SSKI

INDIA RESEARCH

4 October 2006

BSE Sensex: 12204

Company update

Centurion Bank of Punjab

Rs24.8

OUTPERFORMER

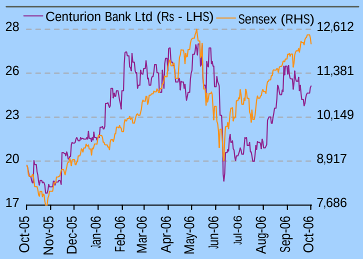
Fanning Out

Mkt Cap: Rs35bn; US$ 764m

Stock data

Reuters	CENB.BO
Bloomberg	CBOP IN
1-yr high/low (Rs)	31/16
1-yr avg daily volumes ('000)	1.45
Free Float (%)	100.0

Price performance



Performance (%)

	3-mth	6-mth	1-yr	3-yr
CBoP	21.1	(1.2)	19.7	139.7
Sensex	22.6	11.4	44.0	182.9

The merger of Lord Krishna Bank (LKB) into Centurion Bank of Punjab (CBoP) would create India's ninth largest private sector bank with a balance sheet size of ~Rs150bn. The merger is value accretive for CBoP as it augments its geographical presence by 50% and offers the potential to tap into NRI-related businesses. Though CBoP has the management bandwidth to consummate such a merger, the bank would need to tackle the employee resistance in Kerala to realize the full potential of the merger. Going forward, we expect 41% CAGR in CBoP's earnings over FY06-08 on the back of multiple growth drivers (retail, SME and wealth management). Reiterate Outperformer with a 12-month price target of Rs35 per share – 3.5x FY08E adjusted book value.

Synergistic merger at fair valuations: The proposed merger of LKB with CBoP would augment CBoP's branch network by almost 50% and entrench it in southern states and Delhi. LKB provides a base of Gulf-based NRIs to CBoP, which it can target for deposits, remittances and wealth management. LKB has been valued at 2.1 x FY06 book value, which we believe is fair. In our opinion, CBoP would manage to tackle the unionized work force of LKB to realize the full potential of the merger.

Multiple growth drivers to drive profits: CBoP has traditionally been quite strong in the high-yielding retail segment. The merger of erstwhile BoP and now LKB has endowed CBoP with alternate growth engines like SME lending. Wealth management is another focus area – CBoP's emergence among the top five banks in mutual funds and insurance sales proves its capabilities in this area. A significantly cleaned up balance sheet and improving productivity would drive CBoP's profitability.

Attractive valuations for a rapidly growing bank: We expect 27% CAGR in CBoP's balance sheet and 41% CAGR in its earnings over FY06-08. Proposed equity issuance to private equity investors would ensure adequate capitalization for CBoP to sustain its organic growth momentum over the next 2-3 years. Valuations of 2.6x FY07E and 2.3x FY08E adjusted book appear attractive for a rapidly growing private sector bank with excellent management quality. We have valued the bank using the CAP model and maintain our 12-month price target of Rs35. Reiterate Outperformer.

Key valuation metrics

Year to 31 Mar	FY04	FY05*	FY06*	FY07E	FY08E
Net profit (Rs m)	(1,052.6)	(352.0)	915.0	1,393.6	2,272.6
yoy growth	*(315.1)*	*N.A.*	*N.A.*	*58.7*	*63.1*
Shares in issue (m)	567.5	1,249.5	1,540.5	1,843.7	1,926.3
EPS (Rs)	(1.9)	(0.3)	0.6	0.76	1.18
EPS growth (%)	(11.5)	(95.1)	(310.8)	21.2	56.1
PE (x)	13.4	(88.0)	41.8	32.8	21.0
Adjusted book value	1.0	4.8	6.4	9.2	10.2
Price /adjusted book	23.8	5.1	3.9	2.7	2.4
RoAE (%)	(257.6)	(9.9)	10.1	11.6	12.4

** FY05 pro forma merged with BoP, FY06 pro forma merged with LKB*

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INVESTMENT ARGUMENT

Lord Krishna Bank (LKB), an old private sector bank having 112 branches and balance sheet size of Rs26bn, is merging into CBoP. We believe the merger is value accretive for CBoP as it expands the reach of the bank by ~50% and opens up opportunities for it in the areas of NRI deposits, remittances and wealth management. CBoP has the right management bandwidth and adequate experience to consummate such a merger. Strong loan growth, stable margins, improving productivity and a cleaner balance sheet requiring lesser provisions would be the key profitability drivers going forward.

CBOP AND LKB: THE RIGHT FIT

LKB, a bank with Rs26bn balance sheet size and 112 branches across India, is merging into CBoP. The merger would add ~20% to CBoP's balance sheet and 50% to its branch network. Besides strengthening CBoP's geographical coverage, the merger would also deepen its penetration in southern states and Delhi. Additionally, CBoP would get the opportunity to tap into LKB's NRI customer base for foreign currency deposits, remittances and wealth management activities. Having said that, CBoP would need to manage the unionized staff of LKB in Kerala, which would effectively increase the time span for CBoP to realize the full value of this acquisition. However, with 75% of LKB's business coming from branches outside Kerala, we are not unduly worried about the likely employee resistance.

❑ Merger to create India's ninth largest private sector bank

Merger of LKB into CBoP to create an entity with balance sheet size of Rs150bn

Merger of LKB into CBoP will create an entity with a balance sheet size of ~Rs150bn. The merged entity will be the ninth largest private sector bank in India. While LKB's balance sheet size is ~20% that of CBoP's, it would add almost 50% to CBoP's existing branch network.

Merger to add 20% to CBoP's balance sheet and 50% to branch network

Exhibit 1: Key business figures for CBoP and LKB

(Rs m)	Centurion Bank of Punjab	Lord Krishna Bank	CBoP + LKB
	As on June-06	As on Mar-06	
Total assets	124,809	25,993	150,802
Advances	74,524	14,209	88,733
Deposits	103,721	22,789	126,510
Branches (no.)	249	112	361
ATM (no.)	202	44	246

Source: company, SSKI Research

❑ Merged entity likely to start operations latest by March 2007

1 April 2006 to be the effective date of merger

Swap ratio of the merger has been announced (1.4 shares of CBoP for 1 share of LKB) and shareholders of both the banks have approved the merger in EGM held on 30th Sep 2006. The proposal would now be forwarded to the Reserve Bank of India (RBI) for regulatory approvals, which we expect to come by over the next six months. The merged entity is likely to start operations latest by end-March 2007. The effective date for the merger would be 1 April 2006, i.e. the financials for FY07 would be published for the merged entity.

