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Industry View
Cautious

India Financial Services

The Asset Quality Conundrum – Part II

Indian banks may appear attractive on long-term growth outlook and nominally cheap multiples, but reported earnings are likely flattered by relaxed NPL recognition norms. In a difficult macro climate, the growing disconnect between reported and underlying earnings might prompt multiples to decline, as we've seen with China's bank stocks.

SOE valuations below historical averages. Stocks are trading at 7.0x EPS, and 1.0x book. On reported earnings, this would appear a buying opportunity. But, we believe reported earnings are not necessarily accurate reflections of profitability; on term loans (infrastructure), revenues are being booked now, but costs will come later in the form of provisions, as NPLs increase.

Balance sheets are weaker than in 2008. Impaired loan ratio is closer to 6% (vs. 2008's 3.5%), as banks still have restructured loans from 2008. While consumer loans and real estate caused concern in 2008, today's problems can arise from infrastructure, real estate, MFIs and other corporate loans. While problems on these loans are rising, banks, with support from restructurings, are unlikely to take provisions over the next 1-2 years.

We focus on underlying profits. Given weak asset classification norms, provisioning is unlikely to shoot up, despite evident problems. We adjust reported profits for coverage, lower ROEs on infrastructure loans (by increasing provisions), and right-size capital. Canara, PNB, and IDBI are worst affected, while HDFC Bank, IndusInd, and KMB have underlying profits > reported.

Rating changes – ICBK to EW (from OW). We like its strong balance sheet profitability, but growth outlook is weakening, thereby reducing our conviction. We upgrade IndusInd to OW and Kotak to EW.

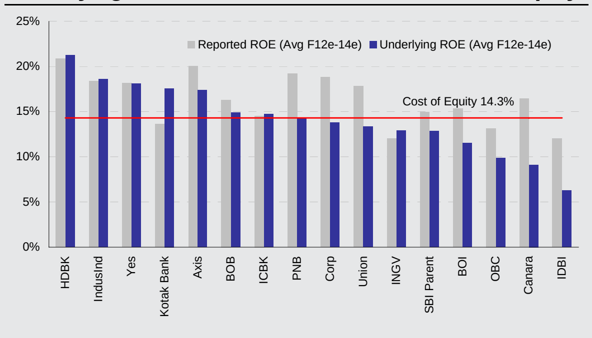
To be constructive, we need to see material decline in rates. Our view is that rates have peaked but will stay at elevated levels for 6-9 months.

What's Changed

	Rating		Price Target		EPS Change	
	Prior	New	Old	New	F12E	F13E
HDBK	OW	OW	530	530	-2%	-2%
IndusInd	EW	OW	305	300	-1%	-4%
Yes	OW	OW	370	315	-1%	-8%
Axis	EW	EW	1,450	1,075	-3%	-4%
Corp	EW	EW	470	440	0%	-1%
ICBK	OW	EW	1,100	900	-3%	-9%
ING Vysya	EW	EW	355	295	-2%	-4%
Kotak	UW	EW	340	440	3%	-2%
OBC	EW	EW	320	305	0%	-6%
Union	EW	EW	280	245	-1%	-1%
BOB	UW	UW	725	630	-1%	0%
BOI	UW	UW	300	265	0%	0%
Canara	UW	UW	405	355	0%	-3%
IDBI	UW	UW	95	85	0%	-1%
PNB	UW	UW	930	810	-1%	-2%
SBI*	UW	UW	1,850	1,550	2%	2%

*Note: In the case of SBI, the upward change in EPS is driven by revised capital raising assumptions; we now assume Rs200bn is staggered equally over F2012-13.
Source: Morgan Stanley Research. E=Morgan Stanley Research estimates.

Underlying ROE for most banks is below cost of equity



Source: Company data, Morgan Stanley Research. e=Morgan Stanley Research estimates.

Maintain Cautious View on Indian Banks

The Indian banking industry presents a dilemma. After the correction, over the last few months, multiples are looking attractive – making investors wonder whether they should be buying Indian banks. On the other hand, concerns are rising on the transparency of book value and quality of earnings, which would suggest avoiding Indian banks until macro headwinds abate.

In our view, there is a growing disconnect between the reporting earnings (accounting profit) and underlying earnings (economic profit). This is especially true for banks with large infrastructure loan books. In this note, we try to create a framework to assess the difference.

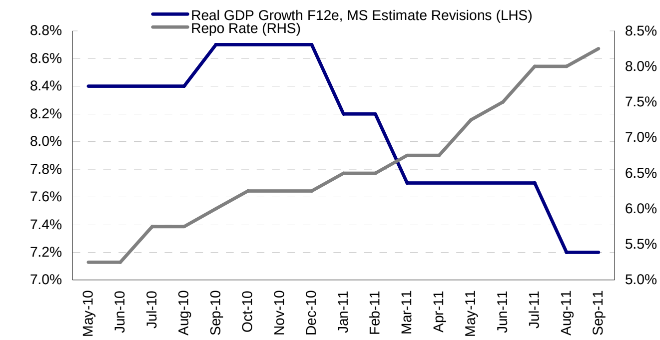
We are also rebasing our target prices to reflect underlying profits. This, coupled with earnings estimate changes and stock price moves, prompts us to change a few ratings – downgrade ICICI Bank to EW (from OW); upgrade IndusInd to OW (from EW), and upgrade Kotak to EW (from UW). We maintain our cautious view on Indian banks, with UWs on SBI, PNB, BoB, BoI, Canara Bank, and IDBI.

Exhibit 1
Rating & Price Target Changes

	Rating		Price Target	
	Prior	**New**	**Old**	**New**
OW				
HDBK	OW	OW	530	530
IndusInd	**EW**	**OW**	305	300
Yes	OW	OW	370	315
EW				
Axis	EW	EW	1,450	1,075
Corp	EW	EW	470	440
ICBK	**OW**	**EW**	1,100	900
ING Vysya	EW	EW	355	295
Kotak	**UW**	**EW**	340	440
OBC	EW	EW	320	305
Union	EW	EW	280	245
UW				
BOB	UW	UW	725	630
BOI	UW	UW	300	265
Canara	UW	UW	405	355
IDBI	UW	UW	95	85
PNB	UW	UW	930	810
SBI	UW	UW	1,850	1,550

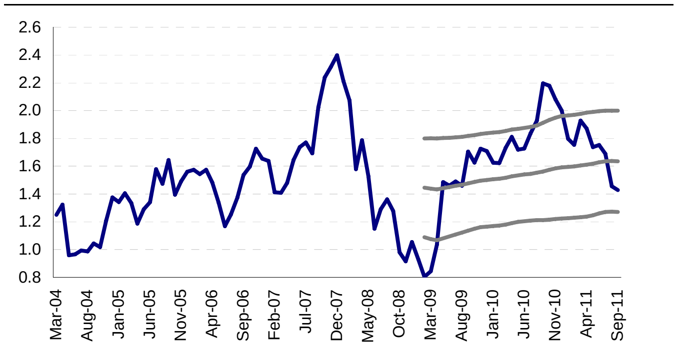
Source: Morgan Stanley Research

Exhibit 2
India: Slowing GDP growth + higher rates – Not a good backdrop for asset quality



Source: RBI, CSO, Bloomberg, Morgan Stanley Research

Exhibit 3
Indian Banks: P/B



Source: Company data, FactSet, Morgan Stanley Research

Why are we looking at underlying profits?

In the previous cycle, F2004-F2008, the primary driver of loan growth for Indian banks had been consumer loans. Asset quality on consumer loans is binary – either these loans are performing or they become NPLs, and banks provide for them quickly, which is what happened in F2009-F2010.

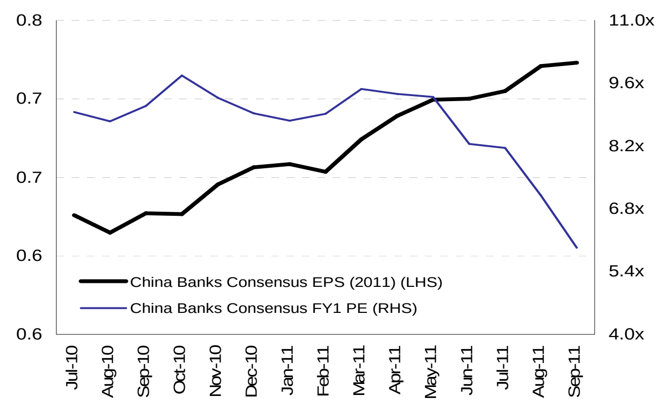
However, over the last three years, corporate loans have been the primary driver, and, within that, term loans have seen strong growth. On corporate loans, especially in India, the issue of loan restructuring creates a big grey area. Given that the level of provisions required on restructuring is just 2%, there is no incentive for banks not to push NPLs into the future by restructuring loans. Hence, while there are obvious instances of problem loans among Indian corporates (and this is likely to intensify, given the macro climate), we are unlikely to see any meaningful pickup in provisioning on these loans in

F12-F13. This is likely to create a disconnect between reported and underlying earnings.

If current macro conditions persist, we expect the market to focus on the underlying robustness of book. An example would be China banks, where earnings expectations have continued to be revised up over the last 12-18 months, but multiples have continued to shrink, given market wariness about underlying credit quality issues. Hence, the market is saying that it is not comfortable with reported earnings, as underlying asset quality (in the market's expectation) is weaker than reported. We would not be surprised if the same thing happens in India, especially if there is a surge in restructuring.

Exhibit 4

Chinese banks: Multiples have disconnected from earning estimates



Source: Company data, FactSet, Morgan Stanley Research

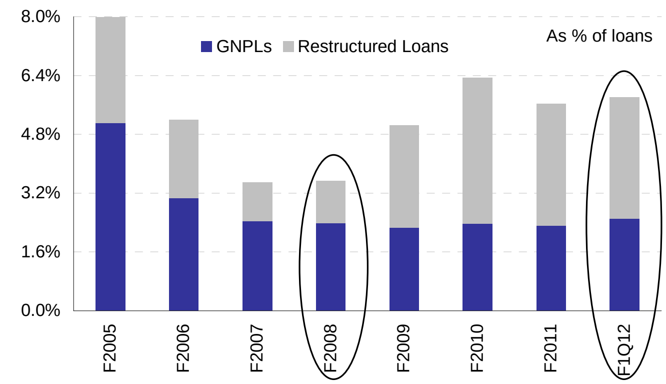
We see many potential pitfalls for Indian banks. To illustrate a few:

1. This cycle's starting point for impaired loans is weak. In the last cycle, impaired loans at Indian banks accounted for about 3.5% of loans, as the restructured loan book was low and NPLs were modest. However, today's impaired loan book is close to 6% of loans. There are differences among banks on the definition of restructured loans, and we believe that the actual number is likely higher than 6%.

   Banks saw only a consumer loan cycle in 2008/09 – the corporate cycle was avoided by the Reserve Bank of India's (RBI) relaxation of restructuring norms. So, over the past three years, the impaired loan book has almost doubled.

Exhibit 5

Starting point of impaired loans in this cycle is high



Source: Company data, Morgan Stanley Research. Note: Data pertains to MS coverage universe. Most banks did not disclose the stock of restructured loans prior to F2010. For prior years, we use an indicative proxy of the stock as equal to restructuring done during the trailing two years.

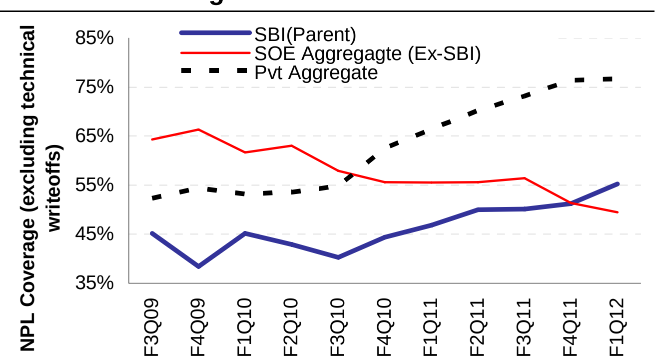
2. **Balance sheet coverage ratios are much lower** – Over the past two years, state-owned enterprise (SOE) banks in India have reduced coverage ratios. This was driven by RBI's constant changes on provisioning policies:

   - At first, RBI asked banks to increase coverage to 70%
   - Then it diluted the classification of what constitutes coverage by including technical write-offs
   - Then it changed the coverage policy to 70% of NPLs as of September 2010.

   With the uncertainty around RBI's provisioning policies, SOE banks reacted by structurally lowering underlying coverage ratios. Hence, the starting point of impaired loans is higher, and balance sheet support is lower. Private banks increased coverage ratios.

Exhibit 6

SOE bank coverage ratios have moved lower



Source: Company data, Morgan Stanley Research

Exhibit 7

Underlying coverage ratios for SOE banks are lower

	Coverage (incl. Tech W/offs)			Coverage (excl. Tech W/offs)			Adj** Coverage (excl. Tech Writeoffs)		
	Dec-08	**Jun-11**	**Ch**	**Dec-08**	**Jun-11**	**Ch**	**Dec-08**	**Jun-11**	**Ch**
BOB	75%	83%	7%	75%	70%	-5%	71%	51%	-19%
BOI	68%	67%	-2%	68%	54%	-15%	64%	41%	-23%
Canara	30%	70%	39%	30%	20%	-10%	28%	14%	-14%
Corp	73%	75%	2%	73%	51%	-22%	66%	32%	-34%
OBC	54%	75%	21%	54%	48%	-6%	46%	33%	-13%
PNB	82%	74%	-7%	82%	57%	-24%	75%	37%	-39%
SBI	45%	65%	20%	45%	55%	10%	37%	46%	9%
Union	92%	68%	-24%	92%	49%	-42%	85%	39%	-45%
IDBI	39%	74%	35%	39%	41%	2%	26%	26%	0%
SOE	**55%**	**69%**	**14%**	**55%**	**52%**	**-3%**	**47%**	**40%**	**-7%**
Axis	57%	80%	23%	57%	71%	14%	50%	58%	7%
HDBK	68%	83%	15%	68%	83%	15%	68%	80%	12%
ICBK	51%	77%	26%	51%	77%	26%	46%	74%	28%
Yes	66%	95%	29%	66%	95%	29%	59%	73%	14%
IndusInd	29%	73%	44%	29%	73%	44%	28%	68%	40%
Kotak (Parent)	33%	70%	37%	33%	65%	32%	33%	64%	31%
INGV	41%	84%	43%	41%	84%	43%	37%	75%	38%
Pvt	**52%**	**78%**	**26%**	**52%**	**77%**	**24%**	**48%**	**72%**	**24%**

Source: Company data, Morgan Stanley Research ** **Note:** For computing adjusted coverage ratio, we adjust the NPL base to include an additional 20% of restructured loans. The stock of restructured loans is as of Dec-08 (i.e., pre-crisis restructuring is not available). Hence, we use the restructuring done during F2007 and F2008 as a representative proxy.

3. **Unseasoned loan book quality is weaker** – Infrastructure loans, MFIs, real estate, and further delinquencies in restructured loans likely present the greatest potential for concern. Loans to these sectors account for 25-30% of total loans. We also note that general corporate loans, which were taken for capex, are also likely to show signs of stress.

Exhibit 8

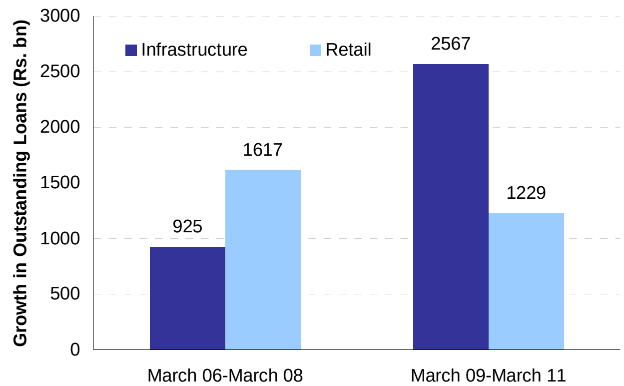
Share of potential problem assets (% of credit)

% of Credit	**Mar-07**	**Mar-08**	**Mar-09**	**Mar-10**	**Mar-11**
Infrastructure Sector	**7.3**	**8.7**	**9.7**	**11.7**	**13.4**
--Power	3.7	4.0	4.5	5.8	6.8
--Telecommunications	1.0	1.6	1.8	1.8	2.6
--Roads	1.3	1.5	1.7	2.3	2.4
--Other Infrastructure	1.3	1.6	1.7	1.8	1.6
NBFCs	**2.5**	**3.3**	**3.6**	**3.5**	**4.5**
Restructured Assets	0.3	0.8	2.0	4.3	3.9
Commercial Real Estate	2.3	2.7	3.3	2.8	2.8
Gross NPA	2.5	2.3	2.3	2.4	2.3
Total	**15.0**	**17.7**	**20.8**	**24.7**	**26.9**
% of Incremental Credit	**14.0**	**30.6**	**38.9**	**47.7**	**36.9**

Source: Company data, RBI, Morgan Stanley Research

Exhibit 9

Between 2006-08 retail was the big driver of loan growth; in the current cycle it is infrastructure



Source: RBI, Morgan Stanley Research

Exhibit 10

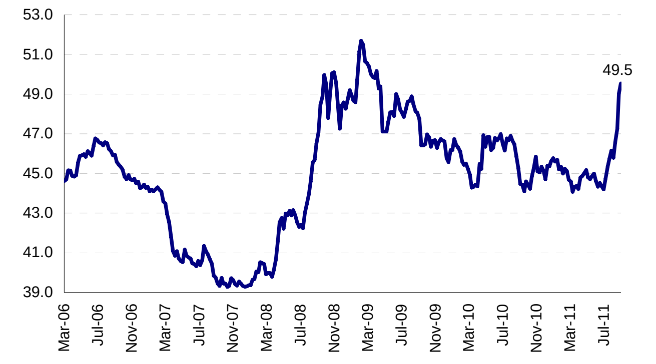
Contribution to credit growth

	Mar-08 over Mar-06	**Mar-11 over Mar-08**	**Change**
Agri	13%	11%	-1%
Infra	**12%**	**24%**	**13%**
Other Industrial Credit	**27%**	**29%**	**2%**
NBFCs	**6%**	**7%**	**2%**
CRE	5%	2%	-3%
Other services	19%	15%	-4%
Retail	20%	12%	-9%
-- Mortgage Loans	9%	6%	-3%
-- Other Personal Loans	11%	5%	-6%
Total	**100%**	**100%**	

Source: RBI, Morgan Stanley Research

Another pressure on banks could come from their international books. Indian banks lent fairly aggressively to corporates for their international needs – including acquisitions. Given the sharp depreciation in the currency and the spike in borrowing costs, bad loans could emerge if the current macro outlook persists, in our view.

Exhibit 11
USD/INR rate has risen sharply



Source: Bloomberg, Morgan Stanley Research

Exhibit 12
International loans as % of total loan book

	F2008	F2011
BOB	21%	26%
BOI	21%	24%
ICICI (Parent)	21%	25%
Axis	9%	14%
SBI (Consol)	10%	12%

Source: Company data, Morgan Stanley Research

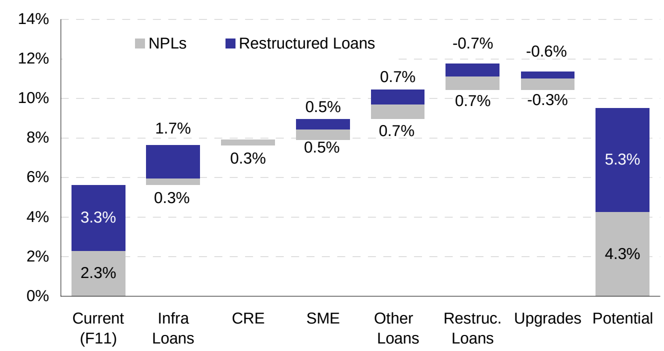
Exhibit 13
Off-balance-sheet guarantees have also seen strong growth

	Guarantees (as % of non retail loans)			
	F2008	F2011	% point change	% CAGR in Guarantees
IndusInd	33%	63%	30%	72%
IDBI	17%	38%	21%	60%
Axis	26%	47%	21%	65%
ICBK	44%	62%	18%	26%
Kotak	18%	30%	12%	79%
SBI Parent	15%	24%	9%	42%
Union	7%	10%	3%	41%
BOB	8%	10%	2%	43%
ING Vysya	27%	29%	2%	18%
OBC	14%	16%	1%	25%
PNB	14%	15%	1%	32%
BOI	11%	12%	1%	30%
Corp	18%	17%	-2%	28%
Yes	23%	18%	-4%	43%
Canara	20%	13%	-6%	11%
HDBK	23%	16%	-7%	26%
Total	**17%**	**23%**	**5%**	**37%**

Source: Company data, Morgan Stanley Research

Over the next 18-24 months, we expect the impaired loans ratio in India to almost double, to more than 10%. The bigger increase is likely to be seen in restructured loans, and that's why assessment of underlying profits becomes important – banks' numbers for the next few quarters won't reveal these underlying stresses, as they are pushed into the future. We examine underlying profits to get a better idea of the relative profitability of these banks.

Exhibit 14
Impaired loans ratio could rise to 10% from current 6%

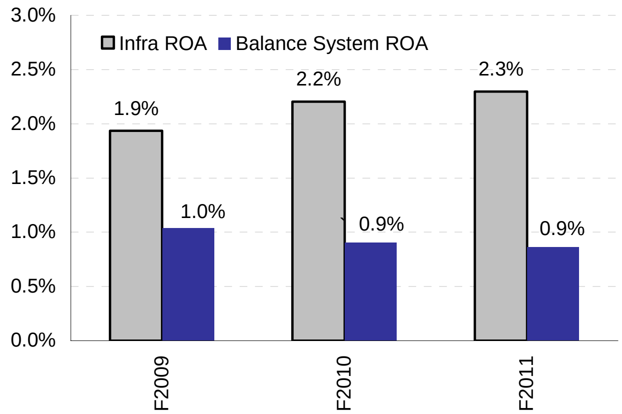


Source: Company data, Morgan Stanley Research

Outside of asset quality, current earnings on infrastructure loans are higher than underlying – As we discussed in our note "*An Asset Quality Conundrum*", dated June 13, 2011, infrastructure loans are inflating the underlying profitability at various banks. Yields on these loans are very high, as banks run big asset-liability management (ALM) mismatches, and NPLs could be lumpy.

However, given the unseasoned nature of the book (almost 65% of the loan book has been created in the past three years, and most of the loans are on accrual basis, i.e., interest becomes a part of the loan book), there are close to zero provisions (GP of 40bps). Hence, ROE on these loans is now running between 30-40%. Given massive growth in this book at various banks, we believe that some bad loans will emerge. The problem is compounded if we consider policy bottlenecks around the sector. To examine underlying profits, we assign a higher provisioning level than the current 8-10bps.

Exhibit 15
2011E infrastructure loan book ROA is 2.5-3x balance system ROA, on our analysis



Source: Company data, RBI, Morgan Stanley Research. E=Morgan Stanley Research estimates.

Exhibit 16
Indian banks: ROE on infra loans is > 30%

Rs. Bn	F2009	F2010	F2011E
Int Income on Infra Loans	284	366	499
-- Yield on infra loans	11.9%	11.3%	11.0%
Int Income on SLR bonds	59	79	118
-- Yield on investments	7.0%	6.6%	6.9%
Int Income on other IEA	4	5	5
-- Yield on other IEA	1.9%	1.8%	1.5%
Int Expenses	205	241	315
-- Cost of funds	6.4%	5.5%	5.1%
NII	**142**	**209**	**307**
-- As % of Avg Assets	4.1%	4.4%	4.7%
CEB + FX	26	35	50
-- As % of Avg Assets	0.8%	0.8%	0.8%
Opex	65	83	122
-- Cost:income ratio	38.5%	34.2%	34.3%
-- As % of Avg Assets	1.9%	1.8%	1.9%
Pre-Provision Profit	**103**	**161**	**234**
Provisions	2.6	4.4	5.9
-- As % of Avg Assets	0.1%	0.1%	0.1%
PBT	**100.4**	**156.2**	**228.6**
-- As % of Avg Assets	2.9%	3.3%	3.5%
Tax rate	33.6%	33.6%	33.6%
Taxes	34	52	77
PAT	67	104	152
ROA	**1.9%**	**2.2%**	**2.3%**
Leverage	14.5x	14.5x	14.6x
ROE	**28%**	**32%**	**33%**

Source: Company data, Morgan Stanley Research. E=Morgan Stanley Research estimates.

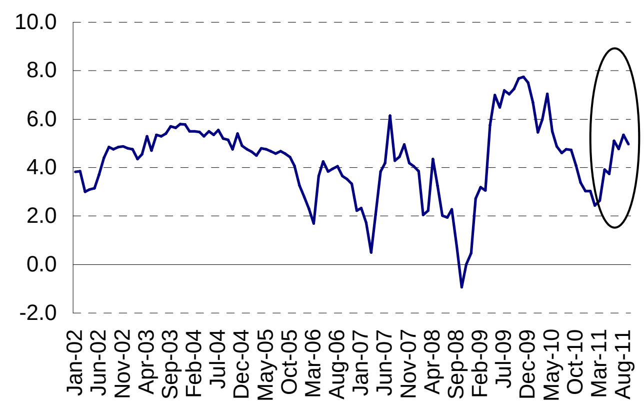
Our reported earnings estimates are stabilizing

In our view, the two big headwinds for the industry have been slower revenue growth (volumes, margins, fees) and concerns surrounding asset quality.

On volumes, we have built in meaningful slowdown already. Our coverage universe loan growth assumption is around 17% YoY for F12 and 18% for F13 (versus 23% for F11).

On net interest margin (NIM), a large part of the contraction for the industry is behind us. In fact, banks with large wholesale funding and corporate balance sheets will get some support in F2Q12 and F3Q12, as lending rates have risen and wholesale funding costs have stabilized for the past three months. We would not be surprised if there is another pickup in funding cost toward the end of F3Q/beginning of F4Q, but until then, we believe NIMs can be supported. We are now assuming relatively flat NIMs from F1Q12 levels for the banking system.

