Q4FY12/FY12– Private banks outpace PSBs

FY12 proved to be a challenging year for the economy as a whole and banking sector in particular. The fourth quarter witnessed pain wrt asset quality stress and heavy restructuring for most of the banks. We, analyze public sector banks and private banks on select parameters for the financial year 2012 and the earnings of the fourth quarter.

Key Observations

YoY Q4FY12	PSU Banks - Underperformer	PRIVATE Banks - Outperformer
Deposit	Underperformed the systemic levels	In-line with RBI's expectations
Exception	*BoB recorded robust 26% growth YoY*	*Yes bank deposit momentum slowed down*
Advances	Sluggish growth	Robust growth
Exception	*BoB & IOB recorded above industry credit growth*	*Yes witnessed poor credit growth for FY12*
Core Income	Healthy despite cost pressures	Healthy despite cost pressures
Exception	*CBoI, Indian Bank reported weak NII performance*	*Karnataka, Federal witnessed subdued NII performance*
PAT	Healthy	Healthy
Exception	*CBoI, Indian bank reported poor profitability*	*Karnataka witnessed poor PAT performance*
NIM	Declining	Stable
Exception	*SBI,PNB & Syndicate observed healthy NIMs*	*Karnataka, the only bank from private sector that recorded poor margins*
Provision	Increased	Reduced
Exception	*SBI, Vijaya witnessed fall in provisions*	*ICICI Bank witnessed rise in credit costs, though not substantial*
GNPA	Significant increase	Controlled
Exception	*No PSU bank was exception to macro headwinds & all PSU banks observed worsened asset quality*	*HDFC B, IIB, Federal, Axis witnessed rise in NPLs for FY12*
CASA	Dipped	Improved
Exception	*CASA for IDBI, BoM, BoI witnessed improvement*	*HDFC B,DCB, SIB witnessed marginal dip in CASA base*

Averages in %	All -31#	Private	PSU
Deposits growth %	14.80	16.85	14.30
Advances growth %	17.91	21.00	17.11
CD ratio %	78.74	82.80	77.73
NII Growth %	18.29	21.82	17.14
GP Growth %	26.97	23.35	28.35
NP growth %	53.11	29.61	67.71
NIM growth%	(0.18)	(0.07)	(0.27)
CTI %	47.21	48.21	46.49
CASA %	26.16	27.31	24.81
CASA/Branch (Rs in Crs)	24.71	28.41	22.05
Provision Coverage %	58.08	75.88	45.23
Gross NPA %	2.38	2.01	2.65
Net NPA %	1.05	0.49	1.46
Provision Coverage LY %	63.64	79.29	52.35
P/BV (x)	1.29	2.05	0.83
PE (x)	26.42	44.54	13.32
RoA (Ann) %	0.87	1.05	0.76

Array of banks considered by us

5th June 2012

- **Sector outlook**– Growth of the Indian economy slowed significantly from 8.4 per cent in 2010-11 to only 6.9 per cent in 2011-12. This was because of a host of factors, including the hike in policy rates 13 times. Indian economy is facing a little bit of a challenge on the growth aspects, which has been clearly indicated by the lowering of GDP for FY12. And that coupled with the high inflation as well as consistently strong interest rates posed challenges for the banks. FY12 proved to be a tough year for the banking sector with asset quality and sustaining margins remained the biggest challenges amid sluggish economic growth. GNPAs rose 46% YoY for FY12 with over 60% of the banks reporting deterioration in asset quality. Most of these were public sector banks. However, despite higher slippages and higher restructuring, the sector reported 42% growth in net profit on the back of recoveries and dip in provision coverage ratio. The top performers wrt asset quality and healthy margins for FY12 were ICICI Bank, Ing Vysya, SIB, BoM, and DCB Bank.

- **Subdued business growth visibility - D**eposits and advances of the banking system grew 17.4 per cent and 19.3 per cent, respectively, in 2011-12 compared with 15.9 per cent and 21.5 per cent in fiscal 2010-11. Deposit growth meaningfully lagged credit growth owing to weak deposit resource mobilization. Credit growth is likely to remain weak to 16-17% for FY13. While credit growth outlook remains strong for private banks, public sector banks would still observe weak trends in terms of business growth.

- **Margins compression –** The subdued deposits growth during the year led banks to offer higher rates on deposits resulting in rise in cost of funds for banks and consequently shrinkage in margins. Mobilizing low-cost resources and maintaining NIMs posed challenge for the banks in the high inflation scenario. Net interest margins of Indian banks to remain tight (< 3% levels) in fiscal year 2013 due to intensifying competition amid low credit growth, and inability to pass on the costs to customers.

- **Healthy NII And PAT For Private Banks But PSU Banks Suffered Due To Increased Provision –** Dip in interest margins, rising bad loans lowered banks' profitability in FY12. While private banks reported healthy profitability for Q4FY12, PSU banks disappointed owing to subdued margins and spike in credit costs. Private Banks witnessed higher growth in NII than PSU banks on the back of improvement in NIMs and other income. The return on assets (RoA) of Indian banks to remain less than 1% in FY13.

- **Asset Quality –The Real Villain** – First of all, gross NPAs of PSU banks have increased to 3.02% of loans by the end of March 2012, from 2.25% a year ago. Similarly, net NPAs have gone up from 1.1% to 1.5% during the same period, indicating that the banks have not been able to provide fully for the fresh NPAs from their operating profits The rate of increase in provisioning for bad loans have also not been on a par with the rate of rise in NPAs, leading to a situation where 14 of the 22 PSU banks have provisioning ratio of less than the RBI stipulated 70%. Moreover, the loans referred for recast under Corporate Debt Restructuring (CDR) jumped by 48% over previous year and are at an all-time high. Contrary to their peers in the public sector space, private banks have done much better on the asset quality front with adequate provisioning and net non-performing assets (NPAs) below one percentage point of loans. The asset quality of Indian banks is likely to remain weak, or even deteriorate, due to the moderation in economic activity, high inflation, and high interest rates, we expect the restructured loans to rise in FY13 and small and mid-size banks would be particularly vulnerable. FY13 is also expected to be a tough year even for private sector banks as they face the challenge of growing their loan books and maintaining asset quality.

Final Word

Indian banks have managed to perform reasonably well in the fourth quarter despite worries about rising bad loans and tight liquidity conditions. The Asset-liability management performance was decent despite upward pressure on deposit costs. However, the quantum of restructuring could span for many quarters to come especially for public sector banks. While the state of stressed assets for the banking sector has shown a little improvement since December 2011, March 2012 numbers indicate bad loans rose 46% compared to the corresponding period last year. Asset quality has deteriorated for a majority of the government banks, which have significant exposure to the troubled public-sector power distribution companies and to the aviation sector. Metals, textiles and infrastructure among other sectors also contributed to the slide in asset quality. While PSU banks have seen their loans go bad at a faster clip than their private sector peers, the latter have been steadily improving their asset quality over the past two years. Right since the Lehman crisis, private banks have stopped aggressively chasing loans, significantly tightened up their asset appraisal systems and exited or de-focused from risky segments such as unsecured personal loans. All in all, Indian banks are likely to post a weak operating performance in the fiscal year ending March 31, 2013, because of slowdown in economic growth, a dip in credit growth, rising delinquencies, and tighter margins would prove dampener to performance.

In the current scenario, we hold positive stance on private banks than PSU banks, given the former's superior asset quality backed by strong liability franchise, adequate provisioning, comfortable capital adequacy, strong earnings visibility coupled with decent return ratios and stable and experienced Management. However, for the sector per se, given the sluggish economic growth we anticipate underperformance by banking sector as a whole particularly during H1FY13 on the back of rising delinquencies and heavy restructuring, capital raising issues due to incumbent BASEL III norms implementation, and margin compression (on the back of rising cost of funds and lower credit growth).

Performance Rating

	PARAMETERS	TOP (WINNERS)		BOTTOM (LOSERS)	
		I	II	I	II
	Quarterly Results – Q4FY12				
1	NII Growth	SBI	YES	CBoI	Indian
2	PBPT Growth	BoM	Vijaya	Canara, Indian	OBC
3	NP growth	SBI	Vijaya	CBoI	OBC, Indian
4	YOY NIM growth	SBI, CBoI	UCO	Vijaya	Indian
	Business				
5	Deposits growth	KMB	KVB	BoI, UCO	YES
6	Advances growth	KVB	KMB	Canara	YES
7	CD Ratio	DCB	BoI	Allahabad	Canara
8	Incremental QoQ CD ratio	DCB	Federal	OBC	KMB
10	CAR %	DCB	SBI	KMB	OBC
11	CTI %^	OBC	SIB	Karnataka	Vijaya
12	CASA %	ICICI	YES	Canara	Corporation
13	CASA/branch	ICICI	KMB	KVB	Vijaya
14	YoY CASA Ratio growth	ICICI	YES, BoI	Vijaya	KVB
	Asset Quality				
15	Gross NPA% ^	ICICI	Karnataka	CBoI	OBC
16	Net NPA % ^	BoM	DCB	CBoI	OBC
17	Core Provision Coverage	BoM	SBI	CBoI	Karnataka
18	QoQ Change in GNPA%	DCB	Federal	CBoI	Axis
19	QoQ Change in NNPA%	DCB	SBI	Indian	DCB
	Valuation				
20	ROA (Q1 Ann)	IDBI	BoM	BoB	Indian
21	P/BV *	CBoI	OBC	HDFC B	IIB, KMB

