

May 22, 2017

Bank of Baroda (BANBAR)

₹ 190

Healthy core performance....

- The bank reported a healthy core operational performance
- Asset quality stress continued but owing to healthy recoveries and upgrades absolute GNPA was flat QoQ. Fresh slippages were at ₹ 4077 crore vs. ₹ 4135 crore in Q3FY17. Absolute GNPA was stable QoQ at ₹ 42719 crore (GNPA ratio reduced by 94 bps QoQ to 10.46%). The standard RA fell to ₹ 10785 crore from ₹ 14059 crore, forming ~2.81% of total loans. Total stressed assets (GNPA + RA) was at 13.3%, which is relatively better than peers
- The operational performance was decent with PPP at ₹ 3020 crore (up 17% YoY) led by a higher-than-expected rise in NII & other income that were up 7.6% and 11.4% YoY to ₹ 3582 crore and ₹ 1977 crore, respectively. Treasury gains were at ₹ 677 crore (up 33% YoY)
- Global NIMs improved 11 bps QoQ to 2.17% led by a rise in foreign NIMs by ~10 bps to 1.18% while domestic NIMs were flat at 2.5%
- Credit book was flat YoY (up 9.5% QoQ) at ₹ 383259 crore. Deposit traction was at 4.8% YoY to ₹ 601675 crore. The management guided for credit growth of 10-15% in FY18 while absolute GNPA is targeted at ~₹ 46000 crore

Credit growth subdued in past two years; expect traction to improve ahead

Traditionally, BoB was the third largest bank in India but climbed to second position in FY14 due to consistent credit growth. It grew its credit at a healthy 22.6% CAGR from ₹ 143251 crore in FY09 to ₹ 397006 crore in FY14. The book increased by ₹ 253754 crore in FY09-14 of which international credit was a major contributor (₹ 90001 crore). During FY15, credit traction dipped to 7.8% YoY and then 10.3% YoY to ₹ 383770 crore in FY16. In FY17, the credit book was flat. The management has guided for growth of 10-15% ahead. We have factored in 12.3% CAGR in loans to ₹ 483260 crore by FY19E.

Strong liability franchise; margin improvement led by lower CoD

BoB has a pan-India presence with a wide network of 5422 branches. Of these, 28% branches (~₹ 1500 branches) are in Gujarat and Maharashtra that are CASA rich states and have higher industrial activity. The domestic CASA ratio had been strong at ~39%. With demonetisation, CASA ratio surged to 40.46% in Q3FY17. In Q4, Global NIMs improved 11 bps QoQ to 2.17% led by rise in foreign NIMs by ~10 bps to 1.18% while domestic NIMs were flat at 2.5%. We expect NIMs to improve to ~2.3% by FY19E.

Asset quality risk persists but management indicates pace to reduce

The loan book is well-diversified with overseas book of ₹ 105700 crore (27.6%). Sectors: SME - ₹ 58062 crore (19.5%), retail - ₹ 57994 crore (19%), agri - ₹ 47641 crore (16%), corporate - ₹ 68552 crore (23%) of domestic loans. Diversified exposure had contained asset quality of BoB vs. peers in past. However, with RBI's review & weak economic scenario, in FY16, NPA pressure was severe with fresh slippages at ₹ 27828 crore & GNPA ratio rising to 10% and 10.5% by FY17. We expect slippages to stay high but lower than previous year. GNPA ratio may improve ahead.

Revise earnings estimates, target price higher; maintain HOLD

With management focus on operational efficiency, higher traction in credit and increasing effort on recovery and restricting NPA pressure, we revise our earnings estimate upwards. We expect RoEs to improve to ~12% by FY19E. We roll over to FY19 estimates. Accordingly, we revise TP higher to ₹ 200 valuing at 1.3x FY19E ABV. We maintain **HOLD**. Bank indication of no fresh capital in the next two years and plans to sell non-core assets like NSE and UTI AMC stake, may garner ~₹ 2500 crore.

Rating matrix	
Rating	: Hold
Target	: ₹ 200
Target Period	: 12 months
Potential Upside	: 6%

What's changed?	
Target	Changed from ₹ 180 to ₹ 200
EPS FY18E	Changed from ₹ 12 to ₹ 15.9
EPS FY19E	Introduced at ₹ 24.3
Rating	Unchanged

Quarterly performance					
	Q4FY17	Q4FY16	YoY (%)	Q3FY17	QoQ (%)
NII	3,582	3,330	7.6	3,134	14.3
Other income	1,977	1,775	11.4	1,775	11.4
PPP	3,020	2,572	17.4	2,595	16.4
PAT	155	-3,230	-104.8	253	-38.8

Key financials				
₹ Crore	FY16	FY17	FY18E	FY19E
NII	12,742	13,507	14,776	16,768
PPP	8,824	10,974	12,284	14,366
PAT	(5,395)	1,384	3,665	5,607

Valuation summary				
	FY16	FY17	FY18E	FY19E
P/E	(8.1)	31.6	11.9	7.8
Target P/E	(8.6)	33.4	12.6	8.2
P/ABV	2.1	1.9	1.6	1.2
Target P/ABV	2.2	2.0	1.7	1.3
RoA	(0.8)	0.2	0.5	0.7
RoE	(13.3)	3.3	8.3	11.7

Stock data	
Market Capitalisation	₹ 43445 Crore
GNPA (Q4FY17)	₹ 42719 Crore
NNPA (Q4FY17)	₹ 18080 Crore
NIM (Q4FY17) %	2.17
52 week H/L	202/128
Networth	₹ 42609 Crore
Face value	₹ 2
DII Holding (%)	20.4
FII Holding (%)	12.2

Price performance				
	1M	3M	6M	12M
BOB	10.2	16.6	11.6	36.0
PNB	11.4	23.6	17.0	132.4
BOI	25.4	49.3	54.7	125.7

