CLSA
ASIA-PACIFIC MARKETS

# Indian Financials

## Sector outlook


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**India**
**Financial services**

# Banking Monthly

### What's inside?



### Takeaways: Management meeting and interviews

With asset quality risks being high and slowdown in economic growth, especially in investment activity, most banks are looking to focus on retail lending in FY13. This segment has been the stronghold of private banks and SBI, but we understand that other PSU banks are also looking to increase their focus. While competition in this segment could intensify, banks are yet not looking to undercut on margins. The new Basel norms on capital adequacy will increase capital requirements for banks, but our conversations with some rating agencies indicate that higher capital adequacy is likely to encourage a rating upgrade for banks.

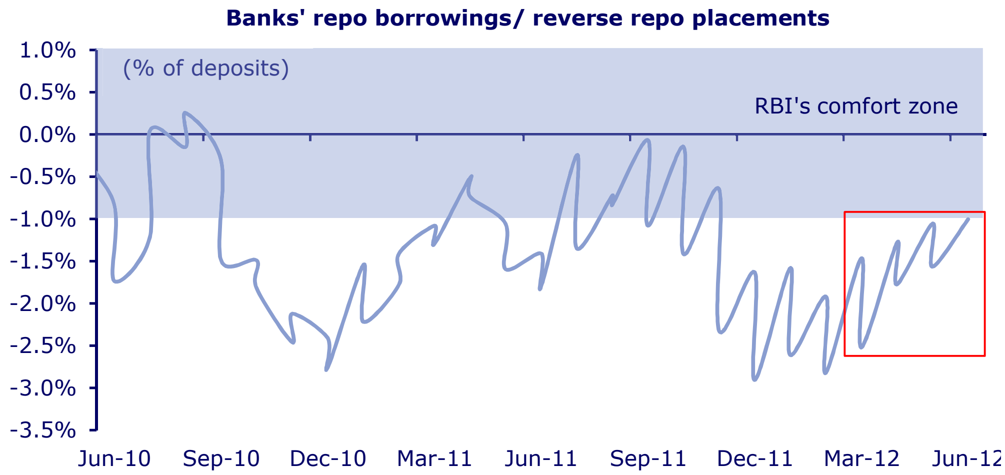
### Sector round-up: FY12 a year of divergence; yield curve inverted

While profit growth in 4QFY12 was healthy for most, underlying quality was good only for a few. In FY12, net NPLs of private banks have declined by 13%, but PSU banks have seen them rise by 56%. The two banks that surprised positively were SBI, with peaking asset quality pressures, and ICICI, with expansion in margins and low NPLs. PSU banks have reported relatively better Casa growth. In FY13, while we expect asset quality pressures to rise, divergence between private and PSU banks will continue. On the liquidity side, while there has been persistent pressure on forex inflow (evident from depreciation of Rupee), domestic liquidity conditions were close to RBI comfort-zone at ~1% of liabilities. This may be due to open market operations (OMO) and some uptick in government expenditure. However, the upcoming advance tax-payments will push-up repo borrowings. Yield curve remains inverted with 1 year money costing 35bps more than 10 year money.

### Update on insurance and mutual funds: Apr-12

During Apr-12, annualised NBP of sector declined by 7% YoY led by 16% decline in NBP of private players. While LIC reported a modest decline of 3%, it was first fall in last eight months. During Apr-12, assets of the mutual funds fell by 13% YoY but increased 16% MoM (partly seasonal as AUMs decline in March)- debt schemes saw large inflows, but equity schemes saw outflows.

**Chart of the month: Tightness in liquidity eased marginally, but may tighten again**




Source: Bloomberg, CLSA Asia-Pacific Markets

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# Banking sector update

## Bankex relative performance

Figure 1

**While banks underperformed Sensex during in May…**

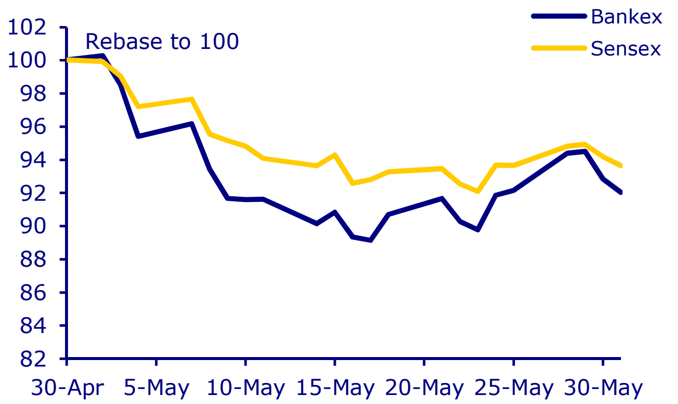
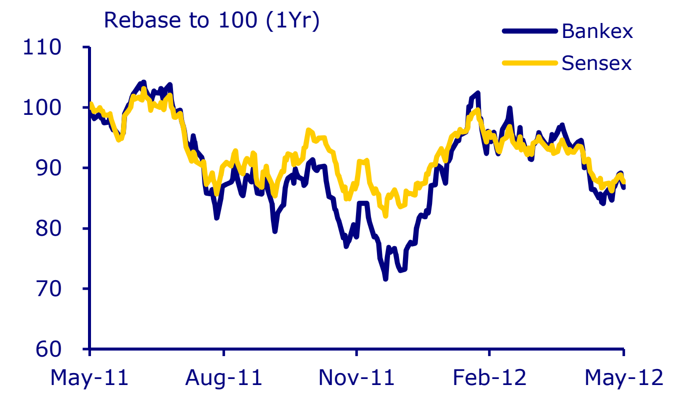



Figure 2

**… performance is in line over the past year**




Source: Bloomberg, CLSA Asia-Pacific Markets

## Regulatory and sector newsflow

- As per a media report, **banks may impose stricter conditions to restructure loans** which include increasing the promoters' contribution from 15% of the sacrifice that lenders make to 20-25%.

**New securitisation norms**

- RBI has finalised the norms on **securitisation and assignment of assets**.

**During May, RBI bought Rs321bn of bonds through OMO**

- During May-12, **Reserve Bank of India** (RBI) bought government securities worth Rs321bn through three rounds of open market operations (OMO) to ease liquidity conditions.
- As per media reports, the **Ministry of finance** has approved a proposal from the ministry overseeing **textile sector** to extend some financial support to the sector probably through restructuring loans worth Rs350bn.
- **RBI** has notified that risk weight on exposures to infrastructure projects under public-private partnership (PPP) that have been in operation for at least one year will be lowered from 100% to 50%.
- **RBI** has asked banks to transparently share borrower information when the borrower seeks to transfer a loan from one bank to another
- The **Finance Ministry** may put a cap on the amount of bulk deposits that PSU banks can raise in the last quarter of the year to avoid short-term lending towards year-end.
- As per **National Housing Bank** (housing finance companies (HFC) regulator), loan portfolios of HFCs have grown at 18% YoY during FY12 as compared to 22% YoY during FY11.

## Company newsflows

- Rating agency **Moody's** has downgraded the standalone bank financial strength rating (BFSR) of **Axis Bank, HDFC Bank, ICICI Bank** to D+ from C- to be in line with the sovereign rating for India.
- **Axis Bank** has raised the minimum average quarterly balance on savings accounts to Rs10,000 and has also raised some charges to be in line with other private banks.

**SBI raised interest rates by 75-175bps on FCNR (B) deposits.**

- **State Bank of India** (SBI) has raised interest rates by 75-175bps on FCNR (B) deposits for various maturities and currencies. The hike follows the hike in ceiling by the RBI on such deposits.
- **Bank of India** will acquire 51% stake in **Bharti Axa Mutual Fund**. It will acquire 26% stake from **Axa Investment** and the entire 25% stake of **Bharti Enterprises'** marking its exit from the business. As on March 2012 the fund had AUMs of Rs1.5bn.

## Interesting interviews

**Roughly 15% restructured assets do turn into NPA**

**Mr. Anand Sinha (Dy. Governor, RBI)** (link)
To my mind, restructuring is a very legitimate and a desirable tool to deal with a stress situation. In certain parts of the world, more particularly Asia and that is where we were also prior to 2001, any restructured asset would be treated as a NPA and then after a defined period of performance according to the rescheduled instalments, you could upgrade it. The question is whether restructured assets are really NPA, and I mean this from an economic sense not a classification sense. The evidence that we have so far is that roughly 15% restructured assets do turn into NPA. In some banks it is much lower, that's what we understand, but overall 15% does turn into NPA. 85% is not NPA, therefore it should not be a threat to the economy.

**We are far ahead of others in recognizing the NPAs**

**Mr. Pratip Chaudhuri (Chairman, State Bank of India)** (link)
We are far ahead of others in recognizing the NPAs. So in Q2 and Q3, we erred on the side of caution anything that looked difficult, anything that was on the border line, we recognized it as NPA. So, the residual work in the Q4 was very less. The Q4 recovery efforts are intensified because in November, we brought back head of a zone, which we call the Deputy General Managers at the modules. That helped to coordinate direct and concentrate the recovery effort. We are looking at the margins very closely and month after month the margins have improved. Another factor that has led to the improvement in margins is the generous cut in CRR by Reserve Bank of India. Last year, for almost the full year, we kept CRR at 6%.

**If you look at our own restructures assets, the slippage into NPL is less than 5%**

**Mr. N S Kannan (Executive Director, ICICI Bank)** (link)
My sense is since October-November, I haven't seen large scale fresh reference to corporate debt restructuring schemes (CDR). So I would say broadly that would be true for industry as well, but we will have to wait and see how it pans out. The NPLs and restructured assets are qualitatively different, that is a point I would like to make, and that is born out of our own experience as well. If you look at the restructured assets, it will work only when fundamentally the business model is viable and you have some short-term problems such as the cash flow issues. But if you are fundamentally going to restructure a company which is not viable, it is not going to work. It is going to get shown up as an NPA within few quarters. So it's only a postponement of problem. If you look at our own restructures assets, the slippage into NPL is less than 5%. So I would suggest that these two categories should qualitatively look different.

**We expect a growth of18%, in-line with what we expected last year**

**Mr. Keki Mistry (Vice Chairman and CEO, HDFC)** (link)
If you look at spreads, spreads represents difference between lending and borrowing rates and if we take the last ten years, you will see that the spreads in the range of a low of 2.15 to a high of 2.35. If we look at last four-five years spreads, it has been between 2.25 and 2.35%. We don't expect that to change and it will remain in the same range. We are reasonable confident that unless we get to a situation where people start losing jobs, we should continue to expect a growth in-line with what we expected last year, which was around 18%. Our guidance has always been around 18% growth. In reality, we have grown at a faster pace in the last three-four years.

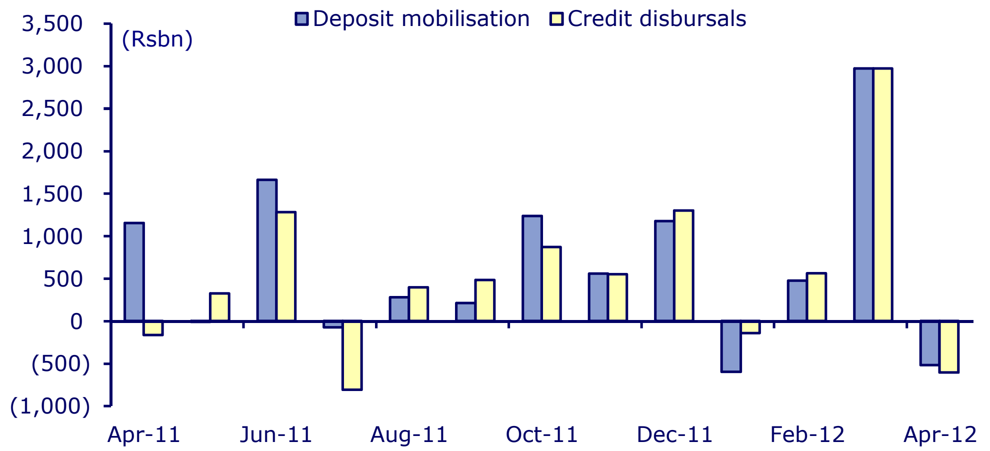
***Please see other news and interviews in pages 23-33.***

## Banking trends

**Balance sheet consolidates after the year end**

Figure 3

**Seasonal net outflows were seen in deposits and credit during Apr-12**

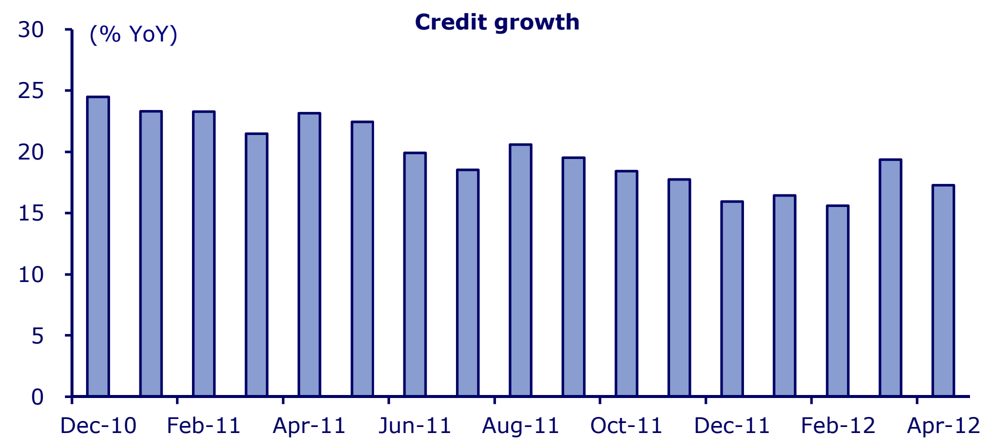



Note: As on 4th May-12 (closest fortnight to end April). Source: RBI, CLSA Asia-Pacific Markets

**Post a sharp uptick in Mar-12, credit growth moderated to 17%**

Figure 4

**Credit growth moderated to 17% YoY in Apr-12**

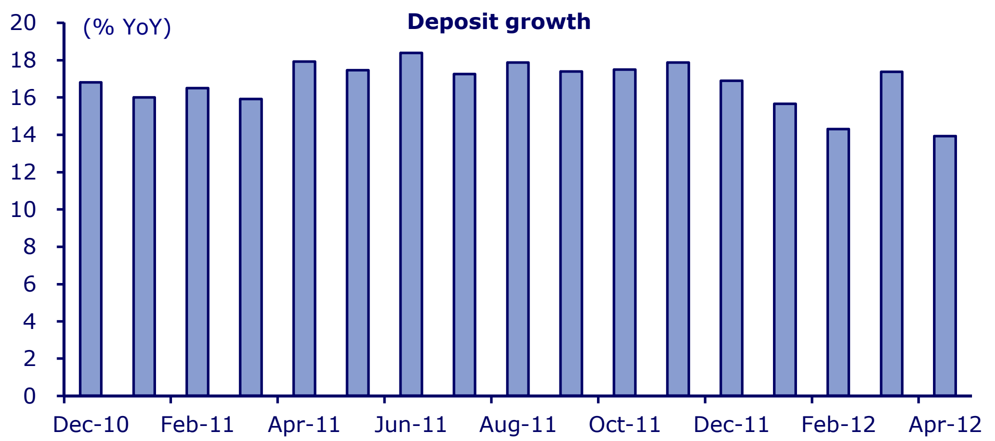



Note: As on 4th May-12 (closest fortnight to end April). Source: RBI, CLSA Asia Pacific Markets

**Deposit growth remains below RBI's expectations of 16% for FY13**

Figure 5

**Deposit growth also fell to 14% YoY in Apr-12**




Note: As on 4th May-12 (closest fortnight to end April). Source: RBI, CLSA Asia-Pacific Markets

