

# India Banking



## 2QFY13 Review

- Private banks continue to shine
- PSBs: Stress levels continue to rise
- Pressure on margin and fee
- Asset quality to determine valuations

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# Stress levels continue to rise, impact valuations



## Financials: Valuation Matrix

	CMP (INR)	Mcap (USDb)	P/E (x)		P/BV (x)	
			FY13	FY14	FY13	FY14
HDFCB	648	28.4	22.7	18.2	4.4	3.7
ICICIBC*	1,023	22.0	11.9	10.0	1.8	1.6
AXSB	1,214	9.4	10.6	9.3	1.9	1.6
KMB	623	8.6	22.3	18.7	3.1	2.7
IIB	374	3.3	17.0	13.9	3.2	2.7
YES	414	2.7	11.6	9.6	2.6	2.1
FB	456	1.5	9.7	8.2	1.2	1.1
VYSB	468	1.3	12.3	11.0	1.6	1.4
J&KKBK	1,357	1.2	6.5	5.9	1.4	1.2
SIB	23	0.2	6.7	5.7	1.1	0.9
<b>Private Aggregate</b>	<b>78.5</b>	<b>16.0</b>	<b>13.6</b>	<b>2.7</b>	<b>2.4</b>	
SBIN (cons)*	2,156	27.0	7.3	6.3	1.2	1.0
BOB	729	5.6	6.2	5.5	1.0	0.9
PNB	745	4.7	5.1	4.4	0.8	0.7
CBK	426	3.5	6.4	5.2	0.8	0.7
BOI	273	2.9	6.5	5.2	0.8	0.7
IDBI	101	2.4	7.0	6.1	0.7	0.6
UNBK	219	2.2	5.5	4.6	0.8	0.7
OBC	314	1.7	6.5	5.5	0.8	0.7
INBK	169	1.4	3.9	3.6	0.7	0.6
IOB	74	1.1	5.1	4.5	0.5	0.5
CRPBK	392	1.1	3.5	3.3	0.6	0.5
ANDB	103	1.1	4.4	3.8	0.7	0.6
DBNK	107	0.7	4.4	4.0	0.7	0.6
<b>Public Aggregate</b>	<b>55.4</b>	<b>7.0</b>	<b>6.1</b>	<b>1.0</b>	<b>0.9</b>	
HDFC*	765	21.1	17.6	13.9	5.3	4.2
IDFC	155	4.4	13.2	11.3	1.6	1.4
POWF	176	4.3	5.6	5.0	1.0	0.9
RECL	216	4.0	5.9	5.1	1.2	1.1
SHTF	623	2.6	10.2	8.7	2.0	1.6
LICHF	245	2.3	12.3	9.3	1.9	1.6
MMFS	990	1.9	12.3	10.2	2.9	2.4
DEWH	195	0.4	5.2	3.8	1.1	0.9
<b>NBFC Aggregate</b>	<b>41.0</b>	<b>12.2</b>	<b>10.3</b>	<b>2.2</b>	<b>2.0</b>	

## Sluggish performance by PSBs; private banks shine

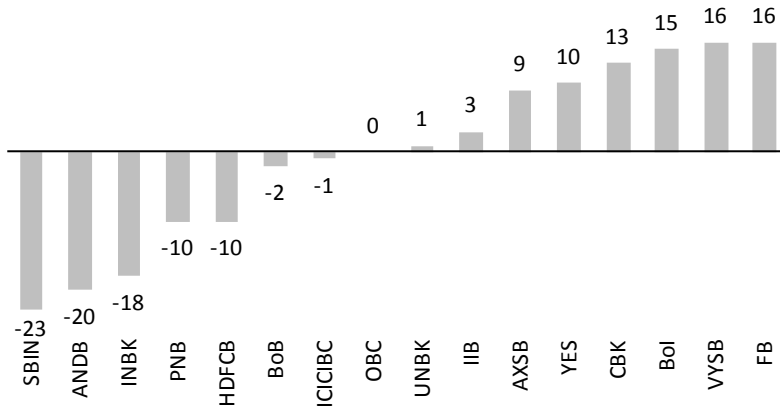
### Asset quality – no relief in sight

- ❑ **Key highlights for private banks:** (1) Margins largely stable/improving QoQ, (2) asset quality remains strong, with GNPA's (%) stable/declining QoQ despite one-offs, (3) healthy loan growth led by continued traction in retail loans and (4) fall in CA float led to pressure on CASA ratio; SA traction remains healthy. New private banks gain market share.
- ❑ **Key highlights for public sector banks (PSBs):** (1) Margins fell QoQ led by continued increase in funding cost and higher slippages, (2) no relief on asset quality, with net slippages at a high level, (3) higher restructuring (ex SEB and AI) QoQ, (4) moderation in business growth led by risk aversion and (5) CASA ratio improves marginally for few banks.
- ❑ **Positive surprises:** (1) **On margins:** ICICIBC, VYSB, YES and FB, (2) **On asset quality:** all private banks, (3) **On core profitability,** ICICIBC, VYSB, HDFCB and YES and (4) **Overall performance:** all private banks' performance was either in-line or better than estimates; within PSBs, OBC and UNBK's performance was better than its peers.
- ❑ **Negative surprises:** (1) **On margins:** most PSBs surprised negatively led by higher stress on asset quality, fall in lending rates and pressure on cost of funds and (2) **On asset quality:** PSBs reported sharp deterioration in asset quality. High stress witnessed for SBIN, PNB, BOI, BOB and ANDB. INBK asset quality was impacted by a large steel account.

# Stress levels continue to rise, impact valuations



## QoQ change in NIMs (BPS)



## Net slippages ratio (%) continues to be high

	Net Slippage Ratio (%)					
	1QFY12	2QFY12	3QFY12	4QFY12	1QFY13	2QFY13
SBIN	1.9	3.8	3.4	-0.2	3.9	2.2
PNB	1.1	0.5	2.4	3.9	2.1	6.5
CBK	1.9	1.7	0.7	1.0	1.6	2.8
BoB	0.8	0.8	1.3	1.9	1.8	1.9
BoI	3.0	5.2	0.3	-1.0	2.2	4.1
UNBK	1.5	5.0	1.1	1.1	3.2	0.4
OBC	1.2	5.8	0.8	3.7	1.1	1.5
INBK	0.5	1.6	1.3	5.3	-0.6	2.6
ANDB	1.3	6.4	-0.6	-0.4	3.6	3.5
<b>PSBs</b>	<b>1.6</b>	<b>3.2</b>	<b>2.0</b>	<b>1.0</b>	<b>2.7</b>	<b>2.8</b>
<b>PSBs (Ex-SBIN)</b>	<b>1.5</b>	<b>2.8</b>	<b>1.1</b>	<b>1.7</b>	<b>2.0</b>	<b>3.2</b>
ICICIBC	0.6	0.2	0.4	0.1	0.8	1.1
AXSB	0.8	1.2	1.3	-0.2	1.2	1.4

## Divergent trends in NIMs...

- ❑ Despite the lower base (due to funded interest term loan provisions, higher slippages) of previous quarter and CRR reduction, PSBs continue to disappoint with dismal margin performance on a sequential basis. Lag impact of higher bulk deposits taken during tight liquidity conditions in 4QFY12, continued asset quality deterioration, reduction in lending rates etc impacted PSBs' NIM performance.
- ❑ Benign asset quality continued strong growth in high yielding products helped private banks report in-line margin performance. Post the sharp (+30bp QoQ) improvement in NIMs in 4QFY12, flat NIMs over the last two quarters for ICICIBC was a positive surprise.

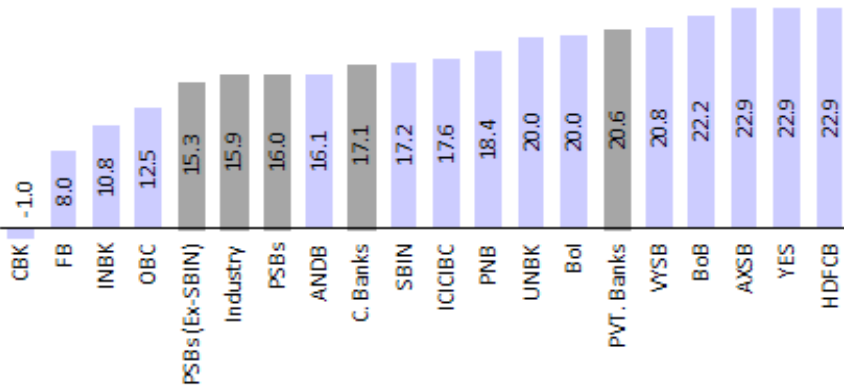
## ... and net slippages ratio; private banks shine

- ❑ Net slippages for PSBs (ex-SBIN) increased sharply (+65% QoQ). Quarterly slippages declined for SBIN though it remains high. PSBs (ex-SBIN) annualized net slippage ratio increased to 3.2% v/s 2% a quarter ago.
- ❑ Private banks asset quality remained healthy, with GNPA (+3% QoQ) and NNPA (+11% QoQ on a lower base) being contained. AXSBs gross stress addition was better than expectation.
- ❑ Excluding Air India and SEB, restructuring increased QoQ led by higher additions for SBIN, PNB, BOB and ANDB.



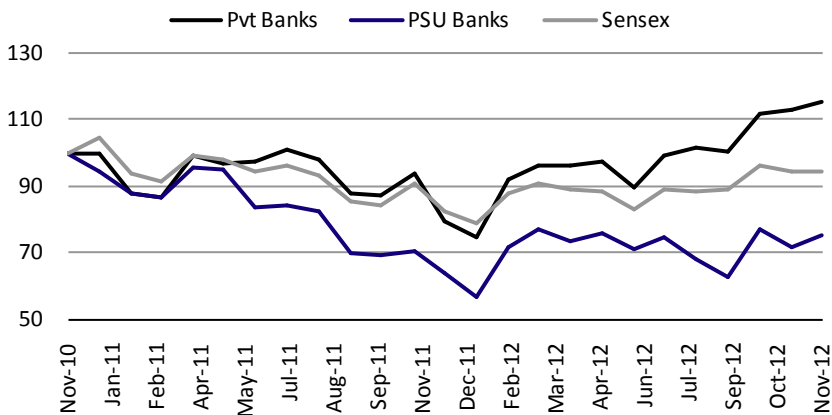
# Stress levels continue to rise, impact valuations

## Loan growth of private banks remains strong (%)



\*C.BANKS: MOSL Coverage

## Private banks continue to outperform



## PSBs risk aversion continue; private banks growth healthy

- ❑ Retail focused banks continued to witness strong growth across products. Further one-off short term corporate lending opportunities boosted the loan growth for private banks.
- ❑ Large corporate segment (+17% QoQ and 38% YoY) remains a key driver of growth for ICICIB. YES reported strong loan/customer asset growth of ~10% QoQ and 23%/33% YoY.
- ❑ Sequential decline or moderate growth for PSBs is due to seasonal factors, pressure on liability side to cut bulk deposits (Ministry of Finance directive of 15% by end-March 2013) and risk aversion led by higher asset quality related issues.

## Asset quality trends will remain key to valuation

- ❑ Rising stress and lower margins are significantly impacting the valuations for PSBs. The only relief for the banks now could be monetary easing or policy actions from government leading to optimism in CY13.
- ❑ Retail focused private bank continue to show better than expected performance and we expect trend to continue. Private banks with higher corporate exposures have tied through tough times so far, however situation remains challenges.
- ❑ **Top picks: Private banks – ICICIB, AXSB; PSBs – SBIN.** In mid-cap space, we like YES and OBC.



## Varied performance; private banks continue to shine

- For our coverage universe, NII and PAT were in line with expectation, though performance varied across banks. PSBs disappointed while private banks reported healthy margin performance. Significant negative surprise on NII came from SBIN, BOI, UNBK, ANDB and INBK. Muted fee income growth was witnessed across the board, exerting additional pressure on core operating profits.
- While operating profits was lower-than-expectation (led by PSBs, private in-line), compromise on PCR and MTM write-back and higher base of 2QFY12 led to lower growth in provisioning expense and in-line PAT. UNBK and OBC performed well in asset quality among PSBs. Lower tax rate also came as a respite in some cases.

(INR Million)	Actual 2QFY13	QoQ (%)	YoY (%)	Var (%)	Actual 2QFY13	QoQ (%)	YoY (%)	Var (%)	Actual 2QFY13	QoQ (%)	YoY (%)	Var (%)
	Net Interest Income				Operating Profit				Profit After Tax			
<b>Coverage Banks</b>	<b>379,980</b>	<b>2.2</b>	<b>11.3</b>	<b>-1.7</b>	<b>285,704</b>	<b>-1.3</b>	<b>8.3</b>	<b>-4.8</b>	<b>142,407</b>	<b>-3.5</b>	<b>16.8</b>	<b>-1.6</b>
<b>Coverage Banks (ex SBIN)</b>	<b>270,242</b>	<b>3.7</b>	<b>14.2</b>	<b>-0.5</b>	<b>212,167</b>	<b>2.1</b>	<b>12.2</b>	<b>-1.5</b>	<b>105,826</b>	<b>-3.9</b>	<b>12.9</b>	<b>-2.5</b>
<b>Private Banks</b>	<b>113,384</b>	<b>6.5</b>	<b>25.4</b>	<b>2.8</b>	<b>94,247</b>	<b>5.6</b>	<b>25.2</b>	<b>0.7</b>	<b>55,613</b>	<b>6.3</b>	<b>27.6</b>	<b>3.0</b>
AXSB	23,269	6.7	15.9	2.3	21,783	10.9	22.7	7.2	11,235	-2.6	22.1	-0.1
FB	5,059	2.9	6.6	-2.5	3,496	0.9	-3.2	-8.8	2,151	13.0	12.5	7.2
HDFCB	37,317	7.1	26.7	3.5	25,713	-0.4	21.0	-6.8	15,600	10.1	30.1	-0.1
ICICI BC	33,712	5.6	34.5	3.5	31,933	8.3	35.7	4.9	19,561	7.8	30.1	7.3
IIB	5,097	5.3	21.6	-2.6	4,198	3.9	26.1	-2.4	2,503	5.9	29.6	0.9
VYSB	3,688	7.4	21.5	4.6	2,276	4.7	20.2	1.0	1,502	15.4	30.2	13.7
YES	5,242	11.0	35.9	5.4	4,847	5.5	25.6	-0.9	3,061	5.5	30.2	-0.2
<b>PSBs</b>	<b>266,596</b>	<b>0.5</b>	<b>6.2</b>	<b>-3.5</b>	<b>191,457</b>	<b>-4.4</b>	<b>1.6</b>	<b>-7.3</b>	<b>86,794</b>	<b>-8.9</b>	<b>10.9</b>	<b>-4.3</b>
<b>PSBs (Ex-SBIN)</b>	<b>156,858</b>	<b>1.7</b>	<b>7.3</b>	<b>-2.8</b>	<b>117,920</b>	<b>-0.5</b>	<b>3.6</b>	<b>-3.2</b>	<b>50,213</b>	<b>-13.0</b>	<b>0.0</b>	<b>-7.9</b>
ANDB	8,938	-4.8	-6.0	-8.2	6,381	-9.3	-7.1	-8.7	3,256	-10.0	3.0	1.5
BoB	28,623	2.3	11.5	1.8	23,826	6.3	12.0	6.1	13,138	15.4	12.7	21.3
BoI	21,960	7.5	15.3	-7.9	18,541	10.8	19.5	-0.9	3,019	-66.0	-38.5	-57.5
CBK	19,568	6.1	-0.2	3.0	12,821	-8.0	-19.9	-8.2	6,610	-14.7	-22.4	-9.9
INBK	11,203	-2.8	-1.3	-6.6	9,084	8.1	-1.4	2.0	4,967	7.6	6.0	5.5
OBC	11,571	2.8	16.9	-1.9	9,212	2.8	21.5	4.2	3,022	-22.8	80.2	-9.0
PNB	36,494	-1.2	5.7	-2.6	25,329	-10.8	0.2	-10.4	10,656	-14.5	-11.6	-12.5
SBIN	109,738	-1.3	4.7	-4.4	73,536	-10.1	-1.6	-13.1	36,581	-2.5	30.2	1.1
UNBK	18,502	1.6	11.4	-5.0	12,727	0.4	5.6	-7.0	5,546	8.4	57.3	-5.0

