

# Indian Financials

## *The Economics of Financial Inclusion*

**DEC-2013 CHECK BOOK**

### ❑ Economics of financial inclusion

In this inaugural issue of our Monthly Check-Book, we evaluate the profitability of different players across the value chain of financial inclusion – banks, business correspondents and village entrepreneurs. While financial inclusion is not yet profitable for banks – they are certainly on their way (some banks closer than others). With higher penetration, we expect banks to turn profitable in 12-24 months. Business correspondents and village entrepreneurs, can earn reasonable returns on banking services – but more as a bundled supplement to other revenue sources (mostly consumer and government). While ROICs should be high for them – execution and scalability will be their main challenges.

### ❑ Credit, deposit growth trends

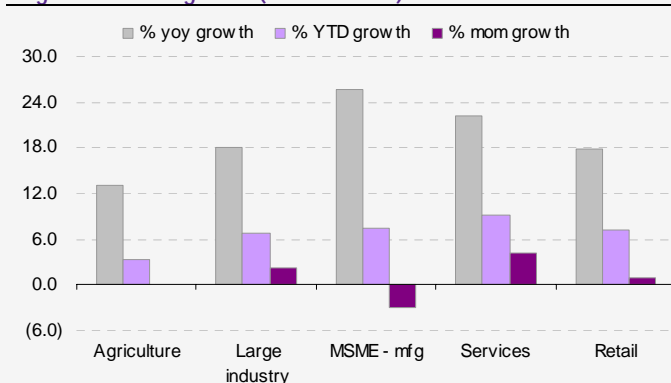
Credit growth moderated to 16.5% yoy in Oct'13 (from 17.7% in Sep'13) as wholesale borrowing costs for corporate started to rationalize. Loan growth continues to be led by large and medium corporates – key growth sectors being chemicals (+30% yoy), mining and power (+26% yoy each). Deposit growth meanwhile, inched up to 15.4% yoy (from 14.8% last month). Industry LDRs moderated marginally to 76.2% with 12 month incremental LDR down to 81% from over 100% at its peak in early September.

### ❑ Recent news and events

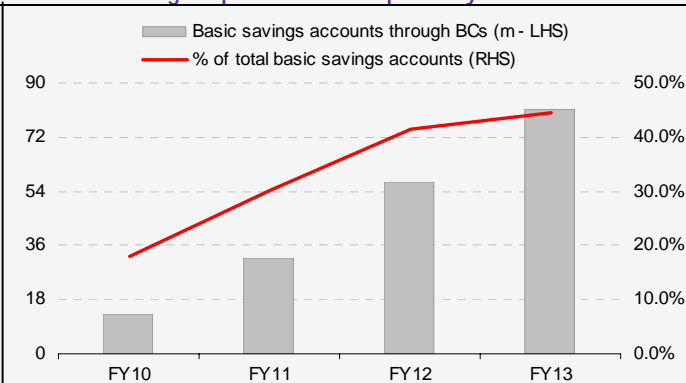
RBI finalized its regulatory framework for foreign banks to operate in India, finance ministry appeals to RBI for easing norms on financing infrastructure assets to revive growth, Governor Rajan indicates new norms to come soon for accounting of bad loans, RBI may issue banking licenses in phases, Tata Sons withdraws from race for new banking license and SBI and HDFC Bank hike base rates by 20bps each to 10%.

### ❑ Stock performance and valuations

It was a topsy-turvy month for the sector – started weak and turned up sharply with the market. Overall, the sector ended-up outperforming the broader Sensex by ~1.3%. Private banks performed slightly better than public sector banks – with Axis, ICICI and Yes Bank key outperformers while PNB and BOB outperformed amongst PSU banks. Overall sector valuations are now back to historical means (1.3x 1-year forward P/BV and 9.3x 1-year forward P/E).

**Segmental credit growth (October 2013)**


Source: RBI, IDFC Securities Research

**Growth in savings deposit accounts opened by BC outlets**


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## THE ECONOMICS OF FINANCIAL INCLUSION

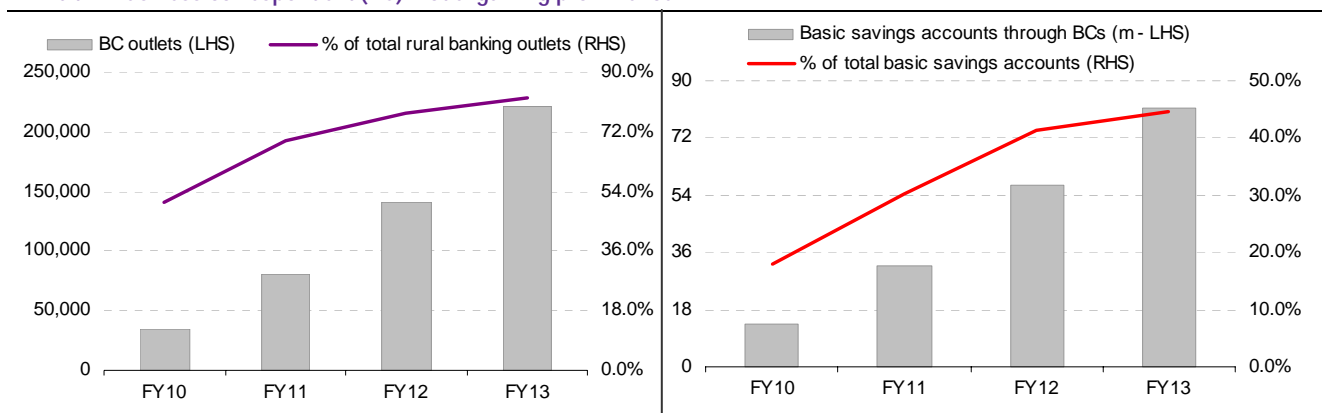
Indian banks have increased focus on financial inclusion over the past few years largely at the behest of the RBI and the government. Progress was initially slow with banks reluctant to increase rural branches as these were perceived to be unremunerative. However, in the past few years, the pace of financial inclusion has picked up due to improved technology and the outsourced (variable cost) model, which has been instrumental in lowering access costs and increasing outreach. The business correspondent (BC) channel now accounts for ~82% of rural banking outlets and ~45% of financial inclusion accounts (Mar-2013).

However, we believe that continued efforts for inclusive growth are only likely to sustain if the current model is profitable for each of the players in the value chain. This brings us to delve deeper into the business models and financials of each of the participants in this value chain – banks, business correspondents and village entrepreneurs. In this note, we attempt to segregate and evaluate the economics of each of these players to see how profitable is the current financial inclusion model.

### The Business Correspondent Channel – A Key Catalyst

The business correspondent channel was put in place by the RBI in 2006 to extend banking services in 'un-banked' and 'under-banked' (RBI terminology) areas. In 2010, the apex bank allowed 'for profit' organizations to operate the BC model, which led to a sharp increase in the number of new accounts. Business correspondents account for ~82% of rural banking outlets and ~45% of financial inclusion accounts (Basic Savings Bank Deposit Accounts) as of March 2013. In the three years since 2010, the number of business correspondents has registered a CAGR of 86%. This has increased banking penetration and density in rural segments and imparted significant 'network' benefits for this channel. The number of savings accounts opened through business correspondents has increased from 13.3m in FY10 to 81.3m in FY13 (82.9% CAGR), which account for ~63% of financial inclusion accounts added in the period.

