September 24, 2014

Sector View

Positive

Banking

Discount from peak narrowing…

Indian banks, particularly PSU banks, have witnessed a revival of interest on expectations of an uptick in economic growth and strong FII flows. In spite of past scams coming back to haunt now, except for a few midcap banks, most large players sailed through the storm (PSU banks up 46% in six months). Private banks maintained their strong run with 52-week highs being surpassed (private banks up 37% in six months). We had highlighted in our last sector report (June 2015) about banks trading at significant discounts from their peak and scope for the same to narrow.

Exhibit 1: Valuations playing out

			At current prices		Last 3 years avg		last 8 yr						
Banks	CMP	FY16E ABV	P/ABV on 1 year fwd basis	P/ABV on 2 year fwd basis	1 Year fwd	2 Year fwd	2 year fwd Peak P/ABV #	2 year fwd Trough P/ABV #	Discount of current P/ABV to peak multiples	Target multi-ple	Target price	Rating	Comments
1	2	3	4	5	6	7	8	9	10	11	12	13	14
Kotak Bank	1,034	192	6.0	5.3	4.5	3.8	12.1	3.0	56.6	5.8	1,117	Hold	Strong promoter holding, valuations remain rich, stay invested
HDFC Bank	854	243	4.0	3.5	3.5	3.0	4.4	2.5	19.7	3.9	956	Hold	Steady earnings of 20%+, shift in interest towards HDFC Ltd may keep upside capped
IndusInd	**639**	**243**	**3.3**	**2.8**	**2.4**	**1.9**	**3.0**	**1.4**	**6.4**	**2.9**	**714**	**Buy**	**Revival in CV segment, strong technology, robust return ratios**
DCB	88	55	1.9	1.6	1.2	1.0	6.9	0.8	76.8	1.8	100	Buy	Improving profits, stable NPA to push bank growth higher and support multiple expansion
Yes Bank	**585**	**323**	**2.1**	**1.8**	**1.9**	**1.5**	**3.2**	**0.8**	**43.5**	**2.2**	**723**	**Buy**	**To see multiple re-rating again, steady earnings to support stock price**
Axis	**403**	**211**	**2.2**	**1.9**	**1.6**	**1.4**	**3.2**	**0.9**	**41.4**	**2.3**	**481**	**Buy**	**Earnings profile remains strong, stable asset quality and still fairly priced**
Federal Bank	129	97	1.5	1.3	1.1	1.0	1.5	0.6	9.8	1.5	145	Buy	Near peak multiples, slow growth a dampener to improve RoE
CUB	83	48	2.0	1.6	1.5	1.3	1.8	0.9	7.7	1.7	80	Hold	Fairly valued for strong return ratios, near term upsides capped
SIB	28	29	1.2	1.0	1.1	1.0	1.7	0.7	39.2	1.0	30	Hold	Low RoA to restrain multiple expansion, stable growth and asset quality
J&K	146	148	1.2	1.0	1.0	0.9	1.6	0.6	37.1	1.1	170	Hold	Slight pressure on asset quality, floods impacting business growth but return ratios still above average maintaining stock in positive
SBI	**2,596**	**1,377**	**2.1**	**1.9**	**1.7**	**1.6**	**3.2**	**1.1**	**41.6**	**2.4**	**3,234**	**Buy**	**Play on Indian economic revival, subsidiary valuation to see upsurge in robust capital market**
BOI	283	317	1.0	0.9	0.9	0.9	2.0	0.5	55.8	1.0	317	Buy	At siginificant discount from peak, high beta play on revival; high risk high reward
PNB	**978**	**855**	**1.4**	**1.1**	**1.1**	**1.1**	**2.1**	**0.6**	**44.6**	**1.3**	**1,156**	**Buy**	**Beneficiary of economic revival as recognised NPA pain ahead**
BOB	**940**	**879**	**1.2**	**1.1**	**1.1**	**1.0**	**1.7**	**0.6**	**36.5**	**1.4**	**1,250**	**Buy**	**Stable asset quality on high global exposure, profits maintained**
Syndicate	124	146	0.9	0.9	0.8	0.8	1.7	0.5	48.4	1.0	144	Hold	Recent scam and MD arrest has kept stock subdued, short-term pain
Dena	61	82	0.8	0.7	0.9	1.0	1.6	0.5	54.3	0.8	66	Hold	Pressures of asset quality, high infra exposure are denting return ratios

*Source: Company, ICICIdirect.com Research, *Not in coverage, # period of 8 years*

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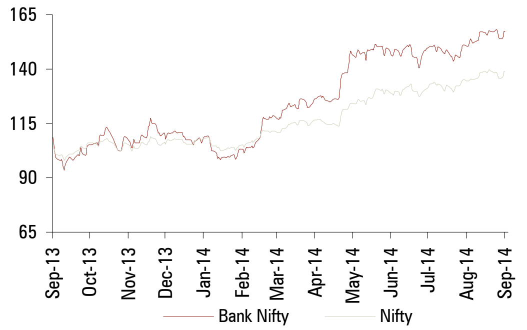
We have raised our target multiples for a few banks with the probability of a beta play on a reviving economy narrowing the gap from peak multiple.

We remain bullish on a couple of large PSU banks SBI and BoB whereas PNB remains a beta play. Among private banks, we prefer IndusInd Bank, Yes Bank as beneficiaries of declining system rates in the near term. Among large cap private banks, Axis Bank remains a long term consistent return stock (five year average return of 17% per annum).

Nifty vs. Bank Nifty



*September 22, 2013: Rebased to 100

In exhibit 1 above, we have arrived at revised target prices (column 12) of the banks by valuing them on an FY16E P/ABV basis. The target multiples (column 11), which we have used, are based on a discount of 10-40% to their peak multiples of the past eight years (column 8) for most banks depending on the individual bank's NPA performance.

In our analysis, we observe that for most banks, peak multiples were achieved during 2007-08 except for banks like Federal Bank, Bank of Baroda, Dena Bank, PNB, Canara Bank and OBC wherein peak multiples were achieved during FY10.

Valuation summary

We have raised our target multiples for a few banks with the probability of a beta play on reviving economy narrowing the gap between peak (last eight years) and current multiple.

From our last report, the discount to peak multiples has narrowed for most banks in our coverage except for midcap banks like Syndicate Bank, Dena Bank and Federal Bank, which have underperformed the market with their gaps widening.

We maintain our bullish stance on a couple of large PSU banks, SBI and BoB, whereas PNB remains a beta play on a revival of asset quality. Among private banks, we prefer IndusInd Bank and Yes Bank as beneficiaries of declining system rates in the near term and accordingly raise their target prices to ₹ 714 and ₹ 723, respectively. Among large cap private banks, Axis Bank remains a long term consistent return stock (five year average return of 17% per annum) and we recommend BUY.

