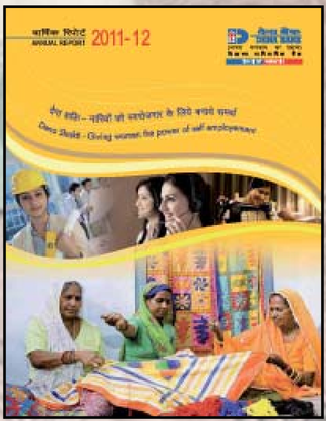
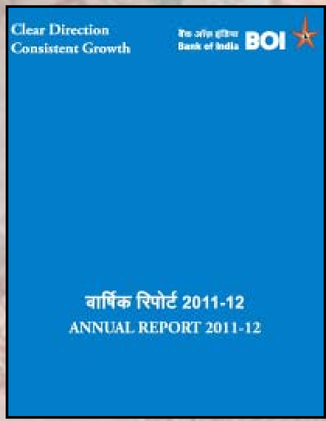
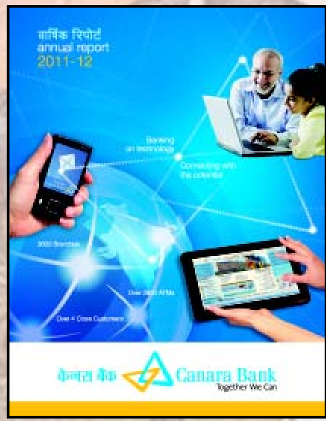
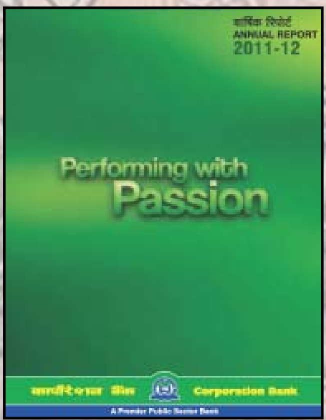
MOTILAL OSWAL

September 2012

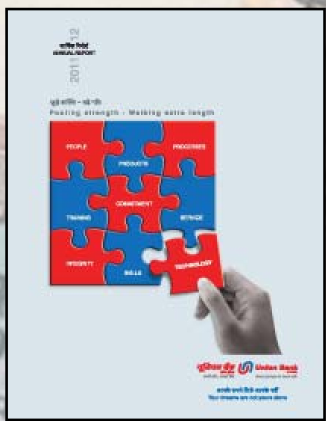
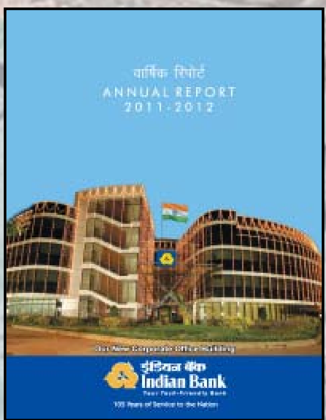
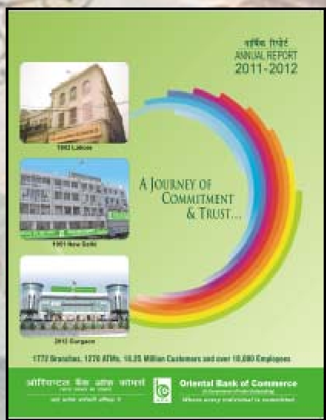
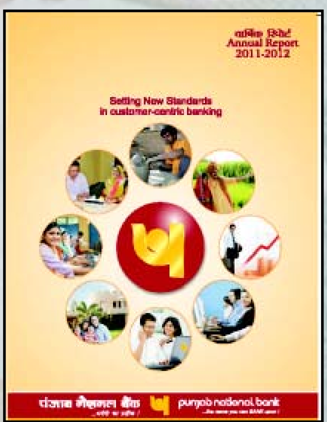
Financials





State-owned Banks: FY12 Annual Report Analysis

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Financials: Annual Report Analysis

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*Prices as on 3rd September 2012

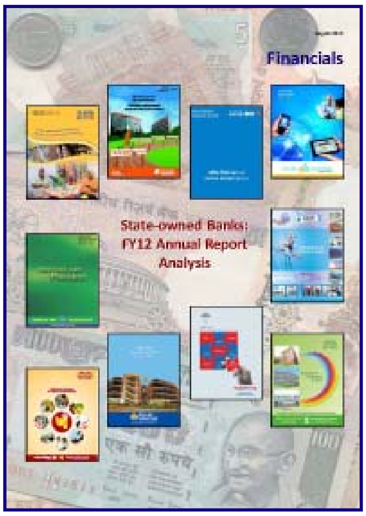
Acronyms and abbreviations

CDR: Corporate Debt Restructuring
CRR: Cash Reserve Ratio
GNPA: Gross Non Performing Asset
LAF: Liquidity Adjustment Facility
LIC: Life Insurance Corporation of India
NIM: Net Interest Margin
NNPA: Net Non Performing Asset
NPA: Non Performing Asset
NPV: Net Present Value
PCR: Provision Coverage Ratio
QIP: Qualified Institutional Placement
Repo: Repurchase
RWA: Risk Weighted Assets
SEB: State Electricity Board

State-owned banks covered in this report

ALBK: Allahabad Bank
ANDB: Andhra Bank
BOB: Bank of Baroda
BOI: Bank of India
CBK: Canara Bank
CRPBK: Corporation Bank
DBNK: Dena Bank
INBK: Indian Bank
IOB: Indian Overseas Bank
OBC: Oriental Bank of Commerce
PNB: Punjab National Bank
SBIN: State Bank of India
UNBK: Union Bank of India

Financials



Significant stress addition for state-owned banks in FY12

Exposure to sensitive sectors moderates; large banks adequately capitalized

We analyzed state-owned banks' annual reports for FY12. Our key takeaways:

- **Banks restructured 3.1% of overall loans in FY12, of which ~20% pertains to CDR. Overall NPV loss / sacrifice was contained at 4% of overall restructured loans.**
- **Aggregate gross slippage ratio was 2.6% (2.2% in FY11) and net slippage ratio was 1.7% (1.3% in FY11). GNPAs and NNPAs were up 54% YoY and 58% YoY respectively.**
- **Growth in overall Power sector exposure moderated from 70% in FY11 to 19% in FY12. Infrastructure segment constituted 13.7% of overall funded exposure.**
- **Core tier-I ratio increased 50bp to 8.9%, led by infusion of equity by the government. Large-cap banks are better placed than their smaller counterparts.**
- **TOP PICKS: ICICIBC (strong capitalization and asset quality; improving return ratios), SBIN (lowest net stress loan among state-owned banks and healthy core operations), YES (healthy asset quality performance and attractive valuations) and OBC (valuation factors in negatives).**

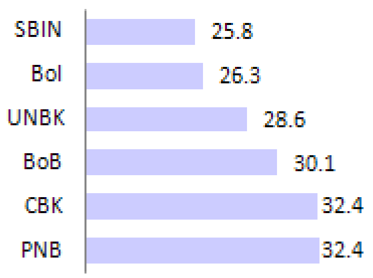
Gross slippage Ratio (%)

	FY11	FY12
SBIN	2.9	3.3
PNB	2.3	2.8
BoI	1.7	2.5
UNBK	2.5	2.5
CBK	2.1	2.2
BoB	1.1	1.5

Asset quality impacted by higher slippages and restructuring

Banks restructured 3.1% of overall loans in FY12. Of these, ~20% pertains to CDR. Excluding SBIN, state-owned banks restructured 4% of overall loans. Sacrifice/ NPV loss absorbed was contained at ~4% of loans restructured, with sacrifice on CDR cases at ~15%. While gross slippages increased 48% YoY, the pace of recoveries and upgradations moderated to 21% YoY, leading to higher balance sheet stress. Aggregate gross slippage ratio was 2.6% (2.2% in FY11) and net slippage ratio was 1.7% (1.3% in FY11). GNPAs were up 54% YoY and NNPAs 58% YoY. PCR declined for most banks. Despite higher pressure on asset quality, SBIN was the lone large-cap bank that reported improvement in PCR (calculated) from 51% in FY11 to 60%.

Sensitive sector as a %age of overall exposure



Growth in Power sector exposure moderates; exposure to sensitive sectors declines marginally

With concerns relating to the Power sector coming to the forefront, banks became cautious in lending to the segment. As a result, growth in state-owned banks' overall Power (including Electricity) sector exposure moderated from 70% in FY11 to 19% in FY12. Exposure to sensitive sectors as a percentage of overall exposure declined marginally to 28.7% v/s 29.2% in FY11. The exposure to sensitive sectors varies from bank to bank with SBIN (among large cap) and INBK (among mid-cap) having the lowest exposure, and PNB and ANDB having the highest. [Note: We have taken the following as sensitive sectors: (1) Metals, (2) Infrastructure (including Electricity), (3) Gems and Jewelry, (4) Textiles, (5) Commercial real estate and (6) Capital Market.]

Banks with higher deposits maturing in 2HFY13 enjoy advantage

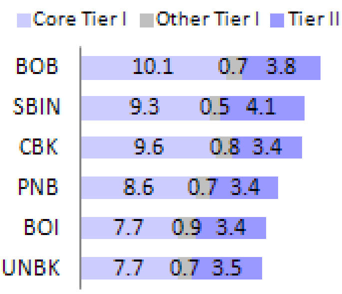
Banks with greater percentage of their deposits maturing in 2HFY13 will be in an advantageous position, considering the expected fall in interest rates. CBK and ANDB have the highest percentage of deposits maturing in 2HFY13, followed by

BOB, DBNK and CRPBK. SBIN, PNB and BOI have a low percentage of deposits maturing in 2HFY13. Hence, maintaining yield on assets will be imperative to protect adverse impact on margins.

Capitalization remains largely healthy

In the last two years, the government of India (and LIC) infused INR255b in state-owned banks (15% of FY10 net worth) to keep their capitalization healthy. Tier-I and core tier-I ratio for the state-owned banks under our coverage increased from 9% and 8.4% to 9.5% and 8.9%, respectively over the last two years. INBK and BOB's core tier-I ratio stands at 10%+; for SBIN, core tier-I ratio increased significantly from 7.7% in FY11 to 9.3% in FY12 led by capital infusion of INR79b and better utilization of capital. However, for BOI, UNBK, CRPBK and IOB, core tier-I ratio remains sub-8% despite capital infusion. Such banks would be required to raise capital, especially given the emphasis on core equity under Basel III.

Capital adequacy ratio (%)



Discounting factor increased in FY12; salary escalation assumptions unchanged

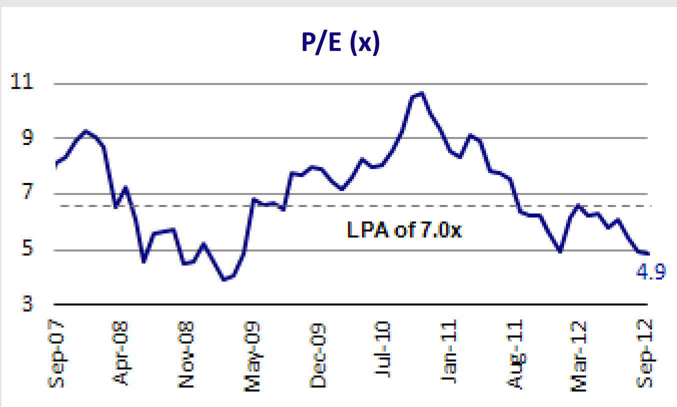
Salary escalation assumptions remain largely stable for most banks. The highest salary rise has been assumed by OBC and CRPBK. In line with the trend of rising interest rates (G-sec yields), some state-owned banks increased the discount rate applied for calculation of pension liabilities in FY12. Therefore, pension costs would be lower to that extent. BOI and UNBK have been the most aggressive in their assumptions of discounting factor; ANDB has been the most conservative.

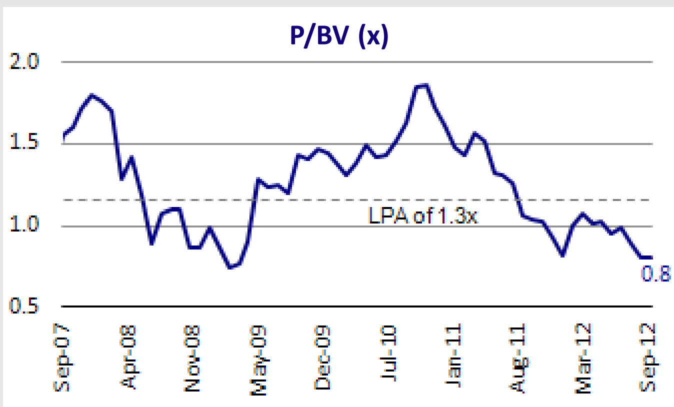
Sector strategy: Prefer SBIN, ICICIBC, YES, OBC

Policy logjam, uncertain macroeconomic environment, weak business sentiments and banks' risk aversion will keep business growth tepid in near term. Continued comfortable liquidity, government action on some of the key policy decisions and reduction in interest rate could significantly alter the growth and asset quality concerns, which would be positive.

Strong core operations and robust asset quality of Private Banks is reflecting in their premium valuations vis-a-vis state-owned banks. Top large cap picks: **SBIN** and **ICICIBC**. Among mid-caps, we like **YES** and **OBC**.

State-owned banks' valuations at steep discount to LPA





Financials: Valuation Matrix

	Rating	CMP (INR)	Mcap (USDb)	EPS (INR)		P/E (x)		P/BV (x)		RoA (%)		RoE (%)		Dividend Yield (%) #
				FY13	FY14	FY13	FY14	FY13	FY14	FY13	FY14	FY13	FY14	
ICICIBC*	Buy	903	18.7	69	81	10.0	8.3	1.5	1.3	1.6	1.6	15.1	15.7	1.8
HDFCB	Neutral	590	24.9	29	36	20.6	16.5	3.9	3.3	1.8	1.8	20.7	21.9	0.7
AXSB	Buy	978	7.3	115	132	8.5	7.4	1.6	1.3	1.6	1.5	19.6	19.1	1.6
KMB	Neutral	575	7.7	27	31	21.1	18.8	2.9	2.5	1.6	1.5	14.5	14.2	0.1
YES	Buy	328	2.1	35	43	9.3	7.7	2.0	1.7	1.5	1.5	24.1	23.7	1.2
IIB	Buy	315	2.7	21	28	14.7	11.4	2.7	2.3	1.6	1.7	20.2	21.8	0.7
VYSB	Buy	365	1.0	36	40	10.2	9.0	1.3	1.1	1.0	1.0	13.1	13.2	1.1
FB	Buy	406	1.3	48	56	8.5	7.3	1.1	1.0	1.2	1.2	13.5	14.2	2.2
J&KBK	Buy	905	0.8	186	206	4.9	4.4	0.9	0.8	1.4	1.3	20.3	19.4	3.7
SIB	Buy	22	0.2	4.4	5.3	4.9	4.1	1.0	0.8	1.1	1.1	22.5	22.6	2.8
Private Aggregate			**66.6**					**2.2**	**1.9**					
SBIN (cons)*	Buy	1,849	22.4	276	329	6.4	5.3	1.0	0.9	1.0	1.0	16.9	17.4	1.9
PNB	Buy	669	4.1	153	185	4.4	3.6	0.7	0.6	1.1	1.1	18.2	18.8	3.3
BOI	Neutral	256	2.6	55	64	4.7	4.0	0.7	0.6	0.8	0.7	15.7	16.1	2.7
BOB	Neutral	628	4.7	114	131	5.5	4.8	0.9	0.8	1.0	0.9	17.0	16.9	2.7
CBK	Buy	320	2.5	75	84	4.3	3.8	0.6	0.5	0.8	0.8	15.1	15.0	3.4
UNBK	Buy	158	1.6	42	48	3.7	3.3	0.6	0.5	0.8	0.8	16.8	16.7	5.0
IOB	Neutral	68	1.0	15	17	4.6	4.1	0.5	0.4	0.5	0.5	10.4	10.9	7.7
OBC	Buy	223	1.2	49	56	4.6	4.0	0.5	0.5	0.7	0.7	12.2	12.8	3.5
INBK	Buy	156	1.2	43	47	3.6	3.3	0.6	0.5	1.2	1.1	18.2	17.2	4.8
CRPBK	Neutral	372	1.0	111	119	3.4	3.1	0.6	0.5	0.9	0.9	18.4	17.3	5.5
ANDB	Buy	91	0.9	26	29	3.5	3.2	0.6	0.5	1.1	1.0	18.4	17.6	6.0
IDBI	Neutral	85	2.0	16	18	5.3	4.7	0.6	0.5	0.7	0.7	11.1	11.5	4.1
DBNK	Buy	87	0.6	27	31	3.2	2.8	0.6	0.5	1.0	1.0	20.2	19.6	3.6
Public Aggregate			**45.6**					**0.8**	**0.7**					
HDFC*	Buy	734	19.5	32	39	16.5	12.8	5.0	3.9	2.9	2.9	29.4	30.9	1.5
LICHF	Buy	239	2.2	23	33	10.5	7.3	1.8	1.5	1.7	1.8	18.8	21.3	1.5
DEWH	Buy	166	0.4	38	51	4.4	3.2	0.9	0.7	1.5	1.4	21.7	22.7	2.1
IDFC	Buy	132	3.6	11	13	11.9	9.9	1.4	1.2	2.6	2.6	13.0	14.2	1.7
RECL	Buy	185	3.3	35	42	5.3	4.4	1.1	1.0	3.0	3.1	21.8	22.9	4.1
POWF	Buy	156	3.7	29	32	5.4	4.8	0.9	0.8	2.7	2.6	17.4	17.2	3.8
SHTF	Buy	620	2.5	60	70	10.4	8.8	2.0	1.6	2.6	2.6	20.6	20.3	1.6
MMFS	Buy	747	1.4	79	94	9.4	8.0	2.2	1.8	3.6	3.5	25.1	24.6	1.9
NBFC Aggregate			**36.6**					**2.1**	**1.8**					

