

September 10, 2012

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We conducted our Banks/Financials conference with participation from ~20 banks/NBFCs and banking tour covering regulators/industry experts. Overall feedback suggested very weak credit offtake but extremely mixed views on near term asset quality. Apart from easing rates, the most certain positive outcome was on easing regulatory pressure for the sector especially for NBFCs. Overall feedback was split in two contrasting halves with PSU banks at one end and retail banks/NBFCs on the other (positive) and corporate banks/financiers like ICICI/IDFC having a mixed outlook. We continue our preference for ICICI/Axis/Yes and also believe most retail NBFCs are well positioned for an easing rate cycle and risks from tightening regulations is nearing the end.

- **Growth targets revised down; a few exceptions though:** Most banks have revised their system growth target to ~14-15% with negligible term/capex related off take and SME/Retail is thus the focus area. **PSU banks** were most cautious on growth outlook also constrained by FinMin dictat on bulk deposits. Among private banks/NBFCs, **kotak's caution** inched up (~20% now v/s 25% earlier) and **Shriram (12-15%)** continues with its low growth expectations. **Mahindra Finance (~30%)** still remains most sanguine on growth, followed by **IndusInd (+25%)**. **ICICI bank** still remains positive on domestic loan book (20% growth) but expects slower core fee income momentum (<10% growth).
- **Margins to look up; especially for private banks/NBFCs:** Lower wholesale rates is a boon for NBFCs and also for banks like ICICI/Yes aided by lower competition on bulk deposits. Pricing power is robust on the corporate side with retail seeing some pricing competition. In spite of higher competition, retail banks/NBFCs with fixed rate book (**MMFS/HDFCB/KMB/IIB**) and wholesale funded institutions like **IDFC/Yes** have a positive outlook on margins. Reduced dependence on bulk deposits is a structural positive for PSUs but we believe **PSU's margins** may be impacted as the rate cut cycle begins in 2H13. Incremental spreads for **LICHF** is fine (1.6-1.7%) but slow disbursements in builder portfolio with impact the margin improvement process.
- **Mixed feedback on Asset quality: (1)** Retail asset quality continues to hold firm except for CVs where **SHTF/IIB** continue to be sanguine but **Kotak/HDFCB** and more importantly, **CIBIL** seemed more cautious. **(2)** Asset quality for **PSU banks** continue to remain more linked to macro which is not showing signs of pick-up as yet **(3) PFC/REC** were positive on SEB reforms but CRISIL was suspect on a complete turnaround for SEBs and PFC's involvement in most stressed power assets is a further drag **(4)** Private corporate financiers like **ICICI/Yes/IDFC** expect some marginal inch up in NPAs but don't see material change to their credit costs guidance (ICICI -70/75bps, IDFC- Gross NPA of 1%).
- **Regulatory intensity to come off; a certain positive in an uncertain environment:** We believe regulatory intensity will be significantly lower now with RBI keen to implement most regulations relating to NBFCs in a non-disruptive way (90 v/s 180 days) and pausing on tightening for gold NBFCs. Dynamic provisions (final guidelines under work) could pose some challenges for banks but RBI does not see capital issues for most banks under BASEL III.

List of Participants

Monday, 3rd September - Day 1			Tuesday, 4th September - Day 2		
HDFC Bank	Mr. Sashi Jagdishan	CFO	ICICI Bank	Mr. Anindya Banerjee	Head, Corp. Strgy.
	Mr. Bhavin Lakhpatwala	VP, Finance		Mr. Rakesh Mookim	Investor Relation
State Bank of India	Mr. Vishvesh Ramamoorthy	CGM, FRT	Kotak Bank	Mr. Dipak Gupta	Jt. MD
	Ms. Rita G	GM, PPR		Mr. Sundar Raman	AVP Ex. VP
PFC	Mr. Nagarajan	Dir. Finance			
REC	Mr. D S Ahluwalia	Ex. Dir. Finance	IDFC	Mr. Bimal Giri	Dir. Corp. Planning & IR
	Mr. Sanjay Kumar	DGM, Finance	HDFC Ltd.	Mr. Keki Mistry	Vice Chairman & CEO
YES Bank	Mr. Jaideep Iyer	Deputy CFO	IndusInd Bank	Mr. Paul Abraham	COO
	Mr. Aparajit Bhandarkar	Ex. VP		Mr. Sohali Chander	Head, Corp. Banking
LIC Housing	Mr. Suresh Samtani	CFO	Indian Overseas Bank	Mr. Narendra	CMD
	Mr. Sudipto Sil	ACM, Fin. & IR	City Union Bank	Mr. S Sundar	CFO & Sr. GM
Shriram Transport	Mr. Umesh Revankar	MD		Mr. S Rajam	Asst. GM
	Mr. Sanjay Mundra	VP			
Union Bank	Mr. D Sarkar	CMD	Wednesday, 5th September (Regulatory Tour, Mumbai) - Day 3		
	Mr. S S Mundra	ED	CIBIL (Credit Bureau)	Mr. Satish Pillai	COO
	Mr. S K Jain	ED	RBI- Banking regulations	Mr. Deepak Singhal	CGM
Mahindra Finance	Mr. Ramesh Iyer	MD	RBI - NBFC regulations	Mrs. Mangala Vaidyanathan	GM
	Mr. V Ravi	CFO		Mrs. Tuli Roy	GM
	Mr. Dinesh Prajapati	Sr. GM		Mr. RK Wangu	GM
Central Bank	Mr. VK Tanksale	CMD	CRISIL	Mr. Sudip Sural	Director
	Mr. K Eswar	GM, Treasury		Mr. Suman Chowdhary	Director
UCO Bank	Mr. Arun Kaul	CMD			

Snapshot of Conference takeaways for coverage companies

	Outlook on					Positive Feedback	Negative Feedback
	Growth	NIMs	Fees	Opex	Asset Quality		
ICICI Bank	Orange	Green	Red	Orange	Green	1. Still expect domestic growth of ~20% 2. Margins stable at 3.0% near term. Expect ~20bps improvement over next 2 yrs	1. Core fees growth may not be double digits as earlier envisaged
HDFC Bank	Orange	Green	White	Green	Orange	1. Next leg of ROA improvement from operating cost efficiency improvement (2-3% reduction in C/I expected)	1. Some strain in CVs for the industry but manageable at the moment
Kotak Bank	Red	Green	White	White	Orange	1. Asset book positioned for a rising rate cycle. 2. Conservative mgt view to help avoid future stress	1. Growth expectation now at ~20% 2. Significant problem in CVs especially considering a fuel price hike
IndusInd	Green	Green	White	White	Orange	1. Still very positive on growth expectations 2. Expects fee income momentum to continue as well	1. Management sanguine on CV asset quality -- Feedback from peers/CIBIL cautious
Yes Bank	Red	Green	Orange	White	Red	1. Biggest beneficiary of easing wholesale rates	1. Growth expectations remain moderate (~20%) 2. NPA accretion to inch up but manageable
SBI	Red	Green	Orange	White	Orange	1. SBI still maintaining guidance of 3.75% on margins -- Deposit rate cut positive	1. Growth outlook very weak- Expect 14-15% growth 2. Macro situation too fluid for slippages guidance --Macro weakness to weigh on near term asset quality
HDFC Ltd	Green	Green	White	White	Green	1. Growth continues to remain robust 2. No impact from pre-payment charges abolition	
LICHT	Green	Red	White	White	Green	1. Growth outlook robust 2. No impact from pre-payment charges abolition	1. Margin recovery to be more gradual than previously estimated due to slower than expected pickup in developer book
PFC/REC	Green	Green	White	White	Red	1. Management positive on SEB reforms. UP tariffs to be raised in Sep-12	1. PFC involved in most stressed private power projects. 2. CRISIL not sanguine on SEB health even after reforms
MMFS	Green	Green	White	White	Green	1. Most bullish on growth -- ~30% expectation 2. Asset quality on tractor/CV cycle manageable - Monsoon recovery positive	
SHTF	Orange	Green	White	White	Orange	1. Growth expectation continue to remain moderate 2. Management not unduly concerned on CV cycle - 80% customers linked to movement of essentials	1. Feedback from peers/CIBIL on CV cycle negative

Positive feedback/improvement
 Neutral/No change in guidance
 Negative feedback/Deterioration

RBI- Meeting with Head of Banking regulations:

Increase in provisions for restructuring recommended more likely to be accepted

RBI intends to implement dynamic provisions by FY14 – We expect bank's resistance may delay implementation.

RBI- comfortable with Gold lending by banks – We don't expect adverse regulations for banks concentrating on gold lending

RBI does not see Basel III capital needs as a systemic challenge

- **Provisions on restructuring necessary:** RBI believes with ~10% NPV hits and 5% standard provisioning recommended, overall provisioning for restructured accounts is meaningful now. RBI does not distinguish between sectors for provisioning on restructured accounts but for systemic issues they have in the past given exceptions on restructuring and lower provision on SEB restructuring could be a possibility once the FRP for SEBs is finalised.
- **Dynamic provisioning:** RBI is currently working on the final guidelines on dynamic provisioning and what surprised was that RBI still believes that they could start implementation of dynamic provisions by FY14 v/s market expectations of some push back given the current credit cycle. According to RBI, just 8-9 banks mostly private sector banks have segmental data to compute internal credit loss ratios and hence dynamic provisions when implemented will be a drag for most PSU banks.
- **Comfortable with gold lending by Banks:** After tightening of gold lending norms for NBFCs, the regulatory gap for gold lending between banks and NBFCs have increased but RBI seemed comfortable with lower restrictions on gold lending by banks and the key reason is the limited complaints they have received against banks in past either regarding pricing or auctions. Also, gold exposures is a lot less concentrated for banks v/s standalone gold lending companies.
- **Basel III capital requirements not a systemic issue:** RBI has recently estimated that banks would need Rs1.75trn over FY12-18 to comply with Basel III capital guidelines. Though some small PSU banks will have to face significant dilution, RBI does not believe that capital raising will be a systemic issue considering capital raised/generated by banks in the last 4-5yrs.
- **Other highlights:** (1) RBI in its banking supervision has not come across strong evidence of evergreening by banks using NBFCs as a conduit as this was one of the larger investor concern in our meetings. (2) RBI acknowledges that moral hazard issues have led to higher Agri NPAs but believes that it is a national necessity and considerations on new PSL guidelines will be limited.

RBI- Meeting with Head of NBFC regulations:

Overall, RBI comfortable with NBFCs in general

- **Overall regulatory landscape for NBFCs:** RBI indicated that the tighter regulations for NBFCs over the last ~24mnts, is just a catch up on regulations for NBFCs v/s Banks as there have not been significant changes in NBFC regulations from 1997-98 to 2010 while Basel-I/II and other periodic regulatory changes happened for Banks. RBI appreciates NBFC's role in promoting financial inclusion and considers them systemically very important.

Convergence on NPA recognition and provision for PSU NBFCs (PFC/REC) only by FY16

- **Regulatory window for PSU NBFCs:** PFC/REC's NPA recognition and also provisioning norms allowed are much less stringent than other PSUs. In line with Usha Thorat committee recos, RBI wants to close the regulatory gap by introducing standard provisioning for PFC/REC. Feedback from RBI and PFC suggests that the window to provide standard provisioning will be upto FY16, limiting provisioning to only 0.05% of advances a yr. Restructuring could increase for IFCs and RBI is working on the same.

Comfortable now with slow growth of Gold NBFCs. Does not intend to micro manage pricing and auctioning process of gold NBFCs

- **Gold NBFCs:** High growth and some pricing and auctions process was RBI' key issues with Gold NBFCs and with growth coming off and also lesser complains on auctions/pricing, we sense regulatory intervention will be fairly limited including no intention of any regulations regarding auctions. RBI is cognizant of LTV calculation misuse (including making charges) but does not see any near term regulatory intervention on this. Also, RBI is willing to reconsider relaxing some tightening of these regulations if they see industry wide discipline in all processes mentioned above.

Implementation of NPA recognition from 180 to 90 days only in non disruptive manner

- **NPA recognition – 180 to 90days:** RBI intends to bring down NPA recognition of NBFCs from 180 to 90 days but does not intend to implement this in a disruptive manner and this stance seemed a little different from our earlier interactions hinting to higher transition time to move from 180 to 90 days NPA recognition.

- **Others: (1)** On investor concerns on smaller NBFCs being used as a conduit for ever greening by banks, RBI mentioned that nothing material has come to their attention and this is regularly monitored by both the Banks/NBFCs supervisory team **(2)** Do not intend to extend dynamic provisions for NBFCs in the near term.

Overall, we continue to maintain that regulatory intensity will significantly come off for NBFCs and peaking rate cycle + manageable retail asset quality builds a positive environment for most NBFCs.

CIBIL – Credit bureau

*Retail asset quality except for some stress
in CVs at the margin*

- **Update on current retail asset quality:** Retail asset quality continues to hold up and CIBIL believes the structural story of better underwriting by banks aided by data from CIBIL continues. Auto especially CVs is the only segment where CIBIL is sensing some marginal deterioration in credit behaviour and they are keeping a close watch but even in these categories they have not seen material deterioration in 30/60/90 day delinquencies.

Details from our July-12 Update on CIBIL:

- **CIBIL- Breadth and depth:** All Banks/NBFC/Financial institutions are mandated to submit monthly data on retail loans to any one credit bureau, largest of them being CIBIL. CIBIL's coverage is extensive with ~230m a/cs and ~135m individuals covering ~800 financial institutions. Unlike general perception of "CIBILisation" of only urban/metro centres, only 35% of CIBIL's retail records are from top-20 cities, with 65% from smaller towns and rural areas. CIBIL not only gets data on NPAs but also repayment details of every retail loan o/s and hence, they can generate reports on early stress indicators like 30/60 day overdue as well.
- **CIBIL, gauging usage—and the impact:** Most retail loan applications are referred to CIBIL and the hit rate (probability of finding a CIBIL record) on aggregate basis is ~70-75%, with credit cards having a hit rate of +90% and 2-wheelers of <50%. According to CIBIL, surprisingly, delinquency rates for portfolio without CIBIL hit are similar to portfolio with CIBIL hit. This does not undermine importance of credit bureaus but this is because banks/NBFCs do more extensive due-diligence while lending to people without a CIBIL record. PSU bank's use of CIBIL data is limited though a few PSU banks have increased number of CIBIL queries.
- **Low credit costs in unsecured retail book, a function of cherry picking--amidst low growth and competitive intensity:** CIBIL suggests that high credit quality being witnessed in the unsecured loan book could be attributed to calibrated growth strategy by the players in the market. Further post the FY08-09 hit, lots of player have avoided this segment allowing the remaining players to cherry pick among the customers. Loan growth in credit card has inched up in FY12 but still remain very modest at 15% and CIBIL does not see any negative surprises in unsecured book in the near term.
- For more details please refer to our July-12 note "**CIBIL'ised India - No signs of any crack yet**"

S&P- CRISIL: Meeting with Head of Infra and Banks rating

*Retail asset quality except for some stress
in CVs at the margin*

*In Infra Gas assets remain a real worry.
Also, CRISIL is not very convinced about the
reform process*

- **Increase in restructuring from RS2trn to Rs3.25trn does not still consider problem of private power sector largely:** CRISIL recently increased its FY11-13 forecast for additional restructuring from Rs2.0trn to Rs3.25trn with large part of the increase coming from SEB restructuring increasing from Rs0.6trn to Rs1.5trn in line with the FRP (financial restructuring package) for SEBs being discussed. CRISIL does not expect large scale restructuring on their private power portfolio in FY13 and hence their increased restructuring forecast does not capture restructuring expected in private power mainly in FY14-15.
- **Infra - Concerned with gas; also not very convinced on SEB health:** On the Infra side, CRISIL is extremely concerned on private gas based power plants as substituting domestic gas for imported LNG is still not viable in spite of ~20% fall in RPLNG short term contracts. On coal based plants, CRISIL expects some restructuring but with domestic coal production ramp up does not expect many projects to be duds though the recent scams makes it difficult to put a number to the overall private power restructuring expected. Though most SEBs have taken back to back hikes, CRISIL overall was not too sanguine about SEB health as even the best outcome on current reforms at best reduce current losses and the estimated Rs3.0trn of loans will continue to remain a burden and hence we do not rule out some NPV hits in the FRP for SEBs.
- **Upgrade: downgrade ratio still worsening:** The upgrade to downgrade ratios continue to worsen and currently is just under 1.0x v/s 1.15x 6mnts back but CRISIL does not expected the ratio to worsen to 0.85x low seen in the FY08-09 crisis. All CRISIL's estimates are based on GDP growth expectation of 5.7% growth and downside to this GDP growth estimate could imply further deterioration.
- **Some positive news flow though:** Though CRISIL was not at all sanguine on asset quality some possible positives in the near term according to them could be **(1)** The FRP for SEBs could provide some liquidity to the SEB chain and some ancillary industries facing stress due to cash flow constraints could get some relief post the implementation of the FRP, though CRISIL cautions that additional liquidity will still be required to fund interim SEB losses. **(2)** Longer term NPA worries from thermal power plants seem limited given viable alternate of imported coal and more importantly increase in domestic coal production expected at a steady pace.

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Rating	BUY
Price	Rs934
Target Price	Rs1,100
Implied Upside	17.8%
Sensex	17,767
Nifty	5,363

(Prices as on September 10, 2012)
Trading data

Market Cap. (Rs bn)	1,079.3
Shares o/s (m)	1,155.2
3M Avg. Daily value (Rs m)	4008.9

Major shareholders

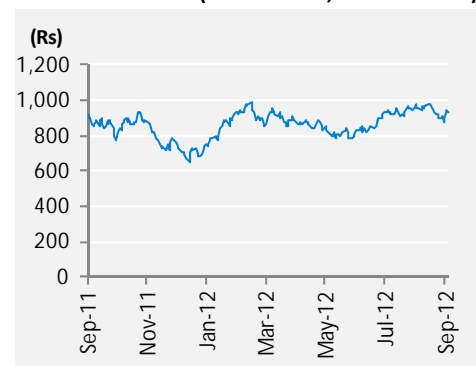
Promoters	0.00%
Foreign	34.85%
Domestic Inst.	27.79%
Public & Other	37.36%

Stock Performance

(%)	1M	6M	12M
Absolute	(2.1)	2.2	4.2
Relative	(3.3)	0.7	(1.2)

How we differ from Consensus

EPS (Rs)	PL	Cons.	% Diff.
2013	68.0	79.4	-14.4
2014	78.8	92.6	-14.9

Price Performance (RIC:ICBK.BO, BB:ICICIB IN)


Source: Bloomberg

- **Still targeting 20% growth in domestic loan book:** ICICI maintained its growth target of 20% in the domestic business largely driven by project disbursals and pick up in retail credit and such an outcome will be positive in our view as most banks did indicate that system growth could be ~15%. The target areas in retail are housing, Auto, and CVs, even though price competition has intensified.
- **Fee income could miss guidance:** Growth in fees income looks challenging given the weak environment especially large corporate related fund and non fund based fees and hence core fee could be lower than double digit growth guidance. But with a low base of project finance, 3rd party and corporate fees, ICICI expects pick up in fee growth from FY14.
- **Structural improvement in margins:** Mgt maintained their overall FY13 NIM guidance of +3.0% and expects margins to inch further to 3.2% over the next 2-3yrs due to (1) Lower share of overseas book (2) Higher share of non-mortgage secured credit and (3) easing rates. Wholesale TD rates are coming off marginally but the cost of retail deposits remains sticky (before SBI cut TD rates). ICICI is awaiting impact of SBI's lower mortgage rates on their volumes before moving on mortgage rates.
- **RIDF investments:** There could be a rise in RIDF requirements, but ultimate allocation to ICICI could be less as the total PSL shortfall in the system could rise due to increased requirements from foreign banks. Within PSL, ICICI is looking at gold loans and tractor loans but does not want to do direct Agri lending.
- **Asset Quality:** ICICI maintained its credit cost guidance of 75bps and noted that the guidance has buffer for slippages like Deccan (Rs5bn exposure). Retail quality continues to remain robust and but ICICI is seeing some inch-up in slippages in their SME book but stress seems manageable. Restructuring pipeline continues to remain thin. ICICI does have some non fund based exposure to Essar (NavBharat acquisition) which is facing CBI scrutiny currently.

