



## INDIA

Covg. Universe	Ticker	Rec	CMP (Rs)	TP (Rs)
<b>Private banks</b>				
Axis Bank	AXSB IN	-	1,030	-
HDFC Bank	HDFCB IN	OP	450	615
ICICI Bank	ICICIBC IN	N	824	920
Kotak	KMB IN	OP	447	550
YES Bank	YES IN	OP	263	380
<b>PSU banks</b>				
BOB	BOB IN	N	741	800
Bank of India	BOI IN	UP	313	275
Canara	CBK IN	UP	423	370
IDBI Bank	IDBI IN	UP	99	95
PNB	PNB IN	UP	925	880
SBI	SBIN IN	UP	1,752	1,700
Union Bank	UNBK IN	N	230	260
<b>Non banks</b>				
HDFC Ltd	HDFC IN	OP	645	775
IDFC Ltd	IDFC IN	N	116	120
PFC	POWF IN	OP	139	190
REC	RECL IN	N	160	190
SHTF	SHTF IN	N	577	600
MMFSL	MMFS IN	UP	637	525
LICHF	LICHF IN	UP	217	190

Source: Bloomberg, Company data, Macquarie Research, October 2011; share price as of 7 Oct 2011

# India Banks Asia Roadshow

## Pessimism all over!

### Event

- **Feedback - Investors very bearish:** We met around 35 investors during our roadshow on Indian banks in HK and Singapore. Investors continue to be underweight Indian banks and are unlikely to change their positions in the near term.

### Impact

- **Bearish stance:** Investors in Asia continue to be very negative especially the Singapore based investors with some of them even arguing that PSU banks need to trade at 0.5x P/BV. Long Only funds are underweight Indian banks and Hedge funds are still looking for short ideas though at the margin some of them have covered their short positions a bit due to the sharp fall in stock prices. Certain sections of the investors argued that this time it could be even worse than GFC considering how ineffective and helpless the Government has been with virtually no policy making and action on the ground and if political situation persists like this downside could be huge.
- **PSU banks under-owned:** Hardly anyone owned any PSU bank. HDFC Bank continued to be a core holding for many of them and though many of the investors liked Kotak, they argued that they would rather own HDFC Bank and would not prefer owing both HDBK and Kotak. Some interest in YES Bank was seen. SBI was a complete "NO". Hedge funds were looking for short ideas and some of them are short on PSUs like PNB and NBFCs like LICHF.
- **Indian banks better than Chinese banks:** Quite a lot of comparison with Chinese banks and many clients felt that, on a relative basis, Indian banks looked better than Chinese banks given that the issues with Indian banks are known and at least they have started reporting bad nos whereas Chinese banks remain a black box, yet to see a bad result and nos cannot be trusted.
- **Lack of any catalyst in the near term:** Many of them agreed with our view that there isn't any positive catalyst in the near term and valuations could remain subdued for a long time. The only catalyst is the cut in interest rates which at this point in time is quite some time away considering inflation dynamics. Interest was also lower in names like ICICI and Axis as investors were very skeptical on the quality of exposures built up. Lot of investors were disappointed with HDFC Ltd's quality of earnings (with more than 50% now coming from non-retail loans) and them taking recourse to aggressive accounting practices to inflate earnings.
- **Retail could also get affected:** Finally a very interesting thought emerged from some meetings which also possibly explains the recent weakness in HDFC Bank's share price. They argued that India can't have a slowdown where only corporates participate and retail segment remains insulated. The last leg of the downfall could be driven by retail. There would be job losses in retail segment, growth has to slowdown and slippages would increase (though largely cyclical and nothing structural) which is not captured into estimates.

### Outlook

- We maintain our bearish stance on the sector. Top pick remains HDFC Bank and top underperform is SBI followed by PNB.

