

<b>Recommendation</b>	<b>Subscribe with long term view</b>	
<b>Price Band</b>	<b>Rs100-115</b>	
<b>Bidding Date</b>	<b>25<sup>th</sup>-28<sup>th</sup> May 2010</b>	
<b>Book Running Lead Manager</b>	<b>UBS, GoldmanSachs.</b>	
<b>Sector</b>	<b>Banking</b>	
<b>Retail Application- Detail At Cut off Price</b>		
Number of IDR	800	
Application Money	92000	
Amount Payable	92000	
<b>Financials (Rs in Crs)</b>	<b>FY09</b>	<b>FY08</b>
Total Income	67,660	62,241
Operating Profit	32,226	28,327
PAT	15,494	14,901
<b>Margins</b>	<b>FY09</b>	<b>FY08</b>
Operating profit	35.3%	27.7%
PAT	17.0%	14.6%
P/E ( based on CMP)	14x	-
P/BV ( based on CMP)	1.8x	-
<b>Offer structure for different categories</b>		
QIB (Including Mutual Fund)	50%	
Non institutional	18%	
Retail	30%	
Post issue Equity (Rs. in crore)	4792.7	
Issue Size (Rs. in crore)	2400-2760	
Face Value (Rs.)	0.5USD	
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**Background**

Standard Chartered was formed in 1969 through a merger of two banks: The Standard Bank of British South Africa, founded in 1863, and the Chartered Bank of India, Australia and China, founded in 1853. Standard Chartered PLC, listed on both the London Stock Exchange and the Hong Kong Stock Exchange, ranks among the top 20 companies in the FTSE-100 by market capitalization. The London-headquartered Group has operated for over 150 years in some of the world's most dynamic markets, leading the way in Asia, Africa and the Middle East. Company operates through number of subsidiaries including Standard Chartered bank (SCB UK), one of the leading international and banking and financial services company. Standard chartered bank is headquartered in UK where it is regulated by the FSA (financial services authority) but has significant operations in Asia region, which accounts for over 75% of its total profit before tax.

As at 31<sup>st</sup> December09, Group operates 1700 branches and outlets in more than 70 countries worldwide and employee's more than 75000 employees. As at 31<sup>st</sup> December 2009, Company had total consolidated assets of US\$437 billion, total customer loans and advances of US\$1,98,292 million, total consolidated customer deposits of US\$2,51,244 million. Capital ratio of the company stood at 16.5% and its TIER 1 capital ratio was 11.5%.Group has

**Objects of the Issue**

- To provide Indian Investors with an opportunity to invest in the Company and participated in its growth.
- To increase the market visibility and brand perception of the Company in India.
- To widen the Company's investor base and to provide a new source of capital.
- To support the growth across companies business globally.

Issue is offered at 5% discount to retail investors whose bid does not exceed Rs.1,00,000.

**Strength**
**Not Impacted much by recent financial crisis**

Business of the SCB is well diversified, with the group not depending on any single geography for its growth. It can be seen from the below table that profits of SCB are well distributed among different countries with Hong Kong and India being the main drivers with a share of 21% each in PBT. Also the share of Europe, UK, and America is just 7.3% in PBT less dependence on the countries which are reeling under the pressure of financial turmoil.

(Rs. Cr ) For year ending 31st Dec 09	NII	Op Profit	PBT	PBT %	NIM
HongKong	131	120	106	20.6%	1.8%
Singapore	78	79	71	13.9%	1.7%
Korea	91	60	32	6.3%	1.8%
Asia Pacific	151	111	77	14.9%	2.3%
India	72	124	106	20.6%	3.8%
Middle East	113	119	37	7.1%	3.7%
Africa	49	54	48	9.4%	4.8%
America, Uk & Europe	77	56	38	7.3%	1.0%
Total	762	723	515		

**Long Standing Presence in markets.**

Company has had a presence in many of its key geographies for a significant amount of time, stretching back to the first branches being opened in India and China in 1858. As a result, the Group has built deep and long lasting relationships with its customer base and has an extensive distribution network.

**Consistent growth & Distribution of business among different geographies**

Standard Chartered operates two business divisions namely, Wholesale banking and Consumer Banking. Over the last seven years, Company has achieved a CAGR growth rate of 19% and 22% for income and profits, respectively.