Note: **Cheapest is put as TOP*
^ Lower is put as TOP

Averages (in %)	NII Growth	GP Growth	NP growth	NIM growth
Avg -31	18.3	27.0	53.1	-0.2
Private	21.8	23.4	29.6	-0.1
PSU	17.1	28.3	67.7	-0.3

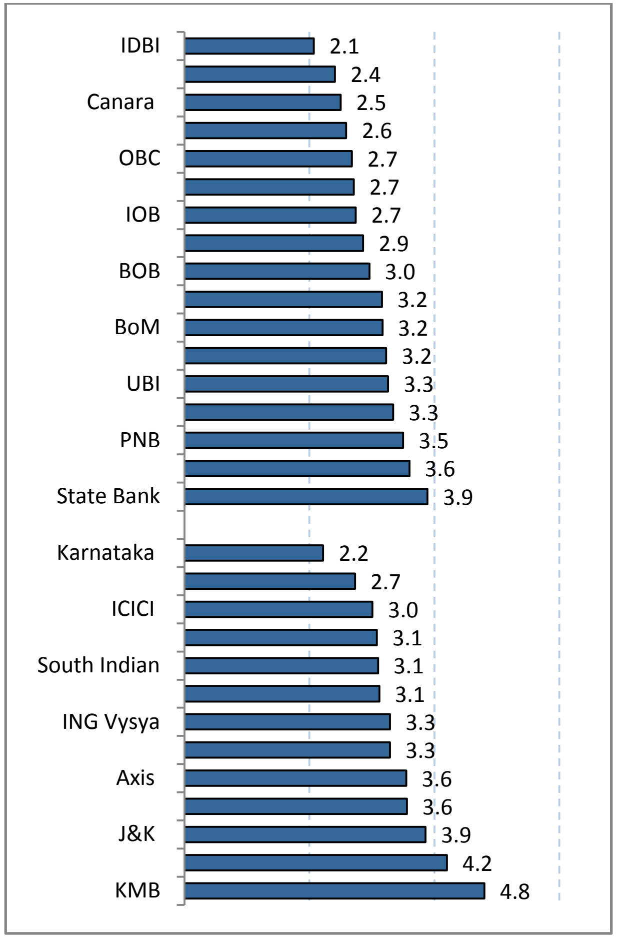
**Note: The NP growth looks on the higher side for PSU due to sharp rise in NP of SBI for Q4*

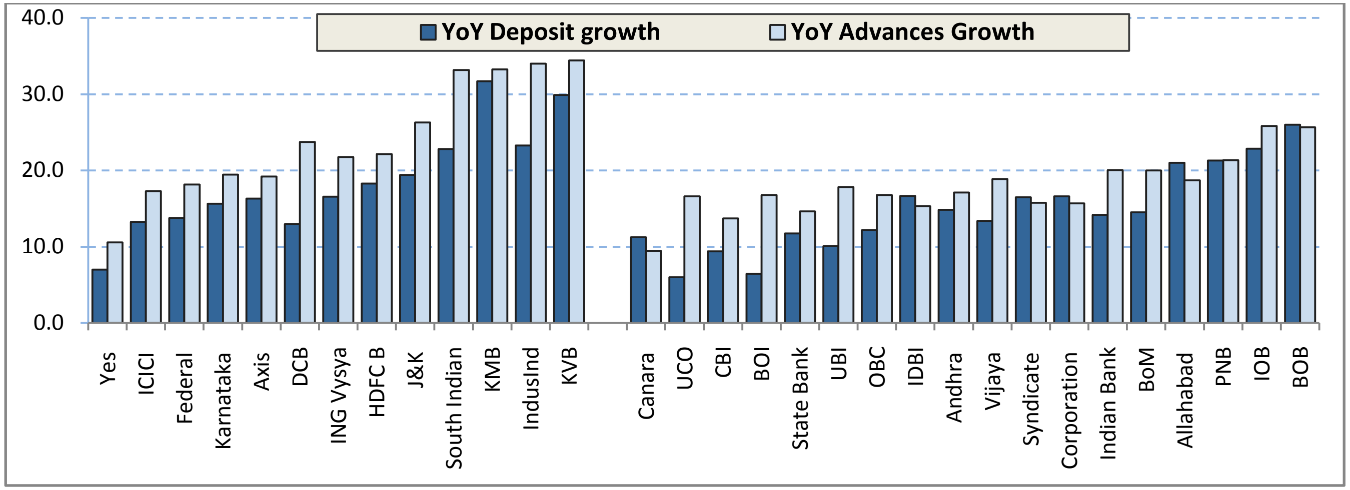
Profitability Indicator

Averages (in %)	Deposits growth	Advances growth	CD ratio
Avg - 31	14.8	17.9	78.7
Private	16.9	21.0	82.8
PSU	14.3	17.1	77.7