Key financials (Y/e March)

	2011	2012	2013E	2014E
Net interest income (Rs m)	90,169	107,342	131,311	154,445
<i>Growth (%)</i>	<i>11.1</i>	<i>19.0</i>	<i>22.3</i>	<i>17.6</i>
Operating profit (Rs m)	90,476	103,865	129,986	154,013
PAT (Rs m)	51,514	64,653	78,535	91,008
EPS (Rs)	44.7	56.0	68.0	78.8
<i>Growth (%)</i>	<i>23.9</i>	<i>25.1</i>	<i>21.5</i>	<i>15.9</i>
Net DPS (Rs)	14.0	14.0	17.0	19.7

Profitability & Valuation

	2011	2012	2013E	2014E
NIM (%)	2.34	2.44	2.62	2.71
RoAE (%)	9.7	11.2	12.4	13.2
RoAA (%)	1.34	1.47	1.57	1.60
P / BV (x)	2.0	1.8	1.6	1.5
P / ABV (x)	2.0	1.8	1.6	1.5
PE (x)	20.9	16.7	13.7	11.9
Net dividend yield (%)	1.5	1.5	1.8	2.1

Source: Company Data; PL Research

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Income Statement (Rs m)

Y/e March	2011	2012	2013E	2014E
Int. Earned from Adv.	164,248	221,299	259,119	293,749
Int. Earned from Inv.	79,052	96,840	113,373	127,783
Others	16,441	17,287	19,016	21,739
Total Interest Income	259,740	335,427	391,508	443,271
Interest expense	169,571	228,085	260,197	288,827
NII	90,169	107,342	131,311	154,445
<i>Growth (%)</i>	<i>11.1</i>	<i>19.0</i>	<i>22.3</i>	<i>17.6</i>
Treasury Income	(2,023)	(757)	4,000	4,500
NTNII	68,501	75,784	85,627	99,584
Non Interest Income	66,479	75,028	89,627	104,084
Total Income	326,219	410,454	481,135	547,355
<i>Growth (%)</i>	<i>(1.7)</i>	<i>25.8</i>	<i>17.2</i>	<i>13.8</i>
Operating Expense	66,172	78,504	90,953	104,515
Operating Profit	90,476	103,865	129,986	154,013
<i>Growth (%)</i>	<i>(7.0)</i>	<i>14.8</i>	<i>25.1</i>	<i>18.5</i>
NPA Provisions	19,769	9,932	21,404	28,345
Investment Provisions	2,038	4,132	1,000	1,000
Total Provisions	22,868	15,891	22,404	29,345
PBT	67,607	87,973	107,582	124,668
Tax Provisions	16,093	23,321	29,047	33,660
<i>Effective Tax Rate (%)</i>	<i>23.8</i>	<i>26.5</i>	<i>27.0</i>	<i>27.0</i>
PAT	51,514	64,653	78,535	91,008
<i>Growth (%)</i>	<i>28.0</i>	<i>25.5</i>	<i>21.5</i>	<i>15.9</i>

Balance Sheet (Rs m)

Y/e March	2011	2012	2013E	2014E
Par Value	10	10	10	10
No. of equity shares	1,152	1,155	1,155	1,155
Equity	11,518	11,552	11,552	11,552
Networth	550,909	604,052	659,603	723,976
Adj. Networth	526,836	585,444	638,428	698,671
Deposits	2,256,021	2,555,000	2,995,777	3,560,326
<i>Growth (%)</i>	<i>11.6</i>	<i>13.3</i>	<i>17.3</i>	<i>18.8</i>
Low Cost deposits	1,016,465	1,110,194	1,304,715	1,554,147
<i>% of total deposits</i>	<i>45.1</i>	<i>43.5</i>	<i>43.6</i>	<i>43.7</i>
Total Liabilities	4,062,336	4,736,471	5,272,929	6,132,489
Net Advances	2,163,659	2,537,277	2,917,868	3,399,316
<i>Growth (%)</i>	<i>19.4</i>	<i>17.3</i>	<i>15.0</i>	<i>16.5</i>
Investments	1,346,859	1,595,600	1,702,078	1,962,952
Total Assets	4,062,336	4,736,471	5,272,929	6,132,489

Source: Company Data, PL Research.

Quarterly Financials (Rs m)

Y/e March	Q2FY12	Q3FY12	Q4FY12	Q1FY13
Interest Income	81,576	85,919	91,746	95,457
Interest Expense	56,512	58,799	60,699	63,527
Net Interest Income	25,064	27,120	31,048	31,929
Non Interest Income	17,396	18,919	22,285	18,799
CEB	18,200	19,570	20,700	19,010
Treasury	(800)	(650)	1,580	(210)
Net Total Income	42,460	46,039	53,332	50,729
Operating Expenses	18,922	19,168	22,216	21,235
Employee Expenses	8,427	8,366	11,031	9,870
Other Expenses	10,495	10,495	11,185	11,365
Operating Profit	23,538	26,871	31,116	29,493
Core Operating Profit	24,338	27,521	29,536	29,703
Provisions	3,188	3,411	4,693	4,659
Loan loss provisions	—	—	—	—
Investment Depreciation	—	—	—	—
Profit before tax	20,350	23,460	26,423	24,835
Tax	5,318	6,179	7,405	6,684
PAT before EO	15,032	17,281	19,018	18,151
Extraordinary item	—	—	—	—
PAT	15,032	17,281	19,018	18,151

Key Ratios

Y/e March	2011	2012	2013E	2014E
CMP (Rs)	934	934	934	934
Equity Shrs. Os. (m)	1,152	1,155	1,155	1,155
Market Cap (Rs m)	1,076,145	1,079,260	1,079,260	1,079,260
<i>M/Cap to AUM (%)</i>	<i>26.5</i>	<i>22.8</i>	<i>20.5</i>	<i>17.6</i>
EPS (Rs)	44.7	56.0	68.0	78.8
Book Value (Rs)	478	523	571	627
Adj. BV (75%) (Rs)	478	523	571	627
P/E (x)	20.9	16.7	13.7	11.9
P/BV (x)	2.0	1.8	1.6	1.5
P/ABV (x)	2.0	1.8	1.6	1.5
DPS (Rs)	14.0	14.0	17.0	19.7
<i>Dividend Yield (%)</i>	<i>1.5</i>	<i>1.5</i>	<i>1.8</i>	<i>2.1</i>

Profitability (%)

Y/e March	2011	2012	2013E	2014E
NIM	2.3	2.4	2.6	2.7
RoAA	1.3	1.5	1.6	1.6
RoAE	9.7	11.2	12.4	13.2

Efficiency

Y/e March	2011	2012	2013E	2014E
<i>Cost-Income Ratio (%)</i>	<i>42.2</i>	<i>43.0</i>	<i>41.2</i>	<i>40.4</i>
<i>C-D Ratio (%)</i>	<i>95.9</i>	<i>99.3</i>	<i>97.4</i>	<i>95.5</i>
Business per Emp. (Rs m)	78	78	78	80
Profit per Emp. (Rs m)	9	10	10	11
Business per Branch (Rs m)	1,748	1,751	1,768	1,809
Profit per Branch (Rs m)	20	22	23	24

Asset Quality

Y/e March	2011	2012	2013E	2014E
Gross NPAs (Rs m)	100,333	94,744	107,811	128,842
Net NPAs (Rs m)	24,074	18,608	21,175	25,306
<i>Gr. NPAs to Gross Adv. (%)</i>	<i>4.6</i>	<i>3.7</i>	<i>3.7</i>	<i>3.8</i>
<i>Net NPAs to Net Adv. (%)</i>	<i>1.1</i>	<i>0.7</i>	<i>0.7</i>	<i>0.7</i>
<i>NPA Coverage (%)</i>	<i>76.0</i>	<i>80.4</i>	<i>80.4</i>	<i>80.4</i>

Source: Company Data, PL Research.

September 10, 2012

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Rating	Accumulate
Price	Rs591
Target Price	Rs610
Implied Upside	3.2%
Sensex	17,767
Nifty	5,363

(Prices as on September 10, 2012)
Trading data

Market Cap. (Rs bn)	1,387.2
Shares o/s (m)	2,346.7
3M Avg. Daily value (Rs m)	1574

Major shareholders

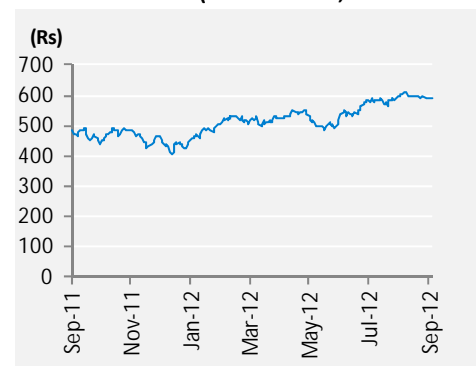
Promoters	23.06%
Foreign	31.13%
Domestic Inst.	10.66%
Public & Other	35.15%

Stock Performance

(%)	1M	6M	12M
Absolute	(1.8)	13.0	24.9
Relative	(3.0)	11.5	19.6

How we differ from Consensus

EPS (Rs)	PL	Cons.	% Diff.
2013	28.1	27.8	1.3
2014	33.4	34.6	-3.4

Price Performance (RIC:HDBK.BO, BB:HDFCB IN)


Source: Bloomberg

- Asset Quality: Marginally cautious on CVs; sanguine on others:** HDFCB was sanguine on all parts of their retail book except some pockets of pain in MHCV segments. In the mid sized fleet category (~50 fleet size), HDFCB has seen cheque bounce rates going up but again they believe that delinquency levels is just normalising from very low credit costs levels. In spite of some inch-up in delinquencies expected in CVs, HDFCB continues to maintain it's ~80-100bps of credit cost guidance which has proven to be conservative over last 6 qtrs.
- Maintain margin guidance:** HDFCB maintained their margin guidance of 4.1-4.3% range in spite of some pricing competition in Cars/CVs as they believe that falling rate environment will be positive for their fixed rate lending book and hence expect to maintain margin in a tight range.
- Cost efficiency improvement- Next profitability driver:** As credit costs are at cyclical lows, HDFCB believes that the next round of ROA improvement will be led by cost efficiency improvement with 50-100bps yrly improvement in cost-income to be expected over the next 2-3yrs. HDFCB is not the most aggressive in terms of employee compensation (operating currently at the 2nd quartile) and believes the new branch strain will get lower over the next 2-3 yrs and will be a key factor in improving cost efficiency.
- PSL targets -Opportunity rather than burden- HDFCB well positioned:** Of all banks in our conference, HDFCB was the only one which sees the PSL guidelines as an opportunity. Management said that they are present in ~400 districts of the 650 districts and they can tap ~200 more districts profitably. Also, they have added PSL targets to branch staff KRAs over last 2-3 yrs and have seen strong branch driven traction on PSL lending.

Key financials (Y/e March)

	2011	2012	2013E	2014E
Net interest income (Rs m)	105,431	122,968	152,369	183,798
<i>Growth (%)</i>	25.7	16.6	23.9	20.6
Operating profit (Rs m)	77,254	89,504	114,322	141,074
PAT (Rs m)	39,264	51,671	65,952	78,479
EPS (Rs)	16.9	22.0	28.1	33.4
<i>Growth (%)</i>	31.0	30.4	27.6	19.0
Net DPS (Rs)	3.3	4.3	5.5	5.7

Profitability & Valuation

	2011	2012	2013E	2014E
NIM (%)	4.22	4.00	4.15	4.16
RoAE (%)	16.7	18.7	20.3	20.6
RoAA (%)	1.57	1.68	1.79	1.78
P / BV (x)	5.4	4.6	4.0	3.4
P / ABV (x)	5.5	4.7	4.0	3.4
PE (x)	35.0	26.8	21.0	17.7
Net dividend yield (%)	0.6	0.7	0.9	1.0

Source: Company Data; PL Research

Income Statement (Rs m)

Y/e March	2011	2012	2013E	2014E
Int. Earned from Adv.	150,850	205,366	243,405	294,714
Int. Earned from Inv.	46,754	65,046	82,541	95,428
Others	1,678	2,452	2,319	2,481
Total Interest Income	199,282	272,864	328,264	392,623
Interest expense	93,851	149,896	175,895	208,824
NII	105,431	122,968	152,369	183,798
<i>Growth (%)</i>	25.7	16.6	23.9	20.6
Treasury Income	(534)	(1,944)	2,000	3,000
NTNII	43,886	54,381	66,163	80,802
Non Interest Income	43,352	52,437	68,163	83,802
Total Income	242,634	325,300	396,427	476,424
<i>Growth (%)</i>	21.4	34.1	21.9	20.2
Operating Expense	71,529	85,901	106,210	126,526
Operating Profit	77,254	89,504	114,322	141,074
<i>Growth (%)</i>	20.2	15.9	27.7	23.4
NPA Provisions	14,430	8,021	16,870	24,747
Investment Provisions	—	—	—	—
Total Provisions	19,061	14,367	18,043	26,506
PBT	58,193	75,137	96,280	114,568
Tax Provisions	18,929	23,466	30,328	36,089
<i>Effective Tax Rate (%)</i>	32.5	31.2	31.5	31.5
PAT	39,264	51,671	65,952	78,479
<i>Growth (%)</i>	33.1	31.6	27.6	19.0

Balance Sheet (Rs m)

Y/e March	2011	2012	2013E	2014E
Par Value	2	2	2	2
No. of equity shares	2,326	2,347	2,347	2,347
Equity	4,652	4,693	4,693	4,693
Networth	253,793	299,244	350,126	412,987
Adj. Networth	250,829	295,720	345,561	406,337
Deposits	2,085,864	2,467,064	2,937,985	3,686,418
<i>Growth (%)</i>	24.6	18.3	19.1	25.5
Low Cost deposits	1,099,083	1,194,059	1,445,488	1,824,776
<i>% of total deposits</i>	52.7	48.4	49.2	49.5
Total Liabilities	2,773,517	3,379,093	3,969,988	4,870,093
Net Advances	1,599,827	1,954,200	2,345,040	2,931,300
<i>Growth (%)</i>	27.1	22.2	20.0	25.0
Investments	709,293	974,829	1,081,949	1,300,729
Total Assets	2,773,517	3,379,098	3,969,988	4,870,093

Source: Company Data, PL Research.

Quarterly Financials (Rs m)

Y/e March	Q2FY12	Q3FY12	Q4FY12	Q1FY13
Interest Income	67,177	72,026	73,880	80,074
Interest Expense	37,732	40,867	39,997	45,234
Net Interest Income	29,445	31,160	33,883	34,841
Non Interest Income	12,117	14,200	14,920	15,295
CEB	12,059	14,932	15,625	14,581
Treasury	(13)	(818)	(715)	665
Net Total Income	41,562	45,360	48,803	50,135
Operating Expenses	20,304	21,580	24,671	24,326
Employee Expenses	8,231	8,674	9,284	9,932
Other Expenses	12,073	12,905	15,387	14,394
Operating Profit	21,258	23,780	24,132	25,809
Core Operating Profit	21,271	24,598	24,847	25,144
Provisions	3,661	3,292	2,983	4,873
Loan loss provisions	—	—	—	—
Investment Depreciation	—	—	—	—
Profit before tax	17,598	20,488	21,149	20,936
Tax	5,604	6,191	6,618	6,762
PAT before EO	11,994	14,297	14,531	14,174
Extraordinary item	—	—	—	—
PAT	11,994	14,297	14,531	14,174

Key Ratios

Y/e March	2011	2012	2013E	2014E
CMP (Rs)	591	591	591	591
Equity Shrs. Os. (m)	2,326	2,347	2,347	2,347
Market Cap (Rs m)	1,375,089	1,387,245	1,387,245	1,387,245
<i>M/Cap to AUM (%)</i>	49.6	41.1	34.9	28.5
EPS (Rs)	16.9	22.0	28.1	33.4
Book Value (Rs)	109	128	149	176
Adj. BV (75%) (Rs)	108	126	148	174
P/E (x)	35.0	26.8	21.0	17.7
P/BV (x)	5.4	4.6	4.0	3.4
P/ABV (x)	5.5	4.7	4.0	3.4
DPS (Rs)	3.3	4.3	5.5	5.7
<i>Dividend Yield (%)</i>	0.6	0.7	0.9	1.0

Profitability (%)

Y/e March	2011	2012	2013E	2014E
NIM	4.2	4.0	4.1	4.2
RoAA	1.6	1.7	1.8	1.8
RoAE	16.7	18.7	20.3	20.6

Efficiency

Y/e March	2011	2012	2013E	2014E
<i>Cost-Income Ratio (%)</i>	48.1	49.0	48.2	47.3
<i>C-D Ratio (%)</i>	76.7	79.2	79.8	79.5
Business per Emp. (Rs m)	66	69	72	78
Profit per Emp. (Rs m)	7	8	9	9
Business per Branch (Rs m)	1,856	1,936	2,011	2,191
Profit per Branch (Rs m)	20	23	25	26

Asset Quality

Y/e March	2011	2012	2013E	2014E
Gross NPAs (Rs m)	16,943	19,994	25,906	37,738
Net NPAs (Rs m)	2,964	3,523	4,565	6,650
<i>Gr. NPAs to Gross Adv. (%)</i>	1.1	1.0	1.1	1.3
<i>Net NPAs to Net Adv. (%)</i>	0.2	0.2	0.2	0.2
<i>NPA Coverage (%)</i>	82.5	82.4	82.4	82.4

Source: Company Data, PL Research.

September 10, 2012

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Rating	Accumulate
Price	Rs1,861
Target Price	Rs2,100
Implied Upside	12.8%
Sensex	17,767
Nifty	5,363

(Prices as on September 10, 2012)
Trading data

Market Cap. (Rs bn)	1,248.9
Shares o/s (m)	671.0
3M Avg. Daily value (Rs m)	7885.8

Major shareholders

Promoters	61.58%
Foreign	8.52%
Domestic Inst.	17.31%
Public & Other	12.59%

Stock Performance

(%)	1M	6M	12M
Absolute	(1.4)	(16.4)	(4.7)
Relative	(2.6)	(17.9)	(10.0)

How we differ from Consensus

EPS (Rs)	PL	Cons.	% Diff.
2013	281.9	269.1	4.8
2014	316.1	315.4	0.2

Price Performance (RIC: SBI.BO, BB: SBIN IN)


Source: Bloomberg

■ **Credit growth sluggish; push on retail to continue:** SBI is seeing very limited pickup in industrial credit and hence acknowledged that they now expect system credit growth of 14-15%. For SBI, deposit growth was stronger than industry trend of 13-14% and hence SBI has moved on lowering deposit rates. As growth remain elusive in other segments, SBI management said that they will continue to concentrate on retail segments as perceived risk is lower but it is still too early to ascertain impact from the cut in rates in mortgages/autos.

■ **Maintains margin guidance of 3.75%; we see some risks:** In spite of its aggressive retail pricing, SBI maintained its margin guidance of 3.75% for FY13 and management believes that they are just passing on the benefit of SLR cut and not offering low rates at the cost of margins. SBI has reduced deposit rate by 50-100bps which is again positive for margins, but very low rates on retail, cut in rates for SME customers and high NPA % will pressure margins in our view

■ **Corporate asset quality – Weak Macro will continue to weight:** After disappointing the street in 1Q13 on delinquencies, SBI continues to refrain from providing guidance on slippages as Macro situation continues to remain fluid. Management re-iterated that they will have ~Rs30bn of recoveries over next 2 qtrs from slippages they had in 1Q13. We believe a significant pick up in asset quality is unlikely in the near term given weak macros. Also, SBI seems to have some exposure to companies where CBI respective coal block allocations.

Key financials (Y/e March)

	2011	2012	2013E	2014E
Net interest income (Rs m)	455,500	578,778	621,348	700,160
Growth (%)	36.2	27.1	7.4	12.7
Operating profit (Rs m)	328,735	403,012	423,520	464,071
PAT (Rs m)	108,139	154,173	189,193	212,113
EPS (Rs)	170.3	229.8	281.9	316.1
Growth (%)	(7.6)	34.9	22.7	12.1
Net DPS (Rs)	25.2	35.0	42.0	50.4

Profitability & Valuation

	2011	2012	2013E	2014E
NIM (%)	2.95	3.33	3.18	3.12
RoAE (%)	13.0	16.3	16.6	16.3
RoAA (%)	0.70	0.89	0.97	0.94
P / BV (x)	1.4	1.2	1.0	0.9
P / ABV (x)	1.5	1.2	1.1	1.0
PE (x)	10.9	8.1	6.6	5.9
Net dividend yield (%)	1.4	1.9	2.3	2.7

Source: Company Data; PL Research

Income Statement (Rs m)

Y/e March	2011	2012	2013E	2014E
Int. Earned from Adv.	837,972	1,113,415	1,283,663	1,468,166
Int. Earned from Inv.	276,795	337,052	380,777	425,667
Others	21,597	21,507	25,032	29,185
Total Interest Income	1,136,364	1,471,974	1,689,472	1,923,017
Interest expense	680,864	893,196	1,068,124	1,222,857
NII	455,500	578,778	621,348	700,160
<i>Growth (%)</i>	<i>36.2</i>	<i>27.1</i>	<i>7.4</i>	<i>12.7</i>
Treasury Income	10,614	(9,668)	4,400	6,600
NTNII	184,197	193,171	209,239	234,347
Non Interest Income	194,811	183,503	213,639	240,947
Total Income	1,331,176	1,655,477	1,903,111	2,163,965
<i>Growth (%)</i>	<i>13.0</i>	<i>24.4</i>	<i>15.0</i>	<i>13.7</i>
Operating Expense	321,577	359,269	411,467	477,036
Operating Profit	328,735	403,012	423,520	464,071
<i>Growth (%)</i>	<i>34.1</i>	<i>22.6</i>	<i>5.1</i>	<i>9.6</i>
NPA Provisions	125,176	155,147	138,739	139,563
Investment Provisions	7,661	8,556	(5,000)	—
Total Provisions	133,198	162,444	136,864	142,688
PBT	195,537	240,568	286,656	321,383
Tax Provisions	87,398	86,395	97,463	109,270
<i>Effective Tax Rate (%)</i>	<i>44.7</i>	<i>35.9</i>	<i>34.0</i>	<i>34.0</i>
PAT	108,139	154,173	189,193	212,113
<i>Growth (%)</i>	<i>(7.6)</i>	<i>42.6</i>	<i>22.7</i>	<i>12.1</i>

Balance Sheet (Rs m)

Y/e March	2011	2012	2013E	2014E
Par Value	10	10	10	10
No. of equity shares	635	671	671	671
Equity	6,350	6,710	6,710	6,710
Networth	834,712	1,062,300	1,218,518	1,391,061
Adj. Networth	671,981	851,349	885,742	990,890
Deposits	12,555,625	14,146,894	16,045,051	18,754,242
<i>Growth (%)</i>	<i>12.5</i>	<i>12.7</i>	<i>13.4</i>	<i>16.9</i>
Low Cost deposits	5,637,899	5,755,887	6,528,182	7,630,460
<i>% of total deposits</i>	<i>44.9</i>	<i>40.7</i>	<i>40.7</i>	<i>40.7</i>
Total Liabilities	16,449,168	18,262,305	20,760,254	24,164,779
Net Advances	10,064,015	11,636,702	13,382,207	15,657,183
<i>Growth (%)</i>	<i>15.7</i>	<i>15.6</i>	<i>15.0</i>	<i>17.0</i>
Investments	4,191,564	4,609,491	4,951,629	5,683,186
Total Assets	16,449,168	18,262,305	20,760,254	24,164,779

Source: Company Data, PL Research.

