



Stock	Target Price (₹)	Rating Rationale	Upside Catalysts	Downside Risks
HDFC Bank	1,485	BUY: Strong asset quality and profitability, bank is focusing on gaining a larger share of the incremental lending in the system	Deeper rural penetration	Large unsecured retail loan book
Yes Bank	1,302	BUY: Balance sheet mix to tilt further to retail, which will lead to better growth, higher profitability without a corresponding increase in credit cost	Higher retail mix in business	Deterioration in asset quality
ICICI Bank	288	BUY: At 1.1x P/AB trading multiple, most of the asset quality risks are priced in	Quicker resolution in large NPL cases	Spike in credit cost; weak economic recovery
SBI	208	HOLD: Probably the only PSU bank with a retail liability franchise on par with private banks, good retail loan mix and adequate Tier-1 capital	Sharp turnaround in asset quality, higher-than-expected recoveries	Bank could be asked to acquire weak PSBs; under-estimation of credit cost
BoB	134	HOLD: The only PSU bank, which is headed by an ex-private-sector CEO, improving the chances of cleaning up its balance sheet and turning around the bank	Quicker-than-expected turnaround, faster-than-expected market share gain	"May not be able to execute turnaround plans asset quality stress"
Union Bank	98	REDUCE: Bank has 20% recognised stress assets, including special mention accounts	Ability to raise to capital at 1 time book value	Higher-than-expected asset quality stress
PNB	57	REDUCE: Bank has seen the steepest deterioration of operating performance with bank reporting loss for FY16; it has over 22% recognised stress assets	Quicker-than-expected turnaround	Higher-than-expected asset quality stress

SOURCE: HSBC

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PRIVATE VS PUBLIC SECTOR BANKS - It Pays to be Prudent

Biswajit Baruah

HSBC said most private banks have been prudent lenders and have gained from a high proportion of retail business on their balance sheet. They have also benefited from better risk management practices and quality management. Even private corporate lenders, ICICI and Axis, have a better quality corporate book and healthier balance sheets than PSU banks and they will be able to recover from asset quality issues much sooner. With PSU banks in consolidation mode to clean up their balance sheets, private banks are moving aggressively, cherry

picking customers and yet are still able to achieve 2x industry growth rates. Going forward, there could be continued pressure on profitability and capital at PSU banks to further limit their growth potential and, hence, believe that private banks will continue to make significant market share gains in the medium term.