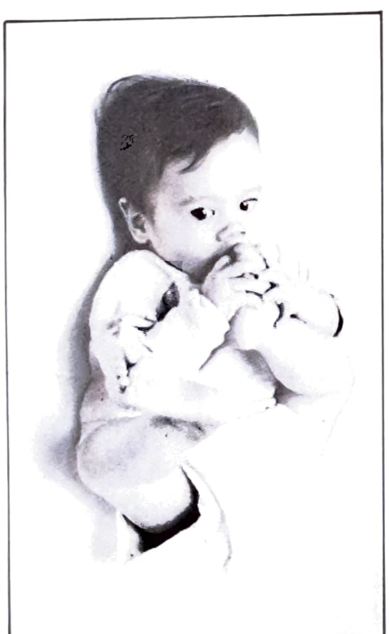
FIRST GLOBAL FINANCE

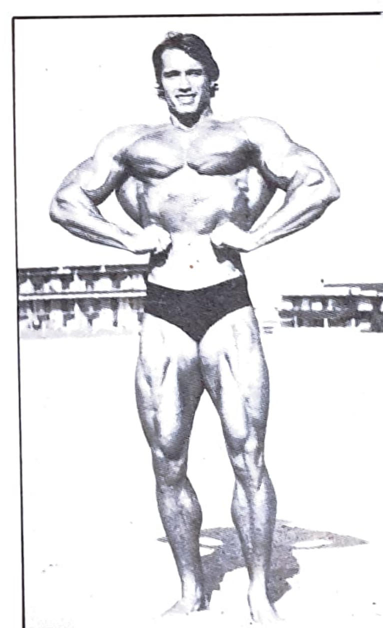
India Research

BUY HDFC Bank Rs. 38

At one, he's good...

At five, he'll be awesome!





June 1996

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FIRST GLOBAL FINANCE

Market Capitalisation : Rs. 7.6 bn ($ 217mn)
No. of Shares : 200,000,000

	FY96	FY97E	FY98E	FY99E
EPS (Rs.)	1.09	2.43	3.74	4.97
P/E (x)	34.77	15.63	10.16	7.65
RONW %	11.71	20.09	25.91	28.12

Growth adj. P/E (FY96-99,17%) : 13.55 x

Investment Argument

OK, OK, we know our recommending this stock is not quite in keeping with our value-oriented philosophy. Well, if nothing else, it proves that we are not rigid in our stockpicking approach! But HDFC Bank is hard to ignore - branch expansion targets are running a year ahead of schedule; state-of-the-art systems have been implemented in retail banking and custodial & treasury management; a high quality management team is already in place; significant breakthroughs have been achieved on the customer front; and the bank is a name to reckon with in Foreign Currency & Money Markets.

Sure, the RONW figures for FY96 don't appear impressive - but view this as a "gestation period" for the bank - systems and branches were being set up, customers were being developed (of course, last year was pretty good from the point of breaking into consortiums, because most banks were strapped for liquidity - this may have also led to lower profits for HDFC Bank). Also, the quality of earnings has to be judged in context of a conservative accounting policy. (Income on say, a 2 - year guarantee is booked in 24 - equal monthly instalments; and the bank paid 28% tax in its very first year).

More importantly, banking is not a business of maximising short-term profits - the really critical function is the management of risk. This is where, in our opinion, HDFC Bank really scores - risk is being tightly controlled by taking on exposure to a very select corporate target market. Management has steered clear of 'Middle - Market Corporates' and retail lending as the present team has insufficient experience and expertise in these areas.

Financially, what is most impressive about HDFC Bank is its extremely high sustainable growth rate. In finance, this is really the key to investment decision making. HDFC Bank has perhaps the highest sustainable growth rate in the sector as even after assuming a 45% CAGR in advances and deposits resulting in a tripling of balance sheet size by end of FY99, capital adequacy remains a healthy 12.7%, obviating the need for any equity dilutions. In fact, a 30% pa growth for a further 4 years takes capital adequacy to a still comfortable 12%.