*Multiples adj. for value of key ventures/Investments; For ICICI Bank, HDFC Ltd BV is adjusted for investments in subsidiaries

Div Yield based on FY12 decleared dividend

Significant addition of stress on balance sheet

State-owned banks restructured 4% of overall loans; gross slippages up 48%

- **State-owned banks restructured 3.1% of overall loans in FY12. Of these, ~20% pertain to CDR. Excluding SBIN; state-owned banks restructured 4% of overall loans. Sacrifice/NPV loss was contained at ~4% of loans restructured, with sacrifice on CDR cases at 15%.**
- **While gross slippages increased 48% YoY, the pace of recoveries and upgradations moderated to 21% YoY, leading to higher balance sheet stress. Aggregate gross slippage ratio was 2.6% (2.2% in FY11) and net slippage ratio was 1.7% (1.3% in FY11).**
- **GNPAs and NNPAs were up 54% YoY and 58% YoY respectively. PCR (cal) declined for most state-owned banks. Despite higher pressure on asset quality, SBIN was the lone large-cap bank that reported improvement in PCR from 51% in FY11 to 60%.**

Ex-SBIN, state-owned banks restructured 4% of loans

State-owned banks restructured 3.1% of overall loans as against 1.7% in FY11

State-owned banks restructured loans worth INR870b in FY12 (v/s INR400b in FY11) i.e. 3.1% of overall loans. SBIN restructured just 1% of its overall loans during the year. Ex-SBIN, state-owned banks restructured 4% of overall loans. Of the overall restructuring done in FY12, INR182b i.e. ~20% of the loans restructured was on account of CDR cases (largely from one big infrastructure account - GTL Infra). State government entities, viz. Air India and SEBs accounted for a major part of the restructuring done in FY12. PNB and OBC restructured over 5% of loans (highest amongst peers), of which 3% and 4% (of loans), respectively were towards state government entities.

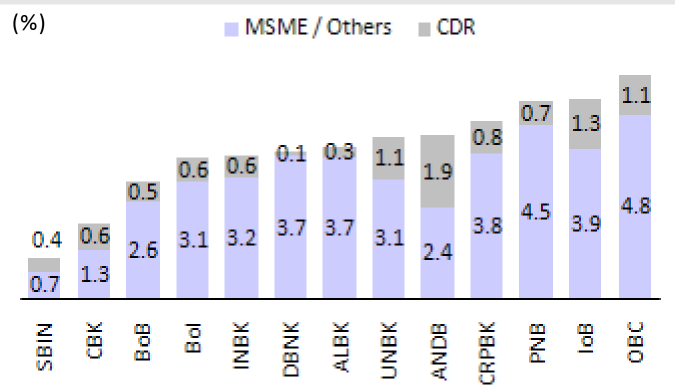
Higher NPV loss on CDR cases; overall hit contained at ~4%

Sacrifice on CDR cases at ~15%, however on overall restructured loans it was contained at ~4%

Sacrifice/NPV loss absorbed on loans restructured under CDR mechanism was higher at 15%. UNBK reported the highest sacrifice on CDR restructuring at ~23% as against 12-15% for peers. Ex CDR cases, NPV loss was contained at 1-2%; hence, cumulative loss was ~4%. While higher restructuring in FY12 is a concern, the silver lining is that sacrifice/NPV loss taken on state government entities was contained. In our view, restructuring would continue in FY13, as economic conditions remain challenging, likely implementation of working group recommendation on restructured loans and some of the SEB loans which are yet to be restructured.

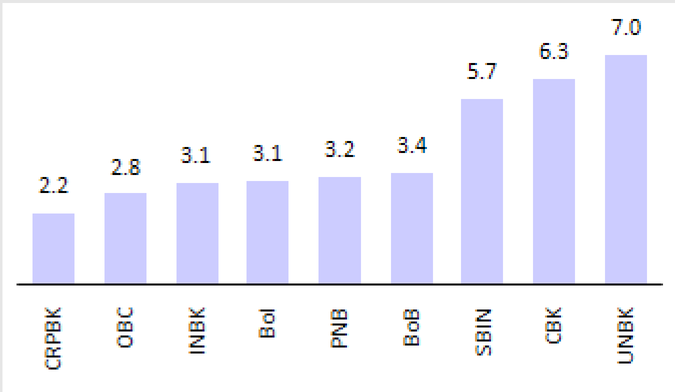
PNB and OBC's loan restructuring highest among peers in FY12

Ex-SBIN, state-owned banks restructured 4% of overall loans, of which ~20% pertains to CDR



Sacrifice on aggregate level contained at ~4%

Higher sacrifice taken on CDR (15%); NPV loss on other restructured loans contained at 1-2%



Source: Company, MOSL

Asset quality impacted by system-based NPA recognition, challenging macro environment

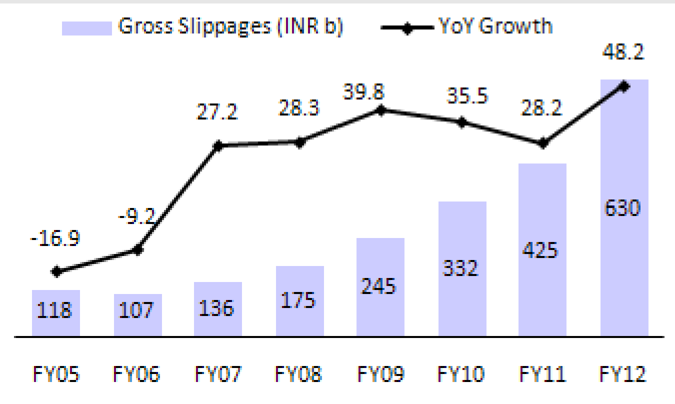
Slippage ratio increased from 2.2% in FY11 to 2.6% in FY12. This is the fourth consecutive year of over 2% slippage ratio

In absolute terms, gross slippages for state-owned banks increased significantly from INR425b to INR630b – a growth of 48%. Slippage ratio increased from 2.2% in FY11 to 2.6% in FY12. This is the fourth consecutive year of over 2% slippage ratio. Among large-cap banks, gross slippages remained elevated for SBIN and PNB. Though BOB reported the highest growth of 80% (on a lower base) in slippages in absolute terms, slippage ratio was contained at 1.5%, aided by strong loan growth of 25%+.

Among mid-cap banks, DBNK was the only bank to report flat slippages. The biggest negative surprise came from INBK and OBC, where gross slippages almost doubled. Slippage ratio for OBC increased to 4.1% (highest among state-owned banks) v/s average of 1.4% over FY06-11. In FY12, overall slippages were INR39b, of which INR16b was on account of shifting to system-based NPA recognition and slippages in four large accounts. Adjusted for this, slippage ratio for OBC was 2.4%. INBK too was impacted by increase in slippages in the large corporate segment.

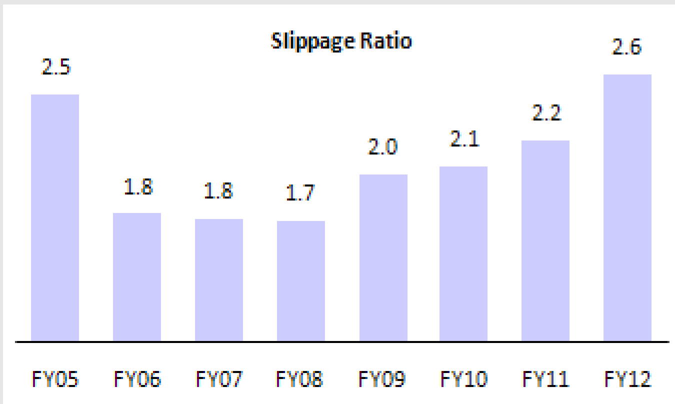
Aggregate slippage ratio for state-owned banks on the rise

Slippages increased 48%, led by slippages from system-based NPA recognition and higher stress in the corporate segment



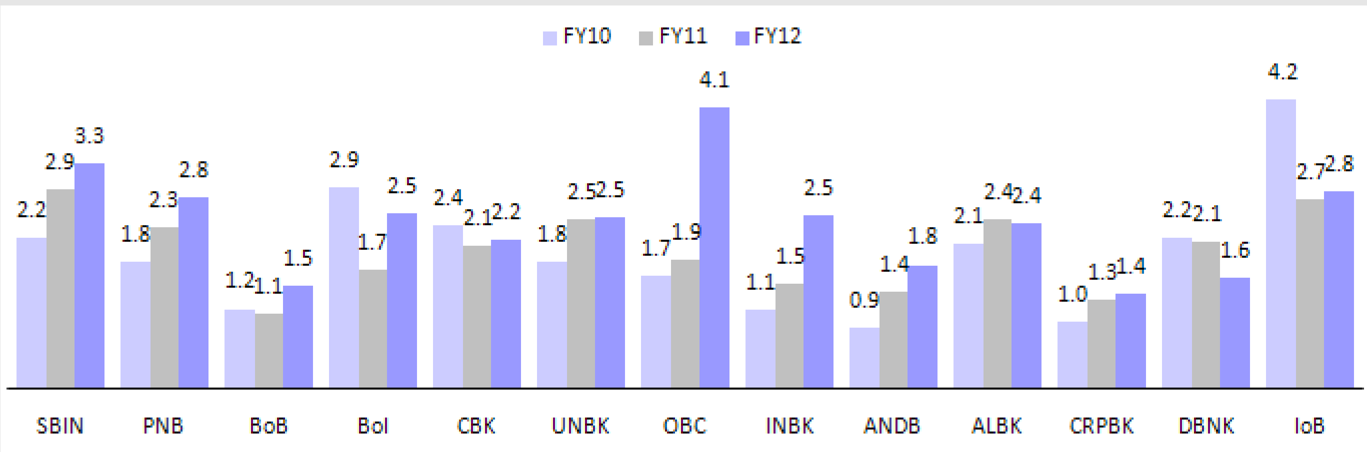
Fourth consecutive year of 2%+ slippage ratio (%)

Further deterioration in macro environment remains a concern, slippage ratio to remain elevated



Slippage ratio increased across banks (%)

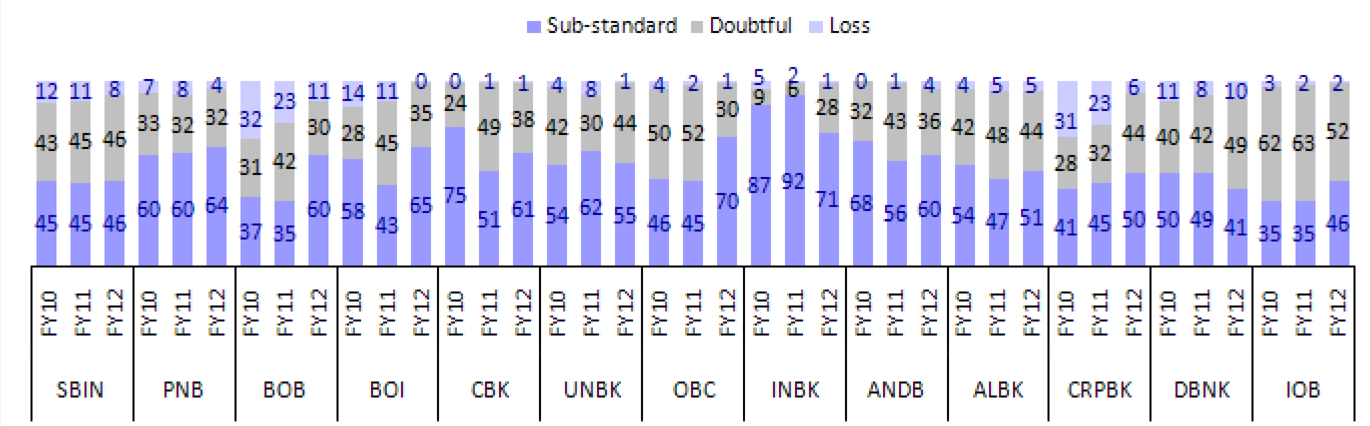
Among the large-cap banks, SBIN reported higher stress; slippages in corporate segment impacted OBC; BOB managed to maintain its asset quality



Source: Company, MOSL

Proportion of sub-standard loans on the rise (%)

Higher slippages in FY12 led to significant rise in sub-standard loans for OBC; SBIN has the highest proportion of loss assets due to its conservative write-off policy



Source: Company, MOSL

Upgrades and recoveries – a mixed bag; net slippage ratio at 1.7%

The net slippage ratio was at 1.7% as against 1.3% in FY11

While upgrades and recoveries improved for state-owned banks (ex-BOI), the extent of slippages was much higher. Consequently, net slippages increased to INR406b as against INR241b in FY11. The net slippage ratio was 1.7% as against 1.3% in FY11. Among large-cap banks, PNB and BOB reported strong improvement in recoveries and upgradations; however, BOI and SBIN disappointed. In case of BOI, while recoveries improved to INR12b (v/s INR8.9b in FY11), upgradations faltered (INR4.9b in FY12 as against INR10.4b in FY11), leading to a decline in overall upgrades and recoveries. SBIN reported 15% improvement in upgrades and recoveries; however, this was partially aided by upgradation of few large accounts that were restructured.

Among mid-cap banks, **OBC**, **INBK** and **ANDB** displayed strong performance – recoveries and upgradations improved significantly

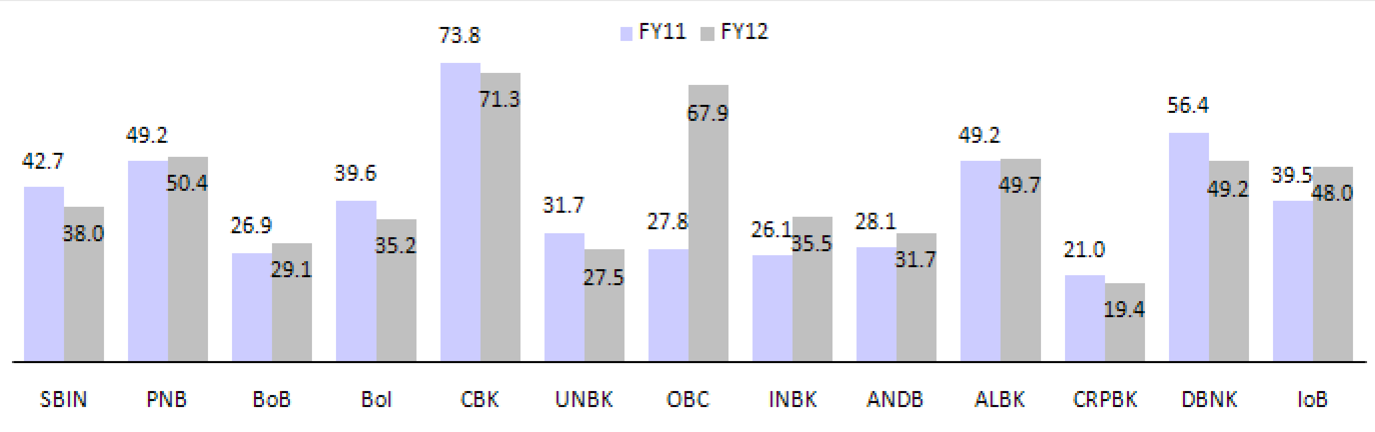
Among mid-cap banks, **OBC**, **INBK** and **ANDB** displayed strong performance – recoveries and upgradations improved significantly. ANDB's net slippages in 2HFY12 were negative. On analyzing the quarterly trend, we found that recoveries and upgrades gathered pace in 2HFY12. This would have been partially helped by upgradation of some soft slippages (recognized due to transition to system-based NPA recognition) and restructuring. Our interactions with the managements of various banks also suggest that focus has now shifted to recoveries rather than growth. This coupled with spontaneous identification of stress loans due to transition to system-based NPA recognition would aid recoveries. However, the economic environment is not conducive and the trend needs to be watched.

