

Q1FY12 –Pressure But Yet Not Nervous

We have briefly analysed the Q1'12 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 Q112	PSU-'Healthy business growth hurt by provision'	PRIVATE - Healthy Core as well as Bottom-line'
Deposit <i>Exception</i>	Sustained growth <i>Slower for Andhra in comparison to advances</i>	Slower than advances <i>Strong for Yes Bank</i>
Advances <i>Exception</i>	Reasonable though slower than last year <i>OBC amongst slowest</i>	Reasonable though slower than last year <i>None</i>
Core Earning <i>Exception</i>	Healthy <i>OBC, Vijaya was weak</i>	Healthy <i>Federal was weak</i>
PAT <i>Exception</i>	Weak <i>Syndicate, Andhra, BoB, Allahabad did well</i>	Healthy <i>Karnataka and IDBI weak</i>
NIM YoY <i>Exception</i>	Sharp Decline <i>Karnataka saw healthy rise</i>	Decline <i>IDBI and SBI saw healthy rise</i>
Provision <i>Exception</i>	Sharp increase <i>Healthy dip for Indian Bank</i>	Healthy Relief for most <i>Increased substantially for Karur, Karnataka</i>
GNPA <i>Exception</i>	Sequential increase <i>Dipped for Allahabad</i>	Controlled <i>Increased for Karur</i>
CASA % QoQ <i>Exception</i>	Dipped <i>sharper dip by IDBI</i>	Dipped <i>Improved for IndusInd</i>
NIM QoQ <i>Exception</i>	Slipped <i>Increased for SBI</i>	Slipped <i>Small increase for J&K</i>
CASA Vs deposit growth <i>Exception</i>	Sharper Dip <i>Improved for SBI</i>	Dipped <i>Improved for IndusInd</i>

Averages in %	All -27#	Private	PSU
Deposits growth	21.11	20.22	21.34
Advances growth	21.66	21.91	21.59
CD ratio	78.05	81.69	77.10
QoQ Dep Growth	1.12	0.40	1.31
QoQ Adv Growth	1.39	2.41	1.12
NII Growth	20.83	19.33	21.35
GP Growth	13.32	11.39	14.03
NP growth	(3.11)*	31.06	(15.32)**
NIM growth	(3.22)	(2.92)	(3.61)
CTI	44.49	47.60	42.00
CASA	29.24	30.50	28.30
CASA/Branch (Rs in Crs)	23.32	27.30	20.20
Provision Coverage	53.80	76.40	53.50
Gross NPA	2.16	2.25	2.09
Net NPA	0.81	0.57	0.99
Provision Coverage LY	55.90	69.00	51.70
P/ABV	1.39	1.79	1.06
P/BV	1.37	1.81	1.02
PE	9.16	13.3	5.90
RoA (Q112 ann)	1.08	1.31	0.90

*Exclgd SBI 8.8%; **Exclgd SBI (2.5) %; # array of banks considered by us

29th Aug 2011

- **Overall** – The credit as well as deposit growth continued despite apprehensions, though the pace was slow. The PSU banks continued to reel under provision pressure while private banks saw healthy relief on a YoY basis. A good portion of the provision increase in the quarter was one time, due to increased requirement of RBI. And this resulted in de-growth in net profit for PSU banks as against a healthy growth of private banks. Most banks faced margin pressure as the deposit re-pricing effect seeped in along with increased rate on saving deposits and the overall Q1 NIM fell from 3.36% in Q4'11 to 3.11% in Q1'12. CASA shifted to term deposit. The GNPA in PSU banks saw a sequential rise with average increasing from 1.9% in Q411 to 2.1% in Q112.
- **Business Growth Slow But Yet not Nervous** - The business growth has remained reasonable with advances growing at ~20% and deposits at ~18%. Given the economic uncertainty and drop in new sanctions, banks have pruned their credit growth targets for FY12 by ~2 to 5%. Any further hike in rates may see increased slowdown.
- **As anticipated margins reported pressure** - The lag effect of deposit re-pricing and increased saving rate was felt on NIM's and the average NIM fell from 3.42% in Q311 to 3.36% in Q411 to 3.11% in Q112. The fall was higher for PSU banks which also saw a bigger dip in CASA ratio. Further pressure on NIM may be restricted as there is healthy liquidity as of now. However we may see a long consolidation later as the rate hike peaks out and the deposit re-pricing takes its own time to rewind. Banks with favourable ALM will benefit.
- **Healthy NII and PAT for private banks but PSU banks suffered due to increased provision** – NII growth was in line with credit growth for both, PSU as well as Private Banks, but heavy provisions pulled down the PSU banks PAT and also the overall average. The provision of PSU banks increased by 92% while for private banks it dropped by 30%. CTI remained flat YoY though on a sequential basis it improved.
- **Asset Quality Improved** – Overall the gross NPA slipped marginally from 2.06% in Q411 to 2.16% in Q112. With the average slippage ratio of 1.8%, PSU banks reported more strain, also because of system based recognition. Overall restructured assets remained near static at 3.95% with banks continuing to report further slippages from it. Sequential core provision coverage remained nearly flat for private banks while it improved marginally for PSU banks. With global economy faltering and local economy slowing down under interest and commodity price pressure, asset quality concern will keep the banking stocks under pressure.

Conclusion

The environment now is filled with concern on growth, persistent high inflation, high interest rates and likely NPA scare. Though we all know the cycle has to end, the inflation this time has been much stretched, nearly two years of increasing and persistent high inflation. The historic data shows that earlier rise in inflation reacted faster to monetary measures. But this time despite 11 consecutive hikes in repo rate, the inflation peak is still to peak off. The problems and uncertainties in global economic scenario make the situation worse. The economic condition therefore requires a cautious approach in equity investment in general. A lot will also depend on the international developments like further stimulus (QE III) in USA.

The growth is not seen as a major concern by banks (bigger ones). However, the coming quarters will see some further margin pressure, but the asset quality will hold the key. Most PSU banks will complete the last phase of shifting to system based NPA recognition in September. This will see some rise in NPA. The provision might however see a relief as the one time provision effect goes. For private banks the pressure will be relatively much less and will therefore continue to be in flavor. Sharp corrections will suggest a good long term buying opportunity.

As regards rate contours in future, the case for a marginal increase in rate remains. The RBI may not like to dilute its attempts to rein in inflation at this juncture when its earlier attempts are yielding some results. The healthy monsoon and weakness in oil prices and metals will provide relief to the industry, but high rates will continue for some more time.

We prefer banks with lesser risk to earnings in terms of healthy advance growth, healthy capital base and healthy NPA coverage. PSU banks look lucrative from valuation point of view but need to be carefully picked given their weaknesses. Our picks are – **HDFC bank, Yes Bank, IndusInd Bank, South Indian, Kotak, BoB, PNB, Andhra and Allahabad bank**. From valuation perspective banks like Karnataka and Corporation can also be accumulated.

