Equities

26 September 2011 | 98 pages

India Banks

More Cyclical Than Structural Pain

- **Cyclical uncertainty, but structurally still sound** — We believe Indian banks are in the midst of cyclical pressure – macro driven, both global and domestic. While growth and returns are likely to moderate, we do not believe these are structural (though down-cycle could last longer than previously). Fundamentally, bank franchises, balance sheets are robust – healthy growth, reasonable returns, adequate funding and capital.
- **Uncertainties high, stocks correlated, vulnerable to global macro** — Macro uncertainties are high – especially global. Domestic pressures closer to peak (interest rates, inflation) but recovery likely slow. Sector has corrected (down 28.6% from peak), factors in some uncertainties; valuations (1.6x 1yr Fwd PB), however, still well above troughs and we believe downside risks still outweigh potential upsides near term.
- **Asset quality: top-down, bottom-up dichotomy** — While pain is widely expected (and partly priced in), underlying NPL trends still stable (higher PSU bank NPLs more of carpet cleaning). We expect asset quality to remain mid-cycle (but an elongated one), pain likely to be sectorally concentrated (not systemic) and deterioration gradual (not sudden) – should limit sharp downsides (but also cap near-term upsides).
- **Remain selective, cautious near term; but seek franchise driven opportunities** — We remain cautious near term (reduce earnings, target prices across stocks), but seek selective, longer-term opportunities – stronger franchises with low relative valuations. We upgrade: a) ICICI Bank (Buy from Hold) – consolidating franchise/operating parameters, valuations well below peers (1.5x PB); b) Union Bank (Buy from Sell) – relatively low infra exposures, valuations low (0.9x PB); and c) RCap (Buy from Sell) – low valuations. We also downgrade: a) Kotak (Hold from Buy) – low risk exposures, but strong relative outperformance caps upsides; b) Motilal (Sell from Buy) – structural industry pressures, challenging recovery outlook.
- **Preferred picks** — Overall, we prefer banks over NBFCs (lower regulatory risks, more attractive valuations), private banks over public (while valuations lower for PSU, earnings/NPL comfort higher for private). Top picks – Axis, SBI and ICICI.

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Figure 1. India Banks: 1Yr Fwd P/BV

Source: Citi Investment Research and Analysis

See Appendix A-1 for Analyst Certification, Important Disclosures and non-US research analyst disclosures.

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Data Summary

Ticker	Company	Rating	Target Price	Current Year Earnings Estimates	Next Year Earnings Estimates
AXBK.BO	**AXIS Bank**	**1L**	**Rs1,400.00**	**Rs91.43**	**Rs111.72**
	previously	-	Rs1,510.00	-	-
BOB.BO	**Bank of Baroda**	**2M**	**Rs850.00**	**Rs130.79**	**Rs152.52**
	previously	-	Rs930.00	-	-
CNBK.BO	**Canara Bank**	**3M**	**Rs375.00**	**Rs91.65**	**Rs115.66**
	previously	-	Rs510.00	Rs105.37	Rs126.25
EDEL.BO	**Edelweiss Capital**	**3M**	**Rs25.00**	**Rs2.06**	**Rs2.55**
	previously	-	Rs50.00	Rs3.96	Rs4.76
FED.BO	**Federal Bank**	**1M**	**Rs460.00**	**Rs40.09**	**Rs48.21**
	previously	-	Rs437.00	Rs40.89	Rs47.97
HDBK.BO	**HDFC Bank**	**2L**	**Rs500.00**	**Rs21.45**	**Rs27.57**
	previously	-	Rs535.00	-	-
ICBK.BO	**ICICI Bank**	**1M**	**Rs1,000.00**	**Rs54.95**	**Rs66.49**
	previously	2M	Rs1,225.00	Rs58.55	Rs71.70
IDFC.BO	**Infrastructure Development Finance**	**1M**	**Rs135.00**	**Rs9.13**	**Rs11.09**
	previously	-	Rs154.00	Rs9.78	Rs11.08
KTKM.BO	**Kotak Mahindra Bank**	**2M**	**Rs500.00**	**Rs25.64**	**Rs30.72**
	previously	1M	Rs495.00	Rs25.63	Rs31.95
LICH.BO	**LIC Housing Finance**	**3M**	**Rs188.00**	**Rs22.01**	**Rs27.30**
	previously	-	Rs170.00	Rs21.88	Rs26.45
MOFS.BO	**Motilal Oswal Financial Services**	**3M**	**Rs77.00**	**Rs7.04**	**Rs8.43**
	previously	1M	Rs203.00	Rs16.78	Rs20.54
RLCP.BO	**Reliance Capital**	**1M**	**Rs500.00**	**Rs20.75**	**Rs24.68**
	previously	3M	Rs555.00	-	-
SBI.BO	**State Bank of India**	**1L**	**Rs2,500.00**	**Rs185.61**	**Rs245.50**
	previously	-	Rs2,650.00	Rs209.11	Rs267.46
SRTR.BO	**Shriram Transport Finance**	**2M**	**Rs660.00**	**Rs62.51**	**Rs73.35**
	previously	-	Rs750.00	-	-
UNBK.BO	**Union Bank Of India**	**1L**	**Rs275.00**	**Rs46.02**	**Rs52.39**
	previously	3L	Rs305.00	-	-
YESB.BO	**Yes Bank**	**1M**	**Rs345.00**	**Rs27.59**	**Rs34.68**
	previously	-	Rs380.00	-	-

Contents

Cyclical Pain…But Seeking Relative Value

Indian banks are in the midst of a cyclical pressure – driven by worsening macro environment - both global and domestic. Global pressures are escalating and while direct exposures to Europe are relatively low, Indian banks are vulnerable indirectly – through higher risk aversion, tighter liquidity for corporates and consequent impact on asset quality (happened in 2008-09).

Domestic macro parameters have a direct impact – but we believe pressures are closer to peaking (interest rates, inflation). However, recovery is likely to take a while and we do not expect near-term improvements in sentiment/outlook.

We remain cautious near term, reduce earnings and target prices across stocks. While stocks will be volatile near term and correlated with global macro developments, we believe corrections in sector valuations present reasonable opportunities to seek selective longer-term investments – stronger franchises with low relative valuations.

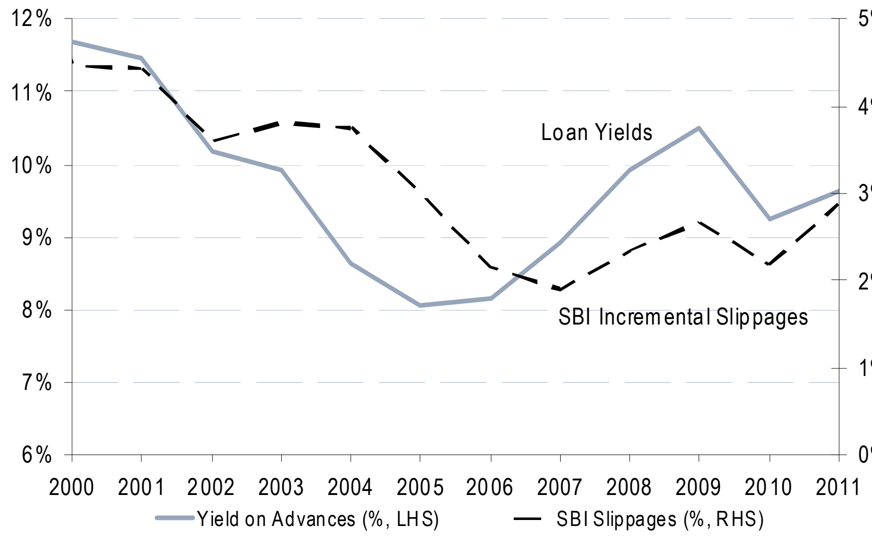
We upgrade ICICI Bank, Union Bank and Reliance Capital to Buy and downgrade Kotak (to Hold) and Motilal (to Sell).

While growth and returns are likely to moderate, we do not believe these are structural (though down-cycle could last longer than previously). Fundamentally, bank franchises, balance sheets are robust – healthy growth, reasonable returns, adequate funding and capital.

Higher Loan Yields = Higher Slippages

Higher lending yields are typically correlated with higher asset quality slippages (usually with a lag) and higher credit costs (though correlation weaker here). Lending rates in India have increased sharply (300-400bps) over the last 18 months and are expected to lead to increased asset quality deterioration.

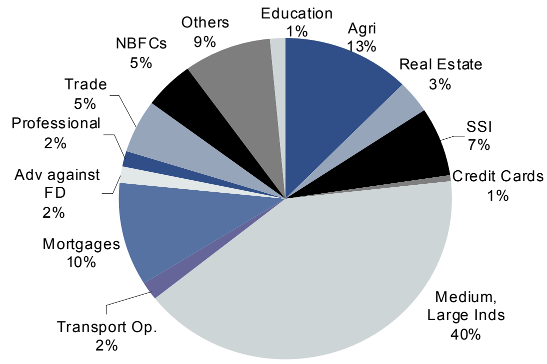
Figure 2. Loan Yields and Slippages seem to go hand in hand



Source: Company reports, CIRA

We believe asset quality risks are likely to increase with the slowdown in macro and credit growth in the banking sector. However, risks so far appear to be concentrated more in specific sectors (real estate, infrastructure, aviation) rather than becoming a systemic concern. While exposure to infrastructure overall is large, real estate and aviation are relatively smaller. Key concern though will be more on the pain spreading to the SME segment – likely if economic growth also slows down relatively more sharply.

Figure 3. Sectoral Deployment of Loans (July 2011)



Source: RBI, CIRA

Overall, PSU banks have higher exposures to infrastructure, power sector and SME segments; remain more vulnerable to a worsening asset quality cycle. Within PSU banks – Canara, Andhra and OBC are the most vulnerable while BOB, Union and SBI are the least.

Figure 4. Bank-wise Loan Book Exposure to Sensitive Sectors (%, FY11)

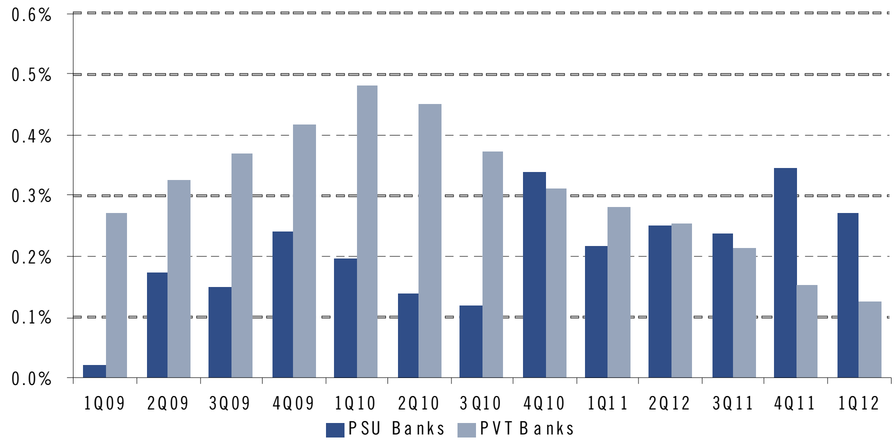
	Power	Telecom	Other Infra	Total Infrastructure	Real Estate	Total Exposure
Private Sector Banks						
ICICI Bank	5.0	0.0	5.1	11.2	10.1	**29.2**
HDFC Bank	2.3	1.3	NA	3.6	4.0	**7.7**
AXIS Bank	4.4	3.9	5.8	14.1	3.5	**17.6**
Kotak Mahindra Bank	NA	NA	NA	6.5	10.4	**16.9**
Yes Bank	6.9	8.3	5.1	20.3	5.6	**25.9**
Federal Bank	7.2	1.2	2.5	10.9	NA	**10.9**
Govt. Banks						
State Bank of India	3.8	3.0	5.8	12.7	1.8	**14.5**
Bank of Baroda	2.6	2.2	3.4	8.2	2.7	**10.8**
Canara Bank	13.3	4.4	5.0	22.7	NA	**22.7**
Union Bank Of India	8.0	NA	3.1	11.1	1.8	**12.9**
Oriental Bank of Commerce	10.9	2.2	5.8	18.8	6.4	**25.2**
Corporation Bank	8.3	4.1	4.7	17.1	3.4	**20.5**
Andhra Bank	21.5	0.9	NA	22.4	5.0	**27.4**
Central Bank Of India	NA	NA	21.0	21.0	NA	**21.0**
India Banks	**7.3**	**2.7**	**4.3**	**14.3**	**3.0**	**17.4**

Source: Company Reports, RBI

Credit costs for private sector banks have been steadily declining over the past two years – are almost at historical lows now. Does reflect the underlying asset quality improvement in the economy (and their own loan books); however, we do expect a normalization of credit costs going ahead as slippages are likely to increase from current levels.

Public sector banks however, have seen a rising trend in credit costs – largely due to regulator driven tighter NPL recognition norms, leading to a carpet cleaning exercise (and partly due to SBI's reversal of its aggressive accounting strategy).

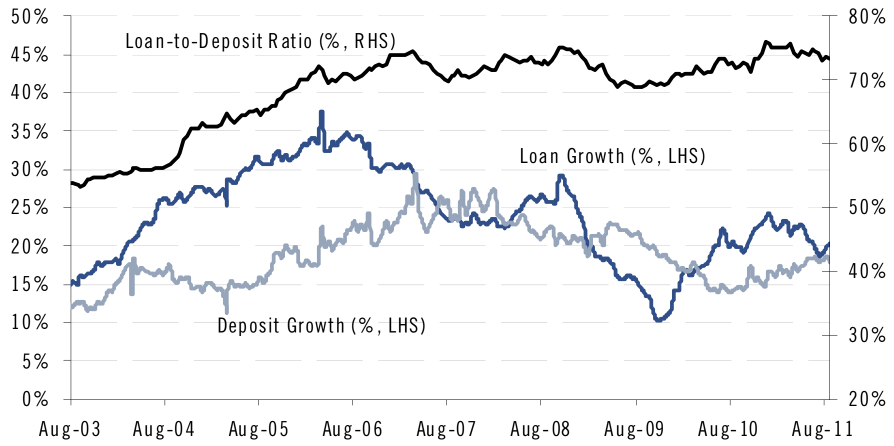
Figure 5. Credit Costs for Government and Private Banks (% of Avg. Loans)



Source: Company Reports, CIRA

Loan growth for the sector has moderated from its peaks of 24% to 18-19% levels. Most recent data however, shows a pickup in loan growth to over 20% yoy growth. We believe this could raise concerns on asset risks, however does indicate that credit/risk appetite of banks is still healthy.

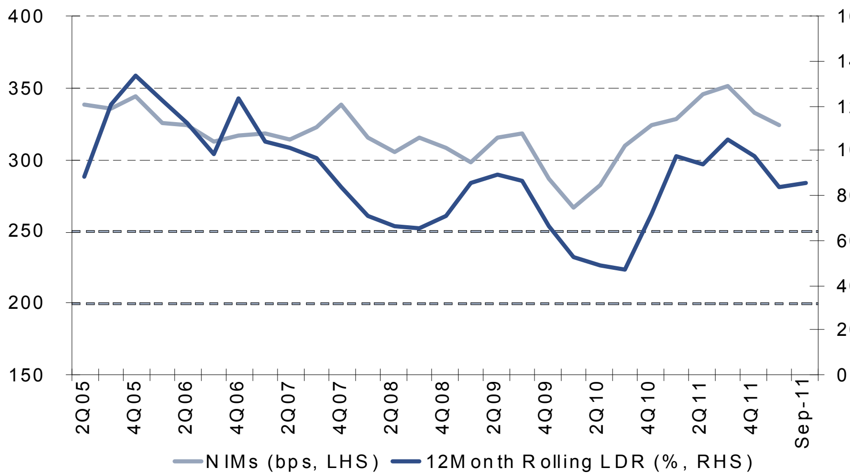
Figure 6. Loan, Deposit Growth (% YoY) and Loan to Deposit Ratio (%)



Source: RBI, CIRA

Net interest margins for Indian banks are highly correlated to incremental LDRs – reduction in LDRs in the past few months has also been reflected in lower NIMs for the sector. More recently however, LDRs have been stabilizing and we believe suggests peak NIM pressures are over and margins are likely to stabilize at close to current levels.

Figure 7. Recent reduction in LDRs has negatively impacted NIMs

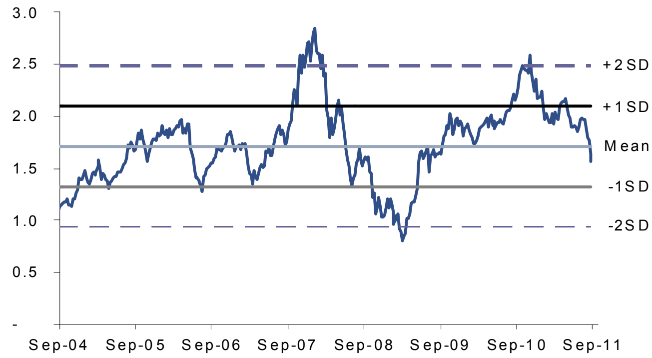


Source: CIRA, RBI

Sector valuations have corrected sharply, are now below historical averages. However, trough valuations are still further away and represent 20-50% downsides from current levels (to -1SD and previous cycle trough respectively).

Absolute valuations for PSU banks are significantly lower than private banks – and the valuation gap with private banks has increased sharply, though it still remains slightly off its historical peaks.

Figure 8. India Banks: 1Yr Fwd P/BV



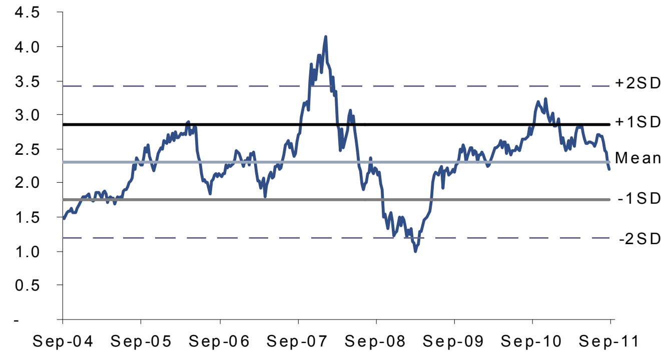
Source: Citi Investment Research and Analysis

Figure 9. Private vs. Public Banks – Relative P/BV Valuation

Source: Citi Investment Research and Analysis

We continue to prefer private banks over PSU banks. While valuations for public sector banks are relatively lower than private banks – both absolute and relative to historical levels. However, given continued macro volatility and higher vulnerability of PSU banks to worsening macro – we believe asset quality and earnings comfort are significantly higher for private banks.

Figure 10. PVT Banks: P/B (1 Year Fwd)

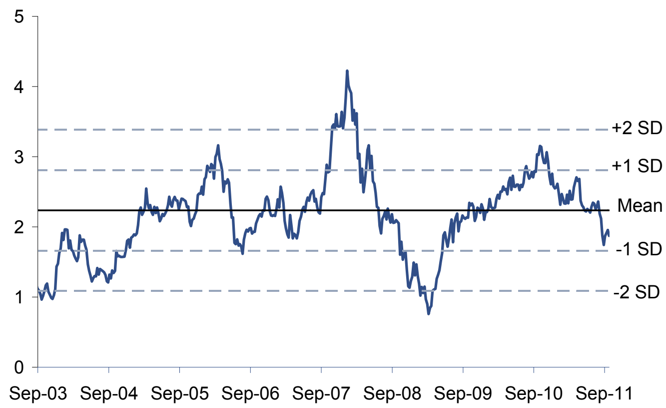


Source: Citi Investment Research and Analysis

Figure 11. PSU Banks: P/B (1 Year Fwd)

Source: Citi Investment Research and Analysis

Figure 12. Axis Bank: P/B (1 Year Fwd)



Source: Citi Investment Research and Analysis

Figure 13. HDFC Bank: P/B (1 Year Fwd)

Source: Citi Investment Research and Analysis

Figure 14. ICICI Bank: P/B (1 Year Fwd)

Source: Citi Investment Research and Analysis

Figure 15. Kotak: P/B (1 Year Fwd)

Source: Citi Investment Research and Analysis

Figure 16. SBI-consolidated: P/B (1 Year Fwd)

Source: Citi Investment Research and Analysis

Figure 17. Union Bank: P/B (1 Year Fwd)

Source: Citi Investment Research and Analysis

Figure 18. India Banks – Valuation Summary

	RIC Code	Price (Rs) 23-Sep	TP (Rs)	Rating	P/E (x) 2012	P/E (x) 2013	P/B (x) 2012	P/B (x) 2013	ROE (%) 2012	ROA (%) 2012	Div. Yld 2012	M-Cap USD Mn
Private Sector Banks												
ICICI Bank	ICBK.BO	844.7	1000	1M	14.4	11.8	1.6	1.4	11.5%	1.6%	1.7%	19,724
HDFC Bank	HDBK.BO	457.7	500	2L	21.3	16.6	3.5	2.9	18.1%	1.7%	0.8%	21,673
AXIS Bank	AXBK.BO	1088.8	1400	1L	11.9	9.7	2.0	1.7	19.3%	1.5%	1.5%	9,097
Kotak Mahindra Bank	KTKM.BO	454.5	500	2M	17.7	14.2	2.6	2.2	16.0%	2.6%	0.2%	6,798
Yes Bank	YESB.BO	267.5	345	1M	9.7	7.7	2.0	1.6	22.7%	1.4%	1.1%	1,903
Federal Bank	FED.BO	360.6	460	1M	8.8	7.5	1.1	1.0	12.8%	1.3%	1.7%	1,250
Govt. Banks												
State Bank of India	SBI.BO	1955.5	2500	1L	9.4	7.3	1.6	1.4	18.8%	1.0%	1.5%	25,162
SBI - Consolidated	SBI.BO	1955.5	2500	1L	8.0	6.4	1.3	1.2	17.3%	0.9%	1.5%	25,162
Bank of Baroda	BOB.BO	774.5	850	2M	5.9	5.1	1.3	1.0	22.2%	1.3%	2.3%	6,145
Canara Bank	CNBK.BO	435.0	375	3M	4.1	3.4	0.9	0.7	21.1%	1.3%	2.5%	3,904
Union Bank Of India	UNBK.BO	243.8	275	1L	5.3	4.7	1.0	0.8	17.7%	1.0%	3.3%	2,590
Diversified Financial Services												
Infrastructure Development Finance	IDFC.BO	109.3	135	1M	11.2	9.9	1.3	1.2	12.5%	2.8%	1.8%	3,241
LIC Housing Finance	LICH.BO	206.2	188	3M	9.4	7.8	1.9	1.6	22.6%	1.8%	1.7%	1,983
L&T Finance Holdings	LTFH.BO	48.7	55	2M	15.5	11.3	1.6	1.4	13.4%	2.3%	0.0%	1,690
Shriram Transport Finance	SRTR.BO	603.9	660	2M	9.7	8.2	2.2	1.8	25.8%	4.0%	1.2%	2,768
SKS Microfinance	SKSM.BO	285.1	250	3M	NM	NM	1.4	1.5	-18.6%	-7.2%	0.0%	418
Mahindra And Mahindra Financial Services	MMFS.BO	660.3	650	3M	11.2	9.5	2.2	1.9	21.7%	3.7%	1.7%	1,392
Edelweiss Capital	EDEL.BO	27.7	25	3M	7.0	5.8	0.8	0.7	11.5%	3.5%	2.2%	425
Motilal Oswal Financial Services	MOFS.BO	80.2	77	3M	4.8	3.9	0.9	0.7	19.5%	10.3%	1.6%	235
Reliance Capital	RLCP.BO	401.6	500	1M	19.4	16.3	1.2	1.2	6.4%	1.5%	1.6%	1,999

Source: Citi Investment Research and Analysis

Companies

Company Focus

ICICI Bank (ICBK.BO)

Upgrade to Buy: Franchise Gains to Show Through

- Company Update
- Rating Change
- Target Price Change
- Estimate Change

Buy/Medium Risk	**1M**
from Hold/Medium Risk	
Price (23 Sep 11)	Rs844.65
Target price	Rs1,000.00
from Rs1,225.00	
Expected share price return	18.4%
Expected dividend yield	1.9%
Expected total return	**20.3%**
Market Cap	Rs973,370M
	US$19,724M

Price Performance
(RIC: ICBK.BO, BB: ICICIBC IN)

- **Upgrading to Buy with Rs1,000 target price** — We are upgrading ICICI Bank to Buy (1M) with a Rs1,000 target price. Our target price is based on our EVA methodology and benchmarked off a sum-of-parts valuation. We value ICICI Bank's core banking business at 1.8x 1yr Fwd P/BV (1.25x for international and 2.0x for domestic).

- **Reduce earnings by 6-7% over FY12-13E** — We reduce our FY12-13E earnings estimates by 6-7% primarily on account of lower net interest margins and lower fee incomes.

- **Consolidating franchise gains, longer-term positive** — We believe ICICI Bank has consolidated its strong franchise over the last couple of years and has stayed true to its low risk, low growth approach. While there are likely asset pressures in the corporate, infrastructure segment (higher growth in recent years), they are likely to be relatively offset by its lower SME exposure. Longer term, we believe ICICI Bank's continued operating improvements – improvements in net interest margins, cost efficiencies and return profile – will lead to higher valuations and stock returns.

- **Quant View: Unattractive** — ICICI Bank currently lies in the Unattractive quadrant of our Value-Momentum map with weak momentum and weak value scores.

Statistical Abstract

Year to 31 Mar	Net Profit (RsM)	Diluted EPS (Rs)	EPS growth (%)	P/E (x)	P/B (x)	ROE (%)	Yield (%)
2010A	40,246	36.10	6.9	23.4	1.8	8.0	1.4
2011A	50,830	44.13	22.2	19.1	1.8	9.5	1.7
2012E	63,297	54.95	24.5	15.4	1.6	11.1	1.9
2013E	76,587	66.49	21.0	12.7	1.5	12.4	2.4
2014E	90,375	78.46	18.0	10.8	1.4	13.4	3.0

Source: Powered by dataCentral

Fiscal year end 31-Mar	2010	2011	2012E	2013E	2014E
Valuation Ratios					
P/E adjusted (x)	23.4	19.1	15.4	12.7	10.8
P/E reported (x)	23.4	19.1	15.4	12.7	10.8
P/BV (x)	1.8	1.8	1.6	1.5	1.4
P/Adjusted BV diluted (x)	1.8	1.8	1.6	1.5	1.4
Dividend yield (%)	1.4	1.7	1.9	2.4	3.0
Per Share Data (Rs)					
EPS adjusted	36.10	44.13	54.95	66.49	78.46
EPS reported	36.10	44.13	54.95	66.49	78.46
BVPS	462.99	478.29	515.25	559.25	609.59
Tangible BVPS	462.99	478.29	515.25	559.25	609.59
Adjusted BVPS diluted	462.99	478.29	515.25	559.25	609.59
DPS	12.00	14.02	16.00	20.00	25.00
Profit & Loss (RsM)					
Net interest income	81,144	90,169	103,831	126,897	146,060
Fees and commissions	48,308	55,146	63,970	74,845	87,568
Other operating Income	24,616	15,943	16,762	19,971	23,573
Total operating income	**154,068**	**161,258**	**184,562**	**221,713**	**257,200**
Total operating expenses	-58,598	-66,172	-77,697	-90,924	-105,048
Oper. profit bef. provisions	**95,470**	**95,086**	**106,865**	**130,789**	**152,152**
Bad debt provisions	-43,869	-21,510	-21,324	-25,871	-28,346
Non-operating/exceptionals	1,852	-6,648	0	0	0
Pre-tax profit	**53,453**	**66,927**	**85,541**	**104,918**	**123,806**
Tax	-13,203	-16,093	-22,241	-28,328	-33,428
Extraord./Min. Int./Pref. Div.	-4	-4	-4	-4	-4
Attributable profit	**40,246**	**50,830**	**63,297**	**76,587**	**90,375**
Adjusted earnings	40,246	50,830	63,297	76,587	90,375
Growth Rates (%)					
EPS adjusted	6.9	22.2	24.5	21.0	18.0
Oper. profit bef. prov.	1.1	-0.4	12.4	22.4	16.3
Balance Sheet (RsM)					
Total assets	**3,633,997**	**4,062,337**	**4,691,586**	**5,379,130**	**6,216,598**
Avg interest earning assets	3,473,352	3,662,059	4,197,306	4,841,965	5,591,262
Customer loans	1,935,247	2,428,287	2,831,732	3,316,489	3,896,752
Gross NPLs	94,806	100,342	119,407	141,463	169,893
Liab. & shar. funds	**3,633,997**	**4,062,337**	**4,691,586**	**5,379,130**	**6,216,598**
Total customer deposits	2,020,166	2,256,021	2,668,535	3,145,668	3,746,630
Reserve for loan losses	86,837	103,165	113,284	126,624	142,562
Shareholders' equity	**519,684**	**554,409**	**596,977**	**647,651**	**705,635**
Profitability/Solvency Ratios (%)					
ROE adjusted	8.0	9.5	11.1	12.4	13.4
Net interest margin	2.34	2.46	2.47	2.62	2.61
Cost/income ratio	38.0	41.0	42.1	41.0	40.8
Cash cost/average assets	1.6	1.7	1.8	1.8	1.8
NPLs/customer loans	4.9	4.1	4.2	4.3	4.4
Reserve for loan losses/NPLs	91.6	102.8	94.9	89.5	83.9
Bad debt prov./avg. cust. loans	2.1	1.0	0.8	0.8	0.8
Loans/deposit ratio	95.8	107.6	106.1	105.4	104.0
Tier 1 capital ratio	14.0	13.2	10.4	9.7	9.1
Total capital ratio	19.4	19.5	15.2	14.2	13.2

For further data queries on Citi's full coverage universe please contact CIRA Data Services Asia Pacific at CIRADataServicesAsiaPacific@citi.com or +852-2501-2791

Powered by: dataCentral

Quants View – Unattractive

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Data as of: 16-Sep-11

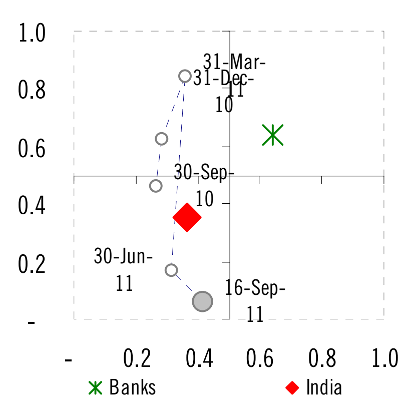
Radar Screen Quadrant Definitions

Glamor *Poor relative value but superior relative momentum*	**Attractive** *Superior relative value and superior relative momentum*
Unattractive *Poor relative value and poor relative momentum*	**Contrarian** *Superior relative value but poor relative momentum*

ICICI Bank currently lies in the Unattractive quadrant of our Value-Momentum map with weak momentum and weak value scores. It has been a resident there since the past 3 months. Compared to its peers in the Banks sector, ICICI Bank fares worse on the valuation metric and on the momentum metric. On the other hand, compared to its peers in its home market of India, ICICI Bank fares better on the valuation metric but worse on the momentum metric.

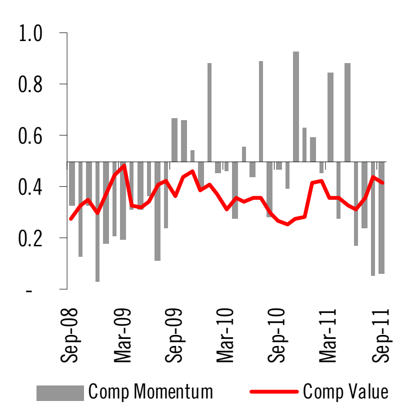
From a macro perspective, ICICI Bank has a high beta to the region so is likely to rise (or fall) faster than the region. It is also likely to benefit from falling commodity (ex-oil) prices, falling EM yields, and a weaker US Dollar.

Figure 19. Radar Quadrant Chart History



Source: CIRA

Figure 20. Radar Valuation and Momentum Scores



Source: CIRA

Figure 21. Radar Model Inputs

IBES EPS (Actual and Estimates)

FY(-2)	32.13	Implied Trend Growth (%)	16.15
FY(-1)	41.72	Trailing PE (x)	15.08
FY0	53.25	Implied Cost of Debt (%)	6.35
FY1	56.42	Standardised MCap	1.78
FY2	64.91		

Note: Standardised MCap calculated as a Z score – (mkt cap - mean)/std dev – capped at 3

Source: Citi Investment Research and Analysis, Worldscope, I/B/E/S

Figure 22. Stock Performance Sensitivity to Key Macro Factors

Region	1.54	Commodity ex Oil	(0.52)
Local Market	1.56	Rising Oil Prices	0.08
Sector	1.32	Rising Asian IR's	(0.22)
Growth Outperforms Value	(0.11)	Rising EM Yields	(0.70)
Small Caps Outperform Large Caps	0.38	Weaker US$ (vs Asia)	3.66
Widening US Credit Spreads	(0.12)	Weaker ¥ (vs US$)	0.20

Source: Citi Investment Research and Analysis

ICICI Bank

Company description

ICICI Bank was founded in 1994 by ICICI Ltd., which was then the country's leading development finance institution. It is a leader in retail lending, with more than 30% market share in most consumer-finance segments. ICICI Bank also has international banking operations as one of its key focus areas.

Investment strategy

We rate ICICI Bank as Buy/Medium Risk (1M). We believe the business offers meaningful upside on fundamental operating improvements (margins, asset quality, business balance, and leverage on its franchise), and its profitability has been improving continuously. ICBK's management has made aggressive strategic moves in the right direction and remained firm on its steady growth/low risk path. This signifies healthy longer-term prospects for the business. There are some near-term pressures such as low ROEs and a large infrastructure, corporate, international lending book, but we believe the current valuations offer a reasonable risk/return trade off. Its financial services subsidiaries, particularly insurance, also add meaningful value and complement its core banking business, but we believe value gains will probably be more back-ended due to current volatility in financial services segments. We believe the recent consolidation in ICICI Bank's core business could be a meaningful longer-term upside for the stock. Key downside risks include disappointments on business performance; lower growth and suppressed return profile, which still remains relatively low.

Valuation

Our target price of Rs1,000 is based on our EVA, which we use as our primary methodology for the Indian banking universe because we believe it better captures the long-term value of a business. Our EVA value is based on: a) Long-term Cost-Income ratio of 38%; b) Long-term loan loss estimates of 100bps; c) Rs183 as estimated value of subsidiaries (Sep'12); and d) Risk Free Rate of 8.0%.

We also benchmark our valuation based on a Sum-of-the-Parts analysis. This equates to Rs947 per share. We value ICICI Bank's domestic banking business on 2.0x 1yr Fwd PBV (Sep'12) and international business at 1.25x, translating into an overall PBV target multiple of 1.8x 1yr Fwd. Our target multiple is based on stable asset quality, sustained improvements in deposit franchise and a loan growth revival. The 1.8x PBV multiple is at the lower end of our target for comparable private banks (2.0x- 3.5x) given ICBK's still lower return profile. The rest of the value is driven by its subsidiaries: life insurance at Rs81, non-life insurance at Rs18, AMC at Rs14, ICICI Securities at Rs10, primary dealer at Rs4, and venture fund at Rs5. The subsidiaries are valued based on industry benchmarks.

While ICBK's target multiple is relatively high relative to returns (its cost of capital is higher than its ROE); we believe its large presence in the market, its capital position, and the inherent leverage of the business, should enable it to return to higher profitability and thereafter higher valuations.

Risks

We assign a Medium Risk rating to ICICI Bank. Our quantitative risk-rating system, which tracks 260-day historical share price volatility, suggests Low Risk. We view a Medium Risk rating as more appropriate given the bank's large international portfolio and its relatively lower return profile. Downside risks that could impede the shares from reaching our target price include: (1) higher than expected deterioration in asset quality; (2) reduction in net interest margins; (3) aggressive expansion in international operations where returns appear low and risk levels relatively high; and (4) inability to leverage capital, which keeps ROEs low.