#### Suresh Ganapathy, CFA

+91 22 6720 4078 suresh.ganapathy@macquarie.com

#### Mudit Painuly

+91 22 6720 4083 mudit.painuly@macquarie.com

#### Yuvaraj Bhole

+91 22 6720 4098 yuvaraj.bhole@macquarie.com

10 October 2011

Macquarie Capital Securities India (Pvt) Ltd

Fig 1 Valuation matrix for our coverage universe

	EPS growth (%)			P/E (x)			P/BV (x)			ROE (%)		
	FY11	FY12E	FY13E	FY11	FY12E	FY13E	FY11	FY12E	FY13E	FY11	FY12E	FY13E
<b>Private banks</b>												
Axis Bank	26.2	18.0	5.4	12.5	10.6	10.0	2.2	1.9	1.7	19.3	19.5	17.8
HDFC Bank	25.1	28.5	26.9	26.6	20.7	16.3	4.1	3.5	3.0	16.7	18.4	19.8
ICICI Bank	25.8	28.1	11.5	18.1	14.2	12.7	1.7	1.6	1.5	9.6	11.7	12.0
Kotak Mahindra	16.1	19.4	22.7	20.4	17.1	13.9	3.0	2.6	2.2	16.8	16.3	17.0
YES Bank	35.0	36.8	23.4	12.4	9.1	7.4	2.4	2.0	1.3	21.1	24.2	22.6
<b>Avg. Private banks</b>	<b>25.4</b>	<b>25.6</b>	<b>13.5</b>	<b>17.7</b>	<b>14.1</b>	<b>12.3</b>	<b>2.2</b>	<b>2.0</b>	<b>1.7</b>	<b>13.7</b>	<b>15.1</b>	<b>15.0</b>
<b>PSU banks</b>												
BOB	33.7	7.5	1.5	6.6	6.2	6.1	1.5	1.2	1.1	23.5	20.6	17.9
Bank of India	40.1	7.0	4.8	6.7	6.3	6.0	1.1	0.9	0.8	15.8	14.8	13.7
Canara	28.1	0.6	(1.1)	4.5	4.5	4.5	1.0	0.9	0.7	23.2	19.2	16.3
IDBI Bank	8.0	5.0	6.3	6.4	6.0	5.0	0.8	0.7	0.6	14.6	12.1	11.7
PNB	13.3	18.1	2.0	6.6	5.6	5.5	1.5	1.2	1.0	22.6	22.1	18.9
SBI	(9.2)	30.5	(4.6)	10.4	8.0	8.4	1.4	1.2	1.0	13.3	15.6	13.1
Union Bank	(1.6)	30.8	(7.5)	5.7	4.4	4.7	1.1	0.9	0.8	18.0	19.8	15.7
<b>Average PSU banks</b>	<b>6.6</b>	<b>20.9</b>	<b>(1.7)</b>	<b>8.3</b>	<b>6.8</b>	<b>6.9</b>	<b>1.3</b>	<b>1.1</b>	<b>1.0</b>	<b>17.0</b>	<b>17.4</b>	<b>14.8</b>
<b>Non banks</b>												
HDFC Ltd	23.1	19.0	19.5	26.5	22.3	18.6	5.5	4.8	4.1	21.7	22.9	23.8
IDFC Ltd	13.4	(5.8)	3.4	12.6	13.3	12.9	1.5	1.4	1.3	14.0	11.1	10.8
PFC	11.1	(12.7)	13.8	6.1	7.0	6.1	1.1	0.9	0.8	18.4	14.7	13.8
REC	20.7	(11.8)	6.7	6.1	7.0	6.5	1.2	1.1	1.0	21.6	16.8	16.1
SHTF	40.5	14.3	8.5	10.6	9.3	8.6	2.7	2.2	1.8	28.1	25.8	23.2
MMFSL	29.7	18.8	11.6	13.2	11.1	10.0	2.6	2.2	1.9	22.9	21.1	20.1
LICHF	47.1	(6.1)	36.8	10.6	11.3	8.2	2.5	2.1	1.7	25.8	20.2	23.0
<b>Average non banks</b>	<b>20.6</b>	<b>5.7</b>	<b>21.9</b>	<b>12.5</b>	<b>11.3</b>	<b>9.8</b>	<b>2.2</b>	<b>1.9</b>	<b>1.7</b>	<b>20.4</b>	<b>17.7</b>	<b>17.5</b>