And this is really what is so appealing about this story - straight PE ratio analysis may not be the right way to go here - 15.6x FY97, 10.16x FY98 and 7.65x FY99 earnings may seem a trifle expensive. However, view it this way - the growth trajectory is much steeper than that for other banks; RONW in FY99 will be 28% - no major bank will approach this number; and HDFC Bank comes without the historical baggage of unionised staff, non-performing assets, low-yielding govt. securities etc. Add to this, the background of savvy, aggressive, nimble, investor-friendly HDFC (which incidentally, itself trades at 13.8x FY97 and 12.1x FY98 earnings, with a much more mature balance sheet), and you have a five-year story that should have a pretty happy ending for all...

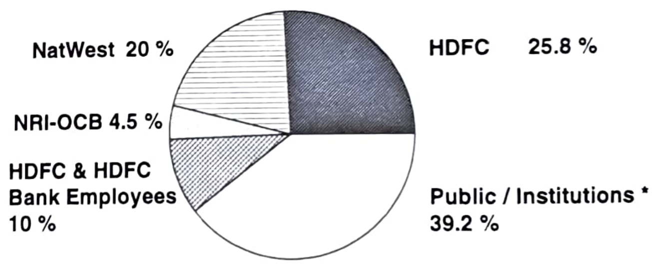
FINANCIAL SNAPSHOT

	FY96 Unaudited	FY97	FY98 Forecast	FY99
Equity Capital (Rs.mn)	2000	2000	2000	2000
No. of Shares (in mn)	200	200	200	200
Reserves (Rs. mn)	227	613	1161	1904
Networth (Rs. mn)	2227	2613	3161	3904
Total Income (Rs. mn)	1603	2563	3563	4797
Net Profit (Rs. mn.)	219	486	748	993
RONW %	**11.71**	**20.09**	**25.91**	**28.12**
EPS (YE) (Rs.)	**1.09**	**2.43**	**3.74**	**4.97**
Book Value (Rs.)	**11.13**	**13.06**	**15.80**	**19.52**
P/E Multiple (x)	**34.77**	**15.63**	**10.16**	**7.65**
P/Book Value (x)	**3.41**	**2.91**	**2.40**	**1.95**

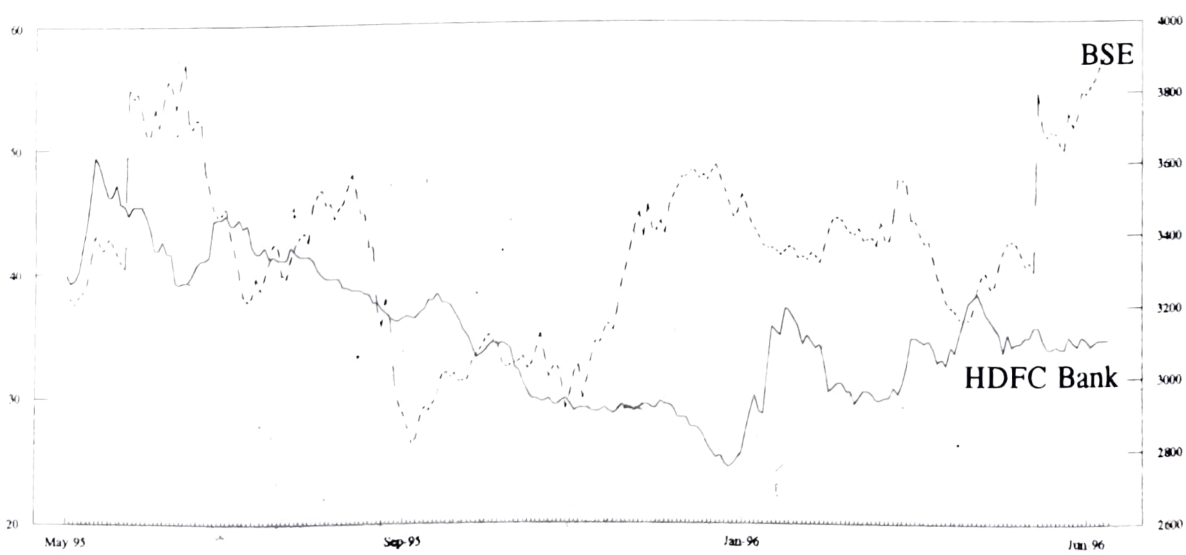
Industry : Banking
52 - week Hi-Lo : Rs. 52/24
Price on June 18 '96 : Rs. 38.00
Daily Volumes : 70,000
Relative Performance over 52 weeks