Consumer banking divisions operating profits have witnessed a negative trend during the last 2 years because of difficult trading conditions of 2008 with low interest rates, compressed liability margins, subdued demand for wealth management products. Also adverse currency movements affected the profitability. However mix of deposits improved with CASA deposits now 60% of the deposit base, up from 44% in the previous year which could result in better net interest margins.

**Consumer banking division performance**

Operating Income Product wise (Rs. Cr) year ending 31st Dec	FY 2007A	FY 2008A	FY 2009A
Cards, Personal Loans & Unsecured Lending	9,752	9,831	9,299
Wealth Management	12,235	13,019	10,419
Mortgages & Auto Finance	4,229	4,332	5,807
Other	887	602	752
Total	27,102	27,784	26,276

However negative growth in Consumer banking division was offset by strong performance of wholesale banking division. Operating income of wholesale banking division has increased on a YOY basis by more than 25% over the last 3 years.

**Wholesale banking division performance**

Operating Income Product wise (Rs. Cr) year ending 31st Dec	FY 2007A	FY 2008A	FY 2009A
Lending & Portfolio Management	2,507	2,572	3,963
Transaction Banking	9,490	12,431	11,843
Financial Markets	6,176	11,040	15,456
ALM	2,315	4,257	4,495
Corporate Finance	2,119	3,478	6,040
Principal Finance	1,867	1,181	1,573
Total Operating Income	24,474	34,959	43,370

**Strong track record of strategic acquisition**

Group has a track record of strategic acquisitions with the following objectives  
 -to overcome obstacles to organic growth, to build local scale, to acquire capabilities, to create options for future growth. Table below highlights the list of few strategic acquisitions made by the group –

**List Of Few Strategic Acquisitions by the Group**

Korea First Bank In south Korea  
 Union Bank of Pakistan in Pakistan  
 Hsichu International Bank in Taiwan  
 Permata Bank In Indonesia  
 Pembroke ( aircraft leasing , financing and management company)  
 Cazenove Asia Ltd(leading institutional brokerage and Corporate Finance)

### Weakness

- Risks arising from changes in credit quality and recoverability of loans and amounts due from counterparties are inherent in a wide range of the Group's businesses. Adverse changes in the credit quality of the Group's borrowers and counterparties arising from deterioration in global economic conditions could increase the provision for bad and doubtful debt.
- Group operates in over 70 countries and territories and is affected by the prevailing economic conditions in each market. Macroeconomic slowdown will adversely affect Group's financial condition and result of operations.
- Group is exposed to market risk arising principally from customer driven transactions. Some of the significant market risks the group faces are interest rate, foreign exchange and bond price risks. Change in interest levels, yield curves and spreads may affect, trading profits and interest rate margins.
- Gain on IDR will be impacted by rupee movement. Gains may be offset by adverse rupee conditions.
- IDR price movement is dependent on Standard Chartered PLC share price in London. Any slowdown in the European economy may impact valuation of the bank and may negatively impact the share price.
- Secondary trading of IDRs is not subject to Securities Transaction Tax ("STT") and hence capital gains tax will be applicable on any trading profits. Dividend distribution tax is not payable by the issuer company and hence such tax will be payable by the IDR holders

### **Business divisions of Standard Chartered PLC**

Standard Chartered operates two business divisions namely, Wholesale banking and Consumer Banking.

#### **Consumer Banking**

Consumer Banking products and services include banking services, deposit taking services, credit cards, personal loans, mortgages, auto finance and wealth management services. Major markets include Hong Kong, Singapore, Malaysia, Indonesia, Korea, India, Taiwan and UAE. In addition to serving Individuals, Consumer banking also offers a range of deposit taking, trade, lending and other banking services. Group has around 1700 branches and outlets across 70 countries which are key part of the distribution network for Consumer banking business.

#### **Consumer Banking Product Mix**

- **Cards and Personal Loans**

The Group charges fees for the use of its cards and earns interest on outstanding balances from its card customers and commissions from merchants for transactions processed. It has focused on growing both card volumes and balances. The Group had approximately 6.3 million cards in issue at 31 December 2009, compared with approximately 6.6 million cards in issue at the end of 2008.

- **Wealth Management and Deposits**

Wealth Management offers an integrated approach for customers to protect, manage and grow their wealth. It offers a wide range of products including structured products, deposits, investments, mutual funds, treasury products and bancassurance to all customer segments including private banking. The Group is an independent distributor of third-party mutual funds in Asia. Leveraging off its global model, the Group seeks to obtain a wide range of best-of-breed products for its customers at competitive rates.