Business Indicator

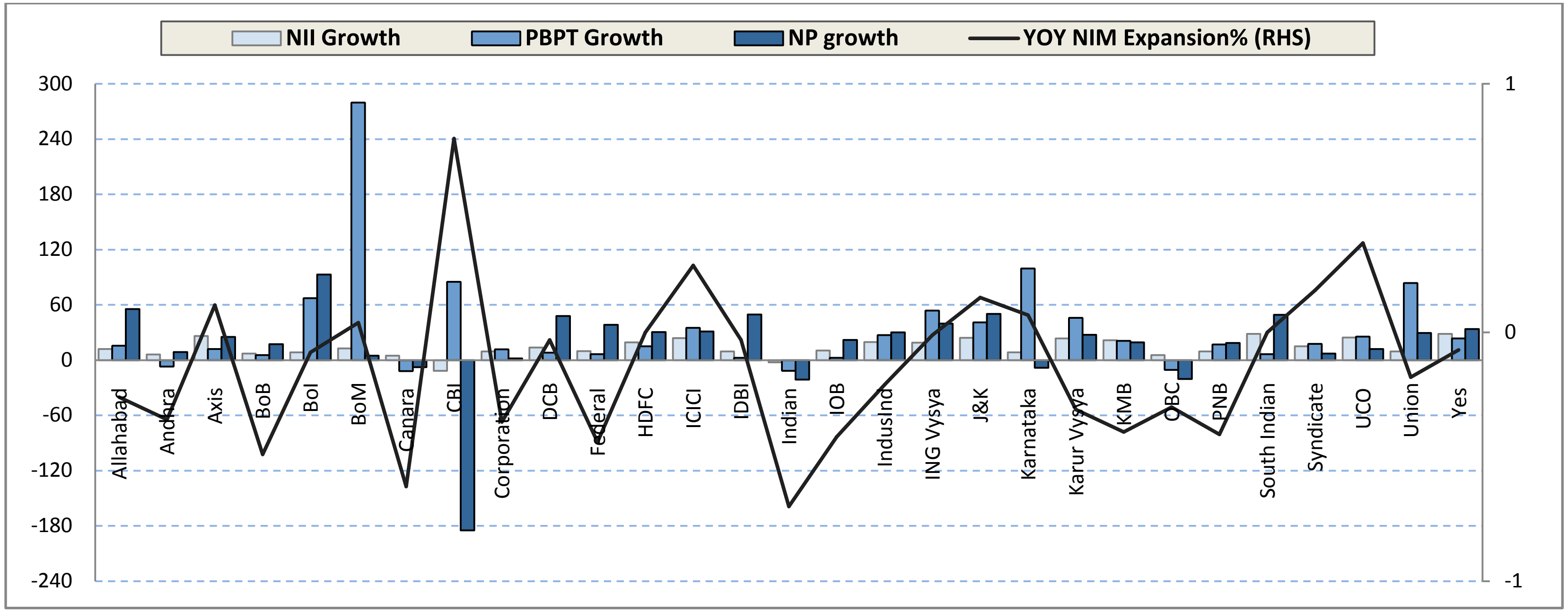
NIM Q4FY12

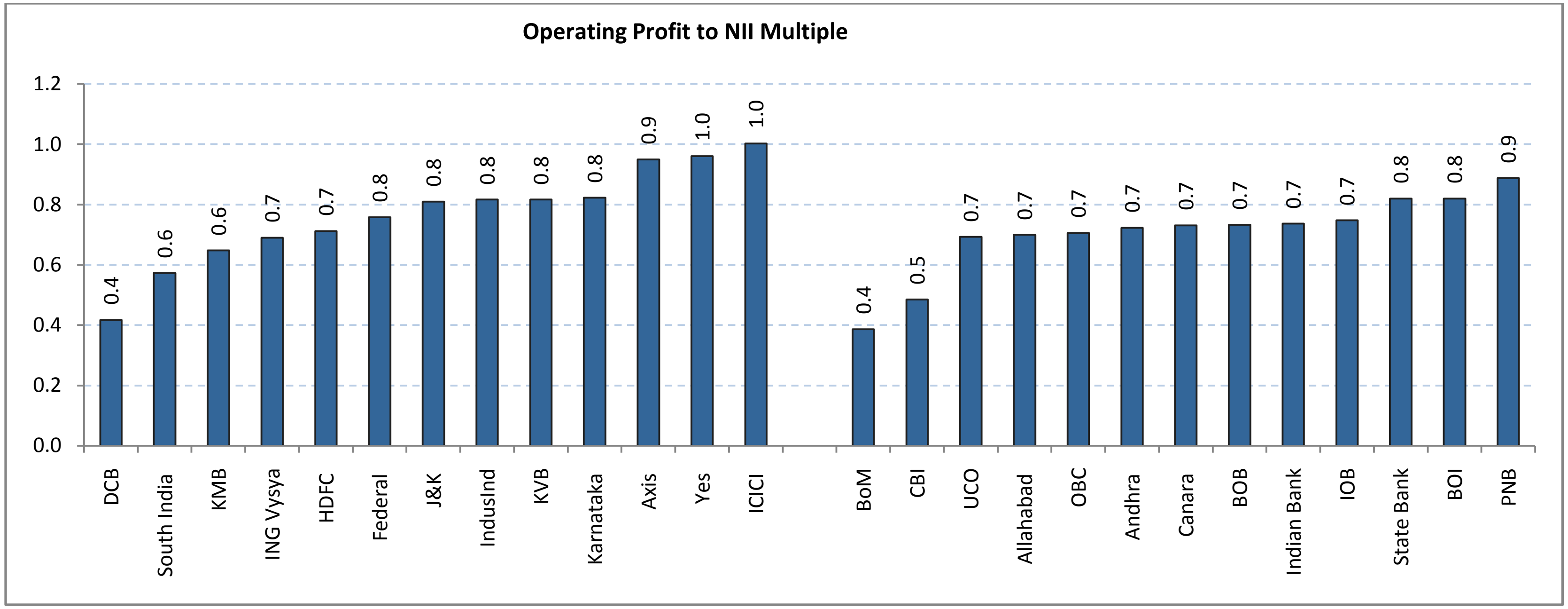




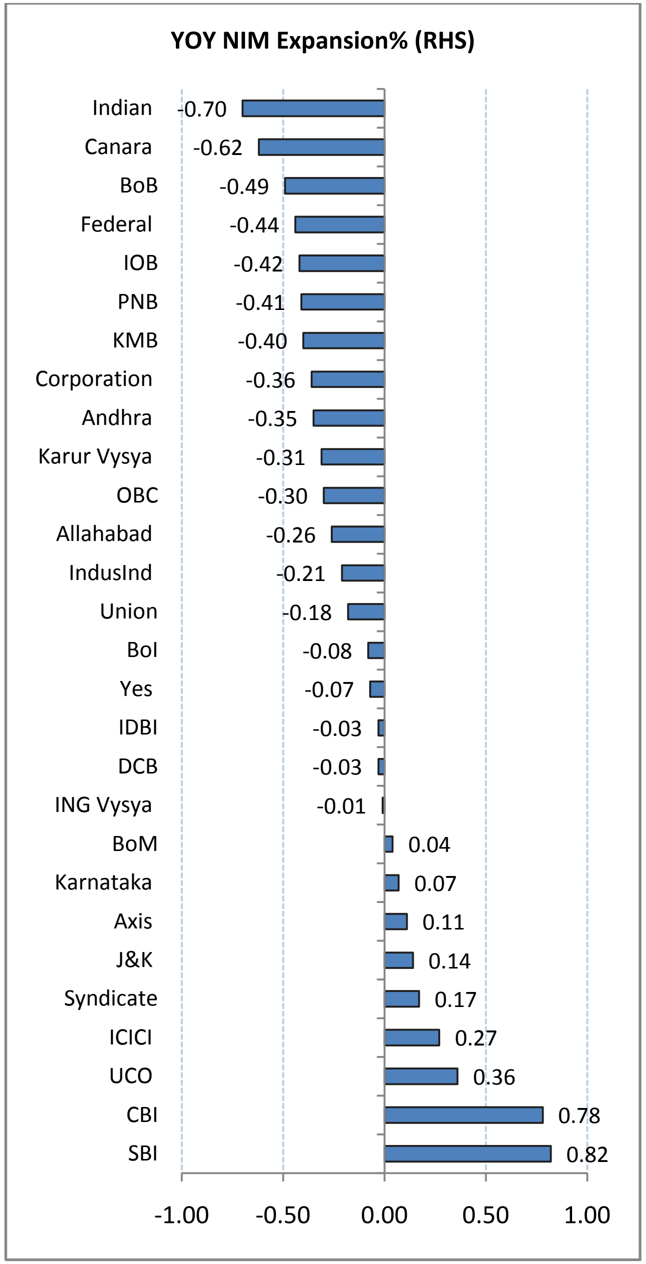
Averages (in %)	CTI	CASA	CASA/Branch (Rs in Crs)
Avg - 31	47.2	26.2	24.7
Private	48.2	27.3	28.4
PSU	46.5	24.8	22.0