HDFC Bank	**:down 25.40%**
BSE Sensex	**: up 17.27%**
BSE National Index :	**up 12.28%**

Shareholding Pattern



*14.2% to HDFC Shareholders



KEY DATA

Incorporation	:	October 1994
No. of Branches	:	15 in 7 cities - Bombay, Delhi, Madras, Calcutta, Bangalore, Pune, Ahmedabad. Target : 30 branches by March '97
No. of Employees	:	300 Target : 390 by March '97
Capital Issue History	:	IPO in March '95 at par
Promoters	:	Housing Development Finance Corporation Ltd. (HDFC) in collaboration with NatWest Markets, the worldwide investment banking arm of the NatWest Group i.e. National Westminister Bank plc, and its subsidiaries.

■ Background

HDFC Bank was incorporated under the RBI guidelines, for establishment of private sector banks, issued in Jan '93. The banking license was issued in Jan '95 and the bank started operations in March '95.

■ Business Strategy

... is quite simple at a broad level
-Corporate customers for assets and fees

- Retail segment for deposits

Broadly speaking, the bank is looking at the corporate sector for asset creation and fee generation activities and the retail segment for deposit mobilisation. At present, there are no immediate plans to enter the retail lending segment as this would require additional investment in infrastructure and risk management systems. Also, the management sees enough growth potential in business segments where professional expertise and systems are already in place.

"Full service bank" for top corporates

Even within the corporate segment, the focus is on top-end names (PSUs and private sector) and the bank does not intend to lend to medium - size corporates even though the returns offered may be somewhat higher. However, for its defined target market, it wants to be a 'full service bank' offering a full range of trade services, capital market and treasury products etc. This was the reason for the tie-up with the NatWest group as it helped the bank complete the range of services on offer.

Positioned as a "foreign bank plus"

The aim is really to be a "foreign bank plus" i.e. provide as good or better service than foreign banks (higher automation, faster turnaround, good branch ambience, full range of FX services etc.) and yet offer something extra as an Indian bank (this could be a lower 'minimum balance' for a retail account, extensive branch network or additional comfort for a PSU which may be reluctant to have extensive dealings with a foreign bank).

On the asset - liability matching front, the aim is to match core liabilities (retail deposits + part of corporate deposits + surplus capital) to core assets. On an ongoing basis, the bank does not want to borrow (or lend) more than Rs. 1-1.5 bn in the call markets to minimise a funding mismatch. There may only be temporary deviations from this norm.

Current Status

Branch expansion much ahead of target

HDFC Bank has already opened 15 branches in 7 cities against an initial target of 6 by Mar '96. This number is targeted to double by Mar '97. Current level of deposits is estimated at Rs. 6.5 - 7 bn, of which approx. 65-70% is in the form of retail deposits, the balance consisting of corporate deposits, Certificates of Deposit (CDs) etc.

As against this, the fund-based assets are around Rs. 4-4.5 bn. Both the deposits & advances figures are estimated to grow at 40-50% pa for the next two years.

Manpower

The best from Citibank
... and thank God for that !

HDFC Bank has had the fortune of getting some of the better bankers from Citibank and other foreign banks, to form its core management team - in fact, it speaks volumes of the management's ability to spot and pick talent, since Citibank has traditionally had a wide range of quality in key management positions - ranging from exceptionally good to exceptionally average! Furthermore, some of the ex-Citibakers in HDFC have enjoyed strong business relationships with large corporates, and because of this, HDFC Bank has been able to take off on the Corporate banking front in a relatively short time span.

At the operating level, the effort has been to maximise automation and centralise processing to provide the best possible customer service with minimum manpower. On an average, each branch has a staffing level of just 6 (barring the signature branch, one in each city, which is a larger). Also, the bank has no unionised clerical staff. All employees are of officer grade (incl. secretaries and junior officers).