# PSBs see earnings downgrade led by higher asset quality issues



Company	EPS - Pre-2QFY13 (INR)		EPS - Post-2QFY13 (INR)		% Revision		EPS Growth (%)	
	FY13E	FY14E	FY13E	FY14E	FY13E	FY14E	FY13E	FY14E
<b>Financials: Private Banks</b>								
AXSB	109.5	125.6	114.0	131.2	4.2	4.4	11.1	15.0
FB	47.0	55.7	46.8	55.6	-0.5	-0.2	3.0	18.9
HDFCB	28.7	35.8	28.5	35.6	-0.5	-0.4	29.6	24.8
ICICBC	68.3	78.7	69.6	80.2	1.9	1.9	24.1	15.2
IIB	22.0	27.5	22.0	26.9	-0.1	-1.9	28.1	22.6
VYSB	35.4	40.3	38.1	42.6	7.7	5.6	25.3	11.8
YES	35.4	43.0	35.8	43.0	0.9	0.0	29.2	20.2
<b>Financials: PSU Banks</b>								
ANDB	25.0	28.0	23.5	26.9	-6.1	-3.7	-2.3	14.7
BoB	110.6	129.0	116.8	132.7	5.7	2.9	-3.8	13.6
BoI	53.9	63.7	42.1	52.5	-21.9	-17.5	-9.7	24.8
CBK	73.7	85.5	66.1	81.2	-10.3	-4.9	-10.8	23.0
INBK	42.8	45.7	43.7	46.6	2.2	2.1	7.5	6.6
OBC	50.8	56.6	48.2	57.3	-5.1	1.3	23.2	18.9
PNB	155.5	185.1	144.8	170.7	-6.9	-7.8	0.6	17.8
SBIN (standalone)	226.2	260.7	221.6	254.2	-2.0	-2.5	27.0	14.7
SBIN (consol)	284.5	330.3	281.5	323.8	-1.1	-2.0	23.1	15.1
UNBK	42.0	48.1	39.9	47.9	-4.9	-0.4	23.7	20.0
<b>Financials: NBFC</b>								
DHFL	37.7	51.3	37.9	51.1	0.5	-0.4	48.3	34.8
HDFC	32.1	38.6	32.0	38.0	-0.5	-1.6	14.6	18.8
IDFC	10.9	13.3	11.8	13.7	8.0	3.4	14.4	16.6
LICHF	21.8	31.7	19.8	28.7	-9.0	-9.3	9.6	44.7
MMFSL	79.4	93.7	80.5	96.9	1.4	3.4	33.3	20.4
POWF	29.5	32.7	31.4	35.4	6.4	8.3	31.4	12.9
RECL	34.9	41.7	36.6	42.0	5.0	0.7	28.3	14.6
SHTF	59.8	70.4	61.2	71.6	2.3	1.7	10.1	17.0



# Asset quality: impressive performance by private banks

- Net slippages for PSBs (ex-SBIN) increased sharply (+65% QoQ). On a higher base, SBIN reported a QoQ decline in net slippages (partially helped by restructuring). PSBs (ex-SBIN) annualized net slippage ratio increased to 3.2% v/s 2% in 1QFY13.
- For PSBs (ex-SBIN), GNPA's and NNPA's increased 22% and 24% QoQ respectively. Most of the banks compromised on PCR to protect profitability.
- Relatively better performance:** UNBK, OBC and CBK (adjusted for large media account). **Negative surprise:** PNB, BOI and BOB.
- Private banks' asset quality remained healthy, with GNPA's (+3% QoQ) and NNPA's (+11% QoQ on a lower base) being largely flat QoQ. AXSB gross stress addition was better-than-expectation and within management guidance.
- Going forward, restructuring is expected to increase led by some large-mid corporate accounts under CDR. Private banks asset quality is expected to remain healthy due to lower restructured loans, lesser proportion of direct agricultural loans and better risk management.

	Gross NPA				Net NPA				Calculated Prov. Cov %			PCR (%)
	INRb	QoQ %	YoY %	GNPA %	INRb	QoQ Gr %	YoY Gr %	NNPA %	2QFY12	1QFY13	2QFY13	Incl W/off
SBIN	492	4	45	5.2	226	11	40	2.4	52.5	56.9	54.0	62.8
PNB	140	40	172	4.7	79	60	277	2.7	59.4	50.8	43.8	54.3
CBK	56	25	48	2.6	46	22	47	2.1	17.8	16.5	18.6	63.0
BoB	59	11	73	2.0	24	29	113	0.8	67.1	65.3	59.4	75.7
BoI	89	32	36	3.4	52	18	23	2.0	35.2	34.6	41.2	61.0
UNBK	65	-1	26	3.7	36	-5	20	2.1	42.4	42.7	45.0	61.5
OBC	35	3	11	2.9	24	4	21	2.0	36.4	31.7	30.9	64.5
INBK	20	27	89	2.1	13	31	111	1.3	43.1	38.0	36.3	71.0
ANDB	30	28	52	3.5	18	42	68	2.2	45.3	45.2	39.3	53.2
<b>PSBs (Ex-SBIN)</b>	<b>463</b>	<b>22</b>	<b>64</b>		<b>286</b>	<b>24</b>	<b>70</b>		<b>40.2</b>	<b>39.2</b>	<b>38.2</b>	
<b>PSBs</b>	<b>955</b>	<b>12</b>	<b>54</b>		<b>512</b>	<b>18</b>	<b>55</b>		<b>46.9</b>	<b>49.0</b>	<b>46.4</b>	
ICICIBC	101	1	-1	3.1	21	10	-4	0.7	77.9	80.4	78.7	78.7
HDFCB	21	2	13	0.9	4	-2	9	0.2	81.3	81.0	81.9	81.9
AXSB	22	5	26	1.1	7	8	19	0.3	68.5	71.1	70.1	80.0
YES	1	-6	49	0.2	0.2	-15	48	0.1	80.2	78.3	80.4	80.4
IIB	4	12	23	1.0	1	14	23	0.3	72.0	72.6	72.1	72.1
VYSB	6	-1	14	1.9	0	-29	-49	0.1	84.8	90.4	93.1	93.1
FB	14	2	15	3.8	2	4	25	0.7	84.3	83.2	82.9	82.9
<b>Private Banks</b>	<b>174</b>	<b>3</b>	<b>8</b>		<b>38</b>	<b>11</b>	<b>7</b>		<b>77.8</b>	<b>79.5</b>	<b>77.9</b>	
<b>Coverage Banks</b>	<b>1,129</b>	<b>11</b>	<b>44</b>		<b>551</b>	<b>17</b>	<b>51</b>					





# Slippages: Sharp rise QoQ for PSBs; private banks proactive

- PSBs reported a sharp increase in slippages led by mid-corporate and SME segment. In certain cases, slippages increased QoQ due to AFI inspection.
- Among PSBs, higher stress was seen for PNB, BOI, ANDB and INBK. SBIN quarterly slippages declined QoQ on a high base; stable recoveries and up-gradation led to net slippages declining to 44% QoQ (net slippage ratio of 2.2%, compared to 3.9% a quarter ago). Performance of UNBK and OBC was relatively better among PSBs. Increased stress in large corporate segment and continued challenges in mid-corporate and SME segment would keep the asset quality under pressure for the banking system.
- Private banks, in certain cases, proactively recognized some stress and made provisions - AXSB and ICICIBC recognized a large media account and provided 60% and 85% on the same respectively. Though YES made additional provisions of ~33% of the exposure, it did not recognize it as NPA.

	Slippages (INR m)					Slippage Ratio (%)				
	2QFY12	3QFY12	4QFY12	1QFY13	2QFY13	2QFY12	3QFY12	4QFY12	1QFY13	2QFY13
SBIN	82,700	81,610	43,830	108,440	71,060	4.9	4.5	2.3	5.6	3.6
PNB	9,930	16,830	28,190	27,690	45,440	1.9	3.0	4.7	4.6	7.3
CBK	12,360	8,620	11,210	14,970	19,220	2.8	1.8	2.1	2.8	3.5
BoB	5,825	9,527	13,233	13,093	14,158	1.2	1.8	2.3	2.3	2.4
BoI	28,217	8,696	8,000	17,470	27,334	6.1	1.8	1.5	3.3	5.0
UNBK	18,210	5,660	6,070	16,310	7,920	5.8	1.7	1.6	4.5	2.2
OBC	15,033	6,988	13,174	7,069	6,522	6.9	3.1	5.4	2.9	2.5
INBK	3,790	2,943	10,397	2,310	7,330	2.2	1.6	5.5	1.1	3.4
ANDB	11,593	3,809	4,017	8,331	9,150	7.6	2.3	2.2	4.4	4.9
<b>PSBs (Ex-SBIN)</b>	<b>93,365</b>	<b>59,264</b>	<b>90,274</b>	<b>98,912</b>	<b>127,924</b>	<b>2.8</b>	<b>1.7</b>	<b>2.4</b>	<b>2.6</b>	<b>3.8</b>
<b>PSBs</b>	<b>176,065</b>	<b>140,874</b>	<b>134,104</b>	<b>207,352</b>	<b>198,984</b>	<b>3.3</b>	<b>2.5</b>	<b>2.2</b>	<b>3.4</b>	<b>3.7</b>
ICICIBC	7,900	8,770	6,350	8,680	12,200	1.6	1.7	1.2	1.6	2.1
AXSB	4,960	5,350	5,140	4,560	6,280	1.8	1.7	1.4	1.4	1.8
IIB	1,310	680	840	1,090	1,130	2.2	1.1	1.3	1.5	1.5
FB	2,650	3,300	2,700	2,890	1,470	3.8	4.7	3.4	3.6	1.7



# Recoveries and upgradations moderate, net slippages rise

## Recoveries and upgradation: Performance not very strong

	Recoveries & Upgradation (INR b)						As a % of Opening GNPA (ann.)					
	FY12				FY13		FY12				FY13	
	1Q	2Q	3Q	4Q	1Q	2Q	1Q	2Q	3Q	4Q	1Q	2Q
SBIN	30.8	17.7	19.7	47.2	32.8	28.2	48.6	25.5	23.2	47.1	33.1	23.9
PNB	6.5	7.2	3.6	4.8	14.7	4.9	59.6	58.8	27.9	29.5	67.3	19.7
CBK	5.7	5.0	5.5	6.1	6.6	3.9	73.7	55.2	57.7	61.4	65.2	34.8
BoB	2.0	1.9	3.0	2.3	2.6	2.8	25.0	21.9	35.8	23.3	23.2	20.9
BoI	3.6	4.4	7.5	13.2	5.5	5.2	29.7	30.7	45.7	82.7	37.6	31.1
UNBK	3.0	2.3	2.1	2.0	4.6	6.3	33.6	24.8	16.0	15.1	33.8	38.3
INBK	0.8	1.0	0.6	0.4	3.5	1.7	44.9	48.6	22.8	12.9	76.1	44.4
OBC	1.2	2.4	5.1	4.3	4.3	2.7	25.3	47.4	66.1	53.0	48.0	31.5
ANDB	0.6	1.9	4.8	4.8	1.4	2.6	34.8	93.8	184.3	161.6	30.8	66.7
ICICIBC	4.8	6.7	7.0	5.8	4.0	5.6	19.4	26.2	27.2	22.7	15.9	22.1
AXSB	0.9	1.6	1.2	5.9	0.6	1.4	27.4	47.9	32.6	148.3	15.8	31.3

## Some banks resort to writeoffs to keep GNPA (%) lower

	Write-offs (INR b)						As a % to Op GNPA (ann.)					
	FY12				FY13		FY12				FY13	
	1Q	2Q	3Q	4Q	1Q	2Q	1Q	2Q	3Q	4Q	1Q	2Q
SBIN	6.0	3.2	0.4	0.8	0.8	19.7	9.5	4.6	0.5	0.8	0.8	16.7
PNB	0.1	0.2	0.3	0.7	0.3	0.2	1.0	1.5	2.4	4.1	1.6	0.6
CBK	2.9	5.5	1.1	5.1	3.8	1.6	37.2	61.3	11.5	50.8	37.3	14.6
BoB	1.1	4.2	1.6	5.3	2.0	5.8	14.6	48.9	18.3	54.1	17.5	43.5
BoI	1.5	16.0	2.6	2.1	3.1	0.1	12.5	110.2	16.1	13.3	20.8	0.6
UNBK	3.4	2.0	2.9	1.7	0.8	2.4	37.5	21.1	22.5	12.9	5.8	14.4
INBK	0.2	0.4	0.9	3.4	1.8	1.3	9.4	19.6	35.0	114.6	38.0	34.7
OBC	1.4	1.9	0.6	5.4	4.8	3.0	29.7	36.5	8.2	67.0	53.6	35.3
ANDB	0.0	1.6	0.0	0.1	1.3	0.0	0.8	79.3	0.5	2.4	28.1	0.8
ICICIBC	3.2	0.8	4.8	3.1	1.2	5.1	12.7	3.2	18.7	12.2	4.8	20.0
AXSB	2.3	1.6	2.4	0.3	1.1	3.9	68.6	47.6	65.5	7.5	27.5	90.1

## Credit cost (annualized) remains high (%)

	1QFY10	2QFY10	3QFY10	4QFY10	1QFY11	2QFY11	3QFY11	4QFY11	1QFY12	2QFY12	3QFY12	4QFY12	1QFY13	2QFY13
SBIN	0.9	0.7	0.3	1.4	1.1	1.3	0.9	1.8	0.6	1.2	1.5	1.3	1.3	0.8
PNB	0.4	0.1	0.8	1.0	1.1	0.7	1.0	0.9	0.9	0.5	0.9	1.4	1.2	1.5
CBK	0.6	0.7	1.0	1.5	0.3	0.5	0.3	1.1	0.5	0.9	0.3	0.7	0.8	0.8
BoB	0.9	0.5	0.6	0.6	0.6	0.3	0.4	0.8	0.2	0.5	0.8	1.4	1.1	1.0
BoI	0.5	1.3	1.2	1.6	0.7	0.6	0.3	0.7	0.7	1.5	0.6	0.8	0.9	2.3
UNBK	1.0	0.4	0.2	1.1	0.3	2.0	1.1	0.3	1.0	1.3	1.1	0.5	1.0	0.8
OBC	0.6	0.2	0.2	1.7	0.7	1.0	0.8	1.7	0.6	1.3	0.4	1.8	1.5	1.0
INBK	0.1	0.3	0.2	2.2	2.5	0.6	0.2	0.9	0.6	0.5	0.5	2.1	0.4	1.1
ANDB	0.3	0.4	0.4	1.3	0.1	0.6	1.0	1.2	0.6	1.2	0.2	0.5	0.7	0.6
ICICIBC	2.5	2.2	2.2	2.2	1.7	1.4	0.9	0.7	0.8	0.6	0.6	0.8	0.7	0.7
AXSB	1.7	2.4	1.5	0.8	1.1	1.2	0.8	0.3	0.4	0.7	0.9	0.3	0.6	0.9



## Net slippages rose QoQ led by sharp increase in slippages

- ❑ A large media, pharma and steel account slipped in 1HFY13 and kept net slippages high for the banks.
- ❑ Excluding a media account of INR5b for ICICIBC and INR3.5b for AXSB, net slippages improved sharply QoQ.
- ❑ UNBK surprised positively with a sharp fall in net slippages. In case of INBK a large steel accounted impacted asset quality performance, excluding for the same net slippages remained under control.
- ❑ Sequential decline in SBIN net slippages is driven by INR13.9b of restructuring during the quarter. Adjusted for that as well, net slippages declined from a high level of 1QFY13.
- ❑ For PNB and BOI net slippages almost doubled QoQ.

