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View from

MINT ROAD

a monthly review of trends in key banking aggregates

July 2013

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What is inside?

- **Consensus: no rate cuts ahead:** OIS spreads imply that the street expectations on repo rate cuts over next 9-12 months has narrowed down to ‘0’ during June’13 (from ~25-50bps range in May’13).
- **Interactions with bankers on gold loan book** revealed that most banks with sizable gold exposure (FED, SIB, KVB) are not unduly perturbed by the correction in gold prices as portfolio behavior remains stable.
- **Project implementation data** suggests that government actions aimed at removing implementation roadblocks are yet to yield meaningful results as reflected by negligible revival in project investments stalled due to various issues. Rising credit growth to infra sector implies hopes for improvement in implementation.
- **Exposure to troubled sectors** continues to rise further (now forms 23.3% of loans) despite sustained asset quality challenges. Incrementally, the largest increase has been observed in power and road sectors.
- **Sectoral credit deployment** data: Ex-infra Industry credit growth has moderated down to a weak 10.5% . Credit demand from the textile (18.5% YoY in May’13 vs 8% YoY in Dec’12) and chemical sectors has gained sustained traction – likely fall out of INR depreciation.
- **Management moves:** RBI Governor's post will be vacant soon and based on our sources Mr Rajiv Takru (Secretary, Finance Services) and Anand Sinha (DG of RBI) are strong contenders in the race. Mr Diwakar Gupta (CFO-MD at SBI) is retiring in July’13 with Arundhati Bhattacharya and P Pradeep Kumar being considered as replacement. Among smaller banks, Rakesh Sethi (ED at PNB) is likely to be appointed as CMD of Allahabad Bank while CVR Rajendran (ED of BoM) is believed to take charge of CMD of Andhra Bank.
- **Our top pick** (ICICI Bank, TP: Rs1400) outperformed Bankex and PSU Bank Index during June’13 even as banking stocks experienced significant FII selling pressure. We remain positive on the stock.

	1W	1M	3M	6M	12M
AxisB	6.3	(10.7)	(0.0)	(8.1)	22.3
BoB	4.0	(17.4)	(18.3)	(38.4)	(24.4)
BoI	5.4	(24.2)	(28.1)	(39.1)	(37.4)
CUB	(0.3)	(0.9)	0.9	(4.8)	16.8
CANFIN	0.1	(4.2)	(2.3)	(20.8)	25.3
FED	1.3	(12.4)	(16.7)	(25.4)	(11.0)
HDFCB	3.7	(6.3)	3.1	(5.4)	12.3
ICICIB	4.4	(6.8)	3.5	(9.0)	18.3
KVB	3.4	(3.3)	(5.5)	(19.8)	3.0
MGMA	11.3	(0.8)	12.3	6.7	47.9
RCAP	13.9	3.6	4.8	(30.1)	(7.6)
SBI	4.0	(7.8)	(9.5)	(22.8)	(12.6)
SIB	12.0	(7.4)	(5.7)	(17.0)	(3.6)
UBI	4.6	(22.1)	(24.1)	(38.1)	(18.6)
PSBankex	**4.3**	**(13.2)**	**(14.1)**	**(30.1)**	**(19.4)**
Bankex	**3.8**	**(8.6)**	**(0.5)**	**(11.7)**	**7.5**
Sensex	**4.6**	**(2.2)**	**2.0**	**(2.9)**	**10.1**

Company	Reco	Target	U/D
AxisB	Buy	1650	29%
BoB	Buy	825	51%
BoI	Buy	350	59%
CUB	Buy	65	18%
CANFIN	Buy	240	72%
FED	Buy	600	50%
HDFCB	Buy	725	12%
ICICIB	Buy	1400	31%
KVB	Buy	600	37%
MGMA	Buy	115	23%
RCAP	Buy	550	60%
SBI	Buy	2550	34%
SIB	Buy	31	35%
UBI	Buy	260	52%

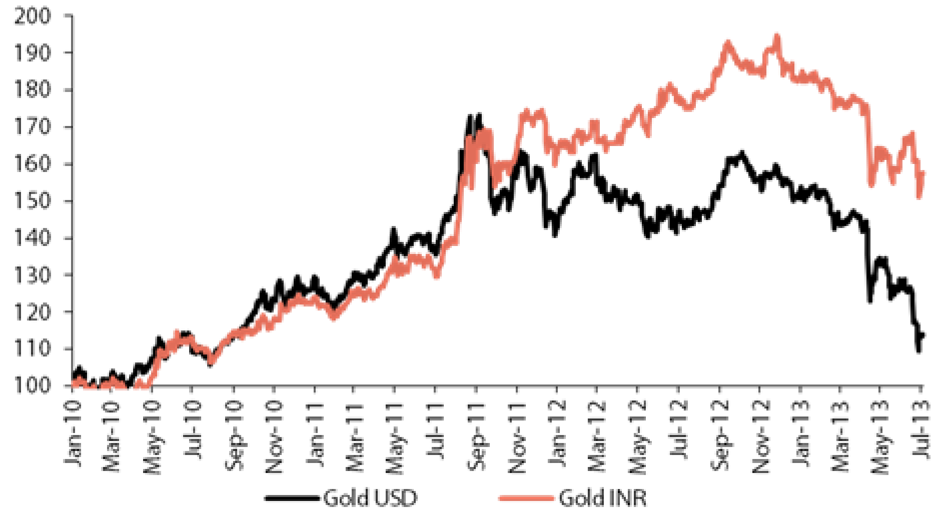
- Top 3 in green, Bottom 3 in red for the period
- Returns on trailing basis as on 2nd July’13.

Management Interactions

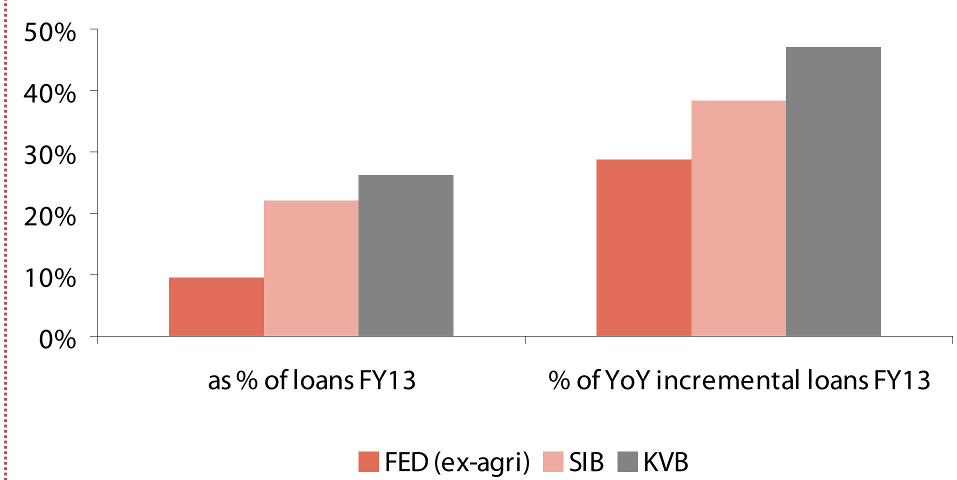
We interacted with key management personnel at Federal Bank, South Indian Bank and Karur Vysya Bank to get a sense of risks arising from gold loan exposure following correction in the gold prices. Few common threads running through the conversations were:

1) LTV ratio has gone up to 80-85% range at recent low in gold prices . Incrementally the pricing has been made conservative by lowering Rs/gm as well as lower LTV. Large part of gold loans are based on bullet repayment and hence the LTV rises as exposure matures.
2) Not unduly perturbed due to correction in gold prices as current margin of safety (15-20%) is sufficient. Moreover, even if the margin of safety narrows down to 0%, the 'attachment' factor would come into play and ensure that slippages are negligible. So far, there has not been any instance of banks having resorted to auction of gold to recover dues.
3) Bankers have sensitized customers on selective basis (where LTV is on higher side) to ensure additional margin or part repayment to keep LTV in check.
4) On risk-adjusted basis, gold loan still remains a very lucrative business due to attractive yields and negligible credit costs due to quality of collateral. Moreover, the capital consumption rate by gold loan exposure is one of the lowest and hence is an added advantage.
5) No plans to increase exposure to gold loan segment materially above current levels (as % of loans) which implies that the capital consumption rate (RWA/TA ratio) is likely to inch up for FY2014 due to change in incremental loan composition.

Trend in gold prices – international & domestic



Gold loan – as % of loans, incremental share



PSU Banks near stress case

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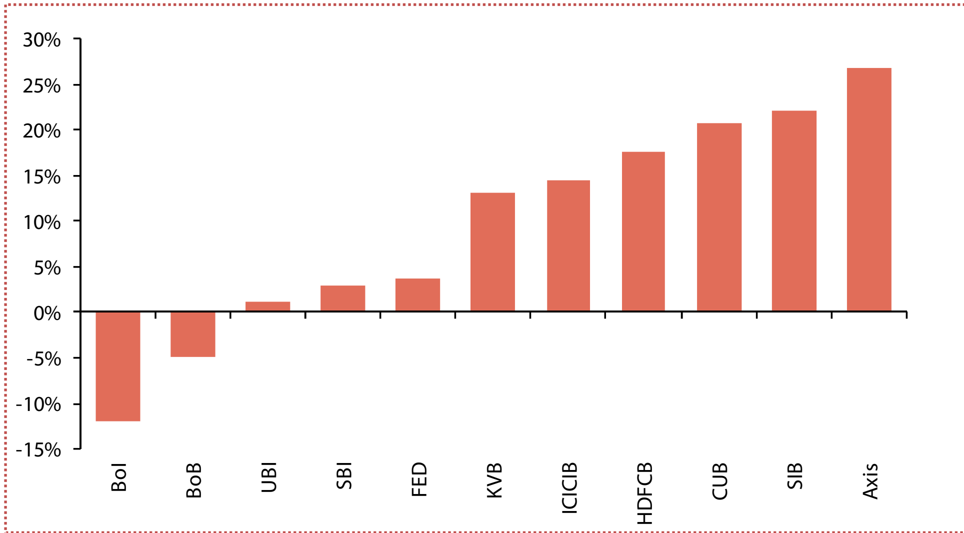
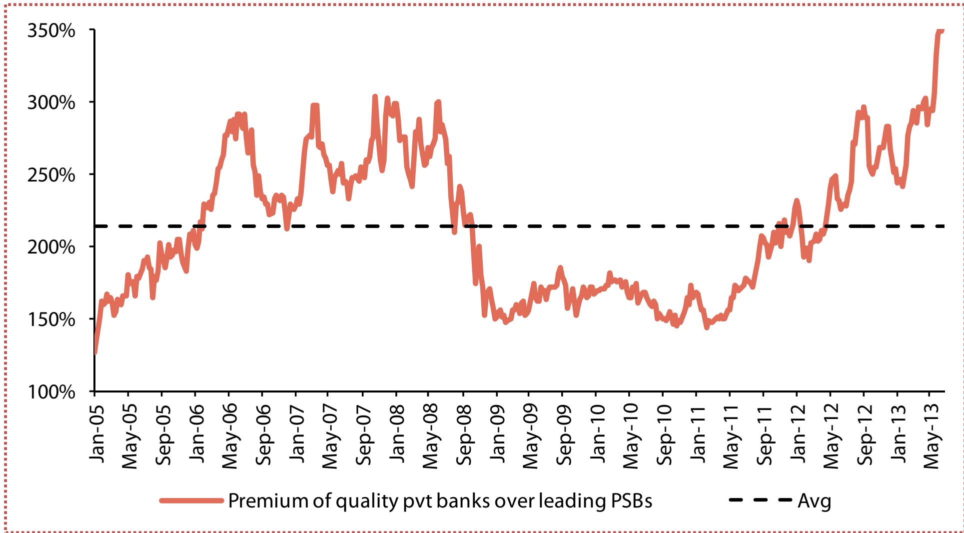
PSU banks at stress case values



Quality premium at all time high



PSB valuations near Dec'11 trough levels

1yr fwd PABV					
Banks	2007 Peak	2009 Trough	2010 Peak	2011 Trough	Current
ICICI	3.3	0.6	2.5	1.2	1.6
Axis	4.5	0.7	3.2	1.2	1.5
HDFCB	5.2	1.6	4.2	2.8	3.3
KVB	1.1	0.3	2.0	1.2	1.2
CUB	1.8	0.4	1.7	1.0	1.2
FED	1.5	0.4	1.6	0.9	1.0
SIB	1.9	0.3	1.7	0.9	0.9
BOB	1.3	0.4	1.7	0.9	0.8
BOI	1.7	0.7	1.9	0.8	0.6
UBI	1.3	0.4	2.0	0.7	0.7
SBI	2.9	1.0	3.5	1.4	1.3

- Following the sharp sell of in banks, PSBs are trading close to our stress case values. At current valuations, street seems to be already factoring in a bleak outlook for FY2014 (flattish growth and continued weakness in investment cycle leading to weak core profitability for banks along with sustained credit costs). We believe that government announcements on project implementations is a key upside risk to bearish street expectations.
- In terms of valuations, quality banks (KMB, IIB, HDFCB) are trading at a premium of 350% over average valuation for leading PSBs. Current valuation premium is well above the 300% premium witnessed owing to 'flight to safety' at peak of financial crisis.
- Overall, while challenges for banks (especially PSBs) are abound, we see a very attractive risk-reward equation in BoB and SBI.