**Credit grew by 17% YoY**

**Food credit grew by 82% YoY from a low base**

**Moderation in industry loan growth is led by infrastructure segment**

**Infrastructure sector loan growth has declined from 38% in Apr-11**

**Loans to services sector grew by 16% YoY driven by loans to NBFCs**

**Retail loans grew by 11%**

**Auto loans grew at a higher pace within the segment**

**Moderation in most segments**

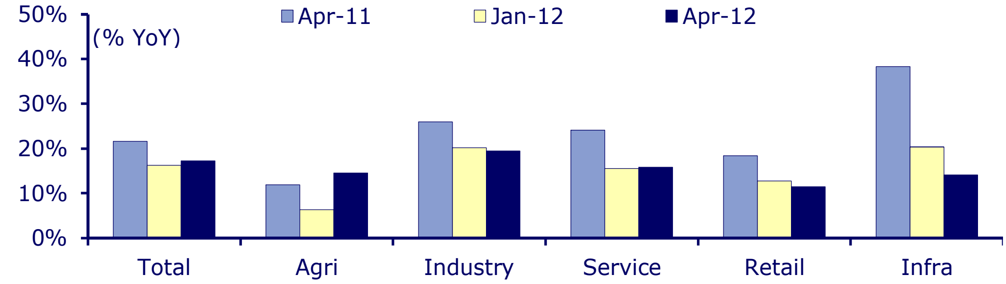
Figure6

**Key trends in Sector credit - Growth and share: 20th Apr-12**

| | Amount Rsbn | Share % of loans | Growth % YoY |
|---|---|---|---|
| **Gross Bank Credit** | **43,642** | **100%** | **17%** |
| Food Credit | 811 | 2% | 82% |
| **Non-food Credit** | **42,831** | **98%** | **16%** |
| **Agriculture & Allied Activities** | **5,186** | **12%** | **15%** |
| **Industry** | **19,561** | **45%** | **19%** |
| **By size** | | | |
| Micro & Small | 2,619 | 6% | 12% |
| Medium | 2,050 | 5% | 10% |
| Large | 14,892 | 34% | 22% |
| **By key sectors** | | | |
| Textiles | 1,600 | 4% | 10% |
| Petroleum etc | 654 | 1% | 13% |
| Chemicals | 1,099 | 3% | 19% |
| Basic Metal & Metal Product | 2,567 | 6% | 21% |
| Infrastructure | 6,166 | 14% | 14% |
| Power | 3,264 | 7% | 17% |
| Telecommunications | 949 | 2% | -5% |
| Roads | 1,144 | 3% | 20% |
| Other Infrastructure | 809 | 2% | 24% |
| **Services** | **10,381** | **24%** | **16%** |
| Transport Operators | 725 | 2% | 11% |
| Trade | 2,208 | 5% | 19% |
| Commercial Real Estate | 1,211 | 3% | 6% |
| NBFCs | 2,369 | 5% | 36% |
| Other Services | 2,673 | 6% | 9% |
| **Personal Loans** | **7,704** | **18%** | **11%** |
| Housing | 3,922 | 9% | 11% |
| Loans on deposits | 649 | 1% | 8% |
| Loans against shares | 40 | 0% | 16% |
| Credit Card | 210 | 0% | 22% |
| Education | 502 | 1% | 15% |
| Auto | 957 | 2% | 19% |

Figure 7

**Sector-wise credit growth: Apr-12**

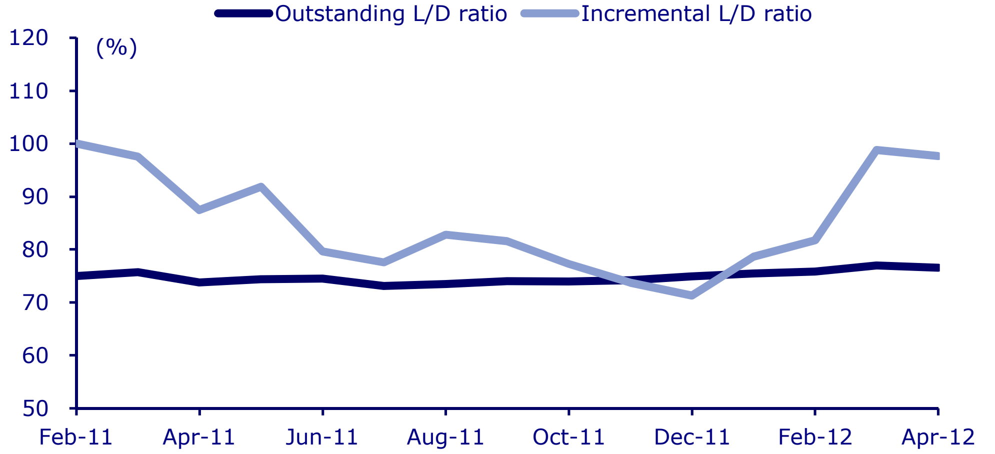



Source: RBI, CLSA Asia-Pacific Markets

**Incremental LDR has increased to 92%**

Figure 8

**Loan deposit ratio at 77%**

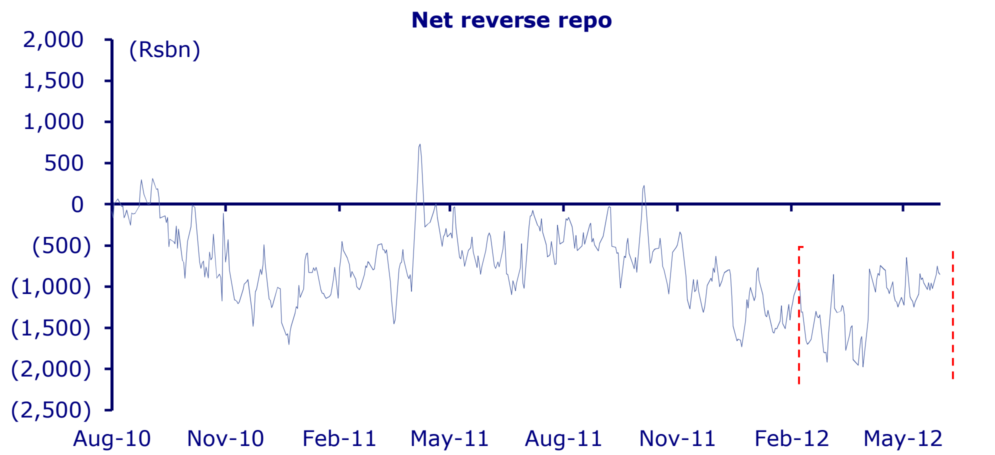



Note: As on 4th May-12 (closest fortnight to end April). Source: RBI, CLSA Asia-Pacific Markets

**OMOs have also supported liquidity levels**

Figure 9

**During May-12, tightness in liquidity eased marginally**




Source: Bloomberg, CLSA Asia-Pacific Markets

Figure 10

**While 10-year yields were stable...**

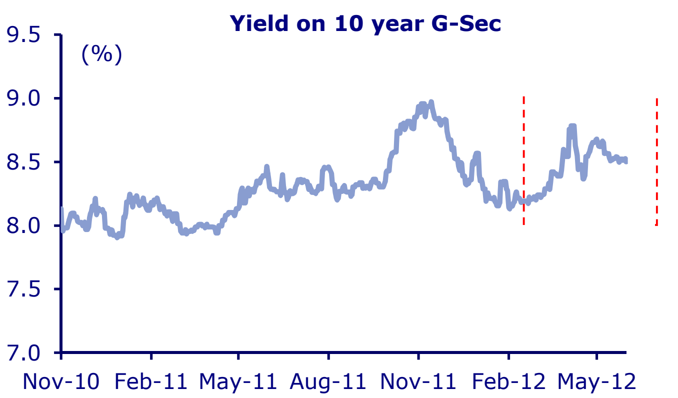
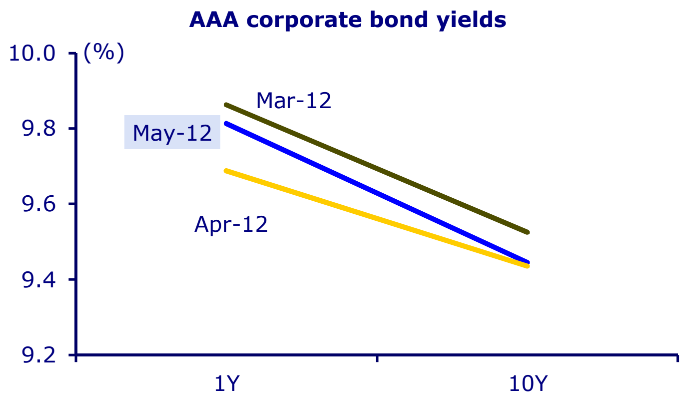



Figure 11

**... inversion in yield curve has increased**




Source: Bloomberg, CLSA Asia-Pacific Markets

**Post cuts in lending rates, banks have cut deposit rates**

**Rupee has depreciated 6% during May**

Figure 12

**Interest rate movement**

| Interest rates (%) | Feb-12 | Mar-12 | Apr-12 | May-12 |
|---|---|---|---|---|
| **Mortgage Rates** | | | | |
| HDFC (%) | 10.75-11.5 | 10.75-11.5 | 10.75-11.5 | 10.75-11.5 |
| Base Rate | 10-10.75 | 10-10.75 | 9.75-10.5 | 9.75-10.5 |
| 1year deposit rates (%) | 9.3-9.8 | 9.3-9.8 | 9.0-9.5 | 8.75-9.5 |
| 10yr Bond Yield (%) | 8.2 | 8.6 | 8.7 | 8.5 |
| Call money rate (low-high) (%) | 8.4-9.2 | 8.3-9.4 | 7.5-9.0 | 7.8-8.9 |
| INR/US$ | 49.5 | 51.3 | 52.7 | 56.1 |

Source: CLSA Asia-Pacific Markets, Bloomberg, RBI. Base Rate of ICICI Bank is 9.75%.

**Interest rates for deposits for 1-3 years are higher than rates for 3-5 years**

**Banks have lowered short-term deposit rates post repo rate cuts by RBI**

Figure 13

**Deposit rate matrix**

| Banks | Term Deposit Rates (%) | | |
|---|---|---|---|
| | <1 Year | 1-3 Year | 3-5 Year |
| State Bank of India | 7.50 | 9.00 | 8.75 |
| ICICI Bank | 7.75 | 9.25 | 9.25 |
| Axis Bank | 7.50 | 9.25 | 9.30 |
| HDFC Bank | 8.00 | 9.25 | 9.25 |
| Bank of Baroda | 7.50 | 8.85 | 8.50 |
| Bank of India | 8.25 | 9.35 | 9.30 |
| Union Bank of India | 8.75 | 9.25 | 9.00 |

Source: Company Data, CLSA Asia-Pacific Markets

## Macro trends

**Inflation was at 7.2% in Apr-12**

**M3 growth has moderated since Dec-11**

Figure 14

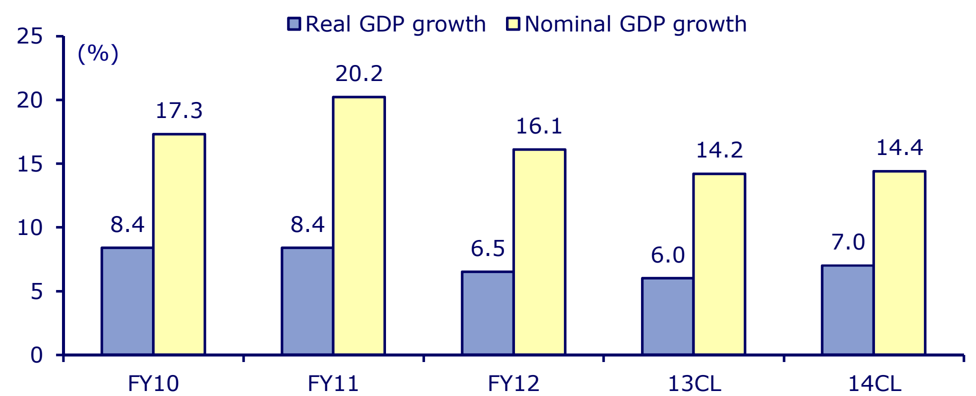
| Particulars | Nov-11 | Dec-11 | Jan-12 | Feb-12 | Mar-12 | Apr-12 |
|---|---|---|---|---|---|---|
| WPI (%) | 9.5 | 7.7 | 6.9 | 7.4 | 6.9 | 7.2 |
| Forex Reserves (US$bn) | 270 | 263 | 260 | 261 | 260 | 261 |
| M3 growth (%) | 15 | 16 | 14 | 14 | 13 | 13 |
| Bank Credit (Rsbn) | 42,354 | 43,656 | 43,513 | 44,075 | 47,048 | 46,177 |
| Agg. Deposits (Rsbn) | 57,101 | 58,279 | 57,681 | 58,155 | 61,125 | 60,326 |
| IIP growth (%) | 6.0 | 2.7 | 1.1 | 4.1 | (3.5) | Na |
| - Basic (%) | 6.5 | 5.5 | 1.8 | 7.7 | 1.1 | Na |
| - Capital (%) | (4.7) | (16.0) | (1.7) | 10.2 | (21.3) | Na |
| - Intermediate (%) | 1.3 | (1.5) | (2.8) | (0.2) | (2.1) | Na |
| - Consumer (%) | 12.8 | 10.1 | 2.9 | (0.3) | 0.7 | Na |
| + Consumer durables (%) | 10.4 | 5.1 | (7.1) | (6.1) | 0.2 | Na |
| + Consumer non durables (%) | 15.0 | 13.8 | 11.0 | 4.5 | 1.0 | Na |

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

**Our economist will lower real GDP growth for FY13 to ~6%**

Figure 15

**Trends in GDP growth and estimates**




Source: CLSA Asia-Pacific Markets

## Industry interactions

### SBI (SBIN IN – Rs2056 – BUY)

**Expect loans to grow in line with sector over FY13**

#### Loan growth

- During FY13, expect to grow in line with sector but with quality. This is also contingent on deposit growth.
- On corporate side the focus is on term loans vs. working capital loans as they have higher yields, and lower volatility.

#### Margins

**Margins are likely to be stable/ improve**

- Bank is witnessing an improvement in margins to the tune of 2-3bps every month. The CRR cut is likely to result in higher NIMs.

#### Asset quality

- Asset quality pressures seem to have peaked during FY12.
- Slippages in corporate loans are tapering off. Going forward bank will grow its secured loans portfolio to limit losses.

**Pace of restructuring may come down**

- Pace of restructuring requirement may come down; Companies with FCCB that are maturing may be at risk.
- For first two quarters, Rs30bn of restructuring may be done per quarter.

**Bank expects deposit growth to be a challenge**

#### Deposits

- Bank is staying away from bulk deposits and focusing on retail deposits.
- Deposit growth may be a challenge going forward.

#### Capital adequacy

- Risk weighted assets are expected to grow in line with assets going forward.
- Bank has focussed on capital efficiency to improve its capital adequacy ratios.

#### Others

- Bank plans to strengthen its branch network in urban and metro areas.
- All pension liabilities have been funded. No unamortised pension liabilities are on the books at present.

### ICICI Bank (ICICIBC IN – Rs784 – BUY)

**Expect loans to grow at 20% YoY over FY13**

#### Loan growth

- Banks aim to grow its mortgage book in the range of 30-40% during FY13.
- On corporate side, bank is witnessing a demand for working capital loans.
- Credit growth expectation for domestic operations is 20% based on sector growth of 18%.

**Expect margins to expand during FY13**

#### Margins

- Expect some expansion in margins in FY13, though 1QFY13 is likely to see an increase in funding costs.
- Bank will cut lending rates only when there is visibility on fall in deposit rates.

#### Asset quality

**Asset quality remains strong**

- Asset quality remains strong and bank is not witness stress in its portfolio.
- Loan restructuring is likely to be low going forward.

## Deposits

**Casa deposit mobilisation to be difficult this year**

- Casa deposit mobilisation was difficult last year and so would be the case this year as well. Especially savings accounts; current accounts are difficult to predict.
- Salary accounts becoming a challenge as not many companies are adding new employees, hence growth in salary accounts will come from adding new companies.
- Bank hasn't seen a material loss on account of hikes in savings account interest rates by smaller private banks.

## Distribution network

- While the bank plans to add ~250 branches in FY13 to drive savings account deposit growth, the expansion will be a function of RBI regulations.
- ATM interchange fee is a key reason for the aggressive expansion in ATM network.
- Bank is also using the outsourcing model to expand ATM network.

## IDFC (IDFC IN – Rs125 – BUY)

## Loan growth

**Loan growth to be close to 20% in FY13**

- The fresh demand is coming from (1) refinancing of road projects that have completed construction, (2) incumbent telecom operators that are refinancing their loans and (3) disbursal to power projects that are under construction.
- Management indicated healthy pipeline of undisbursed sanctions and proposals in telecom and transportation sector, but fresh activity in the power remains tepid. Loan growth for FY13 expected to be in the range of 20%.

## Margins

**Margins to be stable**

- Management expects spreads to be stable during FY13.
- Fall in cost of funds will help to grow in refinancing business without the sacrifice of spreads.

## Asset Quality

- Asset quality remains strong and proportion of restructured loans has declined (in the range of 1-2%).

**Better underwriting has led to strong asset quality**

- The key reason for IDFC's strong asset quality is its project selection capabilities; it is difficult to structure a loan in a way to protect lender interests if the project faces troubles.
- Loan loss reserves will be maintained above 1% of loans, but is not likely to rise above 1.7-1.8% of loans.

## Business outlook

- The definition of infrastructure sector has been widened to include healthcare, pipelines etc. IDFC will look to build capabilities to participate in these sectors.
- During FY12, IDFC's asset management business reported a profit of ~Rs140m.

## J&K Bank (JKBK IN – Rs929 – BUY)

### Loan growth

- Loan growth within J&K was ~20%, loan growth outside J&K was more than 40%.

