Financial Sector Conference

BSE Sensex: 10,130 S&P CNX: 2,981 28 June 2006

We hosted a full-day Financial Sector Conference on 21 June 2006 in Mumbai. Nine companies participated.

PARTICIPANTS

COMPANY	PERSONNEL	DESIGNATION
Bank of India	Mr. K.R. Kamath	Executive Director
	Mr. Bakshi	General Manager
ICICI Bank	Ms. Madhabi Puri Buch	Senior General Manager
	Mr. Anindya Banerjee	Manager
Karnataka Bank	Mr. Ananthakrishna	Chairman
Mahindra & Mahindra Financial Services	Mr. R. Venkataraman	CFO
	Mr. Nitin Shah	Treasurer
State Bank of India	Mr. Ram Mohan	CGM
UTI Bank	Mr. S. Chatterjee	Executive Director
ARCIL	Mr. S. Khasnobis	President & COO
IDBI Bank	Mr. O.V. Bundellu	Executive Director
	Mr. L.P. Agarwal	CGM
Kotak Mahindra Bank	Mr. Jaimin Bhatt	CFO

We present our key takeaways from the presentations and meetings for each participant company.

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Bank of India

STOCK INFO.	BLOOMBERG
BSE Sensex: 10,130	BOI IN
	REUTERS CODE
S&P CNX: 2,981	BOI.BO

28 June 2006

Buy

Previous Recommendation: Buy

Rs97

Bank of India's presentation focused on management's strategy of de-risking the balance sheet and improving return ratios. The presentation highlighted the following strategies:

Expanding reach to net a wider customer base: Bank of India has a well diversified presence across India with 2,622 branches and 24 overseas offices. Global assets total Rs1,123b. Currently, its international operations account for 19% of the asset base. The bank aims to increase the number of branches by 50 in India in FY07 and expand global operations by opening branches in Antwerp (Belgium) and Tanzania. Representative offices are likely to be opened in China, Qatar, South Africa and in South East Asia.

Focusing on qualitative growth: In FY06, while deposits grew by 19%, loans grew by 17%. The slower loan growth was on account of a 5% decline in international assets owing to repayment of IMDs, wherein BoI has extended loans to its customers. The bank aims to achieve a steady growth of 20%-25% in its loan book and 15%-16% in deposits. The bank has plans to focus on quality loans, with its spotlight on SME, agriculture and retail, that can realize reasonable margins. Also, the bank does not intend to raise funds at a high cost to fund balance sheet growth.

Betting on higher margins: Post the PLR hike, 50% of the loan book has been re-priced, which should result in higher loan yields and margin improvement. In FY06, Bank of India had a global spread of 2.78% and domestic spread of 3.11%. Deposit costs are also likely to move up, but as the bank has 40% in CASA (for domestic deposits), this shall check the rise in deposit cost. Overall, rising yields should result in margins improving for the bank. Additionally, management has indicated that it intends to increase international margins, thereby also improving the bank's blended margins.

Enhancing growth via technology implementation and cost control: By end-FY07, the bank is likely to have 1,000 branches under CBS (737 branches currently under CBS track 66% of the business), which would command 80% of the business. Bank of India is probably the only bank which is expensing the costs related to its CBS and, hence, does not expect its technology related costs to increase from hereon. Further, as employee retirements are likely to be considerable, these expenses are also likely to grow marginally (5%-7%) from current levels.

Investment book is de-risked: BoI's investment book is well positioned with a low duration of 0.6 years on the AFS book and more than 75% of SLR in HTM. Thus, we do not foresee any mark-to-market provisions for BoI.

Comfortable on capital front: Total CAR as at FY06 is 10.8%, of which Tier 1 is 6.75%. We anticipate the bank will require capital in FY07 to support its growth. However, it is comforting to note that BoI is one of the few state-owned banks that have adequate room for equity dilution (GoI holding is 69.5%). Whilst management agrees this offers a comfort level, they would not utilize this as a means to dilute equity. BoI has applied to the RBI for raising capital via hybrid capital from international markets and is hopeful of gaining permission.

Valuation and recommendation: BoI will likely be a beneficiary of low operating expenses, steady net interest income growth and low risk on its AFS portfolio. We expect PAT to grow at 23% CAGR during FY06-FY08. The stock trades at 0.9x FY07E BV and 5.5x FY07E EPS. We maintain **Buy**.

BANK OF INDIA

INCOME STATEMENT					(Rs Million)
Y/E March	2004	2005	2006	2007E	2008E
Interest Income	57,959	60,315	70,287	82,927	97,804
Interest Expended	35,945	37,946	43,967	52,323	61,997
Net Interest Incom	**22,014**	**22,369**	**26,320**	**30,603**	**35,806**
Change (%)	*8.1*	*1.6*	*17.7*	*16.3*	*17.0*
Other Income	17,920	11,560	11,844	11,275	11,897
Net Income	**39,934**	**33,929**	**38,164**	**41,878**	**47,704**
Change (%)	*8.6*	*-15.0*	*12.5*	*9.7*	*13.9*
Operating Expenses	17,515	19,323	21,151	23,604	26,443
Operating Income	**22,419**	**14,606**	**17,012**	**18,274**	**21,260**
Change (%)	*10.4*	*-34.8*	*16.5*	*7.4*	*16.3*
Other Provisions	8,910	9,993	7,859	6,700	6,600
PBT	**13,509**	**4,613**	**9,154**	**11,574**	**14,660**
Tax	3,426	1,210	2,142	2,894	4,032
Tax Rate (%)	*25.4*	*26.2*	*23.4*	*25.0*	*27.5*
PAT	**10,083**	**3,403**	**7,012**	**8,681**	**10,629**
Change (%)	*18.5*	*-66.3*	*106.0*	*23.8*	*22.4*
Proposed Dividend	1,650	976	1,660	1,953	2,441

BALANCE SHEET					(Rs Million)
Y/E March	2004	2005	2006	2007E	2008E
Capital	4,881	4,881	4,881	4,881	4,881
Reserves & Surplus	35,215	39,767	44,507	51,236	59,423
Net Worth	**40,097**	**44,649**	**49,389**	**56,117**	**64,305**
Deposits	**710,031**	**788,214**	**939,320**	**1,080,218**	**1,242,251**
Change (%)	*10.8*	*11.0*	*19.2*	*15.0*	*15.0*
Borrowings	63,808	79,605	88,425	110,531	123,795
Other Liabilities & Prov	34,664	37,314	45,159	49,675	54,643
Total Liabilities	**848,600**	**949,782**	**1,122,293**	**1,296,541**	**1,484,993**
Current Assets	85,579	75,263	114,021	134,040	151,131
Investments	**271,629**	**286,863**	**317,818**	**365,490**	**420,314**
Change (%)	*11.2*	*5.6*	*10.8*	*15.0*	*15.0*
Advances	**458,559**	**555,289**	**651,727**	**756,004**	**869,404**
Change (%)	*7.6*	*21.1*	*17.4*	*16.0*	*15.0*
Net Fixed Assets	7,986	8,142	8,100	7,929	7,758
Other Assets	24,847	24,225	30,628	33,079	36,386
Total Assets	**848,600**	**949,782**	**1,122,293**	**1,296,542**	**1,484,993**

ASSUMPTIONS					(%)
Deposit Growth	10.8	11.0	19.2	15.0	15.0
Advances Growth	7.6	21.1	17.4	16.0	15.0
Investments Growth	11.2	5.6	10.8	15.0	15.0
Average PLR	10.0	10.0	10.0	10.0	10.0
Dividend	33.8	20.0	34.0	40.0	50.0
CRR	4.5	5.0	5.0	5.0	5.0