View from

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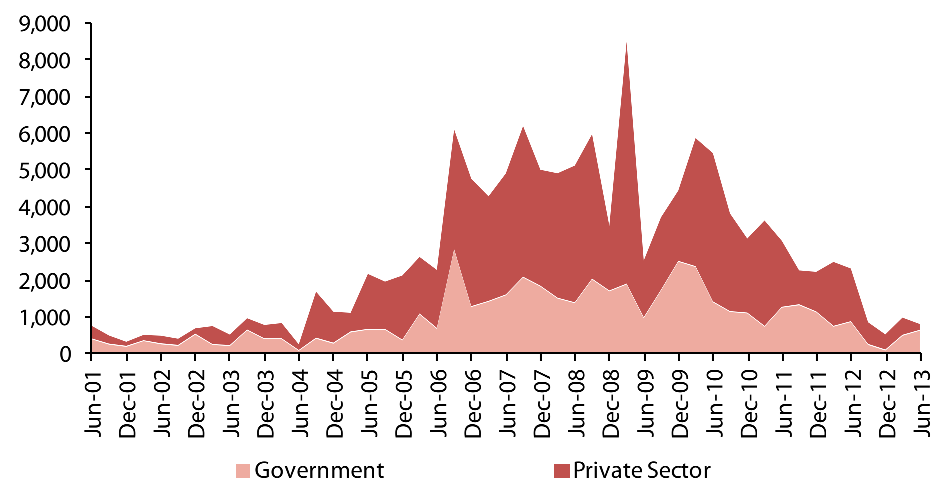
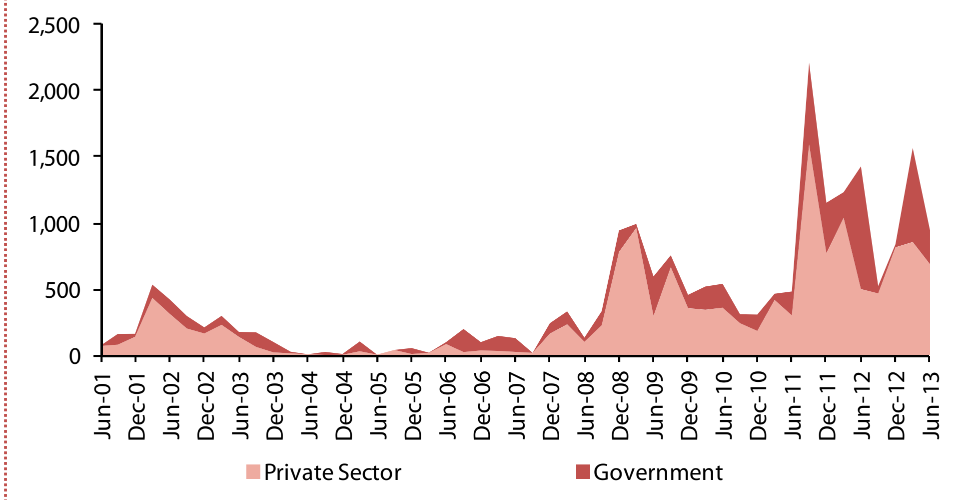
Project Implementation

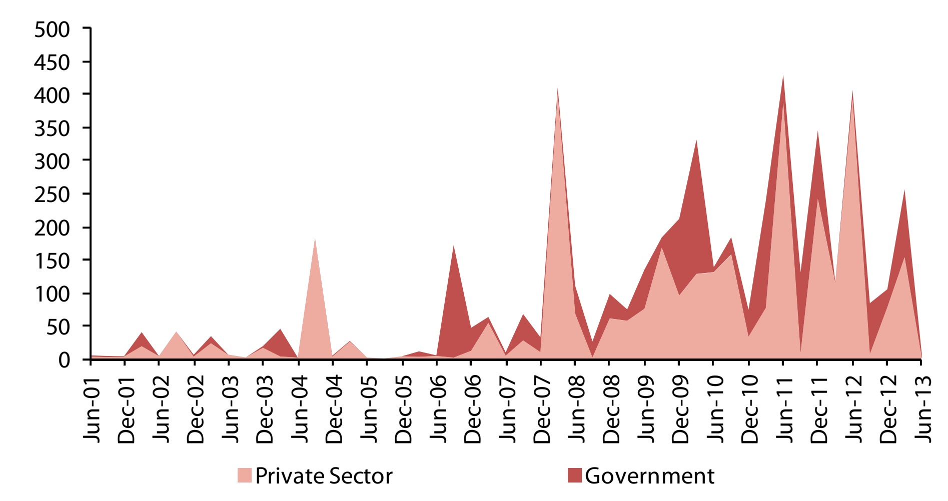
New project investments (Rsbn)



Projects investments shelved (Rsbn)



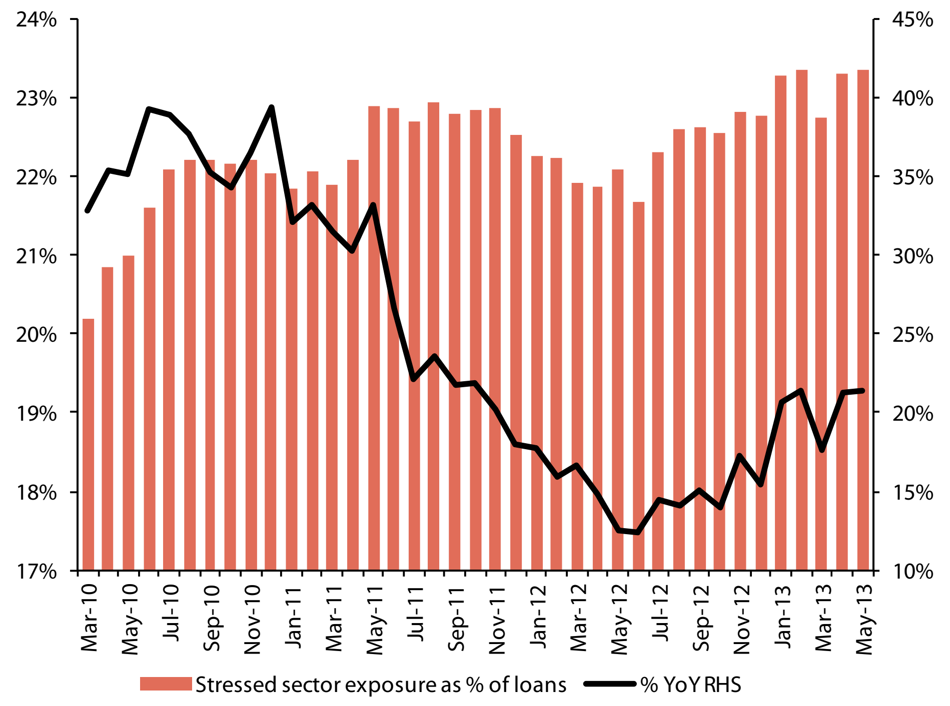
Project investments revived (Rsbn)



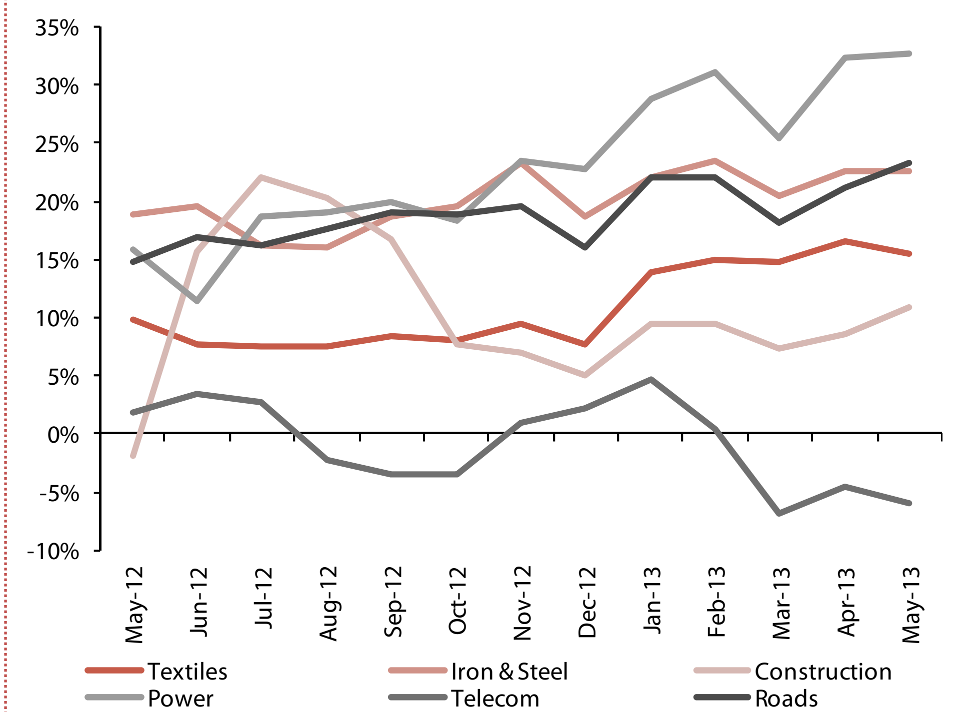
- Latest project investment trends suggests that new project investments has seen pickup since Dec'12 though remains well below year ago levels. Importantly, large part of new project investments are flowing from government while private sector continues to sit on the fence.
- On a positive note, the amount of project investment shelved has eased during Q1FY13 – both for government and private sector.
- That said, government actions are yet to yield meaningful results as reflected by negligible revival of project investments stalled due to various issues.

Stress sector exposure

Exposure to stressed sectors continue to rise



Sector wise growth rates (%YoY)



- Despite the deterioration in loan book quality in recent quarters, exposure to troubled sectors continues to rise further. As evident in the exhibit above, the exposure to stressed sectors grew by 21.4% YoY in May'13 – much higher than the 12.6% YoY growth seen May'12. The acceleration in growth rate has led to 125bps increase in exposure (as % of total loans) and now forms 23.3%.
- Dissecting further, it becomes evident that credit growth for power is highest at 32.6% among the troubled sectors followed by 23.3% for road sector and 22.7% growth in iron & steel sector. In fact, the only stressed sector witnessing contraction in loan exposure is telecom.

Source: Bloomberg, Centrum Research

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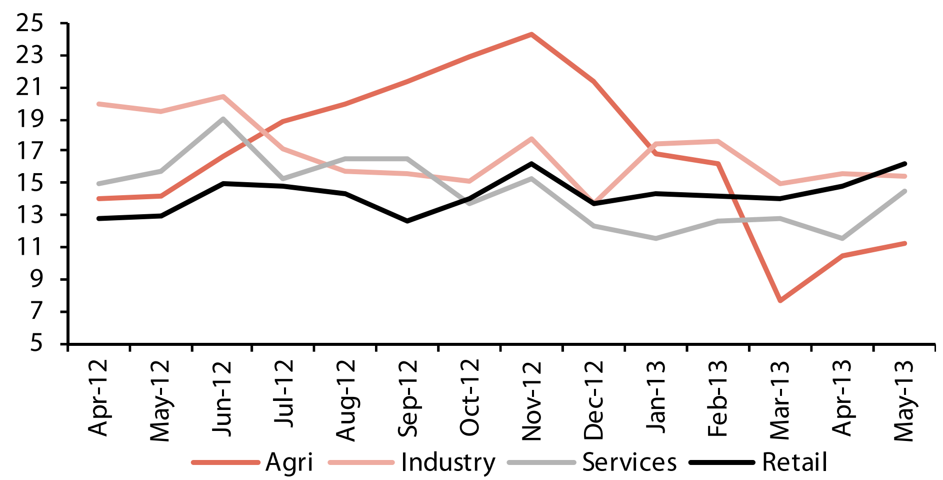
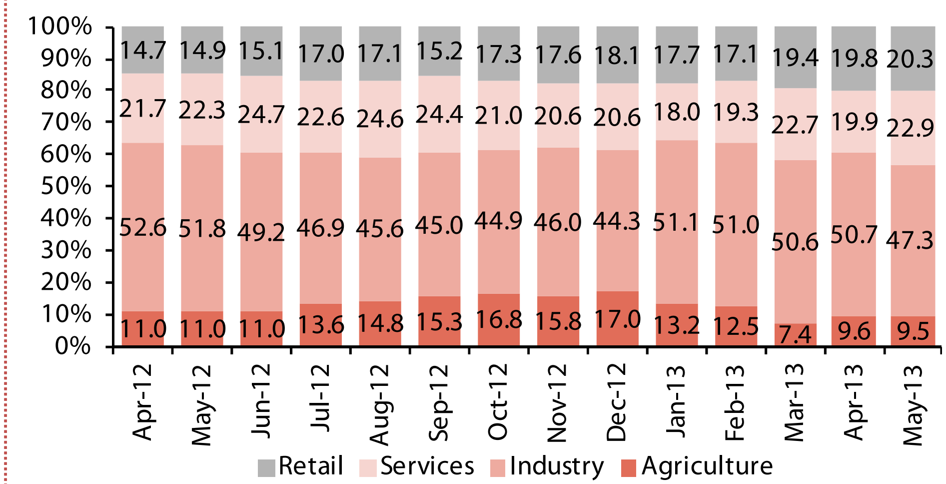
Sectoral deployment of credit

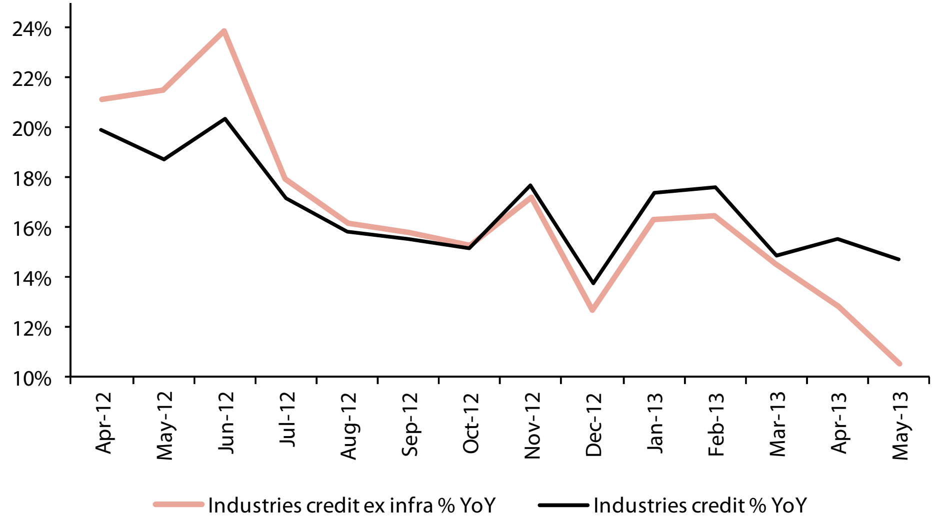
Sector wise credit growth (% YoY)



Sector wise incremental credit composition



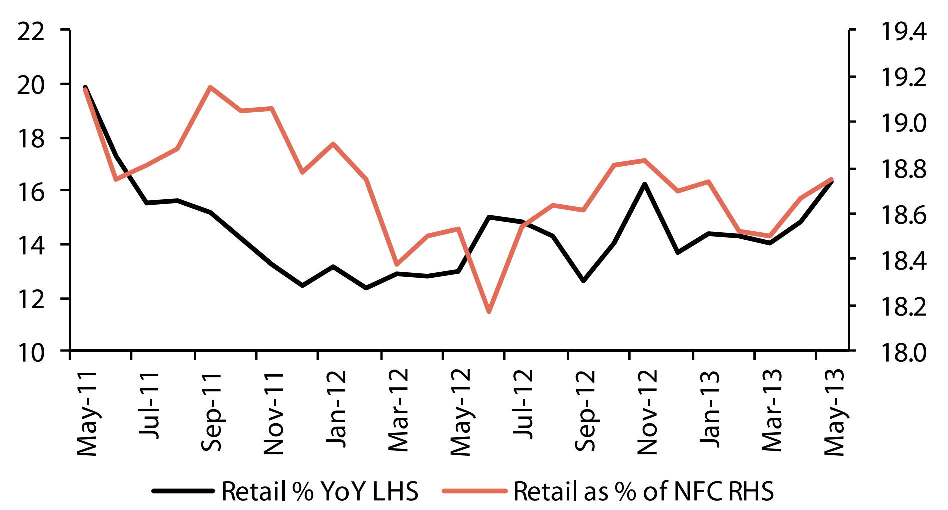
IIP growth & Industry credit growth



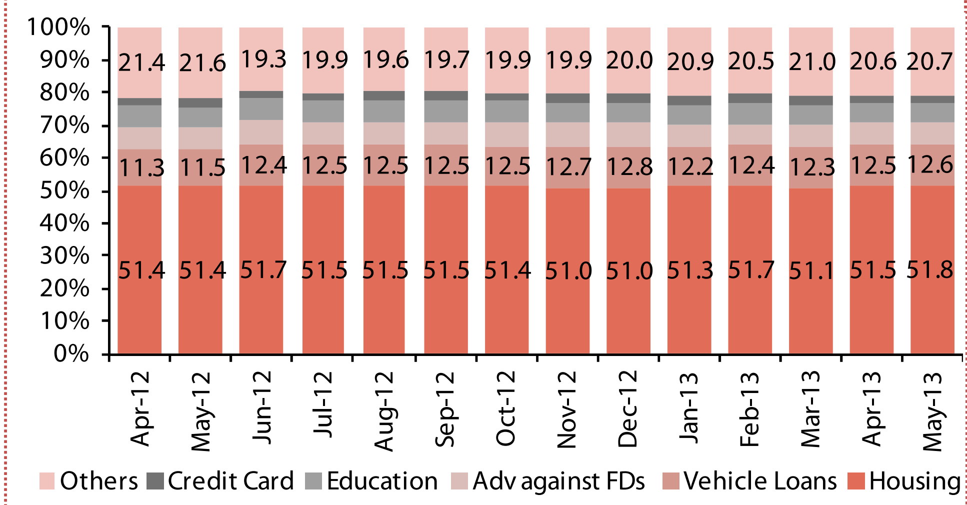
- From a sectoral perspective, credit growth for May'13 registered a smart pick up (14.9% YoY vs 13.8% in Apr'13) led by most sub segments. Notably, services and retail sector credit growth indicates strong traction with growth rate jumping by 300bps and 150bps respectively.
- The smart pickup in services credit growth rate (14.6% YoY vs 11.6% last month) can be traced to 'other services' and commercial real estate.
- Industry credit has stabilized in recent months ~15% YoY though excluding credit to infrastructure sector, the growth has moderated down to 10.5%. However, we believe that the moderation in growth rate is nearing bottom as it typically follows IIP growth with a 6-9 month lag. It is important to note that IIP growth (on 3MMA basis) has stabilized in recent months.