Research Analyst	
Kajal Gandhi	
kajal.gandhi@icicisecurities.com	

Vasant Lohiya
vasant.lohiya@icicisecurities.com

Vishal Narnolia
vishal.narnolia@icicisecurities.com

Variance analysis

	Q4FY17	Q4FY17E	Q4FY16	YoY (%)	Q3FY17	QoQ (%)	Comments
NII	3,582	3,071	3,330	7.6	3,134	14.3	NII came in higher-than-expected owing to higher credit growth QoQ and improvement in margins
NIM (%)	2.2	2.2	2.2	2 bps	2.1	11 bps	Sequential rise in NIMs was led by a rise in overseas NIMs while domestic NIMs stayed largely flat
Other Income	1,977	1,770	1,775	11.4	1,775	11.4	Healthy growth in other income aided operating earnings. Income from recoveries were at ₹ 172 crore vs. ₹ 49 crore in Q3FY17
Net Total Income	5,559	4,841	5,105	8.9	4,909	13.2	
Staff cost	1,222	1,520	1,434	-14.8	1,139	7.3	
Other Operating Expenses	1,317	1,175	1,098	19.9	1,175	12.0	
PPP	3,020	2,145	2,572	17.4	2,595	16.4	Operational performance was better-than-expected
Provision	2,623	1,708	6,858	-61.8	2,080	26.1	The bank continues to make higher provisions due to which provision coverage ratio remains healthy and improved QoQ to 67% from 65%
PBT	397	437	-4,285	-109.3	516	-23.0	
Tax Outgo	242.5	-65.6	-1,055.1	-123.0	263.0	-7.8	
PAT	154.7	503.1	-3,230.1	-104.8	252.7	-38.8	Higher provisioning impacted PAT despite healthy rise in PPP

Key Metrics

GNPA	42,718.7	42,892.4	40,521.0	5.4	42,642.4	0.2	Fresh slippages were largely flat QoQ at ₹ 4077 crore including ₹ 2285 crore from restructured pool. There was one lumpy account in the oil sector, otherwise slippages were granular in nature
NNPA	18,080.2	19,156.3	19,406.5	-6.8	19,006.3	-4.9	
Total Restructured assets	10,785.0	12,800.0	13,735.0	-21.5	14,059.0	-23.3	Standard restructured assets reduced further to ₹ 10785 crore, forming 2.81% of total loans vs. ~4% in Q3FY17
Advances	383,259	350,310	383,770	-0.1	349,960	9.5	
Deposits	601,675	613,453	574,038	4.8	589,859	2.0	

Source: Company, ICICIdirect.com Research

Change in estimates

(₹ Crore)	FY18E			FY19E	
	Old	New	% Change	Introduced	
Net Interest Income	14,162.0	14,776.1	4.3	16,767.8	
Pre Provision Profit	10,888	12,284	12.8	14,366	
NIM Global (%)	2.1	2.2	9 bps	2.3	
PAT	2,776	3,665	32.0	5,607	
ABV (₹)	96.7	121.1	25.2	158.2	

Source: Company, ICICIdirect.com Research

Assumptions

	FY16		Current		Earlier
	FY16	FY17	FY18E	FY19E	FY18E
Credit growth (%)	-10.3	-0.1	12.7	11.9	10.9
Deposit Growth (%)	-7.0	4.8	10.1	10.3	10.3
CASA ratio calculated (%)	26.4	32.2	32.2	32.3	28.3
NIM Calculated (%)	1.9	2.1	2.2	2.3	2.1
Cost to income ratio (%)	50.3	45.9	43.7	40.9	47.8
GNPA (₹ crore)	40,521.3	42,725.1	45,100.1	44,133.6	44,720.0
NNPA (₹ crore)	19,408.1	18,078.3	16,385.5	12,398.6	14,731.0
Slippage ratio (%)	7.3	3.5	2.9	2.3	1.5
Credit cost (%)	4.0	2.0	1.5	1.2	0.7

Source: Company, ICICIdirect.com Research

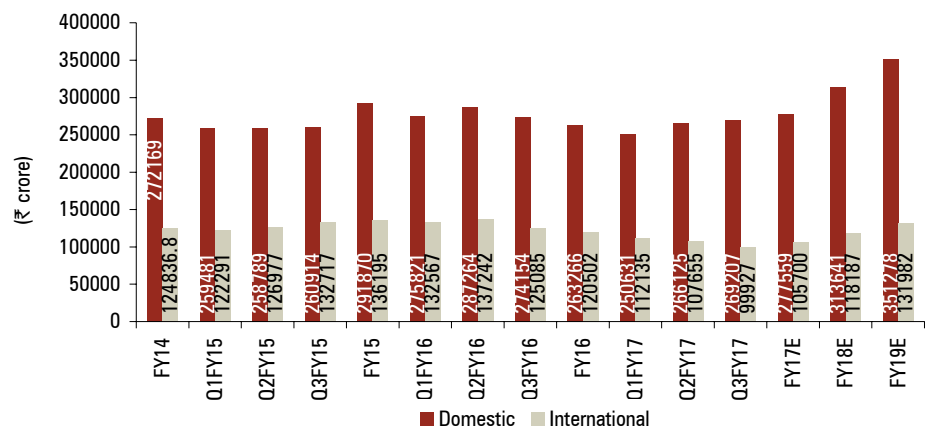
Company Analysis

Credit growth expected to improve, going ahead....

BoB has consistently grown its credit faster than industry at 20% CAGR from ₹ 143251 crore in FY09 to ₹ 428065 crore in FY15. The growth has largely been led by the overseas book, which increased from ₹ 34703 crore in FY09 to ₹ 136195 crore in FY15 (32% of credit). A sharp rupee depreciation had partly boosted growth in the overseas book.

