Indian Financials

Sector outlook

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India

Financial services

Management meeting notes

Banking Monthly

What's inside?

Takeaways: Management meeting and interviews

Our conversations with banks indicate that while investment activity remains subdued, corporate sentiments have improved at the margin. The key challenge is the slower deposit growth and pressure on Casa ratio. The pressure is much higher for the smaller PSU banks that have (1) significantly scaled down loan growth ambitions and (2) raised retail term deposit rates in order to increase the share of retail deposits. SBI's hike of retail term deposit rates surprised and as per management it is partly to limit the likely impact of tight liquidity around year-end. 3QFY13 results showed that asset quality pressures are also abating at the margin, though still relatively high; we understand that corporates are looking to deleverage through sale of assets, capital raising. Government will infuse Rs125bn in equity capital of PSU banks by Mar-13 (~5% addition to net worth for most PSU banks) and has allocated Rs140bn for FY14.

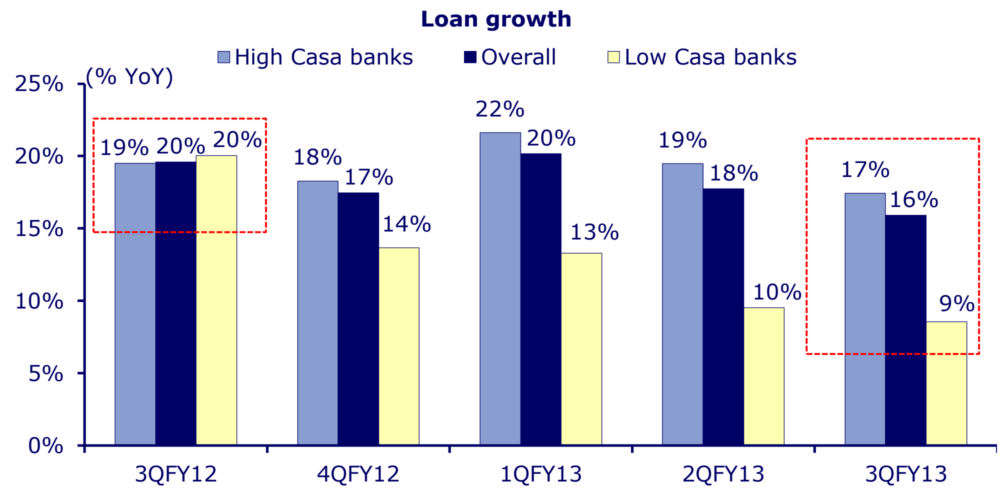
Sector round-up: Yield curve inverts near year-end; neutral budget

Union Budget's proposal for higher tax-sops for house loans in affordable segment will be positive for housing finance companies (HFCs), but the increase in corporate tax surcharge can impact banking sector's profit (and all corporates) by ~2% in FY14. Liquidity in the money market has eased in the past fortnight due to a combination of release of funds by government and RBI's open market operations. However, we expect it to tighten in the near term as corporates pay taxes and banks' loan disbursals rise. Yield curve on corporate bonds has moved-up (yields on short-term bonds have risen by 10-60bps in the past month) and yield curve has inverted partly reflecting year-end activity. RBI has finalised guidelines for new bank licenses- link to our note.

Update on insurance and mutual funds –Jan 2013

During Jan-13, annualised NBP of sector declined by 41% YoY led by a 53% YoY decline in premiums of LIC; private ones down 6%. YTD, sector's NBP has declined 15%, led by a 21% decline in LIC's premium. Among the private players, HDFC, Birla Sunlife, and Max Life reported healthy growth in NBP. During Jan-13, assets of mutual funds increased by 9% MOM mainly because of inflows in debt schemes. Outflows from equity schemes continued partly as investors redeemed after the recent rally.

Chart of the month: Widening divergence in loan growth



Source: Banks, CLSA Asia-Pacific Markets

Banking sector update

Bankex relative performance

Figure 1

While, banks underperformed Sensex last month...

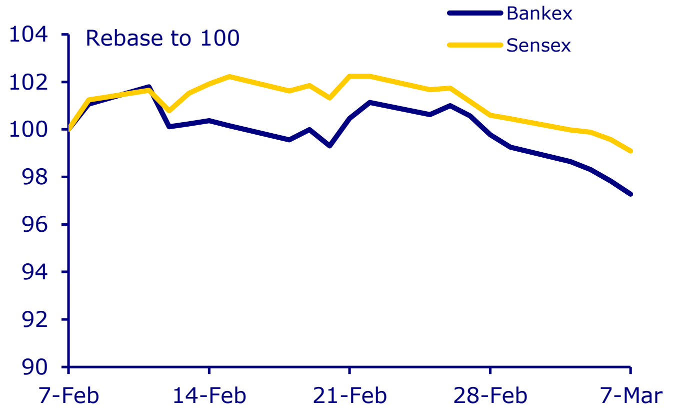
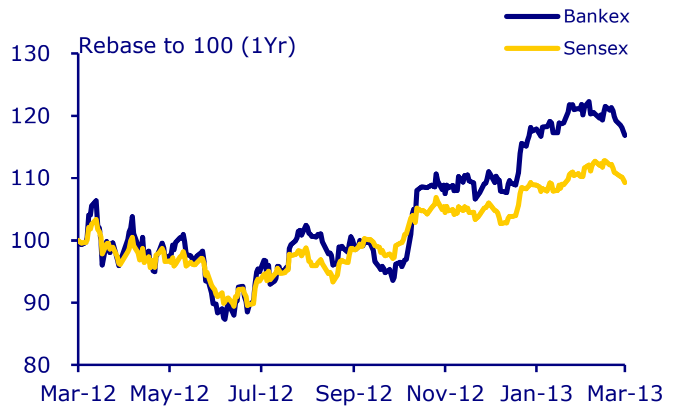


Figure 2

... they outperformed the Sensex over the past year



Source: Bloomberg, CLSA Asia-Pacific Markets

Regulatory and sector newsflow

RBI has released the final guidelines for issuing new bank licenses

The RBI has issued a revised draft on guidelines for restructuring of loans

- **RBI** has released the **final guidelines for issuing new bank licenses**.
- The **RBI** has issued a revised draft on **guidelines for restructuring of loans** that is largely in line with the one issues in July-12.
- **RBI has infused liquidity of Rs97bn into the banking system** on 1st March by buying four government securities through the open market operation (OMO) rout.
- The Central Statistical Organisation (CSO) has projected a **5% GDP growth for India** during FY13.
- **Government** has decided to **cancel the auction of government** bonds worth Rs120bn to be held this week and has lowered its FY13 borrowing by the same amount.

Moody's, has raised concerns on the continued rise in India's current account deficit

- Ratings Agency, **Moody's,** has raised concerns on the continued rise in India's current account deficit and external debt.
- Mr. T.S. Vijayan has been appointed as **Chairman of Irda** (insurance regulator). Mr.Vijayan has also served as the Chairman of Life Insurance Corporation previously.
- **Irda** has raised the limit on equity investments in a company by insurance firms from 10% earlier to 12-15% depending on the size of funds they control.

Company newsflows

Axis Bank has raised Rs55bn through a QIP issue

- **Axis Bank** has raised Rs55bn through a **QIP issue** that closed last month.
- **SBI** has indicated that **increase in its non-performing loans** is primarily due to pressures in **iron and steel and textile sectors**.

SBI is facing asset quality pressures in iron & steel and textile sectors

- **SBI** has fixed the issue price of **Rs2,313/share for the preferential allotment of equity to the government** to raise Rs30bn. At this price the bank will have to issue 13m shares which will lead to a dilution of 2%.
- **Bank of Baroda** plans to lower the share of wholesale advances from 45% to 40% to achieve better portfolio balance.

Moody's, has lowered SBI's baseline credit assessment by one notch

- Ratings agency, **Moody's**, has lowered **SBI's baseline credit assessment** by one notch to 'ba1' from 'ba3' on long-term scale. This may lead to increase in costs of borrowings for SBI in the international markets.

- **Yes Bank** plans to grow its micro, small and medium enterprise (MSME) portfolio by Rs5bn during 4QFY13.

OBC has raise short-term deposit rates by upto 2.25%

- **Oriental Bank of Commerce** has raised interest rates on term deposits of short maturities by up to 2.25% to 7.25%.
- **J&K Bank** aims to grow loans at 20% YoY in FY14 and increase the share of advances in its home state.

J&K Bank aims to grow loans at 20% YoY in FY14

- **Bank of India, Bank of Baroda, Canara Bank** and Union Bank of India have lowered their **Base Rate by 25bps** to 10.25%.

Interesting interviews

Micro-finance institutions will be relevant for the next 10-15 years

Dr. KC Chakrabarty (Dy. Governor RBI) (link)
Micro-finance institutions (MFI) will be relevant for the next 10-15 years because our banking system is inefficient. Our banking system is not customer-focused. They (banks) are employee-focused. If you (micro-finance institutions) are not exploitative, an interest rate of 26% is reasonable. About 80% of MFIs are able to lend at this rate. Those who are charging more than this are inefficient in their operations, and RBI's policy would be to wither them out of the system.

We have done significant work in upgrading our network

Pratip Chaudhuri (Chairman, SBI) (link)
FY14 is difficult to predict. But we have done significant work in upgrading our network. We have air-conditioned each and every branch. We have improved the ambience. Our rural branches were under staffed. So we have put adequate number of staff in the rural branches. We have improved the display, we have improved the experience. We have given multi-city cheques to all our customers. We have abolished minimum balance charges for savings bank account and we have got a very good scheme of an accident insurance for Rs0.4m for paying only Rs100 per year. All this is proving to be very attractive and very useful by the saving bank customers.

Our focus is more on secured retail business like housing and car loans

Chanda Kochhar (MD & CEO, ICICI Bank) (link)
Our focus is more on secured retail business like housing and car loans. While we will do some unsecured loans—credit cards and personal loans—we will do it primarily with existing customers. In the past, we were happy to go and get a new customer and do only a credit card and personal loan, but now we are saying that for an unsecured relationship, it works well only when you have much larger relationship with a customer. We are operating at between 8% and 10% market share in many of these businesses compared to the 30% or 33% previously. In that sense, we are clearly balancing market share with profitability. Even at 8% market share, if it is more profitable than 30%, we will do that.

In our plan, the first emphasis is profitability

Romesh Sobti (MD & CEO, IndusInd Bank) (link)
We want to associate with good brands. It's not just about money but the brand. For our clients, we give everything except gold loans. In our plan, the first emphasis is profitability. The scale is in the branch network, customer base and products. The second emphasis is the platform of customer engagement that we started to build 18 months ago. Engagement goes beyond customer service. So we are building this platform of responsive innovation. We are not yet the high-street brand and perhaps cannot be easily recalled. It will happen in, say, 3-4 years, when we reach 1,000 branches or so.

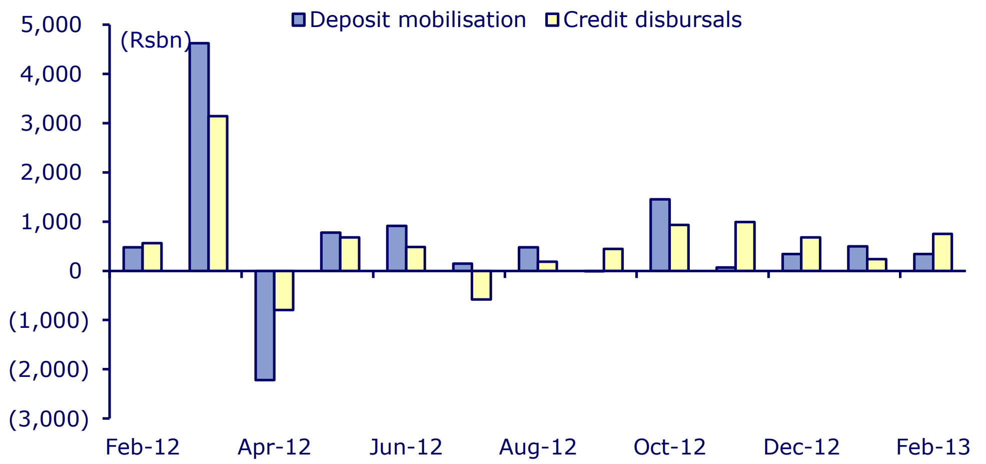
Please see other news and interviews in pages 22-28.