E: MOSt Estimates

RATIOS					
Y/E March	2004	2005	2006	2007E	2008E
Spreads Analysis (%)					
Avg. Yield - Earning As	7.5	7.0	7.0	7.1	7.3
Avg. Cost-Int. Bear. Lia	4.9	4.6	4.6	4.7	4.8
Interest Spread	2.5	2.4	2.4	2.4	2.4
Net Interest Margin	2.8	2.6	2.6	2.6	2.7
Profitability Ratios (%)					
RoE	26.7	8.0	14.9	16.5	17.7
RoA	1.3	0.4	0.7	0.7	0.8
Int. Expended/Int.Earne	62.0	62.9	62.6	63.1	63.4
Other Inc./Net Income	44.9	34.1	31.0	26.9	24.9
Efficiency Ratios (%)					
Op. Exps./Net Income	43.9	57.0	55.4	56.4	55.4
Empl. Cost/Op. Exps.	66.9	65.4	62.8	60.2	57.3
Busi. per Empl. (Rs m)	26.0	29.5	34.8	41.2	48.2
NP per Empl. (Rs lac)	2.3	0.8	1.7	2.1	2.6
Asset-Liability Profile (%)					
Adv./Deposit Ratio	64.6	70.4	69.4	70.0	70.0
Invest./Deposit Ratio	38.3	36.4	33.8	33.8	33.8
G-Sec/Invest. Ratio	67.9	69.6	71.6	65.3	59.7
Gross NPAs to Adv.	7.9	5.5	3.7	3.1	2.7
Net NPAs to Adv.	4.5	2.8	1.5	0.9	0.6
CAR	13.0	11.5	10.8	10.1	9.6
Tier 1	*7.5*	*7.1*	*6.8*	*6.5*	*6.2*

VALUATION					
Book Value (Rs)	78.6	88.1	98.0	111.9	128.9
Price-BV (x)	1.2	1.1	1.0	0.9	0.8
Adjusted BV (Rs)	51.1	67.4	85.0	103	122
Price-ABV (x)	1.9	1.4	1.1	0.9	0.8
EPS (Rs)	20.7	7.0	14.4	17.8	21.8
EPS Growth (%)	18.5	-66.3	106.0	23.8	22.4
Price-Earnings (x)	4.7	14.0	6.8	5.5	4.5
OPS (Rs)	45.9	29.9	34.9	37.4	43.6
OPS Growth (%)	10.4	-34.8	16.5	7.4	16.3
Price-OP (x)	2.1	3.3	2.8	2.6	2.2

E: MOSt Estimates

ICICI Bank

STOCK INFO.	BLOOMBERG
BSE Sensex: 10,130	ICICIBC IN
	REUTERS CODE
S&P CNX: 2,981	ICBK.BO

28 June 2006

Previous Recommendation: Buy

Buy

Rs489

Positive external indicators likely growth triggers: Management highlighted that expectation of strong GDP growth ahead, aided by favorable demographics, an expanding service sector and a resurgent industrial sector shall lead to a steady credit growth over the next few years.

Increasing rural focus: ICICI Bank has readied its model for the rural sector by tying up with micro finance institutions, self help groups, loan agents etc. in the rural segment. This move has helped its assets in the rural segment grow to Rs163b in FY06 from Rs42b in FY04. The tie-ups with local institutions have helped ICICI Bank keep its costs low. Also, these institutions enhance the bank's credit quality, as they take on the initial losses, resulting in low NPAs for ICICI Bank. Management also mentioned that the traditional models for the rural segment are fraught with high delinquencies, low recovery and high operating costs.

ICICI Bank has net NPAs of just 0.3%-0.4% of their rural lending. Margin-wise, currently, the bank earns similar that of its overall margins. Margins shall improve as the bank starts building up its rural liability base over the next 2 years.

Increasing international presence: International banking is expected to witness strong growth for ICICI Bank over the next few years. The bank has set up facilities in 14 geographies, through branches, subsidiaries and representative offices. The first leg of ICICI Bank's global footprint is already in place, it now aims to grow this business segment. Currently, international assets constitute 14% of the consolidated assets. It plans to leverage existing international banking opportunities such as strong remittances (India receives largest remittances of almost US$20b annually); renewed investment cycles as Indian companies acquire global companies; and fee-based products such as derivatives, forex etc.

Margins to expand from 2QFY07: ICICI Bank has raised lending rates thrice over the last four months (overall rates are up 150bp). Of this, the 50bp hike is already effective April 2006 onward and the 100bp hike will be effective from July 2006 onward. We expect margins to be lower in 1QFY07, compared with 4QFY06, as the full impact of the higher deposit (raised in the month of March) costs would be felt. However we expect margins to improve from 2QFY07 on the back of the lending rate increase. Management does not expect slowdown in its business or deterioration of asset quality.

Subsidiaries to gain significance: ICICI Bank has subsidiaries in almost every sphere of the financial service domain. Over the years, the buoyant Indian economy and increased capital market interest has enabled the bank's subsidiaries to grow at a healthy rate. We believe that these subsidiaries could result in significant value for ICICI Bank. We value the bank's key subsidiaries at Rs144 per share. We also believe it would be realistic to assume a 20% increase in value on an annualized basis going forward.

Retail share to decline but strong growth prospects ahead: Whilst the proportion of retail assets is likely to decline with increasing rural and international focus, the bank would maintain leadership in retail assets (33% market share) through multiproduct offerings, wide distribution network, robust technology platform and strong credit operations. Management believes that with retail loans/GDP penetration at 11% (lower versus other countries) coupled with low household leverage; the retail segment will continue to witness steady growth going forward.

Valuation and recommendation: We expect ICICI Bank's earnings to grow at 25% CAGR over FY06-FY08 Adjusting for the value of its subsidiaries, the stock quotes at 9.6x FY07E earnings and 1.2x FY07E book value. With concerns over profitability and asset quality allayed and given the bank's high growth visibility, we maintain **Buy**. Our SOTP-based target price of Rs709 implies 44% upside.

ICICI BANK

INCOME STATEMENT				(Rs Million)
Y/E March	2005	2006	2007E	2008E
Interest Income	94,099	137,845	194,460	262,045
Interest Expended	65,709	95,975	137,843	189,460
Net Interest Income	**28,390**	**41,870**	**56,617**	**72,586**
Change (%)	*42.9*	*47.5*	*35.2*	*28.2*
Other Income	**35,397**	**49,821**	**62,741**	**80,275**
Profit on sale of investment	5,461	9,270	5,000	4,000
Other non-interest income	29,935	40,551	57,741	76,275
Net Income	**63,787**	**91,692**	**119,358**	**152,861**
Change (%)	*26.2*	*43.7*	*30.2*	*28.1*
Operating Expenses	33,013	44,795	56,440	69,851
Employee expense	7,374	10,823	15,401	18,360
Operating Income	**30,774**	**46,897**	**62,918**	**83,010**
Change (%)	*24.0*	*52.4*	*34.2*	*31.9*
Provisions & contingencies	5,532	15,941	18,843	24,053
Provision for NPAs	116	7,947	9,135	11,053
PBT	**25,242**	**30,956**	**44,074**	**58,958**
Tax	5,190	5,563	12,908	19,429
PAT	**20,052**	**25,393**	**31,167**	**39,529**
Change (%)	*22.5*	*26.6*	*22.7*	*26.8*
Proposed Dividend	7,231	7,565	8,455	8,900