Branch licensing norms getting stricter; 112 branches of LKB a boon for CBoP

Combined entity's network of 361 branches next only to UTI Bank, HDFC Bank and ICICI Bank

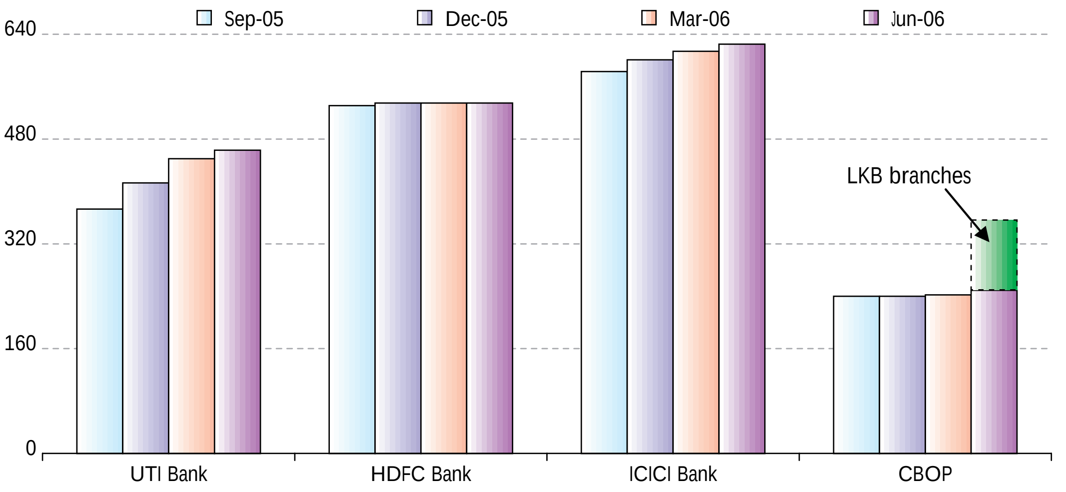
CBoP has a strong foothold in North India; merger to strengthen presence in southern states

❑ CBoP gets additional network of 112 branches in one go

The merger of CBoP and LKB will increase the network of the combined entity to 361 branches, which compares quite favourably with other leading private sector banks such as (463 branches for UTI Bank, 535 for HDFC Bank and 625 for ICICI Bank).

The value of LKB's 112 branches spread across 11 states cannot be underestimated as the RBI has recently changed its branch licensing policy. Under the new policy, banks are required to provide a comprehensive 3-year plan with the apex bank, to be reviewed on an annual basis as against the earlier practice of sanctioning new branch licenses as and when approached by the banks. The RBI is likely to grant fresh branch licenses only once a year after thorough review of a bank's plans. Many of the leading banks have been awaiting additional branch licenses for almost a year now, and there have been apprehensions that the RBI may be linking the issue of branch licenses with the violation of KYC norms by banks.

Exhibit 2: Branch network of new private sector banks



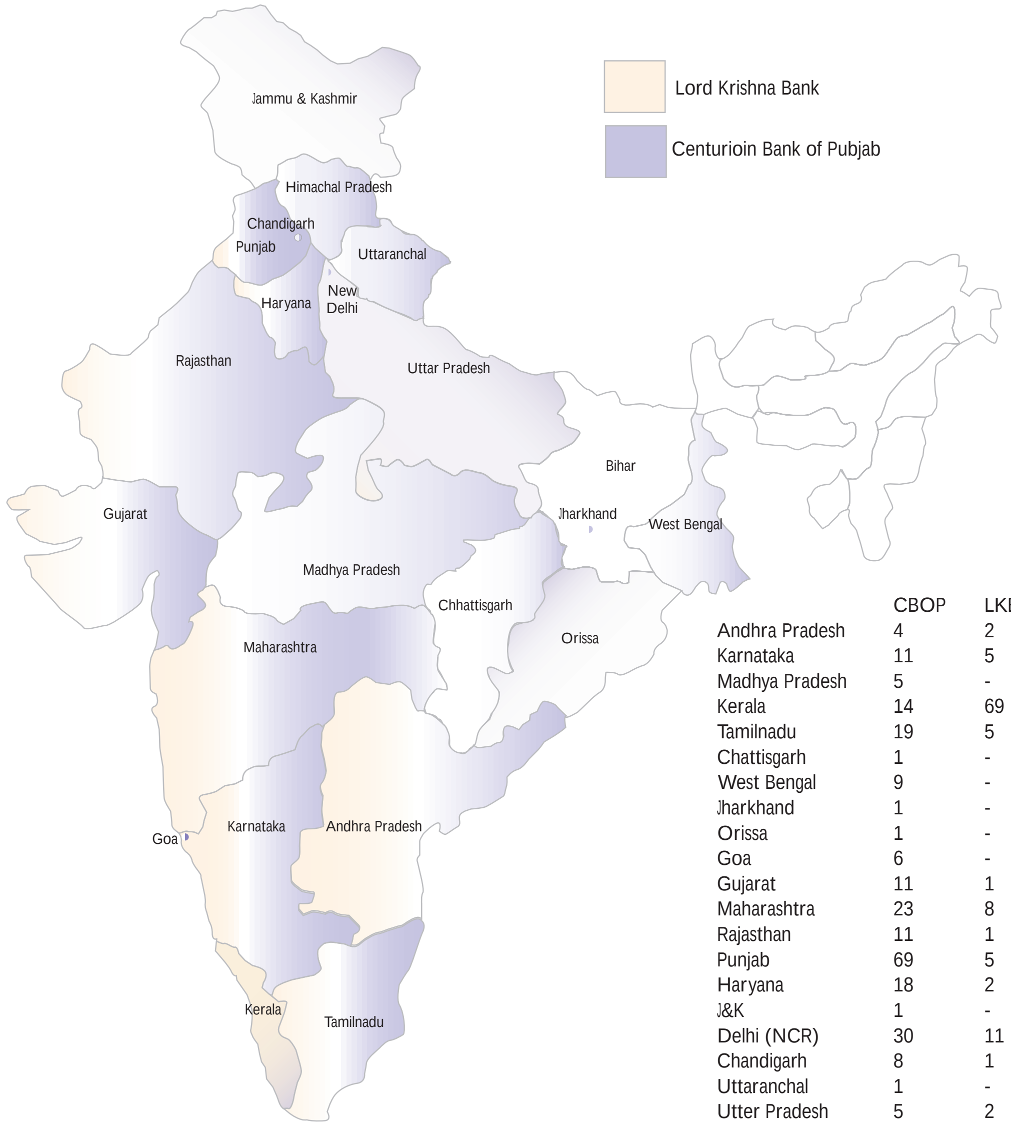
Source: Company

❑ Merger strengthens CBoP's presence in southern states and Delhi

While CBoP also has a nationwide presence on standalone basis, its network is relatively much stronger in the wealthier northern states of Punjab, Haryana and Delhi. On the other hand, LKB is largely a South-based bank with more than 70% of its total branch network located in the four states of Kerala, Karnataka, Tamil Nadu and Andhra Pradesh. Within South India, LKB is deeply entrenched in Kerala with 69 branches.