Present employee strength is 300- targeted to go up to 390 by end of FY97 with the doubling of number of branches.

Operations

Corporate Banking

The 4 main areas of operation are - Corporate Banking, Treasury, Custodial Services and Retail Banking.

As mentioned above, the defined target market for this business are the top 250-300 corporates in the country. Though this is the most competitive end of the market, it is also probably the least risky.

Focus only on top-end corporates...

..to leverage off goodwill of HDFC & employees, and minimise risk

It is also the area where the present management has the most experience in, in terms of both marketing and risk assesment.

The aim here is provide a combination of the services traditionally provided by both Indian banks (i.e. funding which foreign banks traditionally shy away from) and foreign banks (faster turnarounds, full range of FX products, advisory services etc.). According to management, the strategy has been quite successful with the bank entering the banking consortiums of 50 - 60 large corporate customers (incl. PSUs and good companies from most major groups) during the very first year of operations. Part of this was due to the 'fortunate' liquidity crunch because of which some of the existing bankers were not able to release higher facilities and, therefore, consortium entry was easier than what would've been the case otherwise. Also, in the case of PSUs, HDFC Bank provides the best possible combination in terms of an international level of service and access to markets with an 'Indian commercial bank' tag.

Again, the strategy here is to maximise non-fund based business (Letters of Credit, guarantees etc.) for a given level of funded facilities. Here, the comfortable capital adequacy of the bank is of help as several Indian banks are facing problems on that score. Also, business in this segment is growing fast enough for the bank to meet targets only by getting a share of the incremental business and will not generally entail an absolute reduction in the business being routed through the company's existing bankers.

Complete range of services on offer in areas of

- *Treasury*
- *Capital Markets*
- *Cash Management etc.*

directly & through the NatWest connection

To complete the range of services on offer, HDFC Bank has got a merchant banking licence. In this area also, the target market being serviced will largely remain restricted to the bank's corporate customers, and therefore, the bank is not in the race for 'largest number of issues managed'.

With the NatWest connection, it is also able to offer a strong project advisory service (esp. for infrastructure projects) as well as distribution capabilities in international markets.

Cash management systems are also in place and the bank can provide better service at lower costs vis-a-vis Citibank (the main player in this business) in non-metro locations where it has branches (Citibank has branches only in the 4 metros) and can match service in the metros.

Treasury

With NatWest's help, it is 'as good as a foreign bank' on the FX side....

HDFC Bank has a full scale treasury operation divided into 3 broad areas - Foreign Currency, Local Currency & Equities.

In the foreign currency markets, it has become a player to reckon with in a short period of time (Its $ - Re. quotes regularly appear on Reuters, most large corporate players call up for rates and it is one of the banks RBI hits for its interventions.)

It has an on-line link with the major NatWest branches and can, therefore access fine cross - currency rates. NatWest markets has one of the largest dealing operations in Europe with 750 dealing positions linked to trading centres worldwide.

... and can also structure and execute complex transactions

The NatWest connection also gives it capabilities in risk management, advisory services, structured foreign currency transactions, derivatives etc., which it otherwise would not have had. While these products may not be exceptionally profitable per se, they help in achieving a better standing vis-a-vis the customer which results in a better share of other spin-off businesses including L/Cs, guarantees plain - vanilla FX etc. where spreads are higher.

The bank is also reasonably active on the local currency desk - call money, government securities, bonds etc.

The equity desk is still small and has been mainly focussing on research. This is presently being used for proprietory purposes (purchases only from the primary markets) and to feed NatWest's distribution network for advice to their clients. At a later date, portfolio management services may be introduced.

Custodial Services

Systems, staff, customers are now all in place

The custody business is a key strategic growth area. Substantial investments have already been made in infrastructure, development of state - of - the - art computerised systems and a team of experienced and skilled personnel. The division has already got about half - a - dozen major clients including the National Stock Exchange, Alliance Capital, Oppenheimer and ITC - Threadneedle. The extra time available before volumes build-up has been used to perfect systems with the help of NatWest's custodial arm and no problems are anticipated from this shop. Conservatively speaking, a fee income of Rs. 100 mn is estimated from this activity in FY97.

