India Financial Sector

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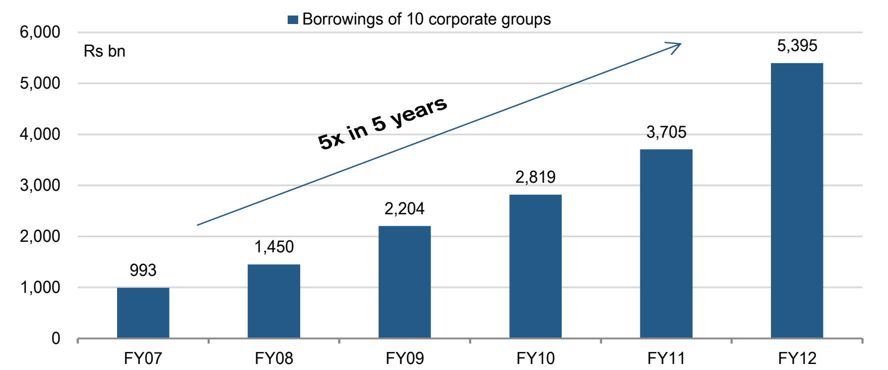
SECTOR REVIEW

House of Debt

Figure 1: **Borrowings of ten groups equivalent to 13% of bank loans**



Source: Company data, Credit Suisse estimates,

- **Concentration risk rising.** Over last five years, Indian banks have witnessed strong (20% CAGR) loan growth. However, this has increasingly been driven by select few corporate groups; aggregate debt of these ten groups has jumped 5x in the past five years and now equates to 13% of bank loans and 98% of the banking system's net worth. Therefore, surprisingly now in terms of the concentration risk, Indian banks rank higher than most of their Asian and BRIC counterparts.
- **Group financials stretched.** With economic slowdown and largely similar sectoral exposure to sectors (power & metals) and multiple assets of each group stressed, financials of these groups are stretched. Average group debt to EBITDA for this set is 7.6x and already four of 10 have interest cover (EBIT/P&L interest cost) of <1.
- **Some macro positives visible.** Over the past few weeks, wholesale rates have moderated, domestic liquidity deficit has contracted and current account deficit appears to be narrowing. However, loan-deposit ratios at banks continue to be stretched and GDP growth outlook continues to be weak.
- **Asset sales a possible panacea?** Given the high leverage, poor profitability and pressure from lenders most of these debt heavy groups have initiated plans to divest some of their assets (cement plants/power/road projects). However, given that most domestic infra developers are already over geared, demand for these assets may be limited. Therefore, even as wholesale rates are showing signs of moderation, we remain cautious on corporate asset quality outlook for the banking sector and maintain our UNDERWEIGHT stance. HDFC and HDFC Bank are our top picks.

Previously published Reports
Unwelcome clouds on the horizon
Pockets of over-leverage visible
Feeling the Pinch
Corporate stress increasing
Corporate stress remains high

DISCLOSURE APPENDIX CONTAINS ANALYST CERTIFICATIONS AND THE STATUS OF NON-US ANALYSTS. U.S. Disclosure: Credit Suisse does and seeks to do business with companies covered in its research reports. As a result, investors should be aware that the Firm may have a conflict of interest that could affect the objectivity of this report. Investors should consider this report as only a single factor in making their investment decision.

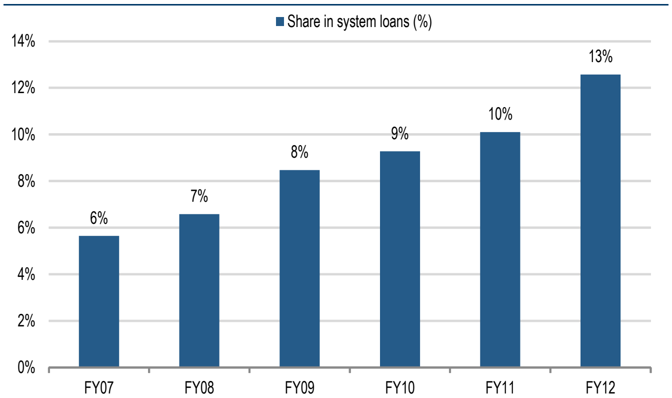
Focus table and charts

Figure 2: Steep growth in borrowings for top groups resulting in stretched financials

Group Debt (Rs bn)	FY07	FY12	% CAGR	Interest cov	Debt/EBITDA
Adani Enterprise	44	695	74%	2.5	13.9
Essar Group	246	938	31%	0.6	12.6
GMR Group	37	329	55%	0.6	18.7
GVK Group	17	210	65%	1.1	18.2
Jaypee Group	81	454	41%	1.1	8.5
JSW Group	132	402	25%	1.7	5.0
Lanco Group	17	293	76%	1.2	15.7
Reliance ADAG Group	261	867	27%	1.6	7.1
Vedanta Group	95	935	58%	2.8	2.6
Videocon Group	63	273	34%	0.3	19.9
Top-10 group debt	**993**	**5,395**	**40%**	**1.5**	**7.6**
Banking system loans	17,570	42,897	20%		

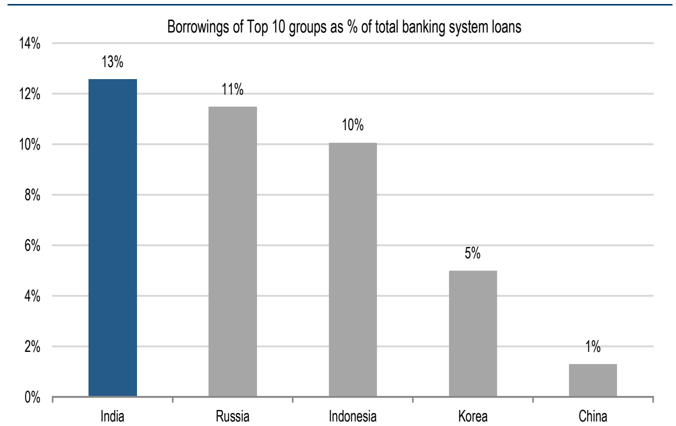
Source: Company data, Capitaline, Prowess, Credit Suisse

Figure 3: Concentration of bank loans rising…



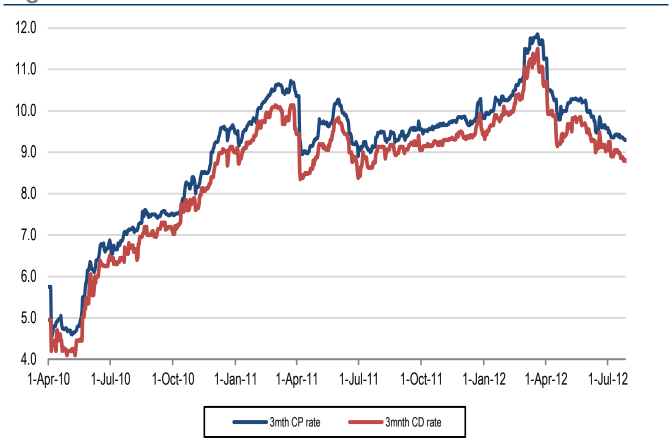
Source: Company data, Credit Suisse

Figure 4: …and is now higher than in other Asia/BRIC markets



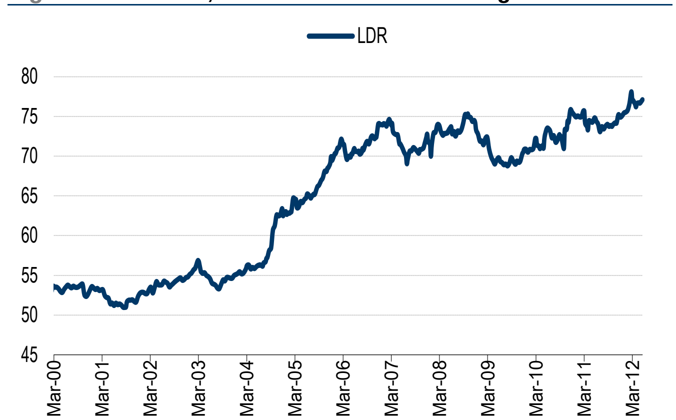
Source: Company data, Credit Suisse

Figure 5: Wholesale rates have moderated



Source: Company data, Credit Suisse

Figure 6: however, LDR remains at all time high



Source: Company data, Credit Suisse

House of Debt

'Concentration risk' for the banks high and rising

Debt of ten corporate group grown at 40% CAGR

Over the past five years, Indian banks have witnessed strong (20% CAGR) loan growth. However, this growth is increasingly being driven by a select few corporate groups. In FY12, over 20% of the incremental loans came from just ten groups. The total debt level of these ten (Adani, Essar, GMR, GVK, JSW, JPA, Lanco, Reliance ADA, Vedanta and Videocon) has jumped 5x in the past five years (40% CAGR) and now equates to 13% of the total bank loans and 98% of the net worth of the banking system. Each of these groups alone now accounts for 1–2% of total banking system loans. Therefore, now in terms of the concentration risk to the top groups or to the top borrowers, Indian banks rank high compared with most of their Asian and BRIC counterparts.

Asset profiles of these groups are similar…

Moreover, we believe the concentration risk is high as: (1) all banks appear to have high exposure to the same few groups; and (2) investments of most of these groups are in similar sectors and projects (primarily, power and metals) and many of them may be stressed. The asset profile of many of these groups is similar, with infra, and to a large extent, power assets driving up investments in the past few years. Over the next three years, each of these groups has 2,000–4500MW of capacity likely to be commissioned, much of which faces issues relating to coal/gas supply and PPAs. Note that these ten groups alone account for 70% of the private sector power capacity that is expected to come up by FY17

Group financials stretched

… and financials stretched with Debt/EBITDA of 7.6x, IC 1.5x

With the economic slowdown and a downturn in these sectors (power and metals), multiple assets of each group appear stressed and financials of these groups are stretched. Average group debt-to-EBITDA for them is 7.6x and four of the ten have interest cover (EBIT/P&L interest cost) of <1.

Some macro positives emerging

Wholesale rates have moderated but deposit growth still lagging loans growth

Over the past few weeks, wholesale rates have moderated, domestic liquidity deficit contracted and current account deficit appears to be narrowing. Domestic bond yields have also moderated from 8.7% levels to 8.3% on the back of buying support of the RBI. However, bank loan-deposit ratios at over 77% continue to be stretched. Therefore, even as inflation appears to be moderating, a big drop in interest rates appears unlikely as deposit growth at sub-14% continues to lag the 17% loan growth. GDP growth outlook continues to be weak and our economics team forecasts GDP growth of sub-7% in FY13.

Asset sales a possible panacea?

Remain cautious on corporate lenders

Given the high leverage levels, poor profitability and pressure from the lenders, virtually all of these debt-heavy groups have initiated to divest some of their assets (cement plants/power/road projects). Given that most of the domestic infra developers are already over-geared, demand for these assets may be limited. Therefore, even though wholesale rates show signs of moderation, we continue to remain cautious on the corporate asset quality outlook for the banking sector. We maintain our UNDERWEIGHT stance and our top picks are HDFC and HDFC Bank. We continue to be cautious on the corporate banks—SBI, ICICI, PNB, BOI, Union and Yes.

Figure 7: **Valuation table**

Pvt sector	CS rating	Current price	Target	Mkt cap (In $ bn)	BVPS (Rs)		P/B (x)		P/Adj B (x)		EPS (Rs)		EPS growth (%)		P/E (x)		ROE (%)	
		Rs	Rs		FY13E	FY14E	FY13E	FY14E	FY13E	FY14E	FY13E	FY14E	FY13E	FY14E	FY13E	FY14E	FY13E	FY14E
Axis	O	1,043	1,421	7.9	700	783	1.5	1.3	1.5	1.4	98	102	(4)	4	10.6	10.2	15.6	13.8
HDFC Bank	O	588	690	25.2	149	176	4.0	3.3	4.0	3.3	28	35	29	22	20.7	17.0	20.6	21.3
ICICI	N	961	905	20.1	573	630	1.7	1.5	1.7	1.5	71	82	27	15	13.5	11.7	13.0	13.7
Kotak Mahindra	N	536	535	7.4	203	238	2.6	2.2	2.6	2.2	29	35	20	21	18.4	15.2	15.4	16.2
Yes Bank	U	364	320	2.3	183	213	2.0	1.7	2.0	1.8	28	35	2	23	12.9	10.5	19.2	17.6
J&K Bank	O	912	1,093	0.8	986	1,155	0.9	0.8	1.0	0.8	182	214	10	17	5.0	4.3	19.9	20.0
IndusInd	N	334	384	2.8	115	138	2.9	2.4	2.9	2.4	22	26	25	19	15.5	13.0	17.8	16.6
ING Vysya	O	381	460	1.0	293	338	1.3	1.1	1.3	1.1	41	52	20	28	9.4	7.3	14.7	16.5
Public sector																		
Bank of Baroda	O	656	825	4.9	736	853	0.9	0.8	1.0	0.9	119	140	(4)	18	5.5	4.7	17.3	17.7
Bank of India	U	298	310	3.1	389	446	0.8	0.7	1.1	0.9	56	69	18	23	5.3	4.3	15.3	16.6
PNB	N	728	796	4.5	905	1,063	0.8	0.7	1.1	0.9	157	193	5	24	4.6	3.8	18.6	19.7
SBI	N	2,005	2,035	24.5	1,757	1,985	1.1	1.0	1.2	1.1	203	222	16	9	9.9	9.0	15.4	14.5
Union Bank	N	168	170	1.7	266	302	0.6	0.6	0.9	0.8	41	50	25	22	4.1	3.3	16.5	17.8
IOB	U	73	71	1.1	148	163	0.5	0.4	0.7	0.6	19	22	41	17	3.9	3.4	13.1	13.9
Non-bank fin																		
HDFC	O	691	821	18.9	162	183	4.3	3.8	4.3	3.8	33	39	19	17	20.7	17.7	22.8	22.6
IDFC	N	134	135	3.7	90	100	1.5	1.3	1.5	1.4	12	14	15	19	11.4	9.6	13.8	14.8
Core business																		
ICICI	N	805	735	16.9	455	509	1.8	1.6	1.8	1.6	64	73	29	15	12.6	11.0	14.8	15.2
HDFC	O	384	515	10.5	104	123	3.7	3.1	3.7	3.1	29	35	20	21	13.2	10.9	29.3	31.2

Source: Company data, Credit Suisse estimates

‘Concentration risk’ for the banks high and rising

In our corporate asset quality reviews over the past years, we have primarily focused on the large corporates and the degree of their over-leverage. These reports (Unwelcome Clouds on the Horizon, dated 31 Oct 11; Feeling the Pinch, dated 4 Jan 12; Corporate stress remains high, dated 7 Jun 12) highlight the sharp deterioration in bank asset quality over past year as the share of loans with corporates having interest cover <1 is now close to 30%.

