



Q2'11 – Good Core Performance

We have briefly analysed the Q2'11 results for an array of 27 major banks (including 12 private banks). These banks have been compared on select parameters, with collected from the press releases, presentations available in public domain and interactions with the spokesperson of banks.

Observations

- **Overall** - Overall banking results kept the interest in the sector alive as they reported good numbers with few exceptions.
 - PSU banks – Strong top-line growth, Higher provision and employee expense hit, Slower business growth, sustained CASA, Increase in Slippage, reduction in core provision coverage, improved NIM's.
 - Private Banks – Good top line (excepting ICICI), Strong bottom line, Controlled provision hit, steady business growth, sustained CASA, control in slippage, increase in core provision coverage, stable NIM.
- **Profits Growth Reasonably Strong** –
NII growth was robust at 45% but with the decreased trading gains and increased employee expenses and provisions, the bottom line growth was restricted to 2%. The NII growth was best for PSU banks but the bottom line was best for private banks. QoQ the bottom line was flat overall. In PSU banks net profit growth was best for Bank of India, IDBI and Bank of Baroda. In Private it was DCB, Karnataka and Indusind.
- **Business Growth Sluggish** –
Credit growth for the sector as well as PSU banks remained sluggish in the first half of the year; however the private banks continued to report better growth (YoY growth without considering ICICI Bank) on a YoY as well as YTD basis. The deposit growth remained slower. The CD ratio gap between PSU and private banks narrowed. Amongst Private, Yes bank and in PSU, Allahabad bank has seen the highest credit growth on YTD basis.
- **Margins Improved YoY as well as QoQ**–
YoY **NIM expanded** yet again in this quarter for almost all the banks with the average NIM improving from 2.8% to 3.4%; better improvement logged by private banks. This happened on the back of lower cost due to re-pricing of funds, slowdown in deposit growth as well as improvement in yield on investments. Sequentially the NIM dipped marginally for private banks while increased by 20 bps for the PSU pack. The best performers were IDBI, SBI and syndicate bank.
- **Low Cost Deposit Ratio Improved** –
Due to slower deposit expansion and better marketing initiatives, **CASA ratio improved** for almost all the banks and the average increased from 29.8% to 31%. The average PSU and Private bank CASA ratio remained the same YoY indicating that the PSU banks are getting very competitive and aggressive and continue to maintain their share despite slow deposit growth.
- **Asset Quality Improved** –
Overall the gross NPA remained nearly flat at 2.28% as against 2.32% in June quarter. While 67% of the banks have reported stable to better ratio, PSU banks (UBI, Allahabad, Andhra, SBI, Vijaya, PNB and Canara) reported an increase. Default in Agriculture debt waiver scheme hit banks like SBI, UBI, Allahabad and Oriental. Few banks like BoB had provided for the same in the last year itself. The overall restructured assets dropped from 4% to 3.8% of gross advances but a moratorium period ended for most of the cases, the banks began to report slippages from the portfolio.

- **Provision Coverage-**

Almost all Private Banks improved their 'core' provision coverage on a YoY basis but on a QoQ basis it came down from 75% to 72%. Most of the PSU banks reduced the core coverage cushion on a YoY as well as QoQ basis and were at 53%. However all banks are adequately covered as per the RBI norm excepting State Bank, Vijaya and IOB who have another 6 months to a year to reach the 70% limit. Sequentially the coverage was increased the most by private banks like Kotak and ICICI followed by PSU like Vijaya and SBI.

- **Efficiency Improved –**

Last year this quarter saw good trading gains and MTM write backs which were nearly absent this quarter. Despite this fall in other income and increase in employee related cost, the healthy growth of core income helped in **improving the average cost to income** from 46.7% to 44.7%. Sequentially the Cost to Income ratio was flat for both the PSU as well as private sector. The improvement was substantial for banks like Syndicate, IOB.

- **Capital Adequacy –**

As the banks can consider only audited profits for the calculation of CRAR ratio, banks reported an extra drop in the ratio sequentially. Banks like IDBI, IndusInd, Kotak and Yes which infused fresh capital in the quarter through promoter contribution or private placements showed higher capital adequacy. PSU banks like Andhra, Union, IOB, Syndicate, Bank of Baroda etc are waiting to get Capital from Govt, while few banks like SBI, Karnataka and Karur Vysya are looking to tap the secondary market through rights issue.

