



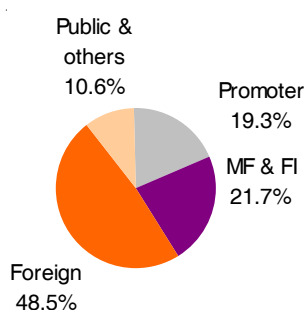
Index

- ♦ [Stock Update >> HDFC Bank](#)
- ♦ [Stock Update >> Housing Development Finance Corporation](#)
- ♦ [Stock Update >> Axis Bank](#)
- ♦ [Sector Update >> Telecommunications](#)

HDFC Bank

Evergreen
Stock Update
Q2FY2010 results: First-cut analysis
Buy; CMP: Rs1,703
Company details

Price target:	Rs1,860
Market cap:	Rs72,760 cr
52 week high/low:	Rs1727/774
NSE volume: (No of shares)	12.6 lakh
BSE code:	500180
NSE code:	HDFCBANK
Sharekhan code:	HDFCBANK
Free float: (No of shares)	34.5 cr

Shareholding pattern

Price chart

Price performance

(%)	1m	3m	6m	12m
Absolute	14.1	23.5	64.0	63.5
Relative to Sensex	9.0	-2.4	3.2	-0.1

Result highlights

- ◆ HDFC Bank's Q2FY2010 performance was largely in line with our expectations. The bank's net profit grew by 30.2% year on year (yoy) to Rs687.5 crore vs our expectation of Rs675 crore. The profit growth was mainly driven by a robust growth in the non-interest income, especially treasury and foreign exchange (forex) incomes, during the quarter. Further, a healthy growth in the core fee income and a tight leash on the operating expenses too contributed to the healthy bottom line growth.
- ◆ The net interest income (NII) for the quarter grew by a muted 4.8% yoy to Rs1,955.8 crore and by 5.4% on a sequential basis. The NII growth was largely flattish as the reported net interest margin came in at 4.2%, the same as in Q2FY2009. The NII growth was, however, marginally up from 4.1% in the previous quarter. The sequential improvement in the net interest margin could be attributed to the 56-basis-point sequential decline in the cost of funds outpacing the 46-basis-point decline in the yields on advances. Moreover, the current account and savings account (CASA) ratio improved to 50.3% from 45% in the previous quarter, which also helped the bank in maintaining its margins.
- ◆ The non-interest income increased by a substantial 56.6% yoy to Rs1,007.4 crore, led by treasury gains of Rs162.9 crore as against a treasury loss of Rs15.6 crore during the year-ago period. The forex income too displayed a robust growth of 111.5% yoy to Rs151 crore. However, the core fee income growth during the quarter remained subdued at 17.9% yoy.
- ◆ Cost-cutting measures undertaken by the bank led the operating expenses to decline by 1.2% yoy to Rs1,370.2 crore in Q2FY2010. This was mainly on account

Result table

Rs (cr)

Particulars	Q2FY10	Q2FY09	% yoy	% qoq	H1FY10	H1FY09	% yoy
Net interest income	1955.8	1866.4	4.8	5.4	3811.3	3589.9	6.2
Non-interest income	1007.4	643.1	56.6	-3.5	2051.1	1236.5	65.9
Treasury income	162.9	-15.6	-	-36.4	418.9	-93.2	-
Fee income	692.4	587.3	17.9	6.6	1341.7	1098.5	22.1
Forex	151.0	67.5	-	9.6	288.8	224.9	28.4
Net income	2963.2	2509.5	18.1	2.2	5862.4	4826.5	21.5
Operating expenses	1370.2	1386.7	-1.2	-0.8	2750.7	2676.1	2.8
Staff expenses	554.1	611.6	-9.4	-0.9	1113.4	1152.2	-3.4
Other operating expenses	816.1	775.1	5.3	-0.6	1637.3	1523.9	7.4
Operating profit	1593.0	1122.8	41.9	4.9	3111.7	2150.4	44.7
Core operating profit (excluding treasury)	1430.1	1138.4	25.6	13.3	2692.8	2243.6	20.0
Provisions & contingencies	594.1	346.0	71.7	-9.8	1253.0	690.5	81.5
PBT	998.9	776.8	28.6	16.2	1858.7	1459.9	27.3
Provision for taxes	311.4	248.8	25.1	22.7	565.1	467.5	20.9
Net profit	687.5	528.0	30.2	13.4	1293.6	992.3	30.4

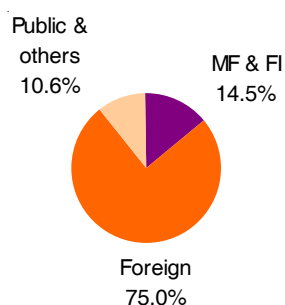
- of a 9.4% year-on-year (y-o-y) decline in the employee expenses. Consequently, the cost-to-income ratio for the quarter stood contained at 46.2% vs 55.3% during the year-ago period. The tight leash on the operating expenses helped the bank in achieving a healthy 41.9% y-o-y and a 4.9% sequential growth in the operating profit.
- ♦ Importantly, the provisions during the quarter expanded by 71.7% yoy to Rs594.1 crore from Rs346 crore in Q2FY2009, thereby pressurising the bottom line of the bank.
 - ♦ The asset quality of the bank improved on a sequential basis. The gross non-performing assets (GNPAs) declined by 6.3% quarter on quarter (qoq) to Rs2,026.9 crore while the net NPAs (NNPAs) declined by 8.2% qoq driven by the improvement in the provision cover during the quarter. In relative terms, the %GNPAs declined to 1.76% from 2.05% in Q1FY2010 and the %NNPA declined by 10 basis points over the previous quarter to 0.5%. Notably, the bank improved its provision coverage ratio to 70.3% from 69.7% in the previous quarter.
 - ♦ In Q2FY2010 the advances grew by 11.2% yoy and by 9.5% qoq to Rs113,672 crore. Meanwhile, the deposits grew by 12% yoy to Rs149,805 crore. Importantly, the demand deposits grew by a robust 28.1% yoy while the term deposits witnessed a 0.7% decline on a y-o-y basis. Importantly, the current account and savings account ratio of the bank witnessed a sharp improvement of 634 basis points to 50.3% from 44% in the year-ago period.
 - ♦ The capital adequacy ratio of the bank as at the end of Q2FY2010 stood comfortable at 15.7% compared with 15.4% during the previous quarter.
 - ♦ At the current market price of Rs1,703, HDFC Bank trades at 20.8x FY2011E earnings per share, 9.6x2011E pre-provisioning profit and 3.6x FY2011E price-adjusted book value. We maintain our Buy recommendation on the stock and shall return soon with a detailed analysis of the bank's Q2FY2010 performance.