Corporate balance sheets are stretched

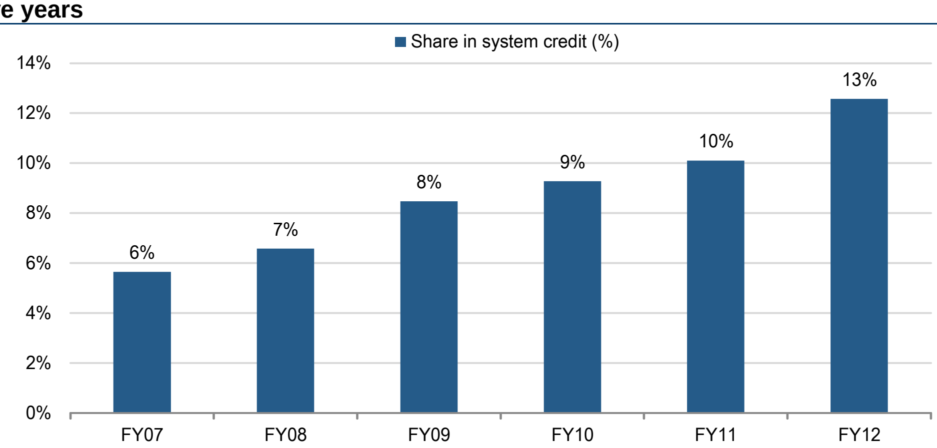
In this report, we examine the concentration risk of large corporate lending as a few industrial houses appear to have been the key driver of capex and loan growth in India over the past few years.

High concentration of loans adds to the risk

To arrive at group debt, we have aggregated consolidated debt at the parent companies and their associates. While some of this debt is likely from external borrowings and foreign banks, given that Indian banks themselves account for 45% of corporate ECB funding and we have not captured debt at the holding co level for most of the groups, Indian bank exposure is likely not materially different for the estimated group debt.

The total debt of these ten groups has jumped 5x in the past five years and now accounts for 13% of the total bank loans (23% of corporate loans) and 98% of the net worth of the banking system.

Figure 8: **Share of borrowings for the top ten groups has more than doubled in the past five years**



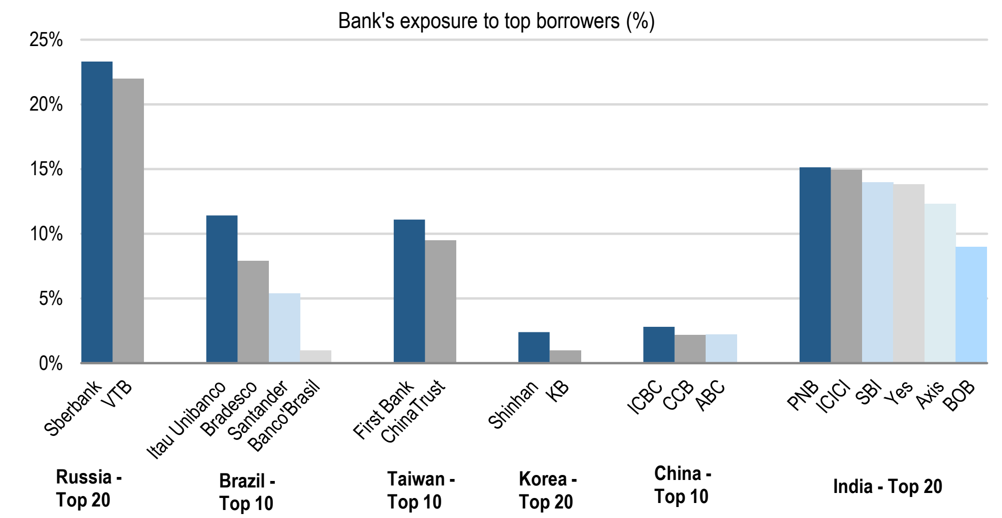
Source: Company data, Credit Suisse

Share of borrowings by 10 groups now equivalent to 13% of bank loans

Therefore, now in terms of the concentration risk to the top groups or to the top borrowers, Indian banks rank much higher compared with most of their Asian and BRIC counterparts. Single-borrower or single-group limit for Indian banks akin to other markets and prudential exposure limits in India cap individual borrower exposure at 15% of net worth and group exposure at 40% of net worth of the banks.

Loan concentration of Indian banks is high

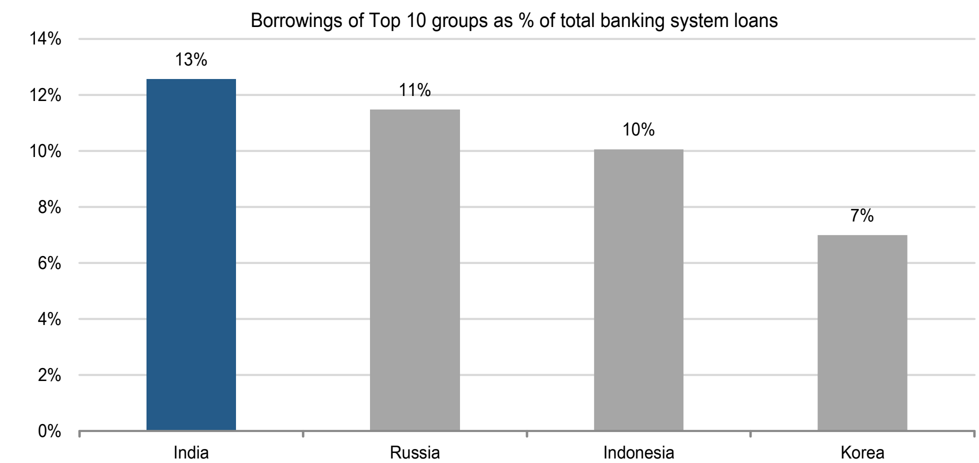
Figure 9: India bank's concentration to top borrowers at a high relative to regional peers



Note: For Russia, Korea and India, exposure is to top 20 borrowers while it is top 10 for Brazil, Taiwan and China banks. Source: Company data, Credit Suisse

… particularly on group exposure terms

Figure 10: Group borrowing concentration is surprisingly higher than in Korea and Russia



Source: Company data, Credit Suisse

With economic slowdown and a largely similar exposure to sectors (power and metals) that are stressed, financials of these groups are stretched. Aggregate group debt-to-EBITDA is 7.6x, and already four of the ten have interest cover (EBIT/P&L interest cost) of <1.

Figure 11: **Steep growth in borrowings for top groups resulting in stretched financials**

Group Debt (Rs bn)	FY07	FY12	% CAGR	Interest cov	Debt/EBITDA
Adani Enterprise	44	695	74%	2.5	13.9
Essar Group	246	938	31%	0.6	12.6
GMR Group	37	329	55%	0.6	18.7
GVK Group	17	210	65%	1.1	18.2
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Top-10 group debt	**993**	**5,395**	**40%**	**1.5**	**7.6**
Banking system loans	17,570	42,897	20%		

Source: Company data, Capitaline, Prowess, Credit Suisse

Average group debt/EBITDA is 7.6x

Moreover, we believe concentration risk is high as (1) all banks appear to have high exposure to the same select few groups and (2) investments of most of these groups are in similar sectors and projects (primarily, power and metals) and much of those are stressed. Asset profile of many of these groups is similar, with infra, and to a large extent, power assets driving up their investments in the past few years. Over the next three years, each of these groups has 2,000-4500MW of capacity likely to be commissioned, much of which faces issues relating to coal/gas supply and PPAs. Note that these ten groups account for 70% of the private sector power capacity that is expected to come up by FY17.

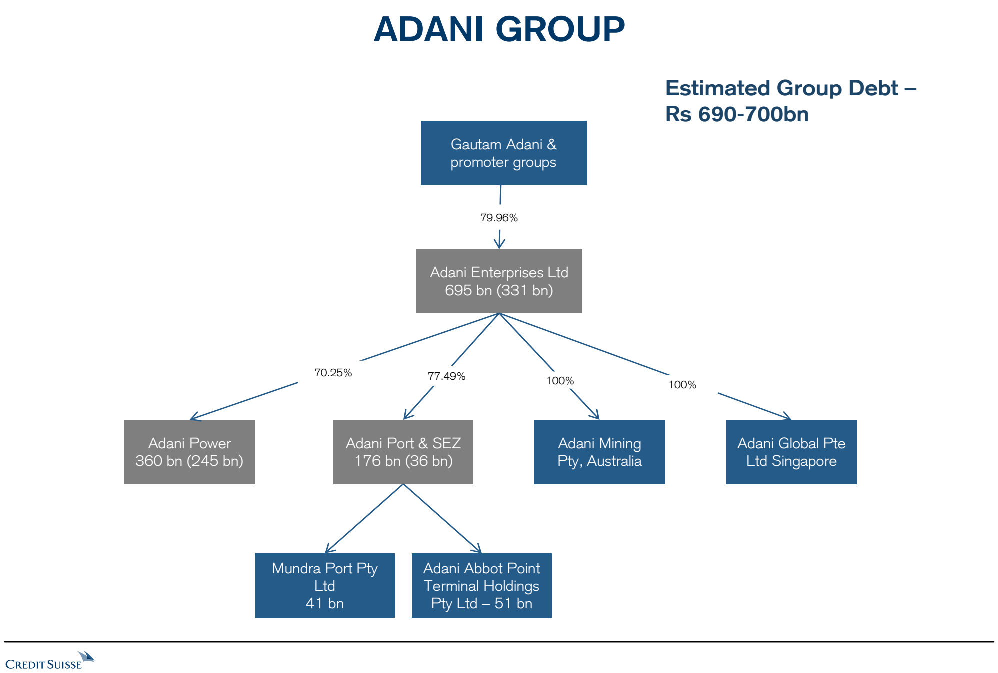
These groups account for 70% of the planned power capacity addition

Adani Group

Adani is a diversified business conglomerate in the infrastructure and commodities space with interest in power, trading, energy, ports, mining and oil & gas, among others. It had a balance sheet size of ~US$16.5 bn as of March 2012. Adani Power has expanded its power generation capacity to 4.0GW since 2009 with a further 5.3GW of capacity under advanced stages of construction, and plans to raise its total capacity to 20GW by 2020. It has also acquired coal mines (in Australia in 2010, Indonesia) and a port in Australia (in 2011).

Infrastructure and energy focussed

Figure 12: **Adani Group companies and their debt**



Source: Company data, Capitaline, Credit Suisse

Figure 13: **Key financials and trend in gross borrowings**

FY12, Rs mn	Debt	Equity	EBITDA	EBIT	PAT	Interest coverage	Debt/EBITDA
Adani Enterprise	**694,789**	**194,898**	**49,978**	**37,738**	**18,392**	**2.5**	**13.9**
Adani Ports	175,678	50,034	20,653	16,619	11,021	4.5	8.5
Adani Power	360,053	60,420	13,252	7,347	(2,873)	2.1	27.2
Gross borrowings	**FY07**	**FY08**	**FY09**	**FY10**	**FY11**	**FY12**	
Adani Enterprise	**43,529**	**61,041**	**120,842**	**174,389**	**331,013**	**694,789**	
Adani Ports	N/A	20,655	28,957	37,062	35,953	175,678	
Adani Power	1,442	10,112	49,897	105,855	245,027	360,053	

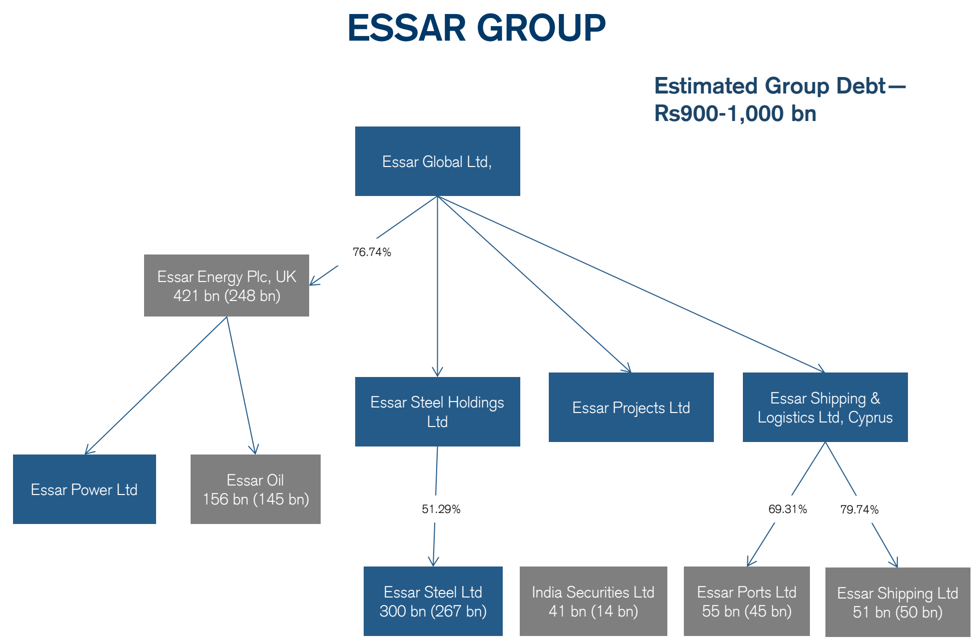
Source: Company data, Capitaline, Credit Suisse

Essar Group

Essar began as a construction company in 1969 and diversified into manufacturing, services and retail over the years, while expanding its global footprints as well, to Africa, Europe and Australia. The Group has been going through a large capex cycle, expanding capacities across the board. Essar Power has a generation capacity of 1,600MW, and it is being expanded to 6,100MW by end-2012, with plans to further push it to 11,470MW by 2014. Essar Ports has an aggregate capacity of 88MMTPA which is being expanded to 158 MMTPA and Essar Oil has already completed its refining capacity expansion from 10.5MMT to 20MMT. The Group also has 14 mn ton of steel capacity.