The merger would help CBoP augment its presence in these four southern states as well as in Delhi, where LKB has 11 branches.

Exhibit 3: Geographical presence of CBoP and LKB



	CBOP	LKB
Andhra Pradesh	4	2
Karnataka	11	5
Madhya Pradesh	5	-
Kerala	14	69
Tamilnadu	19	5
Chattisgarh	1	-
West Bengal	9	-
Jharkhand	1	-
Orissa	1	-
Goa	6	-
Gujarat	11	1
Maharashtra	23	8
Rajasthan	11	1
Punjab	69	5
Haryana	18	2
J&K	1	-
Delhi (NCR)	30	11
Chandigarh	8	1
Uttaranchal	1	-
Utter Pradesh	5	2
Himachal Pradesh	1	-

Source: Annual reports

LKB offers potential to develop Gulf-based NRI franchise

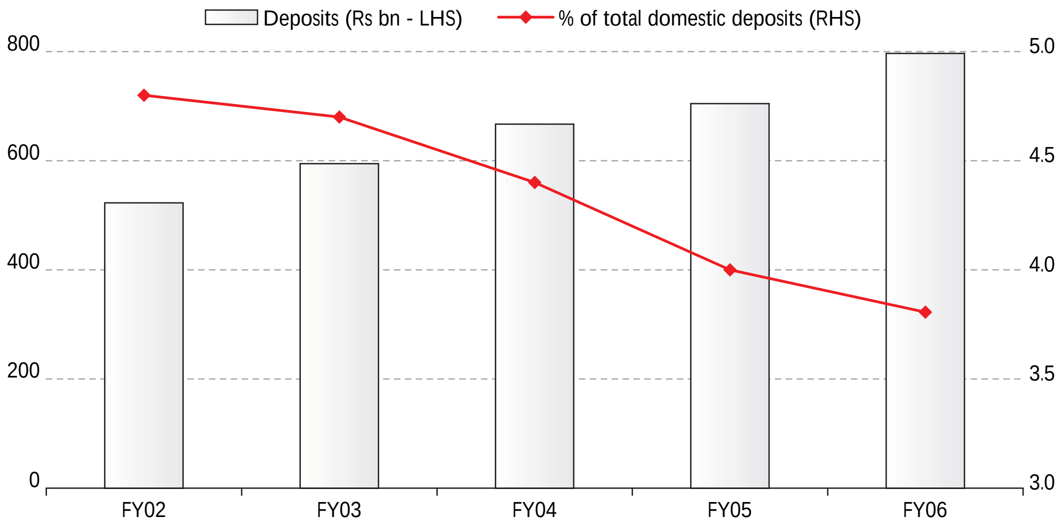
❑ Potential to develop strong NRI franchise through LKB

LKB has an estimated base of half a million customers. The economy of Kerala is closely linked to the Middle East region as a significant number of Keralites work in the Gulf countries. In tapping this NRI population, CBoP would also be able to exploit synergies with the Bank of Muscat, a leading bank in the Middle East and one of the major shareholders in CBoP. The NRI population in Gulf countries is an attractive potential customer base for the following services:

NRI deposits: According to RBI publications, share of foreign sector deposits (essentially NRI deposits) is as high as 45% for Kerala against the national average of ~11%. The latest FY06 data suggest that Kerala, with about Rs797bn of deposits, contributed ~4% to the national deposits.

Share of foreign sector deposits at 45% for Kerala against the national average of ~11%

Exhibit 4: Deposit base of Kerala



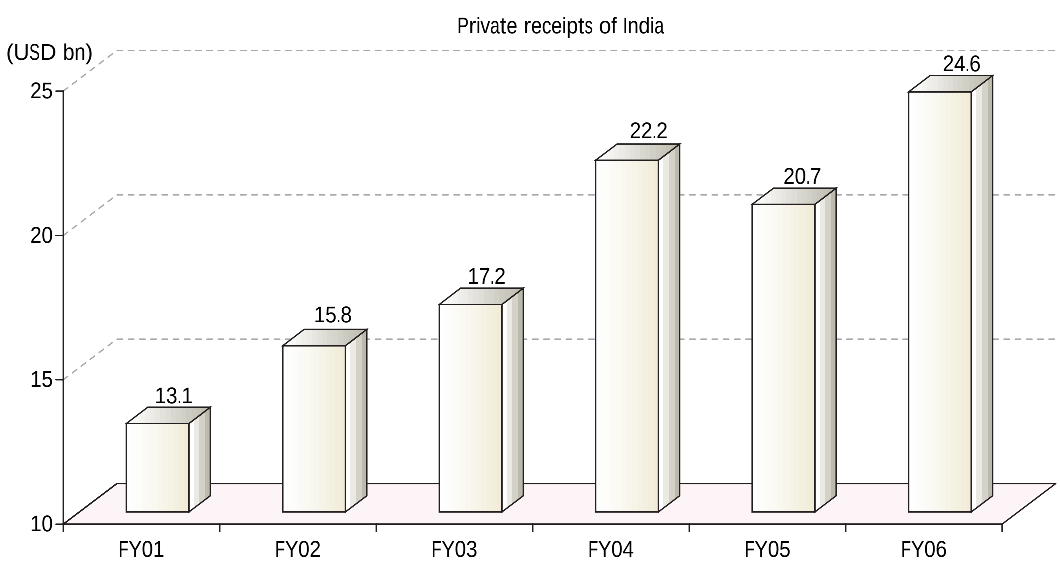
Source: RBI

Kerala offers significant opportunity of earning fee-based income out of remittance-related transactions

Remittances: India has received approximately USD 24bn worth remittances in FY06; 25-30% of these remittances are estimated to have originated from the Gulf countries. Kerala, being one of the dominant recipients of remittances from Gulf countries, offers significant opportunity of earning fee-based income out of remittance-related transactions.

25-30% of FY06 remittances estimated to have originated from the Gulf countries

Exhibit 5: Robust growth in India's remittances



Source: RBI

Wealth management activities: Selling of investment products such as mutual funds and insurance to NRI population and their relatives in Kerala is another huge opportunity that the CBoP-LKB combine can tap into. CBoP has already identified wealth management as one of the key planks in its retail banking strategy. The bank derives ~30% of its fee income from wealth management activities.

The merged entity, on a pro-forma basis as of FY06, would have Tier-I CAR of 10.3%

❑ Merged entity to be adequately capitalized

Prior to the merger, CBoP was adequately capitalized with 11.4% Tier-I CAR as of June 2006. Although LKB was not capital-starved (7.5% Tier-I CAR as of March 2006), it would have had to undertake further capital raising to sustain its growth momentum – either by fund infusion from existing promoters or by way of an IPO. Besides, LKB was also falling short of the regulatory requirement of private banks having a minimum net worth of Rs3bn.