BALANCE SHEET				(Rs Million)
Y/E March	2005	2006	2007E	2008E
Capital	7,368	8,900	8,900	8,900
Preference Capital	3,500	3,500	3,500	3,500
Reserves & Surplus	118,132	213,160	238,737	268,254
Net Worth	**129,000**	**225,560**	**251,137**	**280,654**
Deposits	**998,188**	**1,650,830**	**2,146,079**	**2,789,903**
Change (%)	*46.6*	*65.4*	*30.0*	*30.0*
CASA	*242,287*	*375,105*	*568,711*	*781,173*
CASA Dep (% of total)	*24.3*	*22.7*	*26.5*	*28.0*
Borrowings	417,534	486,670	559,671	643,621
Other Liabilities & Prov.	139,633	150,832	191,555	243,275
Total Liabilities	**1,684,353**	**2,513,890**	**3,148,442**	**3,957,451**
Current Assets	129,300	170,400	221,202	338,210
Investments	504,874	715,470	887,183	1,101,881
Change (%)	18.1	41.7	24.0	24.2
Advances	**914,052**	**1,461,630**	**1,842,141**	**2,319,945**
Change (%)	*45.9*	*59.9*	*26.0*	*25.9*
Retail	*561,330*	*914,738*	*1,076,738*	*1,286,652*
Retail (% of total)	*61.4*	*62.6*	*58.5*	*55.5*
Net Fixed Assets	40,380	39,891	39,791	39,291
Other Assets	95,748	126,499	158,124	158,124
Total Assets	**1,684,353**	**2,513,890**	**3,148,442**	**3,957,451**

ASSUMPTIONS				(%)
Deposit Growth	46.6	65.4	30.0	30.0
Advances Growth	45.9	59.9	26.0	25.9
Investments Growth	18.1	41.7	24.0	24.2
Dividend	85.0	85.0	95.0	100.0
CRR	5.0	5.0	5.0	5.0

E: MOSt Estimates

RATIOS				
Y/E March	2005	2006	2007E	2008E
Spreads Analysis (%)				
Avg. Yield - Earning Assets	7.0	7.2	7.6	8.2
Avg. Cost-Int. Bear. Liab.	5.3	5.4	5.7	6.2
Interest Spread	1.8	1.8	1.9	2.0
Net Interest Margin	2.1	2.2	2.2	2.3
Profitability Ratios (%)				
RoE	19.5	14.6	13.3	15.1
RoA	1.4	1.2	1.1	1.1
Int. Expended/Int.Earned	69.8	69.6	70.9	72.3
Other Inc./Net Income	55.5	54.3	52.6	52.5
Efficiency Ratios (%)				
Op. Exps./Net Income	51.8	48.9	47.3	45.7
Empl. Cost/Op. Exps.	22.3	24.2	27.3	26.3
Busi. per Empl. (Rs m)	89.4	100.5	118.3	126.4
NP per Empl. (Rs lac)	11.1	10.2	10.4	11.0
Asset-Liability Profile (%)				
Adv./Deposit Ratio	91.6	88.5	85.8	83.2
Invest./Deposit Ratio	50.6	43.3	41.3	39.5
G-Sec/Invest. Ratio	68.3	71.4	77.7	84.5
Gross NPAs to Adv.	3.0	1.5	1.8	1.8
Net NPAs to Adv.	1.7	0.7	0.8	0.8
CAR	11.8	13.4	11.6	10.4
Tier 1	*7.6*	*9.2*	*8.0*	*7.2*

VALUATION				
Book Value (Rs)	170.3	249.5	278.2	311.4
Price-BV (x)	2.9	2.0	1.8	1.6
Adjusted BV (Rs)	156.8	241.4	271.6	306.8
Price-ABV (x)	3.1	2.0	1.8	1.6
EPS (Rs)	27.2	28.5	35.0	44.4
EPS Growth (%)	2.5	4.8	22.7	26.8
Price-Earnings (x)	18.0	17.1	14.0	11.0
OPS (Rs)	41.8	52.7	70.7	93.3
OPS Growth (%)	3.8	26.2	34.2	31.9
Price-OP (x)	11.7	9.3	6.9	5.2

E: MOSt Estimates

Karnataka Bank

STOCK INFO.	BLOOMBERG
BSE Sensex: 10,130	KBL IN
	REUTERS CODE
S&P CNX: 2,981	KNBK.BO

28 June 2006

Previous Recommendation: Buy

Buy

Rs90

Karnataka Bank described its strategy relating to its business growth plans in its presentation.

Achievable business targets: Karnataka Bank has set a target to achieve business up to Rs250b with Rs100b in advances and Rs150b in deposits in FY07, a growth of 19% YoY. The loan book growth will be across all its key segments. Karnataka Bank's credit portfolio has expanded by 24% in FY06 and management expects this portfolio to grow by 28% in FY07 with focus on SME, agriculture, and retail. Currently, these three segments constitute 65% of its credit portfolio.

Maintaining margins: FY06 NIMs have declined 20bp to 2.74% and management expects to maintain margins at these levels in FY07. While yields on loans have improved to 8.86% (up by 24bp YoY), yields on investments have declined to 7.62% (down by 40bp YoY) and cost of deposits have increased to 5.77% (up by 9bp YoY) in FY06. Management expects to sustain margins by restricting its cost of deposits to existing levels by improving the share of CASA (21% in FY06) and improve yields on loans by focusing on high-yielding loans going forward.

Improving asset quality: Asset quality has been improving with net NPAs down to 1.2% in FY06. Management expects to reduce its net NPAs to below 0.75% by arresting fresh slippages and improving recoveries in FY07.

Well cushioned investment book: The bank's investment book is well cushioned against rising interest rates. Of the total investment book of Rs55b, Rs41b is in SLR. Of the SLR, 52% of the investment book is in HTM and the remainder in AFS. The bank is cushioned up to 8% on the 10-year G-sec rate. However, management mentioned that for every 10 basis point increase over 8%, the bank will need to take a provision of Rs25m.

Network expansion to continue: Management expects to increase its branch network to 415 and the number of ATMs to 125 (currently, 395 branches and 75 ATMs). Bank branches will mainly be in the western and northern regions of the country.

Service quality the key differentiator: The management highlighted that for banks of the size of Karnataka Bank, personalised service is the key differentiator as compared to the larger banks. The chairman highlighted that small banks in order to survive must compete with larger banks on the platform of service quality and constantly enhance it, if they must grow and survive. Karnataka Bank is constantly looking at improving its personalised service and at the same time is improving its technology platform and product suites in order to retain and grow its customer base.

Valuation and recommendation: Karnataka Bank continues to be our preferred bet amongst the universe of smaller private banks. We estimate the bank to report PAT of Rs2.1b in FY07. We estimate EPS at Rs17.2. The stock trades at 5.2x FY07E EPS and 0.9x FY07E BV. Maintain **Buy**.

KARNATAKA BANK

INCOME STATEMENT					(Rs Million)
Y/E March	**2004**	**2005**	**2006**	**2007E**	**2008E**
Interest Income	8,484	8,399	10,180	12,312	14,593
Interest Expended	6,348	5,230	6,521	7,962	9,474
Net Interest Income	**2,137**	**3,169**	**3,660**	**4,350**	**5,119**
Change (%)	*38.0*	*48.3*	*15.5*	*18.9*	*17.7*
Other Income	2,703	2,211	1,668	1,643	1,829
Net Income	**4,840**	**5,380**	**5,328**	**5,994**	**6,948**
Change (%)	*22.8*	*11.2*	*-1.0*	*12.5*	*15.9*
Operating Expenses	1,542	1,973	2,045	2,281	2,588
Operating Income	**3,298**	**3,407**	**3,283**	**3,713**	**4,360**
Change (%)	*30.2*	*3.3*	*-3.6*	*13.1*	*17.4*
Other Provisions	1,283	1,005	592	650	800
PBT	**2,015**	**2,402**	**2,691**	**3,063**	**3,560**
Tax	683	931	931	980	1,139
Tax Rate (%)	*33.9*	*38.8*	*34.6*	*32.0*	*32.0*
PAT	**1,332**	**1,471**	**1,760**	**2,083**	**2,421**
Change (%)	*20.9*	*10.5*	*19.6*	*18.3*	*16.2*
Proposed Dividend	182	277	364	424	485