		TOP		BOTTOM	
		I	II	I	II
Quarterly Results – Q1FY12					
1	NII Growth	Allahabad	IDBI/Karnataka	Vijaya	OBC
2	PBPT Growth	IOB	Karnataka	DCB	Canara
3	NP growth	DCB	IndusInd	Vijaya	SBI
4	YOY NIM growth	IDBI	Karnataka	BOI	Vijaya/Canara
Business					
5	Deposits growth	Yes	IOB	IDBI	J&K
6	Advances growth	IOB	Kotak	OBC	IDBI/J&K
7	CD Ratio	Kotak	ICICI	J&K	Karnataka
8	Incremental QoQ CD ratio	HDFC Bank	Karnataka	Corporation	Andhra
10	CAR %	Kotak	ICICI	BOI/ SBI	Syndicate
11	CTI %^	IDBI	J&K/Yes/Andhra	DCB	Karnataka
12	CASA %	HDFC Bank	SBI	Yes	IDBI
13	CASA/branch	Axis	HDFC Bank	South India	Vijaya/Karnataka/Karur/Federal/Andhra
14	YoY CASA Ratio growth	IndusInd	J&K	Syndicate	Corporation
Asset Quality					
15	Gross NPA% ^	Yes	Indian	DCB	ICICI
16	Net NPA % ^	Yes	HDFC/Karur/J&K	Karnataka	Vijaya/SBI
17	Core Provision Coverage	Yes	J&K	Canara	IDBI/Vijaya
18	QoQ Change in GNPA%	Karnataka	Allahabad/ICICI	BOI/Federal	IDBI
19	QoQ Change in NNPA%	Allahabad	IOB	BOI	Karnataka/Canara/ DCB
Valuation					
20	ROA (Q1 Ann)	Kotak	Karur/Axis/HDFC/ IndusInd	Vijaya	IOB/DCB/SBI
21	P/BV *	Karnataka	Syndicate/Vijaya	HDFC	Kotak/IndusInd
22	P/ABV *	Karnataka	Syndicate	HDFC	Kotak/IndusInd
23	PE *	Corporation	Syndicate/Canara/Andhra	DCB	HDFC

*Cheapest is put as TOP, ^ lower is put as TOP

Averages (in %)	NII Growth	GP Growth	NP growth	NIM growth
Avg -27	20.8	13.3	-3.1*	-3.2
Private	19.3	11.4	31.1	-2.9
PSU	21.3	14.0	-15.3**	-3.6

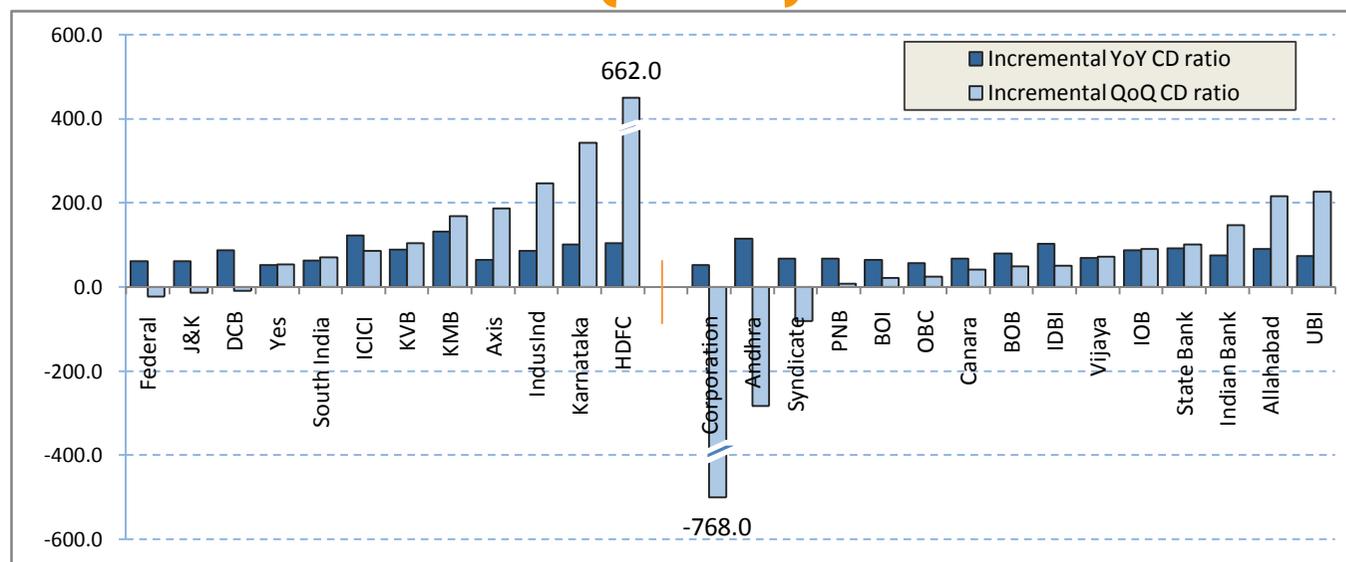
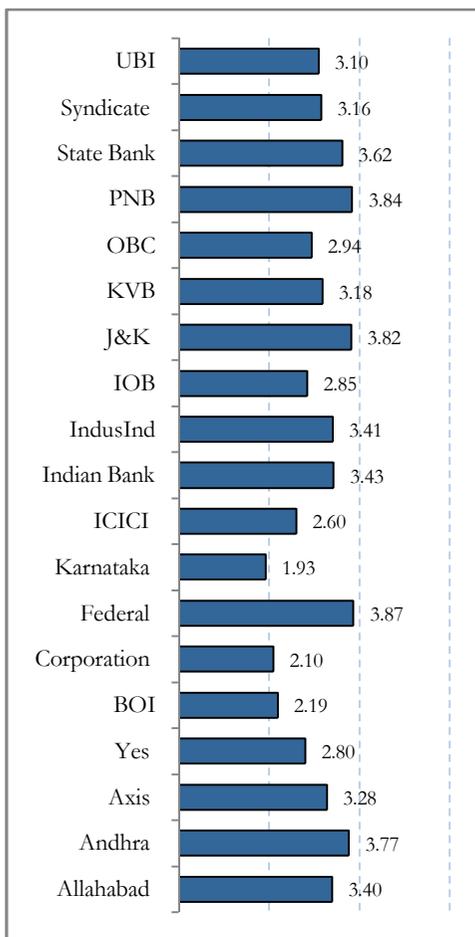
Profitability Indicator

Averages (in %)	Deposits growth	Advances growth	CD ratio	QoQ Dep Growth	QoQ Adv Growth
Avg - 27	21.1	21.7	78.0	1.12	1.39
Private	20.2	21.9	81.7	0.40	2.41
PSU	21.3	21.6	77.1	1.31	1.12