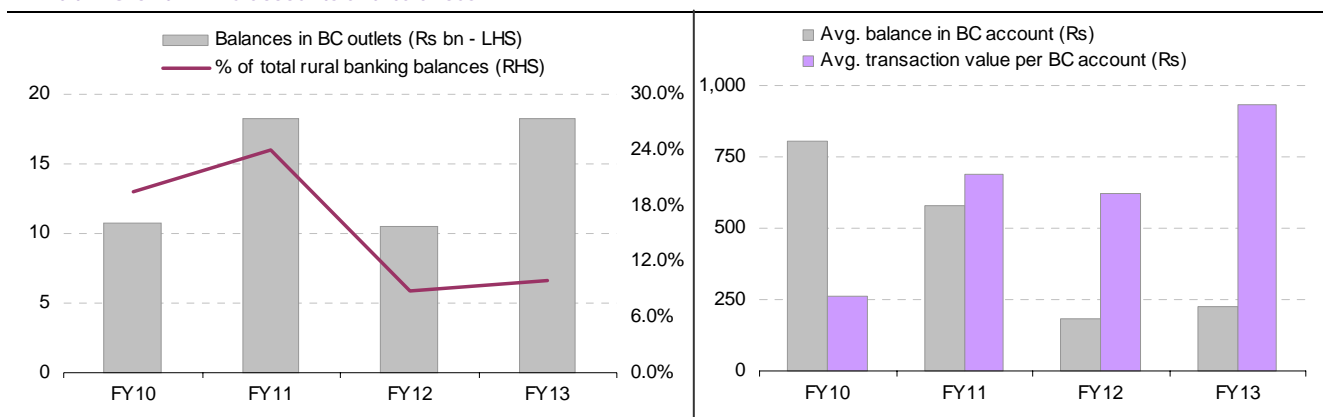
Exhibit 1: Business correspondent (BC) model gaining prominence



Source: RBI IDFC Securities Research

The outstanding savings deposit balance in BC accounts was Rs18bn as of FY13 with an average balance per account of ~Rs225. The average balance has decreased from ~Rs800 as of March 2010 due to the sharp increase in the number of accounts since then. More recently, however, the average balance has started stabilizing. The average number of savings accounts per BC also appears to have stabilized at 360-400. Despite the fall in the average account balance, transactions in the model have witnessed a significant rise – growing almost tenfold from ~27m in FY10 to ~251m. The average value per transaction has also grown by ~4x from Rs260 in FY10 to Rs934 in FY13 and is still rising.

Exhibit 2: Growth in BC accounts and balances

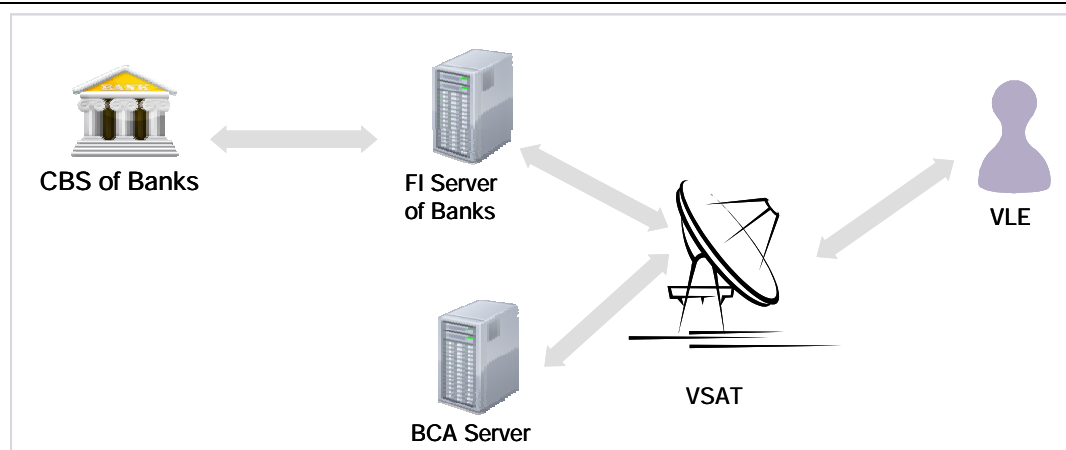


Source: RBI, IDFC Securities Research

### □ The business model

A bank authorizes a BC agent to set up and operate its financial inclusion accounts. The agent sets up customer service points, which are run by Village Level Entrepreneurs (VLEs). The VLEs are franchisees of the agent. The customer service points can be stationary or mobile depending on the individual VLE's operating model. Transactions are carried through point-of-sale machines owned by the BC and are biometrically verified (usually through fingerprint scanning). The bank offers both fixed and variable fees for transactions. The fixed fee is usually paid for new accounts while transactions like deposits, withdrawals and transfers get a variable fee. The fees are usually split between the BC and the VLE (various arrangements are in practice).

Exhibit 3: Business correspondent model – a snapshot



Source: Banks, IDFC Securities Research

### Financial Viability of the Business Correspondent Model

We have evaluated the financial viability of the BC model at each link of the value chain – the bank, the agent and the VLE. We have taken Bank of Baroda (BOB) and the Sahaj model (India's largest service centre agency) for our analysis. We believe each of them needs to be profitable in the medium term for the business model to sustain and expand. We have also estimated the overall profit/ loss of the model for the industry.

Exhibit 4: Snapshots of savings account data for banking industry and Bank of Baroda

Period of evaluation	Bank of Baroda FY14 (annualized)	Banking industry FY13
Financial inclusion accounts through Business Correspondents (m)	1.6	81.3
Balances in financial inclusion savings accounts (Rs m)	4,000	18,220
Transaction value (Rs m)	4,040	233,880
Number of transactions (m)	5.1	250.5

Source: IDFC Securities Research

**Key assumptions**

- Revenues are based on funds available for lending as well as investments after considering appropriate reserve requirements (CRR and SLR).
- We assume funds available for lending are utilized at the base rate of the bank.
- We have not taken into account other businesses, including third-party product distribution.
- Operating costs are largely recurring save some initial outlay for connectivity and infrastructure.
- The commission paid per new account is Rs100.
- The commission paid per transaction is 2% of transaction value.

**1. Banking players – profits are work in progress**

We have created a sample profitability model for BOB, one of the pioneers of the financial inclusion model in India, as well as the entire banking industry.