BALANCE SHEET					(Rs Million)
Y/E March	**2004**	**2005**	**2006**	**2007E**	**2008E**
Capital	404	1,213	1,213	1,213	1,213
Reserves & Surplus	6,577	8,568	9,899	11,557	13,493
Net Worth	**6,982**	**9,780**	**11,111**	**12,770**	**14,705**
Deposits	**94,069**	**108,370**	**132,432**	**152,959**	**175,902**
Change (%)	*13.4*	*15.2*	*22.2*	*15.5*	*15.0*
Borrowings	1,833	2,437	1,827	2,101	2,521
Other Liabilities & Prov.	2,883	4,680	4,163	4,579	5,037
Total Liabilities	**105,766**	**125,267**	**149,533**	**172,408**	**198,166**
Current Assets	7,493	13,725	12,146	13,953	15,385
Investments	48,789	45,557	55,486	58,815	63,520
Change (%)	10.1	-6.6	21.8	6.0	8.0
Advances	46,679	62,874	77,916	95,057	114,069
Change (%)	*19.7*	*34.7*	*23.9*	*22.0*	*20.0*
Net Fixed Assets	932	966	1,043	1,347	1,632
Other Assets	1,873	2,145	2,942	3,236	3,560
Total Assets	**105,766**	**125,267**	**149,533**	**172,408**	**198,166**

ASSUMPTIONS					(%)
Deposit Growth	13.4	15.2	22.2	15.5	15.0
Advances Growth	19.7	34.7	23.9	22.0	20.0
Investments Growth	10.1	-6.6	21.8	6.0	8.0
Dividend Yeild (%)	3.9	2.2	3.3	3.9	4.4
Dividend	35.0	20.0	30.0	35.0	40.0
CRR	4.5	5.0	5.0	5.0	5.0

E: MOSt Estimates

RATIOS					
Y/E March	**2004**	**2005**	**2006**	**2007E**	**2008E**
Spreads Analysis (%)					
Avg. Yield - Earning Assets	8.9	7.5	7.6	7.8	8.0
Avg. Cost-Int. Bear. Liab.	7.0	5.1	5.3	5.5	5.7
Interest Spread	1.8	2.4	2.3	2.3	2.3
Net Interest Margin	2.2	2.8	2.7	2.8	2.8
Profitability Ratios (%)					
RoE	20.8	17.6	16.9	17.4	17.6
RoA	1.3	1.3	1.3	1.3	1.3
Int. Expended/Int.Earned	74.8	62.3	64.1	64.7	64.9
Other Inc./Net Income	55.8	41.1	31.3	27.4	26.3
Efficiency Ratios (%)					
Op. Exps./Net Income	31.9	36.7	38.4	38.1	37.2
Empl. Cost/Op. Exps.	61.0	63.4	56.8	57.4	58.5
Busi. per Empl. (Rs m)	30.5	35.5	43.9	49.3	56.0
NP per Empl. (Rs lac)	3.1	3.3	4.1	4.5	5.0
Asset-Liability Profile (%)					
Adv./Deposit Ratio	49.6	58.0	58.8	62.1	64.8
Invest./Deposit Ratio	51.9	42.0	41.9	38.5	36.1
G-Sec/Invest. Ratio	61.7	74.7	73.7	73.7	73.7
Gross NPAs to Adv.	11.9	7.6	5.1	4.1	3.3
Net NPAs to Adv.	5.0	2.3	1.2	0.9	0.5
CAR	13.0	14.2	11.8	10.8	10.0
Tier 1	*10.4*	*12.2*	*11.3*	*9.8*	*9.0*

VALUATION					
Book Value (Rs)	172.7	80.7	91.6	105.3	121.3
Price-BV (x)	0.5	1.1	1.0	0.9	0.7
Adjusted BV (Rs)	135.5	73.0	86.7	100.7	118.0
Price-ABV (x)	0.7	1.2	1.0	0.9	0.8
EPS (Rs)	32.9	12.1	14.5	17.2	20.0
EPS Growth (%)	20.9	-63.2	19.6	18.3	16.2
Price-Earnings (x)	2.7	7.4	6.2	5.2	4.5
OPS (Rs)	81.6	28.1	27.1	30.6	36.0
OPS Growth (%)	30.1	-65.5	-3.7	13.1	17.4
Price-OP (x)	1.1	3.2	3.3	2.9	2.5

E: MOSt Estimates

Mahindra and Mahindra Financial Services

STOCK INFO.	BLOOMBERG
BSE Sensex: 10,130	MMFS IN
	REUTERS CODE
S&P CNX: 2,981	MMFS.BO

28 June 2006

Buy

Previous Recommendation: Buy

Rs181

Mahindra and Mahindra Financial Services (MMFSL) is a subsidiary of Mahindra and Mahindra (M & M), a leading tractor and utility vehicle manufacturer in India. MMFSL is amongst India's leading non-bank finance companies focused on the rural and semi-urban sectors and finances purchase of utility vehicles, tractors and cars.

Asset growth likely to continue: Asset growth to remain strong, on back of its growing branch network and newer products like two-wheeler financing and home financing. MMFSL also intends to increase exposure to used-vehicle financing wherein yields are higher. Assets have grown at 56% CAGR of over FY04-06, we expect this to grow by 31% over FY06-08E.

Local hiring and quick sanctioning key strengths: Local area hiring enables MMFSL to penetrate much faster in the rural and semi urban areas. Also, it allows MMFSL to understand its customer better and have personalised relationships. MMFSL also highlighted its key strengths — quick loan sanctioning compared with banks, appropriate security (MMFSL does not require land security), which has enabled it to grow its asset base much faster than other players.

Margin pressure minimal: Of the total borrowings 80% is fixed, while 100% of the loans are fixed. Duration of liabilities is 22-24 months, while for assets it is 16-18 months. This should protect spreads for MMFSL in a rising rate scenario. MMFSL has already raised lending rates and does not foresee any pressure on margins. The company expects to maintain gross spreads at a high of 9.5%, amongst the best in NBFC space.

Expand reach to increase customer base and asset base: MMFSL has increased its branch network by 49 branches to 305 branches in FY06. The management claims that they now service 82% of India's geography. Over the next couple of fiscals, it intends to expand its coverage to all the 532 districts in India.

Augment fee income: MMFSL has plans not only for vehicle financing but also for distribution of fee-generating products in rural India. MMFSL has started distributing general insurance products and other wealth generating products like mutual funds. It has generated a profit of Rs30m through such product distribution.

Asset quality strong: Given the risk involved in financing rural customers, MMFSL has been able to improve its asset quality despite growing its asset base robustly over the last three years. MMFSL follows more stringent provision norms than what the RBI has mandated. This notwithstanding, its asset quality is strong. While its gross and net NPAs have increased in absolute terms over the last three years, as a percentage of assets, gross NPAs have improved from 7.4% in FY04 to 4.9% in FY06, while net NPAs have improved from 3.7% in FY04 to 2.5% in FY06. MMFSL has indicated that their experience in financing rural India has been that there might be delays but no major defaults in lending to this set of customers.

Valuations are reasonable: We believe MMFSL's growth is likely propelledby strong growth of the rural sector in India. The stock trades at 10.9x FY07E earnings and 1.9x FY07E book value. Maintain **Buy**.