Key player in steel, energy and infra space

Figure 14: **Essar Group Structure**



Source: Company data, Capitaline, Credit Suisse; Group debt summation of the debt of the larger unconsolidated entities as mentioned in Figure 16

Figure 15: **Key financial parameters**

FY12, Rs mn	Debt	Equity	EBITDA	EBIT	PAT	Interest Coverage	Debt/EBITDA
Essar Energy Plc	420,558	200,558	(50)	(19,960)	(42,037)	N/A	N/A
Essar Ports	54,880	22,668	8,909	6,929	639	1.6	6.2
Essar Shipping	51,233	54,957	6,996	3,896	368	1.2	7.3
Essar Steel	300,000		19,375	9,511		0.6	15.5
India Securities Ltd	41,364	35,251	39,016	39,012	23,723	22.8	1.1
Group Total	**938,035**		**74,247**	**39,389**	**(17,306)**	**0.6**	**12.6**

Source: Company data, Capitaline, Credit Suisse

Figure 16: **Trend in gross borrowings**

Rs mn	FY07	FY08	FY09	FY10	FY11	FY12
Essar Energy Plc*	140,668	170,374	134,613	170,995	247,368	420,558
Essar Ports	32,976	41,701	67,389	75,075	44,815	54,880
Essar Shipping#					49,891	51,233
Essar Steel	72,206	62,581	74,764	184,014	266,695	370,000
India Securities Ltd	155	161	-	37	14,114	41,364
Total Group Debt	**246,005**	**274,816**	**276,765**	**430,121**	**622,883**	**938,035**

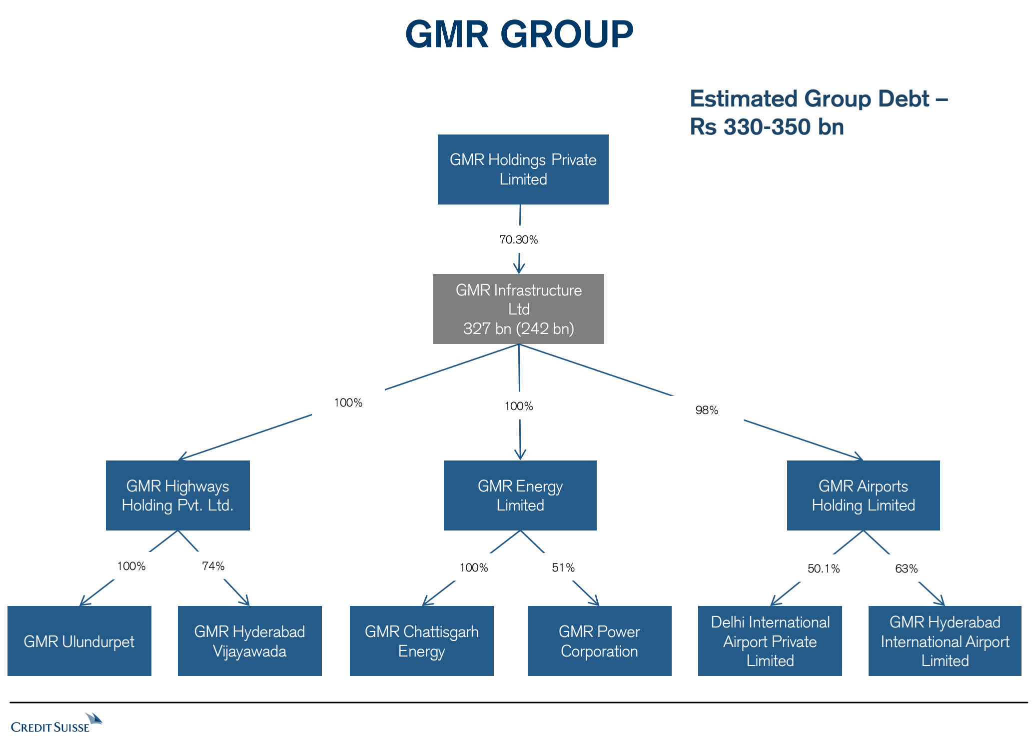
*Note: *holding co for Essar Oil and Essar Power, # de-merger in 2010. Source: Company data, Capitaline, Credit Suisse*

GMR Group

GMR is an infrastructure-focussed Group with interests in airports, energy and roads. The company developed and operates airports at Delhi and Hyderabad. GMR has 808MW of thermal power capacity and a further 5GW of thermal power and 2.1GW of hydro power capacity are under construction. The company has six operational highway projects and another four are under way with a project cost of ~Rs125 bn.

Power and airports are the key focus areas

Figure 17: GMR Group companies and their debt



Source: Company data, Capitaline, Credit Suisse

Figure 18: Key financials and trend in gross borrowings

FY12, Rs mn	Debt	Equity	EBITDA	EBIT	PAT	Interest coverage	Debt/EBITDA
GMR infra (consol)	328,823	111,096	17,582	9,671	(6,033)	0.6	18.7
Gross borrowings	**FY07**	**FY08**	**FY09**	**FY10**	**FY11**	**FY12**	
GMR infra (consol)	36,982	79,769	125,004	211,713	244,296	328,823	

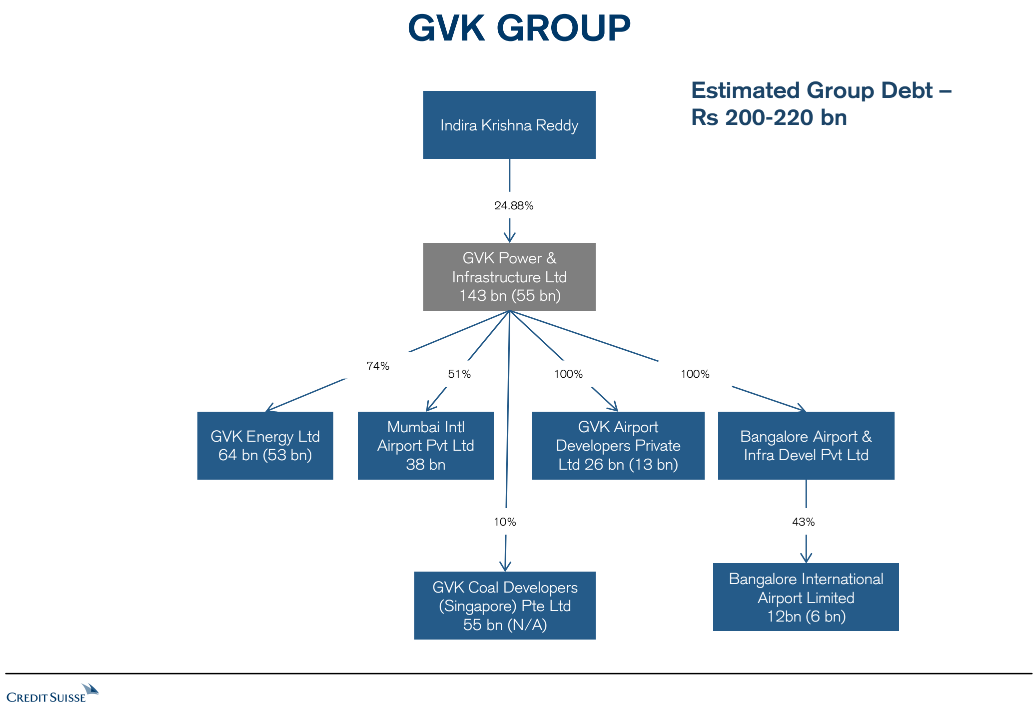
Source: Company data, Capitaline, Credit Suisse

GVK Group

GVK is a diversified conglomerate with interests across energy, airports, transportation, and hospitality. The Group has invested over US$3.3 bn and has projects worth more than US$6.6 bn in the pipeline in India. It owns over 900MW operational power plants and has around 5000MW projects under various stages of construction and development. GVK acquired the Hancock Coal Mines in Australia with 8 bn ton reserves for US$1.26 bn with further planned investment of US$10 bn. GVK has also developed and operates the Bangalore Airport and the Mumbai International Airport.

Energy and airport focussed, now making significant investments in Australia

Figure 19: GVK Group companies and their debt



Source: Company data, Capitaline, Credit Suisse; Group debt summation of the debt of the larger unconsolidated entities

Figure 20: Key financials and trend in gross borrowings

FY12, Rs mn	Debt	Equity	EBITDA	EBIT	PAT	Interest coverage	Debt/EBITDA
GVK infra (consol)	142,574	65,982	7,830	5,340	615	1.1	18.2
Gross borrowings	**FY07**	**FY08**	**FY09**	**FY10**	**FY11**	**FY12**	
GVK group	17,321	12,910	29,798	50,577	62,458	209,574	

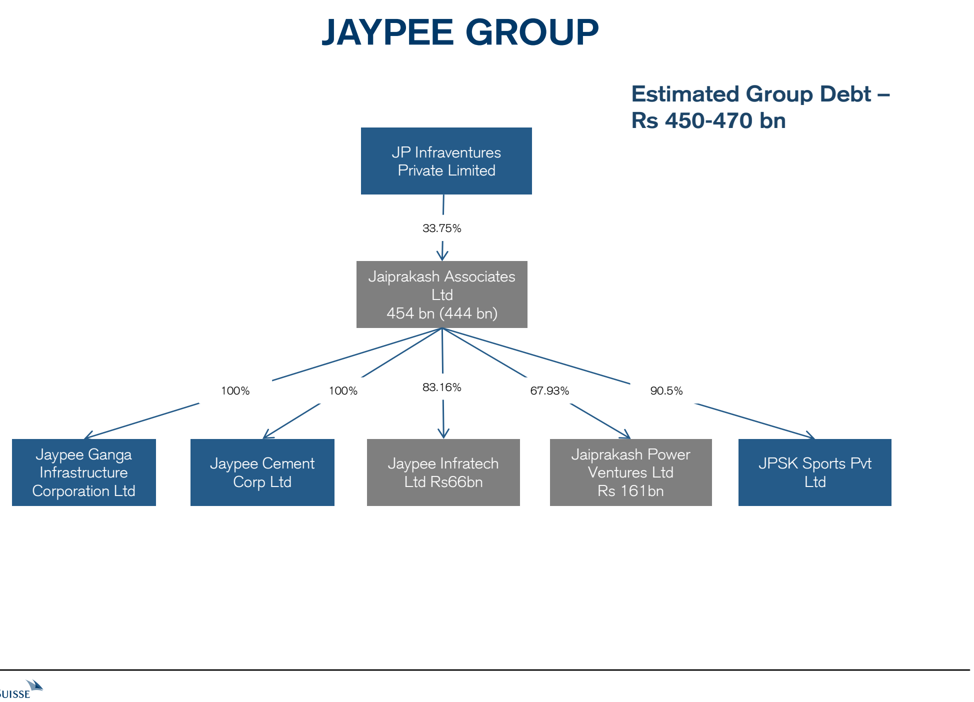
Source: Company data, Capitaline, Credit Suisse

Jaypee Group

Jaypee Group is an integrated infrastructure (expressways, hotels) conglomerate in India with exposure to power generation, cement, construction and the real estate sector. It is the largest private hydropower player with 1.7GW operational assets and another 3.9GW under construction. It has also 3.8GW of thermal power projects under construction. It is one of the largest cement producers with 28.3MTPA of operational capacity, and the company has plans to expand it to 40MTPA by year end. The Group has also undertaken real estate projects and expressway projects.

Road, real estate, cement and power focused conglomerate

Figure 21: Jaypee Group companies and their debt



Source: Company data, Capitaline, Credit Suisse

Figure 22: Key financials and trend in gross borrowings

FY12, Rs mn	Debt	Equity	EBITDA	EBIT	PAT	Interest coverage	Debt/EBITDA
JP associate (consol)	453,704	144,246	53,645	44,129	6,329	1.1	8.5
Gross borrowings	**FY07**	**FY08**	**FY09**	**FY10**	**FY11**	**FY12**	
JP associate (consol)	**80,952**	**115,832**	**194,788**	**352,711**	**444,450**	**453,704**	
JP Power Venture	10,698	9,001	9,889	68,660	133,459	160,984	
Jaypee Infratech	0	2,000	20,154	57,232	63,321	66,452	

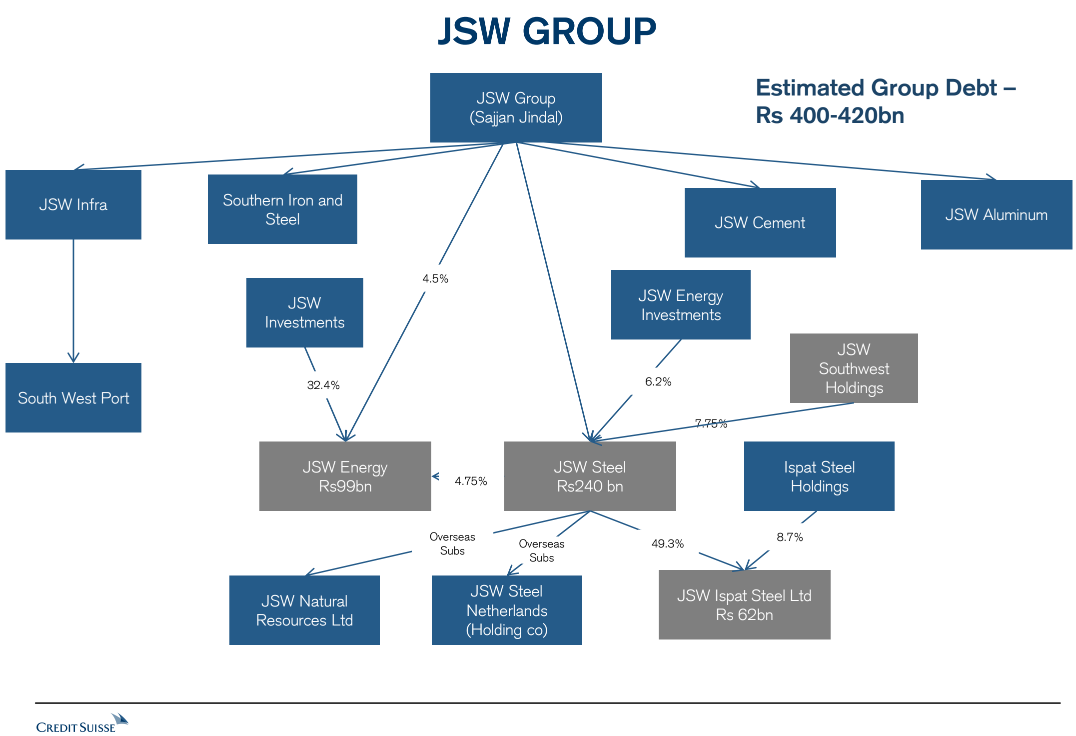
Source: Company data, Capitaline, Credit Suisse

JSW Group

JSW is a diversified conglomerate with interests in steel, energy, minerals & mining, infrastructure and logistics. JSW Steel acquired a controlling interest in Ispat Industries at an enterprise value of US$3 bn in 2010 to become the largest steel producer in India. JSW Energy has an operational capacity of 2.6GW, with 1.05GW under construction and another 8.1GW under the development phase.