The merged entity, on a pro-forma basis as of FY06, would have Tier-I CAR of 10.3%. However, with the proposed preferential issue to ICICI Ventures and the Bank of Muscat, the merged entity is likely to end FY07 with Tier-I CAR of ~14%. Such strong capitalization would help the bank sustain its rapid growth momentum over the next 2-3 years. We do not expect further equity dilution for CBoP in the near future unless the bank decides to opt for a large acquisition.

Exhibit 6: CBoP – strongly capitalized

	CBoP	LKB	FY06Pro-forma merged	FY07E
Net worth (Rs m)	9,178	1,631	9,809*	16,913
Tier-I CAR (%)	10.8	7.5	10.3	14.0
Book value (Rs per share)	6.5	17.3	6.4	9.2

*Source: SSKI Research, * After adjusting for expected one time write-offs of Rs1bn*

❑ Merger to capitalize on CBoP's management strength

CBoP has a strong and experienced management team. The management has demonstrated its capability to integrate diverse organizations by successfully reaping synergies of the merger with Bank of Punjab. We expect CBoP management to improve productivity levels of LKB branches over a period of time.

❑ CBoP needs to take care of employee resistance in Kerala

Employee unions in Kerala opposing the merger on fears of retrenchment…

Cultural integration of people was quite easy for Centurion Bank management when it acquired Bank of Punjab, where employees were absolutely non-unionized. However, LKB has strong employee unions in Kerala, which are opposing the merger on fears of retrenchment. In fact, the unions have already called for a strike, which has impacted functioning of LKB branches in Kerala.

Employee profile in LKB branches outside Kerala is quite different with no unions and a much lower average employee age. The bank is not facing any employee resistance as far as non-Kerala branches are concerned. Although Kerala branches form almost 62% of LKB's total network, they do not contribute more than 25% of the total business.

…we expect CBoP management to address employee concerns

To assuage concerns of employees and unions, the bank management has already announced a one-time increment for LKB employees and has also promised no retrenchment to LKB staff. The employee resistance from unionized staff in Kerala is not entirely unexpected. We expect the CBoP management to overcome the issue by persuasion and assuaging key concerns of employees.

VALUATION OF LKB FAIR TO SHAREHOLDERS OF BOTH BANKS

The swap ratio for the merger has been fixed at 1.4 shares of CBoP for each share of LKB, effectively valuing LKB at ~Rs3.40bn or 2.1x FY06 book value. We also expect the bank to take a one time charge of ~Rs1bn against reserves to further clean up the balance sheet as well as provide for merger-related expenses such as one time increment to employees and technology integration. We believe the valuation is fair as LKB straight away increases the reach of CBoP by ~50%. Although LKB was falling short of RBI's requirement of having minimum networth of Rs3bn, it is not a weak bank and its Tier-I CAR is comfortable. Asset quality has shown distinct signs of improvement in the recent years while liability profile is gradually improving with increased focus on CASA deposits.

❑ LKB is inherently NOT a weak bank

LKB is an old private sector bank with SME enterprises as its main franchise on the lending side. Unlike some of the other old private sector banks, where the problem of high NPAs and low capital adequacy is quite acute, LKB is relatively in a better shape.

LKB better placed vis-à-vis other old private sector banks in terms of NPAs and capital adequacy

LKB's net NPAs of 3.1% (as of March 2006) are high compared to most of PSU and new private sector banks but lower than many older ones. Tier-I CAR, at 7.5% as of March 2006, also does not indicate a distress situation. Besides, credit quality has been improving over the years with a discernible trend of declining NPA ratios and lower slippages.

Exhibit 7: NPA levels coming down…

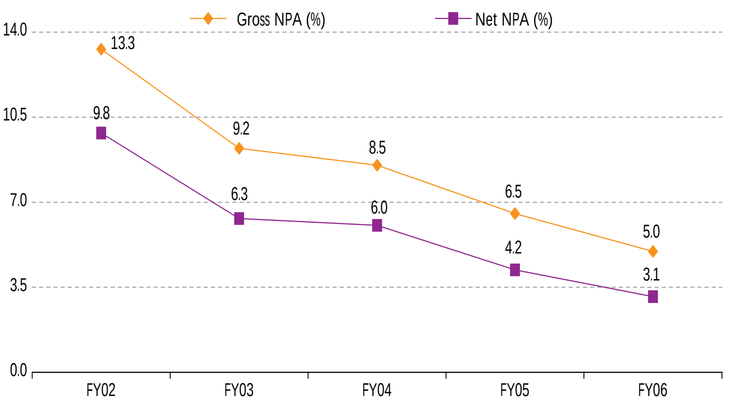
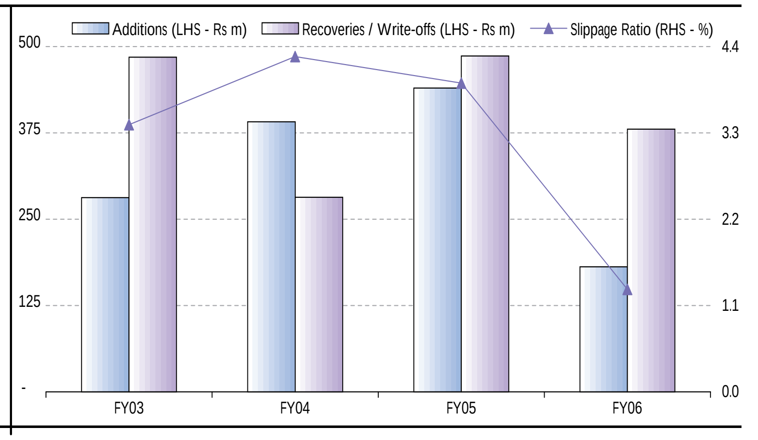


Exhibit 8: …while slippage ratio improving



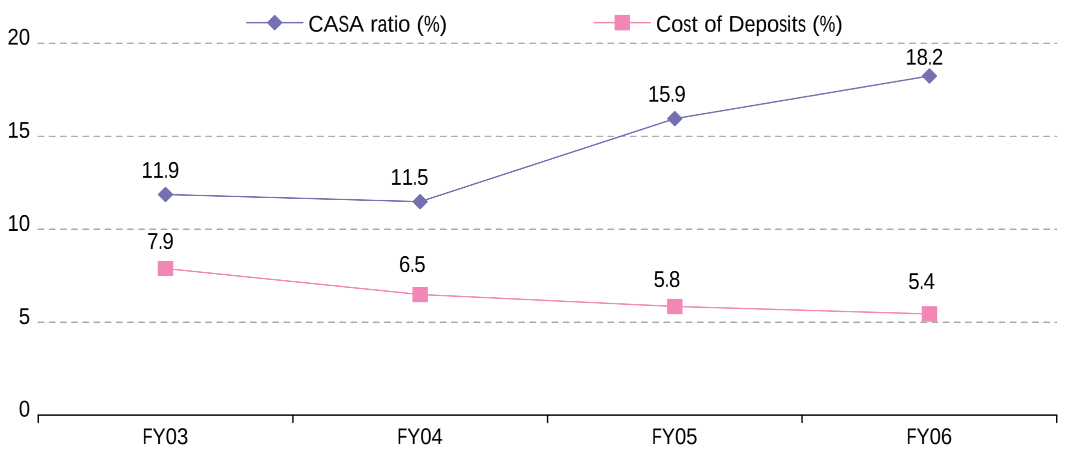
Source: Annual reports

❑ Deposit profile of LKB average but improving

LKB, a pre-dominantly Kerala-based bank, does not have a high proportion of CASA deposits as most of the NRI remittances in Kerala are typically kept as term deposits. However, CASA ratio has been improving over the years, albeit marginally. It is worth noticing that even in FY06 when cost of funds for most of the banks had started rising, LKB witnessed a decline in cost of funds.