Exhibit 17
SBI PLR - CP rate



Source: Company data, Bloomberg, Morgan Stanley Research

Exhibit 18
Indian banks: Key assumptions

	NIM		Loan Growth		LLP/Avg Loans	
	F2012E	F2013E	F2012E	F2013E	F2012E	F2013E
BOB	2.4%	2.4%	17%	17%	54	71
BOI	2.1%	2.2%	16%	17%	81	93
Canara	2.3%	2.4%	18%	20%	61	95
CRPBK	2.0%	2.0%	16%	17%	70	87
OBC	2.4%	2.4%	17%	18%	75	96
PNB	3.1%	3.1%	17%	17%	85	99
SBI (Consol)	3.0%	3.0%	16%	16%	95	95
Union	2.6%	2.7%	17%	18%	75	92
IDBI	1.7%	1.7%	10%	13%	86	95
Average SOE	**2.7%**	**2.7%**	**16%**	**17%**	**82**	**92**
Axis	2.8%	2.8%	23%	25%	66	86
HDBK	4.2%	4.2%	24%	27%	73	104
ICBK	2.5%	2.5%	17%	16%	74	86
IndusInd	3.3%	3.3%	25%	25%	62	85
Yes	2.6%	2.6%	28%	25%	37	65
Kotak(Parent)	4.5%	4.7%	23%	25%	33	120
ING Vysya	2.8%	2.8%	19%	18%	38	80
Average Pvt.	**3.1%**	**3.2%**	**21%**	**22%**	**66**	**91**

Source: Company data, Morgan Stanley Research. E=Morgan Stanley Research estimates.
Note: The above NIMs are based on our computations; they will vary versus reported numbers owing to differences in computing average interest earning assets.

Asset quality – This is the primary variable driving the difference between reported and underlying earnings. Given the relaxed asset classification norms in India, banks are unlikely to take significant provisioning on corporate loans in the near term. We have already seen sporadic instances of loan restructuring, and we expect much bigger restructurings over the next 12-18 months. However, given Indian banks provisioning policies, we are not building in materially higher credit costs on corporate loans over the next two years.

Slippages in existing restructured loan book and defaults on the small/medium enterprise (SME) book will prompt credit costs to remain around 90-100bps in F2H12 and F13.

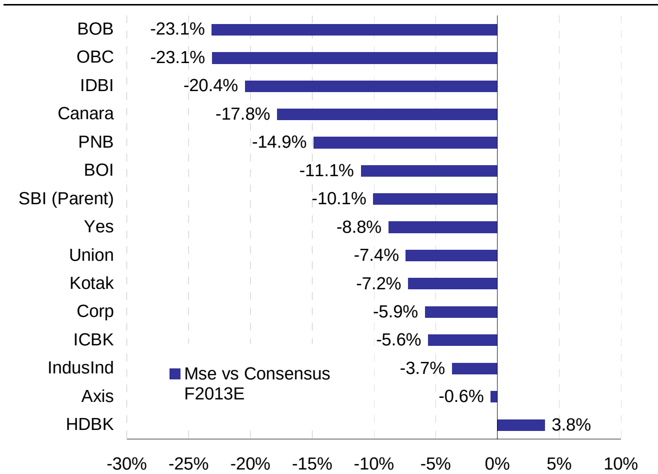
Exhibit 19
Credit cost assumptions

	F2011	F2012E	F2013E
BOB	52	54	71
BOI	64	81	93
Canara	52	61	95
CRPBK	73	70	87
OBC	104	75	96
PNB	93	85	99
SBI (Consol)	117	95	95
Union	88	75	92
IDBI	93	86	95
Average SOE	**92**	**82**	**92**
Axis	77	66	86
HDBK	53	73	104
ICBK	99	74	86
IndusInd	69	62	85
Yes	14	37	65
Kotak(Parent)	40	33	120
ING Vysya	74	38	80
Average Pvt.	**74**	**66**	**91**

Source: Company data, Morgan Stanley Research. E=Morgan Stanley Research estimates.

This drives our variance versus consensus in earnings. On average, we are 10% below F12E consensus for SOE banks and broadly in line with consensus for private banks. **Based on reported ROE estimates, most stocks are likely to meet COE thresholds, and the industry, especially SOE banks, appears fair-valued at current prices**.

Exhibit 20
MS vs. consensus EPS estimates, F2013



Source: Company data, FactSet, Morgan Stanley Research. E=estimates.

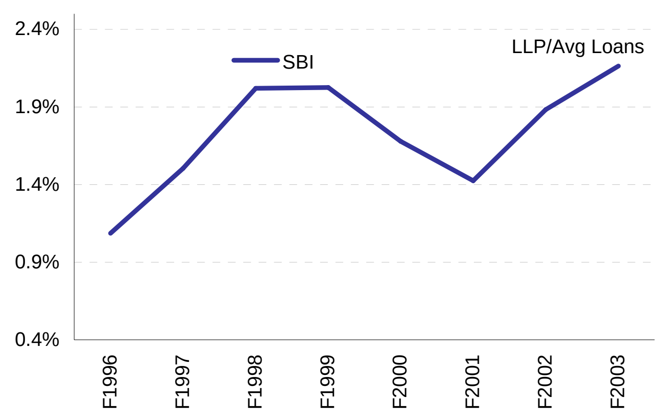
How do we examine underlying profitability?

To calculate underlying profitability, we make adjustments around provisioning and capital levels. The adjustments are:

1. We take the coverage ratio on current NPLs up to 70% (while doing so, we don't give credit to banks for technical write-offs, given that this is a practice unique to India, and, within that, SOE banks). The higher provisions are built up gradually over next three years (F12-14).

2. We take annual provisioning of ~2% on the infrastructure loan book. The last time Indian banks saw strong growth in project / term financing was between 995-98 – in the following five years, SBI's provisions averaged 1.8% of loans. We use this number as a rough benchmark for provisioning on the infrastructure loans.

Exhibit 21
SBI: Provisions trend after last project finance cycle



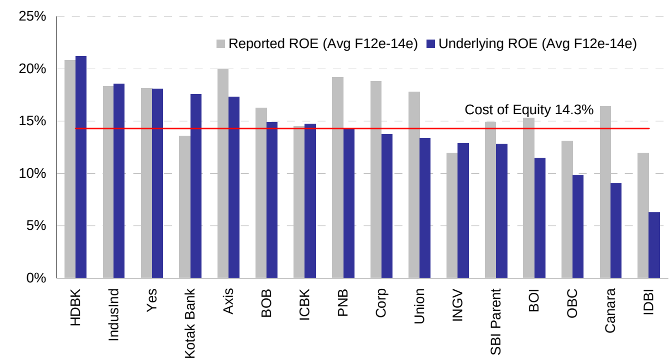
Source: Company data, Morgan Stanley Research

3. We take Tier 1 ratios to 10% for SOE banks and 11% for private banks. For banks below the threshold, we assume equity issue at current prices, while for banks above it, we assume capital buyback (at market prices).

In our reported earnings, we are already building in SME delinquencies, further slippage from restructured loans and NIM pressures; therefore, we are not making the adjustment in the underlying profit calculation.

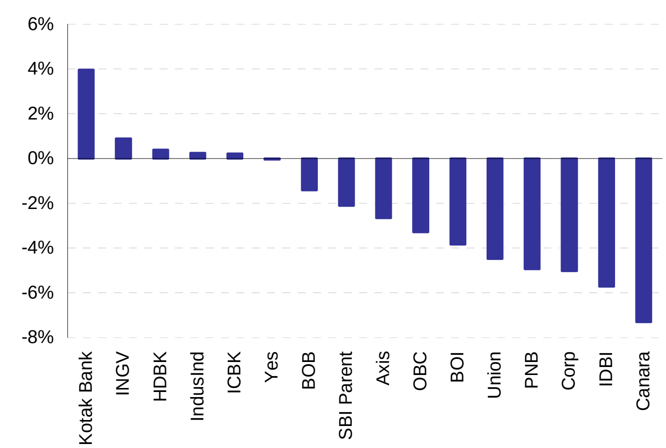
We use generic assumptions detailed above across our coverage in an attempt to create a framework to assess the underlying profitability. The details of the calculation for each bank in our coverage are available in Exhibits 40-42. However, Exhibits 23-24 outline the impact on each stock.

Exhibit 22
Underlying ROE for most banks is below cost of equity



Source: Company data, Morgan Stanley Research. e=Morgan Stanley Research estimates.

Exhibit 23
Gap between underlying and reported ROE (F2012e-F2014e)



Source: Company data, Morgan Stanley Research. e=Morgan Stanley Research estimates.

Exhibit 24

Reported & Underlying Valuations

				P/E F13e		P/B F13e	
	Reported EPS (F13e)	Underlying EPS (F13e)	% Change	Reported	Underlying	Reported	Underlying
BOB	105	95	-9%	7.4x	8.1x	1.1x	1.1x
BOI	56	39	-31%	5.4x	7.8x	0.7x	0.8x
Canara	87	48	-45%	5.0x	9.1x	0.7x	0.8x
Corp	108	74	-32%	3.9x	5.8x	0.7x	0.8x
OBC	55	43	-22%	5.1x	6.6x	0.6x	0.6x
PNB	161	116	-28%	6.0x	8.4x	1.1x	1.1x
SBI	243	200	-18%	7.5x	9.2x	1.1x	1.1x
Union	52	36	-31%	4.7x	6.8x	0.8x	0.8x
IDBI	17	7	-58%	6.2x	14.7x	0.7x	0.8x
Axis	116	109	-5%	9.4x	10.0x	1.7x	1.6x
HDBK	29	29	0%	15.9x	16.0x	3.1x	3.2x
ICBK	60	59	-1%	9.3x	9.4x	1.3x	1.4x
IndusInd	20	20	2%	13.0x	12.8x	2.2x	2.2x
INGV	32	34	4%	8.9x	8.6x	1.0x	1.0x
Yes	27	28	1%	9.8x	9.6x	1.5x	1.6x
Kotak Bank	14	14	2%	19.0x	18.6x	2.4x	3.2x

Source: Company data, Morgan Stanley Research. e=Morgan Stanley Research estimates.
Note: *For ICBK, Kotak & SBI, we have used core PE, PB, and ROE – i.e., we adjust for impact of key subsidiaries in both earnings/BV and market cap. Prices as on Sep 23, 2011.

Rating & Price Target Changes

Rating changes: Downgrade ICICI Bank to EW, upgrade IndusInd to OW, and upgrade Kotak to EW
We summarize the rationale for the rating changes below.

Downgrade ICICI Bank to EW: Our OW call on ICICI Bank was premised on the fact that its balance sheet had seen significant improvement over the past few years (NPL coverage ratio of 81% as of F2011 vs. 60% as of F2009); better domestic liability franchise, with a current-and-savings account [CASA] ratio of 45% as of F2011 vs. 29% as of F2009. This, coupled with the fact that the bank had a strong capital base (Tier I ratio of 13.2% as of F2011), would have allowed the bank to grow loans aggressively, as long as economic growth was healthy. Further, profitability was likely to see an improvement in F2012-13, driven by expanding margins and lower provisions.

While the profitability is likely to remain strong (we still expect ICICI Bank to report ROA improving to 1.44% in F2013 from 1.34% in F2011), growth is likely to be more moderate, given: a) the deterioration in the domestic growth outlook, given rising rates, slower GDP growth, and policy inaction; and b) ICICI Bank's wholesale funded international loan book is likely to face funding headwinds on an incremental basis.

Given the moderated growth outlook, the stock seems fairly valued, at 1.4x core F2012E P/BV, especially in the context of the 15% underlying ROE we expect the bank to deliver in F2012-14. Hence, we are downgrading to EW.

Upgrade IndusInd to OW; Kotak to EW: We had moved to EW on IndusInd in July 2011 because valuations seemed relatively full, and scope for upward earnings revisions seemed low. Similarly, our UW call on Kotak was premised on the fact that valuations were too expensive.

Valuations are still full at these banks – given that IndusInd is trading at 16.1x F2012E P/E and 2.5x F2012E P/BV, and Kotak's banking business is trading at 19.0x F2012E core P/E and 2.4x F2012E core P/BV. However, we think that these premium valuations are more likely to be sustained, given: a) they have very low exposure to infrastructure assets; b) they have a strong capital base (F2011 Tier I ratio for IndusInd and Kotak was 12.3% and 18.1%, respectively); and c) IndusInd and Kotak have underlying profits that are greater than reported profits. Hence, we have upgraded ratings on both these stocks. Within the small private bank space, we are now OW on Yes Bank and IndusInd, and EW on Kotak and INGV.

Rebasing price targets to reflect underlying earnings
We have reduced our price targets across our coverage universe to reflect:

a) *Underlying rather than reported profits:* As discussed herein, there is a growing gap between reported earnings (accounting profit) and underlying earnings if we take provisioning at more normalized levels (economic profit). To factor this in, we are now using underlying ROE in our residual income model as opposed to reported ROE previously. As illustrated in Exhibit 26, for most banks, underlying ROE is lower than reported, hence driving our price target cuts.

Exhibit 25
Reported ROE vs. Underlying ROE (Avg. F12-14e)

	Reported ROE	Adjusted ROE
BOB	16%	15%
BOI	15%	11%
Canara	16%	9%
Corp	19%	14%
OBC	13%	10%
PNB	19%	14%
SBI Parent	15%	13%
Union	18%	13%
IDBI	12%	6%
Axis	20%	17%
HDBK	21%	21%
ICBK	15%	15%
IndusInd	18%	19%
INGV	12%	13%
Yes	18%	18%
Kotak Bank	14%	18%

Source: Company data, Morgan Stanley Research. e=Morgan Stanley Research estimates.

b) *Increase credit cost assumptions:* We have also reduced our earning estimates to factor in higher credit costs on SME loan books and restructured loans, as detailed in Exhibit 27.

Exhibit 26

Indian banks: Credit cost forecasts

	LLP/Avg Loans (F12e)		LLP/Avg Loans (F13e)		% EPS Change	
	NEW	OLD	NEW	OLD	F12e	F13e
BOB	54	52	71	70	-1%	0%
BOI	81	68	93	85	0%	0%
Canara	61	61	95	90	0%	-3%
CRPBK	70	70	87	85	0%	-1%
OBC	75	67	96	75	0%	-6%
PNB	85	83	99	95	-1%	-2%
SBI (Consol)	95	102	95	92	2%	2%
Union	75	75	92	85	-1%	-1%
IDBI	86	80	95	90	0%	-1%
Axis	66	50	86	65	-3%	-4%
HDBK	73	70	104	100	-2%	-2%
ICBK	74	65	86	75	-3%	-9%
IndusInd	62	60	85	70	-1%	-4%
Yes	37	37	65	50	-1%	-8%
Kotak	33	60	120	75	3%	-2%
ING Vysya	38	39	80	70	-2%	-4%

Source: Company data, Morgan Stanley Research. e=Morgan Stanley Research estimates.

c) *Change in probability weights:* We have also revised our probability estimates, as follows:

- *SOE banks:* For the SOE banks, we have reduced our bear case weight from 35% to 25%. Given that we have moved to underlying earnings while computing base case price targets, some elements of our bear case are now being captured under our base case scenario. Hence, we have increased the base case weight from 60% to 70%.

- *ICICI Bank:* We have reduced the base case weight from 80% to 70% and increased the bear case weight from 10% to 20% (bull case weight is unchanged). As detailed earlier, given the weaker macro outlook it seems less likely that the pickup in profitability that we envisaged earlier in our base case will materialize, and the risks of asset quality issues being higher than expected have increased.

Price target methodologies

We value the banks using a probability-weighted three-phase residual income model: a five-year high-growth period, a 10-year maturity period, followed by a declining period. We use a risk free rate of 8.5% and a market risk premium of 5.5%. For SBI, ICICI Bank and Kotak, we follow a sum-of-parts method (the methodology + key assumptions for them are summarized in the following section).

Exhibit 27

Indian banks: Rebasing price targets to reflect underlying earnings

		Scenario Values (Rs per share)						Weighted Avg PT		New Probability Weights			Old Probability Weights		
		Base		Bear		Bull									
	Ke	New	Old	New	Old	New	Old	New	Old	Base	Bear	Bull	Base	Bear	Bull
BOB	14.0%	650	830	500	500	1000	1050	630	725	70%	25%	5%	60%	35%	5%
BOI	14.3%	275	330	200	225	450	500	265	300	70%	25%	5%	60%	35%	5%
Canara	14.0%	375	450	250	300	645	645	355	405	70%	25%	5%	60%	35%	5%
Corp	14.0%	475	540	300	325	650	650	440	470	70%	25%	5%	60%	35%	5%
OBC	14.2%	340	365	200	225	400	440	305	320	70%	25%	5%	60%	35%	5%
PNB	14.0%	875	1100	525	575	1300	1400	810	930	70%	25%	5%	60%	35%	5%
SBI	14.3%	1625	1955	1040	1500	3015	3075	1550	1850	70%	25%	5%	60%	35%	5%
Union	14.0%	270	310	150	210	350	420	245	280	70%	25%	5%	60%	35%	5%
Axis	14.6%	1075	1430	650	965	1500	2000	1075	1450	60%	20%	20%	60%	20%	20%
HDBK	14.0%	530	530	330	330	600	600	530	530	100%	0%	0%	100%	0%	0%
ICBK	14.3%	915	1090	630	750	1345	1535	900	1100	70%	20%	10%	80%	10%	10%
IndusInd	14.3%	310	320	165	165	390	390	300	305	60%	20%	20%	60%	20%	20%
Yes	15.1%	330	400	165	165	410	485	315	370	60%	20%	20%	60%	20%	20%
Kotak	14.3%	450	330	275	225	575	480	440	340	60%	20%	20%	60%	20%	20%
ING Vysya	14.0%	300	350	200	240	375	490	295	355	60%	20%	20%	60%	20%	20%
IDBI	14.8%	90	100	50	70	150	175	85	95	70%	25%	5%	60%	35%	5%

Source: Morgan Stanley Research estimates.

Exhibit 28

Current Valuations vs. Implied & Trough Valuations

		P/BV (1 yr fwd rolling)		
	PT	Current	Implied based on PT	Trough
BOB	630	1.2	1.0	0.5
BOI	265	0.8	0.7	0.5
Canara	355	0.8	0.6	0.5
Corp	440	0.7	0.8	0.4
OBC	305	0.6	0.7	0.3
PNB	810	1.1	0.9	0.6
SBI	1550	1.2	1.0	0.7
Union	245	0.8	0.8	0.6
Axis	1075	1.9	1.8	0.9
HDBK	530	3.3	3.9	1.9
ICBK	900	1.6	1.7	0.7
Indusind	300	2.4	2.8	0.5
Yes	315	1.6	1.9	0.5
Kotak	440	2.5	2.4	1.2
ING Vysya	295	1.0	1.1	0.6
IDBI	85	0.7	0.6	0.4

Source: Company data, Morgan Stanley Research

We value SBI's two components on the following basis:

Consolidated banking business: We value the banking entities using a three-phase residual income model: a five-year high-growth period, a 10-year maturity period, followed by a declining period.

Life insurance business: We use an appraised value method. We add to the embedded value the value of new business to get a value for the life business.

Exhibit 29

SBI – Sum-of-the-parts valuation scenarios

	Base	Bear	Bull	Wtd
Probability Weights	70%	25%	5%	
Ke	14.4%	14.4%	14.4%	
RI Based Value	**1500**	**955**	**2825**	**1430**
Implied Target P/BV (F2012E)	1.0	0.6	1.9	
Insurance	125	85	190	120
Total	**1625**	**1040**	**3015**	**1550**

Source: Morgan Stanley Research estimates

Exhibit 30

SBI – Life insurance valuation scenarios

Rs Mn	Base Case	Bear Case	Bull Case
Embedded Value	56000	56000	56000
New Premiums, APE basis - F2013	37923	30718	54609
F2012-13 Growth YoY	0%	-10%	20%
NBAP Margin	14%	10%	16%
PV of 1 Yr New Business	5309	3195	8792
New Business Multiplier	14x	10x	16x
PV of new Business	73002	33224	140673
Appraised Value	129002	89224	196673
SBI's stake	74%	74%	74%
Value Attributable	95461	66026	145538
Value Per Share (Rs)	125	85	190

Source: Morgan Stanley Research estimates

We value ICICI Bank using a sum-of-the parts method. We arrive at our revised target price of Rs900 by assigning weightings of 70% to our base case fair value (vs. 80% previously), 10% to our bull case fair value (vs. 10%), and 20% (vs. 10%) to our bear case fair value. The change in weighting toward the bear case is driven by the deterioration in the macro environment, which could adversely impact ICICI Bank's corporate loan book.

The two key businesses at ICICI from a valuation perspective are the bank and life insurance. We value them on the following bases:

Bank: We value the banking business using a three-phase residual income model: a five-year high-growth period, a 10-year maturity period, followed by a declining period.

Exhibit 31

ICICI Bank: Banking business valuation scenarios

Rs	Base Case	Bear Case	Bull Case	Wtd Avg
Probability Weights	70%	20%	10%	
RI Based Value	625	445	900	617
COE	13.2%	13.2%	13.2%	
BVPS - F2012	402	402	402	
Implied P/BV	**1.6**	**1.1**	**2.2**	

Source: Morgan Stanley Research estimates.

Life insurance – For this we use an appraised value method. We estimate the embedded value of the business at Rs94bn. To this, we add the value of new business to get the scenario values in Exhibit 33.

Exhibit 32

ICICI Bank: Life insurance valuation scenarios

Rs mn	Base Case	Bear Case	Bull Case
Embedded Value	**94000**	**94000**	**94000**
New Premiums, APE basis - F2013	58849	58849	99455
F2012-13 Growth YoY	0%	0%	30%
NBAP Margin	14%	10%	16%
PV of 1 Yr New Business	7945	5885	15913
New Business Multiplier	14x	11x	15x
PV of new business	**107252**	**67088**	**238692**
Appraised Value	**201252**	**161088**	**332692**
-- Multiple of EV	2.1	1.7	3.5
Value Attributable	148927	119205	246192
Value Per Share (Rs)	**130**	**100**	**215**

Source: Morgan Stanley Research estimates.

We also value the securities business, AMC, general insurance, home finance, primary dealership business, private equity, and UK and Canada subsidiaries. Our subsidiary valuations have changed as shown in Exhibit 34.

Exhibit 33
ICICI Bank: Target price calculation

ICICI: Sum of Parts				
Rs	**Base Case**	**Bear Case**	**Bull Case**	**Target Price**
Probability	70%	20%	10%	
Banking Business	625	445	900	617
Subsidiaries				
Life Insurance	130	100	215	135
General Insurance	20	10	31	19
AMC	17	9	24	16
ICICI Securities	8	3	18	8
ICICI Venture	12	7	20	12
ICICI Home Finance	29	14	43	27
ICICI Securities PD	6	3	8	6
ICICI Bank UK	29	17	35	27
ICICI Bank Canada	41	24	50	38
Sum of subs / associates	**292**	**187**	**443**	**288**
Fair Value	**915**	**630**	**1345**	**900**

Source: Company data, Morgan Stanley Research estimates.

We also value Kotak Mahindra Bank using a sum-of-the parts method. We use a sum-of-the-parts methodology to value Kotak, employing different metrics to calculate the value of various businesses. We arrive at a probability-weighted fair value of Rs440 (up from Rs340).

Exhibit 34
Kotak: Sum-of-the-parts valuation scenarios

Rs Per share	**Base Case**	**Bear Case**	**Bull Case**	**Wtd**
Prob Wts	**60%**	**20%**	**20%**	
Kotak Bank	275	150	300	255
Subsidiaries				
Kotak Securities	14	19	51	22
Kotak Mahindra Capital	4	5	17	7
Kotak OM Life Insurance	35	33	55	38
Kotak Prime	75	40	70	67
Kotak AMC	19	11	29	19
Private Equity	10	5	14	10
KM International Subs	12	7	25	13
KM Investments	8	5	12	8
Sum of Subsidiaries	176	125	272	185
Fair value	**450**	**275**	**575**	**440**

Source: Morgan Stanley Research estimates.

The key businesses from a valuation perspective are the Banking and Life Insurance businesses.

Banking business: We value the banking business using a residual income model. Our residual income model has three phases: a five-year high-growth period, a 10-year maturity period, followed by a declining period.

Exhibit 35
Kotak: Banking business valuation scenarios

	Base Case	**Bear Case**	**Bull Case**
Probability	60%	20%	20%
Ke	14.2%	14.2%	14.2%
RI Based Value	255	150.0	300.0
BVPS (F2013e)	120	120	120
Implied Target P/BV	2.1	1.2	2.5

Source: Morgan Stanley Research estimates.

Life Insurance business: We value the life insurance business with an appraised value method. We estimate the embedded value of the business at Rs94bn. To this, we add the value of new business to get the scenario values in Exhibit 37.

Exhibit 36
Kotak/Old Mutual Life Insurance: Valuation scenarios

Rs Mn	**Base Case**	**Bear Case**	**Bull Case**
Embedded Value (F11)	19875	19875	19875
New Premiums, APE basis - F2013	8966	8966	14009
F2012-13 Growth YoY	0%	0%	25%
NBAP Margin	13%	14%	16%
PV of 1 Yr New Business	1121	1255	2171
New Business Multiplier	13x	10x	16x
PV of new Business	**14570**	**12552**	**34743**
Appraised Value	**34445**	**32428**	**54618**
Kotak's Stake	74%	74%	74%
Value Attributable	25489	23996	40418
Value Per Share (Rs)	**35**	**33**	**55**

Source: Morgan Stanley Research estimates.