Banking trends

Deposit mobilisation declined MoM during February

Figure 3

During Jan-13, credit disbursals improved MoM

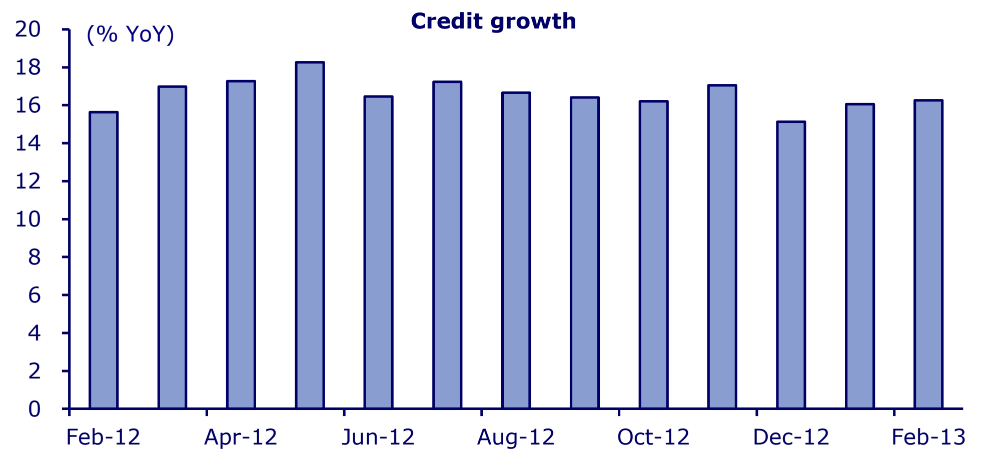


Note: As on 22nd Feb-13. Source: RBI, CLSA Asia-Pacific Markets

Growth led by working capital and NBFC segment

Figure 4

Credit growth was stable MoM at 16% YoY

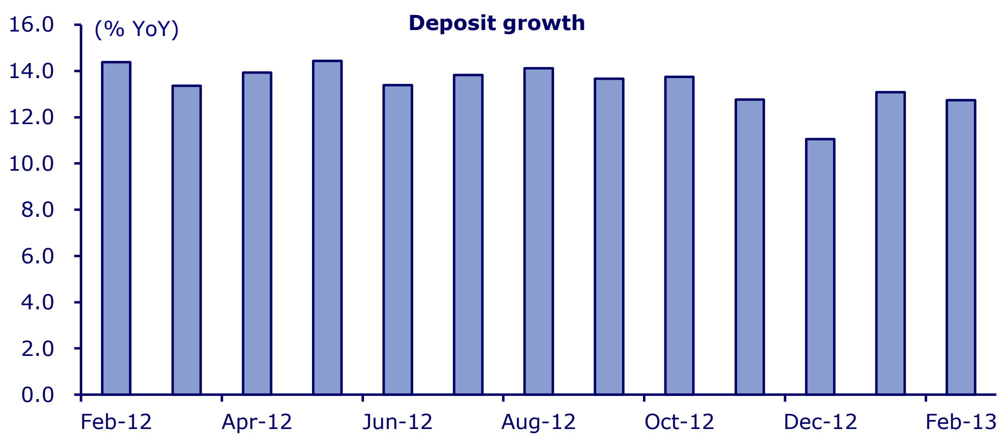


Note: As on 22nd Feb-13. Source: RBI, CLSA Asia Pacific Markets

Deposit growth remains below RBI's expectations

Figure 5

Deposit growth was slow at 13% YoY



Note: As on 22nd Feb-13. Source: RBI, CLSA Asia Pacific Markets

The monthly trends in credit deployment are not fully in line with fortnightly data

Credit to large industries saw faster growth

Infrastructure sector loan growth has declined from 39% in May-11

Loans to services sector grew at slower pace due to moderation in loans to NBFCs

Growth in personal loans was driven by auto loans

Figure6

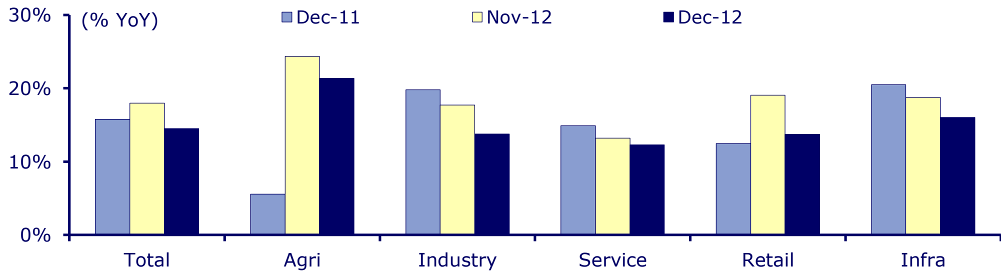
Key trends in Sector credit - Growth and share: Dec-12

	Amount Rsbn	Share % of loans	Growth % YoY
Gross Bank Credit	**47,288**	**100%**	**14%**
Food Credit	1,057	2%	25%
Non-food Credit	**46,231**	**98%**	**14%**
Agriculture & Allied Activities	**5,590**	**12%**	**21%**
Industry	**21,140**	**45%**	**14%**
By size			
Micro & Small	2,717	6%	10%
Medium	2,019	4%	2%
Large	16,405	35%	16%
By key sectors			
Textiles	1,654	3%	8%
Petroleum etc	698	1%	5%
Chemicals	1,246	3%	19%
Basic Metal & Metal Product	2,964	6%	20%
Infrastructure	6,925	15%	16%
Power	3,874	8%	23%
Telecommunications	930	2%	2%
Roads	1,265	3%	16%
Other Infrastructure	855	2%	5%
Services	**10,858**	**23%**	**12%**
Transport Operators	730	2%	9%
Trade	2,558	5%	20%
Commercial Real Estate	1,308	3%	13%
NBFCs	2,523	5%	19%
Other Services	2,619	6%	6%
Personal Loans	**8,643**	**18%**	**14%**
Housing	4,408	9%	13%
Loans on deposits	610	1%	14%
Loans against shares	33	0%	-36%
Credit Card	248	1%	27%
Education	542	1%	10%
Auto	1,107	2%	22%

Credit growth in Agri and retail sectors was higher in Dec-12

Figure 7

Sector-wise credit growth: Dec-12

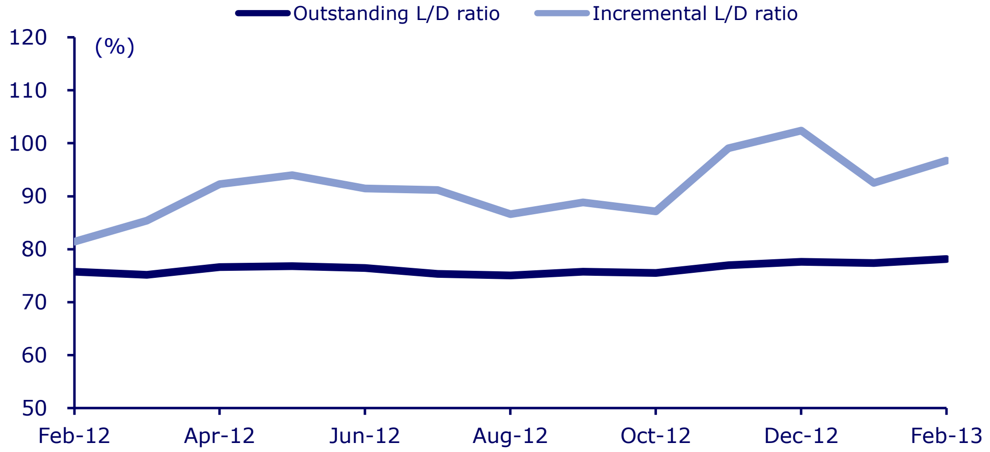


Source: RBI, CLSA Asia-Pacific Markets

Incremental LDR (over past 12 months) was at 97%

Figure 8

Loan deposit ratio at 78%

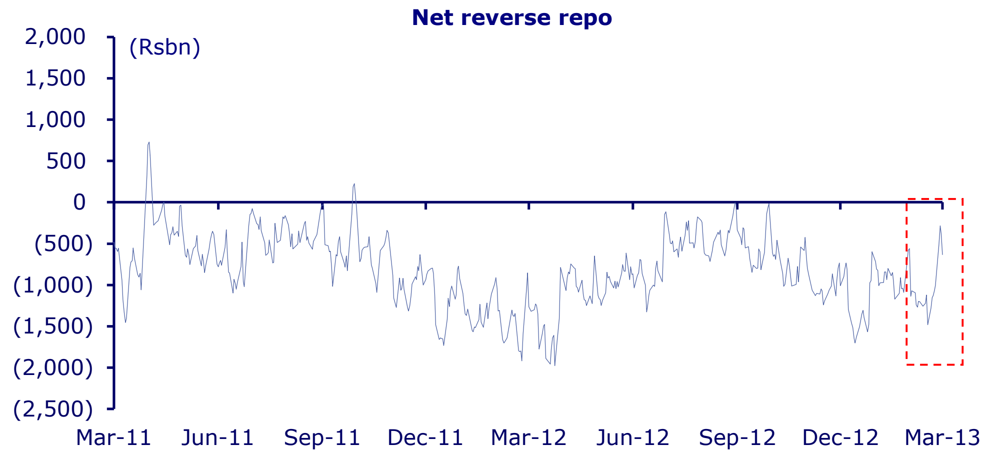


Note: As on 25th Jan-13. Source: RBI, CLSA Asia-Pacific Markets

RBI has infused nearly Rs200bn through open market operations this month

Figure 9

Liquidity conditions have eased recently



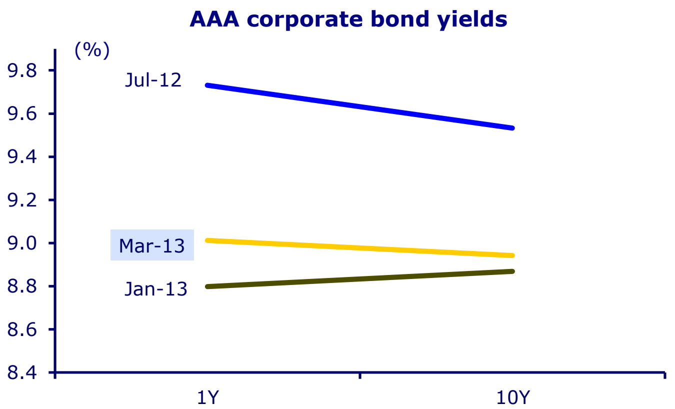
Source: Bloomberg, CLSA Asia-Pacific Markets

Figure 10

10-year yields have been stable during the month

Figure 11

Yield curve rose and inverted, partly a year-end issue



Source: Bloomberg, CLSA Asia-Pacific Markets

Banks have lowered rates in the past two months

Figure 12

Interest rate movement

(%)	Nov-12	Dec-12	Jan-13	Feb-13
Mortgage Rates				
HDFC	10.25-11	10.25-11	10.25-11	10.15-11
Base Rate	9.75-10.5	9.75-10.5	9.70-10.4	9.70-10.25
1year deposit rates	7.5-9.0	7.5-9.0	7.5-9.0	7.5-9.0
10yr Bond Yield	8.2	8.1	7.9	7.9
Call money rate (low-high)	7.9-8.2	7.0-9.0	7.8-8.0	7.5-7.8
INR/US$	54.6	54.9	53.2	54.6

Source: Bloomberg, RBI, Companies, CLSA Asia-Pacific Markets

Banks have raised deposit rates recently

Figure 13

Matrix of interest rates

	Base Rate	Retail deposit rates		
		<1Yr.	1-3Yr.	3-5Yr.
State Bank of India	9.70	6.50	8.75	8.75
ICICI Bank	9.75	7.25	9.00	8.75
Axis Bank	10.00	7.50	8.50	9.00
HDFC Bank	9.70	8.00	8.75	8.75
Bank of Baroda	10.25	7.60	9.00	9.15
Bank of India	10.25	8.00	9.25	9.00
Union Bank of India	10.25	8.50	9.00	9.00

Source: Banks, CLSA Asia-Pacific Markets

Macro trends

Inflation declined to 6.6% in Jan-13

M3 growth normalised to 13% in Jan-13

Figure 14

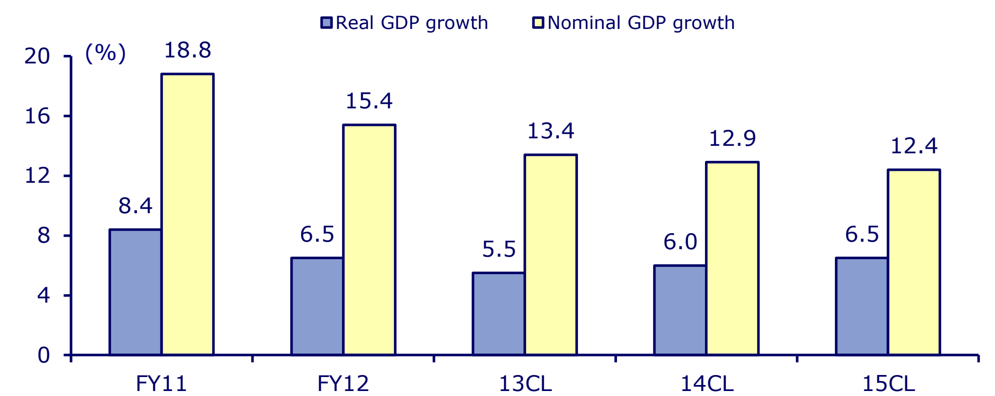
Particulars	Aug-12	Sep-12	Oct-12	Nov-12	Dec-12	Jan-13
WPI (%)	8.0	8.1	7.3	7.2	7.2	6.6
Forex Reserves (US$bn)	258	260	260	260	262	262
M3 growth (%)	14	13	13	13	11	13
Bank Credit (Rsbn)	47,218	48,094	48,598	49,591	50,272	50,512
Agg. Deposits (Rsbn)	63,210	64,110	64,358	64,428	64,772	65,271
IIP growth (%)	2.3	(0.7)	8.2	(0.1)	(0.6)	Na
- Basic (%)	3.4	2.8	4.1	1.7	2.6	Na
- Capital (%)	(3.4)	(12.9)	7.5	(7.7)	(0.9)	Na
- Intermediate (%)	2.7	1.7	9.4	(1.1)	(0.1)	Na
- Consumer (%)	3.3	(0.1)	13.2	1.0	(4.2)	Na
+ Consumer durables (%)	0.6	(1.7)	16.5	1.9	(8.2)	Na
+ Consumer non-durables (%)	5.8	1.6	10.1	0.3	(1.4)	Na

Source: Government of India, RBI, CLSA Asia-Pacific Markets

Our economist expects 6% real GDP growth in FY14

Figure 15

Trends in GDP growth and estimates



Source: Government of India, CLSA Asia-Pacific Markets

Industry interactions

HDFC Ltd (HDFC IN – Rs678 – BUY)

Loan growth

Demand in the mortgage segment remains healthy

- Demand in the mortgage segment remains healthy in spite of slower income growth and higher interest rates.
- This is partly a reflection of India's low mortgage credit penetration at 8% of GDP.
- In spite of increased competition in the sector, HDFC has been able to pose a healthy loan growth of 25% versus banking sector's growth of 13% in mortgage loans.
- The recent budget proposes to increase the tax deduction available to mortgage borrowers in affordable housing segment. This would reduce the effective cash cost and support demand for mortgage loans.