Conclusion

Though the brightest sector in the market, liquidity fluctuation in the economy make banking quite volatile - Shortage in 2008-09, followed by abundance in 2009-10. Now there is a picture emerging of shortage as the deposit growth slows down and the credit demand is expected to pick up. Banks have already hiked the rates to attract deposits and at the same time also the base rate as well as BPLR. The interest rates continue to show an upward bias but the pace may be really measured and depend solely on the demand pick-up. Post the transition to base rate circumstances have become more competitive and trade off between yield and risk is stronger. All this is expected to keep the margins near stable (with downward bias) for the current year.

The credit growth in first half for our pack was at 9.1% and second half is expected to be better in terms of demand. Last year the credit growth in second half was lull for nearly 30% of the banks which reported single digit growth. Any further slowdown in credit growth and asset quality deterioration will be the two main concerns for the banking sector. However we remain positive on the banking sector and feel that the strong banks with consistent track record and healthy fundamentals should be accumulated in all falls. At present the Tier II banks still leave upside potential. But with valuations remaining at near all time high, it will easily call for profit booking at smallest trigger. It is advisable to buy only at dips.

Valuations bets – J&K, Syndicate, Karnataka, Federal, Allahabad, Andhra, Karur Vysya.

Fundamental bets –Axis, Andhra, Bank of Baroda, Corporation, HDFC Bank, ICICI, IDBI, Karur Vysya, PNB, State Bank, Yes.

		Top		Bottom	
		I	II	I	II
Quarterly Results – Q2FY11					
1	NII Growth	IDBI	Karnataka	ICICI	South India
2	PBPT Growth	Karnataka	Syndicate	ICICI	South India
3	NP growth	DCB	BOI	UBI	SBI
4	YOY NIM growth	Karnataka	IDBI	KMB	Yes
Business					
5	Deposits growth	Yes	KMB	Syndicate	Vijaya, IOB, Federal
6	Advances growth	Yes	HDFC	ICICI	Vijaya
7	CD Ratio	Kotak	ICICI	J&K	Karnataka
8	Incremental QoQ CD ratio	IDBI	Allahabad	Vijaya	J&K
9	Incremental YoY CD ratio	Syndicate	Federal	ICICI	J&K
10	CAR	ICICI	Kotak, Yes	Karnataka	Syndicate
11	CTI	Federal	J&K, Yes	DCB	Karnataka
12	CASA	HDFC Bank	SBI, ICICI	Yes	IDBI
13	CASA/branch	Axis	HDFC Bank	South India	Karnataka, Vijaya
14	YoY CASA Ratio growth	Syndicate	Corporation	DCB	Andhra, Axis
Asset Quality					
15	Gross NPA%	Yes	Andhra	DCB	ICICI
16	Net NPA %	Yes	J&K	DCB	IOB
17	Core Provision Coverage	J&K	KVB	Canara	IDBI
18	YoY Change in GNPA%	DCB	Kotak	UBI	Federal
19	YoY Change in NNPA%	DCB	Kotak	UBI	Indian
Valuation					
20	ROA (H1 Ann)	KMB	KVB	DCB	Karnataka
21	P/BV	J&K, IOB	Karnataka, Syndicate	HDFC	IndusInd
22	P/ABV	J&K	Karnataka	HDFC	IndusInd
23	PE	IOB	IDBI	ICICI	HDFC