LKB's CASA ratio, though low, improving gradually

Exhibit 9: Improving deposit profile of LKB



Source: Annual reports

CBoP needs to integrate LKB's technology platform with itself

❑ LKB in the process of implementing CBS platform

Though an old generation private sector bank, LKB does not lag peers in terms of technology. All 112 branches of LKB are fully computerized. Branches outside Kerala are on the i-Flex's Flexcube (core banking platform), while Kerala branches use TCS's ISBS platform. CBoP needs to integrate LKB's technology platform with itself as CBoP is running on Finnacle solution from Infosys.

Swap ratio of 1.4:1.0 values LKB at 2.1x FY06 book value

❑ Merger values LKB at 2.1 x FY06 book value

CBoP has announced a swap ratio of 1.4:1.0, i.e., 1.4 shares of CBoP will be issued to shareholders of LKB for every one share of LKB. Based on CBoP's closing share price of Rs25.6 on the day of announcement of swap ratio (4 September 2006), the deal values LKB at Rs3.39bn or 2.1x FY06 book value. At 100% NPA coverage, the deal values LKB at 2.8x FY06 book value. The merged entity is likely to close FY07 with a networth of Rs16.9bn and book value of Rs9.2/ share (building in announced fund raising plans and expected write-off of Rs1bn against reserves).

We believe LKB's value adequately captures its extensive branch network and NRI-related business potential

We believe this is a fair valuation for LKB considering the strategic benefits of improved geographical presence and potential of tapping NRI-related business opportunities. The value of LKB's 112 branches cannot be underestimated in a scenario wherein the RBI has tightened branch-licensing norms and when many foreign banks are willing to pay a much higher price for securing a foothold in India.

Exhibit 10: Swap ratio of CBoP - LKB merger

As on FY06	CBoP	LKB
Capital (Rs m)	1,478	944
No of shares (m)	1,478	94.4
Networth (Rs m)	10,972	1,631
Book Value (Rs)	7.42	17.28
Book value based swap ratio	2.33	1.00
Actual swap ratio	**1.4**	**1.0**

Source: Company press release, SSKI Research

HOW THE NUMBERS STACK UP FOR CBOP + LKB

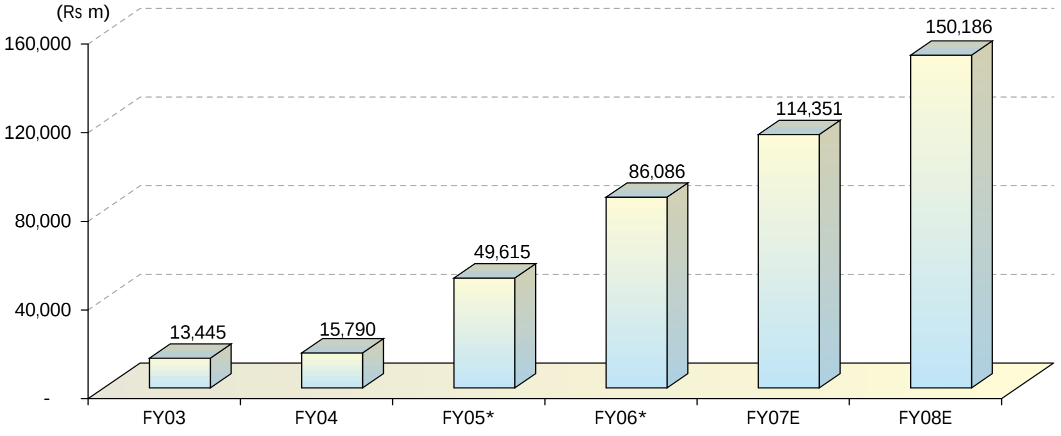
We expect CBoP's financial profile to be characterized by strong growth in core operating income and profitability. Improving productivity levels of CBoP as well as LKB branches would help the merged entity bring down its cost to income ratio in line with that of the peer group. While investment portfolio of the bank is totally derisked, NPA coverage has also improved substantially, which reduces future provisioning requirements. We expect CBoP to take one time charge of ~Rs1.0bn – to be netted off against reserves – for LKB to clean up LKB's balance sheet at the time of merger and also to account for merger related expenses. We expect 57.6% CAGR in the combined entity's net profit over FY06-08 with RoE likely to improve to 12.4% by FY08. While our FY07E net profit remains largely unchanged, we have raised our estimate for FY08 by ~Rs140m (6.3%) to take into account the LKB merger.

❑ Strong loan growth driven by retail and SME

We expect the merged entity to post 32% CAGR in its customer assets over FY06-08

CBoP has been witnessing strong loan growth driven by retail and SME segments. In retail, the bank has adopted the strategy of using 2-wheeler customers as a feeder channel for acquiring personal loan customers. Traditionally, Centurion Bank has always been strong on high yielding retail side and has a sizeable 15% market share in 2-wheeler financing. SME relationships of the erstwhile Bank of Punjab and now LKB would help CBoP tap this growing segment. We expect the merged entity to post 32% CAGR in its customer assets over FY06-08.

Exhibit 11: Customer assets of merged entity



Source: SSKI Research

❑ Marginally lower spreads for merged entity vs CBoP standalone

On pro-forma basis, merged entity to have ~40bp lower spreads than CBoP standalone

CBoP enjoys very high spreads (3.9% for FY06) owing to its high yield on advances as well as healthy liability profile with 35%+ low cost (CASA) deposits. However, LKB's margins are relatively much lower at 2.1% for FY06 as its yield on advances is lower and cost of deposits is higher. On pro-forma merged basis, the bank would have ~40bp lower spreads than CBoP standalone.

