

Q4FY11 –Healthy Core with reflections of Concerns ahead

We have briefly analysed the Q4'11 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 Q411	PSU-'Healthy average weakened by SBI numbers'	PRIVATE - Healthy Core as well as Bottom-line'
Deposit <i>Exception</i>	Sustained momentum <i>Slow for IDBI</i>	Pick Up <i>Slower for ICICI</i>
Advances <i>Exception</i>	Pick Up sustained <i>IDBI and OBC amongst slowest</i>	Pick Up sustained <i>None</i>
Core <i>Exception</i>	Robust <i>OBC was weak</i>	Healthy <i>Federal was weak</i>
PAT <i>Exception</i>	Healthy <i>IOB was robust, SBI was weakest</i>	Healthier <i>J&K, Karur a bit weak</i>
NIM YoY <i>Exception</i>	Expanded <i>OBC dipped</i>	Flattish <i>Dip in Axis and Yes</i>
Provision <i>Exception</i>	Increased for 55% banks <i>Healthy dip for Union, IDBI, BOI, Vijaya and Indian</i>	Healthy Relief for most <i>Increased for Axis</i>
GNPA <i>Exception</i>	Sequentially Controlled <i>Increased for SBI, Vijaya, Syndicate</i>	Better improvement QoQ <i>Increased for Karnataka</i>
CASA % QoQ <i>Exception</i>	Marginal Dip <i>Improved for IDBI, fell for BOI</i>	Marginal Improvement <i>Dip in Federal, Karur, Axis</i>
NIM QoQ <i>Exception</i>	Slipped <i>Increased for BoB</i>	Flattish <i>Dip in Axis, Karur, Federal</i>
CASA Vs deposit growth <i>Exception</i>	Better Improvement <i>Dipped for Corporation, IOB, PNB</i>	Improved <i>Dipped for Axis, South Indian, Kotak</i>

Averages	All	Private	PSU
Deposits growth	21.43	24.02	20.76
Advances growth	24.76	26.68	24.25
CD ratio	77.84	77.25	80.37
QoQ Dep Growth	10.23	10.43	10.17
QoQ Adv Growth	8.51	6.10	9.19
NII Growth	27.83	24.10	29.19
GP Growth	15.05	14.52	15.26
NP growth	10.20**	38.20	(2.51)*
NIM growth%	4.49	0.85	8.11
CTI	47.93	49.30	46.90
CASA	30.81	31.50	30.30
CASA/Branch (Rs in Crs)	24.54	28.80	21.20
Provision Coverage	57.62	76.80	52.20
Gross NPA	2.06	2.22	1.93
Net NPA	0.74	0.51	0.93
Provision Coverage LY	54.00	65.00	50.40
P/ABV	1.71	2.13	1.37
P/BV	1.73	2.22	1.33
PE	12.10	18.40	7.19
RoA (FY11)	1.17	1.31	1.06

*Exclgd SBI 28.5%; **Exclgd SBI 32.1%

- **Overall –**

The credit as well as deposit growth picked up in the last quarter despite a heavy base. Overall banks reported healthy profit growth with a bulky negative accounting surprise from SBI spoiling the average. The bottom-line performance of PSU banks was weighed down by a slew of norms requiring higher provisions.

- **Business Growth Better Than Expected -**

The deposit growth for private banks picked up after a decline in last quarter and their incremental QoQ CD ratio remained under control in general. This growth in Q4 will impact the margins of FY12. Seasonality and priority targets kept up the growth in Agriculture and SME in the last quarter.

- **As anticipated margins reported pressure -**

The lag effect of increase in cost of deposits was felt on NIM's and the average NIM fell from 3.42% in Q311 to 3.36%. While private banks managed to just hold on to Q3 NIMs, PSU banks started to report strain (-15 bps). Maintaining NIM's and asset quality was echoed as the prime aims by bank managements.

- **Healthy Core Income Growth; But Healthy PAT Growth Constrained By SBI provision and accounting massacre –**

NII growth was healthy at 28% YoY but increased employee expenses and provisions hit, limited the bottom line growth to just 10%. The PAT average without SBI improves to 28.1%. The sequential increase in employee cost was +36% for PSU banks and +19% for private group; while the provision expense was +52% for PSU banks and +19% for private. This spoiled the efficiency parameter and CTI increased to 46.9% (+460 bps) for PSU banks and 49.3% (+240 bps) for private banks.

- **Asset Quality Improved –**

Overall the gross NPA improved further from 2.32% in June 2010 quarter to 2.28% in September 2010 quarter to 2.23% in December 2010 quarter to 2.06% now. Private banks fared better. While recoveries were good for most of the banks, most of them also resorted to a good amount write off to take tax benefit and reduce the GNPA%. Overall restructured assets improved to ~ 3.91% with banks reporting continued slippages from it. Sequential core provision coverage improved further for private banks (76.5%, +180bps) while for PSU banks it fell to 52.2% (-310bps). Vijaya, SBI, UCO, Central Bank and BoM were below norm of 70% as on March 31, 2011.

Conclusion

Banks are operating in a rising rate scenario saddled with persistently high inflation and lesser than comfortable economic outlook. The base rates have neared ten percent and despite this banks in general are positive about the growth (better than ~15%-18% of system) as well as limited margin impact. General tilt of the banks is towards targeting of SME and retail. However the asset quality is of concern to us. The interest rates and provisions hit PSU banks hard and they have been pulled back by almost a year thereby increasing the valuation gap with private banks. The PSU bank will continue to face pressure going ahead due to unamortized provisions as well as heavy restructured books. Private Banks will face lesser challenges and will therefore be less volatile.

We prefer banks with pricing power. Banks with higher retail business may benefit as most retail loans are backed by security and also allow higher yields. We expect that the new norms in pipeline and many more to come in future, make the operating environment volatile. Therefore a long term call can also be as difficult as a short term bet. We still prefer most of the banks in the private sector. Any further fall in PSU banks can make them lucrative for valuation gains.

Valuations bets – Karnataka, J&K, Syndicate, OBC, Corporation, Allahabad

Fundamental bets –HDFC Bank, Yes, IndusInd, Bank of Baroda, Andhra, Indian, Axis, South Indian, Federal

		Top		Bottom	
		I	II	I	II
Quarterly Results – Q4FY11					
1	NII Growth	South Indian	Karnataka	OBC	Federal
2	PBPT Growth	South Indian	IOB	Vijaya	Union
3	NP growth	IOB	South Indian	DCB	SBI
4	YOY NIM growth	Karnataka	IDBI	Axis	Yes
Business					
5	Deposits growth	Yes	Axis	IDBI	ICICI
6	Advances growth	Yes	Kotak/IOB	IDBI/J&K	OBC
7	CD Ratio	Kotak	ICICI	J&K	Karnataka
8	Incremental QoQ CD ratio	ICICI	UBI	DCB	HDFC
9	Incremental YoY CD ratio	Kotak	ICICI	SBI	BOI
10	CAR %	IDBI/Indian/Yes	OBC	Vijaya	DCB
11	CTI %	IDBI	OBC/Indian/Yes/Federal	DCB	Karnataka
12	CASA %	HDFC Bank	SBI/ICICI	Yes	IDBI
13	CASA/branch	Axis	HDFC Bank	South India	Karnataka
14	YoY CASA Ratio growth	Syndicate	IDBI	Corporation	Axis
Asset Quality					
15	Gross NPA%	Yes	Corporation	DCB	ICICI
16	Net NPA %	Yes	Karur	SBI/Karnataka	Vijaya
17	Core Provision Coverage	Karur	J&K	Canara	IDBI
18	YoY Change in GNPA%	DCB	IOB	Federal /Andhra	Karnataka/OBC/IDBI/SBI
19	YoY Change in NNPA%	DCB	IOB	UBI	PNB/Karnataka/Indian
Valuation					
20	ROA (H1 Ann)	Kotak	Karur	DCB	Karnataka/Vijaya/IOB/SBI/DCB
21	P/BV	Karnataka	Syndicate	HDFC	Kotak
22	P/ABV	Karnataka	Syndicate/Karnataka/J&K	HDFC	Kotak
23	PE	Andhra/Corporation/Canara/Indian	OBC/Syndicate	HDFC	Kotak/IndusInd