Sectoral deployment of credit

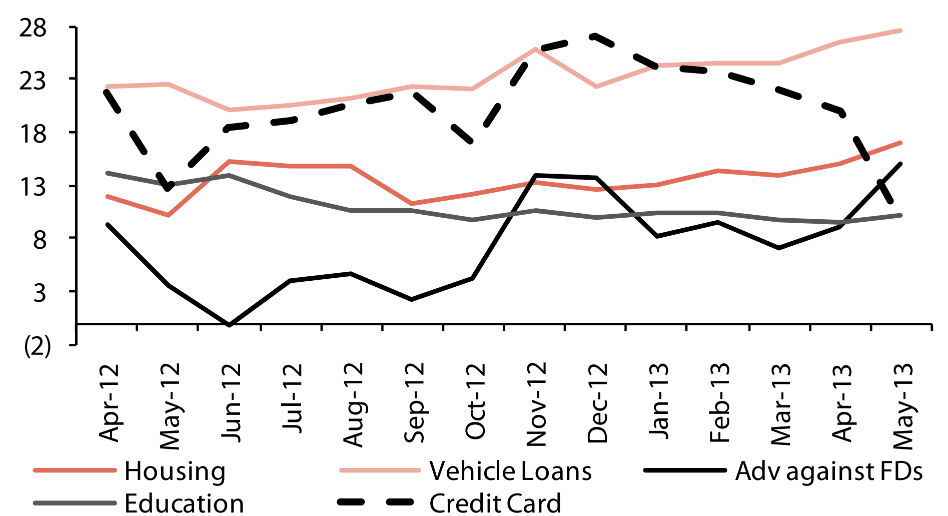
Retail segment credit trends



Retail: segmental composition of incremental credit



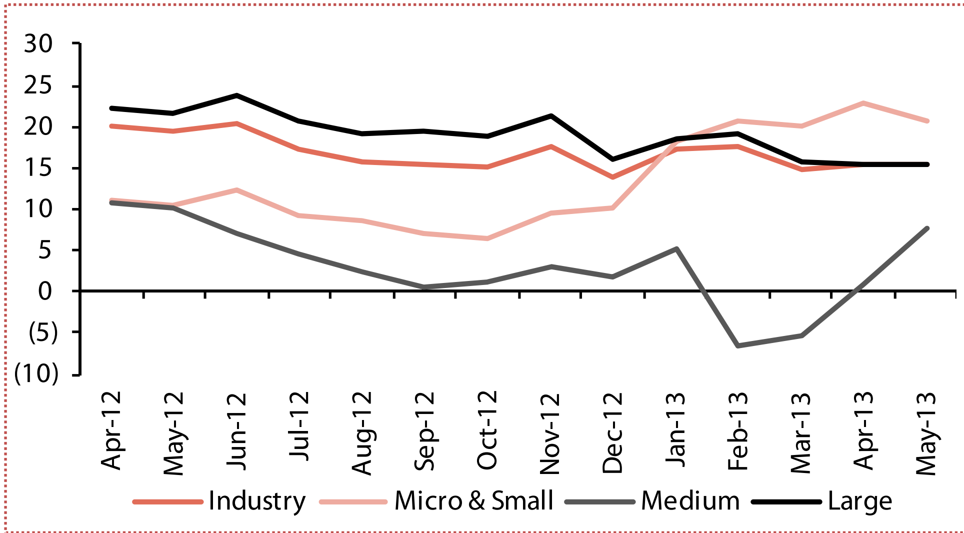
Retail: segment wise % YoY growth trend



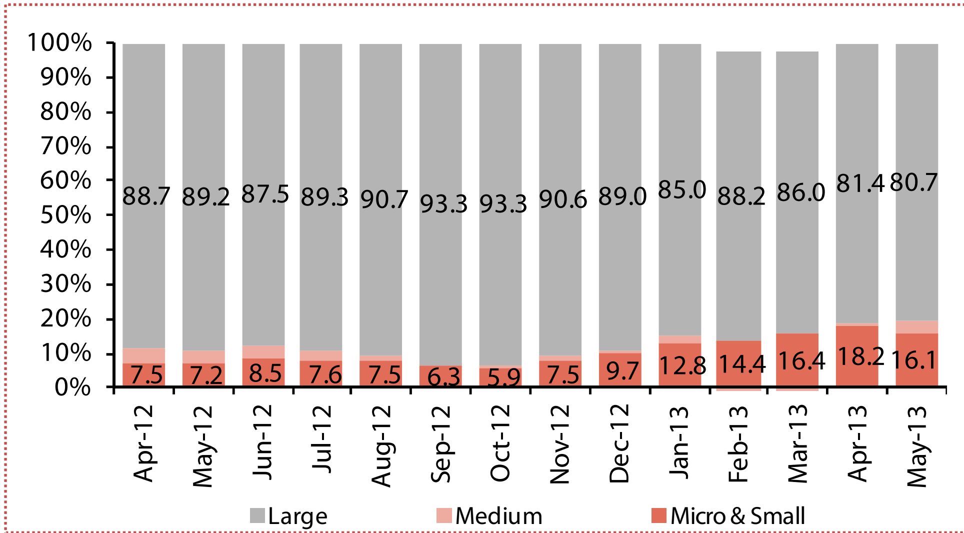
- Retail segment growth picked up from 14.8% to 16.3% in May'13 . Consequently, the share of retail loans in non-food credit has inched up to 18.8% now, partly helped by the fact that other sectors (especially industry) continue to witness a moderating trend. The strength in retail credit demand should continue as we believe that the economy is nearing its bottom.
- Auto segment led other segments with 27.6% YoY growth (rising growth rate) followed by housing and loans against FDs.
- Credit card o/s growth fell from 20% odd in April'13 to 9.6% in May'13 with amount outstanding at Rs230bn (down 9% MoM).

Sectoral deployment of credit

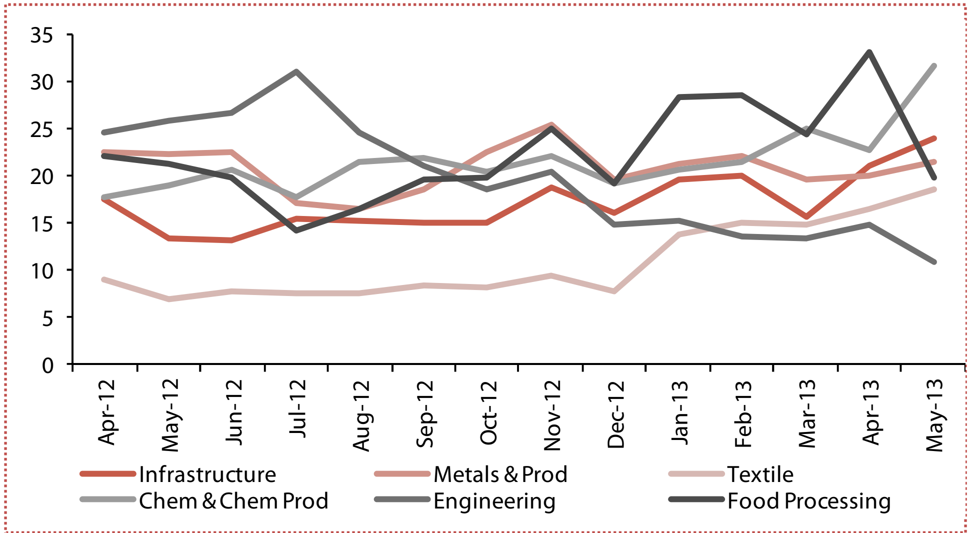
Industrial credit: segment wise % YoY



Industrial credit: composition YoY incremental



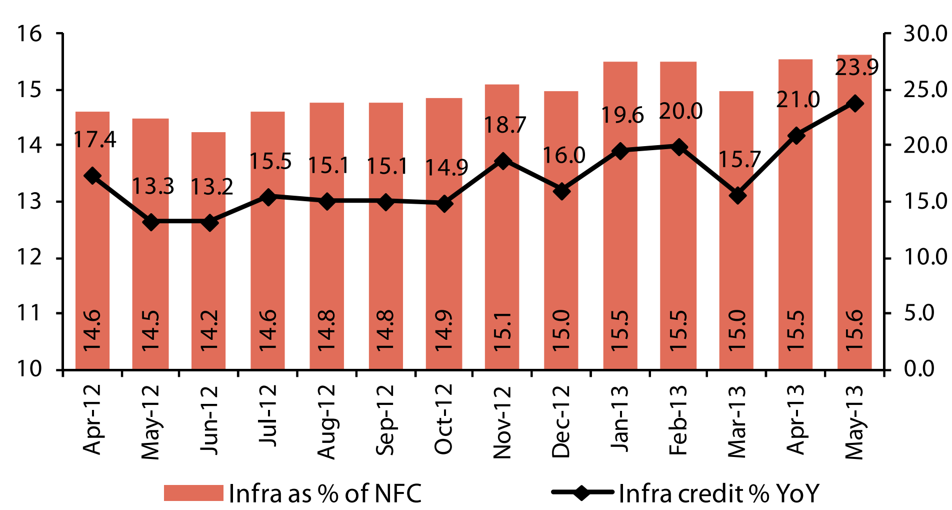
Industrial credit: major sub-sectors % YoY



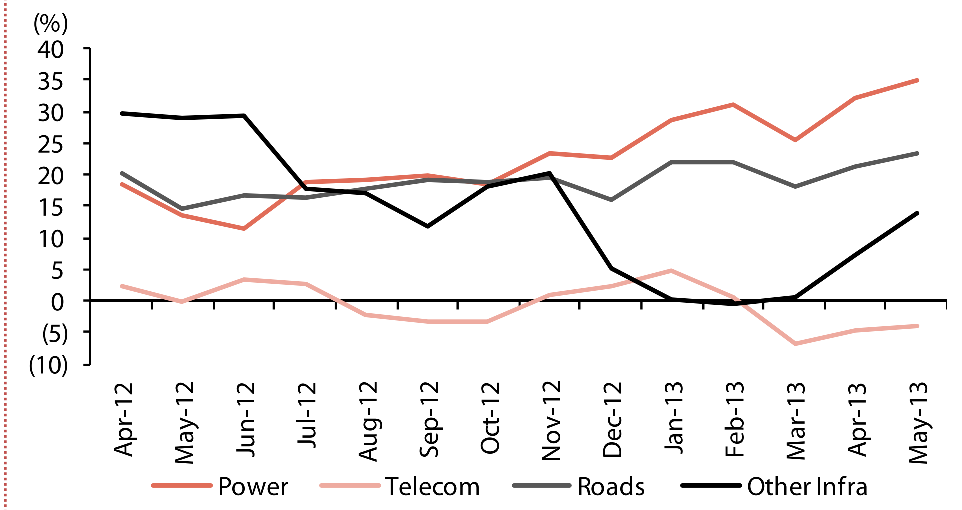
- While micro and small segment continues to lead in terms of growth rate, lending to medium enterprises have seen strong traction with May'13 growth at 7.8% YoY (vs 1% in April'13). Meanwhile, growth in credit to large borrowers was flat MoM. Given that the ground realities are yet to change materially, the pick up in credit demand for SMEs seems to be driven by elongation of working capital cycles.
- Dissecting further, Chemical and chemical products sector saw the highest credit growth (32% YoY) followed by infrastructure (24% YoY). Notably, the credit demand from the textile sector has gained sustained traction (18.5% YoY in May'13 vs 8% YoY in Dec'12) – likely supported by gradually improving export performance.

Sectoral deployment of credit

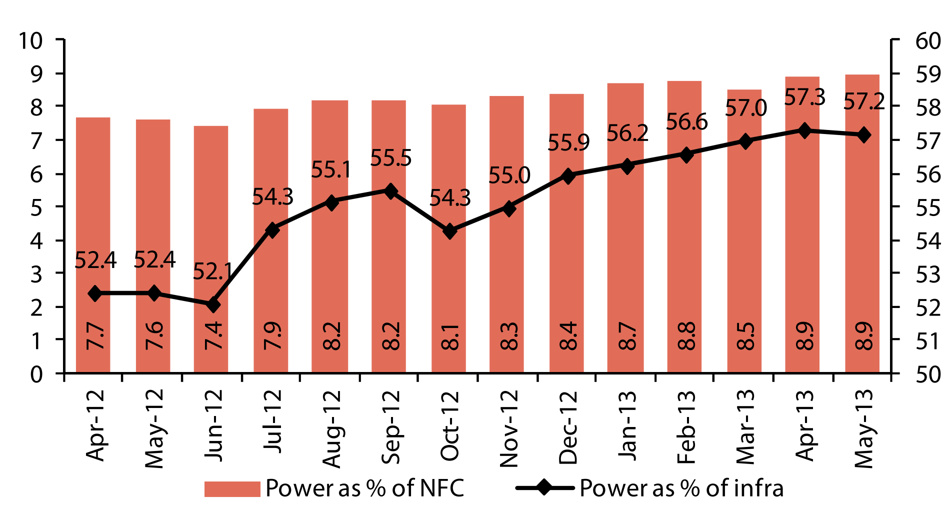
Infrastructure credit: segment wise % YoY



Infrastructure and its sub-segments: % YoY growth trend



Power sector exposure (%)



- While the infrastructure sector continued to witness significant challenges, the upwards momentum in credit growth for the segment continued in May'13 as well and touched 24% YoY. The improving growth rate for the sector seems to be driven by the aggression shown by the government administration in removing roadblocks facing project implementation. However, for the credit growth in infrastructure sector to sustain, announcement of new projects is crucial.
- Power sector (one of the major sources of stress) has seen credit growth of 35% in May'13 vs 15.7% in March'13 thereby maintaining its lead over other segments.
- Consequently, the share of power exposure to total credit continues to inch up and has reached 8.9% as past sanctions come up for disbursals (rather than improvement in credit outlook for the sector).