Higher loan yields and stable yield on investments to drive margin improvement in FY07

NIM expected to be 3.96% in FY07 and 3.88% in FY08

Exhibit 12: Spread analysis

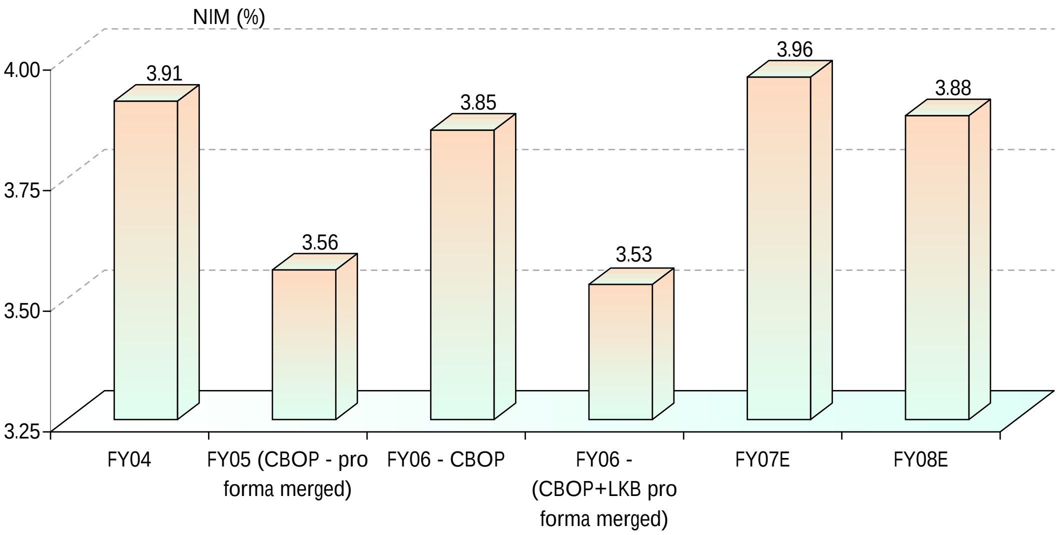
FY06 (%)	CBoP	LKB	Pro-forma merged
Yield on advances	10.4	8.3	10.1
Yield on Investments	6.2	7.3	6.4
Overall yield on interest earning assets	8.4	7.7	8.3
Cost of funds	4.5	5.6	4.8
Spread	3.9	2.1	3.5

Source: SSKI Research

❑ We expect higher spreads in FY07, stable in FY08

Although the cost of funds would rise in FY07 due to a decline in CASA ratio and higher interest rates on fresh deposits being raised, we expect CBoP's margins to improve in FY07 driven by higher loan yields and stable yield on investments. Loan yield for the bank would improve in FY07 as it started raising lending rates on retail loans from Q3FY06.

Exhibit 13: Margin movement



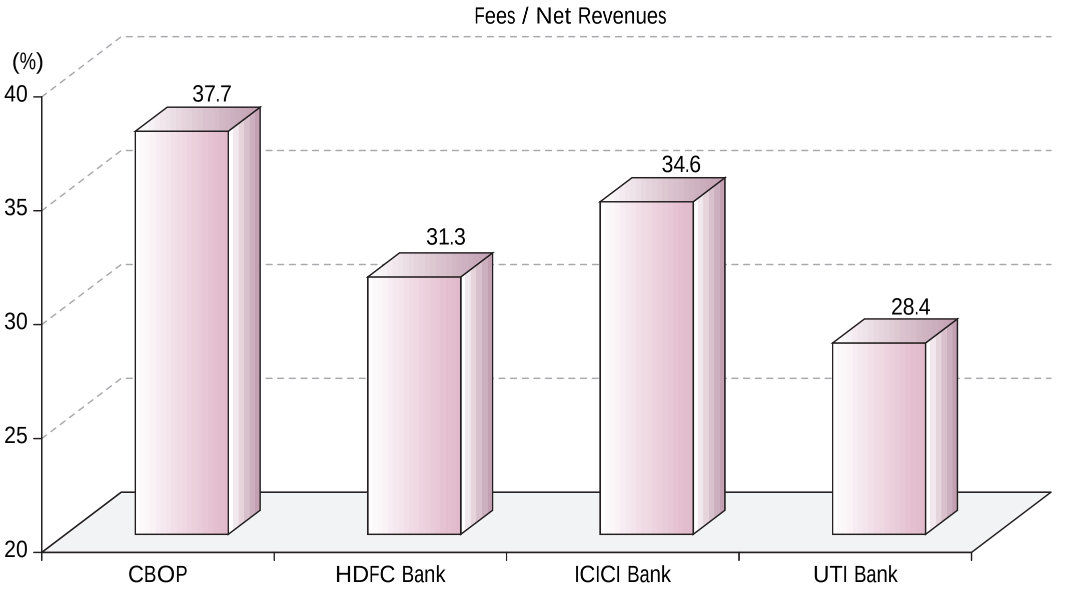
Source: SSKI Research

❑ Fee income to remain a key growth driver

Fee income has traditionally remained one of the key contributors to CBoP's profitability. In fact, CBoP's Fee to Net Revenues ratio – at 37.7% – is better than leading private sector banks like ICICI Bank, HDFC Bank and UTI Bank. Going forward, we expect 42% CAGR in CBoP’s fee income over FY06-08.

CBoP's Fee to Net Revenues ratio of 37.7% ahead of leading private sector banks

Exhibit 14: Contribution of fee income to total revenues



Source: SSKI Research

Some of the key business segments contributing to fee income generation are:

- **Wealth management:** CBoP has made commendable progress in sale of third party investment products such as mutual funds and insurance. In life insurance, the bank generated premium income of Rs1.12bn in FY06 and Rs96m in general insurance. CBoP has tied up with Aviva Life and ICICI Lombard for life and non-life insurance respectively.
- **Credit cards business:** CBoP has launched a co-branded credit card in association with the *Art of Living* foundation. The card merchant acquisition business is also growing rapidly (~Rs5.5bn worth transaction acquisitions in FY06).
- **Retail assets business:** Processing fees of 0.25-1.0% are charged to retail asset customers at the time of sanction of loans.
- **Core banking activities:** Transaction banking activities, off balance sheet items such as LC/BG and cash management are other fee income-generating segments.

❑ Scope for productivity improvement

Branch / Employee productivity way below that of peers

CBoP+LKB would have 361 branches, which is a sizeable presence. However, there is significant scope for improvement in utilization of the branch network, as branch / employee productivity is still way below that for the peer group.

