

Banking Sector - Thematic

Prefer PSU Banks over Private Peers

Analyst Contact

Hatim Broachwala, CFA

022-6184 4329

hatim.broachwala@karvy.com

January 14, 2014

SECTOR UPDATE

Prefer PSU Banks over Private Peers

Decline in Pace of Deterioration Suggests an Early Signs of Revival: Most banks under our coverage have shown resilience in further deterioration in asset quality in second quarter, while the slippages of most banks remained in line with our estimates. Second quarter also proved to be healthy in terms of recovery / up-gradation for most PSU banks. Meanwhile, the trends of Q2FY14 numbers indicate an early signs of revival with pace of deterioration coming off significantly. The private banks continue to show a healthy trend backed by retail asset which has yet not shown any significant deterioration. However, we are of the opinion that with significant slowdown in the economy along with major retail segments like automobiles and mortgage, markets are not adequately factoring likely slippages from these segments.

Healthy Pace in Business Grows & Positive Surprise on NIMs Front: Most banks grew their balance-sheet at decent rate, except for PNB as per its pre-stated strategy on consolidation mode. Despite the RBI's liquidity tightening measures and consequent rise in cost of short-term fund, the banks by large were able to protect their margins against our estimates of sequential deterioration of ~10-15bps.

Liquidity has eased significantly: With currency back to its normalcy and RBI reversing its temporary moves, liquidity has significantly eased into the system. Net repo volumes along with MSF volumes have also eased down. Banks have accumulated over Rs2tn in FCNR window thereby pushing credit-deposit ratio to more comfortable levels abating any liquidity risk.

Restricted Capital Burning: Capital burning was limited for most PSU banks except for BoB (at 39 bps in Q2), while it rose by 41bps for BoI's due to issue of Tier-II (Rs. 15 bn) in Q2. HDFC Bank & ICICI Bank have seen higher capital burning of 90 bps & 50 bps, respectively, while ING Vysya seen 416 bps rise due to equity issue of Rs. 18.4 bn. Though the Government has announced capital infusion for PSU banks in FY14, we believe that such an infusion is unlikely to drive the Tier-I capital adequacy ratio of PSU banks by more than ~30-40bps.

Non-Interest Income Remains Lackadaisical – Treasury a Dampener: Banks' performance on Non-Interest Income front remained lackadaisical mainly due to lack of support from treasury income amid lower transaction-related fee income. Most of the banks availed the RBI relaxation to transfer securities from AFS category to HTM category at yields prevailing on July 15, 2013 and saved themselves from huge MTM hits. The RBI's relaxation to spread loss on their remaining AFS/HFT books will impact PSU Banks over next two quarters.

Valuation – Widening Gap between PSU & Private Banks: Rolling one 1-Year Forward P/ABV for private banks at 2.2x is close to its last year levels of 2.3x, whereas for PSU banks it has corrected from 1.3x to 0.8x. Though the private banks have done well so far on asset quality, we feel their heavy-weighted retail book is yet to be seasoned. With recent sharp spike in valuations we recently downgraded **Axis Bank & BOB** to 'SELL'

Axis Bank (SELL)	
CMP:	Rs1,185
Target Price:	Rs1,245
Upside (%)	5.0%
BoB (SELL)	
CMP:	Rs618
Target Price:	Rs615
Upside (%)	-0.5%
BoI (BUY)	
CMP:	Rs233
Target Price:	Rs265
Upside (%)	13.7%
DCB (BUY)	
CMP:	Rs58
Target Price:	Rs70
Upside (%)	20.7%
HDFC Bank (HOLD)	
CMP:	Rs673
Target Price:	Rs725
Upside (%)	7.7%
ICICI Bank (BUY)	
CMP:	Rs1,055
Target Price:	Rs1,190
Upside (%)	12.8%
ING Vysya (HOLD)	
CMP:	Rs581
Target Price:	Rs630
Upside (%)	8.4%
J&K Bank (BUY)	
CMP:	Rs1,385
Target Price:	Rs1,755
Upside (%)	26.7%
PNB (BUY)	
CMP:	Rs601
Target Price:	Rs730
Upside (%)	21.5%
SBI (BUY)	
CMP:	Rs1,641
Target Price:	Rs2,100
Upside (%)	28.0%
UBI (BUY)	
CMP:	Rs124
Target Price:	Rs160
Upside (%)	29.0%

Analyst Contact

Hatim Broachwala, CFA

022-6184 4329

hatim.broachwala@karvy.com

TABLE OF CONTENT

SECTOR

Fundamentals Revisited	3
1. Asset Quality – Quarterly Numbers Suggest an Early Signs of Revival	3
2. Liquidity has significantly eased.....	7
3. Business Growth.....	10
4. Positive Surprise on Steady NIMs	11
5. Non-Interest Income Remains Lackadaisical	12
6. Cost – Accelerated Ahead of Income	13
7. Restricted Capital Burning.....	14
Actual vs. Estimates	16
Valuations	17

COMPANY

Axis Bank: Pressure All Around; Reiterate “SELL”	19
BoB: Asset Quality Far From Being Seasoned; Maintain “SELL”	22
BoI: Pressures to Ease Further; Reiterate “BUY”	25
DCB: Cashing in on Turnaround; Reiterate “BUY”	28
HDFC Bank: Superior Asset Quality, But Fully Priced-in; Reiterate “HOLD”	31
ICICI Bank: To Reap Rich Benefit of Being Conservative; Reiterate “BUY”	34
ING Vysya Bank: Steady Performer – But Positives Priced-in; Maintain “HOLD”	37
J&K Bank: Improving Fundamentals – Case for Rerating; Reiterate “BUY”	40
PNB: Biggest Beneficiary of Likely Economic Turnaround; Reiterate “BUY”	43
SBI: Slippages to Move Southwards; Reiterate “BUY”	46
UBI: Value Pick; Reiterate “BUY”	49

Fundamentals Revisited

We have analyzed the banking stocks under our coverage on the following basis.

1. Asset Quality – Quarterly Numbers Suggest an Early Signs of Revival

A. Pace of Deterioration in Asset Quality on Decline: Most of the banks under our coverage have shown resilience in further deterioration in asset quality in Q2FY14 compared to Q1FY14. Most of the PSU banks except BoI & J&K Bank had seen a major deterioration in GNPA in Q1FY14 leading to de-rating of entire PSU pack, while Q2FY14 numbers indicate an early signs of revival with pace of deterioration coming off significantly.

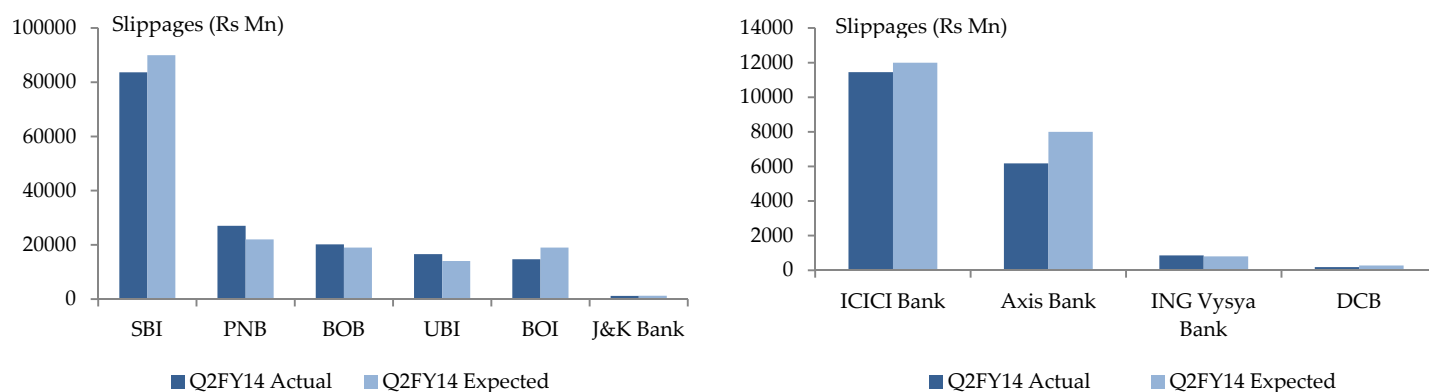
Exhibit 1: Gross NPAs – PSU & Private Banks

GNPA (%)	Incremental (bps)					
	Q2FY13	Q3FY13	Q4FY13	Q1FY14	Q2FY14	Q2FY14
PSU Banks						
BOB	2	43	-1	59	16	3.2
BOI	3.4	34	9	5	11	2.9
J&K Bank	1.6	2	1	5	2	1.7
PNB	4.6	-5	34	57	30	6.2
SBI	5.2	15	-55	81	8	5.6
UBI	3.7	-30	-38	52	14	3.6
Private Banks						
Axis Bank	1.1	0	-4	4	9	1.2
DCB	3.9	-6	-62	23	2	3.4
HDFC Bank	0.9	9	-3	8	5	1.1
ICICI Bank	3.5	-23	-9	1	-15	3.1
ING Vysya Bank	1.9	-13	-1	-1	-3	1.7

Source: Company, Karvy Institutional Research

B. Slippages at Par with Our Estimates in Q2: Slippages at most banks have remained in line with our estimates. PNB & UBI have seen an overshoot by >15%, while recovery and up-gradation were healthy for both aiding in containing deterioration in GNPA. PNB's Management is expecting slippages to ease from next quarter, whereas SBI expects to maintain on its Q2FY14 performance.

Exhibit 2: Slippages in Q2– Actual vs. Estimates (Rs. mn)



Source: Company, Karvy Institutional Research

C. Easing Trend in Slippages: Slippages for most PSU banks under our coverage is showing a declining trend, while the private banks continue to show a healthy trend backed by retail asset which has yet not shown any significant deterioration.

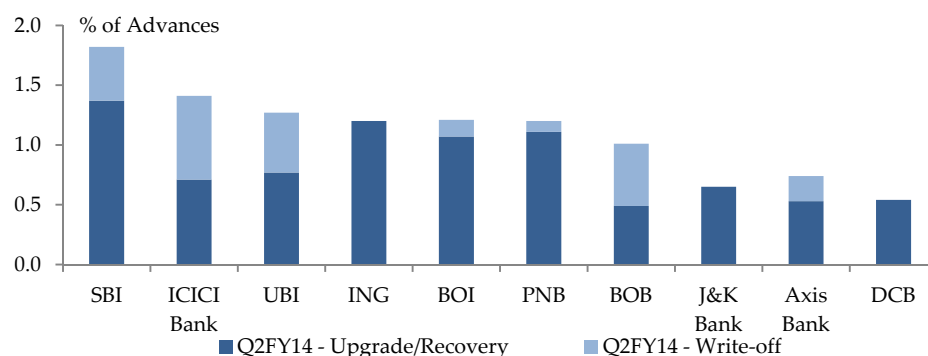
Exhibit 3: Slippages Trends for Last 5 Quarters – PSU & Private Banks (%)

Slippage (%)	Q2FY13	Q3FY13	Q4FY13	Q1FY14	Q2FY14
PSU Banks					
BOB	2.0	2.7	2.6	2.7	2.4
BOI	4.3	1.8	2.3	2.6	1.8
J&K Bank	1.1	1.3	1.6	0.8	1.1
PNB	6.2	0.5	1.3	4.3	3.4
SBI	3.7	3.3	2.2	5.2	3.0
UBI	1.8	1.5	1.7	3.0	3.1
Private Banks					
Axis Bank	0.9	1.2	0.8	1.4	1.2
ICICI Bank	1.8	1.2	1.1	1.5	1.4
ING Vysya Bank	0.5	0.2	0.5	1.7	1.1

Source: Company, Karvy Institutional Research

D. Healthy Recovery / Up-gradation: In terms of recovery / up-gradation second quarter proved to be healthy for most PSU banks. SBI, PNB & BoI had an annualized recovery / up-gradation in excess of 1%. Among private banks, ING Vysya had a healthy recovery during the quarter. Write-off was significantly lesser for ING, PNB & BoI, whereas ICICI Bank had a higher write-off.

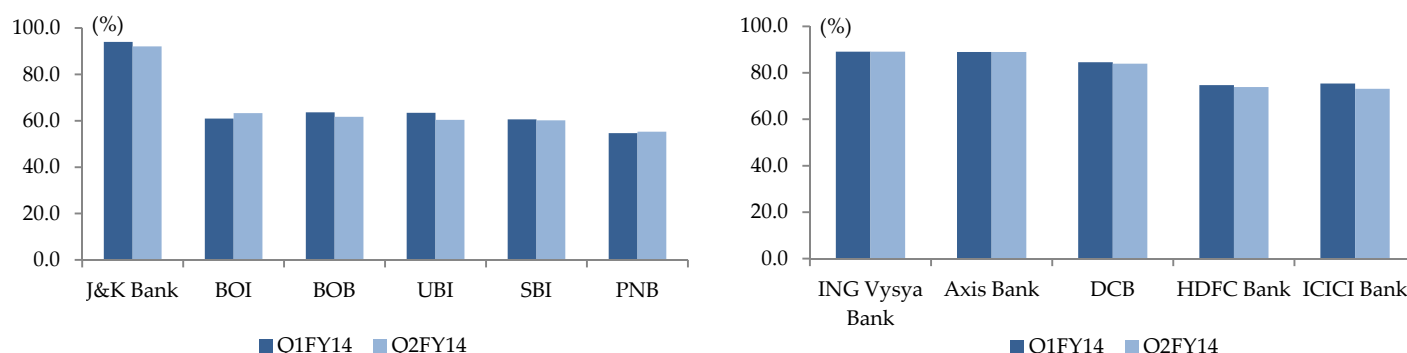
Exhibit 4: Recovery / Up-gradation – PSU & Private Banks



Source: Company, Karvy Institutional Research

E. Provision Coverage: Provision coverage remains steady for most banks under our coverage. Healthy provisioning has helped BoI & PNB to improve provision coverage, whereas for BoB & UBI provision coverage has deteriorated. For most of the private banks, provision coverage remained flattish sequentially.

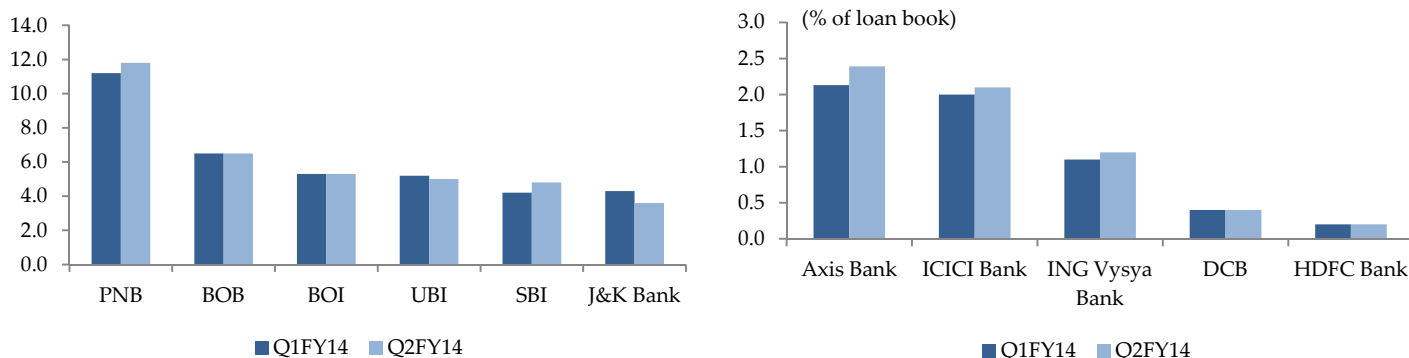
Exhibit 5: Provision Coverage were largely steady



Source: Company, Karvy Institutional Research

F. Restructuring Remained Fattish Sequentially: Outstanding restructuring book remained stable for most banks except for PNB & SBI.

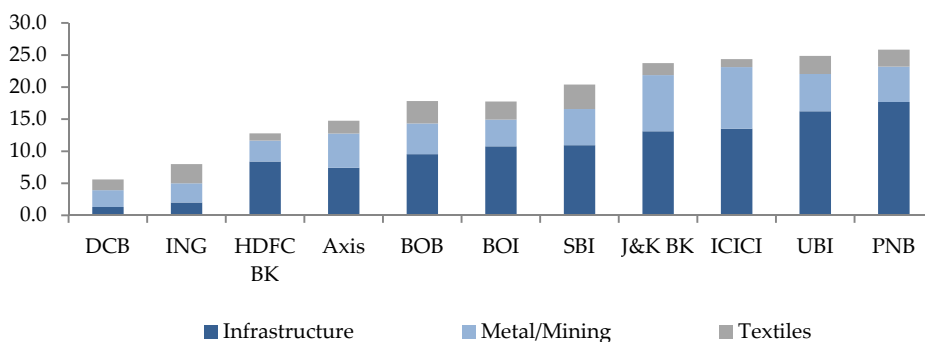
Exhibit 6: Restructuring flattish sequentially



Source: Company, Karvy Institutional Research

G. Exposure to Vulnerable Sectors: Number of big-ticket difficult companies within such vulnerable sectors are already captured in stress asset category either in form of slippages or restructuring.

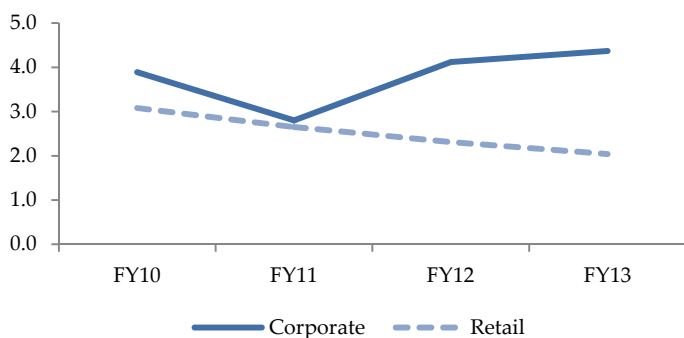
Exhibit 7: Exposure to Vulnerable Sectors



Source: Company, Karvy Institutional Research

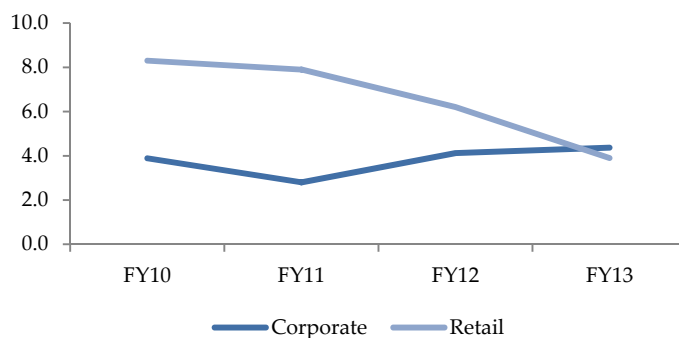
The private banks continue to show a healthy trend backed by retail asset which has yet not shown any significant deterioration. However, we are of the opinion that with significant slowdown in the economy along with major retail segments like automobiles and mortgage, markets are not adequately factoring likely slippages from these segments.

Exhibit 8: SBI – NPA Trends



Source: Company, Karvy Institutional Research

Exhibit 9: ICICI – NPA Trends



Source: Company, Karvy Institutional Research

Exhibit 10: Asset Quality

	BOB	BOI	J&K BK	PNB	SBI	UBI
GNPA						
Trend in Slippages						
Asset Quality Expectations						
Provision Coverage						
Restructuring						
Exposure to vulnerable sectors						
Overall						

Source: Karvy Institutional Research

Note: Strong, Relatively Strong, Average, Relatively Weak, Weak.

Exhibit 11: Asset Quality

	Axis	DCB	HDFC BK	ICICI	ING
GNPA					
Trend in Slippages					
Asset Quality Expectations					
Provision Coverage					
Restructuring					
Exposure to vulnerable sectors					
Overall					

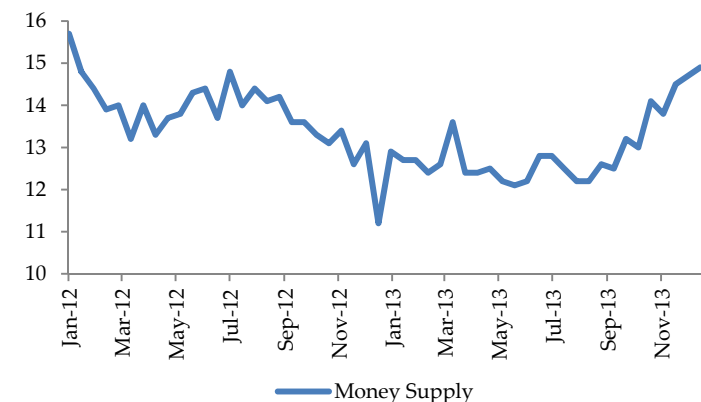
Source: Karvy Institutional Research

Note: Strong, Relatively Strong, Average, Relatively Weak, Weak.