HDFC expects loan to grow by ~20%

- HDFC expects loan to grow by ~20% in the near-medium term with retail loan growth of ~25%.

Margins

Fall in cost of wholesale funds will support HDFC's ability to lower lending rates

- Spreads have been stable near 2.3% and the fall in cost of wholesale funds will support HDFC's ability to lower lending rates without losing spreads.
- On the borrowing-mix side, HDFC has increased the share of bonds (over bank loans) as the cost of bonds tends to be lower.

Asset quality

- Asset quality has been stable with gross NPL ratio of 0.8% of loans.

Capital Adequacy

With Tier I CAR of 15%, HDFC is well capitalised

- With Tier I CAR of 15%, and healthy ROEs, HDFC is well capitalised for growth for the next few years.

Others

- HDFC has reworked the terms of agency arrangement with HDFC Bank whereby the spread retained by HDFC, on loans sold to the bank, has been lowered by ~30bps. However, HDFC Ltd doesn't offer credit enhancements on such loans (in line with new regulations).
- HDFC Ltd may look to monetise stake in some of its investments and may divest stake in Life Insurance Company if FDI norms are relaxed.

HDFC Bank (HDFCB IN – Rs641 – BUY)

HDFC Bank's loan growth of 24% is being driven by retail segment

Loan growth

- HDFC Bank's loan growth of 24% is being driven by retail segment (30% growth) where CV/ CE and small business loans are growing fast; Gold loan is a new product and the size of the product has doubled in last one year.
- Corporate credit demand is being driven by working capital loans as activity on new projects has slowed significantly.

Loan pricing environment has been stable

Margins

- Loan pricing environment has been stable and that will help to keep margins stable in spite of increase in cost of deposits and some contraction in Casa ratio.

Deposit growth for the sector is a key challenge

Liability franchise

- Deposit growth for the sector is a key challenge and reflects the fall in savings ratio and share of financial savings.
- Casa deposit growth has moderated largely due to cyclical factor of high interest rates where Casa deposits get cannibalised into term deposits.
- Competition for savings deposits has intensified at the margin with smaller private banks offering higher interest rates.

Asset quality

- Overall asset quality for the bank has been stable, but there has been some pressure on asset quality of CV portfolio recently.

Network expansion

Nearly 70% of branch expansion has taken place in new centres.

- In the past few years, HDFC Bank has expanded branch network by reaching out to newer markets, especially in smaller towns.
- In past year, bank expanded the branch network by 26% and nearly 70% of these were in new centres.
- The branch expansion is helping the bank to sustain a healthy rate of loan growth in spite of increase in competition in retail loans.

Capital Adequacy

- With Tier I CAR of 11%, and healthy ROEs, bank is well capitalised for growth for the next few years.

Srei Infrastructure Finance (SREI IN – 35.9 – N-R)

Loans

Consolidated assets rose by 27% YoY

- During 3QFY13, SREI's consolidated assets rose by 27% YoY with SREI BNP Paribas (equipment financing arm) growing by 21% and SREI Infrastructure Finance (project finance arm) growing by 28%.
- The key areas of loans are power (especially for project finance business), road and mining projects.

Business

Disbursements have declined by 30%

- However, with the activity in the infrastructure sector slowing, the disbursements have declined by 30% across most lines of businesses.
- The slowdown is deeper in the large scale projects businesses, but the activity in smaller projects continues to be healthy.
- A considerable portion of SREI BNP Paribas' business is repeat business from existing clients and that helps to mitigate risks.

Asset quality

NPL levels have increased recently

- Asset quality risks persist and the gross NPL ratio in the equipment financing business has risen by 90bps YoY to 2.6% of loans.
- The NPLs in the project financing business have also risen by 0.1% of loans to 0.8%; NPL ratio is lower than equipment financing business due to exposure to larger/ captive projects and unseasoned loan book.

Funding mix

Funded with wholesale borrowings from banks

- The business is largely funded through wholesale borrowings from banks with a considerable part of bank loans being in the form of renewable working capital loans.

Capital adequacy

- The project finance business is well capitalised with Tier I CAR of ~15%, but the equipment financing business may need some capital (Tier I CAR of ~10%).

Others

Tenancy ratio of Viom Network is also holding up

- The tenancy ratio of Viom Network is also holding up well at 2.3x; key clients are Tata and Uninor.
- The company will look to apply for a banking license and leverage its relationships with SME borrowers and also its initiatives under Sahaj (e-governance, e-commerce and e-learning in the rural belts of India).

IndusInd Bank (IIB IN – 420 – BUY)

Customer profile for CV loans

Focus on the small road transport operators

- The bank focusses on the small road transport operators, not much is lent to fleet operators and first time users.

CV Financing market

- Growth in M&HCV segment has slowed the most, but growth in LCV segment has been steady.
- IndusInd Bank has improved market share.

Other loan segments

- Bank plans to expand its loan book in the loan against property segment and gold loans.
- It is marketing housing loans for HDFC, but unlikely to lend such loans by itself as it's a competitive, low-yield product.

Margins

- Expect margins to expand led by fall in cost of wholesale deposits and rise in Casa ratio.

Asset quality

Asset quality has been stable

- Rise in delinquencies has not taken place and credit costs are in the range of 50-75bps.

Standard Chartered Bank (STAN IN – 125 – N-R)

Indian market

India remains a challenging market

- India remains a challenging market where growth is slow. While domestic business has slowed more, the share of network-linked income has increased.
- Bank is not a leader in any market, but a great network bank that is key to bank's high market share in transaction processing fee income
- During 2012, the operating profit of Indian operations declined by 16% YoY versus flat operating profit for the group

India constitutes 10% of total operating profit of the group

- India constitutes 10% of total operating profit of the group
- Business sentiment is improving at the margin in India.

Fungibility to IDR up to 25% of shares

- Sebi has recently provided fungibility to IDR up to 25% of shares.
- Share of telecom lending has declined from nearly 20% to close to 14%.
- The key issue in priority sector lending for larger foreign banks has been about the increase in direct agriculture lending target and disallowance to export credit in the new norms. The new targets need to be achieved over 5 years. Bank working towards achieving the target and also discussing with RBI.

Region wise business conditions

- In Korea the bank is increasingly witnessing lower returns and increasing loan impairments
- Africa on the other hand is growing well.
- Large portion of wholesale banking income comes from Americas, UK & Europe.

Loans and margins

Growth is good, but margin may be under pressure

- Growth is good, but margin may be under pressure (partly due to high liquidity in some key markets).

Asset quality

- A considerable part of gross NPA comes from Middle East and Other South Asia (MESA) and India

Stock performance and valuations

Figure 16

Banks have underperformed Sensex over last month…

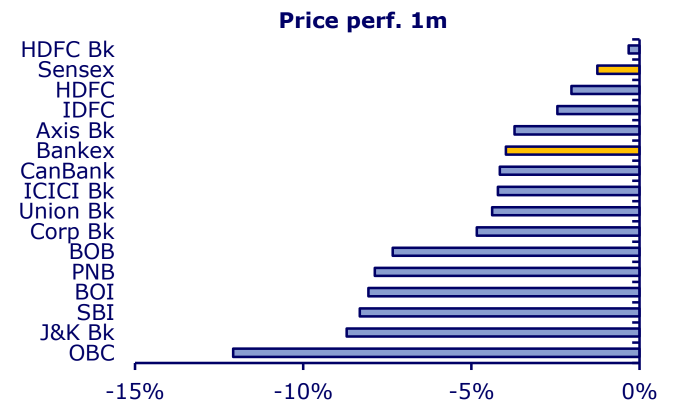
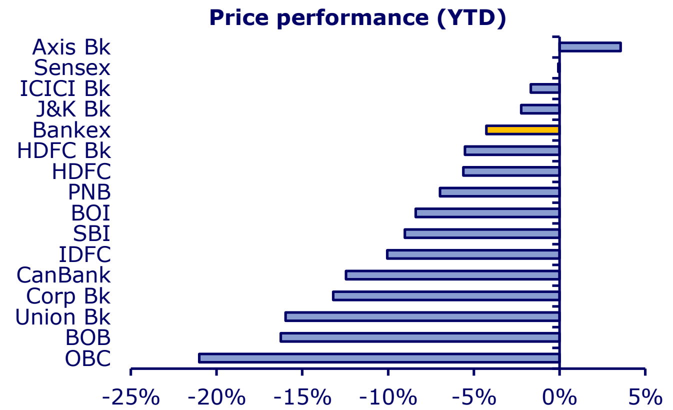


Figure 17

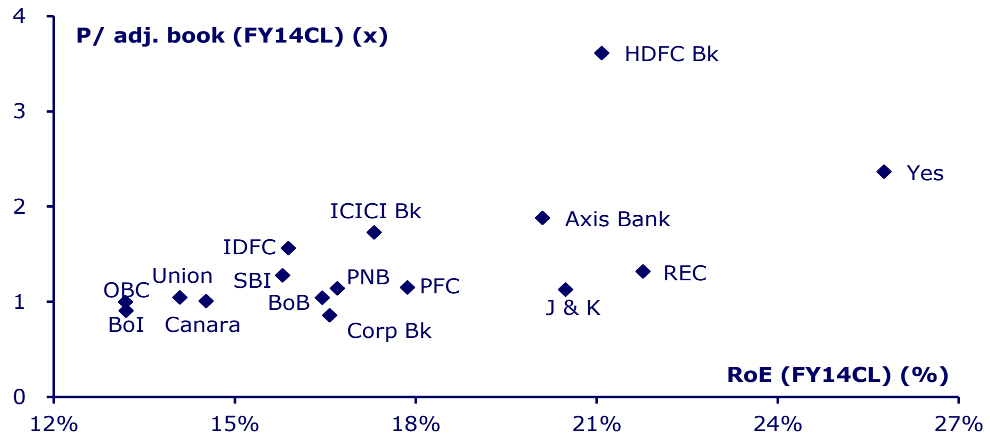
…as well as on a YTD basis



Source: CLSA Asia-Pacific Markets, Bloomberg

Figure 18

Risk-return trade-off for financials



* Based on sustainable RoE. Source: CLSA; ICICI Bank and SBI are adjusted for investment in subs

Figure19

Recommendation summary

Name	Price (Rs)	Rec	P/ABV , FY14CL	ROAE, FY14CL
SBI	2,168	BUY	1.3	16%
ICICI Bank	1,118	BUY	1.7	17%
HDFC	782	BUY	4.0	26%
HDFC Bank	641	BUY	3.6	21%
Axis Bank	1,403	BUY	1.9	20%
Yes Bank	485	O-PF	1.5	16%
PNB	811	O-PF	1.1	17%
BOB	726	O-PF	1.0	16%
BOI	314	O-PF	1.0	13%
Canara	434	U-PF	1.0	15%
Corp Bk	401	U-PF	0.9	17%
OBC	275	U-PF	0.9	13%
Union	230	O-PF	1.0	14%
J & K	1,268	BUY	1.1	20%
IDFC	154	BUY	1.7	15%
IndusInd Bank	420	BUY	3.1	17%

