

Q2FY12 – Cautious Growth With Some Pressure on Asset Quality of PSU's

We have briefly analysed the Q2'12 results for an array of 27 major banks (including 12 private banks). These banks have been compared on select parameters, with data collected from the press releases, presentations available in public domain and interactions with the spokesperson of banks.

Observations

YoY Q2FY12	PSU- Underperformer due to pressure on NPA	PRIVATE - Healthy Sustenance
Deposit	Slow down in line with advances	Slower than advances
<i>Exception</i>	Limited slowdown for Allahabad bank	Heavier for Federal Bank
Advances	Slowing Down	Slowing Down
<i>Exception</i>	Vijaya Grew faster	J&K, Axis grew faster
Core	Healthy despite pressure	Healthy despite pressure
<i>Exception</i>	OBC, Canara, IDBI degrew	Federal continued to be slow
PAT	Weak	Healthy
<i>Exception</i>	Syndicate, Vijaya did well	Karur was little weak
NIM	YoY Declining, Improving QoQ	YoY Declining, Marginally improving QoQ
<i>Exception</i>	YoY Allahabad, SBI saw healthy rise; QoQ OBC declined	Karnataka, DCB saw healthy rise, QoQ Axis also
Provision	Increased	Reduced
<i>Exception</i>	reduced for IDBI, Vijaya	Increased for SIB, Yes, Axis
GNPA	Sequential increase	Sequential Controlled
<i>Exception</i>	Dipped for Vijaya, BoB, Syndicate	Increased for Karnataka, Kotak
CASA	Maintained Sequentially	Maintained Sequentially
<i>Exception</i>	Good rise in IDBI, SBI but fall in Allahabad, Andhra OBC	Improved for Axis, dipped for HDFC bank
NIM QoQ	Better Improvement	Marginally Improved
<i>Exception</i>	Dipped for OBC	Healthy improvement in Axis

Averages in %	All -27#	Private	PSU
Deposits growth %	19.49	18.30	19.81
Advances growth %	20.90	22.78	20.38
CD ratio %	77.47	81.11	76.49
QoQ Dep Growth %	4.19	7.53	3.63
QoQ Adv Growth %	3.42	6.74	2.72
NII Growth %	17.90	18.35	17.75
GP Growth %	16.32	14.55	16.97
NP growth %	12.16	27.17	5.93
NIM growth%	(3.84)	(2.02)	(5.20)
CTI %	44.42	48.10	41.50
CASA %	29.12	30.00	28.40
CASA/Branch (Rs in Crs)	24.48	28.00	21.70
Provision Coverage %	53.82	76.46	48.64
Gross NPA %	2.34	2.24	2.42
Net NPA %	0.98	0.58	1.31
Provision Coverage LY %	57.46	76.10	54.50
P/ABV (x)	1.38	1.84	1.02
P/BV (x)	1.35	1.86	0.95
PE (x)	8.84	12.80	5.70
RoA (H1 Ann) %	1.09	1.30	0.90

- **Overall** – The credit growth pace slowed, while deposits were slower. Profit of PSU bank suffered as they continued to reel under NPA pressure- despite nearly 80% banks dipping in their PCR cushion. The GNPA in PSU banks saw a sequential rise with average increasing from 2.1% in Q1'12 to 2.4% in Q2'12 (due to CBS shift for nearly 2/3 rd of the PSU banks in our array). However private banks reported healthy PAT growth as they could maintain their asset quality and curtail provisions. Margin improved for most of the banks over June quarter despite the CASA strain and the overall NIM improved from 3.11% in Q1'12 to 3.23%.
- **Business Growth Slow Down Visible-** The business growth slowed down with advances growing at ~21% and deposits at ~19%. Banks are experiencing deferment of sanction withdrawal. This will be treated kindly as aggressive growth in such economic environment may not look viable. Banks continued to prune their credit growth targets for FY12 by ~2 to 3% as the investment slows down. Weak rupee is going to keep overseas business growth healthy as also NRI deposit accretion.
- **Margins Regain From Dip In June Quarter** – After deposit re-pricing and increase in saving rate hit in Q1'12, as expected the average NIM recovered from 3.11% in Q1'12 to 3.23%. The recovery was better for PSU banks. Most bank management sound very firm on limiting the impact on their margins, even at the cost of growth. It needs to be seen how the saving rate deregulation plays on and how the increase in NRE deposit rates is passed on. However we may see a long consolidation period post the rate hike peak off as the deposit re-pricing takes time.
- **Healthy NII And PAT For Private Banks But PSU Banks Suffered Due To Increased Provision** – NII growth was slower than the credit growth for both PSU as well as Private Banks, but still was reasonable at 18%. Heavy provisions pulled down the PAT of PSU banks. The provision of PSU banks increased by ~49% YoY while for private banks it dropped by ~29%. CTI increased for both private as well as PSU banks, as the income reduced.
- **Asset Quality –The Real Villain** – Nearly 67% of the PSU banks in our array finished their final leg of shifting to system-based NPA recognition. This uncovered many troubled assets and on a positive note, has brought good transparency. The average slippage of the PSU banks rose to 3.83% and GNPA to 2.4%. The average slippage ratio of private banks remained contained at 1.5%. Overall restructured assets remained near static at 3.9% with banks continuing to add more as well as report further slippages from it. Sequential core provision coverage remained nearly flat for private banks at 76.5% while it fell sharply for PSU banks to ~49%. With unsettled pressures in global economy and domestic economy concerns, asset quality concern will keep the banking stocks under pressure.

Conclusion

Banks are acknowledging the slow down resulting from increased rates, lack of policy initiatives and their own cautiousness. The growth hitherto came from infrastructure sector which is now under clouds and hence also the growth will be slower. To top it, the sharp and sudden depreciation of rupee has added to the woes of inflation (though the food and other commodities inflation will provide relief with demand slowdown and high base effect). **And this creates uncertainty in the otherwise certain belief that the RBI may pause its rate hike this time.** Savings Bank rate deregulation created no major ripple in the banks and they are assuming that it will not do much harm in future too. The visible harm in future can only come from asset quality pressure and restructuring. Power and aviation are some of the sector specific areas where large scale restructuring is pending. Even real estate has to be watched. Though the overall quantum may be low as compared to 2008, the investor will be cautious. As far as PSU banks is concerned they have been at the receiving end for long now – pension, heavy restructuring and now shift to system based NPA. Of this the system based NPA has improved the transparency and hence is a positive one. But the heavy restructured book, exposure to sensitive sectors and pressure on asset quality will impact the sentiment going forward. It is important to note that restructuring PSU loans may not result in eventual loss but may call for some compromise. Overall the banking stocks have corrected by ~25% in last one year and priced in a lot of negativity. The downside for the stocks may be limited from here, though the highs are yet some time away.

We believe that the banking stocks are now placed in the **“High Risk and High Return Bracket”**. The stock picking can be done from two perspective –

- Strong and less vulnerable ones - HDFC Bank, BoB, Kotak, Yes Bank, IndusInd, Karur
- Cheaply valued ones - Corporation, Karnataka, Allahabad, Indian, Syndicate, BoB, South Indian

So accumulation of banking stocks can continue. More clarity will emerge post Q3 when we see indication of subsiding inflation.

		TOP		BOTTOM	
		I	II	I	II
Quarterly Results – Q2FY12					
1	NII Growth	Allahabad	Karnataka	OBC	Canara
2	PBPT Growth	Karnataka	IOB	Federal	OBC
3	NP growth	DCB	IndusInd	OBC	BOI
4	YOY NIM growth	Karnataka	SBI	OBC	Canara
Business					
5	Deposits growth	IOB	South Indian	ICICI/UBI/Yes	IDBI
6	Advances growth	IOB	Kotak	DCB	Yes
7	CD Ratio	Kotak	ICICI	J&K	Karnataka
8	Incremental QoQ CD ratio	HDFC Bank	Karnataka	Corporation	Andhra
10	CAR %	ICICI	Kotak	Axis	SBI
11	CTI %^	Yes/BoB	IDBI/Indian	DCB	Karnataka
12	CASA %	SBI	HDFC Bank	Yes	IDBI
13	CASA/branch	Axis	HDFC Bank	South India	Karnataka
14	YoY CASA Ratio growth	IDBI	IndusInd	Corporation	Vijaya
Asset Quality					
15	Gross NPA% ^	Yes	SIB	DCB	SBI/ICICI
16	Net NPA % ^	Yes	HDFC Bank	Karnataka	SBI/UBI
17	Core Provision Coverage	J&K	Federal	Canara	Corporation
18	QoQ Change in GNPA%	Federal	Vijaya	Andhra	UBI
19	QoQ Change in NNPA%	Andhra	OBC	Vijaya	DCB
Valuation					
20	ROA (Q1 Ann)	Kotak	Karur/Axis/HDFC/ IndusInd	IOB	Karnataka/DCB/BOI
21	P/BV *	Karnataka	Vijaya/Corp/IDBI	HDFC	Kotak/IndusInd
22	P/ABV *	Karnataka	Corporation	HDFC	Kotak/IndusInd
23	PE *	Corporation	Andhra	HDFC Bank	Kotak
24	Dividend Yield	Corporation/Andhra/IOB	Vijaya	Kotak	HDFC Bank/ IndusInd