Credit growth expectation still remains muted around 14%, (September 5 – 9.7% YoY growth and YTD 2.4% credit growth). Steps towards financial inclusion like Jan Dhan Yojana, mobile banking boost, payment banks and small banks will contribute to growth over the long run.
Softening of G-sec yields can support profitability with MTM provision reversals becoming more prominent, especially in case of PSU banks that have high AFS exposure (2-8.6% PAT benefit for 30 bps yield decline).
The key concern area of asset quality continues to mar banks, particularly PSUs, with failure rate of restructured asset book on the rise.

Jan Dhan Yojana…..big step in financial inclusion…..

On August 15, 2014, the Prime Minister announced the launch of the government's financial inclusion mission called "Pradhanmantri Jan-Dhan Yojana". The primary aim of the Jan Dhan Yojana is to bring poor financially excluded people into the banking system by providing them bank accounts and debit cards. The Yojana was launched formally on August 28, 2014.

The scheme offers a couple of freebies also. Accident insurance of up to ₹ 1 lakh comes free with each account. Those opening accounts before January 26 next year will also get life cover of ₹ 30,000. Once the bank account has been active for six months and been linked to the account holder's Aadhar identity, they would become eligible for an overdraft of up to ₹ 2,500, which would further be enhanced by the bank to ₹ 5000 over time

Features of scheme

- The scheme will cover both urban and rural areas of India. All bank accounts opened will be linked to a debit card (RuPay Debit card), which would be issued under the RuPay scheme
- The scheme offers a couple of freebies also. Accident insurance of up to 1 lakh comes free with each account. Those opening accounts before January 26 next year will also get life cover of ₹ 30,000
- Once the bank account has been active for six months and been linked to the account holder's Aadhar identity, they would become eligible for an overdraft of up to ₹ 2,500, which would further be enhanced by the bank to ₹ 5000 over time
- The scheme has set an ambitious target of bringing in more than 7.5 crore unbanked families into India's banking system by opening more than 15 crore bank accounts at the rate of two bank accounts per household by 2018
- The Jan Dhan Yojana also seeks to provide incentives to business and banking correspondents who serve as a link for the last mile between savings account holders and the bank by fixing a minimum monthly remuneration of ₹ 5000
- The scheme has much simpler know your customer (KYC) norms. An Aadhaar card is proof enough to open your the account on the spot. Attested NREGA cards, voters' ID card are the other documentary proofs that are allowed. For those who do not possess even these, simplified rules regarding proof of identity and address allow the opening of a more basic account

Strong start…

About 1.5 crore bank accounts were opened on a single day while about 2.14 crore accounts were opened in two days through financial camps set up in 77,000 locations. The target is to open 7.5 crore bank accounts by January next year.

Beneficial for small savers…..

Only 58% of Indian households have access to banking services. It has been observed that currently households, especially in rural areas, depend on moneylenders and rely on fraud schemes for their savings needs. Bank accounts for all may solve this problem. If bank accounts become the norm, it will be easier for the government to directly transfer all subsidies into the accounts of the poor, instead of dispensing them through the vast, leaky network of government agencies.

Easy access to the banking system can significantly lift the country's economic prosperity especially in rural areas. Direct subsidy transfers can save money now lost in leakages. It could see the household saving rate go up and boost the overall savings rate

Easy access to the banking system can significantly lift the country's economic prosperity, especially in rural areas. Direct subsidy transfers can save money now lost in leakages. It could see the household saving rate go up and boost the overall savings rate. However, it must be noted that the benefits will accrue in the long term. The costs of the Jan Dhan Yojana are front-ended.

…which can give a leg up to banking industry in long run…

Financial inclusion may have upfront costs but it begins to pay off once a certain scale has been reached.

Further, such a scheme will also give a leg up to the banking system in the country. Though initially the contribution in terms of savings entering the financial system, through such a scheme, may be small, we believe as and when the awareness about the banking system and its benefits spreads, the amount will gradually see a spike. Further, it could impart a shot in the arm to PSBs, which have been losing market share to new private sector banks. Financial inclusion may have upfront costs but it begins to pay off once a certain scale has been reached. In the below table we have tried to calculate the amount that can enter the system based on some assumptions.

Exhibit 2: Analysis of deposits expected to be available to the banking system (basic accounts)

Particulars		FY10	FY11	FY12	FY13
Total no. of BSBDA* A/Cs through branches (in crore)		6.0	7.3	8.1	10.1
Total number of BSBDA accounts through BCs (in crore)		1.3	3.2	5.7	8.1
Total number of A/Cs (in crore)		7.3	10.5	13.8	18.2
Additions per year			3.2	3.3	4.4
Balance in BSBDA A/C through branchs (₹ Crore)		4400	5800	11000	16500
Balance in BSBDA A/C through BC (₹ crore)		1100	1800	1100	1800
Total amount (₹ crore)		5500	7600	12100	18300
Incremental savings account balance			2100	4500	6200
Per A/c savings balance (₹)			724	877	1005
Assuming increase only from new account			656.3	1363.6	1409.1
New A/Cs opened under Jan Dhan Yojna	20000000				
Fresh savings balance, which could enter the system (₹ crore)	2818.2				

*Source: Trends and Progress report (2012-13), ICICIdirect.com Research, * BSBDA = Basic Savings Deposit Account, BC- Business Correspondent*

Total ₹ 2818 crore expected to enter the system looks minuscule compared to ₹ 8048826 crore of deposits currently with the banking system. However, we believe once access to banking services along with enhanced awareness of its benefits starts spreading in the un-banked/under-banked areas, the amount will gradually witness a sharp rise. Further, an improvement in the rural economy will further lead to enhanced balances entering the banking system, which would otherwise have remained idle.

Some critics of the scheme point out that a large number of accounts opened by PSU banks to achieve their target quickly may lead to various inactive or dormant accounts later. However, owing to the launch of the direct benefit transfer scheme (DBT) in January 2013, a good amount may enter accounts opened under the Jan Dhan Yojana (JDY).

Owing to the launch of the direct benefit transfer scheme (DBT) in January 2013, a good amount may enter accounts opened under the JDY

Currently, DBT covers 28 schemes. It mainly covers payment of pensions and scholarships. Going ahead, payment of subsidies is scheduled for the first phase of financial inclusion in August, 2014-15. Further, it will also soon cover the payment of wages under the Mahatma Gandhi National Rural Employment Guarantee Act (MGNREGA).