	Net Slippages (INR b)					Net Slippage Ratio (%)				
	2QFY12	3QFY12	4QFY12	1QFY13	2QFY13	2QFY12	3QFY12	4QFY12	1QFY13	2QFY13
SBIN	65.0	61.9	-3.4	75.6	42.9	3.8	3.4	-0.2	3.9	2.2
PNB	2.7	13.2	23.4	13.0	40.5	0.5	2.4	3.9	2.1	6.5
CBK	7.4	3.2	5.1	8.4	15.3	1.7	0.7	1.0	1.6	2.8
BoB	4.0	6.5	11.0	10.5	11.4	0.8	1.3	1.9	1.8	1.9
BoI	23.8	1.2	-5.2	11.9	22.1	5.2	0.3	-1.0	2.2	4.1
UNBK	15.9	3.6	4.1	11.7	1.7	5.0	1.1	1.1	3.2	0.4
OBC	12.6	1.8	8.9	2.8	3.9	5.8	0.8	3.7	1.1	1.5
INBK	2.8	2.3	10.0	-1.2	5.6	1.6	1.3	5.3	-0.6	2.6
ANDB	9.7	-1.0	-0.8	6.9	6.6	6.4	-0.6	-0.4	3.6	3.5
<b>PSBs</b>	<b>143.9</b>	<b>92.8</b>	<b>53.1</b>	<b>139.6</b>	<b>149.9</b>	<b>3.2</b>	<b>2.0</b>	<b>1.0</b>	<b>2.7</b>	<b>2.8</b>
<b>PSBs (Ex-SBIN)</b>	<b>78.9</b>	<b>30.9</b>	<b>56.5</b>	<b>64.0</b>	<b>107.0</b>	<b>2.8</b>	<b>1.1</b>	<b>1.7</b>	<b>2.0</b>	<b>3.2</b>
ICICIBC	1.2	1.8	0.6	4.7	6.6	0.2	0.4	0.1	0.8	1.1
AXSB	3.3	4.1	-0.8	3.9	4.9	1.2	1.3	-0.2	1.2	1.4



## Restructured loan portfolio continues to rise (INR m)

	SBIN	PNB	CBK	BoB	BoI	UNBK	OBC	INBK	CRPBK	ANDB	PSBs
<b>OSRL</b>	<b>327,960</b>	<b>258,950</b>	<b>137,749</b>	<b>195,786</b>	<b>177,671</b>	<b>83,210</b>	<b>114,830</b>	<b>103,487</b>	<b>88,666</b>	<b>90,766</b>	<b>1,490,408</b>
% of Loan	3.5	8.8	6.4	6.7	6.8	4.7	9.7	10.8	9.0	10.5	6.0
<b>AI and SEB</b>	<b>12,690</b>	<b>92,500</b>	<b>69,800</b>	<b>44,000</b>	<b>57,800</b>	<b>30,000</b>	<b>58,330</b>	<b>30,200</b>	<b>26,000</b>	<b>21,100</b>	<b>416,420</b>
% of Loan	0.1	3.1	3.2	1.5	2.2	1.7	4.9	3.2	2.6	2.4	1.7
<b>Of which</b>											
Air India	12,690	22,500	14,800	24,000	29,000	0	16,780	7,900	13,000	6,300	133,970
SEB	0	70,000	55,000	20,000	28,800	30,000	41,550	22,300	13,000	14,800	282,450
<b>OSRL (ex-AI and SEB)</b>	<b>315,270</b>	<b>166,450</b>	<b>67,949</b>	<b>151,786</b>	<b>119,871</b>	<b>53,210</b>	<b>56,500</b>	<b>73,287</b>	<b>62,666</b>	<b>69,666</b>	<b>1,073,988</b>
% of Loan	3.4	5.6	3.1	5.2	4.6	3.0	4.8	7.7	6.4	8.1	4.4
<b>Net Addition to OSRL in 1QFY13</b>	<b>-16,090</b>	<b>9,850</b>	<b>54,476</b>	<b>8,367</b>	<b>40,866</b>	<b>9,550</b>	<b>14,438</b>	<b>10,160</b>	<b>8,915</b>	<b>11,792</b>	<b>143,409</b>
<b>Net Addition to OSRL in 2QFY13</b>	<b>32,470</b>	<b>18,460</b>	<b>8,189</b>	<b>15,985</b>	<b>2,021</b>	<b>-990</b>	<b>5,292</b>	<b>4,307</b>	<b>5,151</b>	<b>4,311</b>	<b>90,045</b>

OSRL is Outstanding Standard Restructured Loans

CBK and UNBK report restructured loans facility-wise and rest of the banks report borrower-wise



# Net stress addition on the rise

Net stress addition (incl. AI and SEBs) declines QoQ on a higher base; excl AI and SEBs up 48% QoQ and ex-SBIN up 60% QoQ

(INR b)	Net Addition to OSRL					Net Addition to OSRL (ex-AI and SEB)					Net Slippages					Net Stress Addition					Net Stress Addition (Ex-AI and SEB)				
	FY12		FY13			FY12		FY13			FY12		FY13			FY12		FY13			FY12		FY13		
	2Q	3Q	4Q	1Q	2Q	2Q	3Q	4Q	1Q	2Q	2Q	3Q	4Q	1Q	2Q	2Q	3Q	4Q	1Q	2Q	2Q	3Q	4Q	1Q	2Q
SBIN	-5.8	-19.5	50.9	-16.1	32.5	-5.8	-19.5	38.2	-16.1	32.5	65.0	61.9	-3.4	75.6	42.9	59.2	42.4	47.5	59.5	75.4	59.2	42.4	34.8	59.5	75.4
PNB	23.2	18.1	75.2	9.9	18.5	23.2	0.6	0.2	9.9	18.5	2.7	13.2	23.4	13.0	40.5	25.9	31.3	98.6	22.9	59.0	25.9	13.8	23.6	22.9	59.0
CBK	-0.9	7.9	-10.0	54.5	8.2	-0.9	7.9	-24.8	-0.5	8.2	7.4	3.2	5.1	8.4	15.3	6.4	11.1	-5.0	62.9	23.5	6.4	11.1	-19.8	7.9	23.5
BoB	6.0	18.2	54.8	8.4	16.0	6.0	18.2	10.8	8.4	16.0	4.0	6.5	11.0	10.5	11.4	10.0	24.6	65.8	18.9	27.4	10.0	24.6	21.8	18.9	27.4
BoI	-3.2	20.0	30.3	40.9	2.0	-3.2	20.0	3.3	10.1	2.0	23.8	1.2	-5.2	11.9	22.1	20.6	21.2	25.1	52.8	24.1	20.6	21.2	-1.9	22.0	24.1
UNBK	-0.8	16.0	35.4	9.6	-1.0	-0.8	16.0	17.4	-2.5	-1.0	15.9	3.6	4.1	11.7	1.7	15.0	19.6	39.5	21.3	0.7	15.0	19.6	21.5	9.3	0.7
OBC	4.6	19.7	34.2	14.4	5.3	4.6	10.7	-1.9	1.8	4.7	12.6	1.8	8.9	2.8	3.9	17.2	21.5	43.1	17.2	9.2	17.2	12.5	7.0	4.6	8.6
INBK	-2.9	2.8	36.7	10.2	4.3	-2.9	2.8	17.2	-0.5	4.3	2.8	2.3	10.0	-1.2	5.6	-0.1	5.1	46.7	8.9	9.9	-0.1	5.1	27.2	-1.8	9.9
ANDB	0.8	9.8	23.6	11.8	4.3	0.8	9.8	2.5	11.8	4.3	9.7	-1.0	-0.8	6.9	6.6	10.5	8.8	22.8	18.7	10.9	10.5	8.8	1.7	18.7	10.9
<b>PSBs</b>	<b>20.9</b>	<b>92.9</b>	<b>331.1</b>	<b>143.4</b>	<b>90.0</b>	<b>20.9</b>	<b>66.4</b>	<b>62.9</b>	<b>22.3</b>	<b>89.5</b>	<b>143.9</b>	<b>92.8</b>	<b>53.1</b>	<b>139.6</b>	<b>149.9</b>	<b>164.8</b>	<b>185.7</b>	<b>384.2</b>	<b>283.1</b>	<b>239.9</b>	<b>164.8</b>	<b>159.2</b>	<b>116.0</b>	<b>161.9</b>	<b>239.3</b>

Net stress additions (ex- AI and SEBs) nears one percentage point during the quarter

As a % of loans (in bps)	Net Addition to OSRL					Net Addition to OSRL (ex-AI and SEB)					Net Slippages					Net Stress Addition					Net Stress Addition (Ex-AI and SEB)				
	FY12		FY13			FY12		FY13			FY12		FY13			FY12		FY13			FY12		FY13		
	2Q	3Q	4Q	1Q	2Q	2Q	3Q	4Q	1Q	2Q	2Q	3Q	4Q	1Q	2Q	2Q	3Q	4Q	1Q	2Q	2Q	3Q	4Q	1Q	2Q
SBIN	-7	-23	59	-18	35	-7	-23	44	-18	35	82	73	-4	82	46	75	50	55	65	81	75	50	40	65	81
PNB	93	69	256	33	63	93	2	1	33	63	11	50	80	44	137	104	119	336	78	200	104	53	80	78	200
CBK	-4	36	-43	241	38	-4	36	-107	-2	38	34	14	22	37	71	30	50	-21	279	109	30	50	-85	35	109
BoB	25	70	191	29	55	25	70	38	29	55	17	25	38	37	39	42	95	229	66	94	42	95	76	66	94
BoI	-15	86	120	155	8	-15	86	13	38	8	110	5	-21	45	85	95	91	100	200	93	95	91	-8	83	93
UNBK	-6	103	195	55	-6	-6	103	96	-14	-6	108	23	23	67	9	102	126	218	122	4	102	126	119	53	4
OBC	43	178	303	127	45	43	96	-16	16	40	119	17	79	24	32	163	194	382	151	77	163	113	62	40	72
INBK	-33	31	402	108	45	-33	31	189	-6	45	33	27	110	-13	59	-1	58	512	95	104	-1	58	298	-19	104
ANDB	10	123	279	136	50	10	123	30	136	50	130	-13	-9	80	76	141	111	270	216	126	141	111	21	216	126
<b>PSBs</b>	<b>10</b>	<b>44</b>	<b>147</b>	<b>60</b>	<b>37</b>	<b>10</b>	<b>31</b>	<b>28</b>	<b>9</b>	<b>36</b>	<b>69</b>	<b>44</b>	<b>24</b>	<b>58</b>	<b>61</b>	<b>79</b>	<b>87</b>	<b>170</b>	<b>118</b>	<b>98</b>	<b>79</b>	<b>75</b>	<b>51</b>	<b>67</b>	<b>97</b>

OSRL is Outstanding Standard Restructured Loans

For both charts, ANDB and UNBK facility-wise reported nos. adjusted to borrower-wise for like-to-like comparison



# Loans: healthy growth in retail; corporate growth slows down

- ❑ Retail focused banks continued to witness strong growth across products. While HDFCB retail loan growth was healthy at 10% QoQ and 33% YoY, continued short term lending opportunities led to strong growth (22% YTD, 7% QoQ) in corporate segment as well. HDFCB reported robust growth (~45%) in CV loans. Credit card and PL grew 30%+ YoY. AXSB retail loan growth was also strong at 9% QoQ and 50% YoY (17% YTD) led by secured products.
- ❑ Sequential decline or moderate growth for PSBs is due to seasonal factors, pressure on liability side to cut bulk deposits (MOF directive of 15% by end-March 2013) and risk aversion led by higher asset quality related issues.
- ❑ Large corporate segment (+17% QoQ and 38% YoY) remains a key driver of domestic loan growth for ICICI BC. Retail loans have also started seeing some traction with 2% QoQ and 14% YoY growth.
- ❑ YES reported strong loan/customer asset growth of 9%/10% QoQ and 23%/33% YoY. Strong loan growth during the quarter is attributed to short term lending opportunities. Management clarified that risk aversion remains and loan growth is likely to moderate over next two quarters. The robust growth in vehicle finance portfolio (8% QoQ, ~40% YoY) led to strong loan growth for IIB. FB moderated growth to protect margins in the quarter.

## Private banks continue to outpace PSBs

### PSBs grapple with asset quality issues

Loans	2QFY13 (INR b)	2QFY13 (Gr %)		1QFY13 (Gr %)		2QFY12 (Gr %)	
		QoQ	YoY	QoQ	YoY	QoQ	YoY
SBIN	9,269	1.1	17.2	5.7	18.9	2.6	16.1
PNB	2,947	0.1	18.4	0.2	21.2	2.5	19.3
CBK	2,158	-4.4	-1.0	-3.0	4.9	1.4	23.8
BoB	2,922	2.2	22.2	-0.5	23.0	2.9	23.9
BoI	2,604	-1.4	20.0	5.0	22.9	0.9	17.7
UNBK	1,767	1.6	20.0	-3.9	19.5	1.2	16.5
OBC	1,188	4.3	12.5	0.7	16.0	7.5	20.7
INBK	957	2.0	10.8	3.0	13.8	4.7	23.4
ANDB	865	-0.1	16.1	2.3	14.4	-1.6	22.1
<b>PSBs (Ex-SBIN)</b>	<b>15,408</b>	<b>0.2</b>	<b>15.3</b>	<b>0.2</b>	<b>17.7</b>	<b>2.3</b>	<b>20.7</b>
<b>PSBs</b>	<b>24,677</b>	<b>0.5</b>	<b>16.0</b>	<b>2.2</b>	<b>18.1</b>	<b>2.4</b>	<b>19.0</b>
ICICI BC	2,751	2.5	17.6	5.8	21.6	6.0	20.5
HDFCB	2,316	8.6	22.9	9.2	21.5	7.4	20.0
AXSB	1,721	0.6	22.9	0.8	29.8	6.2	26.7
YES	420	9.0	22.9	1.4	16.4	3.3	12.7
IIB	394	5.9	30.8	6.2	31.2	6.2	28.5
VYSB	300	2.6	20.8	1.9	22.9	4.4	22.8
FB	363	-4.6	8.0	0.8	19.0	5.1	21.6
<b>Private Banks</b>	<b>8,266</b>	<b>3.8</b>	<b>20.6</b>	<b>5.0</b>	<b>23.3</b>	<b>6.2</b>	<b>21.6</b>
<b>Coverage Banks</b>	<b>32,943</b>	<b>1.3</b>	<b>17.1</b>	<b>2.8</b>	<b>19.4</b>	<b>3.3</b>	<b>19.6</b>
<b>Industry</b>	<b>48,094</b>	<b>1.0</b>	<b>15.9</b>	<b>7.8</b>	<b>19.5</b>	<b>3.7</b>	<b>20.1</b>

# Deposits: Bulk deposit cap by MOF leading to growth moderation



- In a stressed liquidity and muted deposits growth environment, borrowings remained a key source of funding. In TTM, banks actively used RBI's refinance window – refinancing some priority sector loans etc.
- Banks under our coverage grew faster than the industry. Private banks continue to outpace industry deposit growth on a QoQ basis, led by strong loan growth.
- Domestic deposit growth remained moderate for PSBs (ex BOB), which in our view, to an extent was triggered by GOI directive to reduce the bulk deposits proportion to less than 15% by end-March 2013 and banks risk aversion to grow loans.
- Large PSBs like PNB, BOB and CBK has shed at least 200bp of bulk deposits. CBK and OBC continued the strategy to moderate balance sheet growth to improve its balance sheet profile.
- Within private banks, strong deposits growth was witnessed for ICICIBC, HDFCB and IIB. Moderation in balance sheet for future profitable growth led to just 5% YoY and 2% QoQ decline in deposits for FB.
- Managements of PNB, CBK, OBC and ANDB commented that moderate balance sheet growth is likely to continue for some more quarters.