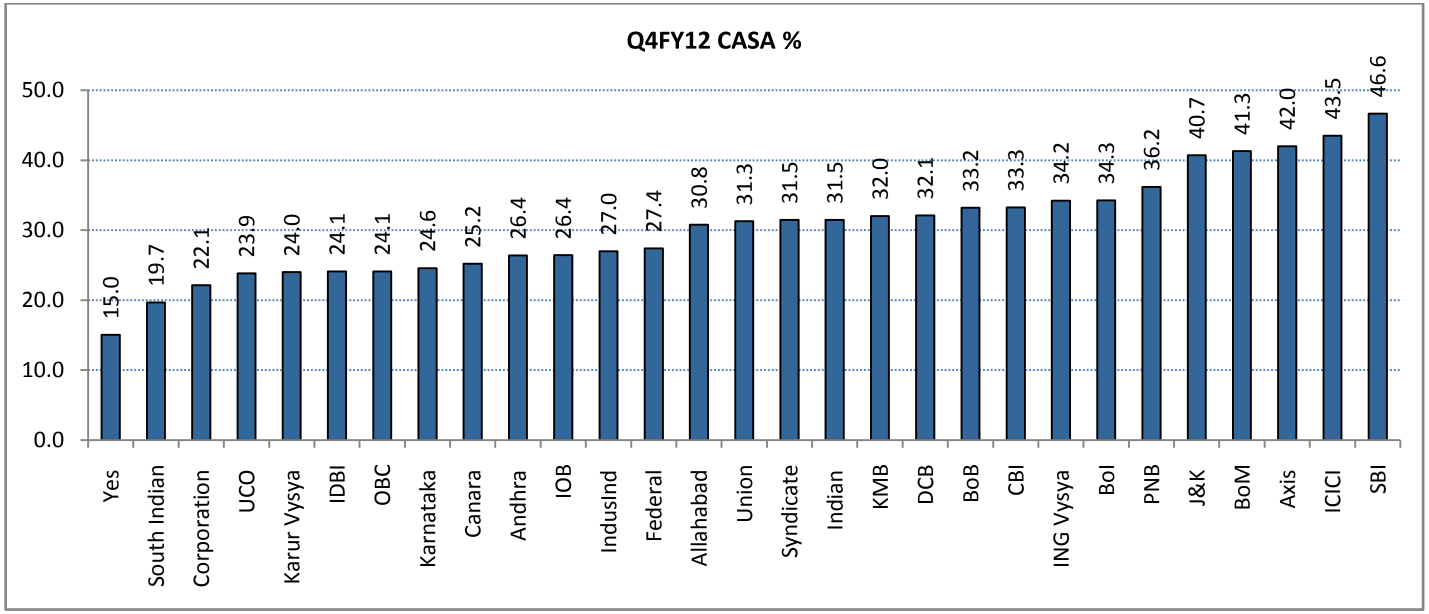
Efficiency Indicator

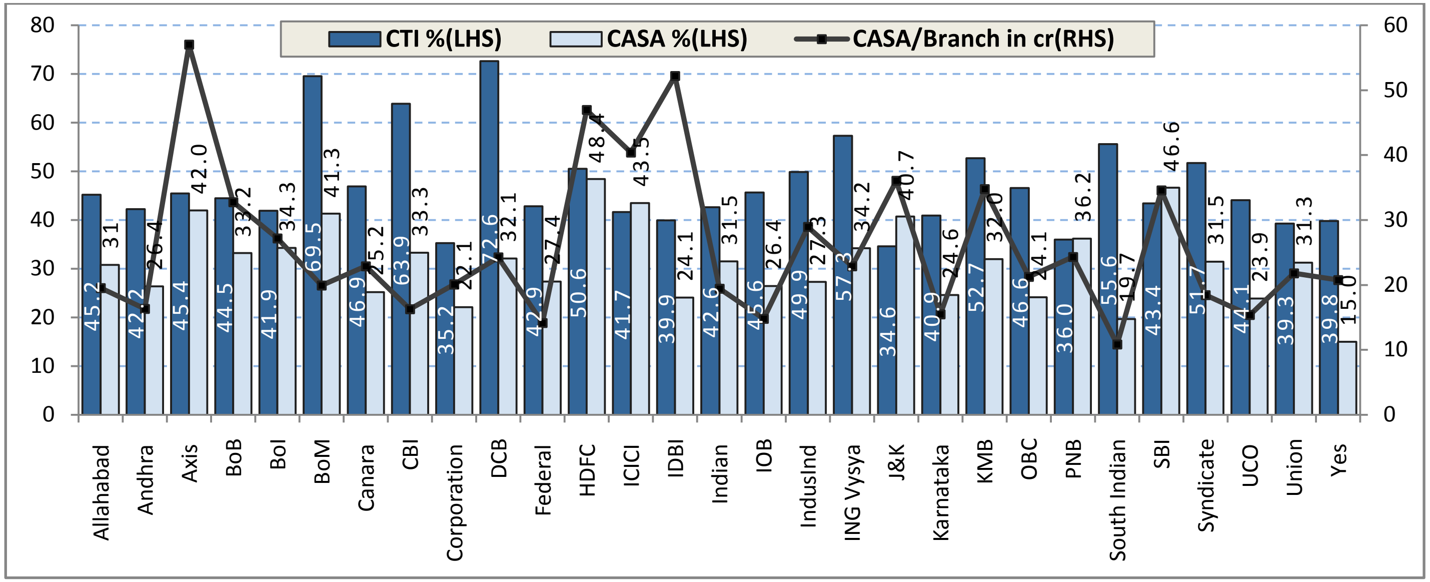


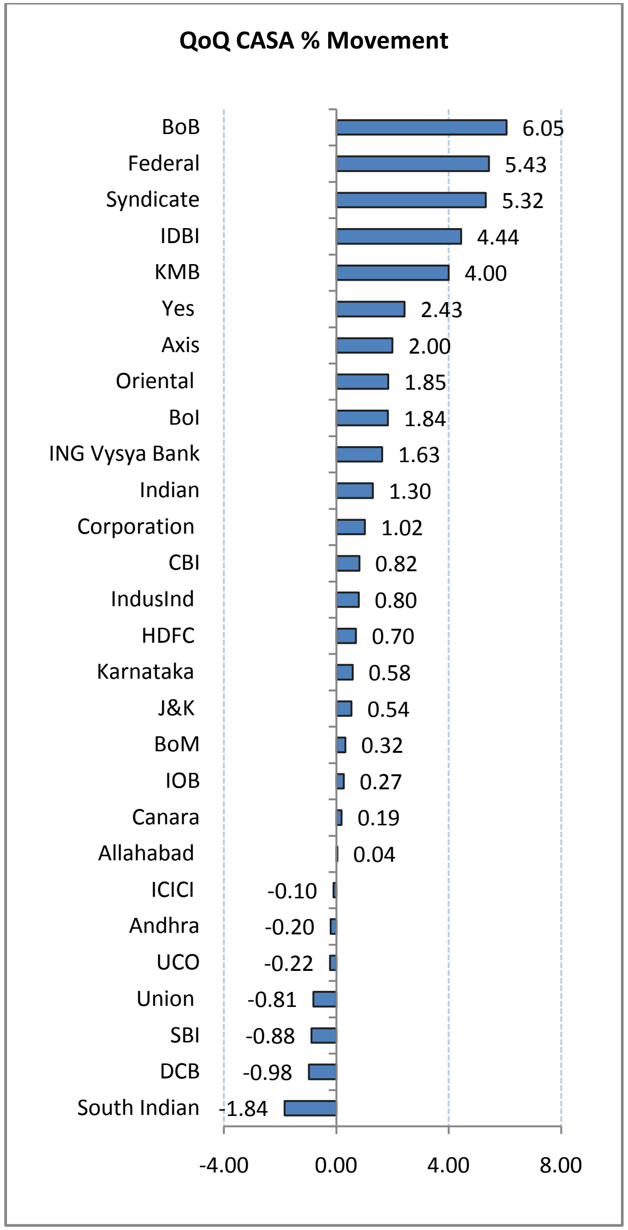


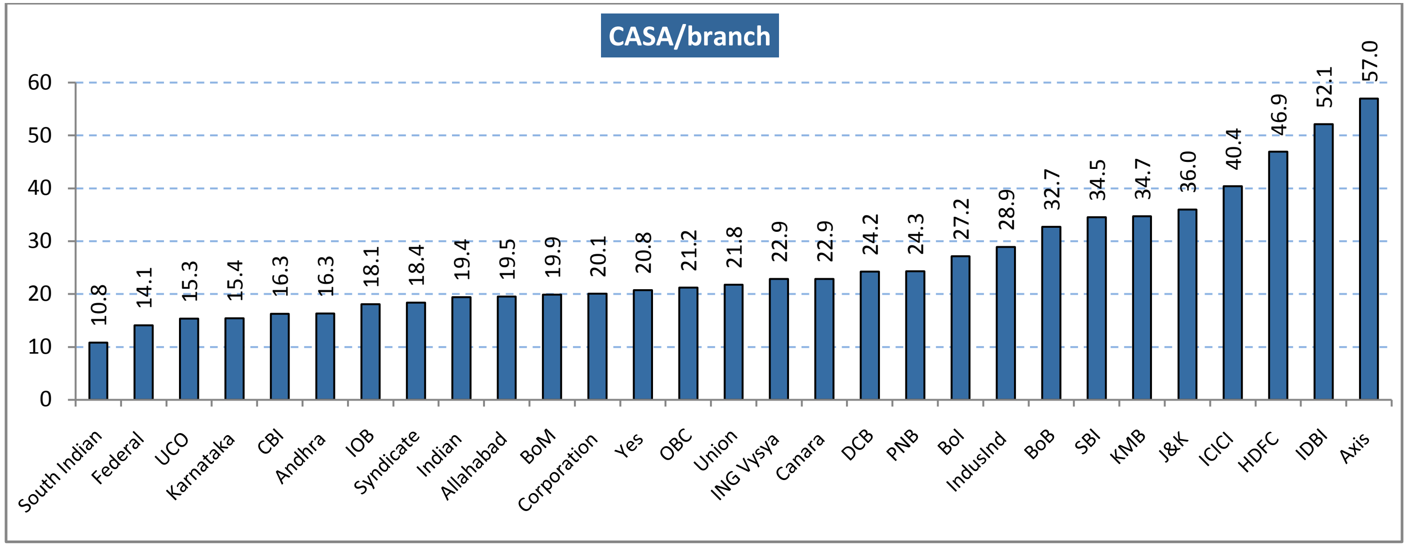
Upto the Gross profit levels, PSU banks performed well. However, higher provisions and worsening asset quality hampered their bottom-line. Pvt banks on the other hand scored well both in terms of top-line and bottom-line.

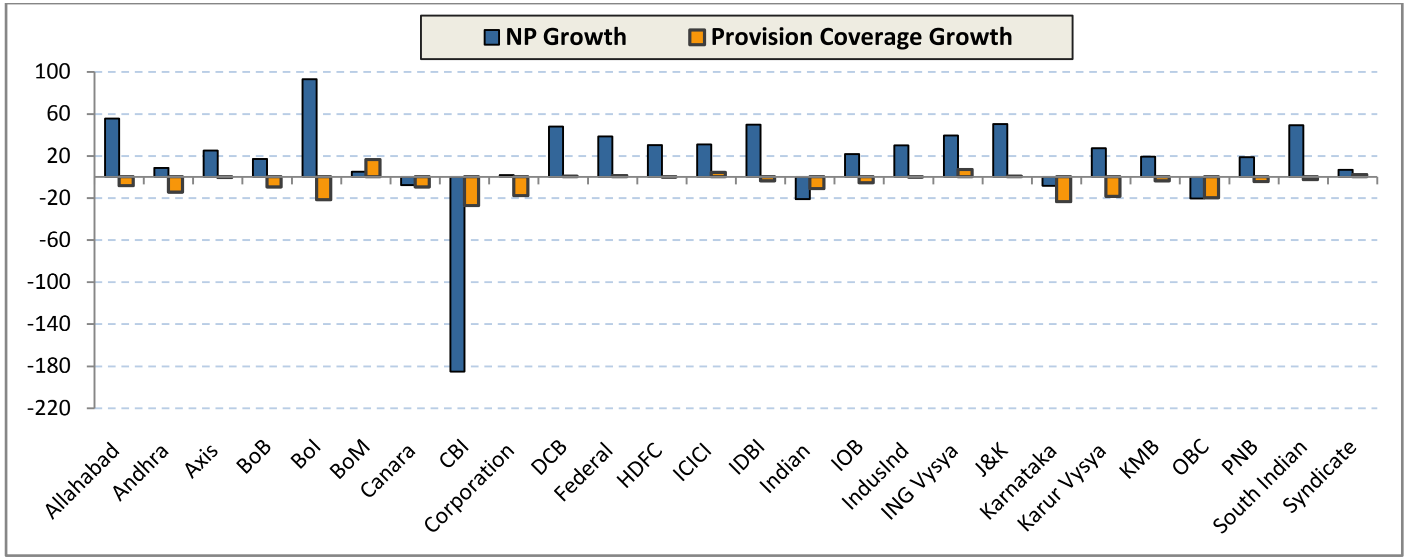

YOY NIM Expansion% (RHS)
Indian -0.70
Canara -0.62
BoB -0.49
Federal -0.44
IOB -0.42
PNB -0.41
KMB -0.40
Corporation -0.36
Andhra -0.35
Karur Vysya -0.31
OBC -0.30
Allahabad -0.26
IndusInd -0.21
Union -0.18
BoI -0.08
Yes -0.07
IDBI -0.03
DCB -0.03
ING Vysya -0.01
BoM 0.04
Karnataka 0.07
Axis 0.11
J&K 0.14
Syndicate 0.17
ICICI 0.27
UCO 0.36
CBI 0.78
SBI 0.82
-1.00
-0.50
0.00
0.50
1.00