Quarterly Financials (Rs m)

Y/e March	Q2FY12	Q3FY12	Q4FY12	Q1FY13
Interest Income	259,671	276,614	286,955	289,168
Interest Expense	155,452	161,956	169,918	177,979
Net Interest Income	104,219	114,659	117,038	111,189
Non Interest Income	34,272	21,260	52,640	34,988
CEB	26,003	26,415	42,160	26,027
Treasury	281	(10,904)	(260)	2,210
Net Total Income	138,492	135,918	169,678	146,177
Operating Expenses	63,749	63,318	73,710	64,410
Employee Expenses	39,143	39,113	54,310	41,371
Other Expenses	24,605	24,205	19,400	23,039
Operating Profit	74,743	72,600	95,968	81,767
Core Operating Profit	74,462	83,504	96,228	79,557
Provisions	33,855	24,074	31,404	24,563
Loan loss provisions	—	—	—	—
Investment Depreciation	—	—	—	—
Profit before tax	40,888	48,526	64,564	57,204
Tax	12,784	15,895	24,061	19,688
PAT before EO	28,104	32,631	40,503	37,516
Extraordinary item	—	—	—	—
PAT	28,104	32,631	40,503	37,516

Key Ratios

Y/e March	2011	2012	2013E	2014E
CMP (Rs)	1,861	1,861	1,861	1,861
Equity Shrs. Os. (m)	635	671	671	671
Market Cap (Rs m)	1,181,812	1,248,915	1,248,915	1,248,915
<i>M/Cap to AUM (%)</i>	<i>7.2</i>	<i>6.8</i>	<i>6.0</i>	<i>5.2</i>
EPS (Rs)	170.3	229.8	281.9	316.1
Book Value (Rs)	1,315	1,583	1,816	2,073
Adj. BV (75%) (Rs)	1,213	1,493	1,658	1,902
P/E (x)	10.9	8.1	6.6	5.9
P/BV (x)	1.4	1.2	1.0	0.9
P/ABV (x)	1.5	1.2	1.1	1.0
DPS (Rs)	25.2	35.0	42.0	50.4
<i>Dividend Yield (%)</i>	<i>1.4</i>	<i>1.9</i>	<i>2.3</i>	<i>2.7</i>

Profitability (%)

Y/e March	2011	2012	2013E	2014E
NIM	2.9	3.3	3.2	3.1
RoAA	0.7	0.9	1.0	0.9
RoAE	13.0	16.3	16.6	16.3

Efficiency

Y/e March	2011	2012	2013E	2014E
<i>Cost-Income Ratio (%)</i>	<i>49.4</i>	<i>47.1</i>	<i>49.3</i>	<i>50.7</i>
<i>C-D Ratio (%)</i>	<i>80.2</i>	<i>82.3</i>	<i>83.4</i>	<i>83.5</i>
Business per Emp. (Rs m)	101	107	113	123
Profit per Emp. (Rs m)	5	6	7	8
Business per Branch (Rs m)	1,670	1,763	1,863	2,017
Profit per Branch (Rs m)	8	11	12	12

Asset Quality

Y/e March	2011	2012	2013E	2014E
Gross NPAs (Rs m)	323,163	496,487	745,814	938,948
Net NPAs (Rs m)	162,731	210,951	332,776	400,171
<i>Gr. NPAs to Gross Adv. (%)</i>	<i>3.2</i>	<i>4.3</i>	<i>5.6</i>	<i>6.0</i>
<i>Net NPAs to Net Adv. (%)</i>	<i>1.6</i>	<i>1.8</i>	<i>2.5</i>	<i>2.6</i>
<i>NPA Coverage (%)</i>	<i>49.6</i>	<i>57.5</i>	<i>55.4</i>	<i>57.4</i>

Source: Company Data, PL Research.

September 10, 2012

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Rating	Reduce
Price	Rs571
Target Price	Rs530
Implied Upside	-7.2%
Sensex	17,767
Nifty	5,363

(Prices as on September 10, 2012)
Trading data

Market Cap. (Rs bn)	463.0
Shares o/s (m)	810.3
3M Avg. Daily value (Rs m)	545.9

Major shareholders

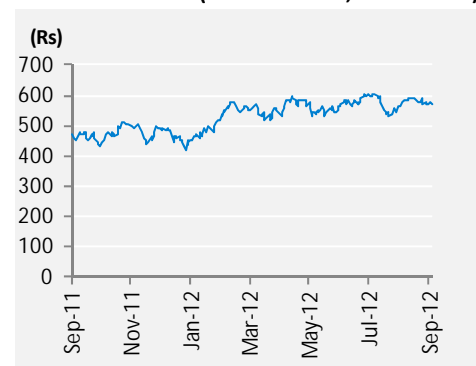
Promoters	45.21%
Foreign	28.58%
Domestic Inst.	4.46%
Public & Other	21.75%

Stock Performance

(%)	1M	6M	12M
Absolute	(1.6)	2.3	24.3
Relative	(2.8)	0.8	19.0

How we differ from Consensus

EPS (Rs)	PL	Cons.	% Diff.
2013	23.7	28.2	-16.2
2014	29.2	34.3	-14.9

Price Performance (RIC: KTKM.BO, BB: KMB IN)


Source: Bloomberg

■ **Slowing on Growth:** With management's slow economic growth scenario materializing, Kotak has moderated growth targets significantly to ~20% v/s +30% growth delivered over the last few qtrs with significant slowdown in CV/CE portfolio. Core fee income will also moderate but kotak expects to monetise fee assets in their distressed portfolio and that could aid P&L over next 12mnts.

■ **Momentum on SA acquisition strong:** SA account accretion continues at a brisk pace with ~40-45% of the acquisition being corporate salary accounts. Kotak believes that even at ~100bps lower term deposit rates from current levels, they would be willing to hold on their SA rate of 6% as once acquired balances are generally sticky and SA offers them a significant cross sell opportunity.

■ **Asset quality - Extremely cautious on CVs:** Kotak has been sounding caution on CVs for the last 3 mnts but management commentary on CV cycle was more draconian now especially considering an impending diesel price hike. Kotak expects some negative outcome for mid level fleet operators over the next 6mnts. Kotak's corporate book asset quality is manageable but is very concerned on some industry Infra exposures.

■ **Asset quality- Very early in picking up weakening signal in SME/corporates:** Kotak discussed that their ability to exit problem accounts early is linked to (1) Smaller size of their exposure in most corporates (2) short term nature of their funding and (3) Cashflow escrowing in most cases.

Key financials (Y/e March)

	2011	2012	2013E	2014E
Net interest income (Rs m)	29,972	34,698	42,694	52,010
Growth (%)	15.7	15.8	23.0	21.8
Operating profit (Rs m)	23,135	25,533	31,397	39,604
PAT (Rs m)	14,924	16,650	19,178	23,642
EPS (Rs)	20.3	20.5	23.7	29.2
Growth (%)	14.5	1.5	15.2	23.3
Net DPS (Rs)	0.5	0.6	0.7	0.9

Profitability & Valuation

	2011	2012	2013E	2014E
NIM (%)	5.21	4.68	4.66	4.63
RoAE (%)	15.5	13.9	13.9	15.1
RoAA (%)	2.59	2.25	2.09	2.11
P / BV (x)	3.8	3.6	3.2	2.8
P / ABV (x)	3.8	3.6	3.2	2.8
PE (x)	28.2	27.8	24.1	19.6
Net dividend yield (%)	0.1	0.1	0.1	0.1

Source: Company Data; PL Research

Income Statement (Rs m)

Y/e March	2011	2012	2013E	2014E
Int. Earned from Adv.	48,691	69,014	87,728	105,314
Int. Earned from Inv.	9,572	13,064	16,472	20,473
Others	182	64	64	64
Total Interest Income	58,445	82,141	104,265	125,852
Interest expense	28,473	47,444	61,570	73,842
NII	29,972	34,698	42,694	52,010
<i>Growth (%)</i>	<i>15.7</i>	<i>15.8</i>	<i>23.0</i>	<i>21.8</i>
Treasury Income	912	920	800	1,100
NTNII	16,815	17,130	19,457	23,350
Non Interest Income	17,727	18,050	20,257	24,450
Total Income	76,171	100,191	124,521	150,302
<i>Growth (%)</i>	<i>21.5</i>	<i>31.5</i>	<i>24.3</i>	<i>20.7</i>
Operating Expense	24,563	27,214	31,554	36,856
Operating Profit	23,135	25,533	31,397	39,604
<i>Growth (%)</i>	<i>(1.4)</i>	<i>10.4</i>	<i>23.0</i>	<i>26.1</i>
NPA Provisions	1,250	1,200	3,128	4,725
Investment Provisions	531	(181)	—	—
Total Provisions	1,613	1,007	3,128	4,725
PBT	21,522	24,526	28,269	34,879
Tax Provisions	6,598	7,876	9,092	11,237
<i>Effective Tax Rate (%)</i>	<i>30.7</i>	<i>32.1</i>	<i>32.2</i>	<i>32.2</i>
PAT	14,924	16,650	19,178	23,642
<i>Growth (%)</i>	<i>21.1</i>	<i>11.6</i>	<i>15.2</i>	<i>23.3</i>

Balance Sheet (Rs m)

Y/e March	2011	2012	2013E	2014E
Par Value	5	5	5	5
No. of equity shares	737	810	810	810
Equity	3,684	4,052	4,052	4,052
Networth	111,134	128,824	146,864	166,275
Adj. Networth	107,218	124,889	143,458	162,486
Deposits	292,610	385,365	486,415	628,842
<i>Growth (%)</i>	<i>22.5</i>	<i>31.7</i>	<i>26.2</i>	<i>29.3</i>
Low Cost deposits	87,905	124,024	160,517	216,950
<i>% of total deposits</i>	<i>30.0</i>	<i>32.2</i>	<i>33.0</i>	<i>34.5</i>
Total Liabilities	656,622	825,262	1,006,134	1,238,997
Net Advances	422,706	541,637	664,545	819,872
<i>Growth (%)</i>	<i>37.4</i>	<i>28.1</i>	<i>22.7</i>	<i>23.4</i>
Investments	167,789	212,377	258,245	319,900
Total Assets	656,622	825,262	1,006,134	1,238,997

Source: Company Data, PL Research.

Quarterly Financials (Rs m)

Y/e March	Q2FY12	Q3FY12	Q4FY12	Q1FY13
Interest Income	14,646	16,410	17,448	18,158
Interest Expense	8,592	9,895	10,571	10,945
Net Interest Income	6,055	6,515	6,877	7,213
Non Interest Income	2,125	2,820	2,542	2,411
CEB	—	—	—	—
Treasury	—	—	—	—
Net Total Income	8,179	9,334	9,420	9,625
Operating Expenses	4,379	4,898	4,966	5,141
Employee Expenses	2,152	2,260	2,248	2,566
Other Expenses	2,228	2,638	2,718	2,575
Operating Profit	3,800	4,436	4,453	4,484
Core Operating Profit	3,800	4,436	4,453	4,484
Provisions	(24)	307	46	341
Loan loss provisions	—	—	—	—
Investment Depreciation	—	—	—	—
Profit before tax	3,824	4,129	4,407	4,142
Tax	1,224	1,368	1,438	1,318
PAT before EO	2,600	2,761	2,969	2,824
Extraordinary item	—	—	—	—
PAT	2,600	2,761	2,969	2,824

Key Ratios

Y/e March	2011	2012	2013E	2014E
CMP (Rs)	571	571	571	571
Equity Shrs. Os. (m)	737	810	810	810
Market Cap (Rs m)	421,048	463,023	463,023	463,023
<i>M/Cap to AUM (%)</i>	<i>64.1</i>	<i>56.1</i>	<i>46.0</i>	<i>37.4</i>
EPS (Rs)	20.3	20.5	23.7	29.2
Book Value (Rs)	151	159	181	205
Adj. BV (75%) (Rs)	149	157	179	203
P/E (x)	28.2	27.8	24.1	19.6
P/BV (x)	3.8	3.6	3.2	2.8
P/ABV (x)	3.8	3.6	3.2	2.8
DPS (Rs)	0.5	0.6	0.7	0.9
<i>Dividend Yield (%)</i>	<i>0.1</i>	<i>0.1</i>	<i>0.1</i>	<i>0.1</i>

Profitability (%)

Y/e March	2011	2012	2013E	2014E
NIM	5.2	4.7	4.7	4.6
RoAA	2.6	2.2	2.1	2.1
RoAE	15.5	13.9	13.9	15.1

Efficiency

Y/e March	2011	2012	2013E	2014E
<i>Cost-Income Ratio (%)</i>	<i>51.5</i>	<i>51.6</i>	<i>50.1</i>	<i>48.2</i>
<i>C-D Ratio (%)</i>	<i>144.5</i>	<i>140.6</i>	<i>136.6</i>	<i>130.4</i>
Business per Emp. (Rs m)	68	77	83	91
Profit per Emp. (Rs m)	14	14	14	15
Business per Branch (Rs m)	2,228	2,511	2,711	2,967
Profit per Branch (Rs m)	46	45	45	48

Asset Quality

Y/e March	2011	2012	2013E	2014E
Gross NPAs (Rs m)	6,977	7,141	8,722	10,903
Net NPAs (Rs m)	3,916	3,935	3,406	3,789
<i>Gr. NPAs to Gross Adv. (%)</i>	<i>1.7</i>	<i>1.3</i>	<i>1.3</i>	<i>1.3</i>
<i>Net NPAs to Net Adv. (%)</i>	<i>0.9</i>	<i>0.7</i>	<i>0.5</i>	<i>0.5</i>
<i>NPA Coverage (%)</i>	<i>43.9</i>	<i>44.9</i>	<i>60.9</i>	<i>65.2</i>

Source: Company Data, PL Research.

September 10, 2012

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Rating	BUY
Price	Rs333
Target Price	Rs450
Implied Upside	35.1%
Sensex	17,767
Nifty	5,363

(Prices as on September 10, 2012)
Trading data

Market Cap. (Rs bn)	117.6
Shares o/s (m)	353.0
3M Avg. Daily value (Rs m)	1048.5

Major shareholders

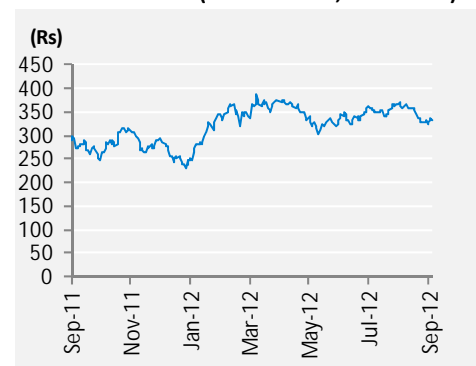
Promoters	26.06%
Foreign	42.88%
Domestic Inst.	14.16%
Public & Other	16.90%

Stock Performance

(%)	1M	6M	12M
Absolute	(6.6)	(9.1)	13.3
Relative	(7.8)	(10.6)	8.0

How we differ from Consensus

EPS (Rs)	PL	Cons.	% Diff.
2013	33.4	33.3	0.4
2014	41.6	39.8	4.4

Price Performance (RIC: YESB.BO, BB: YES IN)


Source: Bloomberg

- Growth moderating:** Yes bank is aiming a growth of mid 20's, but notes that RWA growth could be less than balance sheet growth as share of retail advances increases. As of now the approach to growth is that of flight to safety and the bank has sold of some of the loans/credit substitutes. The bank has a bottom up approach towards opportunities and have not taken a sectoral focus on lending.
- Asset Quality- Not seeing much stress as of now:** The bank is not seeing any large concerns on asset quality even at 5-6% GDP growth and also the restructuring pipeline continues to remain slim. The bank pointed out that delinquency should not exceed 2008 levels but put a caveat that in 2008 the economic down cycle was very short.
- Margins- Expected to improve:** Yes bank pointed out positive impact on margin from increasing proportion of CASA, lower cost of wholesale funds as PSU have cut down on bulk deposits. Also with the rate cycle expected to ease, Yes bank will be a beneficiary of wholesale rates coming off.
- Trade off between growth and Opex efficiency:** In spite of slowing growth, Yes intends to continue to build its branch network to 800 by FY15. Management believes that ~150-180 branches added over last 1.5 yrs will improve in efficiency and aid improvement in operating efficiency even as new additions add to the branch strain. Cost income have moved up to 38% from 35% last yr and management is comfortable with ~40-42% cot income as they get more retail both on liabilities and assets.

Key financials (Y/e March)

	2011	2012	2013E	2014E
Net interest income (Rs m)	12,469	16,156	21,172	26,521
<i>Growth (%)</i>	58.3	29.6	31.0	25.3
Operating profit (Rs m)	11,904	15,417	20,152	25,348
PAT (Rs m)	7,271	9,784	11,805	14,671
EPS (Rs)	20.9	27.7	33.4	41.6
<i>Growth (%)</i>	48.9	32.1	20.8	24.3
Net DPS (Rs)	2.5	2.5	3.5	4.5

Profitability & Valuation

	2011	2012	2013E	2014E
<i>NIM (%)</i>	2.61	2.44	2.60	2.70
<i>RoAE (%)</i>	21.1	23.1	22.7	23.1
<i>RoAA (%)</i>	1.52	1.47	1.45	1.50
P / BV (x)	3.0	2.5	2.1	1.7
P / ABV (x)	3.0	2.5	2.1	1.7
PE (x)	15.9	12.0	10.0	8.0
<i>Net dividend yield (%)</i>	0.8	0.8	1.1	1.4

Source: Company Data; PL Research

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Please refer to important disclosures and disclaimers at the end of the report

Income Statement (Rs m)

Y/e March	2011	2012	2013E	2014E
Int. Earned from Adv.	29,891	44,268	51,134	61,244
Int. Earned from Inv.	10,273	18,470	24,913	28,211
Others	253	335	436	463
Total Interest Income	40,417	63,074	76,483	89,917
Interest expense	27,948	46,917	55,311	63,396
NII	12,469	16,156	21,172	26,521
<i>Growth (%)</i>	<i>58.3</i>	<i>29.6</i>	<i>31.0</i>	<i>25.3</i>
Treasury Income	(464)	379	800	1,000
NTNII	6,696	8,207	10,772	14,227
Non Interest Income	6,233	8,586	11,572	15,227
Total Income	46,650	71,659	88,056	105,144
<i>Growth (%)</i>	<i>58.4</i>	<i>53.6</i>	<i>22.9</i>	<i>19.4</i>
Operating Expense	6,798	9,325	12,593	16,400
Operating Profit	11,904	15,417	20,152	25,348
<i>Growth (%)</i>	<i>37.9</i>	<i>29.5</i>	<i>30.7</i>	<i>25.8</i>
NPA Provisions	914	523	2,631	3,574
Investment Provisions	(72)	160	—	—
Total Provisions	982	902	2,631	3,574
PBT	10,922	14,514	17,521	21,774
Tax Provisions	3,650	4,730	5,716	7,103
<i>Effective Tax Rate (%)</i>	<i>33.4</i>	<i>32.6</i>	<i>32.6</i>	<i>32.6</i>
PAT	7,271	9,784	11,805	14,671
<i>Growth (%)</i>	<i>52.2</i>	<i>34.6</i>	<i>20.7</i>	<i>24.3</i>

Balance Sheet (Rs m)

Y/e March	2011	2012	2013E	2014E
Par Value	10	10	10	10
No. of equity shares	347	353	353	353
Equity	3,471	3,530	3,530	3,530
Networth	37,941	46,766	57,126	69,939
Adj. Networth	37,849	46,592	56,793	69,368
Deposits	459,389	491,517	629,884	760,552
<i>Growth (%)</i>	<i>71.4</i>	<i>7.0</i>	<i>28.2</i>	<i>20.7</i>
Low Cost deposits	47,509	73,921	113,379	152,110
<i>% of total deposits</i>	<i>10.3</i>	<i>15.0</i>	<i>18.0</i>	<i>20.0</i>
Total Liabilities	590,070	736,621	890,364	1,070,678
Net Advances	343,636	379,886	455,864	578,947
<i>Growth (%)</i>	<i>54.8</i>	<i>10.5</i>	<i>20.0</i>	<i>27.0</i>
Investments	188,288	277,573	336,986	374,528
Total Assets	590,070	736,621	890,364	1,070,678

Source: Company Data, PL Research.