## Borrowings remain one of the key source of funding

### Private banks continue to outpace PSBs

Deposits	2QFY13 (INR b)	2QFY13 (Gr %)		1QFY13 (Gr %)		2QFY12 (Gr %)	
		QoQ	YoY	QoQ	YoY	QoQ	YoY
SBIN	11,336	2.8	16.5	5.7	16.1	2.4	13.8
PNB	4,007	4.0	17.3	1.5	18.9	5.5	25.0
CBK	3,368	0.6	7.7	2.3	11.5	4.1	25.4
BoB	4,081	6.6	24.0	-0.6	22.3	5.2	22.1
BoI	3,327	-1.9	11.2	6.5	15.7	2.0	24.1
UNBK	2,261	1.8	15.6	-0.3	11.5	-1.8	10.0
OBC	1,642	3.8	9.8	1.4	9.4	3.5	18.9
INBK	1,312	3.3	12.9	5.1	15.0	5.2	18.6
ANDB	1,086	0.9	15.0	1.7	18.5	3.9	20.2
<b>PSBs (Ex-SBIN)</b>	<b>21,084</b>	<b>2.5</b>	<b>14.7</b>	<b>2.1</b>	<b>15.8</b>	<b>3.6</b>	<b>21.5</b>
<b>PSBs</b>	<b>32,421</b>	<b>2.6</b>	<b>15.3</b>	<b>3.3</b>	<b>15.9</b>	<b>3.2</b>	<b>18.7</b>
ICICIBC	2,814	5.1	14.8	4.8	16.1	6.2	9.9
HDFCB	2,741	6.4	18.8	4.4	22.0	9.2	18.1
AXSB	2,356	5.8	21.2	1.1	21.3	5.9	23.9
YES	523	4.1	18.6	2.1	15.2	1.1	10.2
IIB	478	6.0	24.5	6.4	27.8	8.8	22.6
VYSB	362	0.8	17.8	1.9	14.6	-1.9	17.8
FB	495	-2.1	4.8	3.3	17.8	10.1	30.9
<b>Private Banks</b>	<b>9,769</b>	<b>5.1</b>	<b>17.6</b>	<b>3.5</b>	<b>19.4</b>	<b>6.7</b>	<b>17.2</b>
<b>Coverage Banks</b>	<b>42,190</b>	<b>3.2</b>	<b>15.8</b>	<b>3.3</b>	<b>16.7</b>	<b>3.9</b>	<b>18.3</b>
<b>Industry</b>	<b>64,110</b>	<b>2.9</b>	<b>14.0</b>	<b>1.9</b>	<b>13.5</b>	<b>2.5</b>	<b>19.5</b>



# CD ratio: Comes off on a high base, also impacts margins

	YoY Loan Growth (%)						CD Ratio (%)					
	1QFY12	2QFY12	3QFY12	4QFY12	1QFY13	2QFY13	1QFY12	2QFY12	3QFY12	4QFY12	1QFY13	2QFY13
SBIN*	18.0	16.1	16.5	14.7	18.9	17.2	76.7	75.8	78.6	78.5	77.8	76.6
PNB	23.4	19.3	18.7	21.3	21.2	18.4	74.9	72.9	73.7	77.4	76.4	73.5
CBK	23.7	23.8	15.5	10.0	4.9	-1.0	71.6	69.7	69.5	71.1	67.4	64.1
BOB*	25.2	23.9	25.8	25.7	23.0	22.2	74.2	72.6	74.6	74.7	74.7	71.6
BOI*	21.6	17.7	20.9	16.3	22.9	20.0	65.6	64.6	67.2	71.5	68.5	69.1
UNBK	16.7	16.5	16.8	18.3	19.5	20.0	73.1	75.3	76.1	81.2	78.3	78.1
OBC	14.1	20.7	21.9	16.7	16.0	12.5	67.9	70.6	70.9	72.5	72.0	72.4
INBK	21.3	23.4	19.1	20.4	13.8	10.8	74.7	74.3	74.0	75.5	73.9	73.0
ANDB	32.5	22.1	20.7	17.4	14.4	16.1	83.3	78.9	80.2	80.0	80.4	79.6
<b>PSBs (Ex- SBIN)</b>	<b>22.3</b>	<b>20.7</b>	<b>20.0</b>	<b>18.5</b>	<b>17.7</b>	<b>15.3</b>	<b>73.6</b>	<b>72.7</b>	<b>73.9</b>	<b>76.2</b>	<b>74.8</b>	<b>73.1</b>
<b>PSBs</b>	<b>20.7</b>	<b>19.0</b>	<b>18.6</b>	<b>17.1</b>	<b>18.1</b>	<b>16.0</b>	<b>76.2</b>	<b>75.7</b>	<b>77.6</b>	<b>78.5</b>	<b>77.7</b>	<b>76.1</b>
ICICI BC*	19.7	20.5	19.1	17.3	21.6	17.6	75.5	72.3	71.1	76.1	76.6	77.1
HDFCB	20.0	20.0	22.1	22.2	21.5	22.9	83.1	81.7	83.6	79.2	82.8	84.5
AXSB	21.4	26.7	20.4	19.2	29.8	22.9	71.8	72.0	71.3	77.1	76.9	73.1
YES	26.1	12.7	15.3	10.5	16.4	22.9	76.0	77.6	76.4	77.3	76.7	80.4
IIB	31.4	28.5	29.7	34.0	31.2	30.8	80.5	78.5	79.9	82.8	82.6	82.5
VYSB	25.5	22.8	22.6	21.8	22.9	20.8	76.1	80.9	83.1	81.6	81.6	83.1
FB	17.8	21.6	17.6	18.2	19.0	8.0	74.5	71.1	71.0	77.2	75.2	73.3
<b>Private Banks</b>	<b>21.0</b>	<b>21.6</b>	<b>20.5</b>	<b>19.5</b>	<b>23.3</b>	<b>20.6</b>	<b>82.9</b>	<b>82.5</b>	<b>82.6</b>	<b>84.5</b>	<b>85.6</b>	<b>84.6</b>
<b>Coverage Banks</b>	<b>20.7</b>	<b>19.6</b>	<b>19.1</b>	<b>17.6</b>	<b>19.4</b>	<b>17.1</b>	<b>77.7</b>	<b>77.2</b>	<b>78.7</b>	<b>79.9</b>	<b>79.5</b>	<b>78.1</b>
<b>Industry</b>	<b>20.1</b>	<b>21.2</b>	<b>16.0</b>	<b>19.5</b>	<b>16.5</b>	<b>15.9</b>	<b>74.5</b>	<b>73.8</b>	<b>75.3</b>	<b>77.0</b>	<b>76.4</b>	<b>75.0</b>

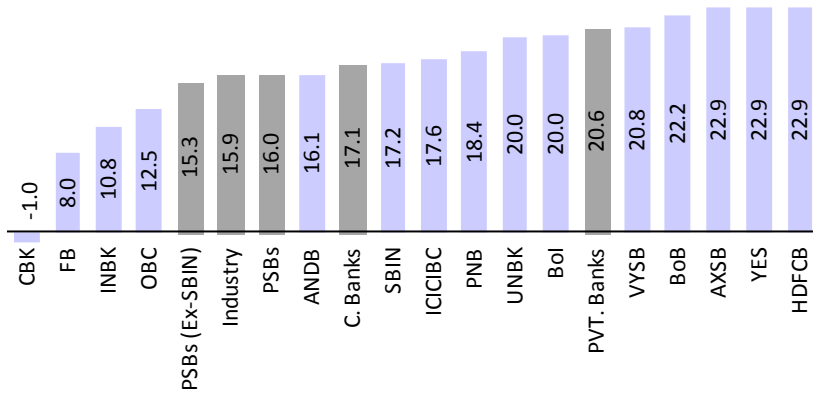
\* Domestic CD ratio



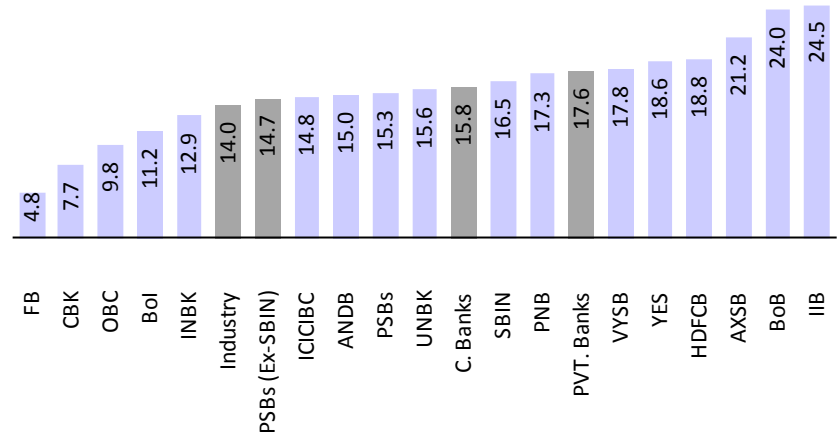


# Loan growth moderates; few PSBs consolidate balance sheet

### Strong growth for private banks; PSBs lag (%)

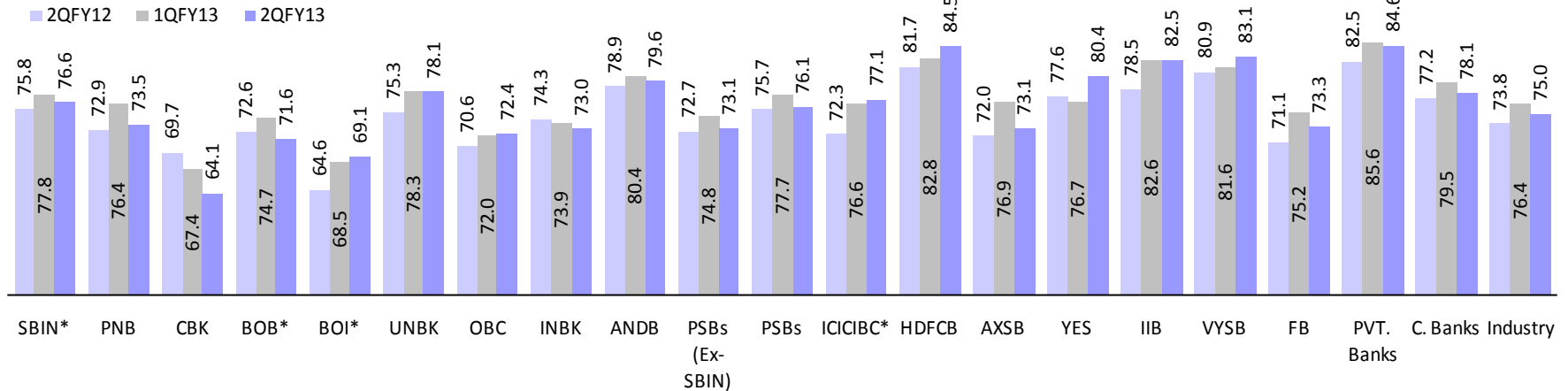


### Deposit growth remains healthy (%)



\*C.BANKS: MOSL Coverage

### Though CD ratio has moderated, it remains at an elevated level (%)



\*Domestic CD ratio



# CASA: decline in CA; mid size private banks outpace in SA

- ❑ Better cash management by corporates, advance technology and increased competition in CA deposits segment are leading to structural decline in CA share in overall deposits across banks. Large private banks continue to show healthy performance on the SA front. However, decline in CA share is leading to overall moderation in CASA ratio .
- ❑ PNB and CBK arrested the continued decline in CASA ratio led by healthy growth in SA deposits. Aggressive new private banks are gaining market share at the cost of PSBs. SBIN reported more than 100bp decline in CASA ratio.
- ❑ YES, IIB and KMB witnessed strong traction in SA deposits. Post deregulation of the saving deposit rate (since 1HFY12), share of SA in overall deposits increased by 250-600bp for these banks.

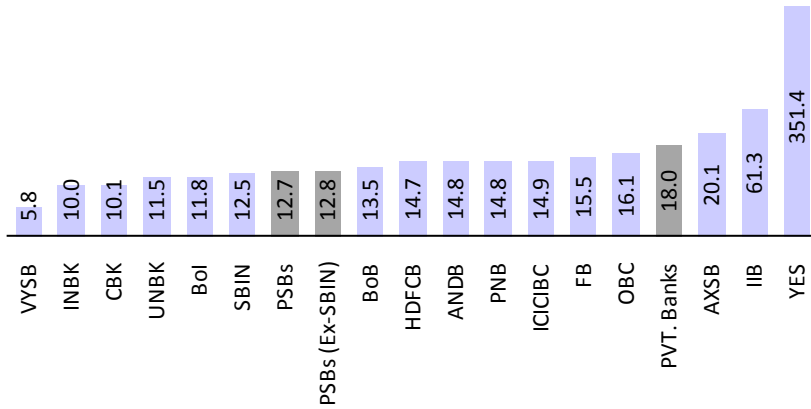
	CA Dep		Growth (%)		SA Dep		Growth (%)		CASA Dep		Growth (%)		CASA ratio (%)		
	(INR b)	QoQ	YoY	(INR b)	QoQ	YoY	(INR b)	QoQ	YoY	2QFY12	3QFY12	4QFY12	1QFY13	2QFY13	
SBIN	797	-4.6	-3.6	3,965	1.6	12.5	4,762	0.5	9.5	47.4	47.5	46.6	46.1	45.0	
PNB	280	9.0	19.2	1,154	7.4	14.8	1,434	7.7	15.6	36.3	35.3	35.3	34.6	35.8	
CBK	131	14.6	-21.9	705	6.0	10.1	836	7.3	3.4	25.8	23.9	24.3	23.3	24.8	
BoB	274	13.3	26.8	778	3.0	13.5	1,053	5.5	16.7	34.0	34.1	33.2	32.2	31.8	
BoI	132	-17.2	0.4	710	5.5	11.8	842	1.1	9.8	31.6	32.4	34.3	32.0	32.8	
UNBK	157	-13.9	4.9	533	5.4	11.5	690	0.3	9.9	32.1	32.5	31.3	30.9	30.5	
OBC	99	0.5	15.3	297	5.6	16.1	396	4.3	15.9	22.9	22.3	24.1	24.0	24.1	
INBK	64	2.5	-5.4	315	2.0	10.0	380	2.1	9.8	29.8	30.2	30.5	29.3	29.0	
ANDB	59	-5.3	11.2	222	-1.2	14.8	282	-2.1	14.0	26.1	26.6	26.4	26.7	25.9	
<b>PSBs (Ex-SBIN)</b>	<b>1,197</b>	<b>1.5</b>	<b>8.1</b>	<b>4,714</b>	<b>5.0</b>	<b>12.8</b>	<b>5,911</b>	<b>4.3</b>	<b>12.0</b>						
<b>PSBs</b>	<b>1,994</b>	<b>-1.0</b>	<b>3.1</b>	<b>8,680</b>	<b>3.4</b>	<b>12.7</b>	<b>10,674</b>	<b>2.6</b>	<b>10.8</b>						
ICICI*BC*	338	9.9	2.4	806	3.5	14.9	1,144	5.3	10.9	38.3	39.0	39.0	39.1	37.5	
HDFCB	481	15.4	19.7	792	3.2	14.7	1,273	7.5	16.5	47.3	47.7	48.4	46.0	45.9	
AXSB*	394	15.2	11.3	562	6.5	20.1	955	9.9	16.3	38.3	37.0	38.0	36.0	36.2	
YES	52	-0.2	29.6	39	29.2	351.4	90	10.6	86.7	11.0	12.6	15.0	16.3	17.3	
IIB	81	8.6	9.8	53	3.4	61.3	134	6.4	25.8	27.7	26.5	27.3	27.9	28.0	
VYSB	63	-3.7	32.3	55	2.9	5.8	119	-0.7	18.5	32.6	32.6	34.2	33.3	32.8	
FB	26	3.3	12.9	118	-1.8	15.5	144	-0.9	15.0	26.4	28.7	27.5	28.7	29.0	
<b>Private Banks</b>	<b>1,434</b>	<b>11.8</b>	<b>13.0</b>	<b>2,424</b>	<b>4.1</b>	<b>18.0</b>	<b>3,858</b>	<b>6.8</b>	<b>16.1</b>						
<b>Coverage Banks</b>	<b>3,428</b>	<b>4.0</b>	<b>7.0</b>	<b>11,104</b>	<b>3.6</b>	<b>13.8</b>	<b>14,532</b>	<b>3.7</b>	<b>12.2</b>						