Largest steel producer, scaling up presence in energy space

Figure 23: **JSW Group companies and their debt**



Source: Company data, Capitaline, Credit Suisse; Group debt summation of the debt of the larger unconsolidated entities as mentioned in figure 22

Figure 24: **Key financials and trend in gross borrowings**

FY12, Rs mn	Debt	Equity	EBITDA	EBIT	PAT	Interest coverage	Debt/EBITDA
JSW Steel	239,959	167,496	58,575	39,243	5,377	2.7	4.1
JSW Ispat	62,157	11,631	5,970	5,269	(5,305)	0.5	10.4
JSW Energy	99,950	57,000	15,940	10,910	1,700	1.5	6.3
Group Total	**402,066**	**N/A**	**80,485**	**55,422**	**1,772**	**1.7**	**5.0**
Gross borrowings	**FY07**	**FY08**	**FY09**	**FY10**	**FY11**	**FY12**	
JSW Steel	41,730	121,362	165,502	161,730	186,000	239,959	
JSW Ispat	83,155	72,250	73,558	71,859	69,341	62,157	
JSW Energy	7,071	22,727	59,272	78,701	96,380	99,950	
Total group Debt	**131,956**	**216,339**	**298,332**	**312,291**	**351,721**	**402,066**	

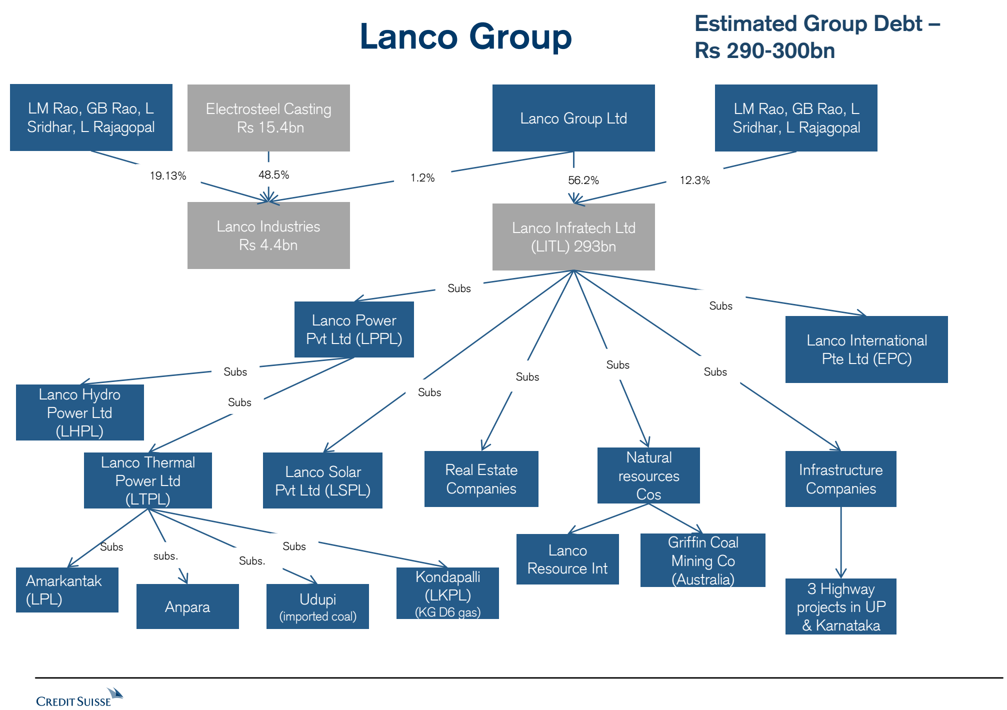
Source: Company data, Capitaline, Credit Suisse

Lanco Group

Lanco is a diversified business group with balance sheet size of US$6.9 bn, and operates in the construction (EPC), power, solar, natural resources and infrastructure sectors. Lanco has emerged as one of the largest IPPs (Independent Power Project) in India with 3.3GW of operating capacity, 6GW of capacity under construction and another 3.3GW under initial stages of development. Lanco's road portfolio consists of three highway projects of total length of about 446 km.

Largely power sector focussed

Figure 25: **Lanco Group companies and their debt**



Source: Company data, Capitaline, Credit Suisse

Figure 26: **Key financials and trend in gross borrowings**

FY12, Rs mn	Debt	Equity	EBITDA	EBIT	PAT	Interest coverage	Debt/EBITDA
Lanco Infratech (consol)	280,363	47,061	17,899	12,271	(1,120)	1.2	15.7
Gross borrowings	**FY07**	**FY08**	**FY09**	**FY10**	**FY11**	**FY12**	
Lanco group (consol)	17,099	31,650	55,970	83,614	166,517	292,526	

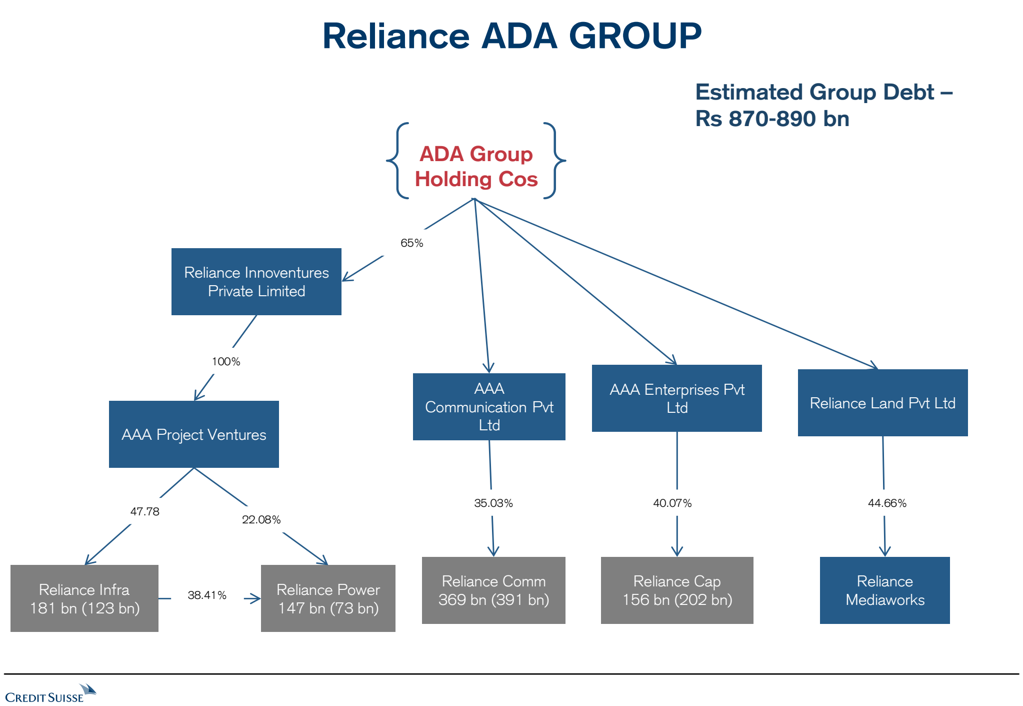
Source: Company data, Capitaline, Credit Suisse

Reliance ADA Group

Reliance ADAG is a diversified conglomerate with presence in many sectors including telecom, financial services, power, infrastructure and entertainment. Reliance Communications is an integrated telecom player with a retail customer base of about 2.5 mn. Reliance Power, the power generation arm, currently has a generation capacity of 1.5GW and targets to achieve 5GW by 2012 and 17GW by 2015. Reliance Infrastructure has 11 road projects totalling 1,000 km under construction and worth about US$2.6 bn. The metro system in Delhi and Mumbai for more than 75 km of track is also under way for the company.

Well-diversified conglomerate

Figure 27: **Reliance ADAG companies and their debt**



Source: Company data, Capitaline, Credit Suisse; Group debt summation of the debt of the larger unconsolidated entities as mentioned in figure 22

Figure 28: **Key financials and trend in gross borrowings**

FY12, Rs mn	Debt	Equity	EBITDA	EBIT	PAT	Interest coverage	Debt/EBITDA
Reliance Infra	181,163	243,403	27,826	31,404	15,858	2.4	6.5
Reliance Power	146,519	175,712	6,239	12,500	8,668	4.2	23.5
Reliance Comm	369,178	375,810	57,850	18,070	9,280	1.1	6.1
Reliance Capital	155,925	118,994	27,728	27,693	4,578	1.2	5.6
Group Total	**852,785**		**119,643**	**89,666**	**38,383**	**1.6**	**7.1**
Gross borrowings	**FY07**	**FY08**	**FY09**	**FY10**	**FY11**	**FY12**	
Reliance Infra	66,502	59,036	101,054	85,839	123,052	181,163	
Reliance Power		4,483	13,325	22,406	73,348	146,519	
Reliance Comm	174,383	258,217	391,623	297,154	390,714	369,178	
Reliance Capital	14,030	93,262	141,071	145,193	201,536	155,925	
Total group debt	**260,782**	**424,254**	**707,422**	**639,134**	**808,474**	**867,153**	

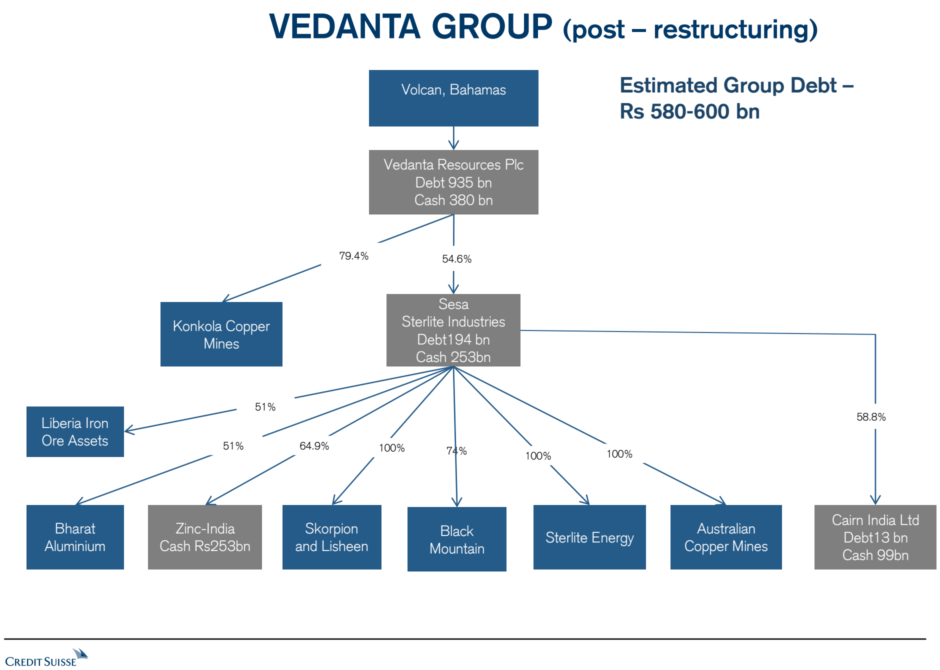
Source: Company data, Capitaline, Credit Suisse

Vedanta Group

A global resource company

Vedanta Resources is a global diversified resources company headquartered in London. It is the largest mining and non-ferrous metals company in India, with mining operations in Australia and Zambia too. Copper, zinc, aluminium, lead and iron ore are its main products. Vedanta entered the power generation space with developing power stations in Orissa (2,400MW) and Punjab (1,980MW). The Group has a capex plan of US$19 bn over a period of 3-4 years of which two-thirds have already been spent by Sep 2011.

Figure 29: **Vedanta Group companies and their debt**



Source: Company data, Capitaline, Credit Suisse

Figure 30: **Key financials and trend in gross borrowings**

FY12, Rs mn	Debt	Equity	EBITDA	EBIT	PAT	Interest coverage	Debt/EBITDA
Vedanta Resources plc*	**554,725**	**1,013,073**	**225,473**	**148,011**	**67,579**	**2.8**	**2.6**
Cairn	12,518	482,921	92,544	78,141	79,378	34.6	0.1
Sterlite	150,453	582,547	125,540	80,335	48,280	12.6	1.3
Sesa Goa	37,413	151,182	37,346	36,285	31,292	8.4	1.0
Gross borrowings	**FY07**	**FY08**	**FY09**	**FY10**	**FY11**	**FY12**	
Vedanta Resources plc*	(25,201)	(125,065)	11,132	51,403	108,653	556,050	

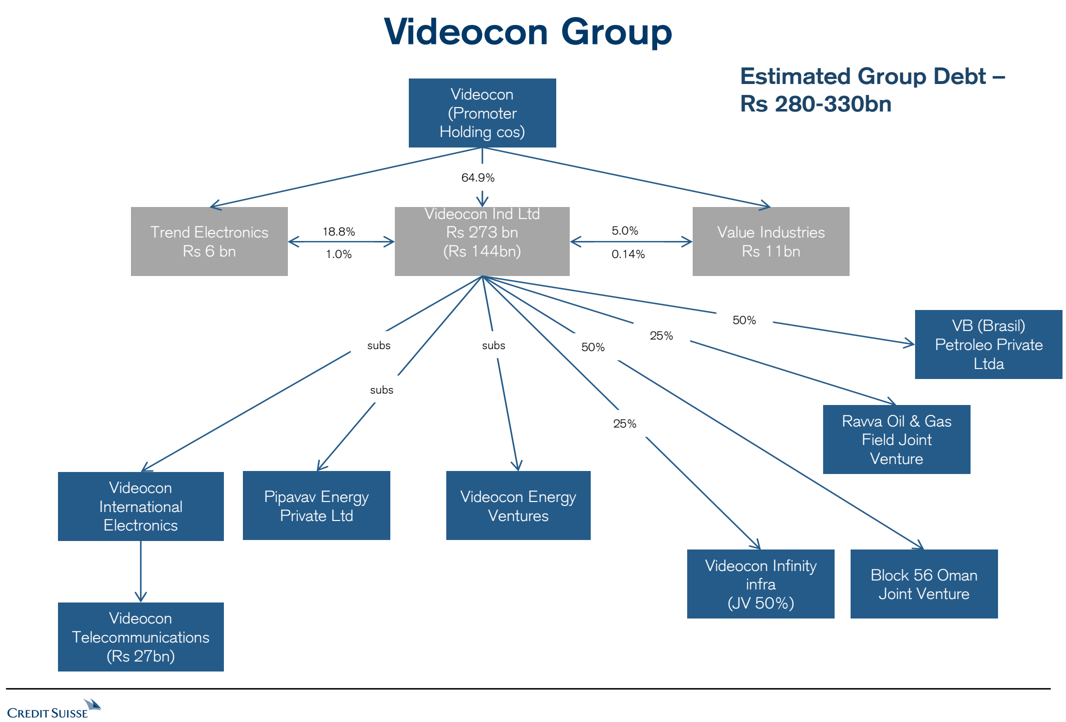
*Source: Company data, Capitaline, Credit Suisse; *net debt for Vedanta plc*

Videocon Group

Consumer electronics and energy conglomerate

Videocon is an industrial conglomerate with an annual turnover of US$4 bn, making it the largest consumer electronic and home appliance companies in India. The group has diversified interest in mobile phones, oil & gas, telecommunications and DTH services. It has expanded its footprints globally with manufacturing facilities in China, Poland and Turkey. An important asset for the group is its Ravva oil field which produces around 50,000 barrels of oil per day.