2. Liquidity has significantly eased

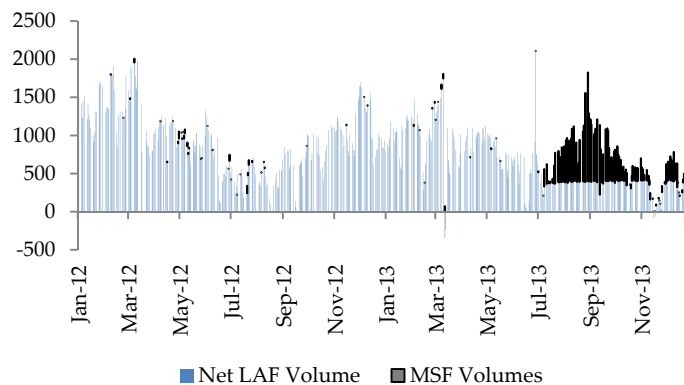
With currency back to its normalcy and RBI reversing its temporary moves, liquidity has significantly eased into the system. Net repo volumes along with MSF volumes have also eased down.

Exhibit 12: Money Supply



Source: Bloomberg, Karvy Institutional Research

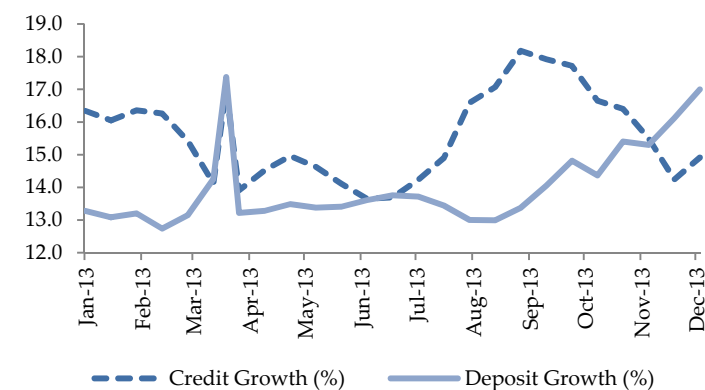
Exhibit 13: Net Repo & MSF Volumes



Source: Bloomberg, Karvy Institutional Research

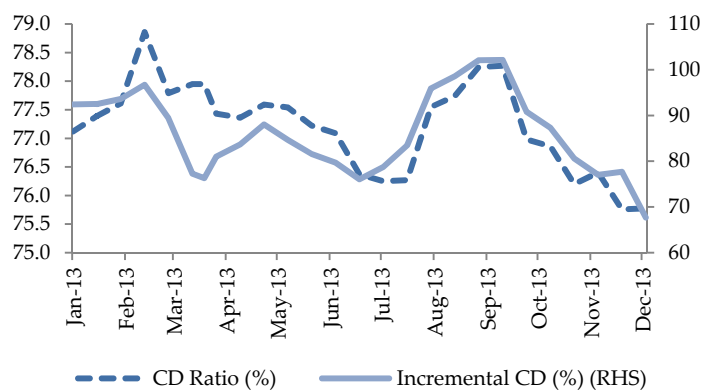
With Credit growth has moderated to 14.9% suggesting that the corporates have started to shift back to market borrowings, which they earlier shifted in credit market. Deposit growth surged to 17% during the fortnight partly attributable to the RBI's special swap window for FCNR deposits. CD ratio also shows an easing trend to a more comfortable level of 75.8%. Incremental CD ratio – which had surged >100% – has come down <70%

Exhibit 14: Credit and deposit growth



Source: Bloomberg, Karvy Institutional Research

Exhibit 15: CD Ratio and Incremental CD

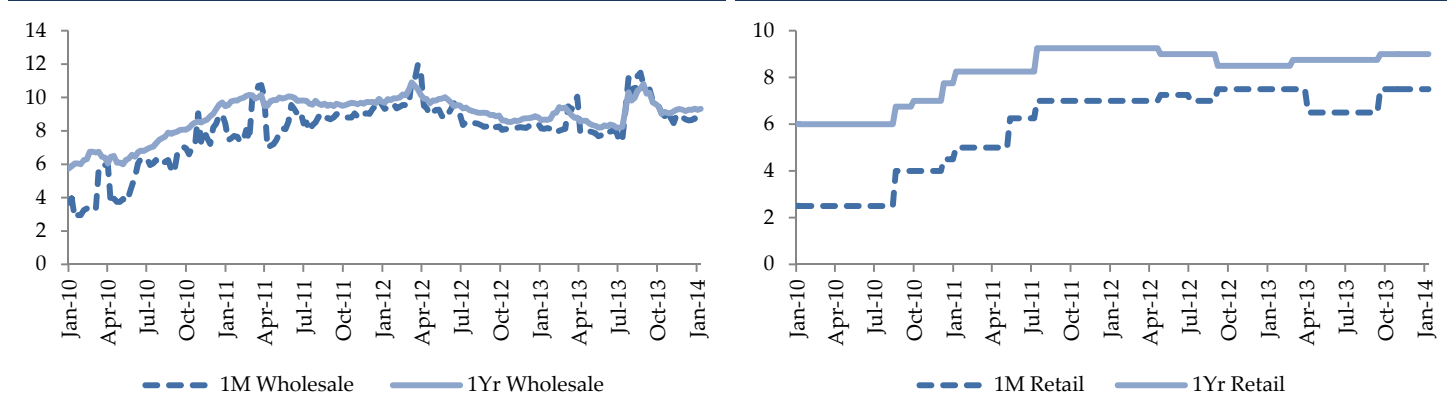


Source: Bloomberg, Karvy Institutional Research

Wholesale borrowing rate had seen a spike following RBI's action in July, 13. Since then rates have continuously on easing mode tracking key benchmark rates. On the other hand retail rates have been less volatile but have firmed slightly, more so on the short end of the curve.

Exhibit 16: 1m & 1Yr Wholesale

Exhibit 17: 1m & 1Yr Retail



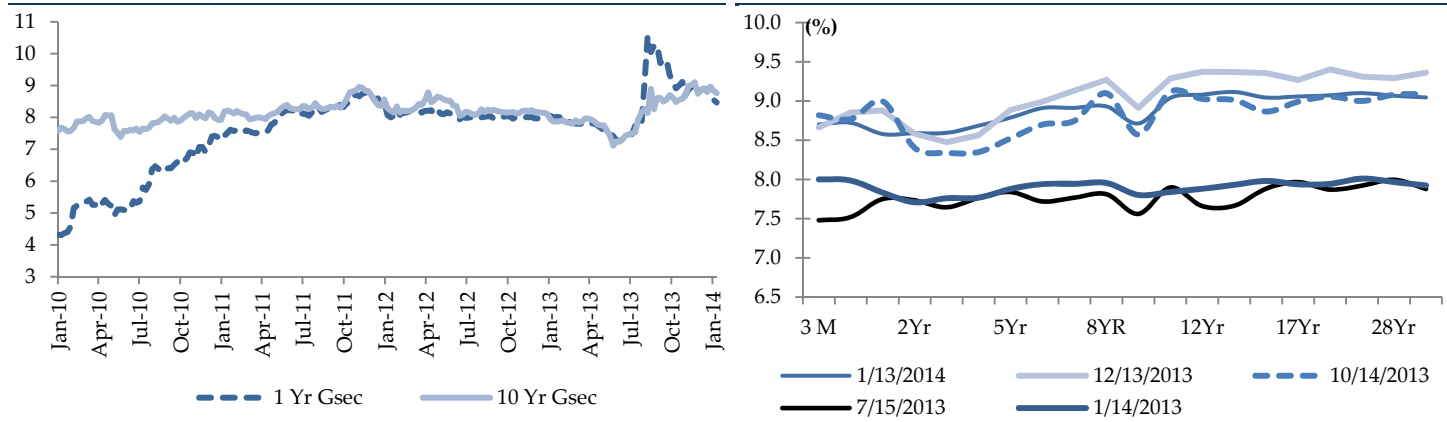
Source: Bloomberg, Karvy Institutional Research

Source: Bloomberg, Karvy Institutional Research

In the midst of the monetary action, short as well as the long end of the Gsec had seen a spike which later cooled off and now the curve is slightly upward sloping.

Exhibit 18: Long vs Short

Exhibit 19: Yield Curve Movement



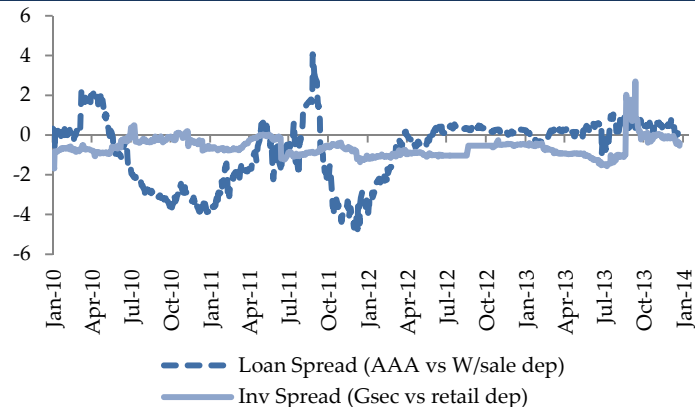
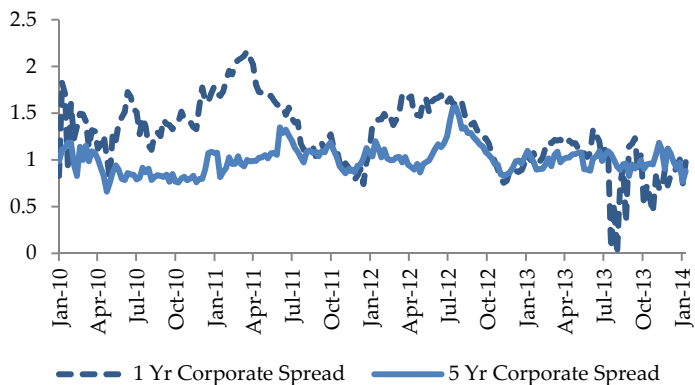
Source: Bloomberg, Karvy Institutional Research

Source: Bloomberg, Karvy Institutional Research

Both the 1 yr as well as 5 yr corporate spread are within 100bps which is 20-30bps lower than its longer term average. Loan spread have become positive as wholesale funding rates have eased, whereas investment spread have shrunk as retail funding rates have not eased.

Exhibit 20: 1Yr & 5Yr Corporate spread

Exhibit 21: Loan Spread and Investment spread



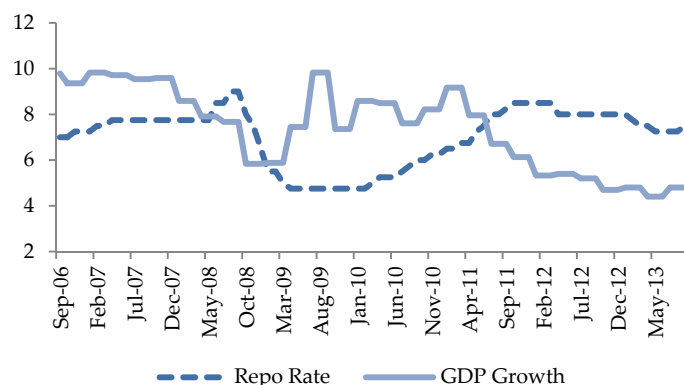
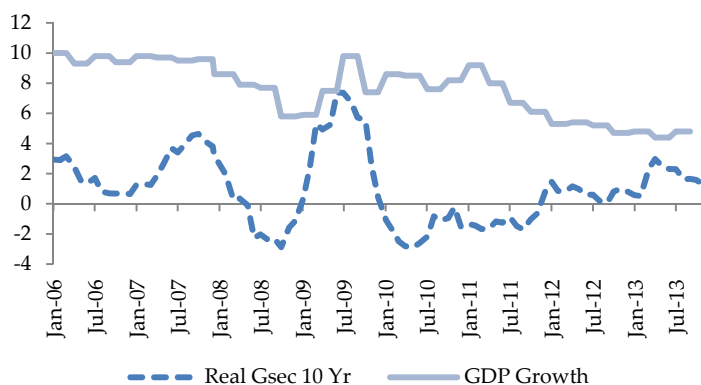
Source: Bloomberg, Karvy Institutional Research

Source: Bloomberg, Karvy Institutional Research

Real Gsec yield (adjusted for inflation) has been positive for most part of the year as against negative yield seen over last year. GDP growth has clearly decelerated sharply thereby putting a resistance on sharp increase in policy rates.

Exhibit 22: Real Yield & GDP

Exhibit 23: Repo & GDP



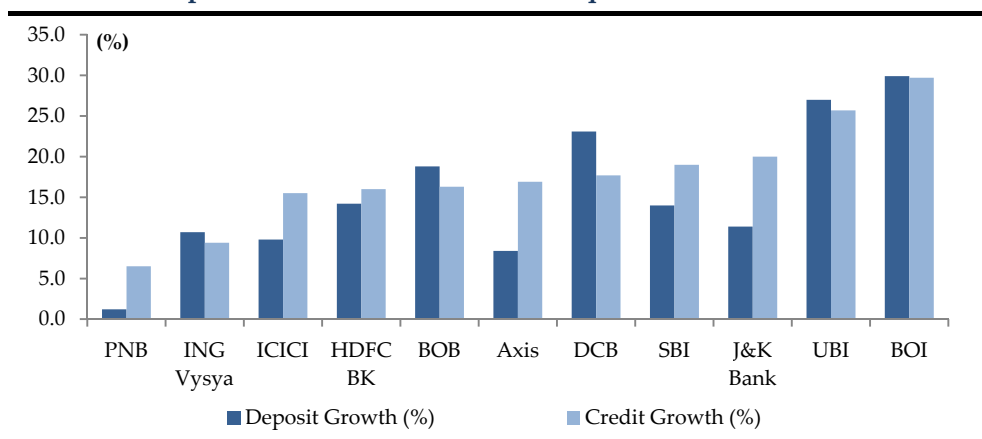
Source: Bloomberg, Karvy Institutional Research

Source: Bloomberg, Karvy Institutional Research

3. Business Growth

A. Business Grows at a Healthy Pace: Overall business of Scheduled Commercial Banks (SCBs) grew by 17.9% in the second quarter. Credit growth remained elevated as corporates shifted their borrowing requirements away from wholesale markets to banking system after a spurt in rates in Commercial Paper rates (>10%). Most banks grew their balance-sheet at a decent rate except for PNB as per its pre-stated strategy on consolidation mode.

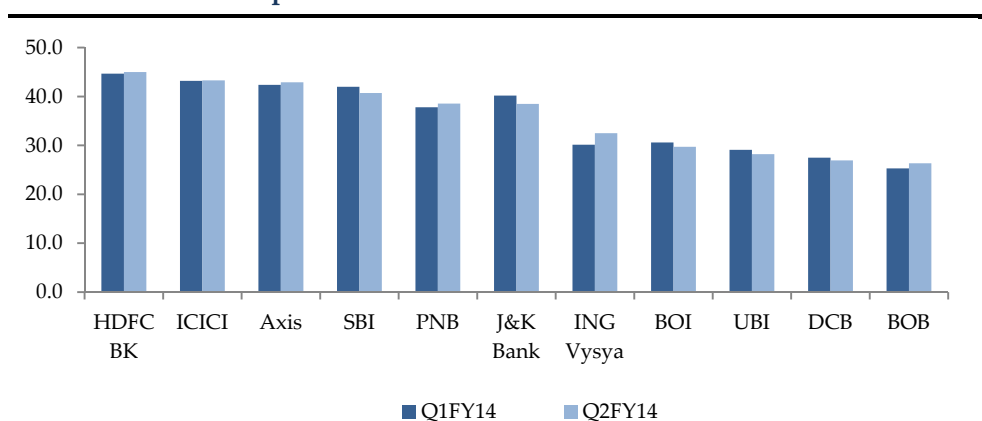
Exhibit 24: Deposit and Credit Growth for the quarter



Source: Company, Karvy Institutional Research

B. Sequentially Decline in CASA: in line with our estimates, CASA deposits have been under pressure for most banks under our coverage. Following monetary tightening measure, many banks hiked term deposit rates in Q2 that affected their CASA growth. While CASA deposits of J&K Bank & SBI declined by 170 bps & 130 bps sequentially in Q2, it rose by 240 bps & 100 bps for ING Vysya Bank & BoB.

Exhibit 25: CASA Deposits

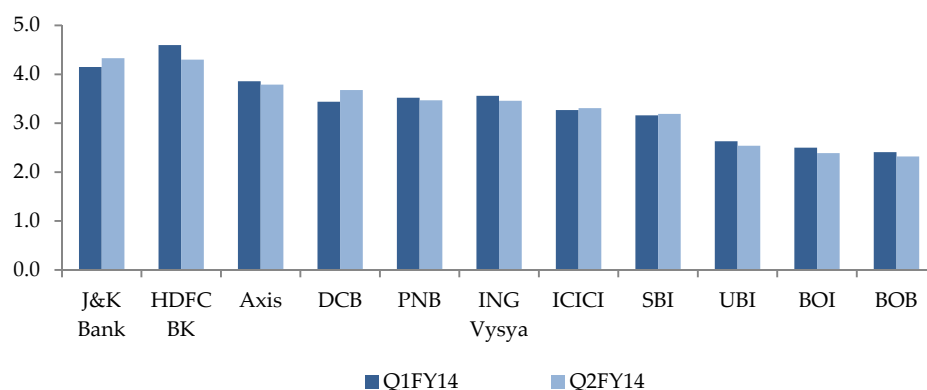


Source: Company, Karvy Institutional Research

4. Positive Surprise on Steady NIMs

Despite the RBI's liquidity tightening measures and resultant rise in cost of short-term fund, banks were more or less able to protect their margins vs. our estimated sequential decline of ~10-15 bps. While DCB & J&K Bank have shown sequential rise of 20 bps each, HDFC Bank reported sequential decline of 30 bps.

Exhibit 26: Steady NIMs



Source: Company, Karvy Institutional Research

NIMs for HDFC Bank, ING Vysya Bank & BoB have been below our estimates, while it surpassed our estimated for DCB, Axis Bank, J&K Bank & UBI.

Exhibit 27: NIMs in Q2 –Actual vs. Estimates

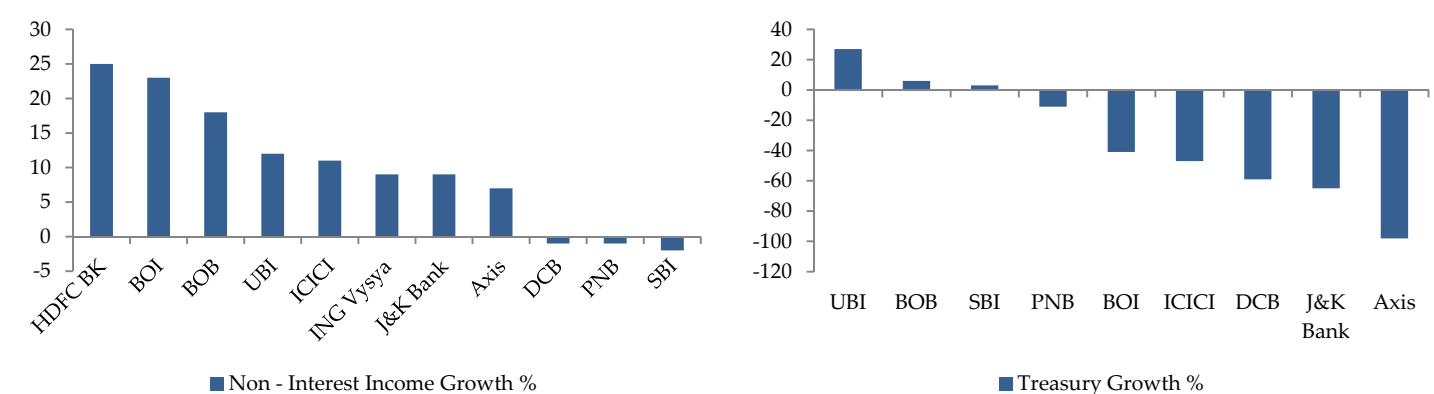
PSU Banks	Q2FY14		Private Banks	Q2FY14	
	Actual	Expected		Actual	Expected
BoB	2.3	2.4	Axis Bank	3.8	3.7
BoI	2.4	2.4	DCB	3.7	3.4
J&K Bank	4.3	4.2	HDFC Bank	4.3	4.6
PNB	3.5	3.5	ICICI Bank	3.3	3.3
SBI	3.2	3.2	ING Vysya Bank	3.5	3.6
UBI	2.7	2.6			

Source: Company, Karvy Institutional Research

5. Non-Interest Income Remains Lackadaisical

A. Non-Interest Income Subdued: Banks' performance on Non-Interest Income front remained lackadaisical mainly due to lack of support from treasury income amid lower transaction-related fee income.

Exhibit 28: Treasury has upset aggregate non-interest income



Source: Company, Karvy Institutional Research

B. RBI Relaxation – MTM Hit Spread over Rest of FY14: Most banks availed RBI relaxation to transfer securities from AFS category to HTM category at yields prevailing on July 15, 2013 and saved themselves from huge MTM hits. RBI's relaxation also allowed spreading loss on their remaining AFS/HFT books over rest of FY14. Most PSU banks chose to amortise MTM hits, while most private banks chose to account fully for MTM hit in Q2FY14 itself. As the current 10 year yield is at 8.7% is lower than 10 year yield of 8.76% prevailing at the end of 2QFY14, the banks would most likely not have any additional hit other than amortisation of MTM hit of Q2FY14.