Excluding SBIN and PNB, state-owned banks write-offs increased 42%

At the aggregate level, write-offs declined to INR115b from INR130b in FY11. This was largely on account of change in policy at two large state-owned banks, SBIN and PNB - as they are no longer aggressively writing-off NPAs. Adjusted for these two banks, write-offs increased 42%. BOI resorted to higher write-offs, which increased from INR8.8b in FY11 to INR24.1b in FY12, i.e. 50% of opening GNPAs.

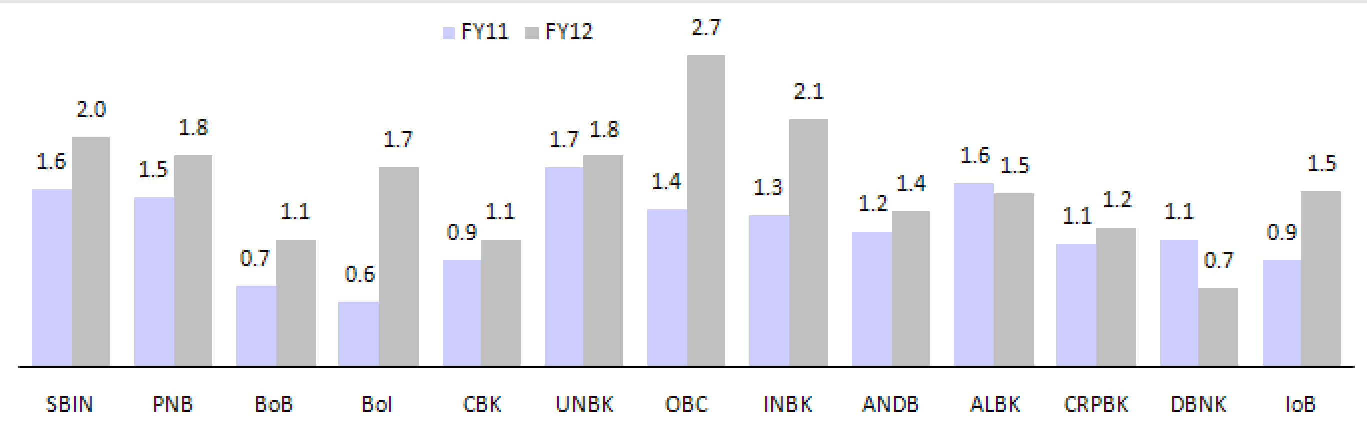
Upgradations and recoveries as a percentage of opening GNPAs (%)

The performance of OBC and CBK impressive; however, sharp increase in gross slippages overshadowed the performance



Net slippages increased across state-owned banks (%)

Net slippage ratio increased significantly for BOI and OBC; pain continues for SBIN, PNB and UNBK; DBNK's net slippage ratio declines, contrary to the trend



Source: Company, MOSL

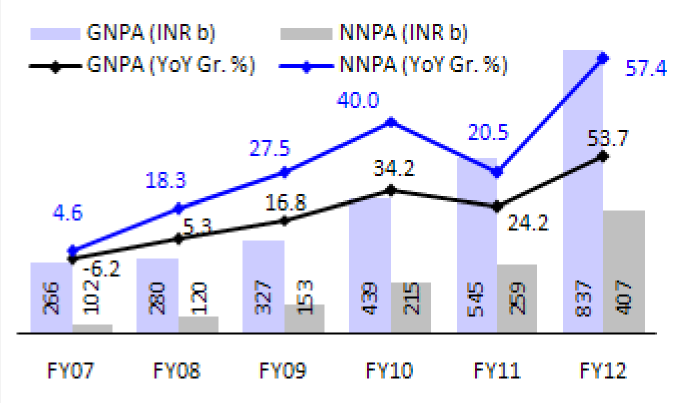
GNPAs up 58% YoY; stress in agriculture segment continues

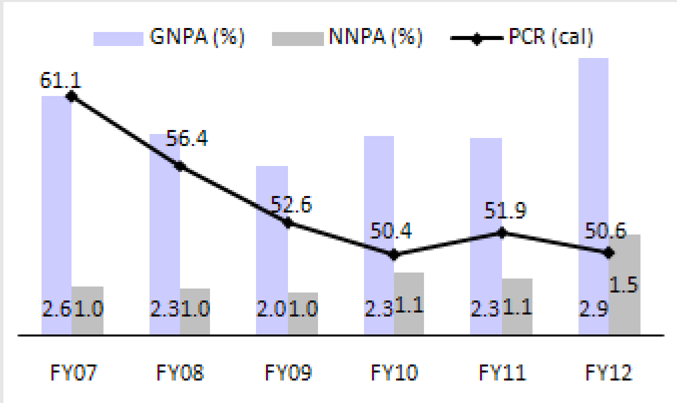
Since FY08, GNPAs and NNPAs are up 3x+; stress in agriculture segment continues

Higher stress on asset quality led to sharp increase in GNPAs and NNPAs for most state-owned banks. Since FY08, GNPAs and NNPAs are up 3x+. In FY12, aggregate NNPA increased 58%; ex-SBIN, the increase was 84%. The agriculture segment remains a high stress area for state-owned banks. GNPAs in the agriculture segment increased across banks, with the sharpest increase seen for UNBK (9.6% v/s 4.1% in FY11) and SBIN (8.9% v/s 6.7% in FY11). Among large-cap banks, BOI and CBK reported decline in agriculture segment GNPAs. Stress in the services and industry segments also increased, led by aviation and other large corporate accounts.

Asset quality remains under pressure

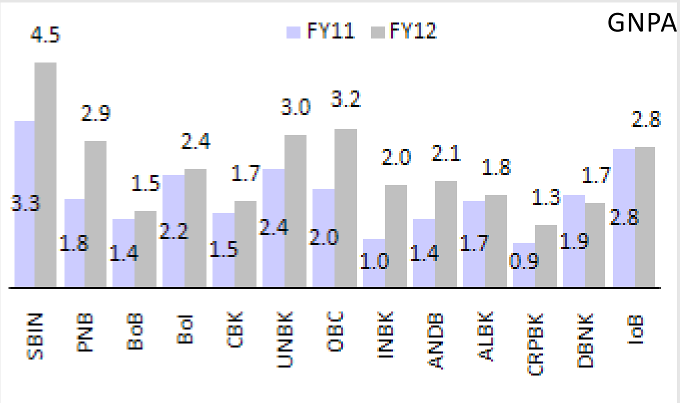
In absolute terms, GNPAs and NNPAs of state-owned banks increased by over 50% in FY12; in percentage terms, GNPAs increased to 2.9% as against 2.3% a year ago

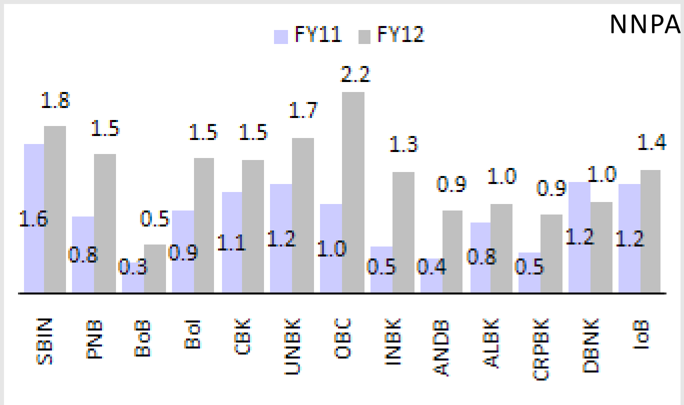




GNPAs and NNPAs increased across state-owned banks (%)

While SBIN's GNPAs increased by 120bp, increase in PCR led to containment of NNPAs; however, PCR declined for most banks, leading to sharp increase in their NNPAs

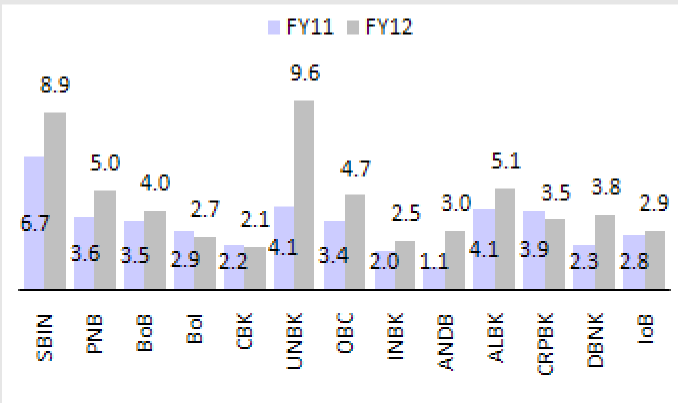




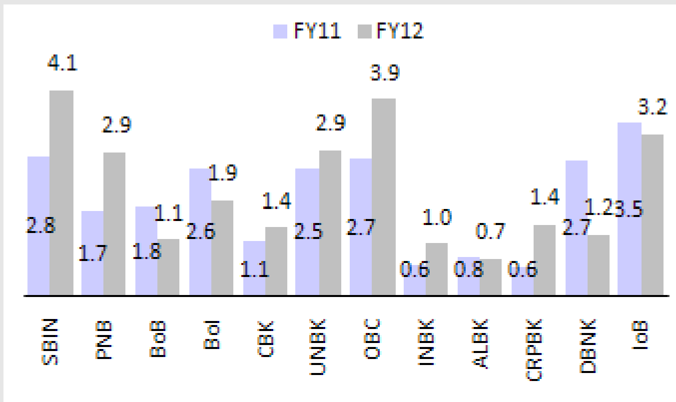
Source: Company, MOSL

Segment-wise GNPAs (%)

Agriculture: NPAs continue to increase

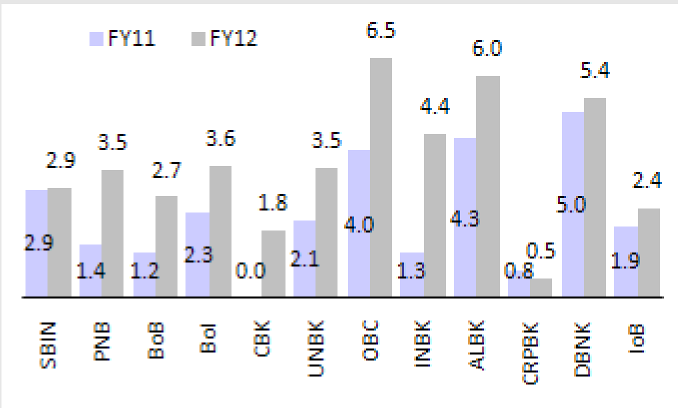


Industry: Pressure on large and mid-corporate segment visible

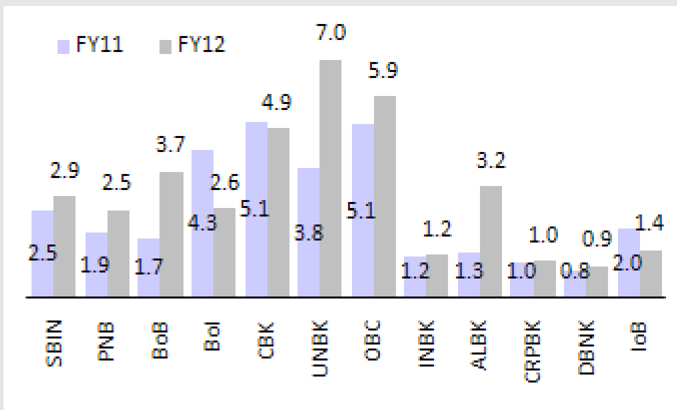


Source: Company, MOSL

Services: GNPA increase led by large accounts (%)



Retail: NPAs rise for selective banks, unlike industry trend (%)



Source: Company, MOSL

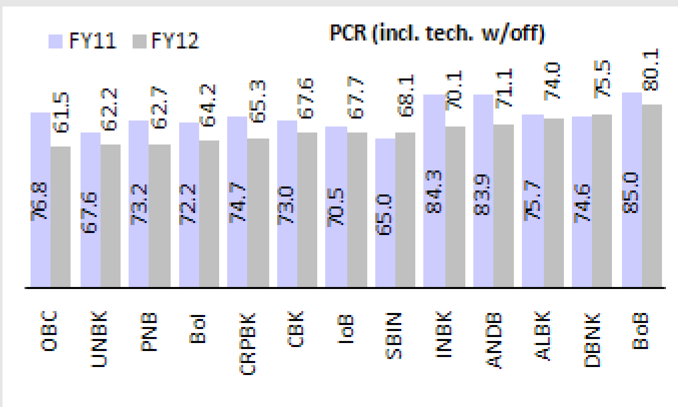
Credit cost at 1% v/s average of 0.6% over FY07-10; PCR declines

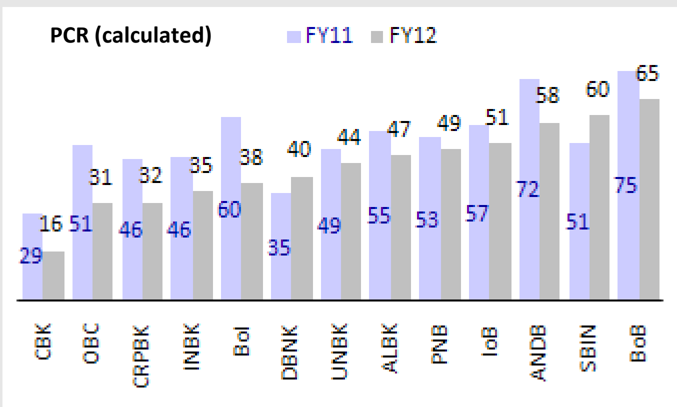
Rising stress on asset quality led to higher credit cost of 0.9% in FY11 and 1% in FY12 against an average of 0.6% over FY07-10

Rising stress on asset quality led to higher credit cost of 0.9% in FY11 and 1% in FY12 against an average of 0.6% over FY07-10. Despite significant increase in credit cost, PCR continued to decline, with SBIN, IOB and DBNK being exceptions. SBIN's credit cost averaged at 1.3% over FY11-12, but this should also be seen the light of SBIN being the lone large-size bank where PCR improved substantially to 60% against 51% in FY11 and 38% in FY09. PCR (both calculated and including technical write-offs) for other state-owned banks declined by 5-20%. BOB continues to have strong PCR of 65% (80% including technical write-offs). PCR for CBK is the lowest at 15% (67.6% including technical write-offs).