Sectoral deployment of credit

Sectoral deployment of banking credit

(Rs Trn)	May-12	Jun-12	Jul-12	Aug-12	Sep-12	Oct-12	Nov-12	Dec-12	Jan-13	Feb-13	Mar-13	Apr-13	May-13
Non-food Credit	43.0	44.0	43.4	43.6	44.0	44.3	45.6	46.2	46.6	47.4	48.7	48.9	49.4
Agriculture	5.4	5.3	5.3	5.3	5.3	5.4	5.5	5.6	5.7	5.8	5.9	6.0	6.0
Industry	19.6	20.1	19.7	19.9	20.1	20.3	20.9	21.1	21.4	21.8	22.3	22.4	22.6
Micro & Small	2.4	2.6	2.6	2.6	2.6	2.6	2.7	2.7	2.6	2.7	2.8	2.9	2.9
Medium	1.2	2.0	2.0	2.0	2.0	2.0	2.0	2.0	1.3	1.2	1.2	1.2	1.3
Large	15.9	15.4	15.1	15.3	15.6	15.7	16.1	16.4	17.4	17.9	18.2	18.2	18.4
Services	10.1	10.6	10.4	10.3	10.4	10.4	10.6	10.9	10.7	11.0	11.5	11.4	11.5
Transporters	0.8	0.8	0.8	0.8	0.8	0.8	0.8	0.7	0.8	0.8	0.8	0.8	0.8
Trade	2.3	2.3	2.3	2.3	2.4	2.4	2.5	2.6	2.6	2.7	2.8	2.8	2.8
CRE	1.2	1.2	1.2	1.2	1.2	1.2	1.2	1.3	1.3	1.3	1.3	1.3	1.3
NBFCs	2.4	2.5	2.4	2.4	2.4	2.4	2.4	2.5	2.5	2.4	2.6	2.6	2.5
Personal Loans	8.0	8.0	8.1	8.1	8.2	8.3	8.6	8.6	8.7	8.8	9.0	9.1	9.3
Housing (Incl Priority)	4.1	4.1	4.1	4.2	4.2	4.3	4.4	4.4	4.5	4.5	4.6	4.7	4.8
Advances against FDs	0.5	0.6	0.6	0.6	0.6	0.6	0.6	0.6	0.6	0.6	0.6	0.6	0.6
Credit Card O/s	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.3	0.3	0.2	0.3	0.2
Education	0.5	0.5	0.5	0.5	0.5	0.5	0.5	0.5	0.5	0.6	0.5	0.5	0.6
Vehicle Loans	0.9	1.0	1.0	1.0	1.0	1.0	1.1	1.1	1.1	1.1	1.1	1.1	1.2
Priority Sector	13.9	14.1	14.1	14.2	14.1	14.0	14.6	14.9	14.8	15.1	15.4	15.9	16.2
Agriculture & Allied	5.4	5.3	5.3	5.3	5.3	5.4	5.5	5.6	5.7	5.8	5.9	6.0	6.0
Micro & Small Enterprises	4.9	5.2	5.1	5.1	5.1	5.1	5.3	5.4	5.3	5.4	5.6	5.8	6.0
Housing	2.5	2.6	2.6	2.5	2.6	2.6	2.7	2.7	2.6	2.6	2.7	2.8	2.8
Weaker Sections	2.4	2.6	2.6	2.6	2.6	2.7	2.7	2.8	2.6	2.7	2.7	2.9	2.9
Industry - sector wise													
Infrastructure	6.2	6.3	6.4	6.4	6.5	6.6	6.9	6.9	7.2	7.4	7.3	7.6	7.7
Basic Metals & Prod	2.6	2.6	2.6	2.7	2.7	2.9	3.0	3.0	3.0	3.1	3.1	3.1	3.2
Textiles	1.6	1.6	1.6	1.6	1.6	1.6	1.6	1.7	1.7	1.8	1.8	1.9	1.8
Chemicals & Chem Prod	1.1	1.1	1.1	1.1	1.2	1.2	1.2	1.2	1.4	1.4	1.6	1.5	1.4
All Engineering	1.2	1.2	1.3	1.2	1.2	1.2	1.2	1.2	1.2	1.3	1.3	1.3	1.3
Food Processing	1.0	1.0	1.0	1.0	1.0	1.0	1.1	1.1	1.1	1.1	1.2	1.2	1.2

Source: Bloomberg, Centrum Research

Sectoral deployment of credit

Sectoral deployment of banking credit

(% YoY)	May-12	Jun-12	Jul-12	Aug-12	Sep-12	Oct-12	Nov-12	Dec-12	Jan-13	Feb-13	Mar-13	Apr-13	May-13
Non-food Credit	16.7	18.6	16.5	15.8	15.9	15.5	17.6	14.3	15.4	15.6	13.3	13.8	14.9
Agriculture	14.2	16.8	18.8	20.0	21.3	22.9	24.4	21.4	16.9	16.1	7.7	10.5	11.2
Industry	19.4	20.3	17.2	15.8	15.6	15.2	17.7	13.8	17.4	17.6	14.9	15.5	15.5
Micro & Small	10.6	12.3	9.2	8.5	7.0	6.4	9.7	10.1	18.2	20.7	20.0	22.9	20.6
Medium	10.2	7.2	4.7	2.5	0.6	1.1	3.0	1.7	5.3	(6.6)	(5.2)	0.9	7.8
Large	21.7	23.8	20.6	19.2	19.4	18.9	21.4	16.1	18.4	19.3	15.8	15.6	15.4
Services	15.8	19.1	15.3	16.5	16.5	13.7	15.3	12.3	11.6	12.7	12.7	11.6	14.6
Transporters	13.8	19.9	27.7	21.8	19.6	21.0	21.5	8.9	8.0	6.3	4.2	3.9	4.5
Trade	22.3	25.8	24.4	24.3	24.1	21.2	23.3	20.4	21.6	24.9	22.4	23.3	23.9
CRE	11.8	4.0	2.2	3.6	3.9	3.9	5.3	12.6	12.9	11.5	11.9	11.5	14.0
NBFCs	35.6	50.2	40.5	37.6	31.8	27.9	30.3	19.3	18.6	12.5	12.6	5.2	2.8
Personal Loans	13.0	15.0	14.9	14.4	12.6	14.1	16.3	13.7	14.4	14.3	14.0	14.8	16.3
Housing (Incl Priority)	10.2	15.2	14.8	14.8	11.2	12.1	13.2	12.5	13.1	14.4	14.0	15.1	17.1
Advances against FDs	3.5	(0.1)	4.1	4.6	2.3	4.2	13.9	13.7	8.1	9.6	7.1	9.0	15.1
Credit Card O/s	12.8	18.4	19.1	20.6	21.8	17.0	25.7	27.1	24.3	23.7	21.9	20.1	9.6
Education	13.0	14.0	11.9	10.7	10.6	9.7	10.6	10.1	10.5	10.3	9.8	9.6	10.2
Vehicle Loans	22.6	20.2	20.5	21.1	22.2	22.2	25.8	22.2	24.4	24.5	24.5	26.6	27.6
Priority Sector	10.2	13.3	13.3	16.1	12.1	10.8	15.3	14.4	13.7	13.8	8.2	13.2	16.3
Agriculture & Allied	14.2	16.8	18.8	20.0	21.3	22.9	24.4	21.4	16.9	16.1	7.7	10.5	11.2
Micro & Small Enterprises	11.1	13.7	9.9	8.7	8.4	8.4	11.1	11.9	16.5	16.0	12.5	17.9	22.7
Housing	3.5	9.2	9.1	5.6	4.0	6.0	7.5	6.4	3.3	2.9	0.3	9.2	11.4
Weaker Sections	31.3	27.2	29.5	31.7	24.5	28.1	29.0	20.2	34.0	22.4	17.1	20.8	22.1
Industry - sector wise													
Infrastructure	13.3	13.2	15.5	15.1	15.1	14.9	18.7	16.0	19.6	20.0	15.7	21.0	23.9
Metals & Prod	22.3	22.4	17.1	16.4	18.6	22.4	25.3	19.7	21.2	22.0	19.7	20.0	21.4
Textile	7.0	7.8	7.5	7.5	8.4	8.1	9.5	7.7	13.8	15.0	14.9	16.5	18.5
Chem & Chem Prod	18.9	20.6	17.7	21.4	21.8	20.3	22.0	19.2	20.6	21.4	25.0	22.7	31.6
Engineering	25.8	26.7	31.0	24.6	21.0	18.6	20.5	14.8	15.3	13.5	13.4	14.7	10.8
Food Processing	21.2	19.8	14.2	16.5	19.6	19.9	25.0	19.1	28.3	28.5	24.5	33.0	19.8

Source: Bloomberg, Centrum Research

Sectoral deployment of credit

Sectoral deployment of banking credit

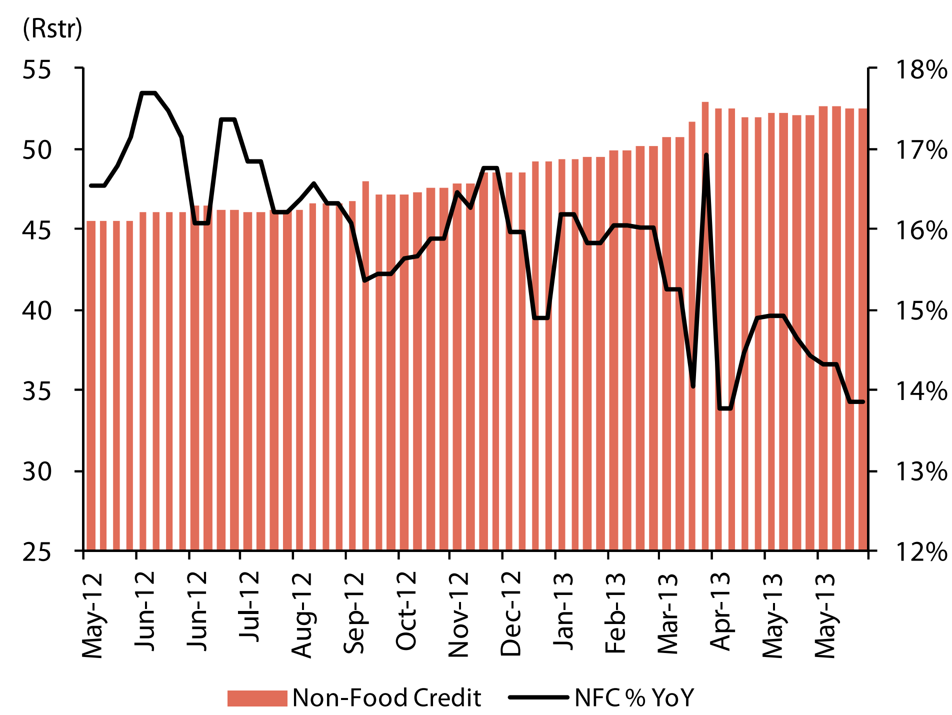
(% of NFC)	May-12	Jun-12	Jul-12	Aug-12	Sep-12	Oct-12	Nov-12	Dec-12	Jan-13	Feb-13	Mar-13	Apr-13	May-13
Agriculture	12.6	12.0	12.1	12.1	12.0	12.1	12.1	12.1	12.2	12.2	12.1	12.3	12.2
Industry	45.5	45.6	45.3	45.6	45.8	45.7	45.8	45.7	46.0	46.1	45.8	45.8	45.7
Micro & Small	5.5	6.0	6.0	6.0	5.9	5.9	5.9	5.9	5.7	5.8	5.8	6.0	5.8
Medium	2.9	4.6	4.6	4.5	4.5	4.5	4.5	4.4	2.9	2.6	2.6	2.6	2.7
Large	37.1	35.1	34.8	35.1	35.4	35.4	35.4	35.5	37.4	37.7	37.4	37.2	37.2
Services	23.4	24.2	24.0	23.7	23.7	23.4	23.3	23.5	23.1	23.2	23.6	23.2	23.4
Transporters	1.8	1.8	1.8	1.8	1.8	1.8	1.7	1.6	1.7	1.6	1.6	1.7	1.7
Trade	5.3	5.3	5.4	5.3	5.4	5.5	5.6	5.5	5.5	5.7	5.7	5.7	5.7
CRE	2.7	2.7	2.7	2.7	2.6	2.7	2.6	2.8	2.7	2.6	2.6	2.6	2.7
NBFCs	5.6	5.8	5.6	5.5	5.5	5.4	5.4	5.5	5.3	5.1	5.3	5.3	5.0
Personal Loans	18.5	18.2	18.5	18.6	18.6	18.8	18.8	18.7	18.7	18.5	18.5	18.7	18.8
Housing (Incl Priority)	9.5	9.4	9.6	9.6	9.6	9.7	9.6	9.5	9.6	9.6	9.4	9.6	9.7
Advances against FDs	1.2	1.4	1.3	1.3	1.3	1.3	1.3	1.3	1.2	1.2	1.3	1.2	1.2
Credit Card O/s	0.5	0.5	0.5	0.5	0.5	0.5	0.5	0.5	0.5	0.5	0.5	0.5	0.5
Education	1.2	1.2	1.2	1.2	1.2	1.2	1.2	1.2	1.2	1.2	1.1	1.1	1.1
Vehicle Loans	2.1	2.2	2.3	2.3	2.3	2.3	2.4	2.4	2.3	2.3	2.3	2.3	2.4
Priority Sector	32.3	32.1	32.5	32.5	32.1	31.5	32.1	32.2	31.8	31.8	31.6	32.5	32.7
Agriculture & Allied	12.6	12.0	12.1	12.1	12.0	12.1	12.1	12.1	12.2	12.2	12.1	12.3	12.2
Micro & Small Enterprises	11.4	11.8	11.7	11.7	11.6	11.6	11.6	11.7	11.4	11.5	11.5	11.9	12.2
Housing	5.9	5.9	6.0	5.7	5.9	5.9	5.9	5.8	5.6	5.6	5.5	5.7	5.7
Weaker Sections	5.5	5.9	6.0	6.0	5.9	6.1	6.0	6.0	5.6	5.6	5.6	5.9	5.8
Industry - sector wise													
Infrastructure	14.5	14.2	14.6	14.8	14.8	14.9	15.1	15.0	15.5	15.5	15.0	15.5	15.6
Basic Metals & Prod	6.1	6.0	6.0	6.2	6.2	6.4	6.5	6.4	6.5	6.5	6.5	6.4	6.4
Textiles	3.6	3.6	3.6	3.6	3.6	3.6	3.6	3.6	3.7	3.8	3.8	3.8	3.7
Chemicals & Chem Prod	2.6	2.5	2.5	2.6	2.7	2.7	2.7	2.7	3.0	3.0	3.3	3.1	2.9
All Engineering	2.7	2.8	2.9	2.8	2.8	2.8	2.7	2.7	2.6	2.6	2.6	2.7	2.6
Food Processing	2.4	2.4	2.3	2.3	2.3	2.3	2.4	2.4	2.3	2.4	2.4	2.5	2.5

Source: Bloomberg, Centrum Research

WSS – a read through

CENTRUM

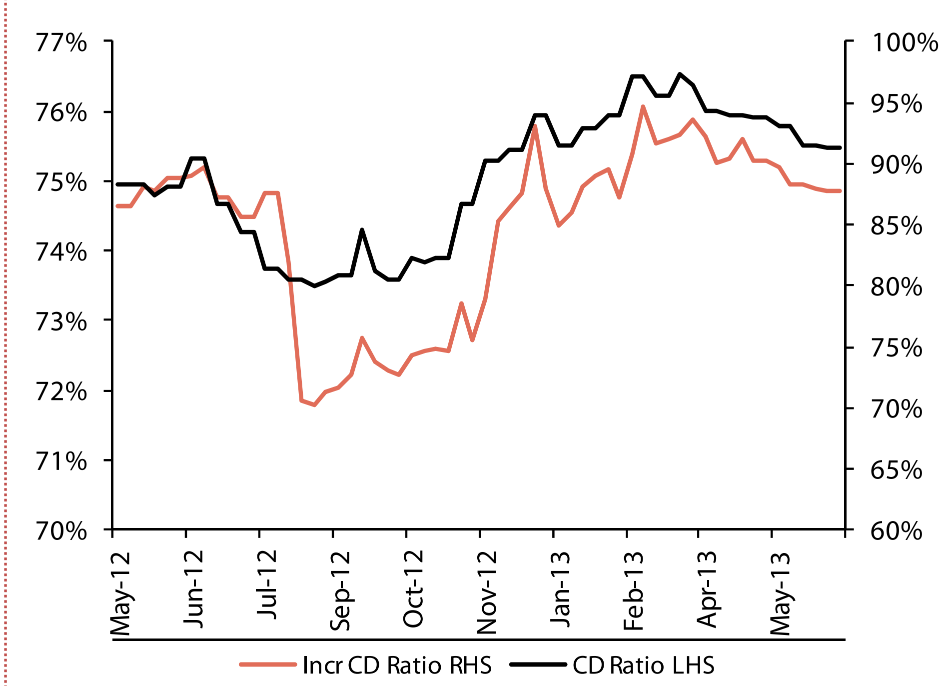
Trend in non-food credit



Non-food credit growth continued to moderate and touched 13.8% YoY as on 21st June'13 – re-touching the lowest growth rate in many years. The previous instance of 13.8% growth was seen in first half of April'13. The broad moderating trend in credit growth remains intact with no visible pickup due to trickle down impact of reform announcements and resulting improvement in business sentiments.