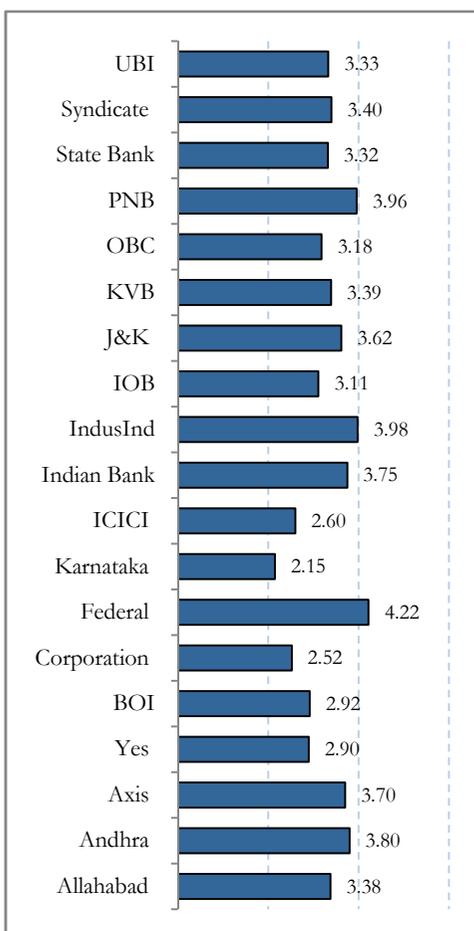
Averages (in %)	NII Growth	GP Growth	NP growth	NIM growth
Avg -All	27.8	15.1	10.2**	4.5
Private	24.1	14.5	38.2	0.8
PSU	29.2	15.3	-2.5*	8.1

Profitability Indicator

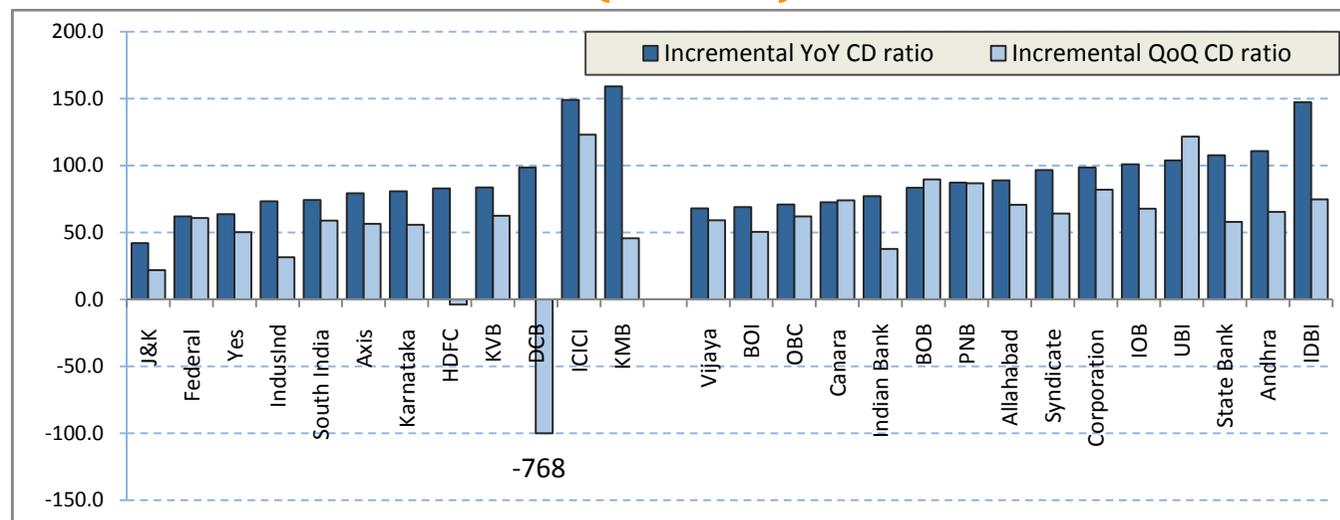
Averages (in %)	Deposits growth	Advances growth	CD ratio	QoQ Dep Growth	QoQ Adv Growth
Avg - All	21.4	24.8	77.8	10.2	8.5
Private	24.0	26.7	77.2	10.2	9.2
PSU	20.8	24.3	80.4	10.4	6.1