Company Focus

Kotak Mahindra Bank (KTKM.BO)

Strong Outperformer, Downgrade to Hold

- Company Update
- Rating Change
- Target Price Change
- Estimate Change

Hold/Medium Risk	2M
from Buy/Medium Risk	
Price (23 Sep 11)	Rs454.45
Target price	Rs500.00
from Rs495.00	
Expected share price return	10.0%
Expected dividend yield	0.2%
Expected total return	**10.3%**
Market Cap	Rs335,459M
	US$6,798M

Price Performance
(RIC: KTKM.BO, BB: KMB IN)

- **Strong outperformance, downgrading to Hold** — Kotak Mahindra has been among the strongest outperformers in the Indian financial sector over the last 6 months (+17% relative to Bankex). We believe this leaves relatively lower upside potential for the stock in case of an easing in overall macro pressures. Downgrade the stock to Hold (2M) with revised Rs500 target price. We also change earnings marginally (0% to -4%) over FY12-13E, to factor in lower growth and margins.

- **Low risk exposures, should continue outperformance if macro worsens** — Kotak's relatively low exposure to the more vulnerable infrastructure and power sectors, higher retail exposure (low asset risks currently) and relatively healthy growth and return momentum position it well for a slower economic, higher asset risk environment. We believe Kotak will likely continue to be a relative outperformer near term (especially if asset quality risks increase) but absolute upside will likely be limited as valuations are relatively high.

- **Quant View: Glamour** — Kotak Mahindra currently lies in the Glamour quadrant of our Value-Momentum map with strong momentum but relatively weak value scores.

Statistical Abstract

Year to 31 Mar	Net Profit (RsM)	Diluted EPS (Rs)	EPS growth (%)	P/E (x)	P/B (x)	ROE (%)	Yield (%)
2010A	13,070	18.81	99.4	24.2	4.0	18.1	0.2
2011A	15,667	21.84	16.1	20.8	3.1	16.6	0.2
2012E	18,919	25.64	17.4	17.7	2.6	15.9	0.2
2013E	22,664	30.72	19.8	14.8	2.2	16.3	0.3
2014E	29,746	40.32	31.2	11.3	1.9	18.0	0.3

Source: Powered by dataCentral

Fiscal year end 31-Mar	2010	2011	2012E	2013E	2014E
Valuation Ratios					
P/E adjusted (x)	24.2	20.8	17.7	14.8	11.3
P/E reported (x)	24.2	20.8	17.7	14.8	11.3
P/BV (x)	4.0	3.1	2.6	2.2	1.9
P/Adjusted BV diluted (x)	4.2	3.1	2.7	2.3	1.9
Dividend yield (%)	0.2	0.2	0.2	0.3	0.3
Per Share Data (Rs)					
EPS adjusted	18.81	21.84	25.64	30.72	40.32
EPS reported	18.81	21.84	25.64	30.72	40.32
BVPS	113.62	148.78	173.90	204.06	243.83
Tangible BVPS	113.62	148.78	173.90	204.06	243.83
Adjusted BVPS diluted	107.14	145.30	170.68	200.98	240.78
DPS	0.85	1.00	1.10	1.20	1.20
Profit & Loss (RsM)					
Net interest income	28,283	35,069	36,858	43,655	56,094
Fees and commissions	11,145	8,370	17,416	21,187	26,268
Other operating Income	12,187	12,422	12,614	15,818	17,617
Total operating income	**51,615**	**55,861**	**66,888**	**80,660**	**99,979**
Total operating expenses	-27,479	-31,911	-36,405	-42,896	-50,642
Oper. profit bef. provisions	**24,136**	**23,950**	**30,484**	**37,764**	**49,337**
Bad debt provisions	-5,107	-1,476	-1,983	-3,614	-4,506
Non-operating/exceptionals	0	0	0	0	0
Pre-tax profit	**19,029**	**22,474**	**28,501**	**34,150**	**44,830**
Tax	-5,755	-6,782	-9,504	-11,407	-15,007
Extraord./Min. Int./Pref. Div.	-204	-25	-78	-78	-78
Attributable profit	**13,070**	**15,667**	**18,919**	**22,664**	**29,746**
Adjusted earnings	13,070	15,667	18,919	22,664	29,746
Growth Rates (%)					
EPS adjusted	99.4	16.1	17.4	19.8	31.2
Oper. profit bef. prov.	79.3	-0.8	27.3	23.9	30.6
Balance Sheet (RsM)					
Total assets	**551,148**	**736,811**	**812,571**	**1,040,260**	**1,388,715**
Avg interest earning assets	445,240	610,811	730,013	862,514	1,133,850
Customer loans	303,437	418,739	530,057	687,120	907,173
Gross NPLs	9,167	7,120	7,861	10,173	13,158
Liab. & shar. funds	**551,148**	**736,811**	**812,571**	**1,040,260**	**1,388,715**
Total customer deposits	218,192	273,130	345,973	461,174	652,069
Reserve for loan losses	6,195	6,320	7,472	10,200	13,646
Shareholders' equity	**79,109**	**109,629**	**128,143**	**150,365**	**179,669**
Profitability/Solvency Ratios (%)					
ROE adjusted	18.1	16.6	15.9	16.3	18.0
Net interest margin	6.35	5.74	5.05	5.06	4.95
Cost/income ratio	53.2	57.1	54.4	53.2	50.7
Cash cost/average assets	5.8	5.0	4.7	4.6	4.2
NPLs/customer loans	3.0	1.7	1.5	1.5	1.5
Reserve for loan losses/NPLs	67.6	88.8	95.1	100.3	103.7
Bad debt prov./avg. cust. loans	1.9	0.4	0.4	0.6	0.6
Loans/deposit ratio	139.1	153.3	153.2	149.0	139.1
Tier 1 capital ratio	17.3	20.3	18.5	16.1	14.3
Total capital ratio	19.3	22.9	20.9	18.3	16.5

For further data queries on Citi's full coverage universe please contact CIRA Data Services Asia Pacific at CIRADataServicesAsiaPacific@citi.com or +852-2501-2791

Powered by: dataCentral

Quants View – Glamour

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Data as of: 16-Sep-11

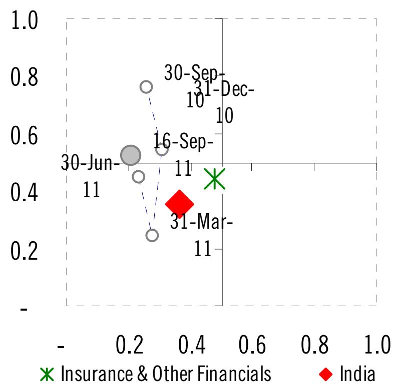
Radar Screen Quadrant Definitions

Glamor *Poor relative value but superior relative momentum*	**Attractive** *Superior relative value and superior relative momentum*
Unattractive *Poor relative value and poor relative momentum*	**Contrarian** *Superior relative value but poor relative momentum*

Kotak currently lies in the Glamour quadrant of our Value-Momentum map with strong momentum but relatively weak value scores. The stock has moved from the Unattractive quadrant to the Glamour quadrant in the past 3 months indicating an improvement in the momentum scores although valuation still remains expensive. Compared to its peers in the Insurance & Other Financials sector, Kotak fares worse on the valuation metric but better on the momentum metric. Similarly, compared to its peers in its home market of India, Kotak fares worse on the valuation metric but better on the momentum metric.

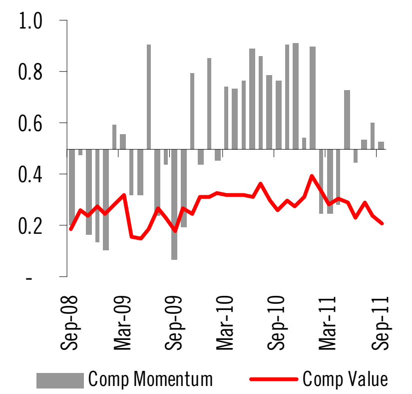
From a macro perspective, Kotak has a high beta to the region so is likely to rise (or fall) faster than the region. It is also likely to benefit from falling commodity (ex-oil) prices, falling EM yields, weaker US Dollar, and a weaker Yen.

Figure 23. Radar Quadrant Chart History



Source: CIRA

Figure 24. Radar Valuation and Momentum Scores



Source: CIRA

Figure 25. Radar Model Inputs

IBES EPS (Actual and Estimates)

FY(-2)	9.45	Implied Trend Growth (%)	22.05
FY(-1)	18.64	Trailing PE (x)	20.65
FY0	21.60	Implied Cost of Debt (%)	6.35
FY1	24.27	Standardised MCap	0.19
FY2	29.44		

Note: Standardised MCap calculated as a Z score – (mkt cap - mean)/std dev – capped at 3

Source: Citi Investment Research and Analysis, Worldscope, I/B/E/S

Figure 26. Stock Performance Sensitivity to Key Macro Factors

Region	1.56	Commodity ex Oil	(0.68)
Local Market	1.53	Rising Oil Prices	0.05
Sector	1.40	Rising Asian IR's	0.21
Growth Outperforms Value	(0.60)	Rising EM Yields	(1.11)
Small Caps Outperform Large Caps	1.11	Weaker US$ (vs Asia)	2.40
Widening US Credit Spreads	(0.07)	Weaker ¥ (vs US$)	0.55

Source: Citi Investment Research and Analysis

Kotak Mahindra Bank

Company description

KTKM is a private-sector bank in which Mr. Uday Kotak, the major shareholder, and his associates have a 45% stake. Main businesses of the bank are consumer lending, retail broking, investment banking, asset management, and rapidly growing life insurance. Its focus is to develop a niche wealth-management platform.

Investment strategy

We rate KTKM Hold/Medium Risk (2M) with a target price of Rs500. KTKM, in our view, is a play on the overall financial-services market in India and is backed by a management team that has a track record of managing market and credit risk well and of being conservative in its approach. We believe KTKM has transformed itself into a ‘bank-asset manager-broker’ from a more cyclical ‘broker-bank’. While we believe this increases the business stability, franchise and earnings sustainability, though it is still meaningfully linked to capital market performance. While capital market businesses (broking, asset management, life insurance), remain an integral part of overall customer strategy, they are currently under pressure from a cyclical, regulatory and competitive perspective. We believe, there is value and synergy for the group to be had from these businesses but going forward these will provide the upside kickers than form the bulk of the value of the stock.

KTKM’s lending businesses have now reached critical scale, have enough capital for growth, improving deposit mix, a strong return profile and improving asset quality performance. Kotak’s relatively lower exposure to the perceived vulnerable segments of infrastructure and power along with its strong asset quality performance has led to a strong outperformance for the company over recent months. However, given its relatively higher valuations now, we believe any upside from here would have to be based on a more positive macro or growth environment, which its likely to remain under pressure near-term.

Valuation

Our target price of Rs500 is based on our valuation of KTKM's different businesses via the sum-of-the-parts methodology. This values the banking business at Rs348 per share at 3.0x PBV 1-year forward (Sep'12), the vehicle loan financing business at Rs76 per share at 2.5x 1-year forward P/BV, the investment banking and broking business at 10x 1-year forward PE or Rs17, the insurance subsidiary at Rs21 (12x 1-year forward NBAP), and we attribute Rs36 to the AMC business (4% of AUM for domestic MF, and 6% for Portfolio and alternative assets). Our target multiples are in line with the best of breed private-sector banks and other financial services business, however they are not near peak multiples in the historical India scenario, as we believe the business leverage to capital markets has reduced and the near-term challenges will cap growth at well below historical peak growth levels.

Risks

We rate KTKM as Medium Risk, even while our quantitative risk rating system, which tracks the 260-day share price volatility of the stock, suggests Low Risk. We believe the Medium Risk rating is justified on account of its relatively smaller balance sheet, capital market leverage and relatively moderate deposit franchise. Key downside risks to the stock and business would be: a) Sharp downturn in the capital markets; b) Significant pressure on asset quality; and c) Sharp increases in interest rates, which can pressure its relatively wholesale funding mix. Key upside risks would include: a) Continued strong asset quality performance; b) Improvement in its relatively moderate deposit franchise; and c) Macro, capital market turnaround.

Company Focus

- Company Update
- Rating Change
- Target Price Change

Buy/Low Risk	**1L**
from Sell/Low Risk	
Price (23 Sep 11)	Rs243.80
Target price	Rs275.00
from Rs305.00	
Expected share price return	12.8%
Expected dividend yield	3.3%
Expected total return	**16.1%**
Market Cap	Rs127,832M
	US$2,590M

Price Performance
(RIC: UNBK.BO, BB: UNBK IN)

Union Bank Of India (UNBK.BO)

Upgrade to Buy on Attractive Valuation

- **Upgrade to Buy, Target Price Rs275** — We are upgrading Union Bank to a Buy (from a Sell earlier) as the stock has corrected sharply (down 28% in the last 6 months) and current valuations appear attractive (trades at 0.8x 1yr Fwd P/BV). Our revised target price of Rs275 is based on our EVA methodology and benchmarked to 1.0x 1Yr Fwd P/BV (1.2x earlier).

- **Lower Exposure to Sensitive Sectors a Positive** — We believe that under the current tough macro environment, asset quality concerns are at the forefront and given that Union Bank has one of the lowest exposures to sensitive sectors; it should be placed on relatively firmer ground versus peers. Union's exposures to power (8% of loans) and SEBs (0.7%) are lower than peers. Alongside, its net interest margins remain strong and loan growth healthy.

- **Quant View: Contrarian** — As per our quantitative methodology, Union Bank currently lies in the Contrarian quadrant of our Value-Momentum map with relatively weak momentum but better valuation scores. It has been trading at a relative discount to many better government-sector banks.

Statistical Abstract

Year to 31 Mar	Net Profit (RsM)	Diluted EPS (Rs)	EPS growth (%)	P/E (x)	P/B (x)	ROE (%)	Yield (%)
2010A	20,749	41.08	20.2	5.9	1.2	21.7	2.3
2011A	20,820	39.71	-3.3	6.1	1.0	18.0	3.3
2012E	24,130	46.02	15.9	5.3	0.9	17.7	3.3
2013E	27,467	52.39	13.8	4.7	0.8	17.5	3.5
2014E	35,463	67.63	29.1	3.6	0.6	19.4	3.7

Source: Powered by dataCentral

Fiscal year end 31-Mar	2010	2011	2012E	2013E	2014E
Valuation Ratios					
P/E adjusted (x)	5.9	6.1	5.3	4.7	3.6
P/E reported (x)	5.9	6.1	5.3	4.7	3.6
P/BV (x)	1.2	1.0	0.9	0.8	0.6
P/Adjusted BV diluted (x)	1.4	1.2	1.0	0.8	0.7
Dividend yield (%)	2.3	3.3	3.3	3.5	3.7
Per Share Data (Rs)					
EPS adjusted	41.08	39.71	46.02	52.39	67.63
EPS reported	41.08	39.71	46.02	52.39	67.63
BVPS	206.36	241.33	277.99	320.43	377.53
Tangible BVPS	206.36	241.33	277.99	320.43	377.53
Adjusted BVPS diluted	174.37	211.31	247.97	290.41	347.52
DPS	5.50	8.00	8.00	8.50	9.00
Profit & Loss (RsM)					
Net interest income	41,924	62,162	69,129	79,039	95,994
Fees and commissions	3,518	3,649	4,014	4,496	5,036
Other operating Income	16,230	16,738	17,640	20,091	22,903
Total operating income	**61,672**	**82,550**	**90,783**	**103,626**	**123,932**
Total operating expenses	-25,078	-39,500	-41,370	-46,037	-51,235
Oper. profit bef. provisions	**36,593**	**43,050**	**49,413**	**57,589**	**72,697**
Bad debt provisions	-7,199	-13,379	-14,441	-17,599	-21,036
Non-operating/exceptionals	-1,065	-117	-500	-750	-1,000
Pre-tax profit	**28,329**	**29,554**	**34,472**	**39,239**	**50,661**
Tax	-7,580	-8,735	-10,342	-11,772	-15,198
Extraord./Min. Int./Pref. Div.	0	0	0	0	0
Attributable profit	**20,749**	**20,820**	**24,130**	**27,467**	**35,463**
Adjusted earnings	20,749	20,820	24,130	27,467	35,463
Growth Rates (%)					
EPS adjusted	20.2	-3.3	15.9	13.8	29.1
Oper. profit bef. prov.	18.7	17.6	14.8	16.5	26.2
Balance Sheet (RsM)					
Total assets	**1,951,618**	**2,359,845**	**2,686,764**	**3,124,003**	**3,655,824**
Avg interest earning assets	1,746,184	2,117,414	2,481,469	2,863,480	3,349,194
Customer loans	1,215,358	1,534,695	1,811,154	2,140,714	2,530,896
Gross NPLs	26,710	36,230	38,825	42,875	48,618
Liab. & shar. funds	**1,951,618**	**2,359,845**	**2,686,764**	**3,124,003**	**3,655,824**
Total customer deposits	1,700,397	2,024,613	2,320,920	2,723,767	3,212,683
Reserve for loan losses	22,205	24,834	29,518	35,885	44,072
Shareholders' equity	**104,238**	**126,535**	**145,758**	**168,011**	**197,952**
Profitability/Solvency Ratios (%)					
ROE adjusted	21.7	18.0	17.7	17.5	19.4
Net interest margin	2.40	2.94	2.79	2.76	2.87
Cost/income ratio	40.7	47.8	45.6	44.4	41.3
Cash cost/average assets	1.4	1.8	1.6	1.6	1.5
NPLs/customer loans	2.2	2.4	2.1	2.0	1.9
Reserve for loan losses/NPLs	83.1	68.5	76.0	83.7	90.6
Bad debt prov./avg. cust. loans	0.7	1.0	0.9	0.9	0.9
Loans/deposit ratio	71.5	75.8	78.0	78.6	78.8
Tier 1 capital ratio	7.9	8.7	7.6	7.5	7.5
Total capital ratio	12.5	13.0	11.1	10.6	10.3

For further data queries on Citi's full coverage universe please contact CIRA Data Services Asia Pacific at CIRADataServicesAsiaPacific@citi.com or +852-2501-2791

Powered by: dataCentral

Quants View – Contrarian

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Data as of: 16-Sep-11

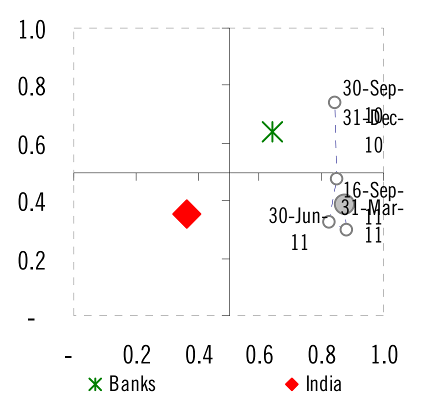
Radar Screen Quadrant Definitions

Glamor *Poor relative value but superior relative momentum*	**Attractive** *Superior relative value and superior relative momentum*
Unattractive *Poor relative value and poor relative momentum*	**Contrarian** *Superior relative value but poor relative momentum*

Union Bank currently lies in the Contrarian quadrant of our Value-Momentum map with relatively weak momentum but strong value scores. It has been a resident there since the past 9 months. Compared to its peers in the Banks sector, Union Bank fares better on the valuation metric but worse on the momentum metric. On the other hand, compared to its peers in its home market of India, Union Bank fares better on the valuation metric and on the momentum metric.

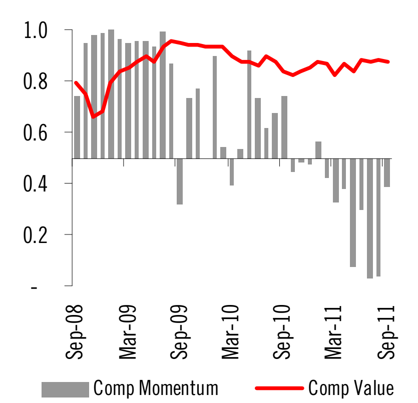
From a macro perspective, Union Bank is likely to benefit from falling commodity (ex-oil) prices, falling EM yields, and a weaker US Dollar.

Figure 27. Radar Quadrant Chart History



Source: CIRA

Figure 28. Radar Valuation and Momentum Scores



Source: CIRA

Figure 29. Radar Model Inputs

IBES EPS (Actual and Estimates)

FY(-2)	34.18	Implied Trend Growth (%)	13.04
FY(-1)	41.08	Trailing PE (x)	5.65
FY0	39.46	Implied Cost of Debt (%)	6.35
FY1	48.36	Standardised MCap	(0.17)
FY2	59.56		

Note: Standardised MCap calculated as a Z score – (mkt cap - mean)/std dev – capped at 3

Source: Citi Investment Research and Analysis, Worldscope, I/B/E/S

Figure 30. Stock Performance Sensitivity to Key Macro Factors

Region	1.00	Commodity ex Oil	(0.34)
Local Market	1.03	Rising Oil Prices	(0.01)
Sector	0.36	Rising Asian IR's	0.10
Growth Outperforms Value	(0.30)	Rising EM Yields	(0.40)
Small Caps Outperform Large Caps	1.10	Weaker US$ (vs Asia)	1.55
Widening US Credit Spreads	(0.07)	Weaker ¥ (vs US$)	0.18

Source: Citi Investment Research and Analysis

Union Bank Of India

Company description

Union Bank is the seventh largest bank in India and sixth largest government bank, with a large balance sheet size and diversified distribution network. It currently has 3,127 branches and 2,673 ATMs spread across the country. Its business is distributed across the country with a slight concentration in Western India. Union Bank listed in 2002. A follow-on offer was transacted in February 2006, with the government holding a 57% stake in the bank.

Investment strategy

We rate Union Bank Buy/Low Risk. Union has key strengths with its large balance sheet and distribution, low operating costs (as a proportion of assets) below industry average and a healthy return profile. Moreover, Union's exposure to sensitive sectors such as power is lower than peers, which is a key advantage in the current uncertain asset quality environment. The operating environment has remained challenging in recent months, and Union has witnessed asset pressures; but we believe economic stability (inflation, liquidity, growth) should cap further asset quality pressure and present stock upsides.

Valuation

Our target price of Rs275 is based on our EVA model, which we believe captures the long-term value of the business and is a standard valuation measure for our India banking coverage. We are factoring in a risk-free rate of 8.0%, with an industry average spread (220bps) and a longer term cost income ratio of 39%. We also benchmark our target price on a 1.0x 1Yr Fwd PBV, which translates to a fair value of Rs269. We believe Union should trade at a 15-25% discount to the larger banks (such as SBI), due to: 1) its lower capital cushion which is likely to cap upside in a higher growth environment; and 2) its relatively modest deposit mix, which increases dependence on wholesale funding. We use EVA as a primary methodology as we believe it better adjusts for the relatively dynamic cost of capital, and as it is usually the more conservative target price in a difficult interest rate environment.

Risks

We rate Union Bank Low Risk, in-line with our quantitative risk rating system, which tracks 260-day historical share price volatility. Key downside risks to our target price include: 1) tighter liquidity environment which could further hurt NIMs, 2) increase in asset quality pressures, 3) continued slowdown in loan growth, and 4) moderation in its deposit mix.

Company Focus

Reliance Capital (RLCP.BO)

Upgrade to Buy on Sharp Stock Correction

- Company Update
- Rating Change
- Target Price Change

Buy/Medium Risk	**1M**
from Sell/Medium Risk	
Price (23 Sep 11)	Rs401.55
Target price	Rs500.00
from Rs555.00	
Expected share price return	24.5%
Expected dividend yield	1.6%
Expected total return	**26.1%**
Market Cap	Rs98,634M
	US$1,999M

Price Performance
(RIC: RLCP.BO, BB: RCAPT IN)

- **Upgrade to Buy post sharp stock correction** — We are upgrading Reliance Capital to Buy (from Sell earlier) post a sharp stock correction (down 38% in last 3 months), making the stock cheap at current levels. We also revise our sum of parts based target price to Rs500.

- **Core business still under competitive, macro pressure** — RCap's core business segments continue to face challenges – both on increased competition (lowering returns) and macro slowdown. Asset management: market share has fallen to 13.6% recently (from 14.5% earlier), while it still remains industry leader, we believe near-term growth prospects remain weak. Consumer finance: loan growth has been strong (+42% yoy), and mix more towards secured loans, however, given macro uncertainty – asset quality overhang likely to cap returns and valuations.

- **Life insurance stake sale positive, but low growth a valuation overhang** — Sharp decline in APE (down 59% yoy in 1Q12) and profitability also under pressure (expected margins down to ~15%). Stake sale to Nippon Life has received regulatory clearance, while a positive for sentiment; we believe valuations will remain challenged until industry growth outlook turns more positive.

- **Quant View: Unattractive** — Reliance Capital currently lies in the Unattractive quadrant of our Value-Momentum map with weak momentum and weak value scores, having been a resident there since the past 12 months.

Statistical Abstract

Year to 31 Mar	Net Profit (RsM)	Diluted EPS (Rs)	EPS growth (%)	P/E (x)	P/B (x)	ROE (%)	Yield (%)
2010A	4,345	17.65	-57.2	22.7	1.3	5.7	1.6
2011A	2,912	11.83	-33.0	33.9	1.3	3.8	1.6
2012E	5,108	20.75	75.4	19.4	1.2	6.4	1.6
2013E	6,074	24.68	18.9	16.3	1.2	7.3	1.6
2014E	7,025	28.54	15.6	14.1	1.1	8.0	1.6

Source: Powered by dataCentral

Fiscal year end 31-Mar	2010	2011	2012E	2013E	2014E
Valuation Ratios					
P/E adjusted (x)	22.7	33.9	19.4	16.3	14.1
P/E reported (x)	22.7	33.9	19.4	16.3	14.1
P/BV (x)	1.3	1.3	1.2	1.2	1.1
P/Adjusted BV diluted (x)	1.3	1.3	1.2	1.2	1.1
Dividend yield (%)	1.6	1.6	1.6	1.6	1.6
Per Share Data (Rs)					
EPS adjusted	17.65	11.83	20.75	24.68	28.54
EPS reported	17.65	11.83	20.75	24.68	28.54
BVPS	312.97	317.19	330.33	347.41	368.34
Tangible BVPS	312.97	317.19	330.33	347.41	368.34
Adjusted BVPS diluted	312.97	317.19	330.33	347.41	368.34
DPS	6.50	6.50	6.50	6.50	6.50
Profit & Loss (RsM)					
Net interest income	5,834	4,435	7,534	8,881	11,110
Fees and commissions	8,734	10,414	11,877	13,379	15,441
Other operating Income	33,514	25,515	25,561	29,214	33,881
Total operating income	**48,082**	**40,364**	**44,971**	**51,475**	**60,432**
Total operating expenses	-39,160	-36,151	-37,301	-42,354	-49,720
Oper. profit bef. provisions	**8,922**	**4,214**	**7,670**	**9,121**	**10,712**
Bad debt provisions	-3,039	-1,302	-1,228	-1,470	-1,873
Non-operating/exceptionals	0	0	0	0	0
Pre-tax profit	**5,883**	**2,912**	**6,442**	**7,651**	**8,839**
Tax	-1,492	-579	-1,288	-1,530	-1,768
Extraord./Min. Int./Pref. Div.	-46	579	-46	-46	-46
Attributable profit	**4,345**	**2,912**	**5,108**	**6,074**	**7,025**
Adjusted earnings	4,345	2,912	5,108	6,074	7,025
Growth Rates (%)					
EPS adjusted	-57.2	-33.0	75.4	18.9	15.6
Oper. profit bef. prov.	-33.2	-52.8	82.0	18.9	17.4
Balance Sheet (RsM)					
Total assets	**261,190**	**309,550**	**358,818**	**431,971**	**537,918**
Avg interest earning assets	238,716	270,539	316,427	374,131	459,478
Customer loans	125,639	147,792	165,702	201,324	262,345
Gross NPLs	0	0	0	0	0
Liab. & shar. funds	**261,190**	**309,550**	**358,818**	**431,971**	**537,918**
Total customer deposits	0	0	0	0	0
Reserve for loan losses	0	0	0	0	0
Shareholders' equity	**77,040**	**78,080**	**81,315**	**85,517**	**90,670**
Profitability/Solvency Ratios (%)					
ROE adjusted	5.7	3.8	6.4	7.3	8.0
Net interest margin	2.44	1.64	2.38	2.37	2.42
Cost/income ratio	81.4	89.6	82.9	82.3	82.3
Cash cost/average assets	15.6	12.7	11.2	10.7	10.3
NPLs/customer loans	0.0	0.0	0.0	0.0	0.0
Reserve for loan losses/NPLs	na	na	na	na	na
Bad debt prov./avg. cust. loans	2.5	1.0	0.8	0.8	0.8
Loans/deposit ratio	na	na	na	na	na
Tier 1 capital ratio	na	na	na	na	na
Total capital ratio	na	na	na	na	na

For further data queries on Citi's full coverage universe please contact CIRA Data Services Asia Pacific at CIRADataServicesAsiaPacific@citi.com or +852-2501-2791

Powered by: dataCentral

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Data as of: 16-Sep-11

Radar Screen Quadrant Definitions

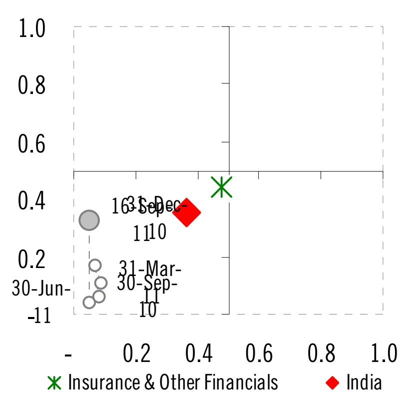
Glamor *Poor relative value but superior relative momentum*	**Attractive** *Superior relative value and superior relative momentum*
Unattractive *Poor relative value and poor relative momentum*	**Contrarian** *Superior relative value but poor relative momentum*

Quants View – Unattractive

Reliance Capital currently lies in the Unattractive quadrant of our Value-Momentum map with weak momentum and weak value scores, having been a resident there since the past 12 months. Compared to its peers in the Insurance & Other Financials sector, Reliance Capital fares worse on the valuation metric and on the momentum metric. Similarly, compared to its peers in its home market of India, Reliance Capital fares worse on the valuation metric and on the momentum metric.

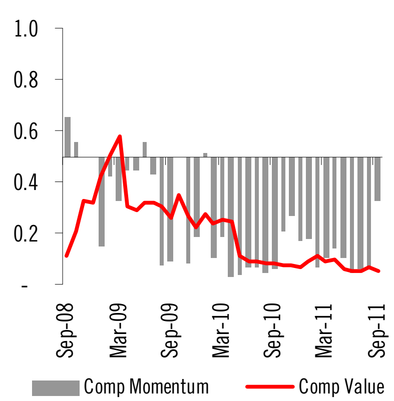
From a macro perspective, Reliance Capital has a high beta to the region so is likely to rise (or fall) faster than the region. It is also likely to benefit from falling Commodity (ex-oil) prices, falling EM yields, and a weaker US Dollar.

Figure 31. Radar Quadrant Chart History



Source: CIRA

Figure 32. Radar Valuation and Momentum Scores



Source: CIRA

Figure 33. Radar Model Inputs

IBES EPS (Actual and Estimates)

FY(-2)	41.35	Implied Trend Growth (%)	(7.52)
FY(-1)	17.63	Trailing PE (x)	54.21
FY0	11.85	Implied Cost of Debt (%)	6.35
FY1	22.79	Standardised MCap	(0.08)
FY2	29.51		

Note: Standardised MCap calculated as a Z score – (mkt cap - mean)/std dev – capped at 3

Source: Citi Investment Research and Analysis, Worldscope, I/B/E/S

Figure 34. Stock Performance Sensitivity to Key Macro Factors

Region	1.89	Commodity ex Oil	(0.58)
Local Market	1.72	Rising Oil Prices	0.24
Sector	1.33	Rising Asian IR's	0.05
Growth Outperforms Value	(0.26)	Rising EM Yields	(0.94)
Small Caps Outperform Large Caps	1.02	Weaker US$ (vs Asia)	2.33
Widening US Credit Spreads	(0.22)	Weaker ¥ (vs US$)	(0.37)

Source: Citi Investment Research and Analysis

Reliance Capital

Company description

Reliance Capital is India's largest, diversified retail financial services company with a presence in asset management, life insurance, non-life insurance, brokerage, consumer finance and distressed assets. It is part of the Anil Dhirubhai Ambani (ADA) group, which holds a 54% stake in the company. RCap has leveraged its strong brand and large capital base, and has aggressively built a large distribution network in the country. RCap is among market leaders in all its business segments.

Investment strategy

We rate Reliance Capital Buy/Medium Risk (1M). RCap's key strengths are: a) a presence in under-penetrated, secular growth businesses; b) strong business growth led by supportive capital markets; c) market leadership in most segments, driven by its large distribution network, product focus and strong and aggressive management. There are clear challenges in the capital market and financial services segments (asset management, insurance, broking and distribution) – both regulatory and competitive, which will weigh on profitability for the near to medium term. However, parts of RCap's businesses are likely to grow at a healthy pace (especially consumer finance) in this environment and profitability is showing signs of stabilization. Moreover, its valuations have corrected sharply and it is now trading at significantly low implied valuations for its individual subsidiaries and we believe, will lead to upsides in the stock price as the economic momentum gathers pace in the medium term.

Valuation

Our Rs500 target price for Reliance Capital is based on a sum-of-the-parts methodology as it is present in diverse businesses, and each of these businesses is valued based on a different methodology. As many of its businesses are still growing or are not consolidated, we believe P/E or P/BV approaches are not properly reflective of value. We value the AMC business at Rs156 per share (4.0% of AUMs); the life insurance business at Rs204 per share (12x 1-year forward NBAP; at par with peers); the non-life insurance business at Rs15 per share (0.75x 1-year forward P/BV, in line with peers); the retail broking business at Rs13 per share (8x 1-year forward earnings, lower than peers due to lower its profitability) and the consumer finance business at Rs87 per share (1.0x 1-year forward book value, in line with peers). We also value the surplus capital at a 50% discount to book value (due to sharp correction in capital markets) to get Rs24 per share.

Risks

We rate Reliance Capital Medium Risk in line with our quantitative risk model, which tracks 260-day historical share price volatility. We believe a Medium Risk rating is appropriate as RCap's businesses are strongly correlated to capital markets and can be inherently volatile in nature. Key downside risks to our valuations and target price include: a) sustained volatility in capital markets; b) continued tight liquidity environment leading to higher funding costs; b) deterioration in asset quality environment; and d) lower-than-anticipated growth and market shares in individual businesses.

Company Focus

AXIS Bank (AXBK.BO)

Preferred Pick at Reasonable Valuations

- Company Update
- Target Price Change

Buy/Low Risk	1L
Price (23 Sep 11)	Rs1,088.75
Target price	Rs1,400.00
from Rs1,510.00	
Expected share price return	28.6%
Expected dividend yield	1.5%
Expected total return	**30.1%**
Market Cap	Rs448,920M
	US$9,097M

Price Performance
(RIC: AXBK.BO, BB: AXSB IN)

- **Reducing Target Price to Rs1400, maintain Buy** — We are revising our EVA-based target price for Axis Bank to Rs1400 (from Rs1510 earlier) and benchmarking it to 2.5x 1Yr Fwd P/BV (from 2.75x). We believe Axis' market positioning and franchise remain undiminished; fundamentals remain strong and operating momentum healthy. Maintain Buy.

- **Attractive valuations relative to peers, but leveraged to macro** — Axis is trading at a relatively sharp discount to peers (42% discount to HDFC Bank, 1.6 SD below historical mean) and relative to own history (1.8x 1yr Fwd P/BV, well below historical mean). While valuations have corrected to attractive levels (trades at 1.8x 1yr Fwd P/BV), it remains leveraged to the macro (rates, inflation, and liquidity) and any signs of macro improvements should provide meaningful stock upsides.

- **Asset quality a key risk, but remains healthy so far** — Axis' large SME and corporate (infrastructure) exposure have come under intense scrutiny and risk perceptions have increased significantly. However its performance so far remains strong with stable NPLs high coverage levels.