Source: Bloomberg, Centrum Research

Trend in deployment pace

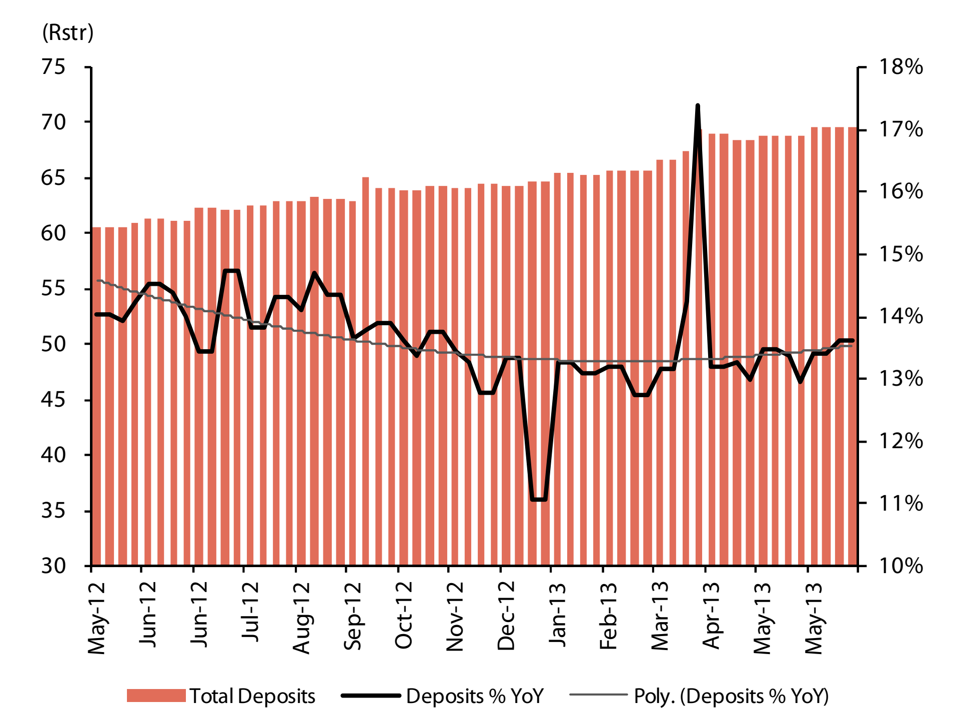


Led by moderation in credit growth, the CD ratio eased further to 75.5% as on 21st June'13 (vs 75.8% a month ago). In line, incremental CD ratio too moderated to 87.7% compared with 89.4% average for May'2013. Given the gradually improving liquidity situation, the CD ratio is likely to ease further during H1FY14.

Source: Bloomberg, Centrum Research

WSS – a read through

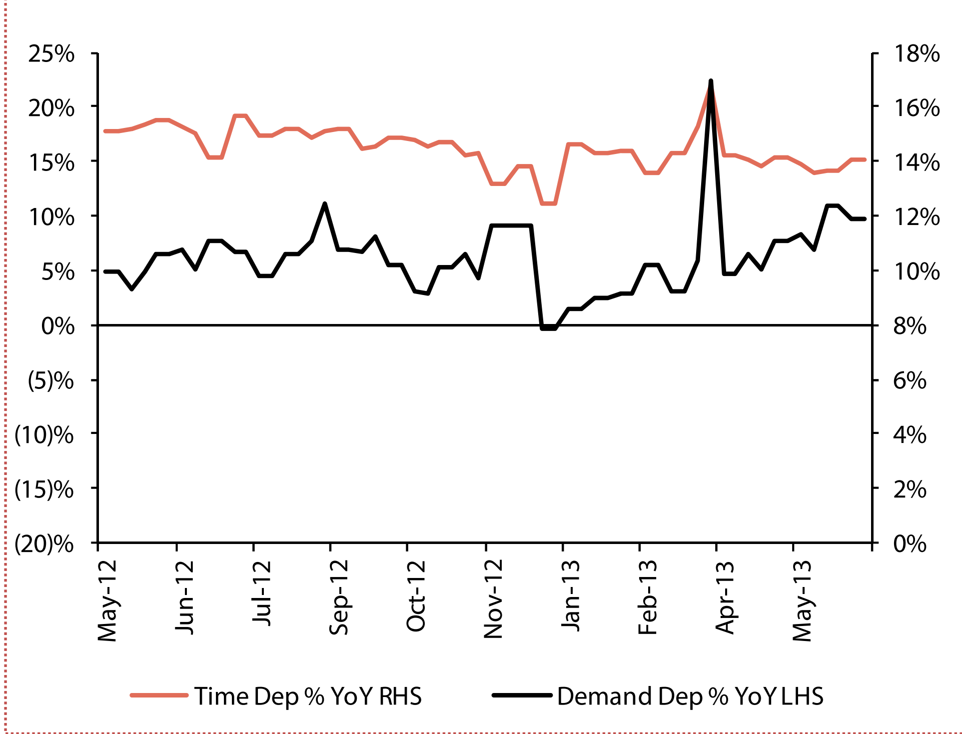
Trend in aggregate deposits



Aggregate deposit growth at the end of 21st June'13 stood at 13.6% YoY – marginally better than 13% a month ago (24th May). As a consequence of marginal uptick in deposit growth, the gap between credit and deposit growth has narrowed down to just 20bps and 100bps on FYTD basis vs +250bps in FY2013. This should create room for easing in term deposit rates during H1FY14.

Source: Bloomberg, Centrum Research

Trend in deposit composition

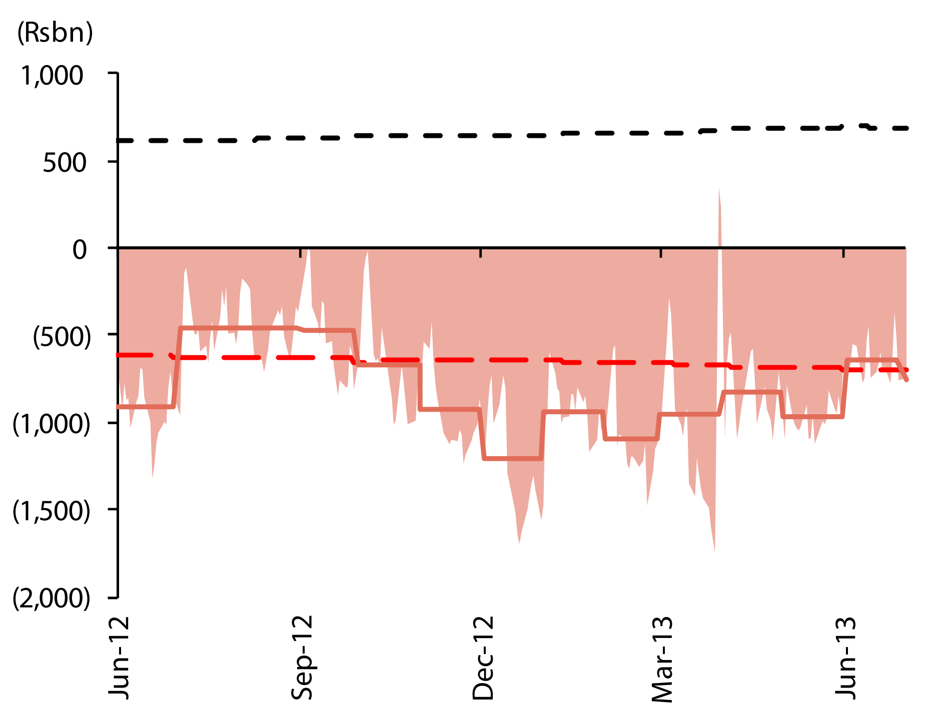


Term deposits growth continues to remain stable at 14% level however, gradually improving liquidity situation should bring rates down. More importantly, demand deposits growth continues to show improving momentum with the latest (21st June'13) reading at 9.6% (vs 8.3% avg for May'13 and flattish growth in Jan'13) – implying gradual pick up in economic activity.

Source: Bloomberg, Centrum Research

WSS – a read through

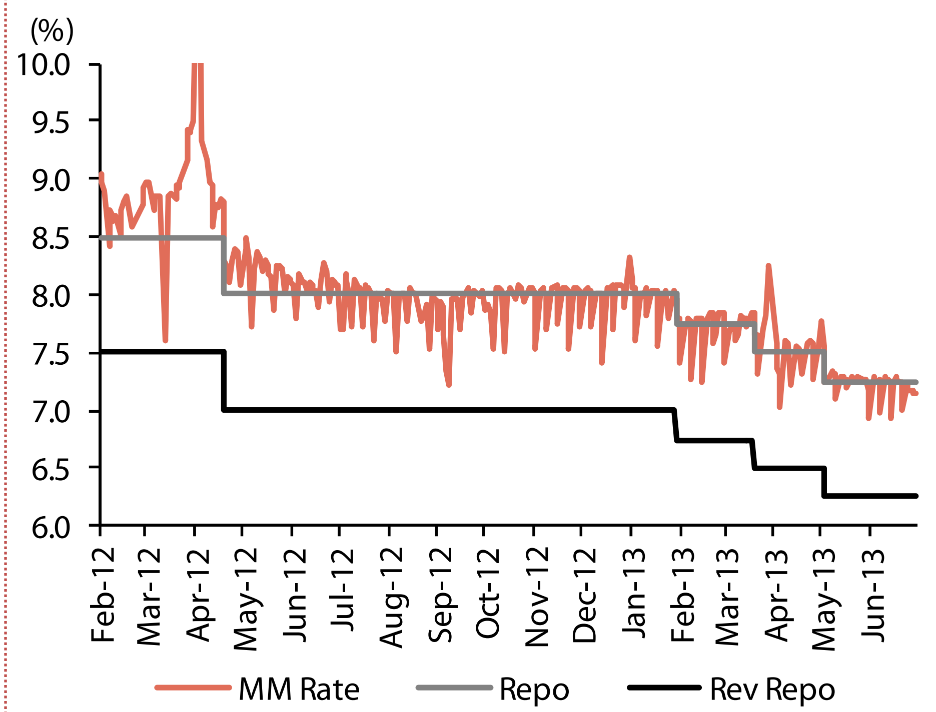
Trend in LAF balance



LAF balance continued to remain in deficit mode, though came within the -1% NDTL comfort level. On daily average basis, the LAF deficit for June'13 stood at Rs640bn compared with ~Rs970bn for the May'13. Improving liquidity situation supports our view of potential reduction in term deposit rates.

Source: Bloomberg, Centrum Research

Trend in money market rates

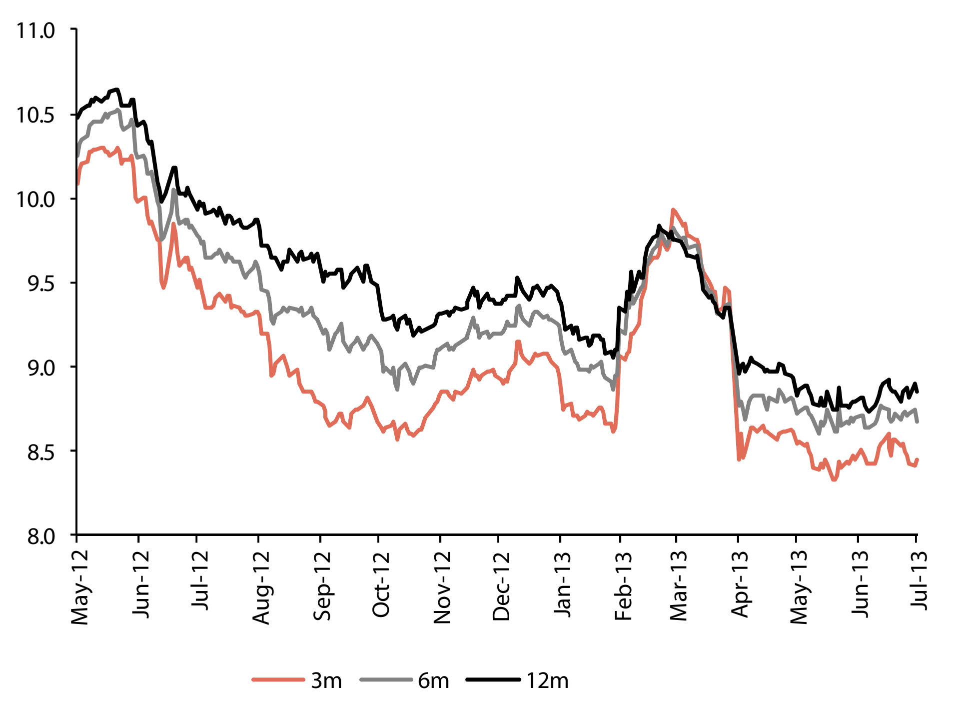


In sync with the continued deficit at LAF window and policy rate reductions, the money market rates continued to follow the repo rate levels. The money market rates adjusted lower following the 25 bps cut in repo rate by RBI during May'2013 and continues to chug along the ceiling of policy rate corridor.