*Exclgd SBI 28.5%; **Exclgd SBI 32.1%

NIM Q4FY11

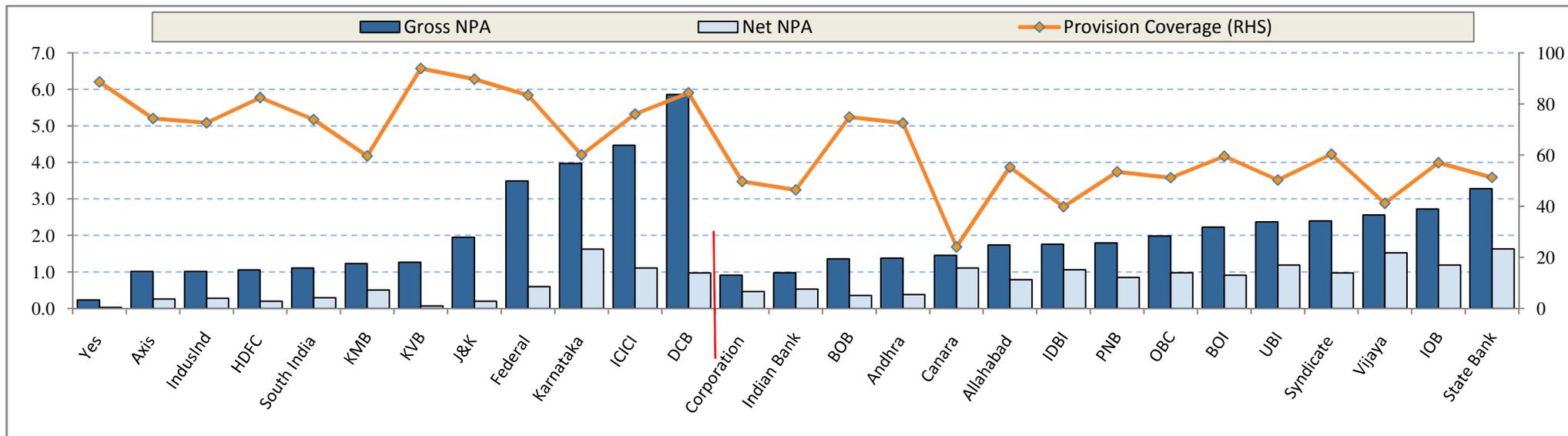


Business Indicator

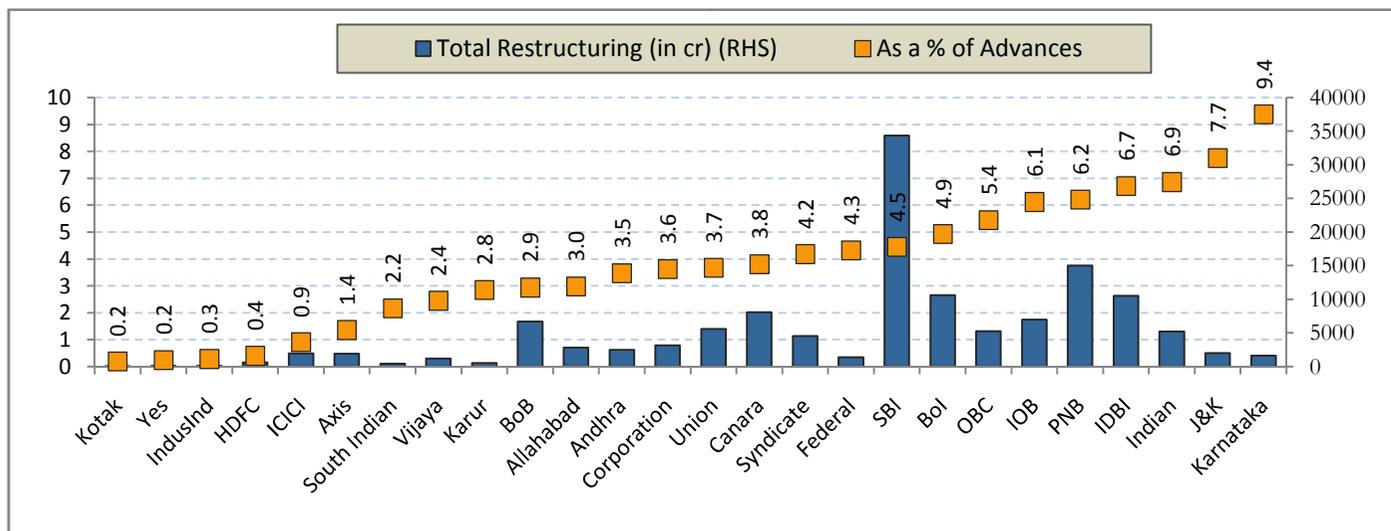


Efficiency Indicator

Averages	CTI	CASA	CASA/Branch (Rs in Crs)
Avg - All	47.9	30.8	24.5
Private	49.3	31.5	28.8
PSU	46.9	30.3	21.2



Data Labels above indicate the coverage as per RBI Norm



Averages	Provision Coverage	Gross NPA	Net NPA	Provision Coverage LY
Avg - All	57.6	2.06	0.74	54.0
Private	76.8	2.22	0.51	65.0
PSU	52.2	1.93	0.93	50.4

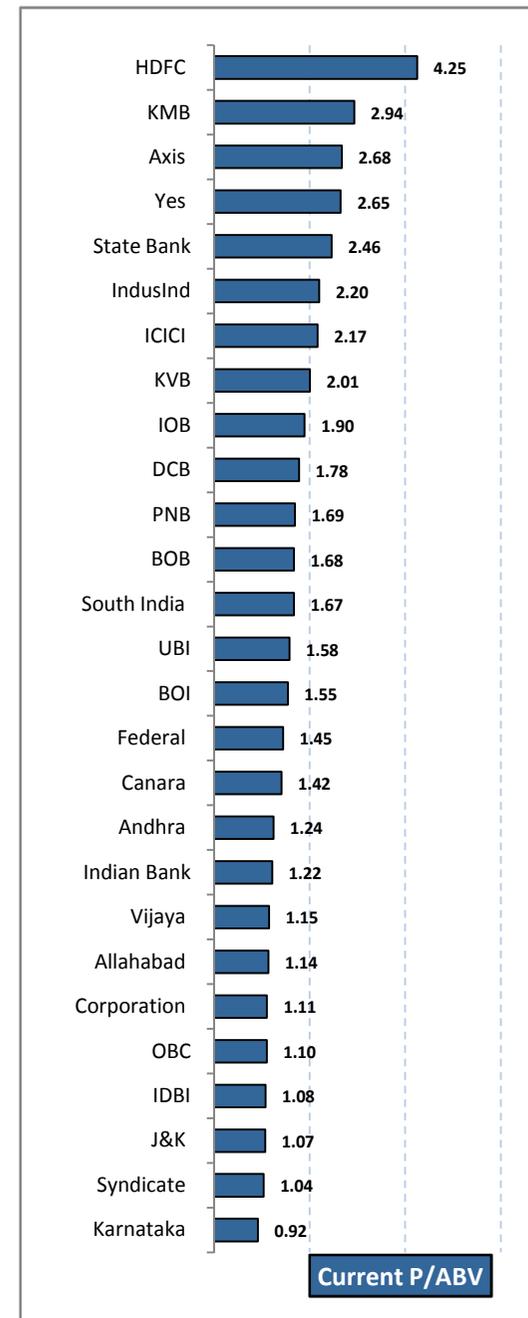
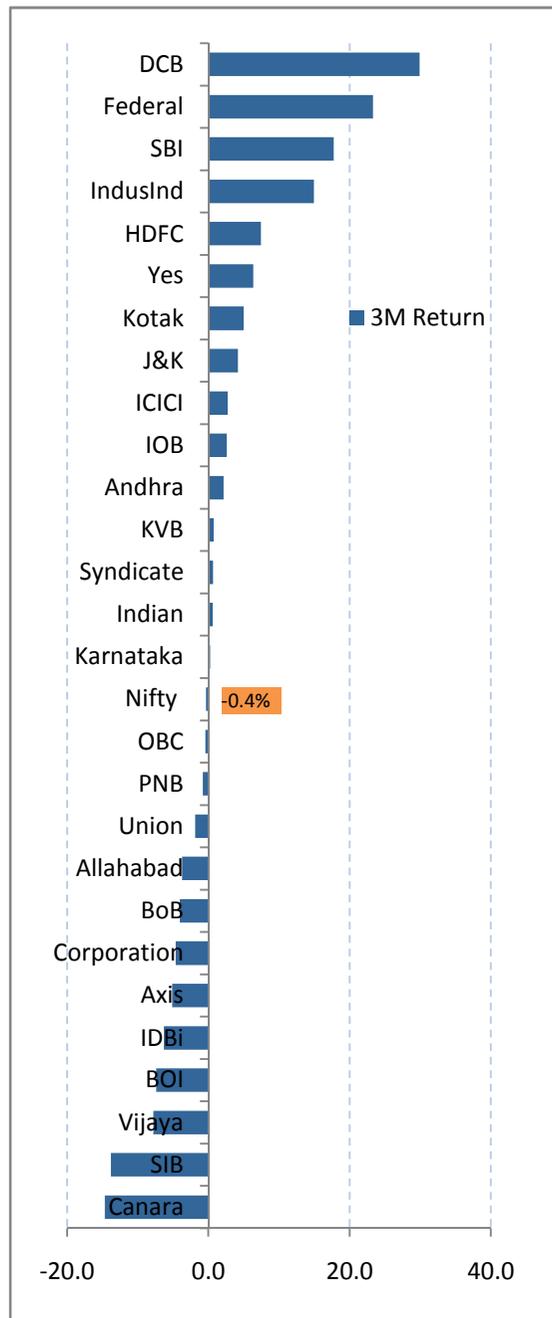
Asset Health