PCR declines, as banks utilize provisions made in earlier years as cushion (%)

SBIN is the lone large-cap bank to have increased its PCR in FY12; BOB's PCR remains the highest





Source: Company, MOSL

Growth in power sector exposure moderates

Exposure to sensitive sector declines marginally to 28.7%

- **With concerns relating to the Power sector coming to the forefront, banks became cautious in lending to the segment. As a result, growth in state-owned banks' overall Power (including electricity) sector exposure moderated from 70% in FY11 to 19% in FY12.**
- **Exposure to sensitive sectors as a percentage of overall exposure declined marginally to 28.7% as compared to 29.2% in FY11.**
- **UNBK (41%+), IOB (27%+) and BoI (21%+) reported the highest growth in these segments. The exposure to sensitive sectors varies from bank to bank with SBIN (among large cap) and INBK (among mid-cap) having the lowest exposure, and PNB and ANDB the highest.**
- **CBK moderated its growth in the Infrastructure segment (down 15%) as a result of which the proportion of sensitive assets declined from 37% in FY11 to 32% in FY12.**

Growth in exposure to sensitive sectors moderate; mid-cap banks at risk

Generally mid-cap banks proportion to sensitive sector is in the higher range of 32-38%, which remains a concern given the relative strength in their balance sheet to absorb negative impact of asset quality is lower

For the state-owned banks under our coverage, exposure to sensitive sectors - Metals, Infrastructure, Textiles, Gems and Jewelry, commercial real estate and capital market has grown by 13% as compared to 37% in FY11. Exposure to sensitive sectors as a percentage of overall exposure declined marginally to 28.7% as compared to 29.2% in FY11. The exposure to sensitive sectors varies from bank to bank with SBIN (among large cap) and INBK (among mid-cap) having the lowest exposure, and PNB and ANDB the highest. UNBK (41%+), IOB (27%+) and BoI (21%+) reported the highest growth in these segments. CBK moderated its growth in the Infrastructure segment (down 15%) as a result of which the proportion of sensitive assets declined from 37% in FY11 to 32% in FY12. Generally, mid-cap banks' exposure to sensitive sectors (with the exception of INBK) is in the higher range of 32-38%, which remains a concern given their lower balance sheet strength to absorb negative impact of lower asset quality.

Exposure to Infrastructure grew ~16%, now forms 13.7% of overall exposure

Overall Power sector exposure moderated from 70% in FY11 to 19% in FY12

With concerns relating to the Power sector coming to the forefront, banks have been cautious in lending to the segment. As a result, growth in state-owned banks' overall Power sector exposure moderated from 70% in FY11 to 19% in FY12. PNB and UNBK continued to grow aggressively, whereas CBK reduced its exposure in this segment. ANDB (20.3%) and DBNK (15.8%) have the highest exposure to Power. ANDB however clarified that Power sector loans form a much lower share of ~13% of total loans. Growth in Infrastructure was moderate at 16%, led by slowdown / higher repayments in Telecom (up 4%) and marginal decline in other infrastructure segments. The highest concentration in Infrastructure was for CBK, OBC and DBNK.

Strong growth in Metals, Gems & jewelry; Commercial real estate moderates

Overall exposure to gems and jewelry segment remain low at 1.2%

Growth in the Metals segment was strong at 26% v/s 15% growth in overall funded exposure. Consequently, the proportion of Metals in overall funded exposure increased to 6.7% v/s 6.2% in FY11. SBIN, CBK and UNBK reported strong growth in the Metals segment, and as a percentage of overall funded exposure, SBIN's and IOB's exposure remains the highest at 7.7%.

Growth in Gems & jewelry was strong at 32%, albeit on a lower base and as a percentage of overall loans, exposure to this segment remained low at 1.2%. BOI, UNBK and

CRPBK were the most aggressive in terms of growth in funded exposure to Gems & jewelry; CRPBK has the highest exposure of ~3% to this segment.

Exposure to commercial real estate declined ~2% and now forms 2.3% of funded exposure

Exposure to Commercial real estate declined ~2%, and as a percentage of overall loan it formed 2.3% of funded exposure as compared to 2.7% in FY11. While growth in commercial real estate segment moderated for PNB, still its exposure at 5.4% remains the highest among large cap banks. Among mid-cap banks, IOB continues to report strong growth in this segment (29%+) and as a result commercial real estate as a percentage of overall exposure remains high at 5.7% of funded exposure. DBNK too reported strong growth of 70% in this segment; however, as a percentage of funded exposure it remains low at ~1%.

Funded Exposure for banks

	SBIN				PNB				BoB				BoI			
	INR	YoY gr.	% of total		INR	YoY gr.	% of total		INR	YoY gr.	% of total		INR	YoY gr.	% of total	
	(b)	(%)	FY11	FY12	(b)	(%)	FY11	FY12	(b)	(%)	FY11	FY12	(b)	(%)	FY11	FY12
Metals	926	37.4	6.2	7.7	192	11.0	7.1	6.4	131	22.8	6.2	6.4	146	14.6	5.9	5.8
Textiles	515	-5.8	5.0	4.3	45	-32.1	2.7	1.5	97	14.2	4.9	4.7	86	9.1	3.6	3.4
Gems and Jewelry	170	39.4	1.1	1.4	9	-45.2	0.7	0.3	11	34.1	0.5	0.6	54	45.1	1.7	2.1
Infrastructure*	**1,319**	**17.4**	**10.4**	**11.0**	**518**	**22.4**	**17.4**	**17.4**	**293**	**9.4**	**15.6**	**14.2**	**282**	**38.3**	**9.4**	**11.2**
of which Power*	618	38.0	4.1	5.2	293	27.7	9.4	9.8	143	2.2	8.1	7.0	113	53.0	3.4	4.5
CRE	127	-9.5	1.3	1.1	161	-0.8	6.7	5.4	58	-4.1	3.5	2.8	61	-10.0	3.1	2.4
Capital Markets	36	-65.5	1.0	0.3	40	6.3	1.6	1.4	29	12.8	1.5	1.4	33	2.9	1.5	1.3
Sensitive sector	**3,094**	**14.1**	**25.0**	**25.8**	**966**	**9.8**	**36.1**	**32.4**	**619**	**11.8**	**32.3**	**30.1**	**663**	**21.0**	**25.3**	**26.3**
Funded Exposure	**11,999**	**10.6**	**100**	**100**	**2,979**	**22.1**	**100**	**100**	**2,055**	**19.6**	**100**	**100**	**2,524**	**16.4**	**100**	**100**

	CBK				UNBK				OBC				INBK			
	INR	YoY gr.	% of total		INR	YoY gr.	% of total		INR	YoY gr.	% of total		INR	YoY gr.	% of total	
	(b)	(%)	FY11	FY12	(b)	(%)	FY11	FY12	(b)	(%)	FY11	FY12	(b)	(%)	FY11	FY12
Metals	156	13.9	6.5	6.7	105	40.9	4.9	5.8	84	31.1	6.6	7.4	37	16.7	2.9	2.9
Textiles	112	6.5	4.9	4.8	49	-1.4	3.2	2.7	53	14.2	4.8	4.7	36	8.1	3.1	2.8
Gems and Jewelry	24	26.8	0.9	1.0	31	63.6	1.2	1.7	4	-32.6	0.6	0.4	2	13.2	0.2	0.2
Infrastructure*	**408**	**-15.4**	**22.7**	**17.4**	**285**	**64.4**	**11.3**	**15.7**	**214**	**15.1**	**19.2**	**18.9**	**145**	**25.2**	**10.5**	**11.0**
of which Power*	228	-19.3	13.3	9.8	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	97	23.5	7.1	7.4
CRE	19	34.1	0.7	0.8	25	-7.1	1.8	1.4	57	-7.5	6.3	5.0	25	-20.1	2.8	1.9
Capital Markets	38	15.7	1.5	1.6	24	3.3	1.5	1.3	13	-0.5	1.4	1.2	8	-9.3	0.8	0.6
Sensitive sector	**756**	**-4.2**	**37.2**	**32.4**	**518**	**41.6**	**23.9**	**28.6**	**425**	**12.7**	**38.9**	**37.6**	**254**	**13.6**	**20.3**	**19.4**
Funded Exposure	**2,336**	**10.0**	**100**	**100**	**1,810**	**18.3**	**100**	**100**	**1,130**	**16.7**	**100**	**100**	**1,310**	**19.4**	**100**	**100**

	ANDB				CRPBK				DBNK				IoB			
	INR	YoY gr.	% of total		INR	YoY gr.	% of total		INR	YoY gr.	% of total		INR	YoY gr.	% of total	
	(b)	(%)	FY11	FY12	(b)	(%)	FY11	FY12	(b)	(%)	FY11	FY12	(b)	(%)	FY11	FY12
Metals	52	-0.2	7.2	6.1	39	-18.1	7.1	4.8	30	54.6	4.4	5.4	110	26.2	7.7	7.7
Textiles	47	33.2	4.9	5.5	37	15.3	4.8	4.6	22	85.8	2.7	3.9	58	8.6	4.7	4.1
Gems and Jewelry	12	-0.5	1.7	1.5	24	59.3	2.2	2.9	6	1.7	1.4	1.1	7	35.8	0.4	0.5
Infrastructure*	**172**	**10.9**	**21.5**	**20.3**	**156**	**4.8**	**21.8**	**19.1**	**117**	**-6.5**	**27.9**	**20.6**	**173**	**35.4**	**11.2**	**12.1**
of which Power*	172	10.9	21.5	20.3	93	29.0	10.6	11.5	90	-1.8	20.4	15.8	111	47.3	6.6	7.7
CRE	30	-16.2	5.0	3.6	30	2.7	4.3	3.7	6	70.0	0.7	1.0	82	29.2	5.6	5.7
Capital Markets	10	139.5	0.6	1.2	14	-6.7	2.2	1.7	1	-43.9	0.6	0.3	22	25.6	1.5	1.5
Sensitive sector	**323**	**9.6**	**40.9**	**38.2**	**300**	**4.1**	**42.3**	**36.9**	**183**	**8.4**	**37.6**	**32.2**	**452**	**27.5**	**31.1**	**31.5**
Funded Exposure	**847**	**17.4**	**100**	**100**	**814**	**19.3**	**100**	**100**	**567**	**26.5**	**100**	**100**	**1,433**	**25.9**	**100**	**100**

*Including Electricity

Asset-liability mismatches remain high for some banks

Higher proportion of deposit re-pricing in 2HFY13 to favorably impact NIMs

- **Stressed liquidity conditions and high inflation kept interest rates elevated in 1QFY13, despite reduction in CRR and Repo rates. With easing liquidity, interest rates are likely to decline.**
- **Banks that are likely to see a greater percentage of their deposits maturing in 2HFY13 will be in an advantageous position, considering the expected fall in interest rates.**
- **CBK and ANDB have the highest percentage of deposits maturing in 2HFY13, and will therefore, have the highest cost advantage. Maintaining yield on assets will be imperative for SBIN, PNB and BOI, which have a low percentage of deposits maturing in 2HFY13.**

Higher proportion of deposit re-pricing in 2HFY13 to favorably impact NIMs

Banks that are likely to see a greater percentage of their deposits maturing in 2HFY13 will be in an advantageous position

Stressed liquidity conditions and high inflation kept interest rates elevated in 1QFY13, despite reduction in CRR and Repo rates. However, bulk deposit rates, especially at the shorter end, have started easing post May 2012. Liquidity is now in a comfortable range (average LAF balance of INR478b in the last week of August 2012). Our economist expects decline of 50-75bp in interest rates in 2HFY13. Banks that are likely to see a greater percentage of their deposits maturing in 2HFY13 will be in an advantageous position, considering the expected fall in interest rates.

CBK and ANDB to gain cost advantage; maintaining yields imperative for SBIN and PNB

SBIN, PNB and BOI have the lowest proportion of deposit re-pricing in 2HFY13, which implies that the decline in their cost of funds would be gradual

CBK and ANDB are largely bulk borrowers. Based on their disclosures, 28% of CBK's and 31% of ANDB's deposits are likely to get re-priced in 2HFY13. The resultant cost advantage would favorably impact their NIMs. SBIN, PNB and BOI have the lowest proportion of deposit re-pricing in 2HFY13, which implies that the decline in their cost of funds would be gradual. To maintain NIMs, it is imperative for them to maintain their yields on assets. Other banks such as BOB, CRPBK and IOB have 22-26% of their deposits maturing in 2HFY13. A sharp shift was visible in DBNK's asset-liability profile, with the proportion of short-term loans (less than one year) declining from 33% to 15%, and the proportion of short-term deposits (maturing within a year) increasing from 46% to 49%.

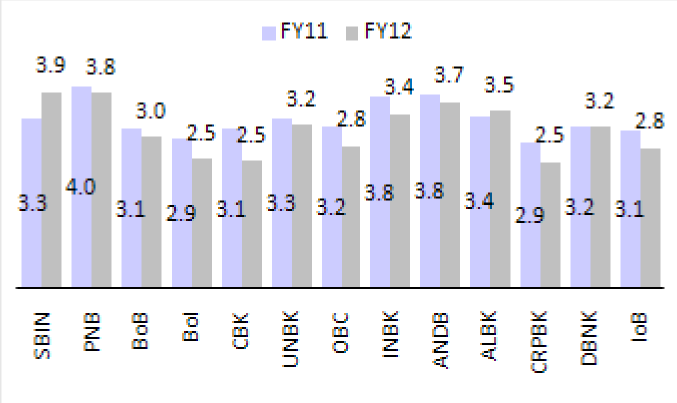
Downside risk to margins limited; factored in 15-20bp decline in FY13

We have assumed margin decline of 15-20bp (bank-specific)

In FY12, most state-owned banks reported NIM decline, led by higher pressure on asset quality and upward pressure on cost of funds. In our view, pressure on margins would continue in FY13, as yields on loans are likely to be under pressure, given reduction in lending rates (most banks have reduced their base rates by 25bp and have also reduced their spreads on loans) and waning pricing power due to lower loan growth. In our base case, we have assumed margin decline of 15-20bp (bank-specific). We believe this is conservative and downside risk to our margin assumptions is limited.

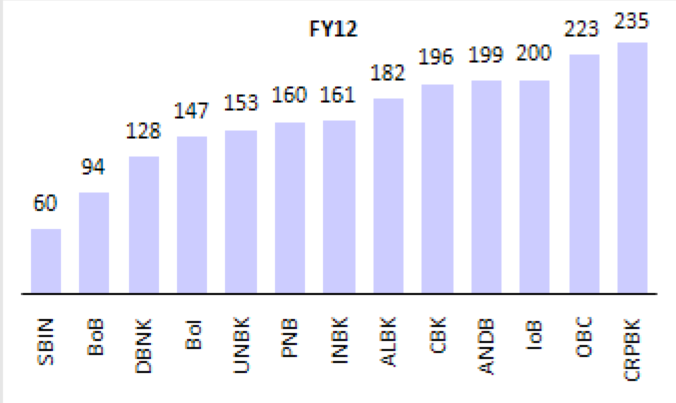
Reported margins for most state-owned banks lower (%)

SBIN is the lone large-cap bank to have reported improvement in NIM, led by higher yield on loans and containment of cost of deposits



Term deposit cost higher across the board (change in bp)

Sharp increase in term deposit cost, led by increase in systemic rates and fall in incremental CASA ratio

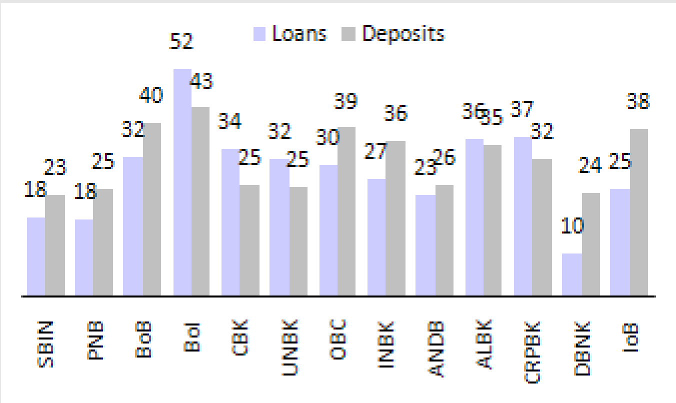


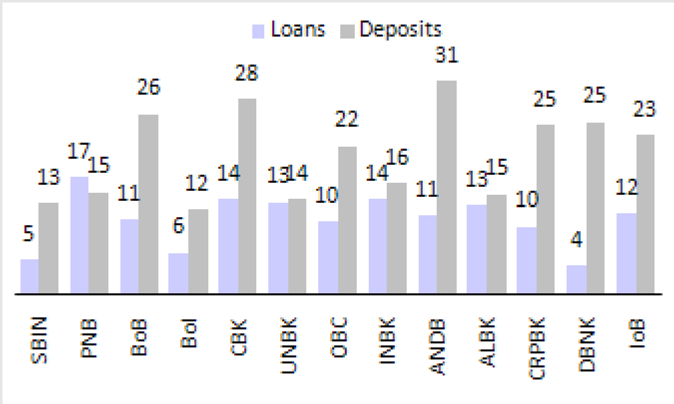
Asset-liability gap remains high for mid-sized state-owned banks