If this actualises as envisaged, PSU banks will witness large “float” funds flowing into the accounts opened under the scheme. On this sum, PSU banks will not have to pay any interest like any low-cost deposits. This will help them reimburse the high operational costs incurred on such accounts.
As per banking officials, an account opened under financial inclusion, on an average costs a bank about ₹ 100/year. Hence, if 7.5 crore accounts are expected to be opened under the JDY in around the next six months, then that would cost around ₹ 750 crore for the banking industry, which is miniscule compared to the large opex of ₹ 118584 crore incurred during FY14 by 40 listed banks.

Former deputy governor Dr KC Chakraborty said that about 5 lakh business correspondents (BC) will be required, which will be the main cost of the entire operation. Their remuneration could be in the range of ₹ 5000 to ₹ 10000 per month. Even if we consider the upper band of ₹ 10000, the monthly cost would be around ₹ 500 crore per month or ₹ 6,000 crore per year. He said another ₹ 6,000 crore per year could be incurred for operating costs necessary to back up technology, infrastructure, etc. This comes to ₹ 12,000 crore per year. Add another ₹ 6000 crore and the final costs comes to around ₹ 18,000 crore per year for providing banking facility to ~42% of the population of the country. He said the banking system spends about ₹ 2 trillion per year towards operational costs. Therefore, spending 10% of the current opex for providing banking facility to 42% population is not a huge amount.

Further, banks can later generate revenues from such accounts by offering credit facilities as well fees from distributing third-party products like insurance, MF, etc.

Payment banks and small banks – what can happen!

In a further step towards financial inclusion, the RBI came out with the draft guidelines on payment banks and small banks…..

What are these payment banks and small banks & their mechanism?

Both payments banks and small banks are "niche" or "differentiated" banks compared to universal commercial banks existing in the system.

Both, payments banks and small banks are "niche" or "differentiated" banks compared to the universal commercial banks existing in the system

The **payments bank** will be permitted to accept demand deposits, i.e. current deposits and savings bank deposits. Initially, they will be restricted to holding a maximum balance of ₹ 100,000 per customer. Further, they cannot undertake lending activities.

They will provide remittance services particularly to remote areas, either through their own branch network, through business correspondents (BCs) or through networks provided by others.

Apart from amounts maintained as CRR with the RBI and minimum cash balances required for operational activities, payment banks will be required to invest all its monies in government securities/treasury bills with a maturity of up to a year for maintenance of SLR.

A small bank would perform all basic banking operations like commercial banks but with restricted area of presence. It can collect deposits and disburse small-ticket loans to farmers and small & medium businesses, unorganised sector via high technology-low cost operations. Their areas of operation would be restricted to contiguous districts meaning they are adjacent to each other despite their being maybe in different states.

The minimum paid-up capital requirement of both payments banks and small banks has been kept at ₹ 100 crore. These basic forms of banks will primarily offer low-cost services and operate in the hinterlands of the country where no bank has any presence.

Who will be participants?

The entities eligible to set up a payments bank include existing non-bank pre-paid instrument issuers (PPIs), non-banking finance companies (NBFCs), corporate BCs, mobile telephone companies, supermarket chains, companies and public sector entities.

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While several PPI issuers have expressed an interest in converting into a payment bank, they have taken a cautious approach due to profitability issues along with initial capital requirement and net worth stipulations.

Mobile phone operators such as Bharti Airtel and Vodafone also apparently have evinced interest in the payment banks model. They can play an important role in expanding and taking financial inclusion down to the deepest part of the country because of the reach of the services that they provide.

However, mobile companies are asking for a revision in final guidelines as regards promoter's holding. As per draft guidelines, the promoters' initial minimum contribution will be at least 40%, to be locked in for five years. The shareholding of the promoters should be brought down to 40% within three years, 30% within a period of 10 years and 26% within 12 years from the date of commencement of business of the bank.

Telecom companies argue that since payment banks will not be lending institutions, the above shareholding conditions shall not apply to them.

Further, India Post has expressed an interest in applying for a payment bank's license. Last year, it applied for a universal banking license but was not granted one by the RBI. Currently, it has a network of 155,000 post offices with about 89% in rural areas.

In case of small banks, the entities eligible include resident individuals with 10 years of experience in banking and finance, companies and societies, NBFCs, micro finance institutions and local area banks

In case of **small banks**, the entities eligible include resident individuals with 10 years of experience in banking & finance, companies and societies, NBFCs, micro finance institutions and local area banks.

Who will benefit?

The common objective is of furthering financial inclusion. Such banks would be a great step towards financial inclusion as they will allow small savers in unbanked areas and small villages and towns to come out of the clutches of moneylenders who charge exorbitant interest rates. Gradually, it can bring 42% financially excluded population into the formal banking system. As far as **payment banks** are concerned, they will cater to the marginalised sections of society, including migrant labourers, for collecting deposits and remitting funds. Similarly a **small bank** can meet the credit needs of the people or business in areas where the normal banking system has not penetrated.

As far as payment banks are concerned, they will cater to marginalised sections of society, including migrant labourers, for collecting deposits and remitting funds. Similarly, a small bank can meet the credit needs of the people or business in areas where the normal banking system has not penetrated

What is their business model?

The **payment bank's** source of revenue would be the interest earnings from its investments in government securities (~8% of amount invested), fees charged for remittance transactions and fees from acting as BCs of established banks. Its cost would include interest paid on savings account balances (~4%) and operational costs (~1% of average assets).

As stated earlier, payment banks will be barred from lending activities. Hence, questions about their viability are often raised. A payment bank, if it offers deposits at competitive rates, also has to bear deposit insurance on earning that it is allowed to invest only in government securities finding it difficult to survive. Further, keeping a tab on operational cost is also seen as a challenge. For instance, as deposits are being covered by the deposit insurance scheme, this would also lead to a hike in their running cost due to higher premiums while employee costs will rise for acquiring appropriate skill sets, etc.

In the table below, we have attempted to analyse the profitability of a payment bank over three years. As stated earlier, the profitability of the payment bank is largely a function of volume of transactions and lowering of operating expenses by largely reducing technology costs. We observe that initially RoA would be lower as opex costs would be higher while fee income would be lower on lower volume of transactions. Further, the bank would not be operating at peak leverage in the beginning. Consequently, the RoE would be lower.

However, later on, as the volume of transactions increases along with benefits of operating leverage occurring due to low cost technology we expect RoA and RoE to reach 1.8% and 10% levels, respectively.