### Margins

- Margins rose in the last quarter as the bank did not mobilize term deposits at all in the last quarter. NIMs to remain in the range of 3.5-4%

**Asset quality in J&K is as stable as that outside J&K**

### Asset Quality

- Slippages in 4QFY12 were well spread both across sectors and geography. No particular chunky accounts.
- There is no significant restructuring pipeline lined up. Outside of J&K, where bank has significant corporate exposure, it has compromised on yields so that loans could be given to higher rated corporates.
- Asset quality in J&K is as stable as that outside J&K.
- Bank will completely transition to system based NPA recognition by June. Currently accounts above Rs5m have been transitioned

### Business outlook

- J&K bank commands nearly 63% of total deposits in J&K. There's no major competition within state, whatever competition it faces is from SBI, PNB and to some extent HDFC Bank.

**For FY13, expect ROA and ROE to be 1.5% and 20% respectively**

### Guidance for FY13:

- ROA – 1.5%
- ROE – 20%
- Cost/ income ratio – 35%
- Credit/ Deposit ratio– 65%
- Net Interest Margins– 3.5-4%
- Total business – Rs1tn
- Net profit – Rs10bn

## Canara Bank (CBK IN – Rs403 – U-PF)

### Business Outlook

- During FY12, bank slowed business growth to consolidate position.

**Expect loans to grow at 18-19% over FY13**

### Loan growth

- For FY13, loan growth is expected to be in the range of 18-19%.

### Margins

- Cost of deposits has more than offset a rise in yield on advances to compress margins

### Asset Quality

- Bank plans to restructure nearly half of its exposure to SEBs (Rs120bn) in the coming quarters- but it is not likely to entail NPV losses.
- Recoveries from small accounts were high as the bank conducted large scale recovery exercises.

### Network expansion

- Bank plans to open 325 branches during FY13 and increase its ATM network to 4000.

## Punjab National Bank (PNB IN – Rs756 – U-PF)

### Loan growth

- Management expects credit growth of 19% for FY13.

**Expect NIMs to be ~3.5% in FY13**

### Margins

- Margins to remain close to 3.5% in FY13.
- Margin compression during 4QFY12 was due to increase in cost of deposits and interest reversion of accounts recognised as NPAs.

**MSME sector may face risk going forward**

### Asset Quality

- Exposure to power sector increased on a sequential basis due to disbursals to already sanctioned loans.
- Most of the restructuring has been done by the bank.
- MSME sector may face stress in the current macroeconomic backdrop.

### Capital adequacy

- Commercial real estate portfolio is being realigned to reduce the risk. Outstanding book is reduced and share of lease rentals is being increased to reduce risk weights
- Capital adequacy has improved due to the capital infusion by Government and LIC.

## Standard & Poor's (rating agency, No-Rec)

### Ratings

- Downgrade of Indian banks if and when will be more due to downgrade of sovereign rating rather than their individual risk position and capital positions.

### Capital Adequacy

- Only ICICI Bank and HDFC Bank are well capitalised.
- India is not very conservative as compared to Basel 3 guidelines implemented by some other Asian countries.

**Higher capital adequacy can help to improve credit rating**

- Higher capital adequacy based on Basel III norms can also encourage rating agencies to upgrade their ratings.

### Asset Quality

- Some Indian banks are at tipping point on asset quality. Reported NPLs may not go up much though restructured loans may be around 7% of loans.
- PSU bank problems on asset quality are higher because of their exposure to high risk sectors.
- Quality of power exposures of private banks appear to be better than those of public sector banks.

## SREI Infrastructure Finance Limited (No-Rec)

- SREI is infrastructure financing company that focusses on equipment and project financing.
- It also has some fees based business (dominated by a venture capital fund) and some strategic investment in telecom tower company as well as other infrastructure sectors (power, roads etc.)
- **Equipment financing business**

**The equipment financing business is housed in a 50:50 JV with BNP Paribas**

  - The equipment financing business is housed in a 50:50 joint venture with BNP Paribas with assets of Rs169bn.
  - It focuses on financing equipment including excavator, dumpers and crushing plants- it focusses on financing generic equipment as these are fungible, than customised equipment, and hence provide better value in case of recovery.
- **Project financing business**

**The project financing business is dominated by power and transportation**

  - The project financing business has assets of Rs92bn and dominated by power (40%) and transportation (33%) sectors.
- Asset growth was strong during FY12 at 55%, but the NII growth has lagged (21% YoY) due to pressure on margins.
- However, pre-tax profit declined by 18% due to decline in fee income, increase in operating costs and loss on unhedged foreign currency borrowings. PAT fell more (38%) due to higher taxes.

**Asset quality pressures are emerging**

- Asset quality has also started to see some pressure due to tougher economic conditions and slowdown in investment activity.
- **Viom Networks**
  - This is a telecom tower company which is jointly owned by SREI and Tata group.
  - Viom that operates over 40,000 telecom towers and has a high tenancy ratio of 2.4x per tower.
  - However, business could face risk if Uninor (one of the major tenants) exits from telecom sector in India or the investment in the telecom sector slowdowns down for a longer-term.
  - Viom has also seen some high level exits in recent times.
- **Rural digitisation initiative**
  - SREI has also sponsored a public private partnership for rural development under the brand of Sahaj which is focussed on e-governance (digitisation of land records, employment exchange etc.) among others.
  - It has set-up centres in six states and has some ambitious plans ahead.

# Stock performance and valuations

Figure 16

**Banks have underperformed over last month...**

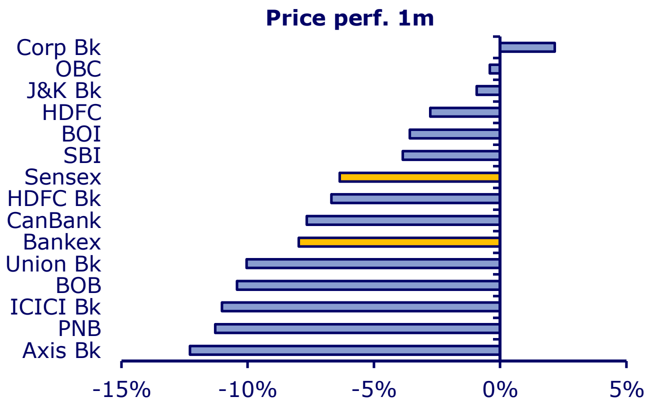
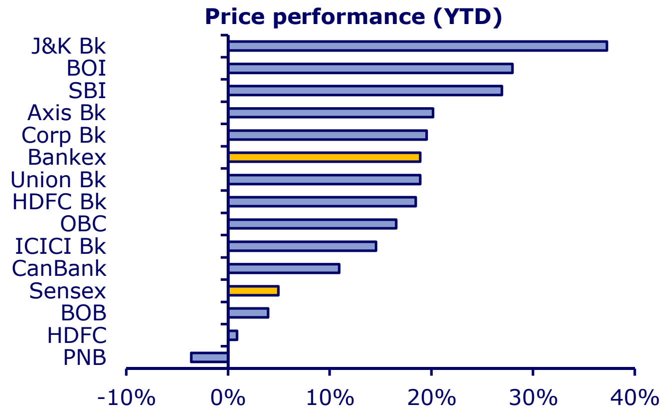



Figure 17

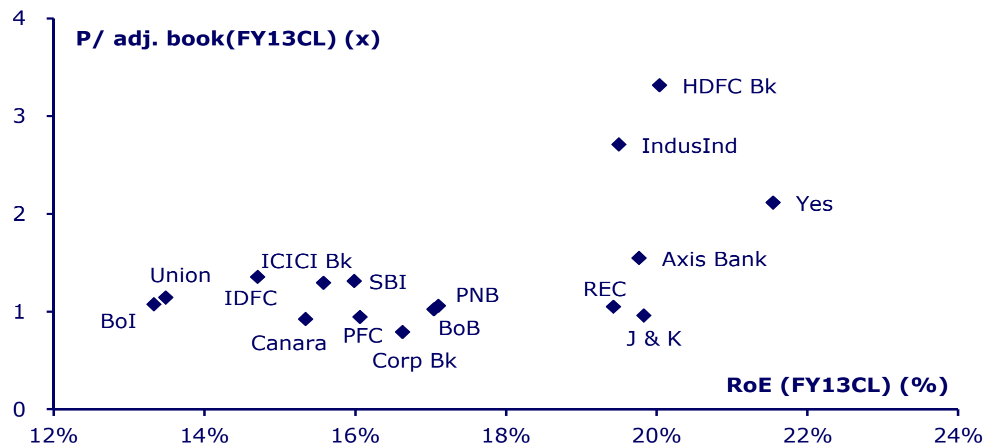
**...but outperformed on a YTD basis**




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/ABVx, FY13CL | ROAE, FY13CL |
|---|---|---|---|---|
| SBI (consolidated) | 2,056 | BUY | 1.3 | 16% |
| ICICI Bank | 784 | BUY | 1.3 | 16% |
| HDFC | 655 | BUY | 3.8 | 28% |
| HDFC Bank | 506 | BUY | 3.3 | 20% |
| Axis Bank | 972 | BUY | 1.5 | 20% |
| Yes Bank | 330 | O-PF | 1.3 | 20% |
| PNB | 756 | U-PF | 1.1 | 17% |
| BOB | 687 | O-PF | 1.0 | 17% |
| BOI | 340 | SELL | 1.1 | 13% |
| Canara | 403 | U-PF | 0.9 | 15% |
| Corporation Bank | 417 | U-PF | 0.8 | 17% |
| Oriental Bank | 229 | SELL | 0.8 | 12% |
| Union | 202 | SELL | 1.1 | 13% |
| J & K | 929 | BUY | 1.0 | 20% |
| IDFC | 125 | BUY | 1.3 | 15% |
| IndusInd | 299 | BUY | 2.7 | 20% |

Source: CLSA Asia-Pacific Markets

Figure 20

## Valuation summary

| | SBI | ICICI Bk | HDFC Bk | Axis Bank | PNB | BoI | BoB | Union | Canara | Corp Bk | J & K | OBC | HDFC | IDFC | Yes | PFC | REC | IndusInd |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| **Mkt Price** | 2,056 | 784 | 506 | 972 | 756 | 340 | 687 | 202 | 403 | 417 | 929 | 229 | 655 | 125 | 330 | 149 | 165 | 299 |
| **Recommendation** | BUY | BUY | BUY | BUY | U-PF | SELL | O-PF | SELL | U-PF | U-PF | BUY | SELL | BUY | BUY | O-PF | U-PF | U-PF | BUY |
| **Price Target** | 2,350 | 1,090 | 640 | 1,330 | 780 | 340 | 780 | 190 | 440 | 390 | 1,090 | 218 | 830 | 150 | 445 | 160 | 180 | 415 |
| **Market Cap.(US$m)** | 23,733 | 16,425 | 21,398 | 7,252 | 4,352 | 3,383 | 4,891 | 1,922 | 3,249 | 1,122 | 819 | 1,216 | 17,476 | 3,316 | 2,084 | 3,108 | 2,958 | 2,529 |
| **Market Cap.(Rsbn)** | 1,305 | 903 | 1,177 | 399 | 239 | 186 | 269 | 106 | 179 | 62 | 45 | 67 | 961 | 182 | 115 | 171 | 163 | 139 |
| **Avg. trading (US$m)** | 143 | 77 | 27 | 50 | 8 | 5 | 12 | 5 | 6 | 1 | 1 | 2 | 37 | 20 | 23 | 12 | 10 | 4 |
| **FY12** | | | | | | | | | | | | | | | | | | |
| BVPS (Rs) | 1,583 | 524 | 128 | 552 | 820 | 365 | 666 | 264 | 512 | 559 | 844 | 409 | 129 | 81 | 132 | 157 | 149 | 101 |
| Price/ book (x) | 1.3 | 1.5 | 4.0 | 1.8 | 0.9 | 0.9 | 1.0 | 0.8 | 0.8 | 0.7 | 1.1 | 0.6 | 5.1 | 1.5 | 2.5 | 0.9 | 1.1 | 3.0 |
| Adjusted BVPS (Rs) | 1,288 | 394 | 132 | 541 | 648 | 281 | 600 | 185 | 391 | 500 | 834 | 296 | 77 | 79 | 132 | 147 | 145 | 94 |
| Subsidiary and others (Rs/ share) | 96 | 185 | | | | | | | | | | | 232 | 6 | | | | |
| **Price/ adjusted book (x)** | **1.5** | **1.5** | **3.8** | **1.8** | **1.2** | **1.2** | **1.1** | **1.1** | **1.0** | **0.8** | **1.1** | **0.8** | **5.5** | **1.5** | **2.5** | **1.0** | **1.1** | **3.2** |
| **FY13** | | | | | | | | | | | | | | | | | | |
| BVPS (Rs) | 1,794 | 569 | 149 | 648 | 943 | 406 | 764 | 288 | 579 | 636 | 983 | 446 | 158 | 89 | 158 | 175 | 169 | 118 |
| Price/ book (x) | 1.1 | 1.4 | 3.4 | 1.5 | 0.8 | 0.8 | 0.9 | 0.7 | 0.7 | 0.7 | 0.9 | 0.5 | 4.1 | 1.4 | 2.1 | 0.8 | 1.0 | 2.5 |
| Adjusted BVPS (Rs) | 1,486 | 435 | 153 | 629 | 715 | 298 | 674 | 189 | 439 | 530 | 971 | 274 | 108 | 87 | 156 | 158 | 158 | 111 |
| Subsidiary and others (Rs/ share) | 111 | 222 | | | | | | | | | | | 244 | 7 | | | | |
| **Price/ adjusted book (x)** | **1.3** | **1.3** | **3.3** | **1.5** | **1.1** | **1.1** | **1.0** | **1.1** | **0.9** | **0.8** | **1.0** | **0.8** | **3.8** | **1.3** | **2.1** | **0.9** | **1.0** | **2.7** |
| **FY14** | | | | | | | | | | | | | | | | | | |
| BVPS (Rs) | 2,043 | 622 | 175 | 764 | 1,079 | 453 | 877 | 316 | 656 | 723 | 1,140 | 491 | 173 | 99 | 190 | 197 | 193 | 139 |
| Price/ book (x) | 1.0 | 1.3 | 2.9 | 1.3 | 0.7 | 0.8 | 0.8 | 0.6 | 0.6 | 0.6 | 0.8 | 0.5 | 3.8 | 1.3 | 1.7 | 0.8 | 0.9 | 2.1 |
| Adjusted BVPS (Rs) | 1,710 | 483 | 179 | 734 | 784 | 318 | 746 | 193 | 487 | 551 | 1,125 | 258 | 123 | 97 | 186 | 176 | 179 | 130 |
| Subsidiary and others (Rs/ share) | 121 | 267 | | | | | | | | | | | 256 | 8 | | | | |
| **Price/ adjusted book (x)** | **1.1** | **1.1** | **2.8** | **1.3** | **1.0** | **1.1** | **0.9** | **1.0** | **0.8** | **0.8** | **0.8** | **0.9** | **3.2** | **1.2** | **1.8** | **0.8** | **0.9** | **2.3** |
| **PER (x) - adj for subs** | | | | | | | | | | | | | | | | | | |
| FY12 | 8.1 | 10.7 | 22.9 | 9.4 | 5.1 | 7.1 | 5.7 | 6.1 | 5.4 | 4.1 | 5.6 | 5.9 | 15.1 | 11.3 | 11.8 | 6.1 | 5.8 | 17.4 |
| FY13CL | 7.5 | 8.3 | 18.3 | 8.2 | 5.0 | 6.6 | 5.6 | 5.5 | 4.8 | 4.2 | 5.1 | 4.5 | 12.4 | 10.2 | 10.5 | 5.6 | 5.3 | 14.0 |
| FY14CL | 6.3 | 6.4 | 14.7 | 6.9 | 4.5 | 5.7 | 4.9 | 5.0 | 4.2 | 3.8 | 4.5 | 3.9 | 10.3 | 8.7 | 8.8 | 4.8 | 4.5 | 11.1 |
| **PB (x)** | | | | | | | | | | | | | | | | | | |
| FY12 | 1.3 | 1.5 | 4.0 | 1.8 | 0.9 | 0.9 | 1.0 | 0.8 | 0.8 | 0.7 | 1.1 | 0.6 | 5.1 | 1.5 | 2.5 | 0.9 | 1.1 | 3.0 |
| FY13CL | 1.1 | 1.4 | 3.4 | 1.5 | 0.8 | 0.8 | 0.9 | 0.7 | 0.7 | 0.7 | 0.9 | 0.5 | 4.1 | 1.4 | 2.1 | 0.8 | 1.0 | 2.5 |
| FY14CL | 1.0 | 1.3 | 2.9 | 1.3 | 0.7 | 0.8 | 0.8 | 0.6 | 0.6 | 0.6 | 0.8 | 0.5 | 3.8 | 1.3 | 1.7 | 0.8 | 0.9 | 2.1 |
| **EPS (Rs)** | | | | | | | | | | | | | | | | | | |
| FY12 | 242 | 56 | 22 | 103 | 149 | 48 | 121 | 33 | 74 | 102 | 166 | 39 | 28 | 10 | 28 | 25 | 29 | 17 |
| FY13CL | 259 | 67 | 28 | 119 | 151 | 52 | 122 | 37 | 84 | 99 | 181 | 51 | 33 | 12 | 31 | 27 | 31 | 21 |
| FY14CL | 307 | 80 | 34 | 142 | 168 | 60 | 141 | 40 | 96 | 111 | 205 | 59 | 39 | 13 | 38 | 31 | 36 | 27 |
| **Core RoE (%)** | | | | | | | | | | | | | | | | | | |
| FY12 | 17% | 14% | 19% | 20% | 20% | 14% | 21% | 13% | 15% | 20% | 21% | 10% | 27% | 15% | 23% | 17% | 20% | 18% |
| FY13CL | 16% | 16% | 20% | 20% | 17% | 13% | 17% | 13% | 15% | 17% | 20% | 12% | 28% | 15% | 22% | 16% | 19% | 20% |
| FY14CL | 17% | 17% | 21% | 20% | 17% | 14% | 17% | 13% | 15% | 16% | 19% | 13% | 27% | 15% | 22% | 17% | 20% | 21% |
| **RoA (%)** | | | | | | | | | | | | | | | | | | |
| FY12 | 0.9% | 1.5% | 1.7% | 1.6% | 1.2% | 0.7% | 1.2% | 0.7% | 0.9% | 1.0% | 1.5% | 0.7% | 2.7% | 2.8% | 1.5% | 2.5% | 2.9% | 1.6% |
| FY13CL | 0.9% | 1.5% | 1.7% | 1.6% | 1.0% | 0.7% | 1.0% | 0.7% | 0.9% | 0.8% | 1.4% | 0.8% | 2.8% | 2.6% | 1.3% | 2.4% | 2.6% | 1.5% |
| FY14CL | 0.9% | 1.6% | 1.7% | 1.5% | 1.0% | 0.7% | 1.0% | 0.7% | 0.9% | 0.8% | 1.4% | 0.8% | 2.8% | 2.5% | 1.3% | 2.4% | 2.7% | 1.6% |
| **Tier 1 Capital (%)** | | | | | | | | | | | | | | | | | | |
| FY12 | 9.8% | 12.7% | 11.6% | 9.5% | 9.3% | 8.6% | 10.8% | 8.4% | 10.4% | 8.3% | 11.0% | 10.1% | 11.7% | 18.5% | 9.9% | 15.2% | 15.1% | 11.4% |
| FY13CL | 9.6% | 11.8% | 11.0% | 9.3% | 9.1% | 8.7% | 10.3% | 7.8% | 10.2% | 8.0% | 10.8% | 9.7% | 13.3% | 18.3% | 9.1% | 14.3% | 14.3% | 10.5% |
| FY14CL | 9.5% | 11.1% | 10.4% | 9.0% | 8.9% | 8.7% | 9.9% | 7.5% | 10.0% | 7.7% | 10.8% | 9.3% | 12.5% | 16.7% | 8.5% | 13.6% | 13.9% | 9.8% |

