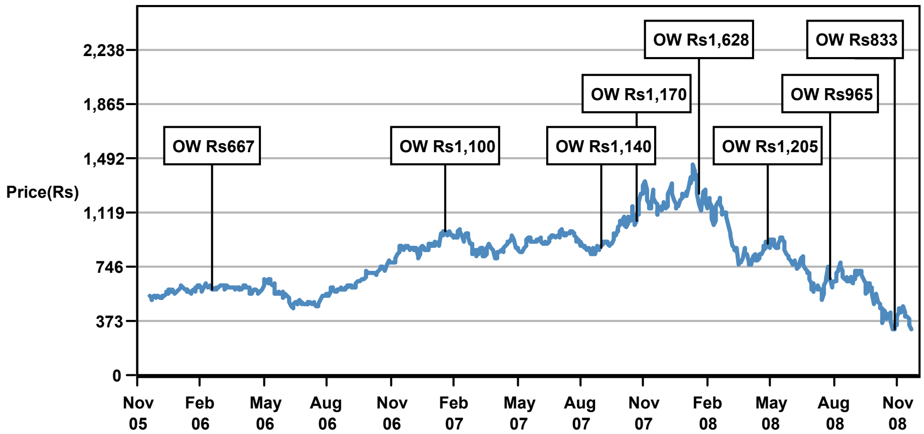
ICICI Bank (ICBK.BO) Price Chart



Date	Rating	Share Price (Rs)	Price Target (Rs)
18-Feb-06	OW	586.50	667.00
20-Jan-07	OW	985.55	1100.00
31-Aug-07	OW	872.05	1140.00
21-Oct-07	OW	1062.35	1170.00
21-Jan-08	OW	1245.45	1628.00
28-Apr-08	OW	894.95	1205.00
27-Jul-08	OW	656.85	965.00
28-Oct-08	OW	316.30	833.00

Source: Reuters and J.P. Morgan; price data adjusted for stock splits and dividends.
Break in coverage Mar 07, 2004 - Jun 22, 2004. This chart shows J.P. Morgan's continuing coverage of this stock; the current analyst may or may not have covered it over the entire period.
J.P. Morgan ratings: OW = Overweight, N = Neutral, UW = Underweight.

ICICI Bank (IBN) Price Chart

Source: Reuters and J.P. Morgan; price data adjusted for stock splits and dividends.
Break in coverage Mar 07, 2004 - Jun 22, 2004. This chart shows J.P. Morgan's continuing coverage of this stock; the current analyst may or may not have covered it over the entire period.
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J.P. Morgan Equity Research Ratings Distribution, as of September 30, 2008

	Overweight (buy)	Neutral (hold)	Underweight (sell)
JPM Global Equity Research Coverage	42%	44%	15%
IB clients*	53%	51%	43%
JPMSI Equity Research Coverage	40%	48%	12%
IB clients*	76%	70%	59%

*Percentage of investment banking clients in each rating category.
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