

May 31, 2010

Rating	Not Rated
Price	Rs166
Target Price	NA
Implied Upside	NA
Sensex	16,863

(Prices as on May 28, 2010)

Trading Data

Market Cap. (Rs bn)	24.6
Shares o/s (m)	147.9
Free Float	100%
3M Avg. Daily Vol ('000)	5,267.2
3M Avg. Daily Value (Rs m)	500.7

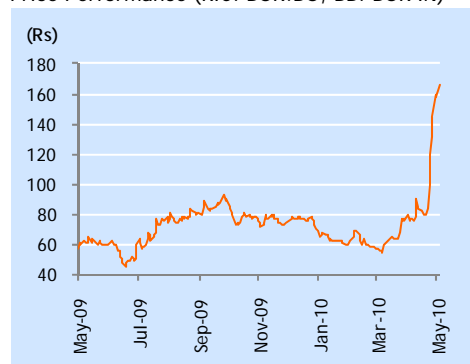
Major Shareholders

Promoters	NA
Foreign	2.34%
Domestic Inst.	3.39%
Public & Others	94.27%

Stock Performance

(%)	1M	6M	12M
Absolute	120.2	133.3	178.6
Relative	123.1	131.9	160.6

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



Source: Bloomberg

■ **Higher employee and NPA provisions lead to higher losses:** Bank of Rajasthan (BoR) reported a net loss of Rs923m in Q4FY10 and Rs1.0bn for full year FY10. The bank has made additional provisions worth Rs1.5bn for employee expenses on account of revision in base data and assumptions made in computing liability for employee benefits. This along with Rs0.5bn provisions towards wage revision has affected the full year bottom-line. However, clarity is awaited regarding the adjustment of the same during the quarter and the full year. Impact of wage revision on superannuation benefits have not been considered yet and this could affect the future profitability. NII for the quarter grew by 27.4% YoY and 15.6% QoQ as the interest expenses declined 14.6% YoY and 10.2% QoQ. Operating expenses include depreciation on properties revalued as on March 31, 2008. Aggregate depreciation of Rs184.2m has been netted off against Rs69.5m being depreciation on revalued portion withdrawn from capital reserve. Provisions grew sharply by 85% QoQ to Rs695m, which could be mainly on account of higher loan loss provisions as the GNPA's grew by 26.4% QoQ to Rs2.9bn. Provision coverage deteriorated to 54.6% from 63.7% in Q3FY10. The capital adequacy of the bank has declined to 7.5% from 11.3% in Q3FY10.

■ **Uncertainty likely to continue:** RBI has appointed Deloitte to conduct special audit of the bank, the final report of which is yet to be submitted. Any financial impact due to additional provisions with regards to the recommendations of this report (refer annexure) and further provisions towards employee benefits may affect future profitability of the bank.

■ **Impact on ICICI Bank financials:** Based on the earlier available financials of Bank of Rajasthan, we had factored in FY10 network (excluding revaluation reserves) of BoR at Rs5.7bn assuming a FY10 net loss of Rs0.7bn. However, the net loss for the year, at Rs1.02bn has come in higher than our estimates resulting higher erosion in BoR's FY10 network to Rs5.4bn. As the difference (Rs0.3bn) in the estimated network is less meaningful in terms of ICICI bank's balance sheet, we are maintaining our proforma estimates for ICICI Bank (for further details please refer our note on ICICI Bank released on 24th May 2010).

Key financials (Y/e March)	FY07	FY08	FY09	FY10
Net interest income	3,185	3,138	3,774	3,350
Growth (%)	42.7	(1.5)	20.2	(11.2)
Operating profit	1,918	1,713	1,938	(279)
PAT	1,106	1,152	1,177	(1,021)
EPS (Rs)	10.3	8.6	7.3	(6.3)
Growth (%)	624.6	(16.6)	(14.8)	-
Net DPS (Rs)	2.0	0.5	0.2	-

Source: Company Data; PL Research

Profitability & valuation	FY07	FY08	FY09	FY10
Calculated NIM (%)	2.9	2.2	2.3	1.9
RoAE (%)	28.8	24.1	20.1	(17.2)
RoAA (%)	1.2	0.9	0.7	(0.6)
P / BV (x)	4.2	4.2	4.2	4.9
P / ABV (x)	4.0	4.2	4.3	5.6
PE (x)	16.1	19.4	22.7	-
Net dividend yield (%)	1.2	0.3	0.1	-

Source: Company Data; PL Research

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Q4FY10 Result Overview

(Rs m)