Source: CLSA Asia-Pacific Markets

Figure 20

Valuation Summary

	Private banks					PSU banks									NBFCs			
	ICICI Bk	HDFC Bk	Axis Bank	IndusInd	Yes Bk	SBI Consol	PNB	BoB	BoI	Canara	Union	Corp Bk	OBC	J & K	HDFC	IDFC	PFC	REC
BBG	ICICIBC IB	HDFCB IB	AXSB IB	IIB IS	YES IB	SBIN IB	PNB IB	BOB IB	BOI IB	CBK IB	UNBK IB	CRPBK IB	OBC IB	JKBK IB	HDFC IB	IDFC IB	POWF IB	RECL IB
Mkt Price	1,118	641	1,403	420	485	2,168	811	726	314	434	230	401	275	1,268	782	154	204	238
Recommendation	BUY	BUY	BUY	BUY	O-PF	BUY	O-PF	O-PF	O-PF	U-PF	O-PF	U-PF	U-PF	BUY	BUY	BUY	U-PF	U-PF
Price Target (Rs)	1,400	820	1,670	520	580	2,920	1,010	920	390	520	300	470	350	1,550	1,000	215	220	260
Market Cap.(US$m)	23,854	27,627	10,670	3,624	3,118	25,499	4,755	5,264	3,179	3,559	2,237	1,099	1,488	1,139	21,233	4,162	4,340	4,352
Avg. trading (US$m)	57	32	44	11	20	99	11	11	7	8	10	1	5	2	39	18	9	7
Valuation ratios																		
Reported PB (x)																		
FY12	2.1	5.0	2.5	4.2	3.7	1.4	1.0	1.1	0.9	0.8	0.9	0.7	0.7	1.5	6.1	1.9	1.3	1.6
FY13CL	2.0	4.3	2.2	2.9	3.0	1.2	0.9	1.0	0.8	0.8	0.8	0.7	0.6	1.3	4.9	1.7	1.1	1.4
FY14CL	1.8	3.7	1.8	2.5	2.4	1.1	0.8	0.8	0.7	0.7	0.7	0.6	0.6	1.1	4.4	1.5	1.0	1.2
FY15CL	1.6	3.1	1.6	2.2	2.0	0.9	0.7	0.7	0.6	0.6	0.7	0.5	0.5	0.9	3.9	1.4	0.9	1.0
Adjusted PB (x)																		
FY12	2.3	4.9	2.6	4.4	3.7	1.6	1.2	1.2	1.1	1.1	1.3	0.8	0.9	1.5	7.1	2.0	1.4	1.6
FY13CL	2.0	4.2	2.2	3.1	2.9	1.5	1.2	1.1	1.1	1.1	1.2	0.8	0.9	1.3	4.8	1.8	1.3	1.5
FY14CL	1.7	3.6	1.9	2.8	2.4	1.3	1.1	1.0	1.0	1.0	1.0	0.9	0.9	1.1	4.0	1.6	1.1	1.3
FY15CL	1.5	3.2	1.6	2.4	2.0	1.1	1.0	0.9	0.9	0.9	0.9	0.9	0.9	1.0	3.3	1.4	1.0	1.1
Adjusted PE (x)																		
FY12	15.9	29.0	13.6	24.4	17.4	8.6	5.4	6.0	6.6	5.9	6.9	3.9	7.0	7.7	17.9	14.1	8.3	8.3
FY13CL	12.5	22.9	12.0	20.1	12.6	8.0	5.5	6.2	6.1	5.5	5.9	4.1	5.1	6.4	15.1	12.1	7.2	7.3
FY14CL	10.0	18.8	9.9	16.5	10.1	6.8	4.8	5.4	5.5	4.9	5.4	3.7	4.4	5.7	12.6	10.5	6.0	5.9
FY15CL	8.0	15.0	8.2	13.3	8.4	5.8	4.1	4.5	4.6	4.3	4.6	3.3	3.8	5.0	10.4	8.9	5.2	5.2
Dividend Yield (%)																		
FY13CL	1.9%	0.9%	1.3%	0.9%	1.0%	1.9%	2.7%	2.5%	2.5%	2.7%	3.4%	4.9%	3.9%	3.1%	1.7%	1.7%	3.8%	4.4%
Subsidiary and others (Rs/ share)																		
FY12	227					92									281	6		
FY13CL	250					106									292	7		
FY14CL	277					120									304	6		
FY15CL	312					139									317	6		
ROA (%)																		
FY12	1.5%	1.7%	1.6%	1.6%	1.5%	0.9%	1.2%	1.2%	0.7%	0.9%	0.7%	1.0%	0.7%	1.5%	2.7%	2.8%	2.5%	2.9%
FY13CL	1.6%	1.8%	1.5%	1.6%	1.6%	0.9%	1.0%	1.0%	0.7%	0.9%	0.8%	0.8%	0.8%	1.5%	2.7%	2.7%	2.5%	2.7%
FY14CL	1.6%	1.8%	1.5%	1.7%	1.6%	0.9%	1.0%	1.0%	0.7%	0.9%	0.7%	0.8%	0.8%	1.5%	2.7%	2.6%	2.5%	2.8%
FY15CL	1.7%	1.8%	1.5%	1.7%	1.6%	0.9%	1.0%	1.0%	0.7%	0.9%	0.7%	0.8%	0.9%	1.5%	2.7%	2.5%	2.5%	2.7%
Core ROE (%)																		
FY12	14%	19%	20%	18%	23%	16%	20%	21%	14%	15%	13%	20%	10%	21%	27%	15%	17%	20%
FY13CL	16%	20%	20%	17%	26%	15%	17%	16%	13%	15%	14%	17%	12%	21%	27%	15%	17%	20%
FY14CL	17%	21%	20%	16%	26%	16%	17%	16%	13%	15%	14%	17%	13%	20%	26%	16%	18%	22%
FY15CL	18%	22%	21%	18%	25%	16%	17%	17%	14%	15%	15%	16%	14%	20%	26%	17%	18%	21%

Source: CLSA Asia-Pacific Markets

Figure 21

Valuation Summary

	Private banks					PSU banks									NBFCs			
	ICICI Bk	HDFC Bk	Axis Bank	IndusInd	Yes Bk	SBI Consol	PNB	BoB	BoI	Canara	Union	Corp Bk	OBC	J & K	HDFC	IDFC	PFC	REC
EPS (Rs)																		
FY12	56	22	103	17	28	242	149	122	48	74	33	102	39	166	28	10	25	29
FY13CL	70	28	117	21	38	258	148	117	52	79	39	97	54	197	32	12	29	33
FY14CL	84	34	142	26	48	303	168	134	57	89	43	109	62	221	38	14	34	40
FY15CL	101	43	171	32	58	351	197	160	68	102	50	121	72	255	45	17	39	46
Cagr FY12-15CL	**22%**	**25%**	**18%**	**23%**	**28%**	**13%**	**10%**	**10%**	**12%**	**11%**	**15%**	**6%**	**23%**	**15%**	**17%**	**17%**	**17%**	**17%**
Tier I Car (%)																		
FY12	12.7%	11.6%	9.5%	11.4%	9.9%	9.8%	9.3%	10.8%	8.6%	10.4%	8.4%	8.3%	10.1%	11.0%	11.6%	18.5%	15.5%	15.1%
FY13CL	11.8%	11.0%	9.3%	14.7%	8.9%	9.6%	9.3%	10.3%	8.5%	10.1%	8.2%	7.9%	10.0%	10.8%	13.2%	18.6%	15.6%	16.1%
FY14CL	11.2%	10.4%	9.0%	12.2%	8.8%	9.2%	9.1%	9.9%	8.3%	9.9%	7.9%	7.6%	9.7%	10.9%	12.7%	16.9%	15.0%	15.6%
FY15CL	10.7%	9.1%	8.6%	11.1%	8.7%	9.0%	9.0%	9.4%	8.0%	9.6%	7.6%	7.3%	9.4%	11.0%	12.2%	15.5%	14.6%	15.5%
NIM (%)																		
FY12	2.8%	4.2%	3.3%	3.3%	2.7%	3.8%	3.5%	2.8%	2.4%	2.4%	3.0%	2.2%	2.7%	3.4%	3.8%	3.9%	3.9%	4.2%
FY13CL	3.0%	4.2%	3.3%	3.4%	2.9%	3.5%	3.3%	2.7%	2.4%	2.4%	3.0%	2.1%	2.8%	3.5%	3.9%	3.9%	4.1%	4.4%
FY14CL	3.1%	4.2%	3.3%	3.7%	2.9%	3.5%	3.4%	2.7%	2.5%	2.4%	3.0%	2.3%	2.9%	3.5%	3.9%	3.8%	4.0%	4.2%
FY15CL	3.1%	4.2%	3.3%	3.8%	2.9%	3.5%	3.4%	2.7%	2.5%	2.4%	3.0%	2.4%	3.0%	3.6%	3.9%	3.7%	4.0%	4.2%
Casa (% of deposits)																		
FY12CL	43%	48%	42%	27%	15%	45%	35%	27%	27%	24%	31%	22%	24%	41%	NA	NA	NA	NA
FY13CL	43%	46%	40%	31%	18%	44%	34%	27%	26%	23%	30%	22%	24%	41%	NA	NA	NA	NA
FY14CL	42%	45%	41%	32%	21%	43%	34%	26%	26%	23%	29%	22%	24%	40%	NA	NA	NA	NA
FY15CL	42%	45%	41%	33%	23%	42%	34%	26%	25%	22%	28%	21%	24%	40%	NA	NA	NA	NA
Loan growth (%)																		
FY12	17%	22%	19%	34%	11%	15%	21%	26%	17%	10%	18%	16%	17%	26%	20%	28%	31%	23%
FY13CL	17%	23%	21%	26%	24%	16%	16%	17%	16%	14%	17%	17%	14%	18%	19%	23%	23%	22%
FY14CL	21%	26%	23%	28%	25%	17%	18%	19%	17%	16%	18%	17%	14%	17%	19%	25%	16%	18%
FY15CL	20%	26%	24%	27%	24%	18%	18%	21%	18%	17%	18%	18%	14%	17%	19%	25%	15%	15%
Fee growth (%)																		
FY12	4%	24%	28%	27%	31%	4%	22%	25%	11%	8%	8%	18%	19%	7%	22%	-28%	-42%	-34%
FY13CL	13%	16%	15%	37%	41%	5%	12%	9%	12%	7%	10%	10%	14%	7%	-20%	13%	4%	16%
FY14CL	19%	25%	22%	33%	30%	14%	12%	15%	13%	10%	10%	8%	10%	7%	10%	15%	42%	16%
FY15CL	18%	19%	20%	27%	30%	12%	12%	15%	16%	12%	11%	8%	12%	7%	15%	15%	-21%	15%
Gross NPL ratio (% of loans)																		
FY12	3.7%	1.0%	1.1%	1.0%	0.2%	4.5%	2.9%	1.5%	2.3%	1.7%	3.0%	1.3%	3.2%	1.5%	0.8%	0.3%	1.0%	0.5%
FY13CL	3.8%	1.2%	1.3%	1.3%	0.4%	5.5%	4.8%	2.5%	3.4%	2.6%	3.5%	2.3%	3.8%	1.6%	0.8%	0.7%	1.5%	1.0%
FY14CL	3.7%	1.3%	1.6%	1.8%	0.6%	5.6%	5.6%	3.2%	3.9%	3.4%	3.8%	3.2%	4.3%	1.8%	0.8%	0.8%	1.6%	1.2%
FY15CL	3.7%	1.3%	1.9%	2.0%	0.8%	5.6%	6.0%	3.6%	4.3%	3.8%	3.8%	3.9%	4.6%	2.1%	0.8%	0.9%	1.6%	1.4%
Net NPL ratio (% of loans)																		
FY12	0.7%	0.2%	0.3%	0.3%	0.0%	1.8%	1.5%	0.5%	1.5%	1.5%	1.7%	0.9%	2.2%	0.1%	0.3%	-1.2%	0.9%	0.4%
FY13CL	0.8%	0.3%	0.2%	0.6%	0.1%	2.6%	2.8%	1.1%	2.0%	2.0%	1.8%	1.8%	2.8%	0.2%	0.3%	-0.9%	1.2%	0.8%
FY14CL	0.8%	0.3%	0.3%	0.9%	0.1%	2.4%	3.0%	1.4%	2.0%	2.5%	1.7%	2.5%	3.3%	0.4%	0.3%	-0.9%	1.1%	0.9%
FY15CL	0.9%	0.3%	0.3%	1.0%	0.2%	2.3%	2.9%	1.6%	2.0%	2.7%	1.5%	3.0%	3.6%	0.7%	0.3%	-0.9%	1.0%	1.0%