Source: Bloomberg, Centrum Research

Rates & Spreads

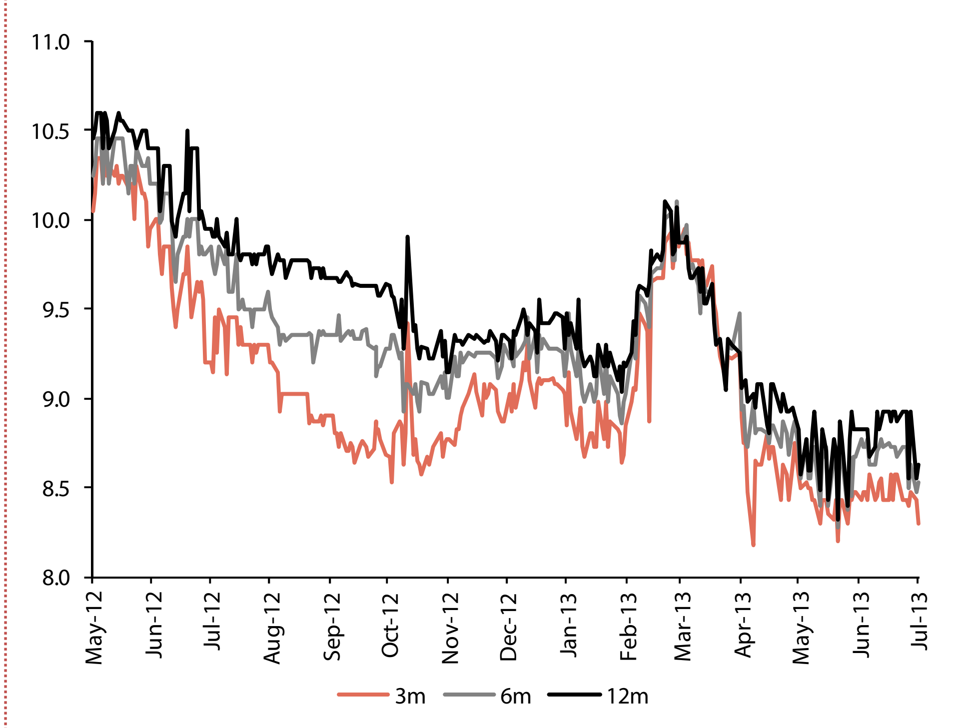
Trend in CD rates (%)



After material easing during May'13, CD rates were firm during June'13 on average basis compared to May'13. However, tt should be noted that the current CD rates are at 2.5yr low and match levels last seen in Oct'2010 – a result of monetary policy actions.

Source: Bloomberg, Centrum Research

Trend in CP rates (%)

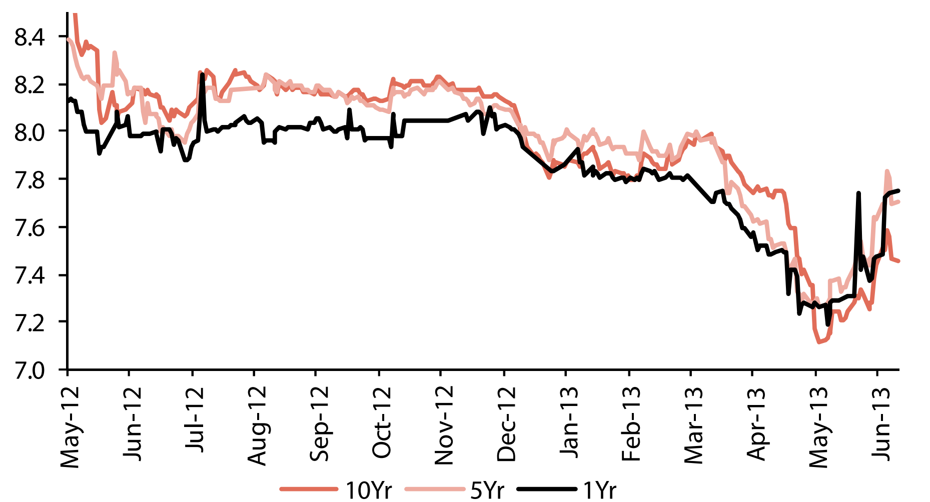


In sync, CP rates too firmed up by during June'13 by 15-20bps. On monthly average basis CP rates were up by 15bps for 12m maturity and by 5bps for 3m maturity to 8.85% and 8.47% respectively. However, the gap between SBI base rate and CP rates remains wide - implying lower credit demand for banks from high rate corporates for WC needs.

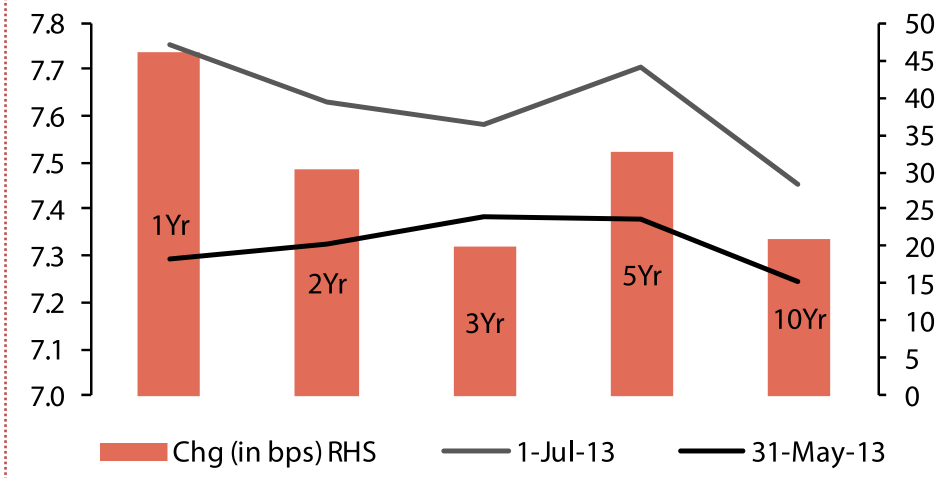
Source: Bloomberg, Centrum Research

Rates & Spreads

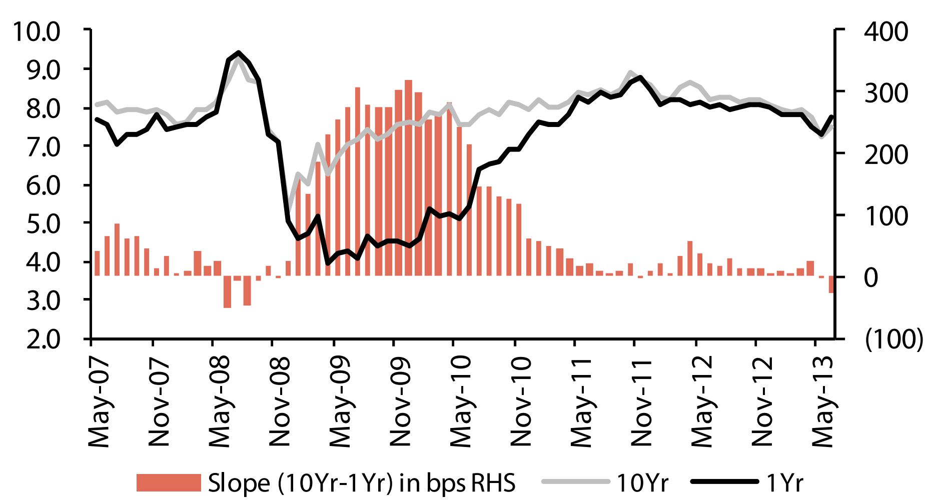
Trend in g-sec yields (%)



Trend in yield curve (%)



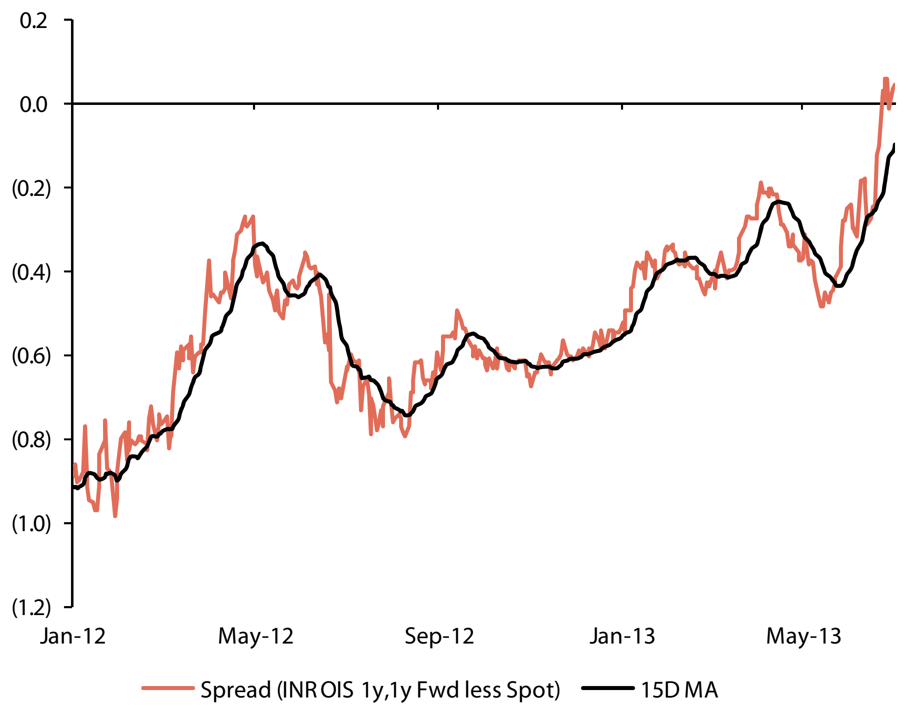
Trend in slope of yield curve (%)



- Investors went on a profit booking spree pushing the yields higher after material softening during May'13. The key trigger for aggressive selling (especially FIIs) was the sharp depreciation in INR after Fed's decision to gradually unwind the QE. The intensity of FII selling led to a lower circuit which triggered a trading freeze.
- Consequently, the g-sec yields have firmed up during June'13 with 10 yr yields up ~20bps to 7.5% while 1 year yields were up ~45bps to 7.75%. In line, the yield curve has shifted higher ~45bps at the shorter end and by ~20bps at the longer end though the negative slope persists. The last occurrence of negative yield curve on a sustained basis was in Nov/Dec'11 driven by a spike in short term rates.

Rates & Spreads

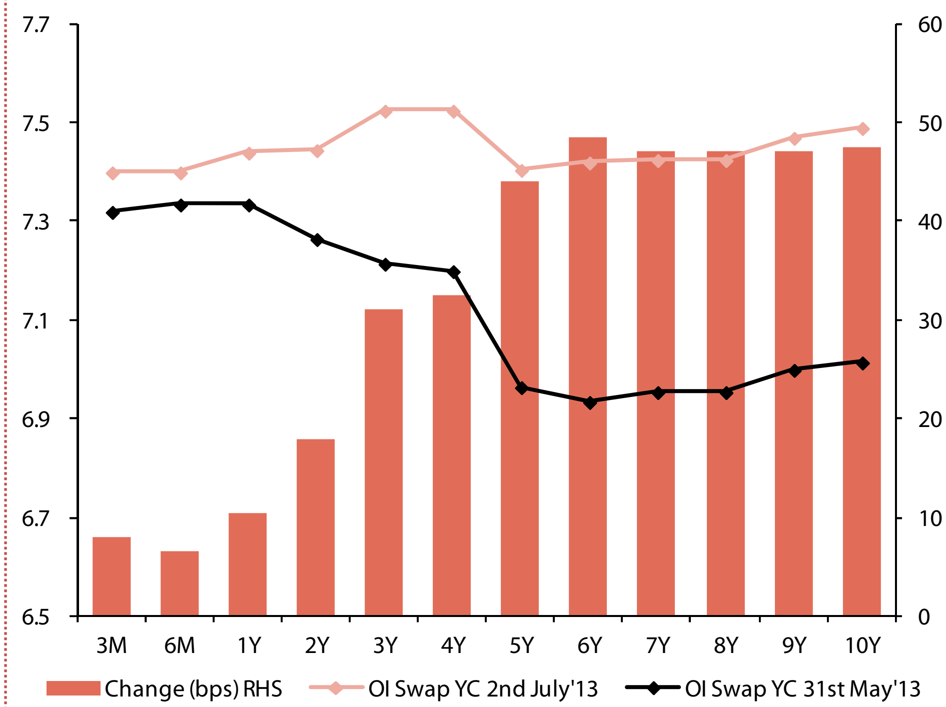
Trend in OIS 1 Yr swap spread (bps)



OIS spreads imply that the street expectations on repo rate cut has reduced during June'13 (from ~25-50bps range in May'13). The narrowing spread is result of 1) RBI's decision to maintain policy rates in June'13 meeting 2) rate cuts now being tier to CAD/INR trends rather than inflation and 3) RBI's policy rate cut stance shifting from 'limited room' to 'as and when required' .

Source: Bloomberg, Centrum Research

Trend in OIS Yield Curve (%)

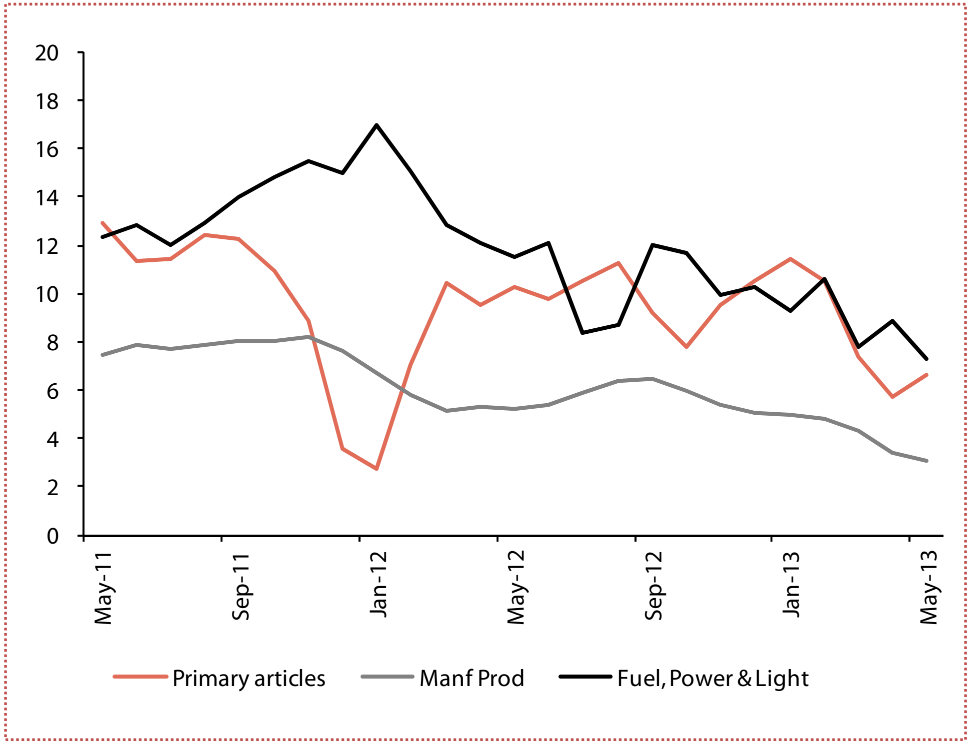


The current OI Swap YC has shifted upwards with shorter end shifting up 8bps while the longer end of the curve shifted by ~48bps since May'13. Consequently, the yield curve turned flattish compared with negative slope at end of May'13.