While right now all custodial agreements are direct, the bank has the option to act as a sub-custodian to NatWest for accounts which require higher levels of capital (eg. US Pension funds).

● Retail Banking

Premises costs have been minimised by centralising processing

The focus is on deposit mobilisation. By centralising processing as far as possible, branch size has been reduced to a manageable 500 - 600 sq. ft. - this means that premises costs even in expensive Mumbai are kept to a minimum. Also with sophisticated back office and delivery systems, per transaction time is reduced, cutting down on waiting time, so even the existing branches are currently estimated to be running at 30 - 35% of 'installed capacity'. In any case, being an Indian entity, HDFC bank has no restrictions on number of branches it can open so if a branch starts getting crowded, another one can be opened, say, a kilometre away.

Strategy is to proliferate branches in the chosen cities

According to management, the 'Catchment area' for a branch is quite concentrated in a city ie, customers like to bank at branches close to their office/ residence so the game plan is to increase the number of branches within a city rather than increase coverage to a large number of cities. There are already 7 branches in Mumbai and at least 5 new ones are being opened in FY97. Unlike a foreign bank, HDFC Bank does not have any restrictions on branch expansion and can, therefore, come 'closer' to the customer.

Match the product offerings of a foreign bank with the distribution of an Indian one

Again, all facilities normally available in a 'foreign bank' - automated teller machines, multi-branch banking, telephone banking (soon to be introduced), variations on the fixed deposit theme offering withdrawal facilities etc.- are on offer to customers and these are combined with a better geographical spread in terms of cities as well as locations within a city. Other innovations have included 'evening banking hours' for residential localities to make the bank more 'user friendly'. In addition, the bank has lowered entry barriers by having a minimum deposit of Rs. 5,000 for a savings account and Rs. 10,000 for a fixed deposit which is less than 5% of the minimum deposit requirement of some foreign banks. Service charges are also substantially lower than those for a foreign bank.

■ Risk Management

HDFC Bank has identified this as the key to running a successful bank. Even for the defined target market of 'AA' to 'AAA' clients, a strict credit process is followed for sanction of limits.

Identified as the key to running a successful bank

For FX and money market trading, inter-day and intra-day limits on an aggregate as well as individual trader level are strictly monitored with additional checks built in the form of an independent back office and a separate market risk department.

The governemnt securities portfolio, by and large consists of instruments with maturities upto 2 years to minimise interest risk exposure.

■ Spreads

Prime lending rate for the bank is 19.5% pa Barring very few exceptions, all lending is at this rate or higher. Average lending rate would range between 0.5 to 1% above Prime. Also, on the average, each rupee of funded asset would generate 2-3 rupees of non-fund business (L/Cs, guarantees etc.) which should yield about 1% or so pa. So, therefore, the bank will generate, on the average, an income of 22-23% (19.5% + 2-3%) pa on each funded asset put up. Management is comfortable with this yield given the risk profile of customers and has made a conscious choice not to go in for higher yield assets which may entail a dilution of the defined risk parameters.

Average asset yield is 0.5 - 1% above prime (currently 19.5 pa)...

... and non-fund business adds to the returns

To improve spreads and give stability to liabilities, efforts would be made to increase the share of retail deposits. Currently the bulk of retail deposits (barring savings accounts) carry an interest rate of 12% - grossed up for reserves, the cost of these deposits is around 14.5%.

■ Priority Sector Advances

As an Indian bank, 40% of the bank's advances have to be given to the 'priority sector'. On this front, the bank's record has been exceptional in that it has reached a 30% level in the first year of operations which is significantly higher than the levels reached by other new banks (in fact, many established nationalised banks have also reached only 35% levels). Higher priority sector advances help the bank in controlling risk & ensuring returns whereas any shortfall from mandated levels implies that funds have to handed over to SIDBI, NABARD etc. at below market rates.

