

Bloomberg News

State Bank of India, ICICI Profits to Rise on Increased Lending

By Sumit Sharma

State Bank of India, the nation's biggest lender, and its closest rival ICICI Bank Ltd. Will probably say second-quarter profit increased after they boosted loans to companies, the urban middle-class and farmers.

State Bank may say net income rose 18 percent from a year earlier to 12.75 billion rupees (\$255 million) in the three months ended Sept. 30, according to the median of estimates by five analysts Bloomberg News surveyed. ICICI's profit probably rose 23 percent to 5.45 billion rupees.

India's banks are benefiting as the local economy expands and the lowest interest rates in more than 30 years spur borrowing in a nation of 1.1 billion people. Companies are expanding production and urban consumers are buying apartments, automobiles and other durables with bank loans. The government is also encouraging lending to the nation's 234 million farmers in an attempt to increase agricultural output.

"I expect banks to report very good performance on an across-the-board rise in demand for loans," said Paras Adenwala, who manages \$200 million as chief investment officer at ING Investment Management in Mumbai. "Interest rates are low and there's a big pick-up in demand for loans from all sectors."

ICICI Bank will report earnings tomorrow, and its board will also discuss a proposal to sell shares to expand lending. State Bank of India will announce its earnings on Oct. 27.

India's economy expanded 8.1 percent in the fiscal first quarter, the fastest pace in more than a year, the Central Statistical Organization said on Sept. 30. For the year to next March, the government expects the \$661 billion economy to expand 7 percent, up from 6.9 percent in the previous year.

Bank Lending

Bank loans increased 54 percent to 1.23 trillion rupees between April 1 and Sept. 16, from 797 billion rupees a year earlier, according to the central bank. The bank rate, at which the central bank lends to commercial banks, has been at 6 percent since April 2003 — the lowest since May 1973.

"The Indian economy looks very strong and that's good news for banks," said Jon Thorn, who manages \$200 million at the India Capital Fund in Hong Kong and owns shares of Indian banks. "Banks are likely to report strong revenue growth and also costs are under reasonable control."

Economic growth and rising company profits have helped boost the Mumbai stock exchange's key Sensitive index by about 30 percent this year. The Bankex Index of bank shares

has gained 32 percent, with State Bank rising 44 percent and ICICI Bank advancing 45 percent.

State Bank's loans may rise by as much 40 percent in the year to March 31, Managing Director T.S. Bhattacharya said on Oct. 7. The bank's loan growth is "very good," with lending to public works "picking up," Chairman A. K. Purwar said Sept. 29.

Farm Loans

India's banks are boosting loans in the countryside in a government-driven program to increase agricultural production, which grew 1.1 percent in the year to March 31, 2005. India needs farm output to expand as much as 4 percent every year for the overall economy to grow at twice that pace, Prime Minister Manmohan Singh said Sept. 9.

The government has told banks to extend as much as 1.41 trillion rupees (\$32.3 billion) in farm credit by the close of the financial year on March 31. Rural India is the "next frontier" of the country's banking industry, ICICI Bank Chief Executive Officer K.V. Kamath has said.

India's 630,000 villages are home to two-thirds of its population. Companies including Hindustan Lever Ltd., India's biggest seller of personal-care products such as toothpaste and soaps, and Mahindra & Mahindra Ltd., the biggest maker of tractors and utility vehicles, get half their sales from the countryside.

Interest Rates

State Bank, which started as Bank of Calcutta in 1806, will probably say net interest income, or interest earned on loans after deducting that paid for funds, rose 15.4 percent to 39 billion rupees in the fiscal second quarter, compared with 33.8 billion a year earlier, the analysts' survey showed.

Industry-wide bank loans may expand as much as 25 percent in the fiscal year, ICICI Deputy Managing Director Kalpana Morparia told reporters on Oct. 7. ICICI Bank's net interest income probably rose 31 percent to 9 billion rupees in the quarter ended Sept. 30 from 6.85 billion rupees a year earlier.

The bank raised 30.5 billion rupees in an additional share sale in April last year to meet credit demand.

"It's a very good strategy to focus on retail but the bank will also need a lot of capital," said India Capital Fund's Thorn. "Probably that's a reason for the bank planning to raise more funds."