The author doesn't hold any investment in any of the companies mentioned in the article.

Housing Development Finance Corporation

Evergreen
Stock Update
Price target revised to Rs2,866
Hold; CMP: Rs2,800
Company details

Price target:	Rs2,866
Market cap:	Rs79,774 cr
52 week high/low:	Rs2804/1116
NSE volume: (No of shares)	10.8 lakh
BSE code:	500010
NSE code:	HDFC
Sharekhan code:	HDFC
Free float: (No of shares)	28.5 cr

Shareholding pattern

Price chart

Price performance

(%)	1m	3m	6m	12m
Absolute	9.2	25.4	63.7	62.1
Relative to Sensex	4.3	-0.9	2.9	-1.0

Result highlights

- For Q2FY2010 HDFC reported a bottom line of Rs663.9 crore, indicating a 24.3% year-on-year (y-o-y) growth. The bottom line was above our expectation of Rs611 crore primarily due to higher than expected other operating income and capital gains.
- The net interest income (NII) came in at Rs736.4 crore, which was largely flattish (down 1.3% year on year [yoy]). The top line performance was weaker primarily due to a sharper than expected y-o-y contraction in HDFC's net interest margin (NIM).
- The calculated NIM for the quarter stood at 2.92%, indicating a contraction of ~50 basis points yoy. The contraction in the NIM, despite a 94-basis-point y-o-y decline in the cost of funds, was the result of a sharp drop in the yields on loans (due to the recent rate cuts) and on investments.
- The other operating income witnessed a spike and stood at Rs210.7 crore, helped by a robust increase in the surplus from the deployment in mutual funds, the fee income and the dividend income.
- In line, the cost-to-income ratio of HDFC improved to 8.1% from 9.6% a year ago. Further, the growth in the operating expenses was flattish during the quarter, thereby leading to a respectable 19.4% y-o-y growth in the operating profit. More importantly, the core operating profit growth (14.8% yoy) was better than the 12.4% growth seen in the previous quarter.
- The approvals and disbursements grew by 11.8% yoy and 29% yoy respectively in Q2FY2010. Importantly, the disbursement growth improved significantly from 20.6% yoy in the previous quarter. Sequentially, the incremental loan mix growth was driven by returning demand in the individual segment.

Result table

Rs (cr)

Particulars	Q2FY10	Q2FY09	% yoy	% qoq	H1FY10	H1FY09	% yoy
Net interest income	736.4	745.2	-1.2	10.1	1404.9	1397.7	0.5
Other operating income	210.7	90.1	-	30.5	372.2	182.7	-
Profit from sale of investments	61.3	22.6	-	19.5	112.6	22.6	-
Other income	5.4	5.5	-1.6	10.9	10.3	10.6	-3.4
Net total income	1013.7	863.3	17.4	14.4	1900.0	1613.6	17.7
Staff expenses	32.9	35.4	-7.1	-22.7	75.4	73.4	2.7
Other expenses	49.5	47.7	3.7	3.3	97.3	96.4	1.0
Operating expenses	82.3	83.1	-0.9	-8.9	172.7	169.8	1.7
Operating profit	931.4	780.3	19.4	17.7	1727.3	1443.8	19.6
Depreciation	4.5	4.3	4.2	12.3	8.4	8.0	6.0
Provisions & contingencies	14.0	16.0	-12.5	16.7	26.0	26.0	0.0
PBT	912.9	760.0	20.1	17.1	1692.9	1409.8	20.1
Provision for taxes	249.0	225.8	10.3	15.8	464.0	407.5	13.9
Net profit (reported)	663.9	534.2	24.3	17.5	1228.9	1002.3	22.6

- ♦ The demand environment for residential mortgage space has witnessed some improvement recently as a result of low property prices and attractive financing rates. However, HDFC continues to face stiff competition from the public sector banks (PSBs) in the residential mortgage space.
- ♦ The asset quality situation at the end of Q2FY2010 remained quite comfortable with the non-performing loans (+90 days overdue) at 0.95% and +6 months overdue loans forming 0.6%. More importantly, the asset quality has shown an improvement on a sequential basis in percentage terms.
- ♦ Recently, there has been some pick-up in the residential housing space, which augurs well for the major mortgage players like HDFC. However, with the PSBs getting more aggressive in this space, HDFC faces tough competition and will have to maintain a fine balance between growth and profitability. At the current market price of Rs2,800, the stock trades at rich valuations of 24.8x FY2011E earnings per share (EPS) and 4.7x FY2011E book value per share. The steep run-up in the stock (over 18% in the last quarter and over 96% since March 31, 2009) clearly reflects the factoring in of the substantial improvement in the demand environment and does not leave room for much upside from the current levels. We have fine-tuned our estimates for FY2010 and FY2011. We recommend our investors to book partial profits in the stock while we maintain our Hold recommendation with a revised price target of Rs2,866.

NII growth disappoints

The NII for the quarter declined marginally by 1.2% yoy but was up by 10.1% on a sequential basis. The y-o-y decline in the NII primarily stemmed from a sharp decline in the NIM during the quarter despite the company maintaining its spread at around 2.2% during Q2FY2010.