Loans and deposits maturing in 1HFY13 (%)

Loans and deposits maturing in 2HFY13 (%)

Proportion of deposits maturing in 2HFY13 highest for ANDB, CBK and BOB; these banks should benefit in a falling interest rate scenario





Source: Company, MOSL

Concentration in top-20 accounts stabilizes/declines

SBIN's concentration remains the lowest at 5%, demonstrating the strength of its strong liability franchise

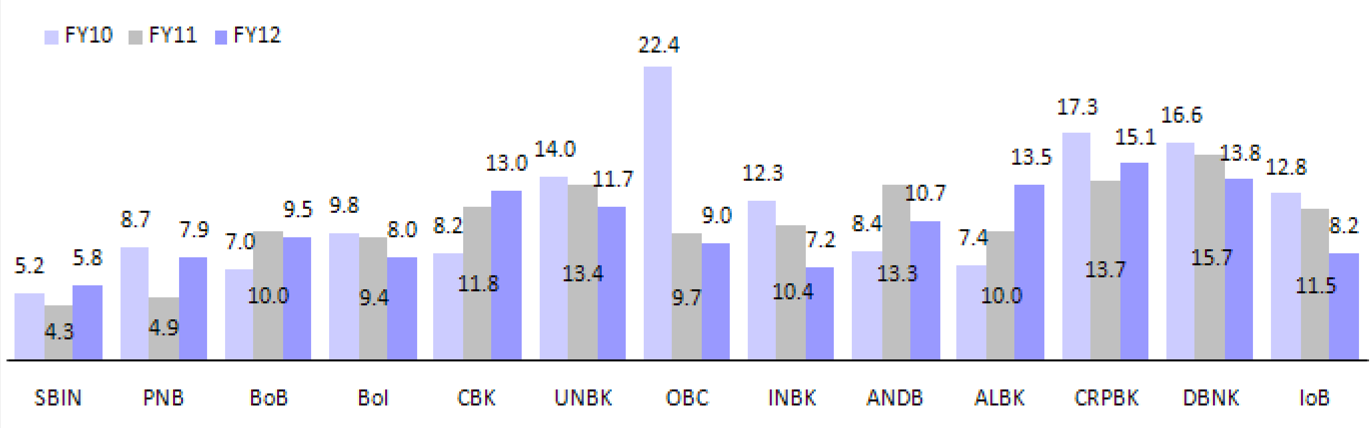
Concentration of deposits in the top-20 accounts has remained stable / fallen for most state-owned banks. SBIN's concentration remains the lowest at 5%, demonstrating the strength of its strong liability franchise. PNB reported an increase in concentration of top-20 deposit accounts from 5% to 8% (now largely in line with peers), a reflection of its strategy to grow aggressively. Among mid-size banks, ALBK was the lone bank that reported an increase in the proportion of top-20 deposit accounts.

SBIN's exposure to top-20 loan accounts remains at one of the lowest in the industry at 9%

On the asset side, the highest exposure concentration is for CRPBK – top-20 accounts constitute 25% of loans and 23% of exposure. OBC has reported the sharpest decline in the proportion of loans to the top-20 accounts from 22% in FY11 to 17% in FY12, which is also in line with its strategy of de-bulking its balance sheet and focusing more on retail and SME loans. SBIN's exposure to top-20 loan accounts remains at one of the lowest in the industry at 9%.

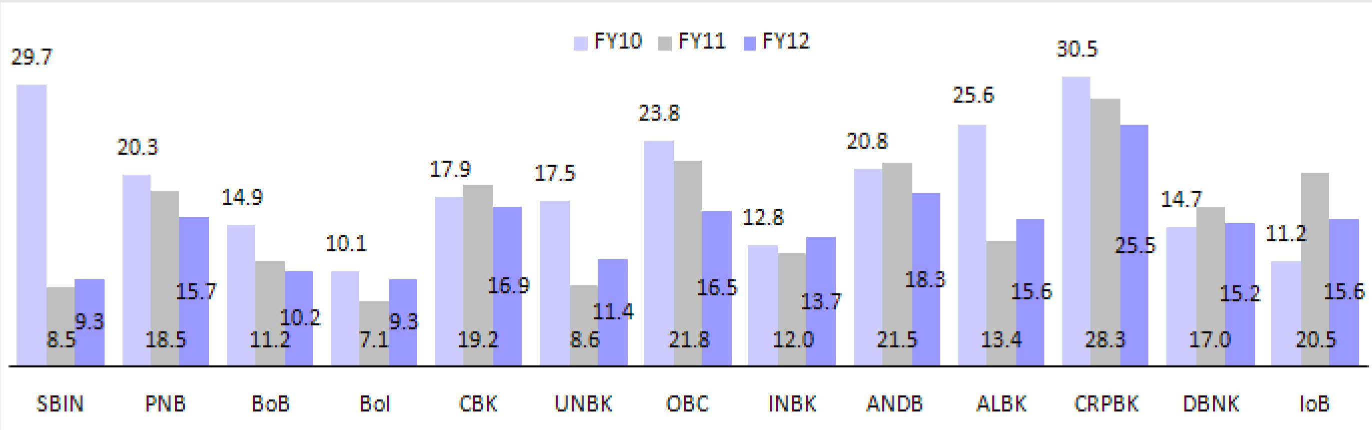
Benefit of strong liability profile visible in case of larger banks (%)

OBC has pruned its concentration of deposits in top-20 accounts from 20%+ in FY10 to 9% in FY12; PNB, CBK and ALBK's dependence on top-20 deposit accounts has increased



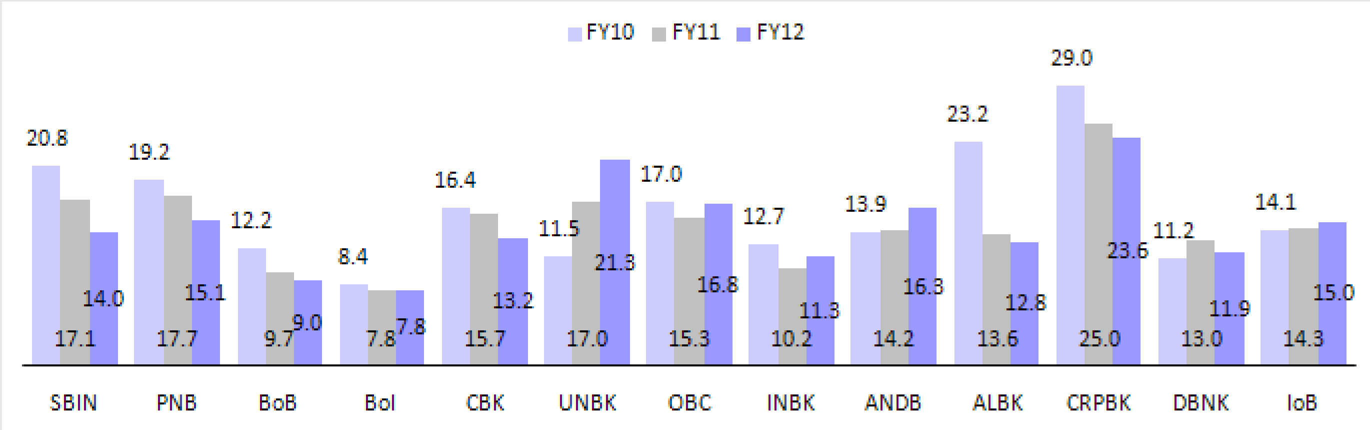
Share of top-20 borrowers in overall loans have declined for most banks (%)

Exposure concentration reveals gradual movement of banks towards greater granularity



Share of top-20 borrowers (exposure-wise) have declined for most banks (%)

CRPBK and UNBK have the highest concentration, with top-20 accounts constituting over 20% of exposure



Source: Company, MOSL

Capitalization remains largely healthy

However, Basel III to raise challenges for mid-cap banks

- **In the last two years, the government of India (and LIC) infused INR255b in state-owned banks (15% of FY10 net worth) to keep their capitalization healthy.**
- **Tier-I and core tier-I ratio for the state-owned banks under our coverage have increased from 9% and 8.4% to 9.5% and 8.9%, respectively over the last two years.**
- **INBK and BOB's core tier-I ratio stands at 10%+; for SBIN, core tier-I ratio increased significantly from 7.7% in FY11 to 9.3% in FY12.**
- **However, for BOI, UNBK, CRPBK and IOB, core tier-I ratio remains sub-8% despite capital infusion. Such banks would be required to raise capital, especially given the emphasis on core equity under Basel III.**

Large-cap banks adequately capitalized

Tier-I and core tier-I ratio for the state-owned banks under our coverage have increased from 9% and 8.4% to 9.5% and 8.9%, respectively over the last two years

Core tier-I ratio for state-owned banks has increased by 50bp over the last two years, led by capital infusion by the government and lower growth in RWA. The government (and LIC) infused capital of INR95.8b in FY11 and INR159.1b in FY12 - cumulative equity infusion of INR255b over FY11-12. Large-cap state-owned banks are relatively better placed, with core tier-I ratio at 9%+. Among large-cap banks, BOB has the highest core tier-I ratio at 10.1%, followed by CBK at 9.6%. CBK had raised capital of INR19.9b by way of QIP, leading to strong improvement in capital adequacy ratio. Government holding still remains at 67.7%, giving the bank opportunity to raise capital through other sources.

Significant improvement in SBIN's core tier-I capital

SBIN's core tier-I ratio has improved significantly from 7.8% in FY11 to 9.8% in FY12, led by a combination of factors: (1) equity infusion of INR79b, (2) internal accruals of INR89.7b, and (3) realignment of portfolio by insuring some of its SME portfolio and export-related loans in credit guarantee scheme - RWA grew 2% in FY12 compared to 15% loan growth and 10% balance sheet growth.

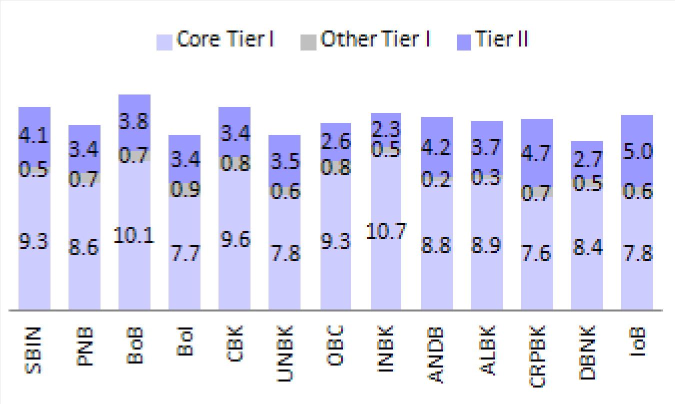
Mid-cap banks would be required to shore up capital

Mid-cap banks need to improve efficiency

Among mid-cap banks, INBK has the highest core tier-I ratio at 10.7%. However, some of the other banks would be required to shore up capital, as their core tier-I ratio is below 8%. RWA growth for mid-cap banks has been higher than loan and balance sheet growth, which has further resulted in some pressure on capital adequacy ratio. Under Basel III, core emphasis has been placed on core equity. It would be a challenge for some mid-cap banks to shore up capital.

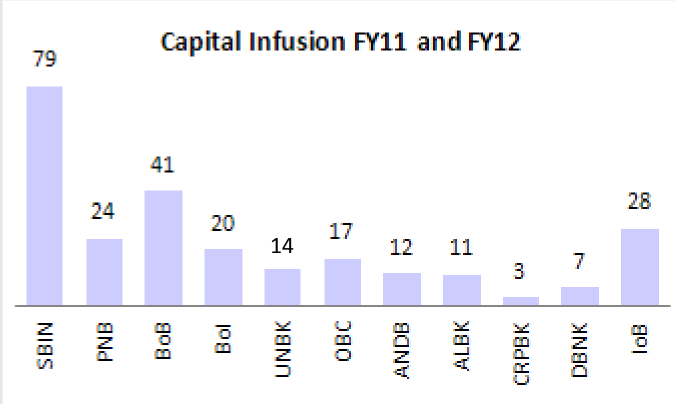
Core tier-I ratio remains healthy (%)

BOB, SBIN and INBK remain sufficiently capitalized; UNBK, CRPBK and BOI, whose core tier-I is below 8%, would require to shore up capital



Continuous government support (INR b)

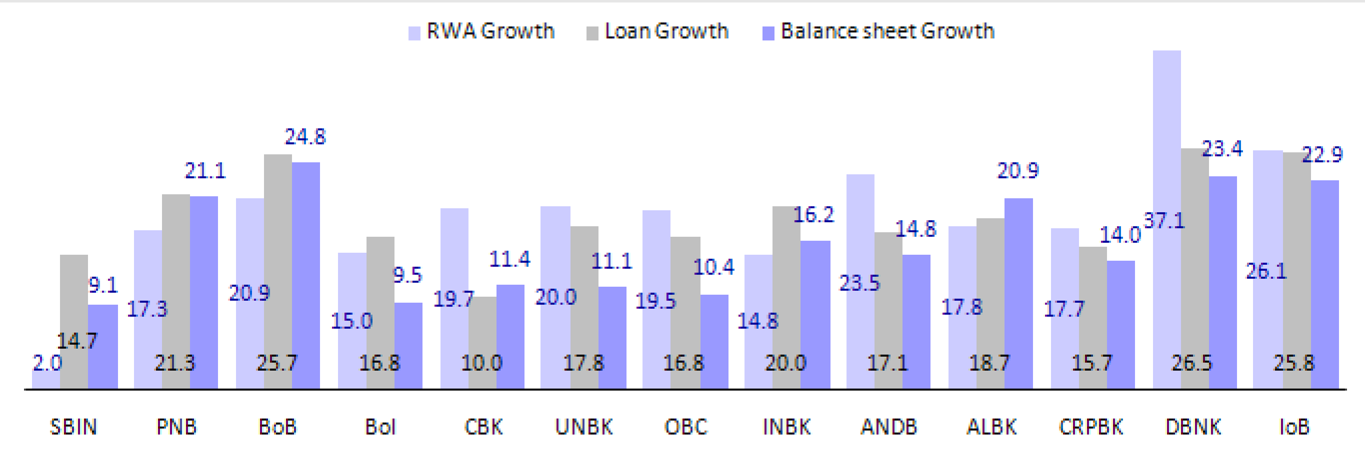
The government has invested an amount equivalent to 15% of state-owned banks' FY10 net worth in the last two years to keep their capitalization healthy



Source: Company, MOSL

RWA growth v/s balance sheet and loan growth (%)

Realignment of portfolio by insuring some of its SME portfolio and export-related loans in credit guarantee scheme led to lower growth in RWA for SBIN



Source: Company, MOSL

Pension cost lower - discount rate revised upwards

Salary escalation assumptions unchanged

- **In line with the rising interest rate (G-sec yields) trend some state-owned banks increased the discount rate applied for calculation of pension liabilities in FY12. Therefore, pension costs would be lower to that extent.**
- **BOI and UNBK have been the most aggressive in their assumptions of discounting factor; ANDB has been the most conservative.**
- **Salary escalation assumptions remain largely stable for most banks. The highest salary rise has been assumed by OBC and CRPBK.**

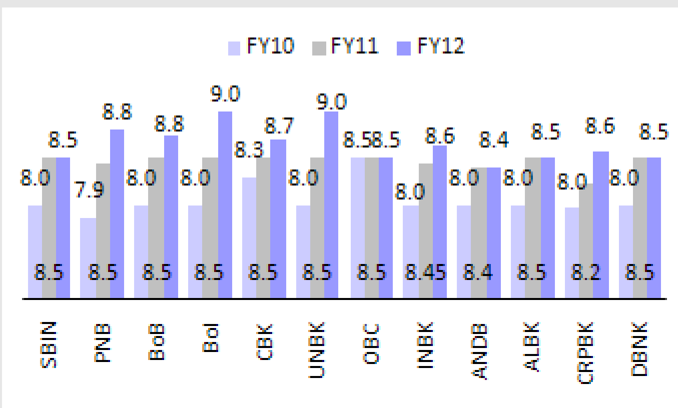
Salary escalation assumptions unchanged; pension cost could be lower

Most of the state-owned banks have kept their salary escalation assumptions unchanged. Salary escalation assumptions are the lowest for ANDB at 3% and the highest for OBC at 6%. For SBIN and PNB, the salary escalation assumption is 5%. Canara Bank's salary escalation assumption is 4%, but this has been brought down from 7% in FY10.