Figure 31: Videocon Group companies and their debt



Source: Company data, Capitaline, Credit Suisse

Figure 32: Key financials and trend in gross borrowings

CY11, Rs mn	Debt	Equity	EBITDA	EBIT	PAT	Interest coverage	Debt/EBITDA
Videocon Industries (Consol)	272,834	78,239	13,724	4,563	(13,731)	0.3	19.9
Gross borrowings	**Dec-06**	**Dec-07**	**Dec-08**	**Dec-09**	**Dec-10**	**Dec-11**	
Videocon Industries (Consol)	62,832	69,528	113,392	120,676	143,739	272,834	

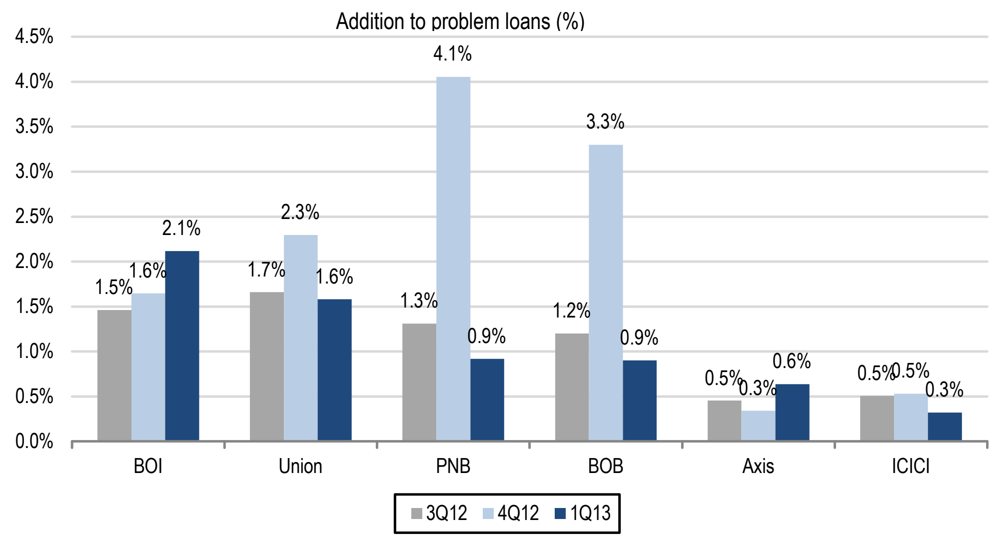
Source: Company data, Capitaline, Credit Suisse

Asset quality stress continues to be elevated

Meanwhile, problem asset accretion for Indian banks remains high. Even in the seasonally low non-performing loan (NPL) accretion quarter, NPL slippage as well as restructuring activity remained elevated for the banks in 1Q FY13.

NPA and Restructuring accretion remained high even in 1Q13

Figure 33: **Higher than expected NPL slippages in 1Q keeps problem loan addition elevated**



Source: Company data, Credit Suisse estimates

Figure 34: **Problem-asset cover at public sector banks is low**

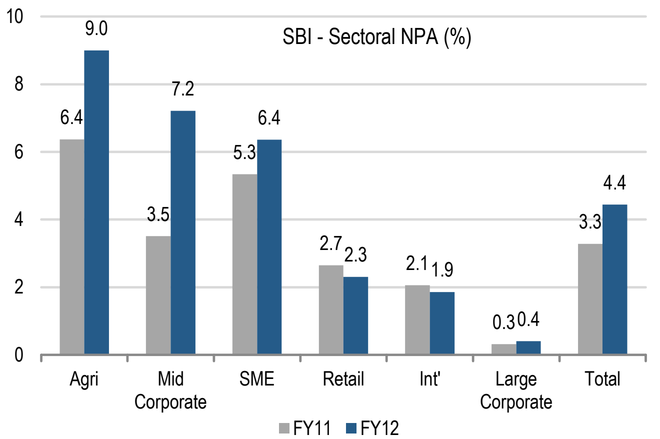
1Q13	PNB	BOB	BOI	Union	IOB	SBI	ICICI	HDFC Bk	Axis	Yes
Gross NPL	99,882	53,194	67,518	65,415	39,201	396,765	98,166	20,863	20,917	1,095
Net NPL	49,170	18,445	44,134	37,472	19,074	158,189	19,050	3,960	6,049	237
Gross NPL (%)	3.3%	1.8%	2.6%	3.8%	2.7%	4.5%	3.6%	1.0%	1.2%	0.3%
Net NPL (%)	1.7%	0.6%	1.7%	2.2%	1.4%	1.8%	0.7%	0.2%	0.4%	0.1%
Coverage (%)	51%	65%	35%	43%	51%	60%	81%	81%	71%	78%
Restructured assets	240,480	194,822	205,894	135,210	126,400	427,440	41,720	6,400	38,270	1,965
Restrd assets (% of loans)	8.2%	6.8%	7.8%	7.8%	9.0%	4.9%	1.6%	0.3%	2.0%	0.5%
Total problem loans (%)	11.5%	8.7%	10.4%	11.5%	11.7%	9.4%	5.1%	1.3%	3.2%	0.8%
Unprov problem loans (% of BV)	**110%**	**81%**	**127%**	**133%**	**135%**	**70%**	**10%**	**3%**	**19%**	**5%**
Net NPL as a % of BV	18.6%	7.0%	22.4%	28.9%	17.7%	18.8%	3.2%	1.3%	2.7%	0.5%

Source: Company data, Credit Suisse estimates

Large corporate stress still to be reflected in problem loans

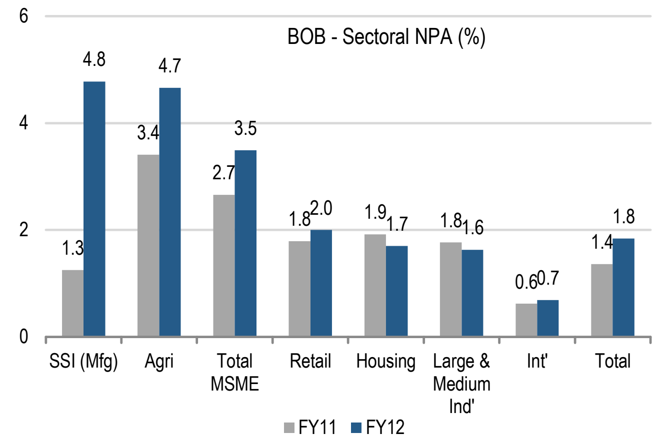
Most of the problem loan accretion to date has emanated from agriculture, SME and mid-corporate segments. We believe the large corporate stress is still not reflected in the problem-asset rise reported by the banks.

Figure 35: **Stress from large corporate segment yet to show**



Source: Company data, Credit Suisse estimates

Figure 36: **Corporate and international segments have the lowest NPAs for BOB**



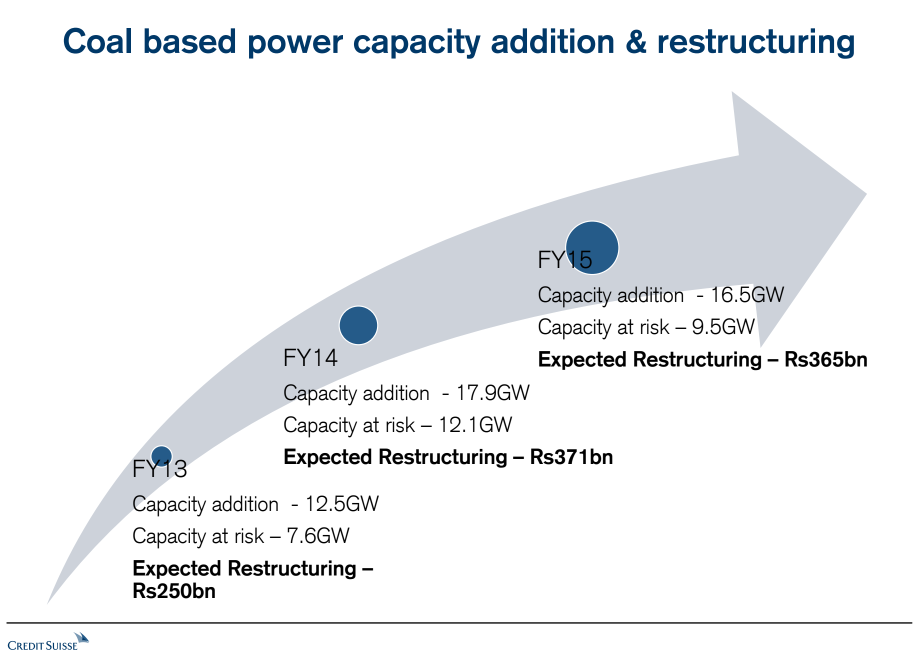
Source: Company data, Credit Suisse estimates

Project loan restructuring will further push up problem loans

Over the next 12 months, 12.5GW of thermal power capacity (pvt sector) is scheduled to get commissioned. We expect 7.6GW capacity may need restructuring.

Project loan restructuring likely to accelerate

Figure 37: **Expect restructuring of ~Rs950 bn by FY15; capacity at risk is ~30GW**



Source: Company data, Credit Suisse estimates

Particularly, gas-based capacity (14GW operational/under-construction) is likely to be under stress given the lack of fuel availability.

Figure 38: 14GW of gas-based capacity potentially stressed

Project	Company	Expected commissioning	Capacity (MW)	Project cost (Rs bn)	Estimated debt (Rs bn)	PLF (%)
Bawana	Delhi State Govt.	Ready for operation	1500	45.0	31.5	
Essar Power	Essar Power		1015	45.0	31.5	
Vemagiri Phase II	GMR	FY13-14	764	34.4	20.6	35%
Tanir Bavi (expansion)	GMR	FY13-14	300	13.5	8.1	
Gautami Power	GVK	Operational	464	19.0	13.3	37%
GVK - Phase I	GVK	Operational	217		0.0	
GVK - Phase II	GVK	Operational	479	19.2	13.4	
Lanco Kondapalli phase II	Lanco	Dec 09/ Jun 10	366	12.8	9.0	
Lanco Kondapalli phase III	Lanco	Mar 12	742	26.0	18.2	
RGPPL	Ratnagiri - Stake NTPC/GAIL	Operational	1940	126.0	75.6	
Samalkot	Reliance Power	FY12-13	2400	100.0	70.0	
Peddapuram	Reliance Infra	Near operational	1200	54.0	37.8	
Torrent Sugen	Torrent	Operational	1148	30.0	30.0	54%
Torrent Vatva	Torrent	Operational	100	4.5	3.4	
Konaseema (Defaulted)	VBC Group	Operational	460		14.0	
Total			14,010		376	

Source: Company data, Credit Suisse

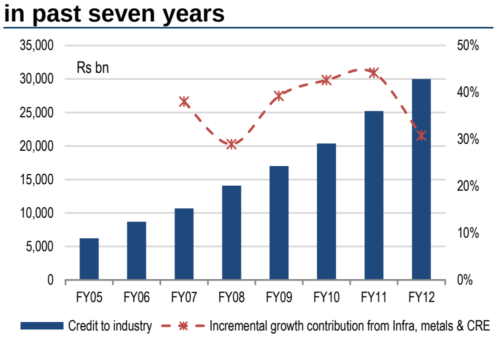
Moving from capex to funding rising receivables

Over the past seven years, bank loans to corporate India have grown 5x to US$470 bn (26% CAGR). Nearly 40% of these loans went to sectors such as infra, metals and real-estate over FY06–11 as they were undertaking aggressive asset build-up.

Bank exposure to metal and infra has been increasing

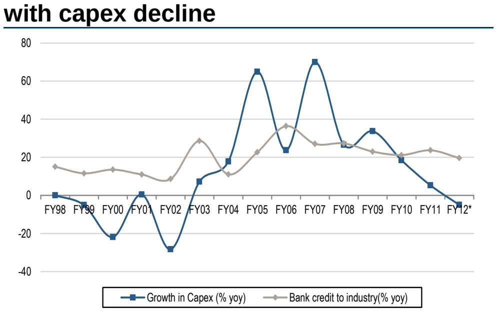
…even as capex growth has dropped

Figure 39: Corporate loans have grown 5x in past seven years



Source: Business Beacon, Credit Suisse

Figure 40: Loan growth has not dropped with capex decline



Source: RBI report—Corporate Investment: Growth in 2010-11 and Prospects for 2011-12.

However, over the past year, even as corporate capex and industrial production slowed, the overall loan growth of the banking system (at 17% YoY in June 2012) and the corporate loan growth (at 19% YoY) have held up surprisingly well, considering that till FY11, capex spend was equivalent to 70–95% of the corporate loans.

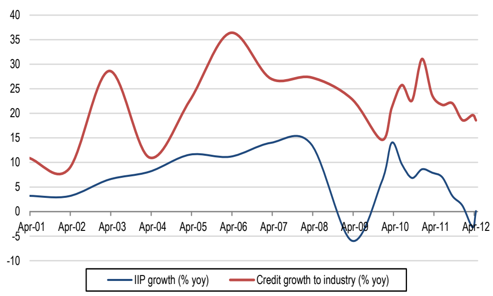
Corporate loan growth still at 20%...

Fall in capex/IIP not reflected in credit growth

Gross fixed capital formation (GFCF) growth, which tends to lead credit growth, fell to 9% for 4Q FY12, while IIP growth was at just 0.1% for Apr-12. Credit growth to industry however held up well (19% as of May-12) especially considering the visible slowdown in the infra segment. Growth in metals, cement and engineering has remained strong. Historically, capex spent has been equivalent to 70–95% of the bank corporate loans. With capex growth on a downtrend (negative growth in FY12), credit growth is being incrementally driven by a higher demand for working capital loans.

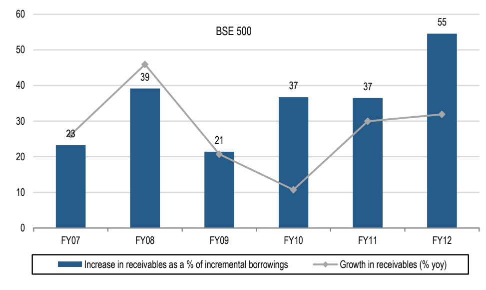
IIP growth has stalled (Apr-12: -0.9%, May-12: +2.4%)

Figure 41: Divergence in IIP growth and credit growth also increasing



Source: Business Beacon, Credit Suisse

Figure 42: Rise in receivables equivalent to 55% of incremental borrowings



Source: Prowess, Company data, Credit Suisse

Rising working capital underlines the economic slowdown

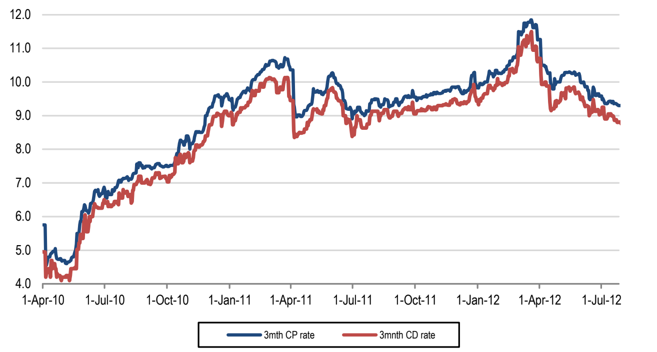
Our analysis of the BSE-500 companies shows that receivables has been rising 30-32% YoY in past two years compared with 10-20% in the previous two years. The rise in receivables for the BSE-500 companies equated to 55% of their incremental borrowings in FY12 compared with 30-40% in the previous years. In this set of companies, the 75 companies with the largest increase in debt levels also witnessed an even steep 54% YoY rise in receivable levels. The increase in debt for these 75 companies was almost at 100% of the total increase in debt of the BSE-500 companies. Meanwhile, growth in net fixed assets for FY12 slowed to 14% YoY from 20% in FY11 and 25-40% levels in FY05–09, reflecting the slowdown in capex growth.