Q4FY12 CASA %
50.0
40.0
30.0
20.0
10.0
0.0
Yes 15.0
South Indian 19.7
Corporation 22.1
UCO 23.9
Karur Vysya 24.0
IDBI 24.1
OBC 24.1
Karnataka 24.6
Canara 25.2
Andhra 26.4
IOB 26.4
IndusInd 27.0
Federal 27.4
Allahabad 30.8
Union 31.3
Syndicate 31.5
Indian 31.5
KMB 32.0
DCB 32.1
BoB 33.2
CBI 33.3
ING Vysya 34.2
BoI 34.3
PNB 36.2
J&K 40.7
BoM 41.3
Axis 42.0
ICICI 43.5
SBI 46.6

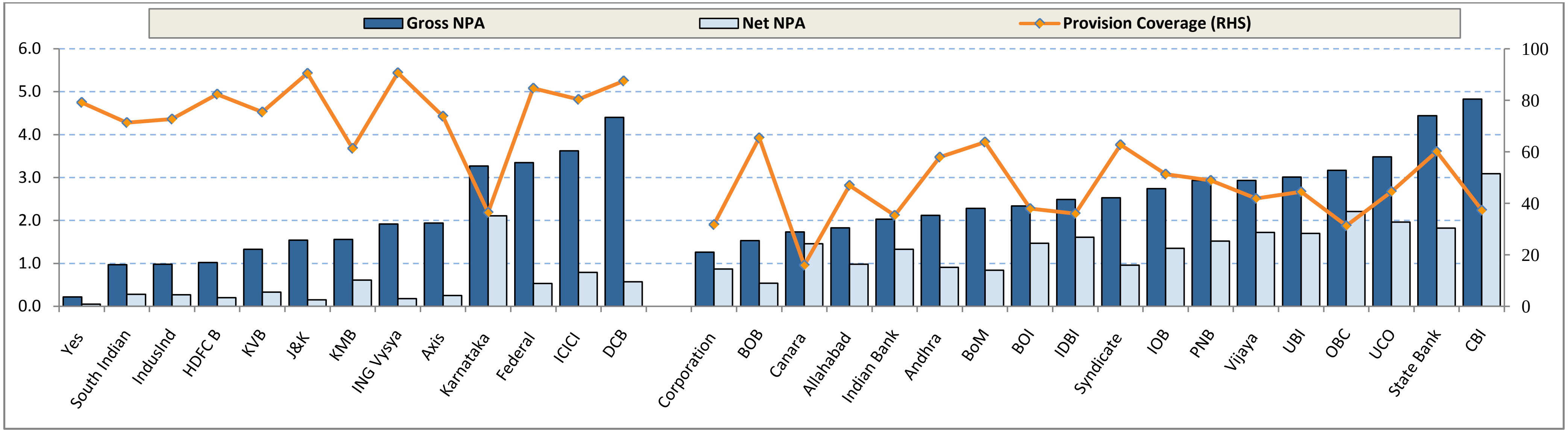

CTI %(LHS)
CASA %(LHS)
CASA/Branch in cr(RHS)
80
70
60
50
40
30
20
10
0
60
50
40
30
20
10
0
Allahabad
Andhra
Axis
BoB
BoI
BoM
Canara
CBI
Corporation
DCB
Federal
HDFC
ICICI
IDBI
Indian
IOB
IndusInd
ING Vysya
J&K
Karnataka
KMB
OBC
PNB
South Indian
SBI
Syndicate
UCO
Union
Yes

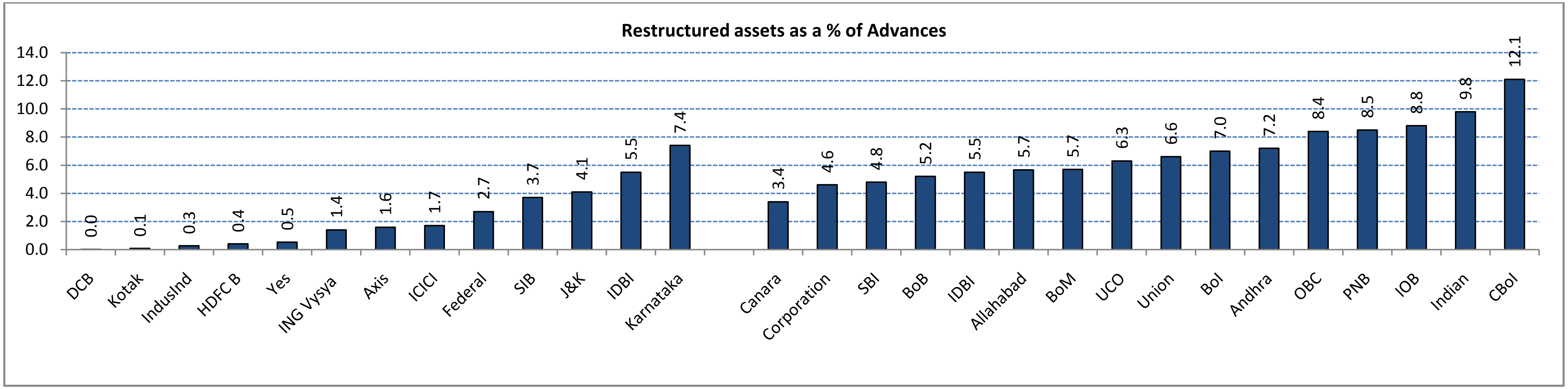






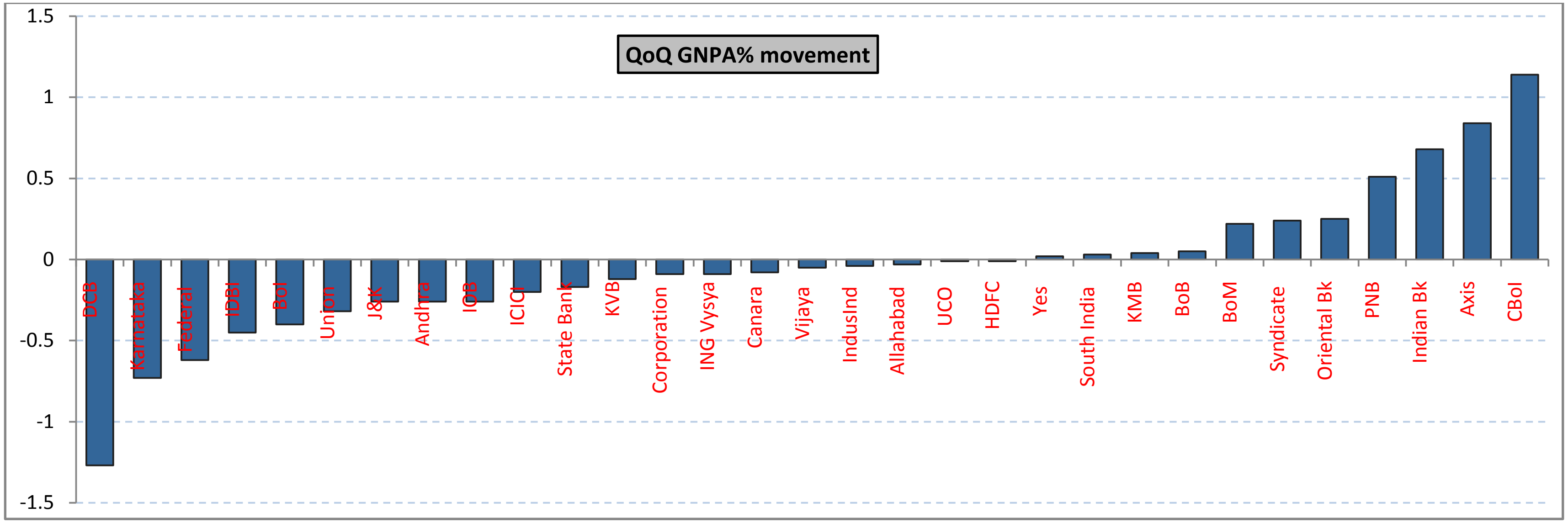
PSU banks fell short of adequate provision cushion for Q4FY12 vis-à-vis their pvt peers. Moreover, barring SBI, most of the PSU banks reported moderate profitability, and this was supported by lower effective tax rate (wrt PSU banks).