Quarterly Financials (Rs m)

Y/e March	Q2FY12	Q3FY12	Q4FY12	Q1FY13
Interest Income	14,387	16,841	17,851	18,863
Interest Expense	10,530	12,565	13,369	14,142
Net Interest Income	3,856	4,276	4,482	4,722
Non Interest Income	2,141	2,114	2,664	2,881
CEB	—	—	—	—
Treasury	—	—	—	—
Net Total Income	5,997	6,390	7,146	7,603
Operating Expenses	2,138	2,402	2,842	3,007
Employee Expenses	1,100	1,217	1,337	1,552
Other Expenses	1,038	1,185	1,505	1,455
Operating Profit	3,859	3,988	4,304	4,596
Core Operating Profit	3,859	3,988	4,304	4,596
Provisions	379	224	285	300
Loan loss provisions	—	—	—	—
Investment Depreciation	—	—	—	—
Profit before tax	3,481	3,765	4,019	4,296
Tax	1,130	1,224	1,301	1,395
PAT before EO	2,350	2,541	2,718	2,901
Extraordinary item	—	—	—	—
PAT	2,350	2,541	2,718	2,901

Key Ratios

Y/e March	2011	2012	2013E	2014E
CMP (Rs)	333	333	333	333
Equity Shrs. Os. (m)	347	353	353	353
Market Cap (Rs m)	115,635	117,580	117,580	117,580
<i>M/Cap to AUM (%)</i>	<i>19.6</i>	<i>16.0</i>	<i>13.2</i>	<i>11.0</i>
EPS (Rs)	20.9	27.7	33.4	41.6
Book Value (Rs)	109	132	162	198
Adj. BV (75%) (Rs)	109	132	162	198
P/E (x)	15.9	12.0	10.0	8.0
P/BV (x)	3.0	2.5	2.1	1.7
P/ABV (x)	3.0	2.5	2.1	1.7
DPS (Rs)	2.5	2.5	3.5	4.5
<i>Dividend Yield (%)</i>	<i>0.8</i>	<i>0.8</i>	<i>1.1</i>	<i>1.4</i>

Profitability (%)

Y/e March	2011	2012	2013E	2014E
NIM	2.6	2.4	2.6	2.7
RoAA	1.5	1.5	1.5	1.5
RoAE	21.1	23.1	22.7	23.1

Efficiency

Y/e March	2011	2012	2013E	2014E
<i>Cost-Income Ratio (%)</i>	<i>36.3</i>	<i>37.7</i>	<i>38.5</i>	<i>39.3</i>
<i>C-D Ratio (%)</i>	<i>74.8</i>	<i>77.3</i>	<i>72.4</i>	<i>76.1</i>
Business per Emp. (Rs m)	206	194	211	226
Profit per Emp. (Rs m)	19	22	23	25
Business per Branch (Rs m)	3,752	3,541	3,836	4,116
Profit per Branch (Rs m)	34	40	42	45

Asset Quality

Y/e March	2011	2012	2013E	2014E
Gross NPAs (Rs m)	805	839	1,600	2,743
Net NPAs (Rs m)	92	175	333	571
<i>Gr. NPAs to Gross Adv. (%)</i>	<i>0.2</i>	<i>0.2</i>	<i>0.4</i>	<i>0.5</i>
<i>Net NPAs to Net Adv. (%)</i>	<i>—</i>	<i>—</i>	<i>0.1</i>	<i>0.1</i>
<i>NPA Coverage (%)</i>	<i>88.6</i>	<i>79.2</i>	<i>79.2</i>	<i>79.2</i>

Source: Company Data, PL Research.

September 10, 2012

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Rating	BUY
Price	Rs313
Target Price	Rs400
Implied Upside	27.8%
Sensex	17,767
Nifty	5,363

(Prices as on September 10, 2012)
Trading data

Market Cap. (Rs bn)	146.5
Shares o/s (m)	467.7
3M Avg. Daily value (Rs m)	161.1

Major shareholders

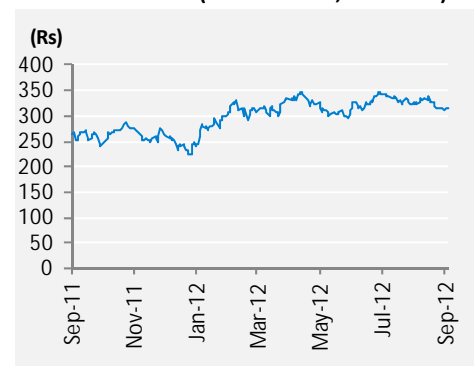
Promoters	19.41%
Foreign	34.22%
Domestic Inst.	8.70%
Public & Other	37.67%

Stock Performance

(%)	1M	6M	12M
Absolute	(2.9)	(1.0)	17.0
Relative	(4.0)	(2.5)	11.7

How we differ from Consensus

EPS (Rs)	PL	Cons.	% Diff.
2013	21.4	21.5	-0.4
2014	26.5	27.1	-2.4

Price Performance (RIC: INBK.BO, BB: IIB IN)

Source: Bloomberg

- **Growth Outlook:** Management seemed less cautious than Kotak bank and expects to grow ~25-30% in FY13. Management is still seeing opportunities in building up a 2nd hand vehicle, car and LAP business. IIB has stayed away from mortgages given low yields but is increasing focus on LAP and expects to build a significant book though competition is increasing in the LAP space.

- **Margins- Worst behind us:** Like most retail banks, IIB believes that worst in terms of margins is behind and easing rates should aid in improving margins. IIB has seen its NIMs come off for 5 qtrs now and lower funding costs will aid ROAs going forward.

- **Fee income traction to continue:** Fee income/assets for IIB has already reached industry best levels of 2% but management expects the growth to still continue. They believe on the corporate side, FX and IB business still have significant room for growth and outstrip B/S growth. On the retail side, increasing distribution will add to cross sell opportunities which has been limited.

- **Asset quality sanguine:** Falling CV rentals have been our concern echoed by Kotak/HDFCB but IIB is not seeing any material stress in their CV portfolio currently though diesel price hike can be a risk to this portfolio. Corporate book is working capital linked and with no Infra exposure, management expects strong trend to continue. Overall IIB continues to guide 60-70bps of credit costs v/s our 75-80bps credit cost assumption.

Key financials (Y/e March)

	2011	2012	2013E	2014E
Net interest income (Rs m)	13,765	17,042	21,654	27,621
<i>Growth (%)</i>	55.3	23.8	27.1	27.6
Operating profit (Rs m)	10,817	13,730	17,712	22,531
PAT (Rs m)	5,773	8,026	10,010	12,375
EPS (Rs)	12.4	17.2	21.4	26.5
<i>Growth (%)</i>	46.1	38.5	24.7	23.6
Net DPS (Rs)	2.0	2.2	3.2	4.2

Profitability & Valuation

	2011	2012	2013E	2014E
<i>NIM (%)</i>	3.42	3.32	3.36	3.44
<i>RoAE (%)</i>	19.3	19.3	20.3	21.2
<i>RoAA (%)</i>	1.43	1.56	1.56	1.54
<i>P / BV (x)</i>	3.8	3.2	2.7	2.3
<i>P / ABV (x)</i>	3.8	3.2	2.7	2.3
<i>PE (x)</i>	25.3	18.3	14.6	11.8
<i>Net dividend yield (%)</i>	0.6	0.7	1.0	1.3

Source: Company Data; PL Research

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Please refer to important disclosures and disclaimers at the end of the report

Income Statement (Rs m)

Y/e March	2011	2012	2013E	2014E
Int. Earned from Adv.	28,346	42,166	53,304	63,248
Int. Earned from Inv.	7,333	10,782	12,397	15,292
Others	215	644	644	725
Total Interest Income	35,894	53,592	66,345	79,265
Interest expense	22,129	36,549	44,691	51,644
NII	13,765	17,042	21,654	27,621
<i>Growth (%)</i>	55.3	23.8	27.1	27.6
Treasury Income	376	583	800	800
NTNII	6,761	9,535	12,395	16,114
Non Interest Income	7,137	10,118	13,195	16,914
Total Income	43,030	63,710	79,540	96,179
<i>Growth (%)</i>	32.0	48.1	24.8	20.9
Operating Expense	10,085	13,430	17,138	22,004
Operating Profit	10,817	13,730	17,712	22,531
<i>Growth (%)</i>	53.7	26.9	29.0	27.2
NPA Provisions	1,841	1,783	2,838	4,142
Investment Provisions	76	(10)	—	—
Total Provisions	2,019	1,804	2,838	4,142
PBT	8,798	11,927	14,874	18,388
Tax Provisions	3,025	3,900	4,864	6,014
<i>Effective Tax Rate (%)</i>	34.4	32.7	32.7	32.7
PAT	5,773	8,026	10,010	12,375
<i>Growth (%)</i>	64.8	39.0	24.7	23.6

Balance Sheet (Rs m)

Y/e March	2011	2012	2013E	2014E
Par Value	10	10	10	10
No. of equity shares	466	468	468	468
Equity	4,658	4,677	4,677	4,677
Networth	38,247	45,114	53,373	63,449
Adj. Networth	37,518	44,168	52,282	61,880
Deposits	343,654	423,615	531,587	667,486
<i>Growth (%)</i>	28.7	23.3	25.5	25.6
Low Cost deposits	93,309	115,631	161,050	216,240
<i>% of total deposits</i>	27.2	27.3	30.3	32.4
Total Liabilities	454,104	573,753	713,452	893,198
Net Advances	261,656	350,640	434,793	547,839
<i>Growth (%)</i>	27.3	34.0	24.0	26.0
Investments	135,508	145,719	181,811	223,615
Total Assets	454,104	573,764	713,452	893,198

Source: Company Data, PL Research.

Quarterly Financials (Rs m)

Y/e March	Q2FY12	Q3FY12	Q4FY12	Q1FY13
Interest Income	13,239	13,897	14,810	16,320
Interest Expense	9,047	9,591	10,166	11,479
Net Interest Income	4,192	4,307	4,644	4,841
Non Interest Income	2,392	2,651	2,921	3,188
CEB	2,119	2,503	2,640	2,690
Treasury	—	—	—	—
Net Total Income	6,584	6,958	7,565	8,029
Operating Expenses	3,254	3,465	3,774	3,989
Employee Expenses	1,152	1,261	1,334	1,526
Other Expenses	2,102	2,204	2,439	2,463
Operating Profit	3,330	3,492	3,791	4,040
Core Operating Profit	3,330	3,492	3,791	4,040
Provisions	470	428	460	535
Loan loss provisions	—	—	—	—
Investment Depreciation	—	—	—	—
Profit before tax	2,860	3,064	3,331	3,505
Tax	929	1,005	1,097	1,143
PAT before EO	1,931	2,060	2,234	2,363
Extraordinary item	—	—	—	—
PAT	1,931	2,060	2,234	2,363

Key Ratios

Y/e March	2011	2012	2013E	2014E
CMP (Rs)	313	313	313	313
Equity Shrs. Os. (m)	466	468	468	468
Market Cap (Rs m)	145,927	146,531	146,531	146,531
<i>M/Cap to AUM (%)</i>	32.1	25.5	20.5	16.4
EPS (Rs)	12.4	17.2	21.4	26.5
Book Value (Rs)	82	96	114	136
Adj. BV (75%) (Rs)	82	96	114	136
P/E (x)	25.3	18.3	14.6	11.8
P/BV (x)	3.8	3.2	2.7	2.3
P/ABV (x)	3.8	3.2	2.7	2.3
DPS (Rs)	2.0	2.2	3.2	4.2
<i>Dividend Yield (%)</i>	0.6	0.7	1.0	1.3

Profitability (%)

Y/e March	2011	2012	2013E	2014E
NIM	3.4	3.3	3.4	3.4
RoAA	1.4	1.6	1.6	1.5
RoAE	19.3	19.3	20.3	21.2

Efficiency

Y/e March	2011	2012	2013E	2014E
<i>Cost-Income Ratio (%)</i>	48.2	49.4	49.2	49.4
<i>C-D Ratio (%)</i>	76.1	82.8	81.8	82.1
Business per Emp. (Rs m)	86	88	88	89
Profit per Emp. (Rs m)	8	9	9	9
Business per Branch (Rs m)	2,018	1,843	1,644	1,590
Profit per Branch (Rs m)	19	19	17	16

Asset Quality

Y/e March	2011	2012	2013E	2014E
Gross NPAs (Rs m)	2,659	3,471	4,001	5,751
Net NPAs (Rs m)	728	947	1,091	1,569
<i>Gr. NPAs to Gross Adv. (%)</i>	1.0	1.0	0.9	1.0
<i>Net NPAs to Net Adv. (%)</i>	0.3	0.3	0.3	0.3
<i>NPA Coverage (%)</i>	72.6	72.7	72.7	72.7

Source: Company Data, PL Research.

September 10, 2012

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Rating	BUY
Price	Rs741
Target Price	Rs800
Implied Upside	8.0%
Sensex	17,767
Nifty	5,363

(Prices as on September 10, 2012)
Trading data

Market Cap. (Rs bn)	1,094.7
Shares o/s (m)	1,477.0
3M Avg. Daily value (Rs m)	2337.8

Major shareholders

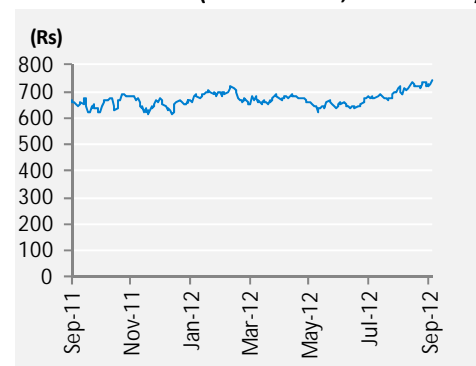
Promoters	0.00%
Foreign	66.74%
Domestic Inst.	19.48%
Public & Other	13.78%

Stock Performance

(%)	1M	6M	12M
Absolute	7.4	8.9	12.0
Relative	6.2	7.4	6.7

How we differ from Consensus

EPS (Rs)	PL	Cons.	% Diff.
2013	32.3	31.8	1.5
2014	37.8	37.7	0.5

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


Source: Bloomberg

■ **Growth outlook Sanguine:** HDFC maintained its growth guidance of ~20% with ex-Mumbai portfolio seeing robust growth in individual segments. Rate differentials with SBI is very limited at the moment to impact volumes for HDFC Ltd. Management has not seen any increase in pre-payment rates due to the abolition of pre-payment charges and believes operational hassles/charges in switching to a new financier will prevent their dual rate customers to switch over to SBI.

■ **Margins stable:** Margins continue to remain stable for HDFC and lower wholesale rates are further aiding margins as pricing environment is getting competitive.

■ **Re-iterated safe nature of non-individual loan portfolio:** HDFC re-emphasised that non-individual portfolio risk profile to be low with only 13% builder/construction finance and rest ~20% constituted by rental discounting and corporate construction loans. Even in the builder portfolio, HDFC emphasised they lend only at SPV level for construction with significant LTV comfort.

■ **Accounting:** Company will declare IFRS related accounts from Sep-12 and this should help address investor concerns on some aggressive accounting followed by HDFC Ltd. Also, HDFC in its recent presentation have clarified on various consolidated accounts as well adjusting for the interest on ZCBs.

Key Financials (Y/e March)	2011	2012	2013E	2014E
Net interest income (Rs m)	41,335	49,765	62,220	74,155
<i>Growth (%)</i>	26.1	20.4	25.0	19.2
Non-interest income (Rs m)	11,847	12,210	12,554	13,476
Operating Profit (Rs m)	49,370	57,456	69,542	81,570
PAT (Rs m)	35,350	41,226	49,462	57,975
EPS (Rs)	24.1	27.9	32.3	37.8
<i>Growth (%)</i>	22.4	15.8	15.7	17.2
Net DPS (Rs)	9.0	11.0	13.2	15.5

Profitability & valuation	2011	2012	2013E	2014E
<i>Spreads / Margins (%)</i>	3.2	3.2	3.4	3.4
<i>RoAE (%)</i>	21.7	22.7	22.4	21.5
<i>RoAA (%)</i>	2.8	2.7	2.7	2.7
P/E (x)	30.8	26.6	23.0	19.6
P/BV (x)	6.3	5.8	4.5	4.0
P/ABV (x)	6.3	5.8	4.5	4.0
<i>Net dividend yield (%)</i>	1.2	1.5	1.8	2.1

Source: Company Data; PL Research

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Income Statement (Rs m)

Y/e March	2011	2012	2013E	2014E
Int. Inc. / Opt. Inc.	116,934	161,333	188,615	226,627
Interest Expenses	75,599	111,568	126,395	152,472
Net interest income	41,335	49,765	62,220	74,155
<i>Growth (%)</i>	<i>26.1</i>	<i>20.4</i>	<i>25.0</i>	<i>19.2</i>
Non interest income	11,847	12,210	12,554	13,476
<i>Growth (%)</i>	<i>16.1</i>	<i>3.1</i>	<i>2.8</i>	<i>7.3</i>
Net operating income	53,181	61,975	74,775	87,631
Expenditure				
Employees	1,755	2,058	2,367	2,722
Other expenses	2,056	2,461	2,865	3,339
Depreciation	—	—	—	—
Total expenditure	3,812	4,519	5,232	6,061
PPP	49,370	57,456	69,542	81,570
<i>Growth (%)</i>	<i>24.2</i>	<i>16.4</i>	<i>21.0</i>	<i>17.3</i>
Provision	700	800	880	968
Other income	—	—	—	—
Exchange Gain / (Loss)	700	800	880	968
Profit before tax	48,670	56,656	68,662	80,602
Tax	13,320	15,430	19,201	22,628
<i>Effective tax rate (%)</i>	<i>27.4</i>	<i>27.2</i>	<i>28.0</i>	<i>28.1</i>
PAT	35,350	41,226	49,462	57,975
<i>Growth (%)</i>	<i>25.1</i>	<i>16.6</i>	<i>20.0</i>	<i>17.2</i>

Balance Sheet (Rs m)

Y/e March	2011	2012	2013E	2014E
Sources of funds				
Equity	2,934	2,954	3,063	3,063
Reserves & Surplus	163,572	180,563	242,550	276,831
Networth	173,165	190,176	252,273	286,554
<i>Growth (%)</i>	<i>13.9</i>	<i>9.8</i>	<i>32.7</i>	<i>13.6</i>
Loan funds	907,854	1,028,347	1,208,347	1,413,347
<i>Growth (%)</i>	<i>—</i>	<i>13.3</i>	<i>17.5</i>	<i>17.0</i>
Deposits	246,251	362,928	422,928	552,928
Other Liabilities	67,751	93,749	93,749	93,749
Total	1,395,021	1,675,199	1,977,297	2,346,578
Application of funds				
Net fixed assets	2,340	2,340	2,325	2,295
Advances	1,171,266	1,408,746	1,684,892	2,025,259
<i>Growth (%)</i>	<i>19.6</i>	<i>20.3</i>	<i>19.6</i>	<i>20.2</i>
Net current assets	121,537	112,350	140,729	153,642
Investments	20,955	39,205	22,949	22,949
<i>Growth (%)</i>	<i>58.7</i>	<i>87.1</i>	<i>(41.5)</i>	<i>—</i>
Deferred tax asset	—	—	—	—
Other Assets	78,923	112,559	126,403	142,432
Total	1,395,021	1,675,199	1,977,297	2,346,578

Source: Company Data, PL Research.