Margins contract by 50 basis points yoy

The calculated NIM for the quarter came in at 2.92%, which was sharply lower by 50 basis points on a y-o-y basis but higher by 17 basis points on a sequential basis. The sharp contraction in the NIM took place despite the stability in the spread at 2.2%. Despite a sharp, over 90-basis-point reduction in the cost of funds on both sequential and y-o-y bases, the decline in the yields on loans as well as investments was much higher and affected the overall NIM. Notably, the NIM improved by 17 basis points sequentially, pointing towards some improvement on the profitability front for the company.

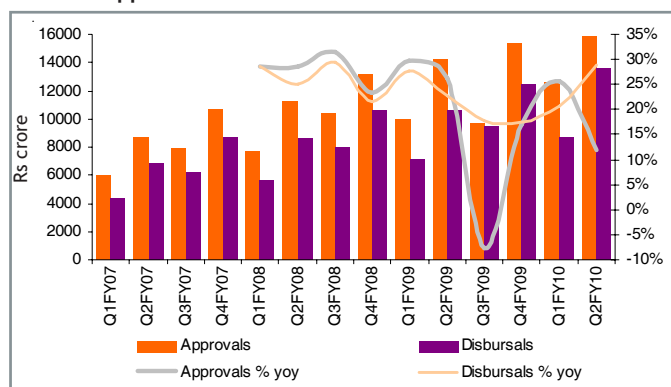
Ratios (%)

Particulars	Q2FY10	Q2FY09	% yoy	% qoq
Yield on loans	11.1	13.3	-223	-61
Yield on investments	4.4	7.6	-312	-8
Yield on IEA	10.3	11.6	-135	-62
Cost of funds	8.5	9.4	-94	-91
NIM	2.92	3.41	-50	17
Core NIM	2.74	3.06	-33	18

Growth momentum in disbursals continue

The growth momentum in disbursals continued well through the quarter ended September 2009. The disbursals grew impressively by 29% yoy and 57.2% sequentially; the disbursal growth was significantly higher compared with the 20.6% y-o-y growth seen in the previous quarter. However, the growth in the approvals dipped to 11.8% yoy, which was lower compared with the 25.6% increase in Q1FY2010. Though the lower approval growth reflects poor visibility of the future disbursal growth, the recent pick-up in the demand in the residential mortgages space augurs well for HDFC.

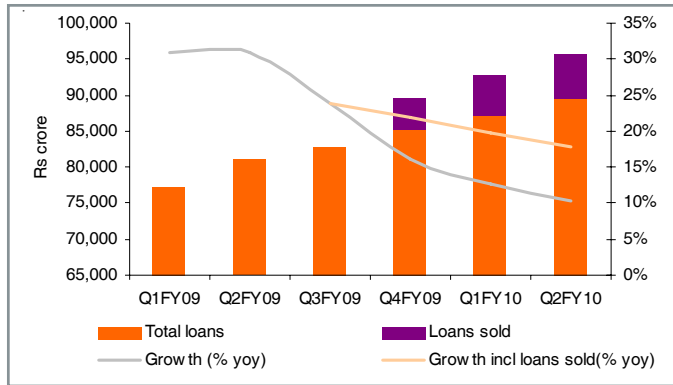
Trend in approvals and disbursals



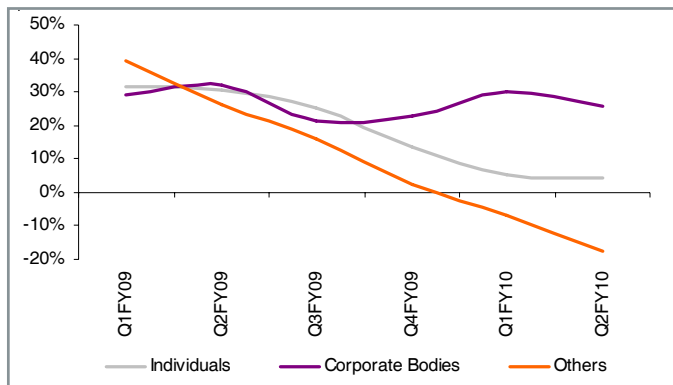
Loan growth remains subdued

For the quarter under review, the total loans for HDFC grew by 10.3% yoy and 2.8% qoq. The overall loan growth decelerated from the 12.6% y-o-y growth seen in the previous quarter. The company has sold loans worth Rs6,100 crore in the past 12 months, including which the loan growth that stood healthy at 17.8% yoy. Dissecting further, the growth in the corporate segment remained strong at 25.8% yoy, though the same was lower compared with the 29.9% growth in Q1FY2010. HDFC is facing stiff competition in the residential mortgage space as evidenced by the fact that the growth in the individual mortgage segment has slowed down further to 4.3% yoy as compared with the 5.5% y-o-y growth in Q1FY2010. Notably, on a sequential basis, the individual segment recorded the highest loan growth (4% qoq) during the quarter.