Source: CLSA Asia-Pacific Markets

Figure 21

## Valuation summary

| | SBI | ICICI Bk | HDFC Bk | Axis Bank | PNB | BoI | BoB | Union | Canara | Corp Bk | J & K | OBC | HDFC | IDFC | Yes | PFC | REC | IndusInd |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| **Gross NPLs (% of loans)** | | | | | | | | | | | | | | | | | | |
| FY12 | 4.5% | 3.7% | 1.0% | 1.1% | 2.9% | 2.3% | 1.5% | 3.0% | 1.7% | 1.3% | 1.5% | 3.2% | 0.8% | 0.3% | 0.2% | 1.0% | 0.5% | 1.0% |
| FY13CL | 4.8% | 3.8% | 1.1% | 1.3% | 3.8% | 2.8% | 2.1% | 3.7% | 1.9% | 1.9% | 1.5% | 4.4% | 0.8% | 0.9% | 0.6% | 1.5% | 1.3% | 1.4% |
| FY14CL | 5.1% | 3.7% | 1.2% | 1.6% | 4.6% | 3.3% | 2.6% | 4.2% | 2.2% | 2.6% | 1.6% | 5.3% | 0.8% | 1.3% | 0.8% | 1.6% | 1.5% | 1.8% |
| **Restructured loans (% loans)** | 3.6% | 1.7% | 0.4% | 1.8% | 8.5% | 7.1% | 5.3% | 6.7% | 3.4% | 4.6% | 4.1% | 8.4% | | | 0.5% | | | 0.3% |
| **Net NPLs (% of loans)** | | | | | | | | | | | | | | | | | | |
| FY12 | 1.8% | 0.7% | 0.2% | 0.3% | 1.5% | 1.5% | 0.5% | 1.7% | 1.5% | 0.9% | 0.1% | 2.2% | -0.4% | -1.4% | 0.0% | 0.9% | 0.4% | 0.3% |
| FY13CL | 1.6% | 0.8% | 0.2% | 0.4% | 1.9% | 1.8% | 0.8% | 2.1% | 1.6% | 1.4% | 0.1% | 3.2% | -0.3% | -1.2% | 0.2% | 1.1% | 1.0% | 0.3% |
| FY14CL | 1.5% | 0.8% | 0.2% | 0.5% | 2.2% | 2.0% | 1.1% | 2.4% | 1.8% | 1.9% | 0.2% | 4.0% | -0.3% | -1.0% | 0.2% | 1.0% | 1.0% | 0.4% |
| **Coverage ratio** | | | | | | | | | | | | | | | | | | |
| FY12 | 60% | 80% | 82% | 74% | 49% | 38% | 65% | 44% | 16% | 32% | 90% | 31% | 156% | 556% | 79% | 11% | 13% | 73% |
| FY13CL | 68% | 80% | 82% | 70% | 53% | 39% | 63% | 44% | 18% | 29% | 90% | 26% | 144% | 230% | 70% | 25% | 25% | 78% |
| FY14CL | 72% | 78% | 83% | 69% | 55% | 41% | 59% | 44% | 19% | 28% | 90% | 24% | 133% | 177% | 71% | 35% | 35% | 77% |
| **Provisions as a % of loans** | | | | | | | | | | | | | | | | | | |
| FY12 | 1.5% | 0.4% | 0.8% | 0.7% | 1.2% | 1.0% | 0.9% | 1.1% | 0.7% | 0.7% | 0.5% | 1.2% | 0.1% | 0.7% | 0.2% | 0.1% | 0.1% | 0.6% |
| FY13CL | 1.3% | 0.9% | 1.0% | 0.8% | 1.4% | 1.0% | 1.0% | 1.1% | 0.8% | 0.8% | 0.6% | 1.2% | 0.1% | 0.7% | 0.6% | 0.3% | 0.3% | 0.8% |
| FY14CL | 1.2% | 0.9% | 1.0% | 0.8% | 1.4% | 1.0% | 1.1% | 1.1% | 0.8% | 0.8% | 0.6% | 1.2% | 0.1% | 0.7% | 0.6% | 0.3% | 0.3% | 0.9% |
| **Equity/Assets (%)** | | | | | | | | | | | | | | | | | | |
| FY12 | 6.3% | 12.8% | 8.9% | 8.0% | 6.1% | 5.5% | 6.1% | 5.5% | 6.1% | 5.1% | 6.8% | 6.7% | 11.5% | 20.1% | 6.3% | 15.3% | 13.6% | 8.2% |
| FY13CL | 6.1% | 12.0% | 8.4% | 7.7% | 5.9% | 5.1% | 6.0% | 5.2% | 5.9% | 5.1% | 7.0% | 6.1% | 12.6% | 18.7% | 6.2% | 14.4% | 13.5% | 7.7% |
| FY14CL | 6.0% | 11.1% | 7.9% | 7.5% | 5.8% | 4.9% | 5.7% | 4.9% | 5.8% | 5.0% | 7.1% | 5.9% | 11.7% | 17.0% | 6.0% | 13.9% | 13.3% | 7.2% |
| **Loan growth** | | | | | | | | | | | | | | | | | | |
| FY12 | 15% | 17% | 22% | 19% | 21% | 17% | 26% | 18% | 9% | 16% | 26% | 17% | 20% | 28% | 11% | 31% | 23% | 34% |
| FY13CL | 16% | 17% | 23% | 20% | 17% | 17% | 17% | 16% | 16% | 15% | 16% | 16% | 19% | 20% | 18% | 17% | 16% | 27% |
| FY14CL | 17% | 21% | 26% | 23% | 18% | 17% | 20% | 17% | 16% | 16% | 17% | 16% | 19% | 23% | 25% | 16% | 16% | 27% |
| **Deposit Growth** | | | | | | | | | | | | | | | | | | |
| FY12 | 15% | 13% | 18% | 16% | 21% | 6% | 26% | 10% | 11% | 17% | 19% | 12% | 47% | NA | 7% | NA | NA | 23% |
| FY13CL | 19% | 18% | 26% | 24% | 20% | 19% | 19% | 17% | 16% | 13% | 13% | 20% | 16% | NA | 23% | NA | NA | 26% |
| FY14CL | 19% | 21% | 27% | 22% | 17% | 16% | 21% | 16% | 15% | 16% | 14% | 16% | 20% | NA | 25% | NA | NA | 27% |
| **Loan/ deposit ratio** | | | | | | | | | | | | | | | | | | |
| FY12 | 83% | 64% | 79% | 77% | 77% | 78% | 75% | 80% | 71% | 74% | 62% | 72% | NA | NA | 77% | NA | NA | 83% |
| FY13CL | 81% | 65% | 77% | 75% | 76% | 77% | 73% | 79% | 71% | 75% | 64% | 70% | NA | NA | 74% | NA | NA | 83% |
| FY14CL | 80% | 66% | 77% | 75% | 76% | 78% | 73% | 79% | 71% | 75% | 65% | 70% | NA | NA | 74% | NA | NA | 83% |
| **CASA ratio** | | | | | | | | | | | | | | | | | | |
| FY12 | 44% | 43% | 48% | 42% | 35% | 26% | 27% | 31% | 24% | 22% | 41% | 24% | NA | NA | 15% | NA | NA | 27% |
| FY13CL | 43% | 43% | 46% | 40% | 34% | 25% | 27% | 30% | 24% | 22% | 41% | 23% | NA | NA | 18% | NA | NA | 29% |
| FY14CL | 43% | 43% | 45% | 41% | 33% | 24% | 27% | 30% | 24% | 22% | 41% | 23% | NA | NA | 20% | NA | NA | 32% |
| **NIM (%)** | | | | | | | | | | | | | | | | | | |
| FY12 | 3.8% | 2.6% | 4.1% | 3.3% | 3.5% | 2.4% | 2.8% | 3.0% | 2.4% | 2.2% | 3.4% | 2.7% | 3.8% | 3.7% | 2.7% | 3.8% | 4.2% | 3.3% |
| FY13CL | 3.7% | 2.9% | 4.1% | 3.3% | 3.4% | 2.5% | 2.8% | 3.0% | 2.4% | 2.2% | 3.3% | 2.8% | 4.0% | 3.6% | 2.8% | 3.7% | 4.0% | 3.4% |
| FY14CL | 3.6% | 3.0% | 4.1% | 3.3% | 3.3% | 2.5% | 2.8% | 2.9% | 2.4% | 2.2% | 3.4% | 2.8% | 4.1% | 3.6% | 2.8% | 3.7% | 4.1% | 3.5% |
| **C-I Ratio (%)** | | | | | | | | | | | | | | | | | | |
| FY12 | 53% | 43% | 48% | 45% | 41% | 44% | 39% | 45% | 45% | 42% | 38% | 44% | 8% | 19% | 38% | 6% | 9% | 50% |
| FY13CL | 55% | 42% | 48% | 46% | 41% | 44% | 38% | 46% | 44% | 43% | 39% | 43% | 8% | 19% | 39% | 6% | 9% | 49% |
| FY14CL | 55% | 42% | 47% | 46% | 41% | 43% | 38% | 46% | 44% | 43% | 39% | 43% | 8% | 19% | 40% | 6% | 9% | 49% |
| **Fees income growth** | | | | | | | | | | | | | | | | | | |
| FY12 | 4% | 4% | 24% | 28% | 23% | 11% | 21% | 4% | 8% | 12% | 7% | 18% | 22% | -28% | 27% | -11% | 76% | 50% |
| FY13CL | 10% | 15% | 19% | 15% | 12% | 10% | 10% | 11% | 12% | 10% | 7% | 13% | 18% | 12% | 22% | 11% | 0% | 44% |
| FY14CL | 15% | 18% | 25% | 23% | 15% | 17% | 15% | 13% | 16% | 15% | 7% | 13% | 20% | 17% | 28% | 29% | 14% | 33% |

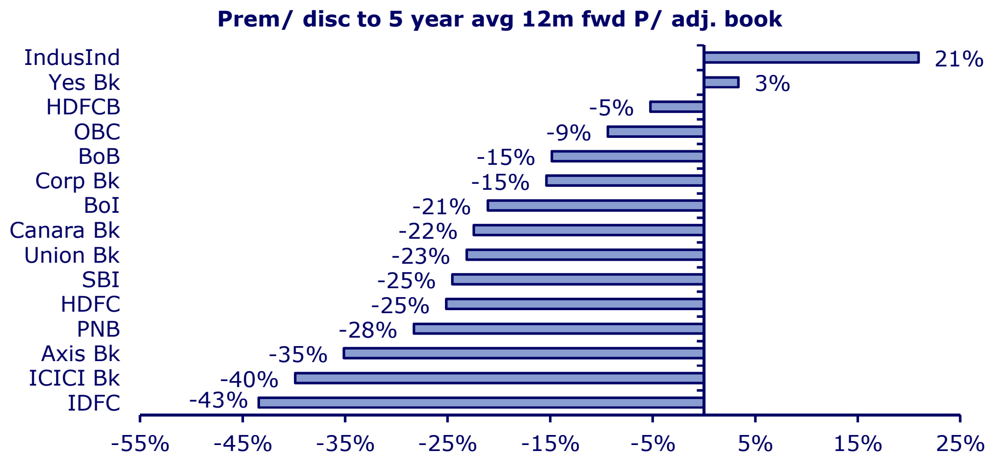
Source: CLSA Asia-Pacific Markets

**Most banks trade below five year average**

## Valuations

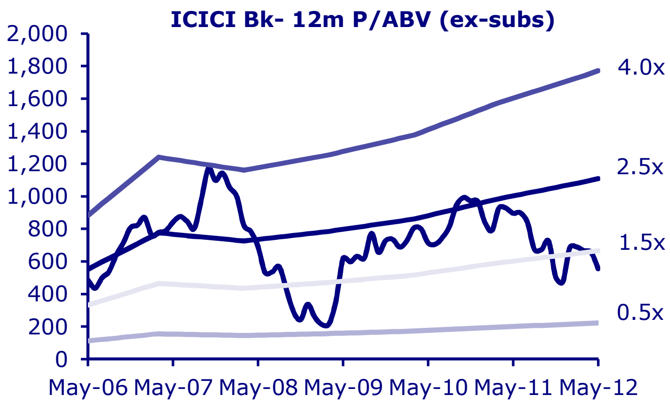
Figure 22

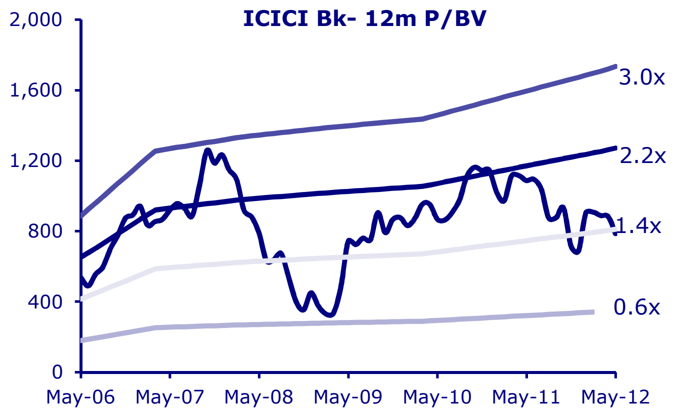
**Premium/ discount to five year average**