\*Average daily CASA ratio

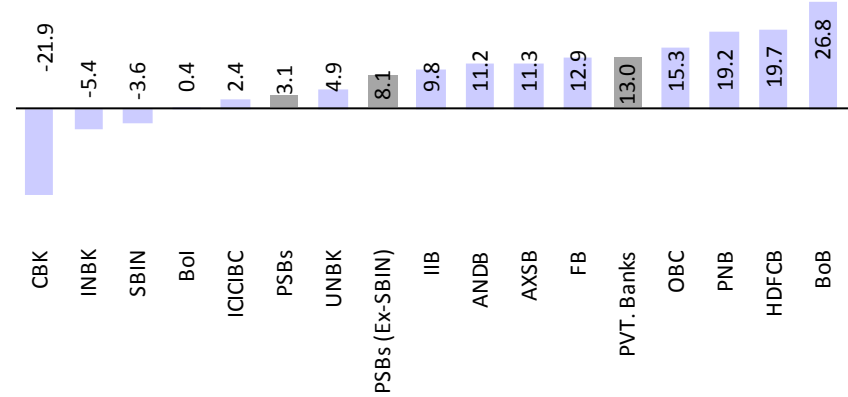


# CASA: growth moderated for system led by CA float decline

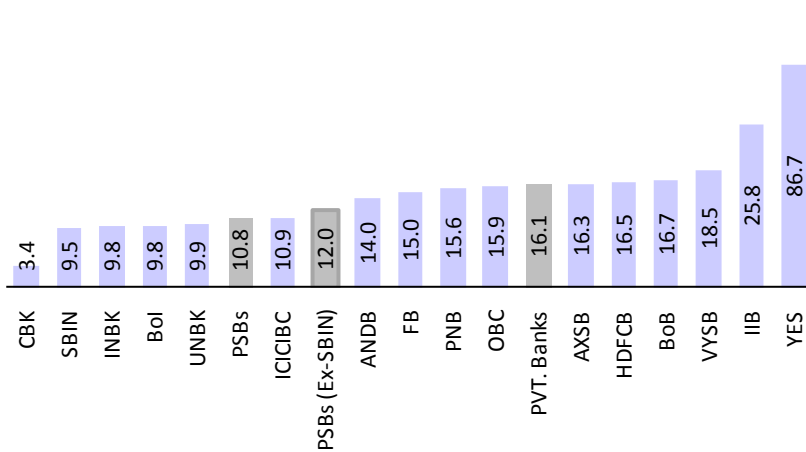
PSBs lag in savings deposit growth...



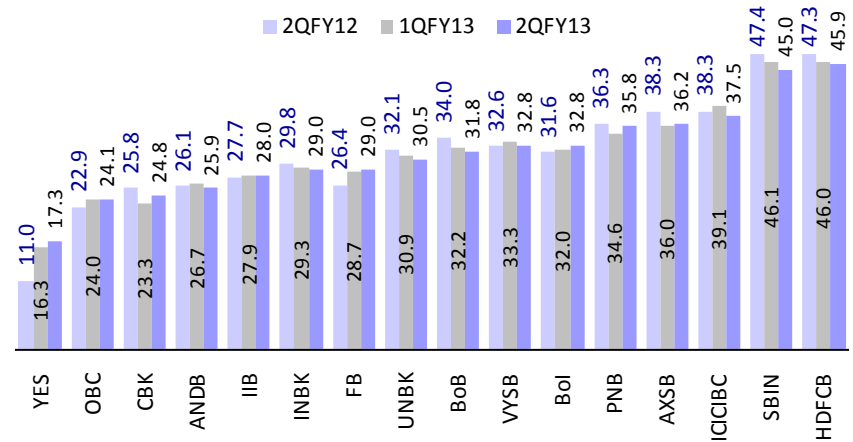
...and also on current account deposits...



...leading to moderation in CASA growth (% YoY)



CASA ratio – strong growth for mid-size private banks (%)





# NIMs: PSBs disappoint; private banks fare well

- ❑ Despite the lower base (due to FITL, higher slippages) of previous quarter and CRR reduction, PSBs continue to disappoint with dismal margin performance on a sequential basis.
- ❑ Lag impact of higher bulk deposits taken during tight liquidity conditions in 4QFY12, continued asset quality deterioration, cut in lending rates etc too marred PSBs' NIM performance.
- ❑ Continued higher stress and pressure on lending yields led to further 25bp QoQ (YTD 60bp) decline in margins for SBIN. Strong margin was a key strength for SBIN to counter higher credit cost. INBK and ANDB also disappointed.
- ❑ Benign asset quality, continued strong growth in high yielding products and containment of cost of funds helped private banks to report in-line margins.
- ❑ After the sharp (+30bp QoQ) improvement in NIMs in 4QFY12, flat NIMs QoQ over the last two quarters for ICICIBC was a positive surprise.
- ❑ AXSB, HDFCB and YES performance was on the expected lines. VYSB and FB surprised positively with +15bp QoQ improvement in margins.
- ❑ As PSBs are not expected to be aggressive, private banks having higher reliance on bulk deposits could be key beneficiaries in a falling interest rate scenario.

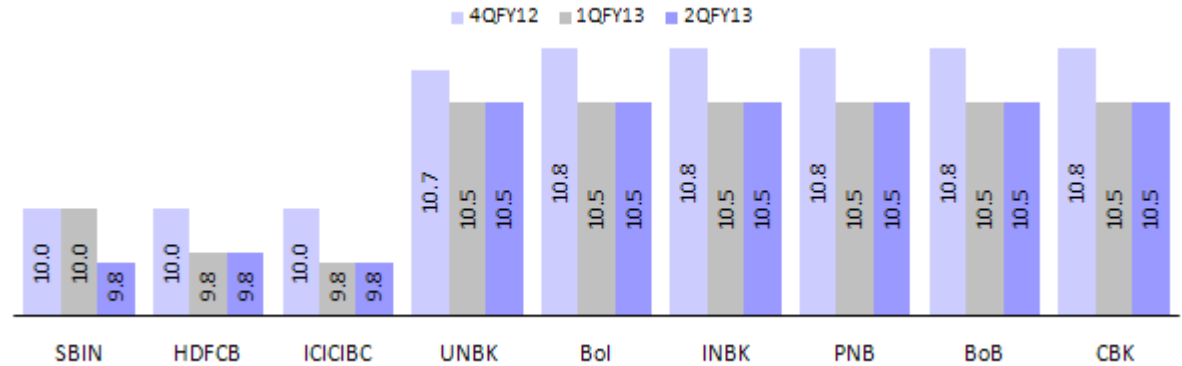
Net Interest Margins (%)	1QFY11	2QFY11	3QFY11	4QFY11	1QFY12	2QFY12	3QFY12	4QFY12	1QFY13	2QFY13	Change in (bp)	
											QoQ	YoY
SBIN	3.2	3.4	3.6	3.1	3.6	3.8	4.1	3.9	3.6	3.3	-23	-45
PNB	3.9	4.1	4.1	3.9	3.8	4.0	3.9	3.5	3.6	3.5	-10	-45
CBK	3.0	3.3	3.3	3.2	2.4	2.6	2.6	2.6	2.4	2.5	13	-11
BoB	2.9	3.0	3.2	3.1	2.9	3.1	3.0	3.0	2.7	2.7	-2	-36
BoI	2.9	2.8	3.1	2.9	2.2	2.4	2.6	2.9	2.3	2.4	15	-1
UNBK	3.0	3.4	3.4	3.4	3.1	3.2	3.3	3.3	3.0	3.0	1	-19
OBC	3.3	3.3	3.1	3.0	2.9	2.6	2.9	2.7	2.8	2.8	0	15
INBK	3.7	3.8	3.8	3.9	3.4	3.8	3.6	3.2	3.3	3.1	-18	-64
ANDB	3.7	3.9	3.9	3.7	3.8	3.8	3.8	3.3	3.3	3.1	-20	-69
<b>Private Banks</b>												
ICICIBC	2.5	2.6	2.6	2.7	2.6	2.6	2.7	3.0	3.0	3.0	-1	39
HDFCB	4.3	4.2	4.2	4.2	4.2	4.1	4.1	4.2	4.3	4.2	-10	10
AXSB	3.7	3.7	3.8	3.4	3.3	3.8	3.8	3.6	3.4	3.5	9	-32
YES	3.1	3.0	2.8	2.8	2.8	2.9	2.8	2.8	2.8	2.9	10	0
IIB	3.3	3.4	3.6	3.5	3.4	3.4	3.3	3.3	3.2	3.3	3	-10
VYSB	3.3	3.3	3.1	3.3	3.0	3.4	3.5	3.3	3.3	3.5	16	10
FB	4.2	4.4	4.3	4.0	3.9	3.8	3.9	3.6	3.4	3.6	16	-19



# Lending yields: Product specific rate reduced

- On a QoQ basis, private banks showed stable/improving yield on loans (YoL) due to higher retail loan growth.
- PSBs YoL fell QoQ due to continued deterioration in asset quality and reduction in lending rates.
- Sharp deterioration of ~40bp in YoL for PNB was a negative surprise.

Base rate largely stable in 2QFY13 but product specific reduction continues (%)



(%)	1QFY11	2QFY11	3QFY11	4QFY11	1QFY12	2QFY12	3QFY12	4QFY12	1QFY13	2QFY13	Chg. QoQ	Chg. YoY
SBIN	9.3	9.7	9.7	9.5	10.4	11.1	11.2	11.4	10.9	10.9	2	-25
PNB	10.2	10.6	10.6	10.8	11.4	11.9	12.0	11.4	11.5	11.1	-43	-83
CBK*	9.4	9.9	9.8	9.9	10.5	10.9	11.1	11.2	11.1	11.3	16	34
BoB	8.2	8.4	8.6	8.7	9.1	9.6	9.5	9.3	9.1	9.1	-1	-57
BoI	8.4	8.5	8.8	8.8	8.9	9.4	9.5	9.7	8.9	9.2	34	-22
UNBK*	9.0	9.0	9.6	9.8	10.2	10.7	10.8	10.6	10.8	10.7	-19	-4
OBC	10.0	10.3	10.3	10.8	11.6	11.7	12.2	12.3	12.4	12.4	-3	70
INBK	10.1	10.2	10.4	10.6	11.1	11.5	11.7	10.9	11.3	11.1	-16	-37
ANDB	10.9	11.0	11.1	11.6	12.2	12.5	12.8	12.3	12.1	12.0	-8	-45
<b>Private Banks</b>												
ICICIBC*	8.3	8.3	8.3	8.6	9.0	9.5	9.5	9.8	9.9	10.1	19	61
HDFCB*	9.7	9.7	10.0	10.4	10.8	11.0	11.3	11.5	11.9	11.6	-27	62
AXSB*	8.7	8.9	8.9	9.2	10.1	10.8	11.0	10.7	10.9	11.0	19	19
YES	9.6	9.5	10.0	10.7	11.6	12.2	12.4	12.5	12.4	12.4	0	20
IIB	12.2	12.1	12.3	12.9	13.5	13.8	13.8	13.9	14.0	13.9	-1	13
VYSB	9.6	9.8	10.1	10.7	11.1	11.4	11.7	11.8	12.0	11.9	-12	51
FB	10.8	11.2	11.1	11.2	12.0	12.7	12.9	12.5	12.5	12.8	23	1

\*Calculated

# Cost of deposits: stabilizing now... expected to fall from 3QFY13



- Higher intake of bulk deposits in a stressed liquidity situation in 4QFY12 and moderation in low cost deposits growth led to pressure on cost of deposits in 1HFY13.
- Among large PSBs (except for BOB and BOI who have large international operations), SBIN enjoys the lowest cost of funds due to its strong CASA base.
- Healthy growth in SA deposits for private banks partially negated the impact of higher cost of term deposits. YES reported a sharp fall in cost of funds QoQ led by fall in bulk liability rates. IIB and VYSB also reported a decline in cost of deposits, thus helping margins.
- Improving liquidity situation, moderation in credit growth, lowering of SLR limit, GOI directive (for PSBs) of capping bulk proportion etc would lead to lowering of cost of deposits in the coming quarters.

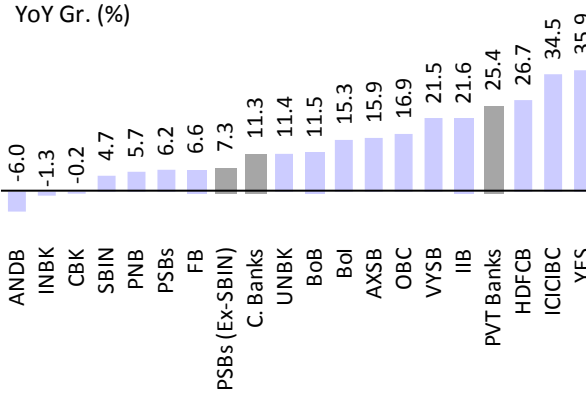
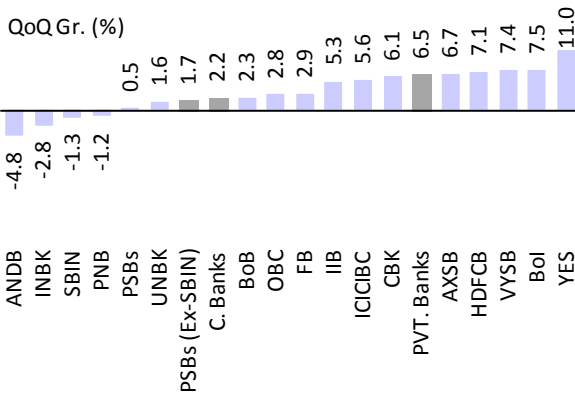
(%)	1QFY11	2QFY11	3QFY11	4QFY11	1QFY12	2QFY12	3QFY12	4QFY12	1QFY13	2QFY13	Change in (bp)	
											QoQ	YoY
SBIN	5.3	5.2	5.1	5.4	5.7	6.0	6.0	6.1	6.2	6.4	12	36
PNB	5.0	5.0	5.2	5.6	6.3	6.5	6.7	6.8	7.0	6.9	-7	39
CBK*	5.7	5.7	5.6	6.2	7.1	7.2	7.6	7.6	7.9	7.8	-12	56
BoB	4.4	4.5	4.5	4.8	5.4	5.6	5.7	5.8	5.9	5.9	-4	24
BoI	4.8	5.0	5.0	5.3	6.0	6.1	6.0	6.0	5.9	6.1	16	1
UNBK**	5.2	5.2	5.3	5.6	6.2	6.5	6.6	6.7	7.0	7.0	-8	47
OBC	5.6	5.9	6.1	6.5	7.2	7.6	7.9	8.0	8.0	7.9	-5	30
INBK	5.3	5.4	5.4	5.6	6.4	6.6	6.9	6.8	7.0	7.1	7	48
ANDB	5.5	5.7	5.8	6.5	7.0	7.5	7.6	7.9	7.7	8.0	29	57
<b>Private Banks</b>												
ICICIBC**	5.2	5.3	5.5	5.7	6.1	6.4	6.3	6.2	6.4	6.5	13	12
HDFCB**	4.3	4.5	4.7	4.9	5.5	6.2	6.4	6.1	6.5	6.5	-2	30
AXSB	4.6	4.8	4.8	5.6	6.1	6.2	6.3	6.5	6.7	6.5	-16	35
YES	6.3	6.7	7.1	7.8	8.5	8.6	8.9	9.0	9.0	8.7	-30	10
IIB	6.0	6.0	6.2	7.0	7.7	8.2	8.2	8.3	8.9	8.7	-18	52
VYSB	4.7	4.9	5.4	6.0	6.8	6.9	6.9	7.3	7.5	7.3	-25	40
FB	5.8	5.9	6.0	6.2	7.0	7.4	7.6	7.6	7.6	7.6	6	17