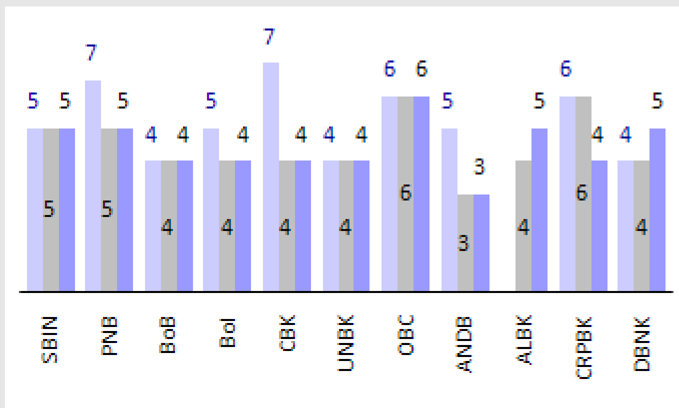
Large-cap state-owned banks (ex-SBIN) have increased their discount rate assumptions by 20-50bp in FY12. This is on the back of an upward revision in FY11. Thus, the cumulative increase in discount rate has been 40-100bp. Therefore, the pension cost would be lower. The discounting assumptions for BOI and UNBK remain the most aggressive at 9%. For other state-owned banks, the discounting assumptions are in 8.4-8.75% range. ANDB's assumption is the most conservative at 8.4%.

Assumption for pension calculation aggressive (%)

Banks have raised their discounting factor assumption



Salary escalation assumptions in the range of 4-6%



Source: Company, MOSL

State Bank of India

BSE SENSEX	S&P CNX
17,384	5,254

Bloomberg	SBIN IN
Equity Shares (m)	671.0
52-Week Range (INR)	2,475/1,576
1,6,12 Rel.Perf.(%)	-9/-15/-11
M.Cap. (INR b)	1,240.8
M.Cap. (USD b)	22.3

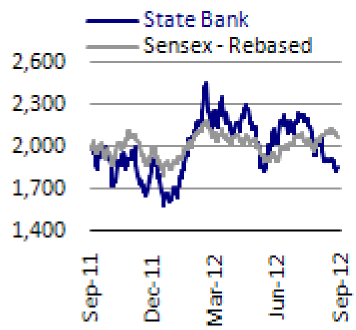
Valuation summary (INR b)

Y/E March	2012	2013E	2014E
NII	433	471	541
OP	316	357	417
NP	117	147	174
Cons EPS (INR)	229	276	329
Cons. P/E (x)	7.7	6.4	5.3
BV (INR)	1,215	1,384	1,583
Cons.BV (INR)	1,541	1,766	2,035
Cons. P/BV (x)	1.1	1.0	0.9
Cons P/ABV (x)	1.3	1.3	1.1
RoE (%)	16.0	16.9	17.4
RoA (%)	0.9	1.0	1.0

Shareholding pattern (%)

As on	Jun-12	Mar-12	Jun-11
Promoter	61.6	61.6	59.4
Dom. Inst	17.3	17.1	17.4
Foreign	11.2	11.4	13.9
Others	10.0	9.9	9.3

Stock performance (1 year)



CMP: INR1,849 | TP: INR2,350 | Buy

Focus on retail liabilities and core revenue

Net stress loans remain flat in FY12

- **Core strategy of focusing on NIMs yielded superior results; NIMs improved 50bp+ YoY**
- **Net stress loan were flat for SBIN (v/s increase of 175-450bp for peers), led by improvement in PCR and strategy of recognizing stress upfront.**
- **On the consolidated book, growth in power and metals was high; however, proportion of some other sensitive segments, viz, Textiles, Commercial real estate moderated.**
- **Core Tier I ratio improved led by better capital management and equity infusion.**

NIM at the core of strategy; fee income growth moderates: In FY12, SBIN reworked its strategy to enhance revenue share through NIM rather than fees. NIM improved from 3.3% to ~3.8% despite higher net slippages. Core income as a percentage of average assets improved 40bp YoY to 4.3% even as fee income growth moderated to just 4%.

Superior liability franchise: Over past five years, wherein most state-owned banks have seen deterioration in their CASA ratio, SBIN has been able to maintain it above 40% and seen impressive growth in spite of its size. Even though SA growth moderated to 12% in FY12, traction in opening of new SA accounts continued with bank adding 22.7m accounts in FY12. This would help bank to improve its SA growth going forward.

Recognizing stress upfront; conservative restructuring policy: Gross and net slippages rose to 3.3% (2.9% in FY11) and 2%(1.6% in FY11) respectively, leading to asset quality concerns. However, in our view, addition of stress on balance sheet should be seen in the context of restructuring (SBIN restructured 1% of overall loans in FY12) and NPA provisions (PCR improved to 68% v/s 65% in FY11). As a result, SBIN's overall net stress loans (NNPA + outstanding standard restructured loans) was largely flat in FY12 v/s increase of 175-450bp for peers.

Exposure to sensitive sectors increases marginally: Overall exposure to sensitive segments increased to 26.9% v/s 25.7%. This was led by strong growth in Metals and Power including electricity (37-38% YoY) and Gems & jewelry (+40% YoY on a lower base). However exposure to Textiles (-6% YoY) and Commercial real estate (-10% YoY) declined, containing the overall rise in risky assets.

Core Tier I improves significantly: Core Tier I improved from 7.4% in FY11 to 9.3% in FY12 led by 1) equity infusion of INR79b, 2) strong internal accruals, and 3) better utilization of capital. Risk weighted assets grew just 2% YoY v/s balance sheet growth of 9% and loan growth of 15%.

Top pick in PSBs: While pressure on asset quality is likely to persist given the challenging macro environment, we believe SBIN is well placed to absorb the same on the back of (a) strong improvement in core operating performance, (b) one of the lowest net stress loans (NSLs) among PSBs, and (c) earnings CAGR of 22%+ over FY12-14. The stock trades at 46% discount to its LPA valuations. **Buy**.

Financials and Valuation

Income Statement (INR Million)

Y/E March	2009	2010	2011	2012	2013E	2014E
Interest Income	637,884	709,939	813,944	1,065,215	1,204,033	1,375,776
Interest Expense	429,153	473,225	488,680	632,304	733,252	834,975
Net Interest Income	**208,731**	**236,714**	**325,264**	**432,911**	**470,781**	**540,801**
Change (%)	22.6	13.4	37.4	33.1	8.7	14.9
Non Interest Income	126,908	149,682	158,246	143,514	175,713	200,494
Net Income	**335,639**	**386,396**	**483,510**	**576,425**	**646,494**	**741,295**
Change (%)	30.5	15.1	25.1	19.2	12.2	14.7
Operating Expenses	156,487	203,187	230,154	260,690	289,091	324,559
Pre Provision Profits	**179,152**	**183,209**	**253,356**	**315,735**	**357,404**	**416,737**
Change (%)	36.7	2.3	38.3	24.6	13.2	16.6
Provisions (excl tax)	37,346	43,948	103,813	130,902	132,625	151,835
PBT	**141,806**	**139,261**	**149,542**	**184,833**	**224,778**	**264,901**
Tax	50,594	47,600	66,897	67,760	77,549	91,391
Tax Rate (%)	35.7	34.2	44.7	36.7	34.5	34.5
PAT	**91,212**	**91,661**	**82,645**	**117,073**	**147,230**	**173,510**
Change (%)	35.5	0.5	-9.8	41.7	25.8	17.9
Consolidated PAT post MI	**109,553**	**117,338**	**106,850**	**153,431**	**184,982**	**220,999**
Change (%)	22.3	7.1	-8.9	43.6	20.6	19.5

*Core PPP is (NII+Fee income-Opex)

Balance Sheet (INR Million)

Y/E March	2009	2010	2011	2012	2013E	2014E
Equity Share Capital	6,349	6,349	6,350	6,710	6,710	6,710
Reserves & Surplus	573,128	653,143	643,510	832,802	946,295	1,079,558
Net Worth	**579,477**	**659,492**	**649,860**	**839,512**	**953,006**	**1,086,268**
Deposits	**7,420,731**	**8,041,162**	**9,339,328**	**10,436,474**	**12,523,768**	**15,028,522**
Change (%)	38.1	8.4	16.1	11.7	20.0	20.0
of which CASA Dep	**3,089,778**	**3,800,397**	**4,615,214**	**4,676,066**	**5,328,251**	**6,073,341**
Change (%)	22.4	23.0	21.4	1.3	13.9	14.0
Borrowings	840,579	1,030,116	1,195,690	1,270,056	1,425,780	1,613,185
Other Liabilities & Prov.	803,533	803,367	1,052,484	809,151	930,946	1,118,170
Total Liabilities	**9,644,321**	**10,534,137**	**12,237,362**	**13,355,192**	**15,833,500**	**18,846,145**
Current Assets	1,044,038	861,887	1,228,741	971,632	1,105,983	1,323,558
Investments	**2,759,540**	**2,957,852**	**2,956,006**	**3,121,976**	**3,621,492**	**4,200,931**
Change (%)	45.6	7.2	-0.1	5.6	16.0	16.0
Loans	**5,425,032**	**6,319,142**	**7,567,194**	**8,675,789**	**10,410,947**	**12,493,136**
Change (%)	30.2	16.5	19.8	14.7	20.0	20.0
Fixed Assets	38,378	44,129	47,642	54,665	57,722	63,693
Other Assets	377,333	351,128	437,778	531,130	637,356	764,827
Total Assets	**9,644,321**	**10,534,137**	**12,237,362**	**13,355,192**	**15,833,500**	**18,846,145**

Asset Quality (%)

GNPA (INR m)	157,140	195,349	253,263	396,765	630,553	838,604
NNPA (INR m)	96,774	108,702	123,469	158,189	269,528	345,153
GNPA Ratio	2.9	3.0	3.3	4.5	5.9	6.5
NNPA Ratio	1.8	1.7	1.6	1.8	2.6	2.8
PCR (Excl Tech. write off)	38.4	44.4	51.2	60.1	57.3	58.8
PCR (Incl Tech. Write off)	57.0	59.2	65.0	68.1	63.1	63.2

E: MOSL Estimates

Financials and Valuation

Ratios

Y/E March	2009	2010	2011	2012	2013E	2014E
Spreads Analysis (%)						
Avg. Yield-Earning Assets	**8.3**	**7.8**	**8.0**	**9.2**	**9.0**	**8.7**
Avg. Yield on loans	9.7	8.6	8.6	10.0	9.7	9.3
Avg. Yield on Investments	6.7	6.2	6.7	7.9	7.9	7.4
Avg. Cost-Int. Bear. Liab.	**6.0**	**5.5**	**5.0**	**5.7**	**5.7**	**5.5**
Avg. Cost of Deposits	5.9	5.6	5.0	5.6	5.7	5.4
Interest Spread	**2.3**	**2.3**	**3.0**	**3.6**	**3.3**	**3.2**
Net Interest Margin	**2.7**	**2.6**	**3.2**	**3.8**	**3.5**	**3.4**
Profitability Ratios (%)						
RoE	17.1	14.9	12.7	16.0	16.9	17.4
RoA	1.1	0.9	0.7	0.9	1.0	1.0
Consolidated RoE	16.7	15.5	13.5	17.2	17.3	18.0
Consolidated RoA	1.0	0.9	0.7	0.9	1.0	1.0
Efficiency Ratios (%)						
Cost/Income*	52.0	57.2	49.5	45.3	46.2	45.2
Empl. Cost/Op. Exps.	62.3	62.8	66.1	65.1	64.9	64.5
Busi. per Empl. (INR m)	58.1	67.0	73.9	82.2	96.4	113.1
NP per Empl. (INR lac)	4.7	4.5	3.9	5.3	6.8	7.8

*ex treasury and recoveries

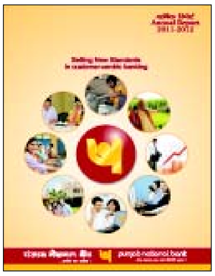
Valuation

Book Value (INR)	913	1,029	1,014	1,215	1,384	1,583
BV Growth (%)	17.5	12.7	-1.4	19.8	13.9	14.3
Price-BV (x)				**1.5**	**1.3**	**1.2**
Consol BV (INR)	1,140	1,297	1,303	1,541	1,766	2,035
Conol BV Growth (%)	17.6	13.8	0.4	18.3	14.6	15.3
Price-Consol BV (x)				**1.1**	**1.0**	**0.9**
Adjusted BV (INR)	806	909	878	1,050	1,103	1,222
Price-ABV (x)				**1.8**	**1.7**	**1.5**
Adjusted Consol BV	1,022	1,145	1,129	1,321	1,403	1,585
Price-Consol ABV (x)				**1.3**	**1.3**	**1.1**
EPS (INR)	143.7	144.4	130.2	174.5	219.4	258.6
EPS Growth (%)	34.8	0.5	-9.9	34.0	25.8	17.9
Price-Earnings (x)				**10.6**	**8.4**	**7.2**
Consol EPS (INR)	172.6	184.8	168.3	228.6	275.7	329.3
Con. EPS Growth (%)	21.6	7.1	-9.0	35.9	20.6	19.5
Price-Consol EPS (x)				**7.7**	**6.4**	**5.3**
Dividend Per Share (INR)	29.0	30.0	30.0	35.0	43.0	51.3
Dividend Yield (%)				**1.9**	**2.3**	**2.8**

E: MOSL Estimates

Punjab National Bank

BSE SENSEX	S&P CNX
17,384	5,254



Refer to our AR update - 19 June 2012

Bloomberg	PNB IN
Equity Shares (m)	339.2
52-Week Range (INR)	1,097/659
1,6,12 Rel.Perf.(%)	-9/-28/-32
M.Cap. (INR b)	230.0
M.Cap. (USD b)	4.1

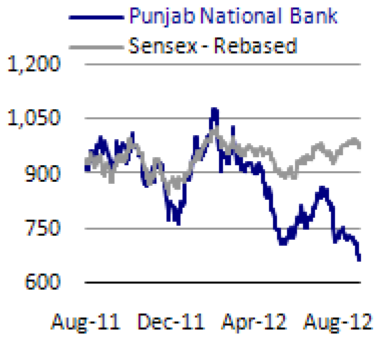
Valuation summary (INR b)

Y/E March	2012	2013E	2014E
NII	134.1	154.3	180.9
OP	106.1	119.4	139.0
NP	48.8	52.0	62.7
EPS (INR)	144.0	153.4	184.9
EPS Gr. (%)	2.9	6.5	20.5
P/E (x)	4.6	4.4	3.6
BV/Sh. (INR)	777	905	1,058
P/BV (x)	0.9	0.7	0.6
RoE (%)	21.1	18.2	18.8
RoA (%)	1.2	1.1	1.1

Shareholding pattern (%)

As on	Jun-12	Mar-12	Jun-11
Promoter	56.1	56.1	58.0
Dom. Inst	21.0	21.8	17.4
Foreign	17.3	17.4	19.3
Others	5.6	4.7	5.3

Stock performance (1 year)



CMP: INR669	TP: INR950	Buy

Asset quality deteriorates; asset-liability well-matched

Highlights of FY12 Annual Report

- **Though growth in overall industrial exposure moderated, funded exposure growth remained high in the Power and NBFC segments. These two segments constituted over 25% of incremental funded exposure and 15% of overall funded exposure.**
- **Net slippages increased from 1.5% in FY11 to 1.8%. Outstanding restructured loans increased to 7.9% (of which 3% relate to state government entities) v/s 4.2% in FY11.**
- **Discounting factor for pension liability increased to 8.8% and is in line with 8.7-9% for peers. However, salary escalation assumption at 5% is higher than peers' 4%.**
- **Healthy core operating performance would enable better absorption of credit cost. Expect RoA of 1.1% and RoE of ~19% in FY13/14. Maintain Buy.**

Strong growth in exposure to Power and NBFC segments: The funded exposure details of Punjab National Bank (PNB) reveal highly concentrated growth in the Power (including electricity - up 28%) and NBFC (up 93%) segments. Growth in other industrial segments moderated/declined, and these two segments constituted over 25% of incremental funded exposure and 15% of overall funded exposure. Since FY08, funded exposure to the Power segment has increased from 4.2% to 9.8%. Funded exposure to Textiles (down 32%) and Gems & Jewelry (down 45%) declined, while exposure to Commercial Real Estate was stable. Exposure to 100%+ risk weight assets (RWAs) increased to 11% v/s 6.9% in FY11. Growth in overall RWAs was 17% v/s 21%+ growth in loans and balance sheet.