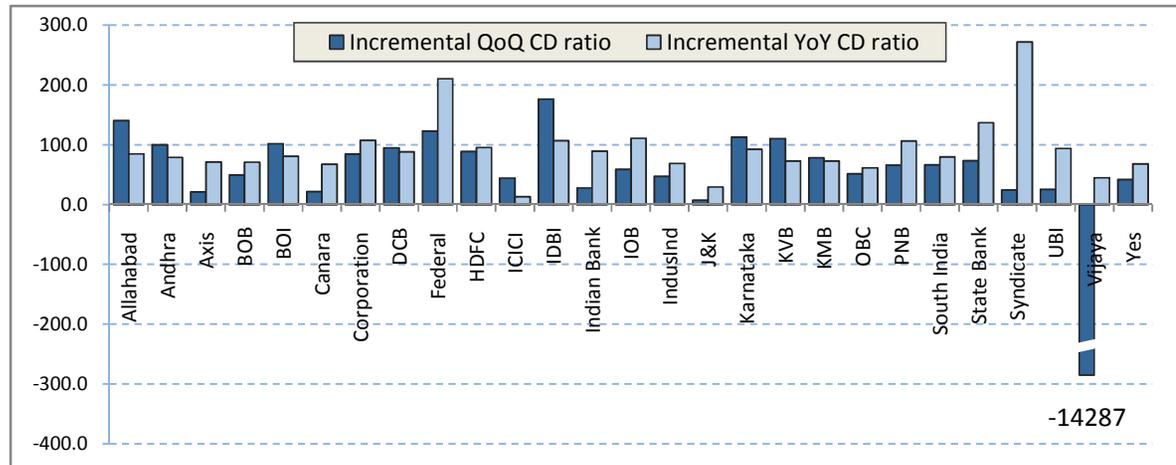
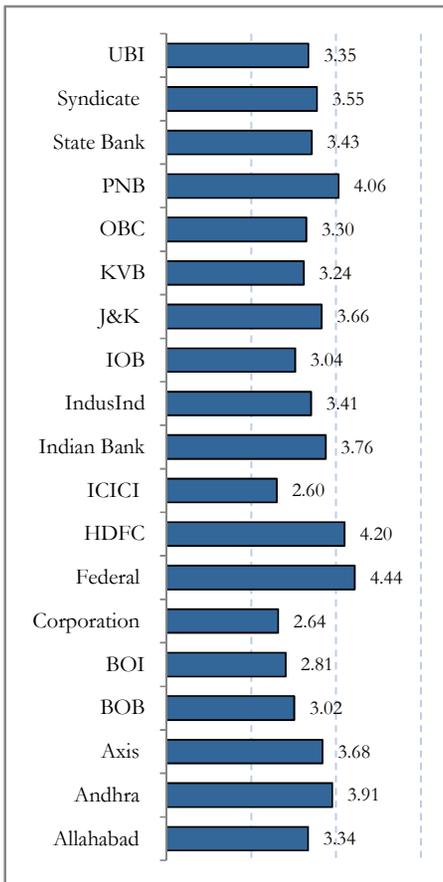
Averages	NII Growth	GP Growth	NP growth	NIM growth%
Avg -All	44.5	25.8	20.8	25.8
Private	28.5	10.2	31.3	21.0
PSU	50.7	32.7	16.9	30.0

Profitability Indicator

Averages	Deposits growth	Advances growth	CD ratio	YTD Dep Growth	YTD Adv Growth
Avg - All	18.9	22.6	76.6	9.3	11.3
Private	26.8	23.4	78.3	4.7	7.4
PSU	16.9	22.4	76.1	14.1	14.0