Trend in loan growth



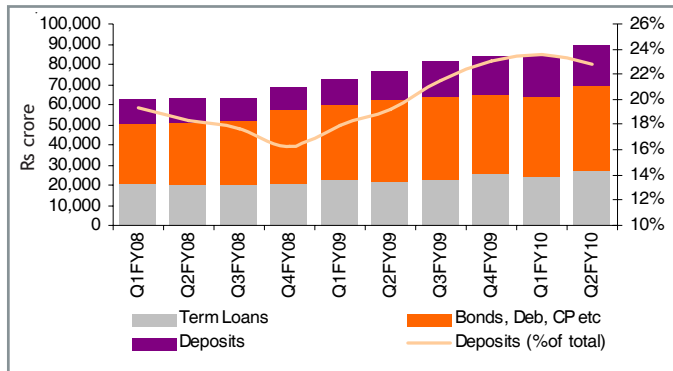
Trend in loan mix



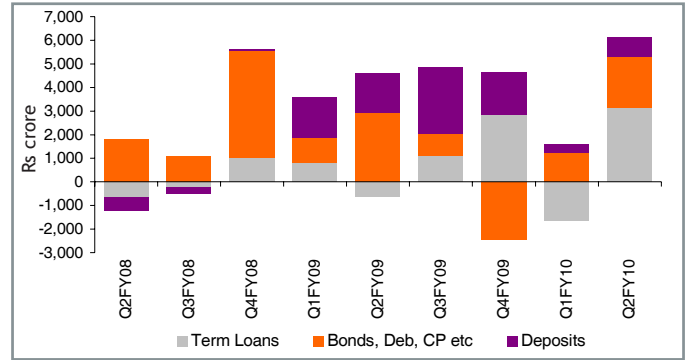
Focus on improving resources mix

During the quarter, HDFC raised Rs2,600 crore through the private placement of non-convertible debentures (NCDs) and issued warrants simultaneously. Despite that the company maintained its thrust on deposits for funding balance sheet expansion. On a sequential basis, the deposits were up by 4%, though in relative terms their proportion stood reduced to 22.8%, which was lower compared with the previous quarter's 23.5%.

Trend in share of resource mix



Trend in sequential incremental resource mix



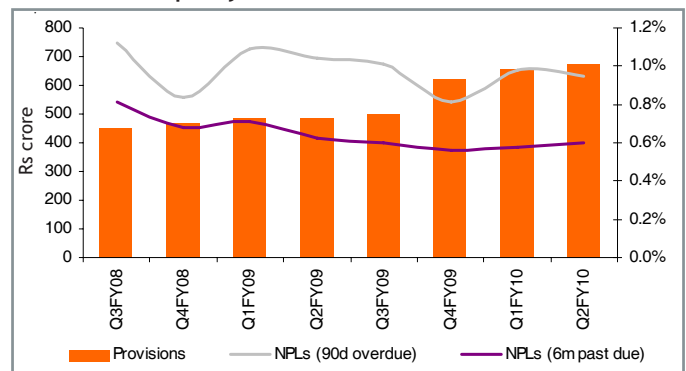
Other operating income, capital gains boost bottom line

The other operating income grew by a robust 134% yoy to Rs210.7 crore mainly driven by a multi-fold increase in the fee income coupled with a strong increase in the dividend income and the income from the surplus cash deployed in mutual funds. Furthermore, a three-fold increase in the profit on sale of investments to Rs61.3 crore further boosted the bottom line. Consequently, the core operating profit for the quarter grew by 14.8% yoy to Rs870 crore.

Asset quality remains stable

The asset quality of the company remained stable on a sequential basis during Q2FY2010. In percentage terms, the non-performing loans (NPLs; 90 days overdue) came in at 0.95%, largely in line with the previous quarter. Importantly, the asset quality improved on a y-o-y basis in relative terms. Meanwhile, the NPLs on a six-month overdue basis, remained largely stable on y-o-y and sequential bases. We draw comfort from the fact that HDFC has been able to maintain its asset quality amid a sharp downturn and expect the healthy asset quality trends to continue going forward.

Trend in asset quality



Capital adequacy comfortable at 15%

As on September 30, 2009 HDFC's capital adequacy ratio stood at 14.9%, in line with that at the end of Q1FY2010, with a strong tier-I ratio of 13.4% as against the regulatory requirement of 6%.

Valuation

Recently, there has been some pick-up in the residential housing space, which augurs well for the major mortgage players like HDFC. However, with the PSBs getting more aggressive in this space, HDFC faces tough competition and will have to maintain a fine balance between growth and profitability. At the current market price of Rs2,800, the stock trades at rich valuations of 24.8x FY2011E EPS and 4.7x FY2011E book value per share. The steep run-up in the stock's price (over 18% in the last quarter and over 96% since March 31, 2009) clearly reflects the factoring in of the substantial improvement in the demand environment and does not leave room for much upside

from the current levels. We have fine-tuned our estimates for FY2010 and FY2011. We recommend our investors to book partial profits in the stock while we maintain our Hold recommendation with a revised price target of Rs2,866.

Key financials

Particulars	FY07	FY08	FY09	FY10E	FY11E
Adj. Net profit (Rs cr)	1572.8	1942.8	2282.5	2715.8	3216.1
Shares in issue (cr)	25.3	28.4	28.4	28.4	28.4
EPS (Rs)	62.2	68.4	80.2	95.5	113.1
EPS growth (%)	23.4	10.0	17.3	19.0	18.4
PE (x)	45.0	40.9	34.9	29.3	24.8
BV (Rs/share)	219.4	420.6	461.9	520.1	593.5
P/BV (x)	12.8	6.7	6.1	5.4	4.7
Adj. BV (Rs/share)*	176.4	324.6	357.2	413.9	481.2
P/ABV (x)	15.9	8.6	7.8	6.8	5.8
RoNW (%)	31.2	21.4	18.2	19.4	20.3

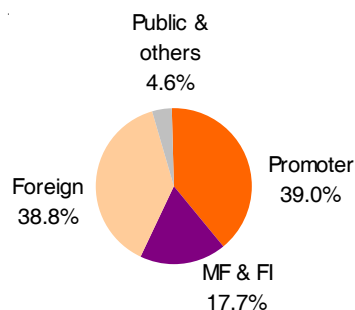
*Adjusted for value of investments in subsidiaries per share

The author doesn't hold any investment in any of the companies mentioned in the article.