- **Mortgages and Auto Finance**

At 31 December 2009, residential mortgages represented 29% of Standard Chartered's total loans and advances to customers or 61% of Standard Chartered's retail loans and advances to customers. India contributed 3% of the mortgage business.

#### **Wholesale Banking**

Standard Chartered's Wholesale Banking business provides corporate and institutional clients with trade finance, cash management, securities services, foreign exchange and risk management, capital raising, corporate and principal finance solutions. Wholesale Banking is a client-centred business that bases its strategy on client need and deepening relationships with clients. Wholesale Banking is growing at a strong rate and is focusing on being the core bank to its clients (within the top three providers). The Group has strong cross-border capabilities and is well positioned to capitalise on international trade flows as a result of its broad geographical footprint.

### Wholesale Banking Product Mix

- **Transaction Banking**

The Group is a global leader in the provision of transaction banking services. It provides basic lending services, as well as a full suite of trade finance, securities services and cash management products and services. Transaction banking accounts for a significant portion of Wholesale Banking's overall client revenue.

Trade-related services offered by the Group include letters of credit, short-term trade loans, factoring and invoice discounting, insurance and document preparation services.

- **Financial Markets**

Financial Markets at Standard Chartered is a globally integrated business spanning Asia, Africa, the Middle East, the UK and US. Financial Markets includes trading functions such as equities, commodities, fixed income trading (Rate, foreign exchange and credit), the Group's capital markets business and structured products. The Group's capital markets business, comprising Fixed Income, Asset Securitizations and Loan Syndications, consistently dominates league tables and rankings in markets core to the Group's footprint. In Asia, the Group was rated top book runner of all Asian currency bonds excluding Japan, Australia and China. The Group was ranked number one in Currency Derivatives and ranked number one in Interest Rate Derivatives in Asia. The Group is a major participant in the global rates and FX markets, actively trading in over 100 onshore and offshore currencies.

- **Corporate Finance**

The Corporate Finance business is one of the key focal points for the Wholesale Banking strategy of adding sophisticated product and service capability. Corporate Finance offers corporate advisory services focusing on mergers and acquisitions advisory services and leveraged finance. Corporate Finance also offers structured finance, project and export finance and structured trade finance services to a broad range of clients.

- **Principal Finance**

Standard Chartered's Principal Finance business focuses on corporate private equity, infrastructure and real estate (through a dedicated fund in each area) and alternative investments.

**Valuation & Recommendation**

## Income Statement

All figures in INR cr, unless specified

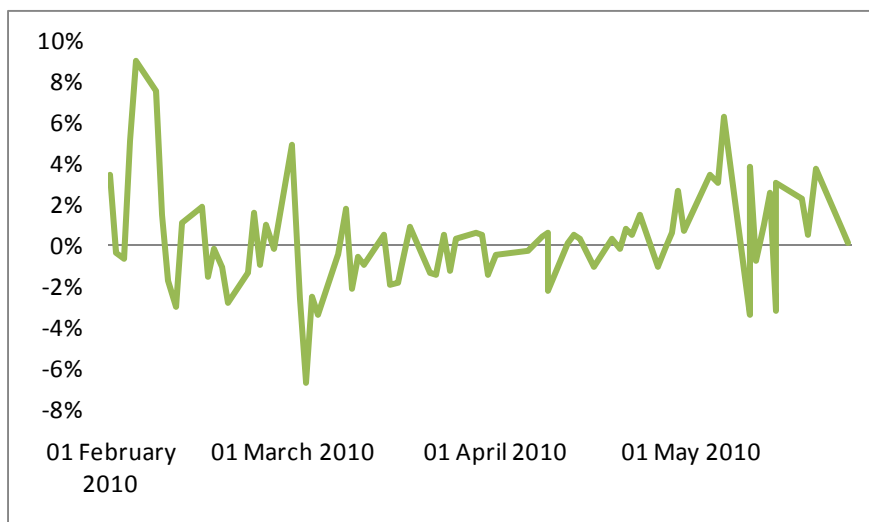
	EPS	Book value	CMP	P/E	P/BV	ROE
Standard Chartered Plc	78.4	627	1,110	14	1.8	13.3%
HSBC Holdings Plc	17.3	342	430	24.9	1.3	5.3%
Citigroup Inc	-38.3	248	177	-4.6	0.7	-4.2%
Hang Seng Bank Ltd.	42.8	182	620	14.5	3.4	24.1%
HDFC Bank	67.6	478	1,840	27.2	3.8	14%
ICICI Bank	36.1	463	834	23.1	1.8	7.9%
State Bank Of India	184.8	1,310.0	2,167.0	11.7	1.7	11.2%