In FY16, owing to enhanced NPA pressure and weak economy, the credit traction was negative 10.3% YoY to ₹ 383768 crore. With focus on cleaning up the balance sheet and reduce exposure to less profitable overseas business, the loan book flattish in FY17. Domestic book grew 6% YoY to ₹ 297755 crore in FY17. The management has guided for credit growth rate of 10-15% YoY, going ahead, which will be led by retail segment. We have factored in credit growth at 12.3% CAGR in FY17-19E to ₹ 483260 crore.

Exhibit 1: Credit traction stays strong QoQ in Q4FY17

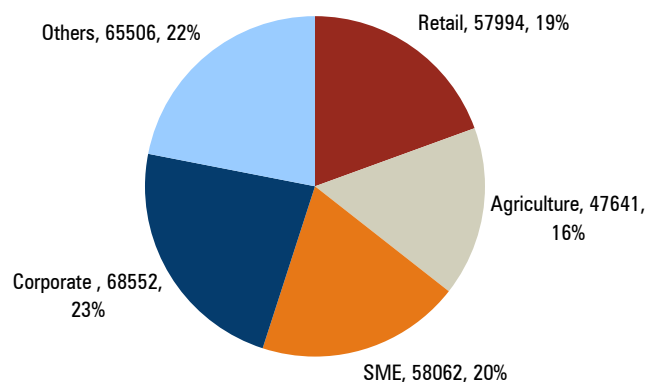


Source: Company quarterly presentation, ICICIdirect.com Research

The international book comprised 27.6% of total credit at ₹ 105700 crore down from 30% in Q2FY17, which we expect to decline further as management scales down the same. The GNPA ratio for international operations was at 7.03% as on FY17. Excluding the exposure to India based corporates; GNPA (%) of the remaining exposure was at 2.95%.

Exhibit 2: Break-up of domestic credit as on Q4FY17

(₹ crore)



Source: Company quarterly presentation, ICICIdirect.com Research

We estimate credit will grow at 12.3% CAGR to ₹ 483260 crore over FY17-19E

Healthy deposit franchise, expect ~10% CAGR over next two years

In Q4FY17, gross deposits increased 4.8% YoY to ₹ 601675 crore. However, CASA deposits grew 28% YoY while it declined 1% QoQ to ₹ 193496 crore as Q3FY17 saw higher accretion in CASA on account of demonetisation. Global CASA ratio was at 32.2% but domestic CASA ratio stayed strong at 39.4%.

CASA accretion would support margins over the quarters. However, slippages & overseas book currently weigh negatively on margins. We expect deposit to grow at 10.2% CAGR to ₹ 731292 crore in FY18-19E.

Exhibit 3: Deposit profile

	Q1FY16	Q2FY16	Q4FY16	Q1FY17	Q2FY17	Q3FY17	Q4FY17	YoY (%)
Global Deposits	593087	612458	574038	562174	567531	589859	601675	4.8
Global CASA ratio	25.9	25.2	26.4	27.0	27.6	33.3	32.2	580 bps
Domestic Deposits	405211	423940	394844	393409	404770	438104	440092	11.5
Domestic CASA ratio	31.9	32.0	33.6	33.8	34.8	40.5	39.4	587 bps
Overseas Deposits	187876	188518	179194	168765	162761	151755	161583	-9.8
Overseas CASA ratio	12.9	9.9	10.5	11.1	11.2	12.5	0.0	0 bps

Source: Company quarterly presentation, ICICIdirect.com Research

NIM improvement contingent on asset quality, change in asset mix

In the past few years, global NIM has steadily declined from 3% in Q4FY12 to 2.2% in Q4FY15 and 2.17% in Q4FY17. The faster pace of growth in overseas credit (low margin business) was one of the major reasons. Besides, domestic NIM has also declined from 3.4% in Q4FY12 to 2.5% in Q4FY17 on the back of interest income reversal (due to asset quality deterioration) and sticky cost of deposit.

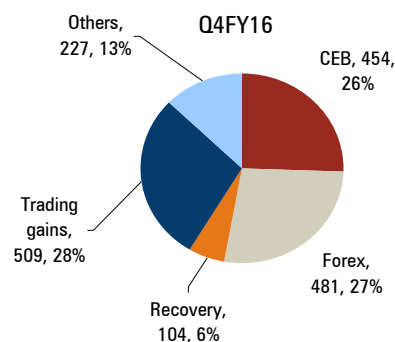
With lower interest reversals expected ahead, rise in CD ratio and focus on retail loans, we estimate NIMs will improve going ahead to ~2.3% by FY19E.

Exhibit 4: Trend in margins

	Q1FY15	Q2FY15	Q3FY15	Q4FY15	Q1FY16	Q2FY16	Q4FY16	Q1FY17	Q2FY17	Q3FY17	Q4FY17
Global NIM	2.4	2.4	2.2	2.2	2.3	2.1	2.2	2.2	2.3	2.1	2.2
Domestic NIM	2.9	3.0	2.9	2.8	2.9	2.7	2.7	2.8	2.9	2.5	2.5
Overseas NIM	1.2	1.2	0.9	1.0	0.9	0.9	0.9	1.0	1.0	1.0	1.2
Global Yield on advances	8.3	8.4	8.1	7.7	7.9	7.6	6.9	7.2	7.3	7.2	7.1
Domestic Yield on advances	11.1	11.2	11.0	10.6	10.6	10.4	9.0	9.4	9.2	9.1	8.8
Overseas Yield on advances	2.6	2.5	2.4	2.2	2.3	2.1	2.3	2.4	2.6	2.6	2.8
Global Cost of deposits	5.2	5.2	5.2	5.2	5.1	5.1	5.0	4.7	4.8	4.8	4.7
Domestic Cost of deposits	7.1	7.2	7.1	7.1	6.9	6.9	6.6	6.2	6.2	6.0	5.9
Overseas Cost of deposits	1.1	1.1	1.0	1.0	0.9	1.0	1.0	1.0	1.1	1.2	1.3

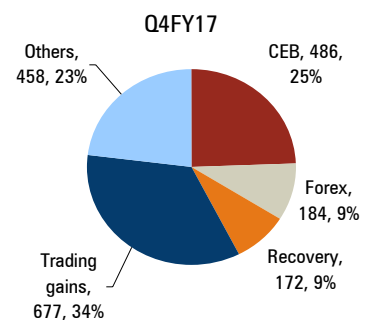
Source: Company, ICICIdirect.com Research

Exhibit 5: Other income led by...