\* Cumulative \*\* Calculated CoF

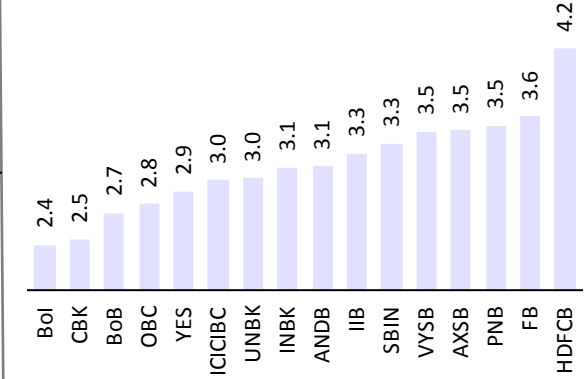


# Margins surprised negatively for PSBs

**NII: PSBs - muted business & decline in NIMs; Pvt: healthy growth & NIMs performance**



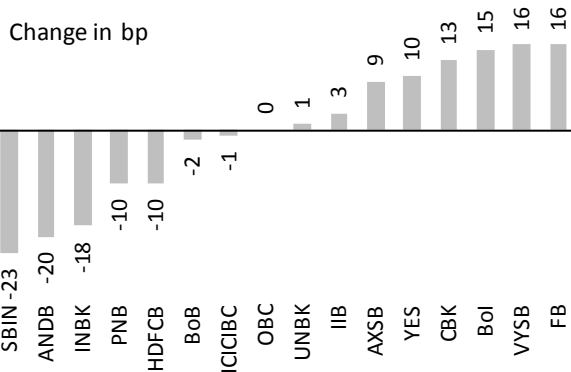
**Margins surprise negatively for PSBs (%)**



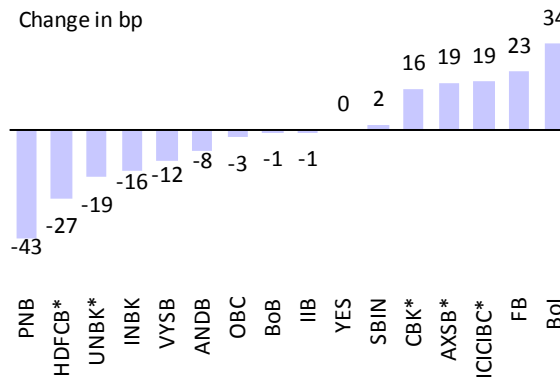
\*C.BANKS: MOSL Coverage

## QoQ change bp for NIMs, YoL and COD

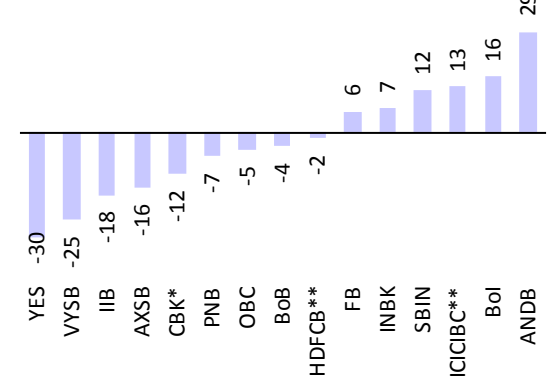
**Pressure on NIMs continues**



**YoL impacted due to higher slippages**



**Initial signs of cooling cost of deposits**





## NII: pressure on margins leads to moderate growth

- Higher deposit cost, elevated net slippages and moderate growth led to pressure on NII growth of SBIN, PNB, CBK, INBK and ANDB. OBC's performance was relatively better than peers.
- Private banks continue to perform better on growth and margins fronts, leading to healthy NII growth. For FB, while NIMs were better-than-expected, moderation in business growth led to pressure on NII growth.

NII	2QFY13 (INR M)	QoQ Growth (%)					YoY Growth (%)				
		2QFY12	3QFY12	4QFY12	1QFY13	2QFY13	2QFY12	3QFY12	4QFY12	1QFY13	2QFY13
SBIN	109,738	8.1	9.9	0.6	-4.1	-1.3	29.2	27.3	43.8	14.6	4.7
PNB	36,494	10.8	2.4	-6.4	11.6	-1.2	16.0	10.4	9.3	18.6	5.7
CBK	19,568	10.9	-2.2	6.3	-9.6	6.1	-0.5	-8.2	5.0	4.2	-0.2
BoB	28,623	11.7	3.5	5.3	0.0	2.3	25.9	15.8	7.0	21.8	11.5
BoI	21,960	3.4	8.6	21.0	-18.3	7.5	7.2	4.1	8.4	11.0	15.3
UNBK	18,502	4.5	7.2	5.4	-2.9	1.6	8.2	10.2	9.3	14.6	11.4
OBC	11,571	-2.8	15.2	-6.3	5.4	2.8	-8.1	10.7	5.4	10.6	16.9
INBK	11,203	10.2	3.1	-7.5	6.5	-2.8	15.5	12.8	-2.6	12.0	-1.3
ANDB	8,938	4.5	3.4	-7.1	2.7	-4.8	21.4	17.1	6.1	3.1	-6.0
<b>PSBs (Ex-SBIN)</b>	<b>156,858</b>	<b>7.7</b>	<b>4.3</b>	<b>2.2</b>	<b>-1.1</b>	<b>1.7</b>	<b>11.3</b>	<b>8.2</b>	<b>6.8</b>	<b>13.6</b>	<b>7.3</b>
<b>PSBs</b>	<b>266,596</b>	<b>7.9</b>	<b>6.6</b>	<b>1.5</b>	<b>-2.4</b>	<b>0.5</b>	<b>18.1</b>	<b>15.7</b>	<b>20.0</b>	<b>14.0</b>	<b>6.2</b>
ICICI	33,712	4.0	8.2	14.5	2.8	5.6	13.7	17.3	23.7	32.4	34.5
HDFCB	37,317	3.4	5.8	8.7	2.8	7.1	16.6	12.2	19.3	22.3	26.7
AXSB	23,269	16.4	6.6	0.3	1.6	6.7	24.3	23.5	26.2	26.4	15.9
YES	5,242	8.9	10.9	4.8	5.3	11.0	23.1	32.3	28.6	33.3	35.9
IIB	5,097	7.5	2.7	7.8	4.2	5.3	27.1	18.6	19.7	24.1	21.6
VYSB	3,688	15.9	6.6	-1.4	7.5	7.4	19.4	31.6	18.9	31.0	21.5
FB	5,059	3.2	11.3	-7.0	0.1	2.9	8.2	18.1	9.7	6.9	6.6
<b>Private Banks</b>	<b>113,384</b>	<b>7.0</b>	<b>7.0</b>	<b>7.1</b>	<b>2.8</b>	<b>6.5</b>	<b>17.7</b>	<b>18.0</b>	<b>21.9</b>	<b>26.0</b>	<b>25.4</b>
<b>Coverage Banks</b>	<b>379,980</b>	<b>7.6</b>	<b>6.7</b>	<b>3.0</b>	<b>-0.9</b>	<b>2.2</b>	<b>18.0</b>	<b>16.3</b>	<b>20.5</b>	<b>17.2</b>	<b>11.3</b>
<b>Coverage Banks (Ex-SBIN)</b>	<b>270,242</b>	<b>7.5</b>	<b>5.4</b>	<b>4.1</b>	<b>0.4</b>	<b>3.7</b>	<b>13.6</b>	<b>11.8</b>	<b>12.4</b>	<b>18.4</b>	<b>14.2</b>





# Fee income: dismal growth led by lower economic activities

- On a QoQ basis, fee income fell further due to lower sanctions, decline in third party distribution related fees, lower economic growth and rationalization of retail fees to retain customers.
- HDFCB, YES and IIB continue to surprise positively on the fee income front while VYSB, FB and ICICIBC disappointed. AXSB fee income improved QoQ led by retail fees.
- Lower loan processing fees, reduction in account maintenance charges and lower transaction banking fees further impacted SBINs fee income growth.
- Muted loan growth, macro-economic uncertainty, changes in the charges for government business and higher focus on asset quality (rather than revenues) shall lead to moderation in fee income growth in FY13.

FEE Income	2QFY13 (INR m)	QoQ Growth (%)				YoY Growth (%)					
		2QFY12	3QFY12	4QFY12	1QFY13	2QFY13	2QFY12	3QFY12	4QFY12	1QFY13	2QFY13
SBIN	24,492	-1.2	1.6	59.6	-38.3	-5.9	-11.7	6.6	13.0	-1.1	-5.8
PNB	6,424	-18.3	13.6	15.3	2.1	-12.1	2.2	23.9	11.5	9.2	17.5
CBK	3,781	-8.2	4.9	-1.7	-6.3	-9.4	9.9	31.2	-17.1	-11.3	-12.4
BoB	4,676	14.3	-0.6	8.7	-15.7	12.9	13.2	18.1	2.0	4.0	2.8
BoI	4,403	21.3	4.4	13.1	-23.0	7.3	10.9	19.0	13.1	10.3	-2.5
UNBK	3,508	18.2	8.5	24.8	-26.8	18.8	3.9	16.4	21.7	17.2	17.8
OBC	1,937	17.4	-6.8	27.8	-19.9	4.7	15.5	20.1	29.5	12.0	-0.1
INBK	1,813	29.5	-32.8	44.2	-28.9	9.0	8.4	-18.4	6.4	-10.8	-24.9
ANDB	1,479	7.8	23.7	0.8	-22.0	4.6	5.0	12.2	-0.6	5.0	1.8
<b>PSBs (Ex- SBIN)</b>	<b>28,020</b>	<b>4.3</b>	<b>2.9</b>	<b>13.8</b>	<b>-14.7</b>	<b>1.5</b>	<b>8.2</b>	<b>17.8</b>	<b>6.3</b>	<b>4.2</b>	<b>1.4</b>
<b>PSBs</b>	<b>52,512</b>	<b>1.6</b>	<b>2.3</b>	<b>35.9</b>	<b>-28.0</b>	<b>-2.1</b>	<b>-2.4</b>	<b>12.2</b>	<b>10.0</b>	<b>1.6</b>	<b>-2.1</b>
ICICIBC	17,090	7.7	0.1	1.6	-4.7	3.8	6.9	4.7	-3.5	4.4	0.6
HDFCB	12,151	6.8	14.2	9.0	-7.3	5.8	15.6	20.7	23.6	23.3	22.1
AXSB	13,430	6.4	8.6	8.6	-12.7	16.0	32.4	26.3	7.7	9.7	19.5
YES	2,297	23.1	-5.7	21.1	-2.0	18.6	48.0	35.2	21.4	37.7	32.7
IIB	2,987	14.8	16.5	5.4	1.9	11.0	31.7	45.7	60.1	43.8	39.1
VYSB	1,165	15.3	16.2	-0.8	-9.8	0.9	9.9	22.9	7.6	19.9	5.0
FB	810	10.7	-4.9	18.4	-15.9	21.5	1.6	-2.9	16.5	4.8	15.1
<b>Private Banks</b>	<b>49,930</b>	<b>8.3</b>	<b>6.4</b>	<b>6.3</b>	<b>-7.3</b>	<b>8.6</b>	<b>17.0</b>	<b>16.7</b>	<b>9.3</b>	<b>13.5</b>	<b>13.8</b>
<b>Coverage Banks</b>	<b>102,442</b>	<b>4.5</b>	<b>4.1</b>	<b>22.3</b>	<b>-19.7</b>	<b>2.8</b>	<b>5.4</b>	<b>14.2</b>	<b>9.7</b>	<b>6.7</b>	<b>5.1</b>
<b>Coverage Banks (Ex-SBI)</b>	<b>77,950</b>	<b>6.7</b>	<b>5.0</b>	<b>9.1</b>	<b>-10.2</b>	<b>5.9</b>	<b>13.5</b>	<b>17.1</b>	<b>8.1</b>	<b>9.8</b>	<b>9.0</b>

# Treasury income: contribution remains high



## G-sec Yield (%)

	1 year	5 year	10 year
30-Jun-11	8.1	8.4	8.3
30-Sep-11	8.3	8.3	8.4
31-Dec-11	8.5	8.4	8.6
31-Mar-12	8.2	8.6	8.5
30-Jun-12	8.0	8.2	8.2
30-Sep-12	8.0	8.2	8.2
20-Nov-12	8.1	8.1	8.2

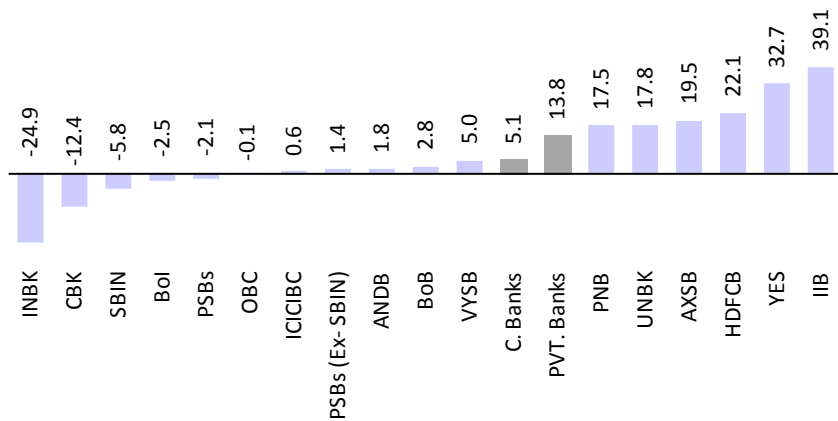
- Contribution of investment profits (incl. MTM) to PBT remained at a high level. Trading profits to PBT was significantly high for BOI; however, sharp increase in provisions severely impacted profitability.
- CBK trading gains moderated but remained high compared to some peers, while BOB reported a sharp increase QoQ.
- Barring AXSB and FB, other private banks reported lower contribution from trading gains.