Source: RHP (HDFC, ICICI, SBI book value &amp; EPS based on March 31st 2010)

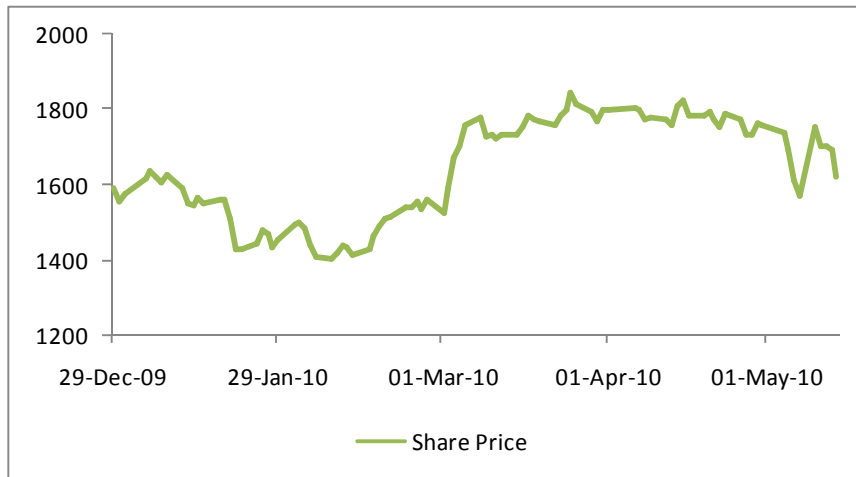
At current market price of 16.11 pounds standard chartered is trading at 14x on P/E basis and 1.8x on P/BV basis. ROE of the bank stands at 13.3%.

We believe that IDR price will reflect the corresponding equity price in London of Standard Chartered Bank. At CMP of 16.11 pound the corresponding price of IDR in Rupee comes around Rs.109 which is lower than the upper band price of Rs.115..

We even do not expect IDR to trade at premium to corresponding price in London, as we see that Standard Chartered price in Hongkong is trading in a range of +8 to -7% variance over London price as can be seen from the chart below -

**Hongkong Price premium/Discount over London Price-**


**Share price movement of Standard Chartered PLC London**



Apart from this, though Standard Chartered trades at much discount to Indian peers, we do not see Indian peers as right comparable set. This is because price of Standard Chartered will be determined in London and IDR prices will always trade in relation to London prices. The London price will be determined on peer set in that market. As such HSBC is more comparable peer. Standard Chartered is trading at premium to HSBC on P/BV criteria reflecting high ROE of Standard Chartered. We feel Standard Chartered is fairly priced at current level.

Looking at consistent financial performance in past, major operations in developing countries, low leveraging as compared to other developed nation banks, we feel that long term outlook for Standard Chartered is good. One may subscribe to IDR with long term perspective.

### Income Statement

Income Statement (Year Ending 31st Decmeber)

All figures in INR cr, unless specified

	FY07	FY08	FY09
Interest Earned	72,080	72,980	57,598
Interest Expended	44,163	40,064	23,630
Net Interest Income	27,917	32,917	33,968
Other Income	21,398	29,325	33,692
Total Income	49,315	62,241	67,660
Payment to employees	17,597	21,108	21,888
Other operating expenses	10,097	12,807	13,546
Total operating expenses	27,694	33,915	35,434
Profit before provisioning	21,621	28,327	32,226
Provisions	3,391	5,886	8,912
Other Imparments	254	2,090	455
Profit from associates	5	5	94
Profit before tax	17,980	20,355	22,953
Tax	4,661	5,454	7,459
Profit after tax	13,319	14,901	15,494
EPS* (quarterly)	78.4	85.2	73.7