Business Indicator

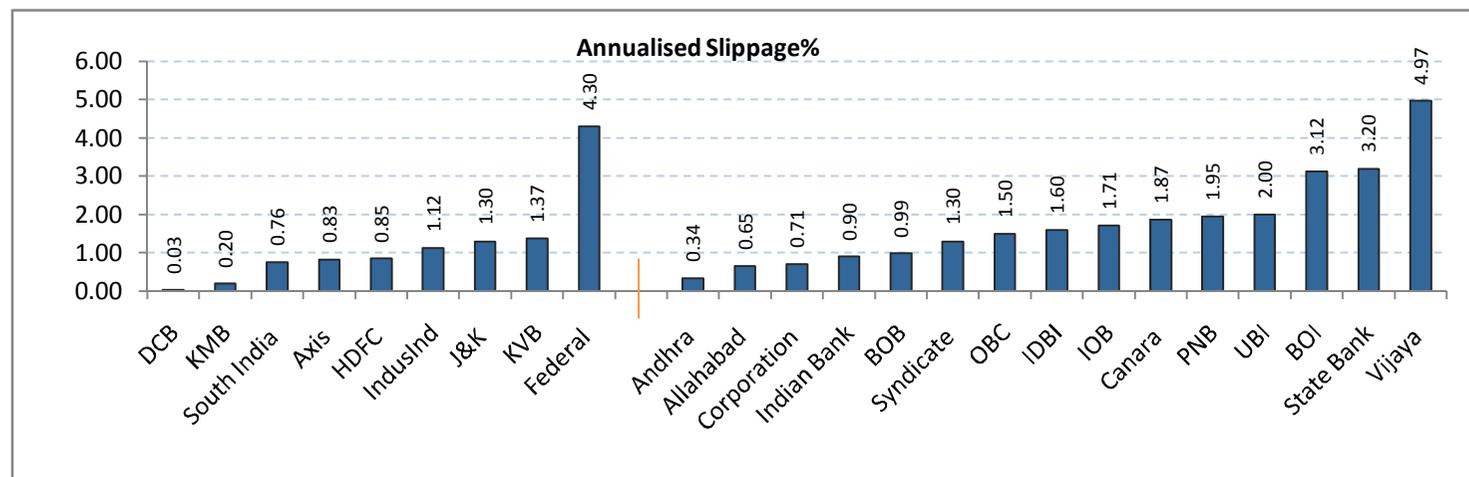
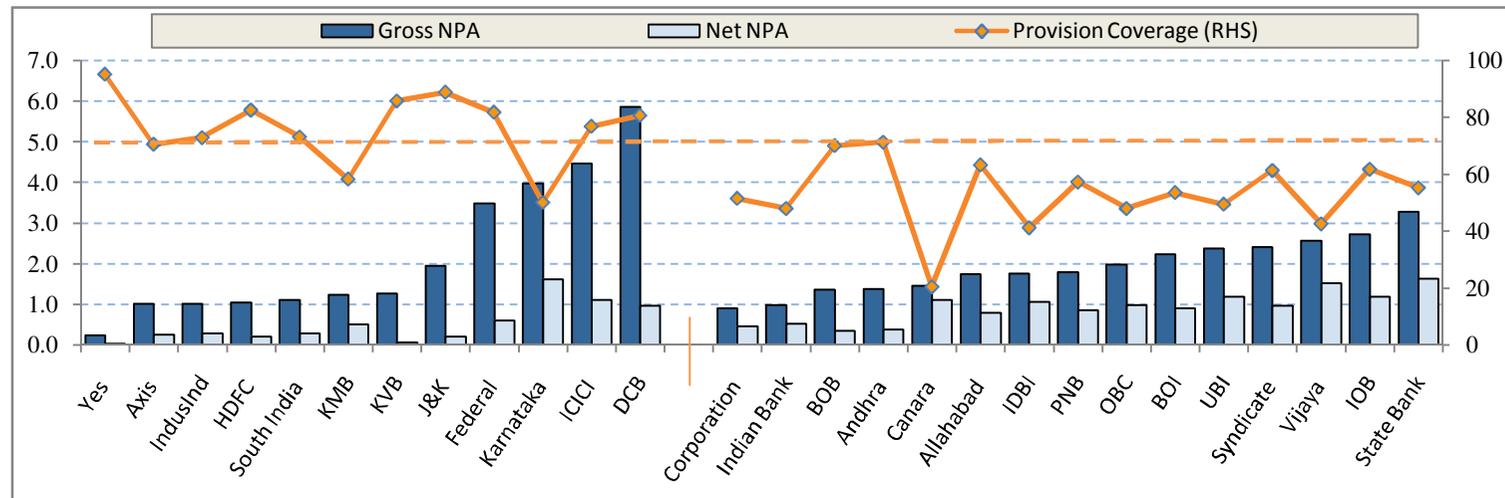
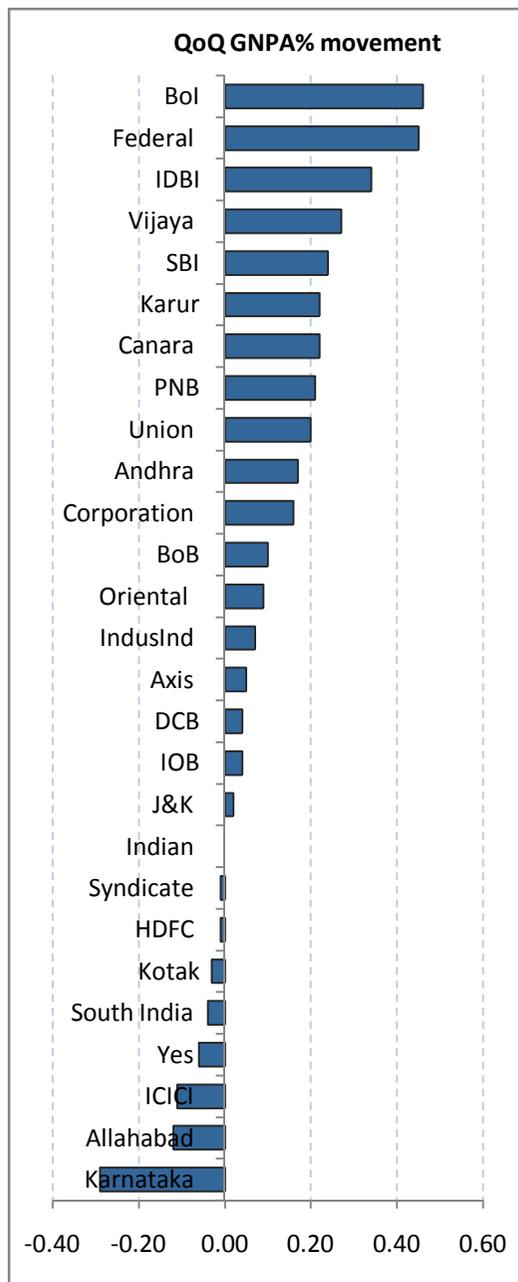
*Exclgd SBI 8.8%; **Exclgd SBI (2.5)

NIM Q1FY12



Efficiency Indicator

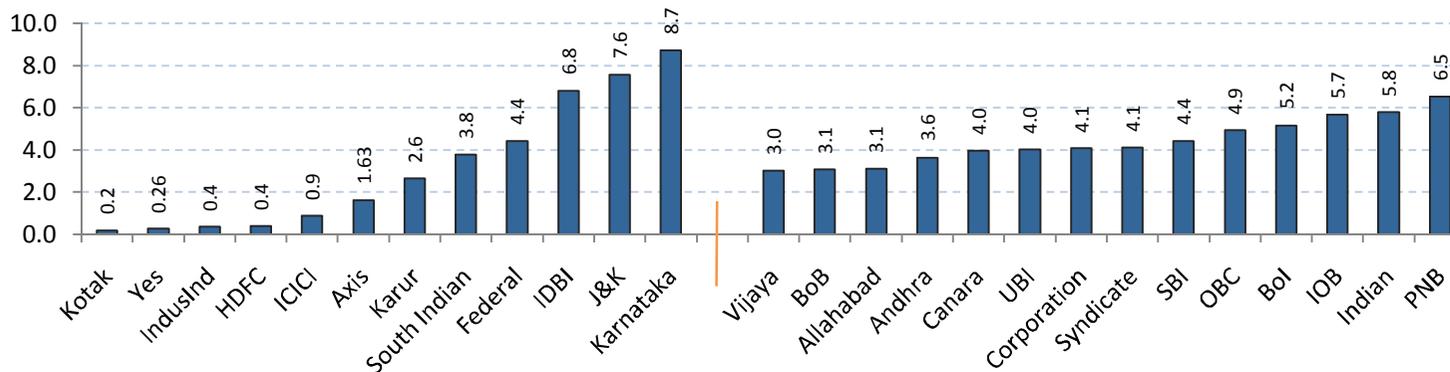
Averages	CTI	CASA	CASA/Branch (Rs in Crs)
Avg - 27	44.5	29.2	23.3
Private	47.6	30.5	27.3
PSU	42.0	28.3	20.2



Asset Health

Averages	Provision Coverage	Gross NPA	Net NPA	Provision Coverage LY
Avg - 27	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