Exhibit 37

Indian Financials: Valuation Comps

	Rtg	Curr Price	Tgt Price	% Up/Down-side	Mkt Cap (US$ bn)	ADV (Trlg 6M, $ mn)	PE F11	PE F12E	PE F13E	EPS g (F13/F11)	PBV F11	PBV F12E	PBV F13E	ROE F11	ROE F12E	ROE F13E	P/PPOP F11	P/PPOP F12E	P/PPOP F13E	PPOP per share g (F13/F11)	Tier I Ratio (F2011)	Mkt Cap/Dep. (F12E)
AXIS Bank	EW	1089	1,075	-1%	9.2	50.3	13.1	11.3	9.4	18%	2.3	2.0	1.7	19.0%	18.9%	19.8%	7.8	6.9	5.5	18%	9.4%	19%
HDFC Bank	OW	458	530	16%	22.0	42.3	27.1	20.9	15.9	30%	4.2	3.6	3.1	16.7%	18.7%	20.9%	13.5	11.5	8.6	25%	12.2%	41%
ICICI Bank*	EW	845	900	7%	20.3	91.4	13.3	10.6	9.3	19%	1.5	1.4	1.3	11.8%	13.7%	14.3%	7.3	6.6	5.7	14%	13.2%	37%
Yes Bank Ltd.	OW	268	315	18%	1.9	18.2	12.6	10.9	9.8	14%	2.4	1.8	1.5	21.0%	19.4%	16.7%	8.1	6.8	5.6	21%	9.7%	18%
Indusind Bank	OW	254	300	18%	2.4	4.6	19.5	16.1	13.0	23%	2.9	2.5	2.2	17.9%	16.8%	18.2%	15.2	13.0	10.0	23%	12.3%	27%
ING Vysya Bank**	EW	287	295	3%	0.7	0.9	10.9	10.2	8.9	11%	1.3	1.1	1.0	12.8%	11.2%	11.6%	6.8	6.9	6.4	4%	13.0%	12%
Kotak Mahindra Bank	EW	454	440	-3%	6.9	11.7	1.0	18.7	16.6	-75%	3.1	2.6	2.3	16.6%	15.1%	14.8%	-	-	-	28%	18.1%	92%
- private banks																						
BOB	UW	775	630	-19%	6.3	8.5	6.7	8.3	7.4	-5%	1.4	1.3	1.1	23.5%	15.9%	16.1%	5.2	5.1	4.3	10%	10.0%	8%
BOI	UW	302	265	-12%	3.4	9.7	6.4	6.3	5.4	9%	1.0	0.8	0.7	15.8%	14.2%	14.8%	3.8	3.4	2.7	19%	8.3%	5%
Canara Bank	UW	435	355	-18%	4.0	12.1	4.4	5.5	5.0	-6%	1.0	0.8	0.7	23.2%	16.3%	15.8%	3.9	4.1	3.1	13%	10.9%	6%
Corporation Bank	EW	426	440	3%	1.3	1.0	4.3	4.5	3.9	5%	0.9	0.8	0.7	21.9%	18.2%	18.6%	3.5	3.0	2.5	18%	8.7%	5%
IDBI	UW	103	85	-18%	2.1	8.0	5.6	6.7	6.2	-5%	0.8	0.7	0.7	14.3%	11.5%	11.4%	2.5	2.9	2.6	-2%	8.0%	5%
OBC	EW	281	305	9%	1.7	4.9	4.7	5.8	5.1	-5%	0.7	0.7	0.6	17.1%	12.1%	12.6%	2.3	3.0	2.4	-2%	11.2%	5%
Punjab National Bank	UW	971	810	-17%	6.4	7.1	6.9	6.7	6.0	7%	1.4	1.2	1.1	22.6%	19.8%	18.8%	3.9	3.6	3.1	12%	8.4%	8%
SBI [Consol]*	UW	1956	1,550	-21%	25.7	129.8	10.9	8.5	7.5	20%	1.5	1.3	1.1	13.3%	15.4%	15.3%	4.0	3.6	3.6	6%	8.0%	9%
Union Bk	EW	244	245	0%	2.6	5.1	5.9	5.4	4.7	12%	1.0	0.9	0.8	18.6%	17.2%	17.3%	4.1	3.4	2.8	23%	8.7%	5%
- state banks																						

**For ICBK and SBI we have used core PE,PB and ROE - i.e. we adjust for impact of key subsidiaries in both earnings/BV and market cap.*
***Tier I Ratio for ING Vysya Bank has been adjusted for capital issuance in June-2011*

Memo - (Unadjusted Vals)	PE F11	PE F12E	PE F13E	PBV F11	PBV F12E	PBV F13E	ROE F11	ROE F12E	ROE F13E	P/PPOP F11	P/PPOP F12E	P/PPOP F13E
ICICI Bank (Parent)	18.9	15.3	13.4	1.8	1.7	1.5	9.6%	11.1%	11.8%	11.1	10.0	8.6
SBI (Parent)	15.0	11.8	10.1	1.9	1.6	1.4	11.9%	15.2%	15.1%	5.6	19.0	19.7

Source: Company data, FactSet, Morgan Stanley Research. E=Morgan Stanley Research estimates. OW=Overweight, EW=Equal-weight, UW=Underweight. Note that valuation methodology and risks for the stock price targets in this table are contained in this report. Priced as of the Sep. 23, 2011 market close.

Exhibit 38

Where are valuations vs. previous lows?

	Current	Trailing 5-yr avg	% from curr. level	-1SD*	% from curr. level	Trough*	% from curr. level
P/BV							
Private	***2.1***	***2.3***	***10%***	***1.8***	***-17%***	***1.0***	***-52%***
Axis	1.9	2.3	24%	1.7	-8%	0.9	-52%
HDBK	3.3	3.4	2%	2.7	-18%	1.9	-42%
ICBK	1.6	1.9	18%	1.4	-14%	0.7	-55%
IndusInd	2.4	1.7	-28%	1.0	-58%	0.5	-78%
Kotak	2.5	3.0	20%	1.8	-27%	1.2	-53%
Yes	1.6	2.5	53%	1.4	-14%	0.5	-66%
INGV	1.0	1.3	29%	1.0	-6%	0.6	-38%
SOE Banks	***1.0***	***1.2***	***18%***	***1.0***	***-8%***	***0.7***	***-35%***
BOB	1.2	1.0	-12%	0.7	-37%	0.5	-55%
BOI	0.8	1.1	44%	0.9	19%	0.5	-40%
Canara	0.8	0.9	13%	0.6	-17%	0.5	-41%
Corp	0.7	1.0	32%	0.7	-3%	0.4	-42%
OBC	0.6	0.8	18%	0.5	-16%	0.3	-48%
PNB	1.1	1.3	11%	1.0	-12%	0.6	-46%
SBI	1.2	1.5	22%	1.1	-9%	0.7	-47%
Union	0.8	1.0	23%	0.8	-4%	0.6	-26%
IDBI	0.7	0.9	34%	0.7	-5%	0.4	-43%
Market Cap/Deposits							
Private	***31%***	***36%***	***16%***	***28%***	***-10%***	***17%***	***-45%***
Axis	17%	23%	30%	18%	1%	9%	-49%
HDBK	36%	39%	9%	33%	-9%	24%	-32%
ICBK	34%	42%	22%	32%	-7%	16%	-52%
IndusInd	24%	16%	-33%	8%	-68%	5%	-81%
Kotak	81%	108%	33%	60%	-27%	39%	-52%
Yes	16%	24%	49%	14%	-16%	6%	-61%
INGV	11%	11%	5%	8%	-21%	5%	-50%
SOE Banks	***7%***	***9%***	***20%***	***7%***	***-6%***	***5%***	***-34%***
BOB	8%	7%	-11%	5%	-37%	3%	-57%
BOI	4%	7%	63%	6%	31%	3%	-40%
Canara	5%	6%	17%	4%	-17%	3%	-43%
Corp	4%	6%	48%	4%	2%	3%	-38%
OBC	5%	6%	25%	4%	-14%	2%	-50%
PNB	8%	9%	16%	7%	-7%	4%	-43%
SBI	9%	11%	19%	8%	-9%	4%	-54%
Union	5%	6%	26%	5%	0%	4%	-25%

Source: Company data, FactSet, Morgan Stanley Research. Note: * -1SD refers to trailing 5-yr average minus 1 Standard Deviation (also trailing 5-yr). Trough valuations refer to trough valuations since Mar-2004.

Exhibit 39

Indian Banks: Underlying ROE Computation

		BOB*			BOI*			Canara			Corporation			OBC			PNB		
	Rs bn	**F2012e**	**F2013e**	**F2014e**	**F2012e**	**F2013e**	**F2014e**	**F2012e**	**F2013e**	**F2014e**	**F2012e**	**F2013e**	**F2014e**	**F2012e**	**F2013e**	**F2014e**	**F2012e**	**F2013e**	**F2014e**
A	Reported PAT	36.9	42.3	50.4	26.4	31.2	41.1	35.0	38.7	48.0	13.9	16.1	19.4	14.0	15.9	20.6	46.2	51.0	59.9
B	Provisioning Build (to achieve coverage of 70%)	0.0	0.0	0.0	2.2	4.2	6.8	8.6	7.2	11.6	0.8	1.3	2.0	1.4	2.5	3.8	2.8	4.3	5.8
C	Additional Provisions on Infra Exposures	6.1	7.1	8.1	4.6	5.3	6.1	11.1	12.7	14.6	3.2	3.7	4.2	3.2	3.7	4.2	9.7	11.2	12.9
D	Free Funds Impact (from change in equity)	0.0	1.1	1.6	3.1	3.0	3.1	-1.4	0.9	2.6	0.6	0.9	1.2	-1.1	0.4	1.3	3.5	3.0	2.9
E	Tax Rate Differential (normalized to 33%)	-1.8	-1.8	-2.0	-1.2	-1.9	-2.8	-2.0	-0.8	-1.0	-0.5	-0.6	-0.8	-1.1	-1.2	-1.3	-2.2	-3.6	-4.6
F=A-B-C +D-E	Underlying PAT	32.6	38.1	45.8	23.8	26.6	34.2	15.9	20.4	25.3	11.0	12.6	15.1	9.4	11.3	15.1	39.3	42.1	48.7
G	Tier I at the beginning of the year	10.0%	9.5%	9.6%	8.3%	9.3%	9.4%	10.9%	9.1%	9.1%	9.3%	9.3%	9.3%	11.2%	9.1%	9.1%	8.4%	9.5%	9.5%
H	Target Tier I	10.0%	10.0%	10.0%	10.0%	10.0%	10.0%	10.0%	10.0%	10.0%	10.0%	10.0%	10.0%	10.0%	10.0%	10.0%	10.0%	10.0%	10.0%
I	Capital Issued/(Bought Back)	0.2	12.2	11.7	34.2	16.5	17.9	(15.3)	17.8	23.5	6.3	6.5	8.2	(11.9)	10.0	11.9	38.8	13.4	16.2
J	Current share count	393	393	393	547	547	547	443	443	443	148	148	148	292	292	292	317	317	317
K	# of shares issued (mn)	0	14	12	113	50	50	-35	38	47	15	14	16	-42	32	37	40	12	13
L	Diluted share count	393	407	419	661	711	761	408	446	492	163	177	194	249	281	318	357	368	381
M	Reported BV	246	278	318	199	224	258	229	261	300	81	92	106	121	132	147	252	291	338
N	Diluted BV	236	278	327	227	266	313	199	234	278	85	100	120	106	124	148	286	334	389
O=A/J	Reported EPS (Rs per share)	93	105	125	48	56	74	79	87	108	94	108	131	48	55	71	146	161	189
P=E/L	Underlying EPS (Rs per share)	83	95	111	39	39	46	37	48	54	71	74	82	35	43	50	117	116	130
Q=O/P-1	% Change	-11%	-9%	-12%	-18%	-31%	-37%	-53%	-45%	-50%	-25%	-32%	-38%	-28%	-22%	-29%	-20%	-28%	-31%
R=M/J	Reported BVPS (Rs per share)	613	692	790	357	404	464	517	589	676	548	620	715	415	452	505	796	920	1067
S=N/L	Underlying BVPS (Rs per share)	599	682	780	344	375	411	487	524	565	524	567	618	426	442	466	803	905	1021
T=S/R-1	% Change	-2%	-1%	-1%	-4%	-7%	-11%	-6%	-11%	-16%	-4%	-9%	-14%	3%	-2%	-8%	1%	-2%	-4%
U=A/M	Reported ROE	16%	16%	17%	14%	15%	17%	16%	16%	17%	18%	19%	20%	12%	13%	15%	20%	19%	19%
V=F/N	Underlying ROE	15%	15%	15%	12%	11%	12%	8%	9%	10%	14%	14%	14%	9%	10%	11%	16%	14%	13%
W=V-U	% Point Difference	-1%	-1%	-2%	-2%	-4%	-5%	-8%	-6%	-7%	-4%	-5%	-6%	-3%	-3%	-4%	-4%	-5%	-6%

Source: Company data, Morgan Stanley Research. e=Morgan Stanley Research estimates. Note: *BOB & BOI have significant international operations; hence, we have accordingly used a lower tax rate for this analysis: 30% for BOB and reported tax rate for BOI.

Exhibit 40

Indian Banks: Underlying ROE Computation

		SBI Parent			Union			IDBI			Axis			HDFC Bank			ICICI Bank		
	Rs bn	F2012e	F2013e	F2014e	F2012e	F2013e	F2014e	F2012e	F2013e	F2014e	F2012e	F2013e	F2014e	F2012e	F2013e	F2014e	F2012e	F2013e	F2014e
A	Reported PAT	108.0	137.6	160.3	23.8	27.8	35.6	15.2	16.4	20.5	40.0	49.0	62.5	51.0	66.8	86.7	60.6	69.3	83.7
B	Provisioning Build (to achieve coverage of 70%)	1.4	19.9	29.4	2.8	4.2	6.1	3.7	6.5	9.8	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
C	Additional Provisions on Infra Exposures	17.1	19.6	22.6	4.0	4.6	5.3	5.3	6.1	7.0	3.5	4.0	4.6	1.3	1.4	1.7	5.2	6.0	6.9
D	Free Funds Impact (from change in equity)	17.1	14.4	13.6	1.7	1.6	1.8	3.5	3.0	3.6	2.8	3.1	4.1	-2.1	0.3	1.9	-6.7	-0.6	1.9
E	Tax Rate Differential (normalized to 33%)	-10.1	-10.0	-14.7	-1.3	-1.5	-2.1	-2.2	-3.2	-4.4	-0.3	-0.4	-0.3	-2.3	0.2	0.8	-2.9	-1.6	-1.2
F=A-B-C +D-E	Underlying PAT	116.6	122.5	136.6	19.9	22.0	28.1	11.9	10.1	11.7	39.7	48.5	62.3	49.9	65.4	86.1	51.6	64.3	79.9
G	Tier I at the beginning of the year	7.8%	9.4%	9.4%	8.7%	9.5%	9.4%	8.0%	9.4%	9.1%	9.4%	10.2%	10.1%	12.2%	10.4%	10.4%	13.2%	10.2%	10.5%
H	Target Tier I	10.0%	10.0%	10.0%	10.0%	10.0%	10.0%	10.0%	10.0%	10.0%	11.0%	11.0%	11.0%	11.0%	11.0%	11.0%	11.0%	11.0%	11.0%
I	Capital Issued/(Bought Back)	189.7	65.3	71.0	18.4	8.6	11.3	39.0	14.0	22.8	31.3	18.5	28.1	(23.8)	15.0	19.2	(74.1)	30.3	24.7
J	Current share count	635	635	635	524	524	524	985	985	985	411	411	411	2326	2326	2326	1159	1159	1159
K	# of shares issued (mn)	118	34	33	75	31	37	378	136	216	29	14	18	-52	30	32	-88	37	26
L	Diluted share count	753	786	819	600	631	668	1362	1498	1714	439	453	471	2274	2304	2336	1071	1108	1134
M	Reported BV	834	1038	1158	150	172	202	138	150	165	228	267	316	293	345	411	463	507	560
N	Diluted BV	931	1088	1262	162	188	224	175	196	228	259	316	394	268	334	419	384	456	532
O=A/J	Reported EPS (Rs per share)	166	193	211	45	52	66	15	17	21	96	116	147	22	29	37	52	60	72
P=E/L	Underlying EPS (Rs per share)	168	159	170	35	36	43	10	7	7	94	109	136	22	29	37	46	59	71
Q=O/P-1	% Change	1%	-18%	-19%	-21%	-31%	-35%	-34%	-58%	-65%	-2%	-5%	-8%	-1%	0%	0%	-11%	-1%	-1%
R=M/J	Reported BVPS (Rs per share)	1197	1367	1526	279	321	377	140	152	168	538	629	745	126	148	177	400	438	483
S=N/L	Underlying BVPS (Rs per share)	1236	1383	1541	269	298	335	128	131	133	590	698	837	118	145	180	358	411	469
T=S/R-1	% Change	3%	1%	1%	-4%	-7%	-11%	-8%	-14%	-21%	10%	11%	12%	-6%	-2%	2%	-10%	-6%	-3%
U=A/M	Reported ROE	15%	15%	15%	17%	17%	19%	12%	11%	13%	19%	20%	21%	19%	21%	23%	13.7%	14.3%	15.7%
V=F/N	Underlying ROE	15%	12%	12%	14%	13%	14%	8%	5%	5%	18%	17%	18%	19%	22%	23%	12.8%	15.3%	16.2%
W=V-U	% Point Difference	0%	-3%	-3%	-3%	-5%	-5%	-4%	-6%	-8%	-1%	-3%	-4%	0%	1%	0%	-1%	1%	0%

Source: Company data, Morgan Stanley Research. e=Morgan Stanley Research estimates. Note: *ICICI Bank has significant international operations, hence we have accordingly used the reported tax rate for ICICI Bank for this analysis.

Exhibit 41

Indian Banks: Underlying ROE Computation

		IndusInd			ING Vysya			Kotak Bank			Yes		
	Rs bn	F2012e	F2013e	F2014e	F2012e	F2013e	F2014e	F2012e	F2013e	F2014e	F2012e	F2013e	F2014e
A	Reported PAT	7.3	9.1	11.8	4.0	4.8	6.1	9.8	10.5	12.3	8.7	10.9	13.9
B	Provisioning Build (to achieve coverage of 70%)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
C	Additional Provisions on Infra Exposures	0.2	0.2	0.2	0.5	0.6	0.7	0.0	0.0	0.0	1.2	1.4	1.6
D	Free Funds Impact (from change in equity)	-0.4	0.1	0.3	0.4	0.5	0.4	-0.6	-0.2	0.1	0.5	0.9	1.0
E	Tax Rate Differential (normalized to 33%)	-0.2	0.0	0.0	0.0	0.0	-0.1	0.1	0.2	0.3	-0.2	-0.1	-0.1
F=A-B-C +D-E	Underlying PAT	7.0	9.1	11.9	3.9	4.7	5.9	9.0	9.9	11.9	8.2	10.5	13.3
G	Tier I at the beginning of the year	12.3%	10.2%	10.4%	9.4%	10.0%	10.4%	18.0%	10.9%	10.5%	9.7%	9.8%	10.2%
H	Target Tier I	11.0%	11.0%	11.0%	11.0%	11.0%	11.0%	11.0%	11.0%	11.0%	11.0%	11.0%	11.0%
I	Capital Issued/(Bought Back)	(4.0)	3.1	2.9	4.3	3.3	2.2	(24.8)	0.4	2.5	5.6	6.8	5.8
J	Current share count	466	466	466	121	121	121	737	737	737	347	347	347
K	# of shares issued (mn)	-16	11	9	15	10	6	-55	1	6	21	20	14
L	Diluted share count	450	462	470	136	146	152	682	683	689	368	388	402
M	Reported BV	47	54	64	39	44	49	74	85	97	61	70	81
N	Diluted BV	42	53	66	34	41	49	48	58	72	51	66	83
O=A/J	Reported EPS (Rs per share)	16	20	25	28	32	41	13	14	17	24	27	35
P=E/L	Underlying EPS (Rs per share)	15	20	25	31	34	40	13	14	17	23	28	34
Q=O/P-1	% Change	-3%	2%	1%	9%	4%	-3%	-4%	2%	4%	-6%	1%	-3%
R=M/J	Reported BVPS (Rs per share)	100	116	137	264	292	327	101	115	131	152	175	204
S=N/L	Underlying BVPS (Rs per share)	94	115	140	250	284	321	71	85	105	137	171	207
T=S/R-1	% Change	-6%	-1%	3%	-5%	-3%	-2%	-29%	-26%	-20%	-10%	-3%	2%
U=A/M	Reported ROE	17%	18%	20%	11%	12%	13%	14%	13%	14%	19%	17%	18%
V=F/N	Underlying ROE	17%	19%	20%	13%	13%	13%	16%	19%	18%	19%	18%	18%
W=V-U	% Point Difference	0%	1%	0%	2%	1%	0%	2%	5%	5%	-1%	1%	-1%

Source: Company data, Morgan Stanley Research. e=Morgan Stanley Research estimates.

Bank of Baroda (BOB.BO, Rs774.5, UW, PT Rs630)

Risk-Reward View:
Slowing operating earnings progression + expensive valuations

Price Target Rs630		Derived from our probability-weighted residual income model Bull 5%; Base 70%; Bear 25%
Bull Case Rs1000	1.6x F2012e BVPS	**Interest rates soften sooner than expected:** Loan growth is much stronger than base case. Margins expand in F2H2012 and F2013 given drop in deposit rates, even as loan demand remains strong. Asset quality trends are better than expected.
Base Case Rs650	1.1x F2012e BVPS	**Weak economic growth, rates higher for longer:** Loan book expands 17% in F2012-13. Margins remain broadly stable through the rest of the year. Credit costs move higher to 54bps in F2012 and 71bps in F2013 from 52bps in F2011 and 57bps in F2010.
Bear Case Rs500	0.8x F2012e BVPS	**Materially weaker economic growth:** Loan growth and margins are lower than base case. Impaired loan formation is higher than expected, driven by high slippages from SME loans and restructuring in the infrastructure space.

Source: FactSet, Morgan Stanley Research estimates

Investment Thesis

- Current valuations at 8.3x F12e earnings and 1.3x F12e BV are expensive vs. peers and the stocks' own history.
- Core operating profit per share growth to fall to 2% in F2012 vs. a 60% gain in F2011 driven by lower NII growth.
- International loan book (~25% of total loans) could provide some buffer to domestic margin compression.
- Asset quality position is comfortable, with a reported coverage ratio of 83%. However, potential that credit cost leverage will support earnings is low, since LLP/avg loans in F2011 was already low, at 52bps.

Key Value Drivers

- Margin progression.
- Trend in loan growth.
- Fee income growth.
- Credit costs.
- Operating costs.

Potential Catalysts

- Systemwide deposit/loan growth trend
- Deposit rate changes
- New NPL formation (reported on quarterly basis).
- Any news flow on Dubai/Middle-East region/Dubai World exposure

Key Upside Risks

- Margins progression is stronger than expected;
- Loan demand is high,
- Fee income growth is faster than assets.

Bank of Baroda: Financial Summary

Profit and Loss Statement				
Rs Mln (Year end March)	**F2011**	**F2012E**	**F2013E**	**F2014E**
Interest Income	216329	294477	345943	381799
Interest Expense	130837	202905	237801	252693
Net Interest Income	**85493**	**91572**	**108141**	**129106**
---Fee Income	10206	12146	13967	16342
---Forex Income	5148	5405	6216	7273
---Capital Gains	4437	2840	3000	3500
---Miscellaneous Inc.	10831	8152	9551	11250
Total Non Interest Income	**30622**	**28543**	**32735**	**38365**
Total Operating Income	**116115**	**120114**	**140876**	**167471**
---Employee Exp	29168	27551	31054	37652
---Other Expenses	17130	20899	24661	29100
Total Operating Expenses	46298	48451	55715	66752
Operating Profit	**69816**	**71664**	**85161**	**100719**
---Prov. For Investment Dep.	90	2858	2000	2000
---Loan Loss Provisions	10401	13484	20669	24295
---Other Provisions	2822	2633	2042	2472
Total provisions	13313	18976	24711	28767
Profit Before Tax	**56503**	**52688**	**60450**	**71953**
Provision for Tax	14086	15806	18135	21586
Net Profit	**42417**	**36882**	**42315**	**50367**
Core Operating profit	54548	60672	72610	85969

Balance Sheet Data				
Rs Mln (Year end March)	**F2011**	**F2012E**	**F2013E**	**F2014E**
Share holders equity	209931	246449	277950	317503
Deposits	3054395	3604186	4216897	4933770
Borrowings	115592	136398	159586	186715
Other Liabilities & Prov.	204054	240784	281717	329609
Total Liabilities	**3583972**	**4227817**	**4936151**	**5767597**
Cash & Balances with RBI	198682	234445	274300	320931
Balances with Banks	300659	360791	432949	519539
Investments	712606	867545	1004551	1134613
Advances	2286764	2675513	3130351	3693814
Fixed Assets	22997	24147	25354	26622
Other Assets	62264	65377	68646	72078
Total Assets	**3583972**	**4227817**	**4936151**	**5767597**
Earning Assets	3498711	4138293	4842150	5668897
No Of Shares (mn)	393	402	402	402
Asset Quality				
Gross NPL	31525	39589	55555	74321
Net NPL	7909	9932	13937	18645
Reserve Coverage	23616	29657	41618	55676
Gross NPL Ratio	1.4%	1.5%	1.8%	2.0%
Net NPL Ratio	0.3%	0.4%	0.4%	0.5%
Coverage	85.0%	84.4%	83.3%	82.4%

Per Share Data and Valuations				
Year end March	**F2011**	**F2012E**	**F2013E**	**F2014E**
Per Share Data				
EPS (diluted)	116.0	92.8	105.3	125.3
Book Value	534.4	613.2	691.6	790.0
Core Op. Profit	149.2	152.7	180.7	213.9
DPS	16.5	20.0	23.0	23.0
Valuations				
PE	6.7	8.3	7.4	6.2
Price to Book	1.4	1.3	1.1	1.0
Price to Core Op. Profit	5.2	5.1	4.3	3.6
Dividend Yield	2.1%	2.6%	3.0%	3.0%

Ratio Analysis				
(Year end March)	**F2011**	**F2012E**	**F2013E**	**F2014E**
Spread Analysis				
Average yield on assets	7.0%	7.7%	7.7%	7.3%
Cost of earning assets	4.2%	5.3%	5.3%	4.8%
Net Interest Margin (NIM)	2.8%	2.4%	2.4%	2.5%
Growth Ratios				
Net Interest Income	43.9%	7.1%	18.1%	19.4%
Non Interest Income	9.1%	-6.8%	14.7%	17.2%
Operating expenses	21.5%	4.6%	15.0%	19.8%
Operating Profit	41.5%	2.6%	18.8%	18.3%
Net Profit	38.7%	-13.0%	14.7%	19.0%
EPS	38.7%	-20.0%	13.4%	19.0%
Deposits	26.6%	18.0%	17.0%	17.0%
Advances	30.6%	17.0%	17.0%	18.0%
Total Assets	28.8%	18.0%	16.8%	16.8%
Profitability Ratios				
Return On Equity	23.5%	15.9%	16.1%	16.9%
Return on Assets	1.3%	0.9%	0.9%	0.9%
Efficiency Ratios				
Cost Income Ratio	39.9%	40.3%	39.5%	39.9%
Expenses/Avg Assets	1.5%	1.2%	1.2%	1.2%
Capital Ratios				
Tier 1 Ratio	10.0%	9.9%	9.6%	9.4%
Tier 2 Ratio	4.5%	4.4%	4.3%	4.1%
Capital Adequacy Ratio	14.5%	14.4%	13.9%	13.5%

Source: Company Data, E=Morgan Stanley Research Estimates

Bank of India (BOI.BO, Rs301.8, UW, PT Rs265)

Risk-Reward View: Margin/asset quality headwinds to continue

Price Target Rs265		Derived from our probability-weighted residual income model Bull 5%; Base 70%; Bear 25%
Bull Case Rs450	1.3x F2012e BVPS	**Interest rates soften sooner than expected:** Loan growth is much stronger than base case. Margins expand in F2H2012 and F2013 given drop in deposit rates, even as loan demand remains strong. Asset quality trends are better than expected.
Base Case Rs275	0.8x F2012e BVPS	**Weak economic growth, rates higher for longer:** Loan book expands 16% in F2012-13. Margins remain broadly stable through the rest of the year. Credit costs move higher, to 81bps in F2012 and 93bps in F2013 from 64bps in F2011 and 113 bps in F2010.
Bear Case Rs200	0.6x F2012e BVPS	**Materially weaker economic growth:** Loan growth and margins are lower than base case. Impaired loan formation is higher than expected, driven by high slippages from SME loans and restructuring in the infrastructure space.

