Result Preview Q1FY10

Date: 10th July 2009

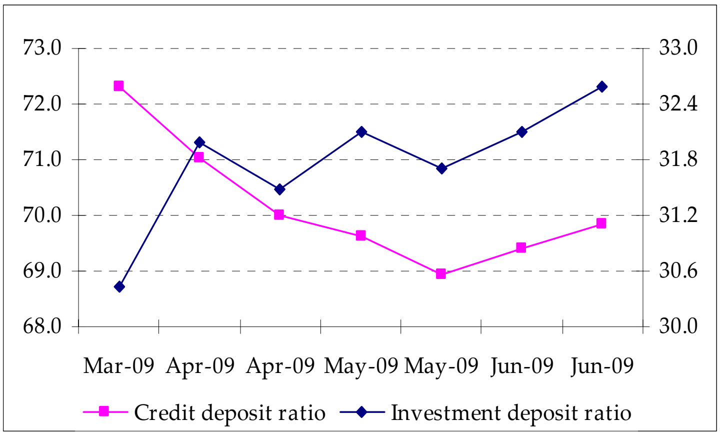
An Uneventful Quarter

Q1FY10 was by far the most uneventful quarter for the banking sector in the past 12-18 months. This was a quarter devoid of any regulatory action, G Sec yields ended at the same level as at the beginning of the quarter even as credit growth continued to slow down to a level of ~16% while deposits continued to grow at 22%. We expect banks to continue to report margin pressures driven by lower credit off-take and little pricing power due to abundant liquidity in the system. However, banks would continue to post profit growth primarily driven by asset growth and lower investment loss provisions on a YoY basis. Trading gains on investments could surprise on the upside given the high volatility in movement of the benchmark G Sec paper during the quarter.

Core earnings likely to be under pressure

On the back of slower credit offtake and downward repricing of lending rates, margins of banks are expected to remain under pressure. Credit growth for the quarter was at 16% while deposit growth was at 22%.

Chart: Credit deposit ratio and investment deposit ratio



Source: Bloomberg, SBICAP Securities Research

Investment losses lower YoY

Lower investment losses on a YoY basis would be the main driver of profitability growth for banks which recorded heavy MTM losses on the investment book in Q1FY09. With G Sec yields remaining flattish during the quarter, we expect MTM losses to be substantially lower on a YoY basis.

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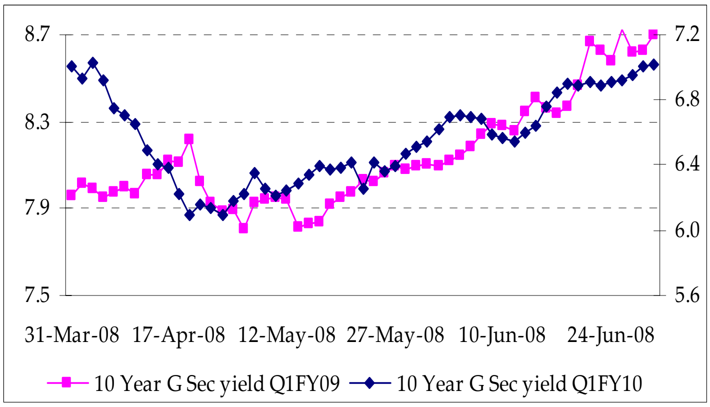
Chart: Movement in 10 Year G Sec yield Q1FY10 and Q1FY09



Source: Bloomberg, SBICAP Securities Research

But banks likely to use this as an opportunity to step up loan loss provisioning

However, we believe that banks would use this opportunity to step up NPA coverage ratios in anticipation of any deterioration in asset quality. With most problematic loans restructured in Q4FY09 and some loans being restructured in the current quarter we do not foresee banks reporting a meaningful rise in NPAs for the current quarter at least.