Source: Company, ICICIdirect.com Research

Exhibit 6: ...trading & forex income (₹ crore)



Source: Company, ICICIdirect.com Research

Asset quality concerns persist but pressure to be lower than in FY16-17

BoB has managed its asset quality much better compared to its peers in the past. Until Q1FY16, its GNPA ratio was relatively better at 4.1% (₹ 17274 crore) while its NNPA ratio was 1.9% (₹ 8470 crore). It had a restructured book of ₹ 25541 crore (6.25% of total credit) as on Q1FY16. High proportion of overseas credit (32%) has contained overall NPA and restructuring to considerable levels. However, as seen earlier in case of PSU banks, owing to the management change, there was a sharp rise in asset quality pressure. This was observed in Q2FY16 in case of BoB wherein slippages were as high as ₹ 6816 crore, which led the GNPA ratio to rise to 5.6% to ₹ 23710 crore.

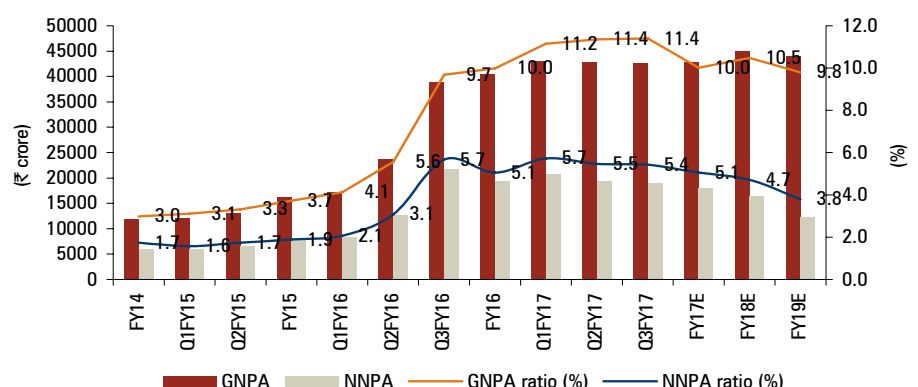
Further, during Q3FY16, owing to RBI's asset quality review, NPA pain increased steeply with fresh slippages at ₹ 15603 crore as the bank took the entire stress upfront rather than spreading in two quarters as preferred by other banks. Owing to its focus on cleaning up the balance sheet, fresh slippages in Q4FY16 remained higher at ₹ 5030 crore, which included ₹ 1000 crore towards AQR related accounts, ₹ 800 crore towards crystallisation of non-funded exposure and ₹ 2000 crore slippages from restructured book.

In Q4FY17, slippages were constant QoQ at ₹ 4077 crore mainly led by ~₹ 2285 crore slippages from the restructured book. The management indicated that slippages were granular in nature except for one single account in the oil sector.

The management mentioned that there was no material divergence from the RBI in NPA for FY16. Further, the bank has filed insolvency case for six accounts with exposure of ~₹ 600 crore. The bank also disclosed that top 50 NPA exposure was at ~₹ 15000 crore, which were provided for ~₹ 8000 crore. There was no sale to ARC in Q4FY17.

Standard restructured assets fell to ₹ 10785 crore, forming ~2.8% of total loans. Going ahead, the bank expects slippages to be contained. Recoveries are expected to keep GNPA in the range of ₹ 45000-46000 crore in FY18E. The target for provision coverage ratio is ~70% from current 66%.

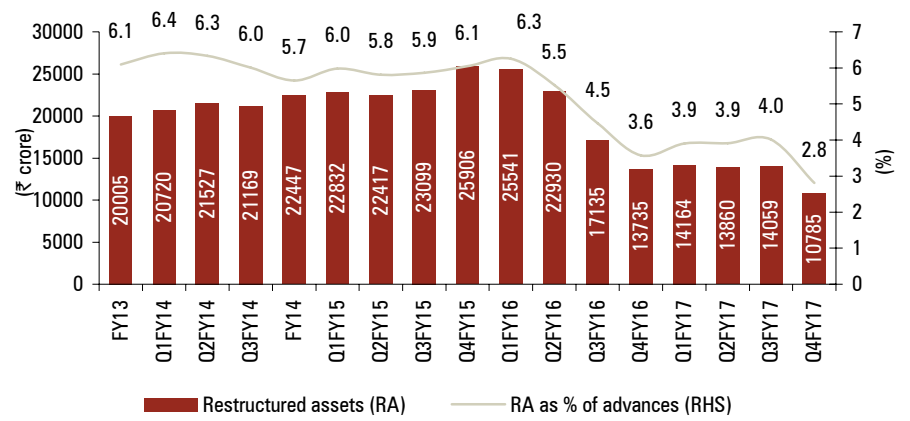
Exhibit 7: Asset quality pressure stays but expected to ease going ahead



Source: Company, ICICIdirect.com Research

We expect GNPA ratio at ~9% levels by FY19E. Further, NNPA ratio is expected to moderate to 4% levels.