Quarterly Financials (Rs m)

Y/e March	Q2FY12	Q3FY12	Q4FY12	Q1FY13
Int. Inc. / Operating Inc.	39,970	43,018	47,438	48,520
Income from securitization	—	—	—	1
Interest Expenses	26,905	30,124	29,389	33,882
Net Interest Income	13,064	12,894	18,049	14,638
<i>Growth</i>	<i>18.0</i>	<i>17.2</i>	<i>26.3</i>	<i>19.3</i>
Non interest income	1,722	1,707	1,472	903
Net operating income	14,786	14,601	19,521	15,541
<i>Growth</i>	<i>18.0</i>	<i>10.0</i>	<i>17.9</i>	<i>18.9</i>
Operating expenditure	1,409	1,319	1,280	1,742
PPP	13,377	13,282	18,242	13,799
<i>Growth</i>	<i>18.0</i>	<i>9.6</i>	<i>17.3</i>	<i>17.4</i>
Provision	—	—	—	—
Exchange Gain / (Loss)	—	—	—	—
Profit before tax	13,377	13,282	18,242	13,799
Tax	3,670	3,470	4,980	3,780
Prov. for deferred tax liability	—	—	—	—
<i>Effective tax rate (%)</i>	<i>27.4</i>	<i>26.1</i>	<i>27.3</i>	<i>27.4</i>
PAT	9,707	9,812	13,262	10,019
<i>Growth</i>	<i>20.2</i>	<i>10.3</i>	<i>16.0</i>	<i>18.6</i>

Key Ratios

Y/e March	2011	2012	2013E	2014E
CMP (Rs)	741	741	741	741
Eq. Shrs. O/s. (m)	1,467	1,477	1,532	1,532
Market Cap (Rs m)	1,087,229	1,094,715	1,135,296	1,135,296
Market Cap to AUM (%)	0.8	0.7	0.6	0.5
EPS (Rs)	24.1	27.9	32.3	37.8
Book Value (Rs)	118.1	128.8	164.7	187.1
Adjusted Book Value (Rs)	118.1	128.8	164.7	187.1
P/E (x)	30.8	26.6	23.0	19.6
P/BV (x)	6.3	5.8	4.5	4.0
P/ABV (x)	6.3	5.8	4.5	4.0
DPS (Rs)	9.0	11.0	13.2	15.5
Dividend Yield (%)	1.2	1.5	1.8	2.1

Asset Quality

Y/e March	2011	2012	2013E	2014E
Gross NPAs (Rs m)	9,019	10,425	12,468	14,987
Net NPAs (Rs m)	—	—	—	—
Gross NPAs to Gross Adv. (%)	0.8	0.7	0.7	0.7
Net NPAs to Net Adv. (%)	—	—	—	—
NPA Coverage (%)	—	—	—	—

Profitability (%)

Y/e March	2011	2012	2013E	2014E
NIM	3.2	3.2	3.4	3.4
RoAA	2.8	2.7	2.7	2.7
RoAE	21.7	22.7	22.4	21.5

Source: Company Data, PL Research.

September 10, 2012

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Rating	Accumulate
Price	Rs636
Target Price	Rs575
Implied Upside	-9.6%
Sensex	17,767
Nifty	5,363

(Prices as on September 10, 2012)
Trading data

Market Cap. (Rs bn)	144.0
Shares o/s (m)	226.3
3M Avg. Daily value (Rs m)	139.1

Major shareholders

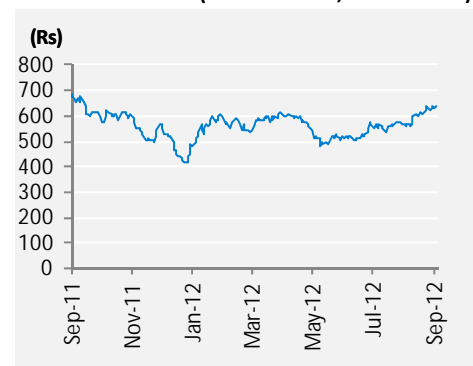
Promoters	46.21%
Foreign	40.06%
Domestic Inst.	1.99%
Public & Other	11.74%

Stock Performance

(%)	1M	6M	12M
Absolute	12.1	13.2	(4.6)
Relative	10.9	11.7	(9.9)

How we differ from Consensus

EPS (Rs)	PL	Cons.	% Diff.
2013	60.3	62.3	-3.3
2014	67.2	71.8	-6.4

Price Performance (RIC: SRTR.BO, BB: SHTF IN)


Source: Bloomberg

- Growth outlook remains tepid:** SHTF is comfortable with 12-15% of growth and continues to maintain LTVs at ~65% and does not want to compromise on quality for growth. SHTF also noted they have restricted the growth on construction equipment business as well. SHTF was positive on rural centres where they have increased presence through small centres which could be converted to branches in line with the increase in business. As of now ~20-30% of transactions are being sourced through its Automalls.
- Margins:** Due to competition in new CV business, hence large part of the growth will have to be driven by higher margin old CVs. Margins have come off in FY12 by ~30bps to ~7.5% and they expect margins to stay in the 7.3-7.7% range.
- Asset quality- Not as cautious as peers:** SHTF has recognised all mining related assets and does not expect any negative surprise. Management re-iterated that only ~20% of their exposure is in industrial transportation and other ~80% is linked to transportation of essentials and does not expect material deterioration in asset quality. With overall freight availability coming off, impending diesel price hike and negative feedback on peers like HDFC/KMB we remain cautious on the CV cycle.
- Accessing regulations:** (1) Final securitisation guidelines warrant moving the off b/s sheet book from direct assignment to PTC route. Though management believes that impact will be limited, actual implementation will be tested only in 2H which is a seasonally qtr for securitisations. (2) On the 90 v/s 180 day NPA recognition, management believes that transition time will be large (3-4 yrs) and feedback from RBI also suggested that the implementation will happen in a non-disruptive manner.

Key Financials (Y/e March)	2011	2012	2013E	2014E
Net interest income (Rs m)	14,107	12,377	15,847	22,129
<i>Growth (%)</i>	3.1	(12.3)	28.0	39.6
Non-interest income (Rs m)	955	1,015	981	1,005
Operating Profit (Rs m)	24,037	26,492	27,761	31,056
PAT (Rs m)	12,299	12,574	13,647	15,214
EPS (Rs)	54.4	55.6	60.3	67.2
<i>Growth (%)</i>	40.5	2.2	8.5	11.5
Net DPS (Rs)	6.5	6.5	7.2	10.1

Profitability & valuation	2011	2012	2013E	2014E
<i>Spreads / Margins (%)</i>	6.0	4.6	4.9	5.7
<i>RoAE (%)</i>	28.1	23.1	20.7	19.5
<i>RoAA (%)</i>	5.2	4.7	4.2	4.0
<i>P/E (x)</i>	11.7	11.4	10.5	9.5
<i>P/BV (x)</i>	2.9	2.4	2.0	1.7
<i>P/ABV (x)</i>	3.0	2.4	2.0	1.7
<i>Net dividend yield (%)</i>	1.0	1.0	1.1	1.6

Source: Company Data; PL Research

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Income Statement (Rs m)

Y/e March	2011	2012	2013E	2014E
Int. Inc. / Opt. Inc.	37,115	36,989	44,726	55,299
Interest Expenses	23,008	24,612	28,878	33,170
Net interest income	14,107	12,377	15,847	22,129
<i>Growth (%)</i>	<i>3.1</i>	<i>(12.3)</i>	<i>28.0</i>	<i>39.6</i>
Non interest income	955	1,015	981	1,005
<i>Growth (%)</i>	<i>(1.3)</i>	<i>6.3</i>	<i>(3.4)</i>	<i>2.5</i>
Net operating income	30,410	34,327	36,385	40,640
Expenditure				
Employees	2,732	3,701	4,219	4,809
Other expenses	3,533	3,999	4,263	4,627
Depreciation	108	135	141	148
Total expenditure	6,374	7,835	8,623	9,585
PPP	24,037	26,492	27,761	31,056
<i>Growth (%)</i>	<i>38.8</i>	<i>10.2</i>	<i>4.8</i>	<i>11.9</i>
Provision	5,548	7,683	7,348	8,177
Other income	—	—	—	—
Exchange Gain / (Loss)	—	—	—	—
Profit before tax	18,489	18,809	20,413	22,878
Tax	6,190	6,235	6,766	7,664
<i>Effective tax rate (%)</i>	<i>33.5</i>	<i>33.1</i>	<i>33.1</i>	<i>33.5</i>
PAT	12,299	12,574	13,647	15,214
<i>Growth (%)</i>	<i>40.9</i>	<i>2.2</i>	<i>8.5</i>	<i>11.5</i>

Balance Sheet (Rs m)

Y/e March	2011	2012	2013E	2014E
Sources of funds				
Equity	2,262	2,263	2,263	2,263
Reserves & Surplus	46,782	57,660	69,391	81,935
Networth	49,044	59,923	71,654	84,198
<i>Growth (%)</i>	<i>27.6</i>	<i>22.2</i>	<i>19.6</i>	<i>17.5</i>
Loan funds	198,817	231,219	289,113	325,143
<i>Growth (%)</i>	<i>—</i>	<i>16.3</i>	<i>25.0</i>	<i>12.5</i>
Others	—	—	—	—
Minority Interest	—	—	—	—
Deferred Tax Liability	—	—	—	—
Total	247,861	291,142	360,767	409,341
Application of funds				
Net fixed assets	384	397	467	490
Advances	198,656	219,019	292,438	350,925
<i>Growth (%)</i>	<i>10.5</i>	<i>10.3</i>	<i>33.5</i>	<i>20.0</i>
Net current assets	10,407	29,912	18,615	1,198
Investments	36,507	39,646	47,081	54,561
<i>Growth (%)</i>	<i>96.7</i>	<i>8.6</i>	<i>18.8</i>	<i>15.9</i>
Other Assets	1,906	2,167	2,167	2,167
Total	247,861	291,142	360,767	409,341

Source: Company Data, PL Research.

Quarterly Financials (Rs m)

Y/e March	Q2FY12	Q3FY12	Q4FY12	Q1FY13
Int. Inc. / Operating Inc.	9,675	9,458	9,158	8,876
Income from securitization	4,825	4,927	5,157	5,323
Interest Expenses	6,153	6,347	6,259	6,173
Net Interest Income	3,522	3,110	2,899	2,702
<i>Growth</i>	<i>(4.4)</i>	<i>(23.2)</i>	<i>(10.6)</i>	<i>1.8</i>
Non interest income	258	294	255	702
Net operating income	8,605	8,331	8,311	8,727
<i>Growth</i>	<i>19.0</i>	<i>2.1</i>	<i>5.4</i>	<i>1.2</i>
Operating expenditure	1,788	1,867	1,782	1,940
PPP	6,560	6,171	6,274	6,085
<i>Growth</i>	<i>18.9</i>	<i>(1.9)</i>	<i>0.8</i>	<i>(5.9)</i>
Provision	2,363	1,920	1,918	2,026
Exchange Gain / (Loss)	—	—	—	—
Profit before tax	4,454	4,545	4,611	4,761
Tax	1,460	1,518	1,530	1,543
Prov. for deferred tax liability	—	—	—	—
<i>Effective tax rate (%)</i>	<i>32.8</i>	<i>33.4</i>	<i>33.2</i>	<i>32.4</i>
PAT	2,994	3,027	3,081	3,219
<i>Growth</i>	<i>0.2</i>	<i>0.4</i>	<i>(9.6)</i>	<i>(7.3)</i>

Key Ratios

Y/e March	2011	2012	2013E	2014E
CMP (Rs)	636	636	636	636
Eq. Shrs. O/s. (m)	226	226	226	226
Market Cap (Rs m)	143,865	143,951	143,951	143,951
Market Cap to AUM (%)	58.0	49.4	39.9	35.2
EPS (Rs)	54.4	55.6	60.3	67.2
Book Value (Rs)	216.8	264.8	316.6	372.0
Adjusted Book Value (Rs)	213.5	260.5	311.6	366.0
P/E (x)	11.7	11.4	10.5	9.5
P/BV (x)	2.9	2.4	2.0	1.7
P/ABV (x)	3.0	2.4	2.0	1.7
DPS (Rs)	6.5	6.5	7.2	10.1
Dividend Yield (%)	1.0	1.0	1.1	1.6

Asset Quality

Y/e March	2011	2012	2013E	2014E
Gross NPAs (Rs m)	5,286	6,938	8,325	9,991
Net NPAs (Rs m)	745	977	1,129	1,354
Gross NPAs to Gross Adv. (%)	2.7	3.2	2.8	2.8
Net NPAs to Net Adv. (%)	0.4	0.4	0.4	0.4
NPA Coverage (%)	85.9	85.9	86.4	86.4

Profitability (%)

Y/e March	2011	2012	2013E	2014E
NIM	6.0	4.6	4.9	5.7
RoAA	5.2	4.7	4.2	4.0
RoAE	28.1	23.1	20.7	19.5

Source: Company Data, PL Research.

September 10, 2012

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Rating	BUY
Price	Rs815
Target Price	Rs847
Implied Upside	3.9%
Sensex	17,767
Nifty	5,363

(Prices as on September 10, 2012)
Trading data

Market Cap. (Rs bn)	83.6
Shares o/s (m)	102.7
3M Avg. Daily value (Rs m)	86.8

Major shareholders

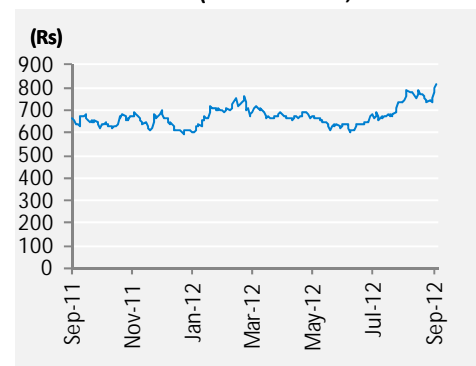
Promoters	57.23%
Foreign	32.45%
Domestic Inst.	5.41%
Public & Other	4.91%

Stock Performance

(%)	1M	6M	12M
Absolute	3.8	15.0	24.4
Relative	2.6	13.5	19.1

How we differ from Consensus

EPS (Rs)	PL	Cons.	% Diff.
2013	72.4	73.5	-1.5
2014	87.6	89.3	-1.9

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


Source: Bloomberg

■ **Bullish on Growth:** Management remains extremely bullish on growth, clearly an exception to the overall tone of significant slowdown. Management at the minimum intends to double their current ~Rs200bn loan book in 3 yrs and believe that they will achieve their 2x size faster than 3yrs as they continue to penetrate new OEMs and add new product categories.

■ **Adding new growth drivers:** Mahindra's biggest advantage is that it is well diversified in 4-5 product categories and management is adding new product categories. Mahindra Finance plans to build a SME book largely lending to the Mahindra ecosystem. Also apart from penetrating new OEMs in most of its product categories, they plan to increase the share of high yielding 2nd hand vehicle portfolio to 12-15% of their loan book from 7-8% currently.

■ **Positioned to benefit from an easing rate cycle:** Margins have come off over the last 6 qtrs as Mahindra Finance has not passed on the entire rate hikes to customers and with an easing rate cycle, expects margins to improve over FY13-14. Long term funding rates have already come off by 20-30bps and with limited dependence on direct assignments, MMFS expects margins to improve.

■ **Asset quality - Maintaining LTV discipline key:** Management believes that they have had a tight control on LTVs (avg. 66-67%) in spite of the high growth and hence does not expect large negative asset quality surprises. Tractor portfolio could have been partially exposed to the low monsoon but recent pickup is positive. We factor in ~170bps of credit costs from ~100bps delivered in FY12 and hence some pick up delinquencies in Tractor/CV book is factored by us and the street.

Key Financials (Y/e March)	2011	2012	2013E	2014E
Net interest income (Rs m)	12,231	15,549	20,999	26,016
Growth (%)	35.4	27.1	35.1	23.9
Non-interest income (Rs m)	387	269	277	319
Operating Profit (Rs m)	8,623	10,823	14,672	18,008
PAT (Rs m)	4,631	6,201	7,434	8,993
EPS (Rs)	45.2	60.4	72.4	87.6
Growth (%)	26.0	33.6	19.9	21.0
Net DPS (Rs)	10.2	14.2	16.3	19.7

Profitability & valuation	2011	2012	2013E	2014E
Spreads / Margins (%)	12.0	10.7	11.1	10.9
RoAE (%)	22.0	22.8	22.7	22.9
RoAA (%)	4.6	4.3	3.9	3.8
P/E (x)	18.0	13.5	11.3	9.3
P/BV (x)	3.4	2.8	2.3	2.0
P/ABV (x)	3.5	3.0	2.4	2.1
Net dividend yield (%)	1.2	1.7	2.0	2.4

Source: Company Data; PL Research

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Income Statement (Rs m)

Y/e March	2011	2012	2013E	2014E
Int. Inc. / Opt. Inc.	18,833	26,752	34,917	43,030
Interest Expenses	6,602	11,203	13,918	17,015
Net interest income	12,231	15,549	20,999	26,016
<i>Growth (%)</i>	<i>35.4</i>	<i>27.1</i>	<i>35.1</i>	<i>23.9</i>
Non interest income	387	269	277	319
<i>Growth (%)</i>	<i>1.6</i>	<i>(30.4)</i>	<i>3.1</i>	<i>15.0</i>
Net operating income	13,524	16,743	22,169	27,227
Expenditure				
Employees	2,062	2,955	3,694	4,617
Other expenses	511	511	511	511
Depreciation	158	196	314	206
Total expenditure	2,731	3,662	4,520	5,335
PPP	8,623	10,823	14,672	18,008
<i>Growth (%)</i>	<i>16.1</i>	<i>25.5</i>	<i>35.6</i>	<i>22.7</i>
Provision	1,598	1,570	3,739	4,783
Other income	—	—	—	—
Exchange Gain / (Loss)	—	—	—	—
Profit before tax	7,025	9,253	10,932	13,225
Tax	2,393	3,051	3,498	4,232
<i>Effective tax rate (%)</i>	<i>34.1</i>	<i>33.0</i>	<i>32.0</i>	<i>32.0</i>
PAT	4,631	6,201	7,434	8,993
<i>Growth (%)</i>	<i>34.5</i>	<i>33.9</i>	<i>19.9</i>	<i>21.0</i>

Balance Sheet (Rs m)

Y/e March	2011	2012	2013E	2014E
Sources of funds				
Equity	1,025	1,027	1,027	1,027
Reserves & Surplus	23,856	28,483	34,991	41,621
Networth	24,901	29,510	36,018	42,648
<i>Growth (%)</i>	<i>44.1</i>	<i>18.5</i>	<i>22.1</i>	<i>18.4</i>
Loan funds	96,750	139,611	173,154	227,194
<i>Growth (%)</i>	<i>—</i>	<i>44.3</i>	<i>24.0</i>	<i>31.2</i>
Others	—	—	—	—
Minority Interest	—	—	—	—
Deferred Tax Liability	1	—	—	—
Total	121,652	169,121	209,172	269,842
Application of funds				
Net fixed assets	818	1,000	1,029	1,235
Advances	123,844	174,963	215,524	275,899
<i>Growth (%)</i>	<i>48.5</i>	<i>41.3</i>	<i>23.2</i>	<i>28.0</i>
Net current assets	(9,827)	(11,867)	(13,571)	(15,216)
Investments	6,746	5,025	6,190	7,924
<i>Growth (%)</i>	<i>212.4</i>	<i>(25.5)</i>	<i>23.2</i>	<i>28.0</i>
Other Assets	—	—	—	—
Total	121,652	169,121	209,172	269,842

Source: Company Data, PL Research.

Quarterly Financials (Rs m)

Y/e March	Q2FY12	Q3FY12	Q4FY12	Q1FY13
Int. Inc. / Operating Inc.	6,491	7,328	8,389	8,351
Income from securitization	—	—	—	—
Interest Expenses	2,589	3,150	3,304	3,475
Net Interest Income	3,902	4,178	5,085	4,876
<i>Growth</i>	<i>22.8</i>	<i>23.2</i>	<i>28.4</i>	<i>47.0</i>
Non interest income	196	138	81	39
Net operating income	4,098	4,316	5,166	4,916
<i>Growth</i>	<i>21.3</i>	<i>18.8</i>	<i>24.5</i>	<i>39.3</i>
Operating expenditure	1,521	1,520	1,603	1,667
PPP	2,539	2,797	3,563	3,248
<i>Growth</i>	<i>22.3</i>	<i>22.8</i>	<i>37.9</i>	<i>56.6</i>
Provision	523	494	142	854
Exchange Gain / (Loss)	—	—	—	—
Profit before tax	2,016	2,303	3,421	2,395
Tax	661	756	1,144	784
Prov. for deferred tax liability	—	—	—	—
<i>Effective tax rate (%)</i>	<i>32.8</i>	<i>32.8</i>	<i>33.4</i>	<i>32.8</i>
PAT	1,355	1,547	2,277	1,610
<i>Growth</i>	<i>16.3</i>	<i>33.5</i>	<i>45.4</i>	<i>57.6</i>

Key Ratios

Y/e March	2011	2012	2013E	2014E
CMP (Rs)	815	815	815	815
Eq. Shrs. O/s. (m)	102	103	103	103
Market Cap (Rs m)	83,456	83,649	83,649	83,649
Market Cap to AUM (%)	68.6	49.5	40.0	31.0
EPS (Rs)	45.2	60.4	72.4	87.6
Book Value (Rs)	243.1	287.4	350.8	415.3
Adjusted Book Value (Rs)	235.8	275.5	336.1	396.9
P/E (x)	18.0	13.5	11.3	9.3
P/BV (x)	3.4	2.8	2.3	2.0
P/ABV (x)	3.5	3.0	2.4	2.1
DPS (Rs)	10.2	14.2	16.3	19.7
Dividend Yield (%)	1.2	1.7	2.0	2.4

Asset Quality

Y/e March	2011	2012	2013E	2014E
Gross NPAs (Rs m)	5,488	5,543	6,839	8,610
Net NPAs (Rs m)	745	1,219	1,504	1,894
Gross NPAs to Gross Adv. (%)	4.4	3.2	3.2	3.1
Net NPAs to Net Adv. (%)	0.5	0.7	0.7	0.7
NPA Coverage (%)	86.4	78.0	78.0	78.0

Profitability (%)

Y/e March	2011	2012	2013E	2014E
NIM	12.0	10.7	11.1	10.9
RoAA	4.6	4.3	3.9	3.8
RoAE	22.0	22.8	22.7	22.9

Source: Company Data, PL Research.