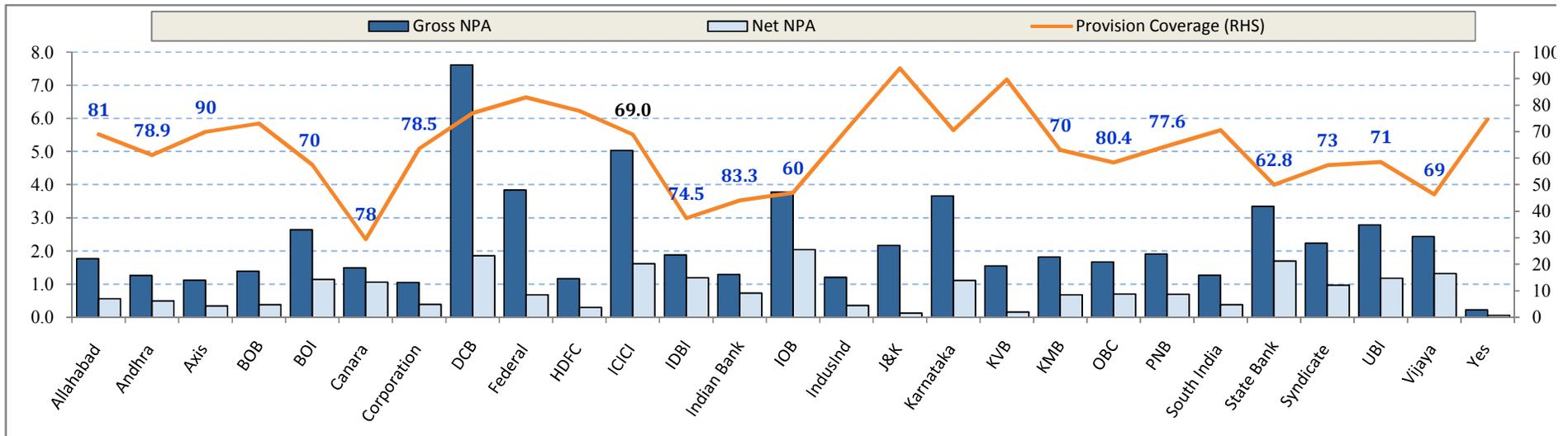
Business Indicator

NIM Q2FY11

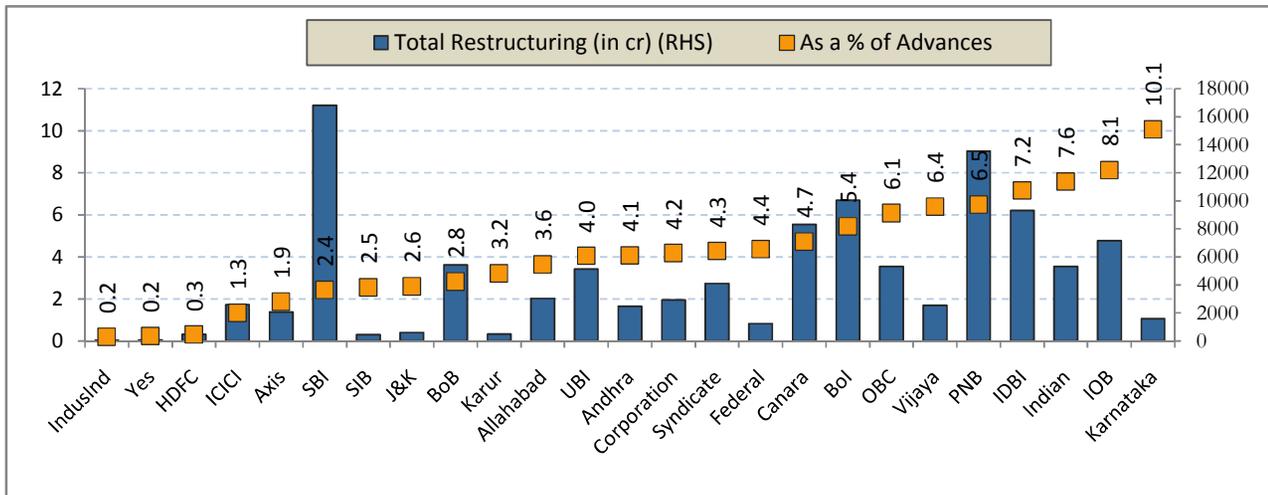


Efficiency Indicator

Averages	CTI	CASA	CASA/Branch (Rs in Crs)
Avg - All	44.4	30.9	25.55
Private	47.0	30.8	27.30
PSU	42.3	30.9	24.10



