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Price / Book

(x)	FY13E	FY14E
Axis	1.88	1.64
HDFCB	4.30	3.65
ICICI	1.99	1.78
HDFC	4.08	3.52
IDFC	1.84	1.64
Kotak	3.02	2.66
IndusInd	3.18	2.68
Yes	2.57	2.11
PNB	0.96	0.82
BOI	0.82	0.72
BOB	1.03	0.90
SBI	1.23	1.07
LIC housing	2.00	1.71
Shriram	1.99	1.69
MMFS	2.50	2.09
Federal	1.28	1.14
ING	1.58	1.39
J&K	1.21	1.03
SIB	1.08	0.94

Q2FY13 performance continued to remain a story of contrasting halves with private banks/NBFCs surprising and PSUs disappointing, especially on asset quality. Despite undemanding valuations and easing rate cycle, we prefer ICICI/Axis as beta plays as PSU bank managements continue to sound cautious on asset quality. Yes Bank and MMFS are our top picks among mid-caps and we also like old generation private banks despite the run-up (J&K/ING/Federal).

- **All well for private banks, YES- Top pick:** Private banks reported beat on Q213 PAT driven by robust margins and better-than-expected asset quality, especially corporate banks. NIMs have held up or improved for most banks with ICICI, Yes, ING surprising on margins. Corporate asset quality has also held up well despite banks deciding to recognise Deccan and provides comfort on corporate underwriting. Core fee income performance was mixed with Axis/Yes/IIB surprising and ICICI/ING/Federal disappointing. Old generation private banks reported strong overall performance excl. fees and we continue to like J&K/Federal/ING and maintain cautious view on SIB.
- **PSU banks - Q2 performance does not inspire confidence; prefer Axis/ICICI still:** PSUs largely disappointed on asset quality (excl. Union) and that impacted operating metrics as well. NIM performance was impacted by interest reversals and core fee income was also muted. We had upgraded some PSUs from 'Sell' to 'Accumulate' rating in Q1FY13 but muted asset quality outlook from PSU management and large restructuring pipeline restricts from taking a more favorable view despite undemanding valuations and prefer ICICI/Axis still as beta plays though risk-reward is less attractive now.
- **NBFCs well placed but valuation challenges in a few; MMFS top pick:** NBFCs reported inline Q2 with stable asset quality and with easing rate cycle, we believe, margins will likely improve. NBFCs have got re-rated over the last 4-5 months and with valuations having inched up, we have downgraded IDFC/ HDFC to 'Accumulate' (in Q2FY13), but we still like **MMFS** as we see further upsides to profitability due to improving margins and stable asset quality. Shriram's valuations are reasonable but we remain marginally cautious on the CV cycle.
- **Yes Bank - Delivering on re-rating catalysts:** (1) Operating performance is improving as fee income remains steady and margins have started to inch up as wholesale rates ease and Yes remains one of the best plays on easing rates (2) Low credit costs despite provision on Deccan provides significant comfort on their corporate underwriting (3) Valuations are still reasonable at 2.1x FY14 book (w/o dilution) - Even with a dilution, ROEs will remain +19% and would make valuations more attractive - 1.85x FY14 book (**details on page 2**).
- **MMFS - Momentum sustaining; valuations reasonable:** (1) MMFS continues to deliver on growth and CY13 being a pre-election year, Congress will not let the rural-impetus to slow (2) With a large fixed rate book, NIMs will improve over the next 2-3 qtrs (3) Management commentary remains sanguine on asset quality and even feedback from CRISIL on Mahindra's tractor pools suggest robust credit outcomes (4) ROEs despite the dilution will remain +20% and post-dilution vals at 1.9x FY14 book is very reasonable (**details on page 3**).