September 10, 2012

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Rating	Not Rated
Price	Rs164
Target Price	NA
Implied Upside	NA
Sensex	17,767
Nifty	5,363

(Prices as on September 10, 2012)

Trading data	
Market Cap. (Rs bn)	214.4
Shares o/s (m)	1,320.0
3M Avg. Daily value (Rs m)	506.1

Major shareholders	
Promoters	73.72%
Foreign	9.76%
Domestic Inst.	9.50%
Public & Other	7.02%

Stock Performance			
(%)	1M	6M	12M
Absolute	(12.3)	(17.2)	8.4
Relative	(13.3)	(18.6)	3.2

How we differ from Consensus			
EPS (Rs)	PL	Cons.	% Diff.
2013	NA	28.4	NA
2014	NA	31.9	NA

Price Performance (RIC:PWFC.BO, BB:POWF IN)


Source: Bloomberg

- Upbeat on state reform action; UP to move on tariffs by Sep-12:** The PFC/REC management was very upbeat on tariff hikes taken by the states (17 of 27 states) in FY13 including large ones like TN. PFC expects tariff hike to be taken by UP by mid Sep-12 which will be a big relief. These hikes surely bring some states close to break even but hikes not being implemented in Agri continue to increase hike requirements for commercial/personal segments. Of all states, PFC was extremely positive on prospects of a turnaround of SEBs in MP and believes MP SEBs could turn profitable in due course.
- No clarity on FRP; Don't see PFC/REC taking haircut/NPV hits:** The restructuring package (FRP) is still in works and PFC management said there is limited clarity still on the terms of restructuring (Media sources: 50% debt to be shifted to state govt. and other 50% to be offered a 3 yr moratorium). PFC/REC have categorically denied taking any haircut on these loans but transfer of debt to state governments and getting state government bonds could entail some NPV loss due to lower yields on state govt. debt in our view.
- Fresh sanctions to SEBs - Part of restructuring:** Both PFC/REC as part of the ongoing restructuring will provide Rs170bn each to the SEBs for working capital requirements. PFC/REC who have largely refrained from funding losses of SEBs will now do so as some burden gets shifted from banks to PFC/REC but management believes that these loans remain contingent on going reform performance and guarantees by each state.
- Regulatory provisioning:** (1) Usha Thorat committee had recommended applicability of standard asset provisioning (0.25%) for PFC/REC and according to the mgt, they intend to provide this over next 4 yrs (0.05% annually) (2) Also, on providing for risk weight on undisbursed sanction, PFC/REC have asked RBI for an exemption upto FY17 and is currently under consideration.

Contd...27

Key Financials (Y/e March)	2009	2010	2011	2012
Net interest income (Rs m)	21,245	31,072	37,047	43,533
Growth (%)	14.3	46.3	19.2	17.5
Operating Profit (Rs m)	19,477	29,569	35,040	41,043
PAT (Rs m)	19,700	23,573	26,196	30,317
EPS (Rs)	17.2	20.5	22.8	23.4
Growth (%)	63.2	19.7	11.1	2.6

Profitability & valuation	2009	2010	2011	2012
Spreads / Margins (%)	3.0	3.5	3.4	3.4
RoAE (%)	18.9	19.0	18.4	16.9
RoAA (%)	2.8	2.7	2.4	2.4

Source: Company Data; PL Research

Note: All Financials of Power Finance Corporation

■ **PFC Private power portfolio - Some reschedulements hapenning:**

- PFC already has 3 private power projects as NPAs and we continue to have news flow on JAS Infra/Abhijit power where PFC also has a large exposure.
- PFC has rescheduled ~Rs6bn of exposure in 2 projects in FY13 and there may be similar reschedulements (payments psuhed by 12mnts) going forward. (1) **Dans Energy:** Hydropower project in Sikkim, Rs4bn exposure and (2) Krishna Godawari Power, 67 MW, Rs1.5bn exposure.
- PFC has ~Rs10bn exposure to Suzlon. Repayments have been timely upto July with some marginal delays in August.

Income Statement (Rs m)

Y/e March	2009	2010	2011	2012
Interest Earned	65,580	81,664	102,831	130,149
Interest Expended	44,335	50,592	65,784	86,616
NII	21,245	31,072	37,047	43,533
Other Income	262	770	480	223
Total Income	21,506	31,842	37,527	43,756
Employee Cost	408	654	578	721
Other Expenses	428	563	401	564
PPOP	20,242	30,061	36,146	42,470
Provisions and Contingencies	766	492	1,106	1,428
Operating Profit	19,477	29,569	35,040	41,043
Provision for Tax	205	6,560	9,246	10,725
Profit After Tax	19,700	23,573	26,196	30,317

Adjusted EPS (Rs)	17.2	20.5	22.8	23.4
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Balance Sheet (Rs m)

Y/e March	2009	2010	2011	2012
Sources of Funds				
Equity Paid Up	11,478	11,478	11,478	13,199
Reserves and Surplus	103,601	121,130	140,347	193,876
Net Worth	115,078	132,608	151,825	207,075
Total Debt	530,691	677,719	860,504	1,101,259
Current liabilities	35,768	23,602	33,183	47,416
Total Liabilities	796,615	966,537	1,197,338	1,355,751
Application of Funds				
Net Block	752	745	767	765
Investments	359	314	539	592
Cash and Bank balance	3,928	13,943	23,503	0
Loans and Advances	663,627	803,453	1,002,091	1,300,718
Other Current Assets	127,950	148,081	170,438	53,676
Total Assets	796,615	966,537	1,197,338	1,355,751

Growth Ratios

Y/e March	2009	2010	2011	2012
NII	14.3%	46.3%	19.2%	17.5%
PPOP	14.6%	48.5%	20.2%	17.5%
Operating Profit	11.0%	51.8%	18.5%	17.1%
Profit After Tax	63.2%	19.7%	11.1%	15.7%
Adjusted EPS	63.2%	19.7%	11.1%	2.6%
Loans and Advances	25.6%	21.1%	24.7%	29.8%
Total Assets	26.9%	21.3%	23.9%	13.2%

ROA Decomposition

Y/e March	2009	2010	2011	2012
NII	3.0%	3.5%	3.4%	3.4%
Other Income	0.0%	0.1%	0.0%	0.0%
Total Income	3.0%	3.6%	3.5%	3.4%
Employee Cost	0.1%	0.1%	0.1%	0.1%
Other Expenses	0.1%	0.1%	0.0%	0.0%
PPOP	2.8%	3.4%	3.3%	3.3%
Provisions and Contingencies	0.1%	0.1%	0.1%	0.1%
Operating Profit	2.7%	3.4%	3.2%	3.2%
Provision for Tax	0.0%	0.7%	0.9%	0.8%
ROA	2.8%	2.7%	2.4%	2.4%
Leverage	6.8	7.1	7.6	7.1
ROE	18.9%	19.0%	18.4%	16.9%

Source: Company Data, PL Research.

Note: All Financials of Power Finance Corporation

September 10, 2012

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Rating	BUY
Price	Rs128
Target Price	Rs145
Implied Upside	13.3%
Sensex	17,767
Nifty	5,363

(Prices as on September 10, 2012)
Trading data

Market Cap. (Rs bn)	193.1
Shares o/s (m)	1,512.4
3M Avg. Daily value (Rs m)	898

Major shareholders

Promoters	0.00%
Foreign	48.52%
Domestic Inst.	34.72%
Public & Other	16.76%

Stock Performance

(%)	1M	6M	12M
Absolute	(3.3)	(12.4)	12.2
Relative	(4.5)	(13.9)	6.8

How we differ from Consensus

EPS (Rs)	PL	Cons.	% Diff.
2013	12.3	11.6	6.2
2014	14.4	13.9	3.2

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

Source: Bloomberg

■ **Growth outlook:** Management believes that 15%-20% growth is quite manageable citing refinancing opportunities still available largely substituting mid- sized PSU banks (30%-40% of the growth from re-financing). Risk aversion of PSU banks, consolidation of financiers and better funding rates are reasons for IDFCs gain in market share in re-financing. Going ahead, IDFC believes, Roads could offer some opportunities considering that bids by the developer have become reasonable as they face increasing scrutiny from financiers.

■ **Asset quality: Gas projects remain a concern:** IDFC expects to limit GNPA to < 1% even in these challenging conditions and IDFC already has +1.5% provisioning on its books. The large concern remains under construction gas based projects (~2-3% of the book) wherein there could be some rescheduling, but they do not expect NPV hits. IDFC's has already provided Rs0.6bn for their Rs1.4bn Deccan chronicle exposure and expects to write some more in coming qtrs. There have been ~4-5 power projects that have either been recognised as NPA or promoters face CBI charges and IDFC does not have any exposure to these SPVs.

■ **Margins to be maintained in spite of high re-financing share:** IDFC has seen improvement in spreads over last 2-3 qtrs and expects to maintain spreads in spite of higher share of re-financing business where spreads are ~50-75bps lower. Softness in wholesale rates and more importantly pricing power is aiding IDFC's margins in spite of higher re-financing business.

■ **Capital market related businesses:** Apart from its core lending business, the company is focussing on its PE business wherein it plans to double the existing AUM by adding ~\$1.5 billion in the next two years through three new funds. Prospects of other capital market business continues to remain challenging.

Key Financials (Y/e March)	2011	2012	2013E	2014E
Net interest income (Rs m)	16,053	20,032	23,847	27,990
Growth (%)	57.7	24.8	19.0	17.4
Non-interest income (Rs m)	9,402	9,756	9,209	10,371
Operating Profit (Rs m)	20,135	24,570	27,268	31,832
PAT (Rs m)	12,791	15,541	18,651	21,737
EPS (Rs)	8.8	10.3	12.3	14.4
Growth (%)	7.2	17.4	20.0	16.5
Net DPS (Rs)	1.8	2.3	2.5	3.0

Profitability & valuation	2011	2012	2013E	2014E
Spreads / Margins (%)	3.8	3.6	3.6	3.5
RoAE (%)	14.7	13.7	14.3	14.9
RoAA (%)	3.0	2.8	2.8	2.8
P/E (x)	14.6	12.4	10.4	8.9
P/BV (x)	1.8	1.6	1.4	1.3
P/ABV (x)	1.8	1.6	1.4	1.3
Net dividend yield (%)	1.4	1.8	1.9	2.3

Source: Company Data; PL Research

Income Statement (Rs m)

Y/e March	2011	2012	2013E	2014E
Int. Inc. / Opt. Inc.	39,929	54,594	70,168	82,591
Interest Expenses	23,875	34,562	46,321	54,601
Net interest income	16,053	20,032	23,847	27,990
<i>Growth (%)</i>	<i>57.7</i>	<i>24.8</i>	<i>19.0</i>	<i>17.4</i>
Non interest income	9,402	9,756	9,209	10,371
<i>Growth (%)</i>	<i>(13.7)</i>	<i>3.8</i>	<i>(5.6)</i>	<i>12.6</i>
Net operating income	25,455	29,788	33,057	38,361
Expenditure				
Employees	2,956	3,050	3,386	3,826
Other expenses	2,365	2,169	2,404	2,703
Depreciation	—	—	—	—
Total expenditure	5,320	5,219	5,789	6,529
PPP	20,135	24,570	27,268	31,832
<i>Growth (%)</i>	<i>29.2</i>	<i>22.0</i>	<i>11.0</i>	<i>16.7</i>
Provision	2,346	2,850	1,542	1,850
Other income	—	—	—	—
Exchange Gain / (Loss)	—	—	—	—
Profit before tax	17,788	21,720	25,726	29,982
Tax	4,998	6,179	7,075	8,245
<i>Effective tax rate (%)</i>	<i>28.1</i>	<i>28.4</i>	<i>27.5</i>	<i>27.5</i>
PAT	12,791	15,541	18,651	21,737
<i>Growth (%)</i>	<i>20.4</i>	<i>21.5</i>	<i>20.0</i>	<i>16.5</i>

Balance Sheet (Rs m)

Y/e March	2011	2012	2013E	2014E
Sources of funds				
Equity	14,609	15,124	15,124	15,124
Reserves & Surplus	89,475	107,727	122,267	139,213
Networth	104,084	122,850	137,391	154,337
<i>Growth (%)</i>	<i>48.5</i>	<i>18.0</i>	<i>11.8</i>	<i>12.3</i>
Loan funds	364,939	457,850	550,925	674,048
<i>Growth (%)</i>	<i>—</i>	<i>25.5</i>	<i>20.3</i>	<i>22.3</i>
Others	—	—	—	—
Minority Interest	—	—	—	—
Deferred Tax Liability	17,643	22,590	24,618	26,838
Total	493,167	609,790	719,434	861,722
Application of funds				
Net fixed assets	4,469	3,798	4,075	4,310
Advances	376,523	481,846	578,215	705,422
<i>Growth (%)</i>	<i>50.4</i>	<i>28.0</i>	<i>20.0</i>	<i>22.0</i>
Net current assets	11,049	6,981	8,377	10,053
Investments	69,611	75,339	85,733	97,596
<i>Growth (%)</i>	<i>50.0</i>	<i>8.2</i>	<i>13.8</i>	<i>13.8</i>
Other Assets	31,515	41,828	42,783	43,810
Total	493,167	609,791	719,183	861,192

Source: Company Data, PL Research.

Quarterly Financials (Rs m)

Y/e March	Q2FY12	Q3FY12	Q4FY12	Q1FY13
Int. Inc. / Operating Inc.	—	—	—	—
Income from securitization	—	—	—	—
Interest Expenses	—	—	—	—
Net Interest Income	4,980	5,460	5,860	6,290
<i>Growth</i>	<i>33.2</i>	<i>18.7</i>	<i>23.6</i>	<i>30.2</i>
Non interest income	3,850	2,150	1,330	1,370
Net operating income	8,830	7,610	7,190	7,660
<i>Growth</i>	<i>35.0</i>	<i>12.7</i>	<i>8.4</i>	<i>29.2</i>
Operating expenditure	1,320	1,266	1,500	1,170
PPP	7,510	6,344	5,690	6,490
<i>Growth</i>	<i>40.9</i>	<i>23.7</i>	<i>13.6</i>	<i>35.5</i>
Provision	630	978	840	1,030
Exchange Gain / (Loss)	—	—	—	—
Profit before tax	6,920	5,366	4,910	5,530
Tax	1,710	1,537	1,560	1,730
Prov. for deferred tax liability	—	—	—	—
<i>Effective tax rate (%)</i>	<i>24.7</i>	<i>28.6</i>	<i>31.8</i>	<i>31.3</i>
PAT	5,230	3,812	3,350	3,800
<i>Growth</i>	<i>53.4</i>	<i>18.8</i>	<i>17.1</i>	<i>21.0</i>

Key Ratios

Y/e March	2011	2012	2013E	2014E
CMP (Rs)	128	128	128	128
Eq. Shrs. O/s. (m)	1,461	1,512	1,512	1,512
Market Cap (Rs m)	186,563	193,128	193,128	193,128
Market Cap to AUM (%)	37.8	31.7	26.9	22.4
EPS (Rs)	8.8	10.3	12.3	14.4
Book Value (Rs)	71.2	81.2	90.8	102.1
Adjusted Book Value (Rs)	71.0	80.8	90.2	101.1
P/E (x)	14.6	12.4	10.4	8.9
P/BV (x)	1.8	1.6	1.4	1.3
P/ABV (x)	1.8	1.6	1.4	1.3
DPS (Rs)	1.8	2.3	2.5	3.0
Dividend Yield (%)	1.4	1.8	1.9	2.3

Asset Quality

Y/e March	2011	2012	2013E	2014E
Gross NPAs (Rs m)	793	1,446	2,168	3,036
Net NPAs (Rs m)	389	714	976	1,366
Gross NPAs to Gross Adv. (%)	0.2	0.3	0.4	0.4
Net NPAs to Net Adv. (%)	0.1	0.1	0.2	0.2
NPA Coverage (%)	51.0	50.6	55.0	55.0

Profitability (%)

Y/e March	2011	2012	2013E	2014E
NIM	3.8	3.6	3.6	3.5
RoAA	3.0	2.8	2.8	2.8
RoAE	14.7	13.7	14.3	14.9

Source: Company Data, PL Research.

September 10, 2012

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Rating	BUY
Price	Rs246
Target Price	Rs300
Implied Upside	22.0%
Sensex	17,767
Nifty	5,363

(Prices as on September 10, 2012)
Trading data

Market Cap. (Rs bn)	124.4
Shares o/s (m)	505.0
3M Avg. Daily value (Rs m)	446.8

Major shareholders

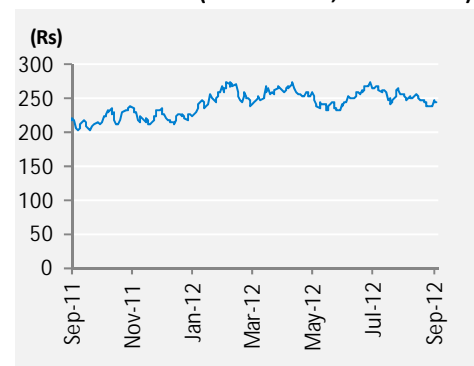
Promoters	40.31%
Foreign	34.25%
Domestic Inst.	9.45%
Public & Other	15.99%

Stock Performance

(%)	1M	6M	12M
Absolute	(0.6)	(0.1)	12.8
Relative	(1.8)	(1.6)	7.4

How we differ from Consensus

EPS (Rs)	PL	Cons.	% Diff.
2013	23.4	23.5	-0.5
2014	29.9	30.0	-0.4

Price Performance (RIC: LICH.BO, BB: LICF IN)


Source: Bloomberg

Sanguine on Individual book growth; Developer book remains a challenge:

Management seemed upbeat about growth in individual loan book with strong demand from southern states and specific pockets in Central India (Indore, Bhopal, Bhuvaneswar), East (Patna, Kolkata, etc) and also Pune. With strong individual disbursements, mgt believes +20% growth will not be challenge. Developer book sanctions are building up only gradually and repayment intensity continues and management is still seeing a contraction in developer book which is negative for their margins recovery.

Not to overreact to competition: LICHF does not want to overreact to competition in this cycle and they believe differential pricing of 50bps with the lowest rates offered by SBI is manageable as in the past they have done +20% loan growth with ~differential pricing (Nov-08). It has been only ~1mnt past SBI's new offer and hence too early to assess the impact but LICHF is not unduly concerned by the low rates by SBI especially as this has not been followed up by other large players (most banks at 10.5% v/s 10.2% by SBI).

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Margins to look up but only gradually: The delay in the build up of the developer book is having its toll on margins. Incremental spreads at 1.6% is fine in this environment and re-pricing of Rs120bn of fixed O floaty book is also happening on expected lines but developer book continues to shrink as a % of B/S and that is impacting margin recovery (1% lower developer book impacts margins by ~6bps).

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Trimming FY13 spreads marginally, Adjusting PT lower to Rs300/share; Maintain BUY: Due to delay in build up of developer book, we trim our spread assumptions by ~8-10bps and PAT/EPS by 4% and similarly trim down PT to Rs300/share. Margin expansion has not panned out as earlier envisaged but with negligible asset quality and regulatory risks we continue to maintain BUY.