Net slippages at 1.8%; higher restructuring led by state government entities: Net slippage increased significantly from 1.5% in FY11 to 1.8%, led by sharp rise in slippages in 2HFY12, though recoveries and upgradations improved (INR22b v/s INR15.8b in FY11). Restructuring relating to some large-ticket government entity accounts led to sharp increase in outstanding restructured loans to 7.9% (of which 3% relate to state government entities) v/s 4.2% in FY11. During the year, PNB restructured loans of INR21b under the CDR (corporate debt restructuring) mechanism, on which it took a sacrifice of INR2.9b (14% of loans restructured under CDR). GNPAs increased across segments, with sharp increases in Services (3.5% v/s 1.4% in FY11) and Agriculture (5% v/s 3.6% in FY11).

Other highlights: (1) Employee benefit assumption largely in line with peers, with discount rate at 8.8% v/s 8.7-9% for peers and salary escalation at 5% v/s 4% for peers, (2) Concentration of top-20 deposit accounts up from 4.9% to 7.9%; domestic CASA ratio at 36% (v/s 39% in FY11), (3) Well-matched asset-liability – 39% of deposits and 35% of loans maturing within a year, (4) Proportion of secured loans up from 87.6% in FY11 to 91.6%, (5) Core tier-I ratio stood at 8.6%.

Trades at 0.6x FY14E BV, with RoE of ~19%; maintain Buy: In the current macroeconomic environment, higher upgradations and recoveries would be the key for asset quality. Healthy core operating performance would enable better absorption of higher credit cost. We expect RoA to remain healthy at ~1.1% and RoE at ~19% in FY13/14, led by superior margins and fee income growth.

Financials and Valuation

Income Statement (INR Million)

Y/E March	2009	2010	2011	2012	2013E	2014E
Interest Income	191,272	214,221	269,865	364,280	440,018	496,969
Interest Expense	122,953	129,440	151,791	230,131	285,701	316,096
Net Interest Income	**68,319**	**84,781**	**118,073**	**134,149**	**154,317**	**180,872**
Change (%)	23.4	24.1	39.3	13.6	15.0	17.2
Non Interest Income	30,647	36,101	36,126	42,026	47,834	54,153
Net Income	**98,966**	**120,882**	**154,199**	**176,175**	**202,151**	**235,025**
Change (%)	31.4	22.1	27.6	14.3	14.7	16.3
Operating Expenses	42,062	47,619	63,642	70,028	82,765	96,047
Pre Provision Profits	**56,904**	**73,263**	**90,557**	**106,148**	**119,386**	**138,978**
Change (%)	42.0	28.7	23.6	17.2	12.5	16.4
Provisions (excl tax)	9,235	14,215	24,920	35,773	43,435	46,065
PBT	**47,669**	**59,048**	**65,637**	**70,375**	**75,952**	**92,913**
Tax	16,760	19,994	21,302	21,528	23,925	30,197
Tax Rate (%)	35.2	33.9	32.5	30.6	31.5	32.5
PAT	**30,909**	**39,054**	**44,335**	**48,847**	**52,027**	**62,716**
Change (%)	50.9	26.4	13.5	10.2	6.5	20.5
Equity Dividend (Incl tax)	**7,378**	**8,101**	**8,101**	**8,672**	**9,131**	**11,007**
Core PPP*	**46,957**	**62,069**	**82,432**	**97,614**	**109,568**	**128,394**
Change (%)	38.7	32.2	32.8	18.4	12.2	20.5

*Core PPP is (NII+Fee income-Opex)

Balance Sheet (INR Million)

Y/E March	2009	2010	2011	2012	2013E	2014E
Equity Share Capital	3,153	3,153	3,168	3,392	3,392	3,392
Reserves & Surplus	143,383	174,076	211,917	274,779	317,675	369,385
Net Worth	**146,536**	**177,229**	**215,086**	**278,171**	**321,067**	**372,776**
Deposits	**2,097,605**	**2,493,298**	**3,128,987**	**3,795,887**	**4,403,229**	**5,217,827**
Change (%)	26.0	18.9	25.5	21.3	16.0	18.5
of which CASA Dep	**814,599**	**1,018,500**	**1,203,250**	**1,341,293**	**1,461,186**	**1,665,416**
Change (%)	13.8	25.0	18.1	11.5	8.9	14.0
Borrowings	124,597	192,624	315,897	372,643	412,754	458,731
Other Liabilities & Prov.	100,448	103,177	123,283	135,239	165,962	201,831
Total Liabilities	**2,469,186**	**2,966,328**	**3,783,252**	**4,581,940**	**5,303,012**	**6,251,166**
Current Assets	214,131	234,736	296,912	288,280	327,911	388,544
Investments	**633,852**	**777,245**	**951,623**	**1,226,295**	**1,348,924**	**1,517,540**
Change (%)	17.4	22.6	22.4	28.9	10.0	12.5
Loans	**1,547,030**	**1,866,012**	**2,421,067**	**2,937,748**	**3,466,542**	**4,159,851**
Change (%)	29.5	20.6	29.7	21.3	18.0	20.0
Fixed Assets	23,971	25,135	31,056	31,689	32,328	32,462
Other Assets	50,202	63,201	82,594	97,929	127,307	152,769
Total Assets	**2,469,186**	**2,966,328**	**3,783,252**	**4,581,940**	**5,303,012**	**6,251,166**

Asset Quality (%)

GNPA (INR m)	25,069	32,144	43,794	87,196	142,193	201,031
NNPA (INR m)	2,639	9,817	20,386	44,542	65,527	88,734
GNPA Ratio	1.58	1.67	1.77	2.93	4.01	4.71
NNPA Ratio	0.17	0.53	0.84	1.52	1.89	2.13
PCR (Excl Tech. write off)	89.4	69.0	53.0	48.0	53.9	55.9
PCR (Incl Tech. Write off)		81.2	73.2	62.7	62.5	62.0

E: MOSL Estimates

Financials and Valuation

Ratios

Y/E March	2009	2010	2011	2012	2013E	2014E
Spreads Analysis (%)						
Avg. Yield-Earning Assets	9.6	8.7	8.8	9.5	9.6	9.3
Avg. Yield on loans	10.6	9.8	9.8	10.6	10.7	10.2
Avg. Yield on Investments	7.3	6.5	6.5	7.1	7.3	7.3
Avg. Cost-Int. Bear. Liab.	**6.1**	**5.3**	**5.0**	**6.0**	**6.4**	**6.0**
Avg. Cost of Deposits	6.1	5.2	4.9	6.2	6.5	6.1
Interest Spread	**3.4**	**3.4**	**3.9**	**3.4**	**3.2**	**3.2**
Net Interest Margin	**3.4**	**3.4**	**3.9**	**3.5**	**3.4**	**3.4**
Profitability Ratios (%)						
RoE	25.8	26.6	24.5	21.1	18.2	18.8
RoA	1.4	1.4	1.3	1.2	1.1	1.1
Int. Expense/Int.Income	64.3	60.4	56.2	63.2	64.9	63.6
Fee Income/Net Income	17.4	17.9	16.7	17.9	18.3	18.1
Non Int. Inc./Net Income	31.0	29.9	23.4	23.9	23.7	23.0
Efficiency Ratios (%)						
Cost/Income*	47.3	43.4	43.6	41.8	43.0	42.8
Empl. Cost/Op. Exps.	69.5	65.5	70.1	67.5	67.2	66.4
Busi. per Empl. (Rs m)	55.9	70.3	86.9	98.9	113.0	128.5
NP per Empl. (Rs lac)	5.3	6.9	7.8	7.9	8.1	9.3
*ex treasury						
Asset-Liability Profile (%)						
Loans/Deposit Ratio	73.8	74.8	77.4	77.4	78.7	79.7
CASA Ratio	38.8	40.8	38.5	35.3	33.2	31.9
Investment/Deposit Ratio	30.2	31.2	30.4	32.3	30.6	29.1
G-Sec/Investment Ratio	87.1	85.5	83.9	81.5	81.6	86.0
CAR	14.0	14.2	12.4	12.6	12.2	11.3
Tier 1	9.0	9.1	8.4	9.3	9.2	8.9

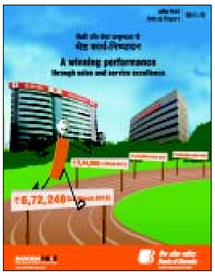
Valuation

Book Value (INR)	416.7	513.0	632.5	777.4	904.5	1,057.6
Change (%)	21.9	23.1	23.3	22.9	16.3	16.9
Price-BV (x)				**0.9**	**0.7**	**0.6**
Adjusted BV (INR)	411.3	492.7	590.7	692.0	778.9	887.5
Price-ABV (x)				**1.0**	**0.9**	**0.8**
EPS (INR)	98.0	123.9	139.9	144.0	153.4	184.9
Change (%)	50.9	26.4	13.0	2.9	6.5	20.5
Price-Earnings (x)				**4.6**	**4.4**	**3.6**
Dividend Per Share (INR)	20.0	22.0	22.0	22.0	23.0	27.7
Dividend Yield (%)				**3.3**	**3.4**	**4.1**

E: MOSL Estimates

Bank of Baroda

BSE SENSEX	S&P CNX
17,384	5,254



Refer to our AR update - 7 June 2012

Bloomberg	BOB IN
Equity Shares (m)	412.4
52-Week Range (INR)	881/610
1,6,12 Rel.Perf.(%)	-5/-23/-17
M.Cap. (INR b)	260.6
M.Cap. (USD b)	4.7

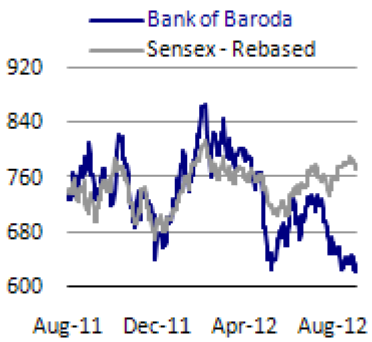
Valuation summary (INR b)

Y/E March	2012	2013E	2014E
NII	103.2	119.5	141.2
OP	85.8	97.9	118.4
NP	50.1	46.9	54.0
EPS (INR)	121.4	113.6	130.8
EPS Gr. (%)	12.4	-6.4	15.2
P/E (x)	5.2	5.5	4.8
BV (INR)	620.9	717.6	828.7
P/ BV (x)	1.0	0.9	0.8
ABV (INR)	596.6	684.0	782.6
P/ ABV (x)	1.1	0.9	0.8

Shareholding pattern (%)

As on	Jun-12	Mar-12	Jun-11
Promoter	54.3	54.3	57.0
Dom. Inst	19.7	20.5	16.3
Foreign	14.3	14.0	16.6
Others	11.6	11.2	10.1

Stock performance (1 year)



CMP: INR628 | TP: INR750 | Neutral

Diversified growth; retail, SME focus; high maturity mismatch

FY12 Annual Report highlights

- **Diversified growth across sectors, with the share of various segments remaining largely stable. Focused strategies on SME segment leading to continued strong growth.**
- **Asset quality has deteriorated, but remains better than peers. Healthy profitability has helped BOB to maintain provision coverage ratio (PCR) at 80%+.**
- **Discounting factor for pension liability calculation increased by 25bp, in line with hardening of interest rates. Significant build-up of foreign currency translation reserves (INR16.9/share) due to currency depreciation.**
- **Given the continued asset quality pressures and expected fall in return ratios, we maintain our Neutral rating.**

Diversified growth across industries; focused strategy for SME segment: Bank of Baroda's (BOB) fund based exposure details reveal diversified growth in line with overall domestic credit growth across industries. Fund based exposure to Iron and Steel (6.4%), Textiles (4.7%), Gems and Jewelry (0.5%) and Infrastructure (14%, down 120bp YoY) remains stable. Exposure to Power segment remained stable in absolute terms YoY at INR143b (7% of total exposure), of which INR68b is for transmission and distribution. Addition of 10 new SME loan factories and 8 specialized SME branches, and focused strategies have ensured continuance of strong growth momentum in SME loans (25%+ YoY).

Asset quality deteriorates, but better than peers: Net slippages have increased from 0.7% a year ago to 1.1% (highest since FY04). Large ticket government entity related restructuring led to sharp increase in restructured loans to 6.5% of loans v/s 4.2% a year ago. The outstanding restructured loans should also be viewed in the context of strong loan CAGR of 28% over FY10-12. In percentage terms, GNPAs have increased across segments (except Industry) in FY12.

Other highlights

- Led by significant rupee depreciation, BOB reported foreign currency translation reserve of INR6.97b (265bp of net worth), amounting to INR16.9/share. We have adjusted this while calculating the book value.
- Discount rate assumption for pension liability up to 8.75% v/s 8.5% in FY11.
- High maturity mismatch – 66% of deposits and 43% of loans maturing in FY13.
- Commercial Real Estate exposure declined to 2% of loans v/s 2.7% a year ago.
- Wholesale banking sanctions declined by 22% in FY12.
- Core tier-I ratio increased to 10.1% v/s 9.1% a year ago.

Return ratios may deteriorate; Neutral: BOB continues to deliver strong business growth and margins. However, fee income growth remains volatile. The bank's overall restructured loans are now in line with peers at 6.5% of loan book. Domestic restructured loans stand at ~7.5% of the loan book (5.2% excluding Air India and SEBs). While valuations are reasonable, they need to be seen in the context of expected deterioration in RoA/RoE in FY13/FY14. Maintain **Neutral**.

Financials and Valuation

Income Statement (INR Million)

Y/E March	2009	2010	2011	2012	2013E	2014E
Interest Income	150,916	166,983	218,859	296,737	357,787	406,673
Interest Expense	99,682	107,589	130,837	193,567	238,331	265,486
Net Interest Income	**51,234**	**59,395**	**88,023**	**103,170**	**119,456**	**141,187**
Change (%)	31.0	15.9	48.2	17.2	15.8	18.2
Non Interest Income	**27,577**	**28,064**	**28,092**	**34,223**	**38,658**	**45,088**
Net Income	**78,811**	**87,458**	**116,114**	**137,393**	**158,114**	**186,275**
Change (%)	32.2	11.0	32.8	18.3	15.1	17.8
Operating Expenses	35,761	38,106	46,298	51,587	60,232	67,912
Pre Provision Profits	**43,050**	**49,353**	**69,816**	**85,806**	**97,882**	**118,362**
Change (%)	47.0	14.6	41.5	22.9	14.1	20.9
Provisions (excl tax)	9,621	6,972	13,313	25,548	35,411	46,423
PBT	**33,429**	**42,381**	**56,503**	**60,258**	**62,471**	**71,940**
Tax	11,157	11,797	14,086	10,188	15,618	17,985
Tax Rate (%)	33.4	27.8	24.9	16.9	25.0	25.0
PAT	**22,272**	**30,583**	**42,417**	**50,070**	**46,853**	**53,955**
Change (%)	55.1	37.3	38.7	18.0	-6.4	15.2
Equity Dividend (Incl tax)	3,836	6,393	7,534	8,123	7,675	8,838
Core PPP*	**31,418**	**39,118**	**62,653**	**76,457**	**87,532**	**105,513**
Change (%)	54.5	24.5	60.2	22.0	14.5	20.5

*Core PPP is (NII+Fee income-Opex)

Balance Sheet (INR Million)