Exhibit 3: Du-Pont Analysis for payment bank

Partiiculars	First Year	Second Yr	Third Yr
Yield on G-Sec investments	5.39	5.88	6.40
Deposit costs	2.67	2.98	3.28
NII/average assets	2.72	2.90	3.12
Fee income/average assets	0.10	0.30	0.70
Net total income/average assets	2.82	3.20	3.82
Operating expenses/average assets	1.80	1.50	1.15
Operating profit/average assets	1.02	1.70	2.67
Provisions/average assets	0.00	0.00	0.00
PBT/average assets	1.02	1.70	2.67
Tax/ average total assets	0.34	0.56	0.88
Return on average total assets (RoA)	0.68	1.14	1.79
Leverage (average assets/average equity)	3.00	3.94	5.59
Return on equity (RoE)	2.05	4.48	10.00

Source: ICICIdirect.com Research, a structure based on assumptions of initial capital of ₹ 100 crore and gradual leverage to raise deposits and invest

We observe that initially the RoA of a payment bank would be lower as opex costs would be higher while fee income would be lower on lower volume of transactions. Further, the bank would not be operating at peak leverage in the beginning. Consequently, the RoE would be lower

Therefore, the profitability of a payment bank model will depend on low-cost technology and high volume of transactions so that charges are reasonable and yet, profits are made. However, the small-transactions system in areas where bank branches are yet to penetrate continues to be cash-dominated. However, this could also be an opportunity for payments banks as owing to the low ticket size in this business model, mainstream commercial banks usually stay away from undertaking such activities.

In addition, it is argued that small savings customers are not as sensitive to interest earned as to conveniences such as the location of the branch, cap on transactions and minimum balance. Hence, this is an area in which payment banks can use technology to reduce costs while offering various facilities to customers. Further, payments banks can also act as business correspondents for larger banks and, thus, earn commissions.

In the initial stages, payment bank promoters will have to incur costs in terms of setting up the business, technology cost, etc. and have to keep pumping in money very often. However, players from the telecom industry have evinced an interest.

Model of small banks

As described earlier, a **small bank** can carry out basic banking operations like commercial *banks but with a restricted area of presence*. Its customers would include farmers and small & medium businesses and enterprises in unorganised sectors.

Asset financing NBFCs such as Shriram Transport Finance, gold loan companies such as Muthoot and various micro finance institutions have evinced an interest in applying for a small bank license.

The major reasons for certain entities (such as NBFCs) applying is that by becoming a small bank, they would be able to offer a variety of services under one roof and can raise deposits, which will reduce their cost

The major reasons for all these entities is that by becoming a small bank, they would be able to offer a variety of services under one roof and can raise deposits, which can reduce their cost and generate consistent source of funds.

However, at the same time, they are also awaiting clarifications like if a small bank can operate in industry clusters across various states or they can operate in only a particular state. Presence in a particular area could lead to potential threat of concentration risk. For example, if there is a draught or flood in a particular area, it will have quite a significant adverse impact on the balance sheet of a small bank with little diversification of risk.

RBI in the draft guidelines has said the area of operation of a small bank would normally be restricted to contiguous districts (meaning adjacent districts) in a homogenous cluster of states or union territories so that the bank has the 'local feel and culture'.

Any possibility of expansion of their presence comes after a period of the initial five years of their stabilisation period. For the initial three years, smaller banks would require prior approval of the RBI. The problem is that such caution in initial years curtails the chances of many aspiring companies in the lending business. The reason is many of these companies already have operations nationwide and limiting their operations to a few districts does not make real economic sense.

Various NBFCs, after having failed to earlier get a universal banking licence are now keen to apply for a small bank licence. Shriram Group is one of them

Various NBFCs, after having failed to earlier get a universal banking licence are now keen to apply for a small bank licence. Shriram Group is one of them provided it means they can carry on with their existing business. They are awaiting clarification on RBI norms that mandate converting an existing non-banking finance company (NBFC) into a bank, for no other entity in a group is allowed to offer products that a bank can.

Apart from the above, NBFCs are also looking for clarifications on various other matters such as what geography they should look at, whether they will have to ring-fence the NBFC operation in that particular geography etc. Does it mean they cannot do any more business there or they can do so in both the entities separately? Further, there were issues regarding the provisioning norms also. Such NBFCs ask why they should have SLR, CRR requirements when they will be a financial inclusion bank? When they are going to cater to the priority sector, they suggest there should not be any SLR, CRR requirements anyway.

Gold loan companies may also apply for a banking license. Muthoot Finance is one of the contenders that can apply for a small bank license.

Muthoot Finance is one of the contenders that can apply for a small bank license. Its strong presence in Kerala may work in its favour. Also, the management believes it can play a larger role thanks to its rural reach, with almost 60% of its presence in rural areas

Muthoot Finance’s strong presence in Kerala may work in its favour, given the RBI’s intent to keep the operations of the small bank restricted to nearby districts in a cluster of states or union territories, to exude “local feel” and culture. Also, the management believes it can play a larger role thanks to its rural reach, with almost 60% of its presence in the rural areas.

However, there could be some hurdles. At present, Muthoot Finance is a closely held family-owned business with promoters holding a 75% stake. However, the guidelines have said the stake of promoters in the bank in excess of 40% has to be brought down to 40% within three years from the commencement of the bank.

Apart from NBFCs and gold loan companies, the other financial institution which would be keen to become a bank would be the micro finance institutions (MFIs)

Apart from NBFCs and gold loan companies the other financial institution which would be keen to become a bank would be the micro finance institutions (MFIs).

MFIs believe they could smoothly comply with the draft guideline stipulating that at least 50% of a small bank’s loan portfolio should comprise loans and advances of up to ₹ 25 lakh to extend loans primarily to micro enterprises.

Such a move will give MFIs an opportunity to also provide deposit products and money transfer services in addition to the existing business of providing short duration collateral-free loans for small amounts and third-party products such as micro-insurance to the poor.

Further, a 'non-bank' tag is perceived as being negative. By converting into a bank, MFIs could shed this perception and build trust with their customers as they will be more closely regulated by the RBI.

The concept of a small bank is good but if there are strict geographical restrictions then the model will be unviable. If the purpose is to promote financial inclusion then industry players suggest it should not be region specific.

How will it impact banking system?

All said and done, payment banks and small banks as and when they become a reality, in the long run, can impact established banks by capturing the bottom of the pyramid business in a much more cost-effective manner

All said and done, payment banks and small banks as and when they become a reality can, in the long run, impact established banks by capturing the bottom of the pyramid business in a much more cost-effective manner.

These could further lead to new technological innovations and increase competitiveness in the Indian banking industry. Prima facie, such banks could impact established commercial banks by eating into their liability side. However, we believe the impact could be quite minimal at least in the near term. Retail outlets of mobile companies can be used to expand the reach. Those with the backing of a pan-India network, such as telecom players starting payment banks, would have a definite edge in grabbing the remittance business.