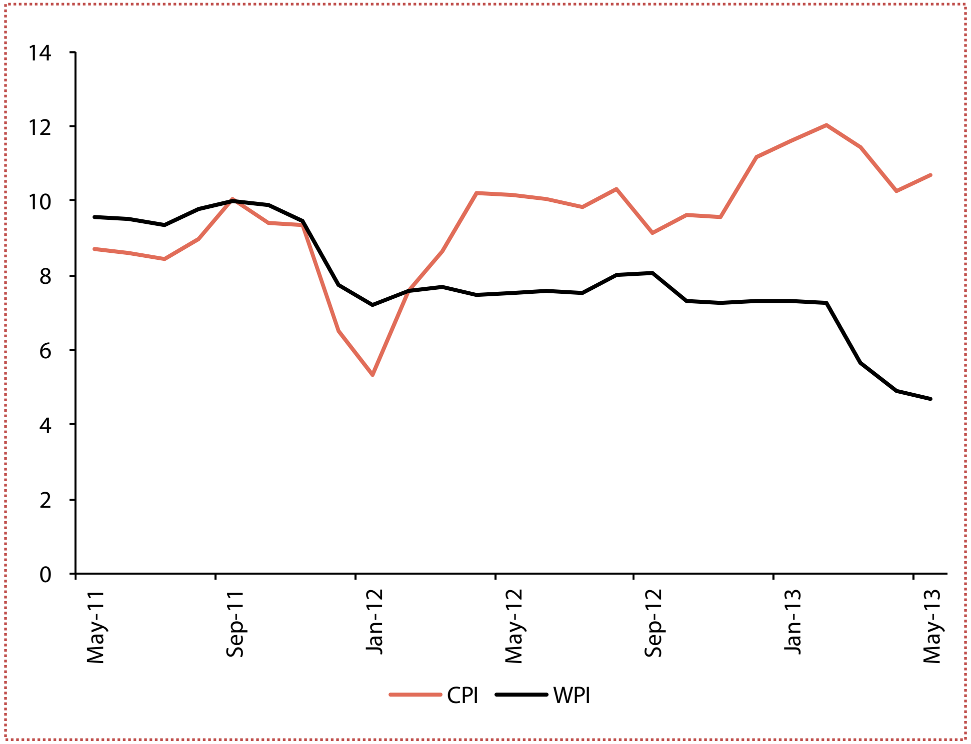
Source: Bloomberg, Centrum Research

Inflation

Trend in WPI & CPI (%)



Trend in WPI components (%)

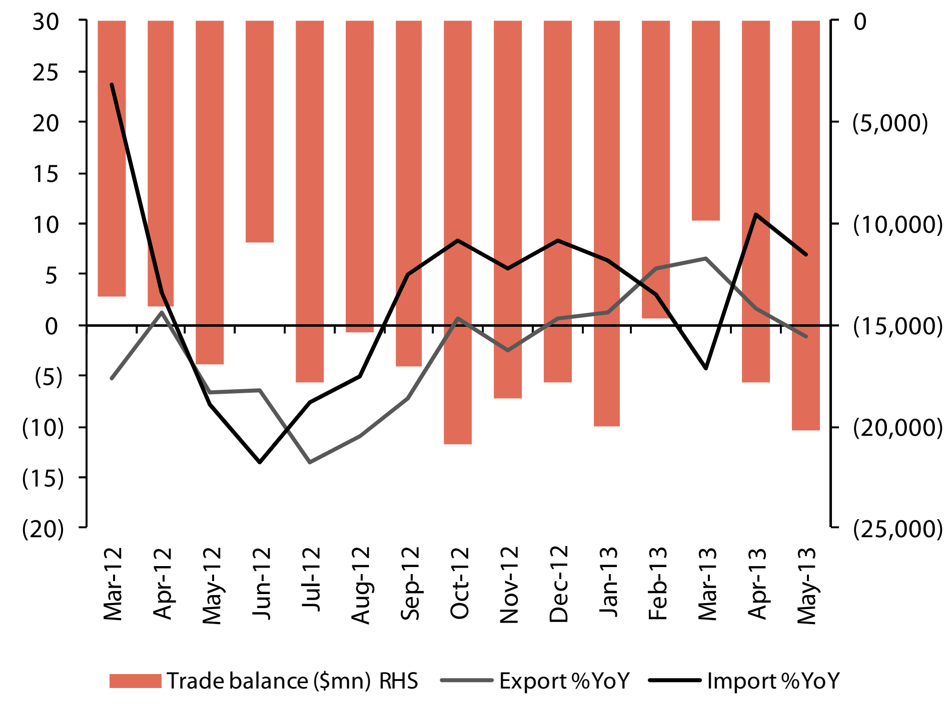


- Wholesale Price Index (WPI) for the month of May'13 stood at 4.70% (provisional) as compared to 4.9% in the previous month. May'13 WPI represents the lowest level in more than three years. The index for 'Fuel and Power' declined by 1.3% despite higher price of electricity (+13 %) as the price of other items such as coal (-10%), aviation turbine fuel (-6%) and petrol (-5%) declined. Meanwhile, primary article inflation inched up by 90bps to 6.65%.
- While inflation has eased materially and is within RBI's comfort range, expectations on policy rate reduction are tempered by that fact that RBI's focus has shifted to CAD and rupee depreciation which can push imported inflation higher. In line, street expectations from July monetary policy meeting has narrowed down with wide majority expectation a status quo.

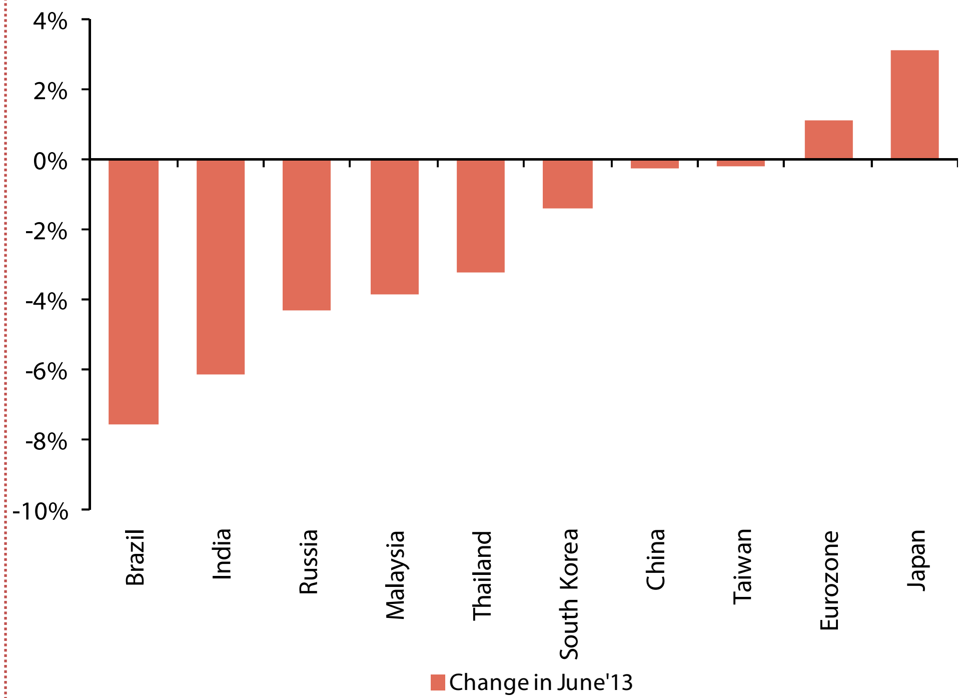
Source: Bloomberg, Centrum Research

Foreign trade

Foreign trade



Currency performance



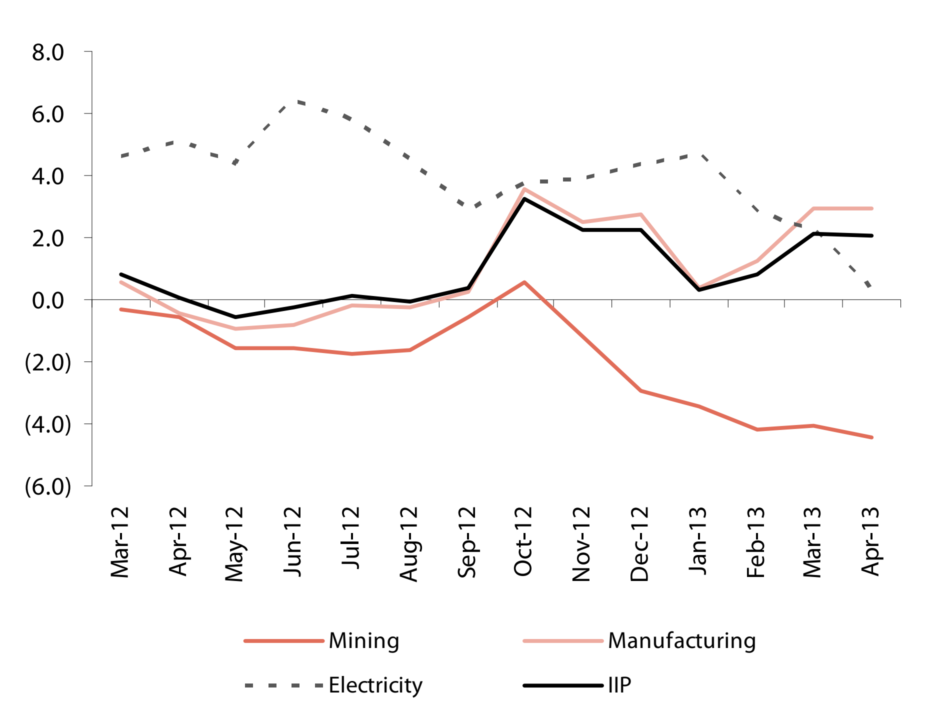
- Trade deficit widened further to $20 bn from $17.8bn in the previous month thereby effectively reversing the improvement seen in Feb and Mar'13. The widened trade deficit, despite drop in import growth, is result of continued weakness in exports. Merchandise imports rose 7% - slower compared with 11% growth in previous month. Exports de-grew by 1.1% during May'13 – first instance of contraction in last five months. Government has taken couple of steps to improve exports including : allowing export of imported goods to Iran and significant traction in sugar exports (deals of 75,000 tonnes signed for July).
- During May'13, most currencies depreciated against USD as money continued to moved out of emerging economies into USA given that FED has expressed intentions to withdraw QE in a gradual manner.

Source: Bloomberg, Centrum Research

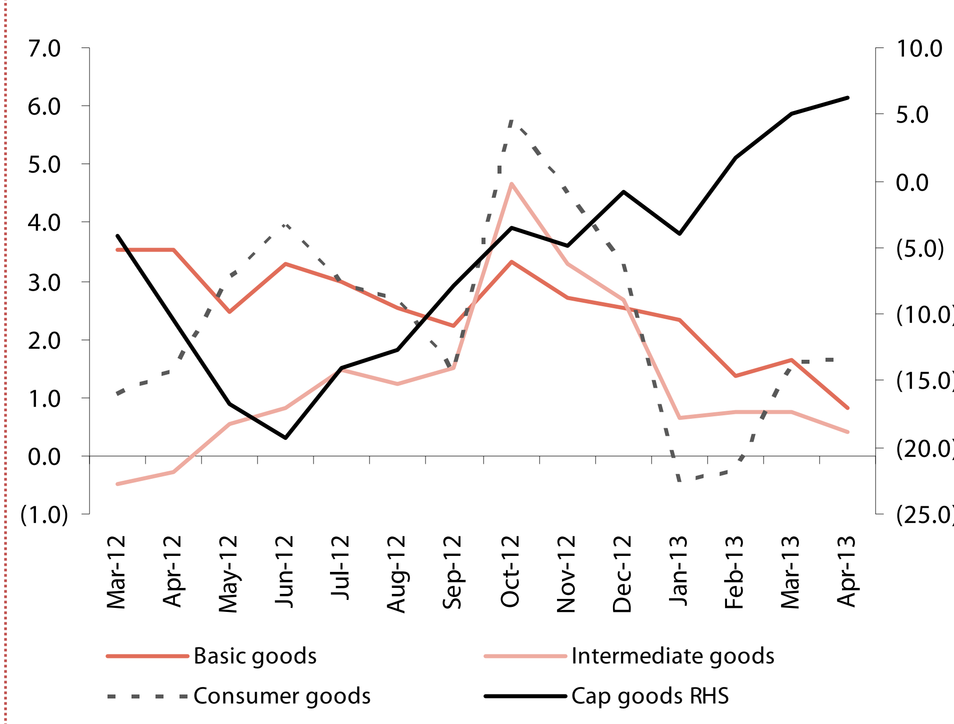
Industrial Production

CENTRUM

IIP (activity based): segmental % YoY (3MMA)



IIP (use based): segmental % YoY (3MMA)

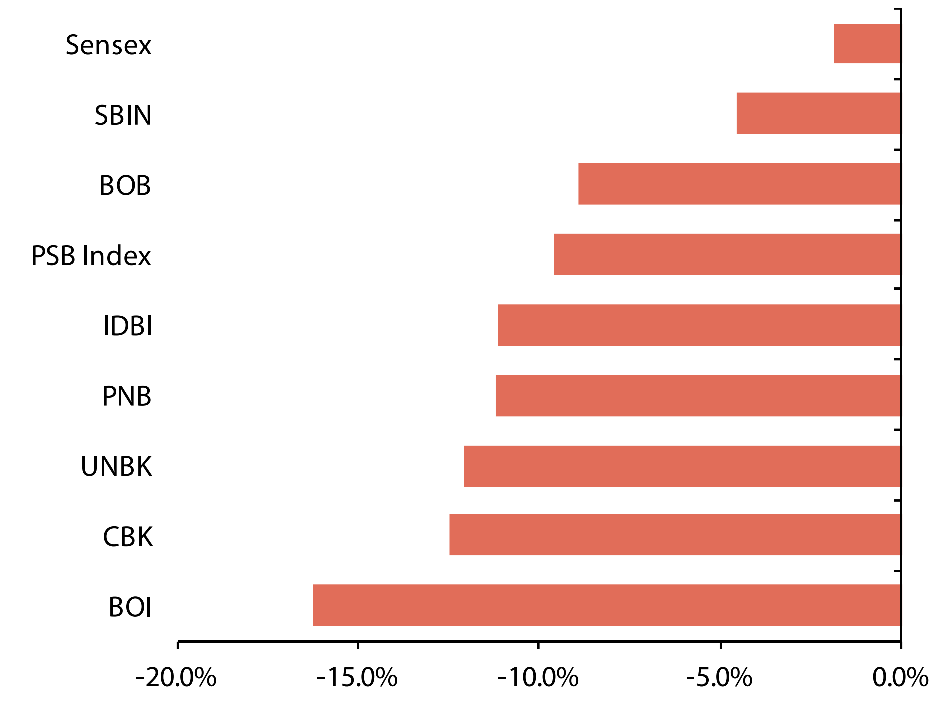


- April'13 IIP growth of 2.2% YoY was slower than 3.4% for March'13 though on 3MMA basis was stable MoM at 2%. While the growth rate is still well below optimal levels, it holds significance as it represents the fourth consecutive month of positive growth after a gap of 10 months.
- From activity perspective, manufacturing sector was the key driver with 2.8% YoY growth in April'13 while mining sector continued to de-grow for seventh consecutive month. Mining sector can surprise positively and push the industrial production higher driven by government's focus on resolving coal & iron-ore mining related issues.
- On 3MMA basis, the improving momentum in cap goods continued with Mar'13 being the 3rd month of positive growth. While the growth in basic and intermediate goods production is still weak, gradually improving industrial activity should trickle down in months to come.