Exhibit 29: MTM Hit Spread over Rest of FY14 (Rs. mn)

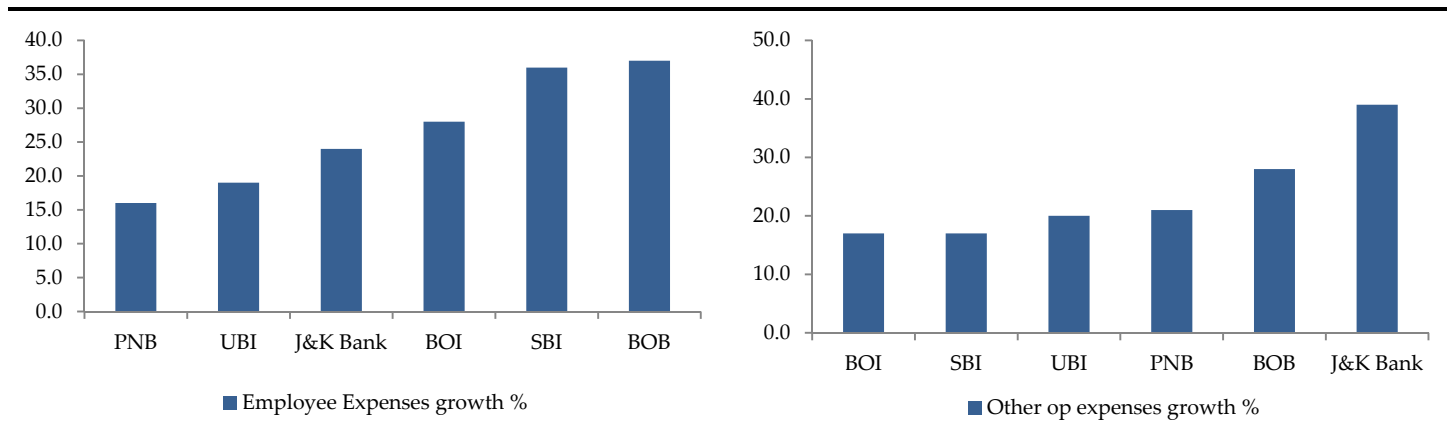
	Total MTM hit on AFS/HFT	Accumulated Provision Held	Balance to be provided
PSU Banks			
BOB	0	0	0
BOI	6,479	4,662	1,817
J&K Bank	185	63	122
PNB	10,457	3,486	6,971
SBI	21,033	7,011	14,022
UBI	2,343	335	2,008
Private Banks			
Axis Bank	390	390	0
DCB	0	0	0
HDFC Bank	1,350	1,350	0
ICICI Bank	2,788	2,788	0
ING Vysya Bank	183	183	0

Source: Company, Karvy Institutional Research

6. Cost – Accelerated Ahead of Income

PSU Banks: Operating cost for PSU banks in Q2FY14 rose ahead of income due to higher employee cost. Though higher provision relating to wage hike and pension accelerated overall cost, growth in other operating expenses has been under control.

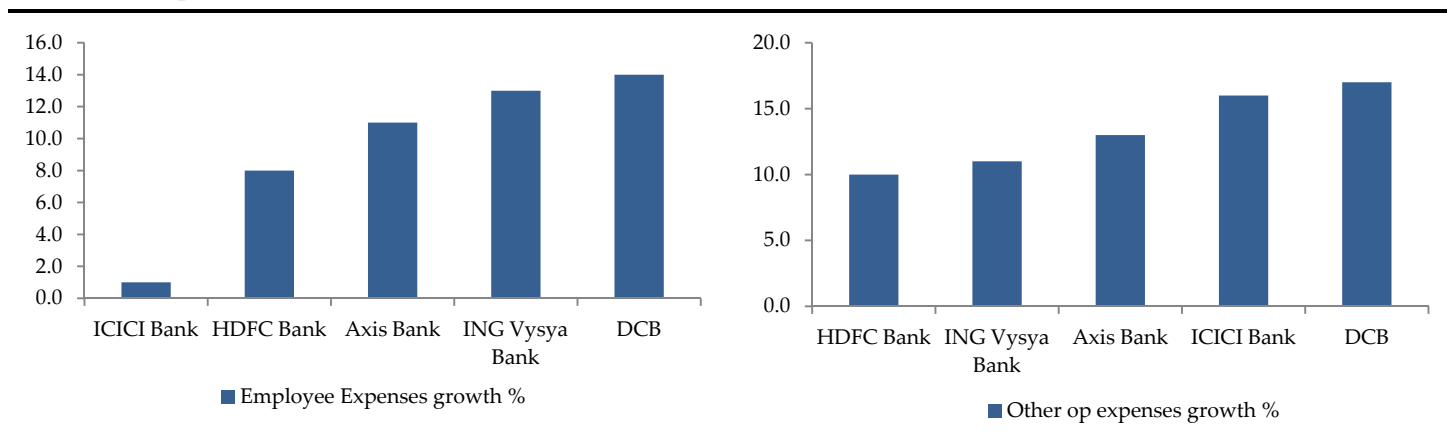
Exhibit 30: Opex of PSU Banks driven by staff related expenses



Source: Company, Karvy Institutional Research

Private Banks: Operating expenses has been much better for private banks. Growth in employee cost has been lower for private banks mainly on account of higher discount rate assumption for pension cost.

Exhibit 31: Opex of Private Banks under control



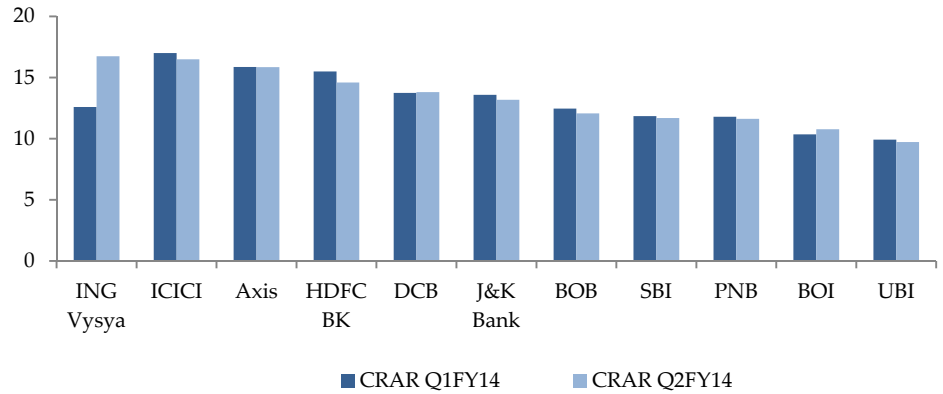
Source: Company, Karvy Institutional Research

7. Restricted Capital Burning

PSU Banks: Capital burning was limited for most PSU banks except for BoB (at 39 bps in Q2), while it rose by 41bps for BoI's due to issue of Tier-II (Rs. 15 bn) in Q2.

Private Banks: HDFC Bank and ICICI Bank have seen higher capital burning of 90 bps & 50 bps, respectively, while ING Vysya Bank seen 416 bps improvement led by equity issuance of Rs. 18.4 bn.

Exhibit 32:



Source: Company, Karvy Institutional Research

Overall capital adequacy has been an issue for PSU banks. Additional capital would further pressurise requirement for capital. Though the Government has announced capital infusion plan for PSU banks in FY14, we believe that such an infusion is unlikely to drive the Tier-I capital adequacy ratio of PSU banks higher by more than ~30-40bps.

Business Matrix

Exhibit 33: Business Matrix

	BOB	BOI	J&K BK	PNB	SBI	UBI
Deposit Growth						
Credit Growth						
CASA						
NIMs						
Treasury						
Opex						
Capital Adequacy						

Source: Karvy Institutional Research

Note: Strong, Relatively Strong, Average, Relatively Weak, Weak.

Exhibit 34: Asset Quality

	Axis	DCB	HDFC BK	ICICI	ING
Deposit Growth					
Credit Growth					
CASA					
NIMs					
Treasury					
Opex					
Capital Adequacy					

Source: Karvy Institutional Research

Note: Strong, Relatively Strong, Average, Relatively Weak, Weak.

Actual vs. Estimates

Net Interest Income: The Net Interest Income of 11 banks under our coverage met estimates with variance of +1.2%. While DCB surprised us with 9.7% QoQ growth – beating our estimate by 10.8% – BoB negatively surprised with NII below our estimate by 4.5%.

Exhibit 35: NII

(Rs mn)	Q2FY14	Growth YoY (%)	Growth QoQ (%)	Variance (%)
Axis	29,367	26.2	2.5	5.5
BoB	28,948	1.1	0.2	-4.5
BoI	25,272	15.1	-0.4	-0.9
DCB	912	36.1	9.7	10.8
HDFC Bank	44,765	15.3	1.3	-3.4
ICICI Bank	40,435	19.9	5.8	2
ING Vysya	4,403	19.4	3.5	-3.1
J&K Bank	6,819	23.4	4.1	5.9
PNB	40,155	10	2.8	3.9
SBI	122,514	11.6	6.4	2.5
UBI	19,544	5.6	2.4	0.4
Total	363,134	13.1	3.7	1.2

Source: Company, Karvy Institutional Research

Pre-provision Profit: The pre-provision profits of 11 banks under our coverage were close to estimates with variance of +1.5%. While for DCB & BoI it surpassed our estimates by 21.1% & 17.2%, for BoB it fell by 13.1% vs. our estimate.

Exhibit 36: Pre-Provision Profit

(Rs mn)	Q2FY14	Growth YoY (%)	Growth QoQ (%)	Variance (%)
Axis	27,498	26.2	-3.3	16.6
BOB	21,246	-10.8	-13.3	-13.1
BOI	21,025	13.4	-3.6	17.2
DCB	401	51.3	-21.8	21.1
HDFC BK	33,866	26.9	2.4	3.5
ICICI	37,879	18.6	-0.7	10.3
ING Vysya	2,763	21.4	-15.5	-7.7
J&K Bank	4,965	17.5	3.2	14.5
PNB	25,348	0.1	-14.8	4.7
SBI	63,117	-14.2	-16.4	-9.5
UBI	12,249	-3.8	-13.2	3.2
Total	250,357	3.8	-8.6	1.5

Source: Company, Karvy Institutional Research

Net Profit: Net profits of 11 banks under our coverage came below estimates with variance of -5.6% due to lack of treasury profits and higher NPA provisioning. While DCB's net profit surpassed our estimates by 43.3%, net profits of UBI & PNB fell by 52.3% & 45.7% vs. our estimates.

Exhibit 37: PAT

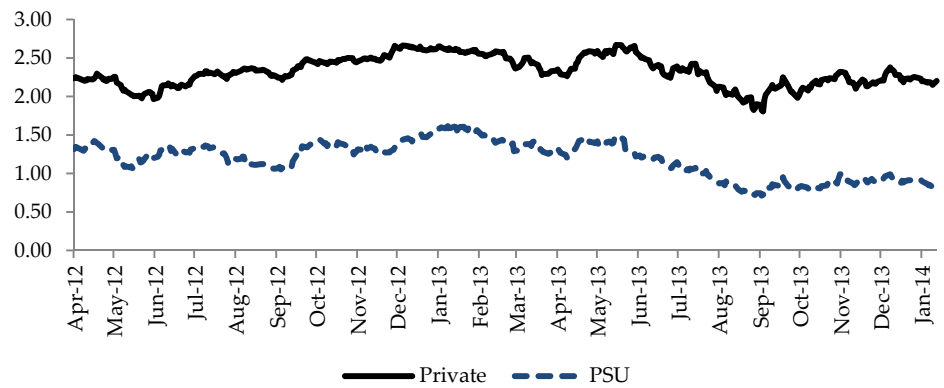
(Rs mn)	Q2FY14	Growth YoY %	Growth QoQ %	Variance %
Axis	13,623	21.2	-3.3	13.1
BOB	11,681	-10.2	0	5.6
BOI	6,218	106	-35.5	-0.5
DCB	331	49.8	-22.7	43.3
HDFC BK	19,823	27.1	7.5	-0.3
ICICI	23,520	20.2	3.4	17.8
ING Vysya	1,762	17.3	0.6	3.9
J&K Bank	3,027	12.3	-1.7	15.6
PNB	5,055	-52.6	-60.4	-45.7
SBI	23,750	-35.1	-26.7	-21
UBI	2,081	-62.5	-62.9	-52.3
Total	110,871	-7.3	-16.4	-5.6

Source: Company, Karvy Institutional Research

Valuations

Valuations have seen battering for most part of the year, especially for PSU Banks with widening gap between valuations of Private & PSU Banks. The recently concluded state elections have favoured BJP – aptly dubbed as pro-growth party – leading to sharp improvement in sentiments in recent times. For the banks under our coverage, rolling one 1-Year Forward P/ABV for private banks at 2.2x is close to its last year levels of 2.3x, whereas for PSU banks it has corrected from 1.3x to 0.8x.

Exhibit 38: Widening Gap Between Private & PSU Valuations



Source: Company, Karvy Institutional Research

Private Banks: Though the private banks have done well so far on asset quality, we feel their heavy-weighted retail book is yet to be seasoned. Autos as well as home loan segments are facing tremendous pricing pressures and likelihood of default. While retaining our target prices, we recently downgraded **Axis Bank** from “BUY” to “SELL”.

PSU Banks: Even after the rally, the PSU Banks are still trading at reasonable valuations with PNB & SBI seeing accelerated recognition of stress either in form of slippages or restructuring over last year. Our assessment based on interactions with the Managements suggests incremental stress to decline significantly for PNB & SBI. We recently downgraded **BoB** from “BUY” to “SELL” as valuations are running ahead of fundamentals amid anticipation of further stress.

Exhibit 39: Relative valuations: RoE vs P/ABV Private Banks

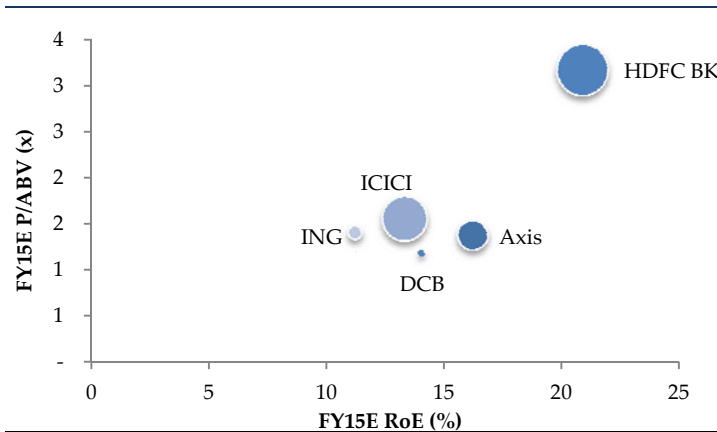
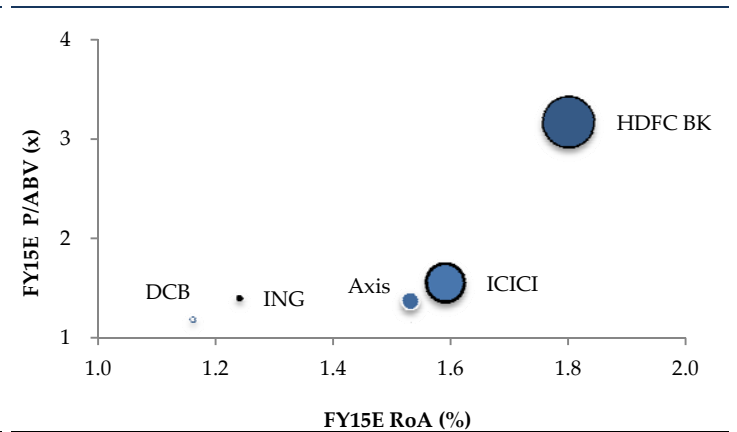


Exhibit 40: Relative valuations: RoA vs P/ABV Private Banks



Source: Karvy Institutional Research

Source: Karvy Institutional Research

Exhibit 1: Relative valuations: RoE vs P/ABV PSU Banks

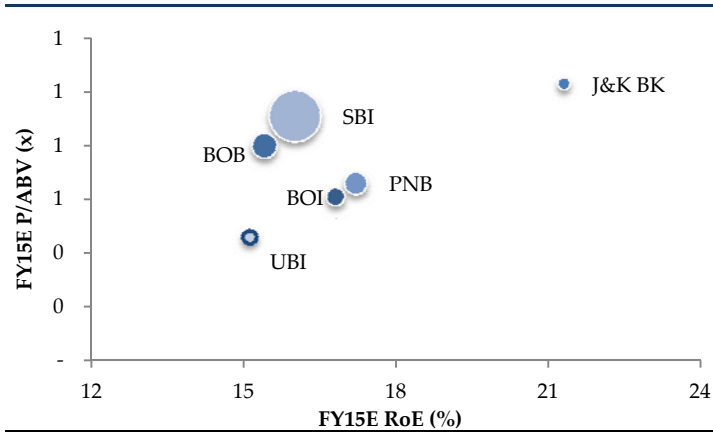
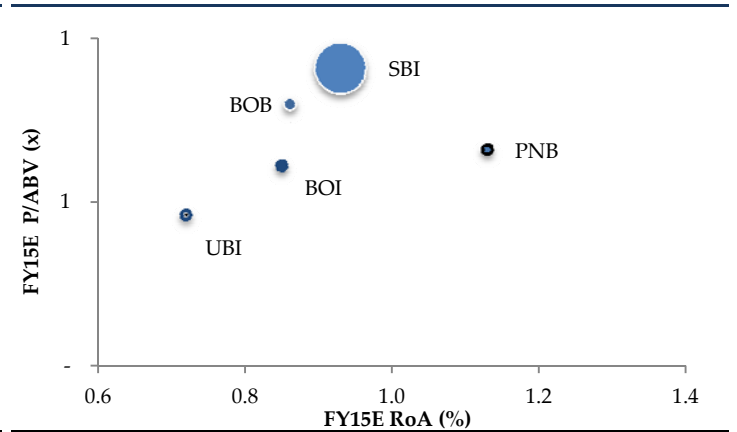


Exhibit 2: Relative valuations: RoA vs P/ABV PSU Banks



Source: Karvy Institutional Research

Source: Karvy Institutional Research

Note: Size of bubble represents relative market cap

Exhibit 3: Valuation Summary

	Rating	CMP	TP	Upside /	EPS		ABV		P/E		P/ABV	
		Rs	Rs	Downside %	FY14E	FY15E	FY14E	FY15E	FY14E	FY15E	FY14E	FY15E
Axis Bank	SELL	1185	1,245	5.0	117.5	135.2	774.9	829.8	10.1	8.8	1.5	1.4
BoB	SELL	618	615	(0.5)	98.1	134.8	683.2	770.1	6.3	4.6	0.9	0.8
BoI	BUY	233	265	13.7	51.2	76.0	319.9	380.4	4.6	3.1	0.7	0.6
DCB	BUY	58	70	20.7	5.9	6.9	43.1	49.2	9.8	8.4	1.3	1.2
HDFC Bank	HOLD	673	725	7.7	34.6	40.9	182.7	212.1	19.5	16.4	3.7	3.2
ICICI Bank	BUY	1055	1,190	12.8	78.0	88.0	605.8	660.6	11.0	9.7	1.7	1.5
ING Vysya Bank	HOLD	581	630	8.4	38.6	44.9	377.8	415.0	15.0	12.9	1.5	1.4
J&K Bank	BUY	1385	1,755	26.7	233.7	271.6	1153.7	1351.1	5.9	5.1	1.2	1.0
PNB	BUY	601	730	21.5	111.0	184.1	744.0	917.3	5.4	3.3	0.8	0.7
SBI	BUY	1641	2,100	28.0	172.5	267.3	1061.8	1270.9	6.3	4.0	1.1	0.9
UBI	BUY	124	160	29.0	26.4	48.0	216.9	267.2	4.7	2.6	0.6	0.5

Source: Company, Karvy Institutional Research

Institutional Equities
 India Research

Axis Bank

COMPANY UPDATE

 Bloomberg: AXSB IN
 Reuters: AXBK.BO

SELL

Pressure All Around; Reiterate "SELL"

Management Upwardly Revises Impairment Guidance: The Management of Axis Bank has recently revised its total impairment (slippage + incremental restructuring) guidance upwardly by 20% to Rs. 60 bn for FY14E. We expect slippage to increase to 2.1% in H2FY14E from 1.3% in H1FY14. We believe that the bank would remain vulnerable to defaults from its mid-corporate and SME portfolio. We estimate GNPA to increase to 2% from current levels of 1.2%.

Ratings Deteriorate in Large & Mid-Corporate Book: Axis Bank gives rating break-up of its corporate and SME book. Corporate book in "BBB" and below "BBB" has increased from 19% in FY08 to 25% in FY11 and further surging to 39% as on H1FY14. On the other hand rating of its SME book below SME 4 has slightly declined from 10% in FY10 to 7% in H1FY14.

Recent Pick-up in Retail Segment – May Prove to be Fatal: Axis Bank's retail segment expanded to 30% of its overall book from just 19% in FY11. Its Management wants to continue to expand its retail share. Though the retail portfolio of overall industry in terms of delinquencies has so far done well, it also means that portfolio is unseasoned. With tremendous slowdown across the economy, the retail segment is expected to track corporate segment to some extent.

Danger of NIMs Compression Abated: With significant easing of bulk rates, the market's concern of any likely compression in NIMs is now abated for time being.