Axis Bank

Emerging Star
Stock Update
Healthy core performance, red flag on asset quality
Hold; CMP: Rs1,033
Company details

Price target:	Rs1,107
Market cap:	Rs41,481 cr
52 week high/low:	Rs1028/279
NSE volume: (No of shares)	35.8 lakh
BSE code:	532215
NSE code:	AXISBANK
Sharekhan code:	AXISBANK
Free float: (No of shares)	24.5 cr

Shareholding pattern

Price chart

Price performance

(%)	1m	3m	6m	12m
Absolute	12.2	37.3	131.0	86.3
Relative to Sensex	7.2	8.5	45.3	13.8

Result highlights

- For Q2FY2010 Axis Bank has reported a net profit of Rs531.6 crore, indicating an increase of 31.9% year on year (yoy). The profit growth is largely in line with our estimate. The top line growth too is in line with our expectations. However, a higher than expected increase in the treasury gains was largely offset by a spike in the loan loss provisions made during the quarter. This restricted the overall bottom line growth for the quarter. For H1FY2010, the net profit of the bank grew by a strong 49.2% yoy to Rs1,093.7 crore.
- The net interest income (NII) grew by 25.9% yoy and by 10% quarter on quarter (qoq) to Rs1,149.7 crore led by an 18-basis-point sequential improvement in the net interest margin to 3.52%. However, the NII remained flat yoy. Moreover, a healthy ~320-basis-point increase yoy in the deployment rate also supported a higher growth in the NII despite a limited (up 17.7% yoy) growth in the advances.
- The non-interest income during the quarter increased by a robust 53.5% yoy to Rs1,065.6 crore on account of a multi-fold increase in the treasury gains during the quarter. However, the growth in the core fee income remained subdued at 14.7% yoy on account of a lower income from third party distribution of products.
- The operating expenses grew by 24% yoy and by 10% qoq on account of a higher 28% increase yoy in the other operating expenses. During the quarter the bank added 55 new branches and 143 new ATMs, resulting in higher operating expenses. However, a sharp increase in the treasury gains kept the cost-to-income ratio contained at ~41% levels.
- The provisioning expenses almost doubled to Rs498.9 crore in Q2FY2010, as the bank made ad hoc provisions for loan losses with a view to improving its

Result table

Rs (cr)

Particulars	Q2FY10	Q2FY09	% yoy	% qoq	H1FY10	H1FY09	% yoy
Net interest income	1149.7	913.5	25.9	10.0	2195.3	1723.9	27.3
Non-interest income	1065.6	694.4	53.5	11.2	2024.2	1319.2	53.4
CEB	719.0	626.8	14.7	14.7	1345.6	1164.0	15.6
Treasury income	224.0	36.2	-	-31.3	550.0	93.5	-
Net income	2215.3	1607.9	37.8	10.5	4219.5	3043.1	38.7
Operating expenses	909.5	733.4	24.0	9.9	1737.4	1366.4	27.1
Staff expenses	304.2	260.4	16.8	-1.7	613.5	474.1	29.4
Other operating expenses	605.3	473.0	28.0	16.7	1123.8	892.3	25.9
Operating profit	1305.8	874.5	49.3	11.0	2482.1	1676.8	48.0
Core operating profit (excluding treasury)	1081.8	838.3	29.0	27.2	1932.1	1583.3	22.0
Provisions & contingencies	498.9	255.8	95.0	58.2	814.2	552.5	47.4
PBT	806.9	618.7	30.4	-6.3	1667.9	1124.2	48.4
Provision for taxes	275.2	215.7	27.6	-8.0	574.3	391.2	46.8
Net profit	531.6	403.0	31.9	-5.4	1093.7	733.0	49.2

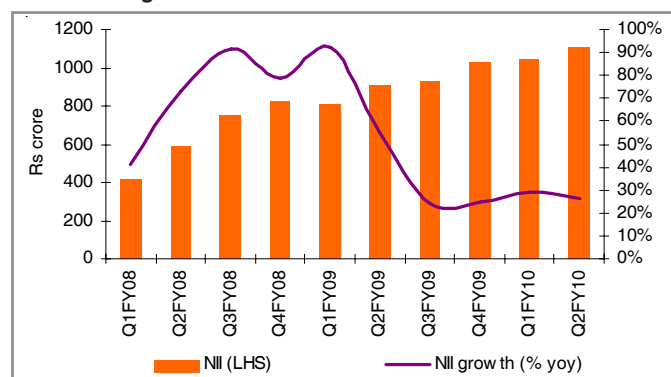
provision cover. As a result, the provision coverage ratio improved to 63.2% from 59.9% in the previous quarter.

- ◆ The asset quality of the bank deteriorated meaningfully as the gross non-performing assets (NPAs) increased by 59.4% yoy and by 23.6% qoq to Rs1,131.7 crore during Q2FY2010. The sharp increase in the gross NPAs was on the back of the higher delinquencies seen across segments. Moreover, the management indicated that slippages seen in some of the restructured assets too led to the increase in the gross NPAs. In relative terms, the % gross NPAs increased to 1.21% from 1.01% in the previous quarter. However, due to improved provision cover the % net NPAs remained largely flat on a sequential basis at ~0.45%.
- ◆ During the quarter the bank restructured assets worth Rs390 crore, 80% of which are large and mid-sized corporate accounts, while the small and medium enterprises (SMEs) and agri segments constituted around 12% and 8% of the restructured loans respectively. However, on a cumulative basis the overall restructured assets stood reduced at Rs2,363 crore as compared with Rs2,520 crore in Q2FY2010, as certain restructured accounts either got upgraded or slipped to the non-performing category during the quarter.
- ◆ The business growth remained subdued during the quarter, as the advances grew by 17.7% yoy to Rs81,044 crore while the deposits grew by just 12.4% yoy to Rs115,599 crore. While the agri portfolio expanded strongly by 38% yoy, the large and mid-sized corporate, and retail portfolios grew at a slower pace of 18.5% and 7.2% respectively. Notably, the demand deposits grew by 19.4% yoy, resulting in an over 250-basis-point both year-on-year and sequential improvement in the current account and savings account ratio to 42.8%.
- ◆ During Q2FY2010, the bank raised additional equity capital (Rs3,767 crore net of issue related expenses) by undertaking a qualified institutional placement, global depository receipt issue and preferential allotment of shares. As a result, the capital adequacy ratio of the bank improved to 16.47% (from 15.28% in Q2FY2010). Importantly, after the fund raising activity the tier-I capital ratio has now improved to 11.43% from 9.39% in the previous quarter.
- ◆ At the current market price of Rs1,033, the stock trades at 13.7x 2011E earnings per share (EPS), 7.1x 2011E pre-provisioning profit (PPP) and 2.3x 2011E book value (BV). We maintain our estimates and price target of Rs1,107. In view of the limited upside in the price from the current levels, we maintain Hold recommendation on the stock.