Exhibit 5: Profitability analysis – bank vs. industry

(Rs m)	Bank of Baroda FY14 (annualised)	Banking Industry FY13
Average Savings Deposits Balances for BC accounts	4,000	18,220
CRR (%)	4	4
SLR (%)	23	23
Available loanable funds	2,920	13,301
Base rate (%)	10.25	10.25
SLR yield (%)	8.00	8.00
Interest income on loans	299	1,363
Interest income on SLR	74	335
Cost of deposits (%)	4	4
Interest expense	160	729
<b>Net interest income</b>	<b>213</b>	<b>970</b>
Operating expenses	341	9075
of which: Account opening	160	2,397
Transaction	81	4,678
IT cost - initial	100	2,000
<b>Economic profit/ (loss)</b>	<b>(128)</b>	<b>(8,105)</b>

Source: IDFC Securities Research

**Key conclusions:**

- a) There is a small economic loss in each of the cases on current costs, excluding initial IT/ infrastructure costs. BOB is close to breaking even.
- b) We expect cost/ income to reduce sharply going ahead due to absence of initial IT costs, stabilization of account opening costs, and decrease in transaction costs due to improvement in technology and connectivity.
- c) We expect revenues to move up sharply as transaction volumes rise with increasing density of accounts in a particular geography or cluster.
- d) Revenues from third-party products (e.g., life and non-life insurance) would also increase in the medium term.
- e) We expect banks to retain focus on the current business model as it is not capital-intensive and costs are largely variable (linked to scale up in transactions)
- f) With penetration levels increasing, we expect financial inclusion operations will be profitable for banks in the next 12-24 months.

**2. Village Level Entrepreneur – benefits hinge on new account openings**

Profitability of a VLE is difficult to predict as it depends on various factors and, most importantly, his own initiative. For the purpose of our analysis, we make certain simplifying assumptions to fit a normalized business case – though this is unlikely to fit neatly into any particular VLEs business model. Our assessment assumes a VLE operating in a 'rural' setting rather than an 'urban' one.

**Exhibit 6: Profitability analysis – VLE**

	Amount (Rs)
Initial capital	
Refundable deposit	10,000
Equipment cost	5,000
Financial inclusion revenues - VLE share (50%)	
Account opening commission	50
Deposit/ withdrawal commission	1%
No. of deposits/ withdrawals per day	20
Average transaction value (Rs)	250
Transaction revenues (Rs)	1,500
Number of accounts opened	50
Account opening revenues (Rs)	2,500
<b>Total monthly revenues (Rs)</b>	<b>4,000</b>
<b>Costs incurred/ income foregone</b>	
Interest on deposit	128
Rent for premises	1,000
Electricity, connectivity and other costs	1,000
<b>Total monthly expenses</b>	<b>2,128</b>
<b>Economic profit/ (loss) as VLE (per month)</b>	<b>1,872</b>
RoIC (annualized, %)	150%

Source: IDFC Securities Research

**Key conclusions:**

- a) RoIC is quite high (~150% of capital invested) even after imputing economic/ opportunity costs.
- b) Profitability levels are currently highly leveraged to new account openings; i.e., profitability would dip sharply if new account openings decelerate.
- c) Sole dependence on banking services is a challenge. Combined with other services (e.g. G2C and B2C services) , it becomes a much more viable and profitable segment of the business.
- d) We have considered revenues/costs only from banking-related activities. Most VLEs may have supplementary sources of revenues, which may in some cases dwarf revenues of the banking segment.
- e) Banking is a relatively small business segment for many VLEs, but carries low incremental capital costs and offers a revenue diversification avenue.
- f) Transaction charges are a very small, but increasing, portion of overall revenues.

**3. Business correspondent – scalability and execution challenges**

The business correspondent is the gateway between the bank and the VLE. Its revenues depend on selecting the right VLE and providing it technical support. Forecasting the financials and profitability of business correspondents is more challenging as most agents are in rapid expansion mode, revenues are far from stable (and largely variable), and costs are significantly higher due to preponderance of fixed costs (initial and set-up costs). Moreover, a business correspondent, similar to a VLE, could have other sources complementing its financial/ banking revenues. We use an 'idealised model' that focuses on a theoretical standalone financial business correspondent that gets its revenues only from the financial/ banking segment. This model, therefore, carries the risk of understating overall revenues and profitability of the actual business correspondent.

**Exhibit 7: Profitability analysis – business correspondent**

Profitability analysis – BC agent (50% share)	
Number of outlets	10,000
Account opening commission	50
Deposit/ withdrawal commission	1.00%
Accounts opened per outlet per month	50
Total accounts opened per year	6,000,000
Deposit/ withdrawal/ transfer transactions per BC per day	20
Average value of transaction (Rs)	250
Account opening revenues	300
Transaction revenues	150
<b>Total revenues per year (Rs m)</b>	<b>450</b>
Operating/ imputed costs	
Initial costs per VLE	15,000
Initial capex - total	15
Employee costs	120
Other operating costs	150
<b>Total operating costs</b>	<b>270</b>
Pre-tax profits	180
Tax	60
Post-tax profits	120
<b>Net profit margins (%)</b>	<b>26.7</b>

Source: IDFC Securities Research

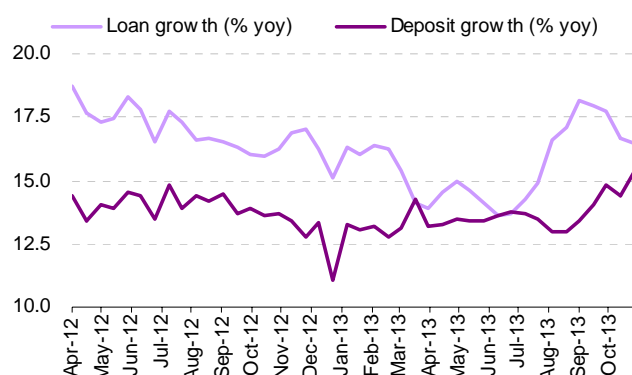
**Key conclusions:**

- a) The profit margins of this segment appear to be high due to low capex requirement.
- b) Scalability of this model, however, is likely to be limited to the allotted clusters or number of outlets.
- c) The initial costs – employee and set-up costs – will likely be relatively high for most business correspondents and will have to be recovered as the business gains scale.
- d) The proportion of account opening revenues would be high in the initial years but gradually give way to transaction revenues.

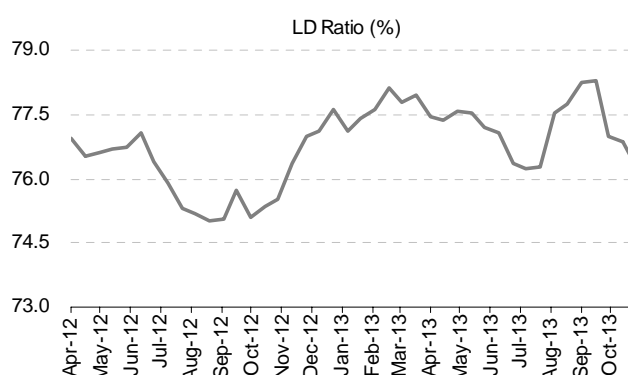
**Note:** For a more detailed note on Financial inclusion please refer to our report “*An On-ground Guide to Financial inclusion*” dated 6 December 2013

## RECENT TRENDS IN CREDIT, DEPOSIT GROWTH

Loan and deposit growth (% yoy)