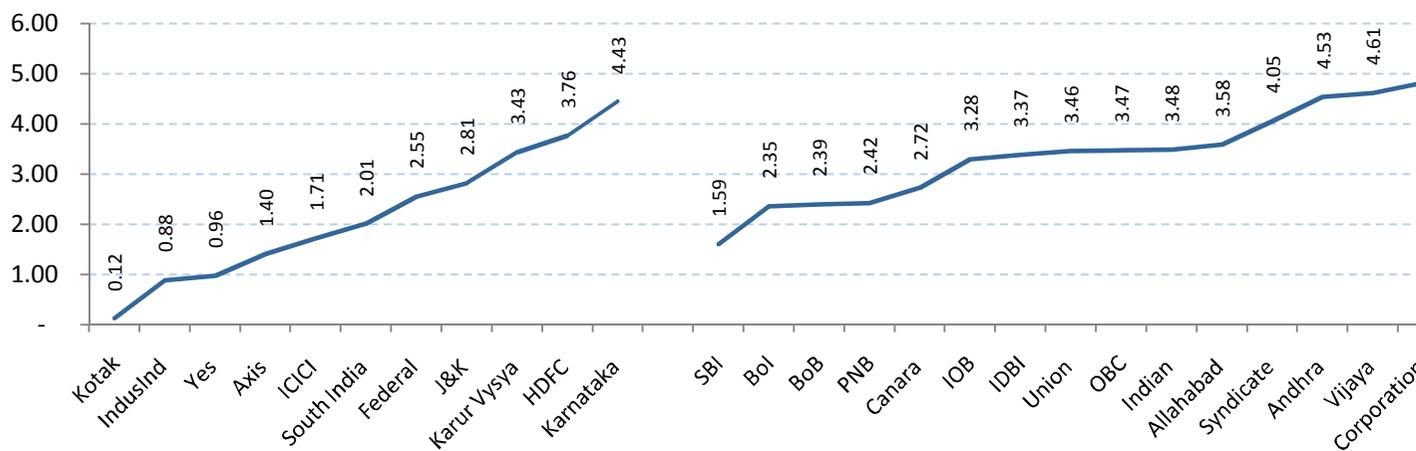
Restructured assets as a % of Advances



Even RBI is concerned over deteriorating asset quality of banks, but has ruled out any systemic risk as of now.

Slippages have been seen across sector, with SME and Agriculture loans contributing higher proportion due to the system based generation of NPA. More of these can come in the September quarter as well, as the banks finish their last leg of shifting to 100% system based NPA recognition.

Dividend Yield



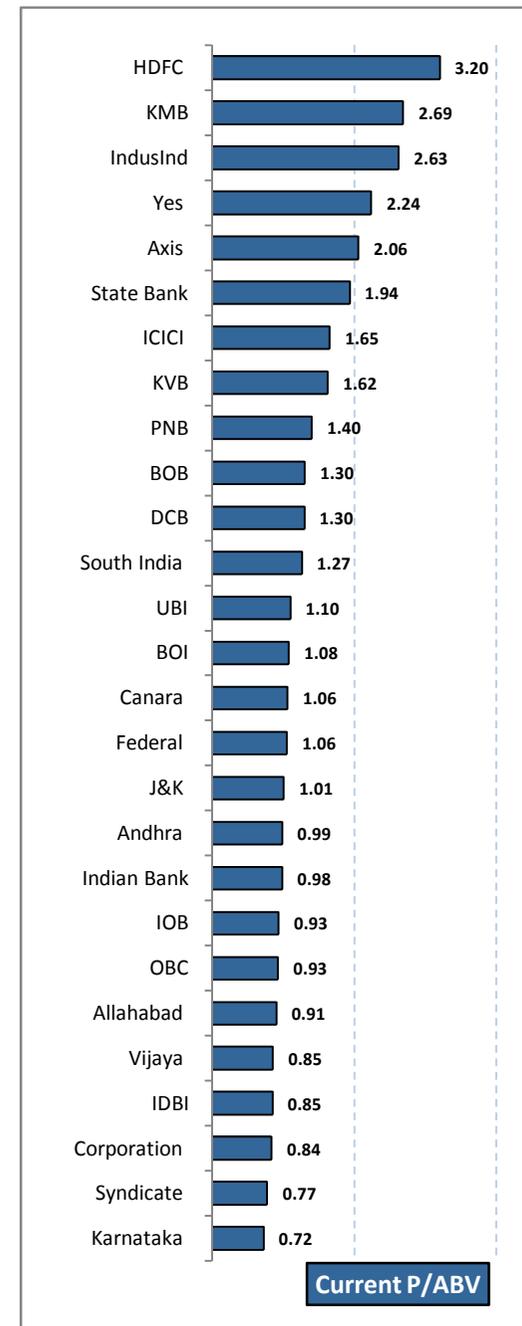
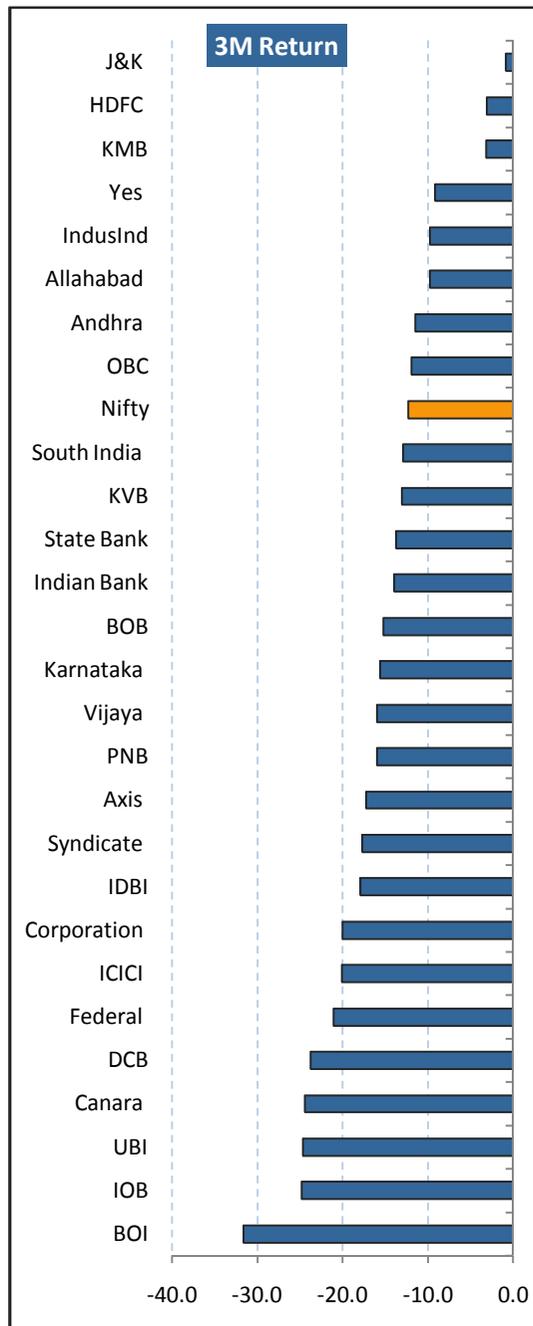
Falling prices have improved the dividend yields