Yes Bank – Delivering on re-rating catalysts

- NIM outlook positive:** Yes Bank's margins have inched up in Q2FY13 to 2.8% (10bps QoQ) after stagnating at ~2.7% for the last 5-6 quarters. Being largely wholesale funded, Yes Bank has started to gain from easing rates (CD rates down 70-80bps and AAA yields down 50bps in last 3mnts) and we believe margins to continue to gain over the next 2-3 quarters. Loan book will reprice early as ~90% of Yes Bank's book is either floating in nature or with maturity of <12 months. However, a large investment book built over last 6-7 months is largely fixed in nature and will prevent asset yields.
- Underlying liability and fee income momentum strong:** (1) Yes Bank's momentum on SA accretion has remained the strongest of banks which increased SA rates - Higher SA rate offer has led to significant increase in ticket size (2x since SA de-reg). Though interest rate sensitivity will remain high for Yes's SA franchise, the management has guided to keeping SA rates relatively high in the medium term. (2) Fee income momentum also continues to remain strong despite moderating B/S growth and is driven by all round performance rather than deal related corporate fees/treasury.
- Asset quality comfortable despite some exposure to stress accounts:** Q2 highlights Yes Bank's superior credit underwriting as this bank was the only bank to recover some loans from Deccan due to superior collateral structures. Credit costs have remained at just ~30bps despite Yes providing Rs0.6bn for their Deccan exposure. Yes has exposure to some stressed accounts like Suzlon (Rs2bn) but we believe higher credit costs assumptions factor these stress.
- Valuations reasonable; ROEs high even on diluted basis:** Yes generates ~22-23% ROEs which is among the highest in the industry and valuations on a PE basis is extremely reasonable for a bank with negligible thermal power exposure. An impending dilution will be ~15% book accretive leading to favorable valuations of 1.88 on FY14 book without denting ROEs <18-19%.

Exhibit 1: Dilution book accretive by 18% FY13 book, FY13 ROE still at >~20%

	Post dilution		Pre Dilution		Change	
	FY13	FY14	FY13	FY14	FY13	FY14
Networth	75,691	88,976	57,460	69,998	32%	27%
PAT	12,632	15,369	12,139	14,397	4%	7%
BPS	191.3	224.9	162.8	198.3	18%	13%
EPS	31.9	38.8	34.4	40.8	-7%	-5%
ROA	1.69%	1.74%	1.61%	1.61%	0.07%	0.13%
ROE	20.6%	18.7%	23.3%	22.6%	-2.7%	-3.9%
Current Price	422					
P/B	2.21	1.88	2.59	2.13		
P/E	13.2	10.9	12.3	10.3		

Source: Company Data, PL Research

Mahindra Finance - Momentum sustaining; vals reasonable

- Growth going strong; FY14 could be another strong year:** MMFS has been reporting better-than-expected growth of ~35% YoY driven by all segments excl. tractors as Mahindra continues to add new OEMs and aid in their rural sales financing. We believe Congress despite tight fiscal situation will continue rural spending next year as it will be the pre-election year and thus, volumes are expected to remain strong in FY14 as well.
- Fixed rate book - Margins to inch up:** MMFS's margins have been inching down as funding costs increased over last 4-6 quarters as MMFS did not pass on the entire cost hike to consumers. With wholesale rates easing and a completely fixed rate book, we believe margins for MMFS will bounce back over the next 3-4 quarters.
- Operating leverage improving:** MMFS's cost-to-assets have come off as opex growth remains lower than B/S growth as against their earlier long-term guidance of 3.5% stable cost/assets, MMFS is currently at ~3.2-3.3% cost/assets and management has now guided for 3.0% stable cost/assets guidance, indicating that operating leverage has aided in lowering opex/assets.
- Asset quality stable; CRISIL feedback suggests limited stress on securitized pools:** Credit costs have held up at relatively lower levels and management guidance continues to remain sanguine but there is limited primary data to corroborate management guidance. However, our feedback from CRISIL (securitization team) suggests that asset quality performance of MMFS's tractor pools have been satisfactory and there is no unusual build up in overdue buckets.
- ROEs relatively high even after assuming a dilution:** Sensitivity to Rs8bn dilution indicates a post dilution ROE of ~20% which remains best in class and valuations on diluted book at 1.9x FY14 book is undemanding in our view.

Exhibit 2: Post dilution ROE at ~20% remains commendable

	Post dilution		Pre Dilution		Change	
	FY13	FY14	FY13	FY14	FY13	FY14
Networth	44,752	52,116	35,440	42,400	26%	23%
PAT	8,327	9,988	8,044	9,440	4%	6%
BPS	396.1	461.3	345.1	412.9	15%	12%
EPS	73.7	88.4	78.3	91.9	-6%	-4%
ROA	3.59%	3.43%	3.46%	3.24%	0.12%	0.19%
ROE	22.4%	20.6%	24.8%	24.3%	-2.3%	-3.6%
Current Price	896					
P/B	2.26	1.94	2.60	2.17		
P/E	12.2	10.1	11.4	9.7		

Source: Company Data, PL Research

Exhibit 3: Private banks +NBFCs have surprised positively in 2Q13 and PSU banks have largely disappointed