Q1FY10 Results Preview

Amount in million rupees

	Operating Income			Operating Profit			Profit After Tax		
Companies	**Q1FY10**	**Q1FY09**	**Growth YoY %**	**Q1FY10**	**Q1FY09**	**Growth YoY %**	**Q1FY10**	**Q1FY09**	**Growth YoY %**
Andhra Bank	6,008	4,649	29%	2,908	2,053	42%	995	776	28%
Axis Bank	17,567	14,353	22%	10,067	8,023	25%	5,356	3,301	62%
Bank of Baroda	20,433	15,696	30%	11,133	8,602	29%	5,865	3,709	58%
Bank of India	19,805	17,472	13%	11,905	10,724	11%	6,212	5,620	11%
Corporation Bank	6,469	5,356	21%	3,869	3,210	21%	2,038	1,843	11%
Federal Bank	4,033	3,744	8%	2,603	2,535	3%	879	681	29%
HDFC Bank	28,603	23,169	23%	14,103	10,275	37%	6,054	4,644	30%
Oriental Bank of Commerce	7,023	6,522	8%	3,943	3,537	11%	2,153	2,205	-2%
Punjab National Bank	24,004	19,009	26%	12,704	9,824	29%	6,443	5,124	26%
Union Bank of India	12,130	10,317	18%	6,530	6,160	6%	2,477	2,283	8%
IDFC (Consolidated)	4,677	3,820	22%	3,577	3,040	18%	2,192	2,180	1%

Source: SBICAP Securities Research

Recent Reports

Date	Company Name	Recommendation	Recommended Price	Target Price
4-July-09	Triveni Engineering Industries Limited	Buy	99	121
1-Jun-09	Colgate Palmolive India Ltd (Update)	Buy	475	624
28-May-09	Godrej Consumer Products Ltd (Update)	Outperform	176	195
26-May-09	Oracle Financial Services Software Ltd (Update)	Outperform	1,079	1,200
20-May-09	Godrej Consumer Products Ltd (Update)	Marketperform	160	-
18-May-09	Infosys Technologies (Update)	Marketperform	1,750	-
14-May-09	ABG Shipyard Ltd (Update)	Buy	145	265
27-Apr-09	Hindustan Unilever Ltd	Marketperform	231	-
17-Apr-09	GlaxoSmithKline Pharmaceuticals Ltd	Outperform	1,099	1,200
17-Mar-09	Mercator Lines Ltd	Buy	23	33
16-Mar-09	3i Infotech Ltd	Buy	27	45
16-Mar-09	Axis Bank	Buy	331	639
13-Mar-09	Oracle Financial Services Software Ltd	Buy	618	800
13-Mar-09	IVRCL Infrastructures & Projects Ltd	Buy	111	140
9-Mar-09	Sun Pharmaceutical Industries Ltd	Marketperform	1,021	-
15-Jan-09	Zee Entertainment Enterprises Ltd	Buy	116	167
12-Jan-09	Godrej Consumer Products Ltd	Buy	128	154
2-Jan-09	Andhra Bank	Buy	58	102
2-Jan-09	Federal Bank	Buy	165	203
31-Dec-08	Gateway Distriparks Ltd	Buy	82	105
18-Dec-08	Biocon	Marketperform	118	-
22-Nov-08	TAKE Solutions	Buy	18	50
21-Nov-08	**Pipe Sector Report**			
	PSL Limited	Buy	95	181
	Welspun Gujarat Stahl Rohren Limited	Buy	102	165
	Jindal Saw Limited	Buy	272	435
	Maharashtra Seamless Limited	Buy	159	225
	Man Industries Limited	Buy	33	55
4-Nov-08	Infosys Technologies	Buy	1,333	1,740
17-Sep-08	Patel Engineering Ltd	Buy	370	490
16-Sep-08	IDFC	Buy	81	104
16-Sep-08	Piramal Healthcare	Buy	309	360
29-Aug-08	Great Eastern Shipping	Buy	380	470

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