Bank loans appear to be funding rising receivables

Some macro positives emerging

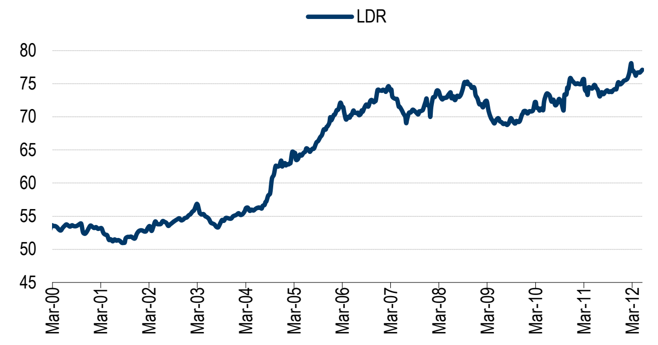
Over the past few weeks, wholesale rates have moderated, domestic liquidity deficit contracted and the current account deficit appears to be narrowing. However, GDP growth outlook continues to be weak.

Figure 43: Wholesale rates have moderated below MSF



Source: Company data, Credit Suisse

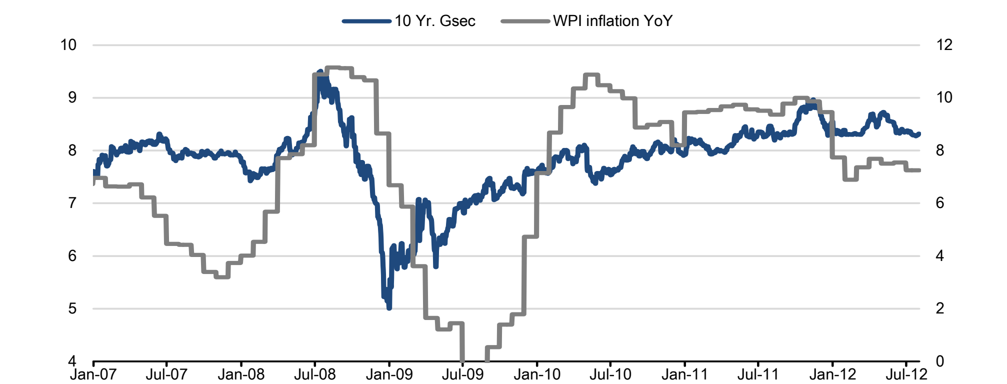
Figure 44: however, LDR remains at all time high



Source: Company data, Credit Suisse

Core inflation has eased significantly to sub-5% levels; however, weak monsoon poses upside risk to food inflation, which has been persistent.

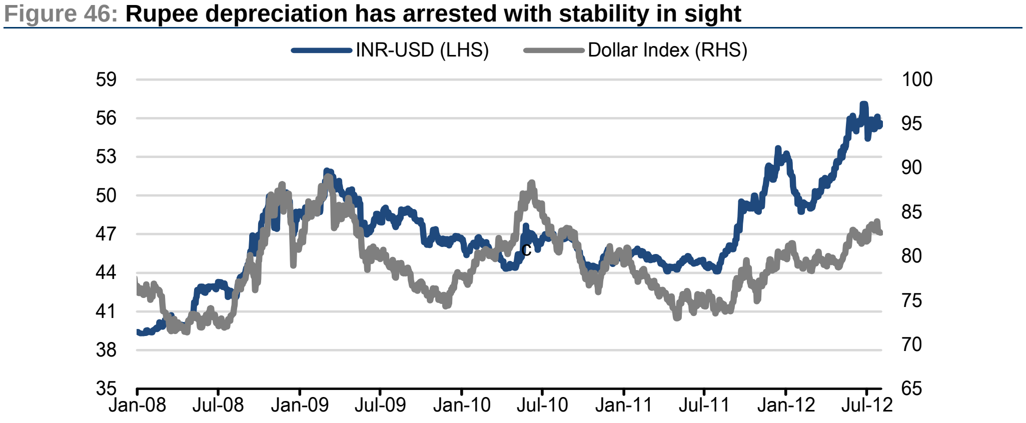
Figure 45: 10-yr G-sec yields have eased while inflation has moderated as well



Source: Company data, Credit Suisse

Bond yields are down 40 bp from March

Figure 46: Rupee depreciation has arrested with stability in sight



Source: Company data, Credit Suisse

INR is also stable

Asset sales a possible panacea?

Given the high leverage levels, poor profitability and pressure from lenders, virtually all of the ten debt-heavy groups have initiated to divest part of their assets (cement plants/power/road projects). However, given that most of the domestic infra developers are already over-geared, demand for these assets may be limited. Therefore, even though wholesale rates are showing signs of moderation, we continue to remain cautious on the corporate asset quality outlook for the banking sector. We maintain our UNDERWEIGHT stance and HDFC and HDFC Bank are our top picks. We continue to be cautious on corporate banks—SBI, ICICI, PNB, BOI, Union and Yes.

Figure 47: **Assets put on the block by the group companies to reduce leverage**

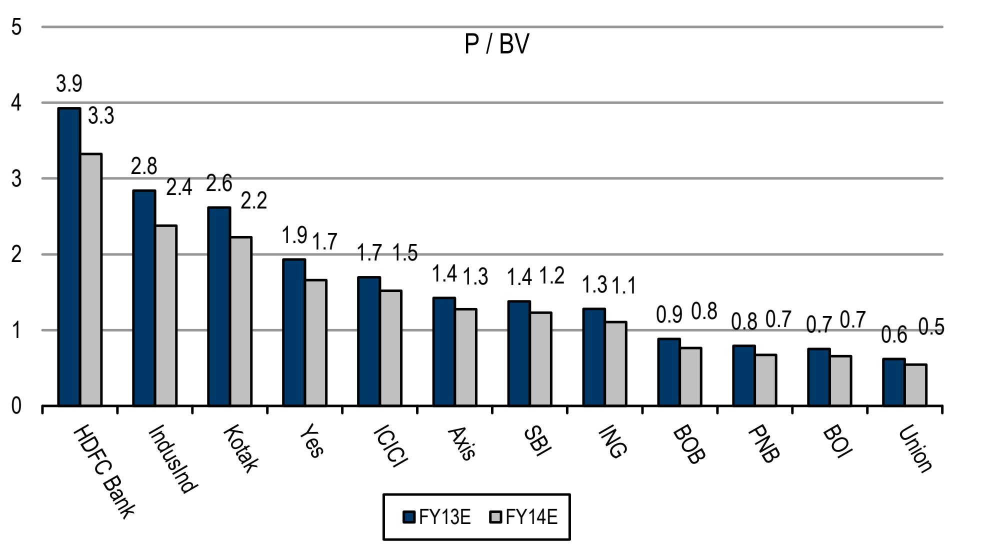
Adani Enterprises	To raise US$1 bn by selling 2.5% stake in Adani Ports and diluting 5% equity in another listed entity.
Essar	Sold 50% stake in Vietnam's offshore gas exploration
GMR Infra	In talks with private equity to sell stake in road assets to raise US$200 mn
GVK	Planned stake sale in airport holdings to raise US$650 mn Planned stake sale in Australian coal mines (Hancock)
Jaiprakash Associates	In talks to sell its cement plants in Gujarat and Andhra Pradesh
JSW	JSW Group has put two of its office properties in Mumbai on the block
Lanco Infratech	Seeks buyers for its real estate business for Rs27 bn To raise US$750 mn from a minority stake sale in its power business
Reliance ADAG	Proposed stake sale in Reliance Communications and its tower business Proposed stake sale in Reliance Mediaworks for Rs6 bn Proposed stake sale in Big Cinemas
Videocon	To sell 40% stake in its consumer electronics goods retail chain, Next

Source: Company data, Credit Suisse

PSU banks have under-performed

PSU banks have corrected 10-15% in the past three months and the nominal valuations at 0.6-0.8x BV appear cheap. However, in the past two quarters, there has been a significant increase in the stock of problem assets (problem loans at 10-12% of loan book), while banks have continued to under-provide (problem asset coverage of 15-25%). Un-provided loans as a percentage of BV have increased to 55-130%.

Figure 48: **Valuations appear inexpensive on P/BV basis for PSU banks**

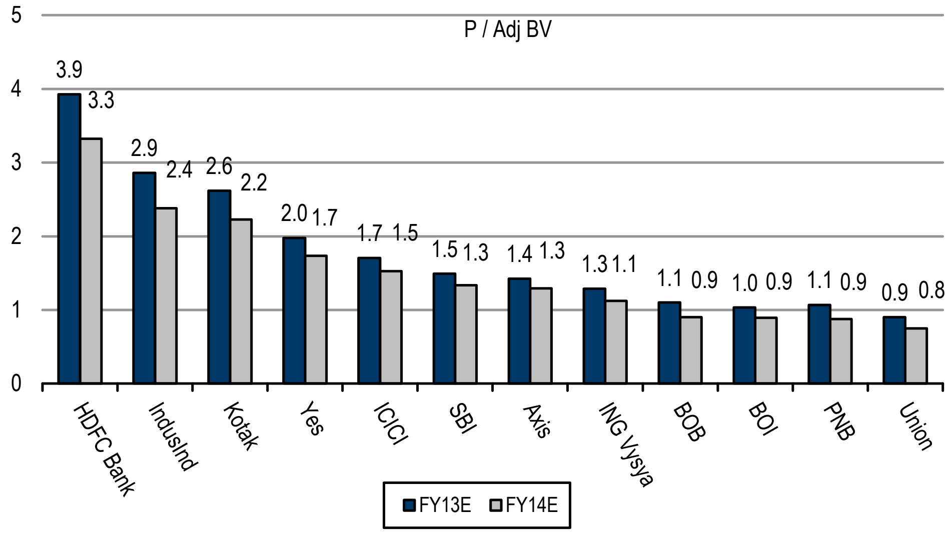


Source: Company data, Credit Suisse estimates

But remain under-provisioned

Thus, despite appearing inexpensive on 0.6-0.8x book, with un-provided problem loans now over 100% of book value and rising, we do not expect a recovery any time soon. We maintain our UNDERWEIGHT stance on the sector.

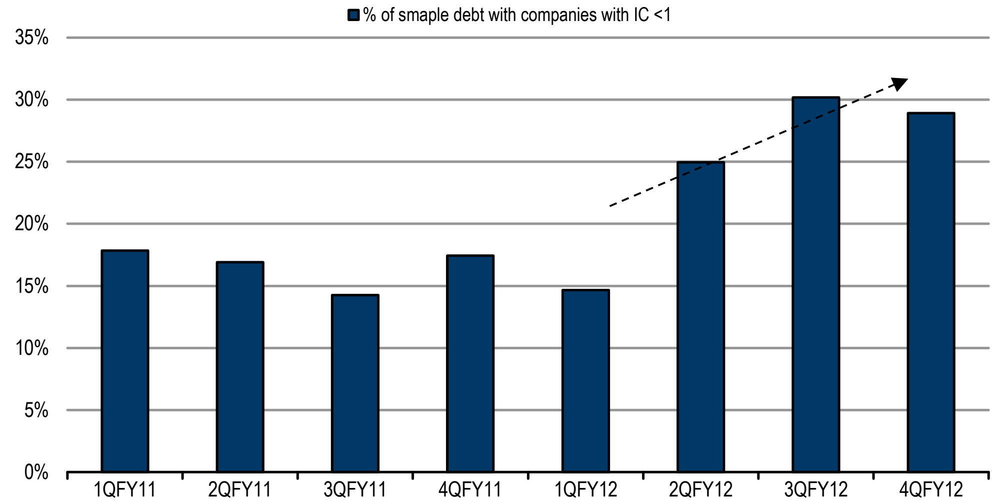
Figure 49: PSU banks trading at ~1x BV on erosion in adj. BV due to large problem assets



Source: Company data, Credit Suisse estimates

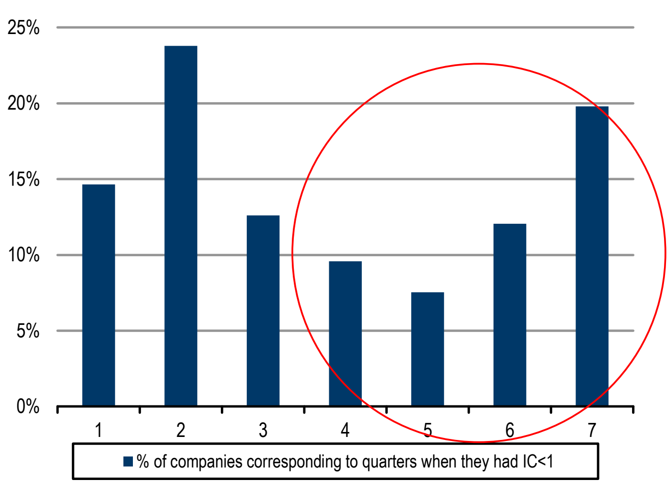
Appendix A

Figure 50: **Corporate stress remains high as 28% loans with companies have IC<1**



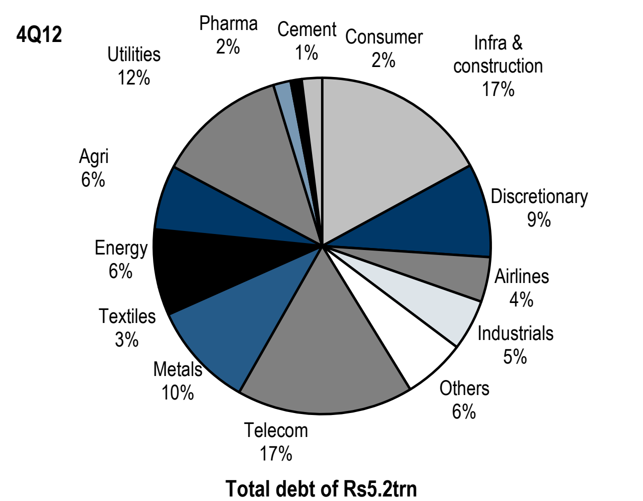
Source: Company data, Credit Suisse estimates

Figure 51: **50% companies with IC<1 have chronic issues**



Source: Company data, Credit Suisse

Figure 52: **Infra, metal and telecom have the largest share among the companies with IC<1**