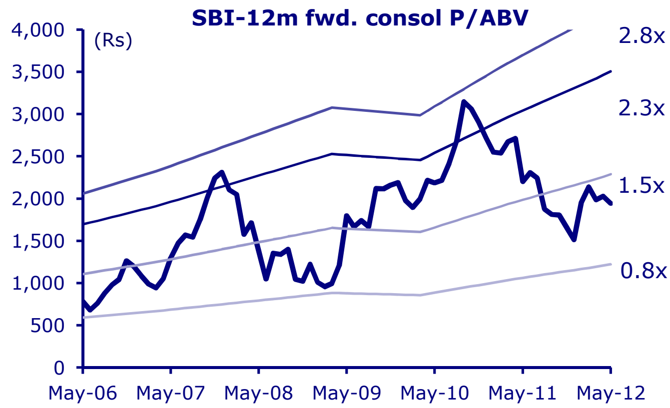


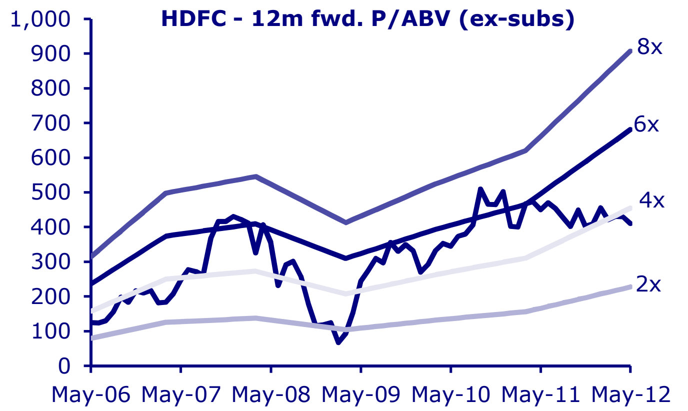

Source: CLSA Asia-Pacific Markets

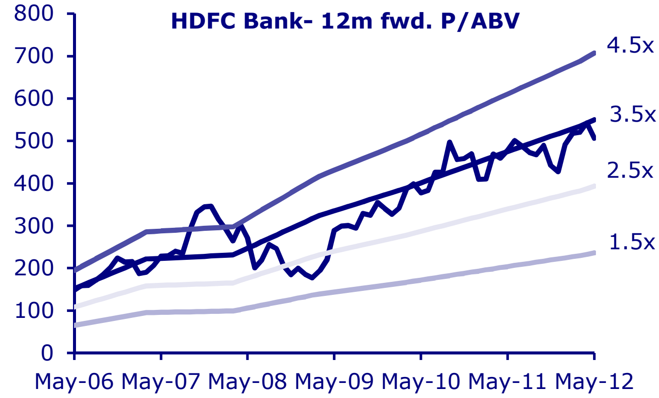
### Valuation band charts

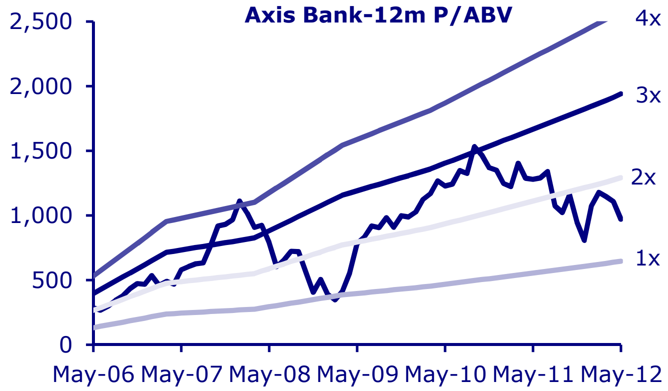


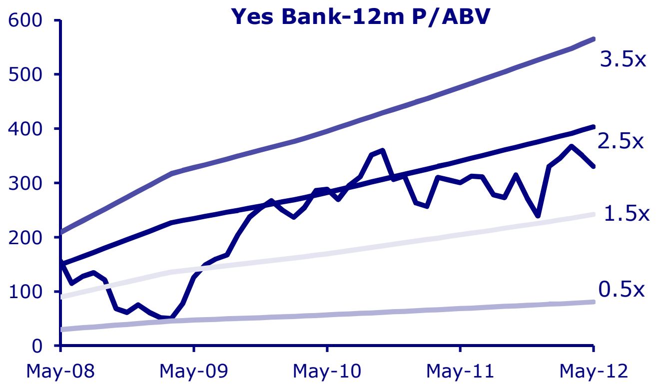



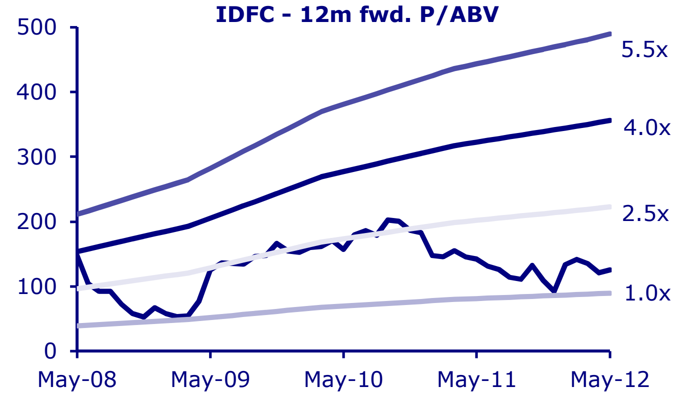



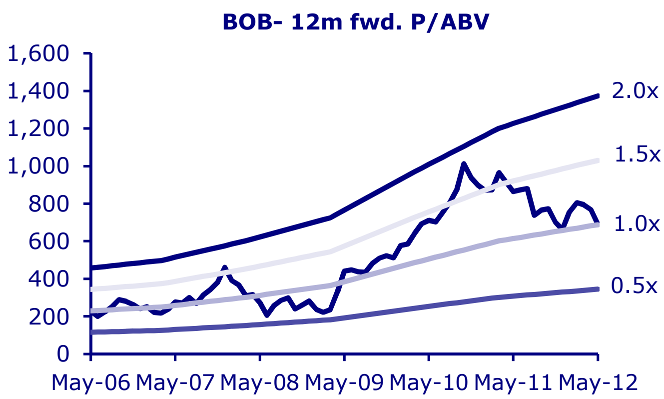



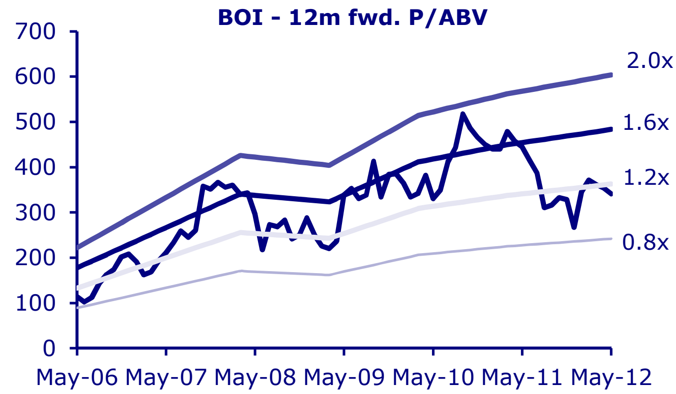


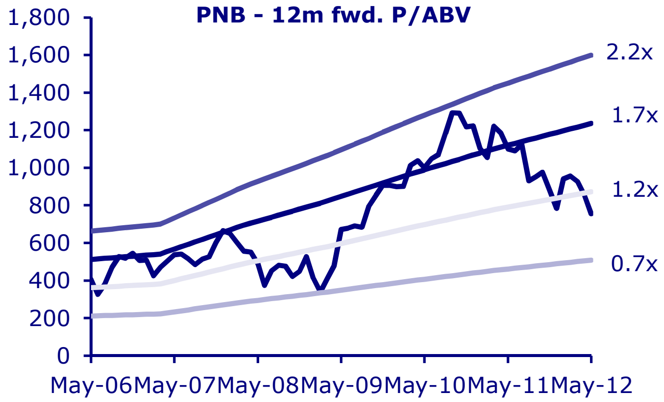



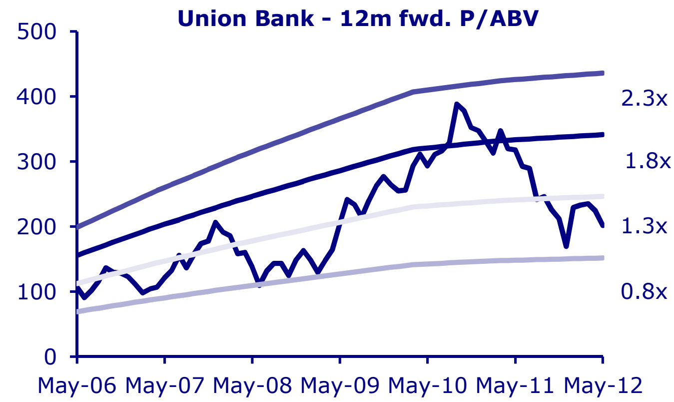




Source: CLSA Asia-Pacific Markets; Valuations for ICICI Bank, SBI and HDFC are adjusted for investment in subsidiaries.

# Insurance sector – Lacklustre beginning

**During April-12, annualised NBP of sector declined by 7% YoY led by 16% decline in NBP of private players and 3% decline in NBP for LIC. Growth in the private insurers' premium remained lacklustre in spite of a low base. While most private players saw a decline in market share, LIC's share grew to 72%. Among the private players, ICICI and Max reported 30-40% decline in NBP. During FY12, Max Life reported net profit of Rs4.6bn though profit may not grow as much in FY13.**

### LIC posts de-growth after 8 months of growth

**7% YoY decrease in NBP of insurers, led by private players**

- In Apr-12, NBP for the sector declined by 7% YoY, largely due to 16% YoY decline in new premiums of private players.
- Despite lower base private sector's growth remains lacklustre. .
- While LIC's decline in premium was modest at 3%, it was the first YoY decline in past 8 months.

### ICICI and Max Life reported a decline in premiums

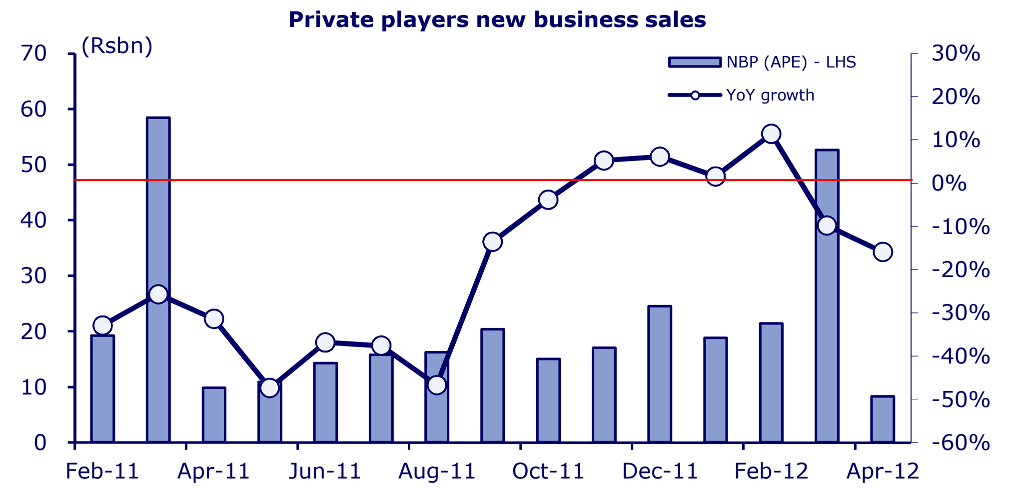
**While Metlife reported high growth, ICICI and Tata reported declines**

- ICICI reported a 40% decline in NBP as the base included large group premiums on fund-based business.
- Max Life's premiums also declined by 33% YoY
- Growth rates for Birla and Reliance Life have picked-up from a low base.

### Max Life's profit grows strongly in FY12

- During FY12, Max New York Life reported profit of Rs4.6bn up 137% YoY.
- The reported NBAP margins were at 18%, but these are likely to moderate to 13-15% in FY13.
- Max has also maintained it conversation ratio at high levels of 81%.
- While the embedded value grew by 15% YoY, it was primarily driven by increase in shareholders' funds that compensated for decline in value of business in force.
- The business in force for Max Life has declined due to higher lapses seen in the older policies that led to release of profit.
- As a result, the reported profit got a boost whereas the value of business in force declined.
- Our conversation with management indicates that this trend is likely to reverse, i.e. normalise, in FY13.
- Meanwhile the Competition Commission of India has approved the purchase of 26% stake in Max Life by Mitsui Sumitomo Insurance.

**In Apr-12, NBP of private players fell by 16% YoY**

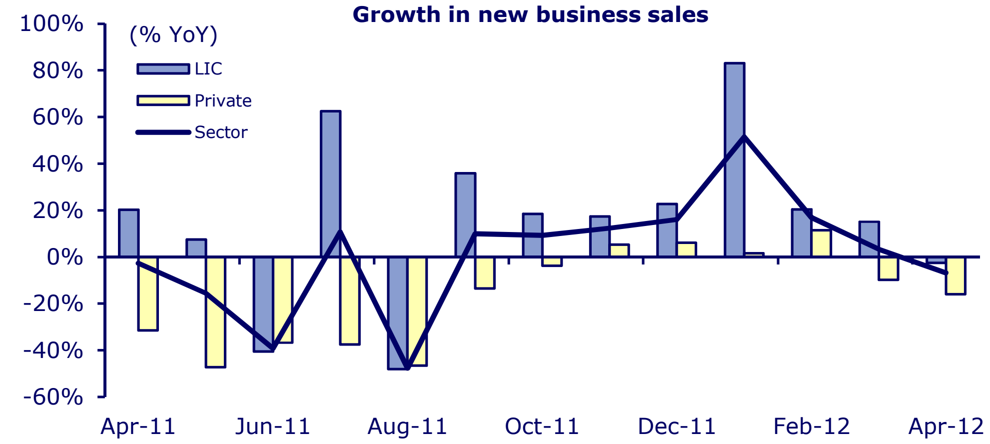



Source: IRDA, CLSA Asia-Pacific Markets

**Both LIC and private players reported a decline in NBPs**

Figure 23

**In Apr-12, sector new business premium (APE) declined by 7% YoY**

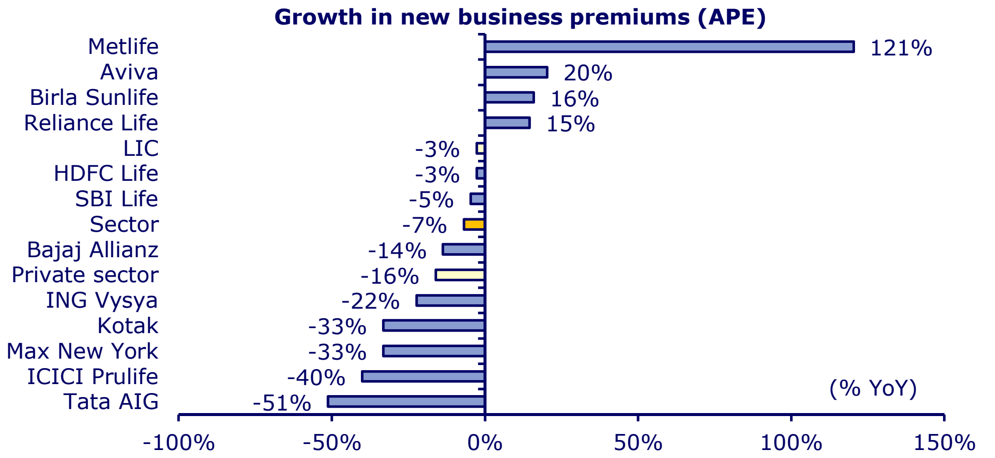



APE: Annualised premium equivalent. Source: IRDA, CLSA Asia-Pacific Markets

**Most private sector players reported a decline in NBPs**

Figure 24

**YoY growth trends for Apr-12**

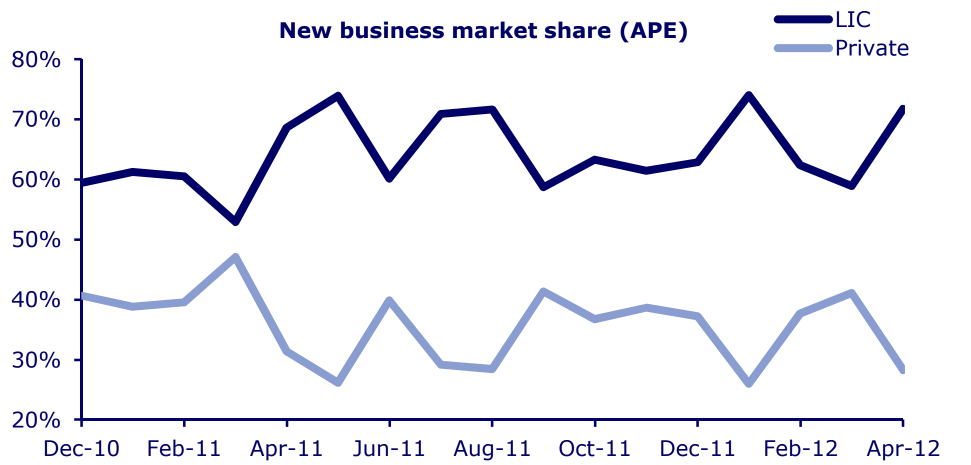



Source: IRDA, CLSA Asia-Pacific Markets

**LIC's market share increased in Apr-12**

Figure 25

**Market share in new business premiums (APE)**




Source: IRDA, CLSA Asia-Pacific Markets

Figure 5

**Distribution of market share among players in Apr-12**

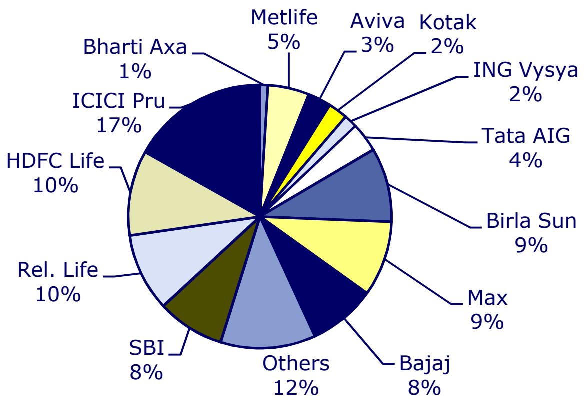
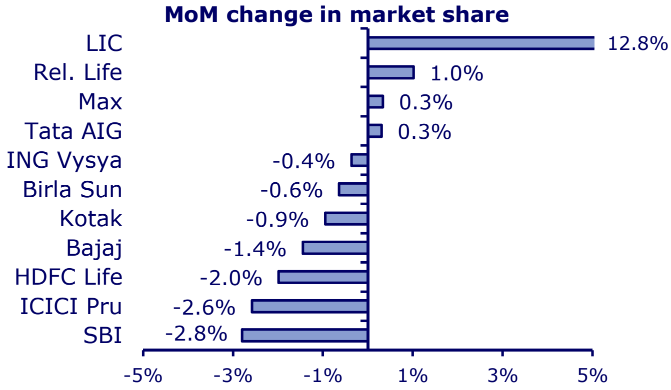