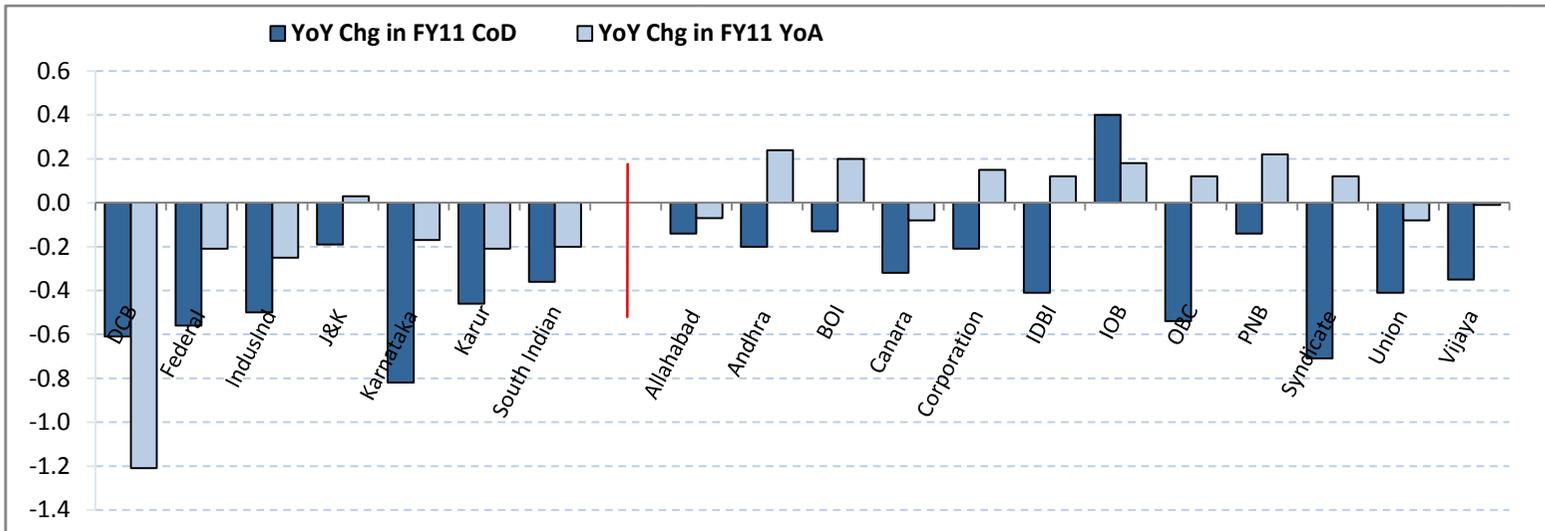
Averages	P/ABV	P/BV	PE	RoA (FY11)
Avg - All	1.7	1.7	12.1	1.2
Private	2.2	2.1	18.4	1.3
PSU	1.3	1.4	7.2	1.1

Pressure on earnings has increased the valuation gap between Private and PSU banks.
 A portion of book value improvement in PSU banks was due to infusion of capital.

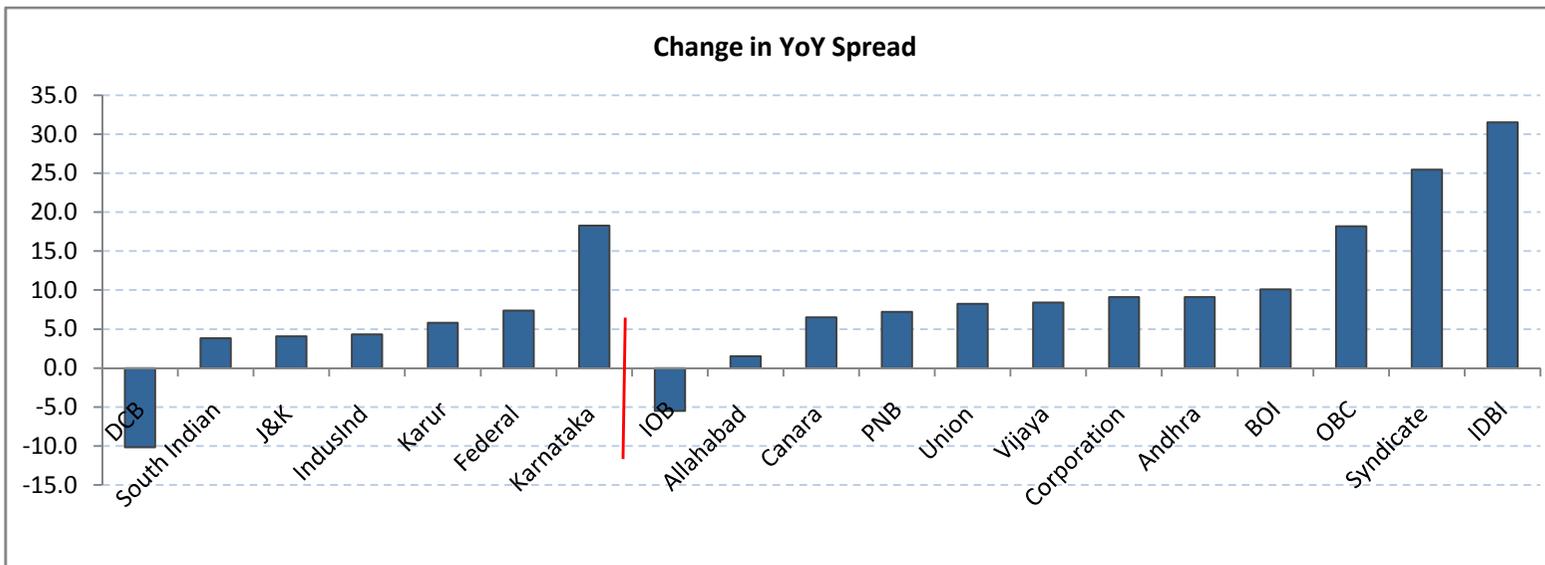
Adjusted book value is at 70% coverage
 Book value is as at end of FY11
 PE is based on FY11 EPS
 RoA is FY11
 CMP – 6th June 2011