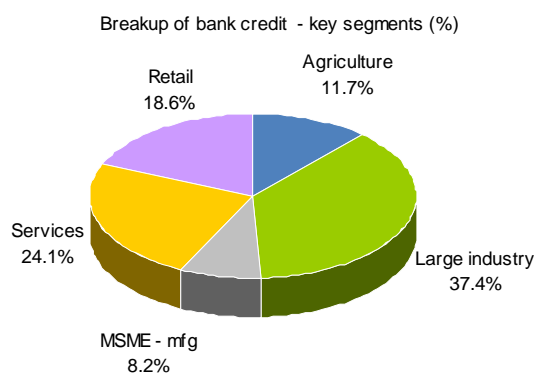
Loan-to-deposit ratio (%)



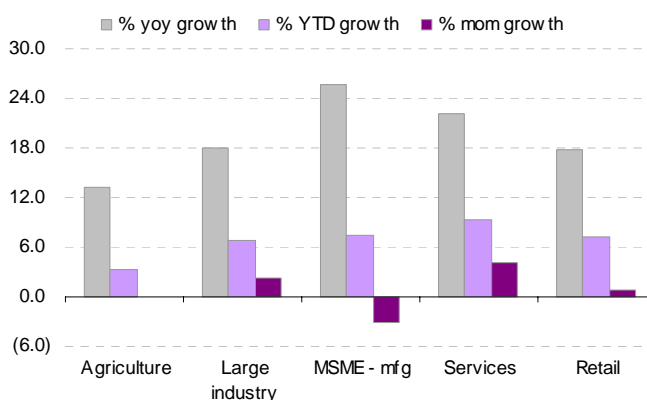
◆ Credit growth continues to come-off as liquidity improves and deposit growth also remains healthy

Source: RBI, IDFC Securities Research

Segmental breakup of outstanding credit (% of total)



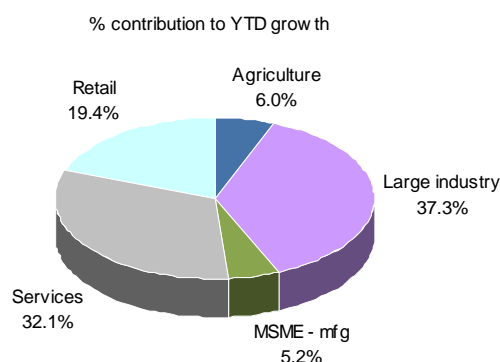
Segmental loan growth (% yoy, YTD and mom)



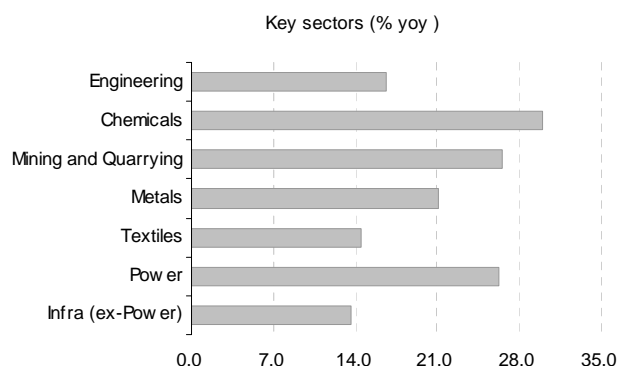
◆ Growth in manufacturing MSME and services still strong, though recent momentum slowing for MSMEs

Source: RBI, IDFC Securities Research

Segmental contribution to YTD loan growth (%)



Select Sectors - Growth rates (% yoy)



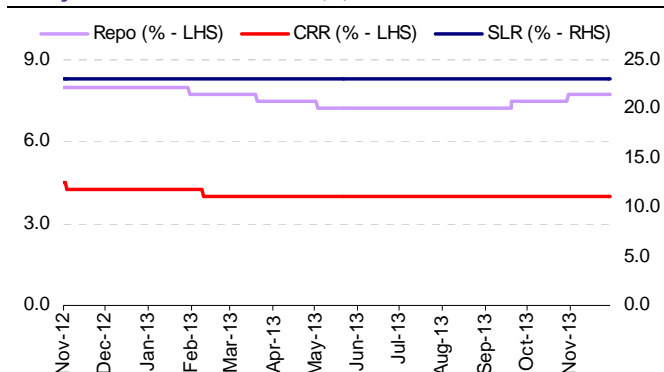
◆ YTD growth led by large corporates and services; draw-downs for power sector remain high

Source: RBI, IDFC Securities Research

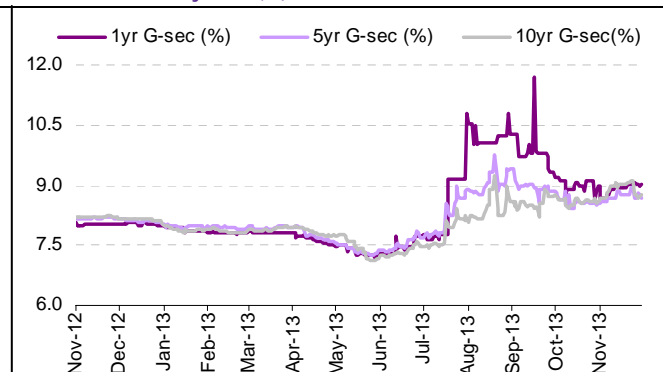


## TRENDS IN SELECT MACRO VARIABLES

Policy rates and reserve ratios (%)



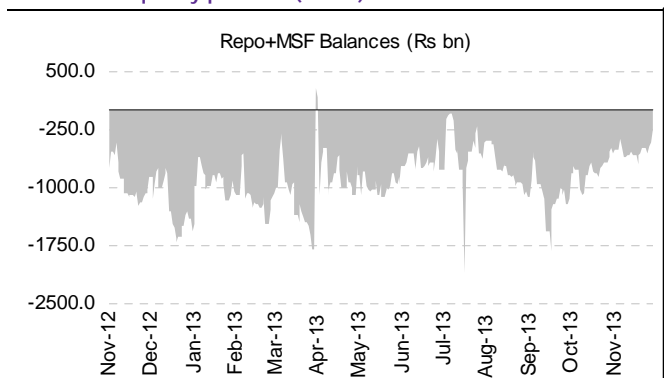
Benchmark G-sec yields (%)



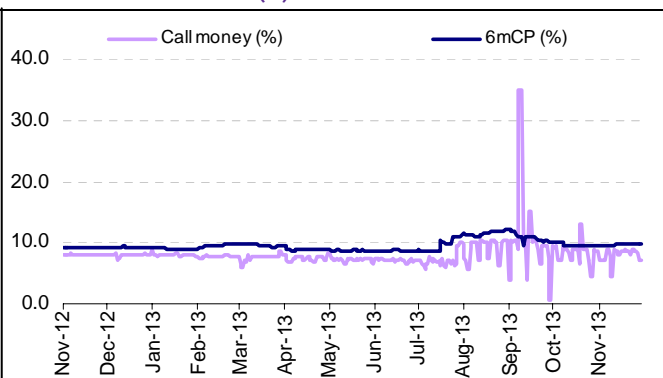
◆ Yields on G-secs remained steady, but elevated in November, after sharp volatility in the previous quarter