- **Quant View: Unattractive** — As per our quantitative methodology, Axis Bank currently lies in the Unattractive quadrant of our Value-Momentum map with weak momentum and weak valuation scores compared with peers in the banking sector.

Statistical Abstract

Year to 31 Mar	Net Profit (RsM)	Diluted EPS (Rs)	EPS growth (%)	P/E (x)	P/B (x)	ROE (%)	Yield (%)
2010A	25,145	60.01	23.3	18.1	2.7	19.2	1.3
2011A	33,885	79.84	33.1	13.6	2.4	19.3	1.5
2012E	40,065	91.43	14.5	11.9	2.0	19.3	1.5
2013E	48,956	111.72	22.2	9.7	1.7	19.8	1.6
2014E	59,753	136.36	22.1	8.0	1.4	20.3	1.6

Source: Powered by dataCentral

Fiscal year end 31-Mar	2010	2011	2012E	2013E	2014E
Valuation Ratios					
P/E adjusted (x)	18.1	13.6	11.9	9.7	8.0
P/E reported (x)	18.1	13.6	11.9	9.7	8.0
P/BV (x)	2.7	2.4	2.0	1.7	1.4
P/Adjusted BV diluted (x)	2.8	2.3	2.0	1.7	1.4
Dividend yield (%)	1.3	1.5	1.5	1.6	1.6
Per Share Data (Rs)					
EPS adjusted	60.01	79.84	91.43	111.72	136.36
EPS reported	60.01	79.84	91.43	111.72	136.36
BVPS	395.99	462.77	532.50	630.87	754.68
Tangible BVPS	395.99	462.77	532.50	630.87	754.68
Adjusted BVPS diluted	382.90	465.82	539.33	638.92	764.31
DPS	14.01	16.33	16.00	17.00	17.00
Profit & Loss (RsM)					
Net interest income	50,045	65,630	73,050	88,827	107,250
Fees and commissions	25,652	33,574	43,646	54,122	67,111
Other operating Income	13,806	12,747	15,892	19,055	21,651
Total operating income	**89,503**	**111,951**	**132,588**	**162,004**	**196,011**
Total operating expenses	-37,097	-47,794	-59,402	-71,432	-85,928
Oper. profit bef. provisions	**52,406**	**64,157**	**73,186**	**90,572**	**110,083**
Bad debt provisions	-14,126	-11,363	-12,181	-16,096	-19,249
Non-operating/exceptionals	234	-1,429	-300	-300	-300
Pre-tax profit	**38,514**	**51,364**	**60,705**	**74,175**	**90,534**
Tax	-13,368	-17,479	-20,640	-25,220	-30,782
Extraord./Min. Int./Pref. Div.	0	0	0	0	0
Attributable profit	**25,145**	**33,885**	**40,065**	**48,956**	**59,753**
Adjusted earnings	25,145	33,885	40,065	48,956	59,753
Growth Rates (%)					
EPS adjusted	23.3	33.1	14.5	22.2	22.1
Oper. profit bef. prov.	40.7	22.4	14.1	23.8	21.5
Balance Sheet (RsM)					
Total assets	**1,806,479**	**2,427,134**	**2,862,672**	**3,430,595**	**4,105,648**
Avg interest earning assets	1,556,187	2,019,074	2,528,662	3,017,831	3,606,912
Customer loans	1,052,421	1,435,969	1,760,174	2,163,919	2,658,915
Gross NPLs	13,180	15,994	25,600	33,247	41,095
Liab. & shar. funds	**1,806,479**	**2,427,134**	**2,862,672**	**3,430,595**	**4,105,648**
Total customer deposits	1,413,002	1,892,378	2,241,248	2,711,526	3,272,077
Reserve for loan losses	8,990	11,891	18,604	25,433	32,756
Shareholders' equity	**160,446**	**189,988**	**225,964**	**267,706**	**320,244**
Profitability/Solvency Ratios (%)					
ROE adjusted	19.2	19.3	19.3	19.8	20.3
Net interest margin	3.22	3.25	2.89	2.94	2.97
Cost/income ratio	41.4	42.7	44.8	44.1	43.8
Cash cost/average assets	2.3	2.3	2.2	2.3	2.3
NPLs/customer loans	1.3	1.1	1.5	1.5	1.5
Reserve for loan losses/NPLs	68.2	74.3	72.7	76.5	79.7
Bad debt prov./avg. cust. loans	1.5	0.9	0.8	0.8	0.8
Loans/deposit ratio	74.5	75.9	78.5	79.8	81.3
Tier 1 capital ratio	11.2	9.4	8.8	8.5	8.2
Total capital ratio	15.8	12.7	13.5	13.0	12.4

For further data queries on Citi's full coverage universe please contact CIRA Data Services Asia Pacific at CIRADataServicesAsiaPacific@citi.com or +852-2501-2791

Powered by: dataCentral

Quants View – Unattractive

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Data as of: 16-Sep-11

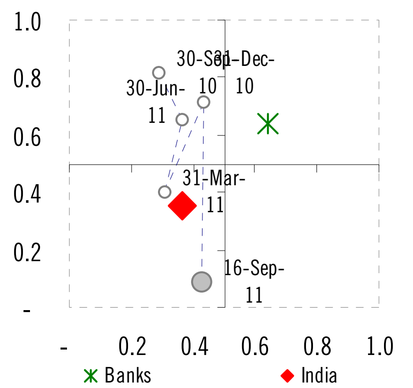
Radar Screen Quadrant Definitions

Glamor *Poor relative value but superior relative momentum*	**Attractive** *Superior relative value and superior relative momentum*
Unattractive *Poor relative value and poor relative momentum*	**Contrarian** *Superior relative value but poor relative momentum*

Axis Bank currently lies in the Unattractive quadrant of our Value-Momentum map with weak momentum and weak value scores. The stock has moved from the Glamour quadrant to the Unattractive quadrant in the past 3 months indicating a fall in momentum along with valuations remaining weak. Compared to its peers in the Banks sector, Axis Bank fares worse on the valuation metric and on the momentum metric. On the other hand, compared to its peers in its home market of India, Axis Bank fares better on the valuation metric but worse on the momentum metric.

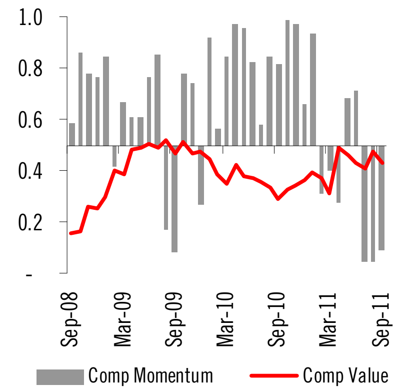
From a macro perspective, Axis Bank has a high beta to the region so is likely to rise (or fall) faster than the region. It is also likely to benefit from falling commodity (ex-oil) prices, and a weaker US Dollar.

Figure 35. Radar Quadrant Chart History



Source: CIRA

Figure 36. Radar Valuation and Momentum Scores



Source: CIRA

Figure 37. Radar Model Inputs

IBES EPS (Actual and Estimates)

FY(-2)	50.68	Implied Trend Growth (%)	21.04
FY(-1)	63.38	Trailing PE (x)	13.86
FY0	80.44	Implied Cost of Debt (%)	6.35
FY1	98.50	Standardised MCap	0.67
FY2	120.03		

Note: Standardised MCap calculated as a Z score – (mkt cap - mean)/std dev – capped at 3

Source: Citi Investment Research and Analysis, Worldscope, I/B/E/S

Figure 38. Stock Performance Sensitivity to Key Macro Factors

Region	1.77	Commodity ex Oil	(0.68)
Local Market	1.30	Rising Oil Prices	(0.04)
Sector	1.24	Rising Asian IR's	0.12
Growth Outperforms Value	(0.85)	Rising EM Yields	(0.19)
Small Caps Outperform Large Caps	0.88	Weaker US$ (vs Asia)	3.64
Widening US Credit Spreads	(0.06)	Weaker ¥ (vs US$)	0.16

Source: Citi Investment Research and Analysis

AXIS Bank

Company description

Axis Bank is India's third-largest private-sector bank after the significantly larger ICICI Bank, and HDFC Bank. It is more than twice the size of the next largest private-sector bank with 1,125 branches and 5,303 ATMs. The top three private-sector banks collectively account for over 12% market share, while private-sector banks as a group are over 15% of the system. Axis Bank is a small player in the broader banking sector; its market share is close to 3% in terms of loans and deposits. Axis Bank was started by the erstwhile Unit Trust of India (UTI) in 1994, along with LIC and GIC, two government-owned insurance companies. UTI's stake is now held by SUUTI, a government-owned entity, with a 23.6% holding. LIC and GIC together own 11.3%, and collectively, SUUTI and government-owned insurance companies own approximately 37.2% of the bank.

Investment strategy

We rate Axis Buy/Low Risk. It is one of the few clean (in terms of asset book), rapidly growing, profitable, and competitive private-sector banks in India. However, after an explosive growth period over the last few years we expect the business to consolidate medium term and would expect growth rates on assets, fees and earnings to ease compared to its historically high levels. The operating environment has remained challenging in recent months, and Axis has witnessed asset pressures (albeit controlled) and concerns about the potential follow through of recent high growth; we believe economic stability and strong management track record should limit meaningful asset quality pressures.

Valuation

Our target price of Rs1,400 is based on an EVA model using the following key assumptions: a) risk-free rate of 8.0%, b) long-term loan loss of 120bps per annum (higher than sector averages, due to greater lumpiness in its loan book growth), and c) long-term cost-to-income ratio of 42%. We prefer using an EVA-based valuation benchmark to P/BV because EVA concentrates on the economic value creation of the bank. We use P/BV as a secondary valuation methodology. Believing that Axis should trade above government banks and in line with the highest multiples for large private-sector banks given its ROE, we ascribe 2.5x 1yr Fwd P/BV to Axis, equating to Rs1,454.

Risks

We rate Axis Bank as Low Risk, in line with our quantitative risk-rating system, and to reflect the bank's well diversified loan portfolio and relatively healthy asset quality, along with its sustained high profitability. Key downside risks to achieving our target price include: 1) Greater-than-expected asset quality pressures, as Axis has grown rapidly; 2) Sharp slowdown in rapidly growing fee income; 3) The bank's large share of wholesale funding could be exposed to tighter funding; 4) Dependence on treasury returns; 5) A government-related entity is a dominant shareholder in Axis; any disorderly sale would have an impact on the stock.

Company Focus

State Bank of India (SBI.BO)

Improving Operationally, Macro Leverage

- Company Update
- Target Price Change
- Estimate Change

Buy/Low Risk	1L
Price (23 Sep 11)	Rs1,955.50
Target price	Rs2,500.00
from Rs2,650.00	
Expected share price return	27.8%
Expected dividend yield	1.5%
Expected total return	**29.4%**
Market Cap	Rs1,241,741M
	US$25,162M

Price Performance
(RIC: SBI.BO, BB: SBIN IN)

- **Reduce Target Price to Rs2,500, Maintain Buy** — We reduce our EVA-based target price on SBI to Rs2,500, benchmarked to a sum-of-the-parts valuation methodology (with Rs2,447 as fair value). Our sum of parts values its core banking business at 1.4x consolidation P/BV, life insurance business at Rs98 per share, asset management business at Rs20 and capital markets subsidiary at Rs75. Maintain Buy.
- **Reduced Earnings by 8-11% over FY12/13E** — We also reduce our earnings by 8-11% over FY12-13E to factor in higher credit costs and slightly lower asset growth.
- **Improving Returns and Gradual Stabilization** — SBI's underlying business parameters remain healthy: a) Its funding franchise continues to remain steadfast; b) Margin uptick has been strong; and c) Loan growth remains firm. We believe SBI's new management has taken steps to reverse its aggressive accounting and pricing strategy – should structurally improve its return profile. However, the key concerns remain on asset quality – while management remains focused on improvements we believe given current challenging macro, improvements will remain gradual. Overall, we believe that beyond the current pain, potential earnings should improve, especially if the macro turns easier.
- **Quant View: Unattractive** — SBI currently lies in the Unattractive quadrant of our quant team's Value-Momentum map with weak momentum and weak value scores.

Statistical Abstract

Year to 31 Mar	Net Profit (RsM)	Diluted EPS (Rs)	EPS growth (%)	P/E (x)	P/B (x)	ROE (%)	Yield (%)
2010A	91,661	144.37	0.2	13.5	1.9	14.8	1.5
2011A	82,645	130.16	-9.8	15.0	1.9	12.6	1.5
2012E	117,864	185.61	42.6	10.5	1.7	16.9	1.5
2013E	155,892	245.50	32.3	8.0	1.4	19.2	1.6
2014E	189,052	297.72	21.3	6.6	1.2	19.7	1.7

Source: Powered by dataCentral

Fiscal year end 31-Mar	2010	2011	2012E	2013E	2014E
Valuation Ratios					
P/E adjusted (x)	13.5	15.0	10.5	8.0	6.6
P/E reported (x)	13.5	15.0	10.5	8.0	6.6
P/BV (x)	1.9	1.9	1.7	1.4	1.2
P/Adjusted BV diluted (x)	2.3	2.4	1.9	1.6	1.3
Dividend yield (%)	1.5	1.5	1.5	1.6	1.7
Per Share Data (Rs)					
EPS adjusted	144.37	130.16	185.61	245.50	297.72
EPS reported	144.37	130.16	185.61	245.50	297.72
BVPS	1,038.76	1,023.40	1,173.01	1,380.11	1,638.23
Tangible BVPS	1,038.76	1,023.40	1,173.01	1,380.11	1,638.23
Adjusted BVPS diluted	867.55	828.96	1,026.57	1,258.31	1,535.74
DPS	30.00	30.00	30.00	32.00	33.00
Profit & Loss (RsM)					
Net interest income	236,714	325,264	419,958	470,138	547,747
Fees and commissions	112,280	130,273	140,987	161,330	184,644
Other operating Income	37,402	27,973	25,503	27,609	29,939
Total operating income	**386,396**	**483,510**	**586,449**	**659,077**	**762,330**
Total operating expenses	-203,187	-230,154	-257,435	-300,032	-339,056
Oper. profit bef. provisions	**183,209**	**253,356**	**329,014**	**359,045**	**423,274**
Bad debt provisions	-51,479	-87,921	-113,504	-109,541	-120,892
Non-operating/exceptionals	7,530	-15,893	-19,071	-5,922	-6,988
Pre-tax profit	**139,261**	**149,542**	**196,440**	**243,582**	**295,394**
Tax	-47,600	-66,897	-78,576	-87,690	-106,342
Extraord./Min. Int./Pref. Div.	0	0	0	0	0
Attributable profit	**91,661**	**82,645**	**117,864**	**155,892**	**189,052**
Adjusted earnings	91,661	82,645	117,864	155,892	189,052
Growth Rates (%)					
EPS adjusted	0.2	-9.8	42.6	32.3	21.3
Oper. profit bef. prov.	2.3	38.3	29.9	9.1	17.9
Balance Sheet (RsM)					
Total assets	**10,534,137**	**12,237,337**	**14,055,913**	**16,292,739**	**18,883,423**
Avg interest earning assets	9,742,268	11,036,056	12,807,157	14,891,288	17,356,007
Customer loans	6,428,716	7,730,345	9,124,919	10,756,754	12,665,639
Gross NPLs	195,349	253,259	300,707	351,176	406,703
Liab. & shar. funds	**10,534,137**	**12,237,337**	**14,055,913**	**16,292,739**	**18,883,423**
Total customer deposits	8,041,162	9,339,328	10,844,122	12,701,684	14,847,037
Reserve for loan losses	109,574	163,151	247,662	320,795	396,828
Shareholders' equity	**659,492**	**649,860**	**744,864**	**876,373**	**1,040,279**
Profitability/Solvency Ratios (%)					
ROE adjusted	14.8	12.6	16.9	19.2	19.7
Net interest margin	2.43	2.95	3.28	3.16	3.16
Cost/income ratio	52.6	47.6	43.9	45.5	44.5
Cash cost/average assets	2.0	2.0	2.0	2.0	1.9
NPLs/customer loans	3.0	3.3	3.3	3.3	3.2
Reserve for loan losses/NPLs	56.1	64.4	82.4	91.3	97.6
Bad debt prov./avg. cust. loans	0.9	1.2	1.3	1.1	1.0
Loans/deposit ratio	79.9	82.8	84.1	84.7	85.3
Tier 1 capital ratio	9.5	7.8	7.2	7.2	7.3
Total capital ratio	13.4	12.0	10.9	10.6	10.4

For further data queries on Citi's full coverage universe please contact CIRA Data Services Asia Pacific at CIRADataServicesAsiaPacific@citi.com or +852-2501-2791

Powered by: dataCentral

Quants View – Unattractive

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Data as of: 16-Sep-11

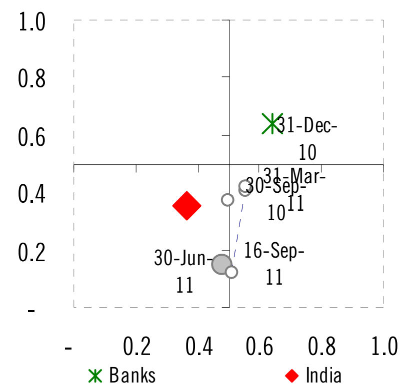
Radar Screen Quadrant Definitions

Glamor *Poor relative value but superior relative momentum*	**Attractive** *Superior relative value and superior relative momentum*
Unattractive *Poor relative value and poor relative momentum*	**Contrarian** *Superior relative value but poor relative momentum*

SBI currently lies in the Unattractive quadrant of our Value-Momentum map with weak momentum and weak value scores. The stock has moved from the Contrarian quadrant to the Unattractive quadrant in the past 3 months indicating a weakening in the valuation scores. Compared to its peers in the Banks sector, SBI fares worse on the valuation metric and on the momentum metric. On the other hand, compared to its peers in its home market of India, SBI fares better on the valuation metric but worse on the momentum metric.

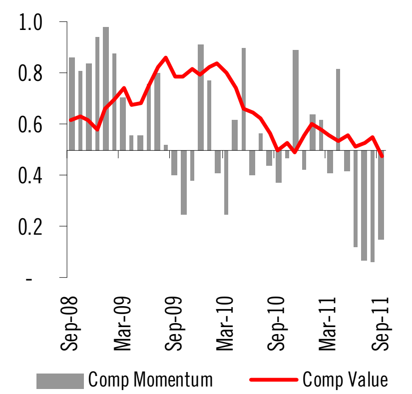
From a macro perspective, SBI has a high beta to the region so is likely to rise (or fall) faster than the region. It is also likely to benefit from falling Commodity (ex-oil) prices, and a weaker US Dollar.

Figure 39. Radar Quadrant Chart History



Source: CIRA

Figure 40. Radar Valuation and Momentum Scores



Source: CIRA

Figure 41. Radar Model Inputs

IBES EPS (Actual and Estimates)

FY(-2)	172.68	Implied Trend Growth (%)	13.62
FY(-1)	184.82	Trailing PE (x)	13.00
FY0	160.87	Implied Cost of Debt (%)	6.35
FY1	237.05	Standardised MCap	0.74
FY2	288.74		

Note: Standardised MCap calculated as a Z score – (mkt cap - mean)/std dev – capped at 3

Source: Citi Investment Research and Analysis, Worldscope, I/B/E/S

Figure 42. Stock Performance Sensitivity to Key Macro Factors

Region	1.32	Commodity ex Oil	(0.53)
Local Market	1.27	Rising Oil Prices	(0.06)
Sector	0.84	Rising Asian IR's	0.03
Growth Outperforms Value	(0.76)	Rising EM Yields	(0.16)
Small Caps Outperform Large Caps	0.37	Weaker US$ (vs Asia)	2.20
Widening US Credit Spreads	(0.18)	Weaker ¥ (vs US$)	(0.01)

Source: Citi Investment Research and Analysis

State Bank of India

Company description

SBI is India's largest bank with around 18% market share in deposits and loans, over 13,500 branches and more than 130m customers. Together with its five associate banks (ownership ranging from 75% to 100%), the SBI group has a 25% market share in deposits and loans, and has over 16,000 branches. SBI has the largest overseas presence among Indian banks, with 54 offices in 28 countries. The Government of India owns 59.73% of the bank. SBI is a banker to most state governments, and has a dominant share of government fee business. SBI has a presence in other financial services through subsidiaries and joint ventures. It has a joint venture with Cardiff for life insurance and also has a presence in asset management, investment banking and primary dealership. The SBI group has more than 25,000 ATMs, the largest spread in the country, and is aggressively expanding its technology-based offering across its existing network.

Investment strategy

We rate SBI Buy/Low Risk. SBI has faced significant pain recently in terms of operational, accounting and execution slippages. However, we believe its strong deposit franchise, strong market positioning, well diversified asset book and large distribution network are key strengths, which position it well in a rising interest rate and tight liquidity environment. While there are challenges on execution, the new management does seem to be focused on making operational improvements. We believe the SBI will see near-term improvements in key operating parameters, namely net interest margins, operating costs and asset quality slippages. Also, a likely healthy economic and growth environment will also improve its own growth and return profile going ahead. We see value in the stock at current levels.

Valuation

Our target price of Rs2,500 is based on our EVA model, in which we assume a risk-free rate of 8.0%, in line with the market level. Our longer-term loan loss assumption is 100bps pa (in line with the industry). Our target price for SBI includes a subsidiary valuation of Rs540: Life Insurance at Rs98 per share, associate banks at 1.0x 1Yr Fwd PBV (Rs346), value for SBI's Asset management business (Rs20, 4% of assets) and incorporates capital markets subsidiary at Rs75 based on 10x 1Yr Fwd PE. We also use a sum of parts valuation which values SBI at Rs2,447 per share. In this valuation, we benchmark the consolidated banking business off a 1.4x 1Yr Fwd P/BV – slight premium to our benchmark valuation for its peers. We also add Rs194 per share for its non-banking subsidiary businesses as detailed earlier. We base our target price on EVA, as we believe it better adjusts for the relatively dynamic cost of capital and better captures the long-term value of the business.

Risks

We rate SBI as Low Risk, in line with CIRA's quantitative-based risk rating system. We believe this is appropriate given the nature of SBI's business, the quality of management, and the direct government ownership. The downside risks that could impede the stock from reaching our target price include: (1) A sharp rise in interest rates; (2) Asset quality concerns given strong loan growth and high interest rates; (3) Lack of liquidity or deposit growth; (4) Government involvement could be contrary to the interests of minority shareholders; and (5) A lack of capital to support growth.

Company Focus

- Company Update
- Target Price Change

Hold/Low Risk	**2L**
Price (23 Sep 11)	Rs457.65
Target price	Rs500.00
from Rs535.00	
Expected share price return	9.3%
Expected dividend yield	0.8%
Expected total return	**10.0%**
Market Cap	Rs1,069,544M
	US$21,673M

Price Performance
(RIC: HDBK.BO, BB: HDFCB IN)

HDFC Bank (HDBK.BO)

Strong Fundamentals but Valuations Limit Upsides

- **Lowering Target Price to Rs500, Maintain Hold** — We reduce our EVA-based target price to Rs500 benchmarked to 3.5x 1Yr Fwd P/BV from 3.75x. HDFC Bank remains fundamentally the least impacted in the current macro slowdown and has meaningfully outperformed the banking sector (+18% outperformance to Bankex in the last 6months). We believe it should continue to outperform near term, especially if overall macro deteriorates further. However, its strong relative valuation premium will also limit upside from current levels.
- **Robust balance sheet, strong asset quality** — HDBK's balance sheet remains robust – a) Loan growth has been healthy (+25%yoy), exposure to vulnerable segments remains low and outlook largely stable; b) Deposit mix remains strong with CASA at 49%; c) Asset risks lowest relative to peers – low NPLs, reducing slippages, low credit costs and restructured assets; and d) Comfortable capital with Tier 1 at 11.4%. Overall, a steady franchise with consistent growth, quality and return outlook.

Statistical Abstract

Year to 31 Mar	Net Profit (RsM)	Diluted EPS (Rs)	EPS growth (%)	P/E (x)	P/B (x)	ROE (%)	Yield (%)
2010A	29,487	13.26	16.1	34.5	4.9	16.1	0.5
2011A	39,264	16.90	27.4	27.1	4.2	16.7	0.7
2012E	50,237	21.45	26.9	21.3	3.5	18.1	0.8
2013E	64,575	27.57	28.5	16.6	2.9	19.4	0.9
2014E	81,931	34.98	26.9	13.1	2.4	20.3	0.9

Source: Powered by dataCentral

Fiscal year end 31-Mar	2010	2011	2012E	2013E	2014E
Valuation Ratios					
P/E adjusted (x)	34.5	27.1	21.3	16.6	13.1
P/E reported (x)	34.5	27.1	21.3	16.6	13.1
P/BV (x)	4.9	4.2	3.5	2.9	2.4
P/Adjusted BV diluted (x)	4.9	4.2	3.5	2.9	2.4
Dividend yield (%)	0.5	0.7	0.8	0.9	0.9
Per Share Data (Rs)					
EPS adjusted	13.26	16.90	21.45	27.57	34.98
EPS reported	13.26	16.90	21.45	27.57	34.98
BVPS	94.02	109.11	129.89	156.72	191.01
Tangible BVPS	94.02	109.11	129.89	156.72	191.01
Adjusted BVPS diluted	93.37	108.36	129.00	155.64	189.70
DPS	2.40	3.30	3.50	4.00	4.00
Profit & Loss (RsM)					
Net interest income	81,819	94,311	116,841	143,745	175,839
Fees and commissions	28,306	35,967	44,599	54,411	66,382
Other operating Income	9,800	7,074	11,021	15,649	18,851
Total operating income	**119,926**	**137,352**	**172,461**	**213,805**	**261,072**
Total operating expenses	-57,645	-71,529	-84,310	-100,623	-119,062
Oper. profit bef. provisions	**62,281**	**65,823**	**88,151**	**113,182**	**142,009**
Bad debt provisions	-19,389	-7,630	-15,344	-19,595	-23,268
Non-operating/exceptionals	0	0	0	0	0
Pre-tax profit	**42,891**	**58,193**	**72,807**	**93,586**	**118,741**
Tax	-13,404	-18,929	-22,570	-29,012	-36,810
Extraord./Min. Int./Pref. Div.	0	0	0	0	0
Attributable profit	**29,487**	**39,264**	**50,237**	**64,575**	**81,931**
Adjusted earnings	29,487	39,264	50,237	64,575	81,931
Growth Rates (%)					
EPS adjusted	16.1	27.4	26.9	28.5	26.9
Oper. profit bef. prov.	23.9	5.7	33.9	28.4	25.5
Balance Sheet (RsM)					
Total assets	**2,224,586**	**2,773,526**	**3,292,882**	**4,013,395**	**4,943,285**
Avg interest earning assets	1,967,917	2,392,022	2,873,487	3,481,421	4,294,223
Customer loans	1,291,549	1,626,757	2,026,750	2,528,469	3,155,252
Gross NPLs	18,168	16,943	18,727	22,656	28,415
Liab. & shar. funds	**2,224,586**	**2,773,526**	**3,292,882**	**4,013,395**	**4,943,285**
Total customer deposits	1,674,044	2,085,864	2,530,394	3,161,090	3,982,837
Reserve for loan losses	21,850	21,582	20,282	20,384	20,146
Shareholders' equity	**215,196**	**253,793**	**302,133**	**364,539**	**444,303**
Profitability/Solvency Ratios (%)					
ROE adjusted	16.1	16.7	18.1	19.4	20.3
Net interest margin	4.16	3.94	4.07	4.13	4.09
Cost/income ratio	48.1	52.1	48.9	47.1	45.6
Cash cost/average assets	2.8	2.9	2.8	2.8	2.7
NPLs/customer loans	1.4	1.0	0.9	0.9	0.9
Reserve for loan losses/NPLs	120.3	127.4	108.3	90.0	70.9
Bad debt prov./avg. cust. loans	1.7	0.5	0.8	0.9	0.8
Loans/deposit ratio	77.2	78.0	80.1	80.0	79.2
Tier 1 capital ratio	13.3	12.3	12.0	11.3	11.1
Total capital ratio	17.4	16.2	15.7	14.5	14.0

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Powered by: dataCentral

HDFC Bank

Company description

HDFC Bank, which began operations in 1994, is 23%-owned by HDFC - India's premier mortgage-finance institution. HDFC Bank has a network of more than 2,100 branches and more than 4,230 ATMs in 779 cities. HDFC Bank has had strong and steady growth over the past 10 years and continues to grow at more than 25%. HDFC Bank acquired Times Bank in 2000 and Centurion Bank of Punjab in 2008. This has made HDBK the second-largest private sector bank in India, by a relatively large margin.

Investment strategy

We rate HDFC Bank as Hold/Low Risk (2L) with a target price of Rs500. HDBK has now been through a couple of business cycles, and has distinguished itself consistently. While we believe its relative value is most obvious in challenging times, its current valuations are close to the peak they will likely generate in this cycle, and we expect stock returns will be modest from current levels. We expect HDFC Bank to trade in the 3-4x P/BV band over the longer term, the middle of its long-term trading band. Any valuation upside from here would depend on a sustained ROE improvement outlook (20%+), or a particularly favorable macro-environment, which we do not foresee in the near term. We are positive on the bank's prospects and management's ability to deliver, and believe it stands out relative to peers in the currently challenging environment.

Valuation

Our target price of Rs500 is based on an EVA model, assuming a loan-loss ratio of 100bps, a long-term cost/income ratio of 42% and a spread of 310bps. We use the EVA model as our standard valuation methodology for the India banking universe as it dynamically adjusts the economic value of the business. As a secondary benchmark, we apply 3.5x 1 year forward P/BV (Sep 2012) for a fair value of Rs502. A 3.5x P/BV is a premium to almost all other Indian commercial banks, but is justified, we believe, by HDBK's structurally higher margin, de-risked earnings and balance sheet mix, as well as by gains in the consumer-lending franchise. This multiple is in the middle of its PBV multiples in previous cycles.

Risks

We rate HDFC Bank as Low Risk based on our quantitative risk-rating system, which tracks 260-day historical share-price volatility. The downside and upside risks to our target price lie in: (1) any negative/positive news on asset quality; (2) potential management changes; (3) emergence of high quality and scale competitors; and (4) changing risk perceptions of private banks. If any of these factors has a greater impact than we expect, the stock could have difficulty achieving our target price.

Company Focus

Bank of Baroda (BOB.BO)

Healthy Franchise, But Relatively Priced In

- Company Update
- Target Price Change

Hold/Medium Risk	2M
Price (23 Sep 11)	Rs774.50
Target price	Rs850.00
from Rs930.00	
Expected share price return	9.7%
Expected dividend yield	2.3%
Expected total return	**12.0%**
Market Cap	Rs303,252M
	US$6,145M

Price Performance
(RIC: BOB.BO, BB: BOB IN)

- **Reducing Target Price to Rs850, maintain Hold** — We are revising our EVA based target price for Bank of Baroda to Rs850 (from Rs930 earlier) though we maintain our Hold/Medium Risk recommendation. We believe the bank has exhibited strong performance and its business momentum is healthy, despite the macro environmental challenges. However, given the correction in valuations for the sector, the bank continues to trade in-line with the best in class government banks. Coupled with the prevailing macro uncertainty, this should cap valuations at current levels.

- **Expect Growth and Quality to Continue** — Bank of Baroda has been operationally strong with: a) Good loan growth (25%yoy); b) Healthy net interest margins (287bps in 1Q12); and c) Robust asset quality with low credit costs. While we expect some moderation in growth, it should still be ahead of peers. Asset quality is expected to remain a key strength for the bank, as it has a well diversified loan book and relatively lower exposure to sensitive sectors (Power: 6-7% of loans, SEBs: 3%). Overall, BOB's balance between quality of balance sheet and P&L places it ahead of peers.

- **Quant View: Contrarian** — As per our quantitative methodology, Bank of Baroda currently lies in the Contrarian quadrant of our Value-Momentum map with relatively weak momentum despite its relatively attractive valuations.

Statistical Abstract

Year to 31 Mar	Net Profit (RsM)	Diluted EPS (Rs)	EPS growth (%)	P/E (x)	P/B (x)	ROE (%)	Yield (%)
2010A	30,583	83.67	37.3	9.3	1.9	21.9	1.9
2011A	42,417	111.87	33.7	6.9	1.4	23.5	2.1
2012E	51,375	130.79	16.9	5.9	1.2	22.2	2.3
2013E	59,912	152.52	16.6	5.1	1.0	21.4	2.3
2014E	71,531	182.10	19.4	4.3	0.8	21.2	2.4

Source: Powered by dataCentral

Fiscal year end 31-Mar	2010	2011	2012E	2013E	2014E
Valuation Ratios					
P/E adjusted (x)	9.3	6.9	5.9	5.1	4.3
P/E reported (x)	9.3	6.9	5.9	5.1	4.3
P/BV (x)	1.9	1.4	1.2	1.0	0.8
P/Adjusted BV diluted (x)	2.1	1.5	1.3	1.0	0.9
Dividend yield (%)	1.9	2.1	2.3	2.3	2.4
Per Share Data (Rs)					
EPS adjusted	83.67	111.87	130.79	152.52	182.10
EPS reported	83.67	111.87	130.79	152.52	182.10
BVPS	413.28	534.44	645.54	777.81	939.10
Tangible BVPS	413.28	534.44	645.54	777.81	939.10
Adjusted BVPS diluted	377.29	502.98	614.08	746.35	907.64
DPS	15.00	16.50	17.50	18.00	18.50
Profit & Loss (RsM)					
Net interest income	59,395	88,023	105,152	119,178	141,524
Fees and commissions	8,973	10,206	11,737	13,146	14,723
Other operating Income	19,091	17,886	19,582	21,656	23,951
Total operating income	**87,458**	**116,115**	**136,472**	**153,979**	**180,198**
Total operating expenses	-38,106	-46,298	-46,520	-50,454	-56,925
Oper. profit bef. provisions	**49,353**	**69,816**	**89,951**	**103,526**	**123,273**
Bad debt provisions	-9,007	-10,506	-12,997	-14,016	-16,677
Non-operating/exceptionals	2,035	-2,807	-1,403	-1,403	-1,403
Pre-tax profit	**42,381**	**56,503**	**75,551**	**88,106**	**105,193**
Tax	-11,797	-14,086	-24,176	-28,194	-33,662
Extraord./Min. Int./Pref. Div.	0	0	0	0	0
Attributable profit	**30,583**	**42,417**	**51,375**	**59,912**	**71,531**
Adjusted earnings	30,583	42,417	51,375	59,912	71,531
Growth Rates (%)					
EPS adjusted	37.3	33.7	16.9	16.6	19.4
Oper. profit bef. prov.	14.6	41.5	28.8	15.1	19.1
Balance Sheet (RsM)					
Total assets	**2,783,167**	**3,583,972**	**4,118,276**	**4,781,156**	**5,549,392**
Avg interest earning assets	2,472,804	3,128,457	3,789,462	4,387,453	5,103,682
Customer loans	1,775,284	2,319,566	2,778,326	3,277,186	3,851,789
Gross NPLs	24,007	31,525	34,919	41,785	50,443
Liab. & shar. funds	**2,783,167**	**3,583,972**	**4,118,276**	**4,781,156**	**5,549,392**
Total customer deposits	2,410,443	3,054,395	3,502,391	4,062,702	4,713,612
Reserve for loan losses	24,932	32,803	39,472	48,039	58,997
Shareholders' equity	**151,064**	**209,931**	**253,572**	**305,530**	**368,886**
Profitability/Solvency Ratios (%)					
ROE adjusted	21.9	23.5	22.2	21.4	21.2
Net interest margin	2.40	2.81	2.77	2.72	2.77
Cost/income ratio	43.6	39.9	34.1	32.8	31.6
Cash cost/average assets	1.5	1.5	1.2	1.1	1.1
NPLs/customer loans	1.4	1.4	1.3	1.3	1.3
Reserve for loan losses/NPLs	103.9	104.1	113.0	115.0	117.0
Bad debt prov./avg. cust. loans	0.6	0.5	0.5	0.5	0.5
Loans/deposit ratio	73.6	75.9	79.3	80.7	81.7
Tier 1 capital ratio	7.3	10.0	9.7	9.6	9.6
Total capital ratio	11.4	14.5	13.9	13.9	13.9

For further data queries on Citi's full coverage universe please contact CIRA Data Services Asia Pacific at CIRADataServicesAsiaPacific@citi.com or +852-2501-2791

Powered by: dataCentral

Quants View – Contrarian

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Data as of: 16-Sep-11

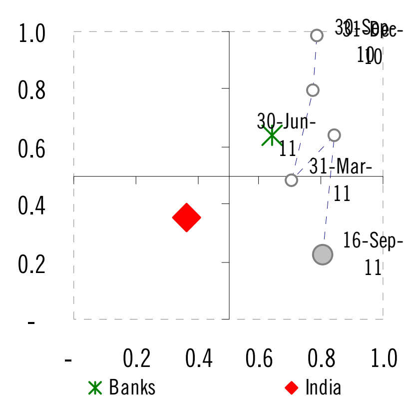
Radar Screen Quadrant Definitions

Glamor *Poor relative value but superior relative momentum*	**Attractive** *Superior relative value and superior relative momentum*
Unattractive *Poor relative value and poor relative momentum*	**Contrarian** *Superior relative value but poor relative momentum*

Bank of Baroda currently lies in the Extreme corner of the Contrarian quadrant of our Value-Momentum map with relatively weak momentum but strong value scores. The stock has moved from the Attractive quadrant to the Contrarian quadrant in the past 3 months indicating a fall in momentum scores, even though the stock has maintained an attractive valuation score. Compared to its peers in the Banks sector, Bank of Baroda fares better on the valuation metric but worse on the momentum metric. Similarly, compared to its peers in its home market of India, Bank of Baroda fares better on the valuation metric but worse on the momentum metric.