Source: FactSet, Morgan Stanley Research estimates

Investment Thesis

- Main issues affecting the stock are:
a) Margins are compressing faster than expected and are likely to remain under pressure. Portfolio term deposit cost at 8.3% implies further repricing ahead;
b) Rates remaining higher for longer has raised the risk of asset quality deteriorating in the coming quarters. Early signs were visible in F1Q12 results, given pickup in restructuring.
- BOI's Tier I ratio is weak, at 8.3% (as of Mar-11) – this compares with SOE bank average at 9% and private bank average at 12%.
- 0.8x F2012 BV and 6.3x F2012 P/E – appear reasonable but don't offer enough margin of safety in the face of uncertain macro conditions.

Key Value Drivers

- Revenues – margin progression, loan growth and fee income progression.
- Credit costs.
- Operating costs.

Potential Catalysts

- New NPL formation in F2H12.
- Margin trends.
- Trend in systemwide loan growth.
- Fee income progression.
- Policy environment for infra segment

Key Upside Risks

- Margins progression is stronger than expected;
- Loan demand is high;
- Fee income growth is faster than assets;
- Robust NPL recovery

Bank of India: Financial Summary

Profit and Loss Statement				
Rs Mln (Year end March)	**F2011**	**F2012E**	**F2013E**	**F2014E**
Interest Income	214747	289025	334008	388370
Interest Expense	139410	210309	238419	268560
Net Interest Income	**75337**	**78715**	**95589**	**119810**
---Fee Income	11811	13167	14813	17331
---Forex Income	5025	5633	6478	7449
---Capital Gains	3218	3597	3750	4000
---Miscellaneous Inc.	9134	9104	8801	9671
Total Non Interest Income	**29188**	**31501**	**33842**	**38452**
Total Operating Income	**104525**	**110216**	**129431**	**158261**
---Employee Exp	34754	29134	32522	38257
---Other Expenses	15928	18795	21803	25291
Total Operating Expenses	50682	47930	54325	63548
Operating Profit	**53842**	**62286**	**75106**	**94713**
---Loan Loss Provisions	12123	18632	24824	29978
---Other Provisions	6765	5542	6311	6811
Total provisions	18888	24174	31134	36789
Profit Before Tax	**34954**	**38112**	**43972**	**57924**
Provision for Tax	10067	11732	12752	16798
Net Profit	**24887**	**26379**	**31220**	**41126**
Core Operating profit	41490	49585	62555	81042

Balance Sheet Data				
Rs Mln (Year end March)	**F2011**	**F2012E**	**F2013E**	**F2014E**
Share holders equity	172907	198686	224425	257814
Deposits	2988858	3526853	4126417	4827908
Borrowings	128616	151767	177567	207754
Other Liabilities & Prov.	221345	261187	305588	357538
Total Liabilities	**3511725**	**4138492**	**4833999**	**5651014**
Cash & Balances with RBI	217824	257033	300728	351852
Balances with Banks	155276	184778	219886	261664
Investments	858724	1053486	1224271	1427174
Advances	2130962	2471916	2892141	3383805
Fixed Assets	24807	28529	32808	37729
Other Assets	124132	142752	164165	188790
Total Assets	**3511725**	**4138492**	**4833999**	**5651014**
Earning Assets	3362786	3967212	4637026	5424496
No Of Shares (mn)	547	556	556	556
Asset Quality				
Gross NPL	48116	63938	92099	126617
Net NPL	19450	25846	37230	51183
Reserve Coverage	28666	38092	54870	75434
Gross NPL Ratio	2.2%	2.5%	3.1%	3.7%
Net NPL Ratio	0.9%	1.0%	1.3%	1.5%
Coverage	72.2%	71.1%	69.2%	67.8%

Per Share Data and Valuations				
Year end March	**F2011**	**F2012E**	**F2013E**	**F2014E**
Per Share Data				
EPS	47.3	47.8	56.2	74.0
Book Value	316.0	357.4	403.7	463.8
Core Op. Profit	78.9	89.9	112.5	145.8
DPS	7.0	7.5	8.5	12.0
Valuations				
PE	6.4	6.3	5.4	4.1
Price to Book	1.0	0.8	0.7	0.7
Price to Core Op. Profit	3.8	3.4	2.7	2.1
Dividend Yield	2.3%	2.5%	2.8%	4.0%

Ratio Analysis				
(Year end March)	**F2011**	**F2012E**	**F2013E**	**F2014E**
Spread Analysis				
Average yield on assets	7.1%	7.9%	7.8%	7.7%
Cost of earning assets	4.6%	5.7%	5.5%	5.3%
Net Interest Margin (NIM)	2.5%	2.1%	2.2%	2.4%
Growth Ratios				
Net Interest Income	31%	4%	21%	25%
Non Interest Income	12%	8%	7%	14%
Operating expenses	38%	-5%	13%	17%
Operating Profit	14%	16%	21%	26%
Net Profit	43%	6%	18%	32%
EPS	43%	1%	17%	32%
Deposits	30%	18%	17%	17%
Advances	26%	16%	17%	17%
Total Assets	28%	18%	17%	17%
Profitability Ratios				
Return On Equity	15.8%	14.2%	14.8%	17.1%
Return on Assets	0.8%	0.7%	0.7%	0.8%
Efficiency Ratios				
Cost Income Ratio	48.5%	43.5%	42.0%	40.2%
Expenses/Avg Assets	1.6%	1.3%	1.2%	1.2%
Capital Ratios				
Tier 1 Ratio	8.3%	8.1%	7.9%	7.8%
Tier 2 Ratio	3.8%	3.8%	3.8%	3.8%
Capital Adequacy Ratio	12.2%	12.0%	11.7%	11.6%

Source: Company Data, E=Morgan Stanley Research Estimates

Canara Bank (CNBK.BO, Rs435.0, UW, PT Rs355)

Risk-Reward View:
High exposure to infrastructure lending + low underlying coverage

Price Target Rs355		Derived from our probability-weighted residual income model Bull 5%; Base 70%; Bear 25%
Bull Case Rs645	1.2x F2012e BVPS	**Interest rates soften sooner than expected:** Loan growth is much stronger than base case. Margins expand in F2H2012 and F2013, given drop in deposit rates, even as loan demand remains strong. Asset quality trends are better than expected.
Base Case Rs375	0.7x F2012e BVPS	**Weak economic growth, rates higher for longer:** Loan book expands 19% in F2012-13. Margins remain broadly stable through the rest of the year. Credit costs move higher, to 61bps in F2012 and 95bps in F2013 from 52bps in F2011 and 93bps in F2010.
Bear Case Rs250	0.5x F2012e BVPS	**Materially weaker economic growth:** Loan growth and margins are lower than base case. Impaired loan formation is higher than expected, driven by high slippages from SME loans and restructuring in the infrastructure space.

Source: FactSet, Morgan Stanley Research estimates

Investment Thesis

- Core operating profit per share growth slows, to decline by 4% in F12 from 45% growth in F11.
- Asset quality is weak relative to peers. Coverage ratio excluding technical write-offs is lowest among peers, at 20%. High restructured loan proportion of 4.0% to total loans could create asset quality stress in the event of a poor macro environment.
- CASA ratio is weaker than that of other peers, at 25%.
- Higher % of infrastructure loans (23%) vs. peers is a potential risk.
- Valuations at 5.5x F2012E P/E and 0.8x BV are reasonable, but don't offer enough margin of safety.

Key Value Drivers

- Revenues – margin progression, loan growth and fee income progression.
- Credit costs.
- Operating costs.

Potential Catalysts

- Margin progression in F2H12
- Asset quality trends – particularly in the infrastructure sector
- Trend in systemwide loan growth.

Key Upside Risks

- Margins progression is stronger than expected;
- Loan demand is high,
- Fee income growth is faster than assets;
- Robust NPL recovery trend.

Canara Bank: Financial Summary

Profit and Loss Statement				
Rs Mln (Year end March)	**F2011**	**F2012E**	**F2013E**	**F2014E**
Interest Income	230640	316542	382169	440797
Interest Expense	152407	235688	280876	317898
Net Interest Income	**78233**	**80854**	**101293**	**122899**
---Fee Income	7560	8371	9711	11167
---Forex Income	3810	4420	5127	5947
---Capital Gains	2360	2030	2500	3000
---Miscellaneous Inc.	13300	12683	14586	16774
Total Non Interest Income	**27030**	**27504**	**31923**	**36888**
Total Operating Income	**105263**	**108358**	**133216**	**159787**
---Employee Exp	29548	29414	34192	40121
---Other Expenses	14645	17011	19733	22890
Total Operating Expenses	44193	46425	53925	63010
Operating Profit	**61070**	**61934**	**79291**	**96777**
---Prov. For Investment Dep.	440	1150	1500	1750
---Loan Loss Provisions	10012	14127	26199	31439
---Other Provisions	359	1750	2000	2000
Total provisions	10811	17027	29699	35189
Profit Before Tax	**50259**	**44907**	**49592**	**61587**
Provision for Tax	10000	9879	10910	13549
Net Profit	**40259**	**35027**	**38682**	**48038**
Core Operating profit	**45410**	**47220**	**62206**	**77003**

Balance Sheet Data				
Rs Mln (Year end March)	**F2011**	**F2012E**	**F2013E**	**F2014E**
Share holders equity	200398	229206	260891	299600
Deposits	2939727	3468877	4162653	4995183
Borrowings	51984	61341	73609	88331
Other Liabilities & Prov.	168679	199041	238849	286619
Total Liablilities	**3360788**	**3958465**	**4736002**	**5669733**
Cash & Balances with RBI	220148	259775	311729	374075
Balances with Banks	86933	104320	125184	150221
Investments	836999	1001582	1197732	1434584
Advances	2124672	2507113	3008535	3610242
Fixed Assets	28444	28444	29866	31360
Other Assets	63591	57232	62956	69251
Total Assets	**3360788**	**3958465**	**4736002**	**5669733**
Earning Assets	3257972	3859853	4627657	5550495
No Of Shares (mn)	443	443	443	443
Asset Quality				
LLP/Average Loans (bps)	52	61	95	95
Gross NPL	30892	36682	54608	74464
Net NPL	23473	29064	37338	45611
Reserve Coverage	7419	7618	17270	28853
Gross NPL Ratio	1.4%	1.5%	1.8%	2.0%
Net NPL Ratio	1.1%	1.2%	1.2%	1.3%
Coverage Ratio	73.0%	69.8%	68.5%	68.1%

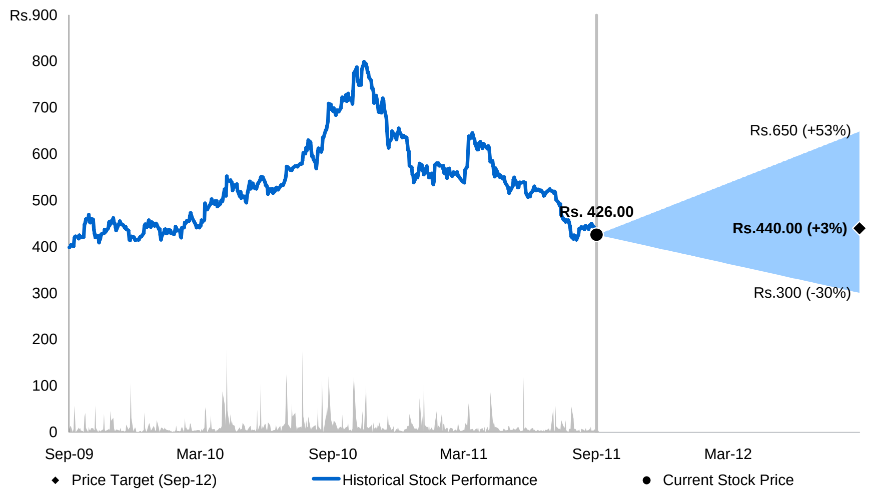
Per Share Data and Valuations				
(Year end March)	**F2011**	**F2012E**	**F2013E**	**F2014E**
Per Share Data				
EPS	98.2	79.1	87.3	108.4
Book Value	452.4	517.4	588.9	676.3
Core Op. Profit	110.8	106.6	140.4	173.8
DPS	11.0	12.0	13.5	18.0
Valuations				
PE	4.4	5.5	5.0	4.0
Price to Book	1.0	0.8	0.7	0.6
Price to Core Op. Profit	3.9	4.1	3.1	2.5
Dividend Yield	2.5%	2.8%	3.1%	4.1%

Ratio Analysis				
(Year end March)	**F2011**	**F2012E**	**F2013E**	**F2014E**
Spread Analysis				
Average yield on assets	7.9%	8.9%	9.0%	8.7%
Cost of earning assets	5.2%	6.6%	6.6%	6.2%
Net Interest Margin (NIM)	2.7%	2.3%	2.4%	2.4%
Growth Ratios				
Net Interest Income	38%	3%	25%	21%
Non Interest Income	-5%	2%	16%	16%
Operating expenses	27%	5%	16%	17%
Operating Profit	21%	1%	28%	22%
Net Profit	33%	-13%	10%	24%
EPS	33%	-19%	10%	24%
Deposits	25%	18%	20%	20%
Advances	25%	18%	20%	20%
Total Assets	27%	18%	20%	20%
Profitability Ratios				
Return On Equity	23.2%	16.3%	15.8%	17.1%
Return on Assets	1.3%	1.0%	0.9%	0.9%
Efficiency Ratios				
Cost Income Ratio	42.0%	42.8%	40.5%	39.4%
Expenses/Avg Assets	1.5%	1.3%	1.2%	1.2%
Capital Ratios				
Tier 1 Ratio	10.9%	10.6%	10.2%	9.8%
Tier 2 Ratio	4.5%	4.5%	4.5%	4.5%
Capital Adequacy Ratio	15.4%	15.1%	14.7%	14.3%

Source: Company Data, E=Morgan Stanley Research Estimates

Corporation Bank (CRBK.BO, Rs426.0, EW, PT Rs440)

Risk-Reward View:
Weak liability franchise is a concern; but valuations drive EW



Price Target Rs440		Derived from our probability-weighted residual income model Bull 5%; Base 70%; Bear 25%
Bull Case Rs650	1.2x F2012e BVPS	**Interest rates soften sooner than expected:** Loan growth is much stronger than base case. Margins expand in F2H2012 and F2013, given drop in deposit rates, even as loan demand remains strong. Asset quality trends are better than expected.
Base Case Rs475	0.9x F2012e BVPS	**Weak economic growth, rates higher for longer:** Loan book expands 16% in F2012-13. Margins remain broadly stable through the rest of the year. Credit costs move to 70bps in F2012 and 87bps in F2013 from 73bps in F2011 and 62bps in F2010.
Bear Case Rs300	0.5x F2012e BVPS	**Materially weaker economic growth:** Loan growth and margins are lower than base case. Impaired loan formation is higher than expected, driven by high slippages from SME loans and restructuring in the infrastructure space.

Source: FactSet, Morgan Stanley Research estimates

Investment Thesis

- Weak CASA franchise (CASA to total funding at 24%) is key risk. Hence, it is vulnerable to a rise in bulk funding rates.
- Core PPOP per share growth slows to 16% in F2012 from 69% in F2011, driven by lower NII growth.
- Valuations appear reasonable at 4.5x F2012e earnings, 0.8x F2012e BV.

Key Value Drivers

- Margin progression.
- Trend in loan growth.
- Fee income growth.
- Credit costs.
- Operating costs.

Potential Catalysts

- Slippages and upgrades/recoveries to be reported in F2012.
- Trend in system-wide loan growth (released on a fortnightly basis).
- Trend in short rates (given relatively weak CASA).

Key Risks

- *Downside:* Sharp rise in short rates (weaker CASA ratio). Greater slippage from restructured loans into NPLs. Further acceleration in new impaired loan formation
- *Upside:* Margins progression is stronger than expected; loan demand is high, fee income growth is faster than assets; robust NPL recovery trend; fee income growth > asset growth could support ROA expansion (in long term).

Corporation Bank: Financial Summary

Profit and Loss Statement				
Rs Mln (Year end-March)	**F2011**	**F2012E**	**F2013E**	**F2014E**
Interest Income	91352	126430	148365	174450
Interest Expense	61955	95501	111736	130115
Net Interest Income	**29397**	**30928**	**36629**	**44335**
---Fee Income	3533	4057	4666	5365
---Forex Income	1076	1192	1371	1577
---Capital Gains	2095	1000	1000	1000
---Miscellaneous Inc.	4470	5133	5647	6211
Total Non Interest Income	**13244**	**13249**	**14736**	**16412**
Total Operating Income	**42641**	**44177**	**51365**	**60747**
---Employee Exp	8949	6057	6878	7977
---Other Expenses	7468	8961	10305	11851
Total Operating Expenses	16417	15019	17184	19828
Operating Profit	**26224**	**29159**	**34181**	**40919**
---Prov. For Investment Dep.	797	1306	800	800
---Loan Loss Provisions	5478	6553	9552	11227
Total provisions	6888	9289	11251	13270
Profit Before Tax	**19336**	**19870**	**22930**	**27649**
Provision for Tax	5204	5961	6879	8295
Net Profit	**14133**	**13909**	**16051**	**19354**
Core Operating profit	17590	21159	25482	31449

Balance Sheet Data				
Rs Mln (Year end-March)	**F2011**	**F2012E**	**F2013E**	**F2014E**
Share holders equity	71378	81121	91839	105861
Deposits	1167475	1365946	1598157	1885825
Borrowings	106279	124346	145485	171672
Other Liabilities & Prov.	89954	105246	123138	145303
Total Liabilities	**1435086**	**1676659**	**1958619**	**2308661**
Cash & Balances with RBI	81423	95265	111460	131523
Balances with Banks	22502	26327	30803	36347
Investments	434527	518066	606609	717321
Advances	868504	1007465	1178734	1390906
Fixed Assets	3310	3476	3649	3832
Other Assets	24819	26060	27363	28731
Total Assets	**1435086**	**1676659**	**1958619**	**2308661**
Earning Assets	1406957	1647123	1927606	2276097
No Of Shares (mn)	148	148	148	148
Asset Quality				
Gross NPL	7902	11654	15480	19977
Net NPL	3977	5866	7792	10055
Reserve Coverage	3925	5788	7688	9921
Gross NPL Ratio	0.9%	1.1%	1.3%	1.4%
Net NPL Ratio	0.5%	0.6%	0.7%	0.7%
Coverage Ratio	80.2%	76.5%	74.6%	73.2%

**Coverage Ratio from F2010 ownards includes technical write offs*

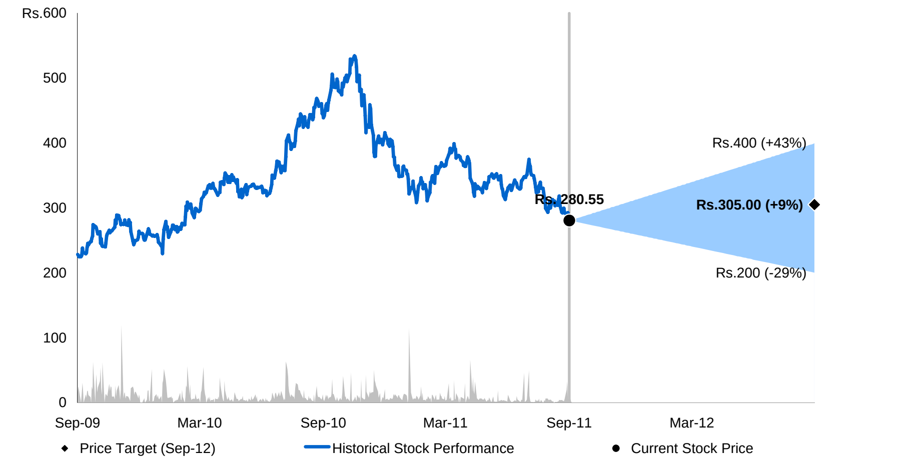
Per Share Data and Valuations				
Year end-March	**F2011**	**F2012E**	**F2013E**	**F2014E**
Per Share Data				
EPS	98.5	93.9	108.4	130.7
Book Value	481.9	547.6	620.0	714.6
Core Op. Profit	122.6	142.8	172.0	212.3
DPS	20	25	32	32
Valuations				
PE	4.3	4.5	3.9	3.3
Price to Book	0.9	0.8	0.7	0.6
Price to Core Op. Profit	3.5	3.0	2.5	2.0
Dividend Yield	4.7%	5.9%	7.5%	7.5%

Ratio Analysis				
Year end-March	**F2011**	**F2012E**	**F2013E**	**F2014E**
Spread Analysis				
Average yield on assets	7.3%	8.3%	8.3%	8.3%
Cost of earning assets	5.0%	6.3%	6.3%	6.2%
Net Interest Margin (NIM)	2.4%	2.0%	2.0%	2.1%
Growth Ratios				
Net Interest Income	54.5%	5.2%	18.4%	21.0%
Non Interest Income	-11.3%	0.0%	11.2%	11.4%
Operating expenses	30.3%	-8.5%	14.4%	15.4%
Operating Profit	22.7%	11.2%	17.2%	19.7%
Net Profit	20.8%	-1.6%	15.4%	20.6%
EPS	20.8%	-4.7%	15.4%	20.6%
Deposits	25.9%	17.0%	17.0%	18.0%
Advances	37.4%	16.0%	17.0%	18.0%
Total Assets	28.5%	16.8%	16.8%	17.9%
Profitability Ratios				
Return On Equity	21.9%	18.2%	18.6%	19.6%
Return on Assets	1.1%	0.9%	0.9%	0.9%
Efficiency Ratios				
Cost Income Ratio	38.5%	34.0%	33.5%	32.6%
Expenses/Avg Assets	1.3%	1.0%	0.9%	0.9%
Capital Ratios				
Tier 1 Ratio	9.3%	8.9%	8.5%	8.3%
Tier 2 Ratio	6.1%	6.1%	6.1%	6.1%
Capital Adequacy Ratio	15.4%	15.0%	14.7%	14.4%

Source: Company Data, Morgan Stanley Research Estimates

Oriental Bank of Commerce (ORBC.BO, Rs280.6, EW, PT Rs305)

Risk-Reward View:
Weak liability franchise is a worry; but valuations drive EW



Price Target Rs305		Derived from our probability-weighted residual income model Bull 5%; Base 70%; Bear 25%
Bull Case Rs400	1.0x F2012e BVPS	**Interest rates soften sooner than expected:** Loan growth is much stronger than base case. Margins expand in F2H2012 and F2013, given drop in deposit rates, even as loan demand remains strong. Asset quality trends are better than expected.
Base Case Rs340	0.8x F2012e BVPS	**Weak economic growth, rates higher for longer:** Loan book expands 17%% in F2012-13. Margins remain broadly stable through the rest of the year. Credit costs move to 75bps in F2012 and 96bps in F2013 from 104bps in F2011 and 70bps in F2010.
Bear Case Rs200	0.5x F2012e BVPS	**Materially weaker economic growth:** Loan growth and margins are lower than base case. Impaired loan formation is higher than expected, driven by high slippages from SME loans and restructuring in the infrastructure space.

Source: FactSet, Morgan Stanley Research estimates

Investment Thesis

- CASA/funding is weak, at ~24%.
- Infrastructure exposure is higher than most peers, at 19% of total.
- Core PPOP per share growth at -23% in F2012 versus +63% in F2011, partially driven by capital infusion at the end of F2011.
- Valuations could provide support at 5.8x PE F2012e. However, profitability is thin, at 0.8% ROA in F2012-13, implying little ability to withstand higher credit costs.