Successful in managing risk and returns on this front

Priority sector advances are made to small-scale industries (the exposure is in the form of bills where the other party is a large corporate customer of the bank such that the bank has recourse to an entity whose credit risk it is comfortable with) and 'indirect agricultural' advances for food / fertiliser distribution (these could again be structured such that the risk in on, say, a large fertilizer company)

Thus the bank is effectively walking the tightrope of maintaining high 'priority sector' advances while remaining within the risk profile it is comfortable with and also lending at or above its Prime Rate.

On a more medium term basis, it is lobbying to broaden the scope of the 'priority sector' definition to include other areas like infrastructure lending.

■ *Accounting / Tax*

HDFC Bank is also taking a conservative stance on accounting and fee-booking. Thus for a guarantee, the commission is booked in equal monthly instalments over the entire tenor of the guarantee. Tax rate has also been reasonably high at 28% on first year earnings as the management has, again, chosen to steer clear of areas like leasing where it does not have experience.

All bonds and government securities are carried at 'lower of cost or market'.

■ *Final Considerations & Valuation*

Given the low base, the aggressive branch expansion program and the service quality, growing deposits and advances by 40-50% pa for the next couple of years does not appear to be a problem. **RONW improves dramatically to 25.9% by FY98 and 28.1% by FY99, probably the best in the finance sector.**

Sustainable Growth rate of over 39% pa

In the finance sector, high growth means a declining capital adequacy and the usual fear is of an impending equity dilution., However, in this case there is a pleasant surprise in store. **Even with an asset growth of 45% CAGR for the 3 years upto FY99 and 30% for the 2-4 years thereafter, the capital adequacy remains at 12% which is comfortable given the asset quality.**

So, what appears a somewhat expensive valuation at first glance - 15.6x FY97, 10.1x FY98 and 7.6x FY99 earnings is not really so once all relevant inputs are factored in - the steep growth rates, exceptionally high RONW, low-risk assets and the absence of the historical baggage which the Indian banking Industry is saddled with - unionised staff, high Non-performing assets, low-yielding government securities etc. Add to this, its high quality manpower, the background of the savvy, nimble -footed, investor friendly HDFC and the absence of any dilution prospects, and the valuation starts looking extremely attractive.

PROFIT AND LOSS ACCOUNT

Year ending March 31 All figures in Rs.mn	1995	1996	1997	1998	1999
	Actuals		Forecast		
Interest Earned	**126.13**	**1155.59**	**1824.77**	**2571.64**	**3506.56**
Interest/discount on advances	12.88		1009.12	1617.51	2311.60
Income on Investments	43.61		590.65	770.38	1007.46
Others *	69.64		225.00	183.75	187.50
Interest Expended	**47.67**	**708.38**	**1086.59**	**1580.13**	**2216.44**
Interest on Deposit	43.79		1008.59	1482.63	2105.94
Other Interest	3.87		78.00	97.50	110.50
Net Interest Earned	**78.46**	**447.21**	**738.18**	**991.51**	**1290.12**
Other Income	**16.67**	**135.31**	**297.69**	**520.96**	**703.29**
Commission & Brokerage	17.40		124.83	191.51	267.56
Other Income	-0.73		172.86	329.45	435.73
Operating Expenses	**59.47**	**284.54**	**369.90**	**443.88**	**532.66**
Employees Remuneration	11.00				
Other Expenses	48.47				
Operating Profit	**35.67**	**297.98**	**665.97**	**1068.59**	**1460.75**
Provisions and Contingencies #	4.06	79.38	179.81	320.58	467.44
NET PROFIT	**31.61**	**218.60**	**486.16**	**748.01**	**993.31**
Dividend Payout	0.00	0.00	100.00	200.00	250.00

* Other Interest includes interest on Cash and Balances with RBI, Banks and Money at Call and Short Notice.