MAHINDRA AND MAHINDRA FINANCIAL SERVICES

INCOME STATEMENT					(RS MILLION)
Y/E MARCH	**2004**	**2005**	**2006**	**2007E**	**2008E**
Interest Income	2,962	3,976	5,823	7,644	10,104
Interest Expended	929	1,284	2,194	3,064	4,259
Net Interest Income	**2,032**	**2,693**	**3,629**	**4,580**	**5,845**
Change (%)	*27.0*	*32.5*	*34.8*	*26.2*	*27.6*
Other Income	52	78	141	127	162
Net Income	**2,084**	**2,771**	**3,770**	**4,707**	**6,008**
Change (%)	*28.1*	*32.9*	*36.0*	*24.9*	*27.6*
Operating Expenses	652	876	1,332	1,686	2,137
Operating Income	**1,433**	**1,895**	**2,438**	**3,021**	**3,871**
Change (%)	*28.3*	*32.3*	*28.6*	*23.9*	*28.1*
Other Provisions	414	560	816	1,050	1,300
PBT	**1,019**	**1,335**	**1,622**	**1,971**	**2,571**
Tax	368	505	539	591	771
Tax Rate (%)	*36.1*	*37.9*	*33.2*	*30.0*	*30.0*
PAT	**651**	**830**	**1,083**	**1,380**	**1,799**
Change (%)	*47*	*27*	*30*	*27*	*30*
Proposed Dividend	191	241	292	333	375

BALANCE SHEET					(RS MILLION)
Y/E MARCH	**2004**	**2005**	**2006**	**2007E**	**2008E**
Capital	606	702	833	833	833
Reserves & Surplus	1,911	2,854	5,987	7,034	8,458
Net Worth	**2,517**	**3,556**	**6,820**	**7,867**	**9,291**
Secured Loans	**13,234**	**22,035**	**35,949**	**50,328**	**67,943**
Change (%)	*92.0*	*66.5*	*63.1*	*40.0*	*35.0*
PreferenceCapital	0	500	500	500	500
Unsecured Laons	2,480	2,506	2,882	3,314	3,645
Other Liabilities & Prov.	2,102	2,525	2,673	3,269	4,009
Total Liabilities	**20,333**	**31,122**	**48,824**	**65,277**	**85,388**
Cash and bank balance	1,024	1,113	5,628	7,638	10,342
Investments	54	368	110	122	134
Change (%)	*-31.6*	*584.6*	*-70.0*	*10.0*	*10.0*
Advances	17,106	26,311	39,379	53,450	70,696
Change (%)	*46.2*	*53.8*	*49.7*	*35.7*	*32.3*
Net Fixed Assets	136	168	216	254	280
Deferred Tax Assets	1.8	5.6	11.2	11.2	11.2
Other Assets	2,011	3,156	3,715	3,802	3,925
Total Assets	**20,333**	**31,122**	**49,060**	**65,277**	**85,387**

ASSUMPTIONS					(%)
Deposit Growth	92	67	63	40	35
Advances Growth	46	54	50	36	32
Investments Growth	-32	585	-70	10	10
Dividend	32	34	35	40	45

E: MOSt Estimates

RATIOS					
Y/E MARCH	**2004**	**2005**	**2006**	**2007E**	**2008E**
Spreads Analysis (%)					
Avg. Yield - Earning Assets	17.1	15.5	14.6	13.4	13.5
Avg. Cost-Int. Bear. Liab.	6.9	6.3	6.8	6.6	6.7
Interest Spread	10.2	9.3	7.8	6.9	6.7
Net Interest Margin	11.8	10.5	9.1	8.0	7.8
Profitability Ratios (%)					
RoE	28.5	27.3	20.9	18.8	21.0
RoA	3.7	3.2	2.7	2.4	2.4
Int. Expended/Int.Earned	31.4	32.3	37.7	40.1	42.2
Other Inc./Net Income	2.5	2.8	3.7	2.7	2.7
Efficiency Ratios (%)					
Op. Exps./Net Income	31.3	31.6	35.3	35.8	35.6
Gross NPAs to Adv.	9.1	7.5	6.0	5.1	4.2
Net NPAs to Adv.	3.7	3.2	3.1	2.2	1.7
CAR	16.2	17.8	18.2	18.2	16.5

VALUATION					
Book Value (Rs)	41.5	50.7	81.9	94.4	111.5
Price-BV (x)	4.4	3.6	2.2	1.9	1.6
Adjusted BV (Rs)	33.6	41.3	72.4	85.3	102.4
Price-ABV (x)	5.4	4.4	2.5	2.1	1.8
EPS (Rs)	10.7	11.8	13.0	16.6	21.6
EPS Growth (%)	47.4	10.1	9.9	27.4	30.4
Price-Earnings (x)	16.8	15.3	13.9	10.9	8.4
OPS (Rs)	23.6	27.0	29.3	36.3	46.5
OPS Growth (%)	28.3	14.3	8.3	23.9	28.1
Price-OP (x)	7.6	6.7	6.2	5.0	3.9

E: MOSt Estimates

State Bank of India

STOCK INFO.	BLOOMBERG
BSE Sensex: 10,130	SBIN IN
	REUTERS CODE
S&P CNX: 2,981	SBI.BO

28 June 2006

Previous Recommendation: Buy

Buy

Rs715

SBI plans to simultaneously focus on growing its retail loan book with high-yielding loans and thrust fee income growth thereby improving return ratios.

Loan book growth to continue: SBI expects its loan book to continue growing comfortably by 20%+ over the next few years with focus on retail, SME and agriculture, which currently make up 50% of SBI's loan book. FY06 saw mid-corporates, SME, and retail growing strongly and the bank expects this trend to continue.

International expansion drive: SBI's international network of 70 overseas offices in 30 countries across all time zones is by far the largest for any Indian bank. SBI has built a correspondent relationship with 539 international banks in 124 countries. In FY06, SBI was also on an acquisition mode internationally and has acquired three banks in Mauritius, Kenya and Indonesia. SBI expects to record 15%-20% profit from its international operations by 2008 (from the present 5 %).

Fee income avenues expand: SBI has raised service charges and introduced new service charges from February 2006, which will add to fee income. Also its government business has become value-cum-transaction based. For all receipt related business of the GoI, it will be transaction based, whilst for GoI's payment business, it will be value based. Further, SBI is also thrusting increasing its fee income from credit-linked and non-fund based sources.

Investment book, de-risking in progress: SBI's investment book contracted by 18% in FY06. Moreover, over the past year the bank shifted a substantial part of this book to the held-to-maturity portfolio and simultaneously reduced duration of the available-for-sale book from 4 years to <2 years. In 1QFY07, the bank has again shifted securties to HTM. Currently 67% of its investment book is in HTM. Consequently, the MTM risk on its bond book has, as per management estimates, dropped to Rs60m/bp from ~Rs490m in March 2005. The increase in the HTM portfolio however now mandates the bank to provide Rs24bn annually as securities premium amortization.

Margins to improve: SBI's adjusted margins declined to 2.92% in FY06 from 3.14% in FY05 on account of pressure on yield from investments, which declined by 84bp to 7.1% in FY06. Going forward, while investment yield will decline by another 15bp-20bp, SBI's advance yield is likely to improve (up by 10bp YoY in FY06) on the back of recent 50bp PLR hike (60% of SBI's loan book is on a floating rate basis) and improving CASA share (43% in FY06).

Asset quality improved substantially: SBI's asset quality has improved from net NPAs of 3.5% in FY04 to 1.8% in FY06. Management expects this status to decline further to 1.25% in FY07. Improved asset quality has necessitated lower NPA provisioning over the last couple of years. Slippages too have been reducing, recording in only 1.9% in FY06 versus over 3.5% historically. Additionally, SBI has also been active in NPA sell-offs and write-offs. The bank expects strong recovery ahead.