Outlook & Valuation

We downgrade our ABV by 5% for FY15E as we increase our slippages by 60bps to 2.2% for FY15E. We reiterate our "SELL" recommendation on Axis Bank with revised target price of Rs. 1,245 per share valuing it at 1.5x P/ABV FY15E.

Key Financials (Standalone)

Y/E Mar (Rs mn)	FY11	FY12	FY13	FY14E	FY15E
Net Interest Income	65,630	80,178	96,663	118,456	131,150
Pre-Provision Profit	64,157	74,309	93,032	111,022	117,980
PAT	33,885	42,422	51,795	54,981	63,290
EPS (Rs)	82.5	102.7	110.7	117.5	135.2
ABV (Rs)	452.8	540.6	692.4	774.9	829.8
P/E (x)	14.4	11.5	10.7	10.1	8.8
P/ABV (x)	2.6	2.2	1.7	1.5	1.4
Gross NPA (%)	1.1	1.1	1.2	1.7	2.6
Net NPA (%)	0.3	0.3	0.4	0.5	1.3
ROE (%)	19.3	20.3	18.5	15.6	15.8
ROA (%)	1.6	1.6	1.7	1.5	1.5

Source: Company, Karvy Institutional Research

Recommendation

CMP:	Rs1,185
Target Price:	Rs1,245
Upside (%)	5%

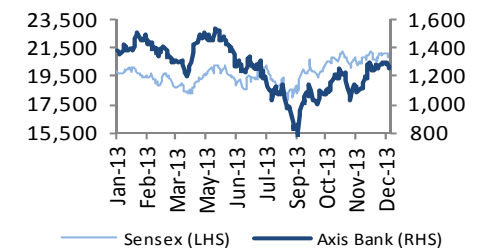
Stock Information

Market Cap. (Rs bn / US\$ mn)	556/9,037
52-week High/Low (Rs)	1,550/763
3m ADV (Rs mn /US\$ mn)	3,486/56.7
Beta	1.4
Sensex/ Nifty	21,134/6,273
Share outstanding (mn)	469

Stock Performance (%)

	1M	3M	12M	YTD
Absolute	(4.4)	7.8	(13.1)	(8.8)
Rel. to Sensex	(6.3)	4.7	(19.2)	(8.7)

Performance



Source: Bloomberg

Analyst Contact

Hatim Broachwala, CFA
 022-6184 4329
 hatim.broachwala@karvy.com

Financials

Exhibit 4: Income Statement

	FY11	FY12	FY13	FY14E	FY15E
Interest Income	151,548	219,947	271,826	309,881	343,697
Interest expense	85,918	139,769	175,163	191,425	212,547
Net interest income	65,630	80,178	96,663	118,456	131,150
Fees	33,574	43,417	50,251	52,764	60,678
Other Income	9,154	9,854	9,442	12,722	12,484
Net Revenue	108,358	133,449	156,356	183,941	204,312
Operating Expense	47,794	60,071	69,142	78,859	92,891
-Employee Exp	16,139	20,802	23,770	28,042	33,943
-Other Exp	31,655	39,269	45,372	50,817	58,947
Operating Profit	60,564	73,378	87,214	105,082	111,422
Investment Profit	3,593	931	5,818	5,939	6,558
Pre-provision Profit	64,157	74,309	93,032	111,022	117,980
Provisions	12,800	11,431	17,504	27,843	22,086
-Loan Loss Provisions	11,364	10,996	14,799	24,239	21,032
-Investment Depreciation	993	581	(1,039)	2,100	1,000
-Other Provisions	443	(146)	3,744	1,504	54
PBT	51,357	62,878	75,528	83,179	95,894
Taxes	17,472	20,456	23,733	28,198	32,604
PAT	33,885	42,422	51,795	54,981	63,290

Source: Company, Karvy Institutional Research

Exhibit 5: Balance Sheet

	FY11	FY12	FY13	FY14E	FY15E
Equity Capital	4,105	4,132	4,680	4,680	4,680
Reserves & Surplus	185,883	223,954	326,400	369,883	420,032
Shareholder's Funds	189,988	228,086	331,080	374,563	424,712
Deposits	1,892,378	2,201,044	2,526,136	2,930,318	3,516,381
-Current deposits	369,171	397,541	483,221	543,848	631,758
-Saving deposits	408,503	516,680	637,777	759,032	934,851
-Term deposit	1,114,704	1,286,823	1,405,138	1,627,438	1,949,773
Borrowings	262,679	340,717	440,511	487,415	526,124
-Sub ordinate debt	69,932	105,740	125,395	139,466	151,079
Other liabilities	82,089	86,430	108,881	107,281	113,755
Total liabilities	2,427,134	2,856,277	3,406,608	3,899,577	4,580,973
Cash/Equivalent	214,087	139,339	204,350	255,296	329,168
Advances	1,424,078	1,697,595	1,969,660	2,293,005	2,732,553
Investments	719,916	931,921	1,137,375	1,238,420	1,384,936
Fixed Assets	22,732	22,593	23,556	28,056	32,556
Other assets	46,321	64,829	70,666	84,799	101,759
Total assets	2,427,134	2,856,277	3,405,607	3,899,577	4,580,973

Source: Company, Karvy Institutional Research

Exhibit 6: Ratios

	FY11	FY12	FY13	FY14E	FY15E
<i>Growth (%)</i>					
NII growth	31.1	22.2	20.6	22.5	10.7
Pre-provision profit growth	22.4	15.8	25.2	19.3	6.3
PAT growth	34.8	25.2	22.1	6.2	15.1
<i>Business (%)</i>					
Deposit growth	33.9	16.3	14.8	16.0	20.0
Advance growth	36.5	19.2	16.0	16.4	19.2
Business growth	35.0	17.6	15.3	16.2	19.6
CD	75.3	77.1	78.0	78.3	77.7
CASA	41.1	41.5	44.4	44.5	44.6
<i>Operating efficiency (%)</i>					
Cost-to-income	44.1	45.0	44.2	42.9	45.5
Cost-to-assets	2.4	2.4	2.3	2.3	2.3
<i>Productivity (Rs mn)</i>					
Business per branch	2385.9	2403.6	2309.1	2324.6	2453.4
Business per employee	125.5	122.8	118.6	126.2	134.7
Profit per branch	24.4	26.2	26.6	24.5	24.8
Profit per employee	1.3	1.3	1.4	1.3	1.4
<i>Spreads (%)</i>					
Yield on advances	8.4	9.9	10.5	10.2	9.7
Yield on investments	7.0	7.8	7.6	7.6	7.4
Cost of deposits	4.5	6.0	6.4	6.0	5.7
Yield on assets	7.7	8.9	9.2	9.0	8.7
Cost of funds	4.4	5.7	6.1	5.8	5.5
NIMs	3.3	3.2	3.3	3.5	3.3
<i>Capital adequacy (%)</i>					
Tier I	9.4	9.5	12.2	11.3	10.9
Tier II	3.2	4.2	4.8	4.3	4.0
Total CAR	12.7	13.7	17.0	15.7	14.9
<i>Asset Quality (%)</i>					
Gross NPA	1.1	1.1	1.2	1.7	2.6
Net NPA	0.3	0.3	0.4	0.5	1.3
Provision coverage	74.3	73.8	70.6	69.6	49.7
Provision coverage (incl w/off)	80.9	81.0	79.0	77.0	58.6
Slippage	1.2	1.2	1.1	1.6	2.2
Credit-cost	0.8	0.6	0.6	1.0	0.8
<i>Return (%)</i>					
ROE	19.3	20.3	18.5	15.6	15.8
ROA	1.6	1.6	1.7	1.5	1.5
<i>Per share</i>					
EPS	82.5	102.7	110.7	117.5	135.2
BV	462.8	552.0	707.4	800.3	907.5
ABV	452.8	540.6	692.4	774.9	829.8
<i>Valuation</i>					
P/E	14.4	11.5	10.7	10.1	8.8
P/BV	2.6	2.1	1.7	1.5	1.3
P/ABV	2.6	2.2	1.7	1.5	1.4

Source: Company, Karvy Institutional Research

Institutional Equities
 India Research

Bank Of Baroda

COMPANY UPDATE

 Bloomberg: BOB IN
 Reuters: BOB.BO

SELL

Asset Quality Far From Being Seasoned; Maintain "SELL"

Asset Quality – Yet To Be Seasoned: While most of the PSU Banks were struggling with asset quality issues, Bank of Baroda (BoB) had an average slippage of 1.1% in FY11-12. In the aftermath of which there was a change in Management and in line with our expectations the Bank's slippage spiked to 2.2% in FY13. Higher stress has been seen in large and medium corporate segments where Gross NPA has increased by 50 bps to 5.6% in Q2FY14. We believe lot of stress is yet to be captured and seasoning is still undone. Provision coverage is on a constant decline from 80% in FY12 to 62% in H1FY14. The Bank has a restructuring book of 6.5% of loan book.

Business Parameters – Good Show: The Bank has grown its business well above the industry rate. The average growth for last four years has been 25% in deposits as well as advances. However, in the process the Bank's CASA has taken a hit of ~500 bps during the same period. Its overseas business has grown at a higher average rate and now forms 32% of its total business.

NIMs have taken a Hit: The Bank's NIMs have crashed by over 75 bps in last 2 years to 2.3%. The major hit of over 80 bps is seen in domestic segment to 2.8%, whereas international segment has taken a hit of only 20 bps to 1.2%.

Outlook & Valuation

We reiterate our "SELL" recommendation on BoB with unrevised target price of Rs. 615 per share valuing the bank at 0.8x P/ABV FY15E.

Key Financials (Standalone)

Y/E Mar (Rs mn)	FY11	FY12	FY13	FY14E	FY15E
Net Interest Income	88,022	103,170	113,153	119,590	141,626
Pre-Provision Profit	69,816	85,807	89,992	93,698	114,985
PAT	42,417	50,070	44,807	42,142	57,940
EPS (Rs)	108.0	121.4	106.1	93.2	134.8
ABV (Rs)	536.0	649.5	677.6	683.2	770.1
P/E	5.7	5.1	5.8	6.3	4.6
P/ABV	1.2	1.0	0.9	0.9	0.8
Gross NPA (%)	1.4	1.5	2.4	3.3	3.3
Net NPA (%)	0.3	0.5	1.3	1.8	1.7
ROA (%)	1.3	1.2	0.9	0.7	0.9
ROE (%)	23.5	20.7	15.1	12.5	15.4

Source: Company, Karvy Institutional Research

Recommendation

CMP:	Rs618
Target Price:	Rs615
Upside (%)	0%

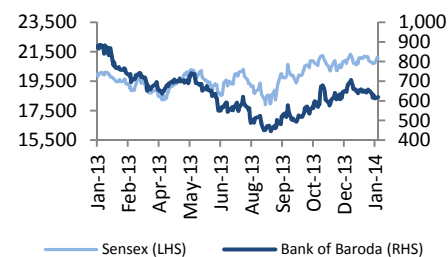
Stock Information

Market Cap. (Rs bn / US\$ mn)	260/4,229
52-week High/Low (Rs)	899/429
3m ADV (Rs mn /US\$ mn)	1,359/22.1
Beta	1.5
Sensex/ Nifty	21,134/6,273
Share outstanding (mn)	421

Stock Performance (%)

	1M	3M	12M	YTD
Absolute	(6.5)	9.7	(29.2)	(4.3)
Rel. to Sensex	(8.3)	6.6	(34.1)	(4.2)

Performance



Source: Bloomberg

Analyst Contact

Hatim Broachwala, CFA
 022-6184 4329
 hatim.broachwala@karvy.com

Financials

Exhibit 7: Income Statement

Y/E Mar (Rs mn)	FY11	FY12	FY13	FY14E	FY15E
Interest Income	218,859	296,737	351,967	391,206	426,157
Interest expense	130,837	193,567	238,814	271,616	284,530
Net interest income	88,022	103,170	113,153	119,590	141,626
Fees	10,206	12,261	12,574	15,089	18,107
Other Income	13,451	15,888	17,567	21,266	24,652
Net Revenue	111,679	131,319	143,294	155,945	184,385
Operating Expense	46,298	51,587	59,467	70,064	78,363
-Employee Exp	29,168	29,856	34,496	41,097	43,604
-Other Exp	17,130	21,731	24,971	28,966	34,760
Operating Profit	65,381	79,732	83,827	85,881	106,022
Investment Profit	4,435	6,075	6,165	7,817	8,963
Pre-provision Profit	69,816	85,807	89,992	93,698	1,14,985
Provisions	13,313	25,549	41,680	41,021	36,688
-Loan Loss Provisions	12,640	20,171	34,608	34,600	31,871
-Investment Depreciation	90	2,363	2,255	1,603	0
-Other Provisions	583	3,015	4,817	4,817	4,817
PBT	56,503	60,258	48,312	52,677	78,297
Taxes	14,086	10,188	3,505	10,535	20,357
PAT	42,417	50,070	44,807	42,142	57,940

Source: Company, Karvy Institutional Research

Exhibit 8: Balance Sheet

Y/E Mar (Rs mn)	FY11	FY12	FY13	FY14E	FY15E
Equity Capital	3,928	4,124	4,225	4,297	4,297
Reserves & Surplus	206,003	270,645	315,469	3,49,995	3,93,874
Shareholder's Funds	209,931	274,769	319,694	3,54,292	3,98,172
Deposits	3,054,395	3,848,711	4,738,833	54,49,658	62,67,107
-Current deposits	231,347	289,444	356,783	427,865	509,610
-Saving deposits	644,540	745,795	843,026	985,191	1,148,681
-Term deposit	2,178,508	2,813,472	3,539,024	4,036,601	4,608,816
Borrowings	223,079	235,730	265,793	275,009	332,231
-Sub ordinate debt	107,487	109,280	110,303	113,068	130,234
Other liabilities	96,567	114,005	147,034	1,62,118	1,59,523
Total liabilities	3,583,972	4,473,215	5,471,354	6,241,077	7,157,032
Cash/Equivalent	499,341	641,686	853,989	936,725	1,022,557
Advances	2,286,764	2,873,773	3,281,858	3,779,435	4,392,522
Investments	712,606	832,094	1,213,937	1,391,643	1,596,005
Fixed Assets	22,997	23,415	24,531	26,531	28,531
Other assets	62,264	102,247	97,039	106,743	117,417
Total assets	3,583,972	4,473,215	5,471,354	6,241,077	7,157,032

Source: Company, Karvy Institutional Research

Exhibit 9: Ratio's

Y/E Mar	FY11	FY12	FY13	FY14E	FY15E
Growth					
NII growth	48.2	17.2	9.7	5.7	18.4
Pre-provision profit growth	41.5	22.9	4.9	4.1	22.7
PAT growth	38.7	18.0	-10.5	-5.9	37.5
Business (%)					
Deposit growth	26.7	26.0	23.1	15.0	15.0
Advance growth	30.6	25.7	14.2	15.2	16.2
Business growth	28.4	25.9	19.3	15.1	15.5
CD	74.9	74.7	69.3	69.4	70.1
CASA	28.7	26.9	25.3	25.9	26.5
Operating efficiency (%)					
Cost-to-income	41.5	39.3	41.5	44.9	42.5
Cost-to-assets	1.6	1.4	1.3	1.3	1.2
Productivity (Rs mn)					
Business per branch	1,562.7	1,698.0	1,849.8	1,948.7	2,075.5
Business per employee	135.6	159.4	186.1	207.9	233.1
Profit per branch	12.4	12.6	10.3	8.5	11.3
Profit per employee	1.1	1.2	1.0	0.9	1.3
Spreads (%)					
Yield on advances	8.0	8.7	8.4	7.8	7.3
Yield on investments	7.2	8.0	7.3	7.1	6.9
Cost of deposits	4.3	5.1	5.2	5.0	4.5
Yield on assets	7.4	8.0	7.5	7.0	6.7
Cost of funds	4.4	5.1	5.1	4.9	4.5
NIMs	3.0	2.8	2.4	2.1	2.2
Capital adequacy (%)					
Tier I	10.0	10.8	10.1	9.8	9.6
Tier II	4.5	3.8	3.2	2.1	2.1
Total CAR	14.5	14.7	13.3	12.0	11.8
Asset Quality (%)					
Gross NPA	1.4	1.5	2.4	3.3	3.3
Net NPA	0.3	0.5	1.3	1.8	1.7
Provision coverage	74.9	65.4	47.5	45.1	48.7
Provision coverage (incl w/off)	85.0	80.1	68.2	62.5	64.3
Slippage	0.9	1.3	2.2	2.2	1.5
Credit-cost	0.5	0.6	1.0	0.9	0.7
Return (%)					
ROE	23.5	20.7	15.1	12.5	15.4
ROA	1.3	1.2	0.9	0.7	0.9
Per share (Rs)					
EPS	108.0	121.4	106.1	98.1	134.8
BV	534.4	666.3	756.7	824.4	926.5
ABV	536.0	649.5	677.6	683.2	770.1
Valuation					
P/E	6.0	5.4	6.2	6.3	4.6
P/BV	1.2	1.0	0.9	0.7	0.7
P/ABV	1.2	1.0	1.0	0.9	0.8

Source: Company, Karvy Institutional Research

Institutional Equities
 India Research

Bank of India

COMPANY UPDATE

 Bloomberg: BOI IN
 Reuters: BOI.BO

BUY

Pressures to Ease Further; Reiterate "BUY"

Pressure on Asset Quality Eases: The average slippages on Bank of India (BoI) have eased significantly to 2.1% in last 4 quarters as against 3.5% in H1FY13. As per our recent interaction with BoI's Management coupled with expected improvement in economy and likely cut in interest rates, we believe that the pressure on asset quality would ease from now onwards. Unlike its peers, the Bank has relatively lesser exposure to perceivably vulnerable sectors i.e. infrastructure, metals, mining and textiles etc. Healthy provisioning has enabled over 200 bps improvement in the Bank's provision coverage to 63.3% in Q2FY14.

NIMs – Set to Improve: BoI's NIMs suffered by >60 bps over last four years. We expect the Bank's NIMs to improve from now onwards backed by lower proportion of high cost deposits, stable CASA and interest recognized on recovered NPAs.

RoE Expansion – To Drive Valuation: The Bank's average RoE for FY10-13 has declined to 13.7% as against 23.3% for FY07-09 on account of compression in NIMs and rise in credit cost. We expect the Bank's RoE would improve to 16.8%, would lead to improvement in valuations.

Capital – Continues to Remain as an Issue: Even after accounting for equity infusion by Government of India, BoI's Tier-I capital is expected to remain below 8%, while lack of capital can be a roadblock to growth.

Outlook & Valuation

We reiterate our "BUY" recommendation on BoI with unrevised target price of Rs. 265 per share valuing it at 0.7x P/ABV FY15E.

