

Time for shopping

Investors should be cheerful of falling stock market prices because they can buy more- Warren Buffett.

Difficult times are here. And there can be no denying the possibility that difficult times are here to stay!

Unlike the post-Lehman crisis, wherein the threat to Indian banking system emerged from global concerns, today the threat comes largely from the domestic economy per se. The immediate after-effects of poor state of economy no sooner than later reflect in the performance of Indian banking sector. While the Indian banking system stands resilient to macro-headwinds right since the Lehman days till the Eurozone crisis, today it is more vulnerable to domestic uncertainties. Given the policy paralysis, widening fiscal and current account deficit, falling rupee, sticky inflation, high interest rates environment, slowing credit demand, and weak business sentiments, banking sector continues to observe consistent pressures since past one year. Furthermore, concerns over several key parameters like credit growth, asset quality, margins and profitability led many banking stocks to touch their 52-week low.

...however, difficult times pave ways for buying opportunities

Well, while falling markets leave little room for capital appreciation, does that imply that investors stay alienated from markets? Of course not. In such a scenario, investors can look for companies that reward them through dividends. More so, dividends are tax free and do not form part of total income for the tax purposes. High dividend yielding stocks are safe havens particularly in tough environs wherein high return is secondary. Despite volatilities in markets; domestic or global; investors benefit from return on investments; thanks to high dividend yielding stocks. Notwithstanding the current macro situation, there are many quality companies trading at attractive valuations, coupled with fairly strong earnings visibility and offer healthy dividends. Therefore, investors who wish to make bucks should enter into buying mode when stocks are cheap and there remains limited scope for further correction/downside since most of the times the bad news is factored in.

...hence time to tank up quality stocks

As we have seen during this difficult year for bank stocks, an attractive dividend yield can provide plenty of support for share prices. Considering the overall pressures in the banking space, we are not convinced of any significant positive surprises in current fiscal for the sector. FY12 witnessed surmounting pressures for banks w.r.t. weak asset quality and heavy restructuring, lower credit growth, poor deposit mobilization and deterioration in return ratios. PSU banks were the worst hit; but interestingly scored on higher dividend yields. **Hence, high dividend yields and cheap valuations remain the guiding principles for cherry picking the stocks in tough environment.**

Aerial view of 31 Banks (private and public) across various parameters- (Key parameters: Return ratios, Div yields and Price multiple)