Valuation and recommendation: While we expect a positive trend in interest margins from 1QFY07 coupled with improving fee income, bond losses will act as near term negative for SBI. With 10 yr bond yields already at 8.15 (60bps higher than March 06 yields), SBI will have to provide for a big mark to market loss in 1QFY07 (~Rs2.5b). Going forward, it will benefit from slow growth in operating expenses and lower provisioning requirements

We expect SBI to report consolidated EPS of Rs114 and BV of Rs804 in FY07. The stock trades at FY07 P/E of 6.3x and P/BV of 0.9x FY07 earnings. Reiterate **Buy**.

STATE BANK OF INDIA

INCOME STATEMENT				(Rs Million)
Y/E March	**2005**	**2006**	**2007E**	**2008E**
Interest Income	324,280	357,949	397,345	467,466
Interest Expended	184,834	201,593	235,003	278,441
Net Interest Income	**139,446**	**156,356**	**162,342**	**189,025**
Change (%)	*24.7*	*12.1*	*3.8*	*16.4*
Other Income	**71,199**	**73,887**	**72,780**	**82,028**
Profit on sale of investment	17,753	5,872	3,500	4,000
Other non-interest income	53,446	68,015	69,280	78,028
Net Income	**210,645**	**230,243**	**235,122**	**271,053**
Change (%)	*12.1*	*9.3*	*2.1*	*15.3*
Operating Expenses	100,742	117,251	128,780	143,045
Employee expense	69,073	81,230	83,494	89,235
Operating Income	**109,904**	**112,992**	**106,342**	**128,008**
Change (%)	*15.0*	*2.8*	*-5.9*	*20.4*
Provisions & contingencies	44,688	43,931	33,925	41,919
Provision for NPAs	12,040	1,478	3,925	9,419
PBT	**65,216**	**69,062**	**72,417**	**86,089**
Tax	22,171	24,995	26,997	31,665
PAT	**43,045**	**44,067**	**45,420**	**54,424**
Change (%)	*16.9*	*2.4*	*3.1*	*19.8*
Proposed Dividend	7,516	8,402	7,894	7,894

BALANCE SHEET				(Rs Million)
Y/E March	**2005**	**2006**	**2007E**	**2008E**
Capital	5,263	5,263	5,263	5,263
Reserves & Surplus	235,458	271,178	307,717	353,260
Net Worth	**240,721**	**276,441**	**312,980**	**358,523**
Deposits	**3,670,475**	**3,800,461**	**4,351,527**	**4,960,741**
Change (%)	*15.2*	*3.5*	*14.5*	*14.0*
Borrowings	191,843	306,412	352,374	405,230
Other Liabilities & Prov.	495,790	555,384	583,152	612,309
Total Liabilities	**4,598,829**	**4,938,696**	**5,600,033**	**6,336,803**
Current Assets	393,221	445,600	397,894	399,909
Investments	1,970,979	1,625,342	1,787,877	1,930,907
Change (%)	6.2	-17.5	10.0	8.0
Advances	**2,023,745**	**2,616,415**	**3,139,698**	**3,704,844**
Change (%)	*28.1*	*29.3*	*20.0*	*18.0*
Net Fixed Assets	26,977	27,529	28,373	30,335
Other Assets	183,907	223,808	246,189	270,808
Total Assets	**4,598,829**	**4,938,696**	**5,600,033**	**6,336,803**

ASSUMPTIONS				(%)
Deposit Growth	15.2	3.5	14.5	14.0
Advances Growth	28.1	29.3	20.0	18.0
Investments Growth	6.2	-17.5	10.0	8.0
Dividend	125.0	140.0	150.0	150.0
CRR	5.0	5.0	5.0	5.0

E: MOSt Estimates

RATIOS				
Y/E March	**2005**	**2006**	**2007E**	**2008E**
Spreads Analysis (%)				
Avg. Yield - Earning Assets	7.9	7.9	7.9	8.1
Avg. Cost-Int. Bear. Liab.	5.1	5.1	5.3	5.5
Interest Spread	2.7	2.9	2.6	2.6
Net Interest Margin	3.4	3.5	3.2	3.3
Profitability Ratios (%)				
RoE	19.4	17.0	15.4	16.2
RoA	1.0	0.9	0.9	0.9
Int. Expended/Int.Earned	57.0	56.3	59.1	59.6
Other Inc./Net Income	33.8	32.1	31.0	30.3
Efficiency Ratios (%)				
Op. Exps./Net Income	47.8	50.9	54.8	52.8
Empl. Cost/Op. Exps.	68.6	69.3	64.8	62.4
Busi. per Empl. (Rs m)	25.4	30.5	35.7	42.3
NP per Empl. (Rs lac)	2.1	2.2	2.3	2.9
Asset-Liability Profile (%)				
Adv./Deposit Ratio	55.1	68.8	72.2	74.7
Invest./Deposit Ratio	53.7	42.8	41.1	38.9
G-Sec/Invest. Ratio	88.9	85.0	85.0	85.0
Gross NPAs to Adv.	6.0	3.9	2.8	2.2
Net NPAs to Adv.	2.6	1.9	1.5	1.2
CAR	12.5	11.9	10.5	10.5
Tier 1	*8.0*	*9.4*	*7.9*	*7.7*

VALUATION				
Book Value (Rs)	457.4	525.3	594.7	681.2
Price-BV (x)	1.6	1.4	1.2	1.0
Adjusted BV (Rs)	391.3	464.7	536.6	625.0
Price-ABV (x)	1.8	1.5	1.3	1.1
EPS (Rs)	81.8	83.7	86.3	103.4
EPS Growth (%)	16.9	2.4	3.1	19.8
Price-Earnings (x)	8.7	8.5	8.3	6.9
OPS (Rs)	208.8	214.7	202.1	243.2
OPS Growth (%)	15.0	2.8	-5.9	20.4
Price-OP (x)	3.4	3.3	3.5	2.9

E: MOSt Estimates

UTI Bank

STOCK INFO.	BLOOMBERG
BSE Sensex: 10,130	UTIB IN
	REUTERS CODE
S&P CNX: 2,981	UTBK.BO

28 June 2006

Previous Recommendation: Buy

Buy

Rs267

UTI Bank's presentation focused on growing its corporate and retail book robustly alongside its thrust on fee income thereby contributing to improvement in return ratios.

Strong balance sheet growth: UTI Bank is likely to maintain strong balance sheet expansion over the next couple of years at ~40% CAGR, driven by both corporate and retail businesses. The bank expects to maintain a ratio of 71:29 for its corporate and retail loan books. Whilst traditionally retail has been growing at a fast pace, management believes that in the current environment, the corporate segment offers greater profitability. As a result, the bank aims to grow its corporate book in line with growth of the retail book.

Focus on increasing fee-based income: The bank has put in place a wealth management team and will start generating revenues, contributing to fee income growth. The bank will be launching credit cards (a pilot project has started already), and its international branches (initially Singapore, later China, Hong Kong and Dubai) will also start contributing to fee income. Even in the corporate segment, the bank foresees increased opportunities for fees in areas of project appraisal, loan syndication etc.

Margins to be sustained: The bank believes that increasing share of retail loans and network expansion will help to check the increase in the overall cost of funds. Also the increase in CASA deposits (40% of deposits) over the last few years will help the bank sustain margins in a rising rate environment.

Branch expansion to continue: The bank does not foresee any concerns with respect to branch licenses. UTI Bank expects to be awarded licenses for all the 100 branches it has sought. Of these branches, it intends to open 50% in the semi-urban and rural sectors. UTI Bank is the only one amongst the new generation private banks which has opened branches in the rural sector and the response is well above expectations.

Despite growing business, C-I ratio will be maintained: UTI Bank has an objective to increase its staff strength from 6,500 employees in FY06 to 10,000 by end-FY07. The cost-income ratio (currently at 45%) will also be maintained.