Exhibit 8: Standard restructured assets managing at ~ 2.8% of total credit

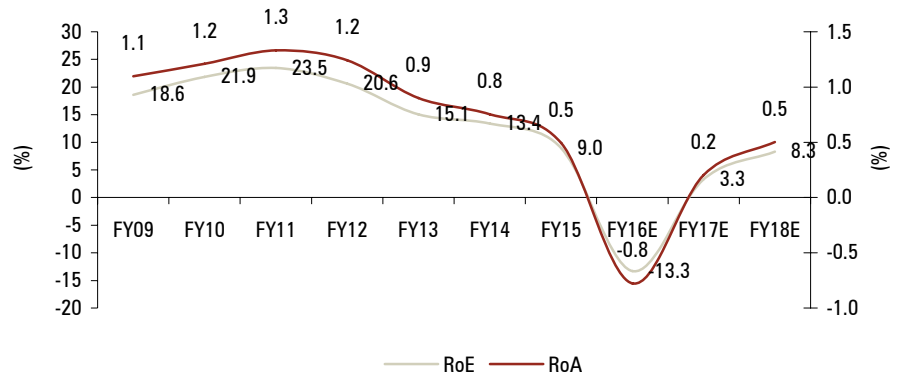


Source: Company, ICICIdirect.com Research

Outlook and valuation

With the management focus on operational efficiency, higher traction in credit and increasing effort on recovery and restricting NPA pressure, we revise our earnings estimate upwards. We expect RoEs to improve to ~12% by FY19E. We roll over to FY19 estimates. Accordingly, we revise the target price higher to ₹ 200 (from ₹ 180 earlier) valuing at 1.3x FY19E ABV. We maintain **HOLD** rating. Bank indication of no fresh capital in the next two years and plans to sell non-core assets like NSE and UTI AMC stake, could garner ~₹ 2500 crore.

Exhibit 9: Trend in return ratios



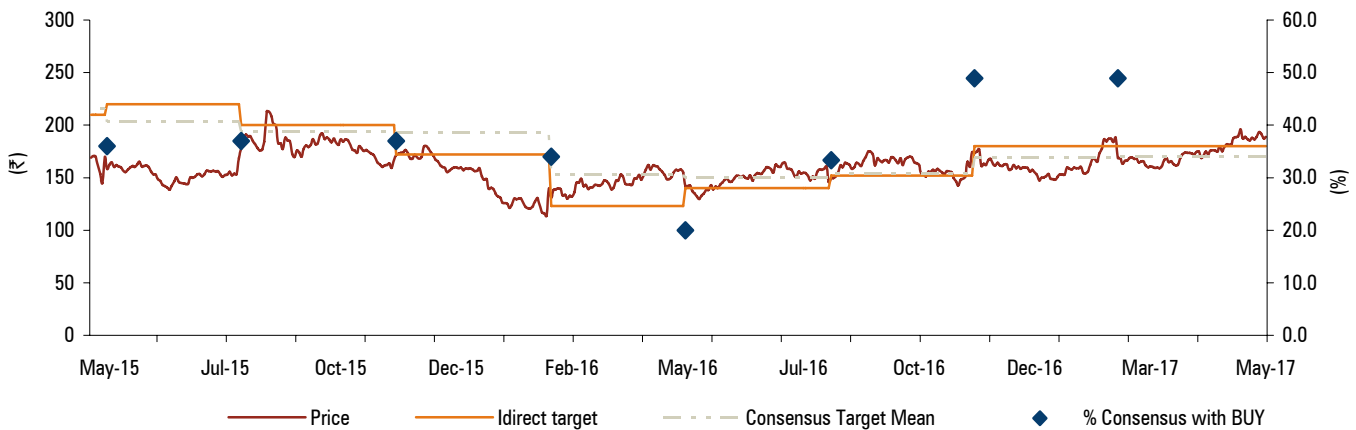
Source: Company, ICICIdirect.com Research

Exhibit 10: Valuation

	NII (₹ cr)	Growth (%)	PAT (₹ cr)	Growth (%)	P/E (x)	ABV (₹)	P/ABV (x)	RoA (%)	RoE (%)
FY15	13,186	10.2	3,397	(25.2)	12.4	138.3	1.4	0.5	9.0
FY16	12,742	(3.4)	(5,395)	(258.8)	(8.1)	89.6	2.1	(0.8)	(13.3)
FY17E	13,507	6.0	1,384	(125.7)	31.6	101.4	1.9	0.2	3.3
FY18E	14,776	9.4	3,665	164.8	11.9	121.1	1.6	0.5	8.3
FY19E	16,768	13.5	5,607	53.0	7.8	158.2	1.2	0.7	11.7

Source: Company, ICICIdirect.com Research

Recommendation History vs. Consensus



Source: Bloomberg, Company, ICICIdirect.com Research

Key events

Date	Event
Jun-02	BoB acquired Benares State Bank Ltd
Apr-04	Huge losses in treasury book due to G-sec yields surging keep share prices low, credit growth remains low
Jun-06	Credit growth rises 23-24% for the first time in system and BoB grows 38%
Jan-06	BoB raises ₹ 1633 crore via FPO at ₹ 230
Jun-09	Positive earnings surprise wherein profit was 30% higher than consensus estimate. Also, the market begins uptrend post recession
Oct-10	Stock appreciates during FY09-H2FY11 as the economy was doing well, reflecting in BoB's PAT growth of 35%+ and stable asset quality
May-11	First sign of a rise in NPA seen in Q4FY11 results. BoB then posts couple of steady quarters but from then it has been suffering on asset quality front
May-13	G-sec yields spike post Fed announcement on May 22 of its intention to taper QE and tight liquidity measures by RBI. MTM risk and CoF rise
Sep-13	Stock recovers as new Governor announces measure to tackle rupee volatility, eases liquidity. Risk of further rise in CoF subsides but MTM risk stay
Sep-13	Moody's and Fitch downgrade debt rating of top 3 Indian PSU banks including BoB citing worsening credit quality and recapitalisation concerns
Jan-15	Subdivision of existing equity shares face value from ₹ 10 per share to ₹ 2 per share
Mar-15	Issues 6,44,20,471 equity shares of ₹ 2 each fully paid up at ₹ 195.59 per share amounting to ₹ 1,259 crore to Govt on preferential basis
Oct-15	New CEO PS Jayakumar joins from private sector