Key Financials (Standalone)

Y/E Mar (Rs mn)	FY11	FY12	FY13	FY14E	FY15E
Net Interest Income	78,107	83,135	90,240	105,486	129,331
Pre-Provision Profit	53,842	66,940	74,585	83,930	105,885
PAT	24,887	26,775	27,493	32,917	48,908
EPS (Rs)	45.5	46.6	46.1	51.2	76.0
ABV (Rs)	290.4	310.7	309.9	316.5	376.2
P/E	5.3	5.1	5.2	4.6	3.1
P/ABV	0.8	0.8	0.8	0.7	0.6
Gross NPA (%)	2.2	2.3	3.0	3.3	3.1
Net NPA (%)	0.9	1.5	2.1	2.1	1.8
ROA (%)	0.8	0.7	0.7	0.7	0.8
ROE (%)	15.8	14.0	12.3	12.9	16.8

Source: Company, Karvy Institutional Research

Recommendation

CMP:	Rs233
Target Price:	Rs265
Upside (%)	14%

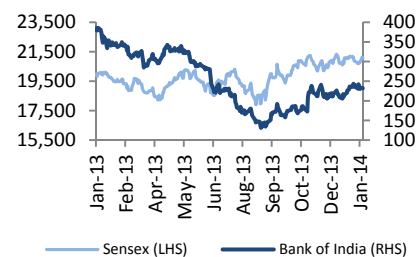
Stock Information

Market Cap. (Rs bn / US\$ mn)	150/2,437
52-week High/Low (Rs)	393/127
3m ADV (Rs mn /US\$ mn)	1,146/18.6
Beta	1.4
Sensex/ Nifty	21,134/6,273
Share outstanding (mn)	642

Stock Performance (%)

	1M	3M	12M	YTD
Absolute	11.5	26.0	(35.9)	(1.9)
Rel. to Sensex	9.3	22.3	(40.3)	(1.7)

Performance



Source: Bloomberg

Analyst Contact

Hatim Broachwala, CFA
 022-6184 4329
 hatim.broachwala@karvy.com

Financials

Exhibit 10: Income Statement

Y/E Mar (Rs mn)	FY11	FY12	FY13	FY14E	FY15E
Interest Income	217,517	284,807	319,089	359,908	404,566
Interest expense	139,410	201,672	228,849	254,422	275,236
Net interest income	78,107	83,135	90,240	105,486	129,331
Fees	11,811	12,715	12,632	13,895	15,979
Other Income	11,389	16,409	20,557	22,173	24,382
Net Revenue	101,307	112,259	123,429	141,555	169,692
Operating Expense	50,683	49,407	53,315	62,785	70,961
-Employee Exp	34,754	30,534	31,305	36,373	39,266
-Other Exp	15,929	18,873	22,010	26,412	31,694
Operating Profit	50,624	62,852	70,114	78,770	98,731
Investment Profit	3,218	4,088	4,471	5,160	7,154
Pre-provision Profit	53,842	66,940	74,585	83,930	105,885
Provisions	18,888	31,165	44,508	36,906	37,958
-Loan Loss Provisions	12,039	23,036	40,182	31,107	32,958
-Investment Depreciation	1,369	4,369	767	799	1,000
-Other Provisions	5,480	3,760	3,559	5,000	4,000
PBT	34,954	35,775	30,077	47,024	67,927
Taxes	10,067	9,000	2,584	14,107	19,020
PAT	24,887	26,775	27,493	32,917	48,908

Source: Company, Karvy Institutional Research

Exhibit 11: Balance Sheet

Y/E Mar (Rs mn)	FY11	FY12	FY13	FY14E	FY15E
Equity Capital	5,472	5,745	5,966	6,366	6,366
Reserves & Surplus	167,435	203,873	233,215	266,430	304,614
Shareholder's Funds	172,907	209,618	239,181	272,796	310,980
Deposits	2,988,858	3,182,160	3,818,395	4,505,706	5,181,562
-Current deposits	168,708	179,609	202,857	271,588	339,174
-Saving deposits	590,968	668,446	776,212	879,309	1,014,480
-Term deposit	2,229,182	2,334,105	2,839,326	3,354,809	3,827,908
Borrowings	220,214	321,142	353,674	449,933	534,146
-Sub ordinate debt	91,598	93,655	94,782	133,286	166,971
Other liabilities	129,747	132,434	114,776	138,442	148,059
Total liabilities	3,511,726	3,845,354	4,526,026	5,366,878	6,174,747
Cash/Equivalent	373,101	347,112	548,358	620,252	690,948
Advances	2,130,962	2,488,333	2,893,675	3,477,889	4,052,367
Investments	858,724	867,536	946,134	1,117,962	1,266,650
Fixed Assets	24,807	27,716	28,701	30,701	32,701
Other assets	124,132	114,657	109,158	120,074	132,081
Total assets	3,511,726	3,845,354	4,526,026	5,366,878	6,174,747

Source: Company, Karvy Institutional Research

Exhibit 12: Ratio's

Y/E Mar	FY11	FY12	FY13	FY14E	FY15E
<i>Growth (%)</i>					
NII growth	35.7	6.4	8.5	16.9	22.6
Pre-provision profit growth	14.4	24.3	11.4	12.5	26.2
PAT growth	42.9	7.6	2.7	19.7	48.6
<i>Business (%)</i>					
Deposit growth	30.1	6.5	20.0	18.0	15.0
Advance growth	26.5	16.8	16.3	20.2	16.5
Business growth	28.6	10.8	18.4	18.9	15.7
CD	71.3	78.2	75.8	77.2	78.2
CASA	25.4	26.7	25.6	25.5	26.1
<i>Operating efficiency (%)</i>					
Cost-to-income	50.0	44.0	43.2	44.4	41.8
Cost-to-assets	1.8	1.5	1.4	1.4	1.3
<i>Productivity (Rs mn)</i>					
Business per branch	1,454.9	1,400.5	1,546.2	1,683.9	1,796.1
Business per employee	128.7	127.6	159.3	183.9	206.5
Profit per branch	7.1	6.6	6.3	6.9	9.5
Profit per employee	0.6	0.6	0.7	0.8	1.1
<i>Spreads (%)</i>					
Yield on advances	8.1	8.8	8.6	8.1	7.8
Yield on investments	6.8	8.3	8.0	7.8	7.5
Cost of deposits	4.6	5.8	5.8	5.5	5.1
Yield on assets	7.7	8.5	8.2	7.9	7.5
Cost of funds	4.7	5.8	5.8	5.4	5.0
NIMs	2.8	2.5	2.3	2.3	2.4
<i>Capital adequacy (%)</i>					
Tier I	8.3	8.6	8.2	7.9	7.8
Tier II	3.8	3.4	2.8	3.3	3.6
Total CAR	12.2	12.0	11.0	11.2	11.5
<i>Asset Quality (%)</i>					
Gross NPA	2.2	2.3	3.0	3.3	3.1
Net NPA	0.9	1.5	2.1	2.1	1.8
Provision coverage	59.6	38.0	31.8	34.9	41.4
Provision coverage (incl w/off)	72.2	64.2	60.7	60.0	64.0
Slippage	1.5	2.3	2.7	2.3	1.8
Credit-cost	0.6	0.9	1.4	0.9	0.8
<i>Return (%)</i>					
ROE	15.8	14.0	12.3	12.9	16.8
ROA	0.8	0.7	0.7	0.7	0.8
<i>Per share (Rs)</i>					
EPS	45.5	46.6	46.1	51.2	76.0
BV	316.0	364.9	400.9	424.0	483.3
ABV	290.4	310.7	309.9	316.5	376.2
<i>Valuation (x)</i>					
P/E	5.3	5.1	5.2	4.6	3.1
P/BV	0.8	0.7	0.6	0.5	0.5
P/ABV	0.8	0.8	0.8	0.7	0.6

Source: Company, Karvy Institutional Research

Institutional Equities
 India Research

Development Credit Bank

COMPANY UPDATE

 Bloomberg: DEVB IN
 Reuters: DCBA.BO

BUY

Cashing in on Turnaround; Reiterate "BUY"

Demonstrated on Asset Quality: Development Credit Bank (DCB) has demonstrated improvement in asset quality with its Gross NPA rising by 550 bps to 3.2% over last 3 years. In response to extreme stress in retail category, the Bank allowed its unsecured personal loans and CV/CE segment to run off thereby de-risking the portfolio. Its average incremental slippages for past 3 years are within 1.3% (comparable to other private sector banks). The Bank has also improved its provision coverage to 84% from 50.5% in FY09.

Set to Double Its Balance Sheet in Next 3 Years: The Bank is well-positioned to gain market share in next 3 years. While it contracted its unsecured retail book, it grew its mortgage and SME segment by 80% & 35% CAGR, respectively.

Improved Liability Franchise; Rating Upgrade to Support NIMs: On the liability side, the Bank has been able to increase CASA and retail deposit thereby lowering dependence on bulk deposit. Recent rating upgrade of its Tier-II bonds and Certificate of Deposits would help the Bank in reducing its cost of funds and improving funding opportunities of the Bank. Its strategy of metro-centric branches has worked, as it has aggressive branch expansion plans of 20-30 branches each year now as against 94 during FY13.

Operational Leverage to Boost ROA: DCB has so far been able to manage its cost successfully by bringing down the cost-to-income ratio to 70.7% in FY13 from 86.7% in FY10. Unlike some of its peers, DCB doesn't have a staff union, which enables the Bank with higher control in containing cost and managing its staff efficiently. DCB's Management has targeted to improve cost-to-income to 60% by FY15E.

Outlook & Valuation

We reiterate our "BUY" recommendation on DCB with unrevised target price of Rs. 70 per share valuing it at 1.4x P/ABV FY15E.

Key Financials (Standalone)

Y/E Mar (Rs mn)	FY11	FY12	FY13	FY14E	FY15E
Net Interest Income	1,891	2,277	2,844	3,577	4,434
Pre-Provision Profit	860	838	1,261	1,872	2,497
PAT	214	551	1,021	1,475	1,730
EPS (Rs)	1.1	2.3	4.1	5.9	6.9
ABV (Rs)	28.8	34.4	38.0	43.1	49.2
P/E	54.3	25.3	14.2	9.8	8.4
P/ABV	2.0	1.7	1.5	1.3	1.2
Gross NPA (%)	5.9	4.4	3.2	2.7	2.3
Net NPA (%)	1.0	0.6	0.7	0.8	0.9
ROA (%)	0.3	0.7	1.0	1.2	1.2
ROE (%)	3.5	7.5	11.0	13.7	14.0

Source: Company, Karvy Institutional Research

Recommendation

CMP:	Rs58
Target Price:	Rs70
Upside (%)	22%

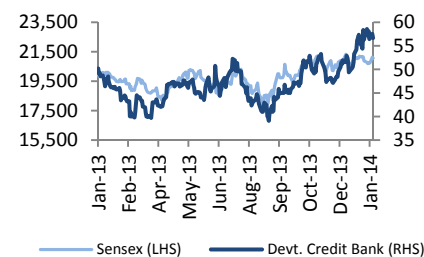
Stock Information

Market Cap. (Rs bn / US\$ mn)	14/234
52-week High/Low (Rs)	60/38
3m ADV (Rs mn /US\$ mn)	77/1.2
Beta	1.3
Sensex/ Nifty	21,134/6,273
Share outstanding (mn)	250

Stock Performance (%)

	1M	3M	12M	YTD
Absolute	16.5	17.2	18.5	5.8
Rel. to Sensex	14.2	13.9	10.3	6.0

Performance



Source: Bloomberg

Analyst Contact

Hatim Broachwala, CFA
 022-6184 4329
 hatim.broachwala@karvy.com

Development Credit Bank

Financials

Exhibit 13: Income Statement

Y/E Mar (Rs mn)	FY11	FY12	FY13	FY14E	FY15E
Interest Income	5,363	7,170	9,161	11,338	13,331
Interest expense	3,472	4,893	6,317	7,760	8,897
Net interest income	1,891	2,277	2,844	3,577	4,434
Fees	661	787	893	1,027	1,232
Other Income	196	150	155	225	249
Net Revenue	2,748	3,214	3,892	4,829	5,915
Operating Expense	2,152	2,466	2,753	3,171	3,578
-Employee Exp	1,064	1,246	1,379	1,563	1,777
-Other Exp	1,088	1,220	1,374	1,608	1,800
Operating Profit	596	748	1,139	1,658	2,337
Investment Profit	264	90	122	214	160
Pre-provision Profit	860	838	1,261	1,872	2,497
Provisions	568	287	240	397	532
-Loan Loss Provisions	468	245	183	367	502
-Provisions for investment	2	8	(4)	-	-
-Other Provisions	98	34	61	30	30
PBT	292	551	1,021	1,475	1,965
Taxes	78	-	-	-	236
PAT	214	551	1,021	1,475	1,730

Source: Company, Karvy Institutional Research

Exhibit 14: Balance Sheet

Y/E Mar (Rs mn)	FY11	FY12	FY13	FY14E	FY15E
Equity Capital	2,002	2,407	2,501	2,501	2,501
Reserves & Surplus	4,185	6,178	7,499	8,974	10,703
Shareholder's Funds	6,187	8,585	10,000	11,475	13,204
Deposits	56,102	63,355	83,638	103,711	126,528
-Current deposits	8,858	8,392	8,992	10,999	13,281
-Saving deposits	10,897	11,954	13,724	17,739	23,443
-Term deposit	36,347	43,009	60,922	74,973	89,804
Borrowings	8,607	11,235	15,256	14,855	17,821
-Sub ordinate debt	1,010	750	650	570	1,163
Other liabilities	3,233	3,593	3,894	4,423	4,983
Total liabilities	74,129	86,768	112,788	134,463	162,535
Cash/Equivalent	4,872	4,565	8,833	10,971	13,481
Advances	42,817	52,844	65,861	80,916	101,451
Investments	22,950	25,178	33,587	37,602	42,165
Fixed Assets	1,275	1,846	2,394	2,544	2,644
Other assets	2,215	2,335	2,113	2,430	2,794
Total assets	74,129	86,768	112,788	134,463	162,535

Source: Company, Karvy Institutional Research

Development Credit Bank
Exhibit 15: Ratio's

Y/E Mar	FY11	FY12	FY13	FY14E	FY15E
<i>Growth (%)</i>					
NII growth	33.2	20.4	24.9	25.8	23.9
Pre-provision profit growth	78.1	-2.6	50.5	48.4	33.4
PAT growth	-127.3	157.5	85.3	44.4	17.3
<i>Business (%)</i>					
Deposit growth	17.2	12.9	32.0	24.0	22.0
Advance growth	23.8	23.4	24.6	22.9	25.4
Business growth	19.9	17.5	28.7	23.5	23.5
CD	76.3	83.4	78.7	78.0	80.2
CASA	35.2	32.1	27.2	27.7	29.0
<i>Operating efficiency (%)</i>					
Cost-to-income	78.3	76.7	70.7	65.7	60.5
Cost-to-assets	3.5	3.4	3.0	2.7	2.6
<i>Productivity (Rs mn)</i>					
Business per branch	1,236.5	1,383.3	1,590.4	1,488.9	1,583.2
Business per employee	45.5	54.0	67.3	76.3	87.0
Profit per branch	2.7	6.6	10.9	11.9	12.0
Profit per employee	0.1	0.3	0.5	0.6	0.7
<i>Spreads (%)</i>					
Yield on advances	10.4	11.2	12.0	12.0	11.5
Yield on investments	6.1	7.2	6.7	6.7	6.7
Cost of deposits	5.6	6.8	7.3	7.3	6.9
Yield on assets	8.7	9.8	9.9	9.8	9.6
Cost of funds	5.6	6.7	7.0	6.9	6.5
NIMs	3.1	3.1	3.1	3.1	3.2
<i>Capital adequacy (%)</i>					
Tier I	11.1	13.8	13.6	12.9	12.3
Tier II	2.2	1.6	1.0	0.7	1.2
Total CAR	13.3	15.4	14.6	13.6	13.5
<i>Asset Quality (%)</i>					
Gross NPA	5.9	4.4	3.2	2.7	2.3
Net NPA	1.0	0.6	0.7	0.8	0.9
Provision coverage	84.4	87.5	77.2	68.7	61.9
Provision coverage (Incl Tech W/o)	87.6	91.2	85.7	81.6	78.3
Slippage	1.3	1.4	1.3	1.4	1.3
Credit-cost	1.2	0.5	0.3	0.4	0.5
<i>Return (%)</i>					
ROE	3.5	7.5	11.0	13.7	14.0
ROA	0.3	0.7	1.0	1.2	1.2
<i>Per share</i>					
EPS	1.1	2.3	4.1	5.9	6.9
BV	30.9	35.7	40.0	45.9	52.8
ABV	28.8	34.4	38.0	43.1	49.2
<i>Valuation</i>					
P/E	54.3	25.3	14.2	9.8	8.4
P/BV	1.9	1.6	1.5	1.3	1.1
P/ABV	2.0	1.7	1.5	1.3	1.2

Source: Company, Karvy Institutional Research

Institutional Equities
 India Research

HDFC Bank

COMPANY UPDATE

 Bloomberg: HDFCB IN
 Reuters: HDBK.BO

HOLD

Superior Asset Quality, But Fully Priced-in; Reiterate "HOLD"

Asset Quality at Peak; Credit Cost to Inch Higher: HDFC Bank's asset quality has shown tremendous resilience in last 3 years, while its slippages declined to 0.9% in FY12, which is even better than reasonable expectations of its Management. Its Gross NPA remains stable at 1% with no major restructured assets. We believe that it would be very difficult for the Bank to further improve on this front, given its composition of its loan book. Though retail portfolio of overall industry – *in terms of delinquencies* – has so far done well, it also means that portfolio is unseasoned. Hence, we have factored higher credit cost going ahead, assuming it doesn't heavily utilize its floating provision.

Sustaining Business Momentum: HDFC Bank's credit growth remains strong and it continues to grow 4-5% above the industry. However, the growth has off late come more from the retail segment, whereas corporate segment has relatively slowed down. The Bank's CASA – *which used to be >50%* – has declined to ~45% in Q2FY14.

Best-in-Class NIMs: Despite difficult conditions, backed by its strong deposit franchise, the Bank has been able to maintain the NIMs (calculated) of 4.5%, which is best in the industry. The Bank's cost of funds is one of the lowest at 5.7%. Despite decline in CASA, the Bank has been able to maintain its NIMs on the back of shift in portfolio mix from corporate to retail. Its Management has guided to maintain its NIMs at current levels.

PAT Growth Streak of 30% for 55 Quarter Breaks: The Bank has eventually acknowledged that with CAGR operating profit growth of 22%, it can no longer continue its 30% profit.

Outlook & Valuation

We reiterate our "HOLD" recommendation on HDFC Bank with unrevised target price of Rs. 725 per share valuing it at 3.4x P/ABV FY15E.

Key Financials (Standalone)

Y/E Mar (Rs mn)	FY11	FY12E	FY13	FY14E	FY15E
Net Interest Income	105,431	128,845	158,111	186,256	220,812
Pre-Provision Profit	77,254	93,905	114,276	141,926	166,786
PAT	39,264	51,670	67,263	82,273	97,385
EPS (Rs)	16.9	22.0	28.3	34.6	40.9
ABV (Rs)	111.0	132.1	157.9	182.7	212.1
P/E (x)	39.9	30.6	23.8	19.5	16.4
P/ABV (x)	6.0	5.1	4.3	3.7	3.2
Gross NPA (%)	1.0	1.0	1.0	1.1	1.2
Net NPA (%)	0.2	0.2	0.2	0.3	0.3
ROA (%)	1.6	1.7	1.8	1.9	1.8
ROE (%)	16.7	18.7	20.3	20.8	20.9

Source: Company, Karvy Institutional Research

Recommendation

CMP:	Rs673
Target Price:	Rs725
Upside (%)	8%

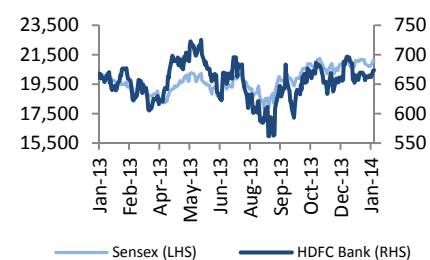
Stock Information

Market Cap. (Rs bn / US\$ mn)	1,611/26,189
52-week High/Low (Rs)	727/528
3m ADV (Rs mn / US\$ mn)	2,043/33.2
Beta	1.1
Sensex/ Nifty	21,134/6,273
Share outstanding (mn)	2,395

Stock Performance (%)

	1M	3M	12M	YTD
Absolute	(2.5)	1.7	0.5	1.1
Rel. to Sensex	(4.4)	(1.2)	(6.5)	1.2

Performance



Source: Bloomberg

Analyst Contact

Hatim Broachwala, CFA
 022-6184 4329
 hatim.broachwala@karvy.com

Financials

Exhibit 16: Income Statement

Y/E Mar (Rs mn)	FY11	FY12	FY13	FY14E	FY15E
Interest Income	199,282	278,741	350,649	412,592	477,478
Interest expense	93,851	149,896	192,538	226,336	256,666
Net interest income	105,431	128,845	158,111	186,256	220,812
Fees	35,967	42,755	51,669	58,386	68,895
Other Income	7,919	17,025	15,255	21,264	24,929
Net Revenue	149,317	188,625	225,035	265,906	314,636
Operating Expense	71,529	92,776	112,361	126,973	149,229
-Employee Exp	28,360	33,999	39,654	44,087	51,423
-Other Exp	43,169	58,777	72,707	82,886	97,805
Operating Profit	77,788	95,849	112,674	138,932	165,407
Investment Profit	-534	-1,944	1,602	2,994	1,378
Pre-provision Profit	77,254	93,905	114,276	141,926	166,786
Provisions	19,067	18,774	16,769	17,270	19,233
-Loan Loss Provisions	7,630	12,422	13,579	17,808	21,686
-Provisions for investment	0	934	522	456	542
-Other Provisions	11,437	5,418	2,668	-994	-2,994
PBT	58,187	75,131	97,507	124,656	147,553
Taxes	18,923	23,461	30,244	42,383	50,168
PAT	39,264	51,670	67,263	82,273	97,385

Source: Company, Karvy Institutional Research

Exhibit 17: Balance Sheet

Y/E Mar (Rs mn)	FY11	FY12	FY13	FY14E	FY15E
Equity Capital	4,652	4,693	4,759	4,759	4,759
Reserves & Surplus	249,111	294,549	357,382	422,952	500,849
Shareholder's Funds	253,763	299,242	362,141	427,711	505,608
Deposits	2,085,864	2,467,064	2,962,470	3,614,213	4,409,340
-Current deposits	464,605	454,078	523,103	653,452	812,477
-Saving deposits	634,478	739,980	882,112	1,142,809	1,460,860
-Term deposit	986,781	1,273,006	1,557,255	1,817,952	2,136,003
Borrowings	143,941	238,466	330,066	371,778	422,666
-Sub ordinate debt	73,931	105,969	160,439	181,295	206,739
Other liabilities	289,958	374,322	348,642	370,416	407,081
Total liabilities	2,773,526	3,379,094	4,003,319	4,784,117	5,744,695
Cash/Equivalent	296,689	209,377	272,802	338,498	429,143
Advances	1,599,827	1,954,200	2,397,206	2,918,601	3,554,702
Investments	709,294	974,829	1,116,136	1,279,072	1,477,854
Fixed Assets	21,706	23,472	27,031	29,281	31,531
Other assets	146,010	217,217	190,144	218,666	251,465
Total assets	2,773,526	3,379,095	4,003,319	4,784,117	5,744,695

Source: Company, Karvy Institutional Research

Exhibit 18: Ratio's

Y/E Mar	FY11	FY12	FY13	FY14E	FY15E
<i>Growth (%)</i>					
NII growth	25.7	22.2	22.7	17.8	18.6
Pre-provision profit growth	20.2	21.6	21.7	24.2	17.5
PAT growth	33.2	31.6	30.2	22.3	18.4
<i>Business (%)</i>					
Deposit growth	24.6	18.3	20.1	22.0	22.0
Advance growth	27.1	22.2	22.7	21.8	21.8
Business growth	25.7	20.0	21.2	21.9	21.9
CD	76.7	79.2	80.9	80.8	80.6
CASA	52.7	48.4	47.4	49.7	51.6
<i>Operating efficiency (%)</i>					
Cost-to-income	47.9	49.2	49.9	47.8	47.4
Cost-to-assets	3.3	3.4	3.3	3.1	3.1
<i>Productivity (Rs mn)</i>					
Business per branch	1,855.8	1,737.9	1,750.4	1,987.5	2,267.7
Business per employee	66.1	66.9	77.6	92.7	104.7
Profit per branch	19.8	20.3	22.0	25.0	27.7
Profit per employee	0.7	0.8	1.0	1.2	1.3
<i>Spreads (%)</i>					
Yield on advances	10.6	11.9	12.3	11.9	11.4
Yield on investments	7.2	7.7	7.5	7.5	7.3
Cost of deposits	4.3	5.6	6.0	5.9	5.5
Yield on assets	9.1	10.3	10.4	10.2	9.8
Cost of funds	4.1	5.4	5.7	5.7	5.3
NIMs	4.8	4.8	4.7	4.6	4.6
<i>Capital adequacy (%)</i>					
Tier I	12.2	11.6	11.1	10.9	10.8
Tier II	4.0	4.9	5.7	5.4	5.1
Total CAR	16.2	16.5	16.8	16.4	15.9
<i>Asset Quality (%)</i>					
Gross NPA	1.0	1.0	1.0	1.1	1.2
Net NPA	0.2	0.2	0.2	0.3	0.3
Provision coverage	82.5	82.4	79.9	74.2	74.3
Slippage	1.0	0.9	0.9	1.1	1.0
Credit-cost	0.5	0.6	0.6	0.6	0.6
<i>Return (%)</i>					
ROE	16.7	18.7	20.3	20.8	20.9
ROA	1.6	1.7	1.8	1.9	1.8
<i>Per share</i>					
EPS	16.9	22.0	28.3	34.6	40.9
BV	109.1	127.5	152.2	179.7	212.5
ABV	111.0	132.1	157.9	182.7	212.1
<i>Valuation</i>					
P/E	39.9	30.6	23.8	19.5	16.4
P/BV	6.1	5.2	4.4	3.7	3.1
P/ABV	6.0	5.1	4.3	3.7	3.2

Source: Company, Karvy Institutional Research

Institutional Equities
 India Research

ICICI Bank

COMPANY UPDATE

 Bloomberg: ICICIBC IN
 Reuters: ICBK.BO

BUY

To Reap Rich Benefit of Being Conservative; Reiterate "BUY"

Substantial Improvement in Asset Quality: There has been substantial improvement in the asset quality of ICICI Bank with its Gross NPA improving >200 bps in three years vis-à-vis industry trend of further deterioration. Its restructured book at just 2.1% of loan book seems to be at comfortable zone. As per the Bank's Management, the credit cost – including restructuring related provisioning – would remain within 0.75% of loan book in FY14E. The Bank's Management has guided restructuring pipeline of Rs. 20 bn for H2FY14E.