Data Labels above indicate the coverage as per RBI Norm



Averages	Provisi on Covera ge	Gross NPA	Net NPA	Pr o Co ve
Avg - All	51.62	2.07	0.84	
Private	75.0	2.68	0.75	
PSU	55.3	2.03	0.95	

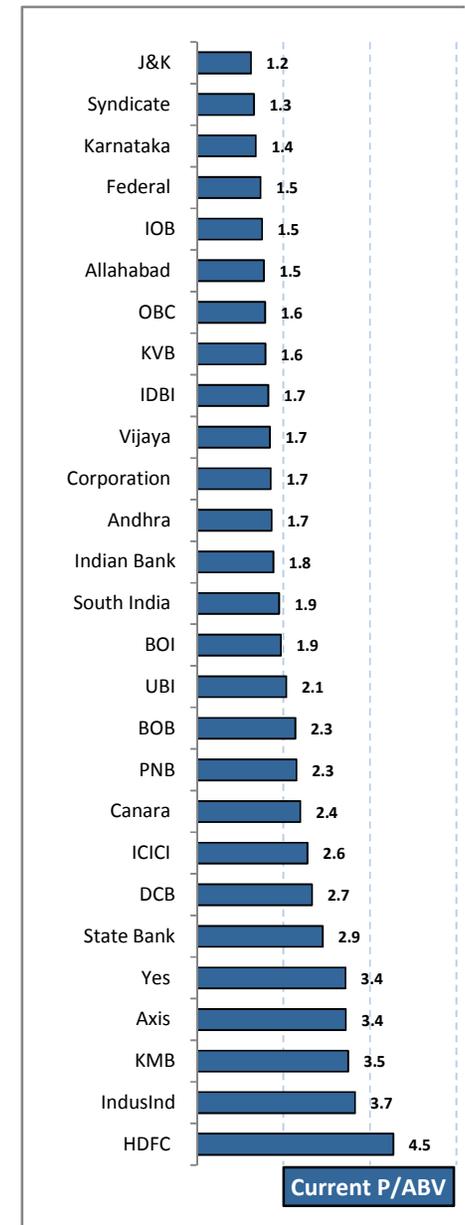
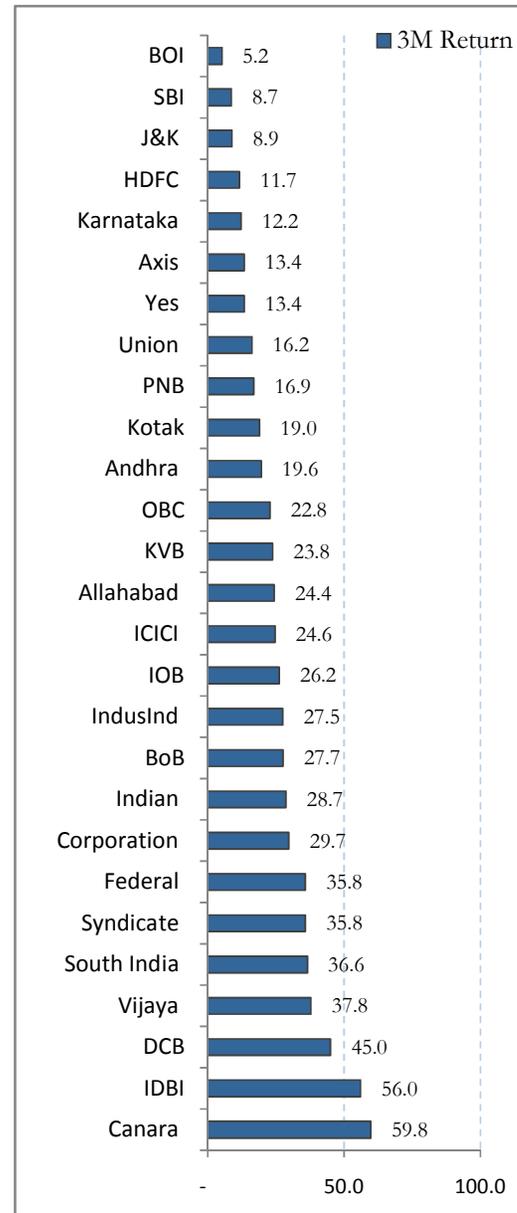
Asset Health Indicator