Source: Company, ICICIdirect.com Research

Top 10 Shareholders

Rank	Name	Latest Filing Date	% O/S	Position (m)	Change (m)
1	Government of India	31-Mar-2017	59.24%	1,364.94M	0
2	Life Insurance Corporation of India	31-Mar-2017	10.03%	231.18M	-38.08M
3	HDFC Asset Management Co., Ltd.	31-Mar-2017	4.26%	98.06M	+2.39M
4	ICICI Prudential Asset Management Co. Ltd.	31-Dec-2015	1.50%	34.57M	+4.14M
5	J.P. Morgan Asset Management (Hong Kong) Ltd.	31-Dec-2016	1.05%	24.08M	+0.64M
6	Reliance Nippon Life Asset Management Limited	31-Mar-2017	1.01%	23.24M	+3.19M
7	Birla Sun Life Asset Management Company Ltd.	30-Apr-2017	0.90%	20.83M	+0.50M
8	DSP BlackRock Investment Managers Pvt. Ltd.	30-Apr-2017	0.88%	20.34M	+3.67M
9	Dimensional Fund Advisors, L.P.	28-Feb-2017	0.69%	15.81M	0
10	UTI Asset Management Co. Ltd.	28-Feb-2017	0.63%	14.41M	-0.34M

Source: Reuters, ICICIdirect.com Research

Shareholding Pattern

(in %)	Mar-16	Jun-16	Sep-16	Dec-16	Mar-17
Promoter	59.2	59.2	59.2	59.2	59.2
FII	11.5	11.8	12.4	11.7	12.2
DII	21.4	22.2	21.6	20.8	20.4
Others	7.9	6.8	6.8	8.4	8.1

Recent Activity

Buys			Sells		
Investor name	Value (m)	Shares (m)	Investor name	Value (m)	Shares (m)
DSP BlackRock Investment Managers Pvt. Ltd.	+10.72M	+3.67M	Life Insurance Corporation of India	-101.55M	-38.08M
Reliance Nippon Life Asset Management Limited	+8.52M	+3.19M	Eastspring Investments (Singapore) Limited	-17.24M	-6.96M
L&T Investment Management Limited	+7.04M	+2.84M	Norges Bank Investment Management (NBIM)	-4.75M	-2.10M
HDFC Asset Management Co., Ltd.	+6.37M	+2.39M	First State Investments (Singapore)	-3.27M	-1.45M
Baron Capital Management, Inc.	+1.69M	+0.75M	Stewart Investors	-2.58M	-1.04M

Source: Reuters, ICICIdirect.com Research

Financial summary

Profit and loss statement				
	₹ Crore			
(Year-end March)	FY16	FY17	FY18E	FY19E
Interest Earned	44066.0	42195.7	44472.0	48669.8
Interest Expended	31323.7	28689.0	29695.9	31902.1
Net Interest Income	12742.4	13506.7	14776.1	16767.8
growth (%)	-3.4	6.0	9.4	13.5
Non Interest Income	5003.8	6761.0	7029.0	7551.7
Fees and advisory	1500.1	1590.1	1749.1	1959.0
Treasury Income /sale of Invt.	1178.2	2615.6	2354.1	2236.4
Other income	2325.5	2555.2	2925.8	3356.3
Net Income	17746.2	20267.7	21805.0	24319.4
Employee cost	4965.9	4638.6	4807.6	4995.9
Other operating Exp.	3956.7	4655.2	4713.4	4957.8
Operating Income	8823.7	10974.0	12284.0	14365.8
Provisions	15512.8	8502.3	6813.4	6119.9
PBT	-6689.1	2471.7	5470.6	8245.9
Taxes	-1294.3	1087.6	1805.3	2638.7
Net Profit	-7983.4	1384.2	3665.3	5607.2
growth (%)	NA	NA	164.8	53.0
EPS	-23.3	6.0	15.9	24.3

Source: Company, ICICIdirect.com Research

Key ratios				
(Year-end March)	FY16	FY17	FY18E	FY19E
Valuation				
No. of Equity Shares	231.0	231.0	231.0	231.0
EPS (₹)	-23.3	6.0	15.9	24.3
BV (₹)	173.6	179.6	192.0	211.8
BV-ADJ (₹)	89.6	101.4	121.1	158.2
P/E	-8.1	31.6	11.9	7.8
P/BV	1.1	1.1	1.0	0.9
P/ABV	2.1	1.9	1.6	1.2
Yields & Margins (%)				
Net Interest Margins	1.9	2.1	2.2	2.3
Yield on avg earning assets	6.7	6.7	6.6	6.6
Avg. cost on funds	5.0	4.6	4.5	4.4
Avg. Cost of Deposits	4.9	4.8	4.6	4.5
Yield on average advances	7.3	7.2	7.2	7.1
Quality and Efficiency (%)				
Cost / Total net income	50.3	45.9	43.7	40.9
Credit/Deposit ratio	66.9	63.7	65.2	66.1
GNPA	10.0	10.5	9.8	8.6
NNPA	5.1	4.7	3.8	2.6
RONW	-13.3	3.3	8.3	11.7
ROA	-0.8	0.2	0.5	0.7