FY12	Banks	CMP	Mkt Cap	Equity Capital	RoE (%)	RoA (%)	EPS	DPS	Div Pay-out(%)	Div Yield(%)	BV	P/BV
PSU	Allahabad	137	6820.0	500.0	21.6	1.1	37.3	6.0	16.1	0.8	192.9	3.7
PSU	Andhra	116.0	6513.0	559.6	19.2	1.1	24.0	5.5	22.9	4.7	133.7	0.9
Private	Axis	1037.0	42891.0	413.2	20.3	1.6	102.7	16.0	15.6	1.5	552.0	1.9
PSU	BoB	715.0	29395.0	413.9	21.3	1.2	121.8	17.0	14.0	2.4	664.1	1.1
PSU	BoI	350.0	20059.0	575.0	15.0	0.7	46.7	7.0	15.0	2.0	343.8	1.0
PSU	BoM	54.0	3166.0	589.6	12.9	0.5	6.4	2.2	34.6	4.1	63.8	0.8
PSU	Canara	418.0	18501.0	443.0	17.0	0.9	74.1	11.0	14.8	2.6	465.6	0.9
PSU	CBol	80.0	6584.0	736.1	7.5	0.2	5.5	2.0	36.4	2.5	121.4	0.7
PSU	Corporation	432.0	6402.0	148.1	19.5	1.0	101.7	20.5	20.2	4.7	558.7	0.8
Private	DCB	40.0	971.0	240.7	8.1	0.7	2.3	0.0	0.0	0.0	33.4	1.2
Private	Federal	424.0	7248.0	171.1	14.4	1.4	45.4	9.0	19.8	2.1	333.6	1.3
Private	HDFC B	540.0	126745.0	470.5	18.7	1.8	21.3	4.3	20.2	0.8	127.5	4.2
Private	ICICI	826.0	95173.0	1152.7	11.2	1.5	56.1	16.5	29.4	2.0	524.0	1.6
PSU	IDBI	91.0	11588.0	1278.4	13.4	0.7	15.9	3.0	18.9	3.3	137.5	0.7
PSU	Indian	171.0	7349.0	429.8	20.4	1.3	39.7	7.5	18.9	4.4	214.9	0.8
PSU	IOB	87.0	5352.0	797.0	12.2	0.5	13.2	4.5	34.2	5.2	124.6	0.7
Private	IndusInd	328.0	15362.0	468.7	19.2	1.6	16.9	2.2	13.0	0.7	96.7	3.4
Private	ING Vysya	350.0	5256.0	150.4	14.3	1.1	30.4	4.0	13.2	1.1	258.1	1.4
Private	J&K	921.0	4463.0	48.5	21.2	1.3	165.7	33.5	20.2	3.6	834.2	1.1
Private	Karnataka	80.0	1506.0	188.3	9.8	0.7	13.1	3.5	26.8	4.4	137.8	0.6
Private	Karur Vysya	416.0	5634.0	107.2	20.7	1.6	46.8	14.0	29.9	3.4	270.8	1.5
Private	KMB	574.0	42556.0	371.2	15.4	1.8	14.6	0.6	4.1	0.1	174.2	3.3
PSU	OBC	233.0	6799.0	291.8	10.7	0.7	39.1	7.9	20.2	3.4	379.9	0.6
PSU	PNB	772.0	26177.0	339.2	21.1	1.2	144.0	22.0	15.3	2.8	777.4	1.0
Private	South Indian	24.0	2689.0	113.4	21.6	1.1	3.5	0.6	16.9	2.5	17.8	1.3
PSU	SBI	2165.0	145251.0	671.0	14.4	0.9	184.3	35.0	19.0	1.6	1215.0	1.8
PSU	Syndicate	100.0	5998.0	602.0	16.3	0.8	22.9	3.8	16.6	3.8	150.1	0.7
PSU	UCO	76.0	5025.0	664.7	19.4	0.6	16.7	3.0	18.0	3.9	94.7	0.8
PSU	Union	205.0	10754.0	550.5	14.9	0.7	32.3	8.0	24.8	3.9	235.9	0.9
PSU	Vijaya	58.0	2734.0	495.5	16.4	0.7	9.1	2.5	27.6	4.3	76.2	0.8
Private	Yes	341.0	12066.0	353.9	23.1	1.5	27.9	4.0	14.4	1.2	132.5	2.6
Averages												
31 Banks			22162.2	462.4	16.5	1.1	47.8	8.9	19.7	2.7	304.6	1.4
13 Private			27889.2	326.9	16.8	1.4	42.0	8.3	17.2	1.8	268.7	1.9
18 PSU			18025.9	560.3	16.3	0.8	51.9	9.4	21.5	3.4	330.6	1.0

PSUs score on high div yield and cheap valuations



Top banks with dividend yields >3%

Banks	Dividend Yield > 3%
IOB	5.2
Corporation	4.7
Andhra	4.7
Indian	4.4
Karnataka	4.4
Vijaya	4.3
BoM	4.1
UCO	3.9
Union	3.9
Syndicate	3.8
J&K	3.6
OBC	3.4
Karur Vysya	3.4
IDBI	3.3

Stocks- High dividend yield and lower valuations

Banks	Dividend Yield 3% (%)	Low Valuations
IOB	5.2	0.7
Corporation	4.7	0.8
Indian	4.4	0.8
Karnataka	4.4	0.6
Vijaya	4.3	0.8
BoM	4.1	0.8
UCO	3.9	0.8
Syndicate	3.8	0.7
OBC	3.4	0.6
IDBI	3.3	0.7