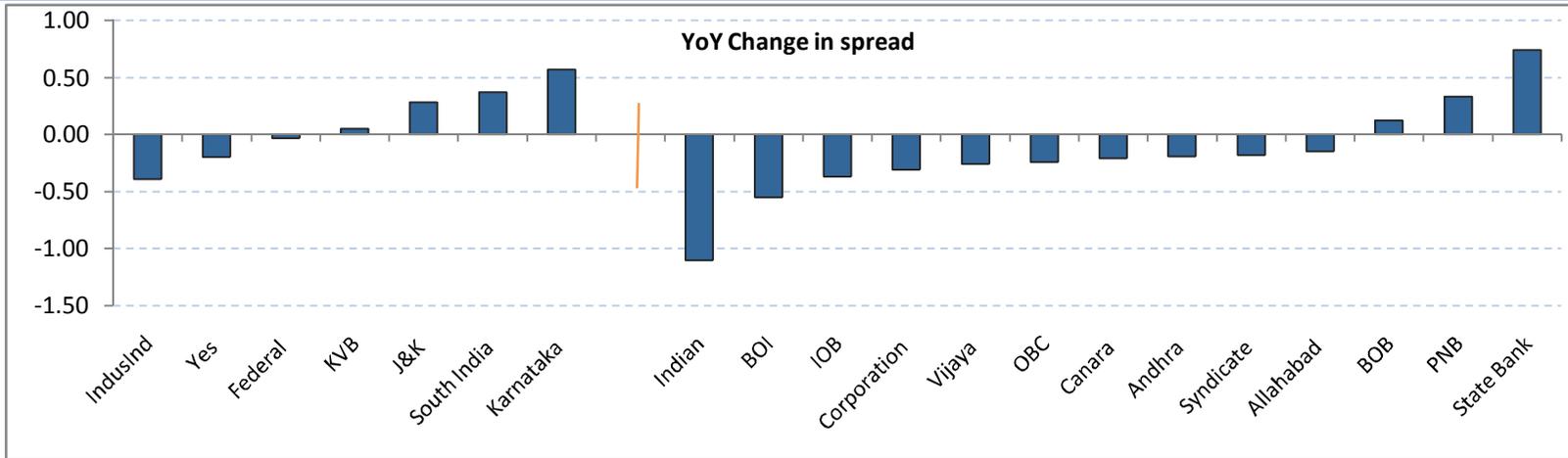
Averages	P/ABV	P/BV	PE	RoA (Q1 Ann)
Avg - 27	1.4	1.4	9.2	1.1
Private	1.8	1.8	13.3	1.3
PSU	1.0	1.1	5.9	0.9

Despite the negative sentiment, confidence in healthy banks (mainly top private) helped them hold their prices better while banks with weaker results have seen a harder fall. This will continue to create gap between them.

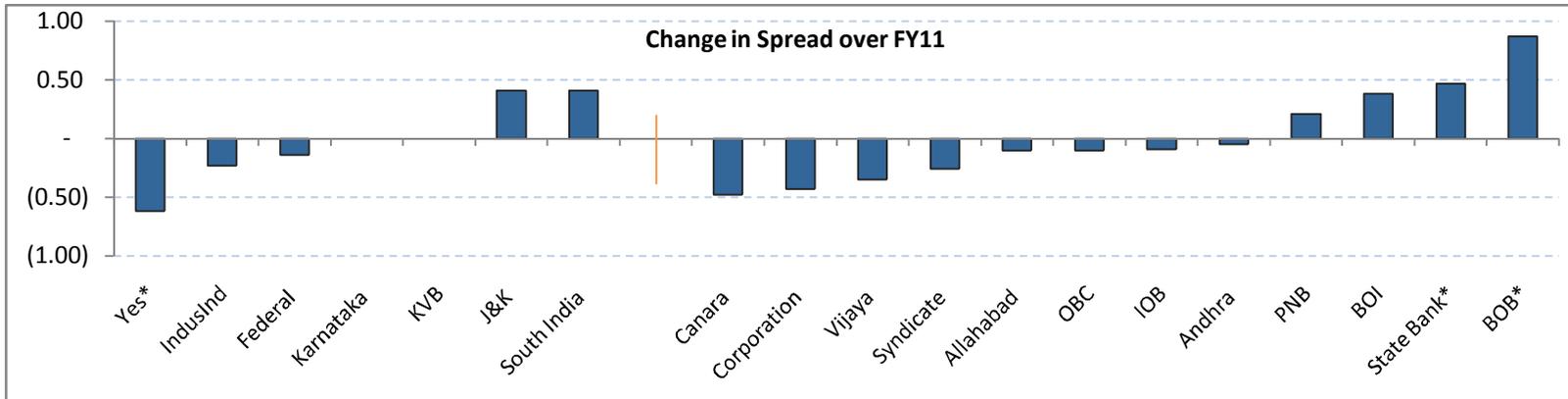
Adjusted book value is at 70% core coverage (without technical)
 Book value is as at end of Q1FY12
 PE is based on TTM EPS
 RoA is Q1FY12 Annualised
 CMP – 26th Aug 2011