Key Value Drivers

- Margin progression.
- Trend in loan growth.
- Fee income growth.
- Credit costs.
- Operating costs.

Potential Catalysts

- Margin progression in F2012.
- Slippages trend in coming quarters.
- Trend in systemwide loan / deposit growth (released on a fortnightly basis).
- Market ascribing value to the 23% stake in life insurance venture with HSBC and OBC.

Key Risks

- *Downside:* Slower-than-expected loan growth, sharp compression in NIMs and significant deterioration in asset quality (restructured loans slippages)
- *Upside*: Stronger-than-expected loan growth. Less-than-expected margin compression. Credit costs below expectations. Fee income growth > asset growth could support ROA expansion (in long term).

Oriental Bank of Commerce: Financial Summary

Profit & Loss Statement				
Rs Mln (Year end March)	**F2011**	**F2012E**	**F2013E**	**F2014E**
Interest Income	120878	156193	184848	214615
Interest Expense	79103	116078	135798	153722
Net Interest Income	**41775**	**40115**	**49050**	**60893**
---Fee Income	6349	7428	8543	9824
---Forex Income	1233	1727	1986	2283
---Capital Gains	754	1917	1750	1750
---Miscellaneous Inc.	1265	1581	1818	2090
Total Non Interest Income	**9601**	**12652**	**14096**	**15948**
Total Operating Income	**51376**	**52768**	**63146**	**76841**
---Employee Exp	10485	12216	14350	17000
---Other Expenses	8440	9706	11356	13287
Total Operating Expenses	18925	21923	25706	30287
Operating Profit	**32451**	**30845**	**37440**	**46554**
---Prov. For Investment Dep.	963	1636	1000	1200
---Loan Loss Provisions	9344	7840	11718	13828
---Other Provisions	1759	1600	2000	2100
Total provisions	12065	11076	14718	17128
Profit Before Tax	**20386**	**19769**	**22722**	**29426**
Provision for Tax	5357	5733	6817	8828
Net Profit	**15029**	**14036**	**15905**	**20598**
Core Operating profit	**30433**	**27348**	**33872**	**42713**

Balance Sheet Data				
Rs Mln (Year end March)	**F2011**	**F2012E**	**F2013E**	**F2014E**
Share holders equity	110971	120938	131757	147269
Deposits	1390543	1640840	1936191	2284706
Borrowings	25892	30553	36052	42542
Other Liabilities & Prov.	86028	101513	119785	141346
Total Liabilities	**1613434**	**1893844**	**2223786**	**2615863**
Cash & Balances with RBI	95151	111693	131798	155521
Balances with Banks	95736	112968	133303	157297
Investments	420748	501901	586797	689992
Advances	959082	1122126	1324109	1562448
Fixed Assets	13978	14118	14259	14402
Other Assets	28739	31038	33521	36202
Total Assets	**1613434**	**1893844**	**2223786**	**2615863**
Earning Assets	1564146	1842117	2169435	2558688
No Of Shares (mn)	291.8	291.8	291.8	291.8
Asset Quality				
Gross NPL	19205	22327	30889	40992
Net NPL	9382	10906	15089	20024
Reserve Coverage	9824	11421	15800	20968
Gross NPL Ratio	2.0%	2.0%	2.3%	2.6%
Net NPL Ratio	1.0%	1.0%	1.1%	1.3%
Coverage Ratio*	77%	76%	74%	72%

** Estimates after F2010 include technical writeoffs as well*

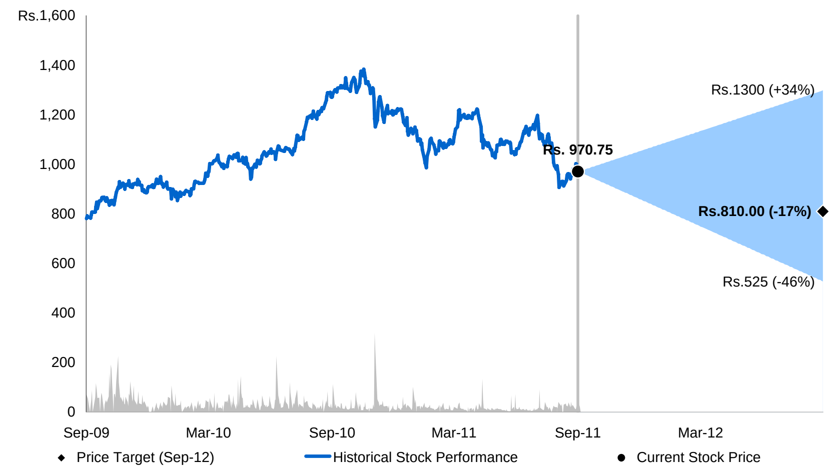
Per Share Data and Valuations				
Rs Mln (Year end March)	**F2011**	**F2012E**	**F2013E**	**F2014E**
Per Share Data				
EPS	60.0	48.1	54.5	70.6
Book Value	380.4	414.5	451.6	504.8
Core Op. Profit	121.5	93.7	116.1	146.4
DPS	10.4	12.0	15.0	15.0
Valuations				
PE	4.7	5.8	5.1	4.0
Price to Book	0.7	0.7	0.6	0.6
Price to Core Op. Profit	2.3	3.0	2.4	1.9
Dividend Yield	3.7%	4.3%	5.3%	5.3%

Ratio Analysis				
Rs Mln (Year end March)	**F2011**	**F2012E**	**F2013E**	**F2014E**
Spread Analysis				
Average yield on assets	8.3%	9.2%	9.2%	9.1%
Cost of earning assets	5.5%	6.8%	6.8%	6.5%
Net Interest Margin (NIM)	2.9%	2.4%	2.4%	2.6%
Growth Ratios				
Net Interest Income	43.7%	-4.0%	22.3%	24.1%
Non Interest Income	-20.0%	31.8%	11.4%	13.1%
Operating expenses	12.2%	15.8%	17.3%	17.8%
Operating Profit	34.0%	-4.9%	21.4%	24.3%
Net Profit	32.4%	-6.6%	13.3%	29.5%
EPS	32.4%	-19.8%	13.3%	29.5%
Deposits	15.6%	18.0%	18.0%	18.0%
Advances	14.9%	17.0%	18.0%	18.0%
Total Assets	17.4%	17.4%	17.4%	17.6%
Profitability Ratios				
Return On Equity	17.1%	12.1%	12.6%	14.8%
Return on Assets	1.0%	0.8%	0.8%	0.9%
Efficiency Ratios				
Cost Income Ratio	36.8%	41.5%	40.7%	39.4%
Expenses/Avg Assets	1.3%	1.3%	1.2%	1.3%
Capital Ratios				
Tier 1 Ratio	11.2%	10.4%	9.7%	9.2%
Tier 2 Ratio	3.0%	3.5%	3.5%	3.5%
Capital Adequacy Ratio	14.2%	13.9%	13.2%	12.7%

Source: Company Data, E=Morgan Stanley Research Estimates

Punjab National Bank (PNBK.BO, Rs970.8, UW, PT Rs810)

Risk-Reward View:
Tepid revenue progression + asset quality concerns to drive underperformance



Price Target Rs810		Derived from our probability-weighted residual income model Bull 5%; Base 70%; Bear 25%
Bull Case Rs1300	1.6x F2012e BVPS	**Interest rates soften sooner than expected:** Loan growth is much stronger than base case. Margins expand in F2H2012 and F2013, given drop in deposit rates, even as loan demand remains strong. Asset quality trends are better than expected.
Base Case Rs875	1.1x F2012e BVPS	**Weak economic growth, rates higher for longer:** Loan book expands 17%% in F2012-13. Margins remain broadly stable through the rest of the year. Credit costs move to 85bps in F2012 and 99bps in F2013 from 93bps in F2011 and 59bps in F2010.
Bear Case Rs525	0.7xF2012e BVPS	**Materially weaker economic growth:** Loan growth and margins are lower than base case. Impaired loan formation is higher than expected, driven by high slippages from SME loans and restructuring in the infrastructure space.

Source: FactSet, Morgan Stanley Research estimates

Investment Thesis

- Robust deposit franchise, with CASA/deposits at ~37%. However, effective cost of term deposits is among lowest in SOE banks coverage, implying that margin pressure could continue in the coming quarters.
- Core operating profit per share growth slows to 9% in F2012e from 35% in F2011, driven by lower NII growth.
- Asset quality is weak relative to peers. PNB has one of highest proportions of restructured loans, at 6.5%, which could cause stress in a poor macro environment.
- Trades at 6.7x F2012E P/E and 1.2x BV. Multiples could be under pressure as revenue growth slows and asset quality deteriorates.

Key Value Drivers

- Margin progression.
- Trend in loan growth.
- Fee income growth.
- Credit costs.
- Operating costs.

Potential Catalysts

- New NPL formation trend in F2012
- Margin trends
- Trend in systemwide loan growth (released on a fortnightly basis).

Key Risks

- *Downside:* Greater-than-expected restructured loan slippage into NPLs. Accelerated new impaired loan formation. Muted systemwide loan growth.
- *Upside*: Stronger-than-expected loan growth. Less-than-expected margin compression. Credit costs below expectations. Fee income growth > asset growth could support ROA expansion (in long term).

Punjab National Bank: Financial Summary

Profit and Loss Statement				
Rs Mln (Year end March)	**F2011E**	**F2012E**	**F2013E**	**F2014E**
Interest Income	268865	363395	425940	482534
Interest Expense	151791	239609	280785	309777
Net Interest Income	**117073**	**123786**	**145155**	**172757**
---Fee Income	20452	24951	28944	33575
---Forex Income	3787	4696	5494	6428
---Capital Gains	2992	3180	3500	4000
---Miscellaneous Inc.	34134	40698	46028	52159
Total Non Interest Income	**37126**	**43878**	**49528**	**56159**
Total Operating Income	**154199**	**167664**	**194683**	**228917**
---Employee Exp	44611	45294	53897	64785
---Other Expenses	19031	22837	26948	31799
Total Operating Expenses	63642	68131	80845	96584
Operating Profit	**90557**	**99533**	**113838**	**132332**
---Prov. For Investment Dep.	1475	3500	3250	3250
---Loan Loss Provisions	20037	22328	30501	35851
---Other Provisions	3408	5750	4500	4500
Total provisions	24920	31578	38251	43601
Profit Before Tax	**65637**	**67955**	**75587**	**88732**
Provision for Tax	21302	21746	24566	28838
Net Profit	**44335**	**46209**	**51021**	**59894**
Core Operating profit	77670	85302	98748	116176

Balance Sheet Data				
Rs Mln (Year end March)	**F2011E**	**F2012E**	**F2013E**	**F2014E**
Share holders equity	215086	252186	291367	338144
Deposits	3128987	3754785	4393098	5161890
Borrowings	203994	203994	238673	280441
Other Liabilities & Prov.	235186	272815	319194	375053
Total Liabilities	**3783252**	**4483780**	**5242332**	**6155528**
Cash & Balances with RBI	237769	281977	329913	387648
Balances with Banks	59143	70380	82345	97991
Investments	951623	1171183	1372405	1597569
Advances	2421067	2832648	3314198	3910754
Fixed Assets	31056	32609	34239	35951
Other Assets	82594	94983	109231	125615
Total Assets	**3783252**	**4483780**	**5242332**	**6155528**
Earning Assets	3669602	4356188	5098862	5993962
No Of Shares (mn)	317	317	317	317
Asset Quality				
Gross NPL	43794	55615	66679	79684
Net NPL	20386	25640	30791	36844
Reserve Coverage	23408	29975	35889	42840
Gross NPL Ratio	1.8%	1.9%	2.0%	2.0%
Net NPL Ratio	0.8%	0.9%	0.9%	0.9%
Coverage Ratio	73.2%	73.2%	74.2%	74.9%

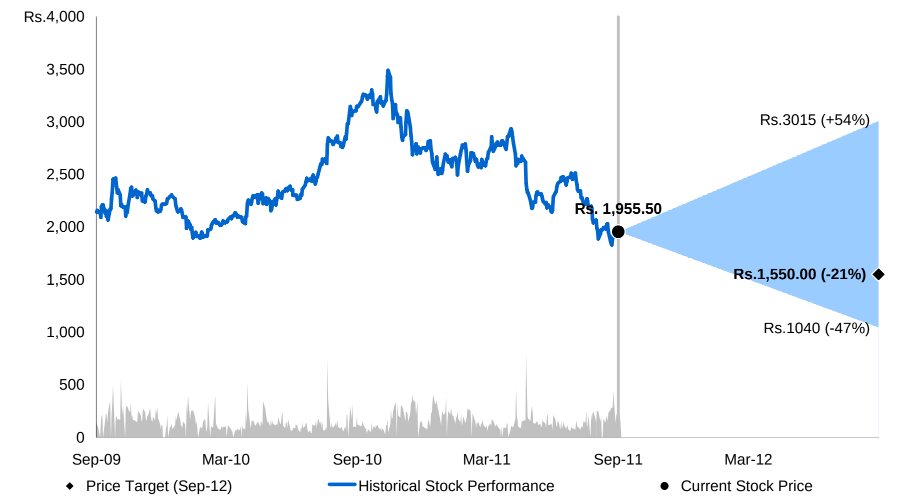
Per Share Data and Valuations				
Year end March	**F2011E**	**F2012E**	**F2013E**	**F2014E**
Per Share Data				
EPS	140.6	145.9	161.0	189.1
Book Value	678.9	796.0	919.7	1067.3
Core Op. Profit	246.3	269.3	311.7	366.7
DPS	22.5	25.0	32.5	36.0
Valuations				
PE	6.9	6.7	6.0	5.1
Price to Book	1.4	1.2	1.1	0.9
Price to Core Op. Profit	3.9	3.6	3.1	2.6
Dividend Yield	2.3%	2.6%	3.3%	3.7%

Ratio Analysis				
(Year end March)	**F2011E**	**F2012E**	**F2013E**	**F2014E**
Spread Analysis				
Average yield on assets	8.2%	9.1%	9.0%	8.7%
Cost of earning assets	4.6%	6.0%	5.9%	5.6%
Net Interest Margin (NIM)	3.6%	3.1%	3.1%	3.1%
Growth Ratios				
Net Interest Income	37.4%	5.7%	17.3%	19.0%
Non Interest Income	4.1%	18.2%	12.9%	13.4%
Operating expenses	33.6%	7.1%	18.7%	19.5%
Operating Profit	23.6%	9.9%	14.4%	16.2%
Net Profit	13.5%	4.2%	10.4%	17.4%
EPS	13.5%	3.7%	10.4%	17.4%
Deposits	25.5%	20.0%	17.0%	17.5%
Advances	29.7%	17.0%	17.0%	18.0%
Total Assets	27.5%	18.5%	16.9%	17.4%
Profitability Ratios				
Return On Equity	22.6%	19.8%	18.8%	19.0%
Return on Assets	1.3%	1.1%	1.0%	1.1%
Efficiency Ratios				
Cost Income Ratio	41.3%	40.6%	41.5%	42.2%
Expenses/Avg Assets	1.9%	1.6%	1.7%	1.7%
Capital Ratios				
Tier 1 Ratio	8.4%	8.4%	8.3%	8.2%
Tier 2 Ratio	4.0%	4.0%	4.0%	4.0%
Capital Adequacy Ratio	12.4%	12.4%	12.3%	12.2%

Source: Company Data, E=Morgan Stanley Research Estimates

State Bank of India (SBI.BO, Rs1955.5, UW, PT Rs1550)

Risk-Reward View: Asset quality concerns could pressure multiples



Price Target Rs1550		Derived from our probability-weighted residual income model Bull 5%; Base 70%; Bear 25%
Bull Case Rs3015	2.0x F2012e BVPS	**Interest rates soften sooner than expected:** Loan growth is much stronger than base case. Margins expand in F2H2012 and F2013, given drop in deposit rates, even as loan demand remains strong. Asset quality trends are better than expected. Value insurance business at Rs190/share using a new business multiplier of 16x and an NBAP margin of 16%.
Base Case Rs1625	1.1x F2012e BVPS	**Weak economic growth, rates higher for longer:** Loan book expands 16%in F2012-13. Margins remain broadly stable through the rest of the year. Value insurance business at Rs125/share using a new business multiplier of 14x and an NBAP margin of 14%.
Bear Case Rs1040	0.7x F2012e BVPS	**Materially weaker economic growth:** Loan growth and margins are lower than base case. Impaired loan formation is higher than expected, driven by high slippages from SME loans and restructuring in the infrastructure space. Value insurance business at Rs85/share using a new business multiplier of 10x and an NBAP margin of 10%.

Source: FactSet, Morgan Stanley Research estimates

Investment Thesis

- Revenue progression (loan growth + fees) likely to be tepid given slowdown in economic growth.
- Asset quality will continue to be under pressure, given peak lending rates and slowing growth.
- Tier I capital ratio is one of the weakest amongst Asian peers, at 7.8% (as of Jun-11).
- Trading at 8.5x F2012e core earnings. On core book value, it is trading at 1.3x F2012e. Multiples could be under pressure as revenue growth slows and asset quality pressures increase.

Key Value Drivers

- Revenues – margin progression, loan growth and fee income progression.
- Credit costs.
- Life insurance valuation/market share.

Potential Catalysts

- Systemwide loan/deposit growth trends
- Margin progression
- Deposit rate trends in India
- Impaired loan trends.

Key Upside Risks

- Stronger-than-expected loan growth.
- Less-than-expected margin compression.
- Credit costs below expectations.
- Improvement in operating efficiency could support ROA progression in long term.

State Bank of India (Consolidated): Financial Summary

Profit and Loss Statement				
Rs Mln (Year end-March)	**F2011**	**F2012E**	**F2013E**	**F2014E**
Interest Income	1104255	1383481	1698539	1887311
Interest Expense	677791	886872	1115253	1196672
Net Interest Income	**426464**	**496609**	**583286**	**690639**
---Fee Income	141791	151331	169271	196175
---Forex Income	18262	16222	18505	21588
---Capital Gains	12944	9770	12244	15690
---Less:Dividend Income	8277	5973	6570	7227
---Miscellaneous Inc.	9381	7816	9061	10925
Total Non Interest Income	**190655**	**191112**	**215651**	**251605**
Total Operating Income	**617119**	**687721**	**798937**	**942244**
---Employee Exp	186873	204162	251581	312258
---Other Expenses	107501	129624	152710	170021
Total Operating Expenses	294373	333786	404291	482279
Operating Profit	**322746**	**353934**	**394645**	**459964**
---Prov. For Investment Dep.	7533	18580	8400	7500
---Loan Loss Provisions	118493	108605	122533	141132
Total provisions	134348	131550	136183	153232
Profit Before Tax	**188399**	**222385**	**258462**	**306732**
Provision for Tax	83572	85293	89454	105838
Net Profit for the year	**104827**	**137092**	**169008**	**200894**
Less:Minority Interest	3580	3082	3267	4318
Banking Net Profit for SBI Shar	**101246**	**134010**	**165741**	**196576**
Other Subs/Adj.	5603	6443	7409	8521
Reported Consol Profit	**106849**	**140453**	**173150**	**205096**

Balance Sheet Data				
Rs Mln (Year end-March)	**F2011**	**F2012E**	**F2013E**	**F2014E**
Share holders equity	811104	1028112	1260662	1418258
Deposits	12458624	14683888	17062046	19980964
Borrowings	916372	1054421	1221501	1426894
Other Liabilities & Prov.	1757904	1959895	2214069	2503161
Total Liabilities	**15962616**	**18749469**	**21784173**	**25358802**
Cash & Balances with RBI	1192338	1345333	1559994	1822979
Balances with Banks	339789	397931	466069	545930
Investments	3842909	4774748	5572036	6408764
Advances	9941536	11502192	13360414	15645775
Fixed Assets	65647	69830	75813	82313
Other Assets	580564	659804	750216	853409
Total Assets	**15962784**	**18749837**	**21784541**	**25359170**
Earning Assets	15330631	18034262	20972571	24437507
Asset Quality				
Annual LLP / Advances (bps)	117	95	95	93
Gross NPL	310873	375584	485503	603352
Net NPL	151375	159181	208317	258307
Reserve Coverage	159498	216403	277187	345045
Gross NPL Ratio	3.1%	3.2%	3.6%	3.8%
Net NPL Ratio	1.5%	1.4%	1.6%	1.7%
Coverage Ratio*	65%	70%	69%	66%

**Coverage Ratio from F2009 onwards includes Technical Write-offs.*

Per Share Data and Valuations				
Year end-March	**F2011**	**F2012E**	**F2013E**	**F2014E**
Per Share Data (Rs)				
EPS	168.3	215.9	243.0	270.1
Book Value	1277.3	1474.8	1660.5	1868.0
DPS	36.6	37.4	47.4	55.2
Valuations				
PE	11.6	9.1	8.0	7.2
Price to Book	1.5	1.3	1.2	1.0
Dividend Yield	1.9%	1.9%	2.4%	2.8%

Ratio Analysis				
Year end-March	**F2011**	**F2012E**	**F2013E**	**F2014E**
Spread Analysis				
Average yield on assets	7.8%	8.5%	8.7%	8.3%
Cost of earning assets	4.8%	5.4%	5.7%	5.3%
Net Interest Margin (NIM)	3.0%	3.0%	3.0%	3.0%
Growth Ratios				
Net Interest Income	36%	16%	17%	18%
Non Interest Income	6%	0%	13%	17%
Operating expenses	17%	13%	21%	19%
Operating Profit	33%	10%	12%	17%
Net Profit	-9%	31%	23%	18%
EPS	-9%	28%	13%	11%
Deposits	12%	18%	16%	17%
Advances	16%	16%	16%	17%
Total Assets	13%	17%	16%	16%
Profitability Ratios				
Return On Equity	13.2%	15.7%	15.5%	15.3%
Return on Assets	0.7%	0.8%	0.9%	0.9%
Efficiency Ratios				
Cost Income Ratio	47.7%	48.5%	50.6%	51.2%
Expenses/Avg Assets	2.0%	1.9%	2.0%	2.0%
Capital Ratios (Parent only)				
Tier 1 Ratio	8.0%	8.3%	7.8%	7.4%
Tier 2 Ratio	4.2%	4.2%	4.2%	4.2%
Capital Adequacy Ratio	12.3%	12.6%	12.1%	11.6%

Source:Company Data, E=Morgan Stanley Research Estimates

State Bank of India (Parent): Financial Summary

Profit and Loss Statement				
Rs Mln (Year end-March)	**F2011**	**F2012E**	**F2013E**	**F2014E**
Interest Income	808444	1038036	1291466	1418515
Interest Expense	488680	650482	835478	880507
Net Interest Income	**319764**	**387554**	**455989**	**538008**
---Fee Income	115633	121526	136109	159247
---Forex Income	15871	13602	15642	18458
---Capital Gains	9257	6939	7500	10000
---Less:Dividend Income	8277	5973	6570	7227
---Miscellaneous Inc.	14708	11782	13549	15988
Total Non Interest Income	**163746**	**159821**	**179370**	**210920**
Total Operating Income	**483510**	**547375**	**635359**	**748928**
---Employee Exp	144802	159361	200582	252897
---Other Expenses	85353	104782	123642	136007
Total Operating Expenses	230155	264143	324225	388904
Operating Profit	**253356**	**283232**	**311134**	**360025**
---Prov. For Investment Dep.	6468	15480	5000	4000
---Loan Loss Provisions	97687	90383	95913	112112
Total provisions	103813	107153	102663	117112
Profit Before Tax	**149542**	**176079**	**208472**	**242913**
Provision for Tax	66897	68076	70880	82590
Net Profit for the year	**82645**	**108004**	**137591**	**160322**

Balance Sheet Data				
Rs Mln (Year end-March)	**F2011**	**F2012E**	**F2013E**	**F2014E**
Share holders equity	649860	834245	1037537	1158416
Deposits	9339328	11020732	12784050	14957338
Borrowings	799451	919369	1066468	1247768
Other Liabilities & Prov.	1448722	1613406	1827066	2066775
Total Liabilities	**12237362**	**14387752**	**16715121**	**19430296**
Cash & Balances with RBI	943955	1053641	1219426	1422966
Balances with Banks	284786	333200	389844	456118
Investments	2956006	3694191	4319091	4947145
Advances	7567194	8753251	10153772	11879913
Fixed Assets	47642	50024	54026	58348
Other Assets	437778	503445	578962	665806
Total Assets	**12237362**	**14387752**	**16715121**	**19430296**
Earning Assets	11751942	13834283	16082133	18706142
Asset Quality				
Annual LLP / Advances (bps)	127	102	96	96
Gross NPL	253263	305155	395615	502253
Net NPL	123469	128324	168661	216481
Reserve Coverage	129794	176831	226954	285772
Gross NPL Ratio	3.2%	3.4%	3.8%	4.1%
Net NPL Ratio	1.6%	1.5%	1.7%	1.8%
Coverage Ratio*	65%	70%	68%	66%

**Coverage Ratio from F2009 onwards includes Technical Write-offs*

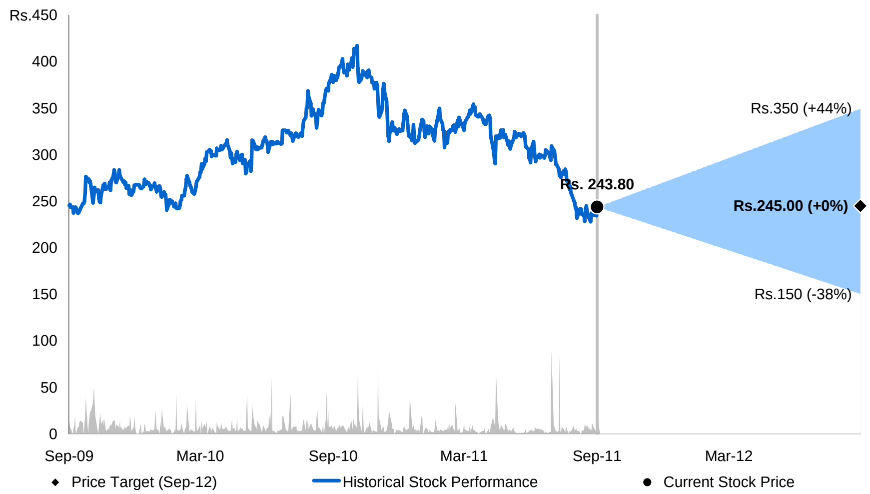
Per Share Data and Valuations				
Year end-March	**F2011**	**F2012E**	**F2013E**	**F2014E**
Per Share Data (Rs)				
EPS	130.2	166.0	193.1	211.2
Book Value	1023.4	1196.7	1366.6	1525.8
DPS	30.0	30.0	40.0	46.0
Valuations				
PE	15.0	11.8	10.1	9.3
Price to Book	1.9	1.6	1.4	1.3
Dividend Yield	1.5%	1.5%	2.0%	2.4%

Ratio Analysis				
Year end-March	**F2011**	**F2012E**	**F2013E**	**F2014E**
Spread Analysis				
Average yield on assets	7.5%	8.2%	8.6%	8.2%
Cost of earning assets	4.5%	5.1%	5.6%	5.1%
Net Interest Margin (NIM)	3.0%	3.1%	3.0%	3.1%
Growth Ratios				
Net Interest Income	38%	21%	18%	18%
Non Interest Income	8%	-2%	12%	18%
Operating expenses	15%	15%	23%	20%
Operating Profit	38%	12%	10%	16%
Net Profit	-10%	31%	27%	17%
EPS	-10%	28%	16%	9%
Deposits	16%	18%	16%	17%
Advances	20%	16%	16%	17%
Total Assets	16%	18%	16%	16%
Profitability Ratios				
Return On Equity	11.9%	15.2%	15.1%	14.6%
Return on Assets	0.7%	0.8%	0.9%	0.9%
Efficiency Ratios				
Cost Income Ratio	47.6%	48.3%	51.0%	51.9%
Expenses/Avg Assets	2.0%	2.0%	2.1%	2.2%
Capital Ratios				
Tier 1 Ratio	7.8%	8.2%	8.8%	8.4%
Tier 2 Ratio	4.2%	3.8%	3.2%	2.8%
Capital Adequacy Ratio	12.0%	11.9%	12.0%	11.2%

Source: Company data, Morgan Stanley Research. E=Morgan Stanley Research estimates.