Good asset quality: UTI Bank's net NPAs are at 0.75% as of FY06, a decline from 2.7% in FY02. This improved level has been maintained despite growing the advances book by 43% (CAGR) over the same period FY02-FY06. This has been made possible by robust risk-management systems and quality of the borrower (84% of corporate advances are rated A - as part of the bank's internal benchmark tool).

Comfortable capital adequacy: The bank's capital adequacy is at 11% (Tier I at 7.3%). The board has passed a resolution to raise US$700m of capital during FY07 (hybrid Tier I, upper Tier II and subordinated bonds). If the RBI allows the bank to raise this capital in the international markets, it may not require to raise equity capital. Else, we believe that given the growth prospects, UTI Bank will require to raise equity capital during FY07.

Valuation and recommendation: UTI Bank should benefit from positive factors such as growing asset book, strong asset quality and management focus, and increasing geographical reach. We expect PAT to grow at 28% CAGR during FY06-FY08. The stock trades at 2.2x FY07E BV and 12x FY07E EPS. Maintain **Buy**.

UTI BANK

INCOME STATEMENT					(Rs Million)
Y/E MARCH	2004	2005	2006	2007E	2008E
Interest Income	15,985	19,242	28,888	38,474	48,914
Interest Expended	10,214	11,930	18,106	24,759	31,991
Net Interest Income	**5,771**	**7,312**	**10,782**	**13,715**	**16,924**
Change (%)	*79.0*	*26.7*	*47.5*	*27.2*	*23.4*
Other Income	5,401	4,158	7,296	9,087	11,549
Net Income	**11,172**	**11,470**	**18,079**	**22,802**	**28,473**
Operating Expenses	4,192	5,814	8,141	10,564	13,462
Operating Income	**6,980**	**5,656**	**9,938**	**12,238**	**15,011**
Change (%)	*70.2*	*-19.0*	*75.7*	*23.1*	*22.7*
Other Provisions	2,686	619	2,625	3,100	3,400
PBT	**4,294**	**5,037**	**7,313**	**9,138**	**11,611**
Tax	1,511	1,691	2,462	2,924	3,715
PAT	**2,783**	**3,346**	**4,851**	**6,214**	**7,895**
Change (%)	*44.8*	*20.2*	*45.0*	*28.1*	*27.1*
Proposed Dividend	653	878	1,126	1,115	1,282

BALANCE SHEET					(Rs Million)
Y/E MARCH	2004	2005	2006E	2007E	2008E
Capital	2,316	2,738	2,787	2,787	2,787
Reserves & Surplus	9,048	21,344	25,935	31,034	37,648
Net Worth	**11,364**	**24,082**	**28,722**	**33,821**	**40,434**
Deposits	**209,539**	**317,120**	**401,135**	**521,476**	**651,845**
Borrowings	5,278	17,948	26,943	29,638	32,601
Other Liab & Provisions	15,321	18,287	40,510	52,663	68,462
Total Liabilities	**241,502**	**377,437**	**497,311**	**637,598**	**793,344**
Current Assets	56,632	45,029	36,418	57,828	91,647
Investments	77,928	150,480	215,274	258,328	302,244
Advances	**93,629**	**156,029**	**223,142**	**301,242**	**376,553**
Net Fixed Assets	4,352	5,184	5,677	6,200	6,900
Other Assets	8,961	20,714	16,800	14,000	16,000
Total Assets	**241,502**	**377,437**	**497,311**	**637,598**	**793,344**

KEY ASSUMPTIONS					(%)
Y/E MARCH	2004	2005	2006E	2007E	2008E
Deposit Growth	23.5	51.3	26.5	30.0	25.0
Advances Growth	30.4	66.6	43.0	35.0	25.0
Investments Growth	-0.6	93.1	43.1	20.0	17.0
CRR	4.5	5.0	5.0	5.0	5.0
Provision Coverage	57.1	30.1	41.5	62.3	69.2
Dividend per share	2.5	2.8	3.5	4.0	4.6

E: MOSt Estimates

RATIOS					
Y/E MARCH	2004	2005	2006E	2007E	2008E
Spreads Analysis (%)					
Avg. Yield-Earning Assets	7.8	6.7	7.1	7.2	7.4
Avg. Cost - Int. Bear. Liab.	5.2	4.3	4.7	5.1	5.2
Interest Spread	2.6	2.3	2.3	2.1	2.2
Net Interest Margin	2.8	2.5	2.6	2.6	2.6
Profitability Ratios (%)					
RoE	27.1	18.9	18.4	19.9	21.3
RoA	1.3	1.1	1.1	1.1	1.1
Int. Expended/Int. Earned	63.9	62.0	62.7	64.4	65.4
Other Income/Net Income	48.3	36.3	40.4	39.9	40.6
Efficiency Ratios (%)					
Op Exp/Net Income	37.5	50.7	45.0	46.3	47.3
Employee Cost/Op.Exps	28.9	30.4	29.5	32.4	34.5
Business per Empl. (Rs m)	79.0	81.5	83.7	78.6	84.1
Net Profit per Empl. (Rs m)	0.8	0.7	0.7	0.7	0.7
Asset Liability Profile (%)					
Advances/Deposit Ratio	44.7	49.2	55.6	57.8	57.8
Invest./Deposit Ratio	37.2	47.5	53.7	49.5	46.4
G-Sec/Investment Ratio	64.9	50.1	54.8	45.6	39.0
Gross NPAs to Advances	2.4	1.5	1.7	1.7	1.8
Net NPAs to Advances	1.0	1.1	1.0	0.6	0.6
CAR	11.2	12.7	11.1	11.0	10.5
Tier 1	*6.4*	*8.9*	*7.3*	*6.9*	*6.3*

VALUATION					
Book Value (Rs)	49.1	88.0	103.1	121.4	145.1
Price-BV (x)	5.4	3.0	2.6	2.2	1.8
Adjusted BV (Rs)	45.6	82.6	98.0	116.9	140.1
Price-ABV (x)	5.9	3.2	2.7	2.3	1.9
EPS (Rs)	12.0	12.2	17.4	22.3	28.3
EPS Growth	25.9	1.7	42.4	28.1	27.1
Price Earnings (x)	22.2	21.9	15.4	12.0	9.4
OPS (Rs)	30.1	20.7	35.7	43.9	53.9
Price-OP (x)	8.9	12.9	7.5	6.1	5.0

E: MOSt Estimates

Asset Reconstruction Company (India)

BSE Sensex: 10,130 | S&P CNX: 2,981 | 28 June 2006 | Not Listed

Asset Reconstruction Company (India) Ltd. (ARCIL) is a premier private sector asset reconstruction company in India. Several leading Indian banks such as ICICI Bank, SBI and IDBI Bank have sponsored this company.

Conducive domestic environment aids ARCIL: ARCIL is strategically positioned to realize value from NPA opportunities which Indian banks offer. The management believes tha the current structural, legal and regulatory framework are strong enough for asset reconstruction, which shall result in a healthy growth for ARCIL.

ARCIL is a key player in the Indian NPA market: ARCIL has emerged as a key player in the domestic non-performing asset market, which Indian banks offer, with nearly 90% market share. Up to now, it has acquired debt of Rs211b from 32 banks/FIs over the last three years. These 32 sellers account for more than 80% of the total NPAs in the system and constitute 60% of the system's total assets. Assets are acquired at roughly 20% of BV from the banks.

Unique and internationally benchmarked model: ARCIL has two business models to acquire domestic NPAs: (a) the cashless model is the preferred mode currently. Here ARCIL serves as an asset manager and issues security receipts (SRs) for assets taken over from the banks. On resolution of the NPAs, the banks are paid off against the SRs, held by them. While this model enables faster recovery, the banks still bear the NPA risk, as they hold the SRs and continue to share profit/loss on recovery from NPAs; (b) cash-based model, wherein banks sell the loans at a discount to ARCIL and loans move to ARCIL from banks' balance sheets with no remedial recourse. In this module, ARCIL requires to risk its own capital and funds, which it is in the process of raising.