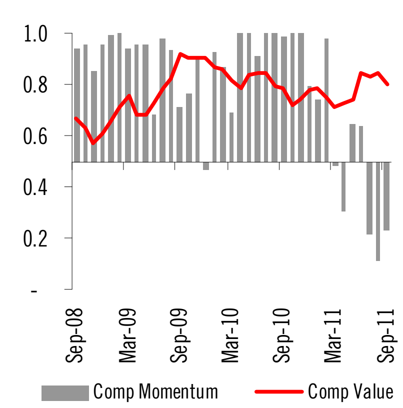
From a macro perspective, Bank of Baroda has a low beta to the region, so can be expected to hold its own given a decline in the regional market. It is also likely to benefit from falling commodity (ex-oil) prices, falling EM yields, and a weaker US Dollar.

Figure 43. Radar Quadrant Chart History



Source: CIRA

Figure 44. Radar Valuation and Momentum Scores



Source: CIRA

Figure 45. Radar Model Inputs

IBES EPS (Actual and Estimates)

FY(-2)	65.45	Implied Trend Growth (%)	16.66
FY(-1)	87.28	Trailing PE (x)	6.84
FY0	121.61	Implied Cost of Debt (%)	6.35
FY1	115.60	Standardised MCap	(0.03)
FY2	139.48		

Note: Standardised MCap calculated as a Z score – (mkt cap - mean)/std dev – capped at 3

Source: Citi Investment Research and Analysis, Worldscope, I/B/E/S

Figure 46. Stock Performance Sensitivity to Key Macro Factors

Region	0.71	Commodity ex Oil	(0.62)
Local Market	1.14	Rising Oil Prices	(0.00)
Sector	0.73	Rising Asian IR's	0.12
Growth Outperforms Value	(0.40)	Rising EM Yields	(0.40)
Small Caps Outperform Large Caps	0.81	Weaker US$ (vs Asia)	1.81
Widening US Credit Spreads	(0.11)	Weaker ¥ (vs US$)	0.04

Source: Citi Investment Research and Analysis

Bank of Baroda

Company description

Bank of Baroda (BOB) was incorporated in 1908 as a private institution, and subsequently nationalized in 1969. The bank is headquartered in Baroda, Gujarat. The government holds 57% of the bank's equity. BOB is among the top-five banks in the country, with close to 5.7% share of the deposits and advances of the banking system. BOB has a large nationwide branch network of 3,409 branches, and has 86 offices in 25 countries.

Investment strategy

We rate BOB Hold/Medium Risk (2M). BOB has made visible improvements in key operating parameters and has shown consistent growth and profitability over the last 24-36 months. Loan growth, which historically lagged the industry, has been above 25%, margins have sustained at over 3%, and asset quality has continued to improve, despite challenges faced by most peers. While valuations have corrected recently, BOB still trades above its historical median valuations and also at a premium to most of the leading public sector banks. Structurally, we believe BOB should trade at par with its larger peers and while BOB's fundamentals remain healthy, we view that this appears to be priced in current valuations.

Valuation

Our target price of Rs850 is based on CIRA's EVA model, which we believe captures the long-term value of the business and is a standard valuation measure for the CIRA India banking coverage. Our target price assumes: a) risk-free rate of 8.0% (in line with our assumptions for other Indian banks); b) long-term loan loss provisions of 90bps (lower than industry average of 100bps); c) loan spreads of 210bps, slightly higher than the 200bps industry average; and d) long-term cost income ratio of 31%. We benchmark our target price on a 1.25x 1-yr forward (Sep'12) PBV. Given BOB's strong and consistent asset quality performance, high growth and improving return profile, we are now valuing it at par with other best of breed government banks (such as SBI). Our fair value based on this methodology is Rs850.

Risks

We rate BOB Medium Risk, even as our quantitative risk-rating system, which tracks 260-day share price volatility, suggests Low Risk. We believe, BOB's higher sensitivity to a rising interest rate environment suggests a slightly higher risk profile than current. Key upside risks which could sustain the shares above our target price include: (1) Improvement in its funding franchise leading to an increase. in NIMs; (2) Lower than expected asset quality deterioration and loan loss charges; and (3) Improvement in fee income growth and return profile. Key downside risks to our target price include: a) Worsening of the asset quality environment; b) Moderation in its funding franchise, which could hurt NIMs, especially in a tight liquidity environment and c) Lower than expected loan growth levels.

Company Focus

Canara Bank (CNBK.BO)

Low Valuations But High Vulnerability to Macro Deterioration

- Company Update
- Target Price Change
- Estimate Change

Sell/Medium Risk	3M
Price (23 Sep 11)	Rs434.95
Target price	Rs375.00
from Rs510.00	
Expected share price return	-13.8%
Expected dividend yield	2.5%
Expected total return	**-11.3%**
Market Cap	Rs192,683M
	US$3,904M

Price Performance
(RIC: CNBK.BO, BB: CBK IN)

- **Reducing Target Price to Rs375, maintain Sell** — We are revising our EVA based target price for Canara Bank to Rs375, maintaining our Sell/Medium Risk rating. While the stock has underperformed sharply in recent months (-15% vs Sensex and -12% vs Bankex in 6 months) and valuations are relatively low; Canara remains among the most exposed to macro pressures (interest rates, growth and asset quality) and therefore the impact on earnings will likely be higher if the macro deteriorates further.
- **Cutting Earnings By 13/8% over FY12/13E** — We are reducing our earnings estimates over FY12/13E by 13/8% to incorporate softer growth prospects, weaker margins and higher credit costs.
- **Concerns on Quality, Funding and Margins** — Canara Bank has structurally been more vulnerable to a difficult macro, relative to peers, on the back of: a) Aggressive loan growth coupled with higher exposures to infrastructure (16% of which 9% is in Power); b) Weaker deposit franchise (CASA Ratio decreased to a modest 25%); and c) Sharp deterioration in asset quality (NPLs jumped 17% qoq in 1Q12) with relatively lower coverage levels (70%). Additionally, margin headwinds are also visible and add to the concerns. This should keep valuations at a meaningful discount to better government banking franchises.
- **Quant View: Contrarian** — As per our quantitative methodology, Canara Bank lies in the Contrarian quadrant of our Value-Momentum map with relatively weak momentum despite its relatively attractive valuations, relative to peers.

Statistical Abstract

Year to 31 Mar	Net Profit (RsM)	Diluted EPS (Rs)	EPS growth (%)	P/E (x)	P/B (x)	ROE (%)	Yield (%)
2010A	30,214	73.69	45.8	5.9	1.2	22.5	2.3
2011A	40,259	94.39	28.1	4.6	1.0	23.2	2.5
2012E	40,601	91.65	-2.9	4.7	0.8	18.6	2.5
2013E	51,237	115.66	26.2	3.8	0.7	19.9	2.6
2014E	62,575	141.25	22.1	3.1	0.6	20.3	2.8

Source: Powered by dataCentral

Fiscal year end 31-Mar	2010	2011	2012E	2013E	2014E
Valuation Ratios					
P/E adjusted (x)	5.9	4.6	4.7	3.8	3.1
P/E reported (x)	5.9	4.6	4.7	3.8	3.1
P/BV (x)	1.2	1.0	0.8	0.7	0.6
P/Adjusted BV diluted (x)	1.4	1.1	0.9	0.7	0.6
Dividend yield (%)	2.3	2.5	2.5	2.6	2.8
Per Share Data (Rs)					
EPS adjusted	73.69	94.39	91.65	115.66	141.25
EPS reported	73.69	94.39	91.65	115.66	141.25
BVPS	357.85	452.37	531.26	633.58	760.91
Tangible BVPS	357.85	452.37	531.26	633.58	760.91
Adjusted BVPS diluted	305.83	404.22	483.12	585.43	712.77
DPS	10.00	11.00	11.00	11.50	12.00
Profit & Loss (RsM)					
Net interest income	56,805	78,233	84,216	101,443	121,544
Fees and commissions	7,239	7,558	8,314	9,145	10,060
Other operating Income	22,769	19,472	17,729	22,097	23,798
Total operating income	**86,814**	**105,263**	**110,260**	**132,686**	**155,401**
Total operating expenses	-34,776	-44,193	-44,374	-49,666	-54,633
Oper. profit bef. provisions	**52,037**	**61,070**	**65,885**	**83,019**	**100,769**
Bad debt provisions	-12,394	-10,811	-13,832	-16,478	-17,335
Non-operating/exceptionals	-1,429	0	0	0	0
Pre-tax profit	**38,214**	**50,259**	**52,053**	**66,541**	**83,434**
Tax	-8,000	-10,000	-11,452	-15,304	-20,858
Extraord./Min. Int./Pref. Div.	0	0	0	0	0
Attributable profit	**30,214**	**40,259**	**40,601**	**51,237**	**62,575**
Adjusted earnings	30,214	40,259	40,601	51,237	62,575
Growth Rates (%)					
EPS adjusted	45.8	28.1	-2.9	26.2	22.1
Oper. profit bef. prov.	27.6	17.4	7.9	26.0	21.4
Balance Sheet (RsM)					
Total assets	**2,647,411**	**3,360,788**	**3,808,091**	**4,489,242**	**5,246,370**
Avg interest earning assets	2,365,382	2,937,460	3,502,050	4,066,547	4,786,564
Customer loans	1,707,221	2,139,902	2,531,997	3,038,856	3,587,224
Gross NPLs	25,903	30,892	30,130	33,166	38,489
Liab. & shar. funds	**2,647,411**	**3,360,788**	**3,808,091**	**4,489,242**	**5,246,370**
Total customer deposits	2,346,514	2,939,727	3,312,180	3,906,156	4,557,761
Reserve for loan losses	13,874	15,230	18,250	24,183	29,910
Shareholders' equity	**146,718**	**200,398**	**235,347**	**280,674**	**337,082**
Profitability/Solvency Ratios (%)					
ROE adjusted	22.5	23.2	18.6	19.9	20.3
Net interest margin	2.40	2.66	2.40	2.49	2.54
Cost/income ratio	40.1	42.0	40.2	37.4	35.2
Cash cost/average assets	1.4	1.5	1.2	1.2	1.1
NPLs/customer loans	1.5	1.4	1.2	1.1	1.1
Reserve for loan losses/NPLs	53.6	49.3	60.6	72.9	77.7
Bad debt prov./avg. cust. loans	0.8	0.6	0.6	0.6	0.5
Loans/deposit ratio	72.8	72.8	76.4	77.8	78.7
Tier 1 capital ratio	8.5	10.9	9.7	9.3	8.7
Total capital ratio	13.4	15.4	14.3	13.5	12.6

For further data queries on Citi's full coverage universe please contact CIRA Data Services Asia Pacific at CIRADataServicesAsiaPacific@citi.com or +852-2501-2791

Powered by: dataCentral

Quants View – Contrarian

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Data as of: 16-Sep-11

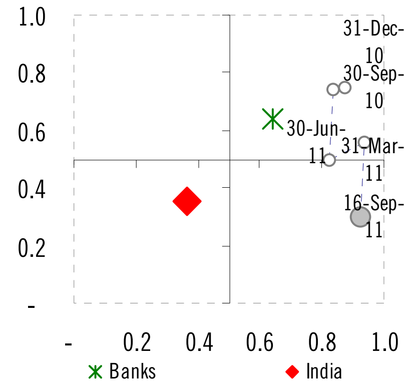
Canara Bank currently lies in the Contrarian quadrant of our Value-Momentum map with relatively weak momentum but strong value scores. The stock has moved from the Attractive quadrant to the Contrarian quadrant in the past 3 months indicating a fall in momentum scores, even though the stock has maintained an attractive valuation score. Compared to its peers in the Banks sector, Canara Bank fares better on the valuation metric but worse on the momentum metric. Similarly, compared to its peers in its home market of India, Canara Bank fares better on the valuation metric but worse on the momentum metric.

From a macro perspective, Canara Bank is likely to benefit from falling commodity (ex-oil) prices, falling EM yields, and a weaker US Dollar.

Radar Screen Quadrant Definitions

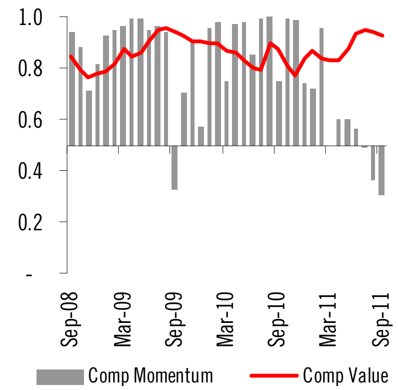
Glamor *Poor relative value but superior relative momentum*	**Attractive** *Superior relative value and superior relative momentum*
Unattractive *Poor relative value and poor relative momentum*	**Contrarian** *Superior relative value but poor relative momentum*

Figure 47. Radar Quadrant Chart History



Source: CIRA

Figure 48. Radar Valuation and Momentum Scores



Source: CIRA

Figure 49. Radar Model Inputs

IBES EPS (Actual and Estimates)

FY(-2)	50.00	Implied Trend Growth (%)	15.64
FY(-1)	73.16	Trailing PE (x)	4.42
FY0	98.01	Implied Cost of Debt (%)	6.35
FY1	88.56	Standardised MCap	(0.12)
FY2	107.57		

Note: Standardised MCap calculated as a Z score – (mkt cap - mean)/std dev – capped at 3

Source: Citi Investment Research and Analysis, Worldscope, I/B/E/S

Figure 50. Stock Performance Sensitivity to Key Macro Factors

Region	1.24	Commodity ex Oil	(0.33)
Local Market	0.94	Rising Oil Prices	(0.02)
Sector	1.51	Rising Asian IR's	(0.03)
Growth Outperforms Value	0.20	Rising EM Yields	(0.54)
Small Caps Outperform Large Caps	0.69	Weaker US$ (vs Asia)	1.56
Widening US Credit Spreads	(0.07)	Weaker ¥ (vs US$)	(0.05)

Source: Citi Investment Research and Analysis

Canara Bank

Company description

Canara Bank (Canbank) was incorporated in 1910 and nationalized in the first round in 1969. The bank is headquartered in Bangalore, Karnataka. The government holds 68% of the bank's equity. Canara Bank is among the top-five banks in the country, with nearly 6% share in deposits and advances of the banking system. The bank has a large nationwide network of over 3,277 branches and 2509 ATMs.

Investment strategy

We rate Canbank Sell/Medium Risk (3M). It is one of India's larger government banks that have recorded strong growth over the past five years, with increasing ROE (over 20% in FY11). It has also maintained rapid loan growth, which has traditionally been above the industry average. It is one of India's largest banks and, we believe, is among the best positioned to participate in relatively large capex-related funding. However, Canbank has a mixed record of asset quality, higher than industry exposure to the vulnerable infrastructure and power segments; and while its NPA levels have improved, its coverage levels remain the lowest among peers, and its rapid growth does increase concerns. It has been inconsistent with its margins (now well below peers at 2.4%), its modest funding mix (25% CASA) and high reliance on bulk deposits suggest continuing pain in the current liquidity environment. We believe Canara is an aggressive and slightly higher risk relative to peers and, while valuations have corrected, near-term operational pain is likely to cap any upsides.

Valuation

Our target price of Rs375 is based on CIRA's EVA model, which in our view captures the long-term value of the business and which is a standard valuation measure for the CIRA India banking universe. Our target price is premised on: a) risk free rate of 8.0%; b) lower than industry long term loan loss provisions of 90bps, c) loan spreads of 190bps, lower than industry average levels, and d) long term fee income growth of 8%. We benchmark our target price on a 0.7x 1Yr Fwd P/BV (Sep'12), which is at a significant discount to fair-value multiples for higher-quality government banks, on account of Canara's relatively modest funding mix and an often aggressive approach to growth and trading. Our implied P/BV-based fair value is Rs387.

Risks

We rate Canara Bank Medium Risk, even as our quantitative risk-rating system, which tracks 260-day historical share price volatility suggests Low Risk. We believe Canara’s moderate funding mix and relative higher earnings sensitivity to the interest rate environment suggests Medium Risk. Key upside risks to our target price include: 1) Improvements in the asset quality environment; 2) Relatively easier liquidity and interest rate environment, which should protect NIMs and lead to bond portfolio gains; 3) Improvements in the low cost deposit mix.

Company Focus

Infrastructure Development Finance (IDFC.BO)

Look Beyond the Cyclical Pain

- Company Update
- Target Price Change
- Estimate Change

Buy/Medium Risk	1M
Price (23 Sep 11)	Rs109.30
Target price	Rs135.00
from Rs154.00	
Expected share price return	23.5%
Expected dividend yield	1.8%
Expected total return	**25.3%**
Market Cap	Rs159,942M
	US$3,241M

Price Performance
(RIC: IDFC.BO, BB: IDFC IN)

- **Lowering Target Price to Rs135, maintain Buy** — We revise our target price for IDFC to Rs135 per share on the back of 0-7% lower earnings for FY12-13E (incorporating lower gain on capital market segments, partly offset by higher net interest margins) and lower P/BV valuation multiple (1.5x 1yr Fwd P/BV) to account for increased risks to growth and asset quality. Maintain Buy.

- **Macro Pressures Exist, But More Cyclical in Nature** — With the tougher macro environment, particularly in the infrastructure space, IDFC's business momentum has been impacted. However, IDFC has strong underwriting skills, credible track record, cautious management and strong provisioning levels – reduce asset risks going ahead. NPLs continue to be best in class and coverage levels high (8x loan loss coverage). While higher rates and regulatory stand-off will likely impact loan growth and hurt near term profitability, we believe longer term opportunities remain intact.

- **Quant View: Unattractive** — As per our quantitative team IDFC currently lies in the Unattractive quadrant of our Value-Momentum map with weak momentum and weak valuation scores.

Statistical Abstract

Year to 31 Mar	Net Profit (RsM)	Diluted EPS (Rs)	EPS growth (%)	P/E (x)	P/B (x)	ROE (%)	Yield (%)
2010A	10,623	8.17	41.1	13.4	2.0	16.1	1.4
2011A	12,817	8.77	7.4	12.5	1.4	14.0	1.8
2012E	13,780	9.13	4.1	12.0	1.3	11.7	1.8
2013E	16,737	11.09	21.5	9.9	1.2	12.9	1.8
2014E	20,574	13.64	22.9	8.0	1.1	14.3	1.8

Source: Powered by dataCentral

Fiscal year end 31-Mar	2010	2011	2012E	2013E	2014E
Valuation Ratios					
P/E adjusted (x)	13.4	12.5	12.0	9.9	8.0
P/E reported (x)	13.4	12.5	12.0	9.9	8.0
P/BV (x)	2.0	1.4	1.3	1.2	1.1
P/Adjusted BV diluted (x)	2.0	1.5	1.3	1.2	1.1
Dividend yield (%)	1.4	1.8	1.8	1.8	1.8
Per Share Data (Rs)					
EPS adjusted	8.17	8.77	9.13	11.09	13.64
EPS reported	8.17	8.77	9.13	11.09	13.64
BVPS	53.90	76.99	81.31	90.03	101.28
Tangible BVPS	53.90	76.99	81.31	90.03	101.28
Adjusted BVPS diluted	53.90	71.24	81.31	90.03	101.28
DPS	1.50	2.00	2.00	2.00	2.00
Profit & Loss (RsM)					
Net interest income	9,382	15,604	19,802	22,901	27,818
Fees and commissions	6,182	6,413	4,850	5,673	6,716
Other operating Income	5,503	3,439	2,244	3,703	4,679
Total operating income	**21,067**	**25,455**	**26,896**	**32,277**	**39,214**
Total operating expenses	-5,482	-5,321	-5,793	-6,786	-8,077
Oper. profit bef. provisions	**15,585**	**20,135**	**21,102**	**25,491**	**31,137**
Bad debt provisions	-1,298	-2,346	-1,366	-1,506	-1,656
Non-operating/exceptionals	7	22	22	22	22
Pre-tax profit	**14,294**	**17,811**	**19,758**	**24,007**	**29,504**
Tax	-3,666	-4,998	-5,921	-7,195	-8,844
Extraord./Min. Int./Pref. Div.	-6	3	-58	-74	-86
Attributable profit	**10,623**	**12,817**	**13,780**	**16,737**	**20,574**
Adjusted earnings	10,623	12,817	13,780	16,737	20,574
Growth Rates (%)					
EPS adjusted	41.1	7.4	4.1	21.5	22.9
Oper. profit bef. prov.	31.1	29.2	4.8	20.8	22.2
Balance Sheet (RsM)					
Total assets	**348,099**	**493,167**	**557,188**	**682,530**	**866,051**
Avg interest earning assets	289,677	378,702	486,201	573,714	719,847
Customer loans	250,679	376,931	431,540	539,812	702,084
Gross NPLs	781	797	797	1,481	2,127
Liab. & shar. funds	**348,099**	**493,167**	**557,188**	**682,530**	**866,051**
Total customer deposits	0	0	0	0	0
Reserve for loan losses	369	408	1,077	1,532	2,017
Shareholders' equity	**70,103**	**120,884**	**122,674**	**135,821**	**152,805**
Profitability/Solvency Ratios (%)					
ROE adjusted	16.1	14.0	11.7	12.9	14.3
Net interest margin	3.24	4.12	4.07	3.99	3.86
Cost/income ratio	26.0	20.9	21.5	21.0	20.6
Cash cost/average assets	1.7	1.3	1.1	1.1	1.0
NPLs/customer loans	0.3	0.2	0.2	0.3	0.3
Reserve for loan losses/NPLs	47.2	51.2	135.0	103.4	94.8
Bad debt prov./avg. cust. loans	0.6	0.7	0.3	0.3	0.3
Loans/deposit ratio	na	na	na	na	na
Tier 1 capital ratio	17.3	16.9	17.7	15.8	13.8
Total capital ratio	20.5	19.0	19.5	17.3	15.0

For further data queries on Citi's full coverage universe please contact CIRA Data Services Asia Pacific at CIRADataServicesAsiaPacific@citi.com or +852-2501-2791

Powered by: dataCentral

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Data as of: 16-Sep-11

Radar Screen Quadrant Definitions

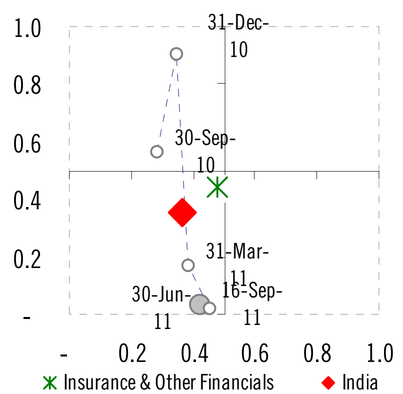
Glamor *Poor relative value but superior relative momentum*	**Attractive** *Superior relative value and superior relative momentum*
Unattractive *Poor relative value and poor relative momentum*	**Contrarian** *Superior relative value but poor relative momentum*

Quants View – Unattractive

IDFC currently lies in the Unattractive quadrant of our Value-Momentum map with weak momentum and weak value scores. It has been a resident there since the past 6 months. Compared to its peers in the Insurance & Other Financials sector, IDFC fares worse on the valuation metric and on the momentum metric. On the other hand, compared to its peers in its home market of India, IDFC fares better on the valuation metric but worse on the momentum metric.

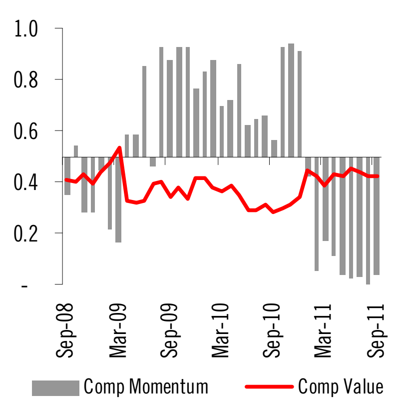
From a macro perspective, IDFC is likely to benefit from small-cap outperformance, falling commodity (ex-oil) prices, tightening Asian interest rates, falling EM yields, and a weaker US Dollar.

Figure 51. Radar Quadrant Chart History



Source: CIRA

Figure 52. Radar Valuation and Momentum Scores



Source: CIRA

Figure 53. Radar Model Inputs

IBES EPS (Actual and Estimates)

FY(-2)	5.79	Implied Trend Growth (%)	15.00
FY(-1)	8.12	Trailing PE (x)	13.62
FY0	8.71	Implied Cost of Debt (%)	6.35
FY1	9.74	Standardised MCap	0.23
FY2	11.57		

Note: Standardised MCap calculated as a Z score – (mkt cap - mean)/std dev – capped at 3

Source: Citi Investment Research and Analysis, Worldscope, I/B/E/S

Figure 54. Stock Performance Sensitivity to Key Macro Factors

Region	1.11	Commodity ex Oil	(0.81)
Local Market	1.55	Rising Oil Prices	0.15
Sector	1.11	Rising Asian IR's	(0.36)
Growth Outperforms Value	(0.52)	Rising EM Yields	(0.52)
Small Caps Outperform Large Caps	1.44	Weaker US$ (vs Asia)	3.54
Widening US Credit Spreads	(0.25)	Weaker ¥ (vs US$)	(0.08)

Source: Citi Investment Research and Analysis

Infrastructure Development Finance

Company description

IDFC was established in 1997 as a specialized infrastructure financier / advisor and to encourage private sector investments in the infrastructure sector. It has been actively associated with the government in policy formulation, and has probably the foremost set of skills in this space. It enjoys a central positioning as being among the forerunners in the policy advisory space in infrastructure and is seen as the preferred investor, lender and advisor. Though IDFC has diversified its product offerings to include non-fund based products, asset management and private equity along with debt finance and syndication opportunities, the lending business remains its key operational focus.

Investment strategy

We rate IDFC shares Buy/ Medium Risk (1M) with a Rs135 target price. IDFC appears well positioned to benefit from India's large infrastructure opportunity. We believe IDFC has a quality management team, is one of the few pure plays on infrastructure financial services, and offers long-term growth potential. However, it does face cyclical challenges on – a) Growth in its core lending business (policy and approval delays, fuel availability); b) Likely asset quality concerns – especially in the power segment (40% of exposure), though IDFC has high coverage levels; and c) Competitive and profitability pressures in the capital market related businesses. Business fundamentals have however, remained healthy with no incremental asset quality deterioration, strong and protected net interest margins and continued strength in market positioning. We believe most of these challenges are reflected in its sharp price correction and will lead to longer term stock upsides (though will be linked to a turnaround in execution in the infrastructure, power segment).

Medium- to long-term, however we remain confident of IDFC's above industry loan growth trajectory, improving profitability (increased leverage to improve returns) and strong asset quality track record to be maintained. Moreover, any bounce-back in the outlook for the capital market business could also be a strong catalyst for the stock. It is currently trading cheaper than historical averages and we remain buyers medium- to long-term.

Valuation

We have a target price for IDFC of Rs135, which is based on our sum-of-the-parts methodology. We value IDFC's core lending business at Rs106 per share; we prefer a P/BV multiple of 1.5x 1yr-Fwd BV (Sep'12) benchmarked below the lower band of private banks' target P/BV multiples (2.0x – 3.5x), given its sub-15% core ROE. This reflects IDFC's lack of retail asset, liability and distribution franchises relative to premier private bank franchises. We value the asset management business as a percentage of assets and value this business at Rs9 per share sub-divided into Rs3 for the private equity segment (5% of AUMs) and Rs6 for the domestic AMC business (4% of AUMs). We value IDFC's broking and investment banking business at Rs2 per share based on 10x 1yr Fwd profits. Finally, we also add Rs18 for IDFC's investment portfolio including the NSE (valued in-line with the last reported transaction).

Risks

We rate IDFC shares Medium Risk, in line with our quantitative risk system, which tracks 260-day historical share price volatility. While IDFC’s increasing scale and strong asset quality track record reduce risks, we believe its mono-segment lending and inherent exposure to capital markets increase its risk profile. Key downside risks that could restrict the stock from achieving our target price include: a) Sharp increases in interest rates; b) Significant slowdown in infrastructure growth and asset quality; c) Continued softness in capital markets for a relatively longer period; d) Regulatory changes and a higher tax rate.

Company Focus

- Company Update
- Target Price Change

Buy/Medium Risk	1M
Price (23 Sep 11)	Rs267.50
Target price	Rs345.00
from Rs380.00	
Expected share price return	29.0%
Expected dividend yield	1.1%
Expected total return	**30.1%**
Market Cap	Rs93,905M
	US$1,903M

Price Performance
(RIC: YESB.BO, BB: YES IN)

Yes Bank (YESB.BO)

High Macro Leverage, But Strong Execution Provides Stability

- **Reducing target price to Rs345, Maintain Buy** — We reduce our EVA-based target price for Yes Bank to Rs345, but maintain our Buy (1M) rating. Our revised target price is benchmarked to 2.25x 1Yr Fwd P/BV (2.5x earlier) and incorporates lower asset longer term spreads and higher expense ratios.
- **Vulnerable to the macro, but strong execution has managed risks well** — Yes Bank's historically strong loan growth, mid-market exposure and sector concentrations has raised risk perceptions on its asset quality. However, management has managed these risks well so far and NPLs have remained low, with strong coverage levels. Also its funding franchise is modest – 10% CASA mix, high dependence on wholesale funding – but net interest margins has remained largely stable and relatively high (close to 300bps) despite a challenging funding environment. While Yes remains leveraged to the macro (could remain a valuation overhang), we believe its longer term growth potential is robust and could provide strong upside in a better macro environment.
- **Quant View: Unattractive** — As per our quantitative methodology, Yes Bank currently lies in the Unattractive quadrant of our Value-Momentum map with weak momentum and weak value scores.

Statistical Abstract

Year to 31 Mar	Net Profit (RsM)	Diluted EPS (Rs)	EPS growth (%)	P/E (x)	P/B (x)	ROE (%)	Yield (%)
2010A	4,777	14.06	37.5	19.0	2.9	20.3	0.6
2011A	7,271	20.95	48.9	12.8	2.4	21.1	0.9
2012E	9,579	27.59	31.7	9.7	2.0	22.7	1.1
2013E	12,039	34.68	25.7	7.7	1.6	23.3	1.3
2014E	15,927	45.88	32.3	5.8	1.3	24.9	1.5

Source: Powered by dataCentral

Fiscal year end 31-Mar	2010	2011	2012E	2013E	2014E
Valuation Ratios					
P/E adjusted (x)	19.0	12.8	9.7	7.7	5.8
P/E reported (x)	19.0	12.8	9.7	7.7	5.8
P/BV (x)	2.9	2.4	2.0	1.6	1.3
P/Adjusted BV diluted (x)	2.9	2.4	2.0	1.6	1.3
Dividend yield (%)	0.6	0.9	1.1	1.3	1.5
Per Share Data (Rs)					
EPS adjusted	14.06	20.95	27.59	34.68	45.88
EPS reported	14.06	20.95	27.59	34.68	45.88
BVPS	90.96	109.29	133.38	163.96	205.16
Tangible BVPS	90.96	109.29	133.38	163.96	205.16
Adjusted BVPS diluted	90.96	109.29	133.38	163.96	205.16
DPS	1.50	2.50	3.00	3.50	4.00
Profit & Loss (RsM)					
Net interest income	7,880	12,469	16,169	20,358	27,417
Fees and commissions	3,791	5,870	7,631	9,538	11,923
Other operating Income	1,964	363	575	1,593	2,179
Total operating income	**13,635**	**18,702**	**24,374**	**31,489**	**41,519**
Total operating expenses	-5,002	-6,798	-8,652	-11,155	-14,594
Oper. profit bef. provisions	**8,633**	**11,904**	**15,722**	**20,334**	**26,925**
Bad debt provisions	-1,265	-914	-1,424	-2,093	-2,793
Non-operating/exceptionals	-104	-69	0	0	0
Pre-tax profit	**7,265**	**10,922**	**14,298**	**18,241**	**24,132**
Tax	-2,487	-3,650	-4,718	-6,202	-8,205
Extraord./Min. Int./Pref. Div.	0	0	0	0	0
Attributable profit	**4,777**	**7,271**	**9,579**	**12,039**	**15,927**
Adjusted earnings	4,777	7,271	9,579	12,039	15,927
Growth Rates (%)					
EPS adjusted	37.5	48.9	31.7	25.7	32.3
Oper. profit bef. prov.	63.6	37.9	32.1	29.3	32.4
Balance Sheet (RsM)					
Total assets	**363,825**	**590,070**	**747,216**	**953,580**	**1,211,973**
Avg interest earning assets	279,456	456,853	641,192	817,573	1,043,504
Customer loans	222,403	344,350	448,169	582,481	747,811
Gross NPLs	602	805	1,707	2,352	3,081
Liab. & shar. funds	**363,825**	**590,070**	**747,216**	**953,580**	**1,211,973**
Total customer deposits	267,986	459,389	590,009	763,558	980,312
Reserve for loan losses	472	714	1,442	2,432	3,836
Shareholders' equity	**30,896**	**37,941**	**46,302**	**56,919**	**71,221**
Profitability/Solvency Ratios (%)					
ROE adjusted	20.3	21.1	22.7	23.3	24.9
Net interest margin	2.82	2.73	2.52	2.49	2.63
Cost/income ratio	36.7	36.3	35.5	35.4	35.1
Cash cost/average assets	1.7	1.4	1.3	1.3	1.3
NPLs/customer loans	0.3	0.2	0.4	0.4	0.4
Reserve for loan losses/NPLs	78.4	88.6	84.4	103.4	124.5
Bad debt prov./avg. cust. loans	0.7	0.3	0.4	0.4	0.4
Loans/deposit ratio	83.0	75.0	76.0	76.3	76.3
Tier 1 capital ratio	12.9	9.7	9.3	8.9	8.6
Total capital ratio	20.6	16.5	15.4	14.1	13.0

For further data queries on Citi's full coverage universe please contact CIRA Data Services Asia Pacific at CIRADataServicesAsiaPacific@citi.com or +852-2501-2791

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Data as of: 16-Sep-11

Radar Screen Quadrant Definitions

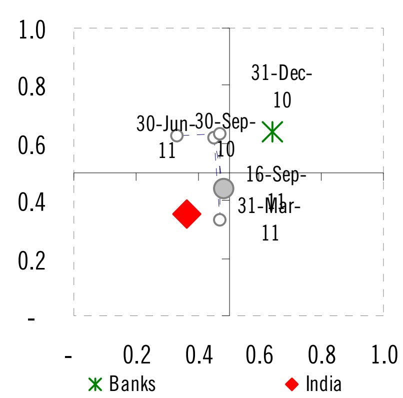
Glamor *Poor relative value but superior relative momentum*	**Attractive** *Superior relative value and superior relative momentum*
Unattractive *Poor relative value and poor relative momentum*	**Contrarian** *Superior relative value but poor relative momentum*

Quants View – Unattractive

Yes Bank currently lies in the Unattractive quadrant of our Value-Momentum map with weak momentum and weak value scores. The stock has moved from the Glamour quadrant to the Unattractive quadrant in the past 3 months indicating a fall in momentum along with valuations remaining weak. Compared to its peers in the Banks sector, Yes Bank fares worse on the valuation metric and on the momentum metric. On the other hand, compared to its peers in its home market of India, Yes Bank fares better on the valuation metric and on the momentum metric.