Union Bank (UNBK.BO, Rs243.8, EW, PT Rs245)

Risk-Reward View:
Revenue pressures likely, similar to peers, but valuations reasonable



Price Target Rs245		Derived from our probability-weighted residual income model Bull 5%; Base 70%; Bear 25%
Bull Case Rs350	1.3x F2012e BVPS	**Interest rates soften sooner than expected:** Loan growth is much stronger than base case. Margins expand in F2H2012 and F2013, given drop in deposit rates, even as loan demand remains strong. Asset quality trends are better than expected.
Base Case Rs270	1.0x F2012e BVPS	**Weak economic growth, rates higher for longer:** Loan book expands 17% in F2012-13. Margins remain broadly stable through the rest of the year. Credit costs move to 75bps in F2012 and 92bps in F2013 from 88bps in F2011 and 65bps in F2010.
Bear Case Rs150	0.5x F2012e BVPS	**Materially weaker economic growth:** Loan growth and margins are lower than base case. Impaired loan formation is higher than expected, driven by high slippages from SME loans and restructuring in the infrastructure space.

Source: FactSet, Morgan Stanley Research estimates

Investment Thesis

- Margins likely to average 2.6% in F2012-13, normalizing from 2.9% average in F2011.
- Despite the recent capital infusion from the government, the capital position is relatively weak, at 8.3%, as of Mar-11 (vs. 9.3% average for other SOE banks)
- Attractive valuation multiples – at 5.4x F2012E earnings and 0.9x F2012E BV – provide margin of safety.

Key Value Drivers

- Margin progression.
- Trend in loan growth.
- Fee income growth.
- Credit costs.
- Operating costs.

Potential Catalysts

- Slippage from restructured loans which will be reported in F2012
- Margin trend in F2012.
- Trend in systemwide loan growth.
- Fee income progression

Key Risks

- *Downside:* Greater-than-expected slippage of restructured loans into NPLs. Formation of new impaired loans accelerates. Muted system-wide loan growth.
- *Upside:* Stronger-than-expected loan growth. Less-than-expected margin compression. Credit costs below expectations. Improvement in operating efficiency could support ROA progression in long term.

Union Bank: Financial Summary

Profit and Loss Statement				
Rs Mln (Year end March)	**F2011**	**F2012E**	**F2013E**	**F2014E**
Interest Income	163606	223112	265296	303106
Interest Expense	102364	157545	186563	205836
Net Interest Income	**61242**	**65567**	**78733**	**97270**
---Fee Income	3649	4106	4762	5572
---Forex Income	4290	4805	5622	6606
---Capital Gains	4644	4750	5100	6000
---Miscellaneous Inc.	8724	8117	9496	11206
Total Non Interest Income	**21308**	**21777**	**24981**	**29384**
Total Operating Income	**82550**	**87344**	**103713**	**126654**
---Employee Exp	25997	21174	24455	28513
---Other Expenses	13503	15194	17321	20439
Total Operating Expenses	39500	36369	41777	48952
Operating Profit	**43050**	**50976**	**61937**	**77701**
---Prov. For Investment Dep & Others	1619	3780	4000	5000
---Loan Loss Provisions	11877	12255	17709	21089
Total provisions	13496	16035	21709	26089
Profit Before Tax	**29554**	**34941**	**40227**	**51612**
Provision for Tax	8735	11181	12471	16000
Net Profit	**20819**	**23760**	**27757**	**35613**
Core Operating profit	**29682**	**38109**	**47340**	**60495**

Balance Sheet Data				
Rs Mln (Year end March)	**F2011**	**F2012E**	**F2013E**	**F2014E**
Share holders equity	126535	149737	171850	201819
Deposits	2024613	2389043	2819071	3382885
Borrowings	71260	84086	99222	119066
Other Liabilities & Prov.	137437	162175	191367	229640
Total Liabilities	**2359844**	**2785042**	**3281510**	**3933411**
Cash & Balances with RBI	176105	207803	245208	294250
Balances with Banks	24880	29358	34643	41571
Investments	583991	711135	841320	1014282
Advances	1509861	1766537	2084514	2501417
Fixed Assets	22928	24762	26743	28882
Other Assets	42080	45446	49082	53009
Total Assets	**2359844**	**2785042**	**3281510**	**3933411**
Earning Assets	2294837	2714834	3205685	3851520
Average Int. Earning Assets	2094896	2504835	2960260	3528602
Average Loans	1351507	1638199	1925526	2292965
Avg Equity / Avg Assets (%)	5.4%	5.4%	5.3%	5.2%
No Of Shares (mn)	524	536	536	536
Capital Adequacy				
Tier 1 Ratio	8.7%	8.8%	8.7%	8.6%
Tier 2 Ratio	4.3%	5.0%	5.0%	5.0%
Capital Adequacy Ratio	13.0%	13.8%	13.7%	13.6%

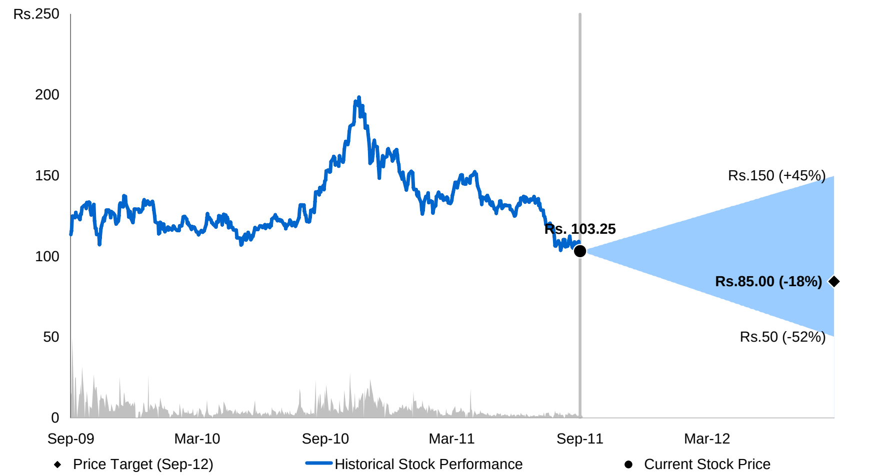
Per Share Data and Valuations				
Year end March	**F2011**	**F2012E**	**F2013E**	**F2014E**
Per Share Data				
EPS	41.2	44.8	51.8	66.4
Book Value	241.3	279.4	320.6	376.5
Core Op. Profit	58.8	71.9	88.3	112.9
DPS	5.5	7.3	9.0	9.0
Valuations				
PE	5.9	5.4	4.7	3.7
Price to Book	1.0	0.9	0.8	0.6
Price to Core Op. Profit	4.1	3.4	2.8	2.2
Dividend Yield	2.3%	3.0%	3.7%	3.7%

Ratio Analysis				
Year end March	**F2011**	**F2012E**	**F2013E**	**F2014E**
Spread Analysis				
Average yield on assets	7.8%	8.9%	9.0%	8.6%
Cost of earning assets	4.9%	6.3%	6.3%	5.8%
Net Interest Margin (NIM)	2.9%	2.6%	2.7%	2.8%
Growth Ratios				
Net Interest Income	46%	7%	20%	-100%
Non Interest Income	8%	2%	15%	-100%
Operating expenses	58%	-8%	15%	-100%
Operating Profit	18%	18%	22%	-100%
Net Profit	0%	14%	17%	-100%
EPS	0%	9%	16%	28%
Deposits	19%	18%	18%	-100%
Advances	27%	17%	18%	-100%
Total Assets	21%	18%	18%	-100%
Profitability Ratios				
Return On Equity	18.6%	17.2%	17.3%	19.1%
Return on Assets	1.0%	0.9%	0.9%	1.0%
Efficiency Ratios				
Cost Income Ratio	47.8%	41.6%	40.3%	38.7%
Expenses/Avg Assets	1.8%	1.4%	1.4%	1.4%
Asset Quality				
Annual LLP / Adv. (bps)	88	75	92	92
Gross NPL	36228	39505	50095	62706
Net NPL	18034	20132	25529	31955
Reserve Coverage	17766	19373	24566	30751
Gross NPL Ratio	2.4%	2.2%	2.4%	2.5%
Net NPL Ratio	1.2%	1.1%	1.2%	1.3%
Coverage Ratio	67.6%	69.3%	69.0%	68.8%

Source: Company Data, E=Morgan Stanley Research Estimates

Risk-Reward Snapshot: IDBI (IDBI.BO, Rs103.3, UW, PT Rs85)

Valuations are full in view of uncertain margin progression



Price Target Rs85		Derived from our probability-weighted residual income model Bull 5%; Base 70%; Bear 25%
Bull Case Rs150	1.1x F12e BVPS	**Interest rates soften sooner than expected:** Loan growth is much stronger than base case. Margins expand in F2H2012 and F2013, given drop in deposit rates, even as loan demand remains strong. Asset quality trends are better than expected.
Base Case Rs90	0.6x F12e BVPS	**Weak economic growth, rates higher for longer:** Loan book expands 11%% in F2012-13. Margins remain broadly stable through the rest of the year. Credit costs move to86bps in F2012 and 95bps in F2013 from 93bps in F2011 and 109bps in F2010.
Bear Case Rs50	0.4x F12e BVPS	**Materially weaker economic growth:** Loan growth and margins are lower than base case. Impaired loan formation is higher than expected, driven by high slippages from SME loans and restructuring in the infrastructure space.

Source: FactSet, Morgan Stanley Research

Investment Thesis

- Asset quality is a concern given the impaired loans ratio at 8.9% (avg. for our coverage is 5.0%). We expect credit costs to remain elevated through F2012.
- Exposure to infrastructure is significant, at over 27% of total exposure, which could lead to potential asset quality issues in the event of a macro slowdown.
- Even after factoring in the capital infusion from the government in F2011(which resulted in share count increasing by 35%) – Tier I ratio is only 8.1% (avg. ~10.5% for our coverage).
- Valuations, at 6.7x earnings and 0.7x BV on our F2012 estimates, look expensive in the context of uncertainty on margin progression and asset quality stress.

Key Value Drivers

- NIM
- Credit costs
- Loan growth
- Fee income

Potential Catalysts

- Asset quality & CASA/deposits trends over the next few quarters
- Trend in short rates
- News flow related to additional capital raising

Key Upside Risks

- Better-than-expected NIMs, CASA/deposits and asset quality.

IDBI Bank: Financial Summary

Profit and Loss Statement				
Rs Mln (Year end March)	**F2011**	**F2012E**	**F2013E**	**F2014E**
Interest Income	186008	232692	255934	283871
Interest Expense	142719	188818	206785	225174
Net Interest Income	**43289**	**43874**	**49148**	**58697**
---Fee Income	14700	15362	17666	20316
---Forex Income	1900	2090	2404	2764
---Capital Gains	1200	680	816	979
---Miscellaneous Inc.	1597	1597	1836	2111
---Recoveries from Write-offs	1440	1590	1829	2103
Total Non Interest Income	**20837**	**21728**	**24550**	**28273**
Total Operating Income	**64125**	**65602**	**73698**	**86970**
---Employee Exp	10462	11927	13716	15774
---Other Expenses	12085	14018	16121	18539
Total Operating Expenses	22547	25945	29837	34312
Operating Profit	**41579**	**39656**	**43861**	**52658**
Total provisions	18769	16322	19260	21902
Profit Before Tax	**22810**	**23334**	**24601**	**30755**
Provision for Tax	6307	8109	8168	10211
Net Profit	**16503**	**15225**	**16433**	**20545**

Balance Sheet Data				
Rs Mln (Year end March)	**F2011**	**F2012E**	**F2013E**	**F2014E**
Share holders equity	126299	137861	149786	165287
Deposits	1804858	2021441	2304443	2650109
Borrowings	515697	577580	658441	757207
Other Liabilities & Prov.	67538	75642	86232	99167
Total Liabilities	**2514391**	**2812524**	**3198902**	**3671771**
Cash & Balances with RBI	195591	173853	198193	227921
Balances with Banks	12070	14484	17381	20857
Investments	682692	825429	934718	1066304
Advances	1570981	1728079	1952729	2245638
Fixed Assets	10996	12096	13305	14636
Other Assets	42061	58583	82576	96413
Total Assets	**2514391**	**2812524**	**3198902**	**3671771**
Earning Assets	2405923	2686435	3047611	3505311
No Of Shares (mn)	985	985	985	985
Asset Quality				
Gross NPL	27847	36507	50310	66054
Net NPL	16779	21997	30314	39800
Reserve Coverage	11068	14510	19996	26254
Gross NPL Ratio	1.8%	2.1%	2.6%	2.9%
Net NPL Ratio	1.1%	1.3%	1.6%	1.8%
Coverage Ratio	74.7%	71.8%	68.3%	65.5%

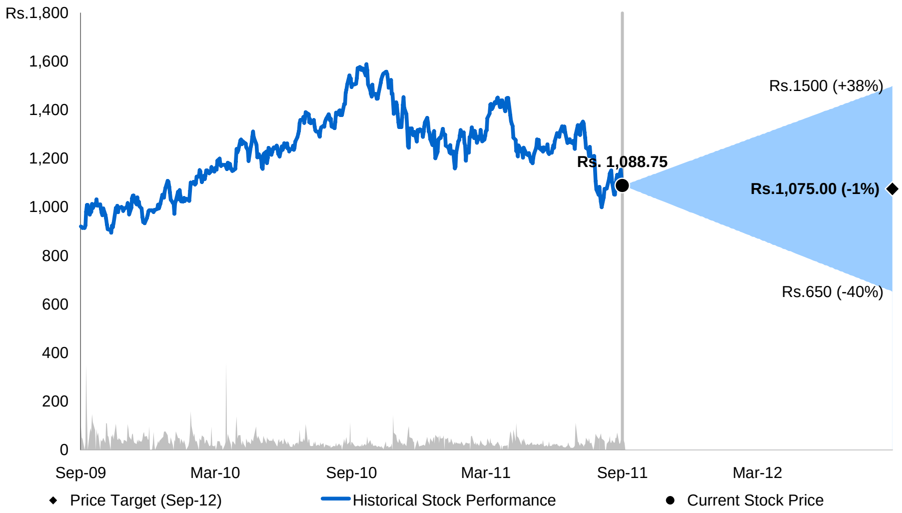
Per Share Data and Valuations				
Rs Mln (Year end March)	**F2011**	**F2012E**	**F2013E**	**F2014E**
Per Share Data				
EPS	18.4	15.5	16.7	20.9
Book Value	128.3	140.0	152.1	167.9
DPS	3.5	3.3	4.0	4.5
Valuations				
PE	5.6	6.7	6.2	4.9
Price to Book	0.8	0.7	0.7	0.6
Dividend Yield	3.4%	3.1%	3.9%	4.3%

Ratio Analysis				
Rs Mln (Year end March)	**F2011**	**F2012E**	**F2013E**	**F2014E**
Spread Analysis				
Average yield on assets	8.1%	9.1%	8.9%	8.7%
Cost of earning assets	6.2%	7.4%	7.2%	6.9%
Net Interest Margin (NIM)	1.9%	1.7%	1.7%	1.8%
Growth Ratios				
Net Interest Income	114.7%	1.4%	12.0%	19.4%
Non Interest Income	-18.0%	4.3%	13.0%	15.2%
Operating expenses	23.1%	15.1%	15.0%	15.0%
Operating Profit	52.5%	-4.6%	10.6%	20.1%
Net Profit	60.0%	-7.7%	7.9%	25.0%
EPS	29.2%	-15.9%	7.9%	25.0%
Deposits	7.6%	12.0%	14.0%	15.0%
Advances	13.7%	10.0%	13.0%	15.0%
Total Assets	8.5%	11.9%	13.7%	14.8%
Profitability Ratios				
Return On Equity	14.3%	11.5%	11.4%	13.0%
Return on Assets	0.7%	0.6%	0.5%	0.6%
Efficiency Ratios				
Cost Income Ratio	35.2%	39.5%	40.5%	39.5%
Expenses/Avg Assets	0.9%	1.0%	1.0%	1.0%
Capital Ratios				
Tier 1 Ratio	8.0%	7.7%	7.2%	6.8%
Tier 2 Ratio	5.6%	5.6%	5.6%	5.6%
Capital Adequacy Ratio	13.6%	13.3%	12.8%	12.4%

Source: Company data, Morgan Stanley Research,E= Morgan Stanley Research Estimates

Axis Bank (AXBK.BO, Rs1088.8, EW, PT Rs1075)

Risk Reward View: Balanced Outlook for Now



Price Target Rs1075		Derived from our probability-weighted residual income model: Bull 20%; Base 60%; Bear 20%
Bull case Rs1500	2.4x F2013E BVPS	**Interest rates soften sooner than expected:** Loan growth is much stronger than base case. Margins expand in F2H2012 and F2013, given drop in deposit rates, even as loan demand remains strong. Asset quality trends are better than expected.
Base case Rs1075	1.7x F2013E BVPS	**Weak economic growth, rates higher for longer:** Loan book expands 24%% in F2012-13. Margins remain broadly stable through the rest of the year. Credit costs move to 66bps in F2012 and 86bps in F2013 from 77bps in F2011 and 146bps in F2010.
Bear case Rs650	1.0x F2013E BVPS	**Materially weaker economic growth:** Loan growth and margins are lower than base case. Impaired loan formation is higher than expected, driven by high slippages from SME loans and restructuring in the infrastructure space.

Source: FactSet, Morgan Stanley Research estimates

Why Equal-weight?

- Valuations, prima facie, seem attractive, at 11.3x F2012e earnings and 2.0x BV.
- Margin pressure may be abating, given that the bulk of the deposit repricing seems to have already filtered through. This could catalyze stock performance near term.
- However, multiples are likely to remain capped, given: a) relatively high exposure to infra segment; b) risk that asset quality conditions could deteriorate given increase in lending rates; c) Tier I equity ratio has fallen to 9.4% (as of Mar-11) versus the private bank average of 11%.

Key Value Drivers

- Margin progression
- Trend in loan growth
- Fee income growth
- Credit costs
- Operating costs

Potential Catalysts/Upside Risks

- System-wide loan and deposit growth trends in F2012.
- News flow with regard to policy environment in infrastructure segment
- Funding costs trajectory
- Asset quality trends in F2H12, F2013.

Key Downside Risks

- Asset quality pressures.
- Trends in bulk funding rates (65% of total deposit base is wholesale in nature; any significant upward or downward move in bulk funding rates will impact margins)
- Increased worries about risks building up in the infrastructure segment.

Axis Bank :Financial Summary

Profit and Loss Statement				
Rs Mln (Year end March)	**F2011**	**F2012E**	**F2013E**	**F2014E**
Interest Income	151548	224494	272564	335660
Interest Expense	85918	149916	179619	218911
Net Interest Income	**65630**	**74578**	**92945**	**116749**
---Fee Income	33574	42975	53719	67148
---Forex Income	5636	7214	9018	11272
---Capital Gains	3663	3500	5500	6500
---Miscellaneous Inc.	3448	3400	4500	5500
Total Non Interest Income	**46321**	**57089**	**72736**	**90420**
Total Operating Income	**111951**	**131667**	**165682**	**207170**
---Employee Exp	16139	19769	24513	30396
---Other Expenses	31655	39200	47824	58345
Total Operating Expenses	47794	58969	72337	88742
Operating Profit	**64157**	**72699**	**93345**	**118428**
---Prov. For Investment Dep.	993	400	400	400
---Loan Loss Provisions	9551	10411	16941	21176
Total provisions	12800	12293	19405	24218
Profit Before Tax	**51357**	**60405**	**73940**	**94210**
Provision for Tax	17472	20357	24918	31749
Net Profit	**33885**	**40049**	**49022**	**62461**

Balance Sheet Data				
Rs Mln (Year end March)	**F2011**	**F2012E**	**F2013E**	**F2014E**
Share holders equity	196667	228166	266762	316315
Deposits	1892378	2365473	2956841	3696051
Borrowings	192746	240933	301166	376458
Other Liabilities & Prov.	145342	181678	227097	283871
Total Liabilities	**2427134**	**3016249**	**3751866**	**4672695**
Cash & Balances with RBI	138862	168792	210990	263737
Balances with Banks	75225	94031	117539	146924
Investments	719916	914567	1123588	1385853
Advances	1424078	1751616	2189520	2736900
Fixed Assets	22732	28414	35518	44397
Other Assets	46321	58828	74711	94884
Total Assets	**2427134**	**3016249**	**3751866**	**4672695**
Earning Assets	2358081	2929007	3641637	4533414
Average Interest Earning Assets	2056639	2643544	3285322	4087525
Average Loans	1233744	1587847	1970568	2463210
Avg Equity / Avg Assets (%)	8.4%	7.8%	7.3%	6.9%
No Of Shares (mn)	411	424	424	424
Asset Quality				
Annual LLP / Advances (bps)	77	66	86	86
Gross NPL	15994	20361	27258	35879
Net NPL	4127	4434	6214	8438
Reserve Coverage	11867	15927	21044	27441
Gross NPL Ratio	1.1%	1.2%	1.2%	1.3%
Net NPL Ratio	0.3%	0.3%	0.3%	0.3%
Coverage Ratio*	80.9%	84.8%	84.8%	84.7%

**Coverage for F2010 onwards includes technical Write-offs.*

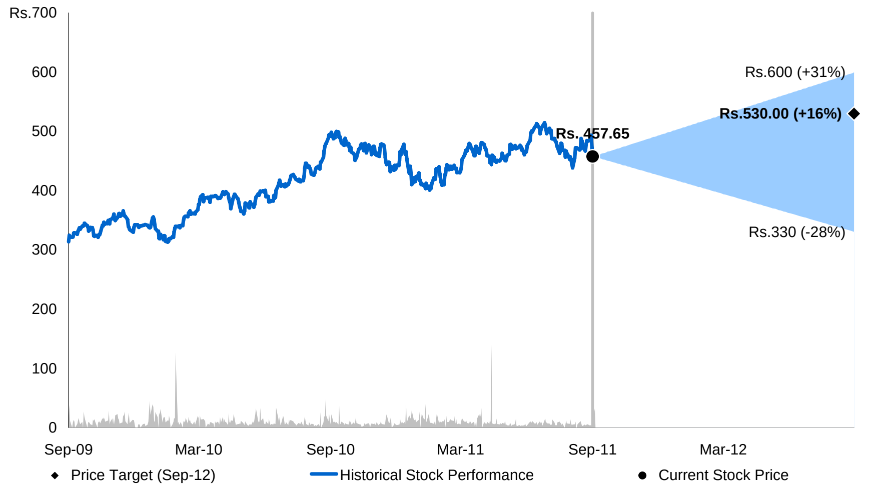
Per Share Data and Valuations				
Rs Mln (Year end March)	**F2011**	**F2012E**	**F2013E**	**F2014E**
Per Share Data				
EPS	83.4	95.9	115.5	147.2
Book Value	479.0	537.7	628.6	745.4
Core Op. Profit	138.9	155.1	196.4	250.8
DPS	14.0	17.5	21.0	26.0
Valuations				
PE	13.1	11.3	9.4	7.4
Price to Book	2.3	2.0	1.7	1.5
Price to Core Op. Profit	7.8	7.0	5.5	4.3
Dividend Yield	1.3%	1.6%	1.9%	2.4%

Ratio Analysis				
Rs Mln (Year end March)	**F2011**	**F2012E**	**F2013E**	**F2014E**
Spread Analysis				
Average yield on assets	7.4%	8.5%	8.3%	8.2%
Cost of earning assets	4.2%	5.7%	5.5%	5.4%
Net Interest Margin (NIM)	3.2%	2.8%	2.8%	2.9%
Growth Ratios				
Net Interest Income	31%	14%	25%	26%
Non Interest Income	17%	23%	27%	24%
Operating expenses	29%	23%	23%	23%
Operating Profit	22%	13%	28%	27%
Net Profit	35%	18%	22%	27%
EPS	27%	15%	20%	27%
Deposits	34%	25%	25%	25%
Advances	36%	23%	25%	25%
Total Assets	34%	24%	24%	25%
Profitability Ratios				
Return On Equity	19.0%	18.9%	19.8%	21.4%
Return on Assets	1.6%	1.5%	1.4%	1.5%
Efficiency Ratios				
Cost Income Ratio	42.7%	44.8%	43.7%	42.8%
Expenses/Avg Assets	2.3%	2.2%	2.1%	2.1%
Capital Ratios				
Tier 1 Ratio	9.4%	9.0%	8.4%	8.1%
Tier 2 Ratio	3.2%	3.7%	4.2%	4.7%
Capital Adequacy Ratio	12.7%	12.7%	12.7%	12.8%

Source: Company data, Morgan Stanley Research
E=Morgan Stanley Research Estimates

HDFC Bank (HDBK.BO, Rs457.7, OW, PT Rs530)

Risk Reward View:
Best-in-Class Liability Franchise + Strong Profitability



Price Target Rs530		Derived from our base case residual income model.
Bull Case Rs600	4.0x F2013E BVPS	**Interest rates soften sooner than expected:** Loan growth is much stronger than base case. Margins expand in F2H2012 and F2013, given drop in deposit rates, even as loan demand remains strong. Asset quality trends are better than expected.
Base Case Rs530	3.6x F2013E BVPS	**Weak economic growth, rates higher for longer:** Loan book expands 25% in F2012-13. Margins remain broadly stable through the rest of the year. Credit costs move higher, to 73bps in F2012 and 104bps in F2013 from53bps in F2011 and 173bps in F2010.
Bear Case Rs330	2.2x F2013E BVPS	**Materially weaker economic growth:** Loan growth and margins are lower than base case. Impaired loan formation is higher than expected, driven by high slippages from SME loans and restructuring in the infrastructure space.