Valuation Indicator

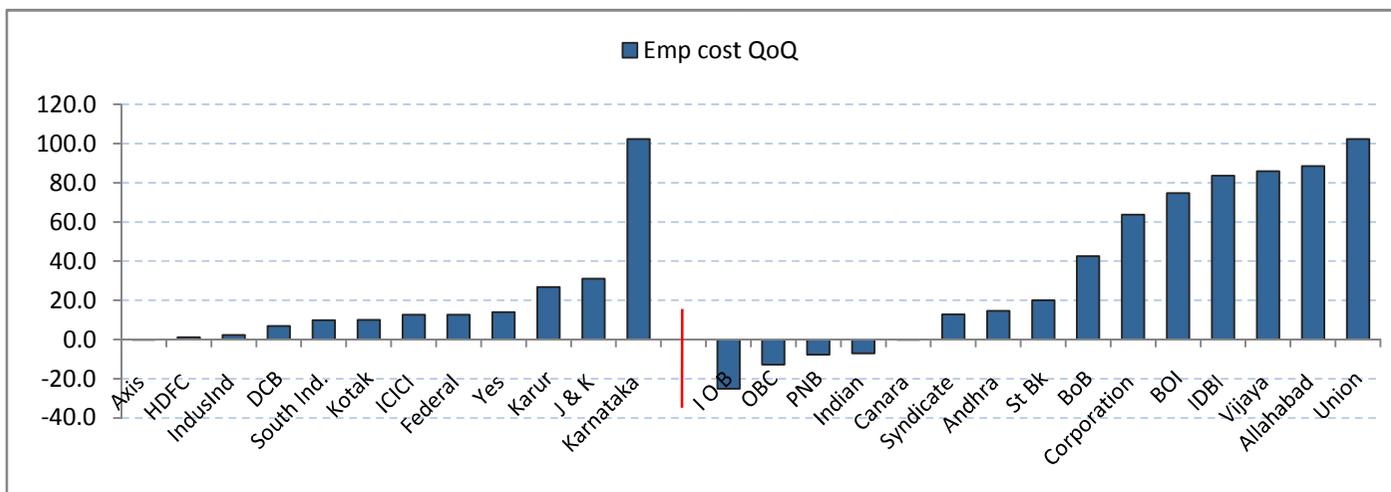




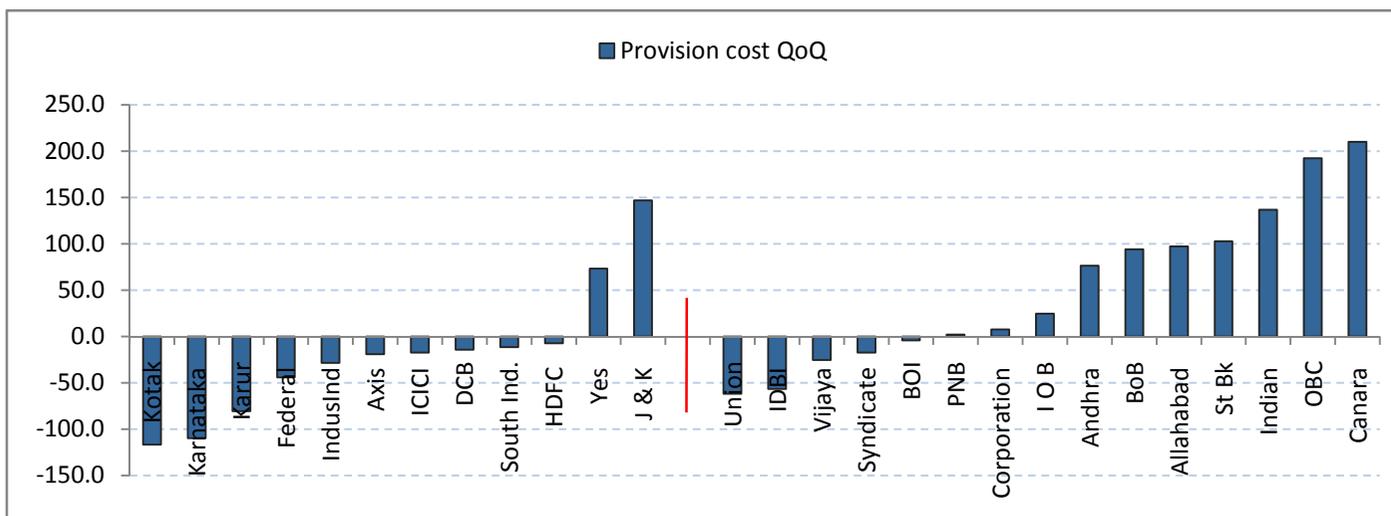
YoY yields of private banks did not fell as much as cost. Though on a rising trend, PSU banks too reported similar pattern with yields increasing more than cost.



Margin and spread improvement has been prime despite all odds.

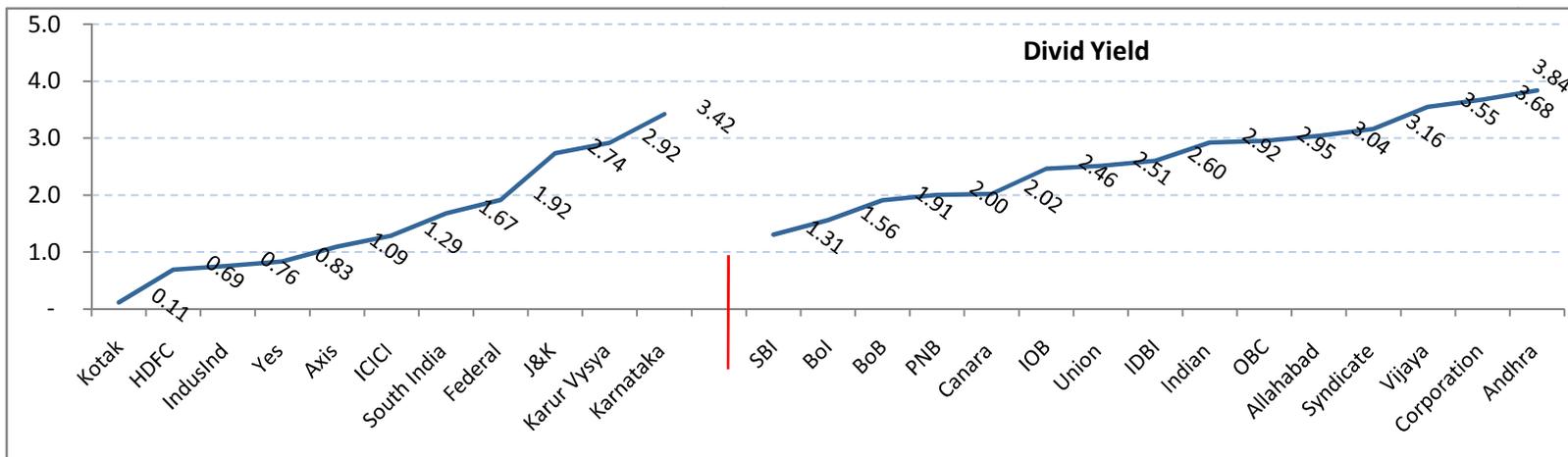


PSU Banks hurt the most by provision of NPA as well as employee expenses in the last quarter

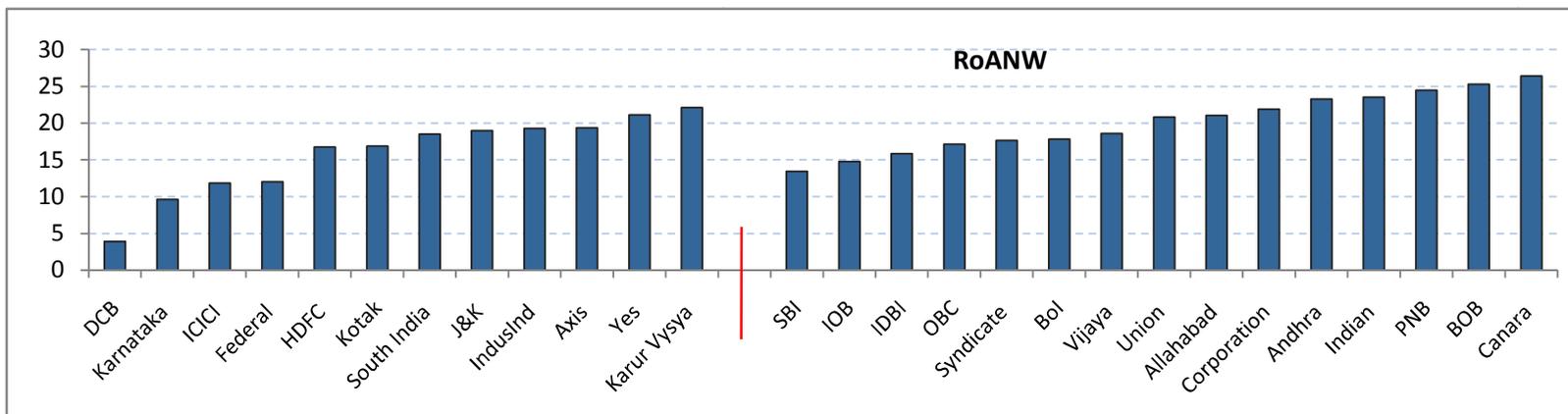


Impact on SBI for coming years is least as it has taken the majority of it in FY11.