Outperformance of Balance-sheet Growth: Picking up the pace, the Bank's balance-sheet growth has started growing marginally above the industry compared to underperformance last year. Though the Bank's retail credit has shown the initial signs of revival, it has shifted significantly away from the unsecured retail credit. It has now built a strong CASA base of 43.3% in Q2FY14 from 28.7% in FY09.

Improved NIMs – To Sustain at Current Levels: The Bank's NIMs has improved by 60 bps over last three years to 3.2%, with push from domestic as well as international segment. Its Management has guided for stable NIMs, going ahead. We believe with CASA at comfortable levels, it won't be very difficult for the Bank to maintain the NIMs at current levels.

Outlook & Valuation

We reiterate our "BUY" recommendation on ICICI Bank with unrevised target price of Rs. 1,190 per share valuing parent at 1.8x P/ABV FY15E and Rs. 200 for subsidiaries.

Key Financials (Standalone)

Y/E Mar (Rs mn)	FY11	FY12	FY13	FY14E	FY15E
Net Interest Income	90,169	107,342	138,664	162,855	182,761
Pre-Provision Profit	90,476	103,866	131,992	153,661	172,303
PAT	51,514	64,653	83,254	90,011	101,570
EPS (Rs)	44.7	56.1	72.2	78.0	88.0
ABV (Rs)	457.4	507.8	558.9	605.8	660.6
P/E	19.1	15.2	11.8	11.0	9.7
P/ABV	2.4	2.1	1.9	1.7	1.5
Gross NPA (%)	4.5	3.6	3.2	3.1	2.9
Net NPA (%)	1.1	0.7	0.8	0.9	0.9
ROA (%)	1.3	1.5	1.6	1.6	1.6
ROE (%)	9.7	11.2	13.1	12.9	13.3

Source: Company, Karvy Institutional Research

Recommendation

CMP:	Rs1,055
Target Price:	Rs1,190
Upside (%)	13%

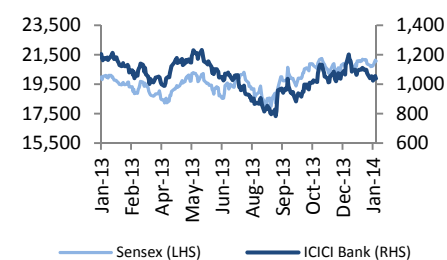
Stock Information

Market Cap. (Rs bn / US\$ mn)	1,218/19,796
52-week High/Low (Rs)	1,238/757
3m ADV (Rs mn /US\$ mn)	3,908/63.5
Beta	1.4
Sensex/Nifty	21,134/6,273
Share outstanding (mn)	1,155

Stock Performance (%)

	1M	3M	12M	YTD
Absolute	(2.8)	5.8	(9.3)	(4)
Rel. to Sensex	(4.7)	2.8	(15.6)	(3.8)

Performance



Source: Bloomberg

Analyst Contact

Hatim Broachwala, CFA
 022-6184 4329
 hatim.broachwala@karvy.com

Financials

Exhibit 19: Income Statement

Y/E Mar (Rs mn)	FY11	FY12	FY13	FY14E	FY15E
Interest Income	259,741	335,427	400,756	436,318	477,026
Interest expense	169,572	228,085	262,092	273,464	294,265
Net interest income	90,169	107,342	138,664	162,855	182,761
Fees	55,146	54,351	54,617	61,171	70,347
Other Income	13,355	21,433	24,123	26,991	29,690
Net Revenue	158,670	183,126	217,404	251,017	282,798
Operating Expense	66,172	78,504	90,129	102,530	115,955
-Employee Exp	28,169	35,153	38,933	42,924	47,323
-Other Exp	38,003	43,351	51,196	59,607	68,631
Operating Profit	92,498	104,622	127,275	148,487	166,843
Investment Profit	-2,022	-756	4,717	5,175	5,460
Pre-provision Profit	90,476	103,866	131,992	153,661	172,303
Provisions	22,899	15,892	18,096	26,886	29,247
-Loan Loss Provisions	19,769	9,932	15,387	24,522	26,801
-Provisions for investment	2,038	4,132	1,262	916	999
-Other Provisions	1,092	1,828	1,447	1,447	1,447
PBT	67,577	87,974	113,896	126,776	143,056
Taxes	16,063	23,321	30,642	36,765	41,486
PAT	51,514	64,653	83,254	90,011	101,570

Source: Company, Karvy Institutional Research

Exhibit 20: Balance Sheet

Y/E Mar (Rs mn)	FY11	FY12	FY13	FY14E	FY15E
Equity Capital	11,518	11,528	11,536	11,536	11,536
Reserves & Surplus	539,388	592,501	655,479	717,147	786,325
Shareholder's Funds	550,906	604,029	667,015	728,683	797,861
Deposits	2,256,021	2,555,000	2,926,135	3,365,055	4,038,066
-Current deposits	347,775	349,731	369,255	435,093	536,045
-Saving deposits	668,690	760,463	856,507	988,183	1,190,086
-Term deposit	1,239,556	1,444,806	1,700,373	1,941,779	2,311,935
Borrowings	1,095,543	1,401,649	1,453,415	1,570,161	1,715,522
-Sub ordinate debt	363,913	376,147	396,622	431,646	475,254
Other liabilities	159,867	175,793	321,381	306,944	291,541
Total liabilities	4,062,337	4,736,471	5,367,946	5,970,843	6,842,990
Cash/Equivalent	340,901	362,293	414,175	465,083	543,143
Advances	2,163,659	2,537,277	2,902,494	3,385,306	3,957,366
Investments	1,346,860	1,595,600	1,713,936	1,735,882	1,904,135
Fixed Assets	47,442	46,147	46,470	50,070	53,670
Other assets	163,475	195,154	290,871	334,502	384,677
Total assets	4,062,337	4,736,471	5,367,946	5,970,843	6,842,990

Source: Company, Karvy Institutional Research

Exhibit 21: Ratio's

Y/E Mar	FY11	FY12	FY13	FY14E	FY15E
<i>Growth (%)</i>					
NII growth	11.1	19.0	29.2	17.4	12.2
Pre-provision profit growth	-7.0	14.8	27.1	16.4	12.1
PAT growth	28.0	25.5	28.8	8.1	12.8
<i>Business (%)</i>					
Deposit growth	11.7	13.3	14.5	15.0	20.0
Advance growth	19.4	17.3	14.4	16.6	16.9
Business growth	15.3	15.2	14.5	15.8	18.4
CD	95.9	99.3	99.2	100.6	98.0
CASA	45.1	43.5	41.9	42.3	42.7
<i>Operating efficiency (%)</i>					
Cost-to-income	41.7	42.9	41.5	40.8	41.0
Cost-to-assets	1.9	2.0	2.0	2.0	2.0
<i>Productivity (Rs mn)</i>					
Business per branch	1,747.6	1,850.4	1,880.2	1,985.4	2,160.9
Business per employee	77.6	87.4	93.9	103.6	116.8
Profit per branch	20.4	23.5	26.9	26.5	27.5
Profit per employee	0.9	1.1	1.3	1.4	1.5
<i>Spreads (%)</i>					
Yield on advances	8.3	9.4	10.1	9.6	9.1
Yield on investments	6.2	6.6	6.7	6.7	6.7
Cost of deposits	4.7	5.9	6.2	5.9	5.5
Yield on assets	7.6	8.4	8.7	8.5	8.2
Cost of funds	5.1	6.0	5.9	5.5	5.2
NIMs	2.6	2.7	3.0	3.2	3.1
<i>Capital adequacy (%)</i>					
Tier I	13.2	12.7	12.8	12.6	12.0
Tier II	6.4	5.8	5.9	5.8	5.6
Total CAR	19.5	18.5	18.7	18.4	17.6
<i>Asset Quality (%)</i>					
Gross NPA	4.5	3.6	3.2	3.1	2.9
Net NPA	1.1	0.7	0.8	0.9	0.9
Provision coverage	76.0	80.4	76.8	72.3	69.5
Slippage	1.4	1.3	1.3	1.5	1.4
Credit-cost	1.0	0.4	0.5	0.7	0.7
<i>Return (%)</i>					
ROE	9.7	11.2	13.1	12.9	13.3
ROA	1.3	1.5	1.6	1.6	1.6
<i>Per share</i>					
EPS	44.7	56.1	72.2	78.0	88.0
BV	478.3	524.0	578.2	631.7	691.6
ABV	457.4	507.8	558.9	605.8	660.6
<i>Valuation</i>					
P/E	19.1	15.2	11.8	11.0	9.7
P/BV	2.3	2.1	1.8	1.6	1.5
P/ABV	2.4	2.1	1.9	1.7	1.5

Source: Company, Karvy Institutional Research

Institutional Equities
 India Research

ING Vysya Bank

RESULT REVIEW

 Bloomberg: VYSB IN
 Reuters: VYSB.BO

HOLD

Steady Performer – But Positives Priced-in; Maintain “HOLD”

Strong Credit Growth with Diversified Loan Book: Improving sharply from moderate growth, credit growth of ING Vysya Bank' has outpaced the industry by 3-5% in FY11 & FY12 especially after the appointment of new Management. The Bank's balance sheet growth witnessed a slowdown in FY13 on account of cautious approach of the Management. With recent follow-on offer, the Bank has gained strength to leverage its balance sheet, growing ahead.

Improving Asset Quality with Lowest Slippage; No Exposure to Vulnerable Sector: The Bank's asset quality has shown sharp improving trends over the past three years compared to sharp deterioration reported by its peers. It has negligible exposure in any of the ailing sectors like aviation, SEBs, realty and oil companies, etc. The Bank mainly focuses on working capital requirements of the corporates, where it has a better control on its cash-flow. The Bank's Gross NPA of only ~0.3% in SME segment is remarkable. However, given the slowdown in the economy, we have cautiously built in higher slippage in our estimates.

Operational Leverage to Boost RoA: The Bank has so far been able to successfully manage its cost by bringing down cost-to-income ratio to 57% in FY13 from 83.4% in FY06. The proportion of unionized staff has declined from 4/5th to 1/3rd of total employee base. As a long-term strategy, the Bank plans to bring down cost-to-income ratio close to 50% in next three years.

Outlook & Valuation

We reiterate our “HOLD” recommendation on ING Vysya Bank with unrevised target price of Rs. 630 per share valuing it at 1.5x P/ABV FY15E.

Key Financials (Standalone)

Y/E Mar (Rs mn)	FY11	FY12	FY13	FY14E	FY15E
Net Interest Income	10,066	12,083	15,386	17,927	20,405
Pre-Provision Profit	6,355	7,679	9,927	12,382	14,707
PAT	3,187	4,563	6,130	7143	8304
EPS (Rs)	26.3	30.4	39.6	38.6	44.9
ABV (Rs)	209.1	261.5	298.1	377.8	415.0
P/E	22.1	19.1	14.7	15.0	12.9
P/ABV	2.8	2.2	1.9	1.5	1.4
Gross NPA (%)	2.3	1.9	1.8	1.9	1.8
Net NPA (%)	0.4	0.2	0.0	0.2	0.1
ROA (%)	0.9	1.1	1.2	1.2	1.2
ROE (%)	12.9	13.8	14.2	12.2	11.2

Source: Company, Karvy Institutional Research

Recommendation

CMP:	Rs581
Target Price:	Rs630
Upside (%)	8%

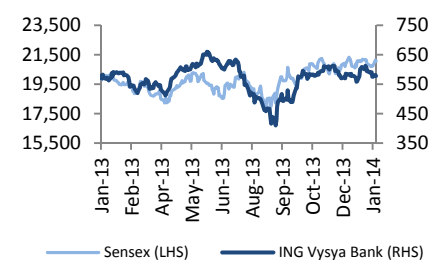
Stock Information

Market Cap. (Rs bn / US\$ mn)	109/1,779
52-week High/Low (Rs)	667/406
3m ADV (Rs mn /US\$ mn)	77/1.2
Beta	0.9
Sensex/ Nifty	21,134/6,273
Share outstanding (mn)	188

Stock Performance (%)

	1M	3M	12M	YTD
Absolute	0.4	(0.5)	2.9	(5.1)
Rel. to Sensex	(1.5)	(3.3)	(4.2)	(4.9)

Performance



Source: Bloomberg

Analyst Contact

Hatim Broachwala, CFA
 022-6184 4329
 hatim.broachwala@karvy.com

Financials

Exhibit 22: Income Statement

Y/E Mar (Rs mn)	FY11	FY12	FY13	FY14E	FY15E
Interest Income	26,941	38,568	48,616	53,563	58,315
Interest expense	16,875	26,485	33,230	35,636	37,910
Net interest income	10,066	12,083	15,386	17,927	20,405
Fees	4,189	4,689	4,794	5,273	6,064
Other Income	1,390	1,878	2,168	2,979	3,176
Net Revenue	15,645	18,650	22,348	26,179	29,645
Operating Expense	10,260	11,102	12,728	14,178	15,779
-Employee Exp	6,057	6,510	7,507	8,383	9,404
-Other Exp	4,203	4,592	5,221	5,795	6,375
Operating Profit	5,385	7,548	9,620	12,001	13,866
Investment Profit	970	131	307	380	841
Pre-provision Profit	6,355	7,679	9,927	12,382	14,707
Provisions	1,518	1,140	915	1,877	2,495
-Loan Loss Provisions	1,718	1,096	880	1,877	2,495
-Provisions for investment	54	(4)	87	-	-
-Other Provisions	(254)	48	(52)	-	-
PBT	4,837	6,539	9,012	10,505	12,211
Taxes	1,650	1,976	2,882	3,362	3,908
PAT	3,187	4,563	6,130	7,143	8,304

Source: Company, Karvy Institutional Research

Exhibit 23: Balance Sheet

Y/E Mar (Rs mn)	FY11	FY12	FY13	FY14E	FY15E
Equity Capital	1,210	1,501	1,549	1,849	1,849
Reserves & Surplus	25,014	38,281	44,710	68,615	75,405
Shareholder's Funds	26,224	39,782	46,259	70,464	77,254
Deposits	301,942	351,954	413,340	4,62,941	5,46,270
-Current deposits	51,071	64,044	73,169	80,609	93,109
-Saving deposits	53,515	56,429	61,183	71,103	91,935
-Term deposit	197,356	231,481	278,988	3,11,229	3,61,226
Borrowings	41,469	56,965	65,112	60,789	67,705
-Sub ordinate debt	10,522	11,206	13,906	11,745	15,203
Other liabilities	20,504	21,304	23,653	23,743	26,252
Total liabilities	390,139	470,005	548,364	6,17,937	7,17,481
Cash/Equivalent	25,214	32,306	28,334	33,601	43,018
Advances	236,021	287,367	317,720	3,64,841	4,27,338
Investments	110,207	127,155	182,782	1,97,662	2,22,661
Fixed Assets	5,028	5,008	4,996	5,121	5,246
Other assets	13,669	18,169	14,532	16,712	19,219
Total assets	390,139	470,005	548,364	6,17,937	7,17,481

Source: Company, Karvy Institutional Research

Exhibit 24: Ratio's

Y/E Mar	FY11	FY12	FY13	FY14E	FY15E
<i>Growth (%)</i>					
NII growth	21.3	20.0	27.3	16.5	13.8
Pre-provision profit growth	-1.0	20.8	29.3	24.7	18.8
PAT growth	31.6	43.2	34.3	16.5	16.2
<i>Business (%)</i>					
Deposit growth	16.7	16.6	17.4	12.0	18.0
Advance growth	27.5	21.8	10.6	14.8	17.1
Business growth	21.2	18.8	14.3	13.2	17.6
CD	78.2	81.6	76.9	78.8	78.2
CASA	34.6	34.2	32.5	32.8	33.9
<i>Operating efficiency (%)</i>					
Cost-to-income	65.6	59.5	57.0	54.2	53.2
Cost-to-assets	3.1	2.8	2.7	2.6	2.5
<i>Productivity (Rs mn)</i>					
Business per branch	1,052.8	1,213.1	1,348.8	1459.9	1644.6
Business per employee	76.4	63.9	74.6	78.5	86.2
Profit per branch	6.2	8.7	11.3	12.6	14.0
Profit per employee	0.5	0.5	0.6	0.7	0.7
<i>Spreads (%)</i>					
Yield on advances	9.7	11.0	11.7	11.2	10.6
Yield on investments	6.0	8.3	8.4	8.0	7.7
Cost of deposits	4.8	6.6	6.7	6.6	6.3
Yield on assets	8.2	9.8	10.3	9.8	9.3
Cost of funds	5.0	6.7	7.1	6.8	6.4
NIMs	3.1	3.1	3.3	3.3	3.3
<i>Capital adequacy (%)</i>					
Tier I	9.4	11.2	10.5	14.2	13.4
Tier II	3.6	2.8	2.8	2.1	2.3
Total CAR	12.9	14.0	13.2	16.2	15.7
<i>Asset Quality (%)</i>					
Gross NPA	2.3	1.9	1.8	1.9	1.8
Net NPA	0.4	0.2	0.0	0.2	0.1
Provision coverage	83.4	90.7	98.4	91.1	93.5
Slippage	1.1	0.7	0.6	1.2	1.0
Credit-cost	0.7	0.3	0.3	0.5	0.6
<i>Return (%)</i>					
ROE	12.9	13.8	14.2	12.2	11.2
ROA	0.9	1.1	1.2	1.2	1.2
<i>Per share</i>					
EPS	26.3	30.4	39.6	38.6	44.9
BV	216.7	265.0	298.6	381.1	417.8
ABV	209.1	261.5	298.1	377.8	415.0
<i>Valuation</i>					
P/E	23.0	19.9	15.3	15.0	12.9
P/BV	2.8	2.3	2.0	1.5	1.4
P/ABV	2.9	2.3	2.0	1.5	1.4

Source: Company, Karvy Institutional Research

Institutional Equities
 India Research

Jammu & Kashmir Bank

COMPANY UPDATE

 Bloomberg: JKBK IN
 Reuters: JKBK.BO

BUY

Improving Fundamentals – Case for Rerating; Reiterate “BUY”

Asset Quality Remains Unperturbed amid Economic Slowdown: Contrary to other PSU Banks which are struggling with sharp deterioration in their asset quality, J&K Bank has improved its Gross NPA by 20 bps over last 2 years. Such outperformance can be attributed to superior domain expertise in SME and trade segment within the state of J&K. Majority of personal loan within the State relates to housing and loans to State Government employees against which they hold salary account with the Bank. Even higher economic activity within state of J&K has helped the Bank. For lending outside the state of J&K, the Bank sticks to better rated corporates. In addition to healthy provision coverage >90%, it also has a reasonably lower exposure to difficult sectors that provides us comfort on its asset quality, going ahead.