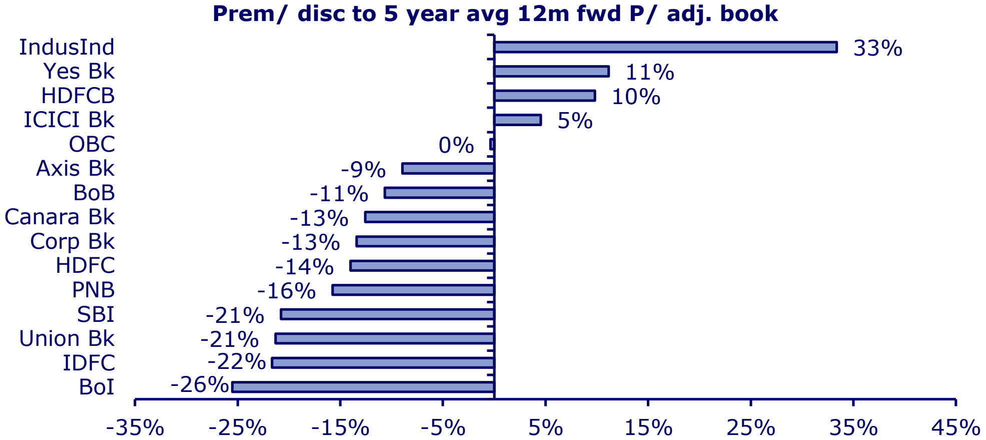
Source: CLSA Asia-Pacific Markets

Valuations

Most banks trade near five year average

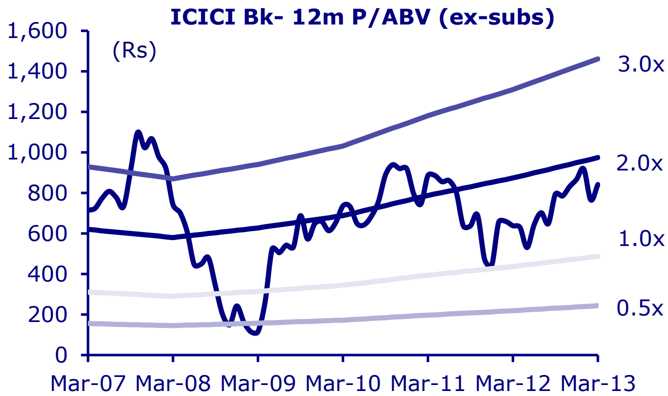
Figure 22

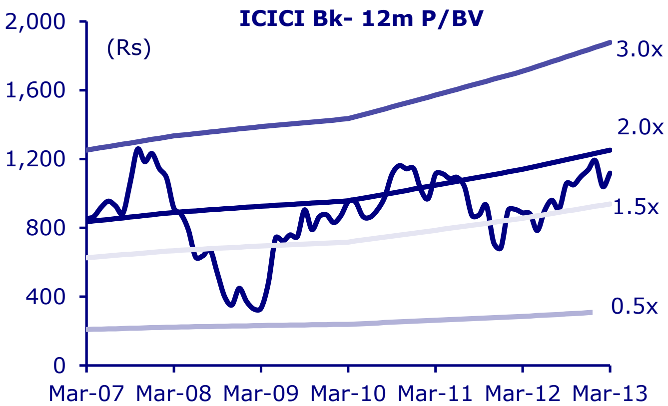
Premium/ discount to five year average

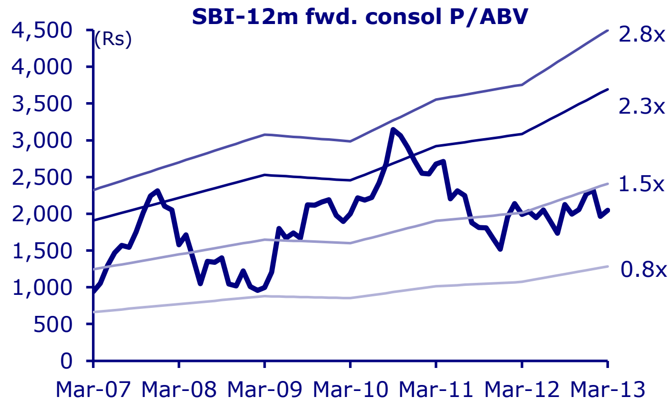


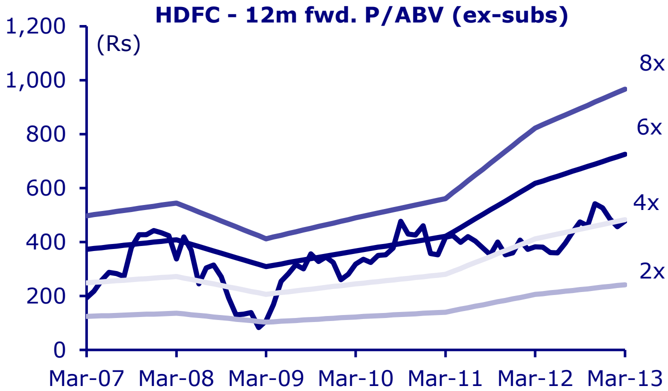
Source: CLSA Asia-Pacific Markets

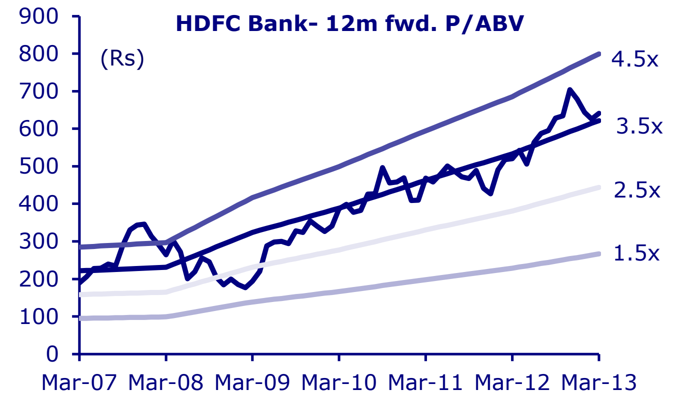
Valuation band charts

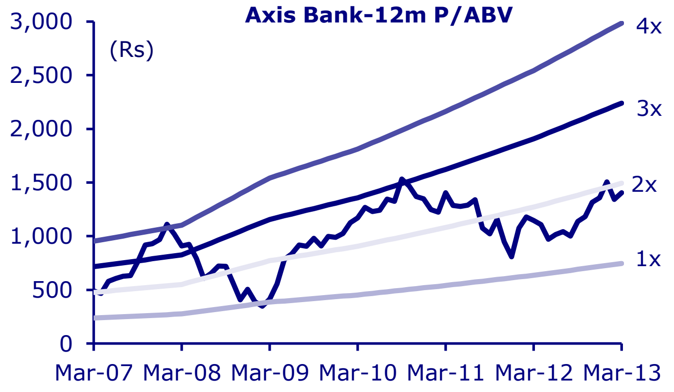


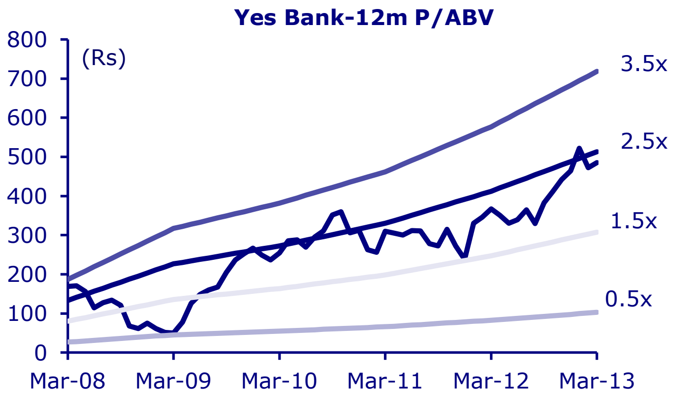


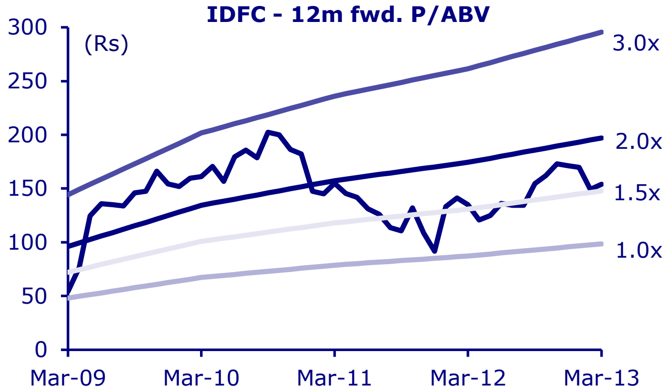


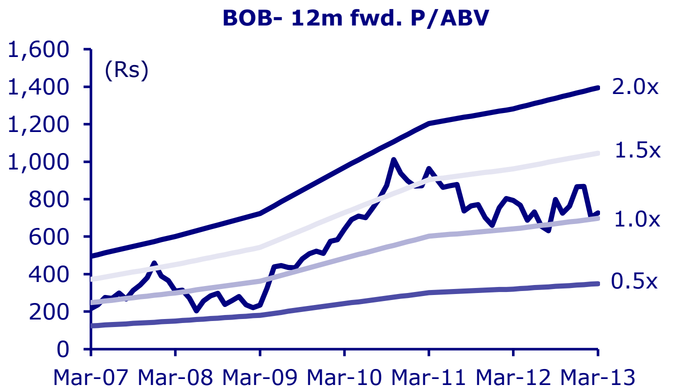


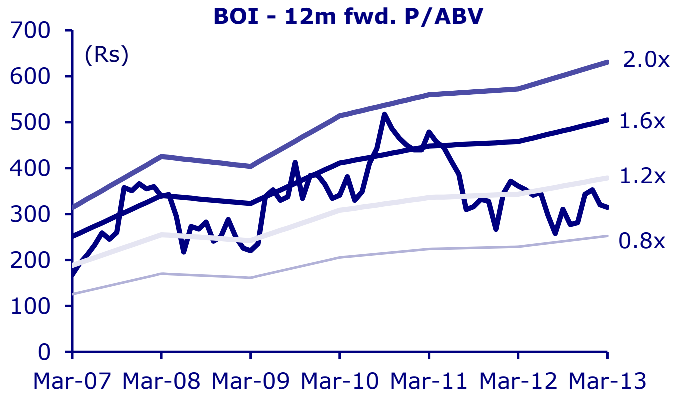


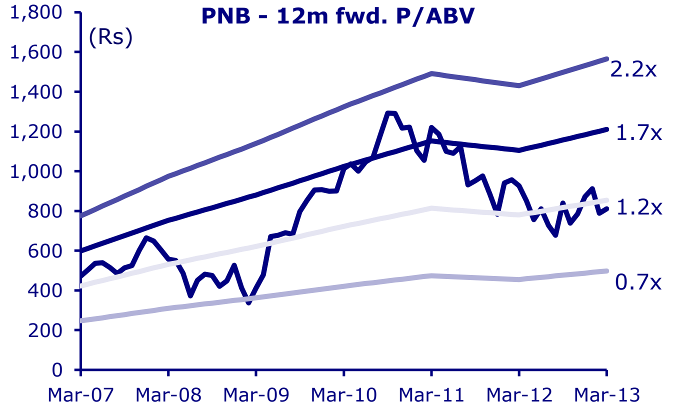


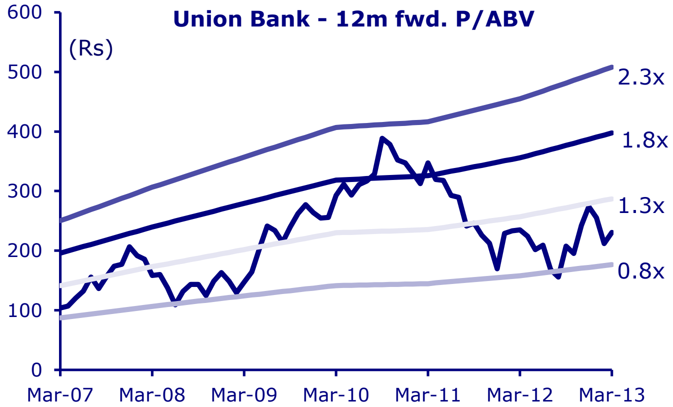












Source: CLSA Asia-Pacific Markets; Valuations for ICICI Bank, SBI and HDFC are adjusted for investment in subsidiaries.

Insurance- Premium decline led by LIC

During Jan-13, annualised NBP of sector declined 41% YoY largely due to a 53% YoY decline in LIC's premiums. Premiums for private insurers also fell, though at a lower rate of 6% YoY. This is the seventh consecutive month when LIC has reported a decline in premiums. Among the private players, HDFC, Birla Sunlife and Max reported growth in NBP. Even though LIC has lost 13% market share since April it still dominates the industry with 59% market share. Irda has issued new norms for traditional insurance products.

LIC drives fall in NBP; private players also report a fall

41% decline in NBP of insurers largely due to LIC

- During Jan-13, LIC reported a sharp YoY drop of 53% in new business premiums on a high base.
- Private sector also reported a NBP decline of 6% YoY.
- NBP for the sector declined by 41% YoY, largely due to decline in LIC's new business premiums.
- Over 10MFY13, LIC has lost 13% market share which currently stands at 59%.

Most private players report declines in NBPs; HDFC and Max saw growth

- Among the private players, HDFC, Birla, Kotak and Max Life Insurance reported growth in premiums.
- Over 9MFY13, premiums for private insurers have declined by 2%YoY.
- ICICI Pru Life reported a decline of 7% YoY, up 4% for 10MFY13 and HDFC Life reported 22% growth versus 7% over 10MFY13.