Source: FactSet, Morgan Stanley Research estimates

Investment Thesis

- Solid long-term play – good funding franchise. Low-cost deposits are ~50% of deposits, which will be beneficial in a rising rate environment.
- HDFC Bank has virtually no legacy asset quality issues in the form of restructured loan balance and very low infrastructure exposure.
- HDFC Bank is well capitalized, with a Tier I ratio of 12.2% as of Mar-2011.
- Valuations seem full, at 20.9x F2012E earnings & 3.6x F2012E BV. However, earnings are likely to be strong – both in terms of momentum and quality – hence driving our OW call.

Key Value Drivers

- Margin progression.
- Trend in loan growth.
- Fee income growth.
- Credit costs.
- Operating costs.

Potential Catalysts

- Strength of economic growth in F2012.
- Better cost control and margin expansion.
- Greater-than-expected concerns emerge on retail asset quality

Key Risks

- New NPL formation re-accelerates;
- Drop in consumer confidence impairs retail loan growth;
- Greater competition in retail hampers asset repricing.

HDFC Bank : Financial Summary

Profit and Loss Statement				
Rs Mln (Year end March)	**F2011**	**F2012E**	**F2013E**	**F2014E**
Interest Income	199282	270994	351255	433847
Interest Expense	93851	146824	192576	229796
Net Interest Income	**105431**	**124170**	**158679**	**204051**
---Fee Income	35967	42576	53220	66525
---Forex Income	9208	10129	12662	15827
---Capital Gains	-526	350	1750	3500
---Miscellaneous Inc.	-1298	140	175	219
Total Non Interest Income	**43352**	**53195**	**67806**	**86071**
Total Operating Income	**148783**	**177365**	**226485**	**290121**
---Employee Exp	28360	33749	40499	48193
---Other Expenses	43169	50507	59599	70327
Total Operating Expenses	71529	84256	100097	118520
Operating Profit	**77254**	**93109**	**126388**	**171601**
---Loan Loss Provisions	7630	13081	23389	38872
Total provisions	19067	17453	27264	42929
Profit Before Tax	**58187**	**75656**	**99124**	**128672**
Provision for Tax	18923	24664	32315	41947
Net Profit	**39264**	**50992**	**66810**	**86725**
Core Operating profit	**79078**	**92619**	**124463**	**167882**

Balance Sheet Data				
Rs Mln (Year end March)	**F2011**	**F2012E**	**F2013E**	**F2014E**
Share holders equity	253793	293015	344844	411399
Deposits	2085864	2628189	3337800	4305762
Borrowings	74471	93833	119168	153727
Other Liabilities & Prov.	359399	452842	575109	741891
Total Liabilities	**2773526**	**3467879**	**4376921**	**5612778**
Cash & Balances with RBI	251008	313027	398423	515652
Balances with Banks	45680	58014	73678	95044
Investments	709294	936984	1200577	1558004
Advances	1599827	1983785	2519407	3250035
Fixed Assets	21707	22792	23931	25128
Other Assets	146011	153276	160905	168915
Total Assets	**2773526**	**3467879**	**4376921**	**5612778**
Earning Assets	2605809	3291810	4192085	5418735
Average Interest Earning Assets	2374809	2948810	3741948	4805410
Average Loans	1429068	1791806	2251596	2884721
Avg Common Equity / Avg Assets (%)	9%	9%	8%	8%
No Of Shares (mn)	465	465	465	465
Asset Quality				
LLP / Avg Loans (Bps)	53	73	104	135
Gross NPL	16943	24111	31991	40645
Net NPL	2964	4218	5597	7111
Reserve Coverage	13979	19893	26395	33535
Gross NPL Ratio	1.0%	1.2%	1.3%	1.2%
Net NPL Ratio	0.2%	0.2%	0.2%	0.2%
Coverage Ratio	82.5%	82.5%	82.5%	82.5%

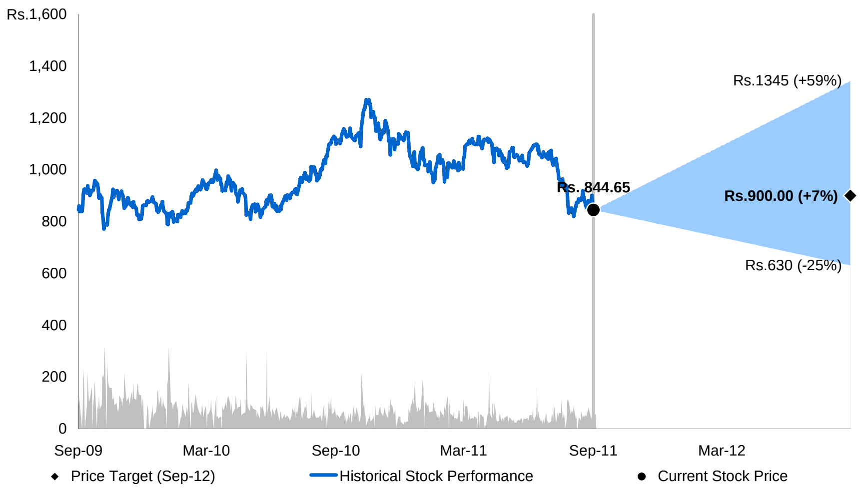
Per Share Data and Valuations				
Year end March	**F2011**	**F2012E**	**F2013E**	**F2014E**
Per Share Data				
EPS	16.9	21.9	28.7	37.3
Book Value	109.1	126.0	148.2	176.9
Core Op. Profit	34.0	39.8	53.5	72.2
DPS	3.3	4.4	5.6	7.5
Valuations				
PE	27.1	20.9	15.9	12.3
Price to Book	4.2	3.6	3.1	2.6
Price to Core Op. Profit	13.5	11.5	8.6	6.3
Dividend Yield	0.7%	1.0%	1.2%	1.6%

Ratio Analysis				
Year end March	**F2011**	**F2012E**	**F2013E**	**F2014E**
Spread Analysis				
Average yield on assets	8.2%	9.2%	9.4%	9.0%
Cost of earning assets	3.9%	5.0%	5.1%	4.8%
Net Interest Margin (NIM)	4.3%	4.2%	4.2%	4.2%
Growth Ratios				
Net Interest Income	25.7%	17.8%	27.8%	28.6%
Non Interest Income	8.8%	22.7%	27.5%	26.9%
Operating expenses	20.4%	17.8%	18.8%	18.4%
Operating Profit	20.2%	20.5%	35.7%	35.8%
Net Profit	33.2%	29.9%	31.0%	29.8%
EPS	24.1%	29.9%	31.0%	29.8%
Deposits	24.6%	26.0%	27.0%	29.0%
Advances	27.1%	24.0%	27.0%	29.0%
Total Assets	24.7%	25.0%	26.2%	28.2%
Profitability Ratios				
Return On Equity	16.7%	18.7%	20.9%	22.9%
Return on Assets	1.6%	1.6%	1.7%	1.7%
Efficiency Ratios				
Cost Income Ratio	48.1%	47.5%	44.2%	40.9%
Expenses/Avg Assets	2.9%	2.7%	2.6%	2.4%
Capital Adequacy				
Tier 1 Ratio	12.2%	11.4%	10.7%	10.1%
Tier 2 Ratio	4.0%	4.0%	4.0%	4.0%
Capital Adequacy Ratio	16.2%	15.4%	14.7%	14.0%

Source: Company data, Morgan Stanley Research
E=Morgan Stanley Research Estimates

ICICI Bank (ICBK.BO, Rs844.7, EW, PT Rs900)

Risk Reward View: Moderate growth outlook + Funding pressures in International Business drive our downgrade to EW



Price Target Rs900		Sum of the parts; we assign a 70% probability to our base case, a 10% probability to our bull case, and a 20% probability to our bear case.
Bull Case Rs1345	2.4x F2013e BVPS	**Interest rates soften sooner than expected:** Loan growth is much stronger than base case. Margins expand in F2H2012 and F2013, given drop in deposit rates, even as loan demand remains strong. Asset quality trends are better than expected. We value the insurance business using a NBAP multiple of 15x in this scenario.
Base Case Rs915	1.7x F2013e BVPS	**Weak economic growth, rates higher for longer:** Loan book expands 17%% in F2012-13. Margins remain broadly stable through the rest of the year. Credit costs move to 74bps in F2012 and 86bps in F2013 from 99bps in F2011 and 218bps in F2010. We value the insurance business using a NBAP multiple of 14x.
Bear Case Rs630	1.1x F2013e BVPS	**Materially weaker economic growth:** Loan growth and margins are lower than base case. Impaired loan formation is higher than expected, driven by high slippages from SME loans and restructuring in the infrastructure space. We value the insurance business using a NBAP multiple of 11x.

Source: FactSet, Morgan Stanley Research estimates

Investment Thesis

- ICICI Bank is the largest private sector bank in India, with a deposit book of US$52bn and a network of over 2500 branches.
- Management has been delivering on key metrics – CASA, cost, asset quality and capital.
- Capital position is very strong, with Tier I ratio at 13.2% (as of Mar-11) – vs. versus the private bank average of 11% and SOE bank average of 9%.
- Likely to fare better than SOE banks in terms of margin progression. However, multiples are likely to remain capped, given: a) relatively high exposure to infra segment and high non-funded exposure; b) potential asset quality deterioration given elevated rates; c) funding stress in the international loan book.
- Valuations at 10.6x F2012e earnings and 1.4x F2012e BV (adjusted for value of key subsidiaries) seem fair, especially in the context of the 14-15% underlying ROE we expect the bank to deliver in F2012-14.

Key Value Drivers

- Loan growth & NIM progression.
- Operating and credit costs.
- Insurance subsidiary valuation.

Potential Catalysts

- Strength of loan growth in F2012/13.
- Margin progression in F2012/13.
- New NPL formation trends in F2012.
- Potential regulatory developments related to foreign investment in insurance operations in India.

Key Risks

- **Upside:** Better-than-expected NIMs and asset quality at the banking business, and higher-than-expected market share or NBAP margins for the life insurance business.
  Downside: Higher-than-expected credit costs, lower-than-expected loan growth.

ICICI Bank : Financial Summary

Profit and Loss Statement				
Rs Mln (Year end-March)	**F2011**	**F2012E**	**F2013E**	**F2014E**
Interest Income	259221	336012	394215	462303
Interest Expense	169572	232730	273259	316245
Net Interest Income	**89649**	**103282**	**120955**	**146058**
---Fee Income	55146	61578	71431	84288
---Forex Income	9169	10269	11912	14056
---Capital Gains	-2434	250	1500	2500
---Miscellaneous Inc.	5118	4176	4714	5650
Total Non Interest Income	66999	76274	89556	106494
Total Operating Income	**156648**	**179555**	**210512**	**252552**
---Employee Exp	28169	33816	39902	47085
---DMA Expenses	1570	1623	1786	2009
---Other Expenses	36433	42402	49186	57056
Total Operating Expenses	66173	77841	90874	106150
Operating Profit	**90475**	**101715**	**119638**	**146403**
Total provisions	22868	17423	23414	30321
Profit Before Tax	**67607**	**84291**	**96224**	**116082**
Provision for Tax	16093	20770	23575	28440
Net Profit	**51514**	**63522**	**72649**	**87642**

Balance Sheet Data				
Rs Mln (Year end-March)	**F2011**	**F2012E**	**F2013E**	**F2014E**
Share holders equity	554409	593290	637322	690441
Deposits	2256021	2656848	3082042	3636810
Borrowings	1092043	1274045	1495360	1755579
Other Liabilities & Prov.	159863	175850	196952	220586
Total Liabilities	**4062337**	**4700032**	**5411676**	**6303416**
Cash & Balances with RBI	340901	398300	463808	546387
Investments	1346860	1555380	1781943	2050604
Advances	2163659	2531217	2940033	3469239
Fixed and Other Assets	210917	215136	225892	237187
Total Assets	**4062337**	**4700032**	**5411676**	**6303416**
Earning Assets	3851419	4484897	5185783	6066229
Average Interest Earning Assets	3611378	4156242	4835340	5626006
No Of Shares (mn)	1151.82	1152.18	1152.18	1152.18
Asset Quality				
LLP/Avg Advances (bps)	99	74	86	95
Gross NPL	100343	108932	123085	143636
Net NPL	24074	26133	29528	34459
Reserve Coverage	76269	82799	93557	109177
Gross NPL Ratio	4.4%	4.1%	4.0%	4.0%
Net NPL Ratio	1.1%	1.0%	1.0%	1.0%
Coverage Ratio	76%	76%	76%	76%

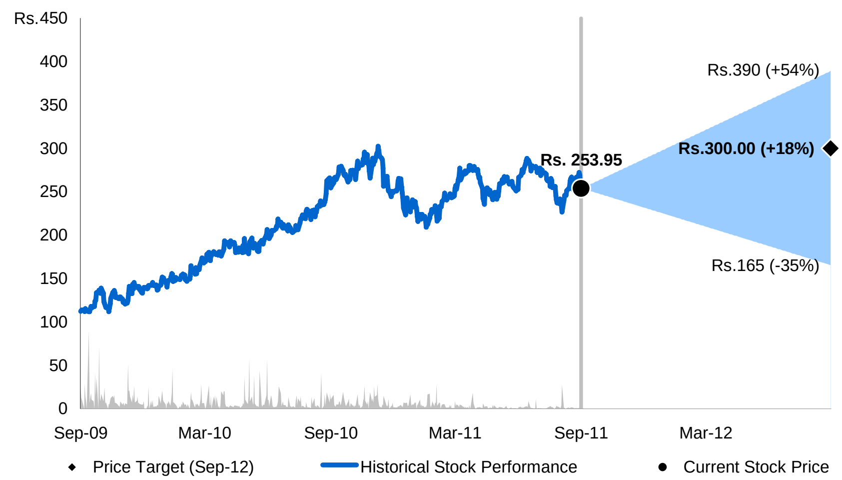
Per Share Data and Valuations				
Year end-March	**F2011**	**F2012E**	**F2013E**	**F2014E**
Per Share Data (Rs)				
EPS	44.7	55.1	63.1	76.1
Book Value	478.3	511.9	550.1	596.2
Core PPOP	76.2	84.4	98.4	120.0
DPS	14.0	19.3	22.1	26.6
Valuations				
PE	18.9	15.3	13.4	11.1
Price to Book	1.8	1.7	1.5	1.4
P/PPOP	11.1	10.0	8.6	7.0
Dividend Yield	1.7%	2.3%	2.6%	3.2%

Ratio Analysis				
Year end-March	**F2011**	**F2012E**	**F2013E**	**F2014E**
Spread Analysis				
Average yield on assets	7.2%	8.1%	8.2%	8.2%
Cost of earning assets	4.7%	5.6%	5.7%	5.6%
Net Interest Margin (NIM)	2.5%	2.5%	2.5%	2.6%
Growth Ratios				
Net Interest Income	10%	15%	17%	21%
Non Interest Income	-10%	14%	17%	19%
Operating expenses	13%	18%	17%	17%
Operating Profit	-7%	12%	18%	22%
Net Profit	28%	23%	14%	21%
EPS	24%	23%	14%	21%
Deposits	12%	18%	16%	18%
Advances	19%	17%	16%	18%
Total Assets	12%	16%	15%	16%
Profitability Ratios				
Return On Equity	9.6%	11.1%	11.8%	13.2%
Return on Assets	1.3%	1.4%	1.4%	1.5%
Efficiency Ratios				
Cost Income Ratio	42%	43%	43%	42%
Expenses/Avg Assets	1.7%	1.8%	1.8%	1.8%
Capital Adequacy				
Tier 1 Ratio	13.2%	12.3%	11.6%	10.9%
Tier 2 Ratio	6.4%	6.5%	5.6%	4.8%
Capital Adequacy Ratio	19.5%	18.7%	17.2%	15.8%

Source: Company Data, Morgan Stanley Research
E: Morgan Stanley Research Estimates

IndusInd Bank (INBK.BO, Rs254.0, OW, PT Rs300)

Risk Reward View: Valuations are full but high underlying profitability + Low Infra Exposure drive upgrade to OW



Price Target Rs300		Derived from our probability-weighted residual income model: Bull 20%; Base 60%; Bear 20%
Bull Case Rs390	3.4x F2013e BVPS	**Interest rates soften sooner than expected:** Loan growth is much stronger than base case. Margins expand in F2H2012 and F2013 given drop in deposit rates even as loan demand remains strong. Asset quality trends are better than expected.
Base Case Rs310	2.7x F2013e BVPS	**Weak economic growth, rates higher for longer:** Loan book expands 25% in F2012-13. Margins remain broadly stable through the rest of the year. Credit costs move to 62bps in F2012 and 85bps in F2013 from 69bps in F2011 and 72bps in F2010.
Bear Case Rs165	1.4x F2013e BVPS	**Materially weaker economic growth:** Loan growth and margins are lower than base case. Impaired loan formation is higher than expected, driven by high slippages from SME loans and CV segment.

Source: FactSet, Morgan Stanley Research estimates

Why OW?

- Well positioned for the longer term, given: a) the company is still in the early stages of growth, and b) management has done a solid job of delivering on key metrics.
- Valuations at 16.1x F2012e earnings and 2.5x F2012e BV, though expensive relative to peers, but should be viewed in the context of: a) high EPS growth (F11-13e CAGR at 23%); b) low exposure to infra sector (2% of total exposure); c) well-capitalized, with a Tier I ratio of 12.3% as of Mar-11; d) low impaired loans ratio, at 1.5%; and e) high underlying ROE of 19%, which we expect the bank to deliver in F12-14.

Key Value Drivers

- Loan growth
- Margins (function of competition, CASA/assets and short rate trend)
- Fee income progression
- Asset quality (loan loss provisions: LLP)

Potential Catalysts/Upside Risks

- Trends in automobile sales and IndusInd's loan growth dynamics
- Funding cost trajectory
- CASA traction
- Asset quality trends in F2H2012/F2013

Key Downside Risks

- Execution on CASA, short rate trends, system-wide credit offtake, CV sales trend, and potential equity supply from promoters.

IndusInd: Financial Summary

Profit and Loss Statement				
Rs Mln (Year end March)	**F2011**	**F2012E**	**F2013E**	**F2014E**
Total interest earned	35894	50446	63442	79417
Total Interest Expense	22129	34049	42618	52603
Net Interest Income	**13765**	**16397**	**20824**	**26814**
CEB	2570	3469	4510	5637
Capital Gains	404	513	700	700
Forex Income	1542	2081	2706	3382
Others	2621	3593	4671	6072
Total Non Interest Income	**7137**	**9656**	**12586**	**15791**
Total Income	**20902**	**26053**	**33410**	**42605**
--Employee Expenses	3827	4851	6306	8198
--Other Expenses	6258	7985	9853	12316
Total Operating Expenses	**10085**	**12835**	**16159**	**20514**
Pre provision profit	**10817**	**13218**	**17251**	**22091**
---Loan Loss Provisions	1612	1838	3142	3928
---Other Provisions	407	410	450	500
Total provisions	2019	2248	3592	4428
PBT	**8798**	**10969**	**13659**	**17663**
Tax	3025	3642	4535	5864
PAT	**5773**	**7327**	**9124**	**11799**
Core Operating profit	**10413**	**12704**	**16551**	**21391**

Balance Sheet Data				
Rs Mln (Year end March)	**F2011**	**F2012E**	**F2013E**	**F2014E**
Share holders equity	40502	46519	53983	63613
Deposits	343654	433004	541255	676568
Borrowings	43564	58812	73515	91893
Other Liabilities & Provisions	28638	37819	48033	61027
Total Liablilities	**456358**	**576153**	**716785**	**893102**
Cash & Balances with RBI	24560	31248	39105	48940
Balances with Banks	15686	8627	10352	12423
Investments	135508	188065	234743	294040
Advances	261657	327071	408838	511048
Fixed Assets	5965	6263	6576	6905
Other Assets	12983	14931	17170	19746
Total Assets	**456358**	**576153**	**716785**	**893102**
Earning Assets	437411	554960	693039	866451
No Of Shares (mn)	466	466	466	466
Capital Adequacy				
Tier 1 Ratio	12.3%	11.3%	10.6%	10.1%
Tier 2 Ratio	3.6%	3.1%	3.2%	3.3%
Capital Adequacy Ratio	15.9%	14.4%	13.8%	13.4%

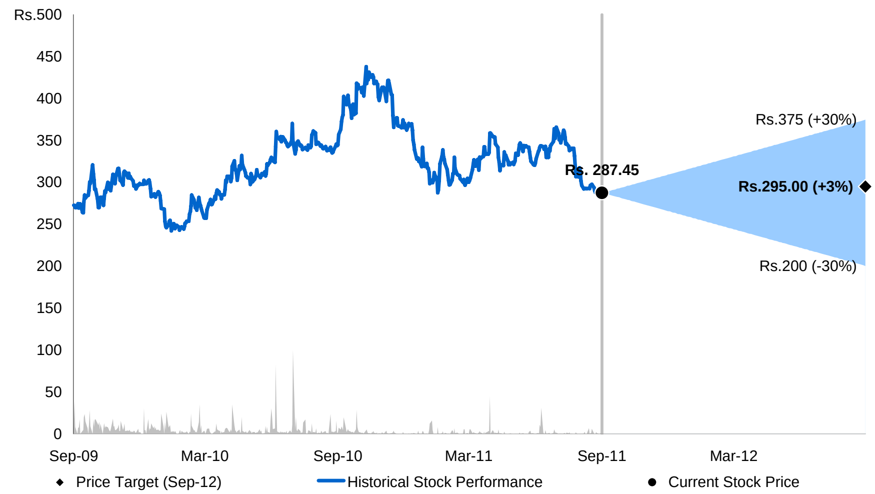
Per Share Data and Valuations				
Year end March	**F2011**	**F2012E**	**F2013E**	**F2014E**
Per Share Data				
EPS	13.0	15.7	19.6	25.3
Book Value	86.9	99.8	115.9	136.5
Core Op. Profit	16.7	19.6	25.5	32.9
DPS	2.0	2.5	3.3	4.3
Valuations				
PE	19.5	16.1	13.0	10.0
Price to Book	2.9	2.5	2.2	1.9
Price to Core Op. Profit	15.2	13.0	10.0	7.7
Dividend Yield	0.8%	1.0%	1.3%	1.7%

Ratio Analysis				
Year end March	**F2011**	**F2012E**	**F2013E**	**F2014E**
Spread Analysis				
Average yield on assets	9.3%	10.2%	10.2%	10.2%
Cost of earning assets	5.7%	6.9%	6.8%	6.7%
Net Interest Margin (NIM)	3.6%	3.3%	3.3%	3.4%
Growth Ratios				
Net Interest Income	58%	19%	27%	29%
Non Interest Income	26%	35%	30%	25%
Operating expenses	37%	27%	26%	27%
Operating Profit	54%	22%	31%	28%
Net Profit	65%	27%	25%	29%
EPS	44%	21%	25%	29%
Deposits	29%	26%	25%	25%
Advances	27%	25%	25%	25%
Total Assets	29%	26%	24%	25%
Profitability Ratios				
Return On Equity	17.9%	16.8%	18.2%	20.1%
Return on Assets	1.4%	1.4%	1.4%	1.5%
Efficiency Ratios				
Cost to Income Ratio	48.2%	49.3%	48.4%	48.1%
Expenses/Avg Assets	2.5%	2.5%	2.5%	2.5%
Asset Quality				
Total loss prov. / Adv (bps)	69	62	85	85
Gross NPL	2660	3541	4828	6438
Net NPL	730	952	1305	1747
Reserve Coverage	1930	2589	3523	4692
Gross NPL Ratio	1.0%	1.1%	1.2%	1.2%
Net NPL Ratio	0.3%	0.3%	0.3%	0.3%
Coverage Ratio	73%	73%	73%	73%

Source: Company Data, Morgan Stanley Research. E: Morgan Stanley Research Estimates

ING Vysya Bank (VYSA.BO, Rs287.5, EW, PT Rs295)

Risk-Reward View: Improving Fundamentals, but Much Is in the Price



Price Target Rs295		Derived from our probability-weighted residual income model: Bull 20%; Base 60%; Bear 20%
Bull Case Rs375	1.4x F2012 BVPS	**Interest rates soften sooner than expected:** Loan growth is much stronger than base case. Margins expand in F2H2012 and F2013, given drop in deposit rates, even as loan demand remains strong. Asset quality trends are better than expected.
Base Case Rs300	1.1x F2012 BVPS	**Weak economic growth, rates higher for longer:** Loan book expands18% in F2012-13. Margins remain broadly stable through the rest of the year. Credit costs move to 38bps in F2012 and 80bps in F2013 from 74bps in F2011 and 130bps in F2010.
Bear Case Rs200	0.8x F2012 BVPS	**Materially weaker economic growth:** Loan growth and margins are lower than base case. Impaired loan formation is higher than expected, driven by high slippages from SME loans and restructuring in the infrastructure space.