Note: Valuations as of 7 October 2011

Source: Bloomberg, Company data, Macquarie Research, October 2011





## Important disclosures:

**Recommendation definitions****Macquarie - Australia/New Zealand**

Outperform – return >3% in excess of benchmark return  
 Neutral – return within 3% of benchmark return  
 Underperform – return >3% below benchmark return

Benchmark return is determined by long term nominal GDP growth plus 12 month forward market dividend yield

**Macquarie – Asia/Europe**

Outperform – expected return >+10%  
 Neutral – expected return from -10% to +10%  
 Underperform – expected return <-10%

**Macquarie First South - South Africa**

Outperform – expected return >+10%  
 Neutral – expected return from -10% to +10%  
 Underperform – expected return <-10%

**Macquarie - Canada**

Outperform – return >5% in excess of benchmark return  
 Neutral – return within 5% of benchmark return  
 Underperform – return >5% below benchmark return

**Macquarie - USA**

Outperform (Buy) – return >5% in excess of Russell 3000 index return  
 Neutral (Hold) – return within 5% of Russell 3000 index return  
 Underperform (Sell) – return >5% below Russell 3000 index return

**Volatility index definition\***

This is calculated from the volatility of historical price movements.

**Very high-highest risk** – Stock should be expected to move up or down 60–100% in a year – investors should be aware this stock is highly speculative.

**High** – stock should be expected to move up or down at least 40–60% in a year – investors should be aware this stock could be speculative.

**Medium** – stock should be expected to move up or down at least 30–40% in a year.

**Low-medium** – stock should be expected to move up or down at least 25–30% in a year.

**Low** – stock should be expected to move up or down at least 15–25% in a year.

\* Applicable to Australian/NZ/Canada stocks only

**Recommendations** – 12 months

**Note:** Quant recommendations may differ from Fundamental Analyst recommendations

**Financial definitions**

All "Adjusted" data items have had the following adjustments made:

Added back: goodwill amortisation, provision for catastrophe reserves, IFRS derivatives & hedging, IFRS impairments & IFRS interest expense  
 Excluded: non recurring items, asset revals, property revals, appraisal value uplift, preference dividends & minority interests

**EPS** = adjusted net profit / epowa\*

**ROA** = adjusted ebit / average total assets

**ROA Banks/Insurance** = adjusted net profit / average total assets

**ROE** = adjusted net profit / average shareholders funds

**Gross cashflow** = adjusted net profit + depreciation

\*equivalent fully paid ordinary weighted average number of shares

All Reported numbers for Australian/NZ listed stocks are modelled under IFRS (International Financial Reporting Standards).

**Recommendation proportions – For quarter ending 30 September 2011**

	AU/NZ	Asia	RSA	USA	CA	EUR	
Outperform	57.35%	65.88%	56.94%	46.54%	74.68%	47.85%	(for US coverage by MCUSA, 11.63% of stocks covered are investment banking clients)
Neutral	31.99%	20.68%	31.94%	50.00%	23.42%	34.66%	(for US coverage by MCUSA, 9.30% of stocks covered are investment banking clients)
Underperform	10.66%	13.45%	11.11%	3.46%	1.90%	17.49%	(for US coverage by MCUSA, 0.47% of stocks covered are investment banking clients)

**Company Specific Disclosures:**

Important disclosure information regarding the subject companies covered in this report is available at [www.macquarie.com/disclosures](http://www.macquarie.com/disclosures).