Cost to income ratio expected to come down from 77.2% in FY06 to 64.8x% in FY08…

Net NPAs down to 1.1% as of March 2006 and coverage ratio up to 76%, aided by aggressive provisioning

Exhibit 15: Comparison of branch network productivity

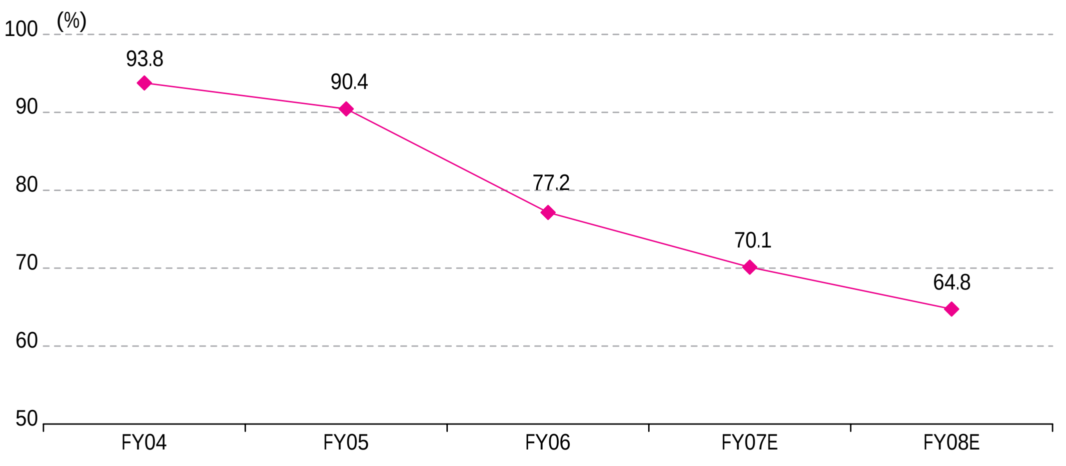
As on FY06 (Rs m)	CBoP	CBoP+LKB	HDFC Bank	ICICI Bank	UTI Bank
Branches (no.)	242	354	535	614	450
Employees (no.)	4,471	5,663	14,878	25,984	6,553
Advances	65,334	79,543	350,613	1,461,631	223,142
Deposits	93,996	116,785	557,968	1,650,832	401,135
Business	159,331	196,328	908,581	3,112,463	624,278
Low cost deposits	36,403	40,560	309,383	375,105	160,355
Net profit	878	915	8,708	25,401	4,851
Business / branch	658.4	554.6	1,698.3	5,069.2	1,387.3
Business / employee	35.6	34.7	61.1	119.8	95.3
Net profit / branch	3.6	2.6	16.3	41.4	10.8
Net profit / employee	0.2	0.2	0.6	1.0	0.7

Source: Annual reports, SSKI Research

❑ Higher productivity to help CBoP bring down cost to income ratio

Improvement in productivity levels would help CBoP lower its cost to income ratio over the medium term. High cost to income ratio – mainly due to lower productivity of branches and employees – has played a big role in restraining its return ratios.

Exhibit 16: Improving Cost to Income ratio



Source: SSKI Research

However, CBoP management is quite clear that it is not striving to bring down the cost to income ratio by cutting down on investments. In fact, the bank is investing heavily in technology for various areas such as CRM and risk management. The improvement would come through higher revenue generation from existing branch network and employees.

❑ Improving asset quality to help contain provisions

CBoP has significantly cleaned up its balance sheet by making excess (more than the regulatory requirement) provisions in FY05 and FY06. In FY06, the bank made floating provisions of Rs300m over and above the required provision. CBoP also made accelerated provisions on standard assets in FY06 as per the revised RBI guidelines. As a policy, the bank follows accelerated provision norms, whereby it provides 100% of delinquent retail loans (excluding mortgages) over a period of nine months.

Due to the aggressive provisioning policy, net NPAs have already come down to 1.1% as of March 2006 with coverage ratio improving to 76%. Loan loss coverage ratio of the merged entity (on pro-forma basis) would also be close to 70% as of March 2006. With a comfortable provision ratio, we expect overall provisioning requirements to decline going forward.

Exhibit 17: Declining NPAs

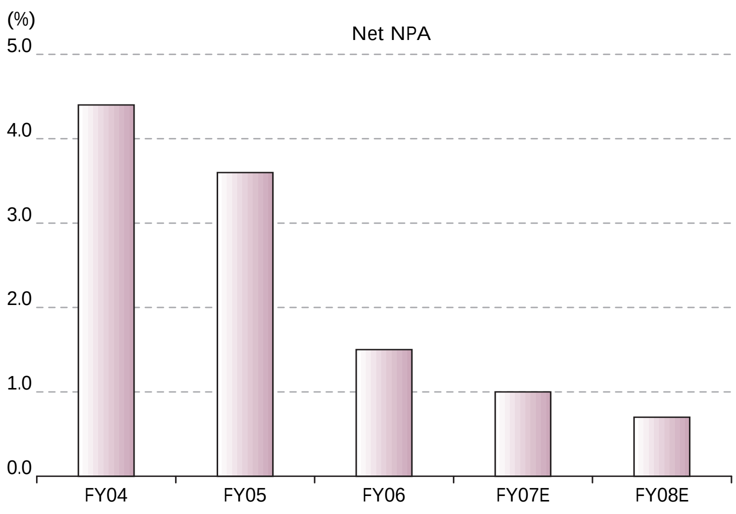
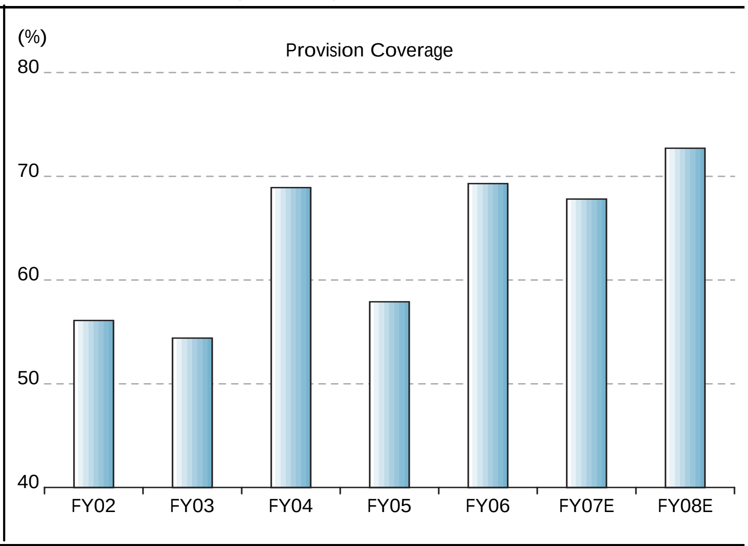


Exhibit 18: Improving coverage ratio



❑ Strong earnings growth and improving RoE

Overall, we expect 58% CAGR in CBoP's (the combined entity) net profit over FY06-08 driven by strong growth in core operating income (NII and fee income), improving productivity and lower provisions. RoE, though likely to be moderate up to FY08 due to over-capitalization, would expand to 15.6% by FY09.

VALUATIONS AND VIEW

At 2.6x FY07E and 2.3x FY08E adjusted book value, we reiterate Outperformer

CBoP has an excellent management, which has demonstrated its capability to capture the organic as well as inorganic growth opportunities. The bank's return ratios are likely to improve on the back of consistently high margins and improving productivity as well as asset quality. We have valued the bank using the Competitive Advantage Period (CAP) model and arrive at a 12-month price target of Rs35 per share, which corresponds to 3.4x FY08E adjusted book value. The stock currently trades at 2.6x FY07E and 2.3x FY08E adjusted book value. We reiterate Outperformer.