Source: Company, ICICIdirect.com Research

Balance sheet				
	₹ Crore			
(Year-end March)	FY16	FY17	FY18E	FY19E
Sources of Funds				
Capital	462.1	462.1	462.1	462.1
Reserves and Surplus	40763.1	42147.3	45001.6	49581.6
Networth	41225.2	42609.4	45463.7	50043.7
Deposits	574035.3	601676.6	662712.8	731292.3
Borrowings	33466.6	30619.1	33681.0	37049.0
Other Liab & Prov (incl sub-debt)	22640.8	22229.9	24426.8	26159.2
Total	671368.0	697135.0	766284.3	844544.2
Uses of Funds				
Fixed Assets	6252.3	5758.7	6513.3	7000.6
Investments	120447.3	129630.7	142066.1	145825.3
Advances	383768.4	383258.6	431827.9	483260.2
Other Assets	26999.8	28013.8	26274.0	38947.0
Cash with RBI & call money	133900.0	150473.3	159603.1	169511.2
Total	671368.0	697135.0	766284.4	844544.3

Source: Company, ICICIdirect.com Research

Growth ratios				
	(% growth)			
(Year-end March)	FY16	FY17	FY18E	FY19E
Total assets	-6.1	3.8	9.9	10.2
Advances	-10.3	-0.1	12.7	11.9
Deposits	-7.0	4.8	10.1	10.3
Total Income	3.6	-0.2	5.2	9.2
Net interest income	-3.4	6.0	9.4	13.5
Operating expenses	16.3	4.2	2.4	4.5
Operating profit	-11.0	24.4	11.9	16.9
Net profit	-258.8	-125.7	164.8	53.0
Book value	3.6	3.4	6.9	10.3
EPS	-252.4	-125.7	164.8	53.0

Source: Company, ICICIdirect.com Research

ICICIdirect.com coverage universe (Banking)

Sector / Company	CMP		Rating	M Cap (₹ Cr)	EPS (₹)			P/E (x)			P/ABV (x)			RoA (%)			RoE (%)		
	(₹)	TP(₹)			FY16	FY17E	FY18E	FY16	FY17E	FY18E	FY16	FY17E	FY18E	FY16	FY17E	FY18E	FY16	FY17E	FY18E
Bank of Baroda (BANBAR)	189	200	Hold	43,445	-23	6	16	-8.1	31.6	11.9	2.1	1.9	1.6	-0.8	0.2	0.5	-13	3	8
Punjab National Bank (PUNBAN)	159	160	Buy	33,792	-20	6	15	-7.9	25.6	10.8	6.8	4.4	2.5	-0.6	0.2	0.4	-10	3	7
State Bank of India (STABAN)	309	335	Buy	235,105	13	13	19	24.1	23.7	16.4	2.7	1.9	1.7	0.5	0.4	0.5	7	6	8
Indian Bank (INDIBA)	353	350	Buy	12,406	15	29	32	23.9	12.1	11.2	1.7	1.6	1.4	0.4	0.7	0.7	5	8	9
Axis Bank (AXIBAN)	498	540	Hold	120,339	35	15	22	14.4	32.4	22.5	2.3	2.5	2.3	1.7	0.7	0.8	17	7	9
City Union Bank (CITUNI)	172	166	Buy	9,028	7	8	10	23.2	21.3	18.0	3.8	3.3	2.8	1.5	1.5	1.5	16	15	15
DCB Bank (DCB)	195	165	Hold	4,946	7	7	8	28.5	27.7	22.9	3.4	3.0	2.5	1.1	0.9	1.0	12	11	12
Federal Bank (FEDBAN)	113	130	Buy	15,951	3	5	7	40.8	23.4	16.4	2.7	2.4	2.2	0.5	0.8	0.9	6	10	13
HDFC Bank (HDFBAN)	1,562	1,700	Buy	368,187	49	57	69	32.1	27.5	22.6	5.5	4.6	4.1	1.9	1.9	1.9	18	18	19
IndusInd Bank (INDBA)	1,392	1,570	Buy	85,855	34	38	48	41.1	36.2	29.0	7.1	4.7	4.1	1.8	1.9	1.8	18	16	15
Jammu & Kashmir Bk(JAMKAS)	85	95	Buy	3,818	9	-28	8	10.0	-3.0	10.6	1.0	1.8	1.7	0.5	-1.6	0.4	7	-23	7
Kotak Mahindra Bank (KOTMAH)	941	950	Hold	235,105	11	19	23	82.6	50.8	40.2	7.6	6.7	5.8	1.1	1.7	1.8	9	13	14
Yes Bank (YESBAN)	1,430	1,650	Hold	73,551	48	60	73	29.8	23.7	19.6	4.4	3.1	2.6	1.6	1.7	1.8	21	20	19

Source: Company, ICICIdirect.com Research

RATING RATIONALE

ICICIdirect.com endeavours to provide objective opinions and recommendations. ICICIdirect.com assigns ratings to its stocks according to their notional target price vs. current market price and then categorises them as Strong Buy, Buy, Hold and Sell. The performance horizon is two years unless specified and the notional target price is defined as the analysts' valuation for a stock.

Strong Buy: > 15%/20% for large caps/midcaps, respectively, with high conviction;

Buy: > 10%/15% for large caps/midcaps, respectively;

Hold: Up to +/-10%;

Sell: -10% or more;



Pankaj Pandey

Head – Research

pankaj.pandey@icicisecurities.com

**ICICIdirect.com Research Desk,
ICICI Securities Limited,
1st Floor, Akruti Trade Centre,
Road No 7, MIDC,
Andheri (East)
Mumbai – 400 093
research@icicidirect.com**

ANALYST CERTIFICATION

We /I, Kajal Gandhi, CA, Vasant Lohiya, CA and Vishal Narnolia, MBA, Research Analysts, authors and the names subscribed to this report, hereby certify that all of the views expressed in this research report accurately reflect our views about the subject issuer(s) or securities. We also certify that no part of our compensation was, is, or will be directly or indirectly related to the specific recommendation(s) or view(s) in this report.