	Net Investment Gains (INR m)							Net Investment Gains as a % to PBT						
	4QFY11	1QFY12	2QFY12	3QFY12	4QFY12	1QFY13	2QFY13	4QFY11	1QFY12	2QFY12	3QFY12	4QFY12	1QFY13	2QFY13
SBIN	302	-8,791	-4,302	-2,205	-537	7,416	4,902	2	-28	-11	-5	-1	13	8.9
PNB	310	-860	260	-560	3,610	1,930	730	1.7	-5.4	1.4	-3.2	18.9	10.7	5.0
CBK	-310	-865	881	-280	2,020	3,038	1,943	-2.7	-9.3	8.4	-2.6	19.6	31.2	22.6
BoB	863	-645	-1,348	1,614	4,083	55	2,461	6.4	-4.5	-8.2	9.2	34.1	0.4	14.2
BoI	1,188	197	30	-473	-35	2,360	1,692	16.3	2.4	0.8	-4.6	-0.3	19.6	56.0
UNBK	980	430	180	280	2,350	-110	1,210	13.7	5.8	3.1	9.0	21.7	-1.5	15.4
OBC	-521	-619	-618	-538	624	1,185	581	-18.4	-12.7	-22.6	-12.1	28.4	21.0	12.6
INBK	256	-220	-750	-359	253	197	289	3.3	-3.6	-10.7	-5.3	10.7	2.8	4.1
ANDB	649	333	192	-28	-137	104	438	15.9	6.4	4.5	-0.6	-3.3	2.1	8.8
<b>PSBs (Ex- SBIN)</b>	<b>3,415</b>	<b>-2,249</b>	<b>-1,173</b>	<b>-343</b>	<b>12,768</b>	<b>8,759</b>	<b>9,344</b>	<b>4.7</b>	<b>-3.2</b>	<b>-1.7</b>	<b>-0.5</b>	<b>17.3</b>	<b>11.2</b>	<b>13.7</b>
<b>PSBs</b>	<b>3,717</b>	<b>-11,040</b>	<b>-5,475</b>	<b>-2,548</b>	<b>12,231</b>	<b>16,176</b>	<b>14,246</b>	<b>4.1</b>	<b>-10.8</b>	<b>-5.0</b>	<b>-2.1</b>	<b>8.8</b>	<b>11.9</b>	<b>11.5</b>
ICICI	-1,960	-250	-800	-650	1,580	-210	1,720	-10.2	-1.4	-3.9	-2.8	6.0	-0.8	6.4
HDFC	86	-413	-13	-818	-715	665	-1,059	0.5	-2.6	-0.1	-4.0	-3.4	3.2	-4.6
AXSB	-229	332	-520	750	2,480	2,170	2,730	-1.5	2.4	-3.8	4.6	13.1	12.7	16.4
YES	241	247	410	483	688	945	471	7.9	7.6	11.8	12.8	17.1	22.0	10.4
IIB	192	278	239	131	274	497	218	7.5	10.4	8.4	4.3	8.2	14.2	5.9
VYSB	30	6	30	50	30	58	44	2.2	0.4	1.7	2.8	1.8	3.0	2.0
FB	13	7	72	-76	464	468	403	0.5	0.3	2.5	-2.5	13.0	16.5	12.6
<b>Private Banks</b>	<b>-1,627</b>	<b>207</b>	<b>-582</b>	<b>-130</b>	<b>4,801</b>	<b>4,592</b>	<b>4,527</b>	<b>-2.7</b>	<b>0.4</b>	<b>-0.9</b>	<b>-0.2</b>	<b>6.1</b>	<b>6.1</b>	<b>5.7</b>
<b>Coverage Banks</b>	<b>2,090</b>	<b>-10,832</b>	<b>-6,057</b>	<b>-2,678</b>	<b>17,032</b>	<b>20,768</b>	<b>18,773</b>	<b>1</b>	<b>-7</b>	<b>-4</b>	<b>-1</b>	<b>8</b>	<b>10</b>	<b>9</b>

# Fee income moderates; non core income contribution – a mixed bag

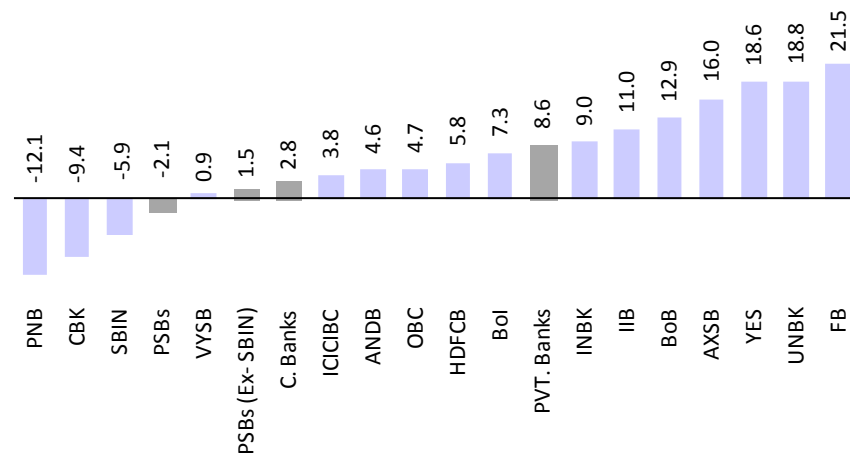


## Fee income growth moderates (YoY, %) for PSBs

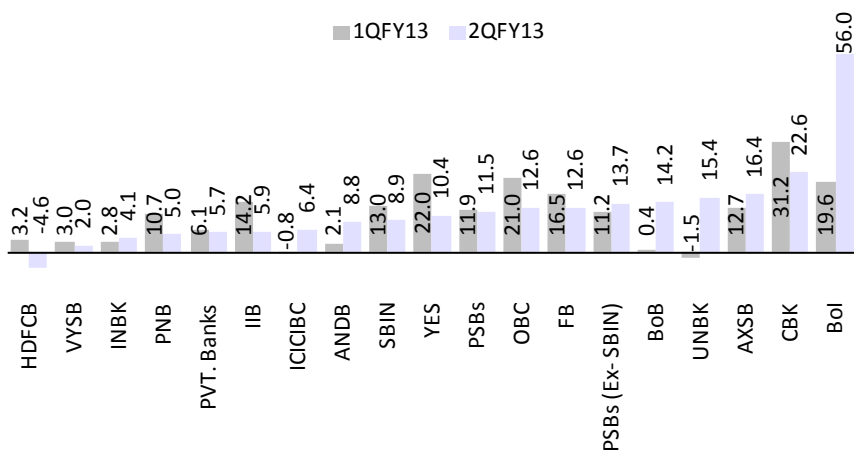


\*C.BANKS: MOSL Coverage

## But on a lower base, fee income picks up QoQ (%)



## Net trading income to PBT remains stable/improve (%)



## Recoveries from written-off accounts decelerate

	Recoveries (INR m)				Recoveries (INR m)		% of PBT
	1QFY12	2QFY12	3QFY12	4QFY12	1QFY13	2QFY13	
PNB	1,090	800	920	2,410	870	600	4.1
CBK	617	1,350	680	980	468	640	7.4
BoB	288	1,220	711	1,064	830	655	3.8
BoI	312	876	1,858	1,906	2,367	1,666	55.2
UNBK	590	420	900	1,620	580	560	7.1
OBC	390	260	299	301	1,967	1,412	30.6
INBK	180	400	1,030	460	341	532	7.5
ANDB	45	41	86	200	439	159	3.2
<b>PSBs (Ex-SBIN)</b>	<b>3,512</b>	<b>5,367</b>	<b>6,484</b>	<b>8,941</b>	<b>7,863</b>	<b>6,225</b>	<b>5.0</b>



# Opex: private banks focus to cut flab

- ❑ Private banks' opex growth was largely on the expected lines. Most of the managements commented of restricting opex growth to counter expected moderation in top line growth.
- ❑ For AXSB, YES, KMB and ICICIBC cutting cost would be difficult on a growing retail business, in our view.
- ❑ Heavy investments for setting up retail business and top level recruitment are leading to higher opex growth for YES. Nevertheless, overall cost to income ratio remains under control.
- ❑ PNB continues to make higher AS 15 related provisioning leading to stable QoQ growth (on a higher base).
- ❑ Among others, BOI and INBK reported a marginal increase in opex of 3.5% YoY led by 4% YoY decline in employee expense (BOI) and control over other expenses (INBK).
- ❑ Cost to core income for PSBs increased QoQ led by weak core operating income, despite cost being contained.

OPEX	2QFY13	QoQ Growth (%)					YoY Growth (%)					Cost to core Income ratio (%)				
	(INR m)	2QFY12	3QFY12	4QFY12	1QFY13	2QFY13	2QFY12	3QFY12	4QFY12	1QFY13	2QFY13	2QFY12	3QFY12	4QFY12	1QFY13	2QFY13
SBIN	69,668	6.4	-0.7	16.4	-12.6	8.2	10.6	13.1	8.5	7.5	9.3	48.7	44.7	46.6	46.9	51.9
PNB	20,219	5.1	0.0	-9.1	22.5	0.1	13.7	6.1	-1.0	17.1	11.5	45.3	43.6	41.0	45.6	47.1
CBK	12,828	12.9	-5.4	17.7	-13.4	12.3	9.0	-1.9	8.9	8.8	8.3	49.5	47.3	53.1	50.5	54.9
BoB	13,080	4.9	3.0	36.8	-19.8	-1.5	10.5	8.3	10.1	18.6	11.4	38.9	38.9	50.3	41.3	39.3
BoI	12,360	8.1	-0.5	22.4	-16.7	2.1	21.7	-4.7	-24.5	9.6	3.5	50.7	46.8	47.9	49.3	46.9
UNBK	11,234	5.4	13.8	-5.1	1.2	7.4	4.6	28.4	-28.6	15.1	17.4	48.9	51.8	45.3	49.4	51.0
OBC	6,427	-5.9	19.5	8.2	-3.1	0.8	4.8	24.8	39.9	17.9	26.3	43.0	46.0	50.6	48.6	47.6
INBK	5,764	11.8	-3.1	9.7	-9.6	7.6	5.5	13.7	23.5	7.5	3.5	40.4	40.5	45.0	40.6	44.3
ANDB	4,751	3.4	2.1	6.9	-2.5	0.9	7.9	9.6	7.5	10.1	7.4	40.3	38.8	44.1	43.6	45.6
<b>PSBs (Ex- SBIN)</b>	<b>86,662</b>	<b>6.2</b>	<b>2.4</b>	<b>10.3</b>	<b>-5.1</b>	<b>3.3</b>	<b>10.9</b>	<b>7.8</b>	<b>-3.4</b>	<b>13.8</b>	<b>10.7</b>	<b>45.0</b>	<b>44.3</b>	<b>47.0</b>	<b>46.2</b>	<b>46.9</b>
<b>PSBs</b>	<b>156,330</b>	<b>6.3</b>	<b>1.0</b>	<b>13.0</b>	<b>-8.5</b>	<b>5.4</b>	<b>10.8</b>	<b>10.1</b>	<b>1.7</b>	<b>11.0</b>	<b>10.0</b>	<b>46.6</b>	<b>44.5</b>	<b>46.8</b>	<b>46.5</b>	<b>49.0</b>
ICICIBC	22,209	4.0	1.3	15.9	-4.4	4.6	20.5	11.6	20.4	16.7	17.4	45.0	43.4	46.0	43.9	43.7
HDFCB	25,055	4.9	6.3	14.3	-1.4	3.0	20.9	17.8	23.5	25.7	23.4	51.5	50.7	53.3	52.5	50.6
AXSB	17,417	10.0	3.0	12.3	-8.5	12.2	26.2	23.6	27.5	16.4	18.8	46.8	45.0	48.9	46.5	47.5
YES	3,162	10.0	12.4	18.3	5.8	5.2	31.3	38.4	52.4	54.7	47.9	38.3	40.7	44.0	45.2	41.9
IIB	4,104	10.8	6.5	8.9	5.7	2.9	33.9	29.4	38.9	35.8	26.1	51.3	50.9	51.8	53.0	50.8
VYSB	3,100	8.2	2.0	4.8	0.3	4.5	5.1	11.4	0.0	16.1	12.1	66.7	62.4	66.1	64.7	63.9
FB	2,957	3.4	7.4	13.0	-3.5	9.7	16.5	16.5	17.1	21.1	28.5	42.2	41.6	49.0	48.3	50.4
<b>Private Banks</b>	<b>78,004</b>	<b>6.3</b>	<b>4.1</b>	<b>13.7</b>	<b>-3.3</b>	<b>5.8</b>	<b>21.9</b>	<b>18.0</b>	<b>23.6</b>	<b>21.8</b>	<b>21.2</b>	<b>47.9</b>	<b>46.7</b>	<b>49.7</b>	<b>48.4</b>	<b>47.8</b>
<b>Coverage Banks</b>	<b>234,334</b>	<b>6.3</b>	<b>2.0</b>	<b>13.2</b>	<b>-6.8</b>	<b>5.5</b>	<b>14.0</b>	<b>12.5</b>	<b>7.8</b>	<b>14.3</b>	<b>13.5</b>	<b>47.0</b>	<b>45.2</b>	<b>47.7</b>	<b>47.1</b>	<b>48.6</b>



# Core operating profit: private banks lead the pack

- Strong margin performance and control over opex led to healthy core PPP growth for private banks.
- Pressure on asset quality, moderation in loan growth and higher opex pressure led to moderation in core PPP growth for PSBs.
- Growth for SBIN moderated led by a sharp moderation in margins and muted fee income growth.
- Healthy margins and loan growth, coupled with containment of cost led to strong core PPP growth for ICICIBC, HDFCB, YES, IIB and VYSB, despite moderation in fee income (ex HDFCB).
- Sequentially, strong core PPP growth for BOI is on account of lower base as it had declined 20%+ QoQ in 1QFY13 due to significant moderation in NIMs.

CORE PPP	2QFY13 (INR m)	QoQ Growth (%)					YoY Growth (%)				
		2QFY12	3QFY12	4QFY12	1QFY13	2QFY13	2QFY12	3QFY12	4QFY12	1QFY13	2QFY13
SBIN	64,562	5.8	16.7	7.8	-13.7	-11.3	26.6	32.1	68.9	14.8	-3.7
PNB	22,699	6.1	7.2	1.4	1.3	-5.7	14.0	17.5	18.5	16.8	3.8
CBK	10,521	1.6	3.5	-6.7	-4.2	-5.9	-5.4	-3.2	-8.1	-6.0	-13.0
BoB	20,219	17.3	2.7	-13.9	15.3	7.3	34.1	21.8	2.6	19.6	9.4
BoI	14,003	4.8	16.3	17.0	-21.3	12.6	-3.4	18.9	85.2	12.2	20.6
UNBK	10,777	7.3	1.3	22.8	-14.1	0.6	10.4	-2.9	107.6	14.7	7.6
OBC	7,081	5.0	5.6	-10.0	5.0	5.2	-11.2	2.8	-11.1	4.7	4.9
INBK	7,252	14.2	-3.4	-8.6	8.3	-7.5	20.9	4.0	-14.9	9.1	-11.6
ANDB	5,665	6.0	8.8	-14.0	-0.5	-7.0	27.9	21.1	2.9	-1.4	-13.4
<b>PSBs (Ex- SBIN)</b>	<b>98,216</b>	<b>8.0</b>	<b>5.5</b>	<b>-0.9</b>	<b>-1.9</b>	<b>0.3</b>	<b>10.7</b>	<b>11.1</b>	<b>17.6</b>	<b>10.7</b>	<b>2.8</b>
<b>PSBs</b>	<b>162,778</b>	<b>7.1</b>	<b>10.1</b>	<b>2.9</b>	<b>-7.3</b>	<b>-4.6</b>	<b>16.7</b>	<b>19.4</b>	<b>36.6</b>	<b>12.4</b>	<b>0.1</b>
ICICIBC	28,593	6.7	7.9	4.6	4.0	5.3	4.0	12.5	6.4	25.2	23.6
HDFCB	24,413	3.5	9.7	3.1	1.9	11.0	11.8	11.0	17.2	19.3	27.9
AXSB	19,282	15.1	11.2	-4.0	0.6	8.0	27.8	25.2	10.9	23.5	15.8
YES	4,376	14.8	1.6	3.1	1.0	19.9	29.0	29.7	11.4	21.5	26.9
IIB	3,981	8.9	8.4	4.9	0.9	12.4	23.5	25.2	24.8	25.0	29.0
VYSB	1,752	34.5	23.5	-11.1	7.0	8.1	50.1	74.5	65.2	57.9	27.0
FB	2,913	4.6	10.5	-16.3	-0.8	0.8	1.4	14.4	5.1	-4.0	-7.5
<b>Private Banks</b>	<b>85,310</b>	<b>8.5</b>	<b>9.3</b>	<b>0.8</b>	<b>2.2</b>	<b>8.4</b>	<b>13.7</b>	<b>17.2</b>	<b>12.1</b>	<b>22.1</b>	<b>22.0</b>
<b>Coverage Banks</b>	<b>248,087</b>	<b>7.5</b>	<b>9.9</b>	<b>2.2</b>	<b>-4.5</b>	<b>-0.5</b>	<b>15.8</b>	<b>18.7</b>	<b>28.3</b>	<b>15.3</b>	<b>6.7</b>