NIMs are best in class: J&K Bank's NIMs are on upswing, as it has reported NIMs >4% in last four quarters. Higher CASA (39%) and better liability franchise have helped in managing total cost of deposits lower than its peers. Its NIMs have improved on the back of improvement in Credit-Deposit (CD) ratio and tilting its advance portfolio in favor of state of J&K. CD ratio has improved by 600 bps over last 2 quarters to 67%, yet it significantly lower than industry average of 77%, which suggests further scope for expansion. Advance mix within high yielding state of J&K has improved by 400 bps to 43%; its Management plans to reach it at 50% in next 2-3 years.

Superior Return Ratios: The Bank enjoys one of the best RoE & RoA profile compared to its peers, which has consistently improved over past few years on the back of higher NIMs, operational efficiency and lower slippages resulting in lower credit cost.

Outlook & Valuation

We reiterate our “BUY” recommendation on J&K Bank with unrevised target price of Rs. 1755 per share valuing it at 1.3x P/ABV FY15E.

Key Financials (Standalone)

Y/E Mar (Rs mn)	FY11	FY12	FY13	FY14E	FY15E
Net Interest Income	15,436	18,384	23,161	27,411	32,027
Pre-Provision Profit	11,495	13,703	18,108	19,969	24,282
PAT	6,152	8,033	10,551	11,336	13,171
EPS (Rs)	126.8	165.6	217.5	233.7	271.6
ABV (Rs)	706.3	833.8	991.6	1,153.7	1,351.1
P/E	10.9	8.4	6.4	5.9	5.1
P/ABV	2.0	1.7	1.4	1.2	1.0
Gross NPA (%)	2.0	1.5	1.6	1.6	1.8
Net NPA (%)	0.2	0.1	0.1	0.2	0.2
ROA (%)	1.3	1.5	1.6	1.5	1.5
ROE (%)	19.0	21.2	23.6	21.5	21.3

Source: Company, Karvy Institutional Research

Recommendation

CMP:	Rs1,385
Target Price:	Rs1,755
Upside (%)	27%

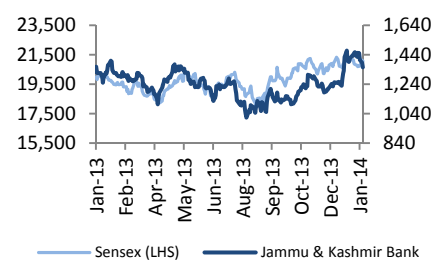
Stock Information

Market Cap. (Rs bn / US\$ mn)	67/1,092
52-week High/Low (Rs)	1,499/995
3m ADV (Rs mn /US\$ mn)	92/1.5
Beta	0.9
Sensex/ Nifty	21,134/6,273
Share outstanding (mn)	48

Stock Performance (%)

	1M	3M	12M	YTD
Absolute	11.4	25.0	5.3	(3.6)
Rel. to Sensex	9.2	21.5	(2)	(3.4)

Performance



Source: Bloomberg

Analyst Contact

Hatim Broachwala, CFA
 022-6184 4329
 hatim.broachwala@karvy.com

Jammu & Kashmir Bank

Financials

Exhibit 25: Income Statement

Y/E Mar (Rs mn)	FY11	FY12	FY13	FY14E	FY15E
Interest Income	37,131	48,356	61,368	70,666	80,172
Interest expense	21,695	29,972	38,207	43,255	48,145
Net interest income	15,436	18,384	23,161	27,411	32,027
Fees	1,272	1,587	1,774	2,040	2,407
Other Income	1,452	1,395	1,570	1,727	1,900
Net Revenue	18,160	21,366	26,505	31,178	36,334
Operating Expense	7,589	8,022	9,890	11,738	12,897
-Employee Exp	5,236	5,214	6,523	7,597	7,928
-Other Exp	2,353	2,808	3,367	4,141	4,970
Operating Profit	10,571	13,344	16,615	19,440	23,437
Investment Profit	924	359	1,493	529	845
Pre-provision Profit	11,495	13,703	18,108	19,969	24,282
Provisions	2,151	1,692	2,842	3,175	4,476
-Loan Loss Provisions	1,300	1,200	1,883	2,295	3,872
-Investment Depreciation	410	123	460	332	0
-Other Provisions	441	369	499	549	604
PBT	9,344	12,011	15,266	16,794	19,807
Taxes	3,192	3,978	4,715	5,458	6,635
PAT	6,152	8,033	10,551	11,336	13,171

Source: Company, Karvy Institutional Research

Exhibit 26: Balance Sheet

Y/E Mar (Rs mn)	FY11	FY12	FY13	FY14E	FY15E
Equity Capital	485	485	485	485	485
Reserves & Surplus	34,302	40,447	48,162	56,377	66,144
Shareholder's Funds	34,787	40,932	48,647	56,862	66,629
Deposits	446,759	533,469	642,206	738,537	871,474
-Current deposits	53,599	57,344	64,015	70,758	80,064
-Saving deposits	127,268	159,807	187,895	221,611	268,139
-Term deposit	265,892	316,318	390,296	446,168	523,271
Borrowings	11,047	12,409	10,750	14,507	19,691
-Sub ordinate debt	6,000	6,000	6,000	7,127	8,682
Other liabilities	12,489	15,882	15,830	13,235	9,906
Total liabilities	505,082	602,692	717,433	823,141	967,700
Cash/Equivalent	35,488	44,539	54,044	61,729	71,567
Advances	261,936	330,774	392,004	473,885	586,881
Investments	196,958	216,243	257,411	271,861	291,801
Fixed Assets	3,938	4,203	4,561	5,311	6,061
Other assets	6,762	6,933	9,413	10,354	11,390
Total assets	505,082	602,692	717,433	823,141	967,700

Source: Company, Karvy Institutional Research

Jammu & Kashmir Bank
Exhibit 27: Ratio's

Y/E Mar	FY11	FY12	FY13	FY14E	FY15E
<i>Growth</i>					
NII growth	37.9	19.1	26.0	18.4	16.8
Pre-provision profit growth	20.0	19.2	32.1	10.3	21.6
PAT growth	20.1	30.6	31.3	7.4	16.2
<i>Business (%)</i>					
Deposit growth	20.0	19.4	20.4	15.0	18.0
Advance growth	13.6	26.3	18.5	20.9	23.8
Business growth	17.5	21.9	19.7	17.2	20.3
CD	58.6	62.0	61.0	64.2	67.3
CASA	40.5	40.7	39.2	39.6	40.0
<i>Operating efficiency (%)</i>					
Cost-to-income	41.8	37.5	37.3	37.6	35.5
Cost-to-assets	1.8	1.6	1.6	1.6	1.5
<i>Productivity (Rs mn)</i>					
Business per branch	1,293.2	1,433.2	1,509.8	1,695.7	1,957.5
Business per employee	89.3	96.8	110.0	127.0	150.3
Profit per branch	11.2	13.3	15.4	15.9	17.7
Profit per employee	0.8	0.9	1.1	1.2	1.4
<i>Spreads (%)</i>					
Yield on advances	10.7	11.5	11.9	11.7	11.2
Yield on investments	6.3	6.8	7.3	7.1	6.9
Cost of deposits	5.1	5.9	6.4	6.1	5.8
Yield on assets	8.7	9.4	9.9	9.7	9.5
Cost of funds	5.0	5.8	6.2	6.0	5.8
NIMs	3.6	3.6	3.7	3.8	3.8
<i>Capital adequacy (%)</i>					
Tier I	11.3	11.1	10.9	11.1	11.0
Tier II	2.4	2.2	2.0	0.8	0.8
Total CAR	13.7	13.4	12.8	11.8	11.8
<i>Asset Quality (%)</i>					
Gross NPA	2.0	1.5	1.6	1.6	1.8
Net NPA	0.2	0.1	0.1	0.2	0.2
Provision coverage	89.7	90.5	91.4	88.5	89.7
Provision coverage (incl w/off)	92.7	93.8	94.0	91.9	92.4
Slippage	1.2	1.1	1.3	1.1	1.2
Credit-cost	0.5	0.3	0.4	0.5	0.7
<i>Return (%)</i>					
ROE	19.0	21.2	23.6	21.5	21.3
ROA	1.3	1.5	1.6	1.5	1.5
<i>Per share (Rs)</i>					
EPS	126.8	165.6	217.5	233.7	271.6
BV	717.3	844.0	1,003.0	1,172.4	1,373.8
ABV	706.3	833.8	991.6	1,153.7	1,351.1
<i>Valuation</i>					
P/E	10.9	8.4	6.4	5.9	5.1
P/BV	1.9	1.6	1.4	1.2	1.0
P/ABV	2.0	1.7	1.4	1.2	1.0

Source: Company, Karvy Institutional Research

Institutional Equities
 India Research

Punjab National Bank

COMPANY UPDATE

 Bloomberg: PNB IN
 Reuters: PNBK.BO

BUY

Biggest Beneficiary of Likely Economic Turnaround; Reiterate "BUY"

Lower Credit Growth Indicates Cautious Approach: Punjab National Bank (PNB) has slowed down its credit growth to 6% as against over 20% CAGR in last 8 years and such meager credit growth indicates Management's commitment towards asset quality restoration and not fancy race for growth.

Deterioration in Asset Quality Drags Valuation: PNB is trading at discount to BoB & SBI mainly on account of higher slippages and restructuring. In earlier interest rate cycle, the Bank mostly traded at premium to its PSU peers on account of its better NIMs & ROE profile.

Credit Cost to Ease: On account of deterioration in its asset book, PNB's credit cost has taken a huge hit over past 2 years. Despite situation worsening, the Bank has been able to maintain its provision coverage at ~55% for last 5 quarters. With expected improvement in economy and recovery cycle along with interest rate cuts, the Bank will be the biggest beneficiary, going forward.

Best-in-Class NIMs: Despite higher slippages and credit cost during the year, the Bank managed to make average RoA of >0.9% for last 4 quarters, on account of high margin profile. Even after the slide, the Bank makes NIMs of >3.5%, backed by healthy CASA, as it operates in cash-rich northern belt.

Outlook & Valuation

We reiterate our "BUY" recommendation on PNB with unrevised target price of Rs. 730 per share valuing it at 0.8x P/ABV FY15E.

Key Financials (Standalone)

Y/E Mar (Rs mn)	FY11	FY12	FY13	FY14E	FY15E
Net Interest Income	118,074	134,144	148,565	1,63,098	1,82,256
Pre-Provision Profit	90,557	106,143	109,073	1,14,785	1,33,583
PAT	44,335	48,842	47,476	39,241	65,085
EPS (Rs)	139.9	144.0	134.3	111.0	184.1
ABV (Rs)	648.5	720.5	750.1	744.0	917.3
P/E	4.5	4.4	4.7	5.4	3.3
P/ABV	1.0	0.9	0.8	0.8	0.7
Gross NPA (%)	1.8	2.9	4.3	5.2	4.6
Net NPA (%)	0.8	1.5	2.3	2.9	2.2
ROA (%)	1.3	1.2	1.0	0.8	1.1
ROE (%)	22.6	19.8	15.7	11.5	17.2

Source: Company, Karvy Institutional Research

Recommendation

CMP:	Rs601
Target Price:	Rs730
Upside (%)	21%

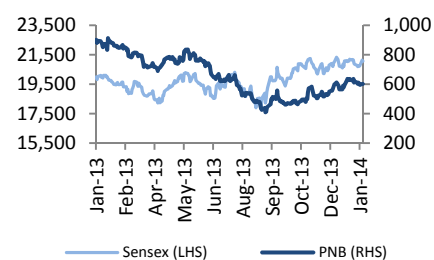
Stock Information

Market Cap. (Rs bn / US\$ mn)	218/3,539
52-week High/Low (Rs)	922/400
3m ADV (Rs mn /US\$ mn)	1,113/18.1
Beta	1.5
Sensex/ Nifty	21,134/6,273
Share outstanding (mn)	362

Stock Performance (%)

	1M	3M	12M	YTD
Absolute	6.4	23.6	(31.7)	(4)
Rel. to Sensex	4.3	20.1	(36.5)	(3.8)

Performance



Source: Bloomberg

Analyst Contact

Hatim Broachwala, CFA
 022-6184 4329
 hatim.broachwala@karvy.com

Financials

Exhibit 28: Income Statement

Y/E Mar (Rs mn)	FY11	FY12	FY13	FY14E	FY15E
Interest Income	2,69,865	3,64,280	4,18,933	4,29,025	4,66,970
Interest expense	1,51,791	2,30,136	2,70,368	2,65,927	2,84,714
Net interest income	1,18,074	1,34,144	1,48,565	1,63,098	1,82,256
Fees	20,452	23,748	23,373	25,710	29,567
Other Income	12,650	14,767	13,894	15,253	16,817
Net Revenue	1,51,176	1,72,659	1,85,832	2,04,061	2,28,640
Operating Expense	63,642	70,027	81,651	94,660	1,00,945
-Employee Exp	44,611	47,235	56,747	66,269	68,296
-Other Exp	19,031	22,792	24,904	28,391	32,649
Operating Profit	87,534	1,02,632	1,04,181	1,09,401	1,27,695
Investment Profit	3,023	3,511	4,892	5,384	5,887
Pre-provision Profit	90,557	1,06,143	1,09,073	1,14,785	1,33,583
Provisions	24,920	35,773	43,856	58,727	40,605
-Loan Loss Provisions	20,037	24,031	33,364	36,027	34,010
-Investment Depreciation	1,475	2,351	1,036	12,236	500
-Other Provisions	3,408	9,391	9,456	10,463	6,095
PBT	65,637	70,370	65,217	56,059	92,978
Taxes	21,302	21,528	17,741	16,818	27,893
PAT	44,335	48,842	47,476	39,241	65,085

Source: Company, Karvy Institutional Research

Exhibit 29: Balance Sheet

Y/E Mar (Rs mn)	FY11	FY12	FY13	FY14E	FY15E
Equity Capital	3,168	3,392	3,535	3,535	3,535
Reserves & Surplus	2,11,917	2,74,778	3,23,234	3,50,068	4,01,504
Shareholder's Funds	2,15,085	2,78,170	3,26,769	3,53,603	4,05,039
Deposits	31,28,987	37,95,885	39,15,601	43,85,473	51,74,858
-Current deposits	2,68,376	2,84,723	2,98,743	3,69,224	4,87,632
-Saving deposits	9,34,874	10,56,570	12,34,701	13,75,663	16,12,478
-Term deposit	19,25,737	24,54,592	23,82,157	26,40,587	30,74,749
Borrowings	3,15,897	3,72,643	3,96,210	4,12,633	4,40,224
-Sub ordinate debt	1,11,903	1,11,903	1,08,953	1,17,165	1,30,960
Other liabilities	1,23,283	1,35,242	1,50,190	1,76,324	2,00,931
Total liabilities	37,83,252	45,81,940	47,88,770	53,28,033	62,21,052
Cash/Equivalent	2,96,912	2,88,280	2,71,353	3,15,969	3,90,923
Advances	24,21,067	29,37,748	30,87,252	34,63,150	40,94,658
Investments	9,51,623	12,26,295	12,98,962	13,92,936	15,50,813
Fixed Assets	31,056	31,689	33,577	38,827	44,077
Other assets	82,594	97,929	97,626	1,17,151	1,40,581
Total assets	37,83,252	45,81,941	47,88,770	53,28,033	62,21,052

Source: Company, Karvy Institutional Research

Punjab National Bank
Exhibit 30: Ratio's

Y/E Mar	FY11	FY12	FY13	FY14E	FY15E
<i>Growth</i>					
NII growth	38.5	13.6	10.8	9.8	11.7
Pre-provision profit growth	23.6	17.2	2.8	5.2	16.4
PAT growth	13.5	10.2	-2.8	-17.3	65.9
<i>Business (%)</i>					
Deposit growth	25.5	21.3	3.2	12.0	18.0
Advance growth	29.7	21.3	5.1	12.2	18.2
Business growth	27.3	21.3	4.0	12.1	18.1
CD	77.4	77.4	78.8	79.0	79.1
CASA	38.5	35.3	39.2	39.8	40.6
<i>Operating efficiency (%)</i>					
Cost-to-income	42.1	40.6	43.9	46.4	44.2
Cost-to-assets	2.1	1.8	1.9	2.0	1.9
<i>Productivity (Rs mn)</i>					
Business per branch	1,069.6	1,186.5	1,192.2	1261.0	1410.0
Business per employee	97.3	108.4	104.4	111.4	125.3
Profit per branch	8.5	8.6	8.1	6.3	9.9
Profit per employee	0.8	0.8	0.7	0.6	0.9
<i>Spreads (%)</i>					
Yield on advances	9.8	10.6	10.6	10.2	9.6
Yield on investments	6.5	7.1	7.5	6.9	6.9
Cost of deposits	4.9	6.2	6.6	6.0	5.6
Yield on assets	8.8	9.4	9.5	9.0	8.6
Cost of funds	4.8	5.8	6.2	5.6	5.3
NIMs	3.8	3.5	3.4	3.4	3.4
<i>Capital adequacy (%)</i>					
Tier I	8.4	9.3	9.8	9.5	9.3
Tier II	4.0	3.4	3.0	2.9	2.7
Total CAR	12.4	12.6	12.7	12.4	12.1
<i>Asset Quality (%)</i>					
Gross NPA	1.8	2.9	4.3	5.2	4.6
Net NPA	0.8	1.5	2.3	2.9	2.2
Provision coverage	53.5	48.9	46.3	45.4	52.6
Provision coverage (incl w/off)	73.2	62.7	58.8	56.3	62.5
Slippage	2.0	2.5	2.9	3.4	2.5
Credit-cost	0.9	0.9	1.1	1.1	0.9
<i>Return (%)</i>					
ROE	22.6	19.8	15.7	11.5	17.2
ROA	1.3	1.2	1.0	0.8	1.1
<i>Per share</i>					
EPS	139.9	144.0	134.3	111.0	184.1
BV	678.9	820.1	924.4	1000.3	1145.8
ABV	648.5	720.5	750.1	744.0	917.3
<i>Valuation</i>					
P/E	4.3	4.2	4.5	5.4	3.3
P/BV	0.9	0.7	0.7	0.6	0.5
P/ABV	0.9	0.8	0.8	0.8	0.7

Source: Company, Karvy Institutional Research

Institutional Equities
 India Research

State Bank of India

COMPANY UPDATE

 Bloomberg: SBIN IN
 Reuters: SBI.BO

BUY

Slippages to Move Southwards; Reiterate "BUY"

Credit Cost to Move Southwards: State Bank of India (SBI) has witnessed huge pressure on its asset quality with its Gross NPA increasing by 140 bps over last two years. Resultantly, the Bank has accounted for higher credit cost, while keeping provision coverage stable. With expectations of gradual recovery in the economy, we expect incremental slippages and credit cost to start trending downwards.

Q2FY14 – A Big Relief: Slippage 3% during significantly eased to 3% in Q2FY14 compared to shocker of 5.2% in Q1FY14. More than half of slippages are from mid-corporate segment. The Bank's Management has guided slippages in H2FY14 to track Q2FY14 levels.

Pressure on NIMs – Likely to Continue: SBI's NIMs (domestic) underwent a significant compression of ~15 bps over last four quarters. Pressure on its NIMs is expected to continue, going forward on account of slowdown seen in high-yielding SME segment and discounts offered in the retail segment.

Overall Growth to Remain Moderate: Overall slowdown in SBI's corporate credit is a cause of concern. The Bank has significantly tightened its lending standards for mid-corporate and SME segment, which has seen higher slippages. Its Management has indicated at marginal improvement in new project proposals. We believe that majority of incremental growth will be driven by retail and large corporate segments, going forward.

Outlook & Valuation

We reiterate our "BUY" recommendation on SBI with unrevised target price of Rs. 2,100 per share valuing parent at 1.3x P/ABV FY15E and Rs. 560 for subsidiaries.