Y/E March	2009	2010	2011	2012	2013E	2014E
Equity Share Capital	3,655	3,655	3,928	4,124	4,124	4,124
Reserves & Surplus	125,142	147,409	206,003	270,645	309,823	354,940
Net Worth	**128,797**	**151,064**	**209,931**	**274,769**	**313,947**	**359,064**
Deposits	**1,923,970**	**2,412,619**	**3,054,395**	**3,848,711**	**4,464,505**	**5,402,051**
Change (%)	26.5	25.4	26.6	26.0	16.0	21.0
of which CASA Dep	**569,385**	**714,675**	**875,887**	**1,035,239**	**1,190,525**	**1,352,460**
Change (%)	19.9	25.5	22.6	18.2	15.0	13.6
Borrowings	127,679	133,501	223,079	235,731	271,073	295,079
Other Liabilities & Prov.	86,277	85,983	96,567	114,005	156,633	181,045
Total Liabilities	**2,266,722**	**2,783,167**	**3,583,972**	**4,473,215**	**5,206,158**	**6,237,239**
Current Assets	240,871	354,671	499,341	641,685	690,496	823,081
Investments	**524,459**	**611,824**	**713,966**	**832,094**	**998,513**	**1,198,215**
Change (%)	19.5	16.7	16.7	16.5	20.0	20.0
Loans	**1,432,514**	**1,750,353**	**2,286,764**	**2,873,773**	**3,391,052**	**4,069,262**
Change (%)	34.3	22.2	30.6	25.7	18.0	20.0
Fixed Assets	23,097	22,848	22,997	23,415	23,849	23,984
Other Assets	45,781	43,472	60,904	102,247	102,247	122,697
Total Assets	**2,266,722**	**2,783,167**	**3,583,972**	**4,473,215**	**5,206,158**	**6,237,239**

Asset Quality (%)

GNPA (INR m)	18,429	24,007	31,525	44,648	68,714	103,489
NNPA (INR m)	4,490	6,023	7,909	15,436	21,330	29,223
GNPA Ratio	1.27	1.36	1.36	1.54	2.00	2.50
NNPA Ratio	0.31	0.34	0.35	0.54	0.63	0.72
PCR (Excl Tech. write off)	74.5	74.9	74.9	65.4	69.0	71.8
PCR (Incl Tech. Write off)		87.0	85.0	80.1	79.4	78.9

E: MOSL Estimates

Financials and Valuation

Ratios

Y/E March	2009	2010	2011	2012	2013E	2014E
Spreads Analysis (%)						
Avg. Yield-Earning Assets	**8.1**	**7.1**	**7.4**	**8.0**	**7.7**	**7.3**
Avg. Yield on loans	9.0	7.9	8.0	8.7	8.4	7.9
Avg. Yield on Investments	6.9	6.4	7.2	8.0	7.8	7.6
Avg. Cost-Int. Bear. Liab.	5.4	4.7	4.5	5.3	5.0	4.7
Avg. Cost of Deposits	5.3	4.6	4.3	5.1	4.9	4.6
Interest Spread	2.7	2.5	2.9	2.7	2.6	2.6
Net Interest Margin	2.7	2.5	3.0	2.8	2.7	2.7
Profitability Ratios (%)						
RoE	20.8	23.8	25.2	22.1	18.2	17.5
RoA	1.1	1.2	1.3	1.2	1.0	1.0
Int. Expense/Int.Income	66.1	64.4	59.8	65.2	64.9	63.6
Fee Income/Net Income	14.7	18.2	15.4	15.2	15.6	15.5
Non Int. Inc./Net Income	35.0	32.1	24.2	24.9	24.7	24.4
Efficiency Ratios (%)						
Cost/Income*	51.2	47.5	41.5	39.3	38.8	38.4
Empl. Cost/Op. Exps.	65.7	61.7	63.0	57.9	56.4	54.8
Busi. per Empl. (Rs m)	80.7	96.5	118.7	145.5	171.1	194.3
NP per Empl. (Rs lac)	0.6	0.8	1.1	1.2	1.2	1.3
* ex treasury						
Asset-Liability Profile (%)						
Loans/Deposit Ratio	74.5	72.5	74.9	74.7	76.0	75.3
CASA Ratio	29.6	29.6	28.7	26.9	26.7	25.3
Investment/Deposit Ratio	27.3	25.4	23.4	21.6	21.4	21.3
G-Sec/Investment Ratio	78.4	82.1	84.0	83.3	84.9	85.6
CAR	14.1	14.4	14.5	14.7	13.9	12.6
Tier 1	8.5	9.2	10.0	10.8	10.5	9.8
Valuation						
Book Value (INR)	317.5	383.5	501.6	620.9	717.6	828.7
Change (%)	19.1	20.8	30.8	23.8	15.6	15.5
Price-BV (x)				**1.0**	**0.9**	**0.8**
Adjusted BV (INR)	309.5	372.8	488.5	596.6	684.0	782.6
Price-ABV (x)				**1.1**	**0.9**	**0.8**
EPS (INR)	60.9	83.7	108.0	121.4	113.6	130.8
Change (%)	55.1	37.3	29.1	12.4	-6.4	15.2
Price-Earnings (x)				**5.2**	**5.5**	**4.8**
Dividend Per Share (INR)	9.0	15.0	16.5	17.0	15.9	18.3
Dividend Yield (%)				**2.7**	**2.5**	**2.9**

E: MOSL Estimates

Bank of India

BSE SENSEX	S&P CNX
17,384	5,254

Refer to our AR update - 22 June 2012

Bloomberg	BOI IN
Equity Shares (m)	574.5
52-Week Range (INR)	408/261
1,6,12 Rel.Perf.(%)	-15/-30/-22
M.Cap. (INR b)	147.7
M.Cap. (USD b)	2.7

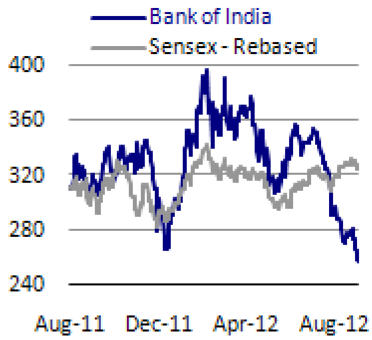
Valuation summary (INR b)

Y/E March	2012	2013E	2014E
NII	83.1	96.2	115.0
OP	66.9	76.3	93.2
NP	26.8	31.4	36.8
EPS (INR)	46.6	54.6	64.0
EPS Gr. (%)	2.5	17.2	17.2
BV/Sh. (INR)	326.5	371.6	424.3
P/E (x)	5.5	4.7	4.0
P/ BV (x)	0.8	0.7	0.6
ABV (INR)	285.2	306.8	344.2
P/ ABV (x)	0.9	0.8	0.7
RoE (%)	15.6	15.7	16.1
RoA (%)	0.7	0.8	0.7

Shareholding pattern (%)

As on	Jun-12	Mar-12	Jun-11
Promoter	54.3	54.3	57.0
Dom. Inst	19.7	20.5	16.3
Foreign	14.3	14.0	16.6
Others	11.6	11.2	10.1

Stock performance (1 year)



CMP: INR256 | **TP: INR340** | **Neutral**

Asset quality volatile; focus on de-bulking balance sheet

Highlights of FY12 Annual Report

- **Net slippages increased significantly from INR9.8b in FY11 to INR37b in FY12. However, aggressive write-offs (INR24b v/s INR8.1b) helped to contain GNPA increase.**
- **In FY13, Bank of India (BOI) intends to continue focusing on de-bulking its balance sheet. It expects the Retail and SME segments to drive loan growth.**
- **Infrastructure and Electricity constituted 22% of its incremental funded exposure, and is at 11% of overall exposure.**
- **Foreign currency translation reserve stood at INR9.6b (INR17/share).**
- **Concerns over macro-economic environment and higher proportion of stress loans compared to peers will keep valuations under check. Maintain Neutral.**

Weak asset quality performance: Slippages increased significantly from INR29b in FY11 to INR54b (slippage ratio of 2.5%). Though recoveries improved (INR12.1b v/s INR8.9b), upgradations faltered (INR4.9b v/s INR10.4b). Net slippages increased from INR9.8b to INR37b (1.7% of opening loans), translating into higher credit cost (100bp v/s 65bp in FY11) and lower margins. In FY12, Bank of India (BOI) restructured loans of INR91.8b (3.7% of overall loans), of which INR15.6b pertain to the Corporate Debt Restructuring (CDR) scheme. However, Air India (INR22b), is likely to be restructured in 1QFY13.

Focus to be on de-bulking of balance sheet: In FY12, overall loans grew 17% to INR2.5t. Domestic loans grew 8% to INR1.76t, driven by Agriculture (+33%) and Retail (+15%). The Large Corporate and SME segment grew 7%. The management intends to focus more on the SME and Retail segments in FY13, and pare the share of loans to the Large Corporate segment gradually from 47% in FY12 to 42%.

Strong growth in exposure to Power and Infrastructure: Overall funded exposure grew 16% in FY12. This was partially driven by strong growth in Electricity (+53%; 4.5% of overall exposure) and Infrastructure (+30%; 6.7% of overall exposure). Together, these two segments constituted 22% of incremental exposure. Growth in Gems & Jewelry was strong at 45%+, but the segment accounted for just 2% of overall exposure. Exposure to Commercial Real Estate declined by 10%.

Other highlights: (1) Foreign currency translation reserve of INR9.6b (INR17/share); we have adjusted for this in our BV calculation, (2) Overall CAR at 11.95%, with tier-I ratio at 8.6% (core tier-I at 7.7%), (3) Discounting factor for pension liability up 50bp to 9% – one of the highest among peers.

Asset quality risk persists; maintain Neutral: Volatile asset quality performance has been resulting in high volatility in margins and credit cost. Further, standard restructured loans stood at 5.8% of overall loans and the bank is yet to restructure some high value accounts like Air India (exposure of INR22b). Restructured loans are likely to reach 7-8% of overall loans by the end of 1HFY13. Concerns over macro-economic environment and higher proportion of stress loans compared to peers will keep valuations under check. Maintain **Neutral.**

Financials and Valuation

Income Statement (INR Million)

Y/E March	2009	2010	2011	2012	2013E	2014E
Interest Income	163,474	178,779	217,517	284,807	329,800	377,945
Interest Expense	108,485	121,220	139,410	201,672	233,650	262,966
Net Interest Income	**54,989**	**57,559**	**78,107**	**83,134**	**96,150**	**114,980**
Change (%)	30.0	4.7	35.7	6.4	15.7	19.6
Non Interest Income	30,519	26,166	26,418	33,212	37,404	42,352
Net Income	**85,508**	**83,725**	**104,525**	**116,346**	**133,555**	**157,331**
Change (%)	34.7	-2.1	24.8	11.3	14.8	17.8
Operating Expenses	30,940	36,678	50,682	49,407	57,234	64,097
Pre Provision Profits	**54,568**	**47,047**	**53,842**	**66,939**	**76,320**	**93,235**
Change (%)	47.4	-13.8	14.4	24.3	14.0	22.2
Provisions (excl tax)	12,920	22,109	18,888	31,164	31,482	39,148
PBT	**41,648**	**24,938**	**34,954**	**35,775**	**44,838**	**54,087**
Tax	11,571	7,528	10,067	9,000	13,451	17,308
Tax Rate (%)	27.8	30.2	28.8	25.2	30.0	32.0
PAT	**30,077**	**17,410**	**24,887**	**26,775**	**31,387**	**36,779**
Change (%)	49.7	-42.1	42.9	7.6	17.2	17.2
Equity Dividend (Incl tax)	**4,915**	**4,286**	**4,443**	**4,660**	**5,508**	**5,517**
Core PPP*	**44,565**	**38,974**	**48,377**	**57,900**	**65,232**	**81,146**
Change (%)	46.1	-12.5	24.1	19.7	12.7	24.4

*Core PPP is (NII+Fee income-Opex)

Balance Sheet (INR Million)

Y/E March	2009	2010	2011	2012	2013E	2014E
Equity Share Capital	5,259	5,259	5,472	5,745	5,745	5,745
Reserves & Surplus	129,690	137,041	167,435	203,873	229,651	259,876
Net Worth	**134,949**	**142,300**	**172,907**	**209,618**	**235,396**	**265,621**
Deposits	**1,897,085**	**2,297,619**	**2,988,858**	**3,182,160**	**3,754,949**	**4,430,840**
Change (%)	26.5	21.1	30.1	6.5	18.0	18.0
of which CASA Dep	**507,752**	**639,631**	**759,676**	**848,056**	**940,592**	**1,072,251**
Change (%)	10.6	26.0	18.8	11.6	10.9	14.0
Borrowings	156,732	223,999	220,214	321,142	371,640	431,236
Other Liabilities & Prov.	66,252	85,746	129,747	132,434	159,915	191,504
Total Liabilities	**2,255,018**	**2,749,665**	**3,511,725**	**3,845,355**	**4,521,900**	**5,319,201**
Current Assets	217,613	312,301	373,100	347,113	425,834	523,352
Investments	**526,072**	**670,802**	**858,724**	**867,536**	**997,666**	**1,147,316**
Change (%)	25.8	27.5	28.0	1.0	15.0	15.0
Loans	**1,429,094**	**1,684,907**	**2,130,962**	**2,488,333**	**2,936,233**	**3,464,755**
Change (%)	25.9	17.9	26.5	16.8	18.0	18.0
Fixed Assets	25,319	23,518	24,807	27,716	30,311	32,143
Other Assets	56,920	58,136	124,132	114,657	131,855	151,634
Total Assets	**2,255,018**	**2,749,665**	**3,511,725**	**3,845,355**	**4,521,900**	**5,319,201**

Asset quality (%)

GNPA (INR M)	24,709	48,827	48,116	58,940	92,740	123,324
NNPA (INR M)	6,282	22,075	19,450	36,564	57,242	70,821
GNPA Ratio	1.71	2.86	2.23	2.35	3.12	3.51
NNPA Ratio	0.44	1.31	0.91	1.47	1.95	2.04
PCR (Excl Tech. write off)	74.6	54.8	59.6	38.0	38.3	42.6
PCR (Incl Tech. Write off)		65.5	72.2	64.2	59.4	58.7

E: MOSL Estimates

Financials and Valuation

Ratios

Y/E March	2009	2010	2011	2012	2013E	2014E
Spreads Analysis (%)						
Avg. Yield-Earning Assets	8.8	7.8	7.7	8.5	8.6	8.4
Avg. Yield on loans	9.8	8.4	8.1	8.8	8.8	8.6
Avg. Yield on Investments	7.1	7.5	6.8	8.3	8.4	8.4
Avg. Cost-Int. Bear. Liab.	5.9	5.3	4.9	6.0	6.1	5.9
Avg. Cost of Deposits	5.8	5.2	4.6	5.8	5.8	5.5
Interest Spread	2.9	2.5	2.8	2.5	2.4	2.5
Net Interest Margin	3.0	2.5	2.8	2.5	2.5	2.5
Profitability Ratios (%)						
RoE	29.2	14.4	17.8	15.6	15.7	16.1
RoA	1.5	0.7	0.8	0.7	0.8	0.7
Int. Expense/Int.Income	66.4	67.8	64.1	70.8	70.8	69.6
Fee Income/Net Income	24.0	21.6	20.0	20.8	19.7	19.2
Non Int. Inc./Net Income	35.7	31.3	25.3	28.5	28.0	26.9
Efficiency Ratios (%)						
Cost/Income*	41.0	48.5	51.2	46.0	46.7	44.1
Empl. Cost/Op. Exps.	62.6	62.6	68.6	61.8	61.9	60.9
Busi. per Empl. (INR m)	74.2	92.1	114.4	121.4	131.7	147.5
NP per Empl. (INR lac)	7.5	4.4	6.3	6.0	6.7	7.4
* ex treasury and Recoveries						
Asset-Liability Profile (%)						
Loans/Deposit Ratio	75.3	73.3	71.3	78.2	78.2	78.2
CASA Ratio	26.8	27.8	25.4	26.7	25.0	24.2
Investment/Deposit Ratio	27.7	29.2	28.7	27.3	26.6	25.9
G-Sec/Investment Ratio	82.1	85.5	78.7	82.6	79.3	81.4
CAR	13.0	12.9	12.2	12.0	10.9	10.0
Tier 1	8.9	8.5	8.3	8.6	8.1	7.6

Valuation

Book Value (INR)	224.1	236.8	283.4	326.5	371.6	424.3
Change (%)	33.5	5.7	19.7	15.2	13.8	14.2
Price-BV (x)				**0.8**	**0.7**	**0.6**
Adjusted BV (INR)	216.3	209.6	260.3	285.2	306.8	344.2
Price-ABV (x)				**0.9**	**0.8**	**0.7**
EPS (INR)	57.2	33.1	45.5	46.6	54.6	64.0
Change (%)	49.7	-42.1	37.4	2.5	17.2	17.2
Price-Earnings (x)				**5.5**	**4.7**	**4.0**
Dividend Per Share (INR)	8.0	7.0	7.0	7.0	8.2	9.6
Dividend Yield (%)				**2.7**	**3.2**	**3.7**

E: MOSL Estimates

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