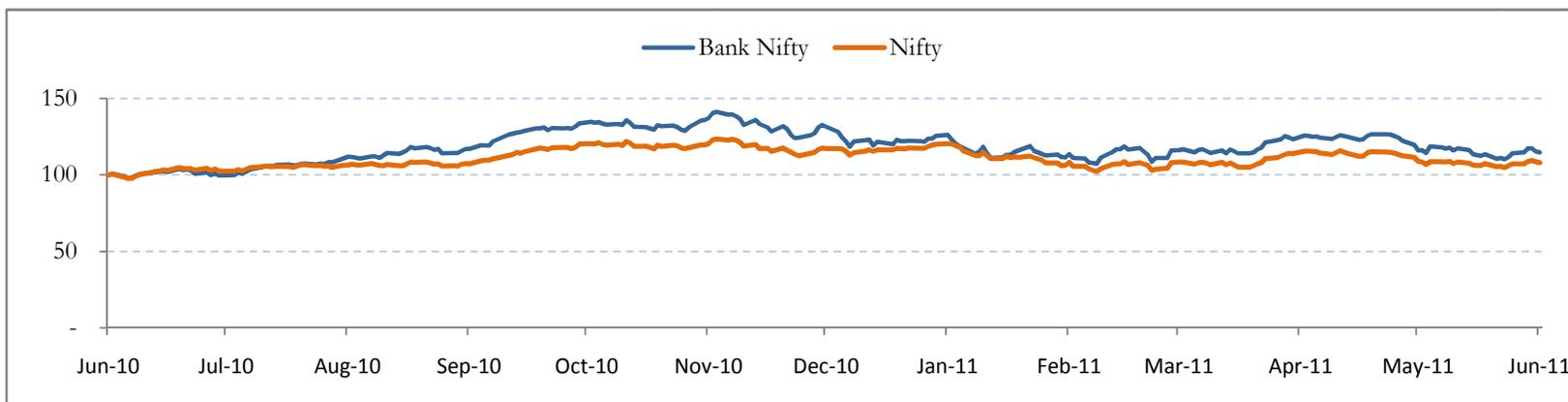
Pension Gratuity and	Unamortised as a % of FY 11 NW	Per annum hit as a % of FY11 PAT
State Bank	0.8	1.2
Federal Bank	3.3	5.7
Karur Vysya Bank	4.0	4.1
Karnataka Bank	6.5	15.3
Corporation Bank	7.7	7.8
South India Bank	9.2	10.7
Bank of Baroda	9.3	8.6
Oriental Bank	9.7	13.2
Andhra Bank	9.8	10.0
Allahabad bank	9.8	10.5
Syndicate Bank	10.9	13.9
Indian Overseas	12.3	18.7
Indian Bank	12.4	11.4
Punjab National Bank	16.6	15.0
Canara Bank	17.0	15.2
Bank of India	17.0	21.2
Vijaya Bank	17.9	22.7
Union Bank	18.0	19.4



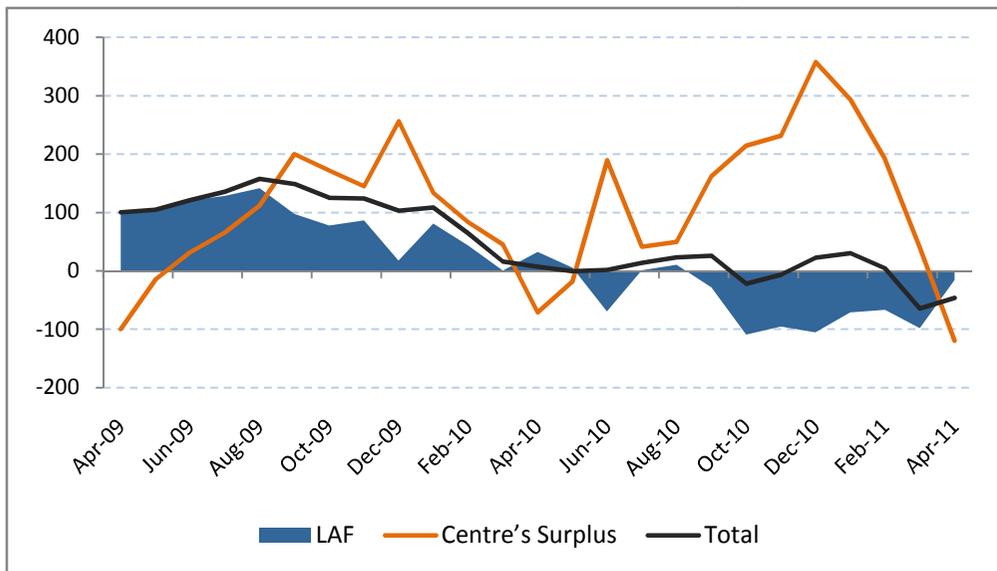
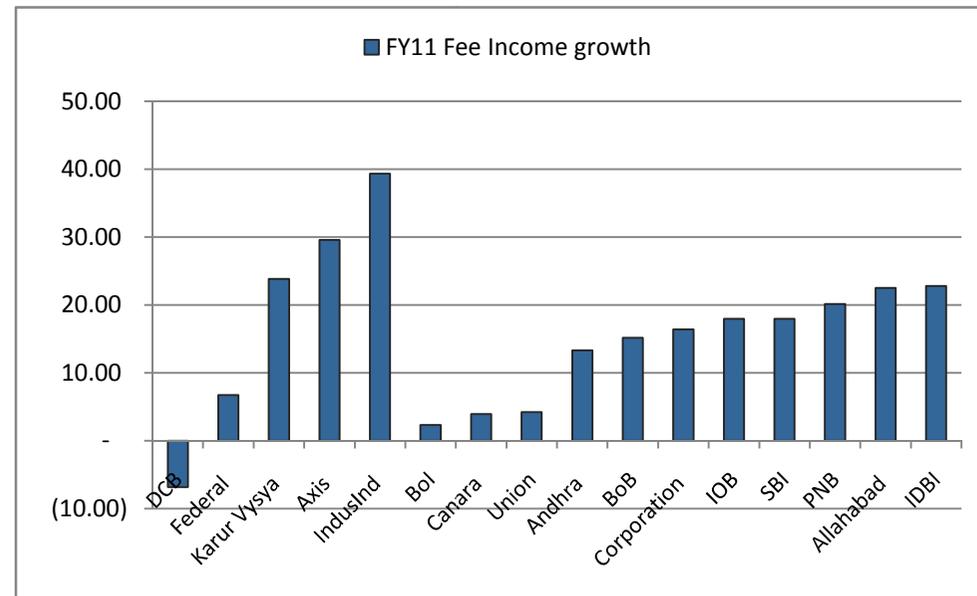
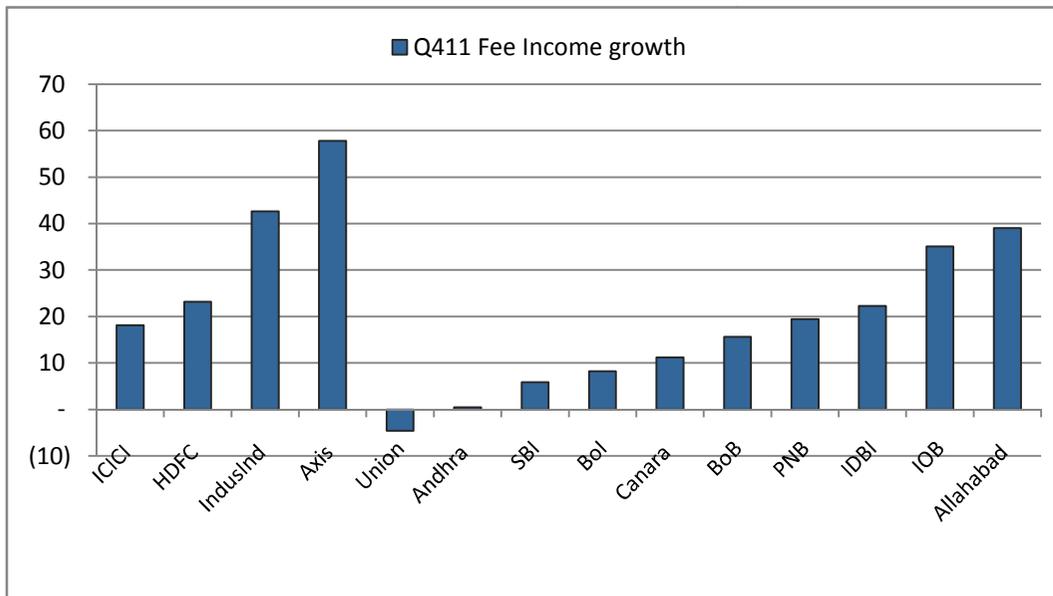
PSU banks falling prices have improved their dividend yields