Source: Bloomberg, Centrum Research

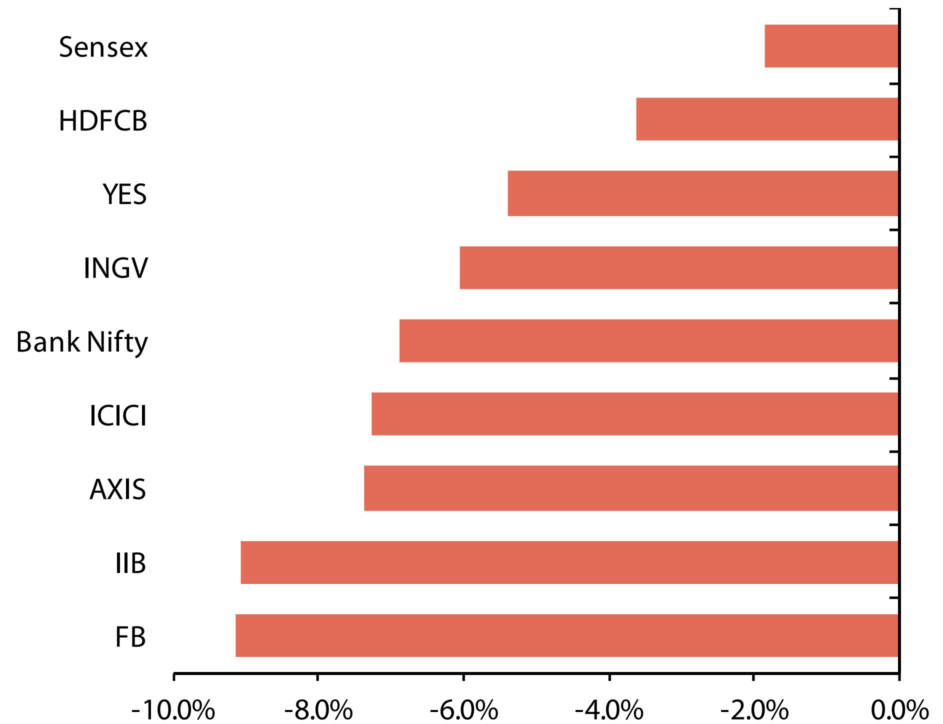
CENTRUM

Stock performance (June'13)



June'13 proved to be a tough month for banks, especially for PSBs, led by sharp sell off by FII investors post FED's decision to unwind QE going forward. Moreover, the firming up of g-sec yields during last fortnight would limit the MTM reversals PSBs are likely to enjoy for Q1FY14.

Source: Bloomberg, Centrum Research



In line with broader weakness in banking stocks, private banks too gave away recent gains. HDFCB, YES and INGV were key outperformers while Federal Bank and IndusInd Bank were key underperformers. Overall, private banks still continue to perform better than PSBs.

Source: Bloomberg, Centrum Research

ICICI Bank | BUY | Target Price: Rs1400, 30% upside

Key Investment arguments

- **FY2014 business strategy: focus on RoE expansion continues:** Return ratios have shown an impressive improvement during FY2013 (RoA up 20bps to 1.65% and RoE up 200bps to 13%). The management intends to continue the focus on RoE expansion driven by improving NIM by 10bps in FY14, grow fees at 12-15%, expand domestic loan book at 20% led by retail, sustain cost-income ratio at the current levels of 40% and have credit costs of not more than 75 bps (even after factoring in higher restructuring during FY14). Besides that, bank intends to continue its efforts to get back excess capital from ICICI UK and ICICI Canada.
- **Asset quality concerns manageable:** Admittedly, asset quality risks remain for the bank given that a significant portion of projects (especially infra) would come up for commissioning in FY2014. In fact, the management has guided for a higher restructuring in FY14 (vs Rs17bn in FY13) with current pipeline at Rs7bn. However, active de-risking of infra exposure should ensure a largely stable %GNPA (3.27% for FY14E vs 3.2% for FY13).
- **Healthy NIM outlook:** Given that the rates (deposit & lending) are expected to come down in FY2014, we expect NIMs to contract for most players under our coverage. However, we expect ICICI Bank to report NIM improvement during FY2014 led by 1) significant scope of improving international NIMs by utilizing excess liquidity 2) declining share of low yielding international business and 3) better domestic NIMs due to lesser pressure from security receipt investments and strong focus on profitability.
- **RoE expansion to continue, Maintain Buy:** We believe that the street will monitor FY2014 performance (given asset quality risks) before confiding by offering higher valuations. However, we believe that driven by healthy NIM outlook and contained credit costs, the bank should be able to expand its RoE by ~100bps to 13.9% for FY14 and 14.9% for FY15. Healthy NIM outlook, reasonable comfort on asset quality and strong capital position leads us to maintain a positive stance on the stock. At current market price, the stock trades at 1.7x FY14 ABV and 12.6x FY14 EPS. Our SOTP fair value estimate of Rs 1400 is based on Rs1190/share (1.8x Sep'14 ABV) contribution from standalone banking business and Rs207/share from subsidiaries. We maintain Buy.

Y/E Mar	NII	NonInt. Inc.	Adj PAT	*YoY %*	EPS (Rs)	P/E (x)	Adj BV (Rs)	P/Adj BV (x)	*ROE (%)*	*ROA (%)*
FY11	90,169	66,479	51,514	*28.0*	44.7	23.9	457.4	2.3	*12.8*	*1.4*
FY12	107,342	75,028	64,653	*25.5*	56.1	19.1	507.8	2.1	*14.5*	*1.5*
FY13E	138,664	83,457	83,255	*28.8*	72.2	14.8	564.9	1.9	*16.5*	*1.7*
FY14E	158,739	97,423	98,207	*18.0*	85.1	12.6	620.4	1.7	*17.1*	*1.7*
FY15E	186,411	113,001	116,064	*18.2*	100.6	10.6	682.9	1.7	*17.7*	*1.8*

Source: Company, Centrum Research Estimates

ICICI Bank | BUY | Target Price: Rs1400, 30% upside

Y/E March (Rs Mn)	FY11	FY12	FY13	FY14E	FY15E
Interest Income	259,741	335,427	400,756	438,324	497,768
Interest Expense	169,572	228,085	262,092	279,585	311,356
Net Interest Income	**90,169**	**107,342**	**138,664**	**158,739**	**186,411**
Net Interest Margin	*2.7*	*2.7*	*3.0*	*3.0*	*3.1*
Non Interest Income	66,479	75,028	83,457	97,423	113,001
Fee & Other Income	64,303	75,767	77,457	91,423	107,001
Gains / (Losses) on Securities	2,176	(740)	6,000	6,000	6,000
Total Net Income	**156,648**	**182,369**	**222,121**	**256,162**	**299,412**
Total Operating Expenses	**66,173**	**78,504**	**90,129**	**102,857**	**114,779**
Cost-Income Ratio	*42.2*	*43.0*	*40.6*	*40.2*	*38.3*
Employee Expenses	28,169	35,153	38,933	43,070	48,335
Other Operating Expenses	38,003	43,352	51,196	59,787	66,444
Pre-provision Profit	**90,476**	**103,865**	**131,992**	**153,305**	**184,634**
Provisions & Contingencies	**22,898**	**15,830**	**18,025**	**18,776**	**25,642**
Provisioning Cost (bps)	*115*	*67*	*66*	*60*	*70*
NPA Provisions	19,769	9,932	17,290	18,950	23,175
Other Provisisons	3,129	5,899	736	(174)	2,467
Profit Before Tax	67,577	88,034	113,967	134,530	158,992
Taxes	16,063	23,382	30,712	36,323	42,928
Adj Net Profit	**51,514**	**64,653**	**83,255**	**98,207**	**116,064**

Y/E March (Rs Mn)	FY11	FY12E	FY13E	FY14E	FY15E
Cash and balance with RBI	209,070	204,613	190,520	235,480	224,731
Inter-bank borrowings	131,831	157,680	223,648	218,108	297,556
Loans & Advances	2,163,659	2,537,277	2,902,494	3,395,918	3,973,224
Investments	1,346,860	1,595,600	1,713,936	1,993,059	2,185,891
Total Int Earning Assets	**3,851,419**	**4,495,170**	**5,030,598**	**5,842,565**	**6,681,402**
Fixed Assets	47,443	46,147	46,471	67,339	80,449
Other Assets	163,475	195,154	290,871	317,960	341,832
Total Assets	**4,062,337**	**4,736,447**	**5,367,902**	**6,211,735**	**7,093,852**
Deposits	2,256,021	2,555,000	2,926,136	3,423,579	3,988,470
Other Int Bearing Laibilities	1,095,543	1,401,649	1,453,415	1,821,760	1,899,657
Interest Bearing Liabilties	**3,351,564**	**3,956,649**	**4,379,551**	**5,245,339**	**5,888,128**
Other non int bearing Liabilities	159,864	175,770	321,336	225,191	376,185
Total Liabilities	3,511,428	4,132,418	4,700,887	5,470,530	6,264,312
Equity	550,909	604,029	667,015	741,205	829,540
Total Liabilities	**4,062,337**	**4,736,447**	**5,367,902**	**6,211,735**	**7,093,852**

Y/E March	FY11	FY12	FY13	FY14E	FY15E
BS Structure Ratios (%)					
CD Ratio	95.9	99.3	99.2	99.2	99.6
Incremental CD Ratio	149.1	125.0	98.4	99.2	102.2
ID Ratio	59.7	62.5	58.6	58.2	54.8
CASA Ratio	45.1	43.5	42.0	42.5	42.5
IEA/TA Ratio	93.8	94.8	94.9	93.7	94.1
Growth Ratios (%)					
Loan Growth	19.4	17.3	14.4	17.0	17.0
Deposit Growth	11.7	13.3	14.5	17.0	16.5
NII growth	11.1	19.0	29.2	14.5	17.4
PPP growth	(7.0)	14.8	27.1	16.1	20.4
Provisions growth	(47.8)	(30.9)	13.9	4.2	36.6
PAT growth	28.0	25.5	28.8	18.0	18.2
Operating Ratios (%)					
NIM	2.7	2.7	3.0	3.0	3.1
Non-int inc / Net income	42.4	41.1	37.6	38.0	37.7
Emp Costs as % of Opex	42.6	44.8	43.2	41.9	42.1
Cost/Income	42.2	43.0	40.6	40.2	38.3
Operating cost growth	42.2	43.0	40.6	40.2	38.3
Opex/ Avg assets					
Provisioning cost (bps)	115	67	66	60	70
Credit cost (bps)	99	42	64	60	63
Tax Rate (%)	23.8	26.6	26.9	27.0	27.0
RoAE	12.8	14.5	16.5	17.1	17.7
RoAA	1.4	1.5	1.7	1.7	1.8
Credit Quality Ratios (%)					
Gross NPA	4.5	3.6	3.2	3.2	3.3
Net NPA	0.9	0.7	0.5	0.7	1.0
Slippage rate	1.58	1.38	1.46	1.75	1.50
Reduction rate	18.7	27.2	27.1	25.0	25.0
NPA coverage ratio	76.0	80.4	84.1	77.2	69.4
Per Share (Rs)					
BVPS (Rs)	478.3	524.0	578.2	642.5	719.1
Adjusted BVPS (Rs)	457.4	507.8	564.9	620.4	682.9
EPS (Rs)	44.7	56.1	72.2	85.1	100.6

Source: Company, Centrum Research Estimates

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Valuation Snapshot

(Rs bn)	NII		PPP		Adj. PAT		EPS		ABV		*RoE (%)*		*RoA (%)*	
Bank	**FY14E**	**FY15E**	**FY14E**	**FY15E**	**FY14E**	**FY15E**	**FY14E**	**FY15E**	**FY14E**	**FY15E**	**FY14E**	**FY15E**	**FY14E**	**FY15E**
Private Banks														
Axis Bank	110.7	131.5	105.8	128.7	59.7	74.0	127.6	158.0	795	917	*16.8*	*18.0*	*1.6*	*1.7*
City Union Bank	7.8	10.1	6.3	7.8	3.9	5.0	7.2	9.2	37	44	*20.8*	*21.5*	*1.5*	*1.5*
Federal Bank	25	31	18	23	10	12	57.9	72.7	382	425	*14.6*	*16.2*	*1.3*	*1.4*
HDFC Bank	194	241	141	181	84	106	35.2	44.7	177	211	*21.2*	*22.6*	*1.9*	*1.9*
ICICI Bank	159	186	153	185	98	116	85.1	100.6	620	683	*13.9*	*14.8*	*1.7*	*1.7*
Karur Vysya Bank	14.3	18.0	10.4	13.5	6.9	8.7	51.3	64.0	320	378	*20.6*	*22.1*	*1.3*	*1.4*
South Indian Bank	15.1	19.1	9.7	12.8	5.7	7.0	4.3	5.2	23	28	*17.7*	*18.7*	*1.0*	*1.0*
Public Sector Banks														
Bank of Baroda	127.7	158.6	102.0	130.2	51.3	67.2	121.4	159.0	709	811	*15.1*	*17.4*	*0.9*	*1.0*
Bank of India	108.9	131.4	86.1	102.2	33.5	41.0	56.2	68.8	340	390	*13.3*	*14.5*	*0.7*	*0.7*
State Bank of India	508.3	616.2	362.8	445.8	161.7	197.5	236.4	288.8	1,269	1,597	*15.4*	*16.5*	*1.0*	*1.0*
Union Bank of India	88.6	107.6	60.4	75.3	25.6	30.8	36.2	43.5	211	240	*14.0*	*15.1*	*0.7*	*0.8*

(Rs bn)	*NII %YoY*		*PPP %YoY*		*Adj. PAT %YoY*		*EPS %YoY*		ABV %YoY		PABV (x)		PE (x)	
Bank	**FY14E**	**FY15E**	**FY14E**	**FY15E**	**FY14E**	**FY15E**	**FY14E**	**FY15E**	**FY14E**	**FY15E**	**FY14E**	**FY15E**	**FY14E**	**FY15E**
Private Banks														
Axis Bank	*14.5*	*18.8*	*13.8*	*21.6*	*15.2*	*23.9*	*15.2*	*23.9*	*14.4*	*15.4*	1.6	1.4	9.9	8.0
City Union Bank	*24.6*	*29.7*	*19.7*	*25.2*	*20.7*	*28.1*	*6.3*	*28.1*	*12.2*	*21.5*	1.5	1.2	7.6	5.9
Federal Bank	*25.1*	*24.1*	*23.3*	*28.7*	*18.1*	*25.6*	*18.1*	*25.6*	*10.4*	*11.0*	1.1	1.0	7.1	5.6
HDFC Bank	*22.9*	*24.0*	*23.3*	*28.2*	*24.4*	*27.3*	*24.4*	*27.3*	*17.1*	*19.2*	3.7	3.1	18.7	14.7
ICICI Bank	*14.5*	*17.4*	*16.1*	*20.4*	*18.0*	*18.2*	*18.0*	*18.2*	*9.8*	*10.1*	1.7	1.6	12.5	10.6
Karur Vysya Bank	*23.1*	*26.5*	*23.0*	*29.3*	*24.7*	*26.5*	*9.7*	*24.7*	*15.2*	*18.1*	1.4	1.2	8.6	6.9
South Indian Bank	*18.0*	*26.5*	*14.7*	*31.3*	*13.8*	*21.7*	*13.8*	*21.7*	*13.7*	*18.6*	0.9	0.8	4.9	4.0
Public Sector Banks														
Bank of Baroda	*12.8*	*24.2*	*12.4*	*27.7*	*14.5*	*31.0*	*14.5*	*31.0*	*7.8*	*14.4*	0.8	0.7	4.5	3.5
Bank of India	*20.7*	*20.7*	*15.4*	*18.7*	*22.0*	*22.4*	*22.0*	*22.4*	*11.4*	*14.6*	0.7	0.6	4.0	3.3
State Bank of India	*14.7*	*21.2*	*16.7*	*22.9*	*14.7*	*22.2*	*14.7*	*22.2*	*12.9*	*25.8*	1.5	1.2	8.0	6.6
Union Bank of India	*17.4*	*21.4*	*8.2*	*24.7*	*18.6*	*20.2*	*18.6*	*20.2*	*7.6*	*13.8*	0.8	0.7	4.8	4.0

Source: Company, Centrum Research Estimates

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