However, established banks can also benefit as they can use payment banks as their banking correspondents (BCs) in areas where they usually do not operate. Through such BCs the established banks can offer services or products, which payments banks cannot. Acting as an agent for the products of the large banks could be another source of revenue for such payment banks.

Mobile banking may be ideal tool for financial inclusion

With about 900 million mobile users, India has a large potential in the space of mobile banking.

Currently, the RBI allows "a bank led model" for mobile banking in India. Only banks that are licensed and supervised in India and with a physical presence in India are permitted to offer mobile banking

What is the framework of mobile banking currently in India?

Currently, the RBI allows "a bank led model" for mobile banking in India. Only banks that are licensed and supervised in India and with a physical presence in India are permitted to offer mobile banking. As on date, 78 banks including a few regional rural banks (RRBs) and urban cooperative banks (UCBs) have been given permission for providing mobile banking services in the country. Helped by the rapid spread of use of mobile telephony, the growth in mobile banking has been encouraging over the last three years.

Exhibit 4: Strong rise seen in mobile banking transactions in recent years

Month/Year	Immediate Payment Service (IMPS)		M-Wallet		Mobile Banking	
	Volume (Million)	Value (Rupees Billion)	Volume (Million)	Value (Rupees Billion)	Volume (Million)	Value (Rupees Billion)
2014-15						
Jul-14	4.26	30.19	12.56	5.52	11.54	44.22
Jun-14	3.71	26.10	13.71	4.66	10.73	39.85
May-14	3.30	24.16	13.57	4.37	10.89	38.82
Apr-14	3.11	21.56	13.07	4.03	10.17	32.96
2013-14						
Mar-14	3.00	20.50	14.07	3.99	10.74	33.91
Feb-14	2.23	14.56	11.99	3.25	8.86	26.36
Jan-14	2.03	13.20	11.27	2.78	9.52	26.25
Dec-13	1.93	11.70	8.58	2.48	8.89	22.61
Nov-13	1.38	8.82	7.46	1.93	8.13	19.57
Oct-13	1.22	7.32	8.14	2.12	7.79	19.54
Sep-13	1.02	5.53	8.74	2.33	7.16	15.66
Aug-13	0.79	4.71	8.68	2.36	6.76	14.13
Jul-13	0.65	3.80	7.94	2.20	7.03	12.84
Jun-13	0.47	2.30	7.01	1.89	6.63	11.48
May-13	0.38	1.94	7.01	1.98	6.87	11.94
Apr-13	0.27	1.44	6.63	1.76	6.33	9.89
Total	15.36	95.81	107.51	29.05	94.71	224.18
2012-13						
Total	1.23	4.33	32.70	10.01	53.30	59.90
2011-12						
Total	0.09	0.42	0.00	0.00	25.56	18.20

Source: RBI, ICICIdirect.com Research

In the first four months of FY14-15, ₹ 15585 crore of mobile banking transactions have occurred, which is ~70% of ₹ 22418 crore of total value transactions that happened in FY14

As can be seen in the above table there has been a sharp surge in the mobile banking transactions recently. In the first four months of FY15, ₹ 15585 crore of mobile banking transactions have occurred, which is ~70% of the ₹ 22418 crore of total value transactions that happened in FY14. One of the major reasons has been the sharp increase in use of smart phones, which has led to such a sudden surge in mobile banking transactions. Going ahead, we believe the value growth will be higher than what was observed in the recent past.

As per RBI's financial stability report, the mobile banking channel has the potential to be one of the key tools for achieving financial inclusion. However, the growth and acceptance of mobile banking as a channel of accessing banking service has been below expectation. The reasons include low levels of awareness and acceptance and challenges in faster growth can be attributed to the factors like inability of banks to seed the mobile number with the account number, compatibility of handsets with the mobile banking application, absence of collaboration & revenue sharing models between banks & mobile network operators (MNOs), inability to get the USSD channel in operation for mobile banking, etc.

What could happen with mobile banking in India going ahead?

In order to heed RBI's concerns about below expectation spread of mobile banking in India and in an effort to facilitate and promote accessibility to banking services in remote areas and towards people in lower income group the new government in place has asked mobile companies to introduce unstructured supplementary service data (USSD) technology.

USSD technology could enable inexpensive banking service with ordinary handsets. Services like PIN change, funds transfer, payment of low value bills, bank passbook request and balance enquiries and many more such simple services can be availed by any person having a bank account and an "ordinary handset"

USSD technology could enable inexpensive banking services with ordinary handsets. Services like PIN change, funds transfer, payment of low value bills, bank passbook request and balance enquiries and many more such simple services can be availed by any person having a bank account and an "ordinary handset". **A customer has to simply text simple alphanumeric messages to access his bank account and carry out virtually every transaction one does with a bank. No smartphone, no android application, no internet access will be required. With USSD technology inter-bank and inter-telecom service provider transactions would be possible.**

However, telecom companies had been resisting sharing their infrastructure that would allow USSD-backed basic mobile banking services, connecting banks through a centralised payment gateway, as earlier the charge per transaction allowed was 10 paise, which was unacceptable to them.

After government interference, Trai raised the charge to ₹ 1.5 per transaction making the same a bit feasible.

For mobile banking to scale up and touch its true potential, proper coordination and cooperation will need to be achieved between banks, telecom operators, merchants and mobile device manufacturers.

What could be the Impact of mobile banking on banking system?

Owing to efforts of the government and focus on financial inclusion and improved technology, mobile banking could gain enhanced popularity among users, especially in unbanked and under-banked areas and with lower income group.

It will beneficial for customers as it will allow access to banking services in an easy and convenient way in an inexpensive manner. This will help banking system significantly as it will help them reduce their costs and spread their reach to remote areas easily. The savings habit will improve, which will be channelised to the banking system

It will beneficial for customers as it will allow access to banking services in an easy and convenient way in an inexpensive manner. This will help the banking system significantly as it will help them reduce their costs and spread their reach to remote areas easily. Savings habit will improve, which will be channelised to the banking system. For example, putting up ATM machines in distant villages could be costly or unviable for a bank. However, providing mobile banking services through common platform would be cost efficient for the bank.

A mobile phone is a cheaper, easier option towards a cashless economy. Further, anyone can use a mobile phone - it has multi-lingual keys and poses no hurdle to an illiterate person.

For mobile banking to flourish, the gates should be opened to every one. Banks, NPCI, Visa, MasterCard, micro-finance institutions, mutual funds, insurers and telecom companies - all should join the game. Even if a mobile company sponsors a payment bank, it should be directed to let others access its communication infrastructure at a reasonable price. Confining USSD-based mobile banking to a few services and a few players will not truly serve the purpose of financial inclusion.