Source: Bloomberg, IDFC Securities Research

Short term liquidity position (Rs bn)



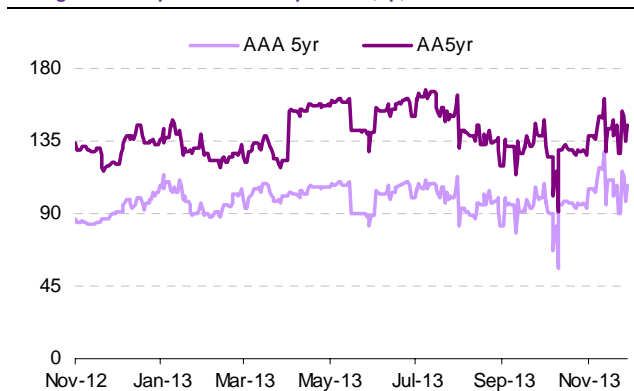
Short-term interest rates (%)



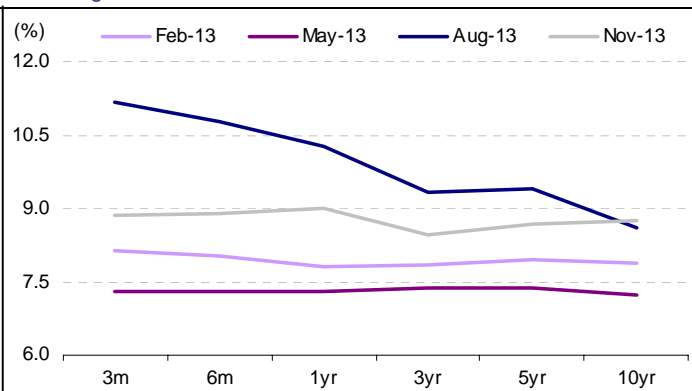
◆ Liquidity deficit reduced in November, also reflected in lower short term interest rates

Source: Bloomberg, IDFC Securities Research

Long-term corporate bond spreads (bp)



Changes in G-Sec Yield curve

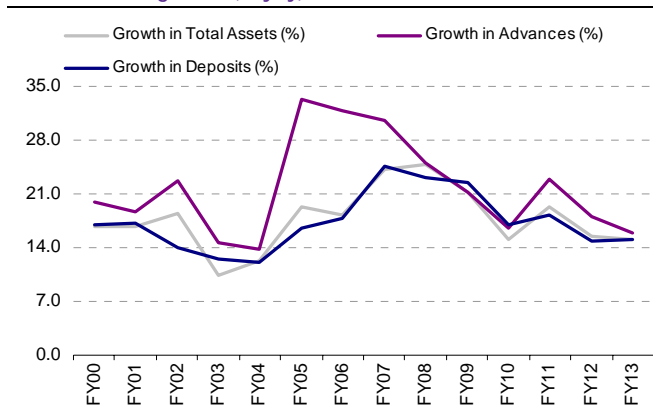


◆ Corporate bonds spreads inched up in Nov-13, despite easier liquidity, as yield curve steepened

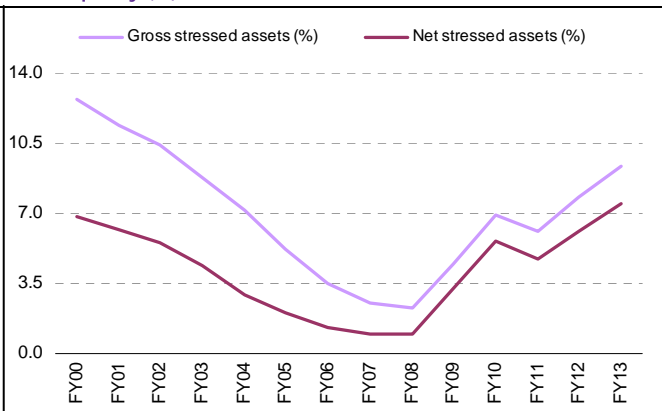
Source: Bloomberg, IDFC Securities Research

## LONGER TERM TRENDS IN SELECT SECTOR AGGREGATES

### Balance sheet growth (% yoy)



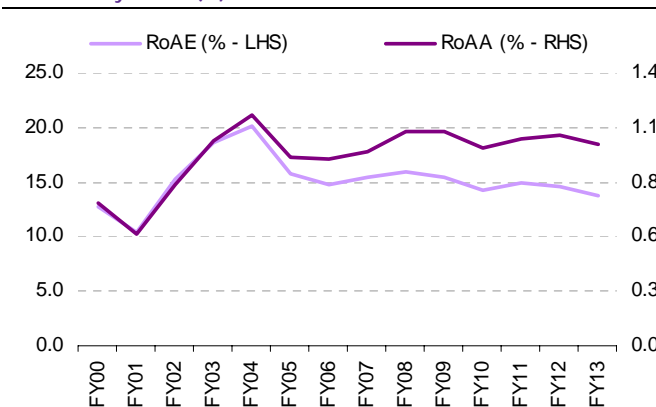
### Asset quality (%)



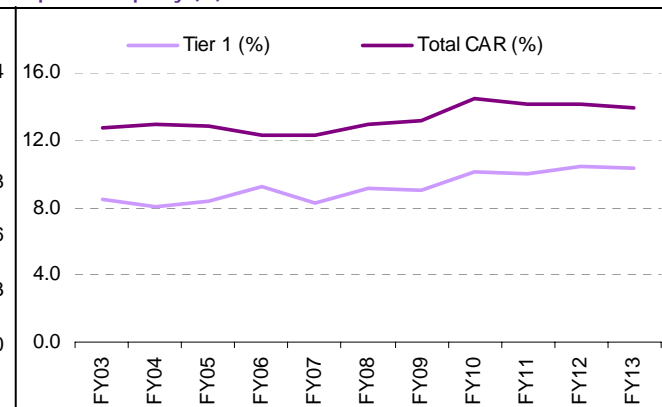
◆ Balance sheet growth continues to slow down as stressed assets on uptrend