Figure 6

**MoM: LIC gained market share from private players**




Source: IRDA, CLSA Asia-Pacific Markets

## Insurance valuation summary

Figure 10

**Insurance valuations matrix**

| Particulars (FY14) (Rsm) | ICICI Pru. Life | HDFC Std. Life | Max NewYork | SBI Life |
|---|---|---|---|---|
| FYP | 39,428 | 37,292 | 20,512 | 27,744 |
| Single Premium | 32,665 | 7,340 | 4,235 | 59,189 |
| Renewal Premium | 68,580 | 76,481 | 52,925 | 53,945 |
| **Total Premium** | **140,674** | **121,113** | **77,672** | **140,878** |
| AUM (Rsbn) | 945 | 579 | 291 | 802 |
| **NBAP margin(%)** | **16%** | **16%** | **12%** | **13%** |
| NBAP | 6,831 | 6,077 | 2,546 | 4,217 |
| **Multiple (x)** | **10** | **10** | **12** | **10** |
| Value of the Company (Rsm) | 259,774 | 147,781 | 83,940 | 111,917 |
| Value of the Company (US$m) | 4,723 | 2,687 | 1,526 | 2,035 |
| Value of Parents stake (US$m) | 3,495 | 1,988 | 1,267 | 1,506 |
| **Indian Partner & Stake** | **ICICI Bank, 74%** | **HDFC Ltd, 74%** | **Max India, 74%** | **SBI, 74%** |
| **Foreign Partner & Stake** | **Prudential Plc, 26%** | **Standard Life, 26%** | **New York Life, 26%** | **Cardiff SA, 26%** |
| **Value/share to Parent company (Rs)*** | **134** | **56** | **173** | **99** |

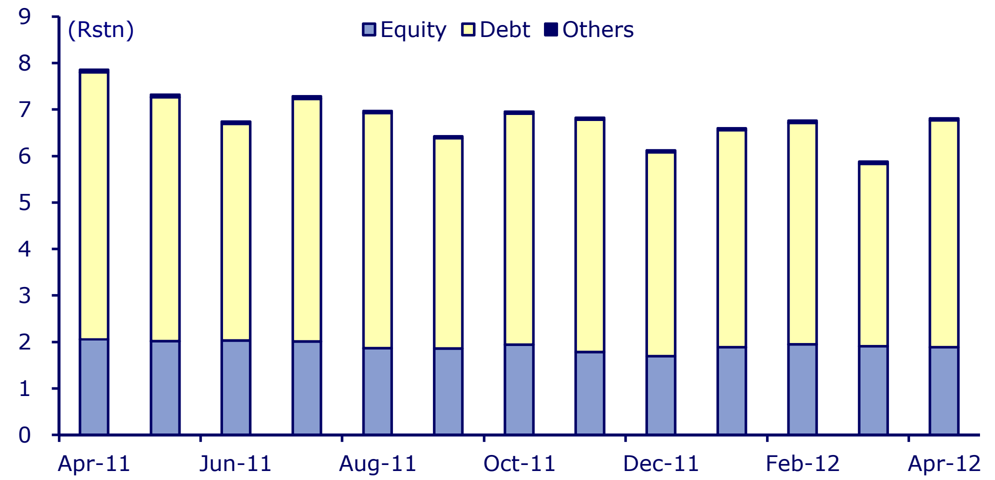
Source: CLSA Asia-Pacific Markets; * Post a 20% holding company discount; Valuations are based on an Appraisal value

# Mutual fund trends- April 2012

**AUMs decreased by 13% YoY**

Figure 26

**AUMs grew by 16% MoM to Rs6.8tn, partly due to seasonal trends**

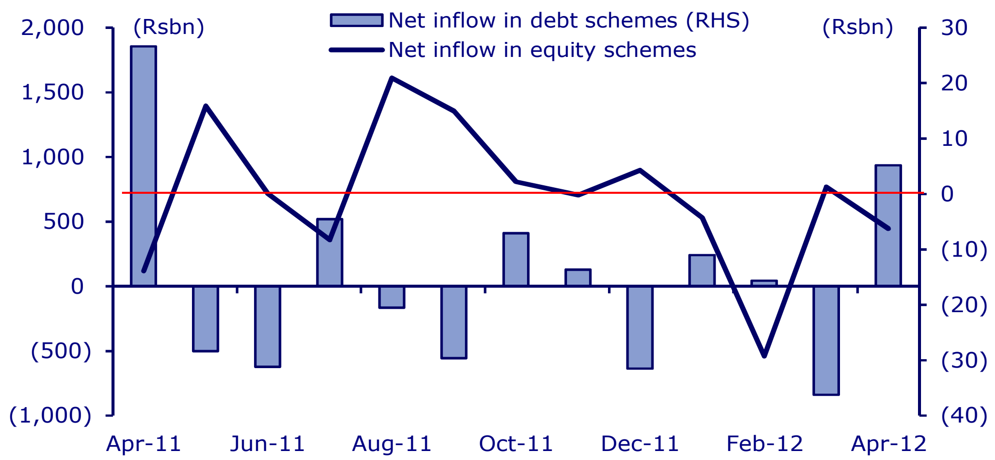



Source: AMFI, CLSA Asia-Pacific Markets

**Liquid funds saw large inflows during April**

Figure 27

**Debt schemes saw sharp inflows; marginal outflows in equities**

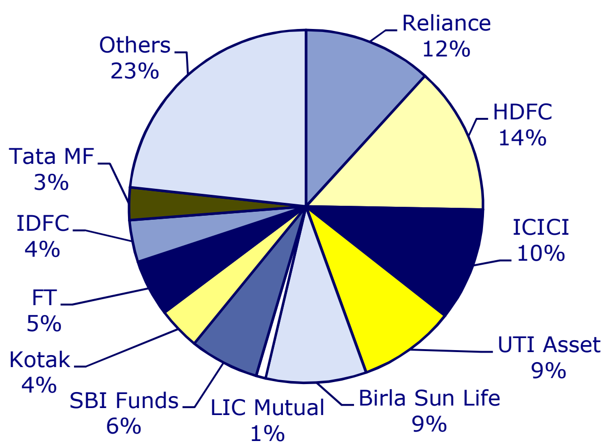



Source: AMFI, CLSA Asia-Pacific Markets

**Mar-12 growth for Top-5**
**HDFC: +4% YoY**
**Reliance: -23% YoY**
**ICICI: -6% YoY**
**Birla: -4% YoY**
**UTI: -12% YoY**

Figure 28

**Market share among mutual funds, Mar-12**




Source: AMFI, CLSA Asia-Pacific Markets

# *Take a look!* Summary of 4QFY12 results

Figure 29

## Indian Banks - Summary of 4QFY12 results

| | NII | | | Provisions | | | Net Profit | | | Net NPA | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | 4QFY11 | 4QFY12 | %YoY | 4QFY11 | 4QFY12 | %YoY | 4QFY11 | 4QFY12 | %YoY | 4QFY11 | 4QFY12 | %YoY |
| Axis Bank | 17,010 | 21,461 | 26% | 2,544 | 1,393 | -45% | 10,201 | 12,773 | 25% | 4,104 | 4,726 | 15% |
| City Union Bank | 1,191 | 1,367 | 15% | 360 | 295 | -18% | 514 | 720 | 40% | 484 | 540 | 12% |
| Development Credit Bank | 502 | 571 | 14% | 80 | 66 | -18% | 113 | 173 | 52% | 412 | 302 | -27% |
| Dhanlaxmi Bank | 904 | 524 | -42% | 95 | 119 | 25% | 112 | (865) | Na | 275 | 580 | 111% |
| Federal Bank | 4,476 | 4,912 | 10% | 794 | 155 | -80% | 1,717 | 2,376 | 38% | 1,907 | 1,990 | 4% |
| HDFC Bank | 28,395 | 33,883 | 19% | 4,313 | 2,983 | -31% | 11,147 | 14,531 | 30% | 2,964 | 3,523 | 19% |
| ICICI Bank | 25,097 | 31,048 | 24% | 3,836 | 4,693 | 22% | 14,521 | 19,018 | 31% | 24,074 | 18,608 | -23% |
| IndusInd Bank | 3,881 | 4,644 | 20% | 403 | 460 | 14% | 1,718 | 2,234 | 30% | 728 | 947 | 30% |
| ING Vysya Bank | 2,683 | 3,192 | 19% | 43 | 566 | 1226% | 913 | 1,274 | 40% | 918 | 525 | -43% |
| Jammu & Kashmir Bank | 4,157 | 5,161 | 24% | 756 | 843 | 11% | 1,386 | 2,081 | 50% | 532 | 493 | -7% |
| Karnataka Bank | 2,044 | 2,218 | 9% | (53) | 757 | Na | 908 | 832 | -8% | 2,803 | 4,352 | 55% |
| Karur Vysya Bank | 2,114 | 2,610 | 23% | 28 | 68 | 146% | 1,153 | 1,468 | 27% | 139 | 788 | 468% |
| Kotak Mahindra Bank | 5,652 | 6,877 | 22% | (72) | 46 | Na | 2,487 | 2,969 | 19% | 2,112 | 2,374 | 12% |
| Lakshmi Vilas Bank | 995 | 906 | -9% | 567 | 260 | -54% | 274 | 250 | -9% | 729 | 1,771 | 143% |
| South Indian Bank | 2,216 | 2,846 | 28% | 264 | 123 | -53% | 818 | 1,220 | 49% | 600 | 765 | 27% |
| Yes Bank | 3,485 | 4,482 | 29% | 433 | 285 | -34% | 2,034 | 2,718 | 34% | 92 | 175 | 91% |
| **Private Total** | **104,803** | **126,700** | **21%** | **14,392** | **13,113** | **-9%** | **50,015** | **63,769** | **28%** | **42,872** | **42,460** | **-1%** |
| Allahabad Bank | 11,513 | 12,884 | 12% | 4,655 | 4,544 | -2% | 2,576 | 4,002 | 55% | 7,364 | 10,917 | 48% |
| Andhra Bank | 8,615 | 9,139 | 6% | 3,027 | 2,437 | -20% | 3,128 | 3,397 | 9% | 2,737 | 7,559 | 176% |
| Bank Of Baroda | 26,139 | 27,974 | 7% | 5,904 | 8,437 | 43% | 12,944 | 15,182 | 17% | 7,909 | 15,436 | 95% |
| Bank Of India | 23,073 | 25,010 | 8% | 4,776 | 7,018 | 47% | 4,936 | 9,527 | 93% | 19,450 | 36,564 | 88% |
| Canara Bank | 19,439 | 20,402 | 5% | 5,460 | 4,616 | -15% | 8,989 | 8,291 | -8% | 23,299 | 33,863 | 45% |
| Central Bank Of India | 14,285 | 12,636 | -12% | 3,060 | 8,587 | 181% | 1,327 | (1,052) | Na | 8,473 | 45,568 | 438% |
| Corporation Bank | 7,618 | 8,339 | 9% | 2,529 | 3,377 | 34% | 3,453 | 3,513 | 2% | 3,977 | 8,694 | 119% |
| Dena Bank | 4,712 | 5,984 | 27% | 1,238 | 2,911 | 135% | 1,570 | 2,548 | 62% | 5,490 | 5,717 | 4% |
| IDBI Bank | 11,068 | 12,109 | 9% | 2,819 | 2,738 | -3% | 5,163 | 7,708 | 49% | 16,779 | 29,109 | 73% |
| Indian Bank | 11,110 | 10,826 | -3% | 1,268 | 5,618 | 343% | 4,389 | 3,454 | -21% | 3,970 | 11,968 | 201% |
| Indian Overseas Bank | 12,153 | 13,406 | 10% | 4,460 | 3,876 | -13% | 4,343 | 5,288 | 22% | 13,284 | 19,074 | 44% |
| Oriental Bank Of Commerce | 10,133 | 10,682 | 5% | 5,605 | 5,344 | -5% | 3,337 | 2,649 | -21% | 9,382 | 24,590 | 162% |
| Punjab & Sind Bank | 3,936 | 4,181 | 6% | 701 | 676 | -3% | 1,303 | 1,478 | 13% | 2,379 | 5,476 | 130% |
| Punjab National Bank | 30,290 | 33,100 | 9% | 7,279 | 10,273 | 41% | 12,009 | 14,241 | 19% | 20,386 | 44,542 | 118% |
| State Bank Of Bikaner & Jaipur | 5,090 | 6,215 | 22% | 940 | 1,279 | 36% | 1,878 | 2,479 | 32% | 3,413 | 9,454 | 177% |
| State Bank Of India | 80,581 | 117,038 | 45% | 41,570 | 31,404 | -24% | 209 | 40,503 | 19298% | 123,469 | 158,189 | 28% |
| State Bank Of Mysore | 4,057 | 3,917 | -3% | 792 | 1,072 | 35% | 1,638 | 1,162 | -29% | 4,679 | 7,684 | 64% |
| State Bank Of Travancore | 4,217 | 5,052 | 20% | 913 | 1,246 | 37% | 2,383 | 1,530 | -36% | 4,510 | 8,536 | 89% |
| Syndicate Bank | 11,611 | 13,367 | 15% | 3,530 | 5,422 | 54% | 2,893 | 3,094 | 7% | 10,308 | 11,854 | 15% |
| UCO Bank | 8,443 | 10,506 | 24% | 3,408 | 4,561 | 34% | 2,259 | 2,528 | 12% | 18,246 | 22,639 | 24% |
| Union Bank Of India | 17,165 | 18,766 | 9% | 1,533 | 5,172 | 237% | 5,976 | 7,732 | 29% | 18,034 | 30,250 | 68% |
| United Bank of India | 5,748 | 6,191 | 8% | 2,813 | 3,067 | 9% | 1,432 | 1,493 | 4% | 7,574 | 10,756 | 42% |
| Vijaya Bank | 4,783 | 4,926 | 3% | 1,616 | 868 | -46% | 542 | 1,810 | 234% | 7,412 | 9,980 | 35% |
| **PSU Total** | **341,531** | **399,120** | **17%** | **110,128** | **125,984** | **14%** | **89,370** | **143,284** | **60%** | **348,713** | **573,116** | **64%** |
| **Sector Total** | **446,333** | **525,820** | **18%** | **124,520** | **139,097** | **12%** | **139,385** | **207,053** | **49%** | **391,585** | **615,576** | **57%** |

Source: CLSA Asia-Pacific Markets

# Other important news and interviews

## Regulatory and sector newsflow

**During the fortnight ended 20th May-12, bank credit grew by 17% YoY**

- During the fortnight ended 20th May-12, **bank credit** grew by 17% YoY in line with past fortnight. There has been a FOF growth in loans though we are still 1% below the year-end loan book number. **Deposits** grew by 14% YoY in line with growth rate in the previous fortnight.
- **RBI** has proposed to the finance ministry reducing the minimum lock-in period for debt investment for foreign institutional investors
- **RBI** has stated that it may take penal action against exporters and banks that don't convert their dollar funds into the domestic currency in a fortnight.

**RBI has lowered agency commission that is paid to banks for handling government businesses**

- **RBI** has lowered agency commission that is paid to banks for handling government businesses. This is likely to have some impact on the fees of PSU and larger private sector banks
- Banks have asked **RBI** to extend the deadline to set up advanced risk management systems as part of Basel II adoption by three months to September 2012.
- As per media reports, **RBI** is not in favour of the Finance Ministry's proposal of creating a separate limit of US$10bn for qualified foreign investors (QFIs) investments in corporate bonds.
- **RBI** has asked banks to set-up very small sized branches to serve as intermediate branches between the clusters of Business Correspondents and the overseeing branch. This is aimed at improving standards of service.
- **RBI** has asked banks to fix their charges on high value outstation cheques on a cost plus basis.