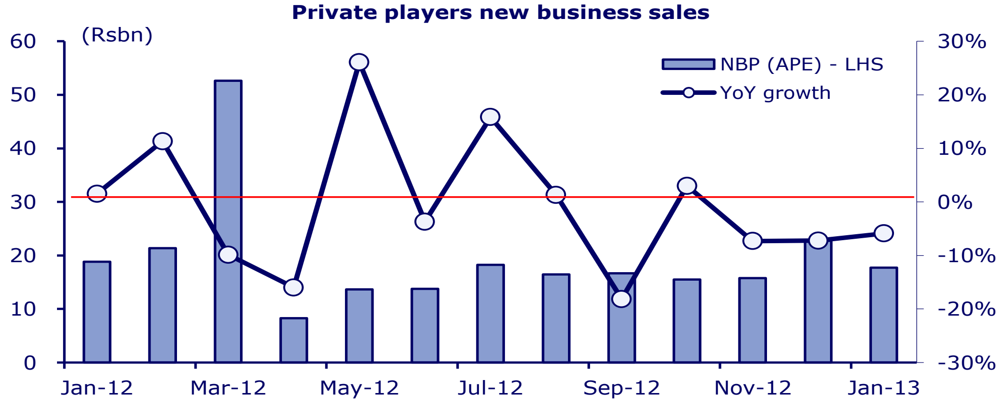
New norms for traditional insurance products

New norms will impact margins of insurance companies

- Traditional products can also be split into 'par' products (policyholder share in the profits of product) and 'non-par' products (policyholders don't share).
- Irda has asked companies to offer guarantees on their non-par products throughout the term of these products.
- We understand that insurance companies were offering annual return guarantees on these products, but the obligation to offer a guaranteed return for the entire term of the product will increase the risk for insurers.
- Therefore, we expect insurers to migrate sales to 'par' products or Ulips.
- These guidelines will come into effect from Oct-13 and this will offer companies some time to devise products and train marketing agents.

Figure 23

In Jan-13, NBP of private players declined by 6% YoY



Source: IRDA, CLSA Asia-Pacific Markets

Decline in premiums was driven by a 53% YoY fall in LIC's premiums

Figure 24

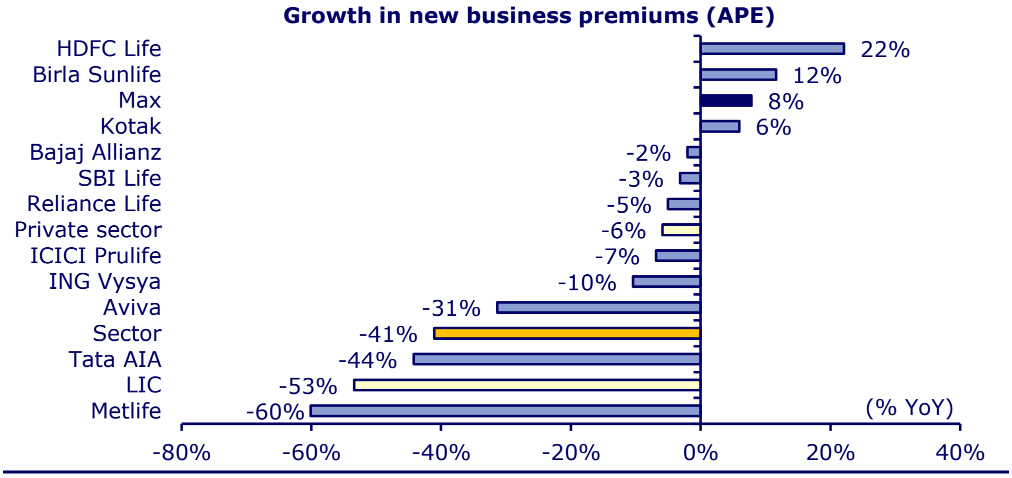
Sector new business premium (APE) declined by 41% YoY

APE: Annualised premium equivalent. Source: IRDA, CLSA Asia-Pacific Markets

HDFC Life and Birla Sunlife reported growth in premiums

Figure 25

YoY growth trends for Jan-13

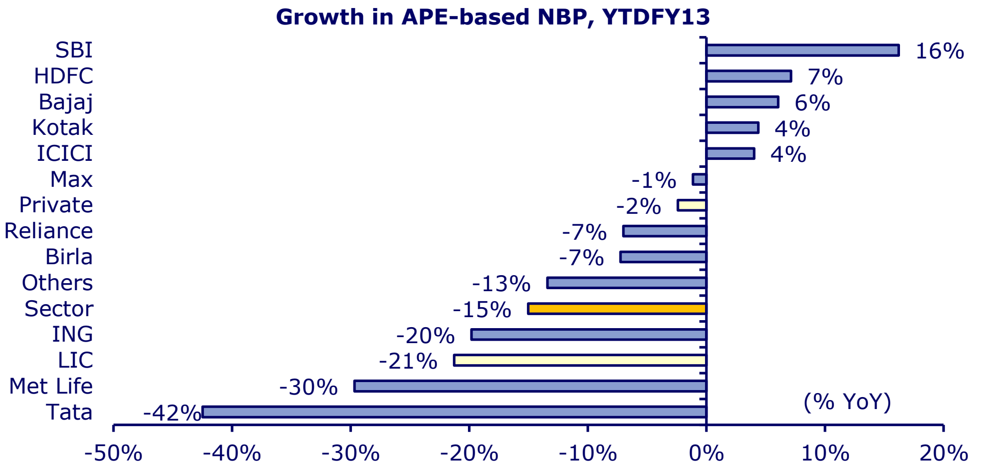


Source: IRDA, CLSA Asia-Pacific Markets

Larger private insurance companies have gained market share

Figure 26

Growth trends for 10MFY13



Source: IRDA, CLSA Asia-Pacific Markets

Figure 5

Distribution of market share among players in Jan-13

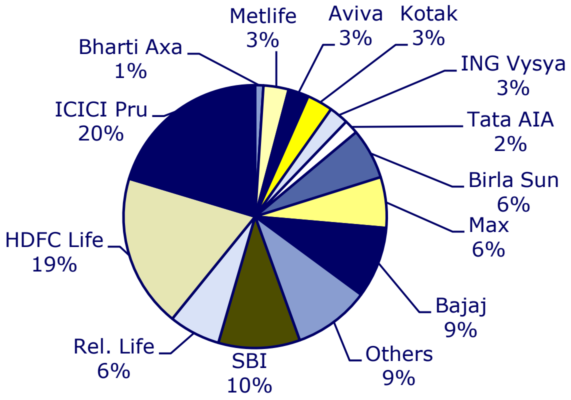
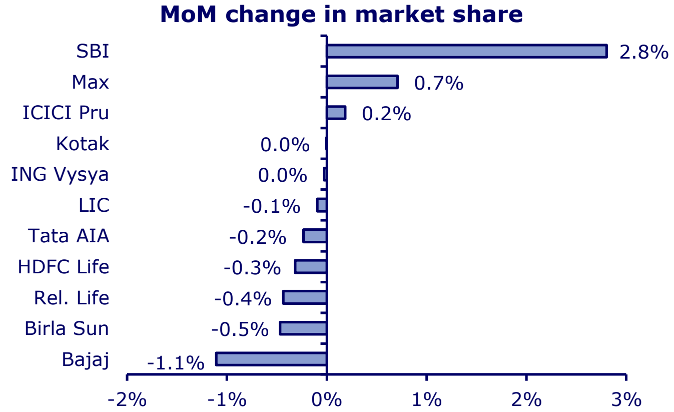


Figure 6

MoM: SBI, Max and ICICI gained market share



Source: IRDA, CLSA Asia-Pacific Markets

Insurance valuation summary

Figure 10

Insurance valuations matrix

Particulars (FY15) (Rsm)	ICICI Pru. Life	HDFC Std. Life	Max Life	SBI Life
FYP	56,102	48,803	21,538	32,494
Single Premium	11,878	2,645	5,606	65,765
Renewal Premium	84,062	97,037	54,739	56,470
Total Premium	**152,041**	**148,485**	**81,882**	**154,729**
AUM (Rsbn)	1,059	710	351	961
NBAP margin(%)	**15%**	**16%**	**12%**	**13%**
NBAP	8,605	7,848	2,697	4,886
Multiple (x)	**12**	**12**	**13**	**11**
Value of the Company (Rsm)	330,258	202,920	101,831	136,378
Value of the Company (US$m)	6,005	3,689	1,851	2,480
Value of Parents stake (US$m)	4,443	2,730	1,296	1,835
Indian Partner & Stake	**ICICI Bank, 74%**	**HDFC Ltd, 72%**	**Max India, 71%, Axis Bank 3%**	**SBI, 74%**
Foreign Partner & Stake	**Prudential Plc, 26%**	**Standard Life, 26%**	**Mitsui 26%**	**Cardiff SA, 26%**
Value/share to Parent company (Rs)*	**170**	**77**	**218**	**120**

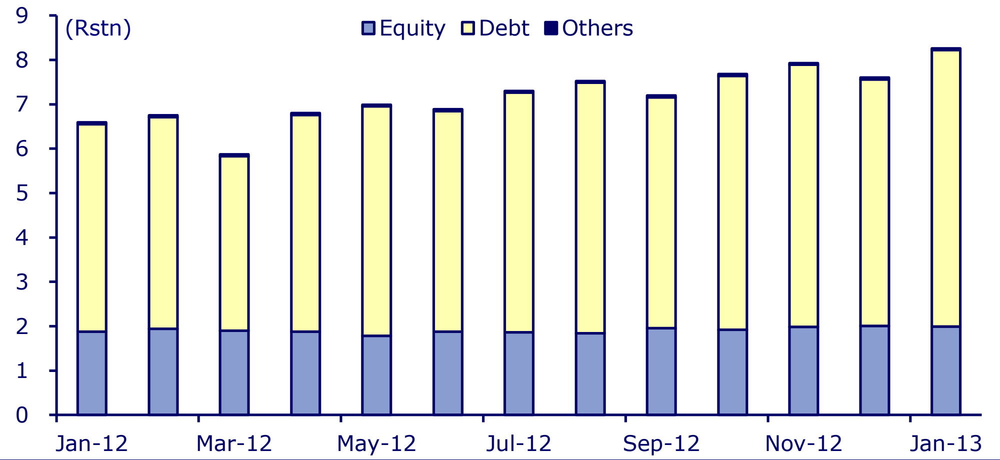
Source: CLSA Asia-Pacific Markets; * Post a 20% holding company discount; Valuations are based on an Appraisal value

Mutual fund trends- January 2013

AUMs grew 25%YoY

Figure 27

AUMs grew by 9% MoM to Rs8.2tn

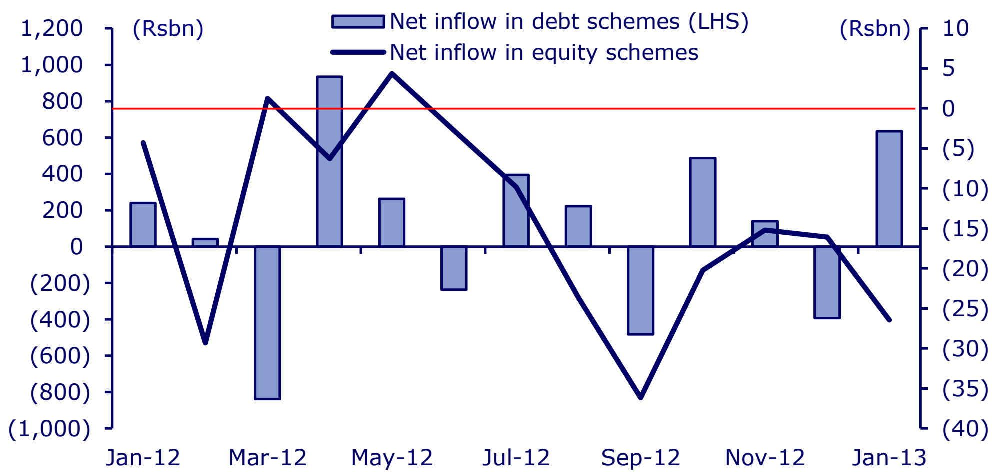


Source: AMFI, CLSA Asia-Pacific Markets

Net outflows from equity schemes increased in January

Figure 28

While debt schemes saw inflows, equity schemes saw outflows

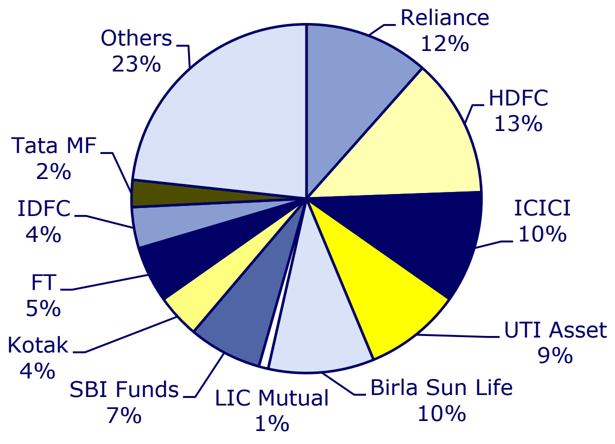


Source: AMFI, CLSA Asia-Pacific Markets

Dec-12 growth for Top-5
HDFC: +14% YoY
Reliance: +10% YoY
ICICI: +17% YoY
Birla: +27% YoY
UTI: +22% YoY

Figure 29

Market share among mutual funds, Dec-12



Source: AMFI, CLSA Asia-Pacific Markets

Take a look! Axis Bank's new branding campaign

Figure 30

Axis Bank's new branding campaign on www.progress.axisbank.com

Source: Axis Bank, CLSA Asia-Pacific Markets

Other important news and interviews

Regulatory and sector newsflow

New banks will have to comply with priority sector lending norms from the start

- The **Dy. Governor of RBI**, Dr. K.C. Chakrabarty, has stated that **new banks will have to comply with priority sector lending norms from the start**, but hasn't fully clarified whether NBFCs will also need to make priority sector loans on their past book in case they convert into a bank.
- **RBI** has made certain **modifications to the Gold Deposit Scheme** that banks can offer in order to convert some of household investments in gold into financial assets
- **RBI** plans to **buyback government securities worth Rs100bn** through open market operations (OMO) on 15th February to infuse liquidity into the system.
- As per media report, **ICAI (accounting regulator)** may hold discussions with RBI on implementation of **IFRS standards** by banking companies.
- **RBI** has issued the final report of the working group on issues relating to **gold imports** and **gold loan NBFCs**- these are largely in line with the original guidelines.
- The **Government** has extended the **tenure of Anand Sinha**, Dy. Governor of RBI, by 11 months till January 2014.