Despite the capital infusion and provision hit, PSU banks managed with lesser hit on RoNW



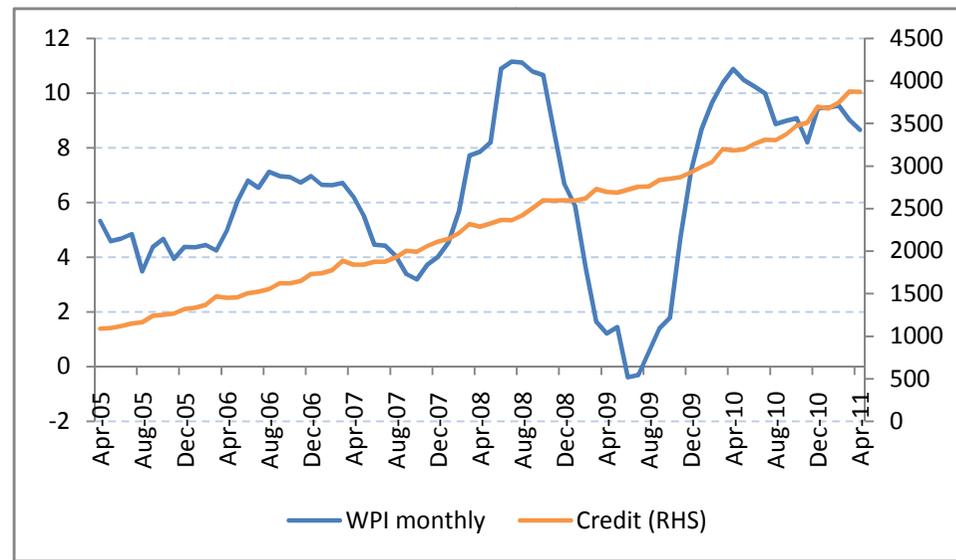
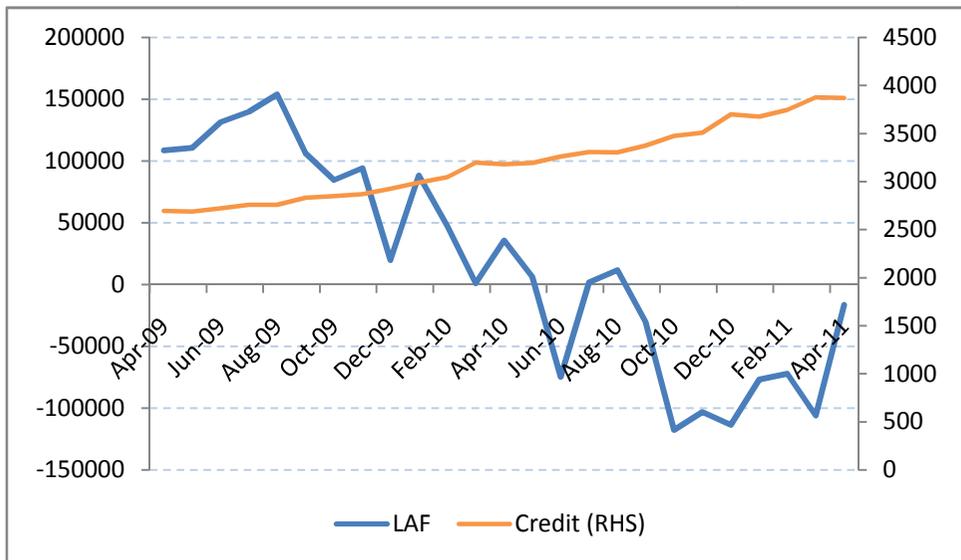
Banking – Still Better



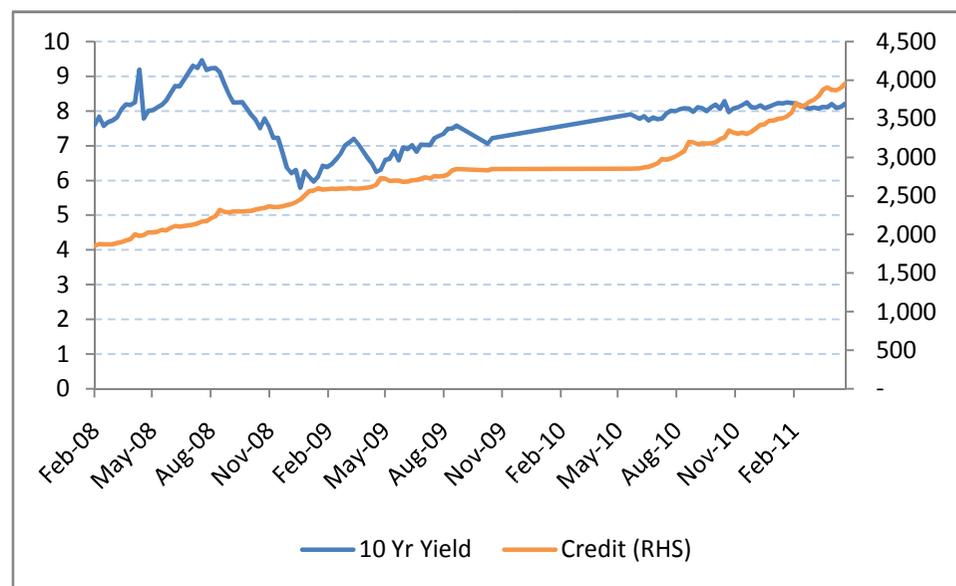
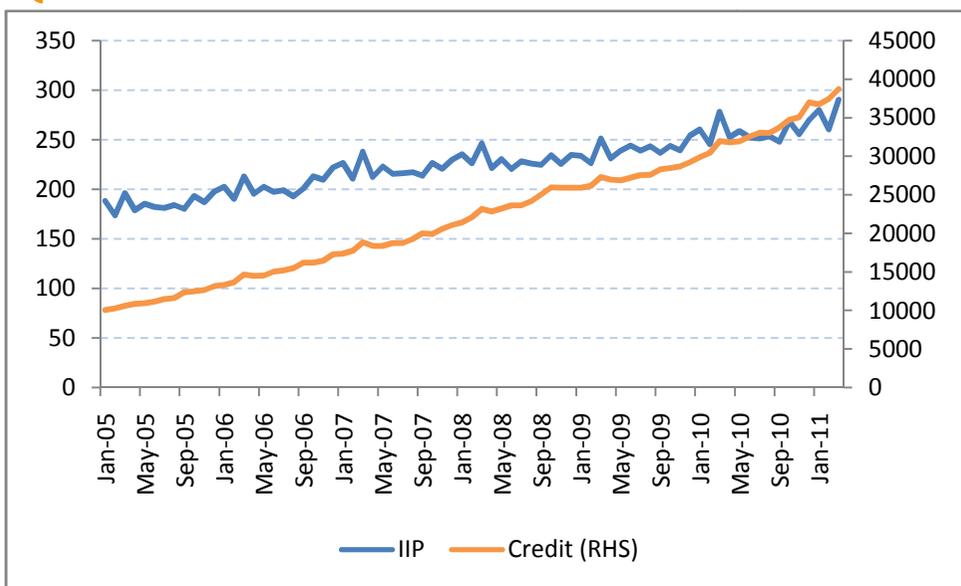
Source -RBI

Fee income growth of PSU banks still lag

Falling Govt balances and continuing repo may indicate tight liquidity but the pressure can be well handled by the special marginal standing facility (MSF) offered by RBI as well as sluggish cyclical demand in H1.