**RBI tightens forex trading norms**

- RBI's measures to control **Rupee depreciation**
  - RBI asked exporters to convert 50% of their export earnings into Rupee balances; previously they were permitted to hold 100% in forex. Additionally, exporters can access the forex market for purchasing foreign exchange only after utilising fully the available balances.
  - RBI has tightened the norms for trading, especially derivatives, in foreign currencies to reduce the speculative activity in Rupee trading.
  - RBI has allowed non-resident Indians to transfer funds from a non-resident ordinary (NRO) account to a non-resident external (NRE) account subject to a ceiling of US$1m in a financial year. At present, the transfer of funds is not permitted.
  - Interest rate ceiling on foreign currency non-resident [FCNR (B)] deposits of banks has been raised from 125bps above LIBOR to 200bps for maturity period of 1-3 years and to 300bps for maturity period of 3-5years.
  - The ceiling rate on export credit in foreign currency has been deregulated by allowing banks to determine the interest rates on such credit.

**RBI has issued new guidelines for farm loans**

- **RBI** has issued new guidelines for Kisan Credit Cards that delve on loan processing, pricing and use of technology while disbursing loans to farmers.
- **RBI** has permitted banks to use funds from foreign currency non-resident deposits as collateral against lending to related local residents.

**Banks may be asked to hold more G-Secs in the AFS category**

- As per media reports, the RBI and the finance ministry may buyback G-Secs. Banks may be asked to hold more **G-Secs** in the AFS category to improve trading

- The **Finance Ministry** has directed all PSU banks to ensure that every household has at least one savings bank account by the end of June 2012.
- The **Finance Minister** has expressed concern over the rise of non-performing loans of banks.
- As per a media report, **Finance Ministry** has warned banks against taking on their books quasi-securities like convertible preference shares that have long tenure, low returns and high provisioning.
- The **Finance Bill** received the approval of the Parliament. The final bill has reinstated the corporate tax rate for insurance companies at 12%; the original bill had proposed to raise the rate to ~18% by including in the list of minimum alternate tax.
- Finance Minister has proposed to limit the **tax liability on conversion of branches to subsidiaries by foreign banks**.

**Infrastructure NBFCs owned by government**

- The government has asked RBI to **create a separate category** of non-banking financial companies (NBFC)- infrastructure NBFCs owned by government- that would face less stringent capital requirements.
- As per a media report, the government plans to manage the financial health of **state electricity boards** by announcing a new restructuring package over the next two months
- The cabinet has cleared the **Microfinance Bill** which seeks to make RBI the regulator for all microfinance companies (MFIs) having net-worth of more than Rs0.5m.

**Cabinet has deferred its decision on the Insurance Laws (Amendment) Bill**

- The cabinet has deferred its decision on the **Insurance Laws (Amendment) Bill** due to lack of political consensus
- **Irda** (insurance regulator) has capped the commission paid by insurers to agents selling policies with limited paying tenure at 10-25% of the first-year premium- longer the term of policies, higher the cap on commission rates. The norm is likely to impact premiums of insurance companies that focus on traditional insurance premiums like **LIC and Max Life**
- As per media reports, **Irda** (Insurance regulator) may cap the share of insurance premiums that can be ceded to reinsurance companies.
- As per media reports, **Irda** (Insurance regulator) may ask life insurance companies to discontinue sale of guaranteed NAV products. We understand that such products contribute 10-20% to the premium collection of life insurers.
- **Irda** (insurance regulator) may allow Insurance Ombudsmen to deal with grievances of individual customers involving claims higher than the Rs2m permitted at present.
- **Irda (Insurance regulator)** may come out with final guidelines on pension in the next two weeks. As per media report, the regulator may ease pension rules by relaxing the guaranteed returns condition in case of surrender of policy.
- **Small Industries Development Bank of India** (Sidbi) has applied to SEBI for a merchant banking licence to help unlisted Small and medium enterprises (SMEs) list on stock exchanges.
- As per a media report, PSU banks are may set up a **uniform system of credit appraisal** to ensure that an individual bank does not have excessive exposure to one borrower.
- As per media reports, a rating system for **power distribution companies** may be introduced by Mar-13, wherein independent agencies will be assigned to rate these companies and circulate ratings among banks and NBFCs.
- **Credit Information Bureau of India** (Cibil), which provided credit information to institutions previously, has extended its services to individuals as well.

**SEBI may compulsorily derecognise exchanges with less than Rs10bn annual turnover**

- **Securities and Exchange Board of India** (SEBI) is likely to compulsorily derecognise exchanges with less than Rs10bn annual turnover and not applying for exit within two years.
- During April 2012, the **corporate debt restructuring** (CDR) cell received 18 cases with an aggregate loan value of Rs70bn for debt recast - the highest in any month since its inception.
- Government's white paper on **black money** has advocated the penetration of card payments (debit and credit) to improve transparency in transactions.
- As per RBI data, **non-resident deposits** have increased by US$11bn during FY12, three times more than US$3.2bn in FY11. While the deregulation of interest rate on non-resident deposits supported deposit growth in the past three-four months, the big flows actually came prior to deregulation when the currency depreciated significantly.

## Company newsflows

**SBI plans to lower lending rates to small and medium enterprises**

- **SBI** plans to lower interest rates of loans to small and medium enterprises (SME) by 150-200bps.
- **SBI** is aiming to reduce its net NPA ratio from 1.8% currently to 1.6% by Mar-13.
- **SBI** has decided to bring down the number of branches being looked after by a regional manager to 40 from 60 to improve oversight and recoveries.
- **SBI** plans to float a US$1bn debt bond issue by August to raise funds from the market.
- As per a media report, the All India State Bank Officers' Federation (AISBOF) may pass a resolution supporting the **merger of the five associate banks of SBI** into one entity, but may oppose the merger of any of these banks with the parent bank

**SBI is likely to pitch to Moody's for a review of its credit ratings**

- **SBI** is likely to pitch to rating agency Moody's for a review of its credit ratings.
- As per media report, **SBI** group has agreed to finance 70% of Damodar Valley Corporation's 500MW Bokaro Thermal Power Station. SBI along with its associates is expected to lend c.Rs24bn to the project.
- **SBI** has received bids from 11 companies to be appointed the Business Correspondent in the Maharashtra cluster.
- Hotel Leelaventure has secured in-principle approval from a consortium of banks led by **SBI** to restructure debt worth c.Rs43bn. **Bank of India**, **Indian Overseas Bank**, **Syndicate Bank** and **IDBI Bank** are the other banks in the consortium.
- **SBI Cards** aims to add 1m credit cards to its existing credit card base of 2.2m cards over the next three years with focus on tier-2 and tier-3 cities.

**Moody's has downgraded long-term debt and deposit ratings of ICICI Bank UK**

- Rating agency **Moody's** has downgraded long-term debt and deposit ratings of **ICICI Bank UK** to Baa3 from Baa2 on the back of the recent downgrade of its rating to the parent, **ICICI Bank**.
- As per Prime Database Group, **ICICI Bank** was the largest arranger of domestic bonds in FY12.
- **ICICI Bank** has introduced a new savings account scheme whereby customers will get assigned an account number instantly if they apply through its website. The account will be activated after completion of know-your-customer (KYC) process
- **ICICI Bank** and **Indian Overseas Bank** have hiked interest rates on FCNR (B) deposits by up to 175bps.

**Irda has imposed Rs12m penalty ICICI Prudential Life Insurance**

- **Irda** (insurance regulator) has imposed Rs12m penalty **ICICI Prudential Life Insurance** for some violations that include payment of commissions in excess of the permissible limits during FY11.

- As per media reports, **Apollo Global Management** and **ICICI Venture**, are close to raising US$350m to invest in distressed assets in India.
- **GMR Infrastructure** has raised Rs2bn through allotment of secured non-convertible debentures from **ICICI Bank**.
- **RBI** has notified that **HDFC Ltd's** board has passed resolutions to increase the FII investment limit from 74% to 100%.

**HDF's board has approved raising the FII shareholding limit to 100% from 74%**

- **HDFC Ltd's** board has approved raising the FII shareholding limit to 100% from 74%.
- **HDFC Life** may raise capital through an **initial public offering** in FY14.
- **Axis Bank** has collaborated with Bahrain's Ahli United Bank for inward remittances.
- As per a media report, banks have referred loans worth Rs24bn **ICOMM Tele** to corporate debt restructuring (CDR) cell. **Axis Bank** (Rs2.2bn), Syndicate Bank (Rs1.8bn) and ICICI Bank (Rs1.5bn) are the banks having key exposures. ICOMM Tele provides infrastructure solutions in power, telecom, and defence sectors.
- **Axis Bank** has appointed **IBM** to consolidate and manage the contact centre operations and provide more efficient services to its customers
- **Axis Bank** and **Bharti Airtel** have announced a partnership to provide banking services through Airtel Money platform.
- **Hotel Leelaventure's** promoter group firm, Leela Lace Holdings has pledged shares aggregating to 18.6% in it to **State Bank of India** (12.6%) and **Bank of Baroda** (5.9%).
- A group of about 20 banks, including **SBI**, **IDBI Bank** and **Bank of Baroda** have agreed in principle to extend a US$300mn dollar-denominated term loan to **Suzlon**.
- As per **Mr. M D Mallya, CMD, Bank of Baroda**, the bank expects to post net interest margins in the range of 3.4-3.6% in FY13.
- As per media report, **Moser Baer Solar** has received the bankers' in-principle approval for its proposed Rs7.4bn debt restructuring. **PNB**, **SBI**, **BOB** and **IOB** are among the key banks having an exposure to this account.

**Bank of India has lowered its mortgage rates by up to 75bps to 10.5-11.25%**

- **Bank of India** has lowered its mortgage rates by up to 75bps to 10.5-11.25%.

**Union Bank of India has lowered its BPLR by 50bps to 15%**

- **Union Bank of India** has lowered its Benchmark Prime lending rate (BPLR) by 50bps to 15%.
- **Oriental Bank of Commerce** has lowered interest rates on education loans by up to 100bps to 13%.
- **Oriental Bank of Commerce** has lowered service charges on NEFT payments of up to Rs0.2m originating through its branches.
- **Corporation Bank** has raised select deposit rates by 25bps for deposits less than Rs10m.

**Corporation Bank is targeting to grow its SME portfolio**

- **Corporation Bank** is targeting to grow its small and medium enterprises (SME) portfolio by an additional Rs50bn this fiscal. As on Mar-12 the bank's portfolio under the segment stood at Rs143bn.
- **IndusInd Bank** has appointed Mr. R S Sharma as additional director on its board. Mr. Sharma is a former Chairman and Managing Director of ONGC.

**PFC has eased eligibility conditions for loan**

- **Power Finance Corporation** (PFC) has eased eligibility conditions for loan disbursals to power projects. Previously companies had to provide both fuel supply agreements and power purchase agreement whereas now loan disbursals will be considered even if one of the conditions is fulfilled.
- **PFC** has invited bids for Rs1.5bn dual-tranche bond issue.

- **Rural Electrification Corp** has sought regulatory approval to raise up to US$500m through five-year bonds.
- **Rural Electrification Corp** plans to raise Rs300bn during FY13 through tax-free bonds and foreign currency convertible bonds

**Moody's has reaffirmed its rating of 'Baa3' on PFC and REC**

- Rating agency **Moody's** has reaffirmed foreign currency long term issuer rating of 'Baa3' on **Power Finance Corp** (PFC) and **Rural Electrification Corp**. (REC).
- **South Indian Bank** plans to raise Rs4bn in capital during FY13, lower than its initial plan of Rs10bn.
- **First Carlyle Ventures Mauritius** has bought 22.6m shares or 2% stake in **South Indian Bank** at Rs26.5/share
- Ratings agency, **Fitch Ratings**, has downgraded **Vijaya Bank's** long term rating from Fitch AA (ind) to Fitch AA- (ind).
- **UCO Bank** may lower its growth, especially in overseas assets, over the next five years on concerns over capital adequacy.

**Morgan Stanley to launch bank in India**

- **RBI** has granted foreign banking licence to **Morgan Stanley.**
- **FirstRand Bank** India has set interest rate on savings deposit at 7.25%. The South African bank had opened its first retail branch in Mumbai last month.
- **Allahabad Bank** plans to open 250 branches during FY13. The bank currently has over 2,500 branches.
- **Allahabad Bank** plans to revive its US$500m overseas bond sale plan as its overseas business in Hong Kong is growing at a healthy pace.
- **Federal Bank** has launched three new customer cards in collaboration with MasterCard.
- **Central Bank of India** has indicated that it will require over Rs140bn of fresh capital by Mar-18 to meet the Basel-III guidelines.
- **Central Bank of India** is targeting a loan growth of 25% for FY13.

**HSBC gets approval to acquire RBS's business**

- As per a media report, RBI has approved **HSBC**'s proposal to acquire the retail and commercial banking businesses of **Royal Bank of Scotland** (RBS)
- As per media reports, **HSBC** may exit from its Indian insurance venture Canara HSBC Oriental Bank of Commerce Life Insurance.
- **Syndicate Bank** has asked the government for additional capital infusion of Rs5.4bn in FY13.
- During FY13, **Syndicate Bank** is targeting credit growth and deposit growth of 20% and 24% respectively.
- RBI has asked **Indian Overseas Bank** to migrate from its in-house core banking solution (CBS) to an Oracle-based platform.
- **Indian Overseas Bank** may raise US$500m through Medium Term Notes (MTN) during FY13.

**Indian Bank has lowered rates on FCNR (B) term deposits**

- **Indian Bank** has lowered rates on FCNR (B) term deposits by up to 10bps.
- **Karnataka Bank** is targeting to grow the business by 25% during FY13.
- **Ratnakar Bank** plans to add c.50 branches during FY13 to take its branch network to 155 branches.
- RBI has confirmed the appointment of Mr. P G Jayakumar as the Managing Director of **Dhanlaxmi Bank**.

- **LIC Housing Finance** has achieved the first close of Rs2.5bn real estate private equity fund.
- As per media reports, **LIC Housing Finance** plans to raise Rs1.5bn through 2-year bonds yielding 9.9%.
- **Shriram Transport Finance** plans to raise Rs5bn through secured non-convertible debentures.
- As per media reports, **Ashok Leyland Finance** is in talks to sell a small stake to private equity funds such as Temasek, Everstone Capital and AIS Capital.
- **Toyota Financial Services**, wholly owned subsidiary of Toyota Motor Corp has launched its services in India and will provide auto finance for Toyota vehicle buyers.

**LIC and IL&FS Financial Services plan to set up an infrastructure debt fund**

- **Life Insurance Corp** (LIC) and IL&FS Financial Services plan to set up an infrastructure debt fund with a targeted corpus of US$2bn.
- As per a media report, **LIC** may buy the stake of **Specified Undertaking of Unit Trust of India (SUUTI)** as per government divestment plan.
- As per media reports, during FY12, **Future Generali Life** has restructured operations whereby it reduced workforce and closed nearly 30% of its branches.
- Competition Commission of India has approved the proposal of **L&T Finance** to take over the mutual fund business of **Fidelity** in India.
- As per a media report, **Mirae Asset Management**, **Vanguard** and **Pramerica** are looking to buy **ING Asset Management's** Indian mutual fund business.
- **Asset Reconstruction Company** (Arcil) plans to extend its recovery agency service to banks for corporate non-performing assets (NPAs).

**SKS Microfinance may re-enter the insurance business**

- **SKS Microfinance** may re-enter the insurance business and start offering an endowment life insurance policy to its borrowers. The company had exited this business in 2009.
- **Bandhan Financial Services**, a microfinance company, may raise Rs4-5bn of debt during FY13 to support its loan growth.

## Interesting interviews

**Mr. Pratip Chaudhuri (Chairman, State Bank of India)** (link)

**The Basel III issues are being overplayed**

The Basel III issues are being overplayed. Our entire tier I is core equity. So we do not have to take any ride down for Basel III in terms of our equity. But where Basel III would pose a challenge not only to SBI but to all banks is the leveraging issues because Indian banks by their nature have 24% as SLR and 4.75% CRR and Basel III has not given any exemption of maintaining capital on those in terms of leveraging.

**Mr. Keki Mistry (Vice Chairman and CEO, HDFC Ltd.)** (link)

According to our understanding, Morgan Stanley has looked at HDFC's foreign ownership cap at 74% which is not correct, because our foreign ownership cap, in reality, could be 100%. There is no capping or reversal on foreign ownership as far as HDFC is concerned. In 1995 HDFC had a private placement of shares through which more than USD 50 million was brought into India from overseas. And as the RBI's rules do not apply, HDFC's cap could be 100%. So that's something we want to clarify to MSCI, but we want to first talk to them and understand why our weightage was reduced.