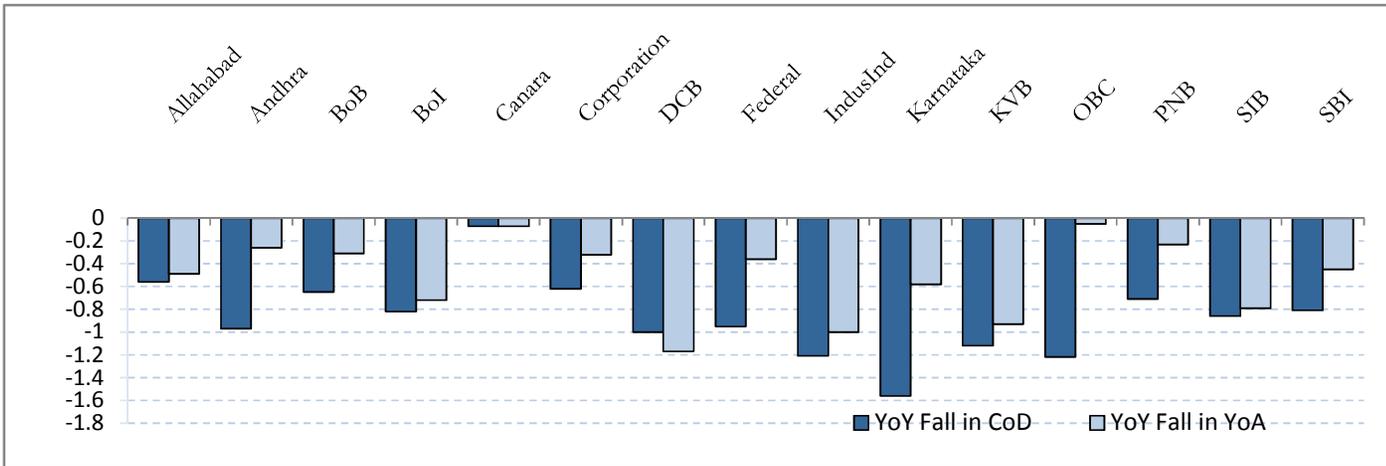
Averages	P/ABV	P/BV	PE	RoA (H1 Ann)
Avg - All	2.2	2.2	14.4	1.1
Private	2.6	2.6	20.9	1.2
PSU	1.8	1.9	9.7	1.1

Adjusted book value is at 70% coverage
 Book value is as at end of Q2FY11
 PE is based on TTM EPS
 RoA is half yearly annualized
 CMP – 12th Nov 2010

Tier II Banks continue to catch with the valuation gap with the large caps. Banks which were hitherto weak like DCB, Karnataka, IDBI etc, are now responding to revival measures; giving a scope for re-rating.