Bloomberg estimates (FY13) for select banks wrt price and reward

	FY13E	P/BV	Dividend Yield
	Banks		
PSU	Allahabad	0.7	5.0
PSU	Andhra	0.8	5.4
Private	Axis	1.6	1.9
PSU	BoB	1.0	2.8
PSU	BoM	0.7	3.7
PSU	Canara	0.8	3.0
Private	DCB	1.1	0.0
Private	Federal	1.1	2.3
Private	HDFC B	3.7	1.0
Private	ICICI	1.4	2.3
PSU	IDBI	0.7	4.0
PSU	IOB	0.6	5.5
Private	IndusInd	2.8	1.1
Private	ING Vysya	1.2	1.3
Private	J&K	0.9	4.0
Private	Karnataka	0.5	5.0
Private	Karur Vysya	1.5	3.2
Private	KMB	2.9	0.2
PSU	OBC	0.6	4.4
PSU	PNB	0.9	3.3
Private	South Indian	1.1	2.9
PSU	SBI	1.2	1.9
PSU	UCO	0.9	4.1
Private	Yes	2.1	1.3
Averages			
Banks		1.3	2.9
Private		1.7	2.0
PSU		0.8	3.9

Higher rewarding stocks available at cheap valuations stand as key factors for investors in the current difficult market conditions. Banks with stable earnings outlook, resilient balance sheet and good dividend yields would serve as promising bets in long-term. Further if these stocks come at cheap valuations, then they are a steal in the current market conditions.

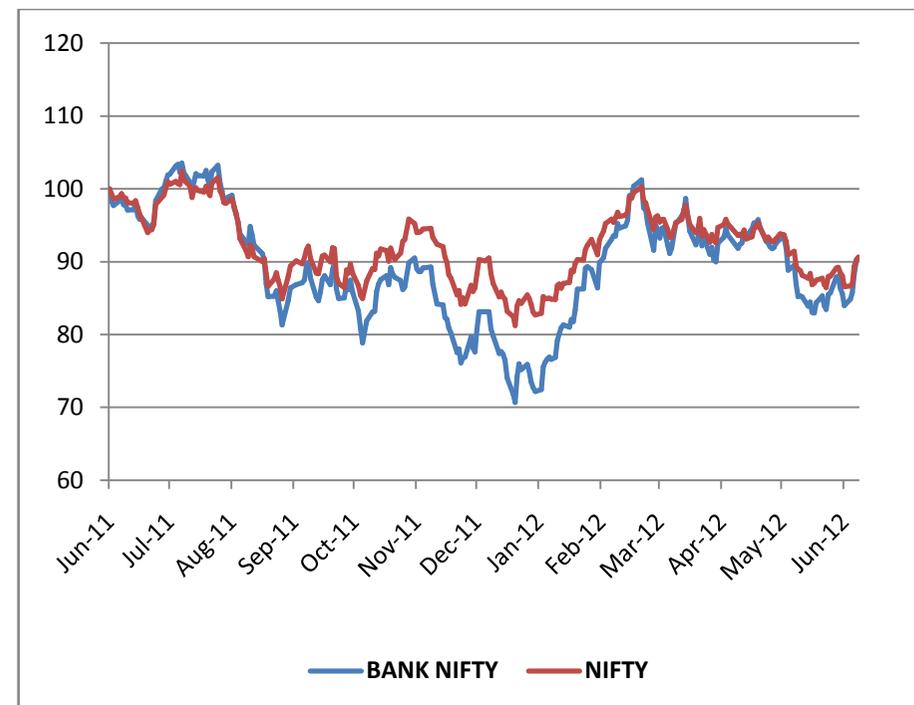


Interestingly, PSU banks outnumber private when it comes to rewarding investors in terms of dividend yields

Banking stocks today lie in correction mode; but provide a bargain opportunity to get in