**Mr. Keki Mistry (Vice Chairman & CEO , HDFC Ltd.)** (link)

**There is not too much ability that RBI has at this moment to control the currency**

I have always said you should expect about a 100 bps cut in the policy rate this year. Of that 100, we think 50 will be the first round so we could likely see another 50 bps cut in the course of the remaining months. But I do not see that cut happening immediately. The RBI is watching the IIP numbers and will continue watching the inflation and GDP numbers. There is not too much ability that RBI has at this moment to control the currency. Yes, it is more for the government to handle it rather than the RBI. The RBI can take a couple of

**The asset quality is a direct reflection of the state of economy**

**For FY13, we expect growth in loans and deposits to be around 20-21%**

**Our restructured assets are basically in telecom, SEB and steel sector**

measures but I do not know how much we will be able to help it in bringing the rupee higher. Once the speculative portion is over, one expects the rupee to stabilise around the 54 level.

**Mr. K R Kamath (Chairman, Punjab National Bank)** (link)
The asset quality is a direct reflection of the state of economy. So, I would not be in a position to say that we have put the worst behind us because we need to see how the economy will pan out as we go along. We have no clear signals because the interest rates are still high. Most of the industries are coming and saying that they are under stress. When our customers are under stress, I don't think that I can say that everything is over. But at the same time we are very clearly working with every customer where there are problems to stand by them in these difficult times and to see that they are through the difficulties as we go along.

**Mr. M D Mallya (CMD, Bank of Baroda)** (link)
For FY13, we expect growth in loans and deposits to be around 20-21%, margins are expected to be upward of 3.4%, delinquencies in the range of around 1.2-1.25% and overall strong recovery, strong fee-base income. Bank is on the right track as far as incremental growth and incremental ROAs are concerned. Look at the performance in the last year, the return on asset was quite strong at 1.24% for the full year, 1.54% standalone for Q4 quarter. These numbers are reasonably good, we should be able to maintain that or even better that in the coming year.

**Mr. M D Mallya (Chairman & Managing Director, Bank of Baroda)** (link)
Every account needs to be analysed on a case to case basis. I don't think Kingfisher has been a case which has been referred to CDR. Now if you look at the genesis of the CDR mechanism and how effective it has been over a period of time, I think it has served its useful purpose in rehabilitating the units. Therefore per se we are not feeling that CDR is not a good mechanism but there should be appropriate covenants in place, there should be appropriate monitoring mechanism so that the effectiveness of the CDR is not lost sight of. I think that has been the major concern and that is a major point around which the recent discussions have taken place.

**Mr. N Seshadri (Executive Director, Bank of India)** (link)
We have done some rough calculations of the impact of actually knocking down the pension amortisation, which in fact would be a part of tier II. The impact in the next two years is not very significant, it is well within the tier I capital that we had planned till FY14 and FY15. The real impact will start coming in from FY16, where tier II in the present form will substantially change. There is no great incentive for the banks. The banks may have to basically raise tier I pure equity from FY16. The biggest challenge is if the government holding in public sector banks were to be held at 51%, then for every Rs100 of additional requirement, the government need to contribute in that proportion.

**Mr. D Sarkar (Chairman, Union Bank of India)** (link)
I would like to increase my current account, savings account (CASA) deposit, especially with a good network of branches and the delivery channel. We will boost up our CASA and the low cost deposits. This is our strategy to maintain NIMs over 3%. Our restructured assets are basically in two-three sectors, telecom, SEB and steel sector. I don't feel there is a lot of pressure. I hope that financial parameters will be improved in these corporates. At this moment, capital is not a concern. Last year, certainly the government was considering to infuse the capital, but it did not happen. This year, we may expect some capital from government. That will boost up our tier I capital.

**Mr. S Raman (Chairman, Canara Bank)** (link)
Margin picture is 2.5%. One of the weaknesses of Canara Bank has been its lower CASA ratio. We are trying to very hard and results will hopefully show in a year or so. We used to

**We are very sure that CASA is going to show a good rise**

have some technological problems in IT which resulted in some amount of customer attrition during the previous two-three years. All that has been fixed. We are very sure that CASA is going to show a good rise. Savings bank account increase was about 10-11%. It is the current account where we got hurt and we are determined to fix the problem. The only pressure point for Canara Bank, if I may say, is going to be the restructuring of some electricity board accounts.

**Mr. Rajiv Lall (CEO & MD, IDFC)** (link)

**We are expecting a 15-20% growth in both our topline and bottom line in FY13**

We are expecting a 15-20% growth in both our topline and bottomline in FY13. We feel that although this is a challenging target, we have a pretty good chance of meeting this target because of the very-focussed strategies that we have been pursuing. This growth would be delivered by pursuing sectors that take advantage of the new definition of infrastructure which includes healthcare and education. We expect our balance sheet, which is at Rs600bn this year, to be closer to Rs700bn next year. We expect alternative asset management, which is at Rs100bn this year, to be closer to Rs140-150bn next year.

**Mr. Rajiv Lall (MD & CEO, IDFC)** (link)

**Risk appetite in investing in infrastructure is definitely going down**

Transportation is one of the most rapidly-growing segments of IDFC's business. We are doing a pretty thriving business in financing projects. There is enough happening that we continue to find business. On a headline bases, the 40% growth that people have got accustomed to over the years. There's clearly a definite slowdown relative to that. Risk appetite in investing in infrastructure is definitely going down. There is no doubt that execution difficulties have grown. Policy uncertainty is greater than it has ever been. I am only trying to focus on how despite all this difficulty all that we have achieved. There will a marginal deterioration in our asset quality, but our gross NPAs are under 0.3% of assets. We might see some deterioration, but we are adequately provisioned against that. The power sector is the cause for greatest concern.

**Mr. S L Bansal (Chairman & MD, Oriental Bank of Commerce)** (link)

**We expect to post 20% YoY growth in net profit for FY13**

We expect to post 20% YoY growth in net profit for FY13. This will be because, first, the 125bps cash reserve ratio cut by the Reserve Bank of India, will release additional fund of around Rs22bn which could be deployed and will result in an income of at least Rs2.4bn, assuming 12% interest is charged. Second, we have seen slippages of Rs39bn in FY12 so we will beef up our recovery efforts – both cash recovery and liquidation -- and that will add to our bottom line. We also think asset quality woes have peaked and we have to make lesser provisions going ahead. In the current financial year we plan to growth our assets by 18% and liabilities by 16%.

**Mr. P Sitaram (CFO, IDBI Bank)** (link)

**We are not looking at any major new credit proposals**

Infrastructure was not the cause of NPA or restructuring pain last year. On the other hand, pains came in from other sectors. Issues in infrastructure sector are being gradually addressed through policy announcements and resolutions that will take some time to resolve. Immediately, this year infrastructure sector is not a concern. We are targeting 15% growth in advances, out of which large portion will be from the priority sector portfolio. We are not looking at any major new credit proposals or trying to grow the non-priority sector book in any big way.

**Mr. P C John (Executive Director, Federal Bank)** (link)

**For the last few quarters, we have been seeing steady reduction in the slippages**

For the last few quarters, we have been seeing steady reduction in the slippages, especially in the retail and SME sectors. We expect that trend to continue. In the corporate segments, there can be one or two cases which are not predictable. In the corporate cases, there are some accounts with little bit of stress, but at what point of time it can turn into non-performing asset (NPA), we can't say. But overall the NPAs slippage trend is coming down. That is quite visible in the retail and SME segments. That trend will continue. Recoveries also continue to be good.

**Mr. H S Upendra Kamath (Chairman, Vijaya Bank)** (link)

CDR cases, references and finally implemented cases are bound to go up. The whole system is under stress and these problems have a tendency to surface with a lag effect. Therefore, whatever references thus far made in my personal view are bound to go up. Probably the discussions that have taken place recently are a precursor to what is going to follow. There is a feeling that the promoters, at least some of them, are trying to get away with softer terms, particularly with regard to the pricing concessions that finally get cleared at the CDR forum, which are strictly not in the interest of the banking community. It is this feeling which has led the bankers to come together and discuss the issues which I dealt with in my opening remarks.

**Mr. M G Sanghvi (CMD, Syndicate Bank)** (link)

**We will focus more on retail, MSME as well as agriculture credit**

We do not have any vigour of substantial growth in the large corporate sector, though the existing pace of growth will be maintained. We have put a break on short term loans, clean loans (loans without securities) and project loans. We are more interested in sectors like manufacturing, service industry or any sector where cash flows are very strong. Moreover, we will focus more on retail, micro small and medium enterprises (MSME) as well as agriculture credit. Currently, retail credit forms 20% of our loan book. We will grow it to 26% in FY13. Initially, we will use the network of 2,700 branches. We will increase it by another 300 branches in FY13 pan India basis.

**Mr. Shyam Srinivasan (MD & CEO, Federal Bank)** (link)

**We are seeing a pick-up in demand for working capital finances**

Our deposits have actually grown well in the low-cost and non-resident segment. The overall growth appears muted since we have shed close to Rs20bn of bulk deposits. We are focusing on improving our Casa ratio; it has moved up to 28 per cent. We also see a big opportunity in non-resident deposits. I will not like to put a number to our growth target for this year, but it will match our credit growth. Loan demand continues to remain a challenge for most banks, as very few new projects are coming up. We are seeing a pick-up in demand for working capital finances, and from the mid-market and SME segments. We are expecting 20-22 per cent growth in our credit portfolio this financial year.

**Mr. M V Tanksale (CMD, Central Bank of India)** (link)

The total loss for the quarter is Rs11bn, but you should see that the operating profit for the quarter has been very robust. The operating profit for the year is also positive. It's only below the line where I have paid heed that it is better that I provide and correct the situation going forward. Let me tell you that the major components again come from the complete 100% system driven NPA. But there are two, three major accounts on the steel sector and the agri sector, which have really hurt me. Again, I feel that there is a propensity for them to come back.

**Mr. A K Jagannath (MD & CEO, Tamilnad Mercantile Bank)** (link)

**The bank continues to focus on rural and semi-urban centres for business growth**

The bank continues to focus on rural and semi-urban centres for branch expansion and for business growth. We aim to add 50 branches this financial year, as was done last year. One regional office was recently set up in Bangalore and another one at Tiruchirappalli will be operationalised in May. The bank aims to surpass Rs408bn in business for FY13. The bank's philosophy for augmenting capital is only through internal accrual. The bank aims at one per cent of total business as net profit and increase in net interest income by 20 per cent every year. Thus, the bank can manage capital requirement till 2019 and beyond from internal accrual.

**Dr. N Kamakodi (MD & CEO, City Union Bank)** (link)

If you look back we had a very high proportion of restructured assets in 2008-09. At that point of time we had total restructured portfolio to the extent of about 8-9% of total loan book. But we had the lowest quantum of migration to NPA from the restructured book, it was less than 3%. Now also nothing is in the pipeline, but we may have to see like we expect that the overall economy and interest rate environment will turn favourable in Q1 or

Q2 but it looks like it may slightly get extended even to the year-end current 2012-2013. In terms of all the assets which got restructured in 2008-09 have completed three years of actual service and they can be taken out of the restructured assets. Last year also, in the whole year we had restructured only Rs380mn, which is minuscule compared to what we had earlier. We don't feel any major issue on that.

**We no longer offer personal loans and credit cards**

**Mr. Murali M Natrajan (MD and CEO, Development Credit Bank)** (link)
Our focus is retail mortgages, SME and micro enterprises. In liabilities, we plan to grow our Casa and retail term deposits. Maybe, three or four years later, we will review the personal loan business. For now, only if any of our existing customers ask for a personal loan will we offer this product. Given our size and capital base, re-entering this business may impact our earnings again. We no longer offer personal loans and credit cards. The people who worked in these businesses had either left the bank or were absorbed in other businesses. We have also made 100 per cent provisioning on the personal loans still in our books and classified these as non-performing assets. The bank is also focusing on recovery of these loans.

**This year will be a year of consolidation for us, thanks to a lot of regulatory measures**

**Mr. I Unnikrishnan (MD, Manappuram General Finance)** (link)
This year will be a year of consolidation for us, thanks to a lot of regulatory measures in the form of LCV Cap and current controls on banks' exposure to NBFCs, especially older NBFCs etc. We may not see any growth during the first quarter anyway. About the other quarter, I will be able to give an idea may be after 2-3 months. One good thing is that the RBI constituted a committee under K.U.B Rao which will look into all these aspects including the LTV (loan-to-value). We believe that the committee will complete the report in July or so and there will be more clarity on the LTV and other control.

**This year our asset growth may be little muted**

**Mr. George Alexander Muthoot (MD, Muthoot Finance)** (link)
There are some regulatory overhangs. So, probably this year our asset growth may be little muted, we may think of only about AUM growth of 10% to 25%. But we would try our best to maintain the profitability. We already have 3,700 branches in the country and they are well distributed. This year our branch expansion may be little lesser, 250-300, only in some strategic places and under presented area because we are fairly well represented all over the country today. We expect the net interest margin also may come down by about 1% or so

**Mr. Sebastien Lieblich (Executive Director, MSCI)** (link)
With respect to the weighting of HDFC in the MSCI India Index, we announced on 15th May as part of the 2012 semi-annual index review that the weight of HDFC would be reduced by half by applying an adjustment factor of 50% to its weight. This was following a decrease in the number of shares available to foreign institutional investors (FII) as part of the total allowed. However, as there have been some developments with respect to HDFC, MSCI has taken into consideration the vote of the director of the company to increase the FII limit from 74% to 100%, and decided to reverse the change which was initially allowed as part of the May semi-annual index review. So we announced yesterday that weight would revert back to the initial weight prior to the cutting of 50% of the weight initially announced.

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Figure 30

**India Banking calendar –June-July 2012**

CLSA ASIA-PACIFIC MARKETS

## India: Banking calendar - June-July 2012

| Monday | Tuesday | Wednesday | Thursday | Friday | Saturday | Sunday |
|---|---|---|---|---|---|---|
| 28 May | 29 | 30 RBI: Fortnightly update | 31 | 1 June RBI: Weekly stat. supplen | 2 | 3 |
| 4 | 5 | 6 | 7 | 8 RBI: Weekly stat. supplen | 9 | 10 |
| 11 | 12 | 13 RBI: Fortnightly update | 14 | 15 RBI: Weekly stat. supplen | 16 | 17 |
| 18 **Mid-Quarter monetary policy review** | 19 | 20 | 21 | 22 RBI: Weekly stat. supplen | 23 | 24 |
| 25 | 29 | 30 RBI: Fortnightly update | 1 July | 2 RBI: Weekly stat. supplen | 3 | 4 |

Source: CLSA Asia-Pacific Markets


IndusInd Bank

Savings grace

# Latest CLSA financial sector research

## Links to company reports

1. HDFC Bank – Visit to growth centres (link)
2. SBI – Mixed Signals (link)
3. IndusInd Bank initiation report– Savings grace (link)

## Links to sector reports

1. 4QFY12 result review – A year of divergence. (link)
2. India's Basel III framework (link)
3. FY13 monetary policy review (link)
4. 4QFY12 preview - Strong growth on a low base. (link)

## 4QFY12 result reviews:

1. Axis Bank (link)
2. Bank of Baroda (link)
3. Bank of India (link)
4. Canara Bank (link)
5. Corporation Bank (link)
6. HDFC Bank (link)
7. HDFC (link)
8. ICICI Bank (link)
9. IDFC (link)
10. IndusInd Bank (link)
11. J&K Bank (link)
12. Oriental Bank of Commerce (link)
13. PNB (link)
14. Power Finance Corp (link)
15. Rural Electrification Corp (link)
16. SBI (link)
17. Union Bank (link)



**Links to annual report analysis**

1. **ICICI Bank** – FY12 Annual report analysis (link)
2. **Axis Bank** – FY12 Annual report analysis (link)
3. **Indian banks**- FY11 annual report analysis for sector (link)

**Previous banking monthly:** (03-May-2012) (link)

**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)
4. **Insurance sector report:** No low-hanging fruit (report)
5. **Sector chartbook:** On different trajectories (full report, summary)
6. **Sector:** Is this cycle different (click)

**This report is priced as on 31st May 2012*

## Companies mentioned

Axis Bank (AXSB - RS990.2 - BUY)
Bank of Baroda (BOB - RS690.3 - OUTPERFORM)
Bank of India (BOI - RS336.7 - SELL)
Canara Bank (CBK - RS409.5 - UNDERPERFORM)
Corporation Bank (CRPBK - RS410.6 - UNDERPERFORM)
HDFC Bank (HDFCB - RS501.8 - BUY)
ICICI Bank (ICICIBC - RS790.3 - BUY)
IDFC (IDFC - RS122.9 - BUY)
IndusInd Bank (IIB - RS304.6 - BUY)
J&K Bank (JKBK - RS898.1 - BUY)
OBC (OBC - RS228.3 - SELL)
PNB (PNB - RS751.3 - UNDERPERFORM)
Power Finance (POWF - RS146.1 - UNDERPERFORM)
Rural Electrification (RECL - RS158.8 - UNDERPERFORM)
SBI (SBIN - RS2,080.3 - BUY)
SREI Infrast Fin (N-R)
Union Bank (UNBK - RS194.3 - SELL)

**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.

 **Note: In the interests of timeliness, this document has not been edited.**