Banking credit has been growing steadily despite slowing growth, rising inflation and rising rates. Falling Govt surplus, continuing repo, inflation overhang and sustained credit growth indicates the likely-hood of rate increase in future.



Source – Bloomberg, RBI

Aerial view of Q4'11 Performance

Amount in Cr

	CMP	Net Interest Income			PBPT			Net Profit			Deposit			Advance		
	6.06.11	Q4 '11	Q4 '10	% chg	Q4 '11	Q4 '10	% chg	Q4 '11	Q4 '10	% chg	Q4 '11	Q4 '10	% chg	Q4 '11	Q4 '10	% chg
Allahabad bank	198	1151	743	55	780	658	19	258	225	15	131,887	106,056	24	94,571	72,437	31
Andhra Bank	145	862	656	31	712	527	35	313	240	30	92,156	77,688	19	72,154	56,505	28
Axis Bank	1243	1701	1460	17	1821	1384	32	1,020	765	33	189,238	141,300	34	142,408	104,341	36
Bank of Baroda	852	2614	1745	50	1946	1629	19	1,294	906	43	305,439	241,262	27	228,676	175,035	31
Bank of India	425	2307	1552	49	1205	1275	-5	494	428	15	298,886	229,762	30	216,154	171,317	26
Canara Bank	528	1973	1598	23	1695	1430	18	899	503	79	293,973	234,651	25	212,467	169,335	25
Corporation Bank	541	762	589	29	747	545	37	345	312	11	116,748	92,734	26	86,850	63,202	37
DCB	59	50	43	18	22	19	15	11	(8)	239	5,610	4,787	17	4,271	3,460	23
Federal Bank	445	448	410	9	350	352	0	172	117	47	43,015	36,058	19	31,953	26,950	19
HDFC Bank	2357	2839	2351	21	2097	1694	24	1,115	837	33	208,586	167,404	25	159,983	127,262	26
ICICI Bank	1047	2510	2035	23	2305	2399	-4	1,452	1,006	44	225,602	202,017	12	216,366	181,206	19
IDBI	130	1109	762	45	1167	693	68	516	318	62	180,486	167,667	8	157,098	138,202	14
Indian Bank	220	1111	912	22	903	872	4	439	410	7	105,804	88,228	20	75,726	62,658	21
Indian Overseas Bank	144	1215	820	48	977	456	114	434	127	241	145,229	110,795	31	113,791	80,782	41
IndusInd Bank	267	388	273	42	298	200	49	172	98	75	34,365	26,710	29	26,166	20,551	27
J&K Bank	792	416	320	30	296	235	26	139	120	15	44,676	37,237	20	26,194	23,057	14
Karnataka Bank	115	204	120	70	91	93	-2	91	74	23	27,336	23,731	15	17,348	14,436	20
Karur Vysya Bank	413	211	164	29	146	123	18	115	99	17	24,722	19,272	28	18,052	13,675	32
Kotak Mahindra Bank*	436	622	526	18	368	436	-16	249	203	23	29,261	23,887	23	29,329	20,775	41
Oriental Bank	346	1013	989	2	843	777	9	334	317	5	139,054	120,258	16	96,839	84,184	15
Punjab National Bank	1080	3029	2475	22	2508	2332	8	1,201	1,135	6	312,899	249,330	25	242,107	186,601	30
South India Bank	25	222	79	181	153	52	197	82	39	112	29,721	23,012	29	20,799	16,155	29
State Bank	2313	8058	6721	20	6080	5194	17	21	1867	-99	933,933	804,116	16	771,802	641,480	20
Syndicate Bank	116	1161	860	35	672	553	22	289	168	72	135,596	117,026	16	108,350	91,450	18
Union Bank	318	1717	1396	23	870	1148	-24	598	594	1	202,461	170,040	19	153,022	121,249	26
Vijaya Bank	72	478	289	66	110	314	-65	54	131	-59	73,248	61,932	18	49,222	41,522	19
Yes Bank	291	349	244	43	349	258	35	203	140	45	45,939	26,799	71	34,364	22,193	55

* NIM, Book Value, PE is consolidated

Note – All are standalone results

Wherever applicable global deposit and advance numbers considered

Aerial view of FY'11 Performance

Amount in Cr

	Net Interest Income			PBPT			Net Profit		
	FY '11	FY '10	% chg	FY '11	FY '10	% chg	FY '11	FY '10	% chg
Allahabad bank	4022	2650	52	3055	2549	20	1,423	1,206	18
Andhra Bank	3221	2195	47	2413	1810	33	1,267	1,046	21
Axis Bank	6563	5004	31	6416	5241	22	3,388	2,515	35
Bank of Baroda	8802	5939	48	6982	4935	41	4,242	3,058	39
Bank of India	7811	5756	36	5384	4705	14	2489	1741	43
Canara Bank	7823	5681	38	6107	5061	21	4,026	3,021	33
Corporation Bank	2,940	1,903	54	2,622	2,137	23	1,413	1,170	21
DCB	189	142	34	86	48	78	21	-78	-127
Federal Bank	1747	1411	24	1427	1265	13	587	465	26
HDFC Bank	10543	8386	26	7725	6430	20	3,926	2,949	33
ICICI Bank	9017	8114	11	9048	9732	-7	5,151	4,025	28
IDBI	4329	2256	92	4158	2726	53	1,650	1,031	60
Indian Bank	4036	3161	28	3292	2747	20	1,714	1,555	10
Indian Overseas Bank	4208	3168	33	2778	1762	58	1,073	707	52
IndusInd Bank	1376	886	55	1082	704	54	577	350	65
J&K Bank	1544	1119	38	1149	958	20	615	512	20
Karnataka Bank	612	268	128	355	261	36	205	167	22
Karur Vysya Bank	767	565	36	601	463	30	416	336	24
Kotak Mahindra Bank	2245	1858	21	1325	1297	2	818	561	46
Oriental Bank	4178	2907	44	3245	2422	34	1,503	1,135	32
Punjab National Bank	11807	8478	39	9056	7326	24	4,434	3,905	14
South India Bank	791	568	39	525	411	28	293	234	25
State Bank	32526	23671	37	25336	18321	38	8,265	9,166	-10
Syndicate Bank	4383	2740	60	2750	1874	47	1,048	813	29
Union Bank	6216	4192	48	4305	3659	18	2,082	2,075	0
Vijaya Bank	1947	1449	34	1047	1057	-1	524	507	3
Yes Bank	1,247	788	58	1190	863	38	727	478	52

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

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