NII growth above expectations

Axis Bank has reported a 26% y-o-y increase in its net interest income for Q2FY2010 at Rs1,109 crore. The slightly higher-than-expected top line growth was mainly driven by the improvement in margins coupled with an above industry growth in the advances (17.7% y-o-y growth) during the quarter.

Trend in NII growth



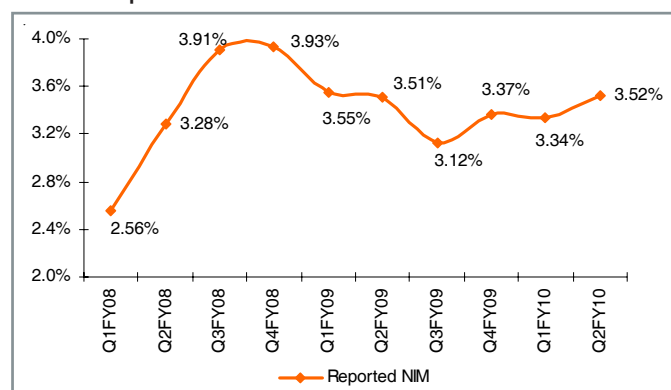
NIM expanded sequentially

The NIM (calculated) expanded by 11 basis points yoy and 24 basis points sequentially to 3.14% during the quarter. The expansion in the NIM was led by a 73-basis-point decline in the cost of funds, which outweighed the 62-basis-point contraction in the yields on assets. The decline in the cost of funds is the result of re-pricing benefits on high-cost deposits as well as lower incremental cost of funds.

Yield analysis (%)

Particulars	Q2FY10	Q2FY09	yoy bps	qoq bps
Yield on advances	9.80	10.87	-107	-9
Yield on assets	7.81	8.43	-62	-23
Cost of funds	4.67	5.41	-73	-48
NIM (calculated)	3.14	3.03	11	24
NIM (reported)	3.52	3.51	1	18

Trend in reported NIM



CASA ratio expands to ~43%

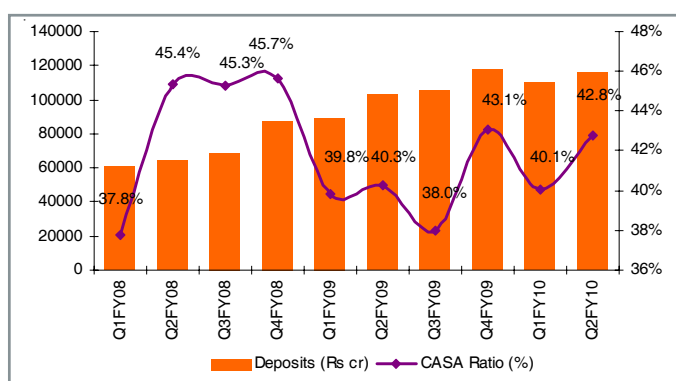
During the quarter under review, the CASA ratio of the bank improved by 250 basis points yoy to 42.8%, as the demand deposit growth of the bank (19.4% yoy) outpaced the industry level growth rate. The deposit base registered a growth of 4.8% qoq after contracting by ~6% qoq in the previous quarter. The growth in term deposits was contained at 7.6% yoy, reflecting lack of credit deployment opportunities.

Deposits break-up

Rs (cr)

Particulars	Q2FY10	Q2FY09	% yoy	% qoq
Total deposits	115,599	102,885	12.4	4.8
Demand deposits	49,462	41,436	19.4	12.0
CASA ratio	42.8	40.3	251bps	272bps
Term deposits	66,137	61,449	7.6	0.1

Trend in CASA ratio



Strong treasury gains boost non-interest income

The non-interest income of the bank increased by 53.5% yoy to Rs1,065.6 crore led by a multi-fold increase in the treasury gains during the quarter. The treasury gains spiked up five-fold in Q2FY2010 to Rs224.0 crore from Rs36.2 crore in Q2FY2009. However, the growth in the core fee income was seen losing momentum, mainly on account of lower fee income from the retail banking business. Having said that, we remain positive on the outlook for the bank's fee income growth considering its strong position in the debt syndication business and the anticipated revival in the credit demand towards the end of the current fiscal.

Break up of non-interest income

Rs (cr)

Particulars	Q2FY10	Q2FY09	% yoy	% qoq
CEB	719.0	626.8	14.7	14.7
Treasury	224.0	36.2	-	-31.3
Others	122.6	31.5	-	-
Total	1065.6	694.4	53.4	11.2

Moderation in business growth continues

For the quarter, the advances grew by 17.7% yoy and 3.8% qoq to Rs81,044 crore. Though the credit growth has conspicuously moderated from the +50% levels earlier, clearly reflecting the management's conscious decision on this front, it still remains well above the industry growth. The growth can be traced to a 38.3% y-o-y increase in the agriculture advances, followed by a 21% y-o-y rise in the SMEs advances. Notably, on a sequential basis, the retail segment showed a smart pick up (7.2% qoq) in the advances. Meanwhile, the deposits grew by 12.4% yoy, leading to a ~320-basis-point y-o-y improvement in the credit-deposit ratio to 70.1% during the quarter.