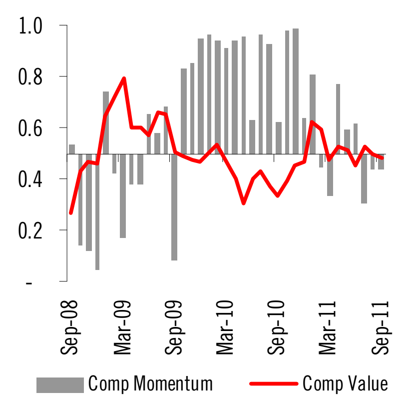
From a macro perspective, Yes Bank has a high beta to the region so is likely to rise (or fall) faster than the region. It is also likely to benefit from Small cap outperformance, falling Commodity (ex-oil) prices, falling EM yields, and a weaker US Dollar.

Figure 55. Radar Quadrant Chart History



Source: CIRA

Figure 56. Radar Valuation and Momentum Scores



Source: CIRA

Figure 57. Radar Model Inputs

IBES EPS (Actual and Estimates)

FY(-2)	10.24	Implied Trend Growth (%)	27.91
FY(-1)	14.87	Trailing PE (x)	12.36
FY0	20.25	Implied Cost of Debt (%)	6.35
FY1	26.79	Standardised MCap	(0.08)
FY2	33.88		

Note: Standardised MCap calculated as a Z score – (mkt cap - mean)/std dev – capped at 3

Source: Citi Investment Research and Analysis, Worldscope, I/B/E/S

Figure 58. Stock Performance Sensitivity to Key Macro Factors

Region	1.45	Commodity ex Oil	(0.72)
Local Market	1.48	Rising Oil Prices	0.12
Sector	0.93	Rising Asian IR's	(0.13)
Growth Outperforms Value	(0.59)	Rising EM Yields	(0.50)
Small Caps Outperform Large Caps	1.81	Weaker US$ (vs Asia)	3.49
Widening US Credit Spreads	(0.03)	Weaker ¥ (vs US$)	(0.13)

Source: Citi Investment Research and Analysis

Yes Bank

Company description

Yes Bank was started in FY05 by Mr. Rana Kapoor and is the newest private-sector bank in India. It has grown rapidly since inception and what it lacks in size it makes up with strong growth, quality management, and a rapidly building franchise. The bank has 255 branches and management suggests a target of over 500 branches by FY15. In FY11, the bank grew its loans by 55% to Rs343bn and net profits by 52% to Rs7.3bn.

Investment strategy

We rate Yes Bank Buy/Medium Risk (1M) with an EVA-based Rs345 target price. Yes Bank has shown aggressive growth, strong execution skills, a focused asset portfolio, strong treasury and advisory income businesses with relatively low NPLs so far. Yes Bank is highly leveraged to a strong economy with its consistently high growth and strong quality. Yes has shown little evidence of longer-term asset quality concerns despite a challenging asset quality environment and its own relatively concentrated mid-market exposure. We believe a stable/rising economic growth environment, low interest/easing liquidity regime, and strong capital markets are key ingredients to support Yes Bank.

Valuation

We value Yes Bank at Rs345 per share based on our EVA model. Our key assumptions are: a) longer-term spreads of 2.2%, slightly higher than industry (average 2.0%); b) 8.0% risk-free rate – in line with our assumptions for other Indian banks; and c) 38% longer-term cost-income ratio, slightly lower than peers. We also benchmark our valuations at 2.25x 1yr Fwd PBV, translating into a fair value of Rs335 per share. Our benchmark PBV multiple for Yes Bank is at a 10-30% discount to best-of-breed private banks like Axis and HDFC Bank, reflecting its much weaker liability franchise and a more mid-market asset exposure. However, if liquidity eases meaningfully and loan growth improves, Yes Bank can also trade at premiums to peers given its smaller size and greater ability to access and leverage incremental capital quickly. We prefer to value banks on the EVA model as we believe it better captures the longer-term value of the business, and is in line with our approach to valuing other banks in the sector.

Risks

We rate Yes Bank Medium Risk in-line with our quantitative risk-rating system, which tracks 260-day historical share price volatility. Key downside risks which could prevent the stock from reaching our target price include: a) any further deterioration in the macro economic environment; b) sharp deterioration in asset quality environment; c) weaker than expected capital markets given its relatively high proportion of fees from related activities; and d) further tightening of liquidity and interest rate environment.

Company Focus

Federal Bank (FED.BO)

Healthy Valuations, Possible Future Rerating

- Company Update
- Target Price Change
- Estimate Change

Buy/Medium Risk	**1M**
Price (23 Sep 11)	Rs360.60
Target price	Rs460.00
from Rs437.00	
Expected share price return	27.6%
Expected dividend yield	1.7%
Expected total return	**29.2%**
Market Cap	Rs61,680M
	US$1,250M

Price Performance
(RIC: FED.BO, BB: FB IN)

- **Raising Target Price to Rs460, maintain Buy** — We are raising our EVA-based target price for Federal Bank to Rs460 (from Rs437 earlier). Our target price is also benchmarked to 1.3x 1yr Fwd P/BV (Sep'12). We maintain our Buy/Medium Risk recommendation on the stock, as we believe that key operating parameters are stabilizing and the franchise is turning (albeit slowly). We also adjust earnings marginally (-2%/-1% for FY12-13E) on account of slightly lower fee income.

- **Candidate for Re-rating** — Federal Bank remains a strong prospect for rerating, given its new management team, which is now in place and has taken several steps for structural improvements in: a) Risk management; b) Customer focus; c) Performance incentivisation; and d) Core business. All these measures should start yielding operational benefits in the medium term. Federal Bank's valuations also look cheap (trades at 1.1x 1yr Fwd P/BV) and we remain positive on the longer-term prospects of the business.

- **Quant View: Attractive** — As per our quantitative methodology, Federal Bank currently lies in the Attractive quadrant of our Value-Momentum map. The stock's recent correction (down 17% in last 3months) makes valuations attractive and momentum also remains strong.

Statistical Abstract

Year to 31 Mar	Net Profit (RsM)	Diluted EPS (Rs)	EPS growth (%)	P/E (x)	P/B (x)	ROE (%)	Yield (%)
2010A	4,645	27.16	-7.2	13.3	1.3	10.3	1.4
2011A	5,871	34.32	26.4	10.5	1.2	12.0	2.4
2012E	6,858	40.09	16.8	9.0	1.1	12.7	1.7
2013E	8,246	48.21	20.3	7.5	1.0	13.7	1.8
2014E	9,659	56.47	17.1	6.4	0.9	14.2	1.8

Source: Powered by dataCentral

Fiscal year end 31-Mar	2010	2011	2012E	2013E	2014E
Valuation Ratios					
P/E adjusted (x)	13.3	10.5	9.0	7.5	6.4
P/E reported (x)	13.3	10.5	9.0	7.5	6.4
P/BV (x)	1.3	1.2	1.1	1.0	0.9
P/Adjusted BV diluted (x)	1.3	1.2	1.1	1.0	0.9
Dividend yield (%)	1.4	2.4	1.7	1.8	1.8
Per Share Data (Rs)					
EPS adjusted	27.16	34.32	40.09	48.21	56.47
EPS reported	27.16	34.32	40.09	48.21	56.47
BVPS	274.24	298.67	331.80	372.47	421.40
Tangible BVPS	274.24	298.67	331.80	372.47	421.40
Adjusted BVPS diluted	274.24	298.67	331.80	372.47	421.40
DPS	5.00	8.50	6.00	6.50	6.50
Profit & Loss (RsM)					
Net interest income	14,108	17,466	18,775	21,948	25,895
Fees and commissions	1,053	1,144	1,293	1,461	1,651
Other operating Income	4,256	4,024	4,323	5,038	5,870
Total operating income	**19,417**	**22,634**	**24,391**	**28,448**	**33,416**
Total operating expenses	-6,769	-8,361	-9,471	-10,661	-12,002
Oper. profit bef. provisions	**12,648**	**14,273**	**14,919**	**17,786**	**21,415**
Bad debt provisions	-4,133	-5,032	-4,551	-5,318	-6,806
Non-operating/exceptionals	80	-222	-133	-160	-192
Pre-tax profit	**8,595**	**9,018**	**10,235**	**12,308**	**14,417**
Tax	-3,950	-3,147	-3,378	-4,062	-4,758
Extraord./Min. Int./Pref. Div.	0	0	0	0	0
Attributable profit	**4,645**	**5,871**	**6,858**	**8,246**	**9,659**
Adjusted earnings	4,645	5,871	6,858	8,246	9,659
Growth Rates (%)					
EPS adjusted	-7.2	26.4	16.8	20.3	17.1
Oper. profit bef. prov.	0.4	12.8	4.5	19.2	20.4
Balance Sheet (RsM)					
Total assets	**436,756**	**514,564**	**597,741**	**699,486**	**819,948**
Avg interest earning assets	406,713	464,837	543,445	634,784	744,660
Customer loans	277,876	330,705	386,602	455,736	535,576
Gross NPLs	8,210	11,484	12,811	14,508	14,756
Liab. & shar. funds	**436,756**	**514,564**	**597,741**	**699,486**	**819,948**
Total customer deposits	360,580	430,148	505,423	597,791	707,263
Reserve for loan losses	8,374	11,173	12,749	14,590	15,023
Shareholders' equity	**46,904**	**51,087**	**56,754**	**63,710**	**72,080**
Profitability/Solvency Ratios (%)					
ROE adjusted	10.3	12.0	12.7	13.7	14.2
Net interest margin	3.47	3.76	3.45	3.46	3.48
Cost/income ratio	34.9	36.9	38.8	37.5	35.9
Cash cost/average assets	1.6	1.8	1.7	1.6	1.6
NPLs/customer loans	3.0	3.5	3.3	3.2	2.8
Reserve for loan losses/NPLs	102.0	97.3	99.5	100.6	101.8
Bad debt prov./avg. cust. loans	1.6	1.7	1.3	1.3	1.4
Loans/deposit ratio	77.1	76.9	76.5	76.2	75.7
Tier 1 capital ratio	16.9	15.6	14.5	13.8	13.2
Total capital ratio	18.4	16.8	15.0	14.3	13.6

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Powered by: dataCentral

Quants View – Attractive

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Data as of: 16-Sep-11

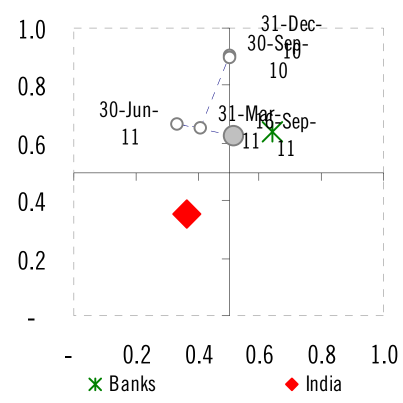
Federal Bank currently lies in the Attractive quadrant of our Value-Momentum map with strong value and momentum scores. The stock has moved from the Glamour quadrant to the Attractive quadrant in the past 3 months indicating improving valuations while momentum remains strong due to improving analyst estimates. Compared to its peers in the Banks sector, Federal Bank fares worse on the valuation metric and on the momentum metric. On the other hand, compared to its peers in its home market of India, Federal Bank fares better on the valuation metric and on the momentum metric.

From a macro perspective, Federal Bank has a low beta to the region, so can be expected to hold its own given a decline in the regional market. It is also likely to benefit from small-cap outperformance, falling EM yields, and a weaker US Dollar.

Radar Screen Quadrant Definitions

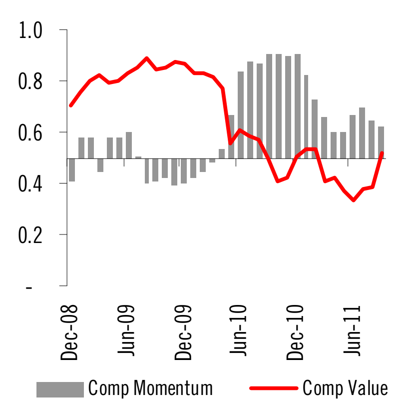
Glamor *Poor relative value but superior relative momentum*	**Attractive** *Superior relative value and superior relative momentum*
Unattractive *Poor relative value and poor relative momentum*	**Contrarian** *Superior relative value but poor relative momentum*

Figure 59. Radar Quadrant Chart History



Source: CIRA

Figure 60. Radar Valuation and Momentum Scores



Source: CIRA

Figure 61. Radar Model Inputs

IBES EPS (Actual and Estimates)

FY(-2)	27.60	Implied Trend Growth (%)	20.37
FY(-1)	25.71	Trailing PE (x)	11.42
FY0	32.53	Implied Cost of Debt (%)	6.35
FY1	44.50	Standardised MCap	(0.15)
FY2	56.20		

Note: Standardised MCap calculated as a Z score – (mkt cap - mean)/std dev – capped at 3

Source: Citi Investment Research and Analysis, Worldscope, I/B/E/S

Figure 62. Stock Performance Sensitivity to Key Macro Factors

Region	0.73	Commodity ex Oil	(0.20)
Local Market	0.93	Rising Oil Prices	(0.03)
Sector	1.02	Rising Asian IR's	(0.13)
Growth Outperforms Value	(0.11)	Rising EM Yields	(0.44)
Small Caps Outperform Large Caps	1.50	Weaker US$ (vs Asia)	1.44
Widening US Credit Spreads	(0.17)	Weaker ¥ (vs US$)	(0.06)

Source: Citi Investment Research and Analysis

Federal Bank

Company description

Federal Bank is an 'old' private-sector bank. It, along with other old private- sector banks, is positioned between the well-valued as well as popular new private-sector banks, and the scaled and profitable but modestly valued government banks. Old private-sector banks exhibit, in some measure, characteristics of private ownership, in terms of returns, service levels and relatively aggressive management. But due to their own vintage, old staff and beginnings in a government-controlled sector, they carry some of the operational and structural rigidity of the government banks. The old private-sector banks represent a modest 8% of the sector and account for around 20 of the medium-scale banks. Federal Bank is the second-largest bank in this profitable segment. Among old private-sector banks, we see consolidation as being driven by scale, and geography and capital considerations.

Investment strategy

We rate Federal Bank as Buy/Medium Risk (1M). Federal Bank has the characteristics of a regional bank: it is geographically concentrated in Kerala and is a major beneficiary of the strong non-resident-Indian community from the state. The bank also has high asset yields and a low-cost structure compared with the industry average, and generates above industry margins. Federal has a niche and low cost deposit franchise, private ownership and is attractive as an acquisition target. We believe, in addition to the growth and franchise opportunities, its strong capital cushion also positions it as a clean acquisition play and could likely be stock and valuation driver. Its asset book, however, has come under recent pressure and NPLs have moved ahead of industry levels, though coverage levels remain high. This is largely due to its relatively concentrated mid-market exposures, which have seen recent asset quality pressures. However, Federal's new management team is implementing better underwriting, origination and recovery practices to reduce NPL accretion. We believe this should result in improvements in its quality and return profile going ahead, though gains are likely to be more gradual than front-ended.

Valuation

We value Federal Bank based on our EVA model, which we believe captures the long term value of the business and is also a standard valuation measure for our India banking coverage. We factor in a risk-free rate of 8.0%, a lower-than-industry cost income ratio at 35%, and above industry average spreads (270bps). This translates to a target price of Rs460. We also benchmark our target price on a 1.3x 1yr Fwd PBV (Sep'12), which values the bank at Rs458. Our fair-value PBV multiple is at par with larger government banks but at a 10% discount to best of breed government banks, reflecting its higher asset concentration in SME and retail.

Risks

We rate Federal Bank shares as Medium Risk, even as our quantitative risk-rating system, which tracks 260-day historical share-price volatility, suggests Low Risk. We believe Federal's relatively smaller size, its geographic concentration and its higher dependence on SME lending increase its risk profile. The downside risks to our target price include: a) small size and geographical concentration, which could lead to higher asset quality pressures in a slow growth environment; b) high dependence on the NRI segment, which is exposed to global, regulatory and competitive risks; c) a bond portfolio that could depreciate if interest rates rise; and d) aggressive acquisitions.

Company Focus

- Company Update
- Target Price Change

Hold/Medium Risk	**2M**
Price (23 Sep 11)	Rs603.85
Target price	Rs660.00
from Rs750.00	
Expected share price return	9.3%
Expected dividend yield	1.2%
Expected total return	**10.5%**
Market Cap	Rs136,604M
	US$2,768M

Price Performance
(RIC: SRTR.BO, BB: SHTF IN)

Shriram Transport Finance (SRTR.BO)

Steady Business, But Macro Challenges

- **Reducing Target Price to Rs660, maintain Hold** — We reduce our EVA-based target price for Shriram to Rs660, benchmarked to 2.25x 1Yr Fwd P/BV (2.5x earlier). Our lower target multiple factors in increasing growth headwinds in the commercial vehicle financing segment and possible rise in credit costs. Moreover, there are likely regulatory changes to asset quality recognition and provisioning, which could also impact earnings negatively.
- **Fundamentally stable, but macro challenges** — We believe Shriram Transport has a strong niche business, with high margins and healthy risk-return profile. However, there are environment pressures - high interest rates/ inflation, slower economic growth and likely asset quality pressures. While these have been well managed thus far, lower growth, higher funding costs and credit charges will remain near-term earnings overhangs.
- **Quant View: Unattractive** — Shriram Transport currently lies in the Unattractive quadrant of our Value-Momentum map with weak momentum and weak value scores.

Statistical Abstract

Year to 31 Mar	Net Profit (RsM)	Diluted EPS (Rs)	EPS growth (%)	P/E (x)	P/B (x)	ROE (%)	Yield (%)
2010A	8,731	40.70	35.1	14.8	3.6	28.5	1.0
2011A	12,299	54.45	33.8	11.1	2.8	28.4	1.1
2012E	14,140	62.51	14.8	9.7	2.2	25.8	1.2
2013E	16,590	73.35	17.3	8.2	1.8	24.3	1.2
2014E	19,714	87.16	18.8	6.9	1.5	23.4	1.3

Source: Powered by dataCentral

Fiscal year end 31-Mar	2010	2011	2012E	2013E	2014E
Valuation Ratios					
P/E adjusted (x)	14.8	11.1	9.7	8.2	6.9
P/E reported (x)	14.8	11.1	9.7	8.2	6.9
P/BV (x)	3.6	2.8	2.2	1.8	1.5
P/Adjusted BV diluted (x)	3.7	2.8	2.3	1.8	1.5
Dividend yield (%)	1.0	1.1	1.2	1.2	1.3
Per Share Data (Rs)					
EPS adjusted	40.70	54.45	62.51	73.35	87.16
EPS reported	40.70	54.45	62.51	73.35	87.16
BVPS	168.72	215.20	269.52	334.09	411.89
Tangible BVPS	168.72	215.20	269.52	334.09	411.89
Adjusted BVPS diluted	163.02	214.06	265.99	327.86	406.24
DPS	6.03	6.49	7.00	7.50	8.00
Profit & Loss (RsM)					
Net interest income	21,878	30,627	35,571	42,610	50,325
Fees and commissions	305	270	433	606	848
Other operating Income	345	680	763	862	983
Total operating income	**22,528**	**31,577**	**36,766**	**44,078**	**52,155**
Total operating expenses	-5,176	-7,540	-8,668	-9,964	-11,455
Oper. profit bef. provisions	**17,352**	**24,037**	**28,099**	**34,114**	**40,700**
Bad debt provisions	-4,104	-5,556	-6,995	-9,353	-11,276
Non-operating/exceptionals	-2	8	0	0	0
Pre-tax profit	**13,246**	**18,489**	**21,104**	**24,761**	**29,424**
Tax	-4,515	-6,190	-6,964	-8,171	-9,710
Extraord./Min. Int./Pref. Div.	0	0	0	0	0
Attributable profit	**8,731**	**12,299**	**14,140**	**16,590**	**19,714**
Adjusted earnings	8,731	12,299	14,140	16,590	19,714
Growth Rates (%)					
EPS adjusted	35.1	33.8	14.8	17.3	18.8
Oper. profit bef. prov.	41.5	38.5	16.9	21.4	19.3
Balance Sheet (RsM)					
Total assets	**269,393**	**315,715**	**389,314**	**455,498**	**531,060**
Avg interest earning assets	246,580	261,053	311,007	379,584	449,450
Customer loans	179,650	198,656	273,549	329,818	394,680
Gross NPLs	5,113	5,286	8,356	11,200	14,802
Liab. & shar. funds	**269,393**	**315,715**	**389,314**	**455,498**	**531,060**
Total customer deposits	1,148	11,295	12,989	14,288	15,716
Reserve for loan losses	3,828	5,029	7,556	9,790	13,524
Shareholders' equity	**38,053**	**48,674**	**60,962**	**75,567**	**93,164**
Profitability/Solvency Ratios (%)					
ROE adjusted	28.5	28.4	25.8	24.3	23.4
Net interest margin	8.87	11.73	11.44	11.23	11.20
Cost/income ratio	23.0	23.9	23.6	22.6	22.0
Cash cost/average assets	2.0	2.6	2.5	2.4	2.3
NPLs/customer loans	2.8	2.7	3.1	3.4	3.8
Reserve for loan losses/NPLs	74.9	95.1	90.4	87.4	91.4
Bad debt prov./avg. cust. loans	2.3	2.9	3.0	3.1	3.1
Loans/deposit ratio	15,649.6	1,758.9	2,106.0	2,308.4	2,511.3
Tier 1 capital ratio	15.8	19.9	18.8	19.6	20.5
Total capital ratio	21.0	28.5	26.7	27.9	28.8

For further data queries on Citi's full coverage universe please contact CIRA Data Services Asia Pacific at CIRADataServicesAsiaPacific@citi.com or +852-2501-2791

Powered by: dataCentral

Quants View – Unattractive

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Data as of: 16-Sep-11

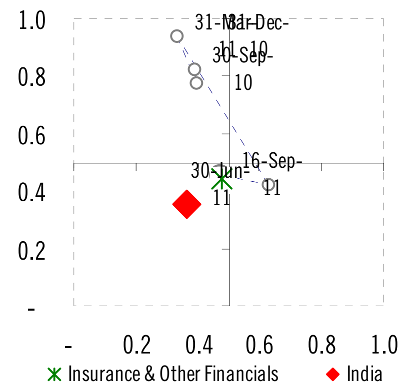
Shriram Transport currently lies in the Unattractive quadrant of our Value-Momentum map with weak momentum and weak value scores. The stock has moved from the Contrarian quadrant to the Unattractive quadrant in the past 3 months indicating a weakening in the valuation scores. Compared to its peers in the Insurance & Other Financials sector, Shriram Transport fares worse on the valuation metric but better on the momentum metric. On the other hand, compared to its peers in its home market of India, Shriram Transport fares better on the valuation metric and on the momentum metric.

From a macro perspective, Shriram Transport Finance has a low beta to the region, so can be expected to hold its own given a decline in the regional market. It is also likely to benefit from weaker US Dollar.

Radar Screen Quadrant Definitions

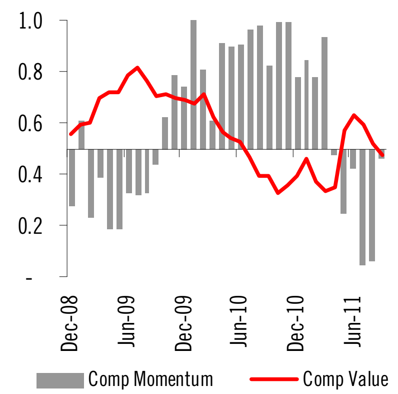
Glamor *Poor relative value but superior relative momentum*	**Attractive** *Superior relative value and superior relative momentum*
Unattractive *Poor relative value and poor relative momentum*	**Contrarian** *Superior relative value but poor relative momentum*

Figure 63. Radar Quadrant Chart History



Source: CIRA

Figure 64. Radar Valuation and Momentum Scores



Source: CIRA

Figure 65. Radar Model Inputs

IBES EPS (Actual and Estimates)

FY(-2)	30.11	Implied Trend Growth (%)	20.46
FY(-1)	40.90	Trailing PE (x)	12.49
FY0	53.85	Implied Cost of Debt (%)	6.35
FY1	62.94	Standardised MCap	(0.13)
FY2	72.32		

Note: Standardised MCap calculated as a Z score – (mkt cap - mean)/std dev – capped at 3

Source: Citi Investment Research and Analysis, Worldscope, I/B/E/S

Figure 66. Stock Performance Sensitivity to Key Macro Factors

Region	0.48	Commodity ex Oil	(0.14)
Local Market	0.27	Rising Oil Prices	(0.07)
Sector	(0.55)	Rising Asian IR's	0.09
Growth Outperforms Value	(0.25)	Rising EM Yields	(0.24)
Small Caps Outperform Large Caps	0.66	Weaker US$ (vs Asia)	1.56
Widening US Credit Spreads	(0.22)	Weaker ¥ (vs US$)	0.18

Source: Citi Investment Research and Analysis

Shriram Transport Finance

Company description

Shriram Transport is the largest organized player in the pre-owned commercial vehicle (CV) financing segment in India. It was started in 1979 by three entrepreneurs and focuses on financing CVs. Subsequently it diversified into financing 3-wheelers and tractors, and providing working capital, engine replacement and tire loans to truck operators. Shriram has built a strong distribution network with 494 branches, more than 16,000 employees and tie-ups with over 500 local financiers across the country, with a wide presence in South India.

Investment strategy

We rate Shriram Hold/Medium Risk (2M). It has a unique business model, long track record of operating profitably in a segment considered difficult by banks, healthy asset quality, and an experienced and stable management team. However, there are near term growth and earnings challenges from: a) Expected slowdown in the Indian CV sales cycle and its linkage to the strong industrial production cycle; b) Tighter (draft) regulatory norms for NPL recognition and provisioning, which could lead to near term earnings impact; and c) Expected increase in NPLs due to slowdown in capex cycle, leading to slower economic activity near term. Fundamentally, however, Shriram's return profile should remain robust with expected ROEs of 23-26% over FY12-14E. However, the stock appears close to fair value at 2.0x 1yr Fwd P/BV and we see limited upside from current levels.

Valuation

We value Shriram at Rs660 based on our EVA model, which captures the long-term value of the business and is our standard valuation measure for CIRA India Banking coverage. Our EVA model assumes: a) a risk-free rate of 8% (in line with secondary market yields); b) longer-term loan loss provisions of 300bps given its higher asset risk profile; c) loan spreads of 730bps due to its higher-yielding asset profile; and d) long-term fee income growth of 12%. As a reference, we benchmark our fair value off 2.2x 1Yr Fwd P/BV (Sep'12), at the lower end our target multiples for private-sector banks (2.0-3.5x); based on this, the stock would be valued at Rs664. We believe Shriram can trade at higher multiples during strong economic growth and asset quality cycles, though this will be challenging in the current environment.

Risks

We rate Shriram Medium Risk, even as our quantitative risk-rating system, which tracks 260-day historical share price volatility, suggests Low Risk. We believe Shriram's strong loan growth in recent years, inherently higher asset risks and sensitivity to the economic environment suggest a Medium Risk profile. Key upside risks for the stock are: a) Continued easy liquidity / low interest rate environment; b) Better-than-expected loan growth; and c) Possibility of a new banking license. Key downside risks that could cause the stock to trade below our target include: a) Asset quality - good so far, but slower economic activity, rapid pace of loan growth suggests credit costs can rise; b) Wholesale funding - can hurt in a tight-liquidity scenario; c) Execution of the planned fee income initiatives; d) Regulatory changes in the NBFC and transportation sectors.

Company Focus

LIC Housing Finance (LICH.BO)
Rising Risks as Rates Rise

- Company Update
- Target Price Change
- Estimate Change

Sell/Medium Risk	**3M**
Price (23 Sep 11)	Rs206.15
Target price	Rs188.00
from Rs170.00	
Expected share price return	-8.8%
Expected dividend yield	1.7%
Expected total return	**-7.1%**
Market Cap	Rs97,852M
	US$1,983M

Price Performance
(RIC: LICH.BO, BB: LICHF IN)

- **Revising Earnings, Target Price; Maintain Sell** — We are revising our target price for LIC Housing to Rs188 per share on account of slightly higher earnings (+1-3% over FY12-13E, to adjust for lower credit costs) and rolling forward our 1.6x P/BV multiple to Sep'12 (Mar'12 earlier). However, our earnings remain well below consensus as we expect LIC Housing's net interest margins to come under increasing pressure over the next few quarters and maintain Sell (3M).

- **Tight Liquidity and Fixed Rate Lending Could Pressures NIM** — LICHF has had strong loan growth over the last few years with minimal impact on asset quality or margins. However this could start showing through, given the continued high interest rate environment and likely slower loan growth ahead. Incremental spreads on new business has declined significantly (~1% incremental vs 2% historical average) and is likely to start impacting overall NIMs significantly. There is also an additional concern on the need for additional provisioning required for the tighter norms introduced by NHB (the regulator for HFCs), which could impact earnings negatively.

- **Quant View: Attractive** — As per our quantitative methodology, LIC Housing Finance currently lies in the Attractive quadrant of our Value-Momentum map with strong value and momentum scores.

Statistical Abstract

Year to 31 Mar	Net Profit (RsM)	Diluted EPS (Rs)	EPS growth (%)	P/E (x)	P/B (x)	ROE (%)	Yield (%)
2010A	6,622	14.72	17.6	14.0	2.9	23.6	1.5
2011A	9,745	20.52	39.4	10.0	2.3	25.8	1.7
2012E	10,455	22.01	7.3	9.4	1.9	22.7	1.7
2013E	12,969	27.30	24.0	7.6	1.6	23.2	1.7
2014E	15,864	33.40	22.3	6.2	1.3	23.2	1.8

Source: Powered by dataCentral

Fiscal year end 31-Mar	2010	2011	2012E	2013E	2014E
Valuation Ratios					
P/E adjusted (x)	14.0	10.0	9.4	7.6	6.2
P/E reported (x)	14.0	10.0	9.4	7.6	6.2
P/BV (x)	2.9	2.3	1.9	1.6	1.3
P/Adjusted BV diluted (x)	2.9	2.4	2.0	1.6	1.3
Dividend yield (%)	1.5	1.7	1.7	1.7	1.8
Per Share Data (Rs)					
EPS adjusted	14.72	20.52	22.01	27.30	33.40
EPS reported	14.72	20.52	22.01	27.30	33.40
BVPS	71.32	87.77	105.85	129.10	158.34
Tangible BVPS	71.32	87.77	105.85	129.10	158.34
Adjusted BVPS diluted	70.35	85.87	104.49	126.69	154.68
DPS	3.00	3.50	3.50	3.60	3.70
Profit & Loss (RsM)					
Net interest income	8,906	13,773	15,421	19,336	23,808
Fees and commissions	1,274	1,501	1,591	1,782	1,996
Other operating Income	560	2,436	862	824	799
Total operating income	**10,739**	**17,710**	**17,874**	**21,942**	**26,603**
Total operating expenses	-1,920	-2,162	-2,444	-2,802	-3,216
Oper. profit bef. provisions	**8,819**	**15,548**	**15,430**	**19,140**	**23,388**
Bad debt provisions	283	-2,609	-494	-613	-725
Non-operating/exceptionals	10	2	0	0	0
Pre-tax profit	**9,113**	**12,942**	**14,936**	**18,527**	**22,663**
Tax	-2,491	-3,197	-4,481	-5,558	-6,799
Extraord./Min. Int./Pref. Div.	0	0	0	0	0
Attributable profit	**6,622**	**9,745**	**10,455**	**12,969**	**15,864**
Adjusted earnings	6,622	9,745	10,455	12,969	15,864
Growth Rates (%)					
EPS adjusted	17.6	39.4	7.3	24.0	22.3
Oper. profit bef. prov.	22.2	76.3	-0.8	24.0	22.2
Balance Sheet (RsM)					
Total assets	**402,419**	**536,300**	**649,970**	**791,030**	**965,612**
Avg interest earning assets	345,535	465,371	588,145	715,390	873,058
Customer loans	382,982	513,168	627,647	769,602	943,893
Gross NPLs	2,632	3,176	3,378	4,364	5,452
Liab. & shar. funds	**402,419**	**536,300**	**649,970**	**791,030**	**965,612**
Total customer deposits	3,262	2,458	2,950	3,244	3,569
Reserve for loan losses	2,168	2,269	2,733	3,217	3,713
Shareholders' equity	**33,877**	**41,691**	**50,276**	**61,321**	**75,208**
Profitability/Solvency Ratios (%)					
ROE adjusted	23.6	25.8	22.7	23.2	23.2
Net interest margin	2.58	2.96	2.62	2.70	2.73
Cost/income ratio	17.9	12.2	13.7	12.8	12.1
Cash cost/average assets	0.6	0.5	0.4	0.4	0.4
NPLs/customer loans	0.7	0.6	0.5	0.6	0.6
Reserve for loan losses/NPLs	82.4	71.5	80.9	73.7	68.1
Bad debt prov./avg. cust. loans	-0.1	0.6	0.1	0.1	0.1
Loans/deposit ratio	11,740.9	20,878.1	21,279.7	23,720.6	26,447.7
Tier 1 capital ratio	10.2	8.6	8.6	8.6	8.6
Total capital ratio	14.9	14.9	15.5	15.7	15.6

For further data queries on Citi's full coverage universe please contact CIRA Data Services Asia Pacific at CIRADataServicesAsiaPacific@citi.com or +852-2501-2791

Powered by: dataCentral

Quants View – Attractive

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Data as of: 16-Sep-11

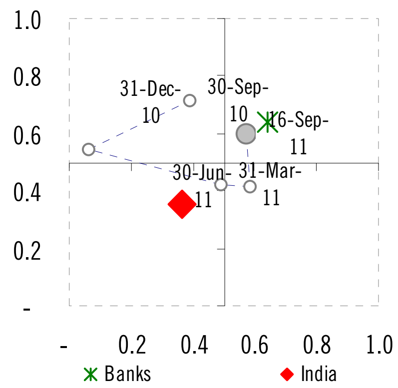
Radar Screen Quadrant Definitions

Glamor *Poor relative value but superior relative momentum*	**Attractive** *Superior relative value and superior relative momentum*
Unattractive *Poor relative value and poor relative momentum*	**Contrarian** *Superior relative value but poor relative momentum*

LICHF currently lies in the Attractive quadrant of our Value-Momentum map with strong value and momentum scores. The stock has moved from the Contrarian quadrant to the Attractive quadrant in the past 3 months indicating rising momentum (while valuations remain cheap) - which means the market has recognised the fact that the stock is an attractive investment proposition. Compared to its peers in the Banks sector, LICHF fares worse on the valuation metric and on the momentum metric. On the other hand, compared to its peers in its home market of India, LICHF fares better on the valuation metric and on the momentum metric.

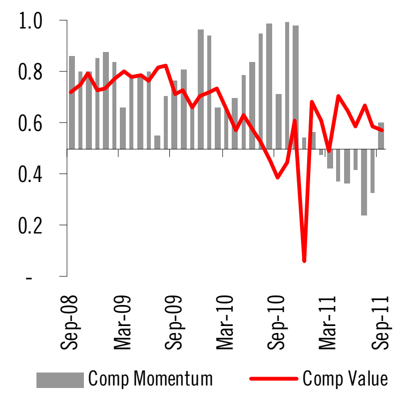
From a macro perspective, LICHF is likely to benefit from small-cap outperformance, tightening US credit spreads, falling commodity (ex-oil) prices, falling EM yields, and a weaker US Dollar.