* Cheapest is put as TOP

^ Lower is put as TOP

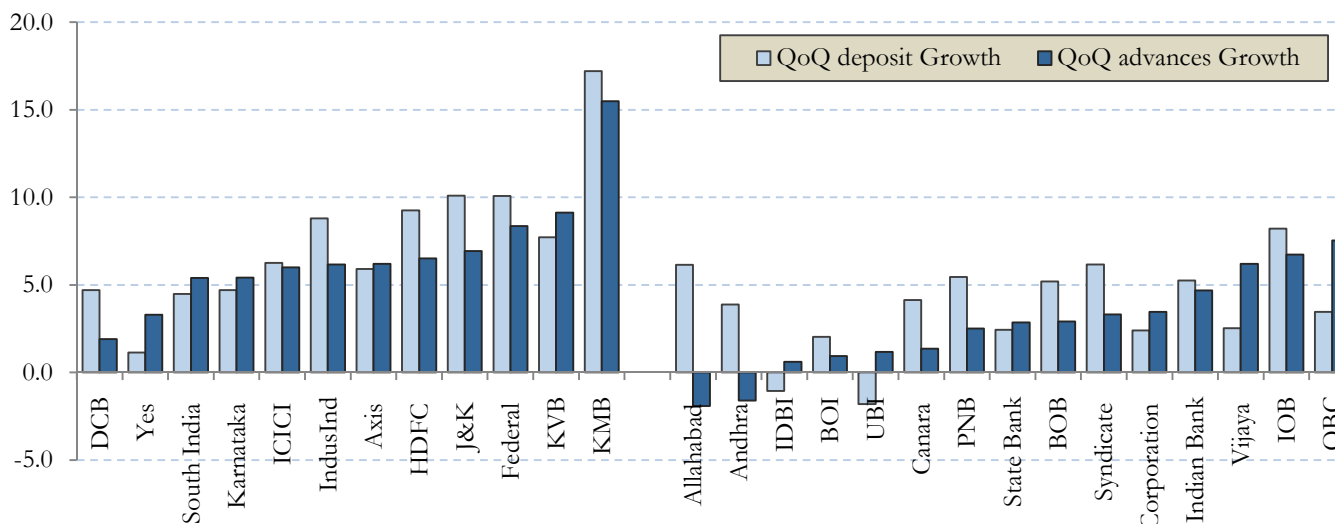
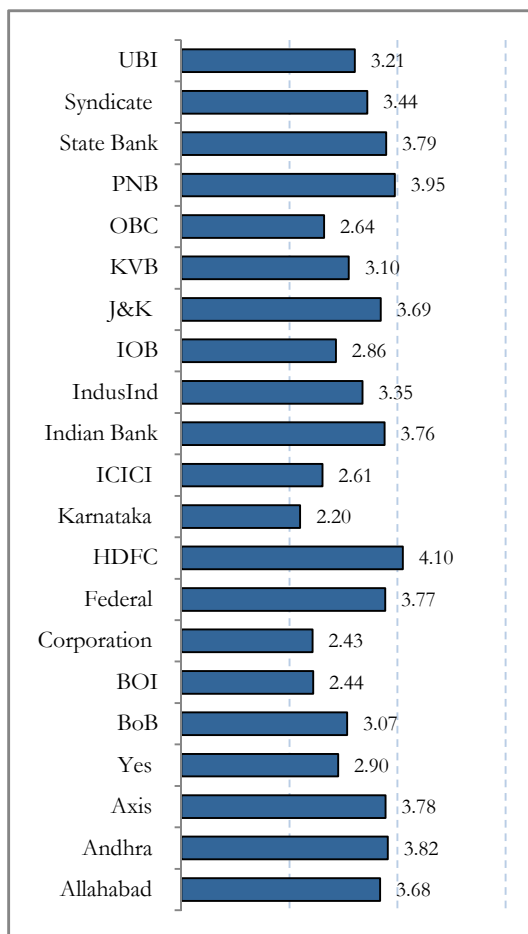
Averages (in %)	NII Growth	GP Growth	NP growth	NIM growth
Avg -27	17.9	16.3	12.2	-3.8
Private	18.3	14.6	27.2	-2.0
PSU	17.8	17.0	5.9	-5.2

Profitability Indicator

Averages (in %)	Deposits growth	Advances growth	CD ratio	QoQ Dep Growth	QoQ Adv Growth
Avg - 27	19.5	20.9	77.5	4.2	3.4
Private	18.3	22.8	81.1	7.5	6.7
PSU	19.8	20.4	76.5	3.6	2.7

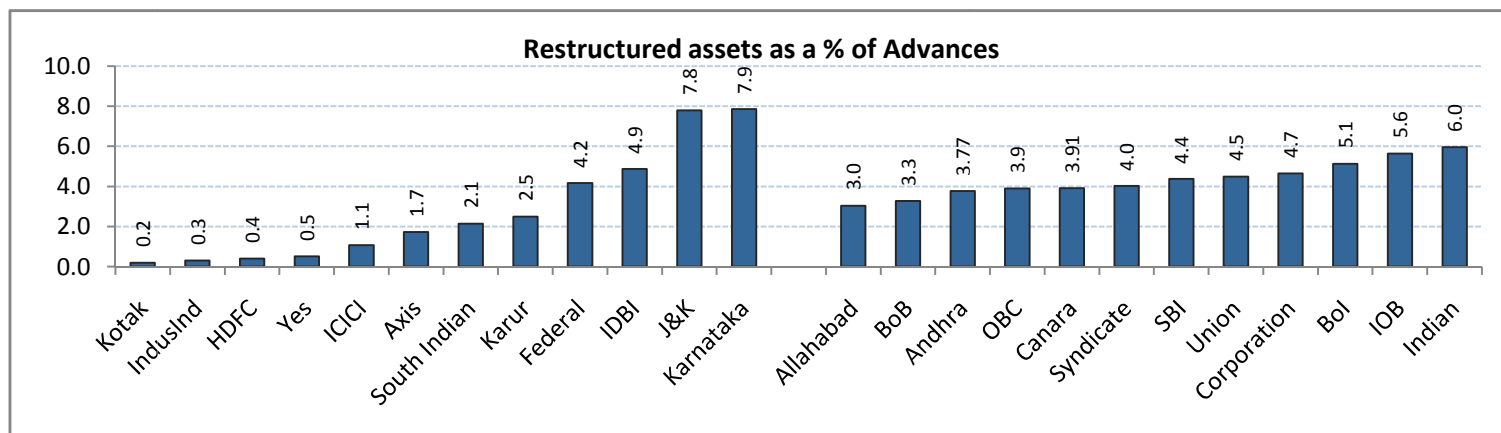
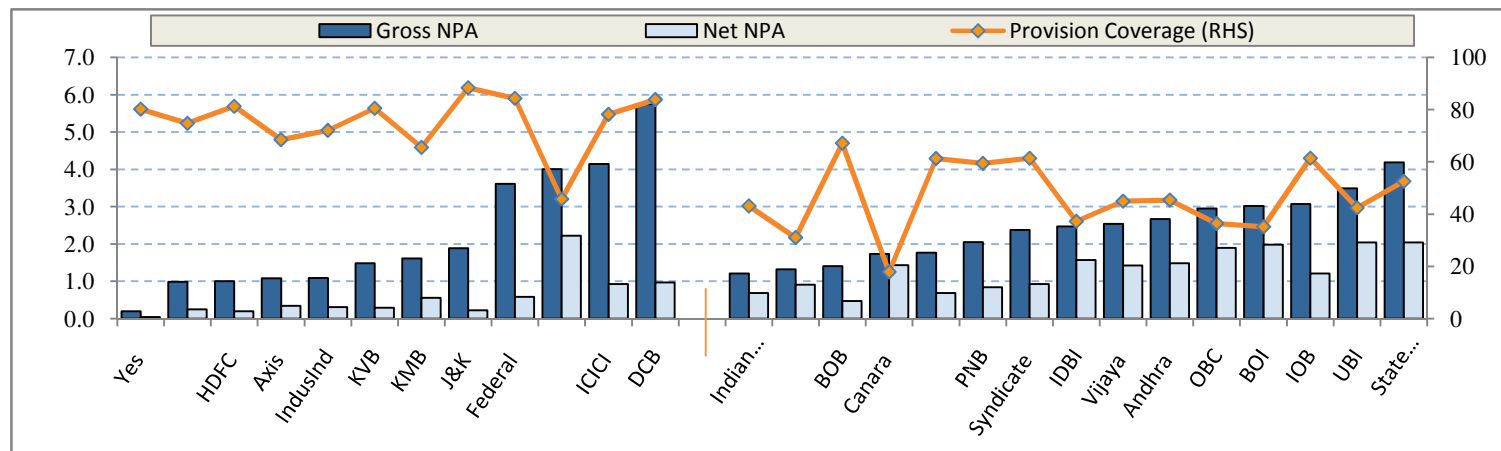
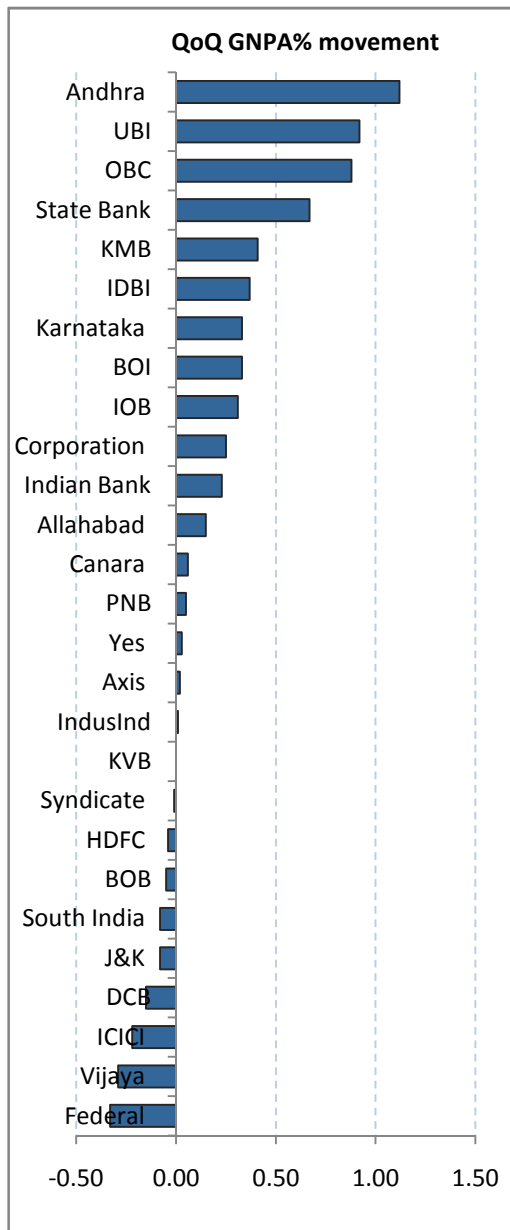
Business Indicator