Advances break-up

Rs (cr)

Particulars	Q2FY10	Q2FY09	% yoy	% qoq
Total advances	81,044	68,853	17.7	3.8
Retail	17,984	16,777	7.2	7.2
as % of total advances	22.2	24.4	-218bps	71bps
Agricultural	7,098	5,134	38.3	-5.9
SME	15,860	13,109	21.0	6.4
as % of total advances	19.6	19.0	53bps	48bps
Large & mid corporates	40,102	33,833	18.5	3.2
Credit-Deposit ratio (%)	70.1	66.9	319bps	-73bps

Red flag on asset quality

The asset quality of the bank deteriorated during the quarter, as the gross NPAs registered an increase of 24% to Rs1,131.7 crore. The sharp increase in the gross NPAs was on the back of the higher delinquencies seen across the segments and partly due to the slippages seen in some of the restructured assets. Meanwhile, the net NPAs grew by 13.5% qoq to Rs416.7 crore as the provision coverage of the bank improved to 63.2% from 59.9% in the previous quarter. Importantly, the implied gross slippages stood at Rs540 crore, which is much higher compared with ~Rs380 crore in the previous quarter.

Asset quality

Rs (cr)

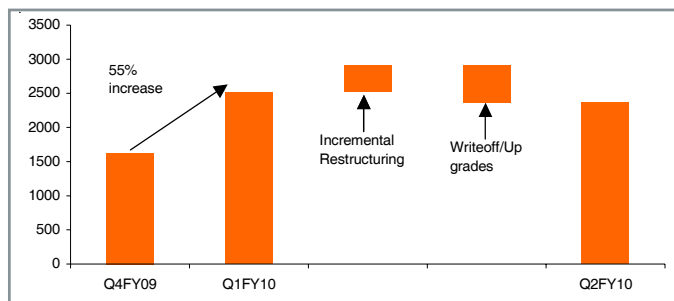
Particulars	Q2FY10	Q2FY09	% yoy	% qoq
GNPA	1131.7	710.2	59.4	23.6
% GNPA	1.21	0.91	30bps	20bps
NNPA	416.7	336.7	23.8	13.5
% NNPA	0.45	0.43	2bps	4bps
Provision coverage (%)	63.2	52.6	1059bps	329bps

Surge in loan restructuring

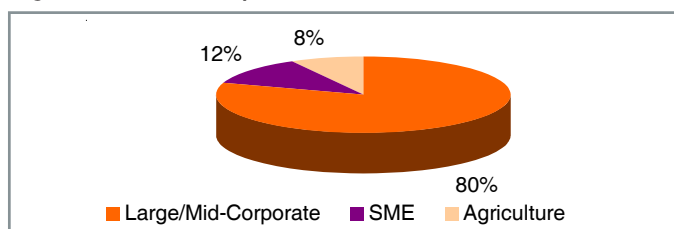
During the quarter the bank restructured assets worth Rs390 crore. 80% of this was large and mid-sized corporate

accounts, while the SMEs and agri segments accounted for around 12% and 8% of the restructured loans respectively. However, on a cumulative basis the overall restructured assets stood reduced at Rs2,363 crore as compared with Rs2,520 crore in Q2FY2010, as certain restructured accounts either got upgraded or slipped to the non-performing category during the quarter.

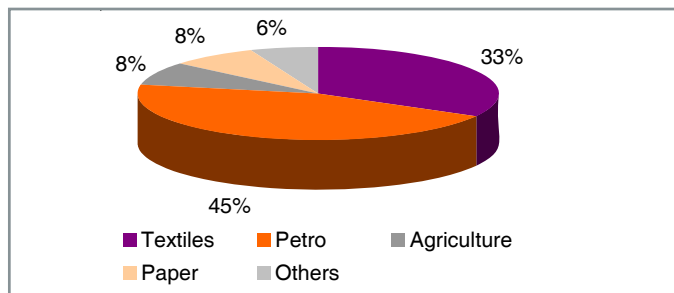
Trend in restructured assets



Segment wise break-up of restructured loans



Sector wise break-up of restructured loans



CAR improves to 16.5%

During Q2FY2010, the bank raised additional equity capital (Rs3,767 crore net of issue related expenses) by undertaking a qualified institutional placement, global depository receipt issue and preferential allotment of shares. As a result, the capital adequacy ratio of the bank improved to 16.47% (from 15.28% in Q2FY2010). Importantly, after the fund raising activity the tier-I capital ratio has now improved to 11.43% from 9.39% in the previous quarter.

Valuation and outlook

At the current market price of Rs1,033, the stock trades at 13.7x 2011E EPS, 7.1x 2011E PPP and 2.3x 2011E BV. We maintain our estimates and price target of Rs1,107. In view of the limited upside in the stock price from the current levels, we maintain Hold recommendation on the stock.

Key financials

Particulars	FY07	FY08	FY09	FY10E	FY11E
Net profit (Rs cr)	659.0	1071.0	1815.4	2409.8	3038.3
Shares in issue (cr)	28.2	35.8	5.9	40.3	40.3
EPS (Rs)	23.4	29.9	50.6	59.8	75.4
EPS growth (%)	34.4	28.0	68.9	18.3	26.1
PE (x)	44.1	34.5	20.4	17.3	13.7
P/PPP (x)	23.0	16.6	10.0	8.7	7.1
BV (Rs/share)	120.5	245.1	284.5	396.4	451.5
P/BV (x)	8.6	4.2	3.6	2.6	2.3
RONW (%)	20.9	16.4	19.1	17.6	17.8

The author doesn't hold any investment in any of the companies mentioned in the article.

Telecommunications

Sector Update

GSM net additions plunge; affect incumbents the most

GSM net additions (ex-RCom and Tata Tele) dip by 7.7% mom in September 2009

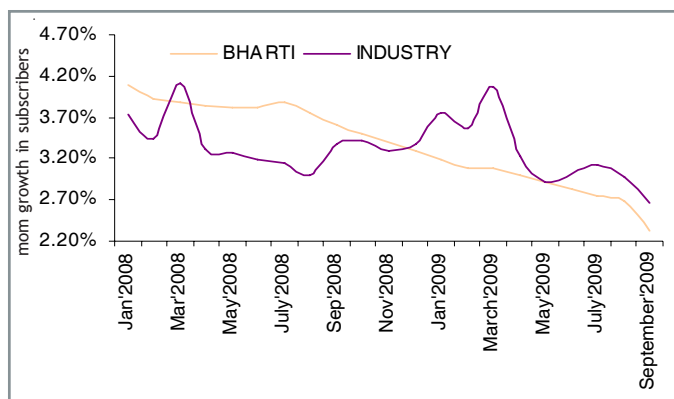
Net telecommunications (telecom) subscriber additions in September 2009 stood at 8.6 million (excluding the numbers of Reliance Communications [RCom] and Tata Teleservices [Tata Tele] that have yet to disclose its numbers). This implies a sharp decline of 7.7% month on month (mom) in the net additions. India's total telecom subscriber base (excluding RCom and Tata Tele) increased to 330.8 million at the end of September 2009, implying a growth of 2.7% over August 2009.