**Analyst Certification:**

The views expressed in this research accurately reflect the personal views of the analyst(s) about the subject securities or issuers and no part of the compensation of the analyst(s) was, is, or will be directly or indirectly related to the inclusion of specific recommendations or views in this research. The analyst principally responsible for the preparation of this research receives compensation based on overall revenues of Macquarie Group Ltd ABN 94 122 169 279 (AFSL No. 318062) (MGL) and its related entities (the Macquarie Group) and has taken reasonable care to achieve and maintain independence and objectivity in making any recommendations.

**General Disclaimers:**

Macquarie Securities (Australia) Ltd; Macquarie Capital (Europe) Ltd; Macquarie Capital Markets Canada Ltd; Macquarie Capital Markets North America Ltd; Macquarie Capital (USA) Inc; Macquarie Capital Securities Ltd and its Taiwan branch; Macquarie Capital Securities (Singapore) Pte Ltd; Macquarie Securities (NZ) Ltd; Macquarie First South Securities (Pty) Limited; Macquarie Capital Securities (India) Pvt Ltd; Macquarie Capital Securities (Malaysia) Sdn Bhd; Macquarie Securities Korea Limited and Macquarie Securities (Thailand) Ltd are not authorized deposit-taking institutions for the purposes of the Banking Act 1959 (Commonwealth of Australia), and their obligations do not represent deposits or other liabilities of Macquarie Bank Limited ABN 46 008 583 542 (MBL) or MGL. MBL does not guarantee or otherwise provide assurance in respect of the obligations of any of the above mentioned entities. MGL provides a guarantee to the Monetary Authority of Singapore in respect of the obligations and liabilities of Macquarie Capital Securities (Singapore) Pte Ltd for up to SGD 35 million. This research has been prepared for the general use of the wholesale clients of the Macquarie Group and must not be copied, either in whole or in part, or distributed to any other person. If you are not the intended recipient you must not use or disclose the information in this research in any way. If you received it in error, please tell us immediately by return e-mail and delete the document. We do not guarantee the integrity of any e-mails or attached files and are not responsible for any changes made to them by any other person. MGL has established and implemented a conflicts policy at group level (which may be revised and updated from time to time) (the "Conflicts Policy") pursuant to regulatory requirements (including the FSA Rules) which sets out how we must seek to identify and manage all material conflicts of interest. Nothing in this research shall be construed as a solicitation to buy or sell any security or product, or to engage in or refrain from engaging in any transaction. In preparing this research, we did not take into account your investment objectives, financial situation or particular needs. Before making an investment decision on the basis of this research, you need to consider, with or without the assistance of an adviser, whether the advice is appropriate in light of your particular investment needs, objectives and financial circumstances. There are risks involved in securities trading. The price of securities can and does fluctuate, and an individual security may even become valueless. International investors are reminded of the additional risks inherent in international investments, such as currency fluctuations and international stock market or economic conditions, which may adversely affect the value of the investment. This research is based on information obtained from sources believed to be reliable but we do not make any representation or warranty that it is accurate, complete or up to date. We accept no obligation to correct or update the information or opinions in it. Opinions expressed are subject to change without notice. No member of the Macquarie Group accepts any liability whatsoever for any direct, indirect, consequential or other loss arising from any use of this research and/or further communication in relation to this research. Clients should contact analysts at, and execute transactions through, a Macquarie Group entity in their home jurisdiction unless governing law permits otherwise.

**Country-Specific Disclaimers:**

**Australia:** In Australia, research is issued and distributed by Macquarie Securities (Australia) Ltd (AFSL No. 238947), a participating organisation of the Australian Securities Exchange. **New Zealand:** In New Zealand, research is issued and distributed by Macquarie Securities (NZ) Ltd, a NZX Firm.