NIM Q2FY12



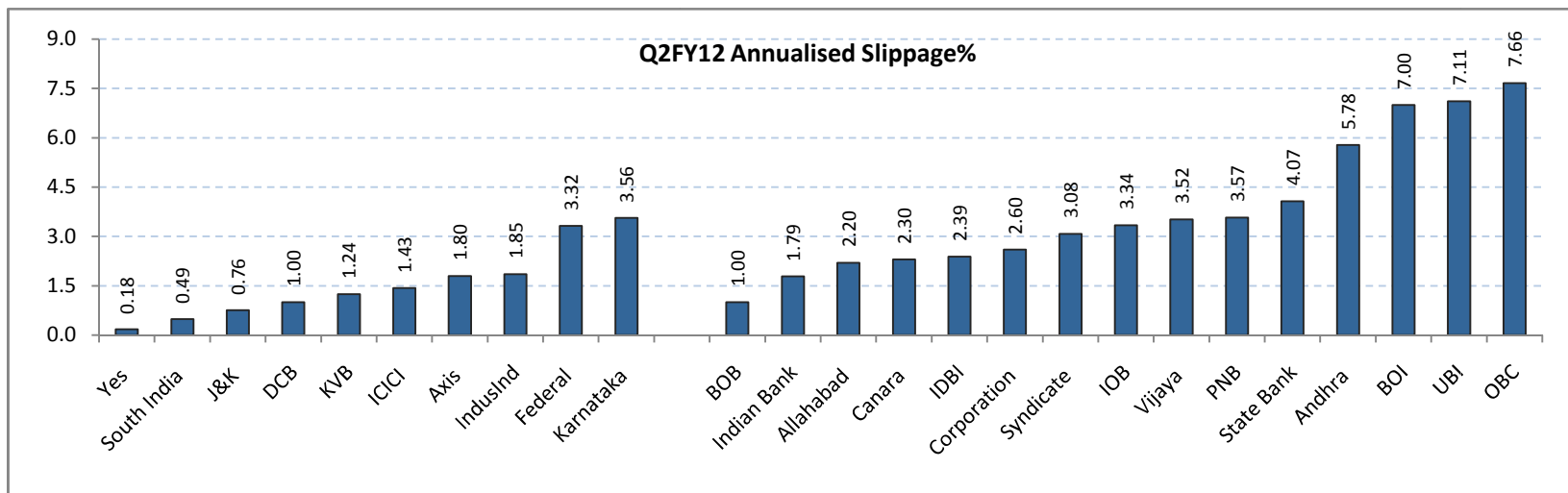
Averages (in %)	CTI	CASA	CASA/Branch (Rs in Crs)
Avg - 27	44.4	29.1	24.5
Private	48.1	30.0	28.0
PSU	41.5	28.4	21.7

Efficiency Indicator

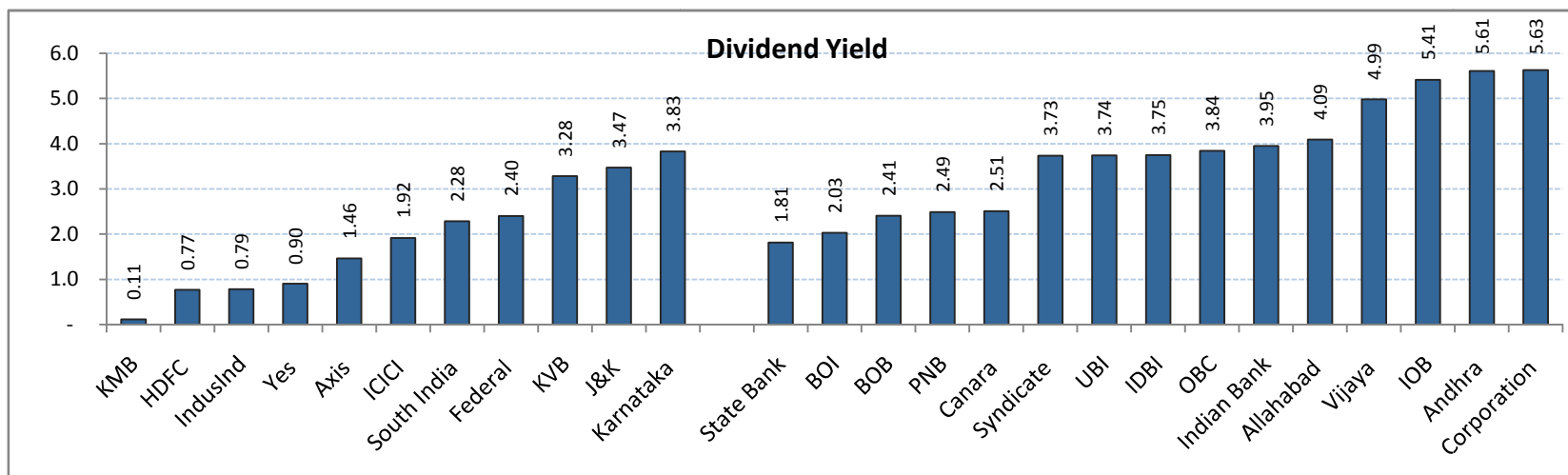


Asset Health

Averages (in %)	Provision Coverage	Gross NPA	Net NPA	Provision Coverage LY
Avg - 27	53.8	2.3	0.98	57.5
Private	76.5	2.2	0.58	76.1
PSU	48.6	2.4	1.31	54.5



The system based recognition of NPA uncovered many troubled assets and on a positive note, has brought good transparency.