Source: RBI, IDFC Securities Research

### Profitability ratios (%)



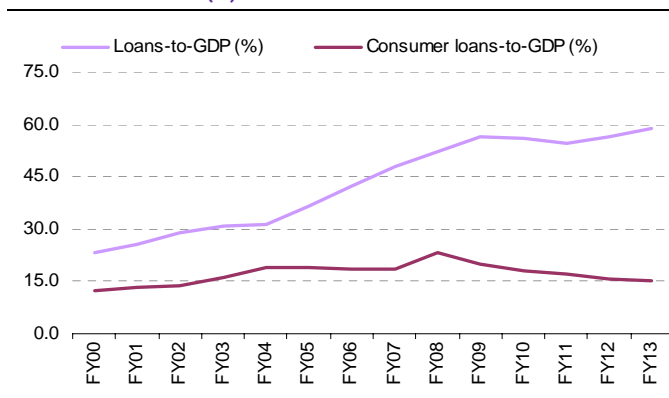
### Capital Adequacy (%)\*



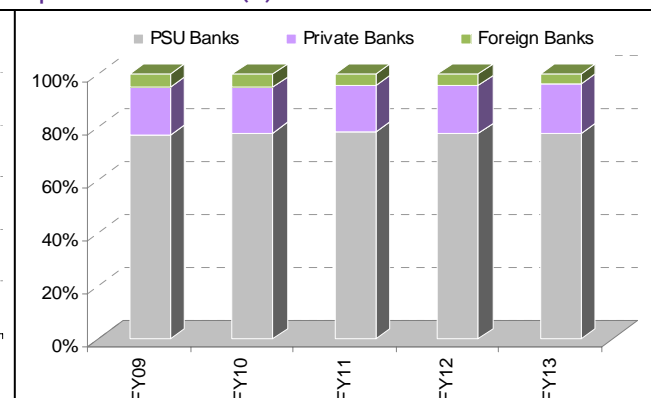
◆ Profitability ratios have come off marginally; capital adequacy still relatively healthy

Source: RBI, IDFC Securities Research \*As per Basel 2 FY10 onwards

### Loans to GDP ratio (%)



### Deposits market share (%)



◆ Consumers loans proportion has declined; as corporate (esp. infrastructure) growth has remained high

Source: RBI, IDFC Securities Research

## KEY NEWS AND EVENTS IN NOVEMBER 2013

### Industry News

#### 1. RBI releases framework for foreign banks in India

Further to the announcements made in Q2 review of monetary policy on allowing Foreign Banks to set up wholly owned subsidiaries (WOS) in India and announced the framework for the same. (6<sup>th</sup> November, 2013, RBI)

#### 2. Finance ministry suggests easier rules for infrastructure financing

Economic affairs secretary Arvind Mayaram has written to governor Rajan seeking a change in the rules for infrastructure financing and the treatment of non-performing loans to the sector, pitching it as a necessary measure to revive growth and investment. (11<sup>th</sup> November, 2013, *The Economic Times*)

#### 3. RBI Governor tries to calm markets

India Prepared to Handle U.S. Stimulus Tapering, Says Gov. Raghuram Rajan (13<sup>th</sup> November, 2013, RBI)

#### 4. RBI rings alarm bells on loan recast getting 'out of control'

Alarm bells are ringing on the asset quality front of the banking sector. The latest figures released by the Reserve Bank of India clearly show that loan restructuring is spiraling "out of control" and touched Rs 325,000 crore, almost 5.74 per cent of the total bank credit. (18<sup>th</sup> November, 2013, *The Indian Express*)

#### 5. New guidelines on bad loans soon: Rajan

The Reserve Bank of India (RBI) will soon announce measures that will tackle the issue of banks sweeping bad loans under the carpet. (18<sup>th</sup> November, 2013, *The Times of India*)

#### 6. RBI announces special liquidity support to MSME sector through the refinance facility through SIDBI

Refinance facility of Rs50bn to SIDBI to provide direct liquidity support to MSMEs (through selected banks, NBFCs and SFCs) - which will be available against receivables, including export receivables, outstanding as on November 14, 2013 onwards. Incremental credit, including export credit, extended to the medium enterprises by banks ) over the outstanding credit as on November 13, 2013. (19<sup>th</sup> November, 2013, RBI)

#### 7. RBI may issue bank licences in phases

The Reserve Bank of India (RBI) is likely to give out the much-awaited bank licenses in a phased manner, with public sector or quasi public sector enterprises getting the nod within January next year, given the fact that their track records are open and in public domain. RBI may issue the rest of the licenses by the middle of next year. (21<sup>st</sup> November, 2013, *Hindustan Times*)

#### 8. RBI widens infra sector lending sub-category

Reserve Bank today widened the definition of infrastructure lending including hotels with project costing more than Rs 200 crore as well as convention centres with project worth Rs 300 crore. (26<sup>th</sup> November, 2013, RBI)

#### 9. Lenders offer lower EMIs on car loans

First, financial institutions reduced the equated monthly installment (EMI) on home loans to less than Rs 1,000 per lakh, mostly by extending the tenure. Now, it's the turn of car loans with banks trying to offer the same option in auto loans as well. (27<sup>th</sup> November, 2013, *The Times of India*)

## Company news

### 1. SBI increases interest rates on some deposits

State Bank of India, raised the interest rate on retail term deposits of less than Rs 1 crore while reducing it on fixed deposits of over Rs 1 crore. SBI said it will now offer an interest rate of 7%, or 20 basis points more than what it was earlier paying, on term deposits of less than Rs 1 crore with 180-210 days of maturity. (1<sup>st</sup> November, 2013, *The Economic Times*)

### 2. HDFC Bank hikes base rate

HDFC Bank has increased its base rate by 20 basis points to 10 per cent (6<sup>th</sup> November, 2013, *The Hindu*)

### 3. SBI hikes base rate by 20bps to 10%

(7<sup>th</sup> November, 2013, *Business Standard*)

### 4. Sunita Sharma appointed CEO of LIC Housing Finance

She succeeds V K Sharma who was elevated to the post of managing director of LIC last week (7<sup>th</sup> November, 2013, *Business Standard*)

### 5. Ajay Piramal to buy 20% in Shriram Capital for Rs 19 bn,

"The stake sale will be through a primary and secondary issue of shares by the holding company and Shriram Ownership Trust," said one of the persons cited above. (12<sup>th</sup> November, 2013, *The Economic Times*)

### 6. Usha Ananthasubramanian takes charge as CMD of Bharatiya Mahila Bank

(13<sup>th</sup> November, 2013, *Mint*)

### 7. ICICI Bank raises at least \$750 million overseas

Private sector lender ICICI Bank said today that its Dubai branch has raised \$750 million in a 5.5-year overseas bond sale at a coupon of 4.80 per cent. (20<sup>th</sup> November, 2013, *The Economic Times*)

### 8. CBI lodges case against SBI Deputy MD, 2 others

With lenders experiencing stress on their infrastructure loan books, the head of country's largest bank State Bank of India (SBI) has called for a need to introduce new products to finance the long-gestation projects, including refinancing the loans every five years. (25<sup>th</sup> November, 2013, *Business Standard*)

### 9. Tata Sons withdraws from race for new bank licence,

The company has indicated that its current financial services operating model best supports the needs of the Tata Group's domestic and overseas strategy, and provides adequate operating flexibility to its companies, while securing the interests of the Group's diverse stakeholder base. (27<sup>th</sup> November, 2013, *RBI*)

### 10. PNB to allot 8.6m shares to GoI at Rs581/share

(28<sup>th</sup> November, 2013, *Business Standard*)