Figure 67. Radar Quadrant Chart History



Source: CIRA

Figure 68. Radar Valuation and Momentum Scores



Source: CIRA

Figure 69. Radar Model Inputs

IBES EPS (Actual and Estimates)

FY(-2)	12.66	Implied Trend Growth (%)	17.73
FY(-1)	15.28	Trailing PE (x)	10.53
FY0	20.05	Implied Cost of Debt (%)	6.35
FY1	21.26	Standardised MCap	(0.07)
FY2	26.68		

Note: Standardised MCap calculated as a Z score – (mkt cap - mean)/std dev – capped at 3

Source: Citi Investment Research and Analysis, Worldscope, I/B/E/S

Figure 70. Stock Performance Sensitivity to Key Macro Factors

Region	0.90	Commodity ex Oil	(0.65)
Local Market	1.15	Rising Oil Prices	(0.02)
Sector	1.10	Rising Asian IR's	(0.11)
Growth Outperforms Value	(0.85)	Rising EM Yields	(0.45)
Small Caps Outperform Large Caps	1.32	Weaker US$ (vs Asia)	2.66
Widening US Credit Spreads	(0.28)	Weaker ¥ (vs US$)	0.18

Source: Citi Investment Research and Analysis

LIC Housing Finance

Company description

LIC Housing is the second-largest independent mortgage financier in India, with a distribution network spread throughout the country. It was promoted as an independent mortgage financing company by the Life Insurance Company of India (LIC, which holds 36.5% stake currently) in 1989. The company went public in 1994 and successfully completed its maiden GDR offering in 2004.

Investment strategy

We rate LIC Housing shares as Sell / Medium Risk (3M). LIC Housing is among India's larger mortgage financiers with strong growth momentum, a high return profile and healthy asset quality. We believe LIC Housing's growth, return and risk profile have reached their peaks and are likely to moderate from current levels. A) Growth - LIC Housing has grown aggressively (+30% three-year CAGR) and at well over industry growth levels (+12% three-year CAGR). We believe this gap is unsustainable and expect LIC Housing's growth levels to moderate over the medium term. B) LIC Housing has grown earnings at a rapid pace (+36% 3yr-CAGR from FY08-11) and NIMs have expanded to over 300bps in FY11 (from 230bps in FY07) benefiting from the declining interest rate environment. LIC Housing's funding mix is predominantly wholesale, exposing it to a rising interest rate environment, which we believe will hurt NIMs (this was partly evident in 1Q12 where NIMs declined 67bps qoq). C) Structurally, we believe India's mortgage financing segment offers relatively low asset risks, but this will lead to higher competitive intensity, lowering the currently higher profitability in this segment. In sum, we believe aggressive growth, rising risks of rate hikes and relatively expensive valuations will likely cap stock returns.

Valuation

We value LIC Housing shares at Rs188 per share based on 1.6x one-year forward P/BV (Sep'FY12E). LIC Housing's historical trading range is 0.5x - 2.5x one-year forward P/BV and the stock is now trading at slightly above historical median valuations. We believe a re-rating is warranted going forward given the company's significant improvements in its market position, asset quality and return profile. However, we also benchmark LIC Housing to other non-banking finance companies in India and believe that LIC Housing should trade at a discount to peers due to its lower return profile, weaker and inconsistent track record on asset quality and significantly higher competition levels in the mortgage segment. Our target price is also at a discount to our target multiples for private-sector banks (2.0x – 3.0x one-year forward P/BV).

We also see a fair value basis for LIC Housing shares at Rs193 based on CIRA's EVA model, which captures the long-term value of the business, and is a standard valuation measure for the CIRA India Banking coverage. Our EVA model assumes: a) risk-free rate of 8.0% in line with our assumptions for other banks; b) longer-term loan loss provisions of 15bps given its low asset risk profile, c) loan spreads of 150bps which is lower than banking industry average of 200bps, and d) long-term fee income growth of 10%.

Risks

We rate LIC Housing shares Medium Risk, in-line with our quantitative risk-rating system, which tracks 260-day historical share price volatility. Key upside risks that could cause the stock to continue to trade above our target price include: a) Stronger-than-expected economic and more specifically mortgage financing growth, b) Reversal towards a lower interest rate / easy liquidity environment which could support its net interest margins, c) Continued robust asset quality environment in the mortgage segment, d) Any decrease in competitive intensity, and e) Favourable regulatory changes.

Company Focus

Edelweiss Capital (EDEL.BO)

Industry Headwinds to Continue

- Company Update
- Target Price Change
- Estimate Change

Sell/Medium Risk	3M
Price (23 Sep 11)	Rs27.70
Target price	Rs25.00
from Rs50.00	
Expected share price return	-9.7%
Expected dividend yield	1.8%
Expected total return	**-7.9%**
Market Cap	Rs20,953M
	US$425M

Price Performance
(RIC: EDEL.BO, BB: EDEL IN)

- **Cutting Target Price to Rs25, maintain Sell on industry headwinds** — We reduce our target price to Rs25 on the back of lower earnings (down 46-48% over FY12-13E on lower than expected brokerage industry volumes and commissions without any change in overall costs) and a lower fair-value multiple (11x 1yr Fwd PE, from 15x earlier), reflecting a meaningful reduction in profitability. While valuations are low, we believe near term recovery prospects remain weak and will continue to weigh on the stock.
- **Challenges continue across segments** — Edelweiss continues to face strong business headwinds across its various segments. Broking continues to face challenges on a) Market fragmentation (increasing competition); b) Lower commission yields (changing product mix); and c) Muted outlook on financial product distribution (regulatory changes). Investment banking activity has slowed and while its lending piece is faring better, it is still a relatively smaller part of the overall platform/revenue stream.
- **Quant View: Contrarian** — As per our quantitative methodology, Edelweiss Capital currently lies in the Contrarian quadrant of our Value-Momentum map with relatively weak momentum but strong value scores.

Statistical Abstract

Year to 31 Mar	Net Profit (RsM)	Diluted EPS (Rs)	EPS growth (%)	P/E (x)	P/B (x)	ROE (%)	Yield (%)
2010A	2,292	3.06	22.8	9.1	0.9	10.5	3.6
2011A	2,330	3.10	1.5	8.9	0.9	10.2	2.2
2012E	1,546	2.06	-33.7	13.5	0.9	6.6	1.8
2013E	1,917	2.55	24.0	10.9	0.8	7.7	2.2
2014E	2,271	3.02	18.4	9.2	0.8	8.6	2.5

Source: Powered by dataCentral

Fiscal year end 31-Mar	2010	2011	2012E	2013E	2014E
Valuation Ratios					
P/E adjusted (x)	9.1	8.9	13.5	10.9	9.2
P/E reported (x)	9.1	8.9	13.5	10.9	9.2
P/BV (x)	0.9	0.9	0.9	0.8	0.8
P/Adjusted BV diluted (x)	0.9	0.9	0.9	0.8	0.8
Dividend yield (%)	3.6	2.2	1.8	2.2	2.5
Per Share Data (Rs)					
EPS adjusted	3.06	3.10	2.06	2.55	3.02
EPS reported	3.06	3.10	2.06	2.55	3.02
BVPS	30.07	30.59	32.07	33.93	36.15
Tangible BVPS	30.07	30.59	32.07	33.93	36.15
Adjusted BVPS diluted	30.07	30.59	32.07	33.93	36.15
DPS	1.00	0.60	0.50	0.60	0.70
Profit & Loss (RsM)					
Net interest income	1,446	2,221	2,757	3,211	3,609
Fees and commissions	1,362	2,013	1,603	1,933	2,321
Other operating Income	5,027	5,355	5,196	5,939	7,013
Total operating income	**7,835**	**9,590**	**9,556**	**11,083**	**12,943**
Total operating expenses	-4,464	-6,044	-6,860	-7,786	-8,987
Oper. profit bef. provisions	**3,372**	**3,546**	**2,695**	**3,297**	**3,956**
Bad debt provisions	-44	-46	-151	-189	-236
Non-operating/exceptionals	0	0	0	0	0
Pre-tax profit	**3,328**	**3,500**	**2,545**	**3,108**	**3,720**
Tax	-879	-1,031	-749	-915	-1,096
Extraord./Min. Int./Pref. Div.	-157	-139	-249	-275	-354
Attributable profit	**2,292**	**2,330**	**1,546**	**1,917**	**2,271**
Adjusted earnings	2,292	2,330	1,546	1,917	2,271
Growth Rates (%)					
EPS adjusted	22.8	1.5	-33.7	24.0	18.4
Oper. profit bef. prov.	0.8	5.2	-24.0	22.3	20.0
Balance Sheet (RsM)					
Total assets	**58,958**	**149,950**	**152,763**	**176,571**	**206,644**
Avg interest earning assets	45,161	80,865	107,821	118,077	135,793
Customer loans	26,369	50,612	56,331	62,073	70,563
Gross NPLs	0	0	0	0	0
Liab. & shar. funds	**58,958**	**149,950**	**152,763**	**176,571**	**206,644**
Total customer deposits	0	0	0	0	0
Reserve for loan losses	0	0	0	0	0
Shareholders' equity	**22,574**	**23,005**	**24,119**	**25,517**	**27,183**
Profitability/Solvency Ratios (%)					
ROE adjusted	10.5	10.2	6.6	7.7	8.6
Net interest margin	3.20	2.75	2.56	2.72	2.66
Cost/income ratio	57.0	63.0	71.8	70.3	69.4
Cash cost/average assets	9.4	5.8	4.5	4.7	4.7
NPLs/customer loans	0.0	0.0	0.0	0.0	0.0
Reserve for loan losses/NPLs	na	na	na	na	na
Bad debt prov./avg. cust. loans	0.2	0.1	0.3	0.3	0.4
Loans/deposit ratio	na	na	na	na	na
Tier 1 capital ratio	na	na	na	na	na
Total capital ratio	na	na	na	na	na

For further data queries on Citi's full coverage universe please contact CIRA Data Services Asia Pacific at CIRADataServicesAsiaPacific@citi.com or +852-2501-2791

Powered by: dataCentral

Quants View – Contrarian

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Data as of: 16-Sep-11

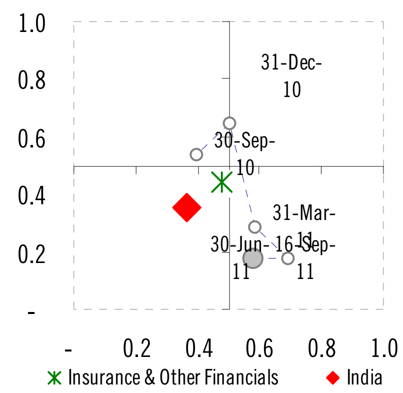
Radar Screen Quadrant Definitions

Glamor *Poor relative value but superior relative momentum*	**Attractive** *Superior relative value and superior relative momentum*
Unattractive *Poor relative value and poor relative momentum*	**Contrarian** *Superior relative value but poor relative momentum*

Edelweiss currently lies in the Contrarian quadrant of our Value-Momentum map with relatively weak momentum but strong value scores. It has been a resident there since the past 6 months. Compared to its peers in the Insurance & Other Financials sector, Edelweiss fares better on the valuation metric but worse on the momentum metric. Similarly, compared to its peers in its home market of India, Edelweiss fares better on the valuation metric but worse on the momentum metric.

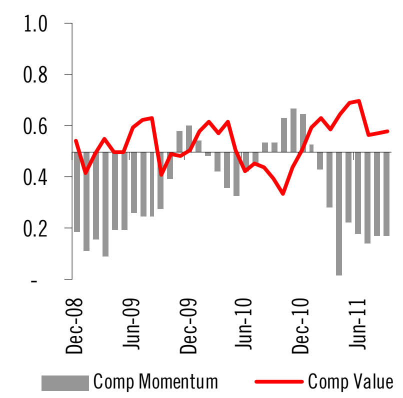
From a macro perspective, Edelweiss has a high beta to the region so is likely to rise (or fall) faster than the region. It is also likely to benefit from falling EM yields, and a weaker US Dollar.

Figure 71. Radar Quadrant Chart History



Source: CIRA

Figure 72. Radar Valuation and Momentum Scores



Source: CIRA

Figure 73. Radar Model Inputs

IBES EPS (Actual and Estimates)

FY(-2)	2.49	Implied Trend Growth (%)	10.10
FY(-1)	2.94	Trailing PE (x)	10.26
FY0	3.00	Implied Cost of Debt (%)	6.35
FY1	3.22	Standardised MCap	(0.26)
FY2	3.92		

Note: Standardised MCap calculated as a Z score – (mkt cap - mean)/std dev – capped at 3

Source: Citi Investment Research and Analysis, Worldscope, I/B/E/S

Figure 74. Stock Performance Sensitivity to Key Macro Factors

Region	1.55	Commodity ex Oil	(0.04)
Local Market	0.76	Rising Oil Prices	0.09
Sector	0.61	Rising Asian IR's	0.21
Growth Outperforms Value	0.12	Rising EM Yields	(0.62)
Small Caps Outperform Large Caps	1.09	Weaker US$ (vs Asia)	1.06
Widening US Credit Spreads	(0.24)	Weaker ¥ (vs US$)	(0.17)

Source: Citi Investment Research and Analysis

Edelweiss Capital

Company description

Edelweiss, founded in 1995, started as a niche investment bank that focused on private-equity syndications. It was co-founded by Rashesh Shah and Venkat Ramaswamy. Edelweiss has over the years built a diversified product offering in the institutional segment through broking and investment-banking services, backed by a strong treasury and arbitrage trading portfolio. Edelweiss also offers financing against assets and shares, asset and wealth management, and insurance broking. It operates its various businesses directly and through various subsidiaries, which are consolidated under the parent.

Investment strategy

We rate Edelweiss Sell/Medium Risk (3M). Edelweiss is among the largest institutional brokerages in India and has retained its market positioning with a strong management team. However, the Indian brokerage industry continues to face challenges on a) Market fragmentation (increasing competition); b) Lower commission yields (changing product mix); and c) Muted outlook on financial product distribution (regulatory changes). Moreover, Edelweiss has a relatively smaller retail franchise, which we believe is a longer term structural growth segment in India; and can impact Edelweiss' competitive positioning. Edelweiss' arbitrage trading business has also continued to attract lower turnover and profitability which is expected to remain a drag on overall profitability. Moreover, we expect cost pressures to increase going forward, leading to possible declines in profit margins.

Valuation

Our target price of Rs25 is based on a price to earnings approach. We value brokerages/related businesses at a discount to broader market earnings multiples in the current environment given structural challenges in a cyclical business. In the current market environment, we use 11x 1yr Fwd PE (Sep'12) to value Edelweiss' overall business (in line with our multiples for other players in the sector). Our target multiple is at a 20-30% discount to the broader Sensex multiple, valuing Edelweiss at Rs25 per share.

Risks

We rate Edelweiss Medium Risk, in line with our quantitative risk-rating system, which tracks 260-day historical share-price volatility. This is because Edelweiss' revenues continue to be closely linked to capital market growth and volatility. Upside risks to our target price include: a) higher-than-expected growth in brokerage volumes; b) better-than-expected returns on the treasury portfolio; and c) higher-than-anticipated upsides on the asset financing and retail brokerage platform.

Company Focus

Motilal Oswal Financial Services (MOFS.BO)

Downgrade to Sell; Industry Outlook Remains Weak

- Company Update
- Rating Change
- Target Price Change
- Estimate Change

Sell/Medium Risk	**3M**
from Buy/Medium Risk	
Price (23 Sep 11)	Rs80.15
Target price	Rs77.00
from Rs203.00	
Expected share price return	-3.9%
Expected dividend yield	1.6%
Expected total return	**-2.3%**
Market Cap	Rs11,575M
	US$235M

Price Performance
(RIC: MOFS.BO, BB: MOFS IN)

- **Downgrading to Sell, reducing Target Price to Rs77** — We downgrade MOFS to Sell (3M) with a lower target price of Rs77. Our revised target price factors in 58%-59% lower earnings over FY12-13E (lower industry volumes, market share and sharp reduction in profitability) and lower valuation multiples (10x 1 Yr Fwd PE, 15x earlier). We believe that the industry level challenges (market fragmentation, falling yields and market volumes) will pressure MOFS' business medium term and will drag down growth and profitability.

- **Business Prospects to Remain Muted** — MOFS is highly leveraged to the capital markets across all its businesses - broking, investment banking, discretionary portfolio management and third party product distribution. While each of these industries is facing declining profitability due to volatile macro conditions, MOFS itself has also been losing market share in the broking segment (2% market share now). While MOFS's investments in developing its retail franchise could turn into a longer term positive, any gains would only be gradual. Overall, recovery prospects look weak in the near to medium term.

Statistical Abstract

Year to 31 Mar	Net Profit (RsM)	Diluted EPS (Rs)	EPS growth (%)	P/E (x)	P/B (x)	ROE (%)	Yield (%)
2010A	1,704	11.95	89.4	6.7	1.2	19.6	1.5
2011A	1,371	9.53	-20.2	8.4	1.1	13.7	1.9
2012E	1,017	7.04	-26.1	11.4	1.0	9.2	1.6
2013E	1,218	8.43	19.8	9.5	0.9	10.2	1.7
2014E	1,357	9.40	11.4	8.5	0.9	10.5	1.9

Source: Powered by dataCentral

Fiscal year end 31-Mar	2010	2011	2012E	2013E	2014E
Valuation Ratios					
P/E adjusted (x)	6.7	8.4	11.4	9.5	8.5
P/E reported (x)	6.7	8.4	11.4	9.5	8.5
P/BV (x)	1.2	1.1	1.0	0.9	0.9
P/Adjusted BV diluted (x)	1.2	1.1	1.0	0.9	0.9
Dividend yield (%)	1.5	1.9	1.6	1.7	1.9
Per Share Data (Rs)					
EPS adjusted	11.95	9.53	7.04	8.43	9.40
EPS reported	11.95	9.53	7.04	8.43	9.40
BVPS	66.07	73.36	78.94	85.80	93.50
Tangible BVPS	66.07	73.36	78.94	85.80	93.50
Adjusted BVPS diluted	66.07	73.36	78.94	85.80	93.50
DPS	1.20	1.49	1.30	1.40	1.50
Profit & Loss (RsM)					
Net interest income	553	681	711	729	711
Fees and commissions	5,601	5,159	4,835	5,734	6,686
Other operating Income	203	107	117	128	140
Total operating income	**6,357**	**5,947**	**5,663**	**6,591**	**7,537**
Total operating expenses	-3,779	-3,818	-4,089	-4,707	-5,426
Oper. profit bef. provisions	**2,578**	**2,129**	**1,574**	**1,884**	**2,112**
Bad debt provisions	-46	-21	-33	-40	-47
Non-operating/exceptionals	0	0	0	0	0
Pre-tax profit	**2,532**	**2,108**	**1,541**	**1,845**	**2,065**
Tax	-788	-712	-509	-609	-682
Extraord./Min. Int./Pref. Div.	-40	-24	-16	-18	-27
Attributable profit	**1,704**	**1,371**	**1,017**	**1,218**	**1,357**
Adjusted earnings	1,704	1,371	1,017	1,218	1,357
Growth Rates (%)					
EPS adjusted	89.4	-20.2	-26.1	19.8	11.4
Oper. profit bef. prov.	72.1	-17.4	-26.1	19.8	12.1
Balance Sheet (RsM)					
Total assets	**18,381**	**18,587**	**20,202**	**22,084**	**24,185**
Avg interest earning assets	11,922	12,062	11,660	12,479	13,425
Customer loans	4,933	6,161	7,477	8,925	10,517
Gross NPLs	0	0	0	0	0
Liab. & shar. funds	**18,381**	**18,587**	**20,202**	**22,084**	**24,185**
Total customer deposits	0	0	0	0	0
Reserve for loan losses	0	0	0	0	0
Shareholders' equity	**9,460**	**10,595**	**11,401**	**12,392**	**13,505**
Profitability/Solvency Ratios (%)					
ROE adjusted	19.6	13.7	9.2	10.2	10.5
Net interest margin	4.63	5.65	6.10	5.84	5.29
Cost/income ratio	59.5	64.2	72.2	71.4	72.0
Cash cost/average assets	23.2	20.7	21.1	22.3	23.5
NPLs/customer loans	0.0	0.0	0.0	0.0	0.0
Reserve for loan losses/NPLs	na	na	na	na	na
Bad debt prov./avg. cust. loans	1.0	0.4	0.5	0.5	0.5
Loans/deposit ratio	na	na	na	na	na
Tier 1 capital ratio	na	na	na	na	na
Total capital ratio	na	na	na	na	na

For further data queries on Citi's full coverage universe please contact CIRA Data Services Asia Pacific at CIRADataServicesAsiaPacific@citi.com or +852-2501-2791

Powered by: dataCentral

Motilal Oswal Financial Services

Company description

Motilal Oswal Securities, incorporated in 1994, was started by entrepreneurs Raamdeo Agrawal and Motilal Oswal. It began business as a retail broker and has broadened to include institutional equity broking and commodity broking, investment banking, discretionary portfolio management, venture capital management, and third party product distribution. The company's predominant business lines are institutional and retail broking; it has expanded into the areas of investment banking and asset management recently. In addition, it is seeking to build on its equity and retail market businesses, and it is establishing a wealth management platform.

Investment strategy

We rate MOFS Sell/Medium Risk (3M). MOFS is one of the few direct and diversified plays on the Indian capital markets opportunity, with a strong management. However, it has been losing market share - from being one of the larger domestic brokers in India, it now has about 2% market share. Indian brokerage industry continues to face challenges on a) Market fragmentation (increasing competition); b) Lower commission yields (changing product mix); and c) Muted outlook on financial product distribution (regulatory changes). The current market environment is volatile, and turnover levels are also down from last year. While MOFS's strong investment in developing its retail franchise is likely to be a longer term positive for its market positioning, we believe gains will likely deferred as volumes in the retail segment have been declining and prospects of a near term recovery appear low.

Valuation

Our target price for MOFS is Rs77, which is set at 10x one-year forward earnings, and is at a 20-30% discount to the broader market (Sensex) P/E multiple. This is consistent with our approach for other players in the industry. We value brokerages/related businesses at a discount to broader market earnings multiples in the current environment given structural challenges in a cyclical business.

Risks

We rate MOFS Medium Risk, in line with our quantitative risk-rating system, which tracks 260-day historical share price volatility. While MOFS has a broad and diversified business revenue mix, and is well balanced between the retail and institutional segments, its business fundamentally remains leveraged to the capital market environment, which we believe increases operating risk. Key upside risks to our target price include: a) higher-than-expected trading volumes; b) market share gains; and c) positive regulatory changes.

Appendix A-1

Analyst Certification

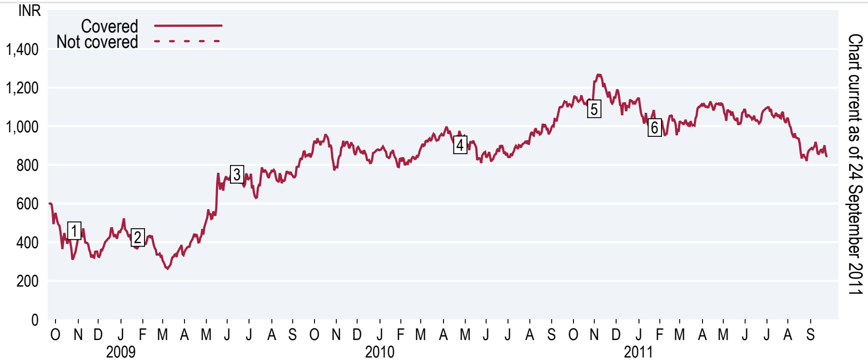
The research analyst(s) primarily responsible for the preparation and content of this research report are named in bold text in the author block at the front of the product except for those sections where an analyst's name appears in bold alongside content which is attributable to that analyst. Each of these analyst(s) certify, with respect to the section(s) of the report for which they are responsible, that the views expressed therein accurately reflect their personal views about each issuer and security referenced and were prepared in an independent manner, including with respect to Citigroup Global Markets Inc and its affiliates. No part of the research analyst's compensation was, is, or will be, directly or indirectly, related to the specific recommendation(s) or view(s) expressed by that research analyst in this report.

IMPORTANT DISCLOSURES

ICICI Bank (ICBK.BO)

Ratings and Target Price History
Fundamental Research

Analyst: Manish Chowdhary, CFA
Covered since August 2 2010



	Date	Rating	Target Price	Closing Price
1	28-Oct-08	*1H	*554.00	335.40
2	25-Jan-09	1H	*489.00	364.30
3	14-Jun-09	*2M	*830.00	740.45
4	26-Apr-10	2M	*1,065.00	960.10
5	1-Nov-10	2M	*1,280.00	1,231.00
6	25-Jan-11	2M	*1,225.00	1,038.30

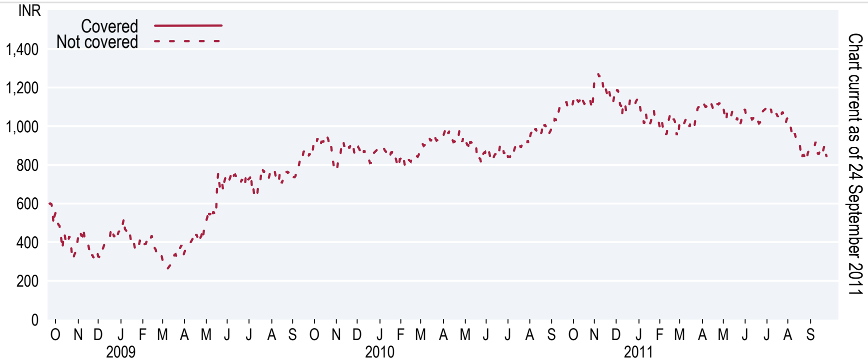
* Indicates change

Rating/target price changes above reflect Eastern Standard Time

ICICI Bank (ICBK.BO)

Ratings and Target Price History
Best Ideas Research
Relative Call (3 Month)

Analyst: Manish Chowdhary, CFA
Covered since August 2 2010



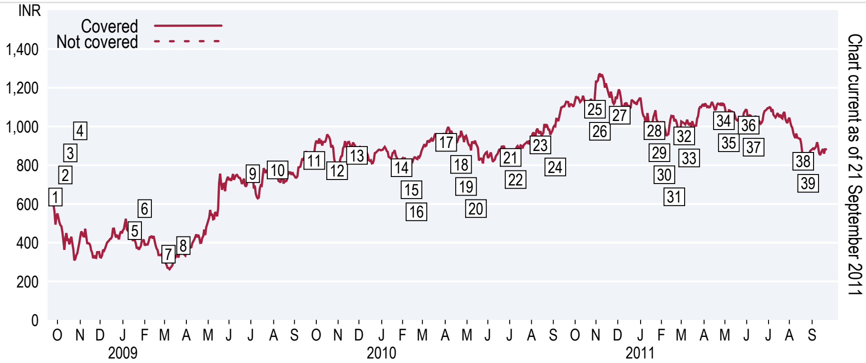
* Indicates change

Rating/target price changes above reflect Eastern Standard Time

ICICI Bank Ltd (ICBK.NS)

Rating History
Global Quantitative Research
Asia Radar Screen

Analyst: Paul R Chanin



	Date	Rating	Target Price	Closing Price
1	29-Sep-08	*4	-	493.30
2	13-Oct-08	*5	-	425.15
3	20-Oct-08	*3	-	411.35
4	3-Nov-08	*5	-	430.70
5	19-Jan-09	*3	-	412.60
6	2-Feb-09	*5	-	385.10
7	6-Mar-09	*4	-	269.15
8	27-Mar-09	*5	-	385.20
9	3-Jul-09	*4	-	754.95
10	7-Aug-09	*5	-	738.10
11	29-Sep-09	*4	-	866.35
12	30-Oct-09	*3	-	790.80
13	27-Nov-09	*4	-	850.90
14	29-Jan-10	*2	-	830.35
15	12-Feb-10	*5	-	826.05
16	19-Feb-10	*4	-	833.55
17	2-Apr-10	*2	-	952.65
18	23-Apr-10	*4	-	977.70
19	30-Apr-10	*5	-	951.95
20	14-May-10	*4	-	911.05
21	2-Jul-10	*3	-	840.05
22	9-Jul-10	*2	-	875.90
23	13-Aug-10	*5	-	976.40
24	3-Sep-10	*4	-	1,001.00
25	29-Oct-10	*5	-	1,163.00
26	5-Nov-10	*2	-	1,273.35
27	3-Dec-10	*3	-	1,181.45
28	21-Jan-11	*4	-	1,065.55
29	28-Jan-11	*2	-	1,018.45
30	4-Feb-11	*3	-	996.00
31	18-Feb-11	*4	-	1,026.20
32	4-Mar-11	*3	-	1,016.35
33	11-Mar-11	*4	-	1,006.90
34	29-Apr-11	*5	-	1,114.45
35	6-May-11	*2	-	1,083.80
36	3-Jun-11	*3	-	1,047.40
37	10-Jun-11	*5	-	1,035.90
38	19-Aug-11	*2	-	832.15
39	26-Aug-11	*5	-	820.25

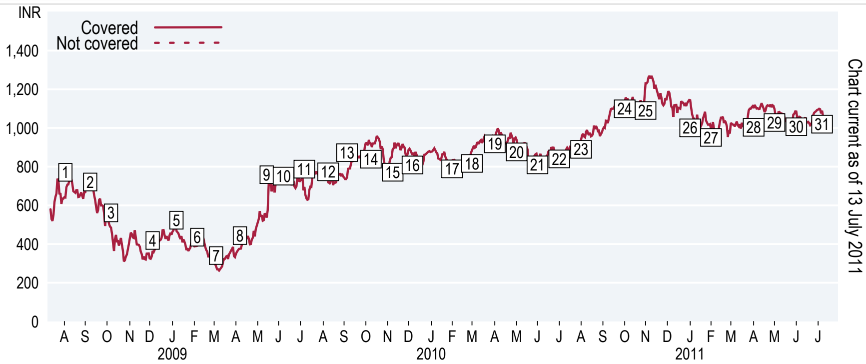
* Indicates change

Rating/target price changes above reflect Eastern Standard Time

ICICI Bank Ltd (ICBK.BO)

Rating History
Global Quantitative Research
World Radar Screen

Analyst: Chris Montagu
Covered since May 23 2009



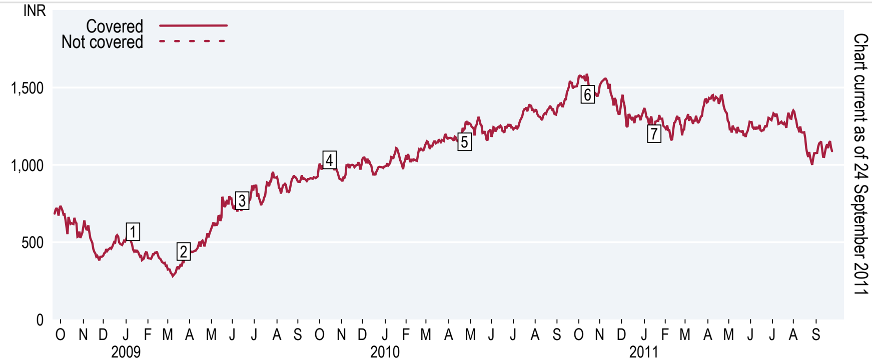
	Date	Rating	Target Price	Closing Price
1	3-Aug-08	*7	-	642.10
2	8-Sep-08	*8	-	720.75
3	7-Oct-08	*9	-	485.20
4	4-Dec-08	*8	-	364.20
5	7-Jan-09	*5	-	468.05
6	5-Feb-09	*10	-	390.95
7	4-Mar-09	*5	-	284.30
8	7-Apr-09	*7	-	374.65
9	14-May-09	*10	-	536.70
10	8-Jun-09	*7	-	724.25
11	7-Jul-09	*6	-	695.00
12	10-Aug-09	*5	-	719.30
13	4-Sep-09	*8	-	744.05
14	8-Oct-09	*7	-	922.45
15	9-Nov-09	*6	-	888.80
16	7-Dec-09	*8	-	861.05
17	1-Feb-10	*5	-	832.65
18	1-Mar-10	*9	-	871.85
19	1-Apr-10	*7	-	953.05
20	1-May-10	*8	-	950.50
21	1-Jun-10	*6	-	838.35
22	1-Jul-10	*8	-	841.40
23	1-Aug-10	*9	-	904.45
24	1-Oct-10	*7	-	1,135.10
25	1-Nov-10	*6	-	1,231.00
26	1-Jan-11	*7	-	1,144.65
27	1-Feb-11	*8	-	993.40
28	1-Apr-11	*10	-	1,102.70
29	1-May-11	*8	-	1,114.25
30	1-Jun-11	*6	-	1,085.05
31	7-Jul-11	*10	-	1,089.55

* Indicates change

Rating/target price changes above reflect Eastern Standard Time

AXIS Bank (AXBK.BO)
Ratings and Target Price History
Fundamental Research

Analyst: Manish Chowdhary, CFA
Covered since October 14 2010



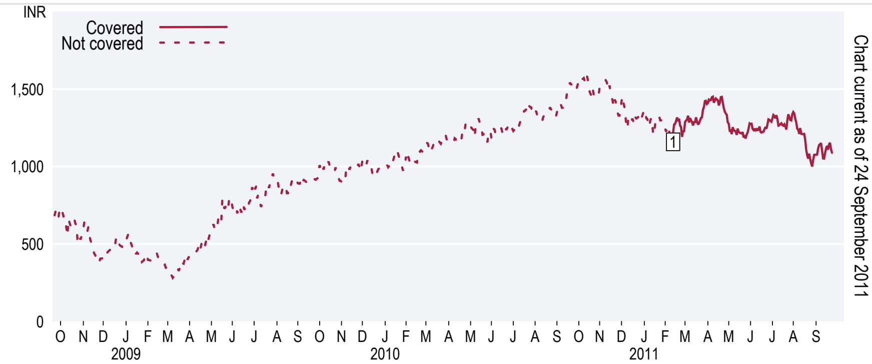
	Date	Rating	Target Price	Closing Price
1	11-Jan-09	1L	*710.00	485.75
2	24-Mar-09	*1M	*470.00	372.30
3	14-Jun-09	1M	*920.00	703.45
4	15-Oct-09	*2M	*1,125.00	1,006.25
5	23-Apr-10	*2L	*1,335.00	1,233.40
6	14-Oct-10	2L	*1,630.00	1,563.45
7	17-Jan-11	*1L	*1,510.00	1,227.55

* Indicates change

Rating/target price changes above reflect Eastern Standard Time

AXIS Bank (AXBK.BO)
Ratings and Target Price History
Best Ideas Research
Relative Call (3 Month)

Analyst: Manish Chowdhary, CFA
Covered since October 14 2010



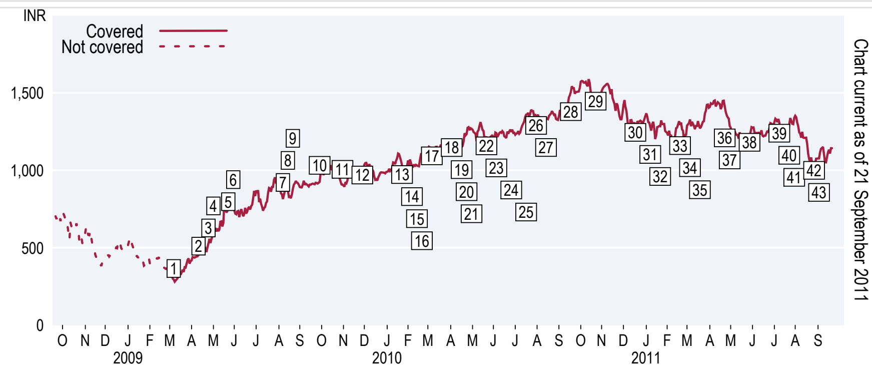
	Date	Rating	Target Price	Closing Price
1	11-Feb-11	*ADD MP	-	1,222.00