Falling prices have improved the dividend yields

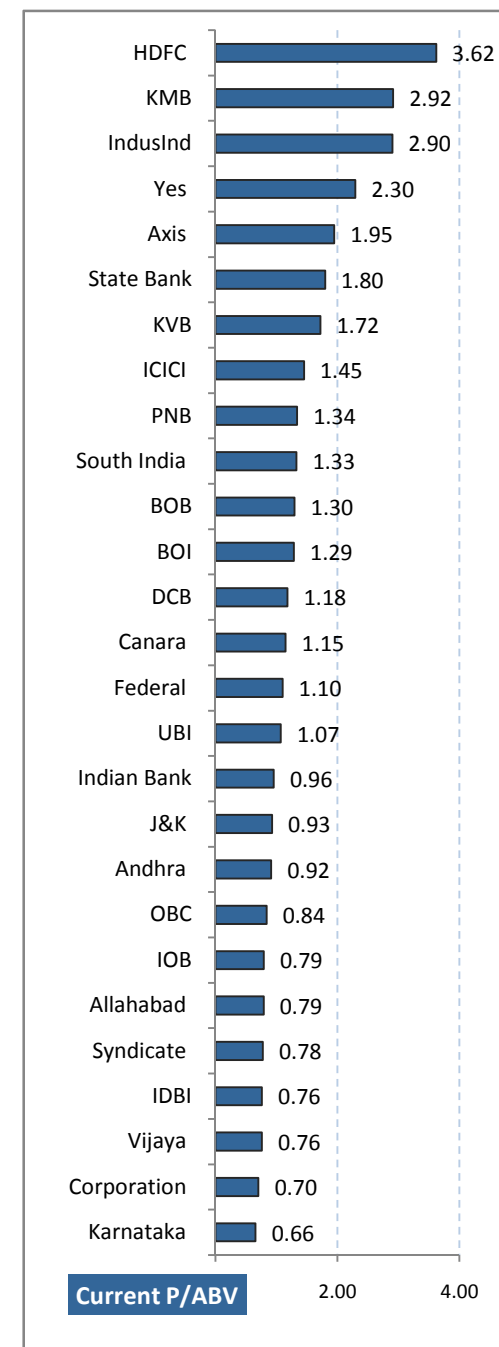
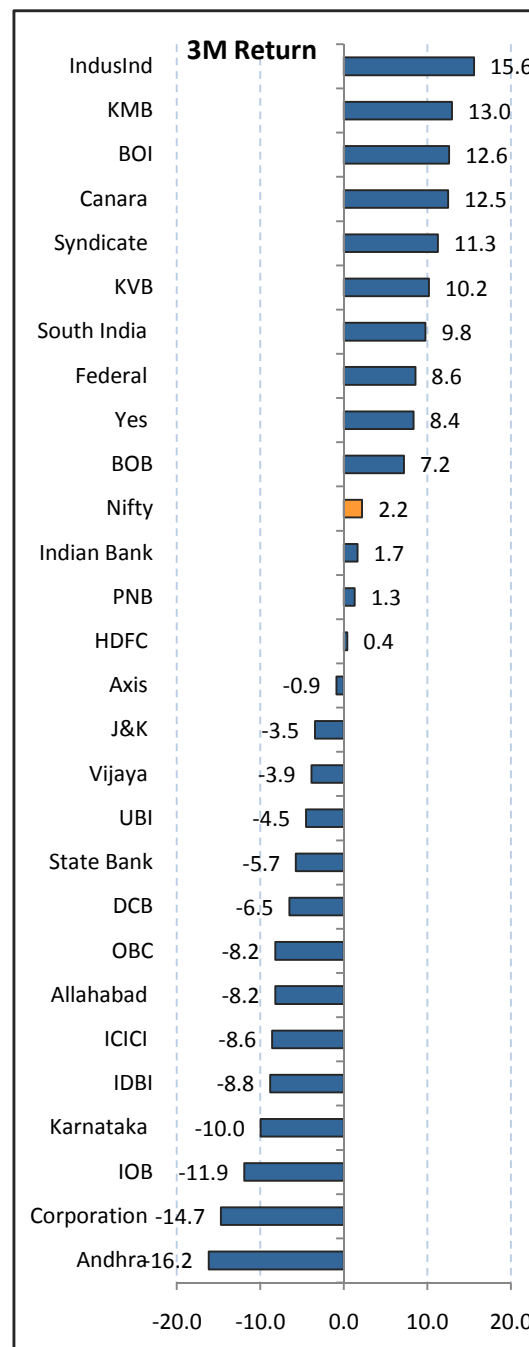
Averages	P/ABV	P/BV	PE	RoA (H1 Ann)
Avg - 27	1.4	1.4	8.8	1.1
Private	1.8	1.9	12.8	1.3
PSU	1.0	0.95	5.7	0.9

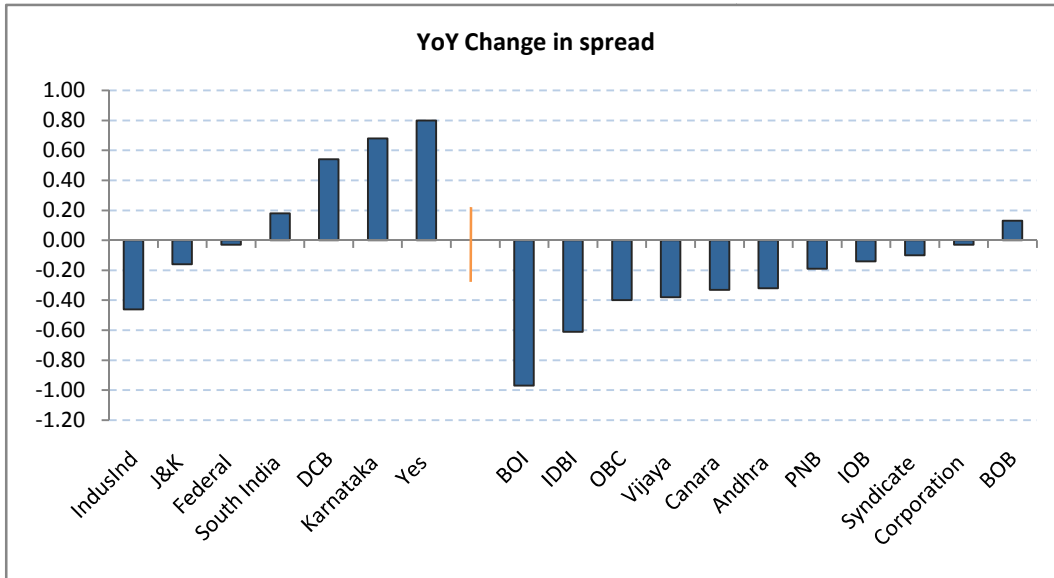
Valuation Indicator

The valuations have gone below long period averages on concerns of asset quality and growth. While growth slowdown is required to control inflation and hence rates, asset quality concerns are nearly priced in. This leaves little scope for further correction.

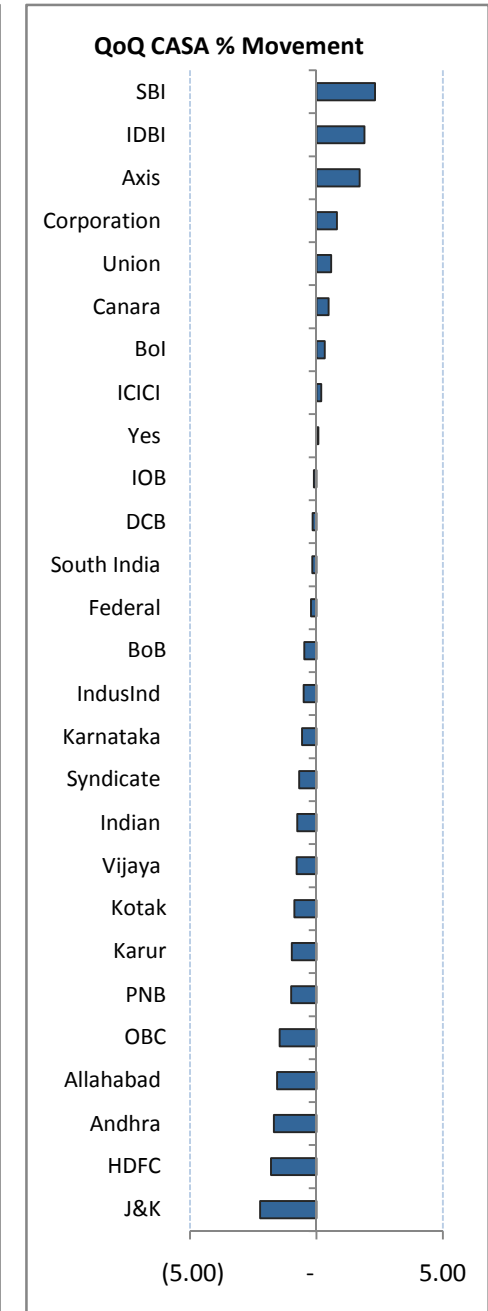
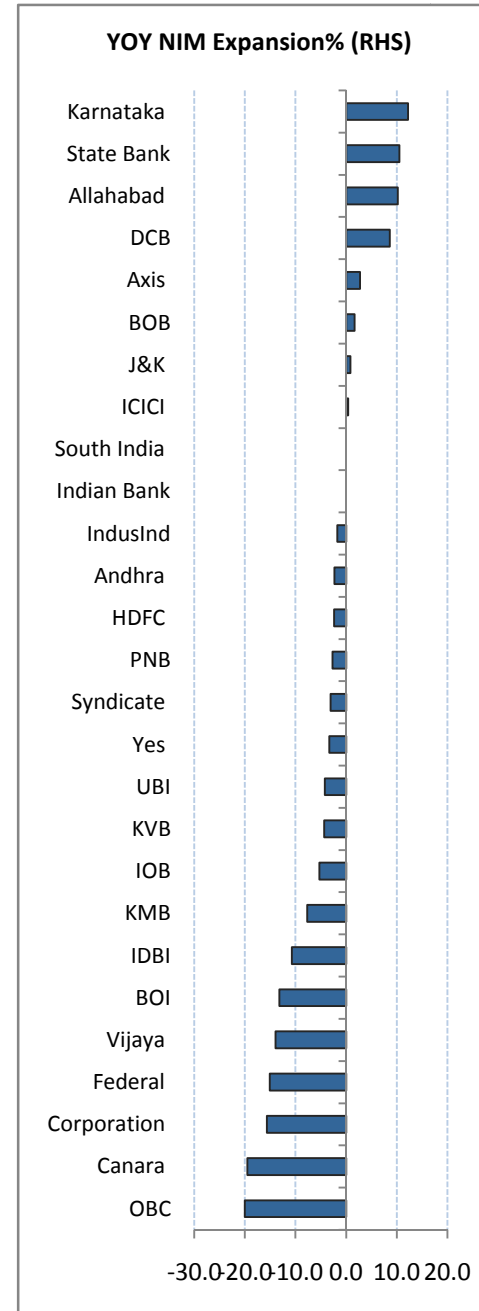
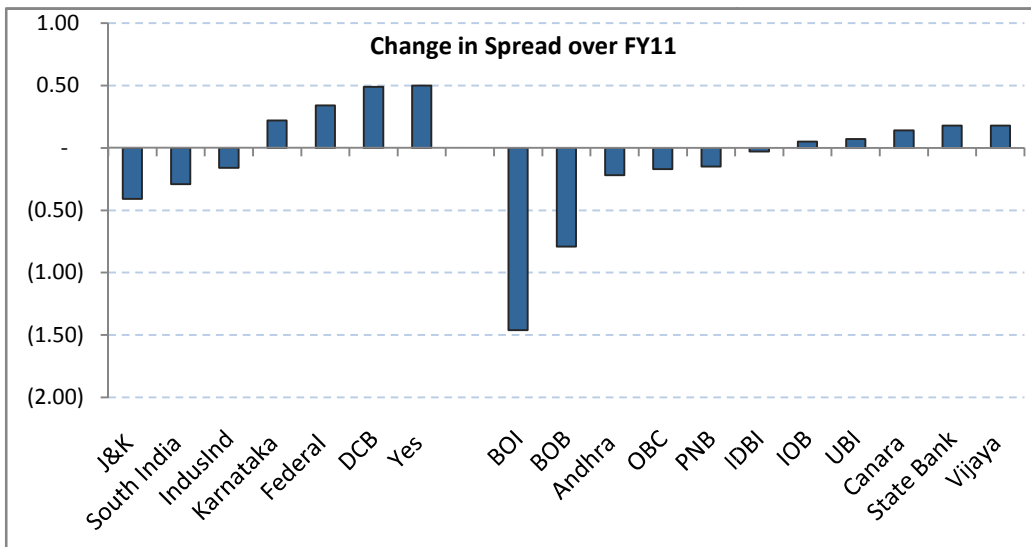
Adjusted book value is at 70% core coverage (without technical)
 Book value is as at end of Q2FY12
 PE is based on TTM EPS
 RoA is H1FY12 Annualised
 CMP – 28th Nov 2011