Source: RHP

**Balance Sheet**

Balance Sheet (Year Ending 31st December)			
All figures in INR cr, unless specified	FY07	FY08	FY09
Cash & balances at Central bank	45,340	107,661	80,792
Financial assets held at fair value	102,301	68,734	100,019
Derivative Financial instruments	116,765	310,392	170,188
Loans & advances to banks	157,586	207,574	226,744
Loans & advances to customers	687,409	776,137	883,589
Investment Securities	246,301	308,988	337,444
Other Assets	49,065	90,787	76,648
Current tax assets	2,821	3,404	905
Prepayments & accrued income	17,187	15,445	14,442
Goodwill & intangible Assets	28,403	28,345	29,499
Property, plant & equipment	12,887	15,979	18,283
Interest in associates	1,199	2,277	2,290
Deferred tax assets	2,642	2,941	4,884
<b>Total assets</b>	<b>1,469,905</b>	<b>1,938,663</b>	<b>1,945,726</b>
Deposits by banks	115,321	142,187	171,382
Customer accounts	801,011	1,042,740	1,119,543
Derivative financial instruments	117,059	302,005	163,018
Financial liabilities held at fair value	63,498	68,970	64,634
Debt Securities issue	120,923	104,480	130,436
Other liabilities	65,690	77,370	71,915
Current tax liabilities	3,645	2,282	3,574
Accruals and deferred income	15,280	18,412	18,328
Subordinated liabilities & borrowed funds	70,137	75,690	74,549
Deferred tax liabilities	147	784	860
Provisions for liabilities and charges	169	624	820
Retirement benefit obligations	1,435	1,992	2,255
<b>Total liabilities</b>	<b>1,374,315</b>	<b>1,837,534</b>	<b>1,821,314</b>
Equity Capital	3,142	4,224	4,514
Reserves	89,771	94,432	117,313
Minority Interest	2,678	2,473	2,585
<b>Total Equity</b>	<b>95,590</b>	<b>101,129</b>	<b>124,412</b>
<b>Total liabilities &amp; Equity</b>	<b>1,469,905</b>	<b>1,938,663</b>	<b>1,945,726</b>

Source: RHP

## Over View Of Indian Depository Receipts (IDRs):

### Rights of IDR holders

#### What are the rights of an IDR holder?

- An IDR holder will be entitled to rights on an equitable basis vis-à-vis the rights of shareholders of the issuer company in its home country.
- Some of the rights of the IDR holders include:
  - Voting.
  - Entitlement to bonus issues.
  - Entitlement to dividends.
  - Participation in rights issues.
  - Participation in sub-divisions and consolidations of underlying equity shares.
  - Participation in other distributions and corporate actions.

#### How can I resolve investor grievances since the company will be a foreign company located outside India?

- IDR holders can approach the Registrar in respect of any problems relating to the issue including credit of shares or refunds.
- The issuer company would also have a compliance officer based in India for resolution of investor grievances.
- Like in any IPO of an Indian company, investors can approach SEBI or the BRLMs in respect of any grievances related to the issue.

### Ownership and Trading of IDRs

#### How will the IDR be listed and traded?

- IDRs will be allotted to investors in dematerialised form.
- IDRs will be listed on the Stock Exchanges.
- IDRs will be traded in dematerialised form.
- The trading and settlement process of IDRs is like trading and settlement of equity shares of Indian companies. The tax treatment is, however, different.

Can IDRs be transferred?

- IDRs will be listed on the Stock Exchanges and may be traded on the Stock Exchanges

Can IDRs be converted into equity shares or vice-versa?

- IDRs holders can convert IDRs into underlying equity shares only after one year and with the prior approval of the RBI.
- Upon such conversion, resident individual investors are allowed to hold the underlying equity shares only for the purpose of sale within a period of 30 days from the said conversion.
- Conversion of equity shares into IDRs is not permitted under current regulations i.e. reverse fungibility is not allowed.

IDR Fees

Are there any fees and charges payable by the IDR holders to the Domestic Depository with respect to the IDRs?

- There will be a small charge payable by IDR holders for the services provided by the Domestic Depository and the Overseas Custodian.
- Similar charges are payable by holders of ADRs and GDRs of Indian companies for depository and custody services.

What is the tax treatment on IDRs?

- Secondary trading of IDRs are not subject to Securities Transaction Tax ("STT") and hence capital gains tax will be applicable on any trading profits.
- Dividend distribution tax is not payable by the issuer company and hence such tax will be payable by the IDR holders.
- The Direct Taxes Code ("DTC") as currently drafted does not distinguish between capital gains tax treatment of listed shares and other assets such as IDRs, so, if the DTC is implemented in its present form, there will be parity of treatment. The DTC also makes no distinction between long term and short term capital gains. As the DTC has not yet been implemented the provisions summarised above could change.

Other Questions relating to IDRs

What information will IDR holders be sent?

- IDR holders will have access to annual reports, as well as other communications made available by the issuer company to any equity shareholders.

#### **Disclaimer**

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