As on 11/06/2012	Banks	Over Bank Nifty~06/08/2012 (1M)	Over Bank Nifty~06/08/2012 (3M)	Over Bank Nifty~06/08/2012 (6M)	Over Bank Nifty~06/08/2012 (12M)
PSU	Allahabad	-14.6	-25.3	-22.1	-23.1
PSU	Andhra	-5.7	-5.5	6.7	-14.0
Private	Axis	2.4	-8.6	-7.6	-7.3
PSU	BoB	5.6	-7.0	-13.1	-9.2
PSU	BoI	2.7	2.3	-7.2	-9.2
PSU	BoM	1.1	4.3	2.9	-3.6
PSU	Canara	-4.9	-12.1	-16.2	-13.3
PSU	CBI	-1.4	-18.6	-23.5	-25.3
PSU	Corporation	1.7	-2.9	10.2	-13.2
Private	DCB	-5.8	-8.3	-6.6	-24.8
Private	Federal	1.2	8.0	-3.0	2.4
Private	HDFC B	0.3	5.9	6.7	21.8
Private	ICICI	1.3	-9.9	-14.7	-32.8
PSU	IDBI	-4.4	-2.3	-0.7	-13.6
PSU	Indian	-8.8	-13.8	-15.6	-23.6
PSU	IOB	-18.9	-27.1	-26.0	-14.9
Private	IndusInd	-0.9	6.9	14.6	32.0
Private	ING Vysya	-7.7	6.3	-2.1	7.3
Private	J&K	2.2	15.0	8.0	23.3
Private	Karnataka	-10.8	-16.5	-8.6	-27.3
Private	Karur Vysya	3.3	13.1	-3.0	7.7
Private	KMB	-0.9	5.3	6.4	36.3
PSU	OBC	1.5	-14.9	-23.7	-24.8
PSU	PNB	-4.5	-14.8	-28.4	-21.1
Private	South Indian	-1.7	-2.7	-3.5	3.3
PSU	SBI	7.2	3.1	4.5	2.3
PSU	Syndicate	-1.8	-10.9	-14.3	-10.1
PSU	UCO	6.9	0.0	11.6	-13.4
PSU	Union	-4.1	-6.6	-11.7	-26.6
PSU	Vijaya	2.0	-0.9	-3.3	-13.6
Private	Yes	0.7	3.6	8.1	22.4
Averages					
31 Banks		-1.8	-4.4	-5.6	-6.6
13 Private		-1.3	1.4	-0.4	5.0
18 PSU		-2.2	-8.5	-9.4	-15.0

Bank Nifty consistently underperformed the broader index in past one year



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. This creates golden opportunity for Investors to buy at lows and reap the benefits of both rewards through dividends and capital appreciation in future if the markets were to improve.

Annexure:

Dividend payout history for the banks for past four years

		Dividend Payout (%) History			
	Banks	FY08	FY09	FY10	FY11
PSU	Allahabad	16.0	14.5	20.4	20.1
PSU	Andhra	33.7	33.4	23.2	24.3
Private	Axis	20.0	19.8	19.3	17.0
PSU	BoB	20.3	14.7	17.9	15.2
PSU	BoI	10.5	14.0	21.1	15.4
PSU	BoM	26.2	17.2	19.6	32.0
PSU	Canara	21.0	15.8	13.6	12.1
PSU	CBI	16.8	16.1	8.8	8.9
PSU	Corporation	20.5	20.1	20.2	21.0
Private	DCB	0.0	0.0	0.0	0.0
Private	Federal	18.6	17.1	18.4	24.8
Private	HDFC	18.9	18.9	18.6	19.6
Private	ICICI	29.4	32.6	33.2	31.3
PSU	IDBI	19.9	21.1	21.1	20.9
PSU	Indian	13.2	17.8	18.4	19.3
PSU	IOB	14.5	18.5	27.0	28.8
Private	IndusInd	25.6	28.7	21.1	16.1
Private	ING Vysya	9.8	10.9	12.4	11.4
Private	J&K	20.9	20.0	20.8	20.5
Private	Karnataka	25.1	27.4	32.1	27.6
Private	Karur Vysya	31.1	27.4	19.4	27.3
Private	KMB	8.8	9.4	5.3	4.5
PSU	OBC	33.3	20.5	20.1	20.2
PSU	PNB	20.0	20.4	17.8	15.7
Private	South Indian	17.9	17.4	19.3	19.3
PSU	SBI	20.2	20.2	20.8	23.1
PSU	Syndicate	17.2	17.2	19.3	20.2
PSU	UCO	19.4	9.9	8.1	20.8
PSU	Union	14.6	14.6	13.4	20.2
PSU	Vijaya	24.0	16.5	23.0	27.5
Private	Yes	0.0	0.0	10.7	11.9
Averages					
31 Banks		18.9	17.8	18.2	19.3
13 Private		17.4	17.7	17.7	17.8
18 PSU		20.1	17.9	18.5	20.3

Acronyms used:

CMP: Current Market Price

RoE: Return on equity

RoA: Return on Assets

EPS: Earnings Per Share

DPS: Dividend Per Share

Div: Dividend

BV: Book Value

P/BV: Price to Book value

Note: The data is sourced and compiled from BSE, Bloomberg, Ace equity and respective Company disclosures

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