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Key Financials (Y/e March)	2011	2012	2013E	2014E
Net interest income (Rs m)	14,144	13,916	17,293	21,981
Growth (%)	58.2	(1.6)	24.3	27.1
Non-interest income (Rs m)	3,567	2,324	2,389	2,866
Operating Profit (Rs m)	15,548	13,870	16,888	21,533
PAT (Rs m)	9,745	9,142	11,814	15,084
EPS (Rs)	20.5	18.1	23.4	29.9
Growth (%)	47.2	(11.8)	29.2	27.7
Net DPS (Rs)	3.5	3.6	4.0	6.0

Profitability & valuation	2011	2012	2013E	2014E
Spreads / Margins (%)	3.2	2.5	2.5	2.6
RoAE (%)	25.8	18.6	19.2	20.9
RoAA (%)	2.2	1.6	1.7	1.8
P/E (x)	12.0	13.6	10.5	8.2
P/BV (x)	2.8	2.2	1.9	1.6
P/ABV (x)	2.8	2.2	1.9	1.6
Net dividend yield (%)	1.4	1.5	1.6	2.4

Source: Company Data; PL Research

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Income Statement (Rs m)

Y/e March	2011	2012	2013E	2014E
Int. Inc. / Opt. Inc.	45,121	59,827	77,117	93,447
Interest Expenses	30,977	45,911	59,825	71,466
Net interest income	14,144	13,916	17,293	21,981
<i>Growth (%)</i>	<i>58.2</i>	<i>(1.6)</i>	<i>24.3</i>	<i>27.1</i>
Non interest income	3,567	2,324	2,389	2,866
<i>Growth (%)</i>	<i>98.7</i>	<i>(34.8)</i>	<i>2.8</i>	<i>19.9</i>
Net operating income	17,710	16,241	19,682	24,847
Expenditure				
Employees	681	724	833	975
Other expenses	1,419	1,572	1,879	2,250
Depreciation	62	74	82	90
Total expenditure	2,162	2,371	2,794	3,314
PPP	15,548	13,870	16,888	21,533
<i>Growth (%)</i>	<i>76.3</i>	<i>(10.8)</i>	<i>21.8</i>	<i>27.5</i>
Provision	2,609	1,561	704	869
Other income	2	—	—	—
Exchange Gain / (Loss)	—	—	—	—
Profit before tax	12,942	12,309	16,184	20,663
Tax	3,197	3,167	4,370	5,579
<i>Effective tax rate (%)</i>	<i>24.7</i>	<i>25.7</i>	<i>27.0</i>	<i>27.0</i>
PAT	9,745	9,142	11,814	15,084
<i>Growth (%)</i>	<i>47.2</i>	<i>(6.2)</i>	<i>29.2</i>	<i>27.7</i>

Balance Sheet (Rs m)

Y/e March	2011	2012	2013E	2014E
Sources of funds				
Equity	950	1,010	1,010	1,010
Reserves & Surplus	40,741	55,812	65,277	76,831
Networth	41,691	56,822	66,287	77,841
<i>Growth (%)</i>	<i>23.1</i>	<i>36.3</i>	<i>16.7</i>	<i>17.4</i>
Loan funds	451,628	560,873	698,592	872,088
<i>Growth (%)</i>	<i>—</i>	<i>24.2</i>	<i>24.6</i>	<i>24.8</i>
Others	—	—	—	—
Minority Interest	—	—	—	—
Deferred Tax Liability	—	—	—	—
Total	493,319	617,695	764,878	949,929
Application of funds				
Net fixed assets	474	622	552	606
Advances	510,898	630,802	777,735	960,818
<i>Growth (%)</i>	<i>34.2</i>	<i>23.5</i>	<i>23.3</i>	<i>23.5</i>
Net current assets	(32,085)	(27,479)	(30,762)	(33,050)
Investments	14,032	13,750	17,465	21,802
<i>Growth (%)</i>	<i>1.0</i>	<i>(2.0)</i>	<i>27.0</i>	<i>24.8</i>
Other Assets	—	—	—	—
Total	493,319	617,695	764,879	949,929

Source: Company Data, PL Research.

Quarterly Financials (Rs m)

Y/e March	Q2FY12	Q3FY12	Q4FY12	Q1FY13
Int. Inc. / Operating Inc.	14,579	15,387	16,280	17,179
Income from securitization	—	—	—	—
Interest Expenses	11,238	12,129	12,572	13,674
Net Interest Income	3,341	3,258	3,708	3,505
<i>Growth</i>	<i>9.5</i>	<i>(7.5)</i>	<i>(11.8)</i>	<i>(2.9)</i>
Non interest income	574	539	610	494
Net operating income	3,916	3,796	4,318	3,999
<i>Growth</i>	<i>5.9</i>	<i>(30.4)</i>	<i>(16.7)</i>	<i>(5.0)</i>
Operating expenditure	561	534	854	521
PPP	3,354	3,263	3,464	3,479
<i>Growth</i>	<i>5.1</i>	<i>(33.3)</i>	<i>(22.7)</i>	<i>(8.2)</i>
Provision	2,047	(797)	(24)	436
Exchange Gain / (Loss)	—	—	—	—
Profit before tax	1,307	4,060	3,488	3,043
Tax	323	1,003	952	766
Prov. for deferred tax liability	—	—	—	—
<i>Effective tax rate (%)</i>	<i>24.7</i>	<i>24.7</i>	<i>27.3</i>	<i>25.2</i>
PAT	984	3,057	2,536	2,277
<i>Growth</i>	<i>(58.0)</i>	<i>43.2</i>	<i>(19.4)</i>	<i>(11.2)</i>

Key Ratios

Y/e March	2011	2012	2013E	2014E
CMP (Rs)	246	246	246	246
Eq. Shrs. O/s. (m)	475	505	505	505
Market Cap (Rs m)	116,964	124,352	124,352	124,352
Market Cap to AUM (%)	23.7	20.1	16.3	13.1
EPS (Rs)	20.5	18.1	23.4	29.9
Book Value (Rs)	87.8	112.5	131.3	154.1
Adjusted Book Value (Rs)	87.4	110.8	127.9	150.5
P/E (x)	12.0	13.6	10.5	8.2
P/BV (x)	2.8	2.2	1.9	1.6
P/ABV (x)	2.8	2.2	1.9	1.6
DPS (Rs)	3.5	3.6	4.0	6.0
Dividend Yield (%)	1.4	1.5	1.6	2.4

Asset Quality

Y/e March	2011	2012	2013E	2014E
Gross NPAs (Rs m)	2,420	2,652	4,224	5,214
Net NPAs (Rs m)	168	849	1,716	1,837
Gross NPAs to Gross Adv. (%)	0.5	0.4	0.5	0.5
Net NPAs to Net Adv. (%)	—	0.1	0.2	0.2
NPA Coverage (%)	93.1	68.0	59.4	64.8

Profitability (%)

Y/e March	2011	2012	2013E	2014E
NIM	3.2	2.5	2.5	2.6
RoAA	2.2	1.6	1.7	1.8
RoAE	25.8	18.6	19.2	20.9

Source: Company Data, PL Research.

September 10, 2012

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Rating	Not Rated
Price	Rs160
Target Price	NA
Implied Upside	NA
Sensex	17,767
Nifty	5,363

(Prices as on September 10, 2012)

Trading data	
Market Cap. (Rs bn)	88.4
Shares o/s (m)	550.5
3M Avg. Daily value (Rs m)	200.0

Major shareholders	
Promoters	54.35%
Foreign	9.47%
Domestic Inst.	19.60%
Public & Other	16.58%

Stock Performance			
(%)	1M	6M	12M
Absolute	(2.4)	(32.5)	(33.5)
Relative	(3.5)	(33.9)	(38.8)

How we differ from Consensus			
EPS (Rs)	PL	Cons.	% Diff.
2013	NA	38.9	NA
2014	NA	48.2	NA

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


Source: Bloomberg

■ **Growth and Fee outlook:** Credit growth in large corporates continues to remain a challenge and Union bank has identified retail, SME and Agri as focus areas for growth in FY13. Fee income has been sluggish for union bank. Management expects to see traction from FX and treasury business but believes that given the dominance of larger banks like SBI and private players like ICICI/Axis in syndication, he sees limited opportunities in that space.

■ **Asset quality Outlook:** The bank is guiding for gross slippages at Rs 6-7bn per quarter v/s Rs16bn seen in 1Q13. Restructuring pipeline still looks large with ~Rs30bn in accounts due for restructuring mainly SEB and steel sectors. Construction/Infra contractor segment is showing some weakness now as payments are getting delayed.

■ **Some corrective asset quality measures:** System driven recognition has led to a sharp spike in NPAs in FY12 but management believes that erroneous recording of moratorium period of both retail and corporate loans by branch staff had exaggerated the numbers and better branch procedures will aid to reduce errors going forward. Also over the last 2 qtrs, Union bank has not renewed Rs70bn of short term unsecured corporate loans in order to keep a check on asset quality, compromising on growth.

■ **Performance evaluation now based on profitability v/s growth:** The bank highlighted that government is setting much broader parameters to evaluate a bank's performance like NIM's, ROA's, agricultural credit and NPA's. The shift in focus from just credit growth to above qualitative metrics is a welcome move along with the reduction in dependence on bulk deposits required by FinMin.

Key financials (Y/e March)	2009	2010	2011	2012
Net interest income (Rs m)	38,136	41,924	62,162	69,089
Growth (%)	33.6	9.9	48.3	11.1
Operating profit (Rs m)	30,820	36,593	43,050	52,538
PAT (Rs m)	17,266	20,749	20,819	17,871
EPS (Rs)	34.2	41.1	39.6	32.3
Growth (%)	24.5	20.2	(3.6)	-18.5

Source: Company Data; PL Research

Profitability & Valuation	2009	2010	2011	2012
NIM (%)	2.7	2.4	2.9	2.8
RoAE (%)	21.5	21.7	18.0	13.2
RoAA (%)	1.2	1.2	1.0	0.7

Source: Company Data; PL Research

Income Statement (Rs m)

Y/e March	2009	2010	2011	2012
Interest Earned	118,894	133,027	164,526	211,443
Interest Expended	80,758	91,103	102,364	142,354
NII	38,136	41,924	62,162	69,089
Other Income	14,826	19,747	20,388	23,324
Total Income	52,961	61,672	82,550	92,413
Operating Expenses	22,141	25,078	39,500	39,875
PPOP	30,820	36,593	43,050	52,538
Provisions and Contingencies	7,254	8,264	13,496	25,410
Profit Before Tax	23,566	28,329	29,554	27,128
Taxes	6,300	7,580	8,735	9,256
Profit After Tax	17,266	20,749	20,819	17,871
Earnings Per Share (Rs)	34.2	41.1	39.6	32.3

Balance Sheet (Rs m)

Y/e March	2009	2010	2011	2012
Sources of Funds				
Equity Paid Up	5,051	5,051	5,243	5,505
Reserves and Surplus	82,352	99,187	121,292	139,715
Net Worth	87,404	104,238	126,535	145,221
Deposits	1,387,028	1,700,397	2,024,613	2,228,689
Borrowings	87,749	92,153	133,160	179,095
Total Liabilities	1,609,755	1,951,618	2,359,844	2,622,114
Application of Funds				
Gross Block	32,666	34,559	35,984	38,068
Investments	429,970	544,035	583,991	623,636
Cash and Bank balance	159,849	157,767	200,984	156,751
Advances	965,342	1,193,153	1,509,861	1,778,821
Total Assets	1,609,755	1,951,618	2,359,844	2,622,114

Growth Ratios

Y/e March	2009	2010	2011	2012
NII	33.6%	9.9%	48.3%	11.1%
PPOP	19.4%	18.7%	17.6%	22.0%
PBT	26.7%	20.2%	4.3%	-8.2%
PAT	24.5%	20.2%	0.3%	-14.2%
EPS	24.5%	20.2%	-3.6%	-18.5%
Advances	30.0%	23.6%	26.5%	17.8%
Deposits	33.5%	22.6%	19.1%	10.1%
Borrowings	84.3%	5.0%	44.5%	34.5%
Networth	19.0%	19.3%	21.4%	14.8%

Source: Company Data, PL Research.

Asset Quality (Rs m)

Y/e March	2009	2010	2011	2012
Gross NPAs to Gross Advances	2.0%	2.2%	2.4%	3.0%
Net NPAs (funded) to Net Advances	0.3%	0.8%	1.2%	1.7%

Movement of NPAs (Gross)

	2009	2010	2011	2012
a) Opening Balance	16,566	19,234	26,709	36,228
b) Additions during the year	11,767	17,852	29,235	37,601
c) Reductions during the year	9,099	10,377	19,716	19,331
d) Closing balance	19,234	26,709	36,228	54,499

	2009	2010	2011	2012
Gross Delinquency	1.2%	1.5%	1.9%	2.1%
Net Delinquency	0.3%	0.6%	0.6%	1.0%

Efficiency Ratio

Y/e March	2009	2010	2011	2012
Cost to Income	41.8%	40.7%	47.8%	43.1%
C/D Ratio	69.6%	70.2%	74.6%	79.8%

ROA Decomposition

Y/e March	2009	2010	2011	2012
NII	2.7%	2.4%	2.9%	2.8%
Other Income	1.0%	1.1%	0.9%	0.9%
Total Income	3.7%	3.5%	3.8%	3.7%
Operating Expenses	1.6%	1.4%	1.8%	1.6%
PPOP	2.2%	2.1%	2.0%	2.1%
Provisions and Contingencies	0.5%	0.5%	0.6%	1.0%
Profit Before Tax	1.7%	1.6%	1.4%	1.1%
Taxes	0.4%	0.4%	0.4%	0.4%
ROA	1.2%	1.2%	1.0%	0.7%
Leverage (x)	17.7	18.6	18.7	18.3
ROE	21.5%	21.7%	18.0%	13.2%

Capital Adequacy

Y/e March	2009	2010	2011	2012
Total CAR (Basel II)	13.0%	13.0%	12.5%	13.3%
Tier-1 (Basel II)	8.7%	8.7%	7.9%	8.2%
Tier- 2	4.3%	4.3%	4.6%	5.1%

Source: Company Data, PL Research.

September 10, 2012

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Rating	Not Rated
Price	Rs64
Target Price	NA
Implied Upside	NA
Sensex	17,346
Nifty	5,238

(Prices as on September 10, 2012)

Trading data	
Market Cap. (Rs bn)	46.9
Shares o/s (m)	736.1
3M Avg. Daily value (Rs m)	60.7

Major shareholders	
Promoters	79.15%
Foreign	2.69%
Domestic Inst.	10.79%
Public & Other	7.37%

Stock Performance			
(%)	1M	6M	12M
Absolute	(7.9)	(37.5)	(37.2)
Relative	(9.0)	(38.9)	(42.4)

How we differ from Consensus			
EPS (Rs)	PL	Cons.	% Diff.
2013	NA	15.8	NA
2014	NA	20.2	NA

Price Performance (RIC: CBI.BO, BB: CBOI IN)


Source: Bloomberg

- Quality over growth:** The bank is looking at growth of 14%-15% in FY13 as the current slowdown gives the opportunity to consolidate. Bank is trying to build on retail fee income streams with doubling of 3rd party distribution income, significant increase in ATMs (better inter-bank ATM fees) and targeting significant increase in debit cards by yr end.
- Asset quality Outlook:** CBOI believes that lumpy accounts have been accounted for and delinquencies should normalize at ~2.0% going forward with ~Rs30bn of annual slippages and ~Rs30-40bn of recoveries/upgrades expected. Of Rs14.4bn of slippages in 1QFY13, Rs 8.0bn related to 5 accounts and management expects ~Rs5bn of recoveries from 1Q13 slippages in the near term.
- Other Highlights:** (1) On the HR front, the management expects average age of the employees to come off significantly in 5 yrs due to high retirements currently. (2) The bank has bulk deposit of ~31% and inline with FinMin directive aims to bring dependence down to <15%. (3) CBOI aims to deliver margins of 3% by 4Q13, ROAs of 0.8% in FY13 and 1.0% by FY14, as margins improve and delinquencies remain under control.

Key financials (Y/e March)	2009	2010	2011	2012
Net interest income (Rs m)	22,285	25,453	53,253	51,686
Growth (%)	0.2	14.2	109.2	(2.9)
Operating profit (Rs m)	14,367	20,585	25,914	28,149
PAT (Rs m)	5,712	10,582	12,524	5,330
EPS (Rs)	12.5	24.9	28.1	5.5
Growth (%)	4.8	99.7	13.2	(80.5)

Source: Company Data; PL Research

Profitability & Valuation	2009	2010	2011	2012
NIM (%)	1.6	1.5	2.7	2.4
RoAE (%)	10.7	17.9	18.5	5.9
RoAA (%)	0.4	0.6	0.6	0.2

Source: Company Data; PL Research

Income Statement (Rs m)

Y/e March	2009	2010	2011	2012
Interest Earned	104,552	120,643	152,206	191,495
Interest Expended	82,267	95,190	98,952	139,809
NII	22,285	25,453	53,253	51,686
Other Income	10,700	17,352	12,650	13,953
Total Income	32,984	42,805	65,904	65,639
Operating Expenses	18,617	22,220	39,990	37,490
PPOP	14,367	20,585	25,914	28,149
Provisions and Contingencies	5,118	5,090	9,322	21,686
Profit Before Tax	9,250	15,495	16,592	6,463
Taxes	3,537	4,913	4,068	1,133
Profit After Tax	5,712	10,582	12,524	5,330
Earnings Per Share (Rs)	12.5	24.9	28.1	5.5

Balance Sheet (Rs m)

Y/e March	2009	2010	2011	2012
Sources of Funds				
Equity Paid Up	4,041	4,041	4,041	7,361
Reserves and Surplus	50,909	59,211	68,266	100,984
Net Worth	54,951	63,252	72,307	108,345
Deposits	1,312,718	1,621,075	1,793,560	1,961,733
Borrowings	8,043	73,266	128,880	129,196
Total Liabilities	1,476,552	1,826,716	2,097,573	2,297,997
Application of Funds				
Gross Block	31,817	33,340	35,593	37,708
Investments	430,607	505,629	545,045	592,433
Cash and Bank balance	122,512	192,170	152,828	141,266
Advances	854,832	1,053,835	1,297,254	1,475,129
Total Assets	1,476,552	1,826,716	2,097,573	2,297,997

Growth Ratios

Y/e March	2009	2010	2011	2012
NII	0.2%	14.2%	109.2%	-2.9%
PPOP	13.3%	43.3%	25.9%	8.6%
PBT	8.6%	67.5%	7.1%	-61.0%
PAT	3.8%	85.3%	18.3%	-57.4%
EPS	4.8%	99.7%	13.2%	-80.5%
Advances	17.1%	23.3%	23.1%	13.7%
Deposits	19.0%	23.5%	10.6%	9.4%
Borrowings	79.1%	811.0%	75.9%	0.2%
Networth	6.9%	15.1%	14.3%	49.8%

Source: Company Data, PL Research.

Asset Quality (Rs m)

Y/e March	2009	2010	2011	2012
Gross NPAs to Gross Advances	2.7%	2.3%	1.8%	4.8%
Net NPAs (funded) to Net Advances	1.2%	0.7%	0.7%	3.1%

Movement of NPAs (Gross)

	2009	2010	2011	2012
a) Opening Balance	23,500	23,160	24,580	23,940
b) Additions during the year	8,730	10,330	14,090	68,490
c) Reductions during the year	9,070	8,910	14,730	19,700
d) Closing balance	23,160	24,580	23,940	72,730

Gross Delinquency	1.0%	1.0%	1.1%	4.6%
Net Delinquency	0.0%	0.1%	0.0%	3.3%

Efficiency Ratio

Y/e March	2009	2010	2011	2012
Cost to Income	56.4%	51.9%	60.7%	57.1%
C/D Ratio	65.1%	65.0%	72.3%	75.2%

ROA Decomposition

Y/e March	2009	2010	2011	2012
NII	1.6%	1.5%	2.7%	2.4%
Other Income	0.8%	1.1%	0.6%	0.6%
Total Income	2.4%	2.6%	3.4%	3.0%
Operating Expenses	1.4%	1.3%	2.0%	1.7%
PPOP	1.1%	1.2%	1.3%	1.3%
Provisions and Contingencies	0.4%	0.3%	0.5%	1.0%
Profit Before Tax	0.7%	0.9%	0.8%	0.3%
Taxes	0.3%	0.3%	0.2%	0.1%
ROA	0.4%	0.6%	0.6%	0.2%
Leverage (x)	25.5	27.9	28.9	24.3
ROE	10.7%	17.9%	18.5%	5.9%

Capital Adequacy

Y/e March	2009	2010	2011	2012
Total CAR (Basel II)	11.6%	11.6%	12.2%	13.1%
Tier-1 (Basel II)	6.3%	6.3%	6.8%	7.0%
Tier- 2	5.3%	5.3%	5.4%	6.2%

Source: Company Data, PL Research.