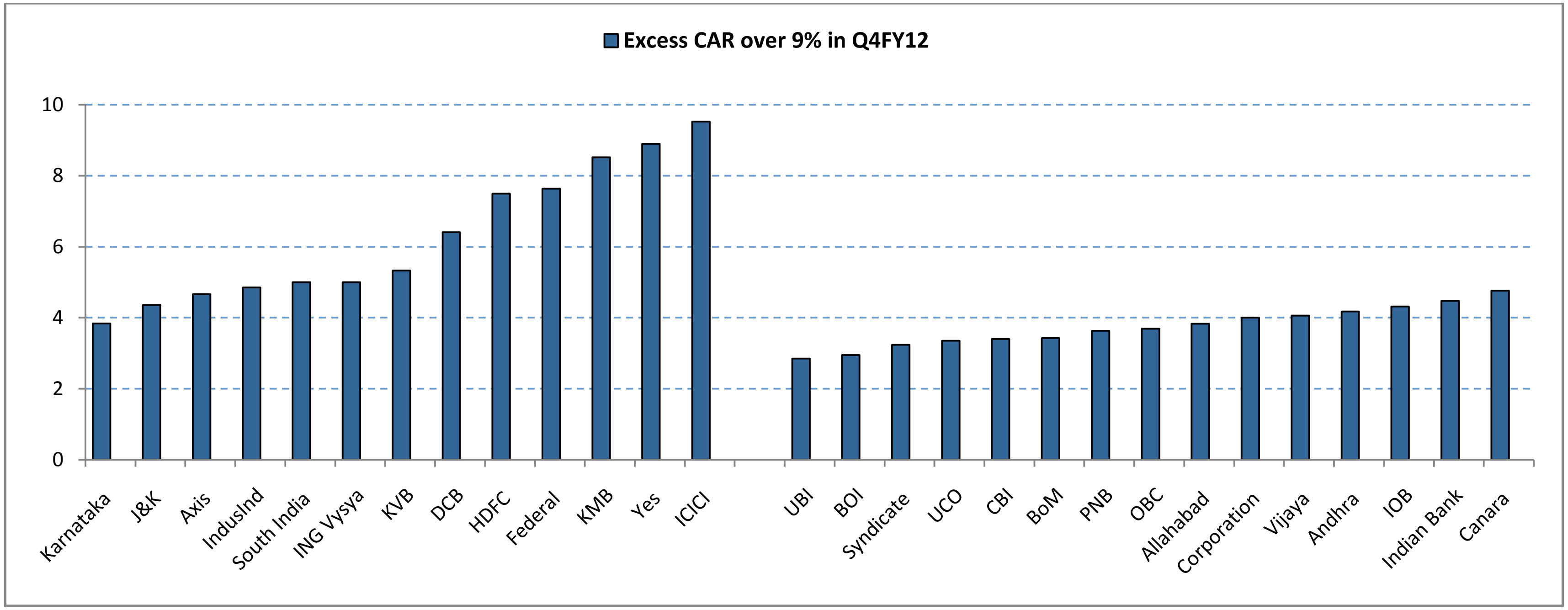


Asset Health

Averages (in %)	Provision Coverage	Gross NPA	Net NPA	Provision Coverage LY
Avg - 31	58.1	2.4	1.1	63.6
Private	75.9	2.0	0.5	79.3
PSU	45.2	2.6	1.5	52.4



The system based recognition of NPA uncovered many troubled assets and on a positive note, has brought good transparency. But delinquencies and restructured assets remained on the higher side



Healthy Capital Base is an added advantage in current market conditions. Pvt Banks stand stronger wrt capital adequacy vis-à-vis PSU banks. With incumbent implementation of Basel III norms start 2013, PSU banks will have to boost their capital base.

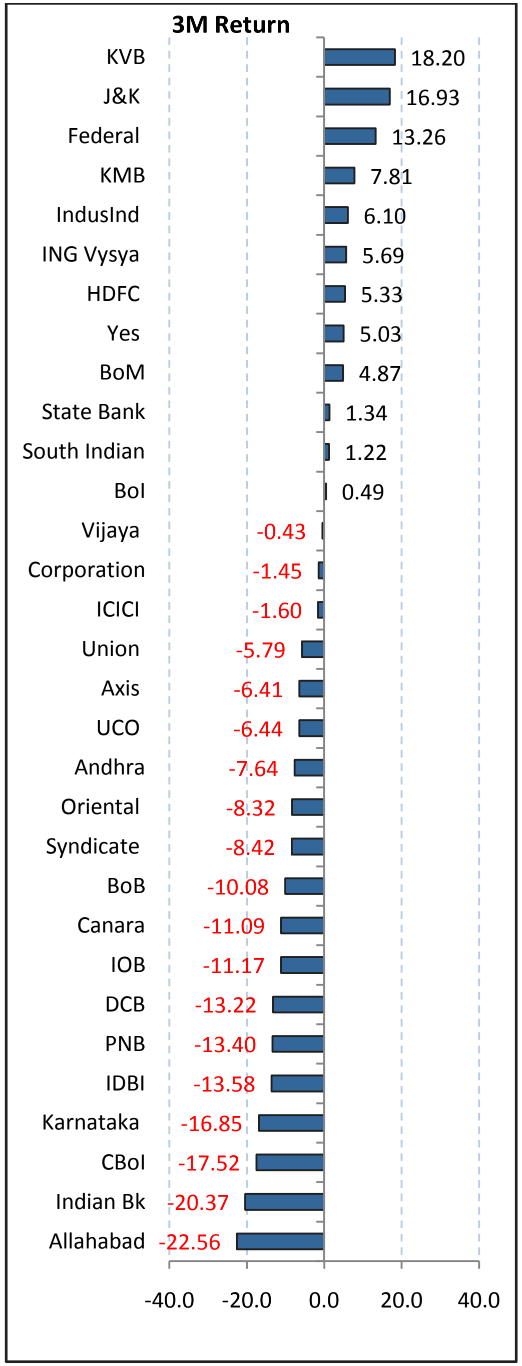
Averages	P/BV	PE	RoA (Ann)
Avg - 31	1.3	37.0	0.9
Private	2.1	46.8	1.0
PSU	0.8	29.9	0.8

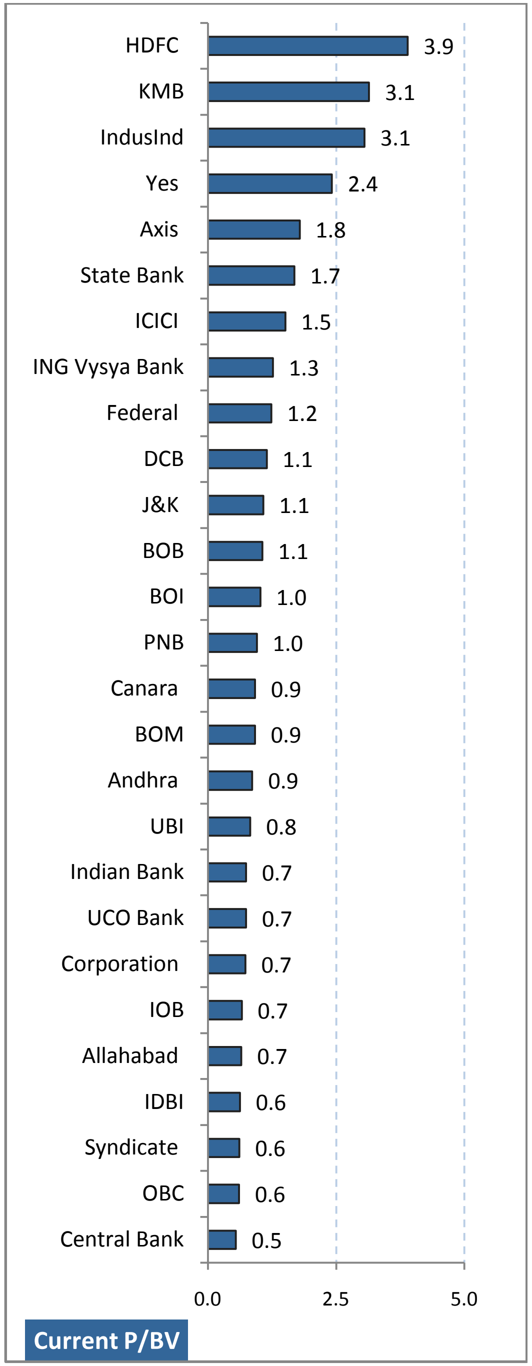
Valuation Indicator

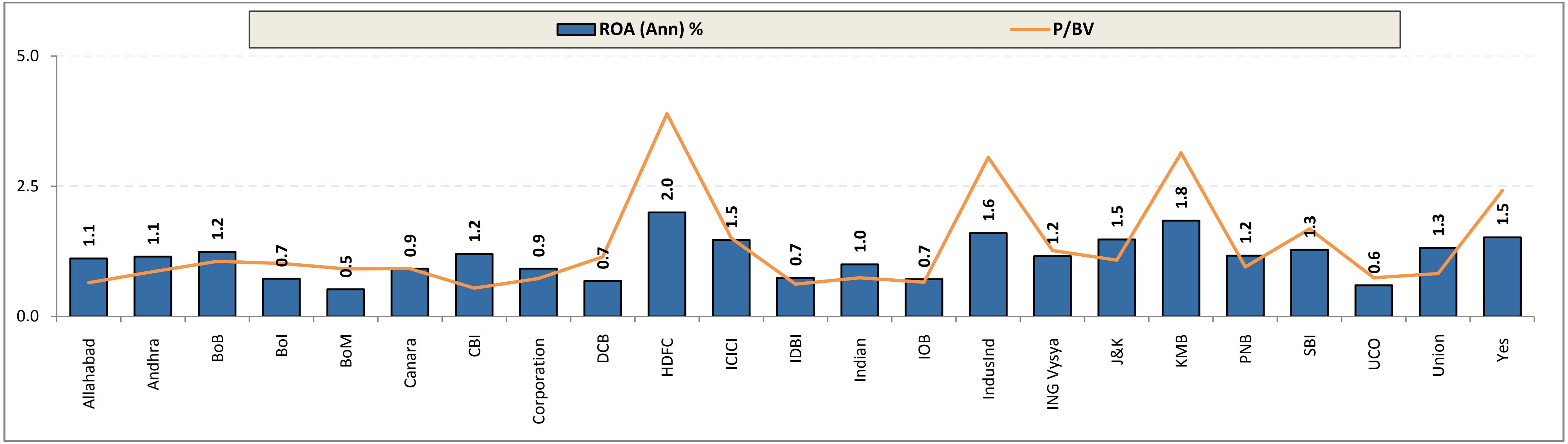
Banks have seen dip in valuations, and also fall in prices of banking stocks from 20%-35% since Feb; especially public sector banks. Most PSU banks are currently trading below multiple of one time of their estimated FY12 book values; on concerns of asset quality, future provisioning and also credit