Valuation Indicator

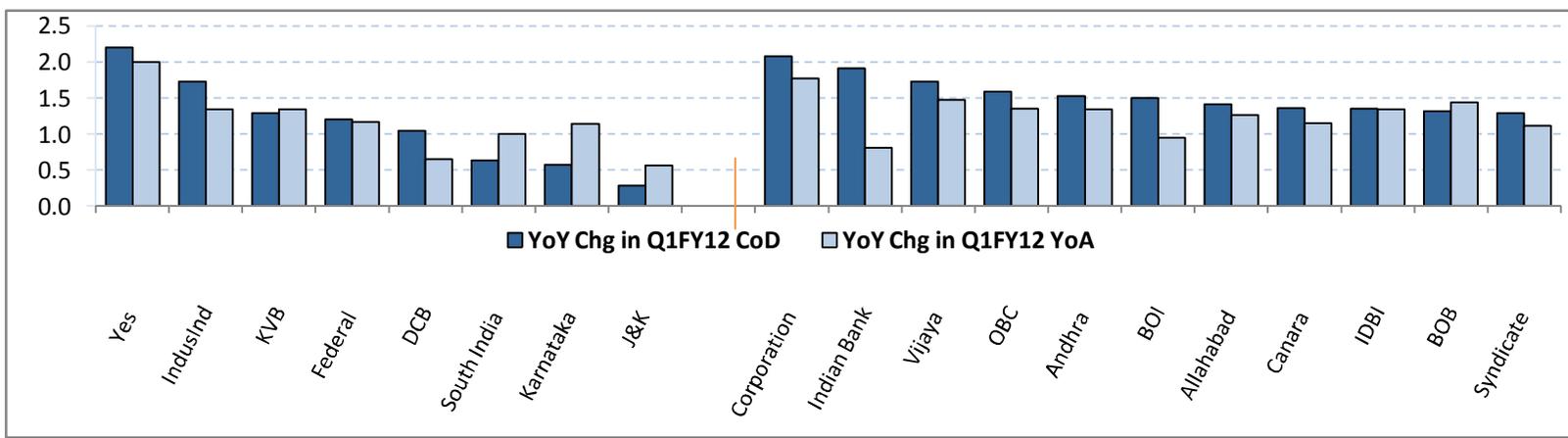




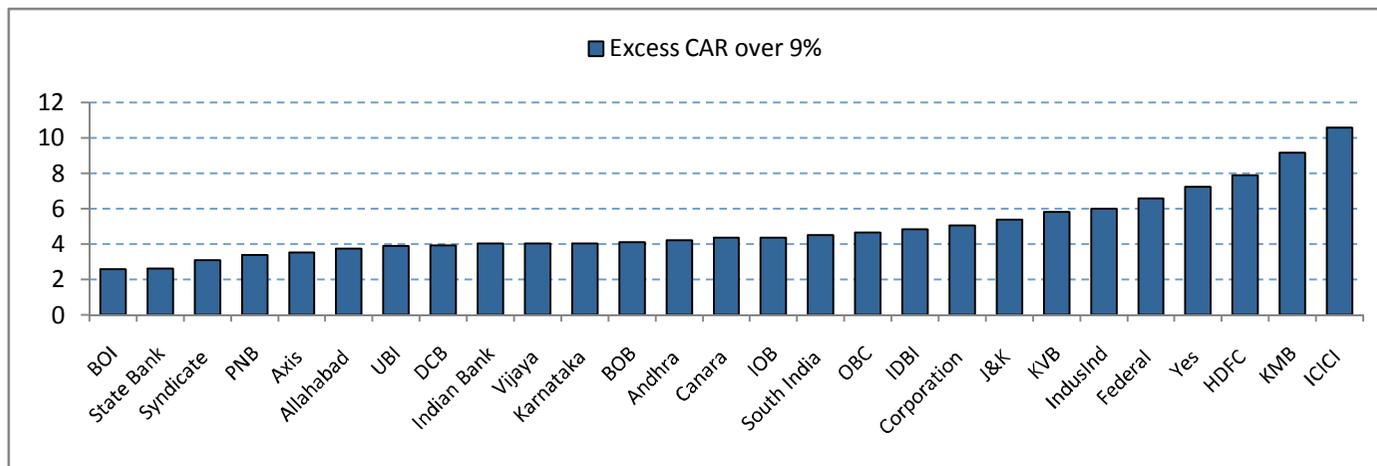
Lagged effect of re-pricing reduced the spreads of most of the them. Higher impact on PSU banks.



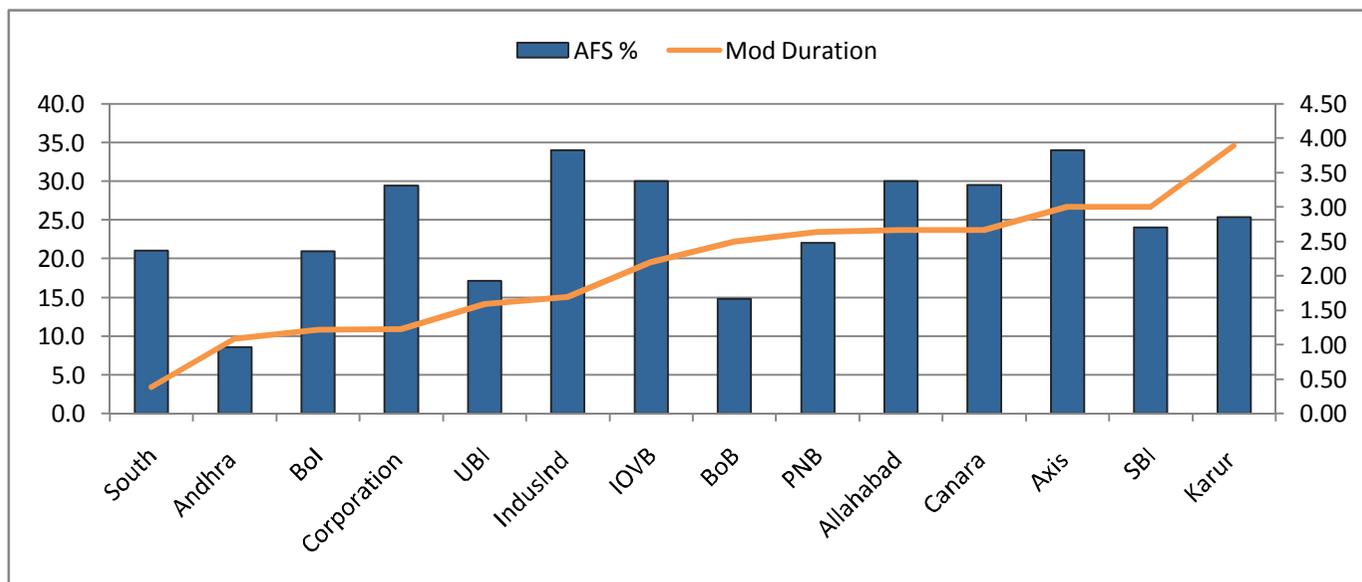
*Q4 spread used



Last year this quarter, the banks benefitted from the decreasing interest rates and this quarter they faced the rising rate pressure. But the base rate and efforts to maintain NIM reduced the impact.



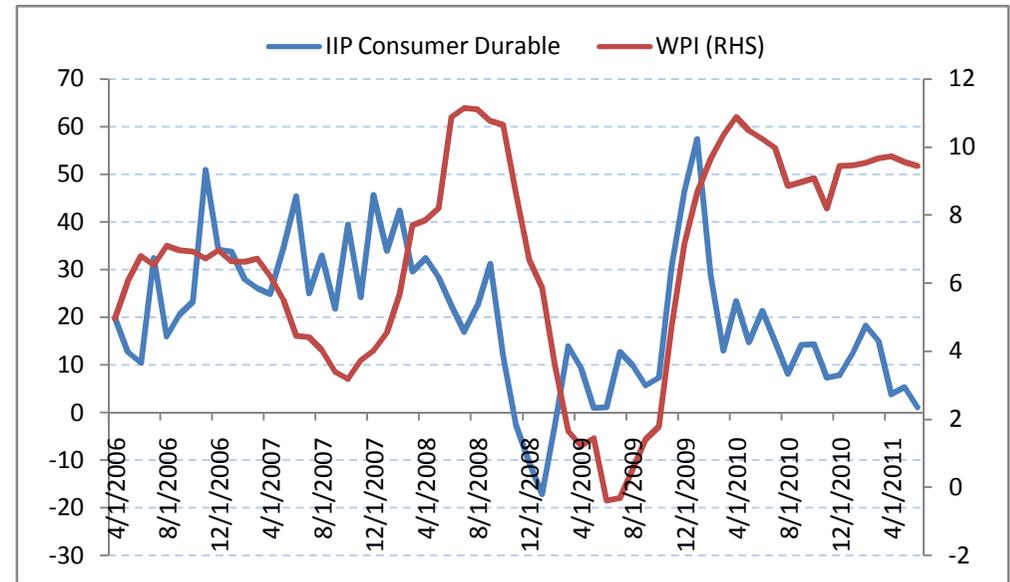
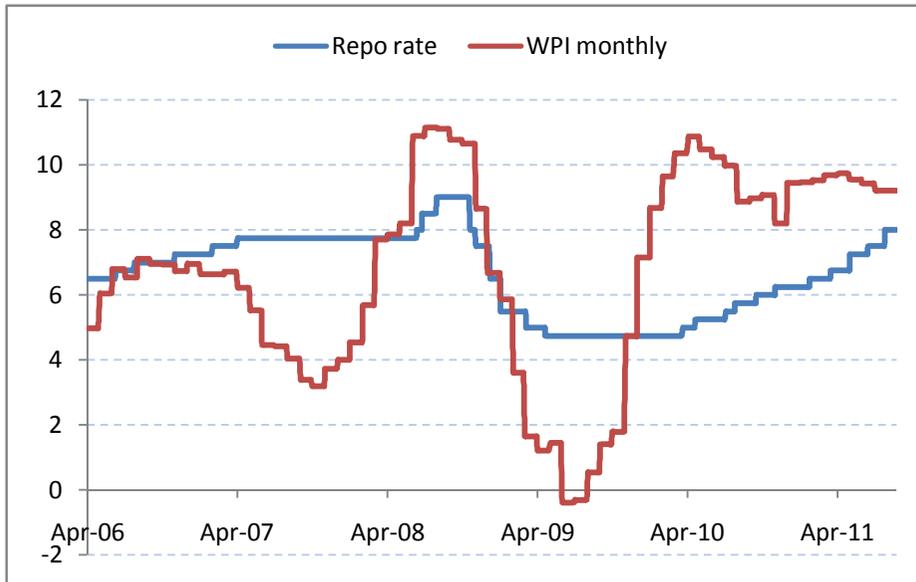
Healthy Capital Base is an added advantage in current market conditions