Market share of top banks in mobile banking

Exhibit 5: More than 90% of mobile banking transactions in a month carried out by seven banks

Data for June 2014 month	Volume (actual)	Value (in Rs crore)	Volume share (%)	Value share (%)
Axis Bank Ltd	1360367	586.15	12.68	14.71
Citi Bank	299788	185.34	2.79	4.65
HDFC Bank Ltd	351883	795.63	3.28	19.96
ICICI Bank Ltd	1951469	1021.20	18.19	25.62
Kotak Mahindra Bank Ltd	293259	391.90	2.73	9.83
State Bank of India	5227782	546.35	48.73	13.71
Yes Bank Ltd	430209	192.83	4.01	4.84
Others	813958	265.93	7.59	6.67
Total	10,728,715	3,985	100.00	100.00

Source: RBI, ICICIdirect.com Research

As can be seen in the above table, it is the large & mid-sized private banks along with SBI that dominate the mobile banking space in India. These seven banks process more than 90% of mobile transactions (in terms of both volume and value) in a month. SBI is the largest player in terms of volume of transactions (5227782 transactions processed in June 2014 month) with share of 48.7%. Private banks have the highest share in terms of value. This is owing to the higher value per transaction at private banks.

Exhibit 6: YTD credit has seen agri and retail having largest share whereas in two years, industrial sector received the most

₹ bn Particulars	Jul.25, 2014	Mar 21,2014	Incremental Credit - YTD	Proportion (%)	July 27, 2012	Incremental Credit- 2 yrs	Proportion (%)
Gross bank credit	57309.4	56572.3	737.1		44393.14	12916.2	
Non-food credit	56,175.2	55,660.1	515.2	100.00	43,458.1	12,717.1	100
Agriculture	7202.3	6694.4	508.0	98.6	5452.89	1749.5	13.8
Industry	25079.2	25228.8	-149.5	-29.0	19649.54	5429.7	42.7
Services	13176.2	13370.3	-194.1	-37.7	10356.07	2820.1	22.2
Retail loans	10717.5	10366.6	350.9	68.1	7999.61	2717.9	21.4

Industry Segment Break up	Jul.25, 2014	Mar.21, 2014	Incremental Incremental	Proportion (%)	Jul.27, 2012	Incremental Credit- 2 yrs	Proportion (%)
Mining & quarrying (incl. Coal)	391.2	353.3	37.9	25.4	332.43	58.7	1.1
Food processing	1475.7	1479.8	-4.1	-2.8	909.3	566.4	10.4
Beverage & tobacco	187.5	186.0	1.5	1.0	147.06	40.4	0.7
Textiles	1961.6	2040.0	-78.4	-52.4	1601.08	360.5	6.6
Leather & leather products	100.8	102.7	-1.9	-1.3	83.35	17.4	0.3
Wood & wood products	92.7	93.5	-0.8	-0.5	66.18	26.5	0.5
Paper & paper products	333.8	331.4	2.4	1.6	257.69	76.1	1.4
Petroleum, coal products & nuclear fuels	566.5	634.9	-68.4	-45.7	517.67	48.8	0.9
Chemicals & chemical products	1583.3	1676.7	-93.4	-62.5	1190.69	392.6	7.2
Rubber, plastic & their products	358.1	368.2	-10.2	-6.8	291.52	66.6	1.2
Glass & glassware	87.8	87.1	0.7	0.5	66.71	21.1	0.4
Cement & cement products	529.3	541.2	-11.8	-7.9	373.32	156.0	2.9
Basic metal & metal product	3504.5	3619.7	-115.2	-77.1	2656.5	848.0	15.6
All engineering	1440.5	1455.7	-15.2	-10.2	1230.63	209.9	3.9
Vehicles, vehicle parts & transport equipment	665.4	677.4	-12.0	-8.0	575.26	90.2	1.7
Gems & jewellery	675.3	719.7	-44.4	-29.7	523.89	151.4	2.8
Construction	692.4	614.1	78.3	52.3	507.1	185.3	3.4
Infrastructure	8696.3	8397.8	298.5	199.6	6437.97	2258.3	41.6
Other industries	1736.7	1849.7	-113.0	-75.5	1881.18	-144.5	-2.7
Industries (Total)	25,079.2	25,228.8	-149.5	100.00	19,649.5	5,429.7	100

Source: RBI, ICICIdirect.com Research

Bank credit growth has been sluggish so far in FY15 at 9.7% YoY to ₹ 61,40,930 crore as on September 5, 2014 and 2.4% YTD.
It declined from 12.6% YoY growth as on July 25, 2014 as industry credit book de-grew 0.5% YTD. Agriculture and retail loan growth was healthy at 19.5% YoY.
Credit to agriculture and allied activities grew a healthy 19.5% YoY while non-food credit growth was sluggish at 12.6%. Incremental credit to agriculture & allied activities and retail loans remained the highest on a YTD basis. Industrial credit, which accounts for 44% of the total bank credit, de-grew YTD by 0.5% leading to slower YoY growth of 10% to ₹ 25,07,900 crore while retail loans (forming 19% of total credit) grew 14.5% YoY and 47.6% YTD to 10,71,700 crore. Within retail loans, housing loans grew 17.3% YoY to ₹ 5,68,000 crore, vehicle loans by 17.9% YoY to ₹ 1,37,700 crore while consumer durables grew a whopping 53% to ₹ 14,100 crore, albeit on a lower base.
Industrial growth remains sluggish (down to 10% from 15% YoY growth till last year) affected by slowdown and a sharp deterioration in asset quality in this segment. More loans are getting restructured and fresh credit growth to that extent has narrowed down to the stressed sectors.

Bankers feel, a pick-up in credit is expected in H2FY15. We expect credit to grow at 14% YoY in FY15, driven by continued growth in retail with a pick-up in the industry segment in Q4FY15.

GNPA market share (₹ crore and %)

PSU coverage	Q1FY15	Market share	FY15E
Bank of India	12,532	4.9	15,029
Bank of Baroda	12,087	4.7	14,271
Dena Bank	3,169	1.2	3,863
Punjab National Bank	19,603	7.6	21,988
State Bank of India	60,434	23.4	69,524
Syndicate Bank	5,243	2.0	5,915
Private coverage			
Axis Bank	3,463	1.3	3,827
City Union Bank	308	0.1	369
Development Credit Bank	149	0.1	169
Federal Bank	1,016	0.4	1,191
HDFC Bank	3,356	1.3	3,888
Indusind Bank	654	0.3	788
Jammu & Kashmir Bank	1,888	0.7	1,440
Kotak Mahindra Bank	1,079	0.4	1,407
South Indian Bank	517	0.2	599
Yes Bank	198	0.1	254

Source: Capitaline, Company, ICICIdirect.com Research

*Market share based on 40 listed banks

PSU banks still not seeing light, slippages from RA book may impact

Asset quality is still not at its best, though incrementally net additions to GNPA are moderating at ₹ 258228 crore (4% rise QoQ) with NNPA at ₹ 144823 crore (5.8% QoQ) as on Q1FY15.