Terms & conditions and other disclosures:

ICICI Securities Limited (ICICI Securities) is a full-service, integrated investment banking and is, inter alia, engaged in the business of stock brokering and distribution of financial products. ICICI Securities Limited is a Sebi registered Research Analyst with Sebi Registration Number – INH000000990. ICICI Securities is a wholly-owned subsidiary of ICICI Bank which is India's largest private sector bank and has its various subsidiaries engaged in businesses of housing finance, asset management, life insurance, general insurance, venture capital fund management, etc. ("associates"), the details in respect of which are available on www.icicibank.com.

ICICI Securities is one of the leading merchant bankers/ underwriters of securities and participate in virtually all securities trading markets in India. We and our associates might have investment banking and other business relationship with a significant percentage of companies covered by our Investment Research Department. ICICI Securities generally prohibits its analysts, persons reporting to analysts and their relatives from maintaining a financial interest in the securities or derivatives of any companies that the analysts cover.

The information and opinions in this report have been prepared by ICICI Securities and are subject to change without any notice. The report and information contained herein is strictly confidential and meant solely for the selected recipient and may not be altered in any way, transmitted to, copied or distributed, in part or in whole, to any other person or to the media or reproduced in any form, without prior written consent of ICICI Securities. While we would endeavour to update the information herein on a reasonable basis, ICICI Securities is under no obligation to update or keep the information current. Also, there may be regulatory, compliance or other reasons that may prevent ICICI Securities from doing so. Non-rated securities indicate that rating on a particular security has been suspended temporarily and such suspension is in compliance with applicable regulations and/or ICICI Securities policies, in circumstances where ICICI Securities might be acting in an advisory capacity to this company, or in certain other circumstances.

This report is based on information obtained from public sources and sources believed to be reliable, but no independent verification has been made nor is its accuracy or completeness guaranteed. This report and information herein is solely for informational purpose and shall not be used or considered as an offer document or solicitation of offer to buy or sell or subscribe for securities or other financial instruments. Though disseminated to all the customers simultaneously, not all customers may receive this report at the same time. ICICI Securities will not treat recipients as customers by virtue of their receiving this report. Nothing in this report constitutes investment, legal, accounting and tax advice or a representation that any investment or strategy is suitable or appropriate to your specific circumstances. The securities discussed and opinions expressed in this report may not be suitable for all investors, who must make their own investment decisions, based on their own investment objectives, financial positions and needs of specific recipient. This may not be taken in substitution for the exercise of independent judgment by any recipient. The recipient should independently evaluate the investment risks. The value and return on investment may vary because of changes in interest rates, foreign exchange rates or any other reason. ICICI Securities accepts no liabilities whatsoever for any loss or damage of any kind arising out of the use of this report. Past performance is not necessarily a guide to future performance. Investors are advised to see Risk Disclosure Document to understand the risks associated before investing in the securities markets. Actual results may differ materially from those set forth in projections. Forward-looking statements are not predictions and may be subject to change without notice.

ICICI Securities or its associates might have managed or co-managed public offering of securities for the subject company or might have been mandated by the subject company for any other assignment in the past twelve months.

ICICI Securities or its associates might have received any compensation from the companies mentioned in the report during the period preceding twelve months from the date of this report for services in respect of managing or co-managing public offerings, corporate finance, investment banking or merchant banking, brokerage services or other advisory service in a merger or specific transaction.

ICICI Securities or its associates might have received any compensation for products or services other than investment banking or merchant banking or brokerage services from the companies mentioned in the report in the past twelve months.

ICICI Securities encourages independence in research report preparation and strives to minimize conflict in preparation of research report. ICICI Securities or its associates or its analysts did not receive any compensation or other benefits from the companies mentioned in the report or third party in connection with preparation of the research report. Accordingly, neither ICICI Securities nor Research Analysts and their relatives have any material conflict of interest at the time of publication of this report.

It is confirmed that Kajal Gandhi, CA, Vasant Lohiya, CA and Vishal Narnolia, MBA Research Analysts of this report have not received any compensation from the companies mentioned in the report in the preceding twelve months.

Compensation of our Research Analysts is not based on any specific merchant banking, investment banking or brokerage service transactions.

ICICI Securities or its subsidiaries collectively or Research Analysts or their relatives do not own 1% or more of the equity securities of the Company mentioned in the report as of the last day of the month preceding the publication of the research report.

Since associates of ICICI Securities are engaged in various financial service businesses, they might have financial interests or beneficial ownership in various companies including the subject company/companies mentioned in this report.

It is confirmed that Kajal Gandhi, CA, Vasant Lohiya, CA and Vishal Narnolia, MBA, Research Analysts do not serve as an officer, director or employee of the companies mentioned in the report.

ICICI Securities may have issued other reports that are inconsistent with and reach different conclusion from the information presented in this report.

Neither the Research Analysts nor ICICI Securities have been engaged in market making activity for the companies mentioned in the report.

We submit that no material disciplinary action has been taken on ICICI Securities by any Regulatory Authority impacting Equity Research Analysis activities.

This report is not directed or intended for distribution to, or use by, any person or entity who is a citizen or resident of or located in any locality, state, country or other jurisdiction, where such distribution, publication, availability or use would be contrary to law, regulation or which would subject ICICI Securities and affiliates to any registration or licensing requirement within such jurisdiction. The securities described herein may or may not be eligible for sale in all jurisdictions or to certain category of investors. Persons in whose possession this document may come are required to inform themselves of and to observe such restriction.