**Canada:** In Canada, research is prepared, approved and distributed by Macquarie Capital Markets Canada Ltd, a participating organisation of the Toronto Stock Exchange, TSX Venture Exchange & Montréal Exchange. Macquarie Capital Markets North America Ltd., which is a registered broker-dealer and member of FINRA, accepts responsibility for the contents of reports issued by Macquarie Capital Markets Canada Ltd in the United States and sent to US persons. Any person wishing to effect transactions in the securities described in the reports issued by Macquarie Capital Markets Canada Ltd should do so with Macquarie Capital Markets North America Ltd. The Research Distribution Policy of Macquarie Capital Markets Canada Ltd is to allow all clients that are entitled to have equal access to our research. **United Kingdom:** In the United Kingdom, research is issued and distributed by Macquarie Capital (Europe) Ltd, which is authorised and regulated by the Financial Services Authority (No. 193905). **Germany:** In Germany, research is issued and distributed by Macquarie Capital (Europe) Ltd, Niederlassung Deutschland, which is authorised and regulated in the United Kingdom by the Financial Services Authority (No. 193905). **France:** In France, research is issued and distributed by Macquarie Capital (Europe) Ltd, which is authorised and regulated in the United Kingdom by the Financial Services Authority (No. 193905). **Hong Kong & Mainland China:** In Hong Kong, research is issued and distributed by Macquarie Capital Securities Ltd, which is licensed and regulated by the Securities and Futures

Commission. In Mainland China, Macquarie Securities (Australia) Limited Shanghai Representative Office only engages in non-business operational activities excluding issuing and distributing research. Only non-A share research is distributed into Mainland China by Macquarie Capital Securities Ltd. **Japan:** In Japan, research is issued and distributed by Macquarie Capital Securities (Japan) Limited, a member of the Tokyo Stock Exchange, Inc. and Osaka Securities Exchange Co. Ltd (Financial Instruments Firm, Kanto Financial Bureau (kin-sho) No. 231, a member of Japan Securities Dealers Association and Financial Futures Association of Japan and Japan Securities Investment Advisers Association). **India:** In India, research is issued and distributed by Macquarie Capital Securities (India) Pvt Ltd., 92, Level 9, 2 North Avenue, Maker Maxity, Bandra Kurla Complex, Bandra (East), Mumbai – 400 051, India, which is a SEBI registered Stock Broker having membership with National Stock Exchange of India Limited (INB231246738) and Bombay Stock Exchange Limited (INB011246734). **Malaysia:** In Malaysia, research is issued and distributed by Macquarie Capital Securities (Malaysia) Sdn. Bhd. (Company registration number: 463469-W) which is a Participating Organisation of Bursa Malaysia Berhad and a holder of Capital Markets Services License issued by the Securities Commission. **Taiwan:** Information on securities/instruments that are traded in Taiwan is distributed by Macquarie Capital Securities Ltd, Taiwan Branch, which is licensed and regulated by the Financial Supervisory Commission. No portion of the report may be reproduced or quoted by the press or any other person without authorisation from Macquarie. Nothing in this research shall be construed as a solicitation to buy or sell any security or product. **Thailand:** In Thailand, research is issued and distributed by Macquarie Securities (Thailand) Ltd, a licensed securities company that is authorized by the Ministry of Finance, regulated by the Securities and Exchange Commission of Thailand and is an exchange member no. 28 of the Stock Exchange of Thailand. The Thai Institute of Directors Association has disclosed the Corporate Governance Report of Thai Listed Companies made pursuant to the policy of the Securities and Exchange Commission of Thailand. Macquarie Securities (Thailand) Ltd does not endorse the result of the Corporate Governance Report of Thai Listed Companies but this Report can be accessed at: <http://www.thai-iod.com/en/publications.asp?type=4>. **South Korea:** In South Korea, unless otherwise stated, research is prepared, issued and distributed by Macquarie Securities Korea Limited, which is regulated by the Financial Supervisory Services. Information on analysts in MSKL is disclosed at <http://dis.kofia.or.kr/fs/dis2/fundMgr/DISFundMgrAnalystPop.jsp?companyCd2=A03053&pageDiv=02>. **South Africa:** In South Africa, research is issued and distributed by Macquarie First South Securities (Pty) Limited, a member of the JSE Limited. **Singapore:** In Singapore, research is issued and distributed by Macquarie Capital Securities (Singapore) Pte Ltd (Company Registration Number: 198702912C), a Capital Markets Services license holder under the Securities and Futures Act to deal in securities and provide custodial services in Singapore. Pursuant to the Financial Advisers (Amendment) Regulations 2005, Macquarie Capital Securities (Singapore) Pte Ltd is exempt from complying with sections 25, 27 and 36 of the Financial Advisers Act. All Singapore-based recipients of research produced by Macquarie Capital (Europe) Limited, Macquarie Capital Markets Canada Ltd, Macquarie First South Securities (Pty) Limited and Macquarie Capital (USA) Inc. represent and warrant that they are institutional investors as defined in the Securities and Futures Act. **United States:** In the United States, research is issued and distributed by Macquarie Capital (USA) Inc., which is a registered broker-dealer and member of FINRA. Macquarie Capital (USA) Inc. accepts responsibility for the content of each research report prepared by one of its non-US affiliates when the research report is distributed in the United States by Macquarie Capital (USA) Inc. Macquarie Capital (USA) Inc.'s affiliate's analysts are not registered as research analysts with FINRA, may not be associated persons of Macquarie Capital (USA) Inc., and therefore may not be subject to FINRA rule restrictions on communications with a subject company, public appearances, and trading securities held by a research analyst account. Any persons receiving this report directly from Macquarie Capital (USA) Inc. and wishing to effect a transaction in any security described herein should do so with Macquarie Capital (USA) Inc. Important disclosure information regarding the subject companies covered in this report is available at [www.macquarie.com/research/disclosures](http://www.macquarie.com/research/disclosures), or contact your registered representative at 1-888-MAC-STOCK, or write to the Supervisory Analysts, Research Department, Macquarie Securities, 125 W.55th Street, New York, NY 10019.