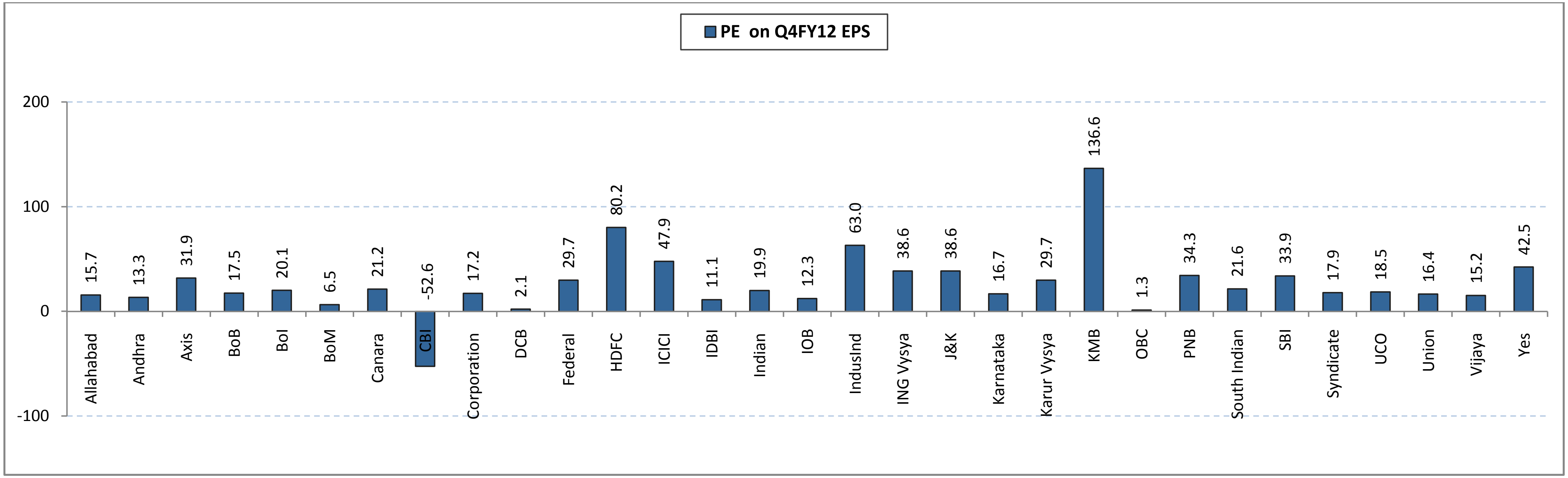
Stock Return	One month	3 Month	6 month	1 Year
Private Avg	1.2	3.2	3.0	9.5
PSU Avg	-2.0	-8.4	-9.3	-13.6

**Note: CMP – 4th June, 2012*






ROA (Ann) %
P/BV
5.0
2.5
0.0
1.1
1.1
1.2
0.7
0.5
0.9
1.2
0.9
0.7
2.0
1.5
0.7
1.0
0.7
1.6
1.2
1.5
1.8
1.2
1.3
0.6
1.3
1.5
Allahabad
Andhra
BoB
BoI
BoM
Canara
CBI
Corporation
DCB
HDFC
ICICI
IDBI
Indian
IOB
IndusInd
ING Vysya
J&K
KMB
PNB
SBI
UCO
Union
Yes


PE on Q4FY12 EPS
200
100
0
-100
15.7
13.3
31.9
17.5
20.1
6.5
21.2
-52.6
17.2
2.1
29.7
80.2
47.9
11.1
19.9
12.3
63.0
38.6
38.6
16.7
29.7
136.6
1.3
34.3
21.6
33.9
17.9
18.5
16.4
15.2
42.5
Allahabad
Andhra
Axis
BoB
BoI
BoM
Canara
CBI
Corporation
DCB
Federal
HDFC
ICICI
IDBI
Indian
IOB
IndusInd
ING Vysya
J&K
Karnataka
Karur Vysya
KMB
OBC
PNB
South Indian
SBI
Syndicate
UCO
Union
Vijaya
Yes

Aerial view of Q4'12 Earnings Performance

Amount in Cr

BANKS	CMP	Net Interest Income			PBPT			Net Profit			Deposits			Advances		
	04.06.12	Q4 '12	Q4 '11	% chg	Q4 '12	Q4 '11	% chg	Q4 '12	Q4 '11	% chg	Q4 '12	Q4 '11	% chg	Q4 '12	Q4 '11	% chg
Allahabad bank	126	1288	1151	*12*	901	780	*16*	400	258	*55*	159593	131887	*21*	111145	93625	*19*
Andhra Bank	108	914	862	*6*	661	712	*-7*	340	313	*9*	105851	92156	*15*	83642	71435	*17*
Axis Bank	988	2146	1701	*26*	2038	1821	*12*	1277	1020	*25*	220104	189238	*16*	169760	142408	*19*
Bank of Baroda	678	2797	2614	*7*	2051	1946	*5*	1518	1294	*17*	384871	305439	*26*	287377	228676	*26*
Bank of India	334	2501	2307	*8*	2015	1205	*67*	953	494	*93*	318216	298886	*6*	248833	213096	*17*
Bank of Maharashtra	50	647	575	*13*	250	66	*280*	73	69	*5*	76529	66845	*14*	56979	47487	*20*
Canara Bank	397	2040	1944	*5*	1491	1695	*-12*	829	899	*-8*	327054	293973	*11*	232490	212467	*9*
Central Bank of India	75	1264	1429	*-12*	613	331	*85*	-105	124	*-185*	196173	179356	*9*	147513	129725	*14*
Corporation Bank	408	834	762	*9*	814	730	*12*	351	345	*2*	136142	116748	*17*	100469	86850	*16*
DCB	38	57	50	*14*	24	22	*8*	17	11	*48*	6336	5610	*13*	5284	4271	*24*
Federal Bank	413	491	448	*10*	372	350	*6*	238	172	*38*	48937	43015	*14*	37756	31953	*18*
HDFC Bank	497	3388	2839	*19*	2413	2097	*15*	1453	1115	*30*	246706	208586	*18*	195420	159983	*22*
ICICI Bank	790	3105	2510	*24*	3112	2305	*35*	1902	1452	*31*	255500	225602	*13*	253728	216366	*17*
IDBI Bank	86	1211	1108	*9*	1195	1166	*2*	771	515	*50*	210493	180486	*17*	181158	157098	*15*
Indian Bank	160	1083	1111	*-3*	797	903	*-12*	345	439	*-21*	120804	105804	*14*	90324	75250	*20*
Indian Overseas Bank	82	1341	1215	*10*	1002	977	*3*	529	434	*22*	178434	145229	*23*	140724	111833	*26*
IndusInd Bank	295	464	388	*20*	379	298	*27*	223	172	*30*	42362	34365	*23*	35064	26166	*34*
ING Vysya Bank	328	319	268	*19*	220	143	*54*	127	91	*40*	35195	30194	*17*	28737	23602	*22*
J&K Bank	902	516	416	*24*	418	296	*41*	208	139	*50*	53347	44676	*19*	33077	26194	*26*
Karnataka Bank	74	222	204	*9*	182	91	*100*	83	91	*-8*	31608	27336	*16*	20721	17348	*19*
Karur Vysya Bank	407	261	211	*23*	213	146	*46*	147	115	*27*	32112	24722	*30*	23949	17814	*34*
Kotak Mahindra Bank*	547	688	565	*22*	445	368	*21*	297	249	*19*	38537	29261	*32*	39079	29329	*33*
Oriental Bank	220	1068	1013	*5*	754	843	*-11*	265	334	*-21*	155965	139054	*12*	111978	95908	*17*
Punjab National Bank	741	3310	3029	*9*	2936	2508	*17*	1424	1201	*19*	379588	312899	*21*	293775	242107	*21*
South India Bank	23	285	222	*28*	163	153	*6*	122	82	*49*	36501	29721	*23*	27281	20489	*33*
State Bank of India	2046	11704	8058	*45*	9597	6080	*58*	4050	21	*19298*	1043647	933933	*12*	867579	756719	*15*
Syndicate Bank	92	1337	1161	*15*	790	672	*18*	309	289	*7*	157941	135596	*16*	123620	106782	*16*
UCO Bank	70	1051	844	*24*	728	580	*26*	253	226	*12*	154003	145278	*6*	115540	99071	*17*
Union Bank	192	1877	1717	*9*	1599	870	*84*	773	598	*29*	222869	202461	*10*	177882	150986	*18*
Vijaya Bank	55	493	478	*3*	263	110	*140*	181	54	*234*	83056	73248	*13*	57904	48719	*19*
Yes Bank	321	448	349	*29*	430	349	*23*	272	203	*34*	49152	45939	*7*	37989	34364	*11*