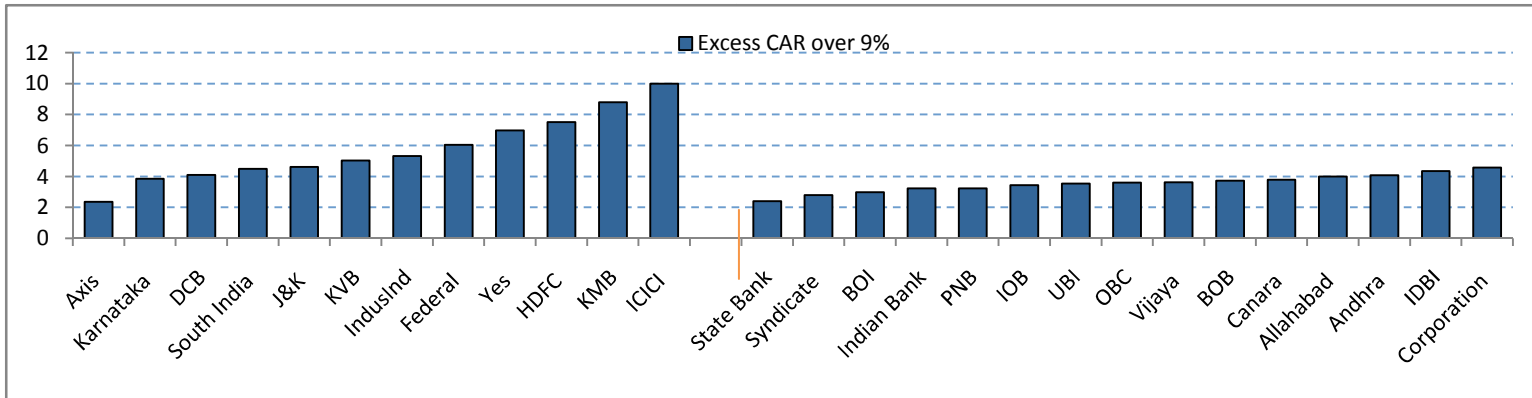
Stock Return	One month	3 Month	6 month	1 Year
Private Avg	-9.5	3.0	-11.8	-16.3
PSU Avg	-5.6	-2.4	-21.0	-32.8





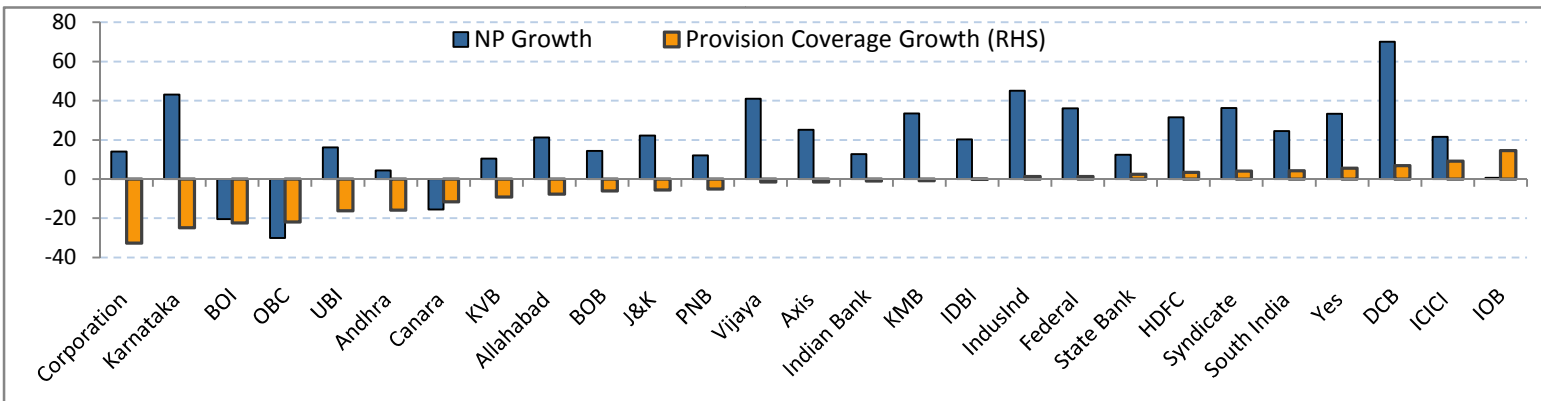
Base rate and conscious efforts to preserve the NIM, reduced the impact of increase in cost



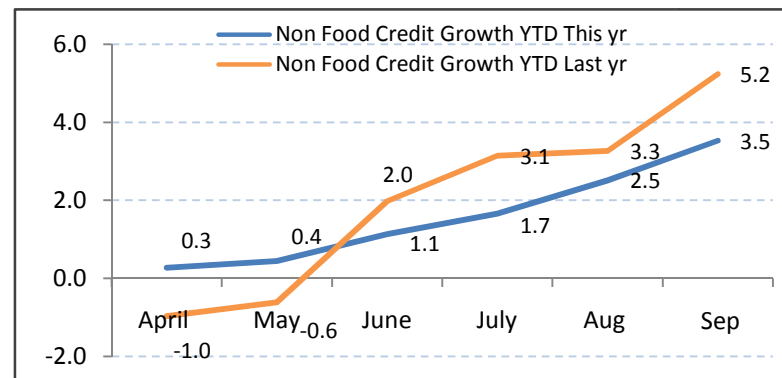
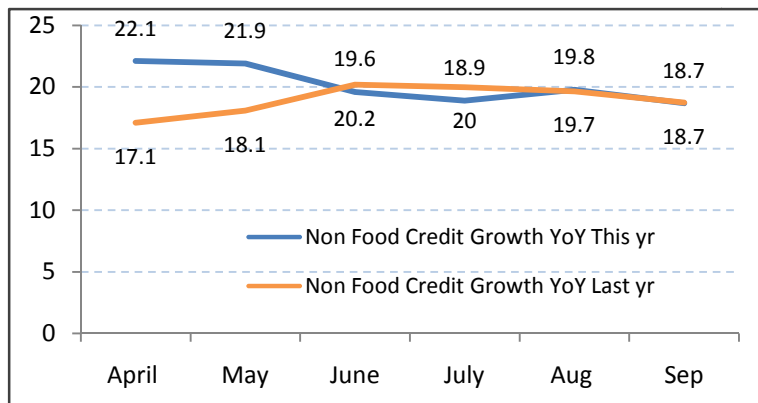


Healthy Capital Base is an added advantage in current market conditions. With Govt committed towards PSU banks, fiscal situation may lead to delay.