Y/e March	Q4FY10	Q4FY09	YoY gr. (%)	Q3FY10	FY10	FY09	YoY gr. (%)
Interest Income	3,328	3,495	(4.8)	3,448	13,595	13,758	(1.2)
Interest on Advances	2,191	2,341	(6.4)	2,263	9,060	9,171	(1.2)
Income on investments	1,106	982	12.7	1,143	4,301	3,662	17.4
Bal with RBI & others	30	164	(81.6)	43	230	875	(73.7)
Others	0	8	(98.7)	0	4	50	(92.8)
Interest Expense	2,288	2,679	(14.6)	2,549	10,245	9,985	2.6
Net Interest Income	1,040	816	27.4	899	3,350	3,774	(11.2)
Non-Interest Income	295	311	(5.0)	289	1,300	1,314	(1.1)
Net total Income	1,335	1,126	18.5	1,189	4,650	5,088	(8.6)
Operating Expenses	1,948	949	105.3	1,478	4,929	3,150	56.5
Employee	1,658	651	154.7	1,204	3,821	2,088	83.0
Other operating expenses	290	298	(2.6)	274	1,108	1,062	4.3
Operating profit	(613)	178	NA	(290)	(279)	1,938	NA
Core operating profits	(613)	178	NA	(290)	(279)	1,938	NA
Provisions	695	134	416.7	376	1,171	207	466.3
Profit before tax	(1,308)	43	NA	(665)	(1,450)	1,731	NA
Tax	(385)	14	NA	(218)	(429)	554	NA
Net Profit after tax	(923)	29	NA	(447)	(1,021)	1,177	NA
EPS (Rs)	(5.7)	0.2	NA	(2.8)	(6.3)	7.3	NA
Asset Quality							
Gross NPA's	2,938	1,609	82.6	2,324	2,938	1,609	82.6
<i>% Gross NPA's</i>	<i>3.46</i>	<i>2.04</i>		<i>2.84</i>	<i>3.46</i>	<i>2.04</i>	
Net NPA's	1,335	570	134.1	844	1,335	570	134.1
<i>% Net NPA's</i>	<i>1.60</i>	<i>0.73</i>		<i>1.05</i>	<i>1.60</i>	<i>0.73</i>	
Provision Coverage	54.6	64.6		63.7	54.6	64.6	
<i>CAR (%)</i>	<i>7.5</i>	<i>11.5</i>		<i>11.3</i>	<i>7.5</i>	<i>11.5</i>	

Annexure

Some important Bank of Rajasthan results notes to accounts

On financial impact based on the Deloitte report:

“In exercise of u/s 30 (1B) of the Banking Regulation Act 1949, RBI appointed M/s Deloitte Haskins & sales to conduct a special audit of the Bank. The special auditors were required to look at certain specific areas including inter-alia certain large advances and their compliance with provisioning requirements etc. An interim report by the special auditors has not indicated any significant provisioning requirement and all actions considered appropriate and necessary, arising out of the suggestions made by them having financial implications have been acted upon. Financial impact if any arising out of the final report which is awaited cannot be presently quantified.”

On promoter shareholding:

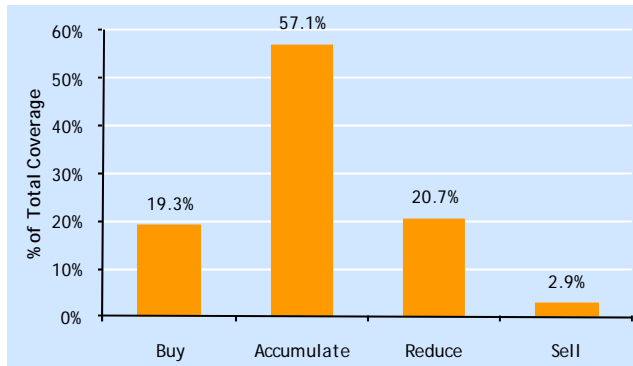
“Hitherto, Tayal Group holding was shown in the Promoter Category. Based on the legal opinion obtained, they are no longer being treated as Promoter of the Bank. In the absence of any other category for the Dominant Shareholders group (DSHG), their holding has been shown in the Public Category. The declared shareholding of Tayal Group is 28.60%, however as per SEBI ex-parte interim order dated 8th March 2010, holding of Tayal Group and related entities are to the order of 55.01%. In the shareholding pattern disclosed as per Clause 35 of Listing Agreement for the quarter ended 31st March 2010, the Bank has shown shareholding in public Category as 100% based on above referred legal opinion.”

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Rating Distribution of Research Coverage



PL's Recommendation Nomenclature

BUY	: Over 15% Outperformance to Sensex over 12-months	Accumulate	: Outperformance to Sensex over 12-months
Reduce	: Underperformance to Sensex over 12-months	Sell	: Over 15% underperformance to Sensex over 12-months
Trading Buy	: Over 10% absolute upside in 1-month	Trading Sell	: Over 10% absolute decline in 1-month
Not Rated (NR)	: No specific call on the stock	Under Review (UR)	: Rating likely to change shortly

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