Incumbent's net additions sees slowdown from offering of new players and Tata DoCoMo

The net addition for September clearly indicates a slowdown for the GSM incumbents with a steep decline of around 10% in their monthly net additions. Bharti Airtel (Bharti)'s net additions declined by 10.8% to 2.51 million while that of Vodafone dropped by 10.1% to 1.97 million mom. Idea Cellular also reported a 9.5% month-on-month (m-o-m) drop in its net additions to 1.4 million in September 2009. This is mainly on account of the attractive price plans offered by the new entrants and Tata DoCoMo's per second billing plans on GSM. Further, the impact of the recent tariff cut by RCom would be reflected in the net additions from October 2009 onwards. We expect the other incumbents to respond to aggressive tariff moves by RCom, Tata DoCoMo and the new entrants.

Bharat Sanchar Nigam Ltd (BSNL)'s net additions also declined by 3.9% to 1.3 million subscribers in September 2009 and Mahanagar Telephone Nigam Ltd (MTNL) registered a sharp m-o-m fall of 17% in its net additions to 0.02 million subscribers.

Bharti vs Industry



Bharti records a drop in net additions; leads the industry with 2.51mn net additions

Bharti's net additions declined steeply by 10.8% mom to 2.51 million in September 2009 mainly due to the attractive price plans introduced by the new entrants and Tata DoCoMo's per second billing plans on GSM. This was the slowest pace of subscriber addition by Bharti since June 2008 (net additions of 2.56 million). However, Bharti's net additions was highest in the industry for the month. Bharti's subscriber base grew by 2.3% mom to 110.5 million in September 2009. The company's market share in net additions also declined to 29.3% in September 2009 from 30.3% in August 2009. The growth in Bharti's subscriber base was below the industry growth rate of 2.7% for the month.

Idea Cellular's net additions declined in September 2009 due to fall in net additions from metros and B circle

Idea Cellular has reported net additions of 1.19 million subscribers for September 2009 compared with net additions of 1.44 million subscribers in August 2009. Due to the decline in the net additions, the company's market share in net additions also declined to 13.8% in September 2009 from 15.4% in August 2009. The company's total subscriber base increased by 2.6% mom to 46.76 million in September 2009. With 0.21 million net additions (a strong m-o-m increase of 99.3%) Spice Communications' subscriber base increased to 4.7 million in September 2009. Idea Cellular (including Spice Communications) reported a 9.5% m-o-m decline in its net additions to 1.4 million subscribers in September 2009. The company's (including Spice Communications') net additions declined mainly due to a sharp 41.6% m-o-m fall in the net additions from metros and a 34.2% drop in the net additions from the B circle. However, an m-o-m increase of 49.1% and of 33.2% in the net additions from the C and A circles respectively partially limited the decline in the net additions during the month.

Vodafone, BSNL and MTNL also disappoint

Vodafone Essar recorded a 10.1% m-o-m fall in its net additions to 1.97 million subscribers in September 2009. The net additions for Vodafone have now declined for six months in a row (ie in April, May, June, July, August and

September 2009). The company's market share in net additions also declined to 22.9% in September 2009 from 23.6% in August 2009. The company's subscriber base increased to 82.85 million, indicating a growth of 2.4% over the previous month. BSNL reported a decline of 3.9% mom in its net additions to 1.3 million subscribers in September 2009. With this BSNL's subscriber base stands at 53.36 million. BSNL's market share in net additions improved to 15.2% in September 2009 from 14.6% in August 2009 as the decline in its net additions was much lower

when compared with the other players. MTNL also recorded a steep m-o-m decline of 17% in its net additions to 0.02 million subscribers in September 2009 mainly due to a 35.7% m-o-m fall in the net additions in Mumbai which was partially offset by a 35.5% m-o-m increase in the net additions in Delhi. Loop Mobile (formerly BPL Mobile) added around 77,640 new subscribers in September 2009, indicating an increase of around 10,730 subscribers from the August 2009 net additions. Loop Mobile's subscriber base increased by 3.2% mom to 2.5 million in September 2009.

GSM subscriber base

(in million)	Total subscribers			Net additions		% Share in net additions*	
	Sep 2009	Aug 2009	% growth	Sep 2009	Aug 2009	Sep 2009	Aug 2009
Bharti	110.51	108.00	2.33	2.51	2.82	29.3	30.3
Vodafone	82.85	80.87	2.44	1.97	2.19	22.9	23.6
Loop Mobile	2.50	2.42	3.20	0.08	0.07	0.9	0.7
BSNL	53.36	52.06	2.50	1.30	1.36	15.2	14.6
Idea	46.76	45.57	2.61	1.19	1.44	13.8	15.4
MTNL	4.37	4.35	0.38	0.02	0.02	0.2	0.2
Reliance*	13.72	13.72	0.00	0.00	0.44	NA	NA
Spice	4.70	4.49	4.65	0.21	0.10	2.4	1.1
Others	25.73	24.42	5.38	1.31	1.31	15.3	14.1
TOTAL	344.49	335.90	2.56	8.59	9.75		
Total ex Rcom and Tata Tele	330.76	322.17	2.67	8.59	9.31		

*Excluding RCom and Tata Tele

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Bank of India
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Maruti Suzuki India
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Piramal Healthcare (Nicholas Piramal India)
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