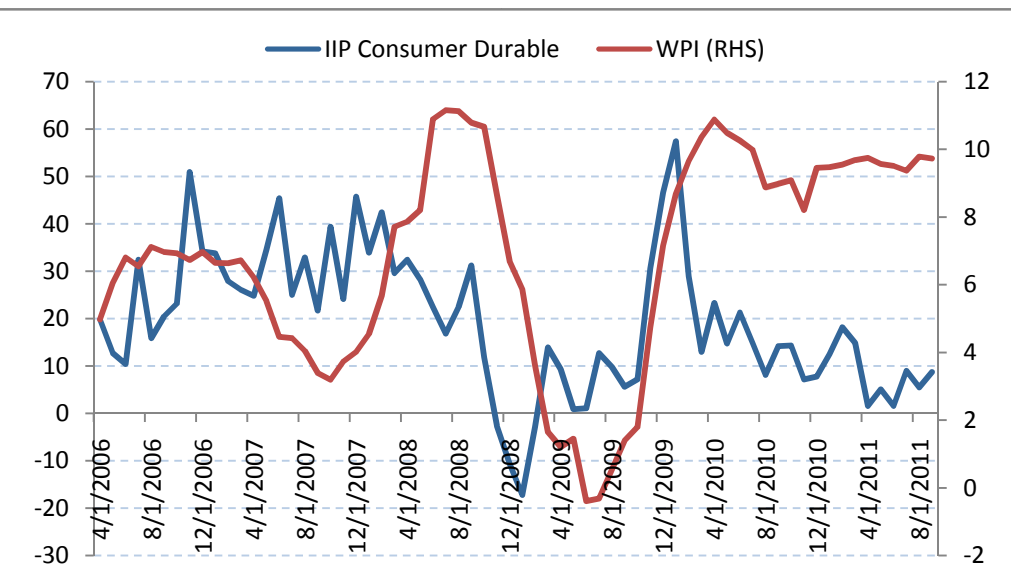
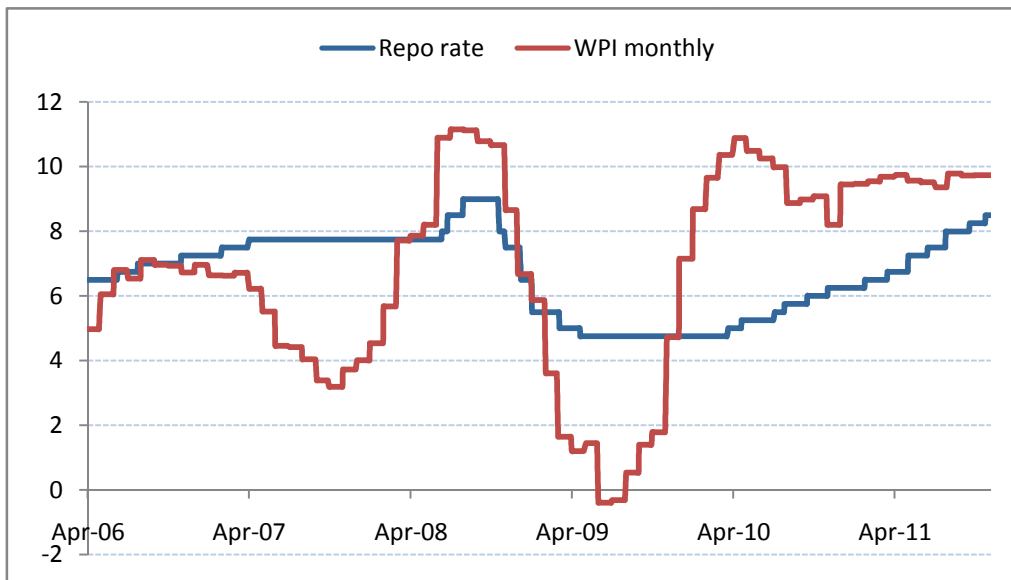
Note- CAR is without inclusion of H1 profits



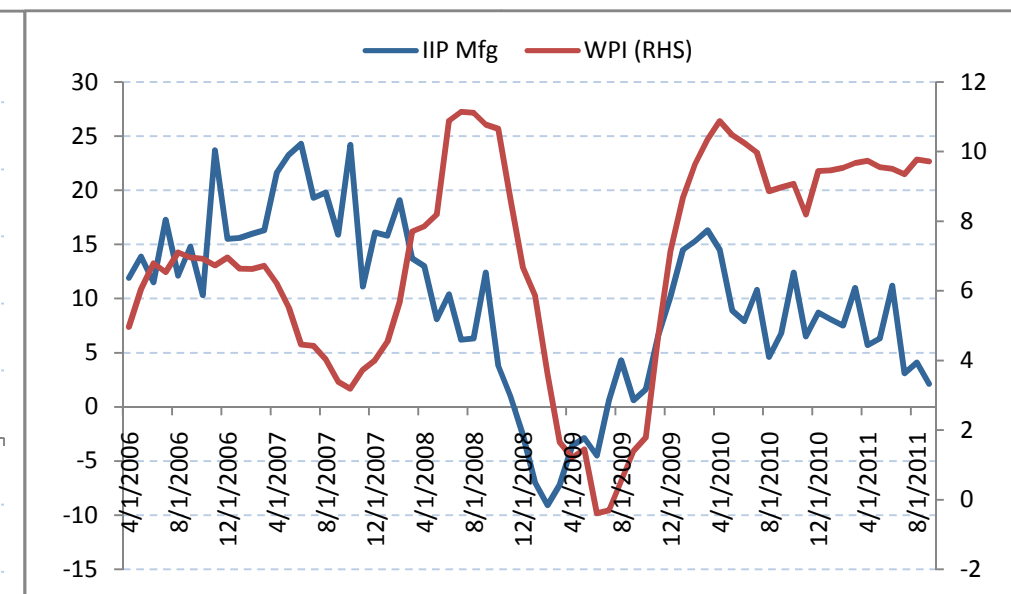
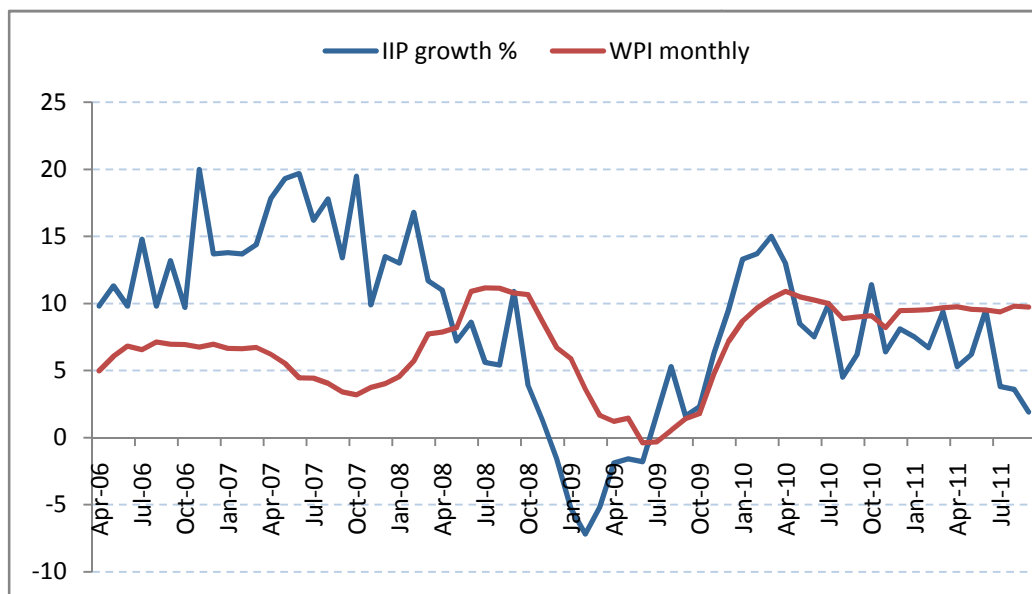
Banks, mainly PSU's, have drawn on their provision cover cushion to defend the PAT level. Most of them now plan to restrict to RBI requirements and create no further provision above that.