Source: Company data, Credit Suisse

Figure 53: Most of the companies with IC<1 in 4Q12 has a persistent problem

Rs mn	FY11 gross borrowings	FY12 gross borrowings	Q4 EBIT	Q4 interest	Q4 interest coverage	No. of quarters with IC<1* 0←--------→7
Reliance Communications Ltd.	390,714	399,948	3,610	5,790	0.6	
Adani Power Ltd.	245,027	327,284	-1,707	2,524	-0.7	
G M R Infrastructure Ltd.	244,585	356,133	458	4,646	0.1	
Lanco Infratech Ltd.	155,008	288,577	918	3,040	0.3	
Essar Oil Ltd.	145,818	164,648	760	4,550	0.2	
Jet Airways (India) Ltd.	136,991	130,290	-1,231	2,579	-0.5	
Jaiprakash Power Ventures Ltd.	136,589	162,702	1,733	2,426	0.7	
Reliance Infrastructure Ltd.	123,052	205,614	3,953	4,193	0.9	
Suzlon Energy Ltd.	122,637	118,621	2,016	4,239	0.5	
G T L Infrastructure Ltd.	114,440	114,440	66	871	0.1	
United Breweries (Holdings) Ltd.	95,230	95,230	337	591	0.6	
Jindal Stainless Ltd.	89,483	98,358	225	1,503	0.1	
Bajaj Hindusthan Ltd.	87,599	110,166	1,019	1,336	0.8	
Tata Communications Ltd.	84,952	84,952	-75	1,858	0.0	
Unitech Ltd.	82,408	82,408	215	252	0.9	
Mahanagar Telephone Nigam Ltd.	74,586	74,586	-11,753	2,694	-4.4	
Hindustan Construction Co. Ltd.	73,348	75,284	476	1,509	0.3	
Kingfisher Airlines Ltd.	70,571	82,103	-4,729	2,889	-1.6	
K S K Energy Ventures Ltd.	70,481	100,903	663	1,461	0.5	
J S W Ispat Steel Ltd.	69,341	69,341	381	2,680	0.1	
Shree Renuka Sugars Ltd.	65,021	100,724	686	2,078	0.3	
United Spirits Ltd.	63,811	101,392	1,571	1,663	0.9	
M M T C Ltd.	62,380	62,380	444	752	0.6	
Shipping Corpn. Of India Ltd.	47,152	47,152	-3,082	1,140	-2.7	
Punj Lloyd Ltd.	45,425	55,920	1,822	1,868	1.0	
G T L Ltd.	41,365	45,265	-366	2,015	-0.2	
Electrosteel Steels Ltd.	41,098	60,590	-426	345	-1.2	
Tata Teleservices (Maharashtra) Ltd.	40,996	49,480	-96	1,239	-0.1	
Bharati Shipyard Ltd.	38,844	38,844	478	1,592	0.3	
Hotel Leelaventure Ltd.	38,032	44,322	-851	1,150	-0.7	
Sterling Biotech Ltd.	37,438	37,438	-327	1,037	-0.3	
Kesoram Industries Ltd.	37,079	45,907	-664	1,126	-0.6	
Moser Baer India Ltd.	36,282	36,282	-38	632	-0.1	
Mercator Ltd.	32,735	36,393	132	595	0.2	
Great Offshore Ltd.	32,185	35,640	455	501	0.9	
Adhunik Metaliks Ltd.	30,219	36,980	138	618	0.2	
Century Textiles & Inds. Ltd.	30,096	38,100	278	661	0.4	
Entegra Ltd.	29,836	29,836	-32	101	-0.3	
Gujarat N R E Coke Ltd.	28,176	32,166	-119	603	-0.2	
Varun Shipping Co. Ltd.	27,652	27,652	-1,096	607	-1.8	
Gammon Infrastructure Projects Ltd.	27,575	35,175	414	539	0.8	
3I Infotech Ltd.	25,349	25,242	-1,978	562	-3.5	
K S Oils Ltd.	24,382	24,382	-826	237	-3.5	
I V R C L Assets & Holdings Ltd.	23,208	23,208	98	313	0.3	
Electrotherm (India) Ltd.	23,129	23,129	-547	907	-0.6	
Ramsarup Industries Ltd.	20,856	20,856	-206	535	-0.4	
H M T Ltd.	19,895	19,895	35	226	0.2	
Reliance Mediaworks Ltd.	19,824	17,098	-769	537	-1.4	
Jai Balaji Inds. Ltd.	19,312	19,312	-417	678	-0.6	

Source: Company data, Credit Suisse

** The column length indicates number of quarters for which IC is <1 ranging from 1 to7; companies marked in red have turned NPA, while in orange are restructured accounts, blue denotes in pipeline for restructuring. Source: Company data, Credit Suisse*

Appendix B: List of thermal power projects facing potential stress

Figure 54: **List of thermal power projects facing potential stress**

Company	Project	Expected commission'g	Capacity (MW)	Project cost (Rs bn)	Estimated debt (Rs bn)	PLF	Triggers
Adani	Mundra Phase IV	mid-2012	1,980	93	70	49%	Linkage coal but no FSA
	Tiroda	mid-2012	1,980	99	74	Under Cons	Captive mine in no-go. Re-negotiation of tariff with Haryana electricity board
	Kawai	FY14	1,320	59	47	Under Cons	Captive mine in no-go.
	Tiroda expansion	FY14	1,320	66	50	Under Cons	Linkage coal but no FSA
JPVL	Bina I	1HFY13	500	26	20	Under Cons	Producing high cost power with project economics unsustainable
	Karchana Phase I	FY14	1,320	72	54	Under Cons	Delay in commissioning. Linkage coal but no FSA
	Bara Phase I	FY14	1,980	108	81	Under Cons	No FSA, however have 100% pass-through PPA. Relatively better placed
KSK	Mahanadi Expansion	FY14-15	1,800	81	60	Under Cons	Captive mine stuck in environment clearance and has no PPA
Lanco	Udupi	Operational	1,200	62	47	44%	Non-resolution of issue on pass-through of capacity charges until transmission link is delayed
	Anpara	Operational	1,200	62	47	46%	Linkage coal but no FSA
	Amarkantak Phase III	FY13	660	34	26	Under Cons	Linkage coal but no FSA and no long term PPA
	Amarkantak Phase IV	FY14	660	34	26	Under Cons	Linkage coal but no FSA and no long term PPA
	Vidarbha	FY14	1,320	69	55	Under Cons	Linkage coal but no FSA
Reliance Power	Butibori	FY13	600	31	23	Under Cons	Linkage coal but no FSA but has PPA with Mumbai electricity board
	Sasan	FY13-15	3,960	198	149	Under Cons	Very low tariff of Rs1.19/kwh, viable if captive coal allowed for both plants
	Chitrangi	FY16	3,960	206	154	Under Cons	Risk of non-allowance to use surplus coal from Sasan's mines
Tata Power	Mundra UMPP	FY12-14	4,000	192	144	90%	Imported coal based impacted by Indonesian regulations & spot coal exposure
IndiaBulls Power	Amravati - I	2QFY13	1,350	70	53	Under Cons	Linkage coal but no FSA
	Amravati - II	3QFY14	1,350	70	53	Under Cons	Linkage coal but no FSA and also no PPA, project execution slow
	Nashik - I	2QFY13	1,350	70	53	Under Cons	Linkage coal but no FSA
	Nashik - II	3QFY14	1,350	70	53	Under Cons	Linkage coal but no FSA and also no PPA, project execution slow
JSW energy	Ratnagiri	Operational	1,200	62	47	89%	Merchant and imported coal = profitability squeeze
	Vijayanagar	Operational	860	45	20		Merchant and imported coal, however debt level is lower as one unit is operational

Source: Company data, Credit Suisse

Figure 54: List of thermal power projects facing potential stress (Cont'd)

Company	Project	Expected commission'g	Capacity (MW)	Project cost (Rs bn)	Estimated debt (Rs bn)	PLF	Triggers
CESC	Chandrapur, Maharashtra	FY13	600	31	23	Under Cons	Linkage coal but no FSA also no PPA, so relatively worse off
	Haldia Phase I, West Bengal	FY14	600	31	23	Under Cons	Linkage coal but no FSA
	Dhenkanal, Orissa	FY15	1,320	69	51	Under Cons	Linkage coal but no FSA also no PPA, so relatively worse off
	Balagarh, West Bengal	FY16	1,320	69	51	Under Cons	Linkage coal but no FSA also no PPA, so relatively worse off
Sterlite	Jharsuguda	Mid 2012	2,400	125	94	45%	No coal allocation for 1/4th of merchant capacity. Rest based on linkage coal but no FSA
Essar	Salaya I	2QFY12	1,200	48	36	1%	Imported coal based impacted by Indonesian regulations
	Vadinar P2	3QFY12	510	27	20	0%	Imported coal based impacted by Indonesian regulations
	Mahan I	3QFY12	1,200	62	47	Under Cons	Captive mine stuck in Environment / Forest clearance
	Paradip	1QFY13	120	6	5	Under Cons	Imported coal based impacted by Indonesian regulations/ Linkage coal but no FSA
	Tori I	3QFY13	1,200	62	47	Under Cons	Linkage coal but no FSA
	Tori II	3QFY14	600	31	23	Under Cons	Linkage coal but no FSA
	Navbharat I	4QFY14	1,050	55	41	Under Cons	Linkage coal but no FSA
GMR	Emco Energy	FY13-14	600	31	23	Under Cons	Linkage coal but no FSA
Total			55,685	2,797	2,090		

Source: Company data, Credit Suisse

Companies mentioned (Prices as of 2 August 2012)

Figure 55: **Companies mentioned in the report**

Company	Ticker	Currency	CMP	Rating	Target Price
Axis Bank	AXBK.BO	INR	1,057.70	OUTPERFORM	1,421
Bank of Baroda	BOB.BO	INR	656.70	OUTPERFORM	867
HDFC Bank	HDBK.BO	INR	582.45	OUTPERFORM	575
ING Vysya	VYSA.BO	INR	381.15	OUTPERFORM	460
J&K Bank	JKBK.BO	INR	936.95	OUTPERFORM	1,093
Tata Communications Ltd.	TATA.BO	INR	244.15	OUTPERFORM	375
United Bank of India	UBOI.BO	INR	54.45	OUTPERFORM	134
Welspun Corp Ltd.	WGSR.BO	INR	102.20	OUTPERFORM	360
Bank of India	BOI.BO	INR	297.05	UNDERPERFORM	296
Indian Overseas Bank	IOBK.BO	INR	73.50	UNDERPERFORM	71
Lanco Infratech Ltd.	LAIN.BO	INR	12.98	UNDERPERFORM	15
Yes Bank	YESB.BO	INR	362.90	UNDERPERFORM	294
Essar Oil Ltd.	ESRO.BO	INR	55.85	NEUTRAL	53
HDFC Ltd	HDFC.BO	INR	699.50	NEUTRAL	725
ICICI bank	ICBK.BO	INR	958.70	NEUTRAL	794
IDFC	IDFC.BO	INR	133.55	NEUTRAL	135
IndusInd	INBK.BO	INR	326.00	NEUTRAL	265
Kotak Mahindra	KTKM.BO	INR	553.90	NEUTRAL	483
N C C Ltd.	NGCN.BO	INR	39.30	NEUTRAL	64
Punjab National Bank	PNBK.BO	INR	728.40	NEUTRAL	841
SBI	SBI.BO	INR	2,014.65	NEUTRAL	2,035
Tata Steel Ltd.	TISC.BO	INR	405.90	NEUTRAL	340
Union Bank	UNBK.BO	INR	174.35	NEUTRAL	212
3I Infotech Ltd.	TIIN.BO	INR	10.51	Not Covered	Not Covered
Alok Industries Ltd.	ALOK.BO	INR	15.70	Not Covered	Not Covered
Ankur Drugs & Pharma Ltd.	ANDP.BO	INR	14.62	Not Covered	Not Covered
Ansal Properties & Infrastructure	ANSP.BO	INR	26.90	Not Covered	Not Covered
Asahi India Glass Ltd.	AISG.BO	INR	60.00	Not Covered	Not Covered
Aurobindo Pharma Ltd.	ARBN.BO	INR	112.00	Not Covered	Not Covered
Bajaj Hindusthan Ltd.	BJHN.BO	INR	32.20	Not Covered	Not Covered
Bombay Dyeing & Mfg. Co. Ltd.	BDYN.BO	INR	506.00	Not Covered	Not Covered
C & C Constructions Ltd.	CCCL.BO	INR	55.40	Not Covered	Not Covered
Chennai Petroleum Corpn. Ltd.	CHPC.BO	INR	120.30	Not Covered	Not Covered
Cox & Kings Ltd.	COKI.BO	INR	137.7	Not Covered	Not Covered
D C M Shriram Consolidated Ltd.	DCMC.BO	INR	55.00	Not Covered	Not Covered
Electrosteel Castings Ltd.	ELST.BO	INR	18.10	Not Covered	Not Covered
Electrosteel Steels Ltd.	ELES.BO	INR	5.64	Not Covered	Not Covered
Electrotherm (India) Ltd.	ELTH.BO	INR	48.95	Not Covered	Not Covered
Entegra Ltd.	ENTI.BO	INR	10.0	Not Covered	Not Covered
Fortis Healthcare (India) Ltd.	FOHE.BO	INR	99.75	Not Covered	Not Covered
G M R Infrastructure Ltd.	GMRI.BO	INR	23.35	Not Covered	Not Covered
G V K Power & Infrastructure Ltd.	GVKP.BO	INR	13.64	Not Covered	Not Covered
Garden Silk Mills Ltd.	GARD.BO	INR	48.5	Not Covered	Not Covered
Great Eastern Shipping Co. Ltd.	GESC.BO	INR	258.05	Not Covered	Not Covered