* Indicates change

Rating/target price changes above reflect Eastern Standard Time

AXIS Bank Ltd (AXBK.BO)
Rating History
Global Quantitative Research
Asia Radar Screen

Analyst: Paul R Chanin
Covered since March 6 2009



	Date	Rating	Target Price	Closing Price
1	6-Mar-09	*3	-	295.25
2	10-Apr-09	*5	-	444.55
3	24-Apr-09	*2	-	528.75
4	1-May-09	*1	-	555.65
5	22-May-09	*3	-	762.70
6	29-May-09	*2	-	783.40
7	7-Aug-09	*1	-	814.15
8	14-Aug-09	*4	-	870.30
9	21-Aug-09	*5	-	879.40
10	29-Sep-09	*4	-	925.20
11	30-Oct-09	*2	-	907.90
12	27-Nov-09	*4	-	969.40
13	22-Jan-10	*1	-	1,031.15
14	5-Feb-10	*2	-	1,023.35
15	12-Feb-10	*4	-	1,035.00
16	19-Feb-10	*3	-	1,096.00
17	5-Mar-10	*2	-	1,102.80
18	2-Apr-10	*3	-	1,173.70
19	16-Apr-10	*2	-	1,150.45
20	23-Apr-10	*3	-	1,233.40
21	30-Apr-10	*1	-	1,268.20
22	21-May-10	*3	-	1,217.85
23	4-Jun-10	*2	-	1,240.10
24	25-Jun-10	*3	-	1,247.85
25	16-Jul-10	*4	-	1,359.10
26	30-Jul-10	*3	-	1,345.40
27	13-Aug-10	*2	-	1,328.45
28	17-Sep-10	*3	-	1,505.65
29	22-Oct-10	*2	-	1,464.15
30	17-Dec-10	*3	-	1,309.25
31	7-Jan-11	*4	-	1,280.25
32	21-Jan-11	*2	-	1,284.40
33	18-Feb-11	*4	-	1,292.95
34	4-Mar-11	*5	-	1,328.30
35	18-Mar-11	*4	-	1,271.25
36	22-Apr-11	*5	-	1,449.55
37	29-Apr-11	*4	-	1,286.00
38	27-May-11	*2	-	1,218.95
39	8-Jul-11	*3	-	1,307.30
40	22-Jul-11	*4	-	1,296.95
41	29-Jul-11	*5	-	1,338.15
42	26-Aug-11	*4	-	999.85
43	2-Sep-11	*5	-	1,076.95

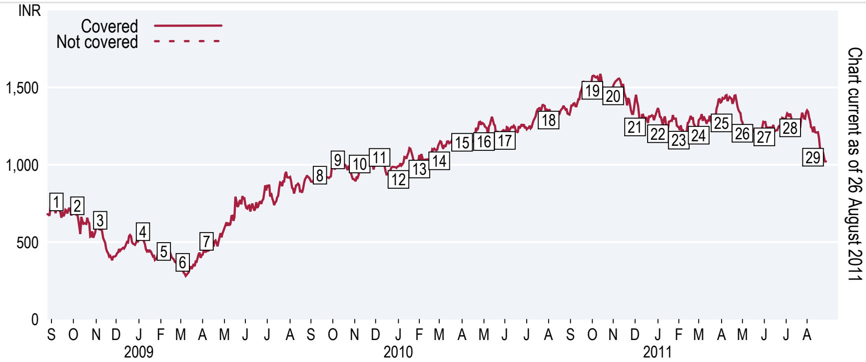
* Indicates change

Rating/target price changes above reflect Eastern Standard Time

AXIS Bank Ltd (AXBK.BO)

Rating History
Global Quantitative Research
World Radar Screen

Analyst: Chris Montagu
Covered since May 23 2009



	Date	Rating	Target Price	Closing Price
1	8-Sep-08	*6	-	710.85
2	7-Oct-08	*8	-	680.15
3	7-Nov-08	*7	-	581.00
4	7-Jan-09	*8	-	522.15
5	5-Feb-09	*6	-	392.10
6	4-Mar-09	*8	-	322.60
7	7-Apr-09	*2	-	436.40
8	14-Sep-09	*7	-	895.50
9	8-Oct-09	*9	-	1,012.65
10	9-Nov-09	*3	-	997.25
11	7-Dec-09	*7	-	1,011.10
12	1-Jan-10	*6	-	988.70
13	1-Feb-10	*3	-	1,063.35
14	1-Mar-10	*7	-	1,124.85
15	1-Apr-10	*5	-	1,173.70
16	1-May-10	*2	-	1,268.20
17	1-Jun-10	*6	-	1,180.85
18	1-Aug-10	*5	-	1,345.40
19	1-Oct-10	*4	-	1,572.45
20	1-Nov-10	*3	-	1,511.20
21	1-Dec-10	*5	-	1,421.30
22	1-Jan-11	*4	-	1,349.50
23	1-Feb-11	*3	-	1,241.80
24	1-Mar-11	*9	-	1,288.15
25	1-Apr-11	*8	-	1,409.05
26	1-May-11	*5	-	1,286.00
27	1-Jun-11	*4	-	1,275.30
28	7-Jul-11	*7	-	1,331.60
29	9-Aug-11	*9	-	1,210.50

* Indicates change

Rating/target price changes above reflect Eastern Standard Time

Bank of Baroda (BOB.BO)

Ratings and Target Price History
Fundamental Research

Analyst: Manish Chowdhary, CFA
Covered since November 11 2009

	Date	Rating	Target Price	Closing Price
1	1-Feb-09	1M	*315.00	252.55
2	14-Jun-09	*2M	*495.00	429.60
3	28-Oct-09	2M	*540.00	497.15
4	23-Apr-10	*3M	*590.00	647.90
5	28-Oct-10	3M	*950.00	1,010.80
6	2-Feb-11	*2M	*930.00	863.30

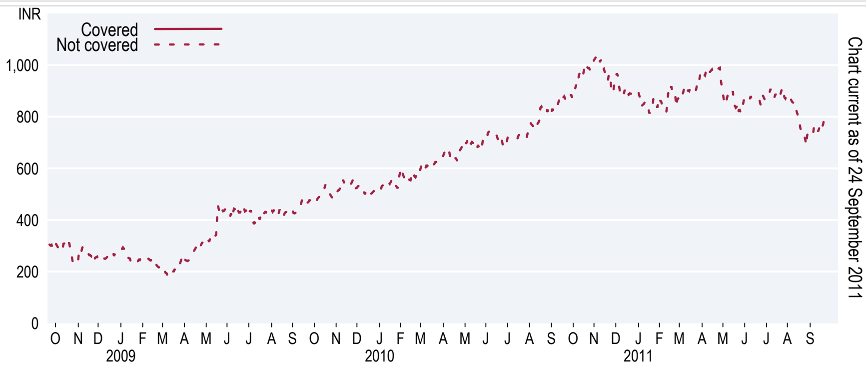
* Indicates change

Rating/target price changes above reflect Eastern Standard Time

Bank of Baroda (BOB.BO)

Ratings and Target Price History
Best Ideas Research
Relative Call (3 Month)

Analyst: Manish Chowdhary, CFA
Covered since November 11 2009



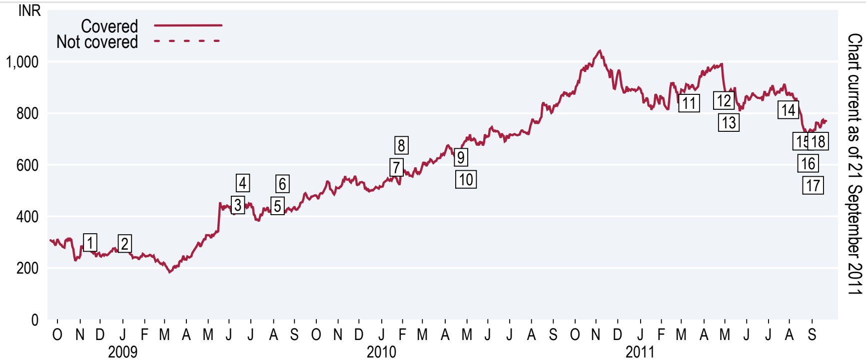
* Indicates change

Rating/target price changes above reflect Eastern Standard Time

Bank of Baroda (BOB.NS)

Rating History
Global Quantitative Research
Asia Radar Screen

Analyst: Paul R Chanin



#	Date	Rating	Target Price	Closing Price
1	17-Nov-08	*2	-	270.65
2	5-Jan-09	*1	-	294.30
3	12-Jun-09	*2	-	430.95
4	19-Jun-09	*1	-	433.70
5	7-Aug-09	*2	-	424.50
6	14-Aug-09	*1	-	431.35
7	22-Jan-10	*2	-	547.30
8	29-Jan-10	*1	-	575.50
9	23-Apr-10	*2	-	649.35
10	30-Apr-10	*1	-	692.20
11	11-Mar-11	*2	-	892.00
12	29-Apr-11	*3	-	911.90
13	6-May-11	*1	-	870.60
14	29-Jul-11	*3	-	878.75
15	19-Aug-11	*2	-	744.45
16	26-Aug-11	*3	-	691.25
17	2-Sep-11	*2	-	728.85
18	9-Sep-11	*3	-	761.55

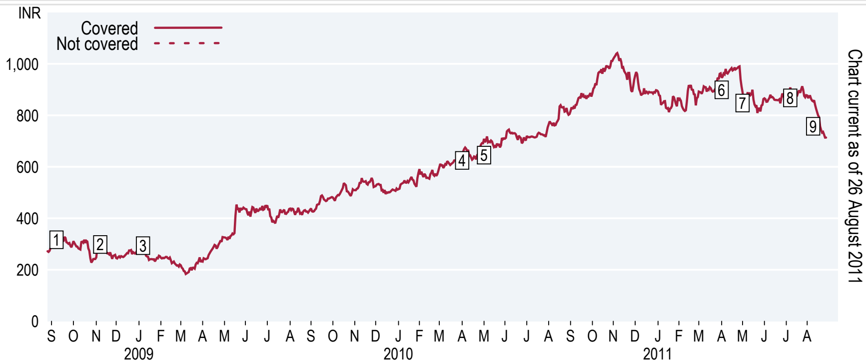
* Indicates change

Rating/target price changes above reflect Eastern Standard Time

Bank of Baroda (BOB.BO)

Rating History
Global Quantitative Research
World Radar Screen

Analyst: Chris Montagu
Covered since May 23 2009



#	Date	Rating	Target Price	Closing Price
1	8-Sep-08	*1	-	300.35
2	7-Nov-08	*2	-	292.65
3	7-Jan-09	*1	-	274.35
4	1-Apr-10	*2	-	649.25
5	1-May-10	*1	-	691.55
6	1-Apr-11	*5	-	946.15
7	1-May-11	*1	-	912.15
8	7-Jul-11	*2	-	908.05
9	9-Aug-11	*4	-	854.20

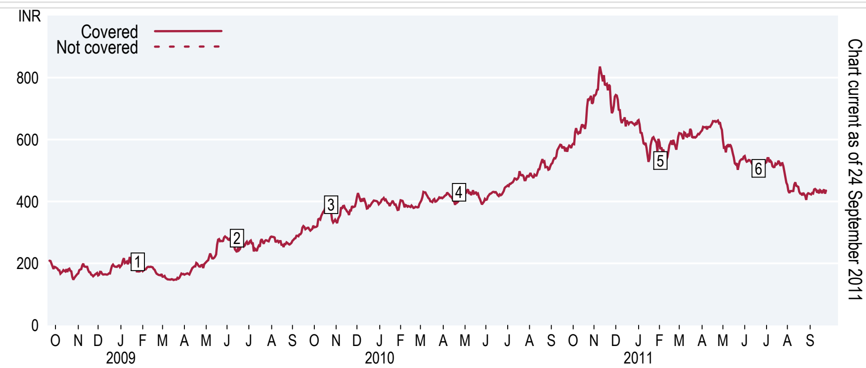
* Indicates change

Rating/target price changes above reflect Eastern Standard Time

Canara Bank (CNBK.BO)

Ratings and Target Price History
Fundamental Research

Analyst: Manish Chowdhary, CFA
Covered since November 11 2009



#	Date	Rating	Target Price	Closing Price
1	25-Jan-09	*3M	*165.00	174.10
2	14-Jun-09	*1M	*310.00	240.90
3	26-Oct-09	1M	*425.00	363.00
4	23-Apr-10	1M	*490.00	407.80
5	2-Feb-11	*3M	*585.00	568.85
6	21-Jun-11	3M	*510.00	508.40

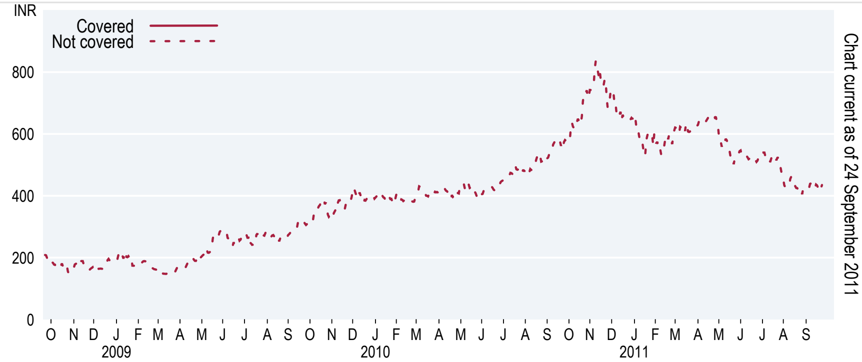
* Indicates change

Rating/target price changes above reflect Eastern Standard Time

Canara Bank (CNBK.BO)

Ratings and Target Price History
Best Ideas Research
Relative Call (3 Month)

Analyst: Manish Chowdhary, CFA
Covered since November 11 2009



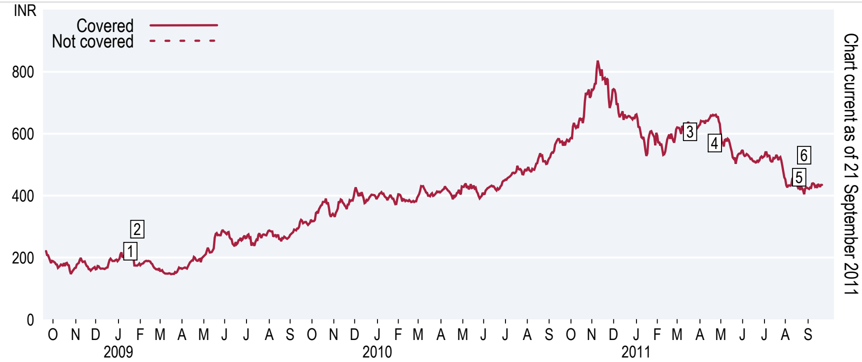
* Indicates change

Rating/target price changes above reflect Eastern Standard Time

Canara Bank (CNBK.NS)

Rating History
Global Quantitative Research
Asia Radar Screen

Analyst: Paul R Chanin



	Date	Rating	Target Price	Closing Price
1	19-Jan-09	*2	-	205.85
2	28-Jan-09	*1	-	173.95
3	18-Mar-11	*2	-	608.20
4	22-Apr-11	*1	-	658.40
5	19-Aug-11	*5	-	426.75
6	26-Aug-11	*2	-	404.40

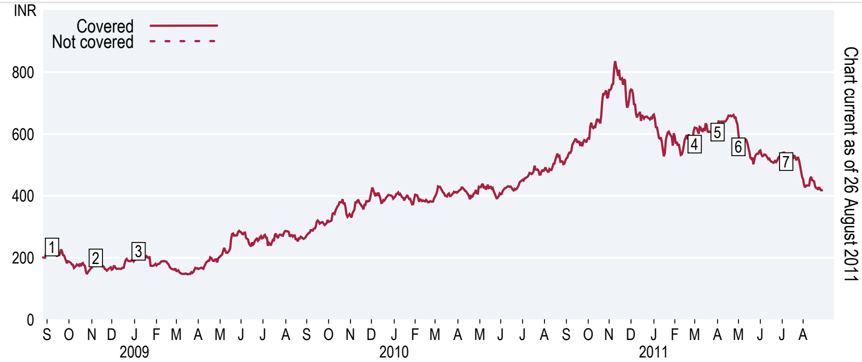
* Indicates change

Rating/target price changes above reflect Eastern Standard Time

Canara Bank (CNBK.BO)

Rating History
Global Quantitative Research
World Radar Screen

Analyst: Chris Montagu
Covered since May 23 2009



	Date	Rating	Target Price	Closing Price
1	8-Sep-08	*1	-	230.80
2	7-Nov-08	*2	-	193.20
3	7-Jan-09	*1	-	200.95
4	1-Mar-11	*2	-	620.85
5	1-Apr-11	*1	-	629.45
6	1-May-11	*2	-	631.10
7	7-Jul-11	*5	-	531.35

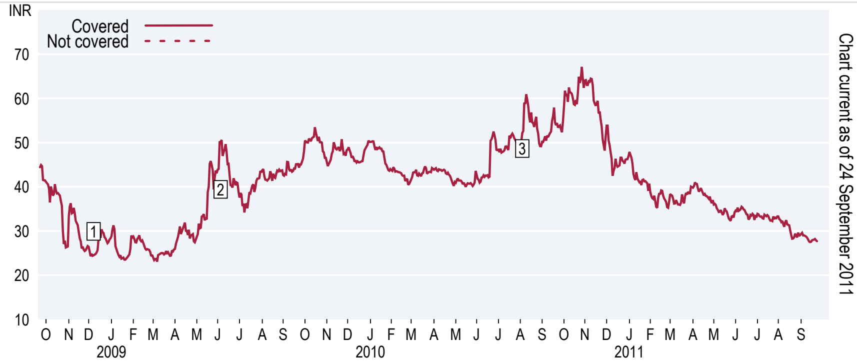
* Indicates change

Rating/target price changes above reflect Eastern Standard Time

Edelweiss Capital (EDEL.BO)

Ratings and Target Price History
Fundamental Research

Analyst: Manish Chowdhary, CFA



	Date	Rating	Target Price	Closing Price
1	8-Dec-08	3H	*24.00	24.50
2	4-Jun-09	*1M	*61.20	50.17
3	4-Aug-10	*3M	*50.00	52.18

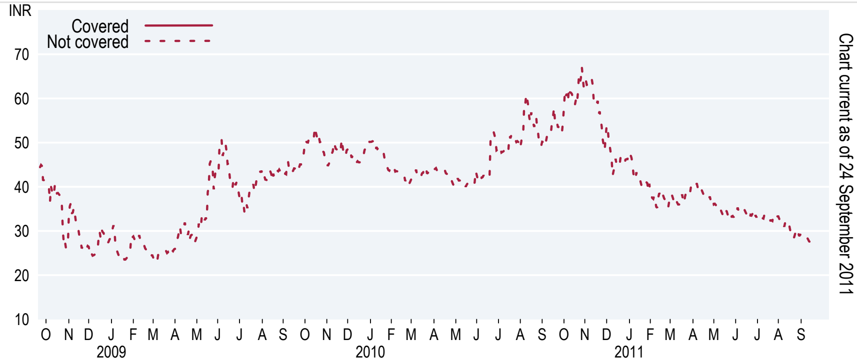
* Indicates change

Rating/target price changes above reflect Eastern Standard Time

Edelweiss Capital (EDEL.BO)

Ratings and Target Price History
Best Ideas Research
Relative Call (3 Month)

Analyst: Manish Chowdhary, CFA



* Indicates change

Rating/target price changes above reflect Eastern Standard Time

Federal Bank (FED.BO)

Ratings and Target Price History
Fundamental Research

Analyst: Manish Chowdhary, CFA

	Date	Rating	Target Price	Closing Price
1	20-Jan-09	1M	*215.00	153.30
2	14-Jun-09	1M	*314.00	245.75
3	23-Apr-10	1M	*336.00	291.70
4	31-Jan-11	1M	*437.00	364.55

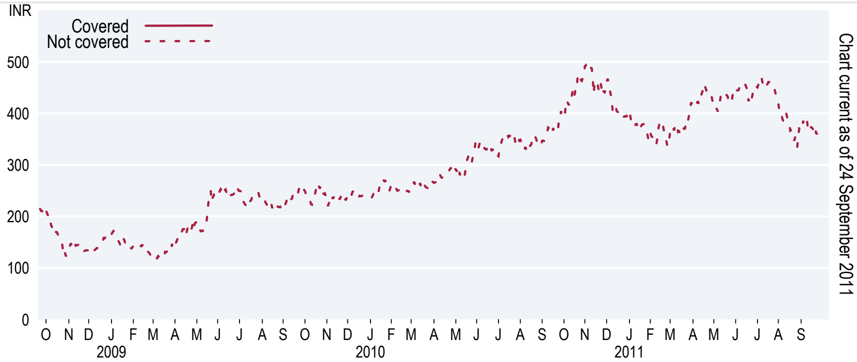
* Indicates change

Rating/target price changes above reflect Eastern Standard Time

Federal Bank (FED.BO)

Ratings and Target Price History
Best Ideas Research
Relative Call (3 Month)

Analyst: Manish Chowdhary, CFA



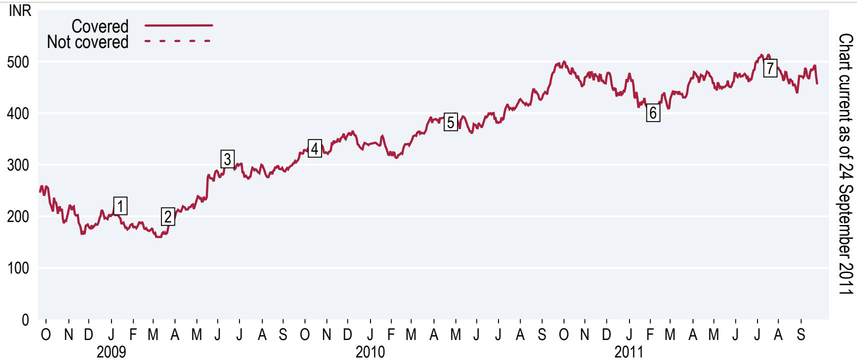
* Indicates change

Rating/target price changes above reflect Eastern Standard Time

HDFC Bank (HDBK.BO)

Ratings and Target Price History
Fundamental Research

Analyst: Manish Chowdhary, CFA
Covered since February 3 2011



	Date	Rating	Target Price	Closing Price
1	14-Jan-09	1L	*270.00	195.47
2	23-Mar-09	1L	*220.00	176.93
3	14-Jun-09	*2L	*323.60	306.13
4	15-Oct-09	2L	*357.00	344.99
5	26-Apr-10	2L	*410.00	398.18
6	4-Feb-11	2L	*445.00	403.87
7	20-Jul-11	2L	*535.00	502.85

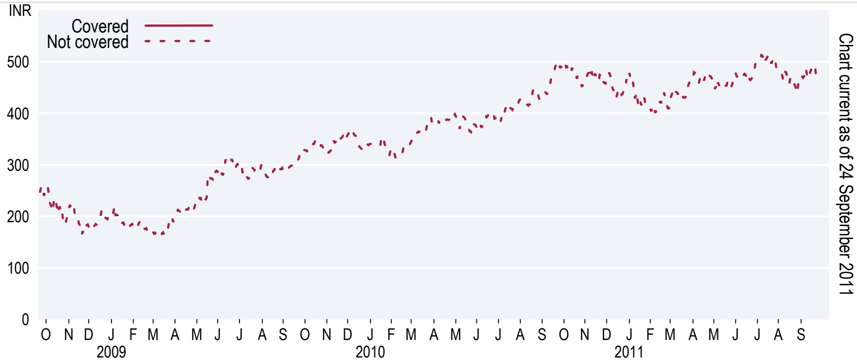
* Indicates change

Rating/target price changes above reflect Eastern Standard Time

HDFC Bank (HDBK.BO)

Ratings and Target Price History
Best Ideas Research
Relative Call (3 Month)

Analyst: Manish Chowdhary, CFA
Covered since February 3 2011



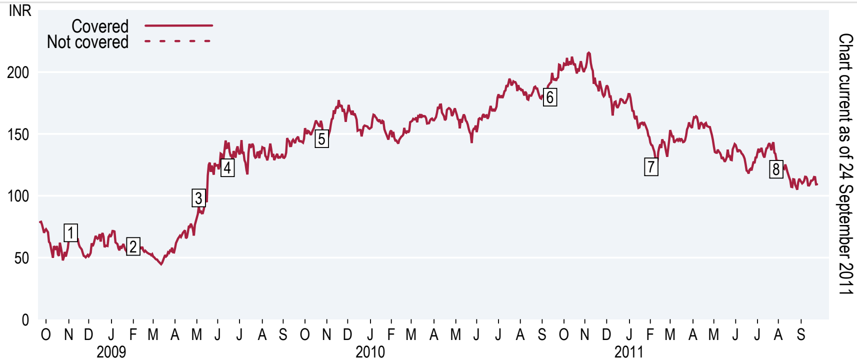
* Indicates change

Rating/target price changes above reflect Eastern Standard Time

Infrastructure Development Finance (IDFC.BO)

Ratings and Target Price History
Fundamental Research

Analyst: Manish Chowdhary, CFA



	Date	Rating	Target Price	Closing Price
1	5-Nov-08	3M	*75.00	69.00
2	2-Feb-09	3M	*58.00	56.30
3	5-May-09	3M	*80.00	91.35
4	14-Jun-09	3M	*104.00	138.65
5	25-Oct-09	3M	*141.00	160.65
6	13-Sep-10	3M	*186.00	191.10
7	2-Feb-11	*1M	*174.00	141.10
8	28-Jul-11	1M	*154.00	129.25

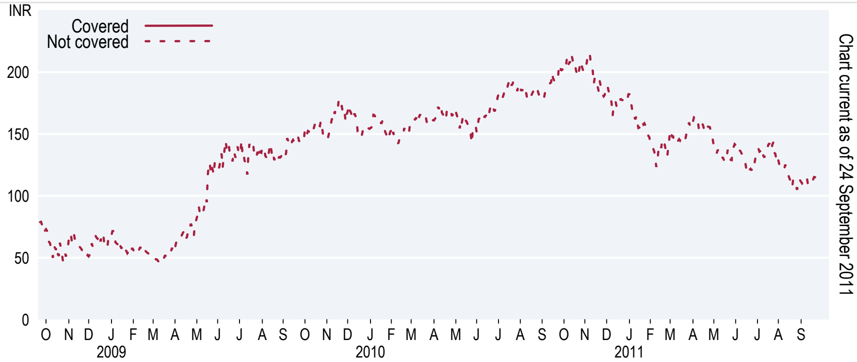
* Indicates change

Rating/target price changes above reflect Eastern Standard Time

Infrastructure Development Finance (IDFC.BO)

Ratings and Target Price History
Best Ideas Research
Relative Call (3 Month)

Analyst: Manish Chowdhary, CFA



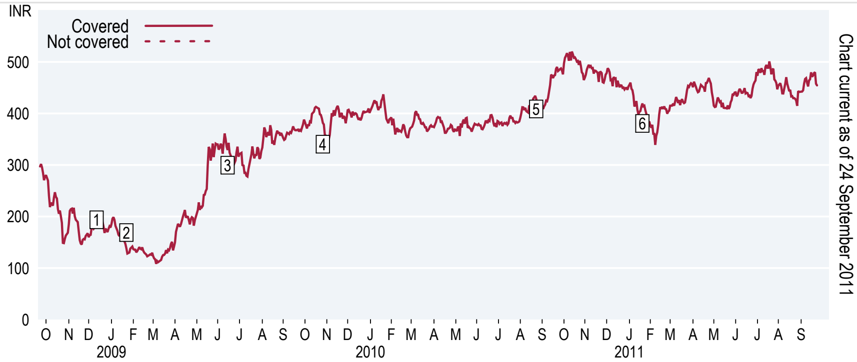
* Indicates change

Rating/target price changes above reflect Eastern Standard Time

Kotak Mahindra Bank (KTKM.BO)

Ratings and Target Price History
Fundamental Research

Analyst: Manish Chowdhary, CFA
Covered since August 24 2010



	Date	Rating	Target Price	Closing Price
1	11-Dec-08	2M	*200.00	190.03
2	22-Jan-09	*3H	*141.00	138.33
3	14-Jun-09	3H	*319.50	335.75
4	27-Oct-09	3H	*350.00	381.63
5	24-Aug-10	*1M	*525.00	428.63
6	20-Jan-11	1M	*495.00	419.30

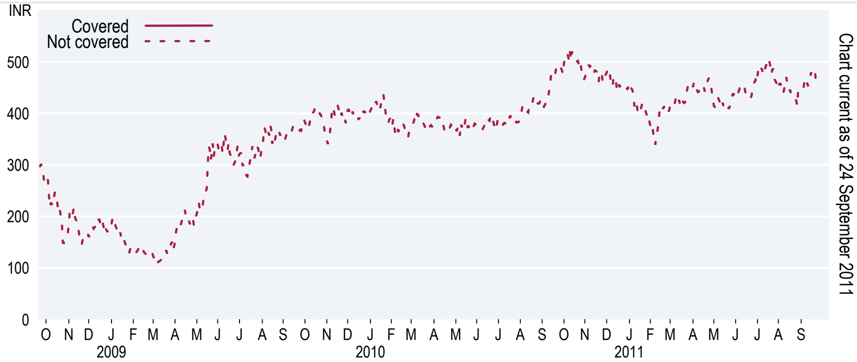
* Indicates change

Rating/target price changes above reflect Eastern Standard Time

Kotak Mahindra Bank (KTKM.BO)

Ratings and Target Price History
Best Ideas Research
Relative Call (3 Month)

Analyst: Manish Chowdhary, CFA
Covered since August 24 2010



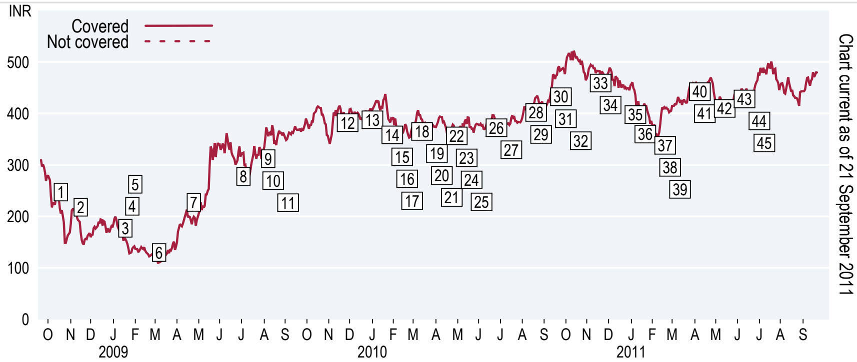
* Indicates change

Rating/target price changes above reflect Eastern Standard Time

Kotak Mahindra Bank Ltd (KTKM.NS)

Rating History
Global Quantitative Research
Asia Radar Screen

Analyst: Paul R Chanin



	Date	Rating	Target Price	Closing Price
1	20-Oct-08	*4	-	205.43
2	17-Nov-08	*5	-	168.65
3	19-Jan-09	*4	-	155.98
4	28-Jan-09	*3	-	137.63
5	2-Feb-09	*5	-	137.18
6	6-Mar-09	*4	-	113.43
7	24-Apr-09	*5	-	199.33
8	3-Jul-09	*2	-	323.73
9	7-Aug-09	*5	-	355.60
10	14-Aug-09	*4	-	368.35
11	4-Sep-09	*5	-	356.90
12	27-Nov-09	*3	-	381.85
13	1-Jan-10	*4	-	403.48
14	29-Jan-10	*2	-	389.45
15	12-Feb-10	*5	-	367.65
16	19-Feb-10	*2	-	365.00
17	26-Feb-10	*4	-	372.13
18	12-Mar-10	*3	-	388.05
19	2-Apr-10	*2	-	373.43
20	9-Apr-10	*3	-	392.98
21	23-Apr-10	*5	-	372.95
22	30-Apr-10	*3	-	369.28
23	14-May-10	*2	-	379.05
24	21-May-10	*3	-	370.13
25	4-Jun-10	*2	-	376.08
26	25-Jun-10	*4	-	375.35
27	16-Jul-10	*2	-	391.73
28	20-Aug-10	*4	-	431.35
29	27-Aug-10	*3	-	419.15
30	24-Sep-10	*4	-	484.00
31	1-Oct-10	*5	-	496.55
32	22-Oct-10	*2	-	494.45
33	19-Nov-10	*3	-	461.70
34	3-Dec-10	*4	-	485.85
35	7-Jan-11	*2	-	435.20
36	21-Jan-11	*4	-	413.60
37	18-Feb-11	*5	-	408.50
38	25-Feb-11	*4	-	404.00
39	11-Mar-11	*5	-	420.25
40	8-Apr-11	*4	-	442.15
41	15-Apr-11	*5	-	451.95
42	13-May-11	*3	-	419.95
43	10-Jun-11	*4	-	440.50
44	1-Jul-11	*5	-	473.40
45	8-Jul-11	*4	-	480.90

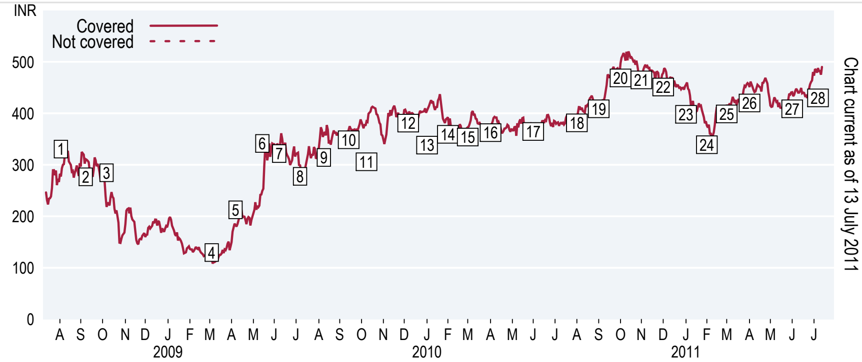
* Indicates change

Rating/target price changes above reflect Eastern Standard Time

Kotak Mahindra Bank Ltd (KTKM.BO)

Rating History
Global Quantitative Research
World Radar Screen

Analyst: Chris Montagu
Covered since May 23 2009



	Date	Rating	Target Price	Closing Price
1	3-Aug-08	*7	-	282.58
2	8-Sep-08	*8	-	310.90
3	7-Oct-08	*10	-	218.20
4	4-Mar-09	*9	-	116.98
5	7-Apr-09	*8	-	185.68
6	14-May-09	*7	-	249.55
7	8-Jun-09	*8	-	321.85
8	7-Jul-09	*6	-	300.18
9	10-Aug-09	*9	-	359.70
10	14-Sep-09	*6	-	367.90

	Date	Rating	Target Price	Closing Price
11	8-Oct-09	*10	-	384.43
12	7-Dec-09	*5	-	392.20
13	1-Jan-10	*8	-	401.05
14	1-Feb-10	*6	-	392.35
15	1-Mar-10	*9	-	371.05
16	1-Apr-10	*7	-	373.45
17	1-Jun-10	*6	-	378.35
18	1-Aug-10	*4	-	384.63
19	1-Sep-10	*6	-	414.25
20	1-Oct-10	*7	-	497.25

	Date	Rating	Target Price	Closing Price
21	1-Nov-10	*6	-	469.30
22	1-Dec-10	*9	-	478.30
23	1-Jan-11	*7	-	452.45
24	1-Feb-11	*9	-	376.25
25	1-Mar-11	*8	-	415.05
26	1-Apr-11	*10	-	450.90
27	1-Jun-11	*7	-	440.95
28	7-Jul-11	*10	-	487.90