ANNEXURES

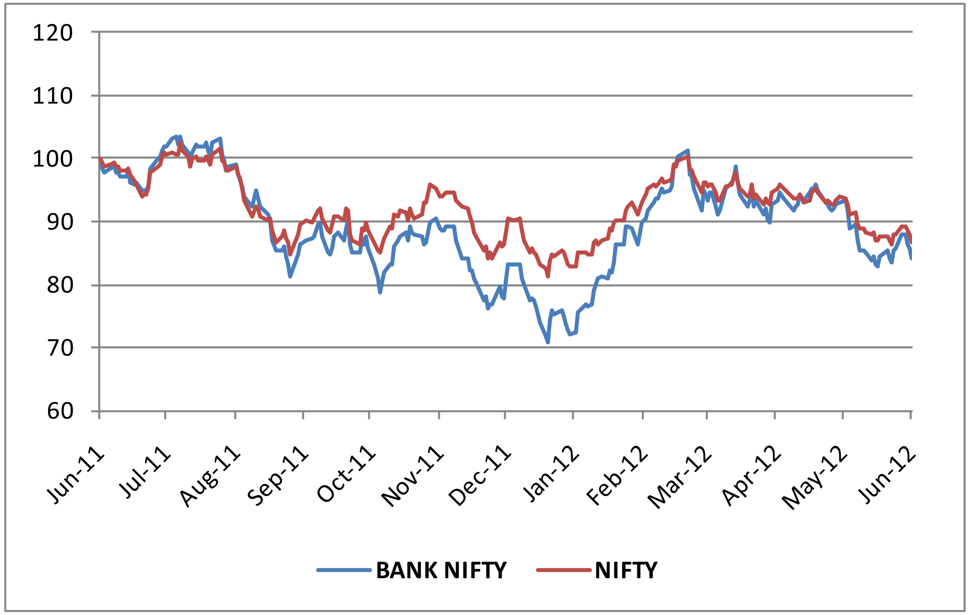
Arihant Banking and NBFC Coverage Universe

Sr.No.	Company	CMP	TP	Upside Potential	Reco	BV (FY14E)	Valuation Methodology	Investment Rationale
1	**Andhra Bank**	108	148	37%	Buy	184	0.8x FY14E ABV	Andhra Bank though shows strength on business front and pricing power, it needs to ramp up the CASA base and focus on quality earnings. While recoveries look strong, political issues in Andhra and troubled exposures still throng the bank's asset quality. At cheap valuations, we still consider the stock to be bought on dips and hence reiterate BUY with target price of Rs 148, valuing the bank at 0.8X P/ABV FY 14E.
2	**Bank of Baroda**	678	914	35%	Buy	912	Price to book of 1.0X FY14E	Though BoB holds the capital adequacy and provision coverage cushion, signs of asset quality pressures are visible and as we highlighted in Q3 update, increased restructuring and slippages would mar bank's performance. We reiterate BUY owing to the inherent business strength of the bank, but we continue to remain cautious on the asset quality pressures confronting the bank with heavy restructured book and revise our target price downwards to Rs 914 (earlier Rs 1105), valuing it at 1.0X P/ABV FY14E.
3	**DCB Bank**	38	60	58%	Buy	40	1.7 x FY13E book value and 1.5x FY14E	DCB is gradually stabilizing and will continue to profit from low base and tax benefit. Given the strong management, quality liability franchise characterized by cautious lending approach with focus on low-cost current and savings account deposits-led growth of its balance sheet and emphasis on non-funded income make it a safe bet. Also the capital raise through QIP during the last quarter of the financial year has boosted the Tier I capital adequacy and reduced the promoter shareholding. The capital augmentation is expected to support the branch network expansion and boost advances growth. We also increase our target price to Rs 60 (earlier Rs 52) and maintain BUY recommendation on the stock valuing it at 1.7X P/ABV FY13 E and 1.5X P/ABV FY14E.
4	**Federal Bank**	413	480	16%	Buy	436	1.1X P/B FY14E	We remain confident wrt fundamentals of the bank and given its balance sheet strength, comfortable provision coverage, expanding branch network,healthy capital adequacy and good return ratios. Spike in costs and exposure to pain sector such as infra remain key concerns. We maintain BUY, valuing the bank at 1.1X P/ABV FY14E with TP of Rs 480 and believe that stock has corrected for a while indicating buying opportunity for long-term investors
5	**IDBI Bank**	86	117	36%	Accumulate	196	Price to book of 0.7x for FY13E	Margin pressures, muted credit growth, high bulk-deposit base, and asset-liability mismatch remain challenges for the bank. Therefore, we maintain Accumulate rating on the stock.
6	**Lakshmi Vilas Bank**	76	NA	NA	Not rated	-	Trailing price to book of 1.24 times and a PE of 10.2 times	A good long term bet story on account of improving fundamentals, LVB is treading safely towards its growth path and may see transformational changes taking effect sooner.The low return ratios (ROA 0.73% and RoE 11.9%) and low CASA (17.3%) make some weak points.

7	**Indusind bank**	295	385	31%	Accumulate	134	P/BV of 3.4x FY13E	Aggressive retail book expansion, lower delinquencies, core fee income growth and decent return ratios builds cofidence in earnings visibility for the bank going ahead.
8	**Bank of Maharashtra**	50	79	58%	Buy	76	1.04X P/ABV FY14E	Asset quality pressures with restructured book, weak return ratios and more scope of efficiency remain concern areas for the bank. Improving signs of business growth, capital and provision cushion and presence in rich states form the positives for the bank and we continue to maintain BUY rating on the stock, valuing the stock at 1.04X P/ABV FY14E with target price at Rs 79.
9	**Yes Bank**	321	397	24%	Hold	205	P/ABV of 2.4x FY13E	Our Hold rating emerges from key concerns such as the probable SA outflex, imminent spike in operating costs, plausible asset quality deterioration, divergence from priority sector lending and the stock being a high beta play. We are positive mainly on account of quality growth since last 5 years (Balance Sheet CAGR of 50%, earnings CAGR of > 65% during FY07-11), consisitent returns and the new liability driven growth strategy.
10	**Dewan Housing**	172	311	81%	Buy	246	SOTP target price at rs 311 & Value of standalone entity 0.66X P/ABV FY14E.	The niche market focus of DHFL with differentiated and resilient business model, shift of focus to core business (through divestment in subsidiaries), capital sufficiency lower LTVs backed by superior asset quality, margins enrichment and superior return ratios makes us positive on the company and we reiterate BUY rating on the stock. Sharp rise in delinquencies or AUM compression due to market uncertainties, spike in costs and continued subdued non-interest income performance form the downside risks to the stock
11	**Mahindra and Mahindra Finance**	627	756	21%	Hold	453	2.1x FY13E Book value	The strengths of the company lie in the buoyancy in volumes in rural market and automobile financing market, diversified product mix and increase in dealerships. The earnings momentum going ahead is largely dependent upon continued spending by the Govt. and monsoons. We continue to remain less aggressive wrt growth owing to monsoon contingency and likely decent in return ratios and would prefer to wait for meaningful earnings growth with quality for further rerating. Therefore, we maintain HOLD rating on the stock
12	**Power Finance Corporation**	148	266	80%	Buy	191	1.4X FY14E BV	Policy paralysis, lack of availability of fuel, equipment supply issues have largely impacted the power finance company. However, with the signs of alleviation of these concerns, and with reduction in defaults by SEBs combined with stringent lending criteria and PFC's relatively lower exposure to risky segments unlike other power financiers makes it less vulnerable to the sectoral headwinds. With strong earnings visibility and growth plans in place we remain positive on the fundamentals of the company and reiterate BUY
13	**Shriram Transport Finance**	509	680	34%	Buy	305*	1.8x FY14E P/BV	The fundamentally strong company has been impacted largely on account of Regulatory changes pertaining to NBFC and transportation sector, mining issues in the Karnataka belt (major presence), intense competition and slowdown in general economic conditions. As a result, margins, AUM volumes and asset quality suffered for past few quarters. The return ratios though reduced, are still amongst the best in the industry. Further the company's niche business model catering to the used CV segment, comfortable liquidity on the balance sheet and adequate capitalization makes us positive on the stock and we maintain BUY

*Note: * STFC's book value pertains to FY13E.*

BANK NIFTY V/S NIFTY



Banking Acronyms used –

- PBPT – Profit Before Provision and Tax
- PAT – Profit After 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
- Pvt – Private (banks)
- SCB – Scheduled Commercial Banks
- CoD- Cost of deposits
- YoA – Yield on Advances

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