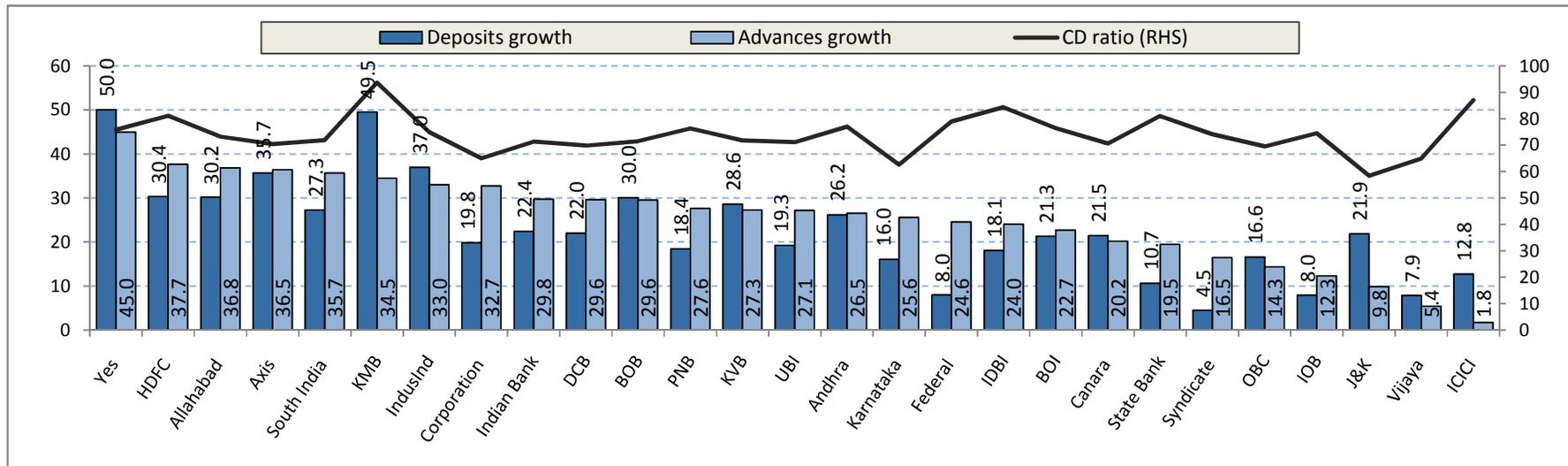
Valuation Indicator

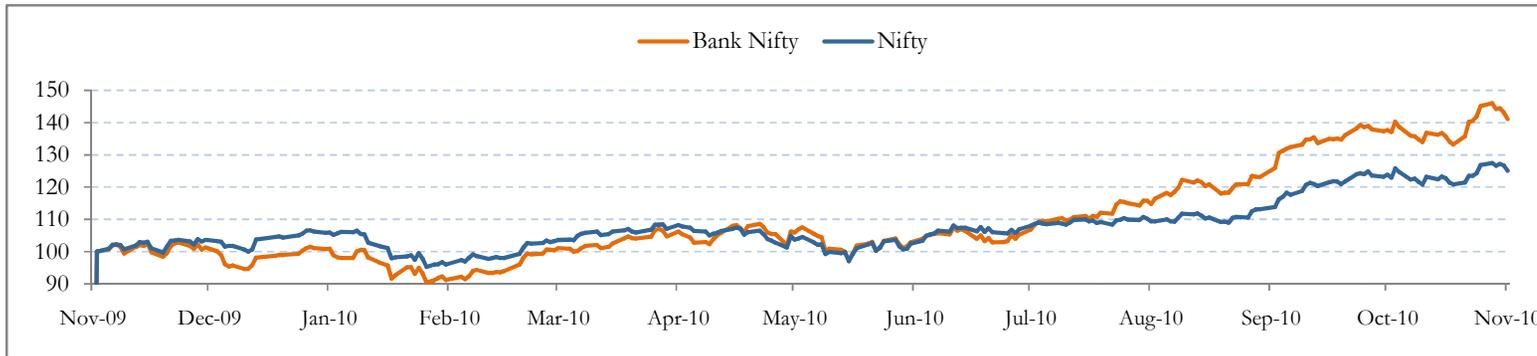




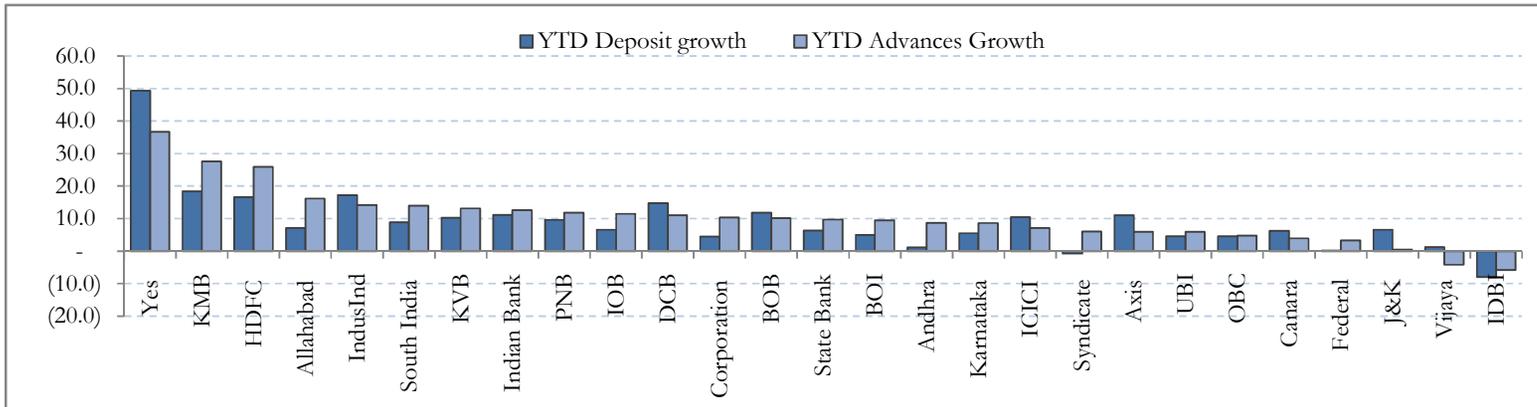
*YoY Fall In Interest Rate Continued With Clear Indication Of A Rise In Future
QoQ many banks saw an increase in cost as well as Yields*

Business Growth and Pace in descending order of Advance Growth

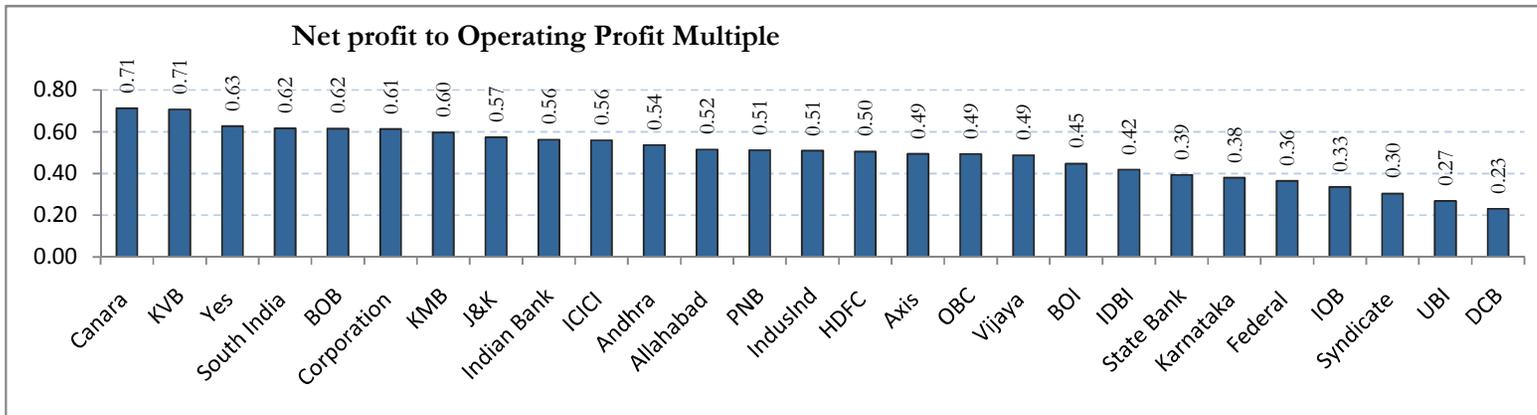




Banking – The Shining Sec



Slow Moving Deposit an Advances Growth - Second half YTD credit growth for the sector as whole was as low as 5.5% while for our pack it stands at 9.1%