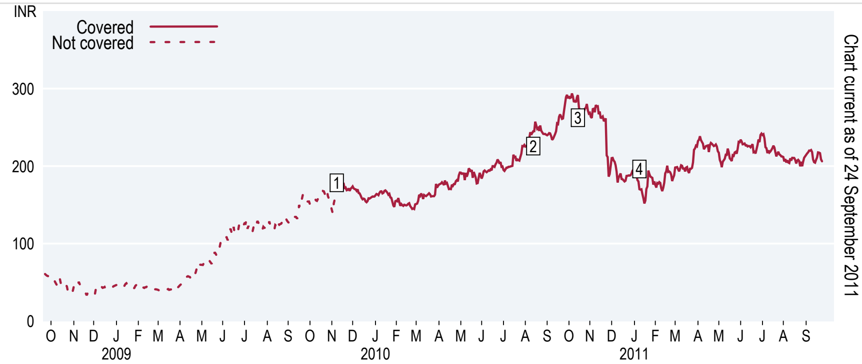
* Indicates change

Rating/target price changes above reflect Eastern Standard Time

LIC Housing Finance (LICH.BO)

Ratings and Target Price History
Fundamental Research

Analyst: Manish Chowdhary, CFA
Covered since November 9 2009



	Date	Rating	Target Price	Closing Price
1	9-Nov-09	*3M	*148.00	178.47
2	12-Aug-10	3M	*210.80	244.94

	Date	Rating	Target Price	Closing Price
3	14-Oct-10	3M	*262.00	291.61
4	9-Jan-11	3M	*170.00	180.15

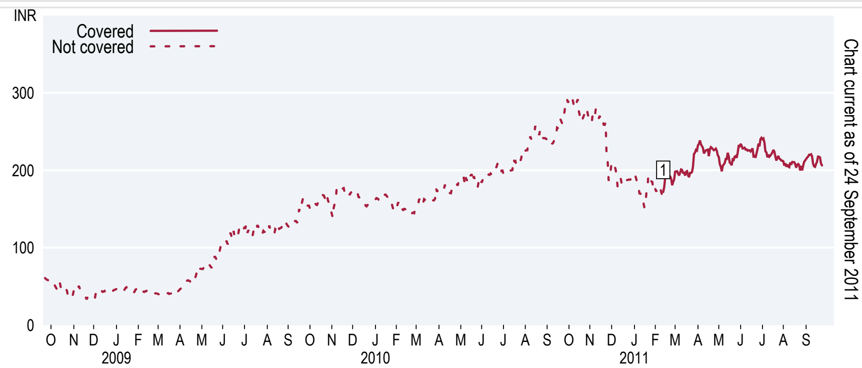
* Indicates change

Rating/target price changes above reflect Eastern Standard Time

LIC Housing Finance (LICH.BO)

Ratings and Target Price History
Best Ideas Research
Relative Call (3 Month)

Analyst: Manish Chowdhary, CFA
Covered since November 9 2009



	Date	Rating	Target Price	Closing Price
1	11-Feb-11	*ADD LP	-	171.90

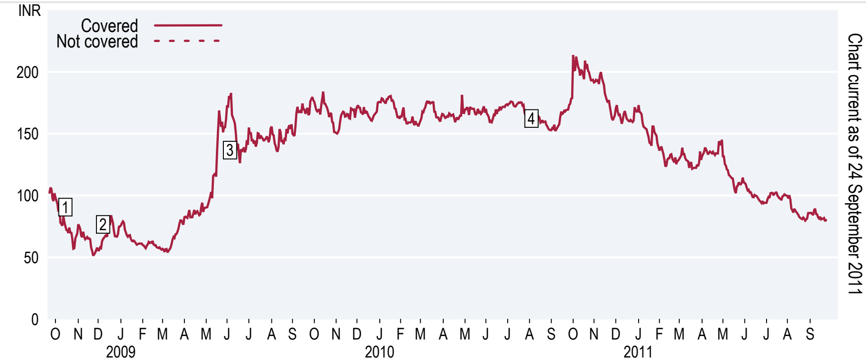
* Indicates change

Rating/target price changes above reflect Eastern Standard Time

Motilal Oswal Financial Services (MOFS.BO)

Ratings and Target Price History
Fundamental Research

Analyst: Manish Chowdhary, CFA



	Date	Rating	Target Price	Closing Price
1	15-Oct-08	*3H	*82.00	75.10
2	8-Dec-08	3H	*61.00	64.75
3	4-Jun-09	*3M	*176.00	178.10
4	4-Aug-10	*1M	*203.00	166.75

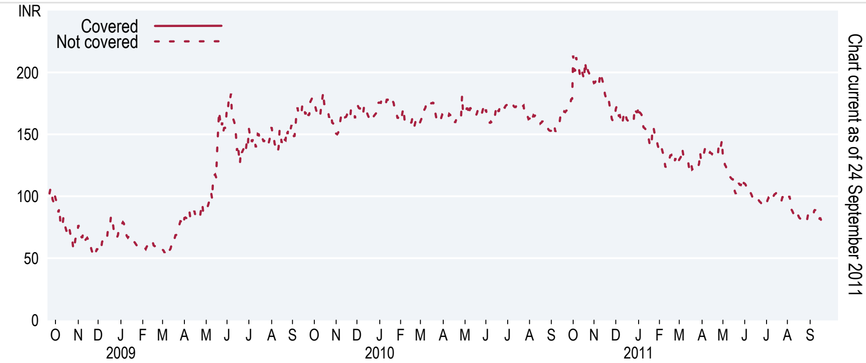
* Indicates change

Rating/target price changes above reflect Eastern Standard Time

Motilal Oswal Financial Services (MOFS.BO)

Ratings and Target Price History
Best Ideas Research
Relative Call (3 Month)

Analyst: Manish Chowdhary, CFA



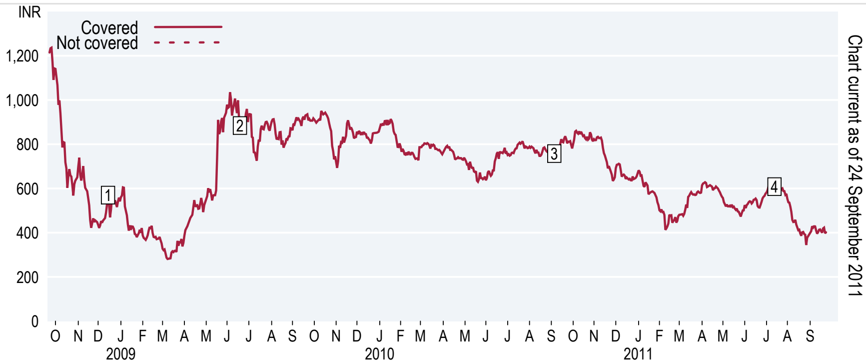
* Indicates change

Rating/target price changes above reflect Eastern Standard Time

Reliance Capital (RLCP.BO)

Ratings and Target Price History
Fundamental Research

Analyst: Manish Chowdhary, CFA



	Date	Rating	Target Price	Closing Price
1	15-Dec-08	3M	*500.00	546.10
2	18-Jun-09	3M	*821.00	884.50
3	5-Sep-10	3M	*788.00	783.00
4	13-Jul-11	3M	*555.00	590.45

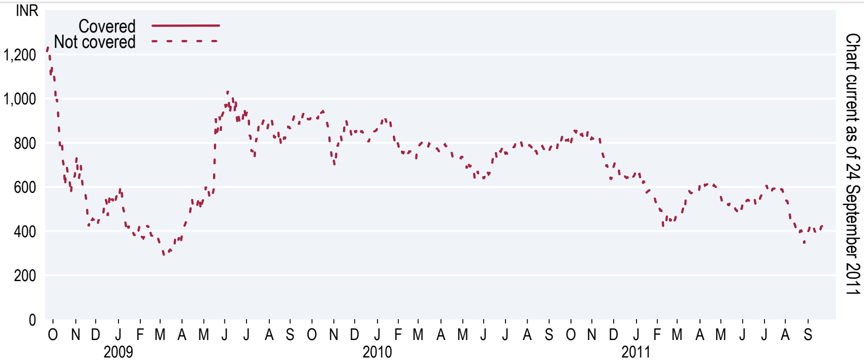
* Indicates change

Rating/target price changes above reflect Eastern Standard Time

Reliance Capital (RLCP.BO)

Ratings and Target Price History
Best Ideas Research
Relative Call (3 Month)

Analyst: Manish Chowdhary, CFA



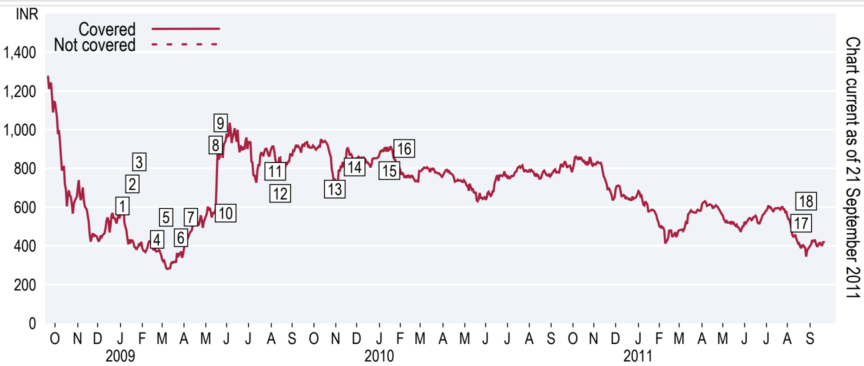
* Indicates change

Rating/target price changes above reflect Eastern Standard Time

Reliance Capital Ltd (RLCP.NS)

Rating History
Global Quantitative Research
Asia Radar Screen

Analyst: Paul R Chanin



	Date	Rating	Target Price	Closing Price
1	5-Jan-09	*3	-	605.60
2	19-Jan-09	*4	-	427.75
3	28-Jan-09	*5	-	413.35
4	23-Feb-09	*2	-	370.55
5	6-Mar-09	*3	-	286.55
6	27-Mar-09	*4	-	371.75

	Date	Rating	Target Price	Closing Price
7	10-Apr-09	*5	-	468.05
8	15-May-09	*4	-	591.55
9	22-May-09	*5	-	903.30
10	29-May-09	*4	-	942.45
11	7-Aug-09	*3	-	848.30
12	14-Aug-09	*5	-	855.80

	Date	Rating	Target Price	Closing Price
13	30-Oct-09	*4	-	746.90
14	27-Nov-09	*5	-	832.05
15	15-Jan-10	*4	-	895.85
16	5-Feb-10	*5	-	755.00
17	19-Aug-11	*1	-	387.45
18	26-Aug-11	*5	-	344.20

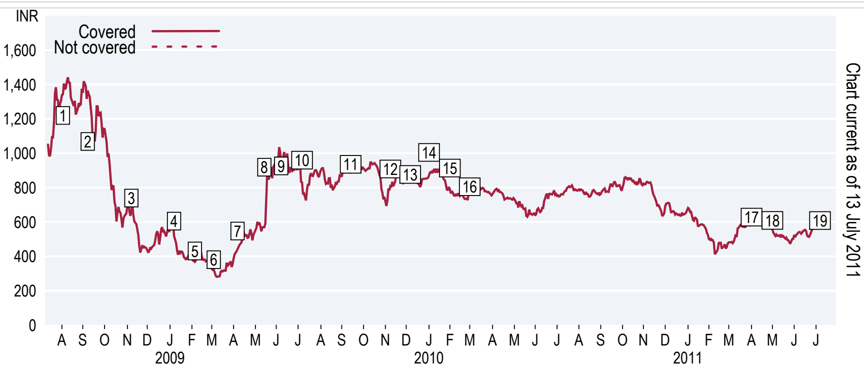
* Indicates change

Rating/target price changes above reflect Eastern Standard Time

Reliance Capital Ltd (RLCP.BO)

Rating History
Global Quantitative Research
World Radar Screen

Analyst: Chris Montagu
Covered since May 23 2009



	Date	Rating	Target Price	Closing Price
1	3-Aug-08	*7	-	1,338.35
2	8-Sep-08	*10	-	1,364.55
3	7-Nov-08	*7	-	662.80
4	7-Jan-09	*5	-	518.65
5	5-Feb-09	*10	-	367.50
6	4-Mar-09	*9	-	324.15
7	7-Apr-09	*4	-	429.25

	Date	Rating	Target Price	Closing Price
8	14-May-09	*8	-	569.70
9	8-Jun-09	*10	-	929.55
10	7-Jul-09	*9	-	829.55
11	14-Sep-09	*10	-	882.75
12	9-Nov-09	*9	-	809.65
13	7-Dec-09	*8	-	841.70
14	1-Jan-10	*10	-	857.05

	Date	Rating	Target Price	Closing Price
15	1-Feb-10	*9	-	790.00
16	1-Mar-10	*10	-	786.45
17	1-Apr-11	*8	-	614.50
18	1-May-11	*10	-	562.75
19	7-Jul-11	*9	-	601.65

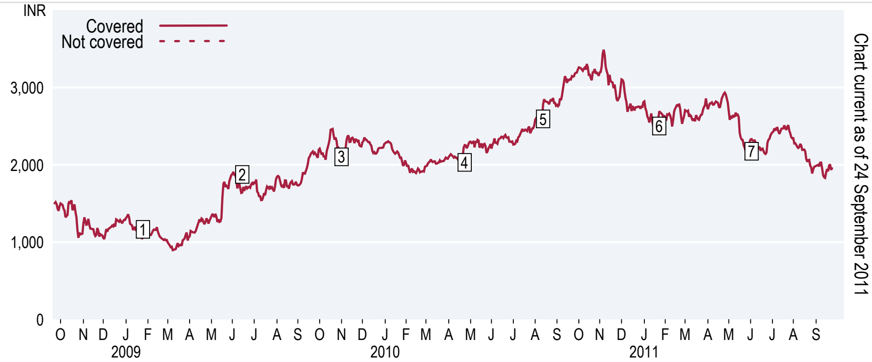
* Indicates change

Rating/target price changes above reflect Eastern Standard Time

State Bank of India (SBI.BO)

Ratings and Target Price History
Fundamental Research

Analyst: Manish Chowdhary, CFA
Covered since August 12 2010



#	Date	Rating	Target Price	Closing Price
1	25-Jan-09	1L	*1,453.00	1,041.75
2	14-Jun-09	1L	*2,122.00	1,637.00
3	2-Nov-09	1L	*2,495.00	2,191.00
4	23-Apr-10	1L	*2,515.00	2,255.60
5	12-Aug-10	1L	*3,235.00	2,784.00
6	23-Jan-11	1L	*3,110.00	2,597.95
7	2-Jun-11	1L	*2,650.00	2,332.95

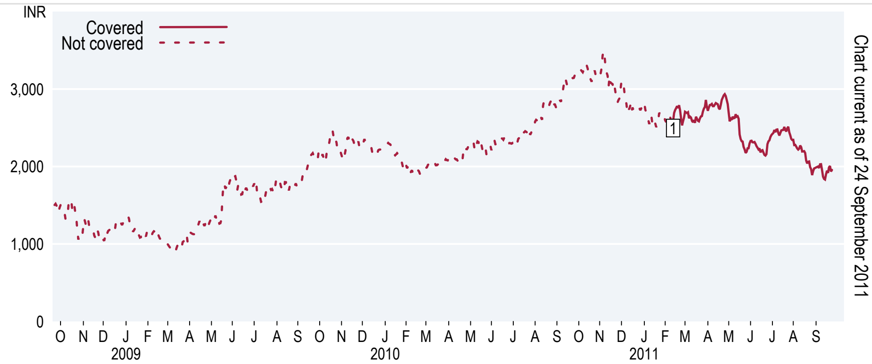
* Indicates change

Rating/target price changes above reflect Eastern Standard Time

State Bank of India (SBI.BO)

Ratings and Target Price History
Best Ideas Research
Relative Call (3 Month)

Analyst: Manish Chowdhary, CFA
Covered since August 12 2010



#	Date	Rating	Target Price	Closing Price
1	11-Feb-11	*ADD MP	-	2,584.65

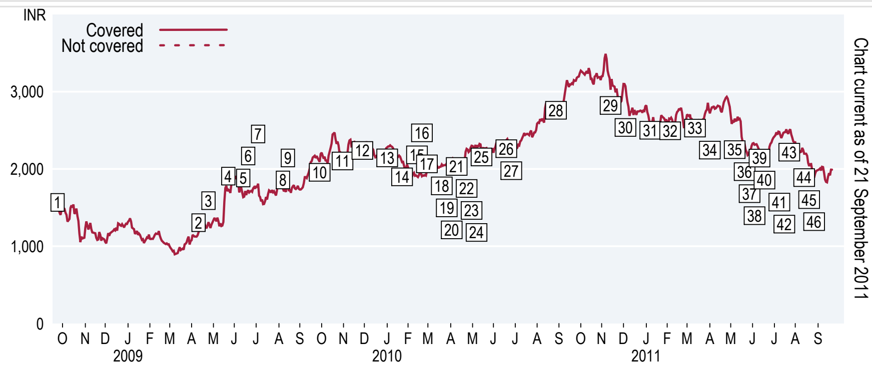
* Indicates change

Rating/target price changes above reflect Eastern Standard Time

State Bank Of India (SBI.NS)

Rating History
Global Quantitative Research
Asia Radar Screen

Analyst: Paul R Chanin



#	Date	Rating	Target Price	Closing Price
1	22-Sep-08	*1	-	1,566.90
2	10-Apr-09	*2	-	1,140.30
3	24-Apr-09	*1	-	1,311.15
4	22-May-09	*2	-	1,732.00
5	12-Jun-09	*1	-	1,634.60
6	19-Jun-09	*2	-	1,724.60
7	3-Jul-09	*1	-	1,809.65
8	7-Aug-09	*3	-	1,743.30
9	14-Aug-09	*1	-	1,800.75
10	29-Sep-09	*2	-	2,092.00
11	30-Oct-09	*3	-	2,191.05
12	27-Nov-09	*1	-	2,242.90
13	1-Jan-10	*2	-	2,269.00
14	22-Jan-10	*1	-	2,087.35
15	12-Feb-10	*2	-	1,917.65
16	19-Feb-10	*1	-	1,905.30
17	26-Feb-10	*2	-	1,974.30
18	19-Mar-10	*3	-	2,058.45
19	26-Mar-10	*2	-	2,072.85
20	2-Apr-10	*3	-	2,102.60
21	9-Apr-10	*2	-	2,106.10
22	23-Apr-10	*5	-	2,260.60
23	30-Apr-10	*1	-	2,300.70
24	7-May-10	*2	-	2,226.15
25	14-May-10	*1	-	2,224.25
26	18-Jun-10	*3	-	2,372.60
27	25-Jun-10	*2	-	2,300.80
28	27-Aug-10	*3	-	2,794.40
29	12-Nov-10	*1	-	3,026.80
30	3-Dec-10	*3	-	3,070.75
31	7-Jan-11	*2	-	2,600.95
32	4-Feb-11	*1	-	2,645.80
33	11-Mar-11	*3	-	2,565.15
34	1-Apr-11	*1	-	2,719.55
35	6-May-11	*2	-	2,649.90
36	20-May-11	*3	-	2,320.45
37	27-May-11	*4	-	2,234.65
38	3-Jun-11	*3	-	2,312.50
39	10-Jun-11	*5	-	2,242.90
40	17-Jun-11	*4	-	2,213.10
41	8-Jul-11	*2	-	2,478.45
42	15-Jul-11	*4	-	2,474.90
43	22-Jul-11	*5	-	2,498.40
44	12-Aug-11	*4	-	2,197.00
45	19-Aug-11	*2	-	2,037.50
46	26-Aug-11	*5	-	1,887.85

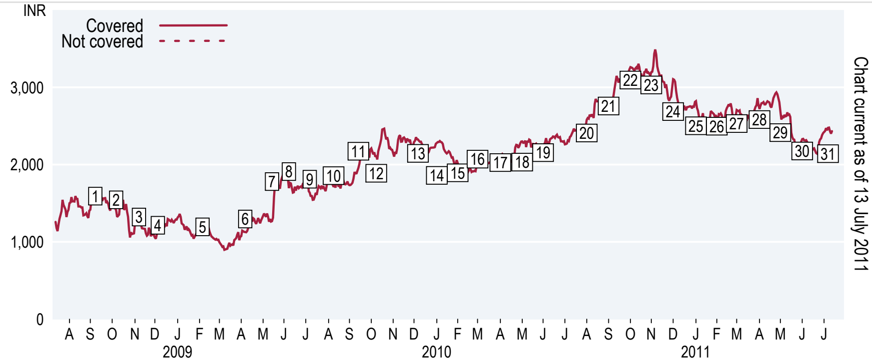
* Indicates change

Rating/target price changes above reflect Eastern Standard Time

State Bank Of India (SBI.BO)

Rating History
Global Quantitative Research
World Radar Screen

Analyst: Chris Montagu
Covered since May 23 2009



	Date	Rating	Target Price	Closing Price
1	8-Sep-08	*3	-	1,591.55
2	7-Oct-08	*2	-	1,408.00
3	7-Nov-08	*4	-	1,249.25
4	4-Dec-08	*2	-	1,169.30
5	5-Feb-09	*3	-	1,093.90
6	7-Apr-09	*1	-	1,128.95
7	14-May-09	*5	-	1,267.85
8	8-Jun-09	*2	-	1,695.10
9	7-Jul-09	*1	-	1,636.35
10	10-Aug-09	*3	-	1,711.90
11	14-Sep-09	*1	-	1,956.15
12	8-Oct-09	*2	-	2,115.00
13	7-Dec-09	*1	-	2,325.35
14	1-Jan-10	*4	-	2,269.45
15	1-Feb-10	*3	-	2,021.10
16	1-Mar-10	*4	-	1,975.85
17	1-Apr-10	*6	-	2,103.70
18	1-May-10	*5	-	2,297.95
19	1-Jun-10	*1	-	2,210.15
20	1-Aug-10	*4	-	2,503.80
21	1-Sep-10	*3	-	2,776.80
22	1-Oct-10	*2	-	3,261.20
23	1-Nov-10	*7	-	3,195.80
24	1-Dec-10	*3	-	3,105.10
25	1-Jan-11	*2	-	2,811.05
26	1-Feb-11	*1	-	2,595.75
27	1-Mar-11	*2	-	2,706.90
28	1-Apr-11	*5	-	2,719.50
29	1-May-11	*4	-	2,805.60
30	1-Jun-11	*3	-	2,329.65
31	7-Jul-11	*5	-	2,475.85

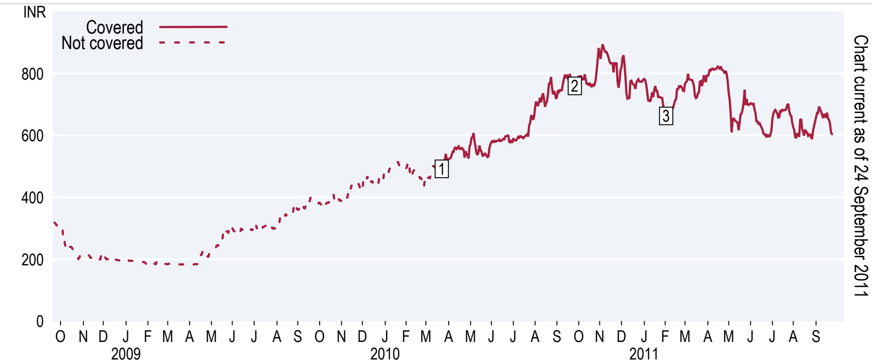
* Indicates change

Rating/target price changes above reflect Eastern Standard Time

Shriram Transport Finance (SRTR.BO)

Ratings and Target Price History
Fundamental Research

Analyst: Manish Chowdhary, CFA
Covered since March 23 2010



	Date	Rating	Target Price	Closing Price
1	23-Mar-10	*1M	*615.00	493.20
2	27-Sep-10	*2M	*830.00	769.05
3	2-Feb-11	2M	*750.00	662.90

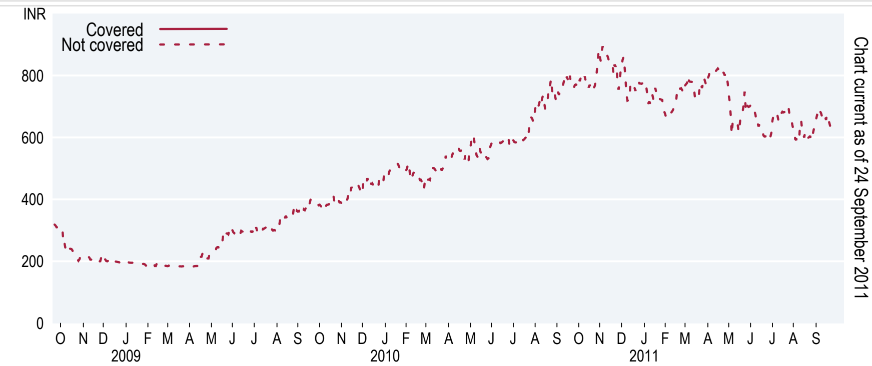
* Indicates change

Rating/target price changes above reflect Eastern Standard Time

Shriram Transport Finance (SRTR.BO)

Ratings and Target Price History
Best Ideas Research
Relative Call (3 Month)

Analyst: Manish Chowdhary, CFA
Covered since March 23 2010



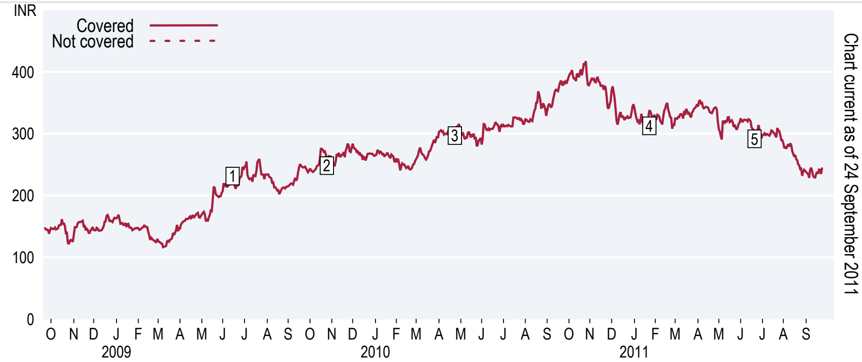
* Indicates change

Rating/target price changes above reflect Eastern Standard Time

Union Bank Of India (UNBK.BO)

Ratings and Target Price History
Fundamental Research

Analyst: Manish Chowdhary, CFA



	Date	Rating	Target Price	Closing Price
1	14-Jun-09	*3L	*226.00	228.85
2	26-Oct-09	3L	*248.00	248.25
3	23-Apr-10	3L	*275.00	306.25
4	24-Jan-11	3L	*325.00	337.75
5	21-Jun-11	3L	*305.00	296.40

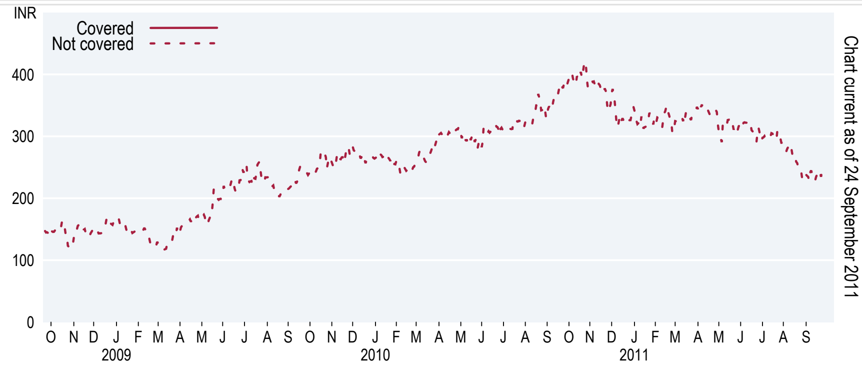
* Indicates change

Rating/target price changes above reflect Eastern Standard Time

Union Bank Of India (UNBK.BO)

Ratings and Target Price History
Best Ideas Research
Relative Call (3 Month)

Analyst: Manish Chowdhary, CFA



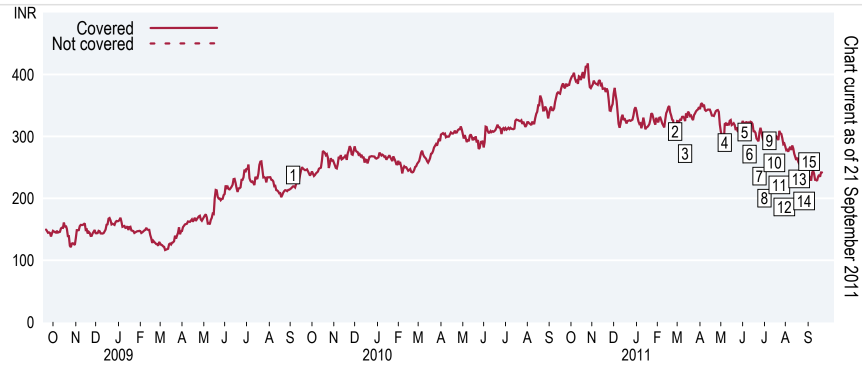
* Indicates change

Rating/target price changes above reflect Eastern Standard Time

Union Bank Of India (UNBK.NS)

Rating History
Global Quantitative Research
Asia Radar Screen

Analyst: Paul R Chanin



	Date	Rating	Target Price	Closing Price
1	4-Sep-09	*2	-	219.40
2	25-Feb-11	*1	-	315.20
3	11-Mar-11	*2	-	324.70
4	6-May-11	*3	-	320.00
5	3-Jun-11	*4	-	317.95
6	10-Jun-11	*2	-	319.95
7	24-Jun-11	*3	-	306.65
8	1-Jul-11	*2	-	297.90
9	8-Jul-11	*3	-	300.05
10	15-Jul-11	*2	-	304.30
11	22-Jul-11	*1	-	308.95
12	29-Jul-11	*4	-	288.65
13	19-Aug-11	*5	-	255.65
14	26-Aug-11	*3	-	231.35
15	2-Sep-11	*2	-	235.50

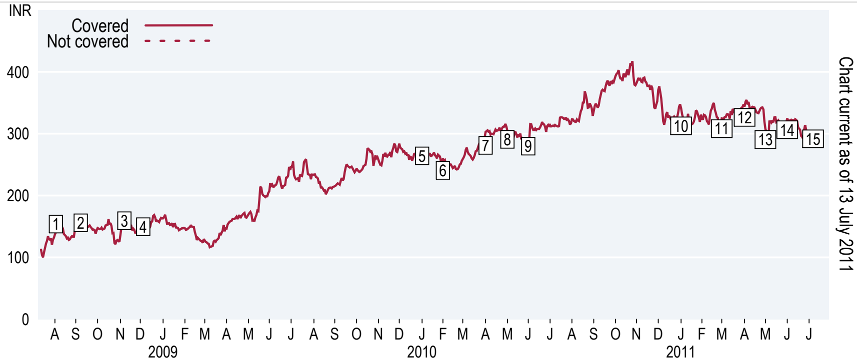
* Indicates change

Rating/target price changes above reflect Eastern Standard Time

Union Bank Of India (UNBK.BO)

Rating History
Global Quantitative Research
World Radar Screen

Analyst: Chris Montagu
Covered since May 23 2009



	Date	Rating	Target Price	Closing Price
1	3-Aug-08	*3	-	137.15
2	8-Sep-08	*1	-	153.10
3	7-Nov-08	*2	-	155.35
4	4-Dec-08	*1	-	147.65
5	1-Jan-10	*2	-	264.00
6	1-Feb-10	*1	-	260.00
7	1-Apr-10	*3	-	302.80
8	1-May-10	*2	-	311.30
9	1-Jun-10	*1	-	282.40
10	1-Jan-11	*2	-	347.50
11	1-Mar-11	*3	-	324.65
12	1-Apr-11	*4	-	343.90
13	1-May-11	*1	-	319.55
14	1-Jun-11	*4	-	324.70
15	7-Jul-11	*5	-	299.40

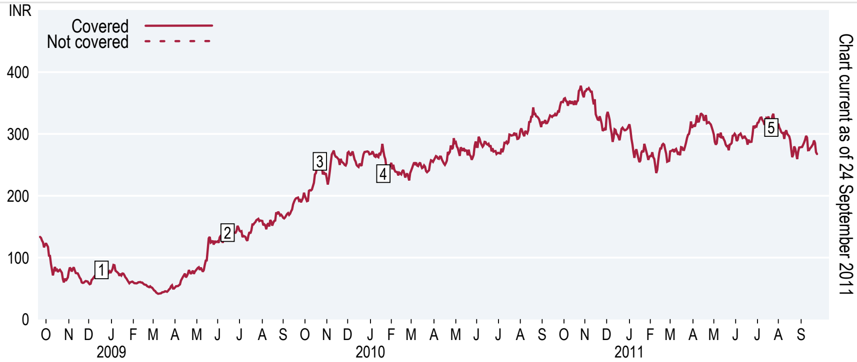
* Indicates change

Rating/target price changes above reflect Eastern Standard Time

Yes Bank (YESB.BO)

Ratings and Target Price History
Fundamental Research

Analyst: Manish Chowdhary, CFA



	Date	Rating	Target Price	Closing Price
1	18-Dec-08	3H	*75.00	78.10
2	14-Jun-09	*1M	*164.00	128.80
3	22-Oct-09	1M	*310.00	247.25
4	20-Jan-10	1M	*330.00	272.65
5	21-Jul-11	1M	*380.00	317.60

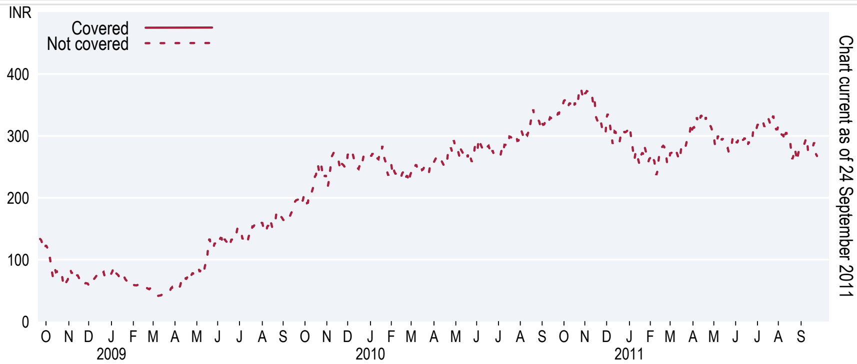
* Indicates change

Rating/target price changes above reflect Eastern Standard Time

Yes Bank (YESB.BO)

Ratings and Target Price History
Best Ideas Research
Relative Call (3 Month)

Analyst: Manish Chowdhary, CFA



* Indicates change

Rating/target price changes above reflect Eastern Standard Time

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Citi Investment Research & Analysis Ratings Distribution

	12 Month Rating			***Relative Rating***		
Data current as of 30 Jun 2011	**Buy**	**Hold**	**Sell**	**Buy**	**Hold**	**Sell**
Citi Investment Research & Analysis Global Fundamental Coverage	54%	36%	11%	10%	81%	10%
% of companies in each rating category that are investment banking clients	45%	41%	42%	50%	42%	44%
Citi Investment Research & Analysis Quantitative World Radar Screen Model Coverage	30%	40%	30%			
% of companies in each rating category that are investment banking clients	26%	21%	20%			
Citi Investment Research & Analysis Quantitative Decision Tree Model Coverage	48%	0%	52%			
% of companies in each rating category that are investment banking clients	53%	0%	43%			
Citi Investment Research & Analysis Asia Quantitative Radar Screen Model Coverage	20%	60%	20%			
% of companies in each rating category that are investment banking clients	26%	23%	19%			
Citi Investment Research & Analysis Australia Radar Model Coverage	49%	0%	51%			
% of companies in each rating category that are investment banking clients	35%	0%	8%			

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CIRA's stock recommendations include a risk rating and an investment rating.
Risk ratings, which take into account both price volatility and fundamental criteria, are: Low (L), Medium (M), High (H), and Speculative (S).
Investment ratings are a function of CIRA's expectation of total return (forecast price appreciation and dividend yield within the next 12 months) and risk rating.
Analysts may place covered stocks “Under Review” in response to exceptional circumstances (e.g. lack of information critical to the analyst's thesis) affecting the company and/or trading in the company's securities (e.g. trading suspension). Stocks placed “Under Review” will be monitored daily by management. As soon as practically possible, the analyst will publish a note re-establishing a rating and investment thesis.
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