September 10, 2012

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Rating	Not Rated
Price	Rs68
Target Price	NA
Implied Upside	NA
Sensex	17,767
Nifty	5,363

(Prices as on September 10, 2012)

Trading data	
Market Cap. (Rs bn)	53.9
Shares o/s (m)	797.0
3M Avg. Daily value (Rs m)	99.0

Major shareholders	
Promoters	69.62%
Foreign	3.15%
Domestic Inst.	14.32%
Public & Other	12.91%

Stock Performance			
(%)	1M	6M	12M
Absolute	(4.9)	(32.6)	(37.6)
Relative	(6.0)	(34.0)	(42.8)

How we differ from Consensus			
EPS (Rs)	PL	Cons.	% Diff.
2013	NA	17.2	NA
2014	NA	22.5	NA

Price Performance (RIC: IOBK.BO, BB: IOB IN)

Source: Bloomberg

- **Growth Outlook:** The bank is looking at growth of 20% YoY in FY13 higher than projected by most other PSUs. The areas of focus are working capital finance, SME and retail. The SME segment is expected to grow at 25%-30%. In large corporates, roads sector offers some opportunity to grow + working capital requirement for completed project will also aid growth.
- **Asset Quality:** The bank is looking at higher gross addition to NPA in FY13 against -Rs32bn in FY12 (2.5% of advances). Though monsoon has improved off-late, management highlighted that its Agri portfolio is more concentrated in southern states which have mostly received adequate rainfall.
- **Other highlights:** (1) Bulk deposit for the bank is at ~28% and bank is allowing some higher cost deposit to mature to comply with FinMin's directive. (2) **Capital Infusion:** Assuming 18%-20% growth, management expects -Rs220bn of capital requirement through FY18 and for FY13 management expects -Rs15bn of capital infusion by the government.

Key financials (Y/e March)	2009	2010	2011	2012
Net interest income (Rs m)	28,696	31,679	42,080	50,162
Growth (%)	7.1	10.4	32.8	19.2
Operating profit (Rs m)	25,237	18,446	28,606	35,341
PAT (Rs m)	13,258	7,070	10,725	10,501
EPS (Rs)	24.3	13.0	17.3	13.2
Growth (%)	10.3	(46.7)	33.6	(24.0)

Source: Company Data; PL Research

Profitability & Valuation	2009	2010	2011	2012
NIM (%)	2.6	2.5	2.7	2.5
RoAE (%)	22.1	11.2	16.7	12.2
RoAA (%)	1.2	0.6	0.7	0.5

Source: Company Data; PL Research

Income Statement (Rs m)

Y/e March	2009	2010	2011	2012
Interest Earned	96,414	102,458	121,015	178,971
Interest Expended	67,718	70,779	78,934	128,809
NII	28,696	31,679	42,080	50,162
Other Income	15,958	11,433	12,251	16,810
Total Income	44,654	43,111	54,331	66,972
Operating Expenses	19,417	24,665	25,725	31,631
PPOP	25,237	18,446	28,606	35,341
Provisions and Contingencies	5,694	8,657	12,684	22,364
Profit Before Tax	19,543	9,790	15,922	12,977
Taxes	6,285	2,720	5,197	2,476
Profit After Tax	13,258	7,070	10,725	10,501
Earnings Per Share (Rs)	24.3	13.0	17.3	13.2

Balance Sheet (Rs m)

Y/e March	2009	2010	2011	2012
Sources of Funds				
Equity Paid Up	5,448	5,448	6,187	7,970
Reserves and Surplus	66,062	69,798	87,062	111,307
Net Worth	71,510	55,037	73,169	99,288
Deposits	1,001,159	1,107,947	1,452,288	1,784,342
Borrowings	104,946	89,822	193,554	236,138
Total Liabilities	1,210,734	1,310,916	1,787,843	2,196,482
Application of Funds				
Gross Block	23,527	24,605	25,356	26,998
Investments	312,154	376,506	486,105	555,659
Cash and Bank balance	109,219	98,246	120,187	162,611
Advances	748,853	789,992	1,118,330	1,407,244
Total Assets	1,210,734	1,310,916	1,787,843	2,196,482

Growth Ratios

Y/e March	2009	2010	2011	2012
NII	7.1%	10.4%	32.8%	19.2%
PPOP	26.1%	-26.9%	55.1%	23.5%
PBT	18.1%	-49.9%	62.6%	-18.5%
PAT	10.3%	-46.7%	51.7%	-2.1%
EPS	10.3%	-46.7%	33.6%	-24.0%
Advances	23.9%	5.5%	41.6%	25.8%
Deposits	18.7%	10.7%	31.1%	22.9%
Borrowings	65.2%	-14.4%	115.5%	22.0%
Networth	47.2%	-23.0%	32.9%	35.7%

Source: Company Data, PL Research.

Asset Quality (Rs m)

Y/e March	2009	2010	2011	2012
Gross NPAs to Gross Advances	2.5%	4.5%	2.7%	2.7%
Net NPAs (funded) to Net Advances	1.3%	2.5%	1.2%	1.4%
Movement of NPAs (Gross)				
a) Opening Balance	9,970	19,234	36,111	30,896
b) Additions during the year	22,619	31,268	21,693	31,848
c) Reductions during the year	13,354	14,392	26,908	23,543
d) Closing balance	19,234	36,111	30,896	39,201
Gross Delinquency	3.0%	4.0%	1.9%	2.3%
Net Delinquency	1.2%	2.1%	-0.5%	0.6%

Efficiency Ratio

Y/e March	2009	2010	2011	2012
Cost to Income	43.5%	57.2%	47.3%	47.2%
C/D Ratio	74.8%	71.3%	77.0%	78.9%

ROA Decomposition

Y/e March	2009	2010	2011	2012
NII	2.6%	2.5%	2.7%	2.5%
Other Income	1.4%	0.9%	0.8%	0.8%
Total Income	4.0%	3.4%	3.5%	3.4%
Operating Expenses	1.7%	2.0%	1.7%	1.6%
PPOP	2.3%	1.5%	1.8%	1.8%
Provisions and Contingencies	0.5%	0.7%	0.8%	1.1%
Profit Before Tax	1.8%	0.8%	1.0%	0.7%
Taxes	0.6%	0.2%	0.3%	0.1%
ROA	1.2%	0.6%	0.7%	0.5%
Leverage (x)	18.6	19.9	24.2	23.1
ROE	22.1%	11.2%	16.7%	12.2%

Capital Adequacy

Y/e March	2009	2010	2011	2012
Total CAR (Basel II)	14.6%	14.6%	14.8%	13.2%
Tier-1 (Basel II)	8.2%	8.2%	8.7%	7.9%
Tier-2	6.4%	6.4%	6.1%	5.3%

Source: Company Data, PL Research.

September 10, 2012

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Rating	Not Rated
Price	Rs65
Target Price	NA
Implied Upside	NA
Sensex	17,767
Nifty	5,363

(Prices as on September 10, 2012)

Trading data	
Market Cap. (Rs bn)	43.8
Shares o/s (m)	664.7
3M Avg. Daily value (Rs m)	147.6

Major shareholders	
Promoters	65.19%
Foreign	3.57%
Domestic Inst.	14.88%
Public & Other	16.36%

Stock Performance			
(%)	1M	6M	12M
Absolute	(3.4)	(20.1)	(9.2)
Relative	(4.5)	(21.5)	(14.4)

How we differ from Consensus			
EPS (Rs)	PL	Cons.	% Diff.
2013	NA	16.9	NA
2014	NA	19.3	NA

Price Performance (RIC: UCBK.BO, BB: UCO IN)

Source: Bloomberg

- Growth Outlook:** Growth remains benign and Uco bank expects loan growth to remain within RBI's projection for the system (~16%). The bank is focussing on non corporate book with targeted increase in gold loans to Rs15bn, Home loans from Rs30bn to Rs45bn. Also Uco bank is targeting non-fund based trade income by increasing their LC business to Rs150bn from Rs85bn now.
- CASA Initiatives:** The bank is targeting at improving CASA balances through customer acquisition and capturing higher share of flow business. Uco is now the sole banker for the oil payments made to Iran and CA balances on this account is has increased to ~Rs 25bn over the past two months, and the bank see the CA balances increasing further on this count.
- Other highlights: (1)** The bank has bulk deposit of ~30% and inline with FinMin directive aims to bring dependence down to <15%. **(2)** Uco expects significant reduction in the average age of the employees over next 5 yrs as with ~24000 employees currently, Uco has ~2000 retirements every yr which they are replacing with a younger workforce **(3) Uco's tier-I capital** is ~8% and management estimates total capital requirement of Rs140bn over next 5 yrs .

Key financials (Y/e March)	2009	2010	2011	2012
Net interest income (Rs m)	16,447	23,241	38,449	39,021
<i>Growth (%)</i>	10.6	41.3	65.4	1.5
Operating profit (Rs m)	12,016	17,056	26,950	28,114
PAT (Rs m)	5,577	10,122	9,065	11,087
EPS (Rs)	10.2	18.4	14.4	16.7
<i>Growth (%)</i>	96.9	81.5	(21.6)	15.5

Source: Company Data; PL Research

Profitability & Valuation	2009	2010	2011	2012
NIM (%)	1.6	1.9	2.6	2.3
RoAE (%)	18.0	27.7	18.8	17.9
RoAA (%)	0.6	0.8	0.6	0.6

Source: Company Data; PL Research

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Please refer to important disclosures and disclaimers at the end of the report

Income Statement (Rs m)

Y/e March	2009	2010	2011	2012
Interest Earned	81,214	95,263	113,708	146,324
Interest Expended	64,767	72,022	75,259	107,303
NII	16,447	23,241	38,449	39,021
Other Income	10,199	9,659	9,254	9,656
Total Income	26,646	32,901	47,703	48,677
Operating Expenses	14,630	15,844	20,754	20,562
PPOP	12,016	17,056	26,950	28,114
Provisions and Contingencies	5,634	4,997	14,948	14,478
Profit Before Tax	6,382	12,060	12,002	13,636
Taxes	805	1,938	2,936	2,549
Profit After Tax	5,577	10,122	9,065	11,087
Earnings Per Share (Rs)	10.2	18.4	14.4	16.7

Balance Sheet (Rs m)

Y/e March	2009	2010	2011	2012
Sources of Funds				
Equity Paid Up	5,494	5,494	6,275	6,647
Reserves and Surplus	27,077	35,112	49,687	61,257
Net Worth	32,570	40,605	55,962	67,904
Deposits	1,002,216	1,224,156	1,452,776	1,540,035
Borrowings	51,374	62,638	54,748	129,014
Total Liabilities	1,116,642	1,373,195	1,633,985	1,804,984
Application of Funds				
Gross Block	13,394	14,013	15,145	16,702
Investments	293,848	435,214	429,273	457,715
Cash and Bank balance	108,534	81,043	169,804	136,037
Advances	688,039	825,045	990,708	1,155,400
Total Assets	1,116,642	1,373,195	1,633,985	1,804,984

Growth Ratios

Y/e March	2009	2010	2011	2012
NII	10.6%	41.3%	65.4%	1.5%
PPOP	26.0%	41.9%	58.0%	4.3%
PBT	35.8%	89.0%	-0.5%	13.6%
PAT	35.3%	81.5%	-10.4%	22.3%
EPS	96.9%	81.5%	-21.6%	15.5%
Advances	24.9%	19.9%	20.1%	16.6%
Deposits	25.4%	22.1%	18.7%	6.0%
Borrowings	199.4%	21.9%	-12.6%	135.7%
Networth	11.3%	24.7%	37.8%	21.3%

Source: Company Data, PL Research.

Asset Quality (Rs m)

Y/e March	2009	2010	2011	2012
Gross NPAs to Gross Advances	2.2%	2.0%	3.1%	3.5%
Net NPAs (funded) to Net Advances	1.2%	1.2%	1.8%	2.0%

Movement of NPAs (Gross)

	2009	2010	2011	2012
a) Opening Balance	16,520	15,395	16,664	31,504
b) Additions during the year	6,665	11,090	27,299	24,012
c) Reductions during the year	7,790	9,821	12,460	14,653
d) Closing balance	15,395	16,664	31,504	40,862

Gross Delinquency	1.0%	1.3%	2.8%	2.1%
Net Delinquency	-0.2%	0.2%	1.5%	0.8%

Efficiency Ratio

Y/e March	2009	2010	2011	2012
Cost to Income	54.9%	48.2%	43.5%	42.2%
C/D Ratio	68.7%	67.4%	68.2%	75.0%

ROA Decomposition

Y/e March	2009	2010	2011	2012
NII	1.6%	1.9%	2.6%	2.3%
Other Income	1.0%	0.8%	0.6%	0.6%
Total Income	2.6%	2.6%	3.2%	2.8%
Operating Expenses	1.5%	1.3%	1.4%	1.2%
PPOP	1.2%	1.4%	1.8%	1.6%
Provisions and Contingencies	0.6%	0.4%	1.0%	0.8%
Profit Before Tax	0.6%	1.0%	0.8%	0.8%
Taxes	0.1%	0.2%	0.2%	0.1%
ROA	0.6%	0.8%	0.6%	0.6%
Leverage (x)	32.6	34.0	31.1	27.8
ROE	18.0%	27.7%	18.8%	17.9%

Capital Adequacy

Y/e March	2009	2010	2011	2012
Total CAR (Basel II)	13.7%	13.7%	13.2%	11.9%
Tier-1 (Basel II)	8.5%	8.5%	7.1%	6.5%
Tier- 2	5.2%	5.2%	6.2%	5.5%

Source: Company Data, PL Research.

September 10, 2012

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Rating	Not Rated
Price	Rs51
Target Price	NA
Implied Upside	NA
Sensex	17,346
Nifty	5,238

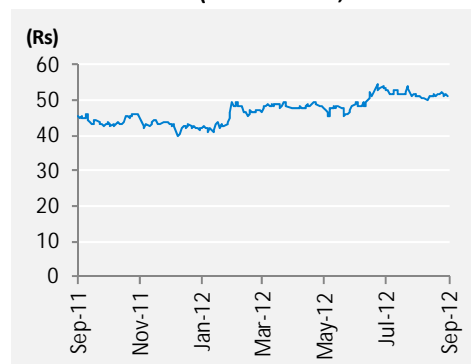
(Prices as on September 10, 2012)

Trading data	
Market Cap. (Rs bn)	20.9
Shares o/s (m)	410.0
3M Avg. Daily value (Rs m)	35.7

Major shareholders	
Promoters	0.00%
Foreign	21.82%
Domestic Inst.	7.33%
Public & Other	70.85%

Stock Performance			
(%)	1M	6M	12M
Absolute	1.3	9.2	11.8
Relative	0.2	7.8	6.6

How we differ from Consensus			
EPS (Rs)	PL	Cons.	% Diff.
2013	NA	7.8	NA
2014	NA	9.8	NA

Price Performance (RIC: CTBK.BO, BB: CUBK IN)

Source: Bloomberg

- SME focused:** City Union bank is primarily focused on SME /Retail segments and the exposure to a single client is usually less than Rs50mn. Trading and MSME comprises 50% of the loan book. Retail Loans contribute 12%, Agriculture 14%, and Large industries 16%. A large part of its book is linked to working capital (65%) and almost all lending is done against hard collaterals (mainly real estate – promoter residence).
- Growth Outlook; branch expansion strategy:** The bank aims to grow at +25% and plans to increase branch network to 500 branches by FY15 from ~300 branches currently. ~70% branches are in Tamil Nadu and new incremental branches will also be of similar geographical spread. Outside TN, CUB is expanding in centres where clients have business links especially in large textiles hubs near Ludhiana in North and Gujarat/Maharashtra in West.
- Asset Quality- Update on textiles:** The bank is seeing asset quality concerns on agri. portfolio (comprising 14%) as there is a tendency on the part of the framers to delay payments expecting some kind of waivers in the upcoming election. Textile portfolio is not seeing any issues, though the sector is facing power shortage issues. Health of spinning industry has improved significantly in the last 12mnts after the crash in cotton prices. In 2011. Overall, smaller ticket sizes and fully secured lending has been key strengths in CUB's asset quality and management continues to remain focused on fully secured hard collateral based lending.

Key financials (Y/e March)	2009	2010	2011	2012
Net interest income (Rs m)	2,426	2,781	4,200	4,998
Growth (%)	18.3	14.7	51.0	19.0
Operating profit (Rs m)	2,267	2,558	3,610	4,271
PAT (Rs m)	1,221	1,528	2,151	2,803
EPS (Rs)	3.8	3.8	5.3	6.9
Growth (%)	20.1	0.2	38.9	29.3

Source: Company Data; PL Research

Profitability & Valuation	2009	2010	2011	2012
NIM (%)	2.9	2.7	3.2	3.0
RoAE (%)	19.9	20.6	23.5	24.9
RoAA (%)	1.5	1.5	1.6	1.7

Source: Company Data; PL Research

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Please refer to important disclosures and disclaimers at the end of the report

Income Statement (Rs m)

Y/e March	2009	2010	2011	2012
Interest Earned	6,012	8,044	9,566	12,184
Interest Expended	3,962	5,618	6,785	7,984
NII	2,050	2,426	2,781	4,200
Other Income	851	1,237	1,435	1,574
Total Income	2,901	3,663	4,216	5,774
Operating Expenses	1,088	1,395	1,659	2,164
PPOP	1,813	2,267	2,558	3,610
Provisions and Contingencies	457	484	605	790
Profit Before Tax	1,356	1,783	1,953	2,821
Taxes	339	562	425	670
Profit After Tax	1,017	1,221	1,528	2,151
Earnings Per Share (Rs)	3.2	3.8	3.8	5.3

Balance Sheet (Rs m)

Y/e March	2009	2010	2011	2012
Sources of Funds				
Equity Paid Up	320	320	400	405
Reserves and Surplus	5,349	6,289	7,857	9,661
Net Worth	5,669	6,609	8,256	10,066
Deposits	64,250	82,066	102,846	129,143
Borrowings	26	401	401	1,862
Total Liabilities	73,490	92,510	115,594	145,915
Application of Funds				
Gross Block	975	1,112	1,466	1,691
Investments	17,180	23,975	32,104	36,162
Cash and Bank balance	8,169	8,851	11,002	12,863
Advances	45,371	56,453	68,335	92,555
Total Assets	73,490	92,510	115,594	145,915

Growth Ratios

Y/e March	2009	2010	2011	2012
NII	18.3%	14.7%	51.0%	19.0%
PPOP	25.1%	12.8%	41.1%	18.3%
PBT	31.5%	9.5%	44.4%	18.5%
PAT	20.1%	25.1%	40.8%	30.3%
EPS	20.1%	0.2%	38.9%	29.3%
Advances	24.4%	21.0%	35.4%	31.1%
Deposits	27.7%	25.3%	25.6%	26.5%
Borrowings	1419.9%	-0.2%	364.7%	87.3%
Networth	16.6%	24.9%	21.9%	23.5%

Source: Company Data, PL Research.

Asset Quality (Rs m)

Y/e March	2009	2010	2011	2012
Gross NPAs to Gross Advances	1.8%	1.4%	1.2%	1.0%
Net NPAs (funded) to Net Advances	1.1%	0.6%	0.5%	0.4%

Movement of NPAs (Gross)

	2009	2010	2011	2012
a) Opening Balance	829	1,021	882	1,125
b) Additions during the year	864	1,075	1,207	1,444
c) Reductions during the year	673	1,161	964	1,334
d) Closing balance	1,021	935	1,125	1,235

Gross Delinquency	1.5%	1.6%	1.3%	1.2%
Net Delinquency	0.3%	-0.1%	0.3%	0.1%

Efficiency Ratio

Y/e March	2009	2010	2011	2012
Cost to Income	38.1%	39.3%	37.5%	39.6%
C/D Ratio	68.8%	66.4%	71.7%	74.3%

ROA Decomposition

Y/e March	2009	2010	2011	2012
NII	2.9%	2.7%	3.2%	3.0%
Other Income	1.5%	1.4%	1.2%	1.3%
Total Income	4.4%	4.1%	4.4%	4.3%
Operating Expenses	1.7%	1.6%	1.7%	1.7%
PPOP	2.7%	2.5%	2.8%	2.6%
Provisions and Contingencies	0.6%	0.6%	0.6%	0.6%
Profit Before Tax	2.1%	1.9%	2.2%	2.0%
Taxes	0.7%	0.4%	0.5%	0.3%
ROA	1.5%	1.5%	1.6%	1.7%
Leverage (x)	13.5	14.0	14.3	14.6
ROE	19.9%	20.6%	23.5%	24.9%

Capital Adequacy

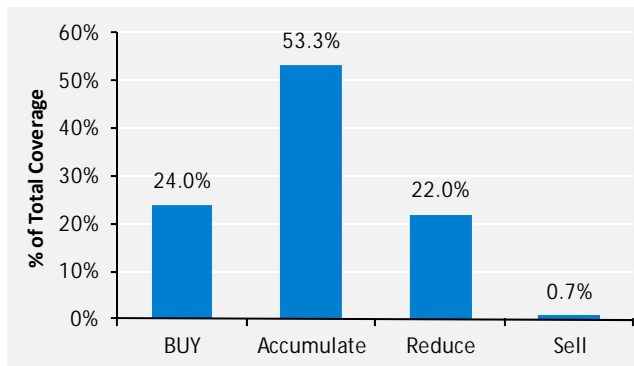
Y/e March	2009	2010	2011	2012
Total CAR (Basel II)	12.8%	12.8%	13.5%	12.7%
Tier-1 (Basel II)	11.8%	11.8%	12.4%	11.5%
Tier- 2	0.9%	0.9%	1.1%	1.2%

Source: Company Data, PL Research.



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Rating Distribution of Research Coverage



PL's Recommendation Nomenclature

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

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