Fresh slippages still remain high except for private banks where there is still consistency in contained NPAs. Led by higher reductions on account of upgrades/write-offs/sale of NPA to ARCs, banks have been able to report stable GNPA numbers QoQ.

As per RBI's financial stability report, restructured assets (RA) of the banking system as on March, 2014 stood at ~₹ 350000 crore or 5.8% of total advances. However, net additions to RA during Q1FY15 have been lower than seen in the past few quarters. Accordingly, we estimate RA will be maintained around ₹ 350000 crore for the industry forming ~5.7% of credit as on June, 2014.

We expect slippages from RA to surge and, hence, factor GNPA and NNPA growth for our coverage universe at 14% CAGR to ₹ 159103 crore & 13.3% CAGR to ₹ 80438 crore, respectively, by FY16E.

Exhibit 7: Pace of stressed asset addition moderating

Q1FY15	Advances	Restructured assets (₹ crore)	RA to advances (%)	GNPA (₹ crore)	NNPA (₹ crore)	Total stressed (RA + GNPA)	Stressed (%)	GNPA (%)	NNPA (%)	Coverage ratio (%)	FY15E PAT (₹ cr)
PSU Banks											
Bank of India	381,566	10,602	2.8	12,532	8,042	23134	6.1	3.3	2.1	58.1	2,787
Bank of Baroda	381,772	22,832	6.0	12,087	6,021	34919	9.1	3.1	1.6	66.7	5,844
Dena Bank	75,351	7,905	10.5	3,169	2,175	11074	14.7	4.2	2.9	54.0	581
PNB	347,485	34,012	9.8	19,603	10,464	53615	15.4	5.5	3.0	60.0	3,977
SBI	1,198,903	58,644	4.9	60,434	31,883	119078	9.9	4.9	2.7	62.9	13,878
Syndicate Bank	176,442	10,837	6.1	5,243	3,271	16080	9.1	3.0	1.9	67.6	1,688
Private banks											
Axis Bank	230,535	6,289	2.7	3,463	1,114	9752	4.2	0.4	0.4	77.0	7,094
City Union Bank	16,153	261.2	2	308	204	570	3.5	1.9	1.3	61.1	386
DCB	8,291	77	0.9	149	80	226	2.7	1.8	1.0	79.1	185
Federal Bank	45,682	2,464	5.4	1,016	304	3480	7.6	2.2	0.7	84.1	1,053
HDFC Bank	312,109	624	0.2	3,356	1,007	3980	1.3	1.1	0.3	74.0	10,404
IndusInd Bank	58,664	235	0.4	654	196	889	1.5	1.1	0.3	70.1	1,752
J&K Bank	44,431	1,390	3.1	1,888	968	3278	7.4	4.2	2.2	55.0	1,207
Kotak Mahindra Bank	56,922	145	0.3	1,079	559	1224	2.2	1.9	1.0	53.9	1,700
South Indian Bank	34,692	1,784	5.1	517	311	2301	6.6	1.5	0.9	62.5	560
Yes Bank	58,989	113	0.2	198	43	311	0.5	0.3	0.1	78.4	1,942

Source: Company, ICICIdirect.com Research

Investment book

The benchmark 10 year G-Sec yield has fallen to ~8.45% currently from 8.75% at the beginning of the quarter. The below table indicates the impact of such a fall on the bank's profitability. As can be seen, PSBs will benefit the most owing to their higher AFS book and higher duration. Currently, about 29.8% of the banking system's deposits are invested in the SLR portfolio as on 5th September,2014. Incremental investment-to-deposit ratio is ~50%.
Among our coverage universe, for a 30 bps yield movement, FY15E PAT of PSBs will be impacted positively by 2% to 8.6% with PNB, Dena Bank and Syndicate Bank being the major beneficiaries. Private banks will be impacted by 0.7% to 3.5% with Axis Bank and J&K Bank witnessing a higher impact.

Exhibit 8: Volatility in G-sec yield in one year has led to MTM provisions and reversals on banks AFS books

Q1FY15 Banks	Investment book (₹ crore)	AFS (₹ crore)	Modified duration (in years) AFS	Impact of yields movement of 20 bps (₹ crore)	Impact of yield movement of 30 bps (₹ crore)	PAT (₹ crore) FY15E	Impact on PAT of 20 bps yield movement (%)	Impact on PAT of 30 bps yield movement (%)
Public sector banks								
Bank of India	120,651	20,076	4.0	162.2	243.3	2,787	4.1	6.1
Bank of Baroda	121,652	16,340	3.4	111.1	166.7	5,844	1.3	2.0
Dena Bank	36178	6167	3.9	47.5	71.2	581	5.7	8.6
PNB	134,249.0	38,050.0	4.2	322.7	484.0	3,977.0	5.7	8.5
SBI	446,800	99,500	3.1	608.9	913.4	13,878	3.1	4.6
Syndicate Bank	55,008	14,297	4.8	135.8	203.7	1,688	5.6	8.4
OBC*	59,625	12,915	3.8	99.2	148.8	1,410	4.9	7.4
Canara Bank*	129,918	34,008	4.6	315.6	473.4	3,102	7.1	10.7
Private sector banks								
Axis Bank	107893	35044	3.4	239.0	358.5	7094	2.4	3.5
City Union Bank	6,521.3	689.9	1.8	2.4	3.7	385.9	0.4	0.7
DCB	3,540	712	1.2	1.7	2.6	185	0.6	1.0
J&K Bank	22,747.7	6,262.3	2.5	30.9	46.4	1,207.1	1.8	2.7

*Source: Company, ICICIdirect.com Research, * Not under coverage, AFS- Available for Sale*