\# Includes taxes

BALANCE SHEET

Year ending March 31 All figures in Rs.mn	1995	1996	1997	1998	1999
	Actuals	Estimates	Forecast		
CAPITAL & LIABILITIES					
Shareholders' Funds	**1508.02**	**2226.62**	**2612.78**	**3160.79**	**3904.10**
Share Capital	1500.00	2000.00	2000.00	2000.00	2000.00
Reserves & Surplus	8.02	226.62	612.78	1160.79	1904.10
Deposits	**6419.02**	**6867.00**	**10300.50**	**14935.72**	**20910.01**
Demand Deposits	335.84				
Saving Deposits	23.00				
Term Deposits	6060.18				
Borrowings	**401.19**	**500.00**	**700.00**	**800.00**	**900.00**
Other Liabilities & Provisions	**25609.61**	**575.00**	**763.04**	**840.83**	**900.00**
TOTAL	**33937.84**	**10168.62**	**14376.32**	**19737.34**	**26614.11**
ASSETS					
Cash and Balances with RBI	2056.33	961.38	1339.07	1941.64	2718.30
Balances with Banks and money at Call and Short Notice	13309.95	1750.00	1250.00	1200.00	1300.00
Investments	**2213.38**	**3142.92**	**4198.13**	**5638.29**	**7486.60**
Government Securities	1623.94	1785.42	2678.13	3883.29	5436.60
Debentures & Bonds	490.25	1207.50	1370.00	1580.00	1850.00
Others	99.19	150.00	150.00	175.00	200.00
Advances	**980.02**	**3686.00**	**6798.33**	**10006.94**	**14009.71**
Cash Credits and Overdrafts	400.02				
Term Loans	580.00				
Net Fixed Assets	214.74	410.00	500.00	570.00	620.00
Other Assets	15163.42	218.32	290.79	380.47	479.50
TOTAL	**33937.84**	**10168.62**	**14376.32**	**19737.34**	**26614.11**

KEY RATIOS

Year ending March 31 All figures in Rs.mn	1995	1996	1997	1998	1999
	Actuals		Forecast		
EPS (Rs.)	**0.21**	**1.09**	**2.43**	**3.74**	**4.97**
EPS Growth (%)		**418.71**	**122.40**	**53.86**	**32.79**
Book Value (Rs.)		11.13	13.06	15.80	19.52
P/E Ratio (YE) (x)		**34.77**	**15.63**	**10.16**	**7.65**
P/ Book Value (x)		3.41	2.91	2.40	1.95
Dividend (%)		0.00	5.00	10.00	15.00
RONW (Avg.) (%)		**11.71**	**20.09**	**25.91**	**28.12**
Return on Total Assets (Avg.) (%)		**2.15**	**3.38**	**3.79**	**3.73**
Deposits Growth (%)		6.98*	50.00	45.00	40.00
Investments Growth (%)		42.00	33.57	34.30	32.78
Advances Growth (%)		276.11	84.44	47.20	40.00
Business Growth (%)		42.63	62.03	45.87	40.00
Interest Earned/(Avg. Advances, Investments, Call money & with RBI) %		13.02	15.78	15.89	15.83
Interest Exp./Total borrowing %		9.99	11.83	11.82	11.81
Gross Spread on Borrowed funds %		**3.03**	**3.95**	**4.07**	**4.02**
Advances / Deposits		0.54	0.66	0.67	0.67
Investment/Deposit		0.46	0.41	0.38	0.36
Cash/Deposit		0.14	0.13	0.13	0.13
Net Worth / Advances (%)		60.41	38.43	31.59	27.87
Capital Adequacy #		**23.50**	**16.58**	**14.02**	**12.61**

* Figure is not representative due to the IPO related deposits in the March '95 Balance Sheet

Assuming a 50% risk-weighting, on the average, for non-fund assests.