Exhibit 19: Comparable valuations

Company	Mkt Cap (Rs m)	Price as on 4-Oct 06	Adjusted BV			EPS			EPS growth	RoE(%)			P/Adj. Book		
			FY06	FY07E	FY08E	FY06	FY07E	FY08E	FY08/05	FY06	FY07E	FY08E	FY06	FY07E	FY08E
ICICI Bank Ltd	623,480	695.0	247.5	268.5	312.4	32.8	35.0	46.3	18.9	16.5	13.9	16.3	2.8	2.6	2.2
UTI Bank	105,634	383.8	99.2	114.6	136.2	17.4	21.7	27.1	24.7	18.4	19.5	20.7	3.8	3.3	2.8
Centurion Bank	35,994	24.8	6.8	9.2	10.2	0.6	0.8	1.2	37.6	16.1	11.6	12.4	3.6	2.6	2.4
HDFC Bank Ltd	290,625	890.0	169.2	199.0	234.4	28.0	36.2	47.1	29.8	17.7	19.8	22.2	5.5	4.7	4.0

Source: SSKI Research

Earnings model

Year to Mar (Rs m)	FY04	FY05*	FY06*	FY07E	FY08E
Net Interest Income	1,298.50	3,128.0	4,534.2	6,056.8	7,579.3
yoy growth (%)	*27.25*		*-*	*33.6*	*25.1*
Other Income	490.90	1,810.8	2,700.1	3,886.6	5,445.0
yoy growth (%)	*26.26*		*-*	*43.9*	*40.1*
Trading profits	138.90	(466.2)	55.1	50.0	50.0
Non trading Income	490.90	1,810.8	2,700.1	3,886.6	5,445.0
Net Revenue	1,928.30	4,472.6	7,289.4	9,993.4	13,074.3
yoy growth (%)	*6.00*		*-*	*37.1*	*30.8*
Operating expenses	1,808.20	4,036.8	5,688.2	7,009.0	8,466.6
yoy growth (%)	*12.85*		*-*	*40.3*	*20.8*
Provisions	1,172.70	1,029.7	1,513.3	993.5	1,265.6
yoy growth (%)	*-*		*-*	*-*	*-*
PBT	(1,052.60)	(593.9)	87.9	1,990.9	3,342.1
yoy growth (%)	*198.80*	*(43.6)*	*(64.2)*	*711.0*	*67.9*
Provisions for tax	-	(241.9)	(202.0)	597.3	1,069.5
PAT	(1,052.60)	(352.0)	915.0	1,393.6	2,272.6
yoy growth (%)	*(315.10)*		*-*	*58.7*	*63.1*

** FY05 pro forma merged with BoP, FY06 pro forma merged with LKB*

Balance sheet

Year to Mar (Rs m)	FY04	FY05*	FY06*	FY07E	FY08E
Customer assets	15,790	49,615	86,086	114,351	150,186
yoy growth (%)	17	214	-	33	31
SLR portfolio	9,746	25,038	30,557	35,068	46,605
Cash & Bank balances	5,096	10,432	12,696	10,244	13,350
Total Assets	34,175	93,385	138,098	170,737	222,496
Networth	616	6,528	9,943	17,048	19,498
Deposits	30,288	78,371	116,785	140,270	186,421
current+savings (%)	27.5	39.0	34.7	32.5	31.5

** FY05 pro forma merged with BoP, FY06 pro forma merged with LKB*

Key valuation metrics

Year to Mar (Rs m)	FY04	FY05*	FY06*	FY07E	FY08E
Net profit (Rs m)	(1,052.6)	(352.0)	915.0	1,393.6	2,272.6
yoy growth	(315.1)	N.A.	N.A.	58.7	63.1
Shares in issue (m)	567.5	1,249.5	1,540.5	1,843.7	1,926.3
EPS (Rs)	(1.9)	(0.3)	0.6	0.76	1.18
EPS growth (%)	(11.5)	(95.1)	(310.8)	21.2	56.1
PE (x)	13.4	(88.0)	41.8	32.8	21.0
Adjusted book value	1.0	4.8	6.4	9.2	10.2
Price /adjusted book	23.8	5.1	3.9	2.7	2.4
RoAE (%)	(257.6)	(9.9)	10.1	11.6	12.4

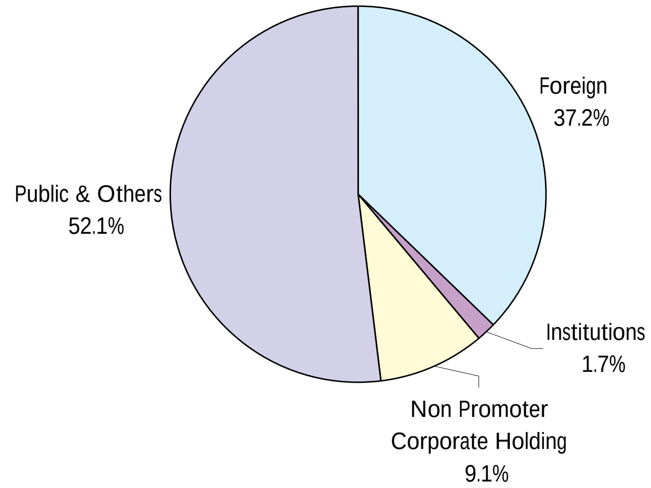
** FY05 pro forma merged with BoP, FY06 pro forma merged with LKB*

Ratio Analysis

Year to Mar (Rs m)	FY04	FY05*	FY06*	FY07E	FY08E
Net int. margin/avg assets	3.9	3.6	3.5	3.9	3.9
Non-fund rev./avg assets	1.9	1.5	2.1	2.5	2.8
Operating exp./avg assets	5.4	4.6	4.4	4.5	4.3
Cost/Income	93.8	90.3	78.0	70.1	64.8
Prov./avg customer assets	3.5	1.2	1.2	0.6	0.6
PBT/Average assets	(3.2)	(0.7)	0.1	1.3	1.7
RoA	(3.2)	(0.4)	0.7	0.9	1.2
RoE	(257.6)	(9.9)	10.1	11.6	12.4
Tax/PBT	-	40.7	(229.9)	30.0	32.0
Tier I Capital adequacy	3.1	11.8	10.3	14.2	11.8
GrossNPA	14.2	8.6	4.8	3.2	2.7
Net NPA	4.4	3.6	1.5	1.0	0.7
Provisioning coverage	68.9	57.9	69.3	67.8	72.7
Growth in customer assets	17.4	214.2	-	32.8	31.3
Growth in deposits	6.8	158.8	-	20.1	32.9
SLR ratio		30.7	25.6	25.0	25.0

** FY05 pro forma merged with BoP, FY06 pro forma merged with LKB*

Shareholding pattern



As of June 2006

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