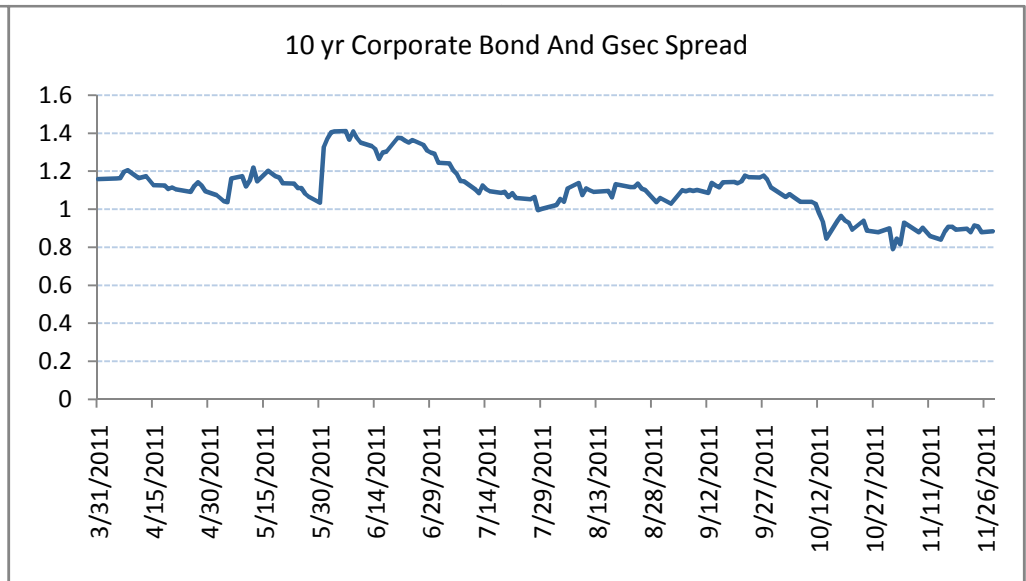
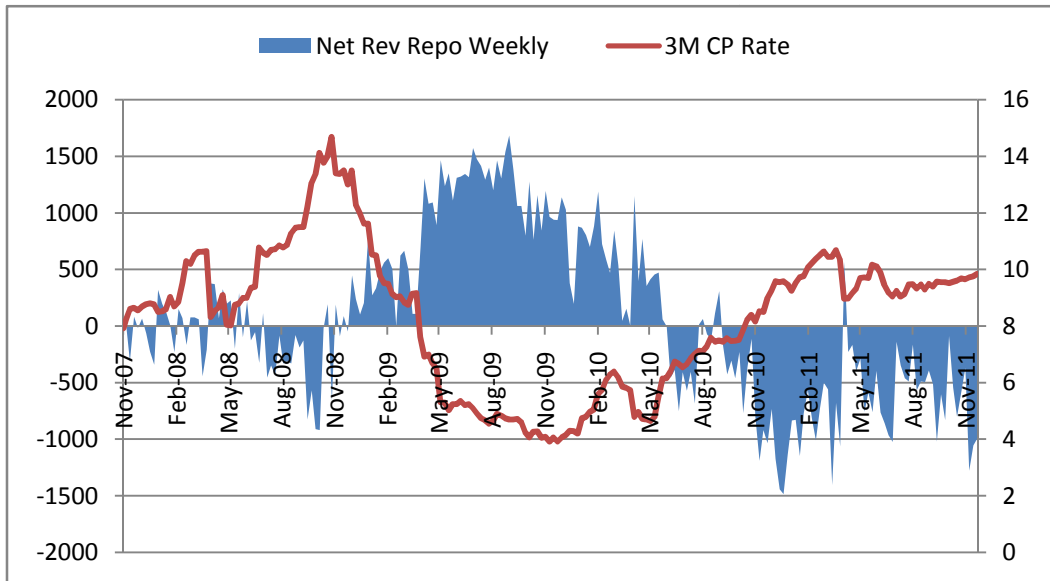
Overall sector growth



Rate hike could not bring down WPI but growth has been impacted. Another good reason for reduced trade investments is lack of policy initiatives.



Source – Bloomberg

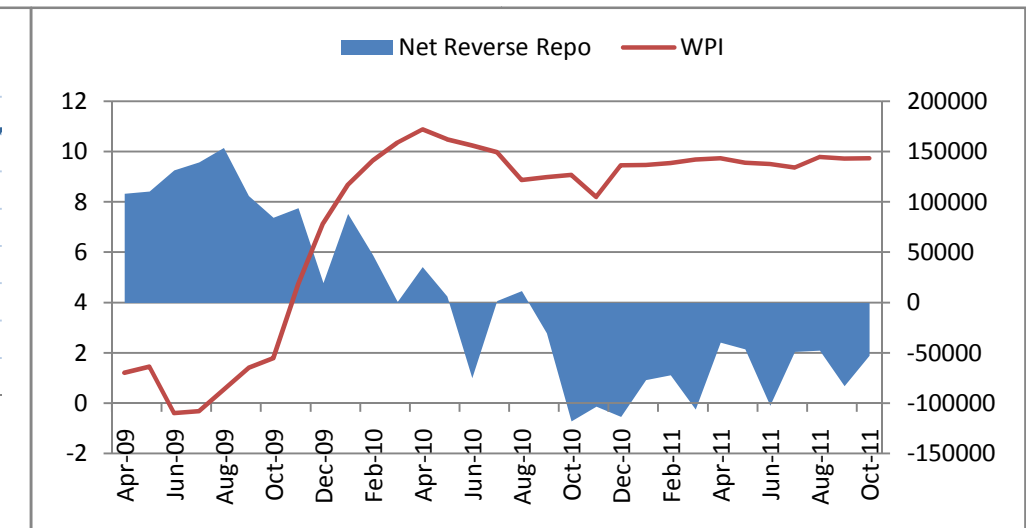
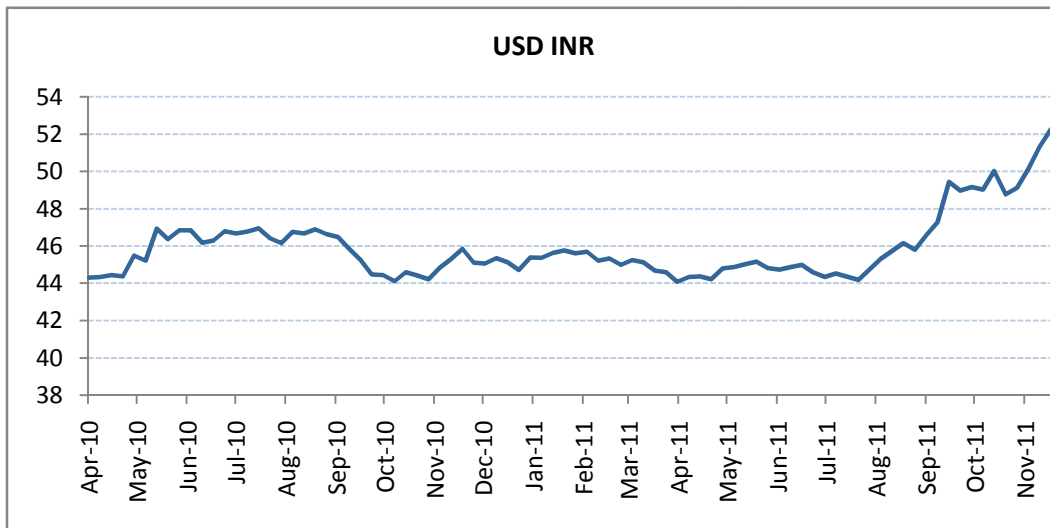


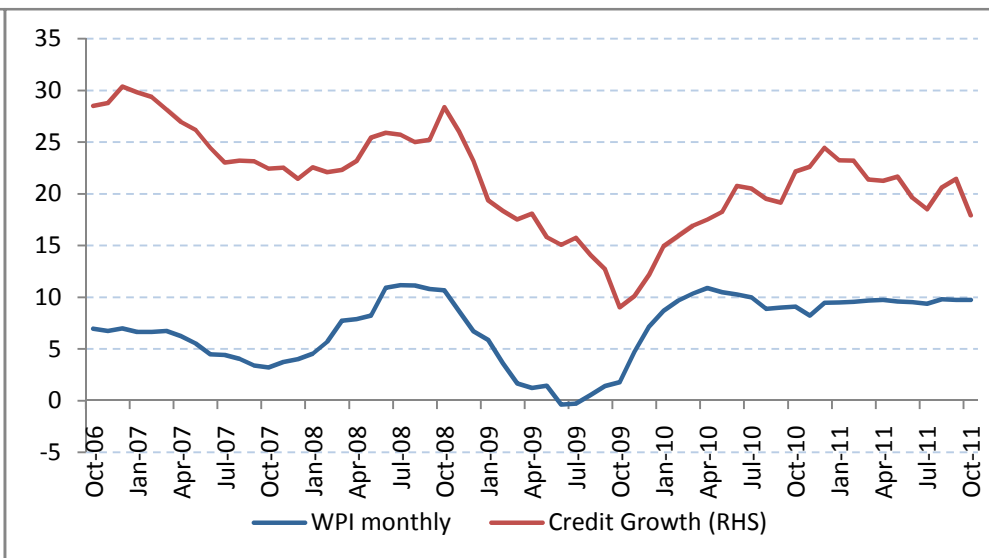
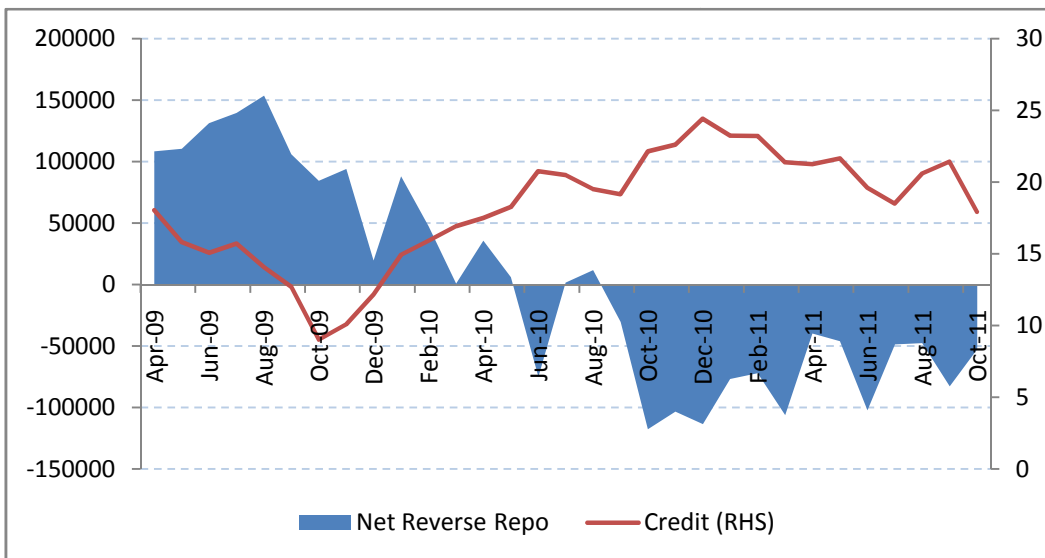
Liquidity will have to loosen to ensure smooth functioning