	NII	q/q	y/y	PPOP	q/q	y/y	PAT	q/q	y/y	Loans	q/q	y/y
HDFC Bank	37,317	7.1%	26.7%	25,713	-0.4%	21.0%	15,600	10.1%	30.1%	2,316	8.6%	22.9%
ICICI Bank	33,712	5.6%	34.5%	31,933	8.3%	35.7%	19,561	7.8%	30.1%	2,751	3.9%	17.6%
Axis Bank	23,269	6.7%	15.9%	21,783	10.9%	22.7%	11,235	-2.6%	22.1%	1,721	0.6%	22.9%
HDFC	15,804	8.0%	21.0%	14,540	6.9%	16.2%	11,511	14.9%	18.6%	1,546	4.3%	21.8%
PNB	38,124	3.2%	10.4%	26,959	-5.1%	6.6%	12,286	-1.4%	2.0%	2,947	0.1%	18.4%
BOI	21,960	7.5%	15.3%	18,541	10.8%	19.5%	3,010	-66.1%	-38.7%	2,561	-3.0%	18.1%
BOB	28,623	2.3%	11.5%	23,826	5.7%	11.3%	13,014	13.0%	10.4%	2,922	2.2%	22.2%
Kotak	7,581	5.1%	25.2%	4,822	7.5%	26.9%	2,804	-0.7%	7.8%	454	7.4%	21.7%
IDFC	6,560	4.3%	31.7%	7,260	10.7%	-3.8%	4,760	25.3%	-9.0%	534	6.4%	35.8%
IndusInd	5,097	5.3%	21.6%	4,198	3.9%	26.1%	2,503	5.9%	29.6%	394	5.9%	30.8%
Yes	5,242	11.0%	35.9%	4,847	5.5%	25.6%	3,061	5.5%	30.2%	420	9.0%	22.9%
SIB	2,977	0.3%	15.1%	1,996	-3.8%	20.0%	972	-21.0%	2.3%	282	2.9%	22.3%
ING	3,688	7.4%	21.5%	2,276	4.7%	20.2%	1,502	15.4%	30.2%	304	3.9%	20.2%
J&K	5,527	3.2%	27.3%	4,227	1.8%	35.1%	2,695	9.5%	35.0%	343	3.2%	21.4%
Federal	5,059	2.9%	6.6%	3,496	0.9%	-3.2%	2,151	13.0%	12.5%	363	-4.6%	8.0%
LIC Housing	3,535	0.9%	5.8%	3,394	-2.4%	1.2%	2,431	6.7%	147.0%	691	5.3%	23.2%
MMFSL	5,259	7.9%	34.8%	3,626	11.6%	42.8%	1,876	16.5%	38.4%	238	9.3%	34.3%
Shriram Tran.	4,087	51.3%	16.0%	6,806	11.8%	3.8%	3,376	4.9%	12.7%	441	5.2%	15.8%
Total Banks (ex SBI)	210,594	5.2%	19.3%	169,795	4.1%	19.4%	87,589	-1.4%	16.4%	17,325	2.1%	20.1%

Source: Company Data, PL Research

Exhibit 4: Margins-Private players gain, margins for PSU's gets impacted by one-offs from interest rates reversal

	2Q12	1Q13	2Q13	y/y	q/q
HDFC Bank	4.20%	4.35%	4.41%	0.20%	0.06%
ICICI Bank	2.61%	3.01%	3.00%	0.39%	-0.01%
Axis Bank	3.78%	3.37%	3.46%	-0.32%	0.09%
HDFC	3.69%	3.70%	3.80%	0.11%	0.10%
PNB	3.95%	3.60%	3.50%	-0.45%	-0.10%
BOI	2.44%	2.27%	2.42%	-0.02%	0.15%
BOB	3.07%	2.73%	2.71%	-0.36%	-0.02%
Kotak	4.63%	4.65%	4.63%	-0.01%	-0.02%
IDFC	4.17%	4.33%	4.20%	0.03%	-0.13%
IndusInd	3.56%	3.41%	3.46%	-0.10%	0.05%
Yes	2.90%	2.80%	2.90%	0.00%	0.10%
SIB	3.02%	3.04%	2.95%	-0.07%	-0.09%
ING	3.28%	3.19%	3.39%	0.10%	0.20%
J&K	3.62%	3.88%	3.89%	0.28%	0.01%
Federal	3.77%	3.42%	3.58%	-0.19%	0.16%
LIC Housing	2.45%	2.18%	2.10%	-0.35%	-0.08%
MMFSL	9.93%	9.10%	10.13%	0.20%	1.03%
Shriram Tran.	8.89%	7.82%	8.07%	-0.82%	0.26%