# INDIA FINANCIALS: SECTOR AND STOCK PERFORMANCE

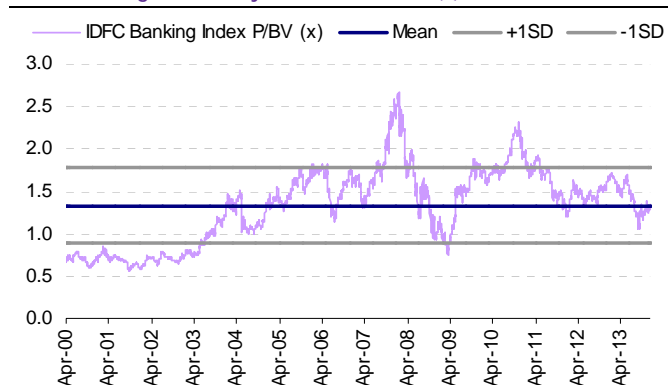
	5 <sup>th</sup> Dec, 2013	Absolute Performance (%)						
Name	Price (Rs)	1D	1W	1M	3M	6M	12M	YTD
<b>Sensex</b>	<b>20,958</b>	<b>1.2</b>	<b>2.1</b>	<b>(0.1)</b>	<b>10.4</b>	<b>7.1</b>	<b>8.1</b>	<b>7.9</b>
<b>Bankex</b>	<b>13,298</b>	<b>4.4</b>	<b>6.8</b>	<b>1.2</b>	<b>20.7</b>	<b>(5.4)</b>	<b>(5.6)</b>	<b>(7.3)</b>
ICICI Bank	1,136	6.5	9.4	3.6	27.1	0.1	1.4	(0.2)
HDFC Bank	688	4.6	5.3	1.8	12.9	0.0	(0.6)	1.4
HDFC	827	1.9	1.6	(3.7)	10.3	(2.0)	(1.3)	(0.2)
Axis Bank	1,242	4.2	10.8	1.2	33.9	(10.2)	(7.0)	(8.5)
Kotak Mahindra Bank	762	1.7	1.3	2.2	15.1	(0.8)	14.9	17.2
IndusInd Bank	439	2.8	5.1	(3.5)	10.4	(14.3)	4.4	5.2
ING Vysya Bank	586	2.7	1.9	(1.6)	23.6	(10.0)	18.1	10.7
Yes Bank	395	6.6	8.5	5.1	37.4	(20.9)	(12.3)	(14.9)
State Bank of India	1,856	2.1	5.2	(1.1)	13.3	(8.7)	(18.3)	(22.2)
Punjab National Bank	582	2.3	9.4	(0.2)	31.5	(23.9)	(28.5)	(33.2)
Bank of Baroda	670	3.7	8.9	0.9	33.3	1.5	(14.4)	(22.7)
Bank of India	217	2.7	4.2	(8.7)	49.5	(25.1)	(25.1)	(36.7)
Union Bank of India	123	3.8	4.9	(9.7)	11.0	(43.3)	(50.3)	(55.2)

	5 <sup>th</sup> Dec, 2013	Relative to SENSEX (%)						
Name	Price (Rs)	1D	1W	1M	3M	6M	12M	YTD
<b>Bankex</b>	<b>13,298</b>	<b>3.2</b>	<b>4.7</b>	<b>1.3</b>	<b>10.3</b>	<b>(12.5)</b>	<b>(13.7)</b>	<b>(15.2)</b>
ICICI Bank	1,136	5.3	7.4	3.7	16.7	(7.0)	(6.6)	(8.1)
HDFC Bank	688	3.4	3.3	1.8	2.5	(7.1)	(8.7)	(6.5)
HDFC	827	0.7	(0.4)	(3.6)	(0.2)	(9.1)	(9.3)	(8.1)
Axis Bank	1,242	3.0	8.8	1.3	23.4	(17.3)	(15.1)	(16.4)
Kotak Mahindra Bank	762	0.5	(0.7)	2.3	4.7	(7.9)	6.8	9.3
IndusInd Bank	439	1.6	3.1	(3.4)	(0.0)	(21.4)	(3.7)	(2.7)
ING Vysya Bank	586	1.5	(0.1)	(1.5)	13.2	(17.1)	10.1	2.8
Yes Bank	395	5.4	6.4	5.2	27.0	(28.0)	(20.4)	(22.8)
State Bank of India	1,856	0.9	3.2	(1.0)	2.9	(15.8)	(26.4)	(30.1)
Punjab National Bank	582	1.1	7.3	(0.1)	21.1	(31.0)	(36.6)	(41.1)
Bank of Baroda	670	2.5	6.8	1.0	22.8	(5.6)	(22.5)	(30.6)
Bank of India	217	1.5	2.1	(8.7)	39.1	(32.2)	(33.2)	(44.5)
Union Bank of India	123	2.6	2.8	(9.7)	0.6	(50.4)	(58.4)	(63.1)

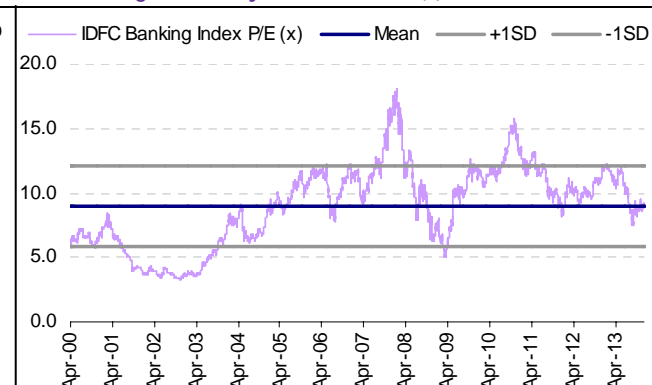
	5 <sup>th</sup> Dec, 2013	Relative to BANKEX (%)						
Name	Price (Rs)	1D	1W	1M	3M	6M	12M	YTD
ICICI Bank	1,136	2.1	2.6	2.4	6.4	5.5	7.1	7.1
HDFC Bank	688	0.2	(1.5)	0.5	(7.8)	5.4	5.0	8.7
HDFC	827	(2.6)	(5.1)	(4.9)	(10.5)	3.5	4.4	7.1
Axis Bank	1,242	(0.2)	4.1	(0.0)	13.1	(4.8)	(1.3)	(1.2)
Kotak Mahindra Bank	762	(2.7)	(5.4)	1.0	(5.6)	4.6	20.5	24.5
IndusInd Bank	439	(1.6)	(1.7)	(4.7)	(10.3)	(8.9)	10.0	12.5
ING Vysya Bank	586	(1.7)	(4.9)	(2.8)	2.9	(4.6)	23.8	18.0
Yes Bank	395	2.2	1.7	3.9	16.7	(15.5)	(6.6)	(7.6)
State Bank of India	1,856	(2.3)	(1.5)	(2.3)	(7.4)	(3.2)	(12.7)	(14.9)
Punjab National Bank	582	(2.1)	2.6	(1.4)	10.8	(18.5)	(22.9)	(25.9)
Bank of Baroda	670	(0.8)	2.1	(0.3)	12.5	6.9	(8.8)	(15.4)
Bank of India	217	(1.8)	(2.6)	(10.0)	28.8	(19.7)	(19.5)	(29.4)
Union Bank of India	123	(0.6)	(1.9)	(11.0)	(9.7)	(37.9)	(44.7)	(47.9)