Excellent history of NPA resolution: Until date ARCIL has resolved 53 large cases (out of a total of 121 cases) and 123 small cases (out of a total of 438 cases), with actual IRR in cases exited being 34% (expected IRR from all resolved cases, about 20%). It has deployed multi-pronged resolution strategies (from complex workouts to strip sale under the legal route); and demonstrated transaction structuring and value enhancement capabilities within the available legal framework.

Strong financial performance: ARCIL has reported good FY06 numbers on the back of successful resolution experience. The company has recorded healthy performance with profits in the first full year of operations. For FY06 ARCIL reported PAT at Rs308m and RoE at 31% compared with FY05's Rs43m PAT and 12% RoE.

Abundant opportunity exists: ARCIL believes that the Indian banking sector model of NPA/distressed assets is more market oriented and results in a fair value for the assets traded. In several other countries, wherein the government has agreed to take the NPA losses on their books, the scenario has resulted in banks willing to sell the assets at cheap prices, as the losses are anyway taken care of by the government. Thus, the positives of the market-oriented model present a big growth opportunity for ARCIL ahead. Total outstanding distressed assets as at end-March 2005 is estimated to be Rs1,890b; accretion is estimated to be Rs200b per annum. With banks having already made high provisioning for their NPAs, the market value of these assets is currently higher than the carrying book value. This shall result in profits for banks whenever they sell the assets.

Debt aggregation the key issue: The key issue in asset reconstruction is debt aggregation, where ARCIL plays a key role. As Indian banks move towards Basel II norms, management believes that the corporate debt restructuring (CDR) route will close, resulting in an increased market for players such as ARCIL. Furthermore FIIs are allowed to invest up to 49% in SRs of ARCs. The GoI also allows FDI up to 49%. ARCIL expects this business to be a favorable economic proposition.

IDBI Bank

BSE Sensex: 10,130 S&P CNX: 2,981 28 June 2006

Not Rated

IDBI's presentation highlighted the bank's plans to grow its business and improve margins going forward whilst simultaneously dealing with its bad loans in SASF.

Thrusting credit growth: IDBI's credit growth for FY06 was slightly below the industry average at 16%, while retail credit growth was strong at 50% (16% of total credit). Management indicated that it would focus on growing both its corporate and retail books. Also, its recent MoU with SIDBI for SME borrowers would be given a major thrust.

Margin improvement — key focus: IDBI's margins are a concern as its cost of funds is relatively higher versus the system average owing to its erstwhile status of being a development financial institution. However, conscious efforts on the part of management have been ongoing to lower the cost of funds by repaying/prepaying its high cost of borrowings as well as attracting low-cost deposits. IDBI has been able to lower its cost of funds by 52bp YoY to 6.8% in FY06. Management expects to reduce this level further to 6.4%-6.5% in the fiscal year 2007. This high cost of funds has affected margins which were lower at 0.49%. Management indicated they would shore up margins to at least 1.0% by FY07.

Fee-based income gets impetus: Non-interest income to total income was 19% in FY06, unchanged from FY05. Profit from treasury to total non-interest income remained at last year's level of 54%. Management has recently tied-up (a JV) with Fortis Insurance for its insurance foray; also the bank indicated that it would increase product offerings by leveraging corporate relationships and entering into asset management.

Asset quality improving: Asset quality has improved considerably, with net NPAs reducing to 1.01% by FY06 from 1.75% in FY05. In absolute terms also, both net and gross NPAs have improved considerably. Management expects NPAs to improve further going forward.

SASF recoveries growing: IDBI had transferred 636 cases with a book value of Rs90b. As of FY06, 288 cases have been settled, with a book value of Rs44b and settlement amount of Rs51.4b. Total recoveries over the FY05 and FY06 has been Rs10b. Management expects a further Rs10b recovery from stressed assets stabilization fund (SASFs) in FY07. As recovery from SASF increases, IDBI will start earning interest income on the recovered amount which shall improve its margins.

Cost to income ratio improves: IDBI's C-I ratio has improved by a full four percentage points YoY to 52% in FY06. Management expects this ratio to improve further, as cost control and manpower rationalization are effected.

Increasing customer reach: IDBI currently has 171 branches, 4 ECs (extension counters) and 377 ATMs countrywide with a presence in 100 cities. Retail customer base is over five million and corporate customers are over 3,000. Management has indicated that it plans to open more branches in order to reach a wider customer base and grow its business.

Kotak Mahindra Bank

BSE Sensex: 10,130 | S&P CNX: 2,981 | 28 June 2006

Not Rated

Kotak Mahindra Bank's (KMB) presentation encapsulated the growth that is panning across all business units.

Credit growth momentum to continue: Management has stated that credit growth (51% CAGR over FY03-FY06; consolidated) will remain strong across various segments barring mortgage lending. They believe housing finance is likely to run into problems as interest rates continue to rise. As with leading private sector banks, KMB too has significant concentration in retail loans (87% of consolidated loan book). The bank is once again focusing on the auto loan business. This is because the recent increase in rates has enabled RoEs from this business to rise. Management aims to achieve at least 30% growth in credit over the next 2-3 years.

Margins to be sustained: KMB already has one of the highest margins (5.1% at FY06, consolidated) resulting from its focus on retail lending. KMB has increased lending rates by 200bp in last six months due to the cost of funds having risen since the second half of FY06. KMB does expect yields to improve owing to the recent rate increase and even the incremental cost of funds has softened (as compared to March 2006). These two factors taken together should enable the bank to sustain/enhance margins from current levels. Further, the rising share of CASA (19% in FY06 from 10% in FY04), should aid the bank to arrest the substantial incremental increase in cost of funds.

KMB to scale up distribution: KMB has so far relied on wholesale funding to grow its assets, mainly owing to a lack of distribution avenues. Achieving critical mass being the key to creation of a stronger deposit franchise, KMB has, over the years FY2005 and FY2006, been aggressively investing to expand distribution. By end-March 2006 the bank had 65 branches spread across 43 cities and towns in India. It has plans to increase its branch network to 110 spanning 65 cities. The target audience (HNIs and the affluent population) would remain the focus whilst considering the location for its new branches.

Subsidiaries continue to grow: Subsidiaries have been growing robustly, led primarily by healthy performance of the capital markets, which has led to the bank's earnings increasing by 140% in FY06 compared to FY05.

Capital market slowdown to hit profitability: We believe that the present downturn in capital markets should impact subsidiaries' contribution to group profits in FY07. The key segments affected would be Kotak Securities (55% of group profits in FY06), wealth management (PMS offerred by Kotak Sec), third party distribution products (contributed significantly to fees in 4QFY06)

Asset quality maintained: Despite the substantial component of retail loans on its book, KMB has maintained its asset quality over the years. Net NPAs are at 0.3%. The bank is also a big buyer of stressed assets from other banks and currently has a stressed asset portfolio of Rs4.2b and outstanding recoverable of Rs24b, which if realized could add substantially to its earnings going forward.

The management also highlighted its intentions over the next 2-3 year period -

- Building retail liabilities and distribution – 110 branches by March 2007
- Thrusting retail and commercial lending with focus on NIMs
- Building the stress assets business
- Maintaining leadership in securities broking
- Integrating corporate and investment bank activities
- Thrusting asset management business across asset classes
- Focusing on life insurance – a long term value creator
- Considering new businesses – bullion, custodial services
- Expanding internationally
- Utilizing surplus capital in subsidiaries effectively.

N O T E S

NOTES

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Disclosure of Interest Statement

The MOSt group and its Directors own shares in the following companies covered in this report: State Bank of India

MOSt does not have a broking relationship with any of the companies covered in this report

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