Finance ministry has asked banks to improve their currency management operations

- The **finance ministry** has asked **banks to improve their currency management operations** owing to concerns over high volume of banknotes being printed.
- **Finance Minister** has urged banks to work closely with **Infrastructure Debt Funds**.
- The **Government** has **relaxed the eligibility criteria** for appointment of **Chairman and Managing Directors** in PSU banks.
- **Finance Ministry** has convened a meeting of the heads of state-owned banks to take stock of their **financial inclusion drive** and readiness to roll out direct benefit transfer.

Finance ministry has asked government banks to reduce the term deposit rates offered to senior citizens

- The **Finance ministry** has asked government banks to **reduce the term deposit rates offered to senior citizens** to reduce cost of funds.
- **National Housing Bank** (HFCs regulator) plans to raise Rs50bn through issue of tax free bonds.
- **Irda has imposed** Rs5m **penalty** on **SKS Microfinance** for collecting extra funds, apart from the premium, as a corporate insurance agent without proper disclosure to policy-holders.
- **Irda** plans to finalise the proposal to **allow co-operative banks**, regional rural banks and individuals to **offer micro-insurance in rural and semi-urban areas**.

Aircel has initiated talks with lenders to recast loans worth 230-240bn.

- As per media reports, **Airce**l has initiated talks with lenders to recast loans worth 230-240bn.
- The **management of UB grou**p has stated that it may use part of the **proceeds from sale of stake in United Spirits** to discharge the **debts of Kingfisher Airlines**.
- **National Highways Authority of India** is seeking to push a relief package for road developers.
- **Lanco Infratech** reportedly may sell stakes in three power projects to raise Rs25bn.
- As per media reports, bankers to **Haldia Petrochemicals** have **refused to give additional loans** to the company without turning the existing debt into equity.
- As per media reports, the government of Madhya Pradesh may cancel the power purchase agreement with **Shree Maheshwar Hydel Power Project**. The key lenders to the project are PFC, REC, SBI and other PSU banks and most of them have classified facilities to this project as a NPA.

- As per media reports, the **Dabhol power project** is facing issues in operations due to lower availability of gas. The key lenders to the project are ICICI, IDBI Bank, SBI and Canara; we also understand that the company may be able to meet repayment obligations in near-medium term, but improvement in gas availability will be important.
- **KS Oils** has authorised **SBI** to appoint advisors and consultants to restructure its existing business.

Department of Post is examining the feasibility of setting up Post Bank

- **Department of Post** is examining the feasibility of setting up Post Bank for which a consultant has been appointed to prepare a detailed project report.
- **Mohandas Pai** previously CFO of Infosys and **Ramesh Ramanathan**, erstwhile Citibank executive, **may apply for a banking license**.

Shriram Group has indicated that it may set up a new bank

- **Shriram Group** has indicated that it **may set up a new bank**, instead of converting one of the non-banking financial companies (NBFCs) to a bank.
- As per a media report, during 3QFY13, **microfinance firms** have disbursed loans worth Rs62bn, up 22% QoQ.
- The Andhra Pradesh High Court has upheld the Andhra Pradesh Microfinance Institution (Regulation of Money Lending) Act 2011, but as asked the government to review the law in the light of a more comprehensive Microfinance Bill is before Parliament (Lok Sabha).

Japan based 7-Eleven may enter into the white label ATM space in India

- As per a media report, Japan based **7-Eleven** may enter into the **white label ATM space** in India.

Company newsflows

SBI has raised its long-term fixed deposit rates by 25bps to 8.75%.

- **SBI** has raised its long-term fixed deposit rates by 25bps to 8.75%.
- **SBI** has sanctioned a loan of Rs25bn to **Visakhapatnam Steel** to fund its expansion plans.
- **SBI** has indicated that it will be able to recover most of its Rs17bn exposure to **Kingfisher Airlines.**
- **SBI** has indicated that it does not have any exposure to **Sahara group companies** but has deposits of Rs7-8bn from the firms.
- **SBI** has opened **five e-corners in Kolkata** that will have facilities including ATM, cash deposit machines, self-service kiosk and coin vending machine.
- **State Bank of Hyderabad** has reduced its **Base Rate** by 5bps to 10.2%.

SBI plans to shift loan processing rights from centralised loan processing units to local branch managers

- **SBI** plans to shift loan processing rights from centralised loan processing units to local branch managers for small-ticket loans originating from semi-urban and rural areas.
- **ICICI Bank** has decided to discontinue its co-branded credit card with Kingfisher Airlines.
- **ICICI Bank** led infrastructure debt fund (IDF), India Infra Debt Fund plans to commence operations soon. This is the country's first IDF in the form of NBFC.

HDFC Bank is replacing some point of sale (PoS) machines at merchant establishments

- **HDFC Bank** is replacing some point of sale (PoS) machines at merchant establishments following credit card frauds.
- **HDFC** has raised Rs5bn through issue of debentures for general corporate requirements.
- **HDFC Ltd.** plans to raise **US$500m** through External Commercial Borrowings.
- **Axis Bank** has formed Farmers' Club across 12 States in association with National Bank for Agriculture and Rural Development (Nabard) to **develop rural areas through credit, technology transfer, awareness and capacity building**.

- **Axis Bank** has deployed **500 cash deposit machines** at its branches in over 300 cities. The cash deposit machines will give customers the convenience of depositing cash, with funds getting credited instantly to their accounts for all successful transactions

- **Axis Bank** has allotted 5.8m shares on preferential basis to promoters raising Rs8.1bn capital.

- Kotak Mahindra Bank and Danish online trader Saxo Bank are reportedly looking to buy a significant stake in online brokerage firm Sharekhan.

Punjab National Bank and Union Bank have lowered their Base Rate by 25 bps

- **Punjab National Bank** and **Union Bank** have lowered their Base Rate by 25 bps to 10.25%.

Bank of Baroda plans to lower its bulk deposits worth Rs180bn by March 2013

- **Bank of Baroda** plans to lower its bulk deposits worth Rs180bn by March 2013 to improve margins.

- **Bank of India** plans to reduce its gross NPLs by Rs26bn by FY14. It has Rs86bn of gross NPLs currently on its books – 3.1% of loans.

- **Bank of India** reportedly plans to raise up to US$500m in dollar denominated bonds.

- **Yes Bank** has chosen Microsoft SharePoint 2010 to reduce the turnaround time for customers by automating 150 processes thereby improving efficiency.

- **Yes Bank** and **International Finance Corporation** (IFC) have signed a memorandum of understanding to create a fund that will make investments across sectors in north-eastern states.

- **Union Bank of India** has applied for permission to Chinese government to upgrade its representative office in Shanghai to a full-fledged branch.

Corporation Bank has launched two new savings account variants

- **Corporation Bank** has launched two new savings account variants — SB Super and SB Signature to boost its saving deposits.

- **Oriental Bank of Commerce** has lowered Base Rate by 15bps to 10.25%.

- As per a media report, **Power Finance Corporation** plans to discuss applying for a banking license in its next board meeting.

- **Power Finance Corp** has launched tax free bonds issue worth Rs1bn, which would be utilised for lending purposes, debt servicing and working capital requirements.

- **Power Finance Corporation** has lowered lending rates by 25 bps for all types of loans.

- **Allahabad bank** has lowered its Base Rate by 30bps to 10.2%.

- **Andhra Bank** has lowered its Base Rate by 25bps to 10.25%.

- **Indian Bank** has lowered its Base Rate by 30bps to 10.2%.

- **Dena Bank** plans to expand its loan book in medical equipment finance from Rs110m to Rs5bn by the end of the year.

Dewan Housing Finance has forayed into education loan space

- **Dewan Housing Finance** has forayed into education loan space with **Avanse Financial Services**.

- Federal Bank has lowered its Base Rate by 25bps to 10.2%.

JP Infratech has raised Rs60bn from IDBI Bank

- **JP Infratech** has raised Rs60bn from **IDBI Bank** to repay its high cost debt and improve profitability.

- **Indian Overseas Bank** expects loan growth in the range of 16-18% during FY13.

- **Competition Commission of India** has approved Exide Industries' proposal to fully acquire **ING Vysya Life Insurance**.

- **Indian Overseas Bank** plans to raise Rs10bn through issue of fresh equity on a preferential basis to the government.
- **Karnataka Bank** has entered into distribution agreement to sell mutual fund products of Reliance Capital Asset Management.

Max India's plans to sell its speciality films business to Treofan Group of Germany

- **Max India's** plans to sell its speciality films business to Treofan Group of Germany may face delays.
- **Karur Vysya Bank** has lowered its Base Rate by 25bps to 10.75%. It has also raised interest rates on term deposits having tenure of one to two years by 50bps to 9.5%.
- **L&T Insurance** plans to launch 10 products in the small and medium enterprises (SME) and home space soon.
- **LIC Housing Finance** reportedly plans to raise Rs2bn through two-year bonds at 9.4%.
- **Magma Fincorp** has acquired **Religare Finvest's** Rs 2.5bn auto-lease business.
- **Manappuram Finance** is targeting a 20% growth in loan disbursement and revenues in FY14.
- As per a media report, **Murugappa Group** may apply for a banking license.

Murugappa Group may apply for a banking license

- **Punjab & Sind Bank** and **United Bank of India** have lowered their Base Rate by 25bps and 20bps to 10.25%.
- **Punjab & Sind Bank** may raise Rs1.4bn capital through a fresh issue of shares on a preferential basis to the government.
- **International Finance Corporation** plans to invest Rs1.3bn in **Ratnakar Bank** through preferential allotment of fresh equity.

Royal Bank of Scotland plans to retrench nearly 1,000 employees

- **Royal Bank of Scotland** plans to retrench nearly 1,000 employees as it shuts down its retail and commercial business in India.
- **Creador,** a private equity firm, has acquired 9.9% stake in **Repco Home Finance** for US$13.7m.
- Denmark based, **Saxo Bank** has announced its foray into India.

Shriram Transport Finance expects credit growth to return to 25% during FY14.

- **Shriram Transport Finance** expects credit growth to return to 25% during FY14.
- **TPG Capital** has sold 10% of its stake in **Shriram Transport Finance** for about Rs16.2bn
- **SKS Microfinance** plans to decide on applying for a banking licence in its board meeting in May.
- **SKS Microfinance** has concluded two microfinance securitization transactions aggregating Rs3.9bn.
- **Standard Chartered Bank** plans to acquire the wealth management business of Morgan Stanley.
- **Syndicate Bank** plans to grow its business to Rs3.5tn by March 2013 and to take the number of branches to 3,000.
- **Syndicate Bank** has lowered its Base Rate by 25bps to 10.25%.
- **Syndicate Bank's** board has approved the proposal to raise Rs15bn equity capital from the market and Rs20bn through Tier-II bonds.

UCO Bank has lowered its Base Rate by 30bps to 10.2%

- **UCO Bank** has lowered its Base Rate by 30bps to 10.2%.
- **United Bank of India** has reduced its base rate by 20 basis points to 10.25%.

Interesting interviews

SBI has consistently maintained that we restructure only where we think inherent viability exists

Diwakar Gupta (MD & CEO, SBI) (link)
We have a total restructured stock of about Rs400bn of which about Rs350-360bn is still in restructuring and has not yet been upgraded to regular standard. Taking NPLs out of this, we have about Rs230-240bn of restructured loans. About Rs2.5bn would be the additional provision on that at 1%. Now, as far as new restructuring is concerned, 5% is obviously more than 2% but I don't think provisioning is really the driving factor behind restructuring or otherwise. At least SBI has consistently maintained that we restructure only where we think inherent viability exists and the current problems are not wholly in the control of the promoters. Therefore, I don't think our decision to restructure is going to really be affected by a higher provisioning requirement.

Q4 should be a very good quarter regarding the NPAs and the recovery process

Pratip Chaudhuri (Chairman, SBI) (link)
Q4 is generally our best quarter because many of the accounts which have become delinquent due to delayed realisation of receivable from government department, much of their dues are cleared in Q4. So, Q4 should be a very good quarter regarding the NPAs and the recovery process. Unless economic improvement happens, the loan demand will not be very robust. However, we have seen very good loan demand because we are beneficiary of shifting of loans from other banks. For the system as a whole, the loan demand would be muted unless the recovery happens.