COMMON SIZED PROFIT AND LOSS ACCOUNT

Year ending March 31 All figures in Rs.mn	1995	1996	1997	1998	1999
	Actuals		Forecast		
Interest Earned	**88.33**	**89.52**	**85.97**	**83.15**	**83.29**
Interest/discount on advances	9.02		47.54	52.30	54.91
Income on Investments	30.54		27.83	24.91	23.93
Others *	48.77		10.60	5.94	4.45
Interest Expended	**33.38**	**54.88**	**51.19**	**51.09**	**52.66**
Interest on Deposit	30.67		47.52	47.94	50.03
Other Interest	2.71		3.67	3.15	2.63
Net Interest Earned	**54.95**	**34.64**	**34.78**	**32.06**	**30.65**
Other Income	**11.68**	**10.48**	**14.03**	**16.85**	**16.71**
Commission & Brokerage	12.18		5.88	6.19	6.36
Other Income	-0.50		8.15	10.65	10.35
Operating Expenses	**41.65**	**22.04**	**17.43**	**14.36**	**12.65**
Employees Remuneration	7.70				
Other Expenses	33.95				
Operating Profit	**24.98**	**23.08**	**31.38**	**34.55**	**34.71**
Provisions and Contingencies	2.84	6.15	8.47	10.36	11.11
NET PROFIT	**22.14**	**16.93**	**22.91**	**24.19**	**23.60**
Dividend Payout	**0.00**	**0.00**	**4.71**	**6.47**	**5.94**

* Other Interest includes interest on cash and Balances with RBI, Bank and money at call and short notice.

COMMON SIZED BALANCE SHEET

Year ending March 31 All figures in Rs.mn	1995 Actuals	1996 Estimates	1997	1998 Forecast	1999
CAPITAL & LIABILITIES					
Shareholders' Funds	**4.44**	**21.90**	**18.17**	**16.01**	**14.67**
Share Capital	4.42	19.67	13.91	10.13	7.51
Reserves & Surplus	0.02	2.23	4.26	5.88	7.15
Deposits	**18.91**	**67.53**	**71.65**	**75.67**	**78.57**
Demand Deposits	0.99				
Saving Deposits	0.06				
Term Deposits	17.86				
Borrowing	**1.19**	**4.92**	**4.87**	**4.06**	**3.39**
Other Liabilities & Provisions	**75.46**	**5.65**	**5.31**	**4.26**	**3.37**
TOTAL	**100.00**	**100.00**	**100.00**	**100.00**	**100.00**
ASSETS					
Cash and Balances with RBI	6.06	9.45	9.31	9.84	10.21
Balances with Banks and money at Call and Short Notice	39.22	17.21	8.69	6.08	4.88
Investments	**6.52**	**30.91**	**29.20**	**28.57**	**28.13**
Government Securities	4.79	17.56	18.63	19.67	20.43
Debentures & Bonds	1.44	11.87	9.53	8.01	6.95
Others	0.29	1.48	1.04	0.89	0.75
Advances	**2.89**	**36.25**	**47.29**	**50.70**	**52.64**
Cash Credits and Overdrafts	1.18				
Term Loans	1.71				
Net Fixed Assets	**0.63**	**4.03**	**3.48**	**2.89**	**2.34**
Other Assets	**44.68**	**2.15**	**2.03**	**1.92**	**1.80**
TOTAL	**100.00**	**100.00**	**100.00**	**100.00**	**100.00**

Assumptions underlying Earning Forecasts

Year Ending Mar. 31	1997	1998	1999
Growth in Deposits %	50	45	40
Advances/Deposits %	66	67	67
Non Fund based assets as a % of Fund based Advances	200	200	200
Cash & Balance with RBI as a % of Deposits	13	13	13
Interest on Advances (Avg.) %	19.25	19.25	19.25
Interest on SLR Investments %	13.25	13.25	13.25
Interest on Deb./Bonds (Avg.) %	20.5	20.5	20.5
Interest on Deposits (Avg.) %	11.75	11.75	11.75
Growth in Other Income %	120	75	35
Income from Non-Fund assets (Avg.) %	1	1	1
Growth in Operating Expenses %	30	20	20
Effective Tax Rate %	27	30	32

RBI Norms :

- The risk weighting for Non-fund assets is as under :

	Risk weighting %
Guarantees (Collateralised)	50
Letter of Credit	20
Financial Guarantees	100

  On the average, risk weighting is assumed at 50% for Non-fund assets.
- Banks are allowed to invest in non-SLR investments to the extent of 5% of their incremental deposits, so this will be the cap for corporate bonds and equity investments.
- RBI does not pay interest on incremental Cash Reserve amount from 1990 onward. The Interest on cash Reserve amount is, therefore, assumed to be nil.