Figure 55: Companies mentioned in the report – cont'd

Company	Ticker	Currency	CMP	Rating	Target Price
Great Offshore Ltd.	GOFS.BO	INR	81.10	Not Covered	Not Covered
GTL Infrastructure Ltd.	GTLI.BO	INR	8.12	Not Covered	Not Covered
GTL Ltd.	GTL.BO	INR	32.05	Not Covered	Not Covered
Gujarat N R E Coke Ltd.	GJNC.BO	INR	17.60	Not Covered	Not Covered
Hindustan Construction Co. Ltd.	HCNS.BO	INR	18.05	Not Covered	Not Covered
Hindustan Photo Films Mfg. Co. Ltd.	HPFL.BO	INR	NA	Not Covered	Not Covered
Hotel Leelaventure Ltd.	HTLE.BO	INR	31.45	Not Covered	Not Covered
J B F Industries Ltd.	JBFI.BO	INR	137.35	Not Covered	Not Covered
J K Tyre & Inds. Ltd.	JKIN.BO	INR	92.25	Not Covered	Not Covered
J S W Energy Ltd.	JSWE.BO	INR	51.60	Not Covered	Not Covered
Jai Balaji Inds. Ltd.	JAIB.BO	INR	40.10	Not Covered	Not Covered
Jain Irrigation Systems Ltd.	JAIR.BO	INR	79.35	Not Covered	Not Covered
Jet Airways (India) Ltd.	JET.BO	INR	371.50	Not Covered	Not Covered
Jindal Stainless Ltd.	JIST.BO	INR	68.75	Not Covered	Not Covered
Jubilant Life Sciences Ltd.	JUBL.BO	INR	165	Not Covered	Not Covered
K S Oils Ltd.	KSOI.BO	INR	5.05	Not Covered	Not Covered
Kesoram Industries Ltd.	KSRM.BO	INR	147.75	Not Covered	Not Covered
Kingfisher Airlines Ltd.	KING.BO	INR	9.32	Not Covered	Not Covered
Mahanagar Telephone Nigam Ltd.	MTNL.BO	INR	31.70	Not Covered	Not Covered
Moser Baer India Ltd.	MOSR.BO	INR	7.92	Not Covered	Not Covered
Mukand Ltd.	MUKA.BO	INR	27.70	Not Covered	Not Covered
Murli Industries Ltd.	MURL.BO	INR	17.50	Not Covered	Not Covered
Orchid Chemicals & Pharmaceuticals Ltd.	ORCD.BO	INR	113.65	Not Covered	Not Covered
Punj Lloyd Ltd.	PUJL.BO	INR	52.20	Not Covered	Not Covered
Ramsarup Industries Ltd.	RASW.BO	INR	6.75	Not Covered	Not Covered
Reliance Mediaworks Ltd.	RELM.BO	INR	56.05	Not Covered	Not Covered
Ruchi Soya Inds. Ltd.	RCSY.BO	INR	86.00	Not Covered	Not Covered
Sakthi Sugars Ltd.	SKSG.BO	INR	29.2	Not Covered	Not Covered
Shipping Corpn. Of India Ltd.	SCI.BO	INR	55.55	Not Covered	Not Covered
Shree Renuka Sugars Ltd.	SRES.BO	INR	32.10	Not Covered	Not Covered
Southern Petrochemical Inds. Corpn. Ltd.	SPIC.BO	INR	15.8	Not Covered	Not Covered
State Trading Corpn. Of India Ltd.	STCI.BO	INR	232.55	Not Covered	Not Covered
Sterling Biotech Ltd.	STBI.BO	INR	6.88	Not Covered	Not Covered
Suzlon Energy Ltd.	SUZL.BO	INR	18.50	Not Covered	Not Covered
Tamil Nadu Newsprint & Papers Ltd.	TNNP.BO	INR	113.65	Not Covered	Not Covered
Tata Teleservices (Maharashtra)	TTML.BO	INR	12.72	Not Covered	Not Covered
Usha Martin Ltd.	USBL.BO	INR	26.95	Not Covered	Not Covered
Varun Shipping Co. Ltd.	VRNS.BO	INR	15.60	Not Covered	Not Covered
Visa Steel Ltd.	VISA.BO	INR	49.90	Not Covered	Not Covered
West Coast Paper Mills Ltd.	WSTC.BO	INR	51.70	Not Covered	Not Covered
Hotel Leelaventure Ltd.	HTLE.BO	INR	31.45	Not Covered	Not Covered
J B F Industries Ltd.	JBFI.BO	INR	137.35	Not Covered	Not Covered
J K Tyre & Inds. Ltd.	JKIN.BO	INR	92.25	Not Covered	Not Covered
J S W Energy Ltd.	JSWE.BO	INR	51.60	Not Covered	Not Covered
Jai Balaji Inds. Ltd.	JAIB.BO	INR	40.10	Not Covered	Not Covered
Jain Irrigation Systems Ltd.	JAIR.BO	INR	79.35	Not Covered	Not Covered
Jet Airways (India) Ltd.	JET.BO	INR	371.50	Not Covered	Not Covered
Jindal Stainless Ltd.	JIST.BO	INR	68.75	Not Covered	Not Covered
K S Oils Ltd.	KSOI.BO	INR	5.05	Not Covered	Not Covered
Kesoram Industries Ltd.	KSRM.BO	INR	147.75	Not Covered	Not Covered
Kingfisher Airlines Ltd.	KING.BO	INR	9.32	Not Covered	Not Covered
Mahanagar Telephone Nigam Ltd.	MTNL.BO	INR	31.70	Not Covered	Not Covered
Moser Baer India Ltd.	MOSR.BO	INR	7.92	Not Covered	Not Covered
Mukand Ltd.	MUKA.BO	INR	27.70	Not Covered	Not Covered
Murli Industries Ltd.	MURL.BO	INR	17.50	Not Covered	Not Covered
Orchid Chemicals & Pharmaceuticals Ltd.	ORCD.BO	INR	113.65	Not Covered	Not Covered
Punj Lloyd Ltd.	PUJL.BO	INR	52.20	Not Covered	Not Covered

Source: Company data, Credit Suisse estimates for rated companies

Companies Mentioned *(Price as of 02 Aug 12)*
Essar Energy Plc (ESSR.L, 114p, NEUTRAL [V], TP 127.00p)
HDFC Bank (HDBK.BO, Rs582.45, OUTPERFORM, TP Rs690.00)
Housing Development Finance Corp (HDFC.BO, Rs695.30, OUTPERFORM, TP Rs821.00)
Adani Enterprises (ADEL.NS, Rs185.75, NOT RATED)
Adani Ports and Special Economic Zone Ltd (APSE. NS, Rs121.6, NOT RATED)
Adani Power Ltd (ADAN.NS, Rs43.25, NOT RATED)
Axis Bank Limited (AXBK.BO, Rs1,045.85, OUTPERFORM, TP Rs1,421.00)
Bank of Baroda (BOB.BO, Rs663.95, OUTPERFORM, TP Rs825.00)
Bank of India (BOI.BO, Rs297.05, UNDERPERFORM, TP Rs310.00)
Cairn India Ltd (CAIL.NS, Rs330.35, NOT RATED)
Electrosteel Castings Ltd (ELST.NS, Rs18.1, NOT RATED)
Essar Oil Ltd (ESRO.NS, Rs55.95, NOT RATED)
Essar Ports Ltd (ESRS.NS, Rs99, NOT RATED)
Essar Securities Ltd (ESAR.BO, Rs35, NOT RATED)
Essar Shipping Ltd (ESPL.NS, 28.75, NOT RATED, TP INR)
GMR Infrastructure Ltd (GMRI.BO, Rs23.35)
GVK Power & Infrastructure (GVKP.BO, Rs13.16)
Hindustan Zinc Ltd (HZNC.NS, Rs118.8, NOT RATED)
ICICI Bank (ICBK.BO, Rs959.00, NEUTRAL, TP Rs905.00)
Indian Overseas Bank (IOBK.BO, Rs73.40, UNDERPERFORM [V], TP Rs71.00)
IndusInd Bank (INBK.BO, Rs330.50, NEUTRAL, TP Rs384.00)
ING Vysya Bank (VYSA.BO, Rs383.10, OUTPERFORM, TP Rs460.00)
Jaiprakash Associates Ltd. (JAIA.BO, Rs75.90, OUTPERFORM [V], TP Rs90.00)
Jaiprakash Power Ventures Ltd (JAPR.BO, Rs32.15, NEUTRAL, TP Rs43.00)
Jammu and Kashmir Bank (JKBK.BO, Rs933.85, OUTPERFORM, TP Rs1,093.00)
Jaypee Infratech Ltd (JYPE.NS, Rs54.9, NOT RATED)
Jindal South West Holdings Ltd (JNSW.NS, Rs629.15, NOT RATED)
JSW Energy Ltd (JSWE.NS, Rs51.6, NOT RATED)
JSW Ispat Steel Ltd (JSWI.NS, Rs10.45, NOT RATED)
JSW Steel Ltd (JSTL.NS, Rs701.35, NOT RATED)
Kotak Mahindra Bank Ltd (KTKM.BO, Rs553.65, NEUTRAL, TP Rs535.00)
Lanco Industries Ltd (LNCO.NS, Rs24.5, NOT RATED)
Lanco Infratech Ltd (LAIN.NS, Rs13.15, NOT RATED)
Punjab National Bank Ltd (PNBK.BO, Rs731.70, NEUTRAL, TP Rs796.00)
Reliance Capital Ltd (RLCP.NS, Rs343.55, NOT RATED)
Reliance Communications Ltd (RLCM.NS, Rs56.2, NOT RATED)
Reliance Infrastructure Ltd (RLIN.NS, Rs512.55, NOT RATED)
Reliance Power Ltd (RPOL.NS, Rs92.35, NOT RATED)
Sesa Goa Ltd (SESA.NS, Rs184.85, NOT RATED)
State Bank Of India (SBI.BO, Rs2,032.70, NEUTRAL, TP Rs2,035.00)
Sterlite Industries (India) Ltd (STRL.NS, Rs104.75, NOT RATED)
Union Bank of India (UNBK.BO, Rs173.35, NEUTRAL, TP Rs170.00)
Vedanta Resources PLC (VED.L, 971 p, RESTRICTED [V])
Videocon Industries Ltd (VEDI.NS, Rs170.85, NOT RATED)
Yes Bank Ltd (YESB.BO, Rs365.10, UNDERPERFORM, TP Rs320.00)

Disclosure Appendix

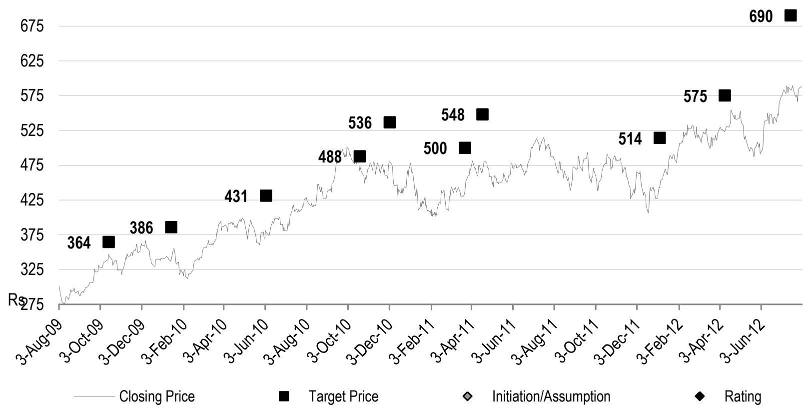
Important Global Disclosures

I, Ashish Gupta, certify that (1) the views expressed in this report accurately reflect my personal views about all of the subject companies and securities and (2) no part of my compensation was, is or will be directly or indirectly related to the specific recommendations or views expressed in this report.

See the Companies Mentioned section for full company names.

3-Year Price, Target Price and Rating Change History Chart for HDBK.BO

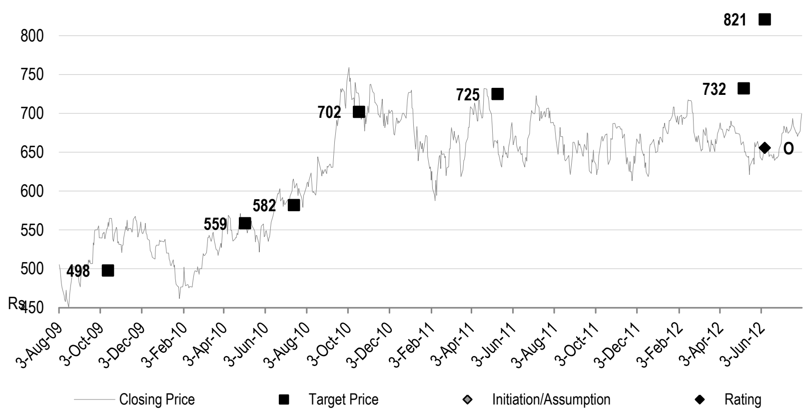
HDBK.BO Date	Closing Price (Rs)	Target Price (Rs)	Rating	Initiation/ Assumption
15-Oct-09	346.59	364.2		
15-Jan-10	338.92	385.6		
4-Jun-10	378	430.8		
20-Oct-10	467.11	487.6		
3-Dec-10	480	536.4		
24-Mar-11	438.4	499.8		
19-Apr-11	469.61	548		
5-Jan-12	442.55	514		
10-Apr-12	524.5	575		
16-Jul-12	582.9	690		



O=Outperform; N=Neutral; U=Underperform; R=Restricted; NR=Not Rated; NC=Not Covered

3-Year Price, Target Price and Rating Change History Chart for HDFC.BO

HDFC.BO Date	Closing Price (Rs)	Target Price (Rs)	Rating	Initiation/ Assumption
14-Oct-09	559.92	497.8		
4-May-10	564.06	558.6		
15-Jul-10	609.35	582		
19-Oct-10	719	702		
11-May-11	665.55	725		
8-May-12	658.4	732		
8-Jun-12	655.45	821	O	



O=Outperform; N=Neutral; U=Underperform; R=Restricted; NR=Not Rated; NC=Not Covered

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Outperform (O): The stock's total return is expected to outperform the relevant benchmark* by at least 10-15% (or more, depending on perceived risk) over the next 12 months.

Neutral (N): The stock's total return is expected to be in line with the relevant benchmark* (range of ±10-15%) over the next 12 months.

Underperform (U): The stock's total return is expected to underperform the relevant benchmark* by 10-15% or more over the next 12 months.

Relevant benchmark by region: As of 29th May 2009, Australia, New Zealand, U.S. and Canadian ratings are based on (1) a stock's absolute total return potential to its current share price and (2) the relative attractiveness of a stock's total return potential within an analyst's coverage universe, with Outperforms representing the most attractive, Neutrals the less attractive, and Underperforms the least attractive investment opportunities. Some U.S. and Canadian ratings may fall outside the absolute total return ranges defined above, depending on market conditions and industry factors. For Latin American, Japanese, and non-Japan Asia stocks, ratings are based on a stock's total return relative to the average total return of the relevant country or regional benchmark; for European stocks, ratings are based on a stock's total return relative to the analyst's coverage universe**. For Australian and New Zealand stocks, 12-month rolling yield is incorporated in the absolute total return calculation and a 15% and a 7.5% threshold replace the 10-15% level in the Outperform and Underperform stock rating definitions, respectively. The 15% and 7.5% thresholds replace the +10-15% and -10-15% levels in the Neutral stock rating definition, respectively.*

***An analyst's coverage universe consists of all companies covered by the analyst within the relevant sector.*

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Analysts' coverage universe weightings are distinct from analysts' stock ratings and are based on the expected performance of an analyst's coverage universe* versus the relevant broad market benchmark:**

Overweight: Industry expected to outperform the relevant broad market benchmark over the next 12 months.

Market Weight: Industry expected to perform in-line with the relevant broad market benchmark over the next 12 months.

Underweight: Industry expected to underperform the relevant broad market benchmark over the next 12 months.

**An analyst's coverage universe consists of all companies covered by the analyst within the relevant sector.*

***The broad market benchmark is based on the expected return of the local market index (e.g., the S&P 500 in the U.S.) over the next 12 months.*

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	Global Ratings Distribution	
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Neutral/Hold*	42%	(55% banking clients)
Underperform/Sell*	10%	(48% banking clients)
Restricted	2%	

**For purposes of the NYSE and NASD ratings distribution disclosure requirements, our stock ratings of Outperform, Neutral, and Underperform most closely correspond to Buy, Hold, and Sell, respectively; however, the meanings are not the same, as our stock ratings are determined on a relative basis. (Please refer to definitions above.) An investor's decision to buy or sell a security should be based on investment objectives, current holdings, and other individual factors.*

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Price Target: (12 months) for (HDBK.BO)

Method: We are valuing HDFC Bank at 20x FY14E earnings (equal to last 7 year avg price earnings multiple) to arrive at our target price of Rs690

Risks: Key upside risks to our target price of Rs690 for HDFC Bank are favourable Basel III guidelines, sustainable higher RoEs on use of hybrid capital, M&A activity in the longer-term. Downside risks are a reversal in asset environment, significant increase in competition, high stock valuations and significant slowdown in consumer lending.

Price Target: (12 months) for (HDFC.BO)

Method: We value Housing Development Finance Corp. (HDFC) using sum-of-the-parts method at Rs821 with the mortgage lending business at 15x FY3/14E earnings. We are ascribing a value of Rs236 to HDFC's share of HDFC Bank, based on our target price for HDFC Bank, Rs 44 for the life insurance and Rs26 for the other subsidiaries.

Risks: Risks that may impede achievement of our target price of Rs821 for Housing Development Finance Corp (HDFC) include: (1) slowing equity markets, which would impact the growth and valuation of the life insurance and asset management businesses; and (2) a slowdown in mortgages.

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