80% of our current slippages are coming from the SME segment and the mid corporate sectors

Diwakar Gupta (MD & CFO, SBI) (link)
It is very hard to put numbers given the fact that there are so many imponderables in the economy. The fact is that 80% of our current slippages are coming from the SME segment and the mid corporate sectors and they are representative of the stress in the external economy. I predicate my remarks to the hope that the economy itself will revive over the next three quarters, but if it does, then our credit cost should come down to less than a percentage point of total assets from the current 1.1-1.2%. That would be a significant improvement.

Corporate term loans are more stable

Pratip Chaudhuri (Chairman, State Bank of India) (link)
Corporate term loans are more stable. That pipeline is still very weak but we have seen some growth in the working capital from corporates because the second half of the financial year is normally the busy season. So that is why we see an increase in drawings from rice mills, sugar mills, oil mills etc. but this growth could be very volatile because the short term space is so crowded that if today companies are able to issue commercial papers, even mutual fund and insurance companies could come in for that and currently the borrowings from the oil marketing companies is less. So that also has its own dynamics but we think that the long term growth which comes from project loans, term loans, that phenomena is still considerably weak.

There has been a very healthy growth in deposits, which is coming from retail customers

K R Kamath (CMD, Punjab National Bank) (link)
You need to look at our deposit portfolio a little deeper than what is being seen as 8.2%. This 8.2% is on account of a reduction in our bulk deposit by about 30%. Now if you see, core deposit growth is at 20%. So it is not correct to say that my core term deposits have grown at 27%. My SB has grown at 14%, my current account has grown at 9% and my CASA has grown at about 13.1%. So if you look at the total deposit portfolio, there has been a very healthy growth in deposits, which is coming from retail customers. But what else has gone down which is a very deliberate act on our side is that bringing down the bulk deposits which were costing more by about 250bn. Now the impact of this will be felt more in this quarter because whatever we shed were the deposits which were taken at the far end of the last December. So the impact will be felt now. The shedding has happened in the last month or this quarter and that too in the last fortnight to that extent. I would say that the impact will be felt in this quarter. So this will be a positive factor for me to hold on to my NIMs.

The credit interest rate risk as well as liquidity risk in India is fairly resilient

Rana Kapoor (CEO, Yes Bank) (link)
We are being cautious not only because of the more recent past but, for the last two years because the risk signals, the red flags have been in the system pretty much from the middle of the fiscal 2011-12. It has only got heightened in 2012-13. I must say that the developments of the last six months or so are somewhat promising and encouraging. That does not mean that the system has been derisk because there is a fair amount of de-bottlenecking to be done on project implementation, certainly in terms of trouble shooting, some of the infrastructure sectors creating more enabling provisions for such sectors. But, fact of the matter is that the credit environment was also analysed by Reserve Bank of India in its strength and progress annual report very recently. That credit interest rate risk as well as liquidity risk in India is fairly resilient. If one looks at the overall net NPA position of Indian banking, it is around 1.4% for the entire banking system put together.

The banking sector would be looking to growth returning to 8%.

N Seshadri (Executive Director, Bank of India) (link)
The banking sector would be looking to growth returning to 8%. With control on inflation and with interest rate cycle reversing, what the banking sector would be expecting is not any concessions or relief. We do not expect any specific concessions or relief because it is going to be tough for the government. The government has decided to rein in the fiscal deficit. So far it has controlled both on the borrowing as well as on the revenue side. The bond yields would be in the range of about 7.8 to 8%. The market has factored the entire borrowing programme.

The slippages are not coming from any particular sector as such

S S Mundra (CMD, Bank of Baroda) (link)
As far as the domestic book is concerned, slippage during the quarter is to the tune of Rs16bn. Those are the fresh slippages seen during this quarter but there are more things to be considered. Firstly, the slippages are not coming from any particular sector as such. So, it is not representative of any specific sector. Within this, there could be few larger accounts, which can be called slightly lumpy in relation to the other accounts. This may represent around 40-45% of the slippage. So, the composition of the portfolio has directed that they get to burst together in one particular quarter. Otherwise, it is across the sector and across the ticket-size of the book.

Our retail lending has grown by 53% in the first three quarters

Ajai Kumar (CMD, Corporation Bank) (link)
Our retail lending has grown by 53% in the first three quarters. I think this is the best in the banking industry. Our SME loans have seen 35% growth, and special mention must be made of the low rate of default in retail, SME and priority sector lending. On loan against gold, we have doubled our portfolio in the first nine months to Rs36bn. We expect to close the year at around Rs50bn. Our original estimate was 18% growth, but the environment is very challenging and I think we will close the current year with 16% growth. We are very strong in the South and growing rapidly in the North and West. We are adding 250 branches by March, of which 153 branches have already been opened.

We are purposefully moderating the credit growth

M Narendra (CMD, Indian Overseas Bank) (link)
Today, we are not so aggressive on credit growth. We are purposefully moderating the credit growth. Our credit growth is a little better in the international market while the domestic credit is better than the industry average. In October-December quarter, large corporate loans grew only 7.5% y-o-y. However, retail credit expanded 30% during the same time. We are primarily intending to diversify the credit growth and look for more working capital loans. We are not looking for large corporate long term lending now. Under the present circumstances, the share of large corporate lending would be around 35%. However, it may change if there is any improvement in the economy.

I would not like to increase the balance sheet but want the business mix to change.

R M Malla (Chairman & MD, IDBI Bank) (link)
It does not matter whether we are the 7th or 8th in the pecking order. What is more sustainable is that one must have access to top clients of this nation and access to CASA. So, given a choice, I would not like to increase the balance sheet but want the business mix to

change. Today, our CASA is at 23-24%. I would want deposits to remain the same but the CASA at 30%. On the asset side, we have 68% wholesale and 32% retail assets. We would want a mix of wholesale at 64% and retail advances (including SME and agri) at 34%. What definitely matters is our ultimate profits. One thing we don't add in our NIM is our fee-based income which is one thing that excites me the most. Whenever any manufacturing or infrastructure comes up, invariably we are among the top who are approached. If IDBI agrees to do an appraisal and underwrite or syndicate a loan, it is guaranteed that its financial closure is assured.

We don't have any plans to enter a new line of business as of now

Murali Natarajan (MD & CEO, Development Credit Bank) (link)
We don't have any plans to enter a new line of business as of now. Currently, 42% of our loans are in the retail segment. Out of that, bulk is in retail mortgages. Our retail portfolio will stay in the 40-45% range (of total advances) with a lot of focus on mortgages. In mortgages, we do home loans and loan against property in the mix of about 40:60. About 25% of our loans are to small and medium enterprises, and again we don't see that mix changing dramatically. Another 20-odd percentage is in the form of corporate loans. The balance is in agriculture and inclusive banking segments to meet the priority sector lending target. In terms of business mix, we intend to remain the same. We do not plan to go into funding infrastructure, as we do not have that kind of expertise.

The disbursement of home loans has been growing

Anil Kothuri (CEO, Edelweiss Housing Finance) (link)
As inflation has been going up for the past few years, housing prices have also increased. Construction costs have also increased. In 2008, construction cost was Rs 1,200 a square feet, and this in 2012 rose to Rs 2,000 per sq.ft. However, incomes have also increased. The disbursement of home loans, which is a proxy for the housing sector's growth, has been growing. In 2002, mortgages as a percentage of gross domestic product (GDP) was about 2.5%. From then to now, it has grown to about 7.5% of GDP.

Banks have started lending to us and commercial paper market is becoming active

V P Nandakumar (CMD, Manappuram Finance) (link)
There was some uncertainty due to the regulatory overhang till the release of Rao Committee report. The uncertainty caused banks to hold-up proposals for finance which affected us significantly along with the drought in the commercial paper market. Fortunately, both the adverse situations have passed. Now banks have started to sanction loans and the commercial paper market is becoming active. This allows us a visibility of additional funding of nearly Rs10bn to take care of our lending needs. Since we had to repay some of our obligations, we had to string our assets-under-management and this led to some erosion on our customer-base, the effect of which is limited to the short-term of one or two quarters only.

The clarity on transition provisions for existing NBFC was very nice

Bharat Doshi (ED & Group CFO, M&M) (link)
The clarity on transition provisions for existing NBFC was very nice. The guidelines and the sentence, that existing NBFCs would be permitted to convert themselves to or alternately promote a bank. That is the option given. However, one would need more clarity on the transition provisions and how they would apply. They are looking for people who are financially sound. They do not want many entrance of Rs1bn or Rs500m, instead they want Rs5bn to come in. That is the expectation by RBI. That expectation is in a way becoming clearer, that somebody who is in it for a long run.

We will not like to apply for a banking license under our own umbrella

D K Mehrota (Chairman, LIC) (link)
We will not like to apply for a banking license under our own umbrella. Let it be through one of our arms. This is because, we are in the business of giving risk cover and want to continue to do that. We have asked LIC Housing Finance Limited -- the home loan arm to have a look at the guidelines. They are working on it and will come back to us. If they find it favourable, they may move forward as well.

Figure 31

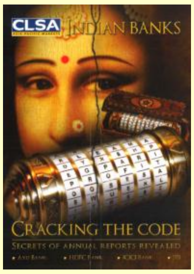
India Banking calendar– March-April 2013

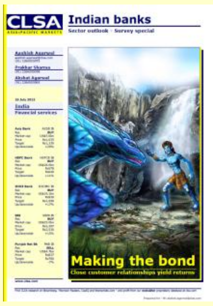
CLSA ASIA-PACIFIC MARKETS

India: Banking calendar - March-April 2013

Monday	Tuesday	Wednesday	Thursday	Friday	Saturday	Sunday
March 4	5	6 RBI: Fortnightly update	7	8 RBI: Weekly stat. supplem	9	10
11	12	13	14 **WPI Inflation details**	15 RBI: Weekly stat. supplem	16	17
18	19 **Mid-quarter monetary policy review**	20 RBI: Fortnightly update	21	22 RBI: Weekly stat. supplem	23	24
25	26	27	28 **Balance of payments data**	29 RBI: Weekly stat. supplem	30	31
April 1	2	3 RBI: Fortnightly update	4	5 RBI: Weekly stat. supplem	6	7

Source: Bloomberg, News, CLSA Asia-Pacific Markets





Latest CLSA financial sector research

New sector reports

1. Sector report, 'Cracking the code' and four company reports
    a. SBI
    b. ICICI Bank
    c. HDFC Bank
    d. Axis Bank
2. Indian Banks – Making the bond

Links to sector reports

1. New Insurance norms
2. Terms of new bank licenses
3. A new divergence – 3QFY13 review
4. Rate cut and more
5. Indian Financials – 3QFY13 preview
6. 9 Themes for 2013
7. The new wage snowball
8. NBFCs- New risks for banks?
9. Interest rate view

Other company notes

1. HDFC – Management meeting notes (link)
2. Max India – Well placed (link)
3. SBI – On a tightrope (link)

Links to FY12 annual report analysis

1. **HDFC**- FY12 Annual report analysis (link)
2. **IDFC** – FY12 Annual report analysis (link)
3. **SBI** – FY12 Annual report analysis (link)
4. **HDFC Bank** – FY12 Annual report analysis (link)
5. **ICICI Bank** – FY12 Annual report analysis (link)
6. **Axis Bank** – FY12 Annual report analysis (link)

Previous Banking Monthly: (12-February-2013)

Other detailed reports on banking sector

1. **Chindia banking**- On their way up (link)
2. **Personal banking survey**, 2011 (link)
3. **Banking sector report:** Coming of age (report, data book)

**This report is priced as on 7th March 2013*

Companies mentioned

Axis Bank (AXSB - RS1,407.3 - BUY)
Bank of Baroda (BOB - RS732.0 - OUTPERFORM)
Bank of India (BOI - RS319.4 - OUTPERFORM)
Canara Bank (CBK - RS432.2 - UNDERPERFORM)
Corporation Bank (CRPBK - RS402.2 - UNDERPERFORM)
HDFC (HDFC - RS813.3 - BUY)
HDFC Bank (HDFCB - RS657.0 - BUY)
ICICI Bank (ICICIBC - RS1,138.7 - BUY)
IDFC (IDFC - RS160.1 - BUY)
IndusInd Bank (IIB - RS436.1 - BUY)
J&K Bank (JKBK - RS1,268.5 - BUY)
OBC (OBC - RS281.2 - UNDERPERFORM)
PNB (PNB - RS814.2 - OUTPERFORM)
Power Finance (POWF - RS202.4 - UNDERPERFORM)
Rural Electrification (RECL - RS232.8 - UNDERPERFORM)
SBI (SBIN - RS2,204.1 - BUY)
Union Bank (UNBK - RS232.8 - OUTPERFORM)
Yes Bank (YES - RS486.1 - OUTPERFORM)

Key to CLSA investment rankings: BUY: Total return expected to exceed market return AND provide 20% or greater absolute return; **O-PF**: Total return expected to be greater than market return but less than 20% absolute return; **U-PF**: Total return expected to be less than market return but expected to provide a positive absolute return; **SELL**: Total return expected to be less than market return AND to provide a negative absolute return. For relative performance, we benchmark the 12-month total return (including dividends) for the stock against the 12-month forecast return (including dividends) for the local market where the stock is traded.