Source: Company Data, PL Research

Exhibit 5: Fee income mixed as Axis/Yes/IIB surprised and ICICI/ING/Federal disappointed

Other Income (Ex-Treasury)	2Q12	3Q12	4Q12	1Q13	2Q13
HDFC Bank	19.8%	29.6%	25.4%	26.0%	19.6%
ICICI Bank	5.7%	13.3%	12.7%	14.0%	2.8%
Axis Bank	30.4%	29.5%	3.5%	8.0%	14.8%
PNB	22.9%	12.6%	2.3%	4.1%	1.3%
BOI	25.3%	32.6%	28.3%	34.5%	15.1%
BOB	26.8%	29.2%	6.6%	21.6%	-1.1%
Kotak (standalone)	52.5%	41.3%	12.3%	5.5%	18.0%
IndusInd	47.6%	35.3%	60.8%	48.0%	34.0%
Yes	63.4%	30.8%	42.6%	74.3%	29.3%
ING	22.4%	5.8%	17.8%	18.4%	3.2%
J&K	11.4%	8.9%	18.2%	28.7%	3.3%
Federal	-20.8%	7.8%	-7.4%	-2.8%	0.7%

Source: Company Data, PL Research

Exhibit 6: Credit Costs- Private player surprised as against disappointment from PSUs

	2Q12	1Q13	2Q13	y/y	q/q
HDFC Bank	0.78%	0.91%	0.51%	-0.27%	-0.41%
ICICI Bank	0.55%	0.70%	0.74%	0.19%	0.03%
Axis Bank	1.16%	0.60%	1.18%	0.03%	0.58%
PNB	1.14%	1.40%	1.46%	0.32%	0.05%
BOI	2.13%	0.72%	2.42%	0.30%	1.71%
BOB	0.81%	1.25%	0.90%	0.09%	-0.35%
Kotak	-0.03%	0.32%	0.62%	0.65%	0.30%
IDFC	0.64%	0.82%	0.22%	-0.42%	-0.60%
IndusInd	0.62%	0.57%	0.50%	-0.13%	-0.08%
Yes	0.44%	0.31%	0.30%	-0.14%	-0.01%
SIB	0.41%	0.37%	0.80%	0.38%	0.42%
ING	0.28%	0.36%	0.08%	-0.19%	-0.28%
J&K	0.32%	0.61%	0.38%	0.07%	-0.22%
Federal	0.86%	0.66%	0.34%	-0.52%	-0.32%
MMFSL	1.18%	1.57%	1.41%	0.23%	-0.16%
Shriram Tran.	2.48%	1.93%	1.91%	-0.57%	-0.02%

Source: Company Data, PL Research

Exhibit 7: Valuation Summary

	Price	Mcap (\$ mn)	Rating	PT	Upside	P/B		P/E		ROE	
						FY13	FY14	FY13	FY14	FY13	FY14
Axis	1,214	9,334	BUY	1,325	9%	1.88	1.64	10.7	9.2	18.9%	19.3%
HDFCB	635	27,043	Accumulate	660	4%	4.30	3.65	22.6	18.9	20.3%	20.7%
ICICI	1,078	22,321	BUY	1,200	11%	1.99	1.78	13.0	11.7	12.8%	13.0%
HDFC	770	21,375	Accumulate	800	4%	4.08	3.52	17.0	14.5	22.4%	21.5%
IDFC	166	4,540	Accumulate	165	-1%	1.84	1.64	13.7	11.4	14.2%	15.1%
Kotak	626	8,381	Reduce	590	-6%	3.02	2.66	22.6	18.4	14.2%	15.3%
IndusInd	363	3,071	BUY	400	10%	3.18	2.68	17.0	13.7	20.3%	21.2%
Yes	419	2,685	BUY	480	15%	2.57	2.11	12.2	10.3	23.3%	22.6%
PNB	755	4,615	Accumulate	800	6%	0.96	0.82	5.1	4.4	17.7%	17.6%
BOI	279	2,889	ACCUMULATE	310	11%	0.82	0.72	5.6	4.4	13.8%	15.5%
BOB	745	5,254	BUY	850	14%	1.03	0.90	6.3	5.5	17.1%	17.1%
SBI	2,145	25,932	Accumulate	2,100	-2%	1.23	1.07	7.2	6.4	16.6%	16.3%
LIC housing	252	2,287	BUY	275	9%	2.00	1.71	11.9	9.1	17.4%	19.8%
Shriram	628	2,562	Accumulate	650	3%	1.99	1.69	10.5	9.2	20.7%	19.8%
MMFS	887	1,663	BUY	1,100	24%	2.50	2.09	11.3	9.6	24.5%	23.8%
Federal	480	1,478	BUY	550	15%	1.28	1.14	9.6	8.4	14.1%	14.6%
ING	462	1,262	BUY	515	12%	1.58	1.39	12.4	9.9	13.6%	15.0%
J&K	1,216	1,062	BUY	1,400	15%	1.21	1.03	5.8	5.4	22.7%	20.7%
SIB	23	555	Accumulate	25	8%	1.08	0.94	6.7	5.5	18.9%	18.3%