Core operating profits = NII + Fees (ex forex) -Opex



# PAT: qualitatively wide divergence in PSBs and private banks

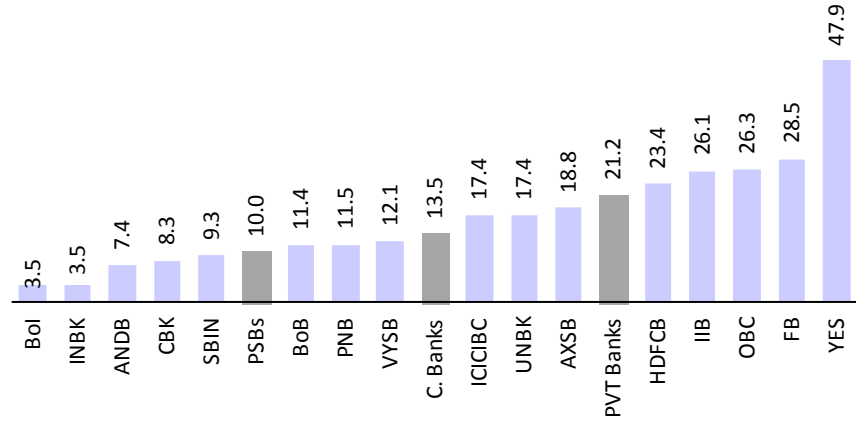
- Private banks profits were largely in line with estimates and positive surprise came from ICICIBC, FB and VYSB. NIMs and healthy asset quality were the key drivers for these banks. HDFCB maintained a consistent performance with 30%+ YoY growth in PAT.
- For PSBs, lower-than-expected margins had put pressure on operating profits. However, lower provisions (led by compromising on PCR and MTM write-back on investments in certain cases) helped PAT. Lower tax rate for certain banks came as a relief.
- Within PSBs large divergence was witnessed. BOI reported significantly lower-than-expected PAT led by lower-than-expected NIM performance and higher NPA provisions. PNB and CBK, PAT was impacted due to disappointment in fee income.
- BOB's PAT was higher-than-expected (21%) led by healthy NIMs, write-back on investment depreciation of INR1.3b. Despite core operating income being weak, PAT was in line with expectation for SBIN, led by compromise on PCR and write-back on investment.

PAT	2QFY13 (INR m)	QoQ Growth (%)				YoY Growth (%)					
		2QFY12	3QFY12	4QFY12	1QFY13	2QFY13	2QFY12	3QFY12	4QFY12	1QFY13	2QFY13
SBIN	36,581	77.5	16.1	24.1	-7.4	-2.5	12.4	15.4	N.A.	136.9	30.2
PNB	10,656	9.0	-4.6	23.8	-12.5	-14.5	12.1	5.5	18.6	12.7	-11.6
CBK	6,610	17.4	2.7	-5.3	-6.5	-14.7	-15.4	-20.8	-7.8	6.8	-22.4
BoB	13,138	12.9	10.6	17.7	-25.0	15.4	14.4	20.7	17.3	10.3	12.7
BoI	3,019	-5.1	45.8	33.0	-6.9	-66.0	-20.4	9.7	93.0	71.5	-38.5
UNBK	5,546	-24.1	-44.1	292.5	-33.8	8.4	16.2	-66.0	29.4	10.2	57.3
OBC	3,022	-52.7	111.2	-25.2	47.8	-22.8	-57.8	-13.2	-20.6	10.4	80.2
INBK	4,967	15.2	12.2	-34.3	33.7	7.6	12.7	7.0	-21.3	13.5	6.0
ANDB	3,256	-18.0	-4.1	12.0	6.5	-10.0	4.3	-8.4	8.6	-6.2	3.0
<b>PSBs</b>	<b>86,794</b>	<b>19.1</b>	<b>10.8</b>	<b>21.0</b>	<b>-9.3</b>	<b>-8.9</b>	<b>2.5</b>	<b>1.4</b>	<b>87.7</b>	<b>44.8</b>	<b>10.9</b>
<b>PSBs (Ex-SBIN)</b>	<b>50,213</b>	<b>0.5</b>	<b>7.8</b>	<b>19.1</b>	<b>-10.4</b>	<b>-13.0</b>	<b>-2.3</b>	<b>-5.5</b>	<b>15.7</b>	<b>15.6</b>	<b>0.0</b>
ICICIBC	19,561	12.9	15.0	10.0	-4.6	7.8	21.6	20.3	31.0	36.3	30.1
HDFCB	15,600	10.5	19.2	1.6	-2.5	10.1	31.5	31.4	30.4	30.6	30.1
AXSB	11,235	-2.3	19.8	15.9	-9.7	-2.6	25.2	23.7	25.2	22.4	22.1
YES	3,061	8.8	8.1	7.0	6.7	5.5	33.3	32.9	33.6	34.3	30.2
IIB	2,503	7.2	6.7	8.5	5.8	5.9	45.0	33.9	30.1	31.1	29.6
VYSB	1,502	22.7	3.6	6.6	2.1	15.4	53.3	44.0	39.5	38.4	30.2
FB	2,151	30.8	5.6	17.7	-19.9	13.0	36.2	41.1	38.4	30.2	12.5
<b>Private Banks</b>	<b>55,613</b>	<b>9.1</b>	<b>15.7</b>	<b>8.9</b>	<b>-4.7</b>	<b>6.3</b>	<b>27.8</b>	<b>26.4</b>	<b>30.0</b>	<b>31.0</b>	<b>27.6</b>
<b>Coverage Banks</b>	<b>142,407</b>	<b>15.3</b>	<b>12.5</b>	<b>16.6</b>	<b>-7.7</b>	<b>-3.5</b>	<b>10.3</b>	<b>9.4</b>	<b>62.9</b>	<b>39.6</b>	<b>16.8</b>
<b>Coverage Banks (Ex-SBIN)</b>	<b>105,826</b>	<b>4.3</b>	<b>11.5</b>	<b>14.2</b>	<b>-7.8</b>	<b>-3.9</b>	<b>9.7</b>	<b>7.6</b>	<b>21.9</b>	<b>22.4</b>	<b>12.9</b>

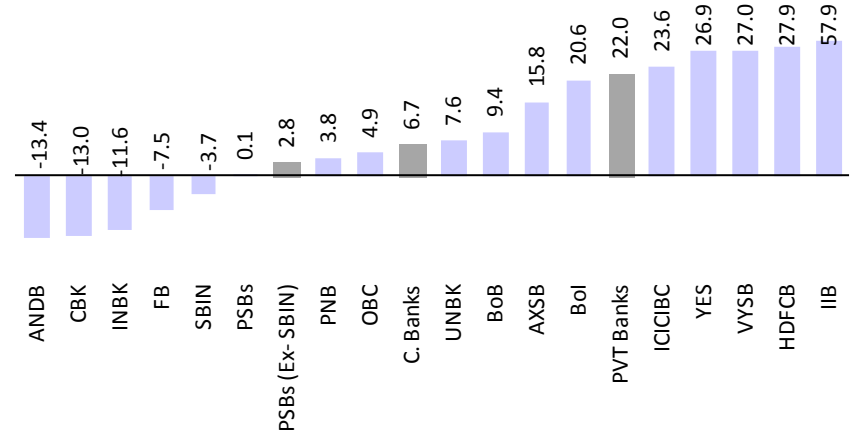


# Profitability impacted due to higher provisions

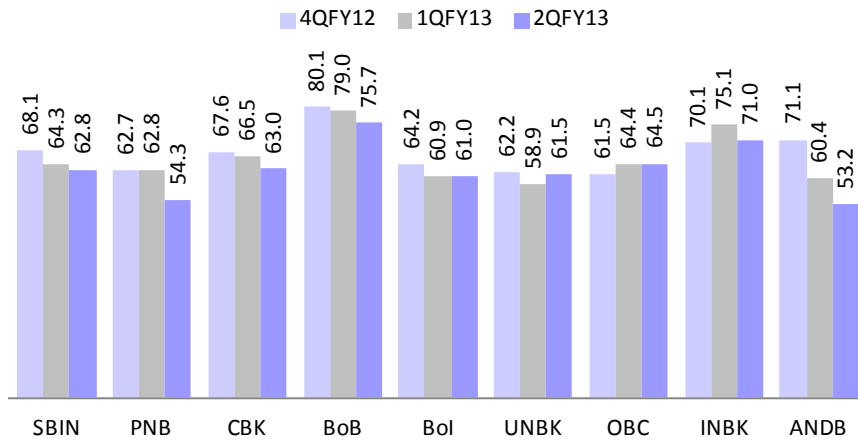
Opex for private banks increase due to expansion (YoY gr, %)



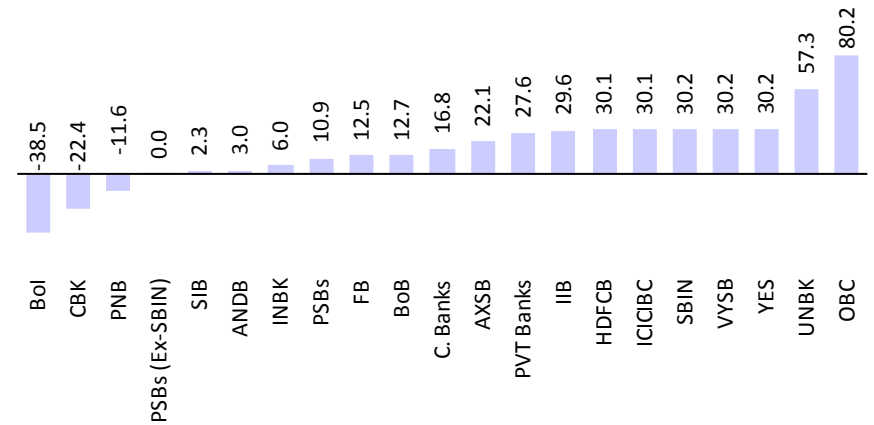
Weak core operations (core operating profit YoY gr, %)



Banks compromise on PCR, which led to lower provisioning expense (PCR, incl. tech w/off %)



Private banks' profitability remains robust (YoY gr, %)

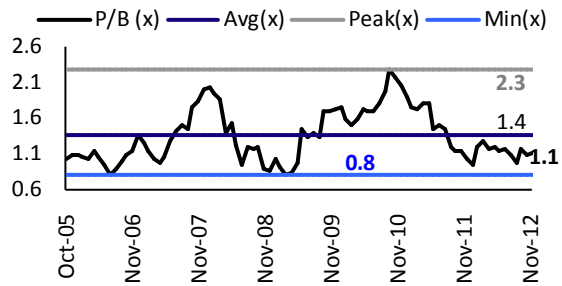


\*C.BANKS: MOSL Coverage

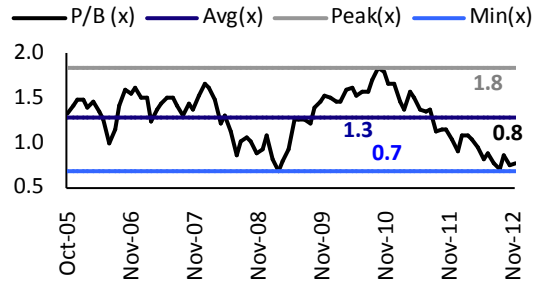


# PSBs trading at/significant discount to LPA P/BV

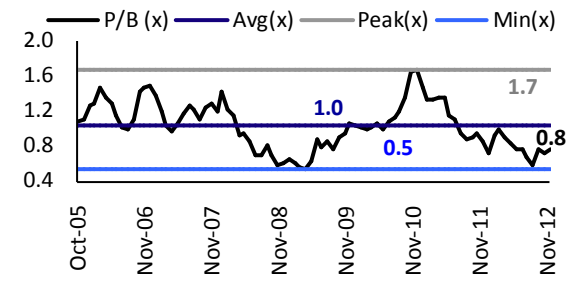
### SBIN trading at ~20% disc to LPA



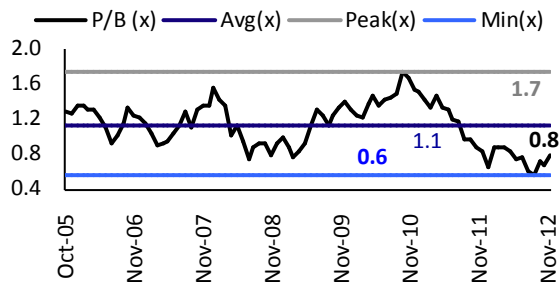
### PNB at 38%+ discount to LPA



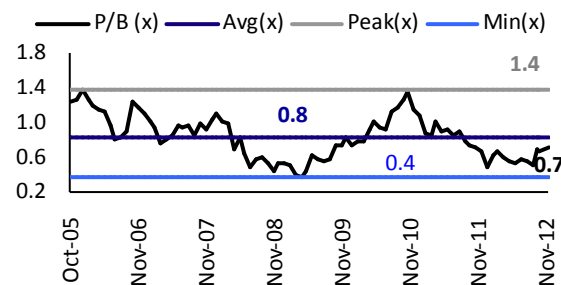
### CBK at 20%+ discount to LPA



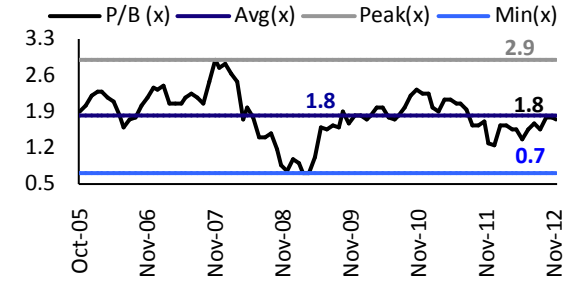
### UNBK at 30% discount to LPA



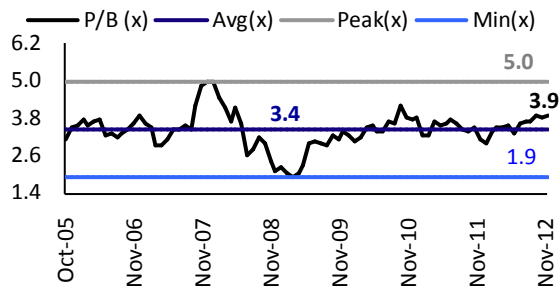
### OBC discounts narrows to LPA



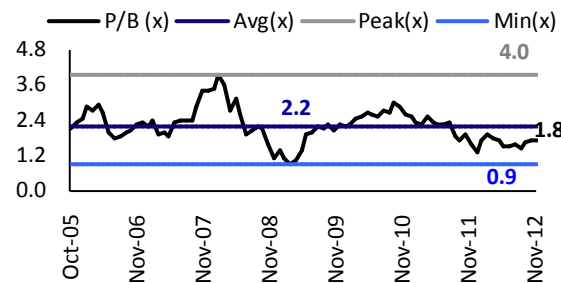
### ICICIB near average valuation



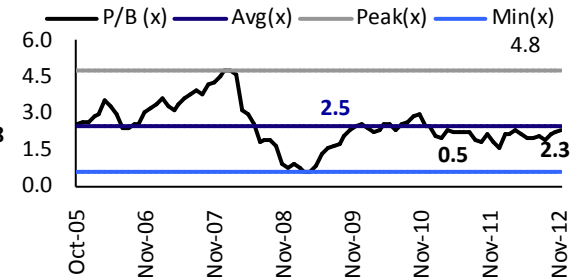
### HDFCB above average valuation



### AXSB ~20 discount to LPA



### YES Bank discount narrows to LPA





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