# INDIA FINANCIALS: SECTOR VALUATIONS

IDFC Banking Index – 1-year forward P/BV (x)

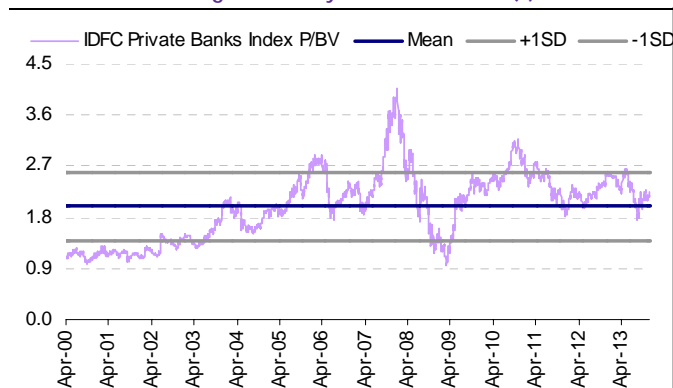


IDFC Banking Index – 1-year forward P/E (x)

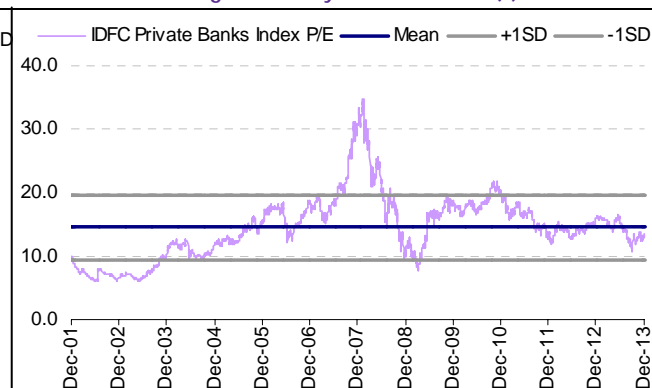


Source: Company data, IDFC Securities Research

IDFC Private Banking Index – 1-year forward P/BV (x)

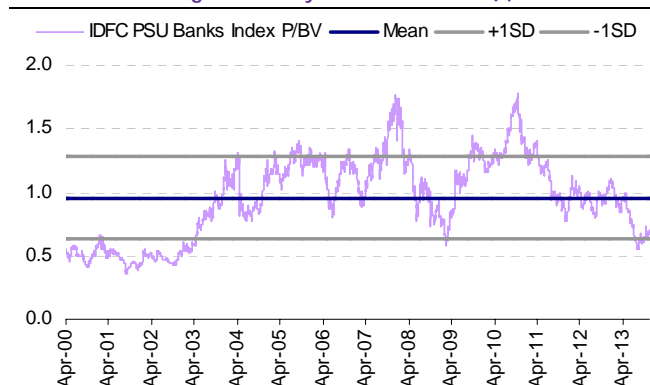


IDFC Private Banking Index – 1-year forward P/E (x)

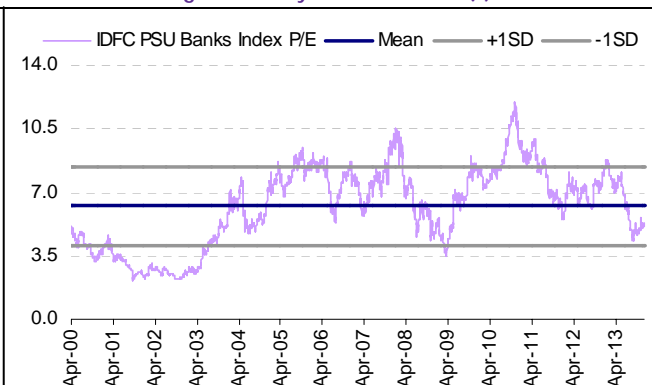


Source: Bloomberg, IDFC Securities Research

IDFC PSU Banking Index – 1-year forward P/BV (x)



IDFC PSU Banking Index – 1-year forward P/E (x)



Source: Bloomberg, IDFC Securities Research

# INDIA FINANCIALS: VALUATION SUMMARY

## Valuations

	5 <sup>th</sup> Dec, 2013	Market Cap	IDFC	Target Price	P/BV (x)		P/Adj BV (x)		P/E (x)		P/PPOP (x)		RoAE (%)		RoAA (%)		Div Yield (%)	
	Price (Rs)	USD Mn	Rating	(Rs)	FY14E	FY15E	FY14E	FY15E	FY14E	FY15E	FY14E	FY15E	FY14E	FY15E	FY14E	FY15E	FY14E	FY15E
<b>Private Banks</b>																		
ICICI Bank	1,136	21,212	OP	1,175	1.8	1.6	1.9	1.7	13.5	11.3	8.3	6.9	13.9	15.1	1.7	1.8	2.2	2.6
HDFC	827	20,879	N	865	4.5	4.0	4.7	4.2	22.6	19.2	12.1	10.2	21.3	22.2	2.7	2.6	1.7	2.1
HDFC Bank	688	26,504	OP	745	3.8	3.2	3.9	3.2	19.0	15.0	5.7	4.5	21.8	23.1	2.0	2.1	1.0	1.3
Axis Bank	1,242	9,405	OP	1,580	1.5	1.3	1.6	1.3	9.4	8.0	12.5	10.7	17.3	17.8	1.7	1.7	2.0	2.4
Kotak Mahindra Bank	762	9,209	N	750	3.0	2.6	3.1	2.7	21.1	16.9	19.7	16.1	16.0	16.5	2.2	2.4	0.1	0.1
IndusInd Bank	439	3,714	OP	440	2.7	2.3	2.7	2.3	17.5	14.0	21.3	17.4	16.4	17.9	1.6	1.7	0.8	1.0
ING Vysya Bank	586	1,783	OP	700	1.4	1.4	1.6	1.4	12.2	10.8	48.9	39.1	14.1	13.5	1.4	1.5	1.1	1.4
Yes Bank	395	2,293	N	440	2.0	1.6	2.0	1.6	8.8	6.8	16.6	13.2	25.1	26.3	1.5	1.6	2.0	2.5
<b>PSU Banks</b>																		
State Bank of India	1,856	20,551	UP	1,545	1.2	1.0	1.5	1.3	9.4	8.1	6.4	5.7	13.0	13.6	0.8	0.8	2.3	2.4
Punjab National Bank	582	3,331	UP	530	0.6	0.5	0.7	0.6	4.1	3.4	5.7	5.1	15.1	16.0	1.0	1.0	4.6	4.8
Bank of Baroda	670	4,580	UP	480	0.8	0.7	1.0	0.9	5.9	4.9	7.3	6.0	14.5	15.5	0.8	0.9	3.4	3.7
Bank of India	217	2,098	UP	180	0.5	0.5	0.7	0.6	3.9	3.3	3.1	2.6	13.8	14.5	0.7	0.7	5.1	5.5
Union Bank of India	123	1,186	UP	125	0.4	0.4	0.6	0.5	2.8	2.3	2.3	1.9	15.5	16.8	0.8	0.8	6.5	6.5

Source: Bloomberg, IDFC Securities Research

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