Annexure

Exhibit 9: Quarterly margin trend – Expect decline to be arrested from H2FY15

NIM (%)	Q1FY13	Q2FY13	Q3FY13	Q4FY13	Q1FY14	Q2FY14	Q3FY14	Q4FY14	Q1FY15
PSU coverage									
Bank of India	2.3	2.4	2.4	2.5	2.5	2.4	2.4	2.3	2.2
Bank of Baroda	2.7	2.7	2.7	2.5	2.4	2.3	2.4	2.3	2.3
Dena Bank	3.1	2.9	2.9	2.5	2.6	2.6	2.7	2.3	2.2
Punjab National Bank	3.6	3.5	3.5	3.5	3.5	3.5	3.6	3.2	3.4
State Bank of India	3.6	3.5	3.4	3.3	3.2	3.2	3.2	3.2	3.1
Syndicate Bank	3.2	3.3	3.3	3.0	2.8	2.9	2.8	2.8	2.5
Private coverage									
Axis Bank	3.4	3.5	3.6	3.7	3.9	3.8	3.7	3.9	3.9
City Union Bank	3.2	3.3	3.5	3.4	3.6	3.5	3.6	3.3	3.3
Development Credit Bank	3.2	3.2	3.4	3.5	3.4	3.7	3.6	3.6	3.7
Dhanlaxmi bank	2.5	2.0	2.5	2.4	2.1	2.7	2.2	0.0	0.0
Federal Bank	3.4	3.6	3.5	3.1	3.1	3.3	3.2	3.6	3.3
HDFC Bank	4.3	4.2	4.3	4.5	4.6	4.3	4.2	4.4	4.4
Jammu & Kashmir Bank	3.8	3.9	4.1	4.1	4.2	4.3	4.0	4.1	3.6
Kotak Mahindra Bank	4.7	4.6	4.6	4.6	4.8	4.9	4.9	4.9	5.0
South Indian Bank	3.2	3.1	3.2	3.2	2.9	3.1	3.0	3.0	2.7
Yes Bank	2.8	2.9	3.0	3.0	3.0	2.9	2.9	3.0	3.0

Source: Company, ICICIdirect.com Research

Exhibit 10: Financials of industry as on Q1FY15 (listed banks + SBI associates)

(₹ crore)	Q1FY15	Q4FY14	Q3FY14	Q2FY14	Q1FY14	Q4FY13	YoY (%)	QoQ (%)
NII	65868	65203	63201	61352	59406	57818	10.9	1.0
Growth YoY	10.9	12.8	11.5	12.8	10.7	7.6		
Other income	24101	29792	22375	20562	26808	27232	-10.1	-19.1
Growth YoY	-10.1	9.4	7.9	9.4	44.2	17.8		
Total operating exp.	42072	42899	41376	40683	38724	39986	8.6	-1.9
Staff cost	24152	23178	23446	23043	22796	22773	6.0	4.2
Operating profit	47898	52096	44200	41231	47490	45063	0.9	-8.1
Growth YoY	0.9	15.6	3.0	3.8	17.3	5.9		
Provision	16776	25670	21446	21580	18438	21557	-9.0	-34.6
PBT	31108	26406	22736	19638	29042	23492	7.1	17.8
PAT	20919	20007	15353	14145	20276	20180	3.2	4.6
Growth YoY	3.2	-0.9	-21.1	-25.0	1.9	-5.4		
GNPA	258228	248210	249795	235273	213299	183713	21.1	4.0
Growth YoY	21.1	35.1	36.8	38.1	40.7	36.6		
NNPA	144833	136859	142197	131695	117201	94743	23.6	5.8
Growth YoY	23.6	44.5	51.4	52.5	60.9	51.5		

Source: Capitaline, Company, ICICIdirect.com Research

ICICIdirect.com coverage universe (Banking)

Sector / Company	CMP (₹)	TP(₹)	Rating	M Cap (₹ Cr)	EPS (₹) FY14	EPS (₹) FY15E	EPS (₹) FY16E	P/E (x) FY14	P/E (x) FY15E	P/E (x) FY16E	P/ABV (x) FY14	P/ABV (x) FY15E	P/ABV (x) FY16E	RoA (%) FY14	RoA (%) FY15E	RoA (%) FY16E	RoE (%) FY14	RoE (%) FY15E	RoE (%) FY16E
Bank of India (BANIND)	283	317	Buy	16,936	42	43	50	6.7	6.5	5.7	0.9	1.0	0.9	0.5	0.5	0.4	10	9	10
Bank of Baroda (BANBAR)	940	1,250	Buy	39,581	105	136	160	8.9	6.9	5.9	1.4	1.2	1.1	0.8	0.8	0.8	13	15	16
Dena Bank (DENBAN)	61	66	Hold	3,302	10	11	14	6.0	5.7	4.5	0.7	0.8	0.7	0.5	0.4	0.5	9	8	10
Punjab National Bank (PUNBAN)	978	1,156	Buy	34,560	92	110	138	10.6	8.9	7.1	1.4	1.4	1.1	0.6	0.7	0.7	10	11	12
State Bank of India (STABAN)	2,596	3,234	Buy	177,588	146	186	215	17.8	14.0	12.1	2.2	2.1	1.9	0.6	0.7	0.7	10	11	12
Syndicate Bank (SYNBN)	124	145	Hold	7,476	27	27	32	4.5	4.6	3.9	0.9	0.9	0.9	0.7	0.6	0.6	15	14	15
Axis Bank (UTIBAN)	403	481	Buy	94,958	26	30	34	15.2	13.3	11.9	2.5	2.2	1.9	1.7	1.7	1.7	17	17	17
City Union Bank (CITUNI)	83	80	Hold	3,998	6	7	9	12.9	12.6	9.6	2.5	2.0	1.6	1.4	1.4	1.6	19	16	17
Development Credit Bank (DCB)	88	100	Buy	2,278	6	7	8	14.5	11.9	10.8	2.1	1.9	1.6	1.3	1.3	1.2	15	15	15
Federal Bank (FEDBAN)	129	145	Buy	10,996	10	12	14	13.1	10.4	9.0	1.7	1.5	1.3	1.2	1.3	1.3	13	14	15
HDFC Bank (HDFBAN)	854	956	Hold	203,804	35	42	52	24.2	20.1	16.5	4.8	4.0	3.5	1.9	2.0	2.1	21	21	22
Indusind Bank (INDBA)	639	714	Buy	33,483	27	33	41	23.8	19.2	15.4	3.8	3.3	2.8	1.8	1.8	1.9	17	18	19
Jammu & Kashmir Bank(JAMKAS)	146	170	Hold	7,097	24	25	31	6.0	5.9	4.6	1.3	1.2	1.0	1.6	1.4	1.6	22	20	21
Kotak Mahindra Bank (KOTMAH)	1,034	1,117	Hold	79,266	20	22	26	53.0	46.9	40.2	6.7	6.0	5.3	1.8	1.8	1.8	14	13	13
South Indian Bank (SOUINO)	28	30	Hold	3,738	4	4	5	7.4	6.7	6.0	1.3	1.2	1.0	1.0	0.9	0.9	17	15	16
Yes Bank (YESBAN)	585	723	Buy	20,974	45	47	57	13.0	12.5	10.3	3.0	2.1	1.8	1.6	1.6	1.6	25	21	19

Source: Company, ICICIdirect.com Research

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