Source: FactSet, Morgan Stanley Research estimates

Why Equal-weight

- One of India's oldest private sector banks, but still relatively small, with 475 branches and a loan book of US$4.5bn (0.6% market share).
- INGV has started to close the growth and profitability gap versus peers. It delivered ROA of 0.9% in F2011, and loan book is growing 28% YoY.
- We expect INGV to maintain its growth trend and improve ROA to 1% by F14.
- Well positioned in terms of asset quality – new NPL formation is slowing, and NPL coverage ratio is above minimum RBI requirement of 70%.
- Valuations at 1.1x F12e BV and 10.2x F12e earnings are fair in the context of: a) low underlying ROE of 12% (reported ROE at 13%) that we expect the bank to deliver in F12-14; and b) potential asset quality deterioration in the event of a poor macro environment, given the bank's high SME exposure (23.5% of total loans as of Jun-11).

Key Value Drivers

- Ability to gain share of system loans and deposits, especially CASA;
- Further improvement in liability franchise, leading to margin stability;
- Faster productivity improvement, leading to better cost metrics.

Potential Catalysts

- Trend in wholesale funding rates, as 35-40% of deposit base is bulk deposits/CDs;
- Any events materially affecting parent company, ING.

Risks

Upside: Cost efficiency improvement is faster than expected; stronger system-wide loan growth aids revenue progression.

Downside: Slower-than-expected loan growth; greater-than-expected margin compression owing to a sharp rise in short rates; asset-quality concerns.

Financial Summary: ING Vysya Bank

Profit and Loss Statement				
Rs Mln (Year end March)	**F2011**	**F2012E**	**F2013E**	**F2014E**
Total interest earned	26941	37488	45114	53250
Total interest expense	16875	25819	30910	36374
Net Interest Income	**10065**	**11668**	**14204**	**16876**
CEB	4189	4968	6038	7341
Capital Gains	820	235	635	710
Forex Income	1020	1341	1609	1930
Others	521	425	650	650
Total Non Interest Income	**6550**	**6969**	**8931**	**10631**
Total Income	**16615**	**18637**	**23135**	**27507**
--Employee Expenses	6057	6750	8103	9618
--Other Expenses	4204	4730	5202	5723
Total Operating Expenses	**10260**	**11479**	**13306**	**15341**
Pre provision profit	**6355**	**7157**	**9830**	**12166**
---Loan Loss Provisions	1561	984	2451	2892
---Other Provisions	-45	157	177	209
Total provisions	1516	1141	2628	3100
PBT	**4839**	**6017**	**7202**	**9066**
Tax	1652	1988	2379	2995
PAT	**3187**	**4029**	**4823**	**6071**
Core Operating profit	**5014**	**6497**	**8545**	**10806**

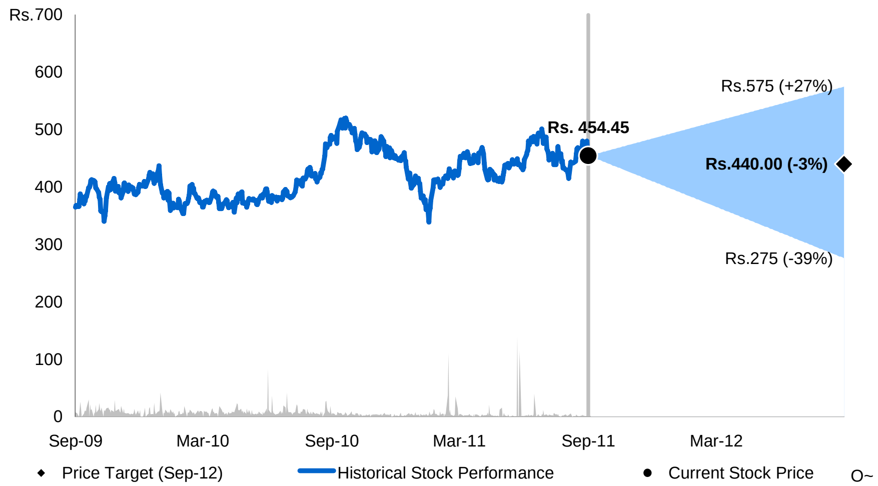
Balance Sheet Data				
Rs Mln (Year end March)	**F2011**	**F2012E**	**F2013E**	**F2014E**
Share holders equity	26243	39450	43568	48751
Deposits	301943	368370	434676	512918
Borrowings	30947	37137	44564	53477
Other Liabilities & Provisions	31007	35656	43397	52837
Total Liablilities	**390140**	**480613**	**566205**	**667983**
Cash & Balances with RBI	21838	28234	33449	39631
Balances with Banks	3376	4221	5065	6078
Investments	110207	146293	172385	204020
Advances	236021	280865	331421	391077
Fixed Assets	5028	5280	5808	6388
Other Assets	13669	15719	18077	20789
Total Assets	**390140**	**480613**	**566205**	**667983**
Earning Assets	371442	459614	542320	640806
No Of Shares (mn)	121	149	149	149
Capital Adequacy				
Tier 1 Ratio	9.4%	11.7%	11.0%	10.5%
Tier 2 Ratio	3.6%	3.4%	3.7%	4.0%
Capital Adequacy Ratio	12.9%	15.1%	14.7%	14.4%

Per Share Data and Valuations				
Year end March	**F2011**	**F2012E**	**F2013E**	**F2014E**
Per Share Data				
EPS	26.4	28.1	32.3	40.7
Book Value	216.9	264.3	291.9	326.6
Core Op. Profit	41.6	45.2	57.3	72.4
DPS	3.0	3.4	4.0	5.1
Valuations				
PE	10.9	10.2	8.9	7.1
Price to Book	1.3	1.1	1.0	0.9
Price to Core Op. Profit	6.9	6.4	5.0	4.0
Dividend Yield	1.0%	1.2%	1.4%	1.8%

Ratio Analysis				
Year end March	**F2011**	**F2012E**	**F2013E**	**F2014E**
Spread Analysis				
Average yield on assets	7.8%	9.0%	9.0%	9.0%
Cost of earning assets	4.9%	6.2%	6.2%	6.1%
Net Interest Margin (NIM)	2.9%	2.8%	2.8%	2.9%
Growth Ratios				
Net Interest Income	21%	16%	22%	19%
Non Interest Income	11%	6%	28%	19%
Operating expenses	27%	12%	16%	15%
Core Operating Profit	6%	30%	32%	26%
Net Profit	43%	26%	20%	26%
EPS	34%	6%	15%	45%
Deposits	17%	22%	18%	18%
Advances	28%	19%	18%	18%
Total Assets	15%	23%	18%	18%
Profitability Ratios				
Return On Equity	12.8%	11.2%	11.6%	13.2%
Return on Assets	0.9%	0.9%	0.9%	1.0%
Efficiency Ratios				
Cost to Income Ratio	61.8%	61.6%	57.5%	55.8%
Expenses/Avg Assets	2.8%	2.6%	2.5%	2.5%
Asset Quality				
Total loss prov. / Adv (bps)	74	38	80	80
Gross NPL	5532	5791	7628	9795
Net NPL	918	960	1265	1625
Reserve Coverage	4615	4831	6363	8171
Gross NPL Ratio	2.3%	2.0%	2.2%	2.4%
Net NPL Ratio	0.4%	0.3%	0.4%	0.4%
Coverage Ratio	83%	83%	83%	83%

Kotak Mahindra Bank (KTKM.BO, Rs454.5, EW, PT Rs440)

Risk-Reward View: Valuations are full but High Underlying Profitability + Low Infra Exposure drive our upgrade to EW



Price Target Rs440		Sum of the parts; we assign a 60% probability to our base case, a 20% probability to our bull case, and a 20% probability to our bear case.
Bull Case Rs575	3.3x Base Case F11e BVPS	**Trends remain robust at banking business, market share in broking rebounds sharply:** Loan growth is much stronger than base case. Margins expand in F2H2012 and F2013, given drop in deposit rates, even as loan demand remains strong. Asset quality trends are better than expected. Market share trends (particularly in the broking business) are stronger than expectations. AUMs in the domestic mutual fund business rise sharply from current levels.
Base Case Rs450	2.6xBase Case F11e BVPS	**Weak economic growth, rates higher for longer, muted capital market activity:** Loan book expands 24%% in F2012-13. Margins remain broadly stable through the rest of the year. Credit costs move higher, to 33bps in F2012 and 120bps in F2013 from 40bps in F2011 and 249bps in F2010. Capital market activity and trends in the asset management business are muted.
Bear Case Rs275	1.6x Base Case F11e BVPS	**Materially weaker economic growth:** Loan growth and margins are lower than base case. Impaired loan formation is higher than expected, driven by high slippages from SME loans and CV segments. Capital market activity slows materially, impacting revenues and multiples for these businesses.

Source: FactSet, Morgan Stanley Research estimates

Why EW?

- Presence across nearly all financial services businesses in India.
- Management team is among the best in the business – its execution of conversion from an NBFC into a bank has been exemplary, in our view.
- Historically traded as a capital market proxy, but earnings mix has changed over the past few years.
- Valuations are expensive at 18.7x F2012e EPS, but should be viewed in the context of: a) low exposure to infra sector; b) well-capitalized, with a Tier I ratio of 18.1% as of Mar-11; c) low impaired loans ratio, at 2.1%; d) high underlying ROE of 18%, which we expect the bank to deliver in F12-14.

Key Value Drivers

- Lending Businesses: 1) NIM progression; 2) Volume growth 3) Trend in loan loss provisioning
- Securities business: 1) Growth in market volume; 2) Market share; 3) Commission rates
- Asset management: 1) Trend & composition of assets under management; 2) Commission rates
- Insurance: 1) Growth in premiums; 2) NBAP margins & multiples

Potential Catalysts

- Trend in short rates
- Capital market activity (equity market turnover, equity issuance trend)
- Market share trends in various businesses (securities in particular)

Key Risks

- **Upside:** Lending margins hold up better than expectations, market share trends in securities businesses turns around.
- **Downside**: Slowdown in economic growth; NPL formation accelerates again, margins compress more than expected.

Kotak Mahindra Bank: Financial Summary

Profit and Loss Statement				
Profit attributable to the group	**F2011**	**F2012E**	**F2013E**	**F2014E**
Interest Income	61414	77029	95777	116289
Interest Expense	26345	41949	51479	64100
Net Interest Income	**35069**	**35080**	**44299**	**52188**
Total Non Interest Income	**48878**	**59816**	**68590**	**79082**
Total Operating Income	**83947**	**94896**	**112889**	**131270**
---Employee Exp	15223	17338	21654	26047
---Policy holders reserves	17725	15677	17046	18773
---Other Expenses	27049	33547	38940	44752
Total Operating Expenses	59997	66563	77640	89572
Operating Profit	**23950**	**28333**	**35249**	**41699**
Total provisions	1476	2121	6062	7492
---Loan Loss Provisions	1116	1848	5789	7219
---Other Provisions	360	273	273	273
Profit Before Tax	22474	26212	29188	34207
Provision for Tax	**6782**	**8047**	**8956**	**10524**
Profit After Tax	15692	18165	20231	23683
---Share of Minority Interest	264	236	265	296
---Share in Profit of Associates	239	-24	239	-24
Net Profit attributable to the group	**15667**	**17905**	**20205**	**23364**

Balance Sheet Data				
Rs Mln (Year end March)	**F2011**	**F2012E**	**F2013E**	**F2014E**
Share holders equity	109629	126889	146448	169166
Minority Interest	1072	1072	1072	1072
Deposits	273130	346282	437723	552023
Borrowings	212709	265970	332389	415215
Policy Holder's funds	81452	89562	99717	112044
Total Liabilities	**736811**	**896605**	**1096266**	**1343717**
Cash & Balances with RBI	21149	26754	33340	41574
Balances with Banks	8794	13506	18708	27041
Investments	260490	313521	373814	446882
Advances	412420	509221	635458	791224
Fixed Assets	5970	7040	8277	9732
Other Assets	27955	26528	26634	27230
Total Assets	**736811**	**896605**	**1096266**	**1343717**
Earning Assets	702852	863003	1061320	1306720
No Of Shares (mn)	737	737	737	737
Asset Quality (Bank Standalone)				
Gross NPL	6035	6319	8767	11780
Net NPL	2112	2363	3208	4240
Gross NPL Ratio	2.0%	1.7%	1.9%	2.1%
Net NPL Ratio	0.7%	0.7%	0.7%	0.8%
Coverage Ratio	73.9%	73.4%	75.3%	76.5%

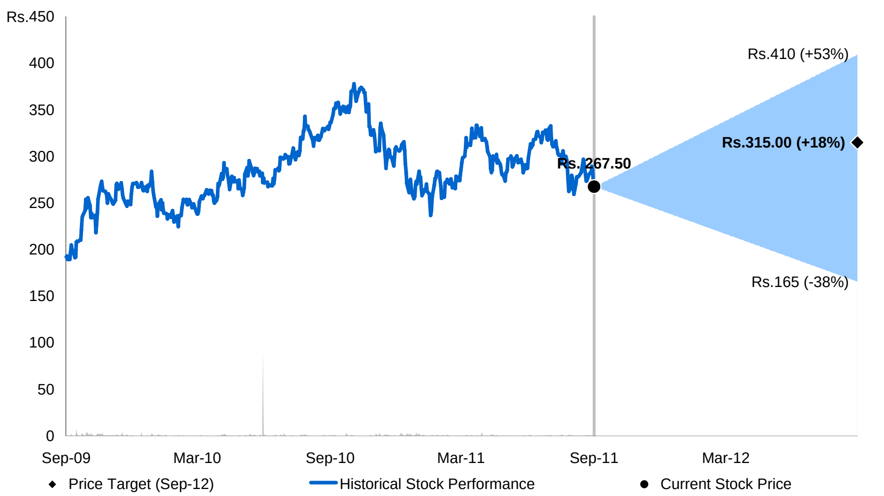
Per Share Data and Valuations				
Rs Mln (Year end March)	**F2011**	**F2012E**	**F2013E**	**F2014E**
EPS	454.5	24.3	27.4	31.7
Book Value	148.8	172.2	198.7	229.6
DPS	0.5	0.7	0.7	0.7
Valuations				
PE	1.0	18.7	16.6	14.3
Price to Book	3.1	2.6	2.3	2.0
Dividend Yield	0.1%	0.2%	0.2%	0.2%

Others				
Rs Mln (Year end March)	**F2011**	**F2012E**	**F2013E**	**F2014E**
Spread Analysis (Kotak Bank, Stand alone)				
Average yield on assets	9.8%	10.4%	10.5%	10.3%
Cost of earning assets	4.9%	5.9%	5.8%	5.8%
Net Interest Margin (NIM)	5.0%	4.5%	4.7%	4.5%
Profitability Ratios				
Return on Assets	2.4%	2.2%	2.0%	1.9%
Return On Equity	16.6%	15.1%	14.8%	14.8%
Growth Ratios				
Net Interest Income	24%	0%	26%	18%
Total Income	1%	13%	19%	16%
Operating Profit	-1%	18%	24%	18%
Net Profit	20%	14%	13%	16%
EPS	2312%	-95%	13%	16%
Advances	39%	23%	25%	25%
Deposits	25%	27%	26%	26%
Capital Ratios (Bank Standalone)				
Tier 1 Ratio	18.0%	16.9%	15.5%	14.3%
Tier 2 Ratio	1.9%	1.9%	1.9%	1.9%
Capital Adequacy Ratio	19.9%	18.8%	17.4%	16.2%
Earnings Of Various Business				
Kotak Mahindra Bank	46%	27%	8%	18%
Kotak Mahindra Capital	117%	-12%	39%	32%
Kotak Securities	-30%	-31%	5%	20%
Kotak Mahindra Primus	91%	15%	16%	14%
Kotak Mahindra AMC	-84%	168%	24%	29%
Kotak International Subs	-36%	-45%	27%	-100%
Kotak Mahindra Investments	-31%	50%	11%	-100%

Source: Company data, E=Morgan Stanley Research Estimates

Yes Bank (YESB.BO, Rs267.5, OW, PT Rs315)

Risk-Reward View: Valuations Attractive Following Recent Correction



Price Target Rs315		Derived from probability-weighted residual income model.
Bull Case Rs410	2.3x F12e BVPS	**Interest rates soften sooner than expected:** Loan growth is much stronger than base case. Margins expand in F2H2012 and F2013, given drop in deposit rates, even as loan demand remains strong. Asset quality trends are better than expected.
Base Case Rs330	1.9x F12e BVPS	**Weak economic growth, rates higher for longer:** Loan book expands 26%% in F2012-13. Margins remain broadly stable through the rest of the year. Credit costs move higher, to 37bps in F2012 and 65bps in F2013 from 14bps in F2011 and 22bps in F2010.
Bear Case Rs165	0.9x F12e BVPS	**Materially weaker economic growth:** Loan growth and margins are lower than base case. Impaired loan formation is higher than expected, driven by high slippages from SME loans and restructuring in the infrastructure space.

Source: FactSet, Morgan Stanley Research estimates

Investment Thesis

- Early stage of growth uptrend – relatively small, with just 255 branches and ~1% market share in loans.
- Likely to deliver volume growth ahead of system in coming years.
- Entered new growth cycle, with much better asset quality than peers – impaired loan ratio is only 0.5%.
- 10-15% of total revenues come from capital-market-linked business, which will be strong in a conducive macro environment.
- Focuses on the large/mid-sized corporate segment.
- Liability franchise is still weak, with a CASA ratio of only 10.9% – hence is vulnerable to a spike in short rates.
- 1.8x BV, 6.8x core PPOP, look attractive in the context of high underlying ROE of 18%, which we expect the bank to deliver in F12-14.

Key Value Drivers

- Loan growth
- Margin stability
- Non-interest income (has high capital market linkages)
- Asset quality (LLP)

Potential Catalysts

- Trend in short rates
- Execution of branch expansion strategy and low-cost deposit accumulation.
- More evidence that growth story is panning out

Key Risks

- Spike in short rates, hurting margins.
- Disruptive rise in interest rates, leading to weakness in asset quality and slowdown in growth momentum.

Yes Bank: Financial Summary

Profit and Loss Statement				
Rs Mln (Year end March)	**F2011**	**F2012E**	**F2013E**	**F2014E**
Interest Income	40417	61177	78788	94639
Interest Expense	27948	45275	57742	66737
Net Interest Income	**12469**	**15903**	**21046**	**27902**
Transaction Banking	1878	2368	3078	3847
Financial Markets	1108	1228	1412	1766
Financial Advisory	2705	3194	4152	5190
3rd Party Distribution and Others	631	888	1199	1619
Total Non Interest Income	**6322**	**7678**	**9841**	**12421**
Total Operating Income	**18791**	**23580**	**30887**	**40324**
---Employee Exp	3623	4890	6113	8252
---Other Expenses	3175	3667	4584	6188
Total Operating Expenses	6798	8557	10697	14441
Operating Profit	**11993**	**15023**	**20191**	**25883**
---Loan Loss Provisions	393	1447	3203	4309
---Other Provisions	679	581	738	948
Total provisions	**1072**	**2028**	**3941**	**5257**
Profit Before Tax	**10921**	**12995**	**16250**	**20626**
Provision for Tax	3650	4247	5310	6741
Net Profit	**7271**	**8748**	**10939**	**13885**

Balance Sheet Data				
Rs Mln (Year end March)	**F2011**	**F2012E**	**F2013E**	**F2014E**
Share holders equity	37941	60930	69982	81472
Deposits	459389	585721	732152	915190
Borrowings	48325	62822	78527	98159
Other Liabilities & Prov.	44416	53064	65501	80859
Total Liabilities	**590070**	**762538**	**946162**	**1175681**
Cash & Balances with RBI	30760	42096	52571	65652
Balances with Banks	4200	6089	7612	9515
Investments	188288	246177	297757	361180
Advances	343636	438136	547671	684588
Fixed Assets	1324	1788	2414	3258
Other Assets	21861	28251	38138	51487
Total Assets	**590070**	**762538**	**946162**	**1175681**
Earning Assets	566885	732499	905610	1120936
Capital Adequacy				
Tier 1 Ratio	9.7%	11.6%	10.7%	9.9%
Tier 2 Ratio	6.8%	6.1%	5.6%	5.3%
Capital Adequacy Ratio	16.5%	17.7%	16.3%	15.2%

Per Share Data and Valuations				
Year end March	**F2011**	**F2012E**	**F2013E**	**F2014E**
Per Share Data				
EPS	21.2	24.5	27.4	34.7
Book Value	109.3	152.5	175.1	203.9
Core Op. Profit	32.9	39.4	47.8	61.3
DPS	3.1	3.3	4.1	5.2
PE	12.6	10.9	9.8	7.7
Price to Book	2.4	1.8	1.5	1.3
Price to Core Op. Profit	8.1	6.8	5.6	4.4
Dividend Yield	1.2%	1.2%	1.5%	1.9%

Ratio Analysis				
Year end March	**F2011**	**F2012E**	**F2013E**	**F2014E**
Spread Analysis				
Average yield on assets	8.8%	9.9%	9.6%	9.3%
Cost of earning assets	6.1%	7.3%	7.0%	6.6%
Net Interest Margin (NIM)	2.7%	2.6%	2.6%	2.8%
Growth Ratios				
Net Interest Income	58.2%	27.5%	32.3%	32.6%
Non Interest Income	9.9%	21.4%	28.2%	26.2%
Operating expenses	35.9%	25.9%	25.0%	35.0%
Operating Profit	38.9%	25.3%	34.4%	28.2%
Net Profit	52.2%	20.3%	25.0%	26.9%
EPS	35.6%	15.5%	11.9%	26.9%
Deposits	71.4%	27.5%	25.0%	25.0%
Advances	54.8%	27.5%	25.0%	25.0%
Total Assets	62.2%	29.2%	24.1%	24.3%
Profitability Ratios				
Return On Equity	21.0%	19.4%	16.7%	18.3%
Return on Assets	1.5%	1.4%	1.3%	1.3%
Efficiency Ratios				
Cost to Core Income Ratio	36.2%	36.4%	34.6%	35.8%
Expenses/Avg Assets	1.4%	1.3%	1.3%	1.4%
Asset Quality				
Total loss prov. / Adv (bps)	14	37	65	70
Gross NPL	805	453	1286	2673
Net NPL	92	52	146	304
Reserve Coverage	714	402	1140	2369
Gross NPL Ratio	0.2%	0.1%	0.2%	0.4%
Net NPL Ratio	0.0%	0.0%	0.0%	0.0%
Coverage Ratio	88.6%	88.6%	88.6%	88.6%

Source: Company Data, Morgan Stanley Research ; E=Morgan Stanley Research Estimates

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(as of August 31, 2011)

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	Coverage Universe		Investment Banking Clients (IBC)		
Stock Rating Category	Count	% of Total	Count	% of Total IBC	% of Rating Category
Overweight/Buy	**1120**	**41%**	**460**	**48%**	**41%**
Equal-weight/Hold	**1151**	**42%**	**389**	**40%**	**34%**
Not-Rated/Hold	**114**	**4%**	**21**	**2%**	**18%**
Underweight/Sell	**374**	**14%**	**93**	**10%**	**25%**
Total	**2,759**		**963**		

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Industry Coverage:India Financial Services

Company (Ticker)	Rating (as of)	Price* (09/26/2011)
Anil Agarwal		
HDFC (HDFC.BO)	E (09/01/2010)	Rs622.95
HDFC Bank (HDBK.BO)	O (01/18/2010)	Rs450.15
ICICI Bank (ICBK.BO)	O (03/22/2011)	Rs856.45
State Bank of India (SBI.BO)	U (05/02/2011)	Rs1,951.2
Mihir Sheth		
AXIS Bank (AXBK.BO)	E (04/25/2011)	Rs1,055.8
Bank of Baroda (BOB.BO)	U (05/02/2011)	Rs791.8
Bank of India (BOI.BO)	U (05/02/2011)	Rs301.2
Canara Bank (CNBK.BO)	U (05/02/2011)	Rs424.9
Corporation Bank (CRBK.BO)	E (05/02/2011)	Rs423.6
IDBI (IDBI.BO)	U (10/21/2005)	Rs103.7
IDFC (IDFC.BO)	E (08/05/2010)	Rs109.25
ING Vysya Bank Ltd. (VYSA.BO)	E (12/22/2010)	Rs282.15
IndusInd Bank (INBK.BO)	E (07/11/2011)	Rs255.6
Kotak Mahindra Bank (KTKM.BO)	U (08/21/2006)	Rs457.6
LIC Housing Finance Ltd. (LICH.BO)	E (12/09/2010)	Rs204.75
Oriental Bank of Commerce (ORBC.BO)	E (05/02/2011)	Rs278.6
Punjab National Bank (PNBK.BO)	U (05/02/2011)	Rs974.05
Reliance Capital (RLCP.BO)	E (08/20/2008)	Rs389.35
Shriram Transport Finance Co. Ltd. (SRTR.BO)	E (02/25/2011)	Rs599.65
Union Bank of India (UNBK.BO)	E (05/02/2011)	Rs248.9
Yes Bank (YESB.BO)	O (10/20/2009)	Rs262.1

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* Historical prices are not split adjusted.