Key Financials (Standalone)

Y/E Mar (Rs mn)	FY11	FY12	FY13	FY14E	FY15E
Net Interest Income	325,264	432,910	443,313	492,330	550,726
Pre-Provision Profit	253,356	315,735	310,817	315,912	396,498
PAT	82,645	117,073	141,050	117,969	182,828
EPS (Rs)	130.1	174.5	206.2	172.5	267.3
ABV (Rs)	829.0	1,015.4	1,124.7	1,061.8	1,270.9
P/E	8.3	6.2	5.2	6.3	4.0
P/ABV	1.4	1.2	1.0	1.1	0.9
Gross NPA (%)	3.3	4.5	4.8	5.6	5.2
Net NPA (%)	1.6	1.8	2.1	2.8	2.4
ROA (%)	0.7	0.9	1.0	0.7	0.9
ROE (%)	12.6	15.7	15.4	11.5	16.0

Source: Company, Karvy Institutional Research

Recommendation

CMP:	Rs1,641
Target Price:	Rs2,100
Upside (%)	28%

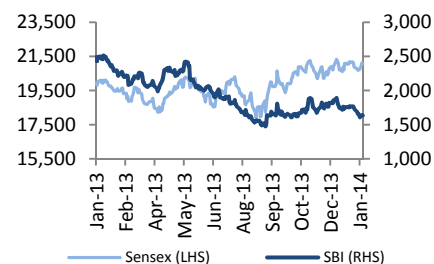
Stock Information

Market Cap. (Rs bn / US\$ mn)	1,141/18,547
52-week High/Low (Rs)	2,535/1,453
3m ADV (Rs mn /US\$ mn)	3,906/63.5
Beta	1.4
Sensex/ Nifty	21,134/6,273
Share outstanding (mn)	695

Stock Performance (%)

	1M	3M	12M	YTD
Absolute	(5.9)	(0.7)	(34.1)	(7.1)
Rel. to Sensex	(7.7)	(3.5)	(38.7)	(6.9)

Performance



Source: Bloomberg

Analyst Contact

Hatim Broachwala, CFA

022-6184 4329

hatim.broachwala@karvy.com

Financials

Exhibit 31: Income Statement

Y/E Mar (Rs mn)	FY11	FY12	FY13	FY14E	FY15E
Interest Income	813,944	1,065,214	1,196,571	1,343,599	1,478,113
Interest expense	488,680	632,304	753,258	851,269	927,387
Net interest income	325,264	432,910	443,313	492,330	550,726
Fees	115,633	120,909	114,837	128,617	147,910
Other Income	33,588	32,245	34,857	36,827	41,082
Net Revenue	474,485	586,064	593,007	657,775	739,718
Operating Expense	230,154	260,690	292,844	360,432	364,008
-Employee Exp	144,802	169,740	183,809	227,409	211,032
-Other Exp	85,352	90,950	109,035	133,023	152,976
Operating Profit	244,331	325,374	300,163	297,343	375,710
Investment Profit	9,025	-9,639	10,654	18,569	20,787
Pre-provision Profit	253,356	315,735	310,817	315,912	396,498
Provisions	103,814	130,902	111,308	142,428	115,223
-Loan Loss Provisions	84,154	114,941	106,570	113,251	105,687
-Investment Depreciation	6,468	6,637	-9,670	20,140	-
-Other Provisions	13,192	9,324	14,408	9,036	9,537
PBT	149,542	184,833	199,509	173,484	281,274
Taxes	66,897	67,760	58,459	55,515	98,446
PAT	82,645	117,073	141,050	117,969	182,828

Source: Company, Karvy Institutional Research

Exhibit 32: Balance Sheet

Y/E Mar (Rs mn)	FY11	FY12	FY13	FY14E	FY15E
Equity Capital	6,350	6,710	6,840	6,840	6,840
Reserves & Surplus	643,510	832,802	981,997	1,063,955	1,206,771
Shareholder's Funds	649,860	839,512	988,837	1,070,795	1,213,611
Deposits	9,339,328	10,436,474	12,027,396	14,072,053	16,464,302
-Current deposits	1,311,953	984,503	1,126,803	1,433,502	2,031,564
-Saving deposits	3,303,261	3,691,563	4,263,831	4,877,228	5,594,903
-Term deposit	4,724,114	5,760,408	6,636,762	7,761,324	8,837,836
Borrowings	1,195,689	1,270,056	1,691,828	1,997,719	2,355,611
-Sub ordinate debt	396,238	400,162	402,292	555,237	734,183
Other liabilities	1,052,485	809,150	954,550	988,323	978,966
Total liabilities	12,237,362	13,355,192	15,662,611	18,128,890	21,012,490
Cash/Equivalent	1,228,741	971,631	1,148,202	1,392,753	1,678,878
Advances	7,567,194	8,675,789	10,456,166	12,194,125	14,227,536
Investments	2,956,006	3,121,976	3,509,273	3,918,204	4,396,654
Fixed Assets	47,642	54,666	70,050	73,050	76,050
Other assets	437,779	531,130	478,920	550,758	633,372
Total assets	12,237,362	13,355,192	15,662,611	18,128,890	21,012,490

Source: Company, Karvy Institutional Research

State Bank of India
Exhibit 33: Ratio's

Y/E Mar	FY11	FY12	FY13	FY14E	FY15E
<i>Growth (%)</i>					
NII growth	37.4	33.1	2.4	11.1	11.9
Pre-provision profit growth	38.3	24.6	-1.6	1.6	25.5
PAT growth	-9.8	41.7	20.5	-16.4	55.0
<i>Business (%)</i>					
Deposit growth	16.1	11.7	15.2	17.0	17.0
Advance growth	19.8	14.7	20.5	16.6	16.7
Business growth	17.7	13.0	17.6	16.8	16.8
CD	81.0	83.1	86.9	86.7	86.4
CASA	48.7	44.1	44.8	44.8	46.3
<i>Operating efficiency (%)</i>					
Cost-to-income	48.5	44.5	49.4	54.8	49.2
Cost-to-assets	2.2	2.2	2.2	2.3	2.0
<i>Productivity (Rs mn)</i>					
Business per branch	1,248.5	1,355.8	1,517.5	1,715.0	1,940.6
Business per employee	75.8	88.7	98.5	110.6	124.3
Profit per branch	6.1	8.3	9.5	7.7	11.6
Profit per employee	0.4	0.5	0.6	0.5	0.7
<i>Spreads (%)</i>					
Yield on advances	8.6	10.0	9.5	9.0	8.5
Yield on investments	6.8	7.9	8.2	8.1	7.9
Cost of deposits	5.0	5.6	6.0	5.8	5.3
Yield on assets	7.9	9.2	8.9	8.6	8.1
Cost of funds	4.6	5.2	5.5	5.4	5.0
NIMs	3.2	3.7	3.3	3.1	3.0
<i>Capital adequacy (%)</i>					
Tier I	7.8	9.8	9.5	9.2	9.0
Tier II	4.2	4.1	3.4	4.8	5.5
Total CAR	12.0	13.9	12.9	14.0	14.5
<i>Asset Quality (%)</i>					
Gross NPA	3.3	4.5	4.8	5.6	5.2
Net NPA	1.6	1.8	2.1	2.8	2.4
Provision coverage	51.2	60.1	57.1	51.2	54.7
Provision coverage (incl w/off)	65.0	68.1	66.6	60.2	63.2
Slippage	2.6	3.0	3.3	3.5	2.5
Credit-cost	1.2	1.4	1.1	1.0	0.8
<i>Return (%)</i>					
ROE	12.6	15.7	15.4	11.5	16.0
ROA	0.7	0.9	1.0	0.7	0.9
<i>Per share</i>					
EPS	130.1	174.5	206.2	172.5	267.3
BV	1,023.4	1,251.1	1,445.7	1,565.5	1,774.3
ABV	829.0	1,015.4	1,124.7	1,061.8	1,270.9
<i>Valuation</i>					
P/E	8.3	6.2	5.2	6.3	4.0
P/BV	1.1	0.9	0.8	0.7	0.6
P/ABV	1.4	1.2	1.0	1.1	0.9

Source: Company, Karvy Institutional Research

Institutional Equities
 India Research

Union Bank of India

COMPANY UPDATE

 Bloomberg: UNBK IN
 Reuters: UNBK.BO

BUY

Value Pick; Reiterate "BUY"

Selective Growth in Credit: While the overall credit of Union Bank of India (UBI) in corporate segment is slowing down, its Management expects a moderate growth in credit of over 18% in FY14 driven by Retail, Agriculture & SME segments. The Bank is focusing more in Tier-II & Tier-III cities for expanding retail credit. The Bank's delinquency experience in SME segment has been better than peers. Its overseas segment is growing over 30% and now it forms 7% of loan book.

NIMs – Expected to Remain Stable: UBI's NIMs declined by 40 bps to 2.6% over last year. Its Management expects that the Bank's NIMs to stabilize at current levels, going forward. The pressure on NIMs owing to discounts on retail segment would be offset by moderate growth in SME segment and improvement of CASA.

Asset Quality Needs To Be Watched: UBI had reported healthy numbers in H2FY14 while the average slippages were contained at 1.6%. Post that the Bank reported slippage in excess of 3% for consecutive two quarters. As a result the Bank's Gross NPA surged over 60 bps to 3.6%. UBI's outstanding restructured portfolio has been flattish at 5% of loan book.

Dividend Yield of Over 6%: UBI is one of the few large-cap banking stocks where there is an attractive dividend yield of over 6%.

Outlook & Valuation

We reiterate our "BUY" recommendation on UBI with unrevised target price of Rs. 160 per share valuing the bank at 0.6x P/ABV FY15E.

Key Financials (Standalone)

Y/E Mar (Rs mn)	FY11	FY12	FY13	FY14E	FY15E
Net Interest Income	62,162	69,089	75,428	80,905	94,606
Pre-Provision Profit	43,049	52,538	55,827	55,012	70,336
PAT	20819	17872	21579	15814	28714
EPS (Rs)	39.6	32.4	36.1	26.4	48.0
ABV (Rs)	206.6	222.0	243.8	216.9	267.2
P/E	3.3	4.0	3.6	4.7	2.6
P/ABV	0.6	0.6	0.5	0.6	0.5
Gross NPA (%)	2.4	3.0	3.0	3.7	3.2
Net NPA (%)	1.2	1.7	1.6	2.3	1.7
ROA (%)	1.0	0.7	0.8	0.5	0.7
ROE (%)	18.0	13.2	13.6	9.0	15.1

Source: Company, Karvy Institutional Research

Recommendation

CMP:	Rs124
Target Price:	Rs160
Upside (%)	29%

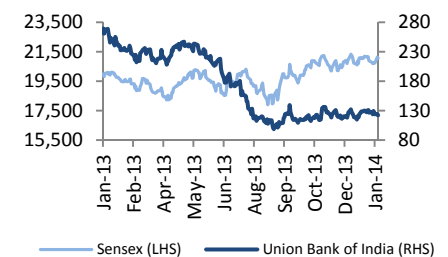
Stock Information

Market Cap. (Rs bn / US\$ mn)	78/1,273
52-week High/Low (Rs)	274/97
3m ADV (Rs mn /US\$ mn)	693/11.3
Beta	1.5
Sensex/ Nifty	21,134/6,273
Share outstanding (mn)	630

Stock Performance (%)

	1M	3M	12M	YTD
Absolute	4.4	4.1	(51.9)	(4.7)
Rel. to Sensex	2.3	1.1	(55.2)	(4.6)

Performance



Source: Bloomberg

Analyst Contact

Hatim Broachwala, CFA
 022-6184 4329
 hatim.broachwala@karvy.com

Financials

Exhibit 34: Income Statement

Y/E Mar (Rs mn)	FY11	FY12	FY13	FY14E	FY15E
Interest Income	1,64,526	2,11,443	2,51,247	2,86,308	3,21,537
Interest expense	1,02,364	1,42,354	1,75,819	2,05,402	2,26,931
Net interest income	62,162	69,089	75,428	80,905	94,606
Fees	3,649	3,651	3,640	4,186	4,939
Other Income	12,098	15,272	17,125	19,054	23,423
Net Revenue	77,909	88,012	96,193	1,04,145	1,22,969
Operating Expense	39,500	39,875	45,122	53,438	59,428
-Employee Exp	25,997	24,793	27,550	32,351	34,125
-Other Exp	13,503	15,082	17,572	21,086	25,304
Operating Profit	38,409	48,137	51,071	50,707	63,541
Investment Profit	4,640	4,401	4,756	4,305	6,795
Pre-provision Profit	43,049	52,538	55,827	55,012	70,336
Provisions	13,496	25,410	25,185	33,049	29,317
-Loan Loss Provisions	12,902	17,405	17,763	24,323	27,117
-Investment Depreciation	267	550	1,975	3,225	200
-Other Provisions	327	7,455	5,447	5,500	2,000
PBT	29,553	27,128	30,642	21,964	41,019
Taxes	8,734	9,256	9,063	6,150	12,306
PAT	20,819	17,872	21,579	15,814	28,714

Source: Company, Karvy Institutional Research

Exhibit 35: Balance Sheet

Y/E Mar (Rs mn)	FY11	FY12	FY13	FY14E	FY15E
Equity Capital	5,253	5,515	5,979	5,979	5,979
Reserves & Surplus	1,21,280	1,39,714	1,65,884	1,74,026	1,94,424
Shareholder's Funds	1,26,533	1,45,229	1,71,863	1,80,005	2,00,403
Deposits	20,24,613	22,28,690	26,37,616	31,65,139	37,34,864
-Current deposits	1,96,180	1,92,762	2,41,383	2,94,135	3,51,108
-Saving deposits	4,46,892	5,04,289	5,74,967	7,06,848	8,49,279
-Term deposit	13,81,541	15,31,639	18,21,266	21,64,156	25,34,477
Borrowings	1,33,160	1,79,095	2,37,973	2,39,524	2,41,198
-Sub ordinate debt	61,900	61,900	67,900	68,520	69,190
Other liabilities	75,528	69,100	71,156	94,629	1,08,380
Total liabilities	23,59,834	26,22,114	31,18,608	36,79,297	42,84,845
Cash/Equivalent	2,00,985	1,56,751	1,62,104	2,16,407	2,75,054
Advances	15,09,861	17,78,821	20,81,022	24,76,664	29,03,958
Investments	5,83,991	6,23,636	8,08,304	9,13,809	10,27,754
Fixed Assets	22,928	23,358	24,790	25,790	26,790
Other assets	42,080	39,548	42,388	46,627	51,289
Total assets	23,59,845	26,22,114	31,18,608	36,79,297	42,84,845

Source: Company, Karvy Institutional Research

Union Bank of India
Exhibit 36: Ratio's

Y/E Mar	FY11	FY12	FY13	FY14E	FY15E
Growth (%)					
NII growth	48.3	11.1	9.2	7.3	16.9
Pre-provision profit growth	17.6	22.0	6.3	-1.5	27.9
PAT growth	0.3	-14.2	20.7	-26.7	81.6
Business (%)					
Deposit growth	19.1	10.1	18.3	20.0	18.0
Advance growth	26.5	17.8	17.0	19.0	17.3
Business growth	22.2	13.4	17.7	19.6	17.7
CD	74.6	79.8	78.9	78.2	77.8
CASA	31.8	31.3	31.0	31.6	32.1
Operating efficiency (%)					
Cost-to-income	50.7	45.3	46.9	51.3	48.3
Cost-to-assets	2.0	1.7	1.7	1.7	1.6
Productivity (Rs mn)					
Business per branch	1,171.9	1,252.0	1,344.0	1520.3	1697.5
Business per employee	127.4	130.0	148.4	169.0	189.4
Profit per branch	6.9	5.6	6.1	4.3	7.3
Profit per employee	0.8	0.6	0.7	0.5	0.8
Spreads (%)					
Yield on advances	8.9	9.7	9.9	9.4	8.9
Yield on investments	7.1	7.6	7.9	7.8	7.8
Cost of deposits	5.1	6.3	6.8	6.6	6.2
Yield on assets	8.4	9.2	9.3	8.9	8.5
Cost of funds	5.0	6.0	6.5	6.4	6.0
NIMs	3.2	3.0	2.8	2.5	2.5
Capital adequacy (%)					
Tier I	8.7	8.4	8.2	8.0	7.6
Tier II	4.3	3.5	3.2	3.0	2.6
Total CAR	13.0	11.9	11.5	11.0	10.2
Asset Quality (%)					
Gross NPA	2.4	3.0	3.0	3.7	3.2
Net NPA	1.2	1.7	1.6	2.3	1.7
Provision coverage	62.5	44.5	46.9	38.5	48.9
Provision coverage (incl w/off)	73.3	62.2	65.2	56.9	66.0
Slippage	2.2	2.3	2.1	2.7	1.7
Credit-cost	0.8	0.9	0.8	0.9	0.9
Return (%)					
ROE	18.0	13.2	13.6	9.0	15.1
ROA	1.0	0.7	0.8	0.5	0.7
Per share (Rs)					
EPS	39.6	32.4	36.1	26.4	48.0
BV	240.9	263.3	287.4	301.1	335.2
ABV	206.6	222.0	243.8	216.9	267.2
Valuation (x)					
P/E	3.1	3.8	3.4	4.7	2.6
P/BV	0.5	0.5	0.4	0.4	0.4
P/ABV	0.6	0.6	0.5	0.6	0.5

Source: Company, Karvy Institutional Research

Institutional Equities Team

Rangachari Muralikrishnan	Head – Institutional Equities / Research / Strategy	+91-22 61844301	muralikrishnan@karvy.com
K. Anant Rao	Head - Sales-Trading & Derivatives	+91-22 61844303	k.anantrao@karvy.com
INSTITUTIONAL RESEARCH			
Analysts	Industry / Sector	Desk Phone	Email ID
Amey Chalke	Pharmaceuticals Associate	+91 -22 61844325	amey.chalke@karvy.com
Ankur Lakhotia	Derivatives and Quant Associate	+91 -22 61844327	ankur.lakhotia@karvy.com
Hatim Broachwala, CFA	Banking	+91-22 61844329	hatim.broachwala@karvy.com
Kruti Shah, CFA	Economist	+91-22 61844320	kruti.shah@karvy.com
Manoj Kumar Manish	Derivatives and Quant Analyst	+91-22 61844343	manojkumar.m@karvy.com
Maruti Kadam	Research Associate	+91-22 61844326	maruti.kadam@karvy.com
Mitul Shah	Automobiles	+91-22 61844312	mitul.shah@karvy.com
Parikshit Kandpal	Infra / Real Estate / Consumer / Strategy	+91-22 61844311	parikshit.kandpal@karvy.com
Rahul Sharma	Pharmaceuticals	+91-22 61844310	rahul.sharma@karvy.com
Rahul Singh	Textiles	+91-40-44857911	rahulsingh@karvy.com
Rajesh Kumar Ravi	Cement, Logistics & Paints	+91-22 61844313	rajesh.ravi@karvy.com
Rupesh Sankhe	Power/Capital Goods	+91-22 61844315	rupesh.sankhe@karvy.com
Sagar Shah	Media & Entertainment	+91 22 61844316	sagarshah@karvy.com
Varun Chakri	Research Associate	+91 22 61844326	varun.chakri@karvy.com
INSTITUTIONAL SALES			
Celine Dsouza	Sales	+91-22 61844341	celine.dsouza@karvy.com
Edelbert Dcosta	Sales	+91-22 61844344	edelbert.dcosta@karvy.com
INSTITUTIONAL SALES TRADING & DEALING			
Bhavesh Gandhi	Dealer	+91-22 61844368 /69	bhavesh.gandhi@karvy.com
Prashant Oza	Dealer	+91-22 61844370 /71	prashant.oza@karvy.com
Gurdarshan Singh Kharbanda	Dealer	+91-22-61844368 / 69	gurdarshansingh.k@karvy.com
PRODUCTION			
Asim Kumar Mohapatra	Editor	+91-22 61844318	asim.mohapatra@karvy.com
Vijayalaxmi L. Moolya	Production	+91-22 61844328	vijayalaxmi.m@karvy.com

Stock Ratings		Absolute Returns
Buy	:	> 15%
Hold	:	5-15%
Sell	:	< 5%

For further enquiries please contact:

research@karvy.com

Tel: +91-22-6184 4300

Disclosures Appendix

Analyst certification

The following analyst(s), who is (are) primarily responsible for this report, certify (ies) that the views expressed herein accurately reflect his (their) personal view(s) about the subject security (ies) and issuer(s) and that no part of his (their) compensation was, is or will be directly or indirectly related to the specific recommendation(s) or views contained in this research report.

Disclaimer

The information and views presented in this report are prepared by Karvy Stock Broking Limited. The information contained herein is based on our analysis and upon sources that we consider reliable. We, however, do not vouch for the accuracy or the completeness thereof. This material is for personal information and we are not responsible for any loss incurred based upon it. The investments discussed or recommended in this report may not be suitable for all investors. Investors must make their own investment decisions based on their specific investment objectives and financial position and using such independent advice, as they believe necessary. While acting upon any information or analysis mentioned in this report, investors may please note that neither Karvy nor Karvy Stock Broking nor any person connected with any associate companies of Karvy accepts any liability arising from the use of this information and views mentioned in this document.

The author, directors and other employees of Karvy and its affiliates may hold long or short positions in the above mentioned companies from time to time. Every employee of Karvy and its associate companies are required to disclose their individual stock holdings and details of trades, if any, that they undertake. The team rendering corporate analysis and investment recommendations are restricted in purchasing/selling of shares or other securities till such a time this recommendation has either been displayed or has been forwarded to clients of Karvy. All employees are further restricted to place orders only through Karvy Stock Broking Ltd. This report is intended for a restricted audience and we are not soliciting any action based on it. Neither the information nor any opinion expressed herein constitutes an offer or an invitation to make an offer, to buy or sell any securities, or any options, futures nor other derivatives related to such securities.

Karvy Stock Broking Limited

Institutional Equities

Office No. 702, 7th Floor, Hallmark Business Plaza, Opp.-Gurunanak Hospital, Mumbai 400 051

Regd Off : 46, Road No 4, Street No 1, Banjara Hills, Hyderabad – 500 034.

Karvy Stock Broking Research is also available on: Bloomberg - KRVY <GO>, Thomson Publisher & Reuters.