

Q2FY12 Banking Results Review

The overall banking result for Q2FY12 was not good. Private Banks reported better results as compared to PSU banks. Asset quality deteriorated, largely for PSU bank's on a/c of high interest rates, slowdown in the economy and shift towards system driven NPA recognition. Highlights of the quarter are as follows:

- **NIMs:** Most of the banks saw higher NIMs on QoQ basis on the back of a sharp rise in yields on advances. Among PSU Banks, **Allahabad Bank, Bank of Baroda**, Canara Bank, **Dena Bank**, PNB, SBI, and Syndicate & among private banks Axis, **ING Vysya** and **DCB** reported sequential improvement in margin. Going forward, we believe that there will be pressure on NIMs as there will be some upward pressure on short-term deposit rates, following the deregulation of savings banks deposit rates. Banks with lower CASA ratio such as **Yes bank** will see less impact of this on NIM's.
- **Loan growth:** Loans and advances growth rates on YoY basis improved slightly compared with those in Q1FY12. **Bank of Baroda**, Canara Bank, Indian Overseas Bank, Axis Bank reported strong growth of 23%+ in loan book (YoY). While SBI, Allahabad Bank, Bank Of India, Union Bank of India, Yes Bank reported growth below industry average.
- **CASA growth:** CASA ratio declined YoY for the entire banking sector except IDBI, UCO, Axis and **Yes Bank** which saw an improvement. IOB, PNB, Federal, HDFC and ING saw a fall in CASA ratio. SBI, HDFC Bank, PNB and ICICI Bank are among the banks that have the highest proportions of savings deposits in their total deposits and these banks have so far refrained from any raise in savings deposit rates despite hikes by some other private banks like Yes Bank, Indusind Bank and Kotak.
- **Cost to income ratio:** On a sequential basis, **Bank of Baroda**, Canara Bank, Corporation Bank, Syndicate Bank, UCO, **DCB** and **ING Vysya** showed an improvement in cost to income ratio.
- **Provisions:** PSU Bank's saw a sharp rise in provisions which led to decline in profitability. The increase in provisions was due to increase in NPL provisions resulting from deterioration in asset quality and the mark-to-market losses on their investment books. Some banks saw increase in provisions due to high NPAs resulting from shift to system based NPA recognition. However, **Allahabad Bank and Dena Bank** surprised positively with lower provisions. Most private banks maintained high provisioning coverage ratios and enjoyed below-industry average net NPL ratios. Private banks like **IndusInd, Federal and ING Vysya** reported decline in provisions on YoY basis.
- **Asset Quality:** The high interest rate environment, slowdown in both Indian and global economic growth and shift to system-based recognition of NPAs led to a sharp spike in NPA for the PSU Banks in Q2FY12. **Bank of Baroda** remained the best in terms of asset quality, with the lowest delinquency ratio amongst the major banks for H1FY12. On the other hand, PNB, **Allahabad Bank** and **ING Vysya** managed to keep their asset quality under control, with lower annualized delinquency ratios for H1FY12 compared with FY11.

Bank of Baroda, Federal Bank and **ING Vysya Bank** were among the few banks that reported a decline in Gross NPAs both on QoQ and YoY basis. On the other hand **IndusInd Bank's** Gross NPAs declined YoY and were almost flat on QoQ basis.

Most banks saw a sequential rise in restructured loans portfolio. Restructured loan book increased on account of restructuring done in the MFI industry, infrastructures, power, airlines, textiles and other stressed sectors.

- **Power exposure: Allahabad Bank** has stopped lending to the power sector, while BOI is going to restructure a quarter of its loans to the sector. PNB has restructured its loans to Tamil Nadu State Electricity Boards. We believe that the problems faced in the power sector and the exposure to SEBs is likely to hurt the bank's NPAs going forward. Moreover, high interest rates will continue to act as a dampener on India banks' overall asset quality.
- **Net Profit:** Apart from a few banks like **ING Vysya Bank**, net profit growth was lower on a YoY basis for Q2FY12 compared with YoY growth recorded for Q1FY12. Net profit growth in the quarter was mainly affected by higher provisioning.

Considering the above mentioned factors, few banks have reported good results on most of the parameters. These are as follows:

	Loan growth (YoY)		NIMs	QoQ increase	Profit before prov	Growth (QoQ)	CASA %	PAT	Growth (QoQ)	GNPA	QoQ increase	NNPA
Allahabad Bank	16.4%	3.7%		28 bps	949.3	6.7%	30.6%	488.0	16.7%	1.8%	15 bps	1.0%
Bank of Baroda	23.9%	3.1%		20 bps	2140.0	16.9%	27.4%	1179.1	12.7%	1.4%	(5 bps)	0.5%
Federal Bank	21.6%	3.8%		(10 bps)	361.3	2.1%	26.4%	191.2	30.8%	3.6%	(33 bps)	0.6%
Indusind Bank	28.5%	3.4%		(6 bps)	333.0	6.8%	27.7%	193.1	7.2%	1.1%	1 bps	0.3%
Ing Vysya Bank	22.8%	3.4%		33 bps	189.4	29.0%	32.6%	115.5	22.8%	2.0%	(13 bps)	0.3%

Source: Company data, Nirmal Bang Research

Although, the overall banking result for Q2FY12 was subdued with asset quality being a major concern for the sector, the above mentioned banks have reported **"good results"** and have **shown "resilience to decline"** as compared to the decline in markets and other banking stocks. We believe that these stocks can be a **"good buying opportunity"** on decline and can fetch good return for **short term**.

	CMP	52 week high	52 week low	RoE	P/E	P/ABV
Allahabad Bank	148	271	139	18.5%	4.46	0.90
Bank of Baroda	718	1050	681	20.9%	6.15	1.35
Federal Bank	377	477	326	12.0%	9.88	1.23
Indusind Bank	257	309	181	16.3%	17.16	2.86
Ing Vysya Bank	302	427	275	10.4%	11.77	1.25

Source: Company data, Nirmal Bang Research

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NOTE

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