© Macquarie Group

<b>Auckland</b> Tel: (649) 377 6433	<b>Bangkok</b> Tel: (662) 694 7999	<b>Calgary</b> Tel: (1 403) 218 6650	<b>Denver</b> Tel: (303) 952 2800	<b>Frankfurt</b> Tel: (069) 509 578 000	<b>Geneva</b> Tel: (41) 22 818 7777	<b>Hong Kong</b> Tel: (852) 2823 3588
<b>Jakarta</b> Tel: (62 21) 515 1818	<b>Johannesburg</b> Tel: (2711) 583 2000	<b>Kuala Lumpur</b> Tel: (60 3) 2059 8833	<b>London</b> Tel: (44 20) 3037 2000	<b>Manila</b> Tel: (63 2) 857 0888	<b>Melbourne</b> Tel: (613) 9635 8139	<b>Montreal</b> Tel: (1 514) 925 2850
<b>Mumbai</b> Tel: (91 22) 6653 3000	<b>Munich</b> Tel: (089) 2444 31800	<b>New York</b> Tel: (1 212) 231 2500	<b>Paris</b> Tel: (33 1) 7842 3823	<b>Perth</b> Tel: (618) 9224 0888	<b>Seoul</b> Tel: (82 2) 3705 8500	<b>Shanghai</b> Tel: (86 21) 6841 3355
<b>Singapore</b> Tel: (65) 6601 1111	<b>Sydney</b> Tel: (612) 8232 9555	<b>Taipei</b> Tel: (886 2) 2734 7500	<b>Tokyo</b> Tel: (81 3) 3512 7900	<b>Toronto</b> Tel: (1 416) 848 3500		

Available to clients on the world wide web at [www.macquarieresearch.com](http://www.macquarieresearch.com) and through Thomson Financial, FactSet, Reuters, Bloomberg, CapitalIQ and TheMarkets.com.