The operating profit came by an average of 50 per cent due to provisions and tax

Aerial view of Q2'11 Performance

Amount in Cr

	CMP	Net Interest Income			PBPT			Net Profit			Deposit			Advance		
	16.11.10	Q2 '11	Q2 '10	% chg	Q2 '11	Q2 '10	% chg	Q2 '11	Q2 '10	% chg	Q2 '11	Q2 '10	% chg	Q2 '11	Q2 '10	% chg
Allahabad bank	258	969	603	61	782	650	20	969	603	61	782	650	20	83183	60794	37
Andhra Bank	177	783	515	52	565	453	25	783	515	52	565	453	25	61020	48182	27
Axis Bank	1,469	1615	1150	40	1486	1306	14	1615	1150	40	1486	1306	14	110593	81044	36
Bank of Baroda	972	2038	1389	47	1657	1032	61	2038	1389	47	1657	1032	61	192959	148919	30
Bank of India	474	1776	1409	26	1380	1206	14	1776	1409	26	1380	1206	14	184377	150238	23
Canara Bank	776	2003	1314	52	1416	1329	7	2003	1314	52	1416	1329	7	176071	146456	20
Corporation Bank	743	715	504	42	573	536	7	715	504	42	573	536	7	69,780	52,568	33
DCB	68	46	31	48	21	16	34	46	31	48	21	16	34	3,840	2,962	30
Federal Bank	457	438	330	33	385	303	27	438	330	33	385	303	27	28,535	22,907	25
HDFC Bank	2,373	2526	1956	29	1807	1593	13	2526	1956	29	1807	1593	13	158512	115104	38
ICICI Bank	1,202	2204	2036	8	2212	2435	-9	2204	2036	8	2212	2435	-9	194201	190860	2
IDBI	186	1168	464	152	1026	637	61	1168	464	152	1026	637	61	130213	104993	24
Indian Bank	288	983	714	38	739	554	33	983	714	38	739	554	33	69973	53919	30
Indian Overseas Bank	157	956	785	22	616	472	30	956	785	22	616	472	30	88072	78418	12
IndusInd Bank	283	330	209	58	262	155	69	330	209	58	262	155	69	23452	17633	33
J&K Bank	886	373	244	53	284	221	29	373	244	53	284	221	29	23183	21108	10
Karnataka Bank	185	139	55	151	76	7	1042	139	55	151	76	7	1042	15683	12487	26
Karur Vysya Bank	503	174	139	25	145	114	27	174	139	25	145	114	27	15269	11995	27
Kotak Mahindra Bank*	482	544	436	25	327	249	31	544	436	25	327	249	31	26507	19704	35
Oriental Bank	479	1077	561	92	806	505	60	1077	561	92	806	505	60	87500	76527	14
Punjab National Bank	1,320	2977	1992	49	2100	1606	31	2977	1992	49	2100	1606	31	208764	163559	28
South India Bank	26	197	165	19	125	134	-7	197	165	19	125	134	-7	18,029	13286	36
State Bank	3,081	8115	5609	45	6357	4835	31	8115	5609	45	6357	4835	31	693,224	580237	19
Syndicate Bank	156	1108	597	85	778	380	105	1108	597	85	778	380	105	95,914	82,359	16
Union Bank	377	1536	890	73	1131	810	40	1536	890	73	1131	810	40	126423	99430	27
Vijaya Bank	105	487	365	34	296	234	26	487	365	34	296	234	26	39,805	37,763	5
Yes Bank	332	313	176	78	281	192	47	313	176	78	281	192	47	30348	16294	86

* 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
- PSU banks – Public Sector Banks
- SCB – Scheduled Commercial Banks
- TTM – Trailing Twelve Months

ARIHANT - Research Desk

For more information contact: research@arihantcapital.com

Tel: 022-42254832/34

Head Office

3rd Floor, Krishna Bhavan,
Opp. Green House Restaurant,
67, Nehru Road, Vile Parle (East),
Mumbai-400057.
Tel: (91-22) 42254800
Fax: (91-22) 42254880

Registered Office

Arihant House,
E-5, Ratlam Kothi,
Amit Apartment,
Indore- 452003, (M.P.)
Tel: (91-731) 2519610
Fax: (91-731) 2519817

Disclaimer: Arihant capital markets limited is not soliciting any action based upon it. This document has been prepared and issued on the basis of publicly available information, internally developed data and other sources believed to be reliable. However we do not represent that it is accurate or complete and it should not be relied upon such. Whilst meticulous care has been taken to ensure that the facts stated are accurate and opinions given are fair and reasonable, neither the analyst nor any employee of Arihant is in any way responsible for its contents. The firm or its employees may trade in investments, which are the subject of this document or in related investments and may have acted upon or used the information contained in this document or the research or the analysis on which it is based. Before its publication the firm, its owners or its employees may have a position or be otherwise interested in the investment referred to in this document. This is just a suggestion and the firm or its employees will not be responsible for any profit or loss arising out of the decision taken by the reader of this document. No matter contained in this document may be reproduced or copied without the consent of the firm.

Visit us at: www.arihantcapital.com