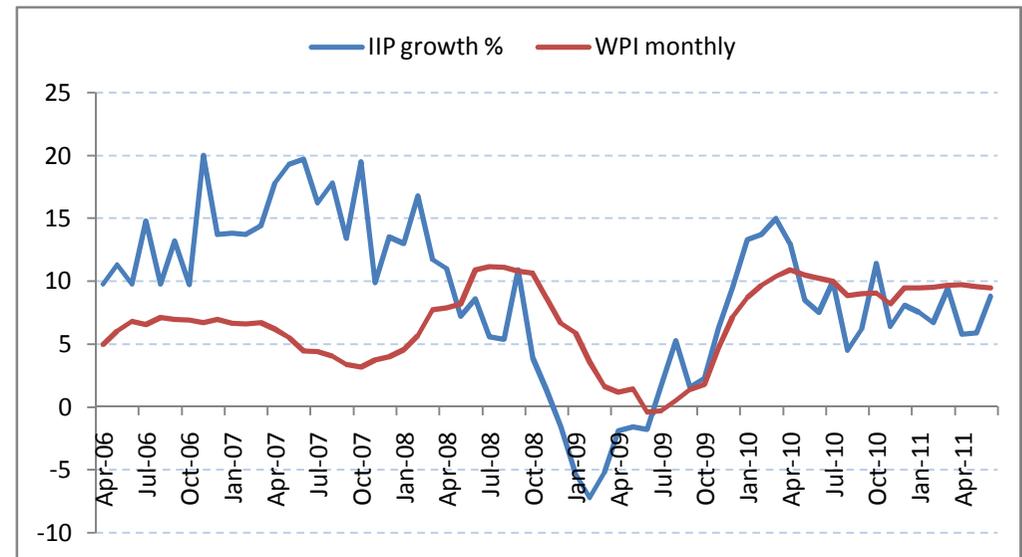
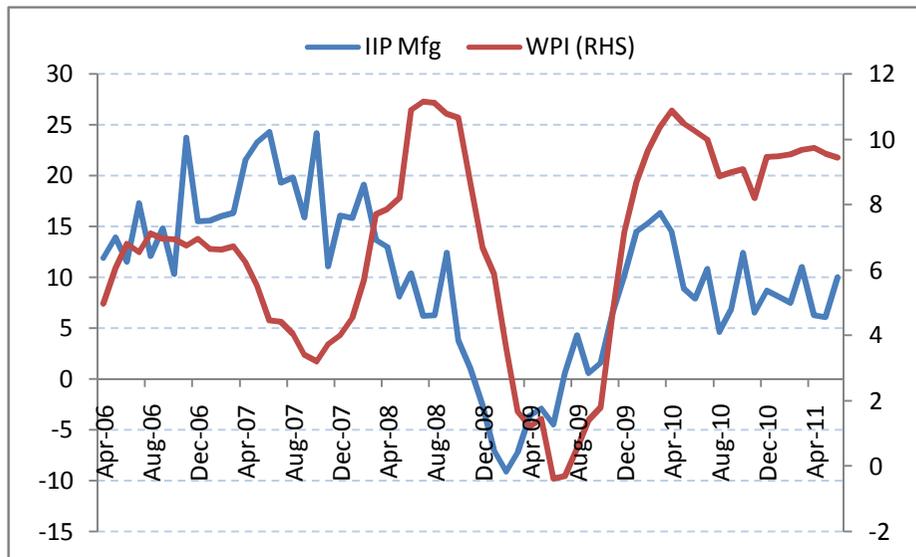
MTM Hit was recorded by most of the bank in Q1

Pension and Gratuity	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

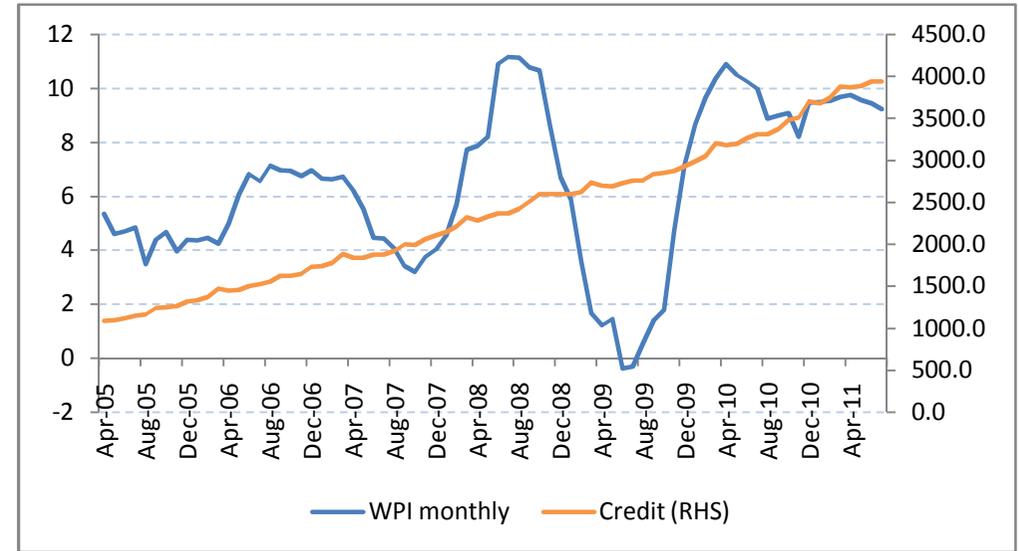
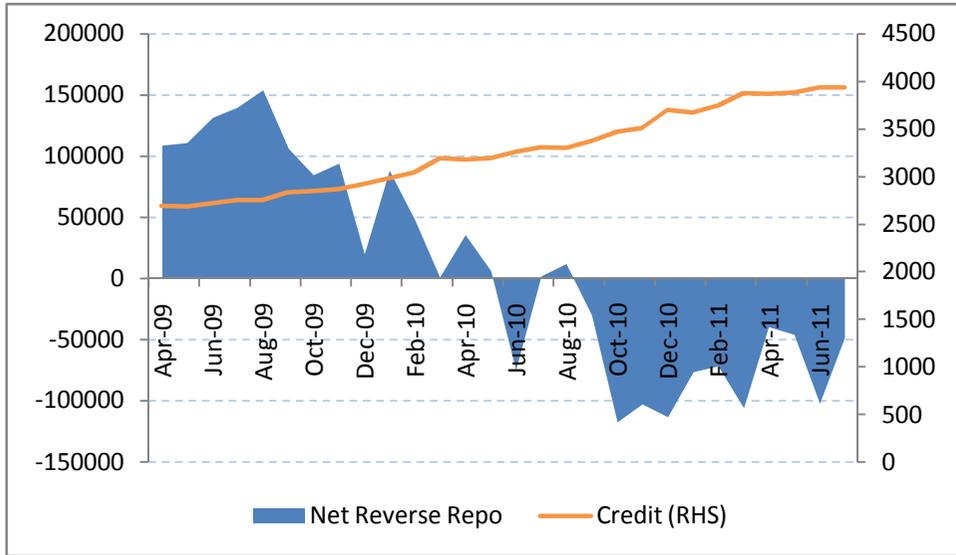
This will remain to be a slight pressure point for the PSU banks in coming time.