Threat to inflation as it increases import prices

Spread reducing as Gsec yields appreciated faster

Almost one year of tight liquidity and two years of high inflation



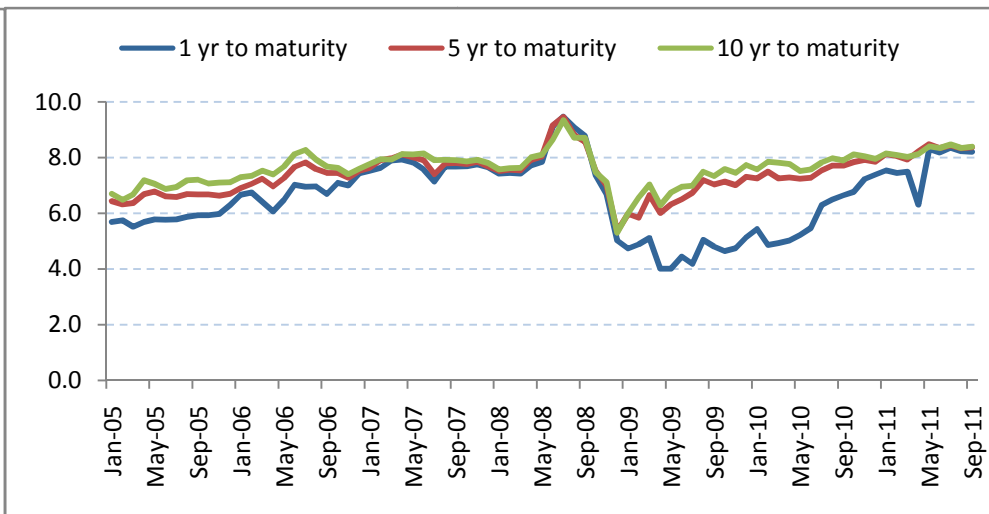
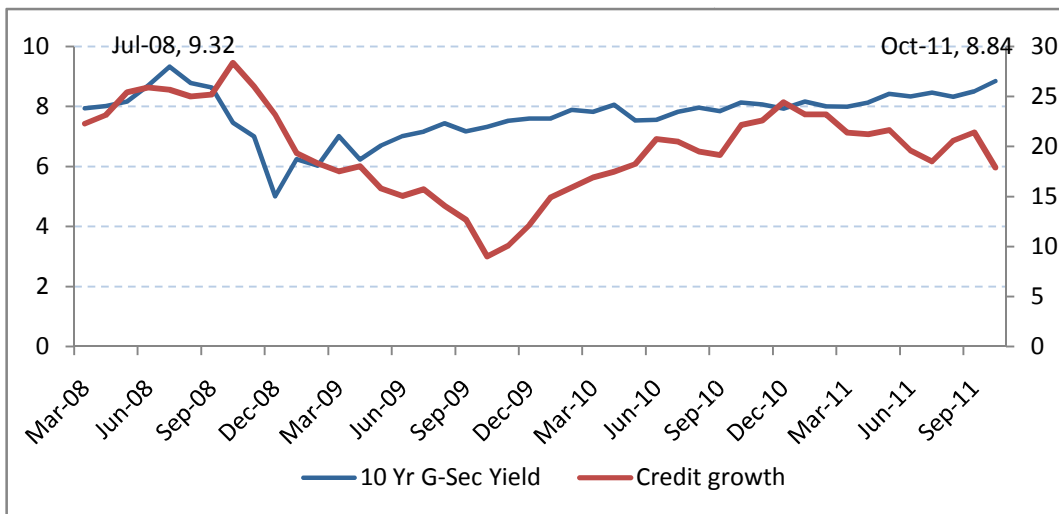


Deposits growth is limited but repo window is crowded.

Yields are yet to cross previous high; Banks faced MTM on corporate bonds rather than GSec which are majorly stacked in HTM

Prolonged high WPI and steady credit growth- needs reversal?

Liquidity, Inflation, large deficit financing keep the yield high



Source – Bloomberg, RBI

Aerial view of Q2'12 Performance

Amount in Cr

	CMP	Net Interest Income			PBPT			Net Profit			Deposit			Advance		
	28.11.11	Q2 '12	Q2 '11	% chg	Q2 '12	Q2 '11	% chg	Q2 '12	Q2 '11	% chg	Q2 '12	Q2 '11	% chg	Q2 '12	Q2 '11	% chg
Allahabad bank	154	1318	969	36	949	782	21	488	403	21	142,043	113,633	25	96,854	83,183	16
Andhra Bank	102	951	783	21	687	565	22	316	303	4	94,435	78,584	20	74,493	61,020	22
Axis Bank	991	2007	1615	24	1776	1486	19	920	735	25	194,455	156,887	24	140,089	110,588	27
Bank of Baroda	741	2567	2038	26	2127	1657	28	1,166	1,019	14	329,185	269,660	22	239,120	192,959	24
Bank of India	335	1904	1776	7	1552	1380	12	491	617	-20	299,074	241,071	24	216,951	184,377	18
Canara Bank	455	1962	1972	-1	1605	1416	13	852	1,008	-15	312,577	249,187	25	217,938	176,071	24
Corporation Bank	354	744	696	7	700	573	22	401	352	14	120,613	96,920	24	81,634	69,780	17
DCB	39	59	46	27	21	21	0	13	5	177	6,261	5,495	14	4,315	3,840	12
Federal Bank	362	474	438	8	361	385	-6	191	140	36	47,263	36,116	31	34,644	28,535	21
HDFC Bank	441	2945	2526	17	2126	1807	18	1,199	912	31	230,676	195,321	18	188,502	157,091	20
ICICI Bank	750	2506	2204	14	2354	2212	6	1,503	1,236	22	245,092	223,094	10	233,952	194,201	20
IDBI	95	1122	1125	0	1006	1025	-2	516	429	20	174,441	154,305	13	155,917	130,213	20
Indian Bank	190	1135	983	15	921	739	25	469	416	13	116,218	98,007	19	86,372	69,973	23
Indian Overseas Bank	94	1266	956	32	907	616	47	207	206	1	163,579	118,142	38	127,166	88,072	44
IndusInd Bank	262	419	330	27	333	262	27	193	133	45	38,367	31,290	23	30,135	23,452	28
J&K Bank	757	434	373	17	313	284	10	200	163	22	47,425	39,688	19	28,236	23,183	22
Karnataka Bank	81	182	136	33	117	76	54	41	29	43	28,849	25,045	15	19,067	15,683	22
Karur Vysya Bank	386	216	174	24	158	145	9	113	103	10	27,121	21,250	28	20,216	15,269	32
Kotak Mahindra Bank*	468	605	512	18	380	327	16	260	195	34	36,390	28,287	29	37,349	26,507	41
Oriental Bank	275	989	1077	-8	758	806	-6	168	398	-58	149,552	125,786	19	105,611	87,500	21
Punjab National Bank	921	3453	2977	16	2528	2100	20	1,205	1,075	12	341,783	273,394	25	249,020	208,764	19
South India Bank	22	259	197	31	166	125	33	95	76	24	33,038	25,060	32	23,348	18,029	30
State Bank	1780	10422	8115	28	7474	6357	18	2,810	2,501	12	973,171	855,345	14	810,612	693,224	17
Syndicate Bank	102	1313	1108	19	891	778	14	323	237	36	141,083	116,113	22	114,203	95,914	19
Union Bank	221	1661	1536	8	1205	1131	7	353	303	16	195,572	177,780	10	147,284	126,423	17
Vijaya Bank	52	513	487	5	340	296	15	204	144	41	77,802	62,688	24	54,304	39,805	36
Yes Bank	281	386	313	23	386	281	37	235	176	33	44,076	40,014	10	34,194	30,348	13

* NIM, Book Value, PE is consolidated

Note – All are standalone results

Wherever applicable global deposit and advance numbers considered

Banking Synonyms used –

- PBPT – Profit Before Provision and Tax
- CAR – Capital Adequacy Ratio
- CASA – Current Account Savings Account
- CD Ratio – Credit Deposit Ratio
- CTI – Cost to Income
- GNPA – Gross Non Performing Assets
- NNPA – Net Non Performing Assets
- NIM – Net Interest Margin
- NII – Net Interest Income
- PSU banks – Public Sector Banks
- SCB – Scheduled Commercial Banks
- TTM – Trailing Twelve Months
- CoD- Cost of deposits
- YoA – Yield on Advances

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