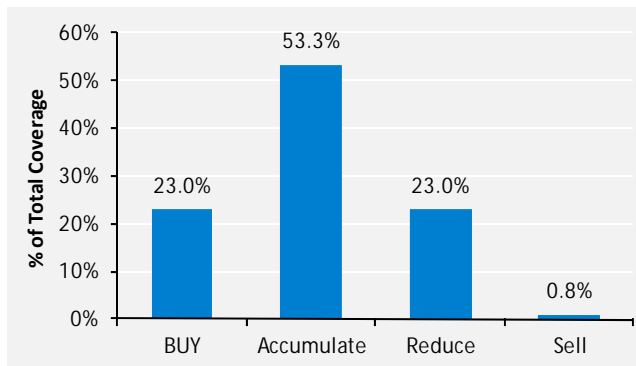
Source: PL Research

Exhibit 8: All PSU ex Union have disappointed

PNB	1Q12	2Q12	3Q12	4Q12	1Q13	2Q13
Opening	43,780	48,920	51,480	64,410	87,200	99,890
Addition	11,770	9,930	16,830	28,190	27,690	45,440
Cash Recovery	4,180	5,130	3,340	4,100	5,700	3,840
Upgradation	2,340	2,060	250	650	8,960	1,080
Deduction	6,630	7,370	3,900	5,410	15,000	5,080
Closing	48,920	51,480	64,410	87,190	99,890	140,250
Annualized Slippages %	1.9%	1.6%	2.6%	4.1%	3.8%	6.2%
Reductions (ex write offs %)	1.1%	1.2%	0.6%	0.7%	2.0%	0.7%
Net Slippages (%)	0.9%	0.4%	2.1%	3.4%	1.8%	5.5%
BOI						
Opening	48,116	59,881	67,699	64,266	59,076	67,636
Additions	16,837	28,217	5,196	3,770	17,470	27,334
Recovery	2,305	2,980	2,715	4,050	3,620	2,871
Upgradation	1,268	1,458	1,274	870	3,220	1,072
Write off	1,499	15,961	2,640	4,040	2,070	1,097
Ending	59,881	67,699	64,266	59,076	67,636	89,795
Annualized Slippages %	3.1%	5.2%	0.9%	0.6%	2.7%	4.2%
Reductions (ex write offs %)	0.7%	0.8%	0.7%	0.8%	1.1%	0.6%
Net Slippages (%)	2.5%	4.4%	0.2%	-0.2%	1.7%	3.6%
BOB						
Opening	31,527	34,256	34,023	38,952	44,649	53,196
Additions	5,848	5,825	9,527	13,233	12,567	14,715
Recovery	1,255	1,454	1,389	1,708	1,249	1,740
Upgradations	715	421	1,656	564	1,342	1,039
Write offs	1,149	4,184	1,552	5,265	1,955	5,783
Closing NPAs	34,256	34,023	38,952	44,649	53,196	59,348
Annualized Slippages %	1.01%	0.99%	1.52%	1.93%	1.75%	2.04%
Reductions (ex write offs %)	0.34%	0.32%	0.49%	0.33%	0.36%	0.38%
Net Slippages (%)	0.67%	0.67%	1.04%	1.60%	1.39%	1.65%
Union						
Opening	36230	36230	50140	50870	54500	65410
Additions	7660	18210	5660	6070	16310	7920
Upgrades/Recoveries	3040	2320	2040	2550	4610	6270
Write offs	3400	1980	2890	1110	790	2360
Closing	37450	50140	50870	54500	65410	64700
Annualized Slippages %	2.14%	4.88%	1.55%	1.60%	3.91%	1.80%
Reductions (ex write offs %)	1.80%	1.15%	1.35%	0.96%	1.29%	1.96%
Net Slippages (%)	0.34%	3.73%	0.20%	0.64%	2.61%	-0.16%

Source: Company Data, PL Research

Rating Distribution of Research Coverage



PL's Recommendation Nomenclature

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

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