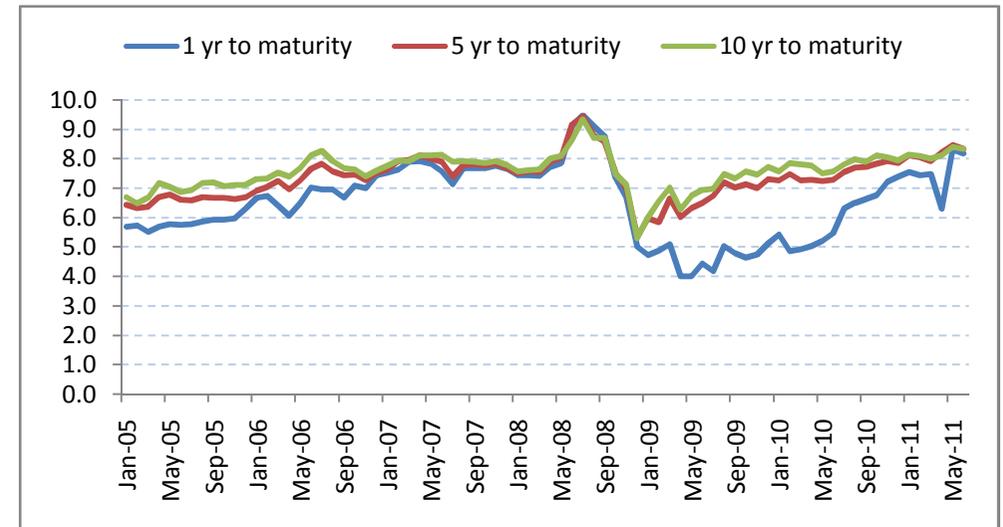
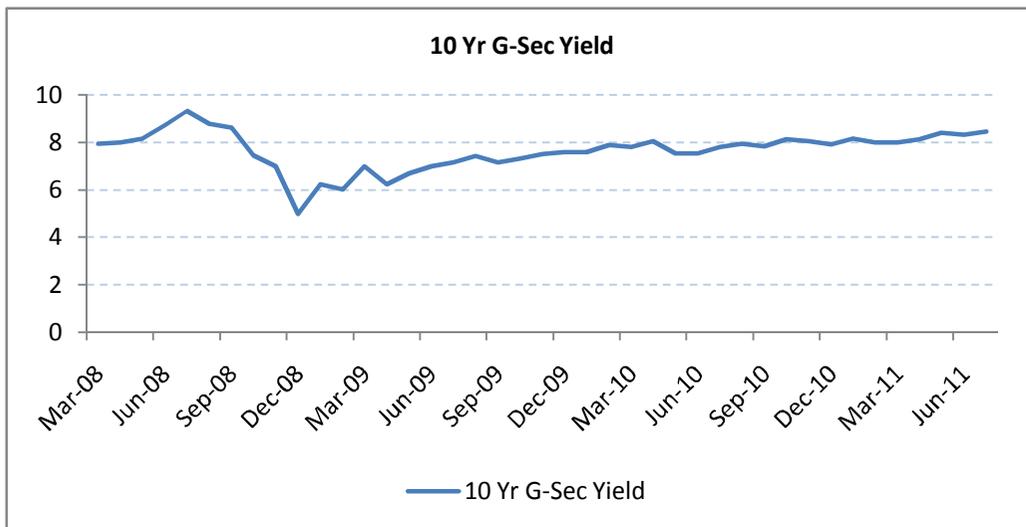
Repo rate hike could make insignificant impact on WPI leading to reduced consumption



Source – Bloomberg, RBI



Liquidity improved a little, but balance Govt borrowing, busy Q3 and Q4 and fiscal pressure may create pressure going forward. The bond yields upward move has moderated and may react before the policy review.



Source – Bloomberg, RBI

Aerial view of Q1'12 Performance

Amount in Cr

	CMP	Net Interest Income				PBPT			Net Profit			Deposit			Advance		
	26.8.11	Q1 '12	Q1 '11	% chg	Q1 '12	Q1 '11	% chg	Q1 '12	Q1 '11	% chg	Q1 '12	Q1 '11	% chg	Q1 '12	Q1 '11	% chg	
Allahabad bank	168	1176	850	38	890	705	26	418	347	20	133,818	108,320	24	98,740	75,718	30	
Andhra Bank	121	910	736	24	700	510	37	386	320	20	90,901	74,700	22	75,711	57,144	32	
Axis Bank	1000	1724	1514	14	1558	1450	7	942	742	27	183,597	147,479	24	131,900	108,604	21	
Bank of Baroda	691	2297	1858	24	1818	1528	19	1,033	859	20	312,943	254,668	23	232,340	185,595	25	
Bank of India	298	1841	1740	6	1396	1411	-1	518	725	-29	293,098	233,668	25	214,936	176,825	22	
Canara Bank	404	1793	1728	4	1270	1483	-14	726	1,013	-28	300,150	238,855	26	215,015	173,794	24	
Corporation Bank	416	708	657	8	576	620	-7	351	334	5	117,782	91,035	29	78,904	64,805	22	
DCB	42	52	43	20	17	23	-27	9	(3)	403	5,980	5,115	17	4,234	3,479	22	
Federal Bank	334	460	413	11	354	335	6	146	132	11	42,936	34,984	23	31,972	27,144	18	
HDFC Bank	439	2848	2401	19	2033	1749	16	1,085	812	34	211,151	183,033	15	176,964	147,620	20	
ICICI Bank	820	2411	1991	21	2234	2188	2	1,332	1,026	30	230,678	200,913	15	220,693	184,378	20	
IDBI	104	1152	844	36	1031	831	24	335	251	34	176,282	157,204	12	154,984	135,329	15	
Indian Bank	187	1030	904	14	781	838	-7	407	368	11	110,425	91,000	21	82,510	68,027	21	
Indian Overseas Bank	107	1188	906	31	803	382	110	206	200	3	151,173	109,461	38	119,148	82,951	44	
IndusInd Bank	227	390	296	32	312	231	35	180	119	52	35,264	27,382	29	28,384	21,608	31	
J&K Bank	784	437	366	20	316	288	10	182	145	25	43,078	37,629	14	26,403	23,035	15	
Karnataka Bank	90	154	113	36	107	76	42	50	46	7	27,552	23,970	15	18,087	14,470	25	
Karur Vysya Bank	350	205	171	20	165	130	27	117	84	38	25,178	20,274	24	18,526	14,191	31	
Kotak Mahindra Bank*	415	568	483	18	386	315	22	252	187	35	31,047	24,058	29	32,339	23,189	39	
Oriental Bank	300	1018	1057	-4	801	822	-3	355	363	-2	144,554	123,057	17	98,216	86,098	14	
Punjab National Bank	909	3115	2598	20	2474	2098	18	1,105	1,068	3	324,097	255,335	27	242,908	196,870	23	
South India Bank	20	205	167	22	143	104	37	82	58	41	31,622	23,251	36	22,151	16,909	31	
State Bank	1888	9700	7304	33	7242	6134	18	1,584	2,914	-46	950,072	815,297	17	788,153	663,828	19	
Syndicate Bank	91	1110	964	15	743	587	26	343	265	29	132,889	108,560	22	110,547	94,062	18	
Union Bank	231	1590	1348	18	1166	1044	12	464	601	-23	199,178	171,484	16	145,567	124,743	17	
Vijaya Bank	54	423	445	-5	326	314	4	72	173	-58	75,877	62,673	21	51,130	41,948	22	
Yes Bank	259	354	262	35	325	249	31	216	156	